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Confidential (FR) Class II FOMC

Part 1

November 8, 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

Initial readings on economic activity in the fourth quarter have provided further support for our view that the economy has moved onto a slower growth track. Our current estimate is that real GDP will rise at an annual rate of about 3-1/2 percent this quarter, well below the pace in the first half of the year. Activity in the interest-sensitive sectors appears to have responded to the policy tightenings of the past year and a half; the appreciation of the dollar is also taking a toll of domestic production, especially manufacturing, and corporate profits. Financial markets have punished firms not achieving their earnings expectations, particularly some high-tech companies where valuations had been lofty. These more sober assessments of corporate profitability (and, in some cases, long-run viability) have generated a further widening in private interest rate spreads on all but the most highly rated securities. Also, a sizable number of large commercial banks have reported additional firming in their standards and terms for C&I loans.

In response to this less hospitable financial environment, we have trimmed our forecast of capital spending, especially for communications equipment. And with equity prices expected to run a bit below our previous projection, we have shaved a little off the growth of consumer spending. Nonetheless, we view the economy as relatively well positioned to weather the strains associated with the reduced pace of economic growth that now appears to be under way. The step-up of growth in household permanent incomes in recent years should continue to support consumer spending, even with our forecast of flat equity prices. Given further steady gains in technology, the rate of return to new investment is expected to remain high, which should limit the extent of the downshift in the growth of capital spending. This modest slowing remains a key element in our forecast. Alternative model simulations near the end of this section assess the macroeconomic consequences of a more pronounced deceleration in business investment.

Headline inflation came in about as expected in the third quarter and is projected to drop back early next year as energy prices begin to reverse this year's rise. The indirect effects of energy price increases boost core inflation in the near term, though they are a moderating influence later on. Nonetheless, core inflation is projected to gradually move up further over the forecast period. Beyond the near term, the assumed depreciation of the dollar is expected to result in an ongoing acceleration in non-oil import prices, which puts steady upward pressure on inflation over the next two years. Moreover, employers' health insurance costs have been rising rapidly, and with the unemployment rate remaining below a sustainable level in our forecast, we anticipate that the rate of increase in labor costs will edge up further. Gains in structural productivity should relieve most of the pressures on labor costs, but with slightly less capital deepening in this forecast, that offset is a touch smaller than in the September Greenbook.

In contrast to the apparent view in financial markets, we continue to believe that a further increase in the nominal federal funds rate will be needed over the next two years to contain inflation in the long run. However, we now assume that an increase will not occur until 2002, and then it will just match the 1/2 percentage point increase in core inflation that we expect over the projection period. In our view, the policy actions that we have built into the baseline forecast should be sufficient to stabilize core inflation by 2003. We have included simulations of alternative funds rate paths at the end of this section.

The Backdrop for the Forecast
Financial market participants appear to have become more selective about providing financing to riskier business ventures. Movements in private interest rates since the time of the September Greenbook reflect this heightened concern regarding the financial vulnerability of some business borrowers. Although high-quality corporate bond yields have been nearly unchanged over the intermeeting period, yields on lower quality bonds have shot up, and bank lenders have tightened standards on C&I loans. We are assuming that corporate financial conditions deteriorate a little further and that private rates will drift up moderately over the forecast period.

Equity prices are not expected to break out of their recent trading range over the next two years. Given our lackluster projection for profits, we think that stock prices will be in the lower portion of the range observed over the past year. With equity prices flat and income continuing to rise over the projection period, the wealth-income ratio reverses a noticeable portion of the run-up of recent years.

Fiscal policy is expected to remain stimulative over the next two years. Regardless of the outcome of the election, we still believe that large, and growing, budget surpluses will tilt actions in the direction of greater stimulus. In the near term, we have responded to the inability of the President and the Congress to agree on a fiscal 2001 budget by eliminating $11 billion of assorted tax cuts that were built into the September Greenbook for fiscal 2001.[1] However, we have retained our assumption of a $75 billion fiscal stimulus for fiscal 2002. Even with these policy actions, we project on-budget surpluses of $119 billion in fiscal 2001 and $143 billion in fiscal 2002.

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1. We have, however, maintained the assumption of a $1 per hour hike in the minimum wage, with half coming into effect in January 2001 and the remainder coming in the following January.

Since the September Greenbook, the dollar has appreciated about 1-1/2 percent against a broad measure of currencies of our trading partners. We project that the real exchange value of the dollar, starting from this higher level, will depreciate about 2-3/4 percent each year in 2001 and 2002. This rate of real depreciation is a bit faster than we projected in the previous forecast, and it incorporates our view that the projected current account deficits will test foreign investors' appetite to hold ever-increasing quantities of dollar assets.

The spot price of West Texas intermediate crude oil has fluctuated between $30 and $36 per barrel during the intermeeting period. Political events in October--the breakdown of the Israeli-Palestinian peace process, the terrorist attack on the USS Cole, and Iraq's demand to be paid in euros rather than dollars for its exports--raised market concerns about the possibility of a disruption of oil supplies from the Middle East. Beyond these supply concerns, low levels of observed inventories and strong demand suggest that the oil market will remain vulnerable to upward price spikes over the next several months. We project that the spot price of WTI crude will decline from around $33 per barrel in the current quarter to about $26 by the end of 2001 and fall to about $23 by the end of 2002, an endpoint that is about $1.50 per barrel below our previous projection.

The outlook for economic activity abroad is essentially unchanged from that in the September Greenbook, with a projected growth rate of foreign GDP, weighted by shares of non-agricultural exports, close to 4 percent over the forecast period. Although the rate of increase in foreign output is dropping back from the exceptionally strong pace of the first half of this year, we expect continued solid growth in most countries going forward. At the same time, we expect core inflation rates to remain subdued in most foreign industrial and developing economies. We assume a modest further monetary tightening in some countries, which should be sufficient to prevent a sustained increase in inflationary pressures.

Recent Developments and the Outlook for the Current Quarter

We now anticipate real GDP growth in the current quarter of 3-1/2 percent at an annual rate, about 1/4 percentage point below the projection in the September Greenbook. The data available for the fourth quarter are limited at this point. The key indicator in hand is the labor market report for October, which, as expected, showed continued moderate payroll employment growth and nearly stagnant production-worker hours. Available indicators suggest little change in industrial production in October after a marked slowing in the third quarter.

In the household sector, preliminary indications are that growth in real consumer spending in the current quarter will moderate a bit from the third-quarter pace.

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

Measure	2000:Q3			2000:Q4	
	Sept. GB	BEA[1]	Nov. GB	Sept. GB	Nov. GB
Real GDP	**3.0**	**2.7**	**2.6**	**3.7**	**3.5**
Private domestic final purchases	4.9	4.1	4.2	4.2	3.9
Personal consumption expenditures	4.7	4.5	4.5	3.8	3.6
Residential investment	-12.4	-9.2	-9.7	-4.3	-5.3
Business fixed investment	11.9	6.9	7.4	9.1	8.7
Government outlays for consumption and investment	-1.6	-3.6	-2.0	3.9	3.9
	Contribution to growth, percentage points				
Inventory investment	-.5	.1	-.5	-.5	-.6
Net exports	-.5	-.3	-.2	-.1	.1

1. Advance release, published on October 27.

Sales of light vehicles weakened in October despite continued high levels of incentives. In addition, sales reports from major retailers have been on the soft side, and consumer sentiment has ebbed a bit, albeit from historically high levels. The decline in mortgage rates over the summer has given a small boost to construction activity, and we expect housing starts to edge up to 1.56 million units in the current quarter.

In the business sector, investment in equipment and software slowed sharply in the third quarter and is likely to grow only a bit more rapidly in the current quarter. Investment in computers continued to be quite robust through September, but growth in shipments of communications equipment slowed markedly in the third quarter despite a sizable backlog of orders. Taken together, we expect investment in high-tech equipment to grow at more moderate rates than in the first half of the year. Outside the high-tech area, sales of heavy trucks plummeted in September, and shipments of aircraft to domestic carriers are down from high levels. But orders for other types of capital equipment have picked up a bit, and a resumption of growth is likely in this category in the current quarter. Nonresidential construction activity increased at almost a double-digit pace in the third quarter, with large gains in office and industrial building and in drilling and mining, and we are anticipating further solid gains in the fourth quarter.

Slowing sales led to a large accumulation of stocks in the third quarter. As a result, aggregate inventory-sales ratios edged up to levels that may not be quite as lean as desired. This is particularly true in the motor vehicle industry, where the drop-off in sales has bloated inventories, and we foresee further cutbacks in production. We expect businesses to maintain tight control over their inventories and to bring stocks back down relatively quickly. Reflecting these efforts, nonfarm inventory investment pulls down GDP growth by almost 3/4 of a percentage point in the fourth quarter.

After exerting a sizable drag in the third quarter, combined federal, state, and local government purchases are expected to boost growth in the fourth quarter. We expect federal spending to increase at an annual rate of 3-1/4 percent in the current quarter, after a large third-quarter decline. Swings in construction expenditures have caused spending by state and local governments to fluctuate over the last few quarters; we project growth in state and local expenditures to pick up a bit in the fourth quarter in a manner consistent with our forecast of longer-run trends in this sector.

Surprisingly strong export data for both July and August have led us to revise upward our projection of real export growth in the second half of this year and to maintain the higher level of real exports throughout the forecast period. Incoming data have also led us to revise up our forecast for import growth for the second half of this year, but by much less than export growth.

The employment cost index for hourly compensation of private industry workers increased 4-1/2 percent over the twelve months ending in September, in line with our previous projection. We expect the fourth-quarter increase in the ECI to be similar to that in the third quarter.

The data on prices have also provided few surprises. The personal consumption expenditures price index is projected to increase at an annual rate of 2-1/4 percent in the fourth quarter, about the same rate as in the third quarter. October data suggest some easing of prices for gasoline and heating oil from September peaks, but we still expect PCE energy prices to increase at an annual rate of 4-1/2 percent in the fourth quarter. We are forecasting the PCE price index excluding food and energy to increase at an annual rate of 2-1/4 percent in the fourth quarter, the same rate as in the overall index.

The Longer-Term Outlook for Aggregate Demand

Our projection for real activity beyond the current quarter has real GDP rising 3-3/4 percent in 2001 and 4 percent in 2002. The waning influence of past stock market gains on household demand and the effects of previous increases in interest rates should restrain aggregate demand in 2001 and 2002. Working counter to these forces, a diminished drag from the external sector and increased

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

Measure	2000 H1	2000 H2	2001	2002
Real GDP	**5.2**	**3.1**	**3.7**	**4.0**
Previous	5.0	3.3	4.0	4.3
Final sales	5.3	3.6	3.8	4.0
Previous	5.2	3.8	4.1	4.3
PCE	5.3	4.0	3.4	3.2
Previous	5.2	4.2	3.5	3.4
Residential investment	2.2	-7.5	-1.6	-2.8
Previous	2.1	-8.5	-3.6	-2.1
BFI	17.7	8.1	10.1	10.1
Previous	17.7	10.5	11.3	11.3
Government purchases	1.8	0.9	3.7	3.6
Previous	1.8	1.1	3.7	3.6
Exports	10.2	13.2	7.3	10.6
Previous	10.2	8.7	7.9	10.5
Imports	15.2	10.1	8.9	8.9
Previous	15.2	8.6	8.3	9.3
	Contribution to growth, percentage points			
Inventory change	.0	-.5	-.1	.1
Previous	-.1	-.5	-.1	.1
Net exports	-1.0	-.0	-.5	-.1
Previous	-1.0	-.3	-.4	-.2

fiscal stimulus push spending growth back up in 2002, but only at the end of the projection period does growth of aggregate demand approach that of supply. As noted above, our GDP projection is weaker than that in the September Greenbook, with somewhat less favorable financial conditions restraining household and business spending.

Household spending. Favorable fundamentals--including sizable real income gains and steady, albeit moderate, increases in employment--propel solid demand in the household sector. The diminishing influence of past equity market gains is the primary restraint that pulls household spending growth below its brisk pace of the past few years. This effect should be most visible in durable goods, such as motor vehicles and appliances, where soaring wealth boosted households' desired stocks. The resulting investment boom, encouraged by generous incentives in the case of motor vehicles, now looks likely to ebb as stocks more fully adjust to desired levels. We project real PCE growth of about 3-1/2 percent in 2001 and 3-1/4 percent in 2002, a pace that is expected to produce an increase in the personal saving rate by 2002.

Our projection of demand for new single-family houses is framed by the same influences of income and wealth as well as by the path for mortgage rates. The combination of the waning wealth effect and modest increases in mortgage rates is projected to nudge single-family starts down from the 1.27 million unit pace in 2000 to 1.25 million units in 2001 and 1.23 million units in 2002. Multifamily starts also are expected to edge down over the projection period.

Business investment. The longer-term forecast for business spending balances the influences of a slowing economy, rising borrowing costs, and more stringent credit standards against the continued rapid pace of innovation in the high-tech field. On net, these considerations lead us to expect a modest slowing in investment growth from the breakneck pace of the past few years. Real business investment in equipment and software is expected to grow at an annual rate of about 12 percent over the next two years, the slowest pace since 1996.

