

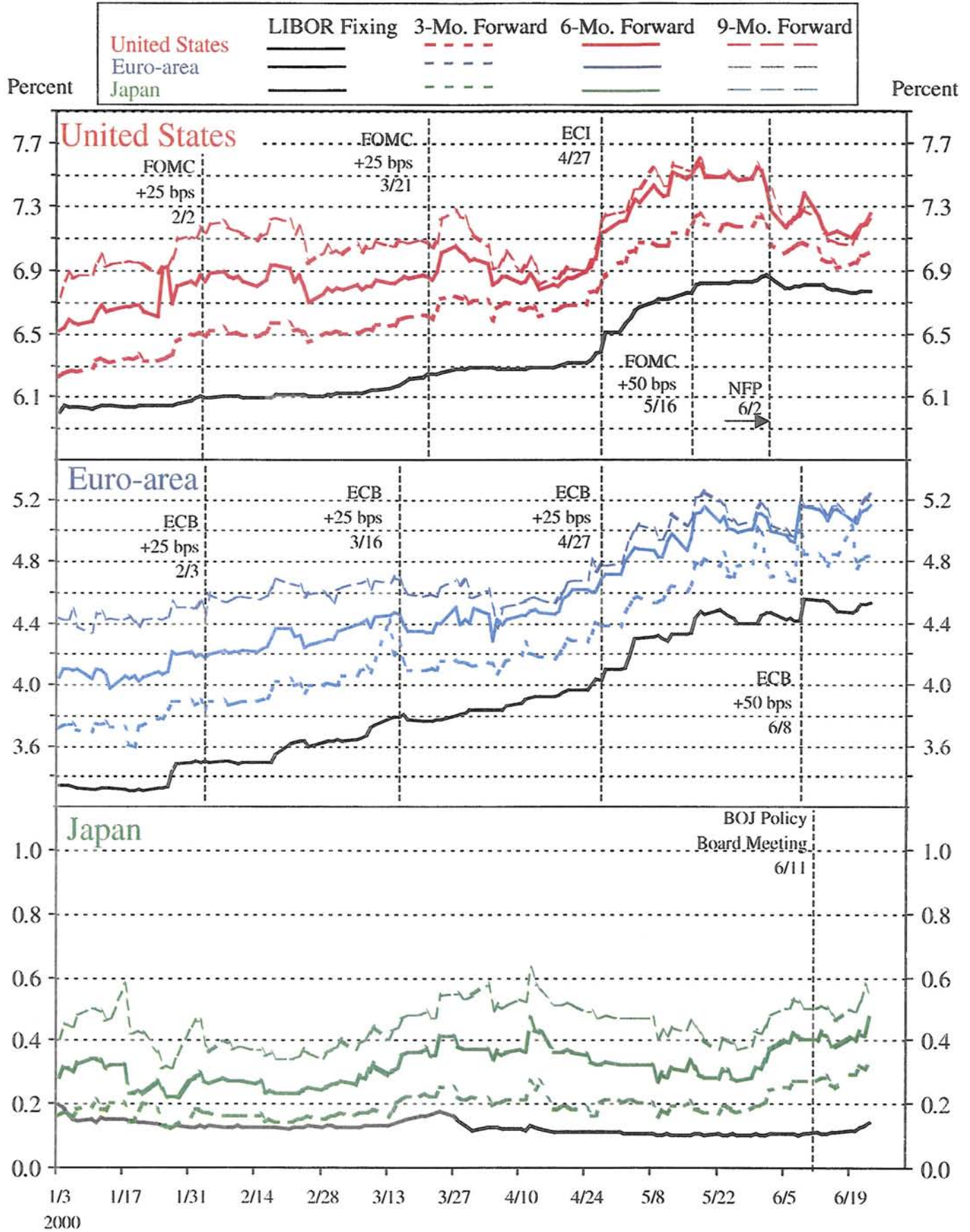
## APPENDIX 1

Material used by Mr. Fisher.

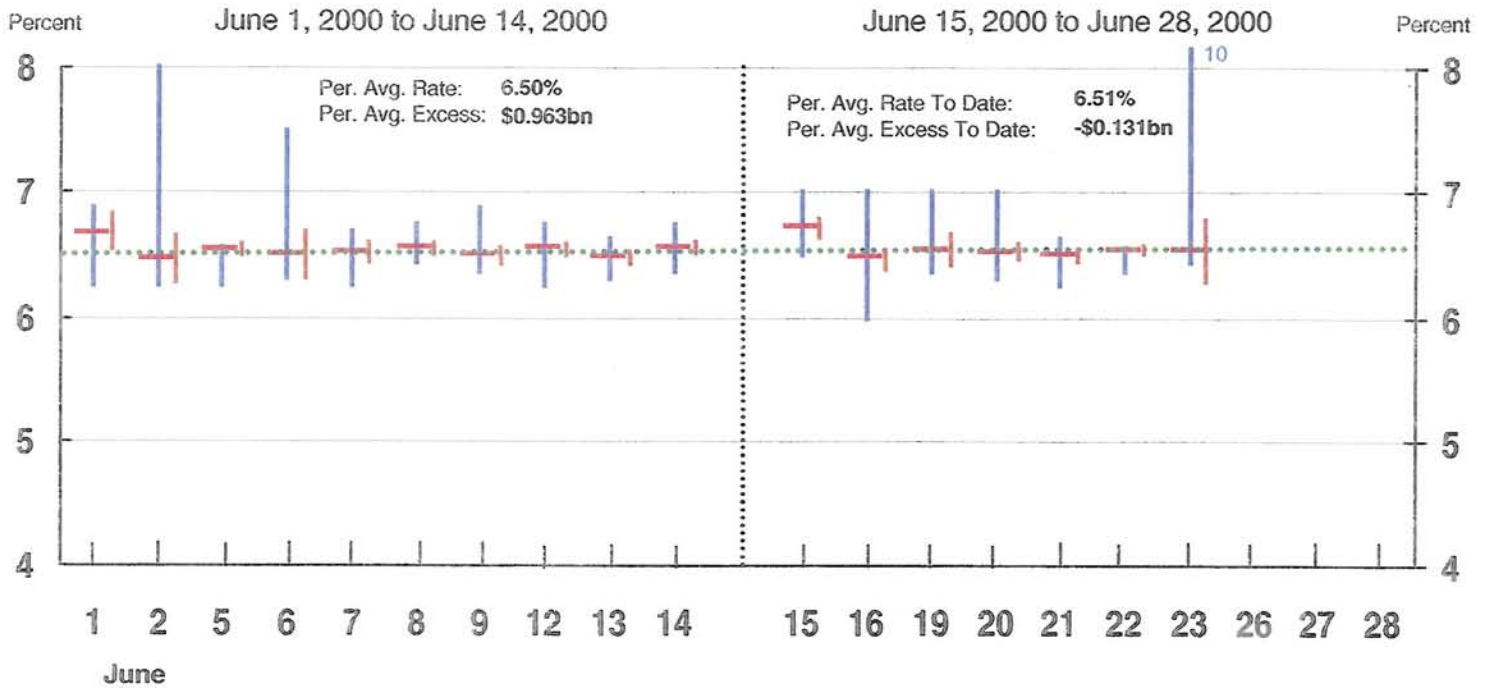
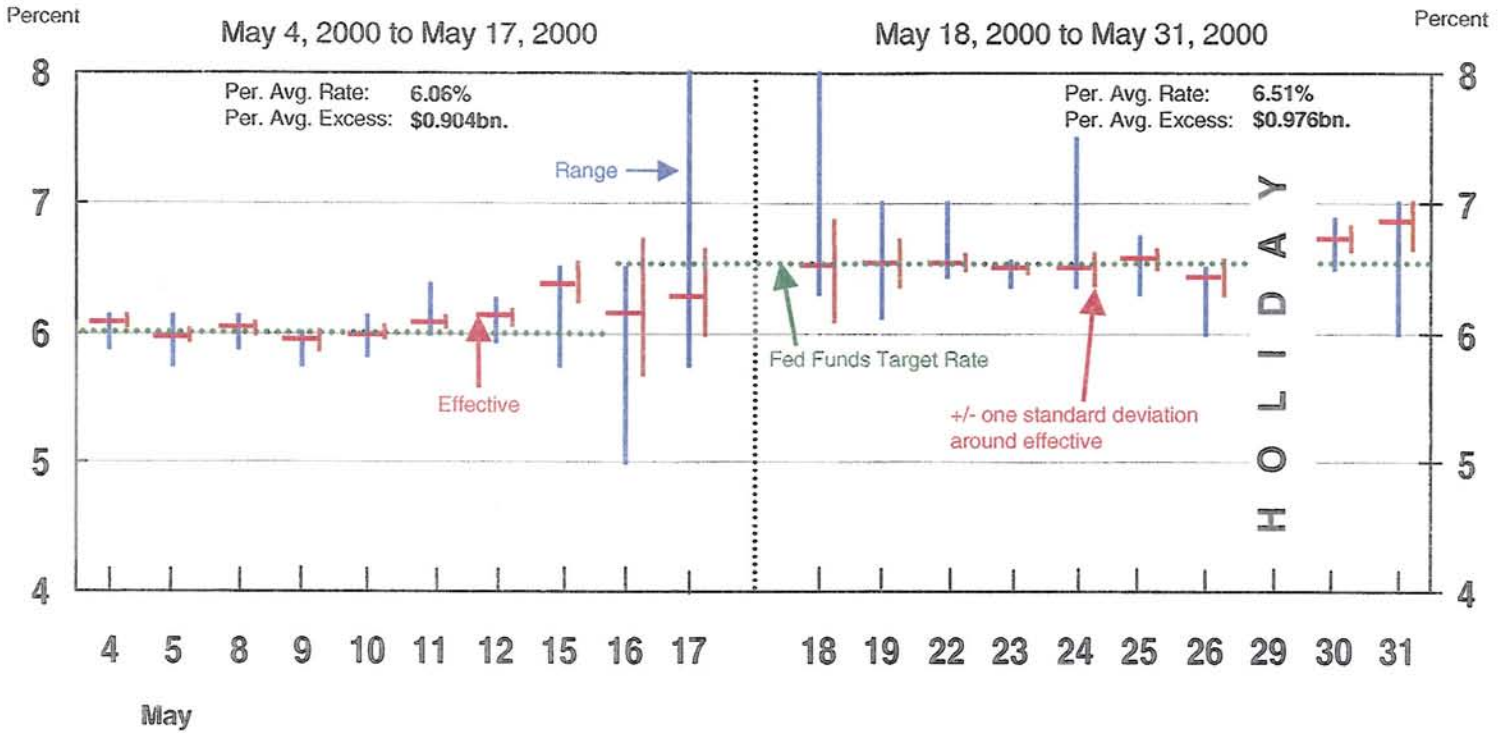
# 3-Month Deposit Rates

January 3, 2000 - June 23, 2000

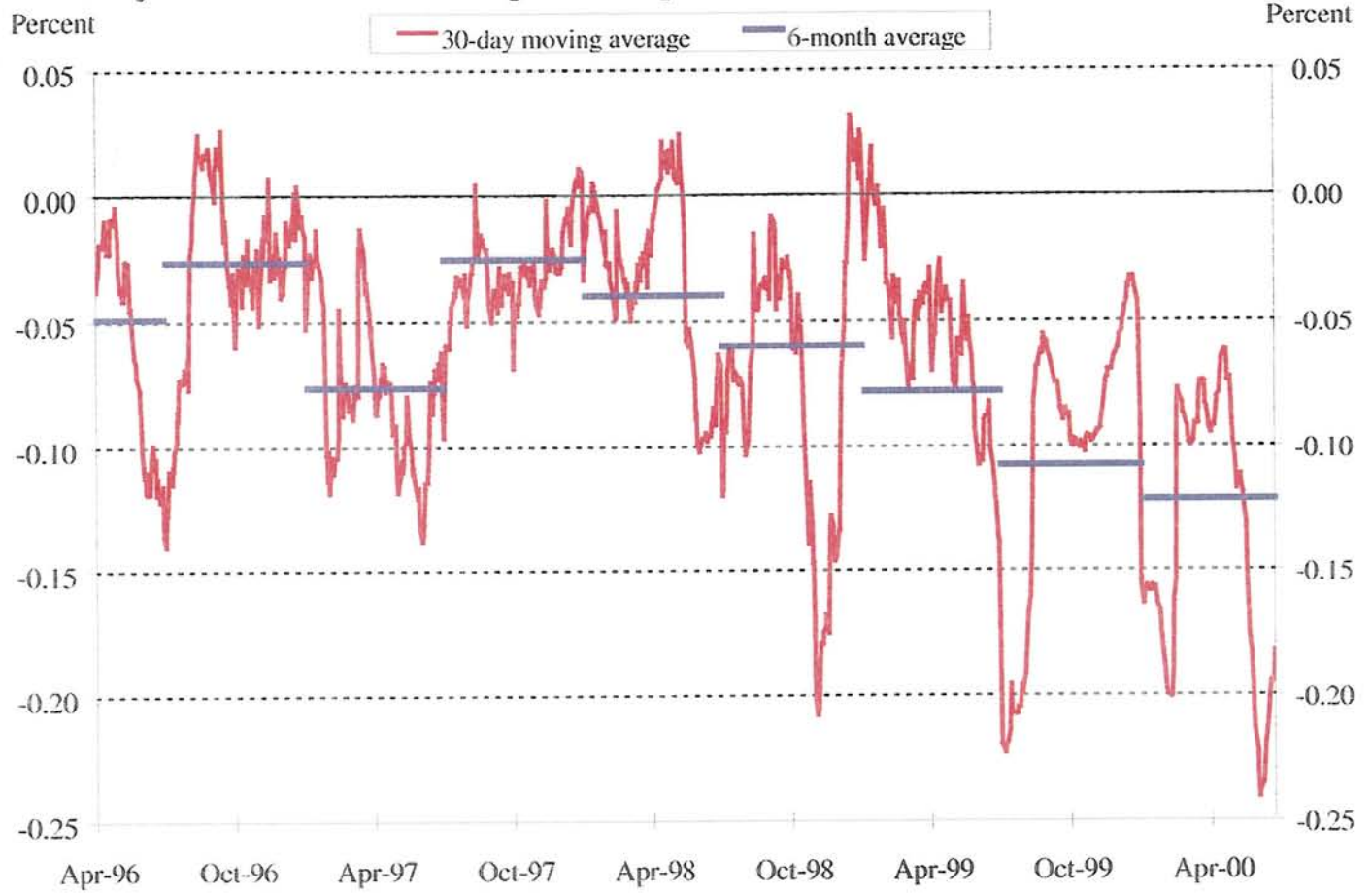
Current Deposit Rate and Rates Implied by Traded Forward Rate Agreements



## DAILY FEDERAL FUNDS TRADING RANGE, EFFECTIVE RATE & +/- ONE STANDARD DEVIATION



### Treasury General Collateral Repo Rate Spread To Fed Funds (morning rates)



## Effects of Factor Behavior on Balances at the Fed

*Maintenance period averages, billions of dollar*

	<i>Changes from Feb. 9 to June 28 period</i>	<i>Projected changes from June 28 to Sep. 6 period</i>
<b>Changes in Supply of Fed Balances from:</b>		
Autonomous factors	-1.041	-8.197
SOMA redemptions	-4.897	-15.316
SOMA purchases plus changes in RPs	<u>+6.866</u>	<u>+22.840</u>
<b>Changes in Nonborrowed Fed Balances,</b> (used to meet reserve requirements net of applied vault cash and as-ofs, clearing balance requirements and excess demands)	+0.928	-0.673

## Outright Activity and Temporary OMOs

### Outright Purchases

*Par values, billions of dollars*

	<i>Purchases settling between Jan. 27 and June 28</i>
Bills	2.294
Coupons 0-2 years	3.742
2-5 years	2.350
5-10 years	1.419
10-30 years	<u>3.048</u>
<b>Total</b>	12.853

### RPs outstanding:

*Maintenance period averages, billions of dollars*

	<i>Feb. 9 period level</i>	<i>Change</i>	<i>Current period level</i>
RPs under 15 days (less MSPs)	11.224	-8.636	2.588
RPs 15 days or longer	<u>8.558</u>	<u>+5.413</u>	<u>13.971</u>
<b>Total</b>	19.781	-3.223	16.559

#### *Memo item:*

<i>Collateral for 15 day or longer RPs:</i>	63%	--	<i>Treasuries</i>	--	42%
	17%	--	<i>Agency debt</i>	--	16%
	20%	--	<i>MBS</i>	--	42%

Note: Estimates for the June 28 period, and projections for the September 6 period, are as of June 26; projected excess demands for both periods are \$1 billion.

## APPENDIX 2

Material used by Mr. Stockton, Ms. Johnson, and Mr. Slifman.

STRICTLY CONFIDENTIAL (FR) CLASS II-FOMC

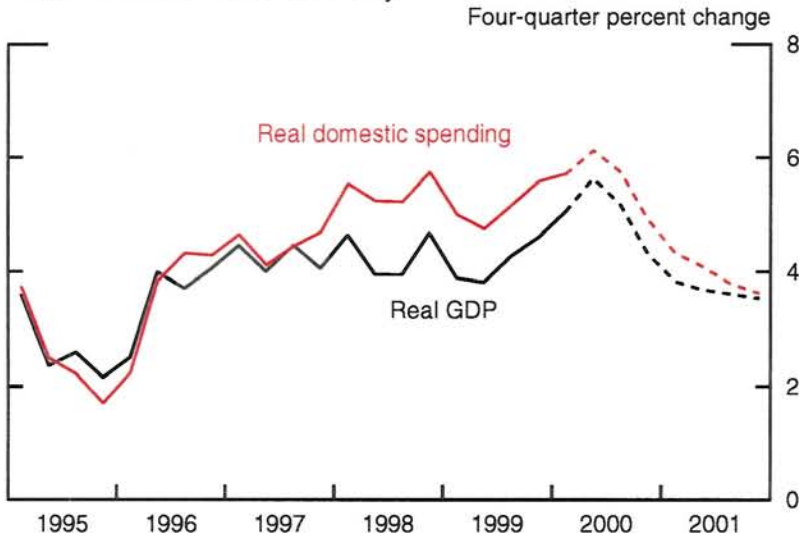
*Material for*

*Staff Presentation on the  
Economic Outlook*

*June 27, 2000*

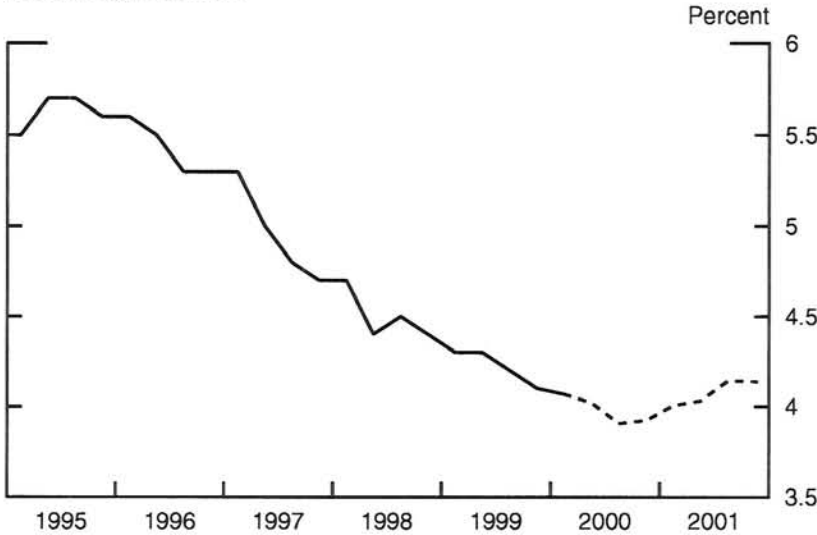
# Forecast Summary

Growth in Real Economic Activity



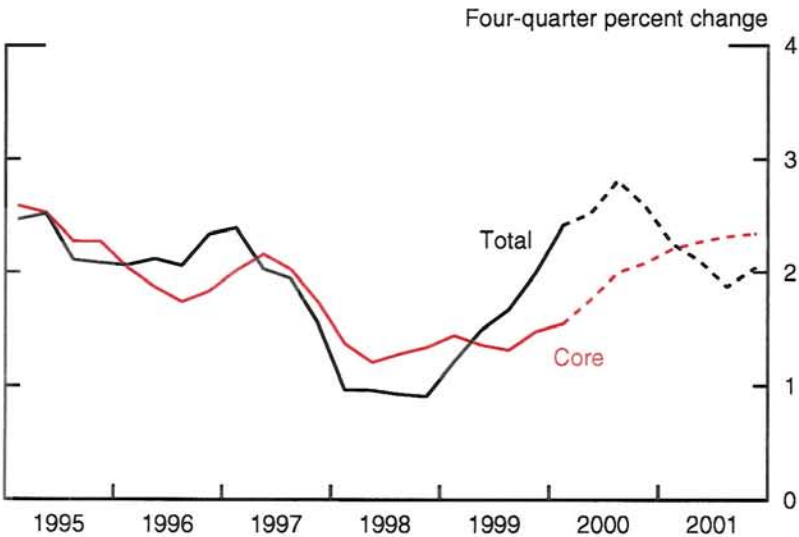
Percent change, Q4/Q4		
	GDP	Domestic spending
1995	2.2	1.7
1996	4.1	4.3
1997	4.1	4.7
1998	4.7	5.7
1999	4.6	5.6
2000	4.3	4.9
2001	3.5	3.6

Unemployment Rate



Q4 average	
1995	5.6
1996	5.3
1997	4.7
1998	4.4
1999	4.1
2000	3.9
2001	4.1

PCE Prices

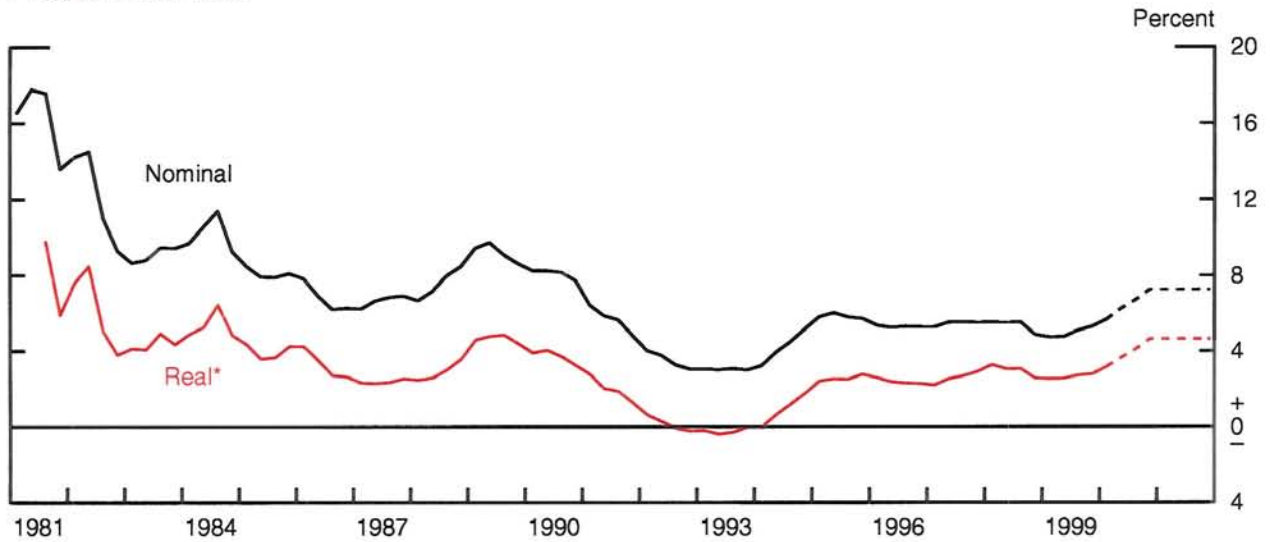


Percent change, Q4/Q4		
	Total	Core
1995	2.1	2.3
1996	2.3	1.8
1997	1.6	1.7
1998	0.9	1.3
1999	2.0	1.5
2000	2.6	2.1
2001	2.0	2.3



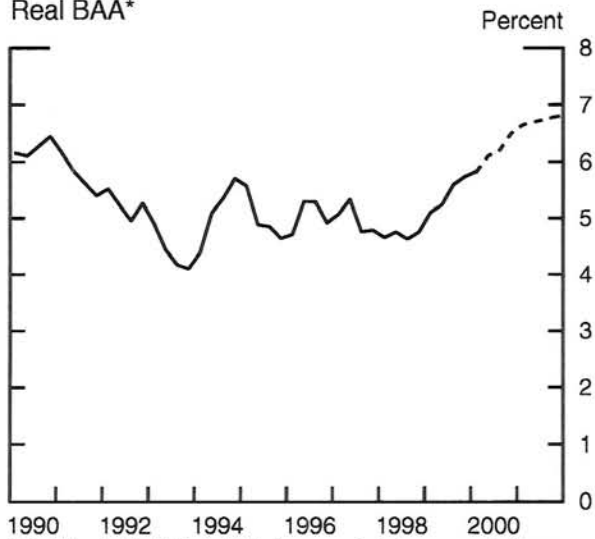
# Financial Conditions

Federal Funds Rate



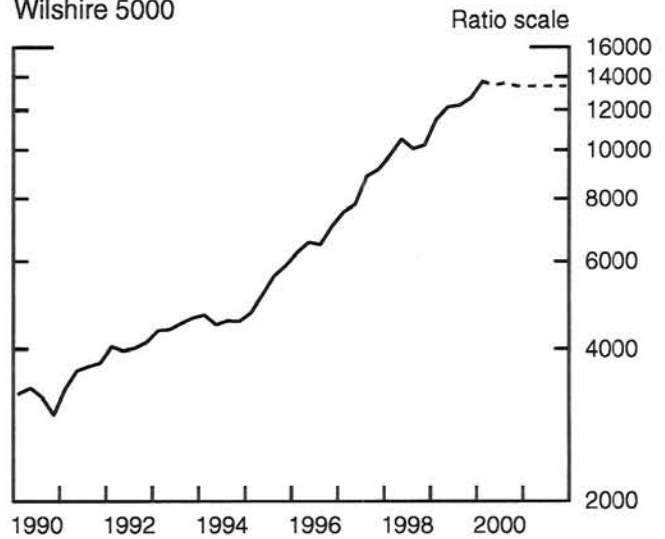
\* Deflated with Philadelphia four-quarter inflation expectations.

Real BAA\*

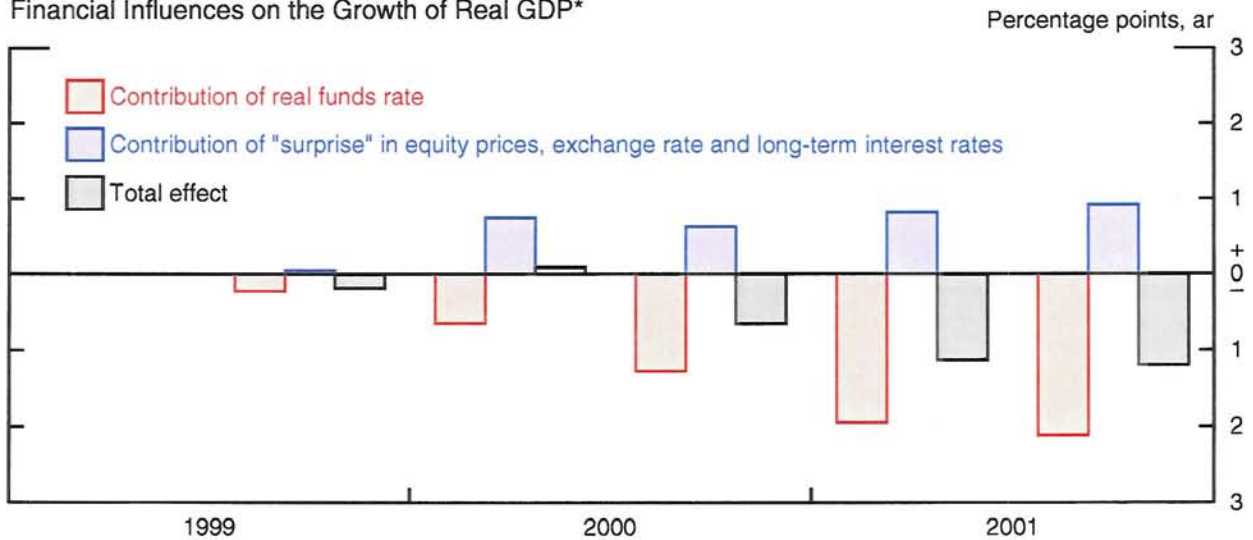


\* Deflated with Philadelphia ten-year inflation expectations.

Wilshire 5000



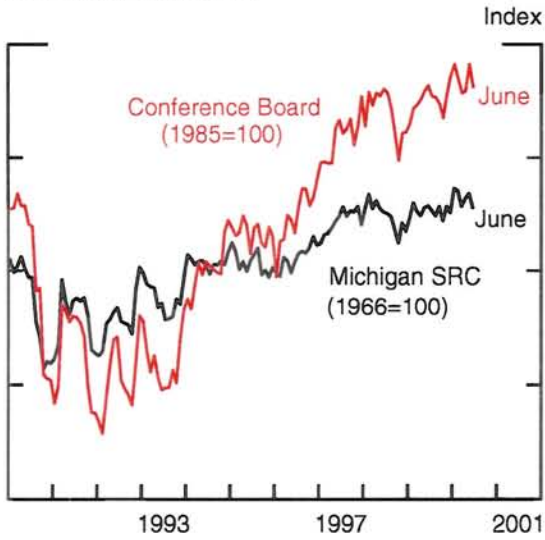
Financial Influences on the Growth of Real GDP\*



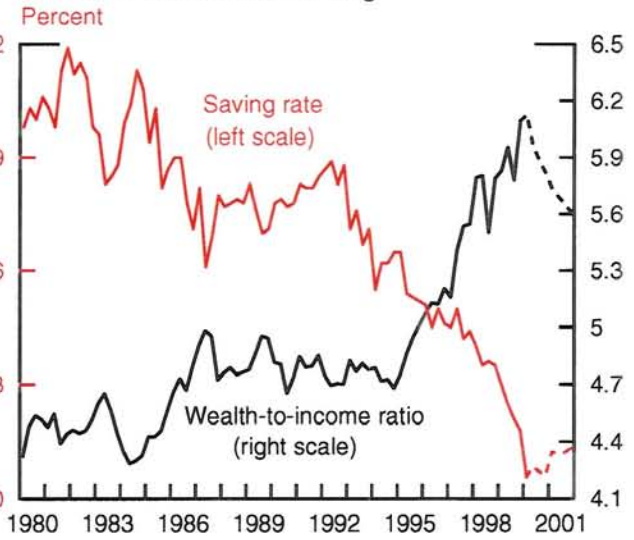
\* Based on FRB/US simulation.

# Household Spending

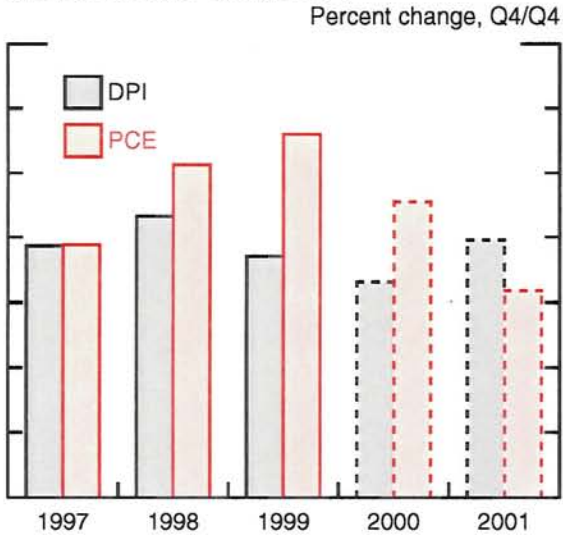
Consumer Sentiment



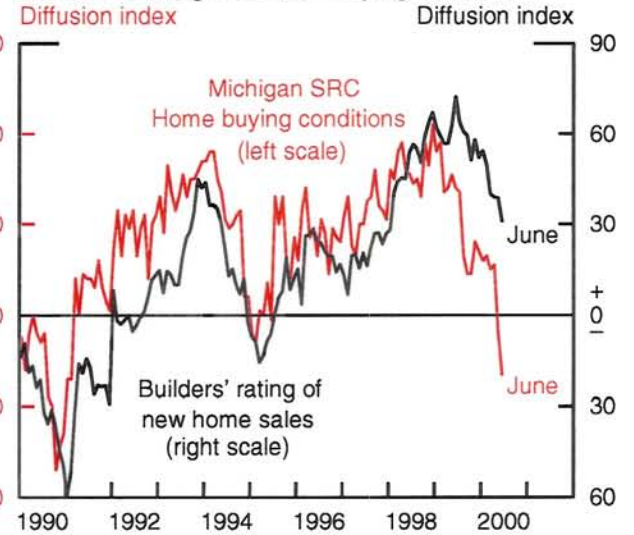
Household Wealth and Saving



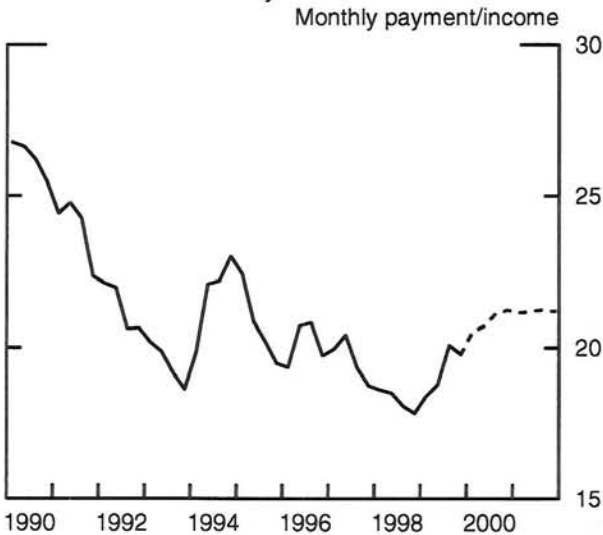
Growth of Real PCE and DPI



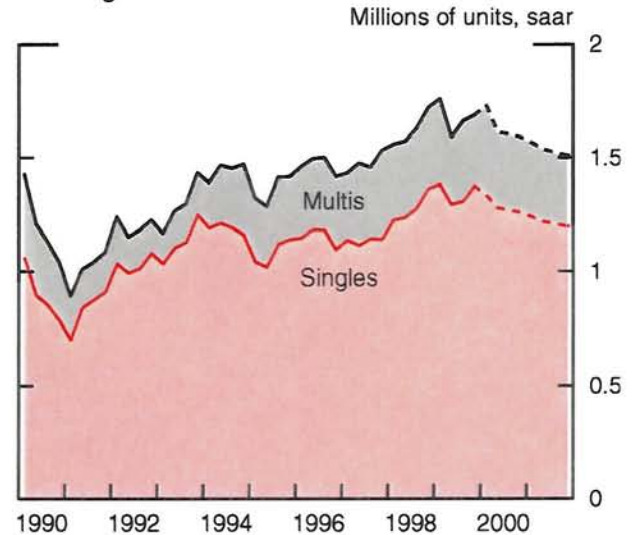
Builders' Ratings & Home Buying Conditions



Cash Flow Affordability of Home Purchase\*



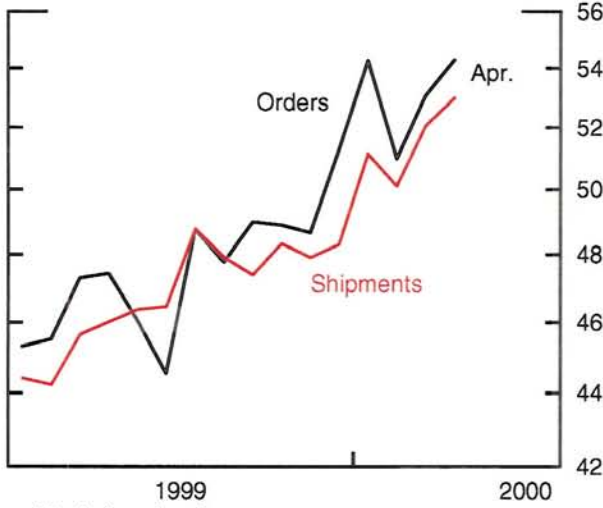
Housing Starts



\* Based on new home, thirty-year FRM.

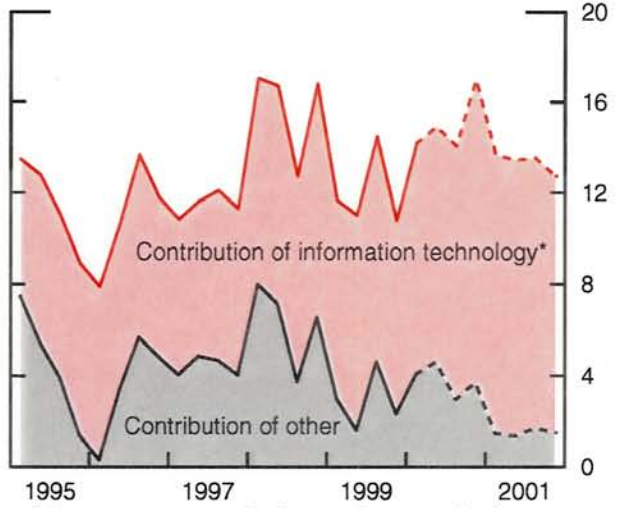
# Business Spending

Orders and Shipments of Nondefense Capital Goods\* Billions of dollars, ratio scale



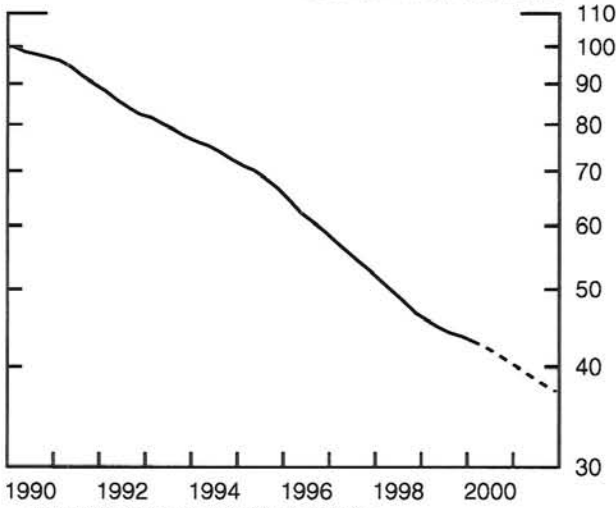
\* Excluding aircraft.

Real E & S Four-quarter percent change



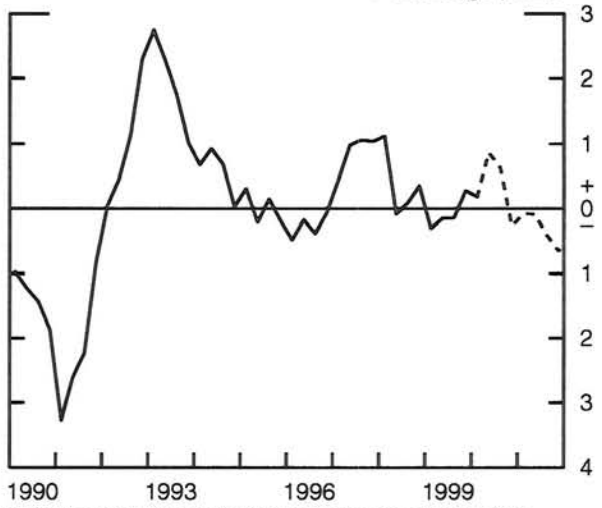
\* Computers, communications equipment and software.

