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Confidential (FR) Class II FOMC

Part 1

October 31, 2001

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

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Domestic Developments

The economy clearly was quite weak before September 11, and the effects of the attacks appear to have been sufficiently strong to lead to a contraction in real GDP. BEA estimates that real GDP declined at an annual rate of 0.4 percent in the third quarter, and we believe that the contraction is likely to deepen in the current quarter. Businesses appear to have become much more pessimistic and have moved quickly to trim expenses by cutting capital spending, employment, and inventories. Although sales of motor vehicles apparently have surged in response to the substantial incentives from the major automakers, spending on other goods appears to have been lackluster. On net, we expect real GDP to fall at an annual rate of almost 2-1/2 percent in the current quarter and to be about unchanged in the first quarter of 2002.

The unprecedented events of the last six weeks and the attendant uncertainty render the shape or timing of an upturn difficult to foresee with any clarity. To be sure, a number of precursors of recovery have been put in place. First, the cumulative easing in the stance of monetary policy will provide support for activity. Second, the Congress seems likely to agree to a significant package of fiscal stimulus in addition to the tax cuts and spending increases that already have been enacted. Third, the current round of inventory liquidation will eventually run its course and give a significant boost to production at some point in the future. That said, the near-term impediments to recovery remain considerable and include the large decline in the stock market over the past year and a half, the relatively weak growth of foreign economies, and the negative shock to business and consumer confidence. We project that, on balance, real GDP will begin to rise again by the middle of next year and to accelerate over the forecast period: Real GDP increases 2-1/2 percent in 2002 and 3-3/4 percent in 2003.

The unemployment rate is forecast to move a bit above 6 percent by the middle of next year and then to recede gradually below 6 percent by the end of 2003. Despite the appreciable slack in resource utilization that is expected to prevail over the next two years, we project core inflation to slow only modestly. This forecast reflects our expectation that structural productivity will increase less than it did in recent years.

Key Background Factors

The path for the federal funds rate through 2002 is assumed to be 25 basis points lower than in the September Greenbook; the funds rate is then assumed to increase gradually over 2003 as the economic recovery gains momentum. Futures markets appear to expect an easier stance of monetary policy through the middle of next year, but then a more prompt and larger reversal, than is assumed in the staff projection. Our forecast of little change in longer-term Treasury and mortgage interest rates by the end of the forecast period reflects a balancing of the upward rate pressure stemming from expansionary fiscal policy and rising economic growth with the downward pressure from reduced inflation expectations. The decline in bond yields is a tad less than that assumed in the September Greenbook largely because our baseline fiscal policy assumptions are now more in line with what market participants apparently are assuming.

The operation of financial markets has mostly recovered from the shocks set in motion by the terrorist attacks, although liquidity in corporate and government bond markets is somewhat below normal. Credit risk is still an issue, and even though rate spreads have declined recently, investors remain highly selective. Indeed, the level of spreads on more marginal credits remains high, and we do not expect an appreciable narrowing until market participants see more clearly prospects for a sustained pickup in economic activity and improvement in profits.

The gain in equity prices over the intermeeting period has left broad stock indexes about 10 percent above the levels that we had expected to prevail as we entered the fourth quarter. The earnings performance consistent with our forecast appears to be weaker than what market participants anticipate, and our best guess is that we will see an erosion in stock prices at some point in coming months. Our baseline assumption is that equity prices will turn up before the middle of 2002, as investors begin to anticipate a stronger economy, but the rebound in share values is anticipated to be modest compared with past cyclical experiences.

The events of September 11 and their aftermath continue to alter the outlook for fiscal policy in important ways. To date, the Congress has passed an emergency appropriations bill and a package of direct assistance and loan guarantees for the airline industry.[1] And a consensus has emerged to do even more, despite the virtually certain consequence of deepening an already substantial on-budget deficit and the increasingly plausible risk of running a unified deficit. For the purposes of this forecast, we have assumed cumulative stimulus with total budget costs of $112 billion in fiscal 2002 and $104 billion in fiscal 2003 relative to the current services policies in place before September 11; in the last Greenbook the costs were $52 billion and $76 billion, respectively. Compared

1. We assume that, of the $40 billion in emergency budget authority already approved, $20 billion will be used to fund the defense spending initiatives in fiscal years 2002 and 2003 that the Administration had proposed before the attacks. The other $20 billion in new budget authority is expected to be used primarily to fund some additional defense spending, federal antiterrorism programs, and grants to help states and localities pay for post-disaster cleanup; the effects on outlays are expected to be spread roughly evenly between fiscal years 2002 and 2003. Regarding the separate airline rescue package, $5 billion of cash assistance will show through in outlays in fiscal 2002. The airline legislation also included loan guarantees of up to $10 billion; the subsidy value of the guarantees eventually will be included in the budget accounts.

Federal Receipts and Outlays
(Billions of dollars, fiscal years, unified basis)

Item	2001	2002	2003
Outlays	1,863	1,984	2,049
Previous	1,852	1,976	2,052
Receipts	1,990	1,986	2,063
Previous	1,988	2,046	2,091
Surplus, deficit (-)			
Total	127	2	14
Previous	136	70	38
On-budget	-34	-161	-165
Previous	-30	-98	-143

with last Greenbook, we have added to our package a second tax rebate—paid in the first quarter of 2002 and targeted at low-income tax filers who did not receive the full benefit of the first rebate. The cost of this provision is $14 billion in fiscal 2002, consistent with the bill that has passed the House. Also in line with that bill, our expanded package includes a temporary tax incentive for investment in equipment and software that allows firms to expense 30 percent of the cost of eligible capital items ordered during the three years following September 11, 2001. Our package includes additional spending for extended unemployment insurance benefits, increased subsidies for health insurance, and some additional federal purchases for increased security and infrastructure.

The temporary expensing provision has a major influence on the contour of the projection. To illustrate this influence, we later present an alternative simulation that omits the temporary expensing provision; this simulation produces substantially slower output growth in 2002 and 2003.

Together with the softer economy, our new fiscal package implies a marked reduction in the unified budget surplus, from $127 billion in fiscal 2001 to $2 billion in fiscal 2002 and $14 billion in fiscal 2003; on-budget deficits (that is, excluding the Postal Service and social security) are forecast to deepen from $34 billion in fiscal 2001 to $165 billion in fiscal 2003.

Measured against the currencies of a broad group of our trading partners, the real trade-weighted foreign exchange value of the dollar has risen about 1 percent since the last Greenbook, despite negative news on the state of the U.S. economy. In light of this development, we project a flat path for the real dollar over the forecast period, compared with the 1 percent depreciation assumed in the September Greenbook.

Incoming data on economic activity abroad, especially in Asia, have been weaker than we had expected, and as a result, we have marked down the annualized growth rate of foreign real GDP in the second half of this year by about 1/2 percentage point. Next year, we anticipate a gradual pickup in economic activity abroad, with foreign real GDP increasing 2 percent, down about 1/4 percentage point from the September Greenbook. In general, monetary easing abroad and the modest recovery in the United States should provide some support for foreign economic activity next year. We are forecasting a further recovery in 2003, with foreign GDP up 3-1/2 percent, stimulated by the projected rebound in U.S. economic activity.

The price of crude oil, which declined shortly after September 11, has remained largely unchanged since the September Greenbook. Tracking recent futures quotes, we now project that the spot price of WTI will average a little more than $22 per barrel in the fourth quarter of this year, a projection similar to that in the September Greenbook. Thereafter, the spot price of WTI is projected to decline only about $1 per barrel, roughly half the price decline assumed in the September Greenbook. This difference owes largely to a greater likelihood of reduced future supplies from OPEC—which is talking more assertively about cutting future production—and from heightened Middle East uncertainties.

Recent Developments and the Near-Term Economic Outlook

As noted earlier, we are now expecting real GDP to decline at an annual rate of about 2-1/2 percent in the fourth quarter—a downward revision of 1-3/4 percentage points from our September Greenbook projection. The contraction in capital spending in the current quarter appears likely to be much sharper than we had previously anticipated, and ongoing efforts by firms to deal with the inventory overhang are likely to continue to depress production in the months immediately ahead. Real GDP is projected to be roughly flat in the first quarter of next year, and we do not expect clear signs of an upturn in production to be evident before the spring.

Industrial production is projected to drop in both the current quarter and the first quarter of 2002. Apparently in anticipation of a retrenchment in sales after the incentives expire, motor vehicle producers stepped down assemblies sharply in October from the third-quarter pace, and we anticipate that production will continue to run near that lower level through the remainder of the quarter. Vehicle production is then forecast to decline further in the first quarter. We also should begin to see marked and sustained reductions in aircraft production. Outside transportation, cutbacks in factory output are expected to be widespread

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

Measure	2001:Q4 Sept. GB	2001:Q4 Oct. GB	2002:Q1 Sept. GB	2002:Q1 Oct. GB
Real GDP	**-.7**	**-2.4**	**-.1**	**-.1**
Private domestic final purchases	-1.9	-3.2	-.9	-1.6
Personal consumption expenditures	.4	1.3	.1	-.6
Residential investment	-11.5	-16.2	-5.3	-5.8
Business fixed investment	-10.9	-22.3	-5.6	-6.3
Government outlays for consumption and investment	4.7	7.9	3.5	2.8
	Contribution to growth, percentage points			
Inventory investment	.5	-.8	.4	1.3
Net exports	-.4	-.3	-.3	-.5

through the first quarter of next year, as businesses move aggressively to eliminate inventory overhangs.

The BLS will publish the employment report for October on Friday, and given the sharp rise in new claims for unemployment insurance, we anticipate another large decline in payrolls. We are projecting a cumulative decline in private nonfarm employment of close to 3/4 million over the October-to-December period, followed by additional job losses in the first quarter of 2002. As a result, the unemployment rate is projected to move up sharply, to 5.4 percent in the fourth quarter and to 5.9 percent in the first quarter.

We estimate that, among the components of final demand, consumer expenditures rose at an annual rate of only 1-1/2 percent in the third quarter, reflecting the steep declines in September retail sales and the drop in unit sales of light motor vehicles. We assume some bounceback in the fourth quarter from the depressed level of spending that followed the terrorist attacks. Indeed, automakers are reporting that sales of light vehicles in October skyrocketed to 19-1/2 million units (annual rate) as households responded to the special zero-percent financing packages; elevated sales should last through mid-November, when the new incentive plans are scheduled to expire. We estimate that the incentives will boost unit sales nearly a million units on net in the fourth quarter, but the temporary nature of the program likely is pulling forward sales from future months, and the resultant payback period is expected to extend into the second quarter of next year.

We believe that this summer's tax rebates are providing a lift to consumption expenditures in the current quarter. An additional round of tax rebates, the scheduled tax rate reductions, and higher transfer payments will likewise stimulate spending early next year. Even so, total real PCE edges down in the first quarter. This reflects the payback in auto sales, the lagged effects of the huge decline in stock market wealth, and the pessimism about economic prospects.

Business spending on equipment and software declined at an annual rate of nearly 13 percent in the third quarter. An across-the-board plunge in orders of nondefense capital goods excluding aircraft in September points to a continued substantial decline in real E&S expenditures over the next few months. Among the components of investment, there is yet little sign of a turnaround in high-tech spending; indeed the enormous decline in September orders for communications equipment suggests that at least a portion of the high-tech overhang persists, and we forecast that real high-tech spending will decline through early next year. Also, investment in commercial aircraft has been hit hard by the effects of the terrorist attacks. For other types of equipment, spending is likely to post another noticeable decline through the first quarter of next year. Summing up the pieces, expenditures for business equipment and software are projected to drop at an annual rate of about 20 percent this quarter and about 5 percent next quarter.

The decline in business investment has spread to outlays on nonresidential structures, which decreased sharply in the third quarter. Vacancy rates for office buildings and industrial structures have risen to the highest levels in more than five years, and the slump in oil prices has dimmed the outlook for oil and gas drilling. As a result, real expenditures on nonresidential structures are projected to fall at an annual rate of about 30 percent in the current quarter and of close to 10 percent in the first quarter of 2002.

Residential investment expenditures edged down in the third quarter. Despite the support provided by lower mortgage rates, the evident weakness in income, employment, and wealth is anticipated to restrain demand during the fourth quarter. Indeed, adjusted permits for single-family construction dropped in September to the lowest level since the summer of 2000, suggesting a significant slowing in expenditures for residential structures in the months ahead.

Real federal government consumption and investment spending, boosted by the recently enacted emergency supplemental, is projected to step up sharply in the fourth quarter; spending receives an additional lift in the first quarter because of increases in expenditures on infrastructure and security. Emergency spending by state and local governments for cleanup and repair is anticipated to add to the rise in real spending in that sector. Still, the weaker budget positions of these governments are likely to restrain other types of state and local spending.

The levels of exports and imports dropped sharply in the third quarter, in part reflecting the disruptions associated with the terrorist attacks, and are projected to edge down a bit further in the fourth quarter. Both remain depressed by the weakness in economic activity in the United States and among our major trading partners. Arithmetically, real net exports are anticipated to subtract about 1/4 percentage point from the change in real GDP in the fourth quarter of this year and 1/2 percentage point in the first quarter of next year.

Core PCE inflation in the third quarter was held down by BEA's treatment of insurance payments resulting from the events of September 11, and we expect to see an offsetting jump in the current quarter. In the first quarter of 2002, we look for core PCE prices to increase at an annual rate of 1-1/2 percent, about the average pace of the previous two quarters. Core CPI inflation is projected to stay at an annual rate of around 2-1/2 percent in the near term. The total PCE price index is projected to rise at a rate of about 1-1/2 percent in the fourth quarter despite a drop in energy prices of about 25 percent. In the first quarter of next year, with the transitory influence of insurance payments no longer a factor and the decline in energy prices becoming much smaller, the total PCE price index is expected to rise about 1-1/2 percent.

The Longer-Term Outlook for the Economy

The outlook for economic activity in 2002 and 2003 has been revised upward in this forecast, reflecting the added fiscal stimulus, a higher projected path for the stock market, and a marginally easier monetary policy. After having increased at an annual rate of about 2-3/4 percent in the second quarter of 2002, real GDP rises at an average pace of 3-1/2 percent in the second half and then 3-3/4 percent in 2003.

Over the projection period, final demand is supported by the lagged effects of monetary easing and fiscal stimulus, a reduction in energy prices, and the waning of the negative effects on consumer and business sentiment of the terrorist attacks. However, even after factoring in the recent rally, household net worth has taken an enormous hit over the past year and a half. All else being equal, the accompanying restraint on consumption growth is enough to boost the personal saving rate about 1 percentage point next year.