But this aggregate number masks significant differences in the expected behavior of particular components of equipment spending. We expect outlays for computer-related equipment to continue to race ahead, reflecting the sustained rate of technological innovation in this sector and accompanying price declines. Software investment should continue to ride the coattails of the hardware investment boom. In contrast, financial constraints and prospective declines in expected profitability--possibly resulting from the emergence of excess capacity--are likely to damp investment in communications equipment, and we now foresee considerably slower growth in this area. Growth in other more "traditional" equipment investment is also expected to slow somewhat in response to tighter financial conditions and the projected deceleration in output growth. Spending on nonresidential structures is expected to grow between 4 percent and 5 percent per year over the next two years, reflecting favorable fundamentals--including very low office vacancy rates and sizable rent increases--and few signs of overbuilding in most sectors.

Our projection has inventory investment adjusting relatively promptly to the slowdown in final sales and the inventory-sales ratio extending its longer-run downward trend. We expect inventory investment over the next two years to be a roughly neutral factor in the GDP forecast.

Government. We have not changed our projection of real expenditures for consumption and investment at either the federal level or the state and local level. We expect combined spending by federal, state, and local governments to increase roughly in line with GDP in 2001 and a bit below that pace in 2002. Real federal spending is projected to increase about 2-1/2 percent in 2001 and 2002. Real defense spending is projected to increase 2 percent per year on average over the next two years, following general declines since the end of the Gulf War. After a 3 percent advance in state and local government purchases this year, we expect a pickup in the pace of spending to 4-1/4 percent in each of the next two years; this compares with an average annual rate of 3-1/2 percent for the previous four years. Underlying our forecast are the excellent fiscal positions that most governments enjoy. A recent survey of budgets submitted by governors indicates that states expect not only to cut taxes but also to boost spending in a number of areas, with a special emphasis on education--for both operational expenses and construction.

Net exports. We are forecasting some dropoff in real export growth in 2001 from this year's extraordinary pace; however, with economic expansion abroad remaining robust and the dollar depreciating, export growth should bounce back in 2002. The appreciation of the dollar that has occurred over the past several months should help to sustain the growth of imports next year, despite a slowdown of domestic activity. All told, net exports subtract around ½ percentage point from growth of real GDP in 2001. This figure shrinks considerably in 2002, owing to the projected depreciation of the dollar. (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

The moderation in the pace of capital accumulation implied by our forecast of business investment has caused us to trim our estimate of structural productivity growth slightly. We now estimate that structural productivity growth will be 3.4 percent in 2000 and 3.5 percent in 2001 and 2002; previously we had projected a gradual uptrend over the forecast period.[2] Accordingly, potential GDP increases 4.5 percent in 2000 and then plateaus at 4.6 percent in 2001 and 2002.

2. In addition, since the last Greenbook we have received unpublished detail underlying the BLS multifactor productivity data. In light of this additional information, we have raised our estimate of trend MFP growth 0.1 percentage point and reduced the contribution to productivity growth resulting from capital deepening an equal amount. This change has no effect on our overall view of structural productivity growth but represents merely a minor refinement to our estimates of the contributing factors.

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

Measure	1998	1999	2000	2001	2002
Structural labor productivity	**2.9**	**3.2**	**3.4**	**3.5**	**3.5**
Previous	2.9	3.2	3.5	3.6	3.7
Contributions[1]					
Capital deepening	1.3	1.5	1.6	1.7	1.7
Previous	1.4	1.6	1.8	1.9	2.0
Multifactor productivity	1.3	1.4	1.5	1.5	1.5
Previous	1.2	1.3	1.4	1.4	1.4
Labor quality	.3	.3	.3	.3	.3

1. Percentage points.

Productivity, the labor market, and wages. We expect the downshift in the pace of economic expansion to restrain actual productivity growth over the next two years. Output per hour in the nonfarm business sector is projected to increase about 3 percent during 2001 before picking back up to its long-run pace of 3-1/2 percent by the end of 2002. With output growth below potential, the unemployment rate drifts up gradually. Nevertheless, with the unemployment rate standing at 4.6 percent at the end of 2002, labor markets remain tight throughout the projection period.

Our projection of hourly compensation is little changed from the September Greenbook. Labor market tightness and the outlook for inflation are, as before, the two primary influences on our compensation projection. The reversal of the energy price surge lowers overall consumer price inflation, easing pressures for cost-of-living adjustments, but tight labor markets continue to exert upward pressure on wages. We expect the ECI to increase about 4-3/4 percent in both 2001 and 2002, a touch above the rate projected for this year. Underlying this nearly constant rate of increase is a modest slowing in benefits growth relative to 2000 and a corresponding pickup in the growth of wages and salaries.

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

Measure	1999	2000	2001	2002
Output per hour, nonfarm business	4.1	3.4	2.9	3.4
Previous	4.1	3.3	3.1	3.7
Nonfarm payroll employment	2.2	1.7	1.2	1.3
Previous	2.2	1.7	1.4	1.3
Household employment survey	1.5	1.1	0.8	0.8
Previous	1.5	0.9	1.0	0.9
Labor force participation rate[1]	67.0	67.1	67.1	67.1
Previous	67.0	67.1	67.1	67.1
Civilian unemployment rate[1]	4.1	4.0	4.4	4.6
Previous	4.1	4.1	4.3	4.5

1. Percent, average for the fourth quarter.

Prices. As in the September Greenbook, the contour of the top-line inflation forecast is dominated by swings in energy prices. After having posted double-digit increases in both 1999 and 2000, PCE energy prices are expected to fall 4-1/2 percent during 2001 and another 2-1/2 percent in 2002 in large part because of the effects of lower crude oil prices on gasoline and fuel oil costs. We project that the PCE chain-weighted price index will increase about 2 percent in 2001 and 2002, below this year's 2-1/2 percent pace. The deceleration in the CPI is even more pronounced, with inflation expected to average 2-1/4 percent over the next two years after a 3-1/2 percent increase this year.

Although energy prices are the dominant factor influencing top-line inflation, faster increases in non-oil import prices and continuing tightness in labor markets maintain the upward tilt to core inflation. The PCE chain-weighted price index excluding food and energy is projected to rise 2.1 percent in 2001, up from an expected increase of 1.8 percent this year and a 1.5 percent rise in 1999. The indirect effect of declining energy prices relieves some of the upward pressure on prices in 2002, and core inflation is expected to edge up only a tenth of a percentage point, to 2.2 percent, that year. The basic pattern for our projection of core CPI prices is the same, with increases of 2.7 percent and 2.8 percent in 2001 and 2002, respectively, after a rise of 2.6 percent in 2000 and 2.1 percent in 1999.

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

Measure	1999	2000	2001	2002
PCE chain-weighted price index	2.0	2.5	1.9	2.1
Previous	2.0	2.5	2.0	2.1
Excluding food and energy	1.5	1.8	2.1	2.2
Previous	1.5	1.9	2.1	2.2
Consumer price index	2.6	3.4	2.2	2.4
Previous	2.6	3.3	2.4	2.4
Food	1.9	2.5	2.7	2.7
Previous	1.9	2.5	2.6	2.7
Energy	11.2	14.7	-3.5	-2.4
Previous	11.2	13.9	-1.5	-2.5
Excluding food and energy	2.1	2.6	2.7	2.8
Previous	2.1	2.6	2.7	2.8
GDP chain-weighted price index	1.6	2.5	1.9	1.9
Previous	1.6	2.4	1.9	1.9
ECI for compensation of private industry workers[1]	3.4	4.7	4.8	4.8
Previous	3.4	4.7	4.9	4.9
NFB compensation per hour	4.8	5.4	5.7	5.7
Previous	4.8	4.8	5.6	5.8
Prices of core non-oil merchandise imports	0.4	1.4	2.5	2.9
Previous	0.4	2.0	3.0	2.5

1. December to December.

Financial Flows and Conditions

Debt of the domestic nonfinancial sector is estimated to have decelerated in the third quarter. We anticipate that it will weaken a bit further in the current quarter largely because of paydowns of federal government debt. Debt growth of private borrowers appears to have slowed in the second half of this year, most notably in the business sector, as greater stock price volatility, elevated credit spreads on lower-rated bonds, and firmer standards and terms on loans at commercial banks have raised financing costs. Growth of nonfederal debt is expected to level out at an annual rate of about 7-1/2 percent over the next two years, down a couple of percentage points from the pace of the past few years. Even so, the expansion of nonfederal debt is projected to outstrip growth of nominal GDP.

We anticipate that debt growth in the business sector will pick up in 2001 and 2002 from its recent slower pace. With corporate profit growth expected to be sluggish over the forecast period, firms will need to borrow substantial sums to finance continued high levels of capital expenditures and to fund still sizable mergers and acquisitions. We expect that interest burdens will move up relative to cash flow, leading to some further deterioration in the quality of corporate balance sheets. Riskier borrowers already are experiencing some difficulty in obtaining funding, and we would not be surprised to see a shake-out of weaker competitors. Nonetheless, we do not expect creditworthy firms to feel much of a pinch, and the overall effect of somewhat tighter credit supply conditions on investment spending should be limited.

Household borrowing is projected to drift moderately lower over the projection period as growth in demand for consumer durables slows and housing activity softens. With debt expected to rise faster than disposable income and interest rates projected to move higher, debt service burdens increase, resulting in a slight pickup in delinquency and default rates. We expect lenders to tighten loan standards further, but this restraint likely will affect only marginal borrowers and not retard spending to a significant degree.

In the state and local government sector, debt growth is expected to remain subdued. Although these governments likely will issue a considerable amount of debt to fund new capital projects, the anticipated rise in interest rates will continue to constrain offerings to advance-refund existing debt. Moreover, a large volume of previously refunded debt is scheduled to be retired in the next two years, which will hold down net borrowing.

M2 growth moderated in October following its brisk expansion in August and September. We expect a slight pickup in this aggregate over the balance of the year, bringing its rate of expansion for 2000 as a whole to 6 percent. M2 growth is expected to be slower in 2001 and 2002, reflecting weaker growth in nominal GDP.

Alternative Simulations

Very rapid growth of high-tech investment (computers, software, and communications equipment) has helped fuel the extraordinary surge of aggregate demand and supply over recent years. The staff forecasts a modest slowing in the growth of such outlays over 2001 and 2002. Still, high-tech investment spending is expected to increase in excess of 20 percent per year, on average, over the next two years and provide an important contribution to the growth of actual and potential GDP. However, recent signs of financial stress in parts of the technology sector may have exposed a chink in the armor of the "New Economy," and developments in the high-tech sector may turn out to be distinctly less rosy than we are anticipating. A pair of simulations using the staff FRB macroeconomic model explore this possibility; in both simulations we assume that the nominal federal funds rate follows the Greenbook baseline path.

High-tech slowdown. In the first "domestic investment slowdown" simulation, the sharp deceleration in equipment and software spending in the third quarter of 2000 is assumed to represent the beginning of a pronounced slowdown. Equipment and software outlays increase at an annual rate of 7 percent through the end of 2002, about 5 percentage points slower than in the Greenbook baseline projection. Any number of factors--such as difficulties in arranging financing, lower-than-expected returns on new investment, or higher perceived risks associated with new investment--individually or together might underlie such a pullback in the growth of capital outlays.

The effects of the less robust investment path are the mirror images of those of an investment-led productivity acceleration. Both aggregate supply and demand are affected. In the case of supply, the falloff in the pace of capital spending damps structural productivity growth and depresses the rate of advance of potential output by 0.1 percentage point in 2001 and 0.4 percentage point in 2002. The reduction in investment spending and associated multiplier effects also depress aggregate demand. In addition, the reductions in permanent income and wealth resulting from the slower growth in potential output restrain household and business spending.

Alternative Simulations:
Weaker Outlook for High-Tech Investment
(Percent change, annual rate, from end of preceding period, except as noted)

Measure	2000		2001		2002	
	H1	H2	H1	H2	H1	H2
Real GDP						
Baseline	**5.2**	**3.1**	**3.6**	**3.8**	**4.0**	**4.1**
Domestic investment slowdown	5.2	3.1	3.0	2.8	2.8	2.6
Global high-tech slowdown	5.2	3.1	2.8	2.5	2.7	2.8
Civilian unemployment rate[1]						
Baseline	**4.0**	**4.0**	**4.2**	**4.4**	**4.5**	**4.6**
Domestic investment slowdown	4.0	4.0	4.3	4.6	4.9	5.2
Global high-tech slowdown	4.0	4.0	4.3	4.7	5.0	5.3
PCE prices excluding food and energy						
Baseline	**1.8**	**1.9**	**2.1**	**2.1**	**2.2**	**2.3**
Domestic investment slowdown	1.8	1.9	2.1	2.1	2.3	2.4
Global high-tech slowdown	1.8	1.9	2.3	2.5	2.6	2.5

1. Average for the final quarter of the half-year period.

The total reduction in demand exceeds the response of aggregate supply. As a result, real GDP growth is significantly weaker than the baseline, averaging 2-3/4 percent over the next two years, and the unemployment rate rises to 5-1/4 percent by the end of 2002. The outlook for inflation is also somewhat less sanguine. The reduction in inflationary pressures from increased slack in labor and product markets is more than offset by the inflationary consequences of slower growth in structural labor productivity.

