

Part 1

January 23, 2008

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

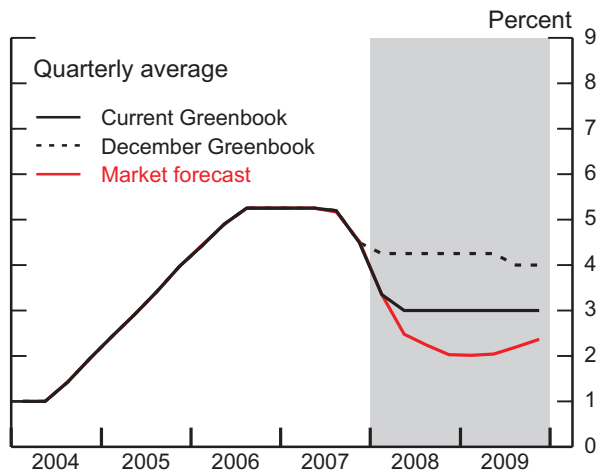
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Summary and Outlook

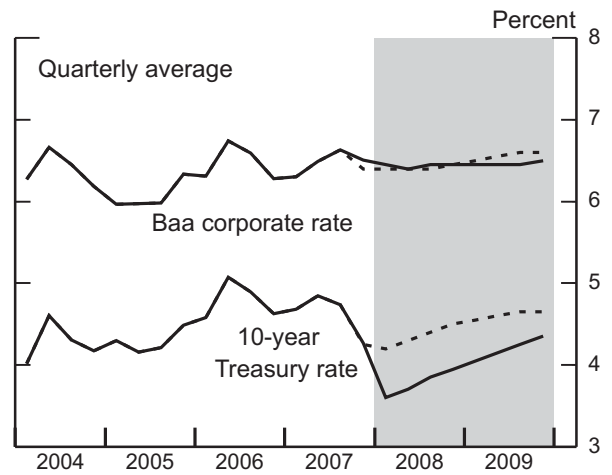
Class II FOMC -- Restricted (FR)

Key Background Factors Underlying the Baseline Staff Projection

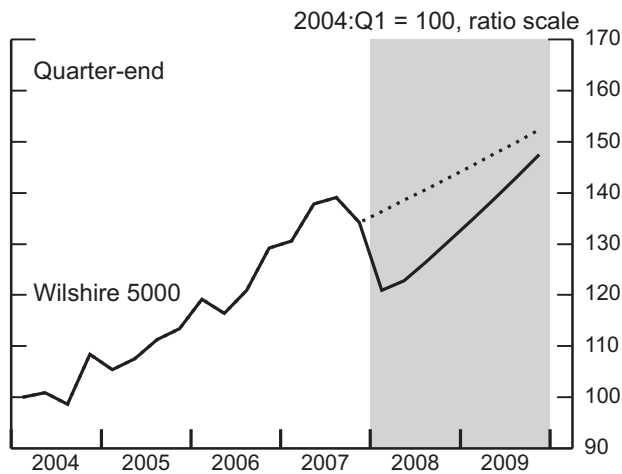
Federal Funds Rate



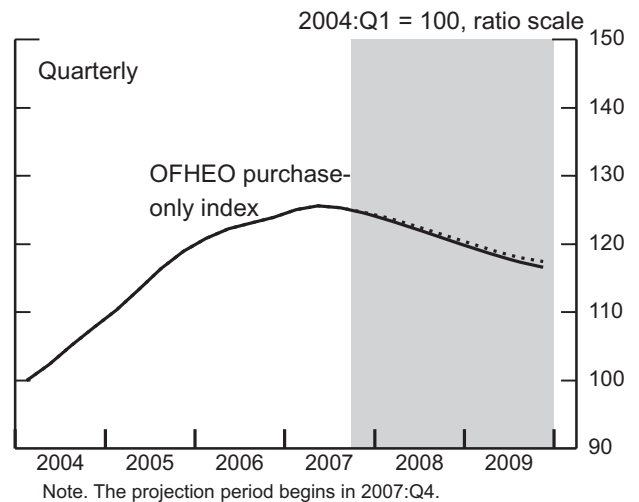
Long-Term Interest Rates



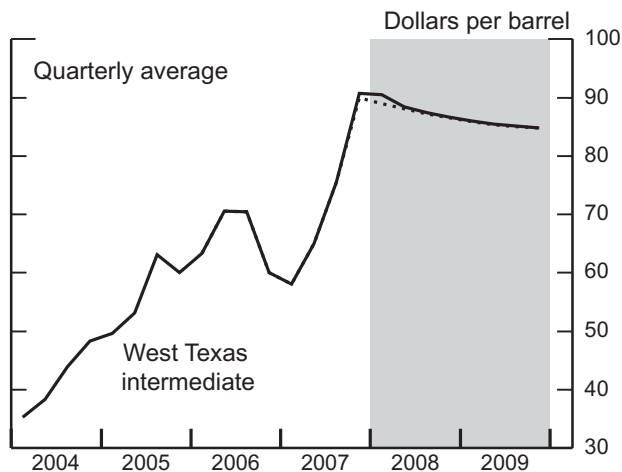
Equity Prices



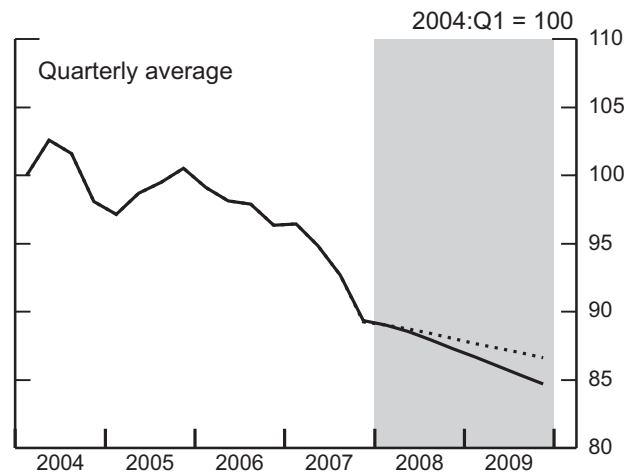
House Prices



Crude Oil Prices



Broad Real Dollar



Note. In each panel, shading represents the projection period, which begins in 2008:Q1, except as noted.

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

Measure	2007:Q4		2008:Q1	
	Dec. GB	Jan. GB	Dec. GB	Jan. GB
Real GDP	.1	.5	.7	.6
Private domestic final purchases	-.2	.9	-.3	-.9
Personal consumption expenditures	1.3	2.2	1.4	1.3
Residential investment	-30.0	-30.6	-28.7	-33.1
Business fixed investment	4.4	7.4	.9	-1.1
Government outlays for consumption and investment	2.4	4.0	2.2	1.6
	Contribution to growth (percentage points)			
Inventory investment	-.4	-1.3	.2	.9
Net exports	.1	.2	.3	.1

weakness. Even so, our projection for real GDP growth in the first and second quarters—at annual rates of ½ percent and 1¼ percent—is lower than in the December Greenbook.

The output of the industrial sector declined in the fourth quarter as manufacturers adjusted production promptly in response to signs of softer demand. The fourth-quarter slowdown was fairly widespread but was most pronounced in motor vehicle production and construction-related industries. Automakers' schedules call for vehicle assemblies to remain low this quarter, and many near-term indicators of manufacturing IP, including regional business surveys and durable goods orders, have deteriorated. We therefore look for factory output to edge down again in the first quarter. With this path of output, capacity utilization in manufacturing is expected to move down to about 79 percent this quarter from the recent high of 80½ percent in the third quarter of 2007.

The labor market deteriorated in December, as private payroll employment declined 13,000 and the unemployment rate moved up 0.3 percentage point to 5 percent. We have weakened our labor market projection in response to this news, and we now expect essentially no growth in private employment in the first half of this year. We expect the unemployment rate to remain at 5 percent through March and to edge up to 5.1 percent in the second quarter.

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

Measure	2007: H2	2008: H1	2008	2009
Real GDP	2.7	.9	1.5	2.2
Previous	2.5	1.0	1.3	2.1
Final sales	2.9	.5	1.7	1.7
Previous	2.2	1.2	1.3	2.1
PCE	2.5	1.1	2.3	1.4
Previous	2.0	1.4	1.5	2.2
Residential investment	-25.7	-29.4	-20.2	-1.4
Previous	-25.3	-22.6	-14.6	-2.3
BFI	8.4	-.6	.5	2.8
Previous	7.3	.6	.6	2.4
Government purchases	3.9	1.7	1.4	.9
Previous	3.1	2.1	1.6	.8
Exports	11.6	7.0	7.2	7.3
Previous	13.0	7.0	7.0	6.7
Imports	3.2	.7	1.9	3.8
Previous	4.3	.7	2.1	4.1
Contribution to growth (percentage points)				
Inventory change	-.2	.4	-.1	.5
Previous	.3	-.2	.0	.0
Net exports	.8	.7	.5	.3
Previous	.7	.7	.5	.1

for the path of consumer spending is also heavily influenced by the income tax rebates that are part of our fiscal stimulus package. We expect the rebates to boost consumer spending growth sharply in the second half of this year because a large share of these rebates are assumed to go to so-called rule-of-thumb households, which we believe will spend them quickly. In the first half of next year, consumption nearly flattens out as spending returns to a more sustainable long-run level. Growth of real PCE then returns to a 2½ percent annual rate in the second half of next year. Averaging through the effects of the rebates on spending, this projection is about the same as in the December Greenbook, because the boost from the higher estimate of potential output growth and the additional

Decomposition of Structural Labor Productivity**Nonfarm Business Sector**

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

Measure	1974-95	1996-2000	2001-05	2006	2007	2008	2009
Structural labor productivity	1.5	2.5	2.8	2.1	2.0	1.9	1.9
Previous	1.5	2.5	2.7	2.0	1.9	1.8	1.8
<i>Contributions¹</i>							
Capital deepening	.7	1.4	.7	.7	.6	.5	.5
Previous	.7	1.4	.7	.7	.6	.6	.5
Multifactor productivity	.5	.7	1.8	1.2	1.2	1.2	1.2
Previous	.5	.7	1.8	1.1	1.1	1.1	1.1
Labor composition	.3	.3	.3	.2	.2	.2	.1
MEMO							
Potential GDP	3.0	3.3	2.7	2.4	2.4	2.3	2.3
Previous	3.0	3.3	2.7	2.2	2.2	2.2	2.1

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	2006	2007	2008	2009
Output per hour, nonfarm business	.9	2.7	1.6	1.9
Previous	.9	2.3	1.3	1.9
Nonfarm private payroll employment	1.8	1.1	.2	.7
Previous	1.8	1.2	.4	.7
Household survey employment	2.1	.4	.3	.8
Previous	2.1	.4	.6	.8
Labor force participation rate ¹	66.3	66.0	65.7	65.5
Previous	66.3	65.9	65.7	65.5
Civilian unemployment rate ¹	4.4	4.8	5.1	5.2
Previous	4.5	4.7	4.9	5.0
MEMO				
GDP gap ²	.1	.1	-.7	-.8
Previous	.4	.5	-.4	-.4

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	2006	2007	2008	2009
PCE chain-weighted price index	1.9	3.4	2.2	1.7
Previous	1.9	3.2	2.0	1.7
Food and beverages	2.3	4.4	2.3	2.0
Previous	2.3	4.6	2.2	2.0
Energy	-4.0	18.8	3.2	-1.0
Previous	-4.0	18.6	1.8	-1.3
Excluding food and energy	2.3	2.1	2.1	1.9
Previous	2.3	2.0	2.0	1.9
Consumer price index	1.9	4.0	2.4	1.8
Previous	1.9	3.9	2.2	1.8
Excluding food and energy	2.7	2.3	2.3	2.1
Previous	2.7	2.3	2.2	2.1
GDP chain-weighted price index	2.7	2.6	2.2	1.9
Previous	2.7	2.4	2.2	2.0
ECI for compensation of private industry workers ¹	3.2	3.2	3.7	3.6
Previous	3.2	3.2	3.7	3.7
Compensation per hour, nonfarm business sector	5.0	3.9	4.4	4.1
Previous	5.0	3.7	4.5	4.2
Prices of core nonfuel imports	2.4	3.1	1.7	1.2
Previous	2.4	2.9	1.1	.9

1. December to December.

increase about 4½ percent this year—its average over 2006 and 2007—and then to decelerate to a 4 percent pace in 2009 in response to slack in resource utilization and moderating headline inflation. For the employment cost index, which has been running well below the nonfarm compensation measure, we project increases of about 3¾ percent this year and 3½ percent in 2009.

The Long-Term Outlook

We have extended the staff forecast to 2012 using the FRB/US model, adjusted to incorporate those elements of the medium-term outlook that we assess to be persistent. The contour of the long-run extension depends on several key assumptions

The Long-Term Outlook

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

Measure	2007	2008	2009	2010	2011	2012
Real GDP	2.4	1.5	2.2	2.7	2.7	2.5
Civilian unemployment rate ¹	4.8	5.1	5.2	5.0	4.9	4.8
Total PCE prices	3.4	2.2	1.7	1.8	1.8	1.8
Core PCE prices	2.1	2.1	1.9	1.9	1.8	1.8
Federal funds rate ¹	4.5	3.0	3.0	3.0	3.7	4.0

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

- Monetary policy is assumed to aim at stabilizing PCE inflation at 1¾ percent, the midpoint of the range of longer-term inflation forecasts provided by FOMC participants in October.
- Fiscal policy is an essentially neutral factor in the extended outlook. The deficit of the federal government remains about flat as a percent of GDP, while the fiscal balance of state and local governments improves somewhat.
- Beyond 2009, foreign real GDP expands 3¼ percent per year while the dollar depreciates 1¼ percent per year in real terms; real oil prices are roughly flat, as is consistent with far-dated futures prices. Under these assumptions, the current account deficit diminishes to about 4¼ percent of GDP by 2012, and movements in energy and import prices have only minor implications for domestic inflation.
- The NAIRU remains flat at 4¾ percent, and potential GDP expands about 2¼ percent per year from 2010 to 2012.

Together, these assumptions imply that real GDP expands about 2½ percent per year, on average, from 2010 to 2012, a touch above the increase in potential GDP, and the unemployment rate moves down toward the NAIRU. Inflation settles in at 1¾ percent per year. In 2010, with the unemployment rate above the NAIRU and inflation slowing, monetary policy remains accommodative. Thereafter, the nominal federal funds rate rises gradually, reaching about 4 percent by the end of 2012. The real federal funds rate reaches 2¼ percent, a level we judge to be roughly neutral in the medium-to-long run.

Financial Flows and Conditions

Domestic nonfinancial debt is expected to increase at an annual rate of 5¼ percent this quarter, a big step down from the 8¼ percent rise in 2007. We expect debt growth to moderate further to an average annual rate of 4¾ percent through 2009, reflecting a

Alternative Scenarios

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

Measure and scenario	2007	2008		2009	2010	2011-12
	H2	H1	H2			
<i>Real GDP</i>						
Greenbook baseline	2.7	0.9	2.2	2.2	2.7	2.6
Recession	2.7	-0.8	-0.1	2.1	3.8	3.3
No fiscal stimulus	2.7	0.9	1.4	2.5	2.7	2.6
Persistent weakness	2.7	0.8	1.8	1.3	2.4	2.9
Faster recovery	2.7	1.1	2.6	2.9	2.9	2.4
Worker insecurity	2.7	0.7	2.0	2.2	3.1	2.9
Unanchored inflation expectations	2.7	0.9	2.2	2.3	2.6	2.5
Market-based federal funds rate	2.7	0.9	2.5	2.8	.	.
<i>Civilian unemployment rate</i> ¹						
Greenbook baseline	4.8	5.1	5.1	5.2	5.0	4.8
Recession	4.8	5.3	5.7	6.1	5.6	4.7
No fiscal stimulus	4.8	5.1	5.2	5.3	5.0	4.8
Persistent weakness	4.8	5.1	5.2	5.6	5.5	5.0
Faster recovery	4.8	5.1	5.0	4.9	4.6	4.6
Worker insecurity	4.8	5.1	5.2	5.3	5.0	4.5
Unanchored inflation expectations	4.8	5.1	5.1	5.2	5.0	4.9
Market-based federal funds rate	4.8	5.1	5.1	5.0	.	.
<i>Core PCE inflation</i>						
Greenbook baseline	2.4	2.3	2.0	1.9	1.9	1.8
Recession	2.4	2.3	2.0	1.7	1.6	1.4
No fiscal stimulus	2.4	2.3	2.0	1.9	1.9	1.8
Persistent weakness	2.4	2.3	2.0	2.0	1.9	1.7
Faster recovery	2.4	2.3	2.0	1.9	1.9	1.9
Worker insecurity	2.4	2.3	1.9	1.7	1.6	1.5
Unanchored inflation expectations	2.4	2.3	2.3	2.3	2.3	2.2
Market-based federal funds rate	2.4	2.3	2.1	2.1	.	.
<i>Federal funds rate</i> ¹						
Greenbook baseline	4.5	3.0	3.0	3.0	3.0	4.0
Recession	4.5	2.3	1.2	0.8	2.0	4.0
No fiscal stimulus	4.5	3.0	3.0	3.0	2.9	3.9
Persistent weakness	4.5	3.0	2.7	1.9	1.7	3.3
Faster recovery	4.5	3.0	3.2	3.8	3.9	4.4
Worker insecurity	4.5	2.9	2.8	2.6	2.7	4.1
Unanchored inflation expectations	4.5	3.0	3.1	3.5	3.6	4.3
Market-based federal funds rate	4.5	2.5	2.0	2.4	.	.

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

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

Measure	2008	2009	2010	2011	2012
<i>Real GDP</i> (percent change, Q4 to Q4)					
Projection	1.5	2.2	2.7	2.7	2.5
Confidence interval					
Greenbook forecast errors	.0–3.0	.7–3.6	...	...	...
FRB/US stochastic simulations	.4–2.7	.8–3.7	1.1–4.4	.9–4.5	.7–4.2
<i>Civilian unemployment rate</i> (percent, Q4)					
Projection	5.1	5.2	5.0	4.9	4.8
Confidence interval					
Greenbook forecast errors	4.7–5.6	4.3–6.1	...	...	...
FRB/US stochastic simulations	4.7–5.6	4.6–5.7	4.3–5.7	4.1–5.6	3.9–5.6
<i>PCE prices, total</i> (percent change, Q4 to Q4)					
Projection	2.2	1.7	1.8	1.8	1.8
Confidence interval					
Greenbook forecast errors	1.4–3.0	.8–2.7	...	...	...
FRB/US stochastic simulations	1.5–3.0	.9–2.6	.9–2.8	.8–2.9	.8–2.9
<i>PCE prices excluding food and energy</i> (percent change, Q4 to Q4)					
Projection	2.1	1.9	1.9	1.8	1.8
Confidence interval					
Greenbook forecast errors	1.5–2.7	1.1–2.8	...	...	...
FRB/US stochastic simulations	1.7–2.5	1.3–2.6	1.2–2.6	1.1–2.7	1.1–2.7
<i>Federal funds rate</i> (percent, Q4)					
Projection	3.0	3.0	3.0	3.7	4.0
Confidence interval					
FRB/US stochastic simulations	2.0–4.0	1.6–4.6	1.6–4.7	2.2–5.6	2.4–5.9

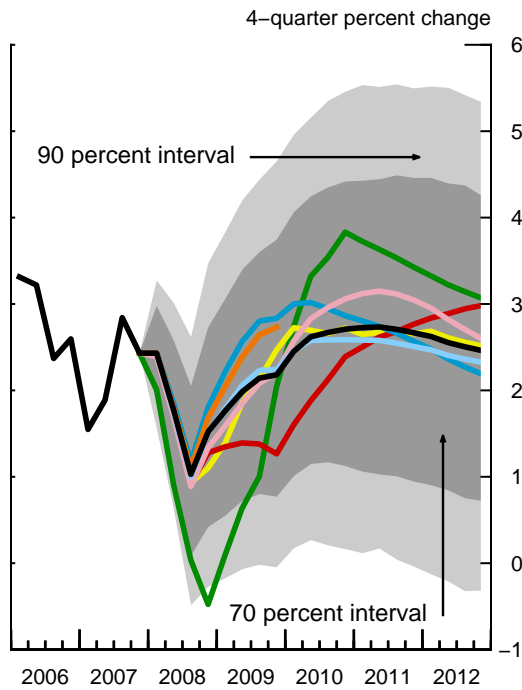
Note: Intervals derived from Greenbook forecast errors are based on projections made from 1986-2006. Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1986-2006 set of model equation residuals.

... Not applicable. The Greenbook forecast horizon has typically extended about two years.

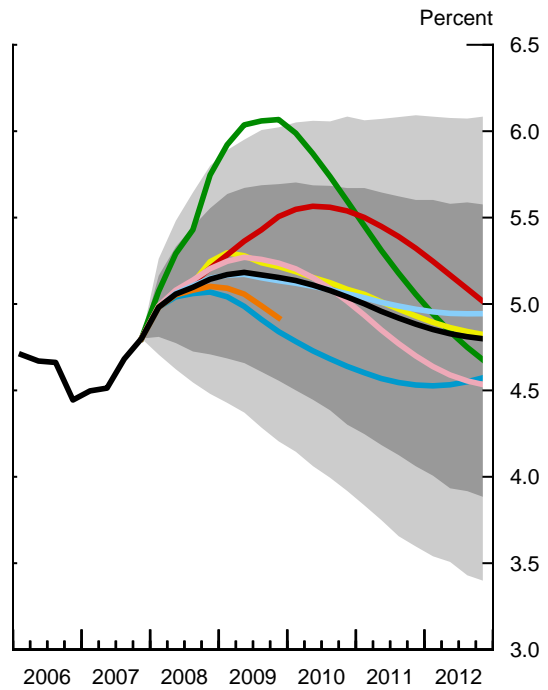
Forecast Confidence Intervals and Alternative Scenarios

- | | | |
|----------------------|-----------------------|-------------------------------------|
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| ■ Recession | ■ Faster recovery | ■ Market-based federal funds rate |
| ■ No fiscal stimulus | ■ Worker insecurity | |

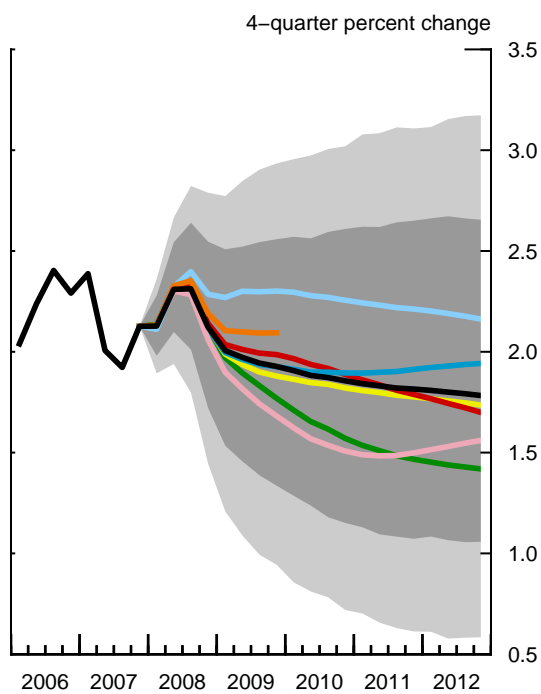
Real GDP



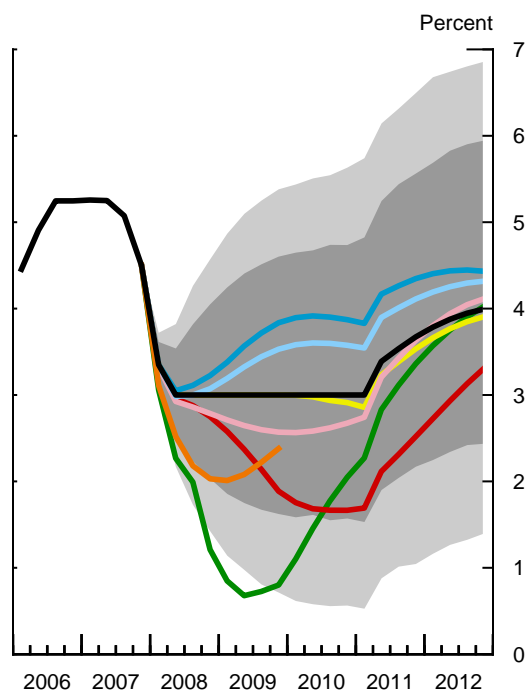
Unemployment Rate



PCE Prices excluding Food and Energy



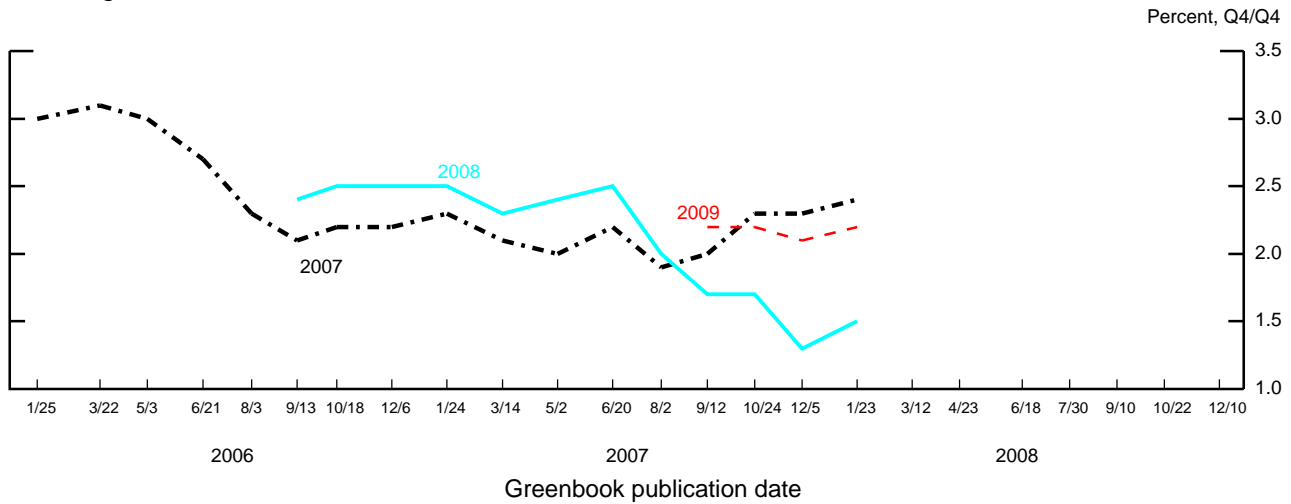
Federal Funds Rate



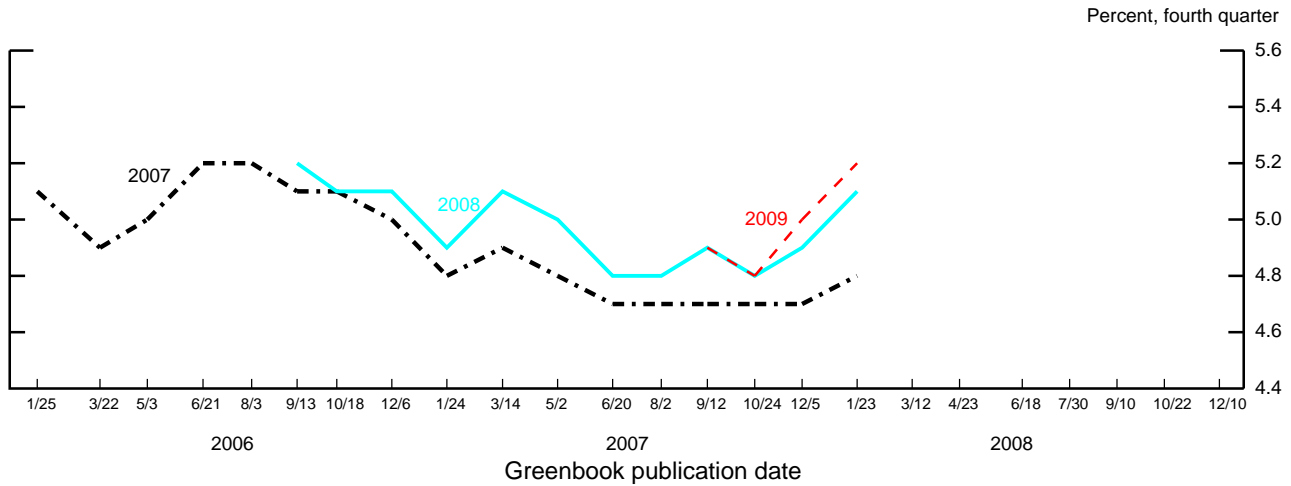
Class II FOMC - Restricted (FR)

