

## **Part 1**

May 2, 2007

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

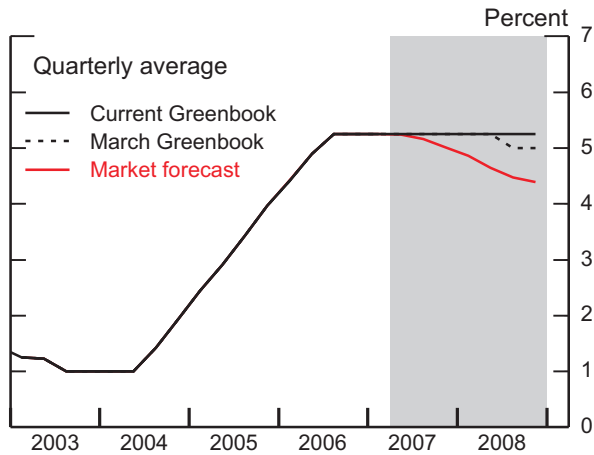
May 2, 2007

## **Summary and Outlook**

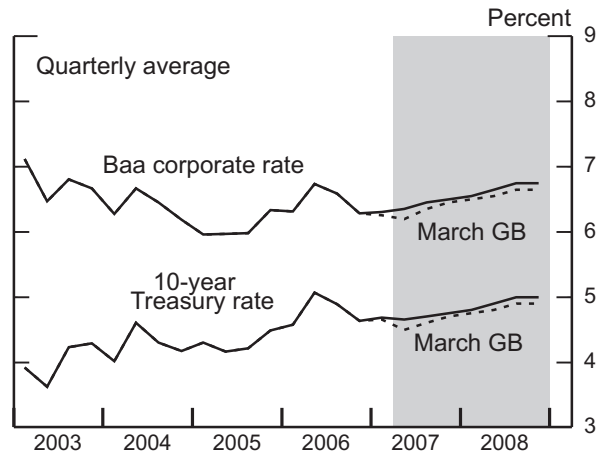
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## Key Background Factors Underlying the Baseline Staff Projection

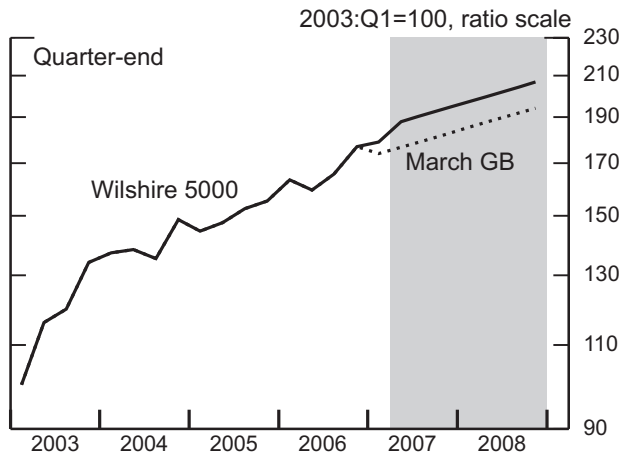
Federal Funds Rate



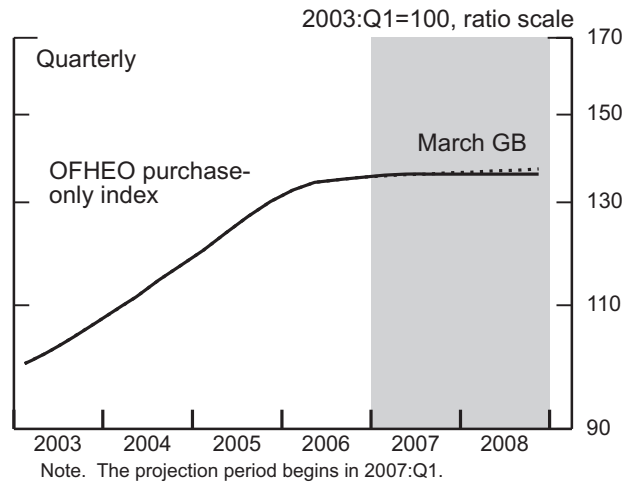
Long-Term Interest Rates



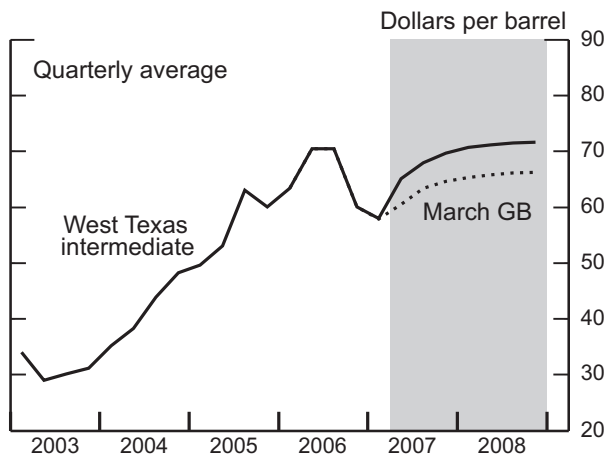
Equity Prices



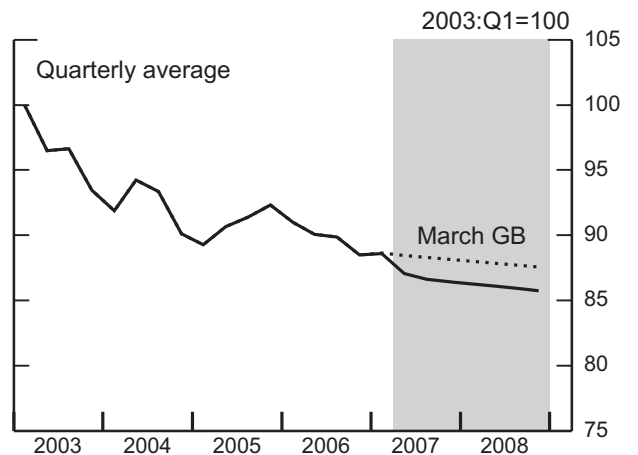
House Prices



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	2007:Q1		2007:Q2	
	Mar. GB	May GB	Mar. GB	May GB
<b>Real GDP</b>	<b>1.5</b>	<b>1.3</b>	<b>2.3</b>	<b>2.6</b>
Private domestic final purchases	1.9	2.5	.8	.7
Personal consumption expenditures	3.7	3.8	2.2	1.9
Residential investment	-22.2	-14.1	-19.9	-18.5
Business fixed investment	2.8	2.8	2.7	2.9
Government outlays for consumption and investment	1.4	1.4	4.8	4.9
	Contribution to growth (percentage points)			
Inventory investment	.1	-.4	.2	.2
Net exports	-.4	-.8	.4	.8

According to the advance estimate from the BEA, real consumer spending increased at an annual rate of about 3¾ percent in the first quarter after having risen at a 4¼ percent pace in the fourth quarter. However, the recent pattern of monthly readings suggests that the growth rate of consumer spending slowed appreciably in the late winter, and we project that real PCE will increase at an annual rate of just 2 percent in the second quarter, a pace more in line with fundamentals than was the robust showing of the past few quarters.

Recent readings on housing suggest that this sector is continuing to weaken: New home sales in March were well below the plateau seen late last year, the cancellation rate for such sales appears to have moved back up, and builders' inventories of unsold homes remain very high. Existing home sales and mortgage applications paint a more benign picture, but even these indicators remain soft. The recent weakening in the housing market likely reflects developments in nonprime mortgage lending—including a high level of delinquencies among borrowers and stricter standards among lenders—and a pullback in housing demand more generally. We now assume that new homes will be sold at an annual rate of 830,000 units in the current quarter, about 15 percent below our projection in the March Greenbook. On the production side, single-family starts picked up to an annual rate of 1.22 million units in March, but we think that homebuilding in that month was boosted by unusually favorable weather. We expect that single-family starts will move down to an annual rate of just 1.08 million units in the second quarter as

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

Measure	2007		2008
	H1	H2	
<b>Real GDP</b>	<b>1.9</b>	<b>2.0</b>	<b>2.4</b>
Previous	1.9	2.3	2.3
Final sales	2.0	1.8	2.4
Previous	1.7	2.1	2.4
PCE	2.9	2.1	2.5
Previous	3.0	2.1	2.4
Residential investment	-16.3	-13.6	-1.1
Previous	-21.1	-3.9	1.9
BFI	2.8	3.5	3.8
Previous	2.7	3.9	3.9
Government purchases	3.1	2.9	1.9
Previous	3.0	2.5	2.1
Exports	3.2	6.2	5.7
Previous	5.6	5.7	5.2
Imports	2.1	3.6	4.2
Previous	4.0	4.4	4.7
	Contribution to growth (percentage points)		
Inventory change	-.1	.2	-.1
Previous	.2	.2	-.1
Net exports	.0	.1	-.0
Previous	-.0	-.1	-.2

anticipate that the demand for high-tech equipment will continue to rise smartly, and we expect that several factors—favorable financial conditions, an expected gradual pickup in the growth of business output, and what appears to be reasonably positive business attitudes—will boost outlays for other types of equipment.

We project that real outlays for NRS construction will decelerate markedly in the second half of this year and will increase 2 percent in 2008. Although we expect investment in drilling and mining structures to rebound in the second half of this year in response to higher prices for natural gas and crude oil, growth of spending in this area should slow

### Decomposition of Structural Labor Productivity Nonfarm Business Sector

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

Measure	1974-95	1996-2000	2001-04	2005	2006	2007	2008
<b>Structural labor productivity</b>	<b>1.5</b>	<b>2.5</b>	<b>3.0</b>	<b>2.3</b>	<b>2.3</b>	<b>2.2</b>	<b>2.1</b>
Previous	1.5	2.5	3.0	2.5	2.6	2.5	2.4
<i>Contributions<sup>1</sup></i>							
Capital deepening	.7	1.4	.7	.6	.7	.6	.6
Previous	.7	1.4	.6	.5	.7	.6	.6
Multifactor productivity	.5	.7	2.1	1.5	1.4	1.4	1.4
Previous	.5	.8	2.1	1.8	1.7	1.7	1.7
Labor composition	.3	.3	.3	.3	.2	.2	.2
MEMO							
Potential GDP	3.0	3.3	2.9	2.5	2.6	2.6	2.5
Previous	3.0	3.3	2.9	2.6	2.7	2.6	2.5

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.

### The Outlook for the Labor Market

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

Measure	2005	2006	2007	2008
Output per hour, nonfarm business	2.1	1.5	1.9	2.6
Previous	2.1	1.5	2.1	2.6
Nonfarm private payroll employment	2.0	1.8	.8	.3
Previous	2.0	1.8	.7	.3
Household survey employment	1.9	2.1	.6	.5
Previous	1.9	2.1	.4	.4
Labor force participation rate <sup>1</sup>	66.1	66.3	66.1	65.8
Previous	66.1	66.3	66.0	65.7
Civilian unemployment rate <sup>1</sup>	5.0	4.5	4.8	5.0
Previous	5.0	4.5	4.9	5.1
MEMO				
GDP gap <sup>2</sup>	.2	.7	.1	.0
Previous	.1	.5	-.0	-.2

1. Percent, average for the fourth quarter.

2. Actual less potential GDP in the fourth quarter of the year indicated as a percent of potential GDP. A negative number thus indicates that the economy is operating below potential.

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

Measure	2005	2006	2007	2008
PCE chain-weighted price index	3.1	1.9	2.9	2.1
Previous	3.1	1.9	2.5	2.1
Food and beverages	2.1	2.3	3.4	2.2
Previous	2.1	2.3	3.1	2.2
Energy	21.2	-3.7	11.0	.8
Previous	21.2	-3.6	6.1	1.7
Excluding food and energy	2.1	2.2	2.3	2.1
Previous	2.1	2.2	2.2	2.0
Consumer price index	3.7	1.9	3.3	2.2
Previous	3.7	1.9	2.8	2.2
Excluding food and energy	2.1	2.7	2.4	2.3
Previous	2.1	2.7	2.4	2.2
GDP chain-weighted price index	3.1	2.5	2.6	2.3
Previous	3.1	2.5	2.7	2.3
ECI for compensation of private industry workers <sup>1</sup>	2.9	3.2	3.4	4.0
Previous	2.9	3.2	3.9	3.9
Compensation per hour, nonfarm business sector	3.7	4.9	3.9	4.9
Previous	3.7	4.9	4.1	4.8
Prices of core nonfuel imports	2.2	2.7	3.2	1.3
Previous	2.2	2.7	2.0	1.1

1. December to December.

ECI to 4 percent in 2008 and for the growth rate in the P&C measure of hourly compensation for that year to almost 5 percent.<sup>1</sup>

### Financial Flows and Conditions

After having increased nearly 8 percent in 2006, domestic nonfinancial debt is projected to expand 6¾ percent in the first quarter before slowing to 6 percent, on average, over the

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<sup>1</sup> We continue to assume that the Congress will pass legislation that raises the federal minimum wage from its current level of \$5.15 an hour to \$5.85 an hour sixty days after the bill is signed into law, to \$6.55 a year later, and to \$7.25 a year after that. We expect the initial increase to take place in the third quarter of 2007. However, the effect on hourly compensation growth likely will be less than 0.1 percentage point in each year because the wages of most workers will not be affected.

**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	2.2	1.9	2.0	2.4	2.4
Greater housing correction	...	1.7	1.4	1.9	2.2
Business caution with financial spillovers	...	1.7	1.1	1.3	1.4
Stronger aggregate demand	...	2.0	3.0	3.0	3.6
Lower NAIRU	...	1.9	2.2	2.6	2.7
Mismeasured productivity	2.5	2.5	2.2	2.5	2.5
Unanchored inflation expectations	...	1.9	2.0	2.4	2.5
Market-based federal funds rate	...	1.9	2.0	2.6	2.8
<i>Unemployment rate<sup>1</sup></i>					
Greenbook baseline	4.5	4.6	4.8	4.9	5.0
Greater housing correction	...	4.6	4.9	5.1	5.3
Business caution with financial spillovers	...	4.6	4.9	5.2	5.5
Stronger aggregate demand	...	4.6	4.7	4.6	4.5
Lower NAIRU	...	4.6	4.8	4.8	4.9
Mismeasured productivity	...	4.6	4.7	4.7	4.8
Unanchored inflation expectations	...	4.6	4.8	4.9	5.0
Market-based federal funds rate	...	4.6	4.8	4.9	4.9
<i>Core PCE inflation</i>					
Greenbook baseline	2.0	2.2	2.3	2.2	2.1
Greater housing correction	...	2.2	2.3	2.2	2.1
Business caution with financial spillovers	...	2.2	2.3	2.3	2.2
Stronger aggregate demand	...	2.2	2.3	2.2	2.1
Lower NAIRU	...	2.2	2.2	2.0	1.8
Mismeasured productivity	...	2.2	2.2	2.1	1.9
Unanchored inflation expectations	...	2.2	2.3	2.4	2.4
Market-based federal funds rate	...	2.2	2.3	2.3	2.2
<i>Federal funds rate<sup>1</sup></i>					
Greenbook baseline	5.2	5.3	5.3	5.3	5.3
Greater housing correction	...	5.2	5.0	4.7	4.6
Business caution with financial spillovers	...	5.2	4.9	4.4	4.1
Stronger aggregate demand	...	5.3	5.8	6.1	6.5
Lower NAIRU	...	5.3	5.3	5.1	4.9
Mismeasured productivity	...	5.3	5.5	5.5	5.4
Unanchored inflation expectations	...	5.3	5.3	5.3	5.5
Market-based federal funds rate	...	5.3	5.1	4.7	4.4

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

... Not applicable.



