

Part 1

May 3, 2006

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

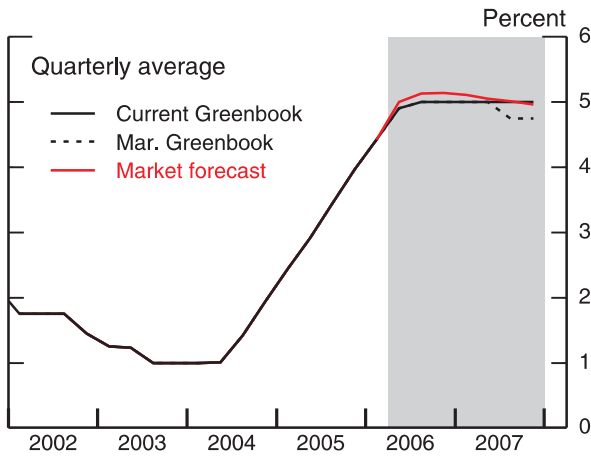
Summary and Outlook

May 3, 2006

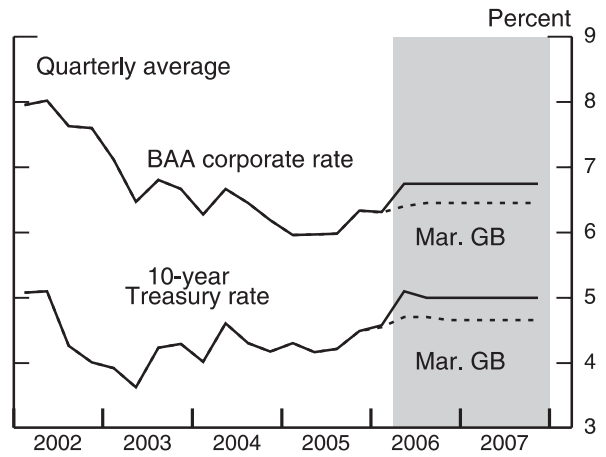
Summary and Outlook

Key Background Factors Underlying the Baseline Staff Projection

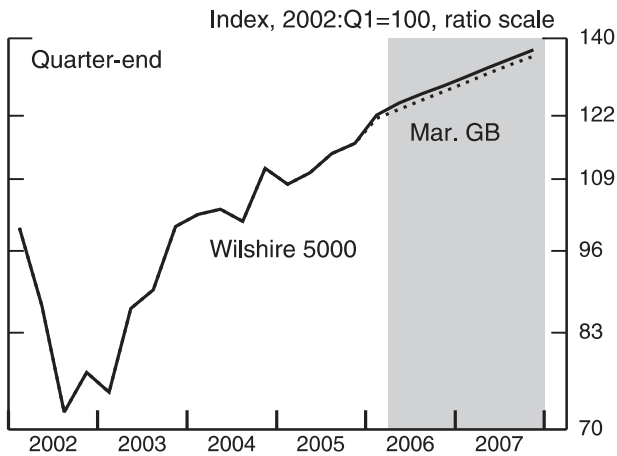
Federal Funds Rate



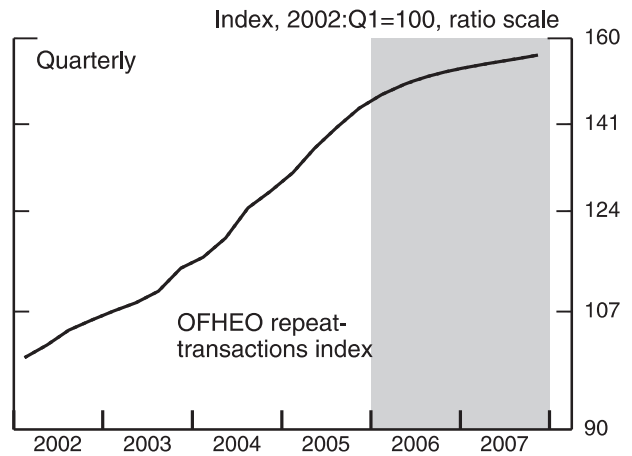
Long-term Interest Rates



Equity Prices

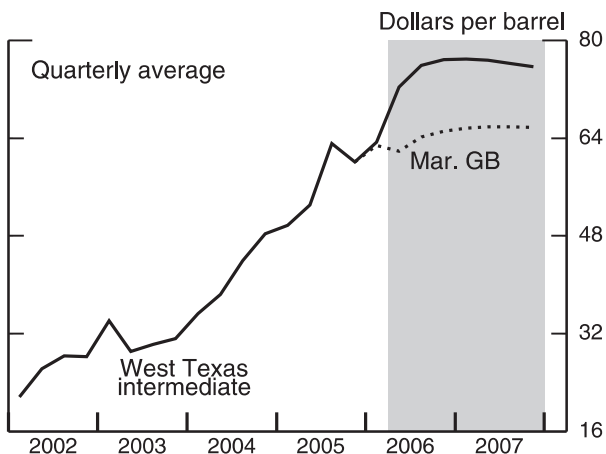


House Prices

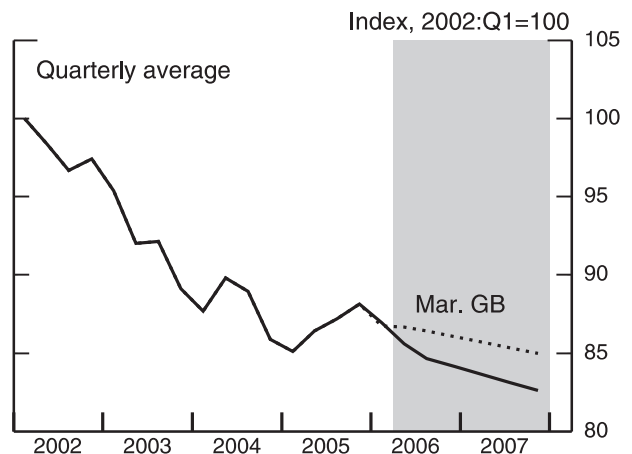


Note. The projection period begins in 2006:Q1. The projection for this index is unrevised from the March Greenbook.

Crude Oil Prices



Broad Real Dollar



Note. Shading represents the projection period.

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

Measure	2006:Q1		2006:Q2	
	Mar. GB	May GB	Mar. GB	May GB
Real GDP	4.7	5.3	3.5	3.7
Private domestic final purchases	5.7	6.6	3.5	3.4
Personal consumption expenditures	5.2	5.5	3.6	3.7
Residential investment	-.2	3.8	-.9	-1.7
Business fixed investment	12.8	15.6	4.9	4.4
Government outlays for consumption and investment	2.9	4.4	1.6	.5
	Contribution to growth (percentage points)			
Inventory investment	-.3	-.5	.0	.3
Net exports	-.5	-.7	.2	.3

Bureau of Economic Analysis (BEA) and reflects stronger incoming data on inventories and investment and different assumptions about net exports. It is also about ½ percentage point stronger than our forecast in the March Greenbook. Final sales moved up even faster than GDP last quarter, at a 5¾ percent pace. For the current quarter, we expect GDP growth to drop back to a 3¾ percent annual rate, in line with its average pace over the past four quarters.

Labor demand has increased at a robust pace in recent months: Private nonfarm payrolls increased 188,000 per month, on average, in the first quarter. Initial claims for unemployment insurance have averaged a bit more than 300,000 in recent weeks, suggesting that private payroll gains remain solid; we have penciled in an increase of 175,000 for April. Private employment gains are projected to slow to about 150,000 per month by June, reflecting the overall slowing in the economy in the current quarter.

Industrial production (IP) in the manufacturing sector rose ½ percent in March, and we are expecting another solid gain in April. For the first quarter as a whole, manufacturing IP increased at a 5½ percent annual rate, down from a 9 percent pace in the fourth quarter. Growth in both quarters was boosted by the recovery from hurricane-related disruptions.

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

Measure	2006		2007
	H1	H2	
Real GDP	4.5	3.1	3.0
Previous	4.1	3.5	3.1
Final sales	4.6	3.1	2.9
Previous	4.3	3.4	2.9
PCE	4.6	3.4	3.2
Previous	4.4	3.4	3.3
Residential investment	1.0	-1.4	-.7
Previous	-.5	2.5	.4
BFI	9.8	7.9	6.1
Previous	8.8	8.5	6.0
Government purchases	2.4	1.6	1.4
Previous	2.2	1.7	1.4
Exports	9.3	5.6	5.8
Previous	10.3	5.1	4.9
Imports	7.2	5.7	5.1
Previous	7.4	5.9	5.5
Contribution to growth (percentage points)			
Inventory change	-.1	.0	.1
Previous	-.2	.2	.2
Net exports	-.2	-.4	-.3
Previous	-.2	-.4	-.4

2006 and 2007. In addition, we now think that hurricane-related rebuilding will be more drawn out than we had previously projected. Our reassessment stems in part from reports of delays in establishing the regulations for housing reconstruction in New Orleans. For 2007, the shift in rebuilding assumptions would tend to push up the growth rate of residential construction.

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

Measure	1974-95	1996-2000	2001-04	2004	2005	2006	2007
Structural labor productivity	1.5	2.5	3.3	3.1	3.1	3.1	3.1
Previous	1.5	2.5	3.3	3.1	3.1	3.1	3.1
<i>Contributions¹</i>							
Capital deepening	.7	1.4	.7	.7	1.0	1.0	1.1
Previous	.7	1.4	.7	.7	1.0	1.1	1.1
Multifactor productivity	.5	.8	2.3	2.1	1.9	1.8	1.8
Previous	.5	.8	2.3	2.1	1.9	1.8	1.8
Labor composition	.3	.3	.2	.3	.3	.2	.2
MEMO							
Potential GDP	3.0	3.4	3.1	2.9	2.9	3.2	3.3
Previous	3.0	3.4	3.1	2.9	2.9	3.3	3.3

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.

especially for energy and construction materials—will restrain real spending by these governments.

Net exports. We expect net exports to trim 0.3 percentage point from GDP growth both this year and next—slightly more drag than in 2005 but a little less on average than in the March Greenbook. Real exports are projected to expand at a 5½ percent annual rate in the second half of this year and 5¾ percent in 2007, supported by solid growth abroad and dollar depreciation. We project that real import growth will average about 5¼ percent at an annual rate in the second half of this year and in 2007. *(These topics are discussed in more detail in the International Developments section of Part 1.)*

Aggregate Supply, the Labor Market, and Inflation

We project that potential output will grow at a rate essentially unchanged from the March Greenbook—3¼ percent both this year and next. We estimate that the strong growth in the first quarter brought the level of actual output about in line with potential. For the remainder of this year, real GDP grows at about the same pace as potential. As output growth slows a bit below potential next year, a small gap opens up by the end of the forecast period.

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

Measure	2004	2005	2006	2007
Output per hour, nonfarm business	2.6	2.5	2.8	3.1
Previous	2.6	2.5	2.8	3.1
Nonfarm private payroll employment	1.7	1.6	1.5	.6
Previous	1.7	1.6	1.6	.5
Household survey employment	1.3	1.9	1.2	.6
Previous	1.3	1.9	1.3	.7
Labor force participation rate ¹	66.0	66.1	66.0	65.8
Previous	66.0	66.1	66.0	65.8
Civilian unemployment rate ¹	5.4	5.0	4.8	5.0
Previous	5.4	5.0	4.8	4.9
MEMO				
GDP gap ²	-.7	-.4	.1	-.2
Previous	-.8	-.4	.1	-.1

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.

Productivity and the labor market. We estimate that output per hour in the nonfarm business sector increased at an annual rate of 3.3 percent in the first quarter, 1 percentage point faster than we forecasted in the March Greenbook. With labor and product markets both close to their equilibrium levels, we expect that productivity gains will be close to their structural pace of a bit more than 3 percent.

Monthly private payroll gains are expected to slow to 75,000 by the end of this year and to 50,000 in 2007. We estimate that a steady unemployment rate would require growth of about 85,000 per month in private payrolls this year and next, on average. With employment rising less than that, the unemployment rate creeps up, reaching 5 percent by the end of next year.

Prices and labor costs. Reflecting the higher energy prices incorporated into this Greenbook, we have marked up our projection for the increase in total PCE prices this year by ½ percentage point, to 2½ percent. Higher prices for energy and other commodities are also expected to put some additional pressure on core PCE inflation, which has been revised upward a bit for this year and next. Still, as prices for energy and

Inflation Projections (Percent change, Q4 to Q4, except as noted)				
Measure	2004	2005	2006	2007
PCE chain-weighted price index	3.1	3.0	2.5	2.0
Previous	3.1	3.0	2.0	1.9
Food and beverages	2.9	2.1	2.4	2.2
Previous	2.9	2.1	2.5	2.2
Energy	17.9	21.8	7.4	1.5
Previous	17.9	21.8	.3	1.6
Excluding food and energy	2.2	2.0	2.2	2.0
Previous	2.2	1.9	2.1	1.9
Consumer price index	3.3	3.7	2.8	2.2
Previous	3.3	3.7	2.2	2.2
Excluding food and energy	2.1	2.1	2.5	2.3
Previous	2.1	2.1	2.4	2.2
GDP chain-weighted price index	2.9	3.1	2.6	2.3
Previous	2.9	3.1	2.5	2.1
ECI for compensation of private industry workers ¹	3.8	2.9	3.2	3.8
Previous	3.8	3.0	4.2	4.2
Compensation per hour, nonfarm business sector	5.9	3.7	5.2	5.4
Previous	5.9	3.8	5.2	5.3
Prices of core nonfuel imports	3.7	2.2	3.1	1.3
Previous	3.7	2.2	3.1	1.2

1. December to December.

other materials flatten out later this year, we expect some slowing of both core and headline inflation in 2007.

The incoming data offer no clear signal on labor costs. The employment cost index (ECI) for hourly compensation increased at an annual rate of just 2½ percent in the first quarter, while we estimate that the productivity and cost (P&C) measure of hourly compensation in the nonfarm business sector increased at an annual rate of 5 percent last quarter. Looking over the past year, the discrepancy is less marked: The ECI measure increased 2½ percent over the four quarters ending in 2006:Q1, whereas the P&C measure increased an estimated 3½ percent over the same period; for both measures, that marks a

Alternative Scenarios

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

Measure and scenario	2006		2007
	H1	H2	
<i>Real GDP</i>			
Baseline	4.5	3.1	3.0
Domestic boom	5.0	4.2	3.7
Housing slump	4.5	2.9	2.7
With greater fallout	4.5	2.3	2.2
Greater pass-through	4.5	3.0	3.0
With unanchored expectations	4.5	3.0	3.0
Less pass-through	4.5	3.2	3.0
Lower NAIRU	4.6	3.3	3.3
Less room to grow	4.3	2.5	2.2
<i>Civilian unemployment rate</i> ¹			
Baseline	4.7	4.8	5.0
Domestic boom	4.6	4.5	4.3
Housing slump	4.7	4.8	5.2
With greater fallout	4.7	4.9	5.5
Greater pass-through	4.7	4.8	5.0
With unanchored expectations	4.7	4.8	5.0
Less pass-through	4.7	4.8	5.0
Lower NAIRU	4.7	4.8	4.9
Less room to grow	4.6	4.7	4.9
<i>PCE prices excluding food and energy</i>			
Baseline	2.3	2.1	2.0
Domestic boom	2.3	2.1	2.0
Housing slump	2.3	2.1	2.0
With greater fallout	2.2	2.0	2.0
Greater pass-through	2.4	2.4	2.1
With unanchored expectations	2.4	2.5	2.4
Less pass-through	2.2	1.7	1.6
Lower NAIRU	2.2	1.9	1.7
Less room to grow	2.4	2.3	2.3
<i>Federal funds rate</i> ¹			
Baseline	4.9	5.0	5.0
Domestic boom	5.0	5.6	6.2
Housing slump	4.9	4.9	4.7
With greater fallout	4.9	4.7	3.8
Greater pass-through	4.9	5.1	5.2
With unanchored expectations	4.9	5.1	5.5
Less pass-through	4.9	4.9	4.6
Lower NAIRU	4.9	4.8	4.5
Less room to grow	5.0	5.2	5.2

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

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

Measure	2006	2007
<i>Real GDP</i> (percent change, Q4 to Q4)		
Projection	3.8	3.0
Confidence interval		
Greenbook forecast errors	2.6–5.0	1.4–4.6
FRB/US stochastic simulations	2.7–4.9	1.5–4.5
<i>Civilian unemployment rate</i> (percent, Q4)		
Projection	4.8	5.0
Confidence interval		
Greenbook forecast errors	4.5–5.1	4.2–5.8
FRB/US stochastic simulations	4.4–5.2	4.3–5.6
<i>PCE prices</i> <i>excluding food and energy</i> (percent change, Q4 to Q4)		
Projection	2.2	2.0
Confidence interval		
Greenbook forecast errors	1.8–2.6	1.2–2.8
FRB/US stochastic simulations	1.8–2.6	1.2–2.9
<i>Federal funds rate</i> (percent, Q4)		
Projection	5.0	5.0
Confidence interval		
FRB/US stochastic simulations	4.3–5.8	3.8–6.5

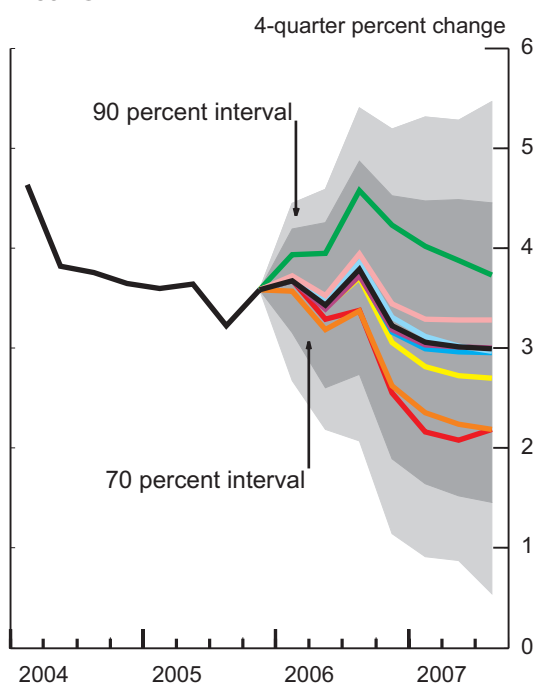
NOTE. Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1986–2004 set of model equation residuals. Intervals derived from Greenbook forecast errors are based on the 1986–2004 set of Greenbook historical errors.

