

Part 1

January 23, 2002

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

January 23, 2002

Summary and Outlook

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

Measure	2001:Q4		2002:Q1	
	Dec. GB	Jan. GB	Dec. GB	Jan. GB
Real GDP	-2.1	-.3	-.1	1.5
Private domestic final purchases	-.5	2.2	-3.4	-2.5
Personal consumption expenditures	3.7	4.7	-2.6	-1.2
Residential investment	-8.7	-7.0	-7.5	-6.4
Business fixed investment	-19.3	-8.4	-7.1	-8.7
Government outlays for consumption and investment	8.4	9.3	3.0	4.7
	Contribution to growth, percentage points			
Inventory investment	-2.4	-3.0	3.0	3.6
Net exports	-.7	-.7	-.6	-.8

Our projection is based largely on preliminary estimates of the spending data that the BEA will use in constructing the advance estimate of real GDP. However, we see some risk that revisions to these data and information not yet available could combine to produce a larger decline in real GDP than we have written down. Indeed, the indicators of production have generally been more downbeat than the spending data. Manufacturing production fell at an annual rate of 7 percent in the fourth quarter—a pace of decline slightly more rapid than that over the first three quarters of the year. More broadly, the average unemployment rate rose sharply from 4.8 percent to 5.6 percent from the third to the fourth quarter, and aggregate hours of work appear to have dropped at an annual rate of 3-3/4 percent. The decline in hours, coupled with our projection for output, implies an increase in productivity at an annual rate of 2-3/4 from in the fourth quarter, which would be an extremely good performance for a recession.

Nonetheless, some of the recent news—such as the decline in new claims for unemployment insurance and the rise in the new orders diffusion indexes in the surveys by the Institute for Supply Management and the Philadelphia Fed—appears to be signaling that economic activity may be bottoming out. Moreover, we believe that, on balance, the incoming data are pointing to firmer underlying final demand as we move into the first quarter of this year. Thus, under our assumption that the pace at which nonfarm inventories are being worked off will slow considerably, we are projecting that real GDP will rise this quarter at an annual rate of 1-1/2 percent.

Projections of Real GDP

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

Measure	2002		2003
	H1	H2	
Real GDP	2.0	3.4	3.6
Previous	1.6	4.1	3.7
Final sales	-4	2.6	3.2
Previous	-2	3.3	3.2
PCE	1.1	3.3	3.2
Previous	.8	3.7	2.9
Residential investment	-3.4	3.8	1.0
Previous	-3.8	3.6	2.4
BFI	-7.5	2.9	9.5
Previous	-3.9	7.1	10.4
Government purchases	4.7	3.2	2.9
Previous	3.4	3.4	3.0
Exports	2.5	4.4	7.5
Previous	-.5	4.9	6.9
Imports	10.0	9.5	10.0
Previous	6.1	9.8	9.6
Contribution to growth, percentage points			
Inventory change	2.4	.8	.3
Previous	1.9	.7	.4
Net exports	-1.0	-.8	-.6
Previous	-.8	-.8	-.6

Household spending. We anticipate that real personal consumption expenditures will rise 2-1/4 percent in 2002 and 3-1/4 percent in 2003; next year's rise is a bit faster than shown in the December Greenbook. This forecast incorporates a number of changes. On the plus side, the level of the stock market is a bit higher than we had previously assumed throughout the forecast period, and consumer sentiment has continued to recover somewhat faster than we had anticipated. However, these factors are in part offset this year by our abandonment of the assumption that the Congress would enact another round of tax rebates and boost subsidies for the health insurance of jobless workers.

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	2.9	2.8	2.0	1.7	2.2
Previous	1.4	2.4	2.8	2.7	1.9	1.5	2.1
<i>Contributions¹</i>							
Capital deepening	.6	1.1	1.5	1.4	.7	.4	.8
Previous	.6	1.1	1.5	1.4	.7	.3	.8
Multifactor productivity	.6	1.0	1.1	1.1	1.0	.9	1.1
Previous	.6	1.0	1.0	1.0	.9	.8	1.0
Labor composition	.3	.3	.3	.3	.3	.3	.3
Memo:							
Potential GDP	2.9	3.6	3.9	3.7	2.7	2.5	3.1
Previous	2.9	3.6	3.9	3.7	2.7	2.4	3.1

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

1. Percentage points.

that the BLS released in early December.⁷ In our accounting, this statistical adjustment adds 0.1 percentage point per year to our estimate of the change in multifactor productivity. Because the revisions had an offsetting effect on the trend in hours, the adjustment did not alter our estimate of potential GDP. However, with investment in equipment and software projected to be at a higher level early this year than we previously thought, we have nudged up this year's estimate of capital deepening and carried that change through to potential output.

These recent adjustments aside, our forecast continues to show a pattern of structural productivity change in recent years and through the forecast period that is shaped importantly by the rate of capital deepening. The increase in structural productivity is estimated to have moved down to 2 percent in 2001. We are projecting that it will slow further, to 1.7 percent, this year, before picking up to 2.2 percent in 2003.

7. The BLS adjusted its published measures of hours, and thus output per hour, for the period from 1999:Q3 to 2001:Q3 to incorporate the results of the 2000 Hours of Work Survey for all private nonfarm employees. That survey collects information on the ratio of hours worked to hours paid. Previously, the hours estimates underlying the published data on output per hour relied principally on data from the establishment survey that are collected on an hours-paid basis.

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

Measure	2000	2001	2002	2003
Output per hour, nonfarm business	2.6	1.5	1.7	2.3
Previous	2.3	1.0	2.0	2.2
Nonfarm private payroll employment	1.7	-.6	.8	1.5
Previous	1.7	-.5	.6	1.6
Household employment survey	1.0	-1.0	.5	1.1
Previous	1.0	-.9	.5	1.2
Labor force participation rate ¹	67.1	66.9	66.8	66.7
Previous	67.1	66.8	66.8	66.7
Civilian unemployment rate ¹	4.0	5.6	6.0	5.8
Previous	4.0	5.5	6.0	5.8

1. Percent, average for the fourth quarter.

Productivity and the labor market. As noted above, labor productivity has held up better in recent quarters than it typically does during an economic contraction. Nonetheless, it rose somewhat more slowly than our assumed structural trend over the four quarters of 2001, and we expect that pattern to continue into the first half of 2002 as the recovery in production and sales is relatively slow. As economic activity accelerates in the second half of this year, businesses should be able to boost productivity to restore the desired relationship between hours worked and output. Thus, our forecast shows nonfarm business productivity increasing at an annual rate of just under 1-1/2 percent during the first two quarters of 2002; it then is anticipated to accelerate to a pace of close to 2 percent in the latter half of the year—a rate above our estimate of the structural trend rate this year. We assume that, over the four quarters of 2003, the actual productivity gain will about match the structural rate of 2-1/4 percent.⁸

Businesses are likely to remain cautious early this year as the recovery gets under way, and we do not expect to see them adding noticeably to payrolls until the spring. As a result, the unemployment rate is projected to continue to move up, reaching a peak of 6.0 percent, on average, in the second quarter—roughly 3/4 percentage point above our assumed short-run NAIRU. Thereafter, as businesses realign their employment and hours with production, we expect to see steady moderate gains in payroll employment of about 165,000 per month

8. In an alternative simulation, we consider the implications of a faster rise in multifactor productivity than assumed in the baseline.

Inflation Projections

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

Measure	2000	2001	2002	2003
PCE chain-weighted price index	2.6	1.3	1.3	1.2
Previous	2.6	1.3	1.4	1.2
Food and beverages	2.5	3.2	1.9	1.8
Previous	2.5	3.4	2.0	1.8
Energy	15.4	-10.0	-1.7	2.0
Previous	15.4	-10.2	-.3	1.9
Excluding food and energy	1.9	1.6	1.3	1.1
Previous	1.9	1.6	1.3	1.1
Consumer price index	3.4	1.9	1.8	1.8
Previous	3.4	1.8	1.9	1.8
Excluding food and energy	2.5	2.7	2.1	1.8
Previous	2.5	2.7	2.0	1.8
GDP chain-weighted price index	2.4	1.9	1.5	1.4
Previous	2.4	1.9	1.6	1.4
ECI for compensation of private industry workers ¹	4.4	4.0	3.0	3.0
Previous	4.4	4.0	3.1	3.0
NFB compensation per hour	7.8	4.0	3.4	3.2
Previous	7.4	4.4	3.8	3.3
Prices of core non-oil merchandise imports	1.6	-3.2	.4	1.5
Previous	1.6	-3.2	.8	1.4

1. December to December.

through the end of 2003. The unemployment rate is projected to edge off slightly during 2003, to 5.8 percent by the end of the year.

Wages and prices. In light of the incoming information, noted above, that hourly compensation has decelerated more in recent quarters than we previously thought, we have slightly lowered our forecasts of wage inflation in 2002 and 2003. The change is a bit larger for hourly compensation in the nonfarm business sector than for ECI compensation because we believe that much of the added deceleration has been in forms of flexible compensation that the ECI does not measure. We now expect that compensation per hour in the nonfarm business sector will rise just under 3-1/2 percent this year and 3-1/4 percent in 2003 and that ECI compensation will increase 3 percent in both years. Both

Alternative Simulations

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

Measure	2001	2002			2003
	Q4	Q1	Q2	H2	
<i>Real GDP</i>					
Baseline	-.3	1.5	2.5	3.4	3.6
Business retrenchment	-.3	.9	1.7	2.2	1.9
Investment boom	-.3	2.7	4.2	4.7	4.5
Productivity acceleration	-.3	1.5	3.4	4.6	4.8
Profits restoration	-.3	1.5	2.4	3.3	3.7
Low NAIRU	-.3	1.7	2.5	3.6	3.7
Market-based funds rate	-.3	1.5	2.5	3.3	2.9
Easier monetary policy	-.3	1.5	2.6	3.9	4.3
<i>Civilian unemployment rate¹</i>					
Baseline	5.6	5.9	6.0	6.0	5.8
Business retrenchment	5.6	6.0	6.1	6.3	6.7
Investment boom	5.6	5.8	5.8	5.6	5.1
Productivity acceleration	5.6	5.9	6.0	5.9	5.4
Profits restoration	5.6	5.9	6.0	6.0	5.8
Low NAIRU	5.6	5.9	6.0	5.9	5.7
Market-based funds rate	5.6	5.9	6.0	6.0	6.0
Easier monetary policy	5.6	5.9	6.0	5.9	5.4
<i>PCE prices excluding food and energy</i>					
Baseline	2.8	1.3	1.4	1.3	1.1
Business retrenchment	2.8	1.3	1.4	1.3	1.0
Investment boom	2.8	1.3	1.3	1.2	1.0
Productivity acceleration	2.8	1.3	1.4	1.2	.8
Profits restoration	2.8	1.5	1.8	1.9	1.9
Low NAIRU	2.8	1.2	1.2	1.0	.6
Market-based funds rate	2.8	1.3	1.4	1.3	1.0
Easier monetary policy	2.8	1.3	1.4	1.3	1.3

1. Average for the final quarter of the period.

assume that the nominal federal funds rate follows its baseline path. After this discussion, we briefly consider both a low-NAIRU scenario and two alternative assumptions for the funds rate.

