

Part 1

September 13, 2006

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

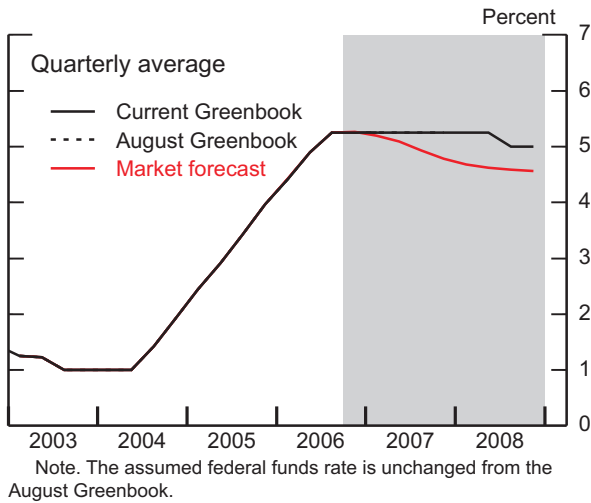
Summary and Outlook

September 13, 2006

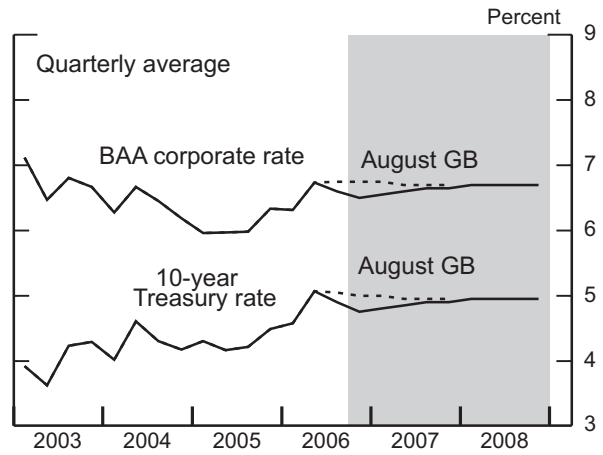
Summary and Outlook

Key Background Factors Underlying the Baseline Staff Projection

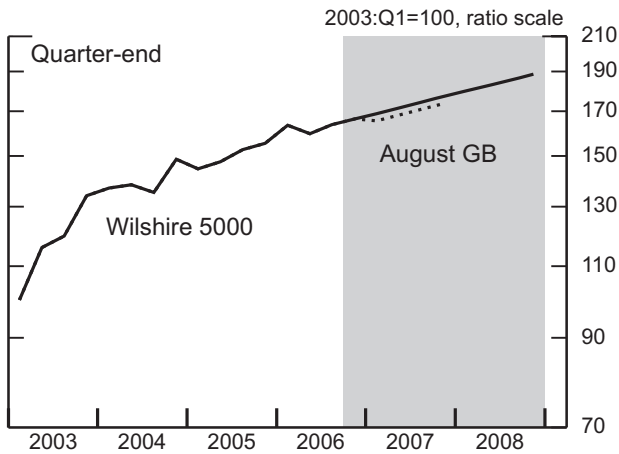
Federal Funds Rate



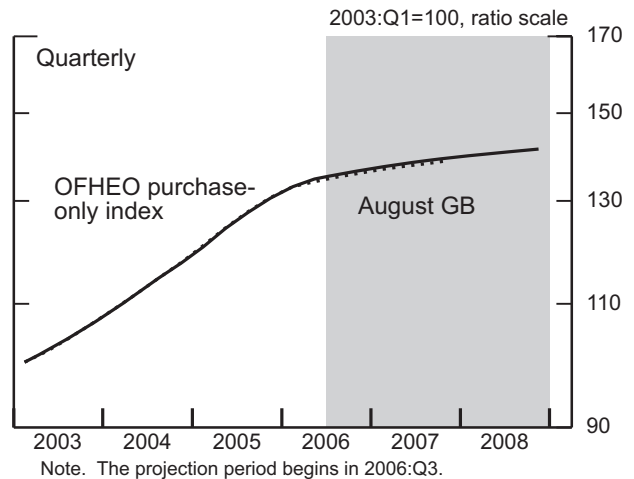
Long-Term Interest Rates



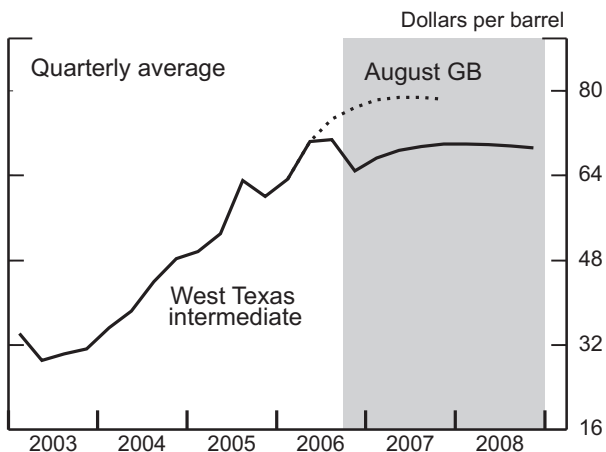
Equity Prices



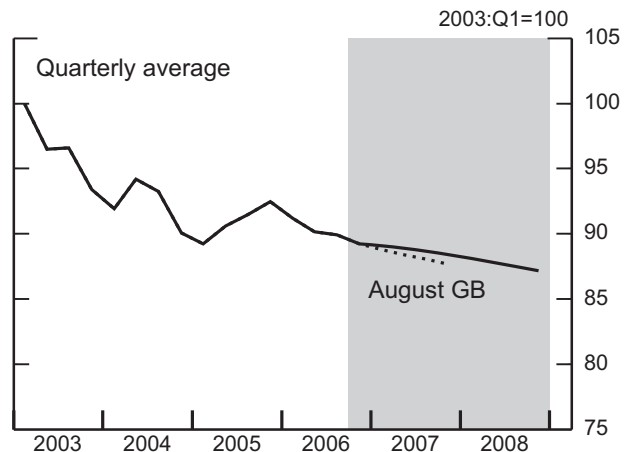
House Prices



Crude Oil Prices



Broad Real Dollar



Note. In each panel, shading represents the projection period.

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

Measure	2006:Q2		2006:Q3	
	Aug. GB	Sept. GB	Aug. GB	Sept. GB
Real GDP	3.0	2.8	2.2	1.8
Private domestic final purchases	1.9	1.8	2.5	2.1
Personal consumption expenditures	2.5	2.6	3.2	3.1
Residential investment	-9.0	-10.9	-16.4	-20.6
Business fixed investment	4.9	4.4	9.7	9.5
Government outlays for consumption and investment	1.6	.9	2.1	2.7
	Contribution to growth (percentage points)			
Inventory investment	.7	.7	-.7	-.5
Net exports	.3	.4	.3	-.0

income will increase 3½ percent in 2006—1 percentage point faster than in our previous projection.

As noted, we have sharpened the deceleration in real activity in the second half of this year to incorporate a greater contraction in residential construction than we previously forecast; we now have also included larger scheduled cutbacks in motor vehicle assemblies. In contrast, we continue to project moderate gains in consumer and business spending.

The recent data on employment and unemployment have been in line with our expectations that labor market conditions would remain relatively stable in the near term. Private nonfarm payrolls increased 111,000 in August, about the same pace as in the preceding two months. The unemployment rate continued to hover around 4¾ percent, and the labor force participation rate remained at 66.2 percent—slightly above our current estimate of its underlying trend. The inflow of new claims for unemployment insurance was roughly stable from late July through early September. If, as we are projecting, hiring moderates somewhat further in coming months as real activity continues to slow, we would also expect claims to move up and the unemployment rate to edge higher, to 4.8 percent, by year-end.

Projections of Real GDP

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

Measure	2006		2007	2008
	H1	H2		
Real GDP	4.2	1.7	2.1	2.4
Previous	4.3	2.1	2.3	...
Final sales	3.9	2.1	2.1	2.2
Previous	4.0	2.6	2.4	...
PCE	3.7	2.9	2.5	2.7
Previous	3.6	2.8	2.4	...
Residential investment	-5.8	-20.6	-7.5	2.2
Previous	-4.8	-14.0	-3.1	...
BFI	9.0	9.3	4.2	3.0
Previous	9.2	9.3	5.3	...
Government purchases	2.9	2.3	1.9	1.2
Previous	3.2	2.3	2.0	...
Exports	10.1	4.8	4.6	5.1
Previous	8.8	5.3	5.1	...
Imports	5.2	3.5	3.7	5.3
Previous	4.7	3.1	4.0	...
Contribution to growth (percentage points)				
Inventory change	.3	-.3	-.0	.2
Previous	.4	-.4	-.1	...
Net exports	.2	-.1	-.1	-.3
Previous	.1	.1	-.1	...

... Not applicable.

Household spending. After having risen briskly during the past three years, consumer spending is projected to rise at a moderate rate in 2007 and 2008. As has been the case for some time, that projection is shaped importantly by our estimates of the effect of wealth on consumption. We believe that the wealth effect added $\frac{3}{4}$ percentage point to the rise in real PCE in 2005, and we estimate that it will contribute another $\frac{1}{2}$ percentage point this year. Currently we are projecting that wealth will be a neutral factor in 2007

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

Measure	1974-95	1996-2000	2001-04	2005	2006	2007	2008
Structural labor productivity	1.5	2.5	3.0	2.7	2.8	2.8	2.7
Previous	1.5	2.5	3.0	2.7	2.7	2.7	...
<i>Contributions¹</i>							
Capital deepening	.7	1.4	.6	.6	.7	.7	.7
Previous	.7	1.4	.6	.6	.6	.7	...
Multifactor productivity	.5	.8	2.1	1.9	1.8	1.8	1.8
Previous	.5	.8	2.1	1.9	1.8	1.8	...
Labor composition	.3	.3	.3	.3	.2	.2	.2
MEMO							
Potential GDP	3.0	3.3	2.9	2.6	2.7	2.7	2.5
Previous	3.0	3.3	2.9	2.6	2.9	2.9	...

NOTE. Components may not sum to totals because of rounding. For multiyear periods, the percent change is the annual average from Q4 of the year preceding the first year shown to Q4 of the last year shown.

1. Percentage points.

... Not applicable.

and 2007—0.2 percentage point less than in the August Greenbook.¹ In 2008, the steepening downward trend in labor force participation that we believe to be under way, combined with a smaller increase in the working-age population, shows through to a slightly slower increase in potential GDP of 2.5 percent. Structural productivity is assumed to continue to rise at an annual rate of 2¾ percent over the forecast period.

Productivity and the labor market. After having risen at an annual rate of close to 3 percent over the first half of 2006, productivity in the nonfarm business sector is projected to decelerate sharply—to an average annual rate of 1 percent in the second

¹ The downward revision is the result of some additional fine-tuning of our forecast of potential output in response to the revisions to the NIPA. We have reassessed the trends in hours worked. Specifically, the trend in total hours for the economy—which is relevant for potential output—deviates from the trend in hours in the nonfarm business sector—which is used in measuring structural productivity. The two trends in hours differ for two reasons: because the household and payroll surveys yield different estimates of employment in the nonfarm business sector and because of the sectoral difference in coverage (nonfarm business versus the overall economy). Previously, we had implicitly allowed the first difference—the statistical measurement—to affect our forecast for potential output. On reexamination, we concluded that it should more appropriately be excluded and that only the difference that reflects sectoral coverage should be allowed to show through to our forecast of potential output.

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

Measure	2005	2006	2007	2008
Output per hour, nonfarm business	2.5	1.9	2.4	2.7
Previous	2.6	2.4	2.5	...
Nonfarm private payroll employment	1.6	1.3	.2	.3
Previous	1.6	1.2	.4	...
Household survey employment	1.9	1.4	.3	.6
Previous	1.9	1.3	.3	...
Labor force participation rate ¹	66.1	66.1	65.7	65.5
Previous	66.1	66.0	65.7	...
Civilian unemployment rate ¹	5.0	4.8	5.1	5.2
Previous	5.0	4.8	5.2	...
MEMO				
GDP gap ²	-.0	.2	-.4	-.5
Previous	-.0	.3	-.4	...

1. Percent, average for the fourth quarter.

2. Percent difference between actual and potential GDP in the fourth quarter of the year indicated. A negative number indicates that the economy is operating below potential.

... Not applicable.

half—as the rate of increase in real activity steps down and, in response, businesses only gradually adjust their hours worked. Nonetheless, we see additions to private nonfarm payrolls dropping from the pace of 110,000 per month seen recently to 50,000 per month by year-end.

We think that by early 2007, the level of actual productivity should be roughly in line with its structural trend. Thus, for the remainder of the forecast period, we expect businesses to hold employment and hours worked on a trajectory that keeps productivity increasing at just below our assumed trend rate in 2007 and at that rate in 2008.

Accordingly, gains in private nonfarm employment are projected to average just 25,000 per month next year and in 2008. Because real GDP in 2007 and 2008 is projected to rise below its potential rate, we expect a gradual opening of a gap in resource utilization, with the unemployment rate rising to 5.2 percent during 2008.

Wages and prices. As noted above, we interpreted part of the outsized increase in hourly compensation (as measured in the productivity and costs statistics) over the first half of 2006 as transitory. Thus, our projection for that measure of hourly compensation

Inflation Projections

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

Measure	2005	2006	2007	2008
PCE chain-weighted price index	3.1	2.2	2.5	2.0
Previous	3.1	2.9	2.1	...
Food and beverages	2.1	2.5	2.4	2.2
Previous	2.1	2.4	2.3	...
Energy	21.2	-.6	5.6	-.0
Previous	21.2	10.4	-.1	...
Excluding food and energy	2.1	2.4	2.3	2.1
Previous	2.1	2.5	2.3	...
Consumer price index	3.7	2.5	2.7	2.1
Previous	3.7	3.4	2.3	...
Excluding food and energy	2.1	2.9	2.5	2.3
Previous	2.1	2.9	2.5	...
GDP chain-weighted price index	3.1	2.7	2.6	2.4
Previous	3.1	2.8	2.3	...
ECI for compensation of private industry workers ¹	2.9	3.2	4.1	4.1
Previous	2.9	3.2	3.8	...
Compensation per hour, nonfarm business sector	4.1	6.5	5.3	5.1
Previous	4.2	5.5	5.3	...
Prices of core nonfuel imports	2.2	3.1	1.4	1.0
Previous	2.2	3.3	1.4	...

1. December to December.

... Not applicable.

in the nonfarm business sector in 2007 is unchanged at 5¼ percent—well below this year’s bulge of 6½ percent but noticeably higher than the average increase of 4 percent in 2004 and 2005. Over the longer run, the lower average rate of consumer price inflation in this forecast and the continuation of a higher unemployment rate work to stem some of the additional upward pressure on compensation. We expect hourly compensation to rise 5 percent in 2008. For the ECI, we expect to see some pickup in compensation over the second half of this year and in 2007. After having risen 2¾ percent over the year ending in the second quarter of this year, the ECI is anticipated to increase 4 percent in 2007 and 2008.

Alternative Scenarios

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

Measure and scenario	2006		2007		2008
	H1	H2	H1	H2	
<i>Real GDP</i>					
Greenbook baseline	4.2	1.7	2.0	2.2	2.4
Greater wage pressure	4.2	2.2	1.7	1.6	2.0
Unanchored inflation expectations	4.2	2.2	1.7	1.6	2.0
Less inflation persistence	4.2	1.7	2.1	2.4	2.5
Housing slump	4.2	.6	1.3	2.0	2.5
Stronger aggregate demand	4.2	2.0	2.9	3.0	2.8
Market-based funds rate	4.2	1.7	2.0	2.3	2.7
<i>Unemployment rate¹</i>					
Greenbook baseline	4.7	4.8	5.0	5.1	5.2
Greater wage pressure	4.7	4.7	4.9	5.1	5.4
Unanchored inflation expectations	4.7	4.7	4.9	5.1	5.4
Less inflation persistence	4.7	4.8	5.0	5.1	5.1
Housing slump	4.7	4.9	5.3	5.5	5.6
Stronger aggregate demand	4.7	4.8	4.8	4.8	4.6
Market-based funds rate	4.7	4.8	5.0	5.1	5.1
<i>Core PCE inflation</i>					
Greenbook baseline	2.5	2.4	2.4	2.3	2.1
Greater wage pressure	2.5	2.8	2.9	2.8	2.4
Unanchored inflation expectations	2.5	2.9	2.9	2.9	2.7
Less inflation persistence	2.5	2.3	2.0	1.8	1.6
Housing slump	2.5	2.4	2.4	2.3	2.0
Stronger aggregate demand	2.5	2.4	2.4	2.3	2.2
Market-based funds rate	2.5	2.4	2.4	2.3	2.2
<i>Federal funds rate¹</i>					
Greenbook baseline	4.9	5.3	5.3	5.3	5.0
Greater wage pressure	4.9	5.6	5.8	5.8	5.0
Unanchored inflation expectations	4.9	5.6	5.8	5.8	5.3
Less inflation persistence	4.9	5.3	5.2	5.1	4.6
Housing slump	4.9	4.9	4.5	4.3	4.0
Stronger aggregate demand	4.9	5.4	5.8	6.2	6.4
Market-based funds rate	4.9	5.3	5.1	4.8	4.6

1. Percent, average for the final quarter of the period.

marginal cost of producing goods and services and that firms gradually pass this increase in costs to their customers in the form of higher prices. In addition, the FRB/US model

**Selected Greenbook Projections and
70 Percent Confidence Intervals Derived from
Historical Forecast Errors and FRB/US Simulations**

Measure	2006	2007	2008
<i>Real GDP</i> (percent change, Q4 to Q4)			
Projection	3.0	2.1	2.4
Confidence interval			
Greenbook forecast errors	2.1–3.8	.5–3.7	.7–4.2
FRB/US stochastic simulations	2.4–3.5	.6–3.6	.7–4.3
<i>Civilian unemployment rate</i> (percent, Q4)			
Projection	4.8	5.1	5.2
Confidence interval			
Greenbook forecast errors	4.5–5.0	4.4–5.8	4.0–6.4
FRB/US stochastic simulations	4.6–4.9	4.7–5.5	4.4–5.8
<i>PCE prices</i> excluding food and energy (percent change, Q4 to Q4)			
Projection	2.4	2.3	2.1
Confidence interval			
Greenbook forecast errors	2.1–2.7	1.6–3.0	1.0–3.2
FRB/US stochastic simulations	2.3–2.6	1.8–2.9	1.4–2.9
<i>Federal funds rate</i> (percent, Q4)			
Projection	5.2	5.2	5.0
Confidence interval			
FRB/US stochastic simulations	4.8–5.7	4.1–6.5	3.6–6.6

Note. Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1986-2004 set of model equation residuals. Intervals derived from Greenbook forecast errors are based on the 1986-2004 set of Greenbook historical errors.

