

## **Part 1**

March 14, 2007

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

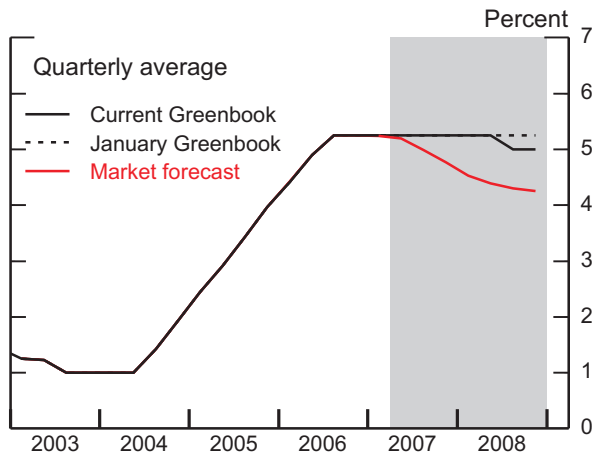
March 14, 2007

## **Summary and Outlook**

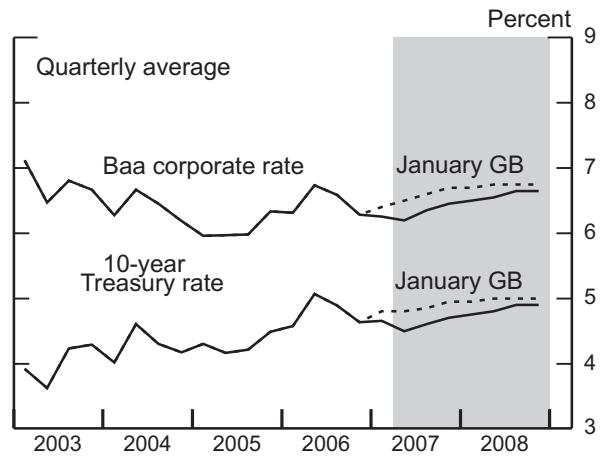
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## Key Background Factors Underlying the Baseline Staff Projection

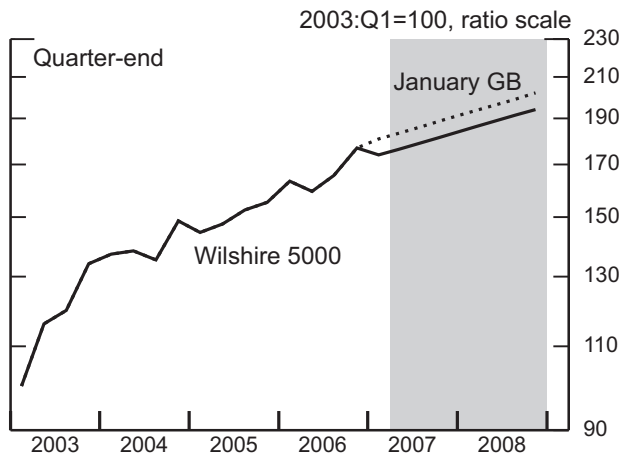
Federal Funds Rate



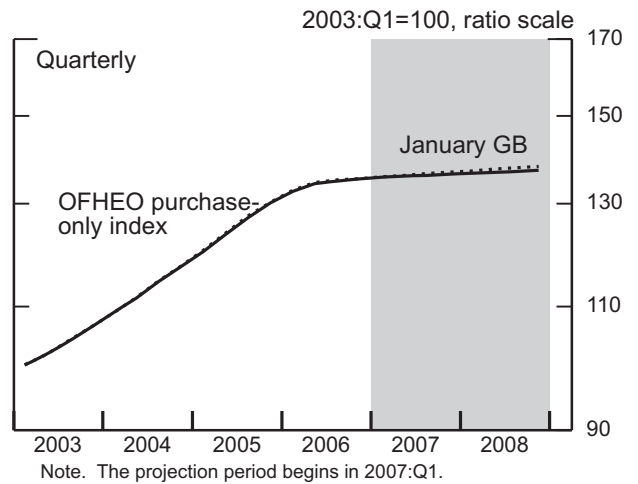
Long-Term Interest Rates



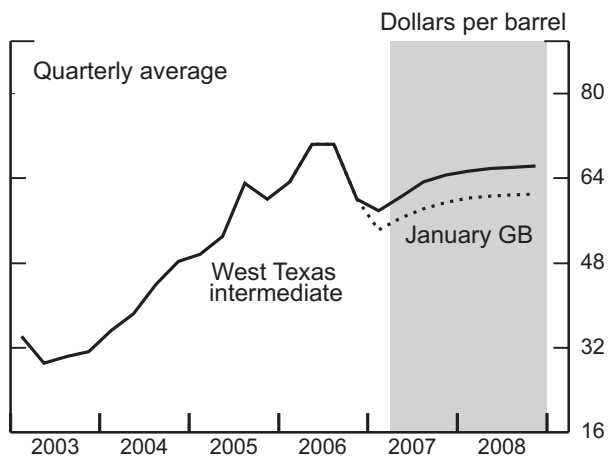
Equity Prices



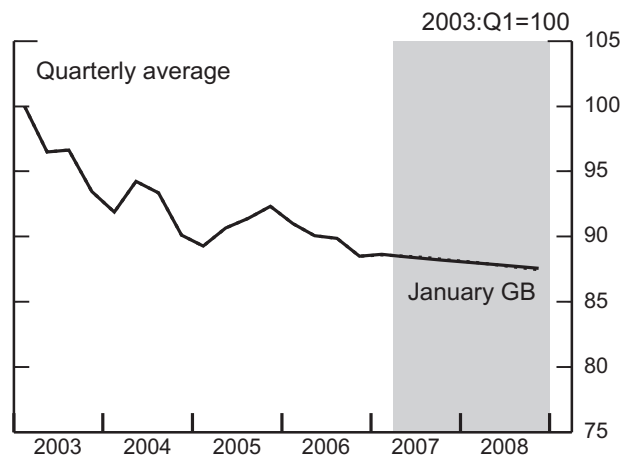
House Prices



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	
	Jan. GB	Mar. GB	Jan. GB	Mar. GB
<b>Real GDP</b>	<b>2.0</b>	<b>1.5</b>	<b>2.3</b>	<b>2.3</b>
Private domestic final purchases	2.0	1.9	2.3	.8
Personal consumption expenditures	3.6	3.7	2.4	2.2
Residential investment	-21.2	-22.2	-8.7	-19.9
Business fixed investment	3.9	2.8	7.7	2.7
Government outlays for consumption and investment	2.3	1.4	2.2	4.8
	Contribution to growth (percentage points)			
Inventory investment	.3	.1	-.1	.2
Net exports	-.5	-.4	.0	.4

a monthly average of 169,000 in 2006. We are looking for an increase of 125,000 in March but expect hiring to slow to roughly 50,000 per month by midyear. The unemployment rate edged down to 4.5 percent in February; we expect it to drift up to 4.7 percent over the next few months as the pace of hiring slows.

Manufacturing output has been very subdued in recent months. Output in industries related to the construction and motor vehicle sectors has remained weak, and more recently, softness has emerged for some types of business equipment not heavily used in these sectors and for non-auto consumer goods. The data in hand suggest a moderate rise in manufacturing IP in February. However, with the index having been about flat, on balance, between November and January, we have lowered our projection for first-quarter growth in manufacturing IP to about 1 percent at an annual rate; in the January Greenbook, we had anticipated an increase of 3½ percent. Our forecast assumes that motor vehicle assemblies will total about 10½ million units at an annual rate in the first quarter and will rise to 11¼ million units in the second quarter, consistent with the significant improvement in that sector's inventory situation and in line with current schedules. Manufacturing IP apart from motor vehicles is expected to rise modestly next quarter as a result of continued brisk gains in the high-technology and aircraft sectors and the waning of the upstream effects from the earlier cutbacks in motor vehicle production.

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

Measure	2006: H2	2007: H1	2007	2008
<b>Real GDP</b>	<b>2.1</b>	<b>1.9</b>	<b>2.1</b>	<b>2.3</b>
Previous	2.3	2.2	2.3	2.5
Final sales	2.8	1.7	1.9	2.4
Previous	2.9	2.0	2.2	2.5
PCE	3.5	3.0	2.5	2.4
Previous	3.7	3.0	2.8	2.7
Residential investment	-19.2	-21.1	-12.9	1.9
Previous	-19.6	-15.2	-8.8	2.0
BFI	3.6	2.7	3.3	3.9
Previous	4.1	5.8	5.1	4.2
Government purchases	2.5	3.0	2.8	2.1
Previous	3.3	2.2	2.1	1.9
Exports	8.7	5.6	5.7	5.2
Previous	7.2	5.2	5.1	5.1
Imports	1.5	4.0	4.2	4.7
Previous	1.8	5.1	5.0	5.1
Contribution to growth (percentage points)				
Inventory change	-.6	.2	.2	-.1
Previous	-.6	.1	.1	-.0
Net exports	.7	-.0	-.1	-.2
Previous	.5	-.2	-.2	-.3

be in the neighborhood of 350,000 units per year. Real residential investment is projected to rise 2 percent in 2008 after falling 13 percent in 2007.

**Business investment.** We now expect overall real outlays for E&S to rise just 2¾ percent in 2007 before picking up to a 5 percent pace in 2008; in the January Greenbook, we had projected increases of more than 5 percent in both years. A good deal of the downward revision reflects near-term weakness in the demand for equipment outside the high-tech and transportation areas. We do not expect this demand to remain as weak as it has been, given the reasonably positive climate of business sentiment and favorable financial conditions. Even so, with growth in overall business output slower in

### 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>2.5</b>	<b>2.6</b>	<b>2.5</b>	<b>2.4</b>
Previous	1.5	2.5	3.0	2.5	2.6	2.5	2.5
<i>Contributions<sup>1</sup></i>							
Capital deepening	.7	1.4	.6	.5	.7	.6	.6
Previous	.7	1.4	.6	.5	.7	.6	.6
Multifactor productivity	.5	.8	2.1	1.8	1.7	1.7	1.7
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	2.6	2.7	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	2.1	2.6
Previous	2.5	1.5	2.4	2.6
Nonfarm private payroll employment	2.0	1.8	.7	.3
Previous	1.6	1.5	.7	.4
Household survey employment	1.9	2.1	.4	.4
Previous	1.9	2.1	.4	.5
Labor force participation rate <sup>1</sup>	66.1	66.3	66.0	65.7
Previous	66.1	66.3	66.0	65.7
Civilian unemployment rate <sup>1</sup>	5.0	4.5	4.9	5.1
Previous	5.0	4.5	4.8	4.9
MEMO				
GDP gap <sup>2</sup>	.1	.5	-.0	-.2
Previous	-.0	.4	.1	.1

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	2.5	2.1
Previous	3.1	1.9	2.2	2.1
Food and beverages	2.1	2.3	3.1	2.2
Previous	2.1	2.3	2.9	2.2
Energy	21.2	-3.6	6.1	1.7
Previous	21.2	-3.9	1.8	2.2
Excluding food and energy	2.1	2.2	2.2	2.0
Previous	2.1	2.3	2.2	2.0
Consumer price index	3.7	1.9	2.8	2.2
Previous	3.7	2.0	2.4	2.2
Excluding food and energy	2.1	2.7	2.4	2.2
Previous	2.1	2.7	2.4	2.2
GDP chain-weighted price index	3.1	2.5	2.7	2.3
Previous	3.1	2.6	2.6	2.3
ECI for compensation of private industry workers <sup>1</sup>	2.9	3.2	3.9	3.9
Previous	2.9	3.2	4.0	4.0
Compensation per hour, nonfarm business sector	3.7	4.9	4.1	4.8
Previous	4.1	4.9	4.9	4.9
Prices of core nonfuel imports	2.2	2.7	2.0	1.1
Previous	2.2	2.9	1.5	1.0

1. December to December.

fourth quarter of 2006. Given the slightly higher unemployment rate in this projection, we have edged down our forecast for the change in P&C compensation in 2008 by a tenth, to 4.8 percent.

### Financial Flows and Conditions

Domestic nonfinancial debt expanded at an annual rate of 8 percent in the fourth quarter of 2006. We expect total debt growth to continue apace in the current quarter before slowing to 6 percent, on average, over the remainder of the projection period. The projected reduction in debt growth reflects a slowdown in borrowing by all sectors except the federal government.

**Alternative Scenarios**

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

Measure and scenario	2006: H2	2007		2008	
		H1	H2	H1	H2
<i>Real GDP</i>					
Greenbook baseline	2.1	1.9	2.3	2.3	2.3
Business pessimism	...	1.6	1.8	1.7	1.7
Business pessimism with spillovers	...	1.6	1.1	1.0	1.2
Stronger aggregate demand	...	2.0	3.2	3.4	3.3
Slower productivity growth with stable participation	...	2.0	2.3	2.2	2.1
Lower NAIRU	...	2.0	2.5	2.5	2.6
Market-based federal funds rate	...	1.9	2.4	2.6	2.8
<i>Unemployment rate<sup>1</sup></i>					
Greenbook baseline	4.5	4.7	4.9	5.0	5.1
Business pessimism	...	4.7	5.0	5.2	5.4
Business pessimism with spillovers	...	4.7	5.1	5.4	5.7
Stronger aggregate demand	...	4.7	4.8	4.7	4.5
Slower productivity growth with stable participation	...	4.7	4.9	5.0	5.1
Lower NAIRU	...	4.7	4.9	4.9	5.0
Market-based federal funds rate	...	4.7	4.9	4.9	5.0
<i>Core PCE inflation</i>					
Greenbook baseline	2.0	2.2	2.2	2.1	2.0
Business pessimism	...	2.2	2.2	2.2	2.1
Business pessimism with spillovers	...	2.2	2.3	2.2	2.1
Stronger aggregate demand	...	2.2	2.2	2.1	2.0
Slower productivity growth with stable participation	...	2.3	2.5	2.5	2.4
Lower NAIRU	...	2.1	2.0	1.8	1.7
Market-based federal funds rate	...	2.2	2.2	2.2	2.1
<i>Federal funds rate<sup>1</sup></i>					
Greenbook baseline	5.2	5.3	5.3	5.3	5.0
Business pessimism	...	5.2	5.0	4.8	4.4
Business pessimism with spillovers	...	5.2	4.7	4.2	3.6
Stronger aggregate demand	...	5.3	5.7	6.3	6.5
Slower productivity growth with stable participation	...	5.3	5.5	5.6	5.4
Lower NAIRU	...	5.3	5.2	5.0	4.6
Market-based federal funds rate	...	5.2	4.8	4.4	4.3

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	2.1	2.3
Confidence interval		
Greenbook forecast errors	.6–3.6	.8–3.8
FRB/US stochastic simulations	1.0–3.3	.9–4.0
<i>Civilian unemployment rate</i> (percent, Q4)		
Projection	4.9	5.1
Confidence interval		
Greenbook forecast errors	4.4–5.4	4.2–6.0
FRB/US stochastic simulations	4.6–5.1	4.5–5.5
<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	1.6–2.8	1.1–3.0
FRB/US stochastic simulations	1.8–2.6	1.4–2.7
<i>Federal funds rate</i> (percent, Q4)		
Projection	5.2	5.0
Confidence interval		
FRB/US stochastic simulations	4.6–5.9	3.7–6.5

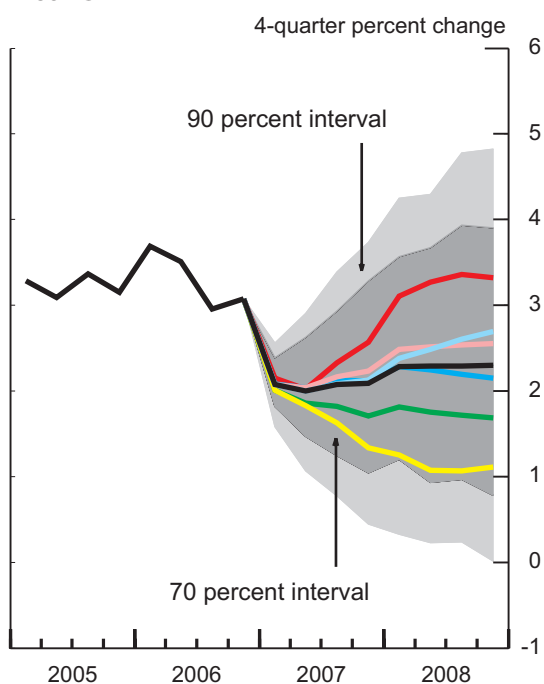
Note. Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1986-2005 set of model equation residuals. Intervals derived from Greenbook forecast errors are based on the 1986-2005 set of Greenbook historical errors.

