

## **Part 1**

October 22, 2008

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

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### The Federal Funds Rate in the Staff Projection

The recent extraordinary financial developments, weak incoming data on economic activity, and falling commodity prices imply substantial downward revisions to the outlook for both real activity and inflation. On our assessment, if the federal funds rate were held at its current level over the next two years, real gross domestic product (GDP) would probably continue to fall next year and then rise only 2 percent in 2010 (see the table below). In response to such weak demand, the unemployment rate would rise to 7.3 percent by late 2010 and core PCE inflation would decline to 1.1 percent. Moreover, inflation would be poised to move lower in subsequent years.

As discussed in the Bluebook, optimal policy simulations currently call for a substantial easing in monetary policy. These simulations seek a path for the federal funds rate that minimizes deviations of the unemployment rate from the NAIRU and inflation from a specified goal, conditional on the FRB/US model and the assumptions built into the staff projection.

When such simulations are run without imposing the zero lower bound on nominal interest rates, they show the optimal federal funds rate falling as low as -3 percent next year and rising back above zero only in late 2010. Alternatively, when the zero lower bound is imposed (as is done in the Bluebook), the simulations show the optimal federal funds rate falling to zero early next year and remaining there into 2012.

In setting the monetary policy assumption in the staff projection, we elected not to follow the optimal policy simulations all the way to zero but instead stopped at ½ percent. As discussed in the Bluebook, reducing the federal funds rate to zero could generate additional strains in the functioning of various financial markets and institutions, at least for a time. However, as can be seen in the table, if we had lowered the federal funds rate to zero, real GDP growth would have been somewhat stronger, causing the unemployment rate to peak a little earlier and to start edging down in 2010.

#### Implications of Alternative Policy Paths for the Outlook

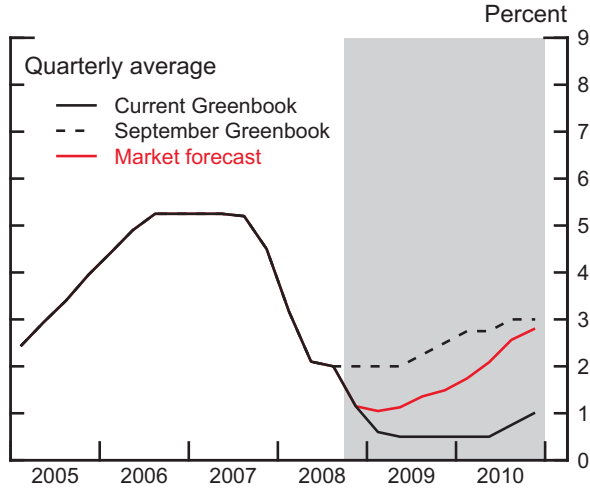
Data source	2008	2009	2010
<i>Real GDP</i>			
Baseline	.3	-.1	2.3
Federal funds rate held at 1½ percent	.3	-.4	1.9
Federal funds rate cut to 0 percent	.3	0	2.5
<i>Unemployment rate</i>			
Baseline	6.3	7.2	7.2
Federal funds rate held at 1½ percent	6.3	7.3	7.4
Federal funds rate cut to 0 percent	6.3	7.2	7.1
<i>Core PCE inflation</i>			
Baseline	2.4	1.5	1.3
Federal funds rate held at 1½ percent	2.4	1.4	1.1
Federal funds rate cut to 0 percent	2.4	1.6	1.4

Note: Real gross domestic product (GDP) and core inflation measured on a Q4/Q4 basis; unemployment rate reported as the Q4 level.

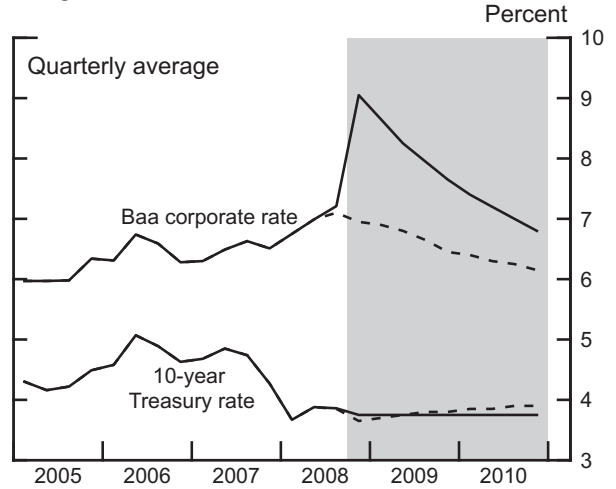
Class II FOMC - Restricted (FR)

## Key Background Factors Underlying the Baseline Staff Projection

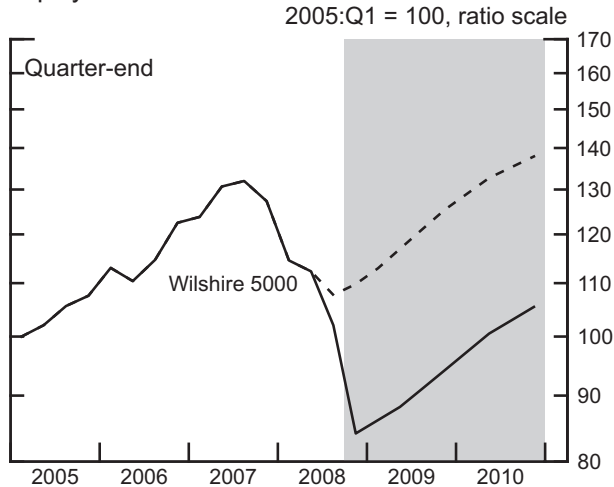
Federal Funds Rate



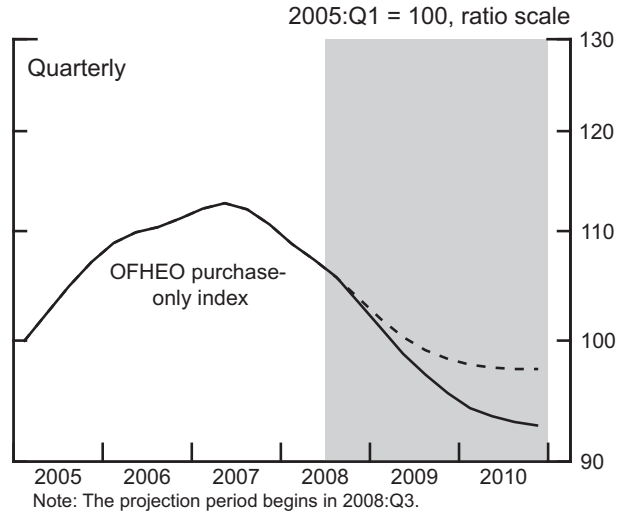
Long-Term Interest Rates



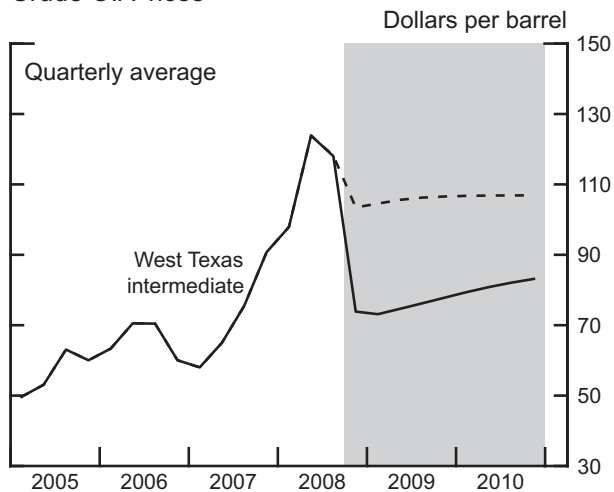
Equity Prices



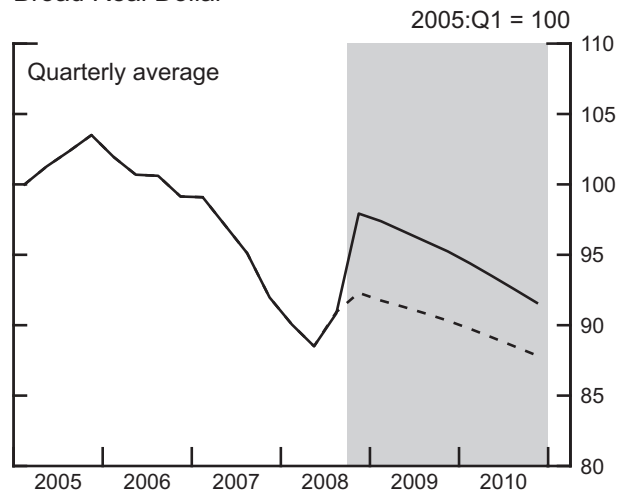
House Prices



Crude Oil Prices



Broad Real Dollar



Note: In each panel, shading represents the projection period, which begins in 2008:Q4 except as noted.

<b>Summary of the Near-Term Outlook</b> (Percent change at annual rate except as noted)				
Measure	2008:Q3		2008:Q4	
	Sept. GB	Oct. GB	Sept. GB	Oct. GB
<b>Real GDP</b>	<b>.6</b>	<b>-1.0</b>	<b>1.1</b>	<b>-1.3</b>
Private domestic final purchases	-1.2	-3.5	-2.1	-4.4
Personal consumption expenditures	-.5	-3.3	-1.6	-2.4
Residential investment	-17.6	-19.7	-20.0	-24.4
Business fixed investment	.1	.8	.7	-9.9
Government outlays for consumption and investment	1.9	4.8	1.7	-1.0
	Contribution to growth (percentage points)			
Inventory investment	.6	-.2	1.5	2.2
Net exports	.7	1.2	1.0	.4

unemployment insurance claims so far in October, we have lowered our employment projection for the remainder of the year; we now expect private payrolls to decline about 200,000 per month in the fourth quarter. Reflecting this further downshift in labor demand, we anticipate that the unemployment rate will move up from 6.1 percent in September to 6.4 percent by December.

Output in the industrial sector has continued to contract. Smoothing through the quarterly swings, which mainly reflect the effects of the recent hurricanes and the strike at Boeing, we project that industrial production (IP) will fall at an average annual rate of about 3 percent in the second half, the same pace of decline as in the second quarter. Some of the fourth-quarter weakness reflects our view that automakers are likely to cut production further this quarter in response to bloated inventories and slumping sales. However, we are anticipating production declines across a wide range of other industries as well. In our projection, capacity utilization in manufacturing is expected to move down to 75 percent this quarter, a good bit below its long-run average of about 80 percent.

We estimate that real consumer spending fell at an annual rate of 3¼ percent in the third quarter, despite the lift to disposable income from the tax rebates and extended unemployment benefits. The incoming spending data for each of the three months of the third quarter came in substantially below our expectations in the September Greenbook,

(continued)

After weighing these considerations, we have marked down the forecast by a considerable amount to account for the greater financial stress. As shown in the bottom portion of the table, we now believe that the cumulative effect of the financial turmoil that began in the summer of 2007 will reduce the level of real GDP 2¾ percent by the end of this year and 3¾ percent

by the end of 2009, beyond the restraint imposed by traditional cost-of-capital and wealth effects. After 2009, we expect the unusual restraint from financial turmoil to abate appreciably in response to accommodative monetary policy, continued actions to improve market functioning and lessen solvency concerns, and the stabilization of housing market conditions.

### Selected Estimates of the Effects of Financial Turmoil on Real GDP:

Date of Estimate and Data source	Methodology	Percent deviation from Q4 baseline level			
		2007	2008	2009	2010
<b>October Greenbook</b>					
<i>Senior Loan Officer Opinion Survey</i>					
Index of survey responses	FRB/US <sup>1</sup>	-.3	-2.9	-3.6	-2.2
Commercial loan credit standards	VAR <sup>2</sup>	-.2	-1.3	-3.1	-4.0
Change in bank credit standards <sup>3</sup>	VAR <sup>2</sup>	-.1	-2.0	-4.3	-6.2
<i>Capital markets data</i>					
9-variable stress index	FRB/US <sup>2</sup>	-.1	-1.4	-3.2	-3.1
9-variable stress index	FRB/US <sup>1</sup>	-.4	-2.3	-3.6	-3.1
9-variable stress index	VAR <sup>2</sup>	0	-.8	-3.0	-5.4
<b>September Greenbook</b>					
<i>Senior Loan Officer Opinion Survey</i>					
Index of survey responses	FRB/US <sup>1</sup>	-.3	-2.8	-3.3	-2.1
Commercial loan credit standards	VAR <sup>2</sup>	-.1	-.6	-.9	-.9
Change in bank credit standards <sup>3</sup>	VAR <sup>2</sup>	0	-1.2	-2.2	-3.1
<i>Capital markets data</i>					
9-variable stress index	FRB/US <sup>2</sup>	-.1	-1.4	-2.1	-1.7
9-variable stress index	FRB/US <sup>1</sup>	-.4	-2.0	-2.4	-2.0
9-variable stress index	VAR <sup>2</sup>	0	-.4	-1.3	-3.0
<b>Memo item: Staff judgmental projection adjustments</b>					
October Greenbook		<b>-.3</b>	<b>-2.8</b>	<b>-3.8</b>	<b>-2.5</b>
September Greenbook		<b>-.3</b>	<b>-1.8</b>	<b>-2.0</b>	<b>-1.3</b>

Note: Because of methodological changes, some of the September estimates shown in the table differ from those reported in the last Greenbook.

1. Stress treated as exogenous and phased out over four quarters.

2. Stress treated as endogenous and simulated as part of a system of equations.

3. Series shown as the dashed line in the chart; includes standards on both business and consumer loans.

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

Measure	2008: H2	2009: H1	2009	2010
<b>Real GDP</b>	<b>-1.2</b>	<b>-.9</b>	<b>-.1</b>	<b>2.3</b>
Previous	.8	1.9	2.1	2.7
Final sales	-2.1	-.9	-.5	2.3
Previous	-.2	1.5	1.6	2.8
PCE	-2.9	.4	1.0	2.4
Previous	-1.1	1.7	1.9	2.6
Residential investment	-22.1	-21.0	-15.8	13.4
Previous	-18.8	-10.6	-6.2	17.1
BFI	-4.7	-12.2	-10.9	4.1
Previous	.4	-1.6	-.3	4.9
Government purchases	1.9	1.2	.9	.5
Previous	1.8	1.5	1.3	.8
Exports	5.3	3.1	2.8	3.9
Previous	5.6	5.6	5.6	5.1
Imports	-.7	-.7	.9	4.3
Previous	-.5	1.4	2.8	4.9
Contribution to growth (percentage points)				
Inventory change	1.0	.0	.4	.0
Previous	1.0	.4	.4	-.1
Net exports	.8	.5	.2	-.2
Previous	.8	.5	.3	-.1

**Net exports.** After advancing an estimated 7 percent in 2008, real exports are expected to rise only 2¾ percent next year, reflecting the waning of the stimulus from past dollar depreciation, the higher assumed path of the dollar over the projection period, and the projected subpar economic growth abroad. In 2010, when a recovery in the global economy takes hold, we expect export growth to pick up slightly to 4 percent. Real imports, which appear likely to decline this year, are expected to post only an anemic increase next year, held down by the weakness in the domestic economy. As the U.S.

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

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

Measure	1974-95	1996-2000	2001-06	2007	2008	2009	2010
<b>Structural labor productivity</b>	<b>1.5</b>	<b>2.5</b>	<b>2.6</b>	<b>2.1</b>	<b>2.0</b>	<b>1.9</b>	<b>1.8</b>
Previous	1.5	2.5	2.6	2.1	2.0	2.0	2.0
<i>Contributions</i> <sup>1</sup>							
Capital deepening	.7	1.4	.7	.6	.5	.2	.3
Previous	.7	1.4	.7	.7	.5	.5	.7
Multifactor productivity	.5	.7	1.6	1.2	1.3	1.5	1.4
Previous	.5	.7	1.6	1.2	1.3	1.3	1.2
Labor composition	.3	.3	.3	.2	.2	.2	.1
MEMO							
Potential GDP	3.0	3.4	2.6	2.5	2.5	2.4	2.3
Previous	3.0	3.4	2.6	2.5	2.5	2.5	2.4

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	2007	2008	2009	2010
Output per hour, nonfarm business	2.7	1.7	1.7	2.2
Previous	2.7	2.4	1.8	2.1
Nonfarm private payroll employment	.9	-1.2	-1.4	.7
Previous	.9	-.9	.7	.9
Household survey employment	.4	-.8	-.5	.8
Previous	.4	-.6	.6	1.0
Labor force participation rate <sup>1</sup>	66.0	66.0	65.6	65.4
Previous	66.0	66.0	65.7	65.5
Civilian unemployment rate <sup>1</sup>	4.8	6.3	7.2	7.2
Previous	4.8	6.2	6.2	5.9
MEMO				
GDP gap <sup>2</sup>	-.2	-2.3	-4.7	-4.7
Previous	-.2	-1.2	-1.6	-1.4

1. Percent, average for the fourth quarter.

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



consumer price inflation has been revised down for the same reasons, with the change in the total PCE price index now expected to slow from about 2¾ percent this year to 1½ percent in 2009 and 2010 as food and energy prices decelerate, on net.

The increase in projected slack in labor markets and lower rates of consumer price inflation have led us to reduce our forecast for the rise in labor compensation. In addition to these influences, a much weaker outlook for financial sector profits suggests that nonproduction bonuses will drop back dramatically from their levels of the past few

### Inflation Projections

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

Measure	2007	2008	2009	2010
PCE chain-weighted price index	3.5	2.8	1.4	1.4
Previous	3.5	3.5	2.2	1.9
Food and beverages	4.5	6.2	2.2	1.4
Previous	4.5	6.1	3.2	2.1
Energy	19.1	-1.0	-2.3	3.3
Previous	19.1	10.8	1.2	.8
Excluding food and energy	2.2	2.4	1.5	1.3
Previous	2.2	2.4	2.1	1.9
Consumer price index	4.0	2.8	1.5	1.7
Previous	4.0	4.0	2.3	2.0
Excluding food and energy	2.3	2.4	1.7	1.5
Previous	2.3	2.6	2.3	2.1
GDP chain-weighted price index	2.6	3.0	1.6	1.3
Previous	2.6	2.9	2.2	1.9
ECI for compensation of private industry workers <sup>1</sup>	3.0	2.9	2.3	1.5
Previous	3.0	2.9	3.1	3.0
Compensation per hour, nonfarm business sector	3.6	4.0	3.1	2.1
Previous	3.6	4.1	3.9	3.6
Prices of core goods imports <sup>2</sup>	3.4	5.5	-.5	1.5
Previous	3.4	7.1	1.0	1.3

1. December to December.

2. Core goods imports exclude computers, semiconductors, oil, and natural gas.

years. After rising 4 percent this year, compensation per hour, as measured by the productivity and cost release, is expected to decelerate to 3 percent in 2009 and to 2 percent in 2010, down about  $\frac{3}{4}$  percentage point next year and about  $\frac{1}{2}$  percentage points the following year from our previous projection. The employment cost index is projected to rise  $2\frac{1}{4}$  percent in 2009 and  $1\frac{1}{2}$  percent in 2010, also a much slower rate of increase than in the previous Greenbook.

### The Long-Term Outlook

We have extended the staff forecast to 2013 using the FRB/US model, adjusted to incorporate staff assessments of long-run potential output growth, fiscal policy, and foreign economic conditions. The contour of the long-run outlook depends on the following key assumptions:

- Monetary policy aims to stabilize PCE inflation at  $1\frac{3}{4}$  percent in the long run, consistent with the discussion of longer-term inflation forecasts provided by FOMC participants in June.
- Risk premiums on corporate bonds and equity continue to fall back to historically more normal levels beyond 2010 as financial market strains abate further.
- Fiscal policy is an essentially neutral factor at all levels of government.
- Beyond 2010, foreign real GDP expands  $4\frac{1}{4}$  percent per year while the dollar depreciates 2 percent per year in real terms; nominal WTI crude oil prices rise gradually from recent levels to about \$88 per barrel by the end of 2013, consistent with futures prices. Under these assumptions, movements in prices of energy and imports have only minor implications for domestic inflation.
- The NAIRU remains flat at  $4\frac{3}{4}$  percent, and potential GDP expands a bit more than  $2\frac{1}{2}$  percent per year, on average, from 2011 to 2013.

### The Long-Term Outlook

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

Measure	2008	2009	2010	2011	2012	2013
Real GDP	0.3	-0.1	2.3	4.4	4.9	4.8
Civilian unemployment rate <sup>1</sup>	6.3	7.2	7.2	6.4	5.4	4.5
PCE prices, total	2.8	1.4	1.4	1.1	1.0	1.0
Core PCE prices	2.4	1.5	1.3	1.1	1.0	1.0
Federal funds rate <sup>1</sup>	1.2	0.5	1.0	1.8	2.6	3.4

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

**Alternative Scenarios**

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

Measure and scenario	2008		2009	2010	2011	2012-13
	H1	H2				
<i>Real GDP</i>						
Greenbook extension	1.8	-1.2	-0.1	2.3	4.4	4.9
More financial fallout	1.8	-1.6	-2.0	1.0	4.1	5.4
More rapid financial recovery	1.8	-0.9	1.8	4.5	3.5	3.1
Fiscal stimulus	1.8	-1.2	0.2	2.3	4.2	4.9
Bigger fiscal stimulus	1.8	-1.2	0.6	2.6	3.6	5.0
Higher inflation	1.8	-1.2	-0.2	2.2	4.3	4.2
<i>Unemployment rate</i> <sup>1</sup>						
Greenbook extension	5.3	6.3	7.2	7.2	6.4	4.5
More financial fallout	5.3	6.3	7.8	8.4	7.7	5.2
More rapid financial recovery	5.3	6.3	6.6	5.8	5.1	4.6
Fiscal stimulus	5.3	6.3	7.0	7.1	6.4	4.5
Bigger fiscal stimulus	5.3	6.3	7.0	6.8	6.3	4.4
Higher inflation	5.3	6.3	7.2	7.3	6.5	5.0
<i>Core PCE inflation</i>						
Greenbook extension	2.2	2.7	1.5	1.3	1.1	1.0
More financial fallout	2.2	2.7	1.4	0.8	0.5	0.4
More rapid financial recovery	2.2	2.6	1.9	1.8	1.6	1.5
Fiscal stimulus	2.2	2.7	1.6	1.4	1.2	1.1
Bigger fiscal stimulus	2.2	2.7	1.6	1.5	1.3	1.2
Higher inflation	2.2	2.8	2.0	2.3	2.4	2.3
<i>Federal funds rate</i> <sup>1</sup>						
Greenbook extension	2.1	1.2	0.5	1.0	1.8	3.4
More financial fallout	2.1	1.1	0.5	0.5	0.5	1.4
More rapid financial recovery	2.1	1.4	1.4	3.2	4.6	4.8
Fiscal stimulus	2.1	1.3	0.5	1.1	1.9	3.4
Bigger fiscal stimulus	2.1	1.2	0.4	0.9	1.8	3.3
Higher inflation	2.1	1.1	0.6	1.0	3.1	5.8

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

policy is set using a version of the optimal control policy that we routinely report in the Bluebook. This setting of policy takes into account the effective lower bound on the federal funds rate.<sup>4</sup>

<sup>4</sup> Under the optimal control policy setting, policymakers place equal weight on keeping core PCE inflation close to an assumed goal of 1¾ percent, on keeping unemployment close to the NAIRU, and on avoiding changes in the federal funds rate.

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

Measure	2008	2009	2010	2011	2012	2013
<i>Real GDP</i> (percent change, Q4 to Q4)						
Projection	0.3	-0.1	2.3	4.4	4.9	4.8
Confidence interval						
Greenbook forecast errors	-.1-.8	-1.6-1.4	.9-3.6	...	...	...
FRB/US stochastic simulations	-.2-.8	-1.3-1.0	.9-3.5	3.0-5.9	3.4-6.6	3.3-6.6
<i>Civilian unemployment rate</i> (percent, Q4)						
Projection	6.3	7.2	7.2	6.4	5.4	4.5
Confidence interval						
Greenbook forecast errors	6.2-6.4	6.6-7.8	6.2-8.2	...	...	...
FRB/US stochastic simulations	6.1-6.5	6.8-7.7	6.7-7.8	5.8-7.1	4.8-6.1	3.8-5.2
<i>PCE prices, total</i> (percent change, Q4 to Q4)						
Projection	2.8	1.4	1.4	1.1	1.0	1.0
Confidence interval						
Greenbook forecast errors	2.5-3.0	.6-2.2	.4-2.5	...	...	...
FRB/US stochastic simulations	2.5-3.0	.7-2.1	.6-2.2	.3-2.0	.1-1.9	.1-2.0
<i>PCE prices excluding food and energy</i> (percent change, Q4 to Q4)						
Projection	2.4	1.5	1.3	1.1	1.0	1.0
Confidence interval						
Greenbook forecast errors	2.2-2.7	.9-2.1	.4-2.3	...	...	...
FRB/US stochastic simulations	2.3-2.6	1.1-1.9	.7-1.9	.4-1.8	.2-1.7	.3-1.8
<i>Federal funds rate</i> (percent, Q4)						
Projection	1.2	0.5	1.0	1.8	2.6	3.4
Confidence interval						
FRB/US stochastic simulations	.9-1.4	.0-1.7	.0-2.5	.4-3.4	1.0-4.2	1.9-5.1

Notes: Intervals derived from Greenbook forecast errors are based on projections made from 1987-2007. Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1987-2007 set of model equation residuals.