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

Measure	2007	2008
<i>Real GDP</i> (percent change, Q4 to Q4)		
Projection	2.0	2.4
Confidence interval		
Greenbook forecast errors	.8–3.1	.8–3.9
FRB/US stochastic simulations	1.1–2.9	1.1–3.8
<i>Civilian unemployment rate</i> (percent, Q4)		
Projection	4.8	5.0
Confidence interval		
Greenbook forecast errors	4.5–5.1	4.2–5.7
FRB/US stochastic simulations	4.5–5.0	4.5–5.4
<i>PCE prices</i> <i>excluding food and energy</i> (percent change, Q4 to Q4)		
Projection	2.3	2.1
Confidence interval		
Greenbook forecast errors	1.8–2.7	1.3–2.9
FRB/US stochastic simulations	1.9–2.6	1.5–2.8
<i>Federal funds rate</i> (percent, Q4)		
Projection	5.3	5.3
Confidence interval		
FRB/US stochastic simulations	4.5–6.0	4.0–6.8

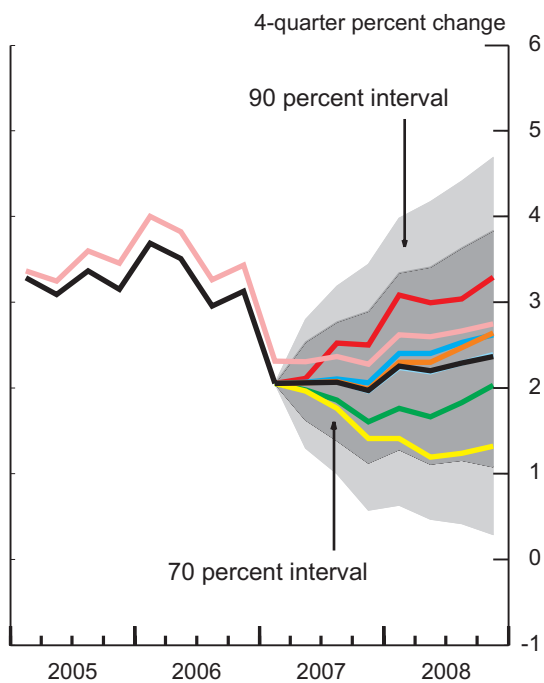
Note. Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1986-2005 set of model equation residuals. Intervals derived from Greenbook forecast errors are based on the 1986-2005 set of Greenbook historical errors.

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

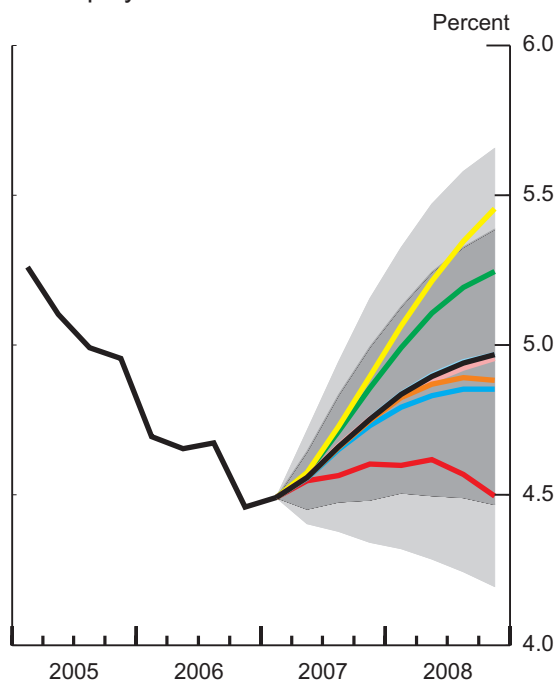
Confidence Intervals based on FRB/US Stochastic Simulations

- |  |                             |                                     |
|--|-----------------------------|-------------------------------------|
| ■ Greenbook baseline                         | ■ Stronger aggregate demand | ■ Unanchored inflation expectations |
| ■ Greater housing correction                 | ■ Lower NAIU                | ■ Market-based federal funds rate   |
| ■ Business caution with financial spillovers | ■ Mismeasured productivity  |                                     |

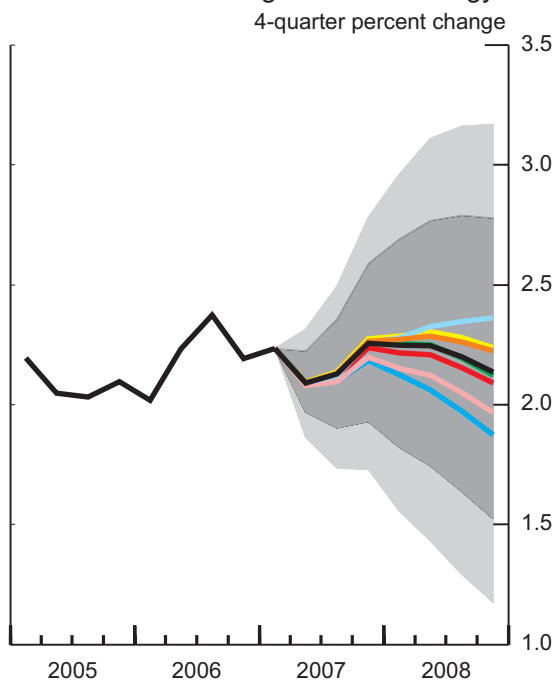
Real GDP



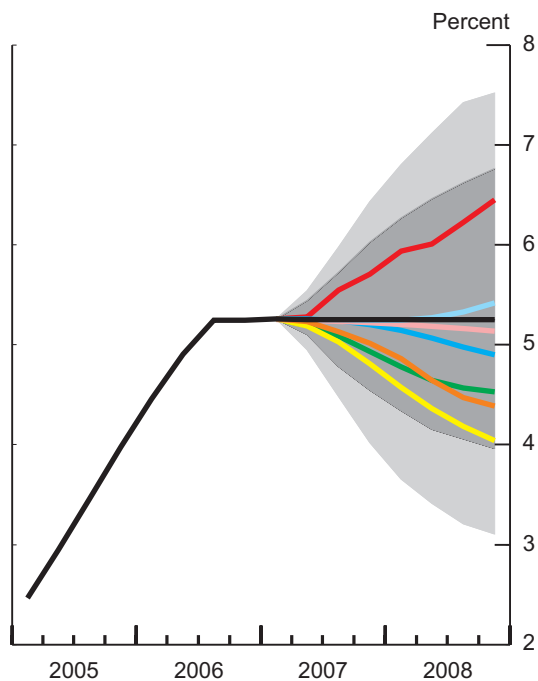
Unemployment Rate



PCE Prices excluding Food and Energy



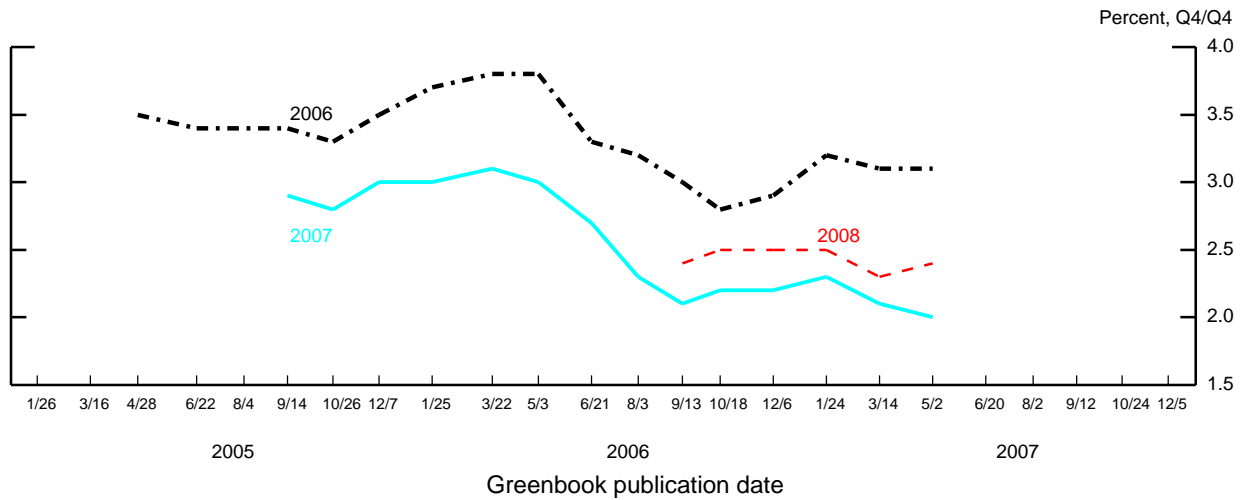
Federal Funds Rate



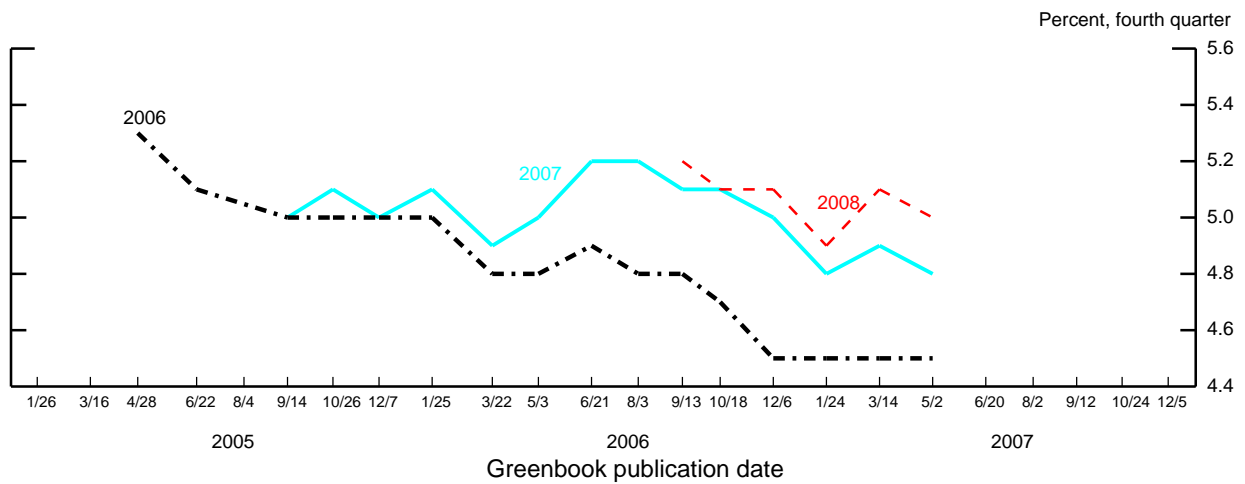
Class II FOMC - Restricted (FR)

