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Part 1

May 9, 2001

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

Confidential (FR) Class II FOMC

May 9, 2001

Summary and Outlook

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Domestic Developments

In response to indications that the manufacturing sector is continuing to contract and that the weakening in activity is gaining a broader foothold in the economy, we have marked down our estimate of growth in real GDP in the second quarter to 3/4 percent at an annual rate, 1/2 percentage point lower than we projected in the March Greenbook. Indeed, final demand is projected to be little changed this quarter, as the retrenchment in capital outlays continues and household spending stagnates in response to past declines in net worth, slow income growth, and rising unemployment.

Relative to the March Greenbook, we are now anticipating a more prolonged period of sub-par growth. The shake-out in the high-tech sector appears to be deeper and more persistent than we had anticipated, and that greater weakness, together with a more pronounced softening in other parts of manufacturing, likely is spilling over to overall income and demand. In addition, we have marked down our assumptions about foreign economic activity in this forecast, reflecting the global nature of the high-tech slump and the effects abroad of the slowdown in the United States. At this point, we think that the U.S. economy will avoid slipping into recession, but economic conditions are expected to be quite weak, with noticeable declines in payroll employment continuing for the next few months; to many, the economy will look and feel as if it is in recession.

Several key factors are expected to limit the deterioration in economic conditions and lay the foundation for a pickup in activity late this year and in 2002. The aggressive easing of monetary policy that has already occurred, along with an assumed further near-term reduction in the federal funds rate, is anticipated to provide a lift to aggregate demand that should be increasingly apparent as the year goes on. Fiscal policy is also likely to stimulate demand later this year. We have pencilled in a $50 billion temporary tax cut, which will be paid to households late in the third quarter of this year; the spending implications will begin to show up in the fourth quarter. In addition, we continue to assume enactment of a permanent tax relief package. A small portion of the permanent cut will be made retroactive this year, and a second phase will be implemented in 2002.

At the same time, we have marked down our forecast for structural productivity growth over the projection period in response to incoming data on multifactor productivity and a weaker outlook for investment. Nonetheless, we remain optimistic that substantial efficiency gains from implementation of new technologies remain to be exploited, and that capital outlays in this area will revive as uncertainty about the future course of the economy diminishes. Still, the relatively strong growth in structural productivity plays a key role in supporting gains in consumer and business spending.

Taking all these factors together, we expect real GDP growth to pick up late in the year and to average 3-1/2 percent in 2002. With growth of output below that of potential until late in the projection period, the unemployment rate is projected to rise steadily, reaching 5 percent by the end of this year and 5-1/2 percent by the end of 2002. With some slack developing in labor markets and the effects of the past increases in energy prices dissipating, inflation is projected to decline. We expect core PCE price inflation to edge down from 2.1 percent to 1.9 percent in 2002.

Although the overall economy avoids recession in our forecast, any number of factors could upset the delicate balance underlying our baseline projection. Alternative model simulations later in this section explore the implications for economic activity and inflation of a larger and more sustained tech-sector recession, a lower rate of technical progress, and a more pronounced and sustained loss in consumer confidence. We also consider alternative model simulations of more rapid growth in final demand this year and of a significant rise in inflation expectations.

Key Background Factors

Equity investors were cheered by the surprise intermeeting cut in the federal funds rate in April. The Wilshire 5000 index is currently about 10 percent above the level anticipated in the March Greenbook. But we expect that news about corporate earnings will continue to disappoint markets and that equity prices will give back some of their recent gains, stabilizing at a level about 5 percent above that in the March Greenbook.

Yields on longer-term Treasuries have moved up about 40 basis points over the intermeeting period, as market participants marked up the economy's prospects. Treasury yields may also have been lifted by market participants' perception of a greater likelihood of reduced on-budget surpluses and by heightened concerns about inflation. Changes in yields on corporate bonds have been mixed since the March FOMC meeting; and spreads have narrowed a bit, perhaps reflecting an assessment that the downside risk to real activity is more limited now than before.

While bond market participants seem to have become more optimistic regarding the prospects for economic growth, financial conditions are still tight for riskier firms, and credit quality remains a concern. Nonetheless, there is no evidence of a widespread "credit crunch." Issuance of corporate bonds has been very strong, especially among high-quality firms, as borrowers have been taking advantage of favorable rates. In the telecom sector, lower-grade firms are finding financing increasingly expensive and difficult to obtain, but, even in this sector, investment-grade firms continue to have unimpeded access to funds. Bank lending officers again report that they have been tightening standards and terms on business loans overall, but the move toward tightening has lessened some in recent months. Conditions in the commercial paper market have improved following the strong negative reaction to defaults in January. After sharp declines in the amount of commercial paper outstanding over the first three months of the year, the paydown slowed in April.

Recent progress in the Congress on a compromise budget plan has caused us to significantly revise our fiscal assumptions for this year and next. We are now assuming that a temporary tax cut of $50 billion (about $500 per taxpayer) will be paid out just before the end of the current fiscal year. In line with our assumption in the March Greenbook, we continue to anticipate that the separate permanent tax cut will include a piece that reduces payments in the current fiscal year. Beyond that, we have boosted the size of the permanent income tax cut in fiscal 2002 from $40 billion to $60 billion, consistent with the budget resolution agreed to by House and Senate conferees. Based on that agreement, we now expect that the permanent tax cut will total $1.25 trillion over the next ten fiscal years (2002 to 2011).

Staff Tax-Cut Assumptions in March and May Greenbooks
(Billions of dollars)

Tax cut	Fiscal 2001		Fiscal 2002	
	March GB	May GB	March GB	May GB
Temporary	0	50	0	0
Permanent	10	10	40	60

We continue to project that discretionary spending will rise about 5 percent in fiscal 2002, in line with the assumptions in the budget resolution. On the receipts side, one important piece of news is the absence of an "April surprise," unlike the past several years, when receipts came in well above expectations. On the contrary, recent receipts have been running, if anything, a little on the soft side. All told, we now expect the unified budget to show a surplus of $203 billion in fiscal 2001 and $206 billion in fiscal 2002--off about $53 billion and $36 billion, respectively, from our assumptions in the March Greenbook. The projected on-budget surpluses, which exclude social security and the Postal Service, are $36 billion and $33 billion, respectively.

We have revised down our estimate of structural productivity growth for this year and next by 0.3 percentage point in each year, based on new data on multifactor productivity growth and our somewhat more pessimistic assessment of the outlook for investment in equipment. That said, in light of the extent to which productivity growth has held up during the current deceleration in activity, we still view the outlook for productivity growth as bright. Indeed, even after these adjustments, we are still assuming that structural productivity growth will average 2-3/4 percent over this year and next.

The global high-tech slump and the slowdown in the U.S. economy have contributed to a significant downshift in the pace of economic activity abroad. We now expect foreign growth to be only about 1-3/4 percent at an annual rate during the first half of this year, about 1/2 percentage point below our projection in the March Greenbook. As the U.S. economy rebounds and oil prices decline, the pace of growth abroad should gradually regain some momentum. We project that foreign GDP will increase at an annual rate of about 3 percent in the second half of this year, down about 3/4 percentage point from our March Greenbook forecast. In 2002, foreign activity is projected to rise 3-3/4 percent, unchanged from the previous projection.

Despite the substantial easing of monetary policy in the United States, the foreign exchange value of the dollar has held steady against the currencies of a broad group of our trading partners and is now, in real terms, almost 2-1/2 percent above the level that we projected in the March Greenbook. Nonetheless, we project that the real value of the dollar will depreciate about 1-1/2 percent over the forecast period. As a result of the higher jumping off point and the somewhat more moderate projected rate of depreciation, the real value of the dollar is on average about 2-3/4 percent above that projected in the March Greenbook.

The spot price of West Texas intermediate crude oil has not changed much since the time of the March FOMC meeting. WTI prices are expected to remain near their current level of just over $28 per barrel into the fourth quarter of this year, and then to decline to about $24.50 per barrel by the end of 2002. This projection closely tracks the prices implied by futures markets and is about unchanged from the March Greenbook.

Recent Developments and the Near-Term Outlook

We now project that real GDP is increasing at an annual rate of 3/4 percent in the current quarter, 1/2 percentage point below the March Greenbook projection. The weakness in the labor market figured prominently in our marking down the near-term projection. Private payrolls are estimated to have fallen 261,000 in April. While we believe this reading overstates the true degree of weakening in labor markets, it seems clear that employers are now actively reducing their staffing levels to deal with the economic slowdown. Indeed, initial claims for unemployment insurance are at levels consistent with another noticeable decline in payrolls in May. Based on the data on hours worked and other indicators of production, manufacturing output appears to have fallen slightly in April.

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

Measure	2001:Q2 March GB	2001:Q2 May GB	2001:Q3 March GB	2001:Q3 May GB
Real GDP	**1.3**	**.7**	**2.4**	**1.5**
Private domestic final purchases	.7	.1	2.1	1.4
Personal consumption expenditures	.6	.4	2.0	1.6
Residential investment	5.2	-.3	-.3	.3
Business fixed investment	.2	-1.5	3.2	.9
Government outlays for consumption and investment	3.1	1.5	3.2	3.0
	Contribution to growth, percentage points			
Inventory investment	.5	.7	.4	.4
Net exports	-.4	-.4	-.4	-.7

Businesses have been aggressively dealing with their inventory imbalances. Production adjustments in the motor vehicle industry brought days' supply of light vehicles down to reasonably comfortable levels by the end of the first quarter, and subsequent increases in assemblies should make a small positive contribution to real GDP growth in the current quarter. But with signs that demand may be slipping, we expect days' supply to move up in the near term, prompting additional cuts in assemblies in the third quarter.[1] Several other manufacturing industries have had less success in bringing inventories under control, and we anticipate that the need to trim excessive stocks will restrain production through the fall.

Consumer spending, which has been a stalwart source of strength thus far, may now be softening. In April, light vehicle sales stepped down, and consumer sentiment fell back after having strengthened briefly in late March. Widespread layoff announcements and the rise in the unemployment rate suggest consumer attitudes are unlikely to improve much in the near term. High prices for energy continue to sap households' purchasing power, and if our expectation is borne out that nominal labor income will slow this quarter, growth in real incomes will remain sluggish. Factoring in the declines in household net worth over the past

1. New motor vehicle output held down real GDP growth in the first quarter by 0.4 percentage point. We are projecting a 0.3 percentage point positive contribution in the second quarter and a drag of 0.9 percentage point in the third quarter.

year, we anticipate that consumers will tighten their purse strings in the current quarter, resulting in little growth in overall consumer spending.

Very attractive mortgage rates have cushioned the effects of the economic slowdown on housing construction. Single-family housing starts dipped to a 1.24 million unit pace in March, but permits were consistent with a stronger level of activity, and sales of new and existing homes were up sharply. In the multifamily sector, we are expecting starts to hold up reasonably well, even if not at the elevated March level. For the second quarter as a whole, we expect total starts to edge down to a still robust annual rate of 1.62 million units.

Businesses appear to be cutting back on their capital spending in the current quarter. Investment in nonresidential structures has continued to increase at a brisk pace. However, orders in both the IT and other sectors continued to fall in March, and we expect real outlays for E&S to decline at an annual rate of 5-1/4 percent in the current quarter and to edge down further in the third quarter.

In the federal sector, real expenditures for consumption and investment are expected to be about unchanged in the current quarter, following a sizable jump last quarter. In the state and local sector, real spending also jumped in the first quarter of the year, elevated by a pickup in construction; some payback should restrain the growth in spending in the current quarter.

We expect real net exports will exert a small arithmetic drag on real GDP growth in the second quarter, after having posted a positive 1.5 percentage point contribution in the first quarter when imports plummeted. The magnitude of the first-quarter plunge in imports is difficult to square with the robust pace of domestic demand that quarter; and with the continuing weakness of domestic demand in the current quarter, we expect imports to retrace only a fraction of their first-quarter drop. The slowing in growth of activity abroad continues to weigh on real exports, which are projected to be about flat in the current quarter after having declined in the preceding two quarters.

Turning to inflation, recent price data have been on the high side of our expectations. We now expect the PCE chain price index to rise at an annual rate of 2-3/4 percent in the current quarter--up significantly from the 1 percent projection in the March Greenbook. Higher energy prices account for the bulk of this revision, reflecting the hike in electricity prices in California at the end of March and recent sharp increases in gasoline prices. Core consumer prices have also come in higher than we expected, and we expect core PCE prices to increase about 2 percent in the current quarter, a couple of tenths more than we anticipated in the last forecast.