Lagging somewhat the projected acceleration in output, the jobless rate is expected to crest at 6.1 percent in the first half of next year and then to slip below 6 percent late in 2003—a level more than 1/2 percentage point above our estimate of the NAIRU. Although the capacity utilization rate in manufacturing gradually rises to about 76 percent by the end of 2003, it remains 5 percentage

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

Measure	2002 H1	2002 H2	2003
Real GDP	**1.3**	**3.5**	**3.7**
Previous	.6	3.3	3.5
Final sales	.5	2.7	3.2
Previous	.2	2.9	3.2
PCE	1.5	2.5	3.2
Previous	.6	2.5	3.2
Residential investment	-1.5	5.5	2.4
Previous	-1.6	5.5	2.5
BFI	-3.7	6.5	9.2
Previous	-3.9	4.1	6.9
Government purchases	3.4	3.6	3.1
Previous	4.0	4.3	3.1
Exports	-1.1	4.9	6.8
Previous	.4	5.9	6.8
Imports	4.6	8.9	9.8
Previous	3.4	6.6	8.3
	Contribution to growth, percentage points		
Inventory change	.8	.8	.4
Previous	.4	.4	.3
Net exports	-.7	-.7	-.6
Previous	-.4	-.3	-.4

points below its longer-run average. Against such a background, wage and price pressures will remain weak, and indeed, core inflation is projected to edge lower.

Household spending. As noted earlier, real PCE is projected to contract slightly in the first quarter of next year. Thereafter, several powerful factors are expected to support a more robust pace of consumer spending over the remainder of the forecast period. Real disposable income will receive a boost from the assumed fiscal actions as well as from lower energy prices. By 2003, the drag on consumption growth from depressed sentiment and lower wealth should have dissipated, and with income and employment prospects improving, consumption spending is projected to accelerate. Indeed, with a cyclical rebound in spending on durable goods, the growth in total PCE outpaces that in real income in 2003, and the personal saving rate declines slightly.

Residential investment is projected to rise slowly, on balance, over the next two years. After declining through early next year, housing demand should strengthen in the second half of 2002 and in 2003 in response to renewed job growth and still-low mortgage rates. Starts of new single-family units are forecast to reach a trough of about 1.20 million units (annual rate) in the current quarter and then gradually rise to 1.33 million units in 2003. Starts of multifamily units are also expected to decline in the current quarter, before stabilizing at a rate of 340,000 units late next year.

Equipment and Software

In putting together the baseline forecast, we have assumed enactment of a temporary investment tax incentive. Specifically, in line with the bill recently passed by the House of Representatives, we have assumed that, for a three-year period retroactive to September 11, 2001, businesses will be allowed to take an immediate deduction against earnings equal to 30 percent of their outlays for equipment and software and will be allowed to depreciate the remaining 70 percent as under current rules.[3] For equipment with a tax life of five to seven years—the predominant category—a "partial expensing" provision along these lines would reduce the cost of capital about 1-1/2 percent.

In quantifying the timing and magnitude of the effects of this provision, we have drawn on economic theory, the available econometric evidence, and a considerable dose of judgment. Econometric evidence suggests that, over the long run, the capital stock responds roughly proportionately to permanent changes in the cost of capital. Thus, a 1 percent reduction in the cost of capital should elicit an increase of about 1 percent in the capital stock. Of course, even assuming typical lags in adjustment to achieve such an increase in the capital stock would require a much larger percentage increase in investment in the short run.

A number of factors suggest that temporary investment incentives should give a larger near-term boost to investment than do equally sized permanent incentives. First, a temporary provision imposes a smaller drain on the U.S. Treasury and so elicits a far smaller adverse reaction from bond-market

3. Firms can use this expensing provision on investments with a tax-service life of twenty years or less.

participants. Second, businesses face an incentive to accelerate some of the investment that otherwise would have occurred after the expiration of the tax provision. The extent of this pull forward will depend on, among other factors, the incremental costs that firms may face as a result of crowding more investment into a given period, as well as the cost of carrying potentially less-than-fully-utilized capacity. Unfortunately, we have only limited empirical evidence on the size and timing of this pull-forward effect.

Relying on such evidence as we have, we project that the partial expensing provision will boost the growth of investment in equipment and software by roughly 3-1/2 percentage points in both 2002 and 2003; after allowing for multiplier and other effects, the tax incentive raises GDP growth in these two years 0.5 percentage point and 0.7 percentage point, respectively. In deriving this estimate, we have balanced the strong incentives to bring forward spending against various factors that might damp the near-term response. These latter considerations include the time it takes to plan for, build, and install new capital goods, as well as the possibility that firms might delay any increase in investment until the prospects for resumed economic growth are clear, given the current low level of capacity utilization in many sectors. Of course, the forecast of real equipment and software spending is influenced by other factors such as accelerating real activity, declining interest rates, and the terrorist-related impact on business confidence. All told, real equipment and software spending is projected to rise 4 percent next year and 12-1/2 percent in 2003.

Nonresidential structures. Outlays for nonresidential structures have dropped sharply in the last few quarters, and because of the lagged effects of a weak economy and lower oil and natural gas prices, we expect further declines next year before spending stabilizes in 2003. We have factored in a small amount for reconstruction of facilities damaged in New York City, but given the lags involved, we do not expect the replacement of lost office space to materially add to spending until late in the forecast period; even then, the increment is small—only $3 billion in 2003. Overall, after a drop of nearly 11 percent this year, real outlays for nonresidential structures are projected to fall another 6 percent in 2002 and to be unchanged in 2003.

Inventory investment. Reductions in nonfarm inventories are expected to continue through the middle of next year. Nonetheless, the pace of the drawdown slows over the next few quarters, and as a result, inventory investment is projected to make a positive contribution of more than 3/4 percentage point to the change in real GDP in 2002. In 2003, businesses are expected to build inventories as demand solidifies, with the positive swing in inventory investment contributing almost 1/2 percentage point to the change in real GDP.

Government purchases. Real federal purchases are projected to increase 4-3/4 percent in 2002, reflecting the recently enacted emergency supplemental as well as our assumed package of additional spending on security and infrastructure. Purchases receive a further small boost from policy actions in 2003 and are projected to increase just 2 percent. State and local spending is expected to increase 2-3/4 percent in 2002 and 3-1/2 percent in 2003—a slowdown from the 5 percent rise expected for this year. These jurisdictions no doubt are experiencing downward pressure on revenues that will persist into next year and, as a result, will restrain spending a bit.

Net exports. Real exports have weakened markedly further in recent months, and we now expect that they will be down more than 8 percent during 2001. Exports are projected to turn up during 2002 and to strengthen further in 2003 as foreign economic activity recovers. The firming in domestic spending over the same period should lead to a pickup in imports, which also have dropped off sharply this year. Taken together, real net exports, which are expected to be a slight positive for real GDP this year, are projected to arithmetically subtract about 2/3 percentage point per year, on average, from the changes in real GDP for 2002 and 2003.

Aggregate Supply, the Labor Market, and the Outlook for Inflation
We have made a number of minor adjustments to our forecast of structural labor productivity and potential output in this Greenbook. As a result of the terrorist acts to date and the country's initial response, we have raised our estimate of the negative shock to the level of multifactor productivity from 1/8 percent in the September Greenbook to roughly 1/4 percent. The range of uncertainty about

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

Measure	1973-95	1996-98	1999	2000	2001	2002	2003
Structural labor productivity	**1.4**	**2.4**	**2.8**	**2.7**	**1.9**	**1.4**	**1.9**
Previous	1.4	2.4	2.8	2.6	1.9	1.5	1.8
Contributions[1]							
Capital deepening	.6	1.1	1.5	1.4	.6	.2	.6
Previous	.6	1.1	1.5	1.3	.7	.2	.5
Multifactor productivity	.6	1.0	1.0	1.0	.9	.8	1.0
Previous	.6	1.0	1.0	1.0	.9	.9	1.0
Labor composition	.3	.3	.3	.3	.3	.3	.3

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

this estimate is obviously huge, and additional terrorist acts likely would increase the magnitude of this adjustment. The effect begins in the fourth quarter of 2001 and lasts until the end of next year. Thereafter, growth in structural MFP returns to the 1.0 percent pace that prevailed prior to September 11. In contrast, the upward revision to our investment forecast results in a larger contribution of capital deepening in 2002 and 2003. On net, we now are projecting structural productivity to rise 1.4 percent in 2002 and 1.9 percent in 2003.

Productivity and the labor market. Our productivity forecast follows the typical cyclical pattern around the underlying structural trends noted above. Output per hour in the nonfarm business sector is projected to rise at an annual rate of 1/2 percent, on average, in the second half of this year. It is expected to increase at roughly its structural pace of 1-1/2 percent in the first half of 2002. Thereafter, as the economy strengthens, businesses are assumed to be better able to bring work schedules and employment in line with sales and production, and productivity is expected to accelerate noticeably. Nonfarm business output per hour is projected to increase at an annual rate of more than 2-3/4 percent in the second half of next year—well above our estimated structural rate—and to continue to rise at a pace slightly above the structural increase in 2003.

Nonfarm payroll employment is expected to drop sharply through year-end and to continue declining into the first quarter of next year. Thereafter we expect employment to start rising again as spending and production stabilize and then turn upward. In the second half of 2002, rehiring should be well under way,

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

Measure	2000	2001	2002	2003
Output per hour, nonfarm business	2.3	.7	2.0	2.2
Previous	2.3	1.0	1.8	2.1
Nonfarm private payroll employment	1.7	-.9	.1	1.6
Previous	1.7	-.8	-.3	1.5
Household employment survey	1.0	-.8	.2	1.3
Previous	1.0	-.9	.1	1.4
Labor force participation rate[1]	67.1	66.8	66.8	66.7
Previous	67.1	66.7	66.7	66.7
Civilian unemployment rate[1]	4.0	5.4	6.1	5.9
Previous	4.0	5.4	6.2	6.0

1. Percent, average for the fourth quarter.

stemming the rise in the unemployment rate. Consistent with a stronger path of output growth than that in the September Greenbook, the unemployment rate has been revised down 0.1 percentage point in 2002 and 2003.

Wages and prices. With considerable slack in labor markets over the forecast period, the downward pressure on wage inflation is expected to be sizable. The increase in the ECI for hourly compensation is projected to step down from 4.0 percent this year to 3.3 percent in 2002 and 3.2 percent in 2003—the slowest pace since 1996. Most of the deceleration in the ECI represents smaller wage adjustments; benefit costs are expected to slow only modestly, reflecting ongoing rapid increases in the costs of health insurance.

Despite considerable deceleration in labor compensation, the reduced gains in structural labor productivity next year limit the pass-through into prices. Core PCE prices are projected only to edge down, from a rate of increase of 1.6 percent this year to 1.3 percent in 2003. Energy prices are expected to fall through early next year and then move up only a small amount over the remainder of the forecast period. As a result, total PCE prices are expected to increase 1.5 percent in 2002 and 1.4 percent in 2003.

Financial Flows and Conditions

We anticipate that domestic nonfinancial debt will expand fairly slowly over the forecast period, rising about 4-1/4 percent in 2002 and about 4-1/2 percent in 2003. After four years of paydowns, Treasury debt is projected to be about flat, on balance, over the next two years, as stimulative fiscal policy actions as well as the operation of automatic stabilizers virtually eliminate the budget surplus. Borrowing by the nonfederal sectors, which has slowed appreciably since midyear, is projected to remain subdued through next year before edging higher in 2003.

In the household sector, debt growth is expected to slow a bit further from the rapid gains posted earlier this year but then to pick up somewhat in 2003. The slowdown is concentrated in the consumer credit component, where the payback in spending on motor vehicles next year damps growth considerably, although a rebound should become evident by late in the year. By contrast, low mortgage interest rates are expected to support refinancing activity as well as purchases of new homes, and mortgage debt is projected to expand at a relatively strong pace in both 2002 and 2003. Some tightening of credit conditions may weigh on household debt growth over the forecast period, as high household debt burdens and the rise in unemployment stimulate loan delinquencies and loan losses.

In the business sector, debt growth has slowed considerably since midyear and is expected to remain modest through the end of the forecast period. Lending standards and terms are likely to remain tight in coming quarters, especially for

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

Measure	2000	2001	2002	2003
PCE chain-weighted price index	2.6	1.4	1.5	1.4
Previous	2.6	1.8	1.5	1.5
Food and beverages	2.5	3.2	2.2	2.0
Previous	2.5	3.2	2.3	2.2
Energy	15.3	-7.8	-.8	.5
Previous	15.4	-3.3	-4.8	-.8
Excluding food and energy	1.9	1.6	1.5	1.3
Previous	1.9	1.8	1.6	1.5
Consumer price index	3.4	2.0	2.0	1.9
Previous	3.4	2.4	1.8	2.0
Excluding food and energy	2.5	2.7	2.2	2.0
Previous	2.5	2.7	2.3	2.2
GDP chain-weighted price index	2.4	2.0	1.8	1.6
Previous	2.4	2.3	1.6	1.7
ECI for compensation of private industry workers[1]	4.4	4.0	3.3	3.2
Previous	4.4	4.2	3.4	3.2
NFB compensation per hour	7.4	4.6	4.0	3.5
Previous	7.4	4.9	4.1	3.5
Prices of core non-oil merchandise imports	1.6	-2.9	.6	1.3
Previous	1.6	-2.5	1.9	1.1

1. December to December.

riskier credits, as the economy weakens and delinquencies mount. However, we do not expect a significant dislocation in the supply of credit. While net borrowing from commercial banks and in the commercial paper market will likely remain very light for a while, investment-grade firms, responding to the low level of long-term interest rates, are expected to continue to raise substantial amounts in the bond market. Selected below-investment-grade firms should also be able to raise funds in the bond market, as well as in the syndicated loan market, although on stringent terms. As the economy is seen to be recovering later next year, restraint by lenders should begin to be relaxed somewhat.

State and local government debt is projected to expand at a sluggish pace over the projection period. Fiscal pressures likely will lead some jurisdictions to scale back spending plans, including new projects that would have been funded with debt issues. Retirements of securities that have been advance-refunded also should limit the rise in municipal debt.

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

Alternative Simulations

The staff forecast is conditioned on assumptions regarding the future course of fiscal policy, financial conditions, and other factors, any of which could easily move in a significantly different direction than we anticipate. Here, we focus on three particular risks and use model simulations to illustrate their implications for the forecast. First, fiscal policy may not prove to be as stimulative as we expect. In particular, the Congress may not include a partial expensing provision in the fiscal stimulus bill. Second, household spending may not hold up as well as we anticipate under the burden of rising unemployment and reduced wealth. The third simulation illustrates the upside risk that we have overestimated the hit to household and business confidence. In two final simulations, we show the effects of a further monetary easing and the implications of having the funds rate evolve as anticipated by the market.

No expensing provision. As noted above, an important factor underlying the staff projection for business investment and economic activity more generally is the assumption that the fiscal stimulus package will contain a temporary partial expensing provision—a powerful incentive to equipment and software spending over our projection interval. If no such provision is forthcoming—or, alternatively, if we have substantially overstated its stimulative effects—E&S expenditures would be depressed relative to baseline in both 2002 and 2003.