The response of financial markets is concentrated in equity prices. The stock market falls 8 percent by the end of 2002, primarily because the slowdown in growth of potential output reduces the expected rate of increase in earnings. With domestic and foreign interest rates little changed in this simulation, the foreign exchange value of the dollar stays close to its baseline path of gradual depreciation.

Ramifications of a global high-tech slowdown. The second simulation adds several financial market and foreign developments that could easily accompany and exacerbate a high-tech slowdown in the United States. First, in this "global high-tech slowdown" simulation, the circumstances that weaken the outlook for U.S. equipment investment also lead investors in financial markets to lower their risk-adjusted expected returns. We attempt to capture the macroeconomic effects of such a development by assuming that U.S. stock prices decline about 25 percent (relative to the baseline) and that the dollar depreciates 7 percent (relative to baseline), with both of these declines taking place over the first half of 2001. Second, we assume that high-tech sectors in other countries also slow, and we cut the growth rate of equipment and software spending in foreign industrial countries and technology-intensive developing economies by about 2-1/2 percentage points in 2001 and 2002.[3] The more muted decline in investment growth abroad relative to that in the United States reflects the smaller share of high-tech spending in those economies. As before, we assume that the federal funds rate follows the Greenbook baseline path.[4]

Under these circumstances, real GDP growth averages 2-3/4 percent per year over 2001 and 2002, about the same as in the first simulation. The additional spending restraint resulting from the weaker stock market and the slowdown in foreign growth is offset by the stimulative effect of the depreciation of the dollar on net exports. But the drop in the dollar exacerbates the outlook for inflation:

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3. These technology-intensive developing economies are Hong Kong, Korea, Malaysia, Singapore, and Taiwan.

4. Monetary authorities in the foreign industrial countries are assumed to follow Taylor rules for setting short-term interest rates; Argentina and Hong Kong are assumed to maintain their pegs to the dollar; the other developing economies maintain a fixed exchange rate in terms of a basket of currencies.

Core PCE price inflation is about 1/4 percentage point higher than the Greenbook baseline in both 2001 and 2002.

Additional simulations. The next set of scenarios updates two of the supply-side alternatives presented in the September Greenbook as well as four standard alternative scenarios for financial assumptions.[5] The "lower structural productivity" simulation assumes that trend productivity has increased at a constant 3 percent pace since 1998 and extends that lower rate for productivity growth through 2002. The "lower NAIRU" scenario assumes that the NAIRU has been 4 percent for several years and will remain at that level over the forecast period.

The "flat funds rate" simulation eliminates the tightening included in the Greenbook forecast period. In the "tighter policy" simulation, the baseline rise in the funds rate is brought forward from 2002 to the first half of 2001; this policy keeps core PCE inflation at about 2 percent throughout the forecast period. The "stock market correction" scenario includes a 20 percent decline in stock prices in the first quarter of 2001 with no change thereafter. In the "continued stock market gains" simulation, the Wilshire 5000 index rises in line with nominal GDP over the next two years.

5. The supply-side alternative scenarios are described in the September Greenbook.

Alternative Simulations:
Productivity, the NAIRU, and Financial Assumptions
(Percent change, annual rate, from end of preceding period, except as noted)

Measure	2000		2001		2002	
	H1	H2	H1	H2	H1	H2
Real GDP						
Baseline	**5.2**	**3.1**	**3.6**	**3.8**	**4.0**	**4.1**
Lower structural productivity	5.2	2.8	2.8	3.0	3.5	3.8
Lower NAIRU	5.2	3.1	3.7	3.8	4.0	3.9
Flat funds rate	5.2	3.1	3.6	3.8	4.1	4.4
Tighter policy	5.2	3.1	3.5	3.4	3.6	3.8
Stock market correction	5.2	3.1	3.2	3.3	3.4	3.6
Continued stock market gains	5.2	3.1	3.6	3.9	4.2	4.3
Civilian unemployment rate[1]						
Baseline	**4.0**	**4.0**	**4.2**	**4.4**	**4.5**	**4.6**
Lower structural productivity	4.0	4.0	4.2	4.5	4.6	4.7
Lower NAIRU	4.0	4.0	4.2	4.3	4.4	4.5
Flat funds rate	4.0	4.0	4.2	4.4	4.5	4.5
Tighter policy	4.0	4.0	4.2	4.5	4.7	4.9
Stock market correction	4.0	4.0	4.2	4.5	4.7	4.9
Continued stock market gains	4.0	4.0	4.2	4.4	4.5	4.5
PCE prices excluding food and energy						
Baseline	**1.8**	**1.9**	**2.1**	**2.1**	**2.2**	**2.3**
Lower structural productivity	1.8	1.9	2.2	2.3	2.5	2.6
Lower NAIRU	1.8	1.8	1.8	1.7	1.4	1.3
Flat funds rate	1.8	1.9	2.1	2.1	2.2	2.4
Tighter policy	1.8	1.9	2.1	2.0	2.0	2.0
Stock market correction	1.8	1.9	2.1	2.1	2.2	2.2
Continued stock market gains	1.8	1.9	2.1	2.1	2.2	2.3

1. Average for the final quarter of the half-year period.

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Class II FOMC

November 8, 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]	
		09/27/00	11/08/00	09/27/00	11/08/00	09/27/00	11/08/00	09/27/00	11/08/00	09/27/00	11/08/00
ANNUAL											
1998		5.7	5.7	4.4	4.4	1.3	1.3	1.6	1.6	4.5	4.5
1999		5.8	5.8	4.2	4.2	1.5	1.5	2.2	2.2	4.2	4.2
2000		7.5	7.4	5.2	5.2	2.2	2.2	3.3	3.4	4.1	4.0
2001		5.9	5.7	3.8	3.6	2.0	2.0	2.6	2.5	4.2	4.2
2002		6.2	5.8	4.2	3.9	1.9	1.9	2.4	2.4	4.4	4.5
QUARTERLY											
1999	Q1	5.9	5.9	3.5	3.5	2.2	2.2	1.7	1.7	4.3	4.3
	Q2	3.9	3.9	2.5	2.5	1.4	1.4	3.2	3.2	4.3	4.3
	Q3	6.7	6.7	5.7	5.7	1.1	1.1	2.4	2.4	4.2	4.2
	Q4	9.7	9.7	8.3	8.3	1.6	1.6	2.9	2.9	4.1	4.1
2000	Q1	8.3	8.3	4.8	4.8	3.3	3.3	4.1	4.3	4.1	4.1
	Q2	8.2	8.2	5.2	5.6	2.6	2.4	3.6	3.6	4.0	4.0
	Q3	4.8	4.6	3.0	2.6	1.8	2.0	3.0	3.1	4.1	4.0
	Q4	5.7	5.9	3.7	3.5	2.0	2.2	2.7	2.8	4.1	4.0
2001	Q1	6.2	6.0	3.8	3.6	2.3	2.4	2.4	2.2	4.1	4.1
	Q2	5.7	5.4	3.9	3.6	1.8	1.7	2.5	2.1	4.1	4.2
	Q3	5.8	5.4	4.0	3.7	1.8	1.7	2.4	2.3	4.2	4.3
	Q4	6.1	5.7	4.2	3.9	1.8	1.8	2.4	2.3	4.3	4.4
2002	Q1	6.6	6.1	4.3	3.9	2.2	2.1	2.4	2.4	4.3	4.4
	Q2	6.2	5.9	4.3	4.0	1.8	1.8	2.4	2.4	4.4	4.5
	Q3	6.2	5.9	4.3	4.1	1.8	1.8	2.5	2.5	4.4	4.5
	Q4	6.2	6.0	4.4	4.2	1.8	1.8	2.5	2.5	4.5	4.6
TWO-QUARTER[3]											
1999	Q2	4.9	4.9	3.0	3.0	1.8	1.8	2.5	2.5	-0.1	-0.1
	Q4	8.2	8.2	7.0	7.0	1.3	1.3	2.7	2.7	-0.2	-0.2
2000	Q2	8.3	8.2	5.0	5.2	3.0	2.8	3.8	4.0	-0.1	-0.1
	Q4	5.3	5.3	3.3	3.1	1.9	2.1	2.8	2.9	0.1	0.0
2001	Q2	6.0	5.7	3.8	3.6	2.0	2.0	2.4	2.2	0.0	0.2
	Q4	6.0	5.6	4.1	3.8	1.8	1.7	2.4	2.3	0.2	0.2
2002	Q2	6.4	6.0	4.3	4.0	2.0	2.0	2.4	2.4	0.1	0.1
	Q4	6.2	6.0	4.3	4.1	1.8	1.8	2.5	2.5	0.1	0.1
FOUR-QUARTER[4]											
1998	Q4	5.9	5.9	4.6	4.6	1.2	1.2	1.5	1.5	-0.3	-0.3
1999	Q4	6.5	6.5	5.0	5.0	1.6	1.6	2.6	2.6	-0.3	-0.3
2000	Q4	6.8	6.7	4.2	4.1	2.4	2.5	3.3	3.4	-0.0	-0.1
2001	Q4	6.0	5.6	4.0	3.7	1.9	1.9	2.4	2.2	0.2	0.4
2002	Q4	6.3	6.0	4.3	4.0	1.9	1.9	2.4	2.4	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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Class II FOMC

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

November 8, 2000

Item	Units[1]	1994	1995	1996	1997	1998	1999	2000 (Projected)	2001 (Projected)	2002 (Projected)
EXPENDITURES										
Nominal GDP	Bill. $	7054.3	7400.5	7813.2	8318.4	8790.2	9299.2	9990.5	10564.3	11181.8
Real GDP	Bill. Ch. $	7347.7	7543.8	7813.2	8159.5	8515.7	8875.8	9337.4	9674.9	10054.3
Real GDP	% change	4.1	2.2	4.1	4.3	4.6	5.0	4.1	3.7	4.0
Gross domestic purchases		4.3	1.7	4.3	5.0	5.7	5.9	4.5	4.1	4.0
Final sales		3.2	2.9	3.9	3.9	4.6	4.8	4.5	3.8	4.0
Priv. dom. final purchases		4.3	3.2	4.4	5.1	6.4	6.1	5.5	4.3	4.1
Personal cons. expenditures		3.6	2.8	3.1	4.1	5.0	5.6	4.7	3.4	3.2
Durables		6.4	3.7	5.0	8.8	12.6	11.1	6.4	4.4	3.8
Nondurables		4.1	2.5	3.2	2.5	5.0	5.9	4.4	3.1	3.0
Services		2.7	2.7	2.7	3.9	3.4	4.2	4.5	3.4	3.2
Business fixed investment		9.2	7.5	12.1	11.8	12.9	10.1	12.8	10.1	10.1
Equipment & Software		12.0	8.9	11.8	13.7	15.8	14.1	13.3	11.8	12.0
Nonres. structures		1.1	3.3	12.8	6.5	4.9	-1.7	11.0	4.8	4.1
Residential structures		4.0	-1.5	5.6	3.5	10.3	2.8	-2.8	-1.6	-2.8
Exports		10.5	9.7	9.8	8.5	2.2	4.3	11.7	7.3	10.6
Imports		12.2	5.0	11.2	14.3	11.2	12.0	12.6	8.9	8.9
Gov't. cons. & investment		0.2	-0.8	2.7	2.4	2.6	4.4	1.4	3.7	3.6
Federal		-3.7	-5.3	2.0	0.1	0.8	4.8	-1.7	2.6	2.5
Defense		-5.9	-4.7	0.8	-1.4	-1.0	4.6	-3.9	2.1	2.0
State & local		2.8	2.1	3.0	3.7	3.6	4.2	3.0	4.2	4.2
Change in bus. inventories	Bill. Ch. $	66.8	30.4	30.0	63.8	80.2	45.3	57.8	54.3	48.2
Nonfarm		53.6	42.6	22.1	60.6	78.7	44.9	52.8	51.4	46.8
Net exports		-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-399.2	-452.8	-483.7
Nominal GDP	% change	6.2	4.3	6.0	6.2	5.9	6.5	6.7	5.6	6.0
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	114.1	117.2	119.6	122.7	125.8	128.8	131.5	133.0	134.7
Unemployment rate	%	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.2	4.5
Industrial prod. index	% change	6.4	3.5	5.3	6.8	2.9	4.2	4.8	3.7	4.4
Capacity util. rate - mfg.	%	82.5	82.6	81.5	82.4	80.9	79.8	81.1	80.8	80.9
Housing starts	Millions	1.46	1.35	1.48	1.47	1.62	1.67	1.61	1.57	1.54
Light motor vehicle sales		15.01	14.77	15.05	15.06	15.45	16.76	17.36	16.41	16.28
North Amer. produced		12.88	12.87	13.34	13.12	13.43	14.28	14.55	13.90	13.83
Other		2.13	1.90	1.70	1.93	2.02	2.48	2.81	2.52	2.45
INCOME AND SAVING										
Nominal GNP	Bill. $	7071.1	7420.9	7831.2	8325.4	8786.7	9288.2	9979.9	10538.9	11138.2
Nominal GNP	% change	6.2	4.4	5.9	6.0	5.7	6.5	6.7	5.5	5.8
Nominal personal income		5.1	4.3	5.9	6.3	6.3	5.6	6.0	6.1	6.0
Real disposable income		2.9	1.7	2.6	3.8	4.6	3.1	2.7	4.2	4.5
Personal saving rate	%	6.1	5.6	4.8	4.2	4.2	2.2	-0.1	0.3	1.5
Corp. profits, IVA & CCAdj.	% change	12.3	11.3	11.4	9.9	-5.8	11.2	9.0	-0.0	0.9
Profit share of GNP	%	8.1	9.0	9.6	10.0	9.3	9.2	9.6	9.2	8.7
Excluding FR Banks		7.9	8.7	9.4	9.7	9.0	8.9	9.4	9.0	8.5
Federal surpl./deficit	Bill. $	-212.3	-192.0	-136.8	-53.3	49.0	124.4	254.3	291.2	291.7
State & local surpl./def.		8.6	15.3	21.4	31.0	41.7	50.0	59.1	57.3	52.0
Ex. social ins. funds		4.0	11.4	18.7	29.9	41.3	50.4	59.6	57.4	51.8
Gross natl. saving rate	%	16.3	16.9	17.2	18.0	18.8	18.5	18.4	18.7	19.2
Net natl. saving rate		4.3	5.1	5.7	6.7	7.5	6.8	6.7	6.8	7.2
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.1	2.1	1.9	1.8	1.2	1.6	2.5	1.9	1.9
Gross Domestic Purchases chn.-wt. price index		2.1	2.1	1.9	1.4	0.8	1.9	2.6	1.7	1.9
PCE chn.-wt. price index		2.1	2.1	2.3	1.5	1.1	2.0	2.5	1.9	2.1
Ex. food and energy		2.3	2.3	1.8	1.7	1.6	1.5	1.8	2.1	2.2
CPI		2.6	2.7	3.1	1.9	1.5	2.6	3.4	2.2	2.4
Ex. food and energy		2.8	3.0	2.6	2.2	2.4	2.1	2.6	2.7	2.8
ECI, hourly compensation[2]		3.1	2.6	3.1	3.4	3.5	3.4	4.7	4.8	4.8
Nonfarm business sector										
Output per hour		1.1	1.1	2.3	2.1	2.9	4.1	3.4	2.9	3.4
Compensation per Hour		2.2	2.7	3.1	3.2	5.3	4.8	5.4	5.7	5.7
Unit labor cost		1.0	1.5	0.8	1.1	2.3	0.7	2.0	2.8	2.4

