

## **Part 1**

March 22, 2006

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

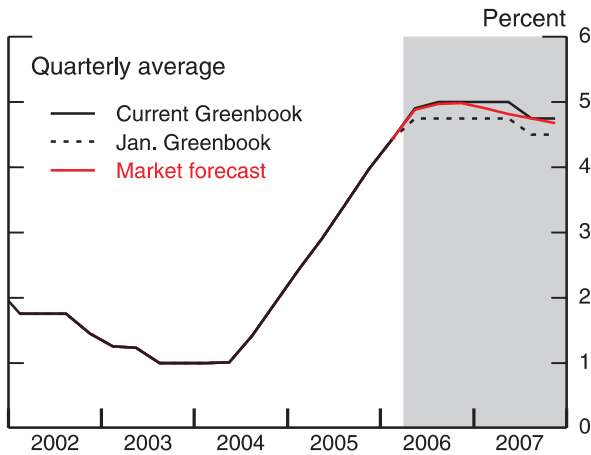
March 22, 2006

## **Summary and Outlook**

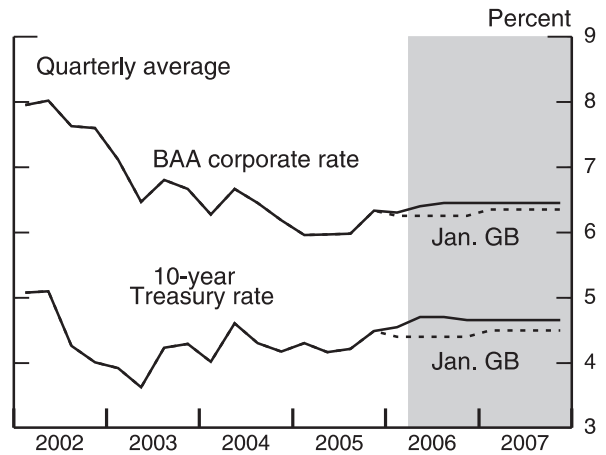
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## Key Background Factors Underlying the Baseline Staff Projection

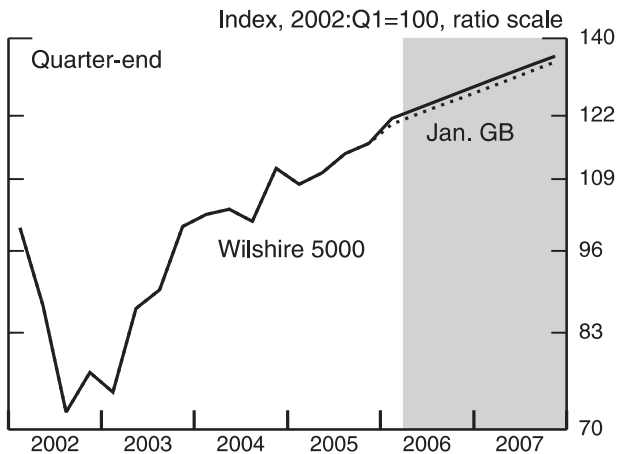
Federal Funds Rate



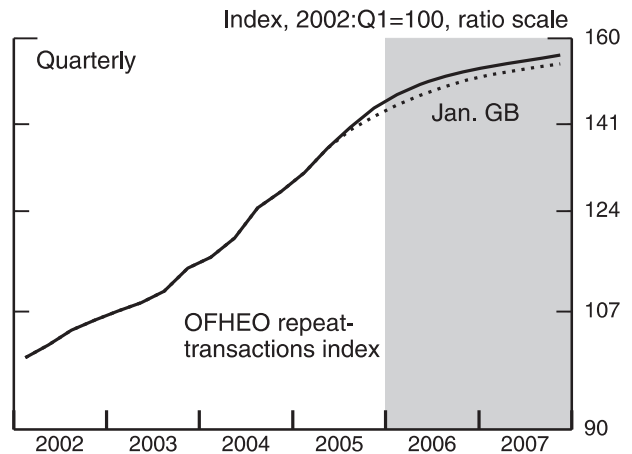
Long-term Interest Rates



Equity Prices

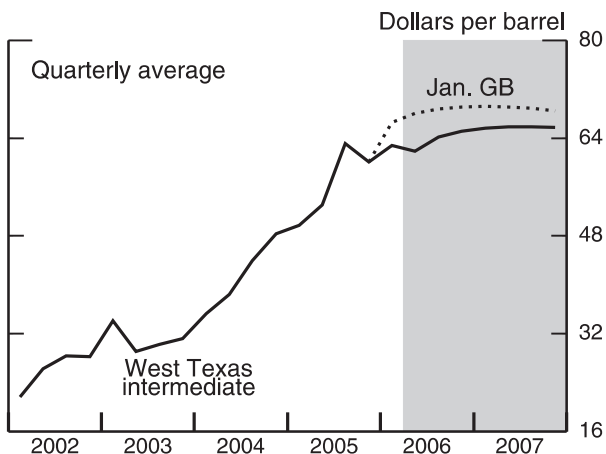


House Prices

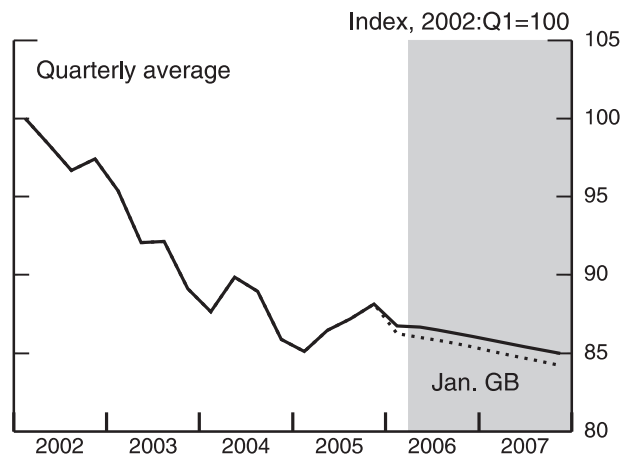


Note. Historical data end in 2005:Q4.

Crude Oil Prices



Broad Real Dollar



Note. Shading represents the projection period.

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

Measure	2006:Q1		2006:Q2	
	Jan. GB	Mar. GB	Jan. GB	Mar. GB
<b>Real GDP</b>	<b>4.1</b>	<b>4.7</b>	<b>3.8</b>	<b>3.5</b>
Private domestic final purchases	4.5	5.7	3.9	3.5
Personal consumption expenditures	4.5	5.2	3.4	3.6
Residential investment	-.4	-.2	2.8	-.9
Business fixed investment	7.3	12.8	8.3	4.9
Government outlays for consumption and investment	4.1	2.9	1.5	1.6
	Contribution to growth (percentage points)			
Inventory investment	-.6	-.3	-.2	.0
Net exports	.0	-.5	.3	.2

Labor demand has strengthened further. Private payroll employment rose 205,000 in February following a similar gain in January, and the unemployment rate moved down to 4¾ percent in January and February from 5 percent in the fourth quarter. Initial claims for unemployment insurance have gone back up a bit in recent weeks, but they remain around 300,000 per week—consistent with additional substantial near-term job gains. We project that private payrolls will rise another 200,000 in March and that the monthly gains will taper off to 150,000 in June. Because we expect the strong labor market to cause the labor force participation rate to edge higher in the near term, this pace of net hiring should be consistent with an unemployment rate that holds steady at 4.8 percent.

Although manufacturing output seems to have paused in February, sizable gains in the preceding few months put factory output on track for a gain of 6 percent at an annual rate in the current quarter. Moreover, the available indicators point to moderate increases in output in the coming months. The recent production increases have brought the capacity utilization rate in manufacturing to 80.4 percent—a touch above its long-run average.

Real PCE is expected to rise at an annual rate of 5¼ percent in the first quarter following a tepid rate of increase of 1¼ percent in the fourth quarter. Fluctuations in motor vehicle purchases fully account for that swing: Excluding motor vehicles, real PCE looks to have increased at a very strong 4¼ percent pace in both the fourth and the first quarters. We expect motor vehicle sales to support PCE growth in the second quarter as well, but we

<b>Projections of Real GDP</b> (Percent change at annual rate from end of preceding period except as noted)			
Measure	2006		2007
	H1	H2	
<b>Real GDP</b>	<b>4.1</b>	<b>3.5</b>	<b>3.1</b>
Previous	3.9	3.4	3.0
Final sales	4.3	3.4	2.9
Previous	4.4	3.2	2.8
PCE	4.4	3.4	3.3
Previous	4.0	3.1	3.3
Residential investment	-.5	2.5	.4
Previous	1.2	2.7	-1.1
BFI	8.8	8.5	6.0
Previous	7.8	7.3	5.5
Government purchases	2.2	1.7	1.4
Previous	2.8	1.5	1.5
Exports	10.3	5.1	4.9
Previous	6.5	6.3	5.3
Imports	7.4	5.9	5.5
Previous	3.1	5.6	5.4
Contribution to growth (percentage points)			
Inventory change	-.2	.2	.2
Previous	-.4	.3	.2
Net exports	-.2	-.4	-.4
Previous	.2	-.3	-.3

**Business spending.** We anticipate that real E&S spending will increase 9¼ percent this year and 7 percent in 2007, compared with a gain of 9 percent in 2005. As in previous projections, investment growth should be supported by rising sales and continued declines in the relative price of capital equipment. We look for E&S growth this year to be led by capital spending for equipment outside the high-tech and transportation categories, where spending has lately been exceptionally strong. We project spending for this category of equipment to decelerate in 2007 as the current unusual strength unwinds

annual rate near 5 percent in the second half of 2006 and in 2007 and imports to increase at a rate of around  $5\frac{3}{4}$  percent over this period. In all, real net exports are projected to deduct a little less than  $\frac{1}{2}$  percentage point from real GDP growth in both 2006 and 2007—a somewhat greater drag compared with both 2005 and our projection in the January Greenbook. The revision from January stems mainly from the incoming trade data, as our projections for the dollar, U.S. growth, and foreign growth are not much changed, on net. *(These topics are discussed in more detail in the International Developments section of Part I.)*

### Aggregate Supply, the Labor Market, and Inflation

We have made some small adjustments to our estimates of structural productivity growth in this Greenbook. Labor productivity appears to be coming in weaker than we had anticipated, suggesting that we may have been a bit too generous in the extent to which we marked up our estimates of structural productivity in the December forecast. Furthermore, a lower growth rate of structural productivity (and therefore of potential GDP) in the recent past would help to explain the magnitude of the past year's decline in the unemployment rate because it would imply that the output gap has been closing more

### Decomposition of Structural Labor Productivity

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

Measure	1974-95	1996-2000	2001-03	2004	2005	2006	2007
<b>Structural labor productivity</b>	1.5	2.5	3.3	3.1	3.1	3.1	3.1
Previous	1.5	2.5	3.3	3.1	3.2	3.1	3.0
<i>Contributions<sup>1</sup></i>							
Capital deepening	.7	1.4	.7	.7	1.0	1.1	1.1
Previous	.7	1.4	.7	.7	1.0	.9	1.0
Multifactor productivity	.5	.8	2.4	2.1	1.9	1.8	1.8
Previous	.5	.8	2.4	2.2	2.0	1.9	1.8
Labor composition	.3	.3	.2	.3	.3	.2	.2
MEMO							
Potential GDP	3.0	3.4	3.2	2.9	2.9	3.3	3.3
Previous	3.0	3.4	3.2	3.0	3.1	3.2	3.3

NOTE. Components may not sum to totals because of rounding. For multiyear periods, the percent change is the annual average from Q4 of the year preceding the first year shown to Q4 of the last year shown.

1. Percentage points.

**The Outlook for the Labor Market**  
(Percent change, Q4 to Q4, except as noted)

Measure	2004	2005	2006	2007
Output per hour, nonfarm business	2.6	2.5	2.8	3.1
Previous	2.6	2.7	3.1	2.8
Nonfarm private payroll employment	1.7	1.6	1.6	.5
Previous	1.8	1.6	1.4	.6
Household survey employment	1.3	1.9	1.3	.7
Previous	1.3	1.9	1.1	.7
Labor force participation rate <sup>1</sup>	66.0	66.1	66.0	65.8
Previous	66.0	66.1	66.0	65.8
Civilian unemployment rate <sup>1</sup>	5.4	5.0	4.8	4.9
Previous	5.4	5.0	5.0	5.1
MEMO				
GDP gap <sup>2</sup>	-.8	-.4	.1	-.1
Previous	-.9	-.6	-.1	-.4

1. Percent, average for the fourth quarter.

2. Percent difference between actual and potential GDP in the fourth quarter of the year indicated. A negative number indicates that the economy is operating below potential.

rapidly. Thus, whereas we had already assumed that the growth of structural multifactor productivity would slow from the unusually high pace of recent years to a lower, but still impressive, 1.8 percent rate by 2007, we now believe that the downshift occurred a bit sooner.

At the same time, however, we continue to expect the pickup in investment spending that has occurred over the past few years to support structural productivity growth in the period ahead; indeed, having marked up our forecast for E&S spending, we now project greater capital deepening in 2006 and 2007 relative to the last Greenbook. In all, these factors have resulted in a slightly lower estimate of structural productivity growth in the recent past and a slightly higher estimate during the projection period. We project that potential GDP will accelerate over the forecast period from just under 3 percent in 2005 to 3¼ percent in 2006 and 2007.

**Productivity and the labor market.** Output per hour in the nonfarm business sector increased 2½ percent last year, and we project a similar rate of increase in the first quarter—a rate roughly ½ percentage point less than our estimate of structural productivity growth. We expect productivity growth to pick up closer to its structural

<b>Inflation Projections</b> (Percent change, Q4 to Q4, except as noted)				
Measure	2004	2005	2006	2007
PCE chain-weighted price index	3.1	3.0	2.0	1.9
Previous	3.1	2.9	2.3	1.8
Food and beverages	2.9	2.1	2.5	2.2
Previous	2.9	2.1	2.4	2.2
Energy	17.9	21.8	0.3	1.6
Previous	17.9	21.5	3.6	.6
Excluding food and energy	2.2	1.9	2.1	1.9
Previous	2.2	1.8	2.2	1.8
Consumer price index	3.4	3.7	2.2	2.2
Previous	3.4	3.7	2.6	2.0
Excluding food and energy	2.1	2.1	2.4	2.2
Previous	2.1	2.1	2.5	2.2
GDP chain-weighted price index	2.9	3.1	2.5	2.1
Previous	2.9	2.9	2.2	2.0
ECI for compensation of private industry workers <sup>1</sup>	3.8	3.0	4.2	4.2
Previous	3.8	3.0	4.2	4.1
Compensation per hour, nonfarm business sector	5.9	3.8	5.2	5.3
Previous	5.8	3.3	5.3	5.2
Prices of core nonfuel imports	3.7	2.2	3.1	1.2
Previous	3.7	2.3	2.9	1.1

1. December to December.

rate over the forecast period, averaging 2¾ percent this year and 3 percent in 2007. At the same time, we look for the recent robust pace of hiring to abate gradually. We project that monthly increases in private payrolls will slow substantially—to around 100,000 per month in the third quarter, to around 75,000 per month by year-end, and to only about 50,000 per month in 2007 as growth slows below potential. (In light of a declining trend in labor force participation, we estimate that payroll growth of only about 85,000 per month this year and next, on average, would be required to hold the unemployment rate steady.)



**Alternative Scenarios**

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

Measure and scenario	2005		2006		2007
	H1	H2	H1	H2	
<i>Real GDP</i>					
<b>Baseline</b>	<b>3.6</b>	<b>3.0</b>	<b>4.1</b>	<b>3.5</b>	<b>3.1</b>
Low NAIRU	3.6	3.0	4.2	3.7	3.5
Slower productivity growth	3.6	3.0	3.6	2.8	2.3
Greater cost pressures	3.6	3.0	4.2	3.4	3.0
Anchored inflation expectations	3.6	3.0	4.2	3.6	3.1
Robust E&S investment	3.6	3.0	4.2	3.9	3.6
Strong demand	3.6	3.0	4.6	4.6	3.9
Higher term premium	3.6	3.0	4.1	2.6	2.4
Market-based federal funds rate	3.6	3.0	4.1	3.5	3.2
<i>Civilian unemployment rate<sup>1</sup></i>					
<b>Baseline</b>	<b>5.1</b>	<b>5.0</b>	<b>4.8</b>	<b>4.8</b>	<b>4.9</b>
Low NAIRU	5.1	5.0	4.8	4.8	4.7
Slower productivity growth	5.1	5.0	4.7	4.7	4.9
Greater cost pressures	5.1	5.0	4.8	4.8	4.9
Anchored inflation expectations	5.1	5.0	4.8	4.8	4.9
Robust E&S investment	5.1	5.0	4.8	4.7	4.7
Strong demand	5.1	5.0	4.7	4.5	4.2
Higher term premium	5.1	5.0	4.8	4.9	5.4
Market-based federal funds rate	5.1	5.0	4.8	4.8	4.9
<i>PCE prices excluding food and energy</i>					
<b>Baseline</b>	<b>2.1</b>	<b>1.7</b>	<b>2.0</b>	<b>2.2</b>	<b>1.9</b>
Low NAIRU	2.1	1.7	1.9	2.0	1.6
Slower productivity growth	2.1	1.7	2.2	2.4	2.2
Greater cost pressures	2.1	1.7	2.0	2.6	2.4
Anchored inflation expectations	2.1	1.7	1.8	1.7	1.5
Robust E&S investment	2.1	1.7	2.0	2.2	1.8
Strong demand	2.1	1.7	2.0	2.2	1.9
Higher term premium	2.1	1.7	1.9	2.0	1.9
Market-based federal funds rate	2.1	1.7	2.0	2.2	1.9
<i>Federal funds rate<sup>1</sup></i>					
<b>Baseline</b>	<b>2.9</b>	<b>4.0</b>	<b>4.9</b>	<b>5.0</b>	<b>4.8</b>
Low NAIRU	2.9	4.0	4.7	4.6	4.2
Slower productivity growth	2.9	4.0	5.0	5.2	5.0
Greater cost pressures	2.9	4.0	4.9	5.1	5.2
Anchored inflation expectations	2.9	4.0	4.9	4.8	4.3
Robust E&S investment	2.9	4.0	4.9	5.1	5.2
Strong demand	2.9	4.0	5.0	5.6	6.1
Higher term premium	2.9	4.0	4.9	4.6	3.7
Market-based federal funds rate	2.9	4.0	4.8	5.0	4.7

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

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

Measure	2006	2007
<i>Real GDP</i> (percent change, Q4 to Q4)		
Projection	3.8	3.1
Confidence interval		
Greenbook forecast errors	2.3–5.3	1.4–4.8
FRB/US stochastic simulations	2.7–5.0	1.6–4.7
<i>Civilian unemployment rate</i> (percent, Q4)		
Projection	4.8	4.9
Confidence interval		
Greenbook forecast errors	4.3–5.3	4.0–5.8
FRB/US stochastic simulations	4.3–5.2	4.2–5.5
<i>PCE prices</i> <i>excluding food and energy</i> (percent change, Q4 to Q4)		
Projection	2.1	1.9
Confidence interval		
Greenbook forecast errors	1.5–2.7	1.0–2.8
FRB/US stochastic simulations	1.6–2.6	1.1–2.8
<i>Federal funds rate</i> (percent, Q4)		
Projection	5.0	4.8
Confidence interval		
FRB/US stochastic simulations	4.2–5.9	3.5–6.3

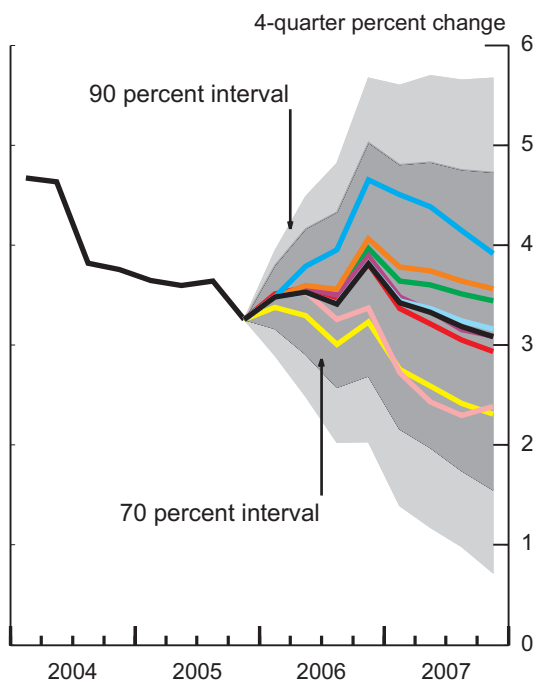
NOTE. Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1986–2004 set of model equation residuals. Intervals derived from Greenbook forecast errors are based on the 1986–2004 set of Greenbook historical errors.