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

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

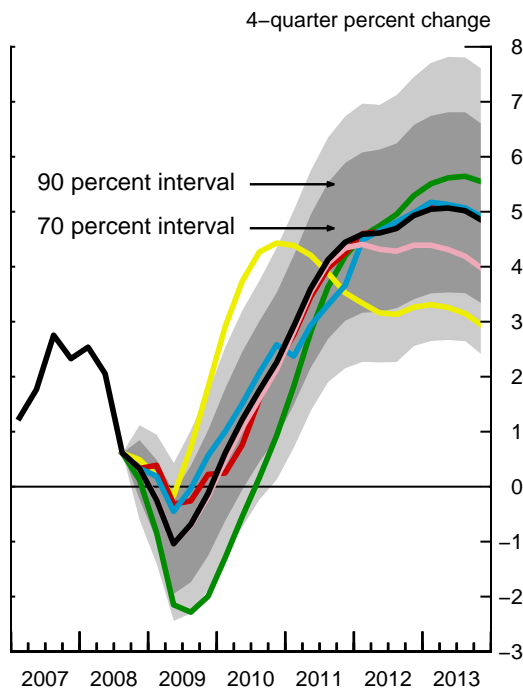
Confidence Intervals based on FRB/US Stochastic Simulations

■ Greenbook extension  
■ More financial fallout

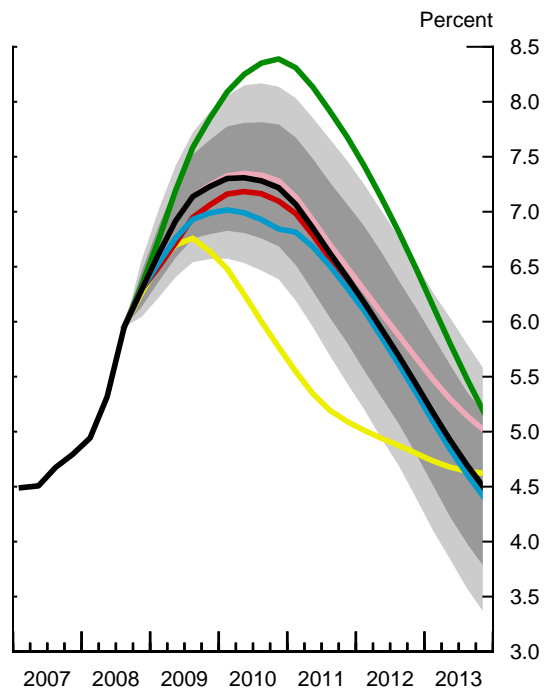
■ More rapid financial recovery  
■ Fiscal stimulus

■ Bigger fiscal stimulus  
■ Higher inflation

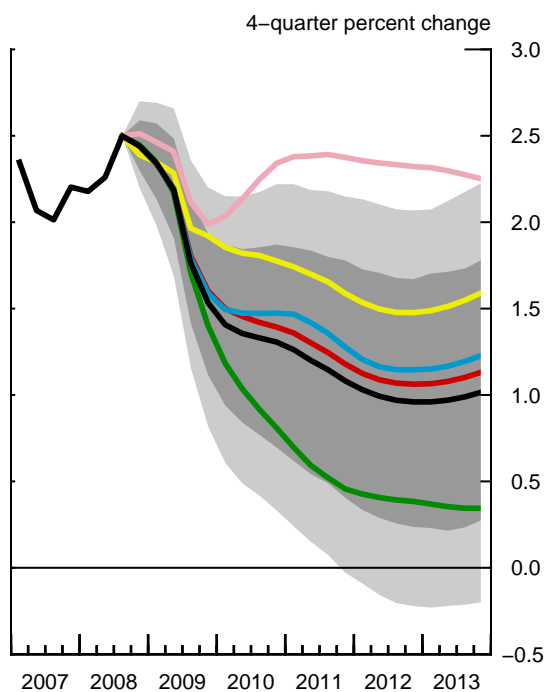
Real GDP



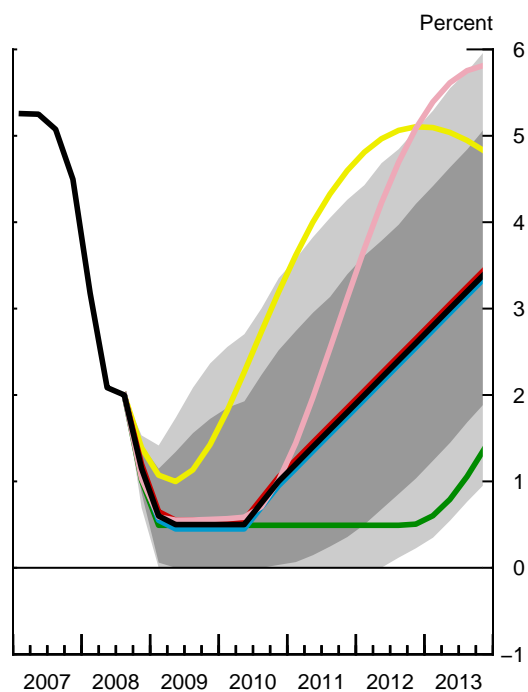
Unemployment Rate



PCE Prices excluding Food and Energy



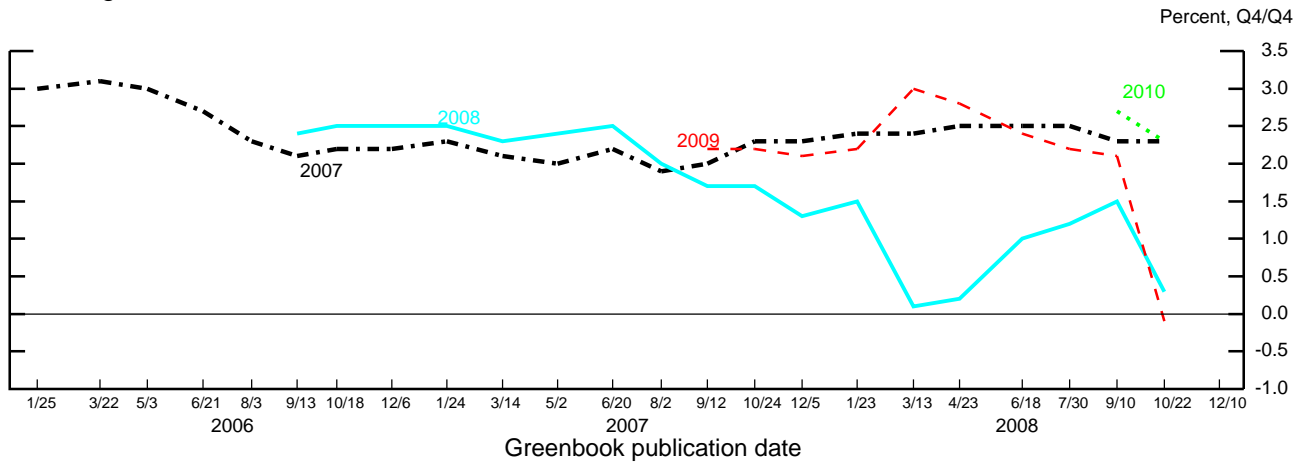
Federal Funds Rate



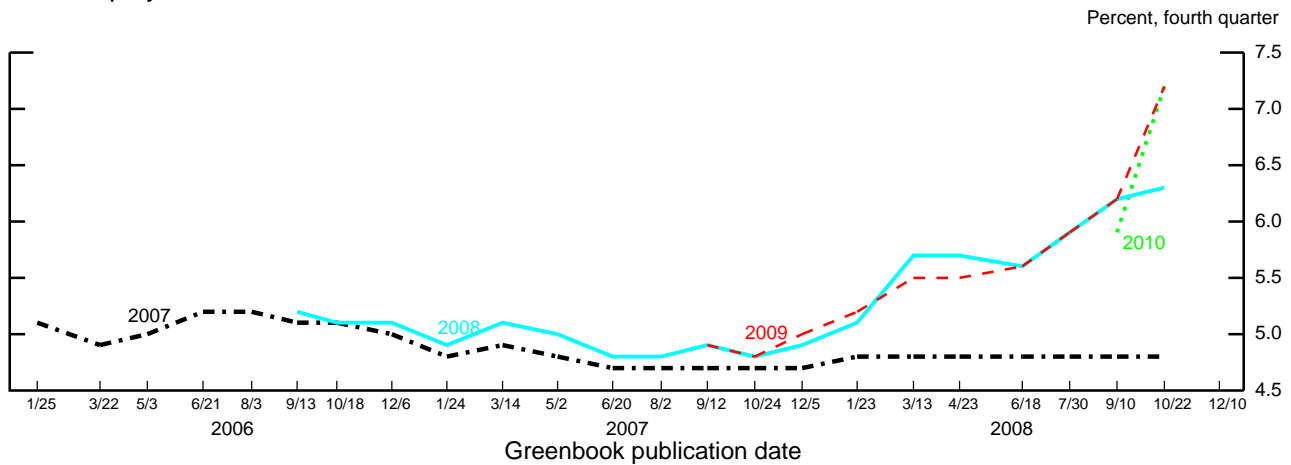
Class II FOMC - Restricted (FR)

## Evolution of the Staff Forecast

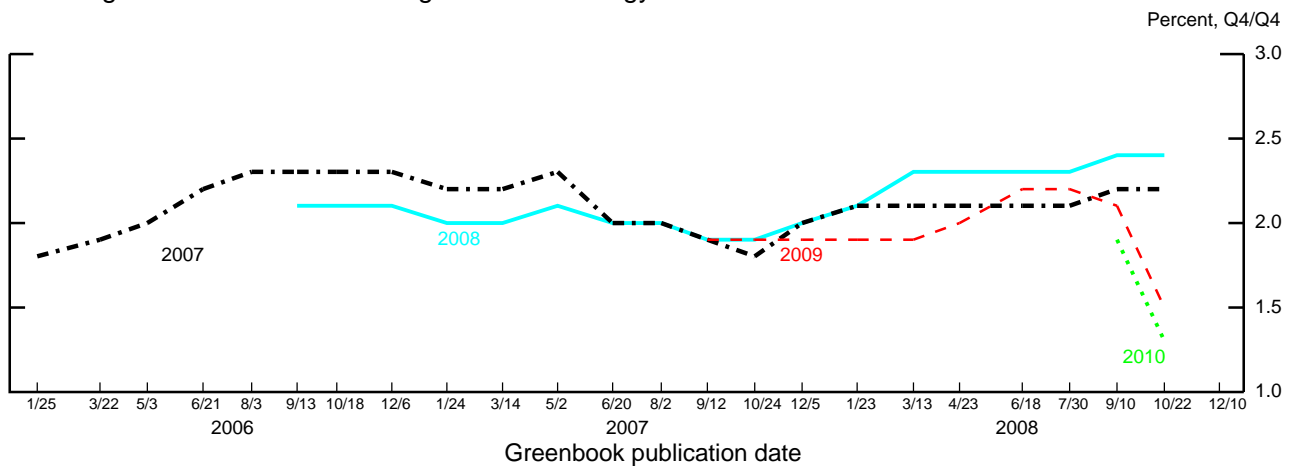
### Change in Real GDP



### Unemployment Rate



### Change in PCE Prices excluding Food and Energy



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

Interval	Nominal GDP		Real GDP		PCE price index		Core PCE price index		Unemployment rate <sup>1</sup>	
	09/10/08	10/22/08	09/10/08	10/22/08	09/10/08	10/22/08	09/10/08	10/22/08	09/10/08	10/22/08
<i>Quarterly</i>										
2008:Q1	3.5	3.5	.9	.9	3.6	3.6	2.3	2.3	4.9	4.9
Q2	4.7	4.1	3.5	2.8	4.2	4.3	2.1	2.2	5.3	5.3
Q3	5.5	3.0	.6	-1.0	5.5	5.6	2.9	3.1	6.0	6.0
Q4	3.8	2.9	1.1	-1.3	.6	-2.2	2.6	2.3	6.2	6.3
2009:Q1	4.0	.6	1.6	-1.4	2.3	.7	2.4	1.9	6.2	6.6
Q2	4.6	1.2	2.2	-.4	2.4	1.7	2.2	1.6	6.2	6.9
Q3	4.4	1.8	2.2	.4	2.2	1.6	2.1	1.4	6.2	7.1
Q4	4.3	2.3	2.3	1.0	2.0	1.6	2.0	1.4	6.2	7.2
2010:Q1	4.3	2.7	2.4	1.5	1.9	1.5	2.0	1.4	6.1	7.3
Q2	4.6	3.4	2.6	2.0	1.9	1.5	1.9	1.4	6.0	7.3
Q3	4.7	3.8	2.8	2.5	1.8	1.4	1.9	1.3	5.9	7.3
Q4	4.8	4.3	2.9	3.0	1.8	1.4	1.9	1.3	5.9	7.2
<i>Two-quarter<sup>2</sup></i>										
2008:Q2	4.1	3.8	2.2	1.8	3.9	3.9	2.2	2.2	.5	.5
Q4	4.7	3.0	.8	-1.2	3.0	1.6	2.7	2.7	.9	1.0
2009:Q2	4.3	.9	1.9	-.9	2.4	1.2	2.3	1.7	.0	.6
Q4	4.3	2.1	2.3	.7	2.1	1.6	2.0	1.4	.0	.3
2010:Q2	4.5	3.1	2.5	1.8	1.9	1.5	1.9	1.4	-.2	.1
Q4	4.8	4.0	2.8	2.8	1.8	1.4	1.9	1.3	-.1	-.1
<i>Four-quarter<sup>3</sup></i>										
2007:Q4	4.9	4.9	2.3	2.3	3.5	3.5	2.2	2.2	.4	.4
2008:Q4	4.4	3.4	1.5	.3	3.5	2.8	2.4	2.4	1.4	1.5
2009:Q4	4.3	1.5	2.1	-.1	2.2	1.4	2.1	1.5	.0	.9
2010:Q4	4.6	3.5	2.7	2.3	1.9	1.4	1.9	1.3	-.3	.0
<i>Annual</i>										
2007	4.8	4.8	2.0	2.0	2.6	2.6	2.2	2.2	4.6	4.6
2008	4.3	3.8	1.9	1.4	3.8	3.6	2.3	2.3	5.6	5.6
2009	4.4	1.9	1.7	-.5	2.5	1.3	2.3	2.0	6.2	7.0
2010	4.5	2.8	2.5	1.5	2.0	1.5	2.0	1.3	5.9	7.3

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	2008				2009				2010				2008 <sup>1</sup>	2009 <sup>1</sup>	2010 <sup>1</sup>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous</i>	.9	2.8	-1.0	-1.3	-1.4	-4	.4	1.0	1.5	2.0	2.5	3.0	.3	-.1	2.3
Final sales <i>Previous</i>	.9	3.5	.6	1.1	1.6	2.2	2.2	2.3	2.4	2.6	2.8	2.9	1.5	2.1	2.7
Priv. dom. final purch. <i>Previous</i>	.9	4.4	-.8	-3.5	-1.4	-4	-2	.1	1.0	2.8	2.7	2.7	.2	-.5	2.3
Personal cons. expend. <i>Previous</i>	.9	5.0	.0	-.4	.8	2.2	2.1	1.6	1.8	3.6	3.4	2.4	1.4	1.6	2.8
Durables	-3	.7	-3.5	-4.4	-2.8	-1.3	-6	.3	1.8	2.7	3.3	3.9	-1.9	-1.1	2.9
Nondurables	-3	1.3	-1.2	-2.1	.5	1.1	1.6	2.1	2.9	3.3	3.6	3.5	-.6	1.3	3.3
Services	.9	1.2	-3.3	-2.4	-1	1.0	1.5	1.7	2.0	2.2	2.5	2.8	-.9	1.0	2.4
Residential investment <i>Previous</i>	.9	1.7	-.5	-1.6	1.5	1.8	2.1	2.2	2.4	2.5	2.6	2.6	.1	1.9	2.6
Business fixed invest. <i>Previous</i>	-4.3	-2.8	-16.2	-3.9	-2	1.7	3.1	3.3	5.2	5.7	4.7	5.4	-7.0	2.0	5.3
Equipment & software <i>Previous</i>	-4	3.9	-6.2	-6.8	-1.3	.4	1.5	1.8	2.1	2.5	2.8	3.2	-2.5	.6	2.6
Nonres. structures <i>Previous</i>	2.4	.7	.7	.0	.5	1.2	1.3	1.4	1.5	1.6	2.0	2.2	.9	1.1	1.8
Net exports <sup>2</sup> <i>Previous</i> <sup>2</sup>	-25.1	-13.3	-19.7	-24.4	-24.8	-17.0	-17.1	-2.8	4.6	14.9	15.1	19.5	-20.8	-15.8	13.4
Exports	-25.1	-13.4	-17.6	-20.0	-15.9	-4.9	-6.7	4.0	10.0	19.0	21.6	18.2	-19.1	-6.2	17.1
Imports	2.4	2.5	.8	-9.9	-12.6	-11.9	-10.6	-8.3	-.5	2.7	6.3	8.2	-1.2	-10.9	4.1
Govt. cons. & invest. <i>Previous</i>	2.4	3.5	.1	.7	-1.3	-2.0	.7	1.4	4.2	4.3	5.6	5.6	1.7	-.3	4.9
Federal	-.6	-5.0	-2.0	-11.1	-11.4	-8.4	-6.8	-4.0	6.0	9.0	12.1	14.0	-4.7	-7.7	10.2
Defense	-.6	-3.5	-2.9	4.1	1.9	1.2	4.2	4.4	8.3	7.7	8.8	8.4	-.8	2.9	8.3
Nondefense	8.6	18.5	6.0	-7.7	-14.6	-17.8	-17.3	-16.0	-12.0	-9.1	-5.1	-3.5	5.9	-16.4	-7.5
State & local	8.6	18.5	5.8	-5.4	-7.2	-7.6	-5.7	-4.4	-3.3	-2.2	-.7	.1	6.5	-6.2	-1.6
Change in bus. inventories <sup>2</sup> <i>Previous</i> <sup>2</sup>	-462	-381	-346	-335	-317	-303	-299	-307	-326	-313	-312	-326	-381	-307	-319
Nonfarm <sup>2</sup>	-462	-377	-358	-329	-326	-298	-284	-292	-312	-291	-284	-303	-381	-300	-298
Farm <sup>2</sup>	5.1	12.3	8.0	2.6	4.5	1.8	2.3	2.7	3.2	3.7	4.1	4.7	6.9	2.8	3.9
Govt. cons. & invest. <i>Previous</i>	-.8	-7.3	-1.0	-.3	.0	-1.3	.9	4.1	6.7	.4	3.3	6.9	-2.4	.9	4.3
Federal	1.9	3.9	4.8	-1.0	1.4	1.0	.7	.6	.9	.9	.1	.1	2.4	.9	.5
Defense	1.9	4.1	1.9	1.7	1.5	1.4	1.1	1.1	.8	.8	.8	.8	2.4	1.3	.8
Nondefense	5.8	6.6	10.2	-3.1	3.9	3.4	2.6	2.3	3.0	3.1	.9	.9	4.8	3.0	2.0
State & local	7.3	7.3	15.9	-4.0	5.0	4.1	3.0	2.4	2.0	2.0	1.9	2.0	6.4	3.6	2.0
Change in bus. inventories <sup>2</sup> <i>Previous</i> <sup>2</sup>	2.9	5.0	-1.4	-1.1	1.5	1.7	1.8	2.1	5.5	5.5	-1.5	-1.5	1.3	1.8	2.0
Nonfarm <sup>2</sup>	-.3	2.5	1.8	.3	.0	-.3	-.4	-.4	-.4	-.4	-.4	-.5	1.1	-.3	-.4
Farm <sup>2</sup>	-10	-51	-57	1	2	2	18	43	56	35	30	38	-29	16	40
Nonfarm <sup>2</sup>	-10	-52	-37	2	22	24	28	47	61	35	20	33	-24	30	37
Farm <sup>2</sup>	-18	-55	-60	0	1	1	17	42	55	34	29	37	-33	15	39
	6	2	1	1	1	1	1	1	1	1	1	1	2	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**

(Change from fourth quarter of previous year to fourth quarter of year indicated, unless otherwise noted)

Item	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Real GDP</b> <i>Previous</i>	1.9 1.9	3.7 3.7	3.1 3.1	2.7 2.7	2.4 2.4	2.3 2.3	.3 1.5	-1 2.1	2.3 2.7
<b>Final sales</b> <i>Previous</i>	.8 .8	3.7 3.7	2.8 2.8	2.7 2.7	2.8 2.8	2.5 2.5	.2 1.4	-5 1.6	2.3 2.8
<b>Priv. dom. final purch.</b> <i>Previous</i>	1.1 1.1	4.1 4.1	4.3 4.3	3.1 3.1	2.3 2.3	1.4 1.4	-1.9 -6	-1.1 1.3	2.9 3.3
<b>Personal cons. expend.</b> <i>Previous</i>	1.9 1.9	3.4 3.4	3.7 3.7	2.6 2.6	3.2 3.2	2.2 2.2	-9 .1	1.0 1.9	2.4 2.6
<b>Durables</b>	1.2	8.3	5.6	1.2	6.9	4.2	-7.0	2.0	5.3
<b>Nondurables</b>	2.1	3.9	3.5	3.6	3.2	1.7	-2.5	.6	2.6
<b>Services</b>	1.9	2.2	3.3	2.4	2.6	2.1	.9	1.1	1.8
<b>Residential investment</b> <i>Previous</i>	7.0 7.0	11.7 11.7	6.7 6.7	5.4 5.4	-15.5 -15.5	-19.0 -19.0	-20.8 -19.1	-15.8 -6.2	13.4 17.1
<b>Business fixed invest.</b> <i>Previous</i>	-6.5 -6.5	4.9 4.9	7.5 7.5	4.9 4.9	6.5 6.5	6.4 6.4	-1.2 1.7	-10.9 -3	4.1 4.9
<b>Equipment &amp; software</b> <i>Previous</i>	-3.4 -3.4	6.6 6.6	9.4 9.4	7.0 7.0	4.2 4.2	2.8 2.8	-4.7 -8	-7.7 2.9	10.2 8.3
<b>Nonres. structures</b> <i>Previous</i>	-14.9 -14.9	.2 .2	2.3 2.3	-5 -5	12.8 12.8	14.5 14.5	5.9 6.5	-16.4 -6.2	-7.5 -1.6
<b>Net exports<sup>1</sup></b> <i>Previous<sup>1</sup></i>	-471 -471	-519 -519	-594 -594	-617 -617	-616 -616	-547 -547	-381 -381	-307 -300	-319 -298
<b>Exports</b>	3.8	5.8	7.4	7.0	10.1	8.9	6.9	2.8	3.9
<b>Imports</b>	9.7	4.8	11.5	4.8	3.8	1.1	-2.4	.9	4.3
<b>Govt. cons. &amp; invest.</b> <i>Previous</i>	4.0 4.0	1.7 1.7	.7 .7	.6 .6	2.1 2.1	2.4 2.4	2.4 2.4	.9 1.3	.5 .8
<b>Federal</b>	7.8	5.5	2.4	1.0	2.9	2.3	4.8	3.0	2.0
<b>Defense</b>	8.4	7.5	2.5	.8	4.1	2.7	6.4	3.6	2.0
<b>Nondefense</b>	6.8	1.9	2.3	1.4	.5	1.5	1.3	1.8	2.0
<b>State &amp; local</b>	2.1	-4	-4	.3	1.6	2.4	1.1	-3	-4
<b>Change in bus. inventories<sup>1</sup></b> <i>Previous<sup>1</sup></i>	12 12	14 14	54 54	39 39	42 42	-2 -2	-29 -24	16 30	40 37
<b>Nonfarm<sup>1</sup></b>	15	14	48	39	46	-4	-33	15	39
<b>Farm<sup>1</sup></b>	-2	0	6	0	-3	1	2	1	1

1. Billions of chained (2000) dollars.

**Contributions to Changes in Real Gross Domestic Product**  
(Percentage points, annual rate except as noted)

Item	2008				2009				2010				2008 <sup>1</sup>	2009 <sup>1</sup>	2010 <sup>1</sup>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous</i>	.9	2.8	-1.0	-1.3	-1.4	-4	.4	1.0	1.5	2.0	2.5	3.0	.3	-.1	2.3
Final sales <i>Previous</i>	.9	3.5	.6	1.1	1.6	2.2	2.2	2.3	2.4	2.6	2.8	2.9	1.5	2.1	2.7
Priv. dom. final purch. <i>Previous</i>	.9	4.3	-.8	-3.5	-1.4	-.4	-.2	.1	1.0	2.8	2.7	2.7	.2	-.5	2.3
Personal cons. expend. <i>Previous</i>	.9	5.0	.0	-.4	.8	2.2	2.1	1.6	1.8	3.6	3.3	2.4	1.4	1.6	2.8
Durables	-.3	.6	-3.0	-3.8	-2.3	-1.1	-.5	.3	1.5	2.2	2.7	3.2	-1.6	-.9	2.4
Nondurables	-.3	1.1	-1.0	-1.8	.4	.9	1.4	1.8	2.4	2.7	3.0	2.9	-.5	1.1	2.8
Services	.6	.9	-2.3	-1.7	-.1	.7	1.1	1.2	1.4	1.6	1.7	2.0	-.7	.7	1.7
Residential investment <i>Previous</i>	.6	1.3	-.4	-1.1	1.1	1.3	1.5	1.5	1.7	1.8	1.8	1.8	.1	1.3	1.8
Durables	-.3	-.2	-1.3	-.3	.0	.1	.2	.2	.3	.4	.3	.4	-.5	.1	.3
Nondurables	-.1	.8	-1.3	-1.5	-.3	.1	.3	.4	.4	.5	.6	.6	-.5	.1	.5
Services	1.0	.3	.3	.0	.2	.5	.6	.6	.6	.7	.9	1.0	.4	.5	.8
Residential investment <i>Previous</i>	-1.1	-.5	-.8	-.9	-.8	-.5	-.5	-.1	.1	.4	.4	.5	-.8	-.5	.3
Business fixed invest. <i>Previous</i>	-1.1	-.5	-.7	-.7	-.5	-.1	-.2	.1	.3	.5	.6	.5	-.8	-.2	.5
Equipment & software <i>Previous</i>	.3	.3	.1	-1.1	-1.4	-1.3	-1.1	-.8	.0	.3	.6	.8	-.1	-1.2	.4
Equipment & software <i>Previous</i>	.3	.4	.0	.1	-.1	-.2	.1	.1	.4	.4	.6	.6	.2	.0	.5
Nonres. structures <i>Previous</i>	.0	-.4	-.1	-.8	-.8	-.6	-.4	-.3	.4	.5	.7	.9	-.3	-.5	.6
Nonres. structures <i>Previous</i>	.0	-.3	-.2	.3	.1	.1	.3	.3	.6	.5	.6	.6	-.1	.2	.6
Net exports <i>Previous</i>	.3	.6	.2	-.3	-.6	-.7	-.7	-.6	-.4	-.3	-.2	-.1	.2	-.6	-.2
Exports	.3	.6	.2	-.2	-.3	-.3	-.2	-.2	-.1	-.1	.0	.0	.2	-.2	-.1
Imports	.8	2.9	1.2	.4	.6	.5	.2	-.3	-.7	.4	.0	-.5	1.3	.2	-.2
Govt. cons. & invest. <i>Previous</i>	.8	3.1	.7	1.0	.1	1.0	.5	-.4	-.7	.7	.2	-.7	1.4	.3	-.1
Federal	.6	1.5	1.0	.4	.6	.3	.3	.4	.4	.5	.6	.7	.9	.4	.5
Defense	.1	1.4	.2	.1	.0	.2	-.2	-.7	-.1	-.1	-.6	-.1	.4	-.1	-.7
State & local	.4	.8	1.0	-.2	.3	.2	.1	.1	.2	.2	.0	.0	.5	.2	.1
Change in bus. inventories <i>Previous</i>	.4	.8	.4	.3	.3	.3	.2	.2	.2	.2	.2	.2	.5	.3	.2
Nonfarm	.4	.5	.7	-.2	.3	.3	.2	.2	.2	.2	.1	.1	.3	.2	.2
Farm	.3	.4	.8	-.2	.3	.2	.2	.1	.1	.1	.1	.1	-.3	-.2	.1
State & local	.1	.1	.0	.0	.0	.0	.0	.1	.1	.1	.0	.0	.0	.0	.0
Change in bus. inventories <i>Previous</i>	.0	.3	.2	.0	.0	.0	-.1	-.1	-.1	-.1	-.1	-.1	.1	.0	-.1
Nonfarm	.0	-1.5	-.2	2.2	.0	.0	.6	.9	.5	-.8	-.2	.3	.1	.4	.0
Farm	.0	-1.5	.6	1.5	.8	.1	.2	.7	.6	-1.0	-.6	.5	.1	.4	-.1
Nonfarm	.2	-1.4	-.2	2.3	.0	.0	.6	.9	.5	-.8	-.2	.3	.2	.4	.0
Farm	-.2	-.1	-.1	.0	.0	.0	.0	.0	.0	.0	.0	.0	-.1	.0	.0

