

Part 1

January 25, 2006

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

January 25, 2006

Summary and Outlook

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

Measure	2005:Q4		2006:Q1	
	Dec. GB	Jan. GB	Dec. GB	Jan. GB
Real GDP	3.4	2.4	3.7	4.1
Private domestic final purchases	1.8	1.9	5.2	4.5
Personal consumption expenditures	0.7	1.1	4.8	4.5
Residential investment	9.3	7.6	2.7	-4
Business fixed investment	4.8	4.0	9.1	7.3
Government outlays for consumption and investment	1.6	.2	3.7	4.1
	Contribution to growth (percentage points)			
Inventory investment	2.2	2.1	-1.0	-6
Net exports	-7	-1.4	-4	.0

over, data on consumer spending and business fixed investment have come in fairly close to our projection. Putting the pieces together, we are now looking for real GDP growth of 4 percent in the first quarter, a touch above the December Greenbook forecast of $3\frac{3}{4}$ percent.

Private payrolls increased 188,000 on average in November and December, a gain nearly in line with our projection in the December Greenbook. Our forecast calls for further gains of this magnitude in the first quarter, as is consistent with the low readings on initial claims for unemployment insurance.

Industrial production advanced at a rapid rate in both November and December, spurred by recovery from the disruptions caused by the hurricanes, especially in the energy sector. In the factory sector, motor vehicle assemblies dropped in the last two months of the year as automakers tried to keep their inventories in check, but other manufacturing output rose nearly 1 percent in November and nearly $\frac{1}{2}$ percent in December.

On the spending side, we now estimate that real consumer outlays moved up at an annual rate of just 1 percent last quarter, held down by a payback for the spike in motor vehicle purchases caused by last summer's employee pricing programs. Excluding motor vehicles, consumer outlays appear to have increased about $3\frac{3}{4}$ percent in the fourth quarter, close to their third-quarter pace. For the current quarter, we expect that real

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

Measure	2005: H2	2006: H1	2006	2007
Real GDP	3.3	3.9	3.7	3.0
Previous	3.9	3.6	3.5	3.0
Final sales	2.4	4.4	3.8	2.8
Previous	2.9	4.3	3.5	2.8
PCE	2.6	4.0	3.5	3.3
Previous	2.4	4.0	3.6	3.4
Residential investment	7.4	1.2	2.0	-1.1
Previous	8.5	2.1	.7	.1
BFI	6.2	7.8	7.6	5.5
Previous	6.9	9.6	8.3	5.5
Government purchases	1.5	2.8	2.1	1.5
Previous	2.4	2.7	2.1	1.5
Exports	3.6	6.5	6.4	5.3
Previous	6.1	4.3	4.9	4.8
Imports	7.0	3.1	4.4	5.4
Previous	6.8	3.7	5.0	6.0
Contribution to growth (percentage points)				
Inventory change	.8	-.4	-.1	.2
Previous	.9	-.7	-.1	.2
Net exports	-.7	.2	-.1	-.3
Previous	-.5	-.1	-.3	-.5

Our outlook for economic growth over the next two years is a little stronger than in the December Greenbook. The stimulative effects of a lower dollar and greater hurricane-related contributions to spending growth are only partly offset by the negative effect of the upward revision to oil prices.

Household spending. With labor income advancing at a solid pace and energy prices flattening out, real disposable income is projected to climb at an average annual rate of nearly 4½ percent in 2006 and 2007 after just edging up in 2005. Consumption should increase somewhat less rapidly than income, as households partially reverse the decline

Decomposition of Structural Labor Productivity
(Percent change, Q4 to Q4, except as noted)

Measure	1974-95	1996-2000	2001-04	2005	2006	2007
Structural labor productivity	1.5	2.5	3.3	3.2	3.1	3.0
Previous	1.5	2.5	3.3	3.2	3.1	3.0
<i>Contributions¹</i>						
Capital deepening	.7	1.4	.7	1.0	.9	1.0
Previous	.7	1.4	.7	1.0	1.0	1.0
Multifactor productivity	.5	.8	2.3	2.0	1.9	1.8
Previous	.5	.8	2.3	2.0	1.9	1.8
Labor composition	.3	.3	.2	.3	.2	.2
MEMO						
Potential GDP	3.0	3.4	3.2	3.1	3.2	3.3
Previous	3.0	3.4	3.2	3.1	3.2	3.2

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

1. Percentage points.

about 3 percent per year. Monthly increases in private payrolls should average 130,000 this year and then decline to 55,000 next year as economic growth slows.³

The average unemployment rate of 5.0 percent in the fourth quarter of last year was lower than would be consistent with the historical relationship between the output and unemployment-rate gaps. Therefore, we expect the rate to stay at its fourth-quarter level through this year despite the narrowing of the output gap. As the output gap widens again in 2007, we project that the unemployment rate will tick up, to 5.1 percent, a level just above our estimate of the NAIRU. The labor force participation rate drifts down a few tenths of a percentage point during the projection period and finishes next year at 65.8 percent, in line with our estimate of its trend.

Prices and labor costs. Since the December Greenbook, we have boosted our forecast for nonfuel import prices in response to the lower dollar, higher non-energy commodity

³ We estimate that trend payroll growth is currently in the neighborhood of 100,000 per month and that trend private payroll growth is near 85,000 per month. These figures are below recent norms because changing demographics appear to be causing the trend labor force participation rate to tilt downward.

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	2.7	3.1	2.8
Previous	2.6	3.2	2.7	2.8
Nonfarm private payroll employment	1.8	1.6	1.4	.6
Previous	1.8	1.6	1.4	.6
Household survey employment	1.3	1.9	1.1	.7
Previous	1.3	1.8	1.1	.7
Labor force participation rate ¹	66.0	66.1	66.0	65.8
Previous	66.0	66.1	66.0	65.8
Civilian unemployment rate ¹	5.4	5.0	5.0	5.1
Previous	5.4	5.0	5.0	5.0
MEMO				
GDP gap ²	-.9	-.6	-.1	-.4
Previous	-.9	-.3	.0	-.3

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. (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.)

prices, and our revised view that the expiration of the Multifibre Arrangement is not exerting much restraint on prices of imported apparel and textiles. The higher path for nonfuel import prices and the indirect effects of higher oil prices have led us to nudge up our projection of core consumer price inflation 0.1 percentage point this year. We now anticipate that core PCE prices will increase 2.2 percent this year and 1.8 percent next year. As in our previous forecast, core inflation slows in 2007, reflecting diminished indirect effects of earlier increases in energy prices and nonfuel import prices.

We project that overall PCE prices will rise 2.3 percent this year and 1.8 percent next year. These figures are 0.2 percentage point and 0.1 percentage point above their December Greenbook counterparts owing to higher energy price inflation in both years and slightly higher core inflation in 2006.

Our forecast calls for the employment cost index to move up nearly 4¼ percent in both 2006 and 2007 after a projected 3 percent rise in 2005. We are also expecting the productivity and costs measure of compensation per hour to rise more rapidly in the next few years than in 2005. The increase in nominal compensation last year fell short of the

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

Measure	2004	2005	2006	2007
PCE chain-weighted price index	3.1	2.9	2.3	1.8
Previous	3.1	2.8	2.1	1.7
Food and beverages	2.9	2.1	2.4	2.2
Previous	2.9	2.1	2.4	2.1
Energy	17.9	21.5	3.6	.6
Previous	17.9	19.4	1.4	-.6
Excluding food and energy	2.2	1.8	2.2	1.8
Previous	2.2	1.8	2.1	1.8
Consumer price index	3.4	3.7	2.6	2.0
Previous	3.4	3.5	2.3	1.9
Excluding food and energy	2.1	2.1	2.5	2.2
Previous	2.1	2.1	2.4	2.1
GDP chain-weighted price index	2.9	2.9	2.2	2.0
Previous	2.9	2.7	2.3	1.9
ECI for compensation of private industry workers ¹	3.8	3.0	4.2	4.1
Previous	3.8	3.0	4.2	4.0
Compensation per hour, nonfarm business sector	5.8	3.3	5.3	5.2
Previous	5.8	3.6	5.3	5.1
Prices of core nonfuel imports	3.7	2.3	2.9	1.1
Previous	3.7	2.3	1.7	.8

1. December to December.

pace that we would expect given previous years' increases in consumer prices and labor productivity, and we anticipate that compensation growth going forward will be more in line with our reading of fundamentals.

Financial Flows and Conditions

The growth of domestic nonfinancial debt is projected to step down from 9 percent in 2005 to 7½ percent this year and then to slow a little further next year. This contour, which is quite similar to that in the December Greenbook, mainly reflects our forecast of a reduced pace of borrowing by households and by state and local governments.

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>					
Baseline	3.6	3.3	3.9	3.4	3.0
Higher term premium	3.6	3.3	3.6	1.8	1.3
With monetary policy response	3.6	3.3	3.6	2.0	1.8
Stronger aggregate demand	3.6	3.3	4.7	4.1	4.3
With monetary policy response	3.6	3.3	4.7	3.9	4.0
Higher saving rate	3.6	3.3	3.4	2.9	2.6
With monetary policy response	3.6	3.3	3.4	3.1	2.9
Low NAIRU	3.6	3.3	4.0	3.5	3.1
With monetary policy response	3.6	3.3	4.0	3.5	3.2
Adverse cost shocks	3.6	3.3	3.8	3.3	3.1
With monetary policy response	3.6	3.3	3.8	3.3	2.8
Market-based funds rate	3.6	3.3	3.9	3.5	3.2
<i>Civilian unemployment rate¹</i>					
Baseline	5.1	5.0	5.0	5.0	5.1
Higher term premium	5.1	5.0	5.0	5.3	6.2
With monetary policy response	5.1	5.0	5.0	5.3	6.0
Stronger aggregate demand	5.1	5.0	4.9	4.7	4.3
With monetary policy response	5.1	5.0	4.9	4.8	4.4
Higher saving rate	5.1	5.0	5.1	5.2	5.5
With monetary policy response	5.1	5.0	5.1	5.2	5.4
Low NAIRU	5.1	5.0	5.0	5.0	5.0
With monetary policy response	5.1	5.0	5.0	5.0	5.0
Adverse cost shocks	5.1	5.0	5.0	5.0	5.2
With monetary policy response	5.1	5.0	5.0	5.1	5.3
Market-based funds rate	5.1	5.0	5.0	5.0	5.0
<i>PCE prices excluding food and energy</i>					
Baseline	2.1	1.6	2.2	2.2	1.8
Higher term premium	2.1	1.6	1.9	2.0	1.5
With monetary policy response	2.1	1.6	1.9	2.0	1.6
Stronger aggregate demand	2.1	1.6	2.0	2.1	1.9
With monetary policy response	2.1	1.6	2.0	2.1	1.8
Higher saving rate	2.1	1.6	2.2	2.2	1.7
With monetary policy response	2.1	1.6	2.2	2.2	1.8
Low NAIRU	2.1	1.6	2.1	2.0	1.5
With monetary policy response	2.1	1.6	2.1	2.0	1.5
Adverse cost shocks	2.1	1.6	2.2	2.5	2.4
With monetary policy response	2.1	1.6	2.2	2.5	2.3
Market-based funds rate	2.1	1.6	2.2	2.2	1.9

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	2005	2006	2007
<i>Real GDP</i> (percent change, Q4 to Q4)			
Projection	3.4	3.7	3.0
Confidence interval			
Greenbook forecast errors ¹	3.2–3.6	2.1–5.3	1.3–4.7
FRB/US stochastic simulations	3.2–3.6	2.2–5.3	1.2–5.0
<i>Civilian unemployment rate</i> (percent, Q4)			
Projection	5.0	5.0	5.1
Confidence interval			
Greenbook forecast errors ¹	5.0–5.0	4.5–5.5	4.2–6.0
FRB/US stochastic simulations	4.9–5.0	4.3–5.6	4.1–6.0
<i>PCE prices</i> <i>excluding food and energy</i> (percent change, Q4 to Q4)			
Projection	1.8	2.2	1.8
Confidence interval			
Greenbook forecast errors ²	1.7–1.9	1.6–2.8	.9–2.8
FRB/US stochastic simulations	1.8–1.9	1.6–2.9	1.0–2.8

NOTE. Shocks underlying stochastic simulations are randomly drawn from the 1978–2004 set of model equation residuals.