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

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Class II FOMC

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

November 8, 2000

Item	Units	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2
EXPENDITURES											
Nominal GDP	Bill. $	8634.7	8722.0	8829.1	8974.9	9104.5	9191.5	9340.9	9559.7	9752.7	9945.7
Real GDP	Bill. Ch. $	8404.9	8465.6	8537.6	8654.5	8730.0	8783.2	8905.8	9084.1	9191.8	9318.9
Real GDP	% change	6.5	2.9	3.4	5.6	3.5	2.5	5.7	8.3	4.8	5.6
Gross domestic purchases		8.1	4.8	4.4	5.4	4.9	3.8	6.6	8.4	5.6	6.5
Final sales		4.1	5.6	2.9	5.9	4.5	4.0	4.5	6.4	6.7	3.9
Priv. dom. final purchases		7.2	7.5	4.4	6.3	6.4	6.2	5.6	6.2	9.3	4.7
Personal cons. expenditures		4.8	5.8	4.3	4.9	5.7	5.6	5.0	5.9	7.6	3.1
Durables		9.4	13.9	4.1	23.9	8.6	15.0	8.0	13.0	23.6	-5.0
Nondurables		4.7	5.8	4.3	5.2	7.8	3.8	4.9	7.4	6.0	3.6
Services		4.0	4.3	4.3	1.3	4.1	4.6	4.5	3.8	5.2	4.6
Business fixed investment		20.1	15.6	3.5	13.2	9.5	9.6	11.8	9.5	21.0	14.6
Equipment & Software		24.6	16.1	6.5	16.7	14.1	15.2	18.0	9.5	20.6	17.9
Nonres. structures		7.9	14.1	-4.7	3.3	-3.4	-6.2	-6.2	9.7	22.3	4.4
Residential structures		9.6	12.6	10.3	8.9	8.2	5.9	-3.1	0.5	3.2	1.3
Exports		1.0	-3.0	-3.2	15.1	-7.9	5.8	10.2	10.3	6.3	14.3
Imports		14.2	13.1	5.5	12.2	4.5	16.2	16.9	10.7	12.0	18.6
Gov't. cons. & investment		-1.0	7.3	1.4	2.8	3.7	0.8	4.8	8.5	-1.1	4.8
Federal		-9.1	12.9	-3.2	3.7	-2.2	2.0	6.9	13.2	-14.2	17.2
Defense		-17.7	13.1	5.8	-2.4	-3.1	-2.3	12.3	12.6	-19.8	16.9
State & local		3.8	4.4	4.0	2.3	7.0	0.1	3.7	6.1	6.6	-1.1
Change in bus. inventories	Bill. Ch. $	117.3	60.9	73.1	69.4	48.1	13.1	39.1	80.9	36.6	78.6
Nonfarm		109.7	62.5	79.2	63.5	49.2	14.1	43.5	73.0	33.0	72.3
Net exports		-175.3	-219.8	-244.1	-244.9	-279.8	-314.6	-342.6	-352.5	-376.8	-403.4
Nominal GDP	% change	7.6	4.1	5.0	6.8	5.9	3.9	6.7	9.7	8.3	8.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	124.7	125.5	126.2	127.0	127.8	128.4	129.1	129.8	130.6	131.6
Unemployment rate	%	4.7	4.4	4.5	4.4	4.3	4.3	4.2	4.1	4.1	4.0
Industrial prod. index	% change	2.4	3.0	2.9	3.3	2.0	4.7	4.8	5.3	6.5	8.2
Capacity util. rate - mfg.	%	82.0	81.0	80.3	80.2	79.6	79.6	79.7	80.3	80.8	81.5
Housing starts	Millions	1.56	1.57	1.63	1.72	1.76	1.59	1.66	1.69	1.73	1.61
Light motor vehicle sales		15.00	16.01	14.55	16.24	16.18	16.79	17.08	17.00	18.20	17.24
North Amer. produced		13.07	14.04	12.53	14.07	13.87	14.34	14.61	14.31	15.32	14.36
Other		1.93	1.97	2.02	2.17	2.31	2.45	2.47	2.69	2.88	2.88
INCOME AND SAVING											
Nominal GNP	Bill. $	8640.3	8725.0	8814.9	8966.6	9097.2	9181.8	9327.3	9546.3	9745.0	9937.4
Nominal GNP	% change	7.8	4.0	4.2	7.1	6.0	3.8	6.5	9.7	8.6	8.1
Nominal personal income		7.7	6.2	5.9	5.7	4.3	5.4	5.2	7.6	6.9	6.9
Real disposable income		6.6	4.5	3.6	3.6	2.9	2.8	2.2	4.5	1.9	3.7
Personal saving rate	%	4.6	4.3	4.1	3.8	3.1	2.5	1.8	1.5	0.2	0.3
Corp. profits, IVA & CCAdj.	% change	-12.6	-5.0	2.0	-7.0	26.5	-6.9	2.5	26.6	20.7	12.2
Profit share of GNP	%	9.5	9.3	9.3	9.0	9.4	9.1	9.0	9.4	9.6	9.7
Excluding FR Banks		9.3	9.0	9.0	8.7	9.1	8.8	8.8	9.1	9.3	9.4
Federal surpl./deficit	Bill. $	25.9	41.9	71.9	56.4	89.7	117.5	147.3	143.3	235.8	240.9
State & local surpl./def.		38.1	33.4	37.5	57.7	47.9	38.0	47.4	66.6	52.0	60.1
Ex. social ins. funds		37.5	32.9	37.2	57.6	48.1	38.3	47.9	67.2	52.5	60.6
Gross natl. saving rate	%	18.9	18.7	19.0	18.7	18.9	18.4	18.4	18.3	18.2	18.6
Net natl. saving rate		7.7	7.4	7.6	7.2	7.3	6.7	6.5	6.6	6.6	6.9
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.0	1.1	1.5	1.1	2.2	1.4	1.1	1.6	3.3	2.4
Gross Domestic Purchases chn.-wt. price index		0.1	0.8	1.1	1.2	1.9	2.0	1.7	1.9	3.8	2.1
PCE chn.-wt. price index		0.4	1.2	1.4	1.5	1.7	2.3	1.9	2.2	3.5	2.1
Ex. food and energy		1.2	1.8	1.8	1.7	1.8	1.3	1.3	1.7	2.2	1.4
CPI		1.0	1.7	1.7	1.7	1.7	3.2	2.4	2.9	4.3	3.6
Ex. food and energy		2.8	2.3	2.3	2.1	1.8	2.1	2.1	2.3	2.5	2.9
ECI, hourly compensation[1]		3.0	3.3	4.4	2.6	1.7	4.3	3.7	4.0	5.9	4.4
Nonfarm business sector											
Output per hour		4.5	1.6	1.8	3.6	2.6	0.6	5.2	8.0	1.9	6.1
Compensation per hour		6.1	5.3	5.2	4.5	4.5	5.0	5.5	4.2	3.9	5.9
Unit labor cost		1.5	3.6	3.3	0.8	1.8	4.3	0.3	-3.5	1.9	-0.2

