

Report to the FOMC on Economic Conditions and Monetary Policy



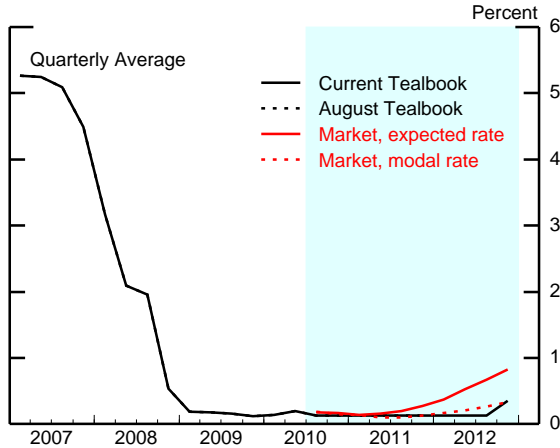
Book A

Economic and Financial Conditions: Current Situation and Outlook

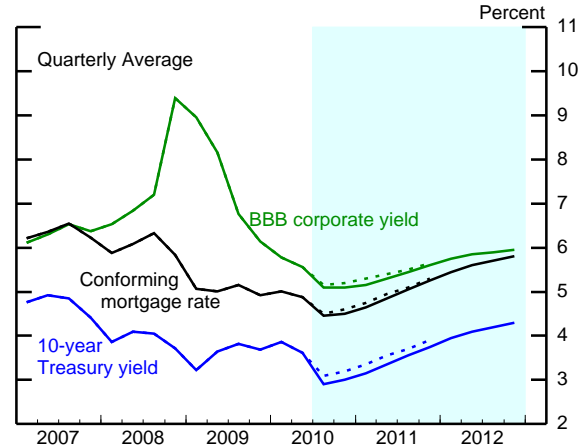
September 15, 2010

Key Background Factors Underlying the Baseline Staff Projection

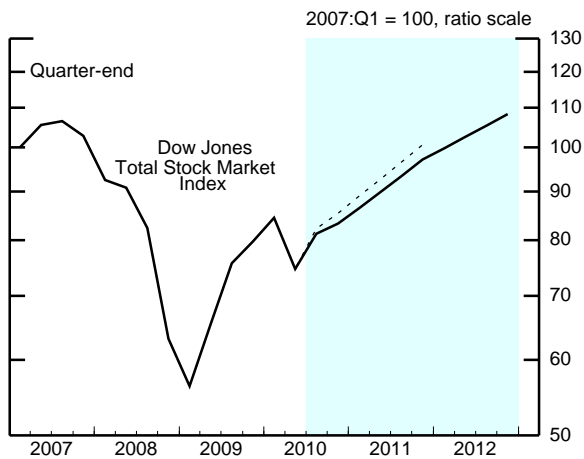
Federal Funds Rate



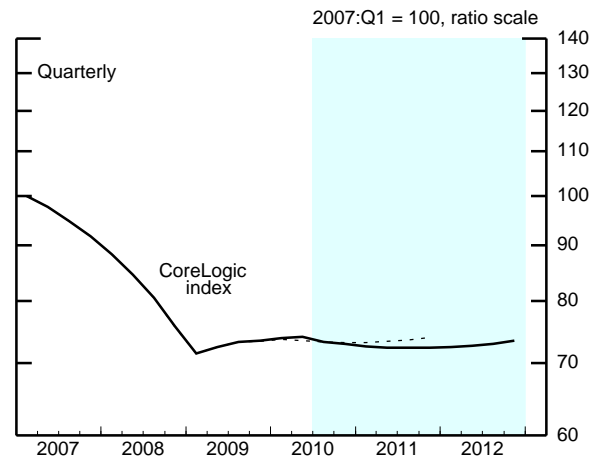
Long-Term Interest Rates



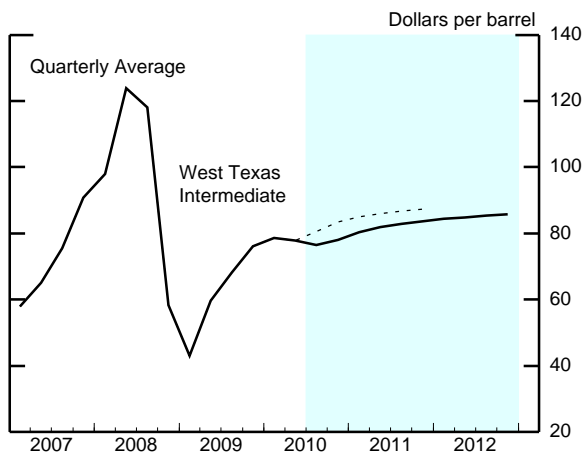
Equity Prices



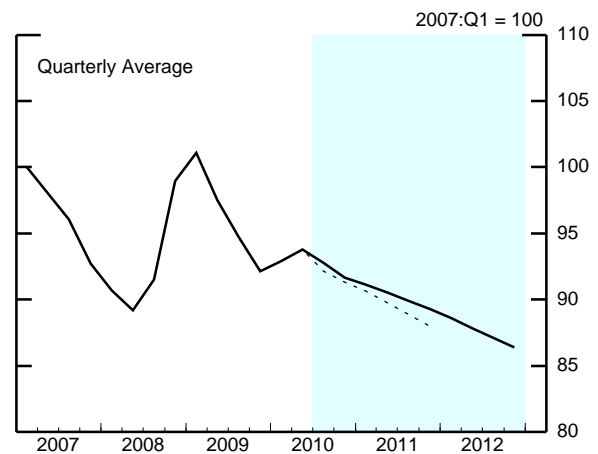
House Prices



Crude Oil Prices



Broad Real Dollar



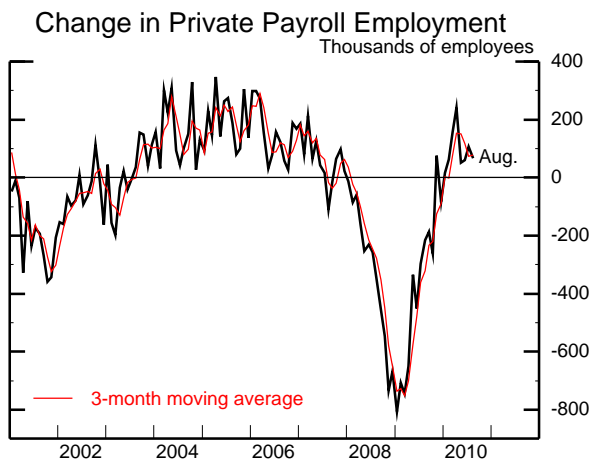
Note: Shading represents the projection period, which begins in 2010:Q3. In the upper-left panel that reports the federal funds rate, the black dotted line is not apparent because the paths of the federal funds rate in the August and the current Tealbooks are the same.

Summary of the Near-Term Outlook

(Percent change at annual rate except as noted)

Measure	2010:Q2		2010:Q3		2010:Q4	
	Previous Tealbook	Current Tealbook	Previous Tealbook	Current Tealbook	Previous Tealbook	Current Tealbook
Real GDP	2.1	1.7	2.4	1.7	2.6	2.4
Private domestic final purchases	4.3	4.3	1.5	.9	2.9	2.1
Personal consumption expenditures	1.6	2.0	1.6	2.2	2.0	2.0
Residential investment	28.5	26.3	-8.6	-27.2	8.3	3.5
Nonres. structures	4.8	-2.7	.6	-1.5	.7	-1.8
Equipment and software	26.1	26.4	3.9	-.3	10.5	4.6
Federal purchases	9.2	9.1	4.3	3.4	.5	4.5
State and local purchases	1.4	.6	-.5	-1.0	-.2	-.1
Contribution to change in real GDP (percentage points)						
Inventory investment	.6	.8	.8	.9	-.6	-.9
Net exports	-2.9	-3.5	.1	-.1	.8	1.1

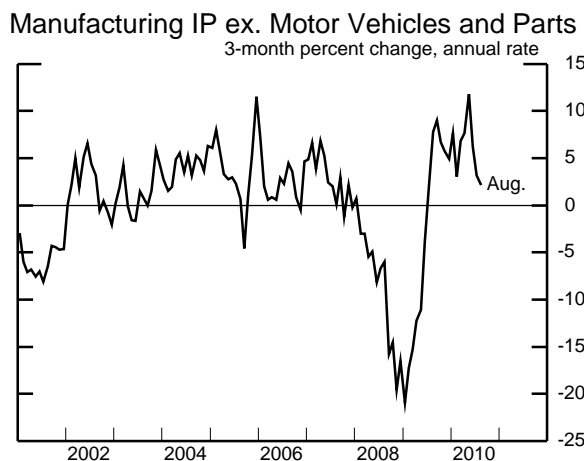
Recent Nonfinancial Developments (1)



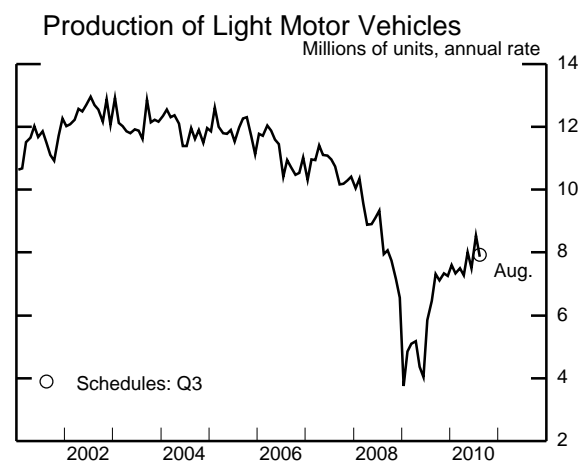
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.



Source: U.S. Dept. of Labor, Bureau of Labor Statistics.



Source: Federal Reserve Board, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

Note: Schedules data are from Ward's Communications.
Source: Ward's Auto Infobank.

How Likely Is a Double Dip?

The recent weakness in a range of economic indicators has raised concerns about the possibility of a double-dip recession. Anticipating a turning point in real activity in real time is notoriously difficult, but these difficulties notwithstanding, here we consider results from a range of models that generate recession probabilities.

To begin, we examine the probability that the economy has already fallen into recession, using several Markov-switching models that we regularly track.¹ The figure below shows probabilities from three models: one using percent changes in real GDP as the model input, one using percent changes in both real GDP and real GDI, and one using the four monthly indicators highlighted by the NBER Business Cycle Dating Committee—payroll employment, real personal income net of transfers, industrial production, and manufacturing and trade sales. As can be seen in the figure, probabilities from the models line up well with the historical NBER recession dates, and the model using both

GDP and GDI often has signaled the onset of recessionary periods before the other two models.

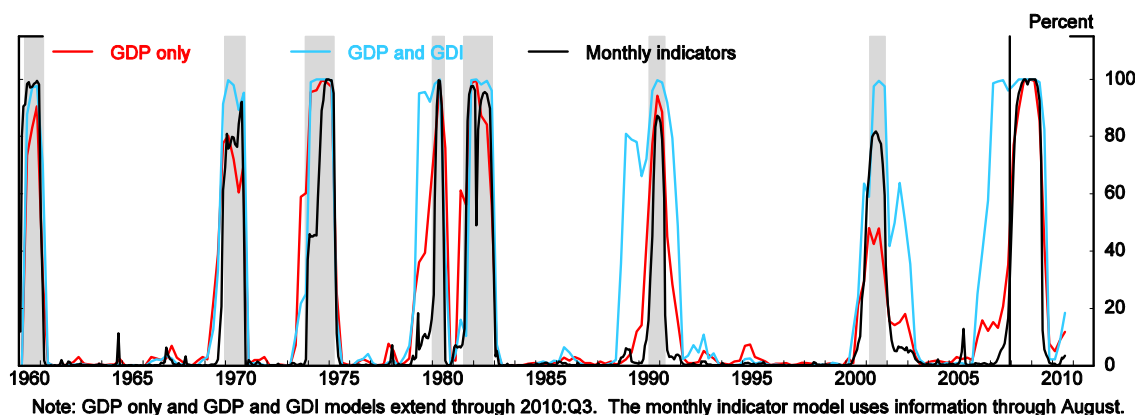
As shown in the table (see bottom of next page) and figure, all three models agree that the probability that the economy is in recession has risen recently but is still relatively low. Conditional on the Tealbook forecast for the current quarter, the model using GDP shows a probability of 12 percent in 2010:Q3, up from 5 percent in 2010:Q1, while the model using GDP and GDI shows a probability of 18 percent in 2010:Q3, up from 2 percent in 2010:Q1. The probability from the monthly indicators model, using information through August, has also ticked up a little after running at 0 percent earlier in the year.²

What about the likelihood that the economy will fall into recession in the near future? The probabilities from the Markov-switching models likely are an encouraging signal in this regard

¹ The Markov-switching models produce probabilities that the economy is in a low-growth state, which do not always coincide exactly with NBER-dated recessions. However, for short, we refer to the probabilities generated by these models as recession probabilities. For more details on the models using GDP and GDI, see Jeremy Nalewaik (2007), “Estimating Probabilities of Recession in Real Time Using GDP and GDI,” Finance and Economics Discussion Series 2007-07 (Washington: Board of Governors of the Federal Reserve System).

² For the monthly indicators model, the August probability is computed using data on employment and industrial production, and forecasts of sales and income variables.

Probability of Recession



because of the strong historical tendency for expansions to persist, absent major shocks. Another way to look ahead is with stochastic simulations around the Tealbook projection, using forecast errors from prior Greenbooks and Tealbooks. Given the baseline projection, the historical forecast errors imply a 13 percent probability that real GDP will decline for two consecutive quarters between 2010:Q3 and 2011:Q2. While this probability is still low, it has risen from 6 percent in March.³

Other models rely on financial indicators to forecast recessions, and at the moment place fairly low odds on the likelihood of a double dip. For example, a model using the slope of the yield curve and a corporate bond spread has, since the middle of last year, been showing a close-to-zero probability of recession one-year ahead.⁴ However, given the extraordinary circumstances prevailing in financial markets in recent years, including the binding zero lower bound, the usefulness of these financial variables for forecasting a recession may be somewhat diminished currently.

The accumulation of evidence in recent months—as seen through the filter of the models just described—does not suggest that a double-dip recession is imminent. However, the models have their limitations. As noted, the Markov-switching models exploit the tendency for expansions to persist, but the forces that have driven that persistence over history may be less relevant now than in the past. And the factors that are currently raising recession fears, including concerns about household and business confidence, may not be well captured by these models. Finally, in the current environment, fiscal and monetary policy may be more limited than usual in their ability to respond to adverse shocks, perhaps leaving the economy more vulnerable than suggested by historical relationships. Overall, we judge that the risk of recession or persistent slow growth is likely higher than suggested by these models.

³Although the stochastic simulations suggest that the probability of two consecutive negative quarters is relatively low, the probability of a single quarter of contraction is noticeably higher, registering around 30 percent back in March and almost 50 percent now. The consensus in the most recent Blue Chip survey places the odds of at least one quarter of contraction over the coming year at around 25 percent.

⁴ See Thomas King, Andrew Levin, and Roberto Perli (2007), “Financial Market Perceptions of Recession Risk,” Finance and Economics Discussion Series 2007-57 (Washington: Board of Governors of the Federal Reserve System).

Probabilities of Recession

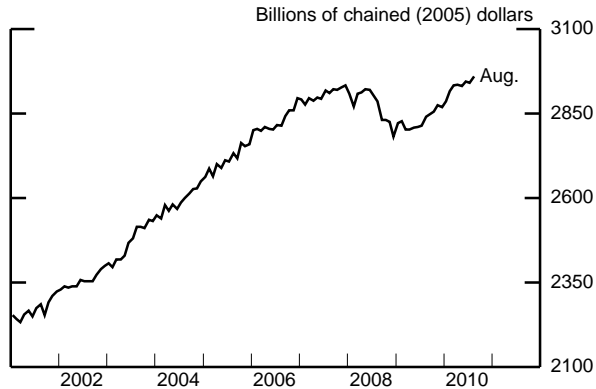
(percent)

Model	2010:Q1	2010:Q2	2010:Q3
GDP	5	9	12
GDP and GDI	2	9	18
Real monthly indicator	0	1	3
Stochastic simulation with TB Errors*	6	9	13

*Probabilities of two consecutive quarters of negative GDP growth over the next four quarters, using the March, June, and September staff projections as baselines.

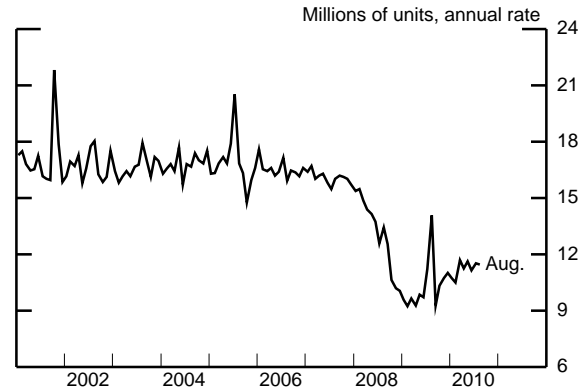
Recent Nonfinancial Developments (2)

Real PCE Goods ex. Motor Vehicles



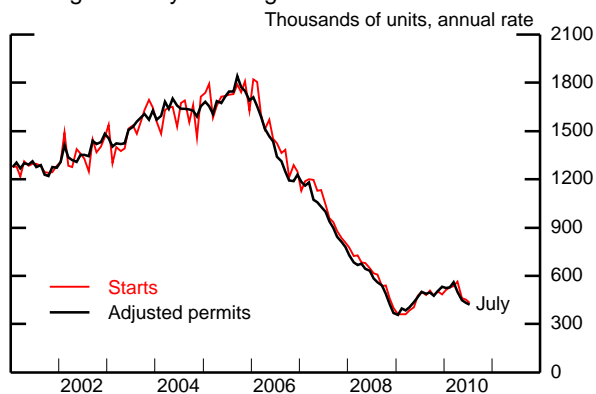
Note: Figures for June, July, and August are staff estimates based on available source data.
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis

Sales of Light Motor Vehicles



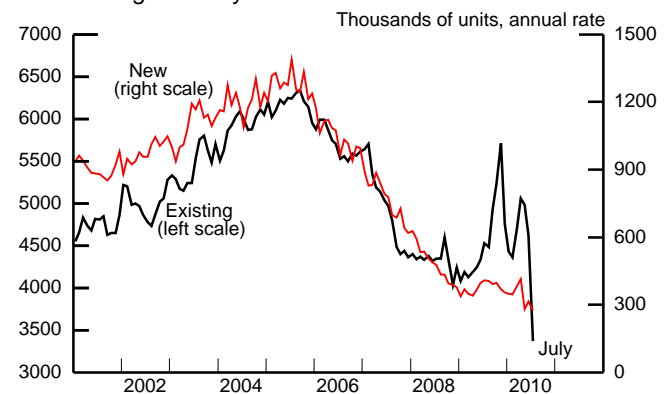
Source: Ward's Auto Infobank.

Single-Family Housing Starts



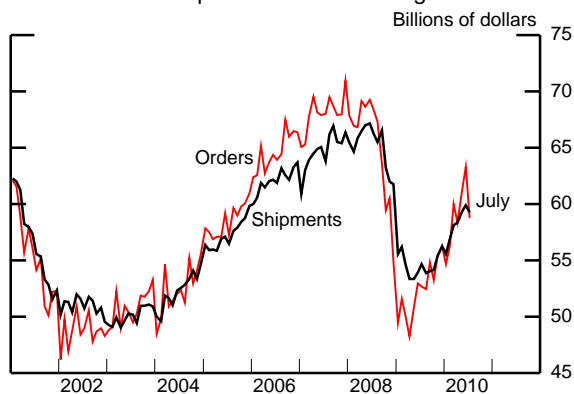
Note: Adjusted permits equal permits plus starts outside of permit-issuing areas.
Source: U.S. Census Bureau.

Single-Family Home Sales



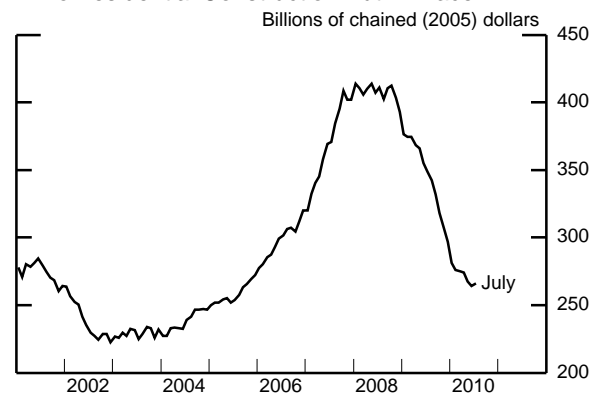
Source: For existing, National Association of Realtors; for new, U.S. Census Bureau.

Nondefense Capital Goods Excluding Aircraft



Source: U.S. Census Bureau.

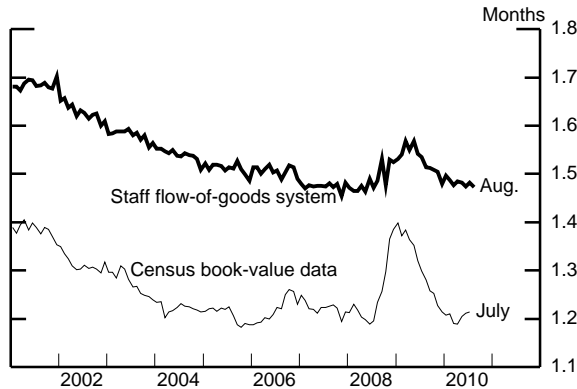
Nonresidential Construction Put in Place



Source: U.S. Census Bureau.

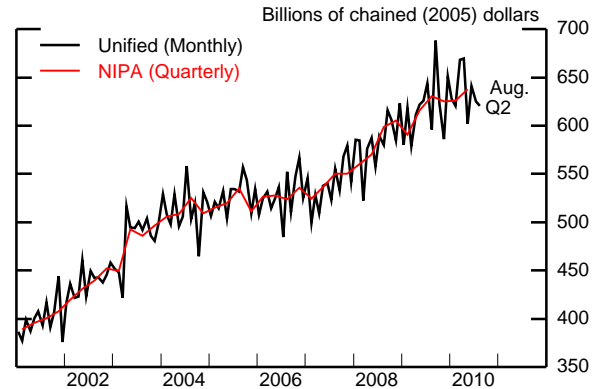
Recent Nonfinancial Developments (3)

Inventory Ratios ex. Motor Vehicles



Note: Flow-of-goods system covers total industry ex. motor vehicles and parts, and inventories are relative to consumption. Census data cover manufacturing and trade ex. motor vehicles and parts, and inventories are relative to sales.
Source: U.S. Census Bureau; staff calculation.

Defense Spending



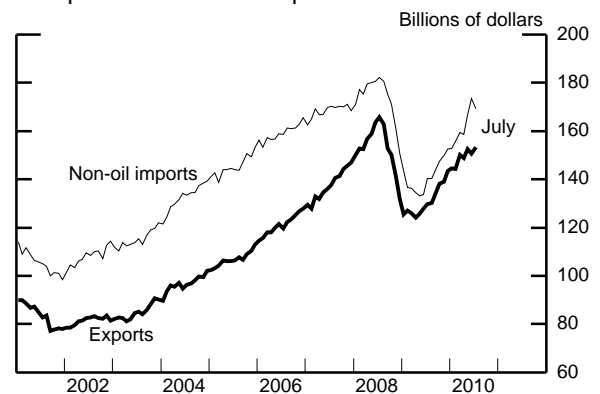
Note: The unified series is seasonally adjusted and deflated by BEA prices. The NIPA series excludes the consumption of fixed capital.
Source: Monthly Treasury Statement.

Trade Balance



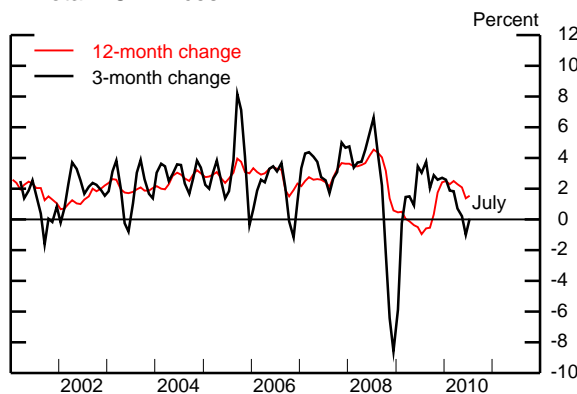
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; U.S. Census Bureau.

Exports and Non-Oil Imports



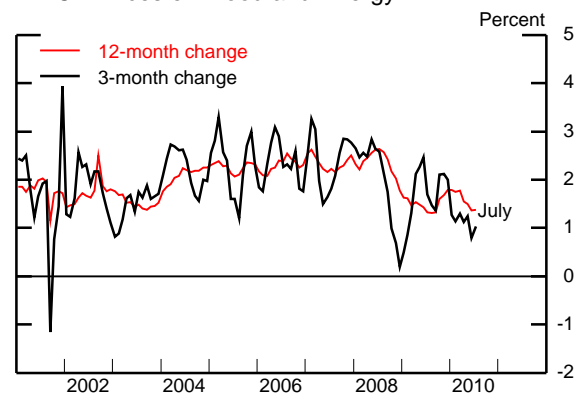
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; U.S. Census Bureau.

Total PCE Prices



Note: 3-month changes are at an annual rate.
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

PCE Prices ex. Food and Energy

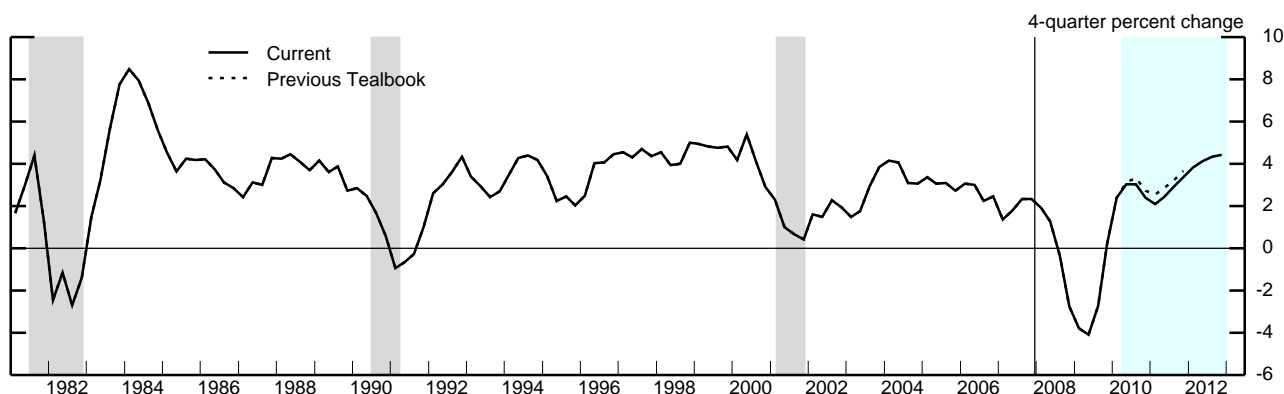


Note: 3-month changes are at an annual rate.
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

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

Measure	2009	2010		2011	2012
		H1	H2		
Real GDP	.2	2.7	2.0	3.3	4.4
Previous Tealbook	.2	2.9	2.5	3.6	
Final sales	-.3	1.0	2.0	3.4	4.3
Previous Tealbook	-.3	1.3	2.4	3.8	
Personal consumption expenditures	.2	1.9	2.1	3.0	4.2
Previous Tealbook	.2	1.7	1.8	3.5	
Residential investment	-13.4	5.3	-13.2	19.2	17.5
Previous Tealbook	-13.4	6.1	-.5	19.0	
Nonresidential structures	-26.5	-10.5	-1.6	-2.0	-.7
Previous Tealbook	-26.5	-7.2	.7	-.5	
Equipment and software	-4.9	23.4	2.1	10.5	11.0
Previous Tealbook	-4.9	23.2	7.2	11.6	
Federal purchases	3.6	5.4	4.0	1.1	.2
Previous Tealbook	3.6	5.4	2.3	1.0	
State and local purchases	-1.0	-1.6	-.6	.4	1.3
Previous Tealbook	-1.0	-1.2	-.4	.0	
Exports	-.1	10.3	9.6	7.6	7.5
Previous Tealbook	-.1	10.8	10.3	8.2	
Imports	-7.2	21.5	4.1	5.7	6.3
Previous Tealbook	-7.2	19.7	5.1	6.5	
Contributions to change in real GDP (percentage points)					
Inventory change	.5	1.7	.0	.0	.1
Previous Tealbook	.5	1.6	.1	-.2	
Net exports	1.2	-1.9	.5	.0	-.1
Previous Tealbook	1.2	-1.5	.5	.0	

Real GDP

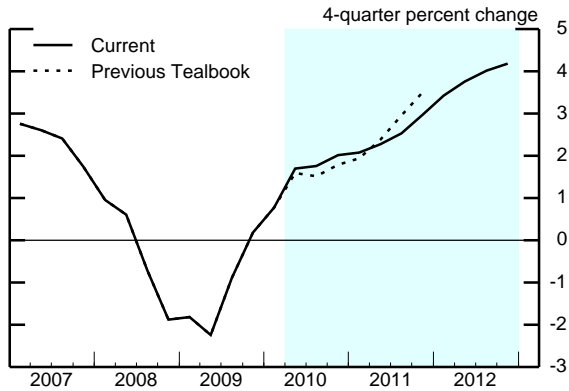


Note: The shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research (NBER). The vertical line represents the last business cycle peak as defined by the NBER.