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

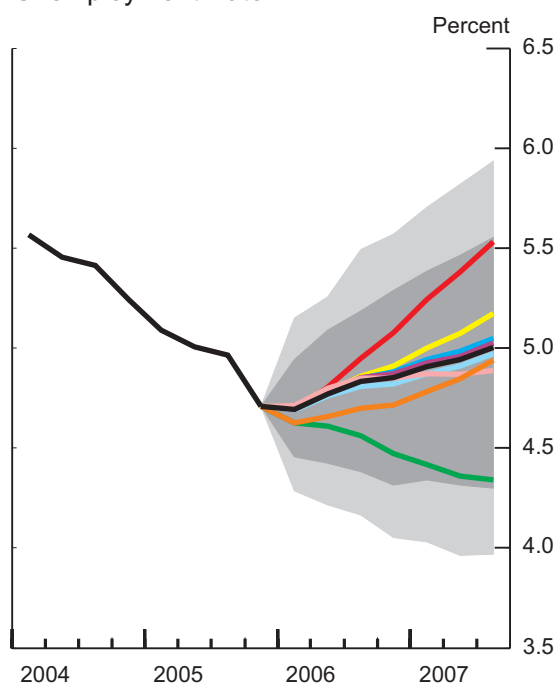
Confidence Intervals based on FRB/US Stochastic Simulations

- | | | |
|----------------------|---|---------------------|
| ■ Greenbook baseline | ■ Housing slump with greater fallout | ■ Less pass-through |
| ■ Domestic boom | ■ Greater pass-through | ■ Lower NAIURU |
| ■ Housing slump | ■ Greater pass-through with unanchored expectations | ■ Less room to grow |

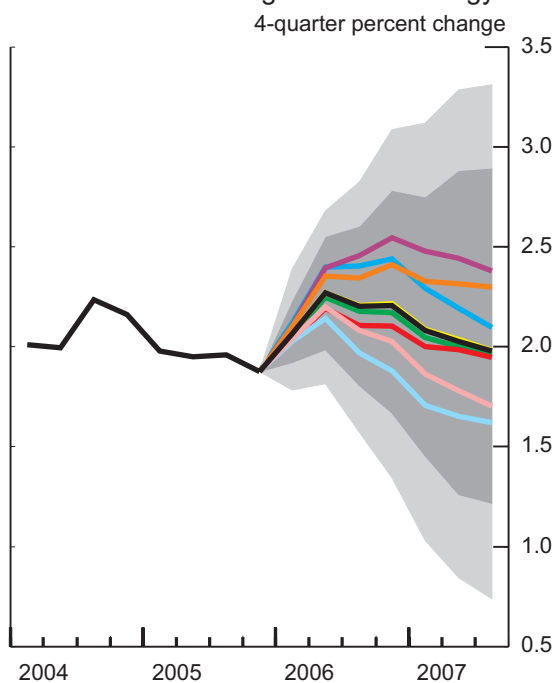
Real GDP



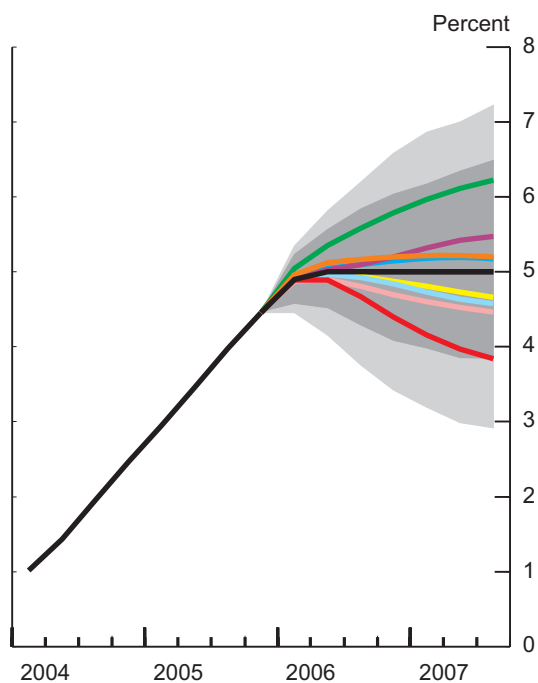
Unemployment Rate



PCE Prices excluding Food and Energy



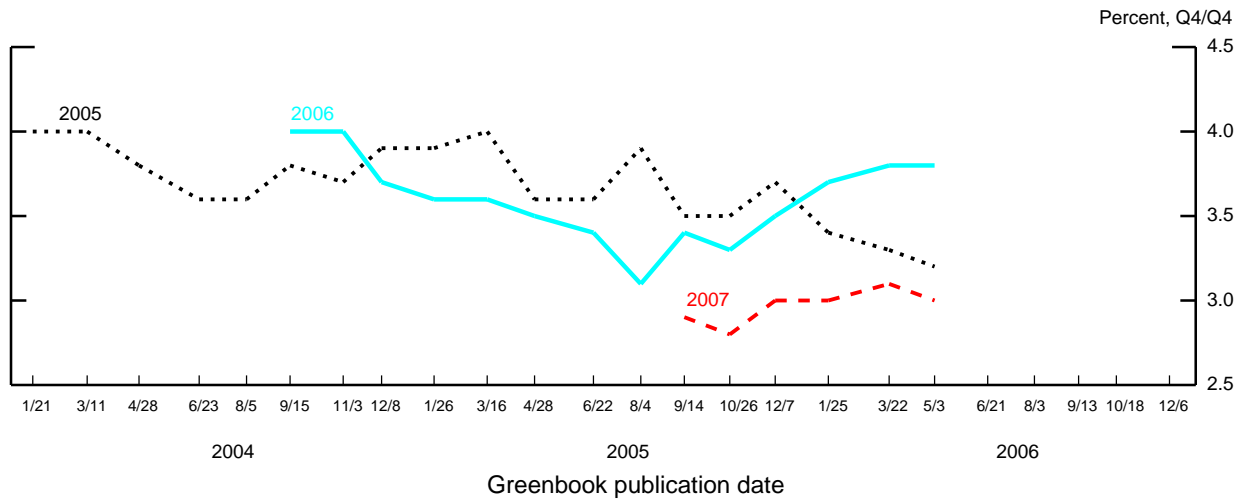
Federal Funds Rate



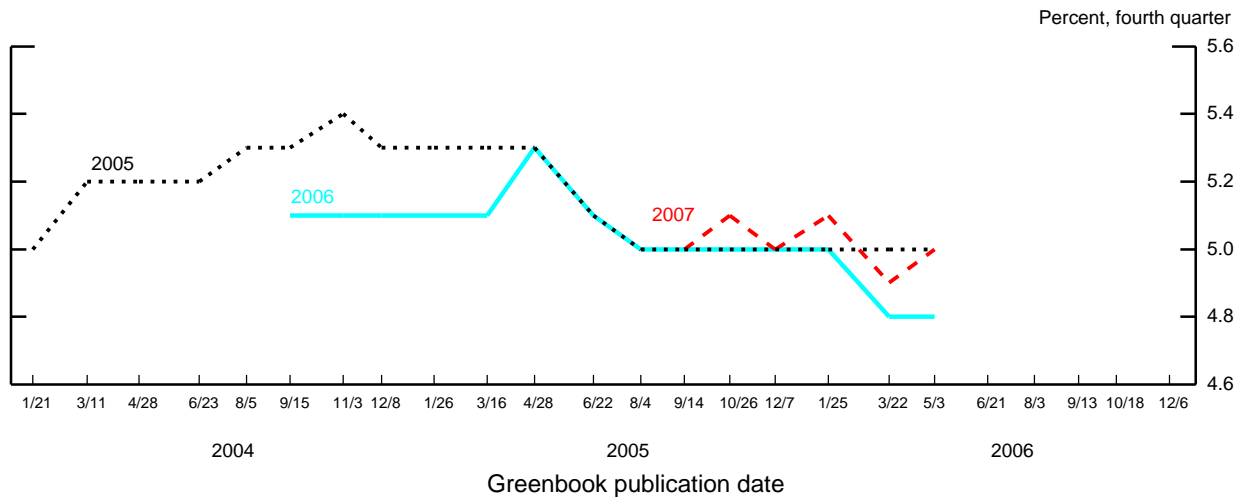
Class II FOMC - Restricted (FR)

Evolution of the Staff Forecast

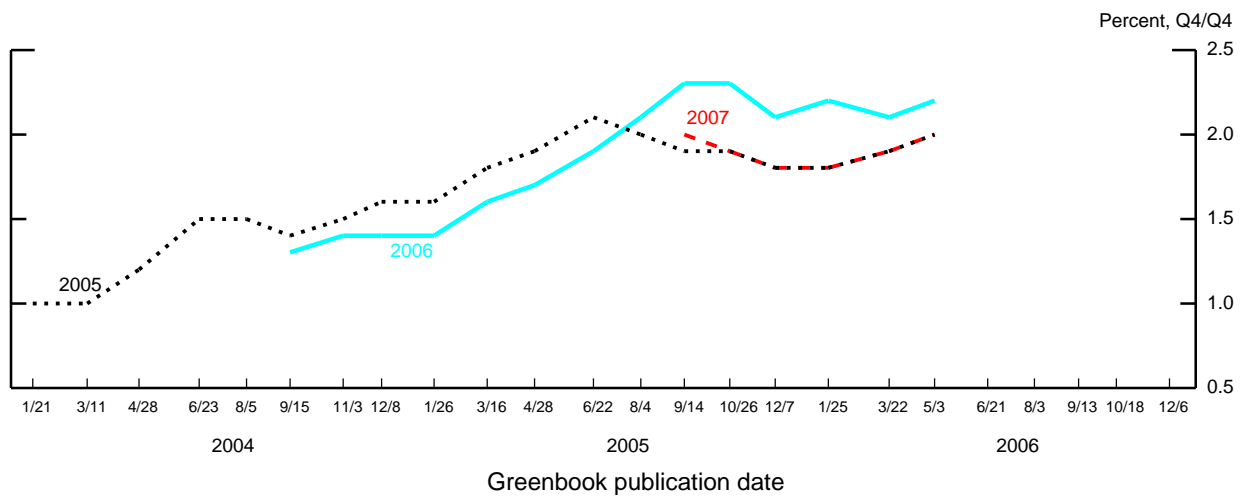
Change in Real GDP



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	
	3/22/06	5/3/06	3/22/06	5/3/06	3/22/06	5/3/06	3/22/06	5/3/06	3/22/06	5/3/06
<i>Quarterly</i>										
2005:Q1	7.0	7.0	3.8	3.8	2.3	2.3	2.4	2.4	5.2	5.2
2005:Q2	6.0	6.0	3.3	3.3	3.3	3.3	1.7	1.7	5.1	5.1
2005:Q3	7.6	7.6	4.1	4.1	3.7	3.7	1.4	1.4	5.0	5.0
2005:Q4	5.2	5.2	1.8	1.7	2.7	2.9	2.1	2.4	5.0	5.0
2006:Q1	8.2	8.8	4.7	5.3	1.9	2.0	1.9	2.0	4.8	4.7
2006:Q2	6.2	7.0	3.5	3.7	2.0	3.9	2.2	2.5	4.8	4.7
2006:Q3	5.7	5.1	3.7	3.2	2.1	2.1	2.2	2.2	4.8	4.8
2006:Q4	5.5	5.2	3.4	3.1	2.2	2.2	2.2	2.1	4.8	4.8
2007:Q1	5.3	5.4	3.1	3.0	2.1	2.2	2.0	2.1	4.8	4.9
2007:Q2	5.4	5.5	3.1	3.0	2.0	2.0	1.9	2.0	4.8	4.9
2007:Q3	5.2	5.3	3.1	3.0	1.9	1.9	1.9	2.0	4.9	4.9
2007:Q4	5.0	5.1	3.0	3.0	1.8	1.8	1.8	1.9	4.9	5.0
<i>Two-quarter²</i>										
2005:Q2	6.5	6.5	3.6	3.6	2.8	2.8	2.1	2.1	-3	-3
2005:Q4	6.4	6.4	3.0	2.9	3.2	3.3	1.7	1.9	-1	-1
2006:Q2	7.2	7.9	4.1	4.5	1.9	3.0	2.0	2.3	-2	-3
2006:Q4	5.6	5.1	3.5	3.1	2.1	2.1	2.2	2.1	.0	.1
2007:Q2	5.4	5.4	3.1	3.0	2.0	2.1	2.0	2.0	.0	.1
2007:Q4	5.1	5.2	3.1	3.0	1.8	1.9	1.9	1.9	.1	.1
<i>Four-quarter³</i>										
2004:Q4	6.8	6.8	3.8	3.8	3.1	3.1	2.2	2.2	-4	-4
2005:Q4	6.4	6.4	3.3	3.2	3.0	3.0	1.9	2.0	-4	-4
2006:Q4	6.4	6.5	3.8	3.8	2.0	2.5	2.1	2.2	-2	-2
2007:Q4	5.2	5.3	3.1	3.0	1.9	2.0	1.9	2.0	.1	.2
<i>Annual</i>										
2004	7.0	7.0	4.2	4.2	2.6	2.6	2.0	2.0	5.5	5.5
2005	6.4	6.4	3.5	3.5	2.8	2.8	2.0	2.0	5.1	5.1
2006	6.6	6.7	3.6	3.6	2.4	2.8	2.0	2.1	4.8	4.8
2007	5.4	5.4	3.3	3.1	2.0	2.2	2.0	2.1	4.9	4.9