Business retrenchment. In the staff forecast, share prices begin to rise steadily after the middle of the year and capital spending starts to recover as investors and firms see clear signs of improvement in the outlook for earnings. But

		Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
Interval		12/05/01	01/23/02	12/05/01	01/23/02	12/05/01	01/23/02	12/05/01	01/23/02	12/05/01	01/23/02
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		3.2	3.3	1.0	1.1	2.2	2.2	2.8	2.8	4.7	4.8
2002		2.4	2.7	0.9	1.3	1.5	1.4	1.3	1.3	6.0	6.0
2003		5.3	4.9	3.7	3.4	1.5	1.5	1.9	1.9	5.9	5.9
QUARTERLY											
2000	Q1	6.3	6.3	2.3	2.3	3.8	3.8	4.3	4.3	4.1	4.0
	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	4.1
	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	2.4	2.4	0.3	0.3	2.1	2.1	3.0	3.0	4.5	4.5
	Q3	1.1	0.9	-1.1	-1.3	2.2	2.3	0.7	0.7	4.8	4.8
	Q4	-1.8	-0.1	-2.1	-0.3	0.3	0.2	-0.6	-0.4	5.5	5.6
2002	Q1	1.8	3.3	-0.1	1.5	1.9	1.7	1.3	1.1	5.9	5.9
	Q2	5.0	4.1	3.3	2.5	1.6	1.6	2.2	2.2	6.1	6.0
	Q3	6.1	5.0	4.5	3.5	1.5	1.5	2.1	2.1	6.1	6.0
	Q4	5.1	4.7	3.6	3.3	1.5	1.4	2.0	2.0	6.0	6.0
2003	Q1	5.4	5.2	3.5	3.4	1.8	1.7	1.9	1.9	6.0	5.9
	Q2	5.0	4.8	3.7	3.5	1.3	1.3	1.8	1.8	5.9	5.9
	Q3	5.1	4.9	3.7	3.6	1.3	1.3	1.8	1.8	5.8	5.9
	Q4	5.1	5.0	3.7	3.7	1.3	1.3	1.8	1.8	5.8	5.8
TWO-QUARTER³											
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	3.5	3.5	0.8	0.8	2.7	2.7	3.6	3.6	0.5	0.5
	Q4	-0.4	0.4	-1.6	-0.8	1.2	1.2	0.0	0.1	1.0	1.1
2002	Q2	3.4	3.7	1.6	2.0	1.7	1.6	1.7	1.6	0.6	0.4
	Q4	5.6	4.9	4.1	3.4	1.5	1.4	2.0	2.0	-0.1	0.0
2003	Q2	5.2	5.0	3.6	3.5	1.6	1.5	1.9	1.8	-0.1	-0.1
	Q4	5.1	5.0	3.7	3.7	1.3	1.3	1.8	1.8	-0.1	-0.1
FOUR-QUARTER⁴											
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	1.6	1.9	-0.4	0.0	1.9	1.9	1.8	1.9	1.5	1.6
2002	Q4	4.5	4.3	2.8	2.7	1.6	1.5	1.9	1.8	0.5	0.4
2003	Q4	5.1	5.0	3.7	3.6	1.4	1.4	1.8	1.8	-0.3	-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.

Strictly Confidential <FR>
Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted annual rate)

January 23, 2002

		-----Projected-----								
Item	Units ¹	1995	1996	1997	1998	1999	2000	2001	2002	2003
EXPENDITURES										
Nominal GDP	Bill. \$	7400.5	7813.2	8318.4	8781.5	9268.6	9872.9	10198.2	10478.4	10992.2
Real GDP	Bill. Ch. \$	7543.8	7813.2	8159.5	8508.9	8856.5	9224.0	9322.7	9442.5	9763.7
Real GDP	% change	2.2	4.1	4.3	4.8	4.4	2.8	0.0	2.7	3.6
Gross domestic purchases		1.7	4.3	5.0	5.8	5.3	3.5	0.1	3.5	4.0
Final sales		2.9	3.9	3.9	4.7	4.3	3.4	1.7	1.1	3.2
Priv. dom. final purchases		3.2	4.4	5.1	6.3	5.4	4.7	1.1	1.5	3.9
Personal cons. expenditures		2.8	3.1	4.1	5.0	5.2	4.2	2.8	2.2	3.2
Durables		3.7	5.0	8.8	12.7	11.3	5.3	12.4	-0.9	6.5
Nondurables		2.5	3.2	2.5	5.0	5.0	3.6	1.0	2.9	2.9
Services		2.7	2.7	3.9	3.6	4.0	4.3	1.8	2.6	2.7
Business fixed investment		7.5	12.1	11.8	12.3	7.4	8.9	-8.0	-2.4	9.5
Equipment & Software		8.9	11.8	13.7	14.9	11.2	8.3	-7.3	0.4	12.0
Nonres. structures		3.3	12.8	6.5	4.9	-3.6	10.8	-10.1	-10.3	1.9
Residential structures		-1.5	5.6	3.5	10.0	3.4	-1.2	2.3	0.1	1.0
Exports		9.7	9.8	8.5	2.3	4.5	7.0	-11.1	3.4	7.5
Imports		5.0	11.2	14.3	10.8	11.5	11.3	-7.6	9.8	10.0
Gov't. cons. & investment		-0.8	2.7	2.4	2.7	4.0	1.2	4.9	4.0	2.9
Federal		-5.3	2.0	0.1	0.6	4.5	-1.4	4.6	7.1	1.5
Defense		-4.7	0.8	-1.4	-0.8	4.7	-2.2	5.1	5.1	1.4
State & local		2.1	3.0	3.7	3.8	3.7	2.5	5.1	2.3	3.6
Change in bus. inventories	Bill. Ch. \$	--	--	63.8	76.7	62.1	50.6	-66.2	-5.3	52.2
Nonfarm		41.9	21.2	60.6	75.0	63.5	52.3	-64.2	-5.4	51.0
Net exports		-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-412.8	-498.0	-591.1
Nominal GDP	% change	4.3	6.0	6.2	6.0	6.0	5.3	1.9	4.3	5.0
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	117.2	119.6	122.7	125.8	128.9	131.8	132.2	131.8	133.8
Unemployment rate	%	5.6	5.4	4.9	4.5	4.2	4.0	4.8	6.0	5.9
Industrial prod. index	% change	3.5	5.8	7.4	3.5	4.3	2.6	-6.0	2.5	4.3
Capacity util. rate - mfg.	%	82.6	81.6	82.7	81.4	80.6	80.7	75.0	73.1	75.5
Housing starts	Millions	1.35	1.48	1.47	1.62	1.64	1.57	1.61	1.62	1.66
Light motor vehicle sales		14.77	15.05	15.06	15.43	16.78	17.25	17.02	15.47	16.16
North Amer. produced		12.87	13.34	13.12	13.41	14.30	14.39	13.94	12.57	13.12
Other		1.90	1.70	1.93	2.02	2.48	2.86	3.08	2.90	3.05
INCOME AND SAVING										
Nominal GNP	Bill. \$	7420.9	7831.2	8325.4	8778.1	9261.8	9860.8	10188.8	10471.9	10982.7
Nominal GNP	% change	4.4	5.9	6.0	5.8	6.0	5.4	1.9	4.3	4.9
Nominal personal income		4.3	5.9	6.3	6.7	4.8	7.3	3.0	4.1	4.4
Real disposable income		1.7	2.6	3.8	5.0	2.1	4.0	2.4	4.2	2.7
Personal saving rate	%	5.6	4.8	4.2	4.7	2.4	1.0	1.7	3.1	2.7
Corp. profits, IVA & CCAdj.	% change	11.3	11.4	9.9	-9.6	11.3	-1.2	-14.6	5.1	6.1
Profit share of GNP	%	9.0	9.6	10.0	8.9	8.9	8.9	7.3	7.1	7.2
Excluding FR Banks		8.7	9.4	9.7	8.6	8.6	8.6	7.0	6.9	6.9
Federal surpl./deficit	Bill. \$	-192.0	-136.8	-53.3	43.8	119.2	218.6	112.8	-52.0	-3.8
State & local surpl./def.		15.3	21.4	31.0	40.7	42.1	32.8	14.0	14.6	17.2
Ex. social ins. funds		11.4	18.7	29.9	40.0	41.7	33.1	14.3	14.9	17.5
Gross natl. saving rate	%	16.9	17.2	18.0	18.8	18.4	18.1	16.8	16.2	16.6
Net natl. saving rate		5.1	5.7	6.7	7.5	6.8	6.3	4.2	3.5	3.7
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.1	1.9	1.8	1.1	1.6	2.4	1.9	1.5	1.4
Gross Domestic Purchases										
chn.-wt. price index		2.1	1.9	1.4	0.8	1.9	2.5	1.2	1.4	1.4
PCE chn.-wt. price index		2.1	2.3	1.5	1.1	2.0	2.6	1.3	1.3	1.2
Ex. food and energy		2.3	1.8	1.7	1.6	1.5	1.9	1.6	1.3	1.1
CPI		2.7	3.2	1.9	1.5	2.6	3.4	1.9	1.8	1.8
Ex. food and energy		3.0	2.6	2.2	2.4	2.0	2.5	2.7	2.1	1.8
ECI, hourly compensation ²		2.6	3.1	3.4	3.5	3.4	4.4	4.0	3.0	3.0
Nonfarm business sector										
Output per hour		1.1	2.3	2.3	2.9	2.9	2.6	1.5	1.7	2.3
Compensation per Hour		2.6	3.2	3.5	5.3	4.5	7.8	4.0	3.4	3.2
Unit labor cost		1.5	0.9	1.1	2.3	1.5	5.0	2.5	1.7	1.0