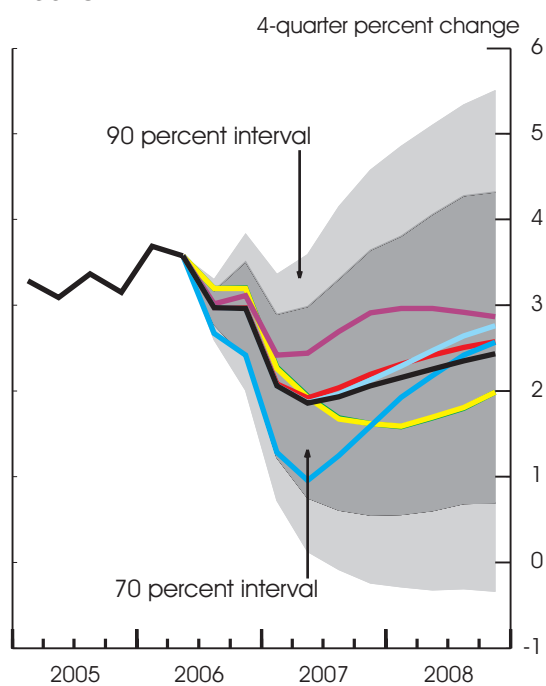
50 basis points below that baseline path in 2008. If the funds rate were to follow the market's expectations, the easier stance of policy would boost the rise in real GDP in 2008 to 2¾ percent. Partly in response to stronger real activity, core PCE inflation would be marginally above baseline in 2008.

Forecast Confidence Intervals and Alternative Scenarios under the Assumption that Monetary Policy Follows an Estimated Taylor Rule

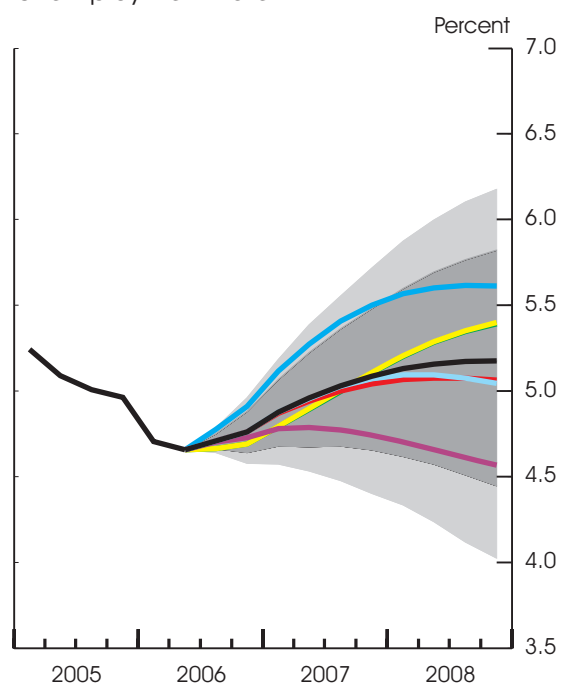
Confidence Intervals based on FRB/US Stochastic Simulations

- | | | |
|---|---|--|
| ■ Greenbook baseline | ■ Less inflation persistence | ■ Market-based funds rate |
| ■ Greater wage pressure | ■ Housing slump | |
| ■ Unanchored inflation expectations | ■ Stronger aggregate demand | |

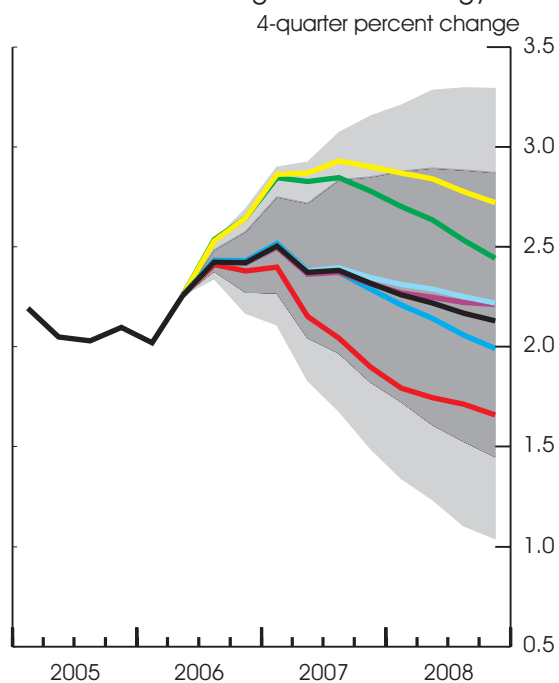
Real GDP



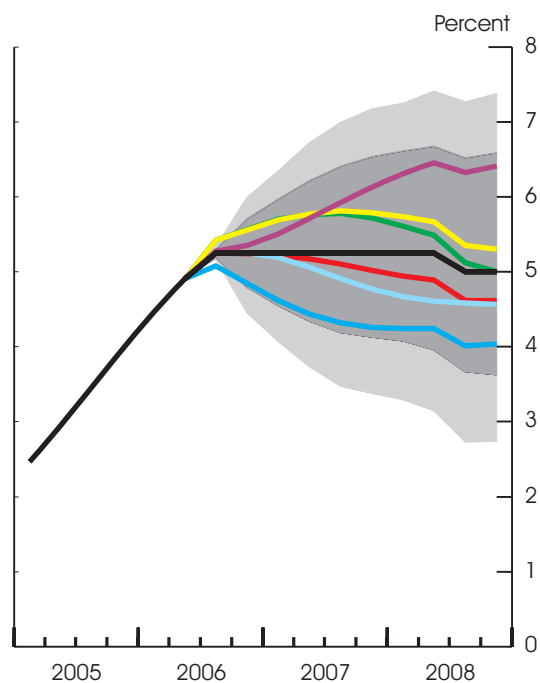
Unemployment Rate



PCE Prices excluding Food and Energy



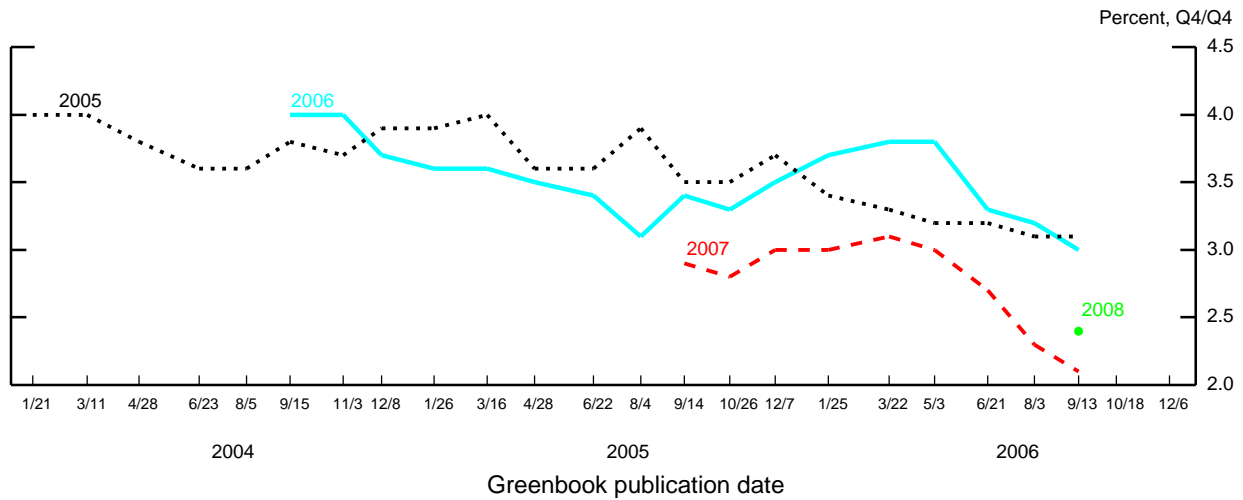
Federal Funds Rate



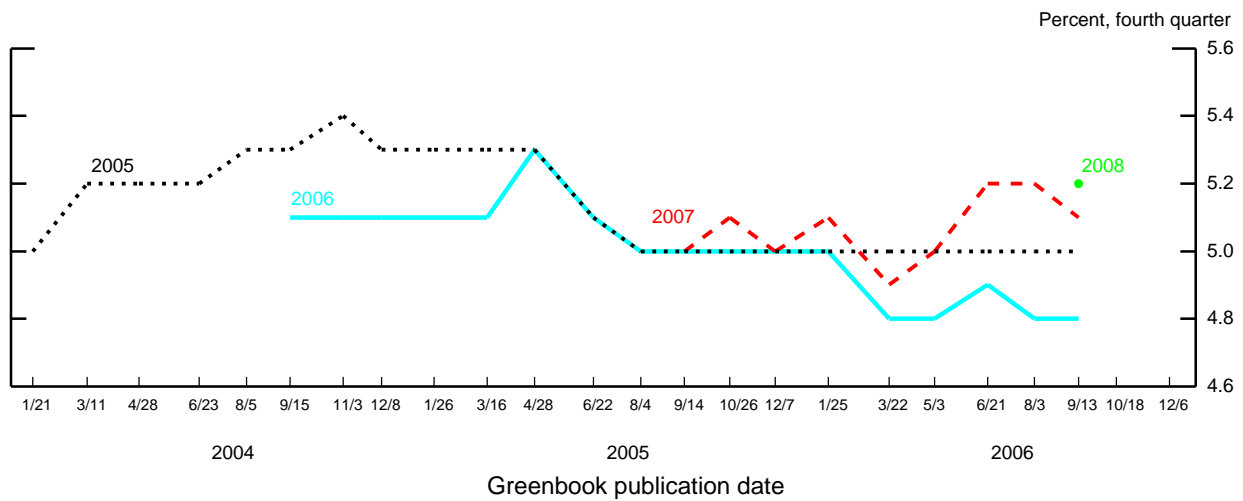
Class II FOMC - Restricted (FR)

Evolution of the Staff Forecast

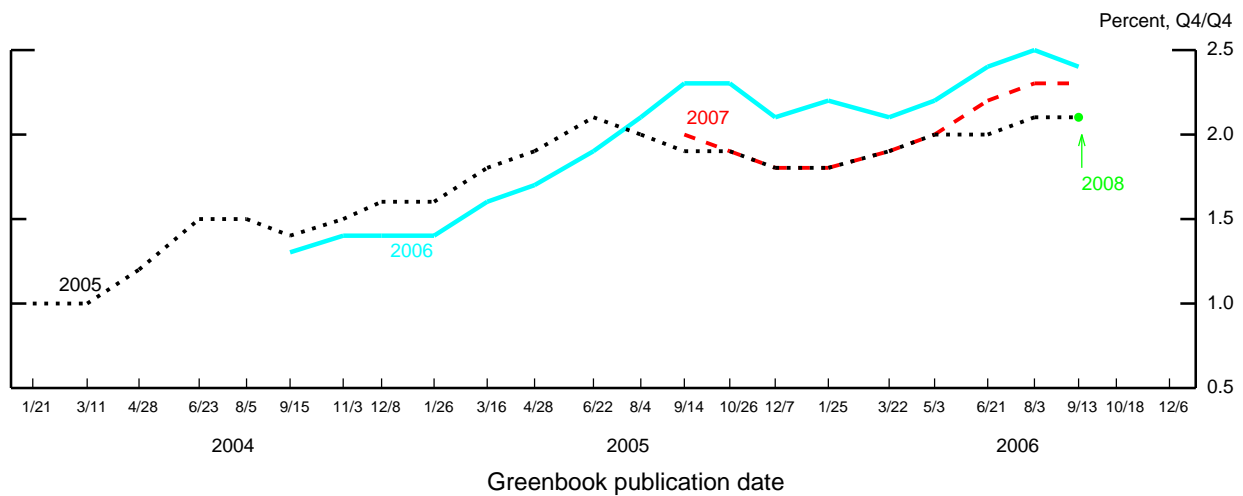
Change in Real GDP



Unemployment Rate



Change in PCE Prices excluding Food and Energy



Changes in GDP, Prices, and Unemployment
(Percent, annual rate except as noted)

Interval	Nominal GDP		Real GDP		PCE price index		Core PCE price index		Unemployment rate ¹	
	8/3/06	9/13/06	8/3/06	9/13/06	8/3/06	9/13/06	8/3/06	9/13/06	8/3/06	9/13/06
<i>Quarterly</i>										
2006:Q1	9.0	9.0	5.6	5.6	2.0	2.0	2.1	2.1	4.7	4.7
2006:Q2	6.5	6.3	3.0	2.8	4.1	4.1	2.9	2.8	4.7	4.7
2006:Q3	5.3	4.0	2.2	1.8	3.5	2.5	2.5	2.3	4.7	4.7
2006:Q4	3.7	3.7	2.1	1.7	2.1	.3	2.5	2.5	4.8	4.8
2007:Q1	4.3	4.6	2.2	1.9	2.0	2.9	2.4	2.4	4.9	4.9
2007:Q2	4.9	4.9	2.3	2.0	2.2	2.5	2.3	2.3	5.0	5.0
2007:Q3	4.8	4.8	2.3	2.1	2.2	2.4	2.2	2.3	5.1	5.0
2007:Q4	4.7	4.6	2.4	2.2	2.1	2.2	2.2	2.2	5.2	5.1
2008:Q1	...	4.9	...	2.3	...	2.1	...	2.2	...	5.1
2008:Q2	...	5.1	...	2.4	...	2.1	...	2.2	...	5.2
2008:Q3	...	4.9	...	2.5	...	2.0	...	2.1	...	5.2
2008:Q4	...	4.8	...	2.5	...	2.0	...	2.1	...	5.2
<i>Two-quarter²</i>										
2006:Q2	7.7	7.6	4.3	4.2	3.1	3.1	2.5	2.5	-3	-3
2006:Q4	4.5	3.9	2.1	1.7	2.8	1.4	2.5	2.4	.1	.1
2007:Q2	4.6	4.7	2.2	2.0	2.1	2.7	2.3	2.4	.2	.2
2007:Q4	4.8	4.7	2.3	2.2	2.1	2.3	2.2	2.3	.2	.1
2008:Q2	...	5.0	...	2.4	...	2.1	...	2.2	...	.1
2008:Q4	...	4.9	...	2.5	...	2.0	...	2.1	...	.0
<i>Four-quarter³</i>										
2005:Q4	6.4	6.4	3.1	3.1	3.1	3.1	2.1	2.1	-4	-4
2006:Q4	6.1	5.7	3.2	3.0	2.9	2.2	2.5	2.4	-2	-2
2007:Q4	4.7	4.7	2.3	2.1	2.1	2.5	2.3	2.3	.4	.3
2008:Q4	...	4.9	...	2.4	...	2.0	...	2.1	...	.1
<i>Annual</i>										
2005	6.3	6.3	3.2	3.2	2.9	2.9	2.1	2.1	5.1	5.1
2006	6.6	6.4	3.4	3.3	3.1	2.9	2.3	2.3	4.7	4.7
2007	4.7	4.5	2.3	2.0	2.4	2.3	2.4	2.4	5.0	5.0
2008	...	4.9	...	2.3	...	2.2	...	2.2	...	5.2

1. Level, except for two-quarter and four-quarter intervals.

2. Percent change from two quarters earlier; for unemployment rate, change is in percentage points.

3. Percent change from four quarters earlier; for unemployment rate, change is in percentage points.

Changes in Real Gross Domestic Product and Related Items
(Percent, annual rate except as noted)

Item	2006				2007				2008				2006 ¹	2007 ¹	2008 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous</i>	5.6	2.8	1.8	1.7	1.9	2.0	2.1	2.2	2.3	2.4	2.5	2.5	3.0	2.1	2.4
Final sales <i>Previous</i>	5.6	3.0	2.2	2.1	2.2	2.3	2.3	2.4	...	...	...	...	3.2	2.3	...
Priv. dom. final purch. <i>Previous</i>	5.6	2.1	2.3	1.8	1.5	2.5	2.6	1.9	1.8	2.6	2.6	1.9	3.0	2.1	2.2
Personal cons. expend. <i>Previous</i>	5.6	2.3	2.9	2.3	2.0	2.8	2.7	1.9	...	...	...	...	3.3	2.4	...
Durables	5.5	1.8	2.1	1.8	1.4	2.2	2.4	2.5	2.6	2.7	2.8	2.8	2.8	2.1	2.7
Nondurables	5.5	1.9	2.5	2.3	2.1	2.5	2.5	2.5	...	...	...	...	3.0	2.4	...
Services	4.8	2.6	3.1	2.7	2.5	2.5	2.6	2.6	2.6	2.7	2.8	2.8	3.3	2.5	2.7
Residential investment <i>Previous</i>	4.8	2.5	3.2	2.5	2.4	2.4	2.4	2.4	...	...	...	...	3.2	2.4	...
Business fixed invest. <i>Previous</i>	19.8	.5	5.4	3.5	4.0	4.3	4.3	4.3	4.1	4.4	4.5	4.6	7.0	4.2	4.4
Equipment & software <i>Previous</i>	5.9	1.7	2.4	2.7	3.0	3.0	3.0	3.1	3.2	3.2	3.2	3.3	3.1	3.0	3.2
Nonres. structures <i>Previous</i>	1.6	3.5	3.1	2.5	1.9	2.0	2.0	2.1	2.1	2.1	2.2	2.2	2.7	2.0	2.2
Net exports ² <i>Previous</i> ²	-3	-10.9	-20.6	-20.5	-17.4	-7.6	-3.2	-8	.8	1.5	3.1	3.3	-13.5	-7.5	2.2
Exports	-3	-9.0	-16.4	-11.6	-7.7	-2.7	-1.3	-6	...	...	...	...	-9.5	-3.1	...
Imports	13.7	4.4	9.5	9.2	4.7	4.8	3.8	3.6	3.5	3.1	2.9	2.4	9.1	4.2	3.0
Govt. cons. & invest. <i>Previous</i>	13.7	4.9	9.7	9.0	5.7	5.9	4.9	4.6	...	...	...	...	9.3	5.3	...
Federal	15.6	-1.5	7.1	7.5	3.8	5.0	4.2	4.3	4.9	4.8	5.1	5.0	7.0	4.3	4.9
Defense	15.6	-1.1	8.5	7.8	4.4	5.5	5.2	5.2	...	...	...	...	7.5	5.0	...
Nondefense	8.7	21.0	15.4	13.0	6.7	4.4	2.8	2.2	.6	-4	-1.5	-2.9	14.5	4.0	-1.0
State & local	8.7	21.6	12.4	11.9	8.8	6.8	4.3	3.4	...	...	...	...	13.6	5.8	...
Change in bus. inventories ² <i>Previous</i> ²	-637	-624	-625	-627	-634	-628	-622	-638	-658	-656	-656	-676	-628	-631	-661
Nonfarm ² Farm ²	-637	-627	-618	-622	-630	-623	-615	-632	...	...	...	...	-626	-625	...
	14.0	6.3	4.7	4.9	4.7	4.7	4.6	4.5	4.7	5.0	5.2	5.3	7.4	4.6	5.1
	9.1	1.5	3.2	3.8	4.5	2.0	2.0	6.4	7.1	3.1	3.4	7.8	4.4	3.7	5.3
	4.9	.9	2.7	1.9	2.4	2.1	1.7	1.5	1.2	1.2	1.2	1.2	2.6	1.9	1.2
	4.9	1.6	2.1	2.4	2.5	2.2	1.8	1.6	...	...	...	...	2.7	2.0	...
	8.8	-4.3	4.6	1.7	3.2	2.3	1.3	.7	.0	.0	.0	.0	2.6	1.9	.0
	8.9	-1.8	4.5	4.0	4.7	3.5	1.9	1.1	.0	.0	.0	.0	3.8	2.8	.0
	8.5	-9.3	5.0	-2.8	.0	.0	.0	.0	.0	.0	.0	.0	.1	.0	.0
	2.7	4.1	1.6	2.0	1.9	2.0	1.9	1.9	1.9	1.9	1.9	1.9	2.6	1.9	1.9
Change in bus. inventories ² <i>Previous</i> ²	41	60	46	44	57	44	31	40	54	50	45	64	48	43	53
Nonfarm ² Farm ²	41	62	44	39	43	29	16	32	...	...	...	...	46	30	...
	37	57	46	44	57	43	30	40	54	49	44	63	46	42	53
	4	4	1	1	1	1	1	1	1	1	1	1	3	1	1