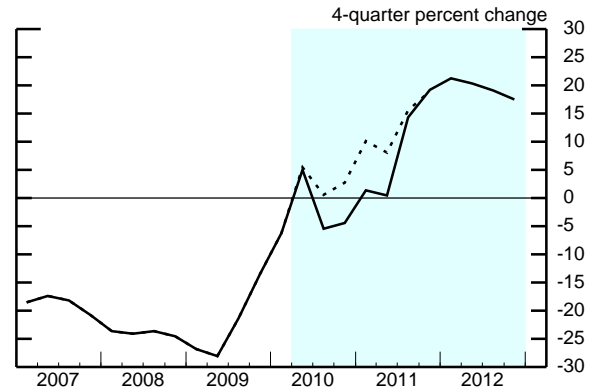
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Components of Final Demand

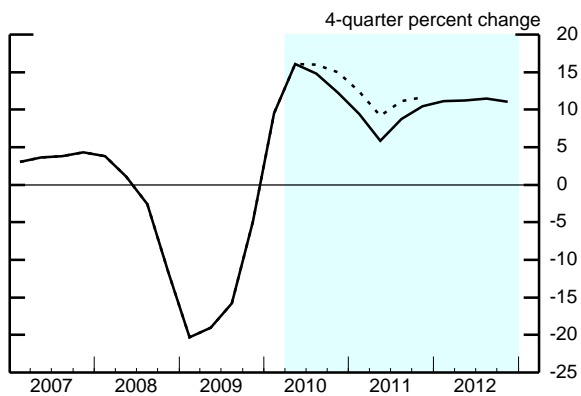
Personal Consumption Expenditures



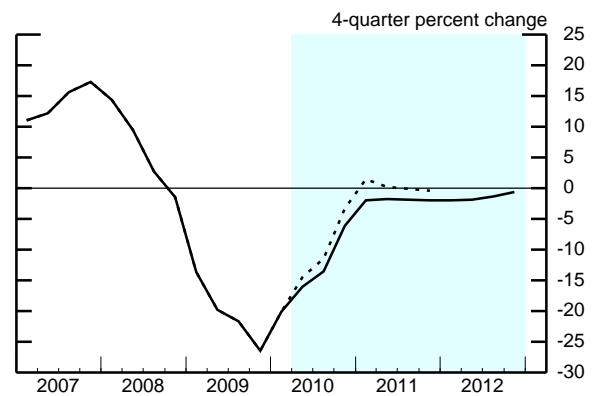
Residential Investment



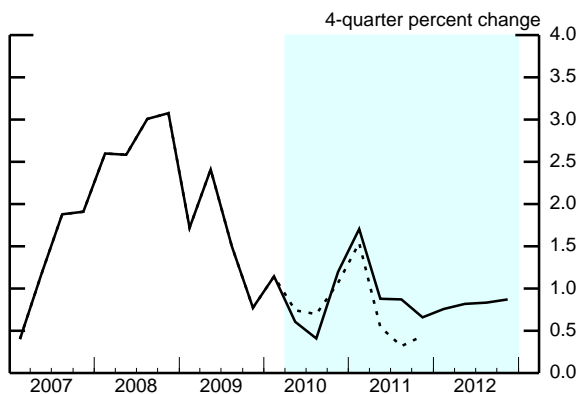
Equipment and Software



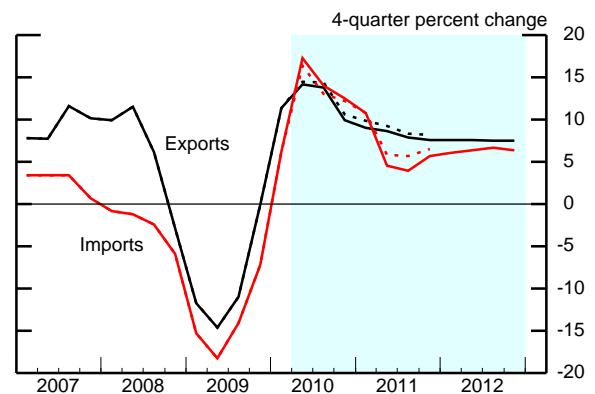
Nonresidential Structures



Government Consumption & Investment



Exports and Imports



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

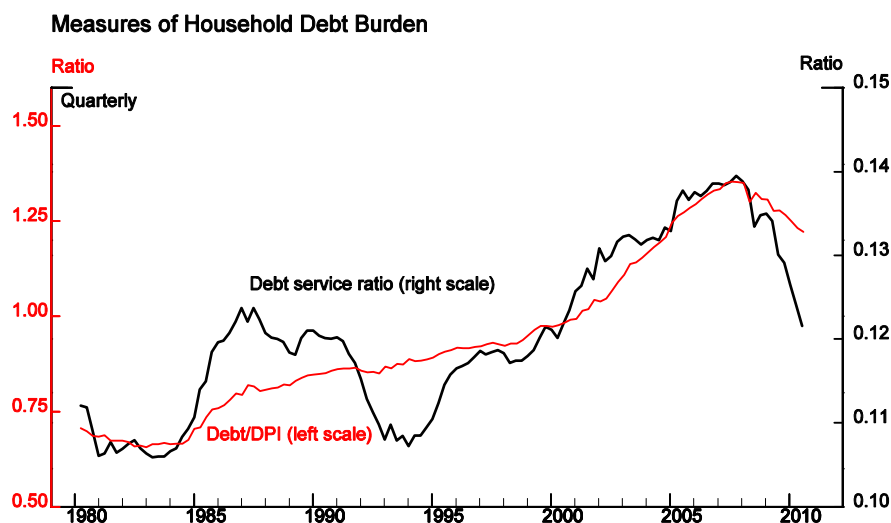
How Much Progress Have Households Made in Repairing Their Balance Sheets?

Sharp reductions in employment, income, and wealth left many households with a need to repair severely distressed balance sheets. Aggregate data suggest that progress has been made in this regard. However, a significant number of households continue to face financial strains that run deeper than the aggregate data suggest, and, for them, the financial repair process could take considerable time to completely play out.

After having reached an all-time high in the third quarter of 2007, the aggregate ratio of household debt to disposable personal income (shown in the figure below) declined noticeably through the second quarter of 2010. This decrease reflects reduced borrowing by households, repayments of a portion of existing debt, and defaults on some obligations, as well as a modest rise in disposable

income. Over the same period, the household debt service ratio (DSR)—defined as the minimum payments to cover principal and interest on household debt as a fraction of disposable income—has decreased more noticeably, as the average interest rates paid on debt have moved down on net (figure on facing page). The DSR currently stands at a level last seen in 2000.

Measures of household credit quality have also showed some signs of improvement in recent months. Delinquency rates have fallen noticeably from their recession peaks, although they remain at unusually high levels. The extent of improvement is not uniform, however, as delinquency rates on mortgages have moved down less than rates on consumer credit, a

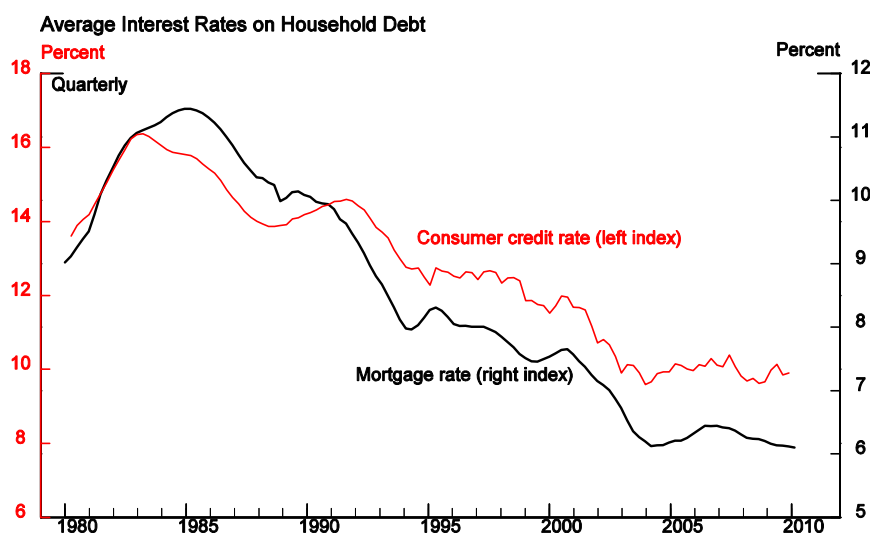


pattern that likely reflects the persistence of widespread negative home equity. (See the exhibit on household finances in the “Financial Developments” section for further details.)

Meanwhile, in recent quarters, household assets have risen, on net, reflecting increases in equity prices, a leveling-off of home prices, and a higher personal saving rate than in the years before the crisis. At the end of the third quarter, the ratio of household net worth—the difference between household assets and debt—to disposable income is projected to stand far below the exceptional peak in mid-2007, but close to its average level over the past 50 years.

Despite these signs of improvement, we think that the aggregate measures overstate the amount of financial repair that has occurred. Several factors

are standing in the way of financial repair for many households, including high unemployment, pervasive negative home equity (affecting, according to our estimates, at least 20 percent of all home mortgages), and mortgage refinancing that has been mostly limited to borrowers with good credit scores and sufficient home equity. In addition, the scale of the housing market collapse and the financial crisis was outside of the bounds of most households’ experiences and may have changed consumer attitudes about saving and borrowing. All told, even though we expect financial stress on these households to gradually lessen, we think that the forces of deleveraging and balance sheet repair will be a moderating influence on household spending for some time.



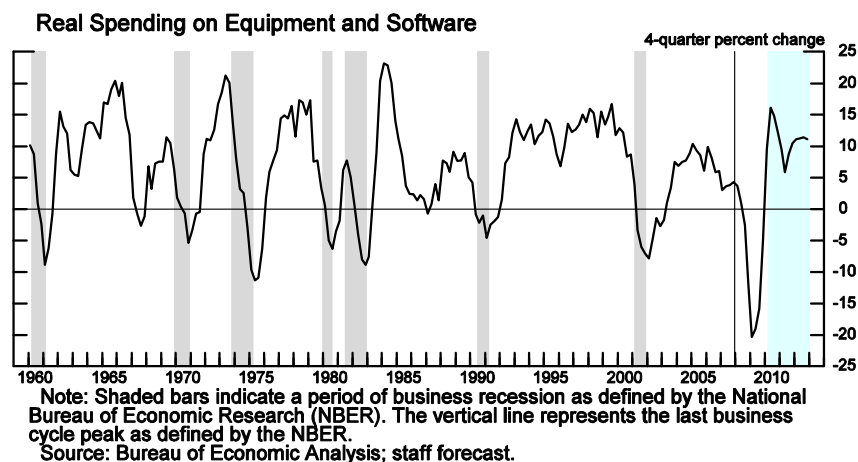
The Recovery in Equipment and Software Investment

Spending on equipment and software increased rapidly in the final quarter of 2009 and the first half of this year. Over the four quarters ending last quarter, real E&S rose 16 percent. Moreover, E&S investment has been a major contributor to the recovery, accounting for approximately one-third of the increase in overall output over this period—about the same contribution as PCE—despite constituting less than 7 percent of GDP.

Investment spending during the recovery has followed a fairly typical cyclical pattern. As shown in the figure below, real E&S spending usually falls sharply in recessions—a response to the decline in sales, heightened uncertainty about the outlook, and relatively tight credit conditions. A rapid recovery generally follows as firms respond to the improvement in sales prospects and the relatively low costs of borrowing that typify the onset of recovery. Recoveries are also usually boosted by the resumption of investment projects that were deferred because of the increased uncertainty and financing difficulties.

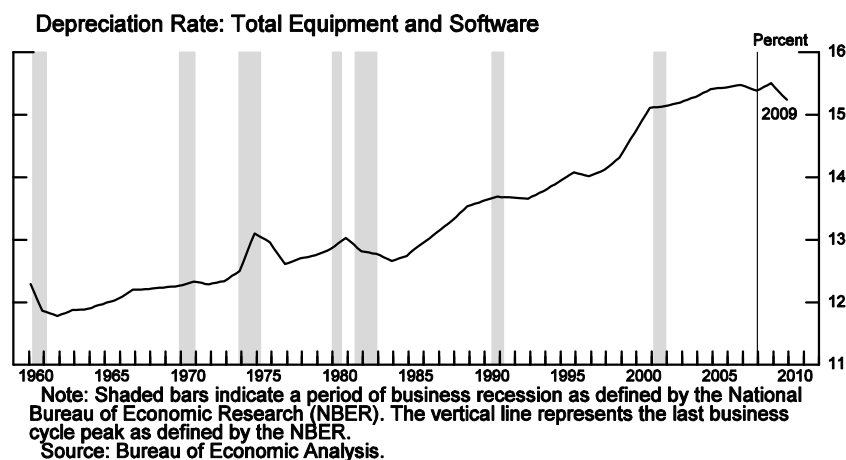
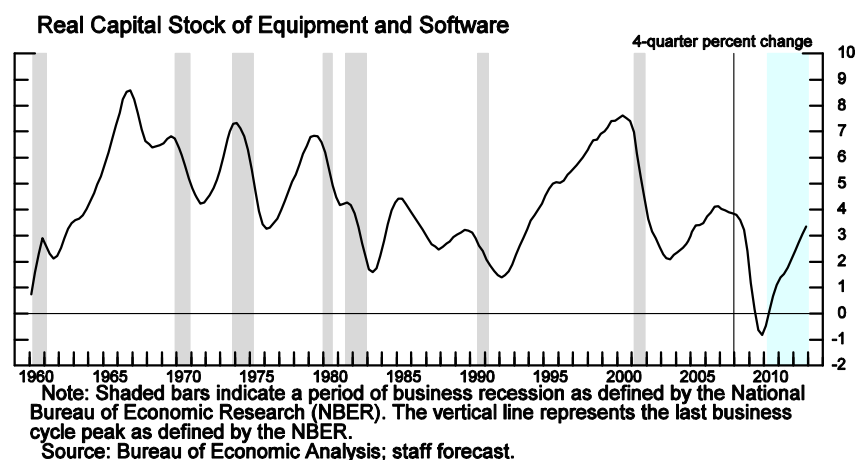
The same factors have likely been in play during this recession: The steep investment decline reflected the severity of the recession, extraordinarily high uncertainty about the outlook, and unusually tight credit conditions. The subsequent bounceback in investment growth has likely been boosted, in part, by the ensuing pent-up demand.

However, even with the rapid pickup in E&S growth over the past few quarters, the level of investment has risen only enough to produce meager gains in the capital stock. The top figure on the next page shows the four-quarter change in the E&S capital stock. In the year ending last quarter, the capital stock increased at an anemic rate, after having actually fallen for several quarters—the first declines in the post–World War II period. Although the drop in gross investment during the recession was larger than in most previous downturns, that alone does not fully explain the fall in the capital stock and the subsequent weak recovery.



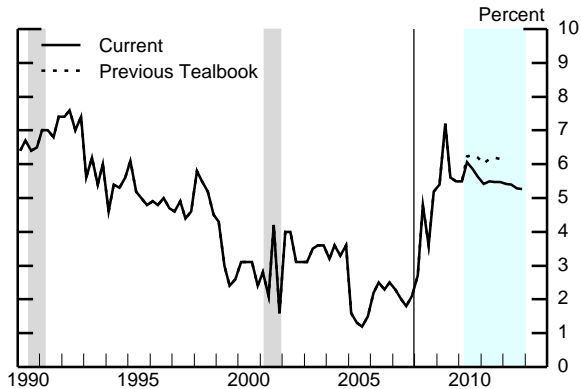
The other important factor has been an increase over time in the amount of investment required to replace the capital stock—that is, a rising depreciation rate. This development reflects the gradual shift in the composition of the capital stock toward assets with shorter service lives such as computers and software. Thus, a portion of the large gains in investment over the past several quarters has served only to bring capital spending back up to the level of replacement investment.

Going forward, we project that outlays for E&S will continue to rise solidly, albeit not spectacularly—a reflection of the subpar recovery in business sales that we are projecting and the waning of the boost from pent-up demand. As investment rises further above the level required to replace depreciated capital, the growth rate of the capital stock picks up in the medium term though it remains quite low for a recovery.



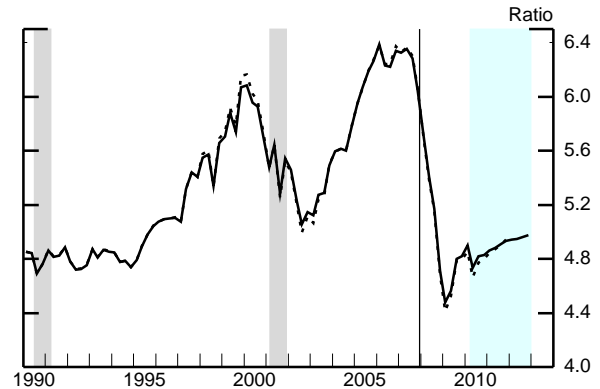
Aspects of the Medium-Term Projection

Personal Saving Rate



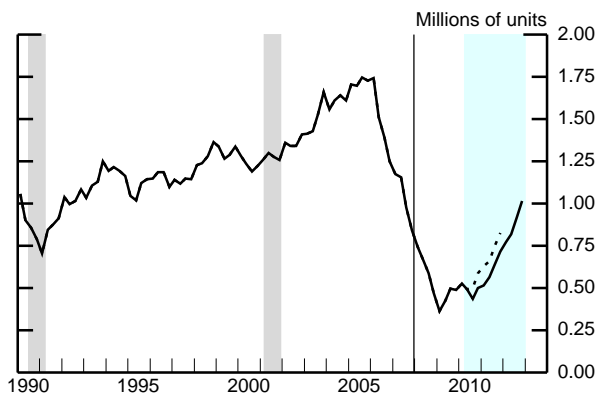
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Wealth-to-Income Ratio



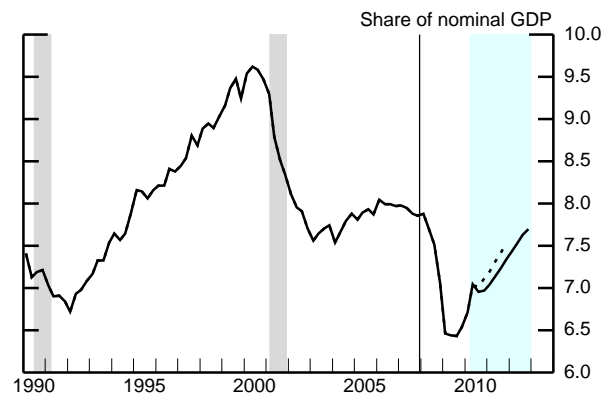
Note: Household net worth as a ratio to disposable personal income.
Source: Flow of Funds Accounts.

Single-Family Housing Starts



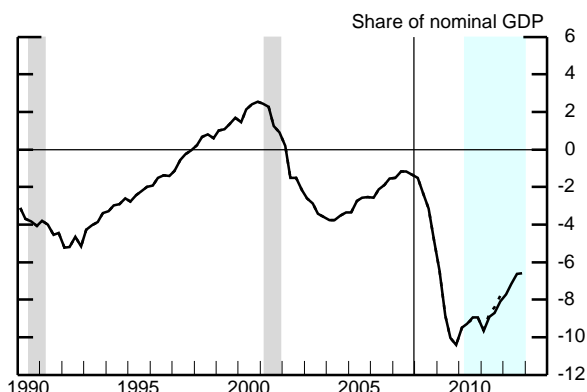
Source: U.S. Census Bureau.

Equipment and Software Spending



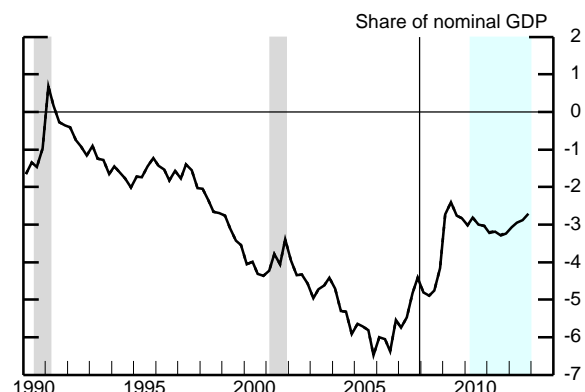
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Federal Surplus/Deficit



Note: Share of federal government surplus/deficit is shown as a 4-quarter moving average.
Source: Monthly Treasury Statement.

Current Account Surplus/Deficit



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Note: The shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research (NBER). The vertical lines represent the last business cycle peak as defined by the NBER.

Structural Unemployment and Revisions to the Staff's NAIRU

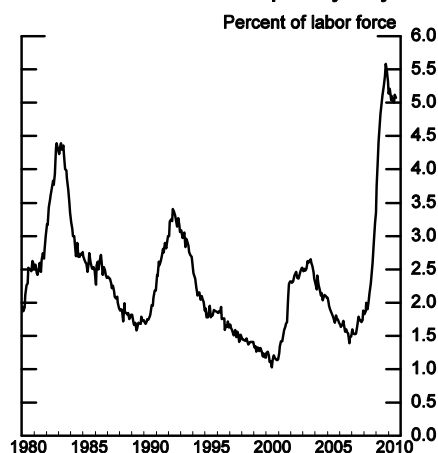
In the staff's view, the sharp run-up in the unemployment rate since late 2007 has been largely cyclical rather than structural. That said, we now think that the NAIRU has increased by more than we had assumed earlier, and we have raised our estimate of the current NAIRU by an additional $\frac{1}{2}$ percentage point to $5\frac{3}{4}$ percent.

The steep increase in unemployment resulting from permanent layoffs (shown in the figure to the lower left) is a key factor underlying our assumed increase in structural unemployment. Permanent job loss often requires affected individuals to change industries, occupations, or locations in order to become reemployed. Further, such workers typically experience longer spells of unemployment than do workers who lose their jobs through temporary layoffs or who become unemployed upon entering the labor force. Because this measure has remained stubbornly high, these workers' obstacles to a successful job search—such as skill mismatch or skill depreciation—appear to have been greater than we had previously thought.

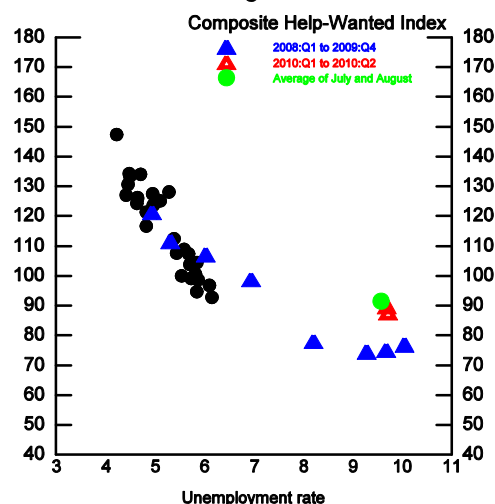
One piece of evidence that permanent job loss has led to a larger rise in structural unemployment than we had previously assumed is the outward movement in the Beveridge Curve (shown in the figure to the lower right), which represents the relationship between the job-vacancy rate and the unemployment rate.¹ Movements in the Beveridge Curve can occur for several reasons, and, indeed, the continued elevated pace of layoffs and the effects on the unemployment rate of the extensions of unemployment insurance benefits have both likely contributed to this outward movement. Nonetheless, job-finding rates for unemployed workers (not shown) fell sharply during 2008 and 2009 and have remained extraordinarily low despite an increase in the vacancy rate. This development suggests that the amount of structural unemployment associated with job mismatch may have increased as well. In this regard, staff research suggests that the observed shift in the Beveridge Curve is roughly consistent with the increase in the staff's estimate of the NAIRU since the beginning of the recession.

¹ The job-vacancy rate is measured by the staff's composite index of help-wanted advertising as a share of nonfarm payroll employment.

Job Losers Not on Temporary Layoff



Beveridge Curve



Decomposition of Potential GDP
(Percent change, Q4 to Q4, except as noted)

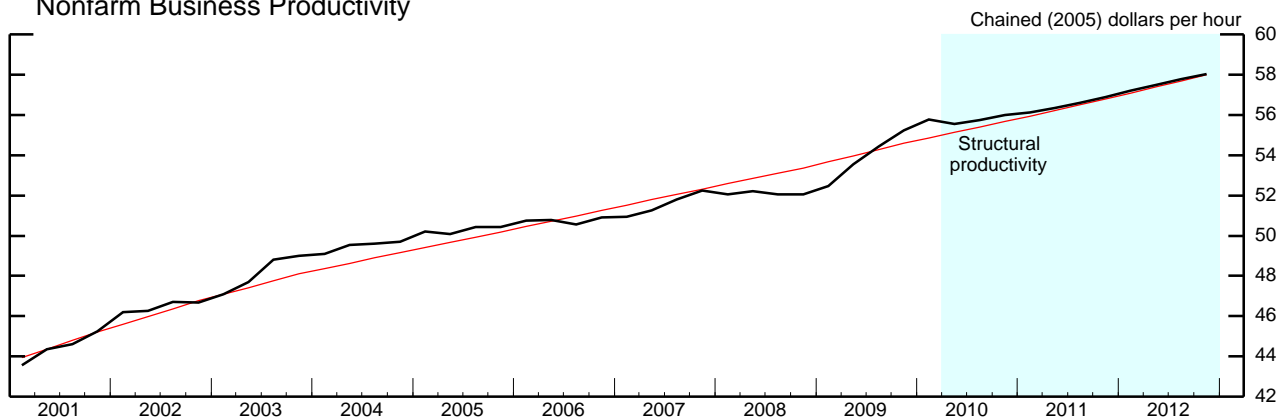
Measure	1974-1995	1996-2000	2001-2008	2009	2010	2011	2012
Potential GDP	3.0	3.5	2.7	2.2	2.5	2.5	2.5
Previous Tealbook	3.0	3.5	2.7	2.6	2.4	2.5	
<i>Selected contributions¹</i>							
Structural labor productivity	1.5	2.7	2.5	2.3	2.0	2.0	2.1
Previous Tealbook	1.5	2.7	2.5	2.4	1.9	2.0	
Capital deepening	.7	1.5	.7	.3	.4	.6	.8
Previous Tealbook	.7	1.5	.7	.1	.3	.6	
Multifactor productivity	.5	.9	1.6	1.9	1.5	1.3	1.2
Previous Tealbook	.5	.9	1.6	2.1	1.5	1.4	
Trend hours	1.7	1.1	.8	.1	.7	.7	.7
Previous Tealbook	1.7	1.1	.8	.4	.7	.7	
Labor force participation	.5	.0	-.2	-.2	-.2	-.2	-.2
Previous Tealbook	.5	.0	-.2	-.2	-.2	-.2	

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.