The Longer-Term Outlook for the Economy
We have trimmed our forecast for GDP growth for this year and next, and we now project output growth of nearly 2 percent this year and 3-1/2 percent in 2002. The revision to our projection reflects several crosscurrents in the outlook, with changes in financial conditions and structural productivity being key elements. On the financial side, the lower path for the funds rate would be expected, all else equal, to lower bond yields, raise equity prices, and lower the exchange value of the dollar. However, developments in financial markets since the March FOMC meeting have not unfolded in line with these expectations. In particular, corporate bond rates and the exchange value of the dollar have been essentially unchanged in the face of significant monetary policy easing. Changes in financial influences are, on net, a small plus for our projection of economic activity this year and next.

Regarding structural productivity growth, we have marked down our forecast 0.3 percentage point this year and next. We expect that the less favorable performance on the supply side of the economy feeds through relatively quickly to demand by reducing expected income growth for households as well as earnings growth for businesses. Through these channels, aggregate demand is reduced about as much as aggregate supply in the forecast. The reduction in structural productivity growth also puts upward pressure on firms' costs and thereby adds some additional inflationary pressure to the mix.

Household spending. We expect the $50 billion temporary tax cut to provide a considerable boost to consumer spending late this year and early next year.[2] Owing to its transitory nature, we have assumed that half of it will be saved and the other $25 billion will be spent during the projection period. On the assumption that the proceeds of the cut are disbursed late in the third quarter, we expect that a big chunk of the spending response will hit in the fourth quarter; the remainder is assumed to be spread over the first half of next year.[3] The permanent income tax cut comes on line on July 1 of this year and ratchets up at the beginning of 2002. Taken together, the tax cuts boost the level of household spending by about 1 percent in the fourth quarter of 2001. By the fourth quarter of 2002, after the effects of the temporary component of the tax package have

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2. Given the uncertainty about the exact timing of the refund and the Treasury's capacity to process the payments, we have assumed that refund checks will arrive in people's mailboxes at the very end of the third quarter; but this process may go faster, and some of the resulting increase in spending plausibly could occur as early as the third quarter.

3. These assumptions are broadly consistent with the experience of previous tax-induced transitory cash flows--episodes of greatest relevance include the 1975 Social Security payment and income-tax rebate, the 1968 income tax surcharge, and the1992 adjustment in withholding schedules--as well as with research suggesting that consumption is generally more sensitive to cash flow than the permanent income hypothesis would predict.

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

Measure	2000 H1	2000 H2	2001 H1	2001 H2	2002
Real GDP	**5.2**	**1.6**	**1.3**	**2.4**	**3.5**
Previous	5.2	1.6	1.1	2.9	3.7
Final sales	5.3	2.1	2.5	2.6	2.7
Previous	5.3	2.0	1.9	2.5	3.5
PCE	5.3	3.6	1.8	3.2	2.3
Previous	5.3	3.7	1.5	2.2	2.7
Residential investment	2.2	-7.2	1.6	1.3	2.5
Previous	2.2	-6.4	6.5	.1	3.0
BFI	17.7	3.7	.6	2.1	7.2
Previous	17.7	3.2	3.2	4.5	9.3
Government purchases	1.8	.7	3.3	3.0	3.5
Previous	1.8	.7	2.9	3.3	3.5
Exports	10.2	3.2	-.7	4.9	6.5
Previous	10.2	3.4	.9	7.1	8.1
Imports	15.2	7.5	-4.1	6.5	7.9
Previous	15.2	7.8	2.9	6.2	8.2
	Contribution to growth, percentage points				
Inventory change	-.0	-.4	-1.1	-.2	.8
Previous	-.0	-.4	-.8	.3	.2
Net exports	-1.0	-.7	.5	-.4	-.4
Previous	-1.0	-.7	-.3	-.1	-.3

waned, the level of real PCE is only 0.6 percent higher than it would have been in the absence of the tax changes.

Aside from the wiggles induced by fiscal policy, the dominant influences on our forecast for consumer spending center on the paths for growth in real incomes and in household net worth. The pickup in real income growth and the waning of uncertainty about the economic outlook should boost spending next year. But the declines in equity prices over the past year likely began to have a significant negative effect on consumer spending only in early 2001; we expect this drag on consumer expenditures to intensify in coming quarters and to persist over the entire forecast period. Considering all of these influences, we expect real PCE growth to average about 2-1/4 percent over the projection period, well below the 4-1/2 percent pace of the preceding five years.

As noted above, we expect housing starts to edge down in the near term as falling employment and negative wealth effects take their toll. But with mortgage rates expected to remain low and with fiscal policy providing a boost to after-tax income, we expect that homes will remain quite affordable by historical standards. Thus, we are forecasting starts to rise from a 1.63 million unit pace this year to 1.67 million units in 2002.

Business spending in equipment and software. In light of the recent slump in capital outlays and our lower estimate of structural multifactor productivity growth, we have again marked down our projection for equipment and software investment, especially in the high-tech components. All else equal, the slower pace of MFP growth implies a lower rate of return to capital, which damps the pace of capital accumulation. The weakness in high-tech investment also spills over to capital outlays in other categories, as tech firms cut back on their own demand for the equipment that they use for production. The more general deceleration in business output also is a negative influence on the broader categories of investment. We now expect real outlays to decline 1-1/4 percent this year.

Over the longer run, we still expect the underlying pace of improvements in information technologies to be robust. With the rebound in output growth and the reduction in uncertainty, the longer-run fundamental demand for new, faster, and smarter information and communication products and services should resurface. Hence, we expect investment in the computer-related part of the tech sector to bounce back early next year to a pace consistent with underlying technical change; the recovery in telecommunications, however, is expected to take longer. The magnitude of this projected rebound in high-tech investment is similar to that seen in the early 1990s following the recession. Including the spillover effects of the tech resurgence on purchases of other investment goods, we expect overall spending on E&S to increase 8-1/2 percent in 2002, still well below the torrid pace recorded over the second half of the 1990s.

Nonresidential structures. In stark contrast to spending on equipment and software, outlays on nonresidential structures have posted solid gains in recent quarters. We expect spending in this category to increase 9-1/4 percent this year before dropping back to a 4 percent pace in 2002. Surging energy prices have powered a takeoff in drilling and mining; given our forecast that energy prices will remain relatively high for some time, we expect continued hefty gains in this area. Similarly, investment by public utilities should show continued robust growth. In contrast, the weakness in overall economic activity should hold the growth of demand for commercial and office space to quite modest rates.

Inventory investment. Swings in inventory investment toward the end of the year and into early next year are heavily influenced by the effects of the temporary tax cut. The spurt in consumer spending resulting from the temporary tax cut late this year will result in a drawdown in inventories, leading firms to replenish their stocks in the coming year. Abstracting from these transitory influences, we expect the underlying downward trend in inventory-sales ratios to continue.

Government spending. We now expect real federal expenditures for consumption and investment to rise about 3 percent during 2001 and 3-1/2 percent in 2002. We project real state and local consumption and investment to increase about 3-1/4 percent this year and 3-1/2 percent next year, roughly in line with the pace over the past three years. The overall financial condition of state and local governments remains fairly good, and the dent in revenues owing to the slowdown in economic activity should not interfere with the projected moderate pace of growth in consumption expenditures. Moreover, many states have accumulated sizable surplus funds over the long economic boom, and these should help cushion spending from the effects of temporary revenue shortfalls owing to the projected sluggish pace of economic activity.

Net exports. With the moderate rebound in growth projected at home and abroad, we expect both real imports and exports to post solid gains next year. After an increase of only 2 percent in 2001, real exports are forecast to grow 6-1/2 percent in 2002. Real imports are expected to increase only 1 percent this year but to rise 8 percent next year. As a result, real net exports make essentially no arithmetic contribution to growth this year but restrain growth by nearly 1/2 percentage point in 2002. (A more detailed description of these developments may be found in the International Developments section.)

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

As noted, new data from the BLS on capital deepening and multifactor productivity growth in 1999 and revisions to the data for 1996-1998 have prompted us to reassess our estimates of structural productivity growth. The latest information indicates that capital deepening accounted for a slightly larger portion of the growth in labor productivity over the 1996-1999 period than previously thought, and that multifactor productivity growth was correspondingly slower. Carrying these results forward, we have lowered our estimate of trend MFP growth in 2000 and our projections for 2001 and 2002 by 0.2 percentage point. In addition, the weaker investment projection in this Greenbook trims another 0.1 percentage point from structural productivity this

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

Measure	1973-95	1996-98	1999	2000	2001	2002
Structural labor productivity	**1.4**	**2.5**	**3.2**	**3.2**	**2.8**	**2.7**
Previous	1.4	2.5	3.2	3.3	3.1	3.0
Contributions[1]						
Capital deepening	.7	1.2	1.6	1.6	1.2	1.1
Previous	.7	1.1	1.5	1.5	1.3	1.2
Multifactor productivity	.4	1.0	1.3	1.3	1.3	1.3
Previous	.4	1.1	1.4	1.5	1.5	1.5
Labor quality	.3	.3	.3	.3	.3	.3

1. Percentage points.

year and next. All in all, we now are projecting structural productivity growth of 2.8 percent in 2001 and 2.7 percent in 2002--in both years 0.3 percentage point below the corresponding March Greenbook assumptions.

Productivity and the labor market. We expect actual (as opposed to structural) productivity in the nonfarm business sector to increase at an annual rate of 3 percent in the second quarter after having declined at a 1/4 percent rate in the first quarter. Part of the swing in these figures reflects some volatility in the reported hours of self-employed workers. For the year as a whole, we expect labor productivity to increase nearly 2 percent--depressed vis-a-vis its structural pace by some cyclical hoarding of labor. With economic growth moving back toward potential, labor productivity growth rises to 2-3/4 percent, equaling the assumed pace of structural productivity growth.

Wages and prices. We expect prices to decelerate modestly over the projection period, reflecting the partial reversal of the recent run-up in energy prices and restraint from increasing slack in labor markets.[4] We project that the PCE chain price index will increase 2 percent this year and 1-3/4 percent in 2002, after a 2-1/4 percent rise in 2000. The downtrend in overall CPI inflation is somewhat

4. In this forecast, we have revised upward our estimates of the NAIRU. The NAIRU is now assumed to be 4.9 percent in 2001 and 5 percent in 2002--up from 4.8 percent (in both years) in the March Greenbook. The upward revisions reflect the cumulative changes we have made to structural productivity growth over the past few Greenbooks. Changes in structural productivity growth do not affect the NAIRU in the long run, but they do have a short-run effect until workers' real wage aspirations have caught up with the change in structural productivity.

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

Measure	1999	2000	2001	2002
Output per hour, nonfarm business	3.8	3.3	2.0	2.8
Previous	3.8	3.4	2.1	3.1
Nonfarm payroll employment	2.2	1.6	-.0	.7
Previous	2.2	1.6	.5	.7
Household employment survey	1.5	1.0	-.3	.5
Previous	1.5	1.0	-.3	.5
Labor force participation rate[1]	67.1	67.1	67.0	66.9
Previous	67.1	67.1	67.0	66.9
Civilian unemployment rate[1]	4.1	4.0	5.1	5.5
Previous	4.1	4.0	5.2	5.6

1. Percent, average for the fourth quarter.

steeper, with CPI inflation expected to be 2-1/2 percent in 2001 and 2 percent in 2002, after a 3-1/2 percent increase last year.

Continuing the upward spiral of the past two years, PCE energy prices rose at an annual rate of nearly 11 percent in the first quarter of this year, and gasoline and electricity prices have moved up sharply so far in the current quarter. Nevertheless, we expect energy prices to begin turning down in the coming months as high gasoline margins unwind in step with expectations in futures markets. We then look for energy prices to decline further, reflecting the movements in crude oil prices and a moderation in the price of natural gas.

The PCE chain price index excluding food and energy is expected to rise 2.1 percent this year and 1.9 percent in 2002. Both figures are 0.2 percentage point above the corresponding March Greenbook projections, a revision resulting from the slower growth of structural productivity that we are now projecting. The rise in the dollar has helped to keep core non-oil goods import prices in check this year, but with dollar depreciation in the offing, we expect that these prices will accelerate and will no longer be a restraining influence on domestic prices in 2002. Nonetheless, we still expect core PCE inflation to edge down as the indirect effects of higher energy prices wane and as slack in labor markets emerges. The core CPI is expected to increase about 2-3/4 percent this year and 2-1/2 percent in 2002.