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	2005				2006				2007				2005 ¹	2006 ¹	2007 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous</i>	3.8	3.3	4.1	1.7	5.3	3.7	3.2	3.1	3.0	3.0	3.0	3.0	3.2	3.8	3.0
Final sales <i>Previous</i>	3.8	3.3	4.1	1.8	4.7	3.5	3.7	3.4	3.1	3.1	3.1	3.0	3.3	3.8	3.1
Priv. dom. final purch. <i>Previous</i>	3.5	5.6	4.6	-2	5.8	3.3	3.3	2.8	2.7	3.5	3.1	2.3	3.3	3.8	2.9
Personal cons. expend. <i>Previous</i>	3.5	5.6	4.6	.0	5.0	3.5	3.7	3.0	3.0	3.4	2.8	2.3	3.4	3.8	2.9
Durables	4.1	4.5	4.8	1.5	6.6	3.4	3.7	3.5	3.3	3.4	3.3	3.1	3.7	4.3	3.3
Nondurables	4.1	4.5	4.8	1.8	5.7	3.5	4.1	3.9	3.8	3.5	3.3	3.3	3.8	4.3	3.5
Services	3.5	3.4	4.1	.9	5.5	3.7	3.5	3.4	3.2	3.2	3.2	3.1	2.9	4.0	3.2
Residential investment <i>Previous</i>	3.5	3.4	4.1	1.2	5.2	3.6	3.5	3.4	3.5	3.3	3.3	3.3	3.0	3.9	3.3
Business fixed invest. <i>Previous</i>	2.6	7.9	9.3	-16.6	20.6	9.1	6.5	5.7	5.9	5.6	5.6	4.9	.2	10.3	5.5
Equipment & software <i>Previous</i>	5.3	3.6	3.5	5.0	5.4	1.1	4.7	4.5	4.1	4.0	4.0	3.9	4.4	3.9	4.0
Nonres. structures <i>Previous</i>	2.8	2.3	3.3	2.6	2.8	3.9	2.3	2.3	2.3	2.3	2.3	2.3	2.8	2.8	2.3
Net exports ² <i>Previous</i> ²	9.5	10.8	7.3	2.8	3.8	-1.7	-2.1	-6	-2	-2	-6	-2.0	7.6	-2	-7
Exports	9.5	10.8	7.3	3.0	-2	-9	.3	4.6	3.9	.6	-2.1	-8	7.6	.9	.4
Imports	5.7	8.8	8.5	4.5	15.6	4.4	8.9	6.8	5.4	6.5	6.3	6.1	6.9	8.9	6.1
Govt. cons. & invest. <i>Previous</i>	5.7	8.8	8.5	5.4	12.8	4.9	10.0	6.9	5.7	6.5	6.2	5.7	7.1	8.6	6.0
Federal	8.3	10.9	10.6	5.0	17.0	2.1	8.8	6.2	5.0	6.6	6.5	6.3	8.7	8.4	6.1
Defense	8.3	10.9	10.6	6.0	15.2	3.9	11.2	7.5	6.3	7.6	7.1	6.6	9.0	9.3	6.9
Nondefense	-2.0	2.7	2.2	3.1	11.6	10.7	9.2	8.6	6.5	6.1	5.7	5.6	1.5	10.0	6.0
State & local	-2.0	2.7	2.2	3.5	6.5	7.9	6.9	5.5	4.1	3.6	3.8	3.5	1.6	6.7	3.7
Change in bus. inventories ² <i>Previous</i> ²	-645	-614	-617	-655	-675	-666	-672	-686	-699	-691	-693	-713	-633	-675	-699
Nonfarm ²	-645	-614	-617	-656	-668	-663	-668	-688	-704	-702	-710	-734	-633	-672	-712
Farm ²	7.5	10.7	2.5	5.1	12.7	6.0	5.6	5.5	5.6	5.9	5.8	5.8	6.4	7.4	5.8
	7.4	-3	2.4	12.1	12.7	1.9	4.9	6.6	6.2	2.2	4.3	7.9	5.3	6.5	5.1
Govt. cons. & invest. <i>Previous</i>	1.9	2.5	2.9	-8	4.4	.5	1.6	1.6	1.4	1.4	1.4	1.4	1.6	2.0	1.4
Federal	1.9	2.5	2.9	-8	2.9	1.6	1.7	1.8	1.4	1.4	1.4	1.4	1.6	2.0	1.4
Defense	2.4	2.4	7.4	-2.6	10.8	-1.9	.7	.6	.2	.0	.0	.0	2.3	2.4	.1
Nondefense	3.0	3.7	10.0	-8.9	10.3	.7	1.0	.9	.3	.1	-1	.1	1.7	3.2	.1
State & local	1.1	-2	2.4	11.7	11.7	-6.8	-1	.1	.0	.0	.0	.0	3.6	1.0	.0
Change in bus. inventories ² <i>Previous</i> ²	1.6	2.6	.2	.2	.7	1.9	2.1	2.2	2.2	2.2	2.2	2.2	1.2	1.7	2.2
Nonfarm ²	58	-2	-13	38	25	36	31	38	48	34	32	53	20	33	42
Farm ²	58	-2	-13	34	29	29	29	39	44	37	46	66	19	32	48
	62	3	-8	43	29	35	30	37	47	33	31	52	25	33	41
	-2	-4	-5	-4	-3	1	1	1	1	1	1	1	-4	0	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	1999 ¹	2000 ¹	2001 ¹	2002 ¹	2003 ¹	2004 ¹	2005 ¹	2006 ¹	2007 ¹
Real GDP <i>Previous</i>	4.7 4.7	2.2 2.2	.2 .2	1.9 1.9	4.0 4.0	3.8 3.8	3.2 3.3	3.8 3.8	3.0 3.1
Final sales <i>Previous</i>	4.2	2.9	1.5	.8	4.0	3.6	3.3	3.8	2.9
Priv. dom. final purch. <i>Previous</i>	4.2	2.9	1.5	.8	4.0	3.6	3.4	3.8	2.9
	5.3	4.3	1.0	1.1	4.4	4.8	3.7	4.3	3.3
	5.3	4.3	1.0	1.1	4.4	4.8	3.8	4.3	3.5
Personal cons. expend. <i>Previous</i>	4.9	4.1	2.8	1.9	3.8	3.8	2.9	4.0	3.2
	4.9	4.1	2.8	1.9	3.8	3.8	3.0	3.9	3.3
Durables	7.3	4.7	10.8	1.2	9.2	5.2	.2	10.3	5.5
Nondurables	4.9	3.0	1.9	2.1	4.1	4.6	4.4	3.9	4.0
Services	4.4	4.5	1.6	1.9	2.5	3.1	2.8	2.8	2.3
Residential investment <i>Previous</i>	3.6	-1.9	1.4	7.0	11.8	6.6	7.6	-2	-7
	3.6	-1.9	1.4	7.0	11.8	6.6	7.6	.9	.4
Business fixed invest. <i>Previous</i>	7.7	7.8	-9.6	-6.5	5.6	10.9	6.9	8.9	6.1
	7.7	7.8	-9.6	-6.5	5.6	10.9	7.1	8.6	6.0
Equipment & software <i>Previous</i>	10.8	7.5	-9.0	-3.4	7.2	13.8	8.7	8.4	6.1
	10.8	7.5	-9.0	-3.4	7.2	13.8	9.0	9.3	6.9
Nonres. structures <i>Previous</i>	-9	8.8	-11.1	-14.9	1.2	2.7	1.5	10.0	6.0
	-9	8.8	-11.1	-14.9	1.2	2.7	1.6	6.7	3.7
Net exports ² <i>Previous</i> ²	-296	-379	-399	-471	-521	-601	-633	-675	-699
	-296	-379	-399	-471	-521	-601	-633	-672	-712
Exports	5.6	6.5	-11.9	3.8	6.0	6.1	6.4	7.4	5.8
Imports	12.1	11.2	-7.6	9.7	5.1	10.6	5.3	6.5	5.1
Govt. cons. & invest. <i>Previous</i>	4.2	.4	5.0	4.0	1.9	2.1	1.6	2.0	1.4
	4.2	.4	5.0	4.0	1.9	2.1	1.6	2.0	1.4
Federal	4.2	-2.2	6.4	7.8	5.5	4.2	2.3	2.4	.1
Defense	4.3	-3.5	6.5	8.4	7.5	4.9	1.7	3.2	.1
Nondefense	4.1	.3	6.3	6.8	1.6	2.8	3.6	1.0	.0
State & local	4.2	1.7	4.2	2.1	.0	.9	1.2	1.7	2.2
Change in bus. inventories ² <i>Previous</i> ²	69	56	-32	12	15	52	20	33	42
	69	56	-32	12	15	52	19	32	48
Nonfarm ²	72	58	-32	15	15	50	25	33	41
Farm ²	-3	-1	0	-2	0	2	-4	0	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	2005				2006				2007				2005 ¹	2006 ¹	2007 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous</i>	3.8	3.3	4.1	1.7	5.3	3.7	3.2	3.1	3.0	3.0	3.0	3.0	3.2	3.8	3.0
Final sales <i>Previous</i>	3.8	3.3	4.1	1.8	4.7	3.5	3.7	3.4	3.1	3.1	3.1	3.0	3.3	3.8	3.1
Priv. dom. final purch. <i>Previous</i>	3.5	5.5	4.6	-2	5.8	3.3	3.3	2.8	2.7	3.5	3.1	2.3	3.3	3.8	2.9
Personal cons. expend. <i>Previous</i>	3.5	5.5	4.6	.0	5.0	3.5	3.7	3.0	3.0	3.4	2.8	2.3	3.4	3.8	2.9
Durables	3.6	3.9	4.2	1.3	5.7	2.9	3.2	3.1	2.9	3.0	2.9	2.7	3.2	3.7	2.9
Nondurables	3.6	3.9	4.2	1.6	5.0	3.0	3.6	3.4	3.3	3.0	2.8	2.9	3.3	3.7	3.0
Services	2.4	2.4	2.9	.6	3.8	2.6	2.4	2.4	2.3	2.2	2.2	2.2	2.1	2.8	2.2
Residential investment <i>Previous</i>	2.4	2.4	2.9	.8	3.6	2.5	2.5	2.3	2.4	2.3	2.3	2.3	2.1	2.7	2.3
Business fixed invest. <i>Previous</i>	.2	.6	.8	-1.5	1.5	.7	.5	.5	.5	.4	.4	.4	.0	.8	.4
Equipment & software <i>Previous</i>	1.1	.7	.7	1.0	1.1	.2	1.0	.9	.8	.8	.8	.8	.9	.8	.8
Nonres. structures <i>Previous</i>	1.2	1.0	1.4	1.1	1.2	1.6	.9	1.0	1.0	1.0	1.0	1.0	1.1	1.2	1.0
Net exports <i>Previous</i>	.5	.6	.4	.2	.2	-1	-1	.0	.0	.0	.0	-1	.4	.0	.0
Exports	.5	.6	.4	.2	.0	-1	.0	.3	.2	.0	-1	-1	.4	.1	.0
Imports	.6	.9	.9	.5	1.6	.5	1.0	.8	.6	.7	.7	.7	.7	1.0	.7
Govt. cons. & invest. <i>Previous</i>	.6	.9	.9	.6	1.3	.5	1.1	.8	.6	.7	.7	.6	.7	.9	.7
Federal	.6	.8	.8	.4	1.3	.2	.7	.5	.4	.5	.5	.5	.7	.7	.5
Defense	.6	.8	.8	.5	1.2	.3	.9	.6	.5	.6	.6	.5	.7	.7	.6
Nondefense	-1	.1	.1	.1	.3	.3	.3	.3	.2	.2	.2	.2	.0	.3	.2
State & local	-1	.1	.1	.1	.2	.2	.2	.2	.1	.1	.1	.1	.0	.2	.1
Change in bus. inventories <i>Previous</i>	-4	1.1	-1	-1.4	-7	.3	-2	-5	-5	.2	-1	-7	-2	-3	-3
Nonfarm	-4	1.1	-1	-1.4	-5	.2	-2	-7	-6	.1	-3	-8	-2	-3	-4
Farm	.7	1.1	.3	.5	1.3	.6	.6	.6	.6	.6	.6	.6	.6	.8	.6
	-1.1	.0	-4	-1.9	-2.0	-3	-8	-1.1	-1.1	-4	-7	-1.3	-9	-1.1	-9
Govt. cons. & invest. <i>Previous</i>	.4	.5	.5	-2	.8	.1	.3	.3	.3	.3	.3	.3	.3	.4	.3
Federal	.4	.5	.5	-1	.6	.3	.3	.3	.3	.3	.3	.3	.3	.4	.3
Defense	.2	.2	.5	-2	.7	-1	.0	.0	.0	.0	.0	.0	.2	.2	.0
Nondefense	.1	.2	.5	-4	.5	.0	.0	.0	.0	.0	.0	.0	.1	.1	.0
State & local	.0	.0	.1	.3	.3	-2	.0	.0	.0	.0	.0	.0	.1	.0	.0
Change in bus. inventories <i>Previous</i>	.2	.3	.0	.0	.1	.2	.3	.3	.3	.3	.3	.3	.1	.2	.3
Nonfarm	.3	-2.1	-4	1.9	-5	.3	-1	.2	.3	-5	-1	.7	-1	.0	.1
Farm	.3	-2.1	-4	1.7	-3	.0	.0	.4	.2	-2	.3	.7	-1	.0	.2
	.4	-2.1	-4	1.9	-5	.2	-1	.2	.3	-5	-1	.7	-1	-1	.1
	-1	-1	.0	.0	.0	.1	.0	.0	.0	.0	.0	.0	.0	.0	.0

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

Class II FOMC
Restricted (FR)

May 3, 2006

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

Item	2005				2006				2007				2005 ¹	2006 ¹	2007 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP chain-wt. price index <i>Previous</i>	3.1	2.6	3.3	3.5	3.3	3.2	1.9	2.1	2.3	2.4	2.2	2.0	3.1	2.6	2.3
PCE chain-wt. price index <i>Previous</i>	3.1	2.6	3.3	3.3	3.4	2.6	2.0	2.0	2.1	2.2	2.1	1.9	3.1	2.5	2.1
Energy	2.3	3.3	3.7	2.9	2.0	3.9	2.1	2.2	2.2	2.0	1.9	1.8	3.0	2.5	2.0
<i>Previous</i>	2.3	3.3	3.7	2.7	1.9	2.0	2.1	2.2	2.1	2.0	1.9	1.8	3.0	2.0	1.9
Food	3.6	28.6	50.0	10.3	-2	30.0	.4	2.3	3.0	1.7	1.1	.1	21.8	7.4	1.5
<i>Previous</i>	3.6	28.6	50.0	10.2	-1	-1.2	.6	1.8	2.9	1.9	1.0	.5	21.8	.3	1.6
Ex. food & energy <i>Previous</i>	1.0	3.5	1.3	2.4	2.7	1.9	2.4	2.4	2.3	2.2	2.2	2.1	2.1	2.4	2.2
CPI	1.0	3.5	1.3	2.4	2.9	2.2	2.4	2.4	2.3	2.2	2.2	2.1	2.1	2.5	2.2
Ex. food & energy <i>Previous</i>	2.4	1.7	1.4	2.4	2.0	2.5	2.2	2.1	2.1	2.0	2.0	1.9	2.0	2.2	2.0
CPI	2.4	1.7	1.4	2.1	1.9	2.2	2.2	2.2	2.0	1.9	1.9	1.8	1.9	2.1	1.9
Ex. food & energy <i>Previous</i>	2.3	3.8	5.5	3.3	2.2	4.4	2.2	2.4	2.4	2.2	2.1	2.0	3.7	2.8	2.2
Ex. food & energy <i>Previous</i>	2.3	3.8	5.5	3.3	2.1	2.0	2.3	2.3	2.4	2.2	2.1	2.0	3.7	2.2	2.2
ECL, hourly compensation ² <i>Previous</i> ²	2.6	1.8	1.6	2.4	2.4	2.7	2.4	2.4	2.3	2.3	2.2	2.2	2.1	2.5	2.3
Nonfarm business sector Output per hour <i>Previous</i>	2.6	1.8	1.6	2.4	2.2	2.4	2.4	2.4	2.3	2.2	2.2	2.1	2.1	2.4	2.2
Compensation per hour <i>Previous</i>	3.8	2.5	2.9	2.8	2.4	3.4	3.5	3.7	3.7	3.7	3.9	3.9	2.9	3.2	3.8
Unit labor costs <i>Previous</i>	2.5	2.5	3.2	3.2	4.1	4.2	4.2	4.3	4.2	4.2	4.2	4.2	3.0	4.2	4.2
Output per hour <i>Previous</i>	3.8	2.4	4.2	-4	3.3	2.5	2.7	2.9	3.1	3.1	3.1	3.1	2.5	2.8	3.1
Compensation per hour <i>Previous</i>	3.8	2.4	4.2	-2	2.3	2.4	3.1	3.3	3.2	3.1	3.1	3.0	2.5	2.8	3.1
Unit labor costs <i>Previous</i>	5.6	1.3	5.5	2.6	5.0	4.6	5.5	5.5	5.5	5.4	5.3	5.3	3.7	5.2	5.4
Unit labor costs <i>Previous</i>	5.6	1.3	5.5	2.8	4.3	5.1	5.6	5.6	5.4	5.3	5.2	5.2	3.8	5.2	5.3
Unit labor costs <i>Previous</i>	1.8	-1.0	1.2	3.0	1.7	2.0	2.7	2.5	2.3	2.3	2.2	2.2	1.2	2.2	2.3
Unit labor costs <i>Previous</i>	1.8	-1.0	1.2	3.1	2.0	2.7	2.4	2.3	2.2	2.2	2.1	2.1	1.3	2.3	2.1

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

2. Private-industry workers.

Other Macroeconomic Indicators

Item	2005				2006				2007				2005 ¹	2006 ¹	2007 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Employment and production</i>															
Nonfarm payroll employment ²	.5	.5	.5	.4	.6	.6	.4	.3	.3	.2	.2	.2	1.9	1.9	.9
Unemployment rate ³	5.2	5.1	5.0	5.0	4.7	4.7	4.8	4.8	4.9	4.9	4.9	5.0	5.0	4.8	5.0
<i>Previous³</i>	5.2	5.1	5.0	5.0	4.8	4.8	4.8	4.8	4.8	4.8	4.9	4.9	5.0	4.8	4.9
GDP gap ⁴	-.5	-.4	-.1	-.4	.1	.2	.1	.1	.0	.0	-.1	-.2	-.4	.1	-.2
<i>Previous⁴</i>	-.6	-.5	-.2	-.4	-.1	.0	.1	.1	.1	.0	.0	-.1	-.4	.1	-.1
Industrial production ⁵	3.8	1.6	1.4	5.3	4.5	7.2	5.8	4.5	4.0	3.1	2.8	2.8	3.0	5.5	3.2
<i>Previous⁵</i>	3.8	1.6	1.4	5.3	5.2	6.8	5.4	4.5	3.8	3.1	2.7	2.9	3.0	5.5	3.1
Manufacturing industr. prod. ⁵	4.5	1.3	2.0	9.1	5.4	5.5	5.4	4.3	4.1	3.3	3.1	3.1	4.2	5.2	3.4
<i>Previous⁵</i>	4.5	1.3	2.0	9.2	6.0	4.7	4.8	4.4	3.9	3.2	2.8	3.2	4.2	5.0	3.3
Capacity utilization rate - mfg. ³	78.7	78.5	78.5	79.8	80.4	80.9	81.5	81.8	82.1	82.1	82.1	82.0	79.8	81.8	82.0
<i>Previous³</i>	78.7	78.5	78.5	79.8	80.5	80.9	81.3	81.7	81.9	81.9	81.9	81.8	79.8	81.7	81.8
Housing starts ⁶	2.1	2.0	2.1	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.0	2.0
Light motor vehicle sales ⁶	16.5	17.2	17.9	15.8	16.9	16.7	16.9	17.0	17.1	17.1	17.1	17.2	16.9	16.9	17.1
<i>Income and saving</i>															
Nominal GDP ⁵	7.0	6.0	7.6	5.2	8.8	7.0	5.1	5.2	5.4	5.5	5.3	5.1	6.4	6.5	5.3
Real disposable pers. income ⁵	-3.4	.2	-1.4	6.7	3.2	3.8	5.5	4.2	4.6	4.6	3.9	3.7	.5	4.2	4.2
<i>Previous⁵</i>	-3.4	.2	-1.4	7.1	4.2	5.2	5.1	4.6	4.8	4.5	4.0	4.0	.5	4.8	4.3
Personal saving rate ³	.5	-.2	-1.6	-.2	-.7	-.7	-.2	.0	.4	.7	.9	1.0	-.2	.0	1.0
<i>Previous³</i>	.5	-.2	-1.6	-.2	-.4	.0	.3	.6	.9	1.2	1.4	1.6	-.2	.6	1.6
Corporate profits ⁷	24.5	19.7	-15.2	71.1	13.1	15.8	-4.5	-4.0	-3.2	.5	-.4	4.5	21.3	4.7	.3
Profit share of GNP ³	10.5	10.9	10.2	11.6	11.7	11.9	11.7	11.4	11.2	11.1	10.9	10.9	11.6	11.4	10.9
Net federal savings ⁸	-298	-297	-408	-289	-248	-301	-314	-316	-321	-334	-335	-339	-323	-295	-333
Net state & local saving ⁸	7	21	-6	-10	16	28	21	22	23	24	24	26	3	22	24
Gross national saving rate ³	13.4	13.1	13.6	13.6	13.5	13.4	13.4	13.3	13.3	13.3	13.4	13.3	13.6	13.3	13.3
Net national saving rate ³	1.7	1.6	-1.3	1.9	2.2	2.2	2.1	2.0	2.0	2.0	2.1	2.2	1.9	2.0	2.2

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.