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

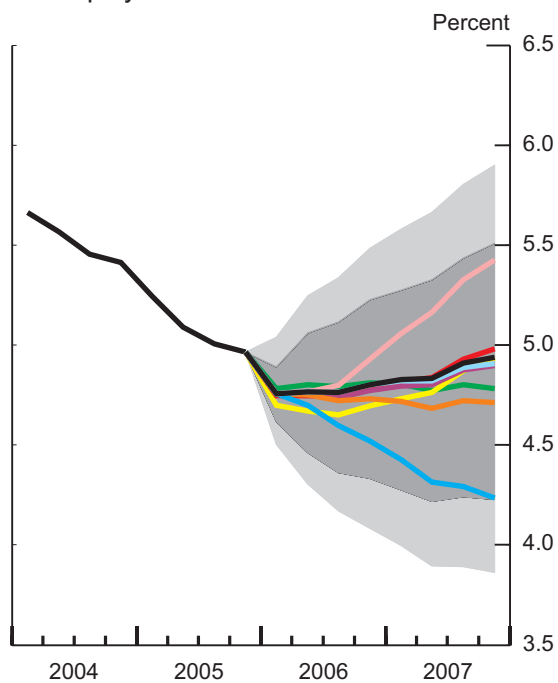
Confidence Intervals based on FRB/US Stochastic Simulations

- |                              |                                   |                                   |
|------------------------------|-----------------------------------|-----------------------------------|
| ■ Greenbook baseline         | ■ Greater cost pressures          | ■ Strong demand                   |
| ■ Low NAIU                   | ■ Anchored inflation expectations | ■ Higher term premium             |
| ■ Slower productivity growth | ■ Robust E&S investment           | ■ Market-based federal funds rate |

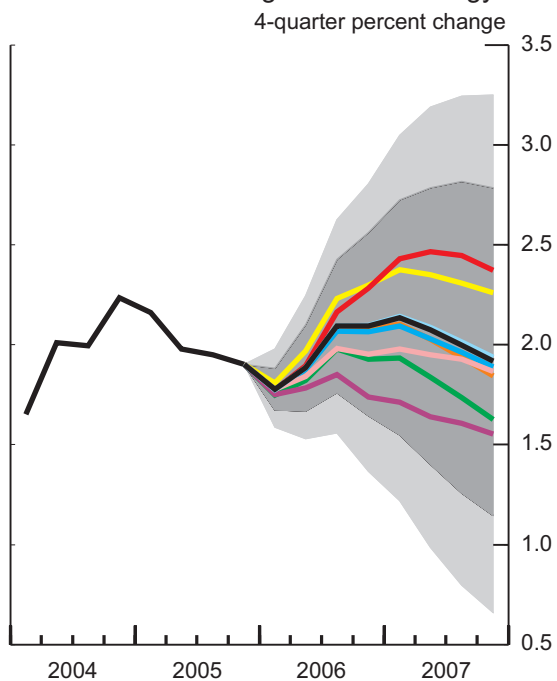
Real GDP



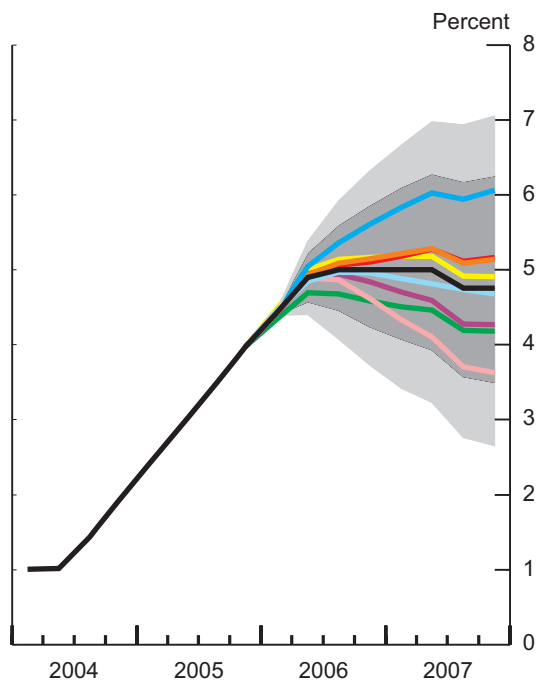
Unemployment Rate



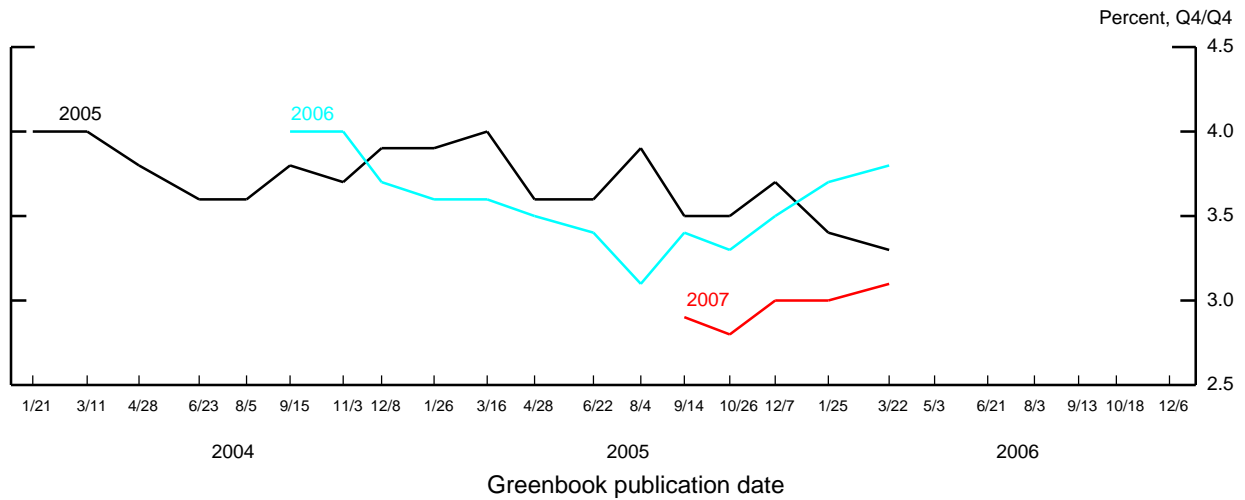
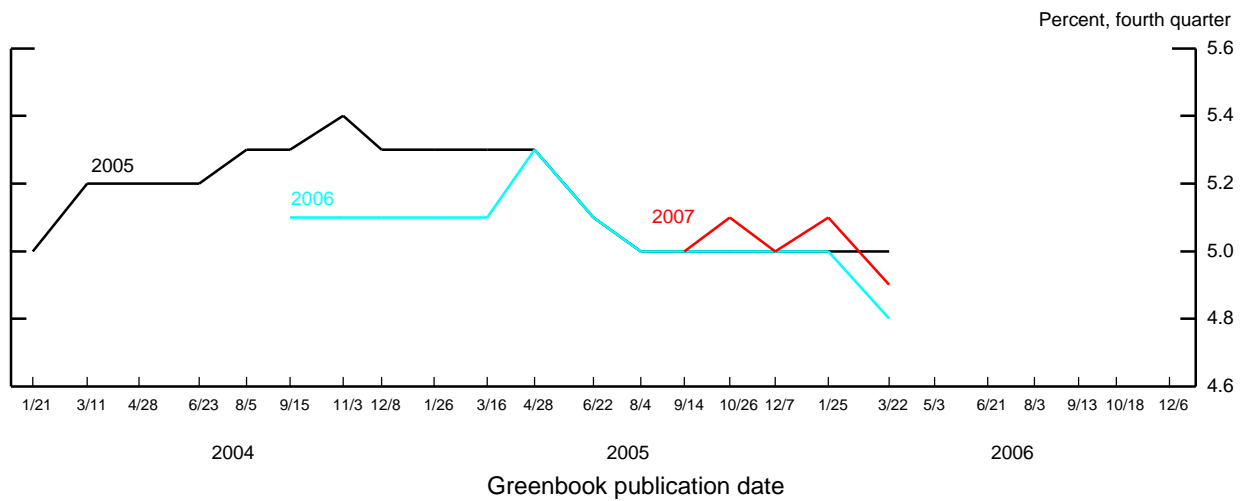
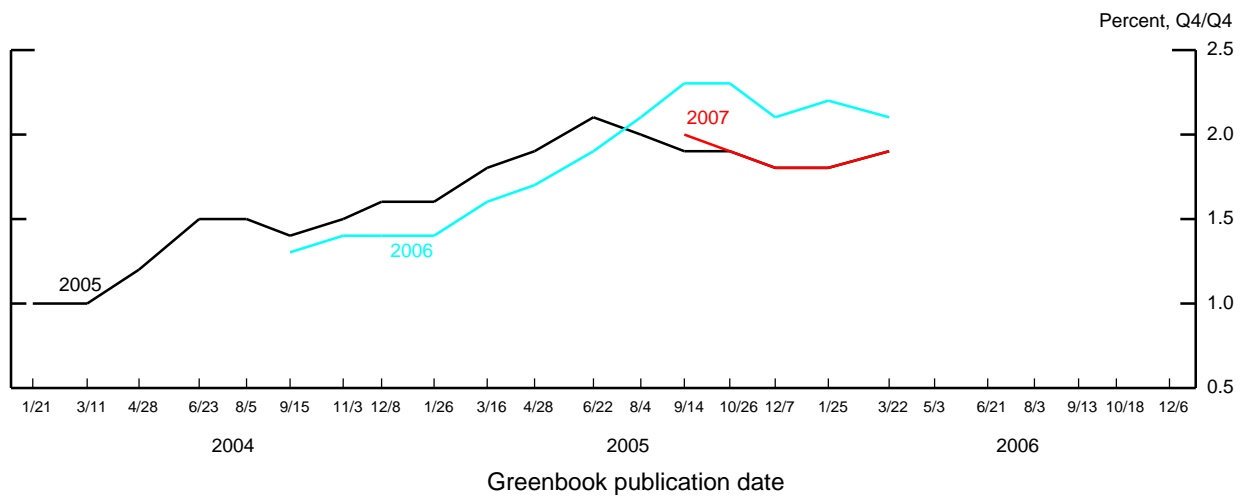
PCE Prices excluding Food and Energy



Federal Funds Rate



Class II FOMC - Restricted (FR)

**Evolution of the Staff Forecast****Change in Real GDP****Unemployment Rate****Change in PCE Prices excluding Food and Energy**

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

Interval	Nominal GDP		Real GDP		PCE price index		Core PCE price index		Unemployment rate <sup>1</sup>	
	1/25/06	3/22/06	1/25/06	3/22/06	1/25/06	3/22/06	1/25/06	3/22/06	1/25/06	3/22/06
<i>Quarterly</i>										
2005:Q1	7.0	7.0	3.8	3.8	2.3	2.3	2.4	2.4	5.2	5.2
2005:Q2	6.0	6.0	3.3	3.3	3.3	3.3	1.7	1.7	5.1	5.1
2005:Q3	7.6	7.6	4.1	4.1	3.7	3.7	1.4	1.4	5.0	5.0
2005:Q4	5.1	5.2	2.4	1.8	2.4	2.7	1.9	2.1	5.0	5.0
2006:Q1	6.3	8.2	4.1	4.7	2.1	1.9	2.0	1.9	5.0	4.8
2006:Q2	6.3	6.2	3.8	3.5	2.7	2.0	2.3	2.2	5.0	4.8
2006:Q3	5.8	5.7	3.6	3.7	2.3	2.1	2.3	2.2	5.0	4.8
2006:Q4	5.4	5.5	3.3	3.4	2.1	2.2	2.1	2.2	5.0	4.8
2007:Q1	5.2	5.3	3.0	3.1	1.9	2.1	1.9	2.0	5.0	4.8
2007:Q2	5.0	5.4	3.0	3.1	1.8	2.0	1.9	1.9	5.1	4.8
2007:Q3	4.9	5.2	3.0	3.1	1.8	1.9	1.8	1.9	5.1	4.9
2007:Q4	4.8	5.0	2.9	3.0	1.7	1.8	1.8	1.8	5.1	4.9
<i>Two-quarter<sup>2</sup></i>										
2005:Q2	6.5	6.5	3.6	3.6	2.8	2.8	2.1	2.1	-3	-3
2005:Q4	6.3	6.4	3.3	3.0	3.1	3.2	1.6	1.7	-1	-1
2006:Q2	6.3	7.2	3.9	4.1	2.4	1.9	2.2	2.0	0	-2
2006:Q4	5.6	5.6	3.4	3.5	2.2	2.1	2.2	2.2	0	0
2007:Q2	5.1	5.4	3.0	3.1	1.9	2.0	1.9	2.0	1	0
2007:Q4	4.9	5.1	2.9	3.1	1.7	1.8	1.8	1.9	0	1
<i>Four-quarter<sup>3</sup></i>										
2004:Q4	6.8	6.8	3.8	3.8	3.1	3.1	2.2	2.2	-4	-4
2005:Q4	6.4	6.4	3.4	3.3	2.9	3.0	1.8	1.9	-4	-4
2006:Q4	6.0	6.4	3.7	3.8	2.3	2.0	2.2	2.1	0	-2
2007:Q4	5.0	5.2	3.0	3.1	1.8	1.9	1.8	1.9	1	1
<i>Annual</i>										
2004	7.0	7.0	4.2	4.2	2.6	2.6	2.0	2.0	5.5	5.5
2005	6.4	6.4	3.6	3.5	2.8	2.8	2.0	2.0	5.1	5.1
2006	6.1	6.6	3.6	3.6	2.6	2.4	2.0	2.0	5.0	4.8
2007	5.3	5.4	3.2	3.3	2.0	2.0	2.0	2.0	5.1	4.9

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

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

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

### Changes in Real Gross Domestic Product and Related Items

(Percent, annual rate except as noted)

Item	2005				2006				2007				2005 <sup>1</sup>	2006 <sup>1</sup>	2007 <sup>1</sup>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous</i>	3.8	3.3	4.1	1.8	4.7	3.5	3.7	3.4	3.1	3.1	3.1	3.0	3.3	3.8	3.1
Final sales <i>Previous</i>	3.8	3.3	4.1	2.4	4.1	3.8	3.6	3.3	3.0	3.0	3.0	2.9	3.4	3.7	3.0
Priv. dom. final purch. <i>Previous</i>	3.5	5.6	4.6	.0	5.0	3.5	3.7	3.0	3.0	3.4	2.8	2.3	3.4	3.8	2.9
	3.5	5.6	4.6	.3	4.7	4.0	3.4	2.9	2.4	3.4	2.9	2.4	3.5	3.8	2.8
	4.1	4.5	4.8	1.8	5.7	3.5	4.1	3.9	3.8	3.5	3.3	3.3	3.8	4.3	3.5
	4.1	4.5	4.8	1.9	4.5	3.9	3.7	3.6	3.4	3.3	3.2	3.1	3.8	3.9	3.2
Personal cons. expend. <i>Previous</i>	3.5	3.4	4.1	1.2	5.2	3.6	3.5	3.4	3.5	3.3	3.3	3.3	3.0	3.9	3.3
	3.5	3.4	4.1	1.1	4.5	3.4	3.1	3.1	3.3	3.3	3.3	3.3	3.0	3.5	3.3
Durables	2.6	7.9	9.3	-16.5	20.6	6.8	6.3	5.8	6.0	5.3	5.2	5.0	.3	9.7	5.4
Nondurables	5.3	3.6	3.5	5.1	5.5	2.1	5.1	4.5	4.3	4.0	4.0	4.0	4.4	4.3	4.1
Services	2.8	2.3	3.3	3.0	2.4	3.8	2.3	2.3	2.5	2.5	2.5	2.6	2.9	2.7	2.6
Residential investment <i>Previous</i>	9.5	10.8	7.3	3.0	-2	-9	.3	4.6	3.9	.6	-2.1	-8	7.6	.9	.4
	9.5	10.8	7.3	7.6	-4	2.8	2.6	2.9	.8	-.5	-2.2	-2.6	8.8	2.0	-1.1
Business fixed invest. <i>Previous</i>	5.7	8.8	8.5	5.4	12.8	4.9	10.0	6.9	5.7	6.5	6.2	5.7	7.1	8.6	6.0
Equipment & software <i>Previous</i>	5.7	8.8	8.5	4.0	7.3	8.3	7.8	6.9	5.4	5.9	5.7	5.0	6.7	7.6	5.5
	8.3	10.9	10.6	6.0	15.2	3.9	11.2	7.5	6.3	7.6	7.1	6.6	9.0	9.3	6.9
	8.3	10.9	10.6	3.5	6.7	8.1	8.0	7.2	5.9	6.9	6.5	5.8	8.3	7.5	6.3
Nonres. structures <i>Previous</i>	-2.0	2.7	2.2	3.5	6.5	7.9	6.9	5.5	4.1	3.6	3.8	3.5	1.6	6.7	3.7
	-2.0	2.7	2.2	5.5	9.0	8.9	7.1	6.1	4.2	3.5	3.6	3.0	2.1	7.8	3.6
Net exports <sup>2</sup> <i>Previous</i> <sup>2</sup>	-645	-614	-617	-656	-668	-663	-668	-688	-704	-702	-710	-734	-633	-672	-712
	-645	-614	-617	-655	-654	-645	-645	-659	-681	-675	-680	-696	-633	-651	-683
Exports	7.5	10.7	2.5	5.1	15.0	5.7	5.2	4.9	4.7	5.0	4.9	4.9	6.4	7.6	4.9
Imports	7.4	-.3	2.4	12.2	12.5	2.5	4.6	7.3	6.4	2.8	4.8	8.0	5.3	6.7	5.5
Govt. cons. & invest. <i>Previous</i>	1.9	2.5	2.9	-.8	2.9	1.6	1.7	1.8	1.4	1.4	1.4	1.4	1.6	2.0	1.4
	1.9	2.5	2.9	.2	4.1	1.5	1.3	1.7	1.5	1.5	1.5	1.5	1.8	2.1	1.5
Federal	2.4	2.4	7.4	-2.6	5.9	1.0	1.0	1.1	.0	.0	.0	.0	2.3	2.2	.0
Defense	3.0	3.7	10.0	-9.0	9.5	1.5	1.6	1.6	.0	.0	.0	.0	1.7	3.5	.0
Nondefense	1.1	-2	2.4	11.9	-9	.0	-1	.1	.0	.0	.0	.0	3.7	-2	.0
State & local	1.6	2.6	.2	.3	1.1	2.0	2.0	2.1	2.2	2.2	2.2	2.2	1.2	1.8	2.2
Change in bus. inventories <sup>2</sup> <i>Previous</i> <sup>2</sup>	58	-2	-13	34	29	29	29	39	44	37	46	66	19	32	48
	58	-2	-13	43	28	21	25	37	51	41	45	61	22	28	50
Nonfarm <sup>2</sup>	62	3	-8	39	29	28	28	38	43	36	45	65	24	31	47
Farm <sup>2</sup>	-2	-4	-5	-4	0	1	1	1	1	1	1	1	-4	1	1

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

2. Billions of chained (2000) dollars.

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

Item	1999 <sup>1</sup>	2000 <sup>1</sup>	2001 <sup>1</sup>	2002 <sup>1</sup>	2003 <sup>1</sup>	2004 <sup>1</sup>	2005 <sup>1</sup>	2006 <sup>1</sup>	2007 <sup>1</sup>
Real GDP <i>Previous</i>	4.7 4.7	2.2 2.2	.2 .2	1.9 1.9	4.0 4.0	3.8 3.8	3.3 3.4	3.8 3.7	3.1 3.0
Final sales <i>Previous</i>	4.2 4.2	2.9 2.9	1.5 1.5	.8 .8	4.0 4.0	3.6 3.6	3.4 3.5	3.8 3.8	2.9 2.8
Priv. dom. final purch. <i>Previous</i>	5.3 5.3	4.3 4.3	1.0 1.0	1.1 1.1	4.4 4.4	4.8 4.8	3.8 3.8	4.3 3.9	3.5 3.2
Personal cons. expend. <i>Previous</i>	4.9 4.9	4.1 4.1	2.8 2.8	1.9 1.9	3.8 3.8	3.8 3.8	3.0 3.0	3.9 3.5	3.3 3.3
Durables	7.3	4.7	10.8	1.2	9.2	5.2	.3	9.7	5.4
Nondurables	4.9	3.0	1.9	2.1	4.1	4.6	4.4	4.3	4.1
Services	4.4	4.5	1.6	1.9	2.5	3.1	2.9	2.7	2.6
Residential investment <i>Previous</i>	3.6 3.6	-1.9 -1.9	1.4 1.4	7.0 7.0	11.8 11.8	6.6 6.6	7.6 8.8	.9 2.0	.4 -1.1
Business fixed invest. <i>Previous</i>	7.7 7.7	7.8 7.8	-9.6 -9.6	-6.5 -6.5	5.6 5.6	10.9 10.9	7.1 6.7	8.6 7.6	6.0 5.5
Equipment & software <i>Previous</i>	10.8 10.8	7.5 7.5	-9.0 -9.0	-3.4 -3.4	7.2 7.2	13.8 13.8	9.0 8.3	9.3 7.5	6.9 6.3
Nonres. structures <i>Previous</i>	-9 -9	8.8 8.8	-11.1 -11.1	-14.9 -14.9	1.2 1.2	2.7 2.7	1.6 2.1	6.7 7.8	3.7 3.6
Net exports <sup>2</sup> <i>Previous</i> <sup>2</sup>	-296 -296	-379 -379	-399 -399	-471 -471	-521 -521	-601 -601	-633 -633	-672 -651	-712 -683
Exports	5.6	6.5	-11.9	3.8	6.0	6.1	6.4	7.6	4.9
Imports	12.1	11.2	-7.6	9.7	5.1	10.6	5.3	6.7	5.5
Govt. cons. & invest. <i>Previous</i>	4.2 4.2	.4 .4	5.0 5.0	4.0 4.0	1.9 1.9	2.1 2.1	1.6 1.8	2.0 2.1	1.4 1.5
Federal	4.2	-2.2	6.4	7.8	5.5	4.2	2.3	2.2	.0
Defense	4.3	-3.5	6.5	8.4	7.5	4.9	1.7	3.5	.0
Nondefense	4.1	.3	6.3	6.8	1.6	2.8	3.7	-2	.0
State & local	4.2	1.7	4.2	2.1	.0	.9	1.2	1.8	2.2
Change in bus. inventories <sup>2</sup> <i>Previous</i> <sup>2</sup>	69 69	56 56	-32 -32	12 12	15 15	52 52	19 22	32 28	48 50
Nonfarm <sup>2</sup>	72	58	-32	15	15	50	24	31	47
Farm <sup>2</sup>	-3	-1	0	-2	0	2	-4	1	1

