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Confidential (FR) Class II FOMC

Part 1

December 5, 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

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Domestic Developments

Some signs of resilience have emerged in the recent information on aggregate demand. A number of spending indicators bounced back in October, and vehicle purchases remained surprisingly strong in November. Encouraged by the upbeat tenor of the economic news, stock prices have risen further, on net, since the last Greenbook, and long-term bond yields have generally turned back up, seemingly in anticipation of a pickup in activity not too far down the road.

However, the available data also show ongoing declines in employment, production, and inventories; and the anecdotal reports from businesses in recent weeks are only a little less downbeat than those of a month or so ago. Consequently, although our forecast of real GDP growth in the current quarter is a touch stronger than it was in the October Greenbook, we continue to think that aggregate output will post a noticeable decline this period, a bit more than 2 percent at an annual rate. Real GDP still is expected to be essentially flat in the first quarter of 2002.

We continue to anticipate that the pace of expansion will pick up after the first quarter. Growth of real GDP is expected to step up to an annual rate of about 3-1/4 percent in the second quarter of 2002 and increase further to an average rate of about 4 percent in the second half of next year. The spur to activity is expected to come from a marked slowdown in the pace of inventory liquidation, a turnaround in fixed investment, the impetus to spending from monetary and fiscal policy, and the increment to real purchasing power resulting from the sharp drop in oil prices since mid-September. Once recovery has taken hold, normal multiplier and accelerator effects give it ongoing momentum.

The unemployment rate tracks the previous forecast fairly closely, running just a touch higher in the near term and later exhibiting a bit more of a downward tilt. In the fourth quarter of 2003, the rate is projected to be 5.8 percent, a tenth lower than the forecast in the last Greenbook. Based in part on the expectation of persistent slack in the labor market, core inflation is expected to trend lower over the forecast period. Indeed, the downward tilt of core inflation in this forecast is slightly greater than before: Indirect effects of the fall in oil prices should be feeding through into core inflation over the next few quarters; our forecast of structural productivity has been nudged up; and some of the recent survey evidence is pointing to a sharp stepdown in inflation expectations.

Key Background Factors

On balance, our financial assumptions in this Greenbook embody a bit more impetus to expansion than did the assumptions in the last Greenbook. In light of the FOMC's action at its November meeting, the federal funds rate is currently 25 basis points lower than was assumed in the last forecast, and we assume that the rate will hold steady at that lower level through the end of 2002. In 2003, the funds rate is expected to start moving higher, and by the fourth quarter of that year, it is at the same level assumed previously. The rates on both longer-term Treasuries and home mortgages are expected to drift down about 1/4 percentage point from current readings over the forecast period. Participants in financial markets seem to be expecting short-term interest rates beyond midyear to be higher than we have assumed, presumably because they think that the economy will be strong enough in coming months to cause the Fed to tighten sooner and more substantially. By contrast, we think that the incoming data for the next several quarters, including reports of continued low inflation, will cause financial market participants to lower their sights.

We continue to assume that caution among lenders and in the financial markets will impose a degree of restraint on economic activity for some time to come. The interest rates that private borrowers will face in coming quarters are expected to remain high relative to the rates on Treasuries, but these spreads have been narrowing a little and should continue to do so as the recovery in activity takes hold. Funds likely will continue to be readily available to the more creditworthy borrowers, but businesses and consumers that are perceived to be at greater risk will probably continue to pay high rates and encounter relatively stringent terms and conditions.

Despite some hesitation in recent days, stock market participants have once again bid share values higher over the period since the last Greenbook.[1] In response, we have raised our assumptions about the path of stock prices, especially over the near term. However, we continue to think that investors will have to absorb some disappointments on earnings in coming quarters, and we are assuming that stock prices will change little, on net, over the course of 2002 before sustaining a moderate advance in 2003. Stocks end up somewhat higher than in the last Greenbook.

We continue to assume that added fiscal stimulus will be forthcoming, but we have pushed it a bit further into the future. Our package still includes a second tax rebate of about $14 billion, some added spending on security, increased outlays for extended unemployment insurance benefits and health insurance subsidies, and a temporary tax incentive for investment in equipment and software. Payout of the rebates now is assumed to extend into the second quarter of next year, rather than being completed in the first quarter as previously assumed.

1. Much of the increase occurred between the close of the Greenbook on October 31 and the FOMC meeting on November 6. Thus, the change in equity prices since the FOMC meeting (the figure cited in Part II of the Greenbook) understates the news on stock prices from the perspective of our forecast assumptions.

At the time that this Greenbook was completed, policy provisions similar to those in our fiscal package were still in play in the ongoing congressional negotiations, but numerous other possibilities are being entertained as well. Although we think that the odds still favor the enactment of such a package and that our assumption about its magnitude is in the ballpark, the final details could end up differing substantially from what we have assumed. That said, even if talks on the stimulus package end in deadlock, some elements of the package, such as higher unemployment insurance benefits and additional spending on security, would most likely be enacted later in the year. Alternative scenarios that are presented later explore the implications of a couple of possible fiscal variations, including one that takes the position that no added fiscal stimulus will be forthcoming.

Primarily because of technical factors, our projection of outlays in the unified budget has been revised up for both fiscal year 2002 and fiscal 2003, and our projection of receipts has been lowered. With these revisions, the budget shows deficits of $32 billion and $7 billion, respectively, in the two years; the previous Greenbook showed small surpluses.

Our assumptions about the price of crude oil have been lowered further, especially over the near-term part of the forecast. We are now assuming that the price of West Texas intermediate will average around $20.70 a barrel in the current quarter and edge down to around $20.30 a barrel in the first quarter of 2002, more than $2 a barrel lower than the forecast in the last Greenbook. After the first quarter, this price starts to move back up, but only gradually. Its level in the fourth quarter of 2003 is assumed to be about $21.40 per barrel, slightly below the assumption in the last Greenbook. These oil price assumptions are similar to the price path futures markets have been showing this week.

Other changes in our assumptions regarding the external sector are quite small. Measured against the currencies of a broad group of our trading partners, the real trade-weighted foreign exchange value of the dollar has changed little, on net, since the last Greenbook, and we assume it will remain near its recent level through the end of 2003. Foreign real GDP is projected to decline at an annual rate of about 1/2 percent in the second half of this year, and growth next year is expected to be 2 percent, down a tenth from the last Greenbook. As before, foreign economic growth in 2003 is expected to increase to about 3-1/2 percent.

Recent Developments and the Near-Term Economic Outlook

With the added data of recent weeks, growth of real GDP in the third quarter of 2001 now looks somewhat weaker than was initially reported. By contrast, the predicted annual rate of decline in real GDP this quarter has been tempered slightly from 2.4 percent to 2.1 percent. Next quarter is still expected to be

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

Measure	2001:Q4		2002:Q1	
	Oct. GB	Dec. GB	Oct. GB	Dec. GB
Real GDP	**-2.4**	**-2.1**	**-.1**	**-.1**
Private domestic final purchases	-3.2	-.5	-1.6	-3.4
Personal consumption expenditures	1.3	3.7	-.6	-2.6
Residential investment	-16.2	- 8.7	-5.8	-7.5
Business fixed investment	-22.3	-19.3	-6.3	-7.1
Government outlays for consumption and investment	7.9	8.4	2.8	3.0
	Contribution to growth, percentage points			
Inventory investment	-.8	-2.4	1.3	3.0
Net exports	-.3	-.7	-.5	-.6

basically transitional as the economy shifts from contraction to renewed expansion; as before, we expect aggregate activity to be about unchanged.

There has been some recalibration of final sales and inventories in the near-term forecast. Final sales in the current quarter rise at an annual rate of about 1/2 percent rather than falling noticeably as we previously had projected. However, in the first quarter of next year, final sales are expected to decline more sharply than forecast in the previous Greenbook, leaving the level of sales about the same as previously predicted. With much of this quarter's increment to sales expected to come out of inventories, nonfarm stocks are worked off at an even faster rate in the fourth quarter than we had been forecasting in the October Greenbook—about 8-1/2 percent at an annual rate. In the first quarter, the rate of liquidation slows dramatically, to 3-1/4 percent; the arithmetic contribution of this positive inventory swing to first-quarter GDP growth is 3 percentage points.

Once again, as in late October, our Greenbook forecast is closing out just a couple of days before a monthly labor market report. The October report showed a heftier drop in employment and a larger increase in the unemployment rate than we had anticipated. Although initial claims have come down over the past few weeks, they remain in a range consistent with further deterioration in labor market conditions. Total job losses during the quarter are expected to climb to about 800,000, and further losses of more than 200,000 are projected for the first quarter of 2002. The civilian unemployment rate, which was 5.4

percent in October, is expected to average 5.5 percent in the fourth quarter and 5.9 percent in the first quarter of next year.

We are projecting that manufacturing production will decline at an annual rate of about 9-1/2 percent this quarter, after having fallen at a rate of 5 percent in the third quarter. Next quarter, the rate of decline is expected to slow to about 4 percent at an annual rate. Despite a sharp step-up in vehicle assemblies in November, motor vehicle production for the fourth quarter as a whole still appears likely to be down appreciably from that for the third quarter, and—guided in part by reports that manufacturers will schedule considerable downtime early next year—we continue to anticipate a further cutback in assemblies in the first quarter. We also expect to see large and sustained reductions in aircraft production over the next few months. Excluding transportation, cutbacks in factory output are expected to persist over the very near term, as businesses continue working down inventories; in the first quarter, with the liquidation of stocks expected to slow, production begins to stabilize.

On the spending side, our current forecast has real PCE growing at an annual rate of 3-3/4 percent in the fourth quarter, a substantial upward revision from our previous forecast. The increment mainly reflects stronger sales of motor vehicles but also incorporates some small adjustments made in reaction to the surprisingly strong retail sales report for October and a somewhat stronger October report on consumer expenditures for non-energy services than we had been expecting.

The surge in sales of motor vehicles appears to have been mainly the result of a strong consumer response to the zero-percent financing incentives offered by the manufacturers. However, the underlying demand for vehicles also looks to be a bit stronger than we were thinking in the last Greenbook. On that assessment, we have raised the projected level of vehicle purchases in both the current quarter and the first quarter of 2002. Nonetheless, the forecast maintains a large "payback" in purchases that is expected to emerge as the impetus from the incentives fades. Sales of light vehicles average 18 million units at an annual rate in the fourth quarter but drop back to a rate of about 14-1/2 million in the first quarter. Excluding motor vehicles, real consumer outlays for goods and services are projected to rise at an annual rate of about 3/4 percent this quarter. Next quarter, nonvehicle outlays pick up moderately, to a growth rate of nearly 2-1/2 percent.

We continue to expect declines in residential investment over the next couple of quarters. Although starts of new single-family units have held up better than we had expected, their level in October was off about 2-1/2 percent from the average for the third quarter. Starts could go down somewhat further over the near term given the recent performance of the more statistically reliable series on adjusted permits, the October level of which was about 5 percent lower than the third-quarter average. Starts are projected to begin edging back up in the first quarter, but normal lags between starts and expenditures will likely keep residential investment on a downward course into the early part of next year.

The rate of contraction in real outlays on equipment and software (E&S) in the current quarter does not seem likely to be quite as steep as we had been projecting. That said, the picture is still one of considerable weakness. The drop in real outlays this quarter is expected to be about 16 percent at an annual rate, a figure that would leave the fall in investment for the year at about 11-1/4 percent. Large cutbacks in spending are anticipated this quarter for most major categories of investment; outlays on commercial aircraft probably will fall particularly rapidly. An exception to the pattern is that investment in office and computing equipment now is expected to turn up this quarter rather than to continue declining. Incoming data show orders and shipments ticking up, and at least for this industry, the anecdotes have had a firmer tone of late. In the first quarter of 2002, the rate of decline in real E&S expenditures is expected to slow substantially, to an annual rate of about 3-1/4 percent. Growth of computer investment speeds up early next year, business spending on motor vehicles also turns positive, and declines in other equipment categories begin to moderate.

Business investment in nonresidential structures is expected to continue falling sharply this quarter and next. The decline expected for the current quarter is particularly large, about 28 percent at an annual rate. However, this big drop is in part a reflection of the BEA's decision to count the leasing of the World Trade Center in July as an investment by the private corporate sector in fixed capital and as a dis-investment by a local government entity (the Port Authority of New York and New Jersey). That decision temporarily boosted the third-quarter growth rate of investment and will make the fourth-quarter growth rate appear correspondingly depressed. Excluding this transfer, the drop this quarter would be about 16 percent at an annual rate. Next quarter's rate of decline is projected to be roughly similar.

The federal government's real outlays on consumption and investment are expected to accelerate sharply in the fourth quarter, boosted by the emergency supplemental appropriations bill that was enacted earlier in the autumn. In the first quarter of next year, increases in spending on infrastructure and security are expected to help keep real federal outlays rising at a fairly brisk pace. By contrast, state and local expenditures appear to be downshifting as the budgets of those governments come under increased pressure from the economic slowdown. Although growth of state and local spending in the fourth quarter is projected at a pace of about 8 percent, part of that apparent strength represents a bounceback from the temporary depression caused by the third-quarter transfer of the World Trade Center that was noted above. In the first quarter of 2002, growth of state and local outlays is projected to slow sharply, to about 2 percent at an annual rate.

The September data on foreign trade translated into a slightly steeper third-quarter decline in real exports of goods and services than we had been forecasting, and the drop in imports was made less steep. We look for moderate declines in exports this quarter and next while imports are projected to post small increases. The negative arithmetic drag of net exports on the annual rate of real GDP growth is 0.7 percentage point this quarter and 0.6 percentage point in the first quarter of next year.

Core PCE inflation in the third quarter was only 0.4 percent at an annual rate, held down by BEA's treatment of the insurance payouts that were made following the events of September 11 (the payouts were treated basically as one-time, temporary reductions in the price of insurance premiums). In the current quarter, we expect to see an offsetting jump in the rate of price increase, to a pace of about 3.0 percent. In the first quarter of next year, the core PCE price index is projected to rise at a rate of 1-1/2 percent, a pace similar to the average rate of increase in the second half of this year. Core CPI inflation is projected to edge down both this quarter and next. Owing to sharp declines in energy prices, top-line inflation is expected to be well below core inflation this quarter and next, probably averaging only about 1 percent at an annual rate on a PCE basis and less than that in the CPI.

