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Confidential (FR) Class II FOMC

Part 1

December 13, 2000

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

We have made a substantial downward revision to our projection of economic activity in the near term, with real GDP now forecast to increase at an annual rate of only about 2-1/2 percent in the current quarter and 2-1/4 percent in the first quarter of next year. Many of the major statistical reports of the intermeeting period have been on the weak side of our earlier expectations--although not dramatically so. Other, more timely indicators have had a more negative tone: Initial claims for unemployment insurance moved up in the middle of November, automakers cut near-term assembly schedules, and consumer confidence dropped sharply in early December. Moreover, since the November Greenbook, broad measures of equity prices have fallen further in reaction to the growing number of companies--particularly in the high-tech sector--warning that, because of softer demand for their products, earnings will fall short of expectations.

In putting together our forecast, we have interpreted these developments as reflecting the inevitable strains that surface when the economy downshifts from an extended period of rapid growth to a more moderate pace of expansion. But those strains now appear to be greater and more widespread than we had previously thought. As a result, our projection of economic activity is considerably weaker than in the November Greenbook, and we have eliminated the assumed monetary tightening in 2002 that was included in the last forecast.

After the period of very sluggish economic growth, our forecast is for activity to pick up in the spring of 2001. If our assessment of underlying sales trends is correct, inventory problems outside the motor vehicle industry should be relatively short-lived, and high-tech investment is expected to regain some momentum once the current shakeout is past. The projected depreciation of the dollar provides stimulus to export growth over the coming two years, and consumer spending should get a boost from the easing of energy prices and from a tax cut in 2002. Thus, after having increased at an annual rate of less than 2-1/2 percent in the second half of 2000, real GDP is projected to grow about 3 percent in 2001 and nearly 4 percent in 2002. With actual growth falling well short of its potential rate over the next two years, the unemployment rate moves up to 5 percent in 2002. Core PCE inflation edges up to 2 percent in 2001 and remains at about that pace in 2002.

More than the usual uncertainty attends this outlook, and we cannot rule out the possibility that the emerging signs of weakness are just the first indicators of a cyclical turning point. To address this concern, we have included an alternative simulation at the end of this section that depicts a much weaker economy than in the baseline forecast; a second alternative incorporates a monetary policy response to such a "harder landing." We also evaluate the consequences of a monetary policy easing in reaction to a weakening in economic activity that ultimately proves to be transitory.

Key Background Factors

Financial markets have continued to function reasonably well, but market participants remain averse to financing riskier business ventures, reflecting concerns about profit growth and debt exposures in a slowing economy. Yields on speculative-grade corporate bonds have risen roughly 1/2 percentage point, on net, since the November Greenbook, and issuance of such bonds has all but dried up. In contrast, yields for investment-grade borrowers have moved down in recent weeks, supporting a substantial volume of issuance. Equity prices have fallen further, on net, since the November Greenbook, and with market conditions still volatile, the pace of initial public offerings has been very light.[1] We anticipate that credit supply will remain fairly tight for all but the strongest borrowers. With corporate earnings likely to remain lackluster and with the monetary easing that has been built into the markets failing to materialize, equity prices are projected to move sideways at the lower end of the trading range of the past couple of months; this path for equity prices would be about 8 percent below the level assumed in the November Greenbook.

Meanwhile, we assume that fiscal policy will continue to move in an expansionary direction over the coming two years. Real discretionary spending rose about 3 percent per year, on average, in fiscal years 1999 and 2000 after having trended down over the preceding several years, and a similar increase is likely for fiscal 2001. Looking beyond the current fiscal year, the burgeoning surpluses make further surplus-reducing actions very likely--especially if, as has been widely predicted, the Congressional Budget Office revises up its budget projections in January. However, the timing and composition of such actions are extremely difficult to predict, particularly in view of the current political uncertainties. That said, we have retained our assumptions that discretionary spending will continue to grow moderately in real terms in fiscal 2002 and that a package of mandatory spending increases and tax cuts will be enacted that will reduce the 2002 surplus by $50 billion.

Policy assumptions aside, the budget projections have been adjusted to reflect the lower nominal incomes we are now forecasting. But with the incoming data on individual income taxes continuing to exceed our expectations, we have made an upward revision to effective tax rates that partially offsets the effects of the less favorable economic assumptions. As a result, our current budget projections are only slightly lower than those in the November Greenbook, with the total unified surplus now projected to reach $274 billion in fiscal 2001 and

1. Although the Wilshire 5000 stock index has fallen 5-1/2 percent since the close of the November Greenbook, this index is down only about 1 percent since the November FOMC meeting. To assess the changes in financial conditions that influenced our current forecast, the larger decline in equity prices since the previous Greenbook is the relevant change.

$320 billion in fiscal 2002. The projected on-budget surpluses are $112 billion and $137 billion, respectively.

The outlook for foreign economic activity is less positive than in the November Greenbook. Foreign GDP growth in the second half of this year is falling short of our expectations, and we now project an increase of only a bit more than 3-1/2 percent per year in 2001 and 2002. The dollar has been essentially unchanged, on balance, against the currencies of a broad group of our trading partners over the intermeeting period; it is projected to decline moderately in real terms over 2001 and 2002.

The spot price of West Texas intermediate crude oil has fluctuated considerably over the past five weeks, but it fell below $30 per barrel in early December as the dispute between Iraq and the United Nations moved closer to resolution and statements from some major oil-producing nations helped to ease concerns about tight supplies. Consistent with the current quotes in futures markets, we expect oil prices to recede over the next two years. The price of WTI is expected to fall to about $25.50 per barrel in the fourth quarter of 2001, about $1 per barrel lower than we had anticipated last month. The projection for WTI in the fourth quarter of 2002 remains about $23.50 per barrel.

Recent Developments and the Near-term Outlook
We now project that real GDP is increasing at an annual rate of about 2-1/2 percent this quarter, a percentage point below the forecast in the November Greenbook and similar to our current estimate for growth in the third quarter. Our projection is weaker than a literal reading of the labor market results for October and November would suggest, but it seems balanced in light of the other indicators of spending and production. Because the forces damping growth in the current quarter are likely to extend into early 2001, we have cut our forecast of the increase in real GDP in the first quarter to 2-1/4 percent.

One major negative for economic activity in the near term is a sharp contraction in motor vehicle production as the automakers begin to address more forcefully their softening sales and bloated inventories. We now expect assemblies to total only 11-3/4 million units (annual rate) this quarter; this is about 1 million units lower than in the third quarter and knocks a full percentage point from real GDP growth. With stocks (especially of light trucks) almost certain to still be excessive at year-end, we are anticipating a further reduction in assemblies to trim about 1/2 percentage point from real GDP growth in the first quarter.

Outside motor vehicles, we have built in a downshift in the pace of nonfarm inventory investment that cuts about 1/2 percentage point from real GDP growth this quarter. With signs of inventory overhangs having emerged in a number of industries--most notably metals, lumber, and several nondurable manufacturing

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

Measure	2000:Q4		2001:Q1	
	Nov. GB	Dec. GB	Nov. GB	Dec. GB
Real GDP	**3.5**	**2.4**	**3.6**	**2.2**
Private domestic final purchases	3.9	3.2	4.1	3.0
Personal consumption expenditures	3.6	2.9	3.6	2.9
Residential investment	-5.3	-4.8	-5.0	-5.1
Business fixed investment	8.7	7.5	9.1	5.7
Government outlays for consumption and investment	3.9	2.5	3.4	3.7
	Contribution to growth, percentage points			
Inventory investment	-.6	-.7	.4	-.5
Net exports	.1	-.1	-.8	-.5

industries--businesses seem to be adjusting production relatively promptly to work off any undesired stocks. Indeed, manufacturing output excluding motor vehicles is anticipated to fall in November and December and to remain about flat early next year. Overall factory output is expected to post a small decline in the current quarter and to fall further in the first quarter.

Even apart from the drop in purchases of motor vehicles, consumer spending is projected to rise relatively slowly in the near term. On the plus side, outlays for services are likely to post another sizable increase this quarter. But spending for non-auto goods appears to be rising only moderately, and, all in all, we now expect consumer spending to rise at an annual rate of about 3 percent this quarter and to stay at this pace in early 2001.

In contrast, housing activity has remained firm in recent months, albeit below the spectacular pace of earlier this year. Buoyed by lower mortgage interest rates, single-family starts were 1.23 million units (annual rate) in October, about the same as in the third quarter. We expect starts in November and December to be held down a bit by the effects of adverse weather. Real residential investment, as estimated by the BEA, is likely to continue to fall through early next year, reflecting the lagged effects of the earlier declines in starts.

Real investment in equipment and software is now expected to rise at an annual rate of only about 7 percent this quarter. This would be the second quarter of subpar E&S growth--at least by the standards of recent years--after the enormous increases over the first half of the year. To be sure, the orders and shipments data through October suggest that real spending for computer equipment will register another large gain this quarter, and spending on industrial and other "traditional" equipment seems to be firming after a flat third quarter. But business purchases of motor vehicles are contracting sharply, and outlays for communications equipment appear to have regained only a little steam after a sluggish third quarter. We expect growth in E&S outlays to remain slow in the first quarter, in part because of reports that demand for computers has slackened.

Meanwhile, outlays for nonresidential construction have picked up appreciably in recent quarters. And with the October level of construction-put-in-place nearly 4 percent above the third-quarter average, another sizable increase is likely in the current quarter.

In the government sector, real federal expenditures on consumption and gross investment will probably be up only slightly this quarter, after having dropped sharply in the third quarter. Nondefense purchases are expected to rise at about their trend rate after the Census-related swings of the preceding two quarters, while defense spending should be about flat. Meanwhile, state and local expenditures are projected to advance moderately: The average level of employment in October and November was only a little higher than in the third quarter, but construction spending is expected to post a solid gain after several quarters of weather-related swings.

Real net exports are expected to be a roughly neutral influence on real GDP growth this quarter, after having been a sizable negative over the first three quarters of the year. Data beyond September are sparse, but growth in both exports and imports is projected to drop back after the large increases in the third quarter.

On the whole, the incoming data on prices have been in line with our projection that both the chain price index for total personal consumption expenditures and the PCE measure that excludes food and energy will increase at an annual rate of about 2-1/4 percent this quarter. On the wage front, average hourly earnings rose 0.4 percent in November for a second month and are expected to rise at an annual rate of 4-1/4 percent this quarter, a bit above the pace of earlier this year.

The Longer-term Outlook for the Economy

As indicated in the overview, we think that much of the current softness in economic activity--the drop in motor vehicle production and the high-tech slowdown--will prove to be transitory. Once these developments play out, and with moderate stimulus from fiscal policy and a lower dollar, real GDP growth picks up noticeably--to an annual rate of about 3-1/4 percent over the last three

Projections of Real GDP
(Percent change, Q4 to Q4, except as noted)

Measure	2000 H1	2000 H2	2001	2002
Real GDP	**5.2**	**2.3**	**3.1**	**3.9**
Previous	5.2	3.1	3.7	4.0
Final sales	5.3	2.8	3.2	3.9
Previous	5.3	3.6	3.8	4.0
PCE	5.3	3.7	3.0	3.0
Previous	5.3	4.0	3.4	3.2
Residential investment	2.2	-7.7	-.4	-.4
Previous	2.2	-7.5	-1.6	-2.8
BFI	17.7	7.4	7.1	9.6
Previous	17.7	8.1	10.1	10.1
Government purchases	1.8	.6	3.6	3.4
Previous	1.8	.9	3.7	3.6
Exports	10.2	11.9	6.8	10.3
Previous	10.2	13.2	7.3	10.6
Imports	15.2	12.0	7.6	8.3
Previous	15.2	10.1	8.9	8.9
	Contribution to growth, percentage points			
Inventory change	.0	-.4	-.2	.0
Previous	.0	-.5	-.1	.1
Net exports	-1.0	-.4	-.4	-.1
Previous	-1.0	-.0	-.5	-.1

quarters of 2001 and to nearly 4 percent in 2002. Even so, the projected level of activity throughout the projection period is well below that in the November Greenbook.