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

2. Billions of chained (2000) dollars.

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

Item	2005				2006				2007				2005 <sup>1</sup>	2006 <sup>1</sup>	2007 <sup>1</sup>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous</i>	3.8	3.3	4.1	1.8	4.7	3.5	3.7	3.4	3.1	3.1	3.1	3.0	3.3	3.8	3.1
Final sales <i>Previous</i>	3.8	3.3	4.1	2.4	4.1	3.8	3.6	3.3	3.0	3.0	3.0	2.9	3.4	3.7	3.0
Priv. dom. final purch. <i>Previous</i>	3.5	5.5	4.6	.0	5.0	3.5	3.7	3.0	3.0	3.4	2.8	2.3	3.4	3.8	2.9
Personal cons. expend. <i>Previous</i>	3.5	5.5	4.6	.3	4.7	4.0	3.4	2.9	2.4	3.4	2.8	2.4	3.5	3.8	2.8
Durables	3.6	3.9	4.2	1.6	5.0	3.0	3.6	3.4	3.3	3.0	2.8	2.9	3.3	3.7	3.0
Nondurables	3.6	3.9	4.2	1.7	3.9	3.4	3.2	3.1	2.9	2.9	2.8	2.7	3.3	3.4	2.8
Services															
Personal cons. expend. <i>Previous</i>	2.4	2.4	2.9	.8	3.6	2.5	2.5	2.3	2.4	2.3	2.3	2.3	2.1	2.7	2.3
Durables	2.4	2.4	2.9	.8	3.2	2.4	2.2	2.2	2.3	2.3	2.3	2.3	2.1	2.5	2.3
Nondurables	.2	.6	.8	-1.5	1.5	.5	.5	.5	.5	.4	.4	.4	.0	.8	.4
Services	1.1	.7	.7	1.0	1.1	.4	1.0	.9	.9	.8	.8	.8	.9	.9	.8
	1.2	1.0	1.4	1.2	1.0	1.6	.9	1.0	1.0	1.0	1.0	1.1	1.2	1.1	1.0
Residential investment <i>Previous</i>	.5	.6	.4	.2	.0	-1	.0	.3	.2	.0	-1	-1	.4	.1	.0
	.5	.6	.4	.5	.0	.2	.2	.2	.0	.0	-1	-2	.5	.1	-1
Business fixed invest. <i>Previous</i>	.6	.9	.9	.6	1.3	.5	1.1	.8	.6	.7	.7	.6	.7	.9	.7
Equipment & software <i>Previous</i>	.6	.9	.9	.4	.8	.9	.8	.7	.6	.6	.6	.5	.7	.8	.6
Nonres. structures <i>Previous</i>	.6	.8	.8	.5	1.2	.3	.9	.6	.5	.6	.6	.5	.7	.7	.6
	.6	.8	.8	.3	.5	.6	.6	.6	.5	.5	.5	.5	.6	.6	.5
Net exports <i>Previous</i>	-1	.1	.1	.1	.2	.2	.2	.2	.1	.1	.1	.1	.0	.2	.1
Exports	-1	.1	.1	.1	.2	.3	.2	.2	.1	.1	.1	.1	.1	.2	.1
Imports	-4	1.1	-1	-1.4	-5	.2	-2	-7	-6	.1	-3	-8	-2	-3	-4
Govt. cons. & invest. <i>Previous</i>	-4	1.1	-1	-1.4	.0	.3	.0	-5	-8	.2	-2	-6	-2	-1	-3
Federal	.7	1.1	.3	.5	1.5	.6	.6	.5	.5	.5	.5	.5	.6	.8	.5
Defense	-1.1	.0	-4	-1.9	-2.0	-4	-8	-1.2	-1.1	-5	-8	-1.3	-9	-1.1	-9
Nondefense															
State & local	.4	.5	.5	-1	.6	.3	.3	.3	.3	.3	.3	.3	.3	.4	.3
Change in bus. inventories <i>Previous</i>	.4	.5	.5	.0	.8	.3	.2	.3	.3	.3	.3	.3	.4	.4	.3
Nonfarm	.2	.2	.5	-2	.4	.1	.1	.1	.0	.0	.0	.0	.2	.2	.0
Farm	.1	.2	.5	-4	.4	.1	.1	.1	.0	.0	.0	.0	.1	.2	.0
	.0	.0	.1	.3	.0	.0	.0	.0	.0	.0	.0	.0	.1	.0	.0
	.2	.3	.0	.0	.1	.2	.2	.3	.3	.3	.3	.3	.1	.2	.3
Change in bus. inventories <i>Previous</i>	.3	-2.1	-4	1.7	-3	.0	.0	.4	.2	-2	.3	.7	-1	.0	.2
Nonfarm	.3	-2.1	-4	2.1	-6	-2	.1	.4	.5	-4	.2	.5	.0	-1	.2
Farm	.4	-2.1	-4	1.7	-4	.0	.0	.4	.2	-2	.3	.7	-1	.0	.2
	-1	-1	.0	.1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0

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



Class II FOMC  
Restricted (FR)

March 22, 2006

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

Item	2005				2006				2007				2005 <sup>1</sup>	2006 <sup>1</sup>	2007 <sup>1</sup>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP chain-wt. price index <i>Previous</i>	3.1	2.6	3.3	3.3	3.4	2.6	2.0	2.0	2.1	2.2	2.1	1.9	3.1	2.5	2.1
PCE chain.-wt. price index <i>Previous</i>	3.1	2.6	3.3	2.6	2.1	2.5	2.2	2.0	2.2	1.9	1.9	1.9	2.9	2.2	2.0
	2.3	3.3	3.7	2.7	1.9	2.0	2.1	2.2	2.1	2.0	1.9	1.8	3.0	2.0	1.9
	2.3	3.3	3.7	2.4	2.1	2.7	2.3	2.1	1.9	1.8	1.8	1.7	2.9	2.3	1.8
Energy <i>Previous</i>	3.6	28.6	50.0	10.2	-1	-1.2	.6	1.8	2.9	1.9	1.0	.5	21.8	.3	1.6
	3.6	28.6	50.0	8.9	3.0	7.5	2.7	1.3	1.1	.7	.4	.0	21.5	3.6	.6
Food <i>Previous</i>	1.0	3.5	1.3	2.4	2.9	2.2	2.4	2.4	2.3	2.2	2.2	2.1	2.1	2.5	2.2
	1.0	3.5	1.3	2.6	2.1	2.5	2.5	2.4	2.3	2.2	2.1	2.1	2.1	2.4	2.2
Ex. food & energy <i>Previous</i>	2.4	1.7	1.4	2.1	1.9	2.2	2.2	2.2	2.0	1.9	1.9	1.8	1.9	2.1	1.9
	2.4	1.7	1.4	1.9	2.0	2.3	2.3	2.1	1.9	1.9	1.8	1.8	1.8	2.2	1.8
CPI <i>Previous</i>	2.3	3.8	5.5	3.3	2.1	2.0	2.3	2.3	2.4	2.2	2.1	2.0	3.7	2.2	2.2
	2.5	4.0	5.3	3.1	2.5	3.0	2.6	2.3	2.2	2.1	2.0	1.9	3.7	2.6	2.0
Ex. food & energy <i>Previous</i>	2.6	1.8	1.6	2.4	2.2	2.4	2.4	2.4	2.3	2.2	2.2	2.1	2.1	2.4	2.2
	2.6	2.0	1.4	2.4	2.6	2.5	2.5	2.4	2.3	2.2	2.1	2.1	2.1	2.5	2.2
ECI, hourly compensation <sup>2</sup> <i>Previous</i> <sup>2</sup>	2.5	2.5	3.2	3.2	4.1	4.2	4.2	4.3	4.2	4.2	4.2	4.2	3.0	4.2	4.2
	2.5	2.5	3.2	3.7	4.1	4.2	4.2	4.3	4.2	4.1	4.1	4.1	3.0	4.2	4.1
Nonfarm business sector Output per hour <i>Previous</i>	3.8	2.4	4.2	-2	2.3	2.4	3.1	3.3	3.2	3.1	3.1	3.0	2.5	2.8	3.1
	3.2	2.1	4.4	1.0	3.5	2.7	3.1	2.9	2.8	2.8	2.8	2.7	2.7	3.1	2.8
Compensation per hour <i>Previous</i>	5.6	1.3	5.5	2.8	4.3	5.1	5.6	5.6	5.4	5.3	5.2	5.2	3.8	5.2	5.3
	5.5	.9	4.1	3.0	4.3	5.4	5.6	5.6	5.4	5.2	5.2	5.1	3.3	5.3	5.2
Unit labor costs <i>Previous</i>	1.8	-1.0	1.2	3.1	2.0	2.7	2.4	2.3	2.2	2.2	2.1	2.1	1.3	2.3	2.1
	2.2	-1.2	-3	2.0	.8	2.6	2.5	2.6	2.6	2.3	2.3	2.3	.6	2.1	2.4

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

2. Private-industry workers.

## Other Macroeconomic Indicators

Item	2005				2006				2007				2005 <sup>1</sup>	2006 <sup>1</sup>	2007 <sup>1</sup>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Employment and production</i>															
Nonfarm payroll employment <sup>2</sup>	.5	.5	.5	.4	.6	.6	.4	.3	.2	.2	.2	.2	1.9	2.0	1.0
Unemployment rate <sup>3</sup>	5.2	5.1	5.0	5.0	4.8	4.8	4.8	4.8	4.8	4.8	4.9	4.9	5.0	4.8	4.9
<i>Previous<sup>3</sup></i>	5.2	5.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.1	5.1	5.1	5.0	5.0	5.1
GDP gap <sup>4</sup>	-.6	-.5	-.2	-.4	-.1	.0	.1	.1	.1	.0	.0	-.1	-.4	.1	-.1
<i>Previous<sup>4</sup></i>	-.7	-.7	-.4	-.6	-.4	-.2	-.1	-.1	-.2	-.3	-.3	-.4	-.6	-.1	-.4
Industrial production <sup>5</sup>	3.8	1.6	1.4	5.3	5.2	6.8	5.4	4.5	3.8	3.1	2.7	2.9	3.0	5.5	3.1
<i>Previous<sup>5</sup></i>	3.8	1.6	1.4	3.8	6.3	7.5	5.7	4.5	3.4	2.7	2.7	2.7	2.7	6.0	2.9
Manufacturing industr. prod. <sup>5</sup>	4.5	1.3	2.0	9.2	6.0	4.7	4.8	4.4	3.9	3.2	2.8	3.2	4.2	5.0	3.3
<i>Previous<sup>5</sup></i>	4.5	1.3	2.0	7.9	5.6	5.5	5.1	4.4	3.6	2.9	3.0	3.0	3.9	5.2	3.1
Capacity utilization rate - mfg. <sup>3</sup>	78.7	78.5	78.5	79.8	80.5	80.9	81.3	81.7	81.9	81.9	81.9	81.8	79.8	81.7	81.8
<i>Previous<sup>3</sup></i>	78.7	78.5	78.5	79.6	80.2	80.8	81.2	81.5	81.7	81.7	81.7	81.7	79.6	81.5	81.7
Housing starts <sup>6</sup>	2.1	2.0	2.1	2.1	2.1	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Light motor vehicle sales <sup>6</sup>	16.5	17.2	17.9	15.8	16.8	16.6	16.9	17.0	17.1	17.1	17.1	17.2	16.9	16.8	17.1
<i>Income and saving</i>															
Nominal GDP <sup>5</sup>	7.0	6.0	7.6	5.2	8.2	6.2	5.7	5.5	5.3	5.4	5.2	5.0	6.4	6.4	5.2
Real disposable pers. income <sup>5</sup>	-3.4	.2	-1.4	7.1	4.2	5.2	5.1	4.6	4.8	4.5	4.0	4.0	.5	4.8	4.3
<i>Previous<sup>5</sup></i>	-3.4	.2	-2.0	7.4	4.5	4.7	4.4	4.3	4.8	4.2	3.9	4.0	.4	4.5	4.2
Personal saving rate <sup>3</sup>	.5	-.2	-1.6	-.2	-.4	.0	.3	.6	.9	1.2	1.4	1.6	-.2	.6	1.6
<i>Previous<sup>3</sup></i>	.5	-.2	-1.8	-.2	-.2	.1	.4	.7	1.0	1.3	1.4	1.6	-.2	.7	1.6
Corporate profits <sup>7</sup>	24.5	19.7	-15.2	40.5	14.3	12.0	.4	2.3	-2.8	-.5	-1.4	3.8	15.4	7.1	-.3
Profit share of GNP <sup>3</sup>	10.5	10.9	10.2	11.0	11.2	11.3	11.2	11.1	10.9	10.8	10.6	10.6	11.0	11.1	10.6
Excluding FR Banks <sup>3</sup>	10.3	10.6	10.0	10.8	11.0	11.1	11.0	10.9	10.7	10.6	10.4	10.4	10.8	10.9	10.4
Net federal saving <sup>8</sup>	-298	-297	-408	-297	-327	-336	-341	-329	-363	-355	-356	-346	-325	-333	-355
Net state & local saving <sup>8</sup>	7	21	-6	-12	19	23	22	23	25	25	25	28	3	22	26
Gross national saving rate <sup>3</sup>	13.4	13.1	13.6	13.0	12.8	13.1	13.2	13.4	13.2	13.3	13.4	13.4	13.0	13.4	13.4
Net national saving rate <sup>3</sup>	1.7	1.6	-1.3	1.3	1.4	1.8	1.8	2.1	1.8	2.0	2.0	2.2	1.3	2.1	2.2

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

2. Change, millions.

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

4. Percent difference between actual and potential GDP; a negative number indicates that the economy is operating below potential. (In previous Greenbooks, we expressed the GDP gap with the opposite sign, so that a positive number indicated that actual output fell short of potential.) Annual values are for the fourth quarter of the year indicated.

5. Percent change, annual rate.

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

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

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

**Class II FOMC  
Restricted (FR)**

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

**March 22, 2006**

Item	Fiscal year				2005				2006				2007			
	2004 <sup>a</sup>	2005 <sup>a</sup>	2006	2007	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget</b>	Not seasonally adjusted															
Receipts <sup>1</sup>	1880	2154	2330	2427	452	665	549	530	506	725	568	554	509	768	595	583
Outlays <sup>1</sup>	2293	2472	2662	2770	628	620	618	650	691	667	655	688	718	692	671	731
Surplus/deficit <sup>1</sup>	-412	-318	-333	-343	-177	45	-69	-119	-185	59	-87	-134	-210	77	-76	-148
<i>Previous</i>	-413	-318	-347	-353	-177	45	-69	-119	-200	57	-85	-136	-209	71	-79	-147
On-budget	-568	-494	-500	-524	-202	-37	-84	-170	-209	-23	-99	-193	-232	-8	-90	-209
Off-budget	155	175	167	181	25	83	15	51	24	81	11	60	23	85	14	61
Means of financing																
Borrowing	378	297	354	353	165	-43	73	112	171	-37	107	122	194	-48	84	138
Cash decrease	-1	1	-1	2	2	-11	-2	-1	23	-12	-11	12	15	-25	0	10
Other <sup>2</sup>	35	21	-20	-12	10	8	-1	8	-9	-10	-9	-0	0	-4	-8	-0
Cash operating balance, end of period	36	36	37	35	22	33	36	37	14	26	37	25	10	35	35	25
<b>NIPA federal sector</b>	Seasonally adjusted annual rates															
Receipts	1933	2159	2389	2524	2197	2228	2156	2315	2383	2413	2445	2480	2514	2538	2563	2594
Expenditures	2348	2503	2714	2874	2495	2525	2564	2612	2710	2749	2786	2809	2877	2892	2919	2939
Consumption expenditures	711	760	801	835	760	763	783	773	803	810	817	822	836	840	844	847
Defense	474	510	536	561	509	512	529	514	538	543	548	552	561	564	566	569
Nondefense	237	250	265	275	251	251	254	259	265	267	269	270	275	276	277	278
Other spending	1637	1742	1914	2039	1735	1762	1781	1839	1907	1939	1970	1987	2041	2052	2075	2092
Current account surplus	-415	-344	-325	-351	-298	-297	-408	-297	-327	-336	-341	-329	-363	-355	-356	-346
Gross investment	99	106	114	114	101	107	109	116	113	113	113	114	114	114	114	114
Gross saving less gross investment <sup>3</sup>	-421	-352	-338	-360	-302	-307	-418	-313	-339	-347	-351	-339	-373	-363	-364	-352
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-379	-337	-339	-365	-284	-294	-414	-303	-341	-353	-359	-349	-377	-368	-366	-351
Change in HEB, percent of potential GDP	0.7	-0.5	-0.1	0.1	-0.6	0.0	0.9	-0.9	0.2	0.1	0.0	-0.1	0.2	-0.1	-0.0	-0.1
Fiscal impetus (FI) percent of GDP	0.8	0.3	0.4	0.1	0.0	0.1	0.1	-0.0	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0
<i>Previous</i>	0.8	0.3	0.4	0.0	0.0	0.1	0.1	-0.0	0.2	0.1	0.0	0.0	-0.0	-0.0	0.0	-0.0

1. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus and the Postal Service surplus are excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.
2. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.
3. Gross saving is the current account surplus plus consumption of fixed capital of the general government as well as government enterprises.
4. HEB is gross saving less gross investment (NIPA) of the federal government in current dollars, with cyclically sensitive receipts and outlays adjusted to the staff's measure of potential output and the NAIRU. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (2000) dollars, scaled by real GDP. The annual FI estimates are on a calendar year basis. Also, for FI and the change in HEB, positive values indicate aggregate demand stimulus.

a--Actual

**Class II FOMC Restricted (FR)** **Change in Debt of the Domestic Nonfinancial Sectors** **March 22, 2006**  
(Percent)

Period <sup>1</sup>	Total	Households			Business	State and local governments	Federal government	Memo: Nominal GDP
		Total	Home mortgages	Consumer credit				
<i>Year</i>								
2000	4.8	8.6	8.2	10.8	9.3	1.3	-8.0	4.6
2001	6.1	8.6	9.5	7.6	6.1	8.9	-2	2.7
2002	6.9	9.7	11.9	4.7	2.6	11.1	7.6	3.6
2003	8.1	11.4	14.3	4.5	2.7	8.2	10.9	6.1
2004	8.7	11.1	13.5	4.4	5.9	7.6	9.0	6.8
2005	9.5	11.7	14.1	2.9	7.9	10.6	7.0	6.4
2006	7.4	8.3	9.6	3.6	6.8	3.6	7.7	6.4
2007	6.6	6.8	7.7	4.1	6.6	3.1	7.3	5.2
<i>Quarter</i>								
2005:1	9.7	9.7	11.5	3.4	6.6	12.0	14.4	7.0
2	8.1	11.8	13.8	3.7	8.2	6.0	.1	6.0
3	9.6	12.4	14.9	5.3	7.5	13.1	5.1	7.6
4	9.5	11.0	13.2	-7	8.3	9.6	7.8	5.2
2006:1	8.6	8.8	10.4	3.5	6.4	3.5	14.0	8.2
2	6.1	8.2	9.5	4.0	6.7	4.4	.6	6.2
3	7.1	7.7	8.9	3.2	7.0	3.1	7.6	5.7
4	6.9	7.3	8.4	3.4	6.5	3.1	8.1	5.5
2007:1	7.9	6.9	7.9	3.7	6.4	3.3	14.8	5.3
2	5.1	6.7	7.5	3.9	6.5	3.2	-3	5.4
3	6.0	6.6	7.3	4.1	6.4	2.8	5.3	5.2
4	6.6	6.4	7.1	4.2	6.3	2.8	8.7	5.0