1. Change from fourth quarter of previous year to fourth quarter of year indicated.

2. Billions of chained (2000) dollars.

Changes in Real Gross Domestic Product and Related Items

(Percent, annual rate except as noted)

Item	2000 ¹	2001 ¹	2002 ¹	2003 ¹	2004 ¹	2005 ¹	2006 ¹	2007 ¹	2008 ¹
Real GDP <i>Previous</i>	2.2 2.2	.2 .2	1.9 1.9	3.7 3.7	3.4 3.4	3.1 3.1	3.0 3.2	2.1 2.3	2.4 ...
Final sales <i>Previous</i>	2.9	1.5	.8	3.7	3.1	3.2	3.0	2.1	2.2
Priv. dom. final purch. <i>Previous</i>	2.9	1.5	.8	3.7	3.1	3.2	3.3	2.4	...
	4.3	1.0	1.1	4.1	4.4	3.6	2.8	2.1	2.7
	4.3	1.0	1.1	4.1	4.4	3.6	3.0	2.4	...
Personal cons. expend. <i>Previous</i>	4.1	2.8	1.9	3.4	4.0	2.9	3.3	2.5	2.7
	4.1	2.8	1.9	3.4	4.0	2.9	3.2	2.4	...
Durables	4.7	10.8	1.2	8.3	5.6	2.5	7.0	4.2	4.4
Nondurables	3.0	1.9	2.1	3.9	3.8	4.4	3.1	3.0	3.2
Services	4.5	1.6	1.9	2.2	3.7	2.3	2.7	2.0	2.2
Residential investment <i>Previous</i>	-1.9 -1.9	1.4 1.4	7.0 7.0	11.7 11.7	6.1 6.1	9.0 9.0	-13.5 -9.5	-7.5 -3.1	2.2 ...
Business fixed invest. <i>Previous</i>	7.8	-9.6	-6.5	4.9	6.9	5.6	9.1	4.2	3.0
	7.8	-9.6	-6.5	4.9	6.9	5.6	9.3	5.3	...
Equipment & software <i>Previous</i>	7.5	-9.0	-3.4	6.6	8.3	7.0	7.0	4.3	4.9
	7.5	-9.0	-3.4	6.6	8.3	7.0	7.5	5.0	...
Nonres. structures <i>Previous</i>	8.8	-11.1	-14.9	.2	2.7	1.8	14.5	4.0	-1.0
	8.8	-11.1	-14.9	.2	2.7	1.8	13.6	5.8	...
Net exports ² <i>Previous</i> ²	-379 -379	-399 -399	-471 -471	-519 -519	-591 -591	-619 -619	-628 -626	-631 -625	-661 ...
Exports	6.5	-11.9	3.8	5.8	7.0	6.7	7.4	4.6	5.1
Imports	11.2	-7.6	9.7	4.8	10.6	5.2	4.4	3.7	5.3
Govt. cons. & invest. <i>Previous</i>	.4 .4	5.0 5.0	4.0 4.0	1.7 1.7	1.1 1.1	1.2 1.2	2.6 2.7	1.9 2.0	1.2 ...
Federal	-2.2	6.4	7.8	5.5	2.3	2.1	2.6	1.9	.0
Defense	-3.5	6.5	8.4	7.5	2.5	1.9	3.8	2.8	.0
Nondefense	.3	6.3	6.8	1.9	1.8	2.4	.1	.0	.0
State & local	1.7	4.2	2.1	-.4	.4	.8	2.6	1.9	1.9
Change in bus. inventories ² <i>Previous</i> ²	56 56	-32 -32	12 12	14 14	53 53	20 20	48 46	43 30	53 ...
Nonfarm ²	58	-32	15	14	47	20	46	42	53
Farm ²	-1	0	-2	0	6	0	3	1	1

1. Change from fourth quarter of previous year to fourth quarter of year indicated.

2. Billions of chained (2000) dollars.

Contributions to Changes in Real Gross Domestic Product
(Percentage points, annual rate except as noted)

Item	2006				2007				2008				2006 ¹	2007 ¹	2008 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous</i>	5.6	2.8	1.8	1.7	1.9	2.0	2.1	2.2	2.3	2.4	2.5	2.5	3.0	2.1	2.4
	5.6	3.0	2.2	2.1	2.2	2.3	2.3	2.4	...	...	...	...	3.2	2.3	...
Final sales <i>Previous</i>	5.6	2.1	2.3	1.8	1.5	2.5	2.5	1.9	1.8	2.6	2.6	1.9	2.9	2.1	2.2
Priv. dom. final purch. <i>Previous</i>	5.6	2.3	2.8	2.2	2.0	2.8	2.7	1.9	...	...	...	...	3.2	2.3	...
	4.7	1.6	1.8	1.6	1.2	1.9	2.0	2.2	2.3	2.3	2.4	2.4	2.4	1.8	2.3
	4.7	1.7	2.1	2.0	1.9	2.2	2.1	2.2	...	...	...	...	2.6	2.1	...
Personal cons. expend. <i>Previous</i>	3.4	1.8	2.2	1.9	1.7	1.8	1.8	1.8	1.9	1.9	1.9	2.0	2.3	1.8	1.9
	3.4	1.7	2.2	1.7	1.7	1.7	1.7	1.7	...	...	...	...	2.3	1.7	...
Durables	1.5	.0	.4	.3	.3	.3	.3	.3	.3	.3	.4	.4	.6	.3	.3
Nondurables	1.2	.3	.5	.6	.6	.6	.6	.6	.7	.7	.7	.7	.6	.6	.7
Services	.7	1.4	1.3	1.0	.8	.8	.8	.9	.9	.9	.9	.9	1.1	.8	.9
Residential investment <i>Previous</i>	.0	-.7	-1.3	-1.3	-1.0	-.4	-2	.0	.0	.1	.1	.2	-.8	-.4	.1
	.0	-.6	-1.1	-.7	-.4	-1	-1	.0	...	...	...	...	-.6	-.2	...
Business fixed invest. <i>Previous</i>	1.4	.5	1.0	.9	.5	.5	.4	.4	.4	.3	.3	.3	.9	.5	.3
	1.4	.5	1.0	.9	.6	.6	.5	.5	...	...	...	...	.9	.6	...
Equipment & software <i>Previous</i>	1.1	-1	.5	.5	.3	.4	.3	.3	.4	.3	.4	.4	.5	.3	.4
	1.1	-1	.6	.6	.3	.4	.4	.4	...	...	...	...	.6	.4	...
Nonres. structures <i>Previous</i>	.3	.6	.4	.4	.2	.1	.1	.1	.0	.0	-.1	-.1	.4	.1	.0
	.3	.6	.4	.4	.3	.2	.1	.1	...	...	...	...	.4	.2	...
Net exports <i>Previous</i>	.0	.4	.0	-1	-.2	.2	.2	-.6	-.7	.0	.0	-.7	.1	-.1	-.3
	.0	.3	.3	-2	-.3	.2	.2	-.6	...	...	...	...	.1	-.1	...
Exports	1.4	.7	.5	.5	.5	.5	.5	.5	.5	.6	.6	.6	.8	.5	.6
Imports	-1.5	-.3	-.5	-.6	-.8	-.3	-.3	-1.1	-1.2	-.5	-.6	-1.3	-.7	-.6	-.9
Govt. cons. & invest. <i>Previous</i>	.9	.2	.5	.4	.5	.4	.3	.3	.2	.2	.2	.2	.5	.4	.2
	.9	.3	.4	.5	.5	.4	.4	.3	...	...	...	...	.5	.4	...
Federal	.6	-.3	.3	.1	.2	.2	.1	.1	.0	.0	.0	.0	.2	.1	.0
Defense	.4	-.1	.2	.2	.2	.2	.1	.1	.0	.0	.0	.0	.2	.1	.0
Nondefense	.2	-.2	.1	-1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
State & local	.3	.5	.2	.2	.2	.2	.2	.2	.2	.2	.2	.2	.3	.2	.2
Change in bus. inventories <i>Previous</i>	.0	.7	-.5	-1	.5	-.5	-.5	.3	.5	-.2	-.2	.6	.0	.0	.2
	.0	.7	-.7	-2	.1	-.5	-.4	.5	...	...	...	...	.0	-.1	...
Nonfarm	.0	.7	-.4	-1	.5	-.5	-.5	.3	.5	-.2	-.2	.6	.0	.0	.2
Farm	.0	.0	-1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0

1. Change from fourth quarter of previous year to fourth quarter of year indicated.

Changes in Prices and Costs
(Percent, annual rate except as noted)

Item	2006				2007				2008				2006 ¹	2007 ¹	2008 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP chain-wt. price index <i>Previous</i>	3.3	3.4	2.2	1.9	2.6	2.8	2.6	2.3	2.5	2.6	2.4	2.2	2.7	2.6	2.4
PCE chain-wt. price index <i>Previous</i>	3.3	3.3	3.0	1.6	2.1	2.6	2.5	2.2	...	...	...	...	2.8	2.3	...
Energy <i>Previous</i>	2.0	4.1	2.5	.3	2.9	2.5	2.4	2.2	2.1	2.1	2.0	2.0	2.2	2.5	2.0
Food <i>Previous</i>	2.0	4.1	3.5	2.1	2.0	2.2	2.2	2.1	...	...	...	...	2.9	2.1	...
Ex. food & energy <i>Previous</i>	.1	29.7	5.0	-28.4	11.1	5.8	3.9	1.7	.7	.1	-.3	-.5	-.6	5.6	.0
CPI <i>Previous</i>	.1	29.7	18.6	-3.4	-2.6	.8	1.2	.1	...	...	...	...	10.4	-.1	...
Ex. food & energy <i>Previous</i>	2.7	1.7	2.8	2.6	2.4	2.4	2.4	2.3	2.3	2.3	2.2	2.2	2.5	2.4	2.2
Ex. food & energy <i>Previous</i>	2.7	1.7	2.8	2.5	2.4	2.4	2.4	2.3	...	...	...	...	2.4	2.3	...
Ex. food & energy <i>Previous</i>	2.1	2.8	2.3	2.5	2.4	2.3	2.3	2.2	2.2	2.2	2.1	2.1	2.4	2.3	2.1
Ex. food & energy <i>Previous</i>	2.1	2.9	2.5	2.5	2.4	2.3	2.2	2.2	...	...	...	...	2.5	2.3	...
Ex. food & energy <i>Previous</i>	2.2	4.9	3.1	-.2	3.3	2.8	2.6	2.3	2.2	2.1	2.0	2.0	2.5	2.7	2.1
Ex. food & energy <i>Previous</i>	2.2	4.9	4.2	2.3	2.1	2.4	2.3	2.2	...	...	...	...	3.4	2.3	...
Ex. food & energy <i>Previous</i>	2.4	3.6	3.0	2.9	2.6	2.5	2.5	2.4	2.4	2.4	2.3	2.3	2.9	2.5	2.3
Ex. food & energy <i>Previous</i>	2.4	3.6	3.0	2.9	2.6	2.5	2.4	2.4	...	...	...	...	2.9	2.5	...
ECI, hourly compensation ² <i>Previous</i> ²	2.4	3.2	3.6	3.8	4.0	4.0	4.1	4.1	4.1	4.1	4.1	4.1	3.2	4.1	4.1
Nonfarm business sector Output per hour <i>Previous</i>	2.4	3.2	3.6	3.6	3.7	3.8	3.8	3.9	...	...	...	...	3.2	3.8	...
Compensation per hour <i>Previous</i>	4.3	1.4	.4	1.6	2.4	2.4	2.4	2.6	2.6	2.7	2.8	2.9	1.9	2.4	2.7
Unit labor costs <i>Previous</i>	4.0	2.2	1.6	2.0	2.3	2.4	2.5	2.6	...	...	...	...	2.4	2.5	...
Unit labor costs <i>Previous</i>	13.7	6.6	1.5	4.8	5.3	5.3	5.3	5.3	5.2	5.2	5.1	5.1	6.5	5.3	5.1
Unit labor costs <i>Previous</i>	6.4	5.4	5.0	5.3	5.3	5.3	5.3	5.3	...	...	...	...	5.5	5.3	...
Unit labor costs <i>Previous</i>	9.0	5.1	1.1	3.2	2.8	2.8	2.8	2.7	2.6	2.4	2.2	2.1	4.5	2.8	2.3
Unit labor costs <i>Previous</i>	2.3	3.2	3.4	3.2	2.9	2.8	2.8	2.7	...	...	...	...	3.0	2.8	...

1. Change from fourth quarter of previous year to fourth quarter of year indicated.

2. Private-industry workers.

Other Macroeconomic Indicators

Item	2006				2007				2008				2006 ¹	2007 ¹	2008 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Employment and production</i>															
Nonfarm payroll employment ²	.6	.4	.4	.3	.1	.1	.1	.1	.1	.1	.1	.1	1.6	.4	.5
Unemployment rate ³	4.7	4.7	4.7	4.8	4.9	5.0	5.0	5.1	5.1	5.2	5.2	5.2	4.8	5.1	5.2
<i>Previous³</i>	4.7	4.7	4.7	4.8	4.9	5.0	5.1	5.2	...	...	...	...	4.8	5.2	...
GDP gap ⁴	.7	.7	.5	.2	.0	-1	-3	-4	-4	-5	-5	-5	.2	-4	-5
<i>Previous⁴</i>	.6	.6	.5	.3	.1	-1	-2	-4	...	...	...	...	.3	-4	...
Industrial production ⁵	5.1	6.2	5.5	2.3	4.1	3.6	3.4	3.1	3.2	3.3	3.4	2.7	4.8	3.6	3.2
<i>Previous⁵</i>	5.1	6.6	5.4	3.9	3.8	3.4	3.2	3.2	...	...	...	...	5.3	3.4	...
Manufacturing industr. prod. ⁵	5.3	5.1	4.7	2.7	4.0	3.6	3.5	3.5	3.9	3.6	3.7	3.4	4.5	3.7	3.6
<i>Previous⁵</i>	5.3	5.4	4.8	4.1	3.8	3.5	3.4	3.5	...	...	...	...	4.9	3.6	...
Capacity utilization rate - mfg. ³	80.3	80.8	81.2	81.3	81.5	81.6	81.7	81.6	81.7	81.7	81.8	81.7	81.3	81.6	81.7
<i>Previous³</i>	80.3	80.9	81.3	81.6	81.8	81.9	81.9	81.9	...	...	...	...	81.6	81.9	...
Housing starts ⁶	2.1	1.9	1.7	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.7	1.9	1.6	1.6
Light motor vehicle sales ⁶	16.9	16.3	16.6	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.6	16.6	16.6	16.5	16.5
<i>Income and saving</i>															
Nominal GDP ⁵	9.0	6.3	4.0	3.7	4.6	4.9	4.8	4.6	4.9	5.1	4.9	4.8	5.7	4.7	4.9
Real disposable pers. income ⁵	4.6	1.6	3.2	5.1	3.8	2.9	3.7	3.6	4.4	2.9	3.4	3.2	3.6	3.5	3.5
<i>Previous⁵</i>	1.7	1.0	3.5	4.4	5.2	3.7	3.8	4.0	...	...	...	...	2.6	4.2	...
Personal saving rate ³	-3	-6	-6	.0	.3	.4	.7	1.0	1.4	1.4	1.6	1.7	.0	1.0	1.7
<i>Previous³</i>	-1.0	-1.5	-1.3	-.9	-2	.2	.5	.9	...	...	...	...	-.9	.9	...
Corporate profits ⁷	60.8	12.7	1.3	-5.1	-3.4	-4.4	-1.2	-.3	-1.1	4.5	3.0	2.6	14.9	-2.3	2.2
Profit share of GNP ³	12.0	12.2	12.1	11.9	11.7	11.4	11.3	11.1	11.0	11.0	10.9	10.9	11.9	11.1	10.9
Net federal saving ⁸	-147	-127	-194	-196	-222	-231	-237	-248	-279	-273	-267	-272	-166	-235	-273
Net state & local saving ⁸	13	28	9	22	20	23	14	15	17	20	13	13	18	18	16
Gross national saving rate ³	14.4	14.4	13.8	14.0	13.9	13.7	13.7	13.6	13.6	13.7	13.7	13.7	14.0	13.6	13.7
Net national saving rate ³	2.9	3.1	2.4	2.7	2.5	2.3	2.3	2.3	2.3	2.4	2.4	2.4	2.7	2.3	2.4

1. Change from fourth quarter of previous year to fourth quarter of year indicated, unless otherwise indicated.

2. Change, millions.

3. Percent, annual values are for the fourth quarter of the year indicated.

4. Percent difference between actual and potential GDP; a negative number indicates that the economy is operating below potential. (In previous

Greenbooks, we expressed the GDP gap with the opposite sign, so that a positive number indicated that actual output fell short of potential.)

Annual values are for the fourth quarter of the year indicated.