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

May 3, 2006

Item	Fiscal year			2005				2006				2007				
	2004 ^a	2005 ^a	2006	2007	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts ¹	1880	2154	2369	2453	452	665	549	530	507	761	570	556	515	781	600	586
Outlays ¹	2293	2472	2662	2773	628	620	618	650	691	661	660	689	720	694	670	736
Surplus/deficit ¹	-412	-318	-293	-320	-177	45	-69	-119	-184	100	-90	-133	-205	88	-70	-150
<i>Previous</i>	-412	-318	-333	-343	-177	45	-69	-119	-185	59	-87	-134	-210	77	-76	-148
On-budget	-568	-494	-470	-503	-202	-37	-84	-170	-216	18	-102	-193	-228	2	-84	-212
Off-budget	155	175	177	183	25	83	15	51	32	82	12	60	23	85	14	61
Means of financing																
Borrowing	378	297	302	331	165	-43	73	112	156	-77	111	123	189	-59	78	140
Cash decrease	-1	1	0	0	2	-11	-2	-1	28	-17	-10	10	15	-25	0	10
Other ²	35	21	-9	-12	10	8	-1	8	-1	-6	-10	-0	0	-4	-8	-0
Cash operating balance, end of period	36	36	35	35	22	33	36	37	8	25	35	25	10	35	35	25
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1933	2159	2401	2528	2197	2228	2156	2321	2397	2428	2456	2487	2524	2538	2563	2593
Expenditures	2348	2503	2689	2855	2495	2525	2564	2610	2646	2729	2770	2804	2846	2872	2899	2933
Consumption expenditures	711	760	803	837	760	763	783	773	806	812	819	823	838	842	846	850
Defense	474	510	534	558	509	512	529	514	535	541	545	549	559	561	564	567
Nondefense	237	250	269	279	251	251	254	259	271	271	273	274	279	281	282	283
Other spending	1637	1742	1886	2018	1735	1762	1781	1837	1839	1917	1951	1980	2008	2030	2053	2083
Current account surplus	-415	-344	-288	-327	-298	-297	-408	-289	-248	-301	-314	-316	-321	-334	-335	-339
Gross investment	99	106	116	116	101	107	109	115	118	115	115	116	116	116	116	116
Gross saving less gross investment ³	-421	-352	-302	-337	-302	-307	-418	-304	-266	-314	-325	-328	-332	-344	-344	-347
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-380	-338	-307	-341	-285	-295	-415	-295	-271	-325	-335	-338	-338	-347	-344	-343
Change in HEB, percent of potential GDP	0.7	-0.5	-0.4	0.1	-0.6	0.0	0.9	-1.0	-0.2	0.4	0.0	-0.0	-0.0	0.0	-0.1	-0.0
Fiscal impetus (FI)																
percent of GDP	0.8	0.3	0.4	0.1	0.0	0.1	0.1	-0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Previous</i>	0.8	0.3	0.4	0.1	0.0	0.1	0.1	-0.0	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0

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

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** **May 3, 2006**
(Percent)

Period ¹	Total	Households			Business	State and local governments	Federal government	Memo: Nominal GDP
		Total	Home mortgages	Consumer credit				
<i>Year</i>								
2000	4.8	8.6	8.2	10.8	9.3	1.3	-8.0	4.6
2001	6.1	8.6	9.5	7.6	6.1	8.9	-2	2.7
2002	6.9	9.7	11.9	4.7	2.7	11.1	7.6	3.6
2003	8.1	11.4	14.3	4.5	2.7	8.2	10.9	6.1
2004	8.7	11.1	13.5	4.4	5.9	7.6	9.0	6.8
2005	9.5	11.7	14.1	2.7	7.8	10.6	7.0	6.4
2006	7.2	7.9	9.2	3.3	7.3	3.8	6.7	6.5
2007	6.4	6.5	7.2	3.9	6.8	3.1	7.0	5.3
<i>Quarter</i>								
2005:1	9.7	9.7	11.5	3.4	6.6	12.0	14.4	7.0
2	8.1	11.8	13.8	3.6	8.2	6.0	.1	6.0
3	9.6	12.4	14.9	5.0	7.5	13.1	5.1	7.6
4	9.5	11.0	13.3	-1.1	8.2	9.6	7.8	5.2
2006:1	9.2	8.8	10.3	3.4	8.7	4.5	12.7	8.8
2	5.5	7.9	9.2	3.3	7.0	4.4	-2.7	7.0
3	6.8	7.2	8.3	3.2	6.5	3.1	8.0	5.1
4	6.6	6.7	7.7	3.3	6.3	3.1	8.2	5.2
2007:1	7.7	6.5	7.3	3.5	6.5	3.3	14.5	5.4
2	4.9	6.4	7.1	3.7	6.7	3.2	-1.1	5.5
3	5.9	6.3	7.0	4.1	6.6	2.8	4.9	5.3
4	6.6	6.2	6.8	4.1	6.5	2.8	9.0	5.1

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2005:Q4 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** **May 3, 2006**
(Billions of dollars at seasonally adjusted annual rates except as noted)

Category	2004	2005	2006	2007	2005				2006				2007			
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q3	Q4
<i>Domestic nonfinancial sectors</i>																
Net funds raised																
Total	1792.6	1927.4	1523.5	1605.7	1924.9	2046.7	1829.9	1105.8	1565.0	1593.2	1967.9	1204.5	1514.0	1736.3		
Net equity issuance	-141.1	-366.0	-374.8	-210.8	-481.1	-394.6	-586.8	-370.8	-300.8	-240.8	-210.8	-210.8	-210.8	-210.8		
Net debt issuance	1933.7	2293.4	1898.3	1816.5	2406.0	2441.3	2416.7	1476.6	1865.8	1834.0	2178.7	1415.3	1724.8	1947.1		
Borrowing indicators																
Debt (percent of GDP) ¹	197.0	202.2	205.1	207.8	202.1	204.3	204.7	205.0	205.6	206.4	207.3	207.8	207.9	208.6		
Borrowing (percent of GDP)	16.5	18.4	14.2	12.9	19.1	19.1	18.5	11.1	13.9	13.5	15.8	10.1	12.2	13.6		
Households																
Net borrowing ²	1023.4	1203.4	905.9	804.7	1343.5	1234.3	1010.5	928.9	863.1	821.3	802.8	803.6	807.2	805.4		
Home mortgages	898.7	1069.7	796.3	683.9	1207.4	1118.9	894.5	818.8	757.3	714.7	691.0	686.3	681.5	676.8		
Consumer credit	88.8	58.4	72.9	88.5	108.2	-24.9	73.6	73.1	71.5	73.4	79.6	85.1	93.5	95.8		
Debt/DPI (percent) ³	112.8	120.5	124.2	124.7	122.0	122.7	124.1	124.4	124.4	124.6	124.5	124.5	124.7	124.9		
Business																
Financing gap ⁴	47.0	-92.7	34.8	204.1	-237.7	-128.4	-100.7	31.4	79.4	129.1	174.3	183.7	204.2	254.0		
Net equity issuance	-141.1	-366.0	-374.8	-210.8	-481.1	-394.6	-586.8	-370.8	-300.8	-240.8	-210.8	-210.8	-210.8	-210.8		
Credit market borrowing	430.2	605.8	608.3	604.1	601.5	673.7	725.2	594.8	560.6	552.6	583.8	607.9	609.5	615.0		
State and local governments																
Net borrowing	118.2	177.3	71.2	58.8	229.1	174.2	84.4	82.8	58.8	58.8	62.8	62.8	54.8	54.8		
Current surplus ⁵	181.3	206.3	194.5	205.8	208.3	195.3	185.0	199.4	195.0	198.4	201.5	204.6	206.4	210.7		
Federal government																
Net borrowing	361.9	306.9	312.8	348.9	231.9	359.0	596.6	-129.9	383.3	401.3	729.3	-58.9	253.3	472.0		
Net borrowing (n.s.a.)	361.9	306.9	312.8	348.9	72.8	112.2	156.1	-76.7	110.6	122.8	189.3	-59.0	78.1	140.5		
Unified deficit (n.s.a.)	400.7	319.7	307.3	336.9	69.0	119.3	183.7	-99.6	90.1	133.1	204.7	-87.9	69.7	150.4		
<i>Depository institutions</i>																
Funds supplied	796.9	817.2	623.4	540.3	864.4	488.2	967.2	458.5	576.3	491.8	627.8	485.6	558.2	489.6		

Note. Data after 2005:Q4 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.

2.6.4 FOF

International Developments

The outlook for foreign economic activity remains robust, and the continued strength of global demand has contributed to rising commodity prices and tighter financial conditions abroad. Since the March FOMC meeting, prices of oil and of other commodities have increased sharply, and long-term interest rates have risen significantly in all of the major industrial countries. The dollar has depreciated broadly against other currencies during this period, apparently on market concerns about the exchange rate adjustments needed to reduce the large and growing U.S. current account deficit.

We estimate that foreign economic growth averaged 4 percent at an annual rate in the first quarter, the same pace recorded for the previous quarter. Foreign growth is projected to step down in the current quarter and to average 3½ percent for the rest of the forecast period. Our outlook for aggregate foreign output is little changed from the March Greenbook projection; although higher oil prices and firmer financial conditions are projected to exert a drag, this is offset by readings on recent activity that have been somewhat stronger than we expected. Foreign consumer price inflation was subdued in the first quarter, but it is expected to rise to a rate of 2¾ percent for the rest of this year, mainly because of higher prices for energy and other commodities. Foreign inflation is expected to subside next year.

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

Indicator	2005		Projection			
	H1	H2	2006			2007
			Q1	Q2	H2	
Foreign output	3.3	4.2	4.0	3.7	3.5	3.4
March GB	3.2	4.2	3.9	3.7	3.5	3.4
Foreign CPI	2.0	2.6	2.0	2.8	2.8	2.5
March GB	1.9	2.7	2.4	2.4	2.5	2.5

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

As spot oil prices soared to new highs, prices of futures contracts moved noticeably higher as well, and we marked up the projected path of oil prices by a substantial margin. Prices of nonfuel primary commodities also shot up in recent weeks, especially for some industrial metals. Nonfuel commodity prices are projected to increase further in the current quarter and to remain flat over the rest of the forecast period.

particularly for metals, and they are projected to keep core import price inflation at 3½ percent for the second half of 2006. Furthermore, the dollar, which restrained core import prices as it strengthened in 2005, has declined so far this year and is projected to continue to decline. In 2007, core import prices decelerate as commodity prices level off despite some continued small boost from dollar depreciation.

Staff Projections of Selected Trade Prices

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

Indicator	2005		Projection			
	H1	H2	2006			2007
			Q1	Q2	H2	
<i>Exports</i>						
Core goods	4.9	2.9	3.3	5.1	4.3	1.7
March GB	4.9	3.0	4.0	4.9	3.4	1.3
<i>Imports</i>						
Nonfuel core goods	3.3	1.1	1.7	3.8	3.5	1.3
March GB	3.3	1.2	3.1	3.4	3.1	1.2
Oil (dollars per barrel)	46.30	55.40	55.12	64.73	71.03	70.65
March GB	46.30	55.40	55.13	55.64	59.41	60.76

Note. Prices for core exports exclude computers and semiconductors. Prices for nonfuel core imports exclude computers, semiconductors, oil, and natural gas. Both price series 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.

Compared with the previous Greenbook, higher commodity prices and a weaker dollar tend to raise our forecast for core import price inflation. However, first-quarter price data came in much lower than we had expected. All told, our projection of core import price inflation has risen 0.4 percentage point from the March Greenbook for the rest of this year and is little changed in 2007.

Core export prices also came in somewhat lower than we expected in the first quarter. Prices of core exports increased sharply in January, reflecting a surge in prices for exported nonagricultural industrial supplies, and then rose at a modest pace in February and March, as agricultural prices fell. Nevertheless, we project that core export price inflation will rise to 5 percent in the second quarter, driven up by the recent strength in the producer price indexes for petroleum products and intermediate materials excluding food and energy as well as in the prices of primary commodities, especially metals.

5¼ percent over the remainder of the forecast period. Our projection for core import growth reflects the effect of slowing U.S. growth that is offset somewhat by the deceleration of core import prices. Imports of computers and semiconductors should maintain firm growth; imports of services slow from the first quarter's strong pace but continue to grow steadily. In comparison with the March Greenbook, our projection is weaker on balance, partly reflecting the lower dollar.

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

Indicator	2005		Projection			
	H1	H2	2006			2007
			Q1	Q2	H2	
Real exports	9.1	3.8	12.7	6.0	5.6	5.8
<i>March GB</i>	9.1	3.8	15.0	5.7	5.1	4.9
Real imports	3.5	7.1	12.7	1.9	5.7	5.1
<i>March GB</i>	3.5	7.2	12.5	2.5	5.9	5.5

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

Held back by hurricane-induced weakness early on, real exports of goods and services grew only about 5 percent at an annual rate in the fourth quarter. In the first quarter, we estimate that real export growth rebounded to 12¾ percent. Nominal exports increased strongly in January and fell back only slightly in February, remaining at a high level. Exports of aircraft continued to grow strongly, and exports of industrial supplies recovered from their fourth-quarter weakness. Thus, for the first quarter, we project robust growth in exports of core goods, as well as a pick up in exports of services and computers. Since the March Greenbook, we have revised down our projection for overall export growth in the first quarter somewhat, primarily in response to the slightly-weaker-than-expected February data.

We expect real export growth to moderate after the first quarter, to about 6 percent in the second quarter and to 5¾ percent, on average, for the remainder of the forecast period. The growth of core goods exports is projected to decline in the second quarter to a pace more in line with foreign GDP growth and relative prices. Thereafter, growth slows further as the positive impetus of dollar depreciation in 2003-04 wanes and the appreciation of the dollar in 2005 exerts a drag, notwithstanding continued support from

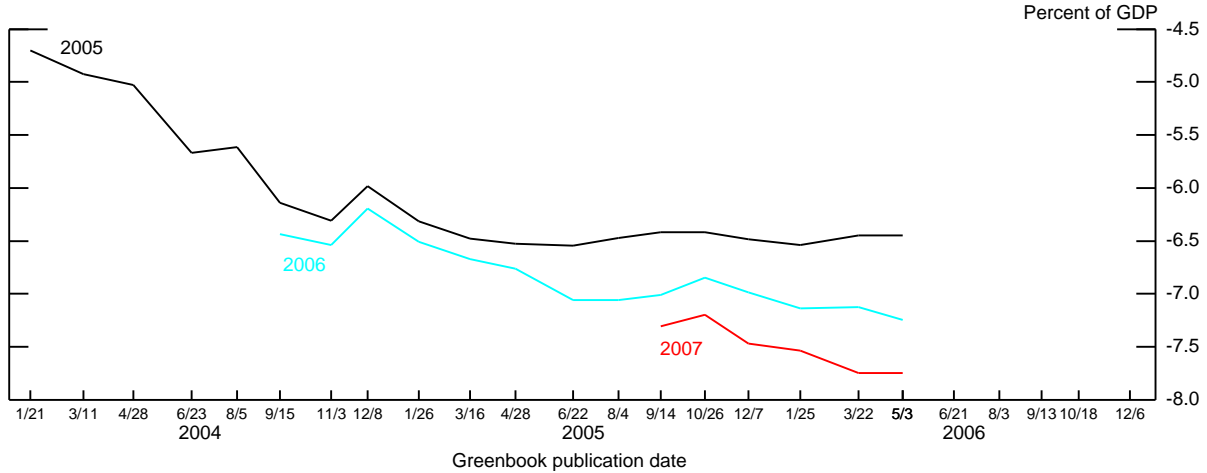
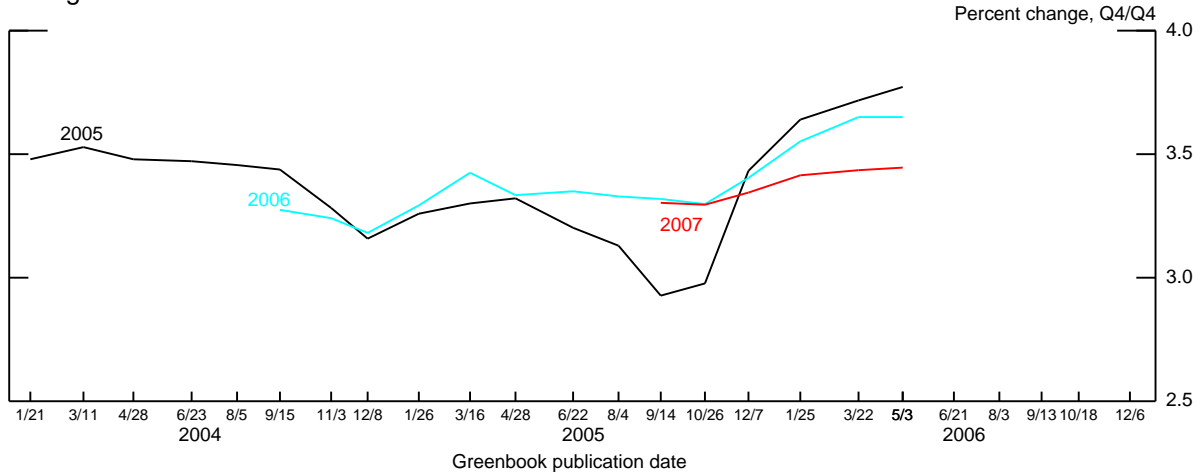
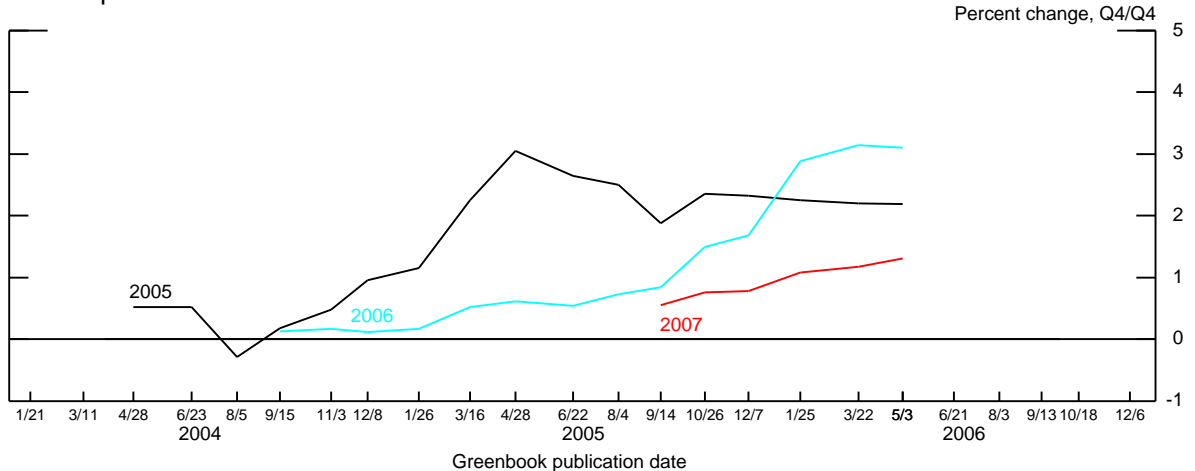
**Alternative Simulation:
Higher Oil Prices**

(Percent change from previous period, annual rate)

Indicator and simulation	2006		2007	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	4.5	3.1	3.0	3.0
Permanent rise	4.3	2.7	2.7	2.9
<i>U.S. PCE prices excluding food and energy</i>				
Baseline	2.3	2.1	2.0	1.9
Permanent rise	2.4	2.3	2.2	2.1
<i>U.S. Trade Balance percent of GDP</i>				
Baseline	-6.2	-6.5	-6.6	-6.5
Permanent rise	-7.0	-7.3	-7.3	-7.2

Note. H1 is Q2/Q4; H2 is Q4/Q2. The monetary authorities in the United States and the major foreign economies adjust their policy rates 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.