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2005:Q4 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

**Class II FOMC Restricted (FR)** **Flow of Funds Projections: Highlights** **March 22, 2006**  
(Billions of dollars at seasonally adjusted annual rates except as noted)

Category	2004	2005	2006	2007	2005				2006				2007			
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<i>Domestic nonfinancial sectors</i>																
Net funds raised																
Total	1791.6	1931.8	1620.3	1663.3	1930.5	2050.7	1827.8	1326.3	1661.0	1666.4	2044.8	1287.9	1568.9	1751.7		
Net equity issuance	-141.1	-366.0	-325.5	-200.0	-481.1	-394.6	-442.0	-320.0	-290.0	-250.0	-200.0	-200.0	-200.0	-200.0		
Net debt issuance	1932.7	2297.8	1945.8	1863.3	2411.6	2445.3	2269.8	1646.3	1951.0	1916.4	2244.8	1487.9	1768.9	1951.7		
Borrowing indicators																
Debt (percent of GDP) <sup>1</sup>	197.1	202.2	205.6	208.6	202.1	204.4	204.9	205.5	206.0	206.8	208.0	208.6	208.8	209.6		
Borrowing (percent of GDP)	16.5	18.4	14.6	13.3	19.1	19.2	17.4	12.5	14.6	14.1	16.3	10.7	12.5	13.7		
Households																
Net borrowing <sup>2</sup>	1023.4	1204.7	950.3	851.1	1347.2	1235.0	1017.0	969.1	923.0	892.3	864.8	850.0	847.9	841.8		
Home mortgages	898.7	1067.0	834.2	726.5	1205.1	1110.5	899.2	842.4	814.0	780.9	747.8	728.8	719.4	709.9		
Consumer credit	88.8	62.5	78.2	91.9	114.3	-15.8	75.9	87.5	72.4	77.1	84.3	88.9	95.8	98.7		
Debt/DPI (percent) <sup>3</sup>	112.8	120.5	124.2	125.1	122.0	122.7	123.8	124.3	124.5	124.8	124.9	125.0	125.3	125.5		
Business																
Financing gap <sup>4</sup>	47.0	-100.4	58.5	207.9	-237.7	-159.3	-67.3	67.0	101.1	133.1	167.8	184.0	215.4	264.4		
Net equity issuance	-141.1	-366.0	-325.5	-200.0	-481.1	-394.6	-442.0	-320.0	-290.0	-250.0	-200.0	-200.0	-200.0	-200.0		
Credit market borrowing	429.2	608.9	565.5	584.4	603.4	677.0	531.7	563.9	601.0	565.4	568.2	588.7	587.7	592.8		
State and local governments																
Net borrowing	118.2	177.3	66.2	58.8	229.1	174.2	64.4	82.8	58.8	58.8	62.8	62.8	54.8	54.8		
Current surplus <sup>5</sup>	181.3	197.0	194.2	206.8	208.3	158.1	187.6	193.9	196.2	199.1	203.4	205.0	207.0	211.9		
Federal government																
Net borrowing	361.9	306.9	363.8	369.1	231.9	359.0	656.7	30.4	368.2	399.9	749.0	-13.5	278.5	462.3		
Net borrowing (n.s.a.)	361.9	306.9	363.8	369.1	72.8	112.2	171.2	-36.7	106.8	122.5	194.2	-47.6	84.4	138.1		
Unified deficit (n.s.a.)	400.7	319.7	347.3	357.1	69.0	119.3	184.8	-58.6	87.2	133.9	209.7	-76.6	76.0	148.0		
<i>Depository institutions</i>																
Funds supplied	796.9	817.2	570.1	551.7	864.4	488.1	763.0	425.8	592.7	498.7	645.0	494.2	566.5	500.9		

Note. Data after 2005:Q4 are staff projections.

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

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

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

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

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

n.s.a. Not seasonally adjusted.

2.6.4 FOF

## International Developments

Expansion abroad is forecast to continue at a solid pace, with incoming data pushing projected near-term growth a touch higher than it was in the previous Greenbook. Emerging economies should continue to grow apace, whereas expansion in industrial countries slows a bit after the first half of the year, consistent with recent tightening in monetary policy in a number of countries. Foreign CPI inflation is projected to edge up in the current quarter but to remain contained, as recent and projected tightening of monetary policy and the deceleration of commodity prices weigh on prices. Our forecast for foreign CPI inflation is a bit lower than it was in the January Greenbook, consistent with a lower projected path for oil prices.

**Summary of Staff Projections**  
(Percent change from end of previous period, s.a.a.r.)

Indicator	2005		Projection				
	H1	Q3	2005: Q4	2006			2007
				Q1	Q2	H2	
Foreign output	3.2	4.5	3.9	3.9	3.7	3.5	3.4
January GB	3.2	4.4	3.9	3.6	3.6	3.5	3.4
Foreign CPI	1.9	3.3	2.1	2.4	2.4	2.5	2.5
January GB	1.9	3.4	2.0	2.6	2.7	2.6	2.5

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

The spot price of West Texas intermediate (WTI) crude oil has moved down significantly since the time of the January Greenbook, to a little over \$60 per barrel, as inventories of crude oil in the United States have risen sharply. However, the far-dated futures price is little changed.

The nominal trade-weighted exchange value of the dollar rose about 1 percent on balance over the intermeeting period. We again project that the broad real dollar will decline at a modest rate over the forecast period, reflecting the need to finance the large and growing U.S. current account deficit.

Real net exports are estimated to subtract ½ percentage point from real GDP growth in the first quarter, after subtracting 1½ percentage points in the fourth. In the second quarter, the contribution from real net exports is expected to swing temporarily into

**Staff Projections of Selected Trade Prices**

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

Indicator	2005		Projection				
	H1	Q3	2005: Q4	2006			2007
				Q1	Q2	H2	
<i>Exports</i>							
Core goods	4.9	1.9	4.1	4.0	4.9	3.4	1.3
January GB	4.9	1.9	4.6	3.0	4.4	2.6	1.1
<i>Imports</i>							
Nonfuel core goods	3.3	-.2	2.6	3.1	3.4	3.1	1.2
January GB	3.3	-.2	2.8	3.0	3.1	2.7	1.1
Oil (dollars per barrel)	46.30	55.24	55.40	55.13	55.64	59.41	60.76
January GB	46.30	55.24	55.50	59.72	61.60	63.19	63.41

Note. Prices for core exports exclude computers and semiconductors. Prices for nonfuel core imports exclude computers, semiconductors, oil, and natural gas. Both price series are on a NIPA chain-weighted basis.

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

**Trade in Goods and Services**

Having made a negative arithmetic contribution of 1½ percentage points to real GDP growth in the fourth quarter, real net exports are projected to make a negative contribution of ½ percentage point in the first. Export growth is expected to outpace import growth in the current quarter; however, the higher initial level of imports implies a decline in net exports, which accordingly subtracts from real GDP growth. The contribution of net exports becomes positive in the second quarter, reflecting a seasonal factor that depresses oil imports, but then net exports subtract an average of ½ percentage point for the remainder of the forecast period. Compared with the January Greenbook, our projection of the contribution of real net exports in the first quarter has been revised down about ½ percentage point, primarily in response to the December and January trade data. Our projection of the contribution for the remainder of the forecast is a touch more negative as well, reflecting both the stronger dollar and a slight upward revision to the projection for U.S. GDP growth.

Real imports of goods and services increased 12¼ percent at an annual rate in the fourth quarter, as imports of oil and other industrial supplies surged in the wake of hurricane-related disruptions to domestic production. In the current quarter, the unexpected strength of the January nominal import data has led us to expect import growth to

forecast period, as the positive impetus of dollar depreciation in 2003-04 wanes. The slowing of core exports is partially balanced by an acceleration of services exports, which respond to exchange rate changes with a shorter lag than core exports and are boosted by the projected decline in the dollar. Since the January Greenbook, our projection for overall export growth beyond the current quarter has been revised down, in part in response to the stronger dollar.

### Staff Projections for Trade in Goods and Services

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

Indicator	2005		Projection				
	H1	Q3	2005: Q4	2006			2007
				Q1	Q2	H2	
Real exports	9.1	2.5	5.1	15.0	5.7	5.1	4.9
January GB	9.1	2.5	4.8	7.2	5.9	6.3	5.3
Real imports	3.5	2.4	12.2	12.5	2.5	5.9	5.5
January GB	3.5	2.4	11.9	4.4	1.9	5.6	5.4

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

### Alternative Simulations

Our baseline forecast has GDP growing above trend in the euro area and Japan this year, accompanied by some tightening of policy rates in these economies. However, it is possible that this growth will stall and that the Bank of Japan and the European Central Bank then will respond only slowly to the weaker activity. Accordingly, we use the FRB/Global model to examine the effects of an autonomous fall in demand in the euro area and Japan of 2 percent of GDP. This simulation also incorporates 50 basis points less monetary easing than would be called for by a Taylor rule subject to a zero-bound constraint. These shocks are phased in over a year beginning in 2006:Q2. After four quarters, the shocks induce a fall in euro-area and Japanese GDP of 2.4 percent and 3.3 percent, respectively, relative to baseline, and return Japan to deflation. In the euro area, the short-term interest rate falls about 150 basis points relative to baseline after four quarters. However, the Taylor rule for Japan implies that the short-term interest rate should fall to the zero lower bound, and then the monetary shock pushes it up to 50 basis points.

U.S. GDP growth falls 0.2 percentage point relative to baseline in the second half of this year and about 0.1 percentage point in 2007. Nearly all the reduction in U.S. GDP



reflects the effects of the autonomous negative demand shock, which depresses U.S. real net exports directly through lower European and Japanese demand and indirectly through a modest appreciation of the dollar. As a result, the trade deficit widens about 0.1 percent of GDP in 2007. Core PCE inflation falls 0.1 percentage point below baseline in 2007:H2 reflecting the effects of weaker demand.

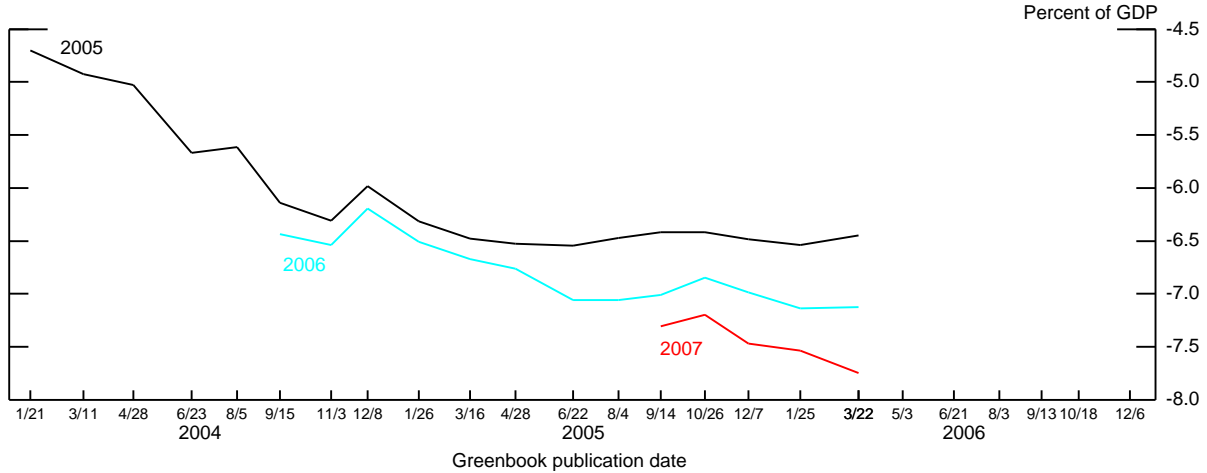
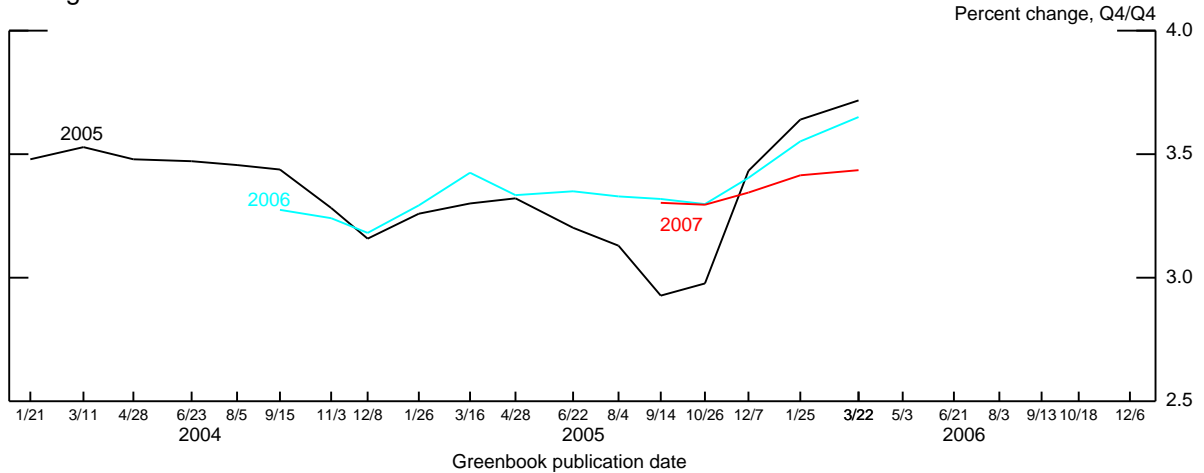
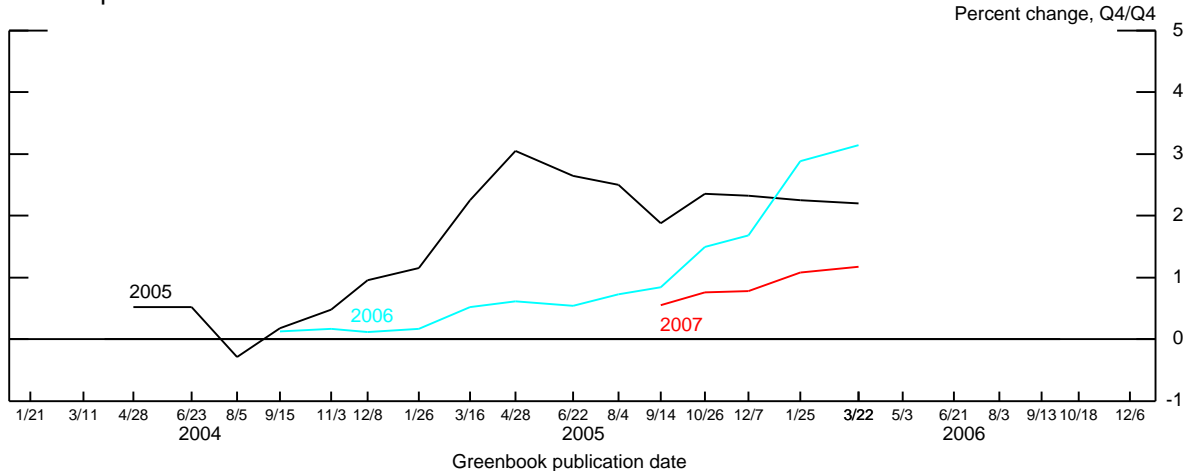
**Alternative Simulation:  
Weaker Demand and Monetary Tightening in the Euro Area  
and Japan**

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

Indicator and simulation	2006		2007	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	4.1	3.5	3.1	3.1
Alternative Simulation	4.0	3.3	2.9	3.1
<i>U.S. PCE prices excluding food and energy</i>				
Baseline	2.0	2.2	2.0	1.9
Alternative Simulation	2.0	2.2	2.0	1.8
<i>U.S. trade balance (percent share of GDP)</i>				
Baseline	-6.0	-6.1	-6.3	-6.3
Alternative Simulation	-6.0	-6.1	-6.4	-6.4

Note. H1 is Q2/Q4; H2 is Q4/Q2. The monetary authorities in the United States and the major foreign economies adjust their policy rates according to a Taylor rule.

Class II FOMC -- Restricted (FR)

**Evolution of the Staff Forecast****Current Account Balance****Foreign Real GDP****Core Import Prices\***

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



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

Measure and country	2005				2006				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	2.5	4.0	4.5	3.9	3.9	3.7	3.5	3.5	3.4	3.5	3.5	3.5
Industrial Countries	1.9	3.4	2.6	2.6	3.1	2.9	2.6	2.5	2.3	2.5	2.5	2.5
of which:												
Canada	2.1	3.6	3.5	2.5	3.6	3.4	2.9	2.7	3.0	3.1	3.1	3.1
Japan	5.5	5.7	0.8	5.4	3.0	2.3	2.1	1.9	1.8	1.8	1.8	1.7
United Kingdom	1.0	1.8	2.1	2.3	2.7	2.8	2.9	2.9	3.0	3.0	3.1	3.1
Euro Area (2)	1.1	1.8	2.7	1.0	2.4	2.4	2.0	2.1	1.0	1.7	1.6	1.6
Germany	2.4	1.2	2.5	0.0	2.4	2.5	2.1	2.6	-0.8	1.6	1.4	1.4
Developing Countries	3.3	4.8	7.1	5.8	5.0	4.9	4.9	4.9	4.8	4.8	4.8	4.8
Asia	5.3	7.8	6.2	8.1	6.2	5.8	5.8	5.8	5.9	5.9	5.9	5.9
Korea	2.1	5.9	6.6	6.7	4.8	4.5	4.5	4.5	4.5	4.4	4.4	4.4
China	11.9	7.2	8.9	11.5	9.0	7.8	8.0	8.0	8.3	8.3	8.3	8.3
Latin America	1.2	1.3	6.7	3.1	3.9	3.9	3.9	3.9	3.7	3.7	3.7	3.7
Mexico	0.6	-0.7	8.7	2.4	3.7	3.7	3.7	3.7	3.5	3.5	3.5	3.5
Brazil	0.6	5.7	-3.4	3.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
CONSUMER PRICES (3)	Four-quarter changes											
Industrial Countries	1.5	1.5	1.8	1.6	1.9	1.7	1.5	1.5	1.7	1.7	1.7	1.7
of which:												
Canada	2.1	1.9	2.7	2.3	2.4	2.1	1.6	1.8	1.9	1.9	2.0	1.9
Japan	-0.2	-0.1	-0.2	-0.5	0.5	0.6	0.9	0.9	0.4	0.5	0.5	0.6
United Kingdom (4)	1.7	2.0	2.4	2.1	2.0	1.9	1.7	1.9	2.0	2.0	2.1	2.1
Euro Area (2)	2.0	2.0	2.3	2.3	2.4	2.1	1.8	1.6	2.1	2.1	2.1	2.0
Germany	1.7	1.6	2.1	2.2	2.1	1.9	1.4	1.2	2.7	2.6	2.6	2.5
Developing Countries	3.6	3.2	3.1	3.1	3.2	3.4	3.3	3.5	3.5	3.5	3.4	3.3
Asia	2.9	2.4	2.3	2.6	2.7	3.1	2.9	3.2	3.3	3.3	3.1	3.0
Korea	3.1	3.0	2.4	2.5	2.5	2.8	3.0	3.5	3.7	3.6	3.3	3.0
China	2.8	1.7	1.3	1.4	1.5	2.3	2.4	3.0	3.1	3.1	3.0	2.9
Latin America	4.9	5.1	4.5	3.8	4.2	3.9	4.0	4.1	3.9	4.0	3.9	3.9
Mexico	4.4	4.5	4.0	3.1	3.7	3.5	3.6	3.8	3.6	3.6	3.7	3.7
Brazil	7.4	7.7	6.2	6.1	5.6	4.9	5.3	4.8	4.4	4.3	4.2	4.0