5. Percent change, annual rate.

6. Level, millions, annual values are annual averages.

7. Percent change, annual rate, with inventory valuation and capital consumption adjustments.

8. Billions of dollars, annual values are annual averages.

**Class II FOMC
Restricted (FR)**

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

September 13, 2006

Item	Fiscal year			2006			2007			2008		
	2005 ^a	2006	2007	2008	Q1 ^a	Q2 ^a	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget												
Receipts ¹	2154	2385	2499	2638	507	772	575	566	525	804	603	596
Outlays ¹	2472	2651	2782	2946	691	676	635	690	726	697	669	747
Surplus/deficit ¹	-318	-266	-283	-308	-184	96	-59	-123	-201	107	-66	-151
<i>Previous</i>	-318	-281	-310	<i>n.a.</i>	-184	96	-75	-119	-205	95	-81	-145
On-budget	-494	-455	-476	-513	-216	11	-80	-189	-225	17	-80	-220
Off-budget	175	189	193	205	32	85	21	65	24	90	14	69
Means of financing												
Borrowing	297	238	299	317	156	-75	44	121	179	-76	75	142
Cash decrease	1	6	-5	0	28	-38	16	5	15	-25	0	10
Other ²	21	23	-7	-6	-1	16	-0	-1	6	-4	-8	-0
Cash operating balance, end of period	36	30	35	35	8	46	30	25	10	35	35	25
NIPA federal sector												
Receipts	2174	2489	2621	2731	2491	2560	2555	2580	2611	2634	2661	2690
Expenditures	2509	2672	2843	2998	2638	2687	2749	2776	2833	2865	2898	2938
Consumption expenditures	758	798	844	881	804	803	816	822	843	852	859	865
Defense	509	535	570	597	538	538	547	553	569	577	582	587
Nondefense	249	264	274	284	266	265	269	269	274	275	277	278
Other spending	1751	1873	1999	2117	1834	1884	1933	1954	1990	2013	2039	2073
Current account surplus	-335	-183	-222	-267	-147	-127	-194	-196	-222	-231	-237	-248
Gross investment	107	118	124	127	118	117	120	121	123	125	126	126
Gross saving less gross investment ³	-344	-198	-238	-280	-163	-141	-209	-212	-238	-247	-253	-263
Fiscal indicators⁴												
High-employment (HEB) surplus/deficit	-336	-218	-243	-263	-188	-171	-233	-229	-246	-248	-247	-251
Change in HEB, percent of potential GDP	-0.3	-1.1	0.1	0.1	-0.8	-0.1	0.4	-0.0	0.1	-0.0	-0.0	0.0
Fiscal impetus (FI) percent of GDP	0.2	0.4	0.3	0.0	0.2	-0.0	0.1	0.0	0.2	0.0	-0.0	0.0
<i>Previous</i>	0.2	0.4	0.3	<i>n.a.</i>	0.2	0.0	0.1	0.1	0.2	0.0	-0.0	0.0

1. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) surplus and the Postal Service surplus are excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.

2. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.

3. Gross saving is the current account surplus plus consumption of fixed capital of the general government as well as government enterprises.

4. HEB is gross saving less gross investment (NIPA) of the federal government in current dollars, with cyclically sensitive receipts and outlays adjusted to the staff's measure of potential output and the NAIRU. 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 (2000) dollars, scaled by real GDP. The annual FI estimates are on a calendar year basis. Also, for FI and the change in HEB, positive values indicate aggregate demand stimulus.

a--Actual

Class II FOMC Restricted (FR) **Change in Debt of the Domestic Nonfinancial Sectors** **September 13, 2006**
(Percent)

Period ¹	Total	Households			Business	State and local governments	Federal government	Memo: Nominal GDP
		Total	Home mortgages	Consumer credit				
<i>Year</i>								
2001	6.3	9.4	10.1	8.9	6.0	8.8	-2	2.7
2002	7.2	10.6	12.9	5.7	2.5	11.0	7.6	3.6
2003	8.2	11.6	14.3	5.2	2.6	8.3	10.9	5.9
2004	8.9	11.6	14.1	5.4	5.9	7.4	9.0	6.7
2005	9.5	11.7	13.8	4.0	7.7	10.2	7.0	6.4
2006	7.5	8.3	8.9	4.7	8.2	5.4	5.2	5.7
2007	6.5	6.3	7.0	4.0	7.1	4.2	6.4	4.7
2008	6.1	5.9	6.5	3.8	6.7	4.3	6.2	4.9
<i>Quarter</i>								
2006:1	9.5	9.6	10.8	2.5	9.6	3.5	11.3	9.0
2	6.4	9.0	9.0	6.6	7.5	6.6	-2.4	6.3
3	6.5	7.1	7.7	4.9	7.5	6.4	3.5	4.0
4	6.9	6.6	7.2	4.5	7.1	4.7	8.2	3.7
2007:1	7.6	6.4	7.0	4.1	7.2	4.2	12.7	4.6
2	4.8	6.3	6.9	4.1	7.0	4.2	-2.5	4.9
3	6.2	6.1	6.7	3.9	7.0	4.1	5.6	4.8
4	6.6	5.9	6.5	3.9	6.6	4.1	9.5	4.6
2008:1	6.8	5.9	6.5	3.7	6.5	4.3	10.9	4.9
2	4.4	5.8	6.4	3.7	6.6	4.2	-3.1	5.1
3	6.1	5.8	6.3	3.7	6.6	4.2	6.8	4.9
4	6.6	5.8	6.3	3.8	6.6	4.1	9.7	4.8

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2006: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.

2.6.3 FOF

**Class II FOMC
Restricted (FR)**

Flow of Funds Projections: Highlights

September 13, 2006

(Billions of dollars at seasonally adjusted annual rates except as noted)

Category	2005	2006	2007	2008	2006				2007				2008			
						Q3	Q4		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Domestic nonfinancial sectors</i>																
Net funds raised																
Total	1949.7	1484.8	1585.6	1628.3	1266.1	1266.1	1520.1	1889.6	1150.0	1558.3	1744.4	1842.0	1129.6	1677.0	1864.7	
Net equity issuance	-363.6	-519.8	-262.4	-236.0	-544.0	-544.0	-422.4	-282.4	-262.4	-262.4	-242.4	-236.0	-236.0	-236.0	-236.0	
Net debt issuance	2313.3	2004.6	1848.0	1864.3	1810.1	1810.1	1942.5	2172.0	1412.4	1820.7	1986.8	2078.0	1365.6	1913.0	2100.7	
Borrowing indicators																
Debt (percent of GDP) ¹	204.6	208.6	213.5	216.4	209.4	209.4	211.0	212.5	213.2	213.6	214.6	215.6	216.0	216.2	217.1	
Borrowing (percent of GDP)	18.6	15.1	13.3	12.8	13.6	13.6	14.4	16.0	10.3	13.1	14.1	14.6	9.5	13.1	14.2	
Households																
Net borrowing ²	1241.5	984.3	808.5	806.5	877.6	877.6	829.0	814.4	815.5	807.3	797.0	799.2	801.0	806.8	819.1	
Home mortgages	1080.0	793.9	672.9	672.9	720.3	720.3	682.4	677.7	677.7	672.9	663.5	668.2	668.2	672.9	682.4	
Consumer credit	89.0	109.1	98.3	96.3	115.8	115.8	108.4	98.9	100.4	97.3	96.5	93.9	95.5	96.4	99.2	
Debt/DPI (percent) ³	123.9	128.4	129.9	130.3	129.3	129.3	129.8	129.7	130.0	130.0	130.1	130.0	130.2	130.4	130.6	
Business																
Financing gap ⁴	-138.6	35.4	140.7	222.6	40.0	40.0	75.1	117.8	132.8	141.8	170.4	209.5	212.1	218.1	250.6	
Net equity issuance	-363.6	-519.8	-262.4	-236.0	-544.0	-544.0	-422.4	-282.4	-262.4	-262.4	-242.4	-236.0	-236.0	-236.0	-236.0	
Credit market borrowing	593.4	675.6	638.7	645.3	644.2	644.2	626.8	647.0	640.2	648.2	619.2	619.7	644.8	652.7	663.9	
State and local governments																
Net borrowing	171.5	100.1	82.8	86.8	121.5	121.5	90.5	82.8	82.8	82.8	82.8	86.8	86.8	86.8	86.8	
Current surplus ⁵	203.8	202.8	198.4	203.5	183.1	183.1	197.7	197.8	201.9	195.5	198.3	202.1	206.8	201.5	203.3	
Federal government																
Net borrowing	306.9	244.6	318.0	325.8	166.8	166.8	396.2	627.9	-126.1	282.4	487.8	572.3	-167.0	366.8	530.9	
Net borrowing (n.s.a.)	306.9	244.6	318.0	325.8	45.1	45.1	118.2	180.2	-77.3	73.9	141.1	166.3	-87.5	95.1	151.9	
Unified deficit (n.s.a.)	319.7	269.8	310.4	318.6	59.2	59.2	123.4	200.5	-106.7	65.6	151.0	186.6	-116.5	86.7	161.8	
<i>Depository institutions</i>																
Funds supplied	814.2	740.2	517.0	408.0	619.7	619.7	326.3	624.1	539.3	559.4	345.1	397.5	417.0	433.5	384.0	

Note. Data after 2006:Q2 are staff projections.

1. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.

2. Includes change in liabilities not shown in home mortgages and consumer credit.

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

4. For corporations, excess of capital expenditures over U.S. internal funds.

5. NIPA state and local government saving plus consumption of fixed capital and net capital transfers.

n.s.a. Not seasonally adjusted.

International Developments

The most important new element in the outlook is the marked decline in oil prices. The spot price of West Texas intermediate crude oil has declined more than \$11 per barrel since the time of the August Greenbook. This decline apparently reflects improved prospects for oil supply. Although prices of many other primary commodities have moved down in the past week, non-fuel commodity prices on average are little changed over the intermeeting period.

Recent data have confirmed that growth of foreign output slowed moderately in the second quarter from its very rapid first-quarter pace and have pointed to a further slowing in the current quarter. We project that foreign real GDP growth will remain around a solid pace of 3¼ percent next year and in 2008. This forecast is little changed from the one in the August Greenbook, as the positive effects of lower oil prices are offset by reduced growth of demand from the United States. The path for foreign consumer price inflation is somewhat lower than previously projected, largely because of the recent decline in oil prices. With resource utilization in the major foreign economies generally near historical norms and with GDP growth projected to be in line with potential, inflation abroad is projected to remain contained over the forecast period.

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

Indicator	2005	2006: H1	Projection			
			2006		2007	2008
			Q3	Q4		
Foreign output	3.7	4.3	3.3	3.3	3.2	3.3
August GB	3.7	4.1	3.4	3.3	3.2	...
Foreign CPI	2.2	2.3	2.4	2.3	2.3	2.2
August GB	2.3	2.4	3.0	2.7	2.5	...

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

... Not applicable.

The foreign exchange value of the dollar was little changed over the intermeeting period. Going forward, we continue to project a modest decline in the broad real dollar. Since the last FOMC meeting, long-term interest rates have declined 10 to 25 basis points in

rate of about 1 percent. We project that, absent additional shocks, core import price inflation will remain about 1 percent in 2008. Our projection of core import price inflation beyond the current quarter is very close to that in the August Greenbook, as our projections for commodity prices and the dollar have not changed enough to materially affect the price outlook.

Staff Projections of Selected Trade Prices

(Percent change from end of previous period excepted as noted; s.a.a.r.)

Trade category	2005	2006: H1	Projection			
			2006		2007	2008
			Q3	Q4		
<i>Exports</i>						
Core goods	3.9	5.2	6.3	3.2	2.2	1.1
August GB	3.9	5.2	7.9	3.7	1.8	...
<i>Imports</i>						
Non-oil core goods	2.2	2.7	3.9	3.2	1.4	1.0
August GB	2.2	2.6	4.3	3.4	1.4	...
Oil price (dollars per barrel)	55.39	63.75	65.37	59.10	64.81	64.32
August GB	55.39	63.69	67.52	70.65	73.42	...

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

The price of imported oil for multiquarter periods is the price for the final quarter of the period. Imported oil includes both crude oil and refined products.

... Not applicable.

Core export prices increased at an annual rate of 6¾ percent in the second quarter. This rise was concentrated in prices of exported industrial supplies, which increased at an annual rate of nearly 17 percent. In July, core export prices moved up solidly but a bit more slowly than in the past several months, reflecting some moderation of the high rate of inflation in exported material-intensive goods. In the current quarter, core export prices are expected to continue rising rapidly because of the recent strength of intermediate materials prices and prices for primary commodities (especially metals). Thereafter, core export price inflation is expected to decline, as prices for intermediate materials and primary commodities level off. Compared with the previous Greenbook, the projected rate of core export price inflation in the current quarter is 1½ percentage points lower because of lower projected prices for petroleum products and the weaker-than-expected export price inflation reported in July. In subsequent quarters, the forecast is not much changed.

The June data showed strong growth in nominal exports, but real exports of goods and services for the second quarter as a whole decelerated to about 6¼ percent at an annual rate from the elevated 14 percent pace in the first quarter. In July, exports fell back a bit from the elevated June level, primarily reflecting a reduction in exports of capital goods, including aircraft. We project that growth of real exports of goods and services will edge down to 4¾ percent in the current quarter and will remain close to that pace in the fourth quarter. The growth of core goods and services exports should ease somewhat in the second half of the year, primarily reflecting the step down in the growth of foreign activity. Growth of semiconductor exports is projected to slow from a very rapid first half pace, while growth of computer exports should remain steady.

**Staff Projections for
Trade in Goods and Services**
(Percent change from end of previous period, s.a.a.r.)

Indicator	2005	2006: H1	Projection			
			2006		2007	2008
			Q3	Q4		
Real exports	6.7	10.1	4.7	4.9	4.6	5.1
August GB	6.7	8.8	5.6	5.1	5.1	...
Real imports	5.2	5.2	3.2	3.8	3.7	5.3
August GB	5.2	4.7	1.8	4.4	4.0	...

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

... Not applicable.

We project that growth of real exports of goods and services will remain close to its second-half pace next year before moving up in 2008. Core export growth slows from 7½ percent in 2006 to 3¼ percent in 2007, reflecting, among other factors, a deceleration of foreign growth and some effects of the dollar's appreciation in 2005. Core export growth then picks up a bit in 2008 as relative prices become more favorable, reflecting the renewed depreciation of the dollar and the deceleration of core export prices. Exports of services are expected to remain close to their current pace through the end of the forecast period, and exports of computers and semiconductors are projected to continue to rise at a brisk pace. This forecast is a little lower than in the August Greenbook, reflecting the slower pace of dollar depreciation.

Alternative Simulations:
Weaker Foreign Demand and Dollar Appreciation
 (Percent change from previous period, annual rate)

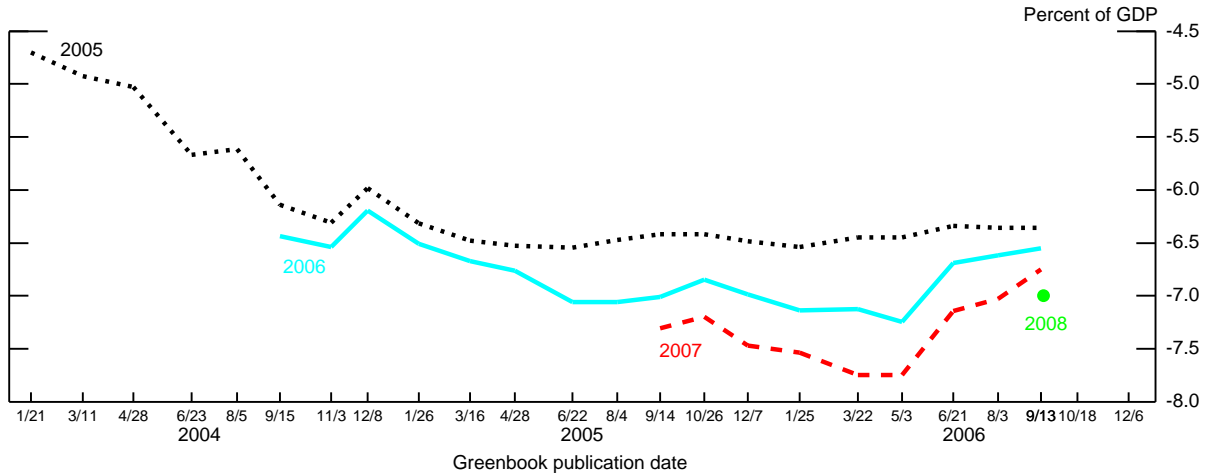
Indicator and simulation	2006		2007		2008	
	H1	H2	H1	H2	H1	H2
<i>U.S. real GDP</i>						
Baseline	4.2	1.7	2.0	2.2	2.4	2.5
Weaker foreign demand	4.2	1.6	1.8	2.0	2.2	2.4
Additional dollar appreciation	4.2	1.6	1.2	1.6	2.1	2.7
<i>U.S. PCE prices excluding food and energy</i>						
Baseline	2.5	2.4	2.4	2.3	2.2	2.1
Weaker foreign demand	2.5	2.4	2.3	2.1	1.9	1.9
Additional dollar appreciation	2.5	2.2	2.2	2.0	1.9	1.8
<i>U.S. Trade Balance (percent of GDP)</i>						
Baseline	-5.9	-5.7	-5.7	-5.6	-5.7	-5.6
Weaker foreign demand	-5.9	-5.6	-5.5	-5.5	-5.8	-5.9
Additional dollar appreciation	-5.9	-5.4	-5.5	-5.7	-6.2	-6.3

Note. H1 is Q2/Q4; H2 is Q4/Q2. The federal funds rate is adjusted according to a Taylor rule.

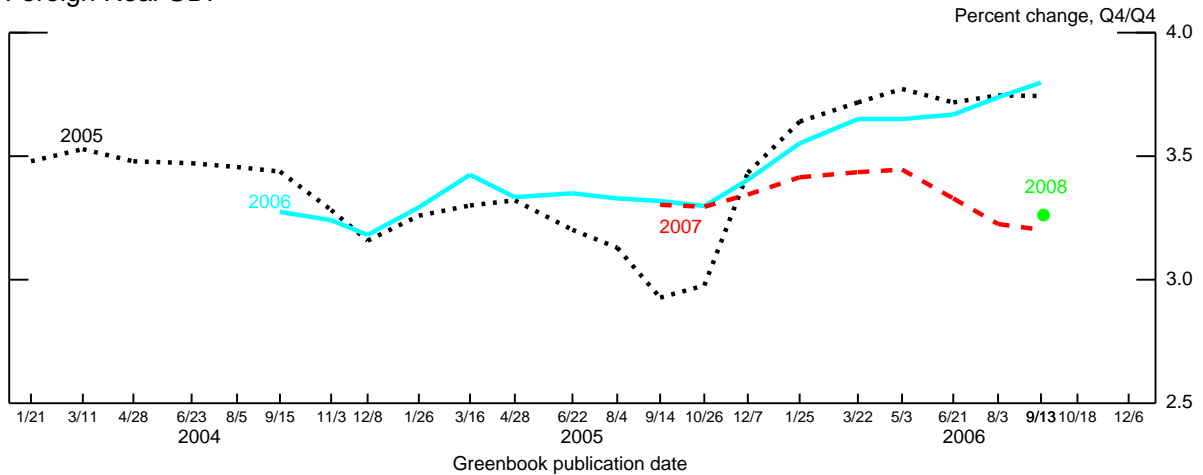
Class II FOMC -- Restricted (FR)

Evolution of the Staff Forecast

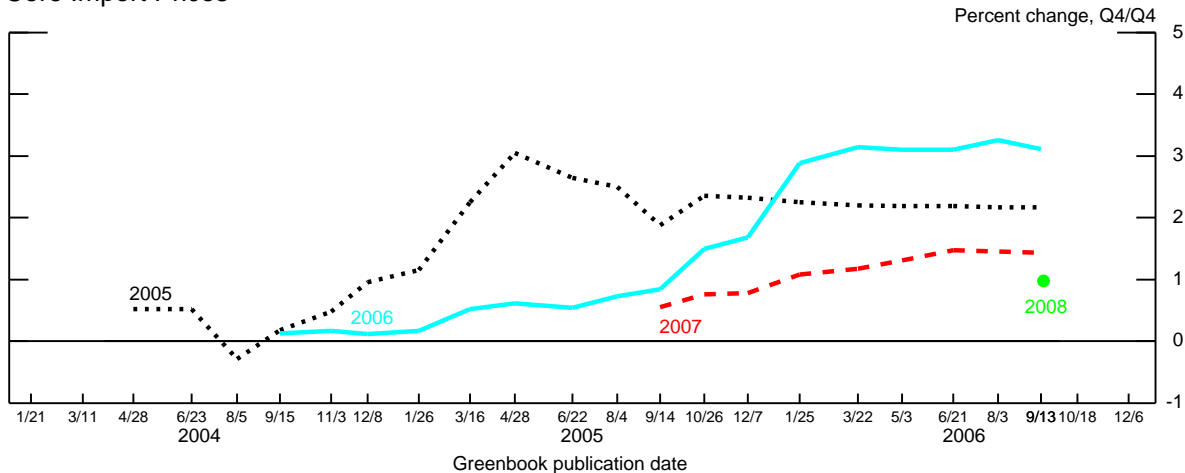
Current Account Balance



Foreign Real GDP



Core Import Prices*



*Prices for merchandise imports excluding computers, semiconductors, oil, and natural gas.