**Evolution of the Staff Forecast**

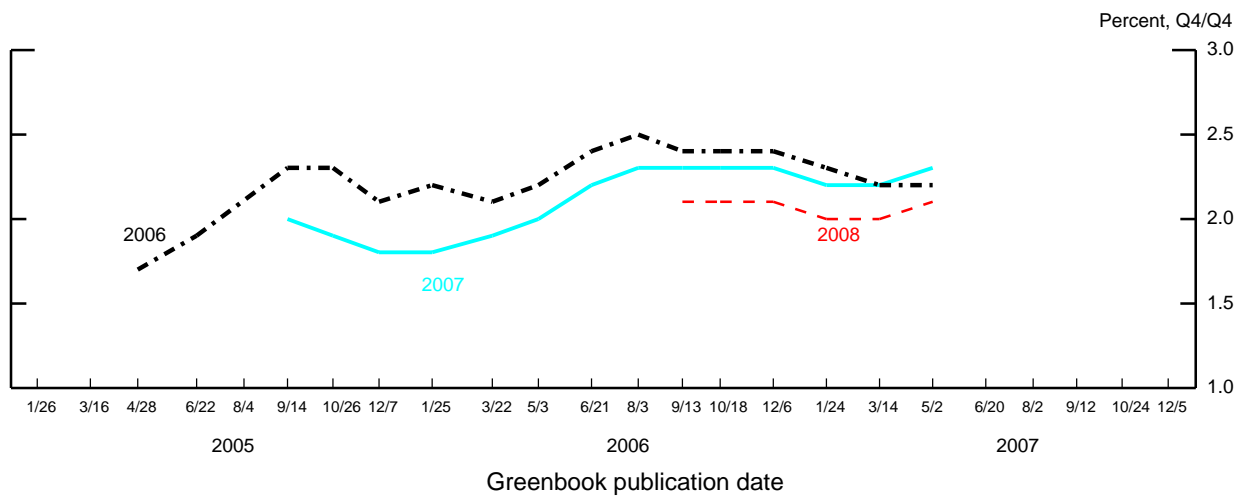
Change in Real GDP



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 <sup>1</sup>	
	03/14/07	05/02/07	03/14/07	05/02/07	03/14/07	05/02/07	03/14/07	05/02/07	03/14/07	05/02/07
<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
Q2	5.9	5.9	2.6	2.6	4.0	4.0	2.7	2.7	4.7	4.7
Q3	3.8	3.8	2.0	2.0	2.4	2.4	2.2	2.2	4.7	4.7
Q4	3.9	4.1	2.2	2.5	-9	-1.0	1.9	1.8	4.5	4.5
2007:Q1	5.5	5.2	1.5	1.3	2.9	3.3	2.2	2.2	4.6	4.5
Q2	5.1	5.5	2.3	2.6	2.8	4.2	2.2	2.2	4.7	4.6
Q3	4.3	3.7	2.3	2.0	2.2	2.0	2.2	2.3	4.8	4.7
Q4	4.5	4.2	2.3	2.1	2.2	2.2	2.2	2.3	4.9	4.8
2008:Q1	4.7	4.7	2.3	2.4	2.1	2.1	2.1	2.2	4.9	4.8
Q2	4.7	4.8	2.3	2.4	2.1	2.1	2.1	2.2	5.0	4.9
Q3	4.6	4.7	2.3	2.4	2.0	2.0	2.0	2.1	5.0	4.9
Q4	4.5	4.5	2.3	2.4	2.0	2.0	2.0	2.1	5.1	5.0
<i>Two-quarter<sup>2</sup></i>										
2006:Q2	7.5	7.5	4.1	4.1	3.0	3.0	2.4	2.4	-3	-3
Q4	3.9	4.0	2.1	2.2	.7	.7	2.0	2.0	-2	-2
2007:Q2	5.3	5.3	1.9	1.9	2.9	3.7	2.2	2.2	.2	.1
Q4	4.4	4.0	2.3	2.0	2.2	2.1	2.2	2.3	.2	.2
2008:Q2	4.7	4.8	2.3	2.4	2.1	2.1	2.1	2.2	.1	.1
Q4	4.5	4.6	2.3	2.4	2.0	2.0	2.0	2.1	.1	.1
<i>Four-quarter<sup>3</sup></i>										
2005:Q4	6.4	6.4	3.1	3.1	3.1	3.1	2.1	2.1	-4	-4
2006:Q4	5.7	5.7	3.1	3.1	1.9	1.9	2.2	2.2	-5	-5
2007:Q4	4.8	4.6	2.1	2.0	2.5	2.9	2.2	2.3	.4	.3
2008:Q4	4.6	4.7	2.3	2.4	2.1	2.1	2.0	2.1	.2	.2
<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	6.3	6.3	3.3	3.3	2.8	2.7	2.2	2.2	4.6	4.6
2007	4.7	4.7	2.1	2.0	2.1	2.4	2.2	2.2	4.7	4.6
2008	4.6	4.5	2.3	2.3	2.2	2.2	2.1	2.2	5.0	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	2006				2007				2008				2006 <sup>1</sup>	2007 <sup>1</sup>	2008 <sup>1</sup>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous</i>	5.6	2.6	2.0	2.5	1.3	2.6	2.0	2.1	2.4	2.4	2.4	2.4	3.1	2.0	2.4
Final sales <i>Previous</i>	5.6	2.6	2.0	2.2	1.5	2.3	2.3	2.3	2.3	2.3	2.3	2.3	3.1	2.1	2.3
Priv. dom. final purch. <i>Previous</i>	5.6	2.1	1.9	3.7	1.6	2.4	1.8	1.9	2.0	2.9	2.6	2.3	3.3	1.9	2.4
	5.6	2.1	1.9	3.6	1.4	2.0	2.3	1.9	2.1	2.7	2.6	2.4	3.3	1.9	2.4
	5.5	1.8	2.1	1.6	2.5	.7	.9	1.8	2.2	2.4	2.6	2.6	2.7	1.5	2.5
	5.5	1.8	2.1	1.6	1.9	.8	1.8	2.1	2.4	2.5	2.6	2.7	2.7	1.7	2.6
Personal cons. expend. <i>Previous</i>	4.8	2.6	2.8	4.2	3.8	1.9	2.1	2.2	2.4	2.4	2.6	2.5	3.6	2.5	2.5
Durables	4.8	2.6	2.8	4.1	3.7	2.2	2.1	2.1	2.3	2.4	2.5	2.5	3.6	2.5	2.4
Nondurables	19.8	-1	6.4	4.4	7.3	-3	2.4	2.7	2.7	3.4	3.9	4.0	7.4	3.0	3.5
Services	5.9	1.4	1.5	5.9	2.9	1.1	2.2	2.4	2.4	2.6	2.8	2.5	3.7	2.1	2.6
	1.6	3.7	2.8	3.4	3.7	2.7	1.9	2.0	2.3	2.1	2.2	2.3	2.9	2.6	2.2
Residential investment <i>Previous</i>	-.3	-11.1	-18.7	-19.8	-14.1	-18.5	-19.2	-7.7	-6.0	-1.2	1.1	2.1	-12.8	-15.0	-1.1
	-.3	-11.1	-18.7	-19.7	-22.2	-19.9	-6.2	-1.6	-.5	2.1	2.4	3.6	-12.8	-12.9	1.9
Business fixed invest. <i>Previous</i>	13.7	4.4	10.0	-3.1	2.8	2.9	3.5	3.5	4.4	4.0	3.5	3.4	6.1	3.2	3.8
Equipment & software <i>Previous</i>	13.7	4.4	10.0	-2.5	2.8	2.7	3.9	3.9	4.6	3.8	3.7	3.4	6.2	3.3	3.9
	15.6	-1.4	7.7	-4.8	1.7	1.4	4.1	4.1	4.9	4.4	4.6	4.8	4.0	2.8	4.7
	15.6	-1.4	7.7	-3.4	2.4	.8	3.4	4.1	5.8	4.9	5.0	4.7	4.4	2.7	5.1
Nonres. structures <i>Previous</i>	8.7	20.3	15.7	.8	5.3	6.3	2.1	2.3	3.2	2.9	1.3	.4	11.2	4.0	2.0
	8.7	20.3	15.7	-5	3.8	7.0	4.8	3.5	2.2	1.6	1.0	.6	10.8	4.8	1.3
Net exports <sup>2</sup> <i>Previous</i> <sup>2</sup>	-637	-624	-629	-583	-606	-582	-574	-575	-584	-572	-570	-576	-618	-584	-576
Exports	-637	-624	-629	-584	-596	-584	-579	-589	-602	-599	-601	-609	-618	-587	-603
Imports	14.0	6.2	6.8	10.6	-1.1	7.6	6.3	6.1	5.9	5.8	5.7	5.6	9.4	4.7	5.7
	9.1	1.4	5.6	-2.6	4.1	.1	2.7	4.5	6.1	1.8	3.6	5.2	3.3	2.8	4.2
Govt. cons. & invest. <i>Previous</i>	4.9	.8	1.7	3.4	1.4	4.9	3.6	2.2	2.2	2.1	1.7	1.6	2.7	3.0	1.9
Federal	4.9	.8	1.7	3.3	1.4	4.8	2.8	2.2	2.2	2.1	2.0	2.0	2.7	2.8	2.1
Defense	8.8	-4.5	1.3	4.6	-3.0	8.3	5.7	1.9	1.8	1.6	1.5	1.4	2.4	3.1	1.6
Nondefense	8.9	-2.0	-1.2	12.3	-6.6	12.7	8.5	2.8	2.6	2.3	2.2	2.0	4.3	4.1	2.3
State & local	8.5	-9.3	6.5	-9.6	4.7	-3	.0	.0	.0	.0	.0	.0	-1.4	1.1	.0
	2.7	4.0	1.9	2.7	4.0	3.0	2.4	2.4	2.4	2.4	1.8	1.8	2.8	3.0	2.1
Change in bus. inventories <sup>2</sup> <i>Previous</i> <sup>2</sup>	41	54	55	22	12	16	24	28	40	26	19	19	43	20	26
Nonfarm <sup>2</sup>	41	54	55	18	21	27	27	38	45	34	27	23	42	28	32
Farm <sup>2</sup>	37	52	53	20	8	15	23	27	40	25	18	19	41	19	25
	4	2	2	2	3	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 <sup>1</sup>	2001 <sup>1</sup>	2002 <sup>1</sup>	2003 <sup>1</sup>	2004 <sup>1</sup>	2005 <sup>1</sup>	2006 <sup>1</sup>	2007 <sup>1</sup>	2008 <sup>1</sup>
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	3.1 3.1	2.0 2.1	2.4 2.3
Final sales <i>Previous</i>	2.9 2.9	1.5 1.5	.8 .8	3.7 3.7	3.1 3.1	3.2 3.2	3.3 3.3	1.9 1.9	2.4 2.4
Priv. dom. final purch. <i>Previous</i>	4.3 4.3	1.0 1.0	1.1 1.1	4.1 4.1	4.4 4.4	3.6 3.6	2.7 2.7	1.5 1.7	2.5 2.6
Personal cons. expend. <i>Previous</i>	4.1 4.1	2.8 2.8	1.9 1.9	3.4 3.4	4.0 4.0	2.9 2.9	3.6 3.6	2.5 2.5	2.5 2.4
Durables	4.7	10.8	1.2	8.3	5.6	2.5	7.4	3.0	3.5
Nondurables	3.0	1.9	2.1	3.9	3.8	4.4	3.7	2.1	2.6
Services	4.5	1.6	1.9	2.2	3.7	2.3	2.9	2.6	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	-12.8 -12.8	-15.0 -12.9	-1.1 1.9
Business fixed invest. <i>Previous</i>	7.8 7.8	-9.6 -9.6	-6.5 -6.5	4.9 4.9	6.9 6.9	5.6 5.6	6.1 6.2	3.2 3.3	3.8 3.9
Equipment & software <i>Previous</i>	7.5 7.5	-9.0 -9.0	-3.4 -3.4	6.6 6.6	8.3 8.3	7.0 7.0	4.0 4.4	2.8 2.7	4.7 5.1
Nonres. structures <i>Previous</i>	8.8 8.8	-11.1 -11.1	-14.9 -14.9	.2 .2	2.7 2.7	1.8 1.8	11.2 10.8	4.0 4.8	2.0 1.3
Net exports <sup>2</sup> <i>Previous</i> <sup>2</sup>	-379 -379	-399 -399	-471 -471	-519 -519	-591 -591	-619 -619	-618 -618	-584 -587	-576 -603
Exports	6.5	-11.9	3.8	5.8	7.0	6.7	9.4	4.7	5.7
Imports	11.2	-7.6	9.7	4.8	10.6	5.2	3.3	2.8	4.2
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	2.7 2.7	3.0 2.8	1.9 2.1
Federal	-2.2	6.4	7.8	5.5	2.3	2.1	2.4	3.1	1.6
Defense	-3.5	6.5	8.4	7.5	2.5	1.9	4.3	4.1	2.3
Nondefense	.3	6.3	6.8	1.9	1.8	2.4	-1.4	1.1	.0
State & local	1.7	4.2	2.1	-.4	.4	.8	2.8	3.0	2.1
Change in bus. inventories <sup>2</sup> <i>Previous</i> <sup>2</sup>	56 56	-32 -32	12 12	14 14	53 53	20 20	43 42	20 28	26 32
Nonfarm <sup>2</sup>	58	-32	15	14	47	20	41	19	25
Farm <sup>2</sup>	-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 <sup>1</sup>	2007 <sup>1</sup>	2008 <sup>1</sup>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous</i>	5.6	2.6	2.0	2.5	1.3	2.6	2.0	2.1	2.4	2.4	2.4	2.4	3.1	2.0	2.4
Final sales <i>Previous</i>	5.6	2.6	2.0	2.2	1.5	2.3	2.3	2.3	2.3	2.3	2.3	2.3	3.1	2.1	2.3
Priv. dom. final purch. <i>Previous</i>	5.6	2.1	1.9	3.6	1.6	2.4	1.8	1.9	2.0	2.8	2.6	2.3	3.3	1.9	2.4
Personal cons. expend. <i>Previous</i>	5.6	2.1	1.9	3.6	1.4	2.0	2.3	1.9	2.1	2.7	2.6	2.4	3.3	1.9	2.4
Durables	4.7	1.5	1.8	1.4	2.2	.6	.8	1.5	1.9	2.1	2.2	2.2	2.3	1.3	2.1
Nondurables	4.7	1.5	1.8	1.4	1.6	.7	1.6	1.8	2.1	2.2	2.2	2.3	2.3	1.4	2.2
Services															
Personal cons. expend. <i>Previous</i>	3.4	1.8	2.0	2.9	2.7	1.3	1.4	1.5	1.7	1.7	1.8	1.8	2.5	1.7	1.7
Durables	3.4	1.8	2.0	2.9	2.6	1.5	1.5	1.5	1.6	1.7	1.8	1.8	2.5	1.8	1.7
Nondurables	1.5	.0	.5	.4	.6	.0	.2	.2	.2	.3	.3	.3	.6	.2	.3
Services	1.2	.3	.3	1.2	.6	.2	.4	.5	.5	.5	.6	.5	.7	.4	.5
Residential investment <i>Previous</i>	.7	1.5	1.1	1.4	1.5	1.1	.8	.8	1.0	.9	.9	1.0	1.2	1.1	.9
Residential investment <i>Previous</i>	.0	-.7	-1.2	-1.2	-.8	-1.0	-1.0	-.4	-.3	-.1	.0	.1	-.8	-.8	.0
	.0	-.7	-1.2	-1.2	-1.3	-1.1	-.3	-.1	.0	.1	.1	.2	-.8	-.7	.1
Business fixed invest. <i>Previous</i>	1.4	.5	1.0	-.3	.3	.3	.4	.4	.5	.4	.4	.4	.6	.3	.4
Equipment & software <i>Previous</i>	1.4	.5	1.0	-.3	.3	.3	.4	.4	.5	.4	.4	.4	.6	.3	.4
Nonres. structures <i>Previous</i>	1.1	-.1	.6	-.4	.1	.1	.3	.3	.4	.3	.3	.3	.3	.2	.3
Nonres. structures <i>Previous</i>	1.1	-.1	.6	-.3	.2	.1	.2	.3	.4	.3	.4	.3	.3	.2	.4
Net exports <i>Previous</i>	.3	.6	.5	.0	.2	.2	.1	.1	.1	.1	.0	.0	.3	.1	.1
Exports	.3	.6	.5	.0	.1	.2	.2	.1	.1	.1	.0	.0	.3	.2	.0
Imports	.0	.4	-.2	1.6	-.8	.8	.3	-.1	-.3	.4	.0	-.2	.5	.1	.0
Govt. cons. & invest. <i>Previous</i>	.0	.4	-.2	1.6	-.4	.4	.2	-.3	-.5	.1	-.1	-.3	.4	-.1	-.2
Federal	1.4	.7	.7	1.1	-.1	.8	.7	.7	.7	.7	.7	.6	1.0	.5	.7
Defense	-1.5	-.2	-.9	.5	-.7	.0	-.5	-.8	-1.0	-.3	-.6	-.9	-.5	-.5	-.7
Nondefense	.9	.2	.3	.6	.3	.9	.7	.4	.4	.4	.3	.3	.5	.6	.4
State & local	.9	.2	.3	.6	.3	.9	.5	.4	.4	.4	.4	.4	.5	.5	.4
Change in bus. inventories <i>Previous</i>	.6	-.3	.1	.3	-.2	.6	.4	.1	.1	.1	.1	.1	.2	.2	.1
Nonfarm	.4	-.1	-.1	.6	-.3	.6	.4	.1	.1	.1	.1	.1	.2	.2	.1
Farm	.2	-.2	.2	-.2	.1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
	.3	.5	.2	.3	.5	.4	.3	.3	.3	.3	.2	.2	.3	.4	.3
Change in bus. inventories <i>Previous</i>	.0	.4	.1	-1.2	-.4	.2	.3	.1	.4	-.5	-.2	.0	-.2	.1	-.1
Nonfarm	.0	.4	.1	-1.3	.1	.2	.0	.4	.2	-.4	-.3	-.1	-.2	.2	-.1
Farm	.0	.5	.1	-1.2	-.4	.3	.3	.1	.4	-.5	-.2	.0	-.2	.1	-.1
	.0	-.1	.0	.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.

