

Part 1

October 24, 2007

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

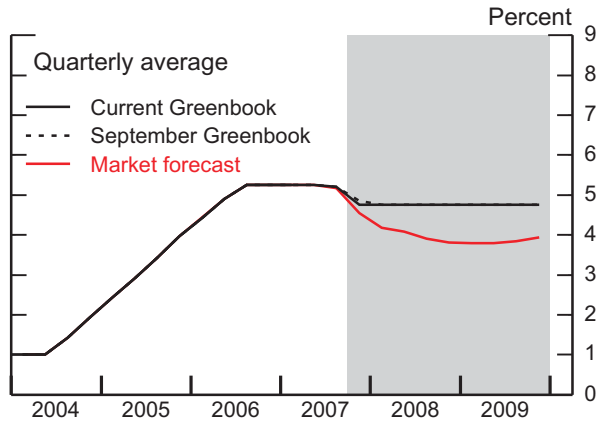
October 24, 2007

Summary and Outlook

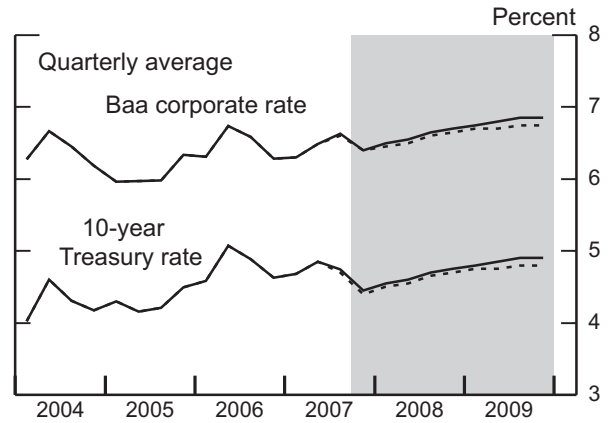
Class II FOMC -- Restricted (FR)

Key Background Factors Underlying the Baseline Staff Projection

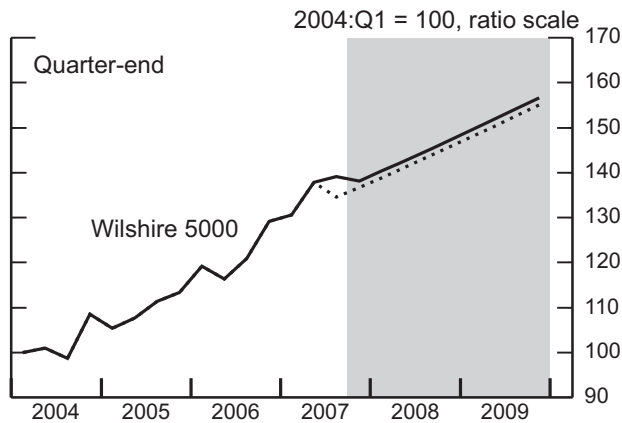
Federal Funds Rate



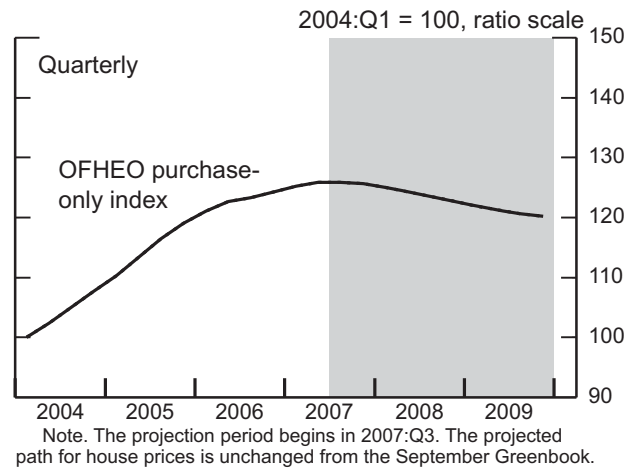
Long-Term Interest Rates



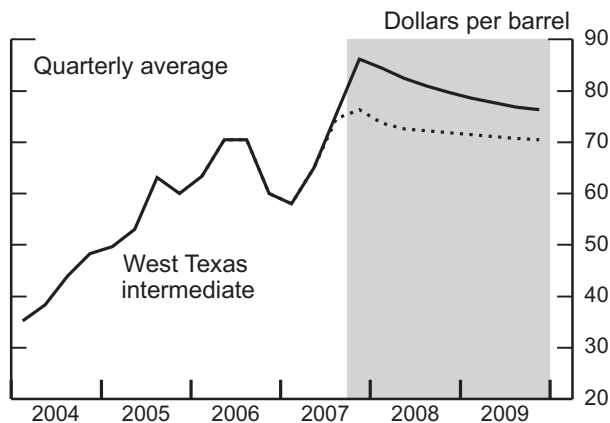
Equity Prices



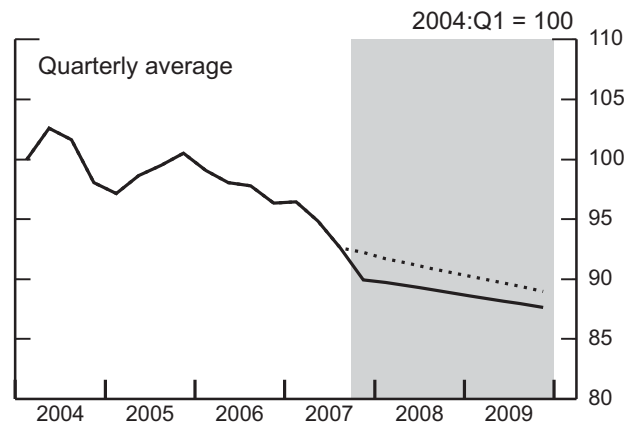
House Prices



Crude Oil Prices



Broad Real Dollar



Note. In each panel, shading represents the projection period, which begins in 2007:Q4 except as noted.

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

| Measure | 2007:Q3 | | 2007:Q4 | |
|---|---|------------|-------------|------------|
| | Sept. GB | Oct. GB | Sept. GB | Oct. GB |
| Real GDP | 2.6 | 3.3 | 1.0 | 1.4 |
| Private domestic final purchases | .9 | 2.0 | .3 | .3 |
| Personal consumption expenditures | 2.4 | 3.2 | 1.9 | 2.3 |
| Residential investment | -21.0 | -22.4 | -28.2 | -32.8 |
| Business fixed investment | 1.9 | 6.2 | 3.5 | 3.2 |
| Government outlays for consumption and investment | 2.9 | 3.2 | 3.1 | 3.1 |
| | Contribution to growth (percentage points) | | | |
| Inventory investment | .4 | -.3 | .3 | .6 |
| Net exports | .8 | 1.3 | -.2 | .0 |

outlook for the housing market, we expect the contraction in the production of construction supplies to deepen significantly in the fourth quarter. On a more positive note, high-tech production appears poised to expand at a solid rate in the fourth quarter, and we expect that strong demand from abroad will continue to provide support for modest gains in most other areas.

Consumer spending increased at an annual rate of almost 3¼ percent in the third quarter, up considerably from the second quarter. In light of the deterioration in consumer confidence and the anticipated run-up in consumer energy prices, we continue to project a moderation in the growth rate of consumption in the fourth quarter, to 2¼ percent. But even so, this pace of growth is somewhat higher than projected in the September Greenbook, which is consistent with a modestly higher level of real income.

Single-family housing starts averaged 1 million units at an annual rate in the third quarter, 30,000 units lower than we were anticipating in the September Greenbook. Because permit issuance was down noticeably, we lowered our forecast for starts in the fourth quarter by about the same amount, to an annual rate of 900,000 units. Moreover, the latest data for actual and pending sales, as well as scattered anecdotes about flea market prices at builders' auctions of their inventories, suggest that housing demand is still weakening and that the tightening in lending standards is continuing to impose a drag on demand. In light of this ongoing deterioration, we expect the months' supply of

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 | 2.4 | 1.6 | 1.7 | 2.2 |
| Previous | 1.8 | 1.5 | 1.7 | 2.2 |
| Final sales | 2.2 | 1.6 | 1.8 | 2.1 |
| Previous | 1.4 | 1.5 | 1.7 | 2.1 |
| PCE | 2.7 | 1.5 | 1.7 | 2.1 |
| Previous | 2.2 | 1.7 | 1.8 | 2.1 |
| Residential investment | -27.7 | -16.1 | -7.5 | 2.0 |
| Previous | -24.7 | -16.1 | -7.4 | 2.5 |
| BFI | 4.7 | 2.2 | 1.9 | 3.0 |
| Previous | 2.7 | 2.1 | 1.9 | 3.1 |
| Government purchases | 3.2 | 2.1 | 1.7 | 1.0 |
| Previous | 3.0 | 2.0 | 1.7 | 1.0 |
| Exports | 12.2 | 7.1 | 6.9 | 6.3 |
| Previous | 9.6 | 5.8 | 5.8 | 5.9 |
| Imports | 4.4 | 1.7 | 2.7 | 4.5 |
| Previous | 4.6 | 1.4 | 2.7 | 4.4 |
| Contribution to growth (percentage points) | | | | |
| Inventory change | .2 | .0 | -.1 | .1 |
| Previous | .4 | -.1 | -.0 | .1 |
| Net exports | .6 | .6 | .4 | .0 |
| Previous | .3 | .4 | .2 | -.0 |

sharply higher path for oil prices poses for consumer and business spending. Accordingly, our projections for growth in real GDP of 1¾ percent in 2008 and 2¼ percent in 2009 are unchanged from those in the September Greenbook.

Household spending. Real personal consumption expenditures are projected to increase 1¾ percent in 2008 and to accelerate to growth of 2¼ percent in 2009. For some time now, the basic story behind our outlook for consumption has been that spending growth will moderate over 2008 because of the sharp deceleration in house prices and a waning of the effects on spending from the run-up in equity wealth over the past few years. Moreover, as was the case in the September Greenbook, we have incorporated some

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 | 2.7 | 2.0 | 1.9 | 1.8 | 1.8 |
| Previous | 1.5 | 2.5 | 2.7 | 2.0 | 1.9 | 1.8 | 1.8 |
| <i>Contributions</i> ¹ | | | | | | | |
| Capital deepening | .7 | 1.4 | .7 | .7 | .6 | .6 | .6 |
| Previous | .7 | 1.4 | .7 | .7 | .6 | .5 | .5 |
| Multifactor productivity | .5 | .7 | 1.8 | 1.1 | 1.1 | 1.1 | 1.1 |
| 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 | 2.2 | 2.2 | 2.2 | 2.1 |
| 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 | 2.0 | 1.8 | 1.9 |
| Previous | .9 | 1.9 | 1.7 | 1.9 |
| Nonfarm private payroll employment | 1.8 | 1.1 | .5 | .8 |
| Previous | 1.8 | 1.0 | .5 | .8 |
| Household survey employment | 2.1 | .6 | .7 | .8 |
| Previous | 2.1 | .6 | .6 | .8 |
| Labor force participation rate ¹ | 66.3 | 66.0 | 65.8 | 65.6 |
| Previous | 66.3 | 66.0 | 65.8 | 65.6 |
| Civilian unemployment rate ¹ | 4.5 | 4.7 | 4.8 | 4.8 |
| Previous | 4.5 | 4.7 | 4.9 | 4.9 |
| MEMO | | | | |
| GDP gap ² | .4 | .5 | .0 | .1 |
| Previous | .4 | .2 | -.3 | -.2 |

1. Percent, average for the fourth quarter.

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

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

| Measure | 2006 | 2007 | 2008 | 2009 |
|--|------|------|------|------|
| PCE chain-weighted price index | 1.9 | 3.0 | 1.8 | 1.7 |
| Previous | 1.9 | 2.9 | 1.7 | 1.8 |
| Food and beverages | 2.3 | 4.5 | 2.1 | 2.1 |
| Previous | 2.3 | 4.2 | 2.2 | 2.1 |
| Energy | -4.0 | 16.1 | .4 | -2.1 |
| Previous | -4.0 | 14.7 | -2.6 | -.9 |
| Excluding food and energy | 2.3 | 1.8 | 1.9 | 1.9 |
| Previous | 2.3 | 1.9 | 1.9 | 1.9 |
| Consumer price index | 1.9 | 3.7 | 2.0 | 1.7 |
| Previous | 1.9 | 3.6 | 1.7 | 1.8 |
| Excluding food and energy | 2.7 | 2.3 | 2.1 | 2.1 |
| Previous | 2.7 | 2.3 | 2.1 | 2.1 |
| GDP chain-weighted price index | 2.7 | 2.0 | 2.3 | 2.1 |
| Previous | 2.7 | 2.5 | 2.1 | 2.1 |
| ECI for compensation of private industry workers ¹ | 3.2 | 3.4 | 3.7 | 3.7 |
| Previous | 3.2 | 3.4 | 3.7 | 3.6 |
| Compensation per hour, nonfarm business sector | 5.0 | 4.7 | 4.5 | 4.3 |
| Previous | 5.0 | 4.7 | 4.4 | 4.2 |
| Prices of core nonfuel imports | 2.4 | 3.0 | 1.2 | .7 |
| Previous | 2.4 | 2.9 | 1.2 | 1.0 |

1. December to December.

increase in 2008 and 2009 at close to its estimated structural rate of about 1¾ percent per year. Consistent with this outlook, private payroll gains are forecast to average 50,000 per month over 2008 and 80,000 per month over 2009. Given the assumed gradual downward trend in the labor force participation rate, these payroll gains imply only a small increase in the unemployment rate over the forecast period.

Prices and labor costs. The recent news on core PCE inflation has been favorable, but we anticipate that the downward revision to the outlook implied by that development will be offset by the indirect effects of higher oil prices and slightly tighter resource utilization. As a result, our forecast for core PCE inflation, at 1.9 percent in both 2008 and 2009, is similar to that in the last Greenbook. The flat contour of our projection for

Alternative Scenarios

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

| Measure and scenario | 2007 | | 2008 | | 2009 |
|---|------|-----|------|-----|------|
| | H1 | H2 | H1 | H2 | |
| <i>Real GDP</i> | | | | | |
| Greenbook baseline | 2.2 | 2.4 | 1.6 | 1.9 | 2.2 |
| Greater housing correction | 2.2 | 2.4 | 1.3 | 1.4 | 1.8 |
| With larger fallout from financial stress | 2.2 | 2.4 | 1.0 | 1.2 | 1.4 |
| Greater momentum in aggregate demand | 2.2 | 2.4 | 2.2 | 2.9 | 3.3 |
| Faster growth in potential output | 2.2 | 2.4 | 2.1 | 2.6 | 3.0 |
| Greater energy cost pass-through | 2.2 | 2.4 | 1.5 | 1.8 | 2.2 |
| Market-based federal funds rate | 2.2 | 2.4 | 1.8 | 2.3 | 2.9 |
| <i>Unemployment rate¹</i> | | | | | |
| Greenbook baseline | 4.5 | 4.7 | 4.7 | 4.8 | 4.8 |
| Greater housing correction | 4.5 | 4.7 | 4.7 | 4.9 | 5.1 |
| With larger fallout from financial stress | 4.5 | 4.7 | 4.8 | 5.0 | 5.3 |
| Greater momentum in aggregate demand | 4.5 | 4.7 | 4.6 | 4.5 | 4.1 |
| Faster growth in potential output | 4.5 | 4.7 | 4.7 | 4.8 | 4.8 |
| Greater energy cost pass-through | 4.5 | 4.7 | 4.7 | 4.8 | 4.8 |
| Market-based federal funds rate | 4.5 | 4.7 | 4.7 | 4.7 | 4.5 |
| <i>Core PCE inflation</i> | | | | | |
| Greenbook baseline | 1.9 | 1.8 | 1.9 | 1.9 | 1.9 |
| Greater housing correction | 1.9 | 1.8 | 1.9 | 1.9 | 1.9 |
| With larger fallout from financial stress | 1.9 | 1.8 | 1.9 | 1.9 | 1.9 |
| Greater momentum in aggregate demand | 1.9 | 1.8 | 1.9 | 1.9 | 1.9 |
| Faster growth in potential output | 1.9 | 1.8 | 1.8 | 1.7 | 1.7 |
| Greater energy cost pass-through | 1.9 | 1.9 | 2.2 | 2.0 | 2.0 |
| Market-based federal funds rate | 1.9 | 1.8 | 2.0 | 2.0 | 2.1 |
| <i>Federal funds rate¹</i> | | | | | |
| Greenbook baseline | 5.3 | 4.8 | 4.8 | 4.8 | 4.8 |
| Greater housing correction | 5.3 | 4.8 | 4.7 | 4.4 | 4.0 |
| With larger fallout from financial stress | 5.3 | 4.8 | 4.6 | 4.2 | 3.6 |
| Greater momentum in aggregate demand | 5.3 | 4.8 | 5.0 | 5.5 | 6.6 |
| Faster growth in potential output | 5.3 | 4.7 | 4.7 | 4.7 | 4.6 |
| Greater energy cost pass-through | 5.3 | 4.8 | 4.9 | 4.9 | 5.0 |
| Market-based federal funds rate | 5.3 | 4.5 | 4.1 | 3.9 | 3.9 |

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

Greater housing correction. The baseline forecast for the housing market assumes sharp declines in activity until the middle of next year and a subdued recovery thereafter. However, the weakness in demand for housing may persist longer—if, for example, some borrowers remain shut out of mortgage markets. Moreover, in an environment of persistently weak housing demand and rising foreclosure rates, home prices may decline

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

| Measure | 2007 | 2008 | 2009 |
|--|---------|---------|---------|
| <i>Real GDP</i> (percent change, Q4 to Q4) | | | |
| Projection | 2.3 | 1.7 | 2.2 |
| Confidence interval | | | |
| Greenbook forecast errors | 1.8–2.8 | .2–3.3 | .8–3.6 |
| FRB/US stochastic simulations | 1.8–2.8 | .6–3.0 | .8–3.8 |
| <i>Civilian unemployment rate</i> (percent, Q4) | | | |
| Projection | 4.7 | 4.8 | 4.8 |
| Confidence interval | | | |
| Greenbook forecast errors | 4.6–4.8 | 4.2–5.4 | 3.8–5.8 |
| FRB/US stochastic simulations | 4.6–4.8 | 4.3–5.1 | 4.2–5.3 |
| <i>PCE prices</i> excluding food and energy (percent change, Q4 to Q4) | | | |
| Projection | 1.8 | 1.9 | 1.9 |
| Confidence interval | | | |
| Greenbook forecast errors | 1.6–2.1 | 1.2–2.6 | 1.0–2.9 |
| FRB/US stochastic simulations | 1.7–2.0 | 1.4–2.4 | 1.3–2.6 |
| <i>Federal funds rate</i> (percent, Q4) | | | |
| Projection | 4.8 | 4.8 | 4.8 |
| Confidence interval | | | |
| FRB/US stochastic simulations | 4.6–5.0 | 3.6–6.0 | 3.3–6.4 |

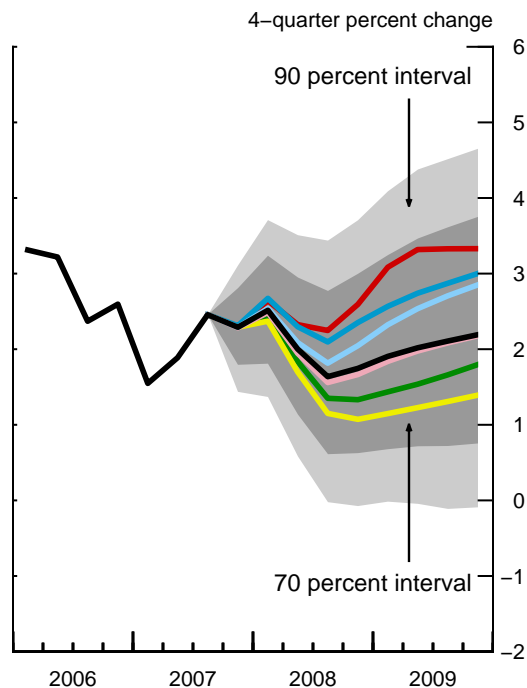
Note. Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1986-2005 set of model equation residuals. Intervals derived from Greenbook forecast errors are based on the 1986-2005 set of Greenbook historical errors.

