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Confidential (FR) Class II FOMC

# Part 1

August 16, 2000

# CURRENT ECONOMIC AND FINANCIAL CONDITIONS

## Summary and Outlook

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

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# Domestic Developments

**Overview**

On balance, the incoming data since the last Greenbook have provided added support for thinking that economic growth is moderating. Housing construction and consumer purchases of autos have dropped back from the exceptionally high levels seen earlier, and growth of employment and aggregate hours has been modest of late. Our forecast has real GDP growth slowing this quarter to an annual rate of about 3-1/4 percent.

The incoming data seem to have convinced participants in the financial markets that the odds of a soft landing have risen. Market interest rates have come down a good bit in recent weeks, largely on the expectation that further hikes in short-term interest rates have been taken off the table, at least for the time being. In one important respect, we have joined the crowd: Our current forecast is premised partly on the assumption that the target for the federal funds rate will be left unchanged through the remainder of this year. Nonetheless, we still think that further tightenings will be needed. In this projection, they occur over the course of 2001, as the signs of an updrift in price inflation become clearer.

In response to the new information on output per hour and capital spending, we have reassessed our assumptions regarding the growth of productivity and potential output in this Greenbook. Compared with our previous interpretation of changes in structural productivity, the new forecast posits a steadier but ongoing acceleration. At the same time that we have revised up potential growth, however, we have also raised our projection of the growth of real GDP over the four quarters of next year by more than 1/2 percentage point, to just over 4 percent. The recent declines in market interest rates contributed to the upward revision in growth, but the added impetus to real incomes and spending from the projected faster productivity growth was the more important factor. Because the increment to aggregate demand nearly matches the adjustment to aggregate supply, the net effect of these changes on resource use is small. The unemployment rate increases only slightly, to a level of 4-1/4 percent by the fourth quarter of 2001.

We continue to believe that the tightness in the labor market cannot be maintained without a further gradual deterioration in the performance of inflation. International considerations feed into the inflation picture as well because a projected decline of the dollar and rising import prices add to upward pressures on inflation over the forecast interval. Although overall inflation should recede a bit in 2001 if oil prices drop back as we are assuming, we are projecting that the core PCE price measure will rise a bit more than 2 percent next year, about 1/2 percentage point more than last year's increase.

**Backdrop of the Economic Forecast**
We are assuming that market rates will start moving back up next year, as investors begin to assign greater risk to the possibility of higher inflation and additional Federal Reserve tightenings. If our inflation forecast is correct, the updrift in prices will be only gradual. Consequently, we expect the backup in long-term rates to evolve slowly and, in total, to roughly match the anticipated increases in the federal funds rate. Along with the expected rise in the cost of borrowing, the terms and conditions of credit to households and businesses are expected to firm somewhat over the next year and a half; in general, continued brisk growth of business and household demand for debt will be pressing against only modestly more restrictive supplies.

The broader measures of stock prices have changed little, on net, since the last Greenbook. Perceptions in the market that further interest rate increases might not be forthcoming appear to have been offset by concerns that a slowing economy might pinch corporate profits. Our baseline forecast assumes that share values will hold around their recent levels going forward. Risks around that assumption appear to us to be reasonably well balanced. With underlying inflation low and the Fed perceived to be on hold, another upswing in equity prices is possible. On the down side, shares of many companies still are being priced at exceptionally high multiples and might be especially vulnerable to earnings disappointments. Following our usual practice, model simulations at the end of this section explore the economic implications of alternative trajectories for equity prices.

Since the last Greenbook, the real exchange value of the U.S. dollar in terms of the currencies of a broad group of our trading partners has moved up, on balance, as an appreciation against the euro and the yen has more than offset a depreciation against the Mexican peso. Although we cannot rule out the possibility that an anticipation of high returns to capital invested in the United States might lead to further dollar appreciation for a time, we also continue to think that a rising U.S. current account deficit will eventually prompt a substantial depreciation of the currency's exchange value. The timing of that expected depreciation is obviously very uncertain, and in an effort to balance a wide range of risks, we are assuming a gradual depreciation of the dollar between now and the end of 2001, along a path that is roughly parallel to, but somewhat higher than, that assumed in the last Greenbook.

We continue to think that oil prices will be trending downward in coming quarters. However, the decline is not so steep as the one we were predicting in the last Greenbook. Although OPEC has raised production, world demand for oil has been rising as well, and stocks have remained low. From an average of slightly more than $30 per barrel in the third quarter, the price of West Texas intermediate falls to a level of about $25.50 per barrel by the fourth quarter of

2001, an ending price that is about $2 higher than our assumption in the last Greenbook. Futures prices for late next year have moved up by a similar amount.

Our projections of the surplus in the federal budget are little changed. We now are estimating the surplus for fiscal 2000 at $230 billion, a shade less than the figure in the previous Greenbook. The projected surplus for 2001 has been raised somewhat, to $275 billion. As before, we are expecting discretionary spending to rise a bit in real terms over the next year and a half, and we have assumed a tax cut of about $10 billion in fiscal 2001. Although we think that support for a shift toward considerably more stimulus in fiscal 2002 may be growing, such a shift is not likely to occur quickly enough to have much effect on the economy before the end of next year.

**Recent Developments and the Near-Term Forecast**
With foreign trade in June the only major piece of second-quarter data still outstanding, we are estimating that real GDP rose nearly 5 percent at an annual rate last quarter, down a little from the BEA's advance estimate. The revised data are expected to show a sharper deceleration in final sales than was initially reported, and the rate of inventory accumulation will likely be raised. Although data for the third quarter are limited at this point, we expect real GDP growth to slow to an annual rate of 3-1/4 percent, about 1/2 percentage point less than in the June Greenbook. Final sales are projected to rise at a 3-1/2 percent pace, about the same as in the second quarter. However, inventory investment, which added about 1-1/2 percentage points to growth in the second quarter, is projected to subtract a little from growth in the current quarter.

As anticipated, the labor market reports of the past two months have shown renewed gains in several labor market indicators that had weakened abruptly in May. On balance, however, the rebound has not been as large as we had predicted in the last Greenbook. The level of private nonfarm payroll employment in July was only a touch above the second-quarter average, and the rise in aggregate nonfarm hours this quarter will likely be quite small. In the manufacturing sector, growth has been stronger of late than we previously were predicting, and we have raised our forecast of the rise in factory production for the third quarter. Nonetheless, we continue to think that activity will be decelerating from the elevated pace of the first half. Vehicle assemblies, in particular, are now expected to turn down this quarter--sooner than had been predicted in the last Greenbook.

On the spending side, we have been seeing mixed signals in the incoming data, but that pattern may itself be indicative of moderation; earlier, the data had been showing strength almost uniformly. Among the recent indicators for the household sector are July data showing a stepdown in retail purchases of motor

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

| Measure | 2000:Q2 | | | 2000:Q3 | |
|---|---|---|---|---|---|
| | June GB | BEA[1] | Aug. GB | June GB | Aug. GB |
| **Real GDP** | **4.1** | **5.2** | **4.9** | **3.8** | **3.2** |
| Private domestic final purchases | 4.2 | 5.2 | 4.7 | 4.3 | 4.6 |
| Personal consumption expenditures | 3.2 | 3.0 | 2.9 | 4.0 | 4.2 |
| Residential investment | -2.9 | 3.9 | 1.1 | -6.8 | -16.1 |
| Business fixed investment | 12.7 | 19.1 | 15.1 | 10.3 | 14.3 |
| Government outlays for consumption and investment | 3.8 | 6.0 | 5.4 | 3.1 | .3 |
| MEMO | | | | | |
| Real GDP adjusted for defense spending anomaly | 3.6 | 4.7 | 4.4 | 3.8 | 3.2 |
| | Contribution to growth, percentage points | | | | |
| Inventory investment | .7 | 1.0 | 1.5 | .6 | -.3 |
| Net exports | -.8 | -1.5 | -1.5 | -1.0 | -.6 |

1. Advance release, published July 28.

vehicles but a fairly brisk gain in outlays for other goods. On balance, our reading of these and other household indicators is that consumer spending is likely to pick up somewhat this quarter but not regain the exceptional strength it had shown in late 1999 and early 2000. In contrast, residential investment appears likely to record a sizable decline this quarter. Single-family housing starts have come down considerably over the past few months, and residential investment should track the pattern of starts, albeit with a lag.

Business fixed investment will almost surely be very strong again this quarter, mainly because high-tech spending continues to move ahead at a phenomenal pace. However, we are looking for some moderation of expansion, on balance, in the other equipment sectors after an exceptionally strong first half. The forecast of investment in structures is a wild card, owing to the erratic nature of the data; our forecast allows for a gain of about 2-3/4 percent at an annual rate this quarter.

We expect the government sector to contribute only slightly to growth this quarter. At the federal level, expenditures on consumption and investment grew quite rapidly in the second quarter. However, we are anticipating a dropback in these outlays in the third quarter; in our view, appropriations have not been large enough to sustain near-term spending at the elevated level of the second quarter. The real expenditures of state and local governments, which appear to have fallen slightly in the second quarter, are projected to pick back up this period; growth of these outlays has been bouncing around from quarter to quarter, but the trend has been strong.

Net exports are expected to subtract a bit more than 1/2 percentage point from the growth of real GDP in the third quarter, roughly half the average decrement in the first two quarters. Exports are projected to rise at about the pace that was maintained in the first half, and growth of imports is expected to slow after an outsized gain in the second quarter.

We now estimate that nonfarm inventories accumulated at an annual rate of about 5-1/2 percent in the second quarter, more than twice the rate of rise recorded in the first quarter. Although the ratio of nonfarm stocks to final sales turned up for the first time in several quarters, its level is not high, and we suspect that businesses will not be particularly aggressive in curbing the growth of stocks this quarter. Our forecast therefore allows stockbuilding to proceed at a pace close to that of the second quarter; the resulting contribution of the change in inventory investment to growth of real GDP is a small negative.

Although we think that inflation will be trending up over the forecast period, the outlook for the near term remains favorable. With monthly CPI data now available through July, we are predicting that the annual rate of rise in the core CPI in the third quarter will be about in line with the rate of increase over the past year. The rise we are predicting in the core PCE measure for the third quarter--1.3 percent at an annual rate--is lower than the average rate of increase in that index over the past year and less than we were forecasting previously. Our current-quarter projection for overall PCE prices has been marked down as well, owing both to the revision of core prices and to a large revision to our near-term energy price forecast. We are not expecting the various measures of wages and hourly compensation to exhibit any meaningful break from recent trends in the third quarter, although they will likely continue to rise much faster than they did earlier in the expansion.

**The Longer-Term Outlook for Aggregate Demand**

We now expect real GDP to rise 4.2 percent over the four quarters of 2000 and 4.1 percent over the course of 2001. Growth of domestic demand still is expected to slow somewhat in 2001 because of the cumulative effects of past and prospective increases in interest rates. However, the drag from external influences is expected to diminish.

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

| Measure | 2000 H1 | 2000 H2 | 2001 |
|---|---|---|---|
| **Real GDP** | **4.8** | **3.5** | **4.1** |
| Previous | 4.8 | 3.8 | 3.5 |
| Final sales | 5.0 | 3.9 | 4.2 |
| Previous | 5.3 | 3.7 | 3.7 |
| PCE | 5.2 | 4.0 | 3.5 |
| Previous | 5.3 | 3.8 | 3.2 |
| Residential investment | 2.1 | -12.8 | -5.4 |
| Previous | 1.7 | -5.8 | -5.5 |
| BFI | 18.0 | 12.9 | 11.7 |
| Previous | 19.1 | 11.3 | 10.1 |
| Government purchases | 2.1 | 1.8 | 3.3 |
| Previous | 1.2 | 3.1 | 3.5 |
| Exports | 6.9 | 7.6 | 8.3 |
| Previous | 8.7 | 6.9 | 8.5 |
| Imports | 14.6 | 7.9 | 8.0 |
| Previous | 13.5 | 9.5 | 8.0 |
| MEMO | | | |
| Real GDP adjusted for defense spending anomaly | 5.0 | 3.5 | 4.1 |
| | Contribution to growth, percentage points | | |
| Inventory change | -.1 | -.4 | -.1 |
| Previous | -.5 | .1 | -.1 |
| Net exports | -1.2 | -.3 | -.3 |
| Previous | -.9 | -.6 | -.2 |

**Household demand.** We continue to anticipate that the household sector will account for the bulk of the predicted deceleration in domestic demand. The forecast has growth of real personal consumption expenditures slowing from a gain of 5-1/2 percent in 1999 to 4-1/2 percent this year and about 3-1/2 percent in 2001. As in the last Greenbook, this slowdown in consumption growth is related in large part to our assumption that stock prices will be moving sideways through the end of next year. With stocks no longer appreciating in value, the sharp decline in the personal saving rate that has been observed over the past few years should start to be reversed; our forecast has it rising about 3/4 percentage point from the second quarter to the end of 2001.

As wealth effects diminish, consumption gains will likely be sustained by increases in real income. Over the past year or so, real disposable personal income has been rising only moderately, restrained by further increases in effective tax rates and by the erosion of purchasing power brought on by rising oil prices. Moving ahead, though, we think that real disposable income growth will be picking up somewhat, to an average rate of more than 4 percent over the next year and a half. Several factors enter into this step-up. For one thing, the acceleration of productivity is likely pushing up the underlying trend in real income growth. Second, take-home pay will be getting a lift in 2001 from the cut in personal taxes that we are assuming. Finally, the anticipated reversal of oil price increases will have a favorable effect on real income growth moving forward.

The new evidence on housing activity has been softer than we had expected. Although we think that the biggest drop in residential investment expenditures will come this quarter, we project that homebuilding probably will be heading lower for several more quarters. The upturn in mortgage rates that we are assuming for 2001 will put further downward pressure on housing demand and new construction. The forecast has single-family starts dropping to 1.17 million units in 2001, down from a 1999 level of 1.33 million units. Real residential investment drops at an average rate of nearly 13 percent in the second half of this year, and a further decline of about 5-1/2 percent is predicted for 2001.

**Business investment spending.** We do not see the investment boom winding down anytime soon. Real business fixed investment is projected to move up at an annual rate of about 13 percent in the second half of this year and slow only a touch in 2001. Although slower growth of the economy and more restrictive financial conditions will be tending to retard investment to some degree, those influences are expected to be largely offset by the powerful thrust of technological advance and the spur it is providing to investment in computers, software, and communications equipment.

Real purchases of equipment and software are predicted to rise at an annual rate of 16 percent in the second half of this year, and next year's gain is projected to be almost as large. The bulk of these increases reflects the very large gains that we anticipate in the information-processing categories. Recent data on orders and shipments of high-tech goods have been very robust, and real outlays for software appear to be on a stronger trend than we had thought. Competition among businesses to implement new communications infrastructure appears to be intense, and applications of wireless technologies are proliferating. The one cautionary indicator is that real computer prices have not been falling as fast this year as they did in 1998 and 1999--we now are writing down a price drop of "only" 12 percent this year. The slower rate of decline appears to reflect the effects of strong demand pushing utilization rates to very high levels. But sizable additions to capacity are in the works, and on the assumption that the underlying pace of technical innovation is still quite rapid, we continue to forecast a price drop of about 20 percent next year.

Real outlays for other types of equipment are expected to continue to move up, on net, over the next several quarters, with declines in the transportation equipment categories more than offset by fairly brisk rates of advance elsewhere. Accelerator effects stemming from the step-up in growth of business output over the past few quarters will be among the factors providing support for these other equipment categories.

Our forecast has investment in nonresidential structures advancing at an average rate of slightly less than 3 percent over the next several quarters. We anticipate mixed developments within the sector: Office building still appears to have some upward momentum, and industrial companies are creating new facilities once again after a sharp cutback in the wake of the Asian crisis. Spending on commercial facilities other than offices seems to be moving sideways after strong gains earlier in the expansion. The August survey of senior loan officers suggests some further caution about funding new commercial construction. Beige Book reports on commercial construction were mixed.

Although our forecast allows inventory investment to proceed at an elevated pace this quarter, we think that the rate of stockbuilding will ease thereafter. Next year, growth of nonfarm stocks is projected to average about 3-3/4 percent at an annual rate. After ticking up for a couple of quarters, the aggregate inventory-sales ratio resumes its longer-term downtrend, falling over the course of next year to a new low for the current expansion. The slower growth of business stocks in 2001 trims a small amount from real GDP growth over the year.

**Government.** Apart from the changes to the near-term forecast of government expenditures described above, revisions to this part of the forecast are small. After dropping back in the current quarter, real federal expenditures on consumption and investment increase at annual rates of about 1-1/2 to 2 percent over the next five quarters. Moderate gains are anticipated both in defense outlays and in nondefense expenditures.