We expect the ECI for hourly compensation to increase 4.4 percent this year, the same rate of increase recorded last year. The partial catchup in real wages to the

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

Measure	1999	2000	2001	2002
PCE chain-weighted price index	2.0	2.3	2.1	1.7
Previous	2.0	2.3	1.8	1.6
Food	2.0	2.5	3.1	2.6
Previous	2.0	2.5	3.0	2.4
Energy	12.0	15.9	-.2	-5.2
Previous	12.0	15.9	-4.3	-2.8
Excluding food and energy	1.5	1.6	2.1	1.9
Previous	1.5	1.6	1.9	1.7
Consumer price index	2.6	3.4	2.6	2.0
Previous	2.6	3.4	2.2	2.0
Excluding food and energy	2.0	2.5	2.7	2.5
Previous	2.0	2.5	2.5	2.3
GDP chain-weighted price index	1.6	2.3	2.2	1.8
Previous	1.6	2.3	2.0	1.7
ECI for compensation of private industry workers[1]	3.4	4.4	4.4	4.1
Previous	3.4	4.4	4.3	4.0
NFB compensation per hour	4.4	5.7	5.4	5.0
Previous	4.4	5.7	5.2	4.9
Prices of core non-oil merchandise imports	.4	1.4	.3	2.2
Previous	.4	1.4	1.2	2.5

1. December to December.

acceleration in structural productivity in the second half of the 1990s, rapid increases in health insurance costs, and the passthrough of the pickup in inflation last year all add to the increases in hourly compensation in the near term. But with inflation edging back down and the unemployment rate rising, we expect the ECI to decelerate to a 4.1 percent pace in 2002.

Financial Flows and Conditions

We project that the growth of nonfinancial debt will slow gradually over the forecast period, from 5-1/4 percent this year to 4-1/2 percent in 2002, even though economic activity picks up. Federal debt contracts more rapidly in 2002 than in 2001, largely reflecting the impact of the assumed one-time tax rebate to be paid out during the third quarter of this year. On the nonfederal side, debt growth slows for all major sectors between this year and next.

The expansion of the debt of nonfinancial businesses is forecast to slow from a little over 8 percent in 2001 to 7-1/2 percent next year, in both cases slower than in recent years but well above the growth of nominal income. Borrowing is buoyed by the need to finance a large and widening gap between capital expenditures and internally generated funds but is held down by a lower pace of equity retirements. The extraordinary pace of borrowing in the first quarter (primarily through bond issuance) and the associated buildup of liquid assets are not expected to be sustained. However, commercial paper, which ran off sharply in the first quarter, starts to expand again in coming months. Also contributing to a more typical mix of business financing is an expected recovery in C&I loans from their recent weakness.

Household debt growth is expected to moderate some over the projection period. With the wealth-to-income ratio forecast to continue to decline and with a high household debt burden, growth of consumer credit is expected to slow considerably. However, with the residential mortgage rate remaining relatively low, housing activity and mortgage growth stay firm for the balance of the forecast period.

Capital spending by state and local governments is expected to be essentially unchanged over the forecast period. However, borrowing by this sector is expected to slow sharply next year as the elevated pace of advance refunding trails off. The expected issuance of debt by California in the second half of this year to fund energy expenditures will provide a temporary boost to borrowing that fades next year.

Growth of the monetary aggregates is projected to slow from the very rapid pace of recent months, a period in which it has been boosted by falling opportunity costs associated with the monetary easing this year as well as by factors such as mortgage refinancing and the volatility of the stock market. M2 is expected to expand at about twice the rate of nominal income this year and then to grow in line with nominal income next year.

Alternative Simulations

Although current indicators point to weak near-term activity, stimulative monetary and fiscal policies should help output growth recover later this year and next. But there are many risks to this outlook, and we use model simulations to illustrate several alternative scenarios. In the "weak household demand" simulation, consumer spending and residential investment--which have been surprisingly robust in light of the sharp decline in consumer

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

Measure	2001 H1	2001 H2	2002 H1	2002 H2
Real GDP				
Baseline	**1.3**	**2.4**	**3.3**	**3.6**
Weak household demand	.6	.9	2.4	3.0
High-tech meltdown	1.2	2.0	2.5	2.4
Productivity slowdown	1.2	.3	.8	1.0
Rapid rebound	1.3	3.8	4.3	4.7
Higher inflation expectations	1.3	2.6	3.5	3.8
Lower NAIRU	1.3	2.5	3.3	3.6
Market-based funds path	1.3	2.5	3.5	3.5
Civilian unemployment rate[1]				
Baseline	**4.6**	**5.1**	**5.4**	**5.5**
Weak household demand	4.7	5.5	6.0	6.3
High-tech meltdown	4.6	5.2	5.6	5.9
Productivity slowdown	4.6	5.3	5.9	6.3
Rapid rebound	4.6	4.9	5.0	4.8
Higher inflation expectations	4.6	5.1	5.3	5.3
Lower NAIRU	4.6	5.1	5.4	5.4
Market-based funds path	4.6	5.1	5.3	5.4
PCE prices excluding food and energy				
Baseline	**2.3**	**1.9**	**1.9**	**1.9**
Weak household demand	2.3	1.9	1.8	1.6
High-tech meltdown	2.3	1.9	1.9	1.9
Productivity slowdown	2.3	2.0	2.1	2.3
Rapid rebound	2.3	1.9	1.9	2.0
Higher inflation expectations	2.3	2.0	2.3	2.5
Lower NAIRU	2.3	1.8	1.6	1.4
Market-based funds path	2.3	1.9	2.0	2.0

1. Average for the final quarter of the period.

sentiment--are much weaker than we have assumed in the forecast. We next consider the possibility of a "high-tech meltdown," in which spending on IT capital falls by more than in the staff forecast this year and recovers far less next year. In the "productivity slowdown" scenario, we couple this slower pace of IT investment with less-rapid growth in technical innovation. Of course, not all of the risks to the outlook are negative, and in the fourth scenario ("rapid rebound"), we consider the possibility that final demand will grow more quickly this year than anticipated in the baseline staff outlook. In the fifth scenario ("higher inflation expectations"), we consider the risk that the recent pickup in inflation and the rapid decline in the funds rate might cause the public to revise their views about the Fed's longer-run inflation objective.

Weak household demand. Consumer outlays and residential investment have thus far held up reasonably well despite the steep drop in sentiment. By contrast, in this scenario we consider the possibility that the onset of a noticeable rise in the unemployment rate, coupled with continued weak consumer sentiment, may make households much more cautious, leading to a more pronounced slump in consumers spending and residential construction. With monetary policy the same as in the staff forecast, the saving rate rises by about a percentage point relative to the baseline by the turn of the year, keeping real GDP growth below 1 percent this year and holding it to only 2-3/4 percent in 2002. As a consequence, the unemployment rate climbs to almost 6-1/4 percent by late next year, causing inflation to decline to 1-1/2 percent.

High-tech meltdown. One risk in the staff outlook is that we have underestimated the extent to which investment needs to fall, particularly for high-tech goods, in order to bring desired and actual capital stocks into better alignment. In this scenario, we assume that real high-tech investment declines 5 percentage points more this year than in the staff forecast and that the rate of growth next year is 10 percentage points lower. The resulting 5 percent plunge in high-tech investment for the current year would be virtually unprecedented. In the absence of a monetary policy offset, such weakness is enough to shave 1/4 percentage point off real GDP growth this year and a full percentage point off output growth in 2002. But because of reduced capital accumulation--and hence, lower labor productivity--inflation is the same as in the staff forecast despite the weaker economy.

Productivity slowdown. In this simulation, we assume that, in addition to the slump in high-tech investment described in the previous scenario, trend multifactor productivity growth reverts to its average rate over the 1973-1995 period of 1/2 percent, about 3/4 percentage point below the baseline staff assumption. Aggregate demand falls by more than supply both because prospects dim for future growth in income and sales and because equity prices drop sharply. All told, real GDP growth averages only 3/4 percent over the balance of this year and next, and the unemployment rate climbs to 6-1/4 percent by late 2002. Despite this extended slump in economic activity, inflation is higher than in the staff forecast because of added cost pressures stemming from lower structural productivity growth.

Rapid rebound. The staff forecast anticipates that final sales will be little changed in the current quarter. In this alternative scenario, we consider the risk that the pace of consumption and investment will be considerably stronger than we--or firms--expect. Such a surprise would lead to a greater drawdown in inventories over the spring and early summer, setting the stage for a more pronounced rebound in production in the second half of the year. Assuming that the greater strength in final sales persists, real GDP growth over the coming six quarters is almost 1-1/4 percentage points faster than in the staff projection. As a result, the unemployment rate peaks at about 5 percent early next year and then begins to drift down, causing inflation next year to be a touch higher than in the staff projection.

Higher inflation expectations. The recent pickup in core inflation, coupled with the aggressive policy easing of recent months, raises the risk that the public's expectations for long-term inflation may have risen. Although recent bond market developments and survey evidence on inflation expectations hint that such an expectational shift may have occurred, we have assumed in the staff outlook that any such deterioration has been limited. In this scenario, we explore the implications of a more substantial shift in public attitudes--specifically, a 1/2 percentage point increase in long-run inflation expectations relative to baseline. Not surprisingly, the direct consequence of the increase in inflation expectations is higher inflation. But, in addition, with the nominal funds rate held to the baseline path, a decline in real interest rates stimulates output, lowering the unemployment rate 0.2 percentage point by the end of 2002. Combining the direct effect of increased inflation expectations and its indirect effect through higher resource utilization, the inflation rate increases by a bit more than 1/2 percentage point by the end of next year.

Other scenarios. We have run two additional simulations. In the first, the "lower NAIRU" scenario, we assume a 4 percent NAIRU. In the second, the "market-based funds path" scenario, we assume a path for the federal funds rate that is implicit in current futures markets.

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May 9, 2001

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

Interval		Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index[1]		Unemployment rate[2]	
		03/14/01	05/09/01	03/14/01	05/09/01	03/14/01	05/09/01	03/14/01	05/09/01	03/14/01	05/09/01
ANNUAL											
1998		5.7	5.7	4.4	4.4	1.3	1.3	1.6	1.6	4.5	4.5
1999		5.8	5.8	4.2	4.2	1.5	1.5	2.2	2.2	4.2	4.2
2000		7.1	7.1	5.0	5.0	2.1	2.1	3.4	3.4	4.0	4.0
2001		3.9	4.2	1.8	1.8	2.1	2.3	2.7	3.1	4.8	4.7
2002		5.0	4.8	3.3	3.0	1.7	1.7	1.9	1.8	5.5	5.4
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	2.7	2.7	4.3	4.3
	Q3	6.7	6.7	5.7	5.7	1.1	1.1	2.9	2.9	4.2	4.2
	Q4	9.7	9.7	8.3	8.3	1.6	1.6	3.1	3.1	4.1	4.1
2000	Q1	8.3	8.3	4.8	4.8	3.3	3.3	4.3	4.3	4.1	4.1
	Q2	8.2	8.2	5.6	5.6	2.4	2.4	2.8	2.8	4.0	4.0
	Q3	3.8	3.8	2.2	2.2	1.6	1.6	3.5	3.5	4.0	4.0
	Q4	2.9	3.0	1.0	1.0	1.9	2.0	3.0	3.0	4.0	4.0
2001	Q1	4.2	5.4	0.8	2.0	3.4	3.2	3.6	4.2	4.3	4.2
	Q2	2.7	3.8	1.3	0.7	1.3	3.1	1.3	3.4	4.6	4.6
	Q3	4.1	2.8	2.4	1.5	1.6	1.3	1.8	1.6	4.9	4.9
	Q4	5.0	4.7	3.3	3.4	1.7	1.3	1.9	1.2	5.2	5.1
2002	Q1	5.5	5.4	3.5	3.3	1.9	2.0	1.9	1.6	5.4	5.3
	Q2	5.2	5.1	3.6	3.3	1.6	1.7	1.9	1.9	5.5	5.4
	Q3	5.4	5.4	3.7	3.5	1.6	1.8	2.0	2.1	5.5	5.4
	Q4	5.6	5.6	3.9	3.7	1.6	1.8	2.0	2.2	5.6	5.5
TWO-QUARTER[3]											
1999	Q2	4.9	4.9	3.0	3.0	1.8	1.8	2.2	2.2	-0.1	-0.1
	Q4	8.2	8.2	7.0	7.0	1.3	1.3	3.0	3.0	-0.2	-0.2
2000	Q2	8.2	8.2	5.2	5.2	2.8	2.8	3.6	3.6	-0.1	-0.1
	Q4	3.4	3.4	1.6	1.6	1.8	1.8	3.2	3.2	0.0	0.0
2001	Q2	3.4	4.6	1.1	1.3	2.3	3.2	2.5	3.8	0.6	0.6
	Q4	4.6	3.8	2.9	2.4	1.7	1.3	1.9	1.4	0.6	0.5
2002	Q2	5.3	5.2	3.5	3.3	1.7	1.8	1.9	1.8	0.3	0.3
	Q4	5.5	5.5	3.8	3.6	1.6	1.8	2.0	2.1	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	5.8	5.8	3.4	3.4	2.3	2.3	3.4	3.4	-0.1	-0.1
2001	Q4	4.0	4.2	2.0	1.9	2.0	2.2	2.2	2.6	1.2	1.1
2002	Q4	5.4	5.3	3.7	3.5	1.7	1.8	2.0	2.0	0.4	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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REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted annual rate)