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

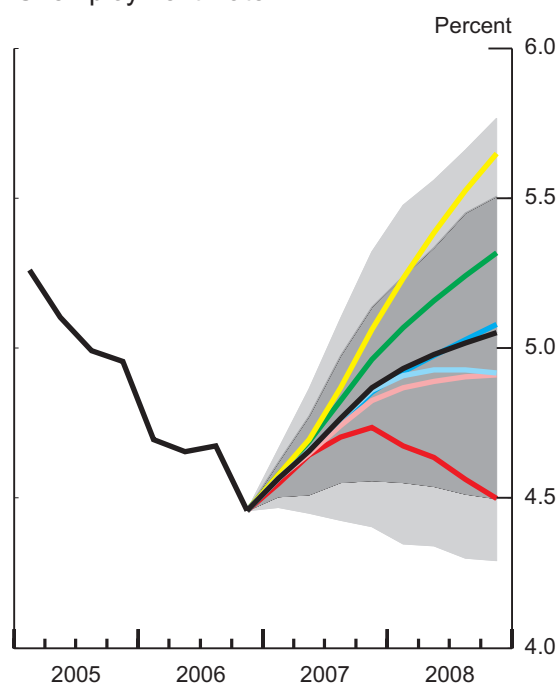
Confidence Intervals based on FRB/US Stochastic Simulations

- Greenbook baseline
- Business pessimism
- Business pessimism with spillovers
- Stronger aggregate demand
- Slower productivity growth with stable participation
- Lower NAIRU
- Market-based federal funds rate

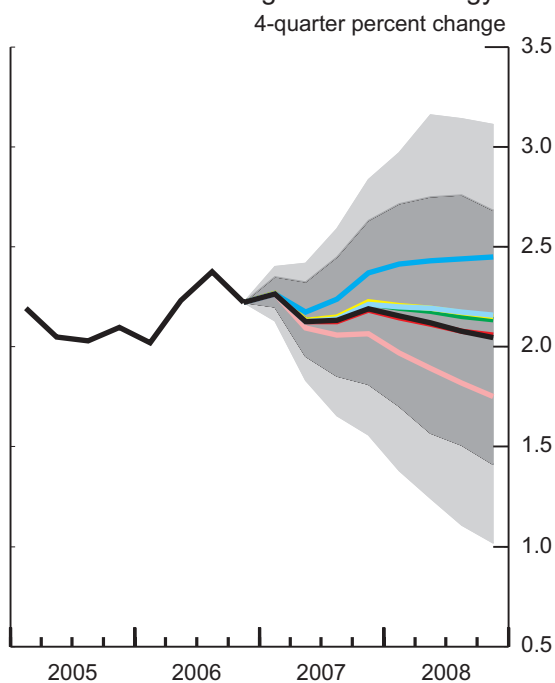
Real GDP



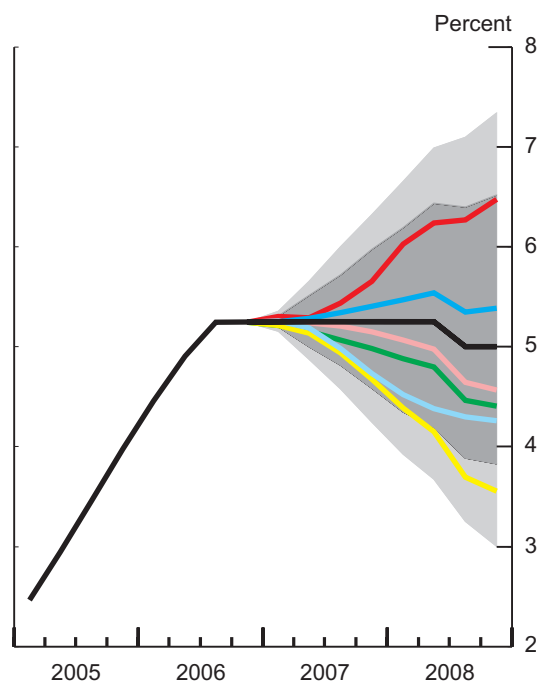
Unemployment Rate



PCE Prices excluding Food and Energy



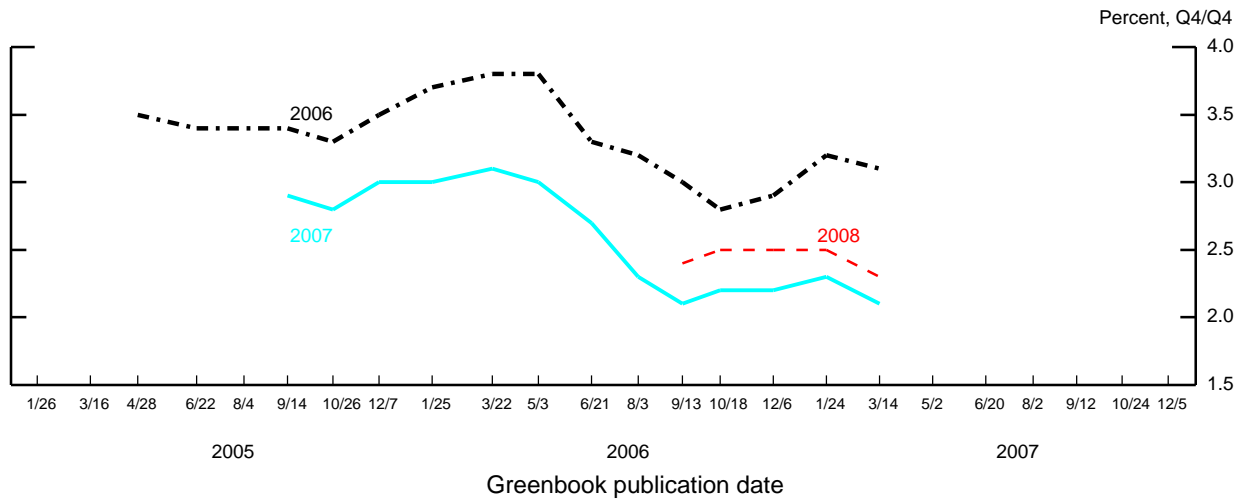
Federal Funds Rate



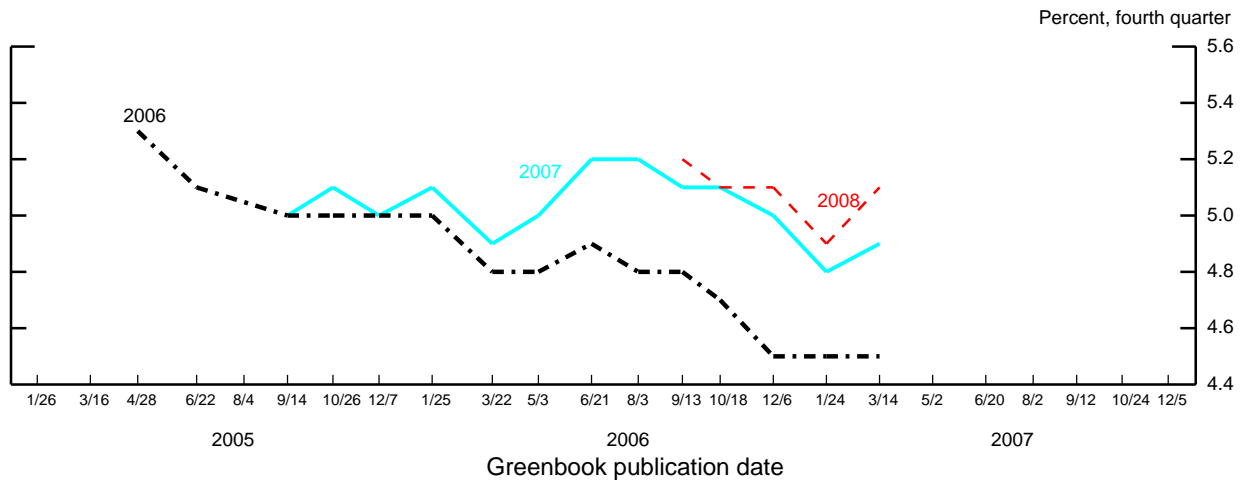
Class II FOMC - Restricted (FR)

**Evolution of the Staff Forecast**

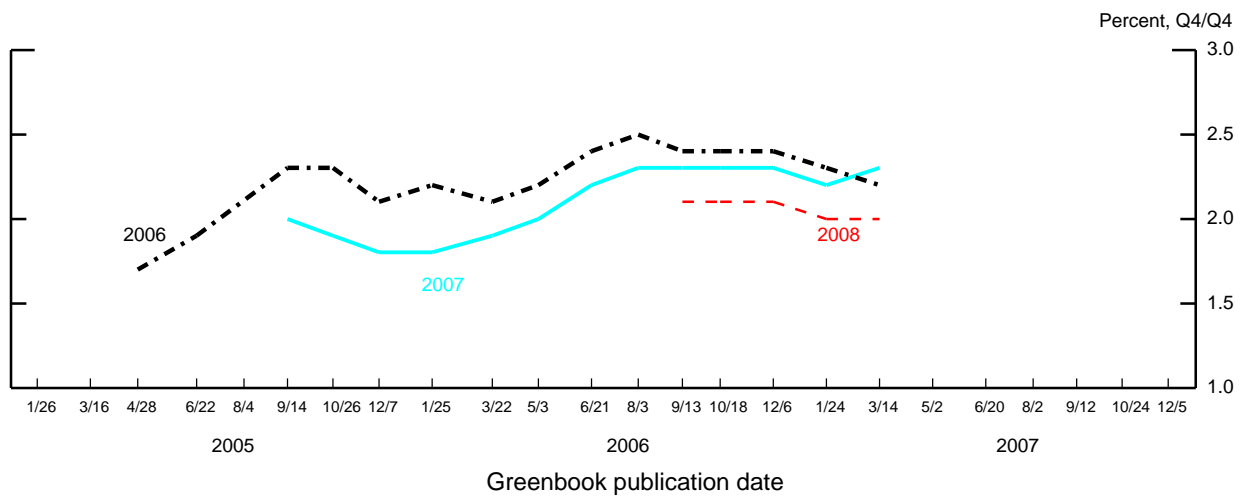
Change in Real GDP



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>	
	01/24/07	03/14/07	01/24/07	03/14/07	01/24/07	03/14/07	01/24/07	03/14/07	01/24/07	03/14/07
<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	4.6	3.9	2.6	2.2	-8	-9	2.1	1.9	4.5	4.5
2007:Q1	5.7	5.5	2.0	1.5	1.9	2.9	2.2	2.2	4.6	4.6
Q2	4.7	5.1	2.3	2.3	2.4	2.8	2.2	2.2	4.7	4.7
Q3	4.7	4.3	2.4	2.3	2.4	2.2	2.2	2.2	4.8	4.8
Q4	4.7	4.5	2.5	2.3	2.2	2.2	2.1	2.2	4.8	4.9
2008:Q1	5.0	4.7	2.5	2.3	2.2	2.1	2.1	2.1	4.9	4.9
Q2	4.9	4.7	2.5	2.3	2.1	2.1	2.0	2.1	4.9	5.0
Q3	4.8	4.6	2.5	2.3	2.0	2.0	2.0	2.0	4.9	5.0
Q4	4.7	4.5	2.5	2.3	2.0	2.0	2.0	2.0	4.9	5.1
<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	4.2	3.9	2.3	2.1	.8	.7	2.1	2.0	-2	-2
2007:Q2	5.2	5.3	2.2	1.9	2.2	2.9	2.2	2.2	.2	.2
Q4	4.7	4.4	2.4	2.3	2.3	2.2	2.1	2.2	.1	.2
2008:Q2	4.9	4.7	2.5	2.3	2.1	2.1	2.0	2.1	.1	.1
Q4	4.7	4.5	2.5	2.3	2.0	2.0	2.0	2.0	.0	.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	5.8	5.7	3.2	3.1	1.9	1.9	2.3	2.2	-5	-5
2007:Q4	5.0	4.8	2.3	2.1	2.2	2.5	2.2	2.2	.4	.4
2008:Q4	4.8	4.6	2.5	2.3	2.1	2.1	2.0	2.0	.1	.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	6.4	6.3	3.3	3.3	2.8	2.8	2.2	2.2	4.6	4.6
2007	4.9	4.7	2.3	2.1	1.8	2.1	2.2	2.2	4.7	4.7
2008	4.8	4.6	2.5	2.3	2.2	2.2	2.1	2.1	4.9	5.0

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	2.2	1.5	2.3	2.3	2.3	2.3	2.3	2.3	2.3	3.1	2.1	2.3
Final sales <i>Previous</i>	5.6	2.6	2.0	2.6	2.0	2.3	2.4	2.5	2.5	2.5	2.5	2.5	3.2	2.3	2.5
Priv. dom. final purch. <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
	5.6	2.1	1.9	3.9	1.6	2.4	2.5	2.0	2.2	2.8	2.7	2.5	3.4	2.2	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
	5.5	1.8	2.1	2.1	2.0	2.3	2.5	2.5	2.8	2.8	2.8	2.9	2.8	2.3	2.8
Personal cons. expend. <i>Previous</i>	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
Durables	4.8	2.6	2.8	4.6	3.6	2.4	2.5	2.6	2.7	2.7	2.7	2.7	3.7	2.8	2.7
Nondurables	19.8	-1	6.4	4.3	6.1	.8	2.6	2.7	3.0	3.3	3.8	3.6	7.4	3.0	3.4
Services	5.9	1.4	1.5	5.9	3.3	2.3	2.2	2.2	2.2	2.3	2.3	2.3	3.7	2.5	2.3
	1.6	3.7	2.8	3.2	3.5	2.4	1.9	2.0	2.2	2.2	2.4	2.5	2.8	2.5	2.3
Residential investment <i>Previous</i>	-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
	-3	-11.1	-18.7	-20.6	-21.2	-8.7	-2.2	-1.6	-7	2.2	2.7	4.1	-13.0	-8.8	2.0
Business fixed invest. <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
Equipment & software <i>Previous</i>	13.7	4.4	10.0	-1.4	3.9	7.7	4.4	4.2	4.9	4.0	4.0	4.0	6.5	5.1	4.2
	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
	15.6	-1.4	7.7	-4.1	3.4	8.5	4.5	4.7	6.3	5.2	5.6	5.9	4.2	5.2	5.7
Nonres. structures <i>Previous</i>	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
	8.7	20.3	15.7	5.0	5.3	6.0	4.3	3.1	1.9	1.5	.7	.1	12.3	4.7	1.1
Net exports <sup>2</sup> <i>Previous</i> <sup>2</sup>	-637	-624	-629	-584	-596	-584	-579	-589	-602	-599	-601	-609	-618	-587	-603
Exports	-637	-624	-629	-596	-610	-610	-609	-625	-642	-643	-646	-657	-621	-613	-647
Imports	14.0	6.2	6.8	10.6	5.2	6.1	5.8	5.5	5.3	5.2	5.1	5.1	9.4	5.7	5.2
	9.1	1.4	5.6	-2.4	6.3	1.7	3.0	5.9	6.5	3.0	4.0	5.1	3.3	4.2	4.7
Govt. cons. & invest. <i>Previous</i>	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
Federal	4.9	.8	1.7	4.9	2.3	2.2	2.0	2.0	2.0	2.0	1.8	1.8	3.0	2.1	1.9
Defense	8.8	-4.5	1.3	4.4	-5	8.5	3.4	1.7	1.6	1.6	1.5	1.5	2.4	3.2	1.5
Nondefense	8.9	-2.0	-1.2	12.3	-2.8	12.8	5.0	2.5	2.4	2.3	2.2	2.1	4.3	4.2	2.3
State & local	8.5	-9.3	6.5	-10.2	4.6	.0	.0	.0	.0	.0	.0	.0	-1.5	1.1	.0
	2.7	4.0	1.9	2.6	2.4	2.6	2.5	2.5	2.5	2.5	2.3	2.3	2.8	2.5	2.4
Change in bus. inventories <sup>2</sup> <i>Previous</i> <sup>2</sup>	41	54	55	18	21	27	27	38	45	34	27	23	42	28	32
Nonfarm <sup>2</sup>	41	54	55	20	30	27	22	35	44	36	31	30	43	29	35
Farm <sup>2</sup>	37	52	53	16	22	27	27	39	46	35	26	23	39	29	33
	4	2	2	2	-0	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 3.2	2.1 2.3	2.3 2.5
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 3.4	1.9 2.2	2.4 2.5
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 2.8	1.7 2.3	2.6 2.8
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 3.7	2.5 2.8	2.4 2.7
Durables	4.7	10.8	1.2	8.3	5.6	2.5	7.4	3.0	3.4
Nondurables	3.0	1.9	2.1	3.9	3.8	4.4	3.7	2.5	2.3
Services	4.5	1.6	1.9	2.2	3.7	2.3	2.8	2.5	2.3
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 -13.0	-12.9 -8.8	1.9 2.0
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	6.2 6.5	3.3 5.1	3.9 4.2
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	4.4 4.2	2.7 5.2	5.1 5.7
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	10.8 12.3	4.8 4.7	1.3 1.1
Net exports <sup>2</sup> <i>Previous</i> <sup>2</sup>	-379 -379	-399 -399	-471 -471	-519 -519	-591 -591	-619 -619	-618 -621	-587 -613	-603 -647
Exports	6.5	-11.9	3.8	5.8	7.0	6.7	9.4	5.7	5.2
Imports	11.2	-7.6	9.7	4.8	10.6	5.2	3.3	4.2	4.7
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 3.0	2.8 2.1	2.1 1.9
Federal	-2.2	6.4	7.8	5.5	2.3	2.1	2.4	3.2	1.5
Defense	-3.5	6.5	8.4	7.5	2.5	1.9	4.3	4.2	2.3
Nondefense	.3	6.3	6.8	1.9	1.8	2.4	-1.5	1.1	.0
State & local	1.7	4.2	2.1	-.4	.4	.8	2.8	2.5	2.4
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	42 43	28 29	32 35
Nonfarm <sup>2</sup>	58	-32	15	14	47	20	39	29	33
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 5.6	2.6 2.6	2.0 2.0	2.2 2.6	1.5 2.0	2.3 2.3	2.3 2.4	2.3 2.5	2.3 2.5	2.3 2.5	2.3 2.5	2.3 2.5	3.1 3.2	2.1 2.3	2.3 2.5
Final sales <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
Priv. dom. final purch. <i>Previous</i>	5.6	2.1	1.9	3.8	1.7	2.4	2.5	2.0	2.2	2.8	2.7	2.5	3.4	2.2	2.5
	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
	4.7	1.5	1.8	1.8	1.7	2.0	2.1	2.2	2.4	2.4	2.4	2.5	2.4	2.0	2.4
Personal cons. expend. <i>Previous</i>	3.4 3.4	1.8 1.8	2.0 2.0	2.9 3.2	2.6 2.5	1.5 1.6	1.5 1.7	1.5 1.8	1.6 1.9	1.7 1.9	1.8 1.9	1.8 1.9	2.5 2.6	1.8 1.9	1.7 1.9
Durables	1.5	.0	.5	.3	.5	.1	.2	.2	.2	.3	.3	.3	.6	.2	.3
Nondurables	1.2	.3	.3	1.2	.7	.5	.4	.4	.5	.5	.5	.5	.7	.5	.5
Services	.7	1.5	1.1	1.3	1.5	1.0	.8	.8	.9	.9	1.0	1.0	1.2	1.0	1.0
Residential investment <i>Previous</i>	.0 .0	-.7 -.7	-1.2 -1.2	-1.2 -1.3	-1.3 -1.2	-1.1 -.4	-.3 -.1	-.1 -.1	.0 .0	.1 .1	.1 .1	.2 .2	-.8 -.8	-.7 -.5	.1 .1
Business fixed invest. <i>Previous</i>	1.4 1.4	.5 .5	1.0 1.0	-.3 -.2	.3 .4	.3 .8	.4 .5	.4 .4	.5 .5	.4 .4	.4 .4	.4 .4	.6 .7	.3 .5	.4 .5
Equipment & software <i>Previous</i>	1.1 1.1	-1 -1	.6 .6	-.3 -.3	.2 .2	.1 .6	.2 .3	.3 .3	.4 .5	.3 .4	.4 .4	.3 .4	.3 .3	.2 .4	.4 .4
Nonres. structures <i>Previous</i>	.3 .3	.6 .6	.5 .5	.0 .2	.1 .2	.2 .2	.2 .1	.1 .1	.1 .1	.1 .1	.0 .0	.0 .0	.3 .4	.2 .2	.0 .0
Net exports <i>Previous</i>	.0 .0	.4 .4	-.2 -2	1.6 1.1	-.4 -.5	.4 .0	.2 .0	-.3 -.5	-.5 -.6	.1 .0	-.1 -.1	-.3 -.4	.4 .3	-.1 -.2	-.2 -.3
Exports	1.4	.7	.7	1.1	.6	.7	.7	.6	.6	.6	.6	.6	1.0	.6	.6
Imports	-1.5	-.2	-.9	.4	-1.0	-.3	-.5	-1.0	-1.1	-.5	-.7	-.8	-.6	-.7	-.8
Govt. cons. & invest. <i>Previous</i>	.9 .9	.2 .2	.3 .3	.6 .9	.3 .4	.9 .4	.5 .4	.4 .4	.4 .4	.4 .4	.4 .3	.4 .4	.5 .6	.5 .4	.4 .4
Federal	.6	-.3	.1	.3	.0	.6	.2	.1	.1	.1	.1	.1	.2	.2	.1
Defense	.4	-1	-1	.5	-1	.6	.2	.1	.1	.1	.1	.1	.2	.2	.1
Nondefense	.2	-.2	.2	-.2	.1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
State & local	.3	.5	.2	.3	.3	.3	.3	.3	.3	.3	.3	.3	.3	.3	.3
Change in bus. inventories <i>Previous</i>	.0 .0	.4 .4	.1 .1	-1.3 -1.2	.1 .3	.2 -.1	.0 -.2	.4 .4	.2 .3	-.4 -.3	-.3 -.2	-.1 .0	-.2 -.2	.2 .1	-.1 .0
Nonfarm	.0	.5	.1	-1.3	.2	.2	.0	.4	.2	-.4	-.3	-.1	-.2	.2	-.1
Farm	.0	-.1	.0	.0	-.1	.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)