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

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

Item	2008				2009				2010				2008 <sup>1</sup>	2009 <sup>1</sup>	2010 <sup>1</sup>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP chain-wt. price index <i>Previous</i>	2.6	1.1	4.1	4.3	2.0	1.6	1.5	1.3	1.2	1.4	1.3	1.2	3.0	1.6	1.3
PCE chain-wt. price index <i>Previous</i>	2.6	1.2	4.9	2.7	2.3	2.3	2.1	2.0	1.9	1.9	2.0	1.9	2.9	2.2	1.9
Energy <i>Previous</i>	3.6	4.3	5.6	-2.2	.7	1.7	1.6	1.6	1.4	1.5	1.4	1.4	2.8	1.4	1.4
Food <i>Previous</i>	3.6	4.2	5.5	.6	2.3	2.4	2.2	2.0	1.8	1.9	1.9	1.8	3.5	2.2	1.9
Ex. food & energy <i>Previous</i>	19.0	27.4	31.7	-51.9	-17.6	3.4	3.5	3.5	2.9	3.8	3.6	3.2	-1.0	-2.3	3.3
	19.0	27.6	34.7	-26.4	-1.4	3.0	2.1	1.2	.8	1.0	.7	.7	10.8	1.2	.8
Food <i>Previous</i>	4.9	6.4	8.5	5.2	2.5	1.9	2.3	2.1	1.4	1.5	1.5	1.4	6.2	2.2	1.4
Ex. food & energy <i>Previous</i>	4.9	6.4	8.0	5.0	4.1	3.5	2.8	2.4	2.0	2.2	2.1	2.0	6.1	3.2	2.1
	2.3	2.2	3.1	2.3	1.9	1.6	1.4	1.4	1.3	1.4	1.4	1.3	2.4	1.5	1.3
	2.3	2.1	2.9	2.6	2.4	2.2	2.1	2.0	1.9	2.0	1.9	1.9	2.4	2.1	1.9
CPI <i>Previous</i>	4.3	5.0	6.7	-4.5	.3	1.9	1.8	1.8	1.6	1.8	1.7	1.7	2.8	1.5	1.7
Ex. food & energy <i>Previous</i>	4.3	5.0	7.2	-4	2.3	2.6	2.3	2.2	2.0	2.1	2.0	2.0	4.0	2.3	2.0
	2.5	1.9	3.2	2.2	2.1	1.8	1.6	1.6	1.5	1.6	1.6	1.5	2.4	1.7	1.5
	2.5	1.9	3.4	2.7	2.5	2.3	2.2	2.2	2.1	2.2	2.1	2.1	2.6	2.3	2.1
ECL, hourly compensation <sup>2</sup> <i>Previous</i> <sup>2</sup>	3.0	2.3	3.1	3.2	2.6	2.4	2.2	1.9	1.5	1.6	1.6	1.5	2.9	2.3	1.5
	3.0	2.3	3.2	3.2	3.1	3.1	3.1	3.1	3.0	3.0	3.0	3.0	2.9	3.1	3.0
Nonfarm business sector Output per hour <i>Previous</i>	2.6	3.6	-.3	.8	1.4	1.2	2.3	2.0	2.4	2.5	2.0	2.0	1.7	1.7	2.2
Compensation per hour <i>Previous</i>	2.6	4.5	1.0	1.7	1.7	1.8	1.8	1.8	2.1	2.0	2.0	2.1	2.4	1.8	2.1
Unit labor costs <i>Previous</i>	3.8	3.7	4.5	3.9	3.4	3.2	3.0	2.9	1.9	2.4	2.2	2.0	4.0	3.1	2.1
	3.8	3.7	4.7	4.0	4.0	3.9	3.8	3.8	3.7	3.7	3.6	3.6	4.1	3.9	3.6
	1.2	.1	4.8	3.0	1.9	2.0	.7	.9	-.1	-.1	.2	.0	2.2	1.4	-.1
	1.2	-.7	3.7	2.3	2.3	2.0	2.0	2.0	1.7	1.7	1.5	1.4	1.6	2.1	1.5
Core goods imports chain-wt price index <sup>3</sup> <i>Previous</i> <sup>3</sup>	8.5	10.6	6.5	-2.9	-4.5	.2	.7	1.6	1.5	1.6	1.5	1.5	5.5	-.5	1.5
	8.5	10.6	7.5	2.1	.5	1.0	1.1	1.2	1.2	1.2	1.3	1.2	7.1	1.0	1.3

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

2. Private-industry workers.

3. Core goods imports exclude computers, semiconductors, oil, and natural gas.

**Changes in Prices and Costs**

(Change from fourth quarter of previous year to fourth quarter of year indicated, unless otherwise noted)

Item	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP chain-wt price index <i>Previous</i>	1.7 1.7	2.2 2.2	3.2 3.2	3.5 3.5	2.8 2.8	2.6 2.6	3.0 2.9	1.6 2.2	1.3 1.9
PCE chain-wt price index <i>Previous</i>	1.8 1.8	1.9 1.9	3.1 3.1	3.3 3.3	1.9 1.9	3.5 3.5	2.8 3.5	1.4 2.2	1.4 1.9
Energy <i>Previous</i>	7.7 7.7	7.6 7.6	18.3 18.3	23.1 23.1	-4.0 -4.0	19.1 19.1	-1.0 10.8	-2.3 1.2	3.3 .8
Food <i>Previous</i>	1.3 1.3	2.6 2.6	2.9 2.9	2.1 2.1	2.3 2.3	4.5 4.5	6.2 6.1	2.2 3.2	1.4 2.1
Ex. food & energy <i>Previous</i>	1.6 1.6	1.4 1.4	2.2 2.2	2.2 2.2	2.3 2.3	2.2 2.2	2.4 2.4	1.5 2.1	1.3 1.9
CPI <i>Previous</i>	2.3 2.3	2.0 2.0	3.4 3.4	3.8 3.8	1.9 1.9	4.0 4.0	2.8 4.0	1.5 2.3	1.7 2.0
Ex. food & energy <i>Previous</i>	2.1 2.1	1.2 1.2	2.1 2.1	2.1 2.1	2.7 2.7	2.3 2.3	2.4 2.6	1.7 2.3	1.5 2.1
ECI, hourly compensation <sup>1</sup> <i>Previous</i> <sup>1</sup>	3.1 3.1	4.0 4.0	3.8 3.8	2.9 2.9	3.2 3.2	3.0 3.0	2.9 2.9	2.3 3.1	1.5 3.0
Nonfarm business sector Output per hour <i>Previous</i>	2.9 2.9	4.7 4.7	1.8 1.8	1.5 1.5	.6 .6	2.7 2.7	1.7 2.4	1.7 1.8	2.2 2.1
Compensation per hour <i>Previous</i>	3.2 3.2	5.3 5.3	3.9 3.9	3.6 3.6	4.3 4.3	3.6 3.6	4.0 4.1	3.1 3.9	2.1 3.6
Unit labor costs <i>Previous</i>	.2 .2	.5 .5	2.1 2.1	2.1 2.1	3.6 3.6	.9 .9	2.2 1.6	1.4 2.1	-1 1.5
Core goods imports chain-wt. price index <sup>2</sup> <i>Previous</i> <sup>2</sup>	.1 .1	1.6 1.6	3.6 3.6	2.2 2.2	2.4 2.4	3.4 3.4	5.5 7.1	-5 1.0	1.5 1.3

1. Private-industry workers.

2. Core goods imports exclude computers, semiconductors, oil and natural gas.

## Other Macroeconomic Indicators

Item	2008				2009				2010				2008 <sup>1</sup>	2009 <sup>1</sup>	2010 <sup>1</sup>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Employment and production</i>															
Nonfarm payroll employment <sup>2</sup>	-1	-2	-3	-5	-6	-5	-3	-1	.0	.3	.1	.3	-1.1	-1.6	.8
Unemployment rate <sup>3</sup>	4.9	5.3	6.0	6.3	6.6	6.9	7.1	7.2	7.3	7.3	7.3	7.2	6.3	7.2	7.2
<i>Previous<sup>3</sup></i>	4.9	5.3	6.0	6.2	6.2	6.2	6.2	6.2	6.1	6.0	5.9	5.9	6.2	6.2	5.9
GDP gap <sup>4</sup>	-6	-5	-1.4	-2.3	-3.2	-3.9	-4.3	-4.7	-4.9	-4.9	-4.9	-4.7	-2.3	-4.7	-4.7
<i>Previous<sup>4</sup></i>	-6	-4	-9	-1.2	-1.4	-1.5	-1.6	-1.6	-1.6	-1.6	-1.5	-1.4	-1.2	-1.6	-1.4
Industrial production <sup>5</sup>	.4	-3.1	-6.0	-6	-1	-1	1.4	2.5	1.7	2.7	3.1	3.3	-2.4	.9	2.7
<i>Previous<sup>5</sup></i>	.4	-3.2	-2.6	4.1	3.2	2.2	3.1	3.5	3.8	4.1	3.8	3.7	-4	3.0	3.8
Manufacturing industr. prod. <sup>5</sup>	-1.0	-3.8	-5.8	-4.8	-2.6	-4	.9	1.9	2.2	3.2	3.5	3.9	-3.8	-1	3.2
<i>Previous<sup>5</sup></i>	-1.0	-3.9	-2.1	1.3	2.3	2.3	3.0	3.5	4.4	4.8	4.3	4.2	-1.5	2.8	4.5
Capacity utilization rate - mfg. <sup>3</sup>	78.7	77.6	76.1	74.9	74.3	74.1	74.1	74.4	74.7	75.1	75.7	76.3	74.9	74.4	76.3
<i>Previous<sup>3</sup></i>	78.7	77.6	76.8	76.8	77.0	77.1	77.4	77.8	78.4	79.0	79.5	80.1	76.8	77.8	80.1
Housing starts <sup>6</sup>	1.1	1.0	.9	.8	.7	.7	.7	.7	.8	.9	1.0	1.1	.9	.7	.9
Light motor vehicle sales <sup>6</sup>	15.2	14.1	12.9	12.2	12.4	12.6	12.7	12.8	13.2	13.6	13.8	14.1	13.6	12.6	13.7
<i>Income and saving</i>															
Nominal GDP <sup>5</sup>	3.5	4.1	3.0	2.9	.6	1.2	1.8	2.3	2.7	3.4	3.8	4.3	3.4	1.5	3.5
Real disposable pers. income <sup>5</sup>	-7	11.9	-8.4	-2	3.7	.3	.1	1.2	1.7	.9	2.7	2.4	.4	1.3	1.9
<i>Previous<sup>5</sup></i>	-7	11.4	-8.3	-1.5	4.3	1.5	1.5	2.6	3.6	1.9	3.4	2.8	.0	2.5	2.9
Personal saving rate <sup>3</sup>	.2	2.7	1.5	2.1	3.1	3.0	2.8	2.8	2.8	2.5	2.6	2.6	2.1	2.8	2.6
<i>Previous<sup>3</sup></i>	.2	2.6	.7	.7	1.4	1.4	1.3	1.4	1.7	1.6	1.8	1.8	.7	1.4	1.8
Corporate profits <sup>7</sup>	-4.3	-14.3	-6.3	-10.2	-4.6	-4.8	-1	-2	9.7	7.0	9.0	10.7	-8.9	-2.5	9.1
Profit share of GNP <sup>3</sup>	11.2	10.6	10.4	10.1	10.0	9.8	9.7	9.7	9.8	9.9	10.0	10.2	10.1	9.7	10.2
Net federal saving <sup>8</sup>	-331	-640	-496	-456	-539	-566	-576	-603	-635	-629	-650	-656	-481	-571	-642
Net state & local saving <sup>8</sup>	-52	-67	-94	-95	-99	-106	-105	-99	-92	-91	-83	-77	-77	-102	-86
Gross national saving rate <sup>3</sup>	12.4	11.6	11.3	11.9	11.6	11.3	11.1	10.9	10.9	10.8	10.9	11.0	11.9	10.9	11.0
Net national saving rate <sup>3</sup>	.0	-1.0	-1.4	-.7	-1.2	-1.6	-1.9	-2.1	-2.1	-2.2	-2.0	-1.9	-.7	-2.1	-1.9

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.

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.

**Other Macroeconomic Indicators**  
(Change from fourth quarter of previous year to fourth quarter of year indicated, unless otherwise noted)

Item	2002	2003	2004	2005	2006	2007	2008	2009	2010
<i>Employment and production</i>									
Nonfarm payroll employment <sup>1</sup>	-7	-1	2.1	2.4	2.1	1.2	-1.1	-1.6	.8
Unemployment rate <sup>2</sup>	5.8	5.8	5.4	4.9	4.4	4.8	6.3	7.2	7.2
<i>Previous</i> <sup>2</sup>	5.8	5.8	5.4	4.9	4.4	4.8	6.2	6.2	5.9
GDP gap <sup>3</sup>	-2.4	-1.6	-6	-1	.0	-2	-2.3	-4.7	-4.7
<i>Previous</i> <sup>3</sup>	-2.4	-1.6	-6	-1	.0	-2	-1.2	-1.6	-1.4
Industrial production <sup>4</sup>	2.6	1.5	3.1	2.6	1.7	2.1	-2.4	.9	2.7
<i>Previous</i> <sup>4</sup>	2.6	1.5	3.1	2.6	1.7	2.1	-4	3.0	3.8
Manufacturing industr. prod. <sup>4</sup>	2.6	1.7	3.7	3.7	1.1	2.3	-3.8	-1	3.2
<i>Previous</i> <sup>4</sup>	2.6	1.7	3.7	3.7	1.1	2.3	-1.5	2.8	4.5
Capacity utilization rate - mfg. <sup>2</sup>	73.2	74.8	77.5	79.2	79.0	79.3	74.9	74.4	76.3
<i>Previous</i> <sup>2</sup>	73.2	74.8	77.5	79.2	79.0	79.3	76.8	77.8	80.1
Housing starts <sup>5</sup>	1.7	1.8	2.0	2.1	1.8	1.4	.9	.7	.9
Light motor vehicle sales <sup>5</sup>	16.7	16.6	16.8	16.9	16.5	16.1	13.6	12.6	13.7
<i>Income and saving</i>									
Nominal GDP <sup>4</sup>	3.6	5.9	6.5	6.3	5.3	4.9	3.4	1.5	3.5
Real disposable pers. income <sup>4</sup>	2.9	3.7	4.1	.9	3.6	1.8	.4	1.3	1.9
<i>Previous</i> <sup>4</sup>	2.9	3.7	4.1	.9	3.6	1.8	.0	2.5	2.9
Personal saving rate <sup>2</sup>	1.8	2.2	2.5	.8	.9	.4	2.1	2.8	2.6
<i>Previous</i> <sup>2</sup>	1.8	2.2	2.5	.8	.9	.4	.7	1.4	1.8
Corporate profits <sup>6</sup>	20.6	12.6	20.3	18.8	6.9	-2.0	-8.9	-2.5	9.1
Profit share of GNP <sup>2</sup>	9.0	9.5	10.8	12.0	12.2	11.3	10.1	9.7	10.2
Net federal saving <sup>7</sup>	-248	-372	-371	-292	-201	-229	-481	-571	-642
Net state & local saving <sup>7</sup>	-34	-20	2	29	46	10	-77	-102	-86
Gross national saving rate <sup>2</sup>	13.6	13.7	13.8	15.0	15.5	13.4	11.9	10.9	11.0
Net national saving rate <sup>2</sup>	1.5	1.9	2.1	2.8	3.4	1.2	-.7	-2.1	-1.9

1. Change, millions.

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

3. Percent difference between actual and potential GDP; a negative number indicates that the economy is operating below potential.

Values are for the fourth quarter of the year indicated.

4. Percent change.

5. Level, millions, values are annual averages.

6. Percent change, with inventory valuation and capital consumption adjustments.

7. Billions of dollars, 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 22, 2008

Item	Fiscal year				2008				2009				2010							
	2007 <sup>a</sup>	2008	2009	2010	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
<b>Unified budget</b>									Not seasonally adjusted											
Receipts <sup>1</sup>	2568	2524	2533	2636	540	788	590	580	518	795	640	611	554	814	657	636				
Outlays <sup>1</sup>	2729	2979	3386	3224	746	761	759	1036	795	786	768	823	812	804	785	853				
Surplus/deficit <sup>1</sup>	-162	-455	-853	-587	-206	27	-169	-456	-277	9	-128	-212	-258	11	-128	-218				
<i>Previous</i>	-162	-403	-455	-430	-206	44	-134	-144	-262	43	-92	-178	-230	64	-85	-175				
On-budget	-343	-638	-1016	-742	-237	-64	-171	-522	-290	-78	-127	-272	-268	-77	-126	-278				
Off-budget	181	183	163	155	31	91	2	66	12	86	-1	60	10	88	-3	60				
Means of financing																				
Borrowing	206	768	1030	605	200	-48	526	796	65	19	150	201	247	14	143	207				
Cash decrease	-23	-296	322	0	11	-7	-318	-228	575	-15	-10	15	15	-20	-10	15				
Other <sup>2</sup>	-22	-17	-498	-18	-5	29	-39	-112	-362	-12	-12	-5	-5	-5	-5	-5				
Cash operating balance, end of period	75	372	50	50	46	53	372	599	25	40	50	35	20	40	50	35				
<b>NIPA federal sector</b>									Seasonally adjusted annual rates											
Receipts	2624	2616	2666	2746	2673	2488	2624	2645	2656	2661	2701	2716	2732	2753	2784	2817				
Expenditures	2832	3042	3200	3375	3003	3128	3120	3101	3194	3226	3277	3319	3367	3381	3434	3473				
Consumption expenditures	842	908	964	1011	898	918	945	941	960	972	984	994	1005	1018	1025	1032				
Defense	569	623	667	697	614	629	656	651	664	673	681	688	693	700	706	713				
Nondefense	273	285	297	314	284	289	289	290	296	299	303	306	312	319	319	319				
Other spending	1990	2134	2236	2365	2105	2210	2175	2160	2234	2254	2294	2325	2362	2363	2409	2441				
Current account surplus	-209	-426	-534	-629	-331	-640	-496	-456	-539	-566	-576	-603	-635	-629	-650	-656				
Gross investment	123	135	148	155	129	138	147	145	147	150	152	153	154	156	157	159				
Gross saving less gross investment <sup>3</sup>	-221	-445	-560	-655	-344	-661	-525	-481	-564	-592	-603	-630	-661	-654	-675	-681				
<b>Fiscal indicators<sup>4</sup></b>																				
High-employment (HEB) surplus/deficit	-229	-419	-398	-396	-329	-639	-462	-378	-423	-409	-383	-384	-405	-389	-406	-414				
Change in HEB, percent of potential GDP	-0.3	1.2	-0.3	-0.1	0.6	2.1	-1.3	-0.6	0.3	-0.1	-0.2	-0.0	0.1	-0.1	0.1	0.0				
Fiscal impetus (FI), percent of GDP	0.2	0.7	-0.0	0.1	0.1	0.5	0.6	-0.5	-0.1	0.1	-0.1	-0.0	0.1	0.1	0.0	0.0				
<i>Previous</i>	0.2	0.7	-0.0	0.0	0.1	0.5	0.5	-0.3	-0.2	0.1	-0.1	-0.0	-0.0	0.0	0.0	0.0				

1. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus and the Postal Service surplus are excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.
2. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.
3. Gross saving is the current account surplus plus consumption of fixed capital of the general government as well as government enterprises.
4. HEB is gross saving less gross investment (NIPA) of the federal government in current dollars, with cyclically sensitive receipts and outlays adjusted to the staff's measure of potential output and the NAIU. 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 22, 2008**  
(Percent)

Period <sup>1</sup>	Total	Households			Business	State and local governments	Federal government	Memo: Nominal GDP
		Total	Home mortgages	Consumer credit				
<i>Year</i>								
2003	8.1	11.5	14.2	5.2	2.5	8.3	10.9	5.9
2004	8.9	11.2	13.7	5.5	6.2	7.4	9.0	6.5
2005	9.5	11.2	13.1	4.3	8.5	10.2	7.0	6.3
2006	9.1	10.2	11.2	4.5	10.5	8.1	3.9	5.3
2007	8.6	6.8	6.8	5.6	13.0	9.3	4.9	4.9
2008	7.3	1.2	.8	2.0	5.7	3.5	28.8	3.4
2009	2.8	-.4	-.8	-.5	3.9	5.9	6.6	1.5
2010	4.3	1.9	1.3	3.1	4.2	6.1	8.7	3.5
<i>Quarter</i>								
2008:1	5.4	3.3	2.6	5.1	7.4	3.4	8.1	3.5
2	3.5	1.4	.9	4.0	5.7	.9	5.9	4.1
3	8.9	.5	.2	-.0	5.3	6.9	39.2	3.0
4	10.8	-.3	-.4	-1.1	4.1	2.6	53.2	2.9
2009:1	.9	-.7	-.9	-1.6	3.6	5.5	-2.0	.6
2	3.0	-.7	-1.1	-.7	3.5	5.5	8.8	1.2
3	3.3	-.4	-.8	-.1	4.1	6.1	8.5	1.8
4	3.8	.0	-.4	.4	4.0	6.0	10.5	2.3
2010:1	3.8	.7	.0	1.9	4.2	6.1	8.5	2.7
2	4.0	1.5	.9	2.8	4.2	6.0	7.8	3.4
3	4.2	2.3	1.8	3.4	3.9	5.9	7.4	3.8
4	5.0	3.1	2.7	4.1	4.1	5.8	9.9	4.3

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2008: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 22, 2008**

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

Category	2007	2008	2009	2010	2008		2009			2010					
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
<i>Domestic nonfinancial sectors</i>															
Net funds raised															
Total	1682.6	1916.0	654.6	1247.7	2480.2	3189.2	-24.4	707.6	870.8	1064.5	1065.5	1151.1	1221.3	1553.1	
Net equity issuance	-833.0	-410.4	-285.0	-260.0	-393.6	-380.0	-320.0	-300.0	-260.0	-260.0	-260.0	-260.0	-260.0	-260.0	
Net debt issuance	2515.5	2326.4	939.6	1507.7	2873.8	3569.2	295.6	1007.6	1130.8	1324.5	1325.5	1411.1	1481.3	1813.1	
Borrowing indicators															
Debt (percent of GDP) <sup>1</sup>	220.6	229.4	236.2	237.9	227.7	231.7	234.7	235.1	235.8	236.6	237.2	237.5	237.7	238.0	
Borrowing (percent of GDP)	18.2	16.2	6.4	10.0	20.0	24.6	2.0	6.9	7.7	9.0	8.9	9.4	9.8	11.9	
Households															
Net borrowing <sup>2</sup>	881.0	169.5	-60.2	269.9	63.5	-38.3	-98.6	-95.6	-50.3	3.6	95.9	214.2	327.0	442.3	
Home mortgages	669.8	85.8	-85.1	141.8	23.6	-47.3	-94.5	-113.4	-85.1	-47.3	0.0	94.5	189.1	283.6	
Consumer credit	136.0	51.2	-13.2	79.9	-0.0	-29.6	-41.1	-19.2	-3.8	11.5	48.7	72.3	89.7	109.0	
Debt/DPI (percent) <sup>3</sup>	131.8	130.6	128.6	125.9	130.5	131.3	129.7	128.8	128.1	127.2	126.3	125.9	125.2	124.9	
Business															
Financing gap <sup>4</sup>	185.6	237.6	233.5	199.9	225.2	238.5	249.4	225.5	223.4	235.6	232.7	195.4	184.7	186.8	
Net equity issuance	-833.0	-410.4	-285.0	-260.0	-393.6	-380.0	-320.0	-300.0	-260.0	-260.0	-260.0	-260.0	-260.0	-260.0	
Credit market borrowing	1211.6	606.4	431.3	481.4	579.6	453.4	398.4	398.3	466.5	462.2	482.9	492.3	464.7	485.5	
State and local governments															
Net borrowing	185.9	76.3	133.5	145.5	152.2	58.9	125.5	125.5	141.5	141.5	145.5	145.5	145.5	145.5	
Current surplus <sup>5</sup>	246.6	149.2	111.6	135.4	112.8	113.9	112.3	107.0	109.9	117.2	126.7	129.2	138.5	147.2	
Federal government															
Net borrowing	237.1	1474.2	435.0	611.0	2078.5	3095.2	-129.7	579.5	573.1	717.2	601.2	559.0	544.1	739.8	
Net borrowing (n.s.a.)	237.1	1474.2	435.0	611.0	526.5	795.9	64.6	18.9	150.1	201.4	247.4	13.7	142.9	207.0	
Unified deficit (n.s.a.)	187.9	804.0	608.7	593.0	169.0	456.1	277.2	-8.5	128.1	211.9	257.9	-10.8	128.4	217.5	
<i>Depository institutions</i>															
Funds supplied	851.7	996.1	465.2	716.3	1930.2	1082.0	426.1	288.3	560.2	586.4	726.6	914.2	698.5	525.8	

Note. Data after 2008: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.

## International Developments

Financial conditions around the world have deteriorated significantly since the September Greenbook. Mounting concerns about asset valuations and the strength of balance sheets led to a collapse of interbank lending, with associated dollar-funding spreads reaching towering heights. These developments threatened many financial institutions abroad, especially in Europe. Funding pressures and declines in confidence have materialized in many emerging market economies as well, prompting a pronounced widening of risk spreads, downward pressures on domestic currencies, and, in some cases, official intervention in foreign exchange markets to provide support.

