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November 1, 2002

# CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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## **Supplemental Notes**

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## Supplemental Notes

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### **The Domestic Nonfinancial Economy**

#### **Gross Domestic Product, 2002:Q3 Advance Estimate**

According to the BEA's advance release, real GDP increased at an annual rate of 3.1 percent in the third quarter of 2002 after having risen 1.3 percent in the second quarter. The BEA's estimate of the overall change in real GDP came in as we had expected and matched the average pace recorded over the first half of the year. A slightly slower rate of inventory accumulation last quarter than in the preceding one subtracted 0.1 percentage point from the increase in real GDP; the change in inventory investment contributed significantly to the increase in output in the first and second quarters. Final sales, which were roughly flat in the second quarter, rose at an annual rate of 3.2 percent last quarter; a surge in consumer motor vehicle sales accounts for half of this swing.

Among the components of final demand, real PCE outside of motor vehicles rose at a modest pace in the third quarter. Residential investment declined at an annual rate of 0.8 percent last quarter after a sizable increase over the first half of the year. Business fixed investment ticked up 0.6 percent, as another large decline in investment in structures was roughly offset by a 6.5 percent increase in real spending on equipment and software—the best performance since the second quarter of 2000. Although spending increased for most types of capital equipment last quarter, the pickup in real expenditures on computers and peripheral equipment—at an annual rate of 49 percent—was particularly striking. Federal government consumption and investment increased at an annual rate of 2.9 percent, the slowest pace in a year, while state and local government outlays rose at a 1.2 percent rate, about the same as in the first half. Exports and imports both increased modestly after their surges in the second quarter, but the deceleration was more marked for imports. As a result, net exports made only a small arithmetic deduction from the change in real GDP, after having subtracted 1.4 percentage points in the second quarter. Elsewhere in the accounts, the personal saving rate was 3.7 percent in the third quarter, the same as the first-half average.

#### **Personal Income and Consumer Spending**

Total nominal personal income rose at an annual rate of \$37.1 billion in September, compared with the \$26.2 billion increase in August. The gain in personal income in September largely reflects higher private wages and salaries stemming from an advance in both hours worked and average hourly earnings.<sup>1</sup> Other labor income, farm income, and dividend income continued to rise at the same moderate pace as earlier in the year, while other proprietors' income and

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<sup>1</sup>. The downward revisions to September hours and average hourly earnings in today's employment report imply a downward revision to this income gain (all else equal) in next month's personal income release.

**Real Gross Domestic Product and Related Items**  
(Percent change from previous period at a compound annual rate;  
based on seasonally adjusted data, chain-type quantity indexes)

Item	2002:Q1	2002:Q2	2002:Q3
	Final	Final	Advance
1. Gross Domestic Product	5.0	1.3	3.1
2. Final sales	2.4	-1	3.2
3. Consumer spending	3.1	1.8	4.2
4. Durables	-6.3	2.0	22.7
5. Nondurables	7.9	-1	1.3
6. Services	2.9	2.7	2.3
7. Business fixed investment	-5.8	-2.4	.6
8. Nonresidential structures	-14.2	-17.6	-16.0
9. Equipment and software	-2.7	3.3	6.5
10. Residential investment	14.2	2.7	-.8
11. Federal government	7.4	7.5	2.9
12. State and local government	4.6	-1.7	1.2
13. Exports of goods and services	3.5	14.3	2.1
14. Imports of goods and services	8.5	22.2	2.5
<i>ADDENDA:</i>			
15. Inventory investment <sup>1</sup>	-28.9	4.9	1.9
16. Net exports of goods and services <sup>1</sup>	-446.6	-487.4	-491.2
17. Nominal GDP	6.5	2.5	4.3
18. GDP price index	1.3	1.2	1.1
19. PCE price index	1.1	2.7	1.9
20. Excluding food and energy	1.4	1.9	1.9
21. Profit share, excluding FR banks <sup>2</sup>	7.5	7.3	n.a.
22. Real disposable personal income	14.5	3.6	2.7
23. Personal saving rate (percent)	3.5	4.0	3.7

1. Level, billions of chained (1996) dollars.

2. Economic profits as a share of GNP.

n.a. not available.

**Retail and Food Services Sales**  
(Percent change; seasonally adjusted)

Expenditure	2002				
	Q2	Q3	July	Aug.	Sept.
Total sales	1.1	1.8	1.2	.6	-1.2
Previous estimate	1.1	...	1.1	.8	...
Retail control <sup>1</sup>	.9	.5	.2	.2	-.2
Previous estimate	.9	...	.2	.3	...
GAF <sup>2</sup>	.3	.2	-.5	.6	-.2
Other retailers <sup>3</sup>	1.3	.6	.6	.1	-.2

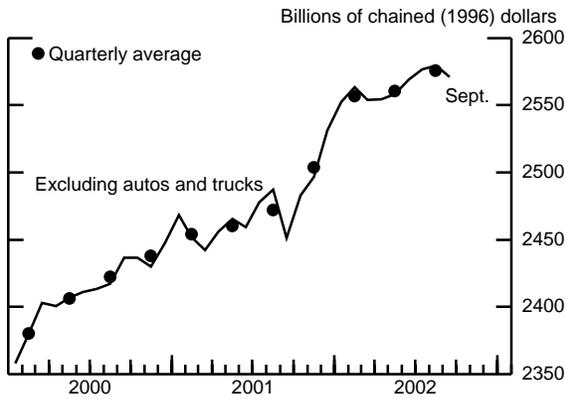
1. Total retail trade and food services less sales at building material and supply stores and automobile and other motor vehicle dealers.

2. Furniture and home furnishing stores; electronics and home appliance stores; clothing and accessories stores; sporting goods, hobby, book and music stores; and general merchandise stores.

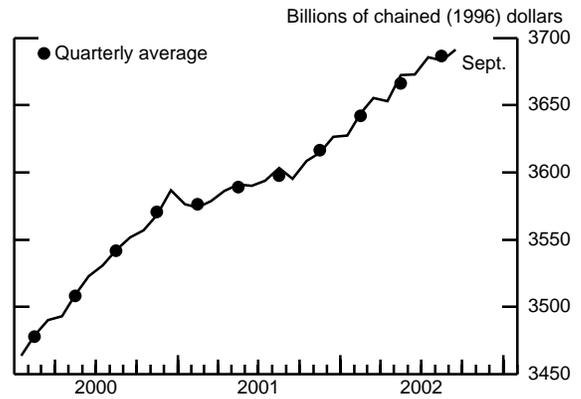
3. Health and personal care stores, food and beverage stores, electronic shopping and mail order houses, miscellaneous other retailers, food services and gasoline stations.

... Not applicable.

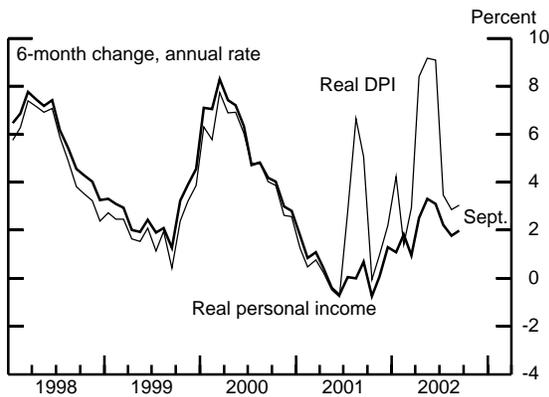
Real PCE Goods



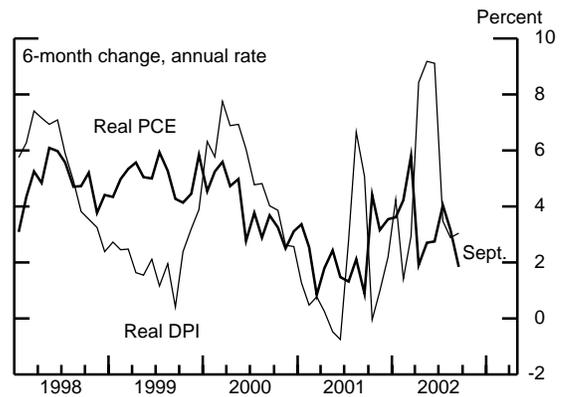
Real PCE Services



Real Household Income



Real PCE and Real DPI



income from transfer payments surged in September. Rental income declined for the third straight month owing to fees associated with the surge in mortgage refinancing activity; interest income also continued to be a drag. With personal tax and nontax payments essentially flat, disposable personal income rose at an annual rate of \$36.8 billion in September. In real terms, disposable personal income rose at an annual rate of \$18.3 billion, or 0.3 percent at a monthly rate.

Real personal consumption expenditures declined 0.6 percent in September owing to a significant contraction in spending on motor vehicles. Among other durable goods, purchases of hand tools and computers picked up noticeably, but spending on home furnishings declined. Real spending on nondurable goods also fell last month, with broad-based weakness that included further declines in outlays for food and clothing. Spending on services advanced a bit, as increased spending on electricity outweighed reduced spending on airline travel and hotels and motels.

The increase in real disposable income combined with the decline in personal consumption expenditures led to a 0.8 percentage point jump in the personal saving rate, to 4.2 percent.

### **Labor Market Developments**

Today's Employment Situation Report indicated that the labor market remained weak in October. After having posted very modest gains from May through August, private employment on nonfarm payrolls fell 29,000 in October after a decline of 17,000 in September.<sup>2</sup> Average weekly hours of production or nonsupervisory workers ticked back down to 34.1 hours in October, and the unemployment rate rose to 5.7 percent, retracing September's decline.