March 14, 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	1.6	3.9	2.7	2.0	2.1	2.4	2.3	2.2	2.1	2.5	2.7	2.3
PCE chain-wt. price index <i>Previous</i>	3.3	3.3	1.9	1.9	3.7	2.4	2.3	2.2	2.4	2.3	2.2	2.1	2.6	2.6	2.3
Energy	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
<i>Previous</i>	2.0	4.0	2.4	-8	1.9	2.4	2.4	2.2	2.2	2.1	2.0	2.0	1.9	2.2	2.1
Food	.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
<i>Previous</i>	.1	29.7	3.7	-36.6	-5.7	3.2	6.1	4.0	3.2	2.3	1.9	1.4	-3.9	1.8	2.2
Ex. food & energy	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
<i>Previous</i>	2.7	1.7	2.9	1.8	3.6	3.1	2.6	2.4	2.3	2.2	2.2	2.2	2.3	2.9	2.2
CPI	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
<i>Previous</i>	2.1	2.7	2.2	2.1	2.2	2.2	2.2	2.1	2.1	2.0	2.0	2.0	2.3	2.2	2.0
Ex. food & energy	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
<i>Previous</i>	2.2	4.9	3.0	-2.1	2.0	2.6	2.6	2.4	2.3	2.2	2.1	2.1	2.0	2.4	2.2
ECL, hourly compensation <sup>2</sup>	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
<i>Previous</i> <sup>2</sup>	2.4	3.6	3.0	1.8	2.4	2.5	2.3	2.3	2.2	2.2	2.2	2.2	2.7	2.4	2.2
Nonfarm business sector	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
Output per hour	2.4	3.2	3.6	3.8	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.2	4.0	4.0
<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	4.3	1.2	-.2	.9	1.5	2.5	2.7	2.8	2.7	2.6	2.6	2.5	1.5	2.4	2.6
<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	13.7	-1.2	3.1	4.6	4.9	4.9	4.9	4.9	4.9	5.0	4.8	4.8	4.9	4.9	4.9
<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
<i>Previous</i>	9.0	-2.4	3.2	3.7	3.3	2.3	2.2	2.0	2.1	2.3	2.1	2.2	3.3	2.4	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	.3	.1	.1	.2	.1	.1	.1	2.3	1.1	.6
Unemployment rate <sup>3</sup>	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
<i>Previous<sup>3</sup></i>	4.7	4.7	4.7	4.5	4.6	4.7	4.8	4.8	4.9	4.9	4.9	4.9	4.5	4.8	4.9
GDP gap <sup>4</sup>	.8	.8	.6	.5	.2	.1	.1	.0	.0	-.1	-.1	-.2	.5	.0	-.2
<i>Previous<sup>4</sup></i>	.7	.6	.5	.4	.3	.2	.2	.1	.1	.1	.1	.1	.4	.1	.1
Industrial production <sup>5</sup>	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
<i>Previous<sup>5</sup></i>	5.0	6.5	4.0	-.5	2.8	3.4	3.2	3.4	4.0	3.4	3.5	3.6	3.7	3.2	3.6
Manufacturing industr. prod. <sup>5</sup>	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
<i>Previous<sup>5</sup></i>	5.5	5.5	4.4	-1.4	3.4	3.7	3.5	3.6	4.5	4.0	3.6	3.7	3.5	3.5	4.0
Capacity utilization rate - mfg. <sup>3</sup>	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
<i>Previous<sup>3</sup></i>	80.1	80.6	80.9	80.2	80.3	80.5	80.7	81.0	81.2	81.3	81.3	81.4	80.2	81.0	81.4
Housing starts <sup>6</sup>	2.1	1.9	1.7	1.6	1.4	1.4	1.5	1.5	1.5	1.5	1.6	1.6	1.8	1.5	1.6
Light motor vehicle sales <sup>6</sup>	16.9	16.3	16.6	16.3	16.6	16.5	16.5	16.4	16.4	16.4	16.3	16.3	16.5	16.5	16.4
<i>Income and saving</i>															
Nominal GDP <sup>5</sup>	9.0	5.9	3.8	3.9	5.5	5.1	4.3	4.5	4.7	4.7	4.6	4.5	5.7	4.8	4.6
Real disposable pers. income <sup>5</sup>	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
<i>Previous<sup>5</sup></i>	4.6	-1.5	4.1	6.5	5.0	3.0	3.3	3.4	4.1	3.2	3.5	3.4	3.4	3.7	3.5
Personal saving rate <sup>3</sup>	-.3	-1.4	-1.4	-1.2	-.6	-1.0	-.7	-.4	.0	.1	.4	.6	-1.2	-.4	.6
<i>Previous<sup>3</sup></i>	-.3	-1.4	-1.2	-.7	-.4	-.2	.0	.2	.5	.6	.8	1.0	-.7	.2	1.0
Corporate profits <sup>7</sup>	60.8	5.9	16.4	7.1	.1	-1.9	-5.4	-3.6	.2	.3	-1.3	-1.2	20.7	-2.7	-.5
Profit share of GNP <sup>3</sup>	12.0	12.0	12.4	12.5	12.3	12.1	11.8	11.6	11.5	11.4	11.2	11.1	12.5	11.6	11.1
Net federal saving <sup>8</sup>	-147	-163	-173	-131	-181	-174	-190	-208	-235	-226	-237	-251	-153	-188	-237
Net state & local saving <sup>8</sup>	13	26	-10	-16	11	0	-11	-11	-16	-15	-24	-29	3	-3	-21
Gross national saving rate <sup>3</sup>	14.4	13.5	13.3	14.2	13.5	13.4	13.1	13.0	13.0	13.0	13.0	12.9	14.2	13.0	12.9
Net national saving rate <sup>3</sup>	2.9	1.9	1.7	2.4	2.6	2.0	1.8	1.6	1.6	1.6	1.6	1.5	2.4	1.6	1.5

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)

**March 14, 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	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget</b>					Not seasonally adjusted											
Receipts <sup>1</sup>	2154	2407	2559	2663	507	772	597	574	533	844	609	599	547	879	638	621
Outlays <sup>1</sup>	2472	2655	2740	2907	691	676	639	654	716	701	669	729	739	726	714	764
Surplus/deficit <sup>1</sup>	-318	-248	-180	-243	-184	96	-42	-80	-183	143	-60	-129	-192	153	-75	-143
<i>Previous</i>	-319	-248	-232	-269	-184	96	-42	-80	-209	125	-67	-133	-192	141	-85	-149
On-budget	-494	-435	-372	-445	-216	11	-60	-142	-211	55	-74	-197	-217	58	-90	-216
Off-budget	175	186	191	202	32	85	19	62	28	89	14	68	25	95	14	73
Means of financing																
Borrowing	297	237	190	260	156	-75	43	59	167	-116	80	114	181	-120	85	133
Cash decrease	1	-16	12	5	28	-38	-6	21	20	-20	-10	15	15	-25	0	10
Other <sup>2</sup>	21	28	-21	-22	-1	16	5	0	-4	-7	-10	-0	-4	-7	-10	-0
Cash operating balance, end of period	36	52	40	35	8	46	52	31	11	31	40	25	10	35	35	25
<b>NIPA federal sector</b>					Seasonally adjusted annual rates											
Receipts	2174	2480	2627	2731	2491	2523	2557	2584	2618	2642	2667	2691	2719	2743	2771	2798
Expenditures	2509	2667	2797	2957	2638	2686	2730	2714	2799	2816	2857	2899	2953	2970	3008	3049
Consumption expenditures	758	797	840	890	804	802	809	817	830	851	862	870	889	896	904	912
Defense	509	533	570	609	538	538	539	553	559	578	588	594	608	614	620	626
Nondefense	249	264	270	281	266	265	270	264	271	272	274	275	281	282	284	285
Other spending	1751	1870	1957	2068	1834	1884	1921	1897	1969	1966	1995	2029	2065	2073	2104	2137
Current account surplus	-335	-187	-169	-226	-147	-163	-173	-131	-181	-174	-190	-208	-235	-226	-237	-251
Gross investment	107	117	124	132	118	117	118	120	121	126	129	130	131	132	133	134
Gross saving less gross investment <sup>3</sup>	-344	-201	-186	-245	-163	-177	-186	-145	-196	-193	-209	-227	-254	-245	-255	-270
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB)																
surplus/deficit	-340	-225	-203	-244	-193	-210	-214	-173	-215	-206	-218	-232	-253	-242	-249	-261
Change in HEB, percent of potential GDP	-0.3	-1.0	-0.3	0.2	-0.7	0.1	0.0	-0.3	0.3	-0.1	0.1	0.1	0.1	-0.1	0.0	0.1
Fiscal impetus (FI), percent of GDP	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
<i>Previous</i>	0.2	0.3	0.3	0.1	0.2	-0.0	0.0	0.1	0.1	-0.0	-0.0	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** **March 14, 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	8.6	8.9	4.8	9.1	8.2	3.9	5.7
2007	6.5	5.9	5.8	4.2	7.9	7.5	5.0	4.8
2008	6.0	5.4	5.7	3.1	6.7	7.3	5.4	4.6
<i>Quarter</i>								
2006:1	9.5	9.7	10.9	2.4	9.6	3.3	11.3	9.0
2	6.8	9.4	9.4	6.4	8.3	6.7	-2.4	5.9
3	6.5	7.5	7.8	5.5	6.5	8.2	3.3	3.8
4	7.9	6.6	6.4	4.5	10.9	13.5	3.3	3.9
2007:1	7.8	6.0	5.9	4.7	8.6	6.4	11.8	5.5
2	4.6	5.8	5.7	4.4	7.9	7.7	-5.6	5.1
3	6.5	5.6	5.6	3.9	7.6	7.6	6.2	4.3
4	6.4	5.5	5.6	3.6	6.9	7.4	7.5	4.5
2008:1	7.0	5.3	5.6	3.2	6.4	7.3	12.3	4.7
2	4.0	5.3	5.5	3.1	6.7	7.2	-5.6	4.7
3	6.0	5.3	5.5	3.0	6.6	7.1	6.3	4.6
4	6.3	5.2	5.5	3.0	6.6	6.9	8.6	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**

**March 14, 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	1498.2	1473.2	1589.1	1269.9	1515.0	1725.7	923.0	1602.2	1642.1	1898.1	1016.9	1649.3	1792.2
Net equity issuance	-363.4	-602.1	-389.0	-232.0	-535.2	-701.2	-520.0	-432.0	-312.0	-292.0	-232.0	-232.0	-232.0	-232.0
Net debt issuance	2278.8	2100.3	1862.2	1821.1	1805.1	2216.2	2245.7	1355.0	1914.2	1934.1	2130.1	1248.9	1881.3	2024.2
Borrowing indicators														
Debt (percent of GDP) <sup>1</sup>	204.4	208.8	213.6	216.9	209.6	211.3	212.6	213.2	213.9	215.0	216.1	216.6	216.8	217.8
Borrowing (percent of GDP)	18.3	15.9	13.4	12.6	13.5	16.5	16.5	9.8	13.7	13.7	14.9	8.7	12.9	13.7
Households														
Net borrowing <sup>2</sup>	1238.8	1012.0	752.2	731.4	928.4	838.0	773.0	755.4	742.0	738.5	724.8	726.8	734.6	739.5
Home mortgages	1074.9	792.5	563.8	579.2	728.1	611.7	569.7	560.2	560.2	565.0	569.7	574.5	583.9	588.7
Consumer credit	94.3	111.1	102.0	78.9	131.3	107.3	114.1	107.7	96.6	89.5	82.2	79.5	77.2	76.8
Debt/DPI (percent) <sup>3</sup>	123.8	129.3	131.2	131.4	130.4	131.3	130.5	131.3	131.4	131.5	131.3	131.5	131.3	131.3
Business														
Financing gap <sup>4</sup>	-138.6	43.0	29.2	133.1	48.3	54.2	-18.7	3.6	44.3	87.8	117.2	123.1	137.0	154.9
Net equity issuance	-363.4	-602.1	-389.0	-232.0	-535.2	-701.2	-520.0	-432.0	-312.0	-292.0	-232.0	-232.0	-232.0	-232.0
Credit market borrowing	561.8	753.4	714.8	653.6	560.1	958.0	769.5	723.5	708.2	658.0	617.9	663.0	661.2	672.2
State and local governments														
Net borrowing	171.4	151.6	150.2	157.7	156.6	262.1	127.7	157.7	157.7	157.7	157.7	157.7	157.7	157.7
Current surplus <sup>5</sup>	203.8	211.3	181.9	171.7	210.2	168.5	192.3	184.0	174.7	176.8	173.7	176.9	169.5	166.8
Federal government														
Net borrowing	306.9	183.4	245.1	278.4	160.0	158.2	575.5	-281.6	306.3	380.0	629.8	-298.6	327.8	454.8
Net borrowing (n.s.a.)	306.9	183.4	245.1	278.4	43.4	58.7	167.1	-116.1	79.9	114.1	180.7	-120.4	85.3	132.8
Unified deficit (n.s.a.)	321.8	209.2	229.2	256.9	41.7	80.4	183.0	-143.2	60.1	129.3	191.7	-152.7	75.2	142.7
<i>Depository institutions</i>														
Funds supplied	814.1	758.1	507.9	334.0	409.1	616.1	665.8	579.5	667.1	119.3	83.0	512.1	368.2	372.9

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

Global equity and high-risk bond markets sold off in late February and early March amid concerns about the durability of economic expansion in the United States and abroad. Following a brief period in which markets stabilized and then reversed some of their previous losses, major equity indexes dropped sharply again on March 13 and 14. A further correction remains a downside risk to our forecast for continued solid growth abroad. Despite the recent choppiness in financial markets, data on foreign production and spending have been strong and have led us to adjust our near-term projection for total foreign real GDP growth up a touch from the January Greenbook forecast. Growth in emerging-market economies is expected to average 4¾ percent at an annual rate over most of the forecast period, and expansion in the advanced foreign economies is projected to proceed at a pace of about 2½ percent. Our near-term forecast for foreign CPI inflation is slightly above that in the January Greenbook, in keeping with a higher projected path for oil prices. Foreign inflation is likely to edge up in the first half of this year but should recede later in the projection period because of tighter monetary policy and decelerating non-oil commodity prices.

### Summary of Staff Projections

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

Indicator	2006		Projection				
	H1	Q3	2006: Q4	2007			2008
				Q1	Q2	H2	
Foreign output	4.5	3.2	3.6	3.4	3.5	3.5	3.5
January GB	4.4	3.3	3.5	3.3	3.4	3.4	3.5
Foreign CPI	2.4	1.8	1.8	2.3	2.3	2.3	2.2
January GB	2.4	1.8	1.5	2.1	2.0	2.1	2.1

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

The spot price of West Texas intermediate (WTI) crude oil has moved up since the time of the January Greenbook, to about \$58 per barrel, amid supply concerns and weather-related increases in demand. Futures price for contracts maturing in 2007 and 2008 have risen about \$5 per barrel.

**Staff Projections of Selected Trade Prices**

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

Indicator	2006		Projection				
	H1	Q3	2006: Q4	2007			2008
				Q1	Q2	H2	
<i>Exports</i>							
Core goods	5.3	5.8	0.3	6.2	3.1	1.7	1.1
January GB	5.3	5.8	1.0	4.0	2.7	1.4	1.0
<i>Imports</i>							
Core goods	2.7	4.3	1.3	2.8	2.1	1.5	1.1
January GB	2.7	4.3	1.7	2.0	1.6	1.3	1.0
Oil (dollars per barrel)	63.75	66.55	55.34	53.72	55.35	59.60	61.31
January GB	63.75	66.55	55.43	50.08	51.39	54.48	55.97

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.

We project that core export price inflation will trend down quickly over the next few quarters, falling to about 3 percent in the second quarter and leveling out at close to a 1 percent rate next year. This trajectory is driven by the projected decline in commodity prices mentioned earlier, with prices of agricultural exports showing a notable deceleration. Our projection has been revised up slightly over the rest of this year, as a result of a higher projected path for metals prices.

**Trade in Goods and Services**

Reflecting the December trade data and fourth-quarter NIPA release, we now estimate that real net exports added about 1½ percentage points to U.S. real GDP growth in the fourth quarter, somewhat more than in the January Greenbook. The January trade data and other information suggest that in the current quarter, the contribution should turn negative, subtracting about ½ percentage point, as imports rebound and export growth steps down. Smoothing through the quarterly swings induced by oil imports, net exports are projected to have little effect on U.S. growth in 2007 as a whole and to subtract a little

less than  $\frac{1}{4}$  percentage point in 2008. This contribution is slightly less negative than in the previous Greenbook; it reflects both a higher forecast for the growth of exports in 2007 and a downward revision to import growth, given the lower projection for U.S. GDP growth.

After declining  $2\frac{1}{2}$  percent in the fourth quarter, real imports of goods and services are projected to increase in the current quarter at an annual rate of  $6\frac{1}{4}$  percent. The increase in imports is expected to be supported by renewed growth of imports of oil and high-tech goods—especially computers—following steep declines in the fourth quarter. In contrast, imports of core goods are expected to decelerate slightly, given weak core imports in the January trade data, and growth of imported services is expected to move down markedly from its strong fourth-quarter pace. In the second quarter we expect real import growth to fall back to  $1\frac{3}{4}$  percent, largely because of a fall in real oil imports stemming from a quirky oil seasonal factor, even as core import growth rebounds to a rate more in line with U.S. income growth and relative prices. We have revised down our projection of second-quarter import growth by  $1\frac{3}{4}$  percentage points since the previous Greenbook, largely because of slower projected growth of imports of computers and oil following stronger projected growth in the current quarter.