In reaction to the worsening crisis, central banks and governments intensified their efforts to alleviate conditions. In the past couple of weeks, officials have expanded deposit insurance coverage, announced plans to inject capital into their banking systems and to guarantee bank debts, and increased measures to enhance liquidity. Even though these steps appear to have had some initial positive effects, financial markets abroad remain volatile reflecting uncertainty about the ultimate efficacy of the announced plans, the safety of financial institutions, and the darkening global economic outlook.

### Summary of Staff Projections

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

Indicator	2007	2008: H1	Projection			
			2008		2009	2010
			Q3	Q4		
Foreign output	4.2	1.7	.5	.5	1.3	2.9
September Greenbook	4.2	1.7	1.8	2.0	3.0	3.5
Foreign CPI	3.6	5.1	4.4	1.3	2.1	2.1
September Greenbook	3.6	5.1	4.4	2.7	2.6	2.4
Contribution to growth (percentage points)						
U.S. net exports	.8	1.8	1.2	.4	.2	-.2
September Greenbook	.8	1.9	.7	1.0	.3	-.1

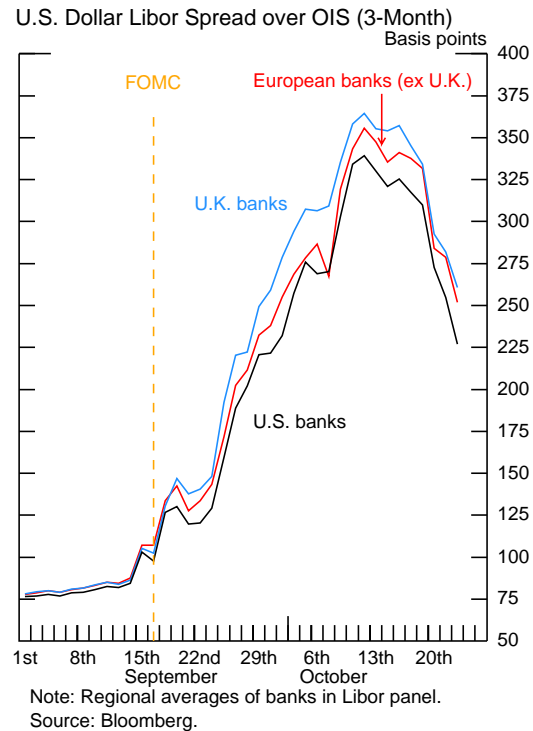
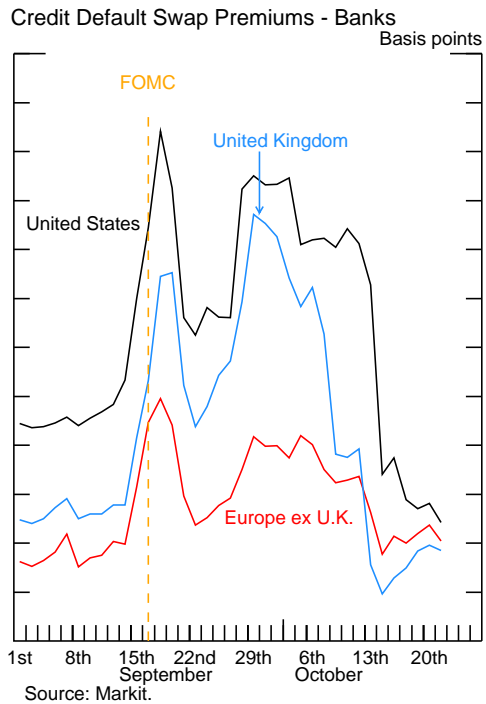
Note: Changes for years measured as Q4/Q4; half-year is measured as Q2/Q4.

We now judge that the global economy has entered a prolonged period of anemic growth and have lowered our forecast appreciably. The advanced foreign economies are likely already in recession, and the effects of even tighter credit market conditions, lower

### Rescue Plan Characteristics for Selected Advanced Economies

Country	Expansion of deposit insurance	Guarantees on bank liabilities	Capital injections	Asset purchases
Australia	✓	✓		✓
Belgium	✓	b	b	
France		✓	✓	
Germany	✓	✓	✓	
Italy	✓	✓	✓	
Netherlands	✓	✓	✓	
Spain	✓	✓	✓	✓
Sweden	✓	✓	✓	
Switzerland	✓		b	b
United Kingdom	✓	✓	✓	
United States	✓	✓	✓	✓

b Has announced measures that apply to specific bank(s), rather than the banking system or a defined set of banks.



2¼ percent in the first quarter of 2009. Thereafter, core export price inflation averages around 1 percent. Compared with the previous Greenbook, core export price inflation has been revised down 7 percentage points in the current quarter and 3¾ percentage points in the first quarter of 2009, reflecting the much softer path of commodity prices.

### Staff Projections of Selected Trade Prices

(Percent change from end of previous period, annual rate, excepted as noted)

Trade category	2007	2008: H1	Projection			
			2008		2009	2010
			Q3	Q4		
<i>Imports</i>						
Core goods	3.4	9.5	6.5	-2.9	-.5	1.5
September Greenbook	3.4	9.5	7.5	2.1	1.0	1.3
Oil (dollars per barrel)	80.11	108.65	117.85	75.26	73.32	78.65
September Greenbook	80.11	108.51	111.71	98.35	102.07	102.39
<i>Exports</i>						
Core goods	6.2	13.0	7.8	-6.0	-.2	1.0
September Greenbook	6.2	13.1	9.9	1.0	1.5	1.2

Note: Prices for core exports exclude computers and semiconductors. Prices for core imports exclude computers, semiconductors, oil, and natural gas. Both prices are on a National Income and Product Account 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.

### Trade in Goods and Services

Real exports of goods and services are estimated to have increased at an annual rate of 8 percent in the third quarter, notwithstanding our expectation that the September data will show a sharp falloff on account of the strike at Boeing. This estimate is about 4 percentage points higher than projected in the September Greenbook, as the export data through August surprised us on the upside.

We expect export growth to fall to roughly 2½ percent in the fourth quarter and then to remain at about that pace in 2009, in line with slow foreign growth and the waning boost from previous dollar depreciation. Export growth is projected to pick up to 4 percent in 2010 as foreign growth recovers. Compared with the previous Greenbook, we lowered our forecast for export growth in the fourth quarter by 4½ percentage points, largely on account of the unexpected continuation of the Boeing strike into October. We have marked down our forecasts for 2009 and 2010 by 2¾ percentage points and

1¼ percentage points, respectively, because of the weaker foreign outlook and the higher projected path for the dollar.

**Staff Projections for  
Trade in Goods and Services**  
(Percent change from end of previous period, annual rate)

Measure	2007	2008: H1	Projection			
			2008		2009	2010
			Q3	Q4		
Real imports	1.1	-4.1	-1.0	-.3	.9	4.4
September Greenbook	1.1	-4.2	-.8	-.3	2.8	4.9
Real exports	8.9	8.6	8.0	2.6	2.8	3.9
September Greenbook	8.9	9.1	4.0	7.2	5.6	5.1

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

Real imports of goods and services declined an estimated 1 percent at an annual rate in the third quarter, dragged down by the weak U.S. economy. They are projected to grow only weakly through next year before picking up as U.S. growth recovers. Relative to the last Greenbook, our estimate of real import growth in the third quarter is about unchanged: Hurricane-related disruptions in the Gulf of Mexico lowered our estimate of September oil imports, but this revision was offset by stronger-than-expected total imports in July and August. Looking ahead, the lower projected path of U.S. economic growth has led us to revise down our forecasts for import growth in 2009 and 2010.

### Alternative Simulations

Our baseline forecast has U.S. exports growing modestly over the forecast period, underpinned by some, albeit lackluster, expansion of foreign activity, and by lagged effects of the previous depreciation of the dollar. However, it is possible that the factors supporting our current export forecast may fail to materialize, particularly if strained financial conditions undermine economic activity abroad to a greater extent than we currently project. To investigate this possibility, our first alternative simulation uses the FRB/Global model to examine the effects of a larger-than-expected deceleration in consumption and investment demand in major U.S. trading partners. While this shock generates some endogenous appreciation of the dollar, we also consider a second scenario that amplifies the magnitude of dollar appreciation by incorporating additional risk premium shocks. These risk premium shocks may be interpreted as reflecting flight to dollar-denominated assets in the context of more severe global financial strains than embedded in our baseline forecast.

Alternative Scenarios: Weaker Foreign Demand and Dollar Appreciation (Percent change from previous period, annual rate, except as noted)					
Indicator and simulation	2008	2009		2010	2011-13
	H2	H1	H2		
<i>U.S. real GDP</i>					
Baseline	-1.2	-.9	.7	2.3	4.7
Weaker foreign demand	-1.3	-1.2	.4	1.8	4.7
Additional dollar appreciation	-1.3	-1.3	-.1	1.2	4.8
<i>U.S. PCE prices excluding food and energy</i>					
Baseline	2.7	1.7	1.4	1.3	1.0
Weaker foreign demand	2.7	1.6	1.2	1.1	.7
Additional dollar appreciation	2.7	1.5	1.1	.9	.4
<i>U.S. federal funds rate (percent)</i>					
Baseline	1.2	.5	.5	1.0	3.4
Weaker foreign demand	1.2	.5	.5	.5	2.2
Additional dollar appreciation	1.1	.5	.5	.5	1.1
<i>U.S. trade balance (percent share of GDP)</i>					
Baseline	-3.4	-2.9	-3.0	-3.2	-4.1
Weaker foreign demand	-3.3	-2.8	-2.9	-3.3	-4.8
Additional dollar appreciation	-3.2	-2.6	-2.9	-3.6	-5.4

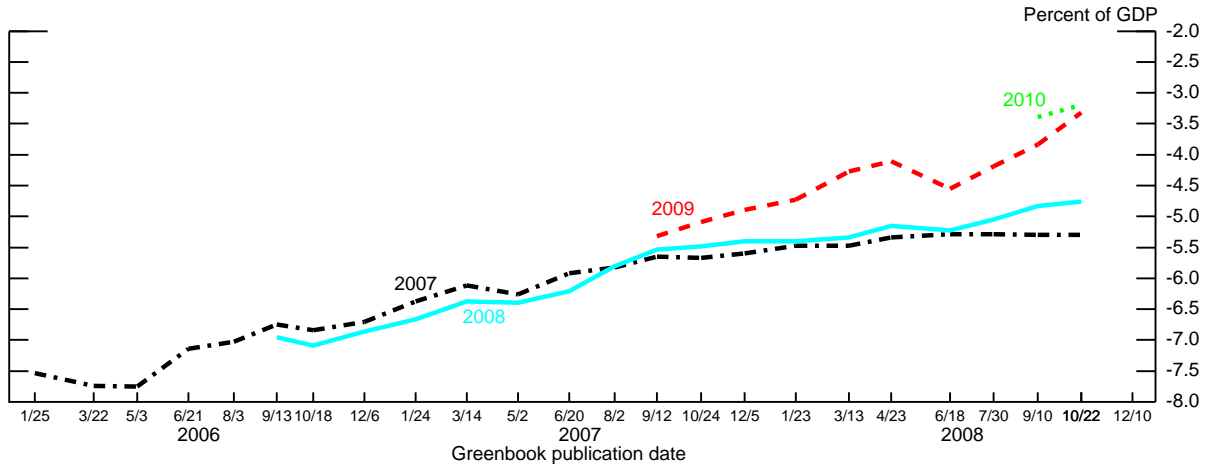
Note: H1 is Q2/Q4; H2 is Q4/Q2. The federal funds rate and the trade balance are the average rate for the final quarter of the period.

**Weaker foreign demand.** In the first scenario, the shock reduces GDP growth in all major U.S. trading partners by 1 percentage point a year relative to baseline. The shock begins in the current quarter and lasts for two years before gradually dying away. The fall in foreign activity reduces U.S. real net exports directly through lower foreign spending and indirectly through a modest appreciation of the dollar. As a result, U.S. GDP growth declines about 0.3 percentage point relative to baseline in 2009 and 0.5 percentage point in 2010. As in other simulations in the Greenbook, we assume that policymakers do not allow the federal funds rate to decline below 50 basis points, even though, unconstrained, the model would call for an even larger fall in the rate. This lower bound, which constrains the federal funds rate starting in 2009, exacerbates the decline in output. Core PCE inflation declines 0.1 percentage point below baseline in 2009 and 0.2 percentage point in 2010, because of lower import prices and the effect of

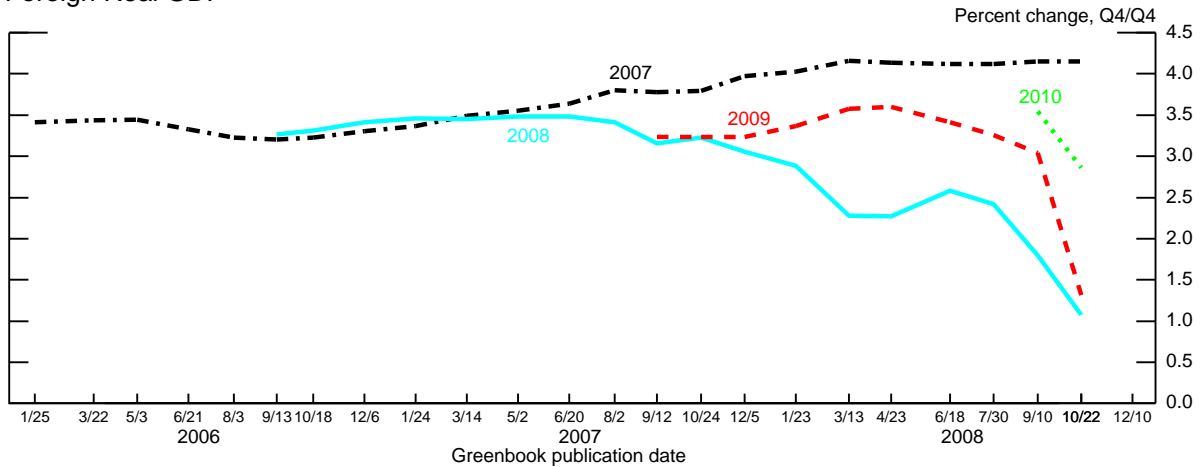
Class II FOMC -- Restricted (FR)

## Evolution of the Staff Forecast

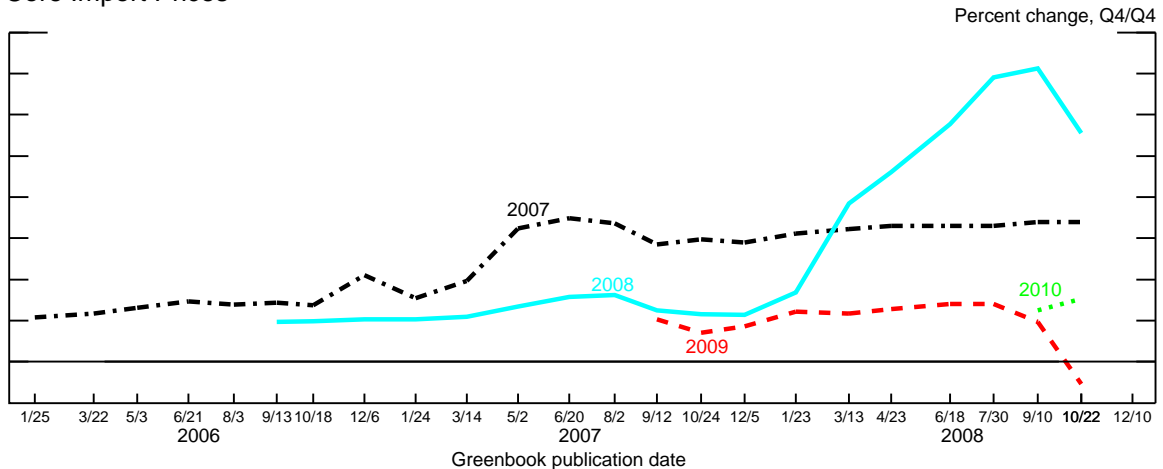
Current Account Balance



Foreign Real GDP



Core Import Prices\*



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

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

Measure and country	2008				Projected 2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
----- Quarterly changes at an annual rate -----												
REAL GDP (1)												
Total Foreign	2.3	1.1	0.5	0.5	0.7	1.0	1.6	2.0	2.5	2.8	3.0	3.2
Advanced Foreign Economies	1.0	-0.3	-0.3	-0.7	-0.4	-0.1	0.6	1.0	1.4	1.7	1.9	2.0
of which:												
Canada	-0.8	0.3	-0.3	-0.5	-0.3	-0.0	0.5	0.9	1.5	1.7	1.8	2.2
Japan	2.8	-3.0	-0.2	-0.9	0.0	0.2	0.6	0.8	1.2	1.2	1.3	1.3
United Kingdom	1.1	0.0	-0.9	-1.5	-1.0	-0.3	0.9	1.5	1.9	2.2	2.5	2.6
Euro Area (2)	2.7	-0.7	-0.3	-0.9	-0.8	-0.4	0.3	0.9	1.2	1.6	1.8	1.8
Germany	5.2	-2.0	-0.4	-1.1	-1.0	-0.4	0.4	1.0	1.2	1.6	1.8	1.9
Emerging Market Economies	4.0	3.0	1.5	2.1	2.2	2.5	2.9	3.2	3.8	4.2	4.5	4.7
Asia	8.0	3.2	2.1	3.7	3.8	4.1	4.7	5.1	5.6	5.9	6.0	6.1
Korea	3.3	3.4	0.8	1.0	1.5	2.0	2.4	3.0	3.6	3.9	4.0	4.1
China	11.7	9.9	4.3	8.9	8.1	8.1	8.4	8.6	8.9	9.1	9.1	9.1
Latin America	-0.2	2.4	0.5	0.1	0.1	0.6	0.8	1.1	1.9	2.4	2.8	3.3
Mexico	-0.5	0.6	-0.5	-0.6	-0.7	-0.1	0.1	0.4	1.4	1.9	2.5	3.0
Brazil	3.4	6.5	3.5	2.0	2.5	2.5	2.5	2.5	3.1	3.4	3.6	3.9
----- Four-quarter changes -----												
CONSUMER PRICES (3)												
Total Foreign	4.1	4.7	4.8	4.0	3.3	2.5	1.9	2.1	2.1	2.1	2.1	2.1
Advanced Foreign Economies	2.2	2.7	3.4	2.7	2.3	1.6	1.0	1.3	1.3	1.3	1.3	1.3
of which:												
Canada	1.8	2.3	3.3	2.7	2.6	1.5	0.7	1.1	1.2	1.4	1.4	1.5
Japan	1.0	1.4	2.1	1.7	1.3	0.8	-0.1	0.0	0.1	0.1	0.1	0.1
United Kingdom (4)	2.4	3.4	4.8	4.7	4.3	3.4	2.3	2.1	1.9	1.9	1.9	1.8
Euro Area (2)	3.4	3.6	3.8	2.8	2.2	1.8	1.6	1.9	1.9	1.9	1.8	1.7
Germany	3.1	3.0	3.3	2.2	1.8	1.6	1.3	1.4	1.4	1.4	1.4	1.4
Emerging Market Economies	5.9	6.7	6.1	5.3	4.3	3.3	2.8	2.9	2.9	2.9	2.9	2.9
Asia	6.5	7.1	6.0	4.8	3.5	2.5	2.3	2.6	2.6	2.6	2.7	2.7
Korea	3.8	4.8	5.5	5.0	4.7	3.2	2.5	2.2	2.1	2.1	2.1	2.1
China	8.0	7.8	5.2	3.8	2.1	1.6	2.0	2.5	2.6	2.7	2.7	2.8
Latin America	4.5	5.5	6.1	6.0	5.6	4.7	3.8	3.6	3.5	3.5	3.4	3.4
Mexico	3.9	4.9	5.5	5.4	5.1	4.2	3.3	3.1	3.0	3.0	2.9	2.9
Brazil	4.6	5.5	6.3	6.2	5.8	5.2	4.7	4.9	4.8	4.8	4.7	4.6

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



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

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

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2002	2003	2004	2005	2006	2007	----- 2008	Projected 2009	----- 2010
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-0.9	-0.1	-0.9	-0.1	0.4	0.8	1.3	0.2	-0.2
Exports of G&S	0.4	0.6	0.7	0.7	1.1	1.0	0.9	0.4	0.5
Imports of G&S	-1.3	-0.7	-1.7	-0.8	-0.6	-0.2	0.4	-0.1	-0.7
	Percentage change, Q4/Q4								
Exports of G&S	3.8	5.8	7.4	7.0	10.1	8.9	6.9	2.8	3.9
Services	10.2	3.0	8.3	4.0	11.5	9.3	3.6	-0.7	3.9
Computers	-1.1	11.3	5.8	14.2	8.1	0.9	21.0	9.5	9.5
Semiconductors	10.1	38.3	-6.0	17.6	2.9	29.3	6.1	11.0	11.0
Core Goods 1/	0.6	4.9	8.0	7.4	10.0	8.2	8.1	3.8	3.5
Imports of G&S	9.7	4.8	11.5	4.8	3.8	1.1	-2.4	0.9	4.3
Services	8.8	2.2	9.3	-0.1	8.0	1.8	0.9	1.8	2.6
Oil	3.8	1.2	10.8	1.0	-9.2	0.6	-6.7	-5.5	3.2
Natural Gas	19.5	1.3	4.9	13.7	-12.6	12.1	-20.1	7.3	0.8
Computers	13.2	17.0	23.2	12.5	13.8	8.4	10.4	15.5	15.5
Semiconductors	11.0	-0.1	9.8	7.5	-0.3	3.8	4.1	5.0	5.0
Core Goods 2/	10.0	5.2	11.4	5.9	5.7	0.1	-2.2	0.8	4.2
	Billions of Chained 2000 Dollars								
Net Goods & Services	-471.3	-518.9	-593.8	-616.6	-615.7	-546.5	-381.1	-306.6	-319.4
Exports of G&S	1013.3	1026.1	1126.1	1205.3	1314.8	1425.9	1551.3	1614.9	1666.7
Imports of G&S	1484.6	1545.0	1719.9	1821.9	1930.5	1972.4	1932.3	1921.6	1986.1
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-461.3	-523.4	-625.0	-729.0	-788.1	-731.2	-682.5	-485.1	-479.9
Current Acct as Percent of GDP	-4.4	-4.8	-5.3	-5.9	-6.0	-5.3	-4.8	-3.3	-3.2
Net Goods & Services (BOP)	-423.7	-496.9	-607.7	-711.6	-753.3	-700.3	-660.4	-434.2	-476.2
Investment Income, Net	33.0	51.0	73.4	78.8	63.8	88.8	106.5	74.3	119.6
Direct, Net	102.4	112.7	150.9	173.2	184.1	233.9	249.9	204.4	230.5
Portfolio, Net	-69.4	-61.7	-77.5	-94.4	-120.3	-145.1	-143.4	-130.0	-110.9
Other Income & Transfers, Net	-70.5	-77.5	-90.6	-96.2	-98.6	-119.7	-128.6	-125.3	-123.3

1. Merchandise exports excluding computers and semiconductors.

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

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2005				2006				2007			
	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	0.3	0.8	-0.1	-1.3	0.1	0.6	-0.1	1.3	-1.2	1.7	2.0	0.9
Exports of G&S	0.8	0.9	0.0	1.1	1.7	0.6	0.4	1.7	0.1	1.0	2.5	0.5
Imports of G&S	-0.5	-0.1	-0.1	-2.4	-1.6	0.0	-0.5	-0.3	-1.2	0.7	-0.5	0.4
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	8.1	8.8	0.4	10.9	16.7	5.5	3.5	15.6	0.6	8.8	23.0	4.4
Services	10.2	-2.8	3.2	5.7	13.4	2.7	3.2	28.6	-2.7	13.3	25.9	2.7
Computers	16.8	27.9	8.3	5.2	12.0	17.5	-7.9	12.7	3.9	-4.0	14.4	-9.2
Semiconductors	-5.2	11.7	30.7	38.0	20.3	16.1	-5.6	-15.0	15.9	23.7	20.5	61.7
Core Goods 1/	7.3	13.8	-2.9	12.4	18.3	5.6	4.8	11.8	1.3	6.6	22.1	3.7
Imports of G&S	3.2	0.6	0.8	15.3	10.3	0.1	3.1	2.0	7.7	-3.7	3.0	-2.3
Services	-5.7	-0.0	-1.0	6.8	17.7	-2.0	-0.3	18.4	4.2	-2.0	6.3	-0.9
Oil	5.1	-27.1	-11.6	53.6	-2.8	-27.1	7.5	-10.6	30.9	-22.3	-13.5	16.5
Natural Gas	58.6	-14.1	111.1	-41.9	-50.7	91.9	26.6	-51.2	70.8	74.2	28.2	-58.6
Computers	3.2	11.6	20.4	15.4	20.7	21.1	19.7	-4.3	34.9	-6.5	-0.2	9.7
Semiconductors	-9.2	7.7	14.0	20.0	0.2	-0.5	17.7	-15.8	1.2	6.7	1.0	6.4
Core Goods 2/	4.8	6.1	0.3	12.7	13.7	4.9	1.2	3.2	2.2	-1.1	5.8	-6.0
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-623.7	-601.3	-603.6	-637.8	-636.0	-619.4	-623.0	-584.2	-618.6	-571.2	-511.8	-484.5
Exports of G&S	1177.9	1203.1	1204.3	1235.7	1284.3	1301.4	1312.6	1361.1	1363.2	1392.2	1466.2	1482.1
Imports of G&S	1801.7	1804.4	1807.9	1873.6	1920.2	1920.9	1935.7	1945.3	1981.8	1963.4	1978.0	1966.5
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-696.2	-711.3	-675.6	-832.9	-783.8	-799.6	-843.6	-725.4	-787.7	-776.4	-691.8	-669.0
Current Account as % of GDP	-5.7	-5.8	-5.4	-6.6	-6.0	-6.1	-6.4	-5.4	-5.8	-5.7	-5.0	-4.8
Net Goods & Services (BOP)	-664.0	-682.9	-721.4	-778.0	-756.4	-767.4	-789.9	-699.5	-718.2	-715.3	-672.5	-695.1
Investment Income, Net	88.6	77.8	88.7	59.9	65.2	70.7	51.7	67.7	57.8	45.8	98.9	152.6
Direct, Net	170.2	168.5	187.8	166.3	177.2	189.2	171.9	198.2	201.1	196.2	238.8	299.3
Portfolio, Net	-81.6	-90.7	-99.0	-106.5	-112.0	-118.5	-120.3	-130.5	-143.2	-150.4	-139.9	-146.7
Other Inc. & Transfers, Net	-120.9	-106.2	-42.9	-114.8	-92.6	-103.0	-105.4	-93.6	-127.4	-106.9	-118.3	-126.4

