

## **Part 1**

August 3, 2006

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

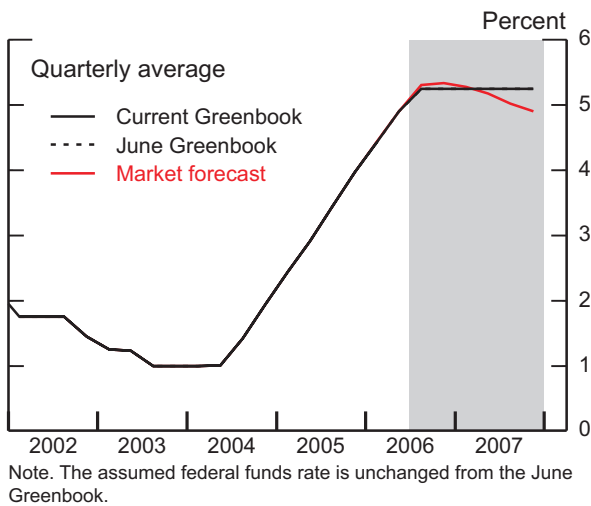
August 3, 2006

## **Summary and Outlook**

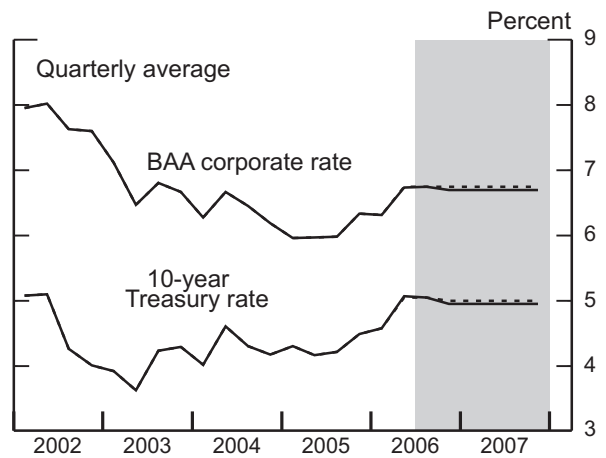
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## Key Background Factors Underlying the Baseline Staff Projection

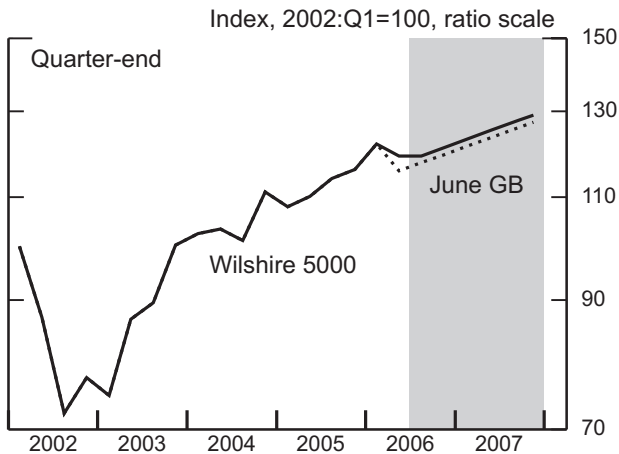
Federal Funds Rate



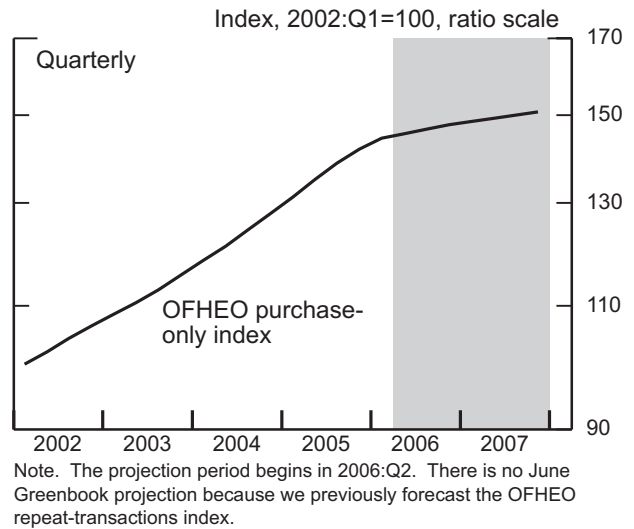
Long-term Interest Rates



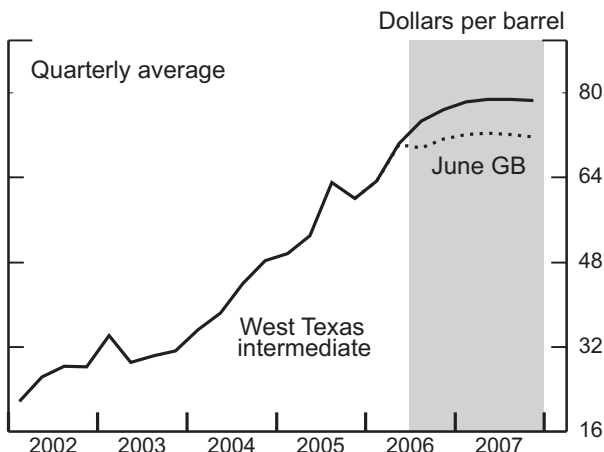
Equity Prices



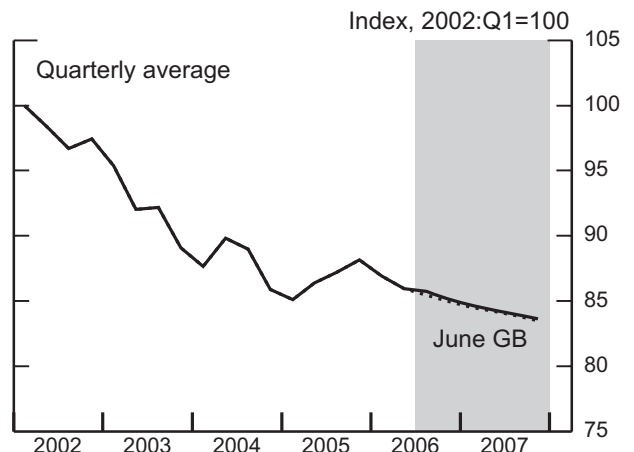
House Prices



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:Q2		2006:Q3	
	June GB	Aug. GB	June GB	Aug. GB
<b>Real GDP</b>	<b>2.0</b>	<b>3.0</b>	<b>2.7</b>	<b>2.2</b>
Private domestic final purchases	1.8	1.9	2.6	2.5
Personal consumption expenditures	2.2	2.5	3.2	3.2
Residential investment	-7.4	-9.0	-11.6	-16.4
Business fixed investment	4.8	4.9	7.2	9.7
Government outlays for consumption and investment	.9	1.6	1.5	2.1
	Contribution to growth (percentage points)			
Inventory investment	.1	.7	-.2	-.7
Net exports	.2	.3	.3	.3

similar increases in July and August. The unemployment rate is expected to remain close to its second-quarter level over the next few months.

Meanwhile, manufacturing output has recorded broad-based gains in recent months—indeed, manufacturing IP increased 0.7 percent in June and rose at an annual rate of 5½ percent in the second quarter. We have raised our third-quarter projection for the increase in manufacturing IP to 4¾ percent, 1½ percentage points more than in the June Greenbook and in line with the pattern of new orders and other indicators.

We expect real consumer spending to rise at an annual rate of 3¼ percent this quarter, ¾ percentage point faster than in the second quarter. PCE growth is expected to get a boost from a step-up in purchases of motor vehicles—in fact, sales of light motor vehicles came in at an annual rate of 17.1 million units in July, nearly 1 million units above the second-quarter pace. However, with energy prices having risen further, and with consumer confidence (as measured by the Michigan survey) well below the levels of earlier this year, growth in non-auto spending is expected to remain around its second-quarter pace. Our forecast for the fourth quarter has motor vehicle expenditures holding steady and PCE growth slowing to 2½ percent.