Class II FOMC  
Restricted (FR)

May 2, 2007

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

Item	2006				2007				2008				2006 <sup>1</sup>	2007 <sup>1</sup>	2008 <sup>1</sup>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP chain-wt. price index <i>Previous</i>	3.3	3.3	1.9	1.7	3.9	2.8	1.7	2.1	2.3	2.3	2.3	2.1	2.5	2.6	2.3
PCE chain-wt. price index <i>Previous</i>	3.3	3.3	1.9	1.6	3.9	2.7	2.0	2.1	2.4	2.3	2.2	2.1	2.5	2.7	2.3
Energy <i>Previous</i>	2.0	4.0	2.4	-1.0	3.3	4.2	2.0	2.2	2.1	2.1	2.0	2.0	1.9	2.9	2.1
Food <i>Previous</i>	2.0	4.0	2.4	-.9	2.9	2.8	2.2	2.2	2.1	2.1	2.0	2.0	1.9	2.5	2.1
Ex. food & energy <i>Previous</i>	.1	29.7	3.7	-36.0	16.1	35.7	-3.7	.2	1.0	1.0	.7	.4	-3.7	11.0	.8
CPI <i>Previous</i>	.1	29.7	3.7	-36.0	10.5	9.9	1.9	2.3	2.3	1.9	1.6	1.3	-3.6	6.1	1.7
Ex. food & energy <i>Previous</i>	2.7	1.7	2.9	1.9	4.8	3.8	2.6	2.4	2.3	2.2	2.1	2.1	2.3	3.4	2.2
Ex. food & energy <i>Previous</i>	2.7	1.7	2.9	1.9	4.1	3.4	2.6	2.4	2.3	2.3	2.2	2.2	2.3	3.1	2.2
Ex. food & energy <i>Previous</i>	2.1	2.7	2.2	1.8	2.2	2.2	2.3	2.3	2.2	2.2	2.1	2.1	2.2	2.3	2.1
Ex. food & energy <i>Previous</i>	2.1	2.7	2.2	1.9	2.2	2.2	2.2	2.2	2.1	2.1	2.0	2.0	2.2	2.2	2.0
Ex. food & energy <i>Previous</i>	1.8	5.1	3.0	-2.0	3.8	5.1	1.9	2.3	2.3	2.3	2.2	2.0	1.9	3.3	2.2
Ex. food & energy <i>Previous</i>	1.8	5.1	3.0	-2.0	3.3	3.2	2.3	2.3	2.3	2.2	2.2	2.1	1.9	2.8	2.2
Ex. food & energy <i>Previous</i>	2.4	3.2	3.2	1.8	2.3	2.4	2.5	2.5	2.4	2.4	2.3	2.2	2.7	2.4	2.3
Ex. food & energy <i>Previous</i>	2.4	3.2	3.2	1.8	2.4	2.5	2.4	2.3	2.3	2.3	2.2	2.2	2.7	2.4	2.2
ECI, hourly compensation <sup>2</sup> <i>Previous</i> <sup>2</sup>	2.8	3.2	3.6	3.2	2.3	3.8	3.8	3.8	4.0	4.0	4.0	4.0	3.2	3.4	4.0
Nonfarm business sector Output per hour <i>Previous</i>	2.4	3.2	3.6	3.2	3.9	3.9	4.0	3.9	3.9	3.9	4.0	3.9	3.2	3.9	3.9
Compensation per hour <i>Previous</i>	3.5	1.2	-.5	1.9	1.5	1.4	2.3	2.4	2.6	2.6	2.6	2.6	1.5	1.9	2.6
Unit labor costs <i>Previous</i>	3.5	1.2	-.5	1.6	2.0	1.1	2.6	2.6	2.6	2.6	2.6	2.6	1.5	2.1	2.6
Compensation per hour <i>Previous</i>	12.9	-1.4	.6	8.2	1.7	4.0	4.8	4.9	4.9	4.8	4.9	4.8	4.9	3.9	4.9
Unit labor costs <i>Previous</i>	12.9	-1.4	.6	8.2	2.2	4.5	4.8	4.8	4.8	4.8	4.9	4.8	4.9	4.1	4.8
Unit labor costs <i>Previous</i>	9.1	-2.5	1.1	6.2	.2	2.6	2.5	2.5	2.2	2.2	2.2	2.2	3.3	1.9	2.2
Unit labor costs <i>Previous</i>	9.1	-2.5	1.1	6.5	.3	3.4	2.1	2.1	2.2	2.2	2.3	2.2	3.4	2.0	2.2

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 <sup>1</sup>	2007 <sup>1</sup>	2008 <sup>1</sup>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Employment and production</i>															
Nonfarm payroll employment <sup>2</sup>	.7	.5	.5	.5	.5	.4	.1	.1	.1	.2	.1	.1	2.3	1.2	.6
Unemployment rate <sup>3</sup>	4.7	4.7	4.7	4.5	4.5	4.6	4.7	4.8	4.8	4.9	4.9	5.0	4.5	4.8	5.0
<i>Previous<sup>3</sup></i>	4.7	4.7	4.7	4.5	4.6	4.7	4.8	4.9	4.9	5.0	5.0	5.1	4.5	4.9	5.1
GDP gap <sup>4</sup>	.9	.9	.7	.7	.4	.4	.3	.1	.1	.1	.1	.0	.7	.1	.0
<i>Previous<sup>4</sup></i>	.8	.8	.6	.5	.2	.1	.1	.0	.0	-.1	-.1	-.2	.5	.0	-.2
Industrial production <sup>5</sup>	5.0	6.5	4.0	-1.5	1.4	4.0	2.6	3.1	3.2	3.0	3.6	3.9	3.5	2.8	3.4
<i>Previous<sup>5</sup></i>	5.0	6.5	4.0	-.8	1.8	2.6	3.4	3.1	3.3	3.0	3.4	3.9	3.7	2.7	3.4
Manufacturing industr. prod. <sup>5</sup>	5.5	5.5	4.4	-1.7	1.2	4.8	2.5	2.9	3.3	3.4	3.6	3.9	3.4	2.8	3.5
<i>Previous<sup>5</sup></i>	5.5	5.5	4.4	-1.7	.9	3.5	3.8	3.3	3.6	3.6	3.6	3.9	3.4	2.8	3.7
Capacity utilization rate - mfg. <sup>3</sup>	80.1	80.6	80.9	80.1	79.9	80.3	80.4	80.4	80.5	80.6	80.7	80.9	80.1	80.4	80.9
<i>Previous<sup>3</sup></i>	80.1	80.6	80.9	80.1	79.8	80.0	80.3	80.4	80.5	80.7	80.8	81.0	80.1	80.4	81.0
Housing starts <sup>6</sup>	2.1	1.9	1.7	1.6	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.8	1.4	1.4
Light motor vehicle sales <sup>6</sup>	16.9	16.3	16.6	16.3	16.5	16.4	16.4	16.4	16.3	16.3	16.3	16.3	16.5	16.4	16.3
<i>Income and saving</i>															
Nominal GDP <sup>5</sup>	9.0	5.9	3.8	4.1	5.2	5.5	3.7	4.2	4.7	4.8	4.7	4.5	5.7	4.6	4.7
Real disposable pers. income <sup>5</sup>	4.6	-1.5	3.2	5.3	4.5	-1.5	3.8	3.2	4.2	3.1	3.6	3.4	2.9	2.4	3.6
<i>Previous<sup>5</sup></i>	4.6	-1.5	3.2	5.3	6.0	.6	3.2	3.2	4.1	2.6	3.8	3.4	2.9	3.2	3.5
Personal saving rate <sup>3</sup>	-.3	-1.4	-1.4	-1.2	-1.1	-1.9	-1.5	-1.2	-.8	-.6	-.4	-.2	-1.2	-1.2	-.2
<i>Previous<sup>3</sup></i>	-.3	-1.4	-1.4	-1.2	-.6	-1.0	-.7	-.4	.0	.1	.4	.6	-1.2	-.4	.6
Corporate profits <sup>7</sup>	60.8	5.9	16.4	-1.2	7.3	5.7	.1	-.3	-.8	1.5	1.9	.6	18.3	3.1	.8
Profit share of GNP <sup>3</sup>	12.0	12.0	12.4	12.2	12.3	12.3	12.2	12.1	11.9	11.8	11.8	11.7	12.2	12.1	11.7
Net federal saving <sup>8</sup>	-147	-163	-173	-131	-147	-176	-195	-192	-234	-227	-225	-234	-154	-178	-230
Net state & local saving <sup>8</sup>	13	26	-10	-18	-32	-3	-16	-20	-23	-21	-31	-32	3	-18	-27
Gross national saving rate <sup>3</sup>	14.4	13.5	13.3	14.0	13.0	12.8	12.8	12.8	12.7	12.8	12.8	12.8	14.0	12.8	12.8
Net national saving rate <sup>3</sup>	2.9	1.9	1.7	2.0	2.0	1.4	1.4	1.4	1.3	1.4	1.4	1.4	2.0	1.4	1.4

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)

May 2, 2007

Item	Fiscal year				2006				2007				2008			
	2005 <sup>a</sup>	2006 <sup>a</sup>	2007	2008	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4 <sup>a</sup>	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget</b>					Not seasonally adjusted											
Receipts <sup>1</sup>	2154	2407	2568	2670	507	772	597	574	547	827	620	614	556	848	653	639
Outlays <sup>1</sup>	2472	2655	2739	2908	691	676	639	654	725	691	669	727	739	727	714	766
Surplus/deficit <sup>1</sup>	-318	-248	-171	-238	-184	96	-42	-80	-178	136	-49	-114	-184	121	-61	-127
<i>Previous</i>	-318	-248	-180	-243	-184	96	-42	-80	-183	143	-60	-129	-192	153	-75	-143
On-budget	-494	-435	-361	-435	-216	11	-60	-135	-212	48	-62	-181	-207	28	-74	-200
Off-budget	175	186	190	197	32	85	19	55	34	88	13	68	24	92	13	73
Means of financing																
Borrowing	297	237	174	251	156	-75	43	59	152	-110	73	103	173	-91	66	122
Cash decrease	1	-16	12	5	28	-38	-6	21	25	-24	-10	15	15	-25	0	10
Other <sup>2</sup>	21	28	-15	-18	-1	16	5	0	1	-2	-14	-5	-5	-5	-5	-5
Cash operating balance, end of period	36	52	40	35	8	46	52	31	6	30	40	25	10	35	35	25
<b>NIPA federal sector</b>					Seasonally adjusted annual rates											
Receipts	2174	2480	2645	2755	2491	2523	2557	2581	2651	2660	2686	2712	2740	2769	2800	2830
Expenditures	2509	2667	2807	2975	2638	2686	2730	2713	2798	2836	2881	2904	2974	2996	3025	3064
Consumption expenditures	758	797	838	890	804	802	809	817	827	847	862	870	889	897	905	913
Defense	509	533	566	608	538	538	539	553	554	573	586	593	606	612	619	625
Nondefense	249	264	272	283	266	265	270	264	273	274	283	275	285	286	288	288
Other spending	1751	1870	1969	2084	1834	1884	1921	1896	1971	1990	2020	2034	2085	2099	2120	2152
Current account surplus	-335	-187	-162	-220	-147	-163	-173	-131	-147	-176	-195	-192	-234	-228	-225	-235
Gross investment	107	117	123	131	118	117	118	121	119	124	128	129	131	132	133	134
Gross saving less gross investment <sup>3</sup>	-344	-201	-178	-238	-163	-177	-186	-146	-159	-192	-213	-211	-252	-246	-243	-252
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB)																
surplus/deficit	-340	-229	-204	-245	-196	-214	-219	-181	-186	-216	-232	-222	-259	-251	-246	-253
Change in HEB, percent of potential GDP	-0.3	-1.0	-0.3	0.2	-0.7	0.1	0.0	-0.3	0.0	0.2	0.1	-0.1	0.2	-0.1	-0.1	0.0
Fiscal impetus (FI), percent of GDP	0.2	0.3	0.2	0.2	0.2	-0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0
<i>Previous</i>	0.2	0.3	0.3	0.1	0.2	-0.0	0.0	0.1	0.1	0.1	0.0	0.1	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 2, 2007**  
(Percent)

Period <sup>1</sup>	Total	Households			Business	State and local governments	Federal government	Memo: Nominal GDP
		Total	Home mortgages	Consumer credit				
<i>Year</i>								
2001	6.3	9.3	10.1	8.6	6.0	8.8	-2	2.7
2002	7.2	10.6	12.9	5.9	2.5	11.0	7.6	3.6
2003	8.2	11.6	14.4	5.2	2.7	8.3	10.9	5.9
2004	9.0	11.6	14.2	5.5	5.8	7.4	9.0	6.7
2005	9.4	11.7	13.8	4.2	7.3	10.2	7.0	6.4
2006	7.9	8.5	8.9	4.6	9.1	8.2	3.9	5.7
2007	6.4	5.6	5.5	3.7	8.3	7.9	4.5	4.6
2008	5.7	4.9	5.0	3.1	6.7	6.5	5.3	4.7
<i>Quarter</i>								
2006:1	8.9	9.7	10.9	2.2	9.6	3.3	8.0	9.0
2	7.4	9.3	9.4	6.0	8.3	6.7	1.0	5.9
3	6.5	7.5	7.8	5.4	6.5	8.2	3.6	3.8
4	7.8	6.7	6.4	4.5	10.9	13.5	2.8	4.1
2007:1	6.8	5.8	5.7	4.0	9.0	9.7	4.2	5.2
2	5.8	5.6	5.6	3.9	8.3	7.1	1.0	5.5
3	6.4	5.3	5.3	3.6	7.9	7.0	6.1	3.7
4	6.0	5.2	5.2	3.4	6.9	6.8	6.3	4.2
2008:1	5.6	4.9	5.0	3.2	6.4	6.5	5.7	4.7
2	5.1	4.8	4.9	3.1	6.7	6.4	2.4	4.8
3	5.5	4.8	4.9	3.0	6.6	6.3	5.2	4.7
4	5.9	4.8	4.9	3.0	6.5	6.2	7.5	4.5