Relative Price of IT Equipment\* 1990Q1=100, ratio scale



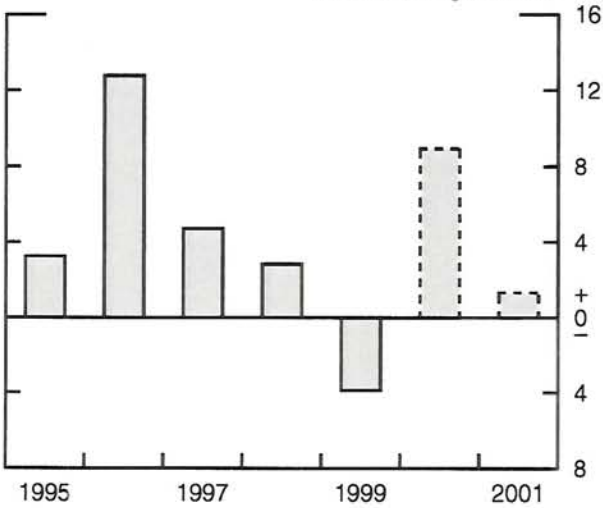
\* Relative to business output deflator.

Acceleration in Business Sector Output\* Percentage points

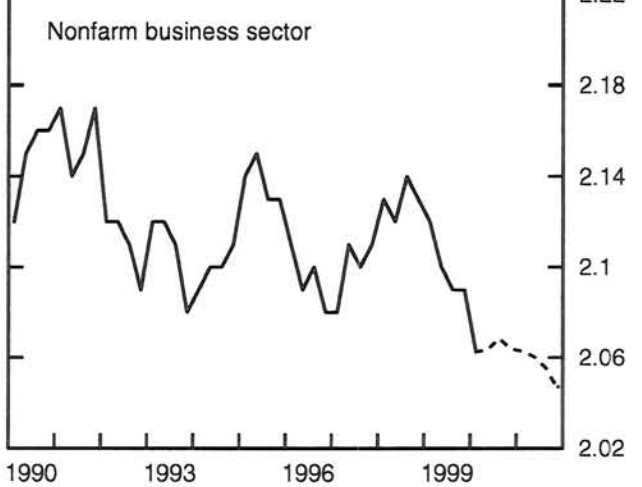


\* Eight-quarter percent change less same measure four quarters previous.

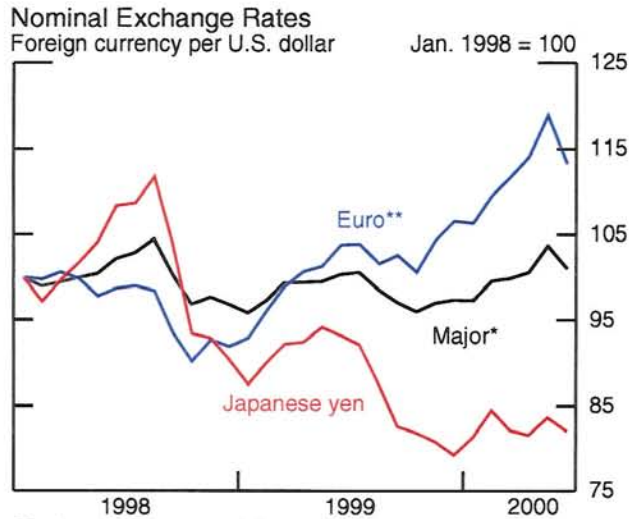
Nonresidential Structures Percent change, Q4/Q4



Inventory-Sales Ratio Nonfarm business sector Months



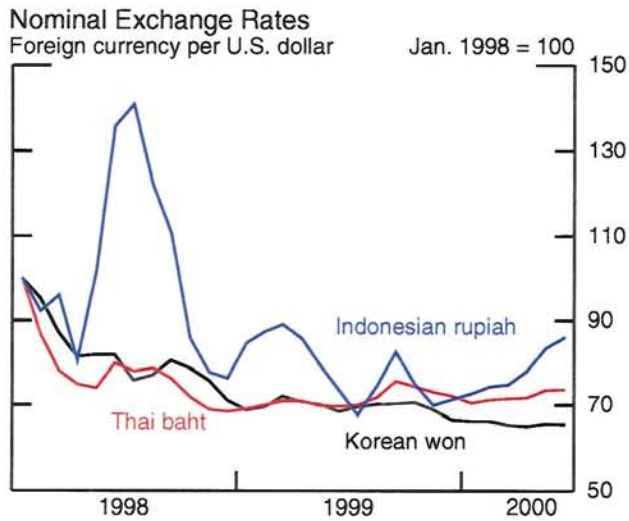
## Exchange Rates and Interest Rates



\*Trade weighted-average dollar against major international currencies.  
\*\*Restated German mark through 1998.

### Interest Rates

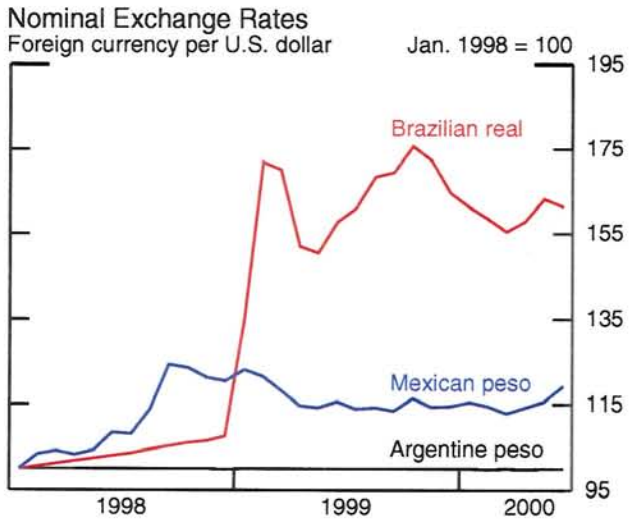
	Level 6/26/00	Change 1/31/00 to 6/26/00
<b>Three-Month</b>		
1. Euro	4.54	1.05
2. Japan	0.08	0.02
3. United States	6.73	0.73
<b>Ten-Year</b>		
1. Germany	5.24	-0.35
2. Japan	1.71	0.00
3. United States	6.11	-0.57



### Interest Rates and Spreads

	Level 6/26/00	Change 1/31/00 to 6/26/00
<b>One-Month Domestic</b>		
1. Korea*	5.90	1.00
2. Thailand	3.50	0.00
3. Indonesia	11.79	-0.16
<b>Offshore-Dollar Bond Spreads</b>		
4. China	1.45	0.23
5. Korea	2.00	0.62
6. Indonesia	6.32	-0.60

\* One-week maturity.



### Interest Rates and Spreads

	Level 6/26/00	Change 1/31/00 to 6/26/00
<b>One-Month Domestic</b>		
1. Argentina	7.75	-0.50
2. Brazil	18.20	-1.70
3. Mexico	16.58	-0.37
<b>Brady Bond Yield Spreads</b>		
4. Argentina	8.99	0.85
5. Brazil	8.88	-0.17
6. Mexico	5.07	-0.05

## Trade Developments

### Recent Developments: Exports

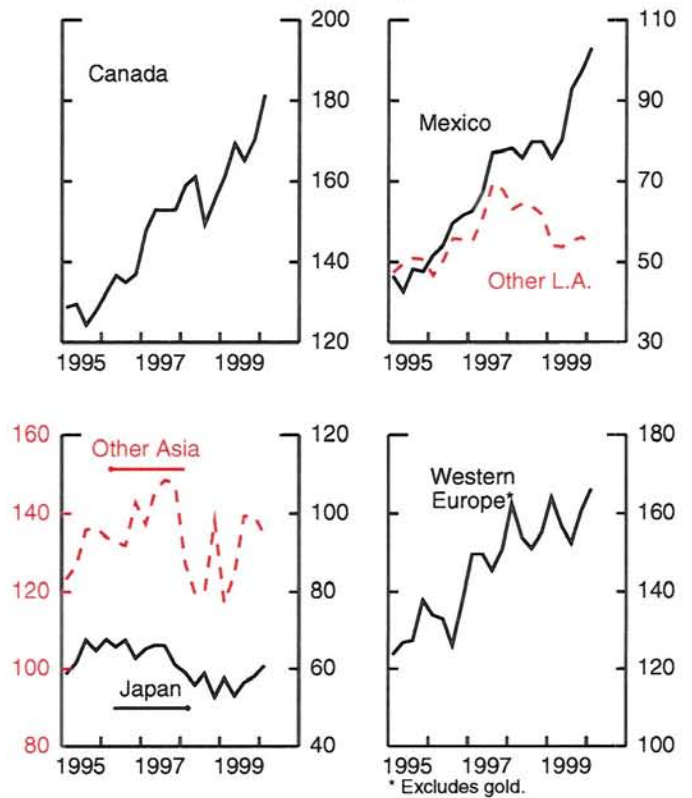
Billions of dollars, saar

	1999 Dec.	Change April - Dec.
<b>1. Goods exports*</b>	<b>725</b>	<b>23</b>
2. Aircraft	55	-8
3. Other cap. equip.	278	25
4. Ind. supplies	146	6
5. Automotive	79	-2
6. Consumer gds.	86	1
7. Ag. and other	81	1
<b>8. Services</b>	<b>275</b>	<b>14</b>
<b>9. Total G &amp; S</b>	<b>1000</b>	<b>37</b>

\* Excludes gold.

### Goods Exports by Region

Billions of dollars, saar



### Recent Developments: Imports

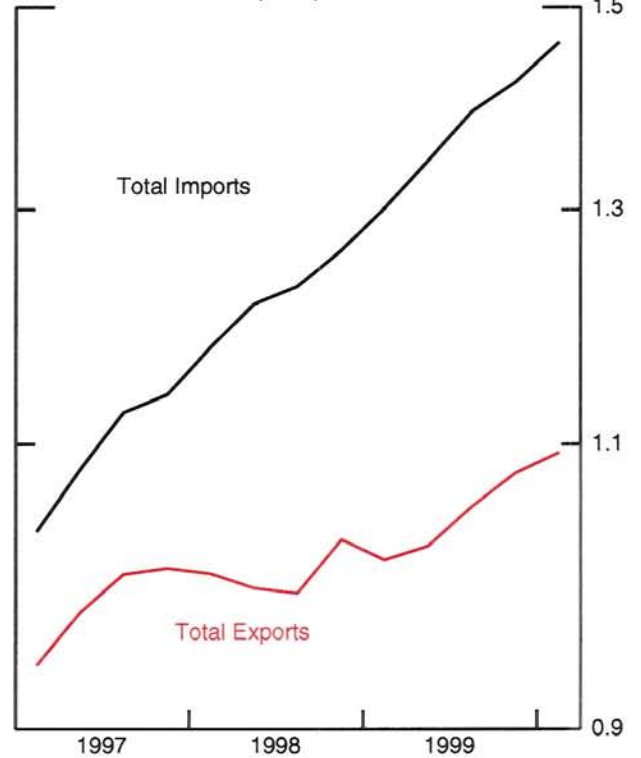
Billions of dollars, saar

	1999 Dec.	Change April - Dec.
<b>1. Goods imports*</b>	<b>1112</b>	<b>80</b>
2. Oil	86	22
3. Capital equip.	319	25
4. Ind supplies	166	4
5. Automotive	193	5
6. Consumer gds.	254	21
7. Other	94	3
<b>8. Services</b>	<b>196</b>	<b>15</b>
<b>9. Total G &amp; S</b>	<b>1308</b>	<b>95</b>

\* Excludes gold.