<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>4.3</b>	<b>2.1</b>	<b>2.3</b>
Previous	<b>3.9</b>	<b>2.7</b>	<b>2.7</b>
Final sales	4.0	2.6	2.4
Previous	3.9	2.6	2.6
PCE	3.6	2.8	2.4
Previous	3.7	3.0	2.9
Residential investment	-4.8	-14.0	-3.1
Previous	-2.9	-7.5	-1.7
BFI	9.2	9.3	5.3
Previous	8.9	6.8	5.4
Government purchases	3.2	2.3	2.0
Previous	2.8	1.5	1.3
Exports	8.8	5.3	5.1
Previous	10.0	5.2	5.2
Imports	4.7	3.1	4.0
Previous	6.3	3.5	4.6
Contribution to growth (percentage points)			
Inventory change	.4	-.4	-.1
Previous	.0	.1	.1
Net exports	.1	.1	-.1
Previous	-.0	-.0	-.2

revision to potential GDP; we have also factored in a hit to real disposable income over the projection period from the higher energy prices. As before, the contour of the PCE projection is influenced importantly by the waning of our estimated wealth effects, which are likely to be a small negative for PCE growth in 2007 after adding about 1 percentage point in 2005 and  $\frac{3}{4}$  percentage point in 2006. The lagged effects of earlier increases in interest rates are also likely to restrain the growth of real PCE in 2007.

Our forecast has single-family starts dropping noticeably over the next few quarters as demand softens further and as homebuilders work off excess inventories. By early next

**Decomposition of Structural Labor Productivity**

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

Measure	1974-95	1996-2000	2001-04	2004	2005	2006	2007
<b>Structural labor productivity</b>	<b>1.5</b>	<b>2.5</b>	<b>3.0</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>
Previous	1.5	2.5	3.3	3.1	3.1	3.0	3.0
<i>Contributions<sup>1</sup></i>							
Capital deepening	.7	1.4	.6	.5	.6	.6	.7
Previous	.7	1.4	.7	.7	1.0	1.0	1.0
Multifactor productivity	.5	.8	2.1	1.9	1.9	1.8	1.8
Previous	.5	.8	2.3	2.1	1.9	1.8	1.8
Labor composition	.3	.3	.3	.3	.3	.2	.2
MEMO							
Potential GDP	3.0	3.3	2.9	2.6	2.6	2.9	2.9
Previous	3.0	3.3	3.2	2.9	2.9	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.

**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	2.6	2.4	2.5
Previous	2.6	2.5	2.6	2.9
Nonfarm private payroll employment	1.7	1.6	1.2	.4
Previous	1.7	1.6	1.4	.4
Household survey employment	1.3	1.9	1.3	.3
Previous	1.3	1.9	1.2	.3
Labor force participation rate <sup>1</sup>	66.0	66.1	66.0	65.7
Previous	66.0	66.1	66.0	65.7
Civilian unemployment rate <sup>1</sup>	5.4	5.0	4.8	5.2
Previous	5.4	5.0	4.9	5.2
MEMO				
GDP gap <sup>2</sup>	-.6	-.0	.3	-.4
Previous	-.7	-.4	-.3	-.8

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.

<b>Inflation Projections</b> (Percent change, Q4 to Q4, except as noted)				
Measure	2004	2005	2006	2007
PCE chain-weighted price index	3.0	3.1	2.9	2.1
Previous	3.1	3.0	2.5	2.2
Food and beverages	2.8	2.1	2.4	2.3
Previous	2.9	2.1	2.4	2.3
Energy	17.8	21.2	10.4	-.1
Previous	17.9	21.8	4.1	1.4
Excluding food and energy	2.2	2.1	2.5	2.3
Previous	2.2	2.0	2.4	2.2
Consumer price index	3.3	3.7	3.4	2.3
Previous	3.3	3.7	2.6	2.3
Excluding food and energy	2.1	2.1	2.9	2.5
Previous	2.1	2.1	2.7	2.4
GDP chain-weighted price index	3.2	3.1	2.8	2.3
Previous	2.9	3.1	2.7	2.3
ECI for compensation of private industry workers <sup>1</sup>	3.8	2.9	3.2	3.8
Previous	3.8	2.9	3.2	3.7
Compensation per hour, nonfarm business sector	3.8	4.2	5.5	5.3
Previous	5.9	2.8	5.1	5.2
Prices of core nonfuel imports	3.7	2.2	3.3	1.4
Previous	3.7	2.2	3.1	1.5

1. December to December.

we continue to expect this measure to rise 3¼ percent in 2006 and 3¾ percent in 2007. Meanwhile, the NIPA revisions significantly altered the contour of the “productivity and cost” (P&C) measure of hourly compensation in recent years: In contrast to the sharp step-down in 2005 indicated by the earlier data, P&C compensation is now estimated to have risen 4¼ percent last year after an increase of 3¾ percent in 2004. With the incoming data pointing to a further step-up in the first half of 2006, we are projecting increases in P&C compensation of approximately 5½ percent both this year and next as past productivity gains and the relatively large price increases of the past few years pass through to wages.

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

Measure and scenario	2006		2007
	H1	H2	
<i>Real GDP</i>			
Greenbook Baseline	4.3	2.1	2.3
Persistent inflation	4.3	2.0	2.1
Lower NAIRU	4.3	2.2	2.7
No slowdown	4.3	2.9	3.5
Housing slump	4.3	1.5	1.7
<i>Unemployment rate<sup>1</sup></i>			
Greenbook Baseline	4.7	4.8	5.2
Persistent inflation	4.7	4.8	5.3
Lower NAIRU	4.7	4.8	5.2
No slowdown	4.7	4.7	4.5
Housing slump	4.7	4.9	5.6
<i>Core PCE inflation</i>			
Greenbook Baseline	2.5	2.5	2.3
Persistent inflation	2.5	3.0	3.0
Lower NAIRU	2.5	2.3	2.0
No slowdown	2.5	2.5	2.3
Housing slump	2.5	2.5	2.3
<i>Federal funds rate<sup>1</sup></i>			
Greenbook Baseline	4.9	5.3	5.3
Persistent inflation	4.9	5.4	5.9
Lower NAIRU	4.9	5.1	4.7
No slowdown	4.9	5.6	6.7
Housing slump	4.9	5.1	4.4

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

Real GDP receives a boost from the associated fall in the real federal funds rate as households and firms also come to realize that prospects for the levels of permanent income and of earnings have improved.

**No slowdown.** We anticipate that economic growth will slow considerably from its average pace in the first half of this year, but with long-term interest rates still low relative to historical norms, this moderation may not materialize. Fueled by historically high profit margins, real business spending on equipment and software in this simulation continues to expand at roughly the 8½ percent annual rate seen over the past two years,



**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	3.2	2.3
Confidence interval		
Greenbook forecast errors	2.4–4.0	0.7–3.9
FRB/US stochastic simulations	2.4–4.0	0.8–3.8
<i>Civilian unemployment rate</i> (percent, Q4)		
Projection	4.8	5.2
Confidence interval		
Greenbook forecast errors	4.5–5.0	4.5–5.9
FRB/US stochastic simulations	4.4–5.1	4.5–5.7
<i>PCE prices</i> <i>excluding food and energy</i> (percent change, Q4 to Q4)		
Projection	2.5	2.3
Confidence interval		
Greenbook forecast errors	2.2–2.8	1.6–3.0
FRB/US stochastic simulations	2.2–2.8	1.6–3.0
<i>Federal funds rate</i> (percent, Q4)		
Projection	5.2	5.2
Confidence interval		
FRB/US stochastic simulations	4.8–5.7	4.0–6.7

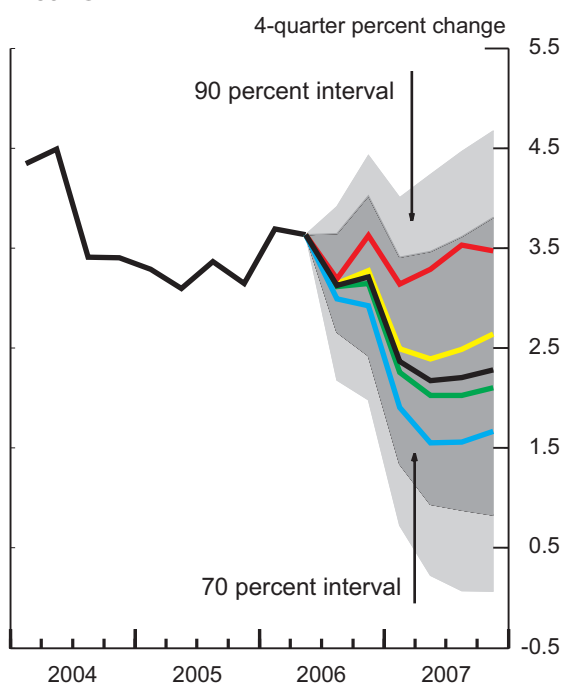
NOTE. Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1986–2004 set of model equation residuals. Intervals derived from Greenbook forecast errors are based on the 1986–2004 set of Greenbook historical errors.