### Staff Projections for Trade in Goods and Services

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

Measure	2006		Projection				
	H1	Q3	2006: Q4	2007			2008
				Q1	Q2	H2	
Real exports	10.0	6.8	10.6	5.2	6.1	5.7	5.2
January GB	10.0	6.8	7.5	5.3	5.2	4.9	5.1
Real imports	5.2	5.6	-2.4	6.3	1.7	4.4	4.7
January GB	5.2	5.6	-1.8	6.7	3.5	4.9	5.1

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

We expect real imports to increase at a  $4\frac{1}{2}$  percent rate in the second half of 2007 and at a rate of  $4\frac{3}{4}$  percent rate in 2008, as a pickup in the growth of imports of core goods more than offsets a slight decline in real oil imports. The acceleration in core imports reflects the projected near-term firming of U.S. GDP growth and slowing core import price inflation. Imports of services are expected to grow  $3\frac{1}{2}$  percent in the second half of 2007 and 2008. Imports of computers and semiconductors are expected to grow in line with

**Alternative Simulations:**  
**Stronger Foreign Demand and Dollar Depreciation**

(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	2.3	2.3	2.3
Stronger foreign demand	1.9	2.5	2.6	2.6
Additional dollar depreciation	1.9	3.2	3.2	3.0
<i>U.S. PCE prices excluding food and energy</i>				
Baseline	2.2	2.2	2.1	2.0
Stronger foreign demand	2.2	2.3	2.3	2.2
Additional dollar depreciation	2.4	2.4	2.3	2.3
<i>U.S. trade balance (percent of GDP)</i>				
Baseline	-5.1	-5.1	-5.2	-5.1
Stronger foreign demand	-5.2	-5.3	-5.3	-5.0
Additional dollar depreciation	-5.4	-5.3	-5.0	-4.5

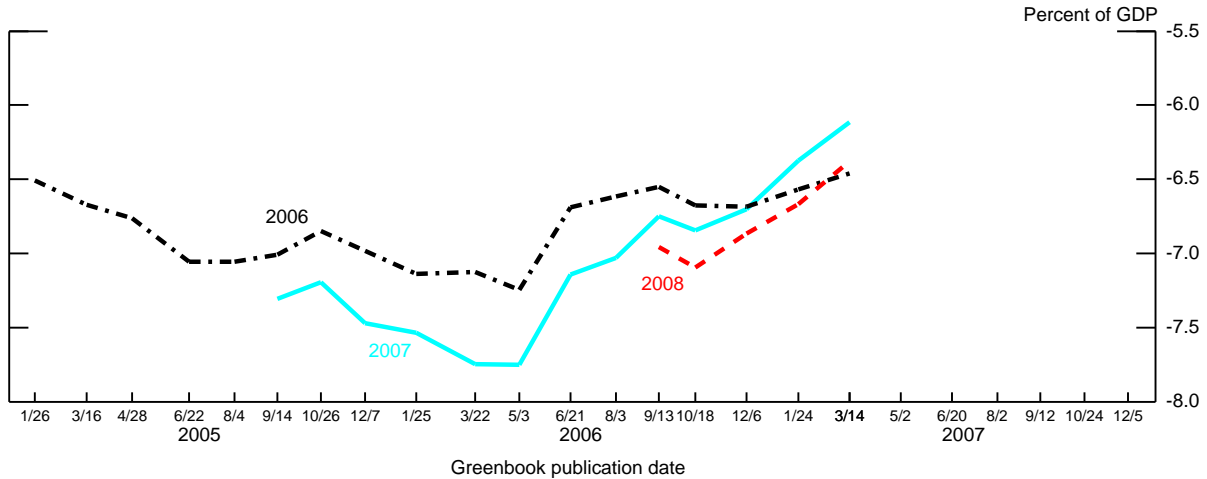
Note. H1 is Q2/Q4; H2 is Q4/Q2. The federal funds rate is adjusted according to a Taylor rule.



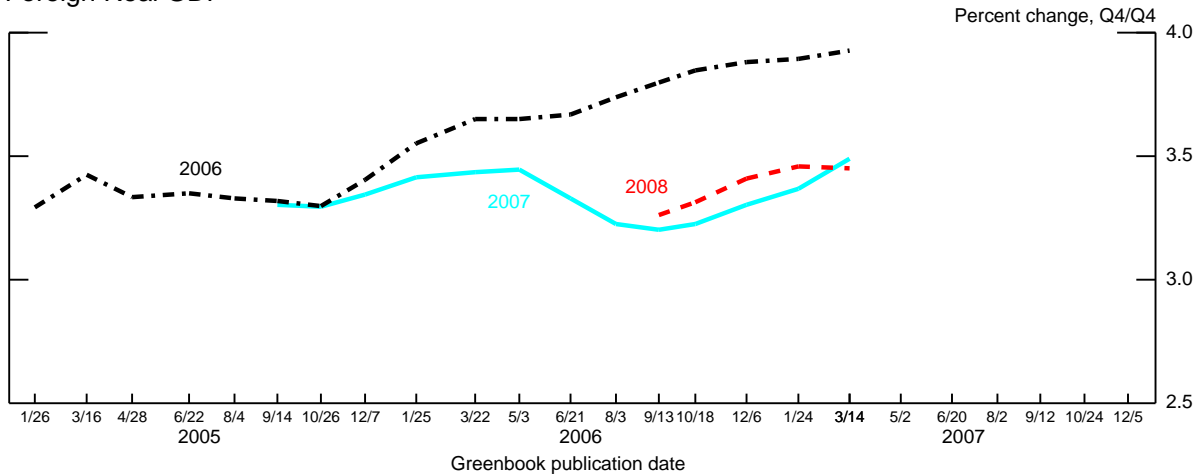
Class II FOMC -- Restricted (FR)

**Evolution of the Staff Forecast**

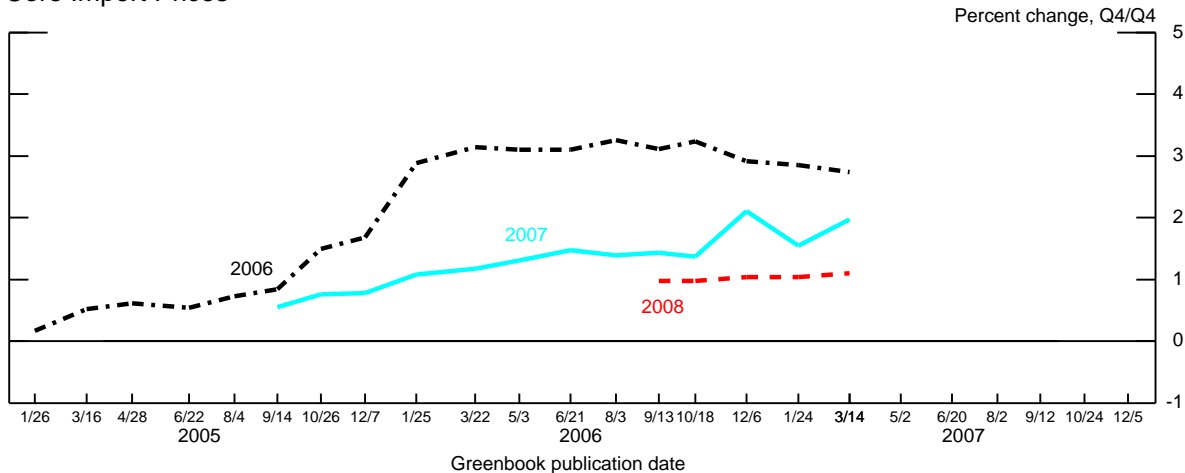
Current Account Balance



Foreign Real GDP



Core Import Prices\*



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

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

Measure and country	2000	2001	2002	2003	2004	2005	2006	2007	2008
REAL GDP (1)									
-----									
Total foreign	4.2	0.3	3.1	3.0	3.8	3.7	3.9	3.5	3.5
Advanced Foreign Economies	3.6	0.9	2.5	1.8	2.6	2.6	2.7	2.7	2.5
of which:									
Canada	4.1	1.3	3.5	1.5	3.7	2.8	2.3	2.9	2.8
Japan	3.1	-1.7	2.0	2.4	1.1	2.8	2.5	2.4	1.7
United Kingdom	3.1	2.0	2.3	3.3	2.6	2.0	3.0	2.8	2.5
Euro Area (2)	3.3	1.1	1.1	1.0	1.5	1.8	3.3	2.1	2.0
Germany	2.3	1.1	0.0	0.2	0.2	1.7	3.7	2.0	2.1
Emerging Market Economies	5.2	-0.4	3.9	4.8	5.6	5.3	5.6	4.6	4.8
Asia	5.8	1.0	6.2	6.8	6.0	7.4	6.6	5.9	6.1
Korea	4.3	4.7	7.8	4.2	2.9	5.3	4.0	4.2	4.4
China	7.8	7.1	8.5	10.1	9.6	9.9	10.4	8.7	9.0
Latin America	4.4	-1.3	1.5	2.4	5.2	3.0	4.7	3.4	3.5
Mexico	4.8	-1.3	2.0	2.1	4.8	2.5	4.3	3.1	3.4
Brazil	3.8	-1.0	4.1	0.9	4.7	1.5	3.7	3.5	3.5
CONSUMER PRICES (3)									
-----									
Advanced Foreign Economies	1.9	0.9	2.1	1.3	1.8	1.5	1.3	1.5	1.6
of which:									
Canada	3.1	1.1	3.8	1.7	2.3	2.3	1.3	1.8	2.0
Japan	-0.5	-1.1	-0.5	-0.3	0.5	-1.0	0.3	0.3	0.5
United Kingdom (4)	0.9	1.1	1.5	1.3	1.4	2.1	2.7	1.7	1.8
Euro Area (2)	2.5	2.1	2.3	2.0	2.3	2.3	1.8	2.0	1.7
Germany	1.7	1.5	1.2	1.1	2.1	2.2	1.3	2.1	1.6
Emerging Market Economies	4.1	2.8	2.9	3.1	3.9	3.0	2.9	3.1	2.8
Asia	1.8	1.2	0.8	2.2	3.2	2.6	2.3	2.7	2.4
Korea	2.5	3.3	3.3	3.5	3.4	2.5	2.1	2.4	2.7
China	1.0	-0.1	-0.5	2.7	3.3	1.4	2.1	2.6	2.7
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	3.8	3.5
Brazil	6.4	7.5	10.7	11.5	7.2	6.1	3.2	4.0	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	4.7	4.2	3.2	3.6	3.4	3.5	3.5	3.5	3.4	3.5	3.5	3.4
Advanced Foreign Economies	3.4	2.6	2.1	2.6	2.8	2.6	2.7	2.6	2.4	2.5	2.5	2.4
of which:												
Canada	3.8	2.0	2.0	1.4	3.0	2.7	3.0	2.8	2.7	2.9	3.0	2.8
Japan	2.9	1.3	0.5	5.5	3.7	2.2	1.9	1.8	1.7	1.7	1.7	1.6
United Kingdom	3.0	3.0	2.7	3.1	2.9	2.9	2.9	2.7	2.5	2.5	2.5	2.5
Euro Area (2)	3.3	3.9	2.3	3.6	1.6	2.3	2.2	2.2	2.1	2.1	2.0	1.9
Germany	3.4	4.8	3.2	3.5	0.6	2.5	2.6	2.5	2.4	2.2	2.0	1.9
Emerging Market Economies	6.6	6.4	4.7	5.0	4.4	4.7	4.8	4.7	4.8	4.8	4.8	4.8
Asia	7.3	6.5	6.4	6.3	5.7	5.9	5.9	5.9	6.1	6.1	6.2	6.2
Korea	4.9	3.4	4.4	3.4	4.0	4.2	4.3	4.3	4.4	4.4	4.5	4.5
China	12.2	12.2	7.3	9.9	8.9	8.7	8.7	8.7	8.9	8.9	9.0	9.2
Latin America	6.4	5.9	3.4	3.2	2.9	3.5	3.6	3.5	3.5	3.5	3.5	3.5
Mexico	7.0	5.6	2.7	1.9	2.4	3.3	3.4	3.4	3.4	3.4	3.4	3.4
Brazil	4.9	2.6	3.1	4.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
CONSUMER PRICES (3)	Four-quarter changes											
Advanced Foreign Economies	1.8	2.0	1.6	1.3	1.3	1.1	1.2	1.5	1.6	1.6	1.6	1.6
of which:												
Canada	2.5	2.6	1.6	1.3	1.1	0.9	1.4	1.8	2.0	2.0	2.0	2.0
Japan	-0.2	0.2	0.6	0.3	0.1	0.1	-0.1	0.3	0.3	0.4	0.4	0.5
United Kingdom (4)	2.0	2.2	2.4	2.7	2.6	2.2	1.9	1.7	1.9	1.9	1.8	1.8
Euro Area (2)	2.3	2.5	2.1	1.8	1.9	1.7	1.7	2.0	1.9	1.8	1.8	1.7
Germany	2.1	2.1	1.6	1.3	2.0	1.8	1.9	2.1	1.8	1.7	1.6	1.6
Emerging Market Economies	3.0	2.9	2.7	2.9	3.1	3.1	3.2	3.1	3.0	2.9	2.9	2.8
Asia	2.4	2.6	2.1	2.3	2.7	2.5	2.8	2.7	2.6	2.5	2.4	2.4
Korea	2.1	2.3	2.5	2.1	2.0	1.8	1.7	2.4	2.8	3.0	2.9	2.7
China	1.2	1.4	1.2	2.1	2.6	2.6	3.0	2.6	2.3	2.2	2.1	2.1
Latin America	4.2	3.5	3.8	4.2	4.3	4.6	4.4	4.0	3.8	3.7	3.7	3.7
Mexico	3.7	3.1	3.5	4.1	4.1	4.5	4.2	3.8	3.6	3.5	3.5	3.5
Brazil	5.6	4.3	3.8	3.2	3.1	3.5	4.1	4.0	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.

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000	2001	2002	2003	2004	2005	----- 2006	Projected 2007	----- 2008
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-0.9	-0.2	-0.9	-0.1	-0.8	-0.1	0.4	-0.1	-0.2
Exports of G&S	0.7	-1.3	0.4	0.6	0.7	0.7	1.0	0.6	0.6
Imports of G&S	-1.6	1.1	-1.3	-0.7	-1.5	-0.8	-0.6	-0.7	-0.8
	Percentage change, Q4/Q4								
Exports of G&S	6.5	-11.9	3.8	5.8	7.0	6.7	9.4	5.7	5.2
Services	1.8	-8.9	10.2	3.0	7.1	3.1	7.4	5.7	4.9
Computers	22.7	-23.5	-1.1	11.3	6.4	14.1	8.2	14.2	14.4
Semiconductors	27.6	-34.6	10.1	38.3	-6.3	17.2	1.1	17.0	17.0
Core Goods 1/	5.9	-10.2	0.6	4.9	8.0	7.5	10.8	4.7	4.3
Imports of G&S	11.2	-7.6	9.7	4.8	10.6	5.2	3.3	4.2	4.7
Services	10.6	-5.9	8.8	2.2	7.6	1.9	5.1	3.6	3.5
Oil	13.3	3.7	3.8	1.2	9.6	0.9	-9.7	3.4	-1.3
Natural Gas	37.3	-6.5	19.5	1.3	6.6	11.9	-17.5	5.5	5.2
Computers	13.9	-13.6	13.2	17.0	22.5	11.8	13.6	18.5	17.5
Semiconductors	22.8	-51.1	11.0	-0.1	9.3	7.5	-0.4	17.0	17.0
Core Goods 2/	10.3	-6.5	10.0	5.2	10.7	6.2	5.7	3.3	5.0
	Billions of Chained 2000 Dollars								
Net Goods & Services	-379.5	-399.1	-471.3	-518.9	-590.9	-619.2	-618.3	-587.1	-602.6
Exports of G&S	1096.3	1036.7	1013.3	1026.1	1120.4	1196.1	1302.8	1390.2	1465.3
Imports of G&S	1475.8	1435.8	1484.6	1545.0	1711.3	1815.3	1921.1	1977.3	2068.0
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-415.2	-389.0	-472.4	-527.5	-665.3	-791.5	-855.3	-848.3	-925.4
Current Acct as Percent of GDP	-4.2	-3.8	-4.5	-4.8	-5.7	-6.4	-6.5	-6.1	-6.4
Net Goods & Services (BOP)	-377.6	-362.8	-421.1	-494.9	-611.3	-716.7	-765.3	-711.3	-747.0
Investment Income, Net	25.7	30.3	17.8	42.3	33.6	17.6	0.5	-36.5	-76.7
Direct, Net	94.9	115.9	102.4	112.8	123.9	134.4	151.5	155.6	173.5
Portfolio, Net	-69.2	-85.5	-84.6	-70.5	-90.2	-116.8	-150.9	-192.1	-250.2
Other Income & Transfers, Net	-63.3	-56.5	-69.2	-74.9	-87.6	-92.4	-90.6	-100.5	-101.7

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.

March 14, 2007

## 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	-0.4	0.4	0.2	-0.3	-0.5	0.1	-0.1	-0.3
Exports of G&S	1.4	0.7	0.7	1.1	0.6	0.7	0.7	0.6	0.6	0.6	0.6	0.6
Imports of G&S	-1.5	-0.2	-0.9	0.4	-1.0	-0.3	-0.5	-1.0	-1.1	-0.5	-0.7	-0.8
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	14.0	6.2	6.8	10.6	5.2	6.1	5.8	5.5	5.3	5.2	5.1	5.1
Services	6.7	6.7	0.8	16.1	3.8	6.7	6.4	6.0	5.4	5.0	4.7	4.5
Computers	9.8	12.0	-0.1	11.6	13.7	14.4	14.4	14.4	14.4	14.4	14.4	14.4
Semiconductors	15.7	29.9	-12.4	-20.6	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Core Goods 1/	17.8	4.4	11.4	10.1	4.9	4.9	4.6	4.4	4.3	4.3	4.3	4.3
Imports of G&S	9.1	1.4	5.6	-2.4	6.3	1.7	3.0	5.9	6.5	3.0	4.0	5.1
Services	7.4	9.9	-2.6	6.3	3.5	3.8	3.7	3.5	3.4	3.5	7.9	-0.8
Oil	-4.8	-18.3	7.1	-20.2	30.3	-12.7	-12.6	14.8	16.3	-15.2	-13.2	10.9
Natural Gas	-24.6	42.1	-26.4	-41.2	-13.6	41.9	23.7	-18.2	-4.4	39.2	20.3	-23.6
Computers	34.3	17.0	18.4	-10.4	48.7	-3.9	17.5	17.5	17.5	17.5	17.5	17.5
Semiconductors	3.6	-1.3	21.6	-20.8	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Core Goods 2/	12.4	2.4	6.9	1.5	0.8	3.6	4.4	4.5	4.7	5.0	5.2	5.2
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-636.6	-624.2	-628.8	-583.7	-596.4	-584.2	-578.9	-588.8	-602.0	-598.9	-600.9	-608.7
Exports of G&S	1269.3	1288.5	1310.0	1343.3	1360.5	1380.7	1400.3	1419.3	1437.8	1456.2	1474.5	1492.8
Imports of G&S	1905.9	1912.7	1938.8	1927.0	1956.8	1964.9	1979.3	2008.1	2039.9	2055.1	2075.4	2101.5
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-854.8	-870.6	-906.5	-789.5	-819.5	-830.3	-849.6	-893.8	-913.2	-914.1	-924.2	-950.2
Current Account as % of GDP	-6.6	-6.6	-6.8	-5.9	-6.0	-6.0	-6.1	-6.3	-6.4	-6.3	-6.3	-6.4
Net Goods & Services (BOP)	-766.6	-774.5	-805.6	-714.4	-710.0	-701.0	-707.9	-726.4	-749.4	-742.2	-743.2	-753.2
Investment Income, Net	-3.6	-2.1	-8.7	16.5	-12.6	-31.0	-41.8	-60.5	-63.8	-71.9	-81.0	-90.1
Direct, Net	137.2	152.2	143.2	173.3	157.5	153.0	157.7	154.3	164.9	170.4	176.7	182.1
Portfolio, Net	-140.8	-154.4	-151.9	-156.8	-170.1	-184.1	-199.5	-214.7	-228.7	-242.4	-257.6	-272.1
Other Inc. & Transfers, Net	-84.7	-93.9	-92.3	-91.6	-96.9	-98.3	-100.0	-107.0	-100.0	-100.0	-100.0	-107.0

1. Merchandise exports excluding computers and semiconductors.

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

## **Part 2**

March 14, 2007

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

March 14, 2007

## **Recent Developments**

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### Output per Hour

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

Sector	2004:Q4 to 2005:Q4	2005:Q4 to 2006:Q4	2006			
			Q1	Q2	Q3	Q4
Nonfarm business						
All persons	2.1	1.5 <sup>1</sup>	3.5	1.2	-.5	1.7 <sup>1</sup>
All employees <sup>2</sup>	1.6	1.7 <sup>1</sup>	4.5	.9	-.2	1.4 <sup>1</sup>
Nonfinancial corporations <sup>3</sup>	1.8	n.a.	10.4	-4.4	4.1	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. Nonfinancial corporate output is calculated as an income-side measure.