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2006: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 2, 2007**

(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	1915.5	1494.0	1414.3	1493.7	1277.8	1493.5	1436.3	1198.8	1499.6	1522.6	1480.6	1353.3	1500.6	1640.1	
Net equity issuance	-363.4	-602.1	-421.6	-232.0	-535.2	-701.2	-510.4	-492.0	-392.0	-292.0	-232.0	-232.0	-232.0	-232.0	
Net debt issuance	2278.9	2096.1	1835.9	1725.7	1813.0	2194.7	1946.7	1690.8	1891.6	1814.6	1712.6	1585.3	1732.6	1872.1	
Borrowing indicators															
Debt (percent of GDP) <sup>1</sup>	204.4	208.7	213.6	216.6	209.6	211.2	212.3	212.8	214.1	215.2	215.8	216.1	216.5	217.2	
Borrowing (percent of GDP)	18.3	15.8	13.2	11.9	13.6	16.3	14.3	12.2	13.6	12.9	12.0	11.0	11.9	12.7	
Households															
Net borrowing <sup>2</sup>	1238.8	1007.7	715.6	660.7	924.9	838.2	739.3	730.2	701.8	691.2	661.5	654.8	658.2	668.3	
Home mortgages	1074.9	792.5	536.5	509.2	728.1	611.7	550.7	546.0	527.0	522.2	508.0	503.2	508.0	517.5	
Consumer credit	94.4	106.9	91.1	77.8	127.8	107.6	96.5	95.0	88.5	84.3	80.0	78.2	76.2	76.8	
Debt/DPI (percent) <sup>3</sup>	123.8	129.2	131.5	131.0	130.4	131.3	130.8	131.8	131.7	131.7	131.3	131.2	130.9	130.7	
Business															
Financing gap <sup>4</sup>	-138.6	68.5	-0.4	82.7	48.3	156.2	-17.1	-24.6	6.5	33.6	73.1	74.5	81.6	101.8	
Net equity issuance	-363.4	-602.1	-421.6	-232.0	-535.2	-701.2	-510.4	-492.0	-392.0	-292.0	-232.0	-232.0	-232.0	-232.0	
Credit market borrowing	561.8	753.4	743.9	653.5	560.1	958.0	806.6	764.6	743.7	660.9	619.7	663.8	661.9	668.5	
State and local governments															
Net borrowing	171.4	151.6	157.9	141.7	156.6	262.1	194.7	145.7	145.7	145.7	141.7	141.7	141.7	141.7	
Current surplus <sup>5</sup>	203.8	220.5	168.2	167.8	210.2	205.5	150.8	181.9	171.4	168.7	168.4	172.5	164.5	165.8	
Federal government															
Net borrowing	306.9	183.4	218.4	269.8	171.4	136.4	206.2	50.4	300.3	316.9	289.7	125.0	270.8	393.6	
Net borrowing (n.s.a.)	306.9	183.4	218.4	269.8	43.4	58.7	152.2	-109.7	73.3	102.7	173.1	-91.1	65.9	121.9	
Unified deficit (n.s.a.)	321.8	209.2	204.5	251.8	41.7	80.4	178.0	-136.2	49.1	113.5	183.6	-120.6	61.4	127.4	
<i>Depository institutions</i>															
Funds supplied	814.1	758.1	353.2	292.5	409.1	616.1	333.1	376.5	629.6	73.8	43.7	468.3	328.2	329.6	

Note. Data after 2006: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.

## International Developments

A number of key background factors have changed since the time of the March Greenbook. Spot oil prices have risen about \$6 per barrel. Nonfuel commodity prices, mostly those of metals, have also moved up, though futures markets anticipate that these prices will level out or even decline over the rest of the forecast period. In addition, the foreign exchange value of the dollar has fallen about 2 percent since the time of the last Greenbook, declining against a wide range of currencies. We continue to project that the value of the dollar will decline over the forecast period in light of continuing concerns over the financing of the current account deficit.

### Summary of Staff Projections

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

Indicator	2006		Projection			
	H1	H2	2007			2008
			Q1	Q2	H2	
Foreign output	4.4	3.5	3.7	3.6	3.5	3.5
March GB	4.5	3.4	3.4	3.5	3.5	3.5
Foreign CPI	2.4	1.8	2.8	2.7	2.4	2.3
March GB	2.4	1.8	2.3	2.3	2.3	2.2
U.S. net exports, contributions to growth, (percentage points)	.2	.7	-.8	.8	.1	.0
March GB	.2	.7	-.5	.4	-.1	-.2

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

Over the forecast period, the foreign economy will likely enjoy continued solid growth with moderate rates of inflation. Recent readings on activity in several major economies, including China, Japan, and the euro area, have surprised us on the upside. The recent cooling of output growth in the United States does not seem to have had an appreciable effect on most economies, other than Canada and Mexico, though a wider spillover remains a risk. We expect that growth in the advanced foreign economies will edge down over the rest of the forecast period, while growth in the emerging-market economies will remain robust, near 5 percent.

The recent increases in energy prices, along with higher readings on core inflation, led us to raise our forecast for foreign consumer price inflation. With solid growth in many foreign economies, a risk to our forecast is that inflationary pressures will be higher than

effects of higher nonfuel commodity prices and the depreciation of the dollar. Metals prices have continued to move up in recent weeks amid indications of strong demand from China, and they are projected to remain elevated. Furthermore, the dollar, which provided only a little price pressure early this year, has recently declined more sharply and should provide further upward pressure on import prices in the third quarter. For the remainder of the forecast period, core import prices decelerate as commodity prices level off and the pace of dollar depreciation slows.

### Staff Projections of Selected Trade Prices

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

Indicator	2006		Projection			
	H1	H2	2007			2008
			Q1	Q2	H2	
<i>Imports</i>						
Core goods	2.7	2.7	2.8	4.5	2.8	1.3
March GB	2.7	2.8	2.8	2.1	1.5	1.1
Oil (dollars per barrel)	63.75	55.34	54.39	61.90	65.58	67.14
March GB	63.75	55.34	53.72	55.35	59.60	61.31
<i>Exports</i>						
Core goods	5.3	3.0	5.9	5.5	2.6	1.3
March GB	5.3	3.0	6.2	3.1	1.7	1.1

Note. Prices for core exports exclude computers and semiconductors. Prices for 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.

Our projection for commodity prices is based on quotes from commodity futures markets. However, as futures markets missed the strong increases in commodity prices over the past couple of years, considerable uncertainty surrounds the outlook.

Core export prices surged at an annual rate of almost 6 percent in the first quarter, about the rate we forecast in the March Greenbook. This rise was mainly a result of a recovery in the prices of exported industrial supplies, particularly fuels, which had fallen sharply in the fourth quarter. Prices of exported foods continued to soar, rising at an annual rate of nearly 30 percent.

The recent increases in primary commodities prices should boost the prices of industrial supplies and led us to pencil in core export price inflation for the second quarter of 5½ percent, 2½ percentage points higher than in the last Greenbook. It then will move down quickly over the next few quarters as commodity prices level off, falling to 3 percent in the third quarter and ending at close to a 1¼ percent rate next year.

### Trade in Goods and Services

We estimate that real net exports subtracted 0.8 percentage point from U.S. GDP growth in the first quarter, reflecting a rebound in import growth and a slump in export growth from the fourth quarter. The February trade data, the advance NIPA release, and other information point to a sharper slowdown in export growth and a more muted rebound in import growth than we had previously expected. On net, the contribution is more negative than in the March Greenbook. Smoothing through the quarterly swings induced by oil imports, we project that net exports will have a roughly neutral effect on U.S. GDP growth in 2007 and 2008. The contributions for both years are less negative than in the previous Greenbook, primarily because of the lower value of the dollar.

#### Staff Projections for Trade in Goods and Services

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

Indicator	2006		Projection			
	H1	H2	2007			2008
			Q1	Q2	H2	
Real imports	5.2	1.4	4.1	.1	3.6	4.2
March GB	5.2	1.5	6.3	1.7	4.4	4.7
Real exports	10.0	8.7	-1.1	7.6	6.2	5.7
March GB	10.0	8.7	5.2	6.1	5.7	5.2

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

We estimate that the growth rate of real imports of goods and services rebounded to a 4 percent annual rate in the first quarter; an estimated surge in real imports of oil and computers more than accounted for the gain. In contrast, on the basis of weak February data, imports of core goods are estimated to have contracted at an annual rate of 1¾ percent in the first quarter. Recent data also suggest that the growth of real imports of services moved down from its fourth-quarter pace. In the current quarter, we expect imported goods and services to be flat; core import growth rebounds to 1¾ percent, but real oil imports are depressed by a quirky oil seasonal factor and computer imports

**Alternative Simulation:**  
**Higher Elasticity of U.S. Exports to Foreign Activity**  
 (Percent change from previous period, annual rate)

Indicator and simulation	2007		2008	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	1.9	2.0	2.4	2.4
Higher U.S. export elasticity	2.0	2.1	2.5	2.5
<i>U.S. PCE prices excluding food and energy</i>				
Baseline	2.2	2.3	2.2	2.1
Higher U.S. export elasticity	2.2	2.3	2.2	2.1
<i>U.S. federal funds rate (percent)</i>				
Baseline	5.3	5.3	5.3	5.3
Higher U.S. export elasticity	5.3	5.4	5.5	5.5
<i>U.S. trade balance (percent of GDP)</i>				
Baseline	-5.3	-5.4	-5.4	-5.2
Higher U.S. export elasticity	-5.3	-5.3	-5.2	-5.0

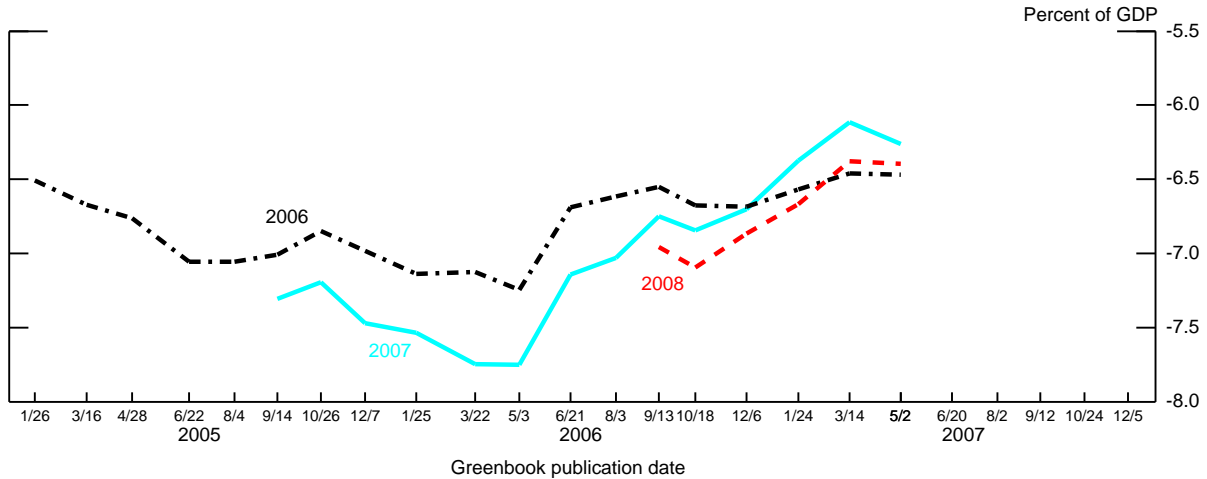
Note. H1 is Q2/Q4; H2 is Q4/Q2. The federal funds rate is the average rate for the final quarter of the period. The monetary authorities in the United States and the major foreign economies adjust their policy rates according to Taylor rules.



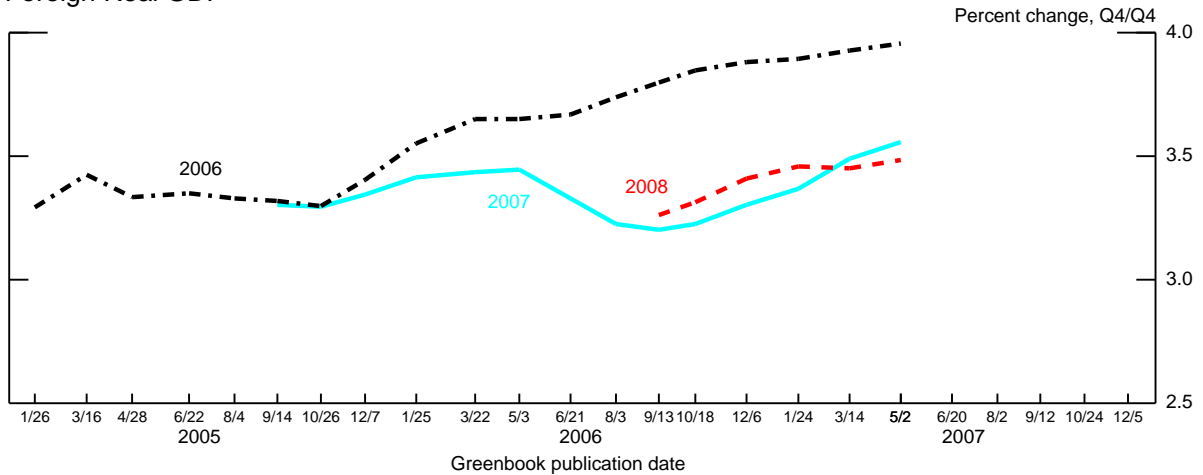
Class II FOMC -- Restricted (FR)