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

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

November 8, 2000

Item	Units	Projected 2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4
EXPENDITURES											
Nominal GDP	Bill. $	10059.1	10204.4	10355.0	10491.0	10631.0	10779.9	10940.9	11099.0	11260.5	11426.8
Real GDP	Bill. Ch. $	9378.5	9460.4	9544.1	9628.9	9716.7	9810.0	9904.1	10002.7	10103.1	10207.0
Real GDP	% change	2.6	3.5	3.6	3.6	3.7	3.9	3.9	4.0	4.1	4.2
Gross domestic purchases		2.7	3.3	4.3	4.3	4.1	3.5	4.2	4.2	4.1	3.6
Final sales		3.1	4.2	3.3	3.5	3.9	4.7	3.8	3.8	3.9	4.6
Priv. dom. final purchases		4.2	3.9	4.1	4.3	4.4	4.3	4.2	4.1	4.0	4.1
Personal cons. expenditures		4.5	3.6	3.6	3.4	3.4	3.3	3.2	3.2	3.2	3.2
Durables		7.5	1.4	4.5	4.1	4.8	4.0	4.1	3.9	3.7	3.8
Nondurables		4.9	3.2	3.2	3.1	3.1	3.1	3.0	3.0	3.0	3.0
Services		3.8	4.2	3.7	3.5	3.2	3.2	3.2	3.2	3.2	3.2
Business fixed investment		7.4	8.7	9.1	9.9	10.9	10.5	10.2	10.0	10.0	10.1
Equipment & Software		6.7	8.8	10.3	11.5	12.9	12.4	12.1	11.9	11.8	12.1
Nonres. structures		9.5	8.6	5.3	4.8	4.6	4.6	4.3	4.2	3.9	3.7
Residential structures		-9.7	-5.3	-5.0	0.6	-1.0	-0.8	-1.7	-3.1	-3.4	-3.0
Exports		16.1	10.4	3.3	6.9	7.6	11.6	6.7	10.4	11.0	14.6
Imports		13.4	6.9	8.2	11.3	9.1	7.1	8.1	10.1	9.3	8.1
Gov't. cons. & investment		-2.0	3.9	3.4	3.5	3.5	4.3	3.6	3.6	3.7	3.5
Federal		-10.1	3.2	1.8	2.2	2.0	4.5	2.5	2.4	2.7	2.3
Defense		-10.2	1.3	1.7	2.2	2.0	2.8	1.9	1.9	2.1	2.1
State & local		2.5	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.1
Change in bus. inventories	Bill. Ch. $	66.6	49.2	58.0	62.0	58.2	39.2	43.1	50.5	54.5	44.7
Nonfarm		61.6	44.3	54.0	58.8	55.5	37.2	41.4	48.8	53.3	43.5
Net exports		-409.5	-406.9	-429.0	-452.9	-467.3	-462.2	-475.5	-486.2	-492.0	-481.1
Nominal GDP	% change	4.6	5.9	6.0	5.4	5.4	5.7	6.1	5.9	5.9	6.0
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	131.6	132.0	132.4	132.8	133.2	133.6	134.0	134.4	134.9	135.3
Unemployment rate	%	4.0	4.0	4.1	4.2	4.3	4.4	4.4	4.5	4.5	4.6
Industrial prod. index	% change	2.8	2.1	3.1	3.9	3.8	4.1	4.2	4.5	4.3	4.4
Capacity util. rate - mfg.	%	81.3	80.9	80.7	80.7	80.8	80.8	80.9	80.9	81.0	81.0
Housing starts	Millions	1.53	1.56	1.57	1.57	1.57	1.57	1.55	1.54	1.53	1.52
Light motor vehicle sales		17.37	16.61	16.42	16.37	16.45	16.41	16.32	16.31	16.24	16.23
North Amer. produced		14.54	13.97	13.85	13.85	13.96	13.93	13.85	13.85	13.80	13.80
Other		2.83	2.64	2.57	2.52	2.49	2.48	2.47	2.46	2.44	2.43
INCOME AND SAVING											
Nominal GNP	Bill. $	10048.5	10188.6	10334.0	10467.7	10604.6	10749.2	10904.5	11057.9	11213.9	11376.4
Nominal GNP	% change	4.5	5.7	5.8	5.3	5.3	5.6	5.9	5.7	5.8	5.9
Nominal personal income		5.4	5.0	7.3	5.9	5.6	5.7	6.5	5.8	5.7	5.8
Real disposable income		2.4	2.8	6.4	3.7	3.4	3.4	8.4	3.3	3.2	3.2
Personal saving rate	%	-0.3	-0.5	0.2	0.3	0.3	0.3	1.5	1.5	1.5	1.5
Corp. profits, IVA & CCAdj.	% change	4.0	0.1	-0.9	-1.5	-0.1	2.5	-1.6	1.0	1.4	2.7
Profit share of GNP	%	9.7	9.6	9.4	9.2	9.1	9.1	8.9	8.8	8.7	8.6
Excluding FR Banks		9.4	9.3	9.1	9.0	8.9	8.8	8.6	8.5	8.5	8.4
Federal surpl./deficit	Bill. $	266.9	273.6	264.5	283.0	306.2	311.2	253.4	280.1	307.6	325.8
State & local surpl./def.		60.7	63.7	59.6	58.2	54.8	56.7	56.9	53.1	50.5	47.7
Ex. social ins. funds		61.1	64.0	59.8	58.3	54.8	56.6	56.7	52.8	50.2	47.4
Gross natl. saving rate	%	18.5	18.4	18.6	18.7	18.8	18.8	19.0	19.2	19.3	19.4
Net natl. saving rate		6.7	6.5	6.7	6.8	6.9	6.9	7.0	7.2	7.3	7.4
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.0	2.2	2.4	1.7	1.7	1.8	2.1	1.8	1.8	1.8
Gross Domestic Purchases chn.-wt. price index		2.4	2.3	2.0	1.5	1.6	1.7	2.1	1.8	1.8	1.8
PCE chn.-wt. price index		2.2	2.3	1.8	1.8	1.9	2.0	2.0	2.1	2.1	2.2
Ex. food and energy		1.5	2.2	2.1	2.1	2.1	2.2	2.2	2.2	2.3	2.3
CPI		3.1	2.8	2.2	2.1	2.3	2.3	2.4	2.4	2.5	2.5
Ex. food and energy		2.5	2.7	2.7	2.7	2.7	2.8	2.8	2.8	2.9	2.9
ECI, hourly compensation[1]		4.1	4.2	4.7	4.8	4.8	4.7	4.9	4.9	4.8	4.8
Nonfarm business sector											
Output per hour		3.7	1.7	2.6	2.7	3.0	3.2	3.2	3.4	3.4	3.4
Compensation per hour		6.4	5.3	5.9	5.7	5.6	5.5	6.0	5.7	5.7	5.6
Unit labor cost		2.7	3.6	3.3	2.9	2.6	2.3	2.7	2.4	2.3	2.2

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

November 8, 2000

Item	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	98Q4/ 97Q4	99Q4/ 98Q4	0Q4/ 99Q4
Real GDP	3.4	5.6	3.5	2.5	5.7	8.3	4.8	5.6	2.6	4.6	5.0	4.1
Gross dom. purchases	4.5	5.5	5.0	3.8	6.8	8.6	5.8	6.7	2.8	5.8	6.0	4.6
Final sales	2.9	5.8	4.4	3.9	4.5	6.5	6.6	3.9	3.0	4.6	4.8	4.4
Priv. dom. final purchases	3.7	5.3	5.3	5.2	4.7	5.2	7.9	4.0	3.6	5.3	5.1	4.7
Personal cons. expenditures	2.8	3.3	3.7	3.7	3.4	4.1	5.0	2.1	3.0	3.3	3.7	3.2
Durables	0.3	1.7	0.7	1.1	0.6	1.0	1.8	-0.4	0.6	1.0	0.9	0.5
Nondurables	0.8	1.0	1.5	0.8	1.0	1.5	1.2	0.7	1.0	1.0	1.2	0.9
Services	1.7	0.5	1.6	1.8	1.8	1.6	2.0	1.8	1.5	1.4	1.7	1.7
Business fixed investment	0.4	1.6	1.2	1.2	1.5	1.2	2.5	1.9	1.0	1.5	1.3	1.7
Equipment & Software	0.6	1.5	1.3	1.4	1.7	0.9	1.9	1.7	0.7	1.4	1.3	1.3
Nonres. structures	-0.2	0.1	-0.1	-0.2	-0.2	0.3	0.6	0.1	0.3	0.2	-0.1	0.3
Residential structures	0.4	0.4	0.3	0.3	-0.1	0.0	0.1	0.1	-0.4	0.4	0.1	-0.1
Net exports	-1.0	0.1	-1.4	-1.4	-1.1	-0.4	-0.9	-1.0	-0.2	-1.1	-1.1	-0.5
Exports	-0.4	1.5	-0.9	0.6	1.1	1.1	0.7	1.5	1.7	0.3	0.5	1.3
Imports	-0.7	-1.5	-0.6	-2.0	-2.1	-1.5	-1.6	-2.5	-1.9	-1.4	-1.5	-1.8
Government cons. & invest.	0.3	0.5	0.6	0.1	0.8	1.5	-0.2	0.9	-0.4	0.5	0.8	0.2
Federal	-0.2	0.2	-0.1	0.1	0.4	0.8	-0.9	1.0	-0.6	0.0	0.3	-0.1
Defense	0.2	-0.1	-0.1	-0.1	0.5	0.5	-0.9	0.6	-0.4	-0.0	0.2	-0.2
Nondefense	-0.4	0.3	-0.0	0.2	-0.1	0.3	-0.1	0.4	-0.2	0.1	0.1	0.1
State and local	0.5	0.3	0.8	0.0	0.4	0.7	0.8	-0.1	0.3	0.4	0.5	0.3
Change in bus. inventories	0.6	-0.2	-0.9	-1.4	1.2	1.8	-1.8	1.7	-0.5	0.0	0.2	-0.3
Nonfarm	0.8	-0.7	-0.6	-1.4	1.3	1.3	-1.6	1.6	-0.4	0.0	0.1	-0.3
Farm	-0.2	0.5	-0.3	0.0	-0.1	0.5	-0.2	0.1	-0.0	0.0	0.1	0.0

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	00Q4/ 99Q4	01Q4/ 00Q4	02Q4/ 01Q4
Real GDP	3.5	3.6	3.6	3.7	3.9	3.9	4.0	4.1	4.2	4.1	3.7	4.0
Gross dom. purchases	3.4	4.4	4.5	4.2	3.7	4.4	4.4	4.3	3.8	4.6	4.2	4.2
Final sales	4.2	3.2	3.4	3.8	4.6	3.7	3.8	3.9	4.5	4.4	3.8	4.0
Priv. dom. final purchases	3.4	3.5	3.7	3.8	3.7	3.6	3.5	3.4	3.5	4.7	3.7	3.5
Personal cons. expenditures	2.4	2.4	2.3	2.3	2.2	2.2	2.2	2.1	2.1	3.2	2.3	2.2
Durables	0.1	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.5	0.3	0.3
Nondurables	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.9	0.6	0.6
Services	1.6	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.7	1.4	1.3
Business fixed investment	1.2	1.2	1.3	1.5	1.5	1.4	1.4	1.4	1.4	1.7	1.4	1.4
Equipment & Software	0.9	1.1	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.3
Nonres. structures	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.3	0.2	0.1
Residential structures	-0.2	-0.2	0.0	-0.0	-0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Net exports	0.1	-0.8	-0.9	-0.5	0.2	-0.5	-0.4	-0.2	0.4	-0.5	-0.5	-0.1
Exports	1.1	0.4	0.8	0.8	1.3	0.8	1.2	1.2	1.7	1.3	0.8	1.2
Imports	-1.0	-1.2	-1.6	-1.4	-1.1	-1.2	-1.5	-1.4	-1.3	-1.8	-1.3	-1.4
Government cons. & invest.	0.7	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.2	0.6	0.6
Federal	0.2	0.1	0.1	0.1	0.3	0.1	0.1	0.2	0.1	-0.1	0.2	0.1
Defense	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.2	0.1	0.1
Nondefense	0.1	0.0	0.0	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
State and local	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.3	0.5	0.5
Change in bus. inventories	-0.6	0.3	0.2	-0.1	-0.7	0.1	0.3	0.2	-0.4	-0.3	-0.1	0.1
Nonfarm	-0.7	0.4	0.2	-0.1	-0.7	0.2	0.3	0.2	-0.4	-0.3	-0.1	0.1
Farm	0.1	-0.0	-0.0	-0.0	-0.0	-0.0	0.0	-0.0	-0.0	0.0	-0.0	-0.0

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

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

Item	Fiscal year[1] 1999[a]	2000[a]	2001	2002	2000 Q1[a]	Q2[a]	Q3[p]	Q4	2001 Q1	Q2	Q3	Q4	2002 Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts[2]	1827	2025	2132	2232	434	656	492	480	476	659	517	518	485	681	547	533
Outlays[2]	1703	1788	1848	1903	449	444	431	462	474	464	447	483	475	476	469	494
Surplus/deficit[2]	125	237	283	329	-15	212	60	18	2	194	69	35	10	205	79	39
On-budget	1	87	119	143	-45	147	50	-29	-26	124	50	-15	-22	127	53	-16
Off-budget	124	150	165	187	30	65	10	47	28	71	19	50	32	79	26	54
Surplus excluding deposit insurance	119	234	282	328	-18	211	60	18	1	194	69	35	9	205	78	38
Means of financing																
Borrowing	-89	-223	-266	-338	-27	-190	-54	-34	9	-167	-74	-60	-24	-158	-96	-62
Cash decrease	-18	4	8	0	39	-13	5	21	2	-21	5	20	5	-40	15	20
Other[3]	-18	-18	-25	9	4	-10	-12	-5	-13	-7	0	5	9	-7	2	3
Cash operating balance, end of period	56	53	45	45	45	57	53	32	29	50	45	25	20	60	45	25
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1837	2025	2153	2230	2012	2055	2093	2114	2136	2165	2196	2229	2196	2229	2264	2300
Expenditures	1735	1803	1871	1942	1776	1814	1826	1841	1871	1882	1890	1918	1942	1949	1957	1974
Consumption expenditures	464	488	506	535	479	499	486	494	506	510	514	521	535	540	545	549
Defense	306	320	330	345	311	326	317	322	330	332	335	337	345	348	350	353
Nondefense	158	168	176	190	168	173	169	172	177	178	179	184	190	192	194	196
Other spending	1270	1316	1365	1406	1297	1315	1340	1347	1365	1372	1376	1397	1407	1409	1412	1425
Current account surplus	103	222	282	288	236	241	267	274	264	283	306	311	253	280	308	326
Gross investment	94	105	110	115	101	106	107	108	109	111	112	113	114	116	117	118
Current and capital account surplus	9	117	172	173	134	136	160	166	155	172	194	198	139	165	191	208
Fiscal indicators[4]																
High-employment (HEB) surplus/deficit	-68	10	77	101	31	20	48	60	57	82	109	117	66	95	125	144
Change in HEB, percent of potential GDP	-.8	-.9	-.7	-.2	-1	.1	-.3	-.1	0	-.2	-.3	-.1	.5	-.3	-.3	-.2
Fiscal impetus (FI) percent, calendar year	5	2	3	9	-4	5	-2	2	.6	.6	.4	2	7	.5	.6	.5

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, $239 billion in FY2001, and $279 billion in FY 2002. CBO's July 2000 baseline surplus estimates, assuming discretionary spending grows with inflation beginning in FY 2001 are $232 billion in FY2000, $268 billion in FY2001, and $312 billion in FY 2002. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.
3. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.
4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1996) dollars, scaled by real federal consumption plus investment. For FI and the change in HEB, negative values indicate aggregate demand restraint.
a--Actual p--Preliminary

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

			Nonfederal							
				Households						
Period [1]	Total [2]	Federal government [3]	Total [4]	Total	Home mortgages	Consumer credit	Business	State and local governments	Memo: Nominal GDP
Year									
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	4.5	4.7	4.4	7.6	5.9	14.5	3.6	-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	6.9	4.3	8.7	5.3	6.2
1998	6.8	-1.4	9.6	8.8	10.0	5.4	11.0	7.2	5.9
1999	6.9	-1.9	9.5	9.2	10.1	7.1	11.0	4.4	6.5
2000	5.1	-8.3	8.7	8.9	9.1	8.2	10.0	1.5	6.7
2001	4.5	-8.6	7.5	7.6	8.6	4.6	8.6	1.4	5.6
2002	4.4	-11.0	7.3	6.8	8.1	3.1	8.9	1.3	6.0
Quarter									
1999:3	6.9	-1.9	9.5	9.5	10.7	5.5	10.5	4.3	6.7
4	6.4	-0.9	8.4	8.0	8.6	7.8	9.9	2.7	9.7
2000:1	5.4	-5.9	8.4	8.2	7.2	10.0	10.4	0.3	8.3
2	5.6	-11.4	10.0	9.6	10.5	9.0	12.1	2.0	8.2
3	5.1	-6.2	7.9	8.4	9.0	6.8	8.6	1.7	4.6
4	3.9	-10.7	7.4	8.1	8.6	6.0	7.6	2.1	5.9
2001:1	5.5	-2.0	7.2	7.5	8.5	5.4	7.9	1.4	6.0
2	4.1	-9.6	7.1	7.4	8.4	4.6	7.9	1.4	5.4
3	4.6	-9.2	7.5	7.3	8.3	4.3	8.9	1.4	5.4
4	3.7	-14.8	7.4	7.2	8.2	3.9	8.8	1.4	5.7

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2000:Q2 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.
2. On a monthly average basis, total debt is projected to grow 5.5 percent in 2000, 4.5 percent in 2001 and 4.4 percent in 2002.
3. On a monthly average basis, federal debt is projected to grow -6.8 percent in 2000, -8.3 percent in 2001 and -10.8 percent in 2002.
4. On a monthly average basis, nonfederal debt is projected to grow 8.8 percent in 2000, 7.5 percent in 2001 and 7.4 percent in 2002.