1. Merchandise exports excluding computers and semiconductors.

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

October 22, 2008

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2008				2009				2010			
	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	2.9	1.2	0.4	0.6	0.5	0.2	-0.3	-0.7	0.4	0.0	-0.5
Exports of G&S	0.6	1.5	1.0	0.4	0.6	0.3	0.3	0.4	0.4	0.5	0.6	0.7
Imports of G&S	0.1	1.4	0.2	0.1	0.0	0.2	-0.2	-0.7	-1.1	-0.1	-0.6	-1.1
Percentage change from previous period, s.a.a.r.												
Exports of G&S	5.1	12.3	8.0	2.6	4.5	1.8	2.3	2.7	3.2	3.7	4.1	4.7
Services	5.5	-8.0	9.3	-2.4	2.2	2.6	1.6	0.8	5.5	-1.7	3.0	3.7
Oil	17.6	-38.1	-3.0	7.3	-2.8	-19.9	-12.1	16.6	23.0	-18.3	-8.5	5.3
Natural Gas	-40.5	3.7	-46.4	23.3	16.0	27.5	41.6	-36.7	23.0	18.1	38.5	23.4
Computers	6.3	26.0	-3.9	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5
Semiconductors	-3.3	14.4	1.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Core Goods 1/	4.7	16.1	7.5	4.5	7.2	2.7	2.7	2.8	3.1	3.3	3.4	4.0
Imports of G&S	-0.8	-7.3	-1.0	-0.3	-0.0	-1.3	0.9	4.1	6.7	0.4	3.3	6.9
Services	5.5	-8.0	9.3	-2.4	2.2	2.6	1.6	0.8	5.5	-1.7	3.0	3.7
Oil	17.6	-38.1	-3.0	7.3	-2.8	-19.9	-12.1	16.6	23.0	-18.3	-8.5	5.3
Natural Gas	-40.5	3.7	-46.4	23.3	16.0	27.5	41.6	-36.7	23.0	18.1	38.5	23.4
Computers	6.3	26.0	-3.9	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5
Semiconductors	-3.3	14.4	1.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Core Goods 2/	-6.4	2.4	-1.5	-3.3	-1.3	0.1	1.8	2.7	3.4	4.0	4.5	5.0
Billions of Chained 2000 Dollars, s.a.a.r.												
Net Goods & Services	-462.0	-381.3	-346.3	-334.6	-317.1	-303.4	-298.8	-307.3	-326.1	-313.1	-312.3	-326.2
Exports of G&S	1500.6	1544.7	1574.9	1584.8	1602.3	1609.6	1618.6	1629.3	1642.3	1657.2	1674.0	1693.3
Imports of G&S	1962.6	1926.0	1921.1	1919.5	1919.4	1913.0	1917.4	1936.6	1968.4	1970.3	1986.3	2019.5
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-702.6	-732.6	-728.6	-566.3	-520.5	-479.2	-466.3	-474.4	-495.5	-472.1	-466.8	-485.2
Current Account as % of GDP	-5.0	-5.1	-5.1	-3.9	-3.6	-3.3	-3.2	-3.2	-3.3	-3.2	-3.1	-3.2
Net Goods & Services (BOP)	-708.4	-722.2	-712.0	-498.9	-441.4	-425.9	-425.1	-444.3	-477.3	-464.7	-469.2	-493.5
Investment Income, Net	140.0	116.5	104.3	65.1	54.3	69.2	81.4	92.5	104.4	115.2	125.0	133.9
Direct, Net	281.0	255.4	252.9	210.2	197.1	201.7	205.9	212.8	220.3	228.0	234.4	239.4
Portfolio, Net	-141.0	-138.9	-148.6	-145.1	-142.8	-132.4	-124.5	-120.3	-115.9	-112.8	-109.5	-105.5
Other Inc. & Transfers, Net	-134.2	-126.9	-121.0	-132.6	-133.4	-122.6	-122.6	-122.6	-122.6	-122.6	-122.6	-125.6

1. Merchandise exports excluding computers and semiconductors.

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

## **Part 2**

October 22, 2008

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

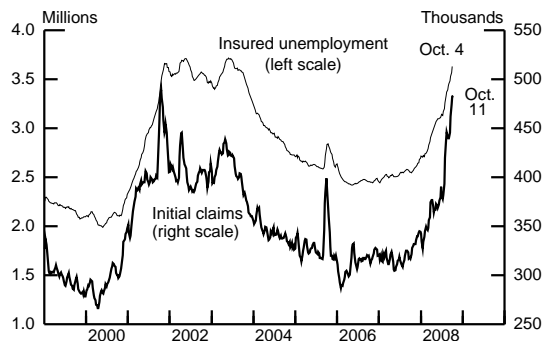
October 22, 2008

## **Recent Developments**

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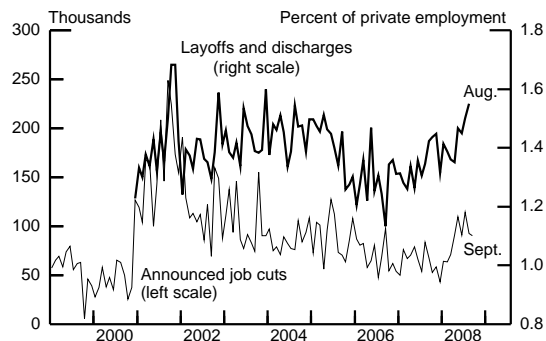
## Labor Market Indicators

### Unemployment Insurance



Note: 4-week moving averages.  
Source: U.S. Dept. of Labor, Employment and Training Administration.

### Layoffs and Job Cuts



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

### Job Openings



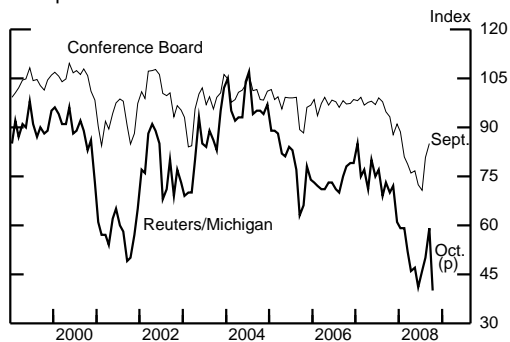
Source: For job openings, Job Openings and Labor Turnover Survey; for Help Wanted Index, Conference Board and staff calculations.

### Job Availability and Hard-to-Fill Positions



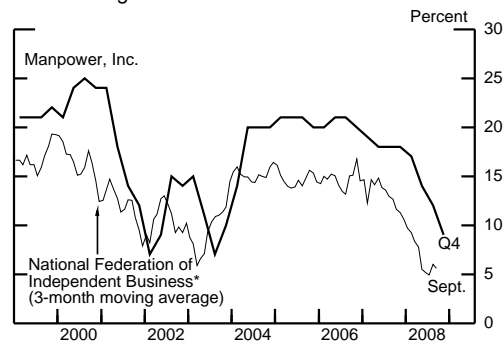
\*Proportion of households believing jobs are plentiful, minus the proportion believing jobs are hard to get, plus 100.  
\*\*Percent of small businesses surveyed with at least one "hard-to-fill" job opening. Seasonally adjusted by FRB staff.  
Source: For job availability, Conference Board; for hard-to-fill, National Federation of Independent Business.

### Expected Labor Market Conditions



Note: The proportion of households expecting labor market conditions to improve, minus the proportion expecting conditions to worsen, plus 100.  
p Preliminary.  
Source: Conference Board; Reuters/University of Michigan Survey.

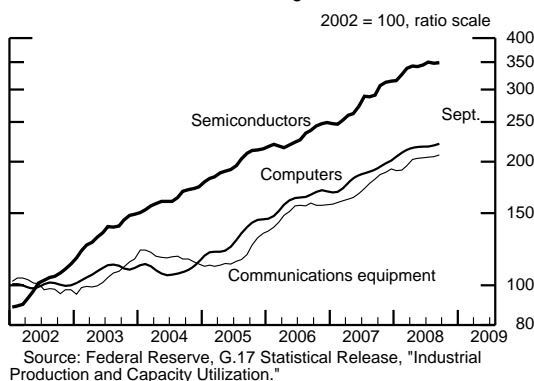
### Net Hiring Plans



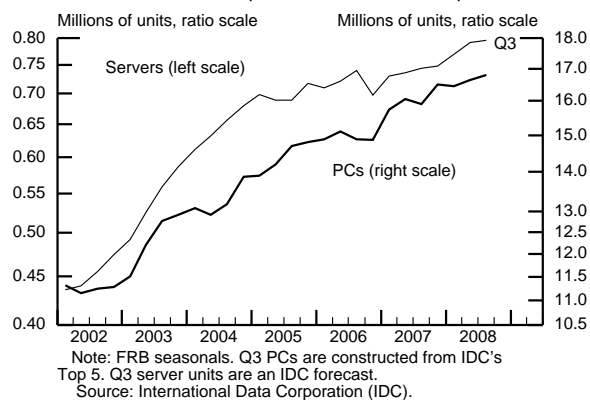
Note: Percent planning an increase in employment minus percent planning a reduction.  
\*Seasonally adjusted by FRB staff.  
Source: National Federation of Independent Business; Manpower, Inc.

## Indicators of High-Tech Manufacturing Activity

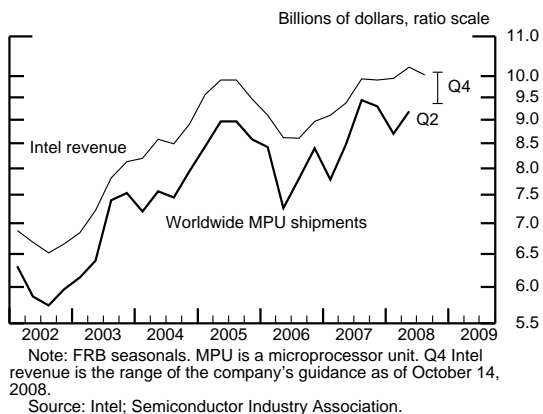
Industrial Production in the High-Tech Sector



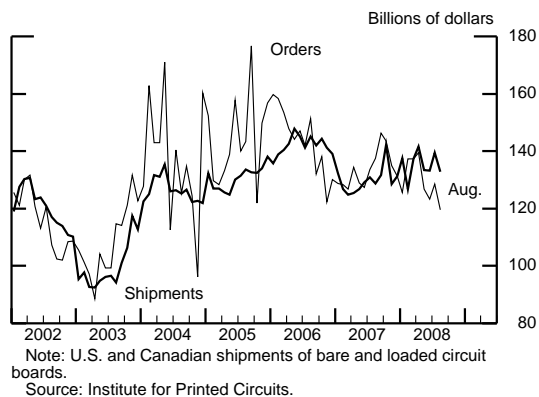
U.S. Personal Computer and Server Absorption



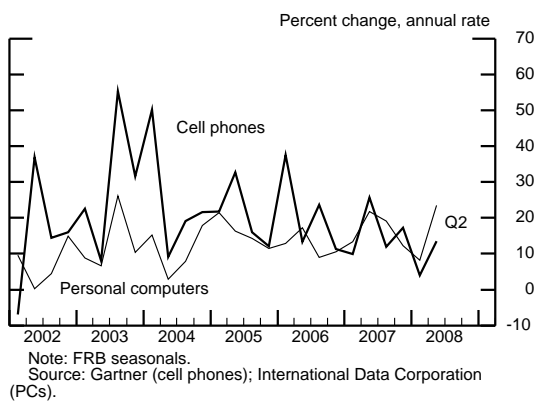
MPU Shipments and Intel Revenue



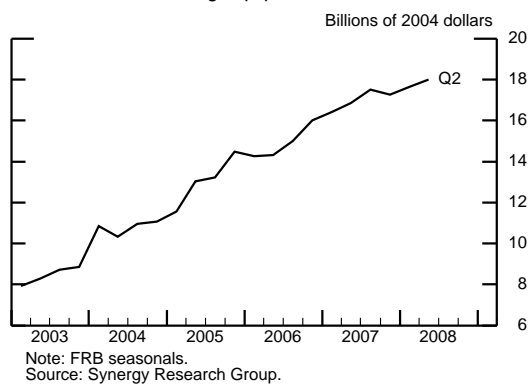
Circuit Board Orders and Shipments



Worldwide Unit Absorption of Personal Computers and of Cell Phones



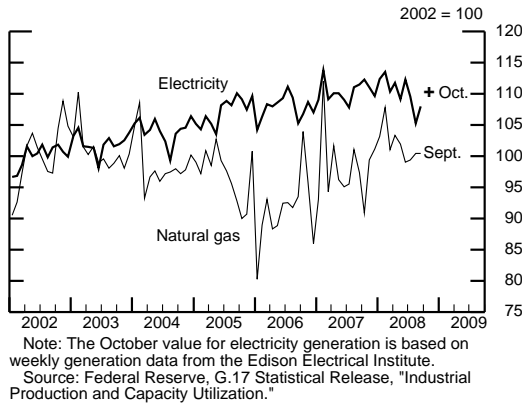
Enterprise Spending on Voice and Data Networking Equipment



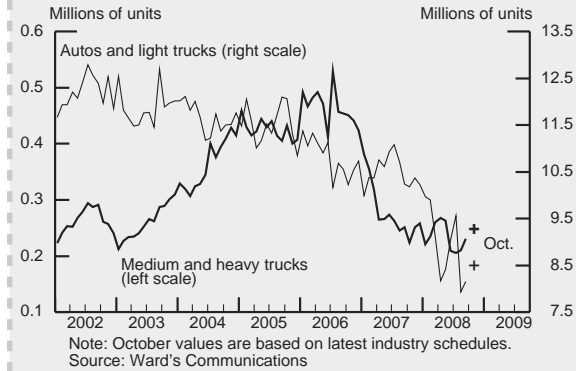


## Indicators of Industrial Activity

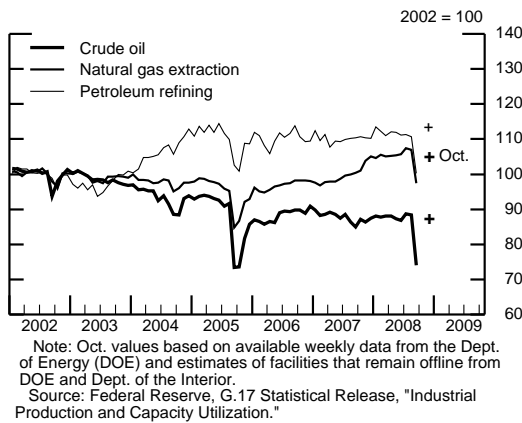
Utilities Output



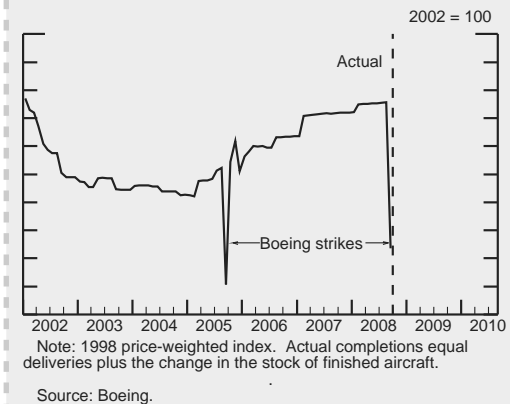
Motor Vehicle Assemblies



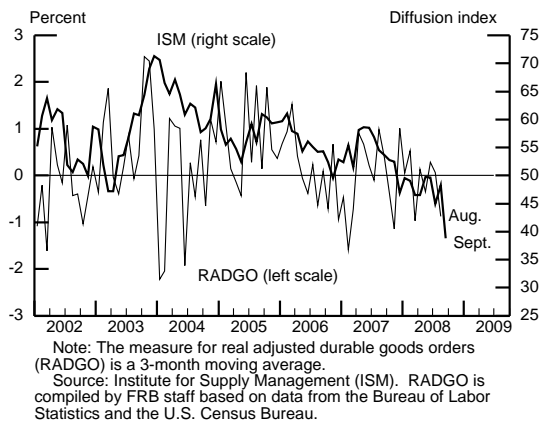
Energy Industrial Production



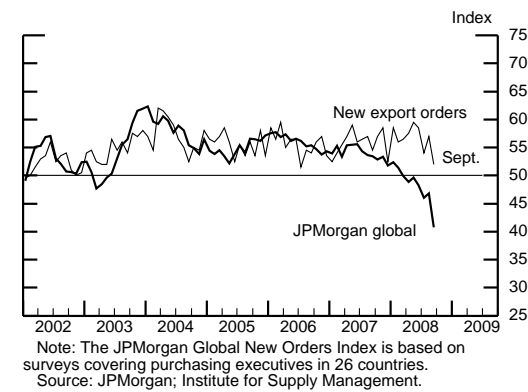
Boeing Commercial Aircraft Completions:  
Actual



ISM New Orders Diffusion Index and  
Change in Real Adjusted Durable Goods Orders



JPMorgan Global New Orders Index and  
ISM New Export Orders Diffusion Index



Content partially redacted.

Content partially redacted.

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

Category	2007	2008					
		Q1	Q2	Q3	July	Aug.	Sept.
Total	16.1	15.2	14.1	12.9	12.5	13.7	12.5
Autos	7.6	7.4	7.6	6.6	6.9	6.8	6.2
Light trucks	8.5	7.8	6.5	6.3	5.6	6.9	6.3
North American <sup>1</sup>	12.3	11.5	10.4	9.7	9.1	10.4	9.5
Autos	5.2	5.1	5.0	4.4	4.4	4.5	4.3
Light trucks	7.1	6.5	5.3	5.3	4.6	5.9	5.2
Foreign-produced	3.8	3.7	3.7	3.2	3.5	3.3	2.9
Autos	2.4	2.4	2.6	2.2	2.5	2.3	1.9
Light trucks	1.4	1.3	1.1	1.0	1.0	1.0	1.0
Memo: Detroit Three domestic market share (percent) <sup>2</sup>	51.3	50.2	45.9	46.7	42.4	45.9	51.9

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

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

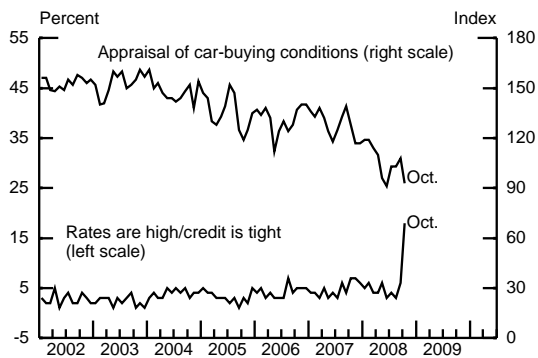
2. Domestic market share excludes sales of foreign brands affiliated with the Detroit Three.

Source: Ward's Communications. Adjusted using FRB seasonals.

Content redacted.

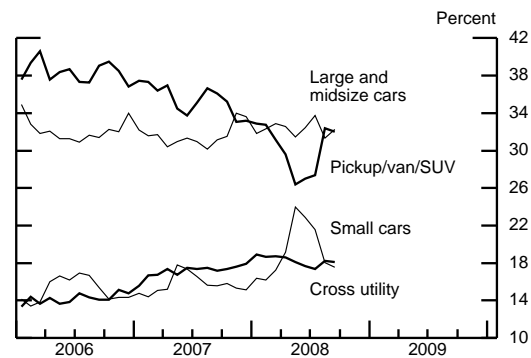
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**Car-Buying Attitudes**



Source: Reuters/University of Michigan Survey.

**Domestic Market Share of Light Vehicles**



Note: Data through September.  
Source: Ward's Communications. Adjusted using FRB seasonals.

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

Item	2008							
	Q1	Q2	Q3	Q4	June	July	Aug.	Sept.
U.S. production <sup>1</sup>	9.7	8.5	8.5	8.6	9.0	9.6	7.9	8.2
Autos	3.9	3.6	4.3	4.1	3.7	4.7	4.1	4.0
Light trucks	5.7	4.9	4.3	4.5	5.3	4.9	3.8	4.1
Days' supply <sup>2</sup>	66	72	77	n.a.	75	88	71	78
Autos	52	48	67	n.a.	49	59	60	68
Light trucks	77	94	85	n.a.	99	115	79	86
Inventories <sup>3</sup>	2.48	2.41	2.41	n.a.	2.41	2.58	2.40	2.41
Autos	.86	.78	.96	n.a.	.78	.85	.88	.96
Light trucks	1.63	1.63	1.45	n.a.	1.63	1.73	1.52	1.45
Memo: U.S. production, total motor vehicles <sup>4</sup>	9.9	8.8	8.8	8.8	9.2	9.8	8.1	8.4

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

1. Production rates for the third and fourth quarters reflect the latest industry schedules.

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

3. End-of-period stocks.

4. Includes medium and heavy trucks.

n.a. Not available.

Source: Ward's Communications

**Inventories of Light Vehicles**



Source: Ward's Communications. Adjusted using FRB seasonals.

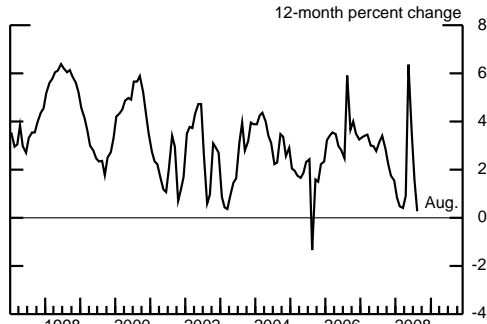
**Days' Supply of Light Vehicles**



Source: Constructed from Ward's Communications data. Adjusted using FRB seasonals.

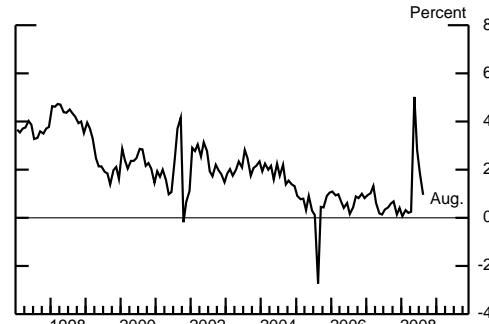
## Fundamentals of Household Spending

Change in Real Disposable Personal Income



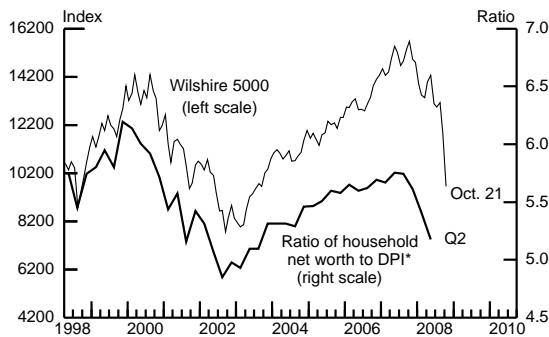
Note: Values for December 2004 and December 2005 exclude the effect on income of the one-time Microsoft dividend in December 2004.  
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Personal Saving Rate



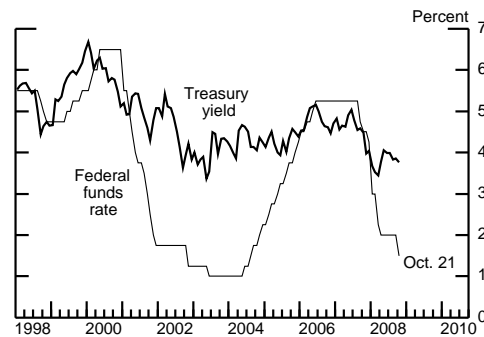
Note: The value for December 2004 excludes the effect on income of the one-time Microsoft dividend in that month.  
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Household Net Worth and Wilshire 5000



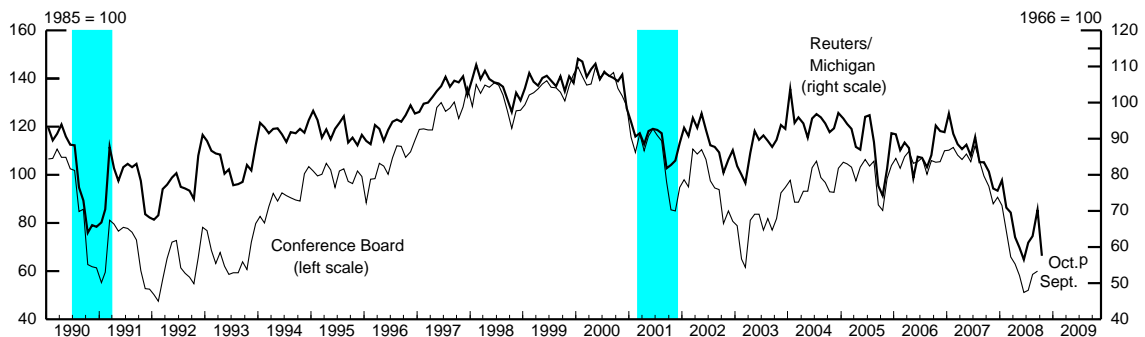
\*The value for 2004:Q4 disposable personal income (DPI) excludes the effect on income of the one-time Microsoft dividend in December 2004.  
Source: Federal Reserve Board; U.S. Department of Commerce, Bureau of Economic Analysis; *Wall Street Journal*.

Target Federal Funds Rate and 10-Year Treasury Yield



Source: Federal Reserve Board.

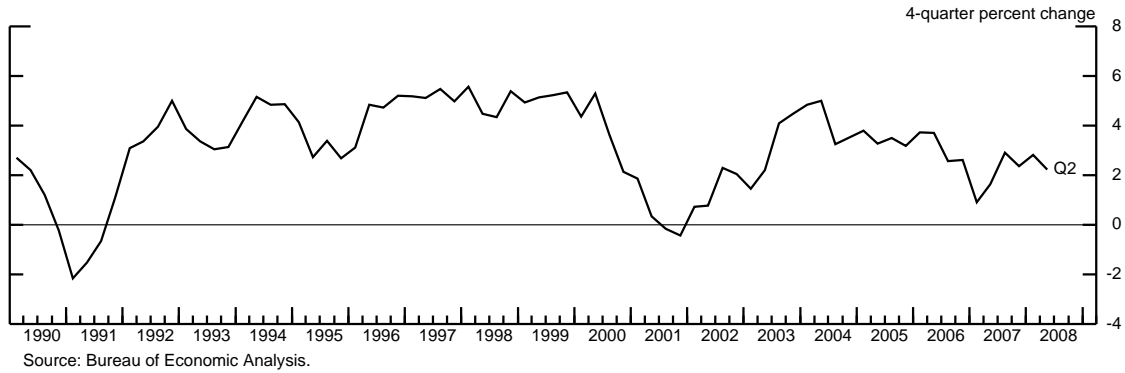
Consumer Confidence



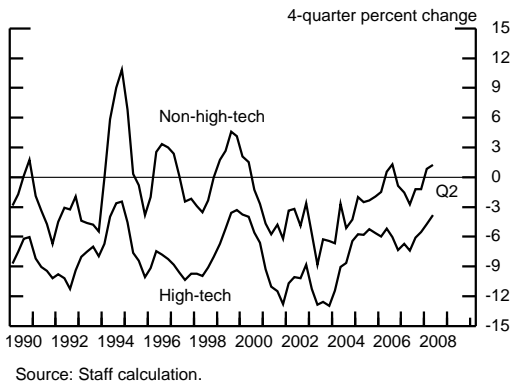
Note: Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research.  
Source: Reuters/University of Michigan Surveys of Consumers; Conference Board.  
p Preliminary.

## Fundamentals of Equipment and Software Investment

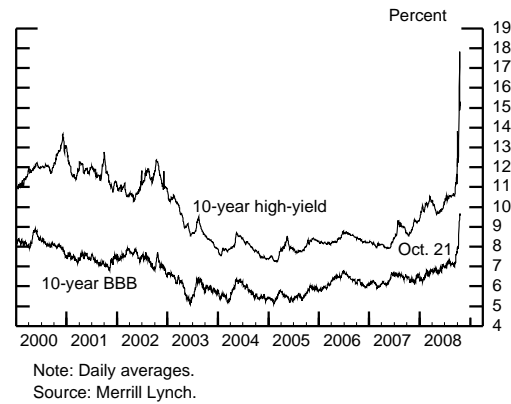
Real Business Output



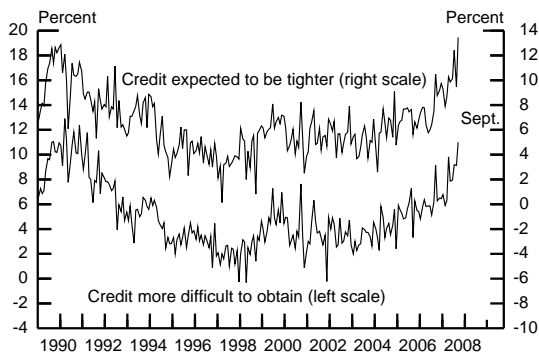
User Cost of Capital



Corporate Bond Yields

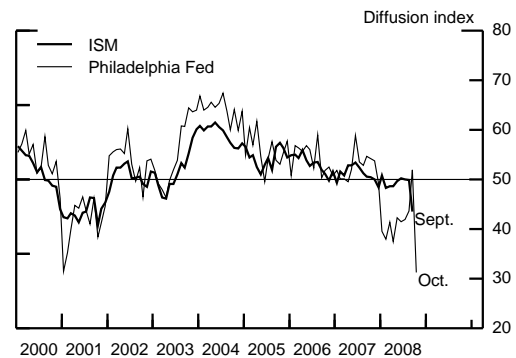


NFIB: Survey on Loan Availability

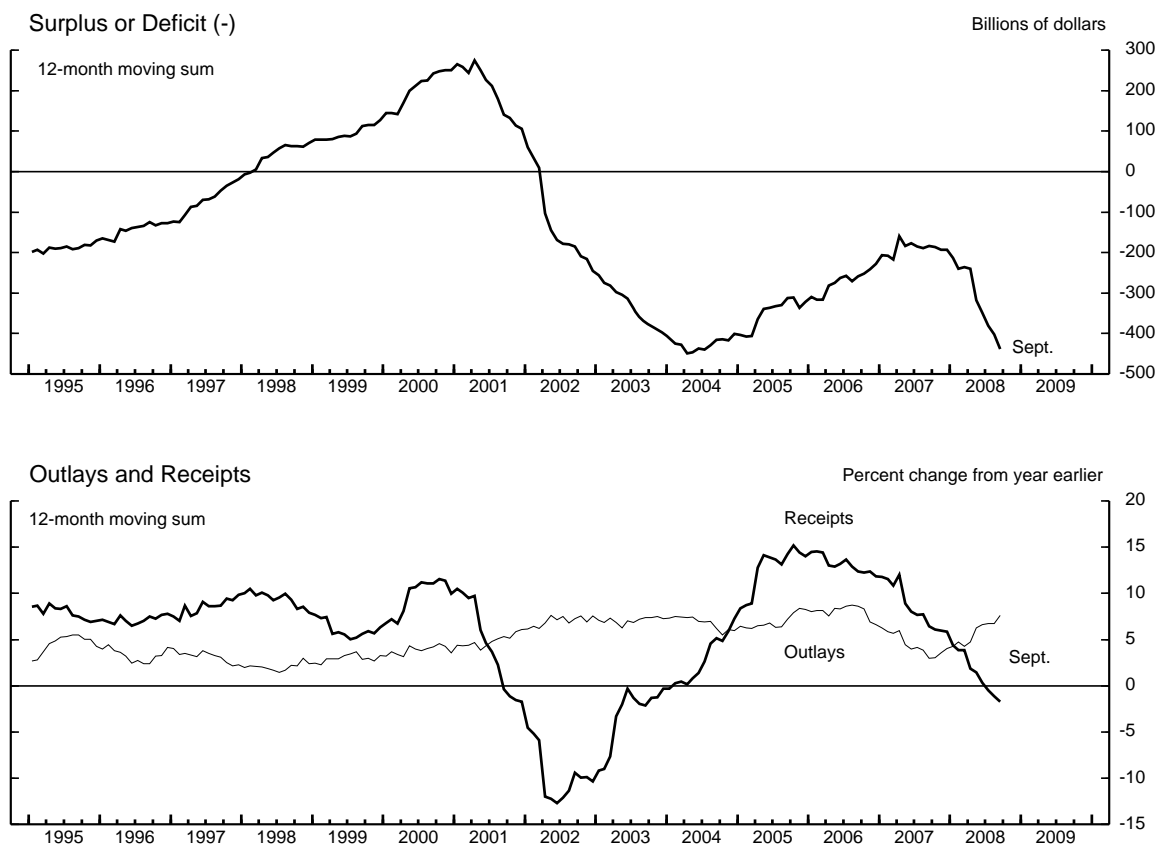


Note: Of borrowers who sought credit in the past three months, the proportion that reported (expected) more difficulty in obtaining credit less the proportion that reported (expected) more ease in obtaining credit. Seasonally adjusted.  
Source: National Federation of Independent Business.

Surveys of Business Conditions



**Federal Government Budget**  
(Unified basis; adjusted for payment-timing shifts and financial transactions; data from Monthly Treasury Statement)



**Recent Federal Outlays and Receipts**

(Billions of dollars except as noted)

Function or source	July-September			12 months ending in September		
	2007	2008	Percent change	2007	2008	Percent change
<b>Outlays</b>	682.9	739.9	8.3	2,751.8	2,961.8	7.6
Net interest	60.6	63.9	5.5	237.9	248.9	4.6
National defense	145.0	165.9	14.4	561.5	624.5	11.2
Major transfers <sup>1</sup>	367.9	399.9	8.7	1,521.6	1,642.0	7.9
Other	109.5	110.2	.7	430.7	446.4	3.6
<b>Receipts</b>	622.3	590.0	-5.2	2,567.7	2,523.9	-1.7
Individual income and payroll taxes	474.9	468.7	-1.3	1,987.5	1,996.5	.5
Corporate income taxes	90.7	67.8	-25.2	370.2	304.3	-17.8
Other	56.7	53.4	-5.8	209.9	223.0	6.2
<b>Surplus or deficit (-)</b>	-60.6	-150.0	...	-184.2	-437.9	...
<b>Memo:</b>						
Unadjusted surplus or deficit (-)	-40.6	-169.0	...	-161.5	-454.8	...

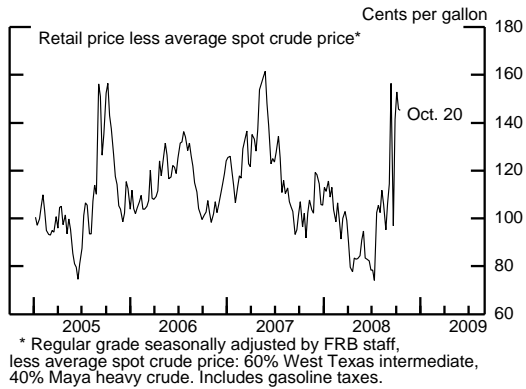
1. Includes Social Security, Medicare, Medicaid, and income security programs.

... Not applicable.

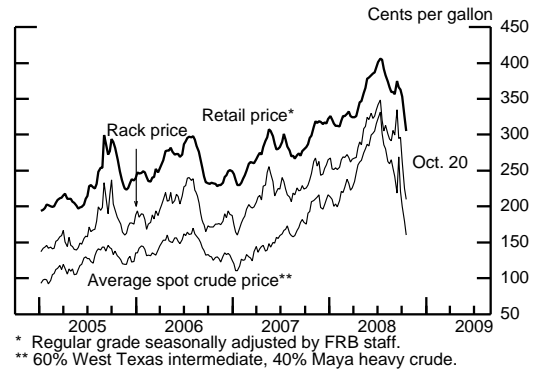
## Energy and Food Price Indicators

(Data from Energy Information Administration except as noted)

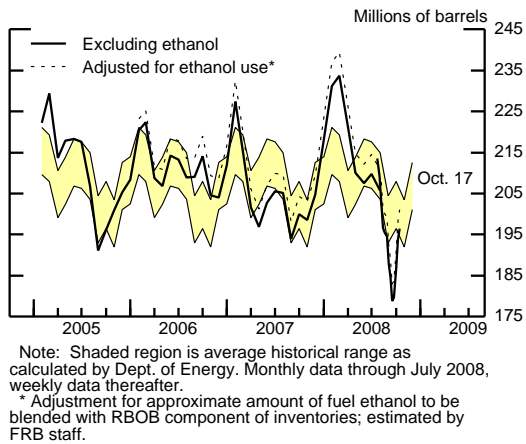
Total Gasoline Margin



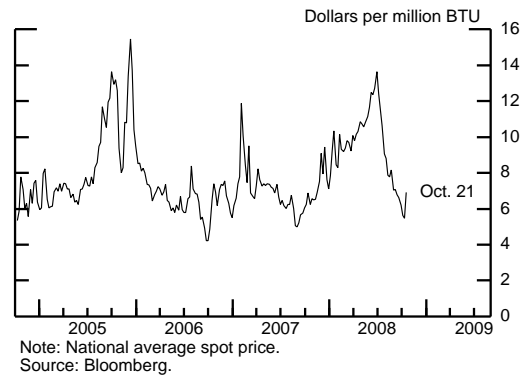
Gasoline Price Decomposition



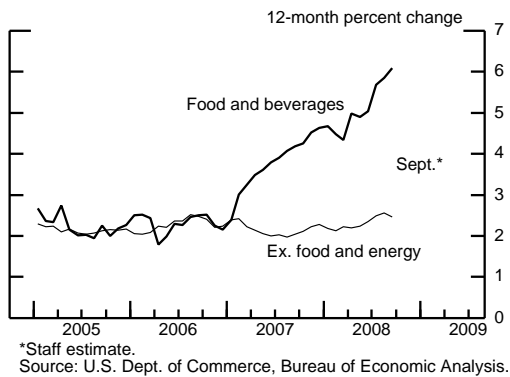
Gasoline Inventories



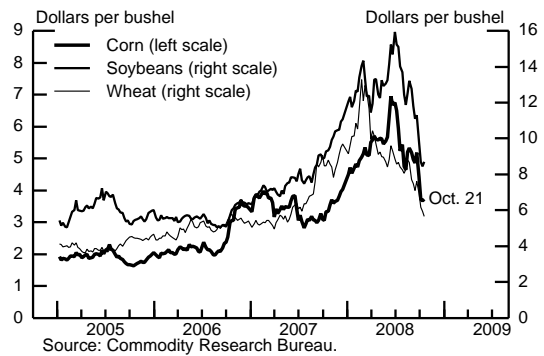
Natural Gas Prices



PCE Food Prices



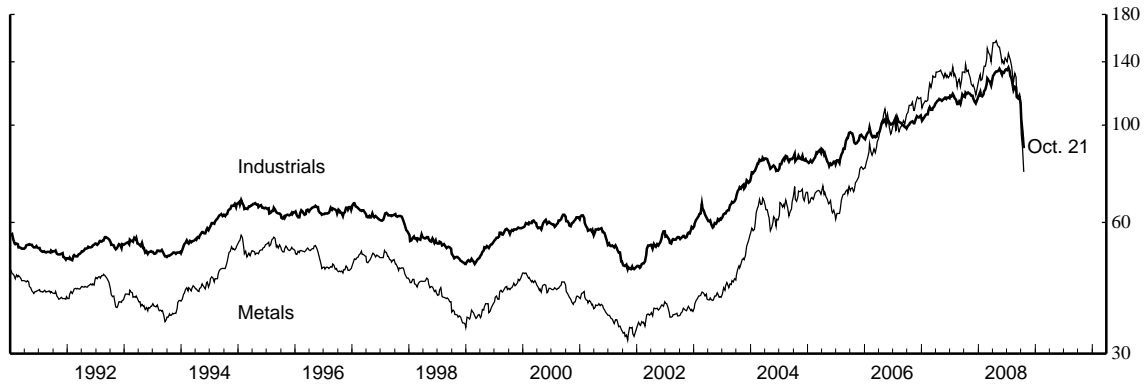
Spot Agricultural Commodity Prices



## Commodity Price Indexes

Journal of Commerce

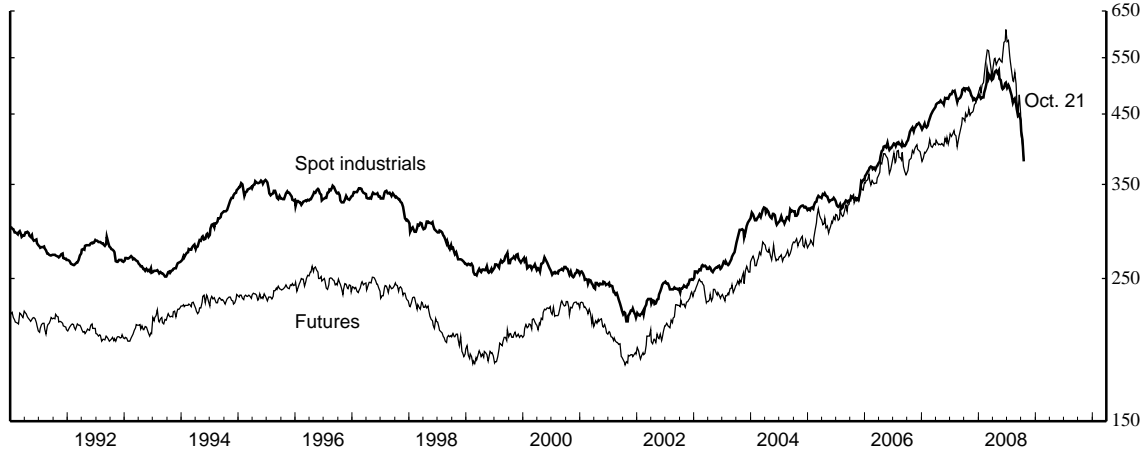
Ratio scale, 2006 = 100



Note: The *Journal of Commerce* (JOC) industrial price index is based almost entirely on industrial commodities, with a small weight given to energy commodities. Copyright for *Journal of Commerce* (JOC) data is held by CIBCR, 1994.

Commodity Research Bureau

Ratio scale, 1967 = 100



Note: The Commodity Research Bureau (CRB) spot industrials index consists entirely of industrial commodities, excluding energy. The CRB futures index gives about a 60 percent weight to food commodities and splits the remaining weight roughly equally among energy commodities, industrial commodities, and precious metals.

### Selected Commodity Price Indexes (Percent change)

Index	2007 <sup>1</sup>	12/18/07 to 9/9/08 <sup>2</sup>	9/9/08 <sup>2</sup> to 10/21/08	52-week change to 10/21/08
JOC industrials	7.6	3.5	-23.6	-24.8
JOC metals	2.1	-1.1	-32.7	-41.2
CRB spot industrials	8.2	-2.9	-17.1	-22.9
CRB spot foodstuffs	25.5	13.9	-15.5	1.8
CRB futures	18.2	1.5	-19.3	-14.2

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

2. September 9, 2008, is the Tuesday preceding publication of the September Greenbook.



**Broad Measures of Inflation**

(Percent change, Q2 to Q2)

Measure	2005	2006	2007	2008
<i>Product prices</i>				
GDP price index	2.9	3.5	2.8	2.0
Less food and energy	3.1	3.4	2.5	1.9
Nonfarm business chain price index	3.1	3.6	2.1	1.5
<i>Expenditure prices</i>				
Gross domestic purchases price index	3.3	3.9	2.6	3.5
Less food and energy	3.0	3.2	2.4	2.2
PCE price index	2.5	3.3	2.4	3.7
Less food and energy	2.1	2.3	2.1	2.3
PCE price index, market-based components	2.2	3.1	2.2	3.6
Less food and energy	1.7	1.9	1.8	1.9
CPI	2.9	3.9	2.6	4.3
Less food and energy	2.2	2.5	2.3	2.3
Chained CPI	2.6	3.6	2.4	3.8
Less food and energy	1.9	2.2	1.9	2.0
Median CPI	2.4	2.9	3.1	3.1
Trimmed mean CPI	2.4	2.6	2.7	3.0
Trimmed mean PCE	2.3	2.7	2.6	2.6

Source: For CPI, U.S. Dept. of Labor, Bureau of Labor Statistics; for all else, U.S. Dept. of Commerce, Bureau of Economic Analysis.

**Surveys of Inflation Expectations**

(Percent)

Period	Actual CPI inflation <sup>1</sup>	Reuters/Michigan Survey				Professional forecasters (10 years) <sup>4</sup>	
		1 year <sup>2</sup>		5 to 10 years <sup>3</sup>			
		Mean	Median	Mean	Median	CPI	PCE
2006:Q4	1.9	3.5	3.0	3.5	3.0	2.5	...
2007:Q1	2.4	3.6	3.0	3.4	2.9	2.4	2.0
Q2	2.7	4.2	3.3	3.5	3.0	2.4	2.0
Q3	2.4	4.1	3.2	3.5	3.0	2.4	2.1
Q4	4.0	4.1	3.3	3.3	2.9	2.4	2.1
2008:Q1	4.1	4.2	3.8	3.3	3.0	2.5	2.2
Q2	4.4	6.4	5.0	3.8	3.3	2.5	2.2
Q3	5.3	5.4	4.7	3.6	3.1	2.5	2.2
2008:June	5.0	6.5	5.1	4.0	3.4	...	...
July	5.6	6.3	5.1	3.5	3.2	...	...
Aug.	5.4	5.3	4.8	3.9	3.2	2.5	2.2
Sept.	4.9	4.6	4.3	3.3	3.0	...	...
Oct.	n.a.	4.6	4.5	2.9	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.

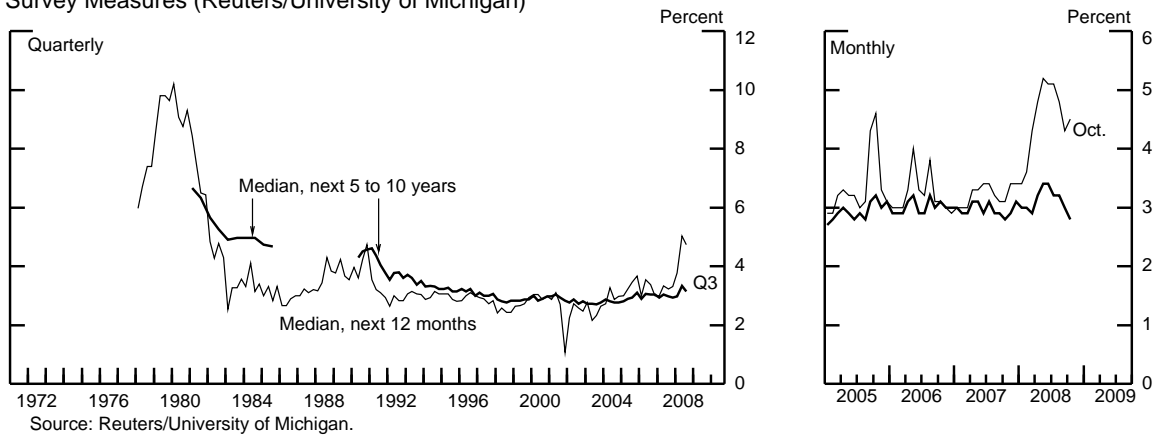
... Not applicable.

n.a. Not available.

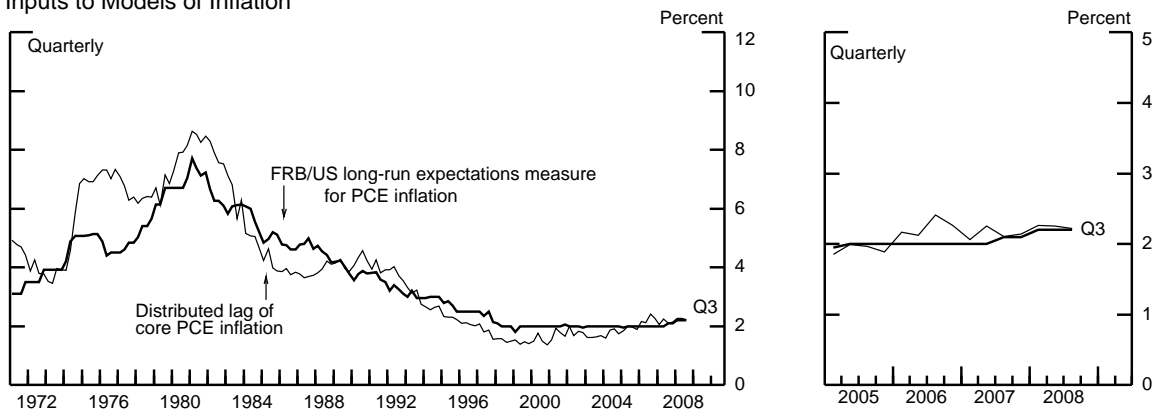
Source: For CPI, U.S. Dept. of Labor, Bureau of Labor Statistics; for Reuters/Michigan Survey, Reuters/University of Michigan; for Professional Forecasters, Federal Reserve Bank of Philadelphia.

## Measures of Expected Inflation

### Survey Measures (Reuters/University of Michigan)

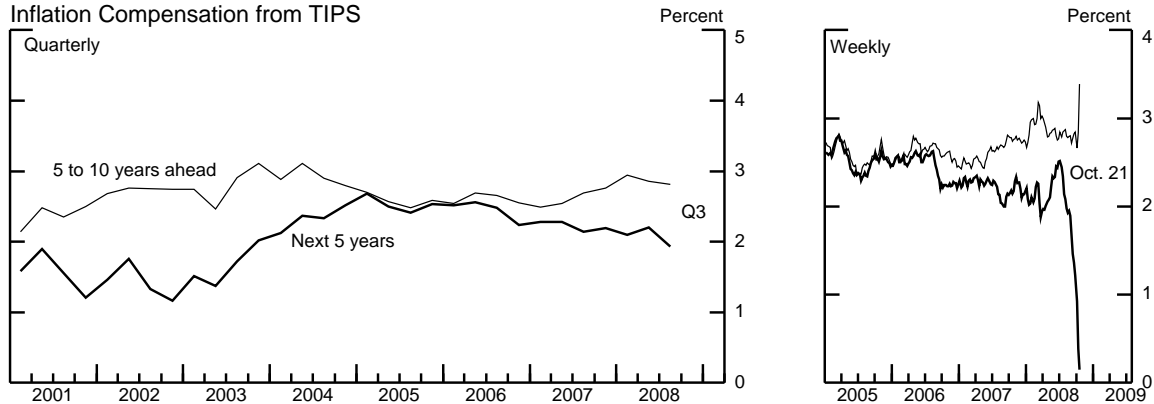


### Inputs to Models of Inflation



Note: The distributed lag of core PCE inflation is derived from one of the reduced-form Phillips curves used by Board staff.  
 Source: For the distributed lag of core PCE inflation, FRB staff calculations; for the FRB/US measure, for 2007 forward, the median projection for PCE inflation over the next 10 years from the Survey of Professional Forecasters (SPF); for 1990 to 2006, the equivalent SPF projection for the CPI; for 1981 to 1989, 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.

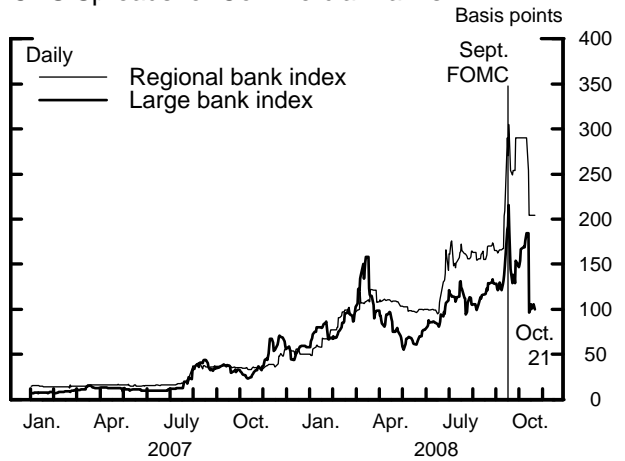
### Inflation Compensation from TIPS



Note: Based on a comparison of an estimated TIPS (Treasury inflation-protected securities) yield curve with an estimated nominal off-the-run Treasury yield curve, with an adjustment for the indexation-lag effect.  
 Source: FRB staff calculations.

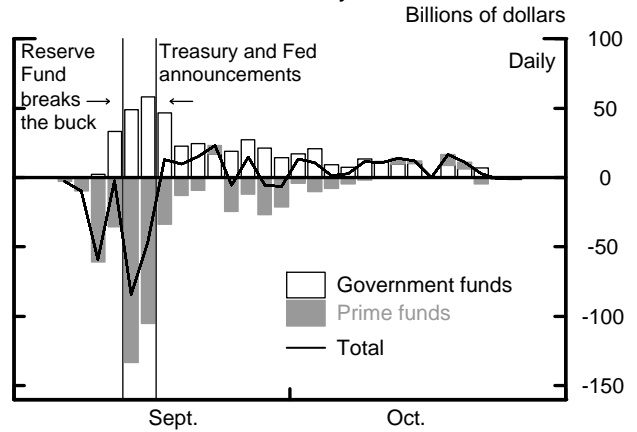
## Financial Institutions and Short-Term Funding Markets

CDS Spreads for Commercial Banks



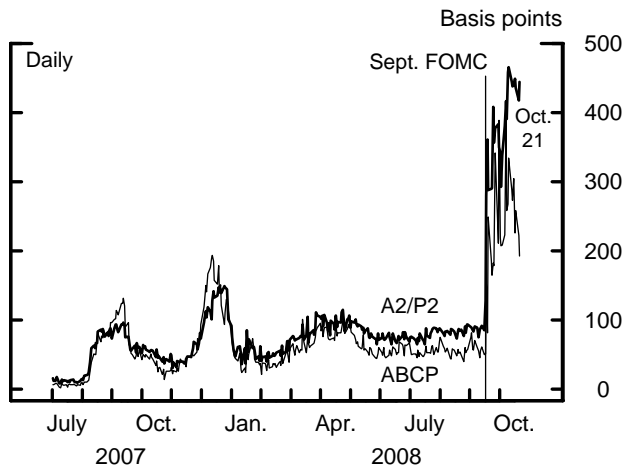
Note: Median spreads for 7 regional and 5 large commercial banks.  
Source: Markit.