Household spending. Much of the downward revision to the longer-run projection is in consumer spending, which is expected to increase only 3 percent in each of the next two years as the effects of the lower stock market feed through. Real disposable income should be well-maintained over the projection period, bolstered by some easing of energy prices and our assumed tax cut in 2002. But with the outlook for structural productivity a little less rosy than we had thought in November, we have adjusted down a bit our estimate of the longer-run income prospects that households will be facing. Reflecting the downward revisions to wealth and permanent income, we expect the saving rate to move up about 2 percentage points on an annual-average basis between 2000 and 2002.

Demand for consumer durables is expected to be especially hard hit by the weaker fundamentals. In particular, light vehicle sales are now expected to total less than 16 million units in both 2001 and 2002, about 1-1/2 million units below this year's record pace. We have also trimmed the projection for spending on electronic equipment, consistent with the cooling of household demand recently reported by some PC makers.

The downward revisions to wealth and permanent income should also be a depressing influence on housing activity. But with mortgage rates running noticeably lower than we had anticipated and expected to rise only modestly over the next two years, we continue to anticipate a basically flat path for homebuilding. Single-family starts are expected to remain at an annual rate of around 1-1/4 million units through 2002, while multifamily starts also are projected to be little changed.

Business investment. We have lowered the projection for growth in real business fixed investment in 2001 to 7 percent, 3 percentage points less than in the November Greenbook. Much of the revision is in the high-tech sector, where an appreciable adjustment seems to be under way. But, more generally, we have responded to the lower output path and to signs that financing difficulties may be more widespread than we had thought earlier. By 2002, high-tech investment rebounds, and real BFI growth picks up to 9-1/2 percent, only a little below our previous projection.

Real outlays for equipment and software are projected to increase about 7 percent in 2001--only a little more than half the pace of the past five years--before moving back up to about 11 percent in 2002. We think that 2001 will be a year of relatively slow growth for communications equipment, where concerns about excess capacity have intensified and stock prices have crumbled. There appears to be a similar sag in the demand for computer-related equipment and software, although an anticipated resumption of more-pronounced declines in computer prices should help shore up spending. Over the longer run, we see no lessening in the pace of technological advances--or in the economic incentives to take advantage of them--and as we move into 2002, high-tech investment should once again be moving up at a rapid clip. Outlays for other, more "traditional" equipment are expected to continue to rise over the next two years, but gains probably will be modest in view of the relatively weak outlook for the manufacturing sector. As for transportation equipment, business purchases of motor vehicles are projected to be little changed, on balance, over 2001 and 2002, after having fallen sharply this year, while purchases of aircraft trend down.

The nonresidential construction sector seems to be in good shape overall, and spending is expected to rise further over the next two years. Vacancy rates are quite low, and increases in rents and property values have been sizable in recent quarters. Funding for projects generally remains available, although lenders seem to be getting a little more cautious about riskier borrowers.

As noted, we expect inventory investment to adjust relatively rapidly to the slower pace of sales growth. The inventory-sales ratio is expected to be little changed over the next few quarters, but with businesses remaining focused on tight inventory control, it subsequently resumes its downward tilt.

Government spending. With no change in our fiscal policy assumptions, the projection of federal expenditures for consumption and investment is about the same as that in the November Greenbook. Real federal purchases are expected to rise about 2-3/4 percent, on average, over the next two years, with moderate real increases in both the defense and the nondefense components.

Most states and localities continue to be in good fiscal shape, and revenues over the next two years should be sufficient both to fund robust increases in spending and to continue the series of tax reductions evident over the past several years. We have trimmed a bit from the projection for real purchases to reflect the weaker economy, but they still are expected to rise nearly 4 percent per year over 2001 and 2002.

Net exports. We expect the demand for U.S. exports, after some weakness early next year, to return to more 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. At the same time, increases in real imports are expected to slow markedly, largely reflecting the deceleration of domestic demand. As a result, the arithmetic negative contribution to real GDP growth from the external sector is expected to shrink from about 3/4 percentage point in 2000 to less than 1/2 percentage point in 2001 and to approach zero in 2002. (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 3.4 percent this year, followed by increases of 3.3 percent in 2001 and

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

Measure	1998	1999	2000	2001	2002
Structural labor productivity	**2.9**	**3.2**	**3.4**	**3.3**	**3.2**
Previous	2.9	3.2	3.4	3.5	3.5
Contributions[1]					
Capital deepening	1.3	1.5	1.6	1.5	1.4
Previous	1.3	1.5	1.6	1.7	1.7
Multifactor productivity	1.3	1.4	1.5	1.5	1.5
Previous	1.3	1.4	1.5	1.5	1.5
Labor quality	.3	.3	.3	.3	.3

1. Percentage points.

3.2 percent in 2002. Accordingly, potential GDP is now expected to rise 4.5 percent in 2000, 4.4 percent in 2001, and 4.3 percent in 2002.

Productivity and the labor market. Reflecting the sharp deceleration of output growth below trend, actual productivity growth is projected to drop to 2 percent at an annual rate in the current quarter and a bit less in the first quarter of next year. Productivity growth improves steadily thereafter as output regains strength and, by 2002, is back to 3-1/4 percent, essentially its trend rate. We anticipate that firms will adjust their workweeks and hiring promptly in response to the slowing in output growth. Thus the change in private payrolls is projected to drop to 80,000 per month, on average, in 2001, roughly half this year's pace; hiring is expected to pick up a bit in 2002--to 110,000 per month. As in the November Greenbook, the unemployment rate is expected to average 4 percent in the current quarter, but it moves up to 4-1/4 percent in the first quarter of 2001 and reaches 5 percent by the end of 2002.

Wages and prices. We have trimmed a bit from our wage and price projections and now anticipate only minimal acceleration in underlying inflation over the next two years. The revision mainly reflects the lower levels of resource utilization in our current forecast. In addition, we have deferred the first stage of our assumed increase in the minimum wage from January 2001 to January 2002. All else being equal, the change in the minimum wage assumption lowers the projected increase in ECI hourly compensation in 2001 by 0.2 percentage

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

Measure	1999	2000	2001	2002
Output per hour, nonfarm business	4.1	3.4	2.5	3.2
Previous	4.1	3.4	2.9	3.4
Nonfarm payroll employment	2.2	1.6	.9	1.2
Previous	2.2	1.7	1.2	1.3
Household employment survey	1.5	1.0	.5	.8
Previous	1.5	1.1	.8	.8
Labor force participation rate[1]	67.0	67.0	67.1	67.0
Previous	67.0	67.1	67.1	67.1
Civilian unemployment rate[1]	4.1	4.0	4.7	5.0
Previous	4.1	4.0	4.4	4.6

1. Percent, average for the fourth quarter.

point.[2] The shift in this assumption does not necessitate a revision to the projection for 2002 because we had previously built in a minimum wage hike in January of that year.

We expect the ECI to increase 4.6 percent in each of the next two years, a tenth less than we estimate for this year. Workers' efforts to garner the benefits of structural productivity gains will persist, and employers' health insurance costs likely will continue to rise rapidly. But the moderation in consumer price inflation after this year should ease pressure on nominal wages, and labor market tightness should be gradually eliminated.

On the price side of the ledger, we have made only minor changes to our projection of retail energy prices, which are still expected to decline moderately over 2001 and 2002 as crude oil prices recede. Increases in food prices are expected to run at roughly the rate of core inflation over the next two years.

The increase in the PCE chain price index excluding food and energy is expected to edge up from 1-3/4 percent this year to 2 percent in 2001 and to remain there in 2002. We continue to expect that a firming of prices of core non-oil imports will add a bit to domestic prices over the next two years, but this

2. We now assume that the minimum wage will be increased from $5.15 per hour to $5.65 per hour in January 2002; in the November Greenbook, we assumed that it would be increased to $5.65 in January 2001 and to $6.15 per hour in January 2002. Under the revised assumption, the minimum wage has no effect on ECI hourly compensation in 2001 and adds 0.2 percentage point to the increase in the ECI in 2002.

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

Measure	1999	2000	2001	2002
PCE chain-weighted price index	2.0	2.5	1.7	1.9
Previous	2.0	2.5	1.9	2.1
Excluding food and energy	1.5	1.8	2.0	2.0
Previous	1.5	1.8	2.1	2.2
Consumer price index	2.6	3.4	2.1	2.2
Previous	2.6	3.4	2.2	2.4
Food	1.9	2.6	2.6	2.6
Previous	1.9	2.5	2.7	2.7
Energy	11.2	14.9	-4.2	-2.9
Previous	11.2	14.7	-3.5	-2.4
Excluding food and energy	2.1	2.6	2.6	2.6
Previous	2.1	2.6	2.7	2.8
GDP chain-weighted price index	1.6	2.5	1.9	1.8
Previous	1.6	2.5	1.9	1.9
ECI for compensation of private industry workers[1]	3.4	4.7	4.6	4.6
Previous	3.4	4.7	4.8	4.8
NFB compensation per hour	4.8	5.4	5.5	5.5
Previous	4.8	5.4	5.7	5.7
Prices of core non-oil merchandise imports	.4	1.2	2.4	2.8
Previous	.4	1.4	2.5	2.9

1. December to December.

upward pressure is likely to be offset by the waning of indirect effects of this year's higher energy costs. Increases in the core CPI are expected to hold steady at 2.6 percent per year between 2000 and 2002.

In all, we now expect total PCE prices to rise a bit less than 2 percent in 2001 and 2002 after having risen 2-1/2 percent in 2000. The total CPI is projected to increase a bit more than 2 percent per year over this period after having risen 3-1/2 percent in 2002.

Financial Flows and Conditions
Debt of the domestic nonfinancial sector appears to be expanding at an annual rate of 4 percent in the current quarter, a shade below the third-quarter pace.

Nonfederal borrowers, whose use of credit slowed notably in the third quarter from the rapid first-half pace, appear to be maintaining a more moderate pace of debt growth, and the federal government has continued its sizable paydown. Nonfederal debt is expected to grow a little less than 7 percent in each of the next two years, down about 1-1/2 percentage points from the current year. Business debt growth is anticipated to remain well below the exuberant pace of the past few years, as borrowers and lenders pull back a bit in response to less favorable earnings prospects and deteriorating corporate credit quality. Household debt growth also slows markedly over the forecast period.

After having dropped in the third quarter, business borrowing appears to have picked up a bit in the fourth quarter and is expected to edge higher in 2001 and 2002. With investment outpacing internal funds over the forecast period, firms will continue to need a substantial volume of external funds to finance their spending. Some firms will also turn to the equity markets, but net equity issuance overall is expected to remain negative as merger activity will continue to result in sizable equity retirements. Rising interest expense burdens are expected to lead to some further deterioration in the quality of corporate balance sheets. Financing costs have already increased appreciably for the riskiest borrowers, as yields on speculative-grade bonds have climbed and commercial banks have become more restrictive lenders. Lower-rated firms are already feeling a pinch from these actions, and looking ahead, we anticipate that credit conditions will remain fairly tight.

In the household sector, consumer debt growth drops considerably as demand for consumer durable goods increases more slowly than it has in recent years, while mortgage debt growth moderates slightly. Nonetheless, household debt is expected to continue to rise faster than disposable income in 2001, boosting debt service burdens still higher. An anticipated pickup in delinquency and default rates should lead to some further caution on the part of lenders and more moderate debt growth in 2002.