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

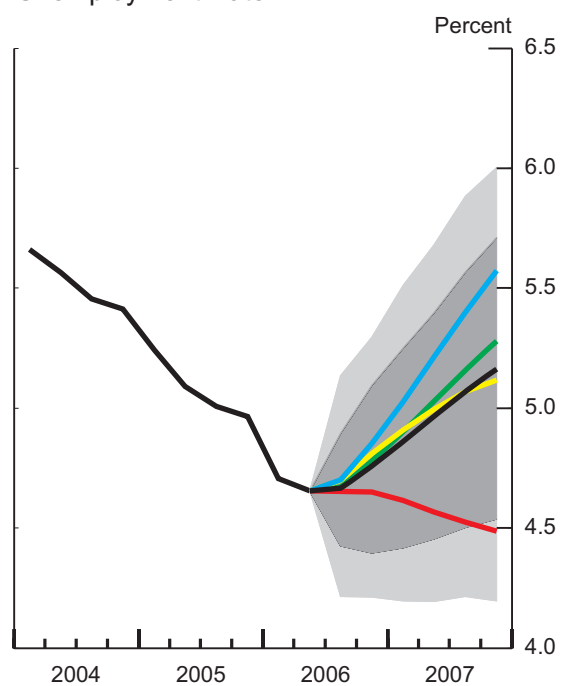
Confidence Intervals based on FRB/US Stochastic Simulations

■ Greenbook baseline    ■ Lower NAIUR    ■ Housing slump  
 ■ Persistent inflation    ■ No slowdown

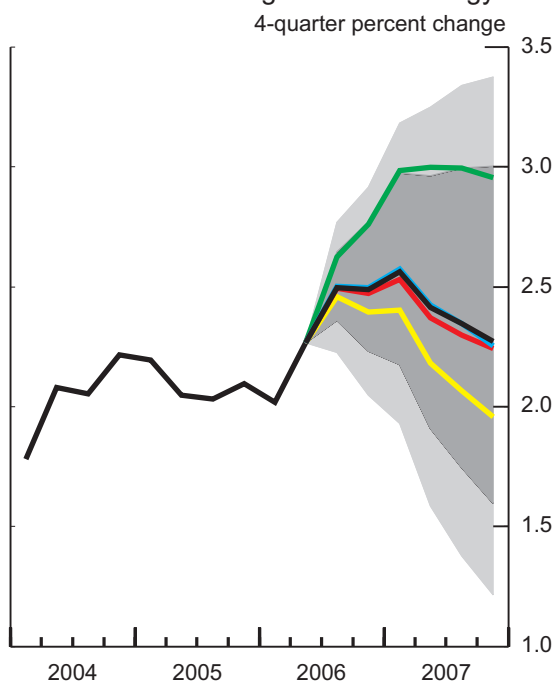
Real GDP



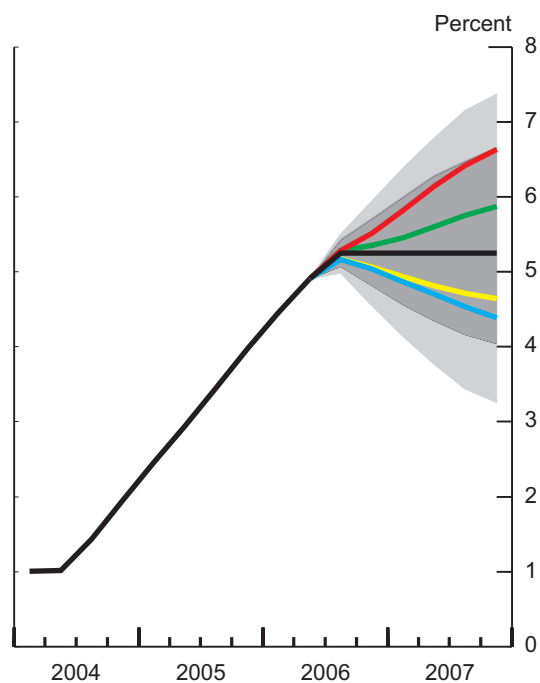
Unemployment Rate



PCE Prices excluding Food and Energy



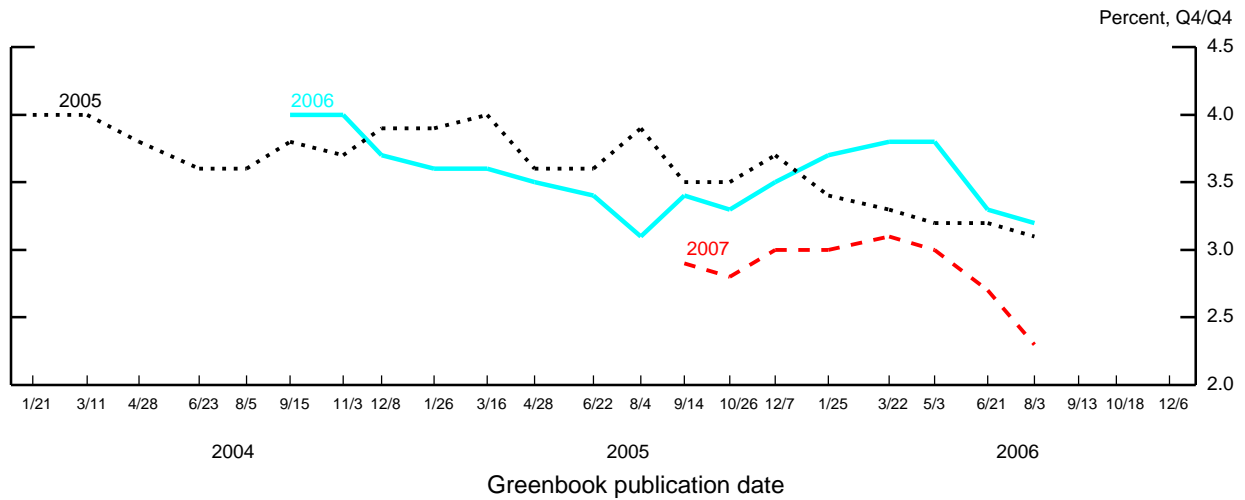
Federal Funds Rate



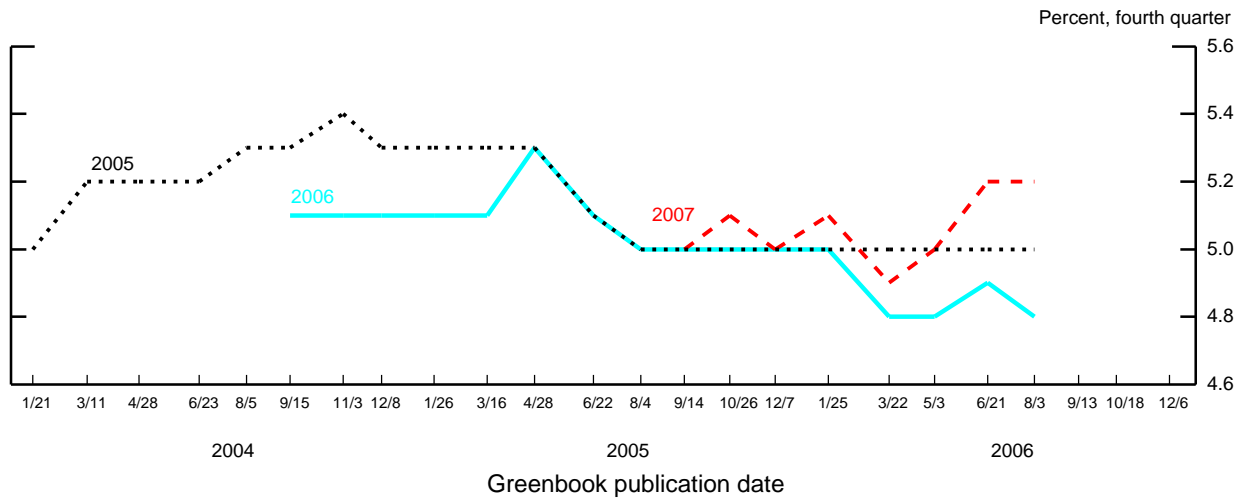
Class II FOMC - Restricted (FR)