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

Measure and country	1999	2000	2001	2002	2003	2004	2005	Projected 2006	2007
REAL GDP (1)									

Total foreign	5.1	4.2	0.4	3.1	3.0	3.7	3.8	3.6	3.4
Industrial Countries	4.4	3.6	0.9	2.6	1.8	2.3	2.7	2.7	2.5
of which:									
Canada	5.9	4.1	1.3	3.6	1.7	3.3	2.9	3.0	3.1
Japan	0.2	3.3	-1.5	2.0	2.6	0.5	4.3	2.4	2.0
United Kingdom	3.4	3.2	2.0	2.1	3.1	2.6	1.8	2.8	3.0
Euro Area (2)	4.1	3.2	1.0	1.2	1.0	1.6	1.8	2.2	1.5
Germany	3.5	2.3	1.1	0.2	0.2	0.5	1.6	2.5	0.9
Developing Countries	6.3	5.2	-0.4	3.9	4.7	5.7	5.3	5.0	4.8
Asia	8.8	5.8	1.1	6.3	6.9	6.1	7.3	6.0	5.8
Korea	11.8	4.3	4.7	7.8	4.2	2.9	5.3	4.5	4.2
China	7.7	8.2	7.8	9.2	10.5	10.1	9.9	8.6	8.3
Latin America	4.4	4.4	-1.3	1.5	2.3	5.2	3.1	4.0	3.7
Mexico	5.5	4.8	-1.3	1.9	2.0	4.8	2.7	3.7	3.5
Brazil	3.4	3.8	-1.0	4.1	0.9	4.7	1.5	3.5	3.5
CONSUMER PRICES (3)									

Industrial Countries	1.2	1.8	0.9	2.1	1.3	1.8	1.6	1.7	1.8
of which:									
Canada	2.4	3.1	1.1	3.8	1.7	2.3	2.3	2.2	1.9
Japan	-1.0	-0.9	-1.0	-0.5	-0.4	0.5	-0.5	0.9	0.9
United Kingdom (4)	1.1	0.9	1.1	1.5	1.3	1.4	2.1	1.9	2.1
Euro Area (2)	1.5	2.5	2.1	2.3	2.0	2.3	2.3	1.9	2.0
Germany	1.1	1.7	1.4	1.2	1.1	2.1	2.2	1.5	2.5
Developing Countries	4.5	4.1	2.8	2.9	3.0	3.9	3.1	3.5	3.4
Asia	0.1	1.9	1.2	0.8	2.2	3.2	2.7	3.2	3.2
Korea	1.2	2.5	3.3	3.4	3.5	3.4	2.5	3.3	3.3
China	-1.0	1.0	-0.1	-0.5	2.7	3.3	1.4	2.9	3.0
Latin America	12.5	8.4	5.3	6.4	4.9	5.7	3.8	4.1	3.9
Mexico	13.4	8.7	5.1	5.2	3.9	5.3	3.1	3.8	3.7
Brazil	8.4	6.4	7.5	10.7	11.5	7.2	6.1	4.9	4.5

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	2005				2006				Projected 2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	2.6	4.0	4.5	4.0	4.0	3.7	3.5	3.5	3.4	3.5	3.5	3.5
Industrial Countries	2.0	3.4	2.7	2.7	2.8	3.0	2.6	2.5	2.4	2.6	2.5	2.5
of which:												
Canada	2.1	3.6	3.5	2.5	3.2	3.2	2.8	2.7	3.0	3.1	3.1	3.1
Japan	5.5	5.7	0.8	5.4	2.1	2.9	2.5	2.3	2.2	2.1	1.9	1.8
United Kingdom	0.8	2.1	2.1	2.3	2.6	3.0	2.9	2.9	3.0	3.0	3.1	3.1
Euro Area (2)	1.3	1.7	2.8	1.3	2.4	2.5	1.9	2.0	1.0	1.7	1.7	1.7
Germany	2.4	1.2	2.5	0.0	2.6	2.9	2.0	2.5	-0.8	1.7	1.4	1.4
Developing Countries	3.6	4.7	7.1	5.7	5.5	4.8	4.7	4.8	4.8	4.8	4.8	4.8
Asia	5.3	7.8	8.1	7.2	5.5	5.5	5.5	5.6	5.8	5.8	5.8	5.8
Korea	2.1	5.9	6.6	6.7	5.1	4.4	4.2	4.2	4.2	4.2	4.2	4.2
China	11.9	7.2	8.9	11.5	12.9	6.8	7.2	7.5	8.3	8.3	8.3	8.3
Latin America	1.4	1.3	6.7	2.9	4.1	4.0	3.9	3.9	3.7	3.7	3.7	3.7
Mexico	0.6	-0.7	8.7	2.4	3.8	3.7	3.7	3.7	3.5	3.5	3.5	3.5
Brazil	0.6	5.7	-3.4	3.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
CONSUMER PRICES (3)	Four-quarter changes											
Industrial Countries	1.5	1.5	1.8	1.6	1.9	1.9	1.7	1.7	1.9	1.8	1.8	1.8
of which:												
Canada	2.1	1.9	2.7	2.3	2.5	2.5	2.0	2.2	2.2	1.9	2.0	1.9
Japan	-0.2	-0.1	-0.2	-0.5	0.4	0.6	0.9	0.9	0.7	0.8	0.8	0.9
United Kingdom (4)	1.7	2.0	2.4	2.1	2.0	1.9	1.7	1.9	2.0	2.0	2.1	2.1
Euro Area (2)	2.1	2.0	2.3	2.3	2.3	2.3	2.0	1.9	2.4	2.1	2.1	2.0
Germany	1.7	1.6	2.1	2.2	2.1	2.2	1.7	1.5	3.0	2.6	2.6	2.5
Developing Countries	3.5	3.3	3.0	3.1	3.1	3.1	3.2	3.5	3.8	3.8	3.6	3.4
Asia	2.9	2.4	2.3	2.7	2.5	2.6	2.8	3.2	3.8	3.7	3.4	3.2
Korea	3.1	3.0	2.4	2.5	2.4	2.3	2.6	3.3	3.8	4.1	3.7	3.3
China	2.7	1.8	1.3	1.4	1.2	1.5	2.1	2.9	3.6	3.6	3.2	3.0
Latin America	4.9	5.1	4.5	3.8	4.2	3.9	3.9	4.1	3.9	4.0	4.0	3.9
Mexico	4.4	4.5	4.0	3.1	3.7	3.4	3.5	3.8	3.6	3.6	3.7	3.7
Brazil	7.4	7.7	6.2	6.1	5.6	4.9	5.3	4.9	4.7	4.7	4.6	4.5

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.

Class II FOMC
Restricted (FR)

May 3, 2006

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1999	2000	2001	2002	2003	2004	2005	Projected 2006	Projected 2007
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-1.0	-0.9	-0.2	-0.9	-0.1	-0.9	-0.2	-0.3	-0.3
Exports of G&S	0.6	0.7	-1.3	0.4	0.6	0.6	0.6	0.8	0.6
Imports of G&S	-1.6	-1.6	1.1	-1.3	-0.7	-1.5	-0.9	-1.1	-0.9
	Percentage change, Q4/Q4								
Exports of G&S	5.6	6.5	-11.9	3.8	6.0	6.1	6.4	7.4	5.8
Services	5.3	1.8	-8.9	10.2	4.5	4.6	2.8	4.3	6.9
Computers	13.4	22.7	-23.5	-1.1	11.0	6.3	13.7	14.0	14.4
Semiconductors	34.6	27.6	-34.6	10.1	38.8	-6.1	17.5	15.1	17.0
Other Goods 1/	3.3	5.9	-10.2	0.7	4.5	7.8	7.2	8.1	4.3
Imports of G&S	12.1	11.2	-7.6	9.7	5.1	10.6	5.3	6.5	5.1
Services	6.6	10.6	-5.9	8.8	4.2	7.7	2.4	3.5	3.5
Oil	-3.4	13.3	3.7	3.8	1.5	9.7	1.9	-8.7	0.9
Computers	26.0	13.9	-13.6	13.2	16.8	22.2	12.1	18.6	17.5
Semiconductors	34.2	22.8	-51.1	11.0	-0.2	9.4	7.7	14.6	17.0
Other Goods 2/	13.0	10.3	-6.5	10.0	5.2	10.6	6.3	9.5	5.5
	Billions of Chained 2000 Dollars								
Net Goods & Services	-296.2	-379.5	-399.1	-471.3	-521.4	-601.3	-633.1	-674.7	-698.5
Exports of G&S	1008.2	1096.3	1036.7	1013.3	1031.2	1117.9	1195.3	1281.4	1354.3
Imports of G&S	1304.4	1475.8	1435.8	1484.6	1552.6	1719.2	1828.3	1956.1	2052.9
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-300.1	-416.0	-389.5	-475.2	-519.7	-668.1	-805.0	-965.6	-1088.5
Current Acct as Percent of GDP	-3.2	-4.2	-3.8	-4.5	-4.7	-5.7	-6.4	-7.2	-7.7
Net Goods & Services (BOP)	-263.4	-378.3	-362.7	-421.2	-494.8	-617.6	-723.6	-842.8	-920.4
Investment Income, Net	19.1	25.7	30.3	15.5	51.8	36.2	7.4	-22.7	-71.2
Direct, Net	78.2	94.9	115.9	99.8	121.8	127.9	129.9	147.5	180.1
Portfolio, Net	-59.1	-69.2	-85.5	-84.3	-70.0	-91.7	-122.5	-170.1	-251.4
Other Income & Transfers, Net	-55.8	-63.5	-57.1	-69.5	-76.7	-86.7	-88.7	-100.1	-96.8

1. Merchandise exports excluding computers and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2002				2003				2004			
	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	-0.6	-0.5	-1.5	0.1	-0.7	0.5	-0.5	-1.2	-1.4	-0.2	-1.0
Exports of G&S	0.5	1.0	0.3	-0.3	-0.3	-0.2	1.0	1.7	0.5	0.7	0.5	0.7
Imports of G&S	-1.4	-1.6	-0.8	-1.2	0.4	-0.5	-0.6	-2.2	-1.6	-2.0	-0.7	-1.7
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	5.2	10.6	2.9	-3.1	-2.9	-2.1	11.5	19.1	5.0	6.9	5.5	7.1
Services	22.9	2.7	4.6	11.7	-11.9	-6.6	17.2	23.7	-0.4	4.8	-0.6	15.5
Computers	-21.1	14.7	-6.0	12.6	-5.7	0.2	35.9	18.2	-7.4	1.6	21.7	11.5
Semiconductors	22.3	42.1	12.6	-25.0	34.8	33.9	43.7	43.2	7.0	-4.8	-19.4	-5.5
Other Goods 1/	-1.6	12.5	2.0	-9.1	0.0	-2.0	5.5	15.4	8.6	9.2	9.5	3.8
Imports of G&S	11.7	12.5	5.7	9.0	-2.5	3.3	4.1	16.5	12.0	14.5	4.7	11.3
Services	24.7	-3.0	1.7	14.0	-2.2	-10.2	21.4	10.7	10.0	13.7	4.6	3.1
Oil	-9.8	-10.3	-12.7	64.3	-9.0	7.8	-1.3	9.5	35.7	-26.0	-0.5	45.0
Computers	52.2	5.3	2.8	-0.2	11.5	12.4	8.7	36.4	21.2	34.3	25.3	9.5
Semiconductors	39.8	34.8	-6.2	-14.0	-6.7	1.5	-3.7	8.9	42.6	20.2	4.7	-20.3
Other Goods 2/	7.7	19.6	9.2	4.0	-1.8	5.4	-0.4	18.7	8.1	20.3	3.1	11.5
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-441.3	-458.9	-472.2	-513.0	-510.7	-528.4	-516.2	-530.2	-563.0	-601.7	-606.5	-634.1
Exports of G&S	992.8	1018.0	1025.2	1017.2	1009.7	1004.5	1032.2	1078.4	1091.8	1110.2	1125.0	1144.5
Imports of G&S	1434.0	1476.9	1497.4	1530.2	1520.4	1532.9	1548.4	1608.6	1654.8	1711.9	1731.5	1778.6
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-440.4	-477.1	-480.3	-503.0	-546.6	-515.2	-515.9	-501.0	-584.4	-666.5	-667.9	-753.4
Current Account as % of GDP	-4.3	-4.6	-4.6	-4.7	-5.1	-4.8	-4.7	-4.5	-5.1	-5.7	-5.7	-6.3
Net Goods & Services (BOP)	-372.7	-413.8	-430.3	-467.9	-499.3	-491.4	-490.8	-497.7	-555.4	-608.2	-629.9	-676.9
Investment Income, Net	11.4	1.8	14.1	34.5	29.3	50.6	50.9	76.5	65.8	29.6	30.8	18.8
Direct, Net	100.5	91.4	95.0	112.2	102.3	117.4	119.9	147.8	140.3	116.3	121.4	133.7
Portfolio, Net	-89.2	-89.6	-80.9	-77.7	-72.9	-66.8	-69.0	-71.3	-74.6	-86.7	-90.6	-114.9
Other Inc. & Transfers, Net	-79.0	-65.1	-64.2	-69.6	-76.6	-74.4	-76.0	-79.7	-94.7	-88.0	-68.8	-95.3

1. Merchandise exports excluding computers and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2005				2006				Projected			
	-----				-----				-----			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	-0.4	1.1	-0.1	-1.4	-0.7	0.3	-0.2	-0.5	-0.5	0.2	-0.1	-0.7
Exports of G&S	0.7	1.1	0.3	0.5	1.3	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Imports of G&S	-1.1	0.0	-0.4	-1.9	-2.0	-0.3	-0.8	-1.1	-1.1	-0.4	-0.7	-1.3
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	7.5	10.7	2.5	5.1	12.7	6.0	5.6	5.5	5.6	5.9	5.8	5.8
Services	12.5	-0.4	1.0	-1.4	-0.5	5.9	6.0	6.2	6.3	7.0	7.1	7.1
Computers	12.6	26.9	18.5	-1.3	13.0	14.4	14.4	14.4	14.4	14.4	14.4	14.4
Semiconductors	-12.9	26.7	24.4	38.7	9.5	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 1/	6.1	14.9	1.2	6.9	19.6	5.0	4.5	4.1	4.2	4.4	4.2	4.2
Imports of G&S	7.4	-0.3	2.4	12.1	12.7	1.9	4.9	6.6	6.2	2.2	4.3	7.9
Services	3.7	4.4	-3.2	4.8	6.7	1.1	3.2	3.0	3.1	3.5	3.7	3.7
Oil	3.4	-24.5	-3.1	42.5	-11.8	-27.8	-5.0	14.7	13.4	-18.1	-7.9	21.1
Computers	11.3	13.7	15.2	8.2	22.2	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Semiconductors	-7.9	8.3	18.0	14.5	7.7	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 2/	8.6	2.9	2.4	11.7	19.0	8.2	6.1	5.3	5.2	5.4	5.7	5.8
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-645.4	-614.2	-617.5	-655.2	-675.1	-666.0	-671.7	-686.0	-698.5	-690.5	-692.6	-712.5
Exports of G&S	1165.3	1195.4	1202.7	1217.6	1254.5	1272.8	1290.4	1307.7	1325.6	1344.6	1363.8	1383.3
Imports of G&S	1810.7	1809.6	1820.2	1872.9	1929.6	1938.9	1962.1	1993.8	2024.1	2035.1	2056.5	2095.8
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-791.0	-787.6	-741.7	-899.5	-900.6	-949.0	-980.8	-1031.9	-1066.1	-1070.1	-1085.8	-1132.0
Current Account as % of GDP	-6.5	-6.4	-5.9	-7.0	-6.9	-7.2	-7.3	-7.6	-7.7	-7.7	-7.7	-7.9
Net Goods & Services (BOP)	-688.5	-690.9	-725.6	-789.5	-792.7	-826.3	-859.0	-892.9	-924.0	-909.9	-910.7	-937.1
Investment Income, Net	8.2	-0.5	25.7	-3.8	-17.7	-19.6	-20.8	-32.6	-48.9	-65.6	-78.8	-91.6
Direct, Net	113.5	113.9	155.4	136.7	126.8	139.9	157.1	166.1	171.3	175.8	183.3	190.2
Portfolio, Net	-105.3	-114.4	-129.7	-140.4	-144.6	-159.4	-177.8	-198.7	-220.2	-241.4	-262.1	-281.8
Other Inc. & Transfers, Net	-110.6	-96.2	-41.8	-106.2	-90.1	-103.1	-101.1	-106.4	-93.2	-94.6	-96.3	-103.3