As shown in the "no expensing provision, unchanged policy" scenario, growth in real output is about 1/2 percentage point weaker in 2002 and a bit more than that in 2003 in the absence of partial expensing, given the staff's assumed path for the nominal funds rate. In addition to the direct effect on demand, the more subdued pace of investment contributes to a modest reduction in labor productivity and aggregate supply relative to baseline. The unemployment rate rises to 6-1/4 percent late next year and remains at this level in 2003. With the

Alternative Scenario: No Expensing Provision
(Percent change, annual rate, from end of preceding period, except as noted)

Measure	2001		2002			2003
	Q3	Q4	Q1	Q2	H2	
Real GDP						
Baseline	**-.4**	**-2.4**	**-.1**	**2.8**	**3.5**	**3.7**
No expensing provision, unchanged policy	-.4	-2.4	-.3	2.3	2.8	3.0
No expensing provision, policy easing	-.4	-2.4	-.3	2.3	2.9	3.2
Real business equipment and software						
Baseline	-12.8	-19.8	-4.6	**1.2**	**10.3**	**12.3**
No expensing provision, unchanged policy	-12.8	-19.8	-6.2	-1.8	5.9	8.6
No expensing provision, policy easing	-12.8	-19.8	-6.2	-1.7	5.9	8.9
Civilian unemployment rate[1]						
Baseline	**4.8**	**5.4**	**5.9**	**6.0**	**6.1**	**5.9**
No expensing provision, unchanged policy	4.8	5.4	5.9	6.0	6.3	6.3
No expensing provision, policy easing	4.8	5.4	5.9	6.0	6.2	6.2
PCE prices excluding food and energy						
Baseline	**.3**	**3.0**	**1.6**	**1.5**	**1.5**	**1.3**
No expensing provision, unchanged policy	.3	3.0	1.6	1.5	1.5	1.3
No expensing provision, policy easing	.3	3.0	1.6	1.5	1.5	1.4

1. Average for the final quarter of the period.

increased labor market slack offset by the reduction in labor productivity, inflation is unchanged from its baseline path.

Because both aggregate demand and supply are depressed, a Taylor rule would prescribe a cut of only 25 basis points in the funds rate relative to baseline, starting in the second half of 2002. Such a modest policy response ("no expensing provision, policy easing") would have little effect on the economy relative to an unchanged policy, slightly elevating output growth in 2003 and leaving inflation little changed.

Weaker household spending. In the second scenario, households react more adversely than we anticipate to rising unemployment, past declines in wealth, and growing consumer indebtedness, leading to a much slower pace of consumer spending and residential investment in both the near and longer term. Under the baseline funds rate assumption, this increased restraint is sufficient to raise the personal saving rate 1 percentage point relative to baseline by the middle of next year and to keep it at this more elevated level through the end of 2003. As shown in the "weaker spending, unchanged policy" scenario, real activity continues to contract appreciably through the first quarter of next year,

Alternative Scenario: Weaker Household Spending
(Percent change, annual rate, from end of preceding period, except as noted)

Measure	2001		2002			2003
	Q3	Q4	Q1	Q2	H2	
Real GDP						
Baseline	**-.4**	**-2.4**	**.1**	**2.8**	**3.5**	**3.7**
Weaker spending, unchanged policy	-.4	-3.4	-1.7	.9	1.8	2.6
Weaker spending, policy easing	-.4	-3.4	-1.6	1.1	2.3	3.7
Real personal consumption						
Baseline	**1.4**	**1.3**	**-.6**	**3.7**	**2.5**	**3.2**
Weaker spending, unchanged policy	1.4	-.1	-2.6	1.4	.5	2.1
Weaker spending, policy easing	1.4	-.1	-2.5	1.6	1.0	3.1
Civilian unemployment rate[1]						
Baseline	**4.8**	**5.4**	**5.9**	**6.0**	**6.1**	**5.9**
Weaker spending, unchanged policy	4.8	5.5	6.1	6.3	6.8	7.2
Weaker spending, policy easing	4.8	5.5	6.1	6.3	6.7	6.6
PCE prices excluding food and energy						
Baseline	**.3**	**3.0**	**1.6**	**1.5**	**1.5**	**1.3**
Weaker spending, unchanged policy	.3	3.0	1.6	1.5	1.4	.9
Weaker spending, policy easing	.3	3.0	1.6	1.5	1.5	1.1

1. Average for the final quarter of the period.

and past that point, output growth remains anemic. As a result, the unemployment rate climbs steadily to more than 7 percent by the end of 2003, and the resultant labor market slack lowers core PCE price inflation below 1 percent in 2003.

Monetary policy could cushion this weakness should it emerge, but probably not to an appreciable extent before the second half of next year. Under the Taylor rule, the funds rate is reduced 100 basis points by the end of next year relative to baseline and somewhat more in 2003. As shown by the "weaker spending, policy easing" scenario, this extra stimulus brings the growth rate of output back to baseline during 2003, but because of the earlier, more depressed pace of activity, the unemployment rate remains above 6-1/2 percent. Core inflation is roughly 1 percent during 2003.

Stronger sentiment. In the baseline outlook, we assume that consumer confidence has been shaken by recent events and will remain unusually weak through next year. But October's surge in auto sales and the recent strengthening in equity prices raise the possibility that we have misread the public's mood and that households, investors, and firms may in fact be less

Alternative Scenario: Stronger Sentiment
(Percent change, annual rate, from end of preceding period, except as noted)

Measure	2001		2002			2003
	Q3	Q4	Q1	Q2	H2	
Real GDP						
Baseline	**-.4**	**-2.4**	**-.1**	**2.8**	**3.5**	**3.7**
Stronger sentiment, unchanged policy	-.4	-1.6	1.5	4.5	4.5	4.3
Stronger sentiment, policy tightening	-.4	-1.6	1.4	4.3	4.0	3.6
Real personal consumption						
Baseline	**1.4**	**1.3**	**-.6**	**3.7**	**2.5**	**3.2**
Stronger sentiment, unchanged policy	1.4	2.6	1.2	5.2	3.4	3.7
Stronger sentiment, policy tightening	1.4	2.6	1.2	5.0	3.0	3.1
Civilian unemployment rate[1]						
Baseline	**4.8**	**5.4**	**5.9**	**6.0**	**6.1**	**5.9**
Stronger sentiment, unchanged policy	4.8	5.3	5.7	5.7	5.6	5.0
Stronger sentiment, policy tightening	4.8	5.3	5.7	5.7	5.7	5.5
PCE prices excluding food and energy						
Baseline	**.3**	**3.0**	**1.6**	**1.5**	**1.5**	**1.3**
Stronger sentiment, unchanged policy	.3	3.0	1.6	1.5	1.6	1.5
Stronger sentiment, policy tightening	.3	3.0	1.6	1.5	1.5	1.3

1. Average for the final quarter of the period.

pessimistic than we have assumed. If so, the current slowdown might be less pronounced than we anticipate and the subsequent rebound more robust—particularly given the supportive monetary and fiscal policies built into the baseline outlook.

To illustrate this risk, this simulation eliminates the exogenous shock to consumer sentiment that we built into the baseline forecast. This more upbeat mood directly contributes to higher consumer spending and housing investment, particularly in the near term. It also prompts both stronger business investment and higher share prices (roughly 15 percent on the Wilshire by early next year relative to baseline). Under the Greenbook funds rate assumption ("stronger sentiment, unchanged policy"), these forces are sufficient to moderate the current-quarter decline in real GDP and to produce a more vigorous recovery thereafter: Starting in the second quarter of next year, real GDP growth averages close to 4-1/2 percent through the end of 2003. As a result, the unemployment rate peaks at 5-3/4 percent early next year and then falls to 5 percent by the end of the forecast period; core inflation remains roughly stable at just over 1-1/2 percent.

With growth appreciably stronger in this scenario, the Taylor rule calls for a 60-basis-point increase in the funds rate relative to baseline by the end of next year. As shown in the "stronger sentiment, policy tightening" scenario, this policy response moderates the strength of the recovery, causing the unemployment rate to settle at 5-1/2 percent in 2003. As a result, core inflation differs little from the baseline forecast.

Alternative monetary policies. The "easier monetary policy" scenario assumes that the funds rate is reduced an additional 50 basis points beyond what is incorporated in the baseline. Under this alternative, growth of real GDP would be stronger, with the unemployment rate declining to 5-1/2 percent by the end of 2003. If policy were to follow the "market-based funds rate" path embodied in current futures prices, real output growth would on average be a touch more subdued than in the baseline.

Alternative Monetary Policy Scenarios

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

Measure	2001		2002			2003
	Q3	Q4	Q1	Q2	H2	
Real GDP						
Baseline	**-.4**	**-2.4**	**-.1**	**2.8**	**3.5**	**3.7**
Easier monetary policy	-.4	-2.4	.1	3.1	3.9	4.2
Market-based funds rate	-.4	-2.4	.1	3.1	3.7	3.3
Civilian unemployment rate[1]						
Baseline	**4.8**	**5.4**	**5.9**	**6.0**	**6.1**	**5.9**
Easier monetary policy	4.8	5.4	5.9	6.0	6.0	5.5
Market-based funds rate	4.8	5.4	5.9	6.0	6.0	5.9
PCE prices excluding food and energy						
Baseline	**.3**	**3.0**	**1.6**	**1.5**	**1.5**	**1.3**
Easier monetary policy	.3	3.0	1.6	1.5	1.6	1.5
Market-based funds rate	.3	3.0	1.6	1.5	1.6	1.2

1. Average for the final quarter of the period.

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October 31, 2001

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

Interval		Nominal GDP 09/27/01	Nominal GDP 10/31/01	Real GDP 09/27/01	Real GDP 10/31/01	GDP chain-weighted price index 09/27/01	GDP chain-weighted price index 10/31/01	Consumer price index[1] 09/27/01	Consumer price index[1] 10/31/01	Unemployment rate[2] 09/27/01	Unemployment rate[2] 10/31/01
ANNUAL											
1999		5.5	5.5	4.1	4.1	1.4	1.4	2.2	2.2	4.2	4.2
2000		6.5	6.5	4.1	4.1	2.3	2.3	3.4	3.4	4.0	4.0
2001		3.6	3.3	1.1	1.0	2.4	2.2	3.0	2.9	4.7	4.7
2002		2.3	2.3	0.7	0.7	1.6	1.6	1.7	1.6	6.1	6.0
2003		5.1	5.3	3.3	3.5	1.7	1.7	2.0	2.0	6.1	6.0
QUARTERLY											
2000	Q1	6.3	6.3	2.3	2.3	3.8	3.8	4.3	4.3	4.1	4.1
	Q2	8.0	8.0	5.7	5.7	2.1	2.1	2.8	2.8	4.0	4.0
	Q3	3.3	3.3	1.3	1.3	1.9	1.9	3.5	3.5	4.0	4.0
	Q4	3.7	3.7	1.9	1.9	1.8	1.8	3.0	3.0	4.0	4.0
2001	Q1	4.6	4.6	1.3	1.3	3.3	3.3	4.2	4.2	4.2	4.2
	Q2	2.5	2.4	0.4	0.3	2.2	2.1	3.0	3.0	4.5	4.5
	Q3	3.0	1.6	-0.6	-0.4	3.7	2.1	0.6	0.7	4.8	4.8
	Q4	-0.5	-2.0	-0.7	-2.4	0.1	0.4	1.6	0.3	5.4	5.4
2002	Q1	1.7	2.0	-0.1	-0.1	1.8	2.0	1.6	1.9	5.8	5.9
	Q2	2.9	4.5	1.4	2.8	1.5	1.7	1.8	2.1	6.1	6.0
	Q3	4.8	5.3	3.2	3.5	1.6	1.7	1.9	2.1	6.2	6.1
	Q4	5.1	5.2	3.5	3.5	1.6	1.6	1.9	2.0	6.2	6.1
2003	Q1	5.6	5.6	3.5	3.5	2.1	2.0	2.0	2.0	6.2	6.1
	Q2	5.2	5.3	3.5	3.7	1.7	1.5	2.0	1.9	6.2	6.0
	Q3	5.2	5.3	3.5	3.7	1.6	1.5	2.0	1.9	6.1	5.9
	Q4	5.2	5.3	3.5	3.8	1.6	1.5	2.0	1.9	6.0	5.9
TWO-QUARTER[3]											
2000	Q2	7.2	7.2	4.0	4.0	2.9	2.9	3.6	3.6	-0.1	-0.1
	Q4	3.5	3.5	1.6	1.6	1.8	1.8	3.2	3.2	0.0	0.0
2001	Q2	3.6	3.5	0.8	0.8	2.7	2.7	3.6	3.6	0.5	0.5
	Q4	1.2	-0.2	-0.6	-1.4	1.9	1.2	1.1	0.5	0.9	0.9
2002	Q2	2.3	3.2	0.6	1.3	1.6	1.9	1.7	2.0	0.7	0.6
	Q4	5.0	5.2	3.3	3.5	1.6	1.6	1.9	2.1	0.1	0.1
2003	Q2	5.4	5.4	3.5	3.6	1.9	1.8	2.0	1.9	0.0	-0.1
	Q4	5.2	5.3	3.5	3.7	1.6	1.5	2.0	1.9	-0.2	-0.1
FOUR-QUARTER[4]											
1999	Q4	6.0	6.0	4.4	4.4	1.6	1.6	2.6	2.6	-0.3	-0.3
2000	Q4	5.3	5.3	2.8	2.8	2.4	2.4	3.4	3.4	-0.1	-0.1
2001	Q4	2.4	1.6	0.1	-0.3	2.3	2.0	2.4	2.0	1.4	1.4
2002	Q4	3.6	4.2	2.0	2.4	1.6	1.8	1.8	2.0	0.9	0.7
2003	Q4	5.3	5.4	3.5	3.7	1.7	1.6	2.0	1.9	-0.2	-0.2

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)