Employment in manufacturing and related industries dropped again last month. Manufacturers shed 49,000 jobs in October, and the average loss in this sector during the past three months has been more than double that experienced during the preceding several months. Within manufacturing, job loss was widespread, as the one-month diffusion index of manufacturing payrolls came in at 40.4.<sup>3</sup> Meanwhile, help supply and wholesale trade registered their largest payroll declines since November 2001, losing 56,000 and 16,000 workers respectively.

Employment also fell in construction (down 27,000 jobs in October) and in the transportation and utilities industry (down 4,000 jobs).<sup>4</sup> In contrast, the strength

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<sup>2</sup>. The September decline was originally reported to have been 47,000.

<sup>3</sup>. The diffusion index is equal to the percent of industries with employment increasing plus one-half of the industries with unchanged employment.

<sup>4</sup>. To be counted as employed, a person need work only a single hour during the reference week. Because the lockout at West Coast ports did not last through the entire reference week, the closure did not have any effect on the employment data.

**CHANGES IN EMPLOYMENT**  
(Thousands of employees; based on seasonally adjusted data)

	2001	2002			2002		
		Q1	Q2	Q3	Aug.	Sept.	Oct.
-Average monthly change-							
Nonfarm payroll employment <sup>1</sup>	-119	-63	12	55	123	-13	-5
<i>Previous</i>	-119	-63	12	39	107	-43	...
Private	-158	-88	7	27	62	-17	-29
Mining	1	-2	-2	-1	4	-3	1
Manufacturing	-109	-80	-22	-35	-52	-39	-49
Construction	-3	-14	-15	6	37	11	-27
Transportation and utilities	-23	-14	-8	-20	-15	-35	-4
Retail trade	-15	5	-8	-8	-44	-11	14
Wholesale trade	-16	-7	0	-4	-8	-3	-16
Finance, insurance, real estate	10	-3	-2	12	8	24	34
Services	-2	27	63	78	132	39	18
Help supply services	-54	4	36	8	50	1	-56
Total government	39	25	5	27	61	4	24
Total employment (household survey)	-153	-54	53	377	429	711	-271
Nonagricultural	-154	-14	58	315	523	601	-498
<b>Memo:</b>							
Aggregate hours of private production workers (percent change) <sup>1,2</sup>	-2.1	-0.5	0.2	-0.7	0.4	0.2	-0.4
Average workweek (hours) <sup>1</sup>	34.2	34.2	34.2	34.1	34.1	34.2	34.1
Manufacturing (hours)	40.7	40.8	41.0	40.8	40.9	40.9	40.7

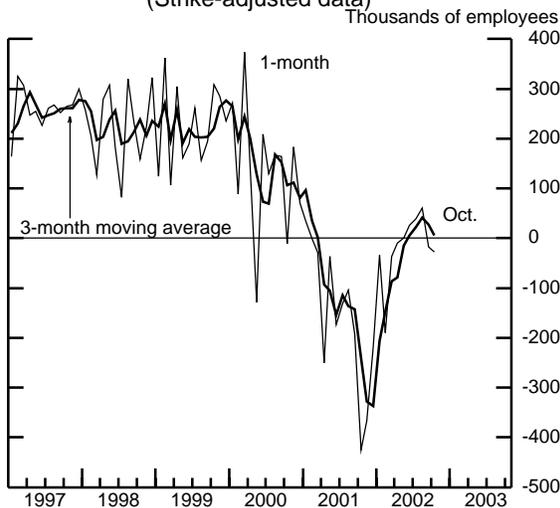
Note. Average change from final month of preceding period to final month of period indicated.

1. Survey of establishments.

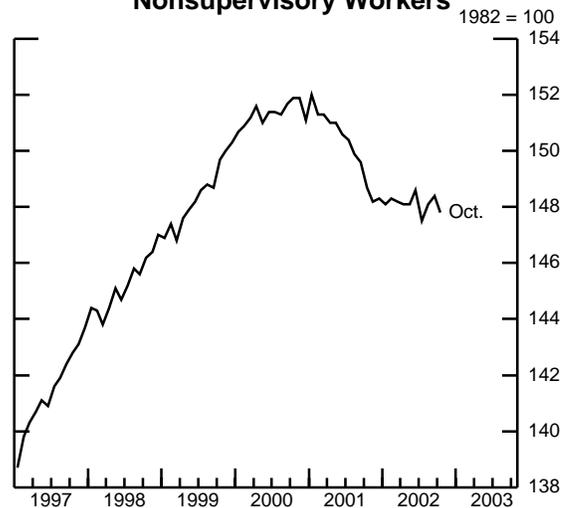
2. Annual data are percent changes from Q4 to Q4. Quarterly data are percent changes from preceding quarter at an annual rate. Monthly data are percent changes from preceding month.

... Not applicable.

**Private Payroll Employment Growth**  
(Strike-adjusted data)



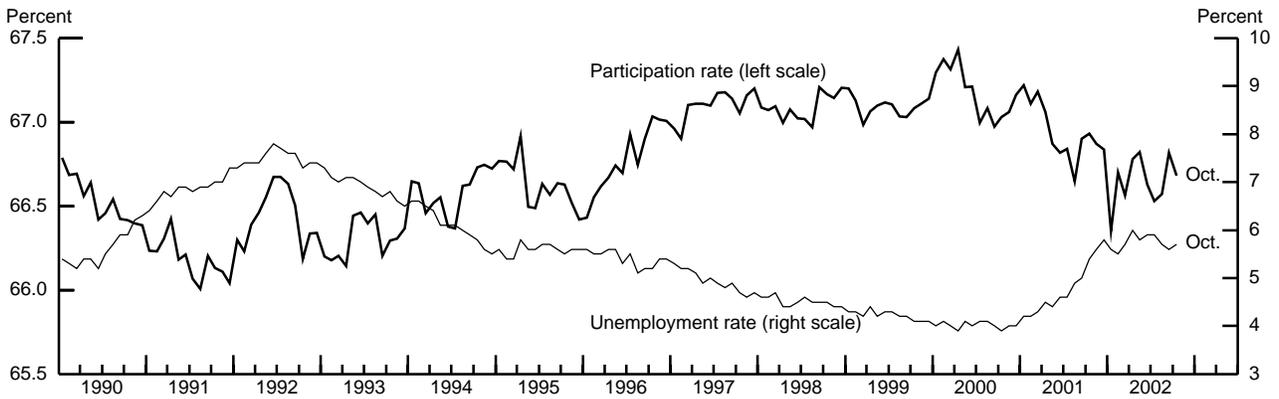
**Aggregate Hours of Production or Nonsupervisory Workers**



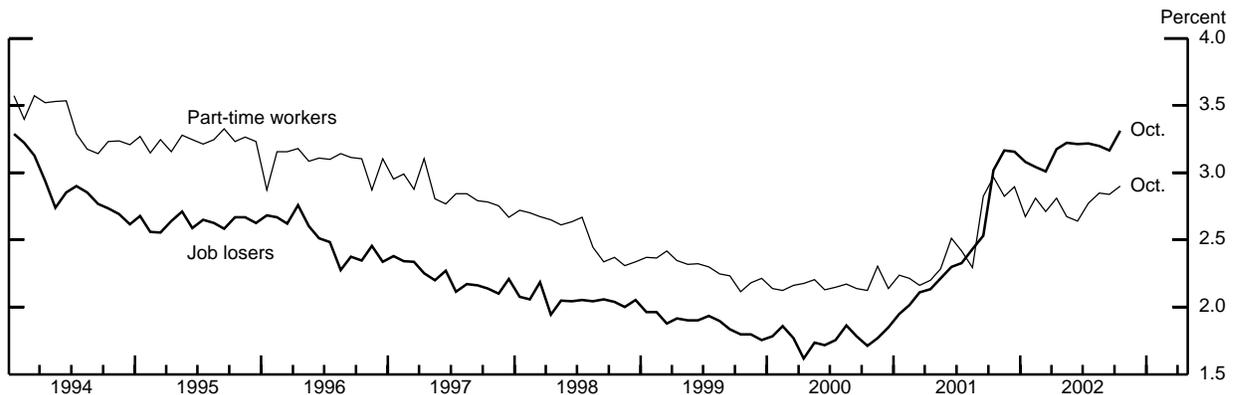
SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES  
(Percent; based on seasonally adjusted data)

	2001	2002			2002		
		Q1	Q2	Q3	Aug.	Sept.	Oct.
Civilian unemployment rate (16 years and older)	4.8	5.6	5.9	5.7	5.7	5.6	5.7
Teenagers	14.7	16.0	17.1	16.9	17.2	15.7	14.6
20-24 years old	8.3	9.8	9.4	9.6	9.6	9.7	10.3
Men, 25 years and older	3.6	4.5	4.9	4.6	4.6	4.5	4.6
Women, 25 years and older	3.7	4.4	4.8	4.5	4.5	4.5	4.6
Labor force participation rate	66.9	66.5	66.7	66.6	66.6	66.8	66.7
Teenagers	49.9	48.2	47.7	47.6	47.1	48.6	47.7
20-24 years old	77.2	76.3	76.7	76.6	77.0	76.4	75.9
Men, 25 years and older	75.9	75.6	75.9	75.8	75.9	75.9	75.7
Women, 25 years and older	59.7	59.6	59.6	59.6	59.6	59.8	59.8

Labor Force Participation Rate and Unemployment Rate



Job Losers and Persons Working Part-Time for Economic Reasons



Note. Job losers and persons working part-time for economic reasons as a percent of the civilian labor force.

of the housing market and the surge in mortgage refinancing led the finance, insurance, and real estate industry to add 34,000 jobs in October, its largest one-month increase since March of 1998. Employment in services excluding help supply rose 74,000 in October, about the same pace as in the third quarter. Governments added 24,000 jobs in October, with most of the gain at the federal level resulting from hiring by the Transportation Security Administration. The retail trade industry added 14,000 jobs after two months of declines.