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

Strictly Confidential <FR>
Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
(Seasonally adjusted, annual rate except as noted)

January 23, 2002

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	4.0	4.0	4.1	4.0	4.2	4.5
Industrial prod. index	% change	3.6	3.3	4.7	5.8	5.8	7.0	0.6	-2.6	-6.1	-5.9
Capacity util. rate - mfg.	%	80.5	80.4	80.5	81.0	81.2	81.6	80.7	79.1	77.2	75.6
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	5.8	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		2.3	-1.3	3.2	7.8	0.0	6.7	1.6	2.3	-0.1	2.1
Compensation per hour		3.6	4.2	5.5	4.7	6.9	8.1	7.4	8.9	4.9	4.7
Unit labor cost		1.3	5.6	2.2	-2.9	6.9	1.3	5.7	6.4	5.0	2.6

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)

January 23, 2002

		- - - - - Projected - - - - -									
Item	Units	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	10224.9	10223.4	10305.5	10409.7	10537.8	10660.5	10796.2	10924.2	11056.0	11192.3
Real GDP	Bill. Ch. \$	9310.4	9304.0	9339.5	9397.2	9478.2	9555.2	9635.4	9718.7	9805.3	9895.3
Real GDP	% change	-1.3	-0.3	1.5	2.5	3.5	3.3	3.4	3.5	3.6	3.7
Gross domestic purchases		-1.0	0.4	2.2	3.6	4.4	3.7	4.1	4.1	4.1	3.8
Final sales		-0.5	2.8	-2.1	1.3	2.4	2.8	3.0	2.9	3.3	3.6
Priv. dom. final purchases		-0.4	2.2	-2.5	2.0	3.3	3.4	3.9	3.8	4.0	4.0
Personal cons. expenditures		1.0	4.7	-1.2	3.5	3.5	3.2	3.2	3.1	3.2	3.2
Durables		0.9	33.7	-23.9	8.0	9.8	6.8	7.6	5.9	6.5	5.9
Nondurables		0.6	0.7	2.6	3.1	2.9	2.9	2.9	2.9	3.0	3.0
Services		1.2	1.4	2.4	2.8	2.6	2.6	2.5	2.6	2.7	2.8
Business fixed investment		-8.5	-8.4	-8.7	-6.2	1.7	4.2	8.4	8.8	10.1	10.7
Equipment & Software		-8.8	0.0	-5.3	-4.5	5.1	6.9	11.4	11.2	12.5	13.0
Nonres. structures		-7.5	-28.4	-18.0	-11.3	-7.8	-3.6	-0.6	1.8	2.9	3.5
Residential structures		2.4	-7.0	-6.4	-0.3	3.1	4.4	2.8	1.9	0.2	-0.8
Exports		-18.8	-11.6	4.3	0.8	2.8	6.0	4.3	7.3	8.1	10.5
Imports		-13.0	-3.7	9.5	10.6	10.3	8.6	9.5	11.0	10.3	9.1
Gov't. cons. & investment		0.3	9.3	4.7	4.6	3.8	2.7	3.0	2.6	3.2	2.7
Federal		3.6	10.2	13.6	8.6	5.4	1.2	2.2	0.9	2.2	0.9
Defense		3.2	7.6	11.9	2.3	3.3	3.2	2.2	0.4	2.4	0.5
State & local		-1.3	8.9	0.4	2.6	2.9	3.5	3.4	3.6	3.8	3.7
Change in bus. inventories	Bill. Ch. \$	-61.9	-137.6	-45.8	-14.4	13.2	25.6	36.1	51.8	59.2	61.9
Nonfarm		-59.0	-134.9	-44.1	-14.8	12.5	24.9	35.3	50.5	57.8	60.3
Net exports		-411.0	-429.0	-451.5	-487.2	-518.0	-535.1	-560.4	-584.6	-604.9	-614.4
Nominal GDP	% change	0.9	-0.1	3.3	4.1	5.0	4.7	5.2	4.8	4.9	5.0
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	132.4	131.5	131.3	131.5	132.0	132.5	133.0	133.5	134.0	134.5
Unemployment rate	%	4.8	5.6	5.9	6.0	6.0	6.0	5.9	5.9	5.9	5.8
Industrial prod. index	% change	-4.7	-7.2	-0.6	2.2	3.9	4.4	4.5	4.2	4.2	4.2
Capacity util. rate - mfg.	%	74.5	72.9	72.5	72.7	73.3	73.9	74.6	75.2	75.8	76.5
Housing starts	Millions	1.60	1.57	1.57	1.61	1.64	1.66	1.66	1.66	1.65	1.64
Light motor vehicle sales		16.12	18.41	15.21	15.21	15.64	15.82	16.11	16.11	16.21	16.21
North Amer. produced		13.15	15.02	12.32	12.33	12.75	12.87	13.07	13.09	13.15	13.15
Other		2.97	3.39	2.89	2.88	2.89	2.95	3.04	3.02	3.06	3.06
INCOME AND SAVING											
Nominal GNP	Bill. \$	10213.8	10219.0	10299.1	10403.9	10530.6	10654.2	10790.5	10917.3	11045.3	11177.6
Nominal GNP	% change	0.9	0.2	3.2	4.1	5.0	4.8	5.2	4.8	4.8	4.9
Nominal personal income		2.7	0.2	3.7	4.0	4.1	4.5	4.8	4.4	4.3	4.3
Real disposable income		12.3	-6.9	9.7	2.2	2.2	2.7	2.9	2.7	2.6	2.6
Personal saving rate	%	3.8	0.9	3.5	3.2	2.9	2.8	2.8	2.7	2.6	2.5
Corp. profits, IVA & CCAdj.	% change	-29.2	16.3	2.2	8.1	6.1	4.0	4.8	5.8	5.8	8.1
Profit share of GNP	%	6.8	7.1	7.1	7.1	7.2	7.1	7.1	7.2	7.2	7.2
Excluding FR Banks		6.6	6.8	6.8	6.9	6.9	6.9	6.9	6.9	6.9	7.0
Federal surpl./deficit	Bill. \$	-13.6	72.6	-55.6	-59.4	-46.7	-46.2	-24.5	-8.9	4.1	14.3
State & local surpl./def.		1.9	10.7	10.1	12.5	17.8	18.0	16.6	16.5	19.1	16.4
Ex. social ins. funds		2.0	11.1	10.4	12.8	18.1	18.3	16.9	16.8	19.4	16.7
Gross natl. saving rate	%	17.2	15.8	16.3	16.1	16.2	16.2	16.4	16.6	16.7	16.8
Net natl. saving rate		3.9	3.0	3.7	3.4	3.4	3.3	3.5	3.7	3.8	3.8
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.3	0.2	1.7	1.6	1.5	1.4	1.7	1.3	1.3	1.3
Gross Domestic Purchases chn.-wt. price index		-0.1	1.0	1.1	1.5	1.5	1.4	1.8	1.3	1.3	1.3
PCE chn.-wt. price index		-0.2	0.8	0.7	1.5	1.5	1.4	1.3	1.2	1.2	1.2
Ex. food and energy		0.5	2.8	1.3	1.4	1.3	1.2	1.1	1.1	1.1	1.1
CPI		0.7	-0.4	1.1	2.2	2.1	2.0	1.9	1.8	1.8	1.8
Ex. food and energy		2.6	2.6	2.3	2.2	2.1	2.0	1.9	1.8	1.8	1.8
ECI, hourly compensation ¹		3.7	3.7	3.3	3.0	3.0	2.9	2.9	3.0	3.0	2.9
Nonfarm business sector											
Output per hour		1.4	2.7	1.2	1.7	2.1	1.8	2.0	2.2	2.3	2.5
Compensation per hour		3.6	3.0	3.6	3.4	3.4	3.3	3.3	3.3	3.2	3.2
Unit labor cost		2.3	0.3	2.4	1.7	1.3	1.5	1.3	1.1	0.9	0.7