Evolution of the Staff Forecast

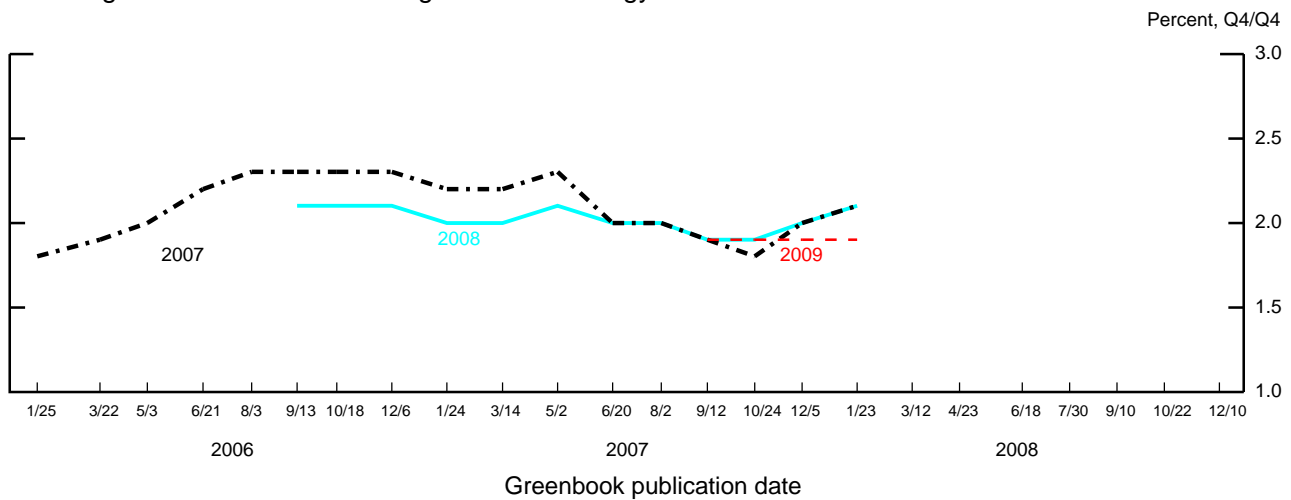
Change in Real GDP



Unemployment Rate



Change in PCE Prices excluding Food and Energy



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

Interval	Nominal GDP		Real GDP		PCE price index		Core PCE price index		Unemployment rate ¹	
	12/05/07	01/23/08	12/05/07	01/23/08	12/05/07	01/23/08	12/05/07	01/23/08	12/05/07	01/23/08
<i>Quarterly</i>										
2007:Q1	4.9	4.9	.6	.6	3.5	3.5	2.4	2.4	4.5	4.5
Q2	6.6	6.6	3.8	3.8	4.3	4.3	1.4	1.4	4.5	4.5
Q3	5.9	6.0	5.0	4.9	1.7	1.8	1.8	2.0	4.7	4.7
Q4	1.9	2.8	.1	.5	3.5	3.9	2.2	2.7	4.7	4.8
2008:Q1	3.2	3.3	.7	.6	2.5	3.0	2.1	2.4	4.8	5.0
Q2	3.6	3.2	1.4	1.2	2.0	2.1	2.0	2.1	4.8	5.1
Q3	3.5	3.9	1.5	1.9	1.8	2.0	2.0	2.0	4.9	5.1
Q4	3.7	4.5	1.7	2.4	1.7	1.8	1.9	2.0	4.9	5.1
2009:Q1	4.0	3.7	1.9	1.6	1.7	1.8	1.9	2.0	4.9	5.2
Q2	4.2	4.1	2.1	2.0	1.7	1.8	1.9	2.0	5.0	5.2
Q3	4.1	4.4	2.1	2.5	1.7	1.7	1.9	1.9	5.0	5.2
Q4	4.0	4.5	2.1	2.6	1.7	1.7	1.9	1.9	5.0	5.2
<i>Two-quarter²</i>										
2007:Q2	5.7	5.7	2.2	2.2	3.9	3.9	1.9	1.9	.0	.1
Q4	3.9	4.4	2.5	2.7	2.6	2.9	2.0	2.4	.2	.3
2008:Q2	3.4	3.2	1.0	.9	2.3	2.5	2.0	2.3	.1	.3
Q4	3.6	4.2	1.6	2.2	1.8	1.9	1.9	2.0	.1	.0
2009:Q2	4.1	3.9	2.0	1.8	1.7	1.8	1.9	2.0	.1	.1
Q4	4.1	4.4	2.1	2.6	1.7	1.7	1.9	1.9	.0	.0
<i>Four-quarter³</i>										
2006:Q4	5.4	5.4	2.6	2.6	1.9	1.9	2.3	2.3	-.5	-.5
2007:Q4	4.8	5.0	2.3	2.4	3.2	3.4	2.0	2.1	.2	.4
2008:Q4	3.5	3.7	1.3	1.5	2.0	2.2	2.0	2.1	.2	.3
2009:Q4	4.1	4.2	2.1	2.2	1.7	1.7	1.9	1.9	.1	.0
<i>Annual</i>										
2006	6.1	6.1	2.9	2.9	2.8	2.8	2.2	2.2	4.6	4.6
2007	4.8	4.9	2.2	2.2	2.5	2.5	2.1	2.1	4.6	4.6
2008	3.6	3.9	1.6	1.7	2.5	2.7	2.0	2.2	4.8	5.1
2009	3.9	4.0	1.9	2.0	1.8	1.8	1.9	2.0	5.0	5.2

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

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

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

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

Item	2007				2008				2009				2007 ¹	2008 ¹	2009 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous</i>	.6	3.8	4.9	.5	.6	1.2	1.9	2.4	1.6	2.0	2.5	2.6	2.4	1.5	2.2
Final sales <i>Previous</i>	.6	3.8	5.0	.1	.7	1.4	1.5	1.7	1.9	2.1	2.1	2.1	2.3	1.3	2.1
Priv. dom. final purch. <i>Previous</i>	1.3	3.6	4.0	1.7	-3	1.4	2.9	2.7	.4	1.9	2.8	1.8	2.6	1.7	1.7
	1.3	3.6	4.0	.4	.4	1.9	1.7	1.1	1.7	2.7	2.6	1.4	2.3	1.3	2.1
	2.2	1.7	2.2	.9	-9	-4	2.4	2.9	.3	.8	2.4	2.4	1.7	1.0	1.5
	2.2	1.7	2.1	-2	-3	.4	.9	1.3	1.8	2.0	2.2	2.2	1.5	.6	2.1
Personal cons. expend. <i>Previous</i>	3.7	1.4	2.8	2.2	1.3	1.0	3.4	3.4	.1	.7	2.4	2.4	2.5	2.3	1.4
Durables	3.7	1.4	2.7	1.3	1.4	1.4	1.5	1.7	2.0	2.2	2.3	2.3	2.3	1.5	2.2
Nondurables	8.8	1.7	4.5	5.2	-2.0	1.5	6.0	4.3	.5	-2	3.3	3.2	5.0	2.4	1.7
Services	3.0	-5	2.2	1.7	1.2	1.3	2.4	2.7	.5	.5	2.1	2.1	1.6	1.9	1.3
	3.1	2.3	2.8	1.9	1.9	.8	3.4	3.6	-1	.9	2.4	2.5	2.5	2.4	1.4
Residential investment <i>Previous</i>	-16.3	-11.8	-20.5	-30.6	-33.1	-25.4	-13.0	-6.8	-2.5	-6	-6	-1.7	-20.1	-20.2	-1.4
	-16.3	-11.8	-20.3	-30.0	-28.7	-16.1	-6.5	-4.7	-2.2	-2.6	-1.5	-2.8	-19.9	-14.6	-2.3
Business fixed invest. <i>Previous</i>	2.1	11.0	9.3	7.4	-1.1	.0	.7	2.3	2.5	2.3	3.1	3.4	7.4	.5	2.8
Equipment & software <i>Previous</i>	2.1	11.0	10.1	4.4	.9	.3	.0	1.0	1.9	2.3	2.7	2.6	6.9	.6	2.4
	.3	4.7	6.2	3.8	-2.5	-1.4	.7	3.2	3.7	3.1	4.1	4.3	3.7	.0	3.8
	.3	4.7	7.2	4.3	1.1	.0	-2	1.3	2.2	3.0	3.6	3.5	4.1	.5	3.1
Nonres. structures <i>Previous</i>	6.4	26.2	16.4	15.3	1.7	3.0	.8	.7	.2	.7	1.2	1.7	15.9	1.5	.9
	6.4	26.2	16.6	4.7	.5	1.0	.6	.3	1.2	1.0	1.0	1.0	13.2	.6	1.0
Net exports ² <i>Previous</i> ²	-612	-574	-533	-527	-522	-484	-463	-461	-461	-431	-413	-423	-562	-482	-432
Exports	-612	-574	-533	-528	-520	-485	-465	-468	-470	-448	-431	-447	-562	-484	-449
Imports	1.1	7.5	19.1	4.6	6.7	7.2	7.4	7.4	7.3	7.5	7.3	7.3	7.9	7.2	7.3
	3.9	-2.7	4.4	2.1	3.9	-2.4	1.4	5.1	5.6	-2	2.1	7.9	1.9	1.9	3.8
Govt. cons. & invest. <i>Previous</i>	-.5	4.1	3.8	4.0	1.6	1.8	1.2	1.1	1.1	1.0	.8	.7	2.8	1.4	.9
Federal	-.5	4.1	3.9	2.4	2.2	1.9	1.3	1.0	1.0	1.0	.8	.6	2.5	1.6	.8
Defense	-6.3	6.0	7.1	4.8	1.2	2.5	1.8	1.5	1.4	1.4	1.3	1.0	2.7	1.7	1.3
Nondefense	-10.8	8.5	10.1	6.8	1.6	3.7	2.6	2.0	1.7	1.5	1.4	1.0	3.3	2.5	1.4
State & local	3.8	.9	1.1	.6	.1	.1	.1	.3	.9	1.0	1.0	1.0	1.6	.2	1.0
	3.0	3.0	1.9	3.6	1.8	1.4	.9	.9	.9	.9	.5	.5	2.9	1.2	.7
Change in bus. inventories ² <i>Previous</i> ²	0	6	31	-7	20	14	-15	-21	11	15	8	32	7	-1	16
Nonfarm ²	0	6	33	21	28	12	5	21	28	12	-1	22	15	16	15
Farm ²	-6	1	26	-8	19	14	-17	-24	10	14	7	32	3	-2	16
	5	4	4	1	1	1	1	1	1	1	1	1	3	1	1

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

2. Billions of chained (2000) dollars.

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

Item	2001 ¹	2002 ¹	2003 ¹	2004 ¹	2005 ¹	2006 ¹	2007 ¹	2008 ¹	2009 ¹
Real GDP <i>Previous</i>	.2	1.9	3.7	3.1	2.9	2.6	2.4	1.5	2.2
	.2	1.9	3.7	3.1	2.9	2.6	2.3	1.3	2.1
Final sales <i>Previous</i>	1.5	.8	3.7	2.8	2.9	3.0	2.6	1.7	1.7
Priv. dom. final purch. <i>Previous</i>	1.5	.8	3.7	2.8	2.9	3.0	2.3	1.3	2.1
	1.0	1.1	4.1	4.3	3.3	2.4	1.7	1.0	1.5
	1.0	1.1	4.1	4.3	3.3	2.4	1.5	.6	2.1
Personal cons. expend. <i>Previous</i>	2.8	1.9	3.4	3.7	2.8	3.4	2.5	2.3	1.4
	2.8	1.9	3.4	3.7	2.8	3.4	2.3	1.5	2.2
Durables	10.8	1.2	8.3	5.6	1.2	6.6	5.0	2.4	1.7
Nondurables	1.9	2.1	3.9	3.5	3.6	3.6	1.6	1.9	1.3
Services	1.6	1.9	2.2	3.3	2.7	2.6	2.5	2.4	1.4
Residential investment <i>Previous</i>	1.4	7.0	11.7	6.7	6.4	-12.8	-20.1	-20.2	-1.4
	1.4	7.0	11.7	6.7	6.4	-12.8	-19.9	-14.6	-2.3
Business fixed invest. <i>Previous</i>	-9.6	-6.5	4.9	7.5	5.1	5.2	7.4	.5	2.8
	-9.6	-6.5	4.9	7.5	5.1	5.2	6.9	.6	2.4
Equipment & software <i>Previous</i>	-9.0	-3.4	6.6	9.4	7.1	2.5	3.7	.0	3.8
	-9.0	-3.4	6.6	9.4	7.1	2.5	4.1	.5	3.1
Nonres. structures <i>Previous</i>	-11.1	-14.9	.2	2.3	-.3	12.3	15.9	1.5	.9
	-11.1	-14.9	.2	2.3	-.3	12.3	13.2	.6	1.0
Net exports ² <i>Previous</i> ²	-399	-471	-519	-594	-618	-624	-562	-482	-432
	-399	-471	-519	-594	-618	-624	-562	-484	-449
Exports	-11.9	3.8	5.8	7.4	7.0	9.3	7.9	7.2	7.3
Imports	-7.6	9.7	4.8	11.5	5.1	3.7	1.9	1.9	3.8
Govt. cons. & invest. <i>Previous</i>	5.0	4.0	1.7	.7	.9	2.5	2.8	1.4	.9
	5.0	4.0	1.7	.7	.9	2.5	2.5	1.6	.8
Federal	6.4	7.8	5.5	2.4	1.3	3.7	2.7	1.7	1.3
Defense	6.5	8.4	7.5	2.5	1.1	5.9	3.3	2.5	1.4
Nondefense	6.3	6.8	1.9	2.3	1.9	-.7	1.6	.2	1.0
State & local	4.2	2.1	-.4	-.4	.7	1.8	2.9	1.2	.7
Change in bus. inventories ² <i>Previous</i> ²	-32	12	14	54	33	40	7	-1	16
	-32	12	14	54	33	40	15	16	15
Nonfarm ²	-32	15	14	48	34	42	3	-2	16
Farm ²	0	-2	0	6	-0	-1	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	2007				2008				2009				2007 ¹	2008 ¹	2009 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2007 ¹	2008 ¹	2009 ¹
Real GDP <i>Previous</i>	.6	3.8	4.9	.5	.6	1.2	1.9	2.4	1.6	2.0	2.5	2.6	2.4	1.5	2.2
	.6	3.8	5.0	.1	.7	1.4	1.5	1.7	1.9	2.1	2.1	2.1	2.3	1.3	2.1
Final sales <i>Previous</i>	1.3	3.6	4.0	1.7	-.3	1.4	2.9	2.7	.4	1.9	2.7	1.8	2.6	1.7	1.7
Priv. dom. final purch. <i>Previous</i>	1.3	3.6	4.0	.4	.4	1.9	1.7	1.1	1.7	2.6	2.6	1.4	2.3	1.3	2.1
	1.9	1.5	1.9	.8	-.8	-.3	2.0	2.4	.3	.7	2.0	2.0	1.5	.8	1.3
	1.9	1.5	1.9	-.2	-.3	.4	.8	1.1	1.6	1.7	1.9	1.8	1.3	.5	1.7
Personal cons. expend. <i>Previous</i>	2.6	1.0	2.0	1.6	.9	.7	2.4	2.4	.1	.5	1.7	1.7	1.8	1.6	1.0
Durables	2.6	1.0	1.9	.9	1.0	1.0	1.0	1.2	1.4	1.6	1.6	1.6	1.6	1.0	1.6
Nondurables	.7	.1	.4	.4	-.2	.1	.4	.3	.0	.0	.2	.2	.4	.2	.1
Services	.6	-.1	.5	.4	.2	.3	.5	.6	.1	.1	.4	.4	.3	.4	.3
	1.3	1.0	1.2	.8	.8	.3	1.4	1.5	.0	.4	1.0	1.1	1.1	1.0	.6
Residential investment <i>Previous</i>	-.9	-.6	-.1	-.1	-.1	-.6	-.5	-.2	-.1	.0	.0	-.1	-.1	-.8	.0
	-.9	-.6	-.1	-.1	-.1	-.3	-.2	-.2	-.1	-.1	-.1	-.1	-.1	-.6	-.1
Business fixed invest. <i>Previous</i>	.2	1.1	1.0	.8	-.1	.0	.1	.2	.3	.2	.3	.4	.8	.1	.3
Equipment & software <i>Previous</i>	.2	1.1	1.1	.5	.1	.0	.0	.1	.2	.2	.3	.3	.7	.1	.3
	.0	.3	.4	.3	-.2	-.1	.0	.2	.3	.2	.3	.3	.3	.0	.3
	.0	.3	.5	.3	.1	.0	.0	.1	.2	.2	.2	.2	.3	.0	.2
Nonres. structures <i>Previous</i>	.2	.8	.5	.5	.1	.1	.0	.0	.0	.0	.0	.1	.5	.1	.0
	.2	.8	.5	.2	.0	.0	.0	.0	.0	.0	.0	.0	.4	.0	.0
Net exports <i>Previous</i>	-.5	1.3	1.4	.2	.1	1.3	.7	.0	.0	1.0	.6	-.4	.6	.5	.3
Exports	-.5	1.3	1.4	.1	.3	1.2	.7	-.2	-.1	.7	.5	-.6	.6	.5	.1
Imports	.1	.9	2.1	.5	.8	.9	.9	.9	.9	1.0	.9	1.0	.9	.9	.9
	-.6	.5	-.7	-.4	-.7	.4	-.2	-.9	-.1	.0	-.4	-.1	-.3	-.3	-.7
Govt. cons. & invest. <i>Previous</i>	-.1	.8	.7	.8	.3	.4	.2	.2	.2	.2	.2	.1	.5	.3	.2
Federal	-.1	.8	.8	.5	.4	.4	.3	.2	.2	.2	.2	.1	.5	.3	.2
Defense	-.5	.4	.5	.3	.1	.2	.1	.1	.1	.1	.1	.1	.2	.1	.1
Nondefense	-.5	.4	.5	.3	.1	.2	.1	.1	.1	.1	.1	.1	.2	.1	.1
State & local	.1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
	.4	.4	.2	.4	.2	.2	.1	.1	.1	.1	.1	.1	.4	.2	.1
Change in bus. inventories <i>Previous</i>	-.7	.2	.9	-.1	.9	-.2	-.1	-.2	1.1	.1	-.2	.8	-.2	-.1	.5
Nonfarm	-.7	.2	1.0	-.4	.2	-.5	-.3	.6	.2	-.5	-.4	.8	.0	.0	.0
Farm	-.7	.3	.9	-.1	.9	-.2	-.1	-.2	1.1	.1	-.2	.8	-.2	-.1	.5
	.0	-.1	.0	-.1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0

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

Class II FOMC
Restricted (FR)

January 23, 2008

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

Item	2007				2008				2009				2007 ¹	2008 ¹	2009 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP chain-wt. price index <i>Previous</i>	4.2	2.6	1.0	2.4	2.7	2.0	2.0	2.0	2.1	2.0	1.9	1.8	2.6	2.2	1.9
PCE chain-wt. price index <i>Previous</i>	4.2	2.6	.9	1.8	2.5	2.2	2.0	1.9	2.1	2.0	1.9	1.9	2.4	2.2	2.0
Energy <i>Previous</i>	3.5	4.3	1.8	3.9	3.0	2.1	2.0	1.8	1.8	1.8	1.7	1.7	3.4	2.2	1.7
Food <i>Previous</i>	3.5	4.3	1.7	3.5	2.5	2.0	1.8	1.7	1.7	1.7	1.7	1.7	3.2	2.0	1.7
Ex. food & energy <i>Previous</i>	16.1	51.3	-6.7	21.6	11.8	1.2	.9	-.7	-1.0	-1.2	-1.0	-.7	18.8	3.2	-1.0
CPI <i>Previous</i>	16.1	51.3	-6.7	20.8	8.5	1.1	-.7	-1.4	-1.5	-1.4	-1.1	-1.0	18.6	1.8	-1.3
Ex. food & energy <i>Previous</i>	4.8	4.7	4.7	3.5	2.6	2.3	2.2	2.1	2.0	2.0	1.9	1.9	4.4	2.3	2.0
CPI <i>Previous</i>	4.8	4.7	4.7	4.1	2.8	2.1	2.0	2.0	2.0	2.0	2.0	2.0	4.6	2.2	2.0
Ex. food & energy <i>Previous</i>	2.4	1.4	2.0	2.7	2.4	2.1	2.0	2.0	2.0	2.0	1.9	1.9	2.1	2.1	1.9
CPI <i>Previous</i>	2.4	1.4	1.8	2.2	2.1	2.0	2.0	1.9	1.9	1.9	1.9	1.9	2.0	2.0	1.9
Ex. food & energy <i>Previous</i>	3.8	6.0	1.9	4.3	3.5	2.2	2.1	1.9	1.9	1.8	1.8	1.8	4.0	2.4	1.8
Ex. food & energy <i>Previous</i>	3.8	6.0	1.9	4.0	2.9	2.1	1.9	1.7	1.8	1.8	1.8	1.8	3.9	2.2	1.8
ECL, hourly compensation ² <i>Previous</i> ²	2.3	1.9	2.5	2.5	2.7	2.3	2.2	2.2	2.2	2.2	2.1	2.1	2.3	2.3	2.1
ECL, hourly compensation ² <i>Previous</i> ²	2.3	1.9	2.5	2.3	2.3	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.3	2.2	2.1
ECL, hourly compensation ² <i>Previous</i> ²	2.3	3.5	3.1	3.7	3.7	3.7	3.6	3.6	3.6	3.6	3.6	3.6	3.2	3.7	3.6
Nonfarm business sector Output per hour <i>Previous</i>	.7	2.2	6.2	1.8	.3	1.4	2.0	2.6	3.7	3.7	3.7	3.6	3.2	3.7	3.7
Compensation per hour <i>Previous</i>	.7	2.2	6.3	.2	.5	1.5	1.6	1.8	1.3	1.9	2.2	2.3	2.7	1.6	1.9
Unit labor costs <i>Previous</i>	5.9	1.0	4.3	4.4	4.3	4.5	4.5	4.4	2.0	2.0	1.9	1.9	2.3	1.3	1.9
Unit labor costs <i>Previous</i>	5.9	1.0	4.2	3.6	4.1	4.6	4.6	4.6	4.3	4.2	4.1	4.0	3.9	4.4	4.1
Unit labor costs <i>Previous</i>	5.2	-1.1	-1.8	2.5	3.9	3.1	2.5	1.8	4.4	4.3	4.2	4.1	3.7	4.5	4.2
Unit labor costs <i>Previous</i>	5.2	-1.1	-2.0	3.4	3.6	3.1	2.9	2.7	2.9	2.3	1.9	1.7	1.2	2.8	2.2
Unit labor costs <i>Previous</i>	5.2	-1.1	-2.0	3.4	3.6	3.1	2.9	2.7	2.3	2.3	2.3	2.1	1.3	3.1	2.3

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

2. Private-industry workers.

Other Macroeconomic Indicators

Item	2007				2008				2009				2007 ¹	2008 ¹	2009 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Employment and production</i>															
Nonfarm payroll employment ²	.5	.4	.3	.3	.1	.0	.1	.2	.2	.2	.3	.3	1.5	.4	.9
Unemployment rate ³	4.5	4.5	4.7	4.8	5.0	5.1	5.1	5.1	5.2	5.2	5.2	5.2	4.8	5.1	5.2
<i>Previous³</i>	4.5	4.5	4.7	4.7	4.8	4.8	4.9	4.9	4.9	5.0	5.0	5.0	4.7	4.9	5.0
GDP gap ⁴	-.3	.0	.6	.1	-.3	-.6	-.7	-.7	-.8	-.9	-.8	-.8	.1	-.7	-.8
<i>Previous⁴</i>	.0	.4	1.0	.5	.1	-.1	-.3	-.4	-.4	-.4	-.4	-.4	.5	-.4	-.4
Industrial production ⁵	1.1	3.5	3.6	-1.0	-.2	1.0	3.4	2.8	2.2	2.2	2.7	3.1	1.8	1.8	2.5
<i>Previous⁵</i>	1.1	3.5	4.4	-.7	1.7	1.3	2.2	3.5	2.8	2.2	2.5	2.6	2.0	2.2	2.5
Manufacturing industr. prod. ⁵	.8	4.3	3.6	-1.9	-.5	.8	3.3	2.8	2.4	2.4	3.0	3.4	1.7	1.6	2.8
<i>Previous⁵</i>	.8	4.3	4.1	-1.0	.9	1.5	2.1	3.6	3.0	2.4	2.7	2.8	2.0	2.0	2.7
Capacity utilization rate - mfg. ³	79.8	80.3	80.6	79.8	79.2	78.9	79.1	79.2	79.2	79.2	79.3	79.5	79.8	79.2	79.5
<i>Previous³</i>	79.8	80.3	80.7	80.0	79.8	79.6	79.5	79.7	79.8	79.8	79.8	79.8	80.0	79.7	79.8
Housing starts ⁶	1.5	1.5	1.3	1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.3	1.0	1.0
Light motor vehicle sales ⁶	16.4	16.0	15.9	16.1	15.5	15.5	16.0	16.2	16.0	15.9	15.9	16.0	16.1	15.8	15.9
<i>Income and saving</i>															
Nominal GDP ⁵	4.9	6.6	6.0	2.8	3.3	3.2	3.9	4.5	3.7	4.1	4.4	4.5	5.0	3.7	4.2
Real disposable pers. income ⁵	5.4	-.8	4.5	-.6	1.8	1.0	14.7	-8.2	4.0	2.2	2.6	2.5	2.1	2.0	2.8
<i>Previous⁵</i>	5.4	-.8	4.4	-.2	2.2	1.2	2.6	2.5	3.5	2.3	2.6	2.3	2.2	2.1	2.7
Personal saving rate ³	1.0	.3	.6	-.1	.0	.0	2.6	-.4	.6	.9	1.0	1.0	-.1	-.4	1.0
<i>Previous³</i>	1.0	.3	.6	.2	.4	.4	.6	.8	1.2	1.2	1.3	1.3	.2	.8	1.3
Corporate profits ⁷	4.4	26.8	-4.9	-6.6	-5.0	-4.0	-2.2	-1.8	-1.2	3.3	3.5	5.3	4.1	-3.2	2.7
Profit share of GNP ³	11.4	11.9	11.5	11.3	11.1	10.9	10.7	10.5	10.4	10.4	10.4	10.4	11.3	10.5	10.4
Net federal saving ⁸	-219	-207	-233	-215	-324	-308	-624	-335	-320	-317	-320	-324	-218	-398	-321
Net state & local saving ⁸	-6	13	-13	-23	-35	-36	-30	-27	-29	-28	-18	-14	-7	-32	-23
Gross national saving rate ³	13.8	13.8	13.3	12.7	12.2	12.3	12.0	11.8	12.1	12.4	12.5	12.5	12.7	11.8	12.5
Net national saving rate ³	1.7	1.7	1.3	.4	-.1	-.1	-.4	-.7	-.3	.0	.1	.2	.4	-.7	.2

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

2. Change, millions.

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

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

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

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

5. Percent change, annual rate.

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

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

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

**Class II FOMC
Restricted (FR)**

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

January 23, 2008

Item	Fiscal year				2007				2008				2009				
	2006 ^a	2007 ^a	2008	2009	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Unified budget	Not seasonally adjusted																
	2407	2568	2545	2730	547	824	622	606	553	822	564	617	567	860	686	652	
	2655	2730	2884	3024	725	687	664	712	741	722	708	740	784	759	741	796	
	-248	-163	-339	-293	-178	137	-42	-106	-189	100	-144	-123	-217	102	-55	-144	
	-248	-163	-261	-284	-178	137	-42	-131	-178	114	-65	-129	-197	107	-65	-145	
	-435	-344	-524	-490	-212	53	-49	-165	-212	9	-156	-193	-238	6	-65	-216	
	186	181	185	197	34	85	7	59	24	91	12	70	21	95	10	72	
	Means of financing																
	Borrowing	237	206	300	311	152	-110	106	89	139	-88	159	113	206	-77	70	133
	Cash decrease	-16	-23	25	0	25	-19	-50	18	32	-15	-10	15	15	-20	-10	15
Other ²	28	-20	14	-18	1	-8	-14	-2	18	3	-5	-5	-5	-5	-5	-5	
Cash operating balance, end of period	52	75	50	50	6	25	75	57	25	40	50	35	20	40	50	35	
NIPA federal sector	Seasonally adjusted annual rates																
	2437	2635	2620	2808	2620	2670	2687	2706	2674	2688	2412	2736	2804	2831	2863	2896	
	2685	2845	2988	3132	2838	2877	2920	2921	2998	2996	3035	3070	3124	3148	3184	3220	
	798	843	903	942	830	850	868	882	901	910	918	926	941	948	955	962	
	Defense	533	570	617	646	556	574	590	602	615	623	629	635	645	650	654	659
	Nondefense	266	273	285	296	274	276	278	280	286	287	289	291	296	298	301	303
	Other spending	1887	2001	2085	2189	2008	2027	2052	2039	2097	2086	2117	2145	2183	2200	2228	2258
	Current account surplus	-248	-210	-368	-323	-219	-207	-233	-215	-324	-308	-624	-335	-320	-317	-320	-324
	Gross investment	117	121	127	131	117	120	123	126	126	128	129	130	131	132	132	133
	Gross saving less gross investment ³	-262	-221	-381	-335	-227	-216	-244	-228	-337	-321	-636	-347	-332	-329	-332	-335
Fiscal indicators ⁴																	
	High-employment (HEB) surplus/deficit	-279	-235	-368	-287	-231	-223	-267	-237	-328	-301	-605	-308	-284	-276	-280	-284
	Change in HEB, percent of potential GDP	-0.5	-0.4	0.9	-0.6	0.1	-0.1	0.3	-0.2	0.6	-0.2	2.1	-2.1	-0.2	-0.1	0.0	0.0
	Fiscal impetus (FI), percent of GDP	0.3	0.2	0.5	-0.1	-0.0	0.1	0.1	0.1	0.0	0.0	0.4	0.4	-0.3	-0.3	0.0	0.0
	Previous	0.3	0.2	0.2	0.1	-0.0	0.1	0.1	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** **January 23, 2008**
(Percent)