Measure and country	2000	2001	2002	2003	2004	2005	2006	2007	2008
REAL GDP (1)									

Total foreign	4.2	0.4	3.1	3.0	3.8	3.7	3.8	3.2	3.3
Industrial Countries	3.6	0.9	2.5	1.8	2.5	2.7	2.6	2.2	2.3
of which:									
Canada	4.1	1.3	3.5	1.5	3.7	2.8	2.6	2.5	2.7
Japan	3.4	-1.5	2.0	2.6	0.5	4.0	2.0	1.8	1.5
United Kingdom	3.1	2.0	2.3	3.3	2.6	1.8	2.9	2.5	2.4
Euro Area (2)	3.3	1.0	1.1	1.0	1.5	1.8	2.9	1.6	1.7
Germany	2.3	1.1	0.0	0.2	0.2	1.7	2.8	0.9	1.5
Developing Countries	5.2	-0.4	3.9	4.7	5.7	5.3	5.4	4.6	4.6
Asia	5.8	1.1	6.3	6.9	6.1	7.2	6.1	5.7	5.8
Korea	4.3	4.7	7.8	4.2	2.9	5.3	4.0	4.2	4.4
China	8.2	7.8	9.2	10.5	10.1	9.9	10.9	8.3	8.2
Latin America	4.4	-1.3	1.6	2.3	5.2	3.1	4.8	3.5	3.4
Mexico	4.8	-1.3	2.0	2.0	4.8	2.7	4.8	3.3	3.3
Brazil	3.8	-1.0	4.1	0.9	4.8	1.5	3.4	3.2	3.2
CONSUMER PRICES (3)									

Industrial Countries	1.8	0.9	2.1	1.3	1.8	1.5	1.8	1.6	1.5
of which:									
Canada	3.1	1.1	3.8	1.7	2.3	2.3	2.3	1.8	2.0
Japan	-0.8	-1.1	-0.5	-0.4	0.5	-1.0	0.6	0.5	0.6
United Kingdom (4)	0.9	1.1	1.5	1.3	1.4	2.1	2.5	2.0	1.7
Euro Area (2)	2.5	2.1	2.3	2.0	2.3	2.3	2.0	2.0	1.6
Germany	1.7	1.4	1.2	1.1	2.1	2.2	1.4	2.5	1.4
Developing Countries	4.1	2.8	2.9	3.1	3.9	3.1	2.9	3.2	3.0
Asia	1.8	1.2	0.8	2.2	3.2	2.6	2.5	2.8	2.6
Korea	2.5	3.3	3.4	3.5	3.4	2.5	3.5	3.1	2.4
China	1.0	-0.1	-0.5	2.7	3.3	1.4	2.0	2.6	2.3
Latin America	8.4	5.3	6.4	4.9	5.7	3.8	3.8	3.8	3.7
Mexico	8.7	5.1	5.2	3.9	5.3	3.1	3.5	3.5	3.5
Brazil	6.4	7.5	10.7	11.5	7.2	6.1	3.2	3.7	3.7

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

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

Measure and country	2006				Projected 2007				2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	4.7	3.9	3.3	3.3	3.2	3.2	3.2	3.2	3.2	3.3	3.3	3.3
Industrial Countries	3.2	2.5	2.4	2.4	2.1	2.2	2.2	2.3	2.3	2.3	2.3	2.3
of which:												
Canada	3.6	2.0	2.3	2.3	2.4	2.4	2.5	2.6	2.7	2.7	2.8	2.8
Japan	3.3	1.0	1.5	2.3	2.1	1.7	1.8	1.6	1.6	1.6	1.5	1.4
United Kingdom	3.0	3.1	2.8	2.7	2.6	2.6	2.5	2.5	2.4	2.4	2.4	2.4
Euro Area (2)	3.2	3.6	2.6	2.3	1.1	1.8	1.7	1.7	1.7	1.7	1.8	1.8
Germany	2.7	3.6	2.6	2.4	-0.7	1.5	1.4	1.5	1.4	1.5	1.5	1.5
Developing Countries	6.8	5.8	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Asia	7.4	5.3	5.7	5.8	5.7	5.7	5.7	5.7	5.7	5.8	5.8	5.8
Korea	4.9	3.4	3.9	3.9	4.1	4.2	4.2	4.2	4.3	4.4	4.5	4.5
China	13.3	11.7	9.5	9.0	8.5	8.2	8.2	8.2	8.2	8.2	8.2	8.2
Latin America	6.6	5.9	3.5	3.4	3.5	3.5	3.5	3.4	3.4	3.4	3.4	3.4
Mexico	6.6	6.1	3.3	3.2	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Brazil	5.2	1.8	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
CONSUMER PRICES (3)	Four-quarter changes											
Industrial Countries	1.8	2.0	1.8	1.8	1.9	1.7	1.5	1.6	1.5	1.5	1.5	1.5
of which:												
Canada	2.5	2.6	2.3	2.3	2.2	1.9	1.7	1.8	1.9	1.9	2.0	2.0
Japan	-0.1	0.2	0.4	0.6	0.3	0.4	0.4	0.5	0.5	0.5	0.6	0.6
United Kingdom (4)	2.0	2.2	2.4	2.5	2.6	2.3	1.9	2.0	1.8	1.8	1.8	1.7
Euro Area (2)	2.3	2.4	2.2	2.0	2.4	2.1	2.0	2.0	1.7	1.7	1.7	1.6
Germany	2.1	2.1	1.7	1.4	2.8	2.5	2.4	2.5	1.4	1.4	1.4	1.4
Developing Countries	3.1	3.0	2.8	2.9	3.2	3.2	3.3	3.2	3.1	3.0	3.0	3.0
Asia	2.4	2.6	2.3	2.5	3.0	2.9	3.0	2.8	2.7	2.6	2.6	2.6
Korea	2.4	2.3	2.7	3.5	4.0	4.2	3.7	3.1	2.7	2.5	2.4	2.4
China	1.2	1.4	1.3	2.0	2.5	2.5	2.8	2.6	2.4	2.3	2.3	2.3
Latin America	4.2	3.5	3.7	3.8	3.6	3.9	3.8	3.8	3.7	3.7	3.7	3.7
Mexico	3.7	3.1	3.3	3.5	3.3	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Brazil	5.6	4.3	3.9	3.2	2.8	3.1	3.7	3.7	3.7	3.7	3.7	3.7

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000	2001	2002	2003	2004	2005	----- 2006	Projected 2007	----- 2008
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-0.9	-0.2	-0.9	-0.1	-0.8	-0.1	0.1	-0.1	-0.3
Exports of G&S	0.7	-1.3	0.4	0.6	0.7	0.7	0.8	0.5	0.6
Imports of G&S	-1.6	1.1	-1.3	-0.7	-1.5	-0.8	-0.7	-0.6	-0.9
	Percentage change, Q4/Q4								
Exports of G&S	6.5	-11.9	3.8	5.8	7.0	6.7	7.4	4.6	5.1
Services	1.8	-8.9	10.2	3.0	7.1	3.1	5.8	5.2	5.0
Computers	22.7	-23.5	-1.1	11.3	6.4	14.1	11.7	14.4	14.4
Semiconductors	27.6	-34.6	10.1	38.3	-6.3	17.2	17.0	17.0	17.0
Other Goods 1/	5.9	-10.2	0.7	4.9	8.0	7.5	7.4	3.2	4.0
Imports of G&S	11.2	-7.6	9.7	4.8	10.6	5.2	4.4	3.7	5.3
Services	10.6	-5.9	8.8	2.2	7.6	1.9	5.5	2.8	3.4
Oil	13.3	3.7	3.8	1.2	9.6	0.9	-5.7	-1.5	1.7
Computers	13.9	-13.6	13.2	17.0	22.5	11.8	21.0	17.5	17.5
Semiconductors	22.8	-51.1	11.0	-0.1	9.3	7.5	8.3	17.0	17.0
Other Goods 2/	10.3	-6.5	10.0	5.2	10.7	6.2	5.5	3.9	5.6
	Billions of Chained 2000 Dollars								
Net Goods & Services	-379.5	-399.1	-471.3	-518.9	-590.9	-619.2	-628.2	-630.6	-661.4
Exports of G&S	1096.3	1036.7	1013.3	1026.1	1120.4	1196.1	1295.2	1357.4	1422.7
Imports of G&S	1475.8	1435.8	1484.6	1545.0	1711.3	1815.3	1923.4	1988.0	2084.2
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-415.2	-389.0	-472.4	-527.5	-665.3	-791.5	-868.1	-934.8	-1010.4
Current Acct as Percent of GDP	-4.2	-3.8	-4.5	-4.8	-5.7	-6.4	-6.5	-6.7	-7.0
Net Goods & Services (BOP)	-377.6	-362.8	-421.1	-494.9	-611.3	-716.7	-769.9	-785.7	-821.2
Investment Income, Net	25.7	30.3	17.8	42.3	33.6	17.6	-4.9	-56.6	-95.5
Direct, Net	94.9	115.9	102.4	112.8	123.9	134.4	158.6	170.5	189.6
Portfolio, Net	-69.2	-85.5	-84.6	-70.5	-90.2	-116.8	-163.5	-227.0	-285.1
Other Income & Transfers, Net	-63.3	-56.5	-69.2	-74.9	-87.6	-92.4	-93.3	-92.5	-93.7

1. Merchandise exports excluding computers and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2003				2004				2005			
	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	0.2	-0.7	0.5	-0.5	-0.7	-1.6	-0.2	-0.8	-0.2	0.7	-0.1	-1.1
Exports of G&S	-0.5	-0.2	1.0	1.8	0.7	0.6	0.5	1.0	0.5	0.9	0.3	1.0
Imports of G&S	0.7	-0.6	-0.5	-2.3	-1.4	-2.2	-0.7	-1.8	-0.6	-0.2	-0.4	-2.0
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	-5.3	-1.7	11.4	20.8	7.2	6.2	4.8	9.9	4.7	9.4	3.2	9.6
Services	-20.0	-2.8	17.5	23.1	7.5	5.6	-2.8	19.2	2.9	2.0	2.1	5.5
Computers	-2.3	-5.2	34.7	23.2	-5.8	-3.1	20.7	16.5	13.6	21.9	17.8	3.9
Semiconductors	37.4	30.9	44.6	40.7	11.5	-7.8	-19.1	-7.2	-7.7	21.3	26.3	33.6
Other Goods 1/	0.3	-2.9	5.1	18.2	7.6	8.1	9.7	6.4	5.8	11.9	1.8	10.7
Imports of G&S	-5.0	4.1	3.8	17.6	10.2	16.0	4.4	12.0	4.1	1.4	2.5	13.2
Services	-10.6	-15.7	21.2	19.6	10.9	7.6	3.1	9.0	-0.2	-1.5	1.2	8.3
Oil	-9.7	12.4	-6.0	9.9	37.2	-22.9	-6.4	45.5	7.0	-21.2	-12.5	40.5
Computers	11.4	10.7	11.1	36.9	21.1	30.2	27.5	11.9	9.2	9.4	19.6	9.3
Semiconductors	-6.3	1.1	-4.2	9.7	43.3	19.6	3.8	-19.9	-7.4	8.4	15.6	14.9
Other Goods 2/	-3.1	7.2	-0.1	18.1	5.3	23.2	4.2	11.0	4.4	5.8	2.7	12.3
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-507.2	-526.9	-513.8	-527.8	-548.5	-593.9	-599.4	-621.9	-626.4	-606.1	-607.6	-636.6
Exports of G&S	1003.3	999.0	1026.3	1075.8	1094.8	1111.3	1124.3	1151.3	1164.5	1191.0	1200.5	1228.4
Imports of G&S	1510.5	1525.9	1540.0	1603.6	1643.2	1705.2	1723.7	1773.1	1790.9	1797.1	1808.1	1865.0
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-548.7	-524.4	-526.2	-510.8	-583.3	-667.1	-665.3	-745.4	-766.9	-773.0	-733.7	-892.4
Current Account as % of GDP	-5.1	-4.8	-4.7	-4.6	-5.1	-5.7	-5.6	-6.2	-6.3	-6.3	-5.8	-7.0
Net Goods & Services (BOP)	-496.9	-492.9	-491.9	-497.9	-544.6	-605.6	-626.7	-668.3	-672.4	-688.2	-727.2	-779.1
Investment Income, Net	24.4	41.7	39.2	63.8	57.3	28.2	33.4	15.6	20.7	14.2	37.9	-2.3
Direct, Net	97.2	108.4	109.3	136.3	130.4	113.4	122.8	128.8	121.4	124.2	161.5	130.6
Portfolio, Net	-72.7	-66.6	-70.1	-72.5	-73.1	-85.2	-89.4	-113.2	-100.7	-110.0	-123.6	-132.9
Other Inc. & Transfers, Net	-76.2	-73.2	-73.5	-76.7	-96.1	-89.7	-72.0	-92.7	-115.1	-99.0	-44.3	-111.0

1. Merchandise exports excluding computers and semiconductors.

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

September 13, 2006

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2006				Projected 2007				2008			
	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	-0.0	0.4	-0.0	-0.1	-0.2	0.2	0.2	-0.6	-0.7	0.0	0.0	-0.7
Exports of G&S	1.4	0.7	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6
Imports of G&S	-1.5	-0.3	-0.5	-0.6	-0.8	-0.3	-0.3	-1.1	-1.2	-0.5	-0.6	-1.3
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	14.0	6.3	4.7	4.9	4.7	4.7	4.6	4.5	4.7	5.0	5.2	5.3
Services	6.7	6.5	5.0	5.1	4.8	5.2	5.3	5.2	5.0	5.0	5.0	5.0
Computers	9.8	12.0	8.2	17.0	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4
Semiconductors	15.7	30.6	6.1	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 1/	17.8	4.6	4.3	3.6	3.4	3.4	3.1	3.0	3.4	3.9	4.2	4.4
Imports of G&S	9.1	1.5	3.2	3.8	4.5	2.0	2.0	6.4	7.1	3.1	3.4	7.8
Services	7.4	11.0	1.9	2.0	2.4	2.8	2.9	3.1	3.2	3.4	3.5	3.5
Oil	-4.8	-18.3	-5.0	7.0	11.5	-14.7	-15.5	16.9	21.9	-15.7	-13.4	20.4
Computers	34.3	16.9	16.2	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Semiconductors	3.6	-1.3	14.9	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 2/	12.4	2.3	5.0	2.8	3.0	3.6	4.2	4.6	5.1	5.6	5.8	5.9
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-636.6	-624.3	-624.7	-627.2	-633.8	-627.9	-622.2	-638.3	-657.6	-656.1	-655.6	-676.4
Exports of G&S	1269.3	1288.8	1303.6	1319.3	1334.4	1349.9	1365.2	1380.3	1396.3	1413.3	1431.3	1450.1
Imports of G&S	1905.9	1913.1	1928.2	1946.4	1968.2	1977.7	1987.4	2018.7	2053.8	2069.4	2086.9	2126.4
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-836.3	-859.7	-884.0	-892.4	-920.5	-924.1	-926.0	-968.7	-996.5	-996.5	-1002.5	-1045.9
Current Account as % of GDP	-6.4	-6.5	-6.6	-6.6	-6.8	-6.7	-6.6	-6.9	-7.0	-6.9	-6.9	-7.1
Net Goods & Services (BOP)	-764.6	-775.3	-783.5	-756.2	-789.0	-781.5	-774.7	-797.5	-827.0	-814.8	-809.0	-833.8
Investment Income, Net	14.0	4.2	-3.8	-34.0	-42.6	-52.3	-59.3	-72.2	-77.5	-89.8	-101.5	-113.1
Direct, Net	155.6	162.1	165.2	151.6	160.7	167.1	176.4	177.5	185.6	187.9	191.1	193.9
Portfolio, Net	-141.6	-157.8	-169.0	-185.6	-203.3	-219.5	-235.7	-249.7	-263.2	-277.7	-292.7	-307.0
Other Inc. & Transfers, Net	-85.7	-88.6	-96.8	-102.1	-88.9	-90.3	-92.0	-99.0	-92.0	-92.0	-92.0	-99.0

1. Merchandise exports excluding computers and semiconductors.

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

Part 2

September 13, 2006

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

September 13, 2006

Recent Developments

has moved sideways in recent months after some sharp fluctuations earlier in the year. Moreover, private surveys of hiring plans still suggest that demand for labor is rising at a modest pace, although the Job Openings and Labor Turnover Survey suggests that the rate of job openings has edged down in recent months. Readings on households' expectations for the labor market continued to diverge in August: Although respondents to the Conference Board survey remained relatively upbeat, the measure from the Michigan survey deteriorated further.

The staff estimates that productivity in the nonfarm business sector increased at an annual rate of 1.4 percent in the second quarter after rising 4.3 percent in the first quarter. Over the four quarters ending in the second quarter of 2006, productivity rose an estimated 2.5 percent, a step-up from the 1.6 percent pace in the preceding four quarters. As reported by the Bureau of Labor Statistics, output per hour in the nonfinancial corporate sector increased at an annual rate of 2.2 percent in the second quarter and rose 4.8 percent over the past year.