### Industrial Production

After a decline of ½ percent in January, the available data suggest that total industrial production (IP) rose solidly in February, in part because of transitory factors. Production last month was boosted by a temporary surge in output at utilities, reflecting the sizable swing in temperatures from a moderately warm January to a cold February, and by a bounceback in motor vehicle assemblies from a steep decline in January. Manufacturing output outside motor vehicles and parts appears to have risen moderately in February after having fallen in January and in the fourth quarter of last year. Capacity utilization in manufacturing, which stood 0.2 percentage point below its 1972-2006 average in January, likely rose in February, but remained a good bit below its recent peak in August of last year.<sup>3</sup>

Production cutbacks at motor vehicle manufacturers and in upstream industries related to construction and motor vehicles account for a substantial share of the weakness in IP during the past six months. More recently, however, the softness has spread to some areas of business equipment and to some areas of non-auto consumer goods. Meanwhile,

<sup>3</sup> The initial estimates of industrial capacity for 2007 were published last month. Total industrial capacity is projected to rise 2.1 percent in 2007 after having expanded 2.4 percent in 2006. Manufacturing capacity, which is estimated to increase 2.4 percent this year, is also likely to decelerate relative to 2006. Motor vehicle assembly plants at Ford and GM that are currently idled or slated to be idled have been removed from our capacity estimates and account for the slower rise in capacity this year. Excluding motor vehicles and parts, manufacturing capacity is estimated to increase slightly faster in 2007 than in 2006. Mining capacity is projected to increase 0.7 percent in 2007, about the same as in 2006, while capacity at utilities is expected to increase 1.3 percent, rising more slowly than last year.

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

Item	2006		2007					
	Q3	Q4	Q1	Q2	Jan.	Feb.	Mar.	Apr.
U.S. production <sup>1</sup>	10.5	10.5	10.3	11.0	9.9	10.4	10.6	11.1
Autos	4.3	4.4	4.0	4.2	4.1	3.9	3.9	4.1
Light trucks	6.2	6.1	6.3	6.8	5.8	6.5	6.7	7.0
Days' supply <sup>2</sup>	70	70	n.a.	n.a.	66	65	n.a.	n.a.
Autos	54	60	n.a.	n.a.	61	62	n.a.	n.a.
Light trucks	82	77	n.a.	n.a.	70	66	n.a.	n.a.
Inventories <sup>3</sup>	2.95	2.84	n.a.	n.a.	2.75	2.68	n.a.	n.a.
Autos	.95	1.03	n.a.	n.a.	1.03	1.02	n.a.	n.a.
Light trucks	1.99	1.81	n.a.	n.a.	1.72	1.66	n.a.	n.a.
Memo: U.S. production, total motor vehicles <sup>4</sup>	11.0	11.0	10.6	11.3	10.3	10.7	10.9	11.4

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

1. Production rates for the first and second quarters reflect the latest industry schedules.

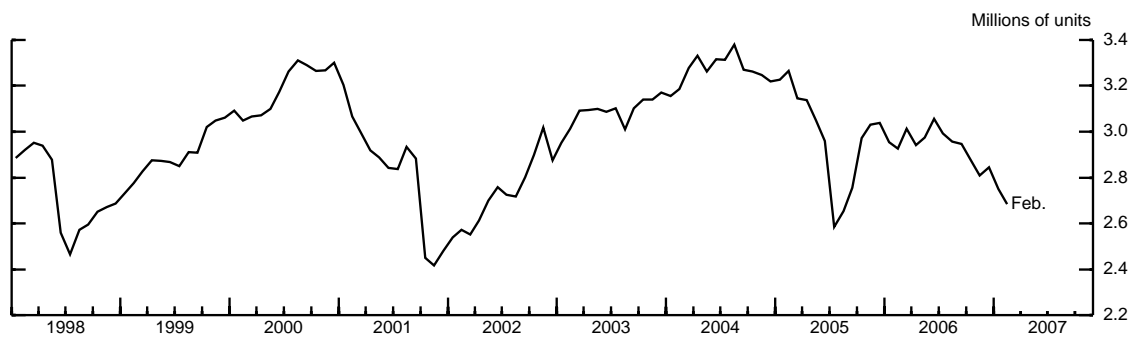
2. Quarterly values are calculated with end-of-period stocks and average reported sales.

3. End-of-period stocks.

4. Includes medium and heavy trucks.

n.a. Not available.

**Inventories of Light Vehicles**

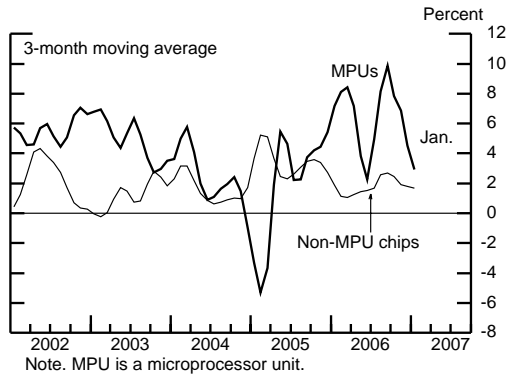


**Days' Supply of Light Vehicles**

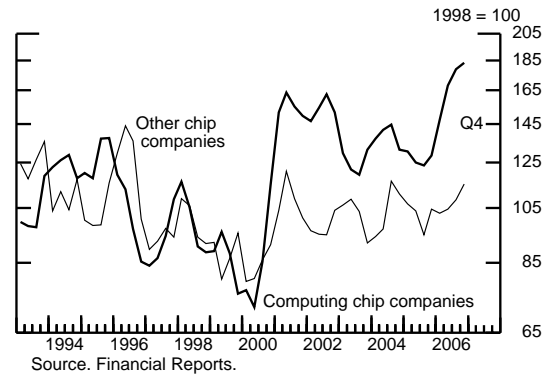


## Indicators of High-Tech Manufacturing Activity

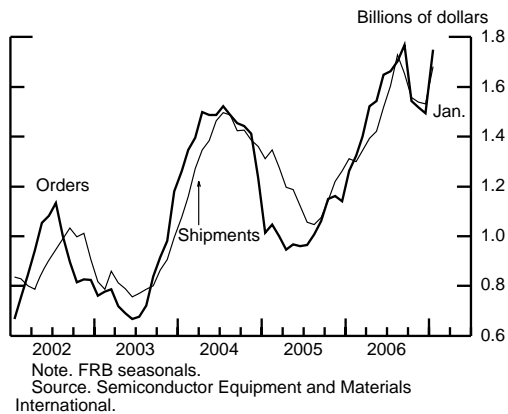
Rate of Change in Semiconductor Industrial Production



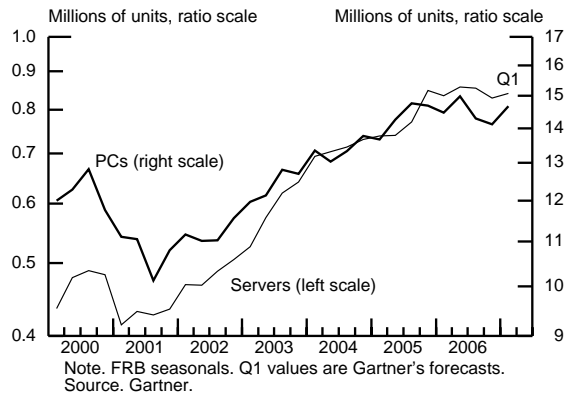
Day's Supply at Major Semiconductor Companies



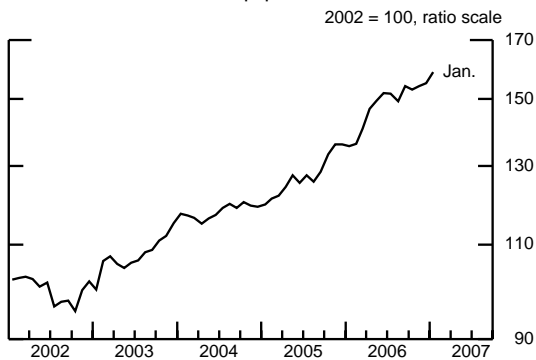
Bookings and Billings for Semiconductor Equipment



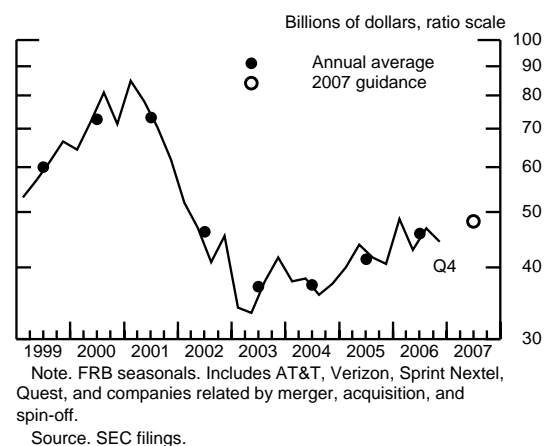
U.S. Personal Computer and Server Sales



IP: Communications Equipment



Capital Expenditures by Selected Telecommunications Service Providers



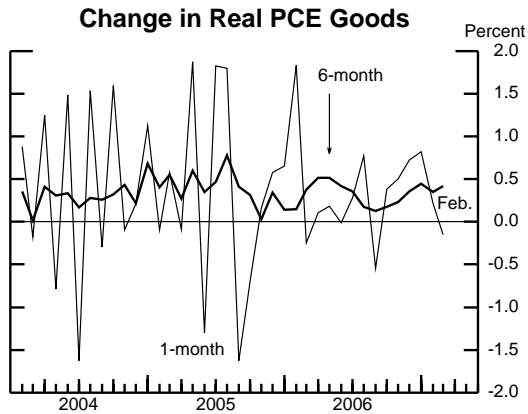
### Retail and Food Services Sales

(Percent change from preceding period; seasonally adjusted current dollars)

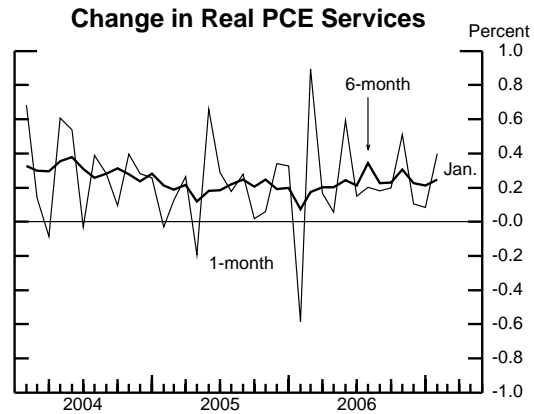
Category	2006				2007	
	Q2	Q3	Q4	Dec.	Jan.	Feb.
	Annual rate			Monthly rate		
Total sales	3.1	3.7	.3	1.2	.0	.1
Retail control <sup>1</sup>	7.8	3.7	-.7	1.3	.2	.0
Ex. sales at gasoline stations	4.6	5.6	4.7	.9	.3	-.2
Memo: Real PCE control <sup>2</sup>	1.0	1.9	7.0	.8	.0	-.2

1. Total sales less outlays at building material and supply stores and automobile and other motor vehicle dealers.

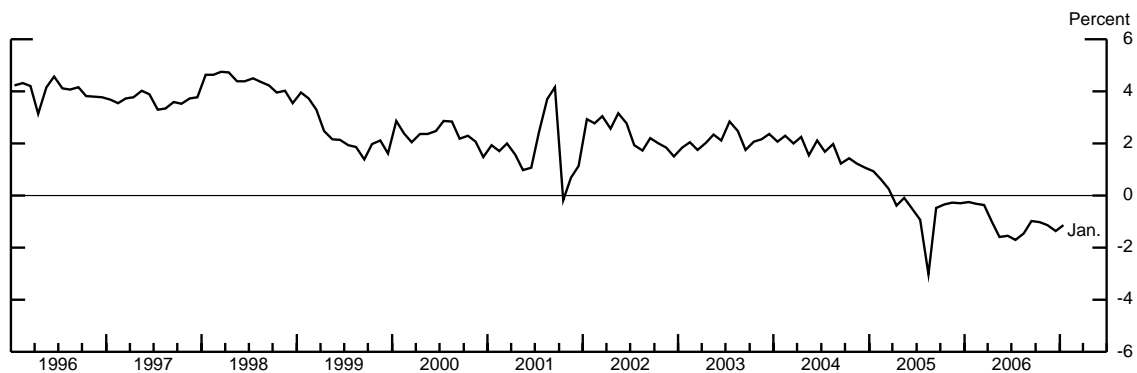
2. Total goods spending excluding autos and trucks. The values for December and January are staff estimates. The value for February is a staff forecast.



Note. Values for December and January are staff estimates. Value for February is a staff forecast.



### Personal Saving Rate



Note. Value for December 2004 excludes the effect on income of the special Microsoft dividend in that month.

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

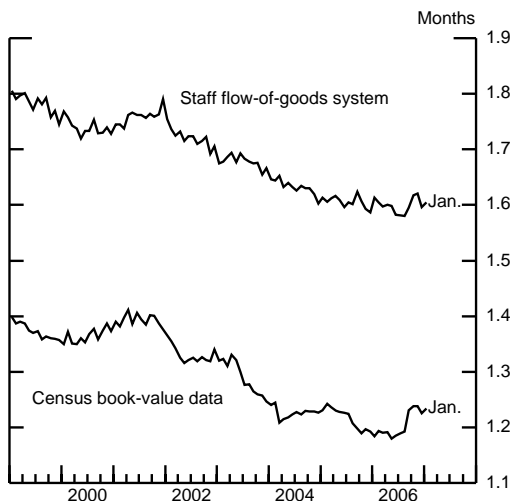
Measure and sector	2006					2007
	Q2	Q3	Q4	Nov.	Dec.	Jan.
<i>Real inventory investment</i> (chained 2000 dollars)						
<b>Total nonfarm business</b>	<b>52.2</b>	<b>53.3</b>	<b>15.6<sup>e</sup></b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Motor vehicles	3.0	-.8	-23.4 <sup>e</sup>	n.a.	n.a.	n.a.
Nonfarm ex. motor vehicles	49.2	54.2	39.0 <sup>e</sup>	n.a.	n.a.	n.a.
<b>Manufacturing and trade ex. wholesale and retail motor vehicles and parts</b>	<b>36.3</b>	<b>45.2</b>	<b>24.4<sup>e</sup></b>	<b>34.2<sup>e</sup></b>	<b>4.1<sup>e</sup></b>	<b>n.a.</b>
Manufacturing	11.0	10.1	8.1 <sup>e</sup>	4.0 <sup>e</sup>	10.0 <sup>e</sup>	n.a.
Wholesale trade ex. motor vehicles & parts	18.4	25.7	6.3 <sup>e</sup>	25.3 <sup>e</sup>	-19.7 <sup>e</sup>	n.a.
Retail trade ex. motor vehicles & parts	6.9	9.4	10.0 <sup>e</sup>	5.0 <sup>e</sup>	13.8 <sup>e</sup>	n.a.
<i>Book-value inventory investment</i> (current dollars)						
<b>Manufacturing and trade ex. wholesale and retail motor vehicles and parts</b>	<b>109.1</b>	<b>91.9</b>	<b>46.2</b>	<b>67.6</b>	<b>28.5</b>	<b>11.4</b>
Manufacturing	48.3	37.2	14.4	10.9	13.5	-10.4
Wholesale trade ex. motor vehicles & parts	43.2	40.8	18.9	50.0	-8.9	20.1
Retail trade ex. motor vehicles & parts	17.5	13.9	12.9	6.6	23.9	1.7

<sup>e</sup> Staff estimate of real inventory investment based on revised book-value data.

n.a. Not available.

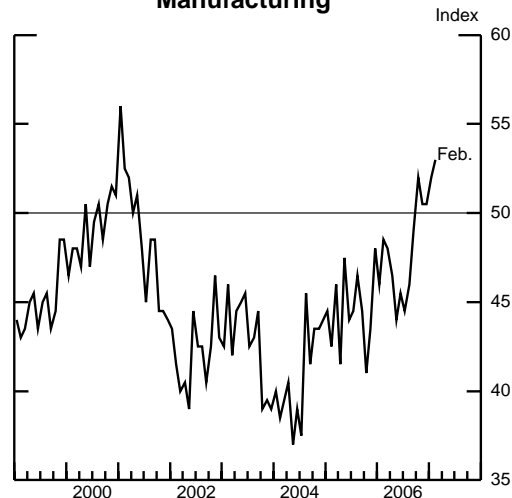
Source. For real inventory investment, BEA; for book-value data, Census Bureau.