Period ¹	Total	Households			Business	State and local governments	Federal government	Memo: Nominal GDP
		Total	Home mortgages	Consumer credit				
<i>Year</i>								
2002	7.3	10.9	13.3	5.7	2.4	11.0	7.6	3.6
2003	8.1	11.5	14.2	5.2	2.6	8.3	10.9	5.9
2004	8.9	11.3	13.9	5.5	5.8	7.4	9.0	6.5
2005	9.1	10.7	12.6	4.3	7.8	10.2	7.0	6.3
2006	8.8	10.3	11.3	4.5	9.6	8.2	3.9	5.4
2007	8.2	6.8	7.0	5.5	11.2	11.0	4.9	5.0
2008	4.9	3.4	3.1	3.8	5.8	7.0	6.3	3.7
2009	4.7	3.2	3.0	3.3	5.6	6.4	6.1	4.2
<i>Quarter</i>								
2007:1	8.1	7.1	7.8	4.7	9.5	11.2	6.7	4.9
2	7.3	7.6	8.0	5.3	10.8	10.3	-1.4	6.6
3	9.0	7.0	6.8	6.4	12.1	8.4	8.8	6.0
4	7.3	5.0	4.6	5.3	10.6	12.4	5.1	2.8
2008:1	5.2	3.9	3.5	4.4	6.6	7.0	5.4	3.3
2	3.9	3.4	3.1	3.9	5.7	6.9	.4	3.2
3	5.7	3.2	2.9	3.6	5.3	6.8	12.5	3.9
4	4.6	3.1	2.8	3.3	5.2	6.7	6.5	4.5
2009:1	5.2	3.0	2.7	3.2	5.4	6.4	10.0	3.7
2	3.8	3.0	2.8	3.2	5.6	6.3	1.1	4.1
3	4.5	3.2	3.0	3.2	5.5	6.2	5.2	4.4
4	5.0	3.4	3.3	3.3	5.5	6.2	7.6	4.5

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2007:Q3 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

January 23, 2008

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

Category	2006	2007	2008	2009	2007		2008				2009					
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Domestic nonfinancial sectors																
Net funds raised																
Total	1715.8	1518.3	1107.8	1268.0	1849.7	1086.8		984.3	756.8	1495.9	1194.2	1426.1	982.1	1239.0	1425.1	
Net equity issuance	-614.1	-836.6	-431.3	-272.0	-846.0	-1157.6		-645.0	-476.0	-312.0	-292.0	-272.0	-272.0	-272.0	-272.0	
Net debt issuance	2329.9	2354.9	1539.0	1540.0	2695.7	2244.4		1629.3	1232.8	1807.9	1486.2	1698.1	1254.1	1511.0	1697.1	
Borrowing indicators																
Debt (percent of GDP) ¹	209.9	217.0	222.5	224.1	217.0	219.9		221.5	222.3	222.8	223.2	223.9	224.1	224.0	224.2	
Borrowing (percent of GDP)	17.7	17.0	10.7	10.3	19.3	16.0		11.5	8.6	12.5	10.2	11.5	8.4	10.0	11.2	
Households																
Net borrowing ²	1203.1	883.9	473.8	458.0	933.8	676.1		533.6	479.8	449.0	432.7	427.6	438.5	463.0	503.1	
Home mortgages	997.7	685.3	326.9	321.0	691.0	481.5		372.9	330.4	306.8	297.4	292.7	302.1	325.7	363.5	
Consumer credit	104.4	133.8	98.1	86.7	159.5	133.5		111.6	100.8	93.6	86.2	85.3	86.3	86.7	88.5	
Debt/DPI (percent) ³	128.0	131.4	131.4	130.7	131.9	132.7		132.6	132.8	128.8	132.0	131.1	130.8	130.4	130.2	
Business																
Financing gap ⁴	186.6	244.6	240.4	336.2	271.2	266.6		251.5	254.2	226.9	228.9	326.8	332.4	328.2	357.2	
Net equity issuance	-614.1	-836.6	-431.3	-272.0	-846.0	-1157.6		-645.0	-476.0	-312.0	-292.0	-272.0	-272.0	-272.0	-272.0	
Credit market borrowing	792.2	1013.1	585.4	596.1	1148.8	1042.0		666.0	577.7	552.5	545.4	573.8	599.6	604.1	607.0	
State and local governments																
Net borrowing	151.1	220.8	156.7	153.7	178.1	268.6		155.7	155.7	157.7	157.7	153.7	153.7	153.7	153.7	
Current surplus ⁵	243.8	215.4	163.8	181.7	229.1	167.8		157.6	158.7	166.9	172.1	172.0	175.0	186.9	193.1	
Federal government																
Net borrowing	183.4	237.1	323.2	332.2	435.0	257.8		274.1	19.5	648.7	350.4	543.1	62.3	290.1	433.3	
Net borrowing (n.s.a.)	183.4	237.1	323.2	332.2	105.7	89.4		139.2	-87.7	159.2	112.6	206.4	-77.0	69.5	133.3	
Unified deficit (n.s.a.)	209.2	187.9	356.7	314.2	41.8	105.5		188.6	-99.5	144.5	123.1	216.9	-101.5	55.0	143.8	
Depository institutions																
Funds supplied	693.7	843.2	410.7	483.2	1138.4	1031.1		548.0	416.7	417.1	261.1	515.6	525.0	501.9	390.2	

Note. Data after 2007:Q3 are staff projections.

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

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

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

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

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

n.s.a. Not seasonally adjusted.

2.6.4 FOF

International Developments

Global equity prices have fallen sharply on net since the time of the December Greenbook amid increasing concerns about further financial distress and, more importantly in recent weeks, concerns about spillovers from slower U.S. growth. Although foreign equity markets rebounded initially in response to the January 22 easing of U.S. monetary policy, they remain jittery today. By contrast, conditions in foreign money markets have improved substantially since mid-December.

Summary of Staff Projections

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

Indicator	2007		Projection				
	H1	Q3	2007: Q4	2008			2009
				Q1	Q2	H2	
Foreign output	4.5	4.5	2.7	2.7	2.8	3.0	3.4
December GB ¹	4.4	4.5	2.9	3.0	3.0	3.3	3.3
Foreign CPI	3.0	4.2	4.4	2.7	2.5	2.5	2.5
December GB ¹	3.0	4.2	3.8	2.5	2.5	2.4	2.4
Contribution to U.S. real GDP growth (percentage points)							
U.S. net exports	0.4	1.4	0.2	0.1	1.3	0.4	0.3
December GB	0.4	1.4	0.1	0.3	1.2	0.3	0.1

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

¹December Greenbook values reflect new trade weights used in calculating foreign aggregates for the January Greenbook.

Indicators of foreign activity have softened, most notably in Japan, the euro area, and several emerging market economies. We now estimate that foreign real GDP growth slowed to a 2¾ percent annual rate in the fourth quarter, and we expect growth to continue at that pace in the current quarter. Thereafter we expect growth to strengthen slowly, through the end of next year, in line with the pickup in U.S. growth and improvements in financial conditions. This forecast is weaker this year than in the December Greenbook, but the risk remains of a more substantial slowing of foreign activity should turmoil in financial markets intensify or exact larger effects on credit and spending than we currently anticipate.

projected to slow to about 3¼ percent next year as the effect of the recent run-up in commodity prices wanes.

Prices of Internationally Traded Goods

After November's large price increases, core import price inflation slowed a touch in December as prices for metals declined. For the fourth quarter, we estimate that core import prices rose at an annual rate of 3 percent, the same pace as in the third quarter. Prices for material-intensive goods continued to rise robustly, whereas prices for finished goods again increased moderately. Overall, core import price inflation for the fourth quarter is up ½ percentage point from the December Greenbook in response to higher-than-expected readings for November and December.

Staff Projections of Selected Trade Prices

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

Indicator	2007		Projection				
	H1	Q3	2007: Q4	2008			2009
				Q1	Q2	H2	
<i>Imports</i>							
Core goods	3.1	3.1	3.1	3.0	1.2	1.3	1.2
December GB	3.1	2.8	2.5	2.3	0.6	0.8	0.9
Oil (dollars per barrel)	63.84	70.31	79.75	83.30	83.29	82.20	80.36
December GB	63.84	70.33	82.40	84.51	83.56	82.04	80.32
<i>Exports</i>							
Core goods	6.7	4.5	7.5	3.7	0.6	0.8	0.8
December GB	6.7	4.4	5.5	2.0	1.1	0.7	0.8

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

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

The depreciation of the dollar in the fourth quarter should keep core import price inflation at 3 percent (a.r.) in the current quarter. This forecast was marked up ¾ percentage point, in part reflecting the higher December level of core import prices. We project that core import price inflation will fall to 1¼ percent in the second quarter and stabilize at that rate, as commodity prices are projected to level off, consistent with quotes from futures markets, and as the dollar depreciates at a more modest pace than in previous quarters. Beyond the current quarter, this forecast has been revised up a little less than

Staff Projections for Trade in Goods and Services

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

Measure	2007		Projection				
	H1	Q3	2007: Q4	2008			2009
				Q1	Q2	H2	
Real exports	4.3	19.1	4.6	6.7	7.2	7.4	7.3
December GB	4.3	18.9	7.4	7.0	7.1	6.9	6.7
Real imports	0.5	4.4	2.1	3.9	-2.4	3.3	3.8
December GB	0.5	4.3	4.3	3.3	-1.8	3.5	4.1

NOTE. Change for year is measured as Q4/Q4; half-years are Q2/Q4 or Q4/Q2.

For the remainder of 2008 and 2009, we expect export growth to continue near 7¼ percent, supported by the lagged effects of past declines in the dollar and our projection of some further dollar depreciation as well as relatively steady foreign growth. This projection is about ½ percentage point higher than in the December Greenbook, as the faster projected rate of dollar depreciation in this forecast more than offsets the effects of the weaker foreign outlook this year.

We estimate that real imports of goods and services increased only 2 percent in the fourth quarter, as a seasonal jump in oil imports was partially offset by a decline in imports of core goods and services. This estimate is 2¼ percentage points lower than reported in the December Greenbook, largely as a result of weaker-than-expected imports of core goods, particularly non-oil industrial supplies, in the October and November trade data. In the current quarter, we expect imports to increase a little below 4 percent, supported by growing imports of oil and natural gas, even as weak U.S. economic activity translates into flat imports of core goods and a decline in imported services. This projection is slightly higher than in the previous Greenbook, because of higher projected imports of oil stemming from a downward revision to our projection for domestic oil production in the quarter.

We project that real imports will fall 2½ percent in the second quarter, owing to a seasonal drop in oil imports, before growing 3¼ percent in the second half of 2008 and strengthening further in 2009. Imports of core goods and services are expected to pick up in line with improving U.S. GDP growth and a projected deceleration in core import

prices. Compared with the December Greenbook, a higher projected path of core import prices is partially offset by the effects of stronger average U.S. growth; on net we have revised down our forecast for import growth just $\frac{1}{4}$ percentage point over the forecast period.

Alternative Simulations

Foreign activity may turn out to be considerably weaker than projected in our baseline forecast, particularly if financial market turmoil intensifies. To assess this risk, we use the SIGMA model to examine the effects of a weakening in demand abroad that is evenly distributed across major U.S. trading partners. The shock begins in the first quarter of 2008 and is calibrated so that foreign GDP growth declines 1 percentage point relative to baseline in 2008 and 2009, after which the shock gradually dies away.

Alternative Scenarios: Weaker Foreign Demand

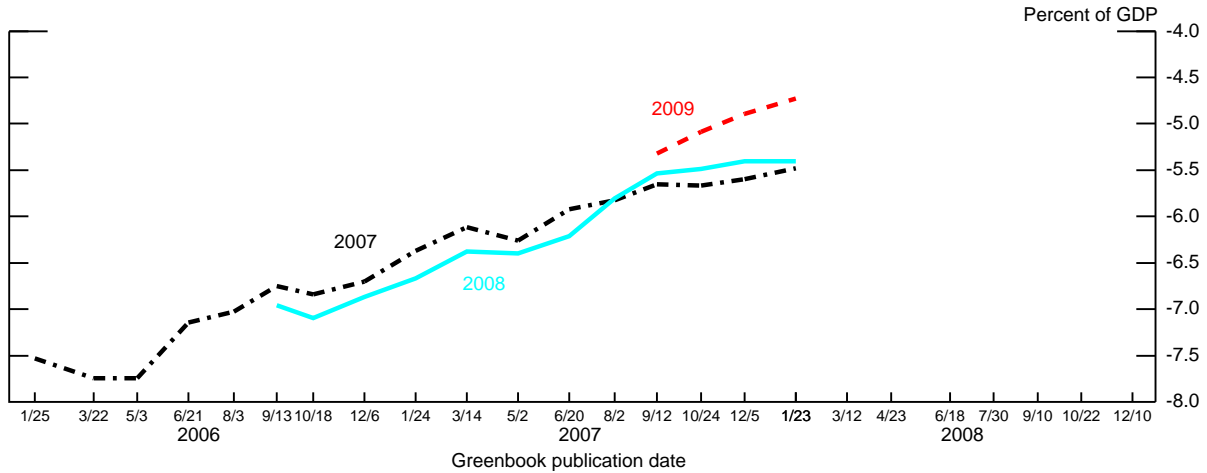
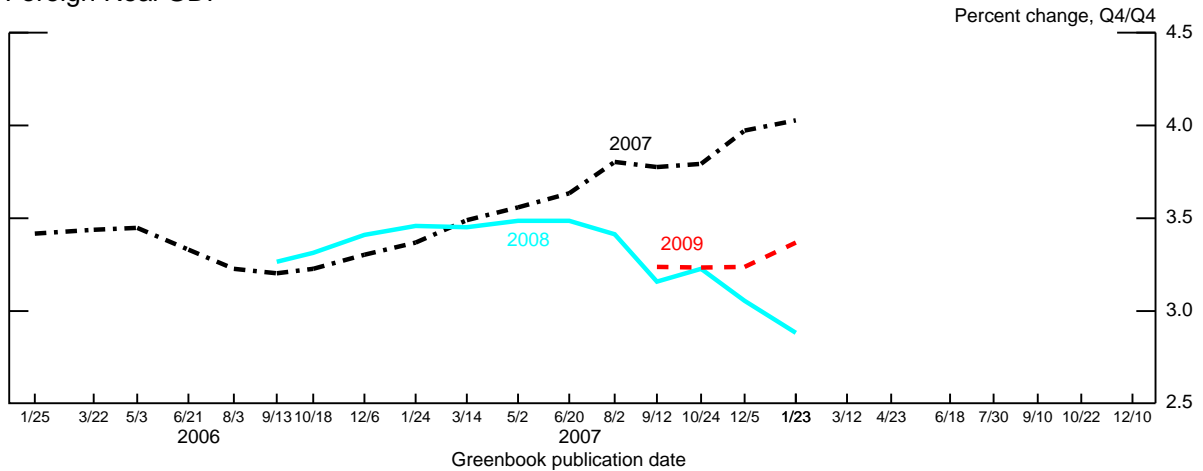
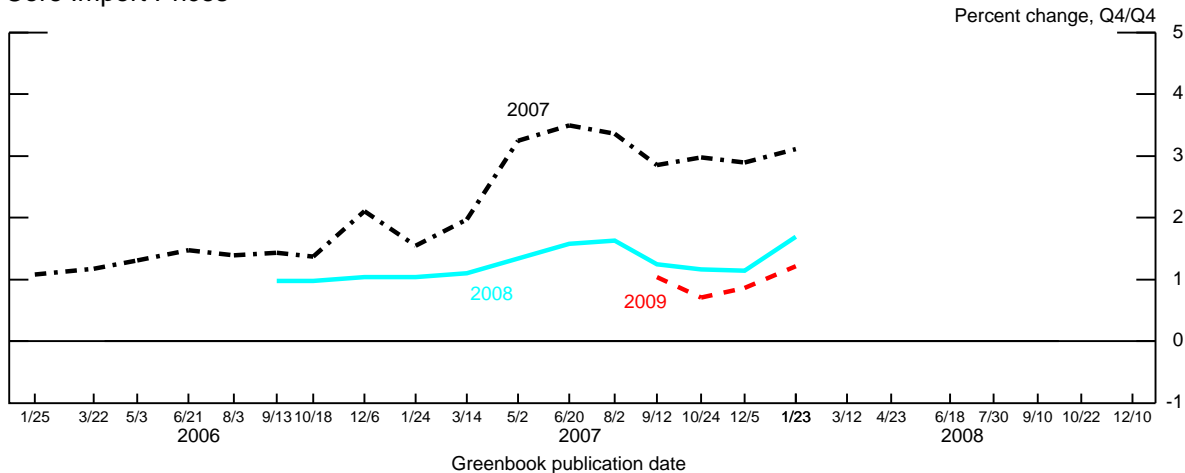
(Percent change from previous period, annual rate, except as noted)

Indicator and simulation	2008		2009		2010	2011-12
	H1	H2	H1	H2		
<i>U.S. real GDP</i>						
Baseline	0.9	2.2	1.8	2.6	2.7	2.6
Weaker foreign demand	0.6	1.9	1.6	2.5	3.1	2.8
<i>U.S. PCE prices excluding food and energy</i>						
Baseline	2.3	2.0	2.0	1.9	1.9	1.8
Weaker foreign demand	2.3	1.9	1.8	1.7	1.8	1.8
<i>U.S federal funds rate (percent)</i>						
Baseline	3.0	3.0	3.0	3.0	3.0	3.8
Weaker foreign demand	3.0	2.9	2.7	2.5	2.5	3.6
<i>U.S. trade balance (percent share of GDP)</i>						
Baseline	-5.1	-4.6	-4.4	-4.0	-3.7	-3.5
Weaker foreign demand	-5.3	-5.0	-5.0	-4.8	-4.4	-4.0

Note. H1 is Q2/Q4; H2 is Q4/Q2. The federal funds rate is the average rate for the final quarter of the period.

The adverse shock to foreign activity reduces U.S. real net exports directly through lower foreign spending and indirectly through a modest appreciation of the dollar. As a result, U.S. GDP growth declines about 0.3 percentage point relative to baseline in 2008 and

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.

Class II FOMC
Restricted (FR) January 23, 2008

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

Measure and country	2001	2002	2003	2004	2005	2006	2007	2008	2009
-----Projected-----									
REAL GDP (1)									

Total foreign	0.4	3.1	3.0	3.8	3.9	4.0	4.0	2.9	3.4
Advanced Foreign Economies	0.9	2.5	1.8	2.6	2.8	2.5	2.6	1.5	2.2
of which:									
Canada	1.3	3.5	1.5	3.5	3.2	1.9	2.9	1.4	2.2
Japan	-1.7	2.0	2.4	1.1	2.9	2.5	1.0	1.1	1.4
United Kingdom	2.1	2.3	3.4	2.6	1.8	3.3	2.9	1.8	2.6
Euro Area (2)	1.0	1.1	1.2	1.6	1.9	3.2	2.3	1.4	2.2
Germany	1.1	0.0	0.1	0.1	1.6	3.9	1.9	1.4	2.4
Emerging Market Economies	-0.4	4.0	4.8	5.6	5.4	5.9	5.9	4.7	5.0
Asia	1.1	6.4	6.9	5.9	7.5	6.9	7.7	6.0	6.3
Korea	4.7	7.7	4.2	2.9	5.7	4.0	5.2	4.2	4.4
China	7.1	8.5	10.1	9.6	10.0	10.4	11.2	9.3	9.4
Latin America	-1.3	1.6	2.4	5.2	3.1	5.0	4.1	3.2	3.6
Mexico	-1.3	2.0	2.1	4.8	2.5	4.3	3.6	2.8	3.3
Brazil	-0.6	4.9	1.0	4.5	3.4	5.0	5.2	3.9	4.0
CONSUMER PRICES (3)									

Advanced Foreign Economies	0.9	2.1	1.3	1.8	1.5	1.3	2.2	1.7	1.7
of which:									
Canada	1.1	3.8	1.7	2.3	2.2	1.3	2.7	2.2	2.0
Japan	-1.1	-0.5	-0.3	0.5	-1.0	0.3	0.4	0.4	0.4
United Kingdom (4)	1.0	1.5	1.3	1.4	2.1	2.7	2.1	2.4	2.1
Euro Area (2)	2.1	2.3	2.0	2.3	2.3	1.8	2.9	1.8	1.9
Germany	1.5	1.2	1.1	2.1	2.2	1.3	3.1	1.6	1.9
Emerging Market Economies	2.8	2.9	3.1	3.9	3.0	2.9	5.1	3.3	3.2
Asia	1.2	0.8	2.2	3.2	2.6	2.3	5.4	3.0	3.0
Korea	3.3	3.3	3.5	3.4	2.5	2.1	3.4	3.2	2.6
China	-0.1	-0.6	2.7	3.3	1.4	2.1	6.7	3.0	3.0
Latin America	5.3	6.4	4.9	5.7	3.8	4.1	4.3	3.9	3.6
Mexico	5.1	5.2	3.9	5.3	3.1	4.1	3.8	3.5	3.3
Brazil	7.5	10.7	11.5	7.2	6.1	3.2	4.3	4.5	3.8

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	2007				2008				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	4.2	4.7	4.5	2.7	2.7	2.8	3.0	3.1	3.3	3.4	3.4	3.4
Advanced Foreign Economies	3.6	2.2	3.0	1.7	1.4	1.4	1.6	1.7	2.0	2.1	2.2	2.2
of which:												
Canada	3.5	3.8	2.9	1.7	1.2	1.3	1.5	1.6	2.0	2.1	2.2	2.3
Japan	3.3	-1.8	1.5	1.1	0.9	1.0	1.2	1.3	1.3	1.4	1.5	1.5
United Kingdom	3.1	3.4	2.7	2.5	1.5	1.6	1.9	2.2	2.4	2.5	2.6	2.7
Euro Area (2)	3.3	1.2	3.1	1.5	1.2	1.2	1.5	1.7	2.0	2.2	2.3	2.4
Germany	2.2	1.0	2.8	1.6	1.2	1.2	1.5	1.8	2.1	2.3	2.5	2.6
Emerging Market Economies	5.0	8.1	6.4	4.0	4.3	4.6	4.8	4.9	5.0	5.0	5.0	5.0
Asia	7.6	10.7	7.3	5.5	5.8	5.9	6.1	6.1	6.3	6.3	6.3	6.4
Korea	3.6	7.4	5.4	4.5	4.2	4.2	4.2	4.3	4.4	4.4	4.4	4.4
China	14.2	14.1	8.2	8.5	9.1	9.3	9.6	9.3	9.4	9.4	9.4	9.4
Latin America	2.3	5.8	6.2	2.3	2.7	3.1	3.4	3.6	3.6	3.6	3.6	3.6
Mexico	1.2	5.7	5.9	1.5	2.1	2.6	3.1	3.3	3.3	3.3	3.3	3.3
Brazil	4.5	5.4	6.9	4.0	3.9	3.9	3.9	3.9	4.0	4.0	4.0	4.0
CONSUMER PRICES (3)	Four-quarter changes											
Advanced Foreign Economies	1.5	1.6	1.5	2.2	2.1	1.9	2.1	1.7	1.7	1.7	1.6	1.7
of which:												
Canada	1.9	2.0	2.1	2.7	2.2	1.9	2.3	2.2	2.1	2.1	2.0	2.0
Japan	-0.1	0.0	-0.1	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
United Kingdom (4)	2.9	2.6	1.8	2.1	2.3	2.4	2.8	2.4	2.1	2.1	2.1	2.1
Euro Area (2)	1.9	1.9	1.9	2.9	2.9	2.6	2.6	1.8	1.8	1.9	1.9	1.9
Germany	1.9	2.0	2.2	3.1	2.7	2.5	2.4	1.6	1.7	1.8	1.8	1.9
Emerging Market Economies	3.1	3.3	4.5	5.1	5.2	5.0	4.0	3.3	3.2	3.2	3.2	3.2
Asia	2.7	3.0	4.6	5.4	5.5	5.2	3.8	3.0	3.0	3.0	3.0	3.0
Korea	2.0	2.5	2.3	3.4	4.1	3.7	3.8	3.2	3.0	2.8	2.7	2.6
China	2.8	3.6	6.1	6.7	6.6	6.0	3.8	3.0	2.9	2.8	2.9	3.0
Latin America	4.2	4.1	4.3	4.3	4.2	4.5	4.2	3.9	3.8	3.7	3.7	3.6
Mexico	4.1	4.0	4.0	3.8	3.7	4.0	3.7	3.5	3.5	3.4	3.4	3.3
Brazil	3.1	3.4	4.2	4.3	4.4	4.6	4.6	4.5	4.1	4.0	3.9	3.8

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

Class II FOMC
Restricted (FR)

January 23, 2008

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2001	2002	2003	2004	2005	2006	----- 2007	Projected 2008	----- 2009
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-0.2	-0.9	-0.1	-0.9	-0.1	0.4	0.6	0.5	0.3
Exports of G&S	-1.3	0.4	0.6	0.7	0.7	1.0	0.9	0.9	0.9
Imports of G&S	1.1	-1.3	-0.7	-1.7	-0.8	-0.6	-0.3	-0.3	-0.7
	Percentage change, Q4/Q4								
Exports of G&S	-11.9	3.8	5.8	7.4	7.0	9.3	7.9	7.2	7.3
Services	-8.9	10.2	3.0	8.3	4.1	8.3	5.7	6.3	5.8
Computers	-23.5	-1.1	11.3	5.8	14.0	8.2	-3.9	9.5	9.5
Semiconductors	-34.6	10.1	38.3	-6.0	17.5	2.4	20.0	11.0	11.0
Core Goods 1/	-10.2	0.6	4.9	8.0	7.5	10.2	8.9	7.3	7.9
Imports of G&S	-7.6	9.7	4.8	11.5	5.1	3.7	1.9	1.9	3.8
Services	-5.9	8.8	2.2	9.3	1.4	6.1	0.6	1.3	3.0
Oil	3.7	3.8	1.2	10.8	1.2	-9.0	2.9	-2.2	-1.3
Natural Gas	-6.5	19.5	1.3	4.9	11.3	-13.4	-14.8	30.6	3.2
Computers	-13.6	13.2	17.0	23.2	12.2	13.6	4.7	14.8	15.5
Semiconductors	-51.1	11.0	-0.1	9.8	7.6	-0.5	4.2	5.0	5.0
Core Goods 2/	-6.5	10.0	5.2	11.4	6.0	5.9	1.8	1.9	4.5
	Billions of Chained 2000 Dollars								
Net Goods & Services	-399.1	-471.3	-518.9	-593.8	-618.0	-624.5	-561.5	-482.4	-431.8
Exports of G&S	1036.7	1013.3	1026.1	1126.1	1203.4	1304.1	1408.2	1521.3	1633.4
Imports of G&S	1435.8	1484.6	1545.0	1719.9	1821.5	1928.6	1969.7	2003.7	2065.2
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-384.7	-459.6	-522.1	-640.2	-754.8	-811.5	-758.1	-777.0	-707.6
Current Acct as Percent of GDP	-3.8	-4.4	-4.8	-5.5	-6.1	-6.2	-5.5	-5.4	-4.7
Net Goods & Services (BOP)	-365.1	-423.7	-496.9	-612.1	-714.4	-758.5	-712.7	-699.8	-631.3
Investment Income, Net	36.9	33.2	51.1	62.5	54.5	43.2	61.6	32.1	31.1
Direct, Net	115.9	102.4	112.7	139.4	152.5	174.2	210.2	241.6	257.2
Portfolio, Net	-79.0	-69.1	-61.5	-76.9	-98.1	-131.0	-148.6	-209.5	-226.1
Other Income & Transfers, Net	-56.5	-69.2	-76.3	-90.6	-94.9	-96.1	-107.0	-109.2	-107.3