Net Flows of Taxable Money Market Mutual Funds



Source: iMoneyNet.

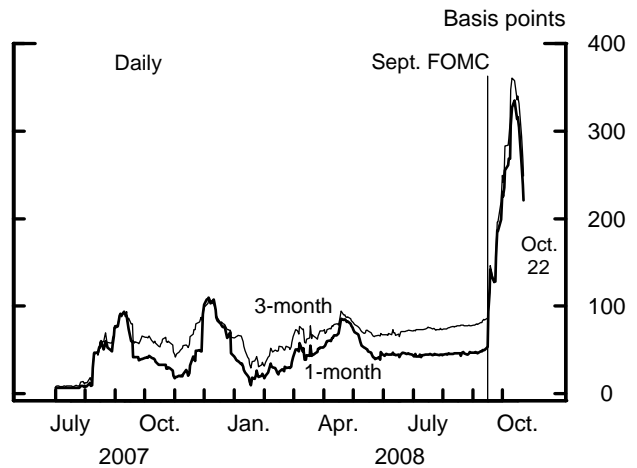
Spreads on 30-Day Commercial Paper



Note: The ABCP spread is the AA ABCP rate minus the AA nonfinancial rate. The A2/P2 spread is the A2/P2 nonfinancial rate minus the AA nonfinancial rate.

Source: Depository Trust & Clearing Corporation.

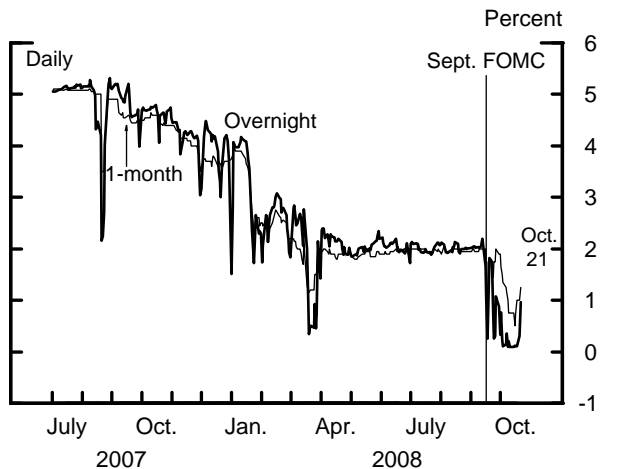
Spread between Libor and OIS Rates



Note: Libor quotes are taken at 6:00 a.m., and OIS quotes are observed at the close of business of the previous trading day.

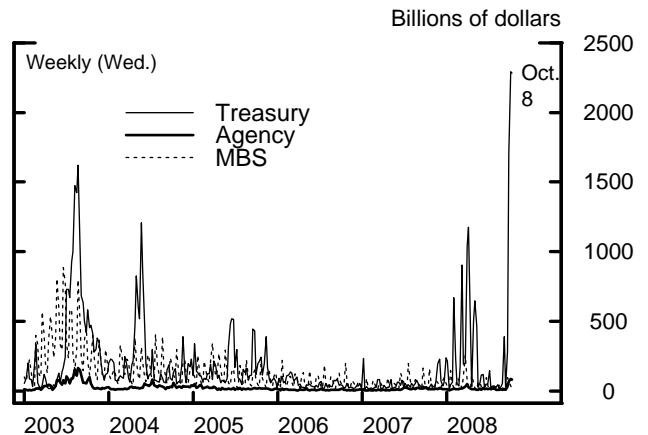
Source: British Bankers' Association.

Repo Rates on Treasury General Collateral



Source: Bloomberg.

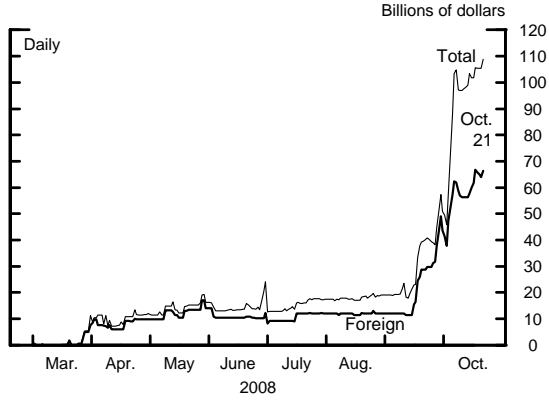
Fails to Deliver



Source: FR 2004 Primary Government Securities Dealers Reports.

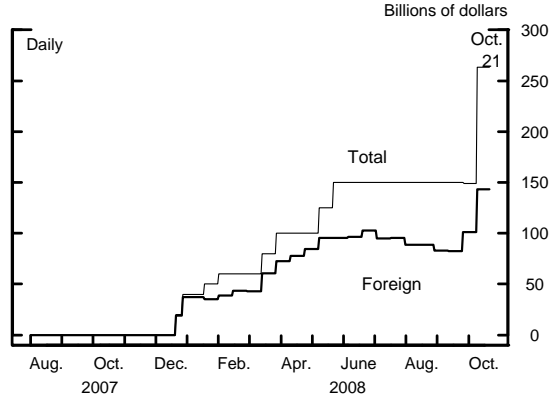
## Federal Reserve Liquidity Provision

Primary Credit



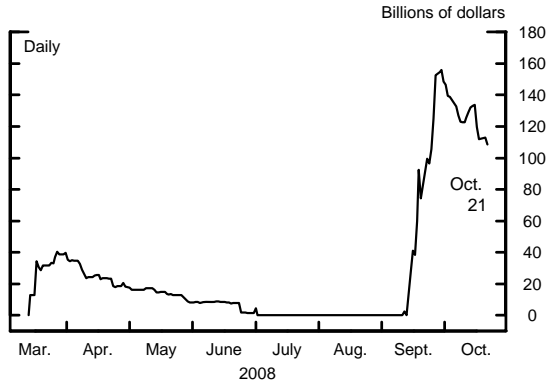
Source: Federal Reserve Board.

Term Auction Facility



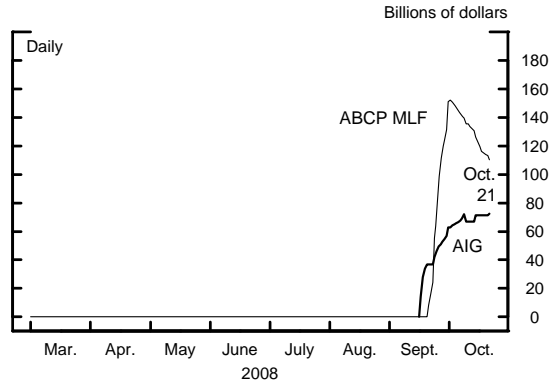
Source: Federal Reserve Board.

Primary Dealer Credit Facility



Source: Federal Reserve Board.

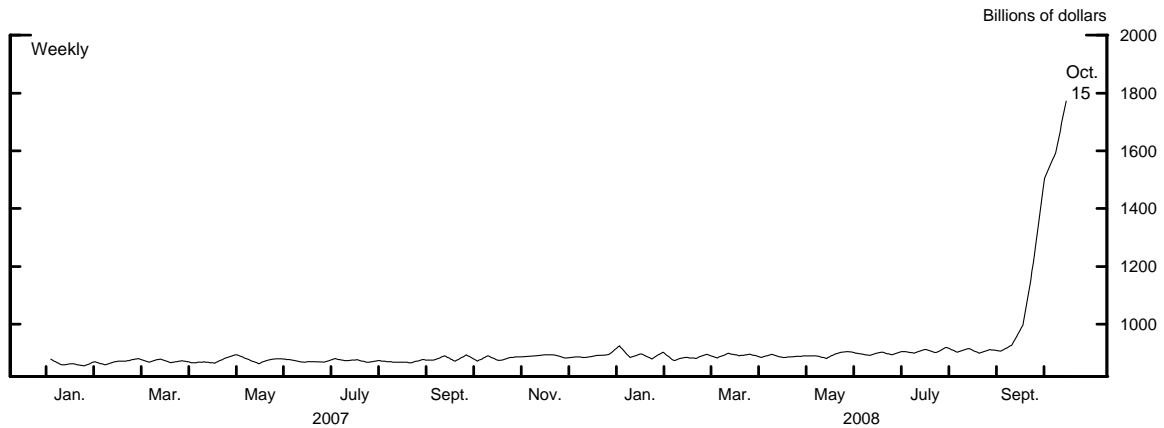
Other Credit Extensions



Note: ABCP MLF is Asset-Backed Commercial Paper Money Market Mutual Fund Lending Facility; AIG is American International Group, Inc.

Source: Federal Reserve Board.

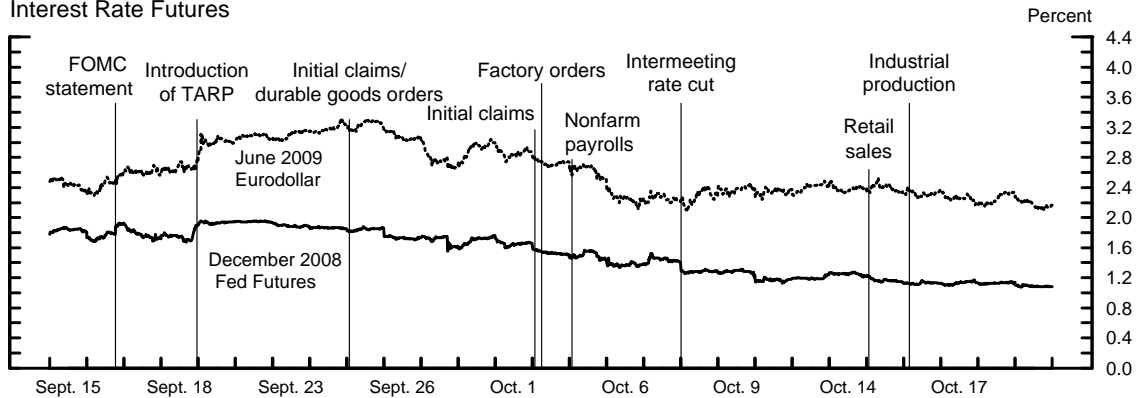
Total Federal Reserve Assets



Source: Board of Governors of the Federal Reserve System, Statistical Release H.4.1, "Factors Affecting Reserve Balances."

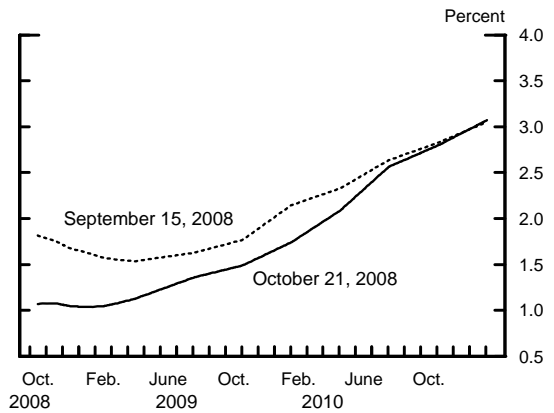
## Policy Expectations and Treasury Yields

Interest Rate Futures



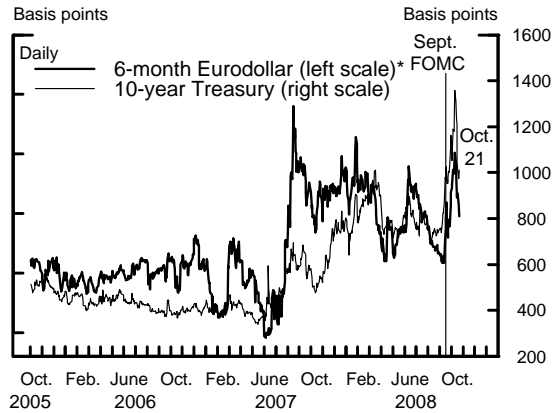
Note: 5-minute intervals. 8:00 a.m. to 4:00 p.m. No adjustments for term premiums. TARP is Troubled Asset Relief Program.  
Source: Bloomberg.

Implied Federal Funds Rate



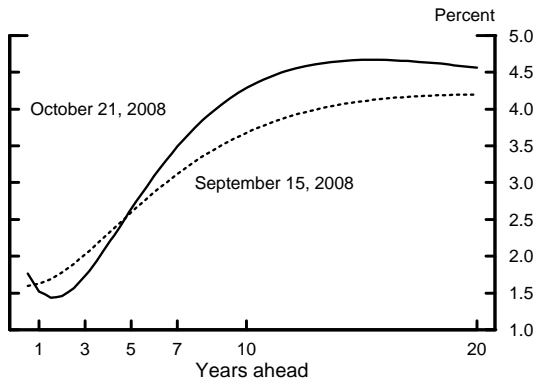
Note: Estimated from federal funds and Eurodollar futures, with an allowance for term premiums and other adjustments.  
Source: Chicago Mercantile Exchange; CBOT.

Implied Volatility of Interest Rates



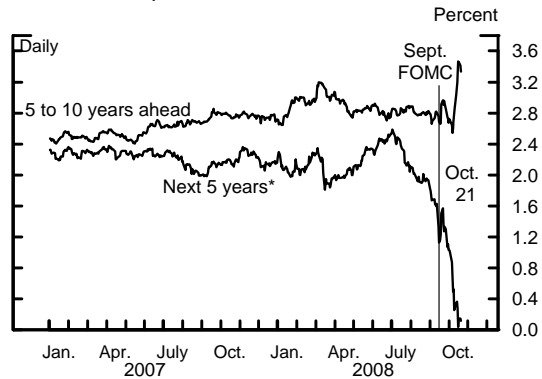
\*Width of a 90 percent confidence interval computed from the term structures for the expected federal funds rate and implied volatility.  
Source: Bloomberg.

Treasury Yield Curve



Note: Smoothed yield curve estimated from off-the-run Treasury coupon securities. Yields shown are those on notional par Treasury securities with semiannual coupons.  
Source: Federal Reserve Bank of New York.

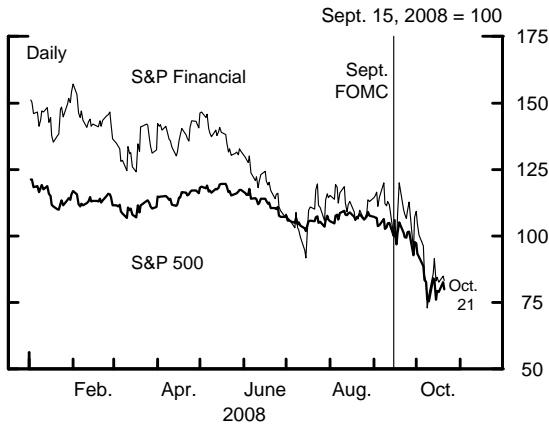
Inflation Compensation



Note: Estimates based on smoothed nominal and inflation-indexed Treasury yields.  
\*Adjusted for lagged indexation of Treasury Inflation Protected Securities.  
Source: Federal Reserve Bank of New York.

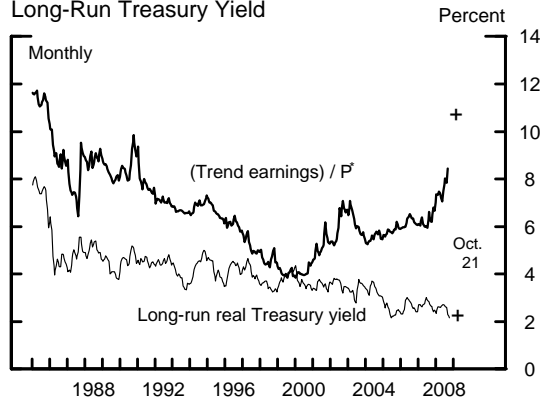
## Corporate Yields, Risk Spreads, and Stock Prices

Selected Stock Price Indexes



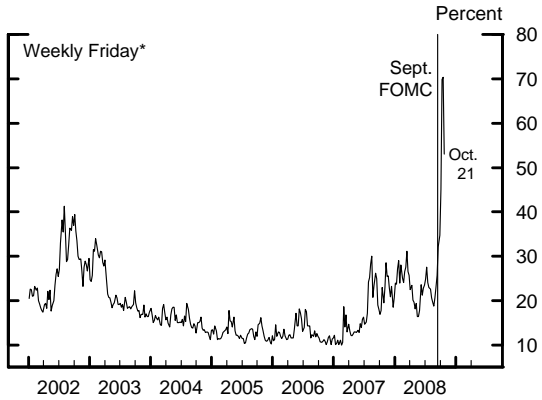
Source: Standard & Poor's.

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



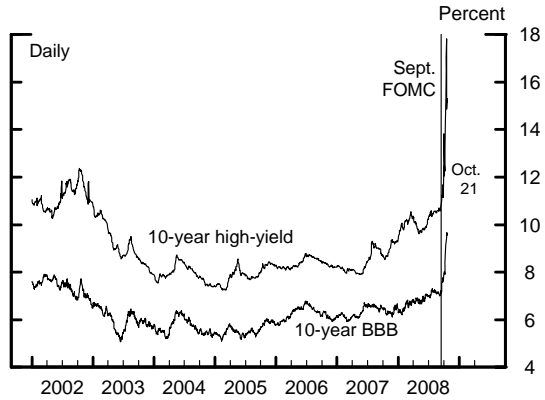
\* Trend earnings are estimated using analysts' forecasts of year-ahead earnings from I/B/E/S.  
+ Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.  
Source: Thomson Financial.

Implied Volatility on S&P 500 (VIX)



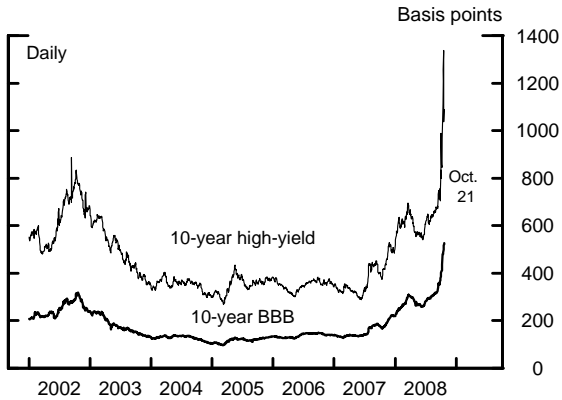
\* Latest observation is for most recent business day.  
Source: Chicago Board of Exchange.

Corporate Bond Yields



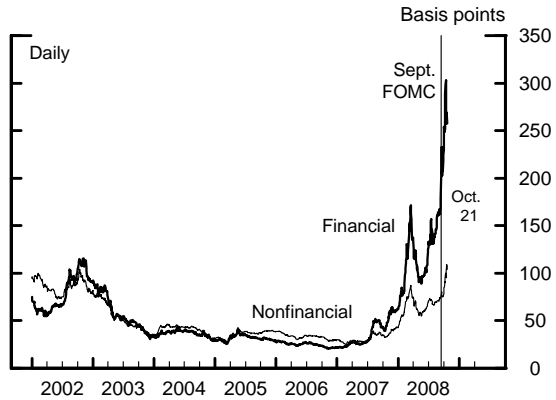
Note: Yields from smoothed yield curves based on Merrill Lynch bond data.

Corporate Bond Spreads



Note: Corporate yields from smoothed yield curves based on Merrill Lynch bond data and spreads measured relative to comparable-maturity Treasury securities.

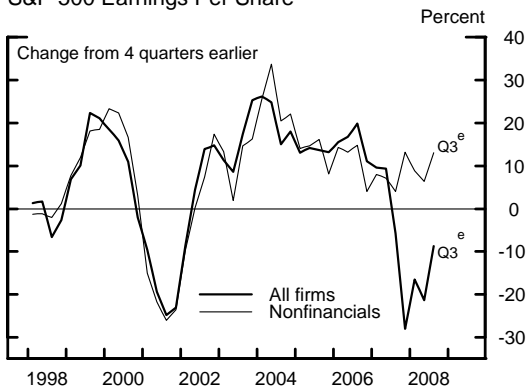
Investment-Grade CDS Indexes



Source: Markit.

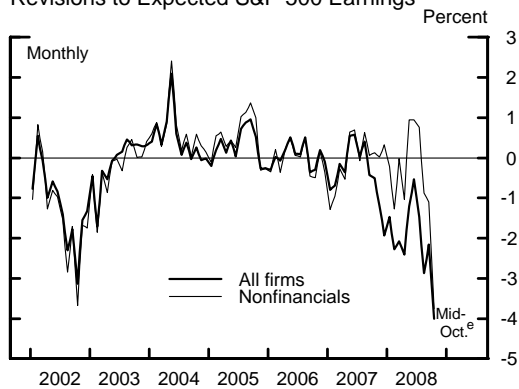
## Corporate Earnings and Credit Quality

S&P 500 Earnings Per Share



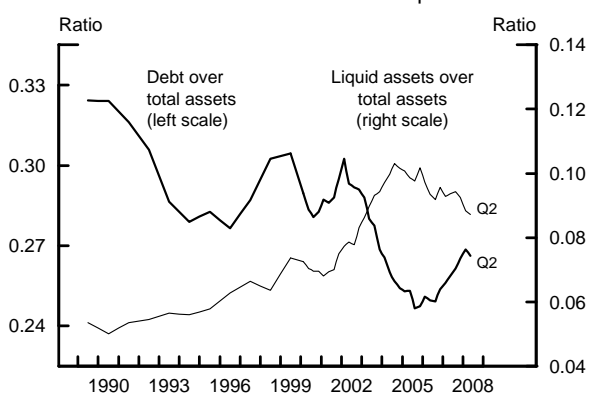
<sup>e</sup> Bottom-up forecast by equity analysts.  
Source: Thomson Financial.

Revisions to Expected S&P 500 Earnings



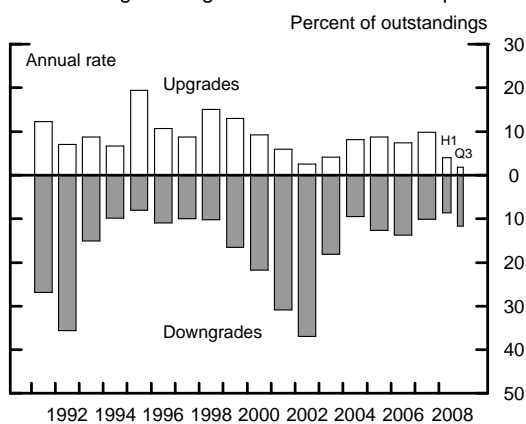
Note: Index is a weighted average of the percent change in the consensus forecasts of current-year and following-year EPS for a fixed sample.  
<sup>e</sup> Staff estimate.  
Source: Thomson Financial.

Financial Ratios for Nonfinancial Corporations



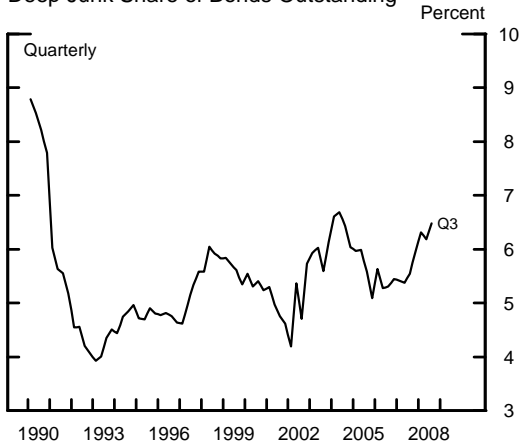
Note: Data are annual through 1999 and quarterly starting in 2000:Q1.  
Source: Calculated using Compustat data.

Bond Ratings Changes of Nonfinancial Companies



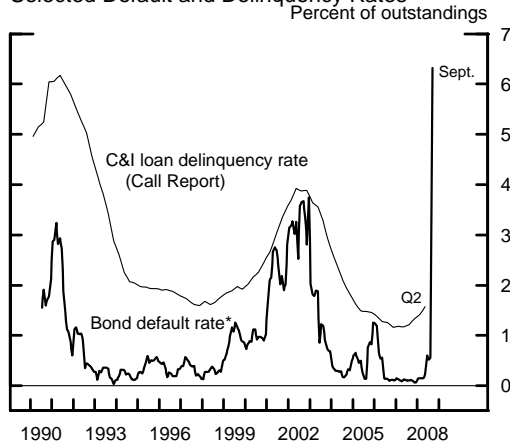
Source: Calculated using data from Moody's Investors Service.

Deep Junk Share of Bonds Outstanding



Note: Nonfinancial bonds outstanding rated B3 or below over total bonds outstanding.  
Source: Moody's Investors Service.

Selected Default and Delinquency Rates



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

## Business Finance

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

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

Type of security	2004	2005	2006	2007	2008			
					H1	Q3	Sept.	Oct. <sup>p</sup>
<i>Nonfinancial corporations</i>								
Stocks <sup>1</sup>	5.4	4.6	4.7	5.5	3.5	3.0	1.9	13.6
Initial public offerings	1.6	1.7	1.8	1.6	.6	.1	.0	.0
Seasoned offerings	3.8	2.8	2.9	3.8	2.9	2.9	1.9	13.6
Bonds <sup>2</sup>	22.4	18.7	29.3	35.1	34.7	14.6	12.2	10.2
Investment grade	8.3	8.7	13.1	17.5	24.9	10.5	8.6	10.0
Speculative grade	8.2	5.2	6.2	7.5	3.1	.7	1.0	.0
Other (sold abroad/unrated)	5.9	4.8	10.1	10.0	6.7	3.4	2.6	.2
<i>Memo</i>								
Net issuance of commercial paper <sup>3</sup>	1.7	-.2	2.4	-.4	-.5	6.2	-8.4	2.8
Change in C&I loans at commercial banks <sup>3,4</sup>	2.4	9.6	11.4	21.1	13.1	19.4	54.6	30.0
<i>Financial corporations</i>								
Stocks <sup>1</sup>	6.9	5.0	5.3	8.6	17.2	10.5	20.1	12.6
Bonds <sup>2</sup>	134.1	170.4	180.6	151.7	66.0	16.9	10.2	1.0

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.