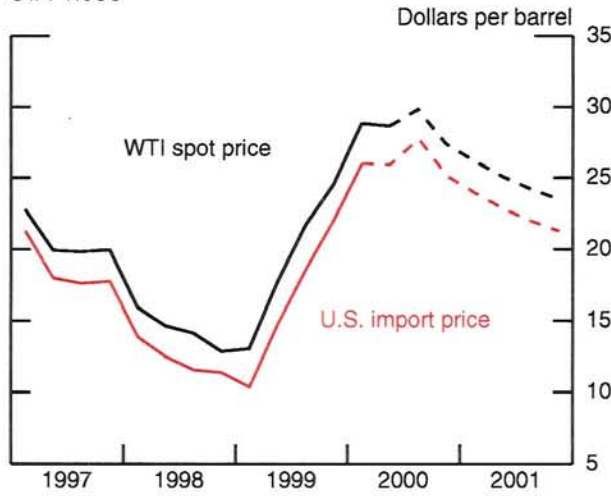
### Real Goods & Services

Trillions of chained (1996) dollars, saar, ratio scale

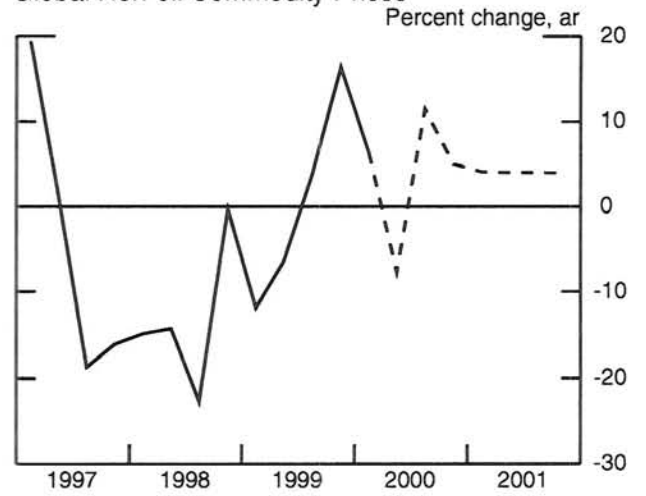


# Trade Prices

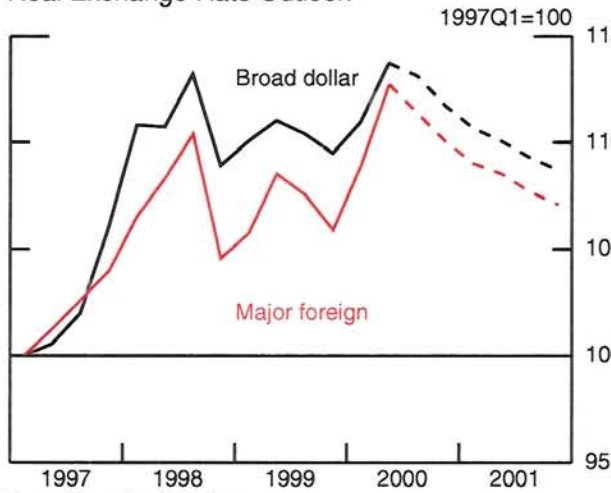
Oil Prices



Global Non-oil Commodity Prices

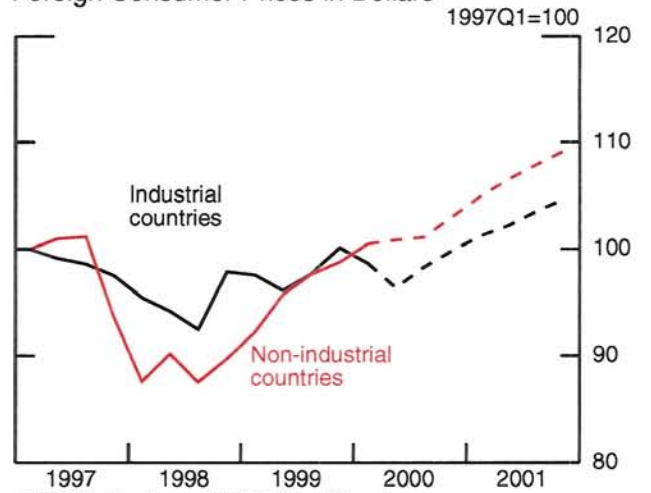


Real Exchange Rate Outlook\*



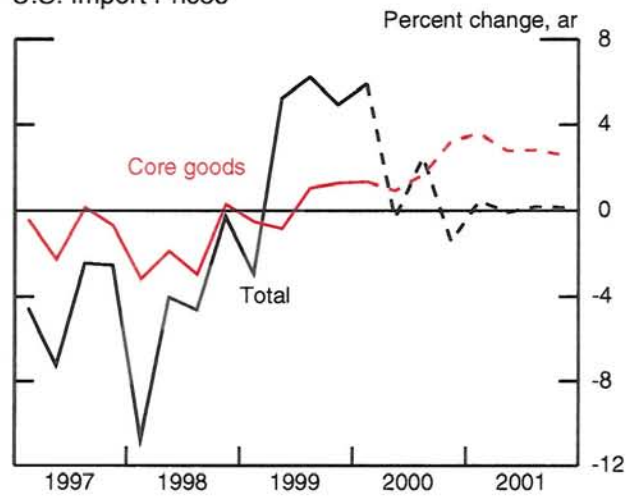
\*Import/export weighted average.

Foreign Consumer Prices in Dollars\*



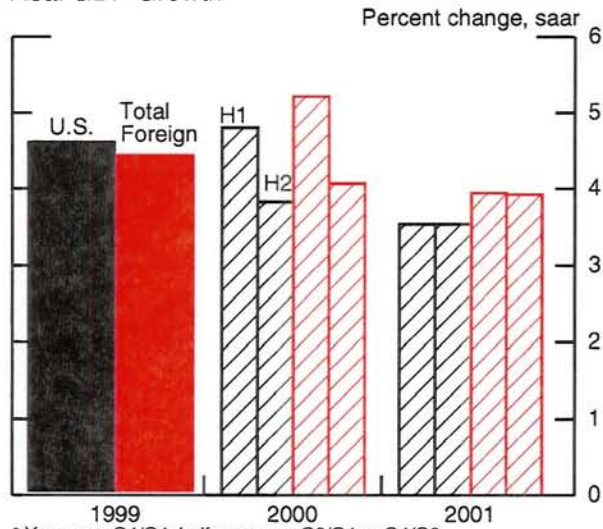
\* Weighted by shares of U.S. bilateral imports.

U.S. Import Prices

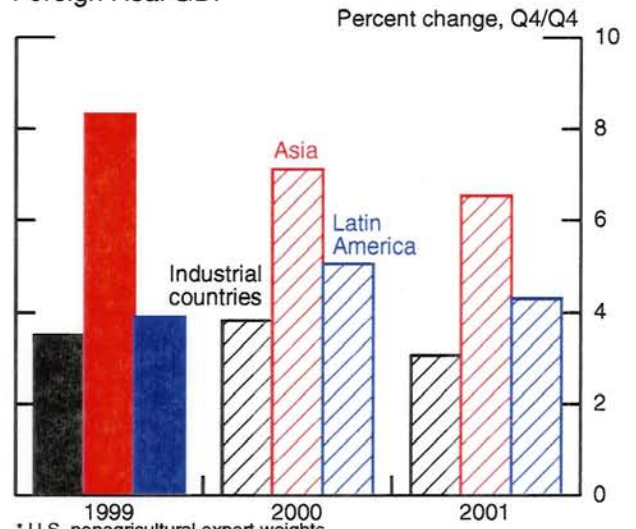


# Foreign Outlook

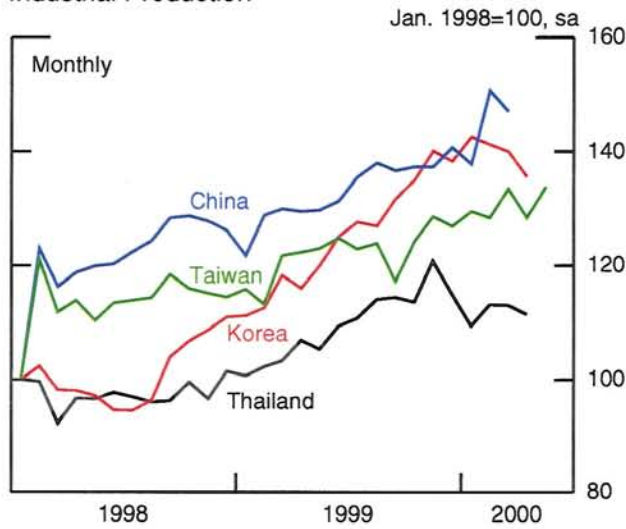
Real GDP Growth\*



Foreign Real GDP\*



Industrial Production

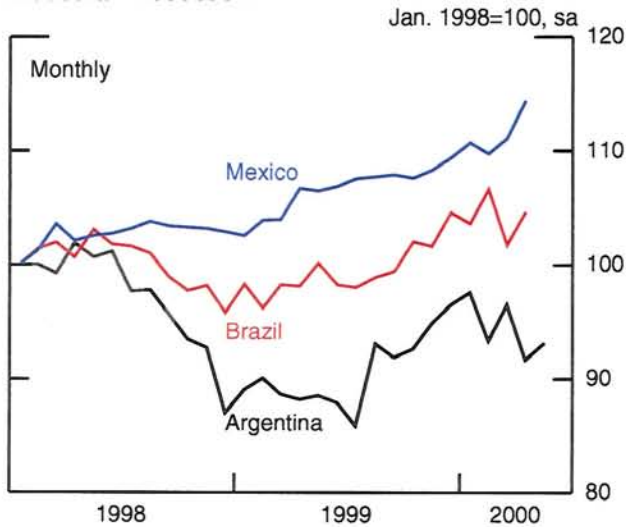


Real GDP Growth\*  
Percent, saar

	1999	2000		2001
		H1	H2	
Developing Asia**	8.3	7.7	6.5	6.5
of which:				
China	6.2	5.7	9.5	8.0
Korea	14.0	7.4	7.2	6.5
Malaysia	10.8	10.6	5.7	6.1
Thailand	6.8	5.7	5.7	6.7

\* Years are Q4/Q4; half years are Q2/Q4 or Q4/Q2.  
\*\* U.S. nonagricultural export weights.

Industrial Production

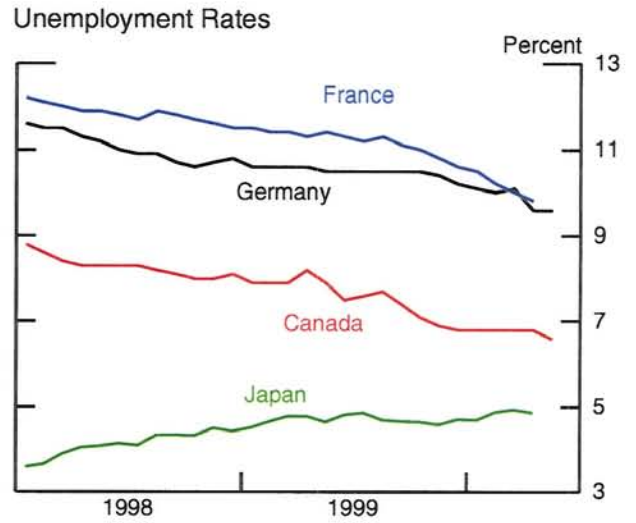
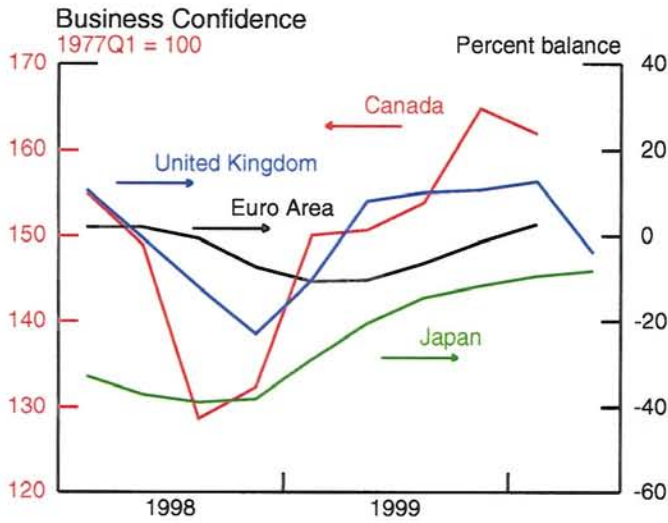


Real GDP Growth\*  
Percent, saar

	1999	2000		2001
		H1	H2	
Latin America**	3.9	6.1	4.0	4.3
of which:				
Argentina	0.1	-0.3	0.1	3.9
Brazil	3.8	4.1	3.0	3.2
Mexico	5.2	7.2	4.4	4.7

\* Years are Q4/Q4; half years are Q2/Q4 or Q4/Q2.  
\*\* U.S. nonagricultural export weights.