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

January 23, 2002

Item	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	99Q4/ 98Q4	00Q4/ 99Q4	01Q4/ 00Q4
Real GDP	4.7	8.3	2.3	5.7	1.3	1.9	1.3	0.3	-1.3	4.4	2.8	0.0
Gross dom. purchases	5.4	8.4	3.6	6.5	2.0	2.3	0.7	0.4	-1.1	5.4	3.6	0.1
Final sales	4.2	6.2	4.7	3.9	2.3	2.4	3.9	0.7	-0.5	4.2	3.3	1.7
Priv. dom. final purchases	4.2	4.8	6.2	4.0	3.3	2.2	2.4	-0.0	-0.3	4.5	3.9	1.0
Personal cons. expenditures	3.0	4.0	3.9	2.5	2.9	2.1	2.1	1.7	0.7	3.5	2.9	1.9
Durables	0.7	1.1	1.5	-0.2	0.7	-0.2	0.8	0.6	0.1	0.9	0.4	1.0
Nondurables	0.5	1.5	1.0	1.0	0.8	0.1	0.5	0.1	0.1	1.0	0.7	0.2
Services	1.7	1.4	1.5	1.8	1.4	2.2	0.7	1.1	0.5	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	-1.1	0.9	1.1	-1.0
Equipment & Software	1.5	0.6	1.6	1.2	0.5	-0.1	-0.4	-1.6	-0.8	1.0	0.8	-0.7
Nonres. structures	-0.2	0.1	0.3	0.4	0.5	0.2	0.4	-0.4	-0.3	-0.1	0.3	-0.3
Residential structures	-0.0	0.1	0.4	-0.0	-0.5	-0.1	0.4	0.3	0.1	0.1	-0.1	0.1
Net exports	-0.8	-0.2	-1.3	-0.8	-0.7	-0.4	0.6	-0.1	-0.3	-1.0	-0.8	-0.1
Exports	1.0	1.3	1.0	1.4	1.1	-0.5	-0.1	-1.4	-2.1	0.5	0.8	-1.2
Imports	-1.8	-1.4	-2.3	-2.3	-1.8	0.1	0.8	1.3	1.9	-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	0.1	0.7	0.2	0.9
Federal	0.4	0.9	-0.8	0.9	-0.7	0.3	0.2	0.1	0.2	0.3	-0.1	0.3
Defense	0.5	0.6	-0.9	0.6	-0.4	0.4	0.3	0.1	0.1	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	-0.2	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	-0.8	0.2	-0.5	-1.7
Nonfarm	0.9	1.5	-2.0	1.5	-0.8	-0.7	-2.6	-0.3	-0.8	0.1	-0.5	-1.8
Farm	-0.4	0.6	-0.3	0.3	-0.2	0.2	0.0	-0.1	-0.0	0.0	-0.0	0.0

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

Strictly Confidential <FR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

January 23, 2002

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	-0.3	1.5	2.5	3.5	3.3	3.4	3.5	3.6	3.7	0.0	2.7	3.6
Gross dom. purchases	0.4	2.3	3.7	4.5	3.8	4.2	4.3	4.2	4.0	0.1	3.6	4.2
Final sales	2.7	-2.1	1.3	2.4	2.8	3.0	2.9	3.3	3.6	1.7	1.1	3.2
Priv. dom. final purchases	1.8	-2.2	1.7	2.8	2.9	3.3	3.2	3.3	3.4	1.0	1.3	3.3
Personal cons. expenditures	3.2	-0.8	2.4	2.4	2.2	2.2	2.1	2.2	2.2	1.9	1.6	2.2
Durables	2.5	-2.3	0.6	0.8	0.5	0.6	0.5	0.5	0.5	1.0	-0.1	0.5
Nondurables	0.1	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.2	0.6	0.6
Services	0.6	1.0	1.2	1.1	1.1	1.1	1.1	1.1	1.2	0.7	1.1	1.1
Business fixed investment	-1.1	-1.1	-0.7	0.2	0.5	0.9	1.0	1.1	1.2	-1.0	-0.3	1.0
Equipment & Software	0.0	-0.5	-0.4	0.4	0.6	0.9	0.9	1.0	1.1	-0.7	0.0	1.0
Nonres. structures	-1.0	-0.6	-0.3	-0.2	-0.1	-0.0	0.0	0.1	0.1	-0.3	-0.3	0.1
Residential structures	-0.3	-0.3	-0.0	0.1	0.2	0.1	0.1	0.0	-0.0	0.1	0.0	0.0
Net exports	-0.7	-0.8	-1.2	-1.0	-0.5	-0.8	-0.8	-0.6	-0.3	-0.1	-0.9	-0.6
Exports	-1.2	0.4	0.1	0.3	0.6	0.4	0.7	0.8	1.0	-1.2	0.3	0.7
Imports	0.5	-1.2	-1.3	-1.3	-1.1	-1.2	-1.4	-1.4	-1.2	1.1	-1.2	-1.3
Government cons. & invest.	1.6	0.9	0.9	0.7	0.5	0.6	0.5	0.6	0.5	0.9	0.7	0.5
Federal	0.6	0.8	0.5	0.3	0.1	0.1	0.1	0.1	0.1	0.3	0.4	0.1
Defense	0.3	0.5	0.1	0.1	0.1	0.1	0.0	0.1	0.0	0.2	0.2	0.1
Nondefense	0.3	0.4	0.4	0.2	-0.1	0.1	0.0	0.0	0.0	0.1	0.2	0.0
State and local	1.0	0.0	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.3	0.4
Change in bus. inventories	-3.0	3.6	1.2	1.1	0.5	0.4	0.6	0.3	0.1	-1.7	1.6	0.3
Nonfarm	-2.9	3.7	1.1	1.1	0.5	0.4	0.6	0.3	0.1	-1.8	1.6	0.3
Farm	-0.1	-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.

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

January 23, 2002

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	1991	1994	2070	460	660	409	466	433	617	478	457	452	655	506	490
Outlays ²	1789	1864	2002	2062	482	467	451	503	505	500	494	526	518	512	506	543
Surplus/deficit ²	236	127	-8	8	-22	194	-42	-37	-72	118	-16	-68	-67	143	-0	-53
On-budget	87	-34	-159	-164	-88	119	-51	-81	-97	48	-30	-121	-93	66	-16	-112
Off-budget	150	161	152	172	65	75	10	44	24	70	14	52	27	77	16	59
Surplus excluding deposit insurance	233	126	-9	6	-23	193	-42	-37	-73	117	-17	-69	-67	142	-1	-53
Means of financing																
Borrowing	-223	-90	49	12	24	-157	69	60	46	-108	52	55	69	-104	-8	38
Cash decrease	4	8	-1	0	-7	-15	-1	-8	31	8	-31	20	-5	-30	15	15
Other ³	-18	-45	-40	-20	6	-21	-26	-14	-4	-17	-4	-6	2	-9	-7	-0
Cash operating balance, end of period	53	44	45	45	28	44	44	52	21	14	45	25	30	60	45	30
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	2012	2041	1982	2074	2087	2091	1907	2025	1939	1967	1997	2024	2062	2089	2119	2154
Expenditures	1813	1891	2005	2094	1882	1905	1921	1952	1995	2027	2044	2072	2088	2100	2116	2141
Consumption expenditures	492	506	560	596	508	510	514	533	557	571	580	582	598	600	604	606
Defense	322	337	362	380	338	340	343	350	363	365	369	372	381	383	385	387
Nondefense	170	170	198	216	169	171	171	182	194	206	211	210	216	217	219	220
Other spending	1321	1384	1444	1498	1375	1395	1407	1420	1438	1455	1464	1490	1490	1500	1512	1535
Current account surplus	199	150	-22	-20	205	187	-14	73	-56	-60	-47	-47	-26	-11	3	13
Gross investment	96	100	107	112	98	100	102	104	107	109	110	111	112	112	114	114
Current and capital account surplus	102	50	-130	-133	107	87	-116	-31	-163	-168	-157	-158	-138	-123	-111	-101
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-13	-23	-118	-124	17	19	-147	-36	-150	-147	-139	-142	-129	-116	-108	-103
Change in HEB, percent of potential GDP	-8	.1	.9	0	0	-0	2	-1	1	-0	-1	0	-1	-1	-1	-1
Fiscal impetus (FI) percent, calendar year	2	9	21	3	3	3	9	-4	15	5	1	.4	1	-1	.5	-4

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 January 2002 deficit estimates, assuming discretionary spending grows with inflation beginning in FY 2003, are \$21 billion in FY 2002 and \$14 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

Strictly Confidential (FR) January 23, 2002
 Class II FOMC Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

Period ¹	Total ²	Federal government ³	Nonfederal					Memo: Nominal GDP	
			Total ⁴	Households		Business	State and local governments		
				Total	Home mortgages				Consumer credit
<i>Year</i>									
1996	5.4	4.0	5.8	7.0	6.8	8.1	6.2	-0.6	6.0
1997	5.6	0.6	7.3	6.4	6.7	4.7	9.0	5.3	6.2
1998	6.9	-1.4	9.6	8.4	9.2	5.9	11.6	7.2	6.0
1999	6.8	-1.9	9.3	8.6	9.3	7.4	11.3	4.4	6.0
2000	5.0	-8.0	8.5	8.5	8.4	9.6	9.9	2.2	5.3
2001	6.0	-0.2	7.4	8.7	9.8	5.8	5.8	8.4	1.9
2002	4.5	1.3	5.2	5.9	7.8	0.8	4.7	3.8	4.3
2003	4.7	-0.1	5.6	6.5	7.6	3.5	5.2	3.0	5.0
<i>Quarter</i>									
2000:3	4.4	-6.4	7.1	8.1	8.4	8.4	7.0	1.9	3.3
4	4.3	-9.6	7.5	7.4	7.4	8.7	8.4	4.2	3.7
2001:1	5.5	-0.1	6.8	7.8	7.8	10.0	5.4	8.1	4.6
2	5.5	-7.6	8.4	9.3	11.5	4.5	7.5	8.3	2.4
3	6.8	7.7	6.6	8.3	9.7	1.3	5.3	3.2	0.9
4	5.7	-0.5	7.0	8.3	8.9	6.9	4.5	12.8	-0.1
2002:1	4.6	2.5	5.0	5.9	7.9	0.0	4.2	4.4	3.3
2	3.9	-1.7	5.1	5.7	7.7	-0.1	4.6	4.5	4.1
3	5.2	5.6	5.1	5.7	7.3	1.2	4.8	3.5	5.0
4	4.1	-1.1	5.1	5.8	7.3	2.0	4.8	2.6	4.7
2003:1	5.5	5.2	5.5	6.2	7.5	2.8	5.2	3.0	5.2
2	4.4	-1.2	5.5	6.3	7.4	3.3	5.1	3.0	4.8
3	4.4	-1.5	5.5	6.4	7.4	3.8	5.1	2.9	4.9
4	4.1	-3.0	5.6	6.5	7.4	4.2	5.1	2.9	5.0

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2001:Q3 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.
2. On a monthly average basis, total debt is projected to grow 5.9 percent in 2001, 4.7 percent in 2002, and 4.6 percent in 2003.
3. On a monthly average basis, federal debt is projected to grow -1.3 percent in 2001, 1.3 percent in 2002, and 0.1 percent in 2003.
4. On a monthly average basis, nonfederal debt is projected to grow 7.5 percent in 2001, 5.4 percent in 2002, and 5.6 percent in 2003.