Average weekly hours of production or nonsupervisory workers moved down 0.1 percentage point to 34.1 hours in October, and the September workweek was revised down to 34.2 hours. As a result, aggregate hours of production or nonsupervisory workers declined 0.4 percent in October and now stand below the August level.

The increase in the unemployment rate in October is echoed by other data from the household survey. The proportion of individuals in the civilian labor force classifying themselves as job losers rose to its highest level since the recession began, while the proportion of individuals working part-time for economic reasons is now at its highest level since last December. After having risen more than 1.1 million in August and September, household employment fell 271,000 in October. The labor force participation rate edged down 0.1 percentage point, to 66.7 percent.

Initial claims for unemployment insurance under state programs rose 16,000, to 410,000, for the week ended October 26, reversing most of the previous week's decline. Smoothing through the up and down movements of the last several weeks, the four-week moving average of claims decreased 3,000, to 402,000. The level of claims in October appears to be somewhat depressed as a result of the BLS's decision to include data from October 2001 (when claims were elevated following the September 11 attacks) in the construction of its seasonal factors. Using seasonal factors computed without data from 2001, the level of claims rose 8,000, to 439,000, for the week ended October 26, while the four-week moving average inched up to 431,000.

The level of insured unemployment for the week ended October 19 rose 76,000, to 3.62 million, while the insured unemployment rate remained at 2.8 percent. In the week ended October 12, 812,000 persons received TEUC benefits.

### **Labor Costs**

The employment cost index for hourly compensation of private industry workers rose at an annual rate of 2.5 percent over the three months ending in September, after having posted a 4.4 percent increase over the previous three-month period. The wage and salary component of the index rose at an annual rate of 1.5 percent, while benefit costs rose at a 4 percent rate. Over the twelve months

EMPLOYMENT COST INDEX OF HOURLY COMPENSATION  
FOR PRIVATE INDUSTRY WORKERS

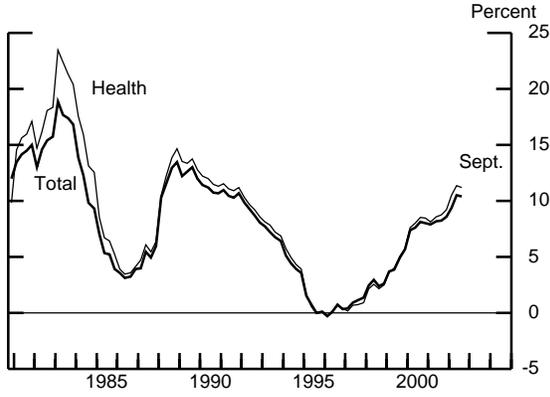
	2001		2002		
	Sept.	Dec.	Mar.	June	Sept.
-----Quarterly percent change----- (Compound annual rate)					
Total hourly compensation <sup>1</sup>	3.7	4.2	3.6	4.4	2.5
Wages and salaries	2.9	3.7	3.7	3.9	1.5
Benefit costs	5.5	5.2	4.4	5.6	4.0
By industry					
Construction	4.1	4.8	2.6	1.6	3.1
Manufacturing	2.4	4.0	4.2	3.6	3.3
Trans., comm., and public utilities	2.7	6.7	3.9	3.9	4.6
Wholesale trade	3.1	1.8	7.2	9.7	0.0
Retail trade	3.2	8.5	-1.0	5.3	1.0
FIRE	3.6	1.0	10.0	5.2	1.7
Services	5.2	3.6	3.5	2.7	2.5
By occupation					
White collar	3.6	4.9	3.3	4.5	2.2
Blue collar	4.4	3.8	3.7	3.7	2.9
Service occupations	4.0	5.6	4.7	2.3	4.4
Memo:					
State and local governments	5.6	2.6	2.9	3.4	6.2
-----Twelve-month percent change-----					
Total hourly compensation	4.0	4.2	3.9	4.0	3.7
Excluding sales workers	4.1	4.2	3.9	4.0	3.6
Wages and salaries	3.6	3.8	3.5	3.6	3.2
Excluding sales workers	3.9	3.9	3.6	3.5	3.2
Benefit costs	4.9	5.1	4.8	5.1	4.8
By industry					
Construction	4.5	4.3	4.0	3.3	3.0
Manufacturing	3.1	3.5	3.5	3.6	3.8
Trans., comm., and public utilities	4.1	4.9	4.5	4.3	4.8
Wholesale trade	4.3	3.3	4.4	5.4	4.6
Retail trade	3.2	4.5	3.2	3.9	3.4
FIRE	3.7	3.6	4.6	4.9	4.4
Services	4.6	4.5	3.9	3.7	3.1
By occupation					
White collar	4.0	4.2	4.0	4.1	3.7
Sales	2.5	3.5	3.5	4.6	4.3
Nonsales	4.4	4.4	4.0	3.9	3.6
Blue collar	3.8	3.8	3.6	3.9	3.5
Service occupations	4.1	4.5	4.3	4.0	4.2
Memo:					
State and local governments	4.4	4.2	3.9	3.6	3.8

1. Seasonally adjusted by the BLS.

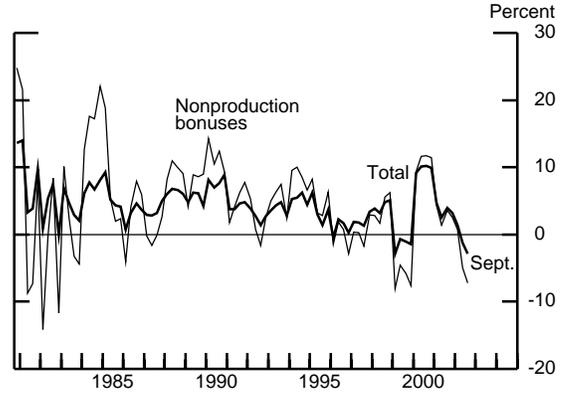
### Components of ECI Benefits Costs (CONFIDENTIAL)

(Private industry workers; 12-month change)