# Industrial Country Outlook



### Real GDP Growth

Percent change, saar\*\*

	1999		2000		2001	
	H1	H2	H1	H2	H1	H2
1. Indust. countries*	3.5	4.3	3.3	3.1		
2. Japan	-0.2	6.3	1.6	1.1		
3. Canada	4.9	4.7	3.7	3.4		
4. Euro Area	3.0	3.5	3.8	3.5		
5. United Kingdom	3.0	2.1	2.7	2.7		

### Real Domestic Demand Growth

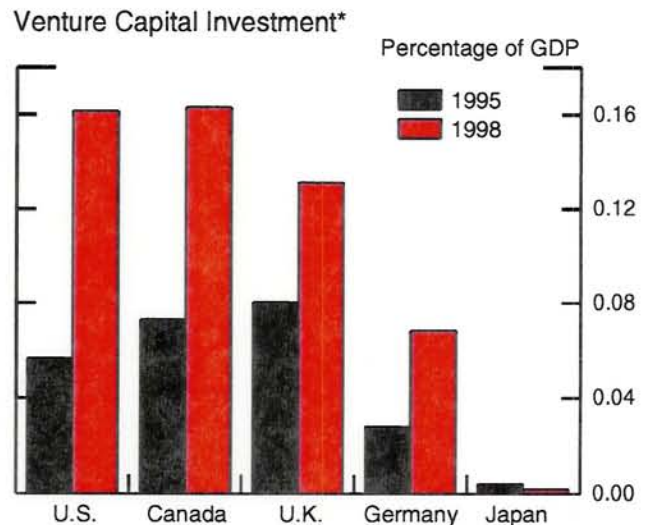
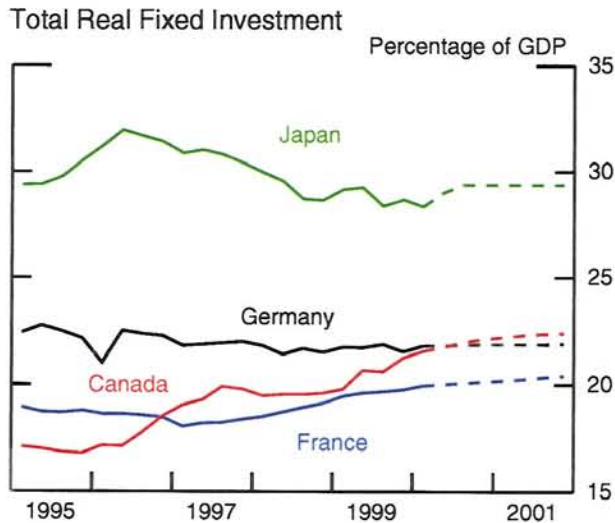
Percent change, saar\*

	1999		2000		2001	
	H1	H2	H1	H2	H1	H2
1. Japan	0.3	4.8	1.6	1.1		
2. Germany	1.9	3.2	3.0	3.1		
3. France	2.7	3.0	3.1	3.0		
4. United Kingdom	4.1	1.9	2.6	2.5		
5. Canada	6.3	3.7	3.7	3.1		

\*U.S. nonagricultural export weights.

\*\*Years are Q4/Q4; half years are either Q2/Q4 or Q4/Q2.

\*Years are Q4/Q4; half years are either Q2/Q4 or Q4/Q2.



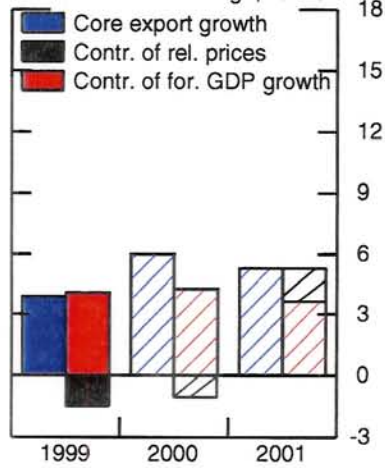
\*Data from the European Venture Capital Association, the National Venture Capital Association, and the Japanese Ministry of Trade and Industry.



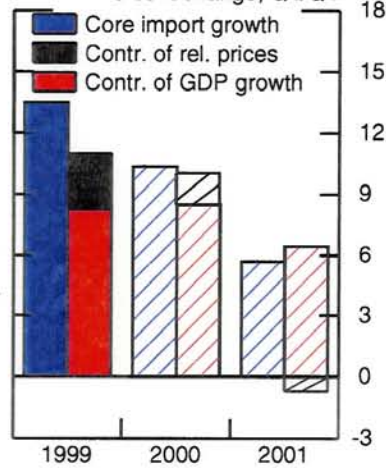
Chart 10

## External Sector

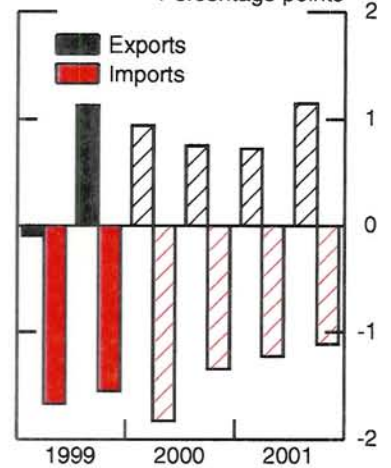
Determinants of Core Exports  
Percent change, Q4/Q4



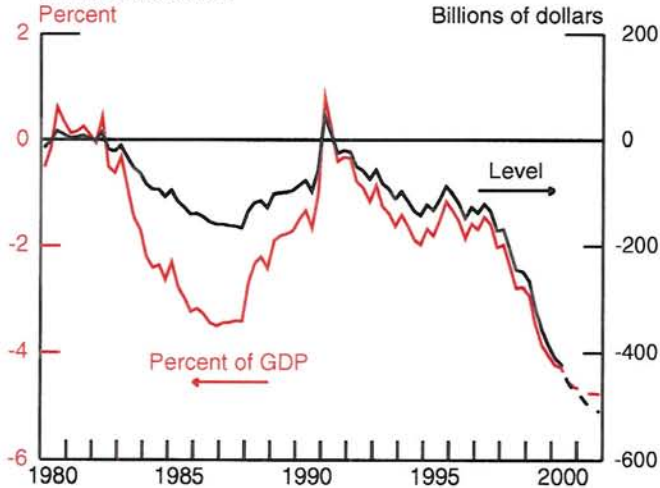
Determinants of Core Imports  
Percent change, Q4/Q4



Contribution to U.S. GDP Growth  
Percentage points



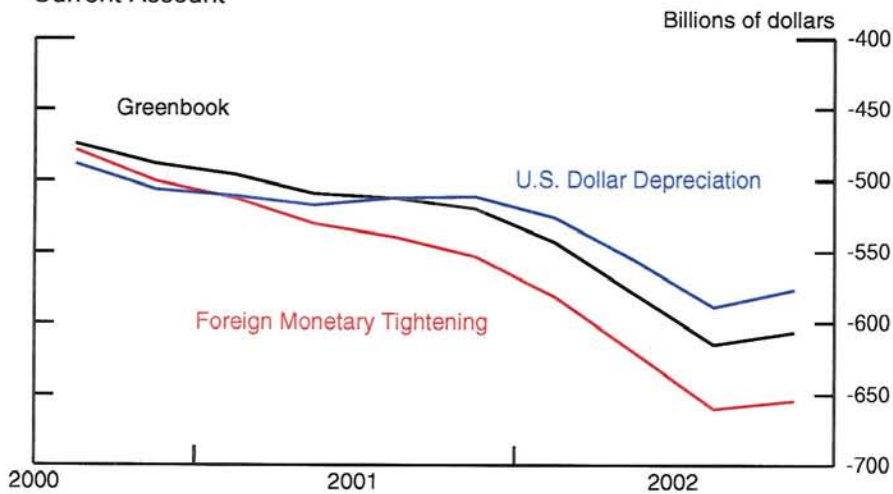
Current Account



Capital Flows

	1999	2000Q1
Official capital, net	54	79
of which Japan	45	40
Private capital, net	269	208
of which		
For. purch. of U.S. sec.	311	495
of which Treasuries	-21	-37
U.S. purch. of for. sec.	-129	-110
For. D.I. in U.S.	276	169
U.S. D.I. abroad	-151	139

Current Account

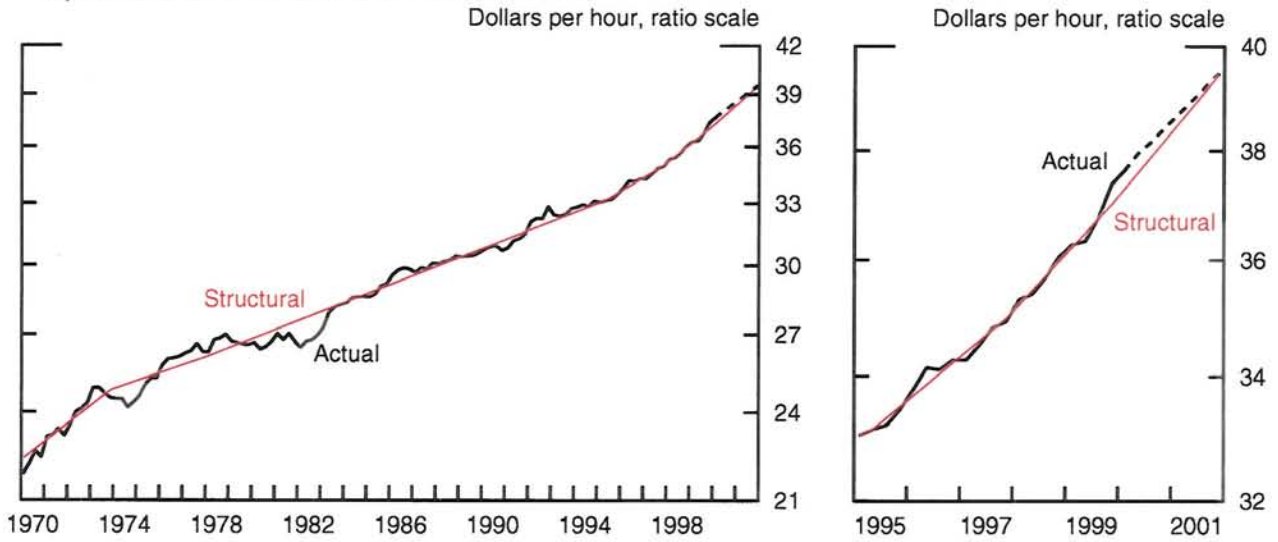


Dollar depreciation:  
5 percent decline  
in 2000Q3

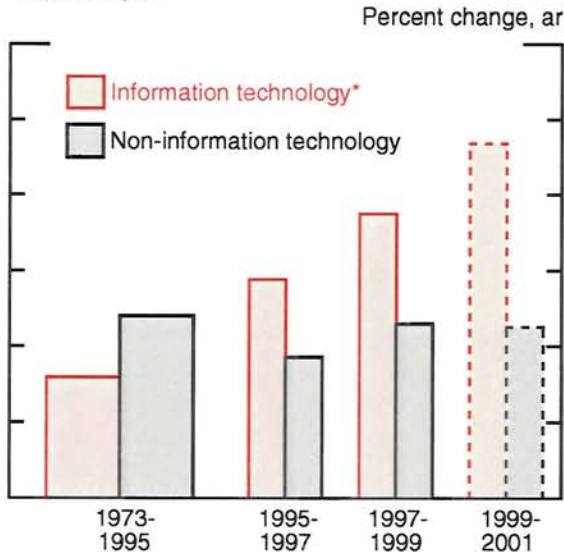
Foreign monetary  
tightening:  
2 percent weaker  
dollar by end 2001

# Productivity

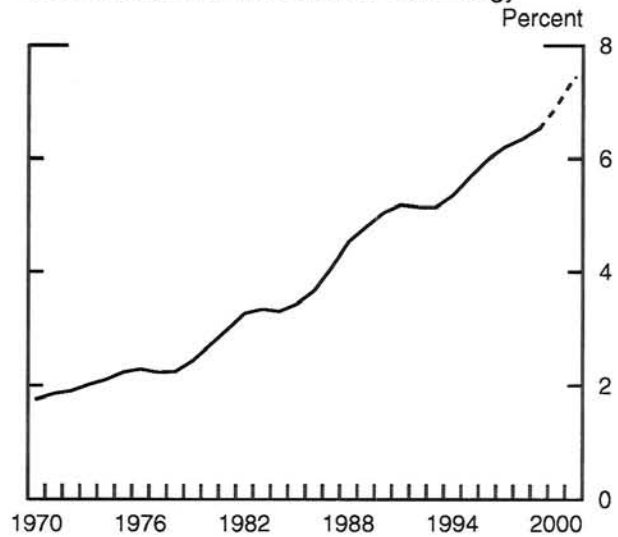
Output Per Hour in the Nonfarm Business Sector



Capital Input



Income Share for Information Technology



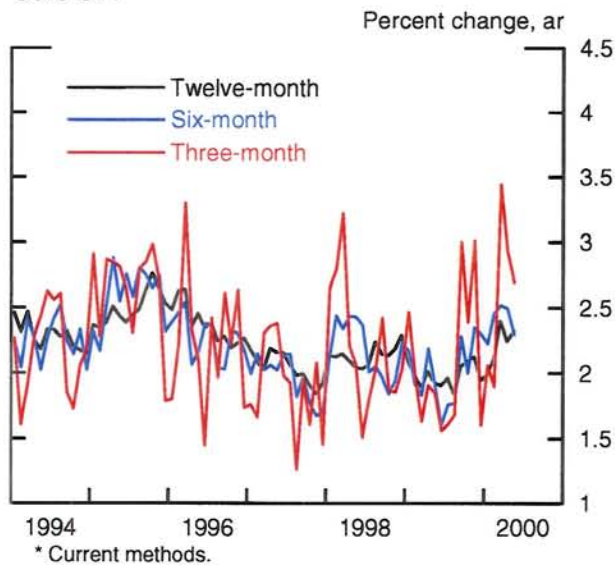
\* Computers, communication equipment, and software.  
Based on Oliner and Sichel.