October 31, 2001

Item	Units[1]	1995	1996	1997	1998	1999	2000	2001 (Projected)	2002 (Projected)	2003 (Projected)
EXPENDITURES										
Nominal GDP	Bill. $	7400.5	7813.2	8318.4	8781.5	9268.6	9872.9	10194.8	10426.5	10977.9
Real GDP	Bill. Ch. $	7543.8	7813.2	8159.5	8508.9	8856.5	9224.0	9320.7	9381.5	9713.6
Real GDP	% change	2.2	4.1	4.3	4.8	4.4	2.8	-0.3	2.4	3.7
Gross domestic purchases		1.7	4.3	5.0	5.8	5.3	3.5	-0.5	3.0	4.2
Final sales		2.9	3.9	3.9	4.7	4.3	3.4	0.8	1.6	3.2
Priv. dom. final purchases		3.2	4.4	5.1	6.3	5.4	4.7	-0.3	1.9	3.9
Personal cons. expenditures		2.8	3.1	4.1	5.0	5.2	4.2	2.1	2.0	3.2
Durables		3.7	5.0	8.8	12.7	11.3	5.3	7.4	0.1	6.1
Nondurables		2.5	3.2	2.5	5.0	5.0	3.6	0.7	2.0	2.5
Services		2.7	2.7	3.9	3.6	4.0	4.3	1.7	2.5	2.9
Business fixed investment		7.5	12.1	11.8	12.3	7.4	8.9	-12.8	1.2	9.2
Equipment & Software		8.9	11.8	13.7	14.9	11.2	8.3	-13.2	4.1	12.3
Nonres. structures		3.3	12.8	6.5	4.9	-3.6	10.8	-11.4	-6.4	0.2
Residential structures		-1.5	5.6	3.5	10.0	3.4	-1.2	-0.5	1.9	2.4
Exports		9.7	9.8	8.5	2.3	4.5	7.0	-8.4	1.9	6.8
Imports		5.0	11.2	14.3	10.8	11.5	11.3	-7.4	6.7	9.8
Gov't. cons. & investment		-0.8	2.7	2.4	2.7	4.0	1.2	5.0	3.5	3.1
Federal		-5.3	2.0	0.1	0.6	4.5	-1.4	4.5	4.8	2.1
Defense		-4.7	0.8	-1.4	-0.8	4.7	-2.2	5.1	3.0	2.3
State & local		2.1	3.0	3.7	3.8	3.7	2.5	5.2	2.8	3.6
Change in bus. inventories	Bill. Ch. $	--	--	63.8	76.7	62.1	50.6	-46.9	-13.7	47.1
Nonfarm		41.9	21.2	60.6	75.0	63.5	52.3	-45.0	-13.7	46.1
Net exports		-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-401.4	-448.7	-533.4
Nominal GDP	% change	4.3	6.0	6.2	6.0	6.0	5.3	1.6	4.2	5.4
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	117.2	119.6	122.7	125.8	128.9	131.8	132.3	131.6	133.4
Unemployment rate	%	5.6	5.4	4.9	4.5	4.2	4.0	4.7	6.0	6.0
Industrial prod. index	% change	3.6	5.6	7.2	3.2	5.1	4.2	-6.7	2.3	4.3
Capacity util. rate - mfg.	%	82.5	81.6	82.7	81.3	80.5	81.3	75.4	72.3	75.0
Housing starts	Millions	1.35	1.48	1.47	1.62	1.64	1.57	1.59	1.61	1.68
Light motor vehicle sales		14.77	15.05	15.06	15.43	16.78	17.25	16.48	14.66	15.69
North Amer. produced		12.87	13.34	13.12	13.41	14.30	14.39	13.52	11.92	12.77
Other		1.90	1.70	1.93	2.02	2.48	2.86	2.95	2.74	2.92
INCOME AND SAVING										
Nominal GNP	Bill. $	7420.9	7831.2	8325.4	8778.1	9261.8	9860.8	10185.9	10424.1	10978.1
Nominal GNP	% change	4.4	5.9	6.0	5.8	6.0	5.4	1.5	4.2	5.4
Nominal personal income		4.3	5.9	6.3	6.7	4.8	7.3	3.1	4.2	4.7
Real disposable income		1.7	2.6	3.8	5.0	2.1	4.0	2.2	3.7	2.9
Personal saving rate	%	5.6	4.8	4.2	4.7	2.4	1.0	1.8	3.3	3.0
Corp. profits, IVA & CCAdj.	% change	11.3	11.4	9.9	-9.6	11.3	-1.2	-19.4	5.6	6.2
Profit share of GNP	%	9.0	9.6	10.0	8.9	8.9	8.9	7.2	6.7	6.8
Excluding FR Banks		8.7	9.4	9.7	8.6	8.6	8.6	6.9	6.4	6.5
Federal surpl./deficit	Bill. $	-192.0	-136.8	-53.3	43.8	119.2	218.6	114.5	-61.2	3.2
State & local surpl./def.		15.3	21.4	31.0	40.7	42.1	32.8	16.8	9.7	7.2
Ex. social ins. funds		11.4	18.7	29.9	40.0	41.7	33.1	17.0	10.0	7.5
Gross natl. saving rate	%	16.9	17.2	18.0	18.8	18.4	18.1	16.9	16.3	17.0
Net natl. saving rate		5.1	5.7	6.7	7.5	6.8	6.3	4.2	3.5	4.1
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.1	1.9	1.8	1.1	1.6	2.4	2.0	1.8	1.6
Gross Domestic Purchases chn.-wt. price index		2.1	1.9	1.4	0.8	1.9	2.5	1.3	1.7	1.6
PCE chn.-wt. price index		2.1	2.3	1.5	1.1	2.0	2.6	1.4	1.5	1.4
Ex. food and energy		2.3	1.8	1.7	1.6	1.5	1.9	1.6	1.5	1.3
CPI		2.7	3.2	1.9	1.5	2.6	3.4	2.0	2.0	1.9
Ex. food and energy		3.0	2.6	2.2	2.4	2.0	2.5	2.7	2.2	2.0
ECI, hourly compensation[2]		2.6	3.1	3.4	3.5	3.4	4.4	4.0	3.3	3.2
Nonfarm business sector										
Output per hour		1.1	2.3	2.3	2.9	2.8	2.3	0.7	2.0	2.2
Compensation per Hour		2.6	3.2	3.5	5.3	4.3	7.4	4.6	4.0	3.5
Unit labor cost		1.5	0.9	1.1	2.3	1.5	5.0	3.9	2.0	1.3

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

Strictly Confidential <FR>
Class II FOMC

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

October 31, 2001

Item	Units	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2
EXPENDITURES											
Nominal GDP	Bill. $	9093.1	9161.4	9297.4	9522.5	9668.7	9857.6	9937.5	10027.9	10141.7	10202.6
Real GDP	Bill. Ch. $	8733.5	8771.2	8871.5	9049.9	9102.5	9229.4	9260.1	9303.9	9334.5	9341.7
Real GDP	% change	3.1	1.7	4.7	8.3	2.3	5.7	1.3	1.9	1.3	0.3
Gross domestic purchases		4.8	2.9	5.3	8.2	3.5	6.3	2.0	2.2	0.7	0.4
Final sales		3.0	3.9	4.2	6.1	4.8	3.9	2.3	2.4	4.0	0.7
Priv. dom. final purchases		5.3	5.9	4.9	5.5	7.5	4.6	3.9	2.6	2.8	-0.0
Personal cons. expenditures		4.9	5.7	4.4	5.7	5.9	3.6	4.3	3.1	3.0	2.5
Durables		7.1	15.7	9.0	13.7	19.0	-2.5	8.2	-2.1	10.6	7.0
Nondurables		5.6	4.3	2.6	7.6	5.1	4.7	4.2	0.6	2.4	0.3
Services		4.1	4.5	4.3	3.2	3.7	4.4	3.5	5.6	1.8	2.8
Business fixed investment		6.0	7.7	10.2	5.8	15.8	12.2	7.1	1.0	-0.2	-14.6
Equipment & Software		10.5	11.9	16.2	6.4	18.1	12.4	4.7	-1.1	-4.1	-15.4
Nonres. structures		-6.5	-4.3	-7.0	4.0	8.8	11.8	15.2	7.6	12.3	-12.2
Residential structures		10.3	3.0	-0.8	1.6	8.5	-0.8	-10.4	-1.1	8.5	5.9
Exports		-6.8	4.2	9.7	12.1	9.0	13.5	10.6	-4.0	-1.2	-11.9
Imports		8.4	13.3	13.8	10.5	17.1	16.4	13.0	-0.5	-5.0	-8.4
Gov't. cons. & investment		2.0	1.2	4.4	8.5	-1.1	4.4	-1.8	3.3	5.3	5.0
Federal		-3.7	0.8	7.2	14.5	-12.8	15.9	-10.4	4.6	3.2	1.8
Defense		-3.5	-3.5	12.8	14.3	-20.0	15.4	-10.4	10.5	7.5	2.3
State & local		5.2	1.4	2.9	5.4	5.6	-1.1	3.0	2.7	6.4	6.6
Change in bus. inventories	Bill. Ch. $	83.4	32.7	39.6	92.7	28.9	78.9	51.7	42.8	-27.1	-38.3
Nonfarm		78.7	34.2	52.2	88.7	37.8	75.1	56.6	39.7	-27.3	-35.8
Net exports		-283.0	-313.4	-333.3	-337.8	-371.1	-392.8	-411.2	-421.1	-404.5	-406.7
Nominal GDP	% change	4.9	3.0	6.1	10.0	6.3	8.0	3.3	3.7	4.6	2.4
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	127.8	128.5	129.2	130.1	131.0	131.9	131.9	132.3	132.6	132.5
Unemployment rate	%	4.3	4.3	4.2	4.1	4.1	4.0	4.0	4.0	4.2	4.5
Industrial prod. index	% change	3.9	4.9	5.8	5.7	6.7	7.9	3.5	-0.9	-6.8	-4.4
Capacity util. rate - mfg.	%	80.2	80.3	80.5	80.9	81.3	81.9	81.7	80.3	77.9	76.4
Housing starts	Millions	1.71	1.57	1.65	1.66	1.67	1.59	1.51	1.54	1.63	1.62
Light motor vehicle sales		16.17	16.76	17.06	17.11	18.13	17.27	17.30	16.32	16.89	16.65
North Amer. produced		13.87	14.32	14.58	14.41	15.25	14.40	14.47	13.45	13.96	13.62
Other		2.30	2.44	2.47	2.70	2.87	2.87	2.83	2.87	2.93	3.03
INCOME AND SAVING											
Nominal GNP	Bill. $	9089.5	9157.0	9283.8	9517.0	9650.7	9841.0	9919.4	10032.1	10131.3	10190.9
Nominal GNP	% change	5.2	3.0	5.7	10.4	5.7	8.1	3.2	4.6	4.0	2.4
Nominal personal income		3.0	4.7	5.2	6.3	8.6	8.5	5.5	6.8	5.8	3.5
Real disposable income		1.4	2.0	2.1	3.0	3.3	5.9	2.6	4.2	2.7	2.4
Personal saving rate	%	3.5	2.7	2.1	1.4	0.8	1.3	0.8	1.0	1.1	1.1
Corp. profits, IVA & CCAdj.	% change	36.1	-10.2	-4.9	31.9	6.1	10.7	1.0	-19.6	-24.6	-14.3
Profit share of GNP	%	9.2	8.8	8.6	9.0	9.0	9.1	9.0	8.4	7.8	7.5
Excluding FR Banks		8.9	8.6	8.3	8.7	8.7	8.8	8.7	8.1	7.5	7.2
Federal surpl./deficit	Bill. $	85.2	116.5	132.0	143.1	212.8	209.1	229.9	222.5	205.3	186.7
State & local surpl./def.		48.9	36.2	38.3	44.9	33.2	34.7	34.8	28.6	22.3	21.3
Ex. social ins. funds		48.4	35.8	38.0	44.7	33.3	34.9	35.1	29.1	22.6	21.4
Gross natl. saving rate	%	19.0	18.5	18.3	18.0	18.0	18.3	18.2	17.9	17.3	17.2
Net natl. saving rate		7.6	6.9	6.4	6.3	6.3	6.6	6.4	6.0	5.1	4.6
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.7	1.4	1.4	1.8	3.8	2.1	1.9	1.8	3.3	2.1
Gross Domestic Purchases chn.-wt. price index		1.5	2.0	2.0	2.2	4.2	1.9	2.3	1.7	2.7	1.3
PCE chn.-wt. price index		1.3	2.0	2.2	2.4	4.0	2.1	2.4	2.0	3.2	1.3
Ex. food and energy		1.4	1.2	1.5	1.8	2.9	1.7	1.6	1.5	2.6	0.7
CPI		1.7	2.7	2.9	3.1	4.3	2.8	3.5	3.0	4.2	3.0
Ex. food and energy		1.8	2.1	1.8	2.5	2.5	2.7	2.5	2.4	3.1	2.6
ECI, hourly compensation[1]		1.4	4.6	3.4	4.6	5.6	4.7	3.8	3.5	4.6	4.0
Nonfarm business sector											
Output per hour		2.4	-1.4	3.0	7.4	-0.6	6.3	1.4	2.3	0.1	2.0
Compensation per hour		3.8	4.2	5.2	4.2	6.2	7.6	7.1	8.9	5.1	4.5
Unit labor cost		1.3	5.6	2.1	-2.9	6.8	1.2	5.6	6.4	5.0	2.7

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)