1. 1978–2004.

2. 1981–2004.

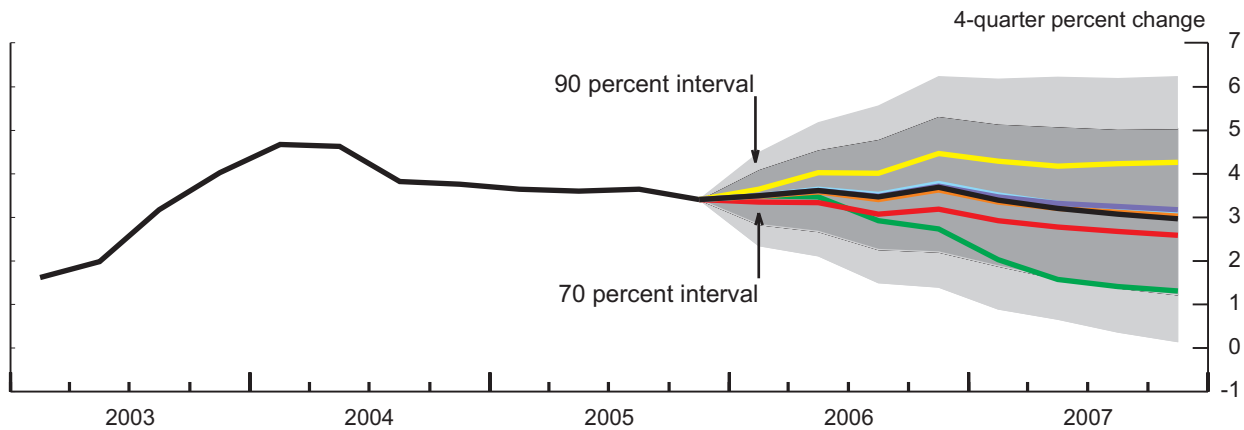
Forecast Confidence Intervals and Alternative Scenarios

Confidence Intervals Based on FRB/US Stochastic Simulations

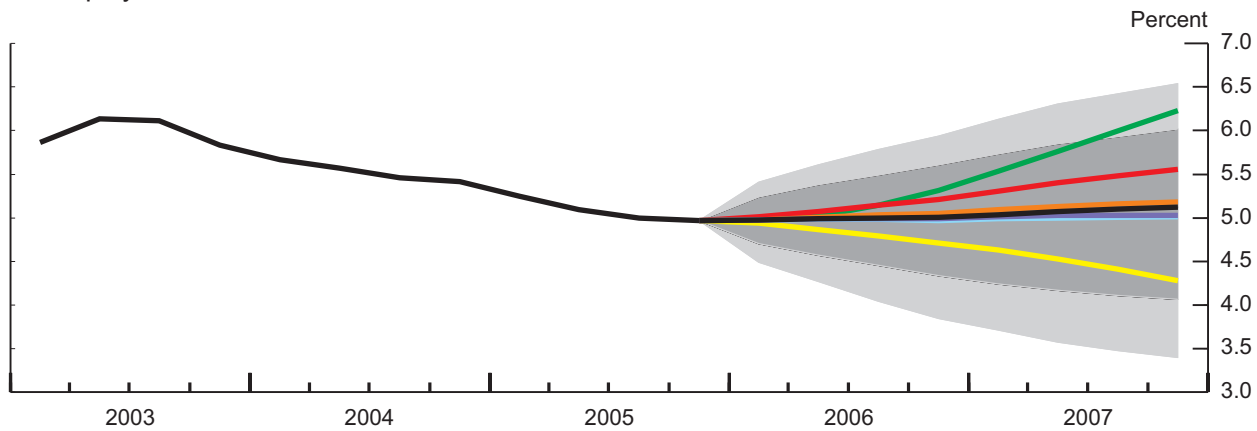
(Scenarios assume baseline federal funds rate except in the case of the market-based funds rate)

- | | |
|-----------------------------|---------------------------|
| ■ Greenbook baseline | ■ Low NAIRU |
| ■ Higher term premium | ■ Adverse cost shocks |
| ■ Stronger aggregate demand | ■ Market-based funds rate |
| ■ Higher saving rate | |

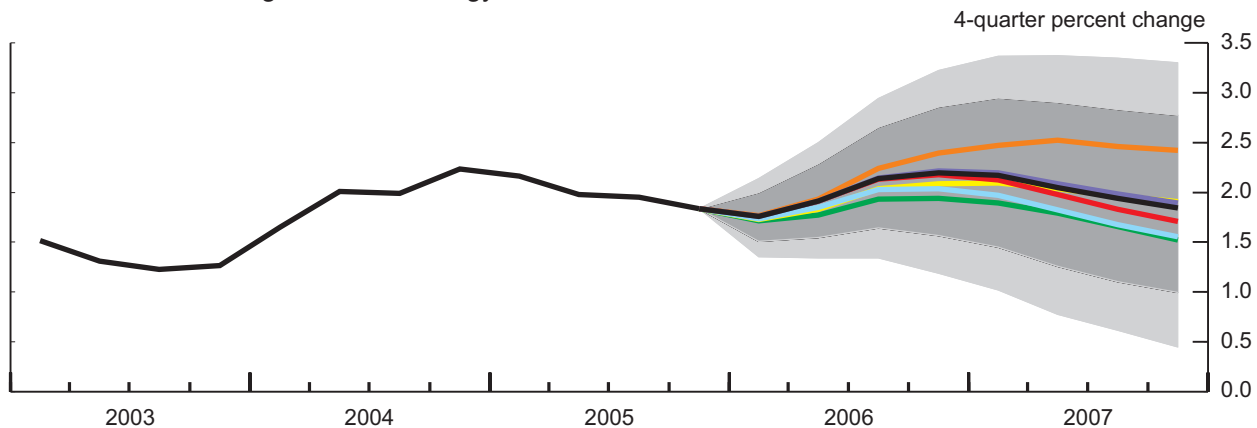
Real GDP



Unemployment Rate



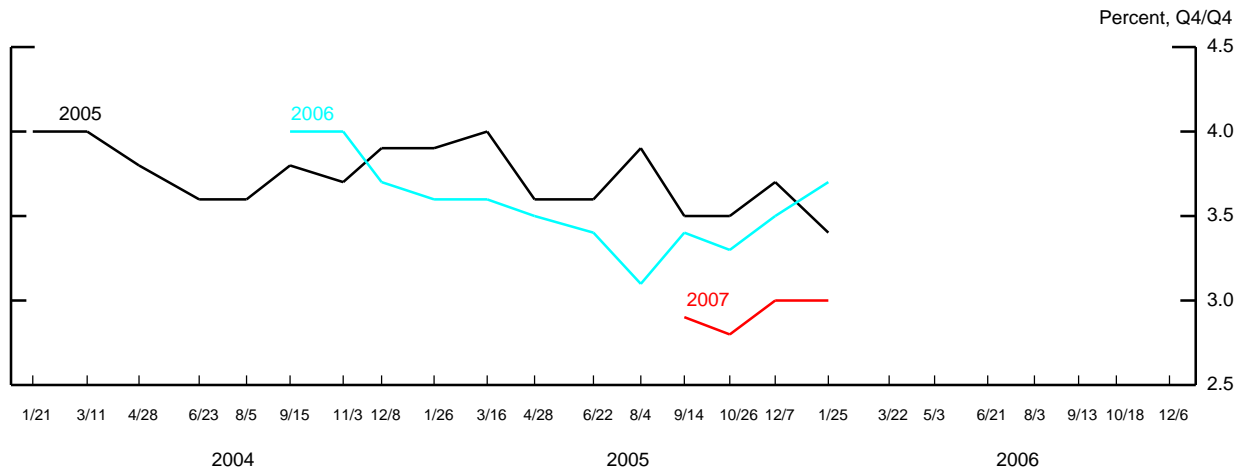
PCE Prices excluding Food and Energy



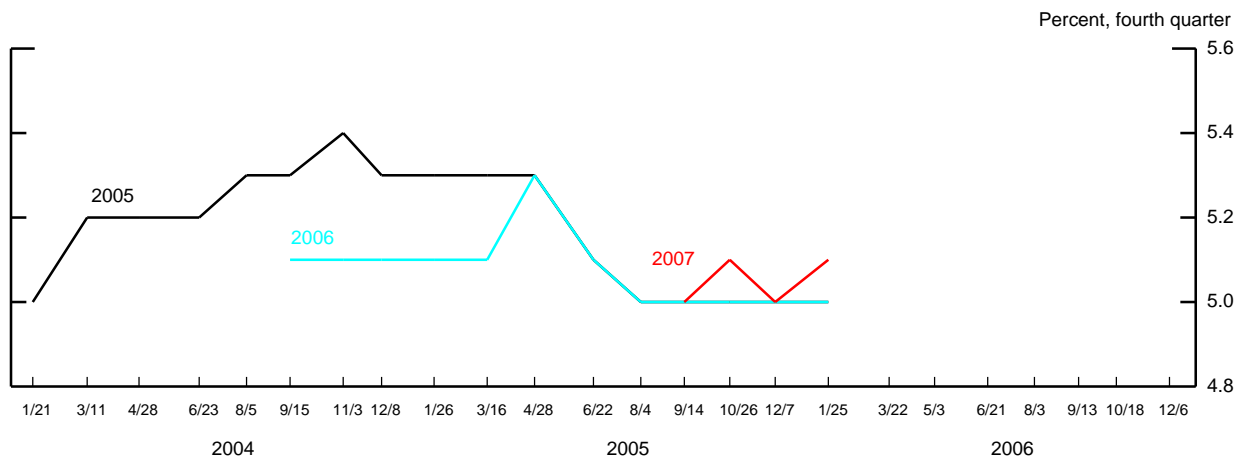
Class II FOMC - Restricted (FR)