2.6.3 FOF

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

					Seasonally adjusted annual rates									
	Calendar year				1999		2000				2001			
Category	1999	2000	2001	2002	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net funds raised by domestic nonfinancial sectors														
1 Total	977.5	783.4	771.0	794.5	1042.3	1040.5	1010.1	746.4	827.6	549.6	943.8	697.0	803.7	639.6
2 Net equity issuance	-143.5	-109.0	-60.0	-44.0	-128.4	-55.0	62.8	-248.0	-90.8	-160.0	-60.0	-60.0	-60.0	-60.0
3 Net debt issuance	1121.0	892.4	831.0	838.5	1170.7	1095.5	947.3	994.4	918.4	709.6	1003.8	757.0	863.7	699.6
Borrowing sectors														
Nonfinancial business														
4 Financing gap [1]	171.3	210.4	276.2	347.5	177.9	206.3	190.4	223.1	212.0	215.9	247.7	272.4	290.7	294.0
5 Net equity issuance	-143.5	-109.0	-60.0	-44.0	-128.4	-55.0	62.8	-248.0	-90.8	-160.0	-60.0	-60.0	-60.0	-60.0
6 Credit market borrowing	596.5	605.0	572.3	644.0	601.3	583.7	627.7	747.9	546.8	497.4	523.6	532.6	612.6	620.2
Households														
7 Net borrowing [2]	543.4	573.2	533.4	516.8	588.5	509.6	531.4	635.4	569.3	556.7	531.7	528.8	535.6	537.6
8 *Home mortgages*	411.2	409.0	420.2	428.2	458.5	377.3	322.6	477.1	422.2	414.2	414.2	418.2	422.2	426.2
9 Consumer credit	94.4	116.8	71.3	50.8	76.2	109.5	143.1	131.8	101.8	90.6	82.6	72.7	67.5	62.5
10 Debt/DPI (percent) [3]	93.4	96.5	98.5	98.9	94.1	94.5	95.2	95.9	97.0	97.8	97.7	98.2	98.7	99.2
State and local governments														
11 Net borrowing	52.3	19.3	17.4	17.4	52.5	33.6	3.8	25.0	21.3	27.2	17.4	17.4	17.4	17.4
12 Current surplus [4]	156.8	176.2	184.0	188.3	155.1	176.5	164.7	175.7	179.7	184.8	182.9	183.7	182.7	186.9
Federal government														
13 Net borrowing	-71.2	-305.0	-292.0	-339.7	-71.4	-31.5	-215.5	-414.0	-219.0	-371.7	-68.9	-321.8	-301.9	-475.6
14 Net borrowing (quarterly, n.s.a.)	-71.2	-305.0	-292.0	-339.7	-19.0	48.3	-27.5	-189.6	-55.0	-34.3	9.2	-166.5	-74.4	-60.3
15 Unified deficit (quarterly, n.s.a.)	-158.3	-275.4	-300.7	-332.4	-30.1	20.6	15.0	-211.8	-60.5	-18.1	-1.8	-194.5	-69.1	-35.2
Depository institutions														
16 Funds supplied	404.3	498.6	303.3	295.9	535.0	587.6	467.2	598.3	480.2	448.9	304.3	300.8	301.8	306.4
Memo (percentage of GDP)														
17 Domestic nonfinancial debt [5]	181.4	179.1	177.5	175.2	182.1	181.1	180.1	179.0	179.4	178.8	178.3	178.1	177.7	177.0
18 Domestic nonfinancial borrowing	12.1	8.9	7.9	7.5	12.5	11.5	9.7	10.0	9.1	7.0	9.7	7.2	8.1	6.5
19 Federal government [6]	-0.8	-3.1	-2.8	-3.0	-0.8	-0.3	-2.2	-4.2	-2.2	-3.6	-0.7	-3.1	-2.8	-4.4
20 Nonfederal	12.8	12.0	10.6	10.5	13.3	11.8	11.9	14.2	11.3	10.6	10.4	10.3	11.0	10.9

Note. Data after 2000:Q2 are staff projections.
1. For corporations: Excess of capital expenditures over U.S. internal funds.
2. Includes change in liabilities not shown in lines 8 and 9.
3. Average debt levels in the period (computed as the average of period-end debt positions) divided by disposable personal income.
4. NIPA surplus less changes in retirement fund assets plus consumption of fixed capital.
5. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.
6. Excludes government-insured mortgage pool securities.

2.6.4 FOF

International Developments

Overview

Despite renewed volatility in global energy and equity markets during the intermeeting period, the outlook abroad remains generally favorable. Foreign economic growth appears to have eased somewhat from the unusually strong pace posted in the first half of this year, particularly in developing Asia, Mexico, and Japan. Nevertheless, growth is projected to stabilize at still solid rates in most regions. The primary exception to this benign outlook remains Japan, where we expect very slow growth over the forecast period.

Summary of Staff Projections
(Percent change from end of previous period)

	1999	2000		2001	2002
			Projection		
		H1	H2		
Foreign output	4.5	5.7	4.1	4.0	3.9
September GB	*4.5*	*5.7*	*4.1*	*4.0*	*3.9*
Foreign CPI	2.6	1.9	4.0	3.4	3.2
September GB	*2.6*	*1.9*	*4.0*	*3.4*	*3.3*

The spot price of West Texas intermediate crude oil has fluctuated between $30 and $36 per barrel since the last FOMC meeting. We project that the spot price of WTI crude will decline from around $33 in the current quarter to about $26 by the end of 2001 and $23 by the end of 2002, roughly in line with futures prices. There are risks on both sides of this path. Upside risks arise from the potential for a Middle East supply disruption, low levels of observed inventories, and strong demand in the run-up to the winter heating season. A downside risk derives from the possibility that strong petroleum product demand reflects stockbuilding by wholesalers, retailers, and end-users that could quickly abate. Our forecast for the WTI spot price at the end of 2002 is about $1.50 per barrel below that of the September Greenbook.

The rise in energy prices is boosting headline inflation around the world in the second half of this year. Next year, with the expected easing of oil prices, inflation should decline. We assume a modest further monetary tightening in some countries next year, which we believe will be sufficient to stabilize foreign inflation at a 3¼ percent rate through the end of the forecast period.

Since the October FOMC meeting, the dollar has appreciated about 1½ percent against the currencies of a broad group of our trading partners. We project that, starting from this higher level in the current quarter, the broad real exchange value of the dollar will depreciate at an average rate of 2¾ percent in 2001 and 2002.

Stronger-than-expected export growth in recent months has led us to project narrower deficits for net exports and the current account for this year than in the previous Greenbook. In addition, we have extended this strength in projected exports through the end of the forecast period. However, the higher path for the dollar implies higher imports going forward than we forecast in September. On balance, net exports continue to make a negative arithmetic contribution to growth, and the current account deficit reaches nearly 5 percent of GDP by the end of 2002.

Potential risks to our outlook for foreign activity include the possibilities of a global slowdown in high-tech investment spending (discussed in the Domestic Developments section above) and a worsening of the financial situation in Argentina. At the end of this section, we consider the implications for U.S. growth and inflation of a decline in investor confidence in Argentina that spreads to the rest of Latin America.

Recent Developments

International financial markets. Despite a 25-basis-point tightening in the European Central Bank's policy rates on October 5, the dollar reached new highs against the euro later in October. The dollar also rose against a wide range of other industrial country and emerging market currencies. Since the release of weaker-than-expected U.S. GDP data on October 27, the dollar has retreated. On balance, the dollar has appreciated 1½ percent in terms of our broad index of trading-partner currencies.

. The Desk did not intervene on behalf of the System or the Treasury.

Short-term and long-term market interest rates have changed little in the foreign industrial countries since the last FOMC meeting. Among emerging markets, interest rate increases were confined chiefly to Latin America and the Philippines. Equity markets abroad have been volatile in recent weeks.

Economic activity abroad. Economic growth in the foreign industrial countries appears to have slowed in the third quarter from the strong pace recorded in the first half of the year. According to available indicators, the sharpest slowdown occurred in Japan, where activity may have been flat in the third quarter. Limited information points to some slowing of growth in the euro area as well. Activity in Canada appears to have expanded strongly, although it softened somewhat from the very rapid pace of the first half of the year. Third-quarter GDP in the United Kingdom grew 2¾ percent from the previous period at an annual rate, about equal to the growth rate of the first half.

Rising oil prices drove broad measures of inflation higher in September for many of the foreign industrial countries, but core consumer price inflation (excluding food and energy prices) remained subdued. Twelve-month headline inflation in the euro area reached 2¾ percent, well above the ECB's 2 percent target ceiling, but core inflation rose only modestly to 1½ percent. Canadian consumer price inflation approached the ceiling of the Bank of Canada's 1 percent to 3 percent inflation target band, but core inflation declined to a 1¼ percent rate. In the United Kingdom, retail price inflation remained below the 2½ percent target rate, while in Japan consumer price deflation deepened despite rising oil prices.

Growth appears to have slowed in many developing countries during the third quarter from high rates registered earlier this year, but in most cases growth remains solid. Economic activity in both Brazil and Mexico likely expanded somewhat more slowly in the third quarter than in the first half of this year, while the Argentine economy continues to stagnate. The pace of expansion seems to have moderated in Korea, Hong Kong, and Taiwan, while political troubles threaten the outlook for the Philippines and, to a lesser extent, Indonesia and Thailand. A notable exception to the broad pattern is China, where GDP growth increased sharply in the third quarter. On average, inflation has remained remarkably restrained despite high oil prices.

Prices of internationally traded goods. In late September, following the Clinton administration's decision to release 30 million barrels of oil from the Strategic Petroleum Reserve, the spot price of West Texas intermediate fell from $37 per barrel to near $30 per barrel. During October, however, oil prices moved higher as the deteriorating political situation in the Middle East raised the possibility that oil supplies from the region could be disrupted. An increase in OPEC's production targets of 500,000 b/d had little effect on oil prices as most OPEC countries appear to be producing at capacity. Spot WTI prices fluctuated between $33 and $35 per barrel during the latter half of October and are currently trading around $33 per barrel.

The price of core goods imports (which exclude oil, computers, and semiconductors) rose 1½ percent at an annual rate in the third quarter, similar to rates recorded in the past two quarters. The increase was attributable to industrial supplies and, to a much lesser extent, automotive products. The price indexes for imported machinery, consumer goods, and foods all declined in the third quarter. The price of core goods exports (which exclude computers, semiconductors, and agricultural products) rose 1¼ percent at an annual rate in the third quarter, a somewhat smaller rise than that in the second quarter. Notable increases were recorded in prices of industrial supplies, machinery, and automotive products.

U.S. international transactions. The U.S. trade deficit in goods and services averaged $367 billion at an annual rate in July and August, up from a rate of $357 billion in the second quarter. For July and August combined, the value of exports rose at about the same strong pace recorded in the second quarter (just over 14 percent at an annual rate), led by increases in machinery and industrial supplies. Over this period, imports increased at a slightly slower pace than during the second quarter (just under 14 percent at an annual rate). Import growth was spread across all major categories of trade.

Outlook

The dollar. The recent dollar appreciation has caused us to mark up the average value of the dollar this quarter relative to the September Greenbook, and some upward shift in the path persists throughout the forecast period. However, in response to the slightly weaker tone of the U.S. outlook, we have projected a marginally more rapid rate of depreciation for the dollar.