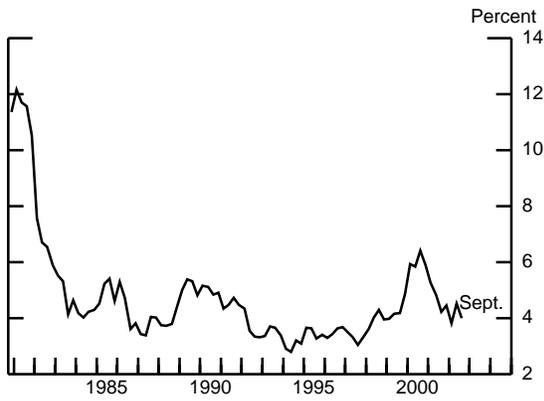
#### Insurance Costs



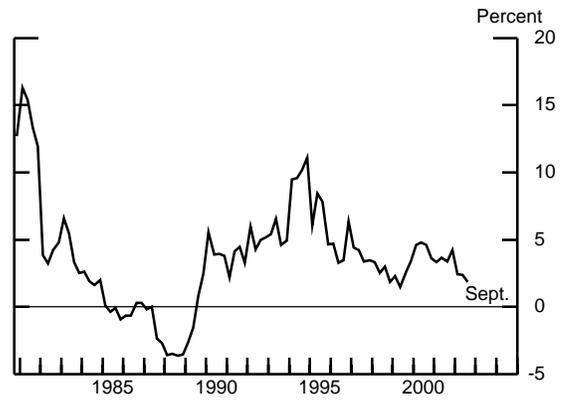
#### Supplemental Pay



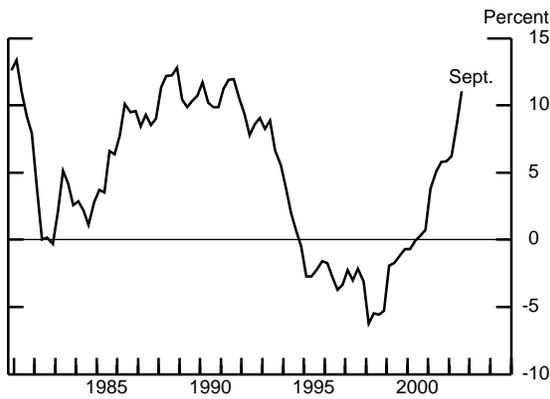
#### Paid Leave



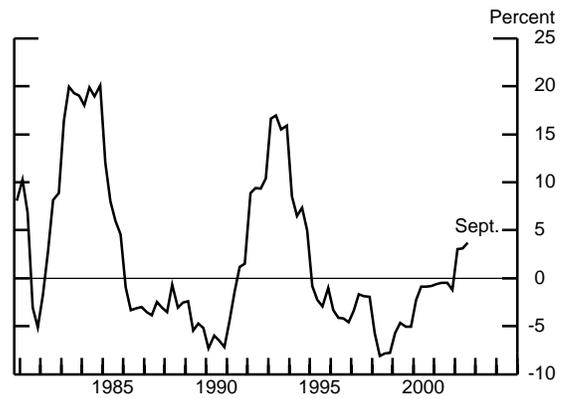
#### Retirement and Savings



#### Workers' Compensation Insurance



#### State Unemployment Insurance

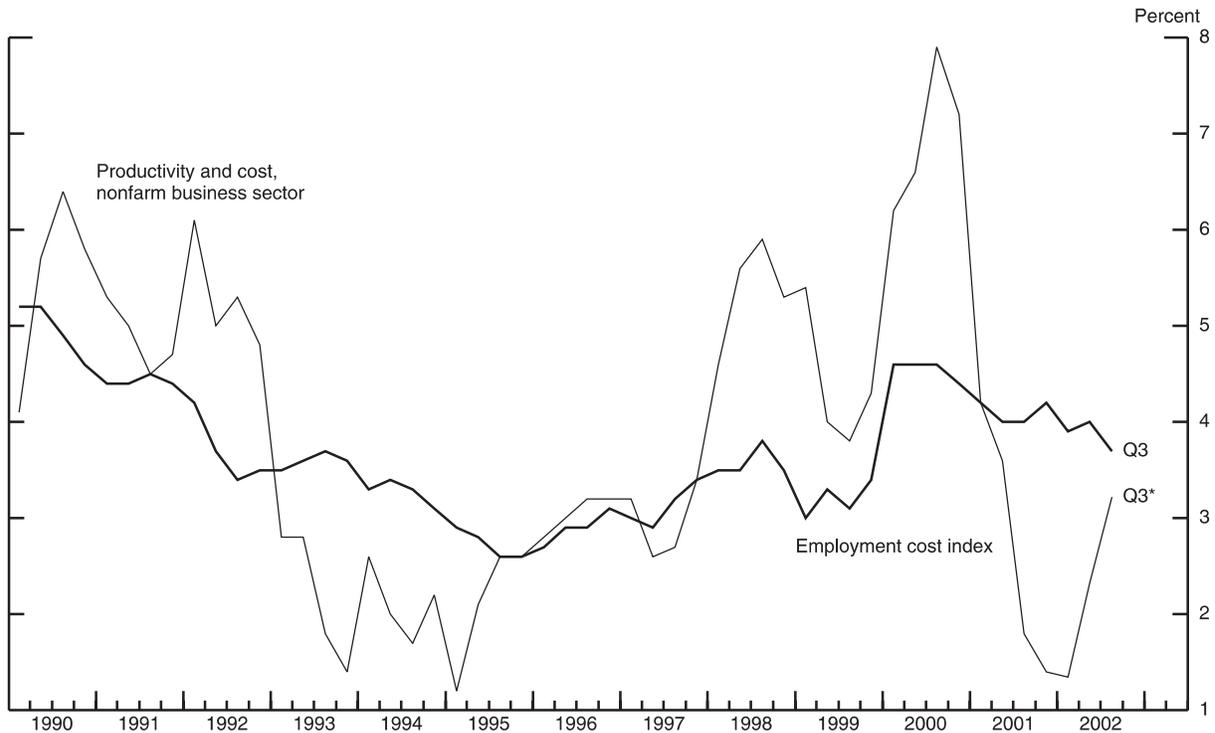


**LABOR COSTS**  
(Percent change, annual rate; based on seasonally adjusted data)

	2001		2002				2001:Q3 to
	2000 <sup>1</sup>	2001 <sup>1</sup>	Q4	Q1	Q2	Q3	2002:Q3
<u>Compensation per hour</u>							
Nonfarm business <sup>2</sup>	7.2	1.4	1.5	2.9	3.9	4.6	3.2
<u>Unit labor costs</u>							
Nonfarm business <sup>2</sup>	4.9	-0.5	-5.4	-5.7	2.2	0.9	-2.1

1. Changes are from fourth quarter of preceding year to fourth quarter of year shown.
2. NFB Comp. per hour and unit labor costs for 2002 are staff estimates.

**Measures of Compensation per Hour**  
(4-quarter change)



\* NFB Comp. per hour for 2002 is staff estimate.

ending in September, private-industry hourly compensation rose 3.7 percent; this rate was 0.3 percentage point lower than a year earlier—a deceleration that now appears more consistent with the weakness in labor markets. Excluding sales workers, whose compensation includes a substantial commissions component, the ECI decelerated 0.5 percentage point over the past year.

On a twelve-month-change basis, wage and salary inflation was 3.2 percent—down 0.4 percentage point from a year earlier—while benefit cost inflation moved down only 0.1 percentage point, to 4.8 percent. Within benefits, employers' costs for health insurance and workers' compensation accelerated noticeably over the past year, but these changes were roughly offset by a sharp deceleration in nonproduction bonuses and a less pronounced deceleration in retirement and savings costs.<sup>5</sup>

The deceleration in compensation over the past year varied considerably by industry. Hourly compensation in construction and in services decelerated sharply, while the rate of change in compensation in other industries has remained steady or increased. By occupation, hourly compensation of both white-collar and blue-collar workers decelerated 0.3 percentage point over the past year, while growth of service workers' hourly compensation edged up 0.1 percentage point.

Average hourly earnings of production or nonsupervisory workers on private nonfarm payrolls increased 0.2 percent in October. Over the twelve months ended in October, the change in average hourly earnings was 3.0 percent, down from 3.8 percent over the preceding twelve months.

### **Prices**

The chain-weighted price index for GDP is estimated to have risen at an annual rate of 1.1 percent in the third quarter, while core PCE price inflation was 1.9 percent. The four-quarter change in core PCE prices was 2 percent, compared with 1.6 percent over the year-earlier period. However, this pattern is distorted by the BEA's treatment of insurance payouts associated with last year's terrorist attacks, which temporarily lowered the PCE price index in 2001:Q3. Excluding these adjustments, the four-quarter change in core PCE prices would have been 1.7 percent last quarter, compared with 2 percent a year earlier.

On a monthly basis, both the overall PCE price index and the core index were up 0.2 percent in September. As with the quarterly indexes, the published year-over-year increases are distorted by last year's treatment of insurance payouts. Excluding these insurance effects, the twelve-month change in core PCE prices would have been 1.7 percent this September, down from 1.9 percent over the

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<sup>5</sup>. With the exception of health insurance, the benefits detail is unpublished and is provided to us by the BLS on a confidential basis.

**Price Indexes for Gross Domestic Product**  
(Based on seasonally adjusted data, chain-type indexes)

Item	2002:Q1	2002:Q2	2002:Q3
	Final	Final	Advance
Gross domestic product	1.3	1.2	1.1
Gross domestic purchases	1.2	2.3	1.4
Personal consumption expenditures	1.1	2.7	1.9
Food and Beverages	2.4	.5	.9
Energy	-9.1	29.6	3.3
Excluding food and energy	1.4	1.9	1.9
Business fixed investment	-2.0	-1.4	-.9
Equipment and Software	-1.5	-2.1	-1.4
Computers and peripheral equipment	-13.9	-9.0	-14.0
Nonresidential structures	-3.6	.7	.7
Residential investment	.0	2.6	.4
Government consumption expenditures and investment	3.6	2.8	1.4
Exports of goods and services	-.8	3.0	3.5
Imports of goods and services	-1.6	11.1	4.8
Nonpetroleum goods	-2.2	2.0	.6
<i>ADDENDA:</i>			
GDP less food and energy	1.6	1.5	1.3
Gross domestic purchases less food and energy	1.4	1.5	1.4

NOTE: Percent change from previous period at compound annual rates

RECENT PRICE INDICATORS  
(Percent)

	From 12 months earlier		From 3 months earlier		2002	
	Sept. 2001	Sept. 2002	June 2002	Sept. 2002	Aug.	Sept.
			-Annual rate-		-Monthly rate-	
<u>CPI</u>						
Total	2.6	1.5	2.5	2.5	0.3	0.2
Food	3.1	1.3	-0.7	1.4	-0.1	0.2
Energy	1.5	-4.8	15.8	7.1	0.6	0.7
Ex. food and energy	2.6	2.2	1.9	2.3	0.3	0.1
Ex. tobacco	2.5	2.2	1.6	2.2	0.3	0.1
Core commodities	0.1	-1.1	-1.4	0.3	0.2	0.0
Core services	3.8	3.6	3.4	3.4	0.4	0.1
Current-methods total	2.6	1.5	2.5	2.5	0.3	0.2
Ex. food and energy	2.6	2.2	1.9	2.3	0.3	0.1
Ex. tobacco	2.5	2.2	1.6	2.2	0.3	0.1
Chained CPI (NSA)	1.8	1.2	--	--	--	--
Ex. food and energy	1.8	1.7	--	--	--	--
<u>PCE Prices</u>						
Total	1.2 <sup>1</sup>	2.2 <sup>1</sup>	2.2	2.5	0.2	0.2
Food	3.0	1.5	-0.1	1.6	-0.0	0.2
Energy	0.9	-5.4	16.4	7.6	0.6	0.8
Ex. food and energy	1.0 <sup>1</sup>	2.7 <sup>1</sup>	1.9	2.3	0.3	0.2
Ex. tobacco	0.9 <sup>1</sup>	2.6 <sup>1</sup>	1.5	2.1	0.2	0.2
Core commodities	-0.9	-1.1	-1.1	-0.1	0.2	0.1
Core services	1.8 <sup>1</sup>	4.4 <sup>1</sup>	3.1	3.4	0.3	0.2
Core market-based	1.7	1.4	1.2	1.8	0.3	0.1
Core nonmarket-based	-1.5 <sup>1</sup>	7.6 <sup>1</sup>	4.2	4.1	0.3	0.3
<u>PPI</u>						
Total finished goods	1.6	-1.9	-1.4	-0.6	0.0	0.1
Food	4.0	-3.1	-11.7	-4.2	-0.4	-0.6
Energy	-1.4	-6.5	2.8	8.4	1.0	0.9
Ex. food and energy	1.4	-0.4	1.1	-1.6	-0.1	0.1
Ex. tobacco	0.9	-0.7	0.3	-1.7	-0.1	0.1
Core consumer goods	1.9	0.0	2.3	-1.5	-0.1	0.1
Capital equipment	0.6	-1.0	-0.3	-2.0	-0.1	0.0
Intermediate materials	-0.8	-0.5	3.5	4.1	0.4	0.5
Ex. food and energy	-0.9	0.6	2.1	2.7	0.4	0.1
Crude materials	-14.6	0.8	7.9	11.9	1.6	0.6
Ex. food and energy	-9.8	8.3	30.7	6.0	0.4	-0.6

1. Excluding BEA's adjustments in September 2001 for the effect of insurance associated with the terrorist attacks, the twelve-month change in core PCE prices would have been 1.9 percent in September 2001 and would have been 1.7 percent in September 2002.