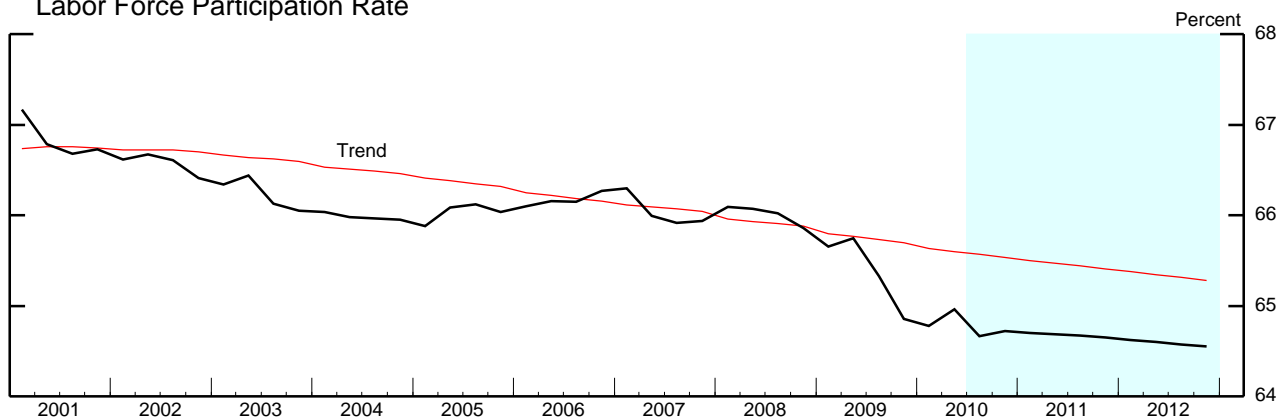
1. Percentage points.

Source: Staff assumptions.

Nonfarm Business Productivity



Labor Force Participation Rate



Source: U.S. Department of Labor, Bureau of Labor Statistics; staff assumptions.

The Outlook for the Labor Market

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

Measure	2009	2010	2011	2012
Output per hour, nonfarm business	6.2	1.3	1.6	2.0
Previous Tealbook	6.3	1.4	1.3	
Nonfarm private employment	-4.7	.9	2.1	2.9
Previous Tealbook	-4.7	1.2	2.7	
Labor force participation rate ¹	64.9	64.7	64.7	64.6
Previous Tealbook	64.9	64.7	64.6	
Civilian unemployment rate ¹	10.0	9.7	9.1	8.0
Previous Tealbook	10.0	9.7	8.9	
MEMO				
GDP gap ²	-7.1	-7.2	-6.4	-4.7
Previous Tealbook	-7.9	-7.6	-6.6	

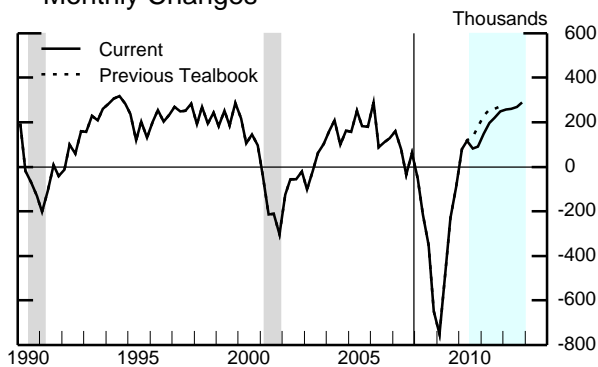
Note: A negative number indicates that the economy is operating below potential.

1. Percent, average for the fourth quarter.

2. Percent difference between actual and potential GDP in the fourth quarter of the year indicated.

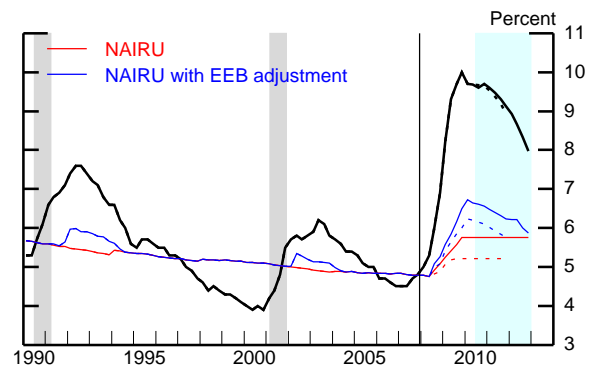
Source: U.S. Department of Labor, Bureau of Labor Statistics; staff assumptions.

Private Payroll Employment, Average
Monthly Changes



Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

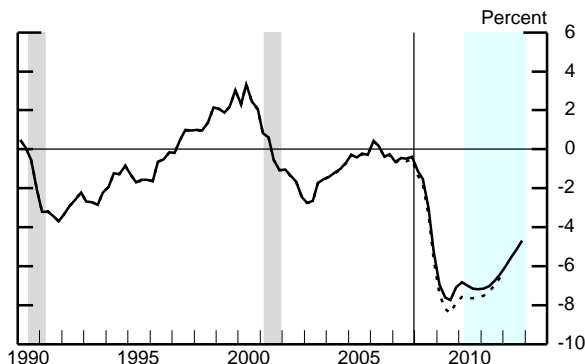
Unemployment Rate



Note: The EEB adjustment is the staff estimate of the effect of extended and emergency unemployment compensation programs on the NAIRU.

Source: U.S. Dept. of Labor, Bureau of Labor Statistics; staff assumption.

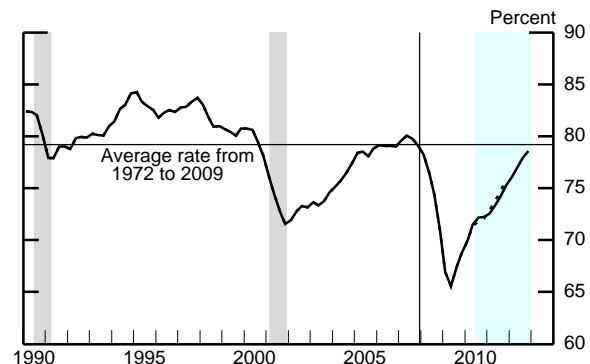
GDP Gap



Note: The GDP gap is the percent difference between actual and potential GDP; a negative number indicates that the economy is operating below potential.

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; staff assumption.

Manufacturing Capacity Utilization Rate



Source: Federal Reserve Board, G. 17 Statistical Release, "Industrial Production and Capacity Utilization."

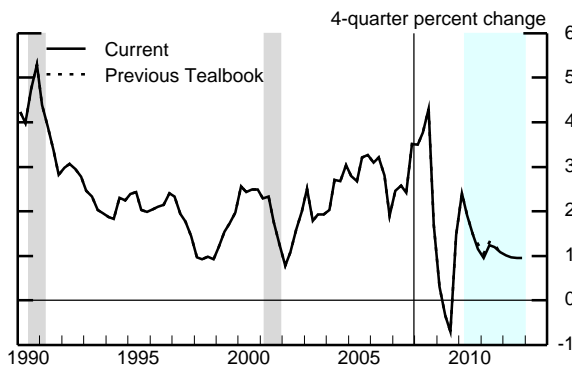
Note: The shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research (NBER). The vertical lines represent the last business cycle peak as defined by the NBER.

Inflation Projections (Percent change, Q4 to Q4)

Measure	2009	2010	2011	2012
PCE chain-weighted price index	1.5	1.2	1.1	1.0
Previous Tealbook	1.5	1.3	1.1	
Food and beverages	-1.6	1.2	.7	.7
Previous Tealbook	-1.6	1.3	.7	
Energy	2.7	1.4	4.4	1.8
Previous Tealbook	2.7	4.5	3.8	
Excluding food and energy	1.7	1.1	.9	.9
Previous Tealbook	1.7	1.1	.9	
Prices of core goods imports ¹	-1.9	2.7	1.2	.9
Previous Tealbook	-1.9	2.7	1.2	

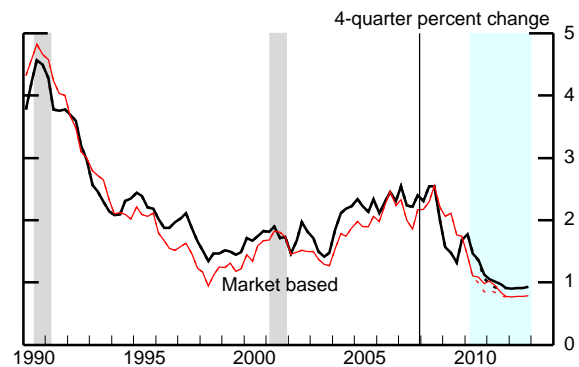
1. Core goods imports exclude computers, semiconductors, oil, and natural gas.
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Total PCE Prices



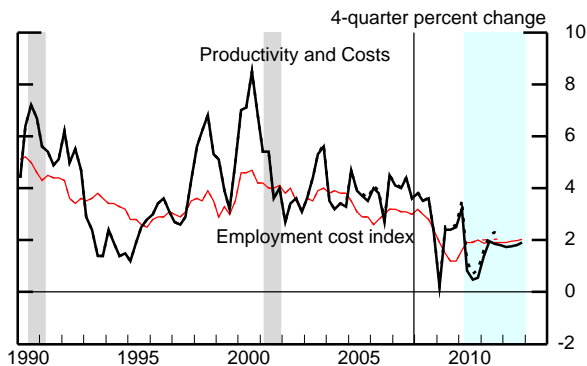
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

PCE Prices ex. Food and Energy



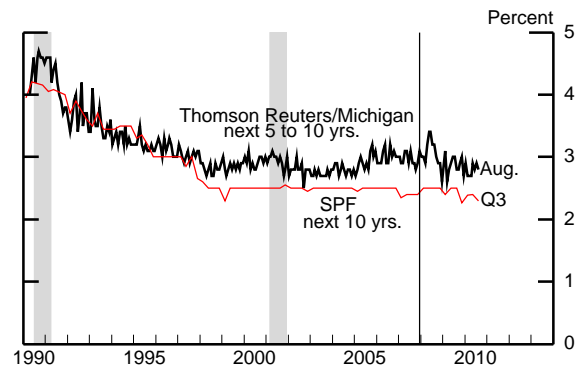
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Compensation per Hour



Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

Long-Term Inflation Expectations



Note: The Survey of Professional Forecasters (SPF) projection is for the CPI.
Source: Thomson Reuters/University of Michigan Surveys of Consumers; The Federal Reserve Bank of Philadelphia.

Note: The shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research (NBER). The vertical lines represent the last business cycle peak as defined by the NBER.

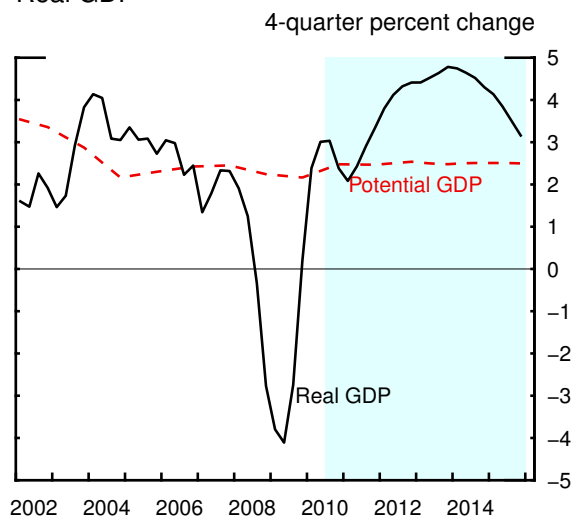
The Long-Term Outlook

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

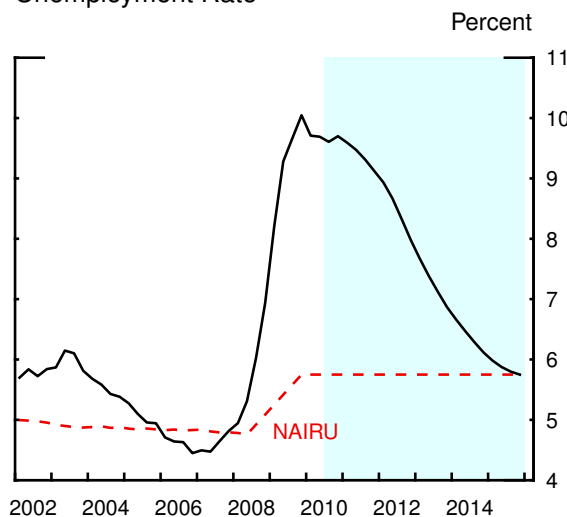
Item	2010	2011	2012	2013	2014	2015
Real GDP	2.4	3.3	4.4	4.8	4.3	3.2
Civilian unemployment rate ¹	9.7	9.1	8.0	6.9	6.1	5.7
PCE prices, total	1.2	1.1	1.0	1.1	1.4	1.6
Core PCE prices	1.1	.9	.9	1.1	1.3	1.5
Federal funds rate ¹	.1	.1	.3	1.8	3.0	3.7

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

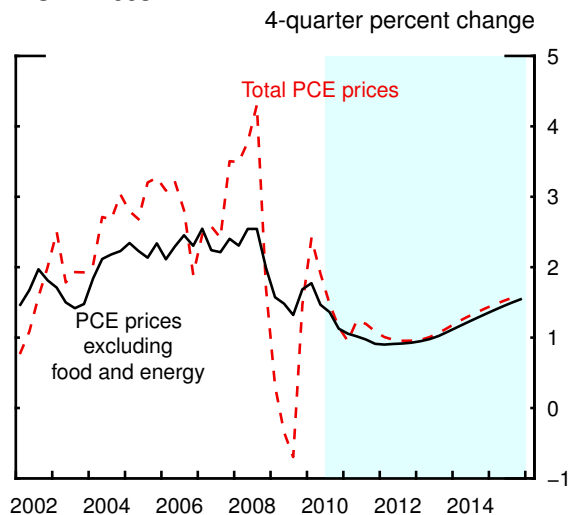
Real GDP



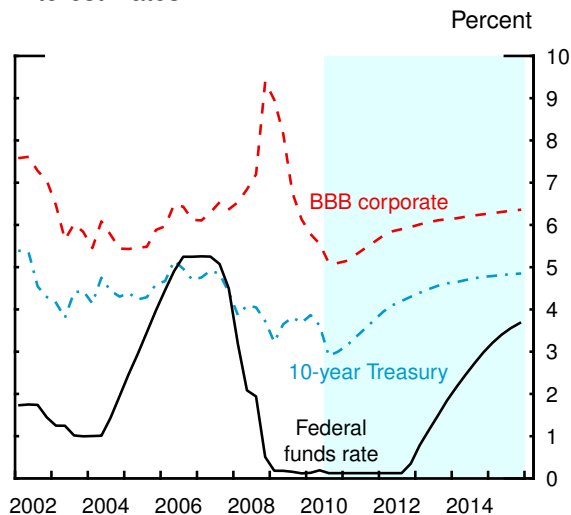
Unemployment Rate



PCE Prices



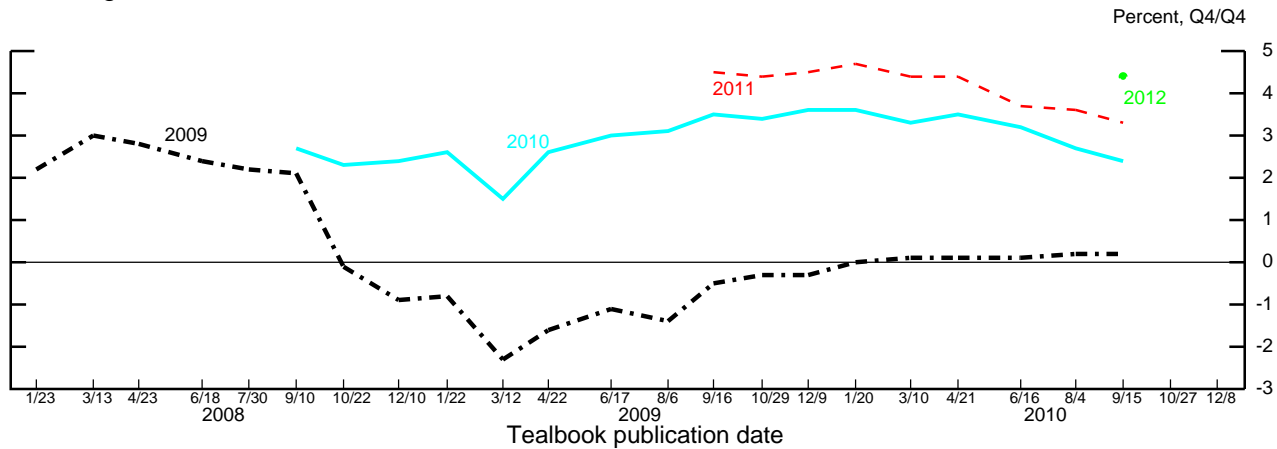
Interest Rates



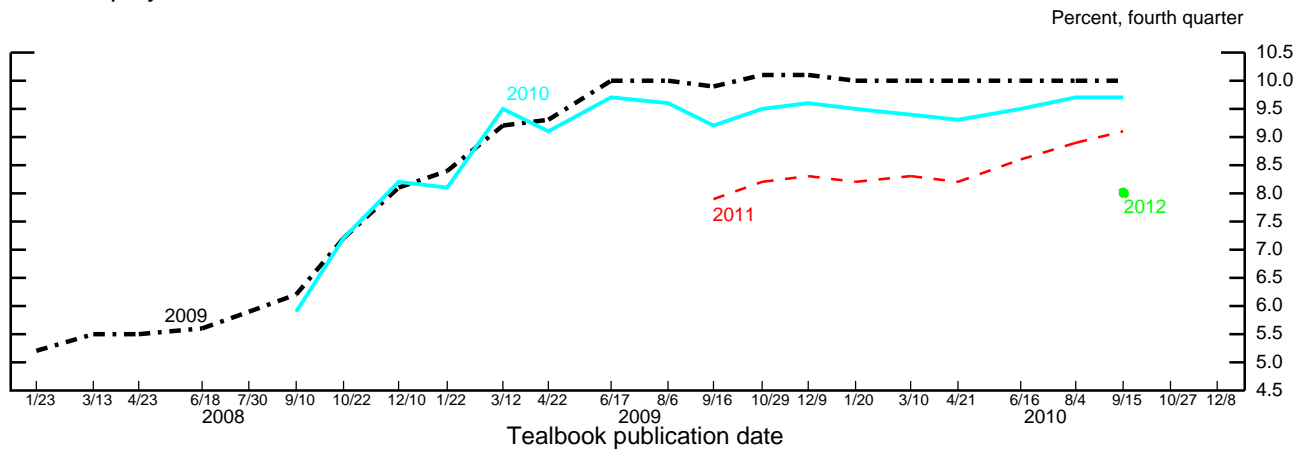
Note: In each panel, shading represents the projection period.

Evolution of the Staff Forecast

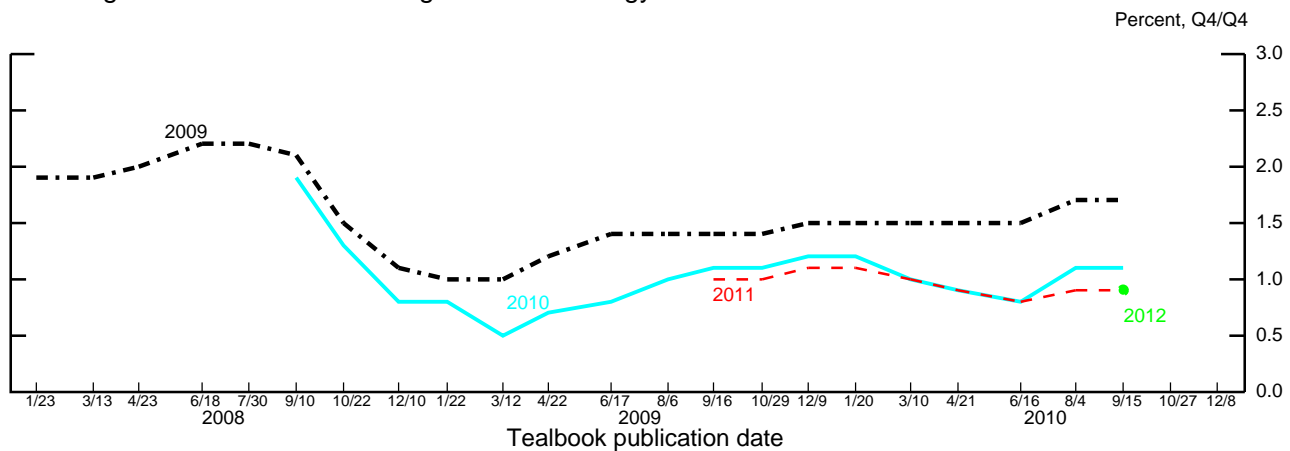
Change in Real GDP



Unemployment Rate



Change in PCE Prices excluding Food and Energy*



*Because the core PCE price index was redefined as part of the comprehensive revisions to the NIPA, projections prior to the August 2009 Tealbook are not strictly comparable with more recent projections.

International Economic Developments and Outlook

Although foreign GDP data for the second quarter proved stronger than we had anticipated, more recent indicators support our expectation that the pace of activity abroad will slow significantly in the second half of this year. The second-quarter strength reflected surprisingly vigorous GDP growth for a number of economies, particularly the euro area and Mexico. The euro-area performance appears to reflect greater resilience in the face of the region's debt-related financial stresses than we had anticipated, and we have carried some of this momentum forward, but we judge that Mexico's second-quarter surge reflected transitory factors. Indicators for the third quarter, in contrast, have come in on the weak side of our expectations. The softer tone of the foreign data, along with downward revisions to the path of U.S. GDP, has led us to mark down the outlook for foreign GDP growth by $\frac{1}{2}$ percentage point in the second half of the year and by $\frac{1}{4}$ percentage point in 2011.

We now project that foreign economic activity will slow from an annual rate of $5\frac{1}{2}$ percent in the first half of this year to $2\frac{3}{4}$ percent in the second half, as the recovery in global trade, manufacturing, and inventories matures. Thereafter, economic growth picks up to $3\frac{1}{2}$ percent by 2012 as a gradual revival in private spending more than offsets the withdrawal of fiscal and monetary stimulus. Although fiscal policy should be approximately neutral this year, we continue to project that fiscal consolidation efforts will exert a drag on foreign growth in 2011 and 2012.

Staff Projections for Foreign Economies

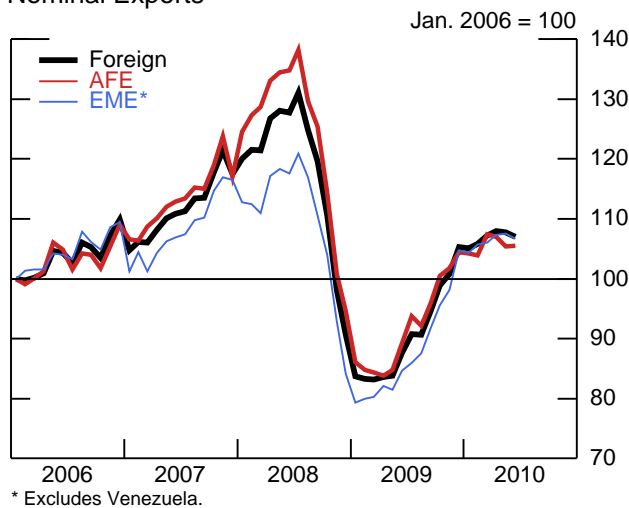
(Percent change from end of previous period, annual rate)

Indicator	2009	2010		Projection			
				2010		2011	2012
		Q1	Q2	Q3	Q4		
Real GDP	.4	4.9	5.9	2.5	2.9	3.2	3.5
August TB	.4	4.8	4.7	3.1	3.2	3.4	...
CPI	1.2	3.4	1.3	1.9	2.1	2.2	2.2
August TB	1.2	3.4	1.3	1.8	2.2	2.2	...

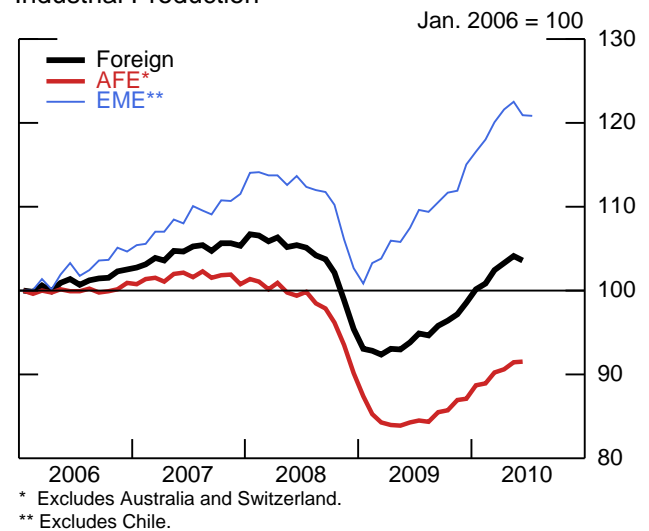
... Not applicable.