**Inventory Ratios ex. Motor Vehicles**



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

**ISM Customer Inventories: Manufacturing**



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

**Federal Government Outlays and Receipts**

(Unified basis; billions of dollars except as noted)

Function or source	January-February			12 months ending in February		
	2006	2007	Percent change	2006	2007	Percent change
Outlays	441.1	462.6	4.9	2550.5	2680.7	5.1
Financial transactions <sup>1</sup>	-.4	-.4	...	-1.3	-14.1	...
Payment timing <sup>2</sup>	-12.4	-9.3	...	-.2	-6.1	...
Adjusted outlays	453.9	472.3	4.1	2552.0	2700.9	5.8
Receipts	342.9	380.9	11.1	2236.1	2488.0	11.3
Payment timing	.0	.0	...	.0	-6.0	...
Adjusted receipts	342.9	380.9	11.1	2236.1	2494.0	11.5
Surplus or deficit (-)	-98.3	-81.8	...	-314.4	-192.7	...
<i>Selected components of adjusted outlays and receipts</i>						
Adjusted outlays	453.9	472.3	4.1	2552.0	2700.9	5.8
Net interest	32.9	38.9	18.2	201.1	227.7	13.2
Non-interest	421.0	433.4	2.9	2350.9	2473.2	5.2
National defense	82.3	87.4	6.1	502.3	544.6	8.4
Social Security	92.1	96.8	5.1	535.3	567.5	6.0
Medicare	57.4	59.4	3.5	308.6	359.3	16.4
Medicaid	27.2	31.5	15.9	183.0	183.8	.4
Income security	82.2	89.1	8.4	348.0	361.4	3.8
Agriculture	5.8	4.5	...	30.7	25.7	-16.2
Other	74.0	64.7	-12.6	443.0	430.9	-2.7
Adjusted receipts	342.9	380.9	11.1	2236.1	2494.0	11.5
Individual income and payroll taxes	297.5	335.4	12.8	1727.0	1904.5	10.3
Withheld + FICA	283.2	313.0	10.5	1533.0	1641.9	7.1
Nonwithheld + SECA	62.8	73.0	16.3	375.2	450.6	20.1
Less: Refunds	48.5	50.5	4.2	181.3	192.4	6.2
Corporate	13.6	15.1	10.5	299.8	373.5	24.6
Gross	19.3	20.7	6.9	329.0	399.0	21.3
Less: Refunds	5.7	5.6	-1.6	29.2	25.5	-12.7
Other	31.8	30.4	-4.3	209.3	216.0	3.2
Adjusted surplus or deficit (-)	-111.0	-91.4	...	-315.8	-206.9	...

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 care have been converted from an annual to a monthly basis.

... Not applicable.

Source. Monthly Treasury Statement.

### Administration Budget Projections and Economic Assumptions

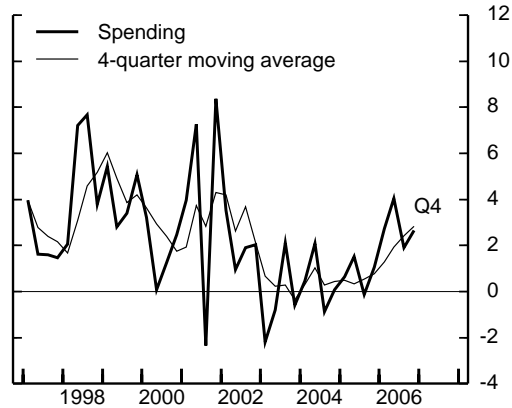
Item	2007	2008	2009	2010	2011	2012
<b>Budget projections (fiscal years)</b>	Billions of dollars					
Receipts	2540	2662	2798	2955	3104	3307
Outlays	2784	2902	2985	3049	3157	3246
Surplus	-244	-239	-187	-94	-54	61
	Percent of GDP					
Receipts	18.5	18.3	18.3	18.3	18.3	18.6
Outlays	20.2	20.0	19.5	18.9	18.6	18.3
Surplus	-1.8	-1.6	-1.2	-0.6	-0.3	0.3
<b>Economic assumptions (calendar years)</b>	Percent change, fourth quarter to fourth quarter					
Real GDP	2.9	3.1	3.1	3.0	3.0	2.9
GDP price index	2.5	2.3	2.2	2.1	2.0	2.0
CPI-U	2.6	2.6	2.5	2.4	2.3	2.3
	Percent, annual average					
Unemployment rate	4.6	4.8	4.8	4.8	4.8	4.8
Treasury yields						
3-month	4.7	4.6	4.4	4.2	4.1	4.1
10-year	5.0	5.1	5.2	5.3	5.3	5.3

Source. Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2008* (February 2007).

## State and Local Indicators

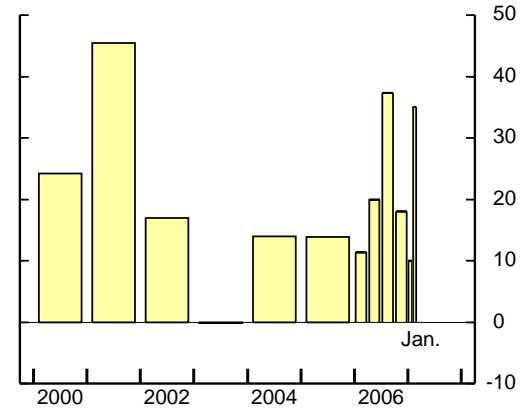
Real Spending on Consumption & Investment

Percent change, annual rate



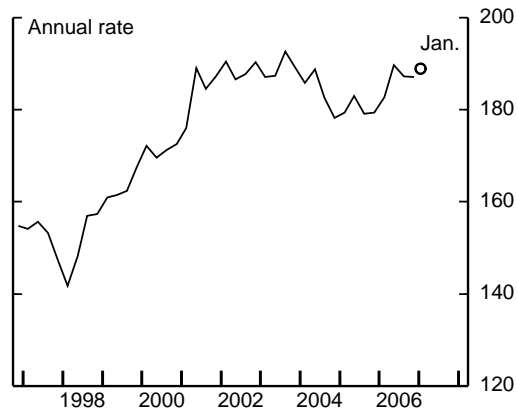
Net Change in Employment

Thousands of jobs, monthly average



Real Construction

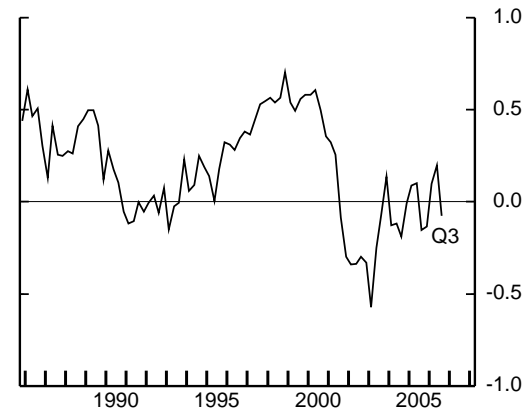
Billions of chained (2000) dollars



Note. Nominal CIPIP deflated by BEA prices through Q4 and by staff projection thereafter.

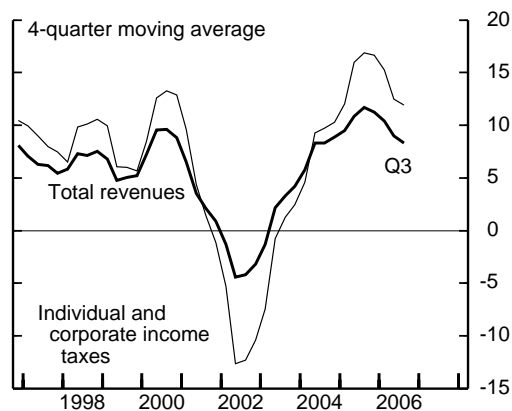
Net Saving

Percent of nominal GDP



State Revenues

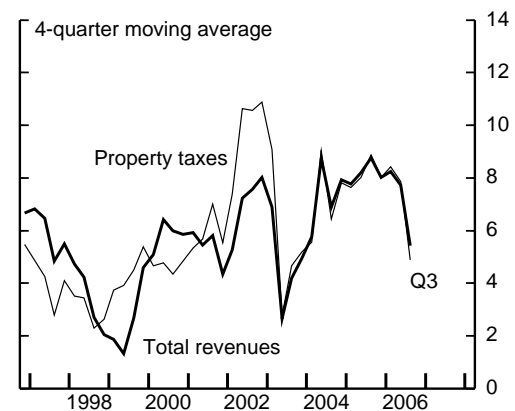
Percent change from year earlier



Source. Census Bureau.

Local Revenues

Percent change from year earlier



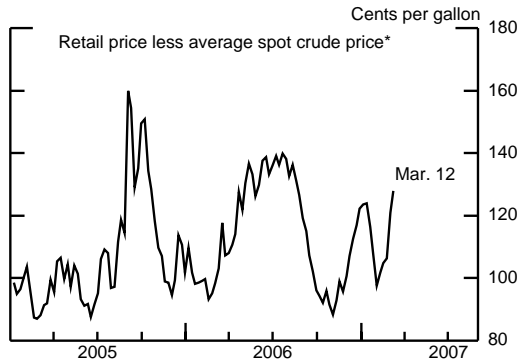
Source. Census Bureau.



## Energy Prices and Inventories

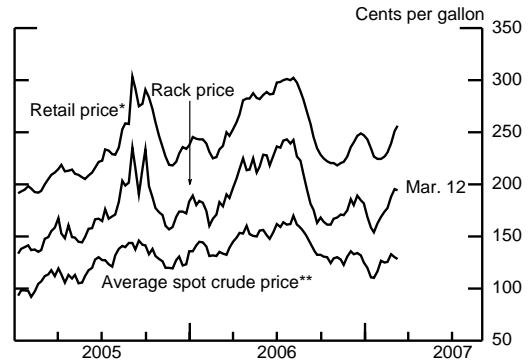
(Data from Energy Information Administration except as noted)

### Total Gasoline Margin



\* Regular grade seasonally adjusted by FRB staff, less average spot crude price: 60% WTI, 40% Maya heavy crude.

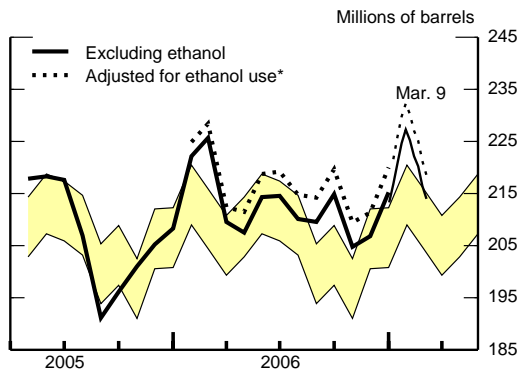
### Gasoline Price Decomposition



\* Regular grade seasonally adjusted by FRB staff.

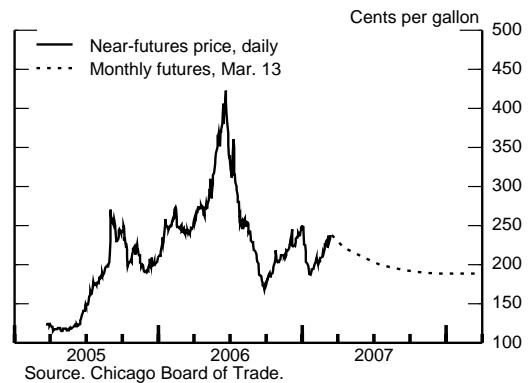
\*\* 60% WTI, 40% Maya heavy crude.

### Gasoline Inventories



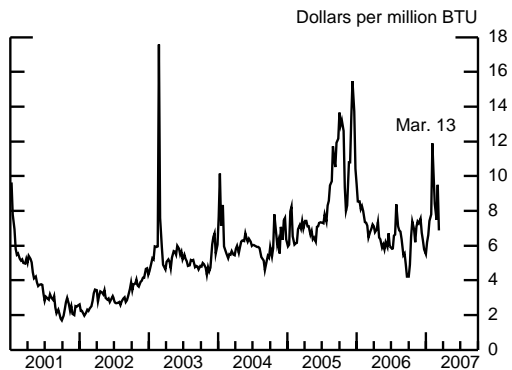
Note. Shaded region is average historical range as calculated by DOE. Monthly data through December 2006, weekly data thereafter, as indicated by line weights.  
\* Adjustment for approximate amount of fuel ethanol to be blended with RBOB component of inventories; estimated by FRB staff.

### Ethanol Prices



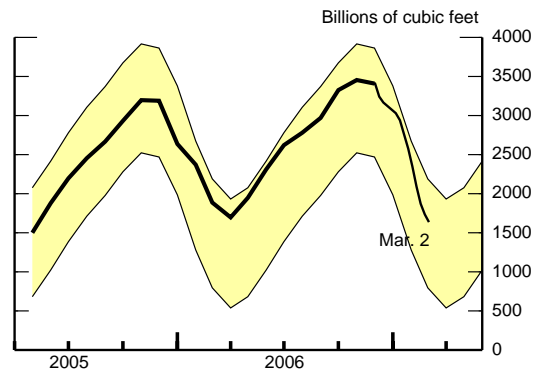
Source: Chicago Board of Trade.

### Natural Gas Prices



Note. National average spot price.  
Source: Bloomberg.

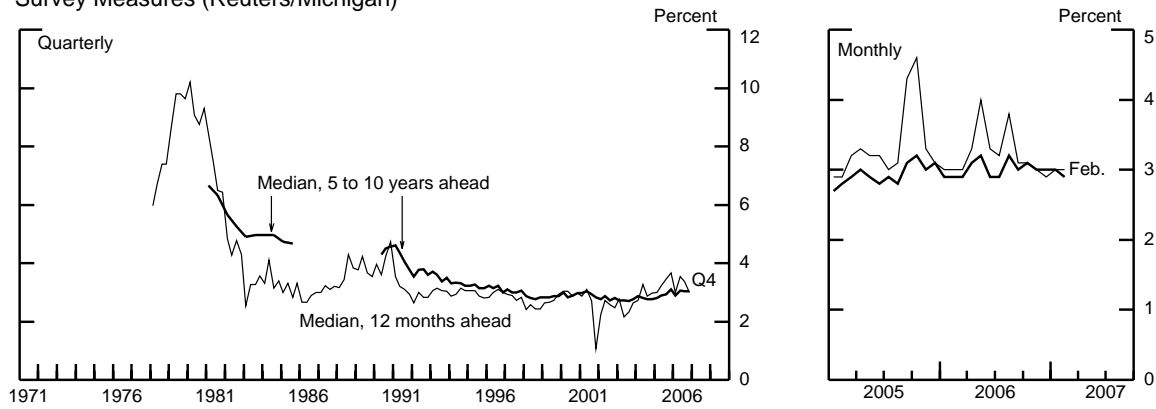
### Natural Gas Inventories



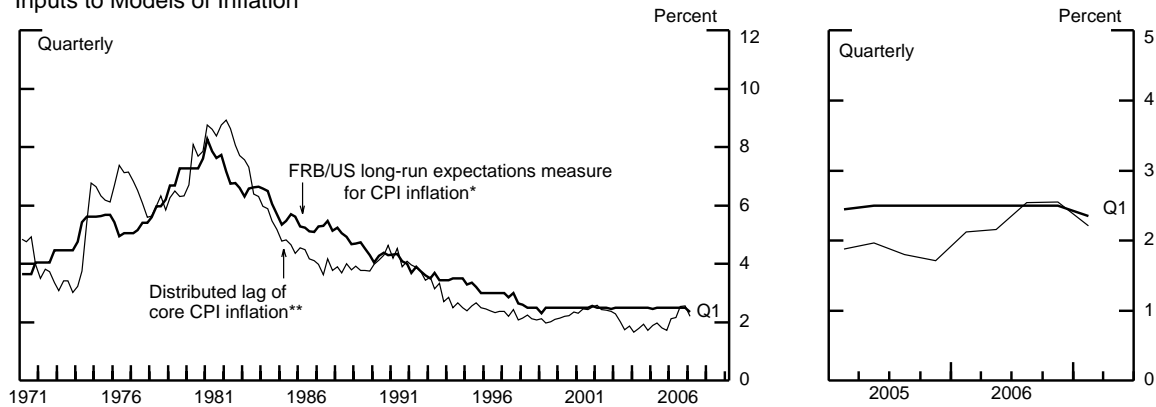
Note. Shaded region is historical range for 2000 to 2004 as calculated by FRB staff. Monthly data through November 2006, weekly data thereafter, as indicated by line weights.

## Measures of Expected Inflation

Survey Measures (Reuters/Michigan)



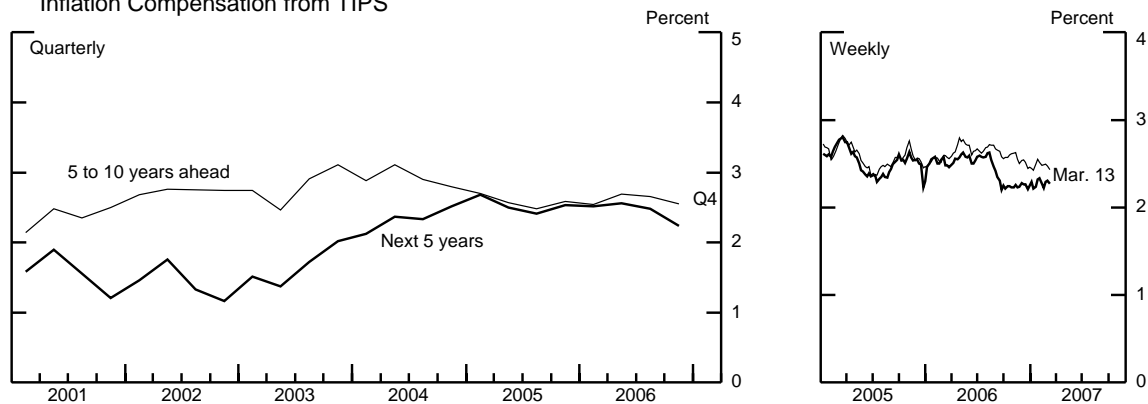
Inputs to Models of Inflation



\* 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.

**Broad Measures of Inflation**

(Percent change, Q4 to Q4)

Measure	2003	2004	2005	2006
<i>Product prices</i>				
GDP price index	2.2	3.2	3.1	2.5
Less food and energy	1.9	3.1	3.0	2.6
Nonfarm business chain price index	1.2	3.2	3.2	1.9
<i>Expenditure prices</i>				
Gross domestic purchases price index	2.2	3.7	3.6	2.3
Less food and energy	1.9	3.0	2.8	2.6
PCE price index	1.9	3.0	3.1	1.9
Less food and energy	1.4	2.2	2.1	2.2
PCE price index, market-based components	1.6	2.7	3.0	1.6
Less food and energy	1.0	1.7	1.8	1.9
CPI	1.9	3.4	3.7	1.9
Less food and energy	1.2	2.1	2.1	2.7
Chained CPI	1.7	3.1	3.2	1.8
Less food and energy	.8	2.1	1.8	2.4
Median CPI	2.0	2.3	2.4	3.6
Trimmed mean CPI	1.7	2.3	2.5	2.7
Trimmed mean PCE	1.7	2.3	2.4	2.4

**Surveys of Inflation Expectations**

(Percent)

Period	Actual CPI inflation <sup>1</sup>	Reuters/University of 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	n.a.	n.a.	n.a.	n.a.	n.a.	2.4
Oct.	1.3	3.7	3.1	3.5	3.1	...
Nov.	2.0	3.3	3.0	3.5	3.0	2.5
Dec.	2.5	3.5	2.9	3.4	3.0	...
2007:Jan.	2.1	3.6	3.0	3.5	3.0	...
Feb.	n.a.	3.6	3.0	3.3	2.9	2.4

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

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

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

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

... Not applicable.