1. Merchandise exports excluding computers and semiconductors.

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

Part 2

May 3, 2006

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

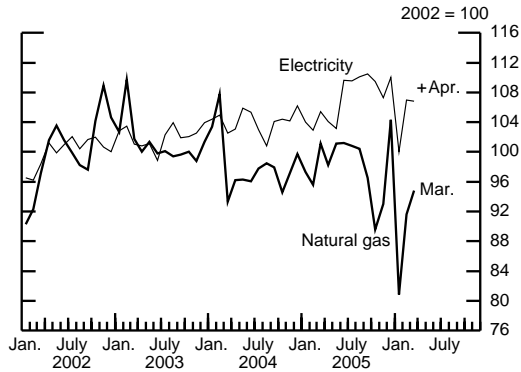
Recent Developments

May 3, 2006

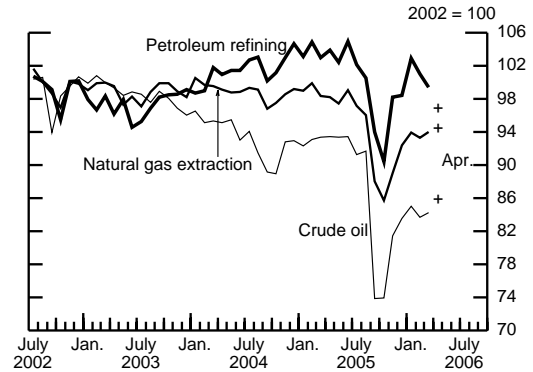
Recent Developments

Indicators of Manufacturing Activity

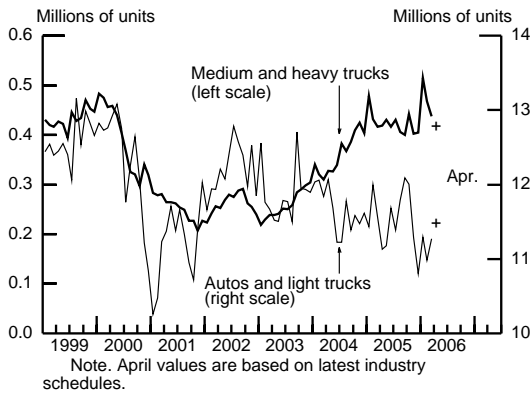
Utilities Output



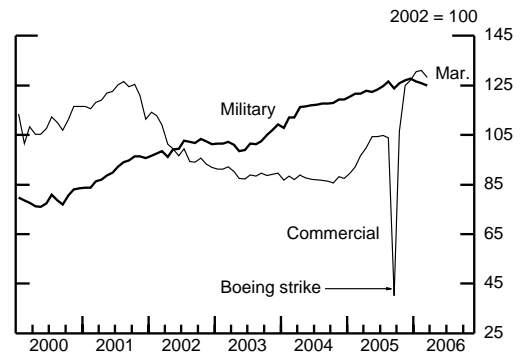
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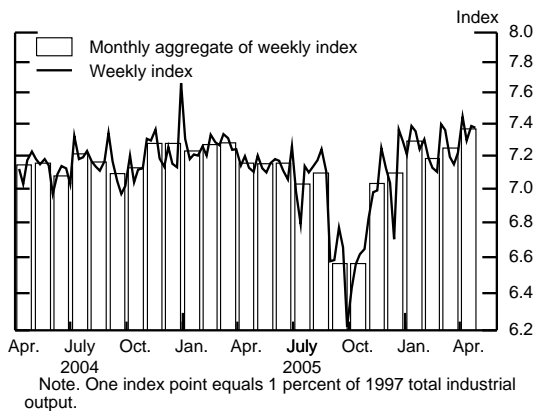
Motor Vehicle Assemblies



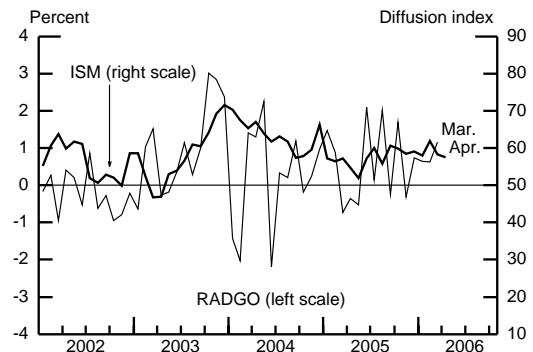
IP for Aircraft



Weekly Production Index Excluding Motor Vehicles and Electricity Generation



New Orders: ISM Survey and Change in Real Adjusted Durable Goods Orders (RADGO)



Note. The diffusion index equals the percentage of respondents reporting greater levels of new orders plus one-half the percentage of respondents reporting that new orders were unchanged. RADGO is a 3-month moving average.

Federal Government Outlays and Receipts

(Unified basis; billions of dollars except as noted)

Function or source	March			12 months ending in March		
	2005	2006	Percent change	2005	2006	Percent change
Outlays	220.0	250.0	13.7	2374.5	2578.8	8.6
Financial transactions ¹	.7	.3	...	-.7	-1.7	...
Payment timing ²	.0	17.5	...	-.2	17.0	...
Adjusted outlays	219.2	232.2	5.9	2375.4	2563.4	7.9
Receipts	148.8	164.6	10.6	1968.5	2251.9	14.4
Payment timing ²	.0	9.00	9.0	...
Adjusted receipts	148.8	173.6	16.7	1968.5	2260.9	14.9
Surplus or deficit (-)	-71.2	-85.5	...	-406.1	-326.8	...
<i>Selected components of adjusted outlays and receipts</i>						
Adjusted outlays	219.2	232.2	5.9	2375.4	2563.4	7.9
Net interest	15.0	19.4	29.2	167.7	205.5	22.5
Non-interest	204.2	212.9	4.2	2207.6	2357.9	6.8
National defense	43.7	48.4	10.6	473.2	506.9	7.1
Social Security	43.5	46.2	6.3	508.8	538.0	5.7
Medicare	26.6	32.4	21.8	281.7	314.6	11.7
Medicaid	17.2	15.6	-9.4	179.5	181.4	1.1
Income security	36.8	36.5	-.9	339.2	347.7	2.5
Agriculture	.2	1.7	...	23.3	32.2	37.9
Other	36.1	32.0	-11.3	401.8	437.1	8.8
Adjusted receipts	148.8	173.6	16.7	1968.5	2260.9	14.9
Individual income and payroll taxes	106.4	110.0	3.4	1549.5	1730.5	11.7
Withheld + FICA	137.5	150.2	9.2	1442.7	1545.7	7.1
Nonwithheld + SECA	8.0	12.0	49.2	292.7	379.2	29.6
Less: Refunds	39.1	43.2	10.4	188.0	185.4	-1.4
Corporate	27.0	35.9	32.9	221.9	308.7	39.2
Gross	30.8	39.2	27.1	255.5	337.4	32.1
Less: Refunds	3.8	3.2	-14.4	33.6	28.7	-14.8
Other	15.3	27.6	80.5	197.1	221.7	12.5
Adjusted surplus or deficit (-)	-70.5	-58.7	...	-406.9	-302.5	...

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

1. Financial transactions consist of deposit insurance, spectrum auctions, and sales of major assets.

2. A shift in payment timing occurs when the first of the month falls on a weekend or holiday, or when the first 3 days of a month are nonworking days. Outlays for defense, Social Security, Medicare income security, and "other" have been adjusted to account for these shifts. In addition, defense outlays for retiree health have been converted from an annual to a monthly basis. Tax refunds and EITC outlays have been adjusted to reflect a calendar anomaly that boosted payments in March.

These payments are large on Fridays, and this March had five Fridays as opposed to four last year.

... Not applicable.

Source. Monthly Treasury Statement.

Broad Measures of Inflation

(Percent change, Q1 to Q1)

Measure	2003	2004	2005	2006
<i>Product prices</i>				
GDP price index	2.1	2.1	2.8	3.2
Less food and energy	2.0	1.9	2.7	3.0
Nonfarm business chain price index	1.6	1.5	2.6	3.1
<i>Expenditure prices</i>				
Gross domestic purchases price index	2.6	2.1	3.1	3.5
Less food and energy	1.9	1.9	2.6	2.7
PCE price index	2.3	1.9	2.7	3.0
Less food and energy	1.5	1.7	2.2	1.9
PCE price index, market-based components	2.3	1.7	2.4	2.9
Less food and energy	1.3	1.3	1.8	1.5
CPI	2.9	1.8	3.0	3.7
Less food and energy	1.8	1.3	2.3	2.1
Chained CPI	2.5	1.7	2.7	3.2
Less food and energy	1.4	1.2	2.1	1.9
Median CPI	2.7	2.0	2.3	2.6
Trimmed mean CPI	2.1	1.7	2.3	2.6

Surveys of Inflation Expectations

(Percent)

Period	Actual CPI inflation ¹	University of Michigan				Professional forecasters (10-year) ⁴
		1 year ²		5 to 10 years ³		
		Mean	Median	Mean	Median	
2004:Q2	2.9	4.0	3.3	3.3	2.8	2.5
Q3	2.7	3.3	2.9	3.1	2.8	2.5
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
Dec.	3.4	4.1	3.1	3.5	3.1	2.5
2006:Jan.	4.0	3.8	3.0	3.4	2.9	...
Feb.	3.6	3.6	3.0	3.3	2.9	...
Mar.	3.4	3.8	3.0	3.3	2.9	2.5
Apr.	n.a.	4.4	3.3	3.6	3.1	...

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?

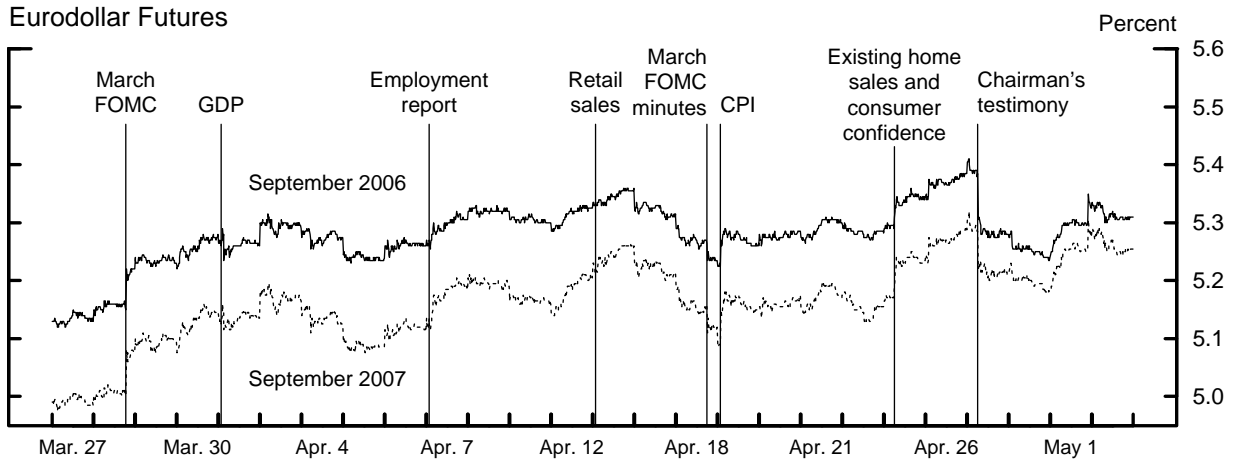
4. Quarterly CPI projections compiled by the Federal Reserve Bank of Philadelphia.

... Not applicable.

n.a. Not available.

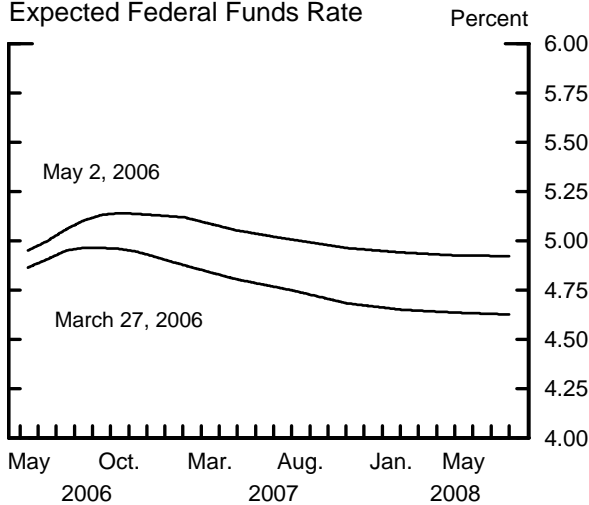
Policy Expectations and Treasury Yields

Eurodollar Futures



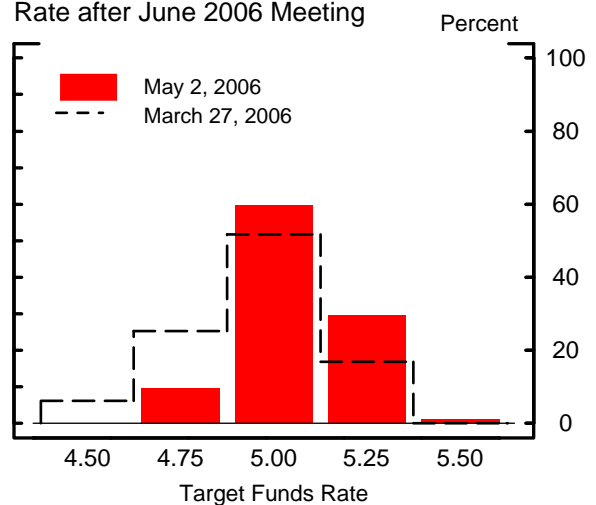
Note. 5-minute intervals.

Expected Federal Funds Rate



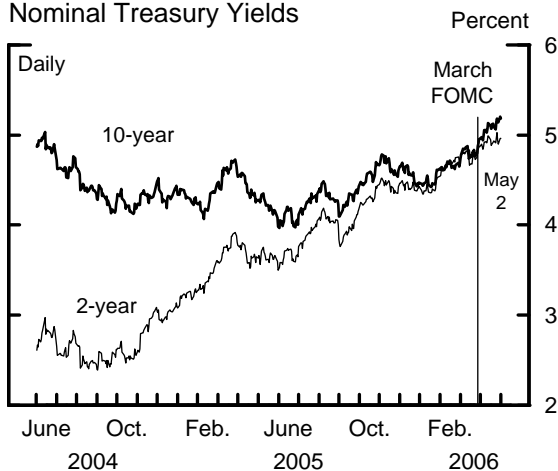
Note. Estimates from federal funds and Eurodollar futures, with an allowance for term premia and other adjustments.

Probability Density for Target Federal Funds Rate after June 2006 Meeting



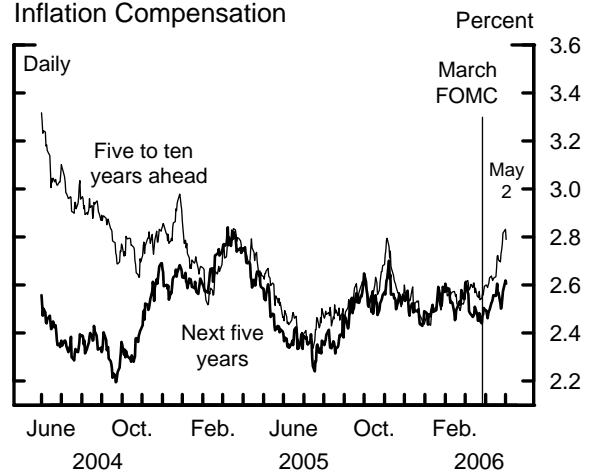
Note. Derived from options on July federal funds futures contracts, with a term premium adjustment.

Nominal Treasury Yields



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

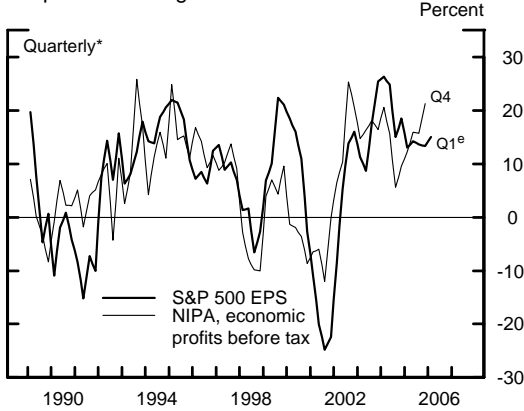
Inflation Compensation



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

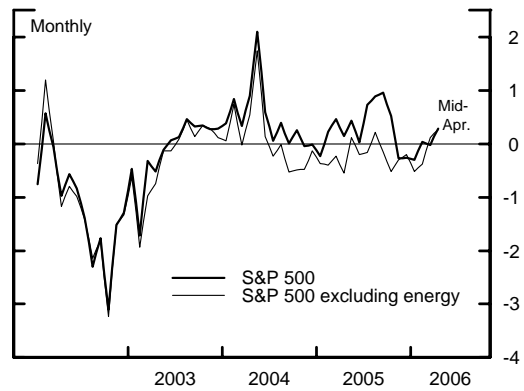
Corporate Earnings and Credit Quality

Corporate Earnings Growth



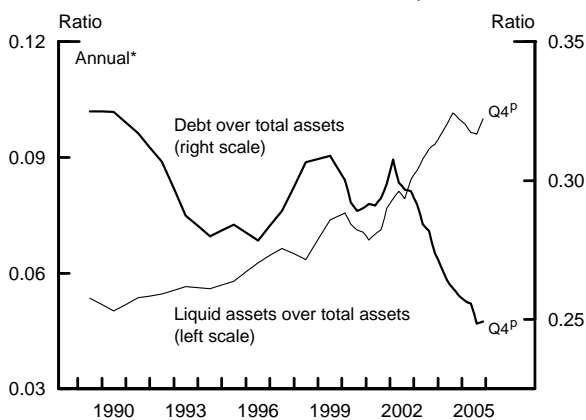
* Change from four quarters earlier.
Source: I/B/E/S for S&P 500 EPS.
e Staff estimate.