**Evolution of the Staff Forecast**

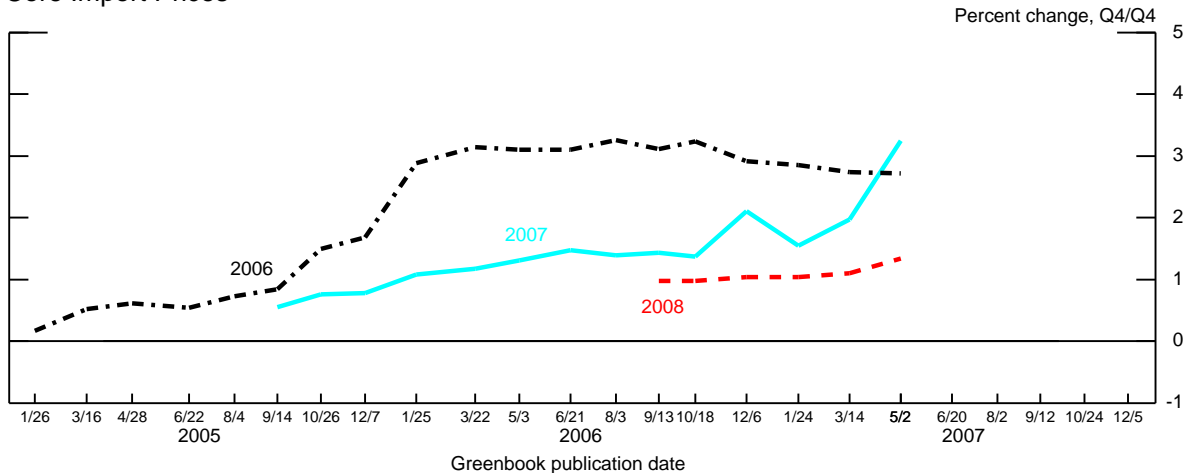
Current Account Balance



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	2000	2001	2002	2003	2004	2005	2006	Projected 2007 2008
REAL GDP (1)								
-----								
Total foreign	4.2	0.3	3.1	2.9	3.9	3.7	4.0	3.6 3.5
Advanced Foreign Economies	3.6	0.9	2.5	1.8	2.6	2.6	2.7	2.6 2.5
of which:								
Canada	4.1	1.3	3.5	1.5	3.7	2.8	2.3	2.7 2.8
Japan	3.1	-1.7	2.0	2.4	1.1	2.8	2.5	2.6 1.7
United Kingdom	3.1	2.0	2.3	3.3	2.6	1.9	3.0	2.7 2.5
Euro Area (2)	3.3	1.1	1.1	1.0	1.5	1.8	3.3	2.2 2.0
Germany	2.3	1.1	0.0	0.2	0.2	1.7	3.7	2.3 2.1
Emerging Market Economies	5.2	-0.4	3.9	4.6	5.7	5.4	5.7	4.8 4.9
Asia	5.8	1.0	6.2	6.8	6.0	7.5	6.7	6.2 6.2
Korea	4.4	4.7	7.7	4.2	2.9	5.7	4.0	3.9 4.4
China	7.8	7.1	8.5	10.1	9.6	10.0	10.4	10.1 9.2
Latin America	4.5	-1.3	1.6	2.4	5.3	3.1	4.9	3.4 3.6
Mexico	4.8	-1.3	2.0	2.1	4.8	2.5	4.3	3.1 3.4
Brazil	4.4	-0.7	5.0	0.8	5.0	3.1	4.7	4.0 4.0
CONSUMER PRICES (3)								
-----								
Advanced Foreign Economies	1.9	0.9	2.1	1.3	1.8	1.5	1.3	1.9 1.7
of which:								
Canada	3.1	1.1	3.8	1.7	2.3	2.3	1.3	2.7 2.0
Japan	-0.5	-1.1	-0.5	-0.3	0.5	-1.0	0.3	0.2 0.5
United Kingdom (4)	0.9	1.1	1.5	1.3	1.4	2.1	2.7	2.3 1.9
Euro Area (2)	2.5	2.1	2.3	2.0	2.3	2.3	1.8	2.1 1.9
Germany	1.7	1.5	1.2	1.1	2.1	2.2	1.3	2.2 1.7
Emerging Market Economies	4.1	2.8	2.9	3.1	3.9	3.0	2.9	3.3 2.9
Asia	1.8	1.2	0.8	2.2	3.2	2.6	2.3	2.9 2.6
Korea	2.5	3.3	3.3	3.5	3.4	2.5	2.1	2.7 2.7
China	1.0	-0.1	-0.5	2.7	3.3	1.4	2.1	3.0 2.2
Latin America	8.4	5.3	6.4	4.9	5.7	3.8	4.2	4.0 3.7
Mexico	8.7	5.1	5.2	3.9	5.3	3.1	4.1	3.7 3.5
Brazil	6.4	7.5	10.7	11.5	7.2	6.1	3.2	4.1 3.5

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	2006				2007				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	4.8	4.1	3.4	3.6	3.7	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Advanced Foreign Economies	3.4	2.7	2.2	2.6	2.7	2.8	2.6	2.5	2.4	2.5	2.5	2.4
of which:												
Canada	3.8	2.0	2.0	1.4	2.7	2.9	2.7	2.7	2.7	2.9	2.9	2.8
Japan	2.9	1.3	0.5	5.5	3.8	2.4	2.1	2.0	1.8	1.8	1.7	1.7
United Kingdom	3.3	3.1	2.7	2.7	2.6	2.9	2.7	2.7	2.5	2.5	2.5	2.5
Euro Area (2)	3.4	4.0	2.4	3.6	1.8	2.5	2.3	2.2	2.1	2.1	2.0	1.9
Germany	3.4	4.8	3.2	3.5	1.0	2.8	2.7	2.6	2.4	2.2	2.0	1.9
Emerging Market Economies	6.7	6.1	5.1	5.0	5.0	4.7	4.8	4.8	4.9	4.9	4.9	4.9
Asia	6.9	6.7	6.5	6.5	7.2	5.9	6.0	6.0	6.1	6.1	6.3	6.2
Korea	4.0	3.2	5.0	3.8	3.6	4.0	4.1	4.1	4.3	4.4	4.4	4.4
China	11.2	12.8	7.3	10.5	13.7	8.9	8.9	8.9	9.1	9.1	9.5	9.3
Latin America	7.1	5.4	4.1	2.9	2.9	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Mexico	7.0	5.6	2.7	1.9	2.3	3.3	3.4	3.4	3.4	3.4	3.4	3.4
Brazil	6.6	-2.0	10.9	3.7	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
CONSUMER PRICES (3)	Four-quarter changes											
Advanced Foreign Economies	1.8	2.0	1.6	1.3	1.5	1.4	1.6	1.9	1.8	1.7	1.7	1.7
of which:												
Canada	2.5	2.6	1.6	1.3	1.9	1.7	2.2	2.7	2.1	2.1	2.1	2.0
Japan	-0.2	0.2	0.6	0.3	-0.1	-0.1	-0.2	0.2	0.6	0.6	0.5	0.5
United Kingdom (4)	2.0	2.2	2.4	2.7	2.8	2.8	2.5	2.3	2.2	1.9	1.9	1.9
Euro Area (2)	2.3	2.5	2.1	1.8	1.9	1.8	1.8	2.1	2.1	2.0	1.9	1.9
Germany	2.1	2.1	1.6	1.3	1.9	1.9	2.0	2.2	2.0	1.8	1.8	1.7
Emerging Market Economies	3.0	2.9	2.7	2.9	3.1	3.2	3.4	3.3	3.2	3.0	2.9	2.9
Asia	2.4	2.6	2.1	2.3	2.7	2.7	3.1	2.9	2.9	2.7	2.6	2.6
Korea	2.1	2.3	2.5	2.1	2.0	2.0	2.0	2.7	3.2	3.2	3.0	2.7
China	1.2	1.4	1.2	2.1	2.8	3.1	3.4	3.0	2.6	2.3	2.2	2.2
Latin America	4.2	3.5	3.8	4.2	4.2	4.5	4.3	4.0	3.7	3.7	3.7	3.7
Mexico	3.7	3.1	3.5	4.1	4.1	4.4	4.1	3.7	3.6	3.5	3.5	3.5
Brazil	5.6	4.3	3.8	3.2	3.1	3.5	4.1	4.1	3.6	3.5	3.5	3.5

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.

May 2, 2007

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000	2001	2002	2003	2004	2005	2006	Projected 2007	Projected 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	0.5	0.1	-0.0
Exports of G&S	0.7	-1.3	0.4	0.6	0.7	0.7	1.0	0.5	0.7
Imports of G&S	-1.6	1.1	-1.3	-0.7	-1.5	-0.8	-0.5	-0.5	-0.7
	Percentage change, Q4/Q4								
Exports of G&S	6.5	-11.9	3.8	5.8	7.0	6.7	9.4	4.7	5.7
Services	1.8	-8.9	10.2	3.0	7.1	3.1	7.5	5.0	5.6
Computers	22.7	-23.5	-1.1	11.3	6.4	14.1	8.2	14.5	14.4
Semiconductors	27.6	-34.6	10.1	38.3	-6.3	17.2	1.0	13.5	17.0
Core Goods 1/	5.9	-10.2	0.6	4.9	8.0	7.5	10.8	3.7	4.9
Imports of G&S	11.2	-7.6	9.7	4.8	10.6	5.2	3.3	2.8	4.2
Services	10.6	-5.9	8.8	2.2	7.6	1.9	5.1	2.9	3.4
Oil	13.3	3.7	3.8	1.2	9.6	0.9	-9.7	3.6	-0.9
Natural Gas	37.3	-6.5	19.5	1.3	6.6	11.9	-17.2	3.9	6.8
Computers	13.9	-13.6	13.2	17.0	22.5	11.8	13.7	17.8	17.5
Semiconductors	22.8	-51.1	11.0	-0.1	9.3	7.5	-0.4	16.7	17.0
Core Goods 2/	10.3	-6.5	10.0	5.2	10.7	6.2	5.6	1.5	4.3
	Billions of Chained 2000 Dollars								
Net Goods & Services	-379.5	-399.1	-471.3	-518.9	-590.9	-619.2	-618.0	-583.9	-575.8
Exports of G&S	1096.3	1036.7	1013.3	1026.1	1120.4	1196.1	1302.8	1374.0	1456.8
Imports of G&S	1475.8	1435.8	1484.6	1545.0	1711.3	1815.3	1920.9	1957.9	2032.6
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-415.2	-389.0	-472.4	-527.5	-665.3	-791.5	-856.7	-867.9	-927.1
Current Acct as Percent of GDP	-4.2	-3.8	-4.5	-4.8	-5.7	-6.4	-6.5	-6.3	-6.4
Net Goods & Services (BOP)	-377.6	-362.8	-421.1	-494.9	-611.3	-716.7	-765.3	-739.7	-763.7
Investment Income, Net	25.7	30.3	17.8	42.3	33.6	17.6	-0.8	-23.0	-56.4
Direct, Net	94.9	115.9	102.4	112.8	123.9	134.4	150.3	172.3	197.5
Portfolio, Net	-69.2	-85.5	-84.6	-70.5	-90.2	-116.8	-151.1	-195.3	-253.9
Other Income & Transfers, Net	-63.3	-56.5	-69.2	-74.9	-87.6	-92.4	-90.6	-105.3	-107.0

1. Merchandise exports excluding computers and semiconductors.
2. Merchandise imports excluding oil, natural gas, 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
Core Goods 1/	0.2	-2.9	5.2	18.3	7.7	8.2	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
Natural Gas	-45.9	72.5	66.4	-32.1	16.2	72.0	43.7	-55.1	23.0	12.3	109.8	-45.9
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
Core 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, natural gas, computers, and semiconductors.

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2006				2007				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	-0.0	0.4	-0.2	1.6	-0.8	0.8	0.3	-0.1	-0.3	0.4	0.0	-0.2
Exports of G&S	1.4	0.7	0.7	1.1	-0.1	0.8	0.7	0.7	0.7	0.7	0.7	0.6
Imports of G&S	-1.5	-0.2	-0.9	0.5	-0.7	-0.0	-0.5	-0.8	-1.0	-0.3	-0.6	-0.9
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	14.0	6.2	6.8	10.6	-1.1	7.6	6.3	6.1	5.9	5.8	5.7	5.6
Services	6.7	6.7	0.8	16.3	-2.3	8.0	7.6	7.0	6.3	5.7	5.3	5.0
Oil	-4.8	-18.3	7.1	-20.2	26.2	-14.6	-4.9	12.5	18.5	-18.2	-12.0	12.8
Natural Gas	-22.7	38.7	-26.4	-40.3	-22.1	58.0	17.4	-19.4	-1.3	39.0	20.2	-21.0
Computers	34.3	17.0	18.4	-10.1	44.7	-3.5	17.5	17.5	17.5	17.5	17.5	17.5
Semiconductors	3.6	-1.3	21.6	-21.0	14.1	18.7	17.0	17.0	17.0	17.0	17.0	17.0
Core Goods 1/	12.3	2.5	6.9	1.2	-1.8	1.8	3.0	2.9	3.5	4.2	4.6	4.8
Imports of G&S	9.1	1.4	5.6	-2.6	4.1	0.1	2.7	4.5	6.1	1.8	3.6	5.2
Services	7.4	9.9	-2.6	6.2	4.4	2.8	2.2	2.4	3.0	3.5	8.0	-0.8
Oil	-4.8	-18.3	7.1	-20.2	26.2	-14.6	-4.9	12.5	18.5	-18.2	-12.0	12.8
Natural Gas	-22.7	38.7	-26.4	-40.3	-22.1	58.0	17.4	-19.4	-1.3	39.0	20.2	-21.0
Computers	34.3	17.0	18.4	-10.1	44.7	-3.5	17.5	17.5	17.5	17.5	17.5	17.5
Semiconductors	3.6	-1.3	21.6	-21.0	14.1	18.7	17.0	17.0	17.0	17.0	17.0	17.0
Core Goods 2/	12.3	2.5	6.9	1.2	-1.8	1.8	3.0	2.9	3.5	4.2	4.6	4.8
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-636.6	-624.2	-628.8	-582.6	-605.7	-581.5	-573.6	-574.8	-583.8	-572.5	-570.4	-576.4
Exports of G&S	1269.3	1288.5	1310.0	1343.5	1339.6	1364.5	1385.6	1406.2	1426.6	1446.8	1466.9	1486.9
Imports of G&S	1905.9	1912.7	1938.8	1926.1	1945.3	1946.0	1959.2	1981.0	2010.4	2019.2	2037.4	2063.3
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-855.1	-870.8	-917.5	-783.2	-837.0	-865.1	-876.2	-893.5	-935.0	-913.1	-917.2	-943.1
Current Account as % of GDP	-6.6	-6.6	-6.9	-5.8	-6.1	-6.3	-6.3	-6.3	-6.6	-6.3	-6.3	-6.4
Net Goods & Services (BOP)	-766.6	-774.5	-805.6	-714.4	-717.9	-739.3	-746.0	-755.5	-776.8	-759.9	-755.1	-762.8
Investment Income, Net	-3.9	-2.4	-15.5	18.6	-12.5	-19.5	-24.2	-35.9	-47.1	-49.9	-58.7	-69.9
Direct, Net	136.9	152.0	137.0	175.4	158.9	167.6	179.5	183.2	185.8	196.7	202.4	205.1
Portfolio, Net	-140.8	-154.4	-152.5	-156.7	-171.5	-187.1	-203.7	-219.1	-233.0	-246.6	-261.1	-274.9
Other Inc. & Transfers, Net	-84.7	-93.9	-96.4	-87.4	-106.5	-106.3	-106.1	-102.2	-111.1	-103.4	-103.4	-110.4