With relatively few exceptions, state and local governments remain in good fiscal shape, and they have become more willing to spend as the economic expansion has lengthened. Gains in the real consumption and investment expenditures of these governments averaged roughly 2-1/2 percent over the 1993-95 period, about 3-1/2 percent over the 1996-98 period, and an estimated 3-3/4 percent over the last year and a half. In our forecast, growth steps up a little further, to an average rate of a little more than 4 percent over the next six quarters.

**Net exports.** The forecast of the trade sector's influence on the domestic economy has changed little. With growth in foreign economies expected to be strong and the exchange value of the dollar assumed to be depreciating at a gradual pace, exports accelerate, rising more than 8 percent in 2001. Import growth slows in conjunction with slower growth of U.S. domestic demand and in response to a pickup in import prices that accompanies the decline in the dollar. The arithmetic drag of the external sector on growth of real GDP diminishes, easing from 1.1 percentage points in 1999 to 0.8 percentage point in 2000 and 0.3 percentage point in 2001. (The International Developments section provides a more detailed discussion of the outlook for the external sector.)

**Aggregate Supply, the Labor Market, and the Prospects for Inflation**
After having reviewed the implications of incoming data on output per hour and business fixed investment, we have reshaped our productivity trend in this forecast and raised its current and projected rates of increase. The rate of rise in structural productivity in 2000 now is pegged at 3-1/2 percent, 1/4 percentage point higher than in the last Greenbook. Next year, it advances 3-3/4 percent, a figure that is up 1/2 percentage point from the estimate in the last Greenbook. Our estimates of the growth of potential output have been revised in step with the changes to the assumptions about structural productivity growth. Potential GDP is estimated to be expanding at a rate of 4-1/2 percent in the current year. In 2001, the rate of expansion of potential moves up to 4-3/4 percent.

**Productivity.** Our decision to revise our productivity assumptions this month was prompted by two key pieces of information. First, revisions to productivity prompted by the annual benchmark of the national income and product accounts, together with new data for the second quarter, indicated that output per hour has recently been on a steeper incline than we previously thought. Second, an upward revision to business fixed investment in the NIPA benchmark suggested that growth of capital services has been faster than previously estimated. Moreover, the further rise of investment that we are projecting almost surely will extend the speedup of capital "deepening." At some point, diminishing marginal returns to capital will likely set in and bring this process to a halt, but we do not yet seem to be approaching such a point. As can be seen in the table below, the step-up in structural labor productivity in our forecast roughly matches the projected increase in capital deepening. The

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

| Measure | 1999 | 2000 | 2001 |
|---|---|---|---|
| **Structural labor productivity** | **3.2** | **3.5** | **3.7** |
| *Contributions*[1] | | | |
| Capital deepening | 1.8 | 2.0 | 2.2 |
| Labor quality | .3 | .3 | .3 |
| Multifactor productivity | 1.1 | 1.2 | 1.2 |

1. Percentage points.

growth trend in multifactor productivity is projected to edge up a bit from an estimated 1.1 percent in 1999 to 1.2 percent in 2000 and 2001.[1]

Along with the rethinking of our assumptions about structural productivity, our revised labor market forecast still contains some cyclical elements that cause reported growth of productivity to depart from what we perceive to be the longer-term trend. In the near term, even as the economy slows, businesses will likely continue to add workers in response to the sizable gains in output in recent quarters. Moreover, although growth of output next year is expected to be somewhat less than potential, employers may remain hesitant either to lay off current workers or to slow recruiting by very much, given the difficulties they have had in the recent past in finding new hires and keeping employees on board. For a time, observed productivity growth therefore drops below the rate of structural advance.

**Labor market.** The gains in payroll employment that we are predicting, although not as large as those of recent years, are sizable--2-1/4 million additional jobs during 2000 and almost 2 million more in 2001. At this rate of hiring, the unemployment rate is likely to move up only a bit from its recent level; it averages 4.0 percent in 2000 and 4.2 percent in 2001.

The labor force participation rate fell again in July, and the rise earlier this year has been more than fully reversed. Consequently, the inference we had drawn about an apparent pickup in participation no longer seems to be accurate, and we have gone back to the position that the participation rate still is moving

1. All references to the decomposition of labor productivity into capital deepening, multifactor productivity, and labor quality for the period since 1997 are staff estimates. The Bureau of Labor Statistics updates its offical estimates of multifactor productivity growth once a year. Current BLS estimates extend only through 1997 Revised estimates that will extend through 1998 are to be released sometime this fall, but a release date has not been announced.

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

| Measure | 1999 | 2000 | 2001 |
|---|---|---|---|
| Output per hour, nonfarm business | 4.1 | 3.1 | 3.2 |
| Previous | 3.7 | 2.8 | 2.6 |
| Nonfarm payroll employment | 2.2 | 1.7 | 1.4 |
| Previous | 2.2 | 2.0 | 1.4 |
| Household employment survey | 1.5 | 1.0 | .9 |
| Previous | 1.5 | 1.4 | .9 |
| Labor force participation rate[1] | 67.0 | 67 1 | 67.1 |
| Previous | 67.0 | 67.3 | 67.3 |
| Civilian unemployment rate[1] | 4.1 | 4.0 | 4.3 |
| Previous | 4.1 | 3.9 | 4.1 |
| MEMO | | | |
| Output per hour, nonfarm business, adjusted for defense spending anomaly | 4.0 | 3.2 | 3.2 |

1 Percent, average for the fourth quarter.

sideways along the average of recent years. From a below-trend reading in July, the rate ticks back up a little in the very near term and then holds at 67.1 percent through the end of the forecast period.

**Wages and prices.** The second-quarter rise in the employment cost index for hourly compensation did not match the outsized increase of the first quarter. However, it exceeded the number we had written in our previous forecast by nearly 1 percentage point. We allowed the surprise to feed through into our predicted increase for the year as a whole and on top of that raised our forecast of the increases in coming quarters by a small amount. All told, the ECI now is projected to rise 4.7 percent over the four quarters of this year, and a slightly larger rise is predicted for 2001.[2]

The measure of hourly compensation from the productivity and cost release also exhibits acceleration in our forecast, but the acceleration is projected to come

2. As in other recent Greenbooks, we have allowed for a two-step increase in the minimum wage, one coming in October of this year and a second in October of 2001. Taking account both of the workers directly affected and of those whose wages are bumped up to maintain wage differentials, the increases add 0.1 percentage point to the rise in hourly compensation this year and 0.2 percentage point next year

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

| Measure | 1999 | 2000 | 2001 |
|---|---|---|---|
| PCE chain-weighted price index | 2.0 | 2.3 | 1.9 |
| Previous | 2.0 | 2.6 | 2.0 |
| Excluding food and energy | 1.5 | 1.8 | 2.1 |
| Previous | 1.5 | 2.1 | 2.3 |
| Consumer price index | 2.6 | 3.1 | 2.3 |
| Previous | 2.6 | 3.2 | 2.2 |
| Food | 1.9 | 2.5 | 2.5 |
| Previous | 1.9 | 2.6 | 2.7 |
| Energy | 11.2 | 9.9 | -2.1 |
| Previous | 11.2 | 11.5 | -4.9 |
| Excluding food and energy | 2.1 | 2.5 | 2.6 |
| Previous | 2.1 | 2.6 | 2.8 |
| GDP chain-weighted price index | 1.6 | 2.2 | 1.9 |
| Previous | 1.6 | 2.3 | 1.9 |
| ECI for compensation of private industry workers[1] | 3.4 | 4.7 | 4.8 |
| Previous | 3.4 | 4.4 | 4.6 |
| NFB compensation per hour | 4.8 | 4.9 | 5.5 |
| Previous | 4.3 | 4.7 | 5.4 |
| Prices of core non-oil merchandise imports | .4 | 2.2 | 3.1 |
| Previous | .2 | 1.8 | 3.0 |

1. December to December

next year rather than this year. We would not make much of this difference, as the two compensation measures often show considerably different patterns of annual change. With productivity expected to slow cyclically in coming quarters, we expect unit labor costs to begin exhibiting moderate increases. Businesses probably will absorb some of the cost increases, but they also are likely to pass a portion on to consumers, especially if increases in import prices reduce competitive pressures in the product markets, as we are expecting.

These developments bring about a gradual uptrend in core inflation. The chain-type price index for PCE excluding food and energy is projected to rise about

1-3/4 percent in 2000 and slightly more than 2 percent in 2001. The predicted increases are a bit smaller than those we were forecasting in the last Greenbook, but they are still above the rise of 1-1/2 percent that was posted in 1999. Like the core PCE measure, the core CPI is projected to accelerate about 1/2 percentage point from 1999 to 2001. This year's rise in the core indexes probably is getting a small boost from indirect effects of the pickup in energy prices. Absent those effects, our forecast of core consumer prices would not show much acceleration this year, but the acceleration next year would be larger.

The forecast of consumer food prices has been lowered a shade in this round. In part, the revision reflects some of the same influences that led us to mark down our forecast of core consumer prices. We also have made a small allowance for the sharp decline of agricultural futures prices since midyear. With both the corn and soybean harvests apparently headed toward record highs, feed is almost certain to be in ample supply for another year. Livestock supplies also remain large at present, but a decline in the size of the cattle herd that has occurred over the past few years is expected to lead to sharp cutbacks in production of beef in the future. All told, we do not see much risk of a food price run-up over the next few quarters, but we do not see much reason to think that food prices will be a big drag on overall inflation either.

Energy prices, of course, have been the key factor pushing up top-line consumer price inflation over the past several quarters. However, after a small increase this quarter, energy prices turn down in the final quarter of 2000 and continue to fall at a moderate pace through 2001. The declines come entirely from lower prices for gasoline and the other petroleum derivatives. Our forecast of the price of natural gas has been raised further this round and now shows a rise of about 20 percent this year; a much smaller increase is predicted for 2001. Inventories of natural gas remain low, and in coming months the market will likely be driven largely by the changing probabilities for exceptionally tight stocks next winter. Although we have allowed for a bit of a bulge in consumer electricity prices this quarter in response to the tight supply situation in the West, the longer-term forecast still has electricity prices moving up only modestly.

**Financial Flows and Conditions**

Growth of domestic nonfinancial debt continued to trend down in the second quarter, slowed by the paydown of federal debt and light borrowing, on net, by state and local governments. But outside the government sectors, the pace of borrowing remained brisk. Business debt rose nearly 12 percent at an annual rate in the second quarter, and debt growth in July looks to have remained strong. Household debt growth, although a bit lower than last year, continued to be robust.

We expect the pace of private sector borrowing to let up somewhat as nominal GDP growth slows over the forecast period. Still, the nonfederal component of total debt is projected to expand at an annual rate of around 7-1/2 percent over the remainder of this year and next year, almost 2 percentage points faster than nominal GDP. The contraction of federal debt, at an annual rate of about 9 percent, will continue to damp the broader debt aggregate, which is projected to rise only 4-1/2 percent, on average, the remainder of this year and next.

The expansion of household debt edges lower in the forecast. Reduced growth of spending for consumer durable goods and a slower pace of homebuilding should lessen the demand for home mortgages and consumer credit. Aggregate measures of loan delinquencies and defaults indicate that repayment problems in the household sector have eased somewhat over the past couple of years, even though expansion of debt in excess of income and the rise in interest rates have pushed the overall debt service burden to its highest level in nearly fifteen years. Higher interest rates could well lead to some upturn in the number of problem loans, but not enough, in our view, to lead to significant restraint by providers of home mortgages or consumer loans.

In the business sector, where we expect the rise in nonfinancial corporate profits to slow, borrowing will need to be substantial to meet projected capital spending and to fund a long list of mergers and acquisitions. Indeed, a higher proportion of announced corporate acquisitions of late have involved cash deals, and their completion will likely be accompanied by appreciable debt issuance over the forecast period. In addition to continued heavy borrowing at banks, firms seem poised to rely increasingly on bond issuance to fund capital outlays. We anticipate that markets will remain receptive to investment-grade issuers, but we would not be surprised by some further widening in risk premiums on junk bonds and some additional caution on the part of banks, given our outlook for the economy and corporate profits. In the August survey of senior loan officers, a fairly large percentage of the respondents indicated that they had tightened standards for business loans over the past several months. Nonetheless, as in the household sector, we do not see credit constraints as a major threat to spending.

State and local government debt growth is expected to stay low, on net, even though governments are likely to be in a good position to borrow because of their improved fiscal situations. The anticipated path of interest rates precludes any significant state and local government issuance for advance refunding, and the amount of advance-refunded debt scheduled to be retired over the forecast period is large.

Growth of M2 remained modest in July, but it is expected to pick up somewhat over the remainder of the year. For 2000 as a whole, the aggregate is projected to slow a bit from its advance in 1999, mainly reflecting the effects of tighter monetary policy on its opportunity cost. In 2001, higher opportunity costs are expected to trim M2 growth to a lesser extent, but with nominal GDP slowing, growth in the aggregate is projected to remain near this year's level.

**Alternative Simulations**
We have developed four alternative simulations using the FRB/US econometric model. Two of them derive from alternative assumptions about monetary policy, and the other two are based on alternative assumptions about stock prices. In the first monetary policy alternative, the interest rate on federal funds holds steady at its current level through the end of 2001. In the second, the tightening of policy comes sooner than in the baseline and takes the funds rate to a higher level; the rate would reach 8 percent by the end of the first quarter of next year and remain at that level thereafter.

**Alternative Simulations**
(Percent change, Q4 to Q4, except as noted)

| Measure | 2000 | 2001 |
|---|---|---|
| *Real GDP* | | |
| Baseline | 4.2 | 4.1 |
| Flat funds rate | 4.2 | 4.3 |
| Tighter policy | 4.2 | 3.4 |
| Stock market correction | 4.0 | 3.5 |
| Continued stock market gains | 4.2 | 4.4 |
| *Civilian unemployment rate*[1] | | |
| Baseline | 4.0 | 4.3 |
| Flat funds rate | 4.0 | 4.2 |
| Tighter policy | 4.0 | 4.6 |
| Stock market correction | 4.0 | 4.5 |
| Continued stock market gains | 4.0 | 4.2 |
| *PCE prices excluding food and energy* | | |
| Baseline | 1.8 | 2.1 |
| Flat funds rate | 1.8 | 2.1 |
| Tighter policy | 1.8 | 1.8 |
| Stock market correction | 1.8 | 2.1 |
| Continued stock market gains | 1.8 | 2.1 |

1. Average for the fourth quarter.

Eliminating the increase in the federal funds rate that is assumed in the baseline forecast alters the outcome only moderately: Growth in 2001 would be about 0.2 percentage point stronger, at 4.3 percent; the unemployment rate would be 0.1 percentage point lower than in the baseline; and core PCE inflation would be the same as in the baseline. The effects of an unchanged funds rate become much larger, however, if the scenario extends beyond the end of next year, with faster growth, an appreciably lower unemployment rate than in the baseline, and a steepening acceleration of core prices.

In the scenario with a more aggressive tightening, growth of real GDP next year is appreciably less than in the baseline, and the unemployment rate ends up about 1/4 percentage point higher. The pickup in core inflation that is evident in the baseline is fully eliminated by the additional monetary tightening. The lower rate of inflation comes about not only because of a higher level of unemployment but also because the tighter policy would tend to boost the exchange rate and damp long-run inflation expectations.

In the first of the simulations based on alternative paths for stock prices, the level of the Wilshire 5000 drops abruptly to 11,000 by the end of the current quarter--a decline of roughly 20 percent from yesterday's close of about 13,800. In the second scenario, stock prices follow an upward trend through the end of 2001, with the Wilshire rising to a level of about 16,000 in the fourth quarter of next year.

In the scenario that has stock prices falling, the ratio of wealth to income drops sharply, and consumer spending slows appreciably. Compared with the baseline forecast, growth of real GDP is about 1/4 percentage point lower in 2000 and 1/2 percentage point lower in 2001. The unemployment rate at the end of next year would be 1/4 percentage point higher than in the baseline. In the scenario that has stock prices moving up further, GDP growth is not affected this year, but next year's growth would be about 1/4 percentage point greater than in the baseline. The unemployment rate would be fractionally lower, relative to the baseline, by the end of next year. According to the model, neither of these scenarios has much effect on the rate of inflation over this interval because the public's expectations of the long-run inflation objectives of monetary policy are little changed in the short run.

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August 16, 2000

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

| Interval | | Nominal GDP | | Real GDP | | GDP chain-weighted price index | | Consumer price index[1] | | Unemployment rate[2] | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 06/21/00 | 08/16/00 | 06/21/00 | 08/16/00 | 06/21/00 | 08/16/00 | 06/21/00 | 08/16/00 | 06/21/00 | 08/16/00 |
| **ANNUAL** | | | | | | | | | | | |
| 1997 | | 6.2 | 6.5 | 4.2 | 4.4 | 1.9 | 1.9 | 2.3 | 2.3 | 4.9 | 4.9 |
| 1998 | | 5.5 | 5.7 | 4.3 | 4.4 | 1.2 | 1.3 | 1.6 | 1.6 | 4.5 | 4.5 |
| 1999 | | 5.7 | 5.8 | 4.1 | 4.2 | 1.4 | 1.5 | 2.2 | 2.2 | 4.2 | 4.2 |
| 2000 | | 7.3 | 7.3 | 5.0 | 5.1 | 2.2 | 2.1 | 3.3 | 3.2 | 4.0 | 4.0 |
| 2001 | | 5.7 | 5.8 | 3.7 | 3.9 | 2.0 | 1.8 | 2.3 | 2.3 | 4.1 | 4.2 |
| **QUARTERLY** | | | | | | | | | | | |
| 1998 | Q1 | 7.7 | 7.6 | 6.9 | 6.5 | 0.9 | 1.0 | 1.0 | 1.0 | 4.7 | 4.7 |
| | Q2 | 3.4 | 4.1 | 2.2 | 2.9 | 1.1 | 1.1 | 1.7 | 1.7 | 4.4 | 4.4 |
| | Q3 | 5.4 | 5.0 | 3.8 | 3.4 | 1.3 | 1.5 | 1.7 | 1.7 | 4.5 | 4.5 |
| | Q4 | 7.0 | 6.8 | 5.9 | 5.6 | 0.8 | 1.1 | 1.7 | 1.7 | 4.4 | 4.4 |
| 1999 | Q1 | 5.7 | 5.9 | 3.7 | 3.5 | 2.0 | 2.2 | 1.7 | 1.7 | 4.3 | 4.3 |
| | Q2 | 3.3 | 3.9 | 1.9 | 2.5 | 1.3 | 1.4 | 3.2 | 3.2 | 4.3 | 4.3 |
| | Q3 | 6.8 | 6.7 | 5.7 | 5.7 | 1.1 | 1.1 | 2.4 | 2.4 | 4.2 | 4.2 |
| | Q4 | 9.4 | 9.7 | 7.3 | 8.3 | 2.0 | 1.6 | 2.9 | 2.9 | 4.1 | 4.1 |
| 2000 | Q1 | 8.4 | 8.3 | 5.5 | 4.8 | 2.7 | 3.3 | 4.1 | 4.1 | 4.1 | 4.1 |
| | Q2 | 6.8 | 7.7 | 4.1 | 4.9 | 2.6 | 2.5 | 3.6 | 3.6 | 4.0 | 4.0 |
| | Q3 | 6.2 | 4.8 | 3.8 | 3.2 | 2.3 | 1.5 | 3.7 | 2.6 | 3.9 | 4.0 |
| | Q4 | 5.6 | 5.4 | 3.8 | 3.8 | 1.7 | 1.6 | 1.6 | 2.0 | 3.9 | 4.0 |
| 2001 | Q1 | 5.6 | 6.1 | 3.5 | 3.9 | 2.0 | 2.2 | 1.9 | 2.2 | 4.0 | 4.1 |
| | Q2 | 5.5 | 5.8 | 3.5 | 4.0 | 1.8 | 1.7 | 2.3 | 2.2 | 4.0 | 4.1 |
| | Q3 | 5.4 | 6.0 | 3.5 | 4.1 | 1.8 | 1.8 | 2.3 | 2.3 | 4.1 | 4.2 |
| | Q4 | 5.5 | 6.1 | 3.5 | 4.2 | 1.9 | 1.8 | 2.5 | 2.4 | 4.1 | 4.3 |
| **TWO-QUARTER[3]** | | | | | | | | | | | |
| 1998 | Q2 | 5.5 | 5.8 | 4.5 | 4.7 | 1.0 | 1.1 | 1.3 | 1.3 | -0.3 | -0.3 |
| | Q4 | 6.2 | 5.9 | 4.9 | 4.5 | 1.1 | 1.3 | 1.7 | 1.7 | 0.0 | 0.0 |
| 1999 | Q2 | 4.5 | 4.9 | 2.8 | 3.0 | 1.7 | 1.8 | 2.5 | 2.5 | -0.1 | -0.1 |
| | Q4 | 8.1 | 8.2 | 6.5 | 7.0 | 1.5 | 1.3 | 2.7 | 2.7 | -0.2 | -0.2 |
| 2000 | Q2 | 7.6 | 8.0 | 4.8 | 4.8 | 2.7 | 2.9 | 3.8 | 3.8 | -0.1 | -0.1 |
| | Q4 | 5.9 | 5.1 | 3.8 | 3.5 | 2.0 | 1.5 | 2.6 | 2.3 | -0.1 | 0.0 |
| 2001 | Q2 | 5.5 | 6.0 | 3.5 | 3.9 | 1.9 | 1.9 | 2.1 | 2.2 | 0.1 | 0.1 |
| | Q4 | 5.5 | 6.0 | 3.5 | 4.2 | 1.9 | 1.8 | 2.4 | 2.3 | 0.1 | 0.2 |
| **FOUR-QUARTER[4]** | | | | | | | | | | | |
| 1997 | Q4 | 5.9 | 6.2 | 4.1 | 4.3 | 1.8 | 1.8 | 1.9 | 1.9 | -0.6 | -0.6 |
| 1998 | Q4 | 5.9 | 5.9 | 4.7 | 4.6 | 1.0 | 1.2 | 1.5 | 1.5 | -0.3 | -0.3 |
| 1999 | Q4 | 6.3 | 6.5 | 4.6 | 5.0 | 1.6 | 1.6 | 2.6 | 2.6 | -0.3 | -0.3 |
| 2000 | Q4 | 6.7 | 6.6 | 4.3 | 4.2 | 2.3 | 2.2 | 3.2 | 3.1 | -0.2 | -0.1 |
| 2001 | Q4 | 5.5 | 6.0 | 3.5 | 4.1 | 1.9 | 1.9 | 2.2 | 2.3 | 0.2 | 0.2 |

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

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

August 16, 2000

| Item | Units[1] | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | --Projected-- 2000 | 2001 |
|---|---|---|---|---|---|---|---|---|---|---|
| **EXPENDITURES** | | | | | | | | | | |
| Nominal GDP | Bill. $ | 6642.3 | 7054.3 | 7400.5 | 7813.2 | 8318.4 | 8790.2 | 9299.2 | 9981.6 | 10565.5 |
| Real GDP | Bill. Ch. $ | 7062.6 | 7347.7 | 7543.8 | 7813.2 | 8159.5 | 8515.7 | 8875.8 | 9332.7 | 9697.6 |
| Real GDP | % change | 2.5 | 4.1 | 2.2 | 4.1 | 4.3 | 4.6 | 5.0 | 4.2 | 4.1 |
| Gross domestic purchases | | 3.1 | 4.3 | 1.7 | 4.3 | 5.0 | 5.7 | 5.9 | 4.8 | 4.2 |
| Final sales | | 2.6 | 3.2 | 2.9 | 3.9 | 3.9 | 4.6 | 4.8 | 4.5 | 4.2 |
| Priv. dom. final purchases | | 4.2 | 4.3 | 3.2 | 4.4 | 5.1 | 6.4 | 6.1 | 5.8 | 4.5 |
| Personal cons. expenditures | | 3.4 | 3.6 | 2.8 | 3.1 | 4.1 | 5.0 | 5.6 | 4.6 | 3.5 |
| Durables | | 9.3 | 6.4 | 3.7 | 5.0 | 8.8 | 12.6 | 11.1 | 7.1 | 4.1 |
| Nondurables | | 2.6 | 4.1 | 2.5 | 3.2 | 2.5 | 5.0 | 5.9 | 4.3 | 3.4 |
| Services | | 2.6 | 2.7 | 2.7 | 2.7 | 3.9 | 3.4 | 4.2 | 4.3 | 3.5 |
| Business fixed investment | | 8.7 | 9.2 | 7.5 | 12.1 | 11.8 | 12.9 | 10.1 | 15.4 | 11.7 |
| Equipment & Software | | 11.5 | 12.0 | 8.9 | 11.8 | 13.7 | 15.8 | 14.1 | 18.4 | 14.4 |
| Nonres. structures | | 1.2 | 1.1 | 3.3 | 12.8 | 6.5 | 4.9 | -1.7 | 6.1 | 2.5 |
| Residential structures | | 7.8 | 4.0 | -1.5 | 5.6 | 3.5 | 10.3 | 2.8 | -5.6 | -5.4 |
| Exports | | 4.8 | 10.5 | 9.7 | 9.8 | 8.5 | 2.2 | 4.3 | 7.2 | 8.3 |
| Imports | | 10.5 | 12.2 | 5.0 | 11.2 | 14.3 | 11.2 | 12.0 | 11.2 | 8.0 |
| Gov't. cons. & investment | | -0.8 | 0.2 | -0.8 | 2.7 | 2.4 | 2.6 | 4.4 | 2.0 | 3.3 |
| Federal | | -5.3 | -3.7 | -5.3 | 2.0 | 0.1 | 0.8 | 4.8 | -1.1 | 1.7 |
| Defense | | -6.4 | -5.9 | -4.7 | 0.8 | -1.4 | -1.0 | 4.6 | -3.0 | 1.4 |
| State & local | | 2.5 | 2.8 | 2.1 | 3.0 | 3.7 | 3.6 | 4.2 | 3.6 | 4.2 |
| Change in bus. inventories | Bill. Ch. $ | 20.0 | 66.8 | 30.4 | 30.0 | 63.8 | 80.2 | 45.3 | 60.9 | 56.2 |
| Nonfarm | | 28.6 | 53.6 | 42.6 | 22.1 | 60.6 | 78.7 | 44.9 | 55.5 | 53.5 |
| Net exports | | -59.1 | -86.5 | -78.4 | -89.0 | -113.3 | -221.0 | -322.4 | -414.8 | -461.0 |
| Nominal GDP | % change | 5.0 | 6.2 | 4.3 | 6.0 | 6.2 | 5.9 | 6.5 | 6.6 | 6.0 |
| **EMPLOYMENT AND PRODUCTION** | | | | | | | | | | |
| Nonfarm payroll employment | Millions | 110.7 | 114.1 | 117.2 | 119.6 | 122.7 | 125.8 | 128.8 | 131.5 | 133.2 |
| Unemployment rate | % | 6.9 | 6.1 | 5.6 | 5.4 | 4.9 | 4.5 | 4.2 | 4.0 | 4.2 |
| Industrial prod. index | % change | 3.4 | 6.4 | 3.5 | 5.3 | 6.8 | 2.9 | 4.2 | 5.8 | 4.3 |
| Capacity util. rate - mfg. | % | 80.5 | 82.5 | 82.6 | 81.5 | 82.4 | 80.9 | 79.8 | 81.4 | 82.1 |
| Housing starts | Millions | 1.29 | 1.46 | 1.35 | 1.48 | 1.47 | 1.62 | 1.67 | 1.59 | 1.47 |
| Light motor vehicle sales | | 13.87 | 15.01 | 14.77 | 15.05 | 15.06 | 15.45 | 16.76 | 17.31 | 16.53 |
| North Amer. produced | | 11.72 | 12.88 | 12.87 | 13.34 | 13.12 | 13.43 | 14.28 | 14.53 | 14.01 |
| Other | | 2.15 | 2.13 | 1.90 | 1.70 | 1.93 | 2.02 | 2.48 | 2.78 | 2.52 |
| **INCOME AND SAVING** | | | | | | | | | | |
| Nominal GNP | Bill. $ | 6666.7 | 7071.1 | 7420.9 | 7831.2 | 8325.4 | 8786.7 | 9288.2 | 9966.1 | 10542.4 |
| Nominal GNP | % change | 4.9 | 6.2 | 4.4 | 5.9 | 6.0 | 5.7 | 6.5 | 6.5 | 5.9 |
| Nominal personal income | | 3.7 | 5.1 | 4.3 | 5.9 | 6.3 | 6.3 | 5.6 | 6.2 | 6.2 |
| Real disposable income | | 1.3 | 2.9 | 1.7 | 2.6 | 3.8 | 4.6 | 3.1 | 3.3 | 4.3 |
| Personal saving rate | % | 7.1 | 6.1 | 5.6 | 4.8 | 4.2 | 4.2 | 2.2 | 0.2 | 0.8 |
| Corp. profits, IVA & CCAdj. | % change | 18.0 | 12.3 | 11.3 | 11.4 | 9.9 | -5.8 | 11.2 | 8.3 | 3.5 |
| Profit share of GNP | % | 7.7 | 8.1 | 9.0 | 9.6 | 10.0 | 9.3 | 9.2 | 9.7 | 9.4 |
| Excluding FR Banks | | 7.4 | 7.9 | 8.7 | 9.4 | 9.7 | 9.0 | 8.9 | 9.4 | 9.1 |
| Federal surpl./deficit | Bill. $ | -274.1 | -212.3 | -192.0 | -136.8 | -53.3 | 49.0 | 124.4 | 243.8 | 274.5 |
| State & local surpl./def. | | 1.5 | 8.6 | 15.3 | 21.4 | 31.0 | 41.7 | 50.0 | 52.8 | 51.2 |
| Ex. social ins. funds | | -2.7 | 4.0 | 11.4 | 18.7 | 29.9 | 41.3 | 50.4 | 53.2 | 51.1 |
| Gross natl. saving rate | % | 15.6 | 16.3 | 16.9 | 17.2 | 18.0 | 18.8 | 18.5 | 18.5 | 19.0 |
| Net natl. saving rate | | 3.8 | 4.3 | 5.1 | 5.7 | 6.7 | 7.5 | 6.8 | 6.8 | 7.2 |
| **PRICES AND COSTS** | | | | | | | | | | |
| GDP chn.-wt. price index | % change | 2.4 | 2.1 | 2.1 | 1.9 | 1.8 | 1.2 | 1.6 | 2.2 | 1.9 |
| Gross Domestic Purchases chn.-wt. price index | | 2.2 | 2.1 | 2.1 | 1.9 | 1.4 | 0.8 | 1.9 | 2.3 | 1.8 |
| PCE chn.-wt. price index | | 2.1 | 2.1 | 2.1 | 2.3 | 1.5 | 1.1 | 2.0 | 2.3 | 1.9 |
| Ex. food and energy | | 2.4 | 2.3 | 2.3 | 1.8 | 1.7 | 1.6 | 1.5 | 1.8 | 2.1 |
| CPI | | 2.7 | 2.6 | 2.7 | 3.1 | 1.9 | 1.5 | 2.6 | 3.1 | 2.3 |
| Ex. food and energy | | 3.1 | 2.8 | 3.0 | 2.6 | 2.2 | 2.4 | 2.1 | 2.5 | 2.6 |
| ECI, hourly compensation[2] | | 3.6 | 3.1 | 2.6 | 3.1 | 3.4 | 3.5 | 3.4 | 4.7 | 4.8 |
| Nonfarm business sector | | | | | | | | | | |
| Output per hour | | -0.2 | 1.1 | 1.1 | 2.3 | 2.1 | 2.9 | 4.1 | 3.1 | 3.2 |
| Compensation per Hour | | 1.4 | 2.2 | 2.7 | 3.1 | 3.2 | 5.3 | 4.8 | 4.9 | 5.5 |
| Unit labor cost | | 1.6 | 1.0 | 1.5 | 0.8 | 1.1 | 2.3 | 0.7 | 1.6 | 2.3 |

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

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

August 16, 2000

| Item | Units | 1997 Q1 | 1997 Q2 | 1997 Q3 | 1997 Q4 | 1998 Q1 | 1998 Q2 | 1998 Q3 | 1998 Q4 | 1999 Q1 | 1999 Q2 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| EXPENDITURES | | | | | | | | | | | |
| Nominal GDP | Bill. $ | 8124.2 | 8279.8 | 8390.9 | 8478.6 | 8634.7 | 8722.0 | 8829.1 | 8974.9 | 9104.5 | 9191.5 |
| Real GDP | Bill. Ch. $ | 8016.4 | 8131.9 | 8216.6 | 8272.9 | 8404.9 | 8465.6 | 8537.6 | 8654.5 | 8730.0 | 8783.2 |
| Real GDP | % change | 4.4 | 5.9 | 4.2 | 2.8 | 6.5 | 2.9 | 3.4 | 5.6 | 3.5 | 2.5 |
| Gross domestic purchases | | 5.3 | 6.1 | 5.1 | 3.6 | 8.1 | 4.8 | 4.4 | 5.4 | 4.9 | 3.8 |
| Final sales | | 3.5 | 3.9 | 6.2 | 2.0 | 4.1 | 5.6 | 2.9 | 5.9 | 4.5 | 4.0 |
| Priv. dom. final purchases | | 5.2 | 3.7 | 8.1 | 3.5 | 7.2 | 7.5 | 4.4 | 6.3 | 6.4 | 6.2 |
| Personal cons. expenditures | | 4.5 | 1.9 | 6.6 | 3.3 | 4.8 | 5.8 | 4.3 | 4.9 | 5.7 | 5.6 |
| Durables | | 10.5 | -3.1 | 23.1 | 6.3 | 9.4 | 13.9 | 4.1 | 23.9 | 8.6 | 15.0 |
| Nondurables | | 3.0 | 0.7 | 6.0 | 0.6 | 4.7 | 5.8 | 4.3 | 5.2 | 7.8 | 3.8 |
| Services | | 4.2 | 3.5 | 3.9 | 4.2 | 4.0 | 4.3 | 4.3 | 1.3 | 4.1 | 4.6 |
| Business fixed investment | | 10.9 | 14.0 | 19.1 | 3.9 | 20.1 | 15.6 | 3.5 | 13.2 | 9.5 | 9.6 |
| Equipment & Software | | 12.4 | 20.4 | 20.0 | 2.9 | 24.6 | 16.1 | 6.5 | 16.7 | 14.1 | 15.2 |
| Nonres. structures | | 6.4 | -2.9 | 16.3 | 7.0 | 7.9 | 14.1 | -4.7 | 3.3 | -3.4 | -6.2 |
| Residential structures | | 0.9 | 5.1 | 2.1 | 5.8 | 9.6 | 12.6 | 10.3 | 8.9 | 8.2 | 5.9 |
| Exports | | 7.5 | 17.6 | 10.6 | -0.8 | 1.0 | -3.0 | -3.2 | 15.1 | -7.9 | 5.8 |
| Imports | | 15.3 | 18.8 | 17.3 | 6.4 | 14.2 | 13.1 | 5.5 | 12.2 | 4.5 | 16.2 |
| Gov't. cons. & investment | | 1.1 | 6.4 | 2.2 | 0.1 | -1.0 | 7.3 | 1.4 | 2.8 | 3.7 | 0.8 |
| Federal | | -4.4 | 10.4 | -1.1 | -3.7 | -9.1 | 12.9 | -3.2 | 3.7 | -2.2 | 2.0 |
| Defense | | -12.5 | 10.5 | 0.1 | -2.2 | -17.7 | 13.1 | 5.8 | -2.4 | -3.1 | -2.3 |
| State & local | | 4.4 | 4.2 | 4.1 | 2.3 | 3.8 | 4.4 | 4.0 | 2.3 | 7.0 | 0.1 |
| Change in bus. inventories | Bill. Ch. $ | 49.3 | 88.3 | 51.3 | 66.1 | 117.3 | 60.9 | 73.1 | 69.4 | 48.1 | 13.1 |
| Nonfarm | | 50.4 | 88.3 | 42.4 | 61.3 | 109.7 | 62.5 | 79.2 | 63.5 | 49.2 | 14.1 |
| Net exports | | -94.0 | -100.6 | -119.6 | -139.2 | -175.3 | -219.8 | -244.1 | -244.9 | -279.8 | -314.6 |
| Nominal GDP | % change | 7.3 | 7.9 | 5.5 | 4.2 | 7.6 | 4.1 | 5.0 | 6.8 | 5.9 | 3.9 |
| EMPLOYMENT AND PRODUCTION | | | | | | | | | | | |
| Nonfarm payroll employment | Millions | 121.4 | 122.3 | 123.0 | 124.0 | 124.7 | 125.5 | 126.2 | 127.0 | 127.8 | 128.4 |
| Unemployment rate | % | 5.3 | 5.0 | 4.8 | 4.7 | 4.7 | 4.4 | 4.5 | 4.4 | 4.3 | 4.3 |
| Industrial prod. index | % change | 6.5 | 6.7 | 6.9 | 6.9 | 2.4 | 3.0 | 2.9 | 3.3 | 2.0 | 4.7 |
| Capacity util. rate - mfg. | % | 81.9 | 82.2 | 82.5 | 82.7 | 82.0 | 81.0 | 80.3 | 80.2 | 79.6 | 79.6 |
| Housing starts | Millions | 1.43 | 1.48 | 1.46 | 1.53 | 1.56 | 1.57 | 1.63 | 1.72 | 1.76 | 1.59 |
| Light motor vehicle sales | | 15.33 | 14.56 | 15.25 | 15.11 | 15.00 | 16.01 | 14.55 | 16.24 | 16.18 | 16.79 |
| North Amer. produced | | 13.41 | 12.70 | 13.22 | 13.16 | 13.07 | 14.04 | 12.53 | 14.07 | 13.87 | 14.34 |
| Other | | 1.92 | 1.86 | 2.02 | 1.94 | 1.93 | 1.97 | 2.02 | 2.17 | 2.31 | 2.45 |
| INCOME AND SAVING | | | | | | | | | | | |
| Nominal GNP | Bill. $ | 8131.8 | 8291.8 | 8397.7 | 8480.4 | 8640.3 | 8725.0 | 8814.9 | 8966.6 | 9097.2 | 9181.8 |
| Nominal GNP | % change | 6.9 | 8.1 | 5.2 | 4.0 | 7.8 | 4.0 | 4.2 | 7.1 | 6.0 | 3.8 |
| Nominal personal income | | 7.0 | 5.2 | 5.9 | 7.0 | 7.7 | 6.2 | 5.9 | 5.7 | 4.3 | 5.4 |
| Real disposable income | | 3.0 | 3.5 | 3.9 | 4.9 | 6.6 | 4.5 | 3.6 | 3.6 | 2.9 | 2.8 |
| Personal saving rate | % | 4.2 | 4.6 | 3.9 | 4.2 | 4.6 | 4.3 | 4.1 | 3.8 | 3.1 | 2.5 |
| Corp. profits, IVA & CCAdj. | % change | 12.2 | 14.3 | 16.8 | -2.6 | -12.6 | -5.0 | 2.0 | -7.0 | 26.5 | -6.9 |
| Profit share of GNP | % | 9.8 | 10.0 | 10.2 | 10.1 | 9.5 | 9.3 | 9.3 | 9.0 | 9.4 | 9.1 |
| Excluding FR Banks | | 9.5 | 9.7 | 9.9 | 9.8 | 9.3 | 9.0 | 9.0 | 8.7 | 9.1 | 8.8 |
| Federal surpl./deficit | Bill. $ | -86.5 | -68.0 | -33.7 | -25.0 | 25.9 | 41.9 | 71.9 | 56.4 | 89.7 | 117.5 |
| State & local surpl./def. | | 23.5 | 26.6 | 35.5 | 38.3 | 38.1 | 33.4 | 37.5 | 57.7 | 47.9 | 38.0 |
| Ex. social ins. funds | | 21.9 | 25.4 | 34.7 | 37.6 | 37.5 | 32.9 | 37.2 | 57.6 | 48.1 | 38.3 |
| Gross natl. saving rate | % | 17.5 | 18.0 | 18.2 | 18.5 | 18.9 | 18.7 | 19.0 | 18.7 | 18.9 | 18.4 |
| Net natl. saving rate | | 6.1 | 6.7 | 6.9 | 7.1 | 7.7 | 7.4 | 7.6 | 7.2 | 7.3 | 6.7 |
| PRICES AND COSTS | | | | | | | | | | | |
| GDP chn.-wt. price index | % change | 2.9 | 1.9 | 1.2 | 1.4 | 1.0 | 1.1 | 1.5 | 1.1 | 2.2 | 1.4 |
| Gross Domestic Purchases chn.-wt. price index | | 2.4 | 0.8 | 1.0 | 1.3 | 0.1 | 0.8 | 1.1 | 1.2 | 1.9 | 2.0 |
| PCE chn.-wt. price index | | 2.4 | 1.1 | 1.2 | 1.3 | 0.4 | 1.2 | 1.4 | 1.5 | 1.7 | 2.3 |
| Ex. food and energy | | 2.3 | 2.3 | 1.1 | 1.2 | 1.2 | 1.8 | 1.8 | 1.7 | 1.8 | 1.3 |
| CPI | | 2.5 | 1.3 | 1.8 | 2.0 | 1.0 | 1.7 | 1.7 | 1.7 | 1.7 | 3.2 |
| Ex. food and energy | | 2.2 | 2.6 | 1.7 | 2.1 | 2.8 | 2.3 | 2.3 | 2.1 | 1.8 | 2.1 |
| ECI, hourly compensation[1] | | 2.8 | 3.4 | 3.0 | 4.6 | 3.0 | 3.3 | 4.4 | 2.6 | 1.7 | 4.3 |
| Nonfarm business sector | | | | | | | | | | | |
| Output per hour | | 0.7 | 3.9 | 3.2 | 0.6 | 4.5 | 1.6 | 1.8 | 3.6 | 2.6 | 0.6 |
| Compensation per hour | | 2.0 | 1.1 | 3.8 | 6.1 | 6.1 | 5.3 | 5.2 | 4.5 | 4.5 | 5.0 |
| Unit labor cost | | 1.3 | -2.7 | 0.6 | 5.5 | 1.5 | 3.6 | 3.3 | 0.8 | 1.8 | 4.3 |

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)

August 16, 2000

| | | | | | - - - - - - - - - - - - Projected - - - - - - - - - - - - - - | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Item | Units | 1999 Q3 | 1999 Q4 | 2000 Q1 | 2000 Q2 | 2000 Q3 | 2000 Q4 | 2001 Q1 | 2001 Q2 | 2001 Q3 | 2001 Q4 |
| EXPENDITURES | | | | | | | | | | | |
| Nominal GDP | Bill. $ | 9340.9 | 9559.7 | 9752.7 | 9934.6 | 10052.8 | 10186.2 | 10338.8 | 10486.0 | 10638.9 | 10798.2 |
| Real GDP | Bill. Ch. $ | 8905.8 | 9084.1 | 9191.8 | 9301.6 | 9374.9 | 9462.5 | 9552.4 | 9646.8 | 9744.7 | 9846.3 |
| Real GDP | % change | 5.7 | 8.3 | 4.8 | 4.9 | 3.2 | 3.8 | 3.9 | 4.0 | 4.1 | 4.2 |
| Gross domestic purchases | | 6.6 | 8.4 | 5.6 | 6.2 | 3.6 | 3.7 | 4.2 | 4.3 | 4.2 | 3.9 |
| Final sales | | 4.5 | 6.4 | 6.7 | 3.4 | 3.5 | 4.3 | 3.9 | 4.0 | 4.2 | 4.5 |
| Priv. dom. final purchases | | 5.6 | 6.2 | 9.3 | 4.7 | 4.6 | 4.4 | 4.4 | 4.6 | 4.5 | 4.4 |
| Personal cons. expenditures | | 5.0 | 5.9 | 7.6 | 2.9 | 4.2 | 3.9 | 3.7 | 3.6 | 3.4 | 3.4 |
| Durables | | 8.0 | 13.0 | 23.6 | -4.6 | 6.9 | 4.2 | 4.2 | 4.0 | 4.0 | 4.2 |
| Nondurables | | 4.9 | 7.4 | 6.0 | 3.6 | 3.6 | 3.9 | 3.5 | 3.4 | 3.3 | 3.3 |
| Services | | 4.5 | 3.8 | 5.2 | 4.2 | 3.9 | 3.8 | 3.7 | 3.6 | 3.3 | 3.3 |
| Business fixed investment | | 11.8 | 9.5 | 21.0 | 15.1 | 14.3 | 11.6 | 12.0 | 11.9 | 11.8 | 11.1 |
| Equipment & Software | | 18.0 | 9.5 | 20.6 | 21.0 | 18.0 | 14.0 | 14.6 | 14.6 | 14.6 | 13.8 |
| Nonres. structures | | -6.2 | 9.7 | 22.3 | -2.5 | 2.7 | 3.5 | 3.3 | 2.7 | 2.2 | 1.7 |
| Residential structures | | -3.1 | 0.5 | 3.2 | 1.1 | -16.1 | -9.5 | -8.7 | -4.2 | -4.0 | -4.6 |
| Exports | | 10.2 | 10.3 | 6.3 | 7.4 | 7.0 | 8.3 | 4.9 | 8.2 | 8.4 | 11.9 |
| Imports | | 16.9 | 10.7 | 12.0 | 17.3 | 9.1 | 6.6 | 7.2 | 9.4 | 7.7 | 7.8 |
| Gov't. cons. & investment | | 4.8 | 8.5 | -1.1 | 5.4 | 0.3 | 3.4 | 3.3 | 3.3 | 3.3 | 3.4 |
| Federal | | 6.9 | 13.2 | -14.2 | 17.5 | -6.6 | 1.8 | 1.5 | 1.4 | 1.8 | 2.0 |
| Defense | | 12.3 | 12.6 | -19.8 | 17.3 | -7.1 | 1.3 | 1.1 | 1.0 | 1.5 | 1.8 |
| State & local | | 3.7 | 6.1 | 6.6 | -0.4 | 4.2 | 4.2 | 4.2 | 4.2 | 4.1 | 4.1 |
| Change in bus. inventories | Bill. Ch. $ | 39.1 | 80.9 | 36.6 | 76.6 | 71.8 | 58.8 | 58.3 | 58.5 | 57.2 | 50.9 |
| Nonfarm | | 43.5 | 73.0 | 33.0 | 70.3 | 65.8 | 52.7 | 54.4 | 55.7 | 54.8 | 49.1 |
| Net exports | | -342.6 | -352.5 | -376.8 | -416.6 | -431.6 | -434.2 | -447.9 | -461.6 | -468.5 | -465.8 |
| Nominal GDP | % change | 6.7 | 9.7 | 8.3 | 7.7 | 4.8 | 5.4 | 6.1 | 5.8 | 6.0 | 6.1 |
| EMPLOYMENT AND PRODUCTION | | | | | | | | | | | |
| Nonfarm payroll employment | Millions | 129.1 | 129.8 | 130.6 | 131.5 | 131.6 | 132.1 | 132.5 | 133.0 | 133.5 | 133.9 |
| Unemployment rate | % | 4.2 | 4.1 | 4.1 | 4.0 | 4.0 | 4.0 | 4.1 | 4.1 | 4.2 | 4.3 |
| Industrial prod. index | % change | 4.8 | 5.3 | 6.5 | 7.3 | 5.0 | 4.5 | 4.3 | 4.5 | 4.3 | 4.0 |
| Capacity util. rate - mfg. | % | 79.7 | 80.3 | 80.8 | 81.4 | 81.7 | 81.7 | 81.8 | 82.0 | 82.2 | 82.4 |
| Housing starts | Millions | 1.66 | 1.69 | 1.73 | 1.60 | 1.53 | 1.52 | 1.50 | 1.48 | 1.46 | 1.45 |
| Light motor vehicle sales | | 17.08 | 17.00 | 18.20 | 17.24 | 16.96 | 16.83 | 16.68 | 16.56 | 16.49 | 16.38 |
| North Amer. produced | | 14.61 | 14.31 | 15.32 | 14.36 | 14.21 | 14.23 | 14.11 | 14.04 | 14.00 | 13.90 |
| Other | | 2.47 | 2.69 | 2.88 | 2.88 | 2.75 | 2.60 | 2.57 | 2.52 | 2.49 | 2.48 |
| INCOME AND SAVING | | | | | | | | | | | |
| Nominal GNP | Bill. $ | 9327.3 | 9546.3 | 9745.0 | 9916.2 | 10035.5 | 10167.5 | 10320.7 | 10464.8 | 10614.4 | 10769.5 |
| Nominal GNP | % change | 6.5 | 9.7 | 8.6 | 7.2 | 4.9 | 5.4 | 6.2 | 5.7 | 5.8 | 6.0 |
| Nominal personal income | | 5.2 | 7.6 | 6.9 | 6.4 | 6.5 | 5.0 | 7.1 | 5.9 | 5.8 | 5.9 |
| Real disposable income | | 2.2 | 4.5 | 1.9 | 3.2 | 4.8 | 3.4 | 6.3 | 3.7 | 3.5 | 3.6 |
| Personal saving rate | % | 1.8 | 1.5 | 0.2 | 0.2 | 0.3 | 0.2 | 0.8 | 0.8 | 0.8 | 0.9 |
| Corp. profits, IVA & CCAdj. | % change | 2.5 | 26.6 | 20.7 | 16.6 | -0.9 | -1.4 | 3.4 | 2.7 | 4.1 | 3.8 |
| Profit share of GNP | % | 9.0 | 9.4 | 9.6 | 9.8 | 9.7 | 9.5 | 9.5 | 9.4 | 9.3 | 9.3 |
| Excluding FR Banks | | 8.8 | 9.1 | 9.3 | 9.6 | 9.4 | 9.3 | 9.2 | 9.1 | 9.1 | 9.1 |
| Federal surpl./deficit | Bill. $ | 147.3 | 143.3 | 235.8 | 239.5 | 242.3 | 257.6 | 242.1 | 263.7 | 289.4 | 302.7 |
| State & local surpl./def. | | 47.4 | 66.6 | 52.0 | 54.7 | 50.8 | 53.7 | 54.1 | 52.5 | 48.9 | 49.1 |
| Ex. social ins. funds | | 47.9 | 67.2 | 52.5 | 55.1 | 51.1 | 53.9 | 54.2 | 52.5 | 48.8 | 48.9 |
| Gross natl. saving rate | % | 18.4 | 18.3 | 18.2 | 18.5 | 18.6 | 18.5 | 18.8 | 18.9 | 19.1 | 19.2 |
| Net natl. saving rate | | 6.5 | 6.6 | 6.6 | 6.9 | 6.8 | 6.8 | 7.0 | 7.1 | 7.3 | 7.4 |
| PRICES AND COSTS | | | | | | | | | | | |
| GDP chn.-wt. price index | % change | 1.1 | 1.6 | 3.3 | 2.5 | 1.5 | 1.6 | 2.2 | 1.7 | 1.8 | 1.8 |
| Gross Domestic Purchases chn.-wt. price index | | 1.7 | 1.9 | 3.8 | 2.2 | 1.6 | 1.7 | 2.0 | 1.6 | 1.7 | 1.7 |
| PCE chn.-wt. price index | | 1.9 | 2.2 | 3.5 | 2.3 | 1.5 | 1.7 | 1.9 | 1.9 | 1.9 | 2.0 |
| Ex. food and energy | | 1.3 | 1.7 | 2.2 | 1.7 | 1.3 | 2.0 | 2.0 | 2.0 | 2.1 | 2.1 |
| CPI | | 2.4 | 2.9 | 4.1 | 3.6 | 2.6 | 2.0 | 2.2 | 2.2 | 2.3 | 2.4 |
| Ex. food and energy | | 2.1 | 2.3 | 2.3 | 2.8 | 2.5 | 2.6 | 2.6 | 2.6 | 2.7 | 2.7 |
| ECI, hourly compensation[1] | | 3.7 | 4.0 | 5.9 | 4.4 | 4.0 | 4.5 | 4.7 | 4.7 | 4.8 | 4.9 |
| Nonfarm business sector | | | | | | | | | | | |
| Output per hour | | 5.2 | 8.0 | 1.9 | 5.3 | 3.0 | 2.4 | 2.9 | 3.1 | 3.3 | 3.4 |
| Compensation per hour | | 5.5 | 4.2 | 3.9 | 5.2 | 4.8 | 5.3 | 5.6 | 5.4 | 5.4 | 5.6 |
| Unit labor cost | | 0.3 | -3.5 | 1.9 | -0.1 | 1.8 | 2.9 | 2.7 | 2.3 | 2.1 | 2.2 |

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS



| Item | 1997 Q3 | 1997 Q4 | 1998 Q1 | 1998 Q2 | 1998 Q3 | 1998 Q4 | 1999 Q1 | 1999 Q2 | 1999 Q3 | 97Q4/ 96Q4 | 98Q4/ 97Q4 | 99Q4/ 98Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Real GDP | 4.2 | 2.8 | 6.5 | 2.9 | 3.4 | 5.6 | 3.5 | 2.5 | 5.7 | 4.3 | 4.6 | 5.0 |
| Gross dom. purchases | 5.1 | 3.7 | 8.2 | 4.9 | 4.5 | 5.5 | 5.0 | 3.8 | 6.8 | 5.1 | 5.8 | 6.0 |
| Final sales | 6.1 | 2.0 | 4.2 | 5.4 | 2.9 | 5.8 | 4.4 | 3.9 | 4.5 | 3.9 | 4.6 | 4.8 |
| Priv. dom. final purchases | 6.6 | 2.9 | 5.9 | 6.2 | 3.7 | 5.3 | 5.3 | 5.2 | 4.7 | 4.2 | 5.3 | 5.1 |
| Personal cons. expenditures | 4.3 | 2.2 | 3.2 | 3.8 | 2.8 | 3.3 | 3.7 | 3.7 | 3.4 | 2.7 | 3.3 | 3.7 |
| Durables | 1.6 | 0.5 | 0.7 | 1.0 | 0.3 | 1.7 | 0.7 | 1.1 | 0.6 | 0.7 | 1.0 | 0.9 |
| Nondurables | 1.2 | 0.1 | 0.9 | 1.1 | 0.8 | 1.0 | 1.5 | 0.8 | 1.0 | 0.5 | 1.0 | 1.2 |
| Services | 1.5 | 1.6 | 1.6 | 1.7 | 1.7 | 0.5 | 1.6 | 1.8 | 1.8 | 1.5 | 1.4 | 1.7 |
| Business fixed investment | 2.1 | 0.5 | 2.3 | 1.8 | 0.4 | 1.6 | 1.2 | 1.2 | 1.5 | 1.4 | 1.5 | 1.3 |
| Equipment & Software | 1.7 | 0.3 | 2.1 | 1.4 | 0.6 | 1.5 | 1.3 | 1.4 | 1.7 | 1.2 | 1.4 | 1.3 |
| Nonres. structures | 0.5 | 0.2 | 0.3 | 0.4 | -0.2 | 0.1 | -0.1 | -0.2 | -0.2 | 0.2 | 0.2 | -0.1 |
| Residential structures | 0.1 | 0.2 | 0.4 | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 | -0.1 | 0.1 | 0.4 | 0.1 |
| Net exports | -0.8 | -0.9 | -1.6 | -1.9 | -1.0 | 0.1 | -1.4 | -1.4 | -1.1 | -0.8 | -1.1 | -1.1 |
| Exports | 1.2 | -0.1 | 0.1 | -0.3 | -0.4 | 1.5 | -0.9 | 0.6 | 1.1 | 1.0 | 0.3 | 0.5 |
| Imports | -2.0 | -0.8 | -1.7 | -1.6 | -0.7 | -1.5 | -0.6 | -2.0 | -2.1 | -1.7 | -1.4 | -1.5 |
| Government cons. & invest. | 0.4 | 0.0 | -0.2 | 1.2 | 0.3 | 0.5 | 0.6 | 0.1 | 0.8 | 0.4 | 0.5 | 0.8 |
| Federal | -0.1 | -0.2 | -0.6 | 0.8 | -0.2 | 0.2 | -0.1 | 0.1 | 0.4 | 0.0 | 0.0 | 0.3 |
| Defense | 0.0 | -0.1 | -0.8 | 0.5 | 0.2 | -0.1 | -0.1 | -0.1 | 0.5 | -0.1 | -0.0 | 0.2 |
| Nondefense | -0.1 | -0.2 | 0.2 | 0.3 | -0.4 | 0.3 | -0.0 | 0.2 | -0.1 | 0.1 | 0.1 | 0.1 |
| State and local | 0.5 | 0.3 | 0.4 | 0.5 | 0.5 | 0.3 | 0.8 | 0.0 | 0.4 | 0.4 | 0.4 | 0.5 |
| Change in bus. inventories | -1.8 | 0.7 | 2.4 | -2.5 | 0.6 | -0.2 | -0.9 | -1.4 | 1.2 | 0.4 | 0.0 | 0.2 |
| Nonfarm | -2.2 | 0.9 | 2.3 | -2.1 | 0.8 | -0.7 | -0.6 | -1.4 | 1.3 | 0.4 | 0.0 | 0.1 |
| Farm | 0.4 | -0.2 | 0.1 | -0.4 | -0.2 | 0.5 | -0.3 | 0.0 | -0.1 | 0.0 | 0.0 | 0.1 |

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

August 16, 2000

| Item | 1999 Q4 | 2000 Q1 | 2000 Q2 | 2000 Q3 | 2000 Q4 | 2001 Q1 | 2001 Q2 | 2001 Q3 | 2001 Q4 | 99Q4/ 98Q4 | 00Q4/ 99Q4 | 01Q4/ 00Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Real GDP | 8.3 | 4.8 | 4.9 | 3.2 | 3.8 | 3.9 | 4.0 | 4.1 | 4.2 | 5.0 | 4.2 | 4.1 |
| Gross dom. purchases | 8.6 | 5.8 | 6.5 | 3.8 | 3.9 | 4.4 | 4.5 | 4.4 | 4.1 | 6.0 | 4.9 | 4.3 |
| Final sales | 6.5 | 6.6 | 3.4 | 3.4 | 4.3 | 3.9 | 4.0 | 4.2 | 4.5 | 4.8 | 4.4 | 4.1 |
| Priv. dom. final purchases | 5.2 | 7.9 | 4.0 | 4.0 | 3.8 | 3.8 | 3.9 | 3.8 | 3.7 | 5.1 | 4.9 | 3.8 |
| Personal cons. expenditures | 4.1 | 5.0 | 2.0 | 2.8 | 2.6 | 2.5 | 2.4 | 2.3 | 2.3 | 3.7 | 3.1 | 2.4 |
| Durables | 1.0 | 1.8 | -0.4 | 0.5 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.9 | 0.6 | 0.3 |
| Nondurables | 1.5 | 1.2 | 0.7 | 0.7 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 1.2 | 0.9 | 0.7 |
| Services | 1.6 | 2.0 | 1.6 | 1.5 | 1.5 | 1.5 | 1.4 | 1.3 | 1.3 | 1.7 | 1.7 | 1.4 |
| Business fixed investment | 1.2 | 2.5 | 1.9 | 1.9 | 1.6 | 1.6 | 1.6 | 1.7 | 1.6 | 1.3 | 2.0 | 1.6 |
| Equipment & Software | 0.9 | 1.9 | 2.0 | 1.8 | 1.5 | 1.5 | 1.6 | 1.6 | 1.5 | 1.3 | 1.8 | 1.6 |
| Nonres. structures | 0.3 | 0.6 | -0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | -0.1 | 0.2 | 0.1 |
| Residential structures | 0.0 | 0.1 | 0.0 | -0.7 | -0.4 | -0.4 | -0.2 | -0.2 | -0.2 | 0.1 | -0.2 | -0.2 |
| Net exports | -0.4 | -0.9 | -1.5 | -0.6 | -0.1 | -0.5 | -0.5 | -0.2 | 0.1 | -1.1 | -0.8 | -0.3 |
| Exports | 1.1 | 0.7 | 0.8 | 0.7 | 0.9 | 0.5 | 0.9 | 0.9 | 1.3 | 0.5 | 0.8 | 0.9 |
| Imports | -1.5 | -1.6 | -2.3 | -1.3 | -1.0 | -1.0 | -1.4 | -1.1 | -1.2 | -1.5 | -1.6 | -1.2 |
| Government cons. & invest. | 1.5 | -0.2 | 0.9 | 0.1 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.8 | 0.3 | 0.6 |
| Federal | 0.8 | -0.9 | 1.0 | -0.4 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.3 | -0.1 | 0.1 |
| Defense | 0.5 | -0.9 | 0.6 | -0.3 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.2 | -0.1 | 0.1 |
| Nondefense | 0.3 | -0.1 | 0.4 | -0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 |
| State and local | 0.7 | 0.8 | -0.0 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.5 |
| Change in bus. inventories | 1.8 | -1.8 | 1.5 | -0.3 | -0.5 | -0.0 | 0.0 | -0.1 | -0.2 | 0.2 | -0.3 | -0.1 |
| Nonfarm | 1.3 | -1.6 | 1.5 | -0.2 | -0.5 | 0.1 | 0.0 | -0.0 | -0.2 | 0.1 | -0.2 | -0.0 |
| Farm | 0.5 | -0.2 | -0.0 | -0.1 | -0.0 | -0.1 | -0.0 | -0.0 | -0.0 | 0.1 | -0.1 | -0.0 |

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

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

| Item | Fiscal year[1] | | | | 1999 | | | | 2000 | | | | 2001 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1998[a] | 1999[a] | 2000 | 2001 | Q1[a] | Q2[a] | Q3[a] | Q4[a] | Q1[a] | Q2[p] | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| **Unified budget** | | | | | Not seasonally adjusted | | | | | | | | | | | |
| Receipts[2] | 1722 | 1827 | 2018 | 2114 | 402 | 564 | 449 | 444 | 434 | 656 | 485 | 480 | 467 | 655 | 512 | 516 |
| Outlays[2] | 1653 | 1703 | 1788 | 1839 | 396 | 421 | 419 | 464 | 449 | 444 | 432 | 459 | 469 | 463 | 447 | 479 |
| Surplus/deficit[2] | 69 | 125 | 230 | 275 | 6 | 143 | 30 | -21 | -15 | 212 | 53 | 20 | -2 | 192 | 64 | 37 |
| On-budget | -30 | 1 | 76 | 109 | -49 | 88 | 21 | -64 | -45 | 147 | 37 | -27 | -30 | 120 | 45 | -13 |
| Off-budget | 99 | 124 | 154 | 166 | 55 | 55 | 9 | 43 | 30 | 65 | 17 | 47 | 28 | 72 | 20 | 51 |
| Surplus excluding deposit insurance | 65 | 119 | 227 | 274 | 5 | 142 | 29 | -20 | -18 | 211 | 53 | 20 | -2 | 192 | 64 | 37 |
| Means of financing | | | | | | | | | | | | | | | | |
| Borrowing | -51 | -89 | -225 | -280 | 7 | -108 | -20 | 48 | -27 | -190 | -56 | -42 | -14 | -155 | -69 | -62 |
| Cash decrease | 5 | -18 | -5 | 16 | -4 | -31 | -3 | -27 | 39 | -13 | -4 | 30 | 11 | -30 | 5 | 20 |
| Other[3] | -23 | -18 | -0 | -11 | -9 | -4 | -6 | -0 | 4 | -10 | 6 | -9 | 5 | -7 | -0 | 5 |
| Cash operating balance, end of period | 39 | 56 | 61 | 45 | 22 | 53 | 56 | 83 | 45 | 57 | 61 | 31 | 20 | 50 | 45 | 25 |
| **NIPA federal sector** | | | | | Seasonally adjusted annual rates | | | | | | | | | | | |
| Receipts | 1725 | 1837 | 2023 | 2138 | 1817 | 1850 | 1890 | 1941 | 2012 | 2056 | 2083 | 2103 | 2117 | 2149 | 2184 | 2219 |
| Expenditures | 1696 | 1735 | 1807 | 1875 | 1728 | 1732 | 1743 | 1798 | 1776 | 1815 | 1841 | 1846 | 1875 | 1886 | 1894 | 1916 |
| Consumption expenditures | 453 | 464 | 490 | 507 | 465 | 460 | 471 | 487 | 479 | 500 | 495 | 496 | 508 | 511 | 514 | 518 |
| Defense | 300 | 306 | 321 | 331 | 306 | 302 | 312 | 325 | 311 | 326 | 323 | 325 | 332 | 333 | 335 | 338 |
| Nondefense | 153 | 158 | 169 | 176 | 159 | 158 | 159 | 162 | 168 | 174 | 172 | 171 | 176 | 177 | 179 | 180 |
| Other spending | 1244 | 1270 | 1317 | 1368 | 1263 | 1272 | 1272 | 1311 | 1297 | 1315 | 1346 | 1350 | 1368 | 1375 | 1380 | 1398 |
| Current account surplus | 29 | 103 | 216 | 263 | 90 | 118 | 147 | 143 | 236 | 241 | 242 | 258 | 242 | 264 | 289 | 303 |
| Gross investment | 86 | 94 | 104 | 108 | 90 | 98 | 99 | 105 | 101 | 105 | 103 | 107 | 108 | 109 | 110 | 111 |
| Current and capital account surplus | -57 | 9 | 112 | 155 | 0 | 19 | 48 | 39 | 134 | 137 | 139 | 151 | 134 | 155 | 180 | 192 |
| **Fiscal indicators[4]** | | | | | | | | | | | | | | | | |
| High-employment (HEB) surplus/deficit | -130 | -70 | 4 | 58 | -79 | -54 | -33 | -62 | 28 | 22 | 27 | 45 | 36 | 61 | 89 | 105 |
| Change in HEB, percent of potential GDP | -1 | -.8 | -.8 | -.5 | -.4 | -.3 | -.2 | .3 | -1 | .1 | -0 | -.2 | .1 | -.2 | -.3 | -.1 |
| Fiscal impetus (FI) percent, calendar year | -.1 | 5 | 3 | 5 | 2 | -.1 | 2 | 3 | -4 | 5 | -.6 | 1 | 2 | .4 | .4 | .9 |

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 Mid-Session Review baseline surplus estimates are $224 billion in FY2000 and $239 billion in FY2001. CBO's July 2000 baseline surplus estimates, assuming discretionary spending grows with inflation beginning in FY 2001, are $232 billion in FY2000 and $268 billion in FY2001. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The The OASDI surplus is excluded from the on-budget surplus and shown separately as off-budget, as classified under current law. *The Postal Service deficit is included in off-budget outlays beginning* in FY1990.
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 change in HEB and FI, negative values indicate aggregate demand restraint.
a--Actual p--Preliminary

**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 | | | | |
| *Year* | | | | | | | | | | |
| 1991 | 4.3 | 11.1 | 2.2 | 4.5 | 6.1 | -1.3 | -1.6 | 8.6 | | 4.0 |
| 1992 | 4.6 | 10.9 | 2.6 | 4.5 | 5.3 | 0.8 | 0.8 | 2.2 | | 6.4 |
| 1993 | 4.9 | 8.3 | 3.7 | 5.3 | 4.4 | 7.3 | 1.4 | 6.0 | | 5.0 |
| 1994 | 4.6 | 4.7 | 4.5 | 7.6 | 5.9 | 14.5 | 3.8 | -4.0 | | 6.2 |
| 1995 | 5.5 | 4.1 | 6.0 | 7.9 | 5.7 | 14.1 | 6.8 | -4.6 | | 4.3 |
| 1996 | 5.3 | 4.0 | 5.8 | 7.3 | 7.2 | 7.9 | 5.8 | -0.6 | | 6.0 |
| 1997 | 5.6 | 0.6 | 7.3 | 6.5 | 6.8 | 4.3 | 8.7 | 5.3 | | 6.2 |
| 1998 | 6.8 | -1.4 | 9.5 | 8.8 | 9.9 | 5.4 | 10.9 | 7.2 | | 5.9 |
| 1999 | 6.9 | -1.9 | 9.5 | 9.2 | 10.1 | 7.1 | 11.0 | 4.4 | | 6.5 |
| 2000 | 4.7 | -8.6 | 8.3 | 7.7 | 7.6 | 9.2 | 10.4 | 0.9 | | 6.6 |
| 2001 | 4.7 | -8.9 | 7.8 | 6.9 | 7.5 | 5.7 | 10.1 | 0.9 | | 6.0 |
| *Quarter* | | | | | | | | | | |
| 1999:3 | 7.0 | -2.2 | 9.6 | 9.7 | 11.0 | 5.5 | 10.6 | 4.6 | | 6.7 |
| 4 | 6.5 | -0.4 | 8.4 | 8.1 | 8.6 | 7.8 | 10.0 | 2.5 | | 9.7 |
| 2000:1 | 5.5 | -5.5 | 8.4 | 7.8 | 7.0 | 10.0 | 10.6 | 1.2 | | 8.3 |
| 2 | 4.6 | -11.9 | 8.9 | 7.9 | 7.7 | 9.7 | 11.6 | 1.1 | | 7.7 |
| 3 | 4.5 | -6.8 | 7.2 | 7.5 | 7.6 | 8.4 | 8.5 | -0.7 | | 4.8 |
| 4 | 4.1 | -11.1 | 7.7 | 7.0 | 7.4 | 7.5 | 9.5 | 2.1 | | 5.4 |
| 2001:1 | 5.4 | -4.5 | 7.7 | 6.9 | 7.3 | 6.8 | 9.7 | 0.9 | | 6.1 |
| 2 | 4.7 | -8.9 | 7.6 | 6.7 | 7.2 | 5.9 | 9.8 | 0.9 | | 5.8 |
| 3 | 4.7 | -9.0 | 7.6 | 6.6 | 7.3 | 5.2 | 9.8 | 0.9 | | 6.0 |
| 4 | 3.8 | -14.6 | 7.5 | 6.5 | 7.3 | 4.6 | 9.6 | 0.9 | | 6.1 |

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2000:Q1 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.
2. On a monthly average basis, total debt is projected to grow 5.3 percent in 2000 and 4.7 percent in 2001.
3. On a monthly average basis, federal debt is projected to grow -6.5 percent in 2000 and -8.7 percent in 2001.
4. On a monthly average basis, nonfederal debt is projected to grow 8.4 percent in 2000 and 7.8 percent in 2001.

2.6.3 FOF

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



| Category | Calendar year | | | | Seasonally adjusted annual rates | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1999 | | 2000 | | | | 2001 | | | |
| | 1998 | 1999 | 2000 | 2001 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| *Net funds raised by domestic nonfinancial sectors* | | | | | | | | | | | | | | |
| 1 Total | 771.1 | 976.9 | 738.3 | 780.1 | 1052.5 | 1068.7 | 1019.4 | 572.3 | 707.3 | 654.2 | 909.9 | 779.8 | 798.3 | 632.3 |
| 2 Net equity issuance | -267.0 | -143.5 | -90.3 | -84.0 | -128.4 | -55.0 | 62.8 | -248.0 | -92.0 | -84.0 | -84.0 | -84.0 | -84.0 | -84.0 |
| 3 Net debt issuance | 1038.1 | 1120.4 | 828.6 | 864.1 | 1180.9 | 1123.7 | 956.6 | 820.3 | 799.3 | 738.2 | 993.9 | 863.8 | 882.3 | 716.3 |
| *Borrowing sectors* | | | | | | | | | | | | | | |
| Nonfinancial business | | | | | | | | | | | | | | |
| 4 Financing gap [1] | 163.0 | 169.9 | 231.3 | 324.4 | 176.4 | 204.8 | 188.8 | 217.7 | 253.1 | 265.6 | 291.4 | 315.5 | 335.7 | 354.9 |
| 5 Net equity issuance | -267.0 | -143.5 | -90.3 | -84.0 | -128.4 | -55.0 | 62.8 | -248.0 | -92.0 | -84.0 | -84.0 | -84.0 | -84.0 | -84.0 |
| 6 Credit market borrowing | 533.5 | 595.7 | 631.6 | 675.0 | 606.0 | 591.4 | 643.4 | 722.5 | 543.0 | 617.4 | 650.6 | 672.6 | 685.6 | 691.2 |
| Households | | | | | | | | | | | | | | |
| 7 Net borrowing [2] | 476.9 | 543.1 | 500.6 | 478.5 | 601.0 | 515.7 | 502.7 | 517.4 | 505.4 | 477.0 | 481.7 | 476.6 | 477.3 | 478.6 |
| 8 Home mortgages | 364.8 | 411.2 | 341.2 | 360.2 | 469.8 | 376.3 | 314.3 | 349.2 | 353.2 | 348.2 | 351.2 | 353.2 | 363.2 | 373.2 |
| 9 Consumer credit | 67.6 | 94.4 | 131.1 | 89.2 | 76.2 | 109.5 | 143.1 | 141.3 | 125.3 | 114.9 | 105.6 | 93.5 | 83.2 | 74.5 |
| 10 Debt/DPI (percent) [3] | 89.9 | 93.3 | 95.7 | 96.6 | 93.9 | 94.5 | 95.1 | 95.6 | 95.9 | 96.5 | 96.2 | 96.5 | 96.8 | 97.1 |
| State and local governments | | | | | | | | | | | | | | |
| 11 Net borrowing | 80.3 | 52.8 | 11.5 | 11.4 | 57.0 | 31.0 | 14.6 | 14.2 | -9.4 | 26.5 | 11.4 | 11.4 | 11.4 | 11.4 |
| 12 Current surplus [4] | 141.3 | 156.8 | 169.1 | 176.4 | 155.1 | 176.5 | 164.7 | 170.1 | 168.3 | 173.3 | 175.9 | 176.6 | 175.2 | 177.7 |
| Federal government | | | | | | | | | | | | | | |
| 13 Net borrowing | -52.6 | -71.2 | -315.0 | -300.8 | -83.1 | -14.3 | -204.0 | -433.8 | -239.7 | -382.7 | -149.8 | -296.7 | -291.9 | -464.9 |
| 14 *Net borrowing (quarterly, n.s.a.)* | -52.6 | -71.2 | -315.0 | -300.8 | -19.0 | 48.3 | -27.5 | -189.6 | -56.1 | -41.9 | -14.0 | -155.3 | -69.2 | -62.4 |
| 15 Unified deficit (quarterly, n.s.a.) | -54.4 | -158.3 | -271.0 | -291.9 | -30.1 | 20.6 | 15.0 | -212.2 | -53.4 | -20.4 | 2.1 | -192.2 | -64.4 | -37.4 |
| *Depository institutions* | | | | | | | | | | | | | | |
| 16 Funds supplied | 360.5 | 404.4 | 511.8 | 357.3 | 526.0 | 628.9 | 466.3 | 569.7 | 512.5 | 498.9 | 362.8 | 359.3 | 349.3 | 357.9 |
| Memo (percentage of GDP) | | | | | | | | | | | | | | |
| 17 Domestic nonfinancial debt [5] | 179.5 | 181.5 | 179.0 | 177.1 | 182.1 | 181.1 | 180.2 | 179.1 | 179.0 | 178.6 | 178.0 | 177.7 | 177.2 | 176.5 |
| 18 Domestic nonfinancial borrowing | 11.8 | 12.0 | 8.3 | 8.2 | 12.6 | 11.8 | 9.8 | 8.3 | 8.0 | 7.2 | 9.6 | 8.2 | 8.3 | 6.6 |
| 19 Federal government [6] | -0.6 | -0.8 | -3.2 | -2.8 | -0.9 | -0.1 | -2.1 | -4.4 | -2.4 | -3.8 | -1.4 | -2.8 | -2.7 | -4.3 |
| 20 Nonfederal | 12.4 | 12.8 | 11.5 | 11.0 | 13.5 | 11.9 | 11.9 | 12.6 | 10.3 | 11.0 | 11.1 | 11.1 | 11.0 | 10.9 |

Note. Data after 2000:Q1 are staff projections.
1. For corporations: Excess of capital expenditures over U.S. internal funds.
2. Includes change in liabilities not shown in lines 8 and 9.
3. Average debt levels in the period (computed as the average of period-end debt positions) divided by disposable personal income.
4. NIPA surplus less changes in retirement fund assets plus consumption of fixed capital.
5. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.
6. Excludes government-insured mortgage pool securities.

2.6.4 FOF

# International Developments

**Overview**

Evidence that has emerged since the June Greenbook remains consistent with a generally favorable picture of the foreign outlook. Growth abroad is now estimated to have averaged 5-3/4 percent during the first half of the year, somewhat stronger than projected in our previous forecast. While the expansion of activity has been particularly rapid in developing countries, generally strong growth also appears to have been recorded in industrial countries, even beleaguered Japan. We expect total foreign growth to settle in around 4 percent for the remainder of this year and next year, not much different from that in the previous Greenbook, as growth in Japan fades once again and as central banks abroad continue to tighten monetary policy to contain inflationary pressures. The upward revision to our first-half estimate, coupled with the unchanged forecast for the pace of growth going forward, implies that foreign activity runs on a slightly higher track throughout the forecast period than was the case in the June Greenbook.

**Summary of Staff Projections**
(Percent change, seasonally adjusted annual rate)

| Measure | 1999 | Projection | | |
|---|---|---|---|---|
| | | 2000 | | 2001 |
| | | H1 | H2 | |
| Foreign output | 4.5 | 5.7 | 4.1 | 4.0 |
| *June GB* | *4.4* | *5.2* | *4.1* | *3.9* |
| Foreign CPI | 2.6 | 2.0 | 3.8 | 3.3 |
| *June GB* | *2.6* | *1.7* | *3.7* | *3.3* |

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

We have revised our oil price projection upward roughly $2 per barrel over the forecast period, in line with the movement of futures prices. While additional world supply has come on line, strong demand is keeping oil prices elevated. Still, we expect these upward pressures on oil prices to attenuate somewhat, allowing the price of West Texas intermediate (WTI) to ease to about $25 per barrel by the end of next year, roughly in line with the path of futures prices.

Notwithstanding the high level of oil prices and the strong pace of foreign activity, inflation abroad has generally remained muted. Our projection calls for only a moderate pickup in the average foreign inflation rate to about 3-1/2 percent over the forecast period.

We continue to assume that the broad real value of the dollar will decline gradually over the forecast period, but from a higher starting point that reflects the dollar's recent appreciation, most notably against the euro and the yen. On balance, the broad real value of the dollar is projected to weaken 4 percent from its average in the current quarter by the end of next year, with the dollar recording declines against most industrial country currencies and emerging-market currencies. The expected depreciation of the dollar, against a backdrop of continued strong foreign activity, should be sufficient to imply that the negative arithmetic contribution of net exports to real GDP growth will narrow to near zero by the end of next year. Core import prices are projected to rise 2-1/4 percent this year and 3 percent next year.

**Recent Developments**

**International financial markets.** Since the June FOMC meeting, the dollar's average value against the currencies of the major foreign industrial countries has risen 2 percent, led by appreciations of about 3-3/4 percent against the euro and 2-3/4 percent relative to the yen. The dollar appears to have been supported by a heightened market perception that, despite the recent signs of some slowing in the growth of economic activity in the United States, prospective longer-term U.S. growth and rates of return remain more favorable than those in Europe and Japan. The dollar depreciated slightly on balance against developing-country currencies over the intermeeting period, mainly reflecting a 9 percent decline against the Mexican peso after a peaceful presidential election.

The only major industrial country central bank to change its monetary policy stance since the June FOMC meeting was the Bank of Japan, which ended its zero interest rate policy and raised the target for the overnight rate to 25 basis points on August 11. This action, if not its exact timing, had been widely anticipated and generated little market reaction. Short-term interest rates in the major foreign industrial countries have risen slightly on average over the intermeeting period. Average long-term rates abroad have edged down. Changes in foreign equity prices have been mixed, with the most notable development being a 5 percent fall in Japan.

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

**Economic activity abroad.** Activity in the foreign industrial countries was strong in the second quarter, although limited available forward-looking indicators suggest some moderation in the pace of growth in the current quarter On balance, incoming data for Japan have been positive. However, last month's bankruptcy of a major retailer underscored concerns about the durability of the fledgling recovery. Continued robust industrial production and retail sales indicate that economic activity in the euro area is expanding strongly. In contrast, current indicators suggest that growth is likely to slow somewhat in the near term in the United Kingdom and that growth in Canada has moderated from its recent rapid pace.

Core consumer price data show little evidence of inflationary pressures in most of the foreign industrial countries, although headline consumer price inflation has recently moved higher in the euro area and Canada, reflecting the surge in oil prices. U.K. consumer price inflation has remained below its target rate, and in Japan twelve-month consumer price inflation has continued to be negative.

In developing countries, the average pace of growth appears to have moderated somewhat in the second quarter from its double-digit first quarter rate. Notably, Mexican real GDP grew at nearly a 9 percent rate, down only slightly from its 11 percent first-quarter pace. Among the few countries displaying real weakness has been Argentina, where industrial output has been declining and unemployment rising. In Indonesia, while political uncertainties raise concerns about future growth, real GDP continued to increase strongly in the second quarter. Inflation in developing countries has generally remained subdued.

**Prices of internationally traded goods.** The price of imported oil declined somewhat in July as Saudi Arabia announced that it would increase oil production beyond its OPEC production target. However, in early August the price of spot WTI moved higher amid concerns about falling crude oil inventories in the United States and supply disruptions in Colombia. The spot price of WTI is currently trading around $32 per barrel.

Prices of imported core goods (which exclude oil, computers, and semiconductors) rose 0.4 percent in July, the largest monthly increase since February. The increase was led by a rise in prices of industrial supplies; prices of imported consumer goods also increased following declines in the two previous months.

Prices of total exports of goods were unchanged in July, while prices of exported core goods (which exclude computers, semiconductors, and agricultural products) rose in line with the 3-1/2 percent average rate of increase recorded over the past three quarters.

**U.S. international transactions.** For April and May combined, the U.S. trade deficit was $369 billion at an annual rate, $25 billion higher than in the first quarter. The value of exports for the April-May period was 1.4 percent higher than in the first quarter, reflecting mainly an increase in exports of capital goods, especially high-tech products and aircraft. The value of imports for April and May was 2.8 percent above the first-quarter rate, with strong increases recorded for imports of capital and consumer goods. The value of imported oil rose only moderately over this period, as an increase in quantity was nearly offset by a decline in price.

## Outlook

**The dollar.** We have shifted up the projected path of the dollar in light of its recent appreciation, especially in relation to the euro and the yen. However, that path follows the same contour as previous projections, reflecting our expectations that an expanding U.S. current account deficit will sooner or later strain foreign investors' willingness to further accumulate claims on the United States. In addition, we assume some further monetary tightening in Europe later this year. While it is hard to say when downward pressure on the dollar will emerge, we take as a working assumption that the real trade-weighted value of the dollar (as measured by our major-currencies index) will peak in the current quarter and then depreciate during the rest of the forecast period, falling 4 percent by the fourth quarter of next year. We continue to forecast a moderate real depreciation of the dollar against the currencies of developing countries, most prominently against the currencies of the Asian developing countries, but also against Latin American currencies.

**Industrial countries.** In many foreign industrial countries, with the prominent exception of Japan, recent strong growth has raised the level of GDP close to what we and their respective central banks judge to be potential. Accordingly, we project that recent and prospective monetary tightening will slow real output growth over the next six quarters, about in line with the June Greenbook forecast.

Second-half growth in the euro area is expected to remain near the estimated first-half pace of nearly 4 percent, consistent with very high levels of economic sentiment and strong orders data. Growth is projected to ease somewhat next year to about 3-1/2 percent. Preliminary data on U.K. GDP in the first half of the year showed less of a slowdown than previously assumed, but growth is expected to gradually ease over the forecast period. Past monetary tightening in Canada appears to have already slowed growth to a more sustainable rate that should continue over the forecast period.

We expect growth in Japan to continue at a moderate pace through the current quarter, supported by a pickup in private spending and a sizable fiscal stimulus package from last year that is now coming on line. However, starting in the last quarter of this year and continuing into next year, we project a marked slowing of Japanese growth, as fiscal stimulus wanes and weak income growth and job insecurity weigh on private expenditure.

*Inflation.* Continued strong activity should intensify pressure on resources in most foreign industrial economies, leading to some increase in core inflation rates. However, much of the effect on headline inflation of rising core inflation should be offset by the projected decline in oil prices. Japanese consumer prices are expected to continue to decline over the forecast period, but at a somewhat slower rate than over the past year. The average inflation rate in the foreign industrial countries is expected to be just under 1-1/2 percent over the forecast period.

*Interest rates.* The Bank of Japan's recent increase in its target for the overnight rate from zero to 25 basis points is not expected to be followed by further increases over the remainder of the forecast period, as Japanese economic performance will likely be too weak to provide any rationale for additional tightening. The ECB is projected to raise interest rates a further 50 basis points in the remainder of this year and another 50 basis points in the first half of next year, taking its policy rate to 5-1/4 percent. We assume that the Bank of England will tighten policy an additional 25 basis points. The Bank of Canada is expected to match the increases that are assumed for U.S. policy rates.

**Other countries.** Real GDP in our major developing-country trading partners is estimated to have expanded on average at a brisk 8 percent pace during the first half of this year, 1 percentage point stronger than projected in the last Greenbook. This growth has been led by a very strong expansion in the Asian developing countries and Mexico. The pace of growth in developing Asia and Latin America, particularly Mexico, is expected to moderate somewhat over the remainder of the forecast period, as cyclical expansions become more mature and as central banks in some countries tighten monetary policy. Inflation in the developing countries is forecast to pick up only modestly in response to continued generally strong activity, as pressures on resources during the forecast period are not expected to become excessive.

**Prices of internationally traded goods.** We have revised upward our oil price projection path roughly $2 per barrel over the forecast period. Strong demand, which should continue given the staff's projection for robust world economic growth, has kept upward pressure on prices even as world oil supply has been increasing. Given this higher rate of production, OPEC's scope to increase supply in the near term has diminished. However, non-OPEC exploration and production activity is picking up, indicating that supply should increase substantially but gradually over time, tending to place downward pressure on oil prices in the future. Accordingly, we project that the price of WTI will gradually decline from around $30 per barrel in the current quarter to near $25 per barrel by the end of next year, a path consistent with quotes in futures markets.

Prices of imported core goods rose at about an annual rate of 1-1/2 percent in the first half of the year. This rate of increase is expected to move up to about 3 percent over the forecast period, largely because of the projected depreciation of the dollar. Prices of exported core goods are expected to decelerate as the run-up in prices of industrial supplies (which include petroleum products and petrochemicals) slows.

**Selected Trade Prices**

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

| Trade category | 1999 Q4 | 2000 Q1 | Projection | | |
|---|---|---|---|---|---|
| | | | 2000 | | 2001 |
| | | | Q2 | H2 | |
| *Exports* | | | | | |
| Nonagricultural (core) | 2.9 | 3.2 | 2.3 | 1.6 | 1.0 |
| Agricultural | 1.1 | -3.0 | 3.6 | 0.7 - | 7.4 |
| *Imports* | | | | | |
| Non-oil (core) | 1.4 | 1.5 | 1.6 | 2.8 | 3.1 |
| Oil (level, dollars per barrel) | 22.08 | 26.03 | 26.12 | 27.76 | 23.21 |

NOTE. Prices for nonagricultural exports and non-oil imports of goods, both excluding computers and semiconductors, are on a NIPA chain-weighted basis. The price of imported oil for multi-quarter periods is the price for the final quarter of the period. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2; and for quarters, from previous quarter.

**U.S. international transactions.** The growth of real exports of goods and services slowed in the first quarter, but the resolution of the Boeing strike contributed to a rebound in the second quarter. We project that export growth will increase somewhat further over the forecast period. Given the dollar's projected depreciation, relative prices are expected to shift from imparting slight restraint on the growth of core exports during this year to stimulating their growth at rising rates next year. An expected acceleration of service exports also should contribute to a strengthening of total export growth.

The pace of real imports of goods and services is projected to decelerate over the forecast period, with growth slowing from an estimated 15 percent annual rate in the first half of this year to 8 percent next year. Imports of core goods are projected to decelerate as well, partly as the result of the projected moderation of U.S. real GDP growth. In addition, we expect that relative price movements, which have been strongly boosting the growth of core imports in recent quarters, will change to a slightly restraining factor next year, given the dollar's projected depreciation. The quantity of imported oil should expand moderately over the next six quarters.

Our expectation of further increases in real export growth, coupled with the forecast slowing of real import growth, results in a projection that the arithmetic contribution of net exports to U.S. growth should narrow from a negative 1.2 percentage points in the first half of this year to about zero in the second half of next year.

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

| Measure | 1999 | Projection | | |
|---|---|---|---|---|
| | | 2000 | | 2001 |
| | | H1 | H2 | |
| Real exports | 4.3 | 6.9 | 7.6 | 8.3 |
| *June GB* | 4.8 | *8.0* | *6.8* | *8.5* |
| Real imports | 12.0 | 14.6 | 7.9 | 8.0 |
| *June GB* | 12.6 | *12.5* | *9.8* | *8.0* |

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

The U.S. current account deficit is projected to rise from 3-1/2 percent of GDP in 1999 to 4-1/2 percent this year and to 4-3/4 percent (or about $510 billion) next year. Much of the forecast increase in the deficit reflects a further decline in the goods and services balance, but the net outflow of investment income should also increase notably as large current account deficits translate into increases in the U.S. net liability position.

**Alternative Simulation: A Stronger Dollar**

Since the beginning of the year, the dollar's broad real foreign exchange value has increased nearly 5 percent. In the alternative scenario presented in the table below, we have used the staff global model to assess the effects of a continued appreciation of the U.S. dollar, rather than the moderate depreciation assumed in the baseline forecast. In particular, the alternative scenario assumes that the dollar rises steadily over the forecast period, reaching a level about 8 percent above its value in the second quarter of this year, in contrast to the 4 percent net depreciation embedded in the baseline. In this alternative scenario, the U.S.

federal funds rate is assumed unchanged from its baseline path. The effects on U.S. GDP growth and price inflation are negligible for this year. However, the shock reduces both U.S. growth and price inflation about 1/2 percentage point next year.

**Impact of Alternative Assumptions**
(Percent change, Q4 to Q4)

| Measure | 2000 | 2001 |
|---|---|---|
| *U.S. real GDP* | | |
| Baseline | 4.2 | 4.1 |
| Stronger dollar[1] | 4.2 | 3.6 |
| | | |
| *U.S. PCE deflator excluding food and energy* | | |
| Baseline | 1.8 | 2.1 |
| Stronger dollar[1] | 1.8 | 1.7 |

NOTE. All simulations assume federal funds rate unchanged from baseline.

1. Assumes dollar rises roughly 12 percent above baseline by 2001:Q4.

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

| Measure and country | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | Projected 2000 | Projected 2001 |
|---|---|---|---|---|---|---|---|---|---|
| REAL GDP (1) | | | | | | | | | |
| Total foreign | 3.2 | 5.1 | 2.3 | 4.2 | 4.1 | 1.0 | 4.5 | 4.9 | 4.0 |
| Industrial Countries | 1.9 | 4.0 | 1.9 | 2.9 | 3.5 | 1.9 | 3.5 | 3.8 | 3.2 |
| of which: | | | | | | | | | |
| Canada | 2.9 | 5.5 | 1.4 | 2.4 | 4.8 | 3.2 | 4.9 | 3.9 | 3.6 |
| Japan | 0.5 | 0.9 | 2.5 | 5.2 | -0.5 | -3.1 | -0.2 | 3.9 | 1.2 |
| United Kingdom | 3.2 | 4.6 | 1.9 | 2.9 | 3.5 | 2.0 | 2.8 | 2.9 | 2.7 |
| Euro-11 | 0.1 | 3.0 | 1.7 | 1.7 | 3.0 | 2.0 | 3.1 | 3.8 | 3.4 |
| Germany | -0.3 | 2.9 | 1.1 | 1.4 | 1.5 | 1.1 | 2.3 | 3.5 | 3.2 |
| Developing Countries | 5.1 | 6.8 | 3.0 | 6.3 | 5.0 | -0.3 | 5.8 | 6.5 | 5.3 |
| Asia | 7.9 | 8.8 | 7.3 | 6.8 | 4.6 | -1.8 | 8.3 | 7.5 | 6.5 |
| Korea | 7.2 | 9.2 | 7.4 | 6.1 | 3.1 | -4.6 | 14.0 | 7.3 | 6.5 |
| China | 6.1 | 16.3 | 12.6 | 9.2 | 8.2 | 9.5 | 6.2 | 7.6 | 8.0 |
| Latin America | 2.6 | 5.4 | -3.8 | 6.3 | 6.1 | 1.0 | 3.9 | 6.0 | 4.5 |
| Mexico | 1.9 | 5.2 | -7.1 | 7.2 | 6.8 | 2.7 | 5.3 | 7.4 | 5.0 |
| Brazil | 4.4 | 9.7 | -1.5 | 5.1 | 2.0 | -2.0 | 3.8 | 3.0 | 3.2 |
| CONSUMER PRICES (2) | | | | | | | | | |
| Industrial Countries | 2.1 | 1.1 | 1.3 | 1.4 | 1.5 | 1.0 | 1.1 | 1.4 | 1.4 |
| of which: | | | | | | | | | |
| Canada | 1.8 | -0.0 | 2.1 | 2.0 | 1.0 | 1.1 | 2.4 | 2.1 | 2.3 |
| Japan | 1.2 | 0.8 | -0.8 | 0.1 | 2.0 | 0.8 | -1.3 | -0.5 | -0.4 |
| United Kingdom (3) | 2.7 | 2.2 | 2.9 | 3.2 | 2.7 | 2.5 | 2.2 | 2.2 | 2.4 |
| Euro-11 (4) | NA | NA | NA | 2.0 | 1.5 | 0.8 | 1.5 | 2.1 | 1.5 |
| Germany | 4.2 | 2.7 | 1.4 | 1.3 | 1.5 | 0.3 | 1.1 | 1.6 | 1.0 |
| Developing Countries | 24.7 | 22.7 | 17.0 | 11.0 | 6.9 | 9.0 | 4.7 | 4.9 | 6.0 |
| Asia | 7.7 | 10.5 | 6.4 | 4.7 | 2.9 | 4.4 | 0.3 | 2.5 | 4.4 |
| Korea | 5.5 | 5.8 | 4.4 | 5.0 | 5.0 | 5.9 | 1.3 | 2.4 | 3.7 |
| China | 17.3 | 26.9 | 11.0 | 6.8 | 0.9 | -1.2 | -0.9 | 1.9 | 4.7 |
| Latin America | 73.9 | 54.0 | 42.1 | 25.9 | 15.6 | 15.5 | 12.6 | 8.7 | 8.7 |
| Mexico | 8.6 | 7.0 | 48.9 | 28.2 | 17.2 | 17.5 | 13.6 | 9.2 | 9.2 |
| Brazil | 2272.4 | 1196.9 | 21.5 | 9.6 | 4.7 | 1.6 | 8.3 | 5.3 | 5.1 |

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

Strictly Confidential (FR) August 16, 2000
Class II FOMC

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

| | 1999 | | | | Projected 2000 | | | | Projected 2001 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Measure and country | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| REAL GDP (1) | Quarterly changes at an annual rate | | | | | | | | | | | |
| Total foreign | 3.7 | 5.1 | 4.5 | 4.6 | 7.1 | 4.5 | 4.1 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Industrial Countries | 3.8 | 3.3 | 4.0 | 3.0 | 5.1 | 3.7 | 3.4 | 3.2 | 3.1 | 3.1 | 3.2 | 3.2 |
| of which: | | | | | | | | | | | | |
| Canada | 4.8 | 3.3 | 6.5 | 5.1 | 4.9 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.7 | 3.7 |
| Japan | 6.3 | 3.9 | -3.9 | -6.4 | 10.3 | 3.0 | 2.0 | 0.6 | 0.9 | 1.1 | 1.3 | 1.4 |
| United Kingdom | 1.3 | 3.2 | 4.1 | 2.8 | 2.0 | 3.6 | 3.0 | 2.9 | 2.8 | 2.8 | 2.6 | 2.5 |
| Euro-11 | 2.6 | 2.4 | 3.8 | 3.5 | 3.8 | 4.0 | 3.8 | 3.7 | 3.5 | 3.4 | 3.3 | 3.2 |
| Germany | 2.8 | 0.5 | 3.1 | 2.9 | 2.7 | 4.1 | 3.6 | 3.7 | 3.4 | 3.2 | 3.2 | 3.2 |
| Developing Countries | 3.5 | 7.8 | 5.4 | 6.8 | 10.1 | 5.6 | 5.1 | 5.3 | 5.2 | 5.2 | 5.3 | 5.3 |
| Asia | 7.3 | 11.1 | 5.6 | 9.2 | 12.5 | 5.1 | 6.1 | 6.6 | 6.4 | 6.4 | 6.6 | 6.6 |
| Korea | 13.0 | 17.5 | 14.0 | 11.7 | 7.3 | 7.5 | 7.5 | 7.0 | 6.5 | 6.5 | 6.5 | 6.5 |
| China | 2.2 | 1.1 | 11.4 | 10.6 | 9.6 | 1.9 | 9.0 | 10.0 | 7.0 | 7.0 | 9.0 | 9.0 |
| Latin America | 0.1 | 5.2 | 6.0 | 4.5 | 8.9 | 6.6 | 4.4 | 4.4 | 4.5 | 4.5 | 4.4 | 4.5 |
| Mexico | 0.6 | 8.2 | 9.4 | 3.3 | 11.3 | 8.7 | 4.9 | 4.9 | 5.0 | 5.0 | 5.0 | 5.0 |
| Brazil | 8.2 | 1.7 | -3.7 | 9.4 | 5.0 | 0.9 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.7 |
| CONSUMER PRICES (2) | Four-quarter changes | | | | | | | | | | | |
| Industrial Countries | 0.7 | 0.9 | 1.3 | 1.1 | 1.5 | 1.4 | 1.5 | 1.4 | 1.3 | 1.3 | 1.3 | 1.4 |
| of which: | | | | | | | | | | | | |
| Canada | 0.8 | 1.6 | 2.2 | 2.4 | 2.7 | 2.4 | 2.2 | 2.1 | 2.0 | 1.9 | 2.2 | 2.3 |
| Japan | -0.2 | -0.4 | 0.1 | -1.3 | -0.8 | -1.0 | -0.7 | -0.5 | -0.5 | -0.4 | -0.4 | -0.4 |
| United Kingdom (3) | 2.6 | 2.3 | 2.2 | 2.2 | 2.1 | 2.1 | 2.1 | 2.2 | 2.2 | 2.3 | 2.3 | 2.4 |
| Euro-11 (4) | 0.9 | 1.0 | 1.1 | 1.5 | 2.1 | 2.1 | 2.4 | 2.1 | 1.7 | 1.6 | 1.5 | 1.5 |
| Germany | 0.3 | 0.5 | 0.7 | 1.1 | 2.0 | 1.7 | 2.0 | 1.6 | 1.2 | 1.2 | 1.0 | 1.0 |
| Developing Countries | 8.2 | 7.0 | 5.9 | 4.7 | 3.9 | 3.8 | 4.3 | 4.9 | 5.7 | 6.5 | 6.2 | 6.0 |
| Asia | 2.6 | 0.9 | 0.1 | 0.3 | 0.5 | 0.8 | 1.8 | 2.5 | 3.5 | 4.8 | 4.6 | 4.4 |
| Korea | 0.7 | 0.6 | 0.7 | 1.3 | 1.5 | 1.5 | 2.7 | 2.4 | 4.1 | 4.7 | 3.8 | 3.7 |
| China | -1.5 | -2.1 | -1.1 | -0.9 | 0.1 | 0.1 | 0.8 | 1.9 | 2.7 | 5.2 | 5.0 | 4.7 |
| Latin America | 16.4 | 15.8 | 14.7 | 12.6 | 10.0 | 9.1 | 8.7 | 8.7 | 9.3 | 9.4 | 9.0 | 8.7 |
| Mexico | 18.6 | 18.0 | 16.5 | 13.6 | 10.6 | 9.6 | 9.0 | 9.2 | 9.9 | 9.8 | 9.5 | 9.2 |
| Brazil | 2.0 | 3.4 | 5.7 | 8.3 | 7.8 | 6.6 | 6.6 | 5.3 | 5.9 | 7.0 | 5.9 | 5.1 |