## Evolution of the Staff Forecast

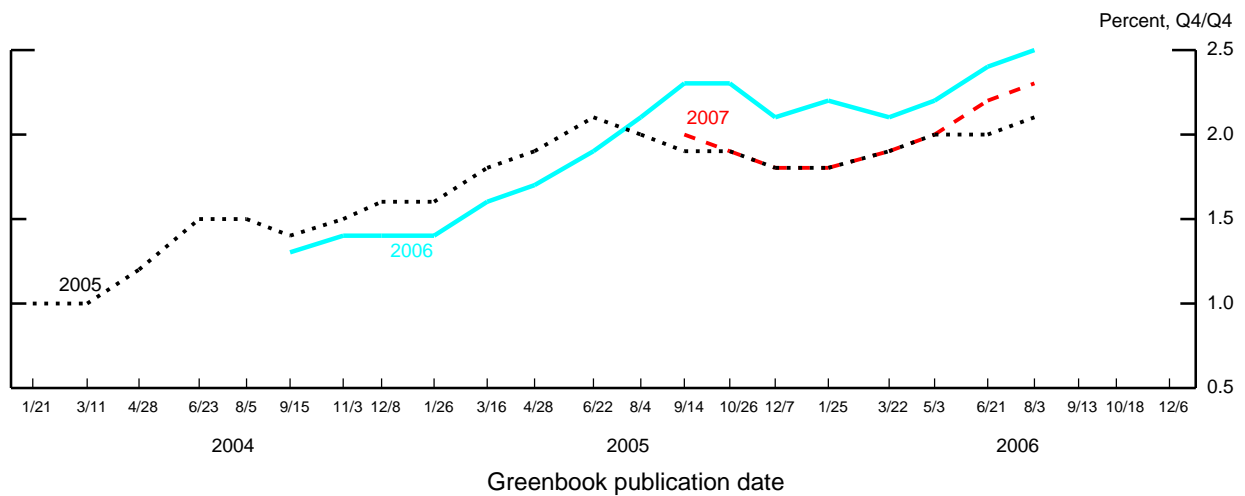
### Change in Real GDP



### 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>	
	6/21/06	8/3/06	6/21/06	8/3/06	6/21/06	8/3/06	6/21/06	8/3/06	6/21/06	8/3/06
<i>Quarterly</i>										
2005:Q1	7.0	7.0	3.8	3.4	2.3	2.3	2.4	2.4	5.2	5.2
2005:Q2	6.0	5.8	3.3	3.3	3.3	3.1	1.7	1.9	5.1	5.1
2005:Q3	7.6	7.6	4.1	4.2	3.7	4.1	1.4	1.6	5.0	5.0
2005:Q4	5.2	5.1	1.7	1.8	2.9	2.9	2.4	2.5	5.0	5.0
2006:Q1	9.3	9.0	5.8	5.6	2.0	2.0	2.0	2.1	4.7	4.7
2006:Q2	5.9	6.5	2.0	3.0	4.3	4.1	3.1	2.9	4.7	4.7
2006:Q3	5.0	5.3	2.7	2.2	1.8	3.5	2.3	2.5	4.8	4.7
2006:Q4	4.3	3.7	2.7	2.1	1.8	2.1	2.2	2.5	4.9	4.8
2007:Q1	4.8	4.3	2.5	2.2	2.2	2.0	2.2	2.4	5.0	4.9
2007:Q2	5.3	4.9	2.8	2.3	2.2	2.2	2.2	2.3	5.1	5.0
2007:Q3	5.1	4.8	2.7	2.3	2.1	2.2	2.2	2.2	5.1	5.1
2007:Q4	4.9	4.7	2.7	2.4	2.0	2.1	2.1	2.2	5.2	5.2
<i>Two-quarter<sup>2</sup></i>										
2005:Q2	6.5	6.4	3.6	3.3	2.8	2.7	2.1	2.1	-3	-3
2005:Q4	6.4	6.3	2.9	3.0	3.3	3.5	1.9	2.1	-1	-1
2006:Q2	7.6	7.7	3.9	4.3	3.1	3.1	2.5	2.5	-3	-3
2006:Q4	4.7	4.5	2.7	2.1	1.8	2.8	2.2	2.5	.2	.1
2007:Q2	5.1	4.6	2.6	2.2	2.2	2.1	2.2	2.3	.2	.2
2007:Q4	5.0	4.8	2.7	2.3	2.1	2.1	2.2	2.2	.1	.2
<i>Four-quarter<sup>3</sup></i>										
2004:Q4	6.8	6.7	3.8	3.4	3.1	3.0	2.2	2.2	-4	-4
2005:Q4	6.4	6.4	3.2	3.1	3.0	3.1	2.0	2.1	-4	-4
2006:Q4	6.1	6.1	3.3	3.2	2.5	2.9	2.4	2.5	-1	-2
2007:Q4	5.0	4.7	2.7	2.3	2.2	2.1	2.2	2.3	.3	.4
<i>Annual</i>										
2004	7.0	6.9	4.2	3.9	2.6	2.6	2.0	2.0	5.5	5.5
2005	6.4	6.3	3.5	3.2	2.8	2.9	2.0	2.1	5.1	5.1
2006	6.6	6.6	3.4	3.4	2.8	3.1	2.2	2.3	4.8	4.7
2007	4.9	4.7	2.6	2.3	2.2	2.4	2.2	2.4	5.1	5.0