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

2. Harmonized data for euro area from Eurostat.

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

4. CPI excluding mortgage interest payments, which is the targeted inflation rate.

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1999	2000	2001	2002	2003	2004	----- 2005	Projected 2006	----- 2007
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-1.0	-0.9	-0.2	-0.9	-0.1	-0.9	-0.2	-0.3	-0.4
Exports of G&S	0.6	0.7	-1.3	0.4	0.6	0.6	0.6	0.8	0.5
Imports of G&S	-1.6	-1.6	1.1	-1.3	-0.7	-1.5	-0.9	-1.1	-0.9
	Percentage change, Q4/Q4								
Exports of G&S	5.6	6.5	-11.9	3.8	6.0	6.1	6.4	7.6	4.9
Services	5.3	1.8	-8.9	10.2	4.5	4.6	2.8	4.9	5.8
Computers	13.4	22.7	-23.5	-1.1	11.0	6.3	14.4	17.0	14.4
Semiconductors	34.6	27.6	-34.6	10.1	38.8	-6.1	16.9	17.7	17.0
Other Goods 1/	3.3	5.9	-10.2	0.7	4.5	7.8	7.1	7.9	3.3
Imports of G&S	12.1	11.2	-7.6	9.7	5.1	10.6	5.3	6.7	5.5
Services	6.6	10.6	-5.9	8.8	4.2	7.7	2.3	5.3	4.0
Oil	-3.4	13.3	3.7	3.8	1.5	9.7	1.9	-7.0	1.4
Computers	26.0	13.9	-13.6	13.2	16.8	22.2	12.0	18.6	17.5
Semiconductors	34.2	22.8	-51.1	11.0	-0.2	9.4	7.7	15.4	17.0
Other Goods 2/	13.0	10.3	-6.5	10.0	5.2	10.6	6.4	8.8	5.8
	Billions of Chained 2000 Dollars								
Net Goods & Services	-296.2	-379.5	-399.1	-471.3	-521.4	-601.3	-633.2	-671.7	-712.1
Exports of G&S	1008.2	1096.3	1036.7	1013.3	1031.2	1117.9	1195.3	1286.3	1350.0
Imports of G&S	1304.4	1475.8	1435.8	1484.6	1552.6	1719.2	1828.5	1958.0	2062.1
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-300.1	-416.0	-389.5	-475.2	-519.7	-668.1	-805.0	-948.4	-1086.6
Current Acct as Percent of GDP	-3.2	-4.2	-3.8	-4.5	-4.7	-5.7	-6.4	-7.1	-7.7
Net Goods & Services (BOP)	-263.4	-378.3	-362.7	-421.2	-494.8	-617.6	-723.6	-809.3	-888.4
Investment Income, Net	19.1	25.7	30.3	15.5	51.8	36.2	7.4	-35.5	-90.7
Direct, Net	78.2	94.9	115.9	99.8	121.8	127.9	129.9	131.5	150.2
Portfolio, Net	-59.1	-69.2	-85.5	-84.3	-70.0	-91.7	-122.5	-167.0	-240.9
Other Income & Transfers, Net	-55.8	-63.5	-57.1	-69.5	-76.7	-86.7	-88.7	-103.6	-107.5

1. Merchandise exports excluding computers and semiconductors.

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

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2002				2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	-1.0	-0.6	-0.5	-1.5	0.1	-0.7	0.5	-0.5	-1.2	-1.4	-0.2	-1.0
Exports of G&S	0.5	1.0	0.3	-0.3	-0.3	-0.2	1.0	1.7	0.5	0.7	0.5	0.7
Imports of G&S	-1.4	-1.6	-0.8	-1.2	0.4	-0.5	-0.6	-2.2	-1.6	-2.0	-0.7	-1.7
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	5.2	10.6	2.9	-3.1	-2.9	-2.1	11.5	19.1	5.0	6.9	5.5	7.1
Services	22.9	2.7	4.6	11.7	-11.9	-6.6	17.2	23.7	-0.4	4.8	-0.6	15.5
Computers	-21.1	14.7	-6.0	12.6	-5.7	0.2	35.9	18.2	-7.4	1.6	21.7	11.5
Semiconductors	22.3	42.1	12.6	-25.0	34.8	33.9	43.7	43.2	7.0	-4.8	-19.4	-5.5
Other Goods 1/	-1.6	12.5	2.0	-9.1	0.0	-2.0	5.5	15.4	8.6	9.2	9.5	3.8
Imports of G&S	11.7	12.5	5.7	9.0	-2.5	3.3	4.1	16.5	12.0	14.5	4.7	11.3
Services	24.7	-3.0	1.7	14.0	-2.2	-10.2	21.4	10.7	10.0	13.7	4.6	3.1
Oil	-9.8	-10.3	-12.7	64.3	-9.0	7.8	-1.3	9.5	35.7	-26.0	-0.5	45.0
Computers	52.2	5.3	2.8	-0.2	11.5	12.4	8.7	36.4	21.2	34.3	25.3	9.5
Semiconductors	39.8	34.8	-6.2	-14.0	-6.7	1.5	-3.7	8.9	42.6	20.2	4.7	-20.3
Other Goods 2/	7.7	19.6	9.2	4.0	-1.8	5.4	-0.4	18.7	8.1	20.3	3.1	11.5
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-441.3	-458.9	-472.2	-513.0	-510.7	-528.4	-516.2	-530.2	-563.0	-601.7	-606.5	-634.1
Exports of G&S	992.8	1018.0	1025.2	1017.2	1009.7	1004.5	1032.2	1078.4	1091.8	1110.2	1125.0	1144.5
Imports of G&S	1434.0	1476.9	1497.4	1530.2	1520.4	1532.9	1548.4	1608.6	1654.8	1711.9	1731.5	1778.6
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-440.4	-477.1	-480.3	-503.0	-546.6	-515.2	-515.9	-501.0	-584.4	-666.5	-667.9	-753.4
Current Account as % of GDP	-4.3	-4.6	-4.6	-4.7	-5.1	-4.8	-4.7	-4.5	-5.1	-5.7	-5.7	-6.3
Net Goods & Services (BOP)	-372.7	-413.8	-430.3	-467.9	-499.3	-491.4	-490.8	-497.7	-555.4	-608.2	-629.9	-676.9
Investment Income, Net	11.4	1.8	14.1	34.5	29.3	50.6	50.9	76.5	65.8	29.6	30.8	18.8
Direct, Net	100.5	91.4	95.0	112.2	102.3	117.4	119.9	147.8	140.3	116.3	121.4	133.7
Portfolio, Net	-89.2	-89.6	-80.9	-77.7	-72.9	-66.8	-69.0	-71.3	-74.6	-86.7	-90.6	-114.9
Other Inc. & Transfers, Net	-79.0	-65.1	-64.2	-69.6	-76.6	-74.4	-76.0	-79.7	-94.7	-88.0	-68.8	-95.3

1. Merchandise exports excluding computers and semiconductors.

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

March 22, 2006

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2005				2006				Projected			
	-----				-----				-----			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	-0.4	1.1	-0.1	-1.4	-0.5	0.2	-0.2	-0.7	-0.6	0.1	-0.3	-0.8
Exports of G&S	0.7	1.1	0.3	0.5	1.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Imports of G&S	-1.1	0.0	-0.4	-1.9	-2.0	-0.4	-0.8	-1.2	-1.1	-0.5	-0.8	-1.3
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	7.5	10.7	2.5	5.1	15.0	5.7	5.2	4.9	4.7	5.0	4.9	4.9
Services	12.5	-0.4	1.0	-1.2	4.8	4.9	4.8	5.0	5.1	5.9	6.1	6.2
Computers	12.6	26.9	18.5	1.0	25.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4
Semiconductors	-12.9	26.7	24.4	36.2	19.8	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 1/	6.1	14.9	1.2	6.8	19.3	5.0	4.3	3.7	3.4	3.4	3.2	3.2
Imports of G&S	7.4	-0.3	2.4	12.2	12.5	2.5	4.6	7.3	6.4	2.8	4.8	8.0
Services	3.7	4.4	-3.2	4.7	9.1	2.7	5.0	4.5	4.1	4.0	4.0	3.9
Oil	3.4	-24.5	-3.1	42.5	-1.1	-26.3	-11.4	15.9	13.3	-18.0	-7.0	22.3
Computers	11.3	13.7	15.2	8.1	21.9	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Semiconductors	-7.9	8.3	18.0	14.5	10.8	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 2/	8.6	2.9	2.4	11.9	15.6	7.5	6.4	5.9	5.5	5.5	5.9	6.1
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-645.4	-614.2	-617.5	-655.7	-668.2	-662.7	-668.4	-687.6	-703.5	-701.6	-709.7	-733.5
Exports of G&S	1165.3	1195.4	1202.7	1217.6	1261.0	1278.6	1295.0	1310.5	1325.7	1341.9	1358.1	1374.4
Imports of G&S	1810.7	1809.6	1820.2	1873.3	1929.2	1941.4	1963.3	1998.1	2029.2	2043.5	2067.8	2108.0
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-791.0	-787.6	-741.7	-899.5	-920.6	-919.5	-955.2	-998.2	-1065.0	-1066.3	-1089.5	-1125.5
Current Account as % of GDP	-6.5	-6.4	-5.9	-7.0	-7.1	-7.0	-7.1	-7.3	-7.7	-7.6	-7.7	-7.9
Net Goods & Services (BOP)	-688.5	-690.9	-725.6	-789.5	-798.0	-786.3	-808.8	-844.4	-879.5	-875.5	-884.0	-914.5
Investment Income, Net	8.2	-0.5	25.7	-3.8	-16.9	-29.5	-40.6	-54.8	-69.9	-85.3	-97.7	-110.0
Direct, Net	113.5	113.9	155.4	136.7	127.8	127.5	133.1	137.6	142.1	146.1	153.1	159.6
Portfolio, Net	-105.3	-114.4	-129.7	-140.4	-144.7	-157.1	-173.7	-192.4	-212.0	-231.4	-250.8	-269.5
Other Inc. & Transfers, Net	-110.6	-96.2	-41.8	-106.2	-105.6	-103.7	-105.8	-99.0	-115.5	-105.5	-107.8	-101.0

1. Merchandise exports excluding computers and semiconductors.

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

## **Part 2**

March 22, 2006

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**



March 22, 2006

## **Recent Developments**

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In contrast, the Conference Board's measure of job availability indicates that households do not yet perceive the availability of jobs to be as great as it was in the first half of 1997. Moreover, household expectations of labor market conditions from the Michigan Survey indicate that households are currently somewhat less optimistic about the future than they were a decade ago.

The staff estimates that output per hour for all persons in the nonfarm business sector declined at an annual rate of 0.2 percent in the fourth quarter (a slightly smaller decrease than the most recently published figure from the Bureau of Labor Statistics). We also estimate that productivity rose 2½ percent over the four quarters of 2005, about the same as in 2004.

### Labor Output per Hour

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

Sector	2003:Q4 to 2004:Q4	2004:Q4 to 2005:Q4 <sup>1</sup>	2005			
			Q1	Q2	Q3	Q4 <sup>1</sup>
Nonfarm business						
All persons	2.6	2.5	3.8	2.4	4.2	-.2
All employees <sup>2</sup>	2.5	2.1	3.8	2.3	3.1	-.9
Nonfinancial corporations <sup>3</sup>	4.8	n.a.	2.8	4.6	4.1	n.a.

1. Staff estimates.

2. Assumes that the growth rate of hours of non-employees equals the growth rate of hours of employees.

3. All corporations doing business in the United States except banks, stock and commodity brokers, and finance and insurance companies. The sector accounts for about two-thirds of business employment.  
n.a. Not available.

### Industrial Production

Industrial production rebounded 0.7 percent in February after having declined 0.3 percent in January.<sup>2</sup> This contour largely reflected a January plunge and February rebound in utilities output as temperatures turned exceptionally warm in January and then moved back to near seasonal norms last month. Abstracting from these swings in utilities output, industrial production posted a sizable gain in January before flattening out in February, pointing to a solid rise for the first quarter. Manufacturing output was unchanged last month after a jump of 0.8 percent in January. The rate of capacity utilization in the

<sup>2</sup> We estimate that hurricane-related activity—including both the resumption of production at hurricane-idled facilities and the increase in output spurred by rebuilding efforts—added little to the growth of total industrial output in February, after having contributed a bit more than ¼ percentage point to the rate of change in January.

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

Item	2005	2005	2006					
		Q4	Q1	Q2	Jan.	Feb.	Mar.	Apr.
U.S. production <sup>1</sup>	11.5	11.3	11.1	11.5	11.3	11.0	11.2	11.5
Autos	4.3	4.4	4.5	4.4	4.6	4.4	4.5	4.5
Light trucks	7.2	7.0	6.6	7.1	6.6	6.6	6.6	7.0
Days' supply <sup>2</sup>	69	74	n.a.	n.a.	64	68	n.a.	n.a.
Autos	52	53	n.a.	n.a.	43	53	n.a.	n.a.
Light trucks	81	90	n.a.	n.a.	82	78	n.a.	n.a.
Inventories <sup>3</sup>	3.04	3.04	n.a.	n.a.	2.96	2.93	n.a.	n.a.
Autos	.93	.93	n.a.	n.a.	.91	.93	n.a.	n.a.
Light trucks	2.11	2.11	n.a.	n.a.	2.05	1.99	n.a.	n.a.
Memo: U.S. production, total motor vehicles <sup>4</sup>	11.9	11.8	11.6	11.8	11.8	11.4	11.6	11.9

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

1. Production rates for March and April and for the first and second quarters reflect the latest schedules from Ward's Communications.

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

3. End-of-period stocks.

4. Includes medium and heavy trucks.

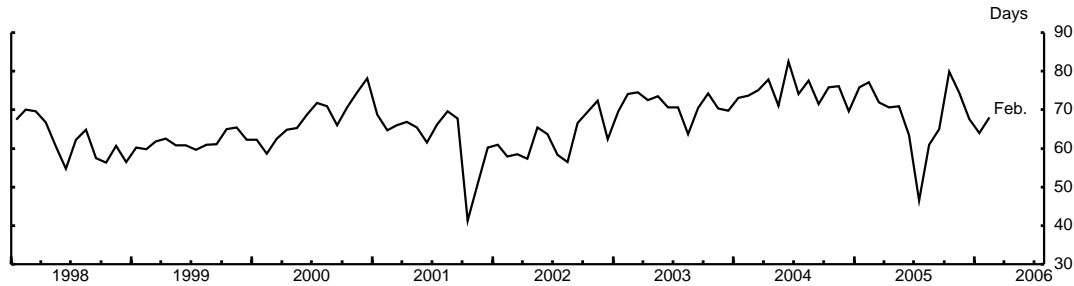
n.a. Not available.

**Inventories of Light Vehicles**



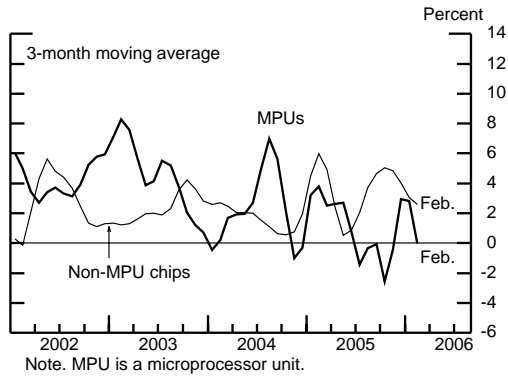
Note. FRB seasonals. Monthly totals.

**Days' Supply of Light Vehicles**

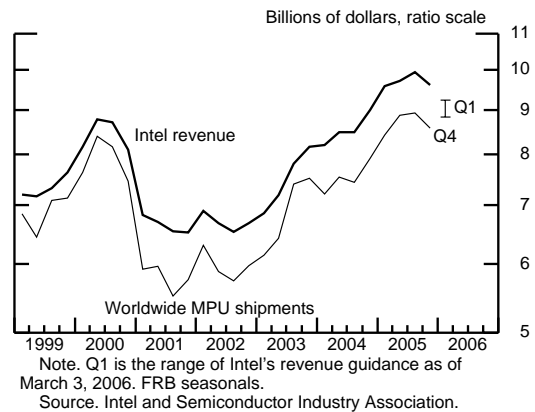


## Indicators of High-Tech Manufacturing Activity

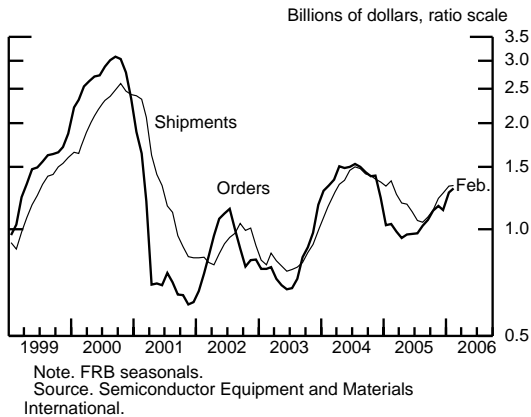
Rate of Change in Semiconductor Industrial Production



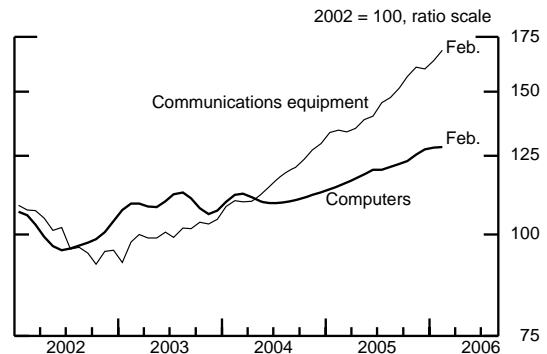
Microprocessor Unit (MPU) Shipments and Intel Revenue



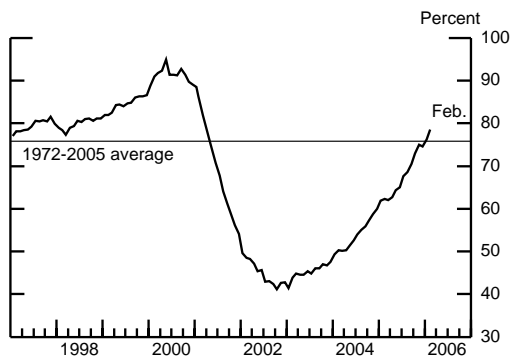
Semiconductor Manufacturing Equipment Orders and Shipments



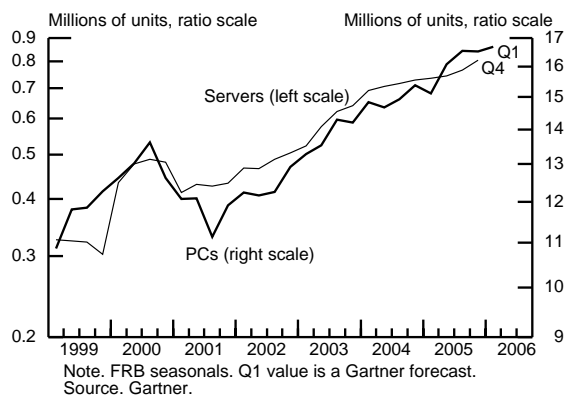
Communication Equipment and Computer IP



Communications Equipment Capacity Utilization

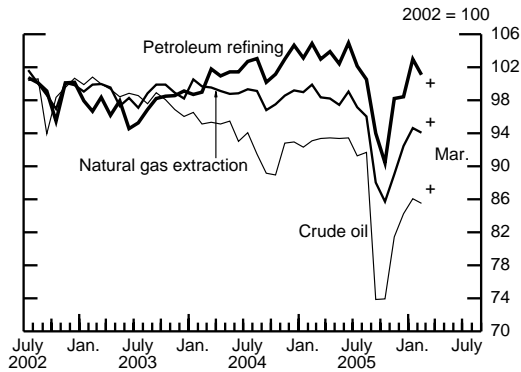


U.S. Personal Computer and Server Sales



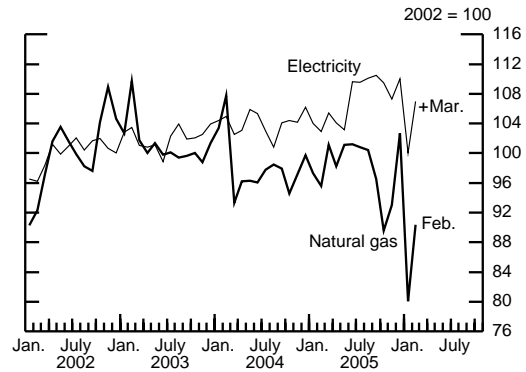
## Indicators of Manufacturing Activity

Energy IP



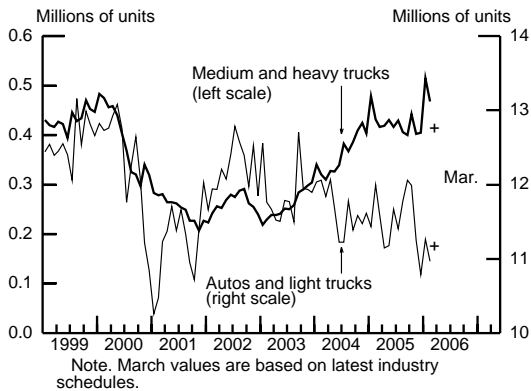
Note. March values are based on available weekly data and estimates of facilities that remain off line.

Utilities Output



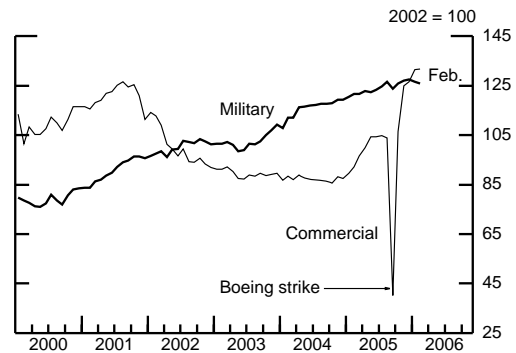
Note. March value for electricity generation is based on weekly data.