Recent Foreign Indicators

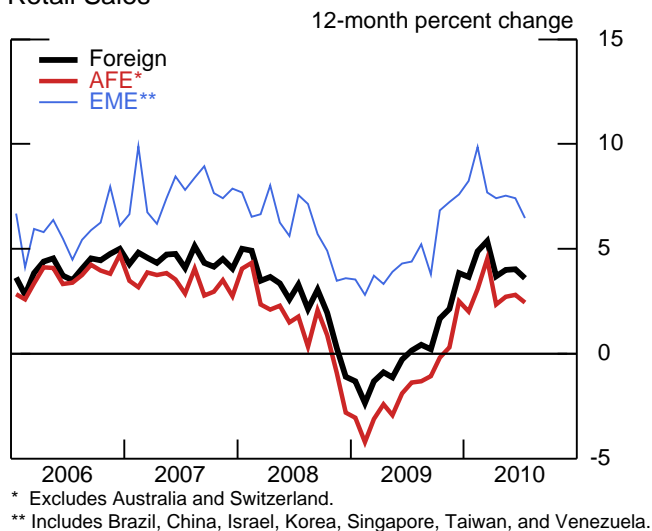
Nominal Exports



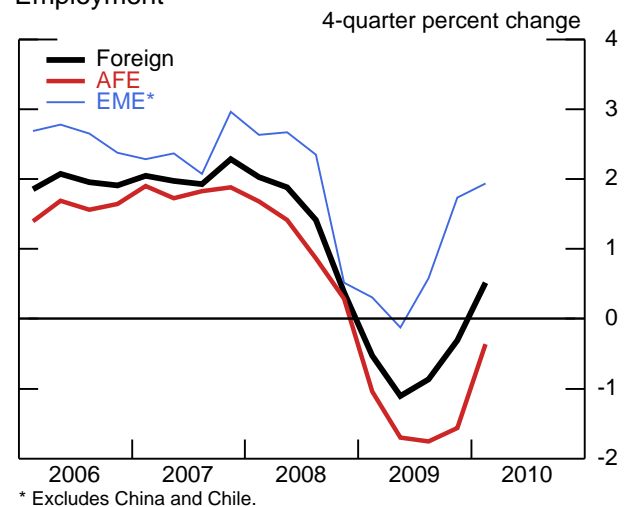
Industrial Production



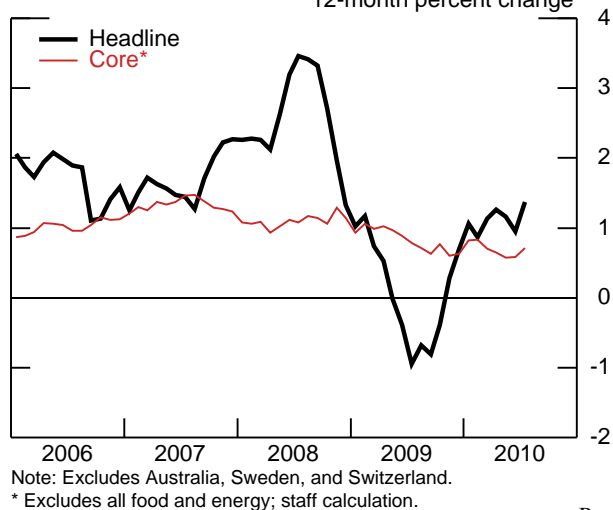
Retail Sales



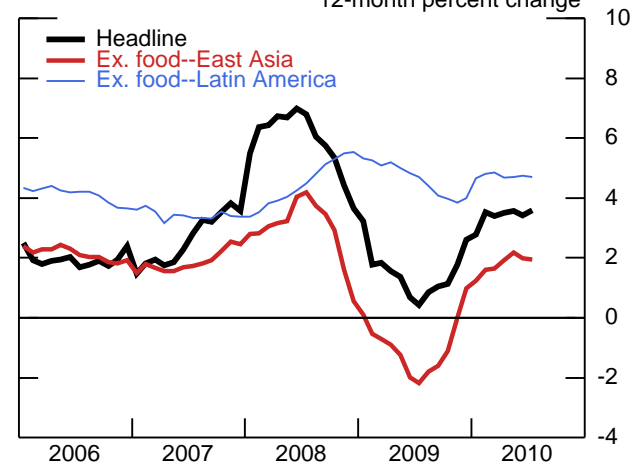
Employment



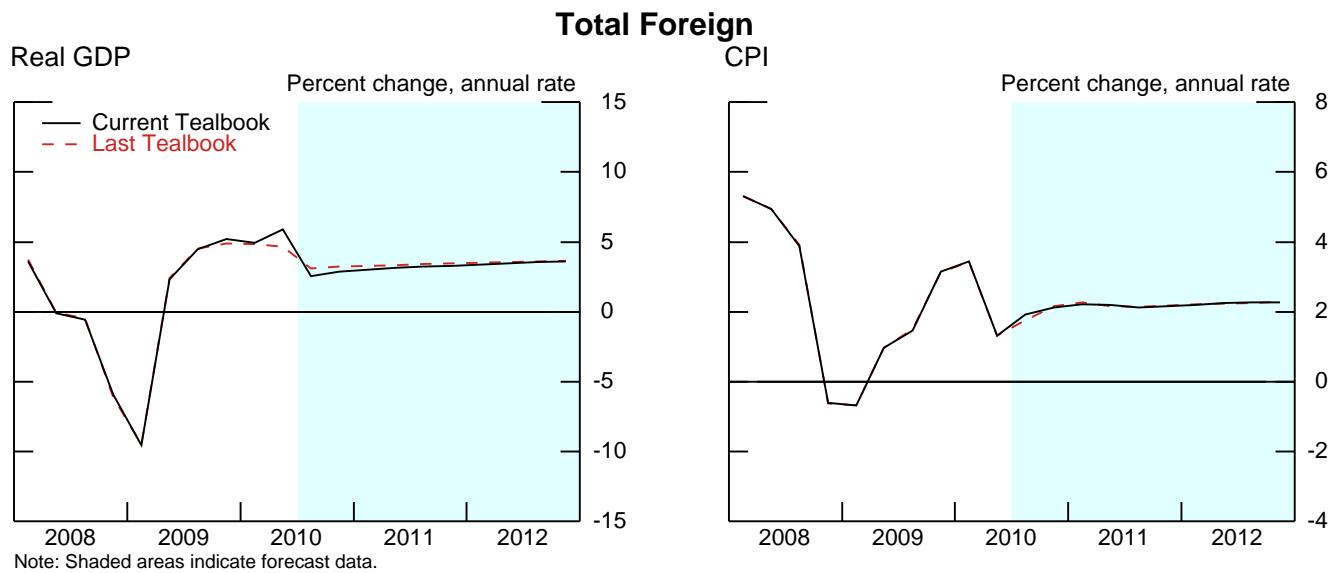
Consumer Prices: Advanced Foreign Economies



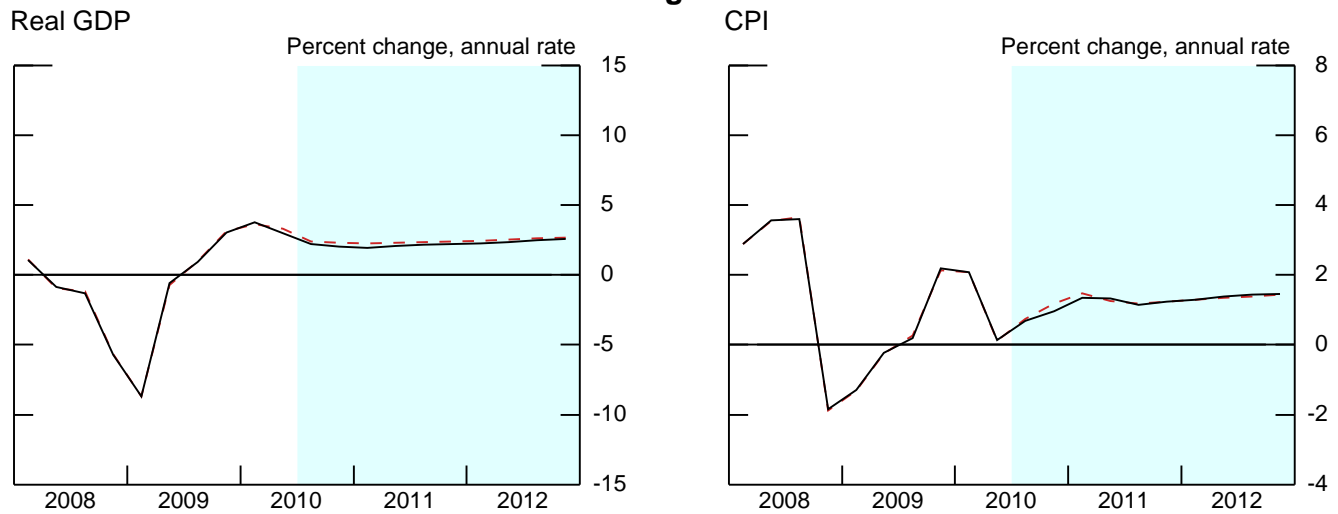
Consumer Prices: Emerging Market Economies



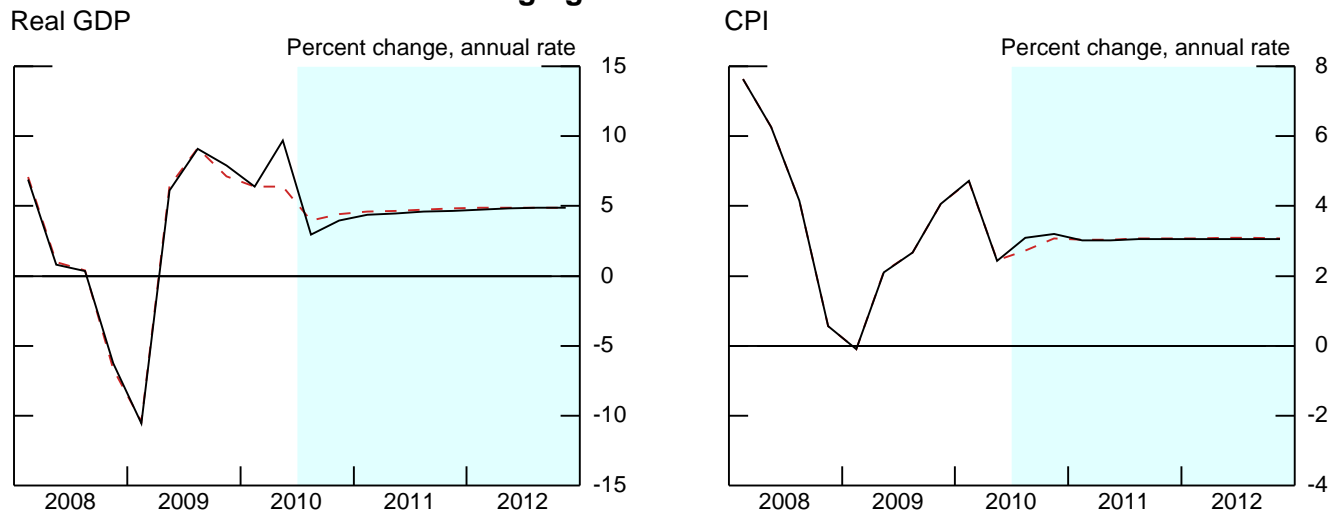
The Foreign Outlook



Advanced Foreign Economies



Emerging Market Economies



demand helped fuel a 9 percent surge in real GDP. In contrast, economic growth in Spain and Portugal was only weakly positive, and Greek GDP contracted at a 7 percent pace as private consumption and investment plummeted. Second-quarter GDP data for Ireland have yet to be released, but financial conditions worsened over the intermeeting period on further revelations about the poor performance of the major banks. (For a discussion, see the box, “Recent Developments in the Irish Banking Sector.”)

Staff Projections for Advanced Foreign Economies
(Percent change from end of previous period, annual rate)

Indicator	2009	2010		Projection			
				2010		2011	2012
		Q1	Q2	Q3	Q4		
Real GDP	-1.4	3.7	3.0	2.2	2.0	2.1	2.4
August TB	-1.4	3.6	3.3	2.4	2.3	2.3	...
CPI	.2	2.1	.1	.7	1.0	1.3	1.4
August TB	.2	2.1	.1	.7	1.2	1.3	...

... Not applicable.

For the euro area as a whole, indicators for activity in the current quarter suggest some moderation from the rapid second-quarter pace. Euro-area purchasing managers indexes (PMIs) for August edged down, and industrial production was flat in July. However, these indicators came in better than we had expected, and retail sales and consumer confidence also suggest more momentum than we had anticipated in the August Tealbook. Accordingly, we have revised up our estimate for euro-area GDP growth in the second half nearly $\frac{1}{2}$ percentage point to $1\frac{3}{4}$ percent. Going forward, we continue to believe that significant headwinds remain, as countries implement substantial fiscal consolidation, the impetus from the inventory cycle fades, and stresses in the banking sector persist. We expect euro-area economic growth to slow further to $1\frac{1}{2}$ percent in 2011 before picking up to about 2 percent in 2012.

Our outlook for the euro area is conditional on a gradual easing of the financial pressures that emerged in the spring of 2010, based on tangible progress toward cutting budgets. Indeed, to date, peripheral euro-area countries have been implementing fiscal consolidation plans in line with their commitments. Based on our projections, however, the significant fiscal consolidation undertaken by Greece will not be sufficient to stabilize

All told, we now expect economic growth in the EMEs to drop to 3½ percent in the second half of this year. Much of this deceleration was foreseen in our August forecast, and we revised down our second-half projection by only ¾ percentage point. This revision reflects a combination of the weaker-than-expected data mentioned above, payback in Mexico from its surprising second-quarter surge, and the markdown to the U.S. outlook. In 2011 and 2012, we project EME economic growth to step up to roughly 4¾ percent per year, a rate we view as sustainable and in line with the projected firming in activity in the advanced economies.

Staff Projections for Emerging Market Economies
(Percent change from end of previous period, annual rate)

Indicator	2009	2010		Projection			
				2010		2011	2012
		Q1	Q2	Q3	Q4		
Real GDP	2.8	6.4	9.7	3.0	4.0	4.5	4.8
August TB	2.8	6.4	6.4	4.0	4.4	4.7	...
CPI	2.2	4.7	2.4	3.1	3.2	3.0	3.1
August TB	2.2	4.7	2.4	2.7	3.1	3.0	...

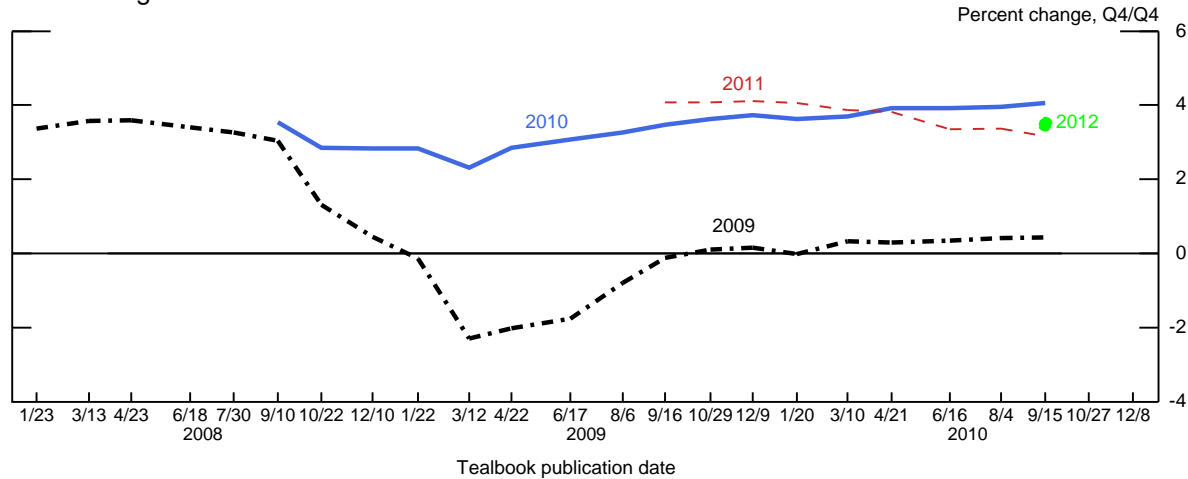
... Not applicable.

China. In China, incoming data have reinforced our assessment that GDP growth has moderated from the rapid pace over the past year. Industrial production dipped slightly in July but rebounded in August, leaving the three-month change—at 2.2 percent—similar to the second-quarter pace. The PMI, fixed-asset investment, and retail sales weakened in July, but improved in August. Exports moved down in July and August, but imports were also soft, resulting in a widening of the trade surplus, on average, from the second quarter.

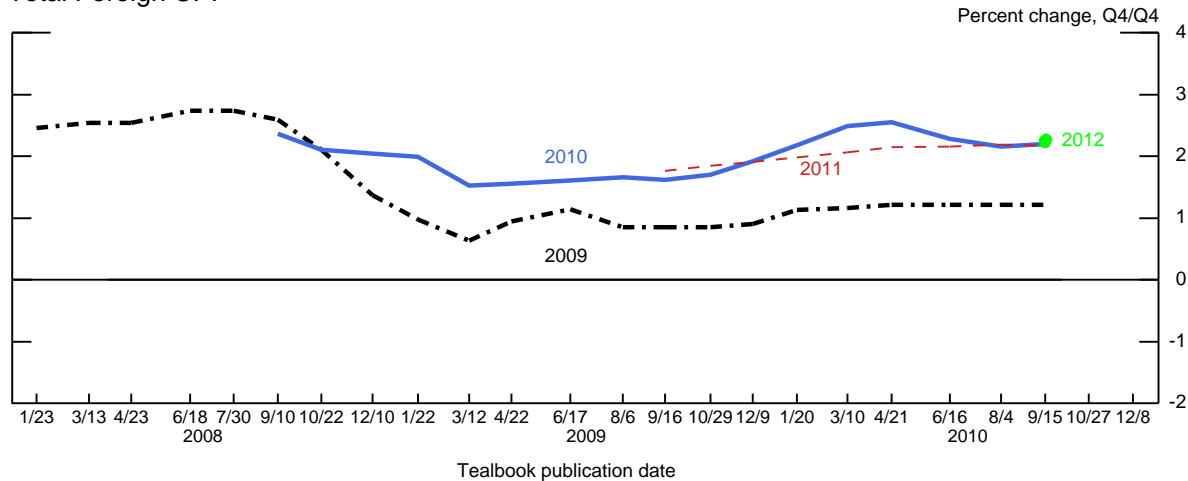
In response to the weaker U.S. outlook, we have revised our projection of GDP in China down about ¼ percentage point to 8 percent in the second half of this year. For 2011 and 2012, Chinese economic growth edges up to 8½ percent. Although concerns have been raised that China may be heading for a sharp slowdown, perhaps reflecting excesses in its property market, we see recent developments as broadly consistent with only a moderation in the pace of growth, in line with the intentions of the Chinese authorities. In addition, we believe that the authorities have sufficient scope for further

Evolution of Staff's International Forecast

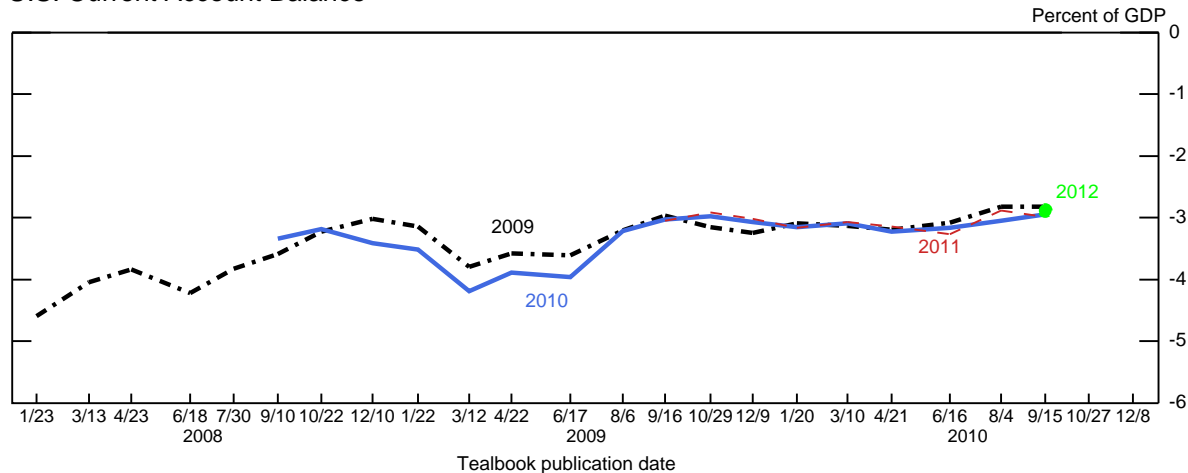
Total Foreign GDP



Total Foreign CPI

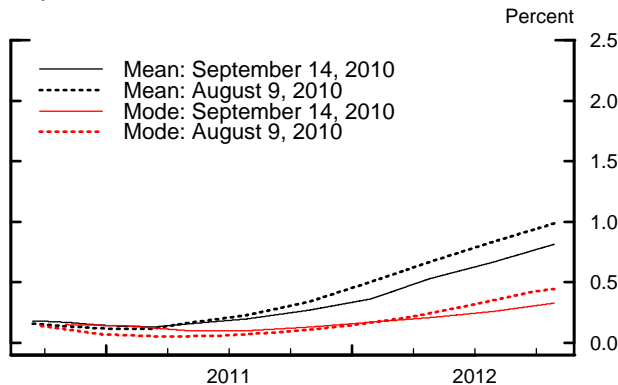


U.S. Current Account Balance



Policy Expectations and Treasury Yields

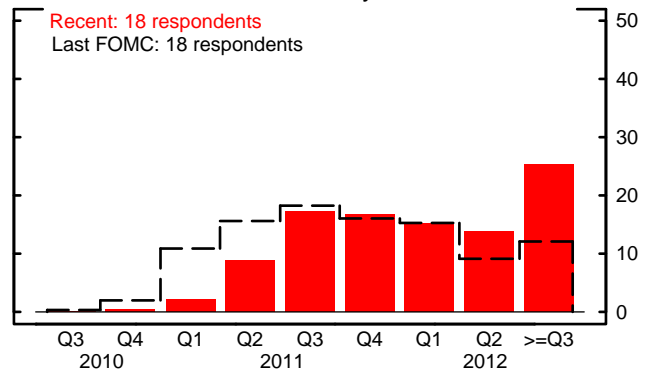
Implied Federal Funds Rate



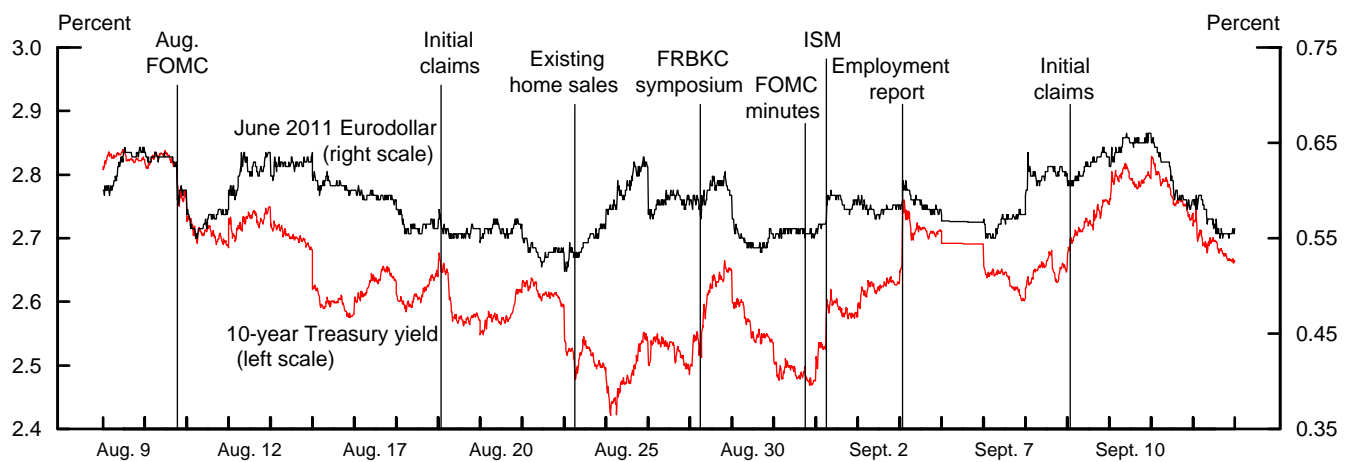
Note: Mean is estimated from federal funds and Eurodollar futures. Mode is estimated from distribution of federal funds rate implied by interest rate caps. Both include an allowance for term premiums and other adjustments.

Source: Bloomberg and CME Group.

Implied Expectation of Quarter of First Rate Increase from the Desk's Dealer Survey



Interest Rates



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

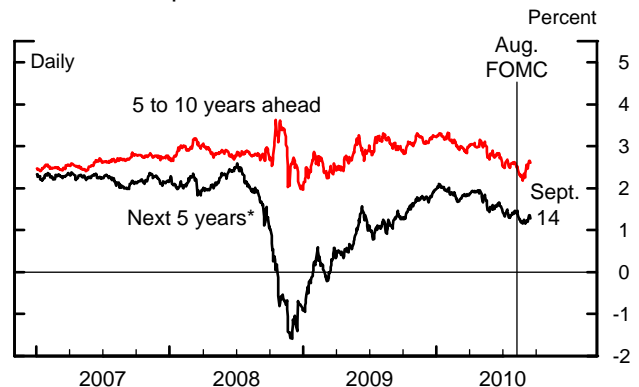
Source: Bloomberg.

10-Year Off-the-Run Treasury Yield



Note: Par yield estimates based on smoothed nominal Treasury yield curve.

Inflation Compensation



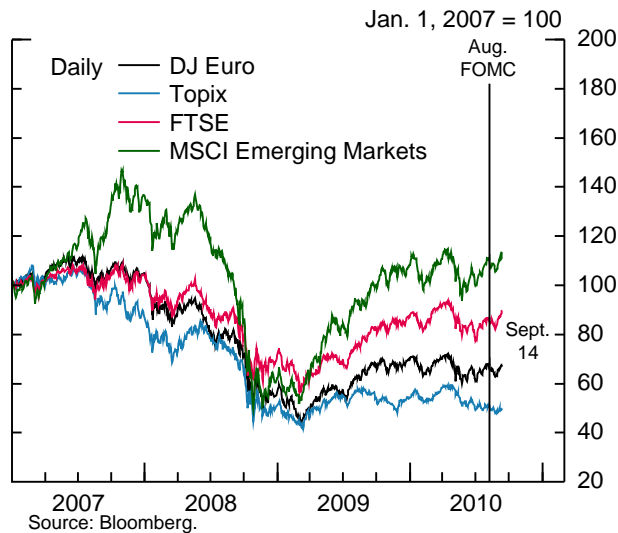
Note: Estimates based on smoothed nominal and inflation-indexed Treasury yield curves.

*Adjusted for the indexation-lag (carry) effect.

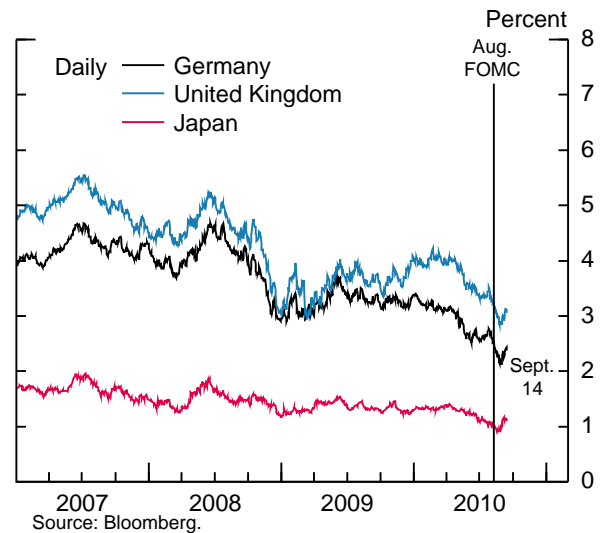
Source: Barclays PLC and staff estimates.