BROAD MEASURES OF INFLATION  
(4-quarter percent change)

	1999 Q3	2000 Q3	2001 Q3	2002 Q3
<u>Product prices</u>				
GDP chain price index	1.4	2.2	2.6	0.8
Less food and energy	1.4	2.0	2.3	1.1
Nonfarm business chain price index <sup>1</sup>	1.2	1.8	2.1	0.0
<u>Expenditure prices</u>				
Gross domestic purchases chain price index	1.6	2.6	1.7	1.3
Less food and energy	1.3	2.0	1.6	1.6
PCE chain price index	1.8	2.5	1.8	1.6
Less food and energy	1.4	1.8	1.6	2.0
PCE chain price index, market-based components	1.7	2.7	1.9	1.0
Less food and energy	1.3	1.7	1.7	1.3
CPI	2.3	3.5	2.7	1.6
Less food and energy	2.0	2.6	2.7	2.3
Current-methods CPI	2.3	3.4	2.7	1.6
Less food and energy	2.0	2.5	2.6	2.3
Median CPI	2.5	2.8	3.9	3.4
Trimmed mean CPI	1.7	2.7	2.7	2.1

1. Excluding housing.

preceding twelve months. The market-based components of core PCE prices do not include the insurance-related distortions: These market-based components have decelerated 0.3 percentage point from their year-earlier changes, close to the deceleration in the core CPI over this period.

### **ISM Report on Manufacturing**

The latest reading from the Institute of Supply Management's (ISM) *Report on Business* indicated that activity in the manufacturing sector receded in October. The overall index declined to 48.5, the second consecutive month that the index stood below 50. However, the new orders index, the component of the overall PMI most useful in forecasting near-term movements in manufacturing IP, edged up to 50.9 in October and has hovered near 50 for the last four months. A slightly lower proportion of respondents felt that their customers' inventories were too low in October (24 percent), while the proportion that felt their customers' inventories were too high increased (9 percent); overall, the diffusion index of customers' inventories returned to the level that prevailed in July and August. The diffusion index of own inventories fell last month to its lowest level since February. The diffusion index for prices fell to 58.3 in October, as the share of respondents seeing increases in the prices paid for purchased commodities declined (to 27 percent from 32 percent in September) and a greater share faced price declines.

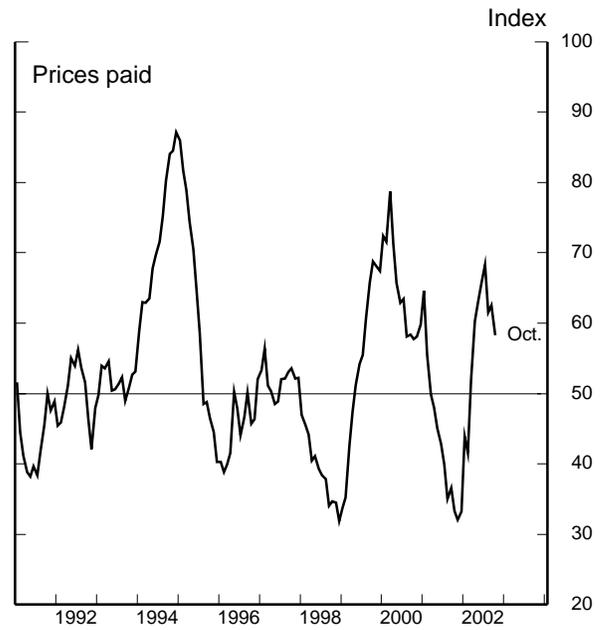
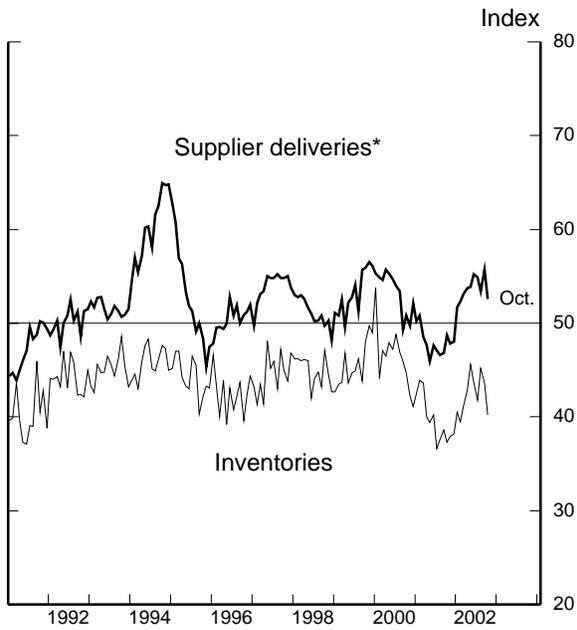
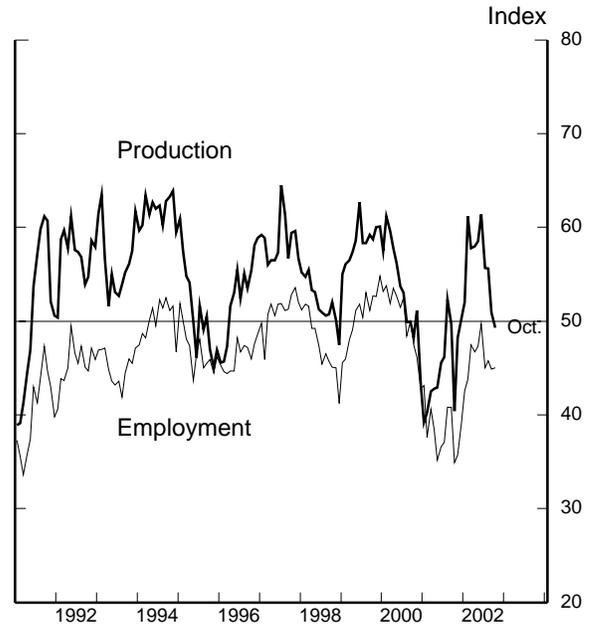
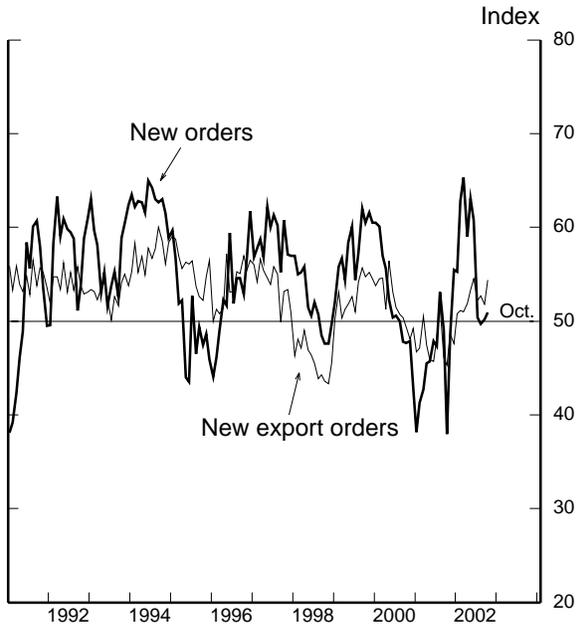
### **Construction Put In Place**

The total nominal value of new construction put in place increased 0.6 percent in September, but it was down 1.3 percent (quarterly rate) for the third quarter as a whole, despite moderate upward revisions to the July and August figures. In real terms, construction expenditures rose 0.5 percent in September but declined 1.4 percent over the third quarter. Overall, these data were somewhat above the assumptions that the BEA used when putting together the advance estimate of real GDP.

In the private sector, nominal spending for residential construction rose 0.7 percent in September, as a 1.8 percent increase in expenditures for single-family structures and a slight rise in multifamily construction were partly offset by reduced outlays for residential improvements. For the third quarter as a whole, residential expenditures edged up 0.2 percent at a quarterly rate, which is the slowest increase over the past two years.