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2004				2005				2006			
	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	-0.8	-1.5	-0.4	-1.1	0.3	0.8	-0.1	-1.4	0.1	0.5	-0.2	1.2
Exports of G&S	0.9	0.6	0.3	1.0	0.6	0.9	0.2	1.1	1.2	0.6	0.6	1.5
Imports of G&S	-1.7	-2.1	-0.7	-2.0	-0.3	-0.1	-0.3	-2.5	-1.1	-0.1	-0.9	-0.3
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	10.0	6.5	3.1	10.0	6.0	9.5	2.1	10.6	11.5	5.7	5.7	14.3
Services	16.2	5.1	-3.4	16.8	6.5	0.9	2.6	6.3	2.9	3.9	2.0	26.0
Computers	-7.0	1.7	16.7	13.4	17.4	24.9	12.8	2.0	14.6	13.0	-3.9	9.9
Semiconductors	16.7	-13.4	-20.9	-2.4	-1.7	9.3	23.2	43.8	25.3	14.5	-11.5	-13.5
Core Goods 1/	7.8	9.2	7.7	7.4	5.6	13.1	0.2	11.6	14.9	5.7	9.2	11.0
Imports of G&S	12.3	15.2	4.8	13.8	2.1	0.8	2.1	16.2	6.9	0.9	5.4	1.6
Services	16.5	8.9	1.8	10.5	-3.5	-0.5	0.0	10.3	9.5	-0.1	1.3	14.2
Oil	39.2	-26.3	-7.1	58.3	5.4	-26.2	-14.2	57.1	-3.6	-26.1	3.3	-6.9
Natural Gas	33.4	43.1	48.5	-57.3	53.9	-4.0	108.6	-50.2	-49.4	123.0	24.1	-59.8
Computers	20.7	30.1	25.6	17.0	5.7	9.8	17.0	16.6	27.0	16.9	16.0	-3.2
Semiconductors	43.0	18.5	3.9	-17.4	-9.5	7.7	15.7	18.8	0.1	-1.5	20.9	-17.9
Core Goods 2/	6.5	23.0	5.4	11.6	2.3	6.1	2.9	13.2	9.7	5.4	5.5	3.1
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-549.1	-591.1	-602.7	-632.3	-624.4	-601.0	-604.1	-642.6	-640.1	-626.6	-633.8	-597.3
Exports of G&S	1101.8	1119.4	1128.0	1155.3	1172.4	1199.3	1205.6	1236.4	1270.6	1288.4	1306.6	1350.9
Imports of G&S	1650.9	1710.5	1730.8	1787.7	1796.8	1800.3	1809.7	1879.0	1910.7	1915.0	1940.4	1948.2
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-559.8	-634.7	-632.3	-733.8	-729.6	-732.9	-693.6	-863.2	-802.4	-822.4	-869.3	-751.8
Current Account as % of GDP	-4.9	-5.5	-5.4	-6.1	-6.0	-6.0	-5.5	-6.8	-6.2	-6.3	-6.6	-5.6
Net Goods & Services (BOP)	-544.1	-602.4	-626.4	-675.4	-666.6	-682.7	-723.8	-784.4	-758.8	-770.3	-797.2	-707.7
Investment Income, Net	82.2	59.4	69.2	39.2	56.2	53.5	72.8	35.3	48.3	49.2	30.0	45.3
Direct, Net	146.2	129.6	143.4	138.4	140.4	147.3	176.1	146.2	168.0	178.6	161.9	188.3
Portfolio, Net	-63.9	-70.3	-74.2	-99.2	-84.3	-93.8	-103.3	-110.9	-119.8	-129.4	-132.0	-143.0
Other Inc. & Transfers, Net	-97.8	-91.7	-75.1	-97.6	-119.2	-103.8	-42.6	-114.1	-91.8	-101.2	-102.1	-89.4

1. Merchandise exports excluding computers and semiconductors.

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

January 23, 2008

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2007				2008				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	-0.5	1.3	1.4	0.2	0.1	1.3	0.7	0.0	-0.0	1.0	0.6	-0.4
Exports of G&S	0.1	0.9	2.1	0.5	0.8	0.9	0.9	0.9	0.9	1.0	0.9	1.0
Imports of G&S	-0.6	0.5	-0.7	-0.4	-0.7	0.4	-0.2	-0.9	-1.0	0.0	-0.4	-1.3
Percentage change from previous period, s.a.a.r.												
Exports of G&S	1.1	7.5	19.1	4.6	6.7	7.2	7.4	7.4	7.3	7.5	7.3	7.3
Services	1.6	9.6	4.0	7.6	6.7	6.3	6.2	6.0	6.0	5.8	5.7	5.6
Computers	-8.2	-17.8	19.9	-5.9	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
Semiconductors	25.4	23.2	6.3	26.2	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Core Goods 1/	0.3	7.1	27.4	2.8	6.5	7.4	7.7	7.8	7.7	8.0	7.8	7.9
Imports of G&S	3.9	-2.7	4.4	2.1	3.9	-2.4	1.4	5.1	5.6	-0.2	2.1	7.9
Services	2.3	-1.7	1.7	-0.1	-1.3	0.5	7.0	-0.7	2.1	2.9	3.5	3.5
Oil	29.6	-22.3	-18.2	36.3	18.9	-24.8	-14.5	19.6	12.5	-23.7	-15.6	31.1
Natural Gas	8.3	258.5	-16.7	-83.7	68.0	103.3	46.2	-41.7	24.7	30.5	22.0	-42.9
Computers	41.1	-13.1	-3.8	2.0	12.6	15.5	15.5	15.5	15.5	15.5	15.5	15.5
Semiconductors	4.0	3.3	3.4	6.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Core Goods 2/	-2.3	-0.5	11.8	-1.3	0.0	1.1	2.6	4.0	3.8	3.9	4.9	5.3
Billions of Chained 2000 Dollars, s.a.a.r.												
Net Goods & Services	-612.1	-573.9	-533.1	-526.9	-521.8	-483.5	-463.3	-460.8	-460.9	-430.8	-412.7	-422.9
Exports of G&S	1354.7	1379.5	1441.2	1457.4	1481.4	1507.3	1534.5	1562.1	1590.0	1618.9	1647.7	1677.0
Imports of G&S	1966.8	1953.4	1974.3	1984.3	2003.2	1990.9	1997.8	2023.0	2051.0	2049.7	2060.4	2099.9
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-788.4	-755.7	-713.8	-774.4	-818.1	-775.9	-754.7	-759.2	-749.8	-703.3	-678.5	-698.7
Current Account as % of GDP	-5.8	-5.5	-5.1	-5.5	-5.8	-5.4	-5.2	-5.2	-5.1	-4.7	-4.5	-4.6
Net Goods & Services (BOP)	-710.3	-713.7	-692.6	-734.3	-748.3	-701.7	-676.9	-672.1	-672.2	-629.2	-605.2	-618.6
Investment Income, Net	36.2	57.4	88.6	64.2	43.6	31.4	27.8	25.5	28.0	31.5	32.3	32.5
Direct, Net	191.0	201.5	221.0	227.2	236.8	240.4	244.4	244.8	248.8	255.0	259.9	265.1
Portfolio, Net	-154.8	-144.1	-132.4	-163.0	-193.2	-209.0	-216.6	-219.3	-220.8	-223.5	-227.6	-232.6
Other Inc. & Transfers, Net	-114.3	-99.4	-109.8	-104.4	-113.3	-105.6	-105.6	-112.6	-105.6	-105.6	-105.6	-112.6

1. Merchandise exports excluding computers and semiconductors.

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

Part 2

January 23, 2008

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

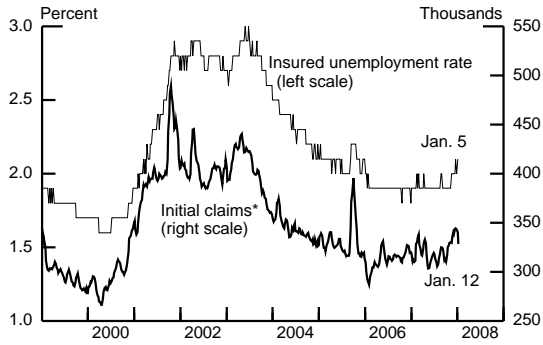
Recent Developments

January 23, 2008

Recent Developments

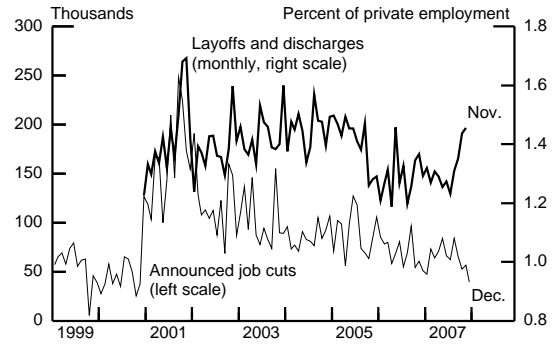
Labor Market Indicators

Unemployment Insurance



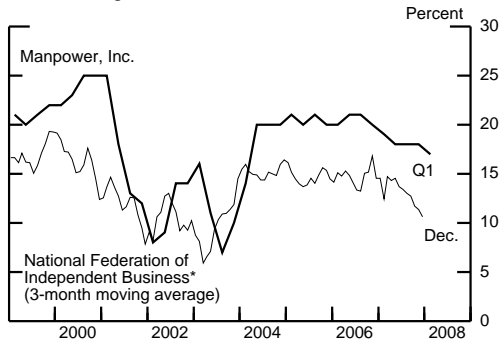
*4-week moving average.

Layoffs and Job Cuts



Note. Both series are seasonally adjusted by FRB staff.
Source. For layoffs and discharges, Job Openings and Labor Turnover Survey; for job cuts, Challenger, Gray, and Christmas, Inc.

Net Hiring Plans



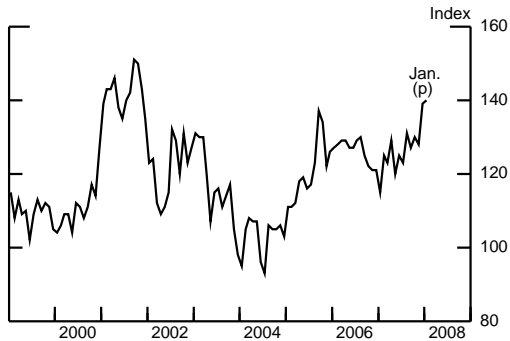
Note. Percent planning an increase in employment minus percent planning a reduction.
*Seasonally adjusted by FRB staff.

Job Openings and Hires



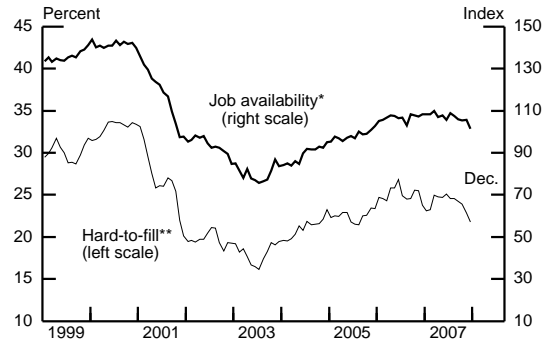
Source. Job Openings and Labor Turnover Survey.

Reuters/Michigan Expected Unemployment Change (next 12 months)



Note. The fraction of households expecting unemployment to rise, minus the fraction expecting unemployment to fall, plus 100.
p Preliminary.

Job Availability and Hard-to-Fill Positions

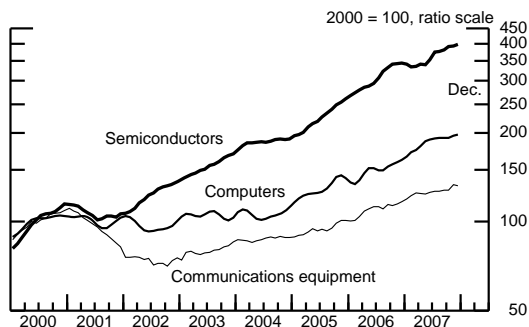


*Proportion of households believing jobs are plentiful, minus the proportion believing jobs are hard to get, plus 100.

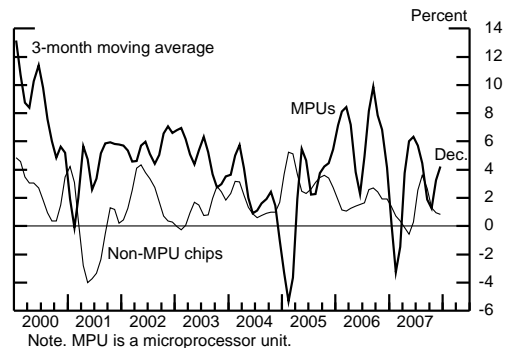
**Percent of small businesses surveyed with at least one "hard-to-fill" job opening. Seasonally adjusted by FRB staff.
Source. For job availability, Conference Board; for hard-to-fill, National Federation of Independent Business.

Indicators of High-Tech Manufacturing Activity

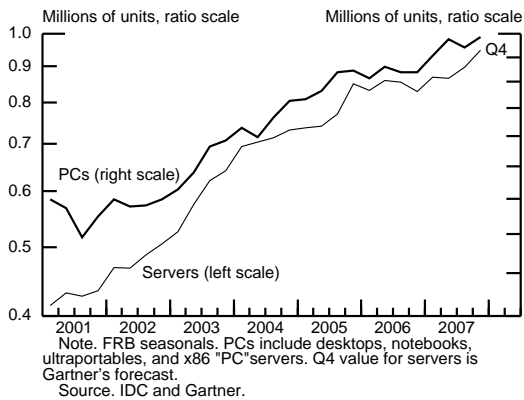
Industrial Production in the High-Tech Sector



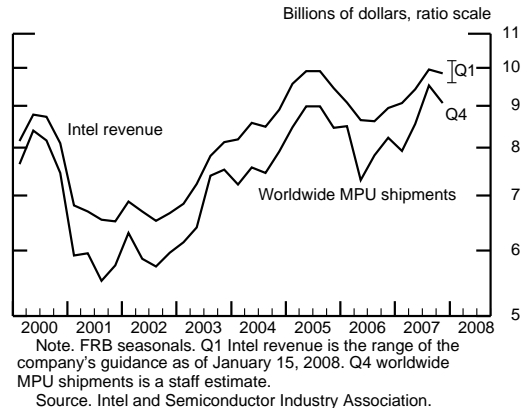
Rate of Change in Semiconductor Industrial Production



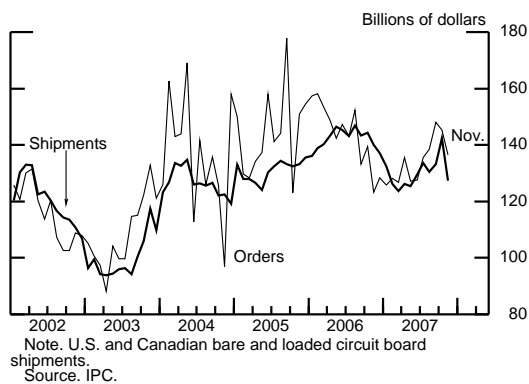
U.S. Personal Computer and Server Sales



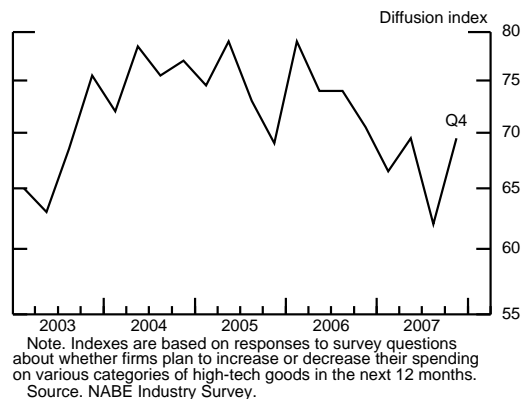
MPU Shipments and Intel Revenue



Circuit Board Orders and Shipments

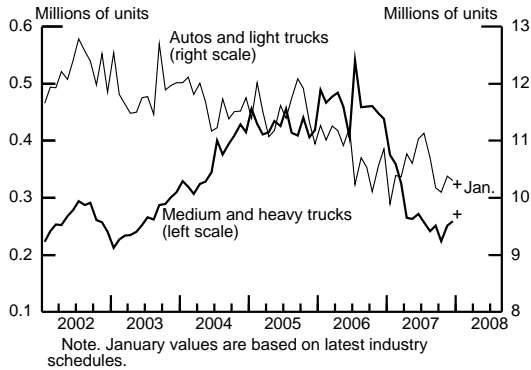


High-Tech Spending Plans

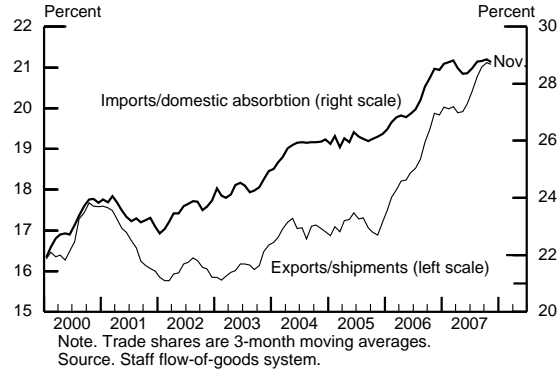


Indicators of Industrial Activity

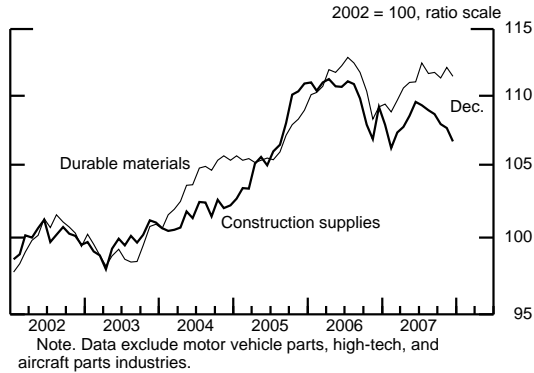
Motor Vehicle Assemblies



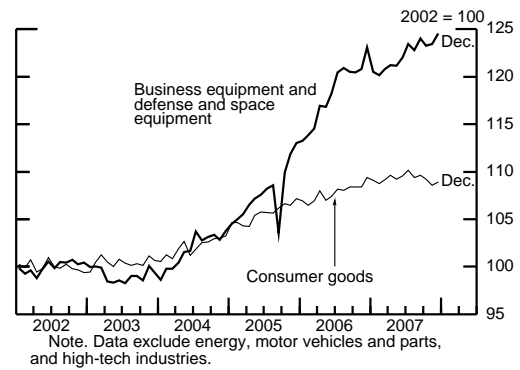
Trade shares



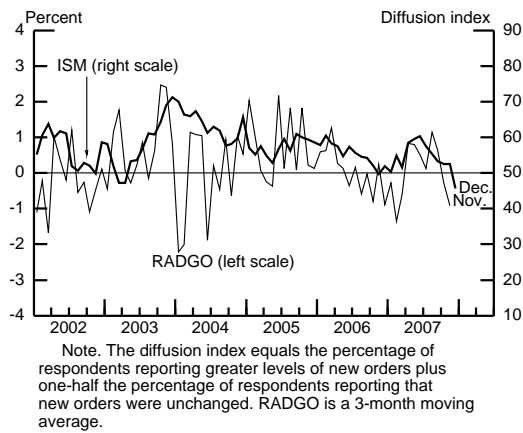
IP: Construction Supplies and Durable Materials



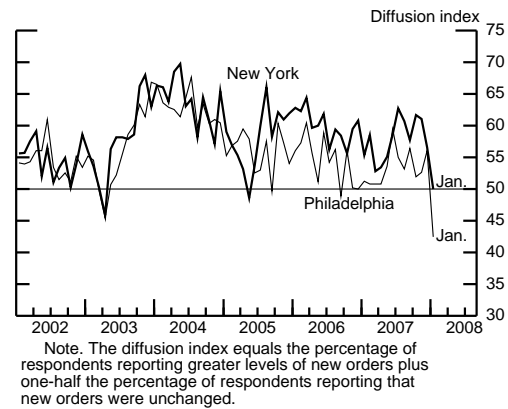
IP: Equipment and Consumer Goods



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



New Orders: FRB New York Survey and FRB Philadelphia Survey



Sales of Light Vehicles
(Millions of units at an annual rate; FRB seasonals)

Category	2007	2007					
		Q2	Q3	Q4	Oct.	Nov.	Dec.
Total	16.1	16.0	15.9	16.1	16.0	16.2	16.2
Autos	7.6	7.7	7.4	7.8	7.5	8.0	7.9
Light trucks	8.5	8.3	8.5	8.3	8.5	8.1	8.3
North American ¹	12.4	12.3	12.3	12.4	12.2	12.4	12.5
Autos	5.3	5.3	5.1	5.5	5.2	5.7	5.6
Light trucks	7.1	7.0	7.2	6.9	7.0	6.7	6.9
Foreign-produced	3.8	3.8	3.6	3.8	3.8	3.8	3.8
Autos	2.4	2.4	2.3	2.3	2.3	2.4	2.3
Light trucks	1.4	1.4	1.3	1.4	1.5	1.4	1.4
Memo: Detroit Three domestic market share (percent) ²	51.2	51.8	50.4	50.4	50.8	50.4	49.9

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

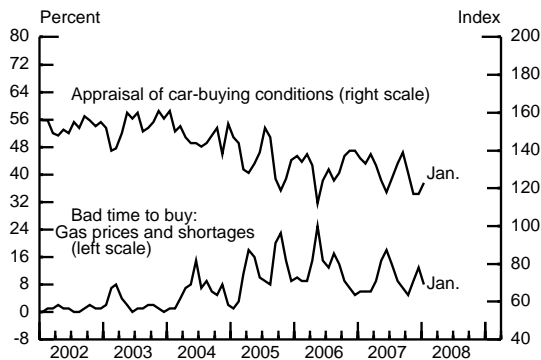
1. Excludes some vehicles produced in Canada that are classified as imports by the industry.

2. Domestic market share excludes sales of foreign brands affiliated with the Detroit Three.

Content redacted.

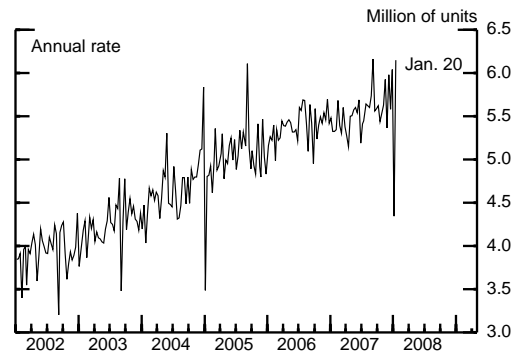
Content redacted.

Car-Buying Attitudes



Source. Reuters/University of Michigan Survey.

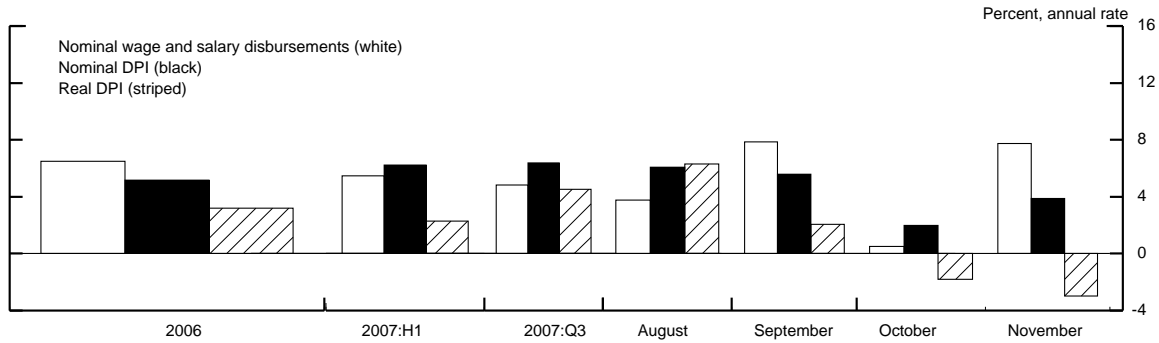
**Ten-day U.S. Light Vehicle Sales
for Toyota, Honda, Nissan, and Mazda**



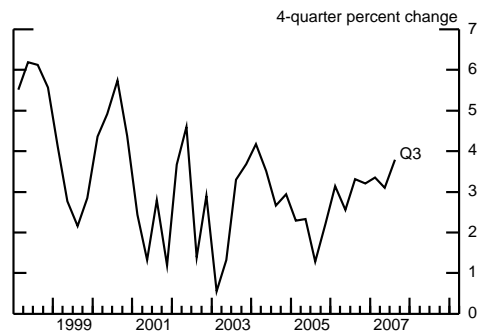
Source. Nissan North America.

Fundamentals of Household Spending

Changes in Nominal Wages and Salaries, Nominal DPI, and Real DPI

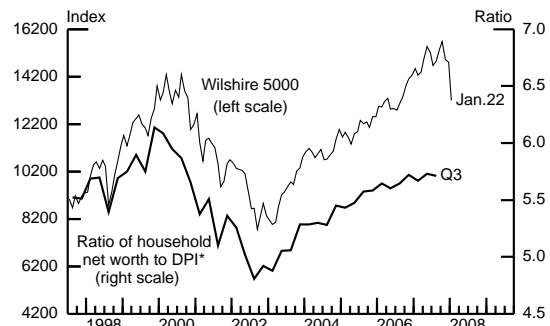


Change in Real DPI



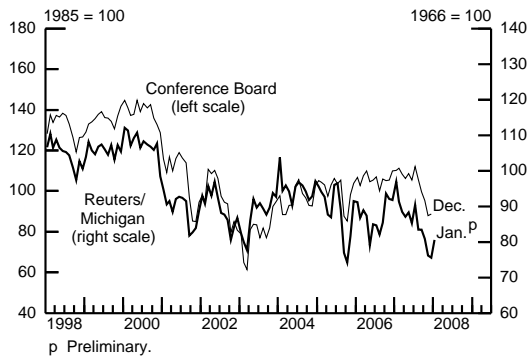
Note. Values for 2004:Q4 and 2005:Q4 exclude the effect on income of the one-time Microsoft dividend in December 2004.

Household Net Worth and Wilshire 5000



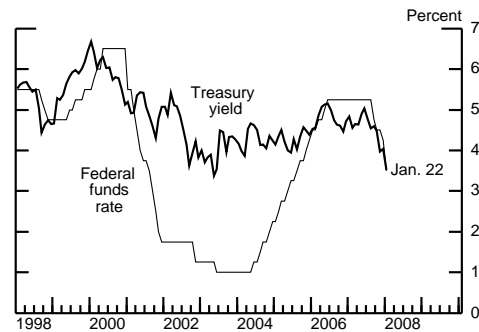
*The value for 2004:Q4 excludes the effect on income of the one-time Microsoft dividend in December 2004.

Consumer Confidence



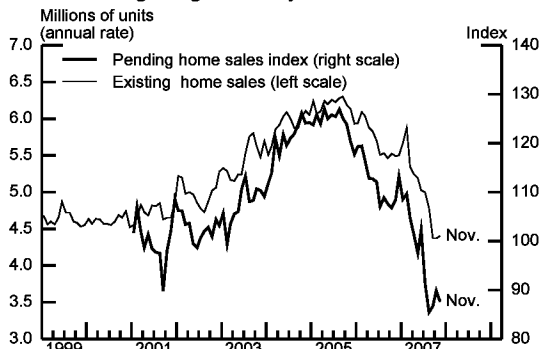
p Preliminary.

Federal Funds Rate and 10-Year Treasury Yield



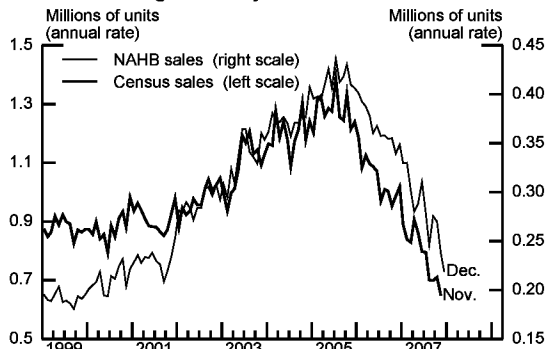
Indicators of Single-Family Housing

Existing Single-Family Home Sales



Source. National Association of Realtors.

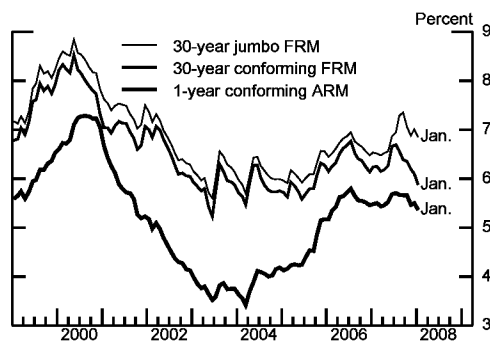
New Single-Family Home Sales



Source. For NAHB new home sales, NAHB's survey of large homebuilders; for new home sales agreements, Census Bureau.

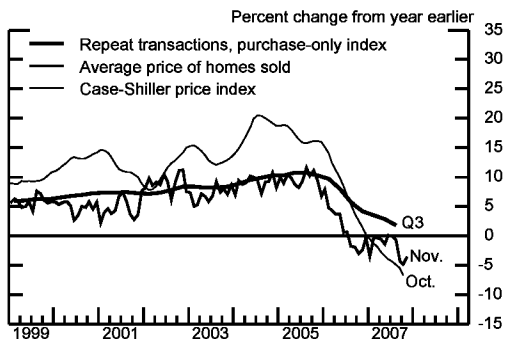


Mortgage Rates



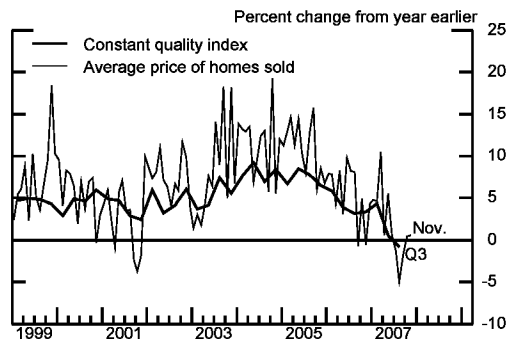
Note. The Jan. readings are for data through Jan. 16, 2008.
Source. Conforming rates are from Freddie Mac. The jumbo rate is the sum of the 30-year conforming FRM rate and the jumbo conforming spread from bankrate.com.

Prices of Existing Homes



Note. The Case-Shiller price index is the 10-city index.
Source. For repeat transactions, OFHEO; for average price, National Association of Realtors; for Case-Shiller, Chicago Mercantile Exchange.