1. Merchandise exports excluding computers and semiconductors.

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

## **Part 2**

May 2, 2007

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

May 2, 2007

## **Recent Developments**

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

Item	2006		2007					
	Q3	Q4	Q1	Q2	Feb.	Mar.	Apr.	May
U.S. production <sup>1</sup>	10.5	10.5	10.2	11.1	10.3	10.3	11.2	11.1
Autos	4.3	4.4	3.9	4.1	3.9	3.7	4.0	4.2
Light trucks	6.2	6.1	6.2	6.9	6.4	6.6	7.2	6.9
Days' supply <sup>2</sup>	70	70	66	n.a.	64	67	n.a.	n.a.
Autos	54	60	61	n.a.	62	62	n.a.	n.a.
Light trucks	82	77	69	n.a.	66	71	n.a.	n.a.
Inventories <sup>3</sup>	2.95	2.84	2.70	n.a.	2.68	2.70	n.a.	n.a.
Autos	.95	1.03	1.03	n.a.	1.02	1.03	n.a.	n.a.
Light trucks	1.99	1.81	1.67	n.a.	1.66	1.67	n.a.	n.a.
Memo: U.S. production, total motor vehicles <sup>4</sup>	11.0	11.0	10.5	11.4	10.7	10.6	11.5	11.4

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

1. Production rates for April, May, and the second quarter reflect the latest industry schedules.

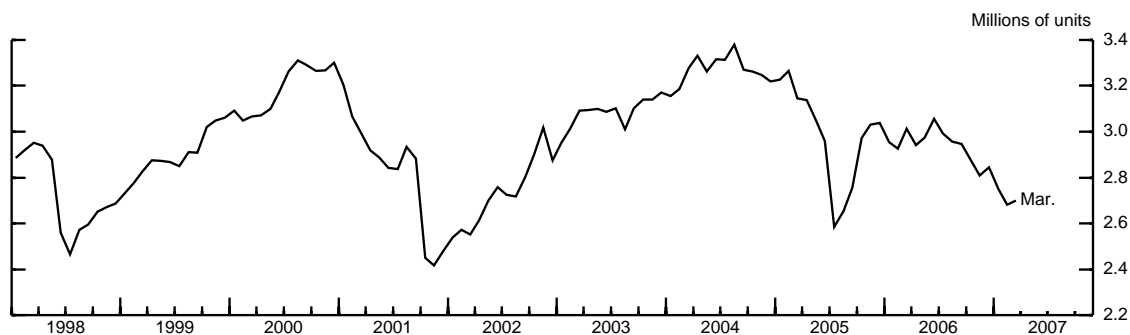
2. Quarterly values are calculated with end-of-period stocks and average reported sales.

3. End-of-period stocks.

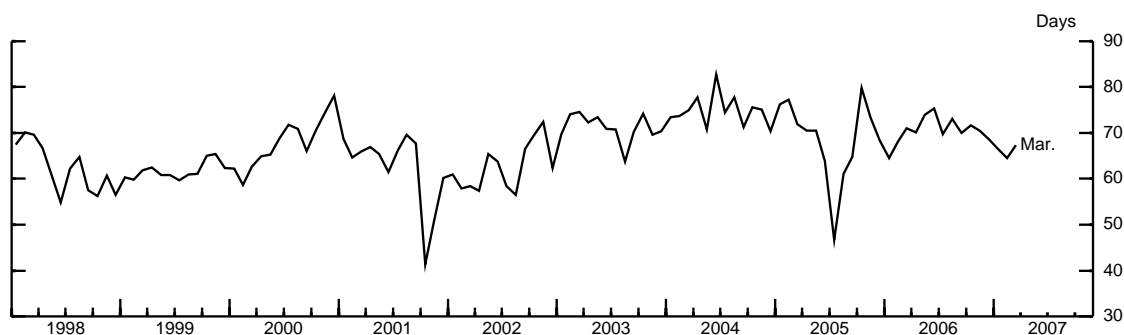
4. Includes medium and heavy trucks.

n.a. Not available.

**Inventories of Light Vehicles**



**Days' Supply of Light Vehicles**



**Broad Measures of Inflation**  
(Percent change, Q1 to Q1)

Measure	2004	2005	2006	2007
<i>Product prices</i>				
GDP price index	2.3	3.1	3.1	2.7
Less food and energy	2.1	3.1	2.9	2.6
Nonfarm business chain price index	1.6	3.1	3.0	2.0
<i>Expenditure prices</i>				
Gross domestic purchases price index	2.2	3.4	3.5	2.5
Less food and energy	2.1	3.0	2.7	2.6
PCE price index	2.0	2.7	3.0	2.2
Less food and energy	1.8	2.2	2.0	2.2
PCE price index, market-based components	1.7	2.5	2.9	2.0
Less food and energy	1.3	1.8	1.6	2.1
CPI	1.8	3.0	3.7	2.4
Less food and energy	1.3	2.3	2.1	2.6
Chained CPI	1.7	2.6	3.2	2.2
Less food and energy	1.2	2.1	1.9	2.3
Median CPI	2.0	2.4	2.5	3.6
Trimmed mean CPI	1.7	2.3	2.6	2.7
Trimmed mean PCE	1.9	2.4	2.4	2.4

**Surveys of Inflation Expectations**  
(Percent)

Period	Actual CPI inflation <sup>1</sup>	Reuters/Michigan Index				Professional forecasters (10 years) <sup>4</sup>
		1 year <sup>2</sup>		5 to 10 years <sup>3</sup>		
		Mean	Median	Mean	Median	
2005: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	3.3	4.0	3.4	3.3	3.0	2.5
Q4	1.9	3.5	3.0	3.5	3.0	2.5
2007:Q1	2.4	3.6	3.0	3.4	2.9	2.4
2006:Dec.	2.5	3.5	2.9	3.4	3.0	...
2007:Jan.	2.1	3.6	3.0	3.5	3.0	...
Feb.	2.4	3.6	3.0	3.3	2.9	2.4
Mar.	2.8	3.6	3.0	3.3	2.9	...
Apr.	n.a.	4.0	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?

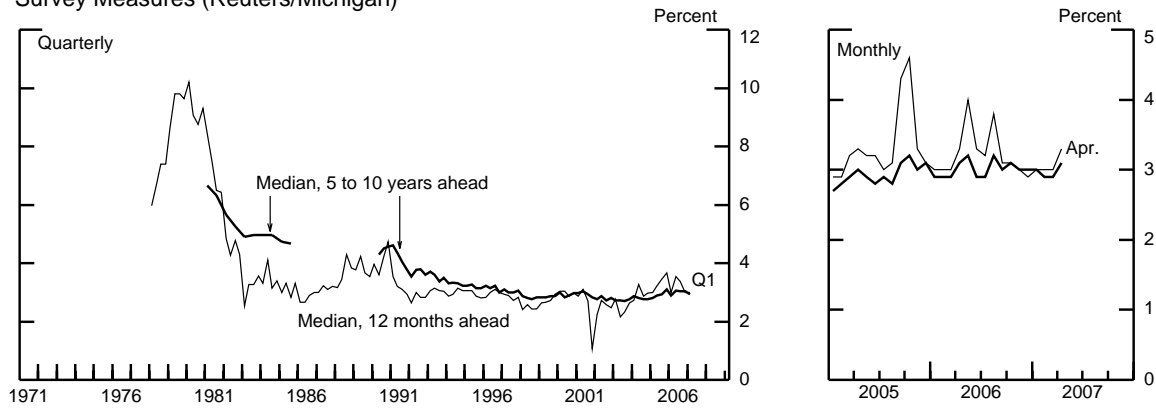
4. Quarterly CPI projections compiled by the Federal Reserve Bank of Philadelphia.

... Not applicable.

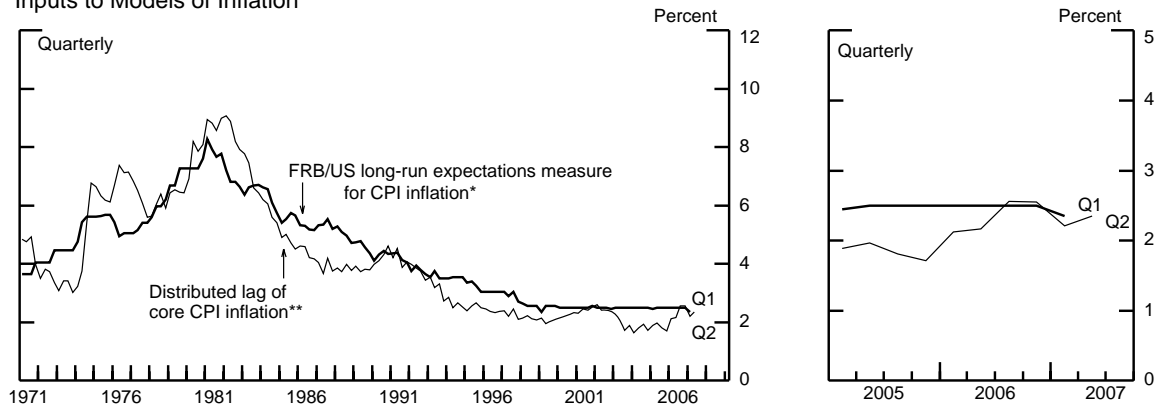
n.a. Not available.

## Measures of Expected Inflation

Survey Measures (Reuters/Michigan)



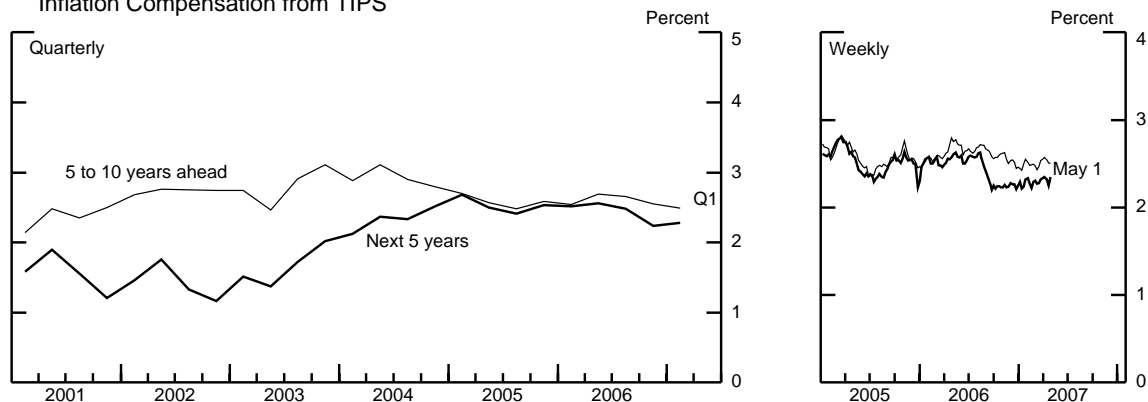
Inputs to Models of Inflation



\* 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



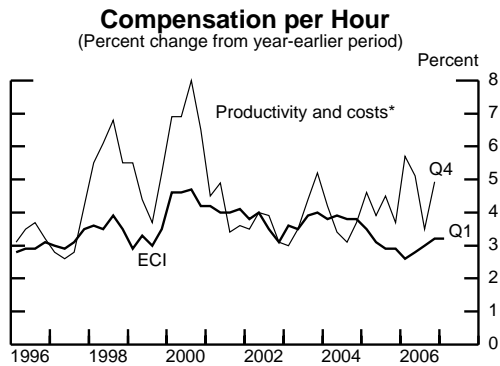
Note. Based on a comparison of an estimated TIPS yield curve with an estimated nominal off-the-run Treasury yield curve, with an adjustment for the indexation-lag effect since March 2004.

### Hourly Compensation and Unit Labor Costs

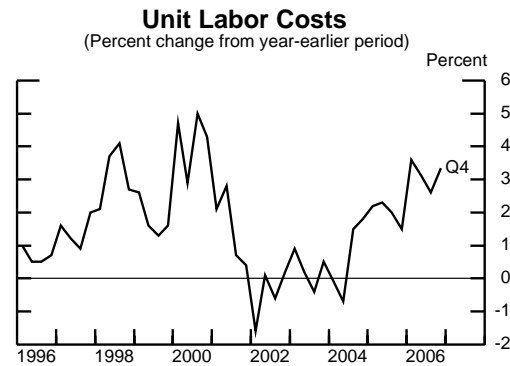
(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

Category	2004:Q4 to 2005:Q4	2005:Q4 to 2006:Q4 <sup>e</sup>	2006			
			Q1	Q2	Q3	Q4 <sup>e</sup>
<i>Compensation per hour</i> Nonfarm business	3.7	4.9	12.9	-1.4	.6	8.2
<i>Unit labor costs</i> Nonfarm business	1.5	3.3	9.1	-2.5	1.1	6.2

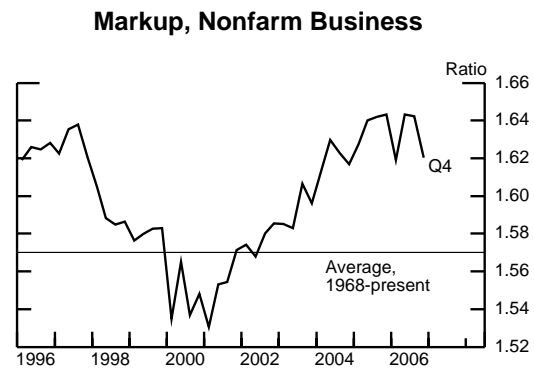
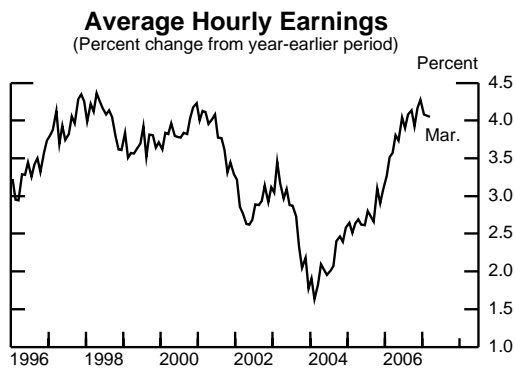
<sup>e</sup> Staff estimate.



\* Value for 2006:Q4 is a staff estimate.