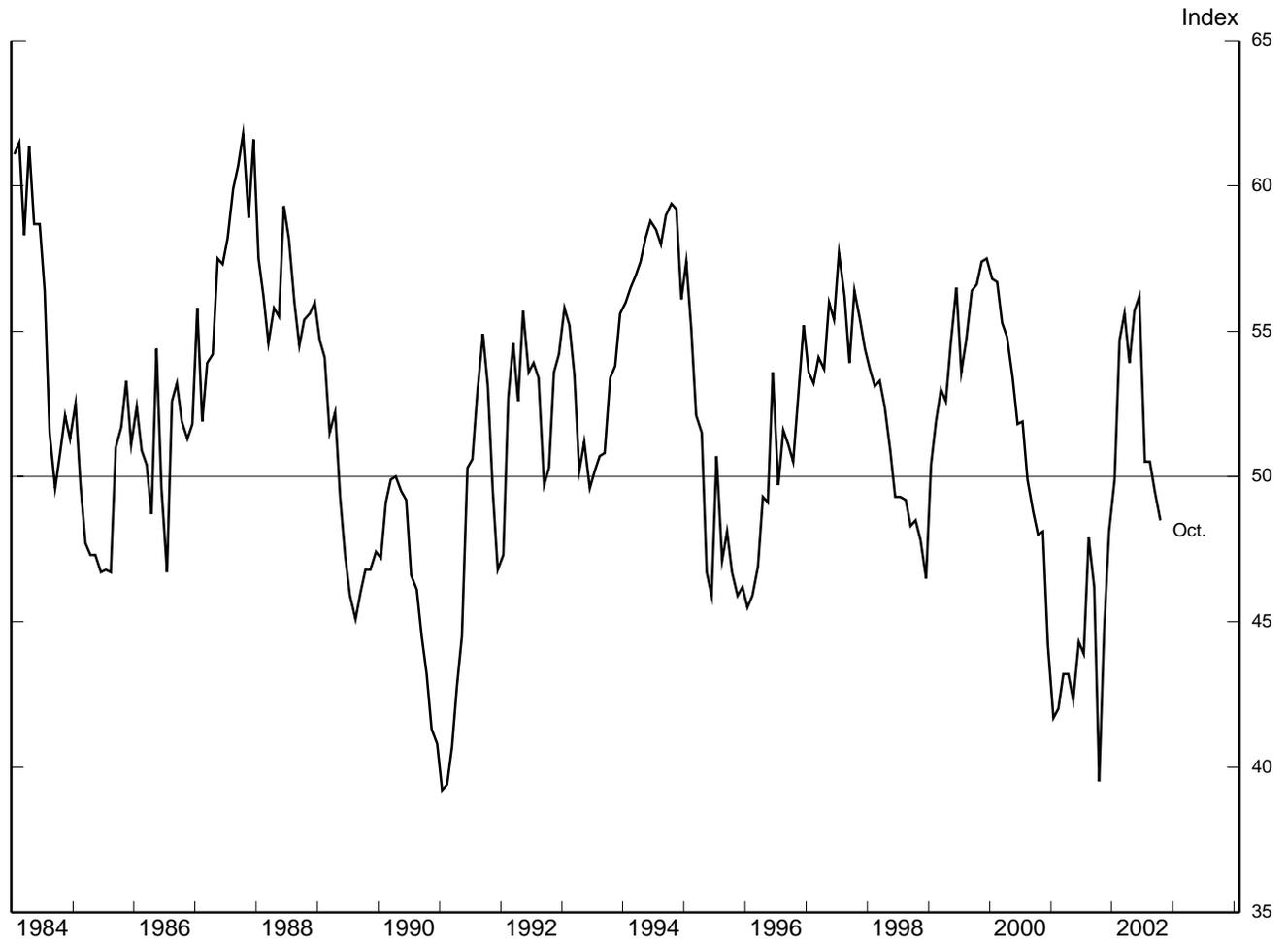
Nominal nonresidential construction spending was off 1.7 percent in September. The weakness was widespread across types of construction, with decreases for office buildings, lodging and miscellaneous structures, non-office commercial structures, and industrial facilities. In contrast, institutional building increased 3 percent (nominal) in September. For the third quarter as a whole, expenditures on nonresidential construction decreased at a quarterly rate of

### Purchasing Managers - Manufacturing (Seasonally adjusted)



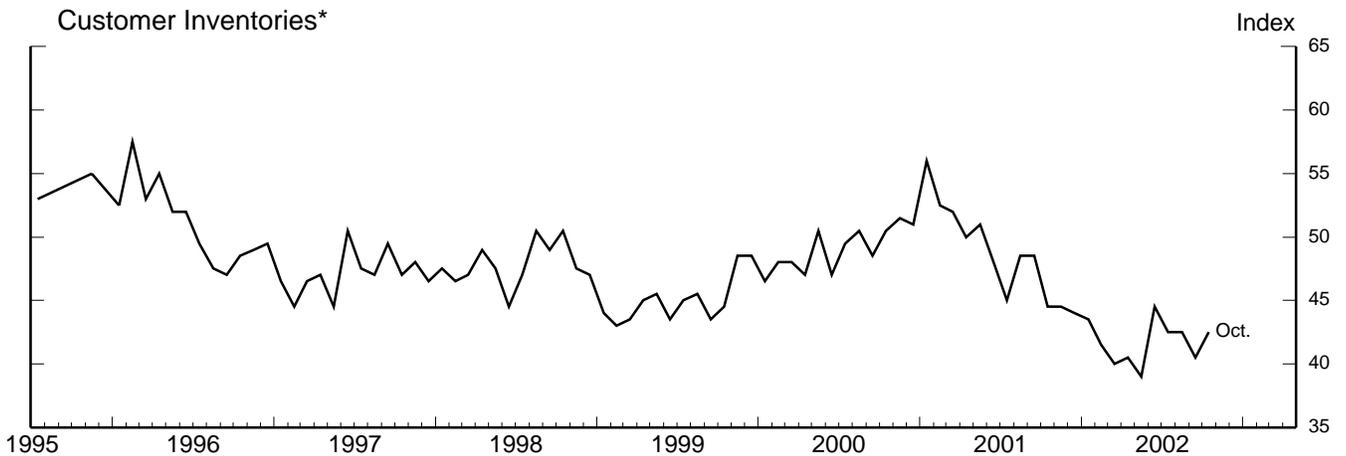
\* Positive entries represent slower deliveries.

### Purchasing Managers' Index (Seasonally adjusted)



Note. The Purchasing Managers' Index (PMI) is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (New orders, Production, Vendor deliveries, Inventories, and Employment) with different weights applied. Seasonal adjustment is done by the U.S. Department of Commerce.

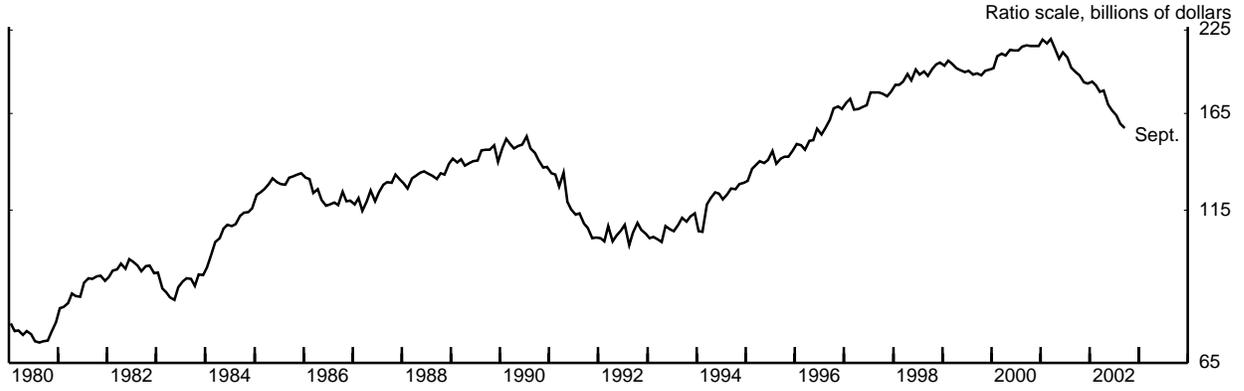
### Customer Inventories\*



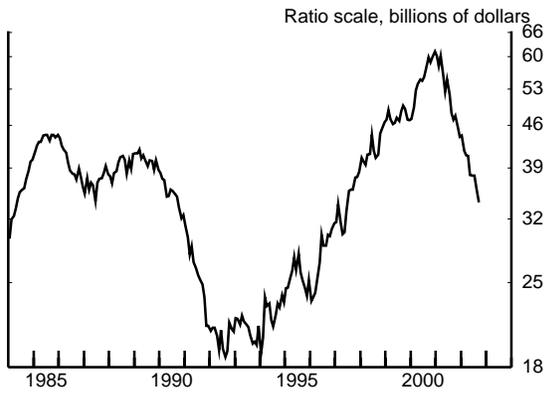
\* Percent too high plus 1/2 (percent about right).

### Nonresidential Construction (Seasonally adjusted, annual rate)

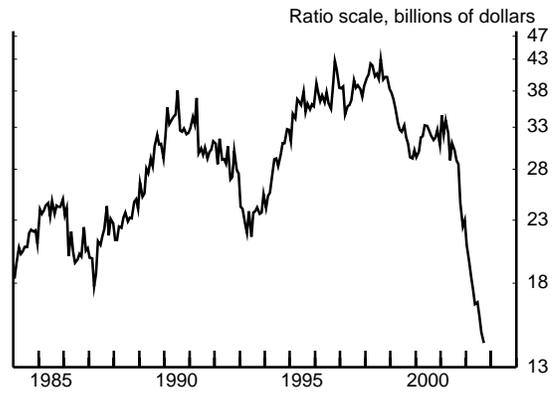
Total Building



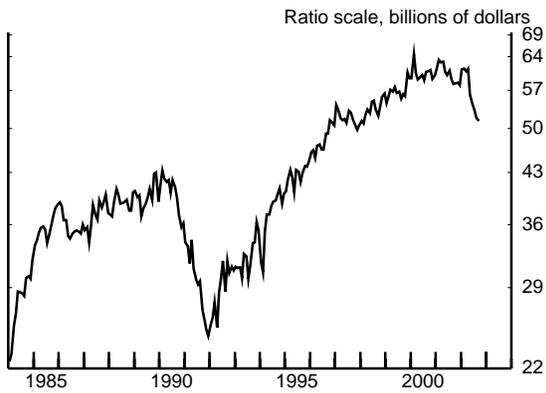
Office



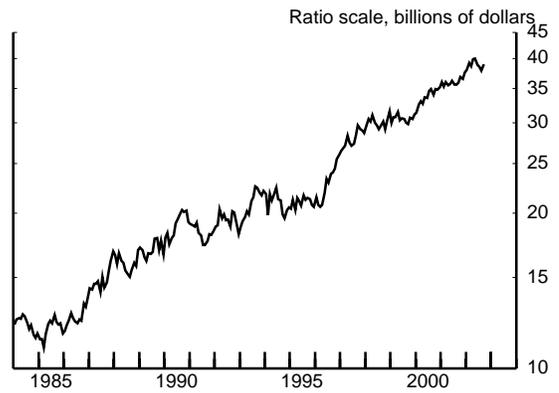
Industrial



Other Commercial



Institutional



7.4 percent. In the public sector, construction spending rose 2.2 percent in September and 1.6 percent during the third quarter as a whole.