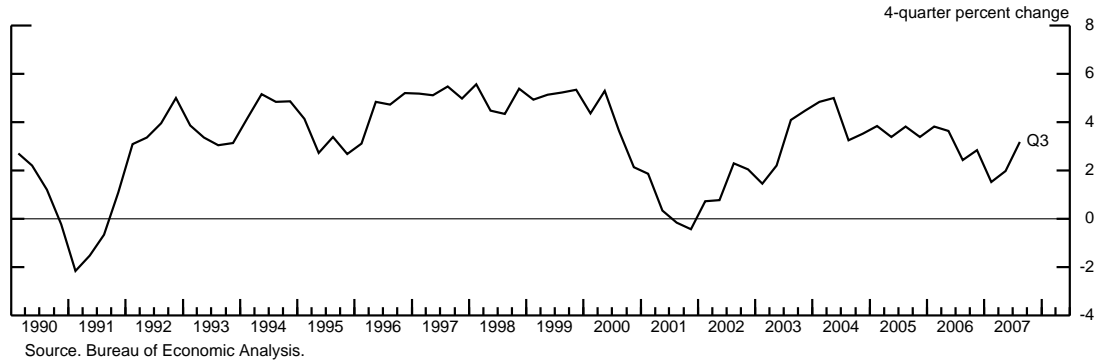
Prices of New Homes



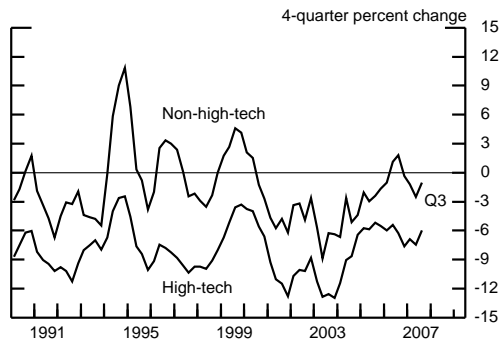
Note. Average price values have been adjusted by Board staff to take into account new sampling procedures adopted in 2005.
Source. Census Bureau.

Fundamentals of Equipment and Software Investment

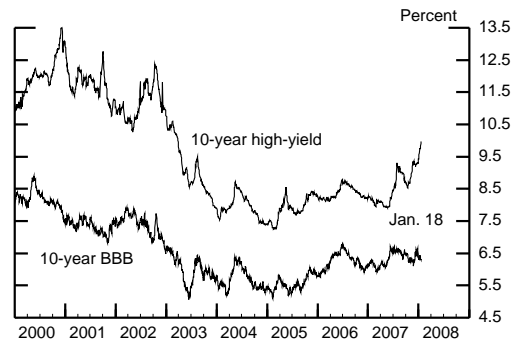
Real Business Output



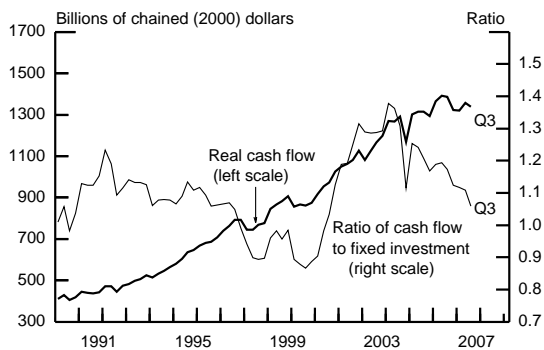
User Cost of Capital



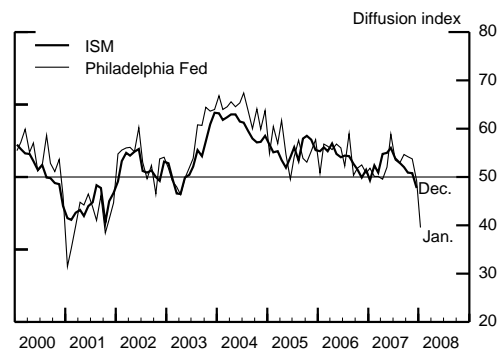
Corporate Bond Yields



Corporate Cash Flow



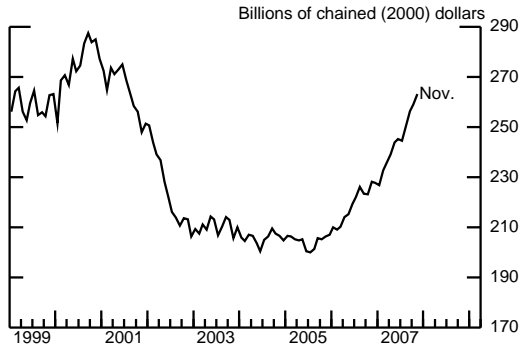
Surveys of Business Conditions



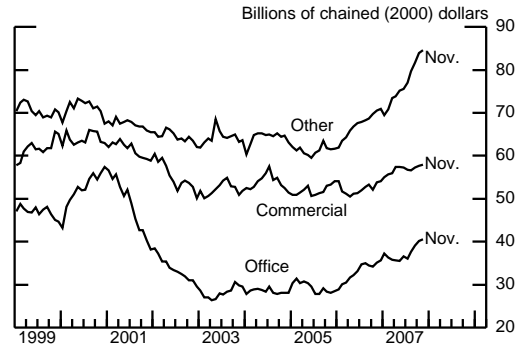
Nonresidential Construction and Indicators

(All spending series are seasonally adjusted at an annual rate; nominal CIPPI deflated by BEA prices through Q3 and by staff projection thereafter)

Total Structures

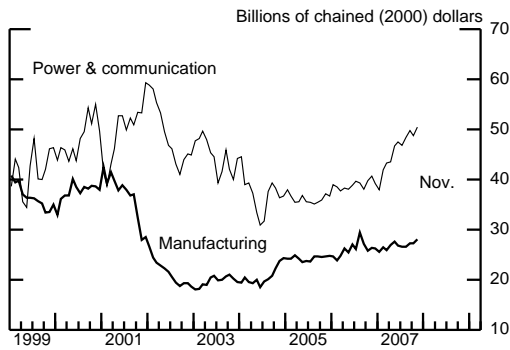


Office, Commercial, and Other

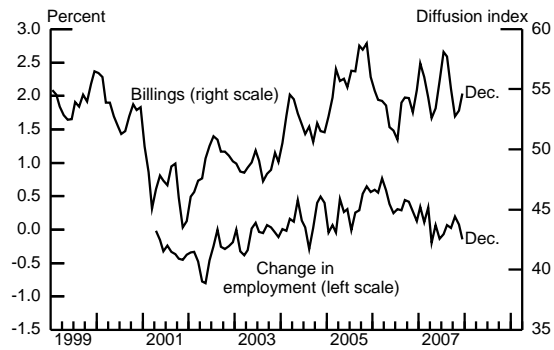


Note. Other includes religious, educational, lodging, amusement and recreation, transportation, and health-care facilities.

Manufacturing and Power & Communication

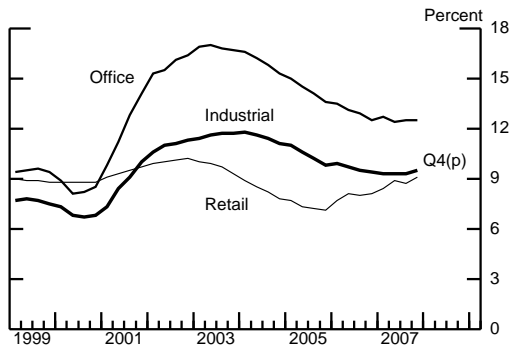


Architectural Billings and Nonresidential Construction Employment



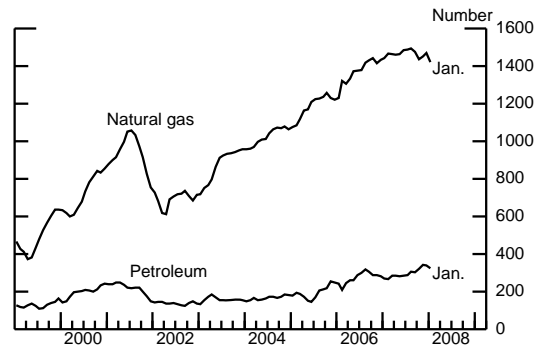
Note. Both series are 3-month moving averages. Employment includes industrial, commercial, and specialty trade construction. Source. For billings, American Institute of Architects; for employment, Bureau of Labor Statistics.

Vacancy Rates



Note. Industrial space includes both manufacturing structures and warehouses.
p Preliminary.
Source. Torto Wheaton Research.

Drilling Rigs in Operation



Note. The January readings are based on data through January 18, 2008.
Source. DOE/Baker Hughes.

CBO Budget Projections and Economic Assumptions

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Budget projections¹ (fiscal years)	Billions of dollars										
Baseline deficit	219	198	241	117	-87	-61	-96	-117	-95	-151	-223
Adjustments ²											
War on terrorism	30	58	59	51	29	13	-4	-17	-21	-24	-25
Expiring tax provisions	12	92	104	267	395	443	475	508	544	583	626
Net interest	0	5	11	25	45	70	94	123	154	189	225
Adjusted deficit	261	353	415	460	382	465	469	497	582	597	603
Memo:	Percent of GDP										
Adjusted deficit	1.8	2.4	2.7	2.8	2.2	2.6	2.5	2.5	2.8	2.8	2.7
Economic assumptions (calendar years)	Percent change, year over year										
Nominal GDP	3.6	4.7	5.4	5.3	4.8	4.5	4.5	4.4	4.3	4.3	4.3
Real GDP	1.7	2.8	3.5	3.4	2.9	2.6	2.6	2.5	2.4	2.4	2.4
PCE prices	2.6	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Core PCE prices	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
CPI-U	2.9	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Core CPI-U	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
	Percent, annual average										
Unemployment rate	5.1	5.4	5.1	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Treasury yields											
Three-month	3.2	4.2	4.6	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Ten-year	4.2	4.9	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2

1. The baseline assumes that budget authority for discretionary programs grows with inflation after fiscal 2008 and that no new mandatory spending or tax legislation is enacted.

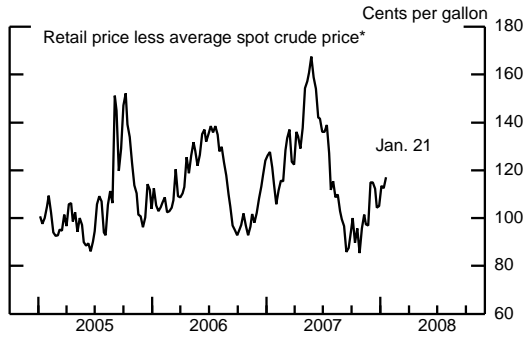
2. Adjustments measure the effect of alternative policies on the deficit and move the baseline closer to policies in effect in 2007. Real defense spending on the war in Iraq and Afghanistan is assumed to remain at 2007 levels over the next several years and then to drift down. All expiring tax provisions are assumed to be extended, including relief from the Alternative Minimum Tax, which is assumed to be indexed for inflation after 2007. Higher net interest costs reflect larger deficits in the adjusted baseline.

Source. Congressional Budget Office (2008), *The Budget and Economic Outlook: Fiscal Years 2008 to 2018* (January).

Energy and Food Price Indicators

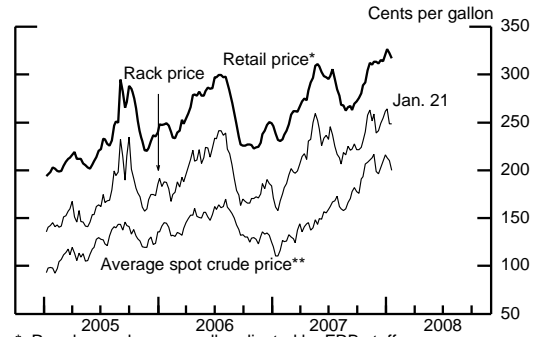
(Data from Energy Information Administration except as noted)

Total Gasoline Margin



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

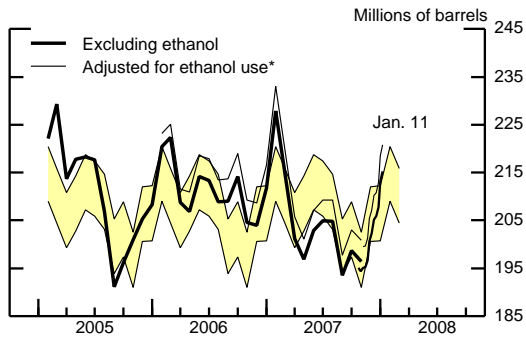
Gasoline Price Decomposition



* Regular grade seasonally adjusted by FRB staff.

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

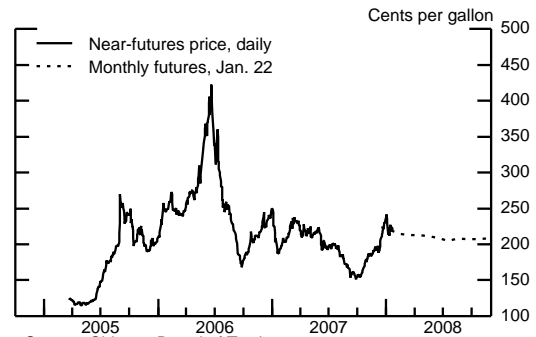
Gasoline Inventories



Note. Shaded region is average historical range as calculated by DOE. Monthly data through October 2007, weekly data thereafter, as indicated by line weights.

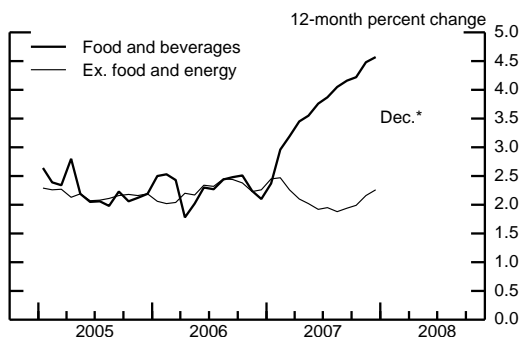
* Adjustment for approximate amount of fuel ethanol to be blended with RBOB component of inventories; estimated by FRB staff.

Ethanol Prices



Source. Chicago Board of Trade.

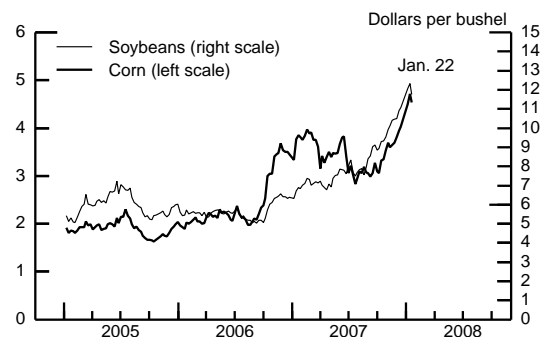
PCE Food Prices



*Staff estimate.

Source. Bureau of Economic Analysis.

Spot Agricultural Commodity Prices



Source. Commodity Research Bureau.

Broad Measures of Inflation

(Percent change, Q3 to Q3)

Measure	2004	2005	2006	2007
<i>Product prices</i>				
GDP price index	3.0	3.3	3.2	2.4
Less food and energy	2.9	3.2	3.2	2.3
Nonfarm business chain price index	2.5	3.5	3.0	1.5
<i>Expenditure prices</i>				
Gross domestic purchases price index	3.3	3.8	3.3	2.3
Less food and energy	2.9	3.0	3.0	2.2
PCE price index	2.7	3.2	2.9	2.1
Less food and energy	2.1	2.1	2.4	1.9
PCE price index, market-based components	2.3	3.1	2.7	2.0
Less food and energy	1.4	1.7	2.1	1.7
CPI	2.7	3.8	3.4	2.4
Less food and energy	1.8	2.1	2.8	2.1
Chained CPI	2.5	3.4	2.8	2.1
Less food and energy	1.7	1.8	2.6	1.8
Median CPI	2.3	2.4	3.2	2.8
Trimmed mean CPI	2.1	2.3	2.9	2.4
Trimmed mean PCE	2.4	2.4	2.8	2.2

Surveys of Inflation Expectations

(Percent)

Period	Actual CPI inflation ¹	Reuters/Michigan Survey				Professional forecasters (10 years) ⁴	
		1 year ²		5 to 10 years ³			
		Mean	Median	Mean	Median	CPI	PCE
2006:Q1	3.6	3.7	3.0	3.3	2.9	2.5	...
Q2	4.0	4.5	3.5	3.6	3.1	2.5	...
Q3	3.3	4.0	3.4	3.3	3.0	2.5	...
Q4	1.9	3.5	3.0	3.5	3.0	2.5	...
2007:Q1	2.4	3.6	3.0	3.4	2.9	2.4	2.0
Q2	2.7	4.2	3.3	3.5	3.0	2.4	2.0
Q3	2.4	4.1	3.2	3.5	3.0	2.4	2.1
Q4	4.0	4.1	3.3	3.3	2.9	2.4	2.1
2007:Sept.	2.8	4.0	3.1	3.4	2.9	...	...
Oct.	3.5	3.7	3.1	3.1	2.8	...	...
Nov.	4.3	4.3	3.4	3.4	2.9	2.4	2.1
Dec.	4.1	4.4	3.4	3.5	3.1	...	...
2008:Jan.	n.a.	4.1	3.4	3.4	3.0	...	...

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?

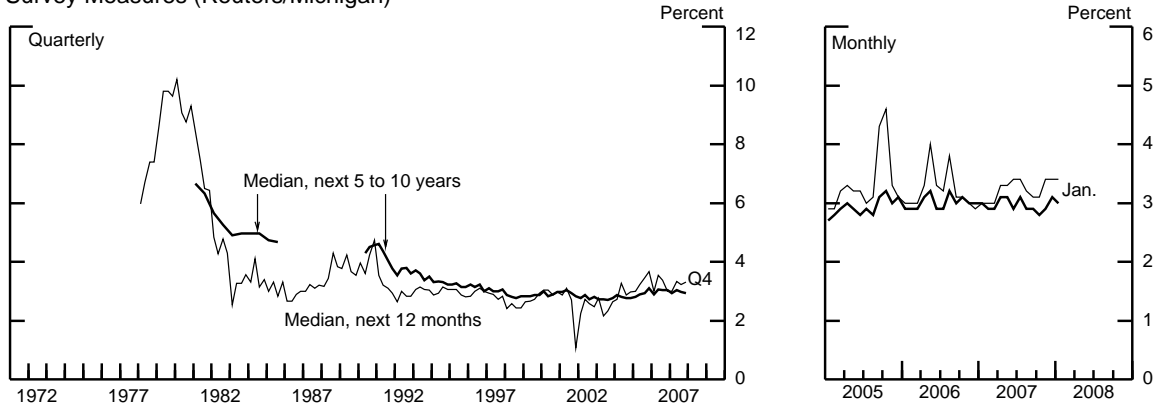
4. Median CPI and PCE price projections compiled by the Federal Reserve Bank of Philadelphia.

... Not applicable.

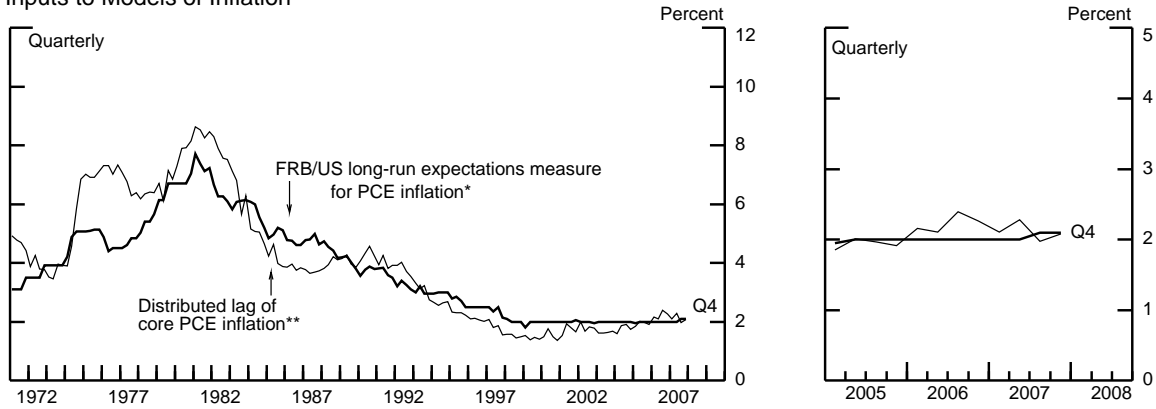
n.a. Not available.

Measures of Expected Inflation

Survey Measures (Reuters/Michigan)



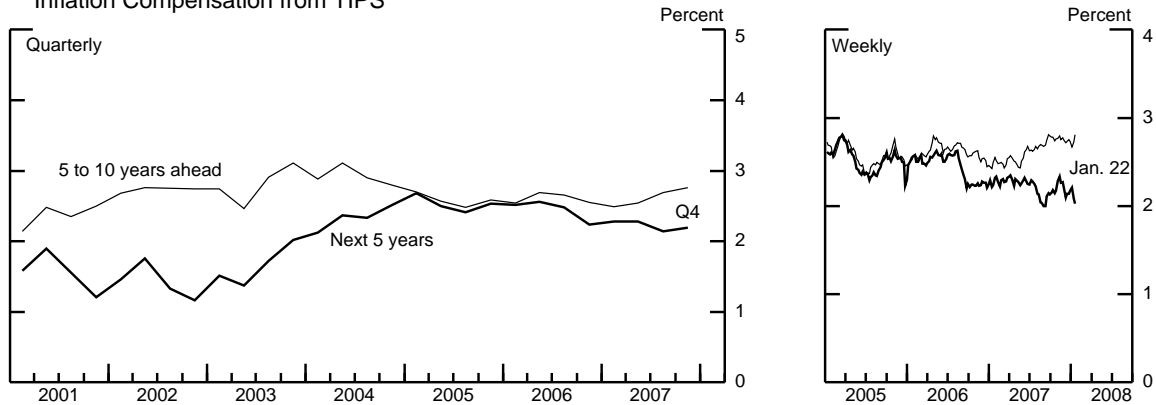
Inputs to Models of Inflation



*For 2007 forward, the median projection for PCE inflation over the next 10 years from the Survey of Professional Forecasters (SPF); for 1991 to 2006, the equivalent SPF projection for the CPI; for 1981 to 1991, a related survey for the CPI conducted by Richard Hovey; and for the period preceding 1981, a model-based estimate constructed by Board staff. The survey data before 2007 are adjusted down 0.5 percentage point to put the CPI projections approximately on a PCE basis.

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

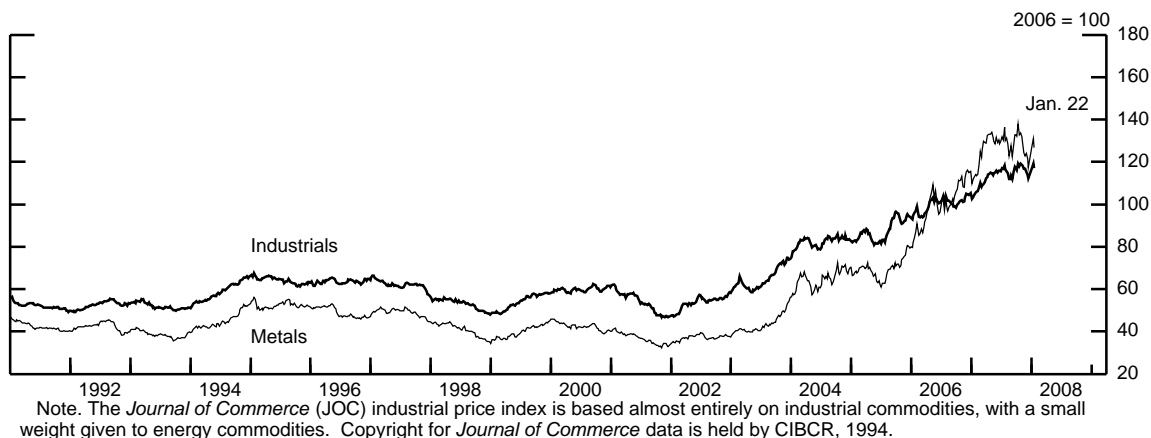
Inflation Compensation from TIPS



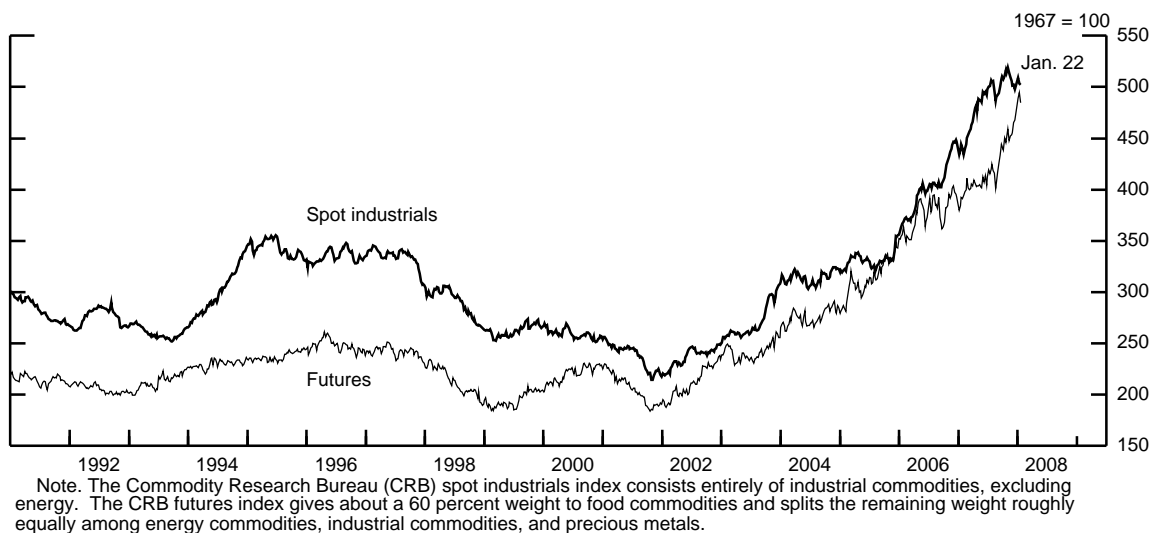
Note. Based on a comparison of an estimated TIPS yield curve with an estimated nominal off-the-run Treasury yield curve, with an adjustment for the indexation-lag effect.

Commodity Price Indexes

Journal of Commerce



Commodity Research Bureau



Selected Commodity Price Indexes (Percent change)

Index	2006 ¹	12/19/06 to 12/4/07 ²	12/4/07 ² to 1/22/08	52-week change to 1/22/08
JOC industrials	10.4	10.5	1.5	11.7
JOC metals	43.5	8.0	2.1	12.1
CRB spot industrials	26.9	11.9	.2	13.0
CRB spot foodstuffs	13.0	23.2	4.4	24.1
CRB futures	15.0	15.2	6.5	23.5

1. From the last week of the preceding year to the last week of the year indicated.

2. December 4, 2007, is the Tuesday preceding publication of the December Greenbook.

III-T-1
Selected Financial Market Quotations
(One-day quotes in percent except as noted)

Instrument	2006	2007		2008	Change to Jan. 22 from selected dates (percentage points)		
	June 29	Sept. 17	Dec. 10	Jan. 22	2006 June 29	2007 Sept. 17	2007 Dec. 10
<i>Short-term</i>							
FOMC intended federal funds rate	5.25	5.25	4.50	3.50	-1.75	-1.75	-1.00
Treasury bills ¹							
3-month	4.88	4.05	2.98	2.30	-2.58	-1.75	-.68
6-month	5.06	4.15	3.20	2.34	-2.72	-1.81	-.86
Commercial paper (A1/P1 rates) ²							
1-month	5.27	5.23	4.36	3.51	-1.76	-1.72	-.85
3-month	5.37	5.25	4.94	3.37	-2.00	-1.88	-1.57
Large negotiable CDs ¹							
3-month	5.47	5.52	5.18	3.38	-2.09	-2.14	-1.80
6-month	5.59	5.36	4.98	3.23	-2.36	-2.13	-1.75
Eurodollar deposits ³							
1-month	5.33	5.55	5.40	3.80	-1.53	-1.75	-1.60
3-month	5.49	5.60	5.25	3.70	-1.79	-1.90	-1.55
Bank prime rate	8.25	8.25	7.50	6.50	-1.75	-1.75	-1.00
<i>Intermediate- and long-term</i>							
U.S. Treasury ⁴							
2-year	5.26	4.12	3.17	2.04	-3.22	-2.08	-1.13
5-year	5.15	4.18	3.55	2.69	-2.46	-1.49	-.86
10-year	5.28	4.58	4.33	3.71	-1.57	-.87	-.62
U.S. Treasury indexed notes ⁵							
5-year	2.51	2.04	1.42	.71	-1.80	-1.33	-.71
10-year	2.61	2.15	1.94	1.34	-1.27	-.81	-.60
Municipal general obligations (Bond Buyer) ⁶	4.71	4.46	4.38	4.15	-.56	-.31	-.23
Private instruments							
10-year swap	5.81	5.17	4.89	4.17	-1.64	-1.00	-.72
10-year FNMA ⁷	5.59	5.01	4.83	4.12	-1.47	-.89	-.71
10-year AA ⁸	6.20	6.05	6.08	5.64	-.56	-.41	-.44
10-year BBB ⁸	6.74	6.46	6.55	6.23	-.51	-.23	-.32
10-year high yield ⁸	8.74	8.95	9.23	1.05	1.31	1.10	.82
Home mortgages (FHLMC survey rate) ⁹							
30-year fixed	6.78	6.34	6.11	5.69	-1.09	-.65	-.42
1-year adjustable	5.82	5.65	5.50	5.26	-.56	-.39	-.24

Stock exchange index	Record high		2007		2008	Change to Jan. 22 from selected dates (percent)		
	Level	Date	Sept. 17	Dec. 10	Jan. 22	Record high	2007 Sept. 17	2007 Dec. 10
Dow Jones Industrial	14,165	10-9-07	13,403	13,727	11,971	-15.48	-1.69	-12.79
S&P 500 Composite	1,565	10-9-07	1,477	1,516	1,311	-16.27	-11.25	-13.55
Nasdaq	5,049	3-10-00	2,582	2,719	2,292	-54.60	-11.21	-15.69
Russell 2000	856	7-13-07	776	791	672	-21.52	-13.44	-15.12
Wilshire 5000	15,807	10-9-07	14,839	15,311	13,190	-16.56	-11.12	-13.86

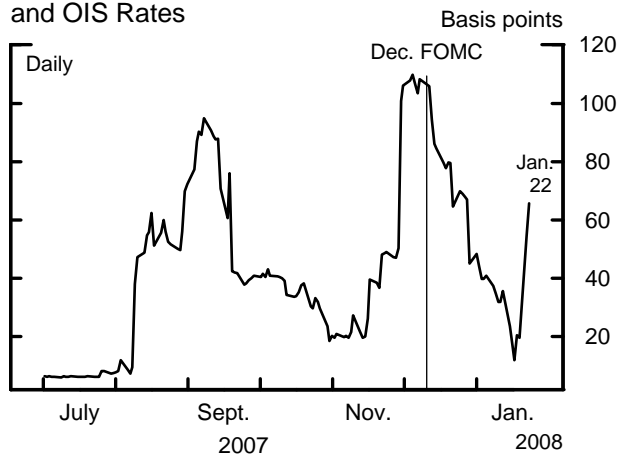
1. Secondary market.
2. Financial commercial paper.
3. Bid rates for Eurodollar deposits collected around 9:30 a.m. eastern time.
4. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
5. Derived from a smoothed Treasury yield curve estimated using all outstanding securities and adjusted for the carry effect.
6. Most recent Thursday quote.
7. Constant-maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
8. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.
9. Home mortgage rates for January 22, 2008, are for the week ending January 17, 2008.