May 9, 2001

Item	Units[1]	1994	1995	1996	1997	1998	1999	2000	---------Projected--------- 2001	2002
EXPENDITURES										
Nominal GDP	Bill. $	7054.3	7400.5	7813.2	8318.4	8790.2	9299.2	9963.1	10384.2	10880.7
Real GDP	Bill. Ch. $	7347.7	7543.8	7813.2	8159.5	8515.7	8875.8	9318.5	9490.4	9775.6
Real GDP	% change	4.1	2.2	4.1	4.3	4.6	5.0	3.4	1.9	3.5
Gross domestic purchases		4.3	1.7	4.3	5.0	5.7	5.9	4.1	1.8	3.9
Final sales		3.2	2.9	3.9	3.9	4.6	4.8	3.7	2.6	2.7
Priv. dom. final purchases		4.3	3.2	4.4	5.1	6.4	6.1	5.0	2.3	3.0
Personal cons. expenditures		3.6	2.8	3.1	4.1	5.0	5.6	4.5	2.5	2.3
Durables		6.4	3.7	5.0	8.8	12.6	11.1	5.2	2.4	1.7
Nondurables		4.1	2.5	3.2	2.5	5.0	5.9	3.8	2.1	1.9
Services		2.7	2.7	2.7	3.9	3.4	4.2	4.6	2.7	2.6
Business fixed investment		9.2	7.5	12.1	11.8	12.9	10.1	10.5	1.3	7.2
Equipment & Software		12.0	8.9	11.8	13.7	15.8	14.1	9.8	-1.3	8.4
Nonres. structures		1.1	3.3	12.8	6.5	4.9	-1.7	12.7	9.3	4.1
Residential structures		4.0	-1.5	5.6	3.5	10.3	2.8	-2.6	1.5	2.5
Exports		10.5	9.7	9.8	8.5	2.2	4.3	6.7	2.1	6.5
Imports		12.2	5.0	11.2	14.3	11.2	12.0	11.3	1.1	7.9
Gov't. cons. & investment		0.2	-0.8	2.7	2.4	2.6	4.4	1.3	3.1	3.5
Federal		-3.7	-5.3	2.0	0.1	0.8	4.8	-1.3	3.0	3.6
Defense		-5.9	-4.7	0.8	-1.4	-1.0	4.6	-2.0	2.1	2.7
State & local		2.8	2.1	3.0	3.7	3.6	4.2	2.7	3.2	3.5
Change in bus. inventories	Bill. Ch. $	66.8	30.4	30.0	63.8	80.2	45.3	60.9	-5.8	45.7
Nonfarm		53.6	42.6	22.1	60.6	78.7	44.9	55.8	-10.7	44.2
Net exports		-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-412.4	-420.6	-478.1
Nominal GDP	% change	6.2	4.3	6.0	6.2	5.9	6.5	5.8	4.2	5.3
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	114.1	117.2	119.6	122.7	125.8	128.8	131.4	131.9	132.3
Unemployment rate	%	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.7	5.4
Industrial prod. index	% change	6.3	3.6	5.6	7.2	3.2	5.1	4.2	-1.4	4.0
Capacity util. rate - mfg.	%	82.5	82.5	81.6	82.7	81.3	80.5	81.3	77.2	77.5
Housing starts	Millions	1.46	1.35	1.48	1.47	1.62	1.67	1.59	1.63	1.67
Light motor vehicle sales		15.01	14.77	15.05	15.06	15.45	16.76	17.25	16.14	15.56
North Amer. produced		12.88	12.87	13.34	13.12	13.43	14.28	14.38	13.22	12.71
Other		2.13	1.90	1.70	1.93	2.02	2.48	2.87	2.92	2.85
INCOME AND SAVING										
Nominal GNP	Bill. $	7071.1	7420.9	7831.2	8325.4	8786.7	9288.2	9958.7	10369.4	10839.8
Nominal GNP	% change	6.2	4.4	5.9	6.0	5.7	6.5	6.0	3.8	5.2
Nominal personal income		5.1	4.3	5.9	6.3	6.3	5.6	5.7	4.4	5.4
Real disposable income		2.9	1.7	2.6	3.8	4.6	3.1	2.2	2.3	4.4
Personal saving rate	%	6.1	5.6	4.8	4.2	4.2	2.2	-0.1	-0.2	0.9
Corp. profits, IVA & CCAdj.	% change	12.3	11.3	11.4	9.9	-5.8	11.2	2.4	-2.6	1.1
Profit share of GNP	%	8.1	9.0	9.6	10.0	9.3	9.2	9.5	8.6	8.3
Excluding FR Banks		7.9	8.7	9.4	9.7	9.0	8.9	9.2	8.3	8.0
Federal surpl./deficit	Bill. $	-212.3	-192.0	-136.8	-53.3	49.0	124.4	251.8	215.6	213.7
State & local surpl./def.		8.6	15.3	21.4	31.0	41.7	50.0	59.6	40.6	45.1
Ex. social ins. funds		4.0	11.4	18.7	29.9	41.3	50.4	60.1	40.8	45.1
Gross natl. saving rate	%	16.3	16.9	17.2	18.0	18.8	18.5	18.3	17.3	17.9
Net natl. saving rate		4.3	5.1	5.7	6.7	7.5	6.8	6.5	5.0	5.4
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.1	2.1	1.9	1.8	1.2	1.6	2.3	2.2	1.8
Gross Domestic Purchases chn.-wt. price index		2.1	2.1	1.9	1.4	0.8	1.9	2.4	1.9	1.7
PCE chn.-wt. price index		2.1	2.1	2.3	1.5	1.1	2.0	2.3	2.1	1.7
Ex. food and energy		2.3	2.3	1.8	1.7	1.6	1.5	1.6	2.1	1.9
CPI		2.6	2.7	3.2	1.9	1.5	2.6	3.4	2.6	2.0
Ex. food and energy		2.8	3.0	2.6	2.2	2.4	2.0	2.5	2.7	2.5
ECI, hourly compensation[2]		3.1	2.6	3.1	3.4	3.5	3.4	4.4	4.4	4.1
Nonfarm business sector										
Output per hour		1.1	1.1	2.3	2.3	2.8	3.8	3.4	2.0	2.8
Compensation per Hour		2.2	2.6	3.2	3.5	5.1	4.4	5.7	5.4	5.0
Unit labor cost		1.0	1.5	0.9	1.1	2.3	0.6	2.3	3.4	2.1