The Longer-Term Outlook for the Economy

The central message of our longer-term forecast is much the same as it was in the last Greenbook. We continue to think that a recovery in activity will gain momentum in the spring of 2002 and that it will proceed at a solid pace thereafter, fast enough to put the unemployment rate back on a downward course by the fourth quarter of next year. The recovery is expected to gain support from a winding down of the runoff of inventories, a marked slowdown in the contraction of investment in capital goods, the stimulus provided by monetary policy and fiscal policy, and the added purchasing power stemming from the drop in oil prices since mid-September. Later on, as multiplier and accelerator effects come into play and as optimism among households and businesses starts to build, a more broadly based expansion should take hold, although its strength will likely be limited to some degree by the slow growth of foreign economies, the drag from the stock market decline of the past two years, and restraint on business fixed investment from the persistence of excess capacity and the sluggishness of corporate profits. After falling 0.4 percent over the four quarters of 2001, real GDP is expected to rise 2.8 percent in 2002 and 3.7 percent in 2003. On balance, growth is stronger than in the last Greenbook.

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	**1.6**	**4.1**	**3.7**
Previous	1.3	3.5	3.7
Final sales	-.2	3.3	3.2
Previous	.5	2.7	3.2
PCE	.8	3.7	2.9
Previous	1.5	2.5	3.2
Residential investment	-3.8	3.6	2.4
Previous	-1.5	5.5	2.4
BFI	-3.9	7.1	10.4
Previous	-3.7	6.5	9.2
Government purchases	3.4	3.4	3.0
Previous	3.4	3.6	3.1
Exports	-.5	4.9	6.9
Previous	-1.1	4.9	6.8
Imports	6.1	9.8	9.6
Previous	4.6	8.9	9.8
	Contribution to growth, percentage points		
Inventory change	1.9	.7	.4
Previous	.8	.8	.4
Net exports	-.8	-.8	-.6
Previous	-.7	-.7	-.6

Household spending. We now expect gains in real personal consumption expenditures of about 2-1/4 percent in 2002 (up from the last Greenbook) and about 3 percent in 2003 (slightly less than was projected last time). Overall, the level of real PCE in the fourth quarter of 2003 ends up 1/2 percent higher than we previously were forecasting. The upward revision is a reflection of both the higher level of stock prices that we are assuming and slightly more income growth in this forecast than in the last one.

Perhaps more so than usual, the path of the consumption forecast depends importantly on the interpretation that we are giving to the recent indicators. A couple of Greenbooks ago, in the wake of the terrorist attacks, we thought it likely that consumers would hunker down. We expected a further sharp deterioration of confidence in the fourth quarter and, along with that, greater weakness in spending than we would otherwise have written down. In the event, however, confidence has not continued to plunge in the fourth quarter, and the incoming data on spending have been stronger than expected.

Nonetheless, we continue to think that the underlying strength of consumption is not a whole lot greater than we previously were forecasting. As noted above, our interpretation of the recent strength in vehicle sales is that it is related mainly to the incentives offered by manufacturers. With regard to nonvehicle purchases, we are viewing the strong October rise in retail sales as being mainly a rebound that came sooner than we had anticipated. Fundamentally, we have difficulty believing that consumption might sustain much strength at a point in the business cycle when job cuts are at their sharpest and lagged effects of the stock market decline probably are still exerting a sizably negative, though diminishing, drag on the growth of real expenditures.

Looking toward the longer run, we expect the fundamentals to gradually improve, and that expectation gives rise to some underlying increase in the growth of consumption in our forecast. The drag from the loss of stock market wealth should largely dissipate by the end of 2003, as the plunge in share values recedes in time and as the more recent upturn in stock prices receives increased weight in consumer spending plans. Meanwhile, payout of the assumed second tax rebate boosts disposable income in the first half of next year, and the growth of wages and salaries picks up as job losses abate. All told, real disposable personal income rises almost 4 percent in 2002 and nearly 3 percent in 2003. Reflecting mainly the upward revision to our stock market assumption, the forecast of the saving rate has been lowered a little in this Greenbook; it averages 3.1 percent in 2002 and 2.8 percent in 2003.

We expect the cutback in residential investment that appears to be under way to be brief and relatively mild, at least in comparison with most post-World War II housing cycles. But with housing bottoming out at a high level, the recovery also will be milder than most previous ones. After declining through early 2002, residential investment is expected to level off in the second quarter and then rise at a moderate pace over the next several quarters. From a trough of 1.23 million units (annual rate) in the current quarter, starts are projected to gradually rise to 1.32 million units in 2003. Similarly, multifamily starts also are expected to fall slightly further in the current quarter, before moving back up to a rate of 340,000 units late next year and in 2003, about in line with the average of recent years.

Equipment and software. After declining sharply this year, real outlays on equipment and software are projected to rise 5 percent in 2002 and 13 percent in 2003. The current projections are somewhat stronger than those in the last Greenbook. We are predicting that relatively brisk growth of E&S outlays will resume in the second half of next year, with most categories of investment (except commercial aircraft) showing considerable improvement from the first half.

The upswing in investment should be driven, in part, by processes of recovery that have been commonly observed in previous business expansions. The spark for recovery typically comes from increased optimism among businesses about the outlook for profits and the rate of return on fixed capital. As expectations for sales rise, businesses boost their production plans and adjust upward their notions of the amount of fixed capital that is needed. The strength of these recovery processes can vary, however, and in the current cyclical episode, we suspect that they will not be as strong as in most past recoveries. The pickup in profits in this expansion is expected to be relatively slow, and we expect that it will take a while to work off the large margins of excess capacity that are evident currently.

The picture is a good bit stronger once the estimated effects of our assumed tax package are factored in. Maintaining the assumptions we had in the October Greenbook, we continue to anticipate that the tax package will provide for an immediate deduction against earnings (that is, "partial expensing") of an amount equal to 30 percent of the outlays for equipment and software. The remaining 70 percent of investment outlays would continue to be depreciated over time, as is done under current rules. Because the expensing benefit is expected to be available for only three years, it pulls into that three-year window some investment that firms would otherwise have been making later. Working through the effects that the tax incentive might have, in turn, on the cost of capital, the desired level of the capital stock, and the pattern of investment, our estimate is that such a package would add approximately 3-1/2 percentage points to the growth rate of real equipment and software expenditures in both 2002 and 2003.

Investment in computers and other high-tech products probably will continue to be affected importantly by factors that are particular to these industries. We think there are several reasons to be optimistic about the outlook for computers in the coming recovery. Sharp declines in the price of real computing power show no sign of letting up, and those declines are rapidly pushing down the user cost of capital for computers. Concerns about an excessive buildup of the computer stock probably are diminishing, given the slump in investment over the past few quarters and the rapid pace of technical change. Even if there is caution about adding to the capital stock, replacement demand for these shortlived assets could give a boost to investment as the economy picks up. Reflecting these considerations, investment in computers is projected to accelerate sharply, with the annual rate of growth moving above 25 percent by the third quarter of next year and on up to 50 percent in 2003. By contrast, the fundamentals for telecommunications are not so encouraging. Losses on investments made in telecommunications during the boom still are being sorted out, and there is little indication of businesses getting ready for another expansion. We think it will be late next year before recovery in this sector begins in earnest.

Nonresidential structures. Declines in real outlays for nonresidential structures are expected to last much longer than the declines in spending on equipment and software. We are forecasting that the drop in spending on these long-lived assets will amount to 10 percent this year, and a further contraction of 8 percent is predicted for 2002. Moreover, the upturn in 2003 is projected to be sluggish, with an increase of just 3 percent projected for that year.

The weakness in nonresidential construction is expected to be widespread. In the industrial sector, which is heavily burdened by excess capacity, investment in structures continues to decline sharply in our forecast through 2003. Outlays for drilling also are expected to drop in both 2002 and 2003, pulled down by the low oil prices that appear to be in prospect. Investment in lodging, which has been hit hard by the soft economy and by shifts in spending after the terrorist attacks, continues to plunge next year before posting a modest uptick in 2003. By contrast, after having dropped sharply this year, spending on offices and other commercial structures falls only moderately in 2002 and posts noticeable gains in 2003, as the upturn in business activity raises the demand for floor space.

We continue to include in our forecast a small amount for reconstruction of office facilities damaged in New York City, but given the lags involved and the availability of vacant space, we do not expect the replacement of lost office space to add materially to spending until late in the forecast period. The dollar amount is small—only $3 billion in 2003, or about 1-1/4 percent of the predicted level of total nonresidential investment in that year.

Inventory investment. We have maintained the hypothesis that, in the aggregate, businesses will work aggressively to reduce the amount of stocks that they hold relative to the volume of their sales. Because of the very large inventory liquidation that we have built into the near-term forecast, firms are expected to have their inventory positions in reasonably good balance by the middle of 2002. From that point on, businesses start accumulating stocks once again, cautiously in the second half of 2002 but then more rapidly in 2003, by which point concerns about prospective weakness in demand should have dissipated. The swing in inventory investment contributes 1-1/4 percentage points to the growth of real GDP in 2002, reversing most of the negative contribution from this year's steep runoff of stocks, and the further speedup of stockbuilding in 2003 adds a few tenths to the rate of real GDP growth in that year.

Government purchases. We expect real federal expenditures on consumption and investment to grow about 5-1/4 percent in 2002. Provision for an elevated increase in spending next year comes partly from the supplemental appropriation that was passed in the autumn and partly from our assumption that the upcoming fiscal package will provide for additional outlays on security and infrastructure. The boost that policy actions will give to purchases in 2003 is expected to be smaller, and total real outlays for consumption and investment are projected to slow to an annual rate of gain of 2 percent in that year. Even so, the cumulative results for 2001-03 would represent the strongest sustained increase in real federal purchases since the mid-1980s. After moving up about 5 percent this year, state and local expenditures on consumption and investment are expected to rise about 2-1/2 percent in 2002 and 3-1/2 percent in 2003. Most of the news we have been hearing from these jurisdictions continues to suggest that the slowing of the economy has damped revenues and will be restraining the growth of state and local expenditures.

Net exports. Our forecast for real exports of goods and services is similar to the forecast in the last Greenbook. We expect only a small increase in exports in 2002, about 2-1/4 percent. In 2003, as foreign growth picks up, exports rise more rapidly, almost 7 percent. Imports are projected to rise about 8 percent in 2002 and almost 10 percent in 2003. Arithmetically, net exports take about 0.8 percentage point from growth in 2002 and 0.6 percentage point in 2003, after having been basically a neutral influence in 2001.

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

Our estimates of the growth in structural productivity and potential GDP have been altered only slightly in this Greenbook. Owing to the upward revision to our investment forecast, capital deepening is greater than before, and its contribution to growth has edged up a bit. As in the last forecast, however, the contribution from capital deepening traces out a further slowdown into 2002 before rebounding in 2003.

The assumptions about multifactor productivity growth have not changed. Basically, we continue to think that the underlying trend in multifactor productivity (MFP) is on a steady upward course (growth of 1.0 percent a year), but we have allowed for a phased-in hit to growth to cover costs that businesses will encounter as security is tightened. Structural labor productivity, reflecting the combined changes in MFP and capital deepening, slows from 1.9 percent in

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

Measure	1973-95	1996-98	1999	2000	2001	2002	2003
Structural labor productivity	**1.4**	**2.4**	**2.8**	**2.7**	**1.9**	**1.5**	**2.1**
Previous	1.4	2.4	2.8	2.7	1.9	1.4	1.9
Contributions[1]							
Capital deepening	.6	1.1	1.5	1.4	.7	.3	.8
Previous	.6	1.1	1.5	1.4	.6	.2	.6
Multifactor productivity	.6	1.0	1.0	1.0	.9	.8	1.0
Previous	.6	1.0	1.0	1.0	.9	.8	1.0
Labor composition	.3	.3	.3	.3	.3	.3	.3

NOTE. Components may not sum to totals because of rounding.
1. Percentage points.

2001 to 1.5 percent in 2002 but then rebounds to 2.1 percent in 2003, up a couple of tenths from the last forecast. The increase in potential GDP this year is estimated to be 2.7 percent, and increases over the next two years are projected to be 2.4 percent and 3.1 percent, respectively.

Productivity and the labor market. Reflecting the weakness of output, actual labor productivity is projected to be about flat, on balance, this quarter and next. When the economy starts to recover in the second quarter of next year, businesses boost output faster than labor input for a time, and the growth of labor productivity increases temporarily to a pace that is above the rate of growth in structural productivity. By the end of 2002, most of the cyclical effects have wound down, and desired relationships between hours and output have been largely restored. The rise in actual labor productivity in 2003 is projected to be 2.2 percent, only a shade faster than the growth of structural productivity.

The further cutbacks in payroll employment that we anticipate over the next few months would leave the level of employment at the end of the first quarter of 2002 down more than 1 percent from its peak of a year earlier. As typically happens, businesses probably will be cautious at first about boosting employment back to its earlier levels. Nonetheless, we expect hiring to pick up fast enough in the spring of next year to bring the rise in the unemployment rate to a halt. After having averaged 5.9 percent in the first quarter of 2002, the rate is projected to average 6.1 percent over the middle quarters of the year and then turn down in the fourth quarter. In 2003, employment accelerates a bit further,

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	2.0	2.2
Previous	2.3	.7	2.0	2.2
Nonfarm private payroll employment	1.7	-.5	.6	1.6
Previous	1.7	-.4	.3	1.6
Household employment survey	1.0	-.9	.5	1.2
Previous	1.0	-.8	.2	1.3
Labor force participation rate[1]	67.1	66.8	66.8	66.7
Previous	67.1	66.8	66.8	66.7
Civilian unemployment rate[1]	4.0	5.5	6.0	5.8
Previous	4.0	5.4	6.1	5.9

1. Percent, average for the fourth quarter.

and the unemployment rate drops back to 5.8 percent in the second half, a tenth lower than we were forecasting in the October Greenbook.

Prices and wages. We have marked down our forecasts of prices and hourly compensation in this Greenbook. Core inflation, as measured by the PCE price index, is now expected to slow to a rate of 1.1 percent in 2003, down 0.2 percentage point from the last forecast. The employment cost index for hourly compensation decelerates to a rate of 3 percent by 2003; this projection also is down a couple of tenths from what we were showing in the October Greenbook.

Although we continue to think that labor market slack will contribute importantly to the slowdown of inflation over the next couple of years, the sharper price deceleration that we have built into the forecast this month was prompted by other factors. One such factor is the further downward revision to oil prices, which should translate over time into lower costs for processing, storing, and transporting a wide range of goods and services. A second factor is the slight upward revision to structural productivity, which we think should have a more immediate effect on prices than on wages. A third factor is the sharp and strikingly abrupt break in inflation expectations that has been reported in the Michigan survey of consumers over the past couple of months. In the last Greenbook, when only the October survey results were in hand, we thought that the survey might have been an aberration. But the November survey results had price expectations moving down still further; the median of the responses to that survey showed an expected price rise of only 0.4 percent over the coming year.

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

Measure	2000	2001	2002	2003
PCE chain-weighted price index	2.6	1.3	1.4	1.2
Previous	2.6	1.4	1.5	1.4
Food and beverages	2.5	3.4	2.0	1.8
Previous	2.5	3.2	2.2	2.0
Energy	15.4	-10.2	-.3	1.9
Previous	15.3	-7.8	-.8	.5
Excluding food and energy	1.9	1.6	1.3	1.1
Previous	1.9	1.6	1.5	1.3
Consumer price index	3.4	1.8	1.9	1.8
Previous	3.4	2.0	2.0	1.9
Excluding food and energy	2.5	2.7	2.0	1.8
Previous	2.5	2.7	2.2	2.0
GDP chain-weighted price index	2.4	1.9	1.6	1.4
Previous	2.4	2.0	1.8	1.6
ECI for compensation of private industry workers[1]	4.4	4.0	3.1	3.0
Previous	4.4	4.0	3.3	3.2
NFB compensation per hour	7.4	4.4	3.8	3.3
Previous	7.4	4.6	4.0	3.5
Prices of core non-oil merchandise imports	1.6	-3.2	.8	1.4
Previous	1.6	-2.9	.6	1.3

1. December to December.

Although we are wary of making too much of a survey indicator that could jump back up as abruptly as it came down, some of the equations that we use in price forecasting suggest that we should not completely ignore the survey information. The expectations adjustment that we built into the forecast this month lowers core inflation a tenth in both 2002 and 2003.

The deceleration of prices over the next couple of years, combined with the persistence of slack in the labor market, should lead to a marked deceleration in wages and hourly compensation. After increasing 4.0 percent in 2001, the employment cost index for hourly compensation in private industry is projected to rise 3.1 percent in 2002 and 3.0 percent in 2003. The rate of increase in the ECI for wages is projected to slow to 2.5 percent by 2003. Hourly benefits also are expected to decelerate, but their rate of increase runs well above that of wages, reflecting the expectation that employers' outlays for health insurance will continue to rise rapidly over the next two years.

Financial Flows and Conditions

We anticipate that domestic nonfinancial debt will expand moderately over the forecast period, rising about 4-1/2 percent in both 2002 and 2003. After four years of paydowns, Treasury debt is projected to expand slightly, on balance, over the next two years, as stimulative fiscal policy actions and the operation of automatic stabilizers eliminate the budget surplus. Borrowing by the nonfederal sectors is projected to be relatively subdued over the next two years.

In the household sector, debt growth is expected to continue to slow through mid-2002 and then edge up after the economy strengthens next year. The slowdown is due largely to a contraction in consumer credit that results when the impetus to automobile-related borrowing begins to wane. By contrast, mortgage debt is projected to expand at a fairly strong pace in both 2002 and 2003, with low mortgage interest rates supporting purchases of homes and continued—though somewhat moderated—refinancing activity. Firmer credit conditions may weigh a bit on household debt growth over the forecast period, as high household debt burdens and the rise in unemployment boost loan delinquencies and loan losses.

In the business sector, debt growth is expected to drop off early next year from a strong fourth-quarter pace and then pick up to a pace of about 5 percent by the end of 2003. Corporate needs for funds are expected to be reduced for a couple quarters as capital spending remains subdued and as corporate share repurchases and merger-related share retirements abate. On the supply side, lending standards and terms are likely to remain tight for a while, but we do not expect a significant dislocation in the supply of credit. Investment-grade firms are expected to continue raising substantial amounts in the bond market. Selected below-investment-grade firms should also be able to continue to raise funds in the bond market, although on relatively stringent terms. As the economic recovery takes hold, we expect to see some relaxation in the restraint by lenders accompanied by a pickup in bank and paper financing.

The magnitude and pattern of state and local government borrowing in the near-term will depend importantly on the timing of debt issues related to California's energy crisis. However, we anticipate that, on balance over the projection period, tax-exempt debt will expand at a fairly sluggish pace. Fiscal pressures likely will lead some jurisdictions to scale back spending plans, including new projects that would have been funded with debt issues. While the drop in bond yields since June boosted issuance for advance refunding in 2001, retirements of advance-refunded securities should limit the rise in municipal debt.

Growth of the monetary aggregates is expected to trend lower over the forecast period. The slowdown reflects the ebbing effects of factors that have strongly boosted money growth this year, including sharp declines in opportunity costs, heightened mortgage-refinancing activity, and the reduced attractiveness of the stock market relative to safe and liquid deposits and money funds. Nonetheless, growth of M2 is expected to remain above that of nominal income in 2002, mainly reflecting the lagged adjustment by households to this year's dramatic declines in opportunity costs. With these adjustments largely completed by the end of next year, growth of M2 should come roughly in line with that of nominal income in 2003.

Alternative Simulations

The staff forecast is subject to many risks. We focus on three that may be particularly significant at this juncture, using model simulations to illustrate their implications for the outlook. The first risk is that fiscal policy may prove to be less stimulative than we anticipate. A second risk is that we may have been overly pessimistic in interpreting incoming data and that the market's assessment, which appears more upbeat, may be correct. And a third is that the recent sharp declines in the short-run inflation expectations of households may be signaling a larger drop in inflation than we foresee. We also briefly consider two alternative stock market scenarios.

Less fiscal stimulus. In the staff outlook, the temporary expensing provision provides an important boost to equipment spending. But the stimulus may turn out to be smaller than we expect, either because firms are less willing to bring forward spending from the period following the end of the provision or because the Congress enacts a package with less potent—or even no—investment incentives. The "no expensing provision" scenario presents the limiting case of this risk, under the assumption that the funds rate follows the Greenbook path. In the absence of the direct stimulus to investment provided by temporary expensing, as well as its indirect multiplier effects, the economic recovery is more subdued—real GDP growth returns only to potential, on average, and the unemployment rate plateaus at 6-1/4 percent. Nonetheless, inflation is the same as in the baseline forecast because less investment restrains structural labor productivity growth, offsetting the effects of increased slack.

Continued wrangling over the composition and size of the stimulus package raises the possibility that the Congress will remain deadlocked and be unable to enact any compromise. As shown in the "no fiscal package" scenario, removing all components of the staff's fiscal package lowers the growth of real GDP more than 1 percentage point next year and 1/2 percentage point the following year, given the staff's assumed path for the nominal funds rate. The unemployment rate rises to 6-1/2 percent late next year and is then little changed over the course of 2003.

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

Measure	2001	2002			2003
	Q4	Q1	Q2	H2	
Real GDP					
Baseline	**-2.1**	**-.1**	**3.3**	**4.1**	**3.7**
No expensing provision	-2.1	-.3	2.8	3.4	3.0
No fiscal package	-2.1	-.9	1.8	3.0	3.2
Futures-based GDP outlook	-2.1	-.1	3.3	4.5	4.2
Low inflation expectations	-2.1	-.1	3.3	4.2	3.7
Weaker stock market	-2.1	-.1	3.0	3.3	2.8
Stronger stock market	-2.1	-.1	3.4	4.3	4.0
Civilian unemployment rate[1]					
Baseline	**5.5**	**5.9**	**6.1**	**6.0**	**5.8**
No expensing provision	5.5	5.9	6.1	6.2	6.2
No fiscal package	5.5	6.0	6.3	6.4	6.4
Futures-based GDP outlook	5.5	5.9	6.1	5.9	5.5
Low inflation expectations	5.5	5.9	6.1	6.0	5.8
Weaker stock market	5.5	5.9	6.1	6.1	6.3
Stronger stock market	5.5	5.9	6.1	6.0	5.6
PCE prices excluding food and energy					
Baseline	**3.0**	**1.5**	**1.3**	**1.2**	**1.1**
No expensing provision	3.0	1.5	1.3	1.2	1.1
No fiscal package	3.0	1.5	1.3	1.2	1.0
Futures-based GDP outlook	3.0	1.5	1.3	1.2	1.2
Low inflation expectations	3.0	1.4	1.1	.7	.5
Weaker stock market	3.0	1.5	1.3	1.2	1.0
Stronger stock market	3.0	1.5	1.3	1.2	1.1

1. Average for the final quarter of the period.

Futures-based GDP outlook. Developments in financial markets since the last Greenbook suggest that investors may have boosted their outlook for real activity by more than the staff has. Our objective in this scenario is to determine what the implications would be if the economic outlook has changed in the way that the markets seem to be suggesting while policy proceeds along the path assumed in the Greenbook. In crafting this scenario, we have used the fed funds futures data to back out a rough assessment of the revisions to the market's output expectations, under the assumption that investors expect that policy will adhere to the Taylor rule.

Relative to expectations prevailing at the time of the publication of the last Greenbook, markets now expect (as of the close on December 4) the funds rate to be about 65 basis points higher by late 2003. In the context of the Taylor rule, this *revision* to funds rate futures implies a 0.5 percent upward *revision* to the level of GDP expected by late 2003, allowing for some accompanying increase in the perceived value of the equilibrium real rate.[2] On the surface, this estimate of the market's revision to the late-2003 level of real GDP is not that much larger than the staff's 0.3 percent upward revision. However, the underlying difference between the two is actually somewhat greater because the revisions are related to divergent changes in the outlook for interest rates. The GDP forecast in the Greenbook is boosted a bit by funds rates that are, on balance, a little lower than last time, while the market's GDP outlook is implicitly restrained by a now steeper path of funds rate futures. We controlled for this difference in perceptions of the outlook for rates to obtain a consistent comparison of the change in the staff's economic forecast and the change in the market's view of the outlook.

When the market's underlying view of the future pace of economic activity is combined with the Greenbook's monetary policy ("futures-based GDP outlook"), real GDP growth reaches 4-1/2 percent in the second half of next year, before moderating to 4-1/4 percent in 2003. The unemployment rate drops from its peak just above 6 percent in mid-2002 to 5-1/2 percent by the end of 2003, and the projected decline in inflation is a tad less pronounced than in the Greenbook baseline.

Low inflation expectations. In the Michigan survey, the median one-year-ahead inflation expectation has tumbled 2.4 percentage points since September. Although we have reduced our inflation forecast since the early fall, the lower readings on expectations played only a small part in the revision.

In the "low inflation expectations" scenario, we gave full statistical weight to the disinflationary impulse implied by the Michigan survey data under the assumption that the recent drop in the Michigan survey persists through much of 2002. Then, as actual inflation is observed to fall less than expected, the public gradually revises up its inflation expectations; in 2003, actual and expected inflation converge.

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2. Given the coefficient of 0.5 on the output gap in the standard form of the Taylor rule, the 65-basis-point revision in the expected funds rate would be consistent with a 1.3 percent upward adjustment to the expected level of real GDP, if all other determinants of the funds rate in the rule were unrevised. However, in light of the 40-basis-point rise of implied one-year forward rates ten years in the future, we have assumed that more than half the shift in funds rate futures has come about because of a rise in investors' perception of the equilibrium value of the real funds rate and that only 25 basis points reflect the expected cyclical state of the economy.

Under these conditions, growth in core consumer prices falls to 3/4 percent in the second half of next year and to 1/2 percent in 2003, given the staff's assumed path for the nominal funds rate. Although the real funds rate rises relative to baseline, the ensuing restraint on economic activity is offset by a small decline in real bond yields and an increase in expected real income. These positive developments arise from the public's growing belief that the reduction in actual inflation will enable monetary policy to eventually be more stimulative.

Alternative stock market scenarios. The Greenbook forecast assumes that equity values will be flat next year and then rise 7 percent in 2003. Our two stock market scenarios modify the nearer-term outlook while maintaining the longer-run projection of moderate equity gains. In the "weaker stock market" scenario, share prices slump 25 percent by the middle of next year—a development that widens the gap between the earnings-price ratio and real bond yields and brings it back close to the average prevailing over the past couple of decades. By contrast, the "stronger stock market" scenario assumes that equity prices rise steadily from this point forward at an annual rate of 7 percent. In both cases, the nominal funds rate is assumed to follow the Greenbook path.

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December 5, 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]	
	10/31/01	12/05/01	10/31/01	12/05/01	10/31/01	12/05/01	10/31/01	12/05/01	10/31/01	12/05/01
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	3.3	3.2	1.0	1.0	2.2	2.2	2.9	2.8	4.7	4.7
2002	2.3	2.4	0.7	0.9	1.6	1.5	1.6	1.3	6.0	6.0
2003	5.3	5.3	3.5	3.7	1.7	1.5	2.0	1.9	6.0	5.9
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	2.4	2.4	0.3	0.3	2.1	2.1	3.0	3.0	4.5	4.5
Q3	1.6	1.1	-0.4	-1.1	2.1	2.2	0.7	0.7	4.8	4.8
Q4	-2.0	-1.8	-2.4	-2.1	0.4	0.3	0.3	-0.6	5.4	5.5
2002 Q1	2.0	1.8	-0.1	-0.1	2.0	1.9	1.9	1.3	5.9	5.9
Q2	4.5	5.0	2.8	3.3	1.7	1.6	2.1	2.2	6.0	6.1
Q3	5.3	6.1	3.5	4.5	1.7	1.5	2.1	2.1	6.1	6.1
Q4	5.2	5.1	3.5	3.6	1.6	1.5	2.0	2.0	6.1	6.0
2003 Q1	5.6	5.4	3.5	3.5	2.0	1.8	2.0	1.9	6.1	6.0
Q2	5.3	5.0	3.7	3.7	1.5	1.3	1.9	1.8	6.0	5.9
Q3	5.3	5.1	3.7	3.7	1.5	1.3	1.9	1.8	5.9	5.8
Q4	5.3	5.1	3.8	3.7	1.5	1.3	1.9	1.8	5.9	5.8
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	3.5	0.8	0.8	2.7	2.7	3.6	3.6	0.5	0.5
Q4	-0.2	-0.4	-1.4	-1.6	1.2	1.2	0.5	0.0	0.9	1.0
2002 Q2	3.2	3.4	1.3	1.6	1.9	1.7	2.0	1.7	0.6	0.6
Q4	5.2	5.6	3.5	4.1	1.6	1.5	2.1	2.0	0.1	-0.1
2003 Q2	5.4	5.2	3.6	3.6	1.8	1.6	1.9	1.9	-0.1	-0.1
Q4	5.3	5.1	3.7	3.7	1.5	1.3	1.9	1.8	-0.1	-0.1
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	1.6	1.6	-0.3	-0.4	2.0	1.9	2.0	1.8	1.4	1.5
2002 Q4	4.2	4.5	2.4	2.8	1.8	1.6	2.0	1.9	0.7	0.5
2003 Q4	5.4	5.1	3.7	3.7	1.6	1.4	1.9	1.8	-0.2	-0.3

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

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Class II FOMC

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

December 5, 2001

Item	Units[1]	1995	1996	1997	1998	1999	2000	---------Projected--------- 2001	2002	2003
EXPENDITURES										
Nominal GDP	Bill. $	7400.5	7813.2	8318.4	8781.5	9268.6	9872.9	10189.9	10433.4	10983.2
Real GDP	Bill. Ch. $	7543.8	7813.2	8159.5	8508.9	8856.5	9224.0	9315.0	9395.7	9745.1
Real GDP	% change	2.2	4.1	4.3	4.8	4.4	2.8	-0.4	2.8	3.7
Gross domestic purchases		1.7	4.3	5.0	5.8	5.3	3.5	-0.3	3.5	4.1
Final sales		2.9	3.9	3.9	4.7	4.3	3.4	1.2	1.5	3.2
Priv. dom. final purchases		3.2	4.4	5.1	6.3	5.4	4.7	0.5	2.0	3.9
Personal cons. expenditures		2.8	3.1	4.1	5.0	5.2	4.2	2.6	2.2	2.9
Durables		3.7	5.0	8.8	12.7	11.3	5.3	11.6	-2.5	6.7
Nondurables		2.5	3.2	2.5	5.0	5.0	3.6	0.7	2.9	3.0
Services		2.7	2.7	3.9	3.6	4.0	4.3	1.7	2.9	2.2
Business fixed investment		7.5	12.1	11.8	12.3	7.4	8.9	-11.0	1.4	10.4
Equipment & Software		8.9	11.8	13.7	14.9	11.2	8.3	-11.3	5.0	13.0
Nonres. structures		3.3	12.8	6.5	4.9	-3.6	10.8	-10.0	-8.1	2.9
Residential structures		-1.5	5.6	3.5	10.0	3.4	-1.2	2.1	-0.2	2.4
Exports		9.7	9.8	8.5	2.3	4.5	7.0	-8.9	2.2	6.9
Imports		5.0	11.2	14.3	10.8	11.5	11.3	-6.1	7.9	9.6
Gov't. cons. & investment		-0.8	2.7	2.4	2.7	4.0	1.2	4.6	3.4	3.0
Federal		-5.3	2.0	0.1	0.6	4.5	-1.4	4.2	5.3	2.0
Defense		-4.7	0.8	-1.4	-0.8	4.7	-2.2	4.5	3.5	2.2
State & local		2.1	3.0	3.7	3.8	3.7	2.5	4.9	2.4	3.5
Change in bus. inventories	Bill. Ch. $	--	--	63.8	76.7	62.1	50.6	-61.5	-13.4	55.4
Nonfarm		41.9	21.2	60.6	75.0	63.5	52.3	-59.7	-13.4	54.5
Net exports		-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-411.6	-485.8	-576.4
Nominal GDP	% change	4.3	6.0	6.2	6.0	6.0	5.3	1.6	4.5	5.1
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	117.2	119.6	122.7	125.8	128.9	131.8	132.2	131.7	133.7
Unemployment rate	%	5.6	5.4	4.9	4.5	4.2	4.0	4.7	6.0	5.9
Industrial prod. index	% change	3.5	5.8	7.4	3.5	4.3	2.6	-6.4	2.5	4.9
Capacity util. rate - mfg.	%	82.6	81.6	82.7	81.4	80.6	80.7	74.9	72.5	75.5
Housing starts	Millions	1.35	1.48	1.47	1.62	1.64	1.57	1.60	1.61	1.67
Light motor vehicle sales		14.77	15.05	15.06	15.43	16.78	17.25	16.91	14.95	15.69
North Amer. produced		12.87	13.34	13.12	13.41	14.30	14.39	13.86	12.15	12.77
Other		1.90	1.70	1.93	2.02	2.48	2.86	3.05	2.80	2.92
INCOME AND SAVING										
Nominal GNP	Bill. $	7420.9	7831.2	8325.4	8778.1	9261.8	9860.8	10180.7	10426.9	10971.6
Nominal GNP	% change	4.4	5.9	6.0	5.8	6.0	5.4	1.4	4.5	5.0
Nominal personal income		4.3	5.9	6.3	6.7	4.8	7.3	2.9	4.3	4.6
Real disposable income		1.7	2.6	3.8	5.0	2.1	4.0	2.2	3.9	2.9
Personal saving rate	%	5.6	4.8	4.2	4.7	2.4	1.0	1.7	3.1	2.8
Corp. profits, IVA & CCAdj.	% change	11.3	11.4	9.9	-9.6	11.3	-1.2	-17.3	7.2	5.1
Profit share of GNP	%	9.0	9.6	10.0	8.9	8.9	8.9	7.2	6.9	7.1
Excluding FR Banks		8.7	9.4	9.7	8.6	8.6	8.6	7.0	6.6	6.8
Federal surpl./deficit	Bill. $	-192.0	-136.8	-53.3	43.8	119.2	218.6	111.7	-73.5	-5.0
State & local surpl./def.		15.3	21.4	31.0	40.7	42.1	32.8	15.7	9.6	13.5
Ex. social ins. funds		11.4	18.7	29.9	40.0	41.7	33.1	15.9	9.9	13.8
Gross natl. saving rate	%	16.9	17.2	18.0	18.8	18.4	18.1	16.8	16.2	16.8
Net natl. saving rate		5.1	5.7	6.7	7.5	6.8	6.3	4.1	3.4	3.9
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.1	1.9	1.8	1.1	1.6	2.4	1.9	1.6	1.4
Gross Domestic Purchases chn.-wt. price index		2.1	1.9	1.4	0.8	1.9	2.5	1.2	1.5	1.4
PCE chn.-wt. price index		2.1	2.3	1.5	1.1	2.0	2.6	1.3	1.4	1.2
Ex. food and energy		2.3	1.8	1.7	1.6	1.5	1.9	1.6	1.3	1.1
CPI		2.7	3.2	1.9	1.5	2.6	3.4	1.8	1.9	1.8
Ex. food and energy		3.0	2.6	2.2	2.4	2.0	2.5	2.7	2.0	1.8
ECI, hourly compensation[2]		2.6	3.1	3.4	3.5	3.4	4.4	4.0	3.1	3.0
Nonfarm business sector										
Output per hour		1.1	2.3	2.3	2.9	2.8	2.3	1.0	2.0	2.2
Compensation per Hour		2.6	3.2	3.5	5.3	4.3	7.4	4.4	3.8	3.3
Unit labor cost		1.5	0.9	1.1	2.3	1.5	5.0	3.4	1.8	1.1

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)

December 5, 2001

Item	Units	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2
EXPENDITURES											
Nominal GDP	Bill. $	9093.1	9161.4	9297.4	9522.5	9668.7	9857.6	9937.5	10027.9	10141.7	10202.6
Real GDP	Bill. Ch. $	8733.5	8771.2	8871.5	9049.9	9102.5	9229.4	9260.1	9303.9	9334.5	9341.7
Real GDP	% change	3.1	1.7	4.7	8.3	2.3	5.7	1.3	1.9	1.3	0.3
Gross domestic purchases		4.8	2.9	5.3	8.2	3.5	6.3	2.0	2.2	0.7	0.4
Final sales		3.0	3.9	4.2	6.1	4.8	3.9	2.3	2.4	4.0	0.7
Priv. dom. final purchases		5.3	5.9	4.9	5.5	7.5	4.6	3.9	2.6	2.8	-0.0
Personal cons. expenditures		4.9	5.7	4.4	5.7	5.9	3.6	4.3	3.1	3.0	2.5
Durables		7.1	15.7	9.0	13.7	19.0	-2.5	8.2	-2.1	10.6	7.0
Nondurables		5.6	4.3	2.6	7.6	5.1	4.7	4.2	0.6	2.4	0.3
Services		4.1	4.5	4.3	3.2	3.7	4.4	3.5	5.6	1.8	2.8
Business fixed investment		6.0	7.7	10.2	5.8	15.8	12.2	7.1	1.0	-0.2	-14.6
Equipment & Software		10.5	11.9	16.2	6.4	18.1	12.4	4.7	-1.1	-4.1	-15.4
Nonres. structures		-6.5	-4.3	-7.0	4.0	8.8	11.8	15.2	7.6	12.3	-12.2
Residential structures		10.3	3.0	-0.8	1.6	8.5	-0.8	-10.4	-1.1	8.5	5.9
Exports		-6.8	4.2	9.7	12.1	9.0	13.5	10.6	-4.0	-1.2	-11.9
Imports		8.4	13.3	13.8	10.5	17.1	16.4	13.0	-0.5	-5.0	-8.4
Gov't. cons. & investment		2.0	1.2	4.4	8.5	-1.1	4.4	-1.8	3.3	5.3	5.0
Federal		-3.7	0.8	7.2	14.5	-12.8	15.9	-10.4	4.6	3.2	1.8
Defense		-3.5	-3.5	12.8	14.3	-20.0	15.4	-10.4	10.5	7.5	2.3
State & local		5.2	1.4	2.9	5.4	5.6	-1.1	3.0	2.7	6.4	6.6
Change in bus. inventories	Bill. Ch. $	83.4	32.7	39.6	92.7	28.9	78.9	51.7	42.8	-27.1	-38.3
Nonfarm		78.7	34.2	52.2	88.7	37.8	75.1	56.6	39.7	-27.3	-35.8
Net exports		-283.0	-313.4	-333.3	-337.8	-371.1	-392.8	-411.2	-421.1	-404.5	-406.7
Nominal GDP	% change	4.9	3.0	6.1	10.0	6.3	8.0	3.3	3.7	4.6	2.4
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	127.8	128.5	129.2	130.1	131.0	131.9	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	3.6	3.3	4.7	5.8	5.8	7.0	0.6	-2.6	-6.1	-5.9
Capacity util. rate - mfg.	%	80.5	80.4	80.5	81.0	81.2	81.6	80.7	79.1	77.2	75.6
Housing starts	Millions	1.71	1.57	1.65	1.66	1.67	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	10190.9
Nominal GNP	% change	5.2	3.0	5.7	10.4	5.7	8.1	3.2	4.6	4.0	2.4
Nominal personal income		3.0	4.7	5.2	6.3	8.6	8.5	5.5	6.8	5.8	3.5
Real disposable income		1.4	2.0	2.1	3.0	3.3	5.8	2.6	4.2	2.7	2.4
Personal saving rate	%	3.5	2.7	2.1	1.4	0.8	1.3	0.8	1.0	1.1	1.1
Corp. profits, IVA & CCAdj.	% change	36.1	-10.2	-4.9	31.9	6.1	10.7	1.0	-19.6	-24.6	-14.3
Profit share of GNP	%	9.2	8.8	8.6	9.0	9.0	9.1	9.0	8.4	7.8	7.5
Excluding FR Banks		8.9	8.6	8.3	8.7	8.7	8.8	8.7	8.1	7.5	7.2
Federal surpl./deficit	Bill. $	85.2	116.5	132.0	143.1	212.8	209.1	229.9	222.5	205.3	186.7
State & local surpl./def.		48.9	36.2	38.3	44.9	33.2	34.7	34.8	28.6	22.3	21.3
Ex. social ins. funds		48.4	35.8	38.0	44.7	33.3	34.9	35.1	29.1	22.6	21.4
Gross natl. saving rate	%	19.0	18.5	18.3	18.0	18.0	18.3	18.2	17.9	17.3	17.2
Net natl. saving rate		7.6	6.9	6.4	6.3	6.3	6.6	6.4	6.0	5.1	4.6
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.7	1.4	1.4	1.8	3.8	2.1	1.9	1.8	3.3	2.1
Gross Domestic Purchases chn.-wt. price index		1.5	2.0	2.0	2.2	4.2	1.9	2.3	1.7	2.7	1.3
PCE chn.-wt. price index		1.3	2.0	2.2	2.4	4.0	2.1	2.4	2.0	3.2	1.3
Ex. food and energy		1.4	1.2	1.5	1.8	2.9	1.7	1.6	1.5	2.6	0.7
CPI		1.7	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)

December 5, 2001

		Projected									
m	Units	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4
EXPENDITURES											
Nominal GDP	Bill. $	10231.3	10183.9	10229.2	10355.2	10508.5	10640.9	10780.8	10914.3	11050.2	11187.5
Real GDP	Bill. Ch. $	9316.3	9267.6	9265.7	9342.3	9445.0	9529.6	9612.4	9699.6	9789.1	9879.4
Real GDP	% change	-1.1	-2.1	-0.1	3.3	4.5	3.6	3.5	3.7	3.7	3.7
Gross domestic purchases		-0.9	-1.4	0.5	4.3	5.4	4.0	4.2	4.3	4.3	3.8
Final sales		-0.3	0.4	-3.0	2.6	3.3	3.3	2.4	3.2	3.4	3.9
Priv. dom. final purchases		-0.2	-0.5	-3.4	3.4	4.5	3.8	3.2	4.0	4.0	4.1
Personal cons. expenditures		1.1	3.7	-2.6	4.3	4.5	2.9	2.2	3.1	3.2	3.2
Durables		0.7	30.0	-31.5	10.3	10.4	8.4	4.7	7.1	7.5	7.6
Nondurables		0.5	-0.4	1.9	3.6	3.3	2.9	2.7	3.2	3.1	3.1
Services		1.5	0.9	2.4	3.5	3.9	1.9	1.5	2.4	2.4	2.4
Business fixed investment		-8.7	-19.3	-7.1	-0.6	5.3	8.8	9.3	10.1	10.7	11.7
Equipment & Software		-9.3	-15.8	-3.3	2.6	8.9	12.4	11.8	12.6	13.2	14.5
Nonres. structures		-6.9	-28.4	-16.8	-9.3	-4.6	-1.1	2.1	2.6	3.5	3.3
Residential structures		3.3	-8.7	-7.5	-0.0	2.8	4.4	4.6	3.4	1.4	0.3
Exports		-17.7	-3.6	-2.1	1.2	3.3	6.6	3.9	6.6	7.4	9.7
Imports		-12.9	2.6	3.1	9.2	11.0	8.6	9.2	10.6	10.2	8.4
Gov't. cons. & investment		0.0	8.4	3.0	3.9	3.4	3.3	2.9	3.0	3.1	3.0
Federal		2.7	9.3	4.7	6.9	6.4	3.3	2.1	2.1	2.1	1.8
Defense		2.6	5.7	4.5	3.9	3.4	2.2	2.0	2.4	2.3	1.9
State & local		-1.3	8.0	2.1	2.4	1.9	3.3	3.3	3.5	3.7	3.7
Change in bus. inventories	Bill. Ch. $	-58.2	-122.6	-45.2	-25.0	4.1	12.4	41.0	53.8	64.8	62.1
Nonfarm		-55.2	-120.6	-43.6	-25.5	3.6	11.9	40.5	52.7	63.8	60.8
Net exports		-408.2	-427.1	-443.8	-473.6	-505.3	-520.6	-545.6	-569.6	-590.9	-599.5
Nominal GDP	% change	1.1	-1.8	1.8	5.0	6.1	5.1	5.4	5.0	5.1	5.1
EMPLOYMENT AND PRODUCTION											
farm payroll employment	Millions	132.3	131.6	131.2	131.4	131.8	132.4	132.9	133.4	134.0	134.6
nployment rate	%	4.8	5.5	5.9	6.1	6.1	6.0	6.0	5.9	5.8	5.8
industrial prod. index	% change	-4.8	-8.8	-3.6	3.3	5.4	5.2	5.0	4.9	4.7	5.0
Capacity util. rate - mfg.	%	74.4	72.5	71.5	71.9	72.8	73.6	74.3	75.1	75.8	76.6
Housing starts	Millions	1.60	1.54	1.57	1.60	1.63	1.66	1.67	1.67	1.67	1.66
Light motor vehicle sales		16.12	17.99	14.42	14.73	15.13	15.52	15.49	15.60	15.76	15.90
North Amer. produced		13.15	14.70	11.65	11.94	12.35	12.67	12.60	12.69	12.83	12.95
Other		2.97	3.29	2.77	2.79	2.78	2.85	2.89	2.91	2.93	2.95
INCOME AND SAVING											
Nominal GNP	Bill. $	10223.2	10177.3	10222.7	10349.0	10501.2	10634.9	10776.2	10905.0	11035.8	11169.3
Nominal GNP	% change	1.3	-1.8	1.8	5.0	6.0	5.2	5.4	4.9	4.9	4.9
Nominal personal income		2.7	-0.4	4.6	3.7	4.2	4.9	4.9	4.6	4.4	4.4
Real disposable income		12.5	-7.6	10.5	1.7	0.8	3.0	3.4	2.8	2.7	2.8
Personal saving rate	%	3.7	0.9	4.0	3.4	2.6	2.6	2.9	2.8	2.8	2.7
Corp. profits, IVA & CCAdj.	% change	-29.1	2.2	-8.7	12.8	20.0	6.7	5.0	4.9	6.1	4.2
Profit share of GNP	%	6.8	6.9	6.7	6.8	7.0	7.1	7.1	7.1	7.1	7.1
Excluding FR Banks		6.6	6.6	6.4	6.5	6.7	6.8	6.8	6.8	6.8	6.8
Federal surpl./deficit	Bill. $	-10.4	65.0	-101.2	-97.8	-49.9	-45.1	-26.0	-10.6	4.3	12.4
State & local surpl./def.		2.3	16.9	1.6	5.5	15.5	15.7	12.8	12.9	15.6	12.7
Ex. social ins. funds		2.4	17.3	1.9	5.8	15.8	16.0	13.1	13.2	15.9	13.0
Gross natl. saving rate	%	17.1	15.6	16.3	16.1	16.1	16.2	16.6	16.7	16.9	16.9
Net natl. saving rate		3.9	2.8	3.5	3.3	3.3	3.4	3.8	3.9	4.0	4.0
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.2	0.3	1.9	1.6	1.5	1.5	1.8	1.3	1.3	1.3
Gross Domestic Purchases chn.-wt. price index		-0.2	1.0	1.6	1.6	1.5	1.5	1.8	1.3	1.3	1.3
PCE chn.-wt. price index		-0.3	1.1	1.0	1.6	1.5	1.4	1.3	1.3	1.2	1.2
Ex. food and energy		0.4	3.0	1.5	1.3	1.3	1.2	1.1	1.1	1.1	1.1
CPI		0.7	-0.6	1.3	2.2	2.1	2.0	1.9	1.8	1.8	1.8
Ex. food and energy		2.6	2.4	2.2	2.1	2.0	1.9	1.9	1.8	1.8	1.8
hourly compensation[1]		3.7	3.7	3.3	3.2	3.1	3.0	3.0	3.0	3.0	2.9
.arm business sector											
Jutput per hour		1.6	0.3	-0.4	2.7	3.5	2.1	2.0	2.2	2.3	2.3
Compensation per hour		3.8	4.0	4.2	3.8	3.7	3.6	3.6	3.3	3.2	3.2
Unit labor cost		2.2	3.7	4.6	1.1	0.2	1.5	1.6	1.1	0.9	0.9

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	00Q4/ 99Q4	01Q4/ 00Q4
Real GDP	4.7	8.3	2.3	5.7	1.3	1.9	1.3	0.3	-1.1	4.4	2.8	-0.4
Gross dom. purchases	5.4	8.4	3.6	6.5	2.0	2.3	0.7	0.4	-0.9	5.4	3.6	-0.3
Final sales	4.2	6.2	4.7	3.9	2.3	2.4	3.9	0.7	-0.3	4.2	3.3	1.2
Priv. dom. final purchases	4.2	4.8	6.2	4.0	3.3	2.2	2.4	-0.0	-0.2	4.5	3.9	0.4
Personal cons. expenditures	3.0	4.0	3.9	2.5	2.9	2.1	2.1	1.7	0.8	3.5	2.9	1.8
Durables	0.7	1.1	1.5	-0.2	0.7	-0.2	0.8	0.6	0.1	0.9	0.4	0.9
Nondurables	0.5	1.5	1.0	1.0	0.8	0.1	0.5	0.1	0.1	1.0	0.7	0.1
Services	1.7	1.4	1.5	1.8	1.4	2.2	0.7	1.1	0.6	1.6	1.7	0.7
Business fixed investment	1.3	0.8	1.9	1.5	0.9	0.1	-0.0	-2.0	-1.1	0.9	1.1	-1.4
Equipment & Software	1.5	0.6	1.6	1.2	0.5	-0.1	-0.4	-1.6	-0.9	1.0	0.8	-1.1
Nonres. structures	-0.2	0.1	0.3	0.4	0.5	0.2	0.4	-0.4	-0.2	-0.1	0.3	-0.3
Residential structures	-0.0	0.1	0.4	-0.0	-0.5	-0.1	0.4	0.3	0.1	0.1	-0.1	0.1
Net exports	-0.8	-0.2	-1.3	-0.8	-0.7	-0.4	0.6	-0.1	-0.2	-1.0	-0.8	-0.1
Exports	1.0	1.3	1.0	1.4	1.1	-0.5	-0.1	-1.4	-2.0	0.5	0.8	-1.0
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	0.0	0.7	0.2	0.8
Federal	0.4	0.9	-0.8	0.9	-0.7	0.3	0.2	0.1	0.2	0.3	-0.1	0.2
Defense	0.5	0.6	-0.9	0.6	-0.4	0.4	0.3	0.1	0.1	0.2	-0.1	0.2
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	-0.2	0.4	0.3	0.6
Change in bus. inventories	0.4	2.2	-2.3	1.8	-1.0	-0.5	-2.6	-0.4	-0.8	0.2	-0.5	-1.6
Nonfarm	0.9	1.5	-2.0	1.5	-0.8	-0.7	-2.6	-0.3	-0.7	0.1	-0.5	-1.6
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	-2.1	-0.1	3.3	4.5	3.6	3.5	3.7	3.7	3.7	-0.4	2.8	3.7
Gross dom. purchases	-1.4	0.5	4.4	5.6	4.1	4.4	4.5	4.4	4.0	-0.3	3.6	4.3
Final sales	0.4	-3.1	2.6	3.4	3.3	2.5	3.2	3.3	3.8	1.2	1.5	3.2
Priv. dom. final purchases	-0.4	-3.0	2.9	3.8	3.2	2.8	3.4	3.4	3.5	0.4	1.7	3.3
Personal cons. expenditures	2.5	-1.8	3.0	3.1	2.1	1.6	2.2	2.2	2.2	1.8	1.6	2.0
Durables	2.2	-3.2	0.8	0.8	0.7	0.4	0.6	0.6	0.6	0.9	-0.2	0.5
Nondurables	-0.1	0.4	0.7	0.7	0.6	0.5	0.6	0.6	0.6	0.1	0.6	0.6
Services	0.4	1.0	1.5	1.6	0.8	0.6	1.0	1.0	1.0	0.7	1.2	0.9
Business fixed investment	-2.5	-0.8	-0.1	0.6	1.0	1.0	1.1	1.2	1.3	-1.4	0.2	1.2
Equipment & Software	-1.5	-0.3	0.2	0.7	1.0	1.0	1.0	1.1	1.2	-1.1	0.4	1.1
Nonres. structures	-1.0	-0.5	-0.3	-0.1	-0.0	0.1	0.1	0.1	0.1	-0.3	-0.2	0.1
Residential structures	-0.4	-0.3	0.0	0.1	0.2	0.2	0.1	0.1	0.0	0.1	-0.0	0.1
Net exports	-0.7	-0.6	-1.0	-1.1	-0.5	-0.8	-0.8	-0.7	-0.2	-0.1	-0.8	-0.6
Exports	-0.4	-0.2	0.1	0.3	0.6	0.4	0.6	0.7	0.9	-1.0	0.2	0.7
Imports	-0.3	-0.4	-1.2	-1.4	-1.1	-1.2	-1.4	-1.4	-1.1	0.9	-1.0	-1.3
Government cons. & invest.	1.5	0.5	0.7	0.6	0.6	0.5	0.6	0.6	0.6	0.8	0.6	0.6
Federal	0.5	0.3	0.4	0.4	0.2	0.1	0.1	0.1	0.1	0.2	0.3	0.1
Defense	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Nondefense	0.3	0.1	0.3	0.3	0.1	0.1	0.0	0.0	0.0	0.1	0.2	0.0
State and local	0.9	0.3	0.3	0.2	0.4	0.4	0.4	0.5	0.5	0.6	0.3	0.4
Change in bus. inventories	-2.4	3.0	0.8	1.1	0.3	1.1	0.5	0.4	-0.1	-1.6	1.3	0.5
Nonfarm	-2.4	3.0	0.7	1.1	0.3	1.1	0.4	0.4	-0.1	-1.6	1.3	0.4
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]				2001				2002				2003			
	2000[a]	2001[a]	2002	2003	Q1[a]	Q2[a]	Q3[a]	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts[2]	2025	1990	1960	2048	460	660	409	455	424	611	469	450	451	648	499	485
Outlays[2]	1789	1863	1992	2055	482	467	451	507	502	495	488	524	517	510	504	541
Surplus/deficit[2]	236	127	-32	-7	-22	194	-42	-51	-78	117	-19	-74	-66	138	-5	-57
On-budget	87	-34	-191	-183	-88	119	-51	-100	-103	45	-34	-127	-94	60	-22	-117
Off-budget	150	161	159	176	65	75	10	48	25	71	14	53	27	78	17	61
Surplus excluding deposit insurance	233	126	-34	-9	-23	193	-42	-52	-79	116	-20	-74	-67	138	-5	-57
Means of financing																
Borrowing	-223	-90	46	27	24	-157	69	46	76	-84	9	60	69	-99	-4	42
Cash decrease	4	8	-1	0	-7	-15	-1	15	-5	-25	15	20	-5	-30	15	15
Other[3]	-18	-45	-13	-20	6	-21	-26	-9	7	-7	-4	-6	2	-9	-7	-0
Cash operating balance, end of period	53	44	45	45	28	44	44	30	35	60	45	25	30	60	45	30
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	2012	2041	1954	2064	2087	2092	1909	2018	1897	1917	1983	2019	2050	2079	2110	2144
Expenditures	1813	1890	2000	2084	1882	1905	1919	1953	1998	2015	2033	2064	2076	2089	2105	2131
Consumption expenditures	492	506	547	585	508	510	513	527	544	554	564	570	586	590	594	597
Defense	322	336	356	375	338	340	343	346	356	360	363	366	375	378	380	383
Nondefense	170	170	191	210	169	171	170	181	188	195	201	205	211	212	213	215
Other spending	1321	1384	1452	1499	1375	1395	1406	1426	1455	1460	1468	1493	1490	1499	1511	1534
Current account surplus	199	151	-46	-19	205	187	-10	65	-101	-98	-50	-45	-26	-11	4	12
Gross investment	96	100	106	110	98	100	102	103	105	106	108	109	110	111	112	113
Current and capital account surplus	102	51	-151	-130	108	87	-112	-38	-206	-204	-158	-154	-136	-121	-107	-100
Fiscal indicators[4]																
High-employment (HEB) surplus/deficit	-9	-19	-127	-113	21	23	-143	-35	-177	-169	-126	-127	-118	-108	-99	-97
Change in HEB, percent of potential GDP	-.8	.1	1	-.2	0	-0	2	-1	1	-.1	-.4	-0	-.1	-.1	-.1	-0
Fiscal impetus (FI) percent, calendar year	2	9	26	8	3	3	9	-2	18	6	1	.7	2	2	2	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 $187 billion in FY 2002 and $211 billion in FY 2003. CBO's August 2001 baseline surplus estimates, assuming discretionary spending grows with inflation beginning in FY 2002, are $176 billion in FY 2002 and $172 billion in FY 2003. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus and the Postal Service surplus are excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.
3. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.
4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Quarterly figures for change in HEB 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)

			Nonfederal						
				Households					
Period [1]	Total [2]	Federal government [3]	Total [4]	Total	Home mortgages	Consumer credit	Business	State and local governments	Memo: Nominal GDP
Year									
1996	5.4	4.0	5.8	7.0	6.8	8.1	6.2	-0.6	6.0
1997	5.6	0.6	7.3	6.4	6.7	4.7	9.0	5.3	6.2
1998	6.9	-1.4	9.6	8.4	9.2	5.9	11.6	7.2	6.0
1999	6.8	-1.9	9.3	8.6	9.3	7.4	11.3	4.4	6.0
2000	5.0	-8.0	8.5	8.5	8.4	9.6	9.9	2.2	5.3
2001	5.8	-0.6	7.2	8.3	9.7	4.9	6.2	6.8	1.6
2002	4.6	1.8	5.2	5.8	7.8	0.4	4.7	3.5	4.5
2003	4.8	0.2	5.7	6.4	7.6	3.4	5.4	3.0	5.1
Quarter									
2000:3	4.4	-6.4	7.1	8.1	8.4	8.4	7.0	1.9	3.3
4	4.3	-9.6	7.5	7.4	7.4	8.7	8.4	4.2	3.7
2001:1	5.5	-0.1	6.8	7.8	7.8	10.0	5.4	8.1	4.6
2	5.5	-7.6	8.4	9.3	11.5	4.5	7.5	8.3	2.4
3	6.8	7.7	6.6	8.3	9.7	1.3	5.3	3.2	1.1
4	5.0	-2.1	6.5	6.8	8.4	3.4	6.1	6.9	-1.8
2002:1	5.2	6.1	5.0	6.0	8.2	-0.7	4.2	3.6	1.8
2	4.3	1.0	5.0	5.5	7.6	-0.5	4.7	4.2	5.0
3	4.3	0.5	5.1	5.6	7.2	1.0	4.9	3.5	6.1
4	4.2	-0.4	5.1	5.8	7.2	1.9	4.9	2.7	5.1
2003:1	5.5	5.2	5.5	6.1	7.4	2.4	5.3	3.0	5.4
2	4.5	-0.6	5.5	6.2	7.3	3.1	5.3	3.0	5.0
3	4.5	-1.0	5.6	6.3	7.4	3.7	5.2	3.0	5.1
4	4.3	-2.6	5.6	6.4	7.4	4.2	5.2	3.0	5.1

Note. Quarterly data are at seasonally adjusted annual rates.
1. Data after 2001:Q3 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.
2. On a monthly average basis, total debt is projected to grow 5.5 percent in 2001, 4.6 percent in 2002, and 5.0 percent in 2003.
3. On a monthly average basis, federal debt is projected to grow -1.4 percent in 2001, 1.5 percent in 2002, and 0.5 percent in 2003.
4. On a monthly average basis, nonfederal debt is projected to grow 7.2 percent in 2001, 5.2 percent in 2002, and 5.9 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				2003	
	2000	2001	2002	2003	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
Net funds raised by domestic nonfinancial sectors														
1 Total	722.8	1002.4	928.6	1013.6	980.9	946.0	1157.0	925.6	1032.2	890.0	912.3	879.9	1064.2	963.0
2 Net equity issuance	-150.6	-61.2	40.0	50.0	-25.6	-72.6	-118.5	-28.0	28.0	40.0	54.0	38.0	50.0	50.0
3 Net debt issuance	873.4	1063.6	888.6	963.6	1006.5	1018.6	1275.5	953.6	1004.2	850.0	858.3	841.9	1014.2	913.0
Borrowing sectors														
Nonfinancial business														
4 Financing gap [1]	286.9	207.2	179.4	252.9	284.9	218.9	178.6	146.2	185.8	163.1	170.9	197.9	236.8	268.9
5 Net equity issuance	-150.6	-61.2	40.0	50.0	-25.6	-72.6	-118.5	-28.0	28.0	40.0	54.0	38.0	50.0	50.0
6 Credit market borrowing	587.2	407.0	329.6	390.1	352.6	494.7	360.6	419.9	290.6	327.7	345.3	354.7	389.4	390.8
Households														
7 Net borrowing [2]	554.9	588.9	449.9	522.8	554.4	671.2	616.2	513.9	459.0	429.3	447.2	464.3	504.6	541.0
8 Home mortgages	382.6	478.9	421.5	444.0	387.8	581.0	502.3	444.3	444.6	420.5	406.5	414.4	436.0	452.1
9 Consumer credit	139.0	77.7	7.4	57.2	159.9	73.6	21.3	56.1	-11.3	-8.0	16.6	32.3	46.7	67.7
10 Debt/DPI (percent) [3]	97.1	99.9	102.4	104.4	98.5	99.7	99.0	102.6	101.4	102.0	102.8	103.2	103.8	105.0
State and local governments														
11 Net borrowing	27.2	86.9	48.4	42.8	103.9	108.7	43.0	92.2	49.4	57.4	49.4	37.4	42.8	42.8
12 Current surplus [4]	191.9	189.4	192.6	207.4	189.8	192.9	181.5	193.6	180.8	187.2	199.8	202.8	204.0	210.8
Federal government														
13 Net borrowing	-295.9	-19.3	60.7	8.0	-4.3	-256.0	255.7	-72.4	205.2	35.6	16.5	-14.5	77.5	-61.5
14 Net borrowing (quarterly, n.s.a.)	-295.9	-19.3	60.7	8.0	23.7	-157.4	68.6	45.8	76.0	-84.5	8.8	60.3	-29.9	37.9
15 Unified deficit (quarterly, n.s.a.)	-254.8	-78.3	54.8	-10.8	22.5	-193.7	41.8	51.3	78.0	-116.6	19.4	74.0	-72.0	61.3
Depository institutions														
16 Funds supplied	445.3	203.9	252.7	296.1	228.5	198.8	290.5	97.9	178.0	249.0	296.0	287.8	293.6	298.6
Memo (percentage of GDP)														
17 Domestic nonfinancial debt [5]	181.0	185.0	190.1	189.0	181.9	183.3	185.6	189.2	190.7	190.7	189.9	189.5	189.2	188.9
18 Domestic nonfinancial borrowing	8.8	10.4	8.5	8.8	9.9	10.0	12.5	9.4	9.8	8.2	8.2	7.9	9.3	8.2
19 Federal government [6]	-3.0	-0.2	0.6	0.1	-0.0	-2.5	2.5	-0.7	2.0	0.3	0.2	-0.1	0.7	-0.6
20 Nonfederal	11.8	10.6	7.9	8.7	10.0	12.5	10.0	10.1	7.8	7.9	8.0	8.0	8.6	8.8

Note. Data after 2000:Q3 are staff projections.
1. For corporations: Excess of capital expenditures over U.S. internal funds.
2. Includes change in liabilities not shown in lines 8 and 9.
3. Average debt levels in the period (computed as the average of period-end debt positions) divided by disposable personal income.
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

Early indicators for October and November suggest that foreign economic activity is likely to decline again in the current quarter, reflecting in part the continuing effect of the events of September 11. At the same time, however, a few bright spots are appearing, perhaps signaling the emergence of a turning point in the global growth cycle. Economic activity in some Asian economies particularly exposed to the downturn in the high-tech sector appears to be stabilizing. And financial markets, though not completely shrugging off the negative readings on recent activity, may be pricing in a somewhat stronger outlook than they had at the time of the November FOMC meeting, with equity prices and longer-term bond yields generally higher.

We again project that foreign growth will resume early next year, as a number of factors appear set to boost activity. These include the anticipated pickup in U.S. GDP, lower oil prices, the considerable macroeconomic policy easing that has taken place in many countries, and the eventual ending of inventory liquidations and high-tech investment overhangs. As positive momentum develops, average foreign growth rates are expected to approach potential growth rates by the end of next year and move somewhat higher in 2003, shrinking output gaps a bit by the end of the forecast period. Inflation should remain subdued, however, with output remaining below potential throughout the period.

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

Indicator	2001		Projection				
				2002			
	H1	Q3	2001: Q4	Q1	Q2	H2	2003
Foreign output	0.0	-0.3	-0.6	0.5	1.8	2.9	3.4
October GB	*0.0*	*-0.5*	*-0.4*	*0.7*	*1.9*	*2.9*	*3.4*
Foreign CPI	2.5	1.8	1.6	1.6	2.0	2.1	2.2
October GB	*2.5*	*1.8*	*1.6*	*1.9*	*2.1*	*2.2*	*2.3*

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

Over the forecast period, we expect the arithmetic contribution of the external sector to U.S. GDP growth to be negative. After declining significantly this year, both exports and imports should pick up next year and expand further in 2003.

Oil prices. The spot price of West Texas intermediate fell sharply in mid November following OPEC's announced decision to make additional production cuts only if key non-OPEC countries limited their production as well. Mexico, Norway, and Oman have agreed to cooperate with OPEC. Russia has just announced an export cut of 150,000 barrels per day, but it is not yet clear how OPEC will respond. Consistent with recent quotes from futures markets, we project that the spot price of WTI will gradually increase from current levels of around $20 per barrel to about $21.50 per barrel by the end of the forecast period. This outlook incorporates some but not all of these potential production cuts. Compared with the previous Greenbook, this projection is down about $2 per barrel in the near term but is little changed by the end of 2003.

International financial markets. Positive signals about near-term prospects for U.S. economic activity that emerged early in the intermeeting period tended to boost the dollar; but later U.S. news prompted the dollar to move back down. On balance, the broad nominal index of the foreign exchange value of the dollar showed little net change during the intermeeting period. Nevertheless, the dollar's net movements against some individual foreign currencies were significant. Concerns over possible intervention by Japanese authorities to weaken the yen and commentary from British officials indicating that sterling should depreciate before the United Kingdom enters Europe's monetary union appeared to weigh on those currencies relative to the dollar. In contrast, the Canadian dollar moved higher on net against its U.S. cousin, recovering from record lows touched in early November. Among emerging-market currencies, the Brazilian *real* rose during the period, as the worst fears about contagion from the difficulties in Argentina were apparently put aside. The Korean won firmed as well, as recent data suggest that domestic demand remained quite resilient. The dollar's net movements against the euro and the Mexican peso were negligible.

Our outlook for the dollar is essentially flat, a forecast little changed from that in the previous Greenbook. We nonetheless continue to believe that the large and growing volume of U.S. external liabilities will at some point begin to outpace growth in the demand for U.S. assets, eventually exerting downward pressure on the dollar. The exact time at which such a threshold might be crossed is difficult to identify, however, and could well be beyond the current forecast horizon, particularly if U.S. growth is the leading force behind the global recovery. As a consequence, we leave this concern as a risk to our outlook for the dollar. (An event that triggers dollar depreciation is explored in the alternative simulation.)

Over the intermeeting period, foreign long-term bond yields have risen, although somewhat less than comparable U.S. rates, and equity prices have moved higher, consistent with some continued decrease in risk aversion and perhaps also a heightened expectation that global recovery is imminent. In contrast, short-term interest rates held steady or declined, leaving yield curves generally steeper. Central banks in the euro area, the United Kingdom, and Canada each reduced key monetary policy rates 50 basis points during the period, contributing to the downward movement in short-term yields. The Bank of Japan continued to leave an elevated amount of reserves with Japanese banks, keeping its aggregate current account position well above ¥6 trillion and short-term interest rates near zero. Late in the period, the Bank of Japan temporarily pushed reserves to ¥14 trillion to help ensure liquidity for mutual funds whose depositors were concerned that the Enron bankruptcy would generate fund losses sufficient to impair access to deposits.

Equity prices in most emerging-market countries also rose, and sovereign bond yield spreads generally narrowed, including those of Mexico and Brazil, despite the sharp deterioration of financial conditions in Argentina. Argentine equity prices fell more than 12 percent, yield spreads widened 1,000 basis points, and overnight interest rates on peso deposits soared to 900 percent as residents scrambled to withdraw their funds from the banking system. The government responded with a package of stop-gap measures designed to reduce pressures on the banking system and the currency regime by limiting bank deposit withdrawals, restricting capital outflows, and partially dollarizing the financial system. The authorities also moved to complete the first part of a debt exchange, which reduces interest payments and in many cases lengthens maturities on public sector debt. Figures on the amount of debt exchanged so far total about $50 billion. These steps may provide the banking system with some breathing room and reduce the probability of an imminent devaluation of the exchange rate. Immediately following the imposition of these measures, bond spreads declined somewhat and equity prices moved off their lows.

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

Foreign industrial countries. Recent indicators suggest that average real GDP in foreign industrial countries weakened further in the current quarter after a small contraction in the third quarter. We continue to project a gradual recovery next year, with growth of about 1¾ percent in 2002 and nearly 3 percent in 2003, reflecting the projected revival in U.S. growth, lower oil prices, monetary stimulus, and an expected reduction in inventory and investment overhangs. All the major foreign industrial economies follow this general pattern, although the severity and the duration of the slowdown differ across areas. Headline inflation rates in these countries have moved down substantially in recent months as a result of both lower oil prices and the sluggish pace of economic activity. Inflation rates are expected to edge up later in the forecast period.

The Japanese economy remains very weak, with a drop of nearly 2 percent (not at an annual rate) in the all-industry index in the third quarter, suggesting that real GDP posted another sizable decline in that period. A further contraction in output is expected in the fourth quarter, reflecting declines in both public and private investment and a fall in exports. Recent declines in both orders and shipments of machinery suggest that investment spending is likely to continue to contract, and record unemployment should restrain consumption spending. We expect the economy to shrink somewhat more in the first half of next year as private investment and exports remain weak, but it should stabilize in the second half of the year and grow in 2003 as the shakeout in private investment spending ends and global recovery boosts exports. The Japanese government recently passed a supplementary budget that focuses on increasing public employment and shoring up the unemployment safety net, and a second supplementary budget is currently being discussed. The Bank of Japan is expected to maintain short-term interest rates near zero through the forecast period and to keep reserves above the target level of ¥6 trillion, as prices continue to fall at an annual rate of more than 1 percent.

The Canadian economy contracted in the third quarter and is expected to shrink somewhat further in the current quarter. Though the September decline in manufacturing shipments was related in part to distortions associated with the events of September 11, the decline in new orders may suggest a more prolonged weakness in Canadian manufacturing. Some strength in auto production and housing in the current quarter should partly offset weakness in exports and in travel and tourism. Real GDP is projected to pick up again in the first half of next year and to grow more robustly in the second half, as improved demand in the United States lifts exports and moderate fiscal stimulus and past substantial monetary easing boost domestic demand. We assume that, after the rate cut of 50 basis points on November 27, the Bank of Canada will hold rates steady through the end of 2002. We expect rates to rise subsequently as the Canadian expansion solidifies.

Real GDP growth in the euro area remained weak but slightly positive in the third quarter. Recent indicators are consistent with a mild contraction of euro-area activity in the current quarter, as business confidence declined after September 11 and manufacturing orders fell. Growth is expected to remain sluggish in the first half of next year, and we expect the ECB to reduce official interest rates 25 basis points early next year as inflation moves well below 2 percent. Growth should then revive somewhat in the second half as consumption and investment spending respond to lower oil prices and to the cumulative effects of monetary easing. In addition, exports should recover with the revival in foreign activity. We expect a moderate tightening of monetary policy as the economy strengthens.

In contrast to the general pattern of weakening global activity, real GDP in the United Kingdom increased 2 percent at an annual rate in the third quarter. However, indicators for the fourth quarter suggest that growth is slowing.

October retail sales declined, and business and consumer sentiment remained weak through November. Next year, U.K. growth is expected to rebound, as export growth responds to improving global demand. We assume that the Bank of England will keep rates unchanged through the middle of next year. As economic growth picks up subsequently, we expect that the monetary policy stance will tighten.

Other countries. Economic conditions in major developing-country trading partners remain difficult, although tentative signs have emerged that the contraction of some developing Asian economies may be abating, perhaps in association with a bottoming out in the semiconductor industry. Economic indicators for emerging Asia, which until recently had been uniformly negative, are now mixed. In particular, industrial production in Singapore and Taiwan posted marked increases during October, following declines in the third quarter. Korean real GDP moved up in the third quarter, partly reflecting a failure to adjust properly for three extra working days (as the Full Moon holidays fell in October rather than in September) but also reflecting genuine resilience in private consumption; industrial production declined in October, after two monthly increases. Third-quarter GDP edged up in Malaysia, where activity was supported by a large fiscal stimulus package, and surprisingly in Hong Kong, where other indicators pointed to deteriorating conditions. Growth in China has recently cooled a bit but nonetheless remains strong as fiscal spending has continued to buoy domestic demand.

We now believe that, in the aggregate, economic activity in the Asian developing countries has stabilized in the second half of this year. Looking ahead, the recent improvements in economic indicators for the region lend support to our expectation that recovery will take hold over the next year or so, as stimulative macroeconomic policies, a projected rebound in high-tech demand, and lower oil prices take hold. Specifically, we expect that growth will rise to 1¾ percent during the first half of 2002 and reach 5 percent by the end of 2003.

In Latin America, recent data remain bleak. The Argentine economy is mired in a deep recession, and the government's recent policy actions seem unlikely to restore growth or resolve the ongoing financial turbulence. It is impossible to say when that turbulence will abate and what policies will ultimately be adopted. We have projected some restoration of growth before the end of the forecast period but do not mean to suggest that we can foresee the timing of turnaround for Argentina. In Mexico, GDP posted its fourth consecutive quarterly decline in the third quarter, and indicators for the current quarter show little evidence of a return to growth. Unemployment was up significantly in October, and business confidence remained weak. Economic activity in Brazil has been sluggish recently, with third-quarter GDP about flat and unemployment jumping up in

October. In aggregate, we estimate that these countries have contracted about 1 percent at an annual rate during the second half of this year. Nevertheless, given the projected recovery in the United States and other improvements in the global environment, we expect that activity in the Latin American economies will strengthen next year, led by a recovery in Mexico (which accounts for about three-quarters of our aggregate for Latin America). Regional growth should rise to about 1 percent in 2002:H1 and subsequently to nearly 3½ percent in 2003.

Prices of internationally traded goods. The price index for imports of non-oil core goods is expected to decline a bit less than 4 percent at an annual rate in the fourth quarter--the third consecutive quarterly decline--and to fall at an annual rate of less than ½ percent in the first quarter of next year. Import price inflation is expected to turn mildly positive in the second quarter of next year as stronger activity boosts both primary commodity prices and, to a lesser extent, foreign inflation rates. We expect core import price inflation to average about ¾ percent in 2002 and 1½ percent in 2003.

The price index for exports of U.S. core goods is also expected to drop about 4 percent at an annual rate in the fourth quarter and to show a further small decline in the first quarter of next year. This projection is consistent with weak industrial demand abroad and soft prices of raw material inputs. Core goods export prices are projected to begin to move back up in the second quarter of next year but to show only a small increase over the rest of the forecast period, in line with the moderate inflation projected for U.S. goods prices.

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

Trade category	2001		Projection				
	H1	Q3	2001: Q4	2002			2003
				Q1	Q2	H2	
Exports							
Core goods	-0.5	-1.5	-3.8	-0.3	0.9	1.4	0.8
Imports							
Non-oil core goods	-1.5	-6.0	-3.8	-0.3	0.6	1.5	1.4
Oil (dollars per barrel)	24.21	23.51	18.65	17.53	17.95	18.41	18.87

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

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

Trade in goods and services. In September, the U.S. trade deficit in goods and services was $18.7 billion, as net service import payments were reduced by a one-time large estimated insurance receipt (reported on an accrual basis) from foreign insurers related to the events of September 11.[1] Excluding BEA's assumptions regarding insurance payments, the trade deficit in September was $29.7 billion, larger than it was in August. For the third quarter, the U.S. trade deficit in goods and services was $300 billion, s.a.a.r. Excluding the estimated insurance payment, the deficit was $344 billion, about $10 billion smaller than in the second quarter. We estimate that the U.S. current account deficit as a share of GDP declined in the third quarter to 3½ percent before returning to 4 percent in the fourth quarter and expect that the current account deficit as a share of GDP will rise to 5 percent in 2003.

Though NIPA real exports and imports of goods and services were not affected by the payments of foreign insurers on claims resulting from the events of September 11, the terrorist attacks nonetheless made some contribution to the

1. The "insurance payment" component of imported services is calculated as the value of premiums paid to foreign companies less the amount of losses recovered from foreign companies. In the third quarter, the estimated size of "losses recovered" far exceeded the amount paid for insurance premiums, resulting in a "negative" recorded insurance payment. According to NIPA accounting, the entire amount of an insurance payment is recorded in the quarter in which the incident occurred.

double-digit declines in exports and imports in the third quarter, owing to the temporary port closures and other transportation disruptions.[2]

Real imports of goods and services are expected to rise slightly in the fourth quarter as reduced travel and continued weakness in U.S. spending on investment goods are offset by an increase in domestic consumption and, to a lesser extent, some rebound in goods trade that was disrupted in September. As the recovery in U.S. activity kicks in next year, import growth should increase to a more robust pace. Specifically, we project that imports will grow at an annual rate of 8 percent in 2002 and 9½ percent in 2003, with growth widespread across all major categories. The lagged effects on relative prices of the dollar's appreciation also provide some stimulus to imports.

We expect real export growth to remain slightly negative through the first quarter of 2002 in response to weak global activity, the lagged effects of past dollar appreciation, and subdued exports of services (particularly travel and passenger fares). As foreign growth recovers, however, exports of goods and services should rebound, growing 2¼ percent in 2002 and picking up to 7 percent in 2003. In 2002, real export growth is projected to be concentrated in services and high-tech goods, as core exports are more sensitive to the lagged effects of the dollar's appreciation.

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

Measure	2001		Projection				
			2001:	2002			2003
	H1	Q3	Q4	Q1	Q2	H2	
Real exports	-6.7	-17.7	-3.6	-2.1	1.2	4.9	6.9
October GB	*-6.7*	*-16.3*	*-3.2*	*-3.3*	*1.1*	*4.9*	*6.8*
Real imports	-6.7	-12.9	2.6	3.1	9.2	9.8	9.6
October GB	*-6.7*	*-15.2*	*-0.6*	*1.0*	*8.3*	*8.9*	*9.8*

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

2. According to NIPA accounting, the value of insurance payments by foreign insurers is not reflected in NIPA real imports of services. The deflator for service imports is thus adjusted down in the third quarter to offset the lower value of service imports and returns to its underlying value in the fourth quarter.

Alternative simulation. At the beginning of 2002, new euro notes and coins will circulate as legal tender in the twelve euro-area countries, and national notes and coins will be retired. Though the currency exchange constitutes an enormous logistical undertaking that could go well or poorly, we are assuming in our baseline forecast that the changeover has no significant effect on the foreign exchange value of the euro. However, it is conceivable that the successful introduction of euro notes and coins will trigger a surge in confidence in the currency, resolving any lingering doubts about the euro and prompting investors to shift a significant portion of their portfolios into euro-denominated assets.

To investigate the possible effect of such an outcome on our forecast, we consider an alternative simulation in which the euro is considerably stronger in foreign exchange markets than assumed in our baseline forecast. Alternatively, this can be seen as a scenario for dollar depreciation, one of the risks to our forecast. Specifically, we introduce a shock to the risk premium of euro-denominated assets that would induce the euro to appreciate to its initial January 1999 level of $1.17 by the second quarter of 2002 in the absence of endogenous movements in real interest-rate differentials. In addition, we assume the British pound gets caught in the updraft, inducing the pound to appreciate about half as much against the dollar as does the euro.

Two policy responses are considered in this scenario. In one case, U.S. monetary policy responds by holding the real federal funds rate unchanged from its baseline path; in the other, U.S. monetary policy adjusts the federal funds rate according to a Taylor rule. In both cases, monetary policies in the major foreign countries are assumed to adjust nominal interest rates according to Taylor rules.

In the fixed real rate case, the broad real value of the dollar declines about 6 percent initially and only gradually begins to move back toward its baseline value. This real dollar depreciation has a stimulative effect on net exports, causing real GDP growth to rise 0.3 percentage point above baseline in the second half of 2002 and more than 0.5 percentage point above baseline in 2003. With higher rates of resource utilization and rising import prices, core PCE inflation is also higher, rising about 0.3 percentage point relative to baseline in the second half of 2002 and in 2003.

In the Taylor rule case, the responses of output and inflation are qualitatively similar but more muted. In this case, the federal funds rate rises 35 basis points above baseline in the second half of 2002 and another 25 basis points in 2003. This increase restrains spending and induces some reversal of the dollar's real depreciation, damping the effects of the initial shock. Real GDP growth in 2003 is only 0.3 percentage point above baseline, roughly half the magnitude of the response under a fixed real funds rate. Core price inflation in this case rises by a similar magnitude as in the fixed real rate case in 2002:H2 and 2003:H1 but is up only 0.1 percentage point from baseline in 2003:H2.

Alternative Simulation:
Stronger Euro
(Percent change from previous period, annual rate)

Indicator and simulation	2002		2003	
	H1	H2	H1	H2
U.S. real GDP				
Baseline	1.6	4.1	3.6	3.7
Fixed real rate	1.6	4.4	4.1	4.4
Taylor rule	1.6	4.3	3.9	4.0
U.S. PCE prices excl. food and energy				
Baseline	1.4	1.2	1.1	1.1
Fixed real rate	1.4	1.5	1.4	1.3
Taylor rule	1.4	1.5	1.4	1.2

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

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

Measure and country	1995	1996	1997	1998	1999	2000	2001	2002	2003
							-----Projected----		
REAL GDP (1)									
Total foreign	2.4	4.1	4.2	1.4	4.8	4.1	-0.2	2.0	3.4
Industrial Countries	2.0	2.7	3.5	2.6	3.9	3.1	0.1	1.7	2.9
of which:									
Canada	1.5	2.6	4.5	4.2	5.1	3.5	0.2	2.1	3.4
Japan	2.5	3.7	0.5	-1.3	0.6	2.3	-2.4	-0.4	1.1
United Kingdom	2.0	2.9	3.6	2.6	2.7	2.4	1.9	2.2	2.7
Euro Area (2)	1.5	1.6	3.1	2.0	3.6	2.8	0.6	1.6	2.8
Germany	1.1	1.4	1.7	0.6	3.0	2.5	0.0	1.3	2.7
Developing Countries	3.0	5.9	5.1	-0.2	6.2	5.5	-0.8	2.4	4.0
Asia	6.9	6.6	4.8	-1.9	8.6	6.1	-1.0	2.8	4.8
Korea	7.5	6.4	3.4	-5.2	13.8	5.2	1.6	1.7	4.6
China	10.4	5.3	8.7	9.5	4.1	8.0	7.4	7.4	7.5
Latin America	-3.8	6.0	6.0	1.2	4.4	4.8	-1.0	1.9	3.4
Mexico	-7.1	7.1	6.7	2.8	5.5	5.2	-1.3	2.2	3.8
Brazil	-0.8	2.9	2.1	-1.1	4.0	4.3	0.2	2.1	2.6
CONSUMER PRICES (3)									
Industrial Countries	1.3	1.5	1.5	1.0	1.2	1.8	1.3	0.8	0.9
of which:									
Canada	2.0	2.0	1.0	1.1	2.3	3.1	2.1	1.5	1.6
Japan	-0.8	0.2	2.0	0.7	-1.2	-1.2	-1.1	-1.2	-1.2
United Kingdom (4)	2.9	3.2	2.7	2.5	2.2	2.1	2.1	2.1	2.4
Euro Area (2)	NA	NA	1.5	0.8	1.5	2.7	2.2	1.4	1.4
Germany	1.5	1.3	1.5	0.3	1.1	2.5	1.8	0.9	0.9
Developing Countries	16.9	11.1	6.8	9.0	4.6	4.1	3.1	3.6	4.0
Asia	6.4	4.8	2.7	4.4	0.2	1.9	1.3	2.3	3.3
Korea	4.3	5.0	4.9	5.9	1.2	2.8	3.6	2.2	2.7
China	11.1	6.8	0.9	-1.2	-0.9	0.9	-0.1	2.4	3.8
Latin America	42.0	25.8	15.5	15.4	12.5	8.4	5.8	5.4	5.0
Mexico	48.7	28.0	17.0	17.4	13.6	8.8	5.7	5.4	4.8
Brazil	21.5	9.6	4.6	1.5	8.2	6.1	7.2	6.1	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.

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

	2001				Projected 2002				2003			
Measure and country	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	1.0	-1.0	-0.3	-0.6	0.5	1.8	2.7	3.1	3.3	3.4	3.4	3.4
Industrial Countries	2.1	-0.8	-0.3	-0.6	0.3	1.5	2.3	2.8	2.9	2.9	2.8	2.8
of which:												
Canada	1.7	0.6	-0.8	-0.8	0.3	2.0	2.7	3.5	3.5	3.5	3.3	3.3
Japan	4.1	-8.0	-2.7	-2.8	-1.3	-0.6	-0.1	0.4	0.9	1.1	1.2	1.3
United Kingdom	2.6	1.8	2.0	1.1	1.6	2.3	2.5	2.5	2.7	2.7	2.7	2.7
Euro Area (2)	2.1	0.3	0.4	-0.1	0.1	1.2	2.3	2.7	2.9	2.9	2.8	2.7
Germany	1.6	-0.1	-0.6	-0.8	-0.5	0.9	2.3	2.5	2.8	2.8	2.6	2.6
Developing Countries	-0.7	-1.5	-0.2	-0.6	0.8	2.1	3.3	3.4	3.8	4.0	4.1	4.2
Asia	-0.9	-2.9	0.1	-0.3	1.3	2.3	3.6	4.0	4.5	4.7	5.0	5.0
Korea	1.2	1.8	5.1	-1.5	0.5	1.0	2.5	3.0	4.0	4.5	5.0	5.0
China	8.1	7.5	6.9	7.0	7.0	7.1	7.6	7.8	7.5	7.5	7.5	7.5
Latin America	-1.2	-0.6	-0.8	-1.4	0.1	1.7	3.0	2.8	3.2	3.4	3.4	3.5
Mexico	-1.8	-1.0	-0.9	-1.7	0.2	2.0	3.5	3.2	3.6	3.8	3.8	3.9
Brazil	0.7	0.1	0.2	-0.1	0.8	2.2	2.7	2.7	2.6	2.5	2.6	2.5
CONSUMER PRICES (3)	Four-quarter changes											
Industrial Countries	1.7	2.1	1.7	1.3	1.1	0.6	0.6	0.8	0.9	0.9	0.9	0.9
of which:												
Canada	2.8	3.6	2.7	2.1	1.9	1.0	1.3	1.5	1.6	1.7	1.6	1.6
Japan	-1.0	-1.2	-1.1	-1.1	-1.5	-1.3	-1.6	-1.2	-1.2	-1.2	-1.2	-1.2
United Kingdom (4)	1.9	2.3	2.4	2.1	2.2	1.8	1.8	2.1	2.3	2.3	2.4	2.4
Euro Area (2)	2.5	3.1	2.7	2.2	2.0	1.3	1.3	1.4	1.4	1.4	1.4	1.4
Germany	2.4	3.2	2.4	1.8	1.2	0.5	0.7	0.9	0.9	0.9	0.9	0.9
Developing Countries	3.8	4.1	3.5	3.1	3.5	3.4	3.5	3.6	3.8	3.9	4.0	4.0
Asia	1.8	2.4	1.9	1.3	1.5	1.6	2.0	2.3	2.7	3.0	3.2	3.3
Korea	4.2	5.3	4.3	3.6	3.1	2.1	1.6	2.2	2.3	2.4	2.5	2.7
China	0.6	1.6	0.8	-0.1	0.3	0.7	1.6	2.4	2.7	3.1	3.5	3.8
Latin America	7.2	6.8	6.0	5.8	6.6	6.3	6.0	5.4	5.3	5.2	5.1	5.0
Mexico	7.5	6.9	6.0	5.7	6.7	6.3	6.0	5.4	5.3	5.1	5.0	4.8
Brazil	6.2	7.1	6.6	7.2	7.4	7.4	6.6	6.1	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.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

							------ Projected ------		
	1995	1996	1997	1998	1999	2000	2001	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	-0.8	-0.6
Exports of G&S	1.0	1.1	1.0	0.3	0.5	0.8	-1.0	0.2	0.7
Imports of G&S	-0.6	-1.3	-1.7	-1.3	-1.5	-1.6	0.9	-1.0	-1.3
	Percentage change, Q4/Q4								
Exports of G&S	9.7	9.8	8.5	2.3	4.5	7.0	-8.9	2.2	6.9
Services	8.8	8.9	1.4	2.9	1.9	4.1	-5.8	5.5	5.3
Computers	39.1	21.6	25.8	8.1	13.8	23.1	-20.3	21.5	29.9
Semiconductors	79.6	44.6	21.3	9.1	34.6	26.9	-35.9	20.4	29.9
Other Goods 1/	4.6	7.3	9.8	1.3	3.2	5.7	-6.9	-1.7	4.5
Imports of G&S	5.0	11.2	14.3	10.8	11.5	11.3	-6.1	7.9	9.6
Services	5.5	5.3	14.0	8.5	2.8	12.2	-9.1	7.8	5.4
Oil	2.4	7.8	3.9	4.1	-3.4	12.4	-1.1	5.9	1.2
Computers	35.0	17.8	33.0	25.8	25.1	13.6	-16.1	20.4	29.9
Semiconductors	92.4	56.7	32.9	-8.7	33.5	22.5	-48.9	21.5	29.9
Other Goods 2/	-1.2	10.4	12.7	11.5	12.9	10.4	-3.3	7.0	9.4
	Billions of chained 1996 dollars								
Net Goods & Services	-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-411.6	-485.8	-576.4
Exports of G&S	808.2	874.2	981.5	1002.4	1034.8	1133.2	1088.4	1051.1	1108.6
Imports of G&S	886.6	963.1	1094.8	1223.5	1351.7	1532.3	1500.1	1536.9	1685.0
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-109.9	-120.9	-139.8	-217.5	-324.4	-444.7	-414.5	-455.9	-547.9
Current Acct as Percent of GDP	-1.5	-1.5	-1.7	-2.5	-3.5	-4.5	-4.1	-4.4	-5.0
Net Goods & Services (BOP)	-96.4	-101.8	-107.8	-166.8	-261.8	-375.7	-342.7	-384.0	-470.0
Investment Income, Net	25.0	25.5	13.6	-1.2	-8.5	-9.6	-14.3	-12.1	-17.3
Direct, Net	64.9	69.4	72.4	66.3	67.0	81.2	90.2	83.8	79.6
Portfolio, Net	-39.9	-43.9	-58.8	-67.5	-75.6	-90.9	-104.5	-95.9	-96.8
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.

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December 5, 2001

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	-0.8	-0.6
Exports of G&S	1.0	1.1	1.0	0.3	0.5	0.8	-1.0	0.2	0.7
Imports of G&S	-0.6	-1.3	-1.7	-1.3	-1.5	-1.6	0.9	-1.0	-1.3
	Percentage change, Q4/Q4								
Exports of G&S	9.7	9.8	8.5	2.3	4.5	7.0	-8.9	2.2	6.9
Services	8.8	8.9	1.4	2.9	1.9	4.1	-5.8	5.5	5.3
Computers	39.1	21.6	25.8	8.1	13.8	23.1	-20.3	21.5	29.9
Semiconductors	79.6	44.6	21.3	9.1	34.6	26.9	-35.9	20.4	29.9
Other Goods 1/	4.6	7.3	9.8	1.3	3.2	5.7	-6.9	-1.7	4.5
Imports of G&S	5.0	11.2	14.3	10.8	11.5	11.3	-6.1	7.9	9.6
Services	5.5	5.3	14.0	8.5	2.8	12.2	-9.1	7.8	5.4
Oil	2.4	7.8	3.9	4.1	-3.4	12.4	-1.1	5.9	1.2
Computers	35.0	17.8	33.0	25.8	25.1	13.6	-16.1	20.4	29.9
Semiconductors	92.4	56.7	32.9	-8.7	33.5	22.5	-48.9	21.5	29.9
Other Goods 2/	-1.2	10.4	12.7	11.5	12.9	10.4	-3.3	7.0	9.4
	Billions of chained 1996 dollars								
Net Goods & Services	-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-411.6	-485.8	-576.4
Exports of G&S	808.2	874.2	981.5	1002.4	1034.8	1133.2	1088.4	1051.1	1108.6
Imports of G&S	886.6	963.1	1094.8	1223.5	1351.7	1532.3	1500.1	1536.9	1685.0
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-109.9	-120.9	-139.8	-217.5	-324.4	-444.7	-414.5	-455.9	-547.9
Current Acct as Percent of GDP	-1.5	-1.5	-1.7	-2.5	-3.5	-4.5	-4.1	-4.4	-5.0
Net Goods & Services (BOP)	-96.4	-101.8	-107.8	-166.8	-261.8	-375.7	-342.7	-384.0	-470.0
Investment Income, Net	25.0	25.5	13.6	-1.2	-8.5	-9.6	-14.3	-12.1	-17.3
Direct, Net	64.9	69.4	72.4	66.3	67.0	81.2	90.2	83.8	79.6
Portfolio, Net	-39.9	-43.9	-58.8	-67.5	-75.6	-90.9	-104.5	-95.9	-96.8
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.

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OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1998				1999				2000			
	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	-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.											
US CURRENT ACCOUNT BALANCE	-174.0	-209.6	-242.1	-244.1	-265.8	-309.5	-352.3	-369.9	-419.6	-432.5	-461.2	-465.3
Current Account as % of GDP	-2.0	-2.4	-2.7	-2.7	-2.9	-3.4	-3.8	-3.9	-4.3	-4.4	-4.6	-4.6
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 Confidential (FR)
Class II FOMC

December 5, 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	-0.1	-0.7	-0.6	-1.0	-1.1	-0.5	-0.8	-0.8	-0.7	-0.2
Exports of G&S	-0.1	-1.4	-2.0	-0.4	-0.2	0.1	0.3	0.6	0.4	0.6	0.7	0.9
Imports of G&S	0.8	1.3	1.9	-0.3	-0.4	-1.2	-1.4	-1.1	-1.2	-1.4	-1.4	-1.1
Percentage change from previous period, s.a.a.r.												
Exports of G&S	-1.2	-11.9	-17.7	-3.6	-2.1	1.2	3.3	6.6	3.9	6.6	7.4	9.7
Services	1.8	2.4	-13.5	-12.5	11.3	2.5	3.8	4.5	5.0	5.3	5.3	5.4
Computers	-5.8	-41.1	-24.2	-3.9	19.2	19.2	21.5	26.2	28.6	28.6	31.1	31.1
Semiconductors	-22.4	-56.1	-46.7	-6.8	12.6	17.0	26.2	26.2	28.6	28.6	31.1	31.1
Other Goods 1/	-0.1	-10.8	-16.9	1.4	-10.2	-1.6	0.5	5.2	0.1	4.3	5.1	8.9
Imports of G&S	-5.0	-8.4	-12.9	2.6	3.1	9.2	11.0	8.6	9.2	10.6	10.2	8.4
Services	4.9	-2.0	-29.7	-5.4	14.2	5.2	6.8	5.3	5.3	5.5	5.5	5.3
Oil	27.1	4.3	-28.4	0.9	-2.9	31.9	10.8	-11.4	-7.1	18.9	11.2	-14.7
Computers	-11.0	-29.1	-24.5	4.1	17.0	17.0	21.5	26.2	28.6	28.6	31.1	31.1
Semiconductors	-31.8	-75.0	-58.5	-3.9	17.0	17.0	26.2	26.2	28.6	28.6	31.1	31.1
Other Goods 2/	-8.4	-4.8	-3.9	4.5	0.0	7.7	10.9	9.6	9.8	9.4	9.3	9.0
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-404.5	-406.7	-408.2	-427.1	-443.8	-473.6	-505.3	-520.6	-545.6	-569.6	-590.9	-599.5
Exports of G&S	1144.1	1108.3	1055.5	1045.9	1040.4	1043.3	1051.8	1068.8	1079.2	1096.6	1116.3	1142.4
Imports of G&S	1548.6	1515.0	1463.6	1473.0	1484.1	1517.0	1557.1	1589.4	1624.8	1666.2	1707.2	1741.9
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-447.1	-425.4	-368.0	-417.6	-413.0	-440.7	-471.2	-498.6	-508.4	-535.8	-561.1	-586.1
Current Account as % of GDP	-4.4	-4.2	-3.6	-4.1	-4.0	-4.2	-4.5	-4.7	-4.7	-4.9	-5.1	-5.2
Net Goods & Services (BOP)	-380.1	-355.2	-299.9	-335.5	-345.0	-372.6	-401.9	-416.6	-440.8	-463.5	-483.7	-491.9
Investment Income, Net	-14.6	-16.6	-13.7	-12.2	-12.1	-11.8	-12.9	-11.6	-10.2	-14.9	-20.1	-23.8
Direct, Net	90.7	92.3	88.8	89.1	88.2	85.9	81.3	79.6	79.9	80.1	79.0	79.3
Portfolio, Net	-105.3	-109.0	-102.5	-101.3	-100.3	-97.7	-94.2	-91.2	-90.1	-95.0	-99.0	-103.2
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.