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>	3.4 3.8	3.3 3.3	4.2 4.1	1.8 1.7	5.6 5.8	3.0 2.0	2.2 2.7	2.1 2.7	2.2 2.5	2.3 2.8	2.3 2.7	2.4 2.7	3.1 3.2	3.2 3.3	2.3 2.7
Final sales <i>Previous</i>	3.3 3.5	5.6 5.6	4.4 4.6	-3 -2	5.6 5.9	2.3 1.9	2.9 2.9	2.3 2.4	2.0 2.3	2.8 3.0	2.7 2.9	1.9 2.1	3.2 3.3	3.3 3.3	2.4 2.6
Priv. dom. final purch. <i>Previous</i>	3.7 4.1	5.4 4.5	4.4 4.8	1.1 1.5	5.5 5.9	1.9 1.8	2.5 2.6	2.3 2.9	2.1 2.8	2.5 3.0	2.5 2.9	2.5 2.8	3.6 3.7	3.0 3.3	2.4 2.9
Personal cons. expend. <i>Previous</i>	2.7 3.5	4.2 3.4	3.9 4.1	.8 .9	4.8 5.2	2.5 2.2	3.2 3.2	2.5 2.8	2.4 3.0	2.4 2.9	2.4 2.9	2.4 2.8	2.9 2.9	3.2 3.3	2.4 2.9
Durables	2.4	12.8	9.0	-12.3	19.8	-5	7.5	3.6	4.0	4.2	4.2	4.2	2.5	7.4	4.2
Nondurables	5.2	4.9	3.4	3.9	5.9	1.7	3.0	2.8	2.9	2.8	2.8	2.8	4.4	3.3	2.8
Services	1.6	2.3	3.2	2.0	1.6	3.5	2.4	2.1	1.9	1.8	1.8	1.9	2.3	2.4	1.8
Residential investment <i>Previous</i>	11.1 9.5	20.0 10.8	7.1 7.3	-9 2.8	-3 1.7	-9.0 -7.4	-16.4 -11.6	-11.6 -3.2	-7.7 -2.7	-2.7 -5	-1.3 -1.5	-6 -2.2	9.0 7.6	-9.5 -5.2	-3.1 -1.7
Business fixed invest. <i>Previous</i>	6.0 5.7	5.2 8.8	5.9 8.5	5.2 4.5	13.7 13.2	4.9 4.8	9.7 7.2	9.0 6.4	5.7 4.7	5.9 5.7	4.9 5.5	4.6 5.5	5.6 6.9	9.3 7.9	5.3 5.4
Equipment & software <i>Previous</i>	6.3 8.3	7.9 10.9	11.0 10.6	2.8 5.0	15.6 13.8	-1.1 1.8	8.5 6.6	7.8 5.9	4.4 4.4	5.5 6.1	5.2 6.0	5.2 6.1	7.0 8.7	7.5 6.9	5.0 5.7
Nonres. structures <i>Previous</i>	5.3 -2.0	-2.0 2.7	-7.0 2.2	12.0 3.1	8.7 11.8	21.6 13.2	12.4 8.6	11.9 7.5	8.8 5.4	6.8 4.9	4.3 4.3	3.4 4.0	1.8 1.5	13.6 10.3	5.8 4.6
Net exports <sup>2</sup> <i>Previous</i> <sup>2</sup>	-626 -645	-606 -614	-608 -617	-637 -655	-637 -660	-627 -654	-618 -644	-622 -655	-630 -667	-623 -663	-615 -658	-632 -676	-619 -633	-626 -653	-625 -666
Exports	4.7	9.4	3.2	9.6	14.0	3.9	5.6	5.1	5.0	5.2	5.2	5.2	6.7	7.1	5.1
Imports	4.1	1.4	2.5	13.2	9.1	.5	1.8	4.4	5.0	2.2	1.9	6.9	5.2	3.9	4.0
Govt. cons. & invest. <i>Previous</i>	1.6 1.9	1.1 2.5	3.4 2.9	-1.1 -8	4.9 4.8	1.6 .9	2.1 1.5	2.4 1.4	2.5 1.3	2.2 1.3	1.8 1.3	1.6 1.3	1.2 1.6	2.7 2.1	2.0 1.3
Federal	3.4	.4	9.6	-4.6	8.8	-3.4	2.1	3.1	3.1	2.3	1.5	.8	2.1	2.6	1.9
Defense	4.5	2.9	11.2	-9.9	8.9	-1.0	2.6	4.5	4.7	3.5	2.2	1.2	1.9	3.7	2.9
Nondefense	1.2	-4.4	6.2	7.1	8.5	-7.9	1.0	.3	.0	.0	.0	.0	2.4	.3	.0
State & local	.6	1.5	-1	1.0	2.7	4.6	2.1	2.1	2.1	2.1	2.1	2.1	.8	2.9	2.1
Change in bus. inventories <sup>2</sup> <i>Previous</i> <sup>2</sup>	55 58	-7 -2	-13 -13	43 38	41 35	62 38	44 33	39 42	43 49	29 41	16 35	32 53	20 20	46 37	30 44
Nonfarm <sup>2</sup>	55	-1	-14	39	37	58	43	38	42	28	15	31	20	44	29
Farm <sup>2</sup>	1	-6	1	5	4	4	1	1	1	1	1	1	0	3	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	3.7 4.0	3.4 3.8	3.1 3.2	3.2 3.3	2.3 2.7
Final sales <i>Previous</i>	4.2	2.9	1.5	.8	3.7	3.1	3.2	3.3	2.4
Priv. dom. final purch. <i>Previous</i>	4.2	2.9	1.5	.8	4.0	3.6	3.3	3.3	2.6
	5.3	4.3	1.0	1.1	4.1	4.4	3.6	3.0	2.4
	5.3	4.3	1.0	1.1	4.4	4.8	3.7	3.3	2.9
Personal cons. expend. <i>Previous</i>	4.9	4.1	2.8	1.9	3.4	4.0	2.9	3.2	2.4
	4.9	4.1	2.8	1.9	3.8	3.8	2.9	3.3	2.9
Durables	7.3	4.7	10.8	1.2	8.3	5.6	2.5	7.4	4.2
Nondurables	4.9	3.0	1.9	2.1	3.9	3.8	4.4	3.3	2.8
Services	4.4	4.5	1.6	1.9	2.2	3.7	2.3	2.4	1.8
Residential investment <i>Previous</i>	3.6	-1.9	1.4	7.0	11.7	6.1	9.0	-9.5	-3.1
	3.6	-1.9	1.4	7.0	11.8	6.6	7.6	-5.2	-1.7
Business fixed invest. <i>Previous</i>	7.7	7.8	-9.6	-6.5	4.9	6.9	5.6	9.3	5.3
	7.7	7.8	-9.6	-6.5	5.6	10.9	6.9	7.9	5.4
Equipment & software <i>Previous</i>	10.8	7.5	-9.0	-3.4	6.6	8.3	7.0	7.5	5.0
	10.8	7.5	-9.0	-3.4	7.2	13.8	8.7	6.9	5.7
Nonres. structures <i>Previous</i>	-9	8.8	-11.1	-14.9	.2	2.7	1.8	13.6	5.8
	-9	8.8	-11.1	-14.9	1.2	2.7	1.5	10.3	4.6
Net exports <sup>2</sup> <i>Previous</i> <sup>2</sup>	-296	-379	-399	-471	-519	-591	-619	-626	-625
	-296	-379	-399	-471	-521	-601	-633	-653	-666
Exports	5.6	6.5	-11.9	3.8	5.8	7.0	6.7	7.1	5.1
Imports	12.1	11.2	-7.6	9.7	4.8	10.6	5.2	3.9	4.0
Govt. cons. & invest. <i>Previous</i>	4.2	.4	5.0	4.0	1.7	1.1	1.2	2.7	2.0
	4.2	.4	5.0	4.0	1.9	2.1	1.6	2.1	1.3
Federal	4.2	-2.2	6.4	7.8	5.5	2.3	2.1	2.6	1.9
Defense	4.3	-3.5	6.5	8.4	7.5	2.5	1.9	3.7	2.9
Nondefense	4.1	.3	6.3	6.8	1.9	1.8	2.4	.3	.0
State & local	4.2	1.7	4.2	2.1	-4	.4	.8	2.9	2.1
Change in bus. inventories <sup>2</sup> <i>Previous</i> <sup>2</sup>	69	56	-32	12	14	53	20	46	30
	69	56	-32	12	15	52	20	37	44
Nonfarm <sup>2</sup>	72	58	-32	15	14	47	20	44	29
Farm <sup>2</sup>	-3	-1	0	-2	0	6	0	3	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>	3.4 3.8	3.3 3.3	4.2 4.1	1.8 1.7	5.6 5.8	3.0 2.0	2.2 2.7	2.1 2.7	2.2 2.5	2.3 2.8	2.3 2.7	2.4 2.7	3.1 3.2	3.2 3.3	2.3 2.7
Final sales <i>Previous</i>	3.3 3.5	5.5 5.5	4.4 4.6	-3 -2	5.6 5.9	2.3 1.9	2.8 2.9	2.2 2.4	2.0 2.3	2.8 3.0	2.7 2.9	1.9 2.1	3.2 3.3	3.2 3.2	2.3 2.6
Priv. dom. final purch. <i>Previous</i>	3.2 3.6	4.6 3.9	3.8 4.2	1.0 1.3	4.7 5.2	1.7 1.6	2.1 2.2	2.0 2.5	1.9 2.5	2.2 2.6	2.1 2.6	2.2 2.5	3.1 3.2	2.6 2.9	2.1 2.5
Personal cons. expend. <i>Previous</i>	1.9 2.4	2.9 2.4	2.8 2.9	.5 .6	3.4 3.7	1.7 1.5	2.2 2.2	1.7 2.0	1.7 2.1	1.7 2.0	1.7 2.0	1.7 2.0	2.0 2.1	2.3 2.3	1.7 2.0
Durables	.2	1.0	.7	-1.1	1.5	.0	.6	.3	.3	.3	.3	.3	.2	.6	.3
Nondurables	1.0	1.0	.7	.8	1.2	.3	.6	.6	.6	.6	.6	.6	.9	.7	.6
Services	.7	.9	1.3	.8	.7	1.4	1.0	.9	.8	.7	.7	.8	.9	1.0	.8
Residential investment <i>Previous</i>	.6 .5	1.1 .6	.4 .4	-1 .2	.0 .1	-.6 -.5	-1.1 -.7	-.7 -.2	-.4 -.2	-.1 .0	-.1 -.1	.0 -.1	.5 .4	-.6 -.3	-.2 -.1
Business fixed invest. <i>Previous</i>	.6 .6	.5 .9	.6 .9	.5 .5	1.4 1.4	.5 .5	1.0 .8	.9 .7	.6 .5	.6 .6	.5 .6	.5 .6	.6 .7	.9 .8	.6 .6
Equipment & software <i>Previous</i>	.5 .6	.6 .8	.8 .8	.2 .4	1.1 1.1	-.1 .1	.6 .5	.6 .5	.3 .3	.4 .5	.4 .5	.4 .5	.5 .7	.6 .5	.4 .4
Nonres. structures <i>Previous</i>	.1 -.1	-.1 .1	-.2 .1	.3 .1	.3 .3	.6 .4	.4 .3	.2 .2	.3 .2	.2 .2	.1 .1	.1 .1	.0 .0	.4 .3	.2 .2
Net exports <i>Previous</i>	-.2 -.4	.7 1.1	-.1 -.1	-1.1 -1.4	.0 -.2	.3 .2	.3 .3	-.2 -.4	-.3 -.4	.2 .1	.2 .1	-.6 -.6	-.1 -.2	.1 .0	-.1 -.2
Exports	.5	.9	.3	1.0	1.4	.4	.6	.6	.6	.6	.6	.6	.7	.8	.6
Imports	-.6	-.2	-.4	-2.0	-1.5	-.1	-.3	-.7	-.8	-.4	-.3	-1.2	-.8	-.7	-.7
Govt. cons. & invest. <i>Previous</i>	.3 .4	.2 .5	.6 .5	-.2 -.2	.9 .9	.3 .2	.4 .3	.5 .3	.5 .2	.4 .3	.4 .3	.3 .3	.2 .3	.5 .4	.4 .3
Federal	.2	.0	.7	-.3	.6	-.2	.1	.2	.2	.2	.1	.1	.1	.2	.1
Defense	.2	.1	.5	-.5	.4	.0	.1	.2	.2	.2	.1	.1	.1	.2	.1
Nondefense	.0	-.1	.1	.2	.2	-.2	.0	.0	.0	.0	.0	.0	.1	.0	.0
State & local	.1	.2	.0	.1	.3	.5	.3	.2	.3	.3	.3	.3	.1	.3	.3
Change in bus. inventories <i>Previous</i>	.1 .3	-2.2 -2.1	-.2 -.4	2.1 1.9	.0 .0	.7 .1	-.7 -.2	-.2 .3	.1 .2	-.5 -.2	-.4 -.2	.5 .6	-.1 -.1	.0 .0	-.1 .1
Nonfarm	-.1	-2.0	-.5	1.9	.0	.7	-.5	-.2	.1	-.5	-.4	.5	-.2	.0	-.1
Farm	.2	-.3	.3	.1	.0	.0	-.1	.0	.0	.0	.0	.0	.1	.0	.0