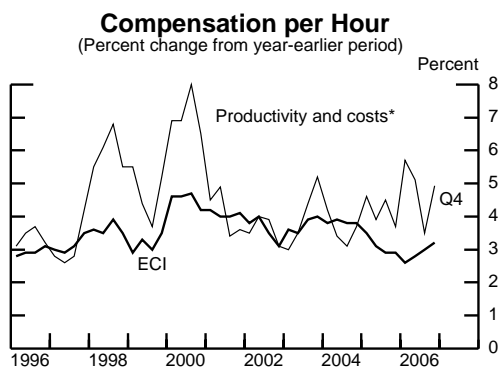
n.a. Not available.

### Hourly Compensation and Unit Labor Costs

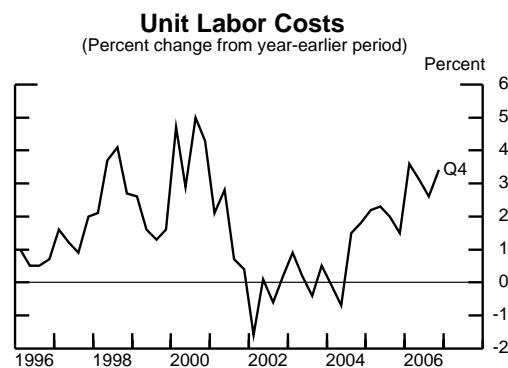
(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

Category	2004: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	3.4	9.1	-2.5	1.1	6.5

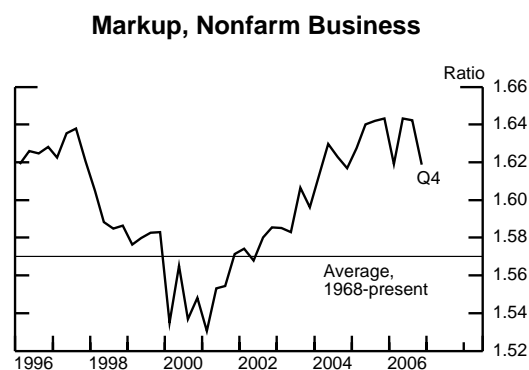
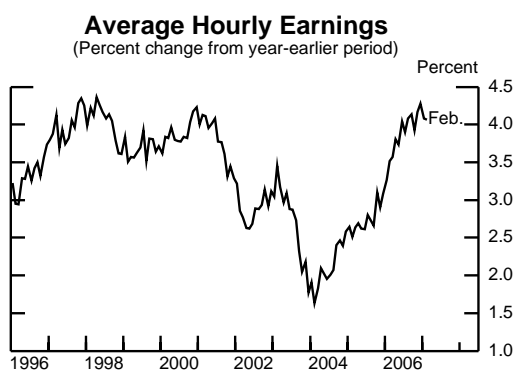
<sup>e</sup> Staff estimate.



\* 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	Q3	Q4	Q1 <sup>p</sup>
<i>Nonfinancial corporations</i>							
Stocks <sup>1</sup>	3.7	5.4	4.6	5.2	2.6	5.6	3.6
Initial public offerings	.4	1.6	1.7	1.9	.7	2.7	1.7
Seasoned offerings	3.3	3.8	2.8	3.3	1.9	2.9	1.9
Bonds <sup>2</sup>	31.6	22.7	19.1	30.3	20.7	38.3	22.8
Investment grade	15.9	8.2	8.4	14.4	10.5	12.7	10.0
Speculative grade	11.3	9.7	6.4	8.4	4.8	10.4	8.3
Other (sold abroad/unrated)	4.3	4.9	4.3	7.6	5.5	15.3	4.5
<i>Memo</i>							
Net issuance of commercial paper <sup>3</sup>	-3.4	1.5	-.4	3.4	-1.2	9.9	-2.1
Change in C&I loans at commercial banks <sup>3,4,5</sup>	-7.7	3.2	9.9	14.5	14.5	6.6	9.9
<i>Financial corporations</i>							
Stocks <sup>1</sup>	6.6	6.9	5.0	4.4	5.0	7.3	8.0
Bonds <sup>2</sup>	111.1	139.3	176.3	190.2	175.1	195.4	154.0

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.

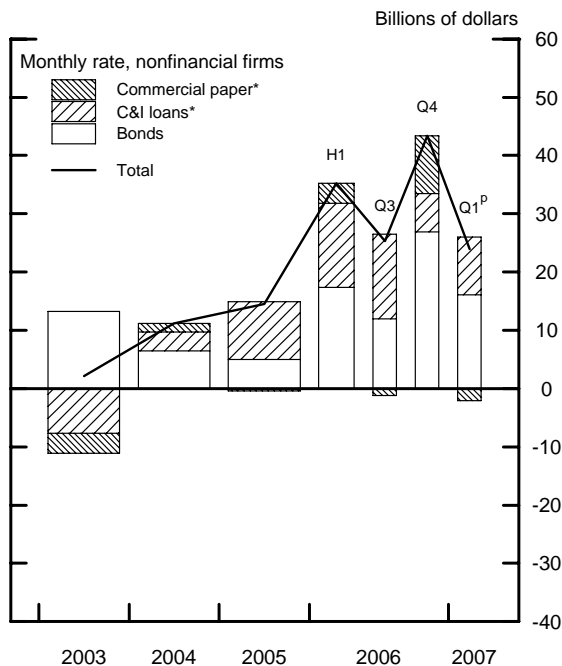
3. End-of-period basis, seasonally adjusted.

4. Adjusted for FIN 46 effects.

5. Adjusted to remove the effects of a consolidation of a sizable amount of thrift assets onto a commercial bank's books in October 2006.

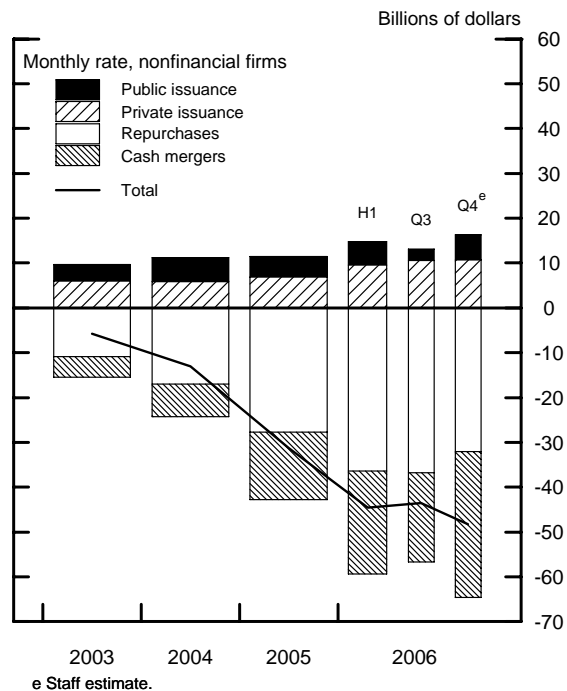
p Preliminary.

### Selected Components of Net Debt Financing



\* Seasonally adjusted, period-end basis.  
p Preliminary.

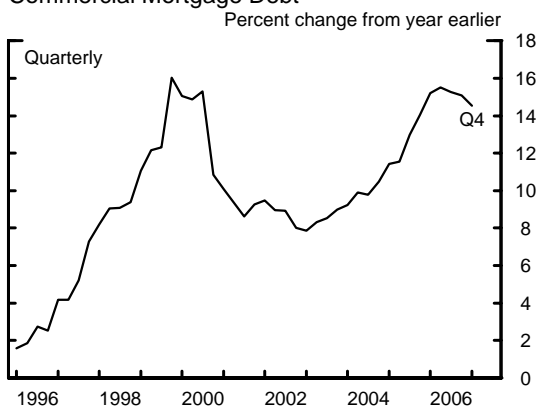
### Components of Net Equity Issuance



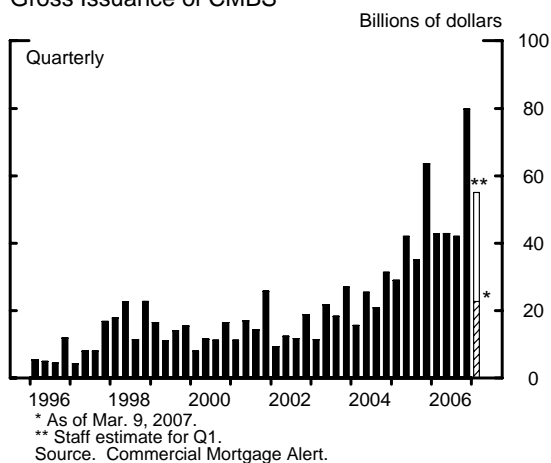
e Staff estimate.

## Commercial Real Estate

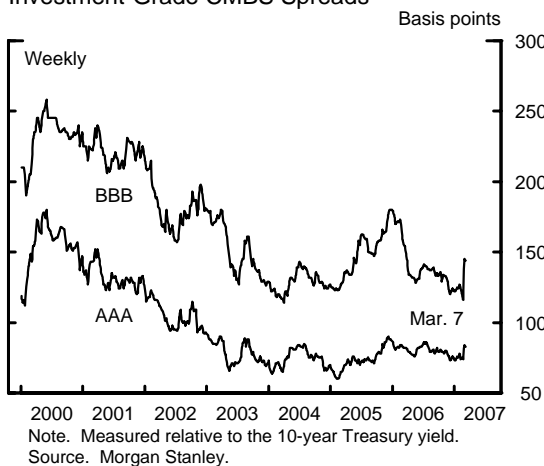
### Commercial Mortgage Debt



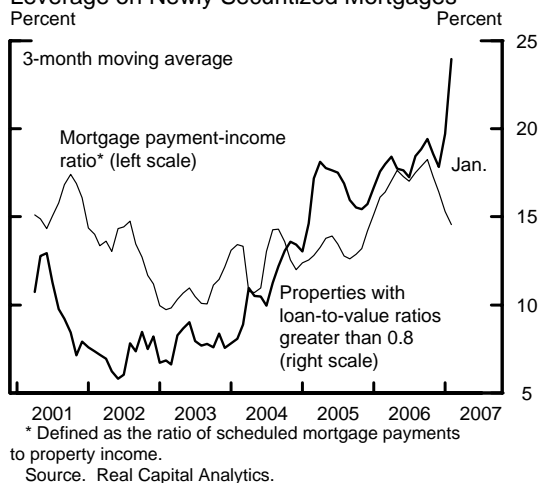
### Gross Issuance of CMBS



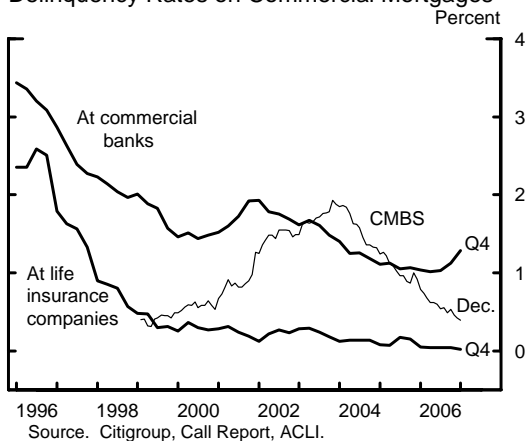
### Investment-Grade CMBS Spreads



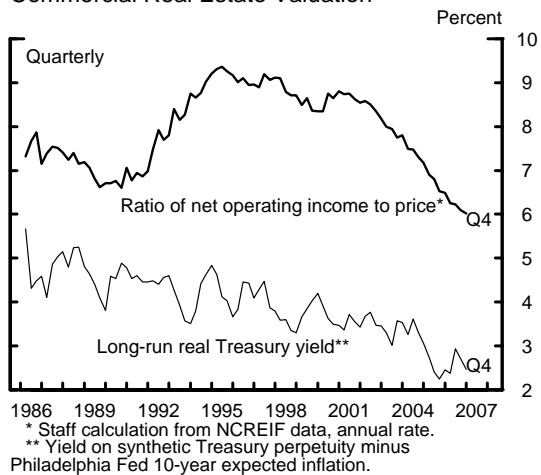
### Leverage on Newly Securitized Mortgages



### Delinquency Rates on Commercial Mortgages

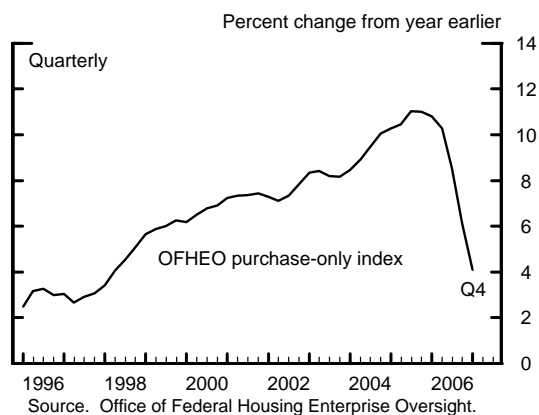


### Commercial Real Estate Valuation

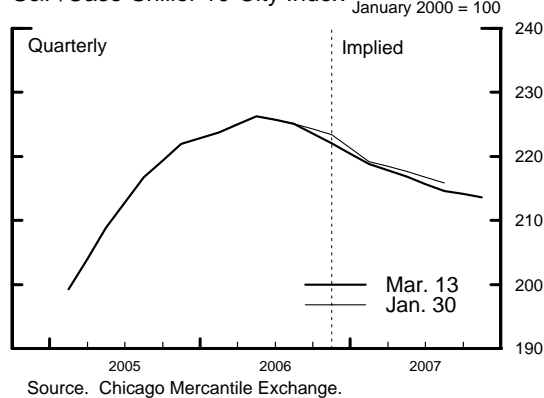


## Household Assets

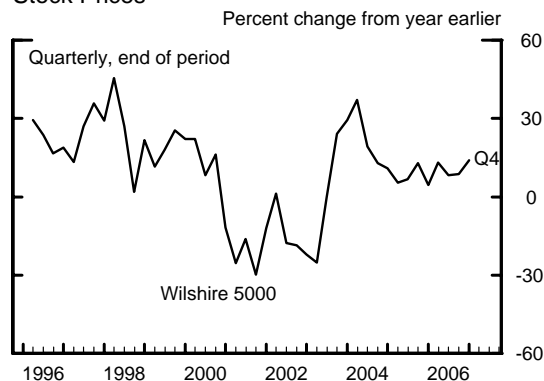
House Prices



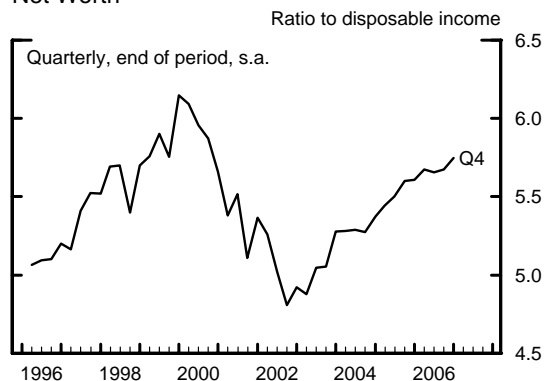
House-Price Path Implied by Futures on S&amp;P/Case-Shiller 10-City Index



Stock Prices



Net Worth



## Net Flows into Long-Term Mutual Funds

(Billions of dollars, monthly rate)

Fund type	2004	2005	2006	2006		2007		Assets Jan.
				Q3	Q4	Jan.	Feb. <sup>e</sup>	
<b>Total long-term funds</b>	<b>17.5</b>	<b>16.0</b>	<b>19.0</b>	<b>9.2</b>	<b>21.6</b>	<b>46.9</b>	<b>48.4</b>	<b>8,212</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>28.3</b>	<b>27.9</b>	<b>6,039</b>
Domestic	9.3	2.5	0.9	-3.6	-0.9	7.2	10.8	4,690
International	5.6	8.7	12.4	7.7	12.1	21.1	17.1	1,349
<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>3.4</b>	<b>3.3</b>	<b>663</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>15.2</b>	<b>17.2</b>	<b>1,510</b>
High-yield	-0.8	-1.3	-0.2	0.4	0.5	0.9	1.2	159
Other taxable	1.0	3.5	4.0	3.3	6.3	11.5	13.1	985
Municipals	-1.1	0.4	1.3	1.0	1.8	2.8	2.9	366

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)

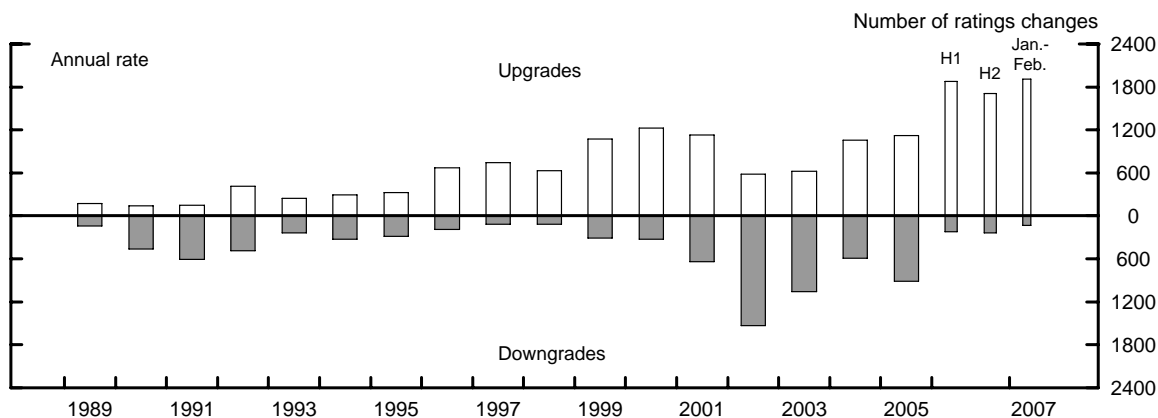
Type of security	2003	2004	2005	2006			2007
				H1	Q3	Q4	Q1 <sup>p</sup>
Total	37.9	34.7	38.4	32.9	34.6	44.1	36.5
Long-term <sup>1</sup>	32.0	29.8	34.1	30.0	29.1	40.6	34.6
Refundings <sup>2</sup>	10.0	10.8	15.5	9.7	8.0	14.6	15.0
New capital	22.1	19.0	18.7	20.3	21.1	26.0	19.6
Short-term	5.8	4.9	4.2	2.8	5.5	3.5	1.9
Memo: Long-term taxable	3.5	2.0	2.1	2.8	2.7	1.8	1.0

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

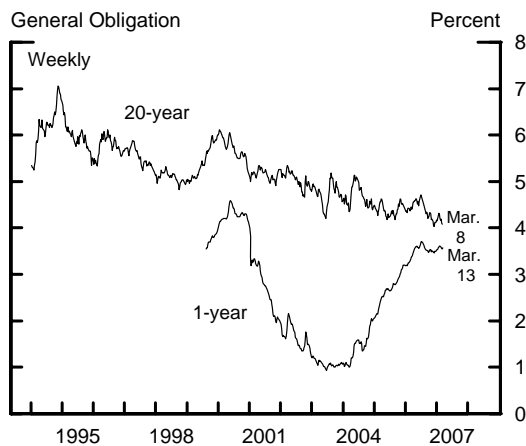
p Based on preliminary data through March 8, 2007.