Output per Hour

(Percent change from preceding period at an annual rate;
seasonally adjusted)

Sector	2004:Q2 to 2005:Q2	2005:Q2 to 2006:Q2	2005		2006	
			Q3	Q4	Q1	Q2 ¹
Nonfarm business						
All persons	1.6	2.5	4.4	-.1	4.3	1.4
All employees ²	1.9	2.2	3.2	-.7	5.2	1.3
Nonfinancial corporations ³	4.3	4.8	3.0	3.2	11.1	2.2

1. Staff estimates.

2. Assumes that the growth rate of hours of non-employees equals the growth rate of hours of employees.

3. All corporations doing business in the United States except banks, stock and commodity brokers, and finance and insurance companies. The sector accounts for about two-thirds of business employment.

Industrial Production

Activity in the industrial sector exhibited considerable vigor through July but likely declined a bit in August. In July, total industrial production (IP) was held down by a sharp drop in the output of motor vehicles and parts, while production elsewhere posted another sizable gain. In August, declines in the hours of manufacturing production workers—which are a key input for the initial estimate of IP—and in energy output

Production of Domestic Light Vehicles
(Millions of units at an annual rate except as noted)

Item	2005	2006						
		H1	Q3	Q4	July	Aug.	Sept.	Oct.
U.S. production ¹	11.5	11.2	10.7	10.5	10.2	10.6	11.3	10.4
Autos	4.3	4.4	4.4	4.2	4.1	4.3	4.7	4.4
Light trucks	7.2	6.7	6.4	6.4	6.2	6.3	6.6	6.1
Days' supply ²	69	72	n.a.	n.a.	70	73	n.a.	n.a.
Autos	52	53	n.a.	n.a.	50	53	n.a.	n.a.
Light trucks	81	87	n.a.	n.a.	85	88	n.a.	n.a.
Inventories ³	3.04	3.06	n.a.	n.a.	2.99	2.96	n.a.	n.a.
Autos	.93	.95	n.a.	n.a.	.90	.92	n.a.	n.a.
Light trucks	2.11	2.10	n.a.	n.a.	2.09	2.04	n.a.	n.a.
Memo: U.S. production, total motor vehicles ⁴	12.0	11.6	11.2	10.9	10.8	11.1	11.7	10.7

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

1. Production rates for September and the fourth quarter reflect the latest industry schedules.

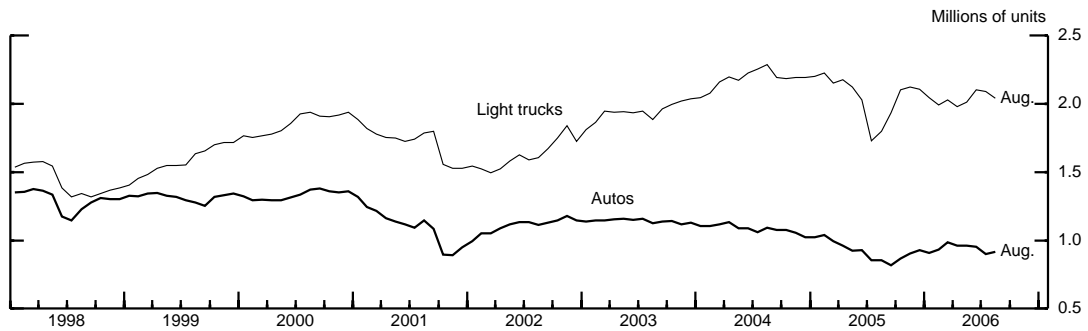
2. Annual and quarterly values are calculated with end-of-period stocks and average reported sales.

3. End-of-period stocks.

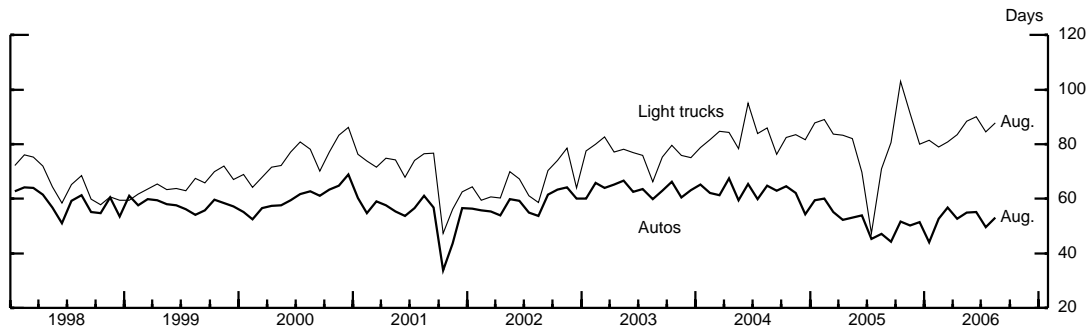
4. Includes medium and heavy trucks.

n.a. Not available.

Inventories of Light Vehicles



Days' Supply of Light Vehicles



Nonfarm Inventory Investment
(Billions of dollars; seasonally adjusted annual rate)

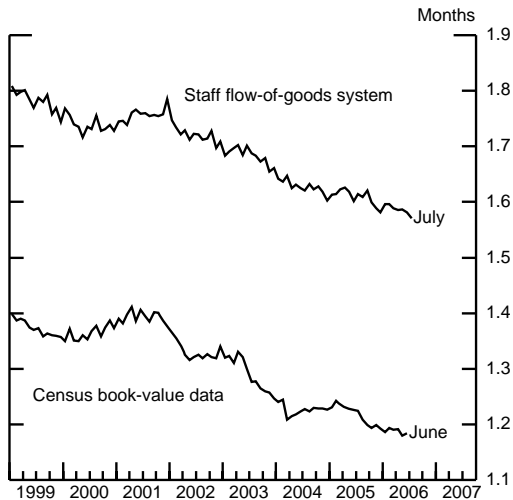
Measure and sector	2005	2006				
	Q4	Q1	Q2	May	June	July
<i>Real inventory investment (chained 2000 dollars)</i>						
Total nonfarm business	38.6	36.8	56.5^e	n.a.	n.a.	n.a.
Motor vehicles	23.4	8.5	3.2 ^e	n.a.	n.a.	n.a.
Nonfarm ex. motor vehicles	15.2	28.3	53.3 ^e	n.a.	n.a.	n.a.
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	16.9	22.7	39.4^e	44.3^e	36.2^e	n.a.
Manufacturing	.5	7.6	12.9 ^e	3.6 ^e	10.8 ^e	n.a.
Wholesale trade ex. motor vehicles & parts	9.9	7.9	19.0 ^e	23.7 ^e	15.3 ^e	n.a.
Retail trade ex. motor vehicles & parts	6.6	7.2	7.4	17.0	10.2	n.a.
<i>Book-value inventory investment (current dollars)</i>						
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	56.2	53.3	109.6	116.2	111.8	n.a.
Manufacturing	23.3	23.5	48.3	39.7	52.6	36.4
Wholesale trade ex. motor vehicles & parts	20.7	17.9	43.2	48.6	38.9	33.4
Retail trade ex. motor vehicles & parts	12.2	12.0	18.0	27.9	20.3	n.a.

^e Staff estimates of real inventory investment based on revised book-value data.

n.a. Not available.

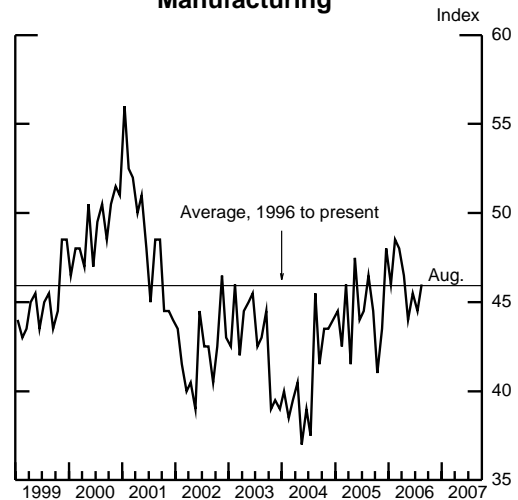
Source. For real inventory investment, BEA. For book-value data, Census Bureau.

Inventory Ratios ex. Motor Vehicles



Note. Flow-of-goods system covers total industry ex. motor vehicles and parts, and inventories are relative to consumption. Census data cover manufacturing and trade ex. motor vehicles and parts, and inventories are relative to sales.

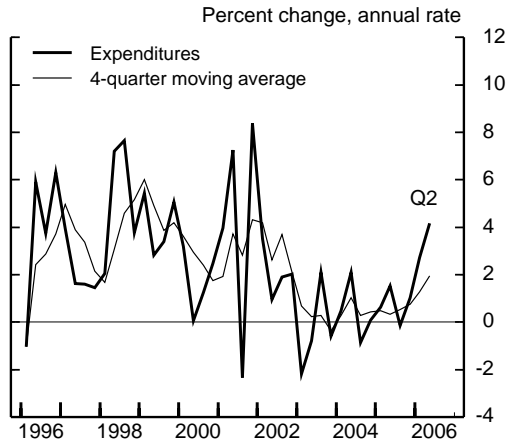
**ISM Customer Inventories:
Manufacturing**



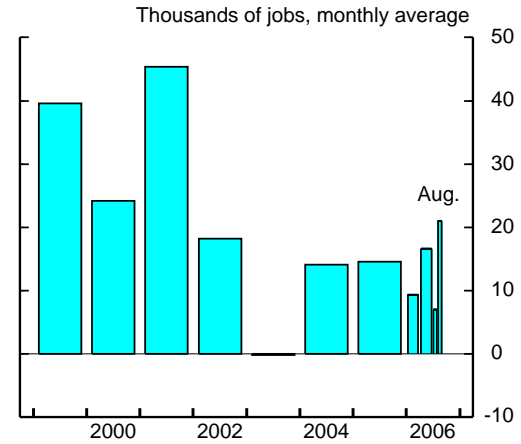
Note. A number above 50 indicates inventories are "too high."

State and Local Indicators

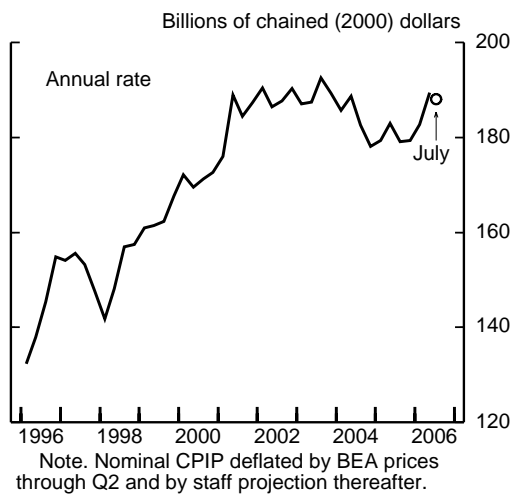
Real Expenditures on Consumption and Investment



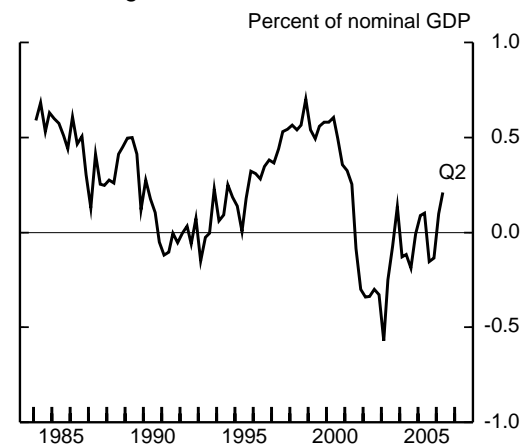
Net Change in Employment



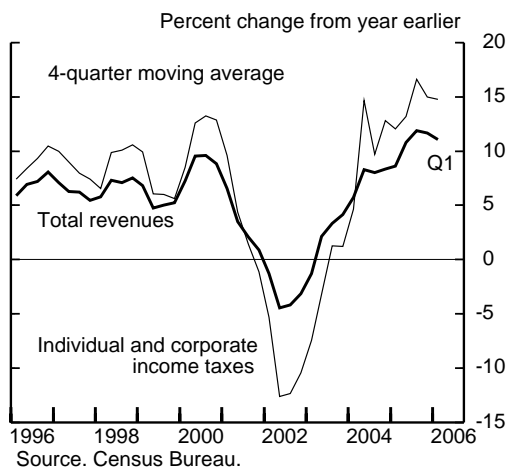
Real Construction



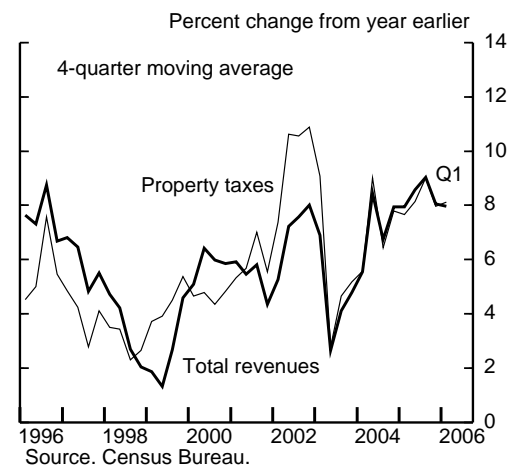
Net Saving



State Revenues



Local Revenues



Broad Measures of Inflation

(Percent change, Q2 to Q2)

Measure	2003	2004	2005	2006
<i>Product prices</i>				
GDP price index	2.1	2.9	2.8	3.3
Less food and energy	1.9	2.6	2.9	3.1
Nonfarm business chain price index	1.2	2.3	3.0	3.3
<i>Expenditure prices</i>				
Gross domestic purchases price index	2.1	3.1	3.2	3.6
Less food and energy	1.8	2.6	2.8	2.9
PCE price index	1.8	2.8	2.6	3.3
Less food and energy	1.4	2.1	2.0	2.3
PCE price index, market-based components	1.7	2.4	2.4	3.2
Less food and energy	1.2	1.5	1.7	1.9
CPI	2.2	2.8	3.0	4.0
Less food and energy	1.5	1.8	2.1	2.5
Chained CPI	1.9	2.7	2.6	3.4
Less food and energy	1.2	1.7	2.0	2.2
Median CPI	2.3	2.3	2.3	3.0
Trimmed mean CPI	1.9	2.1	2.2	2.7
Trimmed mean PCE	1.7	2.3	2.2	2.6

Surveys of Inflation Expectations

(Percent)

Period	Actual CPI inflation ¹	University of Michigan				Professional forecasters (10 years) ⁴
		1 year ²		5 to 10 years ³		
		Mean	Median	Mean	Median	
2004:Q4	3.3	3.4	3.0	3.1	2.8	2.5
2005:Q1	3.0	3.6	3.0	3.2	2.8	2.5
Q2	2.9	3.9	3.2	3.3	2.9	2.5
Q3	3.8	4.3	3.5	3.5	2.9	2.5
Q4	3.7	4.6	3.7	3.5	3.1	2.5
2006:Q1	3.6	3.7	3.0	3.3	2.9	2.5
Q2	4.0	4.5	3.5	3.6	3.1	2.5
Q3	n.a.	n.a.	n.a.	n.a.	n.a.	2.5
Apr.	3.5	4.4	3.3	3.6	3.1	...
May	4.2	4.7	4.0	3.8	3.2	...
June	4.3	4.4	3.3	3.4	2.9	2.5
July	4.1	3.8	3.2	3.2	2.9	...
Aug.	n.a.	4.6	3.8	3.5	3.2	...

1. Percent change from the same period in the preceding year.

2. Responses to the question: By about what percent do you expect prices to go up, on average, during the next 12 months?

3. Responses to the question: By about what percent per year do you expect prices to go up, on average, during the next 5 to 10 years?

4. Quarterly CPI projections compiled by the Federal Reserve Bank of Philadelphia.

... Not applicable.

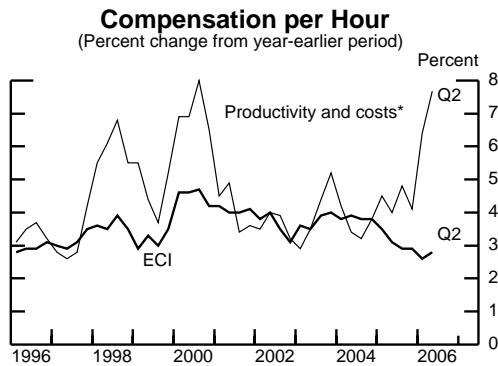
n.a. Not available.

Hourly Compensation and Unit Labor Costs

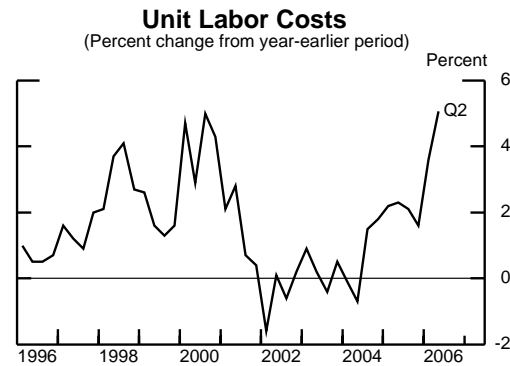
(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

Category	2004:Q2 to 2005:Q2	2005:Q2 to 2006:Q2 ^e	2005		2006	
			Q3	Q4	Q1	Q2 ^e
<i>Compensation per hour</i> Nonfarm business	4.0	7.7	7.8	2.9	13.7	6.6
<i>Unit labor costs</i> Nonfarm business	2.3	5.1	3.3	3.0	9.0	5.1

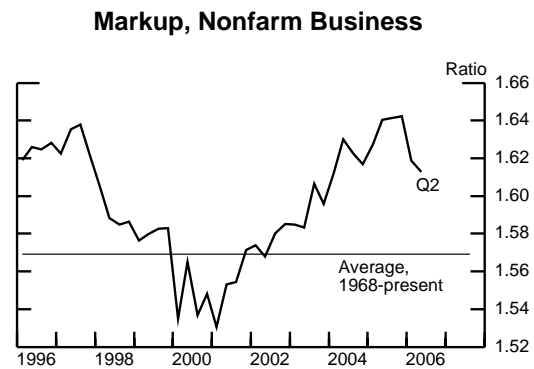
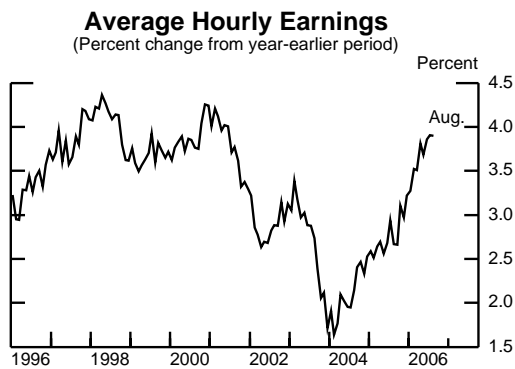
^e Staff estimates.



* Value for 2006:Q2 is a staff estimate.