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

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

Item	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>	3.5	2.4	3.3	3.3	3.3	3.3	3.0	1.6	2.1	2.6	2.5	2.2	3.1	2.8	2.3
PCE chain-wt. price index <i>Previous</i>	3.1	2.6	3.3	3.5	3.3	3.8	2.3	1.6	2.3	2.5	2.3	2.1	3.1	2.7	2.3
Energy <i>Previous</i>	2.3	3.1	4.1	2.9	2.0	4.1	3.5	2.1	2.0	2.2	2.2	2.1	3.1	2.9	2.1
Food <i>Previous</i>	2.3	3.3	3.7	2.9	2.0	4.3	1.8	1.8	2.2	2.2	2.1	2.0	3.0	2.5	2.2
Ex. food & energy <i>Previous</i>	3.0	22.1	56.3	9.8	.1	29.7	18.6	-3.4	-2.6	.8	1.2	.1	21.2	10.4	-1
CPI <i>Previous</i>	3.6	28.6	50.0	10.3	-2	30.2	-5.0	-5.0	2.2	2.0	1.3	.2	21.8	4.1	1.4
Ex. food & energy <i>Previous</i>	1.3	3.5	1.4	2.2	2.7	1.7	2.8	2.5	2.4	2.4	2.4	2.3	2.1	2.4	2.3
CPI <i>Previous</i>	1.0	3.5	1.3	2.4	2.7	1.7	2.6	2.5	2.4	2.4	2.4	2.3	2.1	2.4	2.3
Ex. food & energy <i>Previous</i>	2.4	1.9	1.6	2.5	2.1	2.9	2.5	2.5	2.4	2.3	2.2	2.2	2.1	2.5	2.3
ECI, hourly compensation <sup>2</sup> <i>Previous</i> <sup>2</sup>	2.4	1.7	1.4	2.4	2.0	3.1	2.3	2.2	2.2	2.2	2.2	2.1	2.0	2.4	2.2
Nonfarm business sector <sup>3</sup> Output per hour <i>Previous</i>	2.3	3.8	5.5	3.3	2.2	4.9	4.2	2.3	2.1	2.4	2.3	2.2	3.7	3.4	2.3
Compensation per hour <i>Previous</i>	2.3	3.8	5.5	3.3	2.2	4.8	1.7	1.7	2.4	2.4	2.3	2.1	3.7	2.6	2.3
Unit labor costs <i>Previous</i>	2.6	1.8	1.6	2.4	2.4	3.6	3.0	2.9	2.6	2.5	2.4	2.4	2.1	2.9	2.5
	2.6	1.8	1.6	2.4	2.4	3.4	2.5	2.4	2.4	2.4	2.4	2.3	2.1	2.7	2.4
	3.8	2.5	2.9	2.8	2.4	3.2	3.6	3.6	3.7	3.8	3.8	3.9	2.9	3.2	3.8
	3.8	2.5	2.9	2.8	2.4	3.4	3.5	3.6	3.7	3.7	3.7	3.7	2.9	3.2	3.7
	3.7	2.4	4.4	-1	4.0	2.2	1.6	2.0	2.3	2.4	2.5	2.6	2.6	2.4	2.5
	3.8	2.4	4.2	-3	4.4	.9	2.3	2.7	2.6	2.9	2.9	2.9	2.5	2.6	2.9
	4.5	1.6	8.0	2.9	6.4	5.4	5.0	5.3	5.3	5.3	5.3	5.3	4.2	5.5	5.3
	5.6	1.3	5.5	-9	5.1	4.8	5.1	5.3	5.3	5.3	5.2	5.1	2.8	5.1	5.2
	.8	-8	3.4	3.0	2.3	3.2	3.4	3.2	2.9	2.8	2.8	2.7	1.6	3.0	2.8
	1.8	-1.0	1.2	-6	.6	3.8	2.7	2.5	2.6	2.3	2.2	2.1	.3	2.4	2.3