Evolution of the Staff Forecast

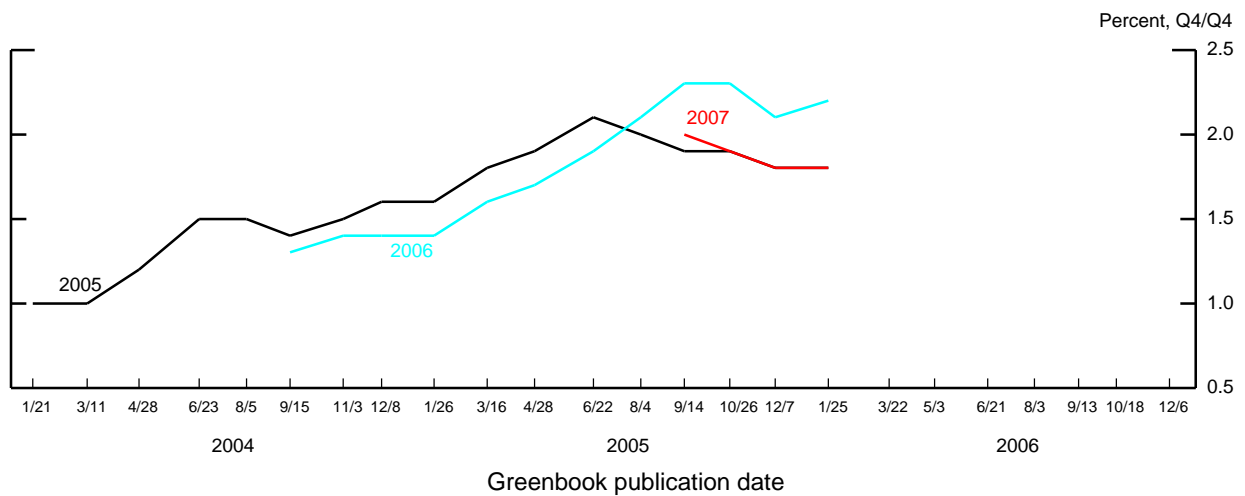
Change in Real GDP



Unemployment Rate



Change in PCE Prices excluding Food and Energy



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

Interval	Nominal GDP		Real GDP		PCE price index		Core PCE price index		Unemployment rate ¹	
	12/7/05	1/25/06	12/7/05	1/25/06	12/7/05	1/25/06	12/7/05	1/25/06	12/7/05	1/25/06
<i>Quarterly</i>										
2005:Q1	7.0	7.0	3.8	3.8	2.3	2.3	2.4	2.4	5.3	5.2
Q2	6.0	6.0	3.3	3.3	3.3	3.3	1.7	1.7	5.1	5.1
Q3	7.6	7.6	4.3	4.1	3.6	3.7	1.2	1.4	5.0	5.0
Q4	5.6	5.1	3.4	2.4	2.1	2.4	2.1	1.9	5.0	5.0
2006:Q1	6.5	6.3	3.7	4.1	1.9	2.1	2.2	2.0	5.0	5.0
Q2	6.0	6.3	3.5	3.8	2.5	2.7	2.2	2.3	5.0	5.0
Q3	5.7	5.8	3.4	3.6	2.1	2.3	2.1	2.3	5.0	5.0
Q4	5.3	5.4	3.2	3.3	2.0	2.1	2.0	2.1	5.0	5.0
2007:Q1	5.3	5.2	3.1	3.0	1.8	1.9	1.9	1.9	5.0	5.0
Q2	4.9	5.0	3.0	3.0	1.7	1.8	1.8	1.9	5.0	5.1
Q3	4.8	4.9	2.9	3.0	1.7	1.8	1.8	1.8	5.0	5.1
Q4	4.8	4.8	2.9	2.9	1.6	1.7	1.8	1.8	5.0	5.1
<i>Two-quarter²</i>										
2005:Q2	6.5	6.5	3.6	3.6	2.8	2.8	2.1	2.1	-3	-3
Q4	6.6	6.3	3.9	3.3	2.9	3.1	1.6	1.6	-1	-1
2006:Q2	6.3	6.3	3.6	3.9	2.2	2.4	2.2	2.2	.0	.0
Q4	5.5	5.6	3.3	3.4	2.1	2.2	2.1	2.2	.0	.0
2007:Q2	5.1	5.1	3.0	3.0	1.8	1.9	1.8	1.9	.0	.1
Q4	4.8	4.9	2.9	2.9	1.6	1.7	1.8	1.8	.0	.0
<i>Four-quarter³</i>										
2004:Q4	6.8	6.8	3.8	3.8	3.1	3.1	2.2	2.2	-5	-4
2005:Q4	6.5	6.4	3.7	3.4	2.8	2.9	1.8	1.8	-4	-4
2006:Q4	5.9	6.0	3.5	3.7	2.1	2.3	2.1	2.2	.0	.0
2007:Q4	5.0	5.0	3.0	3.0	1.7	1.8	1.8	1.8	.0	.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	3.7	3.6	2.8	2.8	2.0	2.0	5.1	5.1
2006	6.2	6.1	3.6	3.6	2.4	2.6	2.0	2.0	5.0	5.0
2007	5.2	5.3	3.1	3.2	1.9	2.0	1.9	2.0	5.0	5.1

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 ¹	2006 ¹	2007 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <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
Final sales <i>Previous</i>	3.8	3.3	4.3	3.4	3.7	3.5	3.4	3.2	3.1	3.0	2.9	2.9	3.7	3.5	3.0
Priv. dom. final purch. <i>Previous</i>	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
Personal cons. expend. <i>Previous</i>	3.5	5.6	4.7	1.1	4.8	3.9	3.1	2.5	2.5	3.3	3.0	2.6	3.7	3.5	2.8
Durables	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
Nondurables	4.1	4.5	5.0	1.8	5.2	3.9	3.5	3.3	3.5	3.5	3.4	3.4	3.9	4.0	3.5
Services	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
Residential investment <i>Previous</i>	3.5	3.4	4.2	.7	4.8	3.2	3.2	3.2	3.5	3.4	3.4	3.4	2.9	3.6	3.4
Business fixed invest. <i>Previous</i>	2.6	7.9	9.3	-14.6	18.1	8.0	5.7	5.3	5.5	5.3	5.2	5.0	.8	9.1	5.2
Equipment & software <i>Previous</i>	5.3	3.6	3.5	5.3	5.2	3.7	3.7	3.7	3.9	3.9	3.9	3.9	4.4	4.0	3.9
Nonres. structures <i>Previous</i>	2.8	2.3	3.3	2.4	1.8	2.4	2.4	2.4	2.6	2.6	2.6	2.6	2.7	2.2	2.6
Net exports ² <i>Previous</i> ²	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
Exports	9.5	10.8	7.7	9.3	2.7	1.4	-1.1	-.3	-.4	.6	.3	-.2	9.3	.7	.1
Imports	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
Govt. cons. & invest. <i>Previous</i>	5.7	8.8	8.9	4.8	9.1	10.1	7.8	6.3	6.2	5.5	5.3	5.0	7.0	8.3	5.5
Federal	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
Defense	8.3	10.9	10.9	2.2	7.7	10.4	7.7	6.8	7.4	6.8	6.4	6.0	8.0	8.2	6.7
Nondefense	-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
State & local	-2.0	2.7	3.1	12.8	12.8	9.1	7.9	5.0	3.0	2.2	2.5	2.5	4.0	8.7	2.5
Change in bus. inventories ² <i>Previous</i> ²	-645	-614	-617	-655	-654	-645	-645	-659	-681	-675	-680	-696	-633	-651	-683
Exports	-645	-614	-621	-639	-651	-647	-653	-673	-698	-699	-708	-728	-630	-656	-708
Imports	7.5	10.7	2.5	4.8	7.2	5.9	5.5	7.2	3.2	5.4	5.3	7.3	6.3	6.4	5.3
Govt. cons. & invest. <i>Previous</i>	7.4	-.3	2.4	11.9	4.4	1.9	3.6	7.7	6.8	2.3	4.5	8.2	5.3	4.4	5.4
Federal	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
Defense	1.9	2.5	3.2	1.6	3.7	1.7	1.4	1.7	1.5	1.5	1.5	1.5	2.3	2.1	1.5
Nondefense	2.4	2.4	7.4	-2.9	6.2	.1	-.2	.6	.0	.0	.0	.0	2.3	1.7	.0
State & local	3.0	3.7	10.0	-11.7	11.5	1.9	1.2	.5	.0	.0	.0	.0	.9	3.7	.0
Change in bus. inventories ² <i>Previous</i> ²	1.1	-.2	2.4	17.6	-3.4	-3.6	-2.9	-.9	.0	.0	.0	.0	5.0	-2.3	.0
Nonfarm ²	1.6	2.6	.2	2.0	2.9	2.3	2.1	2.3	2.4	2.4	2.4	2.4	1.6	2.4	2.4
Farm ²	58	-2	-13	43	28	21	25	37	51	41	45	61	22	28	50
	58	-2	-13	50	21	10	21	43	62	52	52	63	23	24	57
	62	3	-8	45	27	20	24	36	51	40	44	60	25	27	49
	-2	-4	-5	-1	0	1	1	1	1	1	1	1	-3	1	1

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

2. Billions of chained (2000) dollars.

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

Item	1999 ¹	2000 ¹	2001 ¹	2002 ¹	2003 ¹	2004 ¹	2005 ¹	2006 ¹	2007 ¹
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	3.4 3.7	3.7 3.5	3.0 3.0
Final sales <i>Previous</i>	4.2	2.9	1.5	.8	4.0	3.6	3.5	3.8	2.8
Priv. dom. final purch. <i>Previous</i>	4.2	2.9	1.5	.8	4.0	3.6	3.7	3.5	2.8
Personal cons. expend. <i>Previous</i>	5.3	4.3	1.0	1.1	4.4	4.8	3.8	3.9	3.2
Durables	5.3	4.3	1.0	1.1	4.4	4.8	3.9	4.0	3.5
Nondurables	4.9	4.1	2.8	1.9	3.8	3.8	3.0	3.5	3.3
Services	4.9	4.1	2.8	1.9	3.8	3.8	2.9	3.6	3.4
Residential investment <i>Previous</i>	7.3	4.7	10.8	1.2	9.2	5.2	.8	9.1	5.2
Business fixed invest. <i>Previous</i>	4.9	3.0	1.9	2.1	4.1	4.6	4.4	4.0	3.9
Equipment & software <i>Previous</i>	4.4	4.5	1.6	1.9	2.5	3.1	2.7	2.2	2.6
Nonres. structures <i>Previous</i>	3.6	-1.9	1.4	7.0	11.8	6.6	8.8	2.0	-1.1
Net exports ² <i>Previous</i>	3.6	-1.9	1.4	7.0	11.8	6.6	9.3	.7	.1
Exports	7.7	7.8	-9.6	-6.5	5.6	10.9	6.7	7.6	5.5
Imports	7.7	7.8	-9.6	-6.5	5.6	10.9	7.0	8.3	5.5
Govt. cons. & invest. <i>Previous</i>	10.8	7.5	-9.0	-3.4	7.2	13.8	8.3	7.5	6.3
Federal	10.8	7.5	-9.0	-3.4	7.2	13.8	8.0	8.2	6.7
Defense	-9	8.8	-11.1	-14.9	1.2	2.7	2.1	7.8	3.6
Nondefense	-9	8.8	-11.1	-14.9	1.2	2.7	4.0	8.7	2.5
State & local	-296	-379	-399	-471	-521	-601	-633	-651	-683
Change in bus. inventories ² <i>Previous</i>	-296	-379	-399	-471	-521	-601	-630	-656	-708
Nonfarm ²	5.6	6.5	-11.9	3.8	6.0	6.1	6.3	6.4	5.3
Farm ²	12.1	11.2	-7.6	9.7	5.1	10.6	5.3	4.4	5.4
Govt. cons. & invest. <i>Previous</i>	4.2	.4	5.0	4.0	1.9	2.1	1.8	2.1	1.5
Federal	4.2	.4	5.0	4.0	1.9	2.1	2.3	2.1	1.5
Defense	4.2	-2.2	6.4	7.8	5.5	4.2	2.3	1.7	.0
Nondefense	4.3	-3.5	6.5	8.4	7.5	4.9	.9	3.7	.0
State & local	4.1	.3	6.3	6.8	1.6	2.8	5.0	-2.3	.0
Change in bus. inventories ² <i>Previous</i>	4.2	1.7	4.2	2.1	.0	.9	1.6	2.4	2.4
Nonfarm ²	69	56	-32	12	15	52	22	28	50
Farm ²	69	56	-32	12	15	52	23	24	57
Nonfarm ²	72	58	-32	15	15	50	25	27	49
Farm ²	-3	-1	0	-2	0	2	-3	1	1