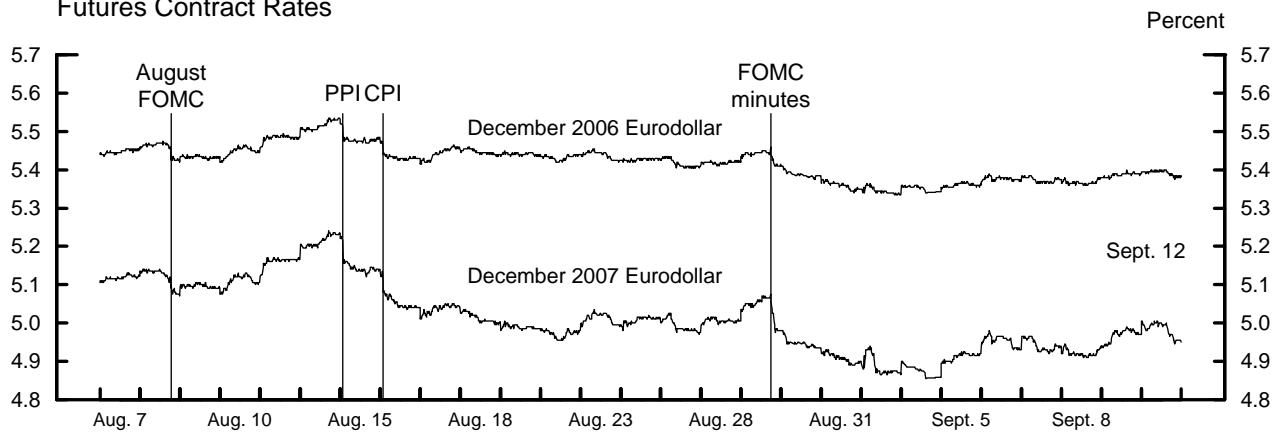
Note. Value for 2006:Q2 is a staff estimate.



Note. The markup is the ratio of output price to unit labor costs. Value for 2006:Q2 is a staff estimate.

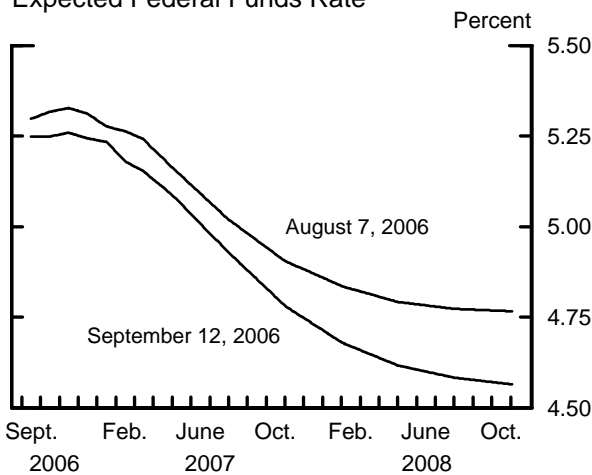
Policy Expectations and Treasury Yields

Futures Contract Rates



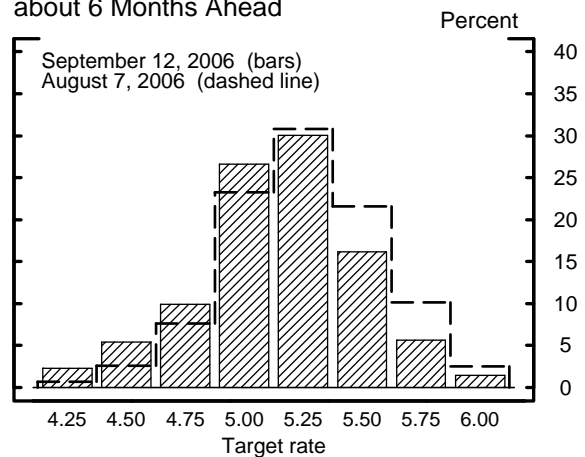
Note. 5-minute intervals.

Expected Federal Funds Rate



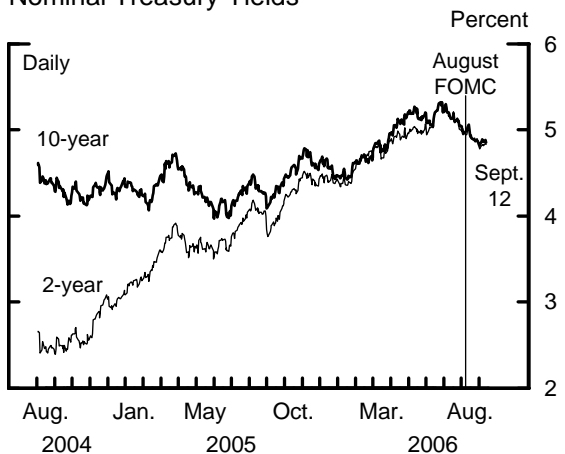
Note. Estimates from federal funds and Eurodollar futures, with an allowance for term premia and other adjustments.

Implied Distribution of Federal Funds Rate about 6 Months Ahead



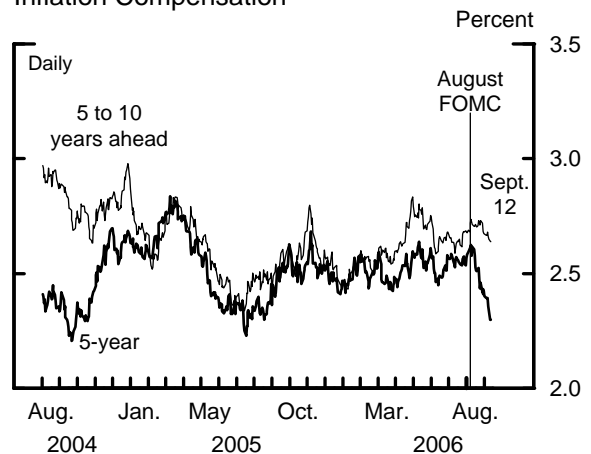
Note. Based on the distribution of the three-month Eurodollar rate 5 months ahead (adjusted for a term premium) as implied by options on Eurodollar futures contracts.

Nominal Treasury Yields



Note. Estimates from smoothed Treasury yield curve based on off-the-run securities.

Inflation Compensation



Note. Estimates based on smoothed nominal and inflation-indexed Treasury yield curves and adjusted for the indexation-lag effect.

Business Finance

Gross Issuance of Securities by U.S. Corporations

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

Type of security	2002	2003	2004	2005		2006			
				H1	H2	Q1	Q2	July	Aug.
<i>Nonfinancial corporations</i>									
Stocks ¹	5.2	3.7	5.4	3.8	5.3	5.6	4.9	2.0	2.0
Initial public offerings	.7	.4	1.6	1.6	1.8	1.7	2.2	.4	.5
Seasoned offerings	4.4	3.3	3.8	2.1	3.5	3.9	2.7	1.6	1.5
Bonds ²	24.8	31.6	22.7	18.1	20.2	30.1	31.0	11.6	20.0
Investment grade	15.7	16.0	8.3	7.9	9.0	15.7	13.3	6.1	10.6
Speculative grade	4.8	11.3	9.5	6.2	6.5	6.8	9.7	4.6	4.7
Other (sold abroad/unrated)	4.2	4.3	4.9	3.9	4.7	7.6	8.0	1.0	4.7
<i>Memo</i>									
Net issuance of commercial paper ³	-5.7	-3.4	1.5	2.6	-3.4	3.5	3.3	-3.0	-.6
Change in C&I loans at commercial banks ^{3,4}	-5.2	-7.7	3.2	9.5	10.5	11.7	17.7	17.8	19.3
<i>Financial corporations</i>									
Stocks ¹	4.0	6.6	6.9	5.3	4.8	3.6	5.1	4.9	3.2
Bonds ²	87.0	111.1	139.3	167.3	185.4	182.3	198.2	105.1	143.5

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

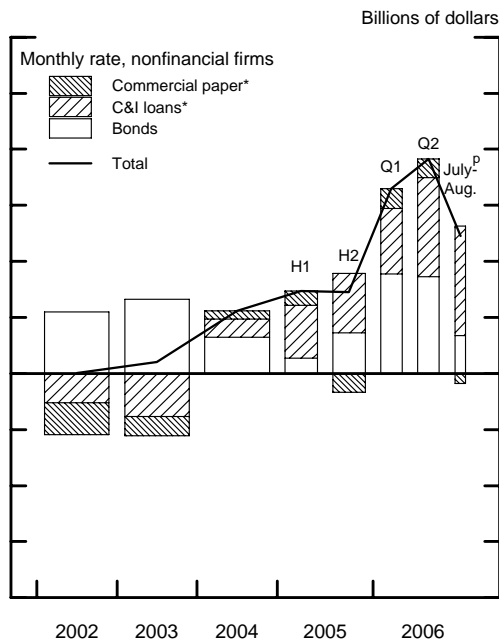
1. Excludes private placements and equity-for-equity swaps that occur in restructurings.

2. Data include regular and 144a private placements. Bond totals reflect gross proceeds rather than par value of original discount bonds. Bonds are categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's.

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

4. Adjusted for FIN 46 effects.

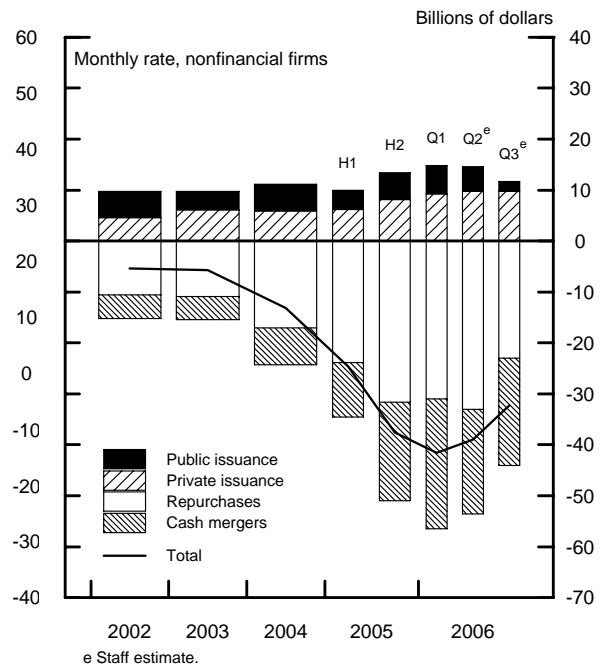
Selected Components of Net Debt Financing



* Seasonally adjusted, period-end basis.

^p Preliminary.

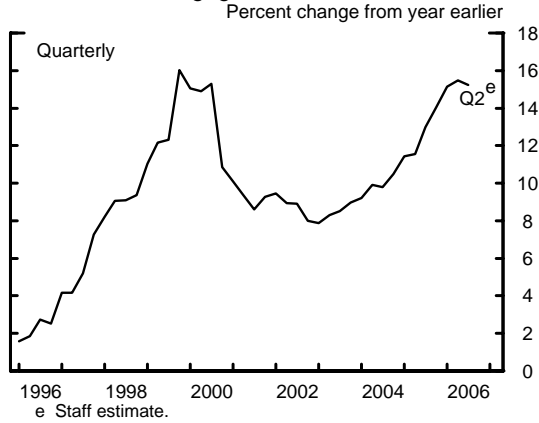
Components of Net Equity Issuance



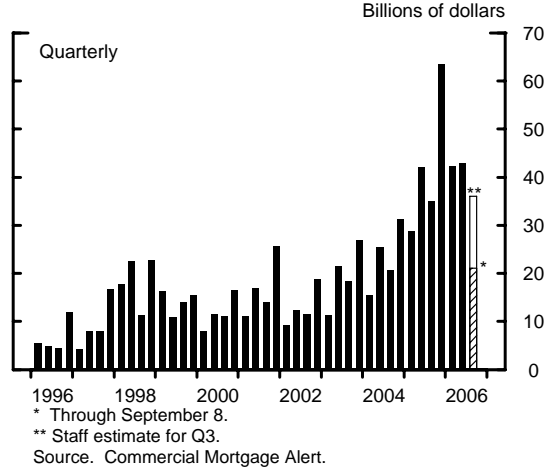
^e Staff estimate.