S&P 500 Earnings Expectations Revisions Index



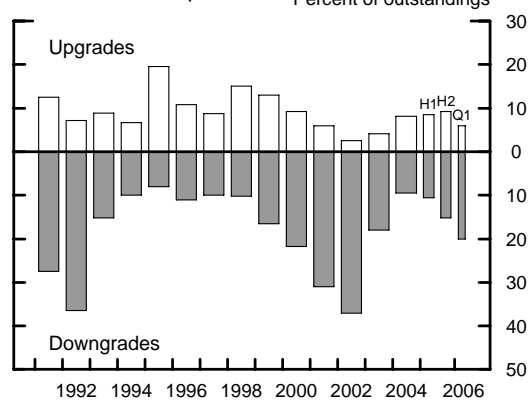
Note. Index is a weighted average of the percent change in the consensus forecasts of current-year and following-year EPS for constant sample.

Financial Ratios for Nonfinancial Corporations



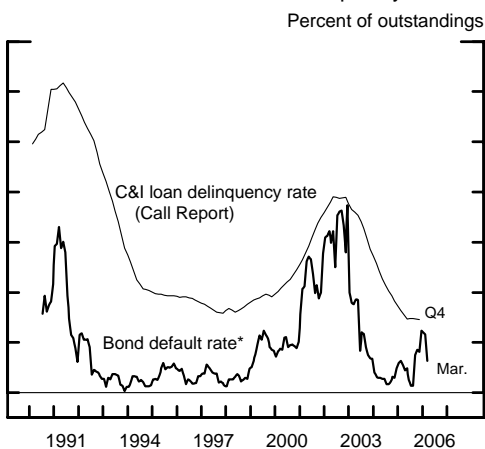
Note. Compustat data.
* Data are quarterly starting in 2000:Q1.
p Preliminary.

Bond Ratings Changes of Nonfinancial Companies



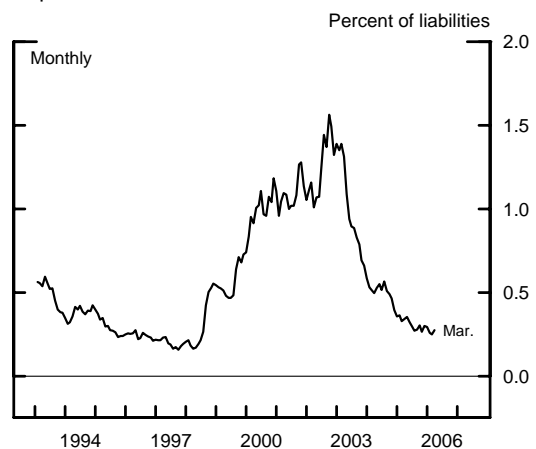
Note. Moody's Investors Service data at an annual rate.

Bond Default and C&I Loan Delinquency Rates



* 6-month moving average, from Moody's Investors Service.

Expected Year-Ahead Defaults



Note. Firm-level estimates of default weighted by firm liabilities as a percent of total liabilities, excluding defaulted firms.
Source. Moody's KMV.

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	Apr.
<i>Nonfinancial corporations</i>							
Stocks ¹	5.2	3.7	5.4	3.8	5.3	5.6	3.3
Initial public offerings	.7	.4	1.6	1.6	1.8	1.7	2.0
Seasoned offerings	4.4	3.3	3.8	2.1	3.5	3.9	1.8
Bonds ²	24.8	31.6	22.8	18.1	20.3	32.3	27.4
Investment grade	15.7	16.0	8.3	7.9	9.0	15.7	11.0
Speculative grade	4.8	11.3	9.5	6.2	6.5	6.8	5.9
Other (sold abroad/unrated)	4.2	4.3	4.9	4.0	4.8	9.9	10.4
<i>Memo</i>							
Net issuance of commercial paper ³	-6.3	-3.8	1.4	2.6	-3.4	3.4	3.0
Change in C&I loans at commercial banks ^{3,4}	-5.2	-7.8	3.5	9.9	10.3	11.9	13.0
<i>Financial corporations</i>							
Stocks ¹	4.0	6.6	6.9	5.3	4.8	3.6	1.8
Bonds ²	87.0	111.1	139.4	167.3	185.7	178.8	74.7

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

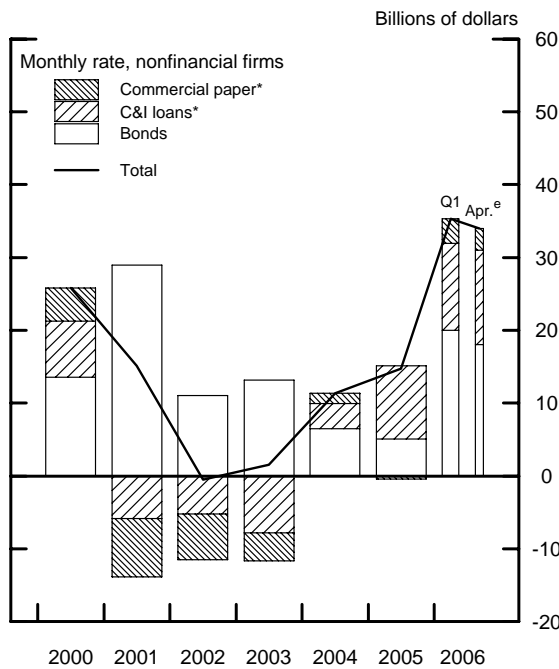
1. Excludes private placements and equity-for-equity swaps that occur in restructurings.

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.

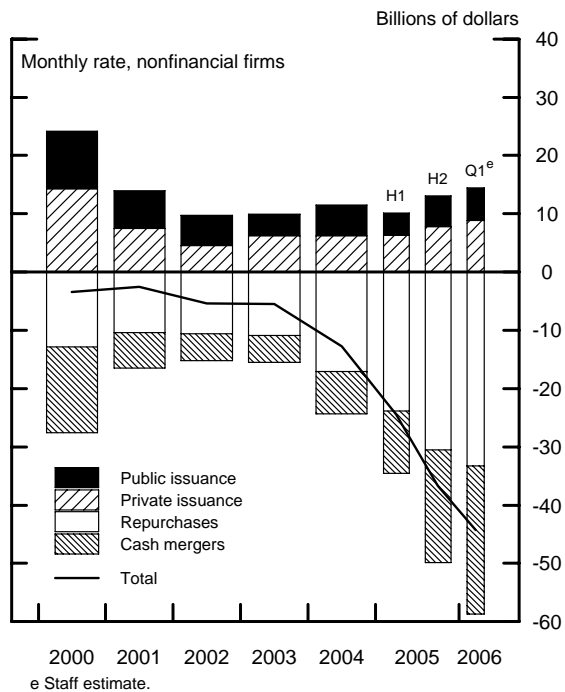
3. End-of-period basis, seasonally adjusted.

4. Adjusted for FIN 46 effects.

Selected Components of Net Debt Financing

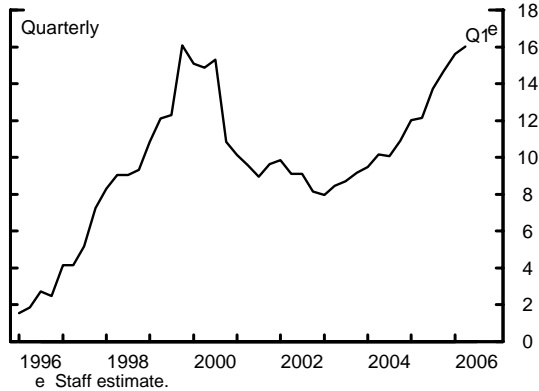


Components of Net Equity Issuance

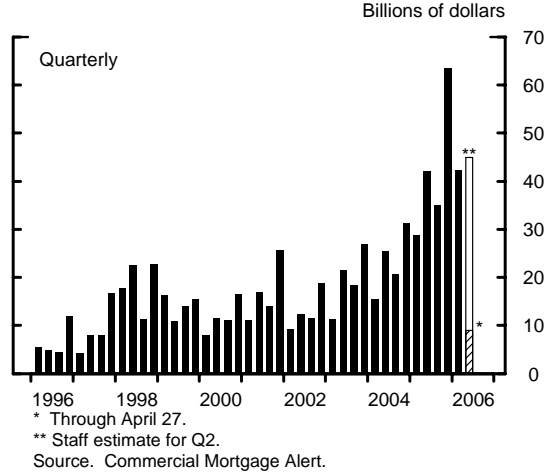


Commercial Real Estate

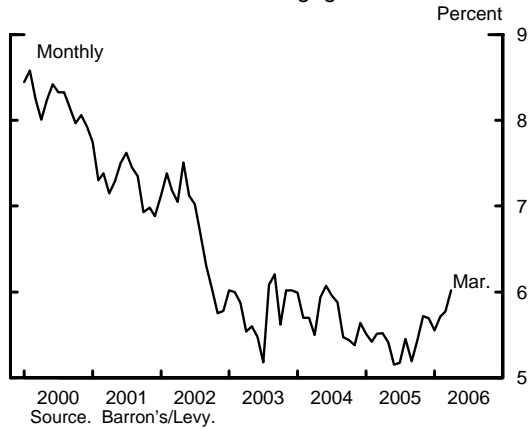
Growth of Commercial Mortgage Debt
Percent change from year earlier



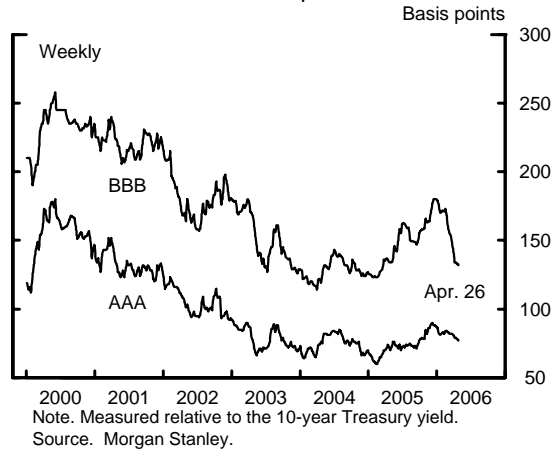
Gross Issuance of CMBS



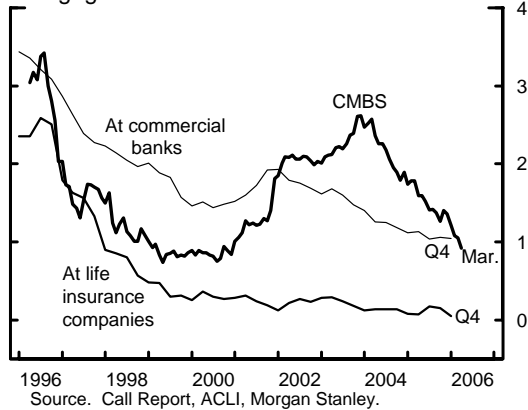
Ten-Year Commercial Mortgage Rates



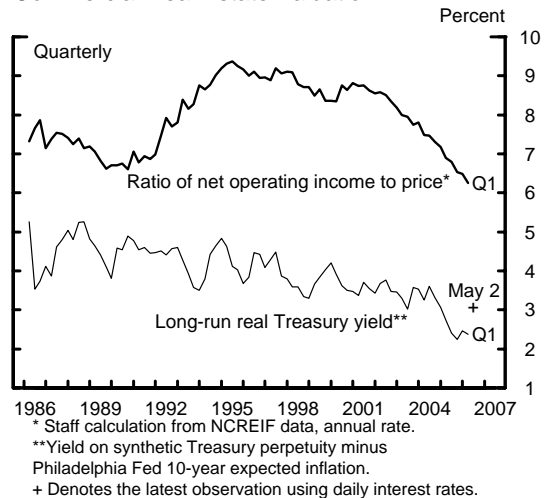
Investment-Grade CMBS Spreads



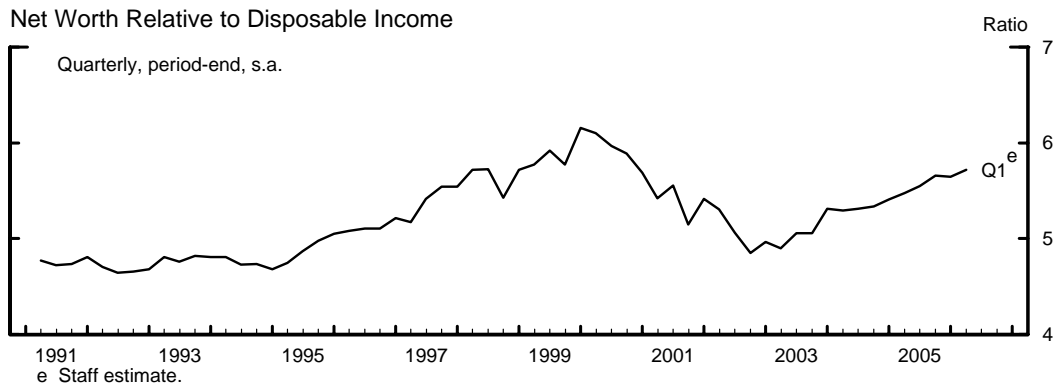
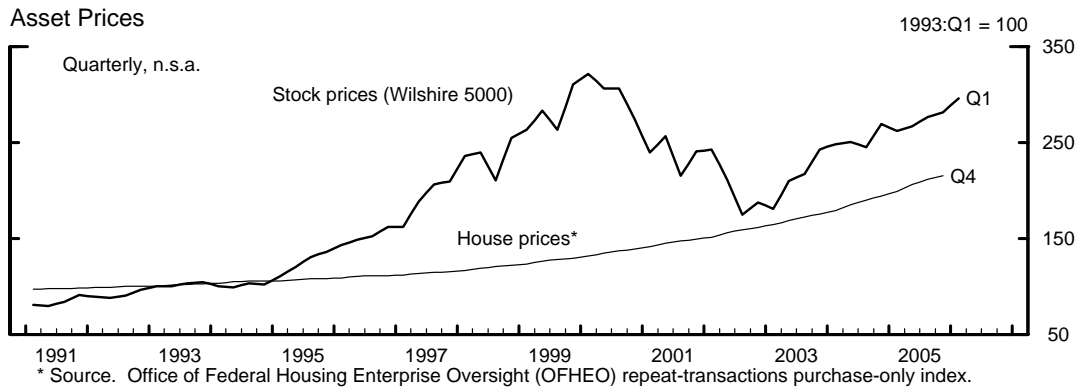
Delinquency Rates on Commercial Mortgages and CMBS



Commercial Real Estate Valuation



Household Assets



Net Flows into Long-Term Mutual Funds

(Billions of dollars, monthly rate)

Fund type	2004		2005			2006		Assets Mar.
	H1	H2	H1	Q3	Q4	Q1	Apr. ^e	
Total long-term funds	20.0	15.0	18.1	15.7	11.7	38.8	28.4	7,313
Equity funds	19.7	10.0	12.3	8.1	12.4	31.0	24.7	5,340
Domestic	13.7	4.9	4.1	0.7	1.3	10.6	10.4	4,273
International	6.0	5.1	8.1	7.3	11.2	20.4	14.2	1,067
Hybrid funds	4.1	3.0	3.4	1.5	0.2	0.4	0.1	588
Bond funds	-3.8	2.0	2.5	6.1	-1.0	7.4	3.6	1,385
High-yield	-2.1	0.5	-1.6	-1.0	-1.0	-0.4	-0.0	146
Other taxable	0.1	1.9	3.7	5.7	0.6	5.8	3.4	893
Municipals	-1.9	-0.4	0.4	1.4	-0.6	2.0	0.2	345

Note. Excludes reinvested dividends.

^e Staff estimates based on confidential ICI weekly data.

Source. Investment Company Institute.

M2 Monetary Aggregate
(Based on seasonally adjusted data)

Aggregate and components	Percent change (annual rate) ¹						Level (billions of dollars),
	2004	2005	2005	2006			Apr. (e)
			Q4	Q1	Mar.	Apr. (e)	
M2	5.2	3.9	5.1	6.5	2.9	4.4	6,802
Components ²							
Currency	5.5	3.5	4.2	6.7	3.6	3.8	738
Liquid deposits ³	10.0	2.0	3.0	3.8	-2.9	1.9	4,290
Small time deposits	-.3	18.7	15.4	16.9	20.0	17.4	1,035
Retail money market funds	-11.7	-.9	4.7	9.0	13.8	1.3	732
Memo:							
Institutional money market funds	-5.7	5.0	12.1	9.0	7.3	14.2	1,169
Monetary base	5.6	3.4	4.2	6.1	2.8	4.1	801

Note. M2 is the sum of currency, liquid deposits, small time deposits, retail money market funds, and nonbank traveler's checks. Acting on its announcement of November 10, 2005, the Board of Governors ceased publishing the M3 monetary aggregate on March 23, 2006.

1. For years, Q4 to Q4; for quarters and months, calculated from corresponding averages.
 2. Nonbank traveler's checks are not listed.
 3. Sum of demand deposits, other checkable deposits, and savings deposits.
- e Estimated.

Commercial Bank Credit

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

Type of credit	2004	2005	2005: Q4	2006: Q1	Mar. 2006	Apr. ^e 2006	Level (billions of dollars), Apr. 2006 ^e
Total							
Adjusted¹	8.9	10.4	5.8	10.3	11.9	11.7	7,506
Reported	8.4	9.6	5.2	9.8	10.0	13.5	7,643
<i>Securities</i>							
Adjusted ¹	6.6	7.4	-6	8.2	13.6	22.7	1,962
Reported	5.2	5.0	-2.4	6.4	6.2	28.7	2,100
Treasury and agency	4.9	-.2	-9.9	8.0	4.1	11.7	1,194
Other ²	5.6	13.0	8.3	4.3	9.2	51.8	906
<i>Loans³</i>							
Total	9.8	11.5	8.1	11.1	11.3	7.9	5,544
Business	1.3	13.4	9.5	16.5	7.2	17.7	1,068
Real estate	14.0	14.0	8.4	9.8	9.9	8.1	2,993
Home equity	43.8	11.1	-1.9	-2.5	3.6	-10.0	430
Other	9.8	14.5	10.2	12.0	11.0	11.2	2,562
Consumer	8.8	3.0	-4.3	3.2	20.3	11.4	711
Adjusted ⁴	5.7	.6	-4.4	7.6	15.6	5.7	1,083
Other ⁵	7.8	8.2	17.4	16.2	14.4	-9.4	772

Note. Data are adjusted to remove estimated effects of consolidation related to FIN 46 and for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates are percentage changes in consecutive levels, annualized but not compounded.

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

2. 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.

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.

e Estimated.

the effects of January's unusually severe weather. Manufacturing output registered fairly strong gains, with capital goods production increasing robustly, although consumer goods production was little changed.

Indicators of euro-area consumption have been mixed. The average volume of euro-area retail sales fell slightly in February from the previous month but average sales for January and February were up 0.3 percent from the fourth quarter. French consumption of manufactured products moved lower in March but posted a strong 1.1 percent gain for the first quarter as a whole. German consumer spending was a relative weak spot, with retail sales falling sharply in March. Euro-area consumer confidence moved back up in April to the 3½-year high reached in February.

The twelve-month rate of euro-area consumer price inflation edged down to 2.2 percent in March. Core inflation, excluding energy and unprocessed food, continued to be well-behaved, edging up from 1.3 percent in February to 1.4 percent in March. The European Central Bank held its main refinancing rate at 2.5 percent at its April meeting. In the post-meeting statement, President Trichet punctured market expectations of a May interest rate hike but left the door wide open for a rise in June.

Euro-Area Economic Indicators

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

Indicator	2005		2006	2006			
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Industrial production ¹	.9	.5	n.a.	.2	.0	n.a.	n.a.
Retail sales volume ²	.7	.3	n.a.	.5	-.1	n.a.	n.a.
Unemployment rate ³	8.5	8.3	8.2	8.2	8.2	8.1	n.a.
Consumer confidence ⁴	-14.7	-12.3	-10.7	-11.0	-10.0	-11.0	-10.0
Industrial confidence ⁴	-7.7	-6.0	-2.3	-4.0	-2.0	-1.0	1.0
Manufacturing orders, Germany	4.2	3.4	n.a.	1.4	[5/8]	n.a.	n.a.
CPI ⁵	2.3	2.3	2.3	2.4	2.3	2.2	2.4
Producer prices ⁵	4.2	4.4	5.2	5.3	5.4	5.1	n.a.
M3 ⁵	8.4	7.4	8.6	7.7	7.9	8.6	n.a.

1. Excludes construction.

2. Excludes motor vehicles.

3. Percent. Euro-area standardized to ILO definition. Includes Eurostat estimates in some cases.

4. Diffusion index based on European Commission surveys in individual countries.

5. Eurostat harmonized definition. Percent change from year earlier, s.a.

n.a. Not available.

U.K. Economic Indicators

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

Indicator	2005		2006	2006			
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Real GDP*	1.9	2.2	2.6
Industrial production	-.6	-.9	n.a.	.3	-.2	n.a.	n.a.
Retail sales volume ¹	.3	1.6	-.7	-1.7	.3	.6	n.a.
Unemployment rate ²							
Claims-based	2.7	2.8	2.9	2.9	2.9	3.0	n.a.
Labor force survey ³	4.8	5.0	n.a.	5.1	n.a.	n.a.	n.a.
Business confidence ⁴	5.0	-2.0	8.0	1.0	10.0	13.0	12.0
Consumer confidence ⁵	-2.0	-4.0	-4.0	-4.0	-2.0	-6.0	-3.0
Consumer prices ⁶	2.4	2.1	2.0	1.9	2.1	1.8	n.a.
Producer input prices ⁷	12.5	13.5	14.5	15.7	14.9	13.1	n.a.
Average earnings ⁷	4.1	3.6	n.a.	3.1	5.3	n.a.	n.a.

* Preliminary estimate (s.a.a.r.)

1. Excludes motor vehicles.

2. Percent.

3. Three-month average centered on month shown.

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

5. Average of the percentage balance from consumers' expectations of their financial situation, general economic situation, unemployment, and savings over the next 12 months.

6. Consumer prices index (CPI), percent change from year earlier.

7. Percent change from year earlier.

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

In **Canada**, GDP by industry rose 2.7 percent (a.r.) in February, with activity in residential building construction and wholesale trade continuing to grow briskly. Following a sharp decline in January due to mild weather, the energy sector rebounded, in particular the utilities industries. A sizable drop in the manufacturing, mining, and oil and gas extraction sectors restrained growth.

Overall, other indicators for the first quarter have been positive. Housing starts accelerated throughout the quarter, with starts in March hitting their highest monthly level during the current housing boom, which began in 2002. Retail sales continued to climb in February. The composite index of leading indicators advanced sharply in March, with only two of ten components, both related to manufacturing, retreating. The manufacturing sector continues to struggle, with shipments and new orders both down substantially in February.

May 5, 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

The average hourly earnings of production or nonsupervisory workers on private nonfarm payrolls increased 0.5 percent in April. Last month's gain brings the increase over the last three months to an annual rate of 5.2 percent and the increase over the past twelve months to 3.8 percent, up from an increase of 2.7 percent over the preceding twelve months.

Productivity and Costs

The staff has updated its estimate of output per hour in the nonfarm business sector, and we now show an increase at an annual rate of 3.6 percent in the first quarter. Our estimate is noticeably higher than the one published by the Bureau of Labor Statistics (BLS) on Thursday. The BLS report was based on the advance estimate of output published with the first-quarter GDP data; we have incorporated the incoming information on output—notably, the March data on outlays for construction put-in-place and manufacturers' inventories—that suggests a larger gain in first-quarter real GDP.

Labor Output per Hour

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

Sector	2004:Q1 to 2005:Q1	2005:Q1 to 2006:Q1 ¹	2005			2006
			Q2	Q3	Q4	Q1 ¹
Nonfarm business						
All persons	3.0	2.5	2.4	4.2	-.3	3.6
All employees ²	3.1	2.2	2.3	3.1	-.9	4.6
Nonfinancial corporations ³	5.4	n.a.	4.6	4.1	4.6	n.a.

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.

n.a. Not available.

We estimate that compensation per hour in the nonfarm business sector increased at an annual rate of 5¾ percent in the first quarter. Quarterly changes in this measure of worker compensation have fluctuated noticeably, and, in the first quarter, hourly compensation was up 3¾ percent from a year earlier. That pace marks a considerable step-down from the rate of increase over the preceding four quarters, which appeared to include a bulge in stock option exercises and large bonuses at the end of 2004.

Hourly Compensation and Unit Labor Costs

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

Category	2004:Q1 to 2005:Q1	2005:Q1 to 2006:Q1 ^e	2005			2006
			Q2	Q3	Q4 ^e	Q1 ^e
<i>Compensation per hour</i>						
Nonfarm business	6.4	3.8	1.3	5.5	2.7	5.8
Nonfinancial corporations ¹	6.7	n.a.	1.1	6.3	2.5	n.a.
<i>Unit labor costs</i>						
Nonfarm business	3.4	1.3	-1.0	1.2	3.0	2.1
Nonfinancial corporations ¹	1.2	n.a.	-3.4	2.1	-2.0	n.a.

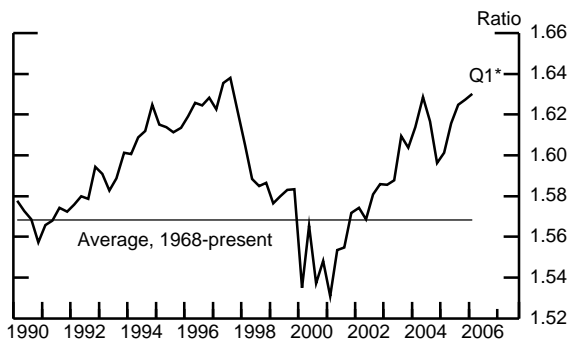
Note. Figures that include the most recent quarter are based on published data rather than the staff forecast.

1. 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.

n.a. Not available.

e Staff estimate.

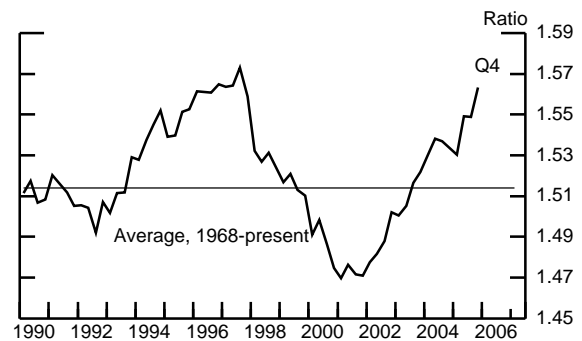
Markup, Nonfarm Business



Note. The markup is the ratio of output price to unit labor costs.

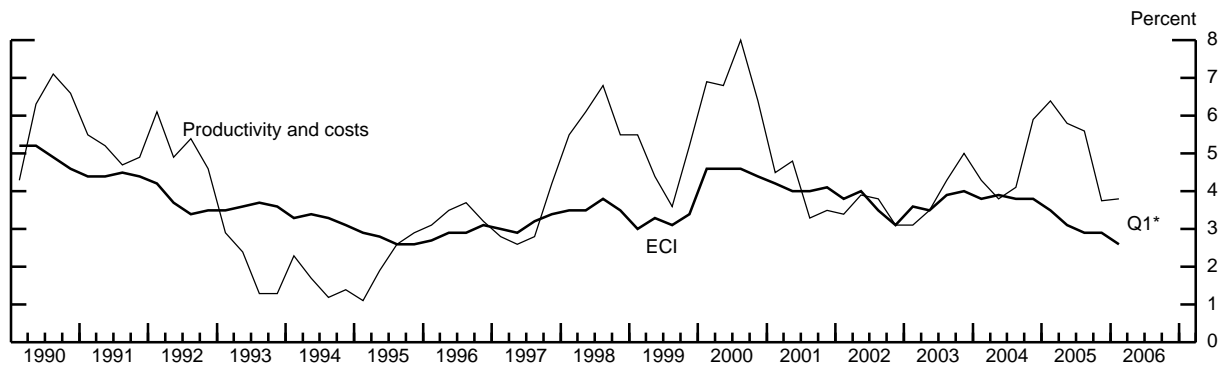
* Values for 2005:Q4 and 2006:Q1 are staff estimates.

Markup, Nonfinancial Corporations



Note. The markup is the ratio of output price to unit labor costs.

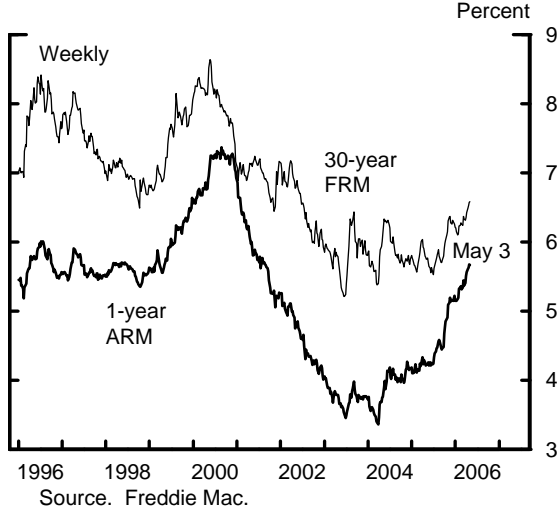
Compensation per Hour (Percent change from year-earlier period)



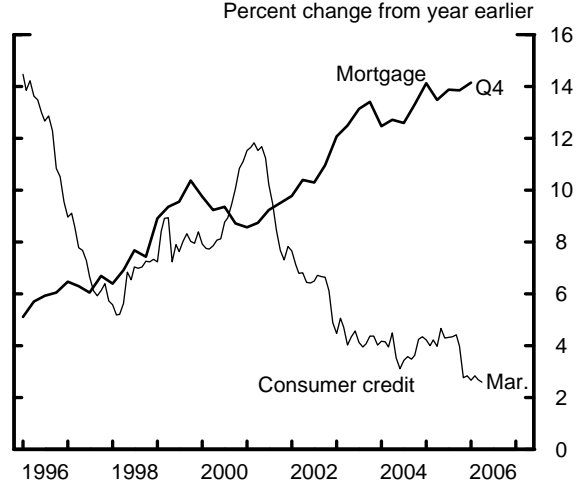
* P&C values for 2005:Q4 and 2006:Q1 are staff estimates.

Household Liabilities

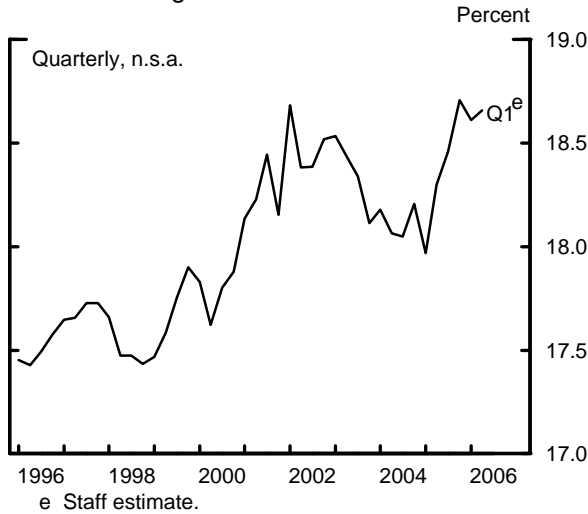
Mortgage Rates



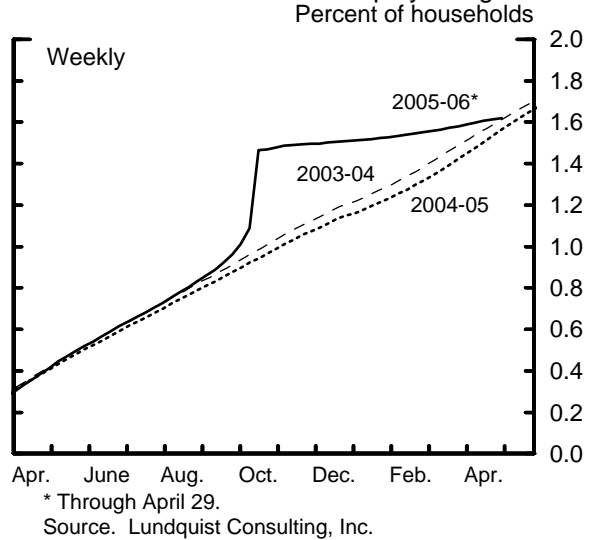
Mortgage and Consumer Debt



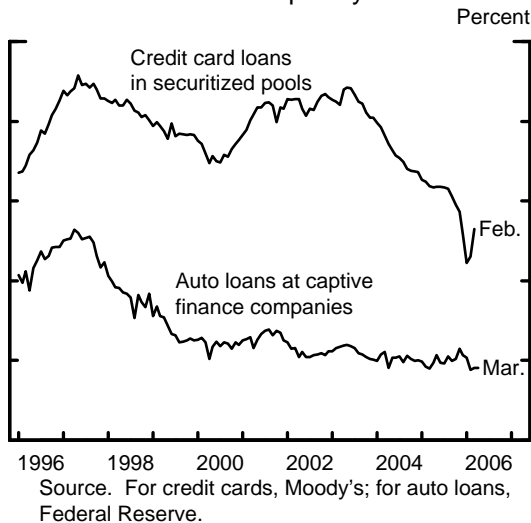
Financial Obligations Ratio



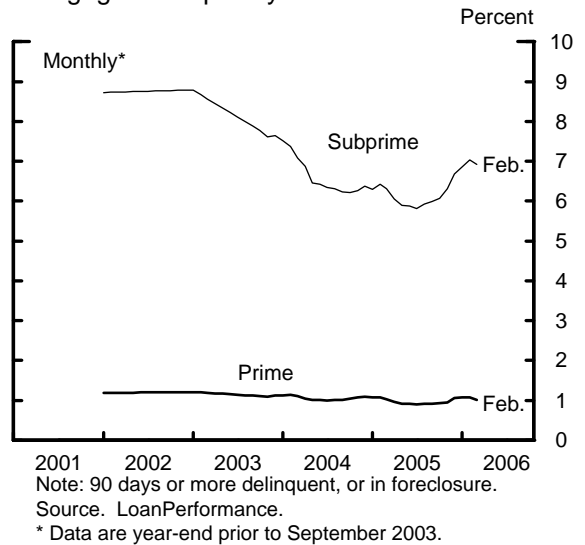
Cumulative Household Bankruptcy Filings



Consumer Credit Delinquency Rates



Mortgage Delinquency Rates



Commercial Bank Credit

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

Type of credit	2004	2005	2005: Q4	2006: Q1	Mar. 2006	Apr. ^e 2006	Level (billions of dollars), Apr. 2006 ^e
Total							
Adjusted¹	8.9	10.4	5.8	10.5	12.2	12.9	7,518
Reported	8.4	9.6	5.2	10.0	10.2	14.7	7,655
<i>Securities</i>							
Adjusted ¹	6.6	7.4	-6	8.5	14.6	24.5	1,968
Reported	5.2	5.0	-2.4	6.7	7.2	30.5	2,106
Treasury and agency	4.9	-2	-9.9	8.0	4.2	11.0	1,193
Other ²	5.6	13.0	8.3	5.0	11.4	57.0	913
<i>Loans³</i>							
Total	9.8	11.5	8.1	11.2	11.3	8.8	5,549
Business	1.3	13.4	9.5	16.5	7.2	19.6	1,070
Real estate	14.0	14.0	8.4	9.8	9.9	8.3	2,993
Home equity	43.8	11.1	-1.9	-2.5	3.6	-9.7	431
Other	9.8	14.5	10.2	12.0	11.1	11.3	2,563
Consumer	8.8	3.0	-4.3	4.2	20.1	8.5	711
Adjusted ⁴	5.7	.6	-4.3	8.2	15.3	3.9	1,083
Other ⁵	7.8	8.2	17.4	16.2	14.5	-4.0	776

Note. Data are adjusted to remove estimated effects of consolidation related to FIN 46 and for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates are percentage changes in consecutive levels, annualized but not compounded.

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

2. 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.

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.

e Estimated.