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

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Class II FOMC

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

May 9, 2001

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

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

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

May 9, 2001

Item	Units	2000 Q3	2000 Q4	2001 Q1 (Projected)	2001 Q2 (Projected)	2001 Q3 (Projected)	2001 Q4 (Projected)	2002 Q1 (Projected)	2002 Q2 (Projected)	2002 Q3 (Projected)	2002 Q4 (Projected)
EXPENDITURES											
Nominal GDP	Bill. $	10039.4	10114.4	10247.3	10342.1	10413.4	10534.3	10672.8	10805.4	10947.3	11097.4
Real GDP	Bill. Ch. $	9369.5	9393.7	9441.3	9456.9	9491.5	9571.8	9650.8	9730.4	9815.4	9905.6
Real GDP	% change	2.2	1.0	2.0	0.7	1.5	3.4	3.3	3.3	3.5	3.7
Gross domestic purchases		3.0	1.5	0.5	1.0	2.1	3.5	4.0	3.9	3.9	3.5
Final sales		2.4	1.7	5.1	-0.1	1.1	4.2	1.8	3.1	2.3	3.8
Priv. dom. final purchases		4.2	2.0	3.1	0.1	1.4	4.5	2.3	3.7	2.5	3.6
Personal cons. expenditures		4.5	2.8	3.1	0.4	1.6	4.9	1.5	3.1	1.7	2.8
Durables		7.6	-3.1	11.9	-5.0	-1.9	5.6	0.5	2.9	0.4	3.0
Nondurables		4.7	1.0	2.6	0.0	1.6	4.1	1.0	2.7	1.4	2.5
Services		3.7	4.9	1.7	1.8	2.3	5.1	1.9	3.3	2.1	2.9
Business fixed investment		7.7	-0.1	2.8	-1.5	0.9	3.2	6.5	7.1	7.0	8.1
Equipment & Software		5.6	-3.3	-1.7	-5.2	-0.8	2.5	7.2	8.3	8.3	9.9
Nonres. structures		14.6	10.4	17.5	9.3	5.5	5.1	4.7	4.1	3.9	3.6
Residential structures		-10.6	-3.6	3.5	-0.3	0.3	2.3	2.5	3.1	2.2	2.3
Exports		13.9	-6.4	-2.0	0.6	2.4	7.4	2.6	6.1	6.8	10.7
Imports		17.0	-1.2	-10.8	3.2	6.6	6.4	7.7	9.1	8.3	6.6
Gov't. cons. & investment		-1.4	2.9	5.0	1.5	3.0	3.0	3.5	3.5	3.6	3.6
Federal		-9.0	3.8	5.7	0.4	3.1	2.8	3.6	3.7	3.7	3.4
Defense		-9.7	8.9	4.9	-1.1	2.7	2.2	2.7	2.9	2.8	2.3
State & local		2.9	2.5	4.7	2.1	2.9	3.1	3.4	3.5	3.5	3.7
Change in bus. inventories	Bill. Ch. $	72.5	55.7	-17.7	-0.3	7.8	-13.2	25.8	31.5	63.3	62.3
Nonfarm		67.4	50.5	-23.7	-5.9	3.2	-16.3	23.2	29.9	62.3	61.3
Net exports		-427.7	-441.7	-402.6	-413.0	-431.2	-435.5	-458.2	-476.6	-490.5	-487.1
Nominal GDP	% change	3.8	3.0	5.4	3.8	2.8	4.7	5.4	5.1	5.4	5.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	131.6	131.8	132.2	132.0	131.8	131.8	131.9	132.1	132.4	132.7
Unemployment rate	%	4.0	4.0	4.2	4.6	4.9	5.1	5.3	5.4	5.4	5.5
Industrial prod. index	% change	3.5	-0.9	-6.4	-0.9	-1.2	3.1	4.5	4.0	3.8	3.7
Capacity util. rate - mfg.	%	81.7	80.3	78.3	77.1	76.5	76.7	77.1	77.4	77.6	77.8
Housing starts	Millions	1.53	1.56	1.64	1.62	1.63	1.64	1.66	1.66	1.67	1.68
Light motor vehicle sales		17.38	16.17	17.12	16.23	15.52	15.70	15.61	15.65	15.48	15.51
North Amer. produced		14.54	13.30	14.19	13.28	12.66	12.74	12.74	12.76	12.66	12.69
Other		2.84	2.87	2.93	2.94	2.86	2.96	2.87	2.89	2.82	2.82
INCOME AND SAVING											
Nominal GNP	Bill. $	10030.5	10121.8	10244.6	10332.5	10393.6	10506.7	10637.1	10766.3	10904.9	11050.9
Nominal GNP	% change	3.8	3.7	4.9	3.5	2.4	4.4	5.1	4.9	5.2	5.5
Nominal personal income		5.3	3.9	5.9	3.6	4.6	3.5	6.0	5.1	5.2	5.4
Real disposable income		2.6	0.7	1.9	0.7	16.3	-8.4	8.9	3.0	2.9	3.0
Personal saving rate	%	-0.2	-0.7	-1.1	-1.0	2.3	-1.0	0.7	0.7	1.0	1.0
Corp. profits, IVA & CCAdj.	% change	2.8	-21.0	-10.0	4.7	-7.2	2.9	-0.1	2.0	1.7	1.0
Profit share of GNP	%	9.7	9.0	8.7	8.7	8.5	8.5	8.4	8.3	8.2	8.2
Excluding FR Banks		9.4	8.7	8.4	8.4	8.2	8.2	8.1	8.0	8.0	7.9
Federal surpl./deficit	Bill. $	253.3	277.0	276.8	280.4	44.3	260.9	189.5	205.6	226.5	233.1
State & local surpl./def.		63.2	63.1	40.3	41.3	36.3	44.4	43.5	44.6	44.8	47.4
Ex. social ins. funds		63.6	63.5	40.7	41.5	36.4	44.5	43.6	44.7	44.8	47.4
Gross natl. saving rate	%	18.5	18.0	17.4	17.5	17.4	17.1	17.6	17.7	18.1	18.2
Net natl. saving rate		6.6	6.0	5.1	5.2	5.0	4.7	5.2	5.3	5.6	5.6
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.6	2.0	3.2	3.1	1.3	1.3	2.0	1.7	1.8	1.8
Gross Domestic Purchases chn.-wt. price index		2.0	1.9	2.8	2.3	1.4	1.2	1.9	1.6	1.7	1.8
PCE chn.-wt. price index		1.8	1.9	3.3	2.7	1.5	1.1	1.4	1.7	1.8	1.8
Ex. food and energy		1.1	1.6	2.7	1.9	1.9	1.9	1.9	1.9	1.9	1.9
CPI		3.5	3.0	4.2	3.4	1.6	1.2	1.6	1.9	2.1	2.2
Ex. food and energy		2.5	2.4	3.1	2.6	2.5	2.5	2.5	2.5	2.5	2.5
ECI, hourly compensation[1]		3.8	3.5	4.6	4.3	4.3	4.2	4.1	4.1	4.1	4.1
Nonfarm business sector											
Output per hour		3.0	2.0	-0.2	2.9	1.5	3.6	3.1	2.8	2.7	2.8
Compensation per hour		6.2	6.6	5.2	5.8	5.3	5.2	5.3	4.9	4.9	4.9
Unit labor cost		3.2	4.5	5.4	2.9	3.8	1.6	2.2	2.1	2.1	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	2.2	4.6	5.0	3.4
Gross dom. purchases	4.5	5.5	5.0	3.8	6.8	8.6	5.8	6.7	3.1	5.8	6.0	4.3
Final sales	2.9	5.8	4.4	3.9	4.5	6.5	6.6	3.9	2.4	4.6	4.8	3.6
Priv. dom. final purchases	3.7	5.3	5.3	5.2	4.7	5.2	7.9	4.0	3.6	5.3	5.1	4.3
Personal cons. expenditures	2.8	3.3	3.7	3.7	3.4	4.1	5.0	2.1	3.0	3.3	3.7	3.0
Durables	0.3	1.7	0.7	1.1	0.6	1.0	1.8	-0.4	0.6	1.0	0.9	0.4
Nondurables	0.8	1.0	1.5	0.8	1.0	1.5	1.2	0.7	0.9	1.0	1.2	0.8
Services	1.7	0.5	1.6	1.8	1.8	1.6	2.0	1.8	1.5	1.4	1.7	1.8
Business fixed investment	0.4	1.6	1.2	1.2	1.5	1.2	2.5	1.9	1.0	1.5	1.3	1.4
Equipment & Software	0.6	1.5	1.3	1.4	1.7	0.9	1.9	1.7	0.6	1.4	1.3	1.0
Nonres. structures	-0.2	0.1	-0.1	-0.2	-0.2	0.3	0.6	0.1	0.4	0.2	-0.1	0.4
Residential structures	0.4	0.4	0.3	0.3	-0.1	0.0	0.1	0.1	-0.5	0.4	0.1	-0.1
Net exports	-1.0	0.1	-1.4	-1.4	-1.1	-0.4	-0.9	-1.0	-0.9	-1.1	-1.1	-0.9
Exports	-0.4	1.5	-0.9	0.6	1.1	1.1	0.7	1.5	1.5	0.3	0.5	0.7
Imports	-0.7	-1.5	-0.6	-2.0	-2.1	-1.5	-1.6	-2.5	-2.4	-1.4	-1.5	-1.6
Government cons. & invest.	0.3	0.5	0.6	0.1	0.8	1.5	-0.2	0.9	-0.2	0.5	0.8	0.2
Federal	-0.2	0.2	-0.1	0.1	0.4	0.8	-0.9	1.0	-0.6	0.0	0.3	-0.1
Defense	0.2	-0.1	-0.1	-0.1	0.5	0.5	-0.9	0.6	-0.4	-0.0	0.2	-0.1
Nondefense	-0.4	0.3	-0.0	0.2	-0.1	0.3	-0.1	0.4	-0.2	0.1	0.1	0.0
State and local	0.5	0.3	0.8	0.0	0.4	0.7	0.8	-0.1	0.3	0.4	0.5	0.3
Change in bus. inventories	0.6	-0.2	-0.9	-1.4	1.2	1.8	-1.8	1.7	-0.2	0.0	0.2	-0.2
Nonfarm	0.8	-0.7	-0.6	-1.4	1.3	1.3	-1.6	1.6	-0.2	0.0	0.1	-0.2
Farm	-0.2	0.5	-0.3	0.0	-0.1	0.5	-0.2	0.1	-0.1	0.0	0.1	0.0

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

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	1.0	2.0	0.7	1.5	3.4	3.3	3.3	3.5	3.7	3.4	1.9	3.5
Gross dom. purchases	1.6	0.5	1.0	2.2	3.6	4.2	4.0	4.1	3.7	4.3	1.8	4.0
Final sales	1.7	5.1	-0.1	1.1	4.2	1.8	3.1	2.3	3.8	3.6	2.5	2.7
Priv. dom. final purchases	1.7	2.7	0.1	1.2	3.8	2.0	3.2	2.2	3.1	4.3	1.9	2.6
Personal cons. expenditures	1.9	2.1	0.3	1.1	3.3	1.0	2.1	1.1	1.9	3.0	1.7	1.6
Durables	-0.3	0.9	-0.4	-0.2	0.4	0.0	0.2	0.0	0.2	0.4	0.2	0.1
Nondurables	0.2	0.5	0.0	0.3	0.8	0.2	0.5	0.3	0.5	0.8	0.4	0.4
Services	1.9	0.7	0.7	0.9	2.0	0.8	1.3	0.8	1.2	1.8	1.1	1.0
Business fixed investment	-0.0	0.4	-0.2	0.1	0.4	0.8	0.9	0.9	1.1	1.4	0.2	0.9
Equipment & Software	-0.4	-0.2	-0.5	-0.1	0.2	0.7	0.8	0.8	0.9	1.0	-0.1	0.8
Nonres. structures	0.3	0.6	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.4	0.3	0.2
Residential structures	-0.2	0.1	-0.0	0.0	0.1	0.1	0.1	0.1	0.1	-0.1	0.1	0.1
Net exports	-0.6	1.5	-0.4	-0.7	-0.1	-0.8	-0.6	-0.5	0.1	-0.9	0.1	-0.4
Exports	-0.7	-0.2	0.1	0.3	0.8	0.3	0.6	0.7	1.1	0.7	0.2	0.7
Imports	0.2	1.7	-0.5	-0.9	-0.9	-1.1	-1.3	-1.2	-1.0	-1.6	-0.2	-1.1
Government cons. & invest.	0.5	0.9	0.3	0.5	0.5	0.6	0.6	0.6	0.6	0.2	0.6	0.6
Federal	0.2	0.3	0.0	0.2	0.2	0.2	0.2	0.2	0.2	-0.1	0.2	0.2
Defense	0.3	0.2	-0.0	0.1	0.1	0.1	0.1	0.1	0.1	-0.1	0.1	0.1
Nondefense	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1
State and local	0.3	0.5	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.4
Change in bus. inventories	-0.6	-3.0	0.7	0.4	-0.7	1.6	0.2	1.3	-0.0	-0.2	-0.6	0.8
Nonfarm	-0.6	-2.9	0.7	0.4	-0.8	1.6	0.3	1.3	-0.0	-0.2	-0.7	0.8
Farm	0.0	-0.1	0.0	0.0	0.0	0.0	-0.0	0.0	-0.0	0.0	0.0	-0.0

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

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

Item	Fiscal year[1]				2000				2001				2002			
	1999[a]	2000[a]	2001	2002	Q1[a]	Q2[a]	Q3[a]	Q4[a]	Q1[a]	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts[2]	1827	2025	2110	2145	434	656	492	461	460	688	501	486	460	672	528	505
Outlays[2]	1703	1789	1907	1939	449	444	431	464	482	467	495	494	486	483	476	510
Surplus/deficit[2]	125	236	203	206	-15	212	60	-2	-22	221	7	-8	-27	189	52	-5
On-budget	1	87	36	33	-45	147	50	-14	-88	149	-10	-58	-54	114	31	-61
Off-budget	124	150	166	173	30	65	10	12	65	72	17	50	27	74	21	56
Surplus excluding deposit insurance	119	233	201	204	-18	211	60	-3	-23	220	6	-8	-27	188	52	-5
Means of financing																
Borrowing	-89	-223	-179	-199	-27	-190	-54	-25	24	-179	2	-10	7	-150	-46	-11
Cash decrease	-18	4	-8	0	39	-13	5	32	-7	-27	-5	15	15	-30	0	15
Other[3]	-18	-18	-16	-7	4	-10	-12	-4	6	-14	-4	3	5	-9	-6	1
Cash operating balance, end of period	56	53	60	60	45	57	53	21	28	56	60	45	30	60	60	45
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1837	2024	2091	2174	2012	2055	2089	2107	2140	2163	1955	2181	2139	2170	2205	2240
Expenditures	1735	1806	1871	1953	1776	1814	1836	1830	1862	1883	1911	1921	1950	1965	1978	2006
Consumption expenditures	464	489	506	537	479	499	490	489	507	511	516	521	537	543	549	554
Defense	306	320	331	347	311	326	320	322	333	333	336	338	347	350	353	355
Nondefense	158	168	174	190	168	173	170	167	174	177	180	182	190	193	196	199
Other spending	1270	1317	1366	1416	1297	1315	1346	1341	1355	1372	1395	1400	1413	1422	1429	1452
Current account surplus	103	218	220	221	236	241	253	277	278	280	44	261	190	206	227	233
Gross investment	94	104	112	117	101	106	104	113	112	112	114	115	117	118	120	121
Current and capital account surplus	9	114	108	103	134	135	149	164	167	168	-69	146	73	87	107	112
Fiscal indicators[4]																
High-employment (HEB) surplus/deficit	-68	6	42	83	30	18	36	69	86	112	-99	119	53	71	91	96
Change in HEB, percent of potential GDP	-.8	-.8	-.4	-.4	-1	.1	-.2	-.3	-.2	-.2	2	-2	.6	-.2	-.2	-0
Fiscal impetus (FI) percent, calendar year	5	2	8	12	-6	6	-2	.3	3	1	5	2	6	1	.8	1

1. Fiscal year data for the unified budget come from OMB; quarterly data come from the Monthly Treasury Statement and may not sum to OMB fiscal year totals.

2. OMB's April 2001 baseline surplus estimates are $284 billion in FY2001 and $283 billion in FY 2002. CBO's January 2001 baseline surplus estimates, assuming discretionary spending grows with inflation beginning in FY 2002, are $281 billion in FY2001 and $313 billion in FY 2002. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories The OASDI surplus is excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.

3. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1996) dollars, scaled by real federal consumption plus investment. For FI and the change in HEB, negative values indicate aggregate demand restraint.

a--Actual

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

			Nonfederal						
				Households					
Period [1]	Total [2]	Federal government [3]	Total [4]	Total	Home mortgages	Consumer credit	Business	State and local governments	Memo: Nominal GDP
Year									
1995	5.5	4.1	6.0	8.0	6.0	14.1	6.6	-4.6	4.3
1996	5.3	4.0	5.8	7.3	7.3	7.9	5.7	-0.6	6.0
1997	5.6	0.6	7.3	6.5	7.0	4.3	8.9	5.3	6.2
1998	6.9	-1.4	9.6	8.6	9.8	5.4	11.3	7.2	5.9
1999	6.9	-1.9	9.5	8.9	9.9	7.1	11.4	4.4	6.5
2000	5.0	-8.0	8.5	8.7	8.7	9.4	9.7	2.2	5.8
2001	5.3	-4.8	7.6	7.5	8.6	5.0	8.1	6.1	4.2
2002	4.6	-6.2	6.8	6.9	8.0	2.8	7.5	2.5	5.3
Quarter									
1999:3	7.0	-1.9	9.5	9.2	10.4	5.5	11.0	4.3	6.7
4	6.3	-0.9	8.3	7.7	8.4	7.8	10.2	2.7	9.7
2000:1	5.3	-5.9	8.3	8.0	7.1	10.1	10.3	0.3	8.3
2	5.5	-11.4	9.9	9.5	10.0	9.4	11.9	1.7	8.2
3	4.4	-6.2	6.9	8.0	8.5	8.2	6.8	1.9	3.8
4	4.6	-9.6	8.0	8.2	8.1	8.8	8.4	4.8	3.0
2001:1	6.9	-0.3	8.6	8.8	9.3	9.1	8.6	7.0	5.4
2	4.3	-11.0	7.7	7.4	8.1	5.5	8.3	6.2	3.8
3	5.8	0.1	7.0	6.6	8.0	3.1	7.5	6.5	2.8
4	4.0	-8.4	6.5	6.4	7.9	1.9	7.2	4.0	4.7
2002:1	5.2	-2.4	6.7	6.8	8.0	3.2	7.5	2.5	5.4
2	4.2	-8.0	6.6	6.7	7.8	2.6	7.3	2.4	5.1
3	4.6	-6.0	6.6	6.7	7.7	2.5	7.3	2.4	5.4
4	4.2	-9.0	6.6	6.7	7.6	2.7	7.2	2.4	5.6

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2000:Q4 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.
2. On a monthly average basis, total debt is projected to grow 5.3 percent in 2001 and 4.6 percent in 2002.
3. On a monthly average basis, federal debt is projected to grow -5.1 percent in 2001 and -6.1 percent in 2002.
4. On a monthly average basis, nonfederal debt is projected to grow 7.7 percent in 2001 and 6.8 percent in 2002.

2.6.3 FOF

Strictly Confidential (FR)
Class II FOMC

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

May 9, 2001

	Seasonally adjusted annual rates													
	Calendar year				2000		2001				2002			
Category	1999	2000	2001	2002	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net funds raised by domestic nonfinancial sectors														
1 Total	978.0	724.7	878.2	799.0	704.3	484.9	1236.9	656.6	957.1	662.1	907.2	728.9	822.7	737.2
2 Net equity issuance	-143.5	-153.1	-101.3	-95.3	-75.6	-350.8	-34.0	-141.0	-136.0	-94.0	-96.0	-95.0	-95.0	-95.0
3 Net debt issuance	1121.5	877.8	979.4	894.3	779.9	835.7	1270.9	797.6	1093.1	756.1	1003.2	823.9	917.7	832.2
Borrowing sectors														
Nonfinancial business														
4 Financing gap [1]	172.1	225.9	201.2	290.3	238.6	259.4	194.0	193.6	214.9	202.4	256.9	270.8	309.7	323.7
5 Net equity issuance	-143.5	-153.1	-101.3	-95.3	-75.6	-350.8	-34.0	-141.0	-136.0	-94.0	-96.0	-95.0	-95.0	-95.0
6 Credit market borrowing	602.1	574.0	528.3	529.3	423.5	533.9	560.7	550.7	507.3	494.5	525.9	523.4	536.0	531.7
Households														
7 Net borrowing [2]	538.2	572.5	537.3	531.5	552.2	576.0	630.9	540.1	496.1	482.1	521.5	522.9	536.0	545.7
8 Home mortgages	415.7	401.9	430.7	437.0	408.5	400.2	467.2	415.2	418.2	422.2	436.2	432.2	439.2	440.2
9 Consumer credit	94.4	134.7	77.8	46.0	122.9	134.2	142.0	88.2	50.2	30.8	53.5	43.9	42.0	44.7
10 Debt/DPI (percent) [3]	95.0	98.3	101.3	103.2	98.6	100.1	101.0	102.1	99.7	103.3	102.4	103.0	103.5	104.0
State and local governments														
11 Net borrowing	52.3	27.1	77.7	33.4	23.6	60.3	90.1	80.4	85.8	54.4	33.4	33.4	33.4	33.4
12 Current surplus [4]	196.8	221.0	217.6	231.2	225.6	229.2	214.3	217.3	214.3	224.7	226.0	229.4	232.0	237.2
Federal government														
13 Net borrowing	-71.2	-295.9	-163.8	-199.9	-219.5	-334.5	-10.8	-373.6	3.9	-274.9	-77.6	-255.7	-187.6	-278.6
14 Net borrowing (quarterly, n.s.a.)	-71.2	-295.9	-163.8	-199.9	-53.8	-25.0	23.7	-179.5	2.1	-10.1	7.0	-150.0	-45.8	-11.1
15 Unified deficit (quarterly, n.s.a.)	-158.3	-254.8	-196.9	-209.2	-60.4	2.3	22.5	-220.8	-6.6	8.1	26.6	-188.6	-52.1	4.9
Depository institutions														
16 Funds supplied	404.3	446.5	307.7	308.9	454.3	274.5	403.8	269.0	277.8	280.5	285.7	302.7	323.7	323.7
Memo (percentage of GDP)														
17 Domestic nonfinancial debt [5]	181.4	179.6	181.4	181.7	179.5	180.3	180.6	181.4	182.4	182.5	182.2	182.1	181.7	181.2
18 Domestic nonfinancial borrowing	12.1	8.8	9.4	8.2	7.8	8.3	12.4	7.7	10.5	7.2	9.4	7.6	8.4	7.5
19 Federal government [6]	-0.8	-3.0	-1.6	-1.8	-2.2	-3.3	-0.1	-3.6	0.0	-2.6	-0.7	-2.4	-1.7	-2.5
20 Nonfederal	12.8	11.8	11.0	10.1	10.0	11.6	12.5	11.3	10.5	9.8	10.1	10.0	10.1	10.0

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

International Developments

Overview

Economic growth abroad appears to have slowed further, as plunging global demand for high-tech products and softening domestic demand in many countries has weighed on activity. Relative to the March Greenbook, we have cut our projections of foreign growth for the remainder of 2001. These markdowns have been spread across all major regions but have been particularly large for the emerging Asian economies, many of which have faced a sharp drop in external demand. We now expect that total foreign growth will trough at 1-3/4 percent (annual rate) during the first two quarters of this year. However, the projected strengthening of the U.S. economy, lower oil prices next year, and stimulative macroeconomic policies abroad should allow foreign growth to recover to about 3 percent during the second half of 2001 and to 3-3/4 percent during 2002.

Foreign consumer price inflation declined sharply during the first quarter, moving in line with the weaker pace of activity, a step down in the level of oil prices, and a sharp--and likely to be reversed--drop in Mexican food prices. Inflation is expected to move back to around 3 percent during the second half of this year and through 2002.

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

Indicator	2000		Projection			
			2001			2002
	H1	H2	Q1	Q2	H2	
Foreign output	5.6	2.9	1.7	1.7	2.9	3.7
March GB	*5.5*	*2.6*	*1.6*	*2.7*	*3.6*	*3.7*
Foreign CPI	2.1	3.5	1.4	2.5	3.0	2.7
March GB	*2.1*	*3.6*	*2.0*	*2.7*	*3.0*	*2.8*

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

The numbers for foreign output reported in the table are calculated with weights that are based on shares of U.S. *total* exports. (The March Greenbook output figures are recalculated.) In previous Greenbooks, weights were based on shares of U.S. *nonagricultural* exports. The change has only a small effect on aggregate measures of foreign growth.

Relative to the March Greenbook, we have shifted up the starting point for the broad real dollar, as the exchange value of the dollar in the second quarter has been higher than what we had projected in the previous forecast. We have also flattened the dollar's path of depreciation. The dollar is now projected to edge down about 1-1/2 percent over the forecast period but to remain strong.

We have reacted to the surprisingly weak data for nominal imports through February by marking down our projection for real imports in the first quarter to a level below that predicted by their standard determinants. Imports are unlikely to stage much of a recovery in the current quarter given the projected weakness of U.S. GDP growth, but we expect import growth to recover during the second half of this year and to reach almost 8 percent in 2002. Real exports, which are also estimated to have contracted during the first quarter, are projected to be sluggish through the first half of this year largely because of the weakness in foreign activity, but export growth should rise thereafter to 6-1/2 percent in 2002. All told, net exports are expected to make essentially a zero arithmetic contribution to growth this year on average--a positive contribution in the first quarter is offset by negative contributions in subsequent quarters--and a negative contribution to growth of about 1/2 percentage point in 2002.

Recent Developments

International financial markets. The exchange value of the dollar against an index of major currencies was about unchanged, on balance, for the intermeeting period. An appreciation of the dollar against the euro was offset by a weakening against the yen and the Canadian dollar. Over the same period, the dollar's exchange value against the currencies of our other important trading partners was also about unchanged. The Mexican peso has appreciated 3-3/4 percent against the dollar, as investors have apparently formed optimistic expectations about the country's prospects. In contrast, concerns about spillovers from the worsening turmoil in Argentina pushed the value of the Brazilian *real* down 4 percent against the dollar, prompting Brazil's central bank to raise its official lending rate a total of 100 basis points.

During the intermeeting period, central banks in Canada, the United Kingdom, Switzerland, New Zealand, and Taiwan cut their respective policy rates 25 basis points, and Australia's central bank cut its policy rate 50 basis points. In contrast, the European Central Bank did not respond to a chorus of calls urging it to ease policy. Following its policy announcement on March 19, the Bank of Japan has provided a sufficient quantity of reserves to pin the call-money rate at its zero floor.

Despite the weakness of incoming data on economic activity, share prices in major foreign markets generally headed higher, similar to the movements in U.S. equity prices. Japanese equity prices rose, on balance, about 15 percent during the intermeeting period. Japanese share prices reacted favorably both to the BOJ's return to the zero-interest-rate policy and to the surprise election of Prime Minister Koizumi, who is widely viewed as a reformer. As global equity markets rallied, ten-year government bond yields rose sharply in most major industrial economies.

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

Economic activity abroad. Recent data indicate that the growth of activity in the foreign industrial countries has slowed. The Japanese economy appears to have sputtered yet again, with sagging external demand further restraining an economy already hobbled by weakness in the household and construction sectors. Investment spending also appears unlikely to match the sizable increase in the fourth quarter of last year. In the euro area, recent data have been mixed, with the level of industrial production during the first two months of the year about unchanged from the fourth-quarter average and retail sales showing divergent performance across countries. Declines in key gauges of industrial-sector sentiment, as well as in German manufacturing orders and industrial production, also point to a moderating pace of activity. Canadian manufacturing output, particularly of motor vehicles and electronics equipment (both of which are heavily dependent on U.S. demand), has shown marked weakness. Sectors outside of manufacturing, however, seem to be holding up fairly well.

Slower growth and declining energy prices have contributed to a slight easing in headline inflation rates in Canada and the United Kingdom. In the euro area, rising food prices have kept inflation about 1/2 percentage point above the ECB's 2 percent ceiling. Japanese consumer prices have continued to decline about 1 percent per year.

The pace of activity in many of the major developing countries has also faltered, with sluggish external demand playing a role. In Mexico, industrial production declined in both January and February, and exports were down sharply during the first quarter. Production has been particularly hard hit in several Asian economies that are reliant on the production of high-tech products. For example, in Singapore, first-quarter industrial production tumbled 10 percent (not annualized), with an especially pronounced decline in export-related industries. In Taiwan, a large decline in industrial production during the first quarter was accompanied by a 10 percent (not annualized) drop in exports. In contrast, industrial production in Korea moved up in March for the third straight month, but production remains well below the peak reached in August of last year. China reported rapid first-quarter growth, and the country's exports showed surprising strength. Inflationary pressures in the major developing countries have generally remained muted.

Prices of internationally traded goods. The prices of imported non-oil (core) goods rose about 2-1/2 percent (a.r.) during the first quarter, mainly because of a sharp run-up in the price of natural gas early in the period. The subsequent retreat in natural gas prices suggests that import prices are likely to move down during the second quarter. The price of oil imports fell sharply in March after increasing slightly in February. For the first quarter as a whole, the price of imported oil dropped more than 40 percent (a.r.). Prices of exported core goods were little changed in the first quarter.

U.S. international transactions. The U.S. trade deficit in goods and services was $27 billion in February, much smaller than the deficit in January. For January and February combined, the deficit at an annual rate was $35 billion smaller than in the fourth quarter of last year.