Debt of the state and local government sector is expected to maintain its recent sluggish pace. We anticipate that these governments will continue to issue a considerable amount of debt to fund new capital projects, primarily in education and transportation. However, offerings to advance-refund existing debt are anticipated to remain weak unless interest rates fall well below recent levels. Moreover, debt growth will be held down by the large amount of previously refunded debt that is scheduled to be retired over the next two years.

M2 growth slowed substantially in October and November, following its brisk expansion early in the fall, bringing growth in the aggregate for the year to just under 6 percent. M2 growth is expected to slow in 2001 and move back up in 2002, reflecting the contour of nominal GDP growth.

Alternative Simulations
The staff forecast interprets the signs of slowing growth of real activity as being consistent with a relatively soft landing. Nonetheless, considerable uncertainty surrounds this view, and we cannot rule out a more severe slackening in the pace of activity. A set of three simulations using the staff FRB/US macroeconomic model explores some of the uncertainties in the current situation. The first simulation lays out the implications of a more pronounced and sustained weakening of aggregate spending under the assumption that the federal funds rate holds at the Greenbook path. Such a deterioration of economic conditions would very likely elicit a monetary policy easing, which the second simulation introduces in the form of an aggressive sequence of cuts in the funds rate. In the third simulation, we assume that the factors restraining aggregate demand prove to be more transitory than initially believed; thus, after the fact, the policy easing turns out to have been excessive.

Harder landing. In the staff forecast, real GDP growth is expected to continue this quarter and next near the slow 2-1/4 percent rate estimated for the third quarter, and then to pick up to a 3-1/4 percent pace over the remainder of 2001. The "harder landing" scenario foresees real growth of only 1-1/4 percent this quarter and next, on average, and just 2 percent for 2001 as a whole. In this scenario, the stock market is assumed to decline an additional 20 percent in the first quarter of next year relative to the staff forecast, perhaps because investors are disappointed by the outcome for corporate profits or because the equity premium moves back up toward historical norms. Firms scale back capital spending and inventory investment, and households restrain consumption beyond that predicted by the weaker equity values. Such effects could reflect a general loss of household and business confidence, causing spending to respond in the more abrupt and nonlinear fashion that often occurs in cyclical episodes.

Under the assumption that the nominal federal funds rate follows the Greenbook baseline path, real GDP growth is a bit more than 1 percentage point, on average, below the staff's baseline projection. Consistent with the slow pace of activity, resource utilization declines rapidly--the unemployment rate reaches 5 percent by the end of next year and nearly 6 percent by the end of 2002--and core prices decelerate.

Aggressive policy response. In this simulation, the amount of easing is chosen so that the unemployment rate nearly returns to its path in the Greenbook baseline by the end of 2001. A projection for the nominal federal funds rate that achieves this outcome is one in which this rate falls 200 basis points by the middle of next year. About 125 basis points of the 200-basis-point reduction in the funds rate must be reversed by the first quarter of 2002, and the funds rate then remains 75 basis points below baseline through the end of 2002. Market expectations are assumed to respond relatively quickly to the policy easing. Thus, by the middle of 2001, long-term bond yields have fallen approximately

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

Measure	2000 H1	2000 H2	2001 H1	2001 H2	2002 H1	2002 H2
Real GDP						
Baseline	**5.2**	**2.3**	**2.7**	**3.5**	**3.8**	**4.0**
Harder landing	5.2	1.9	1.3	2.5	2.7	3.0
Aggressive policy response	5.2	1.9	1.9	4.1	4.4	4.4
Transitory slowdown	5.2	1.9	2.2	5.8	5.3	4.7
Civilian unemployment rate[1]						
Baseline	**4.0**	**4.0**	**4.4**	**4.7**	**4.9**	**5.0**
Harder landing	4.0	4.0	4.6	5.1	5.5	5.9
Aggressive policy response	4.0	4.0	4.5	4.8	4.9	5.0
Transitory slowdown	4.0	4.0	4.5	4.5	4.4	4.3
PCE prices excluding food and energy						
Baseline	**1.8**	**1.8**	**2.0**	**2.0**	**2.0**	**2.0**
Harder landing	1.8	1.8	2.0	2.0	1.9	1.7
Aggressive policy response	1.8	1.8	2.1	2.3	2.4	2.2
Transitory slowdown	1.8	1.8	2.1	2.3	2.4	2.4

1. Average for the final quarter of the half-year period.

100 basis points below the Greenbook path; other asset prices adjust accordingly.

This response of the funds rate offsets most of the effects on real GDP and the unemployment rate of the shocks to the stock market and to aggregate spending. However, core inflation rises and stands at 2-1/4 percent in the second half of 2002, about 1/4 percentage point above the Greenbook baseline; the lower level of domestic interest rates leads to a depreciation of the dollar that is larger than anticipated in the Greenbook forecast. Without a corresponding shock to foreign activity, there is no comparable policy easing abroad, and thus an interest rate differential opens that favors foreign assets.

Transitory slowdown. Although the front-loaded interest rate reductions succeed in neutralizing the effects of the financial market and spending shocks on aggregate demand, they do run the risk of boosting inflation. One mechanism through which this might occur--a fall in the exchange rate--is evident in the preceding simulation. Another is that the shocks to financial markets and spending prove to be short-lived, with the result that the lagged effects of the policy easing end up excessively stimulating the economy.

Such an outcome is illustrated in the "transitory slowdown" scenario. Specifically, the shocks to the stock market and spending, rather than being sustained, are assumed to fade quickly after the first quarter of next year. Given the usual lags in the receipt and interpretation of economic data, policy follows the same 200-basis-point easing over the first half of 2001 and then fully reverses course, with the funds rate rising 200 basis points and returning to the Greenbook baseline by the end of 2002. The stimulus from the initial policy easing pushes real growth above potential in the second half of 2001 and through 2002. As a consequence, the unemployment rate peaks at 4-1/2 percent and then falls to 4-1/4 percent by the end of 2002. With the unemployment rate below the staff's estimate of the NAIRU, core price inflation is on a rising trend that reaches 2-1/2 percent in 2002 and would be headed higher beyond the forecast horizon.

These scenarios are admittedly artificial. But they do illustrate a number of plausible outcomes, given the uncertainty in the current situation. For one, a relatively aggressive easing of monetary policy could head off the effects on real activity of even a fairly sizable shock to aggregate spending. However, because that easing would likely be accompanied by some depreciation of the dollar, inflation could be somewhat higher for a time at a given level of resource utilization. Moreover, if policy were eased and the slowdown in demand turned out to be transitory, the inflation consequences of the lower dollar would be compounded by tighter resource utilization.

Additional scenarios. Beside the special simulations, we have also provided five of our standard alternative scenarios. The first two update the supply-side alternatives presented in recent Greenbooks.[3] The "lower structural productivity" simulation assumes that trend productivity has increased at a constant 3 percent pace since 1998 and extends that lower rate for productivity growth through 2002. The "lower NAIRU" scenario assumes that the NAIRU has been 4 percent for several years and will remain at that level over the forecast period.

The last three scenarios are based on alternative financial assumptions. In the "looser policy" simulation, the nominal federal funds rate is reduced 100 basis points by late next spring and remains at that level through the end of 2002. The "stock market correction" simulation embodies a 20 percent decline in stock

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3. The supply-side alternative scenarios are described in the September Greenbook.

prices in the first quarter of 2001, with no change thereafter. In the "continued stock market gains" simulation, the Wilshire 5000 index rises in line with nominal GDP over the next two years.

Alternative Simulations:
Productivity, the NAIRU, and Financial Assumptions
(Percent change, annual rate, from end of preceding period, except as noted)

Measure	2000		2001		2002	
	H1	H2	H1	H2	H1	H2
Real GDP						
Baseline	**5.2**	**2.3**	**2.7**	**3.5**	**3.8**	**4.0**
Lower structural productivity	5.2	2.1	1.8	2.7	3.4	3.8
Lower NAIRU	5.2	2.3	2.9	3.6	3.8	3.9
Looser policy	5.2	2.3	2.9	4.2	4.8	5.2
Stock market correction	5.2	2.3	2.4	3.1	3.3	3.5
Continued stock market gains	5.2	2.3	2.7	3.6	3.9	4.2
Civilian unemployment rate[1]						
Baseline	**4.0**	**4.0**	**4.4**	**4.7**	**4.9**	**5.0**
Lower structural productivity	4.0	4.0	4.5	4.8	5.1	5.2
Lower NAIRU	4.0	4.0	4.4	4.6	4.8	4.9
Looser policy	4.0	4.0	4.4	4.5	4.5	4.4
Stock market correction	4.0	4.0	4.4	4.8	5.1	5.3
Continued stock market gains	4.0	4.0	4.4	4.7	4.9	4.9
PCE prices excluding food and energy						
Baseline	**1.8**	**1.8**	**2.0**	**2.0**	**2.0**	**2.0**
Lower structural productivity	1.8	1.8	2.1	2.2	2.2	2.1
Lower NAIRU	1.8	1.7	1.7	1.4	1.2	1.0
Looser policy	1.8	1.8	2.0	2.2	2.5	2.7
Stock market correction	1.8	1.8	2.0	2.0	2.0	1.9
Continued stock market gains	1.8	1.8	2.0	2.0	2.0	2.0

1. Average for the final quarter of the half-year period.

Strictly Confidential <FR>
Class II FOMC

December 13, 2000

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

Interval		Nominal GDP 11/08/00	Nominal GDP 12/13/00	Real GDP 11/08/00	Real GDP 12/13/00	GDP chain-weighted price index 11/08/00	GDP chain-weighted price index 12/13/00	Consumer price index[1] 11/08/00	Consumer price index[1] 12/13/00	Unemployment rate[2] 11/08/00	Unemployment rate[2] 12/13/00
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		7.4	7.3	5.2	5.1	2.2	2.2	3.4	3.4	4.0	4.0
2001		5.7	5.0	3.6	2.9	2.0	2.1	2.5	2.5	4.2	4.5
2002		5.8	5.5	3.9	3.7	1.9	1.8	2.4	2.1	4.5	4.9
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	3.2	4.3	4.3
	Q3	6.7	6.7	5.7	5.7	1.1	1.1	2.4	2.4	4.2	4.2
	Q4	9.7	9.7	8.3	8.3	1.6	1.6	2.9	2.9	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	3.6	4.0	4.0
	Q3	4.6	4.3	2.6	2.3	2.0	1.9	3.1	3.1	4.0	4.0
	Q4	5.9	4.7	3.5	2.4	2.2	2.3	2.8	2.8	4.0	4.0
2001	Q1	6.0	4.9	3.6	2.2	2.4	2.7	2.2	2.5	4.1	4.3
	Q2	5.4	5.0	3.6	3.1	1.7	1.8	2.1	1.9	4.2	4.4
	Q3	5.4	5.0	3.7	3.3	1.7	1.6	2.3	1.9	4.3	4.6
	Q4	5.7	5.3	3.9	3.6	1.8	1.7	2.3	2.0	4.4	4.7
2002	Q1	6.1	5.9	3.9	3.7	2.1	2.1	2.4	2.1	4.4	4.8
	Q2	5.9	5.6	4.0	3.8	1.8	1.7	2.4	2.2	4.5	4.9
	Q3	5.9	5.7	4.1	3.9	1.8	1.7	2.5	2.3	4.5	4.9
	Q4	6.0	5.8	4.2	4.0	1.8	1.7	2.5	2.3	4.6	5.0
TWO-QUARTER[3]											
1999	Q2	4.9	4.9	3.0	3.0	1.8	1.8	2.5	2.5	-0.1	-0.1
	Q4	8.2	8.2	7.0	7.0	1.3	1.3	2.7	2.7	-0.2	-0.2
2000	Q2	8.2	8.2	5.2	5.2	2.8	2.8	4.0	4.0	-0.1	-0.1
	Q4	5.3	4.5	3.1	2.3	2.1	2.1	2.9	2.9	0.0	0.0
2001	Q2	5.7	5.0	3.6	2.7	2.0	2.2	2.2	2.2	0.2	0.4
	Q4	5.6	5.2	3.8	3.5	1.7	1.6	2.3	1.9	0.2	0.3
2002	Q2	6.0	5.7	4.0	3.8	2.0	1.9	2.4	2.1	0.1	0.2
	Q4	6.0	5.8	4.1	4.0	1.8	1.7	2.5	2.3	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	6.7	6.3	4.1	3.8	2.5	2.5	3.4	3.4	-0.1	-0.1
2001	Q4	5.6	5.1	3.7	3.1	1.9	1.9	2.2	2.1	0.4	0.7
2002	Q4	6.0	5.7	4.0	3.9	1.9	1.8	2.4	2.2	0.2	0.3