**Light Vehicle Sales**

Light vehicle sales in October were 15.3 million units at an annual rate, a decrease of 900,000 units from September's pace. Sales of domestically produced vehicles fell 400,000 units (3 percent) and sales of foreign-produced vehicles dropped nearly 500,000 units (13 percent). By type of vehicle, sales of autos dropped 600,000 units and sales of light trucks declined about 300,000 units.

Sales at GM improved in October, while sales at nearly all of the remaining firms were down from their levels in the previous month. According to our industry contacts, sales at GM in September were reportedly held down by limited supplies of heavily-discounted 2002 model-year vehicles relative to its competitors. In October, GM's sales and market share rebounded as incentives were broadened to cover 2003 models, which were available in greater supply. Nonetheless, the level of GM's sales in October were about a half million units below their average pace in the third quarter.

**Sales of Automobiles<sup>20</sup> and Light Trucks**  
(Millions of units at an annual rate, FRB seasonals)

	2000	2001	2002		2002		
			Q2	Q3	Aug.	Sept.	Oct.
Total <sup>1</sup>	17.22	17.03	16.34	17.63	18.59	16.23	15.33
Autos	8.84	8.42	8.07	8.48	8.73	7.91	7.30
Light trucks	8.38	8.61	8.27	9.15	9.86	8.32	8.03
North American <sup>2</sup>	14.37	13.95	13.12	14.27	15.37	12.82	12.39
Autos	6.82	6.32	5.89	6.20	6.55	5.53	5.33
Big Three	4.65	4.13	3.79	3.89	4.13	3.39	3.33
Transplants	2.17	2.19	2.10	2.31	2.43	2.14	2.00
Light trucks	7.54	7.63	7.23	8.07	8.81	7.29	7.06
Big Three	6.57	6.57	6.25	6.95	7.56	6.25	6.07
Transplants	.97	1.05	.98	1.12	1.25	1.04	.99
Foreign produced	2.85	3.08	3.22	3.35	3.22	3.41	2.95
Autos	2.01	2.10	2.18	2.28	2.17	2.38	1.97
Light trucks	.84	.98	1.04	1.07	1.04	1.03	.98

Note. Components may not sum to totals because of rounding. Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.

1. Excludes the estimated effect of automakers' changes in reporting periods.

2. Excludes some vehicles produced in Canada that are classified as imports by the industry.

### Commercial Bank Credit

(Percent change, annual rate, except as noted; seasonally adjusted)

Type of credit	2001	Q1 2002	Q2 2002	June 2002	July 2002	Aug. 2002	Level, Aug. 2002 (\$ billions)
<b>Total</b>							
<b>1. Adjusted<sup>1</sup></b>	<b>4.2</b>	<b>1.0</b>	<b>5.1</b>	<b>5.2</b>	<b>5.6</b>	<b>15.5</b>	<b>5,482</b>
2. Reported	5.1	-1.5	5.4	9.6	10.1	17.6	5,676
<i>Securities</i>							
3. Adjusted <sup>1</sup>	9.5	7.9	13.5	4.3	5.4	21.8	1,432
4. Reported	12.6	-2.0	13.5	20.0	21.5	28.8	1,625
5. Treasury & Agency	6.8	1.3	22.3	17.0	10.6	37.2	946
6. Other <sup>2</sup>	21.1	-6.3	1.9	24.5	36.5	17.4	680
<i>Loans<sup>3</sup></i>							
7. Total	2.5	-1.3	2.3	5.6	5.7	13.2	4,051
8. Business	-3.6	-6.6	-8.4	-7.5	-13.7	.2	987
9. Real estate	7.2	3.8	6.7	14.9	19.8	20.0	1,902
10. Home equity	19.9	25.6	39.6	41.5	44.0	30.0	197
11. Other	6.1	1.8	3.4	12.0	17.0	18.9	1,705
12. Consumer	3.8	5.3	5.1	-1.7	-6.5	21.8	577
13. Adjusted <sup>4</sup>	7.4	5.2	4.5	3.4	-3.8	3.8	923
14. Other <sup>5</sup>	-3	-13.4	4.9	6.0	6.2	5.6	585

Note. All data are adjusted for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates are percentage changes in consecutive levels, annualized but not compounded. The conversion from a thrift to a commercial bank charter added approximately \$37 billion to the assets and liabilities of domestically chartered commercial banks in the week ending May 8, 2002.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FIN 115).

2. Includes private mortgage-backed securities, securities of corporations, state and local governments, and foreign governments and any trading account assets that are not Treasury or Agency securities, including revaluation gains on derivative contracts.

3. Excludes interbank loans.

4. Includes an estimate of outstanding loans securitized by commercial banks.

5. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

III-T-1  
**Selected Financial Market Quotations**  
(One-day quotes in percent except as noted)

Instrument	2000	2001	2002	2002	Change to Sept. 19 from selected dates (percentage points)		
	June 26	Sept. 10	Aug. 12	Sept. 19	2000 June 26	2001 Sept. 10	2002 Aug. 12
<i>Short-term</i>							
FOMC intended federal funds rate	6.50	3.50	1.75	1.75	-4.75	-1.75	.00
Treasury bills <sup>1</sup>							
3-month	5.66	3.19	1.65	1.62	-4.04	-1.57	-.03
6-month	5.94	3.13	1.60	1.60	-4.34	-1.53	.00
Commercial paper (A1/P1 rates)							
1-month	6.56	3.42	1.70	1.73	-4.83	-1.69	.03
3-month	6.56	3.24	1.67	1.72	-4.84	-1.52	.05
Large negotiable CDs <sup>1</sup>							
1-month	6.64	3.46	1.74	1.78	-4.86	-1.68	.04
3-month	6.73	3.26	1.70	1.77	-4.96	-1.49	.07
6-month	6.89	3.24	1.70	1.76	-5.13	-1.48	.06
Eurodollar deposits <sup>2</sup>							
1-month	6.63	3.41	1.72	1.77	-4.86	-1.64	.05
3-month	6.69	3.26	1.68	1.74	-4.95	-1.52	.06
Bank prime rate	9.50	6.50	4.75	4.75	-4.75	-1.75	.00
<i>Intermediate- and long-term</i>							
U.S. Treasury <sup>3</sup>							
2-year	6.54	3.59	2.07	1.93	-4.61	-1.66	-.14
10-year	6.35	5.14	4.49	4.09	-2.26	-1.05	-.40
30-year	6.22	5.55	5.24	4.91	-1.31	-.64	-.33
U.S. Treasury 10-year indexed note	4.09	3.26	2.48	2.22	-1.87	-1.04	-.26
Municipal revenue (Bond Buyer) <sup>4</sup>	5.99	5.25	5.36	5.05	-.94	-.20	-.31
Private instruments							
10-year swap	7.38	5.62	4.76	4.33	-3.05	-1.29	-.43
10-year FNMA	7.15	5.64	4.81	4.44	-2.71	-1.20	-.37
10-year AA <sup>5</sup>	7.64	6.30	5.79	5.39	-2.25	-.91	-.40
10-year BBB <sup>5</sup>	8.40	7.11	7.23	6.77	-1.63	-.34	-.46
High yield <sup>6</sup>	12.30	12.72	13.51	13.13	.83	.41	-.38
Home mortgages (FHLMC survey rate) <sup>7</sup>							
30-year fixed	8.14	6.89	6.31	6.18	-1.96	-.71	-.13
1-year adjustable	7.22	5.64	4.37	4.32	-2.90	-1.32	-.05

Stock exchange index	Record high		2001	2002		Change to Sept. 19 from selected dates (percent)		
	Level	Date	Sept. 10	Aug. 12	Sept. 19	Record high	2001 Sept. 10	2002 Aug. 12
Dow-Jones Industrial	11,723	1-14-00	9,606	8,689	7,942	-32.25	-17.31	-8.59
S&P 500 Composite	1,527	3-24-00	1,093	904	843	-44.79	-22.81	-6.69
Nasdaq (OTC)	5,049	3-10-00	1,695	1,307	1,216	-75.91	-28.25	-6.92
Russell 2000	606	3-9-00	441	389	366	-39.69	-17.06	-5.92
Wilshire 5000	14,752	3-24-00	10,104	8,537	8,005	-45.73	-20.78	-6.23

1. Secondary market.
2. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.
3. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
4. Most recent Thursday quote.
5. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.
6. Merrill Lynch Master II high-yield bond.
7. For week ending Friday previous to date shown.

NOTES:

June 26, 2000, is the day before the FOMC meeting that ended the most recent period of policy tightening.  
September 10, 2001, is the day before the terrorist attacks.  
August 12, 2002, is the day before the announcement after the most recent FOMC meeting.

## The International Economy

### U.S. International Transactions

#### *Trade in Goods and Services*

Real exports of goods and services are estimated to have risen almost 2¼ percent at an annual rate in the third quarter of 2002, as a 3¾ percent increase in exports of goods offset a small decline in exports of services. Real imports of goods and services increased 2½ percent at an annual rate as imports of goods rose 4½ percent, while imports of services dropped 7 percent. As a result, real net exports of goods and services edged down to -\$491 billion.

#### Net Trade in Goods and Services

(Billions of dollars, seasonally adjusted)

	2001	Annual rate 2002			Monthly rate 2002		
		Q1	Q2	Q3 <sup>e</sup>	June	July	Aug.
<i>Real NIPA<sup>1</sup></i>							
Net exports of G&S	-415.9	-446.6	-487.4	-491.2	...	...	...
<i>Nominal BOP</i>							
Net exports of G&S	-358.3	-382.0	-441.8	-441.2	-36.8	-35.1	-38.5
Goods, net	-427.2	-425.7	-489.9	-487.9	-40.6	-39.0	-42.3
Services, net	68.9	43.7	48.1	46.7	3.9	4.0	3.8

1. Billions of chained (1996) dollars.

e. BOP data are two months at an annual rate; NIPA data are BEA's advance estimate.