In February, the value of exports of goods and services moved up for the second consecutive month. However, exports in January-February were still below the fourth-quarter average. Sharp declines in exports of automotive products (largely to Canada), industrial supplies, and semiconductors were only partly offset by rising exports of aircraft and consumer goods. Exports to Japan, Canada, Latin America, and emerging Asia contracted, while exports to Western Europe continued to expand.

The value of imports plummeted 4-1/2 percent (not annualized) in February, far weaker than we or other forecasters had expected. The weakness was widespread across trade categories, with the largest declines recorded in imported consumer goods, an array of high-tech products and other machinery, and industrial supplies. Automotive imports held at about the same level as in December and January. Imports in January-February were down 3 percent (not annualized) from the fourth-quarter average.

Outlook

The dollar. In the United States, over the past year or so, growth has weakened, equity prices have registered marked declines, monetary policy has been eased aggressively, and external imbalances have remained strikingly large. These developments, however, have not meaningfully dented the dollar's strength in foreign exchange markets; we now project that over the forecast period the value of the dollar will hold around its current level vis-a-vis the yen and the euro but tail off slightly against some other major currencies. Factoring in some real depreciation of the dollar against the currencies of other important trading partners, the broad real value of the dollar is projected to edge down 1-1/2 percent through the end of the forecast period. Relative to the March Greenbook, the 2001:Q2 starting point for our current forecast is almost

2-1/2 percent higher and the path of depreciation is flatter. Nevertheless, we expect external imbalances to weaken the dollar at some point, and so a sharper-than-expected depreciation of the dollar during the forecast period remains a risk. We consider one such scenario in the alternative simulations.

Foreign industrial countries. We project that growth in the foreign industrial countries will slow from 1-3/4 percent (a.r.) in the first quarter to 1-1/4 percent in the second quarter, and then recover modestly to 2 percent during the second half of this year. These projections imply that growth in 2001 will be 1/2 percentage point weaker than in the March Greenbook. In 2002, the industrial countries are expected to grow at a 3 percent rate, unchanged from the previous Greenbook.

In the euro area, growth in the first half of 2001 is projected to slow to a bit below 2 percent, down from about 2-1/2 percent in the fourth quarter. The pace of activity, however, should rise slightly later this year and reach 2-3/4 percent in 2002, as inventory overhangs are reduced and as fiscal stimulus and moderating oil prices support activity. First-half growth in the United Kingdom is expected to decline to just 1-1/2 percent; anxiety about foot-and-mouth disease is weighing on tourism, and firms are working off excess inventories of goods that accumulated late last year. By the second half of the year, these effects should dissipate and set the stage for a modest pickup in growth. In Canada, growth in the current quarter is projected to be just 1 percent, but the pace of activity should subsequently rebound as the U.S. economy recovers and as fiscal stimulus and the effects of easier monetary policy bolster domestic demand.

The Japanese economy is projected to stagnate during the remainder of this year and then to expand just 1 percent in 2002. We expect that growth will be constrained by sluggish export demand, by a retrenchment of investment spending from overly optimistic levels reached late last year, and by a modest tightening of fiscal policy. That said, Prime Minister Koizumi remains something of a wildcard. It is unclear whether he will be able to translate his pro-reform campaign platform into a set of concrete policy actions. Even if he is successful in this respect, the short-term disruptions associated with these reforms--more bankruptcies and rising unemployment--may weigh on activity through the forecast period.

Average headline inflation in these countries is projected to decline from its fourth-quarter peak as the effect of last year's rise in oil prices recedes and as weak growth reduces pressures on resources. Four-quarter inflation in the euro area is expected to decline from 2-3/4 percent in 2000:Q4 to an average of 1-3/4 percent in 2002; over the same period, inflation in Canada should move down from 3 percent to 1-3/4 percent. Deflation is expected to continue in Japan through the forecast period.

Foreign central banks seem poised to continue easing monetary policy. The Bank of England is projected to cut rates another 50 basis points, for a cumulative easing of 100 basis points in 2001; the ECB is expected to reduce official rates 25 basis points sometime in the second half of this year, as inflation moves back to the 2 percent target ceiling; and the Bank of Canada is expected to trim rates another 50 basis points by mid-year, in addition to the 100 basis points of easing undertaken so far this year.

Other countries. The near-term outlook for growth in the major developing-country trading partners of the United States has been lowered significantly since the March Greenbook. The worsened outlook has been most pronounced in developing Asia, where incoming data on activity generally have been weaker than expected and where the prospects for exports of high-tech products to industrial countries, particularly the United States, have dimmed. We now estimate that average real GDP in the major developing countries will increase at only a 2 percent rate in the first half of this year, more than 1 percentage point slower than forecast in the March Greenbook. Growth is expected to pick up fairly promptly in the second half and then move up to nearly 5 percent by the end of next year.

Risks facing Argentina appear to have become even more acute since the March Greenbook, and we have marked down our growth outlook for Argentina and Brazil. Our forecast continues to be based on the assumption that Argentina maintains its exchange rate peg to the dollar, but we admit that such an outcome seems less certain than at any time in the past few years.

Prices of internationally traded goods. Crude oil prices drifted lower during the first quarter as expectations for world economic growth were revised down and as OPEC's efforts to rein in oil production got off to a slow start. In April, however, after OPEC's second round of production cuts went into effect, oil prices moved higher. The spot price of WTI crude has recently traded in the neighborhood of $28 per barrel, about the same as the average for the first quarter. Although the current weakness in global activity should ease demand pressures, renewed supply restraint from OPEC will likely support oil prices in coming months. We anticipate that the supply from OPEC will rise next year--reflecting either higher production limits or increased cheating--and that oil prices will then decline. Accordingly, we project that the spot price of WTI will remain at about $28 per barrel into the fourth quarter of this year and then move down gradually to about $24.50 per barrel by the end of 2002. This forecast closely mirrors futures quotes.

After moving in response to swings in natural gas prices early in the year, prices of non-oil (core) imports are projected to rise a bit during the second half and then accelerate to 2-1/4 percent in 2002, reflecting the slight depreciation of the dollar and a modest acceleration of non-oil commodity prices. Prices of exported core goods are projected to be about flat through most of this year and increase at an average rate of about 1 percent next year, with declines in energy-related products eventually more than offset by modest increases in the prices of other exported goods.

Selected Trade Prices

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

Trade category	2000		Projection			
			2001			2002
	Q3	Q4	Q1	Q2	H2	
Exports						
Goods (core)	.1	1.1	-.0	0.3	.0	1.1
Imports						
Non-oil goods (core)	1.5	1.0	2.2	-2.3	0.6	2.2
Oil (dollars per barrel)	28.73	29.11	25.26	23.89	24.64	22.18

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

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

U.S. international transactions. After growing robustly during the first three quarters of 2000, real imports of goods and services turned down slightly in the fourth quarter of last year and are estimated (based largely on trade data for January and February) to have plunged more than 10 percent (a.r.) in the first quarter. Despite our estimate of a partial rebound in most trade categories in March, the gap between our estimate of first-quarter real imports and a projection based on historical relationships is the largest in a decade. The drop in imports was broadly based, with the steepest declines recorded in high-tech products and other machinery, consumer goods, and automotive products. For the second quarter, we expect that the recent strength of U.S. automobile production will push up imports of automotive products and that the drop in imports of consumer goods will begin to be reversed as inventory positions are adjusted. However, with U.S. investment spending remaining weak, imports of capital goods are likely to remain at low levels. On balance, we expect that imports will pick up only a bit during the second quarter. Imports are projected to move up more strongly during the second half of this year and then to expand at an average rate of nearly 8 percent next year, with support from strengthening U.S. GDP growth. The lagged impact of the dollar's appreciation over the past six quarters will allow relative prices to provide some slight stimulus to imports through the middle of next year.

Real exports of goods and services, which grew at an average annual rate of nearly 15 percent in the second and third quarters of last year, contracted 6-1/2 percent in the fourth quarter and are estimated to have declined another 2 percent in the first quarter. The first-quarter drop in exports was widespread across categories, with the largest declines recorded in high-tech and automotive products. In contrast to what has occurred with imports, recent export performance has been more or less in line with historical relationships. Factors holding down export growth in 2001 include lagged effects of dollar appreciation and the cyclical slowing of foreign growth below potential. However, as in our previous forecast, exports are projected to accelerate in 2002, as foreign economic growth rebounds. All told, we expect exports to expand about 2 percent this year and 6-1/2 percent in 2002.

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

Measure	2000		Projection			
			2001			2002
	Q3	Q4	Q1	Q2	H2	
Real exports	13.9	-6.4	-2.0	.6	4.9	6.5
March GB	*13.9*	*-6.9*	*-.8*	*3.5*	*7.1*	*8.1*
Real imports	17.0	-1.2	-10.8	3.2	6.5	7.9
March GB	*17.0*	*-.7*	*0.7*	*5.1*	*6.2*	*8.2*

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

The U.S. current account deficit as a share of GDP is expected to decline in the first half of this year to 4 percent (compared with 4-1/2 percent in the second half of last year), owing to the sharp drop in imports. We expect the share to move back up to 4-1/2 percent in the second half of 2001 and then to rise to nearly 5 percent by the end of 2002. The projected evolution of the current account deficit is broadly in line with changes in the goods and services account, but the net outflow of investment income also increases as the U.S. net liability position expands.

Alternative simulations. In our baseline forecast, we project that the real value of the U.S. dollar will remain roughly stable against the currencies of the major industrial countries. In this section, we consider an alternative scenario in which heightened confidence in the prospects for major industrial countries (excluding Japan) causes their currencies to appreciate against the dollar. In particular, the shock consists of an exogenous decline in the risk premium on euro- and sterling-denominated assets that induces an immediate 15 percent real appreciation of these currencies against the dollar in 2001:Q3. There is also a decline in the risk premium on Canadian assets that results in an immediate 5 percent appreciation of the Canadian dollar in real terms.

In this scenario, the broad real value of the dollar declines about 6 percent initially. Afterwards, the path of the real exchange rate depends on the response of monetary policy at home and abroad. We consider two cases. The first case holds the real federal funds rate unchanged from its baseline path, while the second case assumes that policy is adjusted according to a Taylor rule. (In both cases, the major foreign central banks adjust their policy rates according to a Taylor rule.) When U.S. monetary policy does not respond, annual real GDP growth is 1/4 percentage point higher in 2002:H1 and a little more than 1/2 percentage point higher in 2002:H2 than in the baseline. Rising import prices and higher rates of resource utilization put upward pressure on inflation; the core PCE inflation rate rises about 1/4 percentage point in 2002. When monetary policy does respond, the initial effects on output and inflation are similar to those in the first case, but eventually real interest rates rise noticeably, restraining spending and inducing an appreciation of the real exchange rate that partially offsets the effects of the shock. Real GDP growth in 2002:H2 is only about 1/4 percentage point above baseline, roughly half the magnitude of the response under a fixed real funds rate, as the Taylor rule prescribes a 30 basis point rise in the real funds rate by year-end.