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

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Class II FOMC

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

December 13, 2000

Item	Units[1]	1994	1995	1996	1997	1998	1999	2000	2001	2002
								---------Projected	--------	--------
EXPENDITURES										
Nominal GDP	Bill. $	7054.3	7400.5	7813.2	8318.4	8790.2	9299.2	9979.0	10482.1	11061.8
Real GDP	Bill. Ch. $	7347.7	7543.8	7813.2	8159.5	8515.7	8875.8	9327.6	9594.5	9946.9
Real GDP	% change	4.1	2.2	4.1	4.3	4.6	5.0	3.8	3.1	3.9
Gross domestic purchases		4.3	1.7	4.3	5.0	5.7	5.9	4.4	3.3	3.8
Final sales		2.2	2.9	3.9	3.9	4.6	4.8	4.0	3.2	3.9
Priv. dom. final purchases		4.3	3.2	4.4	5.1	6.4	6.1	5.3	3.5	3.9
Personal cons. expenditures		3.6	2.8	3.1	4.1	5.0	5.6	4.5	3.0	3.0
Durables		6.4	3.7	5.0	8.8	12.6	11.1	4.9	2.7	3.5
Nondurables		4.1	2.5	3.2	2.5	5.0	5.9	4.2	2.7	2.7
Services		2.7	2.7	2.7	3.9	3.4	4.2	4.6	3.1	3.1
Business fixed investment		9.2	7.5	12.1	11.8	12.9	10.1	12.4	7.1	9.6
Equipment & Software		12.0	8.9	11.8	13.7	15.8	14.1	12.6	7.1	11.3
Nonres. structures		1.1	3.3	12.8	6.5	4.9	-1.7	11.7	7.0	4.6
Residential structures		4.0	-1.5	5.6	3.5	10.3	2.8	-2.9	-0.4	-0.4
Exports		10.5	9.7	9.8	8.5	2.2	4.3	11.1	6.8	10.3
Imports		12.2	5.0	11.2	14.3	11.2	12.0	13.6	7.6	8.3
Gov't. cons. & investment		0.2	-0.8	2.7	2.4	2.6	4.4	1.2	3.6	3.4
Federal		-3.7	-5.3	2.0	0.1	0.8	4.8	-2.0	2.9	2.7
Defense		-5.9	-4.7	0.8	-1.4	-1.0	4.6	-4.2	2.4	2.1
State & local		2.8	2.1	3.0	3.7	3.6	4.2	2.9	3.9	3.8
Change in bus. inventories	Bill. Ch. $	66.8	30.4	30.0	63.8	80.2	45.3	60.9	43.4	40.6
Nonfarm		53.6	42.6	22.1	60.6	78.7	44.9	56.0	40.5	39.2
Net exports		-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-408.3	-462.2	-487.3
Nominal GDP	% change	6.2	4.3	6.0	6.2	5.9	6.5	6.3	5.1	5.7
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	114.1	117.2	119.6	122.7	125.8	128.8	131.4	132.6	134.1
Unemployment rate	%	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.5	4.9
Industrial prod. index	% change	6.3	3.6	5.6	7.2	3.2	5.1	3.8	2.1	3.7
Capacity util. rate - mfg.	%	82.5	82.5	81.6	82.7	81.3	80.5	81.2	78.9	79.2
Housing starts	Millions	1.46	1.35	1.48	1.47	1.62	1.67	1.60	1.56	1.57
Light motor vehicle sales		15.01	14.77	15.05	15.06	15.45	16.76	17.32	15.86	15.77
North Amer. produced		12.88	12.87	13.34	13.12	13.43	14.28	14.47	13.32	13.34
Other		2.13	1.90	1.70	1.93	2.02	2.48	2.85	2.54	2.44
INCOME AND SAVING										
Nominal GNP	Bill. $	7071.1	7420.9	7831.2	8325.4	8786.7	9288.2	9969.2	10459.7	11024.2
Nominal GNP	% change	6.2	4.4	5.9	6.0	5.7	6.5	6.3	4.9	5.6
Nominal personal income		5.1	4.3	5.9	6.3	6.3	5.6	6.0	5.6	5.7
Real disposable income		2.9	1.7	2.6	3.8	4.6	3.1	2.5	4.0	4.4
Personal saving rate	%	6.1	5.6	4.8	4.2	4.2	2.2	-0.1	0.4	1.8
Corp. profits, IVA & CCAdj.	% change	12.3	11.3	11.4	9.9	-5.8	11.2	6.1	-0.7	1.9
Profit share of GNP	%	8.1	9.0	9.6	10.0	9.3	9.2	9.6	8.9	8.6
Excluding FR Banks		7.9	8.7	9.4	9.7	9.0	8.9	9.3	8.6	8.3
Federal surpl./deficit	Bill. $	-212.3	-192.0	-136.8	-53.3	49.0	124.4	250.8	273.0	264.6
State & local surpl./def.		8.6	15.3	21.4	31.0	41.7	50.0	60.3	56.4	49.7
Ex. social ins. funds		4.0	11.4	18.7	29.9	41.3	50.4	60.7	56.5	49.5
Gross natl. saving rate	%	16.3	16.9	17.2	18.0	18.8	18.5	18.4	18.5	19.1
Net natl. saving rate		4.3	5.1	5.7	6.7	7.5	6.8	6.6	6.5	7.1
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.1	2.1	1.9	1.8	1.2	1.6	2.5	1.9	1.8
Gross Domestic Purchases chn.-wt. price index		2.1	2.1	1.9	1.4	0.8	1.9	2.6	1.7	1.9
PCE chn.-wt. price index		2.1	2.1	2.3	1.5	1.1	2.0	2.5	1.7	1.9
Ex. food and energy		2.3	2.3	1.8	1.7	1.6	1.5	1.8	2.0	2.0
CPI		2.6	2.7	3.1	1.9	1.5	2.6	3.4	2.1	2.2
Ex. food and energy		2.8	3.0	2.6	2.2	2.4	2.1	2.6	2.6	2.6
ECI, hourly compensation[2]		3.1	2.6	3.1	3.4	3.5	3.4	4.7	4.6	4.6
Nonfarm business sector										
Output per hour		1.1	1.1	2.3	2.1	2.9	4.1	3.4	2.5	3.2
Compensation per Hour		2.2	2.7	3.1	3.2	5.3	4.8	5.4	5.5	5.5
Unit labor cost		1.0	1.5	0.8	1.1	2.3	0.7	2.0	3.0	2.3

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

Strictly Confidential <FR>
Class II FOMC

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

December 13, 2000

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		15.00	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	1.7	1.7	1.7	1.7	3.2	2.4	2.9	4.3	3.6
Ex. food and energy		2.8	2.3	2.3	2.1	1.8	2.1	2.1	2.3	2.5	2.9
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		4.5	1.6	1.8	3.6	2.6	0.6	5.2	8.0	1.9	6.1
Compensation per hour		6.1	5.3	5.2	4.5	4.5	5.0	5.5	4.2	3.9	5.9
Unit labor cost		1.5	3.6	3.3	0.8	1.8	4.3	0.3	-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)

December 13, 2000

Item	Units	Projected 2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4
EXPENDITURES											
Nominal GDP	Bill. $	10051.2	10166.3	10289.6	10415.2	10542.8	10680.9	10833.8	10982.7	11136.1	11294.5
Real GDP	Bill. Ch. $	9372.3	9427.5	9478.5	9552.1	9630.7	9716.5	9805.4	9897.7	9993.0	10091.6
Real GDP	% change	2.3	2.4	2.2	3.1	3.3	3.6	3.7	3.8	3.9	4.0
Gross domestic purchases		3.0	2.4	2.6	3.7	3.7	3.2	4.0	4.0	3.9	3.4
Final sales		2.5	3.1	2.7	3.0	3.3	4.0	3.6	3.7	3.9	4.5
Priv. dom. final purchases		4.1	3.2	3.0	3.6	3.6	3.7	4.0	3.9	3.9	3.9
Personal cons. expenditures		4.5	2.9	2.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Durables		7.7	-4.2	0.6	3.4	3.4	3.6	3.9	3.2	3.7	3.2
Nondurables		4.8	2.3	3.1	2.6	2.6	2.6	2.7	2.7	2.7	2.7
Services		3.7	4.7	3.3	3.0	3.1	3.1	3.1	3.1	3.1	3.1
Business fixed investment		7.2	7.5	5.7	7.3	7.7	7.7	9.7	9.6	9.6	9.6
Equipment & Software		5.6	7.2	5.1	7.1	8.0	8.3	11.2	11.2	11.3	11.5
Nonres. structures		12.6	8.2	7.7	7.8	6.7	5.9	5.2	4.7	4.3	4.0
Residential structures		-10.5	-4.8	-5.1	1.6	1.0	1.0	0.1	-0.2	-0.6	-0.8
Exports		15.4	8.5	2.0	6.8	7.3	11.4	6.2	10.0	10.6	14.4
Imports		17.4	6.9	5.1	10.1	8.7	6.6	7.3	9.5	8.7	7.5
Gov't. cons. & investment		-1.3	2.5	3.7	3.5	3.5	3.5	3.5	3.4	3.5	3.4
Federal		-9.0	0.8	3.3	2.8	2.5	2.8	2.7	2.6	2.7	2.7
Defense		-9.6	-0.5	3.2	2.2	2.0	2.1	2.1	2.0	2.1	2.1
State & local		2.9	3.3	3.9	3.9	3.9	3.9	3.8	3.8	3.8	3.8
Change in bus. inventories	Bill. Ch. $	74.2	54.2	41.8	46.1	48.1	37.5	39.7	44.0	45.1	33.7
Nonfarm		69.2	49.3	37.9	43.0	45.5	35.5	38.1	42.3	43.9	32.6
Net exports		-425.1	-427.9	-442.2	-462.0	-475.4	-469.3	-481.1	-490.6	-495.0	-482.6
Nominal GDP	% change	4.3	4.7	4.9	5.0	5.0	5.3	5.9	5.6	5.7	5.8
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	131.6	131.9	132.1	132.5	132.8	133.1	133.5	133.9	134.3	134.8
Unemployment rate	%	4.0	4.0	4.3	4.4	4.6	4.7	4.8	4.9	4.9	5.0
Industrial prod. index	% change	1.5	-0.7	-1.6	2.8	3.6	3.6	3.8	3.9	3.7	3.5
Capacity util. rate - mfg.	%	81.6	80.1	79.0	78.8	78.8	78.9	79.0	79.1	79.3	79.3
Housing starts	Millions	1.53	1.52	1.55	1.55	1.57	1.57	1.57	1.57	1.56	1.56
Light motor vehicle sales		17.38	16.45	15.95	15.85	15.81	15.81	15.80	15.79	15.75	15.75
North Amer. produced		14.54	13.66	13.31	13.31	13.31	13.34	13.35	13.35	13.32	13.32
Other		2.84	2.79	2.65	2.54	2.50	2.47	2.45	2.44	2.43	2.43
INCOME AND SAVING											
Nominal GNP	Bill. $	10042.3	10152.1	10269.7	10395.1	10519.8	10654.3	10802.3	10947.4	11096.6	11250.6
Nominal GNP	% change	4.3	4.4	4.7	5.0	4.9	5.2	5.7	5.5	5.6	5.7
Nominal personal income		5.2	4.9	6.8	5.3	5.1	5.3	6.1	5.5	5.4	5.5
Real disposable income		2.2	2.0	6.1	3.4	3.2	3.3	8.5	3.2	3.1	3.2
Personal saving rate	%	-0.3	-0.5	0.3	0.4	0.4	0.5	1.7	1.8	1.8	1.8
Corp. profits, IVA & CCAdj.	% change	3.4	-9.7	-7.0	1.4	0.3	2.9	-0.8	2.4	2.6	3.5
Profit share of GNP	%	9.7	9.3	9.1	9.0	8.9	8.8	8.7	8.6	8.6	8.5
Excluding FR Banks		9.4	9.0	8.8	8.7	8.6	8.5	8.4	8.3	8.3	8.2
Federal surpl./deficit	Bill. $	256.8	269.8	249.8	265.1	285.7	291.3	228.8	253.5	280.0	296.1
State & local surpl./def.		64.1	65.0	60.0	57.9	53.4	54.5	55.1	51.3	48.2	44.4
Ex. social ins. funds		64.5	65.3	60.2	58.0	53.4	54.4	54.9	51.0	47.9	44.1
Gross natl. saving rate	%	18.5	18.2	18.3	18.5	18.6	18.6	18.9	19.0	19.2	19.3
Net natl. saving rate		6.6	6.3	6.4	6.5	6.6	6.6	6.8	7.0	7.2	7.2
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.9	2.3	2.7	1.8	1.6	1.7	2.1	1.7	1.7	1.7
Gross Domestic Purchases chn.-wt. price index		2.3	2.3	2.0	1.6	1.6	1.6	2.1	1.8	1.8	1.8
PCE chn.-wt. price index		2.1	2.3	1.8	1.7	1.7	1.8	1.9	1.9	1.9	2.0
Ex. food and energy		1.5	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
CPI		3.1	2.8	2.5	1.9	1.9	2.0	2.1	2.2	2.3	2.3
Ex. food and energy		2.5	2.5	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
ECI, hourly compensation[1]		4.1	4.2	4.5	4.5	4.6	4.6	4.7	4.6	4.6	4.6
Nonfarm business sector											
Output per hour		3.4	2.0	1.5	2.5	2.8	3.1	3.1	3.2	3.3	3.3
Compensation per hour		6.3	5.6	5.7	5.4	5.4	5.5	5.8	5.5	5.5	5.4
Unit labor cost		2.9	3.6	4.2	2.9	2.6	2.4	2.7	2.3	2.2	2.1

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	2.3	4.6	5.0	3.8
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	4.5
Final sales	2.9	5.8	4.4	3.9	4.5	6.5	6.6	3.9	2.5	4.6	4.8	4.0
Priv. dom. final purchases	3.7	5.3	5.3	5.2	4.7	5.2	7.9	4.0	3.5	5.3	5.1	4.5
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	1.4	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	1.6
Equipment & Software	0.6	1.5	1.3	1.4	1.7	0.9	1.9	1.7	0.6	1.4	1.3	1.2
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	-0.8	-1.1	-1.1	-0.7
Exports	-0.4	1.5	-0.9	0.6	1.1	1.1	0.7	1.5	1.6	0.3	0.5	1.2
Imports	-0.7	-1.5	-0.6	-2.0	-2.1	-1.5	-1.6	-2.5	-2.4	-1.4	-1.5	-1.9
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	-0.2
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	-0.1	0.0	0.1	-0.2
Farm	-0.2	0.5	-0.3	0.0	-0.1	0.5	-0.2	0.1	-0.0	0.0	0.1	0.0

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

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	2.4	2.2	3.1	3.3	3.6	3.7	3.8	3.9	4.0	3.8	3.1	3.9
Gross dom. purchases	2.5	2.7	3.9	3.8	3.3	4.1	4.1	4.0	3.5	4.5	3.4	4.0
Final sales	3.1	2.6	3.0	3.3	4.0	3.6	3.7	3.9	4.4	4.0	3.2	3.9
Priv. dom. final purchases	2.8	2.5	3.1	3.1	3.1	3.4	3.3	3.4	3.3	4.5	3.0	3.4
Personal cons. expenditures	2.0	2.0	2.0	2.0	2.0	2.1	2.0	2.0	2.0	3.0	2.0	2.0
Durables	-0.3	0.0	0.3	0.3	0.3	0.3	0.2	0.3	0.2	0.4	0.2	0.3
Nondurables	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.8	0.5	0.5
Services	1.8	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.8	1.2	1.2
Business fixed investment	1.0	0.8	1.0	1.1	1.1	1.3	1.3	1.3	1.4	1.6	1.0	1.4
Equipment & Software	0.7	0.5	0.7	0.8	0.9	1.2	1.2	1.2	1.2	1.2	0.7	1.2
Nonres. structures	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.4	0.2	0.2
Residential structures	-0.2	-0.2	0.1	0.0	0.0	0.0	-0.0	-0.0	-0.0	-0.1	-0.0	-0.0
Net exports	-0.1	-0.5	-0.7	-0.5	0.3	-0.4	-0.3	-0.1	0.5	-0.7	-0.4	-0.1
Exports	0.9	0.2	0.8	0.8	1.3	0.7	1.1	1.2	1.6	1.2	0.8	1.2
Imports	-1.0	-0.8	-1.5	-1.3	-1.0	-1.1	-1.4	-1.3	-1.2	-1.9	-1.1	-1.3
Government cons. & invest.	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.2	0.6	0.6
Federal	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	-0.1	0.2	0.2
Defense	-0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.2	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	0.4	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.5	0.5
Change in bus. inventories	-0.7	-0.5	0.2	0.1	-0.4	0.1	0.2	0.0	-0.4	-0.2	-0.2	-0.0
Nonfarm	-0.8	-0.5	0.2	0.1	-0.4	0.1	0.2	0.1	-0.4	-0.2	-0.1	-0.0
Farm	0.0	-0.0	-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)

					2000				2001				2002			
Item	1999[a]	2000[a]	2001	2002	Q1[a]	Q2[a]	Q3[a]	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts[2]	1827	2025	2123	2226	434	656	492	467	476	666	514	514	484	682	545	529
Outlays[2]	1703	1788	1849	1905	449	444	431	461	475	465	448	484	476	476	469	495
Surplus/deficit[2]	125	237	274	320	-15	212	60	5	1	201	66	31	9	205	76	35
On-budget	1	87	112	137	-45	147	50	-40	-26	130	48	-19	-22	128	50	-19
Off-budget	124	150	162	184	30	65	10	45	27	71	19	50	31	78	25	54
Surplus excluding deposit insurance	119	234	273	319	-18	211	60	5	1	200	66	31	8	205	75	34
Means of financing																
Borrowing	-89	-223	-237	-329	-27	-190	-54	-18	7	-174	-52	-56	-22	-159	-93	-58
Cash decrease	-18	4	8	0	39	-13	5	24	3	-9	-11	20	5	-40	15	20
Other[3]	-18	-18	-45	9	4	-10	-11	-12	-12	-18	-3	5	9	-7	2	3
Cash operating balance, end of period	56	53	45	45	45	57	53	28	26	34	45	25	20	60	45	25
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1837	2025	2144	2209	2012	2055	2090	2115	2126	2154	2183	2214	2174	2206	2241	2275
Expenditures	1735	1806	1877	1946	1776	1814	1836	1845	1876	1888	1897	1923	1947	1954	1962	1981
Consumption expenditures	464	489	507	536	479	499	490	493	507	512	517	521	536	541	545	550
Defense	306	320	330	346	311	326	320	322	331	333	336	338	346	348	351	354
Nondefense	158	168	177	190	168	173	170	171	177	179	181	184	190	192	194	197
Other spending	1270	1317	1369	1411	1297	1315	1346	1352	1369	1376	1380	1401	1411	1414	1417	1430
Current account surplus	103	219	268	262	236	241	254	270	250	265	286	291	228	252	279	295
Gross investment	94	104	109	114	101	106	104	107	109	110	111	113	114	115	116	117
Current and capital account surplus	9	115	158	148	134	135	150	163	141	155	174	178	114	137	162	177
Fiscal indicators[4]																
High-employment (HEB) surplus/deficit	-67	8	83	106	31	20	40	66	61	88	116	127	71	99	129	147
Change in HEB, percent of potential GDP	-.8	-.8	-.7	-.2	-1	.1	-.2	-.3	.1	-.3	-.3	-.1	.5	-.3	-.3	-.1
Fiscal impetus (FI) percent, calendar year	5	2	4	9	-4	5	-1	2	1	.7	.6	1	7	.6	.6	.6

1. Fiscal year data for the unified budget come from OMB; quarterly data corr om the Monthly Treasury Statement and may not sum to OMB fiscal year totals.
2. OMB's Mid-Session Review baseline surplus estimates are $224 billion in :000, $239 billion in FY2001, and $279 billion in FY 2002. CBO's July 2000 baseline surplus estimates, assuming discretionary spending grows with inflation beginning in FY 2001 are $232 bill in FY2000, $268 billion in FY2001, and $312 billion in FY 2002. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus xcluded 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	6.6	7.0	4.3	8.7	5.3	6.2
1998	6.8	-1.4	9.6	8.8	9.8	5.4	11.1	7.2	5.9
1999	6.9	-1.9	9.5	9.0	9.9	7.1	11.2	4.4	6.5
2000	4.8	-7.8	8.2	8.7	8.9	8.7	9.0	1.8	6.3
2001	4.0	-8.1	6.7	7.1	8.1	4.1	7.3	1.7	5.1
2002	3.7	-10.6	6.6	6.1	7.4	2.2	7.9	1.6	5.7
Quarter									
1999:3	6.9	-1.9	9.4	9.3	10.4	5.5	10.7	4.3	6.7
4	6.4	-0.9	8.4	7.9	8.4	7.8	10.1	2.7	9.7
2000:1	5.4	-5.9	8.4	8.1	7.1	10.0	10.5	0.3	8.3
2	5.4	-11.4	9.8	9.7	10.2	9.2	11.6	1.7	8.2
3	4.2	-6.2	6.8	8.2	8.8	8.1	6.2	2.0	4.4
4	3.9	-8.8	6.9	7.9	8.5	6.6	6.5	3.3	4.6
2001:1	5.0	-2.2	6.6	7.5	8.4	5.2	6.6	1.7	4.9
2	3.4	-10.5	6.5	7.2	8.2	4.4	6.7	1.7	5.0
3	4.3	-6.5	6.6	6.6	7.6	3.5	7.7	1.7	5.0
4	3.0	-14.2	6.5	6.3	7.5	2.9	7.6	1.7	5.3
2002:1	4.4	-6.2	6.5	6.2	7.5	2.4	7.8	1.6	5.9
2	3.9	-9.4	6.4	6.1	7.3	2.3	7.7	1.6	5.6
3	3.5	-12.5	6.4	5.9	7.2	2.1	7.7	1.6	5.7
4	3.0	-16.1	6.3	5.8	7.0	2.1	7.7	1.6	5.8

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2000:Q3 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.
2. On a monthly average basis, total debt is projected to grow 5.2 percent in 2000, 4.1 percent in 2001 and 3.7 percent in 2002.
3. On a monthly average basis, federal debt is projected to grow -6.7 percent in 2000, -7.5 percent in 2001 and -10.4 percent in 2002.
4. On a monthly average basis, nonfederal debt is projected to grow 8.4 percent in 2000, 6.8 percent in 2001 and 6.6 percent in 2002.