Commercial Real Estate

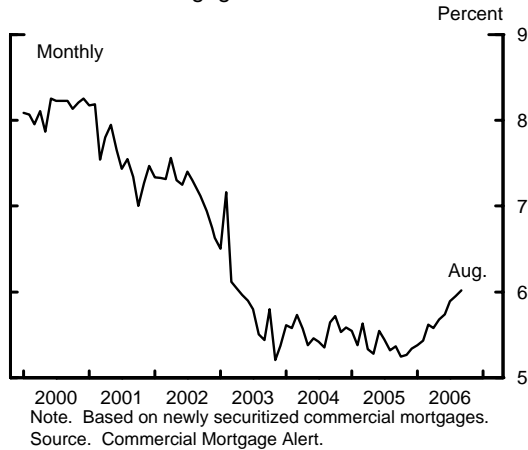
Commercial Mortgage Debt



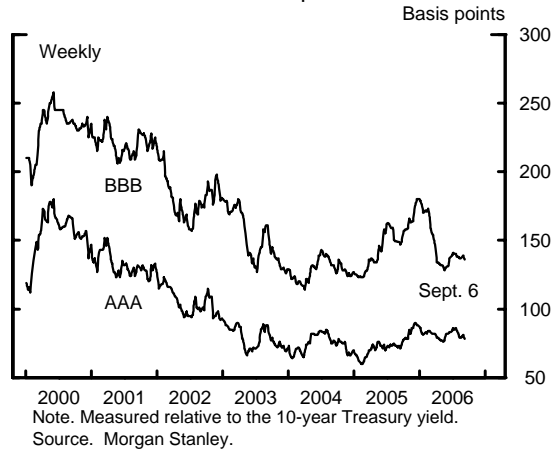
Gross Issuance of CMBS



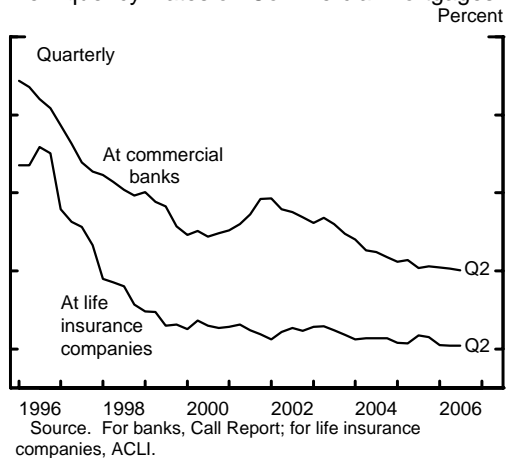
Commercial Mortgage Rates



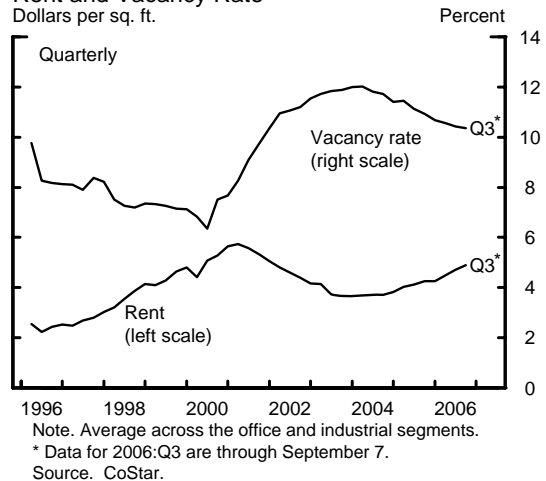
Investment-Grade CMBS Spreads



Delinquency Rates on Commercial Mortgages

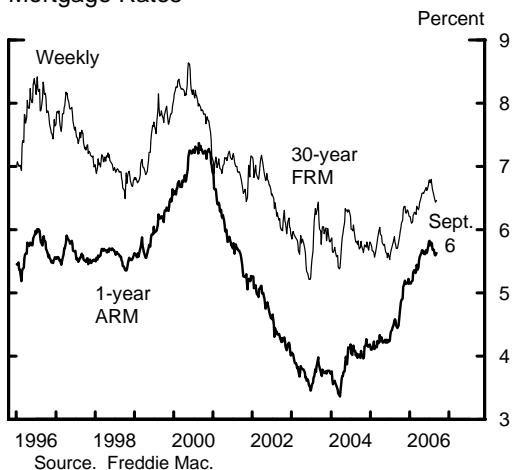


Rent and Vacancy Rate

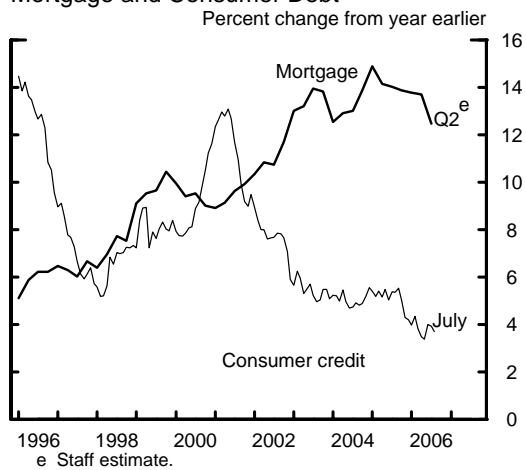


Household Liabilities

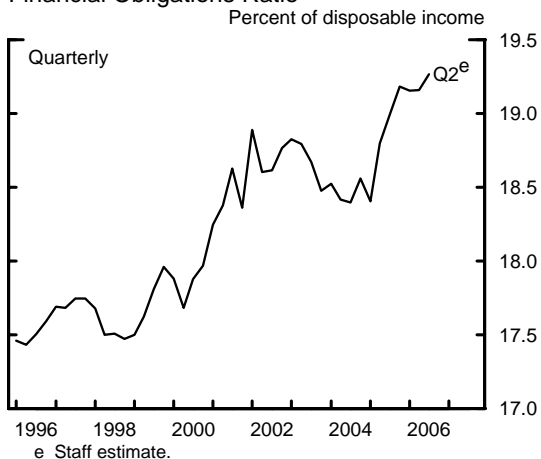
Mortgage Rates



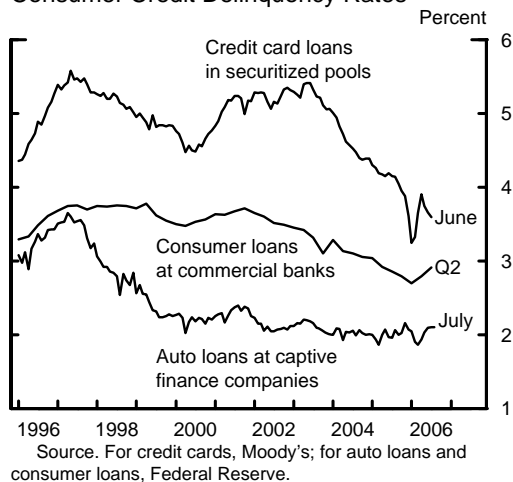
Mortgage and Consumer Debt



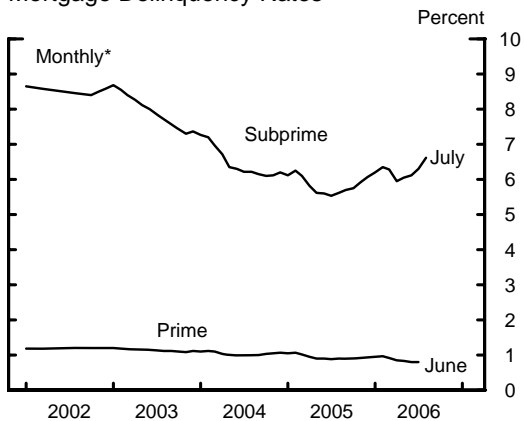
Financial Obligations Ratio



Consumer Credit Delinquency Rates

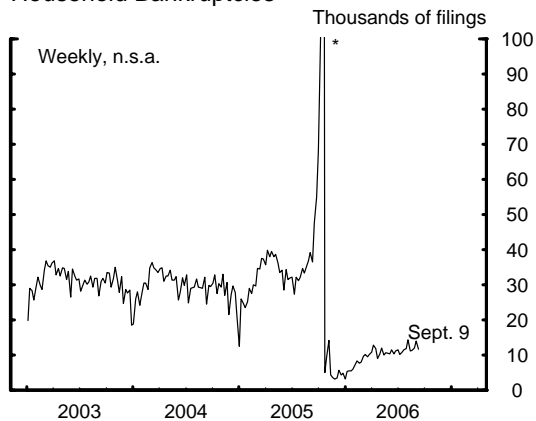


Mortgage Delinquency Rates



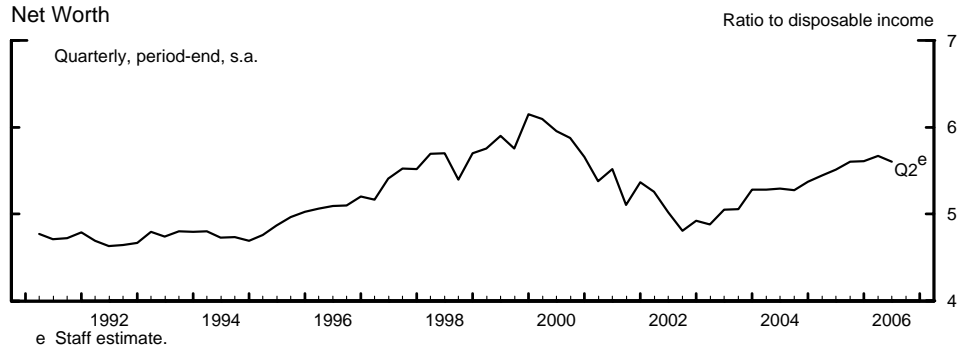
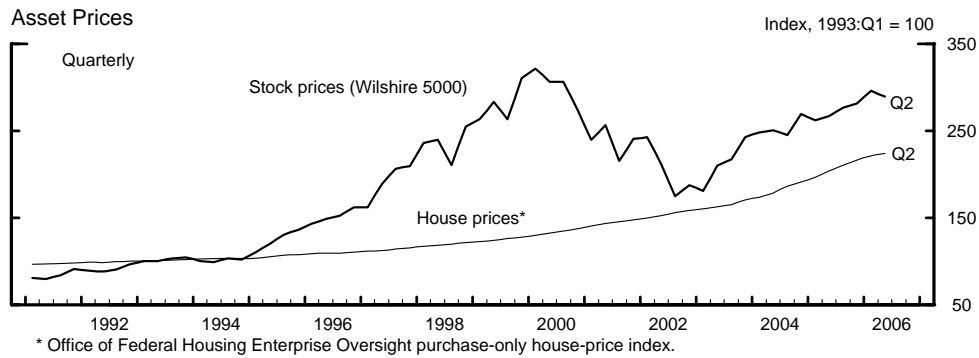
Note. Percent of loans more than 90 days past due. Adjusted to exclude the effects of Hurricane Katrina.
* Data are as of year-end before September 2003.
Source. LoanPerformance.

Household Bankruptcies



* 515,017 filings for the week ending Oct. 15, 2005.
Source. Lundquist Consulting, Inc.

Household Assets



Net Flows into Long-Term Mutual Funds

(Billions of dollars, monthly rate)

Fund type	2004	2005		2006		2006			Assets July
		H1	H2	Q1	Q2	June	July	Aug. ^e	
Total long-term funds	17.5	18.3	13.7	38.9	6.2	-9.4	3.7	13.0	7,235
Equity funds	14.8	12.3	10.2	31.1	7.0	-8.6	0.6	3.9	5,237
Domestic	9.3	4.1	1.0	10.7	-2.4	-9.4	-4.3	-4.5	4,139
International	5.6	8.2	9.2	20.4	9.4	0.8	4.8	8.4	1,098
Hybrid funds	3.6	3.4	0.9	0.4	-0.1	-0.5	-0.1	0.8	592
Bond funds	-0.9	2.5	2.6	7.4	-0.7	-0.4	3.2	8.3	1,406
High-yield	-0.8	-1.6	-1.0	-0.4	-1.4	-1.8	0.6	0.9	145
Other taxable	1.0	3.7	3.2	5.8	0.7	1.1	2.3	5.6	914
Municipals	-1.1	0.4	0.4	2.1	0.1	0.3	0.3	1.7	348

Note. Excludes reinvested dividends.

^e Staff estimates based on confidential weekly data.

Source. Investment Company Institute.

Commercial Bank Credit

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

Type of credit	2004	2005	Q1 2006	Q2 2006	July 2006	Aug. 2006 ^e	Level, ¹ Aug. 2006 ^e
Total ²	8.9	10.5	10.8	12.9	12.0	5.3	7,782
<i>Loans³</i>							
Total	9.7	11.6	11.2	11.9	11.1	8.8	5,777
To businesses							
Commercial and industrial	1.2	13.2	14.7	17.4	17.7	29.4	1,146
Commercial real estate	11.7	17.1	16.1	14.6	14.6	9.5	1,389
To households							
Residential real estate	15.7	12.0	6.3	8.8	14.5	-6.9	1,726
Revolving home equity	43.8	13.3	2.8	-2.7	17.8	-10.4	447
Consumer	8.8	3.1	3.1	10.2	3.2	8.8	728
Originated ⁴	6.0	.5	8.3	5.6	3.3	6.7	1,102
Other ⁵	7.4	8.4	16.4	8.1	-4.1	13.3	787
<i>Securities</i>							
Adjusted ²	6.6	7.6	9.6	15.6	14.5	-4.7	2,005
Reported	5.2	5.3	7.4	18.3	7.8	2.5	2,153
Treasury and agency	4.9	.0	8.4	8.0	10.9	7.1	1,218
Other ⁶	5.7	13.3	6.1	32.2	3.7	-3.5	935

Note. Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. Data are adjusted to remove estimated effects of consolidation related to FIN 46 and for breaks caused by reclassifications.

1. Billions of dollars. Pro rata averages of weekly (Wednesday) levels.

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

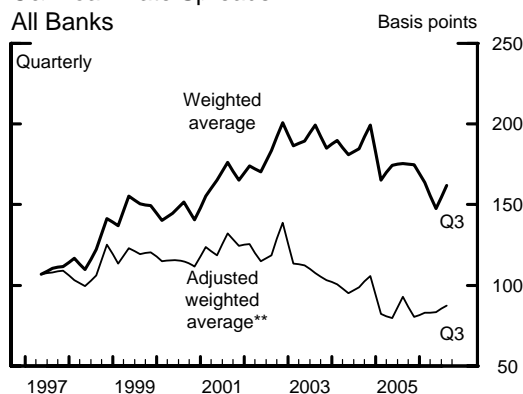
3. Excludes interbank loans.

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

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

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

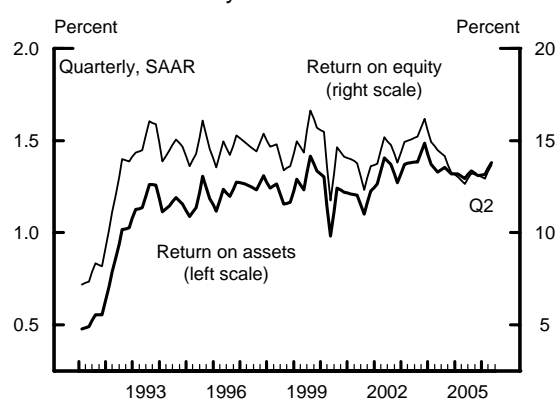
e Estimated.

C&I Loan Rate Spreads***All Banks**

* Spread over banks' estimated cost of funds.

** Adjusted for changes in nonprice loan characteristics.

Source. Survey of Terms of Business Lending.

Bank Profitability

Source. Call Report.

September 15, 2006

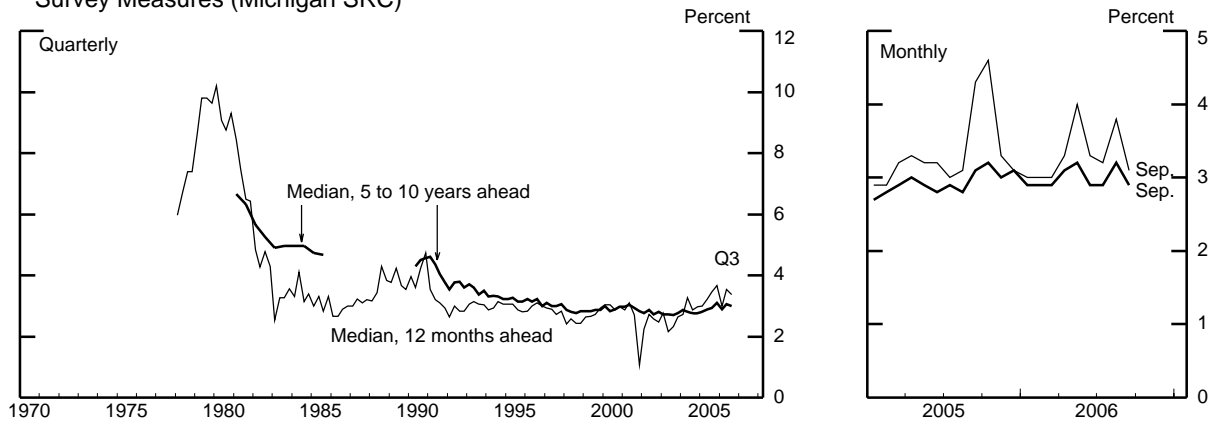
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

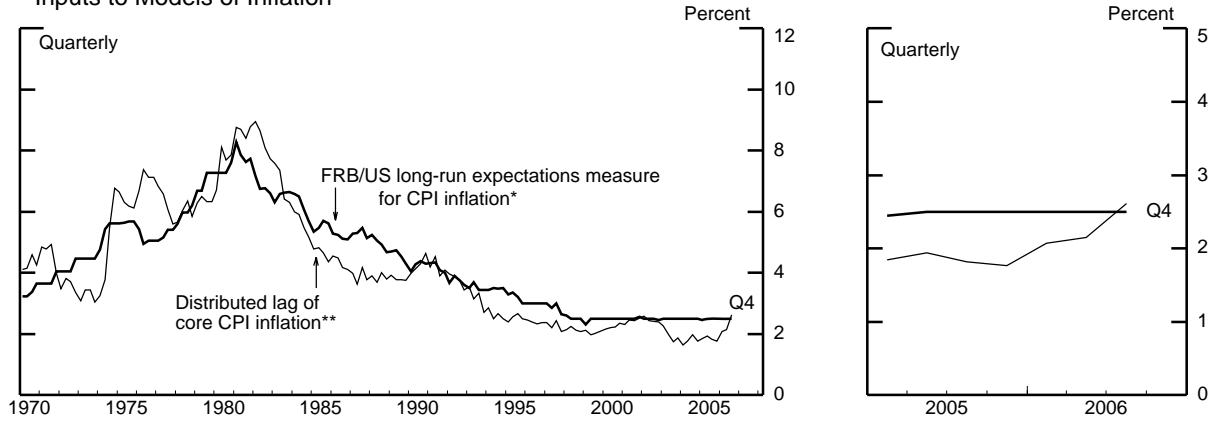
Prepared for the Federal Open Market Committee
by the staff of the Board of Governors of the Federal Reserve System

Measures of Expected Inflation

Survey Measures (Michigan SRC)



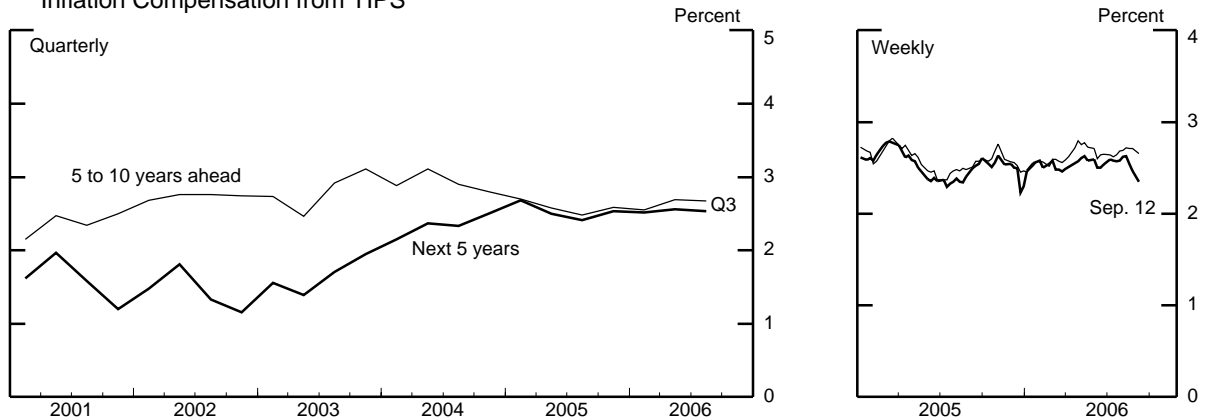
Inputs to Models of Inflation



* For 1991 forward, the median projection for CPI inflation over the next 10 years from the Survey of Professional Forecasters; for 1981 to 1991, a related survey conducted by Richard Hoey; and for the period preceding 1981, a model-based estimate constructed by Board staff.

** Derived from one of the reduced-form Phillips curves used by Board staff.

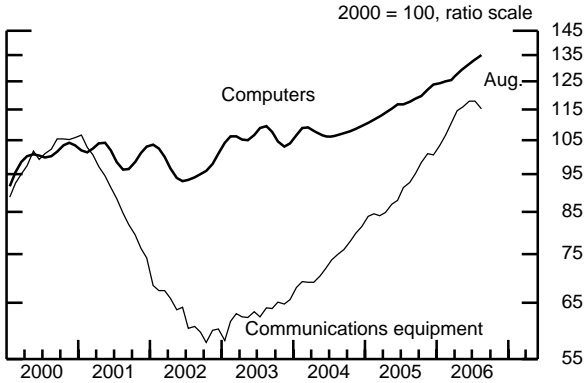
Inflation Compensation from TIPS



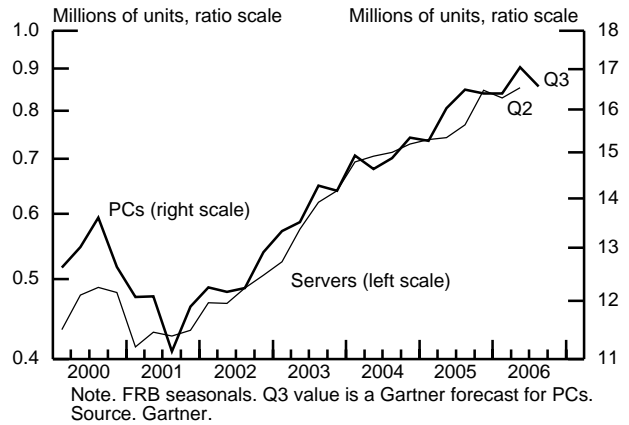
Note. Based on a comparison of an estimated TIPS yield curve to an estimated nominal off-the-run Treasury yield curve, with an adjustment for the indexation-lag effect since March 2004.

Indicators of High-Tech Manufacturing Activity

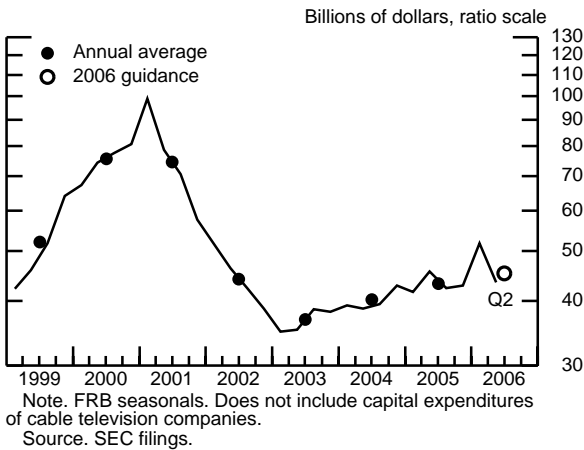
Communications Equipment and Computer IP



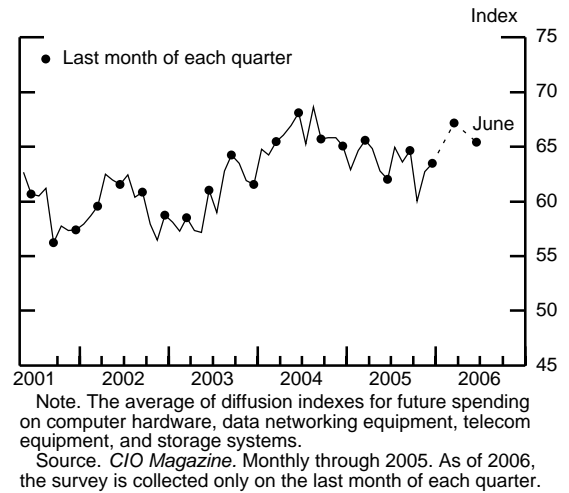
U.S. Personal Computer and Server Sales



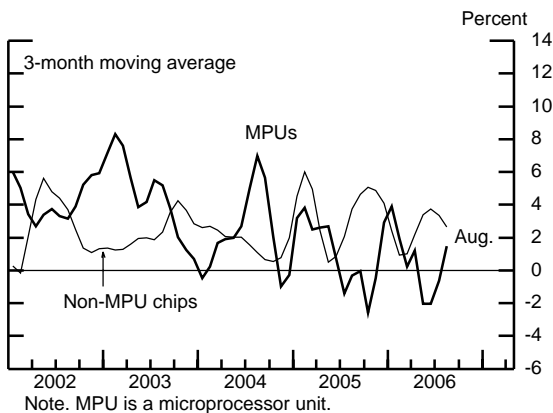
Capital Expenditures by Telecommunications Service Providers



CIO Magazine IT Hardware Future Spending Diffusion Index



Rate of Change in Semiconductor Industrial Production



Bookings and Billings for Semiconductor Equipment