Foreign Developments

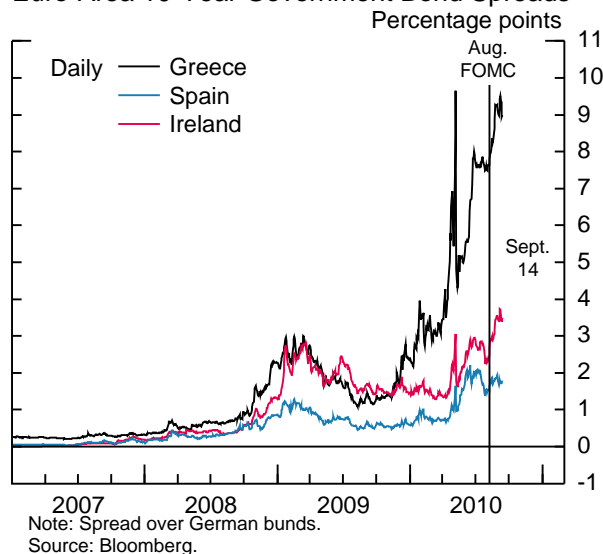
Stock Price Indexes



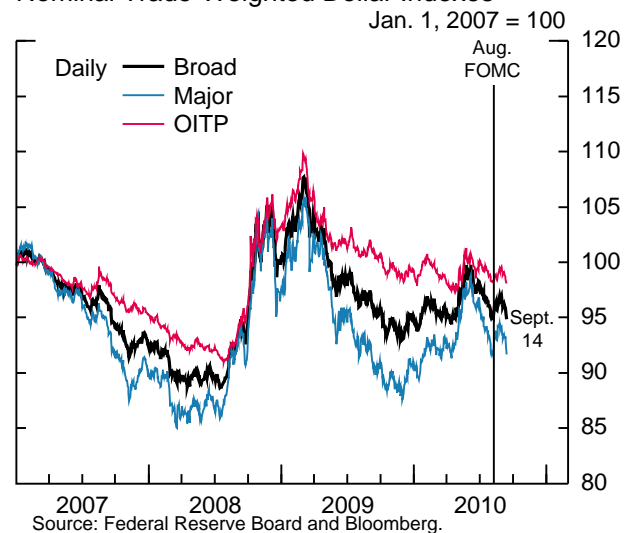
Nominal 10-Year Government Bond Yields



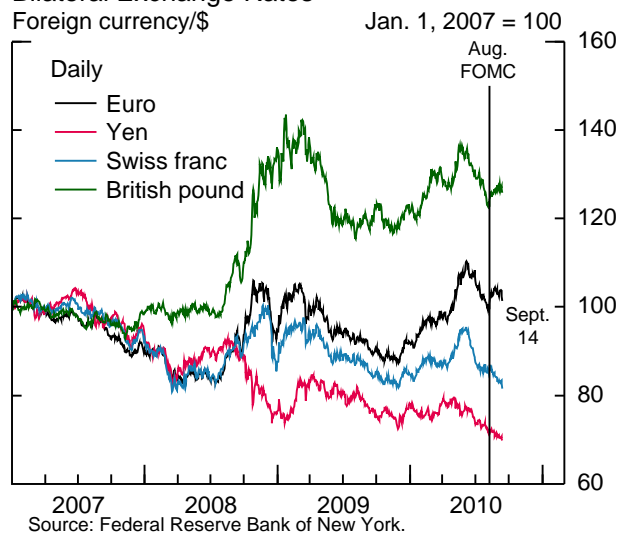
Euro-Area 10-Year Government Bond Spreads



Nominal Trade-Weighted Dollar Indexes

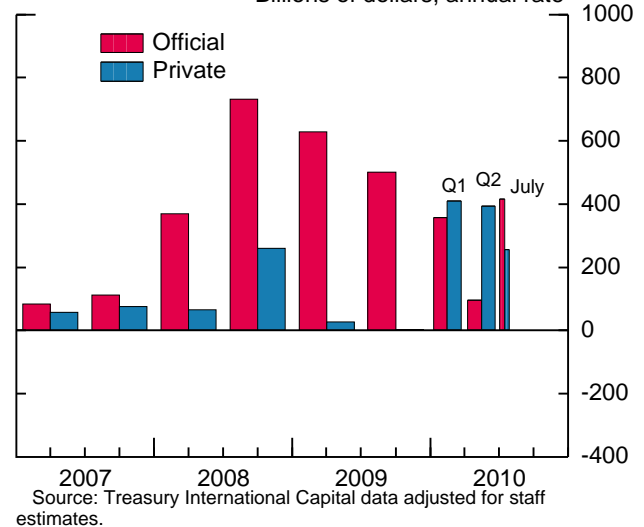


Bilateral Exchange Rates



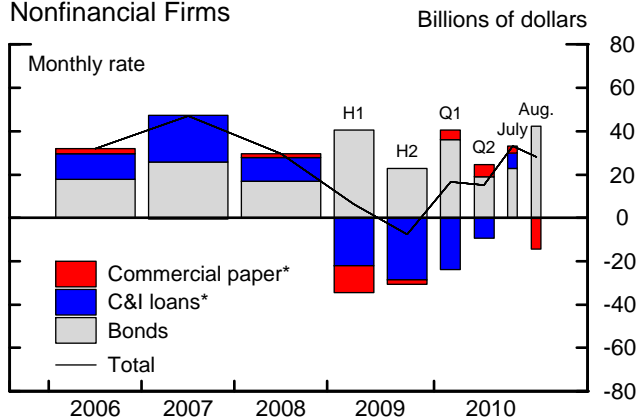
Foreign Net Purchases of U.S. Treasury Securities

Billions of dollars, annual rate



Business Finance

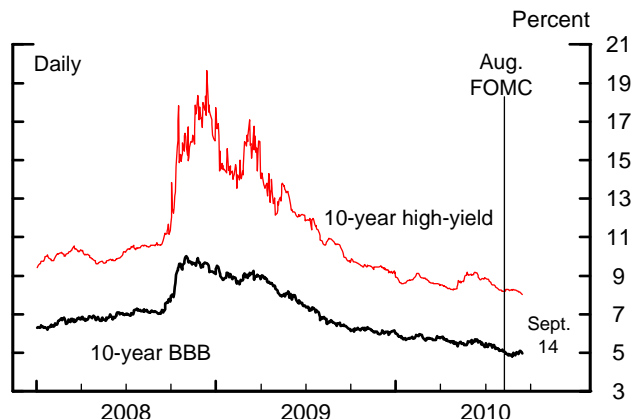
Selected Components of Net Debt Financing,
Nonfinancial Firms



* Seasonally adjusted, period-end basis.

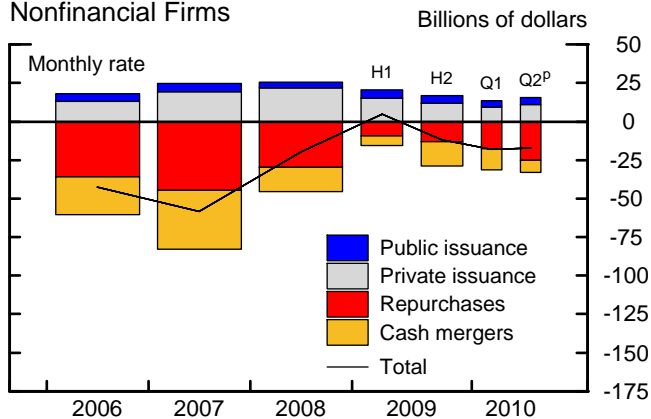
Source: Depository Trust & Clearing Corporation; Thomson Financial; Federal Reserve Board.

Corporate Bond Yields



Source: Staff estimates of smoothed yield curves based on Merrill Lynch bond data.

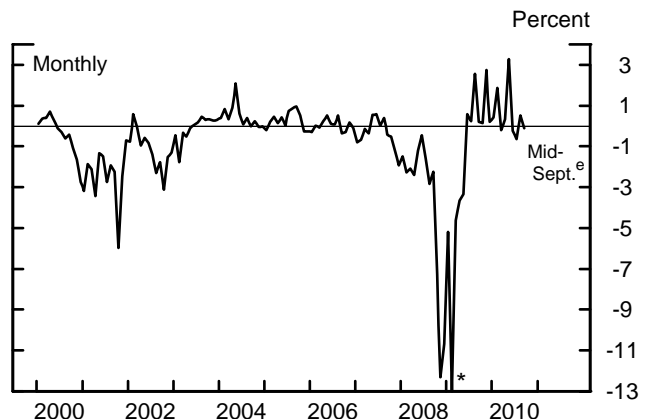
Selected Components of Net Equity Issuance,
Nonfinancial Firms



p Preliminary.

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

Revisions to Expected S&P 500 Earnings



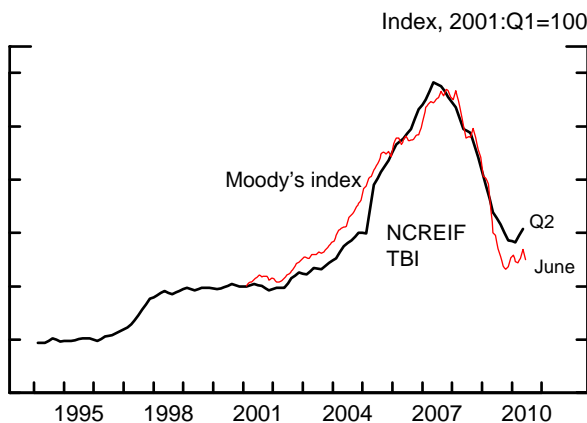
Note: Index is a weighted average of the percent change in the consensus forecasts of current-year and following-year earnings per share for a fixed sample.

* Revision in Feb. 2009 was -17.2%.

e Estimate.

Source: Thomson Financial.

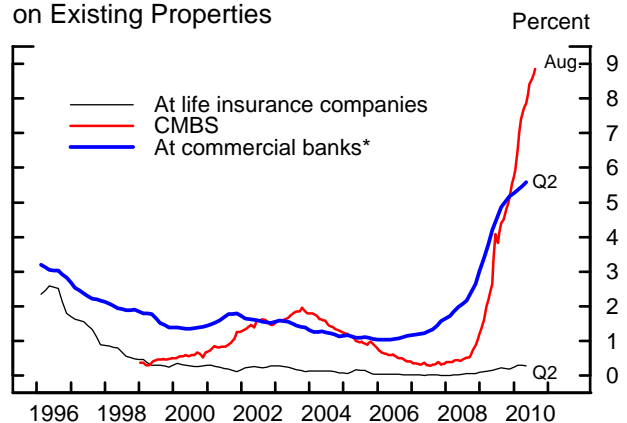
Prices of Commercial Real Estate



Note: NCREIF TBI series re-weighted by staff to exclude multifamily.

Source: NCREIF; MIT Center for Real Estate; Moody's Investors Service.

Delinquency Rates on Commercial Mortgages
on Existing Properties



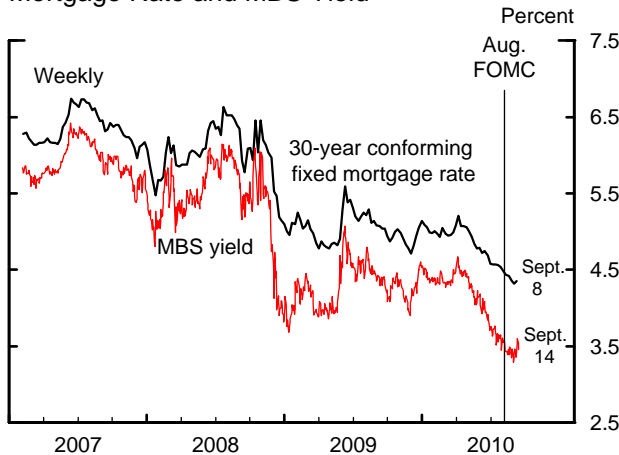
Note: CMBS are commercial mortgage-backed securities. All series are seasonally adjusted.

* Excluding farmland.

Source: Citigroup; Call Report data; ACLI.

Household Finance

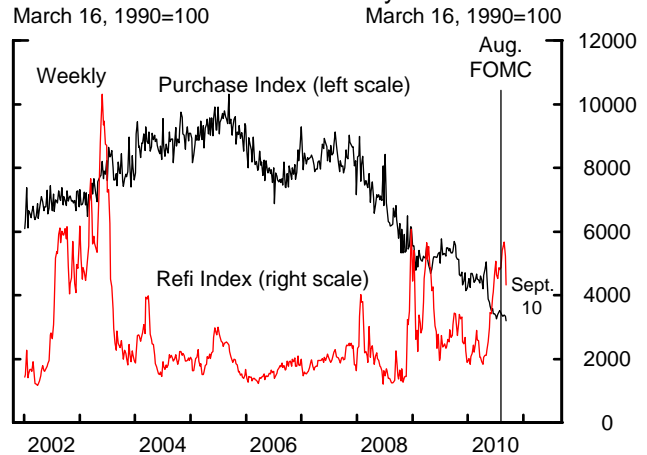
Mortgage Rate and MBS Yield



Note: For MBS yield, Fannie Mae 30-year current coupon rate.

Source: For mortgage rate, Freddie Mac; for MBS yield, Bloomberg.

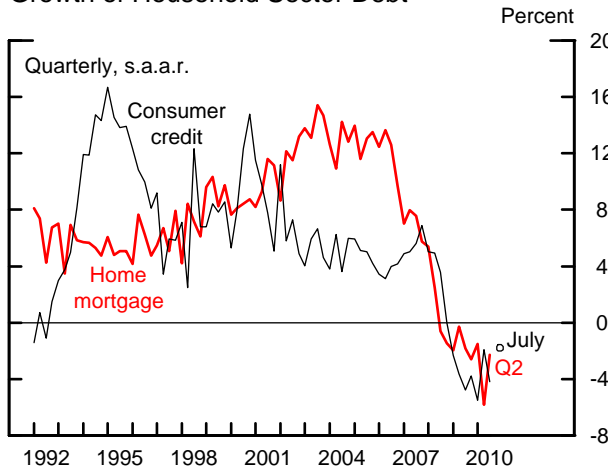
Purchase and Refinance Activity



Note: Seasonally adjusted by FRB staff.

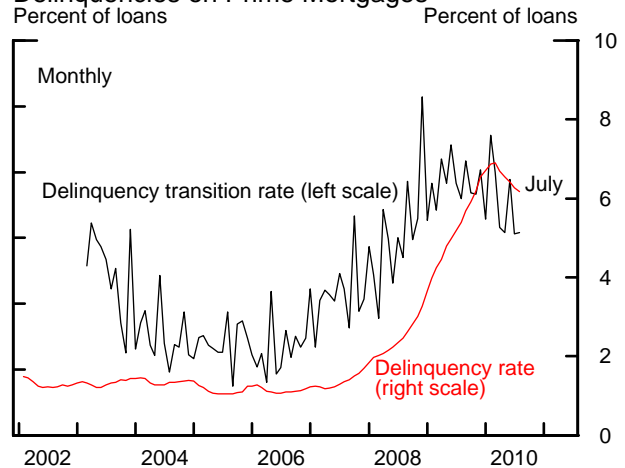
Source: Mortgage Bankers Association.

Growth of Household Sector Debt



Source: Federal Reserve Board.

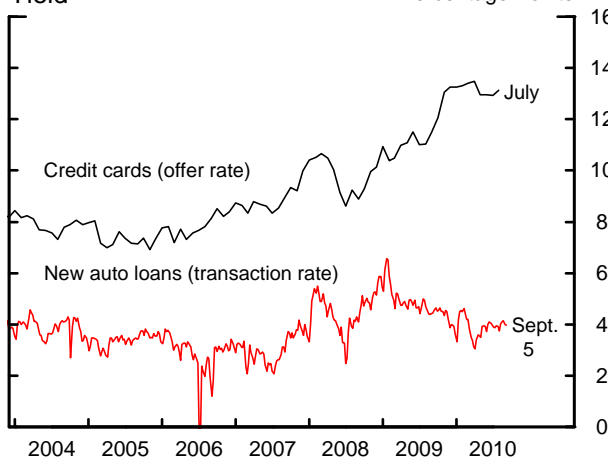
Delinquencies on Prime Mortgages



Note: For delinquency rate, percent of loans 90 or more days past due or in foreclosure. For transition rate, percent of previously current mortgages that transition to being at least 30 days delinquent each month.

Source: LPS Applied Analytics.

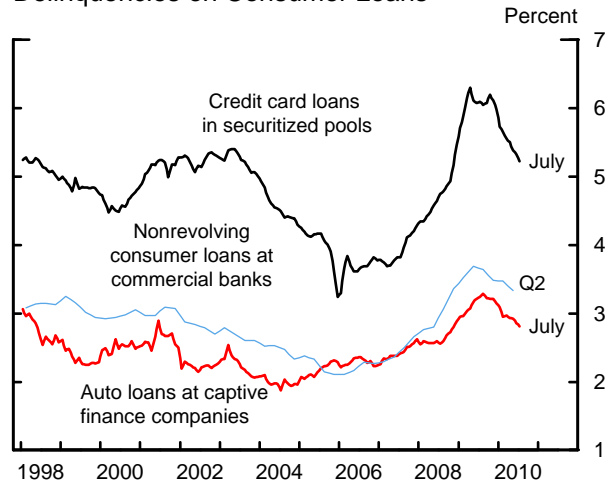
Spread of Consumer Interest Rates to Treasury Yield



Note: Spreads are relative to 2-year Treasury yield. For credit cards, monthly; for auto loans, weekly.

Source: For credit cards, Mintel; for auto loans, PIN.

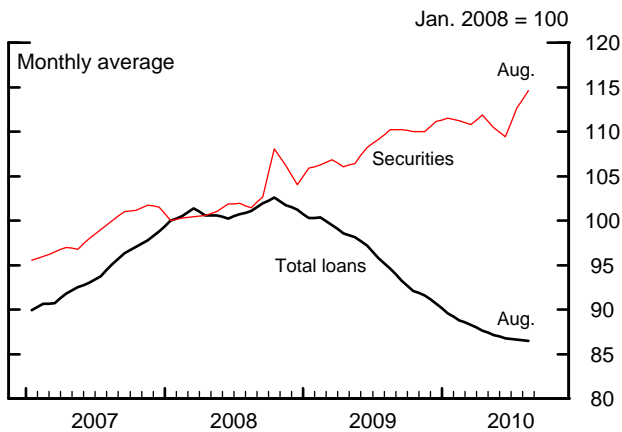
Delinquencies on Consumer Loans



Source: For credit cards, Moody's Investors Service; for nonrevolving consumer loans, Call Report; for auto loans, Federal Reserve Board.

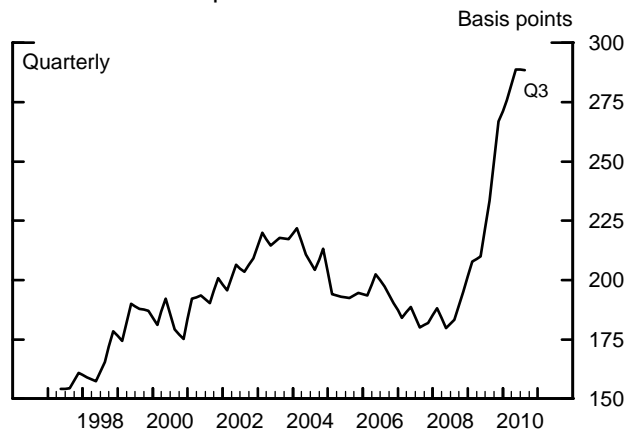
Commercial Banking and Money

Bank Credit



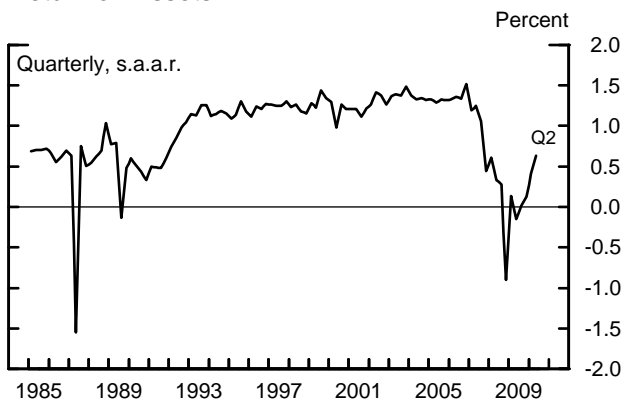
Note: The data have been adjusted to remove the effects of consolidations of assets under FAS 166 and FAS 167.
Source: Federal Reserve Board.

C&I Loan Rate Spread



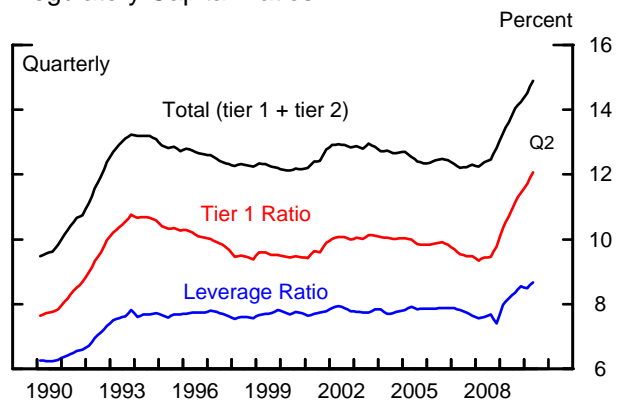
Note: The rate on C&I loans less than \$25 million over a market interest rate on an instrument of comparable maturity.
Source: Survey of Terms of Business Lending.

Return on Assets



Source: Call Reports.

Regulatory Capital Ratios



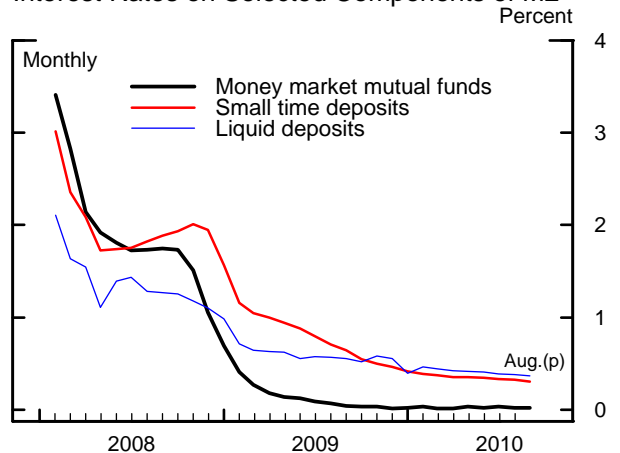
Note: All series are seasonally adjusted.
Source: Call Reports.

Growth of M2 and Its Components

Percent, s.a.a.r.	M2	Liquid deposits	Small time deposits	RMMF	Curr.
2008	8.6	6.9	12.3	13.6	5.8
2009					
H1	7.6	16.4	-6.1	-15.4	10.8
H2	2.4	16.5	-26.4	-31.0	2.9
2010					
Q1	0.0	9.2	-25.0	-27.1	2.1
Q2	2.0	8.4	-18.6	-20.2	6.4
July	0.0	3.7	-16.8	-11.0	4.5
Aug. (p)	6.6	14.6	-20.8	-20.9	8.5

Note: RMMF are retail money market mutual funds.
p Preliminary.
Source: Federal Reserve Board.

Interest Rates on Selected Components of M2



p Preliminary.
Source: Federal Reserve Board.

Alternative Scenarios

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

Measure and scenario	2010	2011	2012	2013	2014-15
	H2				
<i>Real GDP</i>					
Extended Tealbook baseline	2.0	3.3	4.4	4.8	3.7
Stronger recovery	3.3	4.8	5.2	4.8	3.1
Weaker recovery	1.3	1.6	2.6	4.0	4.4
Lower potential	1.6	2.5	3.0	3.6	3.1
Wage stagnation	1.7	3.1	4.5	5.1	3.8
Higher inflation	2.0	3.2	3.9	4.3	3.6
Weaker activity abroad	1.9	2.4	3.7	5.0	4.2
<i>Unemployment rate¹</i>					
Extended Tealbook baseline	9.7	9.1	8.0	6.9	5.7
Stronger recovery	9.6	8.4	7.0	6.0	5.3
Weaker recovery	9.8	9.8	9.3	8.5	6.5
Lower potential	9.8	9.4	8.8	8.2	7.4
Wage stagnation	9.7	9.2	8.1	6.9	5.6
Higher inflation	9.7	9.1	8.2	7.3	6.1
Weaker activity abroad	9.7	9.4	8.7	7.6	6.1
<i>Core PCE inflation</i>					
Extended Tealbook baseline	1.1	.9	.9	1.1	1.4
Stronger recovery	1.1	1.0	1.0	1.2	1.6
Weaker recovery	1.1	.8	.7	.8	1.0
Lower potential	1.3	1.3	1.3	1.5	1.8
Wage stagnation	1.0	.6	.4	.6	.9
Higher inflation	1.1	1.5	1.7	2.0	2.1
Weaker activity abroad	1.0	.5	.4	.9	1.4
<i>Federal funds rate¹</i>					
Extended Tealbook baseline	.1	.1	.3	1.8	3.7
Stronger recovery	.1	.5	1.7	3.0	4.4
Weaker recovery	.1	.1	.1	.1	2.2
Lower potential	.1	1.0	1.8	2.7	4.1
Wage stagnation	.1	.1	.1	1.1	3.2
Higher inflation	.1	.5	1.6	2.7	4.1
Weaker activity abroad	.1	.1	.1	1.1	3.2

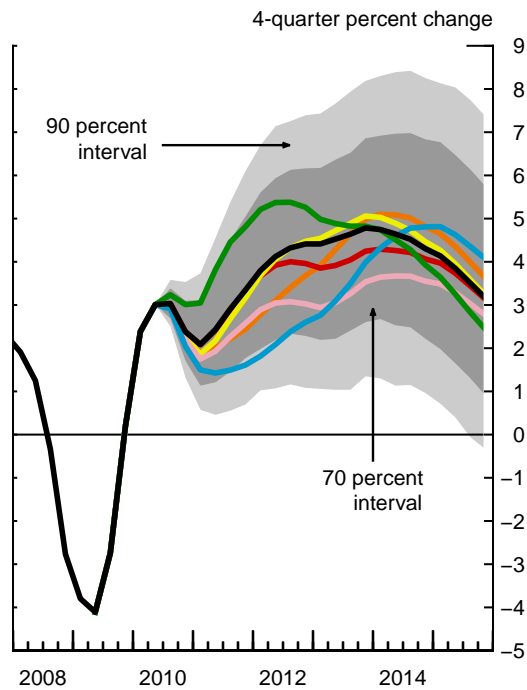
1. Percent, average for the final quarter of the period.

Forecast Confidence Intervals and Alternative Scenarios

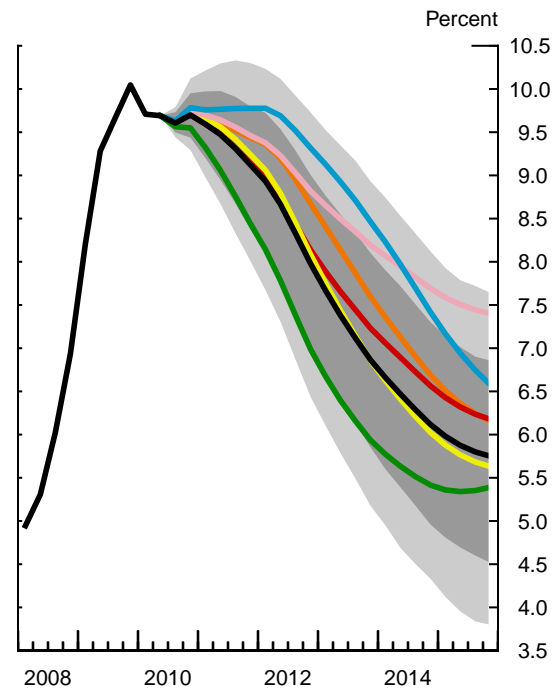
Confidence Intervals Based on FRB/US Stochastic Simulations

- | | | |
|------------------------------|-------------------|--------------------------|
| ■ Extended Tealbook baseline | ■ Lower potential | ■ Higher inflation |
| ■ Stronger recovery | ■ Wage stagnation | ■ Weaker activity abroad |
| ■ Weaker recovery | | |

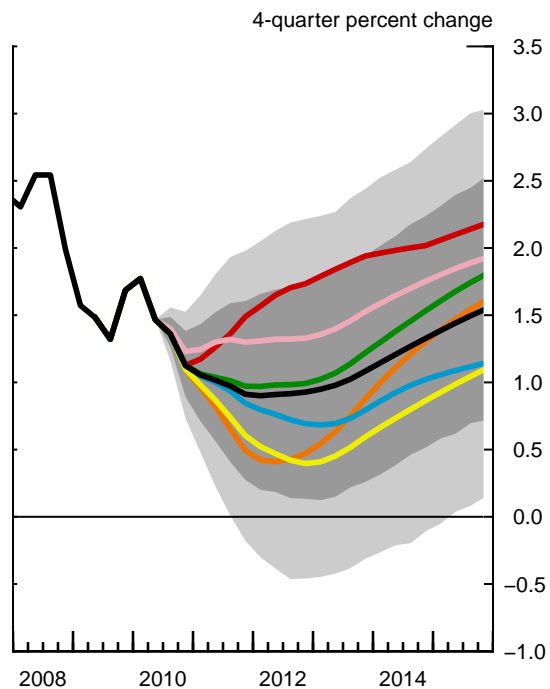
Real GDP



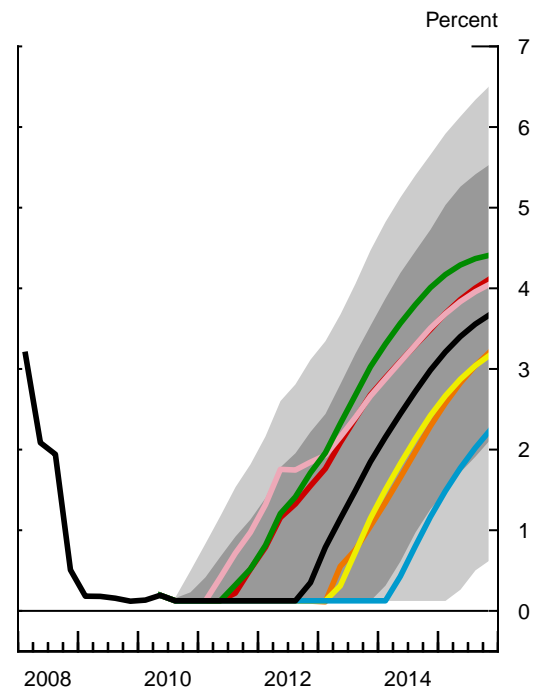
Unemployment Rate



PCE Prices excluding Food and Energy



Federal Funds Rate



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

Measure	2010	2011	2012	2013	2014	2015
<i>Real GDP</i> (percent change, Q4 to Q4)						
Projection	2.4	3.3	4.4	4.8	4.3	3.2
Confidence interval						
Tealbook forecast errors	1.5–3.2	1.5–5.2	2.5–6.3	...	...	...
FRB/US stochastic simulations	1.7–3.1	1.8–5.0	2.3–6.2	2.6–6.9	2.2–6.8	.9–5.8
<i>Civilian unemployment rate</i> (percent, Q4)						
Projection	9.7	9.1	8.0	6.9	6.1	5.7
Confidence interval						
Tealbook forecast errors	9.3–10.1	8.3–9.9	6.8–9.2	...	...	...
FRB/US stochastic simulations	9.4–10.0	8.4–9.8	7.0–9.0	5.9–8.1	5.0–7.3	4.5–6.9
<i>PCE prices, total</i> (percent change, Q4 to Q4)						
Projection	1.2	1.1	1.0	1.1	1.4	1.6
Confidence interval						
Tealbook forecast errors	.7–1.6	-.1–2.3	-.3–2.2	...	...	...
FRB/US stochastic simulations	.8–1.6	.2–2.1	-.1–2.0	.1–2.3	.3–2.6	.5–2.8
<i>PCE prices excluding food and energy</i> (percent change, Q4 to Q4)						
Projection	1.1	.9	.9	1.1	1.3	1.5
Confidence interval						
Tealbook forecast errors	.8–1.4	.2–1.6	-.1–1.9	...	...	...
FRB/US stochastic simulations	.9–1.4	.3–1.6	.1–1.8	.3–1.9	.5–2.2	.7–2.5
<i>Federal funds rate</i> (percent, Q4)						
Projection	.1	.1	.3	1.8	3.0	3.7
Confidence interval						
FRB/US stochastic simulations	.1–.2	.1–1.1	.1–2.2	.1–3.5	1.3–4.7	2.1–5.5

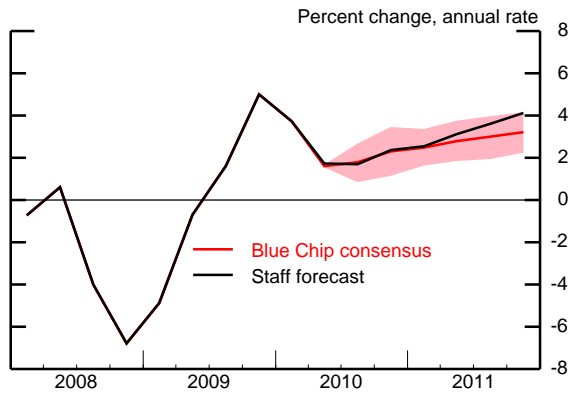
Note: Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1969–2009 set of model equation residuals.