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

					Seasonally adjusted annual rates									
	Calendar year				2000				2001				2002	
Category	1999	2000	2001	2002	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
Net funds raised by domestic nonfinancial sectors														
1 Total	976.9	720.8	667.7	683.3	1001.5	709.5	670.9	501.3	847.1	575.1	749.2	499.3	766.6	599.9
2 Net equity issuance	-143.5	-118.9	-60.0	-28.0	60.8	-248.8	-87.6	-200.0	-60.0	-60.0	-60.0	-60.0	-28.0	-28.0
3 Net debt issuance	1120.4	839.7	727.7	711.3	940.7	958.3	758.5	701.3	907.1	635.1	809.2	559.3	794.6	627.9
Borrowing sectors														
Nonfinancial business														
4 Financing gap [1]	172.1	213.9	262.3	330.1	190.6	215.1	220.5	229.2	236.2	257.3	274.6	281.1	315.2	345.0
5 Net equity issuance	-143.5	-118.9	-60.0	-28.0	60.8	-248.8	-87.6	-200.0	-60.0	-60.0	-60.0	-60.0	-28.0	-28.0
6 Credit market borrowing	591.2	529.5	472.1	549.0	617.8	701.1	387.5	411.6	423.6	438.4	511.2	515.0	540.2	557.7
Households														
7 Net borrowing [2]	548.1	575.9	509.0	472.4	534.7	650.4	564.8	553.8	538.0	528.6	488.8	480.6	475.3	469.5
8 Home mortgages	415.9	411.8	410.0	405.2	326.9	478.8	422.3	419.2	421.2	421.2	396.2	401.2	406.2	404.2
9 Consumer credit	94.4	124.6	63.0	36.2	142.0	134.6	120.4	101.4	80.1	69.7	55.9	46.3	37.8	34.5
10 Debt/DPI (percent) [3]	95.4	98.6	100.8	101.0	97.2	97.9	99.1	100.1	100.1	100.7	101.2	101.5	100.7	101.2
State and local governments														
11 Net borrowing	52.3	23.0	21.4	21.4	3.8	20.8	25.2	42.0	21.4	21.4	21.4	21.4	21.4	21.4
12 Current surplus [4]	156.8	177.0	182.0	184.4	164.7	175.7	182.4	185.3	182.3	182.3	180.0	183.3	185.5	183.4
Federal government														
13 Net borrowing	-71.2	-288.6	-274.8	-331.5	-215.5	-414.0	-219.0	-306.1	-75.9	-353.3	-212.2	-457.6	-242.3	-420.7
14 Net borrowing (quarterly, n.s.a.)	-71.2	-288.6	-274.8	-331.5	-27.5	-189.6	-53.6	-17.9	7.4	-174.4	-52.0	-55.8	-180.8	-150.6
15 Unified deficit (quarterly, n.s.a.)	-158.3	-262.2	-299.5	-324.2	15.0	-211.8	-60.2	-5.2	-1.4	-200.9	-66.3	-30.8	-214.1	-110.1
Depository institutions														
16 Funds supplied	404.3	474.5	236.1	294.4	462.9	594.2	468.5	372.4	220.7	247.0	242.8	234.0	290.2	298.7
Memo (percentage of GDP)														
17 Domestic nonfinancial debt [5]	181.4	179.1	178.0	175.2	180.1	179.0	179.3	179.1	178.9	178.6	178.2	177.5	176.2	174.6
18 Domestic nonfinancial borrowing	12.0	8.4	6.9	6.4	9.6	9.6	7.5	6.9	8.8	6.1	7.7	5.2	7.3	5.6
19 Federal government [6]	-0.8	-2.9	-2.6	-3.0	-2.2	-4.2	-2.2	-3.0	-0.7	-3.4	-2.0	-4.3	-2.2	-3.8
20 Nonfederal	12.8	11.3	9.6	9.4	11.9	13.8	9.7	9.9	9.6	9.5	9.7	9.5	9.5	9.3

Note. Data after 2000:Q3 are staff projections.
1. For corporations: Excess of capital expenditures over U.S. internal funds.
2. Includes change in liabilities not shown in lines 8 and 9.
3. Average debt levels in the period (computed as the average of period-end debt positions) divided by disposable personal income.
4. NIPA surplus less changes in retirement fund assets plus consumption of fixed capital.
5. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.
6. Excludes government-insured mortgage pool securities.

2.6.4 FOF

International Developments

Overview

With incoming data in all major foreign regions confirming that economic growth has eased from earlier this year and forward-looking indicators of spending suggesting further slowing, the outlook for foreign activity has been lowered somewhat since the previous Greenbook. In addition, financial market conditions have become less accommodative of continued expansion of domestic demand in foreign economies. Compared with the November forecast, foreign growth over the projection period has been marked down between 1/4 and 1/2 percentage point, albeit to a still favorable pace.

Summary of Staff Projections
(Percent change from end of previous period)

Indicator	2000: H1	Projection			
		2000: H2	2001: H1	2001: H2	2002
Foreign output	5.8	3.7	3.3	3.7	3.7
November GB	*5.7*	*4.1*	*3.9*	*4.0*	*3.9*
Foreign CPI	1.9	3.8	3.2	3.2	3.2
November GB	*1.9*	*4.0*	*3.4*	*3.4*	*3.2*

Oil prices have recently come off their highs from earlier in the intermeeting period. Given these market developments and the weaker outlook for global economic growth, we have marked down our oil price projection somewhat from the November Greenbook. Our projection, following futures markets, continues to call for a gradual easing of oil prices over the forecast period. We assume that the spot price of WTI will decline from its current level to about $25.50 per barrel by the end of 2001 and to about $23.50 per barrel by the end of 2002.

The rise in energy prices has boosted headline inflation around the world in the second half of this year. In our outlook, foreign headline consumer price inflation peaks during the second half of this year and eases subsequently with energy prices. We expect inflation to stabilize at a rate a bit above 3 percent over the forecast period. We assume that monetary policy will stay on hold in foreign industrial countries except for a small rise in policy rates in Canada.

Since the November FOMC meeting, the dollar is essentially unchanged on balance against the currencies of a broad group of our trading partners, as a large appreciation early in the period was reversed on mounting evidence of slowing U.S. growth. The apparent sensitivity of foreign exchange markets to relative growth prospects has led us to forecast that the dollar will depreciate in real terms at a rate close to 3 percent in 2001 and 2002, slightly more rapidly than projected in the November Greenbook.

Stronger-than-expected import demand in September raised import growth in the third quarter, but we expect that growth will slow sharply in the fourth quarter, largely reflecting the effects of the slowdown in the U.S. economy. Going forward, we project import growth at a slightly lower rate than in the November Greenbook, in line with the projected path for U.S. GDP. We expect that export growth will show some near-term weakness but recover to a moderate pace, largely because of the projected depreciation of the dollar. On balance, net exports should make a negative arithmetic contribution to growth, and the current account deficit is expected to reach nearly 5 percent of GDP by the end of 2002.

At the end of this section, we consider the implications for U.S. growth and inflation of two alternative simulations. The first involves considerably greater dollar depreciation and higher oil prices than in our baseline forecast. The second simulation assesses the effects of maintaining a flat broad real dollar index through the forecast period, in contrast to the depreciation assumed in the baseline.

Recent Developments

International financial markets. The dollar continued its upward path against the euro early in the intermeeting period but then reversed course, as market participants reassessed the relative growth prospects of the United States and Europe. On balance, the dollar depreciated 2.5 percent against the euro over the intermeeting period. In contrast, the dollar appreciated 3.7 percent against the yen, reflecting continued sluggish growth and political uncertainty in Japan. In addition, the dollar appreciated significantly against the Korean won and Taiwan dollar, as markets reassessed prospects for technology exports from the region. The more negative outlook for high-tech industries also contributed to equity price declines in that sector for most countries. However, broad stock indexes of most foreign industrial countries were little changed on balance over the period.

Major foreign central banks kept their policy rates unchanged during the intermeeting period. Short- and long-term interest rates have fallen for major currencies since mid-November.

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

Economic activity abroad. Growth in the foreign industrial countries slowed moderately in the third quarter, and available indicators point to a further slowdown in the fourth quarter. In the euro area, third-quarter growth edged down to an annual rate just under 2-3/4 percent, as consumer spending appeared to be restrained by previous interest rate increases and the drain on spendable income of higher prices for oil and imported goods. However, growth of investment and exports remained strong. Consumption was weak in Japan in the third quarter, and recent data point to continued sluggish economic growth. Canadian real GDP expanded at a rapid 4-3/4 percent pace in the third quarter, but a sizable buildup of inventories, as well as signs of stalling export growth, suggest weaker economic growth in the current quarter.

Continued high oil prices kept broad measures of inflation near their peaks in October, but core consumer price inflation remained relatively subdued. Twelve-month consumer price inflation in the euro area was 2.7 percent, well above the European Central Bank's 2 percent target ceiling, but core inflation remained below 1.5 percent. Canadian consumer price inflation approached the ceiling of the Bank of Canada's 1 to 3 percent inflation band, but core inflation moved up only slightly, to 1.5 percent. In the United Kingdom, retail price inflation remained below the 2.5 percent target rate, while in Japan consumer price deflation remained near 1 percent.

Economic activity in major developing countries also has begun to show some signs of slowing. Third-quarter GDP data and production data for October show moderation of growth in Mexico, continued weakness in Argentina, but some strength in Brazil. In emerging Asia, real GDP growth in the third quarter expanded robustly on average, but recent production indicators hint that the expansion of activity is slowing in many parts of the region, including Korea, Taiwan, and some ASEAN countries. Inflation has been stable in most of Latin America. Inflation is starting to rise in some ASEAN countries, but it does not yet appear to be a problem in the rest of Asia. In Turkey, financial markets have been volatile, as a banking crisis and more general loss in confidence in the government's policies led to large reserve losses. The IMF is poised to provide Turkey with significant resources to support strengthened policies.

Prices of internationally traded goods. The spot price of West Texas intermediate crude oil averaged over $34 per barrel during November--its highest monthly average since the Gulf War. The onset of cold weather in the United States and an increasingly uncertain outlook for Iraqi crude oil exports provided support for oil prices. Despite the recent suspension of oil shipments from Iraq, the spot WTI price fell as the United Nations approved a new phase of the oil-for-food program for Iraq. Supply concerns were also allayed by strong statements from major oil producing and consuming countries. Spot WTI is currently trading just below $30 per barrel.

The price of core goods imports (which exclude oil, computers, and semiconductors) rose 0.1 percent in October, slightly less than the monthly average for the previous two quarters. In the third quarter, the NIPA price of core imports rose 1.4 percent at an annual rate, slightly less than in the second quarter. The increase in the third quarter was attributable mostly to prices of industrial supplies. The price of core goods exports (which exclude computers, semiconductors, and agricultural products) rose 1.1 percent at an annual rate in the third quarter, the smallest increase since the second quarter of 1999.

U.S. international transactions. For the third quarter, the U.S. trade deficit in goods and services was $383 billion at annual rate, $26 billion larger than in the second quarter. In September, the deficit was a record $34.3 billion. For the third quarter, the value of exports rose at about the same strong pace recorded in the second quarter, led by increases in exported machinery and industrial supplies. The value of imports jumped 3 percent in September, resulting in a third-quarter average for imports that rose at a somewhat stronger pace than in the first two quarters. Import growth was spread among all major categories of trade.