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

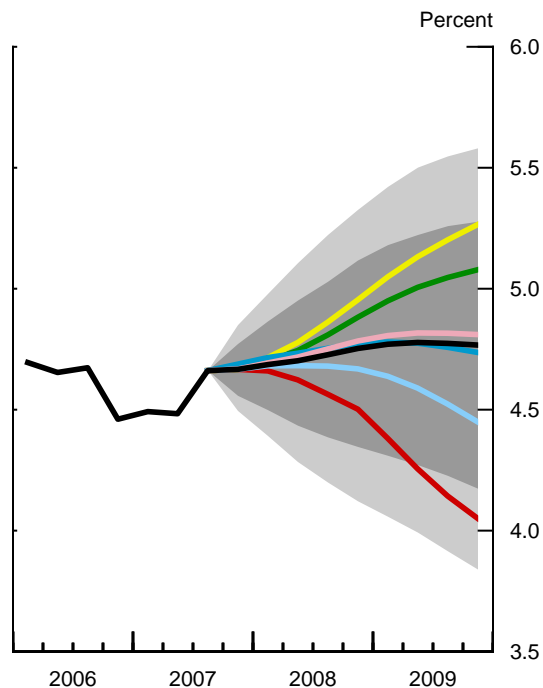
Confidence Intervals based on FRB/US Stochastic Simulations

- | | | |
|---|--|------------------------------------|
| ■ Greenbook baseline | ■ Greater momentum in aggregate demand | ■ Greater energy cost pass-through |
| ■ Greater housing correction (GHC) | ■ Faster growth in potential output | ■ Market-based federal funds rate |
| ■ GHC with larger fallout from financial stress | | |

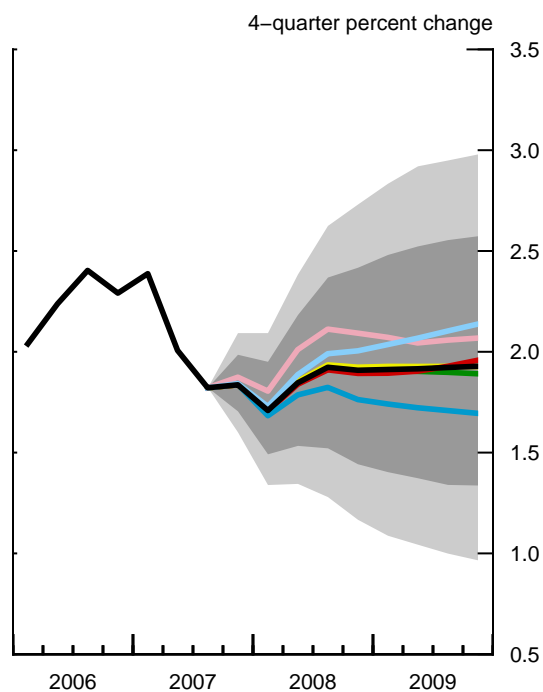
Real GDP



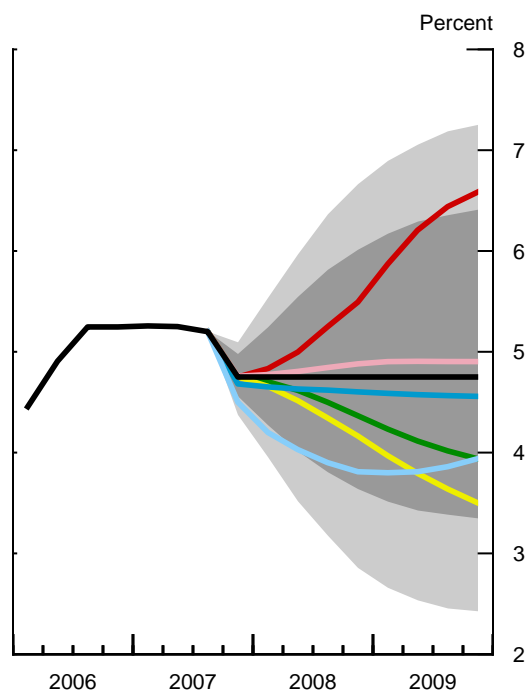
Unemployment Rate



PCE Prices excluding Food and Energy



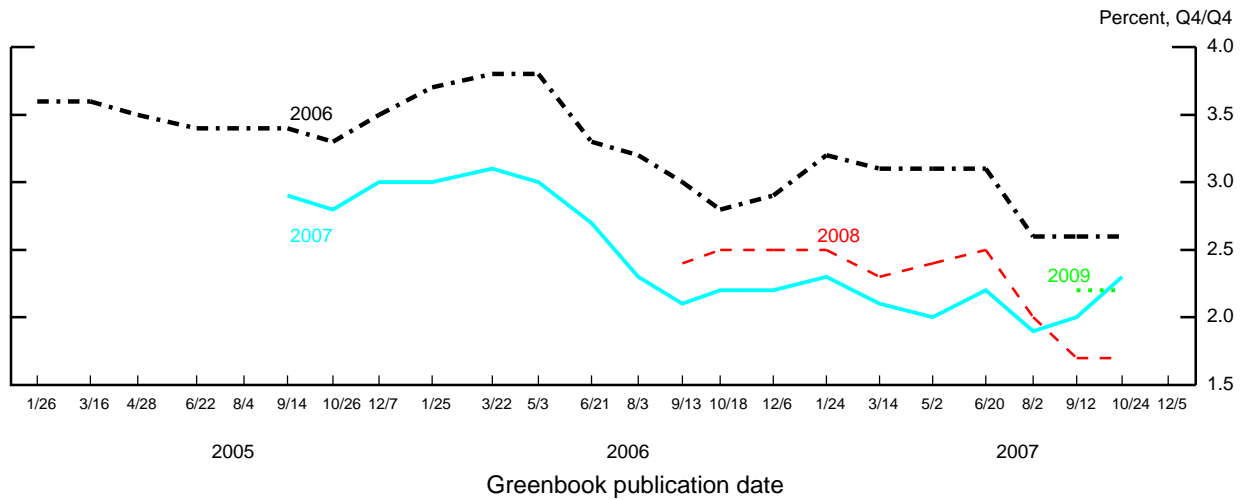
Federal Funds Rate



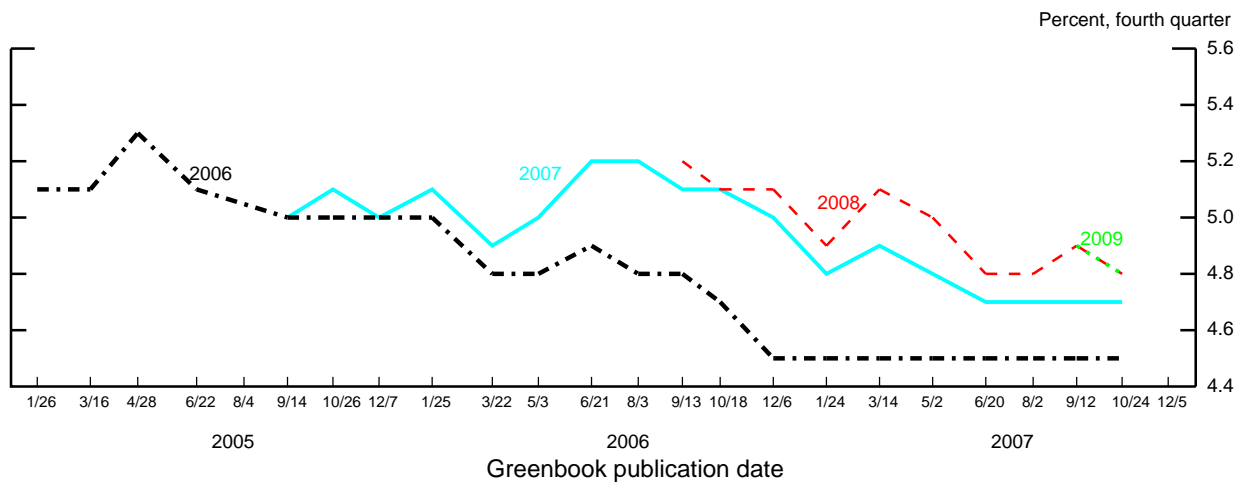
Class II FOMC - Restricted (FR)

Evolution of the Staff Forecast

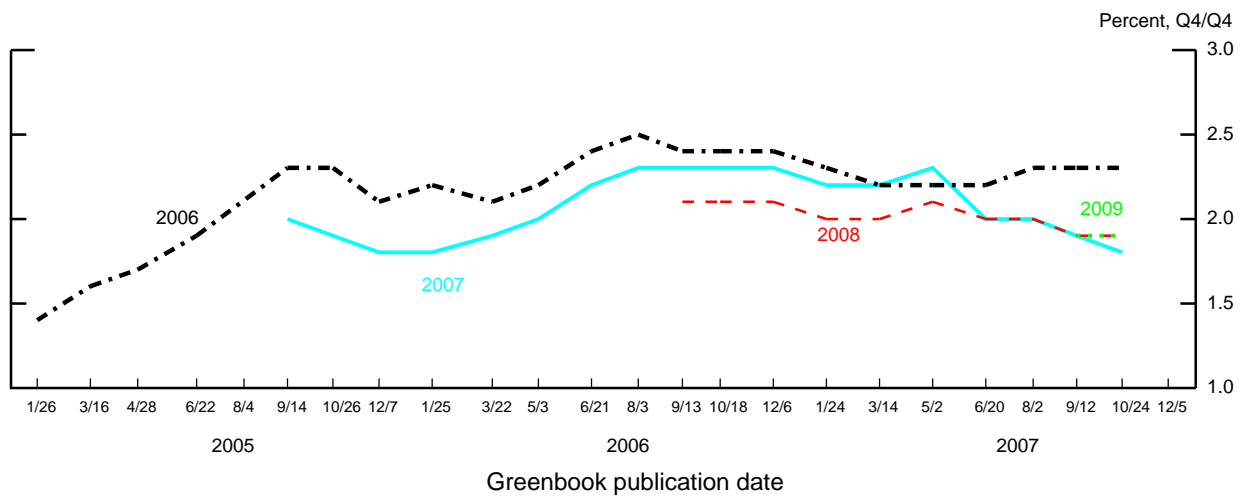
Change in Real GDP



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 | |
|---------------------------------|-------------|----------|----------|----------|-----------------|----------|----------------------|----------|--------------------------------|----------|
| | 09/12/07 | 10/24/07 | 09/12/07 | 10/24/07 | 09/12/07 | 10/24/07 | 09/12/07 | 10/24/07 | 09/12/07 | 10/24/07 |
| <i>Quarterly</i> | | | | | | | | | | |
| 2007:Q1 | 4.9 | 4.9 | .6 | .6 | 3.5 | 3.5 | 2.4 | 2.4 | 4.5 | 4.5 |
| 2007:Q2 | 6.5 | 6.6 | 3.7 | 3.8 | 4.2 | 4.3 | 1.3 | 1.4 | 4.5 | 4.5 |
| 2007:Q3 | 3.5 | 3.9 | 2.6 | 3.3 | 1.6 | 1.5 | 1.9 | 1.6 | 4.6 | 4.7 |
| 2007:Q4 | 3.2 | 2.3 | 1.0 | 1.4 | 2.4 | 2.7 | 2.1 | 2.0 | 4.7 | 4.7 |
| 2008:Q1 | 3.5 | 4.2 | 1.3 | 1.5 | 1.5 | 2.3 | 2.0 | 1.9 | 4.7 | 4.7 |
| 2008:Q2 | 3.8 | 4.0 | 1.7 | 1.8 | 1.7 | 1.7 | 2.0 | 1.9 | 4.8 | 4.7 |
| 2008:Q3 | 3.9 | 4.0 | 1.8 | 1.9 | 1.8 | 1.7 | 1.9 | 1.9 | 4.9 | 4.7 |
| 2008:Q4 | 4.0 | 3.9 | 1.9 | 1.9 | 1.8 | 1.7 | 1.9 | 1.9 | 4.9 | 4.8 |
| 2009:Q1 | 4.3 | 4.4 | 2.1 | 2.1 | 1.8 | 1.7 | 1.9 | 1.9 | 4.9 | 4.8 |
| 2009:Q2 | 4.3 | 4.4 | 2.1 | 2.2 | 1.8 | 1.7 | 1.9 | 1.9 | 4.9 | 4.8 |
| 2009:Q3 | 4.3 | 4.3 | 2.2 | 2.2 | 1.8 | 1.7 | 1.9 | 1.9 | 4.9 | 4.8 |
| 2009:Q4 | 4.2 | 4.3 | 2.2 | 2.2 | 1.8 | 1.7 | 1.9 | 1.9 | 4.9 | 4.8 |
| <i>Two-quarter²</i> | | | | | | | | | | |
| 2007:Q2 | 5.7 | 5.7 | 2.1 | 2.2 | 3.9 | 3.9 | 1.9 | 1.9 | .0 | .0 |
| 2007:Q4 | 3.4 | 3.1 | 1.8 | 2.4 | 2.0 | 2.1 | 2.0 | 1.8 | .2 | .2 |
| 2008:Q2 | 3.6 | 4.1 | 1.5 | 1.6 | 1.6 | 2.0 | 2.0 | 1.9 | .1 | .0 |
| 2008:Q4 | 3.9 | 4.0 | 1.9 | 1.9 | 1.8 | 1.7 | 1.9 | 1.9 | .1 | .1 |
| 2009:Q2 | 4.3 | 4.4 | 2.1 | 2.2 | 1.8 | 1.7 | 1.9 | 1.9 | .0 | .0 |
| 2009:Q4 | 4.3 | 4.3 | 2.2 | 2.2 | 1.8 | 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 | 4.5 | 4.4 | 2.0 | 2.3 | 2.9 | 3.0 | 1.9 | 1.8 | .2 | .2 |
| 2008:Q4 | 3.8 | 4.0 | 1.7 | 1.7 | 1.7 | 1.8 | 1.9 | 1.9 | .2 | .1 |
| 2009:Q4 | 4.3 | 4.3 | 2.2 | 2.2 | 1.8 | 1.7 | 1.9 | 1.9 | .0 | .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 | 4.6 | 4.6 | 1.9 | 2.0 | 2.4 | 2.4 | 2.0 | 2.0 | 4.6 | 4.6 |
| 2008 | 3.8 | 3.9 | 1.7 | 2.0 | 2.0 | 2.2 | 1.9 | 1.8 | 4.8 | 4.7 |
| 2009 | 4.1 | 4.2 | 2.0 | 2.1 | 1.8 | 1.7 | 1.9 | 1.9 | 4.9 | 4.8 |

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 | 3.3 | 1.4 | 1.5 | 1.8 | 1.9 | 1.9 | 2.1 | 2.2 | 2.2 | 2.2 | 2.3 | 1.7 | 2.2 |
| Final sales <i>Previous</i> | .6 | 3.7 | 2.6 | 1.0 | 1.3 | 1.7 | 1.8 | 1.9 | 2.1 | 2.1 | 2.2 | 2.2 | 2.0 | 1.7 | 2.2 |
| Priv. dom. final purch. <i>Previous</i> | 1.3 | 3.6 | 3.6 | .9 | .8 | 2.4 | 2.2 | 1.8 | 1.8 | 2.5 | 2.4 | 1.6 | 2.3 | 1.8 | 2.1 |
| | 1.3 | 3.5 | 2.2 | .6 | .8 | 2.3 | 2.1 | 1.7 | 1.8 | 2.7 | 2.3 | 1.6 | 1.9 | 1.7 | 2.1 |
| | 2.2 | 1.7 | 2.0 | .3 | .4 | 1.1 | 1.7 | 2.0 | 2.1 | 2.1 | 2.2 | 2.4 | 1.5 | 1.3 | 2.2 |
| | 2.2 | 1.7 | .9 | .3 | .5 | 1.2 | 1.8 | 1.9 | 2.2 | 2.3 | 2.3 | 2.3 | 1.3 | 1.3 | 2.3 |
| Personal cons. expend. <i>Previous</i> | 3.7 | 1.4 | 3.2 | 2.3 | 1.5 | 1.6 | 1.7 | 2.1 | 1.9 | 2.0 | 2.1 | 2.3 | 2.6 | 1.7 | 2.1 |
| | 3.7 | 1.4 | 2.4 | 1.9 | 1.7 | 1.7 | 1.8 | 1.9 | 2.1 | 2.1 | 2.1 | 2.1 | 2.4 | 1.8 | 2.1 |
| Durables | 8.8 | 1.7 | 2.8 | 6.1 | 2.1 | 2.1 | 2.1 | 2.2 | 3.3 | 2.9 | 2.9 | 2.9 | 4.8 | 2.1 | 3.0 |
| Nondurables | 3.0 | -5 | 2.9 | 1.4 | 2.2 | 1.8 | 2.0 | 2.0 | 2.1 | 2.1 | 2.1 | 2.1 | 1.7 | 2.0 | 2.1 |
| Services | 3.1 | 2.3 | 3.4 | 2.1 | 1.0 | 1.4 | 1.5 | 2.1 | 1.6 | 1.8 | 2.0 | 2.3 | 2.7 | 1.5 | 1.9 |
| Residential investment <i>Previous</i> | -16.3 | -11.8 | -22.4 | -32.8 | -21.4 | -10.4 | 1.3 | 2.4 | 2.1 | 2.0 | 2.0 | 1.9 | -21.2 | -7.5 | 2.0 |
| | -16.3 | -12.4 | -21.0 | -28.2 | -21.6 | -10.2 | 1.7 | 2.7 | 2.3 | 2.4 | 2.6 | 2.7 | -19.7 | -7.4 | 2.5 |
| Business fixed invest. <i>Previous</i> | 2.1 | 11.0 | 6.2 | 3.2 | 2.3 | 2.1 | 1.5 | 1.7 | 3.1 | 2.7 | 3.0 | 3.0 | 5.6 | 1.9 | 3.0 |
| | 2.1 | 10.4 | 1.9 | 3.5 | 2.2 | 2.0 | 1.7 | 1.8 | 2.9 | 3.1 | 3.1 | 3.2 | 4.5 | 1.9 | 3.1 |
| Equipment & software <i>Previous</i> | .3 | 4.7 | 7.4 | 3.0 | 2.7 | 2.5 | 2.0 | 2.4 | 3.9 | 3.4 | 3.8 | 3.9 | 3.8 | 2.4 | 3.7 |
| | .3 | 4.1 | 2.7 | 4.7 | 3.0 | 2.4 | 2.4 | 2.7 | 3.7 | 4.0 | 4.0 | 4.2 | 3.0 | 2.6 | 4.0 |
| Nonres. structures <i>Previous</i> | 6.4 | 26.2 | 3.7 | 3.6 | 1.5 | 1.4 | .6 | .3 | 1.5 | 1.3 | 1.3 | 1.3 | 9.6 | .9 | 1.3 |
| | 6.4 | 25.7 | .4 | 1.0 | .6 | 1.1 | .3 | .0 | 1.3 | 1.2 | 1.2 | 1.2 | 7.9 | .5 | 1.2 |
| Net exports ² <i>Previous</i> ² | -612 | -574 | -536 | -535 | -532 | -500 | -484 | -487 | -493 | -475 | -463 | -481 | -564 | -501 | -478 |
| | -612 | -574 | -548 | -554 | -555 | -527 | -519 | -524 | -533 | -516 | -508 | -525 | -572 | -531 | -520 |
| Exports | 1.1 | 7.5 | 16.9 | 7.7 | 7.1 | 7.0 | 6.9 | 6.6 | 6.5 | 6.4 | 6.3 | 6.1 | 8.2 | 6.9 | 6.3 |
| Imports | 3.9 | -2.7 | 3.5 | 5.3 | 4.7 | -1.3 | 1.8 | 5.5 | 6.0 | 1.4 | 2.5 | 8.2 | 2.5 | 2.7 | 4.5 |
| Govt. cons. & invest. <i>Previous</i> | -5 | 4.1 | 3.2 | 3.1 | 2.1 | 2.0 | 1.4 | 1.2 | 1.1 | 1.1 | 1.0 | .9 | 2.5 | 1.7 | 1.0 |
| | -5 | 4.1 | 2.9 | 3.1 | 2.2 | 1.9 | 1.4 | 1.2 | 1.1 | 1.1 | .9 | .9 | 2.4 | 1.7 | 1.0 |
| Federal | -6.3 | 6.0 | 5.8 | 4.6 | 3.0 | 2.6 | 1.9 | 1.4 | 1.1 | 1.0 | 1.1 | 1.0 | 2.4 | 2.2 | 1.1 |
| Defense | -10.8 | 8.5 | 8.3 | 6.4 | 4.3 | 3.8 | 2.8 | 1.9 | 1.2 | 1.0 | 1.1 | 1.0 | 2.8 | 3.2 | 1.1 |
| Nondefense | 3.8 | -9 | .8 | .9 | .1 | .1 | .1 | .3 | .9 | 1.0 | 1.0 | 1.0 | 1.6 | .2 | 1.0 |
| State & local | 3.0 | 3.0 | 1.8 | 2.2 | 1.7 | 1.6 | 1.1 | 1.1 | 1.1 | 1.1 | .9 | .9 | 2.5 | 1.4 | 1.0 |
| Change in bus. inventories ² <i>Previous</i> ² | 0 | 6 | -3 | 13 | 32 | 14 | 4 | 5 | 15 | 6 | 0 | 18 | 4 | 14 | 10 |
| | 0 | 4 | 14 | 23 | 36 | 20 | 12 | 19 | 28 | 11 | 7 | 26 | 10 | 22 | 18 |
| Nonfarm ² | -6 | 1 | -4 | 12 | 32 | 13 | 3 | 4 | 14 | 4 | -1 | 18 | 1 | 13 | 9 |
| Farm ² | 5 | 4 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 3 | 1 | 1 |

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

2. Billions of chained (2000) dollars.

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

| Item | 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 | 2.3 | 1.7 | 2.2 |
| | .2 | 1.9 | 3.7 | 3.1 | 2.9 | 2.6 | 2.0 | 1.7 | 2.2 |
| Final sales <i>Previous</i> | 1.5 | .8 | 3.7 | 2.8 | 2.9 | 3.0 | 2.3 | 1.8 | 2.1 |
| Priv. dom. final purch. <i>Previous</i> | 1.5 | .8 | 3.7 | 2.8 | 2.9 | 3.0 | 1.9 | 1.7 | 2.1 |
| | 1.0 | 1.1 | 4.1 | 4.3 | 3.3 | 2.4 | 1.5 | 1.3 | 2.2 |
| | 1.0 | 1.1 | 4.1 | 4.3 | 3.3 | 2.4 | 1.3 | 1.3 | 2.3 |
| Personal cons. expend. <i>Previous</i> | 2.8 | 1.9 | 3.4 | 3.7 | 2.8 | 3.4 | 2.6 | 1.7 | 2.1 |
| | 2.8 | 1.9 | 3.4 | 3.7 | 2.8 | 3.4 | 2.4 | 1.8 | 2.1 |
| Durables | 10.8 | 1.2 | 8.3 | 5.6 | 1.2 | 6.6 | 4.8 | 2.1 | 3.0 |
| Nondurables | 1.9 | 2.1 | 3.9 | 3.5 | 3.6 | 3.6 | 1.7 | 2.0 | 2.1 |
| Services | 1.6 | 1.9 | 2.2 | 3.3 | 2.7 | 2.6 | 2.7 | 1.5 | 1.9 |
| Residential investment <i>Previous</i> | 1.4 | 7.0 | 11.7 | 6.7 | 6.4 | -12.8 | -21.2 | -7.5 | 2.0 |
| | 1.4 | 7.0 | 11.7 | 6.7 | 6.4 | -12.8 | -19.7 | -7.4 | 2.5 |
| Business fixed invest. <i>Previous</i> | -9.6 | -6.5 | 4.9 | 7.5 | 5.1 | 5.2 | 5.6 | 1.9 | 3.0 |
| | -9.6 | -6.5 | 4.9 | 7.5 | 5.1 | 5.2 | 4.5 | 1.9 | 3.1 |
| Equipment & software <i>Previous</i> | -9.0 | -3.4 | 6.6 | 9.4 | 7.1 | 2.5 | 3.8 | 2.4 | 3.7 |
| | -9.0 | -3.4 | 6.6 | 9.4 | 7.1 | 2.5 | 3.0 | 2.6 | 4.0 |
| Nonres. structures <i>Previous</i> | -11.1 | -14.9 | .2 | 2.3 | -.3 | 12.3 | 9.6 | .9 | 1.3 |
| | -11.1 | -14.9 | .2 | 2.3 | -.3 | 12.3 | 7.9 | .5 | 1.2 |
| Net exports ² <i>Previous</i> ² | -399 | -471 | -519 | -594 | -618 | -624 | -564 | -501 | -478 |
| | -399 | -471 | -519 | -594 | -618 | -624 | -572 | -531 | -520 |
| Exports | -11.9 | 3.8 | 5.8 | 7.4 | 7.0 | 9.3 | 8.2 | 6.9 | 6.3 |
| Imports | -7.6 | 9.7 | 4.8 | 11.5 | 5.1 | 3.7 | 2.5 | 2.7 | 4.5 |
| Govt. cons. & invest. <i>Previous</i> | 5.0 | 4.0 | 1.7 | .7 | .9 | 2.5 | 2.5 | 1.7 | 1.0 |
| | 5.0 | 4.0 | 1.7 | .7 | .9 | 2.5 | 2.4 | 1.7 | 1.0 |
| Federal | 6.4 | 7.8 | 5.5 | 2.4 | 1.3 | 3.7 | 2.4 | 2.2 | 1.1 |
| Defense | 6.5 | 8.4 | 7.5 | 2.5 | 1.1 | 5.9 | 2.8 | 3.2 | 1.1 |
| 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 | 2.5 | 1.4 | 1.0 |
| Change in bus. inventories ² <i>Previous</i> ² | -32 | 12 | 14 | 54 | 33 | 40 | 4 | 14 | 10 |
| | -32 | 12 | 14 | 54 | 33 | 40 | 10 | 22 | 18 |
| Nonfarm ² | -32 | 15 | 14 | 48 | 34 | 42 | 1 | 13 | 9 |
| 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 | | | |
| Real GDP <i>Previous</i> | .6 | 3.8 | 3.3 | 1.4 | 1.5 | 1.8 | 1.9 | 1.9 | 2.1 | 2.2 | 2.2 | 2.2 | 2.3 | 1.7 | 2.2 |
| Final sales <i>Previous</i> | .6 | 3.7 | 2.6 | 1.0 | 1.3 | 1.7 | 1.8 | 1.9 | 2.1 | 2.1 | 2.2 | 2.2 | 2.0 | 1.7 | 2.2 |
| Priv. dom. final purch. <i>Previous</i> | 1.3 | 3.6 | 3.6 | .9 | .8 | 2.4 | 2.2 | 1.8 | 1.8 | 2.5 | 2.4 | 1.6 | 2.3 | 1.8 | 2.1 |
| Personal cons. expend. <i>Previous</i> | 1.3 | 3.5 | 2.2 | .6 | .8 | 2.3 | 2.0 | 1.7 | 1.8 | 2.7 | 2.3 | 1.6 | 1.9 | 1.7 | 2.1 |
| Durables | 1.9 | 1.5 | 1.7 | .3 | .4 | .9 | 1.4 | 1.7 | 1.8 | 1.7 | 1.9 | 2.0 | 1.3 | 1.1 | 1.8 |
| Nondurables | 1.9 | 1.5 | .8 | .3 | .4 | 1.0 | 1.5 | 1.7 | 1.9 | 1.9 | 1.9 | 1.9 | 1.1 | 1.1 | 1.9 |
| Services | 2.6 | 1.0 | 2.2 | 1.6 | 1.1 | 1.1 | 1.2 | 1.5 | 1.4 | 1.4 | 1.5 | 1.6 | 1.9 | 1.2 | 1.5 |
| Residential investment <i>Previous</i> | 2.6 | 1.0 | 1.7 | 1.3 | 1.2 | 1.2 | 1.3 | 1.4 | 1.5 | 1.5 | 1.5 | 1.5 | 1.7 | 1.2 | 1.5 |
| Business fixed invest. <i>Previous</i> | .7 | .1 | .2 | .5 | .2 | .2 | .2 | .2 | .2 | .2 | .2 | .2 | .4 | .2 | .2 |
| Equipment & software <i>Previous</i> | .6 | .1 | .6 | .3 | .5 | .4 | .4 | .4 | .4 | .4 | .4 | .4 | .4 | .4 | .4 |
| Nonres. structures <i>Previous</i> | 1.3 | 1.0 | 1.4 | .9 | .4 | .6 | .6 | .9 | .7 | .7 | .8 | 1.0 | 1.1 | .6 | .8 |
| Net exports <i>Previous</i> | -9 | -6 | -1.2 | -1.7 | -1.0 | -4 | .0 | .1 | .1 | .1 | .1 | .1 | -1.1 | -3 | .1 |
| Exports | -9 | -7 | -1.1 | -1.4 | -1.0 | -4 | .1 | .1 | .1 | .1 | .1 | .1 | -1.0 | -3 | .1 |
| Imports | .2 | 1.1 | .7 | .3 | .2 | .2 | .2 | .2 | .3 | .3 | .3 | .3 | .6 | .2 | .3 |
| Govt. cons. & invest. <i>Previous</i> | .2 | 1.1 | .2 | .4 | .2 | .2 | .2 | .2 | .3 | .3 | .3 | .3 | .5 | .2 | .3 |
| Federal | .0 | .3 | .5 | .2 | .2 | .2 | .1 | .2 | .3 | .2 | .3 | .3 | .3 | .2 | .3 |
| Defense | .0 | .3 | .2 | .3 | .2 | .2 | .2 | .2 | .3 | .3 | .3 | .3 | .2 | .2 | .3 |
| Nondefense | .2 | .8 | .1 | .1 | .0 | .0 | .0 | .0 | .1 | .0 | .0 | .0 | .3 | .0 | .0 |
| State & local | .2 | .8 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .3 | .0 | .0 |
| Change in bus. inventories <i>Previous</i> | -5 | 1.3 | 1.3 | .0 | .0 | 1.1 | .5 | -1 | -2 | .6 | .4 | -6 | .5 | .4 | .0 |
| Nonfarm | -5 | 1.3 | .8 | -2 | -1 | .9 | .3 | -2 | -3 | .5 | .2 | -6 | .4 | .2 | .0 |
| Farm | .1 | .9 | 1.9 | .9 | .9 | .9 | .8 | .8 | .8 | .8 | .8 | .8 | .9 | .8 | .8 |
| | -6 | .5 | -6 | -9 | -8 | .2 | -3 | -9 | -1.0 | -2 | -4 | -1.4 | -4 | -5 | -8 |
| Govt. cons. & invest. <i>Previous</i> | -1 | .8 | .6 | .6 | .4 | .4 | .3 | .2 | .2 | .2 | .2 | .2 | .5 | .3 | .2 |
| Federal | -1 | .8 | .6 | .6 | .4 | .4 | .3 | .2 | .2 | .2 | .2 | .2 | .5 | .3 | .2 |
| Defense | -5 | .4 | .4 | .3 | .2 | .2 | .1 | .1 | .1 | .1 | .1 | .1 | .2 | .2 | .1 |
| Nondefense | -5 | .4 | .4 | .3 | .2 | .2 | .1 | .1 | .1 | .1 | .1 | .1 | .1 | .2 | .1 |
| State & local | .1 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 |
| Change in bus. inventories <i>Previous</i> | .4 | .4 | .2 | .3 | .2 | .2 | .1 | .1 | .1 | .1 | .1 | .1 | .3 | .2 | .1 |
| Nonfarm | -7 | .2 | -3 | .6 | .7 | -6 | -3 | .0 | .4 | -3 | -2 | .6 | .0 | -1 | .1 |
| Farm | -7 | .1 | .4 | .3 | .5 | -6 | -3 | .2 | .3 | -6 | -2 | .6 | .1 | .0 | .1 |
| | -7 | .3 | -2 | .6 | .7 | -6 | -3 | .0 | .3 | -3 | -2 | .6 | .0 | -1 | .1 |
| | .0 | -1 | -1 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 |

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

Class II FOMC
Restricted (FR)

October 24, 2007

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 | .5 | .8 | 2.7 | 2.2 | 2.1 | 2.0 | 2.2 | 2.2 | 2.1 | 2.0 | 2.0 | 2.3 | 2.1 |
| PCE chain-wt. price index <i>Previous</i> | 4.2 | 2.7 | .8 | 2.3 | 2.1 | 2.1 | 2.1 | 2.0 | 2.2 | 2.1 | 2.0 | 2.0 | 2.5 | 2.1 | 2.1 |
| Energy <i>Previous</i> | 3.5 | 4.3 | 1.5 | 2.7 | 2.3 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 3.0 | 1.8 | 1.7 |
| Food <i>Previous</i> | 3.5 | 4.2 | 1.6 | 2.4 | 1.5 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 2.9 | 1.7 | 1.8 |
| Ex. food & energy <i>Previous</i> | 16.1 | 51.3 | -6.8 | 11.2 | 8.2 | -1.4 | -2.0 | -2.6 | -2.4 | -2.3 | -2.1 | -1.8 | 16.1 | .4 | -2.1 |
| CPI <i>Previous</i> | 16.1 | 51.3 | -6.9 | 5.8 | -6.7 | -2.1 | -6 | -8 | -9 | -8 | -8 | -9 | 14.7 | -2.6 | -9 |
| Ex. food & energy <i>Previous</i> | 4.8 | 4.7 | 4.7 | 3.7 | 2.2 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 4.5 | 2.1 | 2.1 |
| CPI <i>Previous</i> | 4.8 | 4.7 | 4.2 | 2.9 | 2.4 | 2.3 | 2.2 | 2.2 | 2.1 | 2.1 | 2.1 | 2.1 | 4.2 | 2.2 | 2.1 |
| Ex. food & energy <i>Previous</i> | 2.4 | 1.4 | 1.6 | 2.0 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.8 | 1.9 | 1.9 |
| CPI <i>Previous</i> | 2.4 | 1.3 | 1.9 | 2.1 | 2.0 | 2.0 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| Ex. food & energy <i>Previous</i> | 3.8 | 6.0 | 1.9 | 3.2 | 2.8 | 1.9 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 3.7 | 2.0 | 1.7 |
| ECL, hourly compensation ² <i>Previous</i> ² | 3.8 | 6.0 | 1.9 | 2.6 | 1.4 | 1.8 | 1.9 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 3.6 | 1.7 | 1.8 |
| Nonfarm business sector Output per hour <i>Previous</i> | 2.3 | 1.9 | 2.5 | 2.3 | 2.2 | 2.2 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.3 | 2.1 | 2.1 |
| Compensation per hour <i>Previous</i> | 2.3 | 1.9 | 2.6 | 2.3 | 2.2 | 2.2 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.3 | 2.1 | 2.1 |
| Unit labor costs <i>Previous</i> | 2.3 | 3.5 | 3.8 | 3.8 | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 | 3.6 | 3.4 | 3.7 | 3.7 |
| | 2.3 | 3.5 | 3.8 | 3.8 | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 | 3.6 | 3.6 | 3.6 | 3.4 | 3.7 | 3.6 |
| Nonfarm business sector Output per hour <i>Previous</i> | .7 | 2.0 | 4.1 | 1.3 | 1.6 | 1.8 | 1.9 | 1.9 | 2.0 | 2.0 | 1.8 | 1.8 | 2.0 | 1.8 | 1.9 |
| Compensation per hour <i>Previous</i> | .7 | 2.2 | 3.4 | 1.4 | 1.3 | 1.8 | 1.8 | 2.0 | 1.9 | 1.8 | 1.9 | 1.9 | 1.9 | 1.7 | 1.9 |
| Unit labor costs <i>Previous</i> | 5.9 | 4.3 | 4.5 | 4.3 | 4.2 | 4.6 | 4.6 | 4.5 | 4.4 | 4.4 | 4.3 | 4.3 | 4.7 | 4.5 | 4.3 |
| | 5.9 | 4.1 | 5.0 | 3.9 | 3.9 | 4.5 | 4.6 | 4.5 | 4.3 | 4.3 | 4.2 | 4.2 | 4.7 | 4.4 | 4.2 |
| Unit labor costs <i>Previous</i> | 5.2 | 2.2 | .4 | 2.9 | 2.6 | 2.7 | 2.6 | 2.5 | 2.3 | 2.3 | 2.4 | 2.4 | 2.7 | 2.6 | 2.4 |
| | 5.2 | 1.8 | 1.5 | 2.4 | 2.5 | 2.7 | 2.7 | 2.5 | 2.4 | 2.4 | 2.3 | 2.2 | 2.7 | 2.6 | 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 | .2 | .2 | .2 | .2 | .2 | .2 | .3 | .3 | .3 | 1.5 | .8 | 1.1 |
| Unemployment rate ³ | 4.5 | 4.5 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 | 4.7 | 4.8 | 4.8 |
| <i>Previous³</i> | 4.5 | 4.5 | 4.6 | 4.7 | 4.7 | 4.8 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 | 4.7 | 4.9 | 4.9 |
| GDP gap ⁴ | .0 | .4 | .7 | .5 | .3 | .2 | .1 | .0 | .0 | .1 | .1 | .1 | .5 | .0 | .1 |
| <i>Previous⁴</i> | .1 | .4 | .5 | .2 | .0 | -.1 | -.2 | -.3 | -.3 | -.3 | -.2 | -.2 | .2 | -.3 | -.2 |
| Industrial production ⁵ | 1.1 | 3.5 | 4.0 | 1.4 | 2.5 | 1.5 | 2.9 | 4.2 | 3.1 | 2.6 | 2.9 | 3.0 | 2.5 | 2.8 | 2.9 |
| <i>Previous⁵</i> | 1.1 | 3.3 | 3.6 | 1.1 | 1.0 | 1.5 | 2.4 | 3.6 | 3.1 | 2.7 | 2.8 | 2.8 | 2.2 | 2.1 | 2.8 |
| Manufacturing industr. prod. ⁵ | .8 | 4.3 | 4.0 | .8 | 2.6 | 1.7 | 3.1 | 4.2 | 3.4 | 2.9 | 3.2 | 3.2 | 2.5 | 2.9 | 3.2 |
| <i>Previous⁵</i> | .8 | 3.9 | 4.0 | .5 | .7 | 1.7 | 2.5 | 3.5 | 3.3 | 3.0 | 3.0 | 3.0 | 2.3 | 2.1 | 3.1 |
| Capacity utilization rate - mfg. ³ | 79.8 | 80.3 | 80.6 | 80.4 | 80.4 | 80.2 | 80.3 | 80.6 | 80.8 | 80.8 | 80.9 | 81.0 | 80.4 | 80.6 | 81.0 |
| <i>Previous³</i> | 79.8 | 80.2 | 80.6 | 80.3 | 79.9 | 79.8 | 79.8 | 80.0 | 80.1 | 80.2 | 80.3 | 80.4 | 80.3 | 80.0 | 80.4 |
| Housing starts ⁶ | 1.5 | 1.5 | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 | 1.3 | 1.3 | 1.3 | 1.3 | 1.4 | 1.4 | 1.2 | 1.3 |
| Light motor vehicle sales ⁶ | 16.4 | 16.0 | 15.9 | 16.0 | 16.0 | 16.0 | 16.1 | 16.1 | 16.1 | 16.1 | 16.1 | 16.1 | 16.1 | 16.0 | 16.1 |
| <i>Income and saving</i> | | | | | | | | | | | | | | | |
| Nominal GDP ⁵ | 4.9 | 6.6 | 3.9 | 2.3 | 4.2 | 4.0 | 4.0 | 3.9 | 4.4 | 4.4 | 4.3 | 4.3 | 4.4 | 4.0 | 4.3 |
| Real disposable pers. income ⁵ | 5.4 | .6 | 4.3 | .7 | 1.7 | 2.0 | 2.4 | 2.5 | 3.7 | 2.9 | 2.5 | 2.6 | 2.7 | 2.2 | 2.9 |
| <i>Previous⁵</i> | 5.4 | .2 | 4.0 | .2 | 3.1 | 2.4 | 2.5 | 2.8 | 3.6 | 2.4 | 2.4 | 2.2 | 2.4 | 2.7 | 2.6 |
| Personal saving rate ³ | 1.0 | .6 | .9 | .5 | .5 | .6 | .8 | .9 | 1.3 | 1.5 | 1.6 | 1.7 | .5 | .9 | 1.7 |
| <i>Previous³</i> | 1.0 | .5 | .9 | .5 | .9 | 1.0 | 1.2 | 1.4 | 1.7 | 1.8 | 1.9 | 1.9 | .5 | 1.4 | 1.9 |
| Corporate profits ⁷ | 4.4 | 26.8 | -3.9 | 4.0 | 7.1 | -2.4 | 1.8 | -2.8 | -1.4 | -1.5 | 3.7 | .3 | 7.2 | .9 | .2 |
| Profit share of GNP ³ | 11.4 | 11.9 | 11.6 | 11.7 | 11.8 | 11.6 | 11.5 | 11.4 | 11.2 | 11.0 | 11.0 | 10.9 | 11.7 | 11.4 | 10.9 |
| Net federal saving ⁸ | -219 | -193 | -218 | -218 | -258 | -247 | -256 | -270 | -303 | -301 | -303 | -314 | -212 | -258 | -305 |
| Net state & local saving ⁸ | -6 | 13 | -1 | 2 | -3 | -7 | -10 | -11 | -15 | -16 | -16 | -14 | 2 | -8 | -15 |
| Gross national saving rate ³ | 13.8 | 14.2 | 13.9 | 13.7 | 13.5 | 13.6 | 13.6 | 13.5 | 13.5 | 13.6 | 13.6 | 13.6 | 13.7 | 13.5 | 13.6 |
| Net national saving rate ³ | 1.7 | 2.1 | 1.8 | 1.5 | 1.3 | 1.3 | 1.3 | 1.2 | 1.2 | 1.3 | 1.4 | 1.3 | 1.5 | 1.2 | 1.3 |

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)

October 24, 2007

| Item | Fiscal year | | | 2007 | | | | 2008 | | | | 2009 | | | |
|---|-------------------|-------------------|------|------|------|-----------------|-----------------|------|------|------|------|------|------|------|------|
| | 2006 ^a | 2007 ^a | | 2008 | 2009 | Q1 ^a | Q2 ^a | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| | | | | | | | | | | | | | | | |
| Unified budget | | | | | | | | | | | | | | | |
| Receipts ¹ | 2407 | 2568 | 2674 | 2786 | | 547 | 824 | 622 | 608 | 559 | 851 | 656 | 645 | 573 | 879 |
| Outlays ¹ | 2655 | 2731 | 2891 | 3031 | | 725 | 687 | 664 | 726 | 731 | 725 | 708 | 761 | 766 | 761 |
| Surplus/deficit ¹ | -248 | -163 | -217 | -245 | | -178 | 137 | -42 | -118 | -172 | 126 | -53 | -116 | -193 | 118 |
| <i>Previous</i> | -248 | -161 | -226 | -255 | | -178 | 137 | -40 | -118 | -176 | 129 | -61 | -115 | -197 | 121 |
| On-budget | -435 | -344 | -419 | -457 | | -212 | 53 | -49 | -186 | -198 | 33 | -67 | -190 | -218 | 19 |
| Off-budget | 186 | 181 | 201 | 212 | | 34 | 85 | 7 | 68 | 26 | 93 | 14 | 73 | 25 | 99 |
| | | | | | | | | | | | | | | | |
| Means of financing | | | | | | | | | | | | | | | |
| Borrowing | 237 | 206 | 178 | 263 | | 152 | -110 | 106 | 79 | 137 | -95 | 57 | 111 | 182 | -89 |
| Cash decrease | -16 | -23 | 40 | 0 | | 25 | -19 | -50 | 45 | 22 | -26 | 0 | 10 | 15 | -25 |
| Other ² | 28 | -20 | -1 | -18 | | 1 | -8 | -14 | -6 | 14 | -5 | -5 | -5 | -5 | -5 |
| Cash operating balance, end of period | 52 | 75 | 35 | 35 | | 6 | 25 | 75 | 30 | 9 | 35 | 35 | 25 | 10 | 35 |
| NIPA federal sector | | | | | | | | | | | | | | | |
| Receipts | 2437 | 2641 | 2763 | 2856 | | 2620 | 2684 | 2697 | 2725 | 2754 | 2774 | 2799 | 2820 | 2840 | 2866 |
| Expenditures | 2685 | 2843 | 3008 | 3150 | | 2838 | 2877 | 2915 | 2943 | 3012 | 3021 | 3055 | 3090 | 3142 | 3167 |
| Consumption expenditures | 798 | 843 | 901 | 941 | | 830 | 850 | 865 | 879 | 900 | 909 | 917 | 925 | 940 | 946 |
| Defense | 533 | 569 | 616 | 644 | | 556 | 574 | 587 | 598 | 614 | 622 | 628 | 634 | 643 | 648 |
| Nondefense | 266 | 273 | 286 | 297 | | 274 | 276 | 278 | 280 | 286 | 288 | 289 | 291 | 296 | 299 |
| Other spending | 1887 | 2001 | 2107 | 2209 | | 2008 | 2027 | 2050 | 2064 | 2112 | 2112 | 2138 | 2166 | 2203 | 2221 |
| Current account surplus | -248 | -203 | -245 | -294 | | -219 | -193 | -218 | -218 | -258 | -247 | -256 | -270 | -303 | -301 |
| Gross investment | 117 | 121 | 127 | 131 | | 117 | 120 | 122 | 125 | 127 | 128 | 129 | 130 | 131 | 131 |
| Gross saving less gross investment ³ | -262 | -214 | -258 | -306 | | -227 | -202 | -230 | -231 | -271 | -260 | -269 | -282 | -314 | -312 |
| Fiscal indicators⁴ | | | | | | | | | | | | | | | |
| High-employment (HEB) surplus/deficit | -283 | -236 | -275 | -311 | | -240 | -224 | -259 | -254 | -288 | -273 | -277 | -286 | -316 | -314 |
| Change in HEB, percent of potential GDP | -0.5 | -0.5 | 0.2 | 0.2 | | 0.1 | -0.1 | 0.2 | -0.0 | 0.2 | -0.1 | 0.0 | 0.0 | 0.2 | -0.0 |
| Fiscal impetus (FI), percent of GDP | 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 |
| <i>Previous</i> | 0.3 | 0.2 | 0.3 | 0.1 | | -0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

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

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

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

4. HEB is gross saving less gross investment (NIPA) of the federal government in current dollars, with cyclically sensitive receipts and outlays adjusted to the staff's measure of potential output and the NAIRU. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (2000) dollars, scaled by real GDP. The annual FI estimates are on a calendar year basis. Also, for FI and the change in HEB, positive values indicate aggregate demand stimulus.

a--Actual

Class II FOMC Restricted (FR) **Change in Debt of the Domestic Nonfinancial Sectors** **October 24, 2007**
(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 | 10.8 | 13.3 | 5.7 | 2.5 | 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 | 11.4 | 13.9 | 5.5 | 5.8 | 7.4 | 9.0 | 6.5 |
| 2005 | 9.0 | 10.5 | 12.3 | 4.3 | 7.7 | 10.2 | 7.0 | 6.3 |
| 2006 | 8.7 | 10.0 | 10.9 | 4.6 | 9.6 | 8.2 | 3.9 | 5.4 |
| 2007 | 7.2 | 6.1 | 6.2 | 4.9 | 9.6 | 9.9 | 4.6 | 4.4 |
| 2008 | 4.7 | 3.5 | 3.3 | 3.6 | 6.1 | 6.9 | 4.1 | 4.0 |
| 2009 | 4.7 | 3.5 | 3.4 | 3.0 | 5.8 | 6.2 | 5.2 | 4.3 |
| <i>Quarter</i> | | | | | | | | |
| 2007:1 | 7.9 | 7.0 | 7.7 | 4.9 | 8.9 | 11.1 | 6.7 | 4.9 |
| 2 | 7.1 | 7.1 | 7.4 | 4.8 | 10.6 | 11.9 | -1.4 | 6.6 |
| 3 | 7.4 | 5.2 | 5.1 | 5.0 | 9.2 | 9.0 | 8.8 | 3.9 |
| 4 | 5.8 | 4.5 | 4.2 | 4.5 | 8.2 | 6.1 | 4.3 | 2.3 |
| 2008:1 | 5.2 | 3.9 | 3.6 | 4.0 | 6.8 | 7.0 | 5.2 | 4.2 |
| 2 | 3.9 | 3.5 | 3.3 | 3.6 | 5.8 | 6.9 | -2 | 4.0 |
| 3 | 4.5 | 3.3 | 3.1 | 3.3 | 5.7 | 6.6 | 4.6 | 4.0 |
| 4 | 4.7 | 3.1 | 2.9 | 3.1 | 5.5 | 6.5 | 6.6 | 3.9 |
| 2009:1 | 5.1 | 3.3 | 3.2 | 3.0 | 5.7 | 6.2 | 8.4 | 4.4 |
| 2 | 3.8 | 3.4 | 3.3 | 2.9 | 5.7 | 6.1 | .3 | 4.4 |
| 3 | 4.5 | 3.5 | 3.4 | 2.9 | 5.6 | 6.0 | 4.5 | 4.3 |
| 4 | 5.0 | 3.6 | 3.5 | 2.9 | 5.5 | 5.9 | 7.4 | 4.3 |

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2007:Q2 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

**Class II FOMC
Restricted (FR)**

Flow of Funds Projections: Highlights

October 24, 2007

(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 | Q1 | Q2 |
| | | | | | | | | | | | | | | | | |
| <i>Domestic nonfinancial sectors</i> | | | | | | | | | | | | | | | | |
| Net funds raised | | | | | | | | | | | | | | | | |
| Total | 1679.3 | 1333.5 | 1073.9 | 1250.3 | 1332.5 | 999.7 | 1118.1 | 828.2 | 1142.2 | 1207.0 | 1386.5 | 982.6 | 1230.0 | 1402.1 | | |
| Net equity issuance | -614.1 | -740.4 | -369.0 | -272.0 | -866.8 | -752.0 | -500.0 | -392.0 | -292.0 | -292.0 | -272.0 | -272.0 | -272.0 | -272.0 | | |
| Net debt issuance | 2293.4 | 2073.9 | 1442.9 | 1522.3 | 2199.3 | 1751.7 | 1618.1 | 1220.2 | 1434.2 | 1499.0 | 1658.5 | 1254.6 | 1502.0 | 1674.1 | | |
| Borrowing indicators | | | | | | | | | | | | | | | | |
| Debt (percent of GDP) ¹ | 209.6 | 216.2 | 220.5 | 221.5 | 217.0 | 219.3 | 220.1 | 220.4 | 220.6 | 221.0 | 221.3 | 221.4 | 221.3 | 221.7 | | |
| Borrowing (percent of GDP) | 17.4 | 15.0 | 10.1 | 10.2 | 15.8 | 12.5 | 11.5 | 8.6 | 10.0 | 10.3 | 11.3 | 8.4 | 10.0 | 11.0 | | |
| Households | | | | | | | | | | | | | | | | |
| Net borrowing ² | 1166.0 | 783.5 | 479.4 | 492.1 | 698.2 | 602.6 | 526.2 | 489.2 | 463.4 | 438.9 | 469.5 | 483.1 | 500.8 | 514.9 | | |
| Home mortgages | 958.4 | 607.3 | 337.4 | 363.4 | 514.4 | 429.4 | 372.8 | 344.5 | 325.6 | 306.7 | 339.8 | 353.9 | 372.8 | 387.0 | | |
| Consumer credit | 105.9 | 118.0 | 90.6 | 77.7 | 123.2 | 112.9 | 102.6 | 93.4 | 86.0 | 80.4 | 78.5 | 77.9 | 77.3 | 77.2 | | |
| Debt/DPI (percent) ³ | 127.6 | 130.1 | 130.8 | 129.5 | 130.6 | 131.0 | 131.1 | 131.1 | 130.9 | 130.6 | 129.9 | 129.5 | 129.3 | 129.0 | | |
| Business | | | | | | | | | | | | | | | | |
| Financing gap ⁴ | 186.6 | 213.7 | 220.9 | 258.9 | 191.1 | 222.7 | 230.1 | 220.7 | 208.5 | 224.3 | 248.2 | 253.0 | 249.9 | 284.4 | | |
| Net equity issuance | -614.1 | -740.4 | -369.0 | -272.0 | -866.8 | -752.0 | -500.0 | -392.0 | -292.0 | -292.0 | -272.0 | -272.0 | -272.0 | -272.0 | | |
| Credit market borrowing | 791.6 | 865.3 | 602.1 | 605.5 | 875.1 | 799.4 | 672.9 | 588.0 | 580.9 | 566.7 | 596.0 | 611.0 | 608.3 | 606.6 | | |
| State and local governments | | | | | | | | | | | | | | | | |
| Net borrowing | 152.4 | 198.2 | 151.7 | 145.7 | 190.9 | 132.7 | 153.7 | 153.7 | 149.7 | 149.7 | 145.7 | 145.7 | 145.7 | 145.7 | | |
| Current surplus ⁵ | 243.8 | 211.2 | 187.3 | 187.6 | 187.4 | 192.6 | 189.1 | 187.4 | 185.6 | 187.1 | 184.5 | 186.0 | 187.9 | 191.9 | | |
| Federal government | | | | | | | | | | | | | | | | |
| Net borrowing | 183.4 | 226.9 | 209.6 | 279.0 | 435.0 | 217.0 | 265.4 | -10.7 | 240.1 | 343.7 | 447.3 | 14.8 | 247.1 | 406.9 | | |
| Net borrowing (n.s.a.) | 183.4 | 226.9 | 209.6 | 279.0 | 105.7 | 79.2 | 137.0 | -95.3 | 57.0 | 110.9 | 182.5 | -88.9 | 58.8 | 126.7 | | |
| Unified deficit (n.s.a.) | 209.2 | 200.9 | 215.4 | 261.0 | 41.9 | 118.4 | 172.4 | -126.0 | 52.5 | 116.4 | 193.0 | -118.4 | 54.3 | 132.2 | | |
| <i>Depository institutions</i> | | | | | | | | | | | | | | | | |
| Funds supplied | 693.7 | 716.3 | 461.4 | 525.1 | 1256.1 | 398.2 | 565.6 | 466.8 | 482.2 | 330.9 | 560.5 | 561.5 | 542.3 | 436.0 | | |

Note. Data after 2007:Q2 are staff projections.

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

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

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

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

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

n.s.a. Not seasonally adjusted.

2.6.4 FOF

Summary of Staff Projections

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

| Indicator | 2006 | 2007: H1 | Projection | | | |
|--|------|-------------|------------|------|------|------|
| | | | 2007 | | 2008 | 2009 |
| | | | Q3 | Q4 | | |
| Foreign output | 3.9 | 4.3 | 3.5 | 3.1 | 3.2 | 3.2 |
| September GB | 3.9 | 4.3 | 3.4 | 3.1 | 3.2 | 3.2 |
| Foreign CPI | 2.1 | 2.9 | 4.0 | 2.6 | 2.4 | 2.4 |
| September GB | 2.1 | 2.9 | 4.1 | 2.3 | 2.3 | 2.3 |
| Contribution to growth (percentage points) | | | | | | |
| U.S. net exports | 0.4 | 0.4 | 1.3 | 0.0 | 0.4 | 0.0 |
| September GB | 0.4 | 0.4 | 0.8 | -0.2 | 0.2 | 0.0 |

Note. Changes for years measured as Q4/Q4; half-year is measured as Q2/Q4.

Oil Prices

The spot price of WTI crude oil traded in a range of \$80 to \$84 per barrel for much of the period since the September Greenbook. Late in the intermeeting period, however, the spot price of WTI surged toward the \$90 per barrel mark before falling to \$86.48 on October 23. Far-dated futures prices also climbed, with the December 2015 contract rising nearly \$6 per barrel to about \$75 per barrel. Given the path of futures prices, we project that the price of WTI will average \$86 per barrel in the current quarter and then fall to about \$76 by the end of 2009. Relative to the September Greenbook, this projection is about \$10 per barrel higher in the near term and about \$6 higher at the end of the forecast period.

Global demand for oil appears to have remained strong, with little apparent effect from the recent financial market turmoil. The recent depreciation of the dollar has provided some support to oil prices, although this channel can explain only a small portion of the run-up in oil prices over the intermeeting period. A more substantial cause appears to be the escalation of geopolitical tensions in recent weeks. In particular, Turkish threats of an incursion into northern Iraq to fight Kurdish separatists have raised concerns about further destabilization in the Middle East and the resulting risks to oil supply. Concerns also have been prompted by preliminary data suggesting that crude oil inventories in the OECD countries declined in the third quarter, in contrast to the typical build ahead of the winter heating months. Moreover, OPEC does not appear willing to increase production

should keep core import price inflation around 2¾ percent (a.r.) in the current quarter and about 2½ percent in early 2008. For the remainder of the forecast, we project that core import price inflation will stabilize at an annual rate just below 1 percent, as commodity prices are projected to level off, consistent with readings from futures markets, and the dollar depreciates at a more modest pace. Compared with the September Greenbook, this forecast is revised up somewhat in the near term on account of the recent depreciation of the dollar.

Staff Projections of Selected Trade Prices

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

| Trade category | 2006 | 2007: H1 | Projection | | | |
|--------------------------|-------|-------------|------------|-------|-------|-------|
| | | | 2007 | | 2008 | 2009 |
| | | | Q3 | Q4 | | |
| <i>Imports</i> | | | | | | |
| Core goods | 2.4 | 3.1 | 2.9 | 2.7 | 1.2 | 0.7 |
| September GB | 2.4 | 3.0 | 2.8 | 2.5 | 1.2 | 1.0 |
| Oil (dollars per barrel) | 55.33 | 63.84 | 70.56 | 81.92 | 75.15 | 71.80 |
| September GB | 55.33 | 63.84 | 70.25 | 72.09 | 67.32 | 65.99 |
| <i>Exports</i> | | | | | | |
| Core goods | 4.3 | 6.7 | 3.1 | 2.4 | 0.8 | 0.7 |
| September GB | 4.3 | 6.6 | 2.9 | 2.0 | 0.7 | 0.9 |

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

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

We estimate that core export prices decelerated sharply to 3 percent in the third quarter. This deceleration reflects a slowing of the inflation rate for nonagricultural supplies, which offset a pickup in the inflation rate for agricultural products. We expect core export prices to decelerate further in the current quarter and then to rise less than 1 percent beginning early next year, reflecting the expected path for commodity prices. Compared with the September Greenbook, the forecast for core export price inflation is a little higher in the near term, largely reflecting an upward revision to agricultural and petroleum prices.

Trade in Goods and Services

Stronger-than-expected trade data for August have led us to revise up our estimate of the contribution from real net exports to U.S. GDP growth in the third quarter to 1.3 percentage points, 0.4 percentage point more than we had previously projected. For the current quarter, we project a neutral contribution, as export growth moderates and imports pick up, in part reflecting the seasonal pattern for oil imports. Net exports are then projected to contribute nearly ½ percentage point to growth next year and to be neutral in 2009. The outlook is for a somewhat more positive contribution than in the September Greenbook, mainly in 2008, as we have revised up export growth in light of the weaker dollar.

Real imports of goods and services are estimated to have increased 3½ percent in the third quarter. Imports of core goods rebounded from their unusual weakness earlier this year, more than offsetting falling imports of oil, computers, and natural gas. In the current quarter, real import growth is expected to step up to 5¼ percent, with much of the pickup attributable to a seasonal rebound in oil imports following the third quarter's steep decline. In addition, imports of computers, after falling in the middle of the year, are expected to move up and contribute significantly to overall import growth. In contrast, imports of core goods and services are expected to decelerate sharply, pulled down, in part, by slowing U.S. GDP growth.

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

| Measure | 2006 | 2007: H1 | Projection | | | |
|--------------|------|-------------|------------|-----|------|------|
| | | | 2007 | | 2008 | 2009 |
| | | | Q3 | Q4 | | |
| Real imports | 3.7 | 0.5 | 3.5 | 5.3 | 2.7 | 4.5 |
| September GB | 3.7 | 0.6 | 3.8 | 5.4 | 2.7 | 4.4 |
| Real exports | 9.3 | 4.3 | 16.9 | 7.7 | 6.9 | 6.3 |
| September GB | 9.3 | 4.4 | 13.3 | 5.9 | 5.8 | 5.9 |

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

Real import growth is expected to rise over the course of 2008 and 2009, as imports of core goods and services pick up along with strengthening U.S. GDP growth and slowing

Alternative Simulations:
Higher Foreign Inflation and Dollar Depreciation
(Percent change from previous period, annual rate, except as noted)

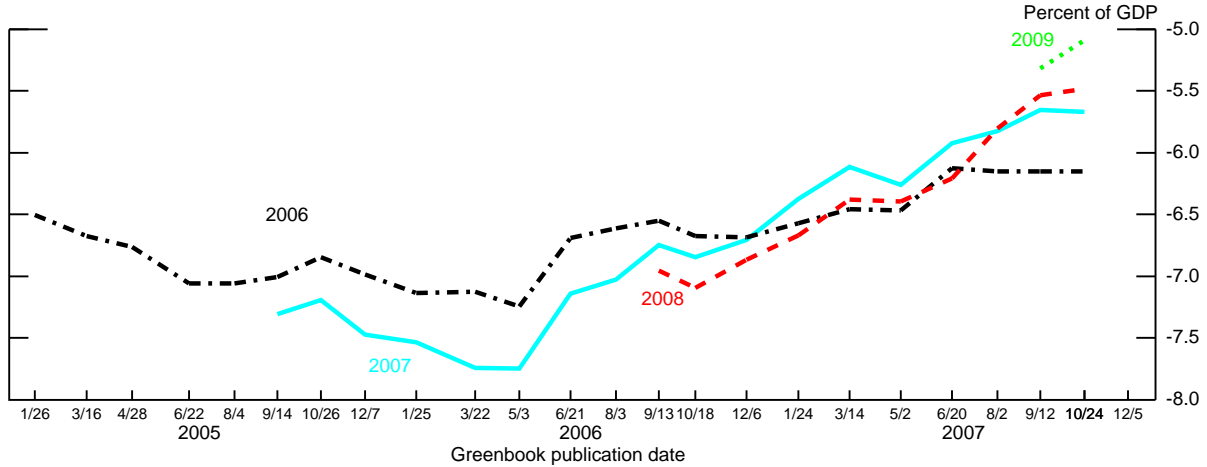
| Indicator and simulation | 2007 | 2008 | | 2009 | |
|---|------|------|------|------|------|
| | H2 | H1 | H2 | H1 | H2 |
| <i>U.S. real GDP</i> | | | | | |
| Baseline | 2.4 | 1.6 | 1.9 | 2.2 | 2.2 |
| Higher inflation abroad | 2.4 | 1.5 | 1.9 | 2.2 | 2.2 |
| Higher inflation abroad and dollar depreciation | 2.3 | 2.3 | 2.5 | 2.6 | 1.8 |
| <i>U.S. core PCE prices</i> | | | | | |
| Baseline | 1.8 | 1.9 | 1.9 | 1.9 | 1.9 |
| Higher inflation abroad | 1.8 | 1.9 | 1.9 | 1.8 | 1.8 |
| Higher inflation abroad and dollar depreciation | 2.0 | 2.0 | 2.0 | 1.9 | 2.0 |
| <i>U.S. federal funds rate (percent)</i> | | | | | |
| Baseline | 5.0 | 4.75 | 4.75 | 4.75 | 4.75 |
| Higher inflation abroad | 5.0 | 4.75 | 4.65 | 4.65 | 4.55 |
| Higher inflation abroad and dollar depreciation | 5.0 | 5.15 | 5.65 | 5.85 | 5.65 |
| <i>U.S. trade balance (percent of GDP)</i> | | | | | |
| Baseline | -5.2 | -5.2 | -4.7 | -4.5 | -4.2 |
| Depreciation (low pass-through) | -5.2 | -5.2 | -4.6 | -4.5 | -4.2 |
| Higher inflation abroad and dollar depreciation | -5.6 | -5.2 | -4.4 | -4.0 | -3.9 |

NOTE. Half-year changes are measured as Q2/Q4 or Q4/Q2. The federal funds rate is the average rate for the final quarter of the period. The monetary authorities in the United States and the major foreign economies adjust their policy rates according to Taylor rules.

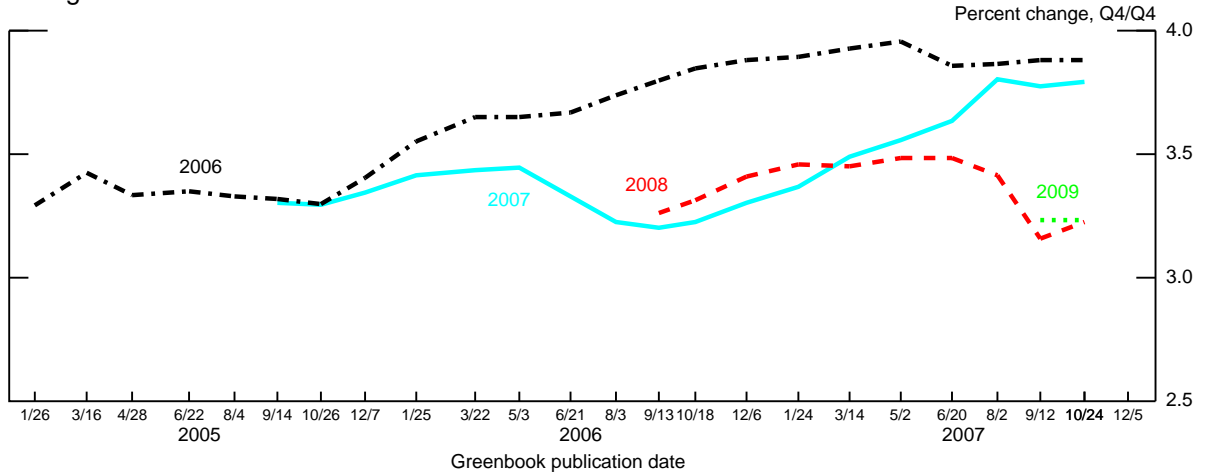
Class II FOMC -- Restricted (FR)

Evolution of the Staff Forecast

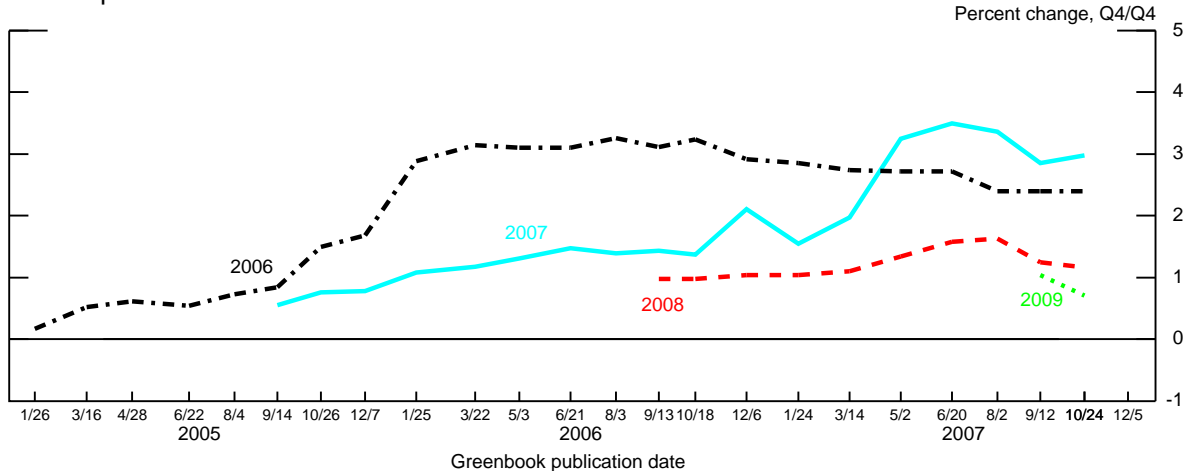
Current Account Balance



Foreign Real GDP



Core Import Prices*



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

October 24, 2007

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

| Measure and country | 2007 | | | | Projected 2008 | | | | 2009 | | | |
|----------------------------|-------------------------------------|------|------|-----|-------------------|-----|------|-----|------|-----|-----|-----|
| | 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 | 4.4 | 3.5 | 3.1 | 3.2 | 3.2 | 3.3 | 3.3 | 3.2 | 3.2 | 3.2 | 3.2 |
| Advanced Foreign Economies | 3.8 | 2.2 | 2.3 | 1.9 | 2.0 | 1.9 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 |
| of which: | | | | | | | | | | | | |
| Canada | 3.9 | 3.4 | 2.1 | 1.9 | 1.9 | 1.6 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 | 2.1 |
| Japan | 3.0 | -1.2 | 1.4 | 1.7 | 2.0 | 2.2 | 1.9 | 1.7 | 1.7 | 1.7 | 1.6 | 1.6 |
| United Kingdom | 3.2 | 3.3 | 3.3 | 1.8 | 2.1 | 2.3 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 |
| Euro Area (2) | 3.1 | 1.3 | 2.8 | 1.9 | 1.8 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Germany | 2.2 | 1.0 | 2.8 | 1.8 | 1.8 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Emerging Market Economies | 4.7 | 7.6 | 5.1 | 4.8 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 | 4.8 | 4.8 |
| Asia | 7.5 | 10.1 | 6.5 | 6.2 | 6.2 | 6.3 | 6.3 | 6.3 | 6.2 | 6.2 | 6.2 | 6.2 |
| Korea | 3.6 | 7.4 | 5.0 | 4.6 | 4.5 | 4.5 | 4.5 | 4.4 | 4.4 | 4.4 | 4.3 | 4.3 |
| China | 14.2 | 14.7 | 9.4 | 9.3 | 9.5 | 9.7 | 10.0 | 9.7 | 9.5 | 9.5 | 9.5 | 9.5 |
| Latin America | 2.0 | 5.3 | 3.8 | 3.3 | 3.5 | 3.4 | 3.5 | 3.5 | 3.5 | 3.5 | 3.4 | 3.4 |
| Mexico | 1.2 | 5.3 | 3.5 | 2.9 | 3.2 | 3.1 | 3.3 | 3.3 | 3.3 | 3.3 | 3.2 | 3.2 |
| Brazil | 3.6 | 3.2 | 4.2 | 4.2 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| CONSUMER PRICES (3) | Four-quarter changes | | | | | | | | | | | |
| Advanced Foreign Economies | 1.6 | 1.6 | 1.6 | 2.0 | 1.8 | 1.6 | 1.7 | 1.7 | 1.6 | 1.6 | 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 | 2.0 | 2.0 | 2.0 |
| Japan | -0.1 | -0.0 | -0.1 | 0.1 | 0.3 | 0.2 | 0.2 | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 |
| United Kingdom (4) | 2.9 | 2.6 | 1.8 | 1.8 | 1.8 | 1.8 | 2.2 | 2.1 | 2.0 | 2.0 | 2.0 | 2.0 |
| Euro Area (2) | 1.9 | 1.9 | 1.9 | 2.2 | 2.2 | 2.0 | 2.0 | 1.8 | 1.8 | 1.8 | 1.9 | 1.9 |
| Germany | 1.9 | 2.0 | 2.2 | 2.5 | 2.2 | 1.9 | 1.8 | 1.6 | 1.7 | 1.7 | 1.8 | 1.8 |
| Emerging Market Economies | 3.1 | 3.3 | 4.4 | 4.4 | 4.3 | 4.2 | 3.2 | 3.2 | 3.1 | 3.1 | 3.1 | 3.1 |
| Asia | 2.7 | 3.0 | 4.5 | 4.5 | 4.4 | 4.2 | 2.9 | 2.9 | 2.9 | 2.8 | 2.8 | 2.9 |
| Korea | 2.0 | 2.5 | 2.3 | 2.9 | 3.4 | 2.9 | 2.9 | 2.9 | 2.7 | 2.6 | 2.5 | 2.4 |
| China | 2.8 | 3.6 | 6.1 | 5.6 | 5.4 | 4.8 | 2.6 | 2.8 | 2.8 | 2.8 | 2.8 | 2.9 |
| Latin America | 4.2 | 4.2 | 4.3 | 4.1 | 4.0 | 4.2 | 3.9 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 |
| Mexico | 4.1 | 4.0 | 4.0 | 3.8 | 3.6 | 3.9 | 3.6 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Brazil | 3.1 | 3.4 | 4.2 | 4.2 | 3.8 | 3.8 | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 |

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

October 24, 2007

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 | 0.5 | 0.4 | 0.0 |
| Exports of G&S | -1.3 | 0.4 | 0.6 | 0.7 | 0.7 | 1.0 | 0.9 | 0.8 | 0.8 |
| Imports of G&S | 1.1 | -1.3 | -0.7 | -1.7 | -0.8 | -0.6 | -0.4 | -0.5 | -0.8 |
| | Percentage change, Q4/Q4 | | | | | | | | |
| Exports of G&S | -11.9 | 3.8 | 5.8 | 7.4 | 7.0 | 9.3 | 8.2 | 6.9 | 6.3 |
| Services | -8.9 | 10.2 | 3.0 | 8.3 | 4.1 | 8.3 | 5.3 | 6.3 | 4.7 |
| Computers | -23.5 | -1.1 | 11.3 | 5.8 | 14.0 | 8.2 | 0.7 | 9.5 | 9.5 |
| Semiconductors | -34.6 | 10.1 | 38.3 | -6.0 | 17.5 | 2.4 | 14.9 | 11.0 | 11.0 |
| Core Goods 1/ | -10.2 | 0.6 | 4.9 | 8.0 | 7.5 | 10.2 | 9.6 | 6.9 | 6.8 |
| Imports of G&S | -7.6 | 9.7 | 4.8 | 11.5 | 5.1 | 3.7 | 2.5 | 2.7 | 4.5 |
| Services | -5.9 | 8.8 | 2.2 | 9.3 | 1.4 | 6.1 | 0.3 | 1.6 | 3.5 |
| Oil | 3.7 | 3.8 | 1.2 | 10.8 | 1.2 | -9.0 | 2.6 | -1.2 | -0.1 |
| Natural Gas | -6.5 | 19.5 | 1.3 | 4.9 | 11.3 | -13.4 | 8.2 | 5.7 | 3.1 |
| Computers | -13.6 | 13.2 | 17.0 | 23.2 | 12.2 | 13.6 | 10.1 | 15.5 | 15.5 |
| Semiconductors | -51.1 | 11.0 | -0.1 | 9.8 | 7.6 | -0.5 | 5.8 | 5.0 | 5.0 |
| Core Goods 2/ | -6.5 | 10.0 | 5.2 | 11.4 | 6.0 | 5.9 | 2.1 | 3.0 | 5.1 |
| | Billions of Chained 2000 Dollars | | | | | | | | |
| Net Goods & Services | -399.1 | -471.3 | -518.9 | -593.8 | -618.0 | -624.5 | -564.1 | -501.0 | -478.0 |
| Exports of G&S | 1036.7 | 1013.3 | 1026.1 | 1126.1 | 1203.4 | 1304.1 | 1407.5 | 1524.7 | 1624.0 |
| Imports of G&S | 1435.8 | 1484.6 | 1545.0 | 1719.9 | 1821.5 | 1928.6 | 1971.7 | 2025.8 | 2101.9 |
| | Billions of dollars | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -384.7 | -459.6 | -522.1 | -640.2 | -754.8 | -811.5 | -782.3 | -786.3 | -760.0 |
| Current Acct as Percent of GDP | -3.8 | -4.4 | -4.8 | -5.5 | -6.1 | -6.2 | -5.7 | -5.5 | -5.1 |
| Net Goods & Services (BOP) | -365.1 | -423.7 | -496.9 | -612.1 | -714.4 | -758.5 | -719.2 | -705.8 | -653.4 |
| Investment Income, Net | 36.9 | 33.2 | 51.1 | 62.5 | 54.5 | 43.2 | 41.2 | 25.6 | -2.5 |
| Direct, Net | 115.9 | 102.4 | 112.7 | 139.4 | 152.5 | 174.2 | 207.8 | 241.2 | 257.9 |
| Portfolio, Net | -79.0 | -69.1 | -61.5 | -76.9 | -98.1 | -131.0 | -166.6 | -215.7 | -260.5 |
| Other Income & Transfers, Net | -56.5 | -69.2 | -76.3 | -90.6 | -94.9 | -96.1 | -104.3 | -106.1 | -104.1 |

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.

October 24, 2007

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | 2007 | | | | Projected | | | | 2009 | | | |
|-------------------------------|--|--------|--------|--------|-----------|--------|--------|--------|--------|--------|--------|--------|
| | 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 | 1.3 | 0.0 | 0.0 | 1.1 | 0.5 | -0.1 | -0.2 | 0.6 | 0.4 | -0.6 |
| Exports of G&S | 0.1 | 0.9 | 1.9 | 0.9 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Imports of G&S | -0.6 | 0.5 | -0.6 | -0.9 | -0.8 | 0.2 | -0.3 | -0.9 | -1.0 | -0.2 | -0.4 | -1.4 |
| | Percentage change from previous period, s.a.a.r. | | | | | | | | | | | |
| Exports of G&S | 1.1 | 7.5 | 16.9 | 7.7 | 7.1 | 7.0 | 6.9 | 6.6 | 6.5 | 6.4 | 6.3 | 6.1 |
| Services | 1.6 | 9.6 | 2.3 | 7.7 | 7.1 | 6.5 | 6.1 | 5.6 | 5.1 | 4.8 | 4.5 | 4.3 |
| Computers | -8.2 | -17.8 | 24.3 | 9.5 | 9.5 | 9.5 | 9.5 | 9.5 | 9.5 | 9.5 | 9.5 | 9.5 |
| Semiconductors | 25.4 | 23.2 | -3.4 | 17.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 |
| Core Goods 1/ | 0.3 | 7.1 | 25.2 | 7.3 | 6.9 | 7.0 | 6.9 | 6.8 | 6.8 | 6.8 | 6.8 | 6.6 |
| Imports of G&S | 3.9 | -2.7 | 3.5 | 5.3 | 4.7 | -1.3 | 1.8 | 5.5 | 6.0 | 1.4 | 2.5 | 8.2 |
| Services | 2.3 | -1.7 | 2.1 | -1.5 | -0.3 | 1.3 | 6.9 | -1.4 | 3.4 | 3.5 | 3.6 | 3.5 |
| Oil | 29.6 | -22.3 | -16.1 | 30.9 | 16.8 | -23.2 | -14.0 | 23.6 | 12.5 | -21.8 | -16.0 | 34.4 |
| Natural Gas | 8.3 | 258.5 | -1.7 | -64.1 | 33.0 | 34.7 | 10.9 | -37.1 | 10.1 | 40.8 | 14.0 | -36.2 |
| Computers | 41.1 | -13.1 | -5.9 | 27.2 | 15.5 | 15.5 | 15.5 | 15.5 | 15.5 | 15.5 | 15.5 | 15.5 |
| Semiconductors | 4.0 | 3.3 | 5.1 | 10.8 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Core Goods 2/ | -2.3 | -0.5 | 9.5 | 2.2 | 1.8 | 2.7 | 3.5 | 3.9 | 4.5 | 5.1 | 5.4 | 5.4 |
| | Billions of Chained 2000 Dollars, s.a.a.r. | | | | | | | | | | | |
| Net Goods & Services | -612.1 | -573.9 | -535.9 | -534.6 | -532.4 | -500.5 | -484.3 | -487.0 | -492.6 | -475.1 | -463.4 | -480.9 |
| Exports of G&S | 1354.7 | 1379.5 | 1434.5 | 1461.5 | 1486.9 | 1512.3 | 1537.5 | 1562.3 | 1586.9 | 1611.6 | 1636.4 | 1660.9 |
| Imports of G&S | 1966.8 | 1953.4 | 1970.4 | 1996.1 | 2019.3 | 2012.8 | 2021.8 | 2049.2 | 2079.5 | 2086.7 | 2099.8 | 2141.8 |
| | Billions of dollars, s.a.a.r. | | | | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -788.4 | -763.2 | -759.6 | -818.2 | -832.9 | -782.0 | -759.6 | -770.5 | -776.5 | -752.4 | -739.8 | -771.3 |
| Current Account as % of GDP | -5.8 | -5.5 | -5.5 | -5.9 | -5.9 | -5.5 | -5.3 | -5.3 | -5.3 | -5.1 | -4.9 | -5.1 |
| Net Goods & Services (BOP) | -710.3 | -710.7 | -695.8 | -760.0 | -757.7 | -707.1 | -680.1 | -678.1 | -682.1 | -651.0 | -630.9 | -649.4 |
| Investment Income, Net | 36.2 | 44.2 | 41.3 | 43.0 | 34.8 | 27.5 | 22.9 | 17.1 | 7.9 | 1.1 | -6.5 | -12.6 |
| Direct, Net | 191.0 | 198.6 | 211.0 | 230.5 | 235.8 | 238.2 | 243.1 | 247.7 | 250.0 | 254.9 | 260.1 | 266.7 |
| Portfolio, Net | -154.8 | -154.4 | -169.8 | -187.5 | -201.0 | -210.7 | -220.3 | -230.6 | -242.1 | -253.9 | -266.6 | -279.2 |
| Other Inc. & Transfers, Net | -114.3 | -96.6 | -105.1 | -101.2 | -110.1 | -102.4 | -102.4 | -109.4 | -102.4 | -102.4 | -102.4 | -109.4 |

1. Merchandise exports excluding computers and semiconductors.

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

Part 2

October 24, 2007

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

October 24, 2007

Recent Developments

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

| Item | 2007 | | | | | | | |
|---|------|------|------|------|-------|------|------|------|
| | Q1 | Q2 | Q3 | Q4 | Sept. | Oct. | Nov. | Dec. |
| U.S. production ¹ | 10.2 | 10.8 | 10.6 | 10.1 | 10.1 | 10.0 | 10.4 | 9.9 |
| Autos | 4.0 | 3.9 | 3.9 | 3.6 | 3.6 | 3.7 | 3.7 | 3.4 |
| Light trucks | 6.3 | 6.9 | 6.7 | 6.5 | 6.5 | 6.2 | 6.7 | 6.5 |
| Days' supply ² | 65 | 67 | 69 | n.a. | 68 | n.a. | n.a. | n.a. |
| Autos | 60 | 55 | 60 | n.a. | 59 | n.a. | n.a. | n.a. |
| Light trucks | 69 | 75 | 75 | n.a. | 74 | n.a. | n.a. | n.a. |
| Inventories ³ | 2.67 | 2.67 | 2.76 | n.a. | 2.76 | n.a. | n.a. | n.a. |
| Autos | 1.00 | .95 | .99 | n.a. | .99 | n.a. | n.a. | n.a. |
| Light trucks | 1.67 | 1.72 | 1.76 | n.a. | 1.76 | n.a. | n.a. | n.a. |
| Memo: U.S. production, total motor vehicles ⁴ | 10.6 | 11.1 | 10.9 | 10.4 | 10.4 | 10.2 | 10.7 | 10.2 |

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

1. Production rates in the fourth quarter reflect the latest industry schedules.

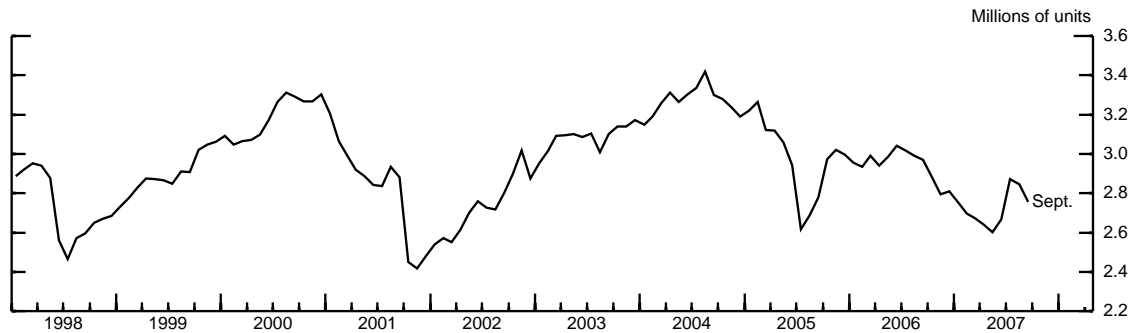
2. Quarterly values are calculated with end-of-period stocks and average reported sales.

3. End-of-period stocks.

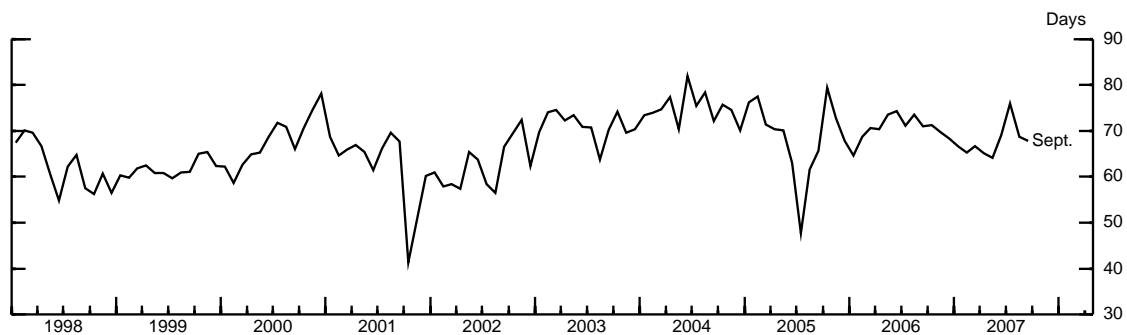
4. Includes medium and heavy trucks.

n.a. Not available.

Inventories of Light Vehicles



Days' Supply of Light Vehicles



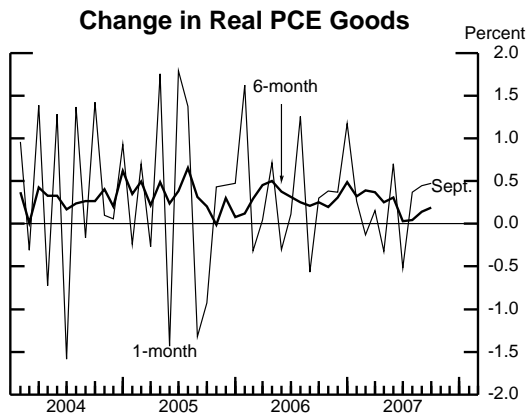
Retail and Food Services Sales

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

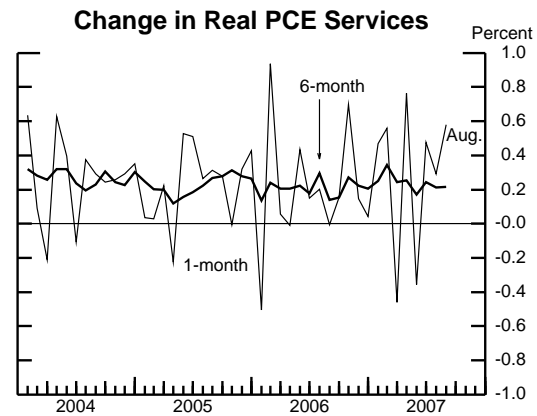
| Category | 2007 | | | | | |
|--|-------------|-----|-----|--------------|------|-------|
| | Q1 | Q2 | Q3 | July | Aug. | Sept. |
| | Annual rate | | | Monthly rate | | |
| Total sales | 6.3 | 5.4 | 4.0 | .6 | .3 | .6 |
| Retail control ¹ | 7.7 | 8.0 | 4.6 | .7 | -.3 | .5 |
| Ex. sales at gasoline stations | 5.5 | 5.4 | 5.8 | .8 | .0 | .3 |
| Memo: Real PCE control ² | 4.0 | .3 | 4.5 | .8 | .2 | .3 |

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

2. Total goods spending excluding autos and trucks. The values for July and August are staff estimates. The values for September and Q3 are staff forecasts.



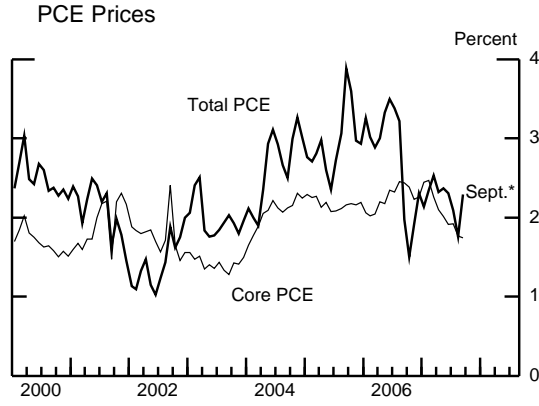
Note. The values for July and August are staff estimates. The value for September is a staff forecast.



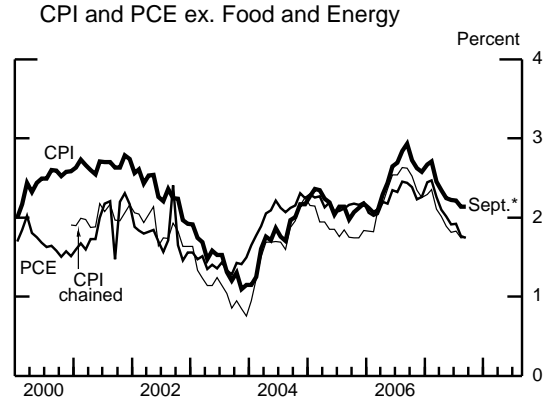
Personal Saving Rate



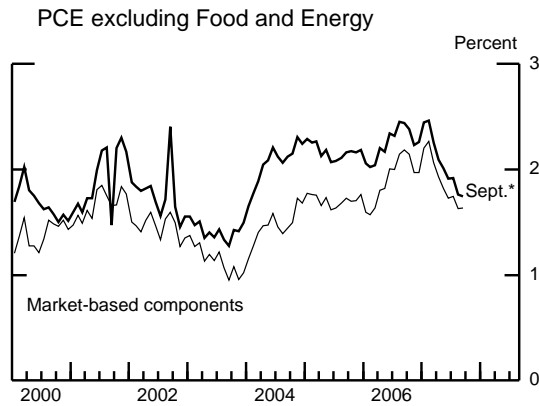
Consumer Prices (12-month change except as noted)



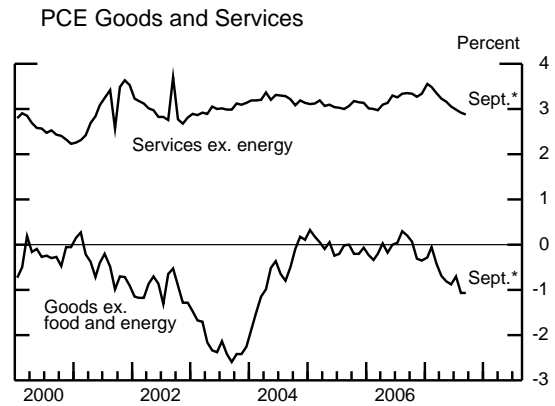
* Staff estimate.



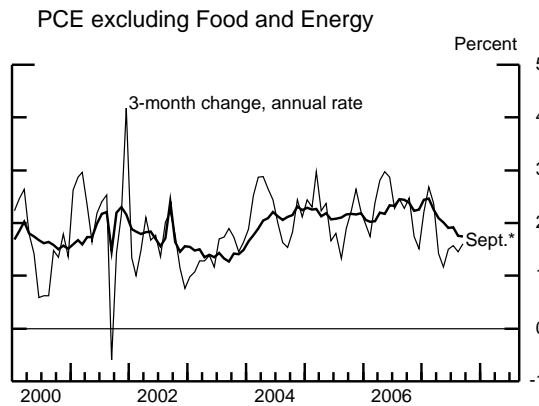
* PCE for September is a staff estimate.



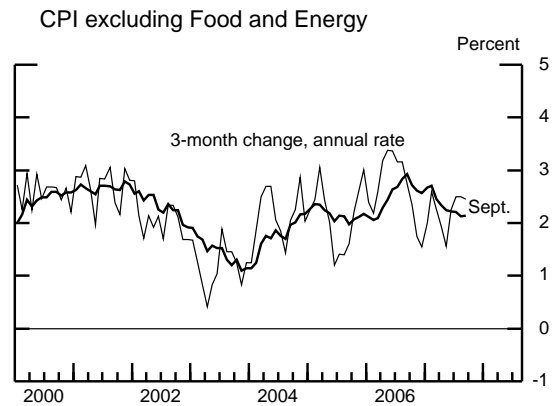
* Staff estimate.



* Staff estimate.

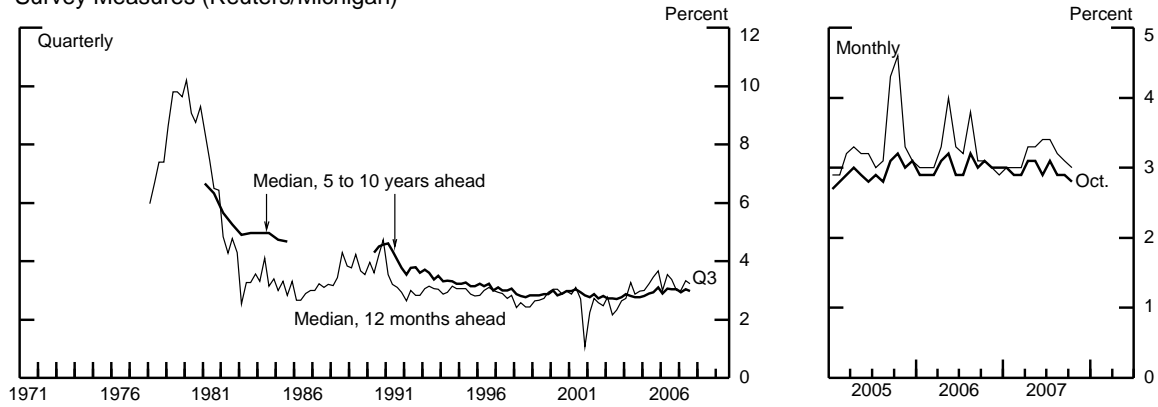


* Staff estimate.

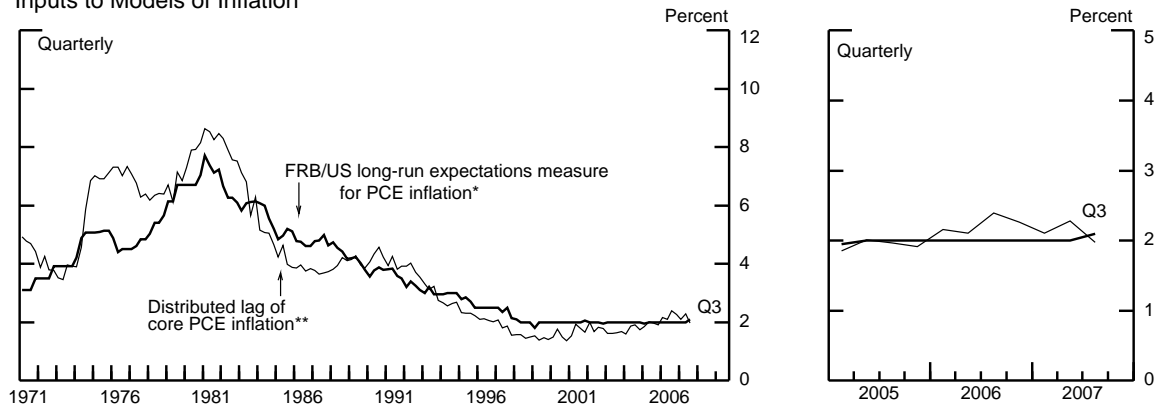


Measures of Expected Inflation

Survey Measures (Reuters/Michigan)



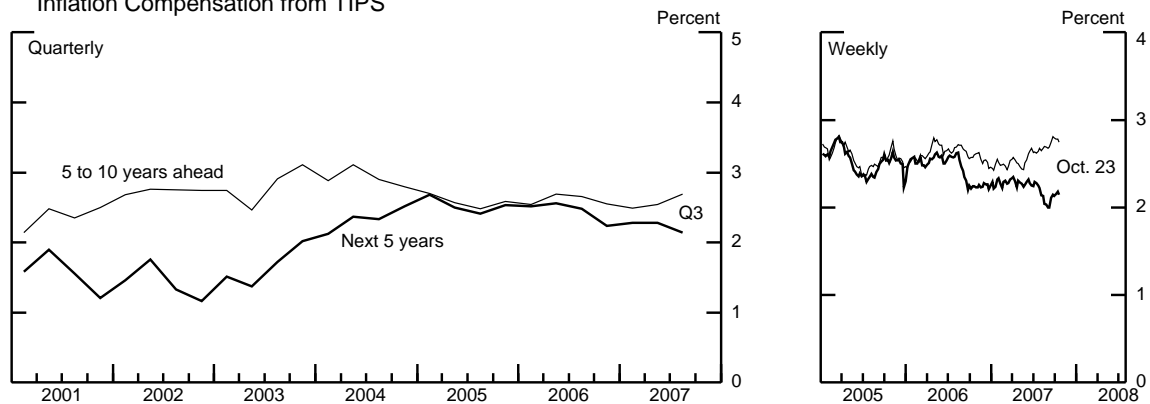
Inputs to Models of Inflation



*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 Hoey; 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.

Broad Measures of Inflation

(Percent change, Q2 to Q2)

| Measure | 2004 | 2005 | 2006 | 2007 |
|--|------|------|------|------|
| <i>Product prices</i> | | | | |
| GDP price index | 2.9 | 3.0 | 3.5 | 2.7 |
| Less food and energy | 2.7 | 3.1 | 3.3 | 2.5 |
| Nonfarm business chain price index | 2.2 | 3.2 | 3.5 | 1.9 |
| <i>Expenditure prices</i> | | | | |
| Gross domestic purchases price index | 3.1 | 3.4 | 3.8 | 2.5 |
| Less food and energy | 2.7 | 3.0 | 3.1 | 2.3 |
| PCE price index | 2.8 | 2.6 | 3.3 | 2.3 |
| Less food and energy | 2.1 | 2.1 | 2.2 | 2.0 |
| PCE price index, market-based components | 2.4 | 2.4 | 3.2 | 2.2 |
| Less food and energy | 1.5 | 1.7 | 1.9 | 1.8 |
| CPI | 2.8 | 2.9 | 4.0 | 2.7 |
| Less food and energy | 1.8 | 2.2 | 2.4 | 2.3 |
| Chained CPI | 2.7 | 2.6 | 3.4 | 2.3 |
| Less food and energy | 1.7 | 1.9 | 2.4 | 1.9 |
| Median CPI | 2.2 | 2.3 | 2.9 | 3.0 |
| Trimmed mean CPI | 2.1 | 2.2 | 2.7 | 2.6 |
| Trimmed mean PCE | 2.3 | 2.3 | 2.7 | 2.4 |

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 |
| 2005:Q4 | 3.7 | 4.6 | 3.7 | 3.5 | 3.1 | 2.5 | ... |
| 2006:Q1 | 3.6 | 3.7 | 3.0 | 3.3 | 2.9 | 2.5 | ... |
| Q2 | 4.0 | 4.5 | 3.5 | 3.6 | 3.1 | 2.5 | ... |
| Q3 | 3.3 | 4.0 | 3.4 | 3.3 | 3.0 | 2.5 | ... |
| Q4 | 1.9 | 3.5 | 3.0 | 3.5 | 3.0 | 2.5 | ... |
| 2007:Q1 | 2.4 | 3.6 | 3.0 | 3.4 | 2.9 | 2.4 | 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 |
| 2007:June | 2.7 | 4.2 | 3.4 | 3.3 | 2.9 | ... | ... |
| July | 2.4 | 4.2 | 3.4 | 3.6 | 3.1 | ... | ... |
| Aug. | 2.0 | 4.0 | 3.2 | 3.4 | 2.9 | 2.4 | 2.1 |
| Sept. | 2.8 | 4.0 | 3.1 | 3.4 | 2.9 | ... | ... |
| Oct. | n.a. | 3.5 | 3.0 | 3.0 | 2.8 | ... | ... |

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.

Business Finance

Gross Issuance of Securities by U.S. Corporations

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

| Type of security | 2003 | 2004 | 2005 | 2006 | 2007 | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------------------|
| | | | | | H1 | Q3 | Sept. | Oct. ^P |
| <i>Nonfinancial corporations</i> | | | | | | | | |
| Stocks ¹ | 3.7 | 5.4 | 4.6 | 4.7 | 5.5 | 4.1 | 2.6 | 3.7 |
| Initial public offerings | .4 | 1.6 | 1.7 | 1.8 | 1.7 | 1.2 | .3 | 1.9 |
| Seasoned offerings | 3.3 | 3.8 | 2.8 | 2.9 | 3.9 | 2.9 | 2.3 | 1.8 |
| Bonds ² | 31.6 | 22.7 | 19.1 | 29.8 | 37.9 | 26.1 | 33.6 | 50.0 |
| Investment grade | 15.9 | 8.2 | 8.4 | 13.0 | 14.2 | 19.5 | 22.6 | 18.0 |
| Speculative grade | 11.3 | 9.7 | 6.4 | 8.0 | 15.4 | 3.4 | 4.0 | 15.0 |
| Other (sold abroad/unrated) | 4.3 | 4.9 | 4.3 | 8.8 | 8.3 | 3.1 | 6.9 | 17.0 |
| <i>Memo</i> | | | | | | | | |
| Net issuance of commercial paper ³ | -3.4 | 1.5 | -.4 | 3.9 | 1.2 | -4.1 | -7.8 | 2.2 |
| Change in C&I loans at commercial banks ^{3,4} | -7.7 | 3.2 | 10.0 | 12.9 | 11.5 | 36.6 | 43.5 | n.a. |
| <i>Financial corporations</i> | | | | | | | | |
| Stocks ¹ | 6.6 | 6.9 | 5.0 | 5.3 | 9.3 | 3.4 | 3.9 | 3.0 |
| Bonds ² | 111.1 | 139.3 | 176.3 | 187.7 | 207.0 | 126.2 | 117.1 | 100.0 |

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

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

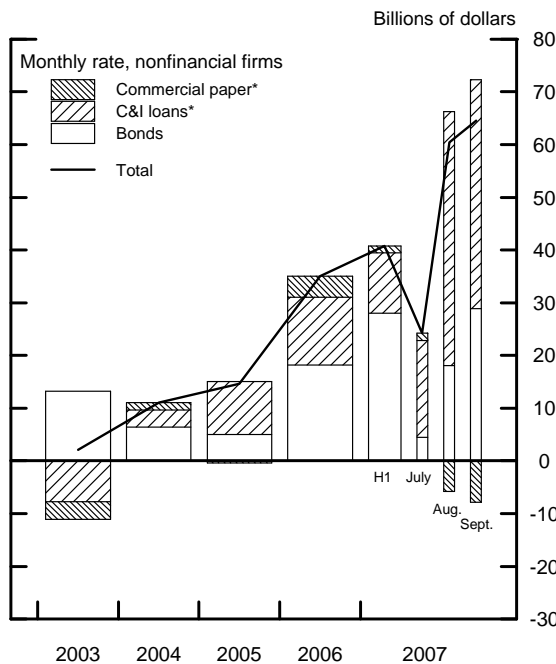
2. Data include regular and 144a private placements. Bond totals reflect gross proceeds rather than par value of original discount bonds. Bonds are categorized according to Moody's bond ratings or to Standard & Poor's if unrated by Moody's.

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

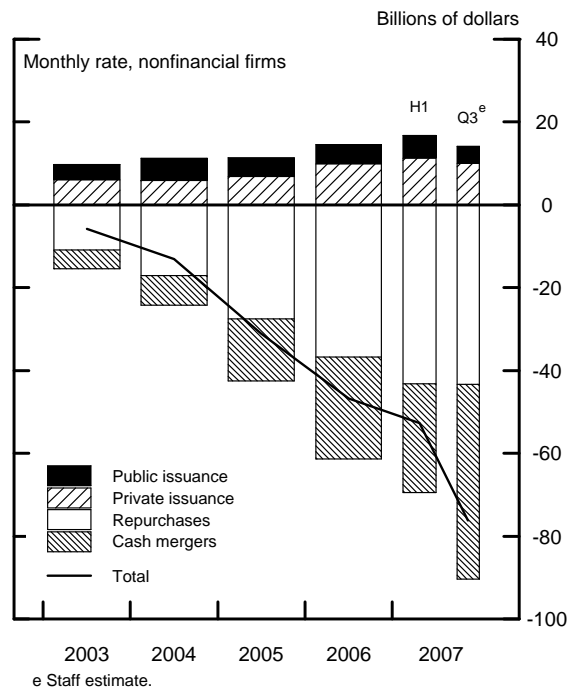
4. Adjusted commercial bank credit data.

p Preliminary.

Selected Components of Net Debt Financing

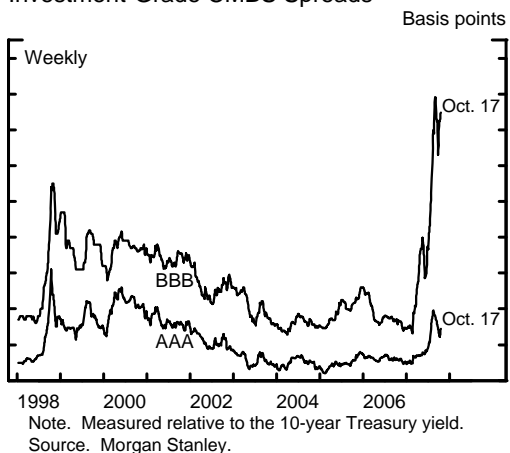


Components of Net Equity Issuance

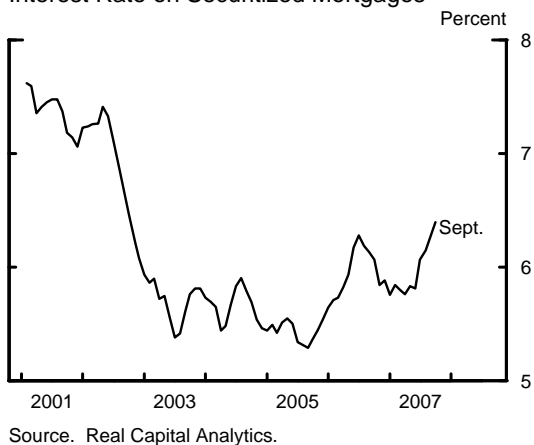


Commercial Real Estate

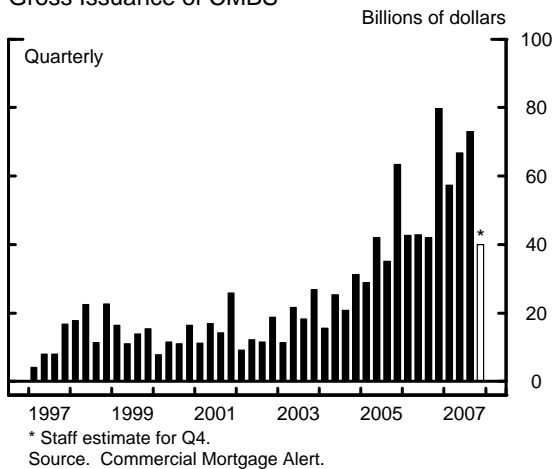
Investment-Grade CMBS Spreads



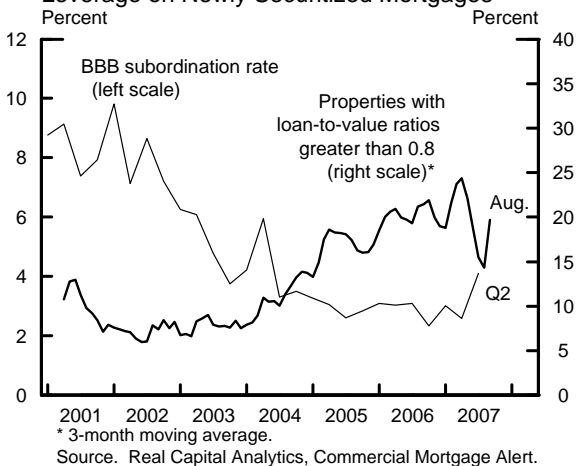
Interest Rate on Securitized Mortgages



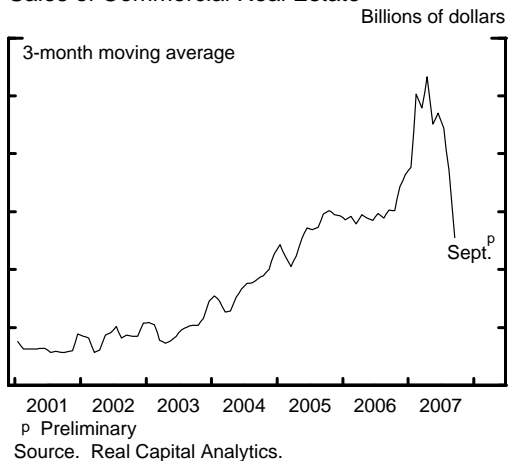
Gross Issuance of CMBS



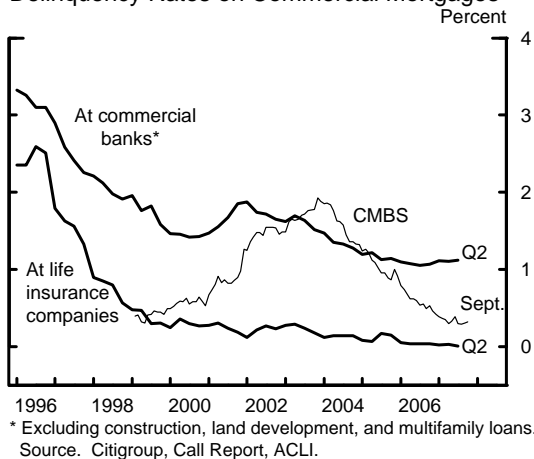
Leverage on Newly Securitized Mortgages



Sales of Commercial Real Estate



Delinquency Rates on Commercial Mortgages



M2 Monetary Aggregate
(Based on seasonally adjusted data)

| Aggregate and components | Percent change (annual rate) ¹ | | | | | | Level (billions of dollars), |
|----------------------------------|---|------|------|------|-------|-------------|------------------------------------|
| | 2005 | 2006 | 2007 | | | | Oct. (e) |
| | | | H1 | Q3 | Sept. | Oct. (e) | |
| M2 | 4.2 | 4.9 | 7.0 | 5.1 | 5.2 | 5.6 | 7,405 |
| Components ² | | | | | | | |
| Currency | 3.5 | 3.6 | 1.9 | 2.4 | 2.7 | 6.3 | 764 |
| Liquid deposits ³ | 2.0 | .7 | 6.9 | 2.7 | -1.3 | 3.0 | 4,483 |
| Small time deposits | 19.4 | 18.5 | 4.1 | .4 | 10.4 | 8.3 | 1,204 |
| Retail money market funds | .0 | 12.9 | 16.3 | 26.6 | 32.8 | 14.3 | 948 |
| Memo: | | | | | | | |
| Institutional money market funds | 4.8 | 15.9 | 20.4 | 40.0 | 76.7 | 51.0 | 1,769 |
| Monetary base | 3.5 | 3.2 | 1.9 | 2.5 | -3.5 | 6.2 | 827 |

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

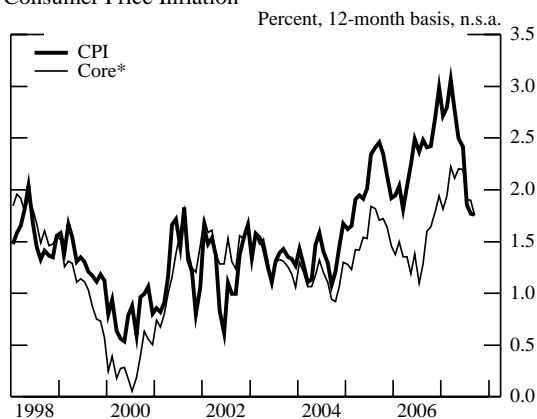
2. Nonbank traveler's checks are not listed.

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

e Estimated.

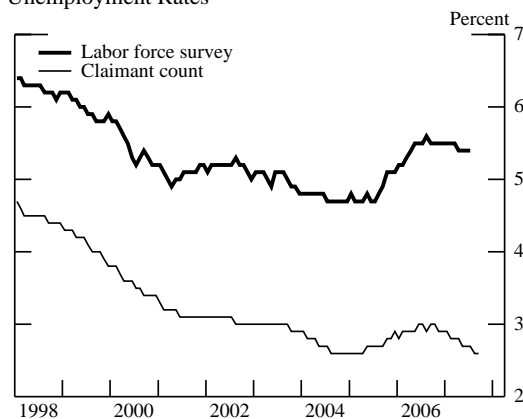
United Kingdom

Consumer Price Inflation

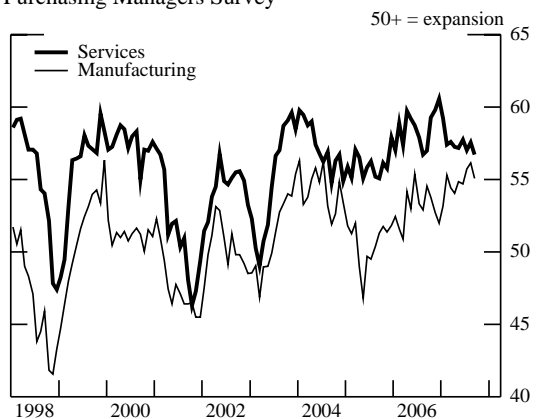


*Excludes energy and unprocessed food.

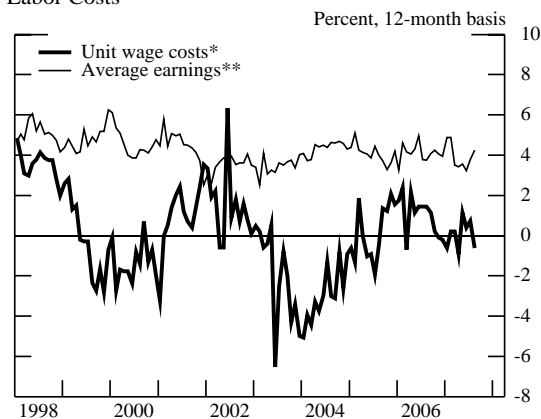
Unemployment Rates



Purchasing Managers Survey



Labor Costs



*Manufacturing industries.

**Whole economy, including bonuses.

Economic Indicators

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

| Indicator | 2007 | | | 2007 | | | |
|----------------------------------|-------|-------|------|------|------|-------|------|
| | Q1 | Q2 | Q3 | July | Aug. | Sept. | Oct. |
| Real GDP | 3.2 | 3.3 | 3.3 | ... | ... | ... | ... |
| PMI Services ¹ | 58.1 | 57.4 | 57.1 | 57.0 | 57.6 | 56.7 | n.a. |
| Industrial production | -0.1 | 0.7 | n.a. | -0.1 | 0.1 | n.a. | n.a. |
| Business confidence ² | 20.3 | 20.3 | 13.3 | 10.0 | 13.0 | 17.0 | 10.0 |
| Consumer confidence ² | -6.2 | -4.2 | -2.5 | -2.8 | -2.1 | -2.7 | n.a. |
| Trade balance ³ | -24.2 | -22.8 | n.a. | -9.4 | -8.3 | n.a. | n.a. |

1. 50+ indicates expansion.

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

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

October 26, 2007

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

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

| Category | 2007 | | | | | | | | |
|---|-------|-------|-------|-------|-------|------|-------|-------------------|-------------------|
| | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. ^P | Oct. ^F |
| Composite of current and expected conditions ¹ | 88.4 | 87.1 | 88.3 | 85.3 | 90.4 | 83.4 | 83.4 | 82.0 | 80.9 |
| Current conditions ¹ | 103.5 | 104.6 | 105.1 | 101.9 | 104.5 | 98.4 | 97.9 | 98.2 | 97.6 |
| Expected conditions ¹ | 78.7 | 75.9 | 77.6 | 74.7 | 81.5 | 73.7 | 74.1 | 71.6 | 70.1 |
| Personal financial situation | | | | | | | | | |
| Now compared with 12 months ago ² | 111 | 119 | 113 | 110 | 115 | 103 | 109 | 111 | 111 |
| Expected in 12 months ² | 126 | 127 | 125 | 117 | 125 | 120 | 119 | 116 | 119 |
| Expected business conditions | | | | | | | | | |
| Next 12 months ² | 95 | 87 | 97 | 94 | 105 | 87 | 82 | 84 | 78 |
| Next 5 years ² | 94 | 90 | 89 | 88 | 96 | 88 | 96 | 86 | 84 |
| Appraisal of buying conditions | | | | | | | | | |
| Cars | 138 | 132 | 124 | 118 | 125 | 133 | 139 | 133 | 128 |
| Large household appliances ² | 157 | 152 | 160 | 154 | 156 | 152 | 144 | 143 | 142 |
| Houses | 137 | 138 | 135 | 131 | 129 | 118 | 123 | 134 | 131 |
| Expected unemployment change - next 12 months | 123 | 129 | 120 | 125 | 123 | 131 | 127 | 133 | 130 |
| Prob. household will lose a job - next 5 years | 22 | 18 | 19 | 23 | 21 | 24 | 21 | 21 | 21 |
| Expected inflation - next 12 months | | | | | | | | | |
| Mean | 3.6 | 4.0 | 4.3 | 4.2 | 4.2 | 4.0 | 4.0 | 3.5 | 3.7 |
| Median | 3.0 | 3.3 | 3.3 | 3.4 | 3.4 | 3.2 | 3.1 | 3.0 | 3.1 |
| Expected inflation - next 5 to 10 years | | | | | | | | | |
| Mean | 3.3 | 3.6 | 3.7 | 3.3 | 3.6 | 3.4 | 3.4 | 3.0 | 3.1 |
| Median | 2.9 | 3.1 | 3.1 | 2.9 | 3.1 | 2.9 | 2.9 | 2.8 | 2.8 |

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

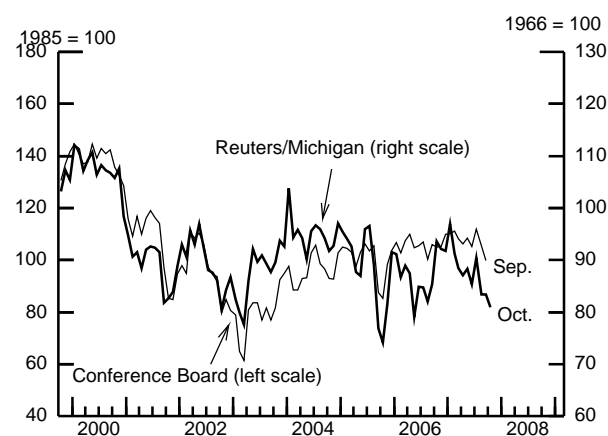
P Preliminary.

F Final.

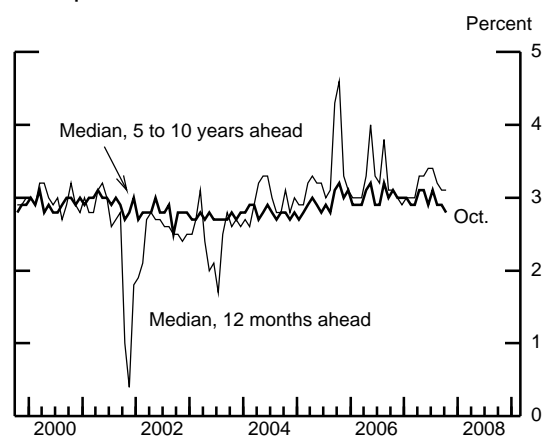
1. Feb. 1966 = 100.

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

Consumer sentiment



Expected inflation



Commercial Bank Credit

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

| Type of credit | 2005 | 2006 | H1 2007 | Q3 2007 | Aug. 2007 | Sept. 2007 | Oct. 2007 ^p | Level ¹ Oct. 2007 ^p |
|---------------------------|------|------|------------|------------|--------------|---------------|---------------------------|--|
| Total | 10.5 | 9.7 | 9.2 | 12.1 | 17.0 | 16.1 | 6.7 | 8,646 |
| <i>Loans²</i> | | | | | | | | |
| Total | 11.6 | 11.0 | 9.8 | 12.2 | 19.7 | 18.2 | 7.0 | 6,519 |
| To businesses | | | | | | | | |
| Commercial and industrial | 13.5 | 16.4 | 9.6 | 24.0 | 31.5 | 44.3 | 38.3 | 1,379 |
| Commercial real estate | 17.1 | 13.9 | 11.3 | 7.7 | 8.1 | 8.2 | 1.2 | 1,554 |
| To households | | | | | | | | |
| Residential real estate | 11.9 | 7.0 | 8.4 | 5.6 | 1.7 | 8.5 | -.5 | 1,856 |
| Revolving home equity | 13.3 | 1.4 | 1.8 | 6.4 | 9.2 | 11.2 | 11.8 | 471 |
| Other | 11.4 | 9.2 | 10.7 | 5.3 | -.8 | 7.6 | -4.6 | 1,385 |
| Consumer | 3.1 | 5.9 | 6.3 | 10.5 | 3.9 | 11.6 | -4.3 | 779 |
| Originated ³ | .7 | 6.9 | 5.1 | 10.2 | 9.0 | 9.3 | .4 | 1,176 |
| Other ⁴ | 8.3 | 12.2 | 13.4 | 18.8 | 74.5 | 23.1 | -3.4 | 951 |
| <i>Securities</i> | | | | | | | | |
| Total | 7.5 | 5.9 | 7.6 | 12.0 | 8.8 | 9.7 | 5.8 | 2,127 |
| Treasury and agency | 2.4 | 2.0 | -4.5 | 4.6 | -.2 | -21.2 | -40.7 | 1,125 |
| Other ⁵ | 17.5 | 12.6 | 26.2 | 21.8 | 20.8 | 49.6 | 62.6 | 1,002 |

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.

p Preliminary.