2.6.3 FOF

Strictly Confidential (FR)
Class II FOMIC

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

January 23, 2002

Category	Seasonally adjusted annual rates													
	Calendar year				2001				2002				2003	
	2000	2001	2002	2003	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	722.8	1042.6	926.3	997.2	980.9	946.0	1157.0	1086.3	929.9	821.5	1094.9	859.0	1054.0	940.3
2 Net equity issuance	-150.6	-55.4	47.5	50.0	-25.6	-72.6	-118.5	-5.1	38.0	48.0	62.0	42.0	50.0	50.0
3 Net debt issuance	873.4	1098.0	878.8	947.2	1006.5	1018.6	1275.5	1091.4	891.9	773.5	1032.9	817.0	1004.0	890.3
<i>Borrowing sectors</i>														
Nonfinancial business														
4 Financing gap ¹	286.9	202.7	193.0	247.1	284.9	218.9	184.7	122.4	190.9	182.9	192.1	206.2	237.9	256.2
5 Net equity issuance	-150.6	-55.4	47.5	50.0	-25.6	-72.6	-118.5	-5.1	38.0	48.0	62.0	42.0	50.0	50.0
6 Credit market borrowing	587.2	379.0	324.2	377.5	352.6	494.7	360.6	308.1	288.5	323.5	338.0	346.5	375.7	379.2
Households														
7 Net borrowing ²	554.9	617.6	458.0	531.7	554.4	671.2	616.2	628.7	457.9	447.0	457.3	469.8	516.6	546.8
8 Home mortgages	382.6	485.3	421.7	446.0	387.8	581.0	502.3	470.2	431.2	426.2	412.2	417.2	439.2	452.7
9 Consumer credit	139.0	92.4	13.5	60.3	159.9	73.6	21.3	115.0	0.0	-1.0	21.0	34.0	51.5	69.0
10 Debt/DPI (percent) ³	97.1	100.0	102.7	104.8	98.5	99.7	99.0	102.6	101.9	102.4	102.9	103.4	104.1	105.4
State and local governments														
11 Net borrowing	27.2	106.9	52.6	42.8	103.9	108.7	43.0	172.2	61.4	62.4	49.4	37.4	42.8	42.8
12 Current surplus ⁴	191.9	187.8	197.6	211.0	189.8	192.9	181.1	187.4	189.2	194.2	202.1	205.0	207.6	214.4
Federal government														
13 Net borrowing	-295.9	-5.6	44.1	-4.8	-4.3	-256.0	255.7	-17.6	84.1	-59.4	188.2	-36.6	68.9	-78.5
14 Net borrowing (quarterly, n.s.a.)	-295.9	-5.6	44.1	-4.8	23.7	-157.4	68.6	59.5	45.8	-108.2	51.8	54.8	-34.2	29.4
15 Unified deficit (quarterly, n.s.a.)	-254.8	-92.3	39.1	-23.5	22.5	-193.7	41.9	37.1	72.2	-117.7	16.1	68.4	-76.3	52.8
<i>Depository institutions</i>														
16 Funds supplied	445.3	192.3	281.4	306.1	228.5	198.8	290.5	51.5	211.0	285.0	318.0	311.8	303.6	308.6
Memo (percentage of GDP)														
17 Domestic nonfinancial debt ⁵	181.0	185.0	189.5	189.0	181.9	183.3	185.7	188.6	189.5	189.6	189.5	189.4	189.2	189.0
18 Domestic nonfinancial borrowing	8.8	10.8	8.4	8.6	9.9	10.0	12.5	10.7	8.7	7.4	9.8	7.7	9.2	8.0
19 Federal government ⁶	-3.0	-0.1	0.4	-0.0	-0.0	-2.5	2.5	-0.2	0.8	-0.6	1.8	-0.3	0.6	-0.7
20 Nonfederal	11.8	10.8	8.0	8.7	10.0	12.5	10.0	10.8	7.8	8.0	8.0	8.0	8.6	8.7

Note. Data after 2000:Q3 are staff projections.

1. For corporations: Excess of capital expenditures over U.S. internal funds.

2. Includes change in liabilities not shown in lines 8 and 9.

3. Average debt levels in the period (computed as the average of period-end debt positions) divided by disposable personal income.

2.6.4 FOF

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.

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

Indicator	2001		Projection				
	H1	Q3	2001 Q4	2002			2003
				Q1	Q2	H2	
Foreign output	0.1	-0.2	-0.4	0.5	1.7	2.8	3.3
<i>December GB</i>	<i>-0.1</i>	<i>-0.3</i>	<i>-0.7</i>	<i>0.5</i>	<i>1.7</i>	<i>2.8</i>	<i>3.3</i>
Foreign CPI	2.5	1.8	0.4	1.5	2.2	2.2	2.2
<i>December GB</i>	<i>2.5</i>	<i>1.8</i>	<i>1.6</i>	<i>1.7</i>	<i>2.0</i>	<i>2.2</i>	<i>2.2</i>

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

Oil prices. During the latter half of December, the spot price of West Texas Intermediate (WTI) moved higher as OPEC signaled its intention to restrain oil production further. On December 28, OPEC announced a cut of 1-1/2 million barrels per day in its production target, following pledges from several non-OPEC producers (Angola, Mexico, Norway, Oman, and Russia) to reduce their oil exports by close to 1/2 million barrels per day. The modest run-up in oil prices was brief, and by mid-January the spot price of WTI had fallen \$3, to below \$19 per barrel. Unusually warm weather, combined with weaker economic activity and reduced air travel, has damped demand and helped raise U.S. crude oil inventories above seasonal norms. We project that the spot price of WTI, in line with recent quotes from futures markets, will increase gradually to about \$20.75 by the end of the forecast period. Compared with the previous Greenbook, this projection is down about \$1 per barrel in the near term and roughly \$0.60 at the end of 2003.

International financial markets. The foreign exchange value of the dollar moved higher on balance during the intermeeting period, with the staff's broad nominal index showing an increase of about 1-3/4 percent. The dollar appreciated over 6 percent against the yen, bringing its rise from its mid-September low against that currency to about 15 percent. Large injections of liquidity by the Bank of Japan reflected in a doubling of balances held at the BOJ may have weighed on the yen, and Japanese officials made a number of public statements indicating that yen depreciation would not be resisted. The weakening of the yen may have pressured other currencies, particularly the Korean won and the Taiwan dollar, which fell against the U.S. dollar 4 percent and 1-3/4 percent, respectively. The U.S. dollar also firmed 2 percent against the Canadian dollar, but it was little changed against the euro and sterling. The

the second quarter but to show only a small increase over the rest of the forecast period, in line with the moderate inflation 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	2001		Projection				
	H1	Q3	2001 Q4	2002			2003
				Q1	Q2	H2	
<i>Exports</i>							
Core goods	-0.5	-1.5	-3.8	-1.6	0.9	1.3	0.8
<i>Imports</i>							
Non-oil core goods	-1.5	-6.2	-3.8	-1.5	0.1	1.4	1.5
Oil (dollars per barrel)	24.21	23.51	18.55	16.71	17.27	17.77	18.29

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

Trade in goods and services. In November, the U.S. trade deficit in goods and services was \$27.9 billion, somewhat smaller than in October. For October-November combined, the deficit was \$343 billion at a seasonally adjusted annual rate, about \$10 billion less than in the third quarter (after a one-time, large, estimated insurance payment by foreign insurers related to the events of September 11 is excluded from the third-quarter figure), as imports declined more than exports.

Imports of goods and services declined 0.8 percent in November. This decrease followed a strong rebound in October from the September low. Even so, the level of imports in November was nearly 6 percent less than the average for July-August. We estimate that in December imports picked up somewhat, leaving the rate of decline in NIPA real imports of goods and services for the fourth quarter significantly less negative than that in the third quarter. As the recovery in U.S. activity takes hold in 2002, imports of goods and services should rise, beginning in the current quarter. Specifically, we project that imports will grow at an annual rate of 9-3/4 percent in 2002 and 10 percent in 2003. The lagged effects on relative prices of the dollar's appreciation over the past two years should provide stimulus to imports in the near term, but the

primary boost throughout the forecast period derives from revived U.S. growth and the high U.S. elasticity of import demand.

Exports of goods and services rose 0.7 percent in November. This rise followed a small increase in October from the September low. The level of goods and services exports in November was still 6 percent less than the average for July-August. Recent data suggest that the rates of decline in exports of high-tech goods and other capital equipment have moderated; declines in these categories were particularly pronounced as global investment weakened. We estimate that most categories of goods exports stopped declining or rose slightly in December. Even so, we estimate that fourth-quarter NIPA real exports of goods and services declined 12 percent at an annual rate, the result of a plunge in services receipts and weaker goods exports. Looking ahead, we expect export growth to turn positive in the current quarter as services receipts continue to recover (particularly travel and passenger fares) and as goods exports benefit from some firming in foreign demand. As foreign growth recovers, exports of goods and services should rebound, growing 3-1/2 percent in 2002 and picking up to 7-1/2 percent in 2003.

We estimate that in the fourth quarter the U.S. current account deficit as a share of GDP returned to 4-1/4 percent from the smaller figure recorded in the third quarter. We expect that the current account deficit as a share of GDP will rise to about 5 percent in 2003.