October 31, 2001

	Units	Projected 2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4
EXPENDITURES											
Nominal GDP	Bill. $	10243.0	10191.8	10241.6	10354.6	10488.2	10621.7	10766.2	10906.3	11047.7	11191.5
Real GDP	Bill. Ch. $	9331.8	9274.7	9273.0	9336.1	9417.6	9499.1	9581.0	9668.7	9757.3	9847.5
Real GDP	% change	-0.4	-2.4	-0.1	2.8	3.5	3.5	3.5	3.7	3.7	3.8
Gross domestic purchases		-0.8	-2.1	0.4	3.6	4.3	3.8	4.2	4.3	4.2	3.8
Final sales		0.1	-1.6	-1.3	2.3	2.5	2.9	3.0	3.0	3.2	3.7
Priv. dom. final purchases		-0.7	-3.2	-1.6	3.0	3.2	3.1	3.9	3.8	3.8	4.0
Personal cons. expenditures		1.4	1.3	-0.6	3.7	2.8	2.3	3.0	3.0	3.2	3.3
Durables		2.8	9.1	-22.4	10.8	10.1	5.9	5.7	5.5	6.4	6.6
Nondurables		0.8	-0.8	2.3	2.4	1.5	1.7	2.3	2.4	2.6	2.7
Services		1.4	0.8	2.9	3.0	2.0	1.9	2.9	2.9	3.0	3.0
Business fixed investment		-12.7	-22.3	-6.3	-1.0	5.2	7.8	9.1	8.9	8.8	10.1
Equipment & Software		-12.8	-19.8	-4.6	1.2	8.9	11.7	12.6	12.2	11.6	13.1
Nonres. structures		-12.1	-28.7	-11.0	-7.0	-4.7	-2.8	-0.5	-0.4	0.6	1.3
Residential structures		1.8	-16.2	-5.8	3.0	5.7	5.4	5.2	3.6	1.1	-0.1
Exports		-16.3	-3.2	-3.3	1.1	3.3	6.5	3.9	6.6	7.3	9.6
Imports		-15.2	-0.6	1.0	8.3	9.7	8.0	9.3	10.8	10.5	8.6
Gov't. cons. & investment		1.7	7.9	2.8	4.0	3.6	3.5	3.0	3.2	3.3	2.9
Federal		4.5	8.7	3.5	6.4	6.3	3.2	2.0	2.2	2.3	1.8
Defense		5.0	5.6	2.7	3.6	3.4	2.2	1.8	2.6	2.6	2.0
State & local		0.4	7.5	2.4	2.8	2.3	3.6	3.5	3.6	3.7	3.5
Change in bus. inventories	Bill. Ch. $	-50.9	-71.3	-38.8	-28.4	-1.5	14.0	25.9	43.9	58.3	60.4
Nonfarm		-47.3	-69.4	-37.3	-28.9	-2.1	13.4	25.3	42.8	57.2	59.0
Net exports		-393.9	-400.3	-412.7	-439.0	-465.4	-478.0	-502.6	-526.4	-547.8	-556.7
Nominal GDP	% change	1.6	-2.0	2.0	4.5	5.3	5.2	5.6	5.3	5.3	5.3
EMPLOYMENT AND PRODUCTION											
arm payroll employment	Millions	132.3	131.7	131.2	131.4	131.7	132.1	132.6	133.1	133.6	134.2
ployment rate	%	4.8	5.4	5.9	6.0	6.1	6.1	6.1	6.0	5.9	5.9
ndustrial prod. index	% change	-6.2	-9.5	-3.4	2.4	5.0	5.2	4.5	4.3	4.2	4.3
Capacity util. rate - mfg.	%	74.7	72.5	71.5	71.8	72.6	73.4	74.1	74.7	75.3	76.0
Housing starts	Millions	1.59	1.51	1.56	1.59	1.63	1.66	1.68	1.68	1.68	1.67
Light motor vehicle sales		16.12	16.25	13.95	14.33	15.03	15.32	15.49	15.60	15.76	15.90
North Amer. produced		13.15	13.37	11.32	11.64	12.25	12.47	12.60	12.69	12.83	12.95
Other		2.97	2.88	2.63	2.69	2.78	2.85	2.89	2.91	2.93	2.95
INCOME AND SAVING											
Nominal GNP	Bill. $	10234.5	10187.1	10239.0	10352.0	10485.4	10620.0	10765.6	10907.6	11048.3	11191.0
Nominal GNP	% change	1.7	-1.8	2.1	4.5	5.3	5.2	5.6	5.4	5.3	5.3
Nominal personal income		2.7	0.3	4.8	3.6	4.1	4.5	4.8	4.7	4.7	4.5
Real disposable income		12.6	-7.8	11.7	-1.3	2.2	2.5	3.4	2.8	2.9	2.6
Personal saving rate	%	3.7	1.4	4.2	3.1	3.0	3.0	3.1	3.1	3.0	2.9
Corp. profits, IVA & CCAdj.	% change	-29.1	-7.6	-4.6	10.1	11.6	6.0	5.7	7.9	5.2	5.8
Profit share of GNP	%	6.8	6.7	6.6	6.7	6.8	6.8	6.8	6.8	6.8	6.8
Excluding FR Banks		6.5	6.4	6.3	6.4	6.5	6.5	6.5	6.5	6.5	6.6
Federal surpl./deficit	Bill. $	-21.9	87.9	-110.3	-53.8	-41.5	-39.2	-23.6	-4.2	14.0	26.7
State & local surpl./def.		16.5	7.0	4.8	8.4	12.3	13.5	12.7	8.6	6.5	1.0
Ex. social ins. funds		16.6	7.4	5.1	8.7	12.6	13.8	13.0	8.9	6.8	1.3
Gross natl. saving rate	%	17.0	15.9	16.3	16.2	16.4	16.5	16.8	17.0	17.1	17.1
Net natl. saving rate		3.8	3.1	3.5	3.3	3.5	3.6	3.9	4.0	4.2	4.1
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.1	0.4	2.0	1.7	1.7	1.6	2.0	1.5	1.5	1.5
Gross Domestic Purchases chn.-wt. price index		-0.3	1.4	1.9	1.6	1.6	1.6	1.9	1.5	1.5	1.5
PCE chn.-wt. price index		-0.4	1.4	1.4	1.6	1.6	1.5	1.4	1.4	1.4	1.4
Ex. food and energy		0.3	3.0	1.6	1.5	1.5	1.4	1.4	1.3	1.3	1.3
CPI		0.7	0.3	1.9	2.1	2.1	2.0	2.0	1.9	1.9	1.9
Ex. food and energy		2.6	2.5	2.4	2.2	2.2	2.1	2.1	2.0	2.0	2.0
hourly compensation[1]		3.7	3.8	3.5	3.3	3.3	3.3	3.3	3.2	3.2	3.2
arm business sector											
utput per hour		2.4	-1.6	0.3	2.4	3.0	2.4	2.1	2.4	2.1	2.2
Compensation per hour		4.0	4.7	4.4	4.2	3.9	3.8	3.7	3.6	3.5	3.4
Unit labor cost		1.6	6.3	4.1	1.8	0.9	1.4	1.6	1.2	1.4	1.2

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	99Q4/ 98Q4	0Q4/ 99Q4	1Q4/ 0Q4
Real GDP	4.7	8.3	2.3	5.7	1.3	1.9	1.3	0.3	-0.4	4.4	2.8	-0.3
Gross dom. purchases	5.4	8.4	3.6	6.5	2.0	2.3	0.7	0.4	-0.8	5.4	3.6	-0.5
Final sales	4.2	6.2	4.7	3.9	2.3	2.4	3.9	0.7	0.1	4.2	3.3	0.8
Priv. dom. final purchases	4.2	4.8	6.2	4.0	3.3	2.2	2.4	-0.0	-0.6	4.5	3.9	-0.3
Personal cons. expenditures	3.0	4.0	3.9	2.5	2.9	2.1	2.1	1.7	1.0	3.5	2.9	1.4
Durables	0.7	1.1	1.5	-0.2	0.7	-0.2	0.8	0.6	0.2	0.9	0.4	0.6
Nondurables	0.5	1.5	1.0	1.0	0.8	0.1	0.5	0.1	0.2	1.0	0.7	0.1
Services	1.7	1.4	1.5	1.8	1.4	2.2	0.7	1.1	0.6	1.6	1.7	0.7
Business fixed investment	1.3	0.8	1.9	1.5	0.9	0.1	-0.0	-2.0	-1.6	0.9	1.1	-1.7
Equipment & Software	1.5	0.6	1.6	1.2	0.5	-0.1	-0.4	-1.6	-1.2	1.0	0.8	-1.3
Nonres. structures	-0.2	0.1	0.3	0.4	0.5	0.2	0.4	-0.4	-0.4	-0.1	0.3	-0.4
Residential structures	-0.0	0.1	0.4	-0.0	-0.5	-0.1	0.4	0.3	0.1	0.1	-0.1	-0.0
Net exports	-0.8	-0.2	-1.3	-0.8	-0.7	-0.4	0.6	-0.1	0.4	-1.0	-0.8	0.2
Exports	1.0	1.3	1.0	1.4	1.1	-0.5	-0.1	-1.4	-1.8	0.5	0.8	-0.9
Imports	-1.8	-1.4	-2.3	-2.3	-1.8	0.1	0.8	1.3	2.3	-1.5	-1.6	1.1
Government cons. & invest.	0.8	1.5	-0.2	0.8	-0.3	0.6	0.9	0.9	0.3	0.7	0.2	0.9
Federal	0.4	0.9	-0.8	0.9	-0.7	0.3	0.2	0.1	0.3	0.3	-0.1	0.3
Defense	0.5	0.6	-0.9	0.6	-0.4	0.4	0.3	0.1	0.2	0.2	-0.1	0.2
Nondefense	-0.1	0.3	0.0	0.3	-0.2	-0.1	-0.1	0.0	0.1	0.1	0.0	0.1
State and local	0.3	0.7	0.6	-0.1	0.3	0.3	0.7	0.8	0.0	0.4	0.3	0.6
Change in bus. inventories	0.4	2.2	-2.3	1.8	-1.0	-0.5	-2.6	-0.4	-0.5	0.2	-0.5	-1.1
Nonfarm	0.9	1.5	-2.0	1.5	-0.8	-0.7	-2.6	-0.3	-0.4	0.1	-0.5	-1.1
Farm	-0.4	0.6	-0.3	0.3	-0.2	0.2	0.0	-0.1	-0.1	0.0	-0.0	-0.0

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	01Q4/ 00Q4	02Q4/ 01Q4	03Q4/ 02Q4
Real GDP	-2.4	-0.1	2.8	3.5	3.5	3.5	3.7	3.7	3.8	-0.3	2.4	3.7
Gross dom. purchases	-2.2	0.4	3.7	4.4	3.9	4.3	4.5	4.4	4.0	-0.5	3.1	4.3
Final sales	-1.6	-1.3	2.4	2.5	2.9	3.0	3.1	3.2	3.7	0.8	1.6	3.2
Priv. dom. final purchases	-2.7	-1.4	2.6	2.7	2.7	3.3	3.2	3.2	3.4	-0.3	1.6	3.3
Personal cons. expenditures	0.9	-0.4	2.5	1.9	1.6	2.1	2.1	2.2	2.3	1.4	1.4	2.2
Durables	0.7	-2.1	0.8	0.8	0.5	0.5	0.4	0.5	0.5	0.6	0.0	0.5
Nondurables	-0.2	0.5	0.5	0.3	0.3	0.5	0.5	0.5	0.5	0.1	0.4	0.5
Services	0.3	1.2	1.2	0.9	0.8	1.2	1.2	1.2	1.2	0.7	1.0	1.2
Business fixed investment	-2.9	-0.7	-0.1	0.6	0.8	1.0	1.0	0.9	1.1	-1.7	0.1	1.0
Equipment & Software	-1.9	-0.4	0.1	0.7	0.9	1.0	1.0	0.9	1.1	-1.3	0.3	1.0
Nonres. structures	-1.0	-0.3	-0.2	-0.1	-0.1	-0.0	-0.0	0.0	0.0	-0.4	-0.2	0.0
Residential structures	-0.8	-0.3	0.1	0.2	0.2	0.2	0.2	0.1	-0.0	-0.0	0.1	0.1
Net exports	-0.3	-0.5	-0.9	-0.9	-0.4	-0.8	-0.8	-0.7	-0.2	0.2	-0.7	-0.6
Exports	-0.3	-0.3	0.1	0.3	0.6	0.4	0.6	0.7	0.9	-0.9	0.2	0.7
Imports	0.1	-0.1	-1.0	-1.2	-1.0	-1.2	-1.4	-1.4	-1.2	1.1	-0.9	-1.3
Government cons. & invest.	1.4	0.5	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.9	0.6	0.6
Federal	0.5	0.2	0.4	0.4	0.2	0.1	0.1	0.2	0.1	0.3	0.3	0.1
Defense	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Nondefense	0.3	0.1	0.3	0.3	0.1	0.1	0.0	0.0	0.0	0.1	0.2	0.0
State and local	0.9	0.3	0.3	0.3	0.5	0.4	0.5	0.5	0.4	0.6	0.3	0.5
Change in bus. inventories	-0.8	1.3	0.4	1.0	0.6	0.4	0.7	0.5	0.1	-1.1	0.8	0.4
Nonfarm	-0.9	1.3	0.3	1.0	0.6	0.4	0.7	0.5	0.1	-1.1	0.8	0.4
Farm	0.0	0.0	0.1	-0.0	-0.0	-0.0	0.0	-0.0	0.0	-0.0	0.0	0.0

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

Strictly Confidential (FR)
Class II FOMC

October 31, 2001

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

Item	Fiscal year[1]				2001				2002				2003			
	2000[a]	2001[a]	2002	2003	Q1[a]	Q2[a]	Q3[a]	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts[2]	2025	1990	1986	2063	460	660	409	474	419	621	473	454	455	651	503	488
Outlays[2]	1789	1863	1984	2049	482	467	451	501	501	494	488	521	514	510	504	537
Surplus/deficit[2]	236	127	2	14	-22	194	-42	-27	-82	127	-15	-68	-60	142	-0	-48
On-budget	87	-34	-161	-165	-88	119	-51	-77	-108	54	-30	-122	-88	63	-19	-110
Off-budget	150	161	163	179	65	75	10	49	26	72	16	54	28	79	18	61
Surplus excluding deposit insurance	233	126	0	12	-23	193	-42	-28	-83	126	-15	-68	-60	141	-1	-49
Means of financing																
Borrowing	-223	-90	19	-1	24	-157	69	34	76	-97	6	52	62	-104	-11	33
Cash decrease	4	8	-1	0	-7	-15	-1	15	-3	-28	15	20	-5	-30	15	15
Other[3]	-18	-45	-21	-13	6	-21	-26	-22	9	-2	-6	-4	2	-8	-3	-0
Cash operating balance, end of period	53	44	45	45	28	44	44	30	32	60	45	25	30	60	45	30
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	2012	2043	1965	2063	2087	2092	1916	2030	1885	1957	1987	2019	2047	2077	2109	2145
Expenditures	1813	1895	1994	2076	1882	1905	1937	1942	1995	2011	2028	2058	2070	2082	2095	2118
Consumption expenditures	492	507	547	584	508	510	517	528	544	554	564	570	585	589	593	597
Defense	322	337	357	375	338	340	345	347	356	360	363	366	375	378	381	383
Nondefense	170	170	191	210	169	171	172	181	188	194	201	204	210	211	213	214
Other spending	1321	1388	1446	1492	1375	1395	1420	1414	1451	1456	1464	1488	1485	1493	1502	1521
Current account surplus	199	148	-29	-13	205	187	-21	88	-110	-54	-42	-39	-24	-4	14	27
Gross investment	96	100	106	111	98	100	100	104	105	107	108	109	110	111	113	114
Current and capital account surplus	102	49	-136	-124	108	87	-122	-16	-216	-161	-150	-148	-134	-116	-99	-87
Fiscal indicators[4]																
High-employment (HEB) surplus/deficit	-9	-22	-110	-98	21	23	-156	-16	-189	-125	-112	-114	-107	-92	-79	-72
Change in HEB, percent of potential GDP	-.8	.1	.8	-.2	0	-0	2	-1	2	-.6	-.1	0	-.1	-.1	-.1	-.1
Fiscal impetus (FI) percent, calendar year	2	11	25	9	4	3	12	-5	17	5	1	1	3	2	2	2

1. Fiscal year data for the unified budget come from OMB; quarterly data come from the Monthly Treasury Statement and may not sum to OMB fiscal year totals.
2. OMB's August 2001 baseline surplus estimates are $187 billion in FY 2002 and $211 billion in FY 2003. CBO's August 2001 baseline surplus estimates, assuming discretionary spending grows with inflation beginning in FY 2002, are $176 billion in FY 2002 and $172 billion in FY 2003. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus and the Postal Service surplus are excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.
3. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.
4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1996) dollars, scaled by real federal consumption plus investment. For FI and the change in HEB, negative values indicate aggregate demand restraint.
a--Actual