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

2. Billions of chained (2000) dollars.

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

Item	2005				2006				2007				2005 ¹	2006 ¹	2007 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <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
Final sales <i>Previous</i>	3.8	3.3	4.3	3.4	3.7	3.5	3.4	3.2	3.1	3.0	2.9	2.9	3.7	3.5	3.0
Priv. dom. final purch. <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
	3.5	5.5	4.7	1.2	4.7	3.8	3.1	2.5	2.5	3.3	3.0	2.6	3.7	3.5	2.8
	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
	3.6	3.9	4.4	1.6	4.4	3.4	3.0	2.9	3.0	3.0	3.0	2.9	3.3	3.4	3.0
Personal cons. expend. <i>Previous</i>	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
	2.4	2.4	3.0	.5	3.3	2.2	2.3	2.2	2.4	2.4	2.4	2.4	2.1	2.5	2.4
Durables	.2	.6	.8	-1.3	1.3	.6	.5	.4	.4	.4	.4	.4	.1	.7	.4
Nondurables	1.1	.7	.7	1.1	1.1	.8	.8	.8	.8	.8	.8	.8	.9	.8	.8
Services	1.2	1.0	1.4	1.0	.8	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.1	.9	1.1
Residential investment <i>Previous</i>	.5	.6	.4	.5	.0	.2	.2	.2	.0	.0	-1	-2	.5	.1	-1
	.5	.6	.5	.6	.2	.1	-1	.0	.0	.0	.0	.0	.5	.0	.0
Business fixed invest. <i>Previous</i>	.6	.9	.9	.4	.8	.9	.8	.7	.6	.6	.6	.5	.7	.8	.6
	.6	.9	.9	.5	.9	1.1	.8	.7	.7	.6	.6	.6	.7	.9	.6
Equipment & software <i>Previous</i>	.6	.8	.8	.3	.5	.6	.6	.6	.5	.5	.5	.5	.6	.6	.5
	.6	.8	.8	.2	.6	.8	.6	.5	.6	.5	.5	.5	.6	.6	.5
Nonres. structures <i>Previous</i>	-1	.1	.1	.1	.2	.3	.2	.2	.1	.1	.1	.1	.1	.2	.1
	-1	.1	.1	.3	.3	.3	.2	.2	.1	.1	.1	.1	.1	.2	.1
Net exports <i>Previous</i>	-4	1.1	-1	-1.4	.0	.3	.0	-5	-8	.2	-2	-6	-2	-1	-3
	-4	1.1	-2	-7	-4	.1	-2	-7	-9	.0	-3	-7	-1	-3	-5
Exports	.7	1.1	.3	.5	.7	.6	.6	.8	.3	.6	.6	.8	.6	.7	.6
Imports	-1.1	.0	-4	-1.9	-7	-3	-6	-1.3	-1.1	-4	-8	-1.4	-8	-7	-9
Govt. cons. & invest. <i>Previous</i>	.4	.5	.5	.0	.8	.3	.2	.3	.3	.3	.3	.3	.4	.4	.3
	.4	.5	.6	.3	.7	.3	.3	.3	.3	.3	.3	.3	.4	.4	.3
Federal	.2	.2	.5	-2	.4	.0	.0	.0	.0	.0	.0	.0	.2	.1	.0
Defense	.1	.2	.5	-6	.5	.1	.1	.0	.0	.0	.0	.0	.0	.2	.0
Nondefense	.0	.0	.1	.4	-1	-1	-1	.0	.0	.0	.0	.0	.1	-1	.0
State & local	.2	.3	.0	.2	.4	.3	.3	.3	.3	.3	.3	.3	.2	.3	.3
Change in bus. inventories <i>Previous</i>	.3	-2.1	-4	2.1	-6	-2	.1	.4	.5	-4	.2	.5	.0	-1	.2
	.3	-2.1	-4	2.2	-1.0	-4	.4	.7	.6	-3	.0	.4	.0	-1	.2
Nonfarm	.4	-2.1	-4	1.9	-6	-3	.1	.4	.5	-4	.2	.5	-1	-1	.2
Farm	-1	-1	.0	.2	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0

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

Class II FOMC
Restricted (FR)

January 25, 2006

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

Item	2005				2006				2007				2005 ¹	2006 ¹	2007 ¹
	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	2.6	2.1	2.5	2.2	2.0	2.2	1.9	1.9	1.9	2.9	2.2	2.0
PCE chain.-wt. price index <i>Previous</i>	3.1	2.6	3.1	2.2	2.7	2.4	2.2	2.0	2.2	1.9	1.8	1.8	2.7	2.3	1.9
Energy <i>Previous</i>	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
Food <i>Previous</i>	2.3	3.3	3.6	2.1	1.9	2.5	2.1	2.0	1.8	1.7	1.7	1.6	2.8	2.1	1.7
Ex. food & energy <i>Previous</i>	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
CPI <i>Previous</i>	3.6	28.6	49.8	2.0	-2.8	6.1	1.7	.8	-.2	-.4	-.8	-1.3	19.4	1.4	-.6
Ex. food & energy <i>Previous</i>	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
CPI <i>Previous</i>	1.0	3.5	1.3	2.6	2.5	2.5	2.4	2.3	2.2	2.1	2.1	2.1	2.1	2.4	2.1
Ex. food & energy <i>Previous</i>	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>	2.4	1.7	1.2	2.1	2.2	2.2	2.1	2.0	1.9	1.8	1.8	1.8	1.8	2.1	1.8
Ex. food & energy <i>Previous</i>	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>	2.5	4.0	5.3	2.5	2.0	2.8	2.3	2.1	2.0	1.9	1.8	1.8	3.5	2.3	1.9
Ex. food & energy <i>Previous</i>	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
Ex. food & energy <i>Previous</i>	2.6	2.0	1.4	2.2	2.4	2.4	2.4	2.3	2.2	2.1	2.1	2.1	2.1	2.4	2.1
ECL, hourly compensation ² <i>Previous</i> 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>	2.5	2.5	3.2	3.7	4.1	4.2	4.2	4.2	4.1	4.0	4.0	4.0	3.0	4.2	4.0
Compensation per hour <i>Previous</i>	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
Unit labor costs <i>Previous</i>	3.2	2.1	4.6	2.8	2.4	2.4	3.0	2.9	3.0	2.8	2.8	2.7	3.2	2.7	2.8
Compensation per hour <i>Previous</i>	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>	5.5	.9	3.7	4.4	4.6	5.3	5.5	5.5	5.3	5.1	5.1	5.0	3.6	5.3	5.1
Unit labor costs <i>Previous</i>	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
Unit labor costs <i>Previous</i>	2.2	-1.2	-.9	1.5	2.2	2.9	2.5	2.6	2.3	2.3	2.2	2.3	.4	2.5	2.3

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 ¹	2006 ¹	2007 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Employment and production</i>															
Nonfarm payroll employment ²	.5	.6	.5	.3	.6	.5	.4	.3	.3	.3	.3	.3	2.0	1.8	1.0
Unemployment rate ³	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
<i>Previous³</i>	5.3	5.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
GDP gap ⁴	-7	-7	-4	-6	-4	-2	-1	-1	-2	-3	-3	-4	-6	-1	-4
<i>Previous⁴</i>	-7	-6	-4	-3	-2	-1	.0	.0	.0	-1	-2	-3	-3	.0	-3
Industrial production ⁵	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
<i>Previous⁵</i>	3.8	1.6	.9	3.1	8.3	6.4	5.0	3.7	2.9	2.7	2.8	2.9	2.4	5.9	2.8
Manufacturing industr. prod. ⁵	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
<i>Previous⁵</i>	4.5	1.3	1.9	6.1	5.5	6.0	4.7	3.8	3.1	3.0	3.2	3.4	3.4	5.0	3.2
Capacity utilization rate - mfg. ³	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
<i>Previous³</i>	78.7	78.5	78.5	79.2	79.8	80.4	80.8	81.0	81.1	81.1	81.1	81.3	79.2	81.0	81.3
Housing starts ⁶	2.1	2.0	2.1	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.0	2.0	2.1	2.1	2.0
Light motor vehicle sales ⁶	16.5	17.2	17.9	15.8	16.7	16.9	17.0	17.0	17.0	17.0	17.0	17.1	16.9	16.9	17.0
<i>Income and saving</i>															
Nominal GDP ⁵	7.0	6.0	7.6	5.1	6.3	6.3	5.8	5.4	5.2	5.0	4.9	4.8	6.4	6.0	5.0
Real disposable pers. income ⁵	-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
<i>Previous⁵</i>	-3.4	.2	-7	6.7	5.1	4.4	4.3	4.2	4.6	4.0	4.0	4.0	.6	4.5	4.2
Personal saving rate ³	.5	-2	-1.8	-2	-2	.1	.4	.7	1.0	1.3	1.4	1.6	-2	.7	1.6
<i>Previous³</i>	.5	-2	-1.5	.0	.1	.4	.6	.9	1.2	1.3	1.4	1.6	.0	.9	1.6
Corporate profits ⁷	24.5	19.7	-15.2	46.8	21.8	7.3	1.8	-5.2	-4.4	-4.0	-3.2	1.9	16.7	6.0	-2.4
Profit share of GNP ³	10.5	10.9	10.2	11.1	11.5	11.5	11.4	11.2	10.9	10.7	10.5	10.4	11.1	11.2	10.4
Excluding FR Banks ³	10.3	10.6	10.0	10.9	11.3	11.3	11.2	11.0	10.7	10.5	10.3	10.2	10.9	11.0	10.2
Net federal saving ⁸	-298	-297	-415	-306	-353	-344	-339	-329	-361	-356	-359	-351	-329	-341	-357
Net state & local saving ⁸	7	21	-6	3	21	26	28	31	30	30	28	30	6	27	30
Gross national saving rate ³	13.4	13.1	13.4	13.2	13.1	13.4	13.5	13.6	13.4	13.4	13.4	13.3	13.2	13.6	13.3
Net national saving rate ³	1.7	1.6	-1.6	1.5	1.7	2.1	2.3	2.3	2.0	2.1	2.0	2.1	1.5	2.3	2.1

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.

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

January 25, 2006

Item	Fiscal year				2005				2006				2007			
	2004 ^a	2005 ^a	2006	2007	Q1 ^a	Q2 ^a	Q3 ^a	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts ¹	1880	2153	2294	2409	452	665	549	530	481	719	564	550	508	761	590	579
Outlays ¹	2293	2472	2641	2762	628	620	618	650	681	662	649	686	716	690	670	727
Surplus/deficit ¹	-413	-318	-347	-353	-177	45	-69	-119	-200	57	-85	-136	-209	71	-79	-147
<i>Previous</i>	-413	-318	-346	-352	-177	45	-69	-123	-197	60	-85	-131	-201	56	-75	-141
On-budget	-568	-494	-509	-534	-202	-37	-84	-170	-219	-24	-96	-196	-231	-14	-93	-208
Off-budget	155	175	161	181	25	83	15	51	19	81	11	59	23	85	14	61
Means of financing																
Borrowing	378	297	355	365	165	-43	73	112	183	-34	93	126	193	-42	88	137
Cash decrease	-1	1	1	0	2	-11	-2	-1	21	-19	0	10	15	-25	0	10
Other ²	36	21	-8	-12	10	8	-1	8	-4	-4	-8	-0	0	-4	-8	-0
Cash operating balance, end of period	36	36	35	35	22	33	36	37	16	35	35	25	10	35	35	25
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1933	2157	2370	2498	2197	2228	2149	2309	2356	2392	2426	2456	2491	2511	2535	2565
Expenditures	2348	2503	2706	2849	2495	2525	2564	2615	2708	2735	2764	2785	2852	2867	2894	2915
Consumption expenditures	711	760	804	834	760	763	783	783	806	811	815	820	834	838	842	846
Defense	474	510	537	561	509	512	529	516	538	544	548	552	561	564	567	569
Nondefense	237	250	267	273	251	251	254	266	267	267	267	268	273	274	275	276
Other spending	1637	1742	1902	2016	1735	1762	1781	1832	1903	1925	1949	1965	2018	2029	2052	2069
Current account surplus	-415	-346	-335	-351	-298	-297	-415	-306	-353	-344	-339	-329	-361	-356	-359	-351
Gross investment	99	106	111	113	101	107	109	107	112	112	112	113	113	113	113	113
Gross saving less gross investment ³	-421	-354	-344	-357	-302	-307	-425	-313	-363	-353	-346	-336	-367	-361	-363	-354
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-378	-334	-336	-352	-280	-288	-414	-298	-354	-349	-344	-336	-364	-355	-354	-341
Change in HEB, percent of potential GDP	0.7	-0.5	-0.1	-0.0	-0.6	0.0	1.0	-1.0	0.4	-0.1	-0.1	-0.1	0.2	-0.1	-0.0	-0.1
Fiscal impetus (FI) percent of GDP	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
<i>Previous</i>	0.8	0.3	0.4	0.0	0.0	0.1	0.1	0.1	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** **January 25, 2006**
(Percent)

Period ¹	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	6.0	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	9.9	12.3	4.5	4.4	8.2	10.9	6.1
2004	8.7	11.1	13.5	4.5	5.9	7.6	9.0	6.8
2005	9.0	10.5	13.1	2.6	7.6	10.8	7.0	6.4
2006	7.4	8.1	9.4	3.9	6.8	4.5	7.8	6.0
2007	6.6	6.8	7.6	4.1	6.6	3.2	7.4	5.0
<i>Quarter</i>								
2005:1	9.6	9.1	11.3	2.7	7.0	12.0	14.4	7.0
2	8.1	11.2	13.3	4.3	9.1	6.1	.1	6.0
3	9.1	11.5	14.0	5.3	7.4	12.6	5.1	7.6
4	7.8	8.6	11.5	-2.0	6.1	11.0	7.8	5.1
2006:1	9.2	8.6	10.1	3.5	7.5	5.2	15.0	6.3
2	6.3	8.3	9.3	5.0	6.9	5.0	.9	6.3
3	6.6	7.5	8.7	3.4	6.2	3.7	6.4	5.8
4	6.8	7.1	8.1	3.6	6.1	3.7	8.4	5.4
2007:1	7.9	6.8	7.7	3.8	6.4	3.4	14.7	5.2
2	5.2	6.7	7.5	3.9	6.5	3.4	.2	5.0
3	6.1	6.5	7.2	4.1	6.4	3.0	5.6	4.9
4	6.6	6.4	7.0	4.2	6.4	3.0	8.6	4.8