Summary of Staff Projections for Trade in Goods and Services

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

Measure	2001		Projection				
	H1	Q3	2001 Q4	2002			2003
				Q1	Q2	H2	
Real exports	-6.7	-18.8	-11.6	4.3	0.8	4.4	7.5
<i>December GB</i>	-6.7	-17.7	-3.6	-2.1	1.2	4.9	6.9
Real imports	-6.7	-13.0	-3.7	9.5	10.6	9.5	10.0
<i>December GB</i>	-6.7	-12.9	2.6	3.1	9.2	9.8	9.6

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

Alternative Simulation 1:**Argentine Contagion**

(Percent change from previous period, annual rate)

Indicator and simulation	2002		2003	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	2.0	3.4	3.5	3.7
Fixed real rate	1.9	3.2	3.4	3.6
Taylor rule	1.9	3.3	3.5	3.7
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	1.4	1.3	1.1	1.1
Fixed real rate	1.4	1.2	1.0	1.0
Taylor rule	1.4	1.2	1.1	1.1

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

Alternative Simulation 2:**Currency and Domestic Demand Shocks in Japan**

(Percent change from previous period, annual rate)

Indicator and simulation	2002		2003	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	2.0	3.4	3.5	3.7
Fixed real rate	1.8	3.0	3.2	3.3
Taylor rule	1.8	3.1	3.5	3.7
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	1.4	1.3	1.1	1.1
Fixed real rate	1.4	1.1	0.9	0.9
Taylor rule	1.4	1.2	0.9	1.0

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

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

Measure and country	1995	1996	1997	1998	1999	2000	2001	2002	2003
-----Projected-----									
REAL GDP (1)									

Total foreign	2.2	4.0	4.2	1.6	4.7	4.0	-0.1	1.9	3.3
Industrial Countries	2.0	2.7	3.5	2.6	3.9	3.1	0.3	1.7	2.9
of which:									
Canada	1.5	2.6	4.5	4.2	5.1	3.5	0.4	2.3	3.4
Japan	2.5	3.7	0.5	-1.3	0.6	2.3	-1.1	-0.8	1.1
United Kingdom	2.0	2.9	3.6	2.6	2.7	2.7	1.8	2.2	2.7
Euro Area (2)	1.5	1.6	3.1	2.0	3.6	2.8	0.6	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	2.5	6.0	5.2	-0.1	6.2	5.4	-0.8	2.3	4.0
Asia	7.0	6.6	4.8	-1.9	8.6	6.1	-0.8	2.9	4.8
Korea	7.5	6.4	3.4	-5.2	13.8	5.2	2.0	2.0	4.6
China	10.4	5.3	8.7	9.5	4.1	8.0	7.5	7.4	7.5
Latin America	-3.8	6.0	6.0	1.2	4.4	4.8	-1.0	1.8	3.3
Mexico	-7.1	7.1	6.7	2.8	5.5	5.2	-1.2	2.1	3.7
Brazil	-0.8	2.7	2.3	-1.1	4.2	4.3	0.2	2.1	2.6
CONSUMER PRICES (3)									

Industrial Countries	1.3	1.5	1.5	1.0	1.2	1.8	0.9	0.9	0.9
Of which:									
Canada	2.0	2.0	1.0	1.1	2.3	3.1	1.1	1.7	1.6
Japan	-0.8	0.2	2.0	0.7	-1.2	-1.2	-1.3	-1.2	-1.2
United Kingdom (4)	2.9	3.2	2.7	2.5	2.2	2.1	2.0	2.0	2.4
Euro Area (2)	NA	NA	1.5	0.8	1.5	2.7	2.2	1.4	1.4
Germany	1.4	1.3	1.5	0.3	1.1	2.5	1.7	0.8	0.9
Developing Countries	16.9	11.1	6.8	9.0	4.6	4.2	2.9	3.2	3.9
Asia	6.4	4.8	2.7	4.4	0.2	1.8	1.1	2.2	3.3
Korea	4.3	5.0	4.9	5.9	1.2	2.8	3.4	1.9	2.7
China	11.1	6.8	0.9	-1.2	-0.9	0.9	-0.1	2.4	3.8
Latin America	42.0	25.8	15.5	15.4	12.5	8.4	5.4	5.3	4.7
Mexico	48.7	28.0	17.0	17.4	13.6	8.8	5.2	4.4	4.3
Brazil	21.5	9.6	4.6	1.5	8.2	6.1	7.5	6.3	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.

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

Measure and country	2001				2002				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	----- Quarterly changes at an annual rate -----											
Total foreign	0.9	-0.8	-0.2	-0.4	0.5	1.7	2.6	2.9	3.2	3.3	3.3	3.4
Industrial Countries	2.0	-0.2	-0.1	-0.4	0.4	1.5	2.2	2.7	2.9	2.9	2.9	2.8
of which:												
Canada	1.7	0.6	-0.8	-0.1	0.7	2.2	2.7	3.5	3.5	3.5	3.3	3.3
Japan	4.1	-4.8	-2.2	-1.6	-1.5	-1.3	-0.4	0.1	0.7	0.9	1.4	1.4
United Kingdom	2.9	2.0	1.8	0.6	1.5	2.3	2.5	2.5	2.7	2.7	2.7	2.7
Euro Area (2)	2.3	0.3	0.5	-0.7	0.0	1.1	2.3	2.7	2.9	2.9	2.8	2.7
Germany	1.6	-0.1	-0.6	-1.5	-0.5	0.9	2.3	2.5	2.8	2.8	2.6	2.6
Developing Countries	-0.8	-1.5	-0.4	-0.4	0.8	2.1	3.1	3.3	3.7	3.9	4.1	4.2
Asia	-0.9	-2.9	0.2	0.2	1.4	2.5	3.6	4.0	4.5	4.7	5.0	5.0
Korea	1.2	1.8	5.1	0.0	1.0	1.5	2.5	3.0	4.0	4.5	5.0	5.0
China	8.2	7.7	7.1	7.1	7.0	7.1	7.6	7.8	7.5	7.5	7.5	7.5
Latin America	-1.2	-0.7	-1.0	-1.2	0.1	1.7	2.8	2.6	3.1	3.3	3.4	3.5
Mexico	-1.8	-1.0	-0.9	-1.0	0.3	2.0	3.3	3.0	3.5	3.7	3.8	3.9
Brazil	0.9	-0.5	0.5	-0.0	0.8	2.2	2.7	2.7	2.6	2.6	2.6	2.6
CONSUMER PRICES (3)	----- Four-quarter changes -----											
Industrial Countries	1.7	2.2	1.7	0.9	0.7	0.2	0.3	0.9	0.9	0.9	0.9	0.9
of which:												
Canada	2.8	3.6	2.7	1.1	1.0	0.2	0.6	1.7	1.8	1.7	1.6	1.6
Japan	-1.0	-1.2	-1.1	-1.3	-1.6	-1.4	-1.7	-1.2	-1.2	-1.2	-1.2	-1.2
United Kingdom (4)	1.9	2.3	2.4	2.0	2.0	1.7	1.7	2.0	2.3	2.3	2.4	2.4
Euro Area (2)	2.5	3.1	2.7	2.2	2.0	1.3	1.3	1.4	1.4	1.4	1.4	1.4
Germany	2.4	3.2	2.4	1.7	1.2	0.5	0.7	0.8	0.9	0.9	0.9	0.9
Developing Countries	3.8	4.1	3.5	2.9	3.1	2.9	3.0	3.2	3.7	3.8	3.9	3.9
Asia	1.8	2.4	1.9	1.1	1.2	1.3	1.7	2.2	2.7	3.0	3.2	3.3
Korea	4.2	5.3	4.3	3.4	2.6	1.6	1.2	1.9	2.3	2.4	2.5	2.7
China	0.6	1.6	0.8	-0.1	0.4	0.8	1.6	2.4	2.7	3.1	3.5	3.8
Latin America	7.2	6.8	6.0	5.4	5.9	5.7	5.5	5.3	5.6	5.2	4.9	4.7
Mexico	7.5	6.9	6.0	5.2	5.5	5.0	4.7	4.4	4.9	4.7	4.5	4.3
Brazil	6.2	7.1	6.6	7.5	8.0	8.0	7.2	6.3	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.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1995	1996	1997	1998	1999	2000	----- 2001	Projected 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	-0.1	-0.9	-0.6
Exports of G&S	1.0	1.1	1.0	0.3	0.5	0.8	-1.2	0.3	0.7
Imports of G&S	-0.6	-1.3	-1.7	-1.3	-1.5	-1.6	1.1	-1.2	-1.3
	Percentage change, Q4/Q4								
Exports of G&S	9.7	9.8	8.5	2.3	4.5	7.0	-11.1	3.4	7.5
Services	8.8	8.9	1.4	2.9	1.9	4.1	-9.2	4.9	5.1
Computers	39.1	21.6	25.8	8.1	13.8	23.1	-23.0	25.1	32.6
Semiconductors	79.6	44.6	21.3	9.1	34.6	26.9	-32.0	22.7	34.2
Other Goods 1/	4.6	7.3	9.8	1.3	3.2	5.7	-9.0	0.1	5.0
Imports of G&S	5.0	11.2	14.3	10.8	11.5	11.3	-7.6	9.8	10.0
Services	5.5	5.3	14.0	8.5	2.8	12.2	-15.5	10.9	5.3
Oil	2.4	7.8	3.9	4.1	-3.4	12.4	-0.5	5.5	4.0
Computers	35.0	17.8	33.0	25.8	25.1	13.6	-13.1	25.1	32.6
Semiconductors	92.4	56.7	32.9	-8.7	33.5	22.5	-50.0	26.2	34.2
Other Goods 2/	-1.2	10.4	12.7	11.5	12.9	10.4	-4.4	8.4	9.2
	Billions of chained 1996 dollars								
Net Goods & Services	-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-412.8	-498.0	-591.1
Exports of G&S	808.2	874.2	981.5	1002.4	1034.8	1133.2	1081.3	1040.1	1098.7
Imports of G&S	886.6	963.1	1094.8	1223.5	1351.7	1532.3	1494.1	1538.0	1689.8
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-109.9	-120.9	-139.8	-217.5	-324.4	-444.7	-419.4	-464.2	-555.4
Current Acct as Percent of GDP	-1.5	-1.5	-1.7	-2.5	-3.5	-4.5	-4.1	-4.4	-5.1
Net Goods & Services (BOP)	-96.4	-101.8	-107.8	-166.8	-261.8	-375.7	-348.7	-394.2	-481.5
Investment Income, Net	25.0	25.5	13.6	-1.2	-8.5	-9.6	-13.1	-10.2	-13.3
Direct, Net	64.9	69.4	72.4	66.3	67.0	81.2	94.6	90.3	88.3
Portfolio, Net	-39.9	-43.9	-58.8	-67.5	-75.6	-90.9	-107.6	-100.5	-101.6
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				1999				2000			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	-1.8	-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.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2001				2002				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	0.6	-0.1	-0.2	-0.7	-0.8	-1.2	-1.0	-0.5	-0.8	-0.8	-0.6	-0.2
Exports of G&S	-0.1	-1.4	-2.1	-1.2	0.4	0.1	0.3	0.6	0.4	0.7	0.8	1.0
Imports of G&S	0.8	1.3	1.9	0.5	-1.2	-1.3	-1.3	-1.1	-1.2	-1.4	-1.4	-1.2
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	-1.2	-11.9	-18.8	-11.6	4.3	0.8	2.8	6.0	4.3	7.3	8.1	10.5
Services	1.8	2.4	-17.2	-21.4	12.3	1.0	2.8	3.9	4.9	5.1	5.3	5.3
Computers	-5.8	-41.1	-24.3	-16.1	23.9	23.9	26.3	26.3	31.1	32.3	33.6	33.6
Semiconductors	-22.4	-56.1	-46.6	17.0	17.0	21.6	26.2	26.2	31.1	33.5	36.0	36.0
Other Goods 1/	-0.1	-10.8	-16.8	-7.6	-1.4	-2.0	-0.3	4.4	0.5	4.7	5.7	9.5
Imports of G&S	-5.0	-8.4	-13.0	-3.7	9.5	10.6	10.3	8.6	9.5	11.0	10.3	9.1
Services	4.9	-2.0	-29.1	-30.0	28.8	4.8	6.5	5.3	5.2	5.2	5.3	5.4
Oil	27.1	4.3	-26.7	0.9	-4.1	28.9	10.9	-9.4	-5.0	23.9	11.0	-10.4
Computers	-11.0	-29.1	-24.9	20.4	21.6	21.6	26.3	31.1	31.1	32.3	33.6	33.6
Semiconductors	-31.8	-75.0	-58.4	-12.2	26.2	26.2	26.2	26.2	31.1	33.5	36.0	36.0
Other Goods 2/	-8.4	-4.8	-4.5	0.5	5.7	9.3	9.6	8.9	9.6	9.2	9.0	9.0
	Billions of chained 1996 dollars, s.a.a.r.											
Net Goods & Services	-404.5	-406.7	-411.0	-429.0	-451.5	-487.2	-518.0	-535.1	-560.4	-584.6	-604.9	-614.4
Exports of G&S	1144.1	1108.3	1052.2	1020.4	1031.1	1033.2	1040.3	1055.6	1066.9	1085.7	1107.1	1135.1
Imports of G&S	1548.6	1515.0	1463.2	1449.4	1482.7	1520.4	1558.3	1590.8	1627.3	1670.4	1712.0	1749.5