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

			Nonfederal						
				Households					
Period [1]	Total [2]	Federal government [3]	Total [4]	Total	Home mortgages	Consumer credit	Business	State and local governments	Memo: Nominal GDP
Year									
1994	4.5	4.7	4.5	7.4	5.7	14.5	3.7	-4.0	6.2
1995	5.4	4.1	5.9	7.4	5.1	14.1	7.2	-4.6	4.3
1996	5.3	4.0	5.8	6.9	6.7	7.9	6.3	-0.6	6.0
1997	5.6	0.6	7.3	6.2	6.6	4.3	9.2	5.3	6.2
1998	6.7	-1.4	9.4	8.2	9.1	5.4	11.3	7.2	6.0
1999	6.7	-1.9	9.3	8.4	9.2	7.1	11.5	4.4	6.0
2000	5.0	-8.0	8.5	8.4	8.3	9.3	10.0	2.2	5.3
2001	5.2	-0.9	6.6	7.7	9.5	4.4	5.5	6.2	1.6
2002	4.3	1.1	5.0	5.7	7.4	1.3	4.6	2.8	4.2
2003	4.4	-0.6	5.5	6.4	7.6	3.9	4.9	2.6	5.4
Quarter									
2001:1	5.5	-0.1	6.7	7.8	7.8	10.1	5.4	7.8	4.6
2	5.4	-7.6	8.3	9.2	11.4	4.5	7.2	8.4	2.4
3	5.7	7.7	5.3	7.0	9.5	1.5	3.8	3.3	1.6
4	3.8	-3.5	5.4	6.0	8.1	1.4	4.9	4.8	-2.0
2002:1	5.1	6.2	4.8	5.3	7.6	0.1	4.5	3.9	2.0
2	3.8	-0.4	4.7	5.4	7.1	0.6	4.4	3.0	4.5
3	4.1	0.1	4.9	5.7	7.0	2.0	4.5	2.1	5.3
4	3.9	-1.4	5.0	5.9	7.1	2.6	4.6	2.1	5.2
2003:1	5.2	4.4	5.4	6.2	7.4	3.2	4.9	2.6	5.6
2	4.2	-1.2	5.3	6.1	7.3	3.6	4.9	2.6	5.3
3	4.2	-1.9	5.4	6.3	7.4	4.1	4.8	2.6	5.3
4	3.9	-3.6	5.4	6.4	7.4	4.5	4.8	2.6	5.3

Note. Quarterly data are at seasonally adjusted annual rates.
1. Data after 2001:Q2 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, 4.3 percent in 2002, and 4.4 percent in 2003.
3. On a monthly average basis, federal debt is projected to grow -1.6 percent in 2001, 0.9 percent in 2002, and -0.3 percent in 2003.
4. On a monthly average basis, nonfederal debt is projected to grow 6.9 percent in 2001, 5.0 percent in 2002, and 5.4 percent in 2003.

2.6.3 FOF

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

Category	Calendar year				Seasonally adjusted annual rates							
					2001				2002			
	2000	2001	2002	2003	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net funds raised by domestic nonfinancial sectors												
1 Total	702.5	886.7	824.0	920.7	967.2	959.7	961.0	659.1	949.7	746.5	812.5	787.2
2 Net equity issuance	-166.6	-62.8	0.3	30.0	-33.9	-35.2	-114.0	-68.0	-22.0	1.0	14.0	8.0
3 Net debt issuance	869.1	949.5	823.7	890.7	1001.1	994.9	1075.0	727.1	971.7	745.5	798.5	779.2
Borrowing sectors												
Nonfinancial business												
4 Financing gap [1]	306.9	230.0	164.4	234.7	304.2	252.3	183.1	180.7	170.3	141.8	156.9	188.7
5 Net equity issuance	-166.6	-62.8	0.3	30.0	-33.9	-35.2	-114.0	-68.0	-22.0	1.0	14.0	8.0
6 Credit market borrowing	594.8	357.5	316.5	357.7	355.8	480.0	259.7	334.5	311.0	305.3	318.7	330.7
Households												
7 Net borrowing [2]	543.0	543.2	432.3	516.1	549.5	660.9	516.0	446.5	400.5	413.8	446.6	468.5
8 Home mortgages	377.3	468.1	398.1	437.4	385.1	572.1	490.2	425.0	408.6	389.8	389.6	404.5
9 Consumer credit	132.3	69.7	21.8	64.7	158.1	72.8	24.5	23.4	1.0	10.6	32.7	43.0
10 Debt/DPI (percent) [3]	96.5	98.8	101.0	102.9	97.8	98.9	98.1	101.3	99.6	100.9	101.3	101.8
State and local governments												
11 Net borrowing	27.2	79.7	38.4	36.4	100.1	110.1	43.7	64.8	53.4	41.4	29.4	29.4
12 Current surplus [4]	191.9	197.4	200.4	210.6	189.8	192.9	216.9	190.2	190.9	197.4	204.4	208.8
Federal government												
13 Net borrowing	-295.9	-30.8	36.6	-19.5	-4.3	-256.0	255.7	-118.7	206.9	-15.0	3.8	-49.3
14 Net borrowing (quarterly, n.s.a.)	-295.9	-30.8	36.6	-19.5	23.7	-157.4	68.6	34.3	76.5	-97.1	5.7	51.6
15 Unified deficit (quarterly, n.s.a.)	-254.8	-102.1	37.9	-33.1	22.5	-193.7	41.8	27.4	82.4	-126.8	14.8	67.5
Depository institutions												
16 Funds supplied	445.3	207.3	235.0	282.8	209.1	239.1	166.2	214.9	161.8	230.8	276.8	270.8
Memo (percentage of GDP)												
17 Domestic nonfinancial debt [5]	180.7	184.0	188.5	186.8	181.6	182.9	184.7	187.9	189.0	189.0	188.5	188.0
18 Domestic nonfinancial borrowing	8.8	9.3	7.9	8.1	9.9	9.8	10.5	7.1	9.5	7.2	7.6	7.3
19 Federal government [6]	-3.0	-0.3	0.4	-0.2	-0.0	-2.5	2.5	-1.2	2.0	-0.1	0.0	-0.5
20 Nonfederal	11.8	9.6	7.5	8.3	9.9	12.3	8.0	8.3	7.5	7.3	7.6	7.8

Note. Data after 2001:Q2 are staff projections.
1. For corporations: Excess of capital expenditures over U.S. internal funds.
2. Includes change in liabilities not shown in lines 8 and 9.
3. Average debt levels in the period (computed as the average of period-end debt positions) divided by disposable personal income.
4. NIPA surplus less changes in retirement fund assets plus consumption of fixed capital.
5. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.
6. Excludes government-insured mortgage pool securities.

2.6.4 FOF

International Developments

Foreign economic activity appears to be contracting during the second half of this year, as the ongoing slowdown in the global economy has been exacerbated by uncertainty following the events of September 11. Although we still have little hard information on foreign real output after August, anecdotal reports and confidence indicators suggest some negative effect on both employment and sentiment. In addition, the anticipated contraction in U.S. activity in the second half of this year is expected to depress foreign exports. However, foreign equity markets have rebounded to levels close to those before September 11, relieving concerns about a substantial additional negative wealth effect.

We expect that some support from both monetary and fiscal policy as well as the lower level of oil prices will lead to a small positive rate of growth in foreign activity by early 2002. Growth is then expected to improve gradually to rates close to potential later in the year as the U.S. economy revives. Nevertheless, in most parts of the world, sizable negative output gaps are expected to persist through 2003, and inflation should remain muted. This forecast is somewhat weaker than our previous projection.

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

Indicator	2000		2001: H1	Projection		
	H1	H2		2001: H2	2002	2003
Foreign output	5.4	2.9	.0	-.5	2.1	3.4
September GB	*5.5*	*2.7*	*.1*	*.0*	*2.4*	*3.4*
Foreign CPI	2.2	3.4	2.5	1.7	2.1	2.3
September GB	*2.2*	*3.4*	*2.5*	*2.0*	*2.2*	*2.3*

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

We continue to expect oil prices to edge down over the next two years, in line with futures quotes, although the projection's endpoint is a bit higher than in the September Greenbook. We are projecting the dollar to change little over the forecast period, in contrast to the small decline assumed in the previous forecast. We expect the arithmetic contribution of the external sector to U.S. GDP growth to be a little more negative in both 2002 and 2003 than it was in the previous forecast. After declining sharply this year, both exports and imports should pick up next year and show further expansion in 2003.

International financial markets. Foreign short-term interest rates in the major industrial countries generally declined during the intermeeting period, most notably in Canada and the United Kingdom in response to their reductions in policy interest rates. Although the European Central Bank left its policy rates unchanged during the period, euro short-term market rates dropped nearly 15 basis points, reflecting expectations for an easing by year end. The Bank of Japan continued to leave an elevated amount of reserves in the banking system, keeping its current account positions above ¥6 trillion and short-term interest rates near zero.

Stock markets in foreign industrial countries generally rose on balance over the intermeeting period, likely reflecting a reversal of the sharp increase in risk aversion immediately following the terrorist attacks as well as prospects for easier monetary policy. Equity prices in many emerging-market countries also rose; sovereign bond yield spreads generally narrowed, including those of Mexico and Brazil. In contrast, in Argentina, where concerns over public sector indebtedness remain high, equity prices fell more than 5 percent, and bond yield spreads widened 400 basis points.

The heightened uncertainty about the U.S. economic outlook has not resulted in significant downward pressure on the foreign exchange value of the dollar. The broad nominal index is up slightly since the previous FOMC meeting, with small net gains against all of the major industrial country currencies and against most emerging-market currencies as well. In particular, the Brazilian *real* appeared to suffer from concerns about prospects in Argentina. The only major exception to this general pattern was the Mexican peso, which rose nearly 3 percent against the dollar.

The continued strength of the dollar may reflect a view that long-term prospects for the United States are still more favorable than those abroad. Over the intermeeting period, foreign long-term bond yields have fallen somewhat more than comparable U.S. rates. The relative decline has been ascribed to both disappointing recent foreign economic data and concerns that the policy response to the slowdown abroad will be less vigorous than that in the United States. We continue to believe that the large and growing U.S. external debt will at some point begin to outpace growth in demand for U.S. assets, thus exerting downward pressure on the dollar. However, the current countervailing trend suggests that a turnaround may not be imminent. We have thus assumed for this forecast that the dollar will be little changed, on net, over the projection period in both nominal and real terms against the currencies of our major trading partners.

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

Oil prices. The spot price of West Texas Intermediate has traded in a fairly narrow range around $22 per barrel over the intermeeting period. Concerns about weak world oil demand resulting from both lower jet fuel consumption and prospects for reduced economic activity more generally have weighed on oil prices. In addition, relative to earlier this year, OPEC appears to have become somewhat less willing to sacrifice market share for higher oil prices by making additional production cuts. However, OPEC officials have been consulting with several non-OPEC producers with the aim of reaching a more broadly based agreement on production restraint. We project that, in line with recent futures quotes, the spot price of WTI will remain just above $22 per barrel through 2002 and will gradually drift down to $21.50 per barrel by the end of 2003. The endpoint of this projection is about $1 per barrel higher than that in the September Greenbook, reflecting some expectation that future production will be restrained.

Foreign industrial countries. Recent indicators of economic activity in the foreign industrial countries are consistent with our previous forecast for little change in output on average in the third quarter. Forward-looking indicators point to a slight decline in the fourth quarter, a bit weaker forecast than our previous one. We continue to project a gradual recovery next year, with growth averaging a bit less than 2 percent in 2002 and about 3 percent in 2003, reflecting the expected reduction in inventory and investment overhangs, monetary stimulus, lower oil prices, and the projected revival in U.S. growth. All the major foreign industrial economies follow this general pattern, although the severity and the duration of the slowdown differ across areas. Inflation in these countries, which is currently averaging about 1½ percent, is expected to fall to about 1 percent by the second quarter of next year as a result of both lower oil prices and the sluggish pace of activity and to remain around that rate through 2003.

The Japanese economy remains the weakest, with a drop of more than 4 percent in industrial production suggesting that real GDP posted another sizable decline in the third quarter. In addition, the unemployment rate reached a record level of 5.3 percent in September, and the Tankan showed a sharp reduction in business confidence. A further contraction in output is expected in the fourth quarter, reflecting declines in both public and private investment and a fall in exports. We expect the economy to contract somewhat more in the first half of next year as private investment and exports remain weak, but then to turn up a little in the second half of the year as the shake-out in private investment spending ends and improving world activity boosts exports. The Japanese government plans to pass a supplementary budget next month that will focus on increasing public employment and shoring up the unemployment safety net rather than on public investment, providing some support to consumption next year. The Bank of Japan is expected to maintain short-term interest rates near zero through the forecast period and to keep reserves above the target level of ¥6 trillion, as prices continue to fall at an annual rate of about 1 percent.

The Canadian economy is also expected to contract in the second half of this year following a sluggish second quarter. In the third quarter, employment fell slightly and consumer confidence weakened. In addition, business confidence plunged, suggesting lethargic investment spending over the next couple of quarters. Lower U.S. demand and disruptions to travel and tourism are also expected to have a negative impact on the economy in the near term. Real GDP growth is expected to pick up in the second half of next year, as improved demand in the United States contributes to a return to positive export growth, and fiscal and monetary stimulus boost domestic demand. Following a larger-than-expected 75-basis-point rate cut on October 23, we expect the Bank of Canada to reduce rates by another 25 basis points before the end of this year and to hold them steady through the end of 2002. We expect rates to rise about 100 basis points over 2003 as the expansion solidifies.

After a sluggish second quarter, growth in the euro area appeared to revive somewhat in the summer months, as both industrial production and German manufacturing orders rebounded in August. However, more recently business confidence has fallen sharply, consumer confidence has dipped, and unemployment rates have edged up. We expect third-quarter data to show a small increase in real GDP, followed by a stagnant fourth quarter as exports weaken. Growth is expected to remain sluggish in the first half of next year and then revive somewhat in the second half as both consumption and investment spending respond to continued moderation in oil prices and recent and projected monetary easing, and exports recover along with a revival in foreign activity. The ECB is expected to reduce official interest rates 25 basis points by the end of this year and an equal amount early next year. We expect a moderate increase in rates beginning in late 2002 as the economy strengthens.

In contrast to the general pattern of weakening global activity, preliminary third-quarter real GDP for the United Kingdom showed an increase of 2.4 percent at an annual rate. However, this number is based primarily on data from July and August, and indicators show some slowing in September. In addition, business confidence fell very sharply in October. We expect some weakening in activity in the next two quarters, although not as much as in most other countries. We then expect some pickup later next year as export growth responds to improving global demand. We assume that the Bank of England will cut official rates another 25 basis points this quarter in response to the weaker outlook and will keep them unchanged through the middle of next year. We then expect rates to be increased 125 basis points by the end of 2003 as the economy improves.