Motor Vehicle Assemblies

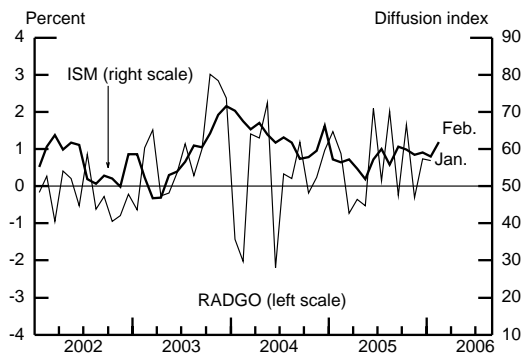


Note. March values are based on latest industry schedules.

IP for Aircraft

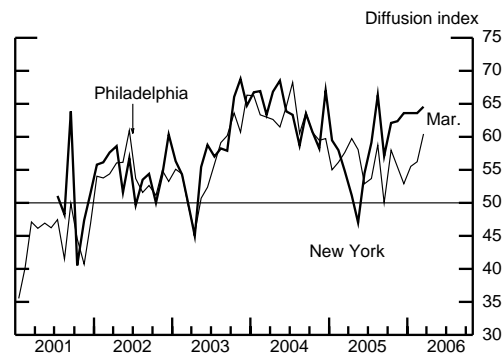


New Orders: ISM Survey and Change in Real Adjusted Durable Goods Orders (RADGO)



Note. The diffusion index equals the percentage of respondents reporting greater levels of new orders plus one-half the percentage of respondents reporting that new orders were unchanged. RADGO is a 3-month moving average.

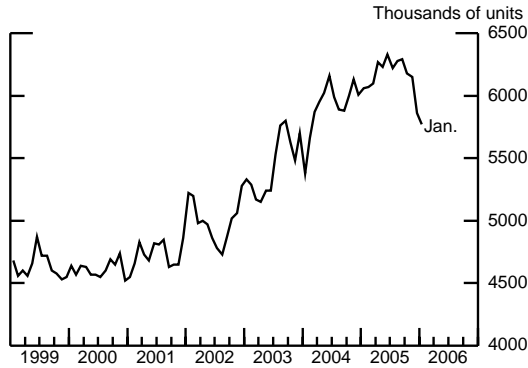
New Orders: FRB New York and FRB Philadelphia Surveys



Note. The diffusion index equals the percentage of respondents reporting greater levels of new orders plus one-half the percentage of respondents reporting that new orders were unchanged.

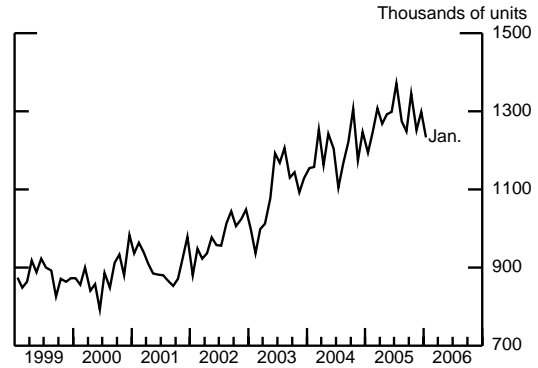
## Indicators of Single-Family Housing

Existing Home Sales



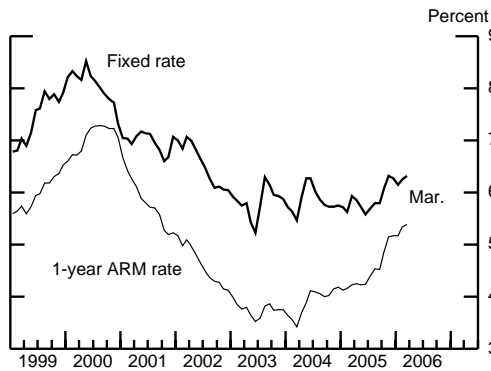
Source. National Association of Realtors.

New Home Sales



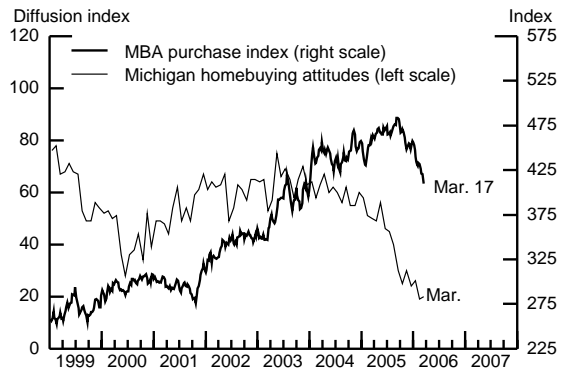
Source. Census Bureau.

Mortgage Rates



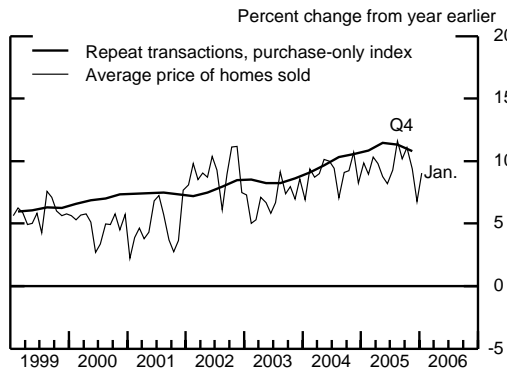
Note. The March readings are based on data through March 15, 2006.  
Source. Freddie Mac.

Homebuying Indicators



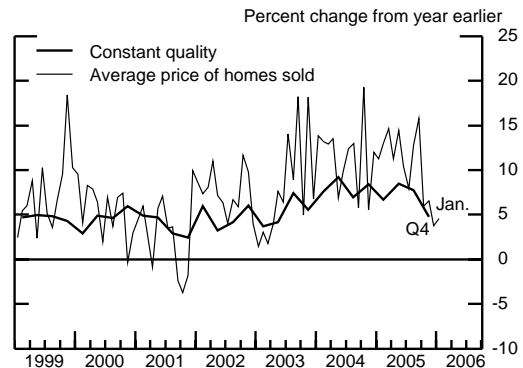
Note. MBA index is a 4-week moving average.  
Source. Mortgage Bankers Association and Michigan Survey.

Prices of Existing Homes



Source. For repeat transactions, OFHEO; for average price, National Association of Realtors.

Prices of New Homes



Note. Starting in 2005, average price values are adjusted by Board staff to take into account new sampling procedures.  
Source. Census Bureau.

### OMB and CBO Budget Projections and Economic Assumptions

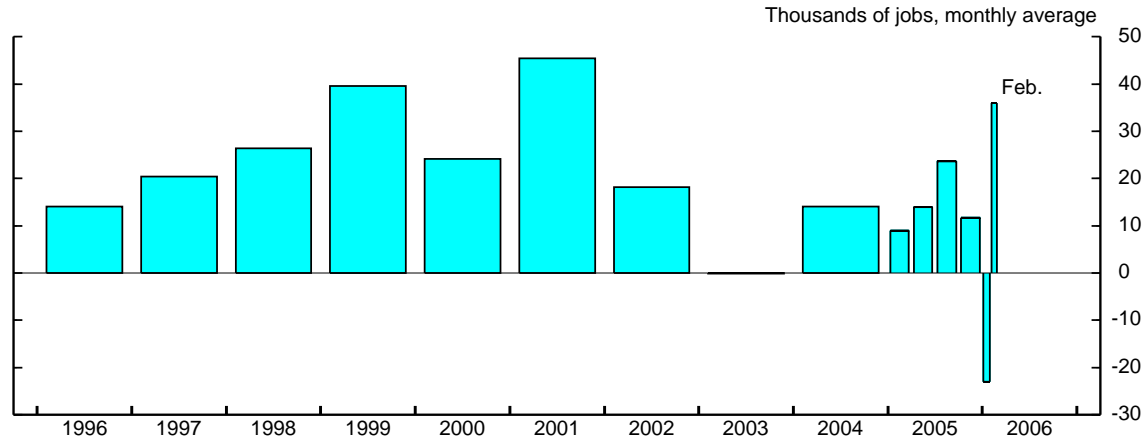
Item	2006	2007	2008	2009	2010	2011
<b>Budget projections<sup>1</sup></b>	Billions of dollars, fiscal years					
Receipts						
OMB	2285	2416	2590	2714	2878	3035
CBO	2304	2431	2585	2712	2852	2964
Outlays						
OMB	2709	2770	2814	2922	3061	3240
CBO	2675	2766	2820	2906	3017	3167
Surplus						
OMB	-423	-354	-223	-208	-183	-205
CBO	-371	-335	-236	-194	-165	-204
	Percent of GDP, fiscal years					
Receipts						
OMB	17.5	17.6	17.8	17.7	17.9	17.9
CBO	17.6	17.6	17.8	17.8	17.8	17.7
Outlays						
OMB	20.8	20.1	19.4	19.1	19.0	19.1
CBO	20.4	20.1	19.4	19.0	18.8	18.9
Surplus						
OMB	-3.2	-2.6	-1.5	-1.4	-1.1	-1.2
CBO	-2.8	-2.4	-1.6	-1.3	-1.0	-1.2
<b>Economic assumptions</b>	Percent change, year over year, calendar years					
Real GDP						
OMB	3.4	3.3	3.3	3.1	3.1	3.1
CBO	3.6	3.4	3.4	3.3	3.0	2.8
GDP price index						
OMB	2.4	2.2	2.1	2.1	2.1	2.1
CBO	2.4	1.8	1.8	1.8	1.8	1.8
CPI-U						
OMB	3.0	2.4	2.4	2.4	2.4	2.5
CBO	2.8	2.2	2.2	2.2	2.2	2.2
	Percent, annual average, calendar years					
Unemployment rate						
OMB	5.0	5.0	5.0	5.0	5.0	5.0
CBO	5.0	5.0	5.1	5.2	5.2	5.2
Three-month Treasury yield						
OMB	4.2	4.2	4.3	4.3	4.3	4.3
CBO	4.5	4.5	4.4	4.4	4.4	4.4
Ten-year Treasury yield						
OMB	5.0	5.3	5.5	5.6	5.6	5.6
CBO	5.1	5.2	5.2	5.2	5.2	5.2

1. The OMB's and CBO's projections assume that the policies proposed in the Administration's budget are enacted.

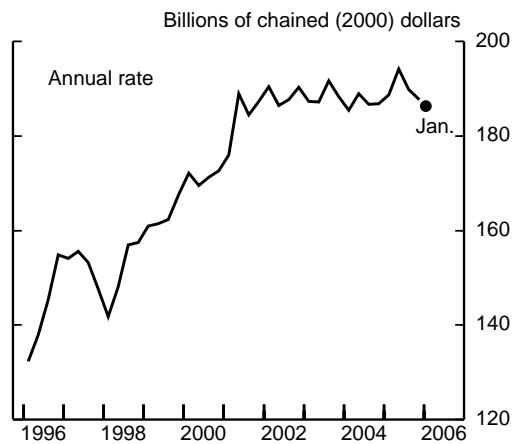
Source. Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2007* (February 2006); and Congressional Budget Office, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2007* (March 2006).

## State and Local Indicators

Net Change in Employment

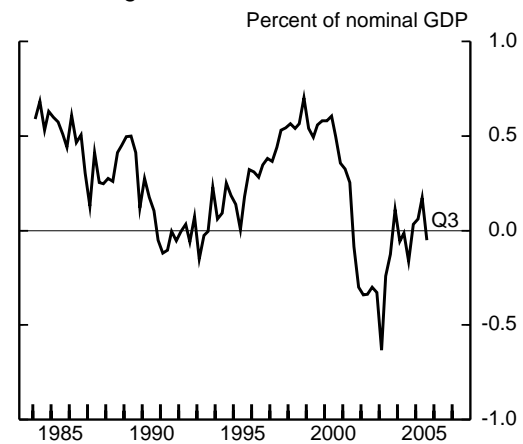


Real Construction

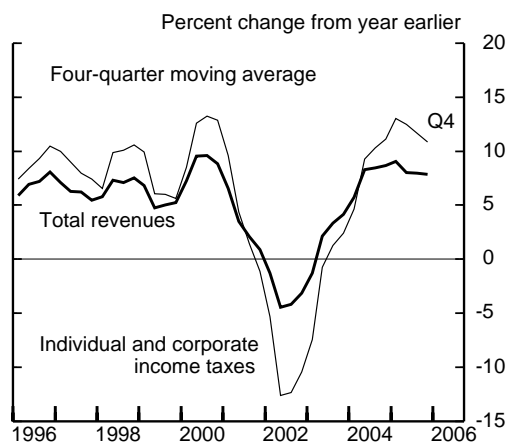


Note. Nominal CIPPI deflated by BEA prices through Q4 and by staff projection thereafter.

Net Saving

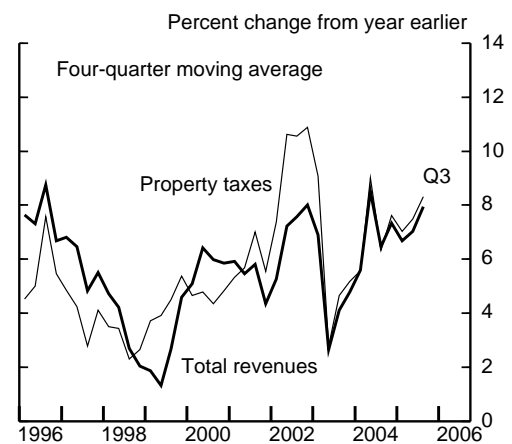


State Revenues



Source. Census Bureau through Q3. The value for Q4 is a staff estimate based on data from the Rockefeller Institute of Government.

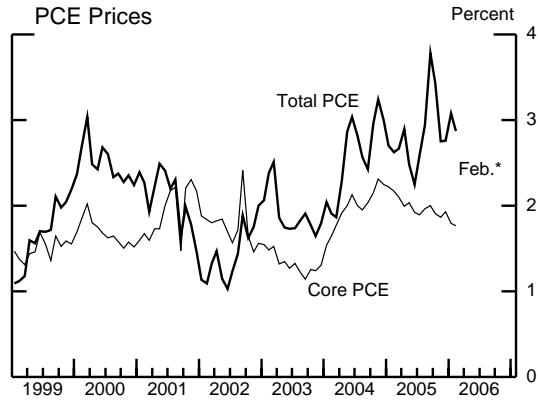
Local Revenues



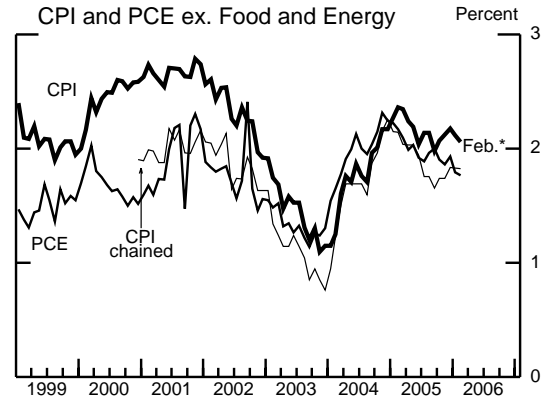
Source. Census Bureau.



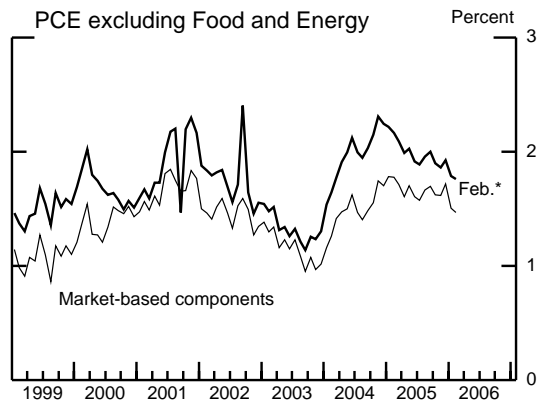
## Consumer Price Inflation (12-month change except as noted)



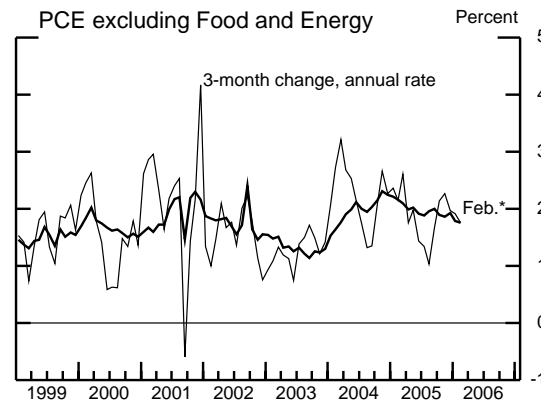
\* Staff estimate.



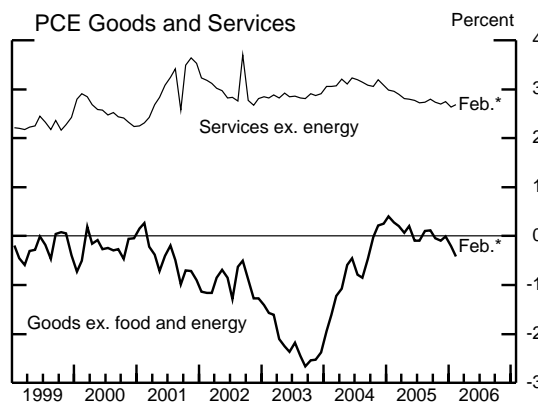
\* PCE for February is a staff estimate.



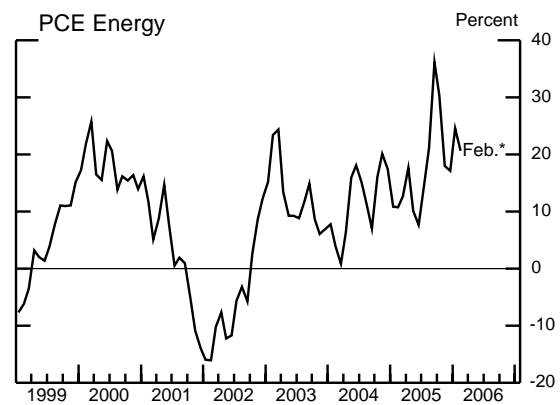
\* Staff estimate.



\* Staff estimate.



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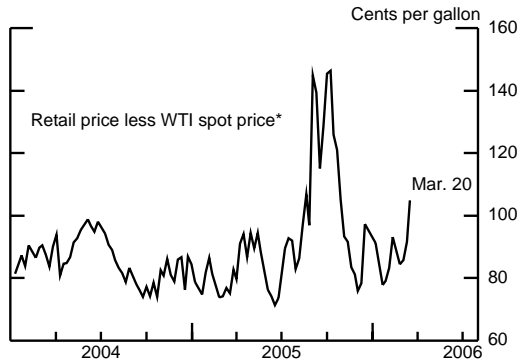


\* Staff estimate.

## Energy Prices and Inventories

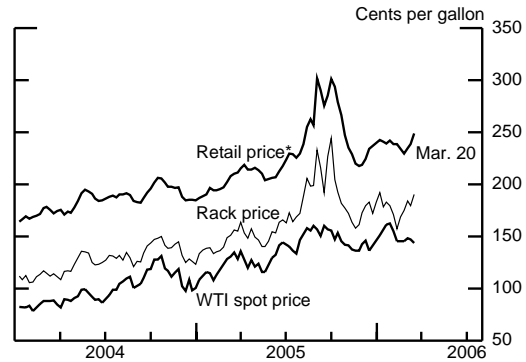
(Data from Energy Information Administration except as noted)

### Total Gasoline Margin



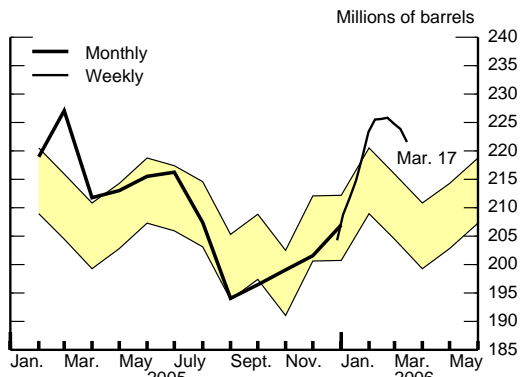
\* Regular grade seasonally adjusted by FRB staff, less West Texas intermediate spot price.

### Gasoline Price Decomposition



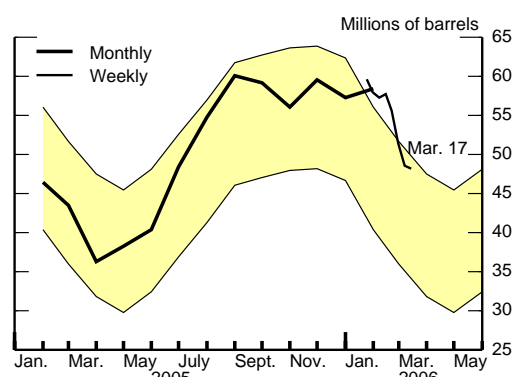
\* Regular grade seasonally adjusted by FRB staff.