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

2. Private-industry workers.

3. Data in history reflect the staff's translation of newly revised NIPA data.



## 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	.4	.3	.3	.2	.2	.1	.1	1.9	1.5	.7
Unemployment rate <sup>3</sup>	5.2	5.1	5.0	5.0	4.7	4.7	4.7	4.8	4.9	5.0	5.1	5.2	5.0	4.8	5.2
<i>Previous<sup>3</sup></i>	5.2	5.1	5.0	5.0	4.7	4.7	4.8	4.9	5.0	5.1	5.1	5.2	5.0	4.9	5.2
GDP gap <sup>4</sup>	-4	-2	.2	.0	.6	.6	.5	.3	.1	-1	-2	-4	.0	.3	-4
<i>Previous<sup>4</sup></i>	-5	-4	-1	-4	.3	.0	-1	-3	-4	-5	-7	-8	-4	-3	-8
Industrial production <sup>5</sup>	3.8	1.6	1.4	5.3	5.1	6.6	5.4	3.9	3.8	3.4	3.2	3.2	3.0	5.3	3.4
<i>Previous<sup>5</sup></i>	3.8	1.6	1.4	5.3	5.3	5.5	3.7	4.5	3.7	2.9	2.6	2.6	3.0	4.7	2.9
Manufacturing industr. prod. <sup>5</sup>	4.5	1.3	2.0	9.1	5.3	5.4	4.8	4.1	3.8	3.5	3.4	3.5	4.2	4.9	3.6
<i>Previous<sup>5</sup></i>	4.5	1.3	2.0	9.1	5.4	4.1	3.3	4.2	3.8	3.0	2.7	2.9	4.2	4.3	3.1
Capacity utilization rate - mfg. <sup>3</sup>	78.7	78.5	78.5	79.8	80.3	80.9	81.3	81.6	81.8	81.9	81.9	81.9	79.8	81.6	81.9
<i>Previous<sup>3</sup></i>	78.7	78.5	78.5	79.8	80.4	80.7	80.8	81.1	81.3	81.3	81.2	81.1	79.8	81.1	81.1
Housing starts <sup>6</sup>	2.1	2.1	2.1	2.1	2.1	1.9	1.8	1.8	1.8	1.8	1.7	1.7	2.1	1.9	1.7
Light motor vehicle sales <sup>6</sup>	16.5	17.2	17.9	15.9	16.9	16.3	16.8	16.7	16.7	16.7	16.7	16.7	16.9	16.7	16.7
<i>Income and saving</i>															
Nominal GDP <sup>5</sup>	7.0	5.8	7.6	5.1	9.0	6.5	5.3	3.7	4.3	4.9	4.8	4.7	6.4	6.1	4.7
Real disposable pers. income <sup>5</sup>	-4.0	.5	-6	5.5	1.7	1.0	3.5	4.4	5.2	3.7	3.8	4.0	.3	2.6	4.2
<i>Previous<sup>5</sup></i>	-3.4	.2	-1.4	5.1	2.0	2.5	5.3	4.7	4.9	3.9	3.8	3.9	.1	3.6	4.1
Personal saving rate <sup>3</sup>	.6	-3	-1.5	-3	-1.0	-1.5	-1.3	-9	-2	.2	.5	.9	-3	-9	.9
<i>Previous<sup>3</sup></i>	.5	-2	-1.6	-5	-1.3	-1.3	-8	-3	.1	.4	.6	.9	-5	-3	.9
Corporate profits <sup>7</sup>	30.6	7.1	-20.9	46.6	60.8	9.9	-3	-5.1	-5.8	-5.0	-1.0	-3	12.8	13.7	-3.0
Profit share of GNP <sup>3</sup>	10.8	10.9	10.0	10.9	12.0	12.1	12.0	11.7	11.4	11.2	11.0	10.9	10.9	11.7	10.9
Net federal savings <sup>8</sup>	-288	-290	-396	-264	-165	-154	-185	-212	-242	-250	-254	-262	-309	-179	-252
Net state & local saving <sup>8</sup>	11	12	-19	-17	13	25	13	21	19	16	14	14	-3	18	15
Gross national saving rate <sup>3</sup>	13.2	12.6	13.1	12.7	13.8	13.6	13.1	13.1	13.1	13.1	13.2	13.2	12.7	13.1	13.2
Net national saving rate <sup>3</sup>	1.3	.7	-2.3	.5	2.2	2.2	1.8	1.7	1.8	1.7	1.8	1.9	.5	1.7	1.9

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

2. Change, millions.

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

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

August 3, 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 <sup>a</sup>	Q1 <sup>a</sup>	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget</b>																
Receipts <sup>1</sup>	1880	2154	2391	2484	452	665	549	530	507	772	581	563	525	794	603	594
Outlays <sup>1</sup>	2293	2472	2673	2795	628	620	618	650	691	676	656	682	730	698	684	738
Surplus/deficit <sup>1</sup>	-412	-318	-281	-310	-177	45	-69	-119	-184	96	-75	-119	-205	95	-81	-145
<i>Previous</i>	-412	-318	-296	-329	-177	45	-69	-119	-184	98	-91	-129	-219	97	-79	-155
On-budget	-568	-494	-465	-504	-202	-37	-84	-170	-216	11	-91	-183	-231	8	-98	-208
Off-budget	155	175	184	193	25	83	15	51	32	85	16	64	26	88	16	63
Means of financing																
Borrowing	378	297	244	328	165	-43	73	112	156	-75	51	114	190	-66	90	135
Cash decrease	-1	1	6	-5	2	-11	-2	-1	28	-38	16	5	15	-25	0	10
Other <sup>2</sup>	35	21	31	-12	10	8	-1	8	-1	16	8	-0	0	-4	-8	-0
Cash operating balance, end of period	36	36	30	35	22	33	36	37	8	46	30	25	10	35	35	25
<b>NIPA federal sector</b>																
Receipts	1964	2174	2475	2607	2214	2240	2182	2350	2473	2532	2546	2569	2595	2619	2647	2678
Expenditures	2349	2509	2667	2847	2502	2530	2578	2613	2638	2686	2731	2781	2837	2869	2901	2940
Consumption expenditures	712	758	797	843	758	761	784	771	804	803	812	822	842	851	858	864
Defense	475	509	535	570	508	512	531	517	538	538	546	553	569	576	581	586
Nondefense	237	249	263	274	250	249	253	254	266	264	267	268	274	275	277	278
Other spending	1638	1751	1870	2004	1744	1769	1794	1842	1834	1883	1919	1959	1995	2018	2043	2076
Current account surplus	-386	-335	-192	-240	-288	-290	-396	-264	-165	-154	-185	-212	-242	-250	-254	-262
Gross investment	99	107	118	125	105	108	112	115	118	119	120	122	124	126	127	127
Gross saving less gross investment <sup>3</sup>	-392	-344	-207	-256	-295	-299	-408	-278	-180	-169	-201	-228	-259	-267	-271	-278
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-358	-336	-227	-263	-284	-294	-414	-281	-204	-199	-226	-247	-269	-270	-266	-267
Change in HEB, percent of potential GDP	0.5	-0.3	-1.0	0.2	-0.6	0.1	0.9	-1.1	-0.6	-0.1	0.2	0.1	0.1	-0.0	-0.1	-0.0
Fiscal impetus (FI) percent of GDP	0.7	0.2	0.4	0.3	0.1	0.1	0.2	-0.0	0.2	0.0	0.1	0.1	0.2	0.0	-0.0	0.0
<i>Previous</i>	0.8	0.3	0.4	0.2	0.0	0.1	0.1	-0.0	0.2	0.0	0.1	0.0	0.1	-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** **August 3, 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	7.7	6.1	8.8	-2	2.7
2002	6.9	9.7	11.9	4.5	2.7	11.0	7.6	3.6
2003	8.1	11.3	14.3	4.2	2.7	8.3	10.9	5.9
2004	8.8	11.2	13.6	4.2	5.9	7.4	9.0	6.7
2005	9.5	11.7	14.2	2.7	7.9	10.2	7.0	6.4
2006	8.3	9.7	11.6	2.5	8.6	5.8	5.2	6.1
2007	6.6	6.6	7.7	2.6	7.0	4.2	7.0	4.7
<i>Quarter</i>								
2005:1	9.8	9.8	11.8	3.0	6.6	12.0	14.4	7.0
2	8.1	11.9	13.9	3.8	8.2	6.0	.1	5.8
3	9.5	12.3	14.9	4.7	7.6	13.0	5.1	7.6
4	9.4	11.1	13.4	-7	8.3	8.5	7.8	5.1
2006:1	10.9	11.6	13.6	2.2	9.9	5.9	12.9	9.0
2	6.9	9.5	11.5	2.7	8.8	7.7	-3.0	6.5
3	7.0	8.4	10.0	2.8	7.4	6.0	3.2	5.3
4	7.3	7.9	9.5	2.1	7.3	3.0	7.6	3.7
2007:1	8.2	6.8	8.0	2.2	7.2	4.3	15.0	4.3
2	4.9	6.5	7.5	2.4	6.8	4.2	-2.2	4.9
3	6.3	6.3	7.3	2.7	6.8	4.1	6.1	4.8
4	6.5	6.2	7.0	2.9	6.3	4.1	8.7	4.7