Intervals derived from Tealbook forecast errors are based on projections made from 1979–2009, except for PCE prices excluding food and energy, where the sample is 1981–2009.

... Not applicable. The Tealbook forecast horizon has typically extended about 2 years.

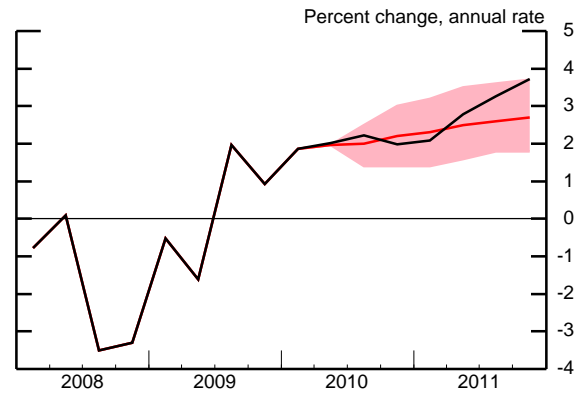
Tealbook Forecast Compared with Blue Chip (Blue Chip survey released September 10, 2010)

Real GDP

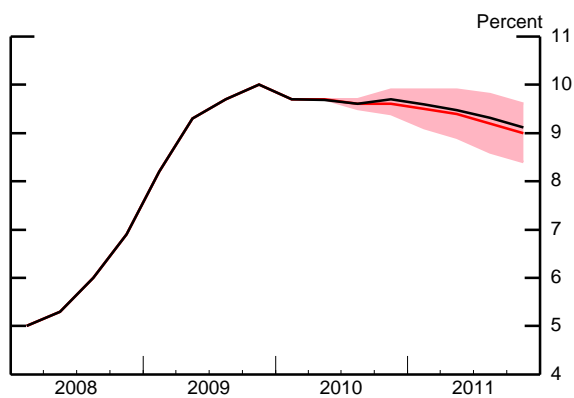


Note: The shaded area represents the area between the Blue Chip top 10 and bottom 10 averages.

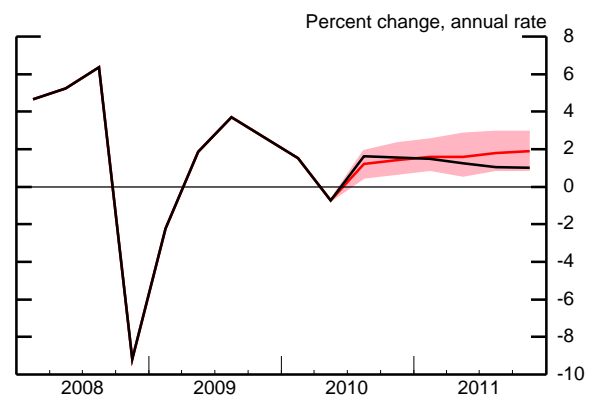
Real PCE



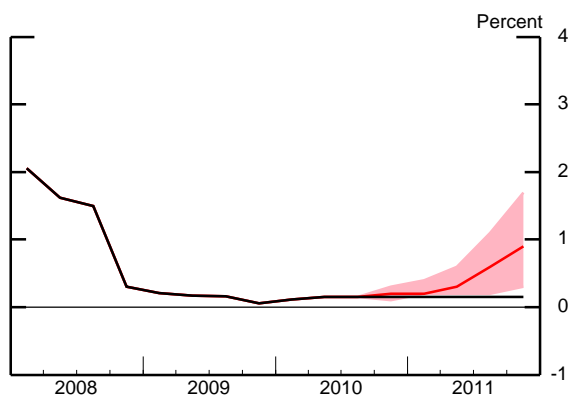
Unemployment Rate



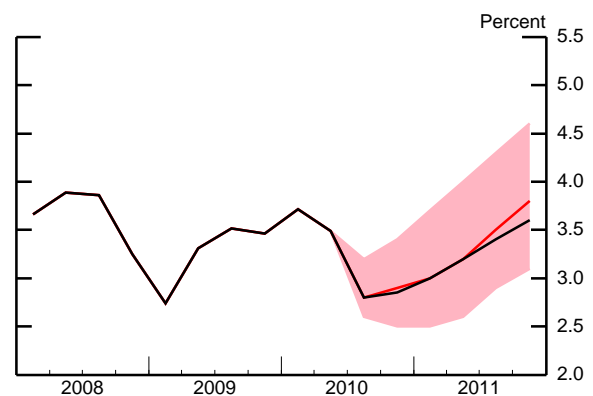
Consumer Price Index



Treasury Bill Rate



10-Year Treasury Yield



Note: The yield is for on-the-run Treasury securities. Over the forecast period, the staff's projected yield is assumed to be 15 basis points below the off-the-run yield.

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

Interval	Nominal GDP		Real GDP		PCE price index		Core PCE price index		Unemployment rate ¹	
	08/04/10	09/15/10	08/04/10	09/15/10	08/04/10	09/15/10	08/04/10	09/15/10	08/04/10	09/15/10
<i>Quarterly</i>										
2010:Q1	4.8	4.8	3.7	3.7	2.1	2.1	1.2	1.2	9.7	9.7
2010:Q2	4.0	3.7	2.1	1.7	.1	.0	1.1	1.1	9.7	9.7
2010:Q3	3.8	3.6	2.4	1.7	1.1	1.2	.9	1.1	9.7	9.6
2010:Q4	3.4	2.7	2.6	2.4	1.8	1.4	.9	1.1	9.7	9.7
2011:Q1	4.1	3.8	3.0	2.5	1.2	1.3	.9	1.0	9.5	9.6
2011:Q2	4.4	4.1	3.4	3.1	1.0	1.1	.9	.9	9.4	9.5
2011:Q3	4.8	4.6	3.9	3.6	1.0	1.0	.9	.9	9.2	9.3
2011:Q4	5.3	5.1	4.3	4.1	1.0	.9	.9	.9	8.9	9.1
2012:Q1	...	5.6	...	4.3	...	1.0	...	.9	...	8.9
2012:Q2	...	5.6	...	4.4	...	1.0	...	.9	...	8.7
2012:Q3	...	5.6	...	4.4	...	1.0	...	.9	...	8.3
2012:Q4	...	5.6	...	4.5	...	1.0	...	.9	...	8.0
<i>Two-quarter²</i>										
2010:Q2	4.4	4.2	2.9	2.7	1.1	1.0	1.2	1.1	-3	-3
2010:Q4	3.6	3.2	2.5	2.0	1.5	1.3	.9	1.1	.0	.0
2011:Q2	4.2	4.0	3.2	2.8	1.1	1.2	.9	.9	-3	-2
2011:Q4	5.1	4.8	4.1	3.9	1.0	1.0	.9	.9	-5	-4
2012:Q2	...	5.6	...	4.4	...	1.0	...	.9	...	-4
2012:Q4	...	5.6	...	4.5	...	1.0	...	.9	...	-7
<i>Four-quarter³</i>										
2009:Q4	.6	.6	.2	.2	1.5	1.5	1.7	1.7	3.1	3.1
2010:Q4	4.0	3.7	2.7	2.4	1.3	1.2	1.1	1.1	-3	-3
2011:Q4	4.7	4.4	3.6	3.3	1.1	1.1	.9	.9	-8	-6
2012:Q4	...	5.6	...	4.4	...	1.0	...	.9	...	-1.1
<i>Annual</i>										
2009	-1.7	-1.7	-2.6	-2.6	.2	.2	1.5	1.5	9.3	9.3
2010	3.8	3.7	2.9	2.7	1.8	1.7	1.4	1.4	9.7	9.7
2011	4.1	3.8	3.1	2.7	1.2	1.1	.9	1.0	9.3	9.4
2012	...	5.3	...	4.2	...	1.0	...	.9	...	8.5

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.

Greensheets

Changes in Real Gross Domestic Product and Related Items

(Percent, annual rate except as noted)

Item	2010				2011				2012				2010 ¹	2011 ¹	2012 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous Tealbook</i>	3.7 3.7	1.7 2.1	1.7 2.4	2.4 2.6	2.5 3.0	3.1 3.4	3.6 3.9	4.1 4.3	4.3 ...	4.4 ...	4.4 ...	4.5 ...	2.4 2.7	3.3 3.6	4.4 ...
Final sales <i>Previous Tealbook</i>	1.1 1.1	.9 1.6	.8 1.6	3.3 3.2	2.6 3.0	3.3 3.7	3.6 3.9	4.1 4.8	4.2 ...	4.2 ...	4.2 ...	4.7 ...	1.5 1.9	3.4 3.8	4.3 ...
Priv. dom. final purch. <i>Previous Tealbook</i>	2.1 2.1	4.3 4.3	.9 1.5	2.1 2.9	2.8 3.4	3.8 4.5	4.3 4.9	4.7 5.3	4.9 ...	5.0 ...	5.3 ...	5.2 ...	2.4 2.7	3.9 4.5	5.1 ...
Personal cons. expend. <i>Previous Tealbook</i>	1.9 1.9	2.0 1.6	2.2 1.6	2.0 2.0	2.1 2.5	2.8 3.4	3.3 3.9	3.7 4.2	3.9 ...	4.1 ...	4.3 ...	4.4 ...	2.0 1.8	3.0 3.5	4.2 ...
Durables	8.8	6.9	9.0	6.6	5.5	7.1	8.8	11.7	10.3	9.4	11.4	8.8	7.8	8.3	10.0
Nondurables	4.2	2.3	1.0	2.3	2.4	2.8	2.9	2.8	3.2	3.6	3.0	4.0	2.4	2.7	3.5
Services	.1	1.2	1.6	1.2	1.5	2.1	2.5	2.8	3.2	3.4	3.6	3.8	1.0	2.2	3.5
Residential investment <i>Previous Tealbook</i>	-12.3 -12.3	26.3 28.5	-27.2 -8.6	3.5 8.3	11.0 15.6	21.8 19.3	21.8 19.6	22.7 21.5	18.8 ...	18.0 ...	17.0 ...	16.3 ...	-4.4 2.8	19.2 19.0	17.5 ...
Business fixed invest. <i>Previous Tealbook</i>	7.8	17.6	-.7	2.8	5.9	7.2	7.5	7.8	7.9	7.9	8.9	7.5	6.7	7.1	8.1
Equipment & software <i>Previous Tealbook</i>	20.4	26.4	-.3	4.6	8.8	10.6	11.0	11.5	11.4	11.0	12.0	9.8	12.2	10.5	11.0
Nonres. structures <i>Previous Tealbook</i>	-17.8 -17.8	-2.7 4.8	-1.5 .6	-1.8 .7	-1.9 -2	-1.8 -.3	-2.1 -.6	-2.2 -.8	-1.8 ...	-1.3 ...	-.3...	.6 ...	-6.2 -3.3	-2.0 -.5	-.7 ...
Net exports ² <i>Previous Tealbook</i> ²	-338 -338	-446 -426	-449 -422	-411 -395	-403 -390	-399 -394	-401 -400	-402 -391	-400 ...	-403 ...	-414 ...	-406 ...	-411 -395	-401 -394	-406 ...
Exports	11.4	9.1	10.8	8.5	7.7	7.5	7.6	7.5	7.6	7.4	7.4	7.5	9.9	7.6	7.5
Imports	11.2	32.7	9.1	-.6	4.5	5.4	6.6	6.2	5.8	6.7	8.0	4.8	12.5	5.7	6.3
Gov't. cons. & invest. <i>Previous Tealbook</i>	-1.6 -1.6	3.9 4.5	.8 1.4	1.7 .0	.4 .3	.6 .4	.8 .5	.9 .5	.8...	.8...	.8 ...	1.0 ...	1.2 1.1	.7 .4	.9 ...
Federal	1.8	9.1	3.4	4.5	.9	1.1	1.2	1.1	.4	.3	-.1	.2	4.7	1.1	.2
Defense	.4	7.3	5.3	6.8	-.1	.1	.3	.1	.3	.2	-.5	.0	4.9	.1	.0
Nondefense	5.0	12.9	-.3	-.2	3.0	3.1	3.1	3.1	.6	.6	.6	.6	4.2	3.1	.6
State & local	-3.8	.6	-1.0	-.1	.1	.2	.4	.7	1.1	1.2	1.5	1.6	-1.1	.4	1.3
Change in bus. inventories ² <i>Previous Tealbook</i> ²	44 44	70 61	99 87	71 68	69 69	62 62	64 59	66 46	70 ...	78 ...	87 ...	80 ...	71 65	65 59	79 ...
Nonfarm ²	37	60	94	67	65	59	60	62	67	75	84	77	64	62	76
Farm ²	8	10	6	5	4	4	4	4	3	3	3	3	7	4	3

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

2. Billions of chained (2005) 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	2004	2005	2006	2007	2008	2009	2010	2011	2012
Real GDP <i>Previous Tealbook</i>	3.1 3.1	2.7 2.7	2.4 2.4	2.3 2.3	-2.8 -2.8	.2 .2	2.4 2.7	3.3 3.6	4.4 ...
Final sales <i>Previous Tealbook</i>	2.8 2.8	2.7 2.7	2.8 2.8	2.5 2.5	-1.9 -1.9	-.3 -.3	1.5 1.9	3.4 3.8	4.3 ...
Priv. dom. final purch. <i>Previous Tealbook</i>	4.2 4.2	3.1 3.1	2.5 2.5	1.3 1.3	-3.8 -3.8	-2.0 -2.0	2.4 2.7	3.9 4.5	5.1 ...
Personal cons. expend. <i>Previous Tealbook</i>	3.5 3.5	2.7 2.7	3.3 3.3	1.7 1.7	-1.9 -1.9	.2 .2	2.0 1.8	3.0 3.5	4.2 ...
Durables	5.5	2.1	6.3	3.9	-12.3	4.8	7.8	8.3	10.0
Nondurables	3.0	3.3	3.2	.8	-2.9	1.1	2.4	2.7	3.5
Services	3.4	2.6	2.8	1.7	.3	-.8	1.0	2.2	3.5
Residential investment <i>Previous Tealbook</i>	6.6 6.6	5.3 5.3	-15.7 -15.7	-20.7 -20.7	-24.6 -24.6	-13.4 -13.4	-4.4 2.8	19.2 19.0	17.5 ...
Business fixed invest. <i>Previous Tealbook</i>	7.0 7.0	4.4 4.4	7.8 7.8	8.2 8.2	-8.3 -8.3	-12.7 -12.7	6.7 9.4	7.1 8.4	8.1 ...
Equipment & software	8.8	6.1	6.0	4.3	-11.8	-4.9	12.2	10.5	11.0
<i>Previous Tealbook</i>	8.8	6.1	6.0	4.3	-11.8	-4.9	14.9	11.6	...
Nonres. structures	1.7	-1	13.0	17.3	-1.5	-26.5	-6.2	-2.0	-7
<i>Previous Tealbook</i>	1.7	-1	13.0	17.3	-1.5	-26.5	-3.3	-.5	...
Net exports¹ <i>Previous Tealbook¹</i>	-688 -688	-723 -723	-729 -729	-655 -655	-504 -504	-363 -363	-411 -395	-401 -394	-406 ...
Exports	7.1	6.7	10.2	10.1	-2.9	-.1	9.9	7.6	7.5
Imports	10.9	5.2	4.1	.7	-6.0	-7.2	12.5	5.7	6.3
Gov't. cons. & invest. <i>Previous Tealbook</i>	.6 .6	.7 .7	1.5 1.5	1.9 1.9	3.1 3.1	.8 .8	1.2 1.1	.7 .4	.9 ...
Federal	2.3	1.2	2.2	3.1	9.2	3.6	4.7	1.1	.2
Defense	2.4	.4	4.4	2.6	9.5	3.3	4.9	.1	.0
Nondefense	2.3	2.6	-2.3	4.2	8.5	4.5	4.2	3.1	.6
State & local	-.4	.4	1.2	1.2	-.4	-1.0	-1.1	.4	1.3
Change in bus. inventories¹ <i>Previous Tealbook¹</i>	66 66	50 50	59 59	28 28	-38 -38	-113 -113	71 65	65 59	79 ...
Nonfarm ¹	58	50	63	29	-39	-117	64	62	76
Farm ¹	8	0	-4	-1	1	3	7	4	3

1. Billions of chained (2005) dollars.

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

Item	2010				2011				2012				2010 ¹	2011 ¹	2012 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous Tealbook</i>	3.7	1.7	1.7	2.4	2.5	3.1	3.6	4.1	4.3	4.4	4.4	4.5	2.4	3.3	4.4
Final sales <i>Previous Tealbook</i>	3.7	2.1	2.4	2.6	3.0	3.4	3.9	4.3	...	...	...	...	2.7	3.6	...
Priv. dom. final purch. <i>Previous Tealbook</i>	1.1	.9	.8	3.3	2.6	3.3	3.6	4.1	4.2	4.1	4.2	4.7	1.5	3.4	4.3
Personal cons. expend. <i>Previous Tealbook</i>	1.1	1.6	1.6	3.2	3.0	3.6	3.9	4.7	...	...	...	...	1.9	3.8	...
Durables	1.7	3.5	.8	1.8	2.3	3.1	3.5	3.9	4.0	4.1	4.3	4.3	1.9	3.2	4.2
Nondurables	1.7	3.5	1.2	2.4	2.8	3.7	4.0	4.4	...	...	...	...	2.2	3.7	...
Services	1.3	1.4	1.6	1.4	1.5	2.0	2.3	2.6	2.8	2.9	3.0	3.1	1.4	2.1	2.9
Residential investment <i>Previous Tealbook</i>	1.3	1.2	1.1	1.4	1.7	2.4	2.8	3.0	...	...	...	...	1.3	2.5	...
Durables	.6	.5	.6	.5	.4	.5	.6	.8	.7	.7	.8	.7	.6	.6	.7
Nondurables	.7	.4	.2	.4	.4	.4	.5	.5	.5	.6	.5	.6	.4	.4	.5
Services	.0	.6	.8	.6	.7	1.0	1.2	1.3	1.5	1.6	1.7	1.8	.5	1.1	1.7
Business fixed invest. <i>Previous Tealbook</i>	-3	.6	-7	.1	.2	.5	.5	.5	.5	.5	.4	.4	-1	.4	.5
Equipment & software <i>Previous Tealbook</i>	-3	.6	-2	.2	.4	.4	.5	.5	...	...	...	...	.1	.5	...
Nonres. structures <i>Previous Tealbook</i>	.7	1.5	-1	.3	.6	.7	.7	.7	.8	.8	.9	.7	.6	.7	.8
Net exports <i>Previous Tealbook</i>	.7	1.7	.3	.7	.7	.8	.8	.9	...	...	...	...	.9	.8	...
Exports	1.2	1.6	.0	.3	.6	.7	.8	.8	.8	.8	.9	.7	.8	.7	.8
Imports	1.2	1.6	.3	.7	.7	.8	.8	.9	...	...	...	...	1.0	.8	...
Gov't. cons. & invest. <i>Previous Tealbook</i>	-5	-1	.0	.0	.0	.0	-1	-1	.0	.0	.0	.0	-2	-1	.0
Federal	-5	.1	.0	.0	.0	.0	.0	.0	...	...	...	...	-1	.0	...
Defense	-3	-3.5	-1	1.1	.2	.1	-1	.0	.0	-1	-3	.2	-7	.0	-1
Nondefense	-3	-2.9	.1	.8	.1	-1	-2	.2	...	...	...	...	-5	.0	...
State & local	1.3	1.1	1.3	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.2	1.0	1.0
Change in bus. inventories <i>Previous Tealbook</i>	-1.6	-4.6	-1.4	.1	-7	-9	-1.1	-1.0	-1.0	-1.1	-1.3	-8	-1.8	-9	-1.1
Nonfarm	-3	.8	.2	.4	.1	.1	.2	.2	.2	.2	.2	.2	.2	.1	.2
Farm	-3	.9	.3	.0	.1	.1	.1	.1	...	...	...	...	.2	.1	...
Change in bus. inventories <i>Previous Tealbook</i>	.2	.7	.3	.4	.1	.1	.1	.1	.0	.0	.0	.0	.4	.1	.0
Nonfarm	.0	.4	.3	.4	.0	.0	.0	.0	.0	.0	.0	.0	.3	.0	.0
Farm	.1	.3	.0	.0	.1	.1	.1	.1	.0	.0	.0	.0	.1	.1	.0
State & local	-5	.1	-1	.0	.0	.0	.1	.1	.1	.1	.2	.2	-1	.0	.2
Change in bus. inventories <i>Previous Tealbook</i>	2.6	.8	.9	-9	-1	-2	.0	.1	.1	.2	.3	-2	.9	.0	.1
Nonfarm	2.6	.6	.8	-6	.0	-2	-1	-4	...	...	...	...	.8	-2	...
Farm	2.6	.7	1.0	-8	.0	-2	.0	.1	.1	.2	.3	-2	.9	.0	.1
State & local	.1	.1	-1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0

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

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

Item	2010				2011				2012				2010 ¹	2011 ¹	2012 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP chain-wt. price index <i>Previous Tealbook</i>	1.0	1.9	1.9	.4	1.2	1.0	.9	.9	1.2	1.2	1.1	1.1	1.3	1.0	1.2
PCE chain-wt. price index <i>Previous Tealbook</i>	1.0	1.8	1.3	.8	1.1	.9	.9	1.0	...	...	...	...	1.2	1.0	...
Energy <i>Previous Tealbook</i>	2.1	.0	1.2	1.4	1.3	1.1	1.0	.9	1.0	1.0	1.0	1.0	1.2	1.1	1.0
Food <i>Previous Tealbook</i>	2.1	.1	1.1	1.8	1.2	1.0	1.0	1.0	...	...	...	...	1.3	1.1	...
Ex. food & energy <i>Previous Tealbook</i>	16.4	-17.5	4.5	5.3	7.3	5.1	2.9	2.2	2.2	1.6	1.6	1.6	1.4	4.4	1.8
	16.4	-17.5	5.1	18.2	6.8	3.9	2.6	1.9	...	...	...	...	4.5	3.8	...
	1.8	1.6	.3	1.3	.8	.7	.7	.7	.7	.7	.7	.7	1.2	.7	.7
	1.8	1.6	.7	1.2	.8	.7	.7	.7	...	...	...	...	1.3	.7	...
	1.2	1.1	1.1	1.1	1.0	.9	.9	.9	.9	.9	.9	.9	1.1	.9	.9
	1.2	1.1	.9	.9	.9	.9	.9	.9	...	...	...	...	1.1	.9	...
CPI <i>Previous Tealbook</i>	1.5	-.7	1.6	1.5	1.5	1.3	1.0	1.0	1.1	1.0	1.1	1.1	1.0	1.2	1.1
Ex. food & energy <i>Previous Tealbook</i>	1.5	-.7	1.4	2.2	1.3	1.1	1.0	1.0	...	...	...	...	1.1	1.1	...
	.0	.9	1.6	1.3	1.0	.9	.9	.9	1.0	1.0	1.0	1.0	.9	.9	1.0
	.0	.9	1.1	.9	.8	.9	.9	.9	...	...	...	...	.7	.9	...
ECL, hourly compensation ² <i>Previous Tealbook</i> ²	2.6	1.8	1.8	1.8	2.2	1.8	1.8	1.8	2.2	2.0	2.0	2.0	2.0	1.9	2.0
	2.6	1.8	1.9	1.9	2.4	1.9	1.9	1.9	...	...	...	...	2.0	2.0	...
Nonfarm business sector Output per hour <i>Previous Tealbook</i>	3.9	-1.7	1.5	1.8	1.1	1.5	1.8	2.0	2.3	2.1	1.9	1.8	1.3	1.6	2.0
Compensation per hour <i>Previous Tealbook</i>	3.8	-1.0	1.6	1.0	.7	1.1	1.5	2.0	...	...	...	...	1.4	1.3	...
Unit labor costs <i>Previous Tealbook</i>	-.9	-.7	2.0	1.8	2.4	1.6	1.6	1.6	2.1	1.7	1.9	2.0	.5	1.8	1.9
	.0	-.3	1.5	2.3	3.0	2.1	1.9	1.9	...	...	...	...	.9	2.2	...
	-4.6	1.0	.5	.0	1.3	.1	-.2	-.4	-.2	-.4	.0	.2	-.8	.2	-.1
	-3.7	.7	-.1	1.3	2.2	1.0	.3	-.2	...	...	...	...	-.5	.8	...
Core goods imports chain-wt. price index ³ <i>Previous Tealbook</i> ³	4.2	3.1	1.3	2.2	1.7	1.1	1.0	.8	.8	.9	.9	.9	2.7	1.2	.9
	4.2	3.2	1.3	2.0	1.4	1.2	1.2	1.1	...	...	...	...	2.7	1.2	...

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.