Contributions to Nonfarm Business Sector Structural Productivity Growth  
(Percent change, ar)

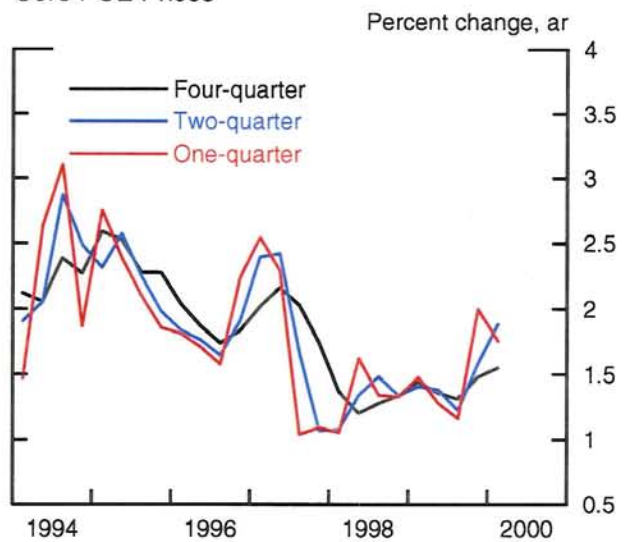
	1973Q4 – 1995Q2	1995Q2 – 1997Q4	1997Q4 – 1999Q4	1999Q4 – 2001Q4
1. Productivity	1.5	2.3	2.9	3.2
2. Capital deepening	0.7	1.1	1.6	1.8
3. Labor quality	0.2	0.3	0.3	0.3
4. Multifactor productivity	0.5	0.9	0.9	1.1

## Inflation Indicators

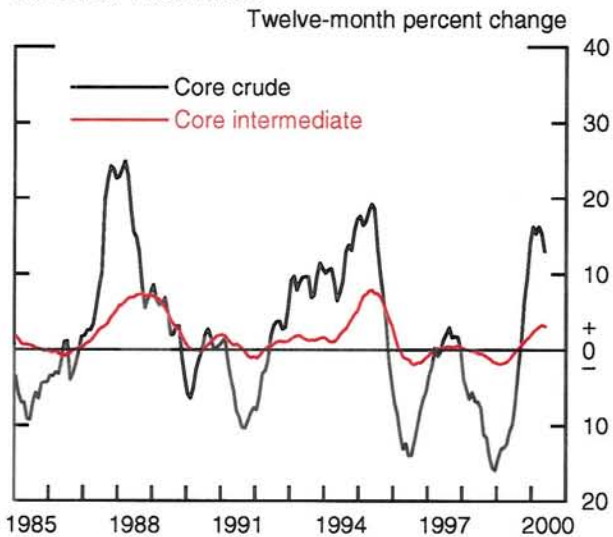
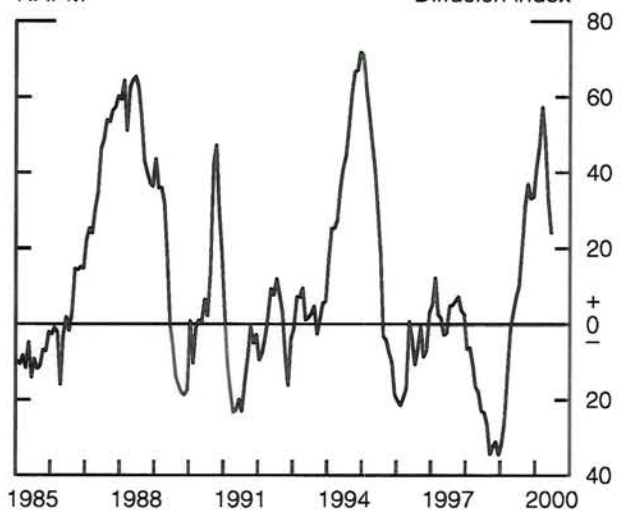
Core CPI\*



Core PCE Prices



Producer Price Index

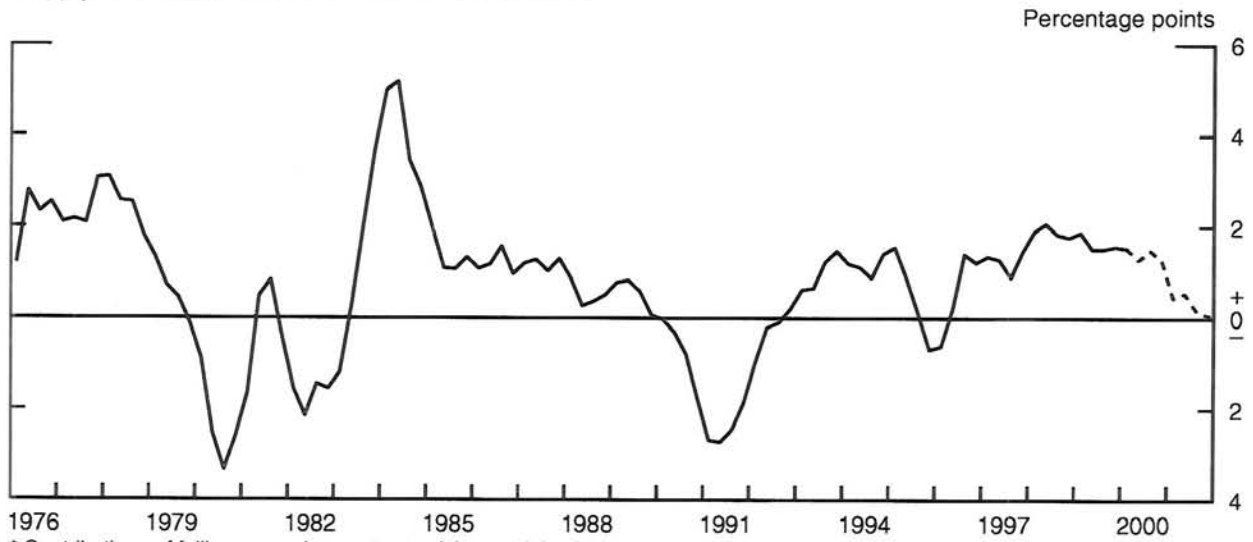
Prices Paid  
NAPM

### Items in Short Supply

- 1988–89:** Aluminum, nickel, hot and cold rolled steel sheet, stainless steel, steel plate, magnesium, printing paper, bleached paperboard, nylon fabric, caustic soda and soda ash, polyethylene, plastic resins, acrylic acid, ethylene oxide, ethylene glycol, ethylene, ethylene derivatives, phenol, methanol, methyl ethyl ketone, methylene diisocyanate, titanium dioxide, bearings, castings, DRAMS.
- 1995:** Timber, wood pulp, paper and paper products, plastic films, carbon black, industrial chemicals, titanium dioxide, plastic products, tires, fiberglass, glass, iron castings, stainless steel, molybdenum, bearings, hydraulic equipment, crystals, DRAMS, SRAMS, electric motors, magnets, silicon wafers, integrated circuits.
- May 2000:** Capacitors, capacitors – tantalum, electronics, memory, wood pulp.

# Aggregate Supply-Demand Influences and Inflation

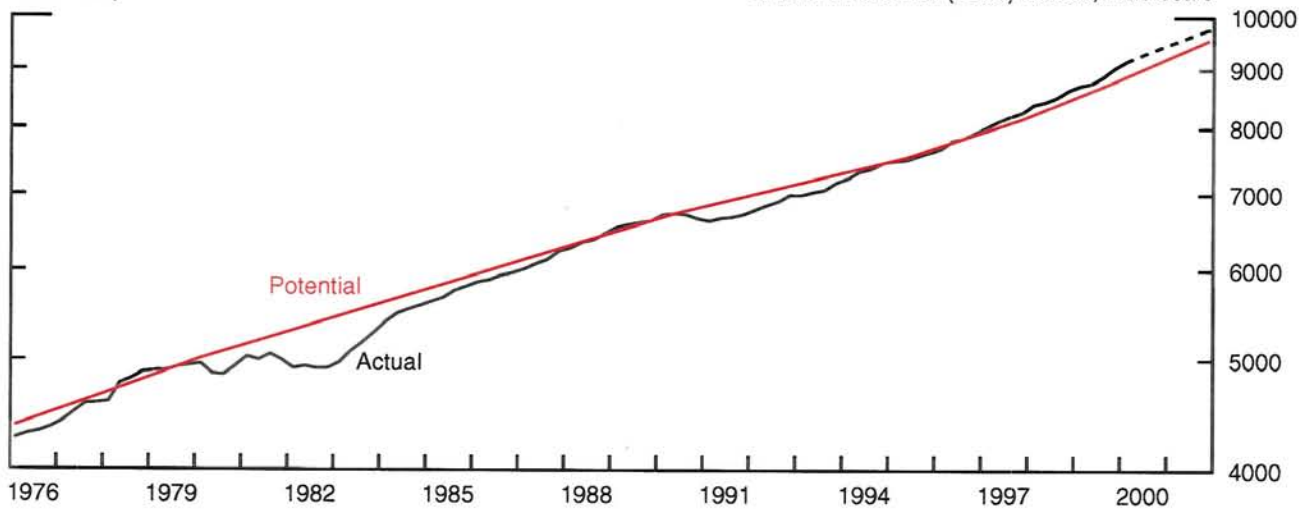
Supply-Side Sources of Domestic Demand Growth\*



\* Contributions of falling unemployment rate, rising participation rate, and widening trade deficit to four-quarter growth of domestic demand.