### Gasoline Inventories



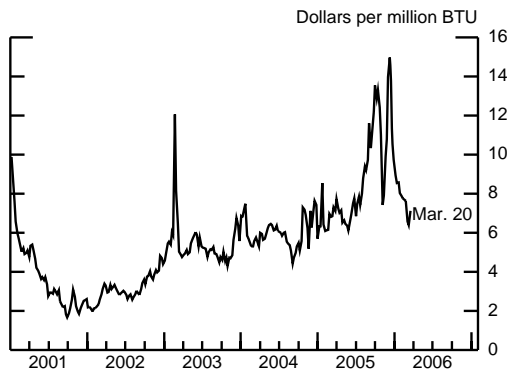
Note. Shaded region is average historical range as calculated by Energy Information Administration.

### Heating Oil Inventories



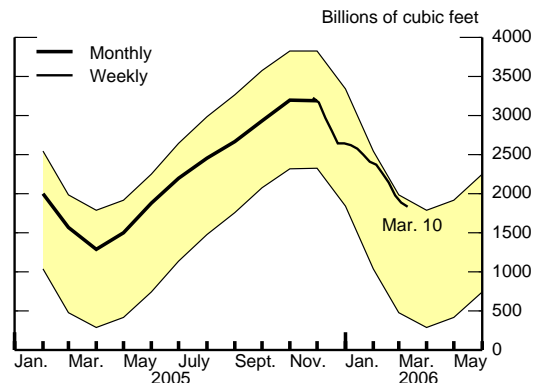
Note. Shaded region is average historical range as calculated by FRB staff.

### Natural Gas Prices



Note. National average spot price.  
Source. Bloomberg.

### Natural Gas Inventories



Note. Shaded region is historical range for 2000 to 2004 as calculated by FRB staff.

**Broad Measures of Inflation**

(Percent change, Q4 to Q4)

Measure	2002	2003	2004	2005
<i>Product prices</i>				
GDP price index	1.7	2.0	2.9	3.1
Less food and energy	1.9	1.7	2.8	2.8
Nonfarm business chain price index	1.1	1.1	2.7	3.1
<i>Expenditure prices</i>				
Gross domestic purchases price index	1.9	2.0	3.4	3.5
Less food and energy	1.7	1.7	2.7	2.6
PCE price index	1.8	1.7	3.1	3.0
Less food and energy	1.6	1.3	2.2	1.9
PCE price index, market-based components	1.7	1.6	2.8	3.0
Less food and energy	1.4	1.0	1.7	1.7
CPI	2.2	1.9	3.3	3.7
Less food and energy	2.1	1.2	2.1	2.1
Chained CPI	1.8	1.7	3.1	3.1
Less food and energy	1.7	.8	2.1	1.8
Median CPI	3.0	2.1	2.2	2.4
Trimmed mean CPI	2.1	1.7	2.2	2.5

**Surveys of Inflation Expectations**

(Percent)

Period	Actual CPI inflation <sup>1</sup>	University of Michigan				Professional forecasters (10-year) <sup>4</sup>
		1 year <sup>2</sup>		5 to 10 years <sup>3</sup>		
		Mean	Median	Mean	Median	
2004:Q2	2.9	4.0	3.3	3.3	2.8	2.5
Q3	2.7	3.3	2.9	3.1	2.8	2.5
Q4	3.3	3.4	3.0	3.1	2.8	2.5
2005:Q1	3.0	3.6	3.0	3.2	2.8	2.5
Q2	2.9	3.9	3.2	3.3	2.9	2.5
Q3	3.8	4.3	3.5	3.5	2.9	2.5
Q4	3.7	4.6	3.7	3.5	3.1	2.5
2006:Q1	n.a.	3.7	3.1	3.4	2.9	2.5
Nov.	3.5	4.1	3.3	3.3	3.0	...
Dec.	3.4	4.1	3.1	3.5	3.1	2.5
2006:Jan.	4.0	3.8	3.0	3.4	2.9	...
Feb.	3.6	3.6	3.0	3.3	2.9	...
Mar.	n.a.	3.8	3.2	3.4	2.9	2.5

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

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

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

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

... Not applicable.

n.a. Not available.

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

Instrument	2004	2005	2006		Change to Mar. 21 from selected dates (percentage points)		
	June 28	Dec. 30	Jan. 30	Mar. 21	2004 June 28	2005 Dec. 30	2006 Jan. 30
<i>Short-term</i>							
FOMC intended federal funds rate	1.00	4.25	4.25	4.50	3.50	.25	.25
Treasury bills <sup>1</sup>							
3-month	1.36	3.99	4.38	4.57	3.21	.58	.19
6-month	1.74	4.22	4.45	4.64	2.90	.42	.19
Commercial paper (A1/P1 rates) <sup>2</sup>							
1-month	1.28	4.23	4.47	4.73	3.45	.50	.26
3-month	1.45	4.37	4.55	4.79	3.34	.42	.24
Large negotiable CDs <sup>1</sup>							
3-month	1.53	4.49	4.64	4.90	3.37	.41	.26
6-month	1.82	4.65	4.77	5.01	3.19	.36	.24
Eurodollar deposits <sup>3</sup>							
1-month	1.29	4.36	4.56	4.79	3.50	.43	.23
3-month	1.51	4.52	4.67	4.92	3.41	.40	.25
Bank prime rate	4.00	7.25	7.25	7.50	3.50	.25	.25
<i>Intermediate- and long-term</i>							
U.S. Treasury <sup>4</sup>							
2-year	2.88	4.43	4.54	4.75	1.87	.32	.21
5-year	3.97	4.35	4.49	4.69	.72	.34	.20
10-year	4.90	4.47	4.63	4.81	-.09	.34	.18
U.S. Treasury indexed notes							
5-year	1.56	2.03	1.93	2.12	.56	.09	.19
10-year	2.25	2.10	2.05	2.25	.00	.15	.20
Municipal general obligations (Bond Buyer) <sup>5</sup>	5.01	4.38	4.42	4.40	-.61	.02	-.02
Private instruments							
10-year swap	5.21	4.92	5.06	5.25	.04	.33	.19
10-year FNMA <sup>6</sup>	5.30	4.82	4.88	5.06	-.24	.24	.18
10-year AA <sup>7</sup>	5.59	5.25	5.39	5.58	-.01	.33	.19
10-year BBB <sup>7</sup>	6.18	5.84	5.96	6.11	-.07	.27	.15
5-year high yield <sup>7</sup>	8.30	8.28	8.17	8.17	-.13	-.11	.00
Home mortgages (FHLMC survey rate) <sup>8</sup>							
30-year fixed	6.21	6.21	6.23	6.34	.13	.13	.11
1-year adjustable	4.19	5.16	5.33	5.37	1.18	.21	.04

Stock exchange index	Record high		2005	2006		Change to Mar. 21 from selected dates (percent)		
	Level	Date	Dec. 30	Jan. 30	Mar. 21	Record high	2005 Dec. 30	2006 Jan. 30
Dow Jones Industrial	11,723	1-14-00	10,718	10,900	11,235	-4.16	4.83	3.08
S&P 500 Composite	1,527	3-24-00	1,248	1,285	1,297	-15.07	3.92	.94
Nasdaq	5,049	3-10-00	2,205	2,307	2,294	-54.56	4.03	-.54
Russell 2000	746	3-17-06	673	731	736	-1.34	9.34	.72
Wilshire 5000	14,752	3-24-00	12,518	12,979	13,074	-11.37	4.44	.73

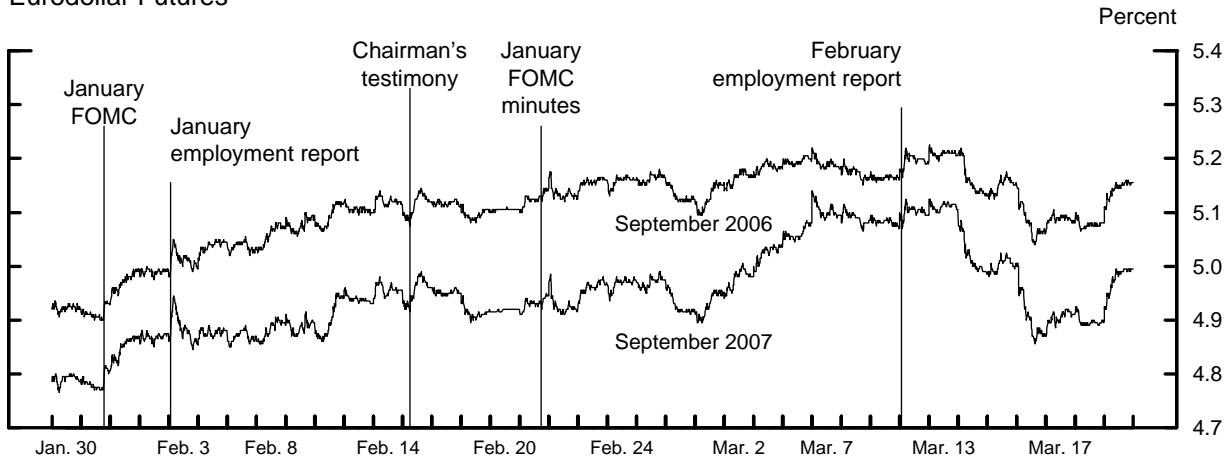
1. Secondary market.
2. Financial commercial paper.
3. Bid rates for Eurodollar deposits collected around 9:30 a.m. eastern time.
4. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
5. Most recent Thursday quote.
6. Constant-maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
7. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.
8. Home-mortgage data for March 21, 2006, is from March 16, 2006.

NOTES:

June 28, 2004, is the day before the most recent policy tightening began.  
January 30, 2006, is the day before the most recent FOMC meeting.

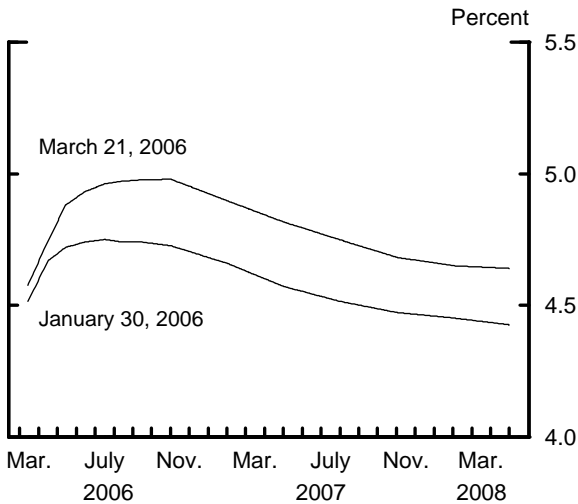
## Policy Expectations and Treasury Yields

### Eurodollar Futures



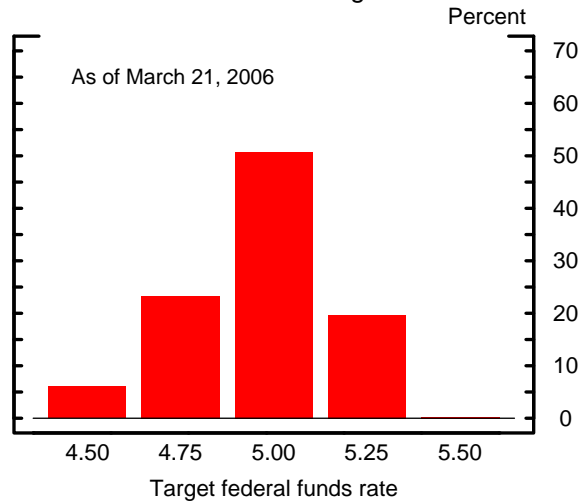
Note. 5-minute intervals.

### Expected Federal Funds Rate



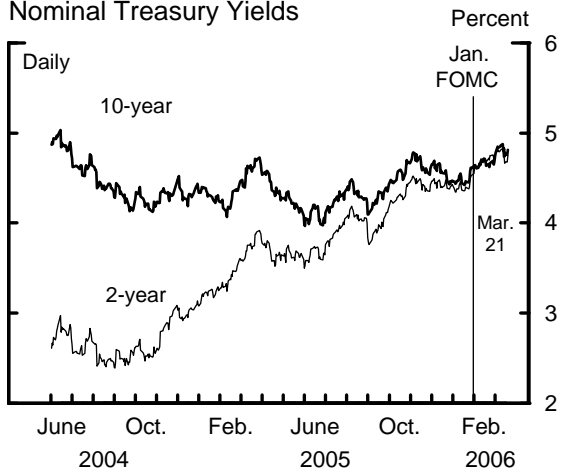
Note. Estimates from federal funds and Eurodollar futures, with an allowance for term premia and other adjustments.

### Probability Density for Target Federal Funds Rate after June 2006 Meeting



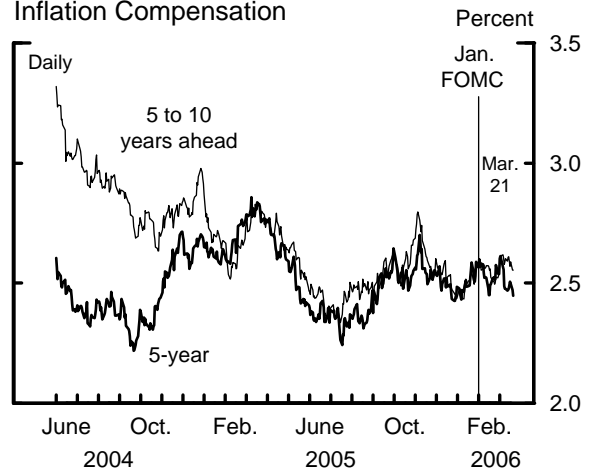
Note. Derived from options on federal funds futures expiring on July 31, 2006.

### Nominal Treasury Yields



Note. Estimates from smoothed Treasury yield curve based on off-the-run securities.

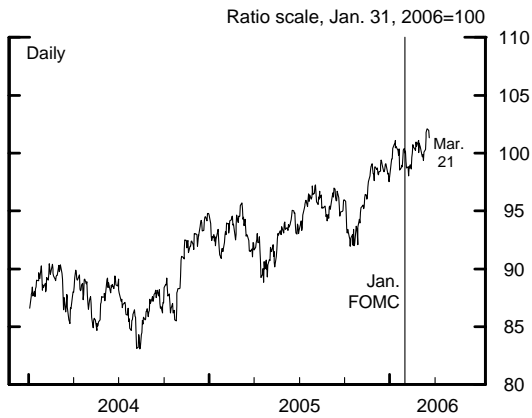
### Inflation Compensation



Note. Estimates based on smoothed nominal and inflation-indexed Treasury yield curves and adjusted for the indexation-lag effect.

## Corporate Yields, Risk Spreads, and Stock Prices

S&amp;P 500



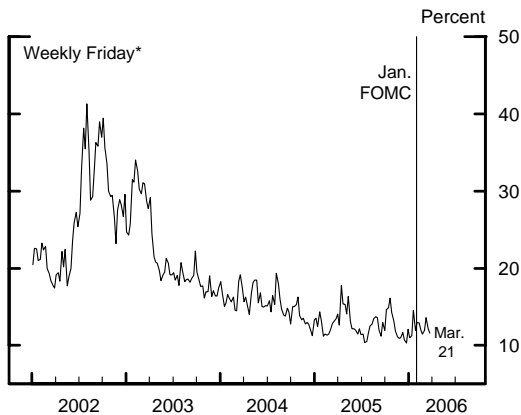
Trend Earnings-Price Ratio for S&amp;P 500 and Long-Run Treasury Yield



\* Yield on synthetic Treasury perpetuity minus Philadelphia Fed 10-year expected inflation.

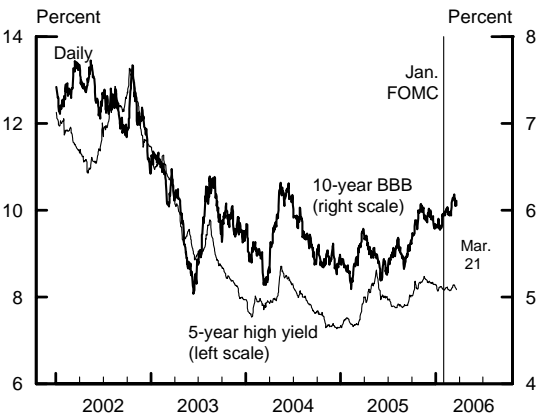
+ Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.

Implied Volatility on S&amp;P 500 (VIX)



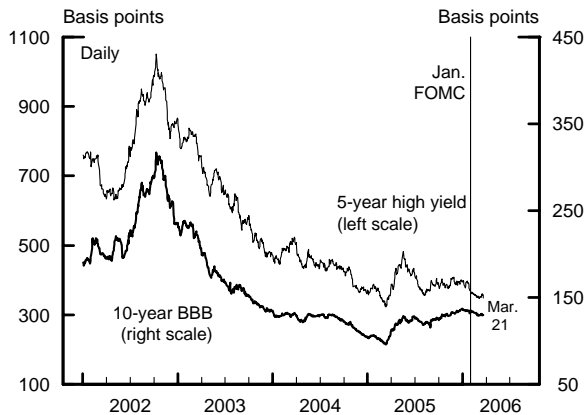
\* Latest observation is for most recent business day.

Yields for BBB and High-Yield Corporate Bonds



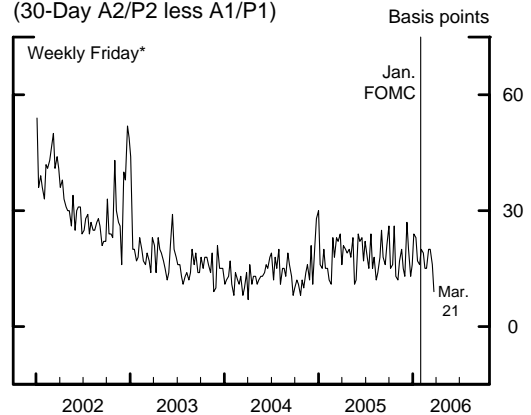
Note. Yields from smoothed yield curves based on Merrill Lynch bond data.

Corporate Bond Spreads



Note. Measured relative to comparable-maturity Treasuries.

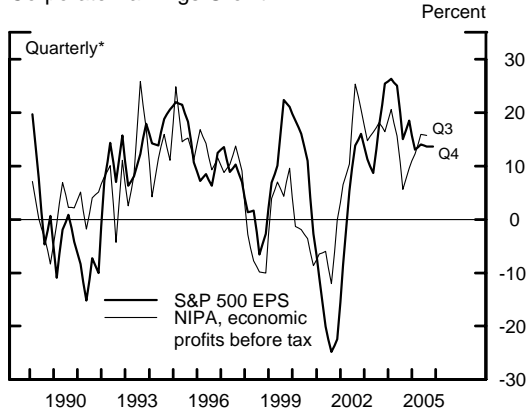
Commercial Paper Quality Spread (30-Day A2/P2 less A1/P1)



\* Latest observation is for most recent business day.

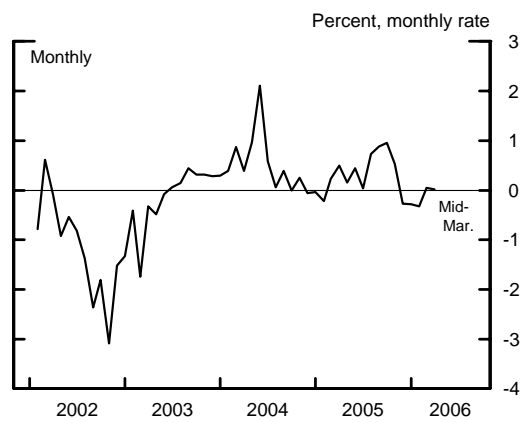
## Corporate Earnings and Credit Quality

### Corporate Earnings Growth



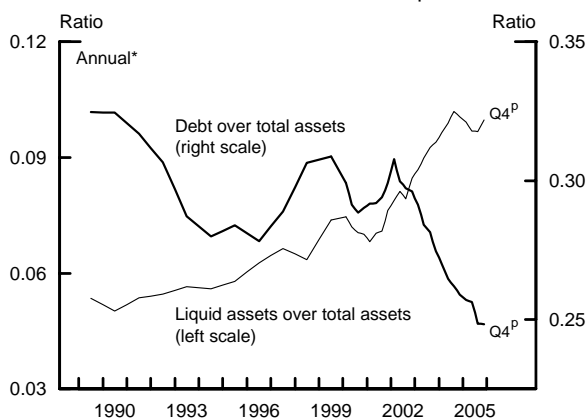
\* Change from four quarters earlier.  
Source: I/B/E/S for S&P 500 EPS.