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2005:Q3 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

Class II FOMC Restricted (FR) **Flow of Funds Projections: Highlights** **January 25, 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	1769.0	1794.7	1688.2	1686.5	1813.1	1637.0	2064.3	1440.5	1580.2	1668.0	2050.2	1326.9	1598.7	1770.3		
Net equity issuance	-157.0	-362.0	-253.0	-168.0	-481.1	-378.6	-340.0	-240.0	-226.0	-206.0	-168.0	-168.0	-168.0	-168.0		
Net debt issuance	1926.0	2156.7	1941.2	1854.5	2294.2	2015.6	2404.3	1680.5	1806.2	1874.0	2218.2	1494.9	1766.7	1938.3		
Borrowing indicators																
Debt (percent of GDP) ¹	197.0	201.6	205.4	208.7	201.9	203.7	204.8	205.6	206.0	206.7	207.8	208.6	209.1	209.9		
Borrowing (percent of GDP)	16.4	17.3	14.7	13.3	18.2	15.8	18.6	12.8	13.5	13.9	16.2	10.8	12.6	13.7		
Households																
Net borrowing ²	1011.6	1068.7	911.5	823.8	1233.6	946.5	968.7	951.8	879.8	845.7	832.2	823.4	820.5	819.2		
Home mortgages	887.3	979.6	792.2	699.3	1106.8	947.8	854.9	808.4	771.3	734.1	715.5	701.6	692.3	687.6		
Consumer credit	90.9	55.3	86.1	92.5	114.4	-43.2	77.3	109.8	76.9	80.5	85.3	90.0	96.0	98.9		
Debt/DPI (percent) ³	111.4	118.5	121.4	122.5	120.3	120.5	121.1	121.4	121.8	122.0	122.1	122.3	122.6	122.9		
Business																
Financing gap ⁴	47.0	-97.2	15.0	193.2	-234.8	-149.4	-126.3	25.6	54.0	106.6	155.5	170.8	200.0	246.7		
Net equity issuance	-157.0	-362.0	-253.0	-168.0	-481.1	-378.6	-340.0	-240.0	-226.0	-206.0	-168.0	-168.0	-168.0	-168.0		
Credit market borrowing	434.3	599.1	577.9	591.8	608.0	511.0	636.3	591.7	541.3	542.2	574.3	596.3	595.4	601.3		
State and local governments																
Net borrowing	118.2	181.9	83.2	62.8	220.7	199.0	96.4	94.8	70.8	70.8	66.8	66.8	58.8	58.8		
Current surplus ⁵	181.3	199.4	195.3	204.3	208.2	167.7	187.0	194.1	197.7	202.4	202.4	203.6	203.7	207.4		
Federal government																
Net borrowing	361.9	306.9	368.7	376.1	231.9	359.0	703.0	42.2	314.3	415.3	745.0	8.4	292.0	459.0		
Net borrowing (n.s.a.)	361.9	306.9	368.7	376.1	72.8	112.2	182.7	-33.7	93.4	126.3	193.2	-42.2	87.8	137.3		
Unified deficit (n.s.a.)	400.7	319.7	364.2	364.1	69.0	119.3	200.0	-57.0	85.0	136.2	208.6	-71.1	79.4	147.2		
<i>Depository institutions</i>																
Funds supplied	796.9	826.2	572.7	560.1	884.7	503.8	507.6	569.9	664.8	548.4	649.6	504.3	574.9	511.5		

Note. Data after 2005:Q3 are staff projections.

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

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

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

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

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

n.s.a. Not seasonally adjusted.

2.6.4 FOF

International Developments

The expansion abroad is forecast to continue at a healthy pace, a touch higher than in the previous Greenbook. Recent data suggest that foreign inflation dipped in the fourth quarter of 2005, as oil prices eased back a bit. Although foreign inflation is projected to move back up somewhat, we expect it to remain contained, as tighter monetary policies and stronger foreign currencies weigh on prices and the latest rebound in dollar oil prices tails off.

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	4.4	3.9	3.6	3.6	3.5	3.4
December GB	3.0	4.5	3.3	3.4	3.5	3.4	3.3
Foreign CPI	1.9	3.4	2.0	2.6	2.7	2.6	2.5
December GB	1.9	3.4	2.4	2.5	2.5	2.5	2.4

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 risen sharply since the December FOMC meeting to around \$67 per barrel, largely because of concerns about supply. Futures prices for delivery of oil throughout the forecast period have also moved significantly higher.

The trade-weighted foreign exchange value of the dollar depreciated about 1¾ percent over the intermeeting period. We again project that the broad real dollar will decline at a moderate rate over the forecast period, reflecting the need to finance the large and growing U.S. current account deficit.

Net exports of real goods and services are estimated to have made a negative arithmetic contribution to the growth of U.S. GDP of nearly 1½ percentage points in the fourth quarter, as rapid import growth—boosted by hurricane-related disruptions to domestic production of refined petroleum, chemicals, and related products—swamped moderate export growth. Our forecast for the contribution of net exports is neutral in the first quarter of 2006 as the recovery of domestic refinery and chemicals production restrains

Staff Projections of Selected Trade Prices

(Percent change from end of previous period excepted 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	4.6	3.0	4.4	2.6	1.1
December GB	4.9	2.0	5.6	3.2	3.0	2.0	1.0
<i>Imports</i>							
Non-oil core goods	3.4	1.0	6.5	0.7	2.5	2.7	1.1
December GB	3.4	.9	5.7	2.1	1.2	1.5	.7
Excluding natural gas	3.3	-.2	2.8	3.0	3.1	2.7	1.1
December GB	3.3	-.3	3.1	1.5	1.9	1.7	.8
Oil (dollars per barrel)	46.30	55.24	55.50	59.72	61.60	63.19	63.41
December GB	46.30	55.15	56.17	54.74	56.22	57.22	56.88

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

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

Trade in Goods and Services

Real net exports are estimated to have made a negative arithmetic contribution to real GDP growth of nearly 1½ percentage points in the fourth quarter, as rapid import growth outweighed a moderate increase in exports. In the first quarter, real net exports are projected to be unchanged, as import growth falls back from the rapid pace of the previous quarter and exports rebound from their earlier weakness. After making a negative arithmetic contribution to growth of about ¼ percentage point in 2005 as a whole, net exports are projected to be about neutral for growth in 2006 and then subtract about ⅓ percentage point in 2007. Compared with the December Greenbook, we have significantly revised down (made more negative) our projection of the contribution of real net exports in the fourth quarter and revised up our projection for the first quarter. These changes primarily reflect our reaction to the October and November trade data, which led us, among other things, to revise our estimates of the timing of hurricane effects on exports and imports.

weak through October and November, likely as a result of hurricane-related production disruptions. Growth of services exports increased slightly after a weak third quarter but remained subdued. Since the December Greenbook, we have revised down our estimate of fourth-quarter export growth $6\frac{3}{4}$ percentage points. This substantial downward revision primarily reflects our reaction to the weakness in the October and November trade data.

In the current quarter, real export growth is expected to rise to $7\frac{1}{4}$ percent, as exports of industrial supplies rebound. The pick-up should also be supported by stronger exports of both services and computers after weak growth for both categories in the previous quarter. This projection is $3\frac{1}{2}$ percentage points higher than in the December Greenbook, largely because of our expectation of a rebound following the unexpected weakness of exports in the October and November trade data.

After the first quarter, we expect export growth to moderate to a more normal pace in the remainder of 2006 and to be supported by continued expansion abroad. In 2007, we project export growth to slow further as the positive impact of pre-2005 dollar depreciation on exports of core goods wanes. By contrast, services exports, which respond to exchange rates with shorter lags than core exports, accelerate a bit going forward as the negative effects of the dollar's pick-up in 2005 wear off. Exports of computers and semiconductors continue to move up at their historical pace. Our projection for the remainder of 2006 and 2007 is about $\frac{1}{2}$ percentage point higher than in the December Greenbook, largely because of the effect on exports of core goods of slightly higher foreign growth and a lower projected path for the 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	4.8	7.2	5.9	6.3	5.3
December GB	9.1	0.8	11.5	3.6	5.0	5.5	4.8
Real imports	3.5	2.4	11.9	4.4	1.9	5.6	5.4
December GB	3.5	2.1	11.8	4.9	2.4	6.4	6.0

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

Alternative Scenarios:
Higher Investment Abroad With and Without Weaker Dollar
 (Percent change from previous period, annual rate, except as noted)

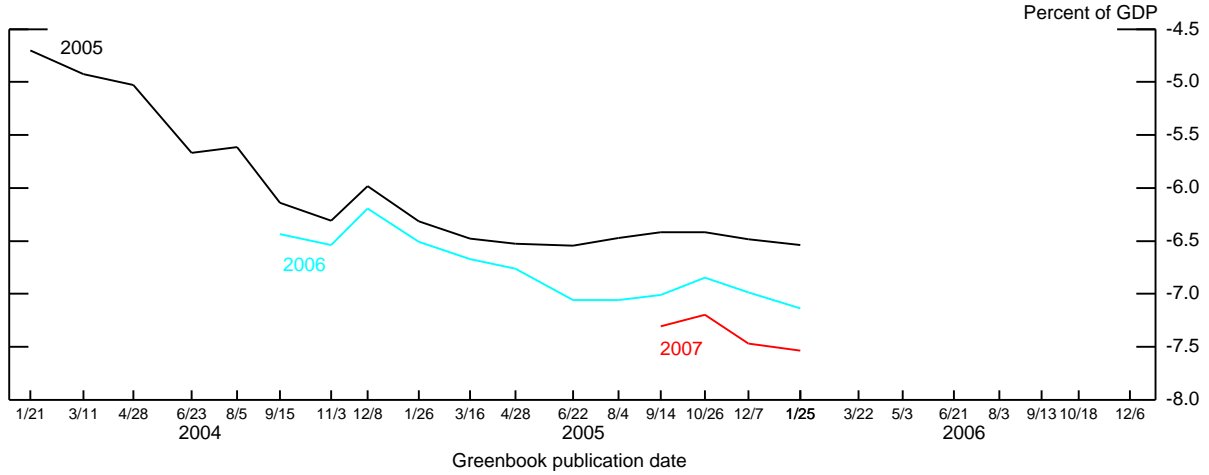
Indicator and simulation	2006		2007	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	3.9	3.4	3.0	2.9
Higher investment abroad	4.2	3.9	3.5	3.4
Higher investment abroad With weaker dollar	4.3	4.3	4.2	4.0
<i>U.S. PCE prices excluding food and energy</i>				
Baseline	2.2	2.2	1.9	1.8
Higher investment abroad	2.2	2.4	2.5	2.3
Higher investment abroad With weaker dollar	2.3	2.6	2.6	2.4
<i>U.S. trade balance (percent share of GDP)</i>				
Baseline	-6.2	-6.1	-6.3	-6.2
Higher investment abroad	-6.5	-6.5	-6.2	-5.6
Higher investment abroad With weaker dollar	-6.6	-6.6	-6.0	-5.3

Note. H1 is Q2/Q4; H2 is Q4/Q2. The federal funds rate is held unchanged from its baseline path, and the monetary authorities in major foreign economies adjust their policy rates according to a Taylor rule.