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | Projected 2000 | Projected 2001 |
|---|---|---|---|---|---|---|---|---|---|
| NIPA REAL EXPORTS and IMPORTS | | | | | | | | | |
| *Percentage point contribution to GDP growth, Q4/Q4* | | | | | | | | | |
| Net Goods & Services | -0.6 | -0.3 | 0.4 | -0.2 | -0.8 | -1.1 | -1.1 | -0.8 | -0.3 |
| Exports of G&S | 0.5 | 1.0 | 1.0 | 1.1 | 1.0 | 0.3 | 0.5 | 0.8 | 0.9 |
| Imports of G&S | -1.1 | -1.3 | -0.6 | -1.3 | -1.7 | -1.4 | -1.5 | -1.6 | -1.2 |
| *Percentage change, Q4/Q4* | | | | | | | | | |
| Exports of G&S | 4.8 | 10.5 | 9.7 | 9.8 | 8.5 | 2.2 | 4.3 | 7.2 | 8.3 |
| Services | 6.0 | 8.2 | 8.8 | 8.9 | 1.4 | 2.8 | 0.2 | 2.9 | 5.1 |
| Agricultural Goods | -5.4 | 16.3 | -4.0 | 3.8 | 1.0 | -0.3 | -0.5 | 4.3 | -1.8 |
| Computers | 16.9 | 27.4 | 39.1 | 21.6 | 25.8 | 7.0 | 13.3 | 38.2 | 36.0 |
| Semiconductors | 31.1 | 66.9 | 79.6 | 44.6 | 21.3 | 9.3 | 34.4 | 35.9 | 41.2 |
| Other Goods 1/ | 3.5 | 6.9 | 5.7 | 7.8 | 10.9 | 1.3 | 4.1 | 4.9 | 4.9 |
| Imports of G&S | 10.5 | 12.2 | 5.0 | 11.2 | 14.3 | 11.2 | 12.0 | 11.2 | 8.0 |
| Services | 6.7 | 1.8 | 5.5 | 5.3 | 14.0 | 9.5 | 2.1 | 10.3 | 3.3 |
| Oil | 10.1 | -0.2 | 2.4 | 7.8 | 3.9 | 4.6 | -3.9 | 13.3 | 3.5 |
| Computers | 30.5 | 39.0 | 35.0 | 17.8 | 33.0 | 26.7 | 25.0 | 25.4 | 29.9 |
| Semiconductors | 33.6 | 54.5 | 92.4 | 56.7 | 32.9 | -7.3 | 34.0 | 31.2 | 41.2 |
| Other Goods 2/ | 9.4 | 12.3 | -1.2 | 10.4 | 12.7 | 11.6 | 13.8 | 9.1 | 6.0 |
| *Billions of chained 1996 dollars* | | | | | | | | | |
| Net Goods & Services | -59.1 | -86.5 | -78.4 | -89.0 | -113.3 | -221.0 | -322.4 | -414.8 | -461.0 |
| Exports of G&S | 672.7 | 732.8 | 808.2 | 874.2 | 981.5 | 1003.6 | 1033.0 | 1114.5 | 1197.5 |
| Imports of G&S | 731.8 | 819.4 | 886.6 | 963.1 | 1094.8 | 1224.6 | 1355.3 | 1529.3 | 1658.4 |
| *Billions of dollars* | | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -82.7 | -118.6 | -109.5 | -123.3 | -140.5 | -217.1 | -331.5 | -454.5 | -509.1 |
| Current Acct as Percent of GDP | -1.2 | -1.7 | -1.5 | -1.6 | -1.7 | -2.5 | -3.6 | -4.5 | -4.8 |
| Net Goods & Services (BOP) | -69.0 | -97.0 | -96.0 | -102.1 | -105.9 | -166.9 | -265.0 | -378.7 | -424.4 |
| Investment Income, Net | 27.6 | 21.1 | 25.0 | 23.4 | 11.1 | -1.0 | -13.1 | -19.1 | -26.7 |
| Direct, Net | 59.3 | 55.2 | 64.9 | 69.4 | 71.9 | 67.7 | 62.7 | 74.9 | 91.1 |
| Portfolio, Net | -31.7 | -34.1 | -39.9 | -46.0 | -60.9 | -68.8 | -75.8 | -94.0 | -117.8 |
| Other Income & Transfers,Net | -41.3 | -42.7 | -38.6 | -44.6 | -45.7 | -49.2 | -53.4 | -56.7 | -58.0 |

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

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | 1996 | | | | 1997 | | | | 1998 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| NIPA REAL EXPORTS and IMPORTS | | | | | | | | | | | | |
| Percentage point contribution to GDP growth | | | | | | | | | | | | |
| Net Goods & Services | -1.0 | -0.8 | -1.3 | 2.1 | -1.0 | -0.3 | -0.9 | -0.9 | -1.6 | -1.9 | -1.0 | 0.1 |
| Exports of G&S | 0.3 | 0.7 | 0.4 | 2.9 | 0.8 | 1.9 | 1.2 | -0.1 | 0.1 | -0.3 | -0.4 | 1.5 |
| Imports of G&S | -1.3 | -1.6 | -1.7 | -0.8 | -1.8 | -2.2 | -2.1 | -0.8 | -1.7 | -1.6 | -0.7 | -1.5 |
| Percentage change from previous period, s.a.a.r. | | | | | | | | | | | | |
| Exports of G&S | 2.3 | 6.7 | 3.3 | 28.7 | 7.5 | 17.6 | 10.6 | -0.8 | 1.0 | -3.0 | -3.2 | 15.1 |
| Services | -4.0 | 12.9 | -7.4 | 39.8 | -5.8 | 9.4 | 6.0 | -3.3 | 5.2 | 6.4 | -10.0 | 10.8 |
| Agricultural Goods | 15.2 | -25.5 | -4.1 | 40.9 | -19.4 | 6.7 | 12.0 | 7.9 | -2.7 | -13.8 | -12.5 | 34.7 |
| Computers | 41.0 | 4.8 | 17.3 | 26.1 | 60.0 | 44.5 | 25.7 | -14.0 | -7.5 | 7.6 | 14.7 | 14.7 |
| Semiconductors | 24.2 | 35.2 | 24.2 | 110.0 | 50.3 | 22.1 | 19.6 | -1.4 | 2.1 | -13.6 | 18.9 | 35.9 |
| Other Goods 1/ | -0.5 | 7.1 | 7.8 | 17.7 | 12.2 | 20.6 | 10.8 | 0.9 | -0.1 | -6.5 | -1.3 | 14.3 |
| Imports of G&S | 10.8 | 13.3 | 14.4 | 6.3 | 15.3 | 18.8 | 17.3 | 6.4 | 14.2 | 13.1 | 5.5 | 12.2 |
| Services | 5.6 | 4.1 | 11.8 | 0.0 | 20.0 | 5.6 | 23.1 | 8.3 | 20.0 | 6.7 | 9.8 | 2.2 |
| Oil | -10.0 | 68.2 | 4.9 | -15.0 | -7.5 | 36.8 | 5.7 | -12.9 | 6.4 | 41.2 | 2.1 | -22.0 |
| Computers | 11.0 | 21.1 | 18.8 | 20.8 | 46.6 | 45.8 | 32.4 | 10.5 | 32.5 | 22.6 | 10.6 | 43.2 |
| Semiconductors | 30.0 | 18.9 | 58.4 | 146.3 | 78.1 | 26.0 | 31.6 | 5.6 | 2.0 | -22.9 | 0.1 | -6.1 |
| Other Goods 2/ | 13.5 | 10.2 | 13.8 | 4.6 | 11.7 | 17.1 | 14.8 | 7.5 | 12.7 | 14.0 | 4.5 | 15.6 |
| Billions of chained 1996 dollars, s.a.a.r. | | | | | | | | | | | | |
| Net Goods & Services | -75.0 | -90.4 | -115.9 | -74.6 | -94.0 | -100.6 | -119.6 | -139.2 | -175.3 | -219.7 | -244.1 | -244.9 |
| Exports of G&S | 846.1 | 860.1 | 867.0 | 923.5 | 940.3 | 979.2 | 1004.2 | 1002.1 | 1004.5 | 996.8 | 988.8 | 1024.1 |
| Imports of G&S | 921.1 | 950.4 | 982.9 | 998.1 | 1034.3 | 1079.8 | 1123.8 | 1141.2 | 1179.8 | 1216.6 | 1232.9 | 1269.0 |
| Billions of dollars, s.a.a.r. | | | | | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -101.1 | -119.5 | -146.6 | -126.1 | -137.5 | -119.9 | -133.6 | -171.1 | -169.6 | -205.9 | -245.2 | -247.9 |
| Current Account as % of GDP | -1.3 | -1.5 | -1.9 | -1.6 | -1.7 | -1.4 | -1.6 | -2.0 | -2.0 | -2.4 | -2.8 | -2.8 |
| Net Goods & Services (BOP) | -87.0 | -103.2 | -123.1 | -95.2 | -108.2 | -94.3 | -101.1 | -120.1 | -134.5 | -166.4 | -185.3 | -181.4 |
| Investment Income, Net | 32.2 | 23.2 | 16.8 | 21.5 | 11.5 | 16.3 | 10.7 | 5.7 | 9.1 | 6.0 | -12.1 | -7.3 |
| Direct, Net | 70.4 | 66.2 | 65.3 | 75.8 | 68.9 | 76.6 | 74.1 | 68.1 | 74.9 | 72.4 | 59.0 | 64.7 |
| Portfolio, Net | -38.2 | -43.0 | -48.5 | -54.3 | -57.4 | -60.3 | -63.4 | -62.4 | -65.7 | -66.4 | -71.1 | -71.9 |
| Other Inc. & Transfers, Net | -46.4 | -39.5 | -40.3 | -52.4 | -40.8 | -41.9 | -43.2 | -56.7 | -44.3 | -45.5 | -47.8 | -59.2 |

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

Strictly Confidential (FR)
Class II FOMC

August 16, 2000

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | 1999 | | | | 2000 | | | | 2001 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | ------ 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 | -1.4 | -1.4 | -1.1 | -0.4 | -0.9 | -1.5 | -0.6 | -0.1 | -0.5 | -0.5 | -0.2 | 0.1 |
| Exports of G&S | -0.9 | 0.6 | 1.0 | 1.1 | 0.7 | 0.8 | 0.7 | 0.9 | 0.5 | 0.9 | 0.9 | 1.3 |
| Imports of G&S | -0.6 | -2.0 | -2.1 | -1.4 | -1.6 | -2.3 | -1.3 | -1.0 | -1.0 | -1.4 | -1.1 | -1.2 |
| Percentage change from previous period, s.a.a.r. | | | | | | | | | | | | |
| Exports of G&S | -7.9 | 5.8 | 10.2 | 10.3 | 6.3 | 7.4 | 7.0 | 8.3 | 4.9 | 8.2 | 8.4 | 11.9 |
| Services | -3.8 | 2.8 | -2.5 | 4.6 | 6.9 | 0.9 | 0.8 | 3.3 | 4.8 | 5.4 | 5.4 | 5.0 |
| Agricultural Goods | -33.4 | 33.1 | 38.0 | -19.9 | 25.3 | -4.0 | 7.3 | -8.5 | 1.3 | 1.1 | -4.7 | -4.5 |
| Computers | 5.2 | 26.7 | 22.2 | 1.2 | 44.6 | 36.2 | 36.0 | 36.0 | 36.0 | 36.0 | 36.0 | 36.0 |
| Semiconductors | 38.7 | 39.1 | 37.8 | 22.5 | 20.7 | 41.7 | 41.2 | 41.2 | 41.2 | 41.2 | 41.2 | 41.2 |
| Other Goods 1/ | -11.1 | 1.4 | 11.9 | 16.3 | 0.7 | 7.0 | 4.9 | 7.1 | -0.7 | 4.3 | 5.0 | 11.2 |
| Imports of G&S | 4.5 | 16.2 | 16.9 | 10.7 | 12.0 | 17.3 | 9.1 | 6.6 | 7.2 | 9.4 | 7.7 | 7.8 |
| Services | -7.7 | 2.5 | 6.3 | 8.2 | 16.6 | 16.6 | 5.0 | 3.6 | 2.5 | 3.0 | 3.6 | 4.0 |
| Oil | 2.4 | 29.4 | -5.8 | -31.5 | 30.3 | 37.3 | 4.1 | -11.4 | -4.7 | 26.6 | -0.6 | -4.4 |
| Computers | 28.8 | 48.5 | 14.8 | 11.2 | 2.8 | 40.1 | 31.1 | 31.1 | 29.9 | 29.9 | 29.9 | 29.9 |
| Semiconductors | 17.8 | 53.8 | 24.1 | 43.3 | 20.7 | 23.2 | 41.2 | 41.2 | 41.2 | 41.2 | 41.2 | 41.2 |
| Other Goods 2/ | 5.0 | 14.6 | 21.5 | 14.9 | 9.7 | 13.2 | 7.6 | 6.2 | 6.1 | 5.9 | 5.9 | 6.1 |
| Billions of chained 1996 dollars, s.a.a.r. | | | | | | | | | | | | |
| Net Goods & Services | -279.8 | -314.6 | -342.6 | -352.5 | -376.8 | -416.6 | -431.6 | -434.2 | -447.9 | -461.6 | -468.5 | -465.8 |
| Exports of G&S | 1003.3 | 1017.6 | 1042.6 | 1068.4 | 1084.8 | 1104.4 | 1123.2 | 1145.7 | 1159.6 | 1182.5 | 1206.6 | 1241.1 |
| Imports of G&S | 1283.1 | 1332.2 | 1385.2 | 1420.9 | 1461.7 | 1521.1 | 1554.7 | 1579.9 | 1607.5 | 1644.2 | 1675.1 | 1706.9 |
| Billions of dollars, s.a.a.r. | | | | | | | | | | | | |
| *US CURRENT ACCOUNT BALANCE* | -266.5 | -315.9 | -358.6 | -384.9 | -409.2 | -448.9 | -471.1 | -488.8 | -489.7 | -505.7 | -515.0 | -526.1 |
| Current Account as % of GDP | -2.9 | -3.4 | -3.8 | -4.0 | -4.2 | -4.5 | -4.7 | -4.8 | -4.7 | -4.8 | -4.8 | -4.9 |
| Net Goods & Services (BOP) | -210.7 | -253.2 | -290.9 | -305.1 | -344.7 | -372.9 | -395.7 | -401.5 | -413.1 | -425.4 | -431.5 | -427.7 |
| Investment Income, Net | -7.1 | -11.3 | -16.8 | -17.3 | -11.3 | -22.0 | -20.9 | -22.3 | -21.7 | -24.7 | -28.1 | -32.3 |
| Direct, Net | 64.1 | 58.8 | 62.8 | 65.1 | 70.7 | 71.7 | 76.8 | 80.4 | 86.0 | 89.2 | 93.2 | 96.1 |
| Portfolio, Net | -71.2 | -70.0 | -79.6 | -82.4 | -82.0 | -93.7 | -97.7 | -102.7 | -107.7 | -114.0 | -121.3 | -128.5 |
| Other Inc. & *Transfers*, Net | -48.7 | -51.5 | -51.0 | -62.5 | -53.2 | -54.0 | -54.5 | -65.0 | -55.0 | -55.5 | -55.5 | -66.0 |

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