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2006:Q1 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** **August 3, 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	1815.9	1935.7	1713.0	1631.0	1934.8	2014.8	2316.6	1403.0	1475.0	1657.5	2055.7	1170.7	1587.0	1710.6		
Net equity issuance	-126.6	-363.8	-476.5	-262.4	-470.8	-420.0	-560.0	-478.7	-465.0	-402.4	-282.4	-262.4	-262.4	-242.4		
Net debt issuance	1942.4	2299.5	2189.5	1893.4	2405.6	2434.8	2876.6	1881.7	1940.0	2059.9	2338.1	1433.1	1849.4	1953.0		
Borrowing indicators																
Debt (percent of GDP) <sup>1</sup>	197.4	202.8	207.1	212.5	202.8	205.0	205.7	207.0	207.9	209.7	211.6	212.5	212.9	213.8		
Borrowing (percent of GDP)	16.6	18.5	16.5	13.6	19.1	19.1	22.1	14.2	14.5	15.2	17.1	10.4	13.2	13.8		
Households																
Net borrowing <sup>2</sup>	1032.8	1208.9	1117.5	832.2	1333.2	1243.5	1333.7	1130.0	1023.3	983.0	859.2	830.1	823.9	815.8		
Home mortgages	910.1	1078.4	1009.2	741.5	1207.7	1122.3	1181.5	1032.1	923.3	899.7	775.8	741.7	730.4	718.1		
Consumer credit	86.2	57.6	53.9	57.1	100.5	-14.5	47.5	58.5	62.2	47.2	48.4	54.4	60.6	65.3		
Debt/DPI (percent) <sup>3</sup>	112.5	120.6	126.5	128.4	121.8	122.8	125.2	126.9	127.5	128.1	128.1	128.4	128.5	128.6		
Business																
Financing gap <sup>4</sup>	32.2	-162.5	52.2	109.2	-331.9	-249.4	-33.7	64.4	78.0	100.3	81.5	99.2	108.0	147.9		
Net equity issuance	-126.6	-363.8	-476.5	-262.4	-470.8	-420.0	-560.0	-478.7	-465.0	-402.4	-282.4	-262.4	-262.4	-242.4		
Credit market borrowing	432.4	611.2	718.6	629.9	611.6	677.2	825.7	753.1	647.4	648.3	651.6	631.8	633.4	602.9		
State and local governments																
Net borrowing	115.3	172.4	107.2	83.2	228.9	155.0	109.5	145.8	114.8	58.8	84.6	82.8	82.8	82.8		
Current surplus <sup>5</sup>	175.7	204.5	201.9	196.0	200.3	192.0	225.8	197.4	187.5	196.7	196.8	195.5	195.1	196.8		
Federal government																
Net borrowing	361.9	306.9	246.4	348.1	231.9	359.0	607.7	-147.1	154.6	369.7	742.8	-111.6	309.4	451.6		
Net borrowing (n.s.a.)	361.9	306.9	246.4	348.1	72.8	112.2	156.1	-74.8	50.6	114.4	189.9	-66.3	89.8	134.6		
Unified deficit (n.s.a.)	400.7	319.7	281.4	335.6	69.0	119.3	183.7	-96.5	74.9	119.2	204.9	-95.3	81.5	144.5		
<i>Depository institutions</i>																
Funds supplied	796.9	814.2	634.5	512.8	859.0	481.7	1039.1	698.4	445.8	354.9	616.9	535.2	554.2	345.0		

Note. Data after 2006:Q1 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

Data received over the intermeeting period confirm that growth of foreign output slowed in the second quarter from its very rapid first-quarter pace. However, the slowdown was slightly less pronounced than we had expected in the June Greenbook, as we were surprised on the upside by economic indicators in several key industrial and emerging market economies. As a result, we have marked up our estimates of foreign growth for both the second and current quarters. For next year, we project that foreign output growth will move down further, to a still-solid 3¼ percent rate. Foreign consumer price inflation moved up noticeably in the second quarter, and we expect it to remain high in the second half of the year, mainly as recent increases in energy and other commodity prices are passed on to consumer prices, but it should fall back next year.

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

Indicator	2005	2006: Q1	Projection		
			2006		2007
			Q2	H2	
Foreign output	3.7	4.6	3.7	3.4	3.2
June GB	3.7	4.5	3.5	3.3	3.3
Foreign CPI	2.3	2.0	2.7	2.9	2.5
June GB	2.3	2.0	2.7	2.7	2.5

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

Crude oil prices were once again volatile over the intermeeting period. Spot prices soared to new all-time highs in nominal terms in mid-July, mainly on heightened geopolitical turmoil, and fluctuated thereafter. On balance, the spot price of West Texas intermediate (WTI) crude oil has risen about \$7 per barrel since the time of the June Greenbook, and futures prices have risen by similar amounts. The foreign exchange value of the dollar fluctuated over the intermeeting period, falling in response to the June FOMC statement and to indications that U.S. growth may be slowing but rising on increases in geopolitical tensions. The projected path of the broad real dollar is little changed compared to the one in the previous Greenbook. On balance, financial market volatility and risk spreads on emerging market debt declined over the intermeeting period. Market volatility increased briefly in early July in response to an upturn in geopolitical tensions but not to the extent experienced earlier this year.

**Staff Projections of Selected Trade Prices**(Percent change from end of previous period  
except as noted, s.a.a.r.)

Trade category	2005	2006: Q1	Projection		
			2006		2007
			Q2	H2	
<i>Exports</i>					
Core goods	3.9	3.7	6.6	5.8	1.8
June GB	3.9	3.6	6.9	5.1	1.7
<i>Imports</i>					
Non-oil core goods	2.2	1.6	3.7	3.9	1.4
June GB	2.2	1.8	3.3	3.6	1.5
Oil price (dollars per barrel)	55.39	55.10	63.69	70.65	73.42
June GB	55.39	55.10	63.03	65.43	66.63

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.

Beginning in the fourth quarter of 2006, core import prices are projected to decelerate because of a waning of the effects of higher commodity prices and earlier dollar depreciation. By the end of 2007, with commodity prices having leveled off and the dollar depreciating only gradually, core import price inflation is projected to drop to about 1 percent. Our projection of core import price inflation is very close to that in the June Greenbook, as data have come in about as expected and our projections for commodity prices and the dollar are little changed.

Core export prices increased at an annual rate of 6½ percent in the second quarter. This rise was concentrated in prices of exported industrial supplies, which increased at an annual rate of nearly 17 percent. In the current quarter, core export prices are expected to accelerate further because of the recent strength of producer prices for intermediate materials excluding food and energy as well as of prices for primary commodities (especially metals). Thereafter, core export price inflation is expected to decline, as prices for intermediate materials and primary commodities level off. Compared with the previous Greenbook, the projected rate of core export price inflation in the current quarter is almost 1½ percentage points higher, primarily because of higher projected prices for intermediate materials and metals. In subsequent quarters, the forecast is little changed.

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

Measure	2005	2006: Q1	Projection		
			2006		2007
			Q2	H2	
Real exports	6.7	14.0	3.9	5.3	5.1
June GB	6.4	14.9	5.4	5.2	5.2
Real imports	5.2	9.1	0.5	3.1	4.0
June GB	5.3	10.5	2.3	3.5	4.6

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

Real exports of goods and services are estimated to have risen at an annual rate of about 4 percent in the second quarter, well below their 14 percent pace in the first quarter. Growth in real services exports was moderately strong, and exports of semiconductors were very rapid. However, exports of core goods are estimated to have grown only modestly, likely because of some payback from earlier rapid growth. The second quarter estimate is down somewhat from the June Greenbook primarily because of technical issues pertaining to the translation of balance of payments data to a NIPA basis in the advance GDP report.

In the second half of this year and next year, we project that growth in real exports will average close to 5¼ percent; core export growth returns to a pace more in line with relative prices and solid foreign GDP growth, while exports of services hold close to their second-quarter growth rate and semiconductors decelerate from their elevated second-quarter pace. The boost to growth of core goods exports from relative prices lessens as the effects of the dollar's depreciation in 2003 and 2004 diminish. Conversely, real exports of services, which respond more rapidly to exchange rate fluctuations than do real exports of core goods, should derive support from the projected trend of dollar depreciation. Exports of computers and semiconductors are projected to rise at a brisk pace throughout the forecast period. