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Confidential (FR) Class II FOMC

# Part 1

March 14, 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

The information received since the last meeting of the FOMC suggests that economic activity has been expanding only very slowly of late but has not slid backwards. Real GDP now is estimated to have increased at an annual rate of about 1 percent in the fourth quarter, and our best guess is that it rose at a similar pace in the first quarter. Businesses have been working to correct inventory imbalances, and this has led to sizable declines in manufacturing output. Thus far, however, spillovers to income and demand more broadly have been limited. Despite a plunge in sentiment, households have maintained their spending, albeit at a slower pace than in the second half of last year. Moreover, homebuilding has picked up, and business outlays on plant and equipment held up reasonably well early this year.

Despite the considerable drop in the federal funds rate since the turn of the year, financial conditions have not eased appreciably, if at all. It is true that corporate bond yields and mortgage rates have declined since year-end. However, broad equity indexes have continued to slump despite the lower interest rates, beaten down by bad news about corporate earnings and by increased uncertainty. Given our outlook for the economy, corporate earnings are likely to remain disappointing for a while, and we are projecting the Wilshire 5000 to move a bit lower in the period ahead. Although U.S. equity markets have weakened and domestic interest rates have moved down, the exchange value of the dollar has strengthened further.

Though there is no evidence of a widespread "credit crunch," financing for businesses continues to be relatively tight. Conditions in the commercial paper market are still inhospitable for lower-tier firms and even for stronger firms viewed as susceptible to a rating downgrade. Banks report that they have continued to tighten both their standards for making business loans and the terms on the loans they do make. In longer-term credit markets, investment-grade issues continue to be well received, but funding for speculative-grade firms remains costly, even with the decline in rates this year, and investors are wary of financing smaller, lesser-known companies. Public equity issuance has been light, and venture capital financing is reported to have been scaled back, with the bulk of the funds directed mainly to follow-on investments rather than to riskier start-ups.

Economic conditions abroad appear to be somewhat weaker than we thought at the time of the January Greenbook. We have cut our estimate of foreign output growth in the second half of 2000 about 1/4 percentage point, and we have trimmed the near-term outlook as well. In part, this reassessment reflects the fact that the slowdown in the United States and the global high-tech correction now appear to have damped foreign economic activity more than we had previously thought.

The forecast assumes another 50-basis-point reduction in the federal funds rate in the near term--bringing the change vis-à-vis the January Greenbook to 75 basis points. By our estimates, this lower level of short-term interest rates essentially offsets the implications for economic activity of the more negative assumptions about the stock market, exchange rate, and foreign activity. As a result, our projection calls for real GDP to increase at an annual rate of about 1-1/4 percent in the second quarter before gradually strengthening to a 3-3/4 percent rate in 2002--about the same as in the January Greenbook. We continue to expect the inventory adjustment in the manufacturing sector and the shakeout in high-tech industries to largely play out over the first half of this year. Follow-on effects on business and household spending may still be evident as we move through midyear, but those effects should diminish as the year progresses. Given our estimate of a still-high rate of return on new investment, capital spending picks up somewhat in the second half of this year, and consumer spending firms after a weak second quarter, in part because of a step-up in income growth.

We view the current economic environment as fragile, with the economy vulnerable to adverse shocks. Alternative model simulations later in this section explore the implications for economic activity and inflation of a more pronounced, but temporary, slowdown in high-tech investment, a lower rate of technical progress, and a sustained loss of consumer confidence. We also consider the possibility that some of the more positive spending indicators of late may be signaling greater underlying strength in the economy than we have assumed in the baseline projection.

**Key Background Factors**
Long-term corporate bond yields have fallen since the January FOMC meeting. We expect them to inch up over the projection period on our view that the bond market will be surprised by the absence of any additional monetary easing beyond the first quarter. With earnings reports expected to continue to be disappointing, equity prices are assumed to decline a bit further in the second quarter to a level nearly 10 percent below that in the January Greenbook but to remain flat thereafter.

On the fiscal front, we have adjusted our assumptions to reflect the budget developments of the past two months. The key change affecting fiscal 2001 is the addition of a small retroactive feature to our assumed tax cut. This results in lower withholding rates beginning this July and is estimated to reduce the fiscal 2001 surplus by $10 billion. We have also reshaped the composition of our assumptions for fiscal 2002 to be more consistent with the President's budget blueprint and the apparent priorities of the Congress. Specifically, we have trimmed the size of the assumed tax cut in 2002 by $10 billion (from $50 billion to $40 billion) while adding a similar amount to discretionary spending. The latter adjustment leaves our current projection of discretionary spending a bit above the level proposed by the Administration, but congressional leaders have already warned that appropriations are likely to exceed the amounts requested by the President. In addition, we have made some technical adjustments to our current-services estimates of spending and revenues to reflect the information in the new projections from the Administration and the Congressional Budget Office. All in all, we now expect the total unified budget to run surpluses of $256 billion in fiscal 2001 and $242 billion in fiscal 2002. The projected on-budget surpluses, which exclude social security and the Postal Service, are $95 billion and $66 billion respectively.

As noted, foreign economic activity in the second half of last year was weaker than we had anticipated, and we have trimmed a bit from our projection for the first half of this year. But we still expect growth of foreign real GDP to pick up in the second half and to average about 3 percent in 2001 and 3-3/4 percent in 2002. The dollar has risen, on balance, against the currencies of a broad group of our trading partners over the intermeeting period; we still assume it will decline in real terms between now and the end of 2002, but from a higher level and at a slower pace than in the January Greenbook. As a result, the broad real measure of the dollar is 4 percent higher at the end of the forecast period than in the last Greenbook.

The spot price of West Texas intermediate crude oil has eased somewhat, on net, in recent weeks and is currently running just below $28 per barrel. We have raised our projection for coming quarters slightly on the assumption that OPEC will make some modest cuts in production when it meets later this week. But world oil supplies over the projection period should still be sufficient both to meet consumption and to allow for a gradual rise in stocks. Consistent with recent quotes in the futures markets, we expect the spot price of WTI to edge down to about $27.50 per barrel by the fourth quarter of this year and then to fall to $24.50 by the fourth quarter of 2002.

**Recent Developments and the Near-term Outlook**

We now project that real GDP is increasing at an annual rate of 0.8 percent in the current quarter, compared with the projected decline of 0.5 percent in the January Greenbook. Final sales appear to be rising faster than we had anticipated, as stronger-than-expected spending for consumption and housing more than offsets weaker-than-expected net exports. In addition, a larger portion of the necessary inventory adjustment appears to have occurred in the fourth quarter of last year; hence, the drag from reduced inventory investment in the current quarter is likely to be smaller. Our projected increase in real GDP is less than a literal reading of the labor market results for January and February would imply, but it seems balanced in light of other indicators of spending and production, especially the steep 5 percent (annual rate) decline expected in

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

| Measure | 2001:Q1 Jan. GB | 2001:Q1 Mar. GB | 2001:Q2 Jan. GB | 2001:Q2 Mar. GB |
|---|---|---|---|---|
| **Real GDP** | **-.5** | **.8** | **1.3** | **1.3** |
| Private domestic final purchases | 1.5 | 3.2 | 1.3 | .7 |
| Personal consumption expenditures | 1.4 | 2.3 | 1.1 | .6 |
| Residential investment | -2.1 | 7.9 | -.0 | 5.2 |
| Business fixed investment | 3.0 | 6.3 | 2.6 | .2 |
| Government outlays for consumption and investment | 2.3 | 2.6 | 3.1 | 3.1 |
| | Contribution to growth, percentage points | | | |
| Inventory investment | -2.6 | -2.1 | -.0 | .5 |
| Net exports | .4 | -.3 | -.3 | -.4 |

manufacturing IP this quarter. At this stage, we have little reason to alter our projection for real GDP growth in the second quarter, and it remains around 1-1/4 percent.

Roughly one-third of the upward revision to GDP in the current quarter reflects developments in the motor vehicle sector, where sales have been running much higher than we had anticipated. The additional sales stem importantly from another round of incentives and from the moving forward of some fleet sales from later in the year. But, still, they lessen the production cuts that would otherwise have been required this quarter to bring bloated inventories under control. We now expect assemblies to fall from about 11-1/2 million units (annual rate) in the fourth quarter to about 10-1/2 million units this quarter; the decline is about 1/2 million units smaller than we had anticipated in January, but it still shaves about 1 percentage point from real GDP growth. The automakers' latest schedules call for assemblies to rise to 12 million units in the second quarter; however, given the likelihood that inventories (especially of light trucks) will still be high at the end of the current quarter, we are anticipating a much smaller increase--to 11 million units, which would be a small plus for next quarter's GDP.

Although inventory investment outside motor vehicles turned out to be substantially lower in the fourth quarter than we had anticipated, overhangs still were sizable at the turn of the year in a number of industries, including some types of equipment, metals, lumber, and chemicals. Thus, with businesses apparently continuing to adjust production to work off undesired stocks, we are projecting a further downshift in the pace of stockbuilding that cuts about 3/4 percentage point from real GDP growth in the first quarter and about 1/2 percentage point in the second quarter.

Consumer spending appears to be faring a little better than we had anticipated, and we have raised our projection for consumption growth this quarter to about 2-1/4 percent, about 1 percentage point above that in the January Greenbook. In addition to the stronger light vehicle sales, outlays on non-auto goods now seem likely to post a moderate increase this quarter. But outlays for services in January were only slightly above the fourth-quarter level, in part because of a sharp weather-related decline in energy services, and we anticipate only a modest increase over the quarter as a whole. Given the plunge in sentiment in the past couple of months, we expect consumption growth to soften noticeably in the second quarter--although not so much as might be predicted based on sentiment alone.

Fleet sales of motor vehicles are helping to buoy investment in equipment and software (E&S), which is now expected to rise at an annual rate of about 4 percent this quarter, after having declined nearly 4 percent in the fourth quarter. We also anticipate a decent--albeit unspectacular--increase in real spending on computers, after taking into account the sharp drop in computer prices in January. At the same time, the incoming orders and shipments data point to little change this quarter in real outlays for either communications equipment or for industrial and other equipment. We expect real E&S outlays to edge down in the second quarter, given the reports of weak demand for high-tech equipment and the likelihood that this quarter's spurt in motor vehicle purchases will be reversed.

Construction activity remains remarkably robust. Boosted by the declines in mortgage rates, single-family housing starts have been trending up since last summer, and in January, they reached 1.34 million units (annual rate), the highest level in a year. Given the corroborating strength in permits and the brisk pace of home sales, we expect starts to remain around this level in February and March. Real residential investment, as estimated by the BEA, is likely to post solid increases in both the first and the second quarters as the uptrend in starts feeds through to construction. Outlays for nonresidential construction also have been exceptionally strong of late, with the level of construction-put-in-place in January more than 6 percent (not at an annual rate) above the fourth-quarter average.

In the government sector, real federal expenditures on consumption and gross investment are projected to post a small increase this quarter. Nondefense purchases are expected to rebound after having been depressed in the fourth quarter by sales from the Strategic Petroleum Reserve, while defense spending is likely to be about unchanged. Meanwhile, the incoming data on employment and construction point to a solid advance in state and local expenditures.

We expect real net exports to exert a small arithmetic drag on output growth this quarter, after having been a larger negative in 2000. Data beyond December are sparse, but we anticipate only small changes in the volumes of exports and imports in the current quarter.

On the inflation front, we project that the chain price index for personal consumption expenditures will rise at an annual rate of about 2-3/4 percent in the current quarter. Overall energy prices are likely to be up substantially again, primarily because of a surge in natural gas prices around the turn of the year. In addition, we now expect PCE prices excluding food and energy to rise at an annual rate of about 2-1/2 percent, 1/2 percentage point above the projection in the January Greenbook; the revision reflects both the slightly bigger than expected increase in the core CPI in January and higher BEA estimates for prices of PCE components for which no market information is available. As for wages, average hourly earnings rose 0.3 percent per month, on average, in January and February and are projected to rise at an annual rate of about 4 percent in the first quarter, the same as the increase posted over the four quarters of last year.

**The Longer-term Outlook for the Economy**

We have not greatly revised our assessment of the longer-run outlook for economic activity. As indicated in the overview, we are assuming more easing of monetary policy than we did last time; we have also added a little fiscal stimulus this year. But these policy changes only about offset the negative effects on activity of the lower path for the stock market, the higher path for the exchange value of the U.S. dollar, and weaker economic activity abroad.

**Household spending.** Growth in consumer spending is expected to pick up a little in the second half of this year and to revive further in 2002. The improvement is expected to be modest because concerns about employment prospects undoubtedly will continue to weigh on households for a while longer and wealth effects will exert significant restraint on spending throughout the projection period. In addition, we are likely to see some payback later this year for the strong purchases of light vehicles in recent months. More generally, households may trim their spending on durable goods following the rapid increases over the past few years. On the other hand, real income growth should be reasonably well maintained this year, given the declines in energy prices and the assumed tax cut, and pick up with the renewal of payroll gains as we move into 2002. Moreover, the longer-run prospects for productivity and income remain very favorable in our forecast. All in all, we expect real PCE growth to

**Projections of Real GDP**
(Percent change from end of preceding period except as noted)

| Measure | 2000 | | 2001 | | 2002 |
|---|---|---|---|---|---|
| | H1 | H2 | H1 | H2 | |
| **Real GDP** | **5.2** | **1.6** | **1.1** | **2.9** | **3.7** |
| Previous | 5.2 | 2.1 | 0.4 | 3.1 | 3.8 |
| Final sales | 5.3 | 2.0 | 1.9 | 2.5 | 3.5 |
| Previous | 5.3 | 2.2 | 1.7 | 2.8 | 3.7 |
| PCE | 5.3 | 3.7 | 1.5 | 2.2 | 2.7 |
| Previous | 5.3 | 3.6 | 1.2 | 2.0 | 2.8 |
| Residential investment | 2.2 | -6.4 | 6.5 | 0.1 | 3.0 |
| Previous | 2.2 | -7.1 | -1.1 | 0.0 | 0.7 |
| BFI | 17.7 | 3.2 | 3.2 | 4.5 | 9.3 |
| Previous | 17.7 | 4.0 | 2.8 | 6.1 | 9.1 |
| Government purchases | 1.8 | 0.7 | 2.9 | 3.3 | 3.5 |
| Previous | 1.8 | 0.7 | 2.7 | 3.1 | 3.3 |
| Exports | 10.2 | 3.4 | 0.9 | 7.1 | 8.1 |
| Previous | 10.2 | 4.1 | 2.8 | 9.3 | 9.9 |
| Imports | 15.2 | 7.8 | 2.9 | 6.2 | 8.2 |
| Previous | 15.2 | 7.8 | 1.8 | 6.5 | 8.2 |
| | Contribution to growth, percentage points | | | | |
| Inventory change | -0.0 | -0.4 | -0.8 | 0.3 | 0.2 |
| Previous | -0.0 | -0.0 | -1.3 | 0.3 | 0.2 |
| Net exports | -1.0 | -0.7 | -0.3 | -0.1 | -0.3 |
| Previous | -1.0 | -0.7 | 0.1 | 0.1 | -0.1 |

average about 2-1/4 percent in the second half of 2001 and about 2-3/4 percent in 2002. Consistent with a negative wealth effect, we project the personal saving rate to climb about 1-1/2 percentage points on an annual-average basis between 2000 and 2002.

We have strengthened the forecast for housing activity, as the effects of the very positive incoming data on our assessment of demand and the reduction in mortgage rates more than offset the restraint from lower levels of wealth. All told, we now expect single-family starts to rise from 1.27 million units in 2000 to 1.33 million units in 2001 and 1.36 million units in 2002. Multifamily starts are projected to total 310,000 units in both 2001 and 2002.

**Business investment in equipment and software.** We have tempered our expectations regarding the outlook for E&S spending over the next few quarters and now expect real outlays to rise less than 3 percent over 2001 as a whole--the smallest increase in a decade. The revision is centered in the high-tech sector, where the retrenchment now seems likely to be deeper and to last longer than we had anticipated. That said, our baseline projection assumes that the returns to investing in high-tech capital remain sizable, and thus, once the current shakeout is behind us, high-tech investment spending should again rise rapidly. Outlays for other types of equipment also are likely to remain soft over the next few quarters, but they, too, pick up next year as overall output growth firms. As a result, we expect overall E&S growth to return to a double-digit pace in 2002.

**Nonresidential construction.** Outlays for nonresidential construction got off to a strong start this year, but we anticipate some moderation in growth in coming quarters. The recent data on space rents, vacancy rates, and property values suggest that the sector is in good shape overall, and although lenders may be turning a bit more cautious, funding for projects generally remains available. Office construction should be well maintained through 2002. But other commercial building is likely to be restrained by the softness in consumer spending and the financial difficulties of some retailers. Construction of new industrial buildings will probably turn sluggish as well given the emerging excess capacity in the manufacturing sector.

**Inventory investment.** Inventory investment has slowed dramatically in recent quarters, and we expect it to remain low through the end of this year as businesses continue to adjust their stocks to the more subdued pace of sales growth. Stockbuilding is expected to pick up in 2002 as sales prospects improve, but with businesses remaining focused on tight inventory control, we expect investment to be held to levels that are consistent with a resumption of the downward trend in the inventory-sales ratio.

**Government spending.** We now expect real federal expenditures for consumption and investment to increase about 2-1/2 percent over the four quarters of 2001 and 3-1/2 percent in 2002. Consistent with the changes to our fiscal policy assumptions, the projection is somewhat above that in the January Greenbook, with bigger increases in both the defense and the nondefense categories.

Although the number of state and local governments reporting fiscal strains has risen, the sector still seems to be in reasonably good shape overall, and revenues over the next two years should be sufficient to fund moderate increases in spending. Thus we continue to project state and local purchases to rise about 3-1/2 percent per year over 2001 and 2002, about the same as the average increase over the past three years.

**Net exports.** We expect the demand for U.S. exports, after some weakness in the near term, to return to relatively robust rates of growth over the remainder of the forecast period. This pattern reflects the near-term slowing and subsequent rebound of foreign output and a boost from the projected depreciation of the dollar. But imports also are projected to pick up, largely reflecting the acceleration of domestic demand. On balance, we now expect the arithmetic negative contribution to real GDP growth from the external sector to be about 1/4 percentage point in 2001 and 2002, in contrast to the roughly neutral influence projected in the January Greenbook. (The International Developments section provides a more detailed discussion of the outlook for the external sector.)

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

We estimate that the pace of capital accumulation implied by our current forecast of business investment is consistent with structural productivity rising 3.1 percent in 2001 and 3.0 percent in 2002. Accordingly, growth in potential GDP is expected to be 4.2 percent this year and 4.1 percent in 2002. These rates are the same as those in the January Greenbook.

**Productivity and the labor market.** We now expect actual (as opposed to structural) productivity in the nonfarm business sector to decline at an annual rate of 1-1/4 percent in the current quarter after having risen 2 percent in the fourth quarter. This pattern is shaped in part by some erratic swings in the hours of self-employed persons; that aside, this period of slow productivity growth reflects the lags in firms' adjustments of their work forces to a markedly slower pace of output growth. As that adjustment proceeds, we anticipate a rebound in productivity growth to about 3 percent in the second quarter. Productivity growth is expected to average 3-1/4 percent in the second half--a bit above its trend rate--as output growth strengthens again, and it slows only a little in 2002.

Private payrolls are forecast to be about unchanged in the near term as further cutbacks in manufacturing are offset by modest gains elsewhere. Hiring is expected to pick up gradually over the course of 2002 but to average only about 50,000 per month during the year as a whole. We have edged down our projection for the unemployment rate in the current quarter to 4.3 percent, but it moves up to 5.2 percent by the end of 2001 and reaches 5.6 percent by the end of 2002.

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

| Measure | 1973-95 | 1996-98 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|
| **Structural labor productivity** | **1.4** | **2.5** | **3.2** | **3.3** | **3.1** | **3.0** |
| Previous | 1.4 | 2.5 | 3.2 | 3.3 | 3.1 | 3.0 |
| *Contributions*[1] | | | | | | |
| Capital deepening | .7 | 1.1 | 1.5 | 1.5 | 1.3 | 1.2 |
| Previous | .7 | 1.1 | 1.5 | 1.5 | 1.3 | 1.2 |
| Multifactor productivity | .4 | 1.1 | 1.4 | 1.5 | 1.5 | 1.5 |
| Previous | .4 | 1.1 | 1.4 | 1.5 | 1.5 | 1.5 |
| Labor quality | .3 | .3 | .3 | .3 | .3 | .3 |

1. Percentage points.

**Wages and prices.** Inflation is expected to recede over the projection period. We assume that the slightly larger than expected increases in consumer prices in recent months will be reversed in the near term. Thereafter, inflation will be restrained by lower levels of resource utilization.

The ECI for hourly compensation rose 4.4 percent in 2000, and we expect it to edge off only a tad in 2001. Despite the rising unemployment rate, workers' efforts to garner the benefits of structural productivity gains likely will persist, and the relatively rapid increase in consumer prices last year should continue to boost nominal wage demands. Moreover, all signs point to big increases in health insurance costs this year. But by 2002, with consumer price inflation having moderated and with some slack having developed in the labor market, we expect ECI growth to slow further, to 4 percent.

We have made some adjustments to the forecast of PCE energy prices, which now decline about 4-1/4 percent in 2001 and 2-3/4 percent in 2002. But the basic story is the same as that in the January Greenbook. Reflecting the path for crude oil prices, gasoline prices are expected to fall considerably this year and next. As noted, natural gas prices continued to soar through the beginning of the year, and they are likely to show another huge increase for the current quarter as a whole. But with spot prices having declined in February and March, we are looking for a sizable drop in natural gas prices in the second quarter and moderate declines thereafter as additional supplies come on line. Meanwhile, increases in food prices are expected to be in the range of 2-1/2 percent to 3 percent per year, about the same as the rise in 2000.

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

| Measure | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|
| Output per hour, nonfarm business | 3.8 | 3.4 | 2.1 | 3.1 |
| Previous | 4.1 | 3.6 | 1.9 | 3.1 |
| Nonfarm payroll employment | 2.2 | 1.6 | 0.5 | 0.7 |
| Previous | 2.2 | 1.6 | 0.2 | 0.8 |
| Household employment survey | 1.5 | 1.0 | -0.3 | 0.5 |
| Previous | 1.5 | 1.0 | -0.2 | 0.6 |
| Labor force participation rate[1] | 67.1 | 67.1 | 67.0 | 66.9 |
| Previous | 67.1 | 67.1 | 67.0 | 66.9 |
| Civilian unemployment rate[1] | 4.1 | 4.0 | 5.2 | 5.6 |
| Previous | 4.1 | 4.0 | 5.2 | 5.5 |

1. Percent, average for the fourth quarter.

The PCE chain price index excluding food and energy is projected to rise a little less than 2 percent in 2001 and 1-3/4 percent in 2002. We expect core inflation to be damped by the waning of the indirect effects of last year's higher energy costs and by the elimination of labor market tightness, although we continue to anticipate that a firming of prices of core non-oil imports will add a bit to domestic prices in 2002. The core CPI is expected to increase 2-1/2 percent this year and 2-1/4 percent in 2002.

In all, we expect the increase in total PCE prices to drop from about 2-1/4 percent in 2000 to about 1-3/4 percent per year in 2001 and 2002. The total CPI is projected to increase a bit more than 2 percent per year, on average, over this period after having risen 3-1/2 percent in 2000.

**Financial Flows and Conditions**
Debt of the domestic nonfinancial sectors is projected to increase 5 percent this year and decelerate to 4-1/4 percent next year. The federal government is expected to retire a substantial amount of debt over the next two years, and nonfederal borrowing moderates.

Nonfinancial business debt is projected to expand at an 8 percent annual rate during the forecast period. Firms are expected to rely heavily on external funding as capital expenditures outstrip internally generated funds by a wide margin. The pace of net equity retirements, both from mergers and share buybacks, will moderate from that of recent years reflecting slower economic growth and declining profit margins. Given our economic outlook, we expect

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

| Measure | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|
| PCE chain-weighted price index | 2.0 | 2.3 | 1.8 | 1.6 |
| Previous | 2.0 | 2.3 | 1.8 | 1.7 |
| Food | 2.0 | 2.5 | 3.0 | 2.4 |
| Previous | 2.0 | 2.5 | 2.8 | 2.5 |
| Energy | 12.0 | 15.9 | -4.3 | -2.8 |
| Previous | 12.0 | 15.4 | -3.5 | -3.5 |
| Excluding food and energy | 1.5 | 1.6 | 1.9 | 1.7 |
| Previous | 1.5 | 1.6 | 1.9 | 1.8 |
| Consumer price index | 2.6 | 3.4 | 2.2 | 2.0 |
| Previous | 2.6 | 3.4 | 2.3 | 2.0 |
| Excluding food and energy | 2.0 | 2.5 | 2.5 | 2.3 |
| Previous | 2.1 | 2.6 | 2.5 | 2.4 |
| GDP chain-weighted price index | 1.6 | 2.3 | 2.0 | 1.7 |
| Previous | 1.6 | 2.3 | 2.0 | 1.7 |
| ECI for compensation of private industry workers[1] | 3.4 | 4.4 | 4.3 | 4.0 |
| Previous | 3.4 | 4.4 | 4.3 | 4.1 |
| NFB compensation per hour | 4.4 | 5.7 | 5.2 | 4.9 |
| Previous | 4.8 | 5.6 | 5.3 | 5.0 |
| Prices of core non-oil merchandise imports | .4 | 1.4 | 1.2 | 2.5 |
| Previous | .4 | 1.5 | 1.6 | 2.7 |

1. December to December.

credit quality to erode somewhat further over the forecast period. Lower-tier firms will face considerable scrutiny by investors and banks, but financing should remain generally available, albeit at wide spreads and under relatively tight terms and standards. In contrast, capital-market financing for investment-grade firms should continue to be readily available at rates close to current levels. These relatively stringent overall financial conditions should damp business spending somewhat over the forecast period.

Household borrowing is expected to slow gradually over the next two years. Consumer credit growth will recede notably from the pace in recent years, damped in part by very weak nominal spending on consumer durable goods. In contrast, we are forecasting little deceleration in home mortgage debt as low loan rates support high levels of housing activity and mortgage borrowing. With the unemployment rate expected to move up, debt-service burdens likely will bite for an increasing number of households this year, and we expect consumer credit quality to deteriorate modestly over the forecast period.

Growth of state and local government debt is projected to move up this year, as California borrows money to pay for power for its residents and the recent decline in interest rates spurs some advance refunding of existing debt. In addition, we expect these governments to issue a considerable amount of debt to fund new capital projects. Nonetheless, over the entire forecast period, debt growth averages only about 3 percent, held down by substantial retirements of previously refunded debt.

Growth of M2 is expected to outpace substantially that of nominal GDP this year. The marked decline in M2 opportunity cost as well as the anticipated flatness of the yield curve will enhance the attractiveness of holding M2 assets. In addition, considerable mortgage refinancing activity in the first half of the year should boost M2 because the prepayments are temporarily held in transaction accounts. In 2002, M2 growth moves back in line with that of nominal GDP as the lift from interest rates and prepayment activity wanes.

**Alternative simulations**

After a near-term bout of weakness, economic growth gradually recovers in the staff forecast, bolstered by strong trend productivity growth and supportive monetary and fiscal policies. However, many factors could alter this outlook, and we use model simulations to illustrate several major risks to the projection. In the first scenario ("recession in high tech"), the slowdown in high-tech investment is more pronounced than in the staff forecast, a difference that modestly weakens aggregate spending as well as the economy's productive potential. By contrast, the second scenario ("productivity slowdown") involves a more substantial worsening in supply-side conditions--an unexpected permanent falloff in the pace of overall technological improvement. In the third scenario ("low consumer confidence"), we focus on a pure demand-based threat to the outlook--the possibility that the deterioration in consumer confidence will restrain spending more than we anticipate. However, we recognize that there also are upside risks to our forecast. Recent spending and labor market data have been on the strong side of our expectations, and a more optimistic interpretation of this information (the "strong demand" scenario) would generate faster growth in the current quarter and significantly more momentum thereafter. A final model simulation illustrates the implications of an alternative monetary policy assumption.

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

| Measure | 2001 H1 | 2001 H2 | 2002 H1 | 2002 H2 |
|---|---|---|---|---|
| *Real GDP* | | | | |
| **Baseline** | **1.1** | **2.9** | **3.6** | **3.8** |
| Recession in high tech | .7 | 2.4 | 3.0 | 3.2 |
| Productivity slowdown | -.1 | .6 | 1.4 | 1.9 |
| Low consumer confidence | .2 | 1.6 | 2.7 | 3.3 |
| Strong demand | 2.7 | 4.5 | 5.1 | 5.1 |
| Easier monetary policy | 1.1 | 3.2 | 4.0 | 4.2 |
| *Civilian unemployment rate*[1] | | | | |
| **Baseline** | **4.6** | **5.2** | **5.5** | **5.6** |
| Recession in high tech | 4.6 | 5.3 | 5.7 | 6.0 |
| Productivity slowdown | 4.6 | 5.5 | 6.0 | 6.4 |
| Low consumer confidence | 4.7 | 5.6 | 6.2 | 6.5 |
| Strong demand | 4.4 | 4.6 | 4.5 | 4.2 |
| Easier monetary policy | 4.6 | 5.1 | 5.3 | 5.4 |
| *PCE prices excluding food and energy* | | | | |
| **Baseline** | **2.0** | **1.9** | **1.7** | **1.7** |
| Recession in high tech | 2.0 | 1.9 | 1.7 | 1.7 |
| Productivity slowdown | 2.0 | 2.0 | 1.9 | 2.0 |
| Low consumer confidence | 2.0 | 1.9 | 1.6 | 1.4 |
| Strong demand | 2.0 | 1.9 | 1.9 | 2.2 |
| Easier monetary policy | 2.0 | 1.9 | 1.9 | 2.0 |

1. Average for the final quarter of the period.

**Recession in high tech.** In the staff projection, actual and desired stocks of capital are assumed to be in reasonably close alignment at the present time. However, one risk is that substantial overinvestment has in fact occurred, especially in computers and telecommunications equipment. In the first alternative scenario, current stocks of high-tech equipment are judged to be undesirably high given the outlook for profits, and firms seek to limit new investment as a result. Real investment in computers, software, and communications equipment is assumed to remain flat at the 2000:Q4 level through most of this year, compared with an increase over the same period of 7 percent (annual rate) in the baseline forecast; a flat profile is typically seen only in recessions. By the end of this year, high-tech spending begins to pick up, but growth does not return to the pace projected by the staff until late 2002. Despite the marked weakness in this sector, the economy as a whole skirts a recession this year, and overall output growth picks up (though more slowly than in the staff forecast) in 2002. The limited fallout from the high-tech slump reflects the small size of this sector in the U.S. economy as well as the assumption that the expected productivity of this capital in the long run is unaffected by the transitory shortfall in demand.

**Productivity slowdown.** In the second scenario, we continue to assume the high-tech recession described in the first scenario, but we have added the assumption that trend total factor productivity growth is 1 percentage point below the staff's estimate. Over the course of this year, the reduced pace of technological advance leads to an equal-sized revision in the public's expectations for long-run growth of income, sales, and earnings--a change that yields (among other things) a further large decline in equity prices. But long-term real interest rates fall by only a modest amount, in part because the nominal federal funds rate is held unchanged at its baseline path. Under these conditions, there is almost no rise in real GDP this year, and growth is less than 1-3/4 percent in 2002. Although the unemployment rate climbs to about 6-1/2 percent by late next year, inflation picks up relative to baseline because of cost pressures associated with the slower growth of trend productivity.

**Low consumer confidence.** In the staff forecast, we have discounted somewhat the sharp deterioration in consumer confidence of late in light of the impressive strength in sales of motor vehicles and houses. In this scenario, we take more seriously the possibility that the very weak readings on confidence may be signaling that a marked step-up in precautionary saving is in the offing. Specifically, we assume that confidence will remain at depressed levels over the next several quarters and that this will lead consumers to cut back on spending by enough to raise the personal saving rate 1 percentage point by the end of this year; housing demand is assumed to weaken as well. Under these circumstances, real GDP rises less than 1 percent this year and only 3 percent in 2002. As a result, the unemployment rate rises to 6-1/2 percent by the end of 2002, causing inflation next year to be 1/4 percentage point below baseline.

**Strong demand.** In sharp contrast to the readings on consumer confidence, recent labor market and spending indicators suggest that current-quarter real GDP growth could be significantly faster than incorporated in the staff outlook. If taken literally, these indicators also suggest a stronger underlying level of final sales and thus, by implication, faster growth in coming quarters. To illustrate this risk, the fourth scenario assumes that much stronger private domestic final demand raises the growth rate of real GDP above 2 percent in the current quarter. Furthermore, the implied boost to the underlying level of aggregate demand is assumed to be permanent and thus continues to add to output growth in subsequent quarters, particularly as the stance of monetary policy remains the same as in the baseline forecast. Without any offsetting movement of the funds rate, real GDP growth climbs to more than 5 percent next year, bringing the unemployment rate back down to 4-1/4 percent by late 2002 and putting inflation on an upward trajectory.

**Easier monetary policy**. Here, the federal funds rate declines over the balance of this year and then partially retraces the decline in 2002--in line with the expectations implicit in current futures contracts. On average, rates are about 40 basis points below the baseline over the next seven quarters. Changes in other asset prices are determined endogenously by the model's equations. With this more aggressive policy easing, the unemployment rate climbs more slowly, and inflation next year is higher than in the staff forecast.

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March 14, 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] | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 01/25/01 | 03/14/01 | 01/25/01 | 03/14/01 | 01/25/01 | 03/14/01 | 01/25/01 | 03/14/01 | 01/25/01 | 03/14/01 |
| **ANNUAL** | | | | | | | | | | | |
| 1998 | | 5.7 | 5.7 | 4.4 | 4.4 | 1.3 | 1.3 | 1.6 | 1.6 | 4.5 | 4.5 |
| 1999 | | 5.8 | 5.8 | 4.2 | 4.2 | 1.5 | 1.5 | 2.2 | 2.2 | 4.2 | 4.2 |
| 2000 | | 7.2 | 7.1 | 5.1 | 5.0 | 2.1 | 2.1 | 3.4 | 3.4 | 4.0 | 4.0 |
| 2001 | | 3.8 | 3.9 | 1.7 | 1.8 | 2.1 | 2.1 | 2.7 | 2.7 | 4.8 | 4.8 |
| 2002 | | 5.2 | 5.0 | 3.5 | 3.3 | 1.7 | 1.7 | 1.9 | 1.9 | 5.4 | 5.5 |
| **QUARTERLY** | | | | | | | | | | | |
| 1999 | Q1 | 5.9 | 5.9 | 3.5 | 3.5 | 2.2 | 2.2 | 1.7 | 1.7 | 4.3 | 4.3 |
| | Q2 | 3.9 | 3.9 | 2.5 | 2.5 | 1.4 | 1.4 | 3.2 | 2.7 | 4.3 | 4.3 |
| | Q3 | 6.7 | 6.7 | 5.7 | 5.7 | 1.1 | 1.1 | 2.4 | 2.9 | 4.2 | 4.2 |
| | Q4 | 9.7 | 9.7 | 8.3 | 8.3 | 1.6 | 1.6 | 2.9 | 3.1 | 4.1 | 4.1 |
| 2000 | Q1 | 8.3 | 8.3 | 4.8 | 4.8 | 3.3 | 3.3 | 4.3 | 4.3 | 4.1 | 4.1 |
| | Q2 | 8.2 | 8.2 | 5.6 | 5.6 | 2.4 | 2.4 | 3.6 | 2.8 | 4.0 | 4.0 |
| | Q3 | 3.8 | 3.8 | 2.2 | 2.2 | 1.6 | 1.6 | 3.1 | 3.5 | 4.0 | 4.0 |
| | Q4 | 4.1 | 2.9 | 2.0 | 1.0 | 2.0 | 1.9 | 2.8 | 3.0 | 4.0 | 4.0 |
| 2001 | Q1 | 2.4 | 4.2 | -0.5 | 0.8 | 3.0 | 3.4 | 3.9 | 3.6 | 4.4 | 4.3 |
| | Q2 | 3.0 | 2.7 | 1.3 | 1.3 | 1.8 | 1.3 | 1.8 | 1.3 | 4.7 | 4.6 |
| | Q3 | 4.3 | 4.1 | 2.6 | 2.4 | 1.6 | 1.6 | 1.5 | 1.8 | 5.0 | 4.9 |
| | Q4 | 5.3 | 5.0 | 3.6 | 3.3 | 1.6 | 1.7 | 1.8 | 1.9 | 5.2 | 5.2 |
| 2002 | Q1 | 5.8 | 5.5 | 3.7 | 3.5 | 1.9 | 1.9 | 1.9 | 1.9 | 5.3 | 5.4 |
| | Q2 | 5.4 | 5.2 | 3.7 | 3.6 | 1.6 | 1.6 | 2.0 | 1.9 | 5.4 | 5.5 |
| | Q3 | 5.5 | 5.4 | 3.8 | 3.7 | 1.6 | 1.6 | 2.0 | 2.0 | 5.5 | 5.5 |
| | Q4 | 5.7 | 5.6 | 4.0 | 3.9 | 1.6 | 1.6 | 2.0 | 2.0 | 5.5 | 5.6 |
| **TWO-QUARTER[3]** | | | | | | | | | | | |
| 1999 | Q2 | 4.9 | 4.9 | 3.0 | 3.0 | 1.8 | 1.8 | 2.5 | 2.2 | -0.1 | -0.1 |
| | Q4 | 8.2 | 8.2 | 7.0 | 7.0 | 1.3 | 1.3 | 2.7 | 3.0 | -0.2 | -0.2 |
| 2000 | Q2 | 8.2 | 8.2 | 5.2 | 5.2 | 2.8 | 2.8 | 4.0 | 3.6 | -0.1 | -0.1 |
| | Q4 | 4.0 | 3.4 | 2.1 | 1.6 | 1.8 | 1.8 | 2.9 | 3.2 | 0.0 | 0.0 |
| 2001 | Q2 | 2.7 | 3.4 | 0.4 | 1.1 | 2.4 | 2.3 | 2.9 | 2.5 | 0.7 | 0.6 |
| | Q4 | 4.8 | 4.6 | 3.1 | 2.9 | 1.6 | 1.7 | 1.7 | 1.9 | 0.5 | 0.6 |
| 2002 | Q2 | 5.6 | 5.3 | 3.7 | 3.5 | 1.8 | 1.7 | 1.9 | 1.9 | 0.2 | 0.3 |
| | Q4 | 5.6 | 5.5 | 3.9 | 3.8 | 1.6 | 1.6 | 2.0 | 2.0 | 0.1 | 0.1 |
| **FOUR-QUARTER[4]** | | | | | | | | | | | |
| 1998 | Q4 | 5.9 | 5.9 | 4.6 | 4.6 | 1.2 | 1.2 | 1.5 | 1.5 | -0.3 | -0.3 |
| 1999 | Q4 | 6.5 | 6.5 | 5.0 | 5.0 | 1.6 | 1.6 | 2.6 | 2.6 | -0.3 | -0.3 |
| 2000 | Q4 | 6.1 | 5.8 | 3.7 | 3.4 | 2.3 | 2.3 | 3.4 | 3.4 | -0.1 | -0.1 |
| 2001 | Q4 | 3.8 | 4.0 | 1.8 | 2.0 | 2.0 | 2.0 | 2.3 | 2.2 | 1.2 | 1.2 |
| 2002 | Q4 | 5.6 | 5.4 | 3.8 | 3.7 | 1.7 | 1.7 | 2.0 | 2.0 | 0.3 | 0.4 |

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

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

March 14, 2001

| | | | | | | | | ---------Projected--------- | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Item | Units[1] | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
| EXPENDITURES | | | | | | | | | | |
| Nominal GDP | Bill. $ | 7054.3 | 7400.5 | 7813.2 | 8318.4 | 8790.2 | 9299.2 | 9962.3 | 10350.6 | 10867.1 |
| Real GDP | Bill. Ch. $ | 7347.7 | 7543.8 | 7813.2 | 8159.5 | 8515.7 | 8875.8 | 9318.0 | 9481.8 | 9791.0 |
| Real GDP | % change | 4.1 | 2.2 | 4.1 | 4.3 | 4.6 | 5.0 | 3.4 | 2.0 | 3.7 |
| Gross domestic purchases | | 4.3 | 1.7 | 4.3 | 5.0 | 5.7 | 5.9 | 4.1 | 2.1 | 3.9 |
| Final sales | | 3.2 | 2.9 | 3.9 | 3.9 | 4.6 | 4.8 | 3.6 | 2.2 | 3.5 |
| Priv. dom. final purchases | | 4.3 | 3.2 | 4.4 | 5.1 | 6.4 | 6.1 | 5.0 | 2.2 | 3.7 |
| Personal cons. expenditures | | 3.6 | 2.8 | 3.1 | 4.1 | 5.0 | 5.6 | 4.5 | 1.8 | 2.7 |
| Durables | | 6.4 | 3.7 | 5.0 | 8.8 | 12.6 | 11.1 | 5.2 | -0.8 | 3.2 |
| Nondurables | | 4.1 | 2.5 | 3.2 | 2.5 | 5.0 | 5.9 | 3.8 | 1.4 | 2.2 |
| Services | | 2.7 | 2.7 | 2.7 | 3.9 | 3.4 | 4.2 | 4.7 | 2.5 | 2.8 |
| Business fixed investment | | 9.2 | 7.5 | 12.1 | 11.8 | 12.9 | 10.1 | 10.2 | 3.9 | 9.3 |
| Equipment & Software | | 12.0 | 8.9 | 11.8 | 13.7 | 15.8 | 14.1 | 9.7 | 2.7 | 11.2 |
| Nonres. structures | | 1.1 | 3.3 | 12.8 | 6.5 | 4.9 | -1.7 | 12.0 | 7.4 | 4.1 |
| Residential structures | | 4.0 | -1.5 | 5.6 | 3.5 | 10.3 | 2.8 | -2.2 | 3.3 | 3.0 |
| Exports | | 10.5 | 9.7 | 9.8 | 8.5 | 2.2 | 4.3 | 6.8 | 4.0 | 8.1 |
| Imports | | 12.2 | 5.0 | 11.2 | 14.3 | 11.2 | 12.0 | 11.5 | 4.5 | 8.2 |
| Gov't. cons. & investment | | 0.2 | -0.8 | 2.7 | 2.4 | 2.6 | 4.4 | 1.3 | 3.1 | 3.5 |
| Federal | | -3.7 | -5.3 | 2.0 | 0.1 | 0.8 | 4.8 | -1.3 | 2.6 | 3.5 |
| Defense | | -5.9 | -4.7 | 0.8 | -1.4 | -1.0 | 4.6 | -2.0 | 1.7 | 2.6 |
| State & local | | 2.8 | 2.1 | 3.0 | 3.7 | 3.6 | 4.2 | 2.7 | 3.3 | 3.6 |
| Change in bus. inventories | Bill. Ch. $ | 66.8 | 30.4 | 30.0 | 63.8 | 80.2 | 45.3 | 61.2 | 14.9 | 44.1 |
| Nonfarm | | 53.6 | 42.6 | 22.1 | 60.6 | 78.7 | 44.9 | 56.1 | 12.1 | 42.8 |
| Net exports | | -86.5 | -78.4 | -89.0 | -113.3 | -221.0 | -322.4 | -412.7 | -462.7 | -502.7 |
| Nominal GDP | % change | 6.2 | 4.3 | 6.0 | 6.2 | 5.9 | 6.5 | 5.8 | 4.0 | 5.4 |
| EMPLOYMENT AND PRODUCTION | | | | | | | | | | |
| Nonfarm payroll employment | Millions | 114.1 | 117.2 | 119.6 | 122.7 | 125.8 | 128.8 | 131.4 | 132.4 | 132.9 |
| Unemployment rate | % | 6.1 | 5.6 | 5.4 | 4.9 | 4.5 | 4.2 | 4.0 | 4.8 | 5.5 |
| Industrial prod. index | % change | 6.3 | 3.6 | 5.6 | 7.2 | 3.2 | 5.1 | 4.3 | 0.4 | 4.3 |
| Capacity util. rate - mfg. | % | 82.5 | 82.5 | 81.6 | 82.7 | 81.3 | 80.5 | 81.3 | 77.9 | 78.6 |
| Housing starts | Millions | 1.46 | 1.35 | 1.48 | 1.47 | 1.62 | 1.67 | 1.60 | 1.64 | 1.67 |
| Light motor vehicle sales | | 15.01 | 14.77 | 15.05 | 15.06 | 15.45 | 16.76 | 17.25 | 15.81 | 15.37 |
| North Amer. produced | | 12.88 | 12.87 | 13.34 | 13.12 | 13.43 | 14.28 | 14.38 | 12.87 | 12.51 |
| Other | | 2.13 | 1.90 | 1.70 | 1.93 | 2.02 | 2.48 | 2.87 | 2.94 | 2.87 |
| INCOME AND SAVING | | | | | | | | | | |
| Nominal GNP | Bill. $ | 7071.1 | 7420.9 | 7831.2 | 8325.4 | 8786.7 | 9288.2 | 9952.7 | 10329.9 | 10832.9 |
| Nominal GNP | % change | 6.2 | 4.4 | 5.9 | 6.0 | 5.7 | 6.5 | 5.8 | 3.9 | 5.3 |
| Nominal personal income | | 5.1 | 4.3 | 5.9 | 6.3 | 6.3 | 5.6 | 5.7 | 4.7 | 5.2 |
| Real disposable income | | 2.9 | 1.7 | 2.6 | 3.8 | 4.6 | 3.1 | 2.2 | 3.0 | 4.1 |
| Personal saving rate | % | 6.1 | 5.6 | 4.8 | 4.2 | 4.2 | 2.2 | -0.1 | -0.1 | 1.5 |
| Corp. profits, IVA & CCAdj. | % change | 12.3 | 11.3 | 11.4 | 9.9 | -5.8 | 11.2 | 0.9 | -2.1 | 5.3 |
| Profit share of GNP | % | 8.1 | 9.0 | 9.6 | 10.0 | 9.3 | 9.2 | 9.5 | 8.5 | 8.4 |
| Excluding FR Banks | | 7.9 | 8.7 | 9.4 | 9.7 | 9.0 | 8.9 | 9.2 | 8.2 | 8.1 |
| Federal surpl./deficit | Bill. $ | -212.3 | -192.0 | -136.8 | -53.3 | 49.0 | 124.4 | 253.6 | 263.6 | 239.4 |
| State & local surpl./def. | | 8.6 | 15.3 | 21.4 | 31.0 | 41.7 | 50.0 | 59.9 | 55.2 | 46.3 |
| Ex. social ins. funds | | 4.0 | 11.4 | 18.7 | 29.9 | 41.3 | 50.4 | 60.3 | 55.4 | 46.1 |
| Gross natl. saving rate | % | 16.3 | 16.9 | 17.2 | 18.0 | 18.8 | 18.5 | 18.3 | 18.0 | 18.8 |
| Net natl. saving rate | | 4.3 | 5.1 | 5.7 | 6.7 | 7.5 | 6.8 | 6.5 | 5.7 | 6.4 |
| PRICES AND COSTS | | | | | | | | | | |
| GDP chn.-wt. price index | % change | 2.1 | 2.1 | 1.9 | 1.8 | 1.2 | 1.6 | 2.3 | 2.0 | 1.7 |
| Gross Domestic Purchases chn.-wt. price index | | 2.1 | 2.1 | 1.9 | 1.4 | 0.8 | 1.9 | 2.4 | 1.7 | 1.6 |
| PCE chn.-wt. price index | | 2.1 | 2.1 | 2.3 | 1.5 | 1.1 | 2.0 | 2.3 | 1.8 | 1.6 |
| Ex. food and energy | | 2.3 | 2.3 | 1.8 | 1.7 | 1.6 | 1.5 | 1.6 | 1.9 | 1.7 |
| CPI | | 2.6 | 2.7 | 3.2 | 1.9 | 1.5 | 2.6 | 3.4 | 2.2 | 2.0 |
| Ex. food and energy | | 2.8 | 3.0 | 2.6 | 2.2 | 2.4 | 2.0 | 2.5 | 2.5 | 2.3 |
| ECI, hourly compensation[2] | | 3.1 | 2.6 | 3.1 | 3.4 | 3.5 | 3.4 | 4.4 | 4.3 | 4.0 |
| Nonfarm business sector | | | | | | | | | | |
| Output per hour | | 1.1 | 1.1 | 2.3 | 2.3 | 2.8 | 3.8 | 3.4 | 2.1 | 3.1 |
| Compensation per Hour | | 2.2 | 2.6 | 3.2 | 3.5 | 5.1 | 4.4 | 5.7 | 5.2 | 4.9 |
| Unit labor cost | | 1.0 | 1.5 | 0.9 | 1.1 | 2.3 | 0.6 | 2.4 | 3.0 | 1.8 |

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

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

March 14, 2001

| Item | Units | 1998 Q1 | 1998 Q2 | 1998 Q3 | 1998 Q4 | 1999 Q1 | 1999 Q2 | 1999 Q3 | 1999 Q4 | 2000 Q1 | 2000 Q2 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| EXPENDITURES | | | | | | | | | | | |
| Nominal GDP | Bill. $ | 8634.7 | 8722.0 | 8829.1 | 8974.9 | 9104.5 | 9191.5 | 9340.9 | 9559.7 | 9752.7 | 9945.7 |
| Real GDP | Bill. Ch. $ | 8404.9 | 8465.6 | 8537.6 | 8654.5 | 8730.0 | 8783.2 | 8905.8 | 9084.1 | 9191.8 | 9318.9 |
| Real GDP | % change | 6.5 | 2.9 | 3.4 | 5.6 | 3.5 | 2.5 | 5.7 | 8.3 | 4.8 | 5.6 |
| Gross domestic purchases | | 8.1 | 4.8 | 4.4 | 5.4 | 4.9 | 3.8 | 6.6 | 8.4 | 5.6 | 6.5 |
| Final sales | | 4.1 | 5.6 | 2.9 | 5.9 | 4.5 | 4.0 | 4.5 | 6.4 | 6.7 | 3.9 |
| Priv. dom. final purchases | | 7.2 | 7.5 | 4.4 | 6.3 | 6.4 | 6.2 | 5.6 | 6.2 | 9.3 | 4.7 |
| Personal cons. expenditures | | 4.8 | 5.8 | 4.3 | 4.9 | 5.7 | 5.6 | 5.0 | 5.9 | 7.6 | 3.1 |
| Durables | | 9.4 | 13.9 | 4.1 | 23.9 | 8.6 | 15.0 | 8.0 | 13.0 | 23.6 | -5.0 |
| Nondurables | | 4.7 | 5.8 | 4.3 | 5.2 | 7.8 | 3.8 | 4.9 | 7.4 | 6.0 | 3.6 |
| Services | | 4.0 | 4.3 | 4.3 | 1.3 | 4.1 | 4.6 | 4.5 | 3.8 | 5.2 | 4.6 |
| Business fixed investment | | 20.1 | 15.6 | 3.5 | 13.2 | 9.5 | 9.6 | 11.8 | 9.5 | 21.0 | 14.6 |
| Equipment & Software | | 24.6 | 16.1 | 6.5 | 16.7 | 14.1 | 15.2 | 18.0 | 9.5 | 20.6 | 17.9 |
| Nonres. structures | | 7.9 | 14.1 | -4.7 | 3.3 | -3.4 | -6.2 | -6.2 | 9.7 | 22.3 | 4.4 |
| Residential structures | | 9.6 | 12.6 | 10.3 | 8.9 | 8.2 | 5.9 | -3.1 | 0.5 | 3.2 | 1.3 |
| Exports | | 1.0 | -3.0 | -3.2 | 15.1 | -7.9 | 5.8 | 10.2 | 10.3 | 6.3 | 14.3 |
| Imports | | 14.2 | 13.1 | 5.5 | 12.2 | 4.5 | 16.2 | 16.9 | 10.7 | 12.0 | 18.6 |
| Gov't. cons. & investment | | -1.0 | 7.3 | 1.4 | 2.8 | 3.7 | 0.8 | 4.8 | 8.5 | -1.1 | 4.8 |
| Federal | | -9.1 | 12.9 | -3.2 | 3.7 | -2.2 | 2.0 | 6.9 | 13.2 | -14.2 | 17.2 |
| Defense | | -17.7 | 13.1 | 5.8 | -2.4 | -3.1 | -2.3 | 12.3 | 12.6 | -19.8 | 16.9 |
| State & local | | 3.8 | 4.4 | 4.0 | 2.3 | 7.0 | 0.1 | 3.7 | 6.1 | 6.6 | -1.1 |
| Change in bus. inventories | Bill. Ch. $ | 117.3 | 60.9 | 73.1 | 69.4 | 48.1 | 13.1 | 39.1 | 80.9 | 36.6 | 78.6 |
| Nonfarm | | 109.7 | 62.5 | 79.2 | 63.5 | 49.2 | 14.1 | 43.5 | 73.0 | 33.0 | 72.3 |
| Net exports | | -175.3 | -219.8 | -244.1 | -244.9 | -279.8 | -314.6 | -342.6 | -352.5 | -376.8 | -403.4 |
| Nominal GDP | % change | 7.6 | 4.1 | 5.0 | 6.8 | 5.9 | 3.9 | 6.7 | 9.7 | 8.3 | 8.2 |
| EMPLOYMENT AND PRODUCTION | | | | | | | | | | | |
| Nonfarm payroll employment | Millions | 124.7 | 125.5 | 126.2 | 127.0 | 127.8 | 128.4 | 129.1 | 129.8 | 130.6 | 131.6 |
| Unemployment rate | % | 4.7 | 4.4 | 4.5 | 4.4 | 4.3 | 4.3 | 4.2 | 4.1 | 4.1 | 4.0 |
| Industrial prod. index | % change | 3.6 | 3.0 | 3.4 | 2.9 | 3.9 | 4.9 | 5.8 | 5.7 | 6.7 | 7.9 |
| Capacity util. rate - mfg. | % | 82.4 | 81.5 | 80.8 | 80.5 | 80.2 | 80.3 | 80.5 | 80.9 | 81.3 | 81.9 |
| Housing starts | Millions | 1.56 | 1.57 | 1.63 | 1.72 | 1.76 | 1.59 | 1.66 | 1.69 | 1.73 | 1.61 |
| Light motor vehicle sales | | 14.99 | 16.01 | 14.55 | 16.24 | 16.18 | 16.79 | 17.08 | 17.00 | 18.20 | 17.24 |
| North Amer. produced | | 13.07 | 14.04 | 12.53 | 14.07 | 13.87 | 14.34 | 14.61 | 14.31 | 15.32 | 14.36 |
| Other | | 1.93 | 1.97 | 2.02 | 2.17 | 2.31 | 2.45 | 2.47 | 2.69 | 2.88 | 2.88 |
| INCOME AND SAVING | | | | | | | | | | | |
| Nominal GNP | Bill. $ | 8640.3 | 8725.0 | 8814.9 | 8966.6 | 9097.2 | 9181.8 | 9327.3 | 9546.3 | 9745.0 | 9937.4 |
| Nominal GNP | % change | 7.8 | 4.0 | 4.2 | 7.1 | 6.0 | 3.8 | 6.5 | 9.7 | 8.6 | 8.1 |
| Nominal personal income | | 7.7 | 6.2 | 5.9 | 5.7 | 4.3 | 5.4 | 5.2 | 7.6 | 6.9 | 6.9 |
| Real disposable income | | 6.6 | 4.5 | 3.6 | 3.6 | 2.9 | 2.8 | 2.2 | 4.5 | 1.9 | 3.7 |
| Personal saving rate | % | 4.6 | 4.3 | 4.1 | 3.8 | 3.1 | 2.5 | 1.8 | 1.5 | 0.2 | 0.3 |
| Corp. profits, IVA & CCAdj. | % change | -12.6 | -5.0 | 2.0 | -7.0 | 26.5 | -6.9 | 2.5 | 26.6 | 20.7 | 12.2 |
| Profit share of GNP | % | 9.5 | 9.3 | 9.3 | 9.0 | 9.4 | 9.1 | 9.0 | 9.4 | 9.6 | 9.7 |
| Excluding FR Banks | | 9.3 | 9.0 | 9.0 | 8.7 | 9.1 | 8.8 | 8.8 | 9.1 | 9.3 | 9.4 |
| Federal surpl./deficit | Bill. $ | 25.9 | 41.9 | 71.9 | 56.4 | 89.7 | 117.5 | 147.3 | 143.3 | 235.8 | 240.9 |
| State & local surpl./def. | | 38.1 | 33.4 | 37.5 | 57.7 | 47.9 | 38.0 | 47.4 | 66.6 | 52.0 | 60.1 |
| Ex. social ins. funds | | 37.5 | 32.9 | 37.2 | 57.6 | 48.1 | 38.3 | 47.9 | 67.2 | 52.5 | 60.6 |
| Gross natl. saving rate | % | 18.9 | 18.7 | 19.0 | 18.7 | 18.9 | 18.4 | 18.4 | 18.3 | 18.2 | 18.6 |
| Net natl. saving rate | | 7.7 | 7.4 | 7.6 | 7.2 | 7.3 | 6.7 | 6.5 | 6.6 | 6.6 | 6.9 |
| PRICES AND COSTS | | | | | | | | | | | |
| GDP chn.-wt. price index | % change | 1.0 | 1.1 | 1.5 | 1.1 | 2.2 | 1.4 | 1.1 | 1.6 | 3.3 | 2.4 |
| Gross Domestic Purchases chn.-wt. price index | | 0.1 | 0.8 | 1.1 | 1.2 | 1.9 | 2.0 | 1.7 | 1.9 | 3.8 | 2.1 |
| PCE chn.-wt. price index | | 0.4 | 1.2 | 1.4 | 1.5 | 1.7 | 2.3 | 1.9 | 2.2 | 3.5 | 2.1 |
| Ex. food and energy | | 1.2 | 1.8 | 1.8 | 1.7 | 1.8 | 1.3 | 1.3 | 1.7 | 2.2 | 1.4 |
| CPI | | 1.0 | 1.2 | 1.7 | 2.0 | 1.7 | 2.7 | 2.9 | 3.1 | 4.3 | 2.8 |
| Ex. food and energy | | 2.6 | 2.1 | 2.3 | 2.3 | 1.8 | 2.1 | 1.8 | 2.5 | 2.5 | 2.7 |
| ECI, hourly compensation[1] | | 3.0 | 3.3 | 4.4 | 2.6 | 1.7 | 4.3 | 3.7 | 4.0 | 5.9 | 4.4 |
| Nonfarm business sector | | | | | | | | | | | |
| Output per hour | | 4.7 | 1.6 | 1.6 | 3.2 | 2.0 | 0.2 | 5.0 | 8.0 | 2.1 | 6.3 |
| Compensation per hour | | 6.3 | 5.3 | 4.9 | 4.0 | 3.8 | 4.5 | 5.2 | 4.2 | 4.1 | 6.0 |
| Unit labor cost | | 1.6 | 3.6 | 3.3 | 0.7 | 1.8 | 4.3 | 0.2 | -3.5 | 1.9 | -0.2 |

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)

March 14, 2001

| Item | Units | 2000 Q3 | 2000 Q4 | 2001 Q1 (Projected) | 2001 Q2 | 2001 Q3 | 2001 Q4 | 2002 Q1 | 2002 Q2 | 2002 Q3 | 2002 Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **EXPENDITURES** | | | | | | | | | | | |
| Nominal GDP | Bill. $ | 10039.4 | 10111.5 | 10216.7 | 10283.8 | 10386.8 | 10515.2 | 10657.5 | 10792.5 | 10934.6 | 11083.8 |
| Real GDP | Bill. Ch. $ | 9369.5 | 9391.9 | 9411.2 | 9442.2 | 9498.1 | 9575.8 | 9658.8 | 9743.6 | 9833.3 | 9928.4 |
| Real GDP | % change | 2.2 | 1.0 | 0.8 | 1.3 | 2.4 | 3.3 | 3.5 | 3.6 | 3.7 | 3.9 |
| Gross domestic purchases | | 3.0 | 1.5 | 1.1 | 1.6 | 2.7 | 3.1 | 4.0 | 3.9 | 3.9 | 3.6 |
| Final sales | | 2.4 | 1.6 | 3.0 | 0.8 | 2.0 | 3.1 | 3.1 | 3.3 | 3.5 | 4.1 |
| Priv. dom. final purchases | | 4.2 | 2.0 | 3.2 | 0.7 | 2.1 | 2.8 | 3.6 | 3.7 | 3.8 | 3.8 |
| Personal cons. expenditures | | 4.5 | 2.8 | 2.3 | 0.6 | 2.0 | 2.4 | 2.6 | 2.6 | 2.7 | 2.7 |
| Durables | | 7.6 | -3.1 | 2.4 | -6.8 | -0.4 | 2.0 | 2.8 | 2.9 | 3.3 | 3.6 |
| Nondurables | | 4.7 | 1.0 | 2.4 | -0.1 | 1.6 | 1.8 | 2.2 | 2.2 | 2.2 | 2.2 |
| Services | | 3.7 | 5.0 | 2.3 | 2.4 | 2.7 | 2.7 | 2.8 | 2.8 | 2.8 | 2.8 |
| Business fixed investment | | 7.7 | -1.1 | 6.3 | 0.2 | 3.2 | 6.0 | 8.9 | 9.2 | 9.5 | 9.7 |
| Equipment & Software | | 5.6 | -3.7 | 3.9 | -1.4 | 2.4 | 6.3 | 10.5 | 11.0 | 11.6 | 11.8 |
| Nonres. structures | | 14.6 | 7.5 | 13.9 | 5.2 | 5.5 | 5.0 | 4.5 | 4.3 | 4.0 | 3.7 |
| Residential structures | | -10.6 | -1.9 | 7.9 | 5.2 | -0.3 | 0.5 | 3.0 | 3.6 | 2.7 | 2.6 |
| Exports | | 13.9 | -6.1 | -1.7 | 3.5 | 5.1 | 9.2 | 4.6 | 7.8 | 8.4 | 11.6 |
| Imports | | 17.0 | -0.7 | 0.7 | 5.1 | 6.4 | 5.9 | 7.8 | 9.3 | 8.5 | 7.2 |
| Gov't. cons. & investment | | -1.4 | 2.9 | 2.6 | 3.1 | 3.2 | 3.3 | 3.5 | 3.5 | 3.6 | 3.6 |
| Federal | | -9.0 | 3.7 | 1.2 | 2.9 | 3.2 | 3.1 | 3.5 | 3.6 | 3.6 | 3.4 |
| Defense | | -9.7 | 8.8 | -1.2 | 2.7 | 2.9 | 2.7 | 2.5 | 2.8 | 2.7 | 2.4 |
| State & local | | 2.9 | 2.4 | 3.4 | 3.2 | 3.2 | 3.3 | 3.5 | 3.5 | 3.6 | 3.6 |
| Change in bus. inventories | Bill. Ch. $ | 72.5 | 56.9 | 0.4 | 11.1 | 21.8 | 26.4 | 37.2 | 44.2 | 49.5 | 45.6 |
| Nonfarm | | 67.4 | 51.8 | -3.5 | 8.2 | 19.3 | 24.4 | 35.7 | 42.6 | 48.4 | 44.5 |
| Net exports | | -427.7 | -442.9 | -450.4 | -460.2 | -471.2 | -469.0 | -487.0 | -502.2 | -512.7 | -508.9 |
| Nominal GDP | % change | 3.8 | 2.9 | 4.2 | 2.7 | 4.1 | 5.0 | 5.5 | 5.2 | 5.4 | 5.6 |
| **EMPLOYMENT AND PRODUCTION** | | | | | | | | | | | |
| Nonfarm payroll employment | Millions | 131.6 | 131.8 | 132.2 | 132.3 | 132.4 | 132.5 | 132.6 | 132.8 | 133.0 | 133.4 |
| Unemployment rate | % | 4.0 | 4.0 | 4.3 | 4.6 | 4.9 | 5.2 | 5.4 | 5.5 | 5.5 | 5.6 |
| Industrial prod. index | % change | 3.5 | -0.8 | -4.5 | 0.1 | 2.3 | 4.0 | 4.6 | 4.6 | 4.1 | 3.9 |
| Capacity util. rate - mfg. | % | 81.7 | 80.3 | 78.4 | 77.7 | 77.7 | 78.0 | 78.3 | 78.5 | 78.7 | 78.8 |
| Housing starts | Millions | 1.53 | 1.55 | 1.65 | 1.64 | 1.63 | 1.64 | 1.66 | 1.66 | 1.67 | 1.68 |
| Light motor vehicle sales | | 17.38 | 16.17 | 16.83 | 15.76 | 15.32 | 15.33 | 15.34 | 15.36 | 15.38 | 15.41 |
| North Amer. produced | | 14.54 | 13.30 | 13.87 | 12.80 | 12.39 | 12.43 | 12.46 | 12.50 | 12.52 | 12.55 |
| Other | | 2.84 | 2.87 | 2.96 | 2.96 | 2.93 | 2.90 | 2.88 | 2.86 | 2.86 | 2.86 |
| **INCOME AND SAVING** | | | | | | | | | | | |
| Nominal GNP | Bill. $ | 10030.5 | 10097.9 | 10197.4 | 10266.6 | 10366.5 | 10489.3 | 10627.4 | 10759.6 | 10899.3 | 11045.2 |
| Nominal GNP | % change | 3.8 | 2.7 | 4.0 | 2.7 | 3.9 | 4.8 | 5.4 | 5.1 | 5.3 | 5.5 |
| Nominal personal income | | 5.3 | 3.7 | 5.5 | 4.1 | 4.4 | 4.9 | 5.6 | 5.1 | 5.0 | 5.1 |
| Real disposable income | | 2.6 | 0.5 | 2.4 | 2.6 | 4.2 | 2.8 | 7.3 | 3.1 | 3.0 | 3.0 |
| Personal saving rate | % | -0.2 | -0.8 | -0.8 | -0.3 | 0.2 | 0.3 | 1.4 | 1.5 | 1.6 | 1.6 |
| Corp. profits, IVA & CCAdj. | % change | 2.8 | -25.5 | -3.9 | -7.9 | -0.8 | 4.5 | 3.3 | 4.7 | 5.9 | 7.5 |
| Profit share of GNP | % | 9.7 | 8.9 | 8.8 | 8.5 | 8.4 | 8.4 | 8.4 | 8.4 | 8.4 | 8.4 |
| Excluding FR Banks | | 9.4 | 8.6 | 8.5 | 8.2 | 8.1 | 8.1 | 8.1 | 8.1 | 8.1 | 8.1 |
| Federal surpl./deficit | Bill. $ | 253.3 | 284.5 | 266.1 | 272.4 | 256.5 | 259.6 | 210.7 | 228.0 | 252.9 | 266.0 |
| State & local surpl./def. | | 63.2 | 64.2 | 64.6 | 55.4 | 49.2 | 51.6 | 50.7 | 48.8 | 43.8 | 41.9 |
| Ex. social ins. funds | | 63.6 | 64.6 | 64.9 | 55.6 | 49.3 | 51.6 | 50.6 | 48.6 | 43.5 | 41.6 |
| Gross natl. saving rate | % | 18.5 | 17.9 | 17.7 | 17.9 | 18.1 | 18.2 | 18.5 | 18.7 | 18.9 | 19.1 |
| Net natl. saving rate | | 6.6 | 5.8 | 5.5 | 5.7 | 5.7 | 5.8 | 6.1 | 6.3 | 6.5 | 6.7 |
| **PRICES AND COSTS** | | | | | | | | | | | |
| GDP chn.-wt. price index | % change | 1.6 | 1.9 | 3.4 | 1.3 | 1.6 | 1.7 | 1.9 | 1.6 | 1.6 | 1.6 |
| Gross Domestic Purchases chn.-wt. price index | | 2.0 | 1.8 | 2.7 | 1.2 | 1.5 | 1.6 | 1.9 | 1.5 | 1.6 | 1.6 |
| PCE chn.-wt. price index | | 1.8 | 1.9 | 2.8 | 1.1 | 1.6 | 1.6 | 1.5 | 1.6 | 1.6 | 1.6 |
| Ex. food and energy | | 1.1 | 1.6 | 2.4 | 1.7 | 1.9 | 1.9 | 1.7 | 1.7 | 1.7 | 1.7 |
| CPI | | 3.5 | 3.0 | 3.6 | 1.3 | 1.8 | 1.9 | 1.9 | 1.9 | 2.0 | 2.0 |
| Ex. food and energy | | 2.5 | 2.4 | 2.8 | 2.4 | 2.5 | 2.5 | 2.3 | 2.3 | 2.3 | 2.3 |
| ECI, hourly compensation[1] | | 4.1 | 3.0 | 4.3 | 4.3 | 4.3 | 4.2 | 4.1 | 4.0 | 4.0 | 4.0 |
| Nonfarm business sector | | | | | | | | | | | |
| Output per hour | | 3.0 | 2.0 | -1.2 | 3.2 | 3.0 | 3.5 | 3.2 | 3.1 | 3.0 | 3.1 |
| Compensation per hour | | 6.2 | 6.6 | 4.6 | 5.5 | 5.3 | 5.2 | 5.2 | 4.9 | 4.9 | 4.8 |
| Unit labor cost | | 3.2 | 4.6 | 5.9 | 2.3 | 2.3 | 1.7 | 2.0 | 1.8 | 1.8 | 1.6 |

Note: "Projected" spans columns 2001 Q1 through 2002 Q4.

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS



| Item | 1998 Q3 | 1998 Q4 | 1999 Q1 | 1999 Q2 | 1999 Q3 | 1999 Q4 | 2000 Q1 | 2000 Q2 | 2000 Q3 | 98Q4/ 97Q4 | 99Q4/ 98Q4 | 0Q4/ 99Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Real GDP | 3.4 | 5.6 | 3.5 | 2.5 | 5.7 | 8.3 | 4.8 | 5.6 | 2.2 | 4.6 | 5.0 | 3.4 |
| Gross dom. purchases | 4.5 | 5.5 | 5.0 | 3.8 | 6.8 | 8.6 | 5.8 | 6.7 | 3.1 | 5.8 | 6.0 | 4.3 |
| Final sales | 2.9 | 5.8 | 4.4 | 3.9 | 4.5 | 6.5 | 6.6 | 3.9 | 2.4 | 4.6 | 4.8 | 3.6 |
| Priv. dom. final purchases | 3.7 | 5.3 | 5.3 | 5.2 | 4.7 | 5.2 | 7.9 | 4.0 | 3.6 | 5.3 | 5.1 | 4.2 |
| Personal cons. expenditures | 2.8 | 3.3 | 3.7 | 3.7 | 3.4 | 4.1 | 5.0 | 2.1 | 3.0 | 3.3 | 3.7 | 3.0 |
| Durables | 0.3 | 1.7 | 0.7 | 1.1 | 0.6 | 1.0 | 1.8 | -0.4 | 0.6 | 1.0 | 0.9 | 0.4 |
| Nondurables | 0.8 | 1.0 | 1.5 | 0.8 | 1.0 | 1.5 | 1.2 | 0.7 | 0.9 | 1.0 | 1.2 | 0.8 |
| Services | 1.7 | 0.5 | 1.6 | 1.8 | 1.8 | 1.6 | 2.0 | 1.8 | 1.5 | 1.4 | 1.7 | 1.8 |
| Business fixed investment | 0.4 | 1.6 | 1.2 | 1.2 | 1.5 | 1.2 | 2.5 | 1.9 | 1.0 | 1.5 | 1.3 | 1.3 |
| Equipment & Software | 0.6 | 1.5 | 1.3 | 1.4 | 1.7 | 0.9 | 1.9 | 1.7 | 0.6 | 1.4 | 1.3 | 1.0 |
| Nonres. structures | -0.2 | 0.1 | -0.1 | -0.2 | -0.2 | 0.3 | 0.6 | 0.1 | 0.4 | 0.2 | -0.1 | 0.4 |
| Residential structures | 0.4 | 0.4 | 0.3 | 0.3 | -0.1 | 0.0 | 0.1 | 0.1 | -0.5 | 0.4 | 0.1 | -0.1 |
| Net exports | -1.0 | 0.1 | -1.4 | -1.4 | -1.1 | -0.4 | -0.9 | -1.0 | -0.9 | -1.1 | -1.1 | -0.9 |
| Exports | -0.4 | 1.5 | -0.9 | 0.6 | 1.1 | 1.1 | 0.7 | 1.5 | 1.5 | 0.3 | 0.5 | 0.7 |
| Imports | -0.7 | -1.5 | -0.6 | -2.0 | -2.1 | -1.5 | -1.6 | -2.5 | -2.4 | -1.4 | -1.5 | -1.6 |
| Government cons. & invest. | 0.3 | 0.5 | 0.6 | 0.1 | 0.8 | 1.5 | -0.2 | 0.9 | -0.2 | 0.5 | 0.8 | 0.2 |
| Federal | -0.2 | 0.2 | -0.1 | 0.1 | 0.4 | 0.8 | -0.9 | 1.0 | -0.6 | 0.0 | 0.3 | -0.1 |
| Defense | 0.2 | -0.1 | -0.1 | -0.1 | 0.5 | 0.5 | -0.9 | 0.6 | -0.4 | -0.0 | 0.2 | -0.1 |
| Nondefense | -0.4 | 0.3 | -0.0 | 0.2 | -0.1 | 0.3 | -0.1 | 0.4 | -0.2 | 0.1 | 0.1 | 0.0 |
| State and local | 0.5 | 0.3 | 0.8 | 0.0 | 0.4 | 0.7 | 0.8 | -0.1 | 0.3 | 0.4 | 0.5 | 0.3 |
| Change in bus. inventories | 0.6 | -0.2 | -0.9 | -1.4 | 1.2 | 1.8 | -1.8 | 1.7 | -0.2 | 0.0 | 0.2 | -0.2 |
| Nonfarm | 0.8 | -0.7 | -0.6 | -1.4 | 1.3 | 1.3 | -1.6 | 1.6 | -0.2 | 0.0 | 0.1 | -0.2 |
| Farm | -0.2 | 0.5 | -0.3 | 0.0 | -0.1 | 0.5 | -0.2 | 0.1 | -0.1 | 0.0 | 0.1 | -0.0 |

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

Strictly Confidential <FR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

March 14, 2001

| Item | 2000 Q4 | 2001 Q1 | 2001 Q2 | 2001 Q3 | 2001 Q4 | 2002 Q1 | 2002 Q2 | 2002 Q3 | 2002 Q4 | 00Q4/ 99Q4 | 01Q4/ 00Q4 | 02Q4/ 01Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Real GDP | 1.0 | 0.8 | 1.3 | 2.4 | 3.3 | 3.5 | 3.6 | 3.7 | 3.9 | 3.4 | 2.0 | 3.7 |
| Gross dom. purchases | 1.6 | 1.1 | 1.7 | 2.8 | 3.2 | 4.2 | 4.1 | 4.1 | 3.8 | 4.3 | 2.2 | 4.0 |
| Final sales | 1.6 | 2.9 | 0.8 | 2.0 | 3.1 | 3.1 | 3.3 | 3.5 | 4.1 | 3.6 | 2.2 | 3.5 |
| Priv. dom. final purchases | 1.7 | 2.8 | 0.6 | 1.8 | 2.4 | 3.1 | 3.2 | 3.2 | 3.3 | 4.2 | 1.9 | 3.2 |
| Personal cons. expenditures | 1.9 | 1.6 | 0.4 | 1.4 | 1.6 | 1.8 | 1.8 | 1.8 | 1.8 | 3.0 | 1.2 | 1.8 |
| Durables | -0.3 | 0.2 | -0.6 | -0.0 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.4 | -0.1 | 0.2 |
| Nondurables | 0.2 | 0.5 | -0.0 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.8 | 0.3 | 0.4 |
| Services | 2.0 | 0.9 | 1.0 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.8 | 1.0 | 1.1 |
| Business fixed investment | -0.1 | 0.8 | 0.0 | 0.4 | 0.8 | 1.2 | 1.2 | 1.3 | 1.3 | 1.3 | 0.5 | 1.3 |
| Equipment & Software | -0.4 | 0.4 | -0.1 | 0.2 | 0.6 | 1.0 | 1.1 | 1.1 | 1.2 | 1.0 | 0.3 | 1.1 |
| Nonres. structures | 0.2 | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.4 | 0.2 | 0.2 |
| Residential structures | -0.1 | 0.3 | 0.2 | -0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | -0.1 | 0.1 | 0.1 |
| Net exports | -0.6 | -0.3 | -0.4 | -0.4 | 0.1 | -0.6 | -0.5 | -0.3 | 0.2 | -0.9 | -0.2 | -0.3 |
| Exports | -0.7 | -0.2 | 0.4 | 0.5 | 1.0 | 0.5 | 0.8 | 0.9 | 1.2 | 0.7 | 0.4 | 0.9 |
| Imports | 0.1 | -0.1 | -0.7 | -0.9 | -0.9 | -1.1 | -1.4 | -1.2 | -1.1 | -1.6 | -0.7 | -1.2 |
| Government cons. & invest. | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.2 | 0.5 | 0.6 |
| Federal | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | -0.1 | 0.2 | 0.2 |
| Defense | 0.3 | -0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | -0.1 | 0.1 | 0.1 |
| Nondefense | -0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 |
| State and local | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.4 | 0.4 |
| Change in bus. inventories | -0.7 | -2.1 | 0.5 | 0.4 | 0.2 | 0.4 | 0.3 | 0.2 | -0.2 | -0.2 | -0.2 | 0.2 |
| Nonfarm | -0.6 | -2.2 | 0.5 | 0.4 | 0.2 | 0.4 | 0.3 | 0.2 | -0.1 | -0.2 | -0.3 | 0.2 |
| Farm | -0.0 | 0.1 | 0.0 | -0.0 | -0.0 | -0.0 | 0.0 | -0.0 | -0.0 | -0.0 | 0.0 | -0.0 |

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

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

| Item | Fiscal year[1] | | | | 2000 | | | | 2001 | | | | 2002 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999[a] | 2000[a] | 2001 | 2002 | Q1[a] | Q2[a] | Q3[a] | Q4[a] | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| **Unified budget** | | | | | Not seasonally adjusted | | | | | | | | | | | |
| Receipts[2] | 1827 | 2025 | 2105 | 2172 | 434 | 656 | 492 | 461 | 464 | 682 | 498 | 490 | 462 | 684 | 536 | 515 |
| Outlays[2] | 1703 | 1789 | 1850 | 1930 | 449 | 444 | 431 | 464 | 478 | 463 | 446 | 492 | 484 | 480 | 473 | 506 |
| Surplus/deficit[2] | 125 | 236 | 256 | 242 | -15 | 212 | 60 | -2 | -13 | 219 | 53 | -2 | -22 | 204 | 63 | 8 |
| On-budget | 1 | 86 | 95 | 66 | -45 | 147 | 50 | -14 | -74 | 148 | 35 | -52 | -50 | 128 | 40 | -49 |
| Off-budget | 124 | 150 | 161 | 177 | 30 | 65 | 10 | 12 | 61 | 71 | 17 | 51 | 28 | 76 | 22 | 57 |
| Surplus excluding deposit insurance | 119 | 233 | 254 | 240 | -18 | 211 | 60 | -3 | -14 | 218 | 52 | -2 | -23 | 203 | 62 | 8 |
| Means of financing | | | | | | | | | | | | | | | | |
| Borrowing | -89 | -223 | -230 | -247 | -27 | -190 | -54 | -25 | 40 | -188 | -56 | -19 | 8 | 157 | -80 | -32 |
| Cash decrease | -18 | 4 | 12 | -4 | 39 | -13 | 5 | 32 | -24 | -11 | 16 | 16 | 5 | -40 | 15 | 20 |
| Other[3] | -18 | -17 | -38 | 9 | 4 | -10 | 11 | -4 | -2 | 19 | 12 | 5 | 9 | 7 | 2 | 3 |
| Cash operating balance, end of period | 56 | 53 | 41 | 45 | 45 | 57 | 53 | 21 | 45 | 57 | 41 | 25 | 20 | 60 | 45 | 25 |
| **NIPA federal sector** | | | | | Seasonally adjusted annual rates | | | | | | | | | | | |
| Receipts | 1837 | 2024 | 2139 | 2193 | 2012 | 2055 | 2089 | 2110 | 2138 | 2155 | 2151 | 2183 | 2162 | 2195 | 2231 | 2268 |
| Expenditures | 1735 | 1806 | 1870 | 1955 | 1776 | 1814 | 1836 | 1829 | 1872 | 1882 | 1895 | 1923 | 1952 | 1967 | 1978 | 2002 |
| Consumption expenditures | 464 | 489 | 506 | 538 | 479 | 499 | 490 | 489 | 506 | 511 | 516 | 521 | 538 | 544 | 550 | 556 |
| Defense | 306 | 320 | 331 | 348 | 311 | 326 | 320 | 322 | 331 | 334 | 336 | 339 | 348 | 350 | 353 | 356 |
| Nondefense | 158 | 168 | 175 | 191 | 168 | 173 | 170 | 167 | 176 | 178 | 180 | 182 | 190 | 193 | 196 | 200 |
| Other spending | 1270 | 1317 | 1364 | 1417 | 1297 | 1315 | 1346 | 1340 | 1366 | 1371 | 1378 | 1402 | 1414 | 1423 | 1429 | 1447 |
| Current account surplus | 103 | 218 | 269 | 238 | 236 | 241 | 253 | 281 | 266 | 272 | 256 | 260 | 211 | 228 | 253 | 266 |
| Gross investment | 94 | 104 | 112 | 117 | 101 | 106 | 104 | 113 | 110 | 111 | 113 | 115 | 116 | 118 | 119 | 121 |
| Current and capital account surplus | 9 | 114 | 157 | 121 | 134 | 135 | 149 | 168 | 156 | 161 | 143 | 145 | 95 | 110 | 134 | 145 |
| **Fiscal indicators[4]** | | | | | | | | | | | | | | | | |
| High-employment (HEB) surplus/deficit | -67 | 8 | 103 | 122 | 31 | 20 | 39 | 78 | 90 | 120 | 123 | 136 | 94 | 116 | 143 | 158 |
| Change in HEB, percent of potential GDP | -.8 | -.8 | -.9 | -.1 | -1 | 1 | -.2 | -.4 | -.1 | -.3 | -0 | -.1 | .4 | -.2 | -.2 | -.1 |
| Fiscal impetus (FI) percent, calendar year | 5 | 2 | 7 | 9 | -6 | 6 | -2 | .3 | 3 | .5 | 5 | 2 | 3 | 1 | .8 | 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 February 2001 baseline surplus estimates are $284 billion in FY2001 and $283 billion in FY 2002. CBO's January 2001 baseline surplus estimates, assuming discretionary spending grows with inflation beginning in FY 2002, are $281 billion in FY2001 and $313 billion in FY 2002. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is 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* | | | | | | | | | |
| 1995 | 5.5 | 4.1 | 6.0 | 8.0 | 6.0 | 14.1 | 6.6 | -4.6 | 4.3 |
| 1996 | 5.3 | 4.0 | 5.8 | 7.3 | 7.3 | 7.9 | 5.7 | -0.6 | 6.0 |
| 1997 | 5.6 | 0.6 | 7.3 | 6.5 | 7.0 | 4.3 | 8.9 | 5.3 | 6.2 |
| 1998 | 6.9 | -1.4 | 9.6 | 8.6 | 9.8 | 5.4 | 11.3 | 7.2 | 5.9 |
| 1999 | 6.9 | -1.9 | 9.5 | 8.9 | 9.9 | 7.1 | 11.4 | 4.4 | 6.5 |
| 2000 | 5.0 | -8.0 | 8.5 | 8.7 | 8.7 | 9.4 | 9.7 | 2.2 | 5.8 |
| 2001 | 4.9 | -6.6 | 7.5 | 7.7 | 8.5 | 4.9 | 8.0 | 4.1 | 4.0 |
| 2002 | 4.3 | -8.2 | 6.7 | 6.5 | 8.0 | 1.9 | 7.9 | 2.2 | 5.4 |
| *Quarter* | | | | | | | | | |
| 1999:3 | 7.0 | -1.9 | 9.5 | 9.2 | 10.4 | 5.5 | 11.0 | 4.3 | 6.7 |
| 4 | 6.3 | -0.9 | 8.3 | 7.7 | 8.4 | 7.8 | 10.2 | 2.7 | 9.7 |
| 2000:1 | 5.3 | -5.9 | 8.3 | 8.0 | 7.1 | 10.1 | 10.3 | 0.3 | 8.3 |
| 2 | 5.5 | -11.4 | 9.9 | 9.5 | 10.0 | 9.4 | 11.9 | 1.7 | 8.2 |
| 3 | 4.4 | -6.2 | 6.9 | 8.0 | 8.5 | 8.2 | 6.8 | 1.9 | 3.8 |
| 4 | 4.6 | -9.6 | 8.0 | 8.2 | 8.1 | 8.8 | 8.4 | 4.8 | 2.9 |
| 2001:1 | 6.7 | 1.6 | 7.9 | 8.5 | 8.8 | 7.5 | 7.6 | 5.6 | 4.2 |
| 2 | 4.2 | -12.0 | 7.8 | 7.6 | 8.2 | 5.3 | 8.5 | 5.8 | 2.7 |
| 3 | 4.6 | -7.0 | 7.0 | 7.1 | 8.1 | 3.8 | 7.7 | 2.7 | 4.1 |
| 4 | 3.8 | -9.6 | 6.5 | 6.6 | 7.8 | 2.8 | 7.1 | 2.2 | 5.0 |
| 2002:1 | 5.2 | -2.3 | 6.7 | 6.5 | 8.0 | 2.2 | 7.6 | 2.2 | 5.5 |
| 2 | 4.0 | -9.0 | 6.5 | 6.3 | 7.7 | 1.9 | 7.5 | 2.2 | 5.2 |
| 3 | 3.9 | -10.5 | 6.6 | 6.3 | 7.7 | 1.7 | 7.7 | 2.2 | 5.4 |
| 4 | 3.7 | -12.1 | 6.5 | 6.1 | 7.6 | 1.6 | 7.7 | 2.2 | 5.6 |

Note. Quarterly data are at seasonally adjusted annual rates.
1 Data after 2000:Q4 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.
2. On a monthly average basis, total debt is projected to grow 5.0 percent in 2001 and 4.3 percent in 2002.
3. On a monthly average basis, federal debt is projected to grow -6.6 percent in 2001 and -8.0 percent in 2002.
4. On a monthly average basis, nonfederal debt is projected to grow 7.7 percent in 2001 and 6.7 percent in 2002.

2.6.3 FOF

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



| Category | Calendar year | | | | Seasonally adjusted annual rates | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2000 | | 2001 | | | | 2002 | | | | |
| | 1999 | 2000 | 2001 | 2002 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| *Net funds raised by domestic nonfinancial sectors* | | | | | | | | | | | | | | | |
| 1 Total | 978.0 | 724.7 | 791.0 | 731.7 | 704.3 | 484.9 | 1201.6 | 625.4 | 724.9 | 612.1 | 902.1 | 695.5 | 679.4 | 649.8 |
| 2 Net equity issuance | -143.5 | -153.1 | -106.0 | -90.0 | -75.6 | -350.8 | -28.0 | 156.0 | -136.0 | -104.0 | -96.0 | -88.0 | -88.0 | -88.0 |
| 3 Net debt issuance | 1121.5 | 877.8 | 897.0 | 821.7 | 779.9 | 835.7 | 1229.6 | 781.4 | 860.9 | 716.1 | 998.1 | 783.5 | 767.4 | 737.8 |
| *Borrowing sectors* | | | | | | | | | | | | | | | |
| Nonfinancial business | | | | | | | | | | | | | | | |
| 4 Financing gap [1] | 172.1 | 222.9 | 231.7 | 306.4 | 238.6 | 247.4 | 207.4 | 223.0 | 239.1 | 257.5 | 282.2 | 300.1 | 316.0 | 327.5 |
| 5 Net equity issuance | -143.5 | -153.1 | -106.0 | -90.0 | -75.6 | -350.8 | -28.0 | 156.0 | 136.0 | 104.0 | -96.0 | -88.0 | -88.0 | -88.0 |
| 6 Credit market borrowing | 602.1 | 574.0 | 517.8 | 553.3 | 423.5 | 533.9 | 493.7 | 560.7 | 523.3 | 493.5 | 536.9 | 539.4 | 562.0 | 574.7 |
| Households | | | | | | | | | | | | | | | |
| 7 Net borrowing [2] | 538.2 | 572.5 | 550.3 | 498.7 | 552.2 | 576.0 | 611.9 | 554.1 | 531.2 | 504.1 | 503.5 | 496.9 | 500.0 | 494.7 |
| 8 Home mortgages | 415.7 | 401.9 | 426.7 | 434.0 | 408.5 | 400.2 | 441.2 | 421.2 | 426.2 | 418.2 | 434.2 | 429.2 | 436.2 | 436.2 |
| 9 Consumer credit | 94.4 | 134.7 | 77.3 | 30.8 | 122.9 | 134.2 | 118.0 | 84.2 | 61.3 | 45.8 | 36.5 | 31.9 | 28.0 | 26.7 |
| 10 Debt/DPI (percent) [3] | 95.0 | 98.4 | 102.0 | 103.3 | 98.6 | 100.2 | 101.0 | 102.1 | 102.5 | 103.1 | 102.6 | 103.0 | 103.5 | 103.9 |
| State and local governments | | | | | | | | | | | | | | | |
| 11 Net borrowing | 52.3 | 27.1 | 52.9 | 29.4 | 23.6 | 60.3 | 71.1 | 75.4 | 35.8 | 29.4 | 29.4 | 29.4 | 29.4 | 29.4 |
| 12 Current surplus [4] | 196.8 | 221.2 | 231.9 | 232.0 | 225.6 | 230.2 | 238.2 | 231.0 | 226.9 | 231.5 | 232.8 | 233.2 | 230.7 | 231.3 |
| Federal government | | | | | | | | | | | | | | | |
| 13 Net borrowing | -71.2 | -295.9 | -224.0 | -259.7 | -219.5 | -334.5 | 52.9 | -408.8 | -229.4 | -310.9 | -71.7 | -282.2 | -324.0 | -361.0 |
| 14 Net borrowing (quarterly, n.s.a.) | -71.2 | -295.9 | -224.0 | -259.7 | -53.8 | -25.0 | 39.6 | 188.3 | -56.2 | -19.1 | 8.5 | -156.6 | -79.9 | -31.7 |
| 15 Unified deficit (quarterly, n.s.a.) | 158.3 | -254.8 | -256.3 | -252.4 | -60.4 | 2.3 | 13.2 | -218.7 | -52.5 | 1.7 | 22.1 | -203.5 | -62.8 | -8.3 |
| *Depository institutions* | | | | | | | | | | | | | | | |
| 16 Funds supplied | 404.3 | 446.5 | 314.7 | 292.7 | 454.3 | 274.5 | 477.8 | 263.0 | 237.8 | 280.5 | 280.7 | 282.7 | 303.7 | 303.7 |
| Memo (percentage of GDP) | | | | | | | | | | | | | | | |
| 17 Domestic nonfinancial debt [5] | 181.4 | 179.6 | 181.6 | 180.8 | 179.5 | 180.3 | 181.1 | 182.3 | 182.5 | 182.1 | 181.7 | 181.5 | 180.9 | 180.2 |
| 18 Domestic nonfinancial borrowing | 12.1 | 8.8 | 8.7 | 7.6 | 7.8 | 8.3 | 12.0 | 7.6 | 8.3 | 6.8 | 9.4 | 7.3 | 7.0 | 6.7 |
| 19 Federal government [6] | -0.8 | -3.0 | -2.2 | -2.4 | -2.2 | -3.3 | 0.5 | -4.0 | -2.2 | -3.0 | -0.7 | -2.6 | -3.0 | -3.3 |
| 20 Nonfederal | 12.8 | 11.8 | 10.8 | 10.0 | 10.0 | 11.6 | 11.5 | 11.6 | 10.5 | 9.8 | 10.0 | 9.9 | 10.0 | 9.9 |

Note. Data after 2000:Q4 are staff projections.
1. For corporations: Excess of capital expenditures over U.S. internal funds.
2. Includes change in liabilities not shown in lines 8 and 9.
3. Average debt levels in the period (computed as the average of period-end debt positions) divided by disposable personal income.
4. NIPA surplus less changes in retirement fund assets plus consumption of fixed capital.
5. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.
6. Excludes government-insured mortgage pool securities.

2.6.4 FOF

# International Developments

**Overview**

Growth abroad has weakened as foreign activity has been hit by spillovers from the U.S. slowdown, the global slump in high-tech industries, and softer domestic demand in some countries. Accordingly, the staff's projection of foreign growth for the first half of this year has been lowered from the January Greenbook. A large part of the downward revision reflects reduced growth prospects in Mexico in light of a contraction of exports in the fourth quarter that produced a sharp drop in Mexican GDP. Our outlook for growth in Japan was marked down as well. A fourth-quarter surge in private investment is likely to be reversed in response to weakness of both private consumption and external demand. The expected recovery of U.S. activity, lower oil prices, and some policy easing abroad should help boost foreign growth to near its potential rate in the second half of this year and in 2002. However, recent volatility in global financial markets has increased downside risks to this outlook. The near-term projection for foreign inflation has been lowered--partly because of a very abrupt deceleration of consumer prices in Mexico in recent months--but average foreign inflation is expected to return later this year to a rate of about 3 percent as global economic growth picks up.

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

| Indicator | 2000 | | Projection | | | |
|---|---|---|---|---|---|---|
| | | | 2001 | | | 2002 |
| | H1 | H2 | Q1 | Q2 | H2 | |
| Foreign output | 5.5 | 2.9 | 1.8 | 2.7 | 3.5 | 3.7 |
| *January GB* | *5.8* | *3.2* | *2.3* | *3.1* | *3.5* | *3.7* |
| Foreign CPI | 2.1 | 3.6 | 2.0 | 2.7 | 3.0 | 2.8 |
| *January GB* | *2.0* | *3.8* | *3.0* | *2.8* | *3.0* | *3.0* |

NOTE. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2; and for quarters, from previous quarter.

Our oil price projection, in line with futures prices, continues to call for a gradual decline over the forecast period. The projected path of oil prices runs along a somewhat higher track than in the January Greenbook, however, as OPEC appears to have become more willing to trade off a smaller market share for higher prices. The foreign exchange value of the dollar once again is expected to decline over the forecast period. However, the dollar starts from a higher level and depreciates at a slower pace than projected in the January Greenbook, reflecting its recent resilience and softer growth abroad. The projected 2 percent depreciation of the real broad dollar index over the next seven quarters puts the dollar at a level that is 4 percent higher than in the January Greenbook.

Real net exports of goods and services are forecast to make a slightly negative arithmetic contribution to U.S. GDP growth both this year and next, but the negative effect on growth will be smaller than it was last year. We expect the marked drop in real exports in the fourth quarter of last year to be temporary. As foreign activity strengthens and the dollar moves downward, real exports should return to fairly robust growth by the end of the forecast period. However, the dollar's higher path, compared with that projected in the January Greenbook, will take a bit of the steam out of demand for exports and will lower the contribution of net exports to growth as well.

**Recent Developments**

**International financial markets.** The index of the exchange value of the dollar in terms of the major currencies gained 2¾ percent since the January FOMC meeting as market participants reassessed the relative near-term growth prospects of the United States versus several of our major trading partners. The U.S. dollar gained 3¼ percent against the Canadian dollar, as activity in Canada decelerated more than had been expected. The yen fell 4½ percent amid increasing concern over the outlook for the Japanese economy. Growing political uncertainty and comments by Japanese authorities suggesting increasing support for depreciation of their currency also weighed on the yen. On balance, the dollar appreciated about 1percent against the euro and 10 percent against the Australian dollar. The dollar gained only ½ percent against the index of the currencies of our other important trading partners.

On March 6, the Bank of Canada lowered its key policy rate 50 basis points in response to additional evidence of slowing economic activity. The Bank of Japan edged back toward the zero interest rate policy that it abandoned last August, lowering the target for its key overnight rate to 15 basis points. The Bank of England also cut its key interest rate by 25 basis points in early February. The European Central Bank kept policy rates unchanged during the period.

Long-term interest rates in most major industrial countries have declined since the January FOMC by amounts that range between 10 and 20 basis points. Yields on Japanese long-term government securities have fallen considerably more--about 35 basis points--possibly reflecting dimming prospects for sustained recovery and growing expectations that the Bank of Japan may implement "quantitative easing" measures involving additional bond purchases. During the intermeeting period, share prices in most major industrial countries have dropped sharply in often volatile trading. High-tech stocks were especially hard hit, buffeted by continued warnings of earnings declines. Equity prices in Japan are now at levels that have intensified concerns about the solvency of Japanese banks. Indeed, on March 14 nineteen of Japan's largest banks were placed on credit watch with negative outlook by a major ratings agency.

Financial market contagion from the crisis in Turkey has been muted so far. Bond spreads for most emerging-market countries have held steady since the January FOMC meeting, while stock prices have moved down in a pattern similar to that seen in industrial countries.

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

**Economic activity abroad.** In foreign industrial countries, data from the fourth quarter confirm that average growth maintained a moderate pace of about 2½ percent. More recent indicators, however, point to slower growth in the current quarter. Growth in the euro area picked up in the fourth quarter to nearly 3 percent, but the pattern across the major countries was uneven, with growth in France quite strong and Germany lagging behind at less than 1 percent. Canadian manufacturing has taken a fairly severe hit from the U.S. slowdown, but other sectors, such as construction and services, appear to have remained strong. In Japan, a fourth-quarter bounceback of investment spending pushed GDP growth in 2000:H2 a little above zero. However, consumption was very weak in the fourth quarter, and recent indicators--including industrial production, machinery orders, construction starts, and exports--suggest that the economy is faltering. Political turmoil and an intensifying debate about emergency policies have added uncertainty to prospects for recovery.

Deflation of core consumer prices in Japan quickened a bit in February to slightly more than 1 percent. In some other industrial countries, core inflation rates have edged up, but price pressures generally remain subdued. Lower oil prices helped headline consumer-price inflation in the euro area fall slightly to 2.4 percent in January. The figure was outside the European Central Bank's 2 percent target ceiling for the eighth consecutive month, but core inflation was only 1.6 percent. Canadian consumer-price inflation in January was at the 3 percent ceiling of the Bank of Canada's inflation band, but core inflation was 2 percent. In the United Kingdom, retail-price inflation remained well below the target rate of 2.5 percent.

Growth in the major developing countries has slowed. Weakness in exports to the United States prompted a sharp fourth-quarter contraction in Mexico, and activity in Argentina remains sluggish. Growth in emerging Asia has been undercut by weaker global demand and ongoing adjustments in the high-tech sector. Indeed, industrial production in some countries in the region has been contracting, and growth in China appears to have slowed. The situation in Turkey remains unsettled as the authorities await finalization of a new IMF-supported stabilization program. Following the decision on February 22 to allow the Turkish lira to float, it has depreciated 30 percent on balance.

**Prices of internationally traded goods.** The spot price of West Texas intermediate crude, while volatile, has averaged nearly $30 per barrel so far this quarter, about $2 per barrel less than in 2000:Q4. The modest drop in oil prices occurred despite significant disruptions to Iraqi oil exports, as market participants revised down their assessment of U.S. and world economic activity.

In January, prices of imported core goods rose at a modest rate, but less rapidly than in December. Higher prices for industrial supplies, including continued increases in the price of imported natural gas and an upturn in prices of unfinished metals, led the January rise. On the export side, higher prices of industrial supplies--especially metals and chemicals--also contributed to an increase in prices of exported core goods in January following declines of core goods prices in the previous three months.

**U.S. international transactions.** The U.S. trade deficit in goods and services was $33 billion in December, about unchanged from its November level, as both imports and exports continued to fall. Exports of capital goods and industrial supplies were particularly soft in December. On the import side, increased payments for imported natural gas and oil in December only partially offset declines in the value of imports of automotive products, consumer goods, and computers. For the fourth quarter, the trade deficit was about $16 billion larger (annual rate) than in the third quarter. Fourth-quarter exports contracted across a wide range of product categories and trading partners, with noteworthy declines in U.S. exports to Mexico and developing Asia, while the value of imports was about the same as the high level recorded in the previous quarter.

**Outlook**

**The dollar.** The intermeeting appreciation of the dollar against the yen and Canadian dollar puts the starting level for the projected path of the dollar's foreign exchange value above that in the January Greenbook. The dollar still is expected to depreciate over the forecast period as the large and expanding U.S. current account deficit at some point strains investors' willingness to increase holdings of dollar-denominated assets. In the face of the dollar's resilience to recent adverse news about the U.S. economy and heightened concerns about the outlook for Japan (and the yen), we now project a less steep depreciation (about 2 percent for the broad real dollar index over the next seven quarters) than we did in January.

**Foreign industrial countries.** The slowdown of economic activity in the major industrial countries in the second half of last year is expected to persist through the current quarter, as average growth is forecast to fall below 1½ percent. The projected gradual acceleration of U.S. GDP, somewhat easier fiscal and monetary conditions in some foreign countries, and lower oil prices should bring about more robust growth by midyear. The average pace of growth in the foreign industrial countries is projected to rebound to 2¾ percent in the second half of 2001 and to reach 3 percent in 2002.

Although recent signs of economic weakness in Germany raise concerns, Europe as a whole appears to be experiencing only a modest slowdown. Indicators of consumer confidence remain strong. Fiscal stimulus already in place, continued improvement of labor market conditions, declining oil prices, and--in the case of the euro area--gains in competitiveness from earlier depreciation of the euro should provide solid support for a pickup in growth in coming months. For Canada, the expected U.S. rebound, along with fiscal stimulus, lower interest rates, and a weaker currency, should boost demand and make the country's fairly sharp slowdown brief.

In Japan, deepening worries about longer-term economic prospects, historically high unemployment, and re-intensifying concerns about the health of the financial sector as stock prices continue to decline--all point to continued very weak private domestic demand. Neither monetary policy nor the recently announced policy package is likely to provide substantial additional stimulus. Japanese exports, which have slowed sharply lately, are exposed to projected weak growth in Japan's Asian trading partners. We are projecting growth of Japanese GDP to be slightly negative this year and a modest 1¼ percent in 2002.

The recent and expected near-term slowing of growth in the foreign industrial countries will keep capacity pressures restrained, and core inflation should rise only slightly over the next two years. The decline in oil prices since the fourth quarter and the further downward trend in oil prices that is expected to occur later in the forecast period should continue to lower headline inflation.

With near-term growth soft and core inflation moderate over the forecast period, we expect that policy interest rates in the foreign industrial countries will be nudged down or left unchanged. We expect the Bank of Japan to return to the zero-interest-rate policy by the middle of this year. The ECB is projected to cut official rates 25 basis points in the second half of this year as inflation moves back below the target ceiling. Well-behaved inflation also should give the Bank of England scope for another 25-basis-point cut in coming months. The Bank of Canada is expected to keep policy on hold during the forecast period.

**Other countries.** We now estimate that average real GDP growth in the major developing-country trading partners of the United States slowed markedly from relatively robust rates during much of last year to only about ¼ percent in 2000:Q4. In the current quarter, average growth is expected to remain subdued at around 2¾ percent, before firming to just under 5 percent by the end of this year. The near-term outlook for Mexico has been revised down sharply, as weak exports (particularly to the United States) and tight domestic policies have been restraining demand, but we expect a fairly quick bounceback spurred by stronger U.S. growth. Risks facing Argentina recently have become more pronounced, but we continue to expect the government's policies to be sufficient to allow the economy to record an anemic recovery beginning later this year. In developing Asia, weaker demand from industrial countries, especially for high-tech products, will continue to restrain growth in the near term. However, growth in the region should recover to a sustainable pace of about 5 percent.

**Prices of internationally traded goods.** We assume that OPEC will cut production targets modestly at its March 16 meeting and that, over the next few months, oil prices will remain near current levels. We continue to project that world oil production will exceed consumption and allow a gradual increase in stocks over the forecast period. Consistent with futures quotes, we project that, after midyear, oil prices will decline gradually over the forecast period. The end point of this projection is slightly higher than that in the January Greenbook, consistent with OPEC's apparent greater willingness to trade higher near-term oil prices for market share.

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

| Trade category | 2000 | | Projection | | | |
|---|---|---|---|---|---|---|
| | | | 2001 | | | 2002 |
| | Q3 | Q4 | Q1 | Q2 | H2 | |
| *Exports* | | | | | | |
| Nonagricultural (core) | 1.2 | .4 | .3 | .2 | .5 | .6 |
| Agricultural | -12.5 | 10.7 | .6 | 6.3 | 5.5 | 5.0 |
| *Imports* | | | | | | |
| Non-oil (core) | 1.4 | .9 | 1.6 | .6 | 1.4 | 2.5 |
| Oil (dollars per barrel) | 28.73 | 29.11 | 25.82 | 25.65 | 24.54 | 21.92 |

NOTE. Prices for exports and non-oil imports of goods, excluding computers and semiconductors, are on a NIPA chain-weighted basis.
The price of imported oil for multi-quarter periods is the price for the final quarter of the period.

Core import price inflation is projected to rise from 0.9 percent at an annual rate in the fourth quarter of last year to 1.6 percent in the current quarter and to move back down in the second quarter. This pattern is influenced by sharp increases in prices of imported natural gas in December and January that are estimated to have reversed in February and March. Thereafter, prices of core imports are projected to accelerate gradually in the second half of this year until their growth levels off at about 2½ percent in 2002, in response to the projected path of the dollar and movements in prices abroad. Prices of exported core goods are projected to increase at an average rate of about ½ percent throughout the forecast period, as declines in energy-related products are more than offset by modest increases in prices of other exported goods.

**U.S. international transactions.** Real exports of goods and services, which grew at an average annual rate of nearly 15 percent in the second and third quarters of last year, contracted in the fourth quarter. The abrupt swing was especially noticeable in exports of capital goods but was evident in all other major export categories as well. We expect that exports will decline a bit further in the current quarter, owing to somewhat slower-than-expected economic growth abroad late last year and in early 2001. As in our previous forecast, export growth is projected to accelerate thereafter as the pace of economic activity abroad moves back up and projected dollar depreciation reduces relative prices. Export growth is projected to average about 4 percent this year and about 8 percent in 2002.

**Summary of Staff Projections for Trade in Goods and Services**

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

| Measure | 2000 | | Projection | | | |
|---|---|---|---|---|---|---|
| | | | 2001 | | | 2002 |
| | Q3 | Q4 | Q1 | Q2 | H2 | |
| Real exports | 13.9 | -6.1 | -1.7 | 3.5 | 7.1 | 8.1 |
| *January GB* | *13.9* | *-4.7* | *.8* | *4.9* | *9.3* | *9.9* |
| Real imports | 17.0 | -.7 | .7 | 5.1 | 6.2 | 8.2 |
| *January GB* | *17.0* | *-.8* | *-2.3* | *6.0* | *6.5* | *8.2* |

NOTE. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2; and for quarters, from previous quarter.

After showing unusual strength during the first three quarters of 2000, growth of real imports of goods and services braked sharply and registered a small decline. The shift was attributable largely to fewer imports of automotive products, computers, semiconductors, oil, and other industrial supplies. Given the projected path of U.S. GDP, imports are forecast to record another sluggish quarter before rebounding in the second quarter and then expanding at an average 7 percent rate over the remainder of the forecast period. Expected dollar depreciation will make relative prices a slightly restraining factor by the end of next year.

We project that the contribution of exports to U.S. GDP growth will average ½ percentage point in 2001 and rise to 1 percentage point in 2002. Imports are expected to make an average negative contribution of ¾ percentage point in 2001 and 1¼ percentage point in 2002. Overall, the negative arithmetic contribution of the foreign sector to GDP growth averages about ¼ percentage point both this year and next, much less than in 2000. The U.S. current account deficit as a share of GDP is projected to rise slowly, from 4½ percent in 2000 to nearly 5 percent in 2002. Much of the projected deterioration is in the goods and services account, but the net outflow of investment income also increases substantially as the U.S. net liability position expands.

**Alternative simulations.** To quantify the effects of possible risks to the outlook for the U.S. economy, we consider two alternative scenarios in which economic shocks are simulated using the FRB Global model. The first scenario assumes a markedly diminished investor appetite for dollar-denominated assets that results in a considerably larger downward adjustment of the dollar than the modest depreciation assumed in the baseline outlook. The second alternative assumes a sharp immediate fall in private real investment demand in Japan coupled with depreciation of the yen.

In the first scenario, the shock consists of an exogenous rise in the risk premium on dollar-denominated assets that, with no changes in the spread between U.S. and foreign real interest rates, would produce an immediate real dollar depreciation of 15 percent relative to baseline. Two cases of this alternative are considered: The first case assumes no U.S. monetary policy response by holding the real federal funds rate unchanged from its baseline path, while the second assumes that monetary policy is adjusted according to a Taylor rule. In both cases, the major foreign central banks adjust interest rates according to a Taylor rule, except that Japan holds its short-term real interest rate constant.

When U.S. monetary policy does not respond, annual real GDP growth is nearly ½ percentage point higher in 2001 and about ¾ percentage point higher in 2002 than in the baseline. Rising import prices and an expanding output gap put upward pressure on the inflation rate. As a result, the core PCE inflation rate rises by about ¾ percentage point in 2001 and ½ percentage point in 2002. When U.S. monetary policy does respond, real interest rates gradually rise, inducing an appreciation of the real exchange rate that counters some of the shock. Real GDP growth is about ¼ percentage point higher in both 2001 and 2002. The core PCE inflation rate is about ½ percentage point higher in 2001 and ¼ percentage point higher in 2002.

In the second scenario, we consider the effects of an autonomous shock to private real investment in Japan that would reduce its share of GDP by 3 percentage points of baseline GDP, coupled with a shock to the risk premium on Japanese assets that reduces the real value of the yen 10 percent. This "Japanese gloom" scenario depresses U.S. aggregate demand, in part because real yen depreciation and lower investment spending in Japan has a direct effect on U.S. exports. This direct effect is reinforced through spillovers to other countries, particularly to Japan's major trading partners in Asia that are also important export markets for the United States. Even so, with no U.S. monetary policy response, U.S. output growth would decline only about ¼ percentage point in 2001 and by less in 2002. Core price inflation would drop slightly in 2001 and about ¼ percentage point in 2002. (The shock depresses the level of Japanese output 4 percent below baseline in 2001 and 2 percent below baseline in 2002.)

**Alternative Simulations:**
**Weaker Dollar**
(Percent change from previous period, annual rate)

| Indicator and simulation | 2001 | | 2002 | |
|---|---|---|---|---|
| | H1 | H2 | H1 | H2 |
| *U.S. real GDP* | | | | |
| Baseline | 1.1 | 2.9 | 3.5 | 3.8 |
| Immediate 15 percent depreciation | | | | |
| Unchanged real funds rate | 1.3 | 3.5 | 4.3 | 4.7 |
| Taylor Rule | 1.2 | 3.3 | 3.9 | 4.1 |
| *U.S. PCE prices excl. food and energy* | | | | |
| Baseline | 2.0 | 1.9 | 1.7 | 1.7 |
| Immediate 15 percent depreciation | | | | |
| Unchanged real funds rate | 2.4 | 2.9 | 2.4 | 2.0 |
| Taylor Rule | 2.3 | 2.7 | 2.2 | 1.8 |

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

**Alternative Simulations:**
**Yen Depreciation and Investment Decline in Japan**
(Percent change from previous period, annual rate)

| Indicator and simulation | 2001 | | 2002 | |
|---|---|---|---|---|
| | H1 | H2 | H1 | H2 |
| *U.S. real GDP* | | | | |
| Baseline | 1.1 | 2.9 | 3.5 | 3.8 |
| Yen/Investment Demand Shocks in Japan | | | | |
| Unchanged real funds rate | .8 | 2.8 | 3.4 | 3.7 |
| Taylor Rule | .9 | 2.9 | 3.5 | 3.9 |
| *U.S. PCE prices excl. food and energy* | | | | |
| Baseline | 2.0 | 1.9 | 1.7 | 1.7 |
| Yen/Investment Demand Shocks in Japan | | | | |
| Unchanged real funds rate | 2.0 | 1.7 | 1.5 | 1.6 |
| Taylor Rule | 2.0 | 1.8 | 1.6 | 1.6 |

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

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

| Measure and country | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | -----Projected----- 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|
| REAL GDP (1) | | | | | | | | | |
| Total foreign | 5.2 | 2.4 | 4.0 | 4.3 | 1.2 | 4.8 | 4.2 | 2.9 | 3.7 |
| Industrial Countries | 4.1 | 1.9 | 2.5 | 3.7 | 2 2 | 3.8 | 3.4 | 2.2 | 3.0 |
| of which: | | | | | | | | | |
| Canada | 5.5 | 1.4 | 2.4 | 4.8 | 3.2 | 4.9 | 4.0 | 2.5 | 3.6 |
| Japan | 1.7 | 2.6 | 2.9 | 0.7 | -1.4 | 0.4 | 2.8 | -0.5 | 1.2 |
| United Kingdom | 4.6 | 1.9 | 2.9 | 3.5 | 2.0 | 3.2 | 2.5 | 2.4 | 2.6 |
| Euro-12 | 3.0 | 1.5 | 1.6 | 3.0 | 2.0 | 3.3 | 2.9 | 2.6 | 3.0 |
| Germany | 2.9 | 1.1 | 1.3 | 1.6 | 1 0 | 2.5 | 2.6 | 2.3 | 3.2 |
| Developing Countries | 6.9 | 3.1 | 6.2 | 5.1 | -0.1 | 6.3 | 5.4 | 3.9 | 4.7 |
| Asia | 8.8 | 7.2 | 6.8 | 4.8 | -1.8 | 8.9 | 6.3 | 4.4 | 5.1 |
| Korea | 9.2 | 7.4 | 6.1 | 3.1 | -4.6 | 14.0 | 5.3 | 2.4 | 4.6 |
| China | 16.3 | 12.6 | 9.2 | 8.2 | 9.5 | 6.2 | 7.4 | 7.4 | 7.7 |
| Latin America | 5.4 | -3.7 | 6.0 | 6.1 | 1.2 | 4.3 | 4.6 | 3.4 | 4.4 |
| Mexico | 5.2 | -7.1 | 7.1 | 6.7 | 2.8 | 5.5 | 5.2 | 3.5 | 4.7 |
| Brazil | 10.2 | -0.9 | 3.5 | 2.4 | -0.8 | 3.4 | 4.3 | 3.3 | 4.0 |
| CONSUMER PRICES (2) | | | | | | | | | |
| Industrial Countries | 1.1 | 1.3 | 1.4 | 1.5 | 1.0 | 1.2 | 1.9 | 1.2 | 1.3 |
| of which: | | | | | | | | | |
| Canada | -0.0 | 2.0 | 2.0 | 1.0 | 1.1 | 2.4 | 3.1 | 1.8 | 1.8 |
| Japan | 0.8 | -0.8 | 0.1 | 2.0 | 0.8 | -1.3 | -1.1 | -0.8 | -0.4 |
| United Kingdom (3) | 2.2 | 2.9 | 3.2 | 2.7 | 2.5 | 2.2 | 2.1 | 2.1 | 2.4 |
| Euro-12 (4) | NA | NA | NA | 1.5 | 0.8 | 1.5 | 2.7 | 1.7 | 1.9 |
| Germany | 2.8 | 1.4 | 1.3 | 1.5 | 0.3 | 1.1 | 2.5 | 1.4 | 1.5 |
| Developing Countries | 22.9 | 16.9 | 11.1 | 6.8 | 9.1 | 4.6 | 4.2 | 4.8 | 4.9 |
| Asia | 10.8 | 6.4 | 4.8 | 2.8 | 4.4 | 0.2 | 1.9 | 3.2 | 3.7 |
| Korea | 5.8 | 4.3 | 5.0 | 4.9 | 5.9 | 1.2 | 2.8 | 3.0 | 3.0 |
| China | 26.9 | 11.1 | 6.8 | 0.9 | -1.2 | -0.9 | 0.9 | 3.4 | 3.9 |
| Latin America | 54.0 | 42.1 | 25.9 | 15.6 | 15.5 | 12.6 | 8.5 | 6.7 | 6.5 |
| Mexico | 7.0 | 48.9 | 28.2 | 17.2 | 17.5 | 13.6 | 8.9 | 6.9 | 6.7 |
| Brazil | 1196.9 | 21.5 | 9.6 | 4.7 | 1.6 | 8.3 | 6.2 | 4.8 | 4.9 |

1. Foreign GDP aggregates calculated using shares of U.S. non-agricultural exports.
2. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.
3. CPI excluding mortgage interest payments, which is the targeted inflation rate.
4. Harmonized CPI's, weighted by shares in final consumption of households converted to a common currency using estimated PPP exchange rates.

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

| Measure and country | 2000 Q1 | 2000 Q2 | 2000 Q3 | 2000 Q4 | Projected 2001 Q1 | 2001 Q2 | 2001 Q3 | 2001 Q4 | 2002 Q1 | 2002 Q2 | 2002 Q3 | 2002 Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| REAL GDP (1) | Quarterly changes at an annual rate | | | | | | | | | | | |
| Total foreign | 6.9 | 4.2 | 4.2 | 1.6 | 1.8 | 2.7 | 3.4 | 3.6 | 3.6 | 3.7 | 3.8 | 3.8 |
| Industrial Countries | 4.9 | 3.6 | 2.6 | 2.6 | 1.3 | 2.2 | 2.6 | 2.8 | 3.0 | 3.1 | 3.1 | 3.1 |
| of which: | | | | | | | | | | | | |
| Canada | 4.8 | 4.3 | 4.5 | 2.6 | 1.6 | 2.0 | 2.9 | 3.4 | 3.6 | 3.6 | 3.6 | 3.6 |
| Japan | 10.0 | 0.9 | -2.4 | 3.2 | -3.8 | 1.5 | 0.2 | 0.3 | 1.0 | 1.2 | 1.3 | 1.3 |
| United Kingdom | 1.2 | 4.2 | 3.3 | 1.3 | 2.5 | 2.4 | 2.3 | 2.5 | 2.5 | 2.7 | 2.7 | 2.7 |
| Euro-12 | 3.8 | 3.0 | 2.0 | 2.7 | 2.1 | 2.5 | 2.9 | 3.0 | 2.9 | 3.0 | 2.9 | 2.9 |
| Germany | 3.9 | 4.8 | 1.1 | 0.8 | 1.4 | 2.2 | 2.8 | 3.0 | 3.0 | 3.3 | 3.2 | 3.2 |
| Developing Countries | 9.9 | 5.0 | 6.6 | 0.2 | 2.6 | 3.5 | 4.8 | 4.7 | 4.6 | 4.6 | 4.8 | 4.8 |
| Asia | 11.3 | 4.3 | 7.3 | 2.3 | 2.8 | 4.0 | 5.6 | 5.4 | 4.9 | 5.0 | 5.3 | 5.3 |
| Korea | 7.1 | 4.8 | 14.0 | -4.0 | 1.0 | 2.0 | 3.0 | 3.5 | 4.0 | 4.5 | 5.0 | 5.0 |
| China | 9.6 | 1.9 | 11.0 | 7.5 | 5.5 | 6.0 | 9.0 | 9.0 | 6.5 | 6.5 | 9.0 | 9.0 |
| Latin America | 9.2 | 5.5 | 5.9 | -1.8 | 2.2 | 3.0 | 4.2 | 4.2 | 4.4 | 4.4 | 4.4 | 4.4 |
| Mexico | 11.1 | 6.4 | 6.7 | -3.0 | 2.0 | 3.0 | 4.5 | 4.5 | 4.8 | 4.8 | 4.7 | 4.8 |
| Brazil | 3.8 | 3.9 | 8.9 | 0.9 | 3.0 | 3.2 | 3.5 | 3.7 | 4.0 | 4.0 | 4.0 | 4.0 |
| CONSUMER PRICES (2) | Four-quarter changes | | | | | | | | | | | |
| Industrial Countries | 1.6 | 1.5 | 1.7 | 1.9 | 1.8 | 1.7 | 1.4 | 1.2 | 1.1 | 1.2 | 1.3 | 1.3 |
| of which: | | | | | | | | | | | | |
| Canada | 2.7 | 2.4 | 2.7 | 3.1 | 2.9 | 2.7 | 2.2 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| Japan | -0.8 | -0.9 | -1.1 | -1.1 | -0.5 | -0.7 | -0.8 | -0.8 | -1.2 | -0.7 | -0.5 | -0.4 |
| United Kingdom (3) | 2.1 | 2.1 | 2.1 | 2.1 | 2.0 | 2.0 | 2.1 | 2.1 | 2.3 | 2.4 | 2.4 | 2.4 |
| Euro-12 (4) | 2.0 | 2.1 | 2.5 | 2.7 | 2.4 | 2.3 | 1.9 | 1.7 | 1.7 | 1.8 | 1.8 | 1.9 |
| Germany | 2.0 | 1.7 | 2.2 | 2.5 | 2.0 | 2.1 | 1.6 | 1.4 | 1.3 | 1.4 | 1.5 | 1.5 |
| Developing Countries | 3.9 | 3.8 | 4.0 | 4.2 | 4.2 | 4.7 | 4.6 | 4.8 | 5.4 | 5.2 | 5.1 | 4.9 |
| Asia | 0.5 | 0.8 | 1.4 | 1.9 | 2.3 | 3.3 | 3.4 | 3.2 | 3.6 | 3.6 | 3.7 | 3.7 |
| Korea | 1.5 | 1.5 | 3.2 | 2.8 | 4.2 | 4.4 | 3.0 | 3.0 | 2.9 | 3.0 | 3.0 | 3.0 |
| China | 0.1 | 0.2 | 0.3 | 0.9 | 1.3 | 3.1 | 3.4 | 3.4 | 3.5 | 3.6 | 3.7 | 3.9 |
| Latin America | 10.0 | 9.1 | 8.7 | 8.5 | 7.3 | 7.2 | 6.8 | 6.7 | 7.9 | 7.4 | 7.0 | 6.5 |
| Mexico | 10.6 | 9.6 | 9.0 | 8.9 | 7.6 | 7.3 | 7.0 | 6.9 | 8.4 | 7.8 | 7.3 | 6.7 |
| Brazil | 7.8 | 6.6 | 7.7 | 6.2 | 6.5 | 7.6 | 5.4 | 4.8 | 4.9 | 4.9 | 4.9 | 4.9 |

1. Foreign GDP aggregates calculated using shares of U.S. non-agricultural exports.
2. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.
3. CPI excluding mortgage interest payments, which is the targeted inflation rate.
4. Harmonized CPI's, weighted by shares in final consumption of households converted to a common currency using estimated PPP exchange rates.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | ------ Projected ------ 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|
| NIPA REAL EXPORTS and IMPORTS | | | | | | | | | |
| | Percentage point contribution to GDP growth, Q4/Q4 | | | | | | | | |
| Net Goods & Services | -0.3 | 0.4 | -0.2 | -0.8 | -1.1 | -1.1 | -0.9 | -0.2 | -0.3 |
| Exports of G&S | 1.0 | 1.0 | 1.1 | 1.0 | 0.3 | 0.5 | 0.7 | 0.4 | 0.9 |
| Imports of G&S | -1.3 | -0.6 | -1.3 | -1.7 | -1.4 | -1.5 | -1.6 | -0.7 | -1.2 |
| | Percentage change, Q4/Q4 | | | | | | | | |
| Exports of G&S | 10.5 | 9.7 | 9.8 | 8.5 | 2.2 | 4.3 | 6.8 | 4.0 | 8.1 |
| Services | 8.2 | 8.8 | 8.9 | 1.4 | 2.8 | 0.2 | 1.9 | 2.6 | 6.1 |
| Agricultural Goods | 16.3 | -4.0 | 3.8 | 1.0 | -0.3 | -0.5 | 7.6 | 0.3 | 2.8 |
| Computers | 27.4 | 39.1 | 21.6 | 25.8 | 7.0 | 13.3 | 23.9 | 19.7 | 33.6 |
| Semiconductors | 66.9 | 79.6 | 44.6 | 21.3 | 9.3 | 34.4 | 26.7 | 17.9 | 37.4 |
| Other Goods 1/ | 6.9 | 5.7 | 7.8 | 10.9 | 1.3 | 4.1 | 6.1 | 2.3 | 4.2 |
| Imports of G&S | 12.2 | 5.0 | 11.2 | 14.3 | 11.2 | 12.0 | 11.5 | 4.5 | 8.2 |
| Services | 1.8 | 5.5 | 5.3 | 14.0 | 9.5 | 2.1 | 13.3 | 2.9 | 4.9 |
| Oil | -0.2 | 2.4 | 7.8 | 3.9 | 4.6 | -3.9 | 13.2 | 0.5 | 2.9 |
| Computers | 39.0 | 35.0 | 17.8 | 33.0 | 26.7 | 25.0 | 14.6 | 14.9 | 28.7 |
| Semiconductors | 54.5 | 92.4 | 56.7 | 32.9 | -7.3 | 34.0 | 23.6 | 22.6 | 38.6 |
| Other Goods 2/ | 12.3 | -1.2 | 10.5 | 12.7 | 11.6 | 13.9 | 10.1 | 3.6 | 6.1 |
| | Billions of chained 1996 dollars | | | | | | | | |
| Net Goods & Services | -86.5 | -78.4 | -89.0 | -113.3 | -221.0 | -322.4 | -412.7 | -462.7 | -502.7 |
| Exports of G&S | 732.8 | 808.2 | 874.2 | 981.5 | 1003.6 | 1033.0 | 1126.5 | 1156.9 | 1237.5 |
| Imports of G&S | 819.4 | 886.6 | 963.1 | 1094.8 | 1224.6 | 1355.3 | 1539.2 | 1619.6 | 1740.2 |
| | Billions of dollars | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -118.6 | -109.5 | -123.3 | -140.5 | -217.1 | -331.5 | -440.6 | -483.4 | -534.0 |
| Current Acct as Percent of GDP | -1.7 | -1.5 | -1.6 | -1.7 | -2.5 | -3.6 | -4.4 | -4.7 | -4.9 |
| Net Goods & Services (BOP) | -97.0 | -96.0 | -102.1 | -105.9 | -166.9 | -265.0 | -369.7 | -400.2 | -436.3 |
| Investment Income, Net | 21.1 | 25.0 | 23.4 | 11.1 | -1.0 | -13.1 | -13.2 | -24.5 | -38.0 |
| Direct, Net | 55.2 | 64.9 | 69.4 | 71.9 | 67.7 | 62.7 | 77.6 | 82.0 | 86.5 |
| Portfolio, Net | -34.1 | -39.9 | -46.0 | -60.9 | -68.8 | -75.8 | -90.8 | -106.4 | -124.5 |
| Other Income & Transfers,Net | -42.7 | -38.6 | -44.6 | -45.7 | -49.2 | -53.4 | -57.7 | -58.7 | -59.7 |

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

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OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | 1997 | | | | 1998 | | | | 1999 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| PA REAL EXPORTS and IMPORTS | | | | | | | | | | | | |
| Percentage point contribution to GDP growth | | | | | | | | | | | | |
| Net Goods & Services | -1.0 | -0.3 | -0.9 | -0.9 | -1.6 | -1.9 | -1.0 | 0.1 | -1.4 | -1.4 | -1.1 | -0.4 |
| Exports of G&S | 0.8 | 1.9 | 1.2 | -0.1 | 0.1 | -0.3 | -0.4 | 1.5 | -0.9 | 0.6 | 1.0 | 1.1 |
| Imports of G&S | -1.8 | -2.2 | -2.1 | -0.8 | -1.7 | -1.6 | -0.7 | -1.5 | -0.6 | -2.0 | -2.1 | -1.4 |
| Percentage change from previous period, s.a.a.r. | | | | | | | | | | | | |
| Exports of G&S | 7.5 | 17.6 | 10.6 | -0.8 | 1.0 | -3.0 | -3.2 | 15.1 | -7.9 | 5.8 | 10.2 | 10.3 |
| Services | -5.8 | 9.4 | 6.0 | -3.3 | 5.2 | 6.4 | -10.0 | 10.8 | -3.8 | 2.8 | -2.5 | 4.6 |
| Agricultural Goods | -19.4 | 6.7 | 12.0 | 7.9 | -2.7 | -13.8 | -12.5 | 34.7 | -33.4 | 33.1 | 38.0 | -19.9 |
| Computers | 60.0 | 44.5 | 25.7 | -14.0 | -7.5 | 7.6 | 14.7 | 14.7 | 5.2 | 26.7 | 22.2 | 1.2 |
| Semiconductors | 50.3 | 22.1 | 19.6 | -1.4 | 2.1 | -13.6 | 19.0 | 35.9 | 38.7 | 39.1 | 37.8 | 22.5 |
| Other Goods 1/ | 12.2 | 20.6 | 10.8 | 0.9 | 0.0 | -6.6 | -1.2 | 14.3 | -11.1 | 1.4 | 11.9 | 16.3 |
| Imports of G&S | 15.3 | 18.8 | 17.3 | 6.4 | 14.2 | 13.1 | 5.5 | 12.2 | 4.5 | 16.2 | 16.9 | 10.7 |
| Services | 20.0 | 5.6 | 23.1 | 8.3 | 20.0 | 6.7 | 9.8 | 2.2 | -7.7 | 2.5 | 6.3 | 8.2 |
| Oil | -7.5 | 36.8 | 5.7 | -12.9 | 6.4 | 41.2 | 2.1 | -22.0 | 2.4 | 29.4 | -5.8 | -31.5 |
| Computers | 46.6 | 45.8 | 32.4 | 10.5 | 32.5 | 22.6 | 10.6 | 43.2 | 28.8 | 48.5 | 14.8 | 11.2 |
| Semiconductors | 78.1 | 26.0 | 31.6 | 5.6 | 2.0 | -22.9 | 0.1 | -6.1 | 17.8 | 53.8 | 24.1 | 43.3 |
| Other Goods 2/ | 11.6 | 17.2 | 14.8 | 7.5 | 12.6 | 14.0 | 4.5 | 15.6 | 5.0 | 14.6 | 21.5 | 14.9 |
| Billions of chained 1996 dollars, s.a.a.r. | | | | | | | | | | | | |
| Net Goods & Services | -94.0 | -100.6 | -119.6 | -139.2 | -175.3 | -219.7 | -244.1 | -244.9 | -279.8 | -314.6 | -342.6 | -352.5 |
| Exports of G&S | 940.3 | 979.2 | 1004.2 | 1002.1 | 1004.5 | 996.8 | 988.8 | 1024.1 | 1003.3 | 1017.6 | 1042.6 | 1068.4 |
| Imports of G&S | 1034.3 | 1079.8 | 1123.8 | 1141.2 | 1179.8 | 1216.6 | 1232.9 | 1269.0 | 1283.1 | 1332.2 | 1385.2 | 1420.9 |
| Billions of dollars, s.a.a.r. | | | | | | | | | | | | |
| CURRENT ACCOUNT BALANCE | -137.5 | -119.9 | -133.6 | -171.1 | -169.6 | -205.9 | -245.2 | -247.9 | -266.5 | -315.9 | -358.6 | -384.9 |
| rrent Account as % of GDP | -1.7 | -1.4 | -1.6 | -2.0 | -2.0 | -2.4 | -2.8 | -2.8 | -2.9 | -3.4 | -3.8 | -4.0 |
| Net Goods & Services (BOP) | -108.2 | -94.3 | -101.1 | -120.1 | -134.5 | -166.4 | -185.3 | -181.4 | -210.7 | -253.2 | -290.9 | -305.1 |
| Investment Income, Net | 11.5 | 16.3 | 10.7 | 5.7 | 9.1 | 6.0 | -12.1 | -7.3 | -7.1 | -11.3 | -16.8 | -17.3 |
| Direct, Net | 68.9 | 76.6 | 74.1 | 68.1 | 74.9 | 72.4 | 59.0 | 64.7 | 64.1 | 58.8 | 62.8 | 65.1 |
| Portfolio, Net | -57.4 | -60.3 | -63.4 | -62.4 | -65.7 | -66.4 | -71.1 | -71.9 | -71.2 | -70.0 | -79.6 | -82.4 |
| Other Inc. & Transfers, Net | -40.8 | -41.9 | -43.2 | -56.7 | -44.3 | -45.5 | -47.8 | -59.2 | -48.7 | -51.5 | -51.0 | -62.5 |

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | 2000 | | | | Projected 2001 | | | | 2002 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| IPA REAL EXPORTS and IMPORTS | | | | | | | | | | | | |
| Percentage point contribution to GDP growth | | | | | | | | | | | | |
| Net Goods & Services | -0.9 | -1.0 | -0.9 | -0.6 | -0.3 | -0.4 | -0.4 | 0.1 | -0.6 | -0.5 | -0.3 | 0.2 |
| Exports of G&S | 0.7 | 1.5 | 1.5 | -0.7 | -0.2 | 0.4 | 0.5 | 1.0 | 0.5 | 0.8 | 0.9 | 1.2 |
| Imports of G&S | -1.6 | -2.5 | -2.4 | 0.1 | -0.1 | -0.7 | -0.9 | -0.9 | -1.1 | -1.4 | -1.2 | -1.1 |
| Percentage change from previous period, s.a.a.r. | | | | | | | | | | | | |
| Exports of G&S | 6.3 | 14.3 | 13.9 | -6.1 | -1.7 | 3.5 | 5.1 | 9.2 | 4.6 | 7.8 | 8.4 | 11.6 |
| Services | 6.9 | 3.5 | -2.8 | 0.4 | -1.1 | 2.4 | 3.9 | 5.3 | 5.7 | 6.1 | 6.2 | 6.2 |
| Agricultural Goods | 25.3 | -2.0 | 42.5 | -23.4 | -11.2 | 0.6 | 5.8 | 7.3 | 2.9 | 2.7 | 2.8 | 2.9 |
| Computers | 44.6 | 44.9 | 27.5 | -11.8 | 4.1 | 12.6 | 32.4 | 32.4 | 33.6 | 33.6 | 33.6 | 33.6 |
| Semiconductors | 20.7 | 71.2 | 38.6 | -10.0 | -2.0 | 8.3 | 34.9 | 34.9 | 37.4 | 37.4 | 37.4 | 37.4 |
| Other Goods 1/ | 0.7 | 14.9 | 17.2 | -6.5 | -1.6 | 3.1 | 0.8 | 6.9 | -1.3 | 3.7 | 4.5 | 10.0 |
| Imports of G&S | 12.0 | 18.6 | 17.0 | -0.7 | 0.7 | 5.1 | 6.4 | 5.9 | 7.8 | 9.3 | 8.5 | 7.2 |
| Services | 16.6 | 10.6 | 22.3 | 4.7 | 2.9 | 1.7 | 2.6 | 4.2 | 4.7 | 4.8 | 5.0 | 5.3 |
| Oil | 30.3 | 35.3 | -4.9 | -2.1 | 8.7 | 4.7 | 7.0 | -16.4 | -1.3 | 22.8 | 7.6 | -13.9 |
| Computers | 2.8 | 44.5 | 28.7 | -9.7 | -2.0 | 11.5 | 26.3 | 26.3 | 28.7 | 28.7 | 28.7 | 28.7 |
| Semiconductors | 20.7 | 33.5 | 88.9 | -23.5 | 8.3 | 12.6 | 36.1 | 36.1 | 38.6 | 38.6 | 38.6 | 38.6 |
| Other Goods 2/ | 9.7 | 15.8 | 15.1 | 0.5 | -0.9 | 5.0 | 4.4 | 5.9 | 6.3 | 6.0 | 6.0 | 6.2 |
| Billions of chained 1996 dollars, s.a.a.r. | | | | | | | | | | | | |
| Net Goods & Services | -376.8 | -403.4 | -427.7 | -442.9 | -450.4 | -460.2 | -471.2 | -469.0 | -487.0 | -502.2 | -512.7 | -508.9 |
| Exports of G&S | 1084.8 | 1121.8 | 1158.8 | 1140.7 | 1135.9 | 1145.8 | 1160.1 | 1185.9 | 1199.3 | 1222.1 | 1247.0 | 1281.6 |
| Imports of G&S | 1461.7 | 1525.2 | 1586.4 | 1583.6 | 1586.3 | 1606.0 | 1631.3 | 1654.9 | 1686.4 | 1724.3 | 1759.6 | 1790.5 |
| Billions of dollars, s.a.a.r. | | | | | | | | | | | | |
| S CURRENT ACCOUNT BALANCE | -406.8 | -420.7 | -452.4 | -482.4 | -470.3 | -475.9 | -487.5 | -499.9 | -511.3 | -529.3 | -542.1 | -553.5 |
| urrent Account as % of GDP | -4.2 | -4.2 | -4.5 | -4.8 | -4.6 | -4.6 | -4.7 | -4.8 | -4.8 | -4.9 | -5.0 | -5.0 |
| Net Goods & Services (BOP) | -341.3 | -355.2 | -383.3 | -399.0 | -391.5 | -398.8 | -407.3 | -403.1 | -420.8 | -435.5 | -445.9 | -443.0 |
| Investment Income, Net | -11.9 | -10.8 | -12.7 | -17.4 | -23.1 | -21.0 | -24.1 | -29.7 | -33.9 | -36.6 | -39.1 | -42.4 |
| Direct, Net | 68.3 | 76.1 | 86.2 | 79.8 | 76.4 | 82.9 | 84.7 | 83.8 | 84.1 | 86.0 | 87.7 | 88.3 |
| Portfolio, Net | -80.2 | -86.9 | -98.9 | -97.1 | -99.6 | -103.9 | -108.8 | -113.5 | -118.0 | -122.6 | -126.8 | -130.7 |
| Other Inc. & Transfers, Net | -53.6 | -54.7 | -56.4 | -66.1 | -55.6 | -56.1 | -56.1 | -67.1 | -56.6 | -57.1 | -57.1 | -68.1 |

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