Note. Value for 2006:Q4 is a staff estimate.



Note. The markup is the ratio of output price to unit labor costs. Value for 2006:Q4 is a staff estimate.

## Business Finance

### Gross Issuance of Securities by U.S. Corporations

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

Type of security	2003	2004	2005	2006		2007	
				H1	H2	Q1	Apr. <sup>p</sup>
<i>Nonfinancial corporations</i>							
Stocks <sup>1</sup>	3.7	5.4	4.6	5.2	4.1	5.9	3.0
Initial public offerings	.4	1.6	1.7	1.9	1.7	1.3	1.8
Seasoned offerings	3.3	3.8	2.8	3.3	2.4	4.6	1.3
Bonds <sup>2</sup>	31.6	22.7	19.1	30.3	29.5	31.4	26.0
Investment grade	15.9	8.2	8.4	14.4	11.6	13.0	9.0
Speculative grade	11.3	9.7	6.4	8.4	7.6	13.0	11.0
Other (sold abroad/unrated)	4.3	4.9	4.3	7.6	10.4	5.4	6.0
<i>Memo</i>							
Net issuance of commercial paper <sup>3</sup>	-3.4	1.5	-.4	3.4	4.4	-.1	-6.9
Change in C&I loans at commercial banks <sup>3,4</sup>	-7.7	3.2	9.9	14.5	11.0	7.0	9.1
<i>Financial corporations</i>							
Stocks <sup>1</sup>	6.6	6.9	5.0	4.4	6.2	8.7	9.0
Bonds <sup>2</sup>	111.1	139.3	176.3	190.2	185.3	200.3	100.0

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

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

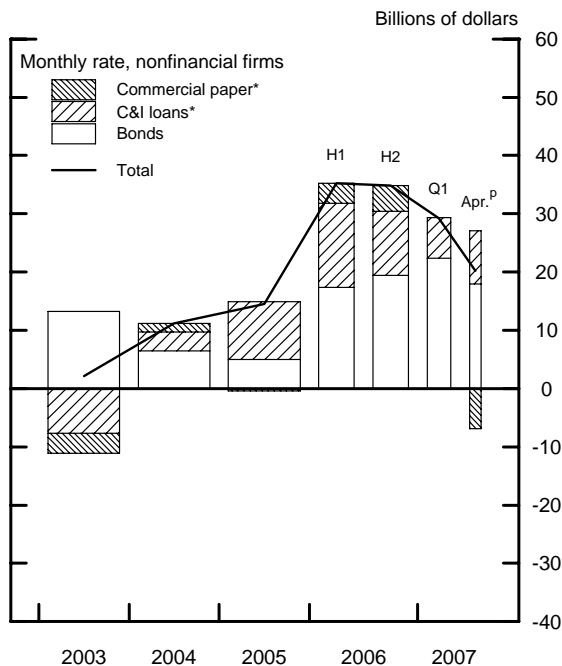
2. Data include regular and 144a private placements. Bond totals reflect gross proceeds rather than par value of original discount bonds. Bonds are categorized according to Moody's bond ratings or to Standard & Poor's if unrated by Moody's.

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

4. Adjusted commercial bank credit data.

p Preliminary.

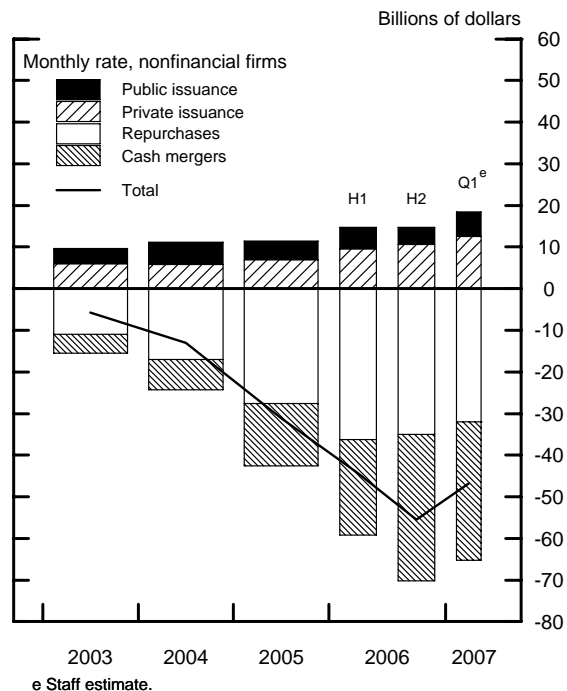
### Selected Components of Net Debt Financing



\* Seasonally adjusted, period-end basis.

p Preliminary.

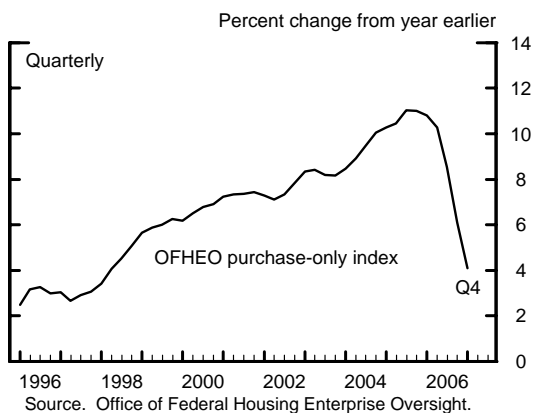
### Components of Net Equity Issuance



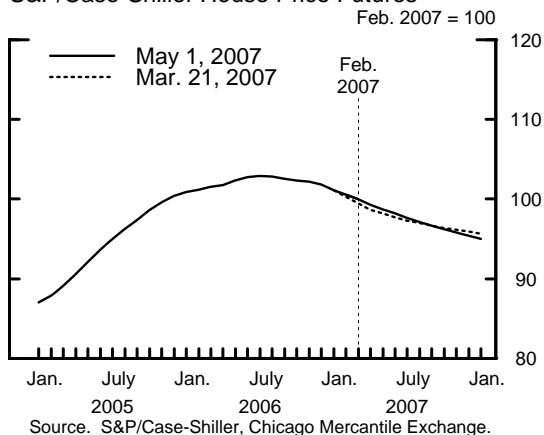
<sup>e</sup> Staff estimate.

## Household Assets

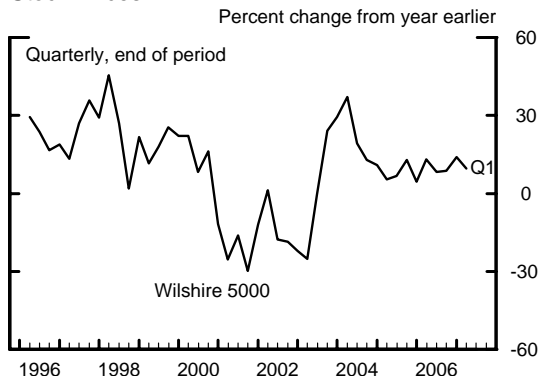
### House Prices



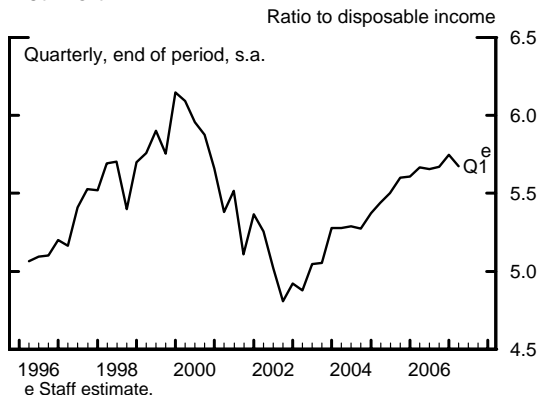
### S&P/Case-Shiller House Price Futures



### Stock Prices



### Net Worth



## Net Flows into Long-Term Mutual Funds

(Billions of dollars, monthly rate)

Fund type	2004	2005	2006	2006		2007		Assets Mar.
				Q3	Q4	Mar.	Apr. <sup>e</sup>	
<b>Total long-term funds</b>	<b>17.5</b>	<b>16.0</b>	<b>18.9</b>	<b>9.2</b>	<b>21.6</b>	<b>25.4</b>	<b>37.5</b>	<b>8,330</b>
<b>Equity funds</b>	<b>14.8</b>	<b>11.3</b>	<b>13.3</b>	<b>4.1</b>	<b>11.2</b>	<b>8.2</b>	<b>18.5</b>	<b>6,104</b>
Domestic	9.3	2.5	0.9	-3.6	-0.9	1.6	5.8	4,703
International	5.6	8.7	12.4	7.7	12.1	6.6	12.8	1,401
<b>Hybrid funds</b>	<b>3.6</b>	<b>2.1</b>	<b>0.6</b>	<b>0.3</b>	<b>1.8</b>	<b>2.7</b>	<b>3.3</b>	<b>666</b>
<b>Bond funds</b>	<b>-0.9</b>	<b>2.6</b>	<b>5.0</b>	<b>4.8</b>	<b>8.6</b>	<b>14.6</b>	<b>15.7</b>	<b>1,561</b>
High-yield	-0.8	-1.3	-0.2	0.4	0.5	0.4	1.1	162
Other taxable	1.0	3.5	4.0	3.3	6.3	11.4	12.5	1,023
Municipals	-1.1	0.4	1.3	1.0	1.8	2.8	2.0	375

Note. Excludes reinvested dividends.

e Staff estimate based on confidential weekly data.

Source. Investment Company Institute.

## State and Local Government Finance

### Gross Offerings of Municipal Securities

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

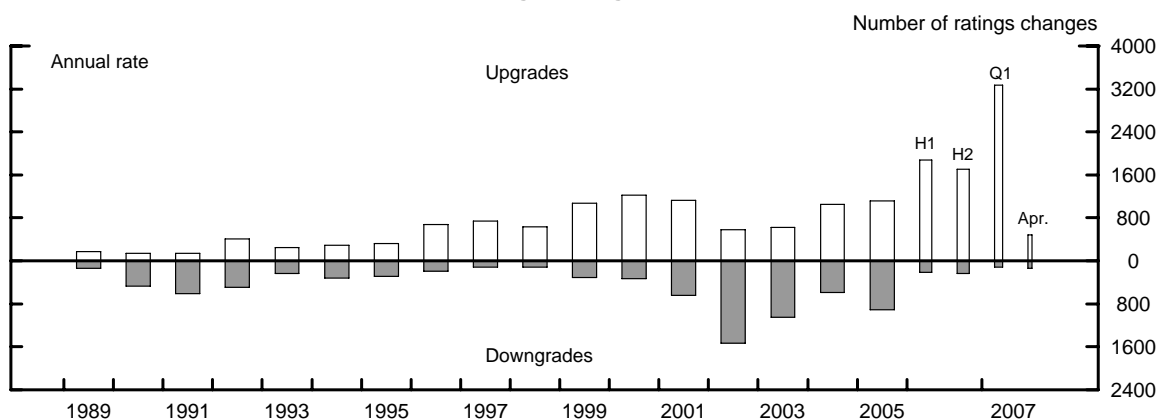
Type of security	2003	2004	2005	2006		2007	
				H1	H2	Q1	Apr. <sup>p</sup>
Total	37.9	34.7	38.4	32.9	39.4	37.6	23.2
Long-term <sup>1</sup>	32.0	29.8	34.1	30.0	34.9	35.7	22.6
Refundings <sup>2</sup>	10.0	10.8	15.5	9.7	11.4	17.7	8.8
New capital	22.1	19.0	18.7	20.3	23.4	18.0	13.8
Short-term	5.8	4.9	4.2	2.8	4.5	1.9	.6
Memo: Long-term taxable	3.5	2.0	2.1	2.8	2.3	1.2	.7

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

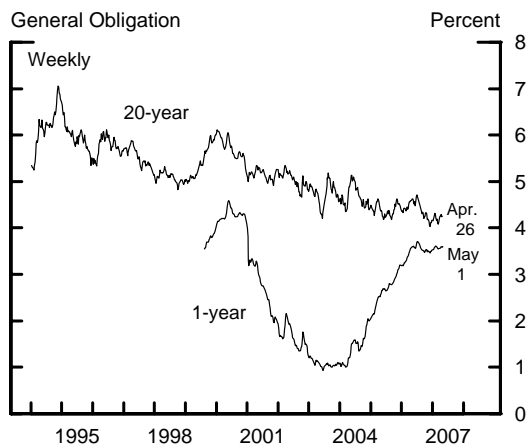
p Based on preliminary data through April 26, 2007.

### Ratings Changes



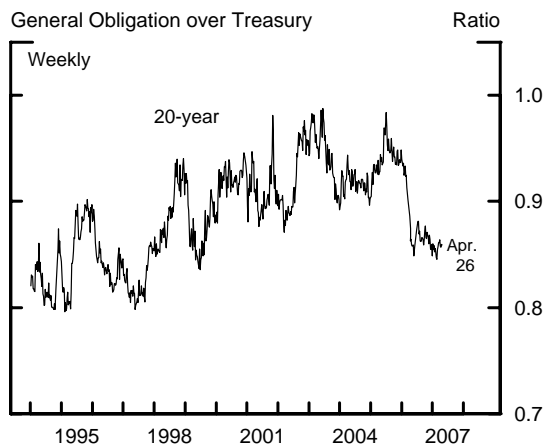
Source: S&P's Credit Week Municipal and Ratings Direct.

### Municipal Bond Yields



Source: Municipal Market Advisors and Bond Buyer.

### Municipal Bond Yield Ratio



Source: Bond Buyer.

**M2 Monetary Aggregate**  
(Based on seasonally adjusted data)

Aggregate and components	Percent change (annual rate) <sup>1</sup>						Level (billions of dollars),
	2005	2006	2006	2007			Apr. (e)
			Q4	Q1	Mar.	Apr. (e)	
M2	4.1	5.0	6.9	8.0	9.3	8.7	7,222
Components <sup>2</sup>							
Currency	3.6	3.6	3.0	1.7	2.1	3.5	753
Liquid deposits <sup>3</sup>	2.0	.8	3.2	7.1	8.7	10.3	4,427
Small time deposits	18.8	19.3	16.6	8.6	6.1	6.8	1,188
Retail money market funds	-.2	12.9	17.1	18.1	23.5	7.4	848
Memo:							
Institutional money market funds	4.9	15.8	21.1	11.0	26.0	33.6	1,410
Monetary base	3.5	3.1	2.4	1.7	2.3	3.5	816

1. For years, Q4 to Q4; for quarters and months, calculated from corresponding average levels.

2. Nonbank traveler's checks are not listed.

3. Sum of demand deposits, other checkable deposits, and savings deposits.

e Estimated.