Greensheets

Changes in Prices and Costs

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

Item	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP chain-wt. price index <i>Previous Tealbook</i>	3.2 3.2	3.5 3.5	2.9 2.9	2.6 2.6	2.1 2.1	.5 .5	1.3 1.2	1.0 1.0	1.2 ...
PCE chain-wt. price index <i>Previous Tealbook</i>	3.0 3.0	3.3 3.3	1.9 1.9	3.5 3.5	1.7 1.7	1.5 1.5	1.2 1.3	1.1 1.1	1.0 ...
Energy <i>Previous Tealbook</i>	18.6 18.6	21.5 21.5	-3.7 -3.7	19.4 19.4	-9.0 -9.0	2.7 2.7	1.4 4.5	4.4 3.8	1.8 ...
Food <i>Previous Tealbook</i>	2.7 2.7	1.5 1.5	1.7 1.7	4.8 4.8	6.9 6.9	-1.6 -1.6	1.2 1.3	.7 .7	.7 ...
Ex. food & energy <i>Previous Tealbook</i>	2.2 2.2	2.3 2.3	2.3 2.3	2.4 2.4	2.0 2.0	1.7 1.7	1.1 1.1	.9 .9	.9 ...
CPI <i>Previous Tealbook</i>	3.4 3.4	3.7 3.7	1.9 1.9	4.0 4.0	1.6 1.6	1.5 1.5	1.0 1.1	1.2 1.1	1.1 ...
Ex. food & energy <i>Previous Tealbook</i>	2.2 2.2	2.1 2.1	2.7 2.7	2.3 2.3	2.0 2.0	1.7 1.7	.9 .7	.9 .9	1.0 ...
ECL, hourly compensation ¹ <i>Previous Tealbook¹</i>	3.8 3.8	2.9 2.9	3.2 3.2	3.0 3.0	2.4 2.4	1.2 1.2	2.0 2.0	1.9 2.0	2.0 ...
Nonfarm business sector Output per hour <i>Previous Tealbook</i>	1.5 1.5	1.4 1.5	.9 1.0	2.6 2.7	-.4 -.3	6.2 6.3	1.3 1.4	1.6 1.3	2.0 ...
Compensation per hour <i>Previous Tealbook</i>	3.3 3.4	3.5 3.6	4.5 4.5	3.6 3.6	2.3 2.3	2.5 2.6	.5 .9	1.8 2.2	1.9 ...
Unit labor costs <i>Previous Tealbook</i>	1.9 1.9	2.0 2.0	3.5 3.5	.9 .9	2.7 2.7	-3.5 -3.5	-.8 -.5	.2 .8	-.1 ...
Core goods imports chain-wt. price index ² <i>Previous Tealbook²</i>	3.6 3.6	2.2 2.2	2.5 2.5	2.9 2.9	3.5 3.5	-1.9 -1.9	2.7 2.7	1.2 1.2	.9 ...

1. Private-industry workers.

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

Other Macroeconomic Indicators

Item	2010				2011				2012				2010 ¹	2011 ¹	2012 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Employment and production</i>															
Nonfarm payroll employment ²	.1	.7	-1	.1	.4	.6	.7	.8	.8	.8	.9	.9	.8	2.4	3.5
Unemployment rate ³	9.7	9.7	9.6	9.7	9.6	9.5	9.3	9.1	8.9	8.7	8.3	8.0	9.7	9.1	8.0
<i>Previous Tealbook³</i>	9.7	9.7	9.7	9.7	9.5	9.4	9.2	8.9	...	...	...	...	9.7	8.9	...
NAIRU ³	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
<i>Previous Tealbook³</i>	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	...	...	...	5.2	5.2	...
GDP gap ⁴	-6.8	-7.0	-7.2	-7.2	-7.2	-7.0	-6.8	-6.4	-6.4	-6.0	-5.6	-4.7	-7.2	-6.4	-4.7
<i>Previous Tealbook⁴</i>	-7.6	-7.6	-7.7	-7.6	-7.5	-7.3	-7.0	-6.6	-6.6	...	...	...	-7.6	-6.6	...
Industrial production ⁵	7.1	6.5	4.3	.8	2.1	3.6	4.0	4.5	4.5	4.2	4.5	3.9	4.7	3.5	4.4
<i>Previous Tealbook⁵</i>	7.0	6.6	3.5	1.4	3.5	4.4	4.6	5.1	5.1	...	...	...	4.6	4.4	...
Manufacturing industr. prod. ⁵	6.2	8.5	3.9	.6	1.9	4.7	5.1	5.7	5.7	5.1	5.3	4.4	4.7	4.3	5.2
<i>Previous Tealbook⁵</i>	6.1	7.9	2.7	2.0	4.2	5.5	5.5	6.6	6.6	...	...	...	4.6	5.5	...
Capacity utilization rate - mfg. ³	70.0	71.5	72.1	72.2	72.5	73.4	74.3	75.3	75.3	76.1	76.9	78.6	72.2	75.3	78.6
<i>Previous Tealbook³</i>	70.0	71.3	71.8	72.1	72.8	73.8	74.7	75.9	75.9	...	...	...	72.1	75.9	...
Housing starts ⁶	.6	.6	.6	.6	.7	.8	.9	1.0	1.0	1.0	1.1	1.3	.6	.8	1.1
Light motor vehicle sales ⁶	11.0	11.3	11.5	11.6	11.9	12.3	12.9	13.8	13.8	14.4	14.9	15.6	11.4	12.7	15.2
<i>Income and saving</i>															
Nominal GDP ⁵	4.8	3.7	3.6	2.7	3.8	4.1	4.6	5.1	5.1	5.6	5.6	5.6	3.7	4.4	5.6
Real disposable pers. income ⁵	1.3	4.4	.7	.9	1.1	3.0	3.2	3.7	3.7	3.7	4.1	4.4	1.8	2.8	4.0
<i>Previous Tealbook⁵</i>	1.7	4.4	1.1	1.5	1.7	3.9	4.0	4.0	4.0	...	...	...	2.2	3.4	...
Personal saving rate ³	5.5	6.1	5.9	5.6	5.4	5.5	5.5	5.5	5.5	5.4	5.4	5.3	5.6	5.5	5.3
<i>Previous Tealbook³</i>	5.5	6.2	6.3	6.2	6.0	6.2	6.2	6.2	6.2	...	...	...	6.2	6.2	...
Corporate profits ⁷	48.9	16.9	7.7	1.9	3.0	6.5	5.4	5.5	5.5	3.8	4.6	3.1	17.5	5.1	3.8
Profit share of GNP ³	10.7	11.0	11.1	11.1	11.1	11.2	11.2	11.2	11.2	11.2	11.1	11.0	11.1	11.2	11.0
Net federal saving ⁸	-1,314	-1,325	-1,299	-1,299	-1,257	-1,223	-1,201	-1,187	-1,187	-1,155	-1,148	-1,106	-1,309	-1,217	-1,133
Net state & local saving ⁸	29	21	25	41	46	31	19	16	16	9	22	32	29	28	23
Gross national saving rate ³	11.1	11.5	11.6	11.6	11.7	12.0	12.1	12.2	12.2	12.3	12.4	12.6	11.6	12.2	12.7
Net national saving rate ³	-1.8	-1.1	-9	-9	-8	-5	-4	-2	-2	.0	.1	.3	-9	-2	.4

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

2. Change, millions.

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

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

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.

Greensheets

Other Macroeconomic Indicators

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

Item	2004	2005	2006	2007	2008	2009	2010	2011	2012
<i>Employment and production</i>									
Nonfarm payroll employment ¹	2.0	2.4	2.1	1.2	-2.8	-5.4	.8	2.4	3.5
Unemployment rate ²	5.4	5.0	4.5	4.8	6.9	10.0	9.7	9.1	8.0
<i>Previous Tealbook²</i>	5.4	5.0	4.5	4.8	6.9	10.0	9.7	8.9	...
NAIRU ²	4.9	4.8	4.8	4.8	5.1	5.8	5.8	5.8	5.8
<i>Previous Tealbook²</i>	4.9	4.8	4.8	4.8	4.9	5.2	5.2	5.2	...
GDP gap ³	-7	-3	-3	-4	-5.3	-7.1	-7.2	-6.4	-4.7
<i>Previous Tealbook³</i>	-7	-3	-3	-5	-5.7	-7.9	-7.6	-6.6	...
Industrial production ⁴	2.9	2.3	2.5	2.3	-7.6	-3.8	4.7	3.5	4.4
<i>Previous Tealbook⁴</i>	2.9	2.3	2.5	2.3	-7.6	-3.8	4.6	4.4	...
Manufacturing industr. prod. ⁴	3.5	3.5	2.0	2.6	-10.0	-4.1	4.7	4.3	5.2
<i>Previous Tealbook⁴</i>	3.5	3.5	2.0	2.6	-10.0	-4.1	4.6	5.5	...
Capacity utilization rate - mfg. ²	77.4	78.8	79.0	79.1	70.9	68.8	72.2	75.3	78.6
<i>Previous Tealbook²</i>	77.4	78.8	79.0	79.1	70.9	68.8	72.1	75.9	...
Housing starts ⁵	2.0	2.1	1.8	1.4	.9	.6	.6	.8	1.1
Light motor vehicle sales ⁵	16.8	16.9	16.5	16.1	13.1	10.3	11.4	12.7	15.2
<i>Income and saving</i>									
Nominal GDP ⁴	6.4	6.3	5.4	5.0	-7	.6	3.7	4.4	5.6
Real disposable pers. income ⁴	3.5	.6	4.6	1.5	1.0	.4	1.8	2.8	4.0
<i>Previous Tealbook⁴</i>	3.5	.6	4.6	1.5	1.0	.4	2.2	3.4	...
Personal saving rate ²	3.6	1.5	2.5	2.1	5.2	5.5	5.6	5.5	5.3
<i>Previous Tealbook²</i>	3.6	1.5	2.5	2.1	5.2	5.5	6.2	6.2	...
Corporate profits ⁶	21.9	19.6	3.7	-8.1	-31.9	42.5	17.5	5.1	3.8
Profit share of GNP ²	10.5	11.8	11.6	10.1	6.9	9.8	11.1	11.2	11.0
Net federal saving ⁷	-379	-283	-204	-245	-616	-1252	-1309	-1217	-1133
Net state & local saving ⁷	-8	26	51	12	-47	-20	29	28	23
Gross national saving rate ²	14.3	15.5	16.3	13.6	11.8	10.8	11.6	12.2	12.7
Net national saving rate ²	2.7	3.5	4.2	1.3	-1.4	-2.3	-9	-2	.4

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.

September 15, 2010

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

Item	Fiscal year				2010				2011				2012			
	2009 ^a	2010	2011	2012	Q1 ^a	Q2 ^a	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget																
Receipts ¹	2104	2168	2413	2626	466	643	571	545	507	726	634	603	559	799	665	637
Outlays ¹	3520	3466	3719	3671	795	930	865	942	956	912	909	925	964	915	867	967
Surplus/deficit ¹	-1416	-1299	-1306	-1045	-329	-287	-295	-397	-449	-186	-274	-322	-405	-117	-202	-330
<i>Previous Tealbook</i>																
On-budget	-1416	-1306	-1270	n.a.	-329	-287	-302	-397	-435	-171	-267	-315	n.a.	n.a.	n.a.	n.a.
Off-budget	-1553	-1385	-1396	-1147	-359	-351	-280	-439	-445	-249	-263	-368	-404	-186	-189	-383
	137	86	90	102	30	64	-14	43	-4	63	-11	46	-1	69	-12	53
Means of financing																
Borrowing	1743	1426	1372	1065	478	344	343	434	472	176	289	312	395	142	217	320
Cash decrease	96	5	20	0	-25	-71	19	0	15	15	-10	15	15	-20	-10	15
Other ²	-424	-133	-86	-20	-124	14	-67	-38	-38	-5	-5	-5	-5	-5	-5	-5
Cash operating balance, end of period	275	270	250	250	219	290	270	270	255	240	250	235	220	240	250	235
NIPA federal sector																
Receipts	2261	2339	2537	2718	2323	2379	2424	2444	2534	2568	2603	2639	2703	2743	2784	2826
Expenditures	3355	3652	3782	3870	3637	3704	3723	3743	3791	3791	3804	3826	3858	3891	3906	3933
Consumption expenditures	977	1026	1079	1114	1017	1038	1048	1062	1077	1085	1092	1100	1114	1119	1123	1128
Defense	659	689	724	741	684	695	704	716	724	727	730	733	741	744	746	749
Nondefense	318	337	355	373	333	343	344	346	353	358	362	367	373	375	377	379
Other spending	2378	2625	2703	2757	2620	2665	2675	2681	2714	2707	2712	2727	2744	2772	2783	2805
Current account surplus	-1094	-1312	-1245	-1153	-1314	-1325	-1299	-1299	-1257	-1223	-1201	-1187	-1155	-1148	-1122	-1106
Gross investment	151	164	174	175	161	168	171	174	174	174	174	174	175	175	175	175
Gross saving less gross investment ³	-1122	-1349	-1285	-1188	-1348	-1364	-1340	-1341	-1298	-1263	-1240	-1224	-1191	-1183	-1155	-1138
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-787	-949	-873	-825	-958	-966	-934	-927	-881	-848	-836	-836	-810	-826	-825	-838
Change in HEB, percent of potential GDP	2.0	0.9	-0.7	-0.5	0.1	-0.0	-0.3	-0.1	-0.3	-0.2	-0.1	-0.0	-0.2	0.1	-0.0	0.0
Fiscal impetus (FI), percent of GDP	1.1	1.0	-0.1	-0.5	0.3	0.3	0.1	0.1	-0.1	-0.1	-0.0	-0.1	-0.1	-0.1	-0.3	-0.2
<i>Previous Tealbook</i>	1.2	0.9	-0.2	n.a.	0.2	0.3	0.1	-0.0	-0.1	-0.1	-0.1	-0.1	n.a.	n.a.	n.a.	n.a.

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

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

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

4. HEB is gross saving less gross investment (NIPA) of the federal government in current dollars, with cyclically sensitive receipts and outlays adjusted to the staff's measure of potential output and the NAIRU. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (2005) 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.

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

Period ¹	Total	Households			Business	State and local governments	Federal government	Memo: Nominal GDP
		Total	Home mortgages	Consumer credit				
<i>Year</i>								
2005	9.5	11.1	13.3	4.5	8.6	10.2	7.0	6.3
2006	9.0	10.1	11.2	4.1	10.5	8.3	3.9	5.4
2007	8.6	6.8	6.8	5.8	13.1	9.5	4.9	5.0
2008	6.0	.3	-.4	1.5	5.5	2.3	24.2	-.7
2009	3.0	-1.7	-1.6	-4.4	-2.7	4.9	22.7	.6
2010	4.4	-1.7	-3.0	-1.0	.8	3.1	20.5	3.7
2011	4.8	.9	-.6	4.0	2.3	4.5	13.3	4.4
2012	5.1	2.8	.8	8.1	3.1	4.3	10.1	5.6
<i>Quarter</i>								
2009:1	4.6	-.9	-.3	-3.7	-.0	5.6	24.4	-3.9
2	4.4	-1.9	-1.8	-4.8	-2.6	4.3	28.9	-.4
3	2.1	-2.2	-2.6	-3.9	-4.4	5.8	19.0	2.3
4	.9	-2.0	-1.5	-5.6	-3.8	3.8	11.9	4.7
2010:1	4.5	-1.7	-4.3	-1.9	.5	5.7	20.5	4.8
2	4.8	-2.3	-2.3	-2.5	.1	-1.3	24.4	3.7
3	3.2	-2.2	-3.5	-.6	1.4	2.7	13.9	3.6
4	4.9	-.7	-2.0	.9	1.3	5.1	17.6	2.7
2011:1	5.2	-1	-1.5	2.0	1.8	4.7	16.8	3.8
2	4.7	.5	-1.0	3.2	2.0	4.6	13.5	4.1
3	4.2	1.3	-.3	4.5	2.5	4.2	9.8	4.6
4	4.7	2.0	.3	5.9	2.7	4.2	10.6	5.1
2012:1	5.3	2.4	.5	6.9	2.9	4.3	11.9	5.6
2	5.2	2.7	.7	7.6	3.0	4.3	10.8	5.6
3	4.1	3.1	1.0	8.4	3.2	4.2	6.2	5.6
4	5.2	3.1	1.0	8.7	3.3	4.2	9.9	5.6

Note: Quarterly data are at seasonally adjusted annual rates.

1. Data after 2010: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.

Flow of Funds Projections: Highlights
(Billions of dollars at seasonally adjusted annual rates except as noted)

Category	2009	2010	2011	2012	2010				2011				2012			
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<i>Domestic nonfinancial sectors</i>																
Net funds raised																
Total	950.3	1312.4	1531.7	1710.0	850.5	1548.7	1675.8	1528.4	1352.3	1570.3	1813.8	1795.3	1389.0	1570.3	1813.8	1795.3
Net equity issuance	-64.7	-217.9	-200.0	-208.0	-280.0	-208.0	-200.0	-200.0	-200.0	-200.0	-208.0	-208.0	-208.0	-200.0	-208.0	-208.0
Net debt issuance	1015.0	1530.2	1731.7	1918.0	1130.5	1756.7	1875.8	1728.4	1552.3	1770.3	2021.8	2003.3	1597.0	1770.3	2021.8	2003.3
Borrowing indicators																
Debt (percent of GDP) ¹	241.7	241.9	243.8	243.0	242.0	242.8	243.6	244.2	244.1	243.8	243.5	243.4	242.9	243.8	243.5	243.4
Borrowing (percent of GDP)	7.2	10.5	11.4	12.0	7.7	11.9	12.6	11.4	10.2	11.5	12.9	12.6	9.9	11.5	12.9	12.6
Households																
Net borrowing ²	-241.8	-232.8	124.6	381.9	-292.1	-98.3	-14.2	69.0	173.1	270.4	318.9	361.1	417.6	270.4	318.9	361.1
Home mortgages	-163.1	-308.4	-62.3	79.6	-354.0	-200.5	-149.7	-99.4	-29.7	29.7	49.6	69.5	99.4	29.7	49.6	69.5
Consumer credit	-115.3	-25.1	97.1	207.8	-14.1	21.2	49.5	78.3	111.8	148.6	176.3	197.6	223.1	148.6	176.3	197.6
Debt/DPI (percent) ³	124.4	118.8	114.6	111.5	117.8	116.7	115.9	114.7	113.8	113.0	112.3	111.6	111.1	113.0	112.3	111.6
Business																
Financing gap ⁴	-44.7	31.1	44.4	130.6	40.3	20.1	38.0	34.9	45.7	59.0	83.9	113.3	153.0	59.0	83.9	113.3
Net equity issuance	-64.7	-217.9	-200.0	-208.0	-280.0	-208.0	-200.0	-200.0	-200.0	-200.0	-208.0	-208.0	-208.0	-200.0	-208.0	-208.0
Credit market borrowing	-298.2	91.2	248.3	353.5	150.2	147.4	197.1	218.2	279.8	298.1	321.4	342.4	367.3	298.1	321.4	342.4
State and local governments																
Net borrowing	111.2	72.3	109.6	109.6	65.6	121.6	113.6	113.6	105.6	105.6	109.6	109.6	109.6	105.6	109.6	109.6
Current surplus ⁵	248.2	262.0	258.2	259.1	251.5	268.5	274.0	260.9	250.1	248.0	242.8	257.1	264.7	248.0	242.8	257.1
Federal government																
Net borrowing	1443.9	1599.4	1249.2	1073.0	1206.8	1586.0	1579.2	1327.6	993.8	1096.2	1271.8	1190.2	702.5	1096.2	1271.8	1190.2
Net borrowing (n.s.a.)	1443.9	1599.4	1249.2	1073.0	342.7	434.5	471.8	175.9	289.4	312.1	395.0	141.6	216.6	312.1	395.0	141.6
Unified deficit (n.s.a.)	1471.3	1307.3	1231.4	1053.0	294.6	396.7	448.8	186.1	274.4	322.1	405.0	116.6	201.6	322.1	405.0	116.6
<i>Depository institutions</i>																
Funds supplied	-639.9	-178.7	166.2	241.9	261.9	79.5	127.5	167.0	177.8	192.4	232.4	254.1	262.1	192.4	232.4	254.1

Note: Data after 2010: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.

Greensheets

Foreign Real GDP and Consumer Prices: Selected Countries

(Quarterly percent changes at an annual rate)

Measure and country	2010				2011				2012			
	-----				-----				-----			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP ¹												
Total foreign	4.9	5.9	2.5	2.9	3.0	3.1	3.2	3.3	3.4	3.4	3.5	3.6
<i>Previous Tealbook</i>	4.8	4.7	3.1	3.2	3.3	3.3	3.4	3.5	...	...	...	...
Advanced foreign economies	3.7	3.0	2.2	2.0	1.9	2.0	2.1	2.2	2.2	2.4	2.5	2.6
Canada	5.8	2.0	2.4	2.5	2.5	2.6	2.7	2.7	2.7	2.7	2.7	2.7
Japan	5.0	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.7	1.8	1.8	1.9
United Kingdom	1.3	4.9	1.8	1.2	.8	1.9	2.3	2.3	2.3	2.3	2.4	2.4
Euro area	1.3	3.9	2.0	1.5	1.3	1.3	1.4	1.5	1.6	2.0	2.3	2.6
Germany	1.9	9.0	3.0	2.0	1.8	1.8	1.9	2.0	2.0	2.2	2.5	2.8
Emerging market economies	6.4	9.7	3.0	4.0	4.4	4.5	4.6	4.7	4.8	4.8	4.9	4.9
Asia	13.7	8.4	3.8	5.0	5.5	5.6	5.7	5.7	5.8	5.8	5.9	5.9
Korea	8.8	5.8	4.3	3.8	3.8	3.9	4.0	4.1	4.1	4.2	4.4	4.5
China	9.9	6.9	7.8	8.1	8.3	8.3	8.4	8.4	8.6	8.6	8.7	8.7
Latin America	-1	11.9	2.0	2.9	3.3	3.4	3.5	3.6	3.7	3.8	3.9	3.9
Mexico	-2.5	13.5	1.0	2.5	3.3	3.4	3.5	3.7	3.8	3.8	3.9	3.9
Brazil	11.3	5.1	3.5	3.5	3.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Consumer prices ²												
Total foreign	3.4	1.3	1.9	2.1	2.2	2.2	2.1	2.2	2.2	2.2	2.3	2.3
<i>Previous Tealbook</i>	3.4	1.3	1.8	2.2	2.3	2.2	2.1	2.2	...	...	...	...
Advanced foreign economies	2.1	.1	.7	1.0	1.3	1.3	1.1	1.2	1.3	1.4	1.4	1.4
Canada	2.3	-9	1.6	1.2	1.5	2.2	2.0	2.1	2.1	2.2	2.2	2.1
Japan	.7	-9	-1.2	-1.2	-1.0	-8	-8	-7	-6	-6	-5	-4
United Kingdom	5.6	2.3	.7	1.7	5.0	1.4	1.4	1.5	1.6	1.7	1.7	1.8
Euro Area	1.8	1.4	.8	1.7	1.7	1.5	1.1	1.3	1.4	1.5	1.6	1.7
Germany	1.4	.8	.8	1.5	1.5	1.4	1.1	1.1	1.3	1.4	1.5	1.6
Emerging market economies	4.7	2.4	3.1	3.2	3.0	3.0	3.1	3.1	3.1	3.1	3.1	3.1
Asia	3.6	2.0	3.3	2.9	2.6	2.6	2.6	2.6	2.7	2.7	2.7	2.7
Korea	3.3	1.9	2.1	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3
China	3.0	2.6	3.8	2.8	2.4	2.4	2.5	2.5	2.5	2.5	2.5	2.5
Latin America	7.8	3.6	2.4	3.8	4.0	4.0	4.0	4.0	4.1	4.1	4.1	4.1
Mexico	7.9	2.7	2.3	3.5	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Brazil	7.4	5.9	1.0	3.9	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4

¹ Foreign GDP aggregates calculated using shares of U.S. exports.² Foreign CPI aggregates calculated using shares of U.S. non-oil imports.

Foreign Real GDP and Consumer Prices: Selected Countries
(Percent change, Q4 to Q4)

Measure and country	-----Projected-----									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	
Real GDP ¹										
Total foreign	3.9	4.1	4.0	4.2	-8	.4	4.1	3.2	3.5	
<i>Previous Tealbook</i>	3.9	4.1	3.9	4.2	-8	.4	4.0	3.4	...	
Advanced foreign economies	2.6	2.8	2.5	2.4	-1.7	-1.4	2.7	2.1	2.4	
Canada	3.7	3.1	1.9	2.5	-9	-1.1	3.2	2.6	2.7	
Japan	1.1	2.9	2.1	1.8	-4.3	-1.4	2.4	1.7	1.8	
United Kingdom	2.4	2.4	2.7	2.4	-2.7	-2.9	2.3	1.9	2.4	
Euro area	1.7	2.1	3.6	2.2	-2.1	-2.0	2.2	1.4	2.1	
Germany	.2	1.6	4.5	1.8	-2.0	-2.0	3.9	1.9	2.4	
Emerging market economies	5.6	5.9	5.9	6.5	.4	2.8	5.7	4.5	4.8	
Asia	6.0	7.8	7.2	8.4	.9	7.1	7.7	5.7	5.9	
Korea	2.7	5.2	4.6	5.7	-3.2	6.1	5.7	3.9	4.3	
China	10.0	10.5	11.0	12.6	7.2	11.5	8.2	8.3	8.6	
Latin America	5.1	3.9	4.6	4.7	-4	-9	4.1	3.4	3.8	
Mexico	4.6	3.5	3.9	3.9	-1.1	-2.3	3.4	3.5	3.8	
Brazil	5.1	3.5	4.8	6.8	1.0	4.4	5.8	3.9	4.0	
Consumer prices ²										
Total foreign	2.8	2.3	2.1	3.7	3.4	1.2	2.2	2.2	2.2	
<i>Previous Tealbook</i>	2.8	2.3	2.1	3.7	3.4	1.2	2.2	2.2	...	
Advanced foreign economies	1.8	1.6	1.4	2.2	2.0	.2	1.0	1.3	1.4	
Canada	2.3	2.3	1.4	2.5	1.9	.8	1.0	1.9	2.1	
Japan	.5	-1.0	.3	.6	1.0	-2.0	-.7	-.8	-.5	
United Kingdom	1.4	2.1	2.7	2.1	3.9	2.1	2.6	2.3	1.7	
Euro Area	2.3	2.3	1.8	2.9	2.3	.4	1.4	1.4	1.5	
Germany	2.1	2.2	1.3	3.1	1.7	.3	1.1	1.3	1.4	
Emerging market economies	3.9	3.0	2.9	5.1	4.6	2.2	3.4	3.0	3.1	
Asia	3.1	2.6	2.4	5.5	3.7	1.3	3.0	2.6	2.7	
Korea	3.4	2.5	2.1	3.4	4.5	2.4	2.4	2.3	2.3	
China	3.2	1.4	2.1	6.6	2.6	.6	3.0	2.5	2.5	
Latin America	5.6	3.7	4.1	4.2	6.6	4.0	4.4	4.0	4.1	
Mexico	5.3	3.1	4.1	3.8	6.2	4.0	4.1	3.7	3.7	
Brazil	7.2	6.1	3.2	4.3	6.2	4.2	4.5	4.4	4.4	

¹ Foreign GDP aggregates calculated using shares of U.S. exports.

² Foreign CPI aggregates calculated using shares of U.S. non-oil imports.

Greensheets

U.S. Current Account

Quarterly Data

	2010				Projected-----2011				-----2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	<i>Billions of dollars, s.a.a.r.</i>											
U.S. current account balance	-432.8	-502.9	-458.2	-435.8	-454.6	-446.7	-459.1	-462.4	-464.6	-471.2	-482.1	-470.6
<i>Previous Tealbook</i>	-436.0	-499.8	-469.3	-452.7	-465.8	-453.7	-461.4	-448.3	...	...	...	...
Current account as percent of GDP	-3.0	-3.4	-3.1	-2.9	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-2.9
<i>Previous Tealbook</i>	-3.0	-3.4	-3.2	-3.0	-3.1	-3.0	-3.0	-2.9	...	...	...	...
Net goods & services	-457.8	-526.4	-494.5	-486.3	-487.6	-489.8	-497.7	-503.1	-505.6	-511.3	-526.4	-521.7
Investment income, net	175.0	162.6	159.8	169.6	165.1	160.0	158.1	155.7	156.1	155.2	159.5	166.2
Direct, net	281.5	273.5	268.4	276.9	276.9	277.7	281.2	284.0	289.4	295.0	305.5	317.6
Portfolio, net	-106.5	-110.9	-108.6	-107.3	-111.9	-117.7	-123.1	-128.3	-133.3	-139.9	-146.1	-151.5
Other income and transfers, net	-150.0	-139.1	-123.5	-119.1	-132.0	-116.9	-119.5	-115.1	-115.1	-115.1	-115.1	-115.1

Annual Data

	2004	2005	2006	2007	2008	2009	2010	2011	2012
								-----Projected-----	

Report to the FOMC on Economic Conditions and Monetary Policy



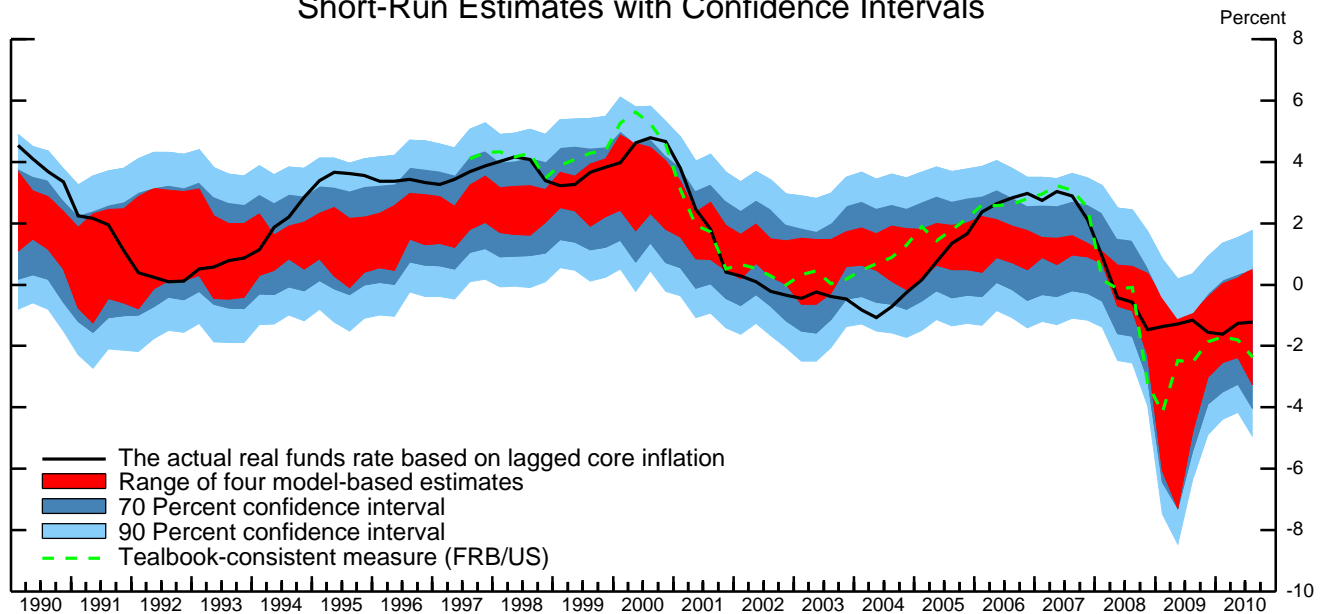
Book B

Monetary Policy: Strategies and Alternatives

September 16, 2010

Equilibrium Real Federal Funds Rate

Short-Run Estimates with Confidence Intervals



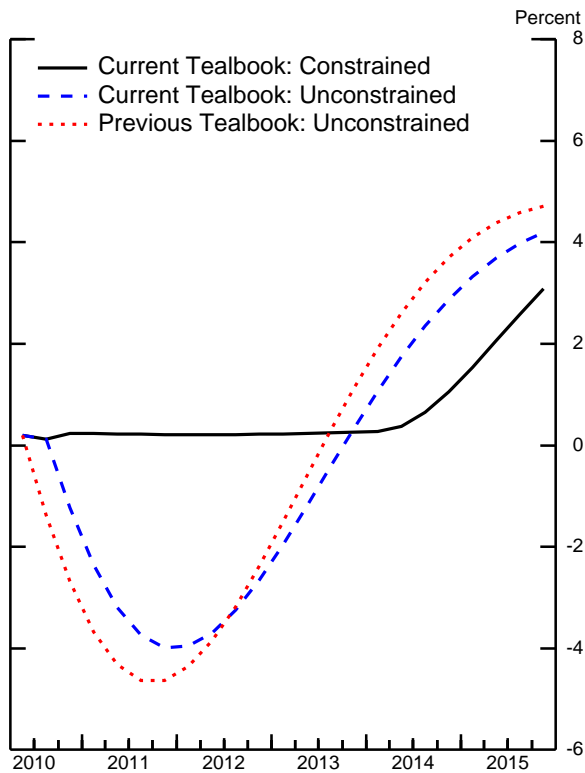
Short-Run and Medium-Run Measures

	Current Tealbook	Previous Tealbook
Short-Run Measures		
Single-equation model	-2.4	-2.7
Small structural model	-2.8	-3.1
EDO model	0.6	1.1
FRB/US model	-3.3	-2.5
Confidence intervals for four model-based estimates		
70 percent confidence interval	-4.0 to 0.4	
90 percent confidence interval	-5.0 to 1.8	
Tealbook-consistent measures		
EDO model	-3.7	-5.4
FRB/US model	-2.4	-2.3
Medium-Run Measures		
Single-equation model	1.1	1.0
Small structural model	1.2	1.3
Confidence intervals for two model-based estimates		
70 percent confidence interval	0.2 to 2.0	
90 percent confidence interval	-0.4 to 2.6	
TIPS-based factor model	2.0	2.0
Memo		
Actual real federal funds rate	-1.2	-1.4

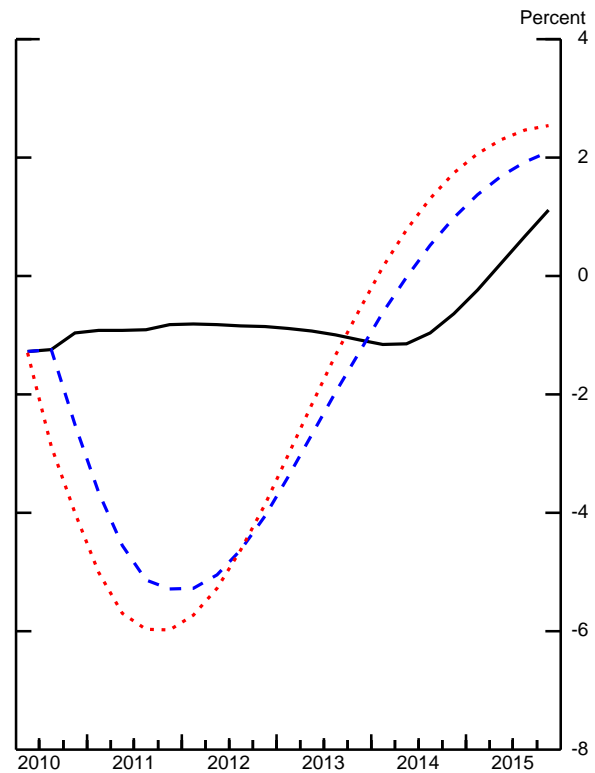
Note: Explanatory Note A provides background information regarding the construction of these measures and confidence intervals. The actual real federal funds rate shown is based on lagged core inflation as a proxy for inflation expectations. For information regarding alternative measures, see Explanatory Note A. Estimates of r^* may change at the beginning of a quarter even when there is no shift in the staff outlook because the twelve quarter horizon covered by the calculation has rolled forward one quarter. Therefore, whenever the Tealbook is published early in the quarter, this table includes a third column labeled "Current Quarter Estimate as of Previous Tealbook."

Constrained vs. Unconstrained Monetary Policy (2 Percent Inflation Goal)

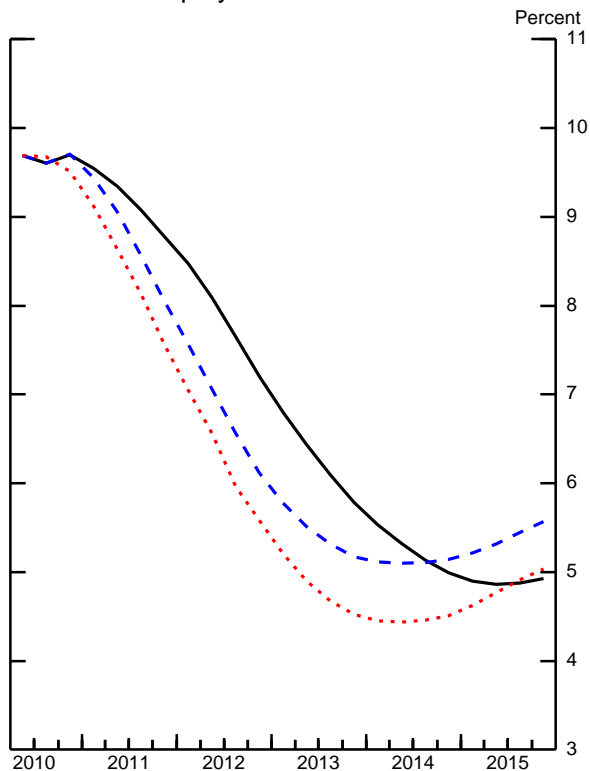
Nominal Federal Funds Rate



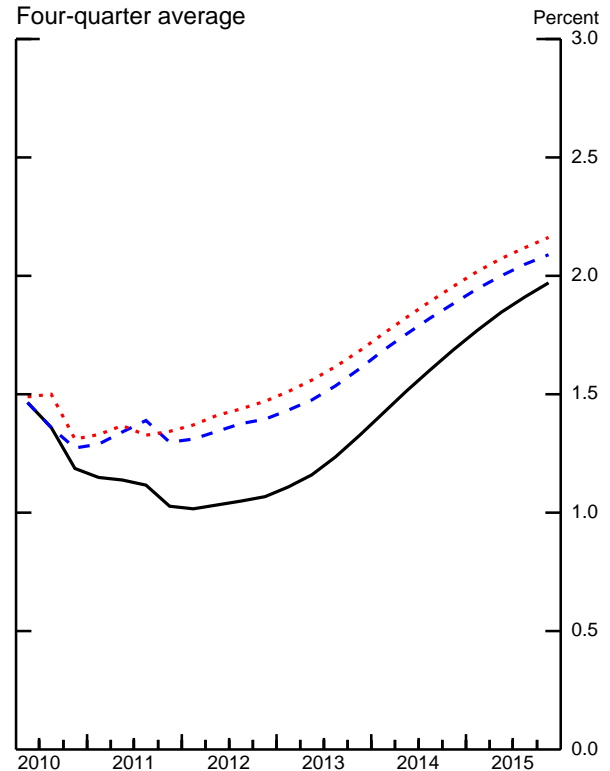
Real Federal Funds Rate



Civilian Unemployment Rate

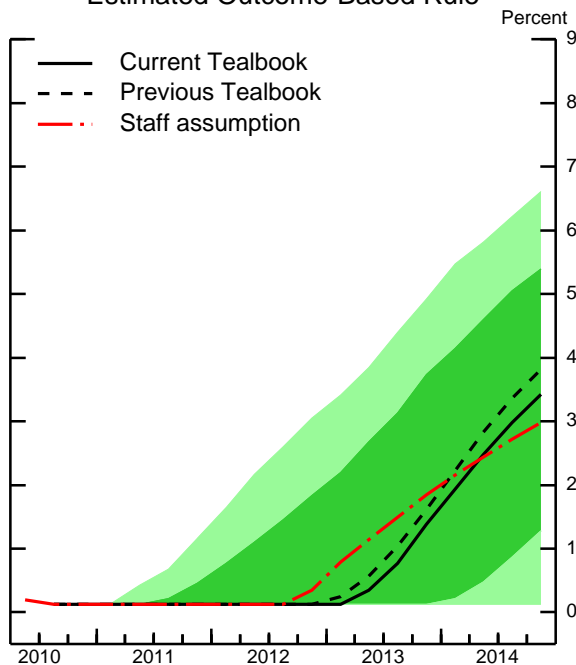


Core PCE Inflation Four-quarter average

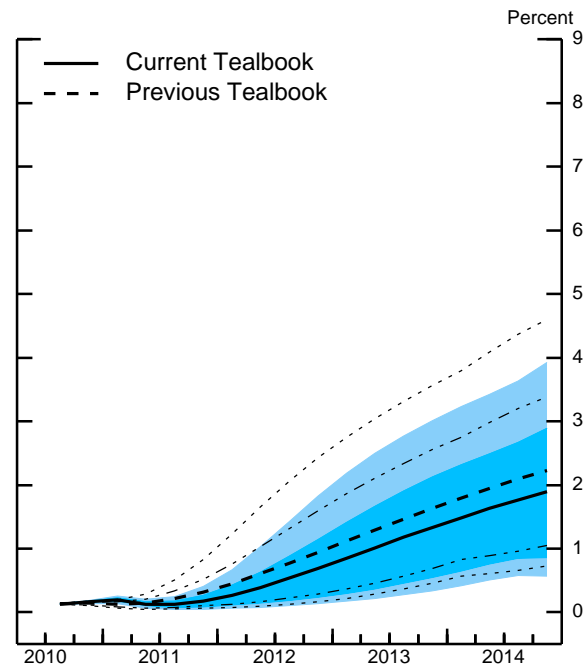


The Policy Outlook in an Uncertain Environment

FRB/US Model Simulations of
Estimated Outcome-Based Rule



Information from Financial Markets



Note: In both panels, the dark and light shading represent the 70 and 90 percent confidence intervals respectively. Financial market quotes are as of September 15.

Near-Term Prescriptions of Simple Policy Rules

	Constrained Policy		Unconstrained Policy	
	2010Q4	2011Q1	2010Q4	2011Q1
Taylor (1993) rule	0.13	0.13	-0.92	-1.00
Previous Tealbook	0.13	0.13	-1.23	-1.28
Taylor (1999) rule	0.13	0.13	-4.51	-4.59
Previous Tealbook	0.13	0.13	-5.04	-5.03
Estimated outcome-based rule	0.13	0.13	-0.70	-1.64
Previous Tealbook	0.13	0.13	-1.62	-2.49
Estimated forecast-based rule	0.13	0.13	-0.71	-1.60
Previous Tealbook	0.13	0.13	-1.72	-2.50
First-difference rule	0.13	0.13	-0.19	-0.34
Previous Tealbook	0.13	0.13	-0.38	-0.40

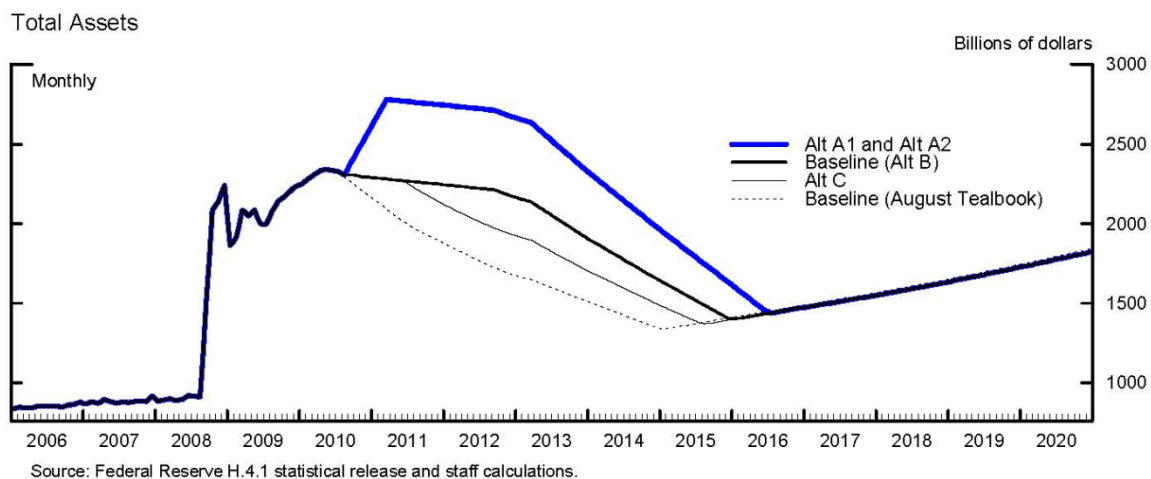
Memo

	2010Q4	2011Q1
Staff assumption	0.13	0.13
Fed funds futures	0.16	0.14
Median expectation of primary dealers	0.13	0.13
Blue Chip forecast (September 1, 2010)	0.20	0.20

Note: In calculating the near-term prescriptions of these simple policy rules, policymakers' long-run inflation objective is assumed to be 2 percent. Explanatory Note B provides further background information.

LONG-RUN PROJECTIONS OF THE BALANCE SHEET AND MONETARY BASE

The staff has prepared three scenarios for the Federal Reserve's balance sheet that correspond to the policy alternatives presented above: a baseline scenario corresponding to Alternative B, a second scenario corresponding to Alternatives A1 and A2, and a third scenario corresponding to Alternative C. Projections under each scenario are based on assumptions about each component of the balance sheet. Details of these assumptions as well as projections for each major component of the balance sheet can be found in Explanatory Note C.



Under the baseline and the scenario corresponding to Alternative C, the balance sheet peaked in size at \$2.34 trillion in May 2010 and edges down in the near term as credit extensions are repaid, before declining more rapidly in the medium term as securities mature, prepay, or are sold. The rate of contraction differs under the two scenarios reflecting the different assumptions made regarding the duration of the reinvestment policy; under the baseline, the reinvestment policy is maintained through the third quarter of 2012 and under Alternative C, the reinvestment policy is maintained through the second quarter of 2011. Under Alternatives A1 and A2, the balance sheet expands in the near term and peaks at \$2.78 trillion in March 2011, due to the additional \$500 billion of longer-term Treasury securities purchased in these Alternatives, before contracting and eventually returning to the total asset path projected under the baseline in July 2016, at which time assets will be about \$1.44 trillion. In all three scenarios, after reserve balances hit the assumed \$25 billion floor and the U.S. Treasury's supplementary financing account has been drained, the balance sheet begins to expand as purchases of Treasury securities match the growth of Federal Reserve capital and notes in circulation.

reflects the increase in holdings of longer-term Treasury securities stemming from the reinvestment policy. The path for holdings of agency MBS is lower than in the August Tealbook balance sheet projection resulting from a somewhat faster rate of forecasted prepayments of agency MBS.

On the liability side of the balance sheet, under the baseline, reserve balances are higher than in the previous Tealbook balance sheet projection over the next couple of years as a result of the reinvestment policy. With this higher path for reserve balances, the U.S. Treasury's supplementary financing account is not run down to zero until January 2016, one year later than in the last projection. Under the baseline scenario, the monetary base is projected to contract, on net, through mid-2015, reflecting the decline in reserve balances.

Growth Rates for the Monetary Base			
Date	Baseline	Alternatives A1 and A2	Alternative C
Percent, annual rate			
Monthly			
Jan-10	-17.8	-17.8	-17.8
Feb-10	72.2	72.2	72.2
Mar-10	-19.7	-19.7	-19.7
Apr-10	-37.6	-37.6	-37.6
May-10	-2.0	-2.0	-2.0
Jun-10	-5.8	-5.8	-5.8
Jul-10	-2.2	-2.2	-2.2
Aug-10	-2.3	-2.3	-2.3
Sep-10	1.5	23.0	1.5
Oct-10	13.3	55.3	13.3
Nov-10	0.8	41.1	0.8
Dec-10	-16.5	23.9	-16.5
Quarterly			
2010 Q1	14.0	14.0	14.0
2010 Q2	-10.4	-10.4	-10.4
2010 Q3	-2.6	-0.2	-2.6
2010 Q4	2.8	36.0	2.8
Annual - Q4 to Q4			
2009	41.5	41.5	41.5
2010	0.9	9.8	0.9
2011	-0.4	14.3	-4.8
2012	-3.5	-2.8	-11.6
2013	-12.9	-12.8	-12.9
2014	-16.7	-18.0	-15.6
2015	-8.2	-21.1	3.5

Note: Not seasonally adjusted.

M2 is projected to expand at a slower pace than nominal GDP over the forecast period. The relatively slow growth of M2 reflects a projected shift in investors' portfolio allocations away from safe assets in M2 and toward riskier assets as overall financial conditions and the economic outlook continue to improve. Growth of liquid deposits is anticipated to slow somewhat from its robust 2009 pace but remain solid over the forecast period. Small time deposits and retail money market funds are projected to contract through 2012, though with a moderating pace of decline. Currency growth is projected to be subdued as precautionary demand for currency from abroad wanes.

Growth Rates for M2	
(Percent, seasonally adjusted annual rate)	
Monthly Growth Rates	Tealbook Forecast*
Jan-10	-7.9
Feb-10	8.7
Mar-10	-3.4
Apr-10	-3.9
May-10	11.6
Jun-10	4.4
Jul-10	0.0
Aug-10	6.6
Sep-10	4.8
Oct-10	1.1
Nov-10	1.1
Dec-10	1.2
Quarterly Growth Rates	
2010 Q1	0.0
2010 Q2	2.0
2010 Q3	4.2
2010 Q4	2.5
Annual Growth Rates	
2009	5.1
2010	2.2
2011	1.3
2012	4.5

* This forecast is consistent with nominal GDP and interest rates in the Tealbook forecast. Actual data through August 2010; projections thereafter.

Federal Reserve Balance Sheet							
End-of-Year Projections -- Baseline Scenario (Alternative B)							
	Aug 01, 2010	2010	2012	2014	2016	2018	2020
		End-of-Year					
		\$ Billions					
Total assets	2,308	2,292	2,172	1,653	1,471	1,631	1,820
Selected assets:							
Liquidity programs for financial firms	0	0	0	0	0	0	0
Primary, secondary, and seasonal credit	0	0	0	0	0	0	0
Central bank liquidity swaps	0	0	0	0	0	0	0
Lending through other credit facilities	37	37	11	2	0	0	0
Term Asset-Backed Securities Loan Facility (TALF)	37	37	11	2	0	0	0
Support for specific institutions	114	100	49	9	2	0	0
Credit extended to AIG	46	47	20	0	0	0	0
Net portfolio holdings of Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III	68	53	29	9	2	0	0
Securities held outright	2,046	2,054	2,024	1,565	1,399	1,564	1,757
U.S. Treasury securities	786	906	1,311	1,124	1,228	1,564	1,757
Agency debt securities	157	147	77	39	16	0	0
Agency mortgage-backed securities	1,103	1,000	636	402	154	0	0
Special drawing rights certificate account	5	5	7	7	7	7	7
Net portfolio holdings of TALF LLC	1	1	1	1	0	0	0
Total other assets	111	100	87	76	70	67	64
Total liabilities	2,250	2,233	2,094	1,550	1,334	1,450	1,582
Selected liabilities:							
Federal Reserve notes in circulation	908	917	978	1,109	1,226	1,342	1,474
Reverse repurchase agreements with foreign official and international accounts	60	60	59	59	59	59	59
Deposits with Federal Reserve Banks	1,264	1,237	1,041	367	35	35	35
Reserve balances held by depository institutions	984	964	831	157	25	25	25
U.S. Treasury, general account	76	70	5	5	5	5	5
U.S. Treasury, supplementary financing account	200	200	200	200	0	0	0
Other balances ¹	2	2	5	5	5	5	5
Total capital	57	59	78	103	136	180	239

Source: Federal Reserve H.4.1 statistical release and staff calculations.

Note: Components may not sum to totals due to rounding.

Federal Reserve Balance Sheet
End-of-Year Projections -- Alternatives A1 and A2

	Aug 01, 2010	End-of-Year					
		2010	2012	2014	2016	2018	2020
		\$ Billions					
Total assets	2,308	2,578	2,672	1,978	1,471	1,631	1,820
Selected assets:							
Liquidity programs for financial firms	0	0	0	0	0	0	0
Primary, secondary, and seasonal credit	0	0	0	0	0	0	0
Central bank liquidity swaps	0	0	0	0	0	0	0
Lending through other credit facilities	37	37	11	2	0	0	0
Term Asset-Backed Securities Loan Facility (TALF)	37	37	11	2	0	0	0
Support for specific institutions	114	100	49	9	2	0	0
Credit extended to AIG	46	47	20	0	0	0	0
Net portfolio holdings of Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III	68	53	29	9	2	0	0
Securities held outright	2,046	2,340	2,524	1,890	1,399	1,564	1,757
U.S. Treasury securities	786	1,192	1,811	1,449	1,228	1,564	1,757
Agency debt securities	157	147	77	39	16	0	0
Agency mortgage-backed securities	1,103	1,000	636	402	154	0	0
Special drawing rights certificate account	5	5	7	7	7	7	7
Net portfolio holdings of TALF LLC	1	1	1	1	0	0	0
Total other assets	111	100	87	76	70	67	64
Total liabilities	2,250	2,519	2,594	1,875	1,334	1,450	1,582
Selected liabilities:							
Federal Reserve notes in circulation	908	917	978	1,109	1,226	1,342	1,474
Reverse repurchase agreements with foreign official and international accounts	60	60	59	59	59	59	59
Deposits with Federal Reserve Banks	1,264	1,522	1,541	692	35	35	35
Reserve balances held by depository institutions	984	1,250	1,331	482	25	25	25
U.S. Treasury, general account	76	70	5	5	5	5	5
U.S. Treasury, supplementary financing account	200	200	200	200	0	0	0
Other balances ¹	2	2	5	5	5	5	5
Total capital	57	59	78	103	136	180	239

Source: Federal Reserve H.4.1 statistical release and staff calculations.

Note: Components may not sum to totals due to rounding.

Federal Reserve Balance Sheet
End-of-Year Projections -- Alternative C

	Aug 01, 2010	End-of-Year					
		2010	2012	2014	2016	2018	2020
		\$ Billions					
Total assets	2,308	2,292	1,931	1,496	1,471	1,631	1,820
Selected assets:							
Liquidity programs for financial firms	0	0	0	0	0	0	0
Primary, secondary, and seasonal credit	0	0	0	0	0	0	0
Central bank liquidity swaps	0	0	0	0	0	0	0
Lending through other credit facilities	37	37	11	2	0	0	0
Term Asset-Backed Securities Loan Facility (TALF)	37	37	11	2	0	0	0
Support for specific institutions	114	100	49	9	2	0	0
Credit extended to AIG	46	47	20	0	0	0	0
Net portfolio holdings of Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III	68	53	29	9	2	0	0
Securities held outright	2,046	2,054	1,783	1,408	1,399	1,564	1,757
U.S. Treasury securities	786	906	1,070	968	1,228	1,564	1,757
Agency debt securities	157	147	77	39	16	0	0
Agency mortgage-backed securities	1,103	1,000	636	402	154	0	0
Special drawing rights certificate account	5	5	7	7	7	7	7
Net portfolio holdings of TALF LLC	1	1	1	1	0	0	0
Total other assets	111	100	87	76	70	67	64
Total liabilities	2,250	2,233	1,853	1,393	1,334	1,450	1,582
Selected liabilities:							
Federal Reserve notes in circulation	908	917	978	1,109	1,226	1,342	1,474
Reverse repurchase agreements with foreign official and international accounts	60	60	59	59	59	59	59
Deposits with Federal Reserve Banks	1,264	1,237	800	211	35	35	35
Reserve balances held by depository institutions	984	964	590	25	25	25	25
U.S. Treasury, general account	76	70	5	5	5	5	5
U.S. Treasury, supplementary financing account	200	200	200	176	0	0	0
Other balances ¹	2	2	5	5	5	5	5
Total capital	57	59	78	103	136	180	239

Source: Federal Reserve H.4.1 statistical release and staff calculations.

Note: Components may not sum to totals due to rounding.