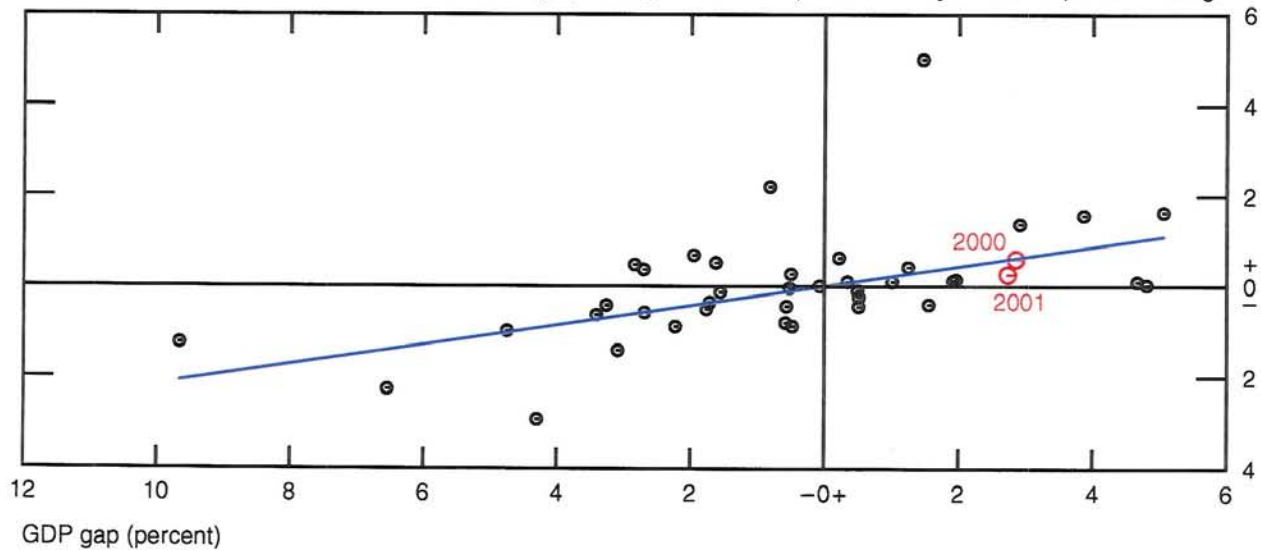
GDP Gap

Billions of chained (1996) dollars, ratio scale



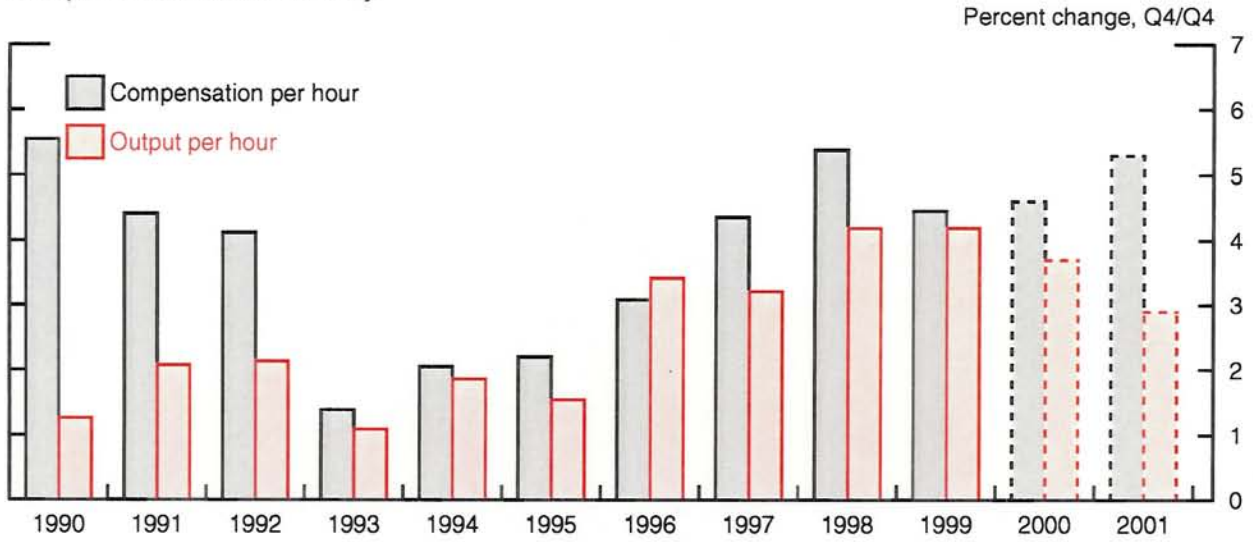
Price Acceleration vs GDP Gap

Percent change (Q4/Q4) in core PCE prices minus year earlier percent change

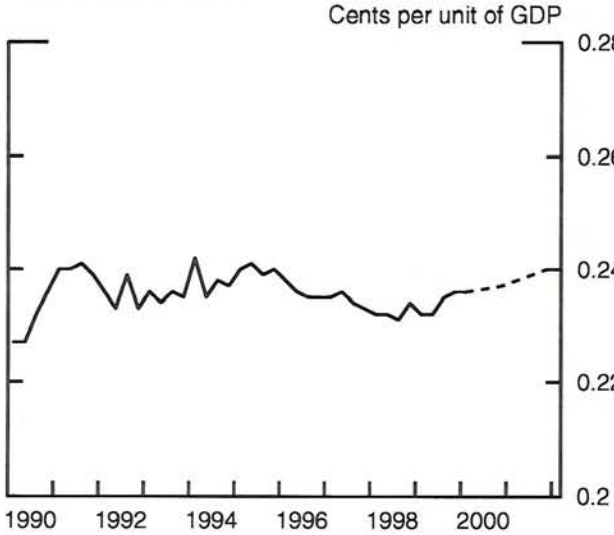


# Unit Cost Approach Nonfinancial Corporations

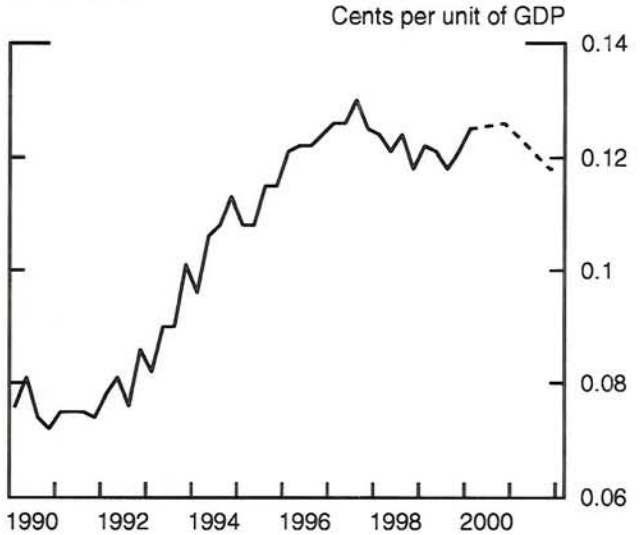
## Compensation and Productivity



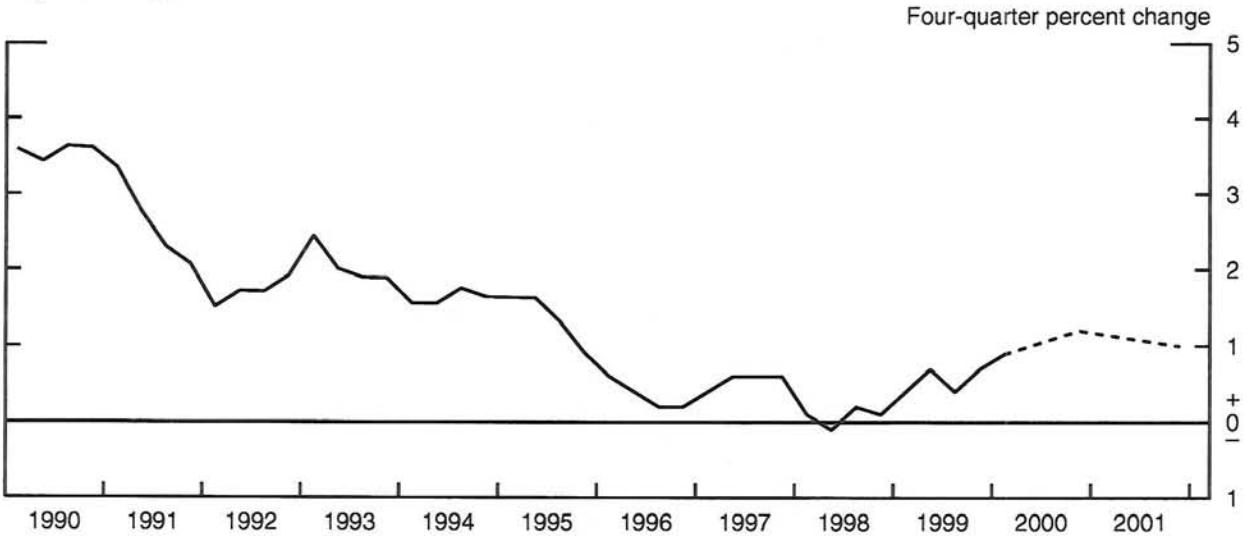
## Unit Nonlabor Costs



## Unit Profits

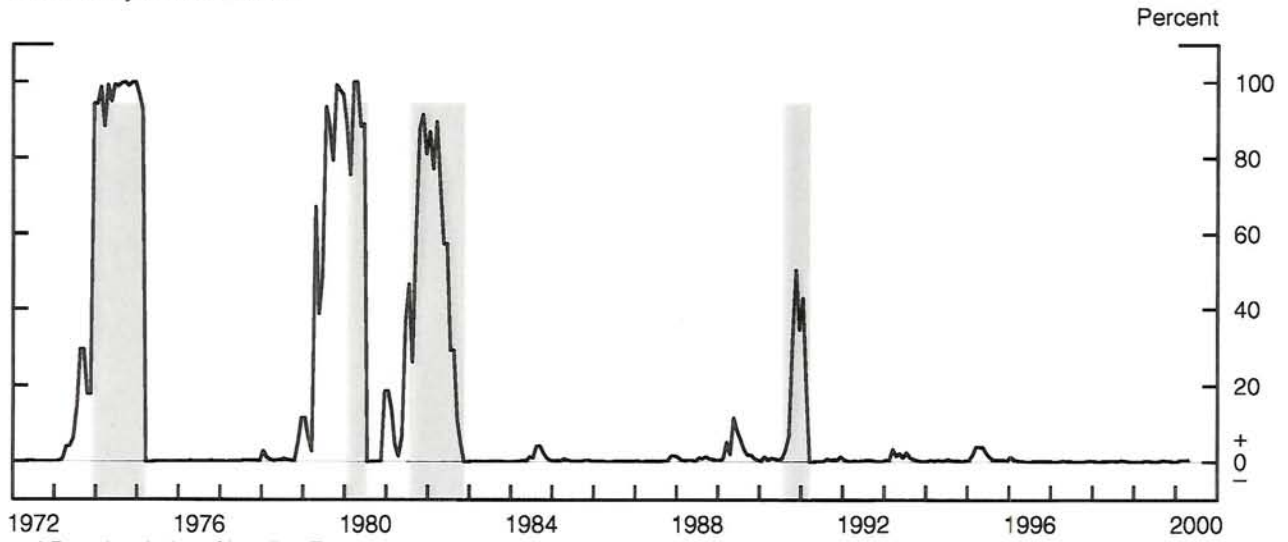


## Implicit Deflator



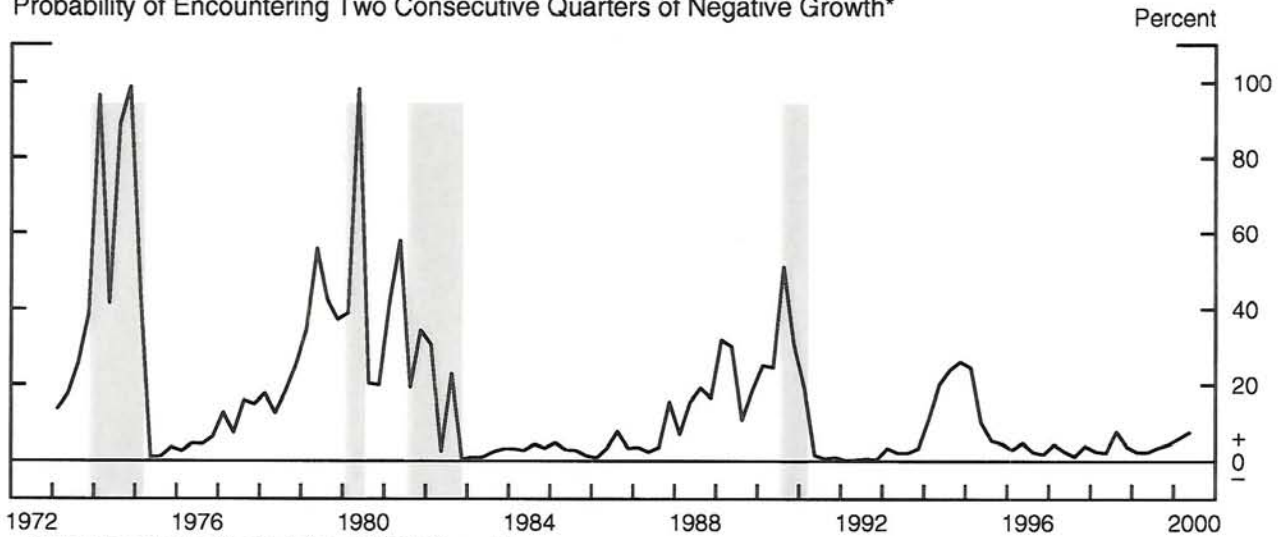
# A Hard Landing?

Probability of Recession\*



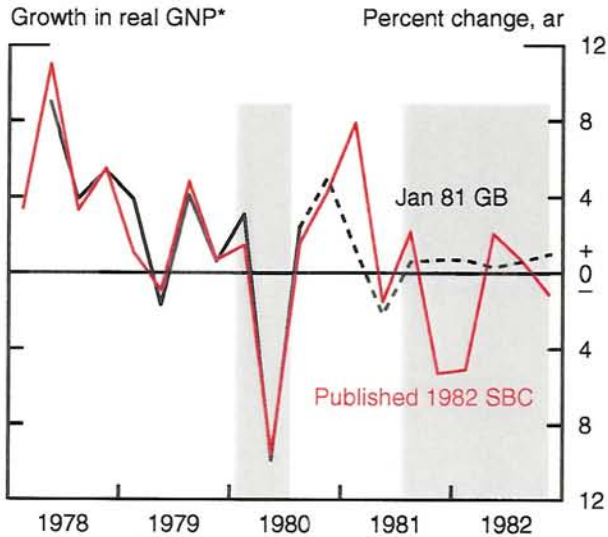
\* Based on Index of Leading Economic Indicators.

Probability of Encountering Two Consecutive Quarters of Negative Growth\*



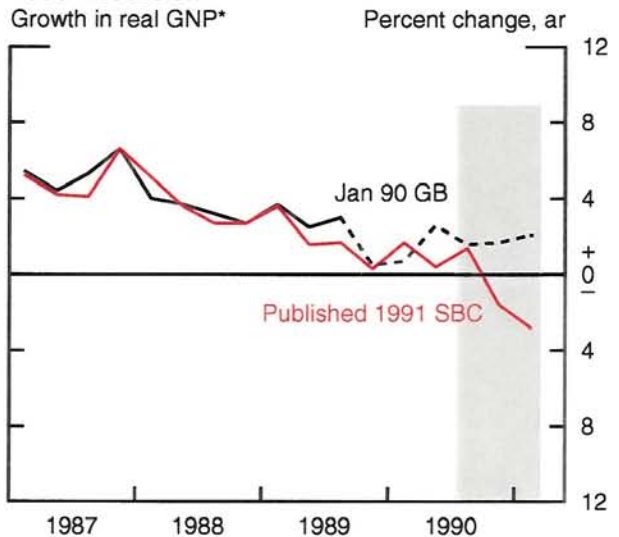
\* Based on stochastic simulation of FRB/US model.

1981-82 Recession



\* Measured in constant (1972) dollars.

1990 Recession



\* Measured in constant (1982) dollars.

**ECONOMIC PROJECTIONS FOR 2000**

	<b>FOMC</b>		
	Range	Central Tendency	Staff
	-----Percentage change, Q4 to Q4-----		
Nominal GDP February 2000 H-H	6 to 7¼ (5 to 6)	6¼ to 6¾ (5¼ to 5½)	6.7
Real GDP February 2000 H-H	3¾ to 5 (3¼ to 4¼)	4 to 4½ (3½ to 3¾)	4.3
PCE Prices February 2000 H-H	2 to 2¾ (1½ to 2½)	2½ to 2¾ (1¾ to 2)	2.6
	-----Average level, Q4, percent-----		
Unemployment rate February 2000 H-H	4 to 4¼ (4 to 4¼)	About 4 (4 to 4¼)	3.9

**ECONOMIC PROJECTIONS FOR 2001**

	<b>FOMC</b>		
	Range	Central Tendency	Staff
	-----Percentage change, Q4 to Q4-----		
Nominal GDP	5 to 6¼	5½ to 6	5.5
Real GDP	2½ to 4	3¼ to 3¾	3.5
PCE Prices	1¾ to 3	2 to 2½	2.0
	-----Average level, Q4, percent-----		
Unemployment rate	4 to 4½	4 to 4¼	4.1

Central tendencies calculated by dropping high and low three from ranges.