Other countries. Indicators for the major emerging-market economies suggest that output contracted for the third consecutive quarter in 2001:Q3. In addition to the spillover effects of the weakness in the U.S. economy, the Asian economies continue to suffer from depressed global electronics demand, and some Latin American countries, particularly Brazil, have been hit by the unsettled situation in Argentina. We expect economic growth to remain negative in the fourth quarter in both these regions, with only a gradual recovery in most areas over the next two years. Because of significant excess capacity, inflation should remain generally well contained through the end of the forecast period.

In Asia, Singapore's real GDP plunged 10 percent at an annual rate in the third quarter following declines of a similar size in the two preceding quarters. In other ASEAN countries, particularly those that export significant quantities of electronic goods, industrial production remained sluggish through August. One of the few indicators of September activity, industrial production in Taiwan, showed a very large 8 percent (monthly rate) drop. Somewhat surprisingly, Korean industrial production registered significant increases in both August and September, but business sentiment dropped sharply in September. The mainland Chinese economy remains the most notable exception to the region's sluggish performance, as output has continued to expand rapidly, supported by sizable fiscal stimulus. We now expect GDP in the developing Asian economies to contract about 1¼ percent at an annual rate on average during the second half of this year, as continued strong growth in China is outweighed by declines in most other countries in the region. A gradual recovery is still expected over the next two years in response to improving external conditions and to monetary and fiscal stimulus measures undertaken by several countries. Growth in this region is projected to average about 3 percent next year and 5 percent in 2003.

In Latin America, production indicators suggest a small further decline in real GDP in the third quarter after three quarters of contraction, and we expect the fourth quarter to be even weaker, with real GDP falling about 1¼ percent at an annual rate on average. For Mexico, industrial production data through August showed only a small decline from the second quarter. However, in September auto production fell sharply and business confidence plunged to its lowest level since August 1998. In Brazil, industrial production through August also declined only slightly from the second quarter, but consumer confidence dropped off sharply in October. Argentina remains in a deep recession and a restructuring of its debt is now being openly debated; we expect that continued financial disruptions will weigh very heavily on activity through next year, and more than the usual degree of uncertainty applies to our projection that the economy will move toward stability in 2003. For the region as a whole, we expect real GDP to increase at an average annual rate of about 2 percent in 2002 and 3½ percent in 2003.

Prices of internationally traded goods. The prices of both imported non-oil goods and core goods fell about 6 percent at an annual rate in the third quarter, similar to the rate of decline in the second quarter. The declines were led by decreases in the price of imported industrial supplies, with smaller price declines recorded in all other major trade categories. Import prices should continue declining in the fourth quarter, largely because of near-term weakness in materials prices. Next year, core import prices are projected to begin to rise as primary commodity prices move back up and foreign inflation rates rise slightly.

The price of U.S. core goods exports declined about 1½ percent at an annual rate in the third quarter, a bit more than in the second quarter, as a larger drop in the price of exported industrial supplies was only partly offset by a swing from negative to positive in the change in the price of agricultural exports. Core goods export prices are projected to continue to decline through the first quarter of 2002 and then to rise at less than a 1 percent pace over the remainder of the forecast period, reflecting the very moderate increases projected for U.S. goods prices.

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

Trade category	2000		2001: H1	Projection		
	H1	H2		2001: H2	2002	2003
Exports						
Core goods	2.7	.7	-.5	-2.0	.6	.8
Imports						
Non-oil core goods	1.7	1.5	-1.5	-4.2	.6	1.3
Oil (dollars per barrel)	26.18	28.87	24.21	20.23	19.64	19.05

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

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

Trade in goods and services. The U.S. trade deficit in goods and services for July and August combined was $338 billion (s.a.a.r.), considerably smaller than that for the second quarter, as imports fell more than exports. The average value of imports for the two months was down 14 percent at an annual rate from the second-quarter average, with declines widespread among most major trade categories. Over the same period the value of exports was down 12 percent at an annual rate, with the largest decrease in exported capital goods, and smaller but still substantial drops in exported consumer goods and industrial supplies. The declines in both imports and exports followed similar-sized decreases in the second quarter.

The nominal (but not the real) value of net exports of goods and services was affected significantly in the third quarter by the payments of foreign insurers and reinsurers on claims resulting from the events of September 11.[1] These payments are shown as a subtraction from imported services, reducing the reported value of services imports by more than $40 billion at an annual rate. As a result, the U.S. current account deficit as a share of GDP is projected to decline temporarily to 3½ percent in the third quarter of this year before returning to about 4 percent in the fourth quarter. We expect that the current account deficit as a share of GDP will rise to 4½ percent in 2003.

The decline in real imports of goods and services in the first two quarters of the year appears to have been followed by an even sharper drop in the third quarter. This exceptional weakness reflects in part the downturn in U.S. investment activity, as the decline in imports has been concentrated in computers, semiconductors, and other capital goods. Imports of consumer goods, which increased in real terms in the second quarter, also appear to have declined a bit in the first two months of the third quarter. The terrorist attacks are expected to have two distinct effects on real trade. First, delays in goods exports and imports due to temporary port closures and other transportation disruptions should be made up in October. This will result in lower real exports and imports in the third quarter, followed by a higher level in the fourth quarter. In addition, we expect real services imports (and exports), particularly travel, to suffer more sustained losses.

On balance, we expect real imports of goods and services to be little changed in the fourth quarter as reduced travel and continued weakness in U.S. spending on investment goods is offset by the transactions delayed from the third quarter and

1. The "insurance payment" component of imported services is calculated as the value of premiums paid to foreign companies less the amount of losses recovered from foreign companies. In the third quarter, the size of "losses recovered" will far exceed the amount paid for insurance premiums, resulting in a "negative" recorded insurance payment. According to NIPA accounting, the entire amount of an insurance payment is recorded in the quarter in which the incident occurred. The value of insurance payments by foreign insurers is not reflected in NIPA real imports of services. The deflator for service imports is thus adjusted down in the third quarter to offset the lower value of service imports, and returns to its usual value in the fourth quarter.

an increase in domestic consumption from fiscal stimulus. As the recovery in U.S. activity takes hold in 2002, imports should begin to rise again in the first quarter and rebound more robustly thereafter. Specifically, we project that imports will grow at a 8½ percent annual rate through the last three quarters of 2002 and at a 10 percent pace in 2003. The lagged effects on relative prices of the dollar's appreciation over the past six quarters provide some stimulus to imports, but the primary boost derives from revived U.S. growth and the high U.S. propensity to import.

Summary of Staff Projections for Trade in Goods and Services

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

Measure	2000		2001:	Projection		
	H1	H2	H1	2001: H2	2002	2003
Real exports	11.2	3.0	-6.7	-10.0	1.9	6.8
September GB	*11.2*	*3.0*	*-6.7*	*-9.7*	*3.1*	*6.8*
Real imports	16.8	6.0	-6.7	-8.2	6.7	9.8
September GB	*16.8*	*6.0*	*-6.8*	*-4.9*	*5.0*	*8.3*

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

Exports of real goods and services are estimated to have declined at a double-digit rate in the third quarter for the second consecutive quarter. The drop in exports of high-tech goods and other capital equipment has been particularly pronounced as global investment has weakened markedly. Looking ahead, we expect export growth to remain slightly negative through the first quarter of 2002 in response to projected sluggish foreign activity, the lagged effects of past dollar appreciation, and subdued exports of services (particularly travel and passenger fares). As foreign growth recovers, exports of goods and services should rebound, growing 3¼ percent through the last three quarters of 2002 and picking up to 7 percent in 2003.

Alternative Simulations

Although our baseline forecast contains a modest amount of fiscal stimulus abroad, it is possible that foreign governments will in fact react more aggressively to the weakening in global demand. In our first alternative simulation, we use the FRB Global model to consider the possibility that fiscal policy abroad will provide more stimulus than incorporated into our baseline forecast. Given that the dollar has appreciated since the September Greenbook despite our earlier expectations that it would decline, the second scenario considers the effects of a stronger dollar than we are currently assuming.

More expansionary fiscal policy abroad. In this scenario, we assume that government spending in all major foreign countries is higher than in the baseline by 1 percent of GDP throughout the forecast period. Two monetary policy responses are considered. In the first case, both the United States and the major foreign industrial countries keep short-term real interest rates fixed at their baseline values. Rather than use the more standard convention of a Taylor rule for the foreign countries in this case, we keep their real rates fixed under the assumption that they would be trying to maximize the impact of the fiscal stimulus. In the second case, monetary policy authorities both in the United States and abroad adjust nominal interest rates according to a Taylor rule.

With fixed rates, the rise in government spending raises U.S. real output growth 0.4 percentage point in 2002:H1, 0.3 percentage point in 2002:H2, and 0.2 percentage point in 2003. The effect of the shock on core price inflation is small and only becomes apparent in 2003, as core inflation adjusts more slowly than output to changes in aggregate demand. In the Taylor rule case, changes in government spending abroad have a smaller and more transient effect on U.S. output. U.S. real GDP growth rises 0.3 percentage point above the baseline in 2002:H1, then falls immediately back to baseline growth thereafter. However, this case requires an increase in the federal funds rate of 30 basis points by the second half of 2002, while short-term rates in Europe and Japan both are up around 200 basis points. Inflation rises a little earlier than in the fixed real rates case despite a more aggressive monetary policy response because the relative movements in interest rates here and abroad result in a larger dollar depreciation.

Alternative Scenario: More Expansionary Fiscal Policy Abroad

(Percent change from previous period, annual rate)

Indicator and simulation	2001	2002		2003	
	H2	H1	H2	H1	H2
U.S. real GDP					
Baseline	-1.4	1.3	3.5	3.6	3.7
Alternative scenario					
Fixed real rates	-1.4	1.7	3.8	3.8	3.9
Taylor rule	-1.4	1.6	3.5	3.6	3.7
U.S. PCE prices excl. food and energy					
Baseline	1.6	1.6	1.5	1.4	1.3
Alternative scenario					
Fixed real rates	1.6	1.6	1.5	1.5	1.5
Taylor rule	1.6	1.6	1.6	1.5	1.4

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

1. Foreign policy follows a Taylor rule and U.S. policy keeps real rates fixed.

Stronger dollar. In this scenario, there is a shock to the risk premium on U.S. assets (relative to foreign assets) that would raise the value of the real dollar by 10 percent immediately if both domestic and foreign real interest rates remained unchanged. Again, we consider two monetary policy responses for the United States. In the first, the United States has a fixed real rate, whereas major foreign industrial countries follow a Taylor rule. In the second, both foreign and U.S. monetary policies follow a Taylor rule. In the first case, real GDP growth falls 0.3 percentage point on average in both 2002 and 2003. Core price inflation falls a few tenths below baseline for most of the simulation period. In the Taylor rule case, the response of U.S. GDP and core prices is more muted. Real GDP growth is down only about 0.2 percentage point from baseline growth on average in 2002, while core price inflation does not drop as much as in the fixed real rate case. In this case, the federal funds rate is down 60 basis points by the second half of 2002 relative to the baseline and is lower by about 25 basis points at the end of 2003.

Alternative Scenario: Ten Percent Dollar Appreciation

(Percent change from previous period, annual rate)

Indicator and simulation	2001	2002		2003	
	H2	H1	H2	H1	H2
U.S. real GDP					
Baseline	-1.4	1.3	3.5	3.6	3.7
Alternative scenario					
Fixed real rates	-1.5	1.0	3.2	3.2	3.5
Taylor rule	-1.5	1.1	3.4	3.6	3.7
U.S. PCE prices excl. food and energy					
Baseline	1.6	1.6	1.5	1.4	1.3
Alternative scenario					
Fixed real rates	1.6	1.3	1.1	1.2	1.2
Taylor rule	1.6	1.3	1.2	1.3	1.3

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

1. Foreign policy follows a Taylor rule and U.S. policy keeps real rates fixed.

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

Measure and country	1995	1996	1997	1998	1999	2000	-----Projected---- 2001	2002	2003
REAL GDP (1)									
Total foreign	2.4	4.0	4.2	1.4	4.8	4.1	-0.2	2.1	3.4
Industrial Countries	2.0	2.6	3.5	2.6	3.8	3.1	0.3	1.8	2.9
of which:									
Canada	1.5	2.6	4.5	4.2	5.1	3.5	0.3	2.1	3.4
Japan	2.6	2.9	0.7	-1.4	0.4	2.5	-2.1	0.1	1.2
United Kingdom	2.0	2.9	3.6	2.6	2.7	2.4	2.0	2.2	2.7
Euro Area (2)	1.4	1.6	3.1	2.0	3.6	2.8	0.8	1.6	2.8
Germany	1.1	1.4	1.7	0.6	3.0	2.5	0.2	1.3	2.7
Developing Countries	3.0	6.0	5.0	-0.2	6.2	5.5	-1.0	2.4	4.1
Asia	6.9	6.6	4.8	-1.9	8.6	6.1	-1.7	2.8	4.8
Korea	7.5	6.4	3.4	-5.2	13.8	5.2	0.4	1.6	4.6
China	10.4	5.3	8.7	9.5	4.1	8.0	7.3	7.4	7.5
Latin America	-3.8	6.0	6.0	1.2	4.4	4.8	-0.8	2.0	3.6
Mexico	-7.1	7.1	6.7	2.8	5.4	5.2	-1.2	2.2	4.0
Brazil	-0.8	2.9	2.1	-1.1	4.0	4.3	0.3	2.1	2.6
CONSUMER PRICES (3)									
Industrial Countries	1.3	1.5	1.5	1.0	1.2	1.8	1.5	1.0	1.0
of which:									
Canada	2.0	2.0	1.0	1.1	2.3	3.1	2.2	1.6	1.5
Japan	-0.8	0.2	2.0	0.7	-1.2	-1.2	-0.6	-0.9	-0.9
United Kingdom (4)	2.9	3.2	2.7	2.5	2.2	2.1	2.2	2.1	2.4
Euro Area (2)	NA	NA	1.5	0.8	1.5	2.7	2.3	1.7	1.7
Germany	1.5	1.3	1.5	0.3	1.1	2.5	1.8	1.1	1.1
Developing Countries	16.9	11.1	6.8	9.0	4.6	4.1	3.0	3.7	4.1
Asia	6.4	4.8	2.7	4.4	0.2	1.9	0.8	2.3	3.4
Korea	4.3	5.0	4.9	5.9	1.2	2.8	3.9	2.4	3.0
China	11.1	6.8	0.9	-1.2	-0.9	0.9	-0.7	2.3	3.8
Latin America	42.0	25.8	15.5	15.4	12.5	8.4	5.9	5.7	5.1
Mexico	48.7	28.0	17.0	17.4	13.6	8.8	5.9	5.7	5.0
Brazil	21.5	9.6	4.6	1.5	8.2	6.1	6.8	6.2	5.6

1. Foreign GDP aggregates calculated using shares of U.S. exports.
2. Harmonized data for euro area from Eurostat.
3. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.
4. CPI excluding mortgage interest payments, which is the targeted inflation rate.