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

Indicator and simulation	2001		2002	
	H1	H2	H1	H2
U.S. real GDP				
Baseline	1.3	2.4	3.3	3.6
Weaker dollar				
Unchanged real funds rate	1.3	2.5	3.6	4.1
Taylor rule	1.3	2.5	3.5	3.9
U.S. PCE prices excl. food and energy				
Baseline	2.3	1.9	1.9	1.9
Weaker dollar				
Unchanged real funds rate	2.3	2.0	2.2	2.2
Taylor rule	2.3	2.0	2.2	2.1

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

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May 9, 2001

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

Measure and country	1994	1995	1996	1997	1998	1999	2000	-----Projected---- 2001	2002
REAL GDP (1)									
Total foreign	5.2	2.4	4.0	4.3	1.1	4.8	4.2	2.3	3.7
Industrial Countries	4.0	1.9	2.5	3.6	2.2	3.8	3.4	1.7	3.0
of which:									
Canada	5.5	1.4	2.4	4.8	3.2	4.9	4.0	1.9	3.5
Japan	1.7	2.6	2.9	0.7	-1.4	0.4	2.8	0.1	1.1
United Kingdom	4.6	1.9	2.9	3.5	2.0	3.2	2.6	1.9	2.6
Euro-12	3.0	1.5	1.6	3.0	2.0	3.3	3.0	2.0	2.7
Germany	2.9	1.1	1.3	1.6	1.0	2.5	2.6	1.6	2.5
Developing Countries	6.8	3.2	6.2	5.1	-0.2	6.3	5.3	3.0	4.6
Asia	8.8	7.2	7.0	4.7	-2.0	8.8	6.1	2.9	5.0
Korea	9.1	7.5	6.4	3.4	-5.2	13.8	5.2	2.4	4.6
China	16.3	12.6	9.2	8.2	9.5	6.2	7.4	7.5	7.7
Latin America	5.4	-3.7	6.0	6.2	1.2	4.3	4.7	2.9	4.3
Mexico	5.2	-7.1	7.1	6.7	2.8	5.5	5.2	3.0	4.7
Brazil	10.2	-0.9	3.5	2.4	-0.8	3.4	4.3	2.7	3.0
CONSUMER PRICES (2)									
Industrial Countries	1.1	1.3	1.4	1.5	1.0	1.1	1.9	1.2	1.2
of which:									
Canada	-0.0	2.0	2.0	1.0	1.1	2.4	3.1	1.6	1.7
Japan	0.8	-0.8	0.1	2.0	0.8	-1.3	-1.1	-0.8	-0.4
United Kingdom (3)	2.2	2.9	3.2	2.7	2.5	2.2	2.1	2.1	2.4
Euro-12 (4)	NA	NA	NA	1.5	0.8	1.5	2.7	2.0	1.7
Germany	2.8	1.4	1.3	1.5	0.3	1.1	2.5	2.1	1.3
Developing Countries	22.9	16.9	11.1	6.8	9.1	4.6	4.2	4.2	4.8
Asia	10.8	6.4	4.8	2.8	4.4	0.2	1.9	2.6	3.7
Korea	5.8	4.3	5.0	4.9	5.9	1.2	2.8	4.0	3.0
China	26.9	11.1	6.8	0.9	-1.2	-0.9	0.9	2.1	3.9
Latin America	54.1	42.0	25.9	15.6	15.5	12.6	8.5	6.2	6.5
Mexico	7.0	48.8	28.2	17.2	17.5	13.6	8.9	6.5	6.7
Brazil	1196.9	21.5	9.6	4.7	1.6	8.3	6.2	4.8	5.0

1. Foreign GDP aggregates calculated using shares of U.S. 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)

	2000				Projected 2001				Projected 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	7.0	4.1	4.1	1.7	1.7	1.7	2.5	3.2	3.5	3.6	3.7	3.8
Industrial Countries	5.2	3.5	2.5	2.5	1.8	1.2	1.7	2.3	2.9	2.9	3.0	3.0
of which:												
Canada	4.8	4.3	4.5	2.6	1.6	1.1	2.2	2.8	3.5	3.5	3.5	3.5
Japan	10.0	0.9	-2.4	3.0	2.0	-0.8	-1.0	0.1	1.0	1.0	1.3	1.3
United Kingdom	1.6	3.6	3.4	1.6	1.2	2.0	2.0	2.4	2.5	2.7	2.7	2.7
Euro-12	3.9	3.1	2.2	2.6	2.0	1.7	2.1	2.3	2.7	2.7	2.7	2.8
Germany	3.9	4.8	1.1	0.8	1.5	1.1	1.7	2.0	2.4	2.5	2.5	2.6
Developing Countries	9.9	5.0	6.4	0.3	1.5	2.4	3.7	4.4	4.4	4.6	4.8	4.8
Asia	11.0	4.4	6.6	2.5	1.3	2.0	3.7	4.5	4.6	4.9	5.3	5.3
Korea	6.6	6.4	9.8	-1.7	1.5	2.3	2.5	3.5	4.0	4.5	5.0	5.0
China	9.6	1.9	11.0	7.5	12.3	2.0	8.0	8.0	6.5	6.5	9.0	9.0
Latin America	9.4	5.5	6.1	-1.8	1.3	2.6	3.5	4.3	4.3	4.3	4.3	4.3
Mexico	11.1	6.4	6.7	-3.0	1.0	2.5	3.8	4.8	4.8	4.8	4.8	4.8
Brazil	3.8	3.9	8.9	0.9	2.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
CONSUMER PRICES (2)	Four-quarter changes											
Industrial Countries	1.6	1.5	1.7	1.9	1.8	1.8	1.4	1.2	1.1	1.1	1.2	1.2
of which:												
Canada	2.7	2.4	2.7	3.1	2.8	2.5	2.0	1.6	1.7	1.8	1.8	1.7
Japan	-0.8	-0.9	-1.1	-1.1	-0.6	-0.7	-0.8	-0.8	-1.1	-0.7	-0.5	-0.4
United Kingdom (3)	2.1	2.1	2.1	2.1	1.9	2.0	2.1	2.1	2.3	2.4	2.4	2.4
Euro-12 (4)	2.0	2.1	2.5	2.7	2.5	2.8	2.3	2.0	1.8	1.6	1.6	1.7
Germany	2.0	1.7	2.2	2.5	2.4	3.0	2.5	2.1	1.7	1.2	1.3	1.3
Developing Countries	3.9	3.8	4.0	4.2	3.9	4.1	4.1	4.2	5.2	5.2	5.1	4.8
Asia	0.5	0.8	1.4	1.9	1.9	2.6	2.7	2.6	3.4	3.7	3.7	3.7
Korea	1.5	1.5	3.2	2.8	4.2	5.1	4.0	4.0	3.8	3.2	3.0	3.0
China	0.1	0.2	0.3	0.9	0.7	1.8	2.0	2.1	2.8	3.6	3.7	3.9
Latin America	10.0	9.1	8.7	8.5	7.2	6.8	6.3	6.2	7.6	7.4	7.0	6.5
Mexico	10.6	9.6	9.0	8.9	7.5	6.9	6.6	6.5	8.1	7.8	7.3	6.7
Brazil	7.8	6.6	7.7	6.2	6.2	7.0	5.2	4.8	5.3	5.5	5.2	5.0

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1994	1995	1996	1997	1998	1999	2000	Projected 2001	2002
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-0.3	0.4	-0.2	-0.8	-1.1	-1.1	-0.9	0.1	-0.4
Exports of G&S	1.0	1.0	1.1	1.0	0.3	0.5	0.7	0.2	0.7
Imports of G&S	-1.3	-0.6	-1.3	-1.7	-1.4	-1.5	-1.6	-0.2	-1.1
	Percentage change, Q4/Q4								
Exports of G&S	10.5	9.7	9.8	8.5	2.2	4.3	6.7	2.1	6.5
Services	8.2	8.8	8.9	1.4	2.8	0.2	2.7	2.4	5.7
Computers	27.4	39.1	21.6	25.8	7.0	13.3	23.7	12.2	29.6
Semiconductors	66.9	79.6	44.6	21.3	9.3	34.4	26.3	-1.0	32.1
Other Goods 1/	7.9	4.6	7.3	9.8	1.2	3.7	5.8	1.1	2.0
Imports of G&S	12.2	5.0	11.2	14.3	11.2	12.0	11.3	1.1	7.9
Services	1.8	5.5	5.3	14.0	9.5	2.1	13.2	3.5	5.0
Oil	-0.2	2.4	7.8	3.9	4.6	-3.9	12.6	-0.7	3.0
Computers	39.0	35.0	17.8	33.0	26.7	25.0	14.7	-0.0	28.0
Semiconductors	54.5	92.4	56.7	32.9	-7.3	34.0	23.4	-6.3	32.0
Other Goods 2/	12.3	-1.2	10.5	12.7	11.6	13.9	10.0	1.2	6.6
	Billions of chained 1996 dollars								
Net Goods & Services	-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-412.4	-420.6	-478.1
Exports of G&S	732.8	808.2	874.2	981.5	1003.6	1033.0	1126.3	1144.0	1201.1
Imports of G&S	819.4	886.6	963.1	1094.8	1224.6	1355.3	1538.7	1564.6	1679.2
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-118.6	-109.5	-123.3	-140.5	-217.1	-331.5	-435.8	-443.5	-526.1
Current Acct as Percent of GDP	-1.7	-1.5	-1.6	-1.7	-2.5	-3.6	-4.4	-4.3	-4.8
Net Goods & Services (BOP)	-97.0	-96.0	-102.1	-105.9	-166.9	-265.0	-368.9	-364.8	-420.4
Investment Income, Net	21.1	25.0	23.4	11.1	-1.0	-13.1	-8.1	-18.8	-44.9
Direct, Net	55.2	64.9	69.4	71.9	67.7	62.7	83.8	90.1	79.0
Portfolio, Net	-34.1	-39.9	-46.0	-60.9	-68.8	-75.8	-91.9	-108.9	-123.9
Other Income & Transfers,Net	-42.7	-38.6	-44.6	-45.7	-49.2	-53.4	-58.8	-59.8	-60.8

1. Merchandise exports excluding 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
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/	8.4	19.2	10.9	1.5	-0.3	-7.2	-2.3	15.9	-13.2	3.7	13.9	12.8
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	-247.9	-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	-59.2	-48.7	-51.5	-51.0	-62.5

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000				Projected 2001				Projected 2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
PA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-0.9	-1.0	-0.9	-0.5	1.5	-0.4	-0.7	-0.1	-0.8	-0.6	-0.5	0.1
Exports of G&S	0.7	1.5	1.5	-0.7	-0.2	0.1	0.3	0.8	0.3	0.6	0.7	1.1
Imports of G&S	-1.6	-2.5	-2.4	0.2	1.7	-0.5	-0.9	-0.9	-1.1	-1.3	-1.2	-1.0
Percentage change from previous period, s.a.a.r.												
Exports of G&S	6.3	14.3	13.9	-6.4	-2.0	0.6	2.4	7.4	2.6	6.1	6.8	10.7
Services	6.9	3.5	-2.8	3.4	1.8	1.7	2.1	4.1	5.2	5.8	5.9	5.9
Computers	44.6	44.9	27.5	-12.4	1.2	6.1	17.0	26.3	28.7	29.9	29.9	29.9
Semiconductors	20.7	71.2	38.6	-11.0	-20.9	-4.0	8.3	17.0	31.2	32.4	32.4	32.4
Other Goods 1/	2.5	13.5	19.0	-9.6	-1.6	0.1	0.6	5.5	-2.9	1.4	2.2	7.7
Imports of G&S	12.0	18.6	17.0	-1.2	-10.8	3.2	6.6	6.4	7.7	9.1	8.3	6.6
Services	16.6	10.6	22.3	4.0	-2.6	7.5	3.7	5.6	5.3	4.6	4.9	5.2
Oil	30.3	35.3	-4.9	-4.3	19.0	-10.7	12.5	-18.7	-3.0	21.9	11.2	-14.2
Computers	2.8	44.5	28.7	-9.6	-22.6	-0.0	10.4	17.0	26.3	28.6	28.6	28.6
Semiconductors	20.7	33.5	88.9	-23.8	-36.7	-4.0	8.2	17.0	31.1	32.3	32.3	32.3
Other Goods 2/	9.7	15.8	15.1	0.1	-13.2	4.5	6.3	8.5	7.2	6.5	6.3	6.4
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-376.8	-403.4	-427.7	-441.7	-402.6	-413.0	-431.2	-435.5	-458.2	-476.6	-490.5	-487.1
Exports of G&S	1084.8	1121.8	1158.8	1139.8	1134.2	1135.9	1142.7	1163.2	1170.6	1187.9	1207.5	1238.5
Imports of G&S	1461.7	1525.2	1586.4	1581.5	1536.8	1548.9	1573.9	1598.7	1628.8	1664.5	1698.0	1725.6
Billions of dollars, s.a.a.r.												
CURRENT ACCOUNT BALANCE	-407.1	-420.9	-452.4	-462.6	-420.4	-420.8	-453.0	-479.7	-496.0	-518.5	-536.5	-553.4
irrent Account as % of GDP	-4.2	-4.2	-4.5	-4.6	-4.1	-4.1	-4.4	-4.6	-4.6	-4.8	-4.9	-5.0
Net Goods & Services (BOP)	-341.0	-355.0	-382.5	-397.0	-357.8	-350.7	-372.7	-378.1	-399.3	-417.8	-432.5	-431.9
Investment Income, Net	-12.2	-11.1	-12.7	3.5	-6.6	-13.5	-23.8	-31.5	-39.6	-43.0	-46.4	-50.4
Direct, Net	68.1	75.9	86.1	105.0	96.1	93.1	87.4	83.7	79.4	79.7	79.3	77.7
Portfolio, Net	-80.3	-87.0	-98.9	-101.5	-102.6	-106.6	-111.1	-115.3	-119.1	-122.7	-125.7	-128.0
Other Inc. & Transfers, Net	-53.8	-54.9	-57.2	-69.1	-56.1	-56.6	-56.6	-70.1	-57.1	-57.6	-57.6	-71.1

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