Outlook

The dollar. We forecast the dollar, as measured by the broad real index, to depreciate in real terms at a rate of about 3 percent in 2001 and 2002, a slightly faster decline than in the November Greenbook. We built this modestly steeper downward trajectory for the dollar in light of the recent downward movements of the dollar against the euro, the Canadian dollar, and sterling and the fact that Board staff (as well as apparently financial market participants) have built in more slowing of U.S. economic growth in the forecast period, especially compared with expected growth in the euro area.

Activity in foreign industrial countries. Export-weighted real GDP growth in the foreign industrial countries appears to have slowed to a 3 percent pace during the second half of this year and is expected to remain near that pace over the next two years. This represents a small downward revision from the November Greenbook.

In the current quarter, growth in the euro area is forecast to hold at the 2-3/4 percent pace recorded in the previous quarter. We expect growth to rebound to just above 3 percent over the next two years, stimulated by tax cuts, the lagged effect of euro depreciation, and lower oil prices. Canadian economic growth is projected to slow sharply to a 2-3/4 percent annual rate in the near term but then to pick up to 3-1/4 percent over the remainder of the forecast period. Past and prospective monetary tightening in Canada and a slowing in U.S. demand are projected to restrain growth, but fiscal policy should provide considerable stimulus.

Japanese real GDP growth is forecast at 3/4 percent in the fourth quarter, with little growth in consumption spending and a decline in government investment. We forecast only a moderate improvement in Japanese economic growth over the following two years, as projected fiscal contraction offsets continued growth in private investment. Consumption spending is likely to improve only gradually over the forecast period, held down by weak income growth and high unemployment rates.

Inflation. Headline consumer price inflation in the foreign industrial countries is projected to peak in the current quarter and to ease subsequently with oil prices. The decline in headline inflation should be limited by a modest rise in core inflation rates associated with diminished economic slack in most countries. Japanese prices are expected to decline further, but at a somewhat slower rate than the 1 percent by which they declined over the past year.

Interest rates. The generally softer tone to the global economic outlook has led us to revise down our expectations for policy interest rates in the foreign industrial countries. Relative to the November Greenbook, we have lowered the projected level of policy interest rates at the end of the forecast period 50 basis points for both Canada and the euro area and 25 basis points for the United Kingdom. The Bank of Canada is now projected to raise interest rates 50 basis points in 2001 but to hold rates constant in 2002. With the euro off its lows and expected to rebound further, we believe that the ECB will keep interest rates on hold over the forecast period. We also expect the Bank of England to remain on hold, with some possibility that a relaxation of capacity constraints will prompt a policy easing. We continue to expect the Bank of Japan to keep policy on hold through 2001 in light of anemic economic growth and edge rates higher in 2002 as deflation wanes.

Other countries. In light of recent production indicators, we have revised down real GDP growth in the major developing-country trading partners of the United States to 4 percent in the current quarter, one percentage point lower than in November. Over the remainder of the forecast period, continued growth of about 4-1/2 percent is expected, 1/2 percentage point slower than in the previous Greenbook. In developing Asia, weaker demand from industrial countries, particularly the United States, is expected to slow the strong expansion of exports, especially of high-tech products--the sector that has fueled rapid growth in the area in recent years. In Latin America, Argentina is assumed ultimately to "muddle through" its current troubles with the help of sizable financial assistance, avoiding a major financial crisis and maintaining its exchange rate peg to the dollar. However, as the result of heightened uncertainty and higher interest rates in the interim, growth in Argentina over the forecast period is expected to be subdued, with some negative spillover to other Latin American countries as well.

Selected Trade Prices
(Percent change from end of previous period except as noted; seasonally adjusted)

Trade category	2000: H1	Projection			
		2000: H2	2001: H1	2001: H2	2002
Exports					
Nonagricultural (core)	2.8	0.8	0.2	0.4	0.7
Agricultural	0.6	-4.2	11.1	11.2	4.3
Imports					
Non-oil (core)	1.6	0.8	1.9	3.0	2.8
Oil (level, dollars per barrel)	26.15	30.05	25.25	23.31	21.33

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 multiquarter periods is the price for the final quarter of the period.

Prices of internationally traded goods. Our projection for oil prices, which calls for a gradual decline over the forecast period, results in about the same endpoint for oil prices as our previous projection. Core import price inflation is projected to rise from around 1 percent during the fourth quarter of this year and the first quarter of next year to an average rate of 2-3/4 percent for the remainder of the forecast period, largely in response to the projected depreciation of the dollar. Prices of exported core goods are expected to decelerate further into the beginning of next year. Price increases are projected to move up only gradually over the remainder of the forecast period, reflecting a benign environment for goods prices in the United States.

Summary of Staff Projections for Goods and Services
(Percent change, seasonally adjusted annual rate)

Measure	2000: H1	Projection			
		2000: H2	2001: H1	2001: H2	2002
Real exports	10.2	11.9	4.4	9.3	10.3
November GB	*10.2*	*13.2*	*5.1*	*9.6*	*10.6*
Real imports	15.2	12.0	7.5	7.6	8.3
November GB	15.2	10.1	9.7	8.1	8.9

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

U.S. international transactions. Real exports of goods and services, which grew at an average annual rate of 15 percent in the third quarter of this year, are projected to expand at a 9 percent pace in the fourth quarter. The increase forecasted for the fourth quarter and first quarter of next year is slower than was forecasted in the November Greenbook, reflecting somewhat slower projected economic growth abroad. Looking forward, the growth rate of exports is projected to be about 7 percent in 2001 and to pick up to 10 percent in 2002, largely in response to the path of the dollar.

Growth of real imports of goods and services continued at a strong pace during the third quarter, boosted by surprisingly strong growth in most categories of imports in September. Import growth is projected to decline to a rate of about 7 percent in the fourth quarter of this year and 5 percent in the first quarter of next year; thereafter, import growth rebounds to 8 percent. This outlook largely reflects the path of U.S. GDP in the forecast. Relative prices, which have been boosting growth of core imports in recent quarters, will change to a slightly restraining factor by the end of next year as a result of the dollar's expected depreciation. The quantity of imported oil should expand moderately over the forecast period.

We project that the contribution of exports to U.S. GDP growth will fall slightly in 2001, to 3/4 percentage point at an annual rate, before rising to 1-1/4 percentage points in 2002. Imports are expected to make a negative contribution of about 1-1/4 percentage points in 2001 and 2002. Overall, the negative arithmetic contribution of the foreign sector to GDP growth diminishes over the forecast period, averaging close to zero in 2002.

The U.S. current account deficit is projected to rise as a share of GDP, moving from about 4-1/2 percent this year to 4-3/4 percent next year and nearly 5 percent by the end of 2002. Much of the projected change is in goods and services, but the net outflow of investment income also increases notably, as large current account deficits translate into increases in the U.S. net liability position.

Alternative simulations. The modest depreciation of the dollar in the outlook is far from assured. We have considered two alternatives to our baseline forecast. The first alternative assumes considerably greater dollar depreciation and higher oil prices than in the baseline. The second alternative assumes a flat real dollar over the forecast period rather than the gradual real dollar depreciation in the baseline. We use the FRB/Global model to simulate the effects of each of these alternative shock scenarios.

In the first scenario, the shock consists of an exogenous rise in the risk premium on the dollar that would cause it to depreciate immediately 15 percent in nominal terms relative to baseline, in the absence of real interest rate adjustment at home or abroad, and the maintenance of oil prices at current levels, rather than a decline as projected. Two cases of this alternative are considered: The first case holds the funds rate at its current level, and the second assumes that it is adjusted according to a Taylor rule. (In both cases, foreign central banks adjust interest rates according to a Taylor rule.) With a flat funds rate, annual real GDP growth is nearly 1 percentage point higher in 2001 and about 1-3/4 percentage points higher in 2002 than in the baseline. Rising import prices and an expanding output gap put considerable upward pressure on the inflation rate: The core PCE inflation rate rises by roughly 3/4 percentage point in both 2001 and 2002. With the U.S. funds rate assumed to follow a Taylor rule, the initial effects on output and inflation are similar to the flat funds case, but eventually real interest rates rise noticeably, inducing the real exchange rate to rebound and reversing the expansionary effects of the shocks on output and inflation. (In this case, the nominal federal funds rate peaks more than 100 basis points higher than in the baseline at the end of 2001, before receding by the end of 2002.)

Also below are the results of the second alternative simulation, which maintains a flat broad real dollar index over the forecast period rather than the dollar depreciation in the baseline. The federal funds rate is assumed to be unchanged from the baseline, while foreign central banks are assumed to follow a Taylor rule. Growth relative to baseline is reduced, reaching 1/2 percentage point lower by the second half of 2002, as the higher real exchange rate causes a contraction in real net exports. Inflation falls relative to baseline because the higher real exchange rate lowers import prices and slows GDP growth.

Alternative Simulations:
Dollar Depreciation and Higher Oil Prices, Flat Real Dollar
(Percent change from previous period, annual rate)

Indicator and simulation	2000: H2	2001 H1	2001 H2	2002 H1	2002 H2
U.S. real GDP					
Baseline	2.4	2.7	3.5	3.8	4.0
Depreciation and higher oil prices					
Flat funds rate	2.5	3.3	4.9	5.8	5.5
Taylor rule	2.5	3.1	3.9	4.1	3.9
Flat real dollar	2.4	2.7	3.3	3.5	3.5
U.S. PCE prices excl. food and energy					
Baseline	1.8	2.0	2.0	2.0	2.0
Depreciation and higher oil prices					
Flat funds rate	2.0	2.7	2.9	2.8	2.6
Taylor rule	2.0	2.6	2.6	2.1	1.6
Flat real dollar	1.8	2.0	1.9	1.8	1.8

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

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December 13, 2000

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

							-----Projected----		
Measure and country	1994	1995	1996	1997	1998	1999	2000	2001	2002
REAL GDP (1)									
Total foreign	5.2	2.3	4.0	4.3	1.1	4.6	4.7	3.5	3.7
Industrial Countries	4.1	1.9	2.5	3.7	2.2	3.7	3.7	2.9	2.9
of which:									
Canada	5.5	1.4	2.4	4.8	3.2	4.9	4.4	3.1	3.2
Japan	1.7	2.6	2.9	0.7	-1.4	0.4	3.1	1.1	1.5
United Kingdom	4.6	1.9	2.9	3.5	2.0	2.9	2.7	2.5	2.5
Euro-11	3.0	1.5	1.7	3.0	2.0	3.2	3.0	3.0	3.1
Germany	2.9	1.1	1.3	1.6	0.9	2.5	3.3	2.8	3.2
Developing Countries	6.8	3.1	6.2	5.1	-0.3	5.9	6.2	4.5	4.8
Asia	8.8	7.2	6.8	4.8	-1.9	8.3	6.8	5.0	5.3
Korea	9.2	7.4	6.1	3.1	-4.6	14.0	6.4	3.9	5.4
China	16.3	12.6	9.2	8.2	9.5	6.2	8.1	7.5	7.7
Latin America	5.4	-3.7	6.1	6.1	1.0	3.9	5.8	4.1	4.5
Mexico	5.2	-7.1	7.1	6.7	2.7	5.3	7.3	4.6	4.9
Brazil	10.0	-0.6	4.6	2.0	-1.4	3.5	3.9	3.1	4.0
CONSUMER PRICES (2)									
Industrial Countries	1.1	1.3	1.4	1.5	1.0	1.1	1.8	1.2	1.5
of which:									
Canada	-0.0	2.1	2.0	1.0	1.1	2.4	2.9	1.8	2.0
Japan	0.8	-0.8	0.1	2.0	0.8	-1.3	-1.0	-0.5	0.0
United Kingdom (3)	2.2	2.9	3.2	2.7	2.5	2.2	2.2	2.4	2.4
Euro-11 (4)	NA	NA	NA	1.5	0.8	1.5	2.8	1.7	1.9
Germany	2.8	1.4	1.3	1.5	0.3	1.1	2.4	1.4	1.5
Developing Countries	22.9	16.9	11.1	6.8	9.1	4.7	4.3	6.0	5.6
Asia	10.7	6.3	4.8	2.8	4.5	0.2	2.0	4.3	4.2
Korea	5.8	4.4	5.0	5.0	5.9	1.3	3.0	3.6	4.0
China	26.9	11.0	6.8	0.9	-1.2	-0.9	0.8	4.6	4.9
Latin America	54.0	42.1	25.9	15.6	15.5	12.6	8.5	8.3	7.8
Mexico	7.0	48.9	28.2	17.2	17.5	13.6	9.0	8.8	8.1
Brazil	1196.9	21.5	9.6	4.7	1.6	8.3	6.3	5.1	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)