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October 31, 2001

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

Measure and country	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4
					Projected							
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	0.8	-0.7	-0.5	-0.4	0.7	1.9	2.7	3.0	3.4	3.5	3.4	3.4
Industrial Countries	1.6	-0.1	0.0	-0.5	0.6	1.6	2.4	2.7	3.0	3.0	2.9	2.9
of which:												
Canada	2.0	0.4	-0.2	-0.9	0.4	2.0	2.7	3.2	3.5	3.5	3.3	3.3
Japan	0.5	-3.2	-3.0	-2.6	-0.8	-0.3	0.5	1.0	1.1	1.2	1.3	1.3
United Kingdom	2.6	1.8	2.4	1.4	1.7	2.3	2.5	2.5	2.7	2.7	2.7	2.7
Euro Area (2)	2.0	0.3	0.8	0.1	0.5	1.2	2.2	2.5	2.9	2.9	2.8	2.7
Germany	1.6	-0.1	-0.2	-0.5	0.1	0.8	2.1	2.3	2.8	2.9	2.6	2.5
Developing Countries	-0.6	-1.6	-1.3	-0.5	0.8	2.2	3.2	3.4	4.0	4.1	4.2	4.2
Asia	-1.0	-3.2	-2.4	-0.2	1.0	2.5	3.6	4.0	4.5	4.7	5.0	5.0
Korea	1.3	1.8	-0.5	-1.0	0.0	1.0	2.5	3.0	4.0	4.5	5.0	5.0
China	8.1	7.5	6.9	6.8	7.0	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Latin America	-0.9	-0.6	-0.7	-1.2	0.4	1.7	2.8	2.9	3.6	3.6	3.6	3.6
Mexico	-1.3	-1.0	-1.0	-1.5	0.5	2.0	3.2	3.3	4.1	4.1	4.0	4.0
Brazil	0.7	0.1	0.5	-0.0	1.0	1.9	2.7	2.7	2.5	2.6	2.6	2.6
CONSUMER PRICES (3)	Four-quarter changes											
Industrial Countries	1.7	2.1	1.7	1.5	1.4	0.9	0.9	1.0	1.0	1.0	1.0	1.0
of which:												
Canada	2.8	3.6	2.7	2.2	2.2	1.3	1.5	1.6	1.6	1.5	1.5	1.5
Japan	-1.0	-1.2	-1.1	-0.6	-0.9	-0.6	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
United Kingdom (4)	1.9	2.3	2.4	2.2	2.3	1.9	1.9	2.1	2.3	2.3	2.4	2.4
Euro Area (2)	2.5	3.1	2.7	2.3	2.2	1.5	1.6	1.7	1.7	1.7	1.7	1.7
Germany	2.4	3.2	2.4	1.8	1.4	0.7	1.0	1.1	1.1	1.1	1.1	1.1
Developing Countries	3.8	4.1	3.5	3.0	3.3	3.2	3.3	3.7	3.9	4.0	4.1	4.1
Asia	1.8	2.4	1.9	0.8	1.0	1.1	1.5	2.3	2.7	3.0	3.2	3.4
Korea	4.2	5.3	4.3	3.9	3.6	2.7	2.2	2.4	2.5	2.7	2.8	3.0
China	0.6	1.6	0.8	-0.7	-0.3	0.1	0.9	2.3	2.7	3.1	3.5	3.8
Latin America	7.2	6.8	6.0	5.9	7.0	6.7	6.4	5.7	5.5	5.4	5.2	5.1
Mexico	7.5	6.9	6.0	5.9	7.0	6.7	6.5	5.7	5.4	5.3	5.1	5.0
Brazil	6.2	7.1	6.6	6.8	7.2	7.2	6.4	6.2	6.1	5.9	5.7	5.6

1. Foreign GDP aggregates calculated using shares of U.S. exports.
2. Harmonized data for euro area from Eurostat.
3. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.
4. CPI excluding mortgage interest payments, which is the targeted inflation rate.

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October 31, 2001

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1995	1996	1997	1998	1999	2000	------ Projected ------ 2001	2002	2003
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	0.4	-0.2	-0.8	-1.1	-1.0	-0.8	0.2	-0.7	-0.6
Exports of G&S	1.0	1.1	1.0	0.3	0.5	0.8	-0.9	0.2	0.7
Imports of G&S	-0.6	-1.3	-1.7	-1.3	-1.5	-1.6	1.1	-0.9	-1.3
	Percentage change, Q4/Q4								
Exports of G&S	9.7	9.8	8.5	2.3	4.5	7.0	-8.4	1.9	6.8
Services	8.8	8.9	1.4	2.9	1.9	4.1	-5.6	5.6	5.3
Computers	39.1	21.6	25.8	8.1	13.8	23.1	-22.1	14.6	29.9
Semiconductors	79.6	44.6	21.3	9.1	34.6	26.9	-37.6	15.7	29.9
Other Goods 1/	4.6	7.3	9.8	1.3	3.2	5.7	-5.9	-1.5	4.7
Imports of G&S	5.0	11.2	14.3	10.8	11.5	11.3	-7.4	6.7	9.8
Services	5.5	5.3	14.0	8.5	2.8	12.2	-8.7	7.3	5.6
Oil	2.4	7.8	3.9	4.1	-3.4	12.4	-1.0	3.4	0.8
Computers	35.0	17.8	33.0	25.8	25.1	13.6	-19.2	14.6	29.9
Semiconductors	92.4	56.7	32.9	-8.7	33.5	22.5	-53.4	15.7	29.9
Other Goods 2/	-1.2	10.4	12.7	11.5	12.9	10.4	-4.8	6.2	9.8
	Billions of chained 1996 dollars								
Net Goods & Services	-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-401.4	-448.7	-533.4
Exports of G&S	808.2	874.2	981.5	1002.4	1034.8	1133.2	1091.0	1053.5	1110.6
Imports of G&S	886.6	963.1	1094.8	1223.5	1351.7	1532.3	1492.4	1502.2	1644.0
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-109.9	-120.9	-139.8	-217.5	-324.4	-444.7	-405.6	-424.0	-496.4
Current Acct as Percent of GDP	-1.5	-1.5	-1.7	-2.5	-3.5	-4.5	-4.0	-4.1	-4.5
Net Goods & Services (BOP)	-96.4	-101.8	-107.8	-166.8	-261.8	-375.7	-334.4	-356.9	-431.0
Investment Income, Net	25.0	25.5	13.6	-1.2	-8.5	-9.6	-13.6	-7.3	-4.7
Direct, Net	64.9	69.4	72.4	66.3	67.0	81.2	90.8	88.0	84.7
Portfolio, Net	-39.9	-43.9	-58.8	-67.5	-75.6	-90.9	-104.4	-95.3	-89.4
Other Income & Transfers,Net	-38.6	-44.6	-45.7	-49.4	-54.0	-59.3	-57.6	-59.8	-60.7

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4
IPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.8	-1.8	-0.8	0.2	-1.8	-1.2	-0.7	-0.1	-1.3	-0.8	-0.7	-0.4
Exports of G&S	0.1	-0.5	-0.2	1.7	-0.8	0.4	1.0	1.3	0.9	1.4	1.1	-0.5
Imports of G&S	-1.9	-1.4	-0.5	-1.5	-1.0	-1.6	-1.7	-1.3	-2.2	-2.2	-1.8	0.1
Percentage change from previous period, s.a.a.r.												
Exports of G&S	0.5	-4.0	-2.2	16.3	-6.8	4.2	9.7	12.1	9.0	13.5	10.6	-4.0
Services	2.4	8.0	-8.4	10.5	-3.9	3.8	2.0	6.0	10.3	9.9	-6.7	3.7
Computers	-8.3	8.2	12.0	22.8	0.5	26.8	18.3	11.0	32.7	49.2	25.8	-7.9
Semiconductors	5.9	-17.2	272.7	-56.6	45.4	31.6	36.5	25.8	29.9	64.5	35.0	-10.2
Other Goods 1/	0.0	-9.2	-9.3	27.8	-11.5	1.1	11.0	14.2	5.3	9.1	16.3	-6.5
Imports of G&S	15.9	11.3	4.2	12.2	8.4	13.3	13.8	10.5	17.1	16.4	13.0	-0.5
Services	21.3	6.7	7.0	0.1	-8.2	1.8	7.9	11.0	20.6	12.4	17.1	0.0
Oil	3.6	42.8	1.1	-21.6	3.9	29.8	-5.8	-31.5	29.7	40.3	-4.9	-7.7
Computers	38.4	18.5	6.4	43.6	40.6	41.1	8.3	13.8	12.8	34.4	18.4	-7.2
Semiconductors	8.5	-25.4	-6.3	-8.2	37.0	47.5	12.7	39.6	45.6	24.9	64.9	-24.9
Other Goods 2/	14.2	11.9	4.1	16.2	9.0	11.3	17.6	14.0	14.6	13.1	11.9	2.4
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-180.8	-223.1	-241.2	-239.2	-283.0	-313.4	-333.3	-337.8	-371.1	-392.8	-411.2	-421.1
Exports of G&S	1003.4	993.1	987.6	1025.6	1007.6	1018.0	1041.8	1072.1	1095.5	1130.6	1159.3	1147.5
Imports of G&S	1184.2	1216.2	1228.9	1264.8	1290.6	1331.4	1375.1	1409.8	1466.6	1523.4	1570.6	1568.5
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-174.0	-209.6	-242.1	-244.1	-265.8	-309.5	-352.3	-369.9	-419.6	-432.5	-461.2	-465.3
Current Account as % of GDP	-2.0	-2.4	-2.7	-2.7	-2.9	-3.4	-3.8	-3.9	-4.3	-4.4	-4.6	-4.6
Net Goods & Services (BOP)	-139.5	-169.9	-181.9	-176.0	-211.5	-251.5	-284.5	-299.9	-349.3	-363.1	-389.4	-401.2
Investment Income, Net	9.9	5.8	-12.3	-8.3	-5.2	-6.6	-15.5	-6.8	-17.5	-14.4	-14.5	7.9
Direct, Net	74.2	69.8	57.8	63.3	66.2	63.0	63.3	75.7	65.5	72.5	84.2	102.8
Portfolio, Net	-64.2	-64.0	-70.1	-71.5	-71.4	-69.6	-78.8	-82.5	-83.0	-86.8	-98.7	-94.9
Other Inc. & Transfers, Net	-44.4	-45.5	-47.9	-59.8	-49.1	-51.5	-52.2	-63.3	-52.8	-55.0	-57.4	-72.0

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

Strictly Confidential (FR)
Class II FOMC

October 31, 2001

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2001				Projected 2002				Projected 2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
IPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	0.6	-0.1	0.4	-0.2	-0.5	-0.9	-0.9	-0.4	-0.8	-0.8	-0.7	-0.2
Exports of G&S	-0.1	-1.4	-1.8	-0.3	-0.3	0.1	0.3	0.6	0.4	0.6	0.7	0.9
Imports of G&S	0.8	1.3	2.3	0.1	-0.1	-1.0	-1.2	-1.0	-1.2	-1.4	-1.4	-1.1
Percentage change from previous period, s.a.a.r.												
Exports of G&S	-1.2	-11.9	-16.3	-3.2	-3.3	1.1	3.3	6.5	3.9	6.6	7.3	9.6
Services	1.8	2.4	-13.5	-12.0	11.5	2.6	4.0	4.6	5.2	5.4	5.4	5.4
Computers	-5.8	-41.1	-21.9	-15.1	-3.9	17.0	21.5	26.2	28.6	28.6	31.1	31.1
Semiconductors	-22.4	-56.1	-45.3	-18.5	-3.9	17.0	26.2	26.2	28.6	28.6	31.1	31.1
Other Goods 1/	-0.1	-10.8	-14.8	3.3	-9.8	-1.4	0.6	5.2	0.3	4.4	5.2	9.0
Imports of G&S	-5.0	-8.4	-15.2	-0.6	1.0	8.3	9.7	8.0	9.3	10.8	10.5	8.6
Services	4.9	-2.0	-28.9	-4.9	14.3	4.3	5.4	5.5	5.5	5.7	5.7	5.7
Oil	27.1	4.3	-27.2	-0.4	-6.7	29.2	9.9	-13.8	-6.9	18.9	11.4	-16.3
Computers	-11.0	-29.1	-23.6	-11.5	-3.9	17.0	21.5	26.2	28.6	28.6	31.1	31.1
Semiconductors	-31.8	-75.0	-63.0	-25.2	-3.9	17.0	26.2	26.2	28.6	28.6	31.1	31.1
Other Goods 2/	-8.4	-4.8	-7.6	1.8	-0.6	6.7	9.6	9.2	10.1	9.8	9.7	9.6
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-404.5	-406.7	-393.9	-400.3	-412.7	-439.0	-465.4	-478.0	-502.6	-526.4	-547.8	-556.7
Exports of G&S	1144.1	1108.3	1060.2	1051.5	1042.8	1045.7	1054.3	1071.1	1081.4	1098.7	1118.2	1144.2
Imports of G&S	1548.6	1515.0	1454.0	1451.8	1455.4	1484.7	1519.6	1549.0	1584.0	1625.1	1666.0	1700.8
Billions of dollars, s.a.a.r.												
S CURRENT ACCOUNT BALANCE	-447.1	-425.4	-353.5	-396.4	-389.3	-412.4	-435.3	-458.8	-467.1	-485.9	-505.5	-526.9
urrent Account as % of GDP	-4.4	-4.2	-3.4	-3.9	-3.8	-4.0	-4.1	-4.3	-4.3	-4.4	-4.6	-4.7
Net Goods & Services (BOP)	-380.1	-355.2	-285.6	-316.8	-325.8	-348.5	-371.2	-381.8	-404.1	-425.0	-443.8	-451.1
Investment Income, Net	-14.6	-16.6	-13.4	-9.7	-7.5	-7.5	-7.7	-6.6	-5.5	-3.5	-4.4	-5.4
Direct, Net	90.7	92.3	88.7	91.5	91.1	89.4	86.5	85.1	85.1	85.3	84.2	84.2
Portfolio, Net	-105.3	-109.0	-102.1	-101.1	-98.6	-96.9	-94.2	-91.7	-90.7	-88.8	-88.5	-89.7
Other Inc. & Transfers, Net	-52.4	-53.6	-54.4	-69.9	-55.9	-56.4	-56.4	-70.4	-57.4	-57.4	-57.4	-70.4

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