Billions of dollars, s.a.a.r.

US CURRENT ACCOUNT BALANCE	-447.1	-430.3	-378.4	-421.6	-418.3	-449.7	-479.8	-508.9	-519.4	-543.4	-566.4	-592.4
Current Account as % of GDP	-4.4	-4.2	-3.7	-4.1	-4.1	-4.3	-4.6	-4.8	-4.8	-5.0	-5.1	-5.3
Net Goods & Services (BOP)	-380.1	-362.2	-308.8	-343.6	-352.2	-383.7	-412.4	-428.4	-452.5	-475.3	-494.4	-503.6
Investment Income, Net	-14.6	-14.6	-14.9	-8.1	-10.2	-9.5	-11.0	-10.1	-9.5	-10.7	-14.5	-18.4
Direct, Net	90.7	93.7	96.2	97.7	93.7	91.9	88.2	87.3	88.0	88.7	88.1	88.6
Portfolio, Net	-105.3	-108.3	-111.0	-105.8	-103.9	-101.4	-99.2	-97.4	-97.4	-99.4	-102.6	-107.0
Other Inc. & Transfers, Net	-52.4	-53.5	-54.7	-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.

Part 2

January 23, 2002

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

January 23, 2002

Recent Developments

November. The strong pace of production in December likely was a response by the automakers to the surprisingly robust sales in the preceding two months.

Production of Domestic Autos and Trucks

(Millions of units at an annual rate except as noted; FRB seasonal basis)

Item	2001		2002	2001		2002	
	Q3	Q4	Q1 ¹	Nov.	Dec.	Jan. ¹	Feb. ¹
U.S. production	11.6	11.6	11.9	11.8	12.3	12.4	11.9
Autos	4.7	4.8	5.3	4.9	5.1	5.3	5.4
Trucks	6.9	6.8	6.7	6.9	7.2	7.1	6.5
Days' supply ²							
Autos	49.1	38.3	n.a.	37.7	47.4	n.a.	n.a.
Light trucks ³	74.0	52.3	n.a.	55.1	57.6	n.a.	n.a.
Inventories ⁴	2.69	2.27	n.a.	2.24	2.27	n.a.	n.a.

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

1. Production rates reflect Ward's Communications' latest estimates for November and schedules for December and the first quarter.

2. Quarterly average calculated using end-of-period stocks and average reported sales.

3. Excludes medium and heavy (classes 3-8) trucks.

4. End-of-period stocks; excludes medium and heavy (class 3-8) trucks.

n.a. Not available.

Another relatively bright spot in industrial production was the output of high-tech goods, which rose 0.3 percent in December. The increase was led by a pickup in the production of semiconductors; output of communications equipment continued to slide, while output of computers posted a moderate gain of 0.7 percent. For the fourth quarter as a whole, production of high-tech goods ticked up slightly, the first quarterly increase in this category in a year and a sharp reversal from the double-digit declines recorded in each of the previous three quarters.

Outside of high tech and motor vehicles, production cutbacks were widespread last month, with the most pronounced weakness evident in consumer nondurables and business equipment. Within business equipment, the largest declines were in commercial aircraft and aircraft equipment, industrial machinery, and farm machinery and equipment. Among the consumer durables categories not previously discussed, production of appliances, furniture, and carpeting rose for the second month in a row.

III-4

GROSS ISSUANCE OF SECURITIES BY U.S. CORPORATIONS

(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1999	2000	H1	Q3	2001 Q4	Nov.	Dec.	2002 Jan. ^e
All U.S. corporations	89.4	78.5	123.6	93.7	120.1	123.3	97.7	77.6
Stocks ¹	11.0	11.2	10.5	7.3	14.4	12.6	14.7	4.2
Bonds	78.4	67.3	113.1	86.5	105.7	110.7	83.0	73.4
<u>Nonfinancial corporations</u>								
Stocks ¹	9.2	9.9	7.5	3.3	7.6	7.6	7.5	2.2
Initial public offerings	4.2	4.4	3.2	1.0	0.9	0.6	1.6	0.6
Seasoned offerings	5.0	5.5	4.2	2.3	6.7	7.0	5.9	1.6
Bonds ²	24.5	20.2	43.2	26.5	35.9	42.1	21.9	21.4
Investment grade ³	13.9	12.0	28.9	20.9	27.0	33.1	12.2	16.0
Speculative grade ³	7.5	4.5	11.9	3.8	7.9	7.3	8.7	5.4
Other (Sold Abroad/Unrated)	3.1	3.7	2.4	1.7	1.1	1.7	0.9	0.0
<u>Financial corporations</u>								
Stocks ¹	1.8	1.4	3.0	4.0	6.8	5.0	7.1	2.0
Bonds	53.9	47.1	69.9	60.0	69.8	68.6	61.2	52.0
<u>Memo:</u>								
Net issuance of commercial paper, nonfinancial corporations ⁴	3.6	4.5	-14.5	-6.2	3.1	-2.4	9.2	-3.0
Change in C&I loans at commercial banks ⁴	4.7	7.6	-2.7	-3.0	-15.8	-12.2	-16.7	-5.0

Note. Components may not sum to totals because of rounding. These data include speculative-grade bonds issued privately under Rule 144A. All other private placements are excluded. Total reflects gross proceeds rather than par value of original discount bonds.

1. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.

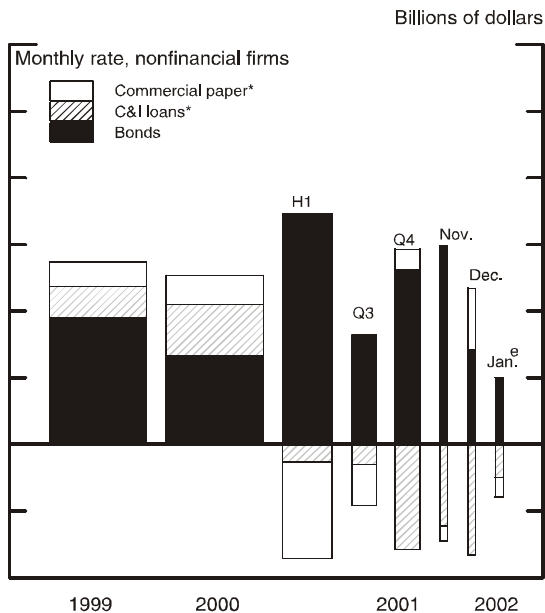
2. Excludes mortgage-backed and asset-backed bonds.