NOTES:

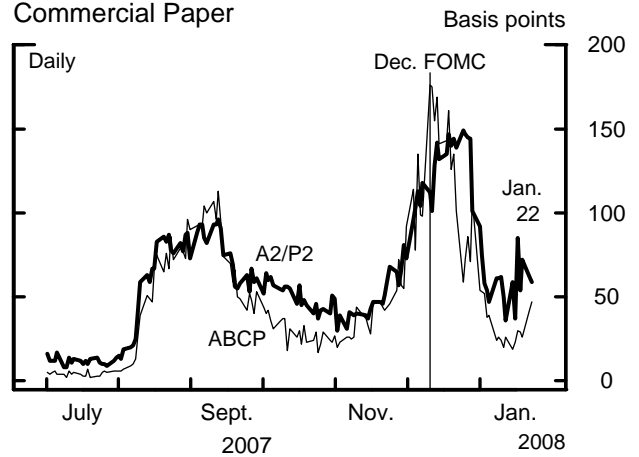
June 29, 2006, is the day the most recent policy tightening ended.
September 17, 2007, is the day before the most recent policy easing began.
December 10, 2007, is the day before the most recent FOMC announcement.

III-C-1 Short-Term Funding and Interbank Markets

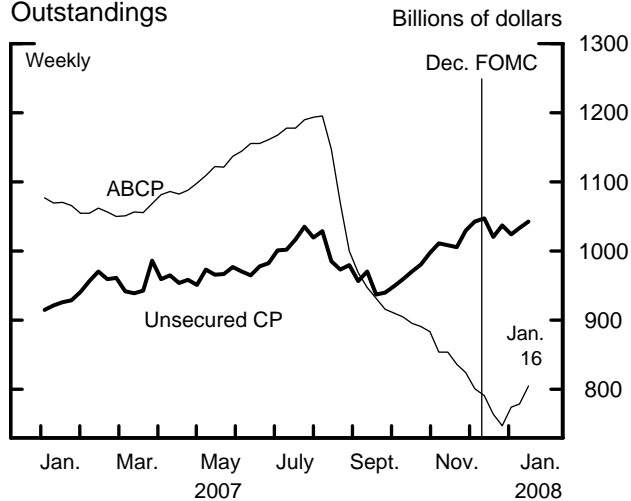
Spreads between 30-Day Libor and OIS Rates



Spreads on 30-Day Commercial Paper

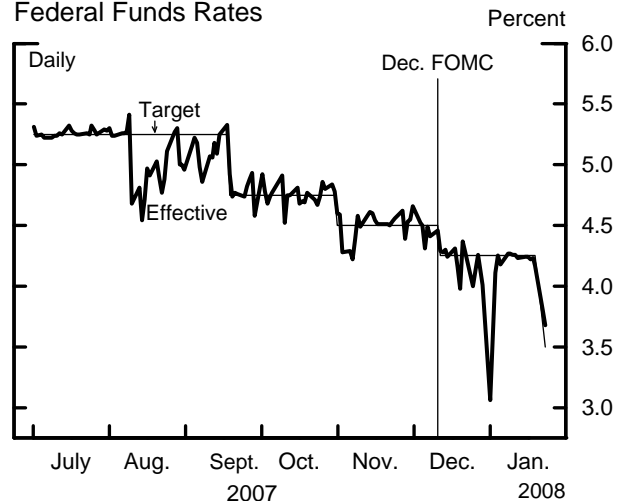


Commercial Paper Outstandings

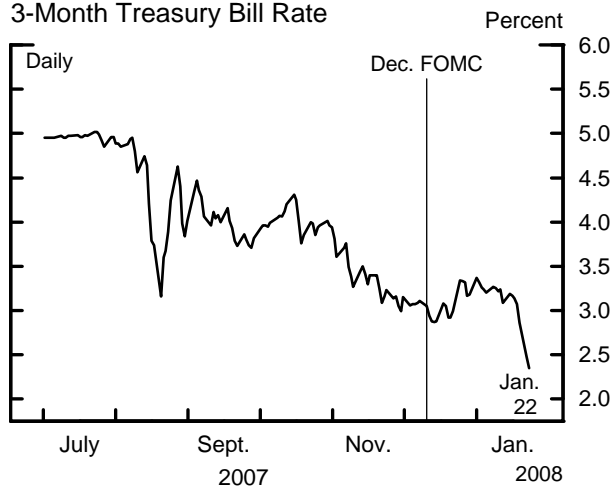


Note. Seasonally adjusted; weeks ending on Wednesdays.

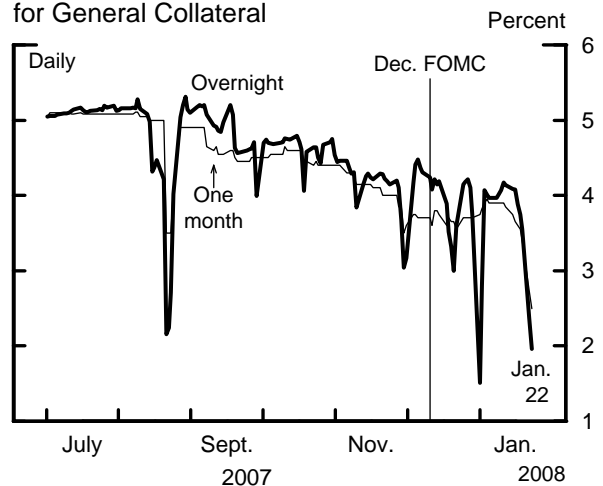
Federal Funds Rates



3-Month Treasury Bill Rate

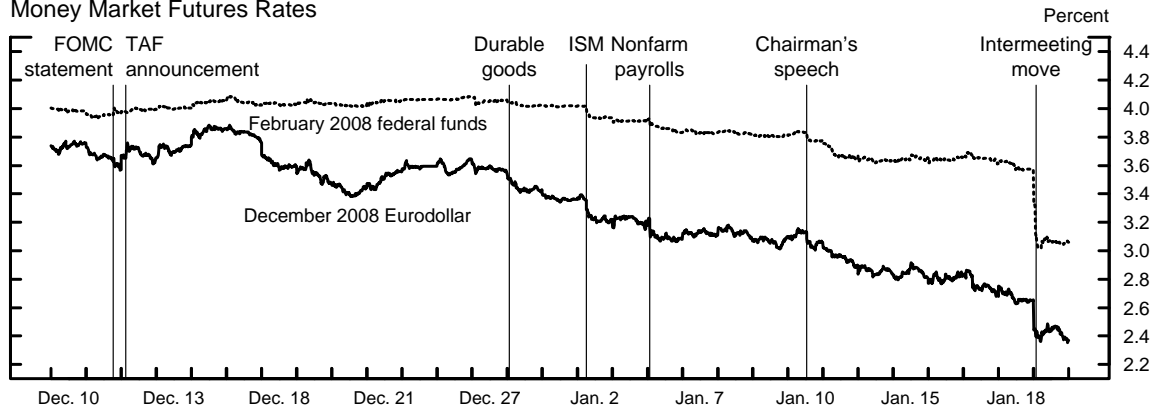


Treasury Repo Rates for General Collateral



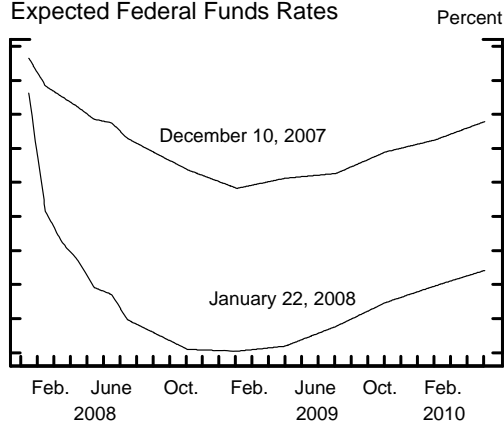
Policy Expectations and Treasury Yields

Money Market Futures Rates



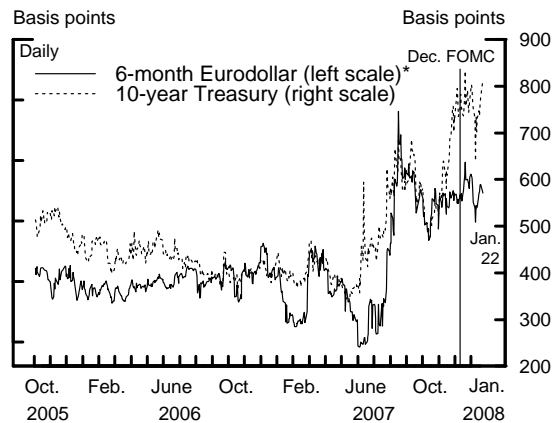
Note. 5-minute intervals. 8:00 a.m. to 4:00 p.m. No adjustments for term premiums.

Expected Federal Funds Rates



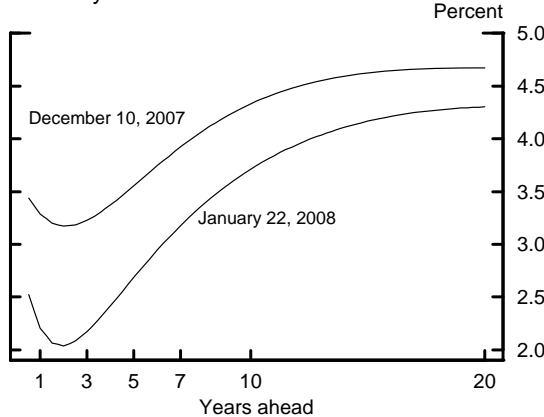
Note. Estimates from federal funds and Eurodollar futures.

Implied Volatility of Interest Rates



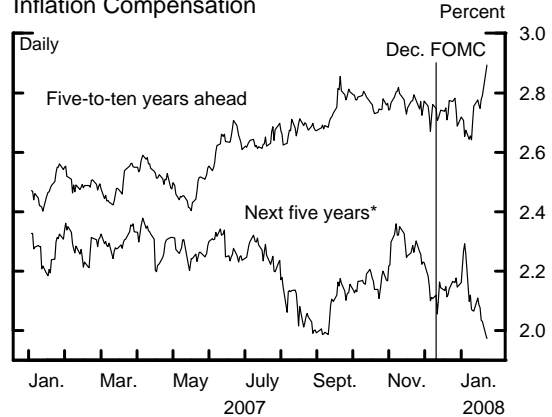
*Width of a 90 percent confidence interval computed from the term structures for the expected federal funds rate and implied volatility.

Treasury Yield Curve



Note. Smoothed yield curve estimated from off-the-run Treasury coupon securities. Yields shown are those on notional par Treasury securities with semiannual coupons.

Inflation Compensation

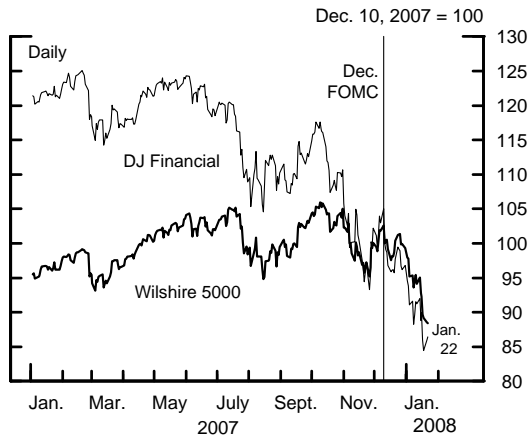


Note. Estimates based on smoothed nominal and inflation-indexed Treasury yields.

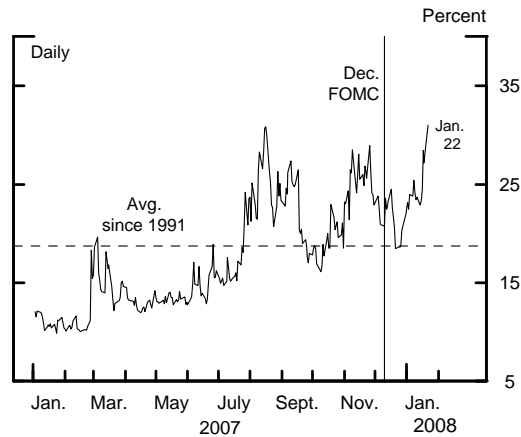
*Adjusted for lagged indexation of TIPS.

Corporate Yields, Risk Spreads, and Stock Prices

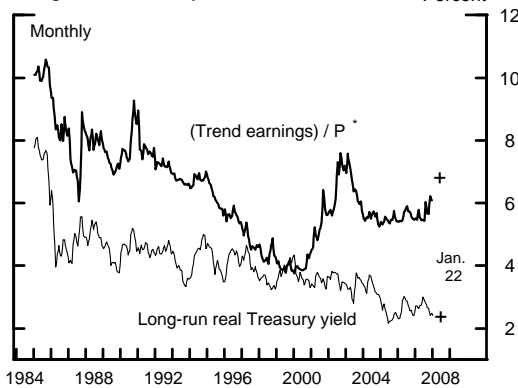
Selected Stock Price Indexes



Implied Volatility on S&P 500 (VIX)

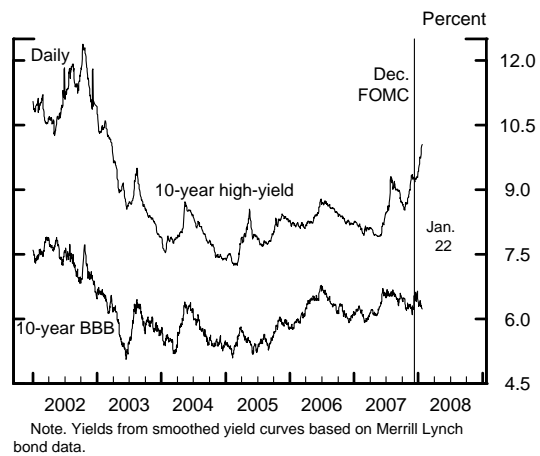


Ratio of Trend Earnings to Price for S&P 500 and Long-Run Treasury Yield



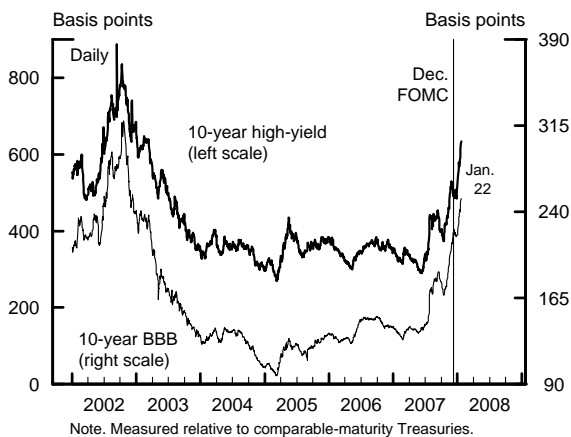
* Trend earnings are estimated using analysts' forecasts of year-ahead earnings from I/B/E/S.
 + Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.

Corporate Bond Yields



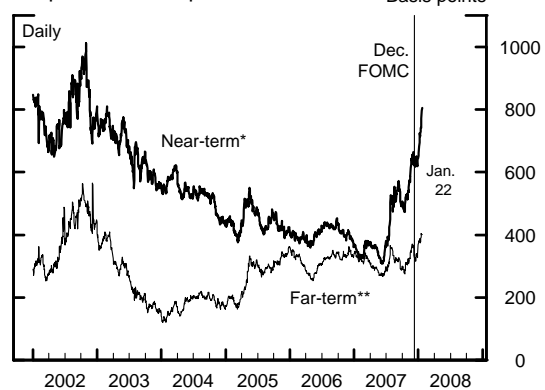
Note. Yields from smoothed yield curves based on Merrill Lynch bond data.

Corporate Bond Spreads



Note. Measured relative to comparable-maturity Treasuries.

Far-Term and Near-Term Forward High-Yield Corporate Bond Spreads



* Forward spread between years 2 and 3.

** Forward spread between years 9 and 10.

Source. Staff estimates.

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				2008
					H1	Q3	Q4	Dec.	Jan. ^p
<i>Nonfinancial corporations</i>									
Stocks ¹	3.7	5.4	4.6	4.7	5.5	4.3	6.5	2.7	2.0
Initial public offerings	.4	1.6	1.7	1.8	1.7	1.2	2.0	.9	1.0
Seasoned offerings	3.3	3.8	2.8	2.9	3.9	3.1	4.4	1.8	1.0
Bonds ²	31.6	22.7	19.1	29.8	37.9	26.6	37.0	32.8	20.0
Investment grade	15.9	8.2	8.4	13.0	14.2	19.8	20.3	25.3	17.0
Speculative grade	11.3	9.7	6.4	8.0	15.4	3.4	6.8	5.0	3.0
Other (sold abroad/unrated)	4.3	4.9	4.3	8.8	8.3	3.3	9.9	2.5	.0
<i>Memo</i>									
Net issuance of commercial paper ³	-3.4	1.5	-.4	3.9	1.2	-4.1	-.2	-3.5	5.0
Change in C&I loans at commercial banks ^{3,4}	-7.7	3.1	9.9	13.0	12.2	36.7	21.5	12.2	16.0
<i>Financial corporations</i>									
Stocks ¹	6.6	6.9	5.0	5.3	9.3	3.5	12.1	18.1	n.a.
Bonds ²	111.1	139.3	176.3	187.7	207.0	126.9	79.0	51.1	50.0

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

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

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

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

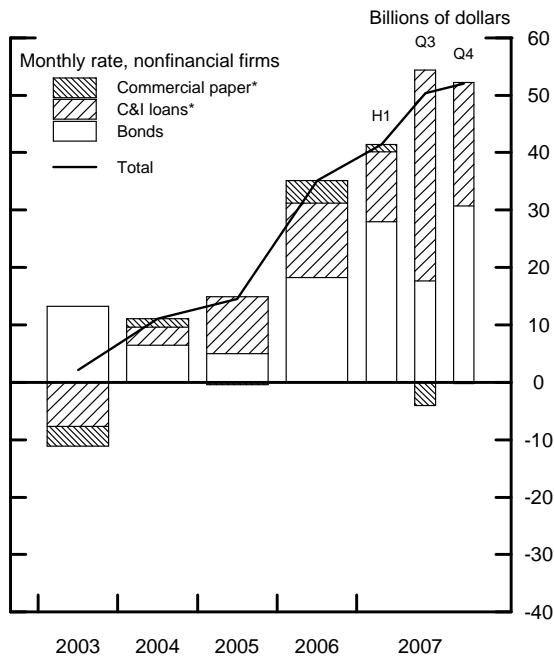
4. Adjusted commercial bank credit data.

5. n.a. Not Available.

p Preliminary.

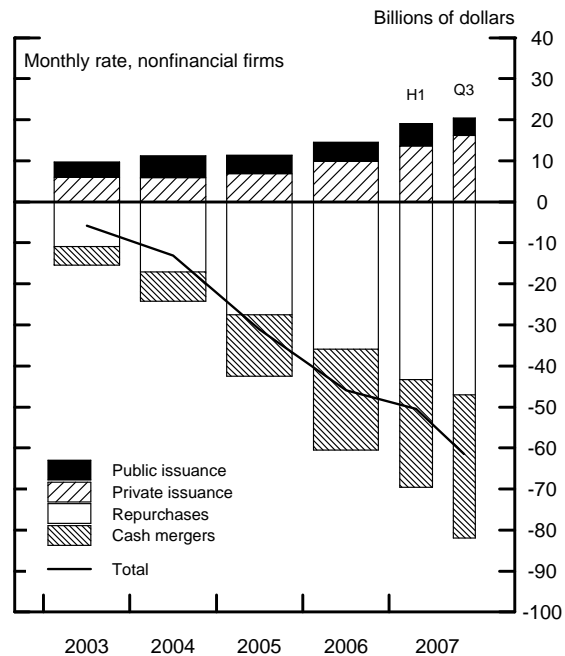
n.a. Not available.

Selected Components of Net Debt Financing



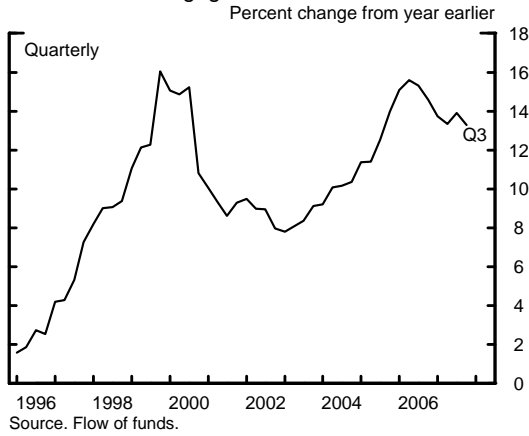
* Seasonally adjusted, period-end basis.

Components of Net Equity Issuance

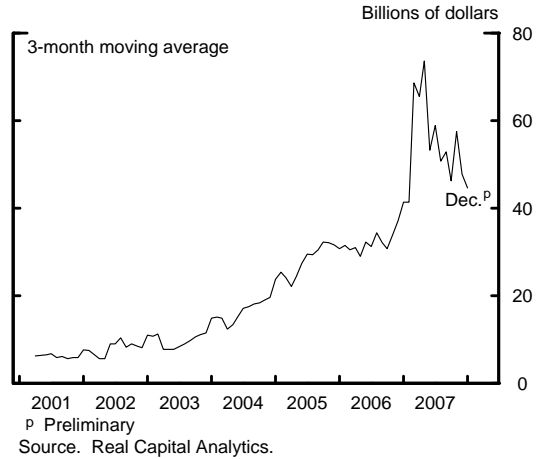


Commercial Real Estate

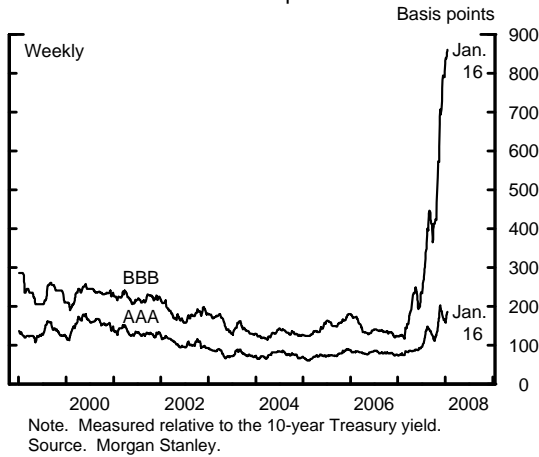
Commercial Mortgage Debt



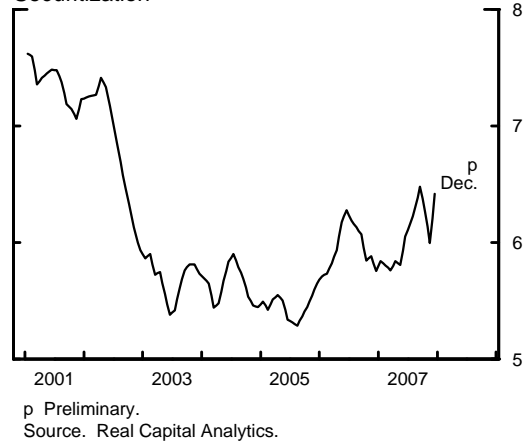
Sales of Commercial Real Estate



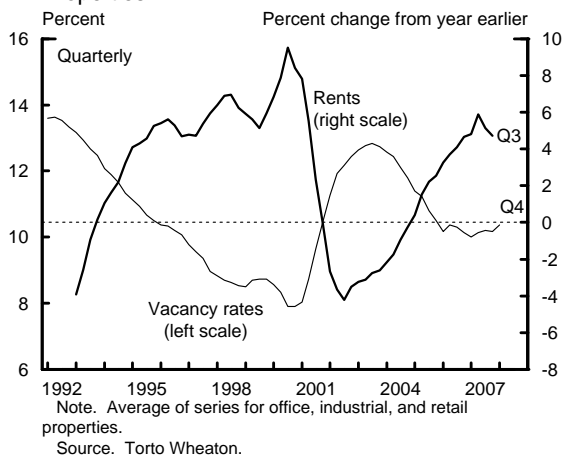
Investment-Grade CMBS Spreads



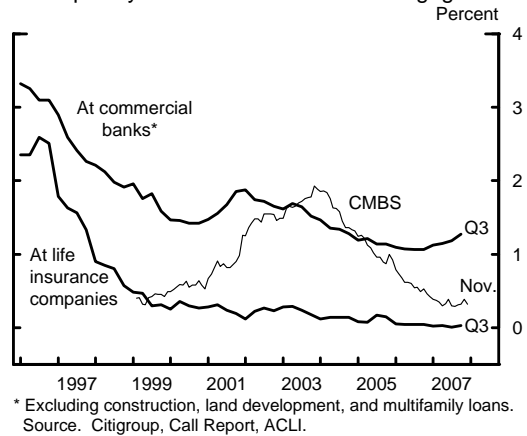
Interest Rate on Mortgages Originated for Securitization