As in the past, we expect that the dollar will decline against the major foreign currencies as U.S. economic growth is perceived to be slowing. Also, large and growing current account imbalances will weigh on foreign investors' appetites for dollar-denominated obligations. The real trade-weighted value of the dollar (as measured by our major currencies index) is projected to peak in the current quarter and then depreciate gradually during the forecast period. By the fourth quarter of 2002, we project that it will have fallen to a level nearly 6 percent below its average in the current quarter.

Activity in foreign industrial countries. Export-weighted real GDP growth in foreign industrial countries is expected to average about 3¼ percent during the second half of this year and to remain near that pace over the following two years. Activity in Japan is projected to be about flat in the second half of this year, with declines in consumption spending and government investment. We forecast only a moderate improvement over the following two years, as a projected fiscal contraction offsets continued growth in private investment, particularly in high-tech equipment. Consumption spending is likely to improve only gradually over the forecast period, reflecting weak income growth and high unemployment rates.

Judging from recent data on business and consumer confidence, second-half growth in the euro area is expected to have slowed a bit to a 3¼ percent annual rate. We project growth to remain near that pace in 2001 and 2002. The impact of recent and prospective monetary tightening should be offset in part by stimulus from fiscal policy and recent euro depreciation. We project U.K. growth to remain at a moderate 2¾ percent rate over the forecast period. Canadian economic growth is expected to slow from about a 4 percent rate in the second half to 3½ percent by 2002. Monetary tightening and a slowing in U.S. demand are projected to restrain growth, but fiscal policy should provide considerable stimulus.

Inflation. Headline consumer price inflation in the foreign industrial countries is projected to peak in the current quarter and to ease subsequently with oil prices. The decline in inflation should be limited, however, by a modest rise in core inflation rates associated with the diminishing economic slack in most countries. Japanese prices are expected to decline further, but at a somewhat slower rate than the 1 percent by which they declined over the past year.

Interest rates. We expect the Bank of Japan to keep policy on hold through 2001 in light of anemic economic growth and to edge rates higher in 2002 as deflation wanes. The ECB is assumed to raise interest rates a further 50 basis points by mid-2001, taking its policy rate to 5¼ percent. We assume that the Bank of England will tighten policy an additional 25 basis points. The Bank of Canada is expected to raise interest rates 50 basis points in 2001 and another 50 basis points in 2002.

Other countries. Real GDP growth in the major developing-country trading partners of the United States is expected to moderate to about 5 percent over the forecast period from the strong 7½ percent pace recorded during the first half of this year. Cyclical expansions in the Asian developing countries are expected to slow as recoveries mature. Activity in Mexico is also projected to decelerate to a more sustainable pace following a rapid first-half expansion. In the forecast, we assume that Argentina muddles through its current financial difficulties and that its currency peg to the dollar holds while its interest rates retrace most of their recent increases by the end of this year. Inflation in the developing countries is expected to pick up only modestly.

Selected Trade Prices
(Percent change from end of previous period
except as noted; seasonally adjusted)

	1999	2000		Projection	
		H1	H2	2001	2002
Exports					
Nonagricultural (core)	1.7	2.8	1.2	0.6	0.9
Agricultural	-5.0	0.6	-2.1	6.1	3.8
Imports					
Non-oil (core)	0.4	1.6	1.1	2.5	2.9
Oil (level, dollars per barrel)	22.08	26.15	30.50	24.60	21.28

NOTE. Prices for exports and non-oil imports of goods, 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.

Prices of internationally traded goods. Consistent with futures markets, we continue to project that oil prices will gradually decline as increases in production outpace the growth in demand over the forecast period. However, with inventories apparently relatively low, the volatile situation in the Middle East and the possibility of a severe winter pose risks that could spike oil prices over the next few months. Alternatively, if much of the current strength in demand is being driven by stockbuilding, demand pressures could ease as inventories are restored, perhaps leading to lower oil prices than we project.

Core import price inflation is projected to rise from around 1 percent during the second half of this year to an average rate of 2¾ percent in 2001 and 2002, largely reflecting the outlook for the dollar. Prices of exported core goods are expected to decelerate in the second half of this year and into the first half of next year as the run-up in prices of industrial supplies (which include petroleum products and petrochemicals) slows; price increases are projected to move up toward a 1 percent rate by 2002.

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

	1999	2000 H1	Projection: 2000 H2	Projection: 2001	Projection: 2002
Real Exports	4.3	10.2	13.2	7.3	10.6
September GB	*4.3*	*10.2*	*8.6*	*7.9*	*10.5*
Real Imports	12.0	15.2	10.1	8.9	8.9
September GB	*12.0*	*15.2*	*8.6*	*8.3*	*9.3*

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

U.S. international transactions. Real exports of goods and services, which grew at an average annual rate of 10 percent in the first half of this year, are projected to expand at a 13¼ percent pace in the second half of the year. This is a sharp increase over the second-half growth rate of 8½ percent that was projected in the September Greenbook, and it is due to surprisingly strong growth of core exports during July and August. Given the higher year-end level of exports and the little-changed growth rates of exports in 2001 and 2002 relative to our previous forecast, the projected path for exports lies above that in the September Greenbook, reflecting our judgment that the recent strength in exports will persist despite the stronger dollar. As in our previous forecast, the growth rate of exports is projected to ease somewhat next year and pick up in 2002 in response to the path of the dollar.

Growth of real imports of goods and services is estimated to have slowed sharply this year, from an annual rate of 15 percent in the first half to a 10 percent pace in the second half. Import growth is projected to decline further to a rate of about 9 percent in 2001 and 2002. This slowdown largely reflects the projected path of U.S. GDP. Relative prices, which have been boosting growth of core imports in recent quarters, will change to a slightly restraining factor as a result of the dollar's expected depreciation. The quantity of imported oil should expand moderately over the forecast period.

We project that the contribution of exports to U.S. GDP growth will fall slightly in 2001 to ¾ percentage point at an annual rate before rising to 1¼ percentage points in 2002. Imports are expected to expand at a relatively steady pace, making a negative contribution of just under 1½ percentage points in 2001 and 2002. Overall, the negative arithmetic contribution of the foreign sector to GDP growth diminishes over the forecast period, reaching one-tenth of a percentage point in 2002.

The U.S. current account deficit is projected rise as a share of GDP, moving from 4¼ percent this year to 4¾ percent next year and nearly 5 percent by the end of 2002. Much of the projected change is in goods and services, but the net outflow of investment income also increases notably as large current account deficits translate into increases in the U.S. net liability position.

Alternative Simulation

Disappointing economic data and an uncertain political situation in Argentina recently have increased financial market concerns about the ability of Argentina to service its debts in the near term. The results presented below use the FRB/Global model to assess the implications of a 500 basis point increase in Argentine interest rates that persists over the forecast period, lowering Argentine GDP and spreading to other Latin American countries. In constructing this simulation, we have allowed for some spillover to the rest of Latin America; however, in the event of a full-blown crisis, financial market disruptions would be greater than we have specified, in particular, Argentina might be forced to abandon its currency peg.

The simulation assumes that the risk premium demanded by investors on Argentine assets relative to U.S. assets rises in the first quarter of 2001 to generate the assumed change in the Argentine interest rate. Brazil is assumed to suffer a risk premium increase two-thirds the size of Argentina's, and the rest of Latin America, including Mexico, to experience a risk premium increase half as large. The simulation assumes that Argentina's exchange rate peg holds and that exchange rates in trade-weighted terms of other Latin American and developing countries stay on the baseline path in our forecast. The federal funds rate remains on the baseline path assumed in this Greenbook, and monetary authorities in other industrial countries follow a Taylor rule.

These risk premium shocks reduce Argentina's GDP growth rate in 2001 from 2¾ percent in the baseline to -3¼ percent; Brazil's growth rate declines from 3¼ percent to ¾ percent; and Mexico's growth rate declines from 5 percent to 3½ percent. In 2002, the level of GDP remains significantly below baseline in all three countries. Despite these slowdowns in Latin America, the U.S. GDP growth rate is unchanged in 2001 and it declines only one-tenth of 1 percent relative to the baseline path in 2002. U.S. prices are essentially unaffected by this shock. A slight reduction in exports relative to baseline almost entirely accounts for the impact on the United States. Second-round effects on all other U.S. variables are negligible.

Impact of Alternative Assumptions
(Percent change from previous period, annual rate)

	2001		2002	
	H1	H2	H1	H2
U.S. real GDP				
Baseline	3.6	3.8	4.0	4.1
Latin American risk premium	3.6	3.8	3.9	4.0
U.S. PCE prices excl. food and energy				
Baseline	2.1	2.1	2.2	2.3
Latin American risk premium	2.1	2.1	2.2	2.3

NOTE. H1 is Q2/Q4; H2 is Q4/Q2. All simulations assume federal funds rate unchanged from baseline.

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

Measure and country	1994	1995	1996	1997	1998	1999	-----Projected---- 2000	2001	2002
REAL GDP (1)									
Total foreign	5.1	2.3	4.2	4.2	1.0	4.5	4.9	4.0	3.9
Industrial Countries	4.0	1.9	2.9	3.5	2.0	3.6	3.9	3.1	3.1
of which:									
Canada	5.5	1.4	2.4	4.8	3.2	4.9	4.4	3.6	3.5
Japan	0.9	2.5	5.2	-0.5	-3.1	-0.2	3.6	1.1	1.5
United Kingdom	4.6	1.9	2.9	3.5	2.0	2.9	2.9	2.6	2.7
Euro-11	3.0	1.7	1.7	3.1	2.0	3.2	3.3	3.3	3.1
Germany	2.9	1.1	1.3	1.6	0.9	2.4	3.5	3.2	3.3
Developing Countries	6.8	3.0	6.2	5.1	-0.3	5.9	6.4	5.1	5.0
Asia	8.8	7.2	6.8	4.8	-1.9	8.3	7.2	6.0	5.7
Korea	9.2	7.4	6.1	3.1	-4.6	14.0	5.7	5.0	5.5
China	16.3	12.6	9.2	8.2	9.5	6.2	8.1	8.0	8.0
Latin America	5.4	-3.7	6.2	6.1	1.1	3.9	5.9	4.5	4.6
Mexico	5.2	-7.1	7.2	6.8	2.7	5.3	7.2	5.1	5.0
Brazil	10.0	-0.6	4.6	2.0	-1.4	3.5	3.4	3.2	4.1
CONSUMER PRICES (2)									
Industrial Countries	1.1	1.3	1.4	1.5	1.0	1.1	1.8	1.3	1.4
of which:									
Canada	-0.0	2.1	2.0	1.0	1.1	2.4	2.8	1.9	2.0
Japan	0.8	-0.8	0.1	2.0	0.8	-1.3	-0.8	-0.4	0.0
United Kingdom (3)	2.2	2.9	3.2	2.7	2.5	2.2	2.3	2.5	2.5
Euro-11 (4)	NA	NA	NA	1.5	0.8	1.5	2.5	1.9	1.7
Germany	2.7	1.4	1.3	1.5	0.3	1.1	2.2	1.5	1.3
Developing Countries	22.9	16.9	11.1	6.8	9.1	4.7	4.6	6.3	5.8
Asia	10.7	6.3	4.8	2.8	4.5	0.2	2.2	4.5	4.5
Korea	5.8	4.4	5.0	5.0	5.9	1.3	3.3	4.1	4.2
China	26.9	11.0	6.8	0.9	-1.2	-0.9	1.0	4.8	5.4
Latin America	54.0	42.1	25.9	15.6	15.5	12.6	8.7	9.4	7.9
Mexico	7.0	48.9	28.2	17.2	17.5	13.6	9.1	9.9	8.2
Brazil	1196.9	21.5	9.6	4.7	1.6	8.3	6.4	5.3	4.9

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) November 8, 2000
Class II FOMC