### Ratings Changes



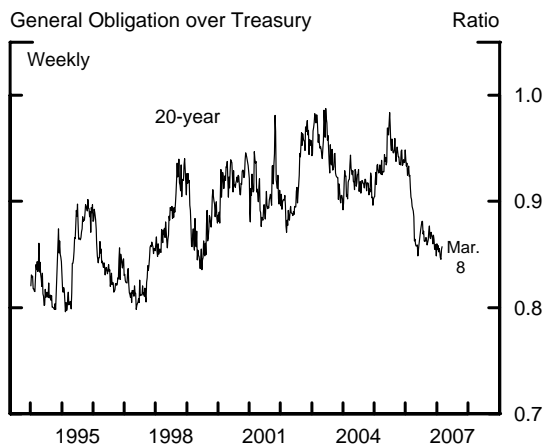
Source: S&P's Credit Week Municipal and Ratings Direct.

### 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		Feb. (p)
			Q3	Q4	Jan.	Feb. (p)	
M2	4.1	5.0	4.2	6.8	10.3	5.3	7,112
Components <sup>2</sup>							
Currency	3.6	3.6	1.1	3.1	1.1	-1.0	750
Liquid deposits <sup>3</sup>	2.0	.6	-1.2	2.7	10.6	4.0	4,349
Small time deposits	18.7	19.7	20.2	17.7	6.7	8.7	1,179
Retail money market funds	-.2	12.9	15.7	17.4	22.4	12.5	827
Memo:							
Institutional money market funds	4.9	15.7	17.2	20.9	-3.6	8.5	1,339
Monetary base	3.5	3.1	.7	2.5	1.4	-2.0	812

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.

p Preliminary.

March 16, 2007

# CURRENT ECONOMIC AND FINANCIAL CONDITIONS

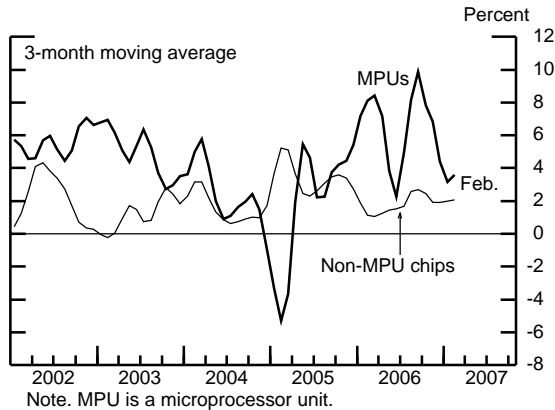
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## **Supplemental Notes**

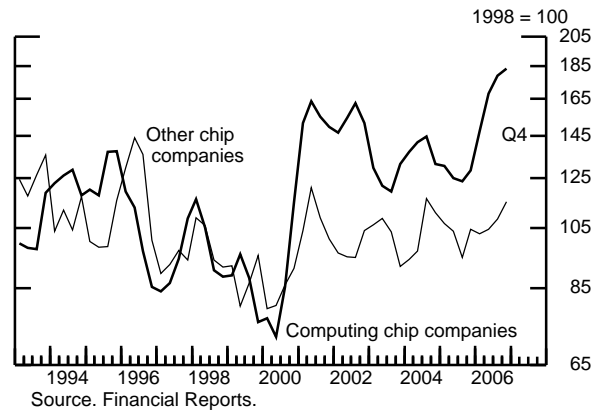
Prepared for the Federal Open Market Committee  
by the staff of the Board of Governors of the Federal Reserve System

## Indicators of High-Tech Manufacturing Activity

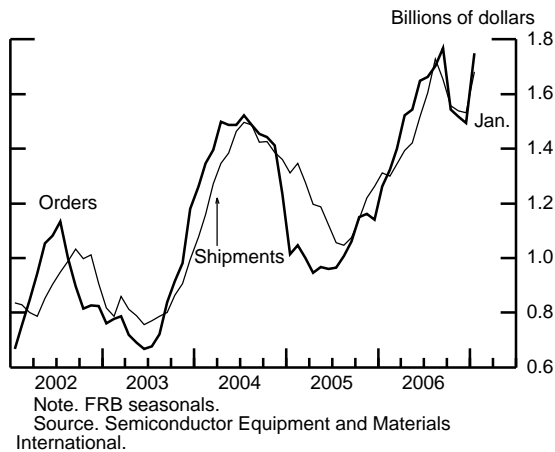
Rate of Change in Semiconductor Industrial Production



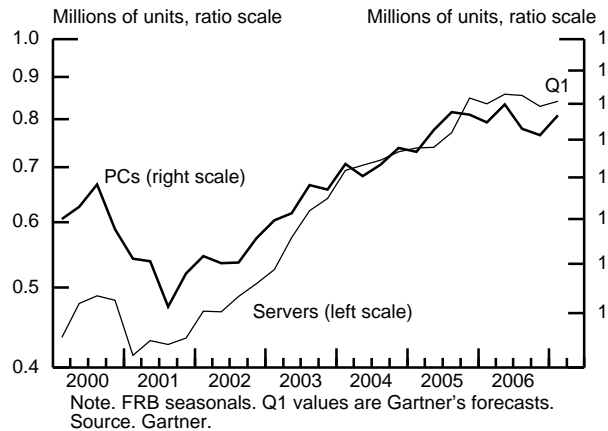
Day's Supply at Major Semiconductor Companies



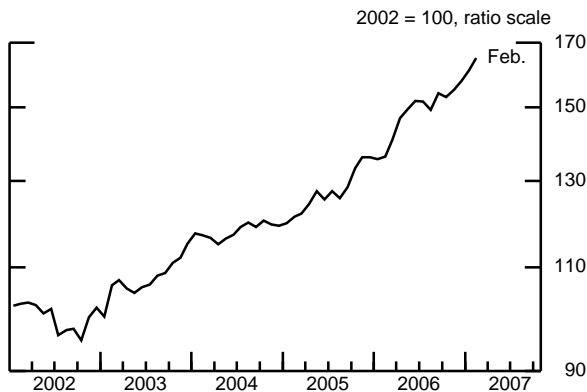
Bookings and Billings for Semiconductor Equipment



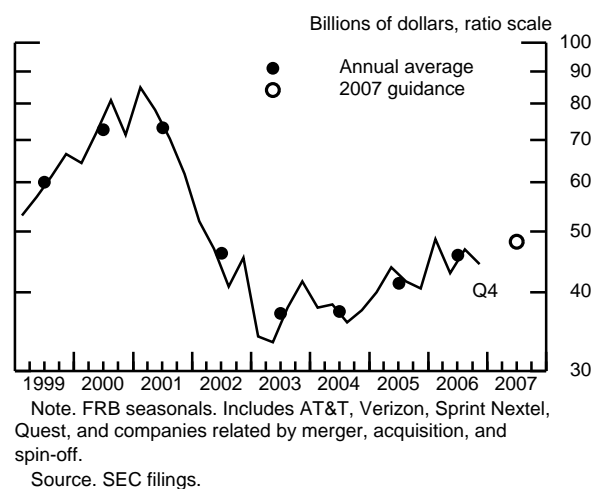
U.S. Personal Computer and Server Sales



IP: Communications Equipment



Capital Expenditures by Selected Telecommunications Service Providers



March 16, 2007

**Reuters/University of Michigan Survey of Consumers**  
Indexes of consumer sentiment  
(Not seasonally adjusted)

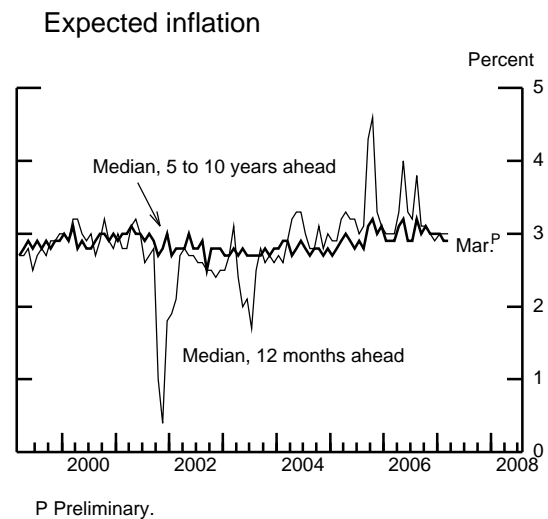
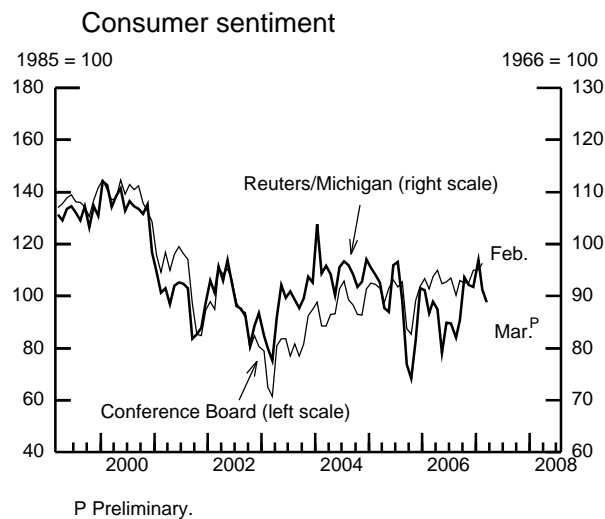
Category	2006					2007		
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar. <sup>P</sup>
Composite of current and expected conditions <sup>1</sup>	82.0	85.4	93.6	92.1	91.7	96.9	91.3	88.8
Current conditions <sup>1</sup>	103.8	96.6	107.3	106.0	108.1	111.3	106.7	103.6
Expected conditions <sup>1</sup>	68.0	78.2	84.8	83.2	81.2	87.6	81.5	79.3
Personal financial situation								
Now compared with 12 months ago <sup>2</sup>	109	99	118	119	119	123	119	111
Expected in 12 months <sup>2</sup>	112	122	131	125	124	127	122	124
Expected business conditions								
Next 12 months <sup>2</sup>	75	99	113	112	105	118	106	97
Next 5 years <sup>2</sup>	84	92	97	97	97	107	98	97
Appraisal of buying conditions								
Cars	124	128	137	140	140	136	133	140
Large household appliances <sup>2</sup>	160	151	160	156	161	166	158	157
Houses	117	116	129	134	132	141	133	142
Expected unemployment change - next 12 months	130	125	122	121	121	115	125	123
Prob. household will lose a job - next 5 years	19	23	22	23	22	20	19	22
Expected inflation - next 12 months								
Mean	4.6	3.6	3.7	3.3	3.5	3.6	3.6	3.7
Median	3.8	3.1	3.1	3.0	2.9	3.0	3.0	3.0
Expected inflation - next 5 to 10 years								
Mean	3.5	3.2	3.5	3.5	3.4	3.5	3.3	3.4
Median	3.2	3.0	3.1	3.0	3.0	3.0	2.9	2.9

Note. Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall, plus 100.

P Preliminary.

1. Feb. 1966 = 100.

2. Indicates the question is one of the five equally-weighted components of the index of sentiment.



**Price Measures**  
(Percent change)

Measures	12-month change		3-month change		1-month change	
	Feb. 2006	Feb. 2007	Annual rate		Monthly rate	
			Nov. 2006	Feb. 2007	Jan. 2007	Feb. 2007
<i>CPI</i>						
<b>Total</b>	<b>3.6</b>	<b>2.4</b>	<b>-3.7</b>	<b>4.0</b>	<b>.2</b>	<b>.4</b>
Food	2.8	3.1	2.1	6.1	.7	.8
Energy	20.1	-1.0	-44.5	14.9	-1.5	.9
<b>Ex. food and energy</b>	<b>2.1</b>	<b>2.7</b>	<b>1.8</b>	<b>2.6</b>	<b>.3</b>	<b>.2</b>
Core goods	.0	.0	-2.5	.7	.1	.1
Core services	2.9	3.8	3.5	3.5	.3	.3
Shelter	2.6	4.3	4.2	3.8	.3	.3
Other services	3.3	3.0	2.3	3.1	.3	.3
Chained CPI (n.s.a.) <sup>1</sup>	3.2	2.2	...	...	...	...
Ex. food and energy <sup>1</sup>	1.8	2.4	...	...	...	...
<i>PCE prices</i> <sup>2</sup>						
<b>Total</b>	<b>3.0</b>	<b>2.3</b>	<b>-2.0</b>	<b>3.8</b>	<b>.2</b>	<b>.4</b>
Food and beverages	2.5	3.0	1.9	5.4	.7	.7
Energy	19.8	-1.0	-45.9	15.0	-1.6	.8
<b>Ex. food and energy</b>	<b>2.0</b>	<b>2.4</b>	<b>1.7</b>	<b>2.9</b>	<b>.3</b>	<b>.3</b>
Core goods	-.5	.1	-1.7	.7	.2	.1
Core services	3.0	3.4	3.1	3.7	.3	.4
Shelter	2.7	4.4	4.2	3.7	.3	.3
Other services	3.2	3.1	2.7	3.8	.3	.5
Core market-based	1.6	2.2	1.4	2.5	.2	.3
Core non-market-based	3.9	n.a.	3.0	n.a.	.4	n.a.
<i>PPI</i>						
<b>Total finished goods</b>	<b>3.9</b>	<b>2.5</b>	<b>-4.1</b>	<b>6.4</b>	<b>-.6</b>	<b>1.3</b>
Food	-1.0	6.8	-.5	19.0	1.1	1.9
Energy	17.3	.0	-23.3	3.7	-4.6	3.5
<b>Ex. food and energy</b>	<b>1.7</b>	<b>1.8</b>	<b>2.5</b>	<b>3.0</b>	<b>.2</b>	<b>.4</b>
Core consumer goods	1.7	1.6	2.2	3.4	.2	.5
Capital equipment	1.6	2.2	3.3	2.7	.2	.3
Intermediate materials	8.0	2.5	-6.5	4.0	-.7	1.1
Ex. food and energy	4.7	3.7	-1.0	.7	.0	.2
Crude materials	12.6	9.3	-1.2	21.5	-6.3	8.9
Ex. food and energy	11.9	17.9	-3.8	21.4	1.6	2.7

1. Higher-frequency figures are not applicable for data that are not seasonally adjusted.

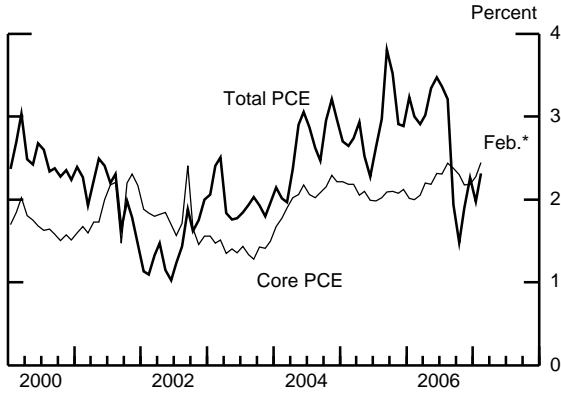
2. PCE prices in February 2007 are staff estimates.

... Not applicable.

n.a. Not available.

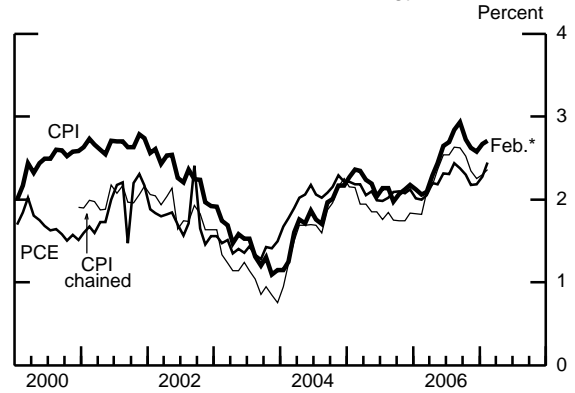
## Consumer Prices (12-month change except as noted)

PCE Prices



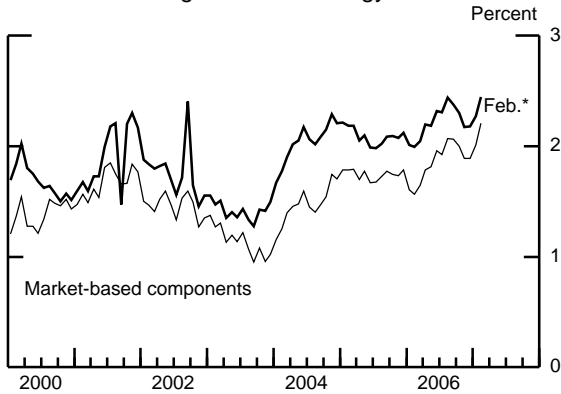
\* Staff estimate.

CPI and PCE ex. Food and Energy



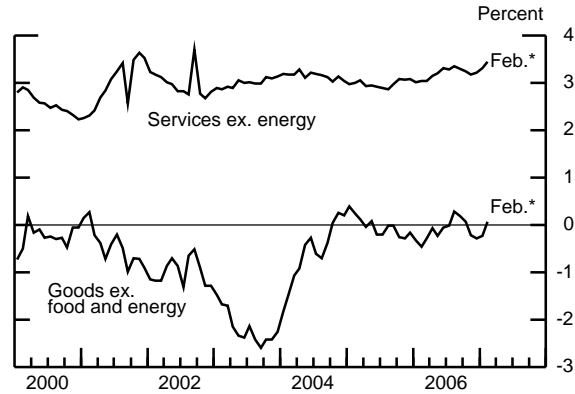
\* PCE for February is a staff estimate.

PCE excluding Food and Energy



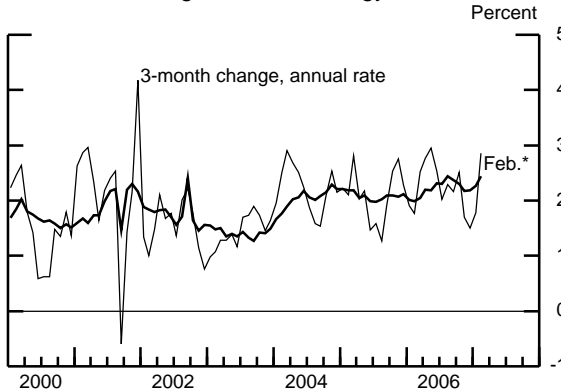
\* Staff estimate.

PCE Goods and Services



\* Staff estimate.

PCE excluding Food and Energy



\* Staff estimate.

CPI excluding Food and Energy