Rents and Vacancy Rates on Commercial Properties

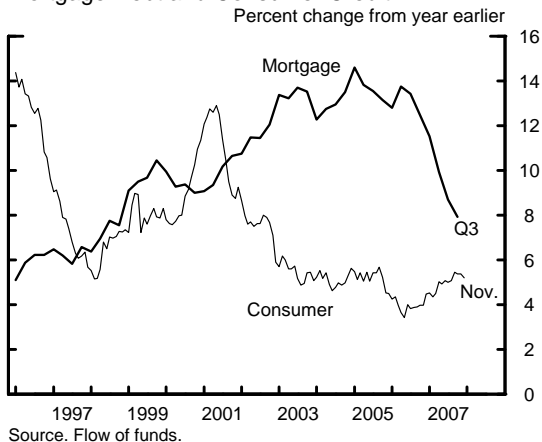


Delinquency Rates on Commercial Mortgages

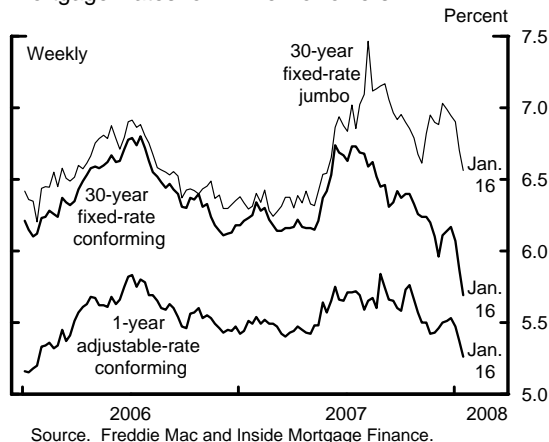


Household Liabilities

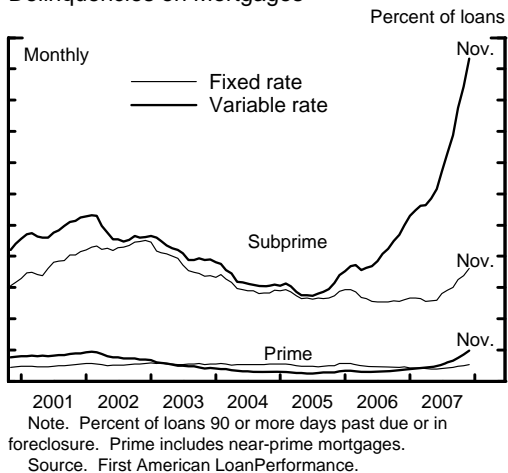
Mortgage Debt and Consumer Credit



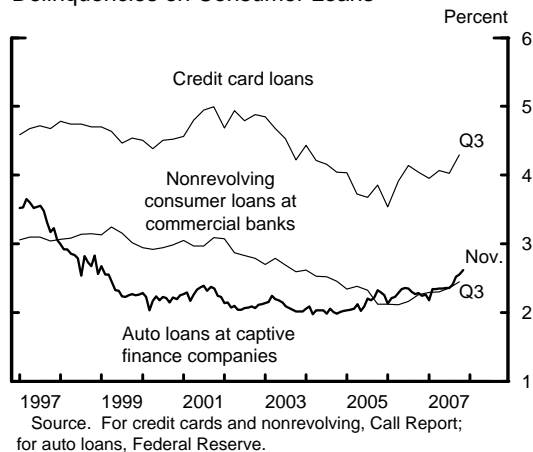
Mortgage Rates for Prime Borrowers



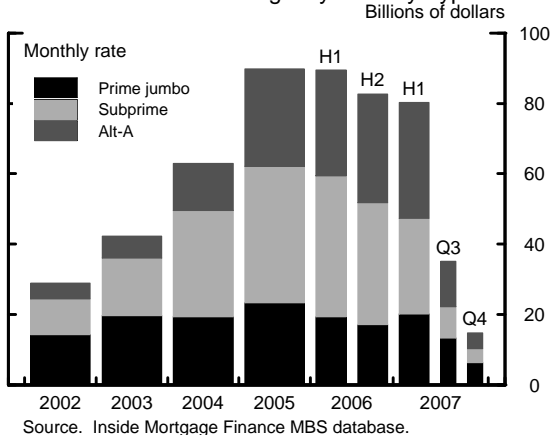
Delinquencies on Mortgages



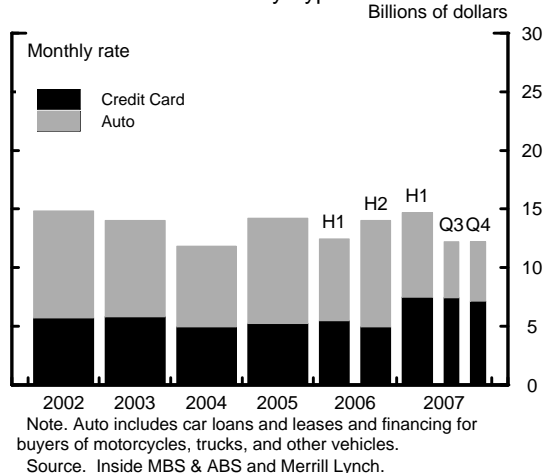
Delinquencies on Consumer Loans



Gross Issuance of Non-Agency MBS by Type

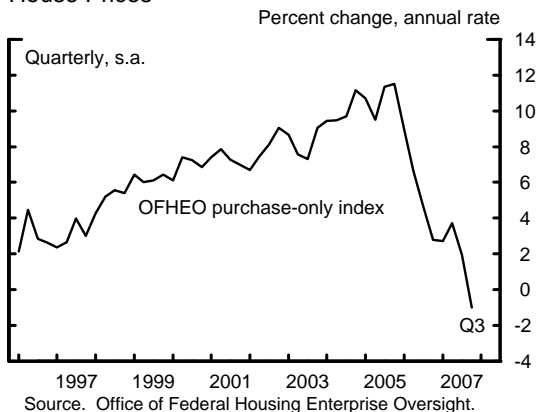


Gross Issuance of ABS by Type

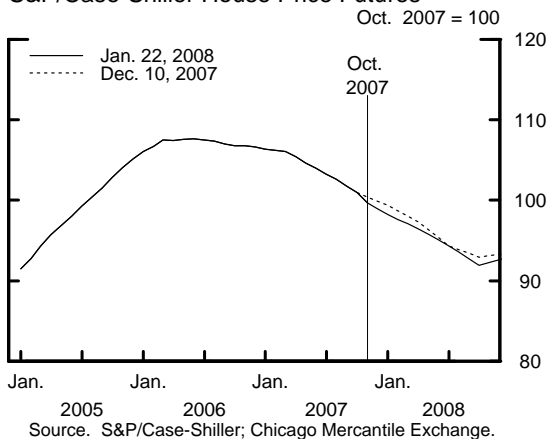


Household Assets

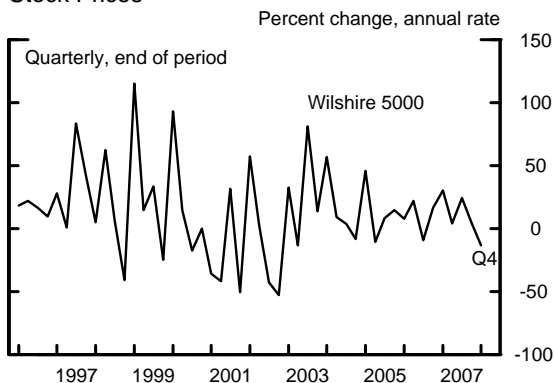
House Prices



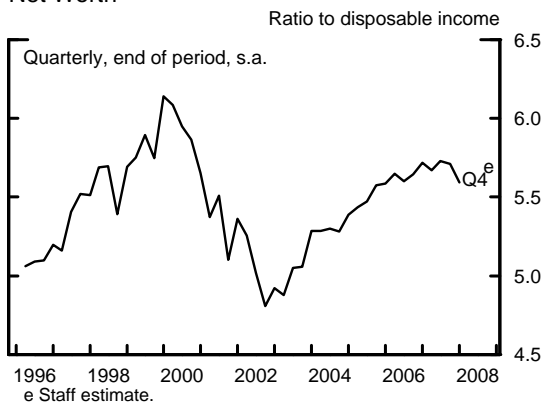
S&P/Case-Shiller House Price Futures



Stock Prices



Net Worth



Net Flows into Mutual Funds
(Billions of dollars, monthly rate)

Fund type	2006	2007				2007	Assets
		Q1	Q2	Q3	Q4 ^e	Dec. ^e	Nov.
Total long-term funds	18.9	39.5	24.2	4.6	8.3	8.4	9,002
Equity funds	13.3	21.2	8.1	1.2	1.5	4.0	6,604
Domestic	0.9	6.5	-3.9	-8.3	-8.1	-5.2	4,919
International	12.4	14.7	12.0	9.5	9.6	9.2	1,685
Hybrid funds	0.6	3.3	1.9	1.0	1.5	2.0	719
Bond funds	5.0	15.0	14.1	2.5	5.4	2.3	1,679
High-yield	-0.2	0.7	-0.2	-0.8	-0.4	0.2	157
Other taxable	4.0	11.4	12.5	3.1	6.7	4.6	1,143
Municipals	1.3	2.9	1.8	0.2	-0.9	-2.5	378
Money market funds	27.8	18.1	34.5	108.0	83.4	27.1	3,099

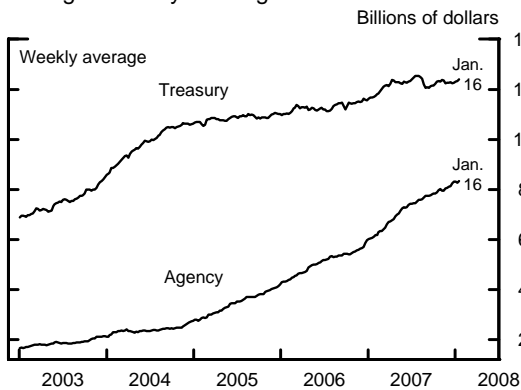
Note. Excludes reinvested dividends.

^e Staff estimate based on confidential weekly data.

Source. Investment Company Institute.

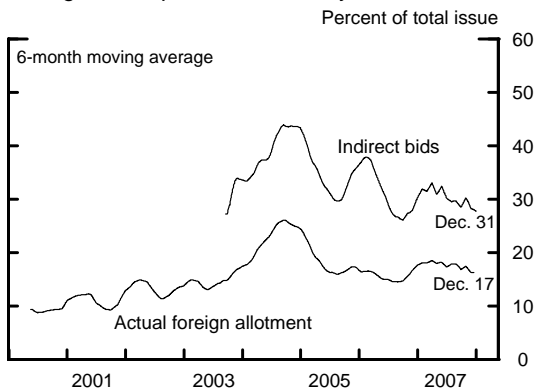
Treasury and Agency Finance

Foreign Custody Holdings



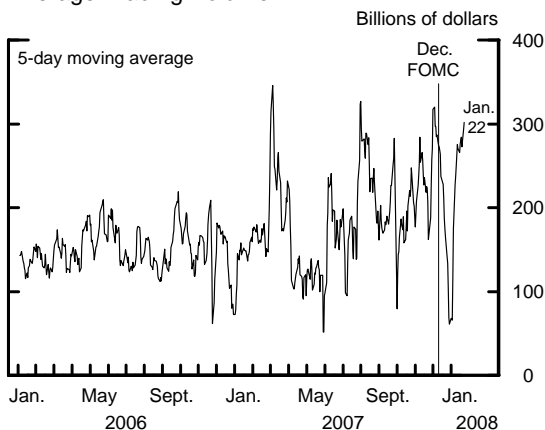
Note. Securities held in custody at the Federal Reserve Bank of New York on behalf of foreign official institutions.

Foreign Participation in Treasury Auctions



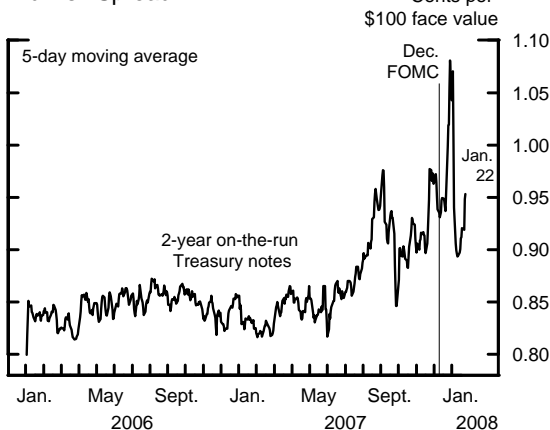
Note. Indirect bids and actual allotment are a percentage of the total amount accepted, including the amount tendered to the Federal Reserve. Moving averages include 2-, 5-, and 10-year original auctions and reopenings.

Average Trading Volume



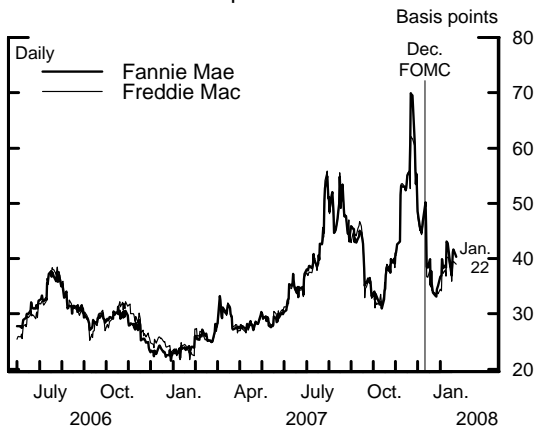
Note. 5-day moving average of daily trading volume in 2-, 5-, and 10-year on-the-run coupon securities in interdealer market. Source. BrokerTec Interdealer Market Data.

Bid-Ask Spread



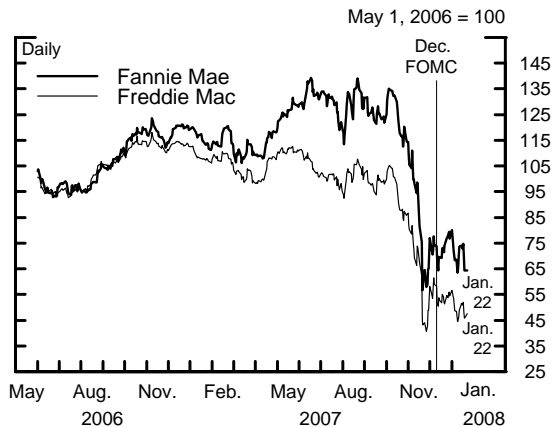
Source. BrokerTec Interdealer Market Data.

10-Year GSE Yield Spreads



Note. GSE yields based on senior unsecured debt relative to the off-the-run Treasury yield.

GSE Stock Prices



State and Local Government Finance

Gross Offerings of Municipal Securities

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

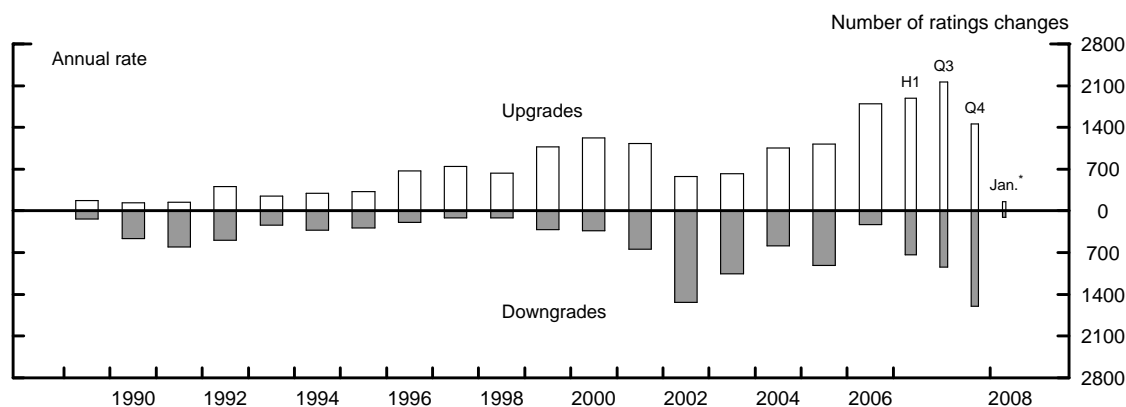
Type of security	2003	2004	2005	2006	2007				2008
					H1	Q3	Q4	Dec.	Jan. ^p
Total	37.9	34.7	38.4	36.1	41.9	36.4	41.3	33.8	23.0
Long-term ¹	32.0	29.8	34.1	32.5	38.5	30.7	34.3	29.2	20.0
Refundings ²	10.0	10.8	15.6	10.6	16.3	7.6	9.3	6.9	3.0
New capital	22.1	19.0	18.6	21.9	22.1	23.1	25.0	22.3	17.0
Short-term	5.8	4.9	4.2	3.7	3.4	5.7	7.0	4.6	3.0
Memo: Long-term taxable	3.5	2.0	2.1	2.5	2.2	3.0	2.2	1.3	1.0

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

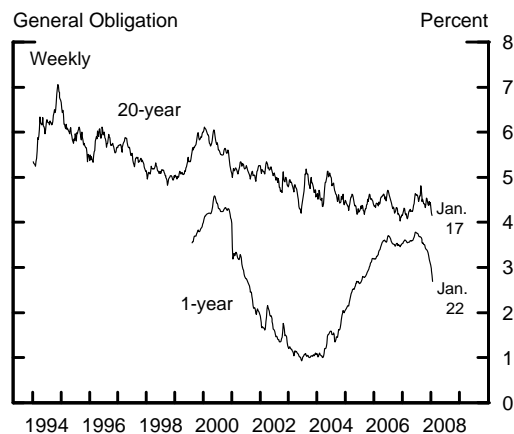
p Based on preliminary data through January 17, 2008.

Ratings Changes



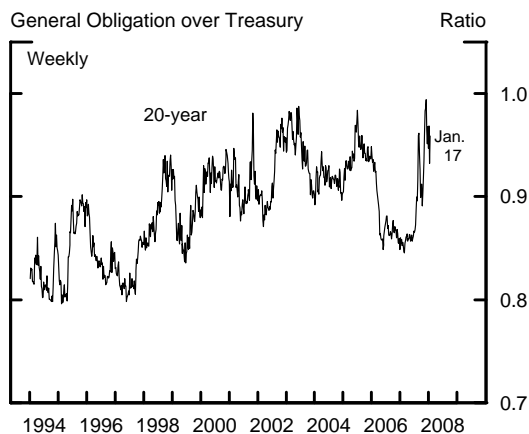
* Staff estimate based on data through January 16, 2008.
Source: S&P's Credit Week Municipal and Ratings Direct.

Municipal Bond Yields



Source: Municipal Market Advisors and Bond Buyer.

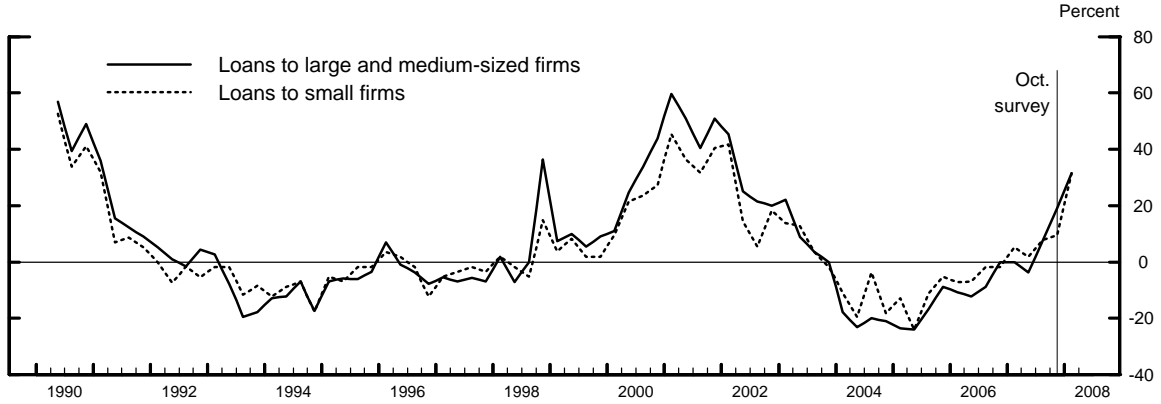
Municipal Bond Yield Ratio



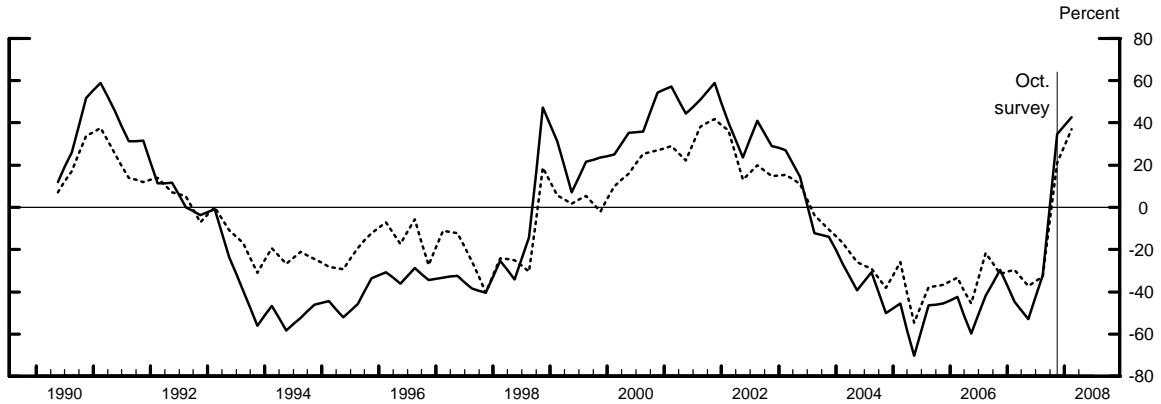
Source: Bond Buyer.

Measures of Supply and Demand for C&I Loans, by Size of Firm Seeking Loan

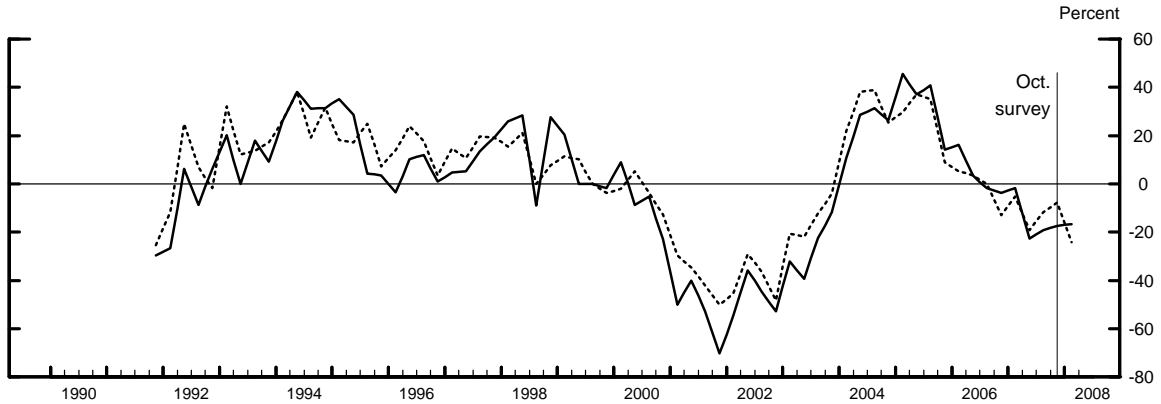
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



Net Percentage of Domestic Respondents Increasing Spreads of Loan Rates over Banks' Costs of Funds

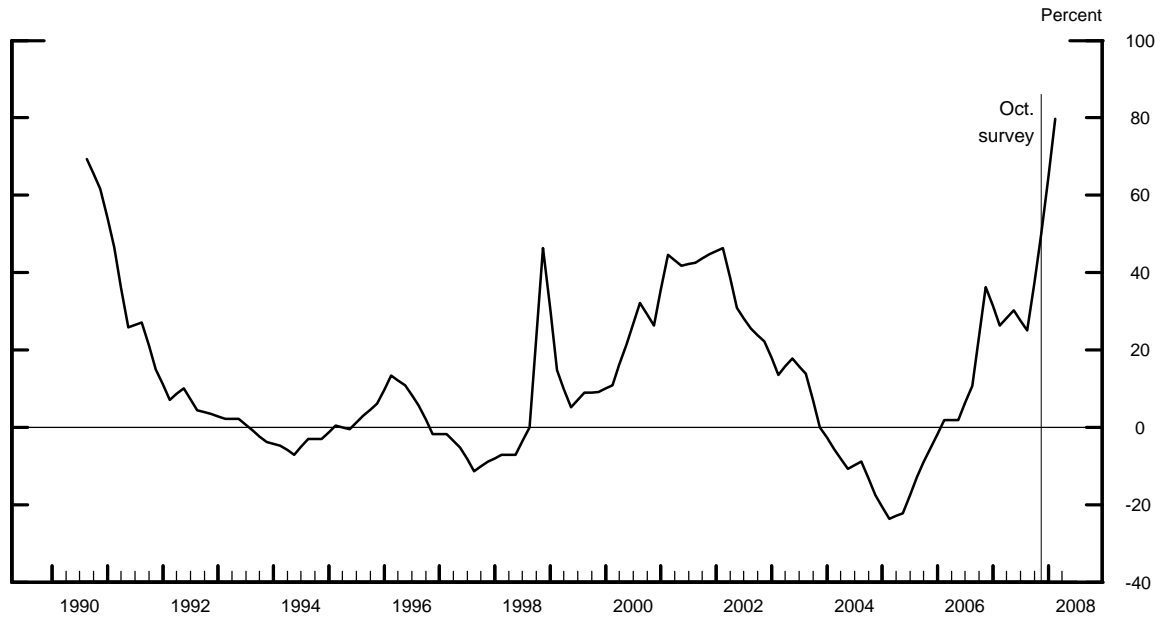


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

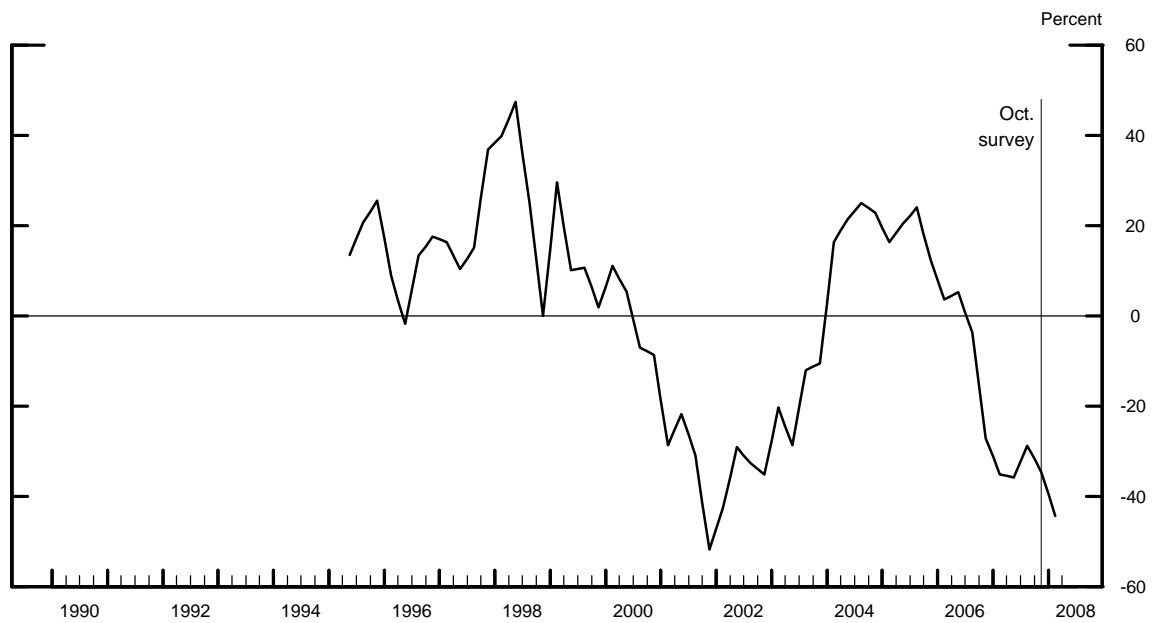


Measures of Supply and Demand for Commercial Real Estate Loans

Net Percentage of Domestic Respondents Tightening Standards for Commercial Real Estate Loans

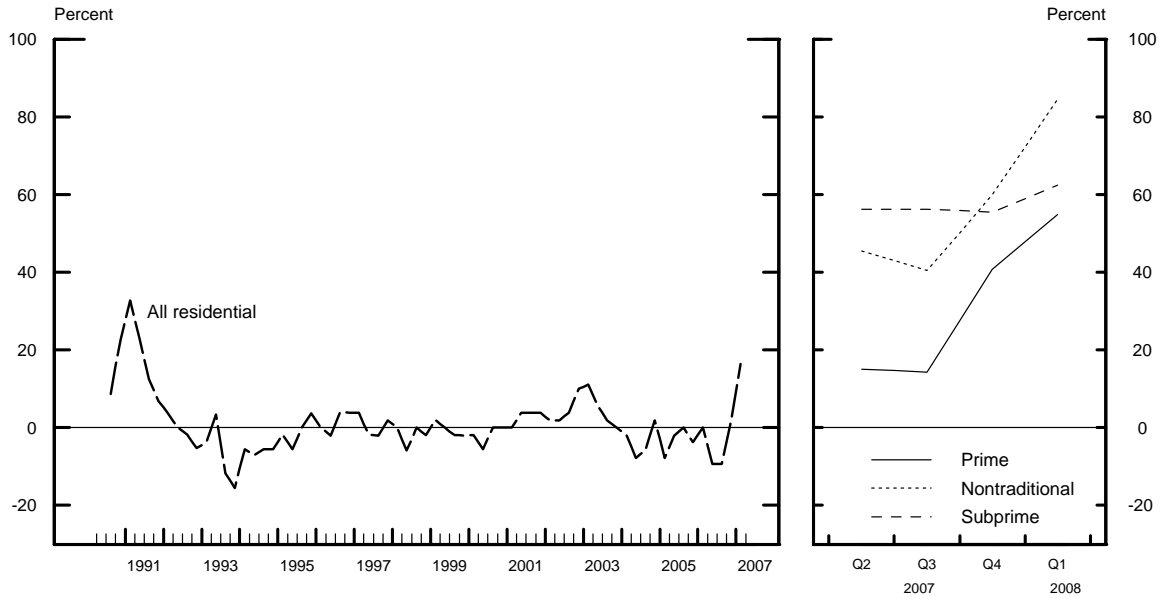


Net Percentage of Domestic Respondents Reporting Stronger Demand for Commercial Real Estate Loans



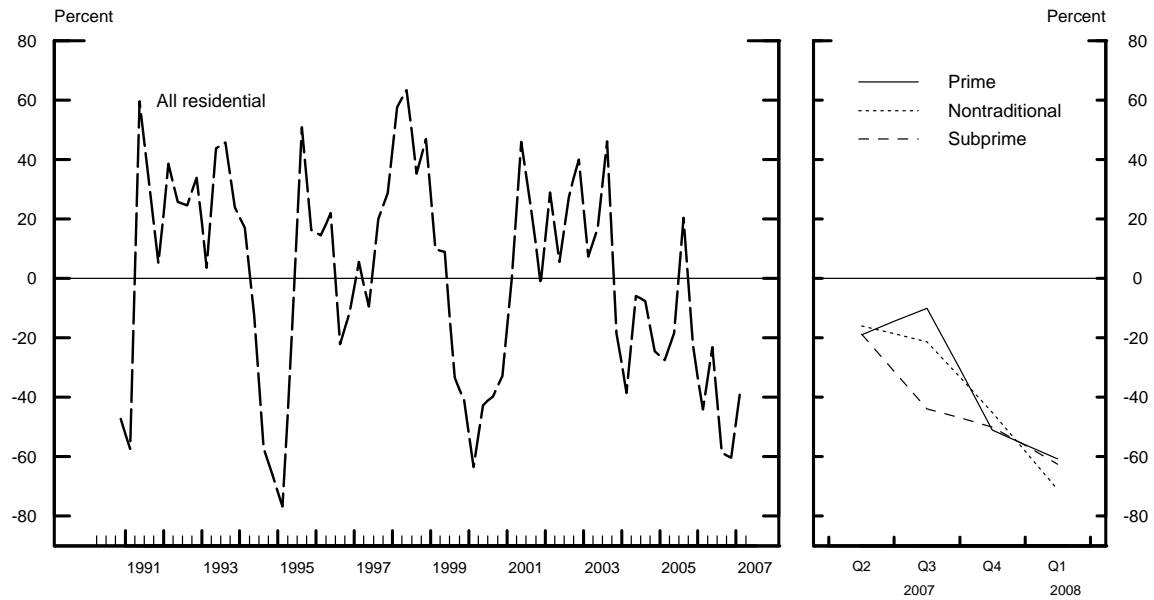
Measures of Supply and Demand for Residential Mortgage Loans

Net Percentage of Domestic Respondents Tightening Standards for Residential Mortgage Loans



Note. For data starting in 2007:Q2, changes in standards for prime, nontraditional, and subprime mortgage loans are reported separately.

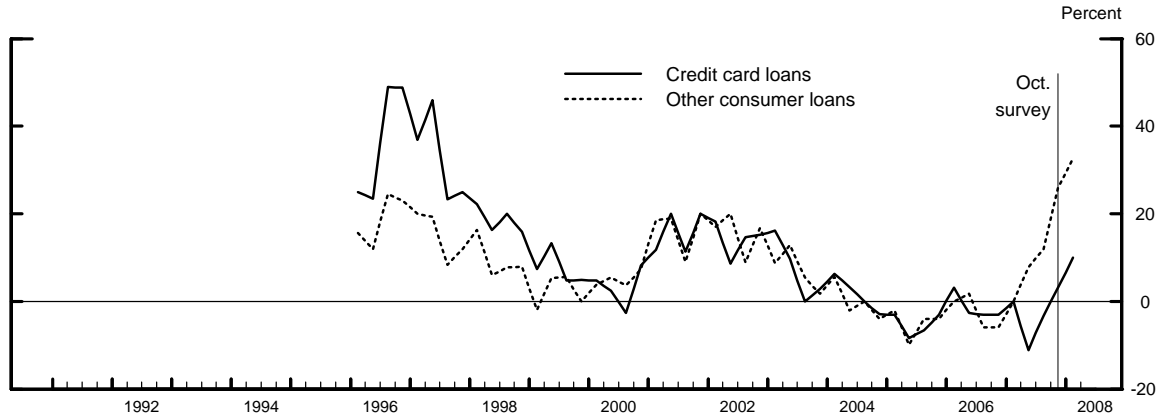
Net Percentage of Domestic Respondents Reporting Stronger Demand for Residential Mortgage Loans



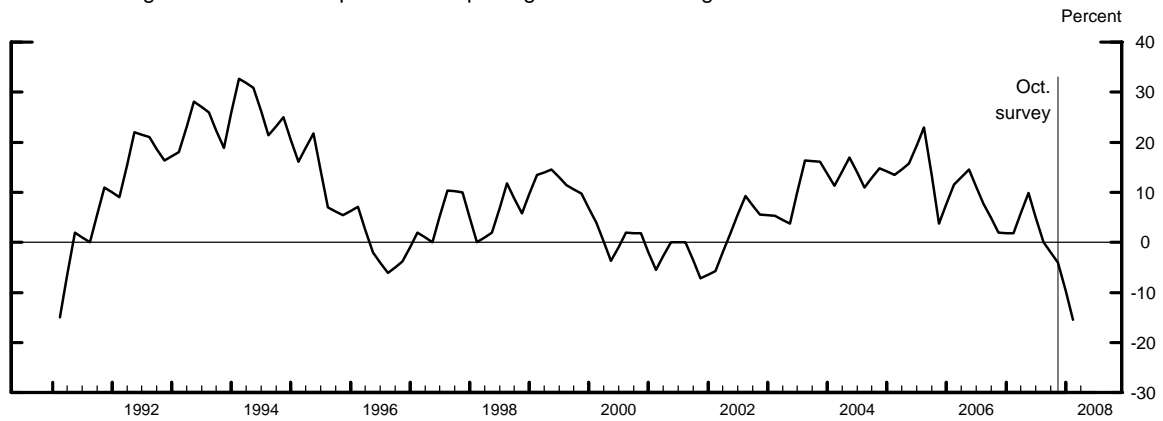
Note. For data starting in 2007:Q2, changes in demand for prime, nontraditional, and subprime mortgage loans are reported separately.

Measures of Supply and Demand for Consumer Loans

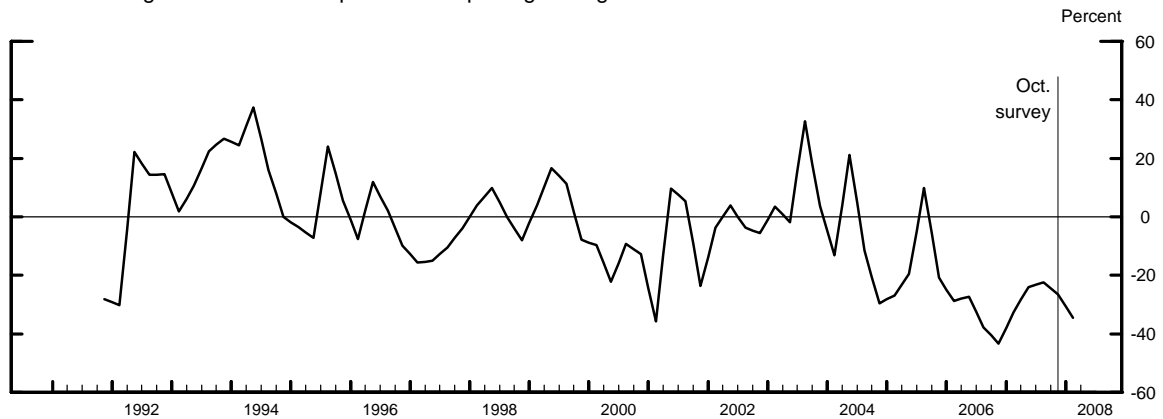
Net Percentage of Domestic Respondents Tightening Standards for Consumer Loans



Net Percentage of Domestic Respondents Reporting Increased Willingness to Make Consumer Installment Loans

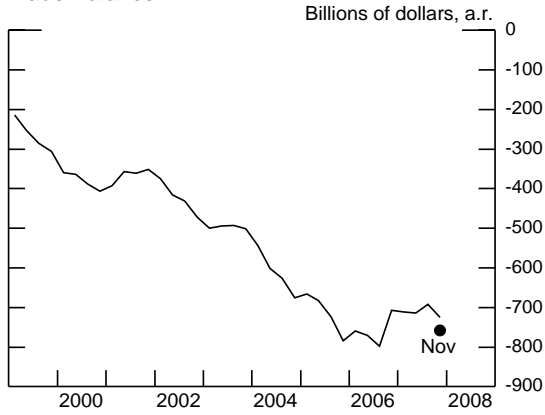


Net Percentage of Domestic Respondents Reporting Stronger Demand for Consumer Loans

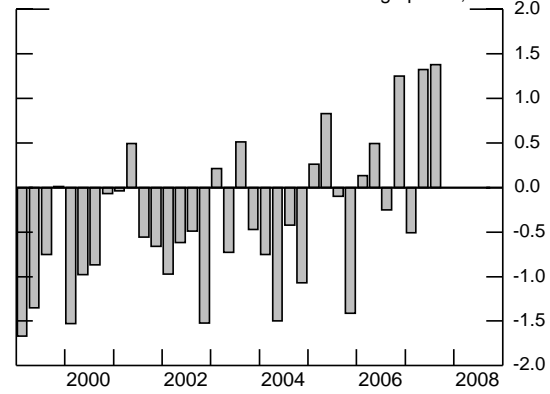


U.S. International Trade in Goods and Services (Quarterly)

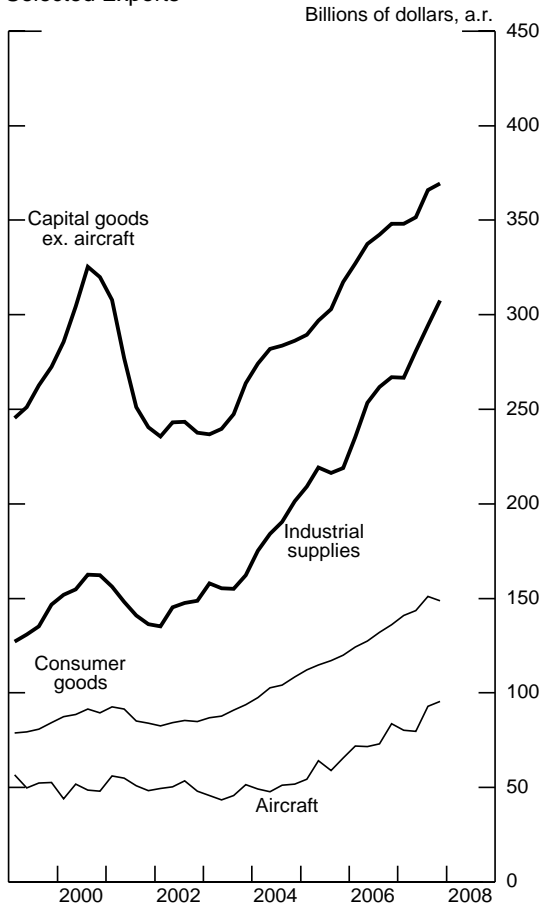
Trade Balance



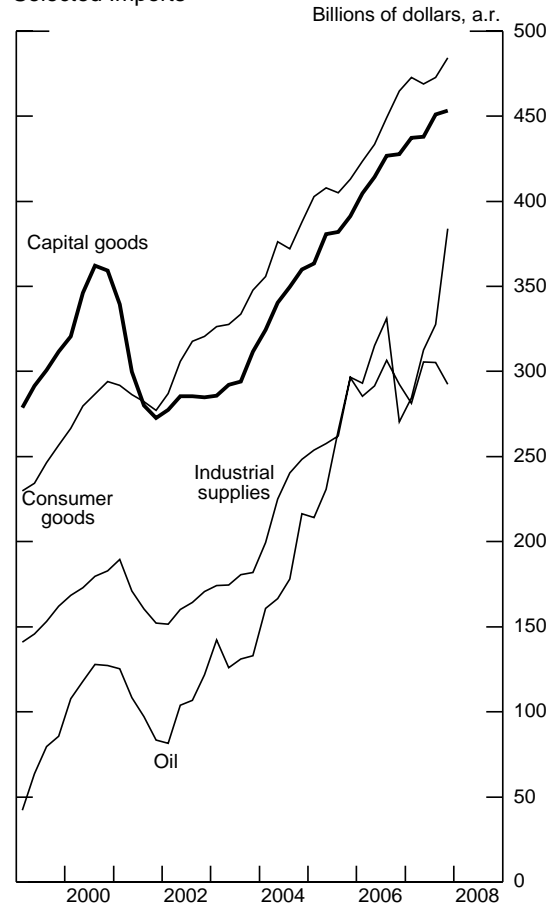
Contribution of Net Exports to Real GDP Growth



Selected Exports

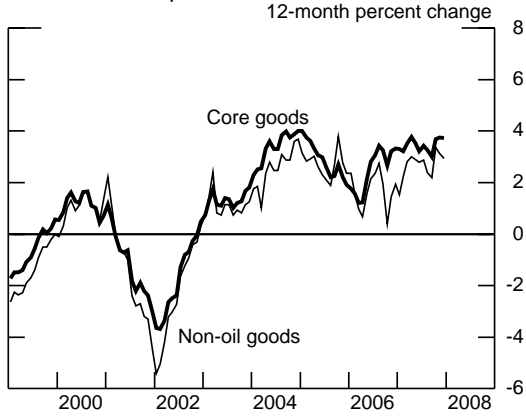


Selected Imports

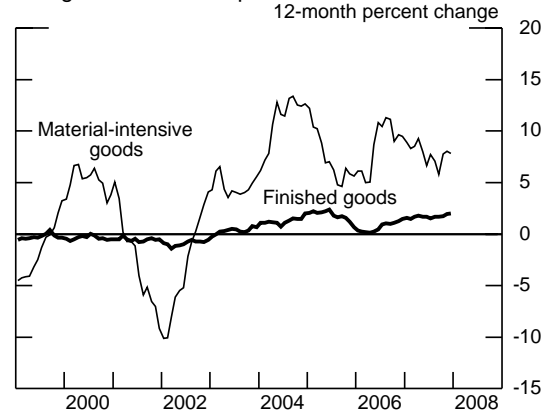


Prices of U.S. Imports and Exports

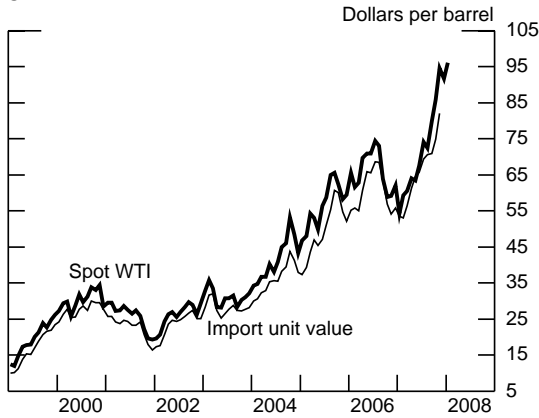
Merchandise Imports



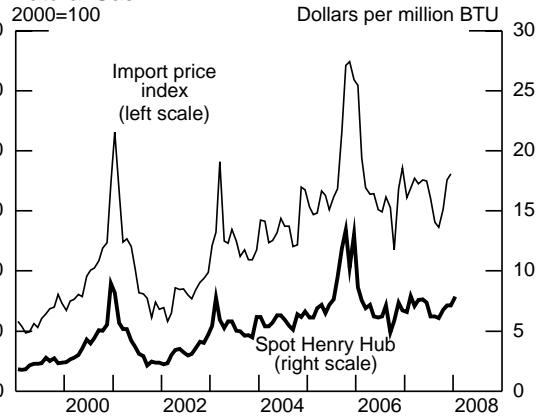
Categories of Core Imports



Oil



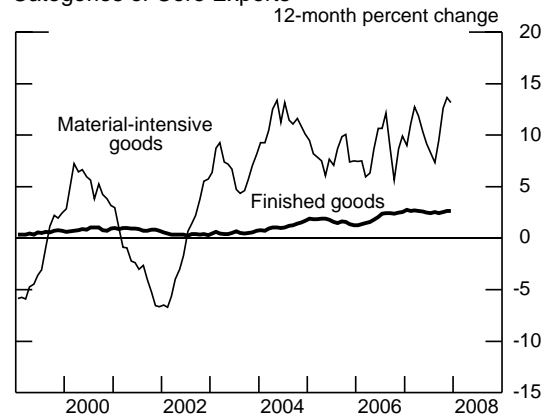
Natural Gas



Merchandise Exports

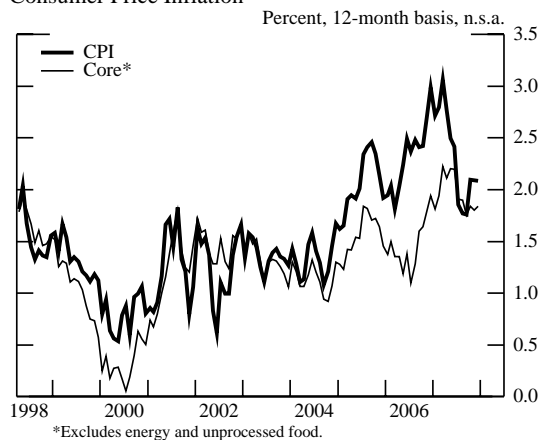


Categories of Core Exports

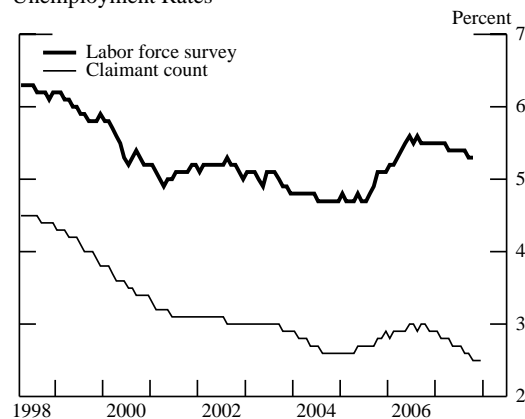


United Kingdom

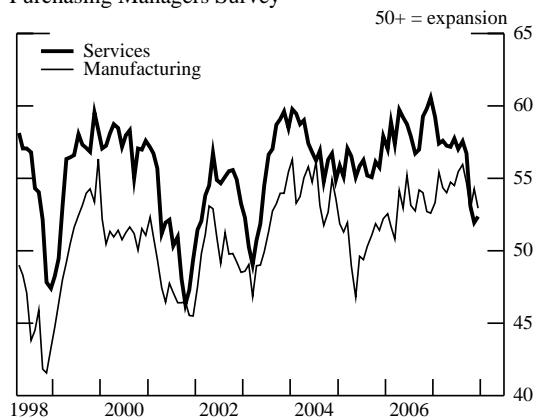
Consumer Price Inflation



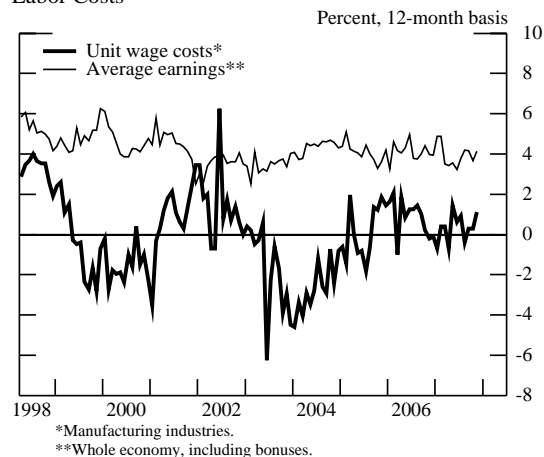
Unemployment Rates



Purchasing Managers Survey



Labor Costs



Economic Indicators

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

Indicator	2007			2007			2008
	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
Real GDP	3.4	2.7	2.5	...	...	...	...
PMI Services ¹	57.4	57.1	52.5	53.1	52.0	52.4	n.a.
Industrial production	0.7	0.0	n.a.	0.5	-0.1	n.a.	n.a.
Business confidence ²	20.3	13.3	7.3	10.0	9.0	3.0	9.0
Consumer confidence ²	-4.2	-2.5	-3.8	-2.3	-4.1	-5.0	n.a.
Trade balance ³	-20.8	-26.9	n.a.	-8.7	-9.0	n.a.	n.a.

1. 50+ indicates expansion.

2. Percent balance. 3. Level in billions of US Dollars.

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

January 25, 2008

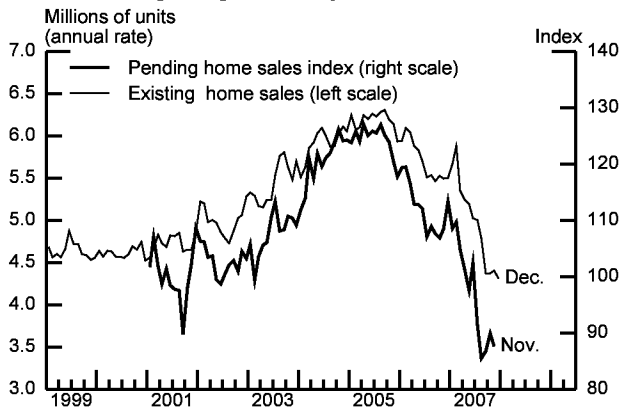
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

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

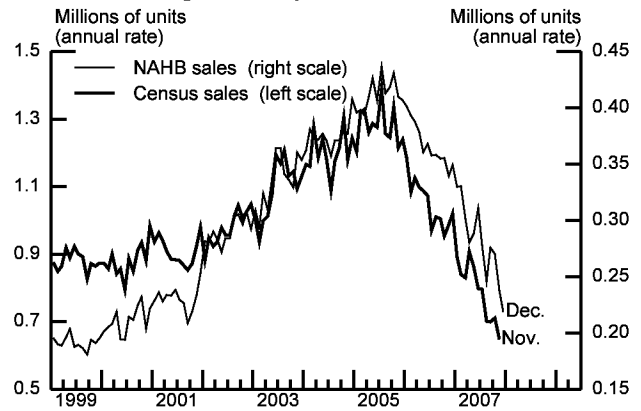
Indicators of Single-Family Housing

Existing Single-Family Home Sales



Source. National Association of Realtors.

New Single-Family Home Sales



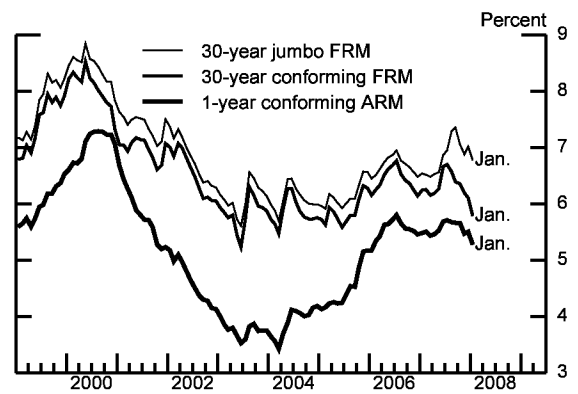
Source. For NAHB new home sales, NAHB's survey of large homebuilders; for new home sales agreements, Census Bureau.

New Home Sales Months' Supply



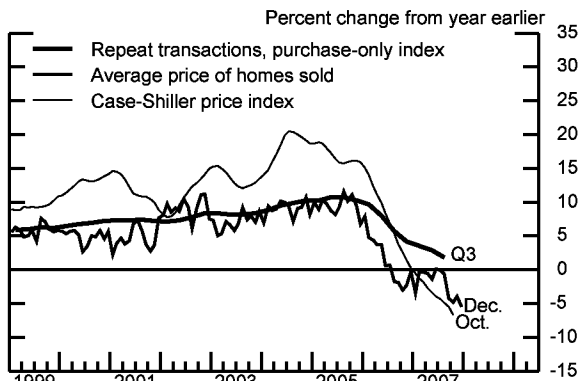
Note. supply is calculated using the 3-month moving average of sales.
Source. for months' supply, Census Bureau.

Mortgage Rates



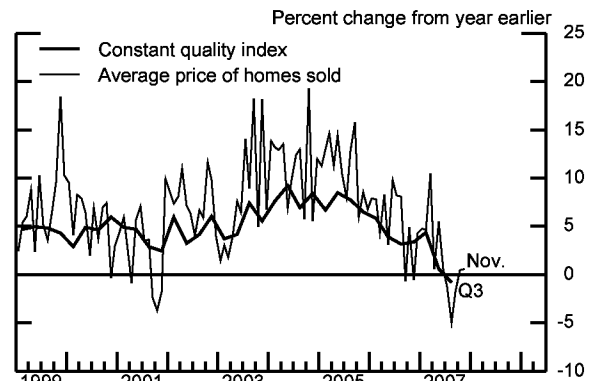
Note. The Jan. readings are for data through Jan. 23, 2008.
Source. Conforming rates are from Freddie Mac. The jumbo rate is the sum of the 30-year conforming FRM rate and the jumbo conforming spread from bankrate.com.

Prices of Existing Homes



Note. The Case-Shiller price index is the 10-city index.
Source. For repeat transactions, OFHEO; for average price, National Association of Realtors; for Case-Shiller, Chicago Mercantile Exchange.

Prices of New Homes



Note. Average price values have been adjusted by Board staff to take into account new sampling procedures adopted in 2005.
Source. Census Bureau.

Commercial Bank Credit

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

Type of credit	2006	H1 2007	Q3 2007	Q4 2007	Dec. 2007	Jan. 2008 ^e	Level ¹ Jan. 2008 ^e
Total	9.8	9.3	12.4	9.1	8.6	4.7	8,772
<i>Loans²</i>							
Total	10.9	10.2	12.5	11.6	12.4	9.0	6,695
To businesses							
Commercial and industrial	16.5	10.1	24.2	29.9	21.3	14.6	1,432
Commercial real estate	13.7	13.8	3.8	7.7	7.4	2.9	1,580
To households							
Residential real estate	7.0	7.0	9.6	1.0	3.0	4.0	1,881
Revolving home equity	1.4	1.9	6.5	12.2	13.1	8.5	485
Other	9.1	8.7	10.6	-2.7	-.5	2.5	1,396
Consumer	5.9	6.5	10.5	7.2	17.8	-.1	802
Originated ³	6.9	5.2	10.3	7.2	13.2	5.3	1,205
Other ⁴	11.8	14.3	19.1	17.5	21.4	28.2	1,000
<i>Securities</i>							
Total	6.5	6.5	12.2	1.6	-3.2	-9.3	2,077
Treasury and agency	2.6	-4.9	6.8	-23.9	-11.7	-19.9	1,078
Other ⁵	13.2	24.1	19.4	34.6	6.4	2.3	999

Note. Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. Data have been adjusted to remove the effects of mark-to-market accounting rules (FIN 39 and FAS 115), the consolidation of certain variable interest entities (FIN 46), the adoption of fair value accounting (FAS 159), and the effects of sizable thrift-to-bank and bank-to-thrift structure activity in October 2006, March 2007, and October 2007. Data also account for breaks caused by reclassifications.

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

2. Excludes interbank loans.

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

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

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

e Estimated.

III-T-1
Selected Financial Market Quotations
(One-day quotes in percent except as noted)

Instrument	2006	2007		2008	Change to Jan. 24 from selected dates (percentage points)		
	June 29	Sept. 17	Dec. 10	Jan. 24	2006 June 29	2007 Sept. 17	2007 Dec. 10
<i>Short-term</i>							
FOMC intended federal funds rate	5.25	5.25	4.50	3.50	-1.75	-1.75	-1.00
Treasury bills ¹							
3-month	4.88	4.05	2.98	2.32	-2.56	-1.73	-.66
6-month	5.06	4.15	3.20	2.41	-2.65	-1.74	-.79
Commercial paper (A1/P1 rates) ²							
1-month	5.27	5.23	4.36	3.11	-2.16	-2.12	-1.25
3-month	5.37	5.25	4.94	3.06	-2.31	-2.19	-1.88
Large negotiable CDs ¹							
3-month	5.47	5.52	5.18	3.20	-2.27	-2.32	-1.98
6-month	5.59	5.36	4.98	3.08	-2.51	-2.28	-1.90
Eurodollar deposits ³							
1-month	5.33	5.55	5.40	3.30	-2.03	-2.25	-2.10
3-month	5.49	5.60	5.25	3.25	-2.24	-2.35	-2.00
Bank prime rate	8.25	8.25	7.50	6.50	-1.75	-1.75	-1.00
<i>Intermediate- and long-term</i>							
U.S. Treasury ⁴							
2-year	5.26	4.12	3.17	2.23	-3.03	-1.89	-.94
5-year	5.15	4.18	3.55	2.86	-2.29	-1.32	-.69
10-year	5.28	4.58	4.33	3.87	-1.41	-.71	-.46
U.S. Treasury indexed notes ⁵							
5-year	2.51	2.04	1.42	.87	-1.64	-1.17	-.55
10-year	2.61	2.15	1.94	1.45	-1.16	-.70	-.49
Municipal general obligations (Bond Buyer) ⁶	4.71	4.46	4.38	4.29	-.42	-.17	-.09
Private instruments							
10-year swap	5.81	5.17	4.89	4.25	-1.56	-.92	-.64
10-year FNMA ⁷	5.59	5.01	4.83	4.27	-1.32	-.74	-.56
10-year AA ⁸	6.20	6.05	6.08	5.68	-.52	-.37	-.40
10-year BBB ⁸	6.74	6.46	6.55	6.31	-.43	-.15	-.24
10-year high yield ⁸	8.74	8.95	9.23	9.98	1.24	1.03	.75
Home mortgages (FHLMC survey rate)							
30-year fixed	6.78	6.34	6.11	5.48	-1.30	-.86	-.63
1-year adjustable	5.82	5.65	5.50	4.99	-.83	-.66	-.51

Stock exchange index	Record high		2007		2008	Change to Jan. 24 from selected dates (percent)		
	Level	Date	Sept. 17	Dec. 10	Jan. 24	Record high	2007 Sept. 17	2007 Dec. 10
Dow Jones Industrial	14,165	10-9-07	13,403	13,727	12,379	-12.61	-7.65	-9.82
S&P 500 Composite	1,565	10-9-07	1,477	1,516	1,352	-13.61	-8.44	-1.81
Nasdaq	5,049	3-10-00	2,582	2,719	2,361	-53.24	-8.55	-13.17
Russell 2000	856	7-13-07	776	791	693	-19.05	-1.71	-12.45
Wilshire 5000	15,807	10-9-07	14,839	15,311	13,608	-13.91	-8.30	-11.12

1. Secondary market.
2. Financial commercial paper.
3. Bid rates for Eurodollar deposits collected around 9:30 a.m. eastern time.
4. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
5. Derived from a smoothed Treasury yield curve estimated using all outstanding securities and adjusted for the carry effect.
6. Most recent Thursday quote.
7. Constant-maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
8. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.

NOTES:

June 29, 2006, is the day the most recent policy tightening ended.
September 17, 2007, is the day before the most recent policy easing began.
December 10, 2007, is the day before the most recent FOMC announcement.