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

				Projected								
	2000				2001				2002			
Measure and country	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	7.3	4.1	4.2	4.0	4.0	3.9	4.0	4.0	3.8	3.8	3.9	3.9
Industrial Countries	5.2	3.9	3.3	3.1	3.2	3.2	3.1	3.1	3.0	3.1	3.0	3.1
of which:												
Canada	5.1	4.7	4.1	3.8	3.7	3.7	3.6	3.6	3.5	3.5	3.5	3.5
Japan	10.3	4.2	0.1	0.3	0.8	1.0	1.3	1.3	1.4	1.5	1.6	1.6
United Kingdom	2.1	3.8	2.8	2.8	2.7	2.6	2.6	2.6	2.6	2.8	2.7	2.7
Euro-11	3.7	3.0	3.2	3.2	3.3	3.3	3.3	3.3	3.1	3.1	3.1	3.1
Germany	3.1	4.7	3.2	3.0	3.1	3.2	3.2	3.3	3.2	3.3	3.2	3.4
Developing Countries	10.4	4.5	5.4	5.3	5.1	5.1	5.2	5.2	5.0	4.9	5.0	5.1
Asia	12.5	4.2	5.7	6.5	5.9	5.9	6.1	6.1	5.7	5.6	5.8	5.8
Korea	7.2	4.6	6.0	5.0	5.0	5.0	5.0	5.0	5.0	5.5	5.5	6.0
China	9.5	1.9	11.0	10.0	7.0	7.0	9.0	9.0	7.0	7.0	9.0	9.0
Latin America	9.2	4.5	5.4	4.5	4.5	4.5	4.5	4.6	4.6	4.6	4.6	4.6
Mexico	12.0	5.4	6.6	5.1	5.1	5.1	5.1	5.1	5.0	5.0	5.0	5.0
Brazil	5.6	2.1	3.0	3.0	3.0	3.0	3.0	3.7	4.3	4.0	4.0	4.0
CONSUMER PRICES (2)	Four-quarter changes											
Industrial Countries	1.5	1.4	1.6	1.8	1.7	1.7	1.4	1.3	1.3	1.4	1.4	1.4
of which:												
Canada	2.7	2.4	2.7	2.8	2.9	2.7	1.9	1.9	1.8	1.8	2.0	2.0
Japan	-0.8	-1.0	-1.1	-0.8	-0.8	-0.4	-0.4	-0.4	-0.2	0.0	0.0	0.0
United Kingdom (3)	2.1	2.1	2.1	2.3	2.3	2.4	2.4	2.5	2.5	2.5	2.5	2.5
Euro-11 (4)	2.1	2.1	2.5	2.5	2.2	2.1	2.0	1.9	1.8	1.7	1.7	1.7
Germany	2.0	1.7	2.2	2.2	1.9	1.8	1.7	1.5	1.4	1.4	1.3	1.3
Developing Countries	3.9	3.8	4.0	4.6	5.6	6.4	6.5	6.3	6.1	5.9	5.8	5.8
Asia	0.5	0.8	1.4	2.2	3.3	4.6	4.8	4.5	4.3	4.3	4.3	4.5
Korea	1.5	1.4	3.2	3.3	5.4	6.1	4.6	4.1	3.8	3.7	3.9	4.2
China	0.1	0.1	0.3	1.0	1.9	4.4	4.7	4.8	4.7	4.8	5.0	5.4
Latin America	10.0	9.1	8.7	8.7	9.4	9.5	9.4	9.4	9.1	8.7	8.3	7.9
Mexico	10.6	9.6	9.0	9.1	9.9	9.9	9.9	9.9	9.6	9.1	8.6	8.2
Brazil	7.8	6.6	7.6	6.4	7.0	8.3	6.1	5.3	5.0	4.9	4.9	4.9

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

							------ Projected ------		
	1994	1995	1996	1997	1998	1999	2000	2001	2002
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-0.3	0.4	-0.2	-0.8	-1.1	-1.1	-0.5	-0.5	-0.1
Exports of G&S	1.0	1.0	1.1	1.0	0.3	0.5	1.3	0.8	1.2
Imports of G&S	-1.3	-0.6	-1.3	-1.7	-1.4	-1.5	-1.8	-1.3	-1.4
	Percentage change, Q4/Q4								
Exports of G&S	10.5	9.7	9.8	8.5	2.2	4.3	11.7	7.3	10.6
Services	8.2	8.8	8.9	1.4	2.8	0.2	4.8	5.0	7.2
Agricultural Goods	16.3	-4.0	3.8	1.0	-0.3	-0.5	13.0	-6.4	3.5
Computers	27.4	39.1	21.6	25.8	7.0	13.3	43.3	37.3	36.0
Semiconductors	66.9	79.6	44.6	21.3	9.3	34.4	39.8	41.2	41.2
Other Goods 1/	6.9	5.7	7.8	10.9	1.3	4.1	10.3	3.3	6.0
Imports of G&S	12.2	5.0	11.2	14.3	11.2	12.0	12.6	8.9	8.9
Services	1.8	5.5	5.3	14.0	9.5	2.1	11.7	4.3	4.9
Oil	-0.2	2.4	7.8	3.9	4.6	-3.9	11.1	4.4	3.3
Computers	39.0	35.0	17.8	33.0	26.7	25.0	30.0	30.5	29.9
Semiconductors	54.5	92.4	56.7	32.9	-7.3	34.0	41.6	41.2	41.2
Other Goods 2/	12.3	-1.2	10.5	12.7	11.6	13.9	10.4	6.7	6.0
	Billions of chained 1996 dollars								
Net Goods & Services	-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-399.2	-452.8	-483.7
Exports of G&S	732.8	808.2	874.2	981.5	1003.6	1033.0	1141.2	1238.7	1355.8
Imports of G&S	819.4	886.6	963.1	1094.8	1224.6	1355.3	1540.4	1691.5	1839.6
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-118.6	-109.5	-123.3	-140.5	-217.1	-331.4	-432.2	-494.2	-541.9
Current Acct as Percent of GDP	-1.7	-1.5	-1.6	-1.7	-2.5	-3.6	-4.3	-4.7	-4.8
Net Goods & Services (BOP)	-97.0	-96.0	-102.1	-105.9	-166.9	-265.0	-359.9	-405.8	-434.2
Investment Income, Net	21.1	25.0	23.4	11.1	-1.0	-13.1	-14.9	-29.7	-47.9
Direct, Net	55.2	64.9	69.4	71.9	67.7	62.7	72.5	72.7	78.4
Portfolio, Net	-34.1	-39.9	-46.0	-60.9	-68.8	-75.8	-87.4	-102.4	-126.4
Other Income & Transfers,Net	-42.7	-38.6	-44.6	-45.7	-49.2	-53.4	-57.4	-58.7	-59.7

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

Strictly Confidential (FR)
Class II FOMC

November 8, 2000

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1997				1998				1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	-1.0	-0.3	-0.9	-0.9	-1.6	-1.9	-1.0	0.1	-1.4	-1.4	-1.1	-0.4
Exports of G&S	0.8	1.9	1.2	-0.1	0.1	-0.3	-0.4	1.5	-0.9	0.6	1.0	1.1
Imports of G&S	-1.8	-2.2	-2.1	-0.8	-1.7	-1.6	-0.7	-1.5	-0.6	-2.0	-2.1	-1.4
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	7.5	17.6	10.6	-0.8	1.0	-3.0	-3.2	15.1	-7.9	5.8	10.2	10.3
Services	-5.8	9.4	6.0	-3.3	5.2	6.4	-10.0	10.8	-3.8	2.8	-2.5	4.6
Agricultural Goods	-19.4	6.7	12.0	7.9	-2.7	-13.8	-12.5	34.7	-33.4	33.1	38.0	-19.9
Computers	60.0	44.5	25.7	-14.0	-7.5	7.6	14.7	14.7	5.2	26.7	22.2	1.2
Semiconductors	50.3	22.1	19.6	-1.4	2.1	-13.6	18.9	35.9	38.7	39.1	37.8	22.5
Other Goods 1/	12.2	20.6	10.8	0.9	0.0	-6.6	-1.2	14.3	-11.1	1.5	11.9	16.3
Imports of G&S	15.3	18.8	17.3	6.4	14.2	13.1	5.5	12.2	4.5	16.2	16.9	10.7
Services	20.0	5.6	23.1	8.3	20.0	6.7	9.8	2.2	-7.7	2.5	6.3	8.2
Oil	-7.5	36.8	5.7	-12.9	6.4	41.2	2.1	-22.0	2.4	29.4	-5.8	-31.5
Computers	46.6	45.8	32.4	10.5	32.5	22.6	10.6	43.2	28.8	48.5	14.8	11.2
Semiconductors	78.1	26.0	31.6	5.6	2.0	-22.9	0.1	-6.1	17.8	53.8	24.1	43.3
Other Goods 2/	11.6	17.2	14.8	7.5	12.6	14.0	4.5	15.6	5.0	14.6	21.5	14.9
	Billions of chained 1996 dollars, s.a.a.r.											
Net Goods & Services	-94.0	-100.6	-119.6	-139.2	-175.3	-219.7	-244.1	-244.9	-279.8	-314.6	-342.6	-352.5
Exports of G&S	940.3	979.2	1004.2	1002.1	1004.5	996.8	988.8	1024.1	1003.3	1017.6	1042.6	1068.4
Imports of G&S	1034.3	1079.8	1123.8	1141.2	1179.8	1216.6	1232.9	1269.0	1283.1	1332.2	1385.2	1420.9
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-137.5	-119.9	-133.6	-171.1	-169.6	-205.9	-245.2	-247.7	-266.5	-315.9	-358.6	-384.9
Current Account as % of GDP	-1.7	-1.4	-1.6	-2.0	-2.0	-2.4	-2.8	-2.8	-2.9	-3.4	-3.8	-4.0
Net Goods & Services (BOP)	-108.2	-94.3	-101.1	-120.1	-134.5	-166.4	-185.3	-181.4	-210.7	-253.2	-290.9	-305.1
Investment Income, Net	11.5	16.3	10.7	5.7	9.1	6.0	-12.1	-7.3	-7.1	-11.3	-16.8	-17.3
Direct, Net	68.9	76.6	74.1	68.1	74.9	72.4	59.0	64.7	64.1	58.8	62.8	65.1
Portfolio, Net	-57.4	-60.3	-63.4	-62.4	-65.7	-66.4	-71.1	-71.9	-71.2	-70.0	-79.6	-82.4
Other Inc. & Transfers, Net	-40.8	-41.9	-43.2	-56.7	-44.3	-45.5	-47.8	-59.1	-48.7	-51.4	-50.9	-62.5

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

				------ Projected	------	------	------	------	------	------	------	------
	2000				2001				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-0.9	-1.0	-0.2	0.1	-0.8	-0.9	-0.5	0.2	-0.5	-0.4	-0.2	0.4
Exports of G&S	0.7	1.5	1.7	1.1	0.4	0.8	0.8	1.3	0.8	1.2	1.2	1.7
Imports of G&S	-1.6	-2.5	-1.9	-1.0	-1.2	-1.6	-1.4	-1.1	-1.2	-1.5	-1.4	-1.3
Percentage change from previous period, s.a.a.r.												
Exports of G&S	6.3	14.3	16.1	10.4	3.3	6.9	7.6	11.6	6.7	10.4	11.0	14.6
Services	6.9	3.5	5.0	3.9	2.5	4.2	6.0	7.4	7.2	7.2	7.2	7.2
Agricultural Goods	25.3	-2.0	43.0	-7.0	-5.5	0.4	-7.7	-12.2	3.7	3.5	3.5	3.6
Computers	44.6	44.9	41.1	42.4	38.6	38.6	36.0	36.0	36.0	36.0	36.0	36.0
Semiconductors	20.7	71.2	33.5	38.6	41.2	41.2	41.2	41.2	41.2	41.2	41.2	41.2
Other Goods 1/	0.7	14.9	16.2	10.0	-2.0	2.4	3.4	9.8	-0.4	5.7	6.4	12.8
Imports of G&S	12.0	18.6	13.4	6.9	8.2	11.3	9.1	7.1	8.1	10.1	9.3	8.1
Services	16.6	10.6	16.1	3.9	4.8	4.3	3.7	4.2	4.8	4.9	4.8	4.9
Oil	30.3	35.3	-3.4	-10.7	-9.5	36.0	13.0	-14.5	-5.1	25.8	9.2	-12.8
Computers	2.8	44.5	38.7	38.6	31.1	31.1	29.9	29.9	29.9	29.9	29.9	29.9
Semiconductors	20.7	33.5	63.1	52.9	41.2	41.2	41.2	41.2	41.2	41.2	41.2	41.2
Other Goods 2/	9.7	15.8	11.0	5.3	7.6	6.9	6.2	6.0	6.0	5.9	6.0	6.1
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-376.8	-403.4	-409.5	-406.9	-429.0	-452.9	-467.3	-462.2	-475.5	-486.2	-492.0	-481.1
Exports of G&S	1084.8	1121.8	1164.6	1193.7	1203.5	1223.8	1246.4	1281.0	1302.0	1334.6	1369.7	1417.1
Imports of G&S	1461.7	1525.2	1574.1	1600.6	1632.5	1676.6	1713.7	1743.2	1777.5	1820.8	1861.7	1898.3
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-406.0	-424.6	-440.1	-458.0	-466.6	-489.5	-505.9	-514.7	-522.6	-538.1	-550.3	-556.5
Current Account as % of GDP	-4.2	-4.3	-4.4	-4.5	-4.5	-4.7	-4.8	-4.8	-4.8	-4.8	-4.9	-4.9
Net Goods & Services (BOP)	-340.5	-357.1	-370.1	-371.8	-385.7	-405.7	-419.2	-412.6	-425.2	-435.6	-442.3	-433.7
Investment Income, Net	-11.9	-12.6	-14.8	-20.1	-25.3	-27.6	-30.7	-35.0	-40.7	-45.4	-50.9	-54.7
Direct, Net	68.3	73.7	75.4	72.8	70.0	71.8	74.0	75.2	75.4	77.4	79.0	81.9
Portfolio, Net	-80.2	-86.3	-90.3	-92.8	-95.3	-99.4	-104.7	-110.2	-116.1	-122.8	-129.9	-136.6
Other Inc. & Transfers, Net	-53.6	-55.0	-55.1	-66.1	-55.6	-56.1	-56.1	-67.1	-56.6	-57.1	-57.1	-68.1

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