3. Bonds sold in U.S. categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's.

4. End-of-period basis, seasonally adjusted.

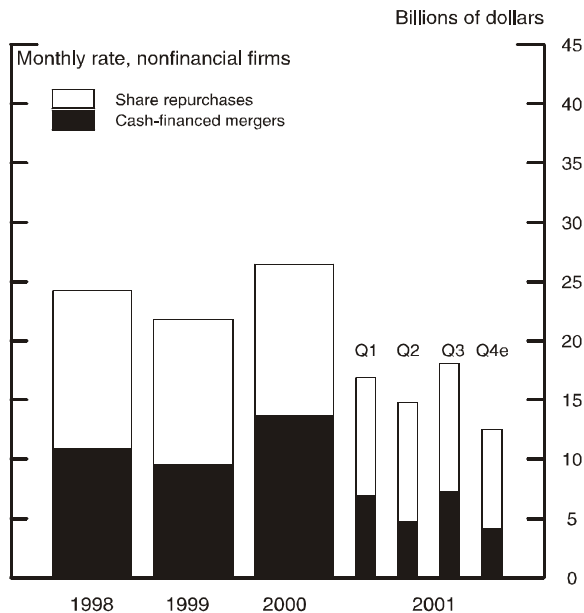
e Staff estimate.

Components of Net Debt Financing



* Seasonally adjusted.
e Staff estimate.

Equity Retirements



e Staff estimate.

Treasury Financing
(Billions of dollars)

Item	2001					2002
	Q2	Q3	Q4	Nov.	Dec.	Jan.(e)
Total surplus, deficit (-)	193.7	-41.9	-37.1	-54.3	26.6	n.a.
Means of financing deficit						
Net borrowing	-157.4	68.6	59.5	72.0	-8.8	-24.3
Nonmarketable	6.2	-5.7	10.5	2.6	2.1	-1.7
Marketable	-163.6	74.4	49.0	69.4	-10.9	-22.6
Bills	-92.1	114.8	73.3	77.1	-5.1	-26.5
Coupons ¹	-62.3	-32.6	-15.8	-5.9	-1.5	3.9
Debt buybacks	-9.2	-7.7	-8.5	-1.7	-4.2	0.0
Decrease in cash balance	-15.4	-.5	-8.1	-2.9	-21.8	-24.8
Other ²	-20.9	-26.2	-14.3	-14.9	4.1	n.a.
MEMO						
Cash balance, end of period	43.7	44.2	52.4	30.5	52.4	77.1

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

1. Does not include Treasury debt buybacks.

2. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.

e. Estimated.

n.a. Not available.

Net Borrowing of Government-Sponsored Enterprises
(Billions of dollars)

Agency	2001					2002
	Q2	Q3	Q4	Nov.	Dec.	Jan.(e)
FHLBs	-7.7	19.2	n.a.	-.9	n.a.	n.a.
Freddie Mac	35.4	37.7	n.a.	6.2	n.a.	n.a.
Fannie Mae	35.7	24.7	36.5	11.3	26.0	n.a.
Farm Credit Banks	2.2	.1	.3	-.5	.9	n.a.
Sallie Mae	.4	1.7	n.a.	n.a.	n.a.	n.a.
MEMO						
<i>Outstanding noncallable reference and benchmark securities</i>						
Notes and bonds	384.1	411.5	449.9	440.9	449.9	463.4
Bills	278.0	288.5	292.0	287.0	292.0	295.0
Total	662.1	700.0	741.9	727.9	741.9	758.4

NOTE. Excludes mortgage pass-through securities issued by Fannie Mae and Freddie Mac.

c. Estimated

n.a. Not available

State and Local Government Finance

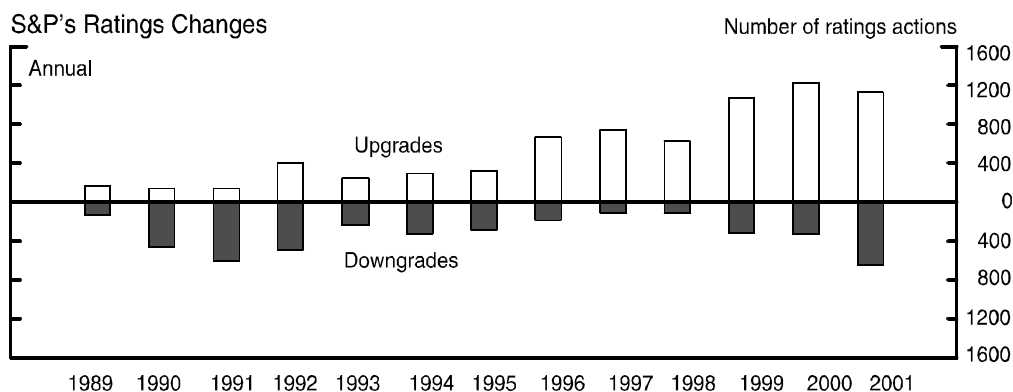
Gross Offerings of Municipal Securities (Billions of dollars; monthly rates, not seasonally adjusted)

	2000	2001	2001				2002
			H1	H2	Nov.	Dec.	Jan. ^e
Long-term ¹	15.0	22.5	21.4	23.7	30.1	28.4	17.1
Refundings ²	2.2	6.5	6.4	6.7	9.1	7.0	4.5
New capital	12.9	16.0	15.0	17.1	21.0	21.4	12.5
Short-term	2.8	4.3	3.7	5.0	2.8	2.4	2.5
Total tax-exempt	17.9	26.9	25.0	28.7	33.0	30.8	19.5
Total taxable	0.7	1.1	1.2	1.0	2.0	0.6	1.0

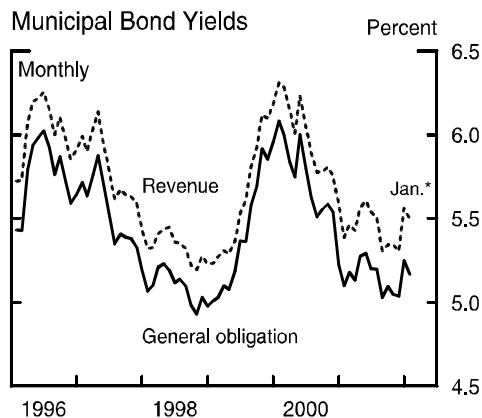
1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

e. Staff estimate based on data through Jan. 18.

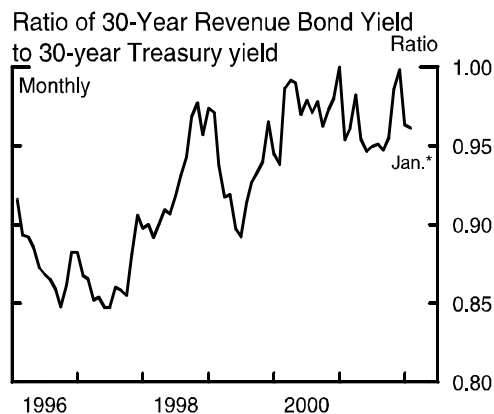


Source: S&P's Credit Week Municipal.



Note. Average of weekly data.

* Data through Jan. 17.



Note. Average of weekly data.

* Data through Jan. 17.

the Bank of England's official target of 2.5 percent. Growth in average earnings dropped to 3.9 percent in November, below the 4.5 percent rate (from a year earlier) that the Bank of England believes to be compatible with its inflation target.

U.K. Economic Indicators

(Percent change from previous period except as noted, s.a.)

Indicator	2001						2002
	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
Industrial production	-1.1	-.8	n.a.	-1.5	-.3	n.a.	n.a.
Retail sales	1.7	1.5	1.3	.2	1.1	-.4	n.a.
Unemployment rate ¹							
Claims-based	3.2	3.1	3.2	3.2	3.2	3.2	n.a.
Labor force survey ²	5.0	5.1	n.a.	5.1	n.a.	n.a.	n.a.
Business confidence ³	-.7	-6.0	-24.0	-23.0	-21.0	-28.0	-13
Retail prices ⁴	2.3	2.4	2.0	2.3	1.8	1.9	n.a.
Producer input prices ⁵	4.4	-3.4	-9.1	-9.0	-10.8	-7.5	n.a.
Average earnings ⁵	4.7	4.4	n.a.	4.4	3.9	n.a.	n.a.

1. Percent.

2. Three-month average centered on month shown.

3. Percentage of firms expecting output to increase in the next four months less percentage expecting output to decrease.

4. Excluding mortgage interest payments. Percent change from year earlier.

5. Percent change from year earlier.

n.a. Not available.

In **Canada**, indicators for the fourth quarter have been mixed. GDP declined 0.3 percent in October from its average third-quarter level, but rebounded somewhat from September's depressed figure. Industrial production followed a similar pattern in October, partially recovering from September's steep fall but remaining 1.4 percent below the third-quarter average. In November merchandise exports increased 1.3 percent from October, ending a seven-month string of declines. Imports fell slightly, reaching a level last seen in September 1999. Manufacturing shipments increased 1.7 percent in November, ending a five-month period of negative or flat manufacturing sector indicators. Encouraged by local "zero-percent financing" incentives, motor vehicle sales surged 8.5 percent in November, with preliminary industry data indicating further increases in December. Retail sales excluding motor vehicles increased 1.1 percent in October, more than reversing September's fall. In November, however, the large increase in auto sales masked a 0.6 percent decline in non-

January 25, 2002

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

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

CBO's January 2002 Baseline Unified Budget Surplus Projection

(Billions of dollars, effect on surplus, fiscal years)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-2011
Surplus	-21	-14	54	103	128	166	202	250	293	439	1602
Change from January 2001	-333	-373	-343	-330	-377	-406	-433	-460	-502	-450	-4008
Legislative	-81	-91	-158	-186	-238	-268	-293	-317	-355	-317	-2420
Economic	-148	-131	-95	-81	-75	-75	-76	-79	-82	-88	-929
Technical	-94	-84	-62	-51	-64	-64	-65	-64	-65	-45	-660

CBO's January 2002 Economic Forecast

(Calendar years)

	2001	2002	2003		2004-7	2008-11
					---annual average---	
	Year-over-year percent change					
Real GDP	1.0	0.8	4.1		3.3	3.1
GDP price index	2.2	1.4	2.0		2.0	2.0
CPI-U	2.9	1.8	2.5		2.5	2.5
	Percent, annual average					
Unemployment rate	4.8	6.1	5.9		5.2	5.2
Treasury securities						
3-month bill	3.4	2.2	4.5		4.9	4.9
10-year note	5.0	5.0	5.5		5.8	5.8