### S&P 500 EPS Revisions Index



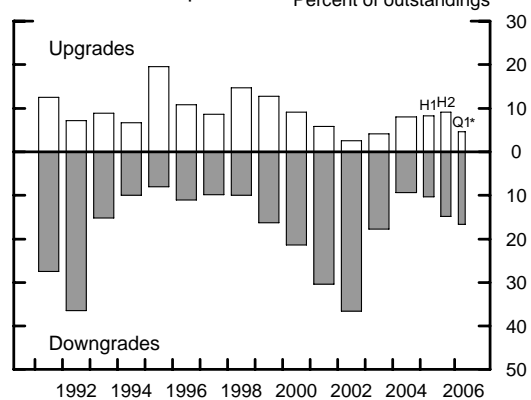
Note. Index is a weighted average of the percent change in the I/B/E/S consensus forecasts of current-year and following-year EPS.

### Financial Ratios for Nonfinancial Corporations



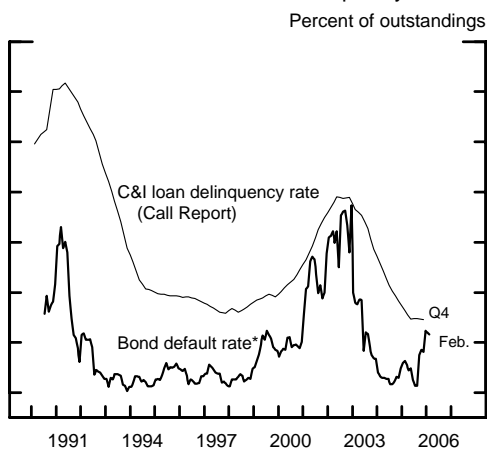
Note. Compustat data.  
\* Data are quarterly starting in 2000:Q1.  
p Preliminary.

### Bond Ratings Changes of Nonfinancial Companies



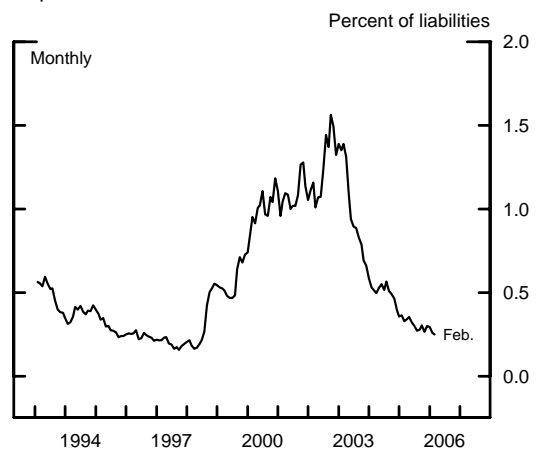
Note. Moody's Investors Service data at an annual rate.  
\* Data for 2006:Q1 are through February.

### Bond Default and C&I Loan Delinquency Rates



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

### Expected Year-Ahead Defaults



Note. Firm-level estimates of default weighted by firm liabilities as a percent of total liabilities, excluding defaulted firms.  
Source: Moody's KMV.

## Business Finance

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

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

Type of security	2002	2003	2004	2005		2006		
				H1	H2	Jan.	Feb.	Mar. <sup>e</sup>
<i>Nonfinancial corporations</i>								
Stocks <sup>1</sup>	5.2	3.7	5.4	3.8	5.3	5.6	4.2	3.0
Initial public offerings	.7	.4	1.6	1.6	1.8	2.0	2.6	.5
Seasoned offerings	4.4	3.3	3.8	2.1	3.5	3.6	1.6	2.5
Bonds <sup>2</sup>	24.8	31.6	22.8	18.1	20.3	31.9	24.2	20.5
Investment grade	15.7	16.0	8.3	7.9	9.0	11.8	20.1	13.0
Speculative grade	4.8	11.3	9.5	6.2	6.5	10.0	3.7	6.5
Other (sold abroad/unrated)	4.2	4.3	4.9	4.0	4.8	10.2	.4	1.0
<i>Memo</i>								
Net issuance of commercial paper <sup>3</sup>	-6.3	-3.8	1.4	2.6	-3.4	9.7	-2.3	-8.7
Change in C&I loans at commercial banks <sup>3,4</sup>	-5.2	-7.8	3.5	9.9	10.3	22.4	4.3	1.0
<i>Financial corporations</i>								
Stocks <sup>1</sup>	4.0	6.6	6.9	5.3	4.8	2.3	1.8	1.5
Bonds <sup>2</sup>	87.0	111.1	139.4	167.3	185.7	147.9	125.6	105.0

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

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

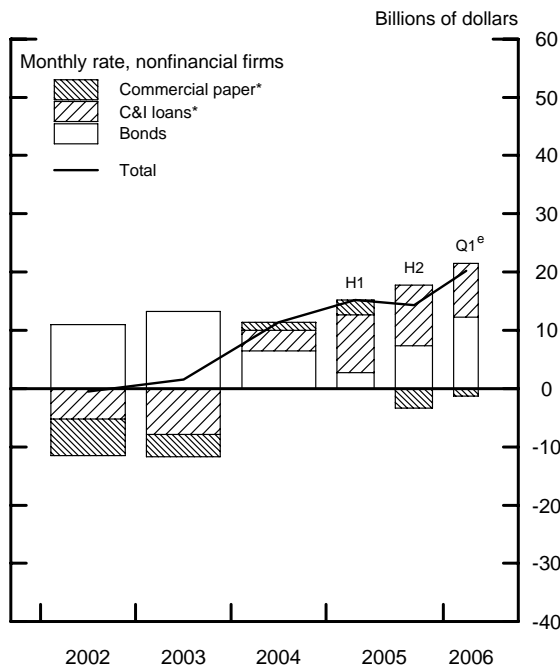
2. Data include regular and 144a private placements. Bond totals reflect gross proceeds rather than par value of original discount bonds. Bonds are categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's.

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

4. Adjusted for FIN 46 effects.

e Staff estimate.

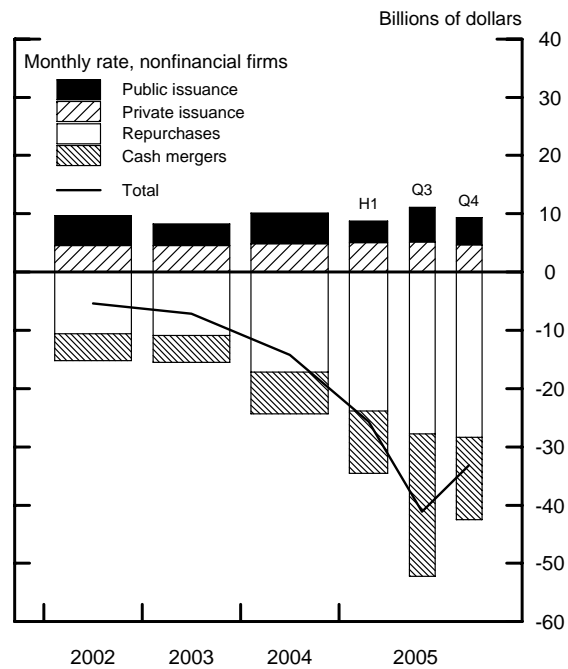
### Selected Components of Net Debt Financing



\* Seasonally adjusted, period-end basis.

e Staff estimate.

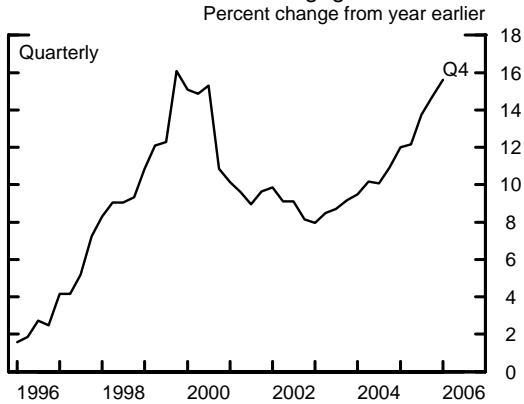
### Components of Net Equity Issuance



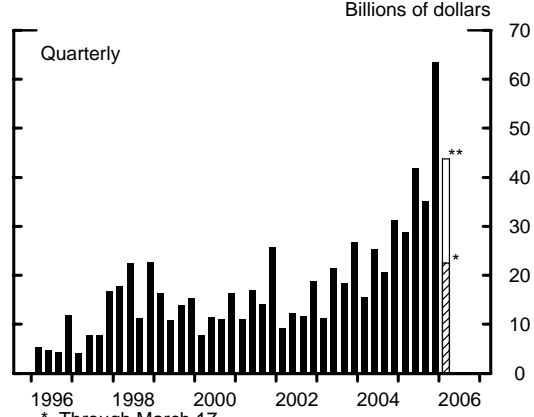


## Commercial Real Estate

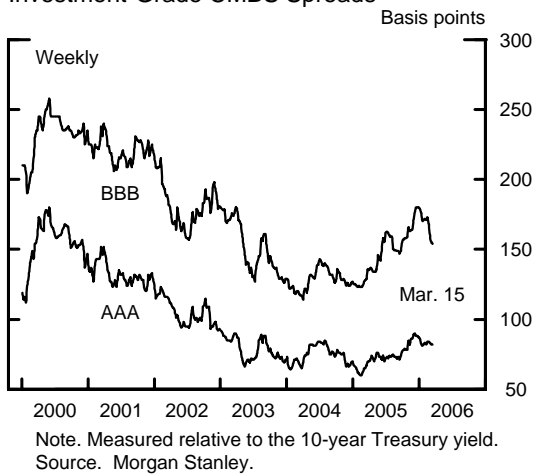
Growth of Commercial Mortgage Debt



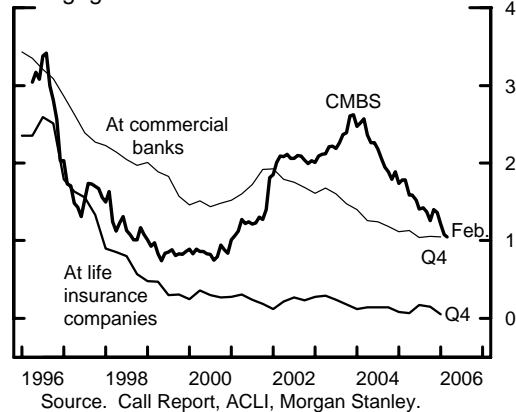
Gross Issuance of CMBS



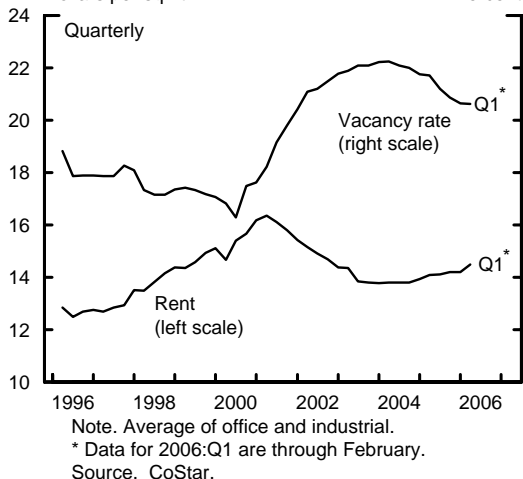
Investment-Grade CMBS Spreads



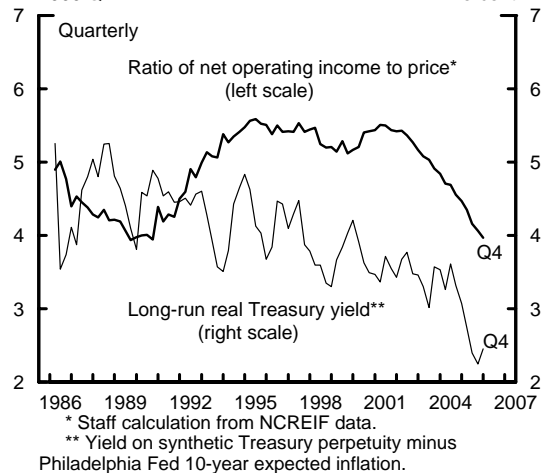
Delinquency Rates on Commercial Mortgages and CMBS



Average Rent and Vacancy Rate



Commercial Real Estate Valuation



## State and Local Government Finance

### Gross Offerings of Municipal Securities

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

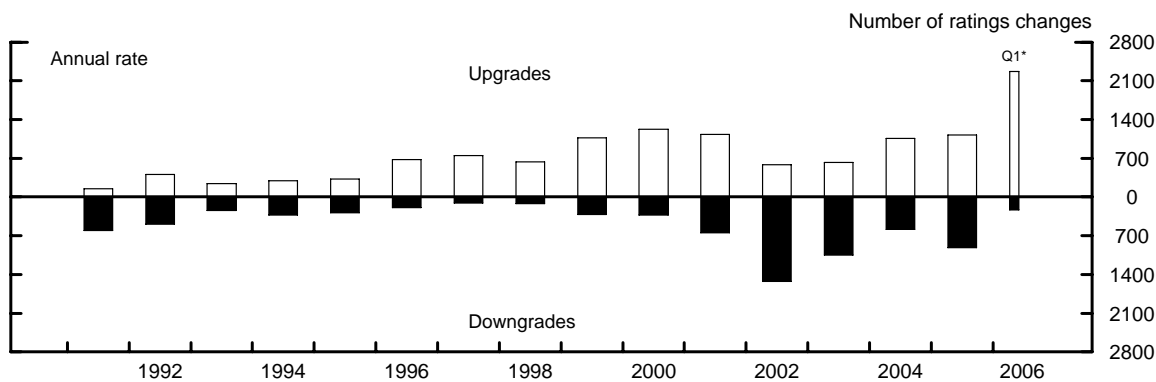
Type of security	2003	2004	2005		2006		
			H1	H2	Jan.	Feb.	Mar. <sup>e</sup>
Total	37.9	34.7	38.1	38.6	22.2	26.4	28.0
Long-term <sup>1</sup>	32.0	29.8	35.0	33.2	19.6	24.9	26.0
Refundings <sup>2</sup>	10.0	10.8	17.1	13.7	6.4	8.0	4.0
New capital	22.1	19.0	17.9	19.5	13.2	16.9	22.0
Short-term	5.8	4.9	3.1	5.3	2.6	1.6	1.0
Memo: Long-term taxable	3.5	2.0	2.0	2.2	.4	.8	3.0

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

e Staff estimate based on preliminary data through March 16.

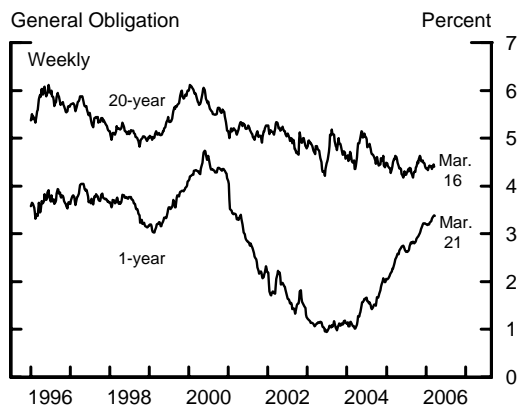
### Ratings Changes



\* Data through March 15 at an annual rate.

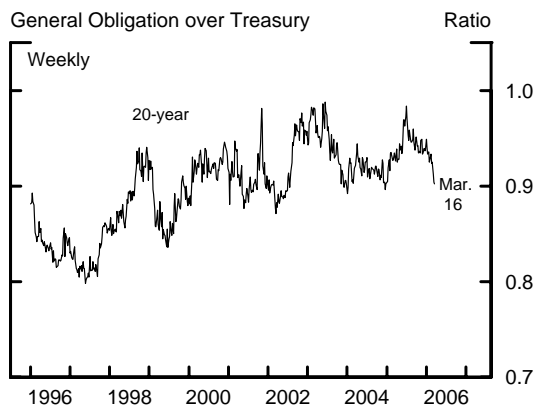
Source: S&P's Credit Week Municipal and Ratings Direct.

### Municipal Bond Yields



Source: Bloomberg and Bond Buyer.

### Municipal Bond Yield Ratio



Source: Bond Buyer.

**M2 Monetary Aggregate**  
(Based on seasonally adjusted data)

Aggregate and components	Percent change (annual rate) <sup>1</sup>						Level (billions of dollars),
	2004	2005	2005		2006		Feb. (e)
			Q3	Q4	Jan.	Feb. (e)	
M2	5.2	3.9	4.4	5.1	11.0	3.8	6,758
Components <sup>2</sup>							
Currency	5.5	3.5	4.0	4.2	10.0	5.9	733
Liquid deposits <sup>3</sup>	10.0	2.0	2.1	3.0	9.3	-.2	4,292
Small time deposits	-.3	18.7	19.8	15.4	15.8	19.7	1,003
Retail money market funds	-11.7	-.9	-1.1	4.7	16.2	4.7	723
Memo:							
Institutional money market funds	-5.7	5.0	11.7	12.1	14.8	-2.9	1,148
Monetary base	5.6	3.4	3.3	4.3	8.5	6.1	796

Note. M2 is the sum of currency, liquid deposits, small time deposits, retail money market funds, and nonbank traveler's checks. As announced on November 10, 2005, the Board of Governors will cease publishing the M3 monetary aggregate on March 23, 2006.

1. For years, Q4 to Q4; for quarters and months, calculated from corresponding averages.
  2. Nonbank traveler's checks are not listed.
  3. Sum of demand deposits, other checkable deposits, and savings deposits.
- e Estimated.

**Commercial Bank Credit**

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

Type of credit	2004	2005	2005: Q3	2005: Q4	Jan. 2006	Feb. 2006	Level (billions of dollars), Feb. 2006
<b>Total</b>							
<b>Adjusted<sup>1</sup></b>	<b>8.9</b>	<b>10.4</b>	<b>9.6</b>	<b>5.8</b>	<b>9.3</b>	<b>15.9</b>	<b>7,359</b>
Reported	8.4	9.6	9.7	5.2	9.7	15.5	7,494
<i>Securities</i>							
Adjusted <sup>1</sup>	6.6	7.5	.5	-.5	4.4	31.5	1,905
Reported	5.2	5.0	1.7	-2.4	6.2	28.7	2,040
Treasury and agency	4.9	-.3	-5.3	-10.0	11.7	34.4	1,176
Other <sup>2</sup>	5.6	13.1	12.0	8.3	-1.0	20.9	864
<i>Loans<sup>3</sup></i>							
Total	9.8	11.5	12.9	8.1	11.0	10.6	5,454
Business	1.3	13.4	11.7	9.2	25.9	10.9	1,047
Real estate	14.0	14.0	17.0	8.3	11.0	9.2	2,947
Home equity	43.8	11.1	10.8	-1.9	-3.9	-5.2	433
Other	9.8	14.5	18.2	10.2	13.6	11.8	2,514
Consumer	8.8	2.9	4.8	-4.5	6.5	2.4	692
Adjusted <sup>4</sup>	5.7	.6	3.6	-4.5	7.3	6.9	1,064
Other <sup>5</sup>	7.8	8.2	6.6	17.8	-4.3	22.7	769

Note. Data are adjusted to remove estimated effects of consolidation related to FIN 46 and for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates are percentage changes in consecutive levels, annualized but not compounded.

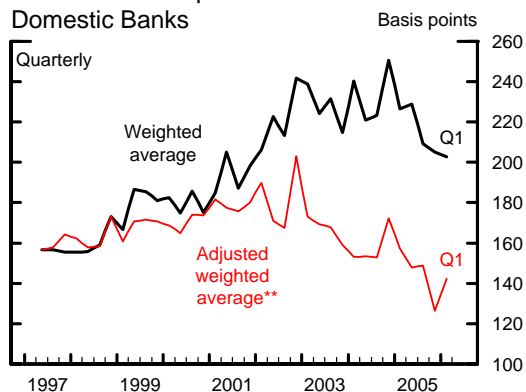
1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FAS 115).

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

3. Excludes interbank loans.

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

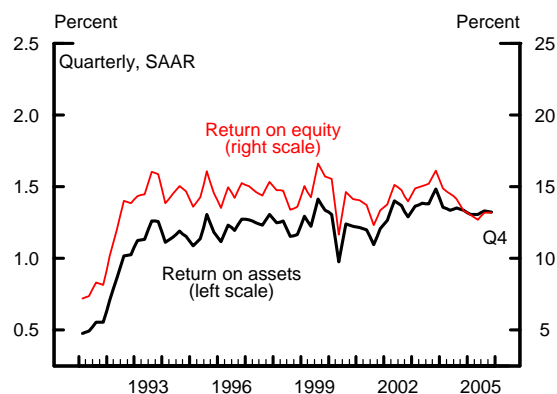
5. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

**C&I Loan Rate Spreads\*****Domestic Banks**

\* Spread over banks' estimated cost of funds.

\*\* Adjusted for changes in nonprice loan characteristics.

Source. Survey of Terms of Business Lending.

**Bank Profitability**

Source. Call Report.