	Projected											
	2000				2001				2002			
Measure and country	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	7.4	4.2	4.2	3.2	3.2	3.4	3.7	3.7	3.6	3.6	3.7	3.7
Industrial Countries	5.3	3.6	3.4	2.6	2.7	2.8	3.0	3.0	2.9	2.9	2.9	2.9
of which:												
Canada	5.5	4.6	4.8	2.8	2.8	3.2	3.3	3.3	3.2	3.2	3.2	3.2
Japan	10.0	0.9	1.0	0.7	1.0	0.7	1.3	1.4	1.4	1.4	1.6	1.6
United Kingdom	2.1	3.8	2.9	2.0	2.6	2.5	2.5	2.6	2.5	2.5	2.5	2.5
Euro-11	3.6	3.2	2.7	2.7	2.8	3.0	3.0	3.1	3.1	3.1	3.1	3.0
Germany	3.6	4.6	2.3	2.5	2.5	2.7	2.8	3.1	3.2	3.2	3.2	3.2
Developing Countries	10.5	5.1	5.4	4.1	4.0	4.3	4.7	4.8	4.6	4.6	4.9	4.9
Asia	12.7	4.7	6.1	4.1	4.1	4.8	5.5	5.6	5.2	5.1	5.5	5.6
Korea	7.1	4.8	14.0	0.0	2.5	3.5	4.5	5.0	5.0	5.0	5.5	6.0
China	9.5	1.9	11.0	10.0	6.0	6.0	9.0	9.0	6.5	6.5	9.0	9.0
Latin America	9.0	5.4	4.5	4.2	3.9	4.0	4.2	4.3	4.4	4.4	4.5	4.5
Mexico	11.8	6.7	5.8	5.0	4.5	4.5	4.7	4.7	4.9	4.9	4.9	4.9
Brazil	5.6	2.1	4.8	3.0	2.5	3.0	3.2	3.7	4.0	4.0	4.0	4.0
CONSUMER PRICES (2)	Four-quarter changes											
Industrial Countries	1.5	1.4	1.6	1.8	1.7	1.7	1.3	1.2	1.3	1.3	1.4	1.5
of which:												
Canada	2.7	2.4	2.7	2.9	2.8	2.6	1.9	1.8	1.7	1.8	1.9	2.0
Japan	-0.8	-1.0	-1.1	-1.0	-1.0	-0.6	-0.6	-0.5	-0.3	-0.2	-0.1	0.0
United Kingdom (3)	2.1	2.1	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.4	2.4	2.4
Euro-11 (4)	2.1	2.1	2.5	2.8	2.5	2.4	2.0	1.7	1.7	1.8	1.9	1.9
Germany	2.0	1.7	2.2	2.4	2.0	2.1	1.6	1.4	1.3	1.4	1.5	1.5
Developing Countries	3.9	3.8	4.0	4.3	5.3	6.0	6.0	6.0	5.8	5.7	5.7	5.6
Asia	0.5	0.8	1.4	2.0	3.1	4.4	4.5	4.3	4.1	4.1	4.2	4.2
Korea	1.5	1.4	3.2	3.0	4.7	5.3	3.9	3.6	3.7	3.7	3.9	4.0
China	0.1	0.1	0.3	0.8	1.7	4.1	4.3	4.6	4.4	4.5	4.7	4.9
Latin America	10.0	9.1	8.7	8.5	9.0	8.9	8.5	8.3	8.2	8.1	8.0	7.8
Mexico	10.6	9.6	9.0	9.0	9.6	9.3	8.9	8.8	8.6	8.5	8.3	8.1
Brazil	7.8	6.6	7.7	6.3	6.9	8.0	5.8	5.1	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.

Strictly Confidential (FR)
Class II FOMC

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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	-0.7	-0.4	-0.1
Exports of G&S	1.0	1.0	1.1	1.0	0.3	0.5	1.2	0.8	1.2
Imports of G&S	-1.3	-0.6	-1.3	-1.7	-1.4	-1.5	-1.9	-1.1	-1.3
	Percentage change, Q4/Q4								
Exports of G&S	10.5	9.7	9.8	8.5	2.2	4.3	11.1	6.8	10.3
Services	8.2	8.8	8.9	1.4	2.8	0.2	4.4	4.5	7.1
Agricultural Goods	16.3	-4.0	3.8	1.0	-0.3	-0.5	13.5	-8.8	3.7
Computers	27.4	39.1	21.6	25.8	7.0	13.3	36.6	34.2	33.5
Semiconductors	66.9	79.6	44.6	21.3	9.3	34.4	40.2	37.9	37.3
Other Goods 1/	6.9	5.7	7.8	10.9	1.3	4.1	9.8	3.7	6.4
Imports of G&S	12.2	5.0	11.2	14.3	11.2	12.0	13.6	7.6	8.3
Services	1.8	5.5	5.3	14.0	9.5	2.1	13.6	3.1	4.4
Oil	-0.2	2.4	7.8	3.9	4.6	-3.9	10.6	4.1	3.3
Computers	39.0	35.0	17.8	33.0	26.7	25.0	25.3	26.8	27.4
Semiconductors	54.5	92.4	56.7	32.9	-7.3	34.0	47.2	39.9	38.6
Other Goods 2/	12.3	-1.2	10.5	12.7	11.6	13.9	11.6	5.4	5.6
	Billions of chained 1996 dollars								
Net Goods & Services	-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-408.3	-462.2	-487.3
Exports of G&S	732.8	808.2	874.2	981.5	1003.6	1033.0	1138.9	1226.4	1338.4
Imports of G&S	819.4	886.6	963.1	1094.8	1224.6	1355.3	1547.2	1688.6	1825.7
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-118.6	-109.5	-123.3	-140.5	-217.1	-331.4	-438.5	-489.8	-535.4
Current Acct as Percent of GDP	-1.7	-1.5	-1.6	-1.7	-2.5	-3.6	-4.4	-4.7	-4.8
Net Goods & Services (BOP)	-97.0	-96.0	-102.1	-105.9	-166.9	-265.0	-366.9	-404.1	-433.6
Investment Income, Net	21.1	25.0	23.4	11.1	-1.0	-13.1	-14.2	-26.9	-42.1
Direct, Net	55.2	64.9	69.4	71.9	67.7	62.7	73.3	75.7	84.0
Portfolio, Net	-34.1	-39.9	-46.0	-60.9	-68.8	-75.8	-87.4	-102.6	-126.1
Other Income & Transfers,Net	-42.7	-38.6	-44.6	-45.7	-49.2	-53.4	-57.4	-58.7	-59.7

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1997				1998				1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.0	-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	18.9	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.												
US CURRENT ACCOUNT BALANCE	-137.5	-119.9	-133.6	-171.1	-169.6	-205.9	-245.2	-247.7	-266.5	-315.9	-358.6	-384.9
Current 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	-59.1	-48.7	-51.4	-50.9	-62.5

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

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December 13, 2000

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000				Projected 2001				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-0.9	-1.0	-0.8	-0.1	-0.5	-0.7	-0.5	0.3	-0.4	-0.3	-0.1	0.5
Exports of G&S	0.7	1.5	1.6	0.9	0.2	0.8	0.8	1.3	0.7	1.1	1.2	1.6
Imports of G&S	-1.6	-2.5	-2.4	-1.0	-0.8	-1.5	-1.3	-1.0	-1.1	-1.4	-1.3	-1.2
Percentage change from previous period, s.a.a.r.												
Exports of G&S	6.3	14.3	15.4	8.5	2.0	6.8	7.3	11.4	6.2	10.0	10.6	14.4
Services	6.9	3.5	4.7	2.6	1.4	3.6	5.8	7.4	7.0	7.0	7.3	7.3
Agricultural Goods	25.3	-2.0	42.6	-5.3	-2.7	-0.3	-12.4	-18.6	3.8	3.6	3.6	3.7
Computers	44.6	44.9	26.9	31.1	34.8	34.8	33.5	33.5	33.5	33.5	33.5	33.5
Semiconductors	20.7	71.2	37.5	36.0	38.6	38.6	37.3	37.3	37.3	37.3	37.3	37.3
Other Goods 1/	0.7	15.0	15.8	8.2	-3.5	3.3	4.3	11.0	-0.4	6.1	6.8	13.5
Imports of G&S	12.0	18.6	17.4	6.9	5.1	10.1	8.7	6.6	7.3	9.5	8.7	7.5
Services	16.6	10.6	22.1	6.0	2.5	3.0	3.1	4.0	4.4	4.4	4.4	4.5
Oil	30.3	35.3	-5.8	-9.9	-13.9	37.9	14.2	-13.2	-8.5	27.3	10.3	-11.6
Computers	2.8	44.5	28.9	28.7	27.4	27.4	26.3	26.3	27.4	27.4	27.4	27.4
Semiconductors	20.7	33.5	88.4	54.6	41.2	41.2	38.6	38.6	38.6	38.6	38.6	38.6
Other Goods 2/	9.7	15.8	15.8	5.3	4.3	5.9	6.0	5.6	5.6	5.6	5.6	5.7
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-376.8	-403.4	-425.1	-427.9	-442.2	-462.0	-475.4	-469.3	-481.1	-490.6	-495.0	-482.6
Exports of G&S	1084.8	1121.8	1162.6	1186.5	1192.2	1212.1	1233.8	1267.5	1286.7	1317.8	1351.5	1397.6
Imports of G&S	1461.7	1525.2	1587.8	1614.3	1634.4	1674.1	1709.2	1736.8	1767.8	1808.4	1846.5	1880.2
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-406.0	-424.6	-451.5	-472.0	-466.7	-484.0	-500.0	-508.5	-516.3	-531.7	-543.4	-550.3
Current Account as % of GDP	-4.2	-4.3	-4.5	-4.6	-4.5	-4.6	-4.7	-4.8	-4.8	-4.8	-4.9	-4.9
Net Goods & Services (BOP)	-340.5	-357.1	-383.0	-387.2	-386.7	-403.3	-416.3	-410.2	-423.5	-434.8	-442.3	-433.8
Investment Income, Net	-11.9	-12.6	-13.4	-18.7	-24.4	-24.6	-27.5	-31.2	-36.1	-39.8	-44.0	-48.4
Direct, Net	68.3	73.7	76.9	74.2	71.0	74.9	77.5	79.5	80.4	83.0	85.3	87.4
Portfolio, Net	-80.2	-86.3	-90.2	-92.9	-95.4	-99.5	-105.0	-110.7	-116.5	-122.7	-129.3	-135.8
Other Inc. & Transfers, Net	-53.6	-55.0	-55.1	-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.