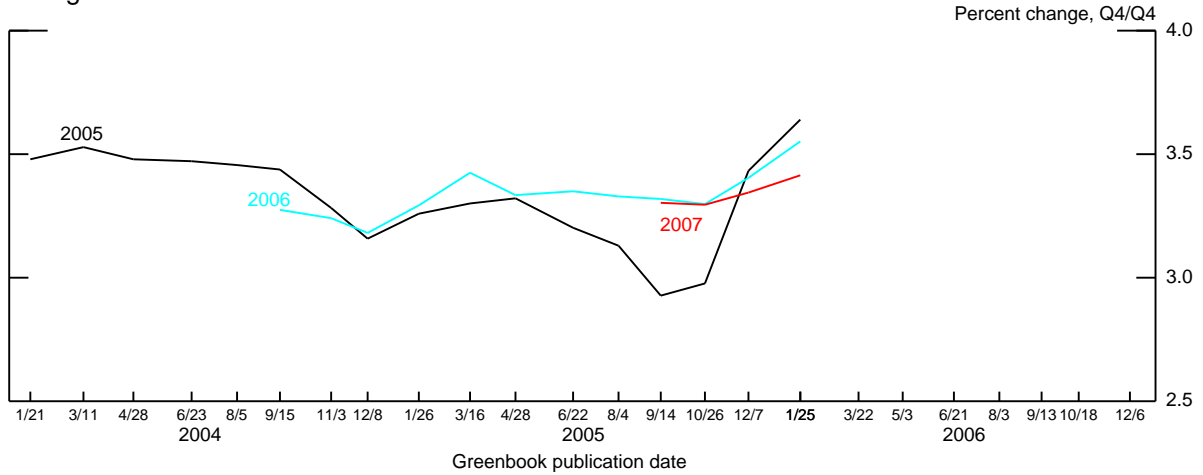
Class II FOMC -- Restricted (FR)

Evolution of the Staff Forecast

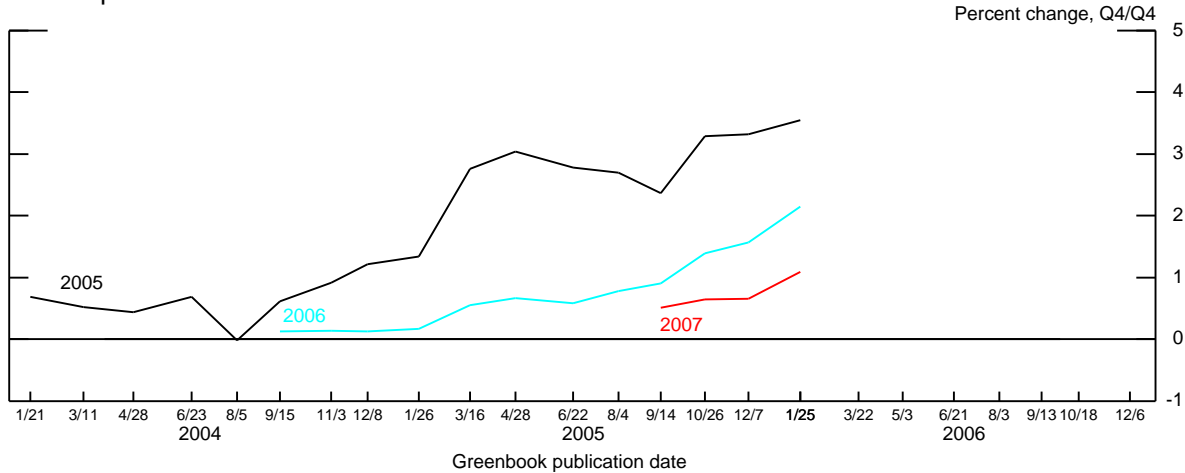
Current Account Balance



Foreign Real GDP



Core Import Prices



Class II FOMC
Restricted (FR) OUTLOOK FOR FOREIGN REAL GDP AND CONSUMER PRICES: SELECTED COUNTRIES
January 25, 2006

(Percent, Q4 to Q4)

Measure and country	1999	2000	2001	2002	2003	2004	2005	2006	2007
REAL GDP (1)									

Total foreign	5.1	4.2	0.4	3.1	3.0	3.7	3.6	3.6	3.4
Industrial Countries	4.4	3.5	0.9	2.6	1.8	2.4	2.6	2.7	2.4
of which:									
Canada	5.9	4.1	1.3	3.6	1.7	3.3	3.0	3.2	3.1
Japan	0.2	3.3	-1.5	2.0	2.6	0.6	3.4	1.6	1.6
United Kingdom	3.4	3.2	2.0	2.1	3.1	2.7	1.8	2.6	2.8
Euro Area (2)	4.1	3.2	1.1	1.2	1.0	1.6	1.8	2.1	1.6
Germany	3.5	2.3	1.1	0.2	0.2	0.5	1.7	2.3	0.9
Developing Countries	6.2	5.2	-0.3	3.8	4.7	5.6	5.1	4.8	4.8
Asia	8.7	5.8	1.2	6.2	6.6	6.0	7.1	5.7	5.8
Korea	11.5	4.5	4.6	7.8	4.2	3.0	5.4	4.2	4.2
China	7.7	8.2	7.8	9.2	10.5	10.1	9.9	7.7	8.0
Latin America	4.4	4.4	-1.3	1.5	2.4	5.2	3.1	3.9	3.8
Mexico	5.5	4.8	-1.3	2.0	2.1	4.9	2.8	3.7	3.7
Brazil	3.4	3.8	-0.9	4.1	0.9	4.8	0.9	3.0	3.0
CONSUMER PRICES (3)									

Industrial Countries	1.2	1.8	0.9	2.1	1.3	1.8	1.6	1.5	1.7
Of which:									
Canada	2.4	3.1	1.1	3.8	1.7	2.3	2.2	1.9	2.0
Japan	-0.9	-0.9	-1.0	-0.6	-0.3	0.6	-0.7	0.2	0.4
United Kingdom (4)	1.2	1.0	1.0	1.5	1.3	1.4	2.1	1.8	1.6
Euro Area (2)	1.5	2.5	2.1	2.3	2.0	2.3	2.3	1.8	2.0
Germany	1.1	1.7	1.5	1.2	1.2	2.1	2.3	1.6	2.6
Developing Countries	4.6	4.1	2.8	2.8	3.1	3.9	3.1	3.9	3.5
Asia	0.1	1.9	1.2	0.7	2.2	3.2	2.7	3.7	3.2
Korea	1.2	2.5	3.3	3.4	3.5	3.4	2.5	4.2	3.2
China	-1.0	1.0	-0.1	-0.5	2.7	3.3	1.4	3.3	2.9
Latin America	12.5	8.4	5.3	6.4	4.9	5.7	3.8	4.2	4.0
Mexico	13.4	8.7	5.1	5.2	3.9	5.3	3.1	3.8	3.7
Brazil	8.4	6.4	7.5	10.7	11.5	7.2	6.1	4.6	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.

January 25, 2006

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	2.4	3.9	4.4	3.9	3.6	3.6	3.5	3.5	3.3	3.4	3.4	3.4
Industrial Countries	2.0	3.2	2.6	2.5	2.8	2.8	2.5	2.5	2.3	2.5	2.5	2.5
of which:												
Canada	2.0	3.4	3.6	3.0	3.6	3.5	2.9	2.8	3.1	3.1	3.1	3.1
Japan	5.7	5.0	1.0	2.0	1.6	1.7	1.7	1.7	1.6	1.5	1.6	1.5
United Kingdom	0.9	1.9	1.7	2.6	2.5	2.6	2.6	2.7	2.8	2.8	2.8	2.9
Euro Area (2)	1.3	1.7	2.6	1.6	2.1	2.2	2.1	2.2	1.0	1.8	1.7	1.7
Germany	2.4	0.9	2.5	1.0	2.0	2.3	2.1	2.7	-0.8	1.7	1.4	1.4
Developing Countries	3.1	4.8	6.9	5.8	4.7	4.8	4.9	4.8	4.8	4.8	4.8	4.8
Asia	4.7	8.3	7.7	7.7	5.6	5.6	5.8	5.8	5.8	5.8	5.8	5.8
Korea	1.5	5.0	8.0	7.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
China	11.9	7.2	8.9	11.5	7.2	7.2	8.2	8.2	8.0	8.0	8.0	8.0
Latin America	1.4	0.9	6.5	3.7	3.8	3.9	3.9	3.9	3.8	3.8	3.8	3.8
Mexico	0.7	-1.3	8.9	3.4	3.6	3.8	3.8	3.8	3.7	3.7	3.7	3.7
Brazil	0.8	4.6	-4.7	3.3	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
CONSUMER PRICES (3)	Four-quarter changes											
Industrial Countries	1.5	1.4	1.8	1.6	1.8	1.7	1.4	1.5	1.7	1.7	1.7	1.7
of which:												
Canada	2.1	1.9	2.6	2.2	2.3	2.2	1.7	1.9	2.0	2.0	2.0	2.0
Japan	-0.2	-0.1	-0.3	-0.7	-0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.4
United Kingdom (4)	1.7	1.9	2.4	2.1	2.1	2.0	1.6	1.8	1.6	1.6	1.6	1.6
Euro Area (2)	2.0	2.0	2.3	2.3	2.5	2.3	1.9	1.8	2.1	2.1	2.1	2.0
Germany	1.7	1.6	2.1	2.3	2.7	2.4	1.8	1.6	2.7	2.7	2.6	2.6
Developing Countries	3.6	3.2	3.1	3.1	3.4	3.7	3.7	3.9	3.8	3.7	3.6	3.5
Asia	2.9	2.4	2.3	2.7	3.0	3.5	3.4	3.7	3.6	3.5	3.3	3.2
Korea	3.1	3.0	2.4	2.5	2.8	3.2	3.5	4.2	4.3	4.0	3.6	3.2
China	2.8	1.7	1.3	1.4	1.6	2.5	2.6	3.3	3.3	3.2	3.1	2.9
Latin America	4.9	5.1	4.5	3.8	4.2	4.0	4.1	4.2	4.0	4.0	4.0	4.0
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	5.4	4.7	5.1	4.6	4.4	4.2	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	-0.1	-0.3
Exports of G&S	0.6	0.7	-1.3	0.4	0.6	0.6	0.6	0.7	0.6
Imports of G&S	-1.6	-1.6	1.1	-1.3	-0.7	-1.5	-0.8	-0.7	-0.9
	Percentage change, Q4/Q4								
Exports of G&S	5.6	6.5	-11.9	3.8	6.0	6.1	6.3	6.4	5.3
Services	5.3	1.8	-8.9	10.2	4.5	4.6	3.9	5.1	5.9
Computers	13.4	22.7	-23.5	-1.1	11.0	6.3	14.3	15.8	14.4
Semiconductors	34.6	27.6	-34.6	10.1	38.8	-6.1	12.7	17.2	17.0
Other Goods 1/	3.3	5.9	-10.2	0.7	4.5	7.8	6.7	6.0	3.9
Imports of G&S	12.1	11.2	-7.6	9.7	5.1	10.6	5.3	4.4	5.4
Services	6.6	10.6	-5.9	8.8	4.2	7.7	2.4	4.5	3.8
Oil	-3.4	13.3	3.7	3.8	1.5	9.7	2.6	-7.0	2.0
Computers	26.0	13.9	-13.6	13.2	16.8	22.2	11.0	17.6	17.5
Semiconductors	34.2	22.8	-51.1	11.0	-0.2	9.4	7.8	17.6	17.0
Other Goods 2/	12.9	10.5	-6.5	10.1	5.1	10.5	5.7	5.9	5.6
	Billions of Chained 2000 Dollars								
Net Goods & Services	-296.2	-379.5	-399.1	-471.3	-521.4	-601.3	-633.1	-650.8	-682.7
Exports of G&S	1008.2	1096.3	1036.7	1013.3	1031.2	1117.9	1195.1	1265.6	1333.2
Imports of G&S	1304.4	1475.8	1435.8	1484.6	1552.6	1719.2	1828.1	1916.4	2015.9
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-300.1	-416.0	-389.5	-475.2	-519.7	-668.1	-816.5	-945.6	-1050.8
Current Acct as Percent of GDP	-3.2	-4.2	-3.8	-4.5	-4.7	-5.7	-6.5	-7.1	-7.5
Net Goods & Services (BOP)	-263.4	-378.3	-362.7	-421.2	-494.8	-617.6	-726.3	-816.1	-872.8
Investment Income, Net	19.1	25.7	30.3	15.5	51.8	36.2	1.3	-22.5	-69.0
Direct, Net	78.2	94.9	115.9	99.8	121.8	127.9	123.0	144.2	166.7
Portfolio, Net	-59.1	-69.2	-85.5	-84.3	-70.0	-91.7	-121.7	-166.7	-235.7
Other Income & Transfers, Net	-55.8	-63.5	-57.1	-69.5	-76.7	-86.7	-91.5	-107.0	-109.0

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/	7.6	19.4	9.5	4.3	-2.6	5.8	0.7	17.7	8.4	20.4	4.0	9.7
	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.

January 25, 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	0.0	0.3	-0.0	-0.5	-0.8	0.2	-0.2	-0.6
Exports of G&S	0.7	1.1	0.3	0.5	0.7	0.6	0.6	0.8	0.3	0.6	0.6	0.8
Imports of G&S	-1.1	0.0	-0.4	-1.9	-0.7	-0.3	-0.6	-1.3	-1.1	-0.4	-0.8	-1.4
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	7.5	10.7	2.5	4.8	7.2	5.9	5.5	7.2	3.2	5.4	5.3	7.3
Services	12.5	-0.4	1.0	3.1	4.7	5.1	5.1	5.3	5.3	6.0	6.1	6.2
Computers	12.6	26.9	18.5	0.8	20.2	14.4	14.4	14.4	14.4	14.4	14.4	14.4
Semiconductors	-12.9	26.7	24.4	17.7	17.6	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 1/	6.1	14.9	1.2	5.1	7.2	5.1	4.6	7.2	1.0	4.0	3.9	6.9
Imports of G&S	7.4	-0.3	2.4	11.9	4.4	1.9	3.6	7.7	6.8	2.3	4.5	8.2
Services	3.7	4.4	-3.2	5.1	7.5	2.4	4.3	4.1	3.7	3.9	3.8	3.7
Oil	3.4	-24.5	-3.1	46.2	-6.5	-23.1	-13.4	19.8	13.6	-17.8	-5.2	22.4
Computers	11.3	13.7	15.2	4.1	18.0	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Semiconductors	-7.9	8.3	18.0	14.8	19.3	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 2/	9.1	2.3	3.7	7.9	5.1	6.9	6.2	5.5	5.2	5.4	5.7	5.9
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-645.4	-614.2	-617.5	-655.1	-654.1	-645.2	-645.1	-658.8	-680.7	-674.6	-679.5	-695.9
Exports of G&S	1165.3	1195.4	1202.7	1216.9	1238.3	1256.0	1272.9	1295.3	1305.6	1322.9	1340.2	1363.9
Imports of G&S	1810.7	1809.6	1820.2	1872.0	1892.3	1901.2	1918.0	1954.1	1986.4	1997.5	2019.8	2059.9
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-794.7	-791.1	-783.3	-896.8	-933.6	-925.6	-945.5	-977.7	-1037.0	-1032.7	-1054.2	-1079.2
Current Account as % of GDP	-6.5	-6.4	-6.2	-7.0	-7.2	-7.0	-7.1	-7.2	-7.6	-7.4	-7.5	-7.6
Net Goods & Services (BOP)	-692.2	-694.4	-731.2	-787.3	-807.3	-805.8	-813.5	-837.7	-868.1	-862.9	-870.2	-890.1
Investment Income, Net	8.3	-0.4	8.1	-10.8	-11.2	-14.6	-24.7	-39.5	-51.8	-62.8	-74.6	-86.6
Direct, Net	113.5	114.0	138.8	125.8	134.0	142.6	148.6	151.4	157.4	164.1	170.0	175.4
Portfolio, Net	-105.2	-114.4	-130.7	-136.6	-145.2	-157.2	-173.3	-190.9	-209.2	-226.9	-244.7	-262.0
Other Inc. & Transfers, Net	-110.7	-96.3	-60.3	-98.7	-115.1	-105.2	-107.3	-100.5	-117.0	-107.0	-109.3	-102.5

1. Merchandise exports excluding computers and semiconductors.

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

Part 2

January 25, 2006

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

January 25, 2006

Recent Developments

Production of Domestic Light Vehicles

(Millions of units at an annual rate except as noted; FRB seasonals)

Item	2005	2005		2006	2005	2006	
		Q3	Q4	Q1	Dec.	Jan.	Feb.
U.S. production ¹	11.5	11.7	11.3	11.2	10.8	11.7	11.1
Autos	4.3	4.3	4.4	4.6	4.3	4.8	4.6
Light trucks	7.2	7.4	7.0	6.7	6.5	6.9	6.6
Days' supply ²	69	58	75	n.a.	69	n.a.	n.a.
Autos	52	44	54	n.a.	54	n.a.	n.a.
Light trucks	81	68	91	n.a.	79	n.a.	n.a.
Inventories ³	3.04	2.75	3.04	n.a.	3.04	n.a.	n.a.
Autos	.93	.82	.93	n.a.	.93	n.a.	n.a.
Light trucks	2.10	1.94	2.10	n.a.	2.10	n.a.	n.a.
Memo: U.S. production, total motor vehicles ⁴	11.9	12.2	11.8	11.7	11.2	12.1	11.5

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

1. Production rates for January, February, and the first quarter 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.

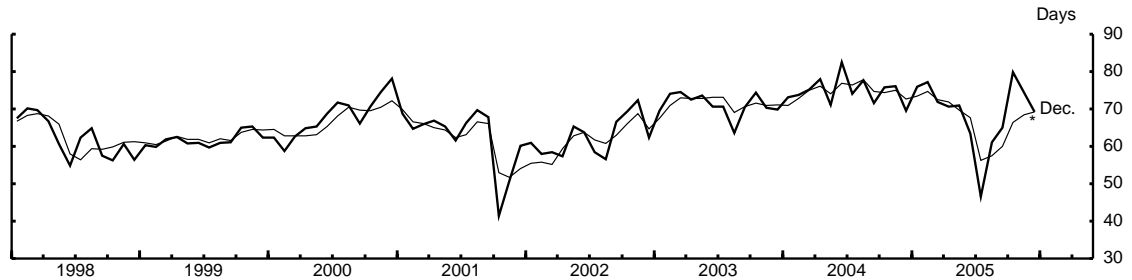
n.a. Not available.

Inventories of Light Vehicles



Note. FRB seasonals. Monthly totals.

Days' Supply of Light Vehicles



* Constructed using 6-month moving average of sales.

Broad Measures of Inflation

(Percent change, Q3 to Q3)

Measure	2002	2003	2004	2005
<i>Product prices</i>				
GDP price index	1.6	2.1	2.7	2.9
Less food and energy	2.0	1.8	2.6	2.7
Nonfarm business chain price index	1.1	1.2	2.3	2.9
<i>Expenditure prices</i>				
Gross domestic purchases price index	1.6	2.1	3.0	3.4
Less food and energy	1.9	1.7	2.6	2.5
PCE price index	1.5	1.8	2.6	3.1
Less food and energy	1.9	1.2	2.0	1.9
PCE price index, market-based components	1.1	1.8	2.3	3.1
Less food and energy	1.5	1.1	1.5	1.6
CPI	1.6	2.2	2.7	3.8
Less food and energy	2.3	1.3	1.8	2.1
Chained CPI	1.3	2.0	2.3	3.0
Less food and energy	1.8	1.0	1.5	1.8
Median CPI	3.3	2.0	2.5	2.4
Trimmed mean CPI	2.1	1.8	2.1	2.3

Surveys of Inflation Expectations

(Percent)

Period	Actual CPI inflation ¹	University of Michigan				Professional forecasters (10-year) ⁴
		1 year ²		5 to 10 years ³		
		Mean	Median	Mean	Median	
2004:Q1	1.8	3.1	2.7	3.4	2.9	2.5
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
Sept.	4.7	5.5	4.3	3.8	3.1	2.5
Oct.	4.3	5.5	4.6	3.8	3.2	...
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.	n.a.	3.5	3.0	3.3	2.9	...

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.

State and Local Government Finance

Gross Offerings of Municipal Securities

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

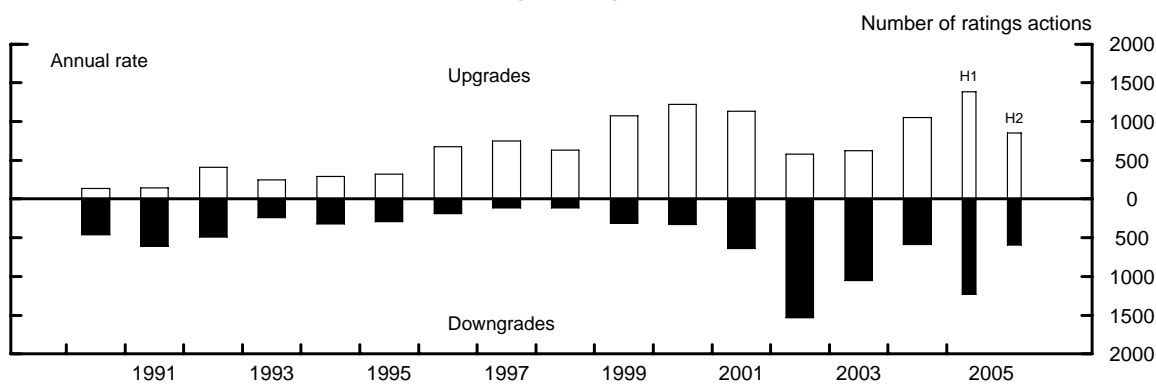
Type of security	2002	2003	2004	2005			2006
				H1	Q3	Q4	Jan. ^e
Total	36.3	37.9	34.7	38.1	39.0	37.7	18.0
Long-term ¹	30.3	32.0	29.8	35.0	33.6	32.7	15.0
Refundings ²	10.1	10.0	10.8	17.1	15.6	10.4	2.0
New capital	20.2	22.1	19.0	17.9	18.0	22.3	13.0
Short-term	6.0	5.8	4.9	3.1	5.4	5.0	2.0
Memo: Long-term taxable	1.7	3.5	2.0	2.0	2.3	2.0	1.0

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

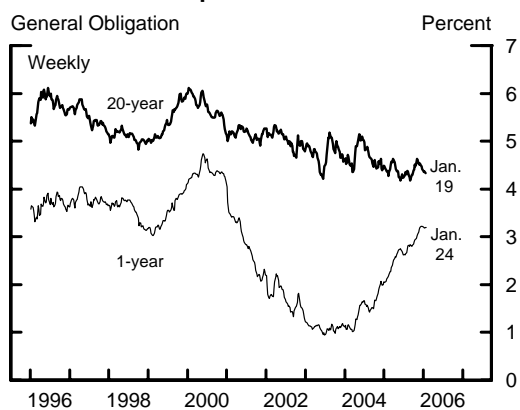
e Staff estimate based on preliminary data through January 19.

Ratings Changes



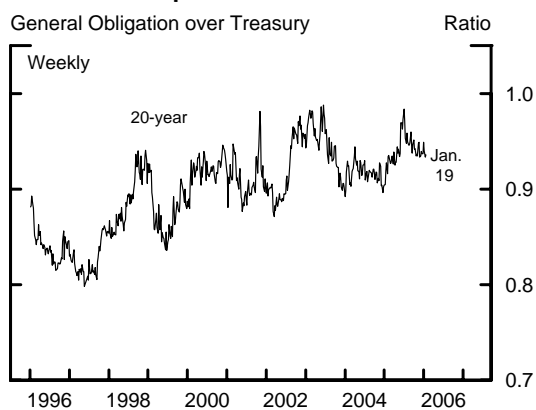
Source: S&P's Credit Week Municipal and Ratings Direct.

Municipal Bond Yields



Source: Bloomberg and Bond Buyer.

Municipal Bond Yield Ratio



Source: Bond Buyer.

Monetary Aggregates
(Based on seasonally adjusted data*)

Aggregate or component	2004	2005	2005			2006	Level (\$ billions), Jan. (e)
			Q3	Q4	Dec.	Jan. (e)	
<i>Aggregate</i>	Percent change (annual rate) ¹						
1. M2 ²	5.2	4.0	4.4	5.2	5.1	7.9	6,725
2. M3 ³	5.8	7.5	7.8	9.5	9.6	8.2	10,239
<i>Components of M2⁴</i>							
3. Currency	5.5	3.5	4.0	4.2	5.8	8.8	729
4. Liquid deposits ⁵	10.0	1.9	2.1	2.9	3.4	4.6	4,275
5. Small time deposits	-.3	18.7	19.7	14.9	12.2	14.9	986
6. Retail money market funds	-11.7	-.2	-.4	7.0	5.4	17.7	728
<i>Components of M3</i>							
7. M3 minus M2 ⁶	7.0	14.8	14.8	18.2	18.3	8.7	3,514
8. Large time deposits, net ⁷	20.8	27.0	15.4	25.0	21.4	31.7	1,395
9. Institutional money market funds	-5.7	5.0	11.6	12.1	16.7	16.4	1,152
10. RPs	.1	10.5	22.5	21.7	18.8	-36.7	546
11. Eurodollars	27.2	14.3	11.3	9.4	12.1	-24.5	421
<i>Memo</i>							
12. Monetary base	5.6	3.4	3.3	4.3	4.2	8.8	792
Average monthly change (billions of dollars) ⁸							
<i>Selected managed liabilities at commercial banks</i>							
13. Large time deposits, gross	14.9	19.5	11.9	22.1	23.3	32.3	1,471
14. Net due to related foreign institutions	-11.3	4.9	12.8	1.6	-2.4	-3.0	70
15. U.S. government deposits at commercial banks	.3	.0	-2.1	-0.3	8.6	3.5	26

1. For the years shown, Q4-to-Q4 percent change. For the quarters shown, based on quarterly averages.

2. Sum of currency, liquid deposits (demand, other checkable, savings), small time deposits, retail money market funds, and nonbank traveler's checks.