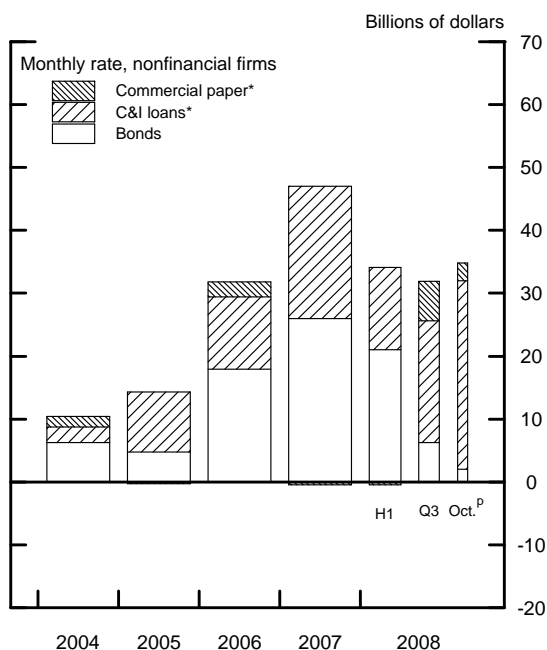
3. End-of-period basis, seasonally adjusted.

4. October 2008 value is a staff estimate.

p Forecast based on preliminary data.

Source: Depository Trust & Clearing Corporation; Thomson Financial; Federal Reserve Board.

### Selected Components of Net Debt Financing

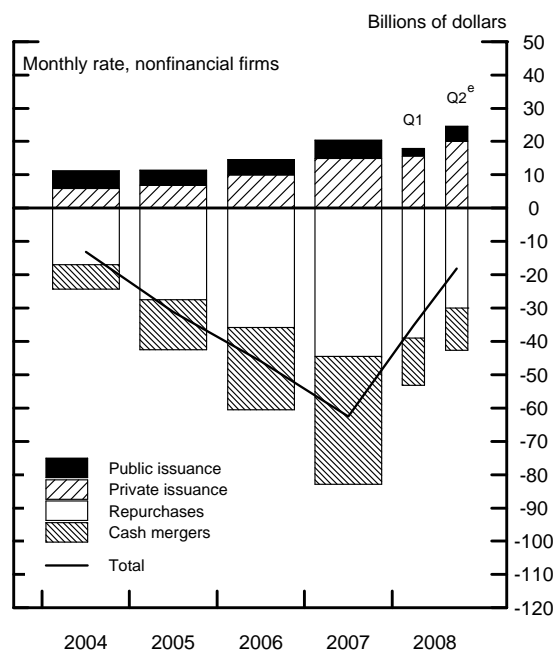


\* Seasonally adjusted, period-end basis.

p Preliminary.

Source: Depository Trust & Clearing Corporation; Thomson Financial; Federal Reserve Board.

### Components of Net Equity Issuance



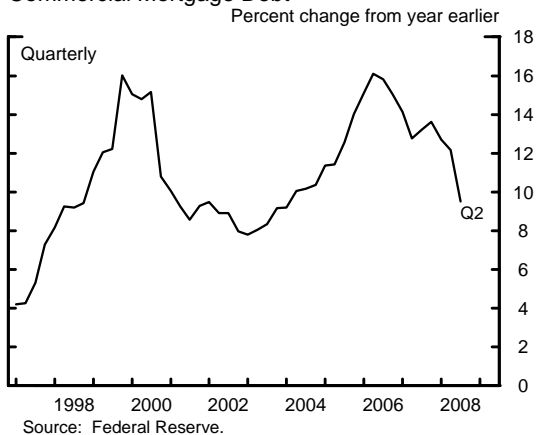
<sup>e</sup> Staff estimate.

Source: Thomson Financial; Investment Benchmark Report; Money Tree Report by PricewaterhouseCoopers, National Venture Capital Association, and Venture Economics.

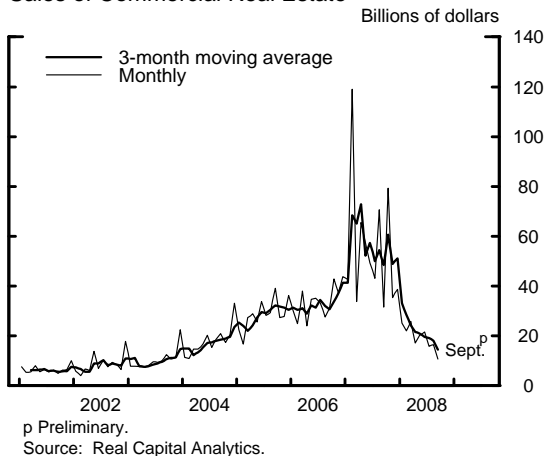


## Commercial Real Estate

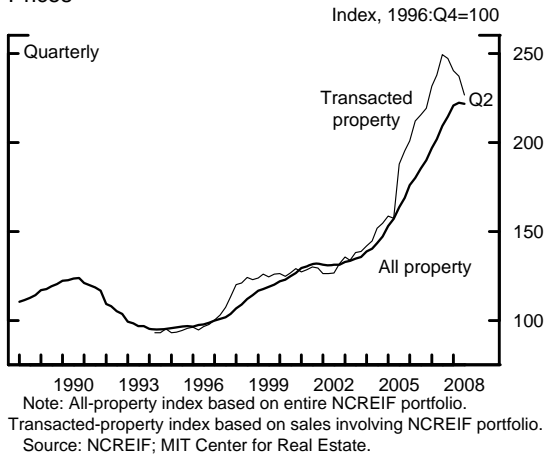
### Commercial Mortgage Debt



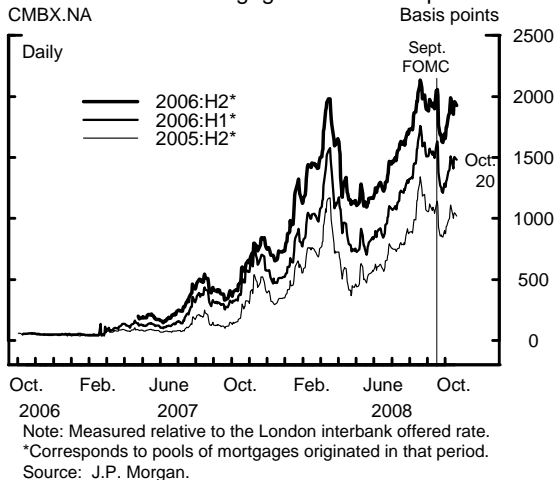
### Sales of Commercial Real Estate



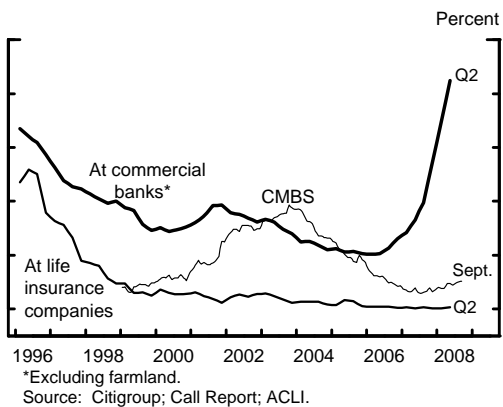
### Prices



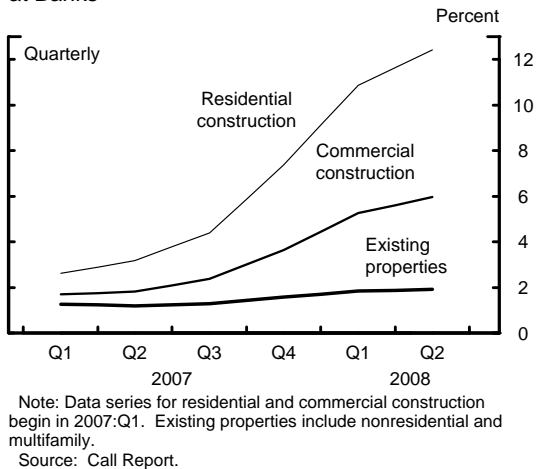
### BBB Commercial Mortgage CDS Index Spreads



### Delinquency Rates on Commercial Mortgages

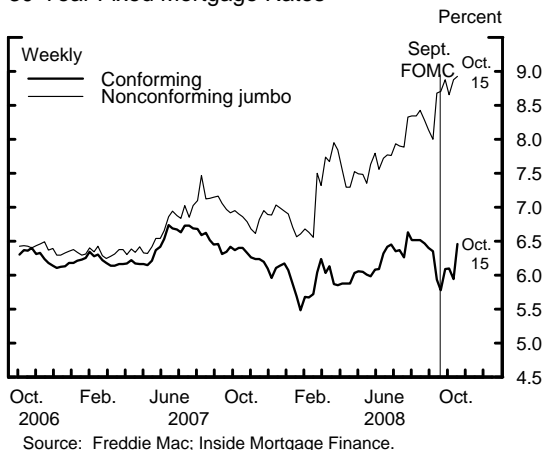


### Delinquency Rates on Commercial Mortgages at Banks



## Residential Mortgages

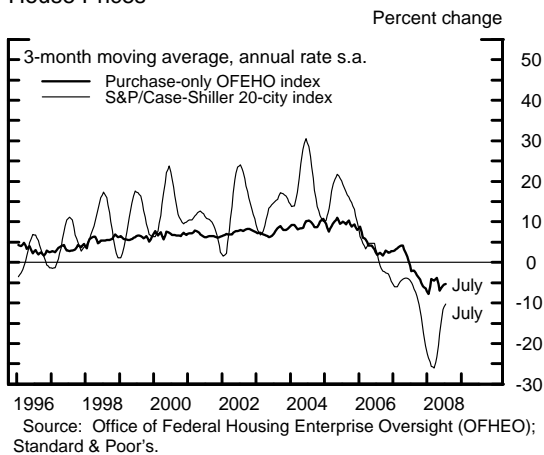
### 30-Year Fixed Mortgage Rates



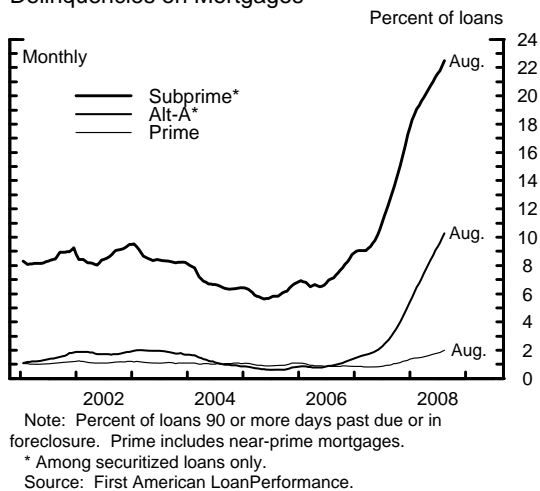
### 30-Year Fixed-Rate Mortgage Rate Spread



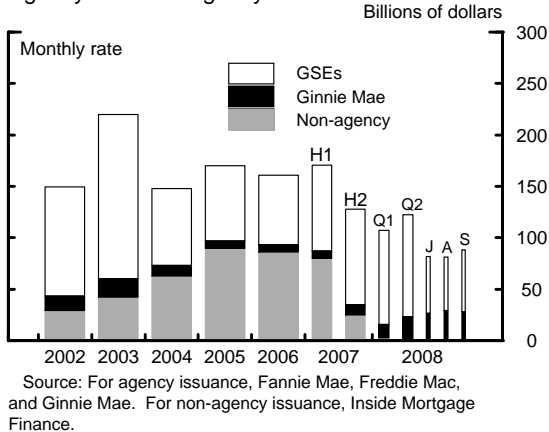
### House Prices



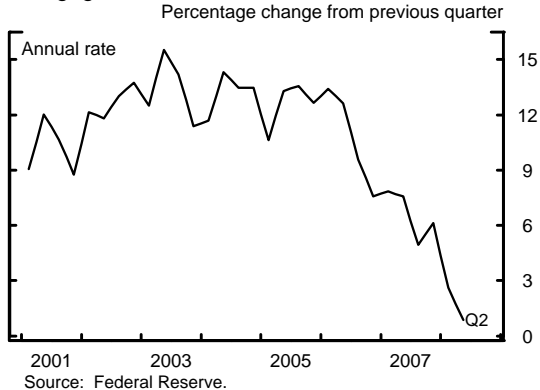
### Delinquencies on Mortgages



### Agency and Non-Agency MBS Issuance

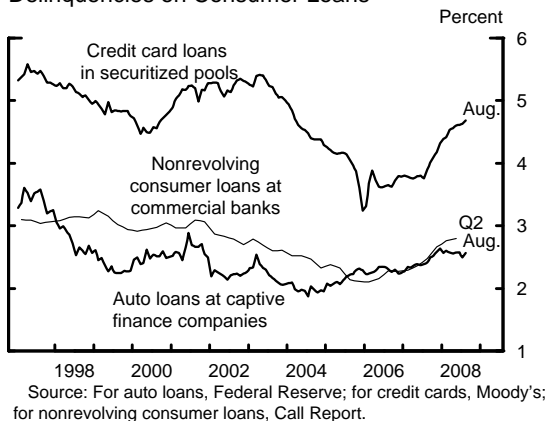


### Mortgage Debt

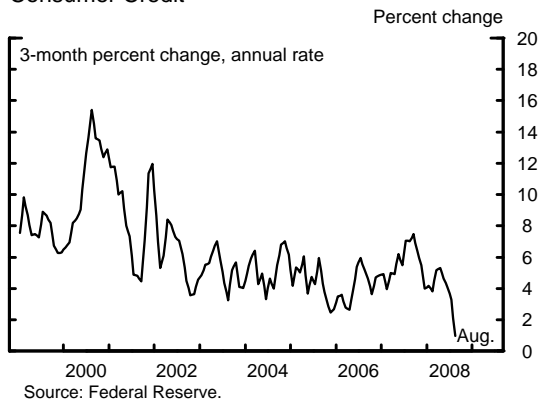


## Consumer Credit and Household Wealth

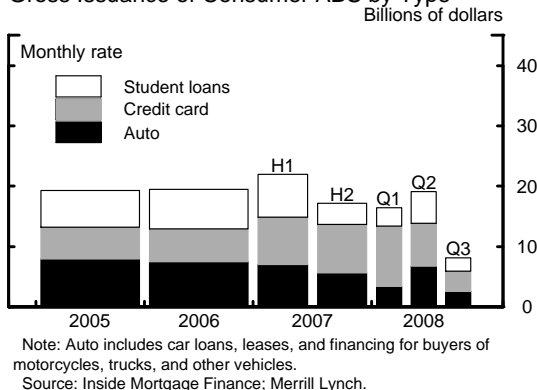
### Delinquencies on Consumer Loans



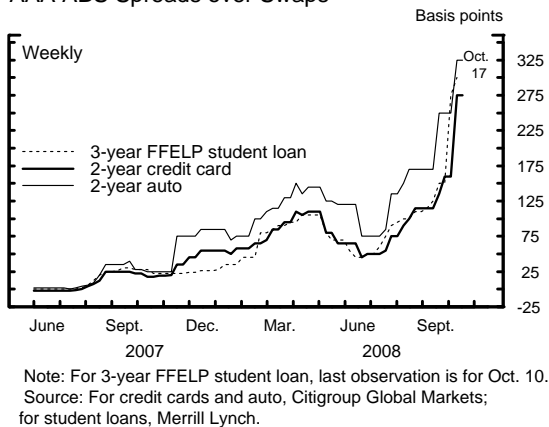
### Consumer Credit



### Gross Issuance of Consumer ABS by Type



### AAA ABS Spreads over Swaps



## Net Flows into Mutual Funds

(Billions of dollars, monthly rate)

Fund type	2007		2008		Aug.	Sept. <sup>e</sup>	Assets Aug.
	H1	H2	Q1	Q2			
<b>Total long-term funds</b>	<b>31.5</b>	<b>5.8</b>	<b>1.7</b>	<b>22.6</b>	<b>-12.0</b>	<b>-66.0</b>	<b>8,057</b>
<b>Equity funds</b>	<b>14.3</b>	<b>1.1</b>	<b>-14.9</b>	<b>7.8</b>	<b>-19.5</b>	<b>-57.2</b>	<b>5,628</b>
Domestic	0.8	-8.4	-13.4	3.3	-1.9	-35.7	4,263
International	13.5	9.6	-1.5	4.4	-17.5	-21.5	1,366
<b>Hybrid funds</b>	<b>2.6</b>	<b>1.1</b>	<b>0.7</b>	<b>2.0</b>	<b>-0.4</b>	<b>-6.8</b>	<b>663</b>
<b>Bond funds</b>	<b>14.6</b>	<b>3.5</b>	<b>16.0</b>	<b>12.9</b>	<b>7.9</b>	<b>-2.0</b>	<b>1,766</b>
High-yield	0.2	-0.7	-1.3	0.9	0.1	-0.8	148
Other taxable	12.0	4.8	15.2	8.2	5.4	-0.4	1,227
Municipals	2.4	-0.6	2.1	3.7	2.4	-0.8	391
<b>Money market funds</b>	<b>26.3</b>	<b>98.8</b>	<b>126.9</b>	<b>-14.8</b>	<b>43.1</b>	<b>-179.0</b>	<b>3,578</b>

Note: Excludes reinvested dividends.

<sup>e</sup> Staff estimate.

Source: Investment Company Institute.

October 24, 2008

# CURRENT ECONOMIC AND FINANCIAL CONDITIONS

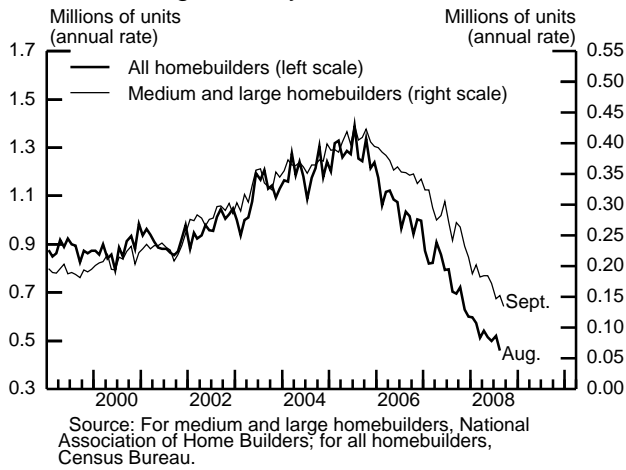
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## **Supplemental Notes**

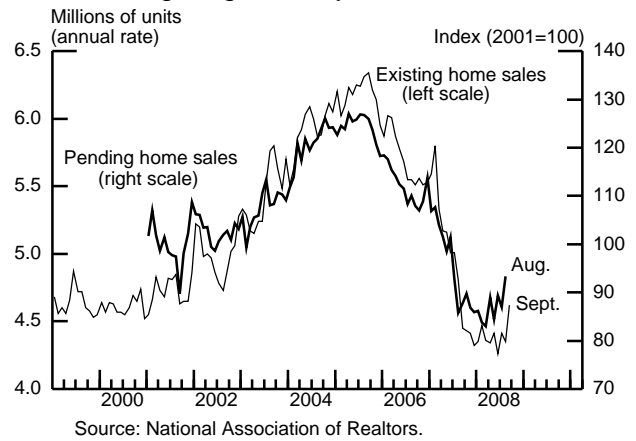
Prepared for the Federal Open Market Committee  
by the staff of the Board of Governors of the Federal Reserve System

## Indicators of Single-Family Housing

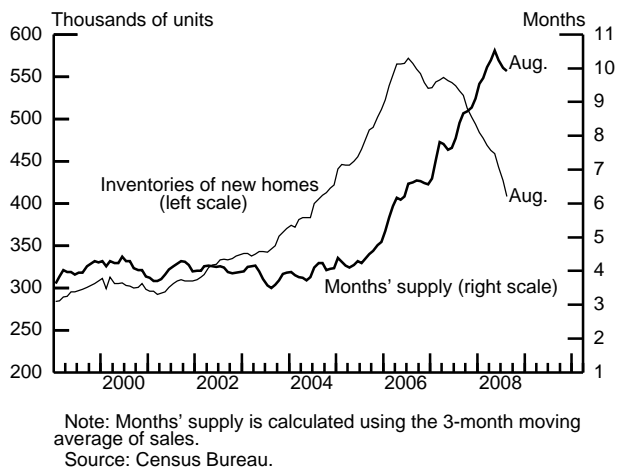
### New Single-Family Home Sales



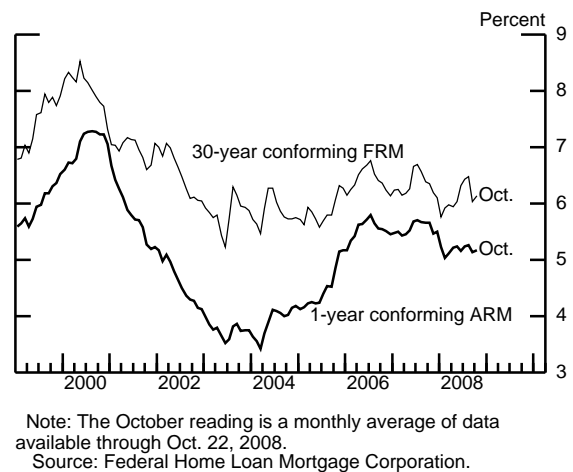
### Existing Single-Family Home Sales



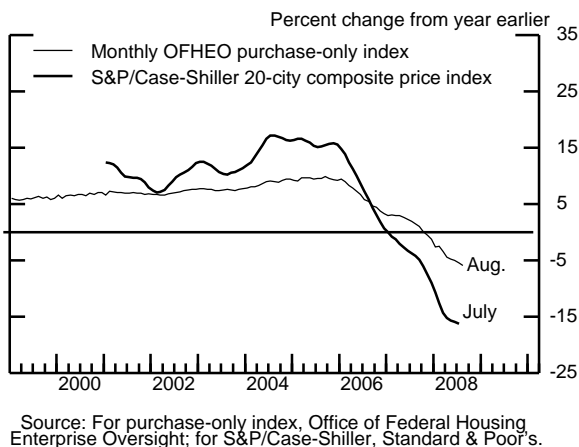
### Inventories of New Homes and Months' Supply



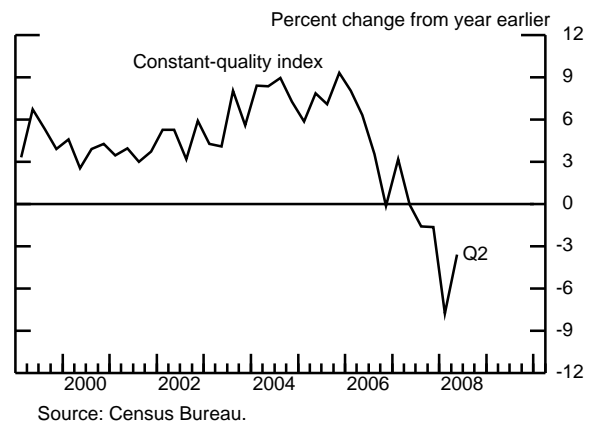
### Mortgage Rates



### Prices of Existing Homes



### Price of New Homes



## Commercial Bank Credit

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

Type of credit	2006	2007	H1 2008	Q3 2008	Sept. 2008	Oct. 2008 <sup>e</sup>	Level <sup>1</sup> Oct. 2008 <sup>e</sup>
Total	10.3	11.2	4.7	3.6	14.0	12.4	9,582
<i>Loans<sup>2</sup></i>							
Total	12.0	12.1	6.5	2.3	11.6	8.7	7,235
To businesses							
Commercial and industrial	14.3	19.1	13.7	5.9	20.2	32.1	1,578
Commercial real estate	13.6	10.4	10.2	1.3	-.6	2.7	1,717
To households							
Residential real estate	9.9	8.4	2.5	-4.9	-5.8	-3.6	2,078
Revolving home equity	3.1	7.1	13.7	12.0	16.7	20.9	577
Other	12.3	8.8	-1.2	-10.8	-14.0	-12.8	1,501
Consumer	2.9	7.9	7.3	8.4	6.3	9.9	870
Originated <sup>3</sup>	3.9	7.1	7.5	5.7	7.4	12.1	1,297
Other <sup>4</sup>	21.1	17.6	-2.5	8.8	64.1	8.0	993
<i>Securities</i>							
Total	5.4	8.4	-.9	7.7	21.5	23.7	2,348
Treasury and agency	2.0	-5.8	-1.0	24.6	30.5	21.3	1,275
Other <sup>5</sup>	10.7	29.1	-.8	-10.2	10.8	26.6	1,073

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 initial consolidation of certain variable interest entities (FIN 46), the initial 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, October 2007, and September 2008. 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.

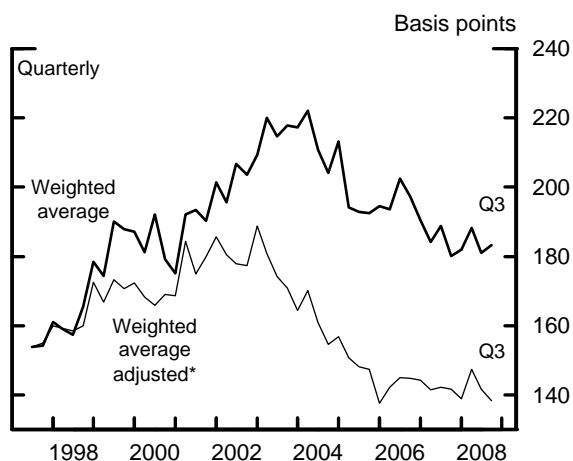
4. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

5. Includes private mortgage-backed securities; securities of corporations, state and local governments, and foreign governments; and any trading account assets that are not Treasury or agency securities.

<sup>e</sup> Estimated.

Source: Federal Reserve.

### C&I Loan Rate Spreads

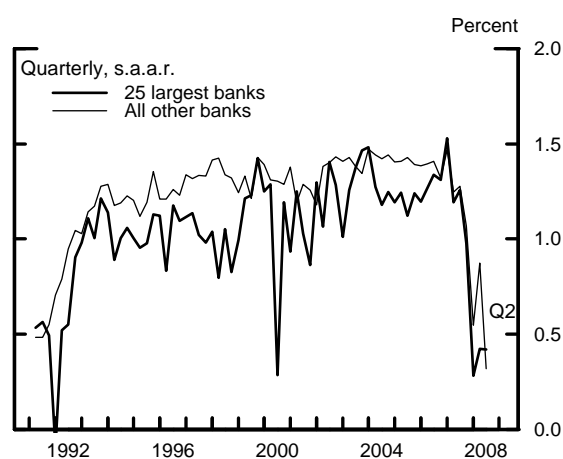


Note. Spreads over market interest rate on an instrument of comparable maturity on loans less than \$25 million (2006\$).

\*Adjusted for changes in nonprice loan characteristics.

Source: Survey of Terms of Business Lending.

### Return on Assets at Commercial Banks



Source: Call Report.