Source: U.S. Department of Commerce, Bureau of Economic Analysis and Census.

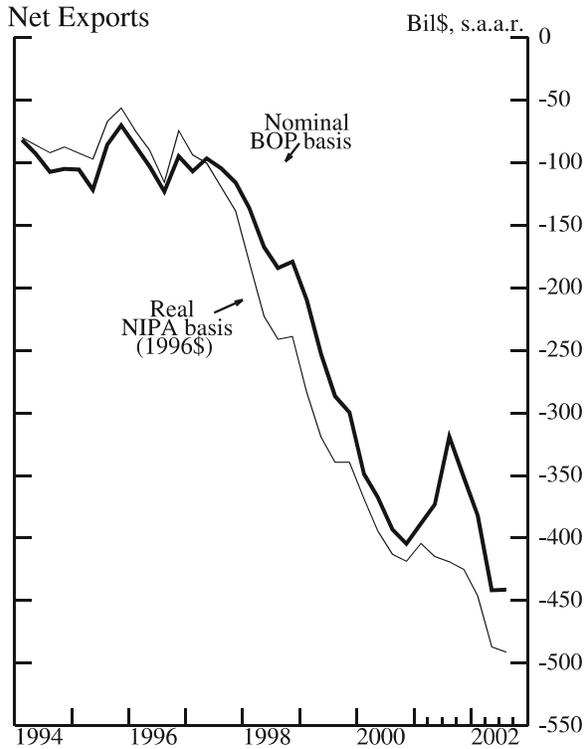
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#### *Prices of Internationally Traded Goods*

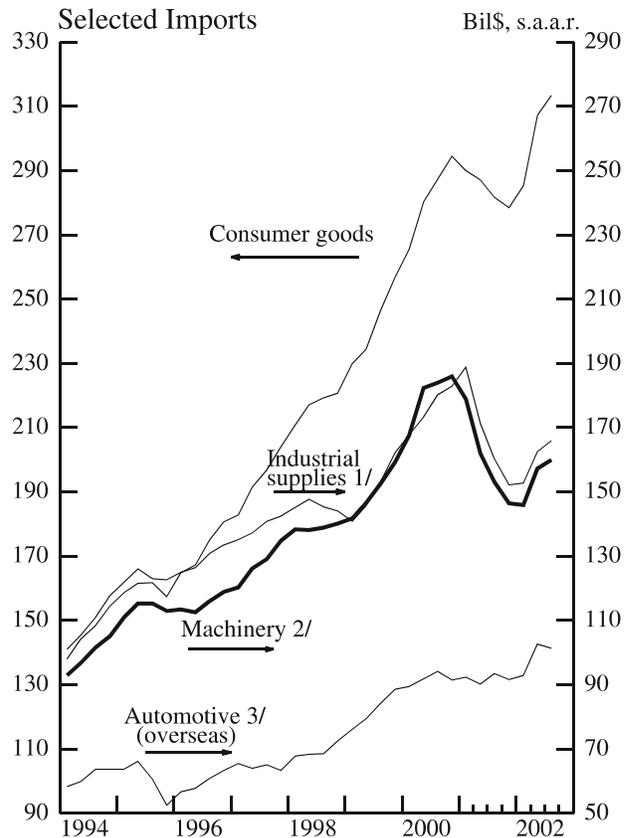
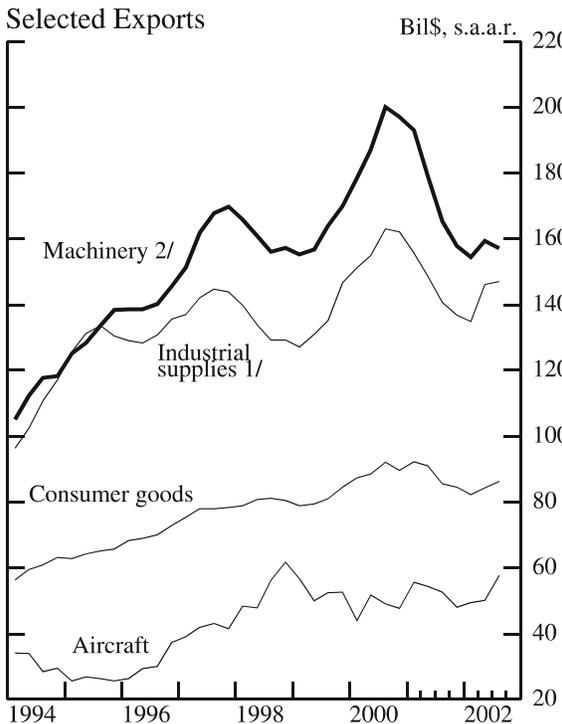
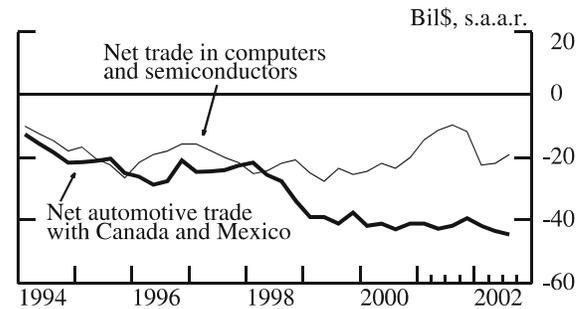
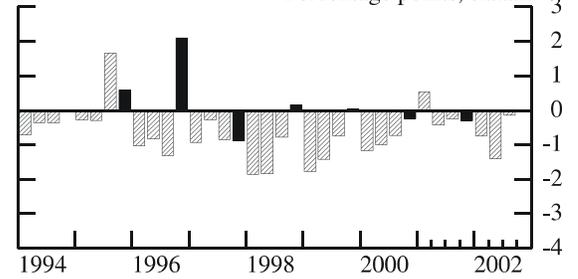
**Non-oil imports.** The NIPA price of imported goods and services grew 4¾ percent at an annual rate in the third quarter, while the NIPA price of non-oil merchandise imports edged up only ½ percent at an annual rate in the third quarter, with oil making up much of the difference. The price of imported core goods expanded 1¼ percent at an annual rate in the third quarter, while prices of computers and semiconductors continued to trend down. Within core goods, the largest price increase was a rise of 5¼ percent in the foods, feeds and beverage sector.

**Exports.** Both the NIPA prices of total exported goods and services and the goods component rose roughly 3½ percent at an annual rate in the third quarter. The price of exported core goods expanded at almost a 4½ percent rate. Within core goods, the largest price increase was a 22¾ percent rise in the foods, feeds and beverage sector.

## U.S. International Trade in Goods and Services



Contribution of Net Exports to Real GDP Growth  
Percentage points, s.a.a.r.



1. Excludes agriculture and gold.  
2. Excludes computers and semiconductors.

1. Excludes oil and gold.  
2. Excludes computers and semiconductors.  
3. Excludes Canada and Mexico.

**Prices of U.S. Imports and Exports**  
(Percentage change from previous period)

	Annual rates			Monthly rates		
	2002			2002		
	Q1	Q2	Q3	July	Aug.	Sept.
	----- BLS prices (2000 weights)-----					
<b>Merchandise imports</b>	-2.0	10.2	2.9	0.4	0.3	0.7
Oil	18.4	157.3	26.2	3.8	2.8	6.0
Non-oil	-2.7	1.5	0.6	0.1	0.0	0.2
Core goods*	-2.4	1.7	1.7	0.3	0.0	0.2
Cap. goods ex comp & semi	-5.3	-1.9	1.9	0.1	0.4	-0.1
Automotive products	-0.4	0.4	0.5	0.0	0.1	0.0
Consumer goods	-1.5	-1.2	0.1	0.1	0.0	-0.1
Foods, feeds, beverages	0.3	7.1	6.5	0.8	0.2	2.7
Industrial supplies ex oil	-4.7	13.0	2.6	0.3	0.0	0.5
Computers	-2.7	-1.5	-5.6	-0.7	-0.5	-0.1
Semiconductors	-2.7	1.8	-6.5	-1.5	0.0	0.0
<b>Merchandise exports</b>	-1.8	2.2	2.1	0.3	0.2	0.2
Core goods*	-1.3	3.4	3.9	0.4	0.3	0.3
Cap. goods ex comp & semi	0.9	0.7	0.1	0.0	0.1	0.0
Automotive products	1.3	0.1	0.9	0.0	0.2	0.1
Consumer goods	-2.3	-0.9	0.8	0.0	0.2	-0.1
Agricultural products	-2.6	2.3	25.8	2.6	1.8	3.6
Industrial supplies ex ag	-3.6	10.8	6.7	1.1	-0.2	0.2
Computers	-4.5	-5.9	-9.4	0.0	-0.2	-1.6
Semiconductors	-8.1	-1.3	-9.0	-1.3	0.0	0.1
	---Prices in the NIPA accounts (1996 weights)---					
<b>Chain price index</b>						
Imports of goods & services	-1.6	11.1	4.8	...	...	...
Non-oil merchandise	-2.2	2.0	0.6	...	...	...
Core goods*	-2.2	2.1	1.3	...	...	...
Exports of goods & services	-0.8	3.0	3.5	...	...	...
Total merchandise	-1.1	2.3	3.4	...	...	...
Core goods*	-1.1	3.4	4.4	...	...	...

\*/ Excludes computers and semiconductors.

n.a. Not available. ... Not applicable.

**Oil Prices**