3. Sum of M2, net large time deposits, institutional money market funds, RP liabilities of depository institutions, and Eurodollars held by U.S. addressees.

4. Nonbank traveler's checks not listed.

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

6. Sum of large time deposits, institutional money market funds, RP liabilities of depository institutions, and Eurodollars held by U.S. addressees.

7. Net of holdings of depository institutions, money market funds, U.S. government, and foreign banks and official institutions.

8. For the years shown, "average monthly change" is the Q4-to-Q4 dollar change divided by 12. For the quarters shown, it is the quarter-to-quarter dollar change divided by 3.

e Estimated.

* These data also reflect the effects of the annual seasonal factor review.

International Developments

U.S. International Transactions

Trade in Goods and Services

After reaching a record \$68.1 billion in October, the U.S. international trade deficit narrowed to \$64.2 billion in November. The narrowing in the deficit reflected a \$2 billion increase in exports and a decrease in imports of about the same magnitude.

Trade in Goods and Services

(Seasonally adjusted)

	2004	Annual rate			Monthly rate		
		2005			2005		
		Q2	Q3	Q4 ^e	Sept.	Oct.	Nov.
		Percent change					
<i>Nominal BOP</i>							
Exports	10.8	14.9	4.5	5.4	-2.4	1.5	1.8
Imports	18.7	9.8	10.8	16.8	2.7	2.2	-1.1
<i>Real NIPA</i>							
Exports	6.1	10.7	2.5	n.a.	...	...	...
Imports	10.6	-0.3	2.4	n.a.	...	...	...
		Billions of dollars					
<i>Nominal BOP</i>							
Net exports	-617.6	-694.4	-731.2	-794.0	-66.0	-68.1	-64.2
Goods, net	-665.4	-747.7	-791.7	-852.2	-71.3	-73.2	-68.9
Services, net	47.8	53.3	60.5	58.2	5.3	5.0	4.7

e. BOP data are two months at an annual rate.

Source. U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

The average value of exports of goods and services in October and November increased 5½ percent (a.r.) from the third quarter, with the pace of increase roughly equal in both months. In October, the increase in exports was more than accounted for by a sharp rebound in aircraft exports following a strike at Boeing in September. In November, exports were boosted by a further increase in aircraft exports as well as sharp increases in exports of other capital goods and consumer goods. Following a steep plunge in September on account of hurricane-related production disruptions, exports of industrial supplies, particularly chemicals and petroleum products, remained weak in October and recovered only slightly in November. Services exports were little changed in both October and November.

The average value of imports in October and November increased nearly 17 percent (a.r.) from the third quarter, as imports in October surged from an elevated September level

U.S. Exports and Imports of Goods and Services

(Billions of dollars, s.a.a.r., BOP basis)

	Levels				Change ¹			
	2005		2005		2005		2005	
	Q3	Q4 ^e	Oct.	Nov.	Q3	Q4 ^e	Oct.	Nov.
Exports of G&S	1283.1	1300.1	1288.6	1311.7	14.0	17.1	19.3	23.1
Goods exports	900.9	915.4	902.4	928.3	6.7	14.5	21.0	25.9
Gold	5.4	5.9	6.1	5.8	-0.1	0.6	0.2	-0.3
Other goods	895.5	909.4	896.4	922.5	6.9	13.9	20.7	26.2
Aircraft & parts	59.4	66.0	62.0	70.1	-4.3	6.6	19.8	8.2
Computers & accessories	46.7	45.0	45.3	44.8	0.9	-1.7	-2.0	-0.5
Semiconductors	48.8	49.7	49.7	49.8	2.9	1.0	0.8	0.2
Other capital goods	208.4	216.8	213.8	219.7	3.1	8.4	2.8	5.9
Automotive	98.6	102.8	101.8	103.8	4.7	4.2	2.0	2.1
to Canada	53.5	54.5	56.1	52.9	2.1	1.0	1.2	-3.2
to Mexico	15.5	19.1	18.9	19.3	0.1	3.6	1.6	0.4
to ROW	29.5	29.2	26.8	31.6	2.4	-0.3	-0.8	4.9
Agricultural	67.3	65.6	66.6	64.6	-1.3	-1.7	3.0	-2.0
Ind supplies (ex. ag, gold)	217.5	213.1	210.6	215.6	-1.6	-4.4	-0.4	5.0
Consumer goods	116.0	116.0	112.5	119.5	1.9	-0.1	-6.6	7.0
All other goods	33.0	34.4	34.3	34.6	0.5	1.4	1.6	0.2
Services exports	382.2	384.7	386.1	383.3	7.2	2.6	-1.7	-2.8
Imports of G&S	2014.2	2094.1	2106.1	2082.1	50.8	79.9	44.9	-24.0
Goods imports	1692.6	1767.6	1780.3	1754.9	50.7	75.0	43.0	-25.5
Petroleum	270.1	299.7	304.4	295.1	40.5	29.7	17.5	-9.3
Gold	4.4	5.3	5.1	5.4	0.4	0.8	-0.3	0.2
Other goods	1418.1	1462.6	1470.8	1454.4	9.9	44.5	25.8	-16.4
Aircraft & parts	24.4	23.8	25.6	22.0	-3.8	-0.6	-0.6	-3.7
Computers & accessories	94.2	93.0	92.1	94.0	0.5	-1.1	-0.9	1.9
Semiconductors	26.1	26.5	26.7	26.4	0.7	0.5	0.7	-0.2
Other capital goods	239.7	242.1	241.4	242.9	3.4	2.4	-1.3	1.6
Automotive	242.4	250.8	250.1	251.5	10.1	8.4	9.1	1.4
from Canada	72.2	77.4	78.0	76.8	6.4	5.2	2.2	-1.2
from Mexico	43.0	50.5	51.7	49.2	-2.6	7.5	2.8	-2.6
from ROW	127.3	123.0	120.4	125.5	6.3	-4.3	4.0	5.1
Ind supplies (ex. oil, gold)	258.6	287.8	290.7	284.9	1.4	29.3	18.4	-5.8
Consumer goods	404.0	407.9	414.3	401.5	-4.1	3.9	3.9	-12.8
Foods, feeds, bev.	69.1	69.6	69.1	70.1	1.9	0.5	-2.2	1.0
All other goods	59.6	61.0	60.8	61.1	-0.1	1.4	-1.3	0.3
Services imports	321.6	326.5	325.8	327.3	0.0	4.9	1.9	1.5
<i>Memo:</i>								
Oil quantity (mb/d)	13.37	14.40	13.96	14.84	-0.19	1.03	0.96	0.88
Oil import price (\$/bbl)	55.31	57.08	59.70	54.45	9.02	1.71	-0.72	-5.25

1. Change from previous quarter or month. e. Average of two months.

Source. U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

U.K. Economic Indicators

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

Indicator	2005						
	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
Real GDP*	1.9	1.5	2.6	...	...	...	...
Industrial production	-.0	-.6	n.a.	-1.2	.7	n.a.	n.a.
Retail sales volume ¹	.5	.4	1.6	.4	.9	.5	n.a.
Unemployment rate ²							
Claims-based	2.7	2.8	2.9	2.9	2.9	2.9	n.a.
Labor force survey ³	4.7	4.8	n.a.	5.0	n.a.	n.a.	n.a.
Business confidence ⁴	-.3	5.0	-2.0	2.0	-4.0	-4.0	1.0
Consumer confidence ⁵	-2.0	-2.0	-4.0	-4.0	-4.0	-4.0	n.a.
Consumer prices ⁶	1.9	2.4	2.1	2.3	2.1	2.0	n.a.
Producer input prices ⁷	9.8	12.5	13.2	9.0	13.6	17.2	n.a.
Average earnings ⁷	4.1	4.1	n.a.	3.1	3.4	n.a.	n.a.

* Preliminary estimate (s.a.a.r.)

1. Excludes motor vehicles.

2. Percent.

3. Three-month average centered on month shown.

4. Percentage of firms expecting output to increase in the next four months less percentage expecting output to decrease.

5. Average of the percentage balance from consumers' expectations of their financial situation, general economic situation, unemployment, and savings over the next 12 months.

6. Consumer prices index (CPI), percent change from year earlier.

7. Percent change from year earlier.

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

The twelve-month rate of consumer price inflation fell in December to 2 percent, the Bank of England's target. The twelve-month rate of inflation excluding energy also fell, from 1.6 percent in November to 1.4 percent in December.

Data for **Canada** suggest economic activity remained firm in the fourth quarter. The composite index of leading indicators accelerated throughout the quarter. Housing starts ended the year on a strong note, and 2005 housing starts were the second-highest in the past 18 years, topped only in 2004. Retail sales in November posted a second straight advance. Average real exports and imports in October and November were both about 10 percent (a.r.) above their average third-quarter average. The manufacturing sector, however, continued to struggle, as manufacturing shipments fell in November in real terms for the third time in four months, and, following a strong October, manufacturers

January 27, 2006

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

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

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	3.0
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	3.4
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	3.4	3.7
Less food and energy	2.1	1.2	2.1	2.1
Chained CPI	1.8	1.7	2.9	3.0
Less food and energy	1.7	.8	1.8	1.7
Median CPI	3.0	2.0	2.3	2.4
Trimmed mean CPI	2.1	1.7	2.2	2.5

Surveys of Inflation Expectations
(Percent)

Period	Actual CPI inflation ¹	University of Michigan				Professional forecasters (10-year) ⁴
		1 year ²		5 to 10 years ³		
		Mean	Median	Mean	Median	
2004:Q1	1.8	3.1	2.7	3.4	2.9	2.5
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
Sept.	4.7	5.5	4.3	3.8	3.1	2.5
Oct.	4.3	5.5	4.6	3.8	3.2	...
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.	n.a.	3.5	3.0	3.3	2.9	...

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.

Commercial Bank Credit

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

Type of credit	2004	2005	2005: Q3	2005: Q4	Dec. 2005	Jan. ^e 2006	Level (\$ billions), Jan. 2006 ^e
Total							
1. Adjusted¹	8.9	10.4	9.6	5.8	8.5	5.9	7,242
2. Reported	8.4	9.7	9.7	5.3	7.5	6.2	7,382
<i>Securities</i>							
3. Adjusted ¹	6.6	7.4	.5	-.7	-5.4	1.9	1,852
4. Reported	5.2	5.1	1.7	-2.0	-7.9	3.5	1,992
5. Treasury and agency	4.9	-.3	-5.4	-9.7	-9.1	9.5	1,142
6. Other ²	5.6	13.4	12.0	8.8	-6.0	-4.5	851
<i>Loans³</i>							
7. Total	9.8	11.5	12.9	8.1	13.3	7.3	5,390
8. Business	1.2	13.5	11.8	9.5	14.7	22.0	1,034
9. Real estate	14.0	14.0	17.0	8.3	10.6	7.7	2,916
10. Home equity	43.8	11.1	10.9	-1.9	-1.6	-4.7	435
11. Other	9.8	14.5	18.2	10.2	12.8	9.9	2,482
12. Consumer	8.8	3.0	4.9	-4.5	-8.3	7.5	691
13. Adjusted ⁴	5.9	.4	3.4	-4.9	7.9	3.3	1,055
14. Other ⁵	7.9	8.2	6.4	17.3	42.5	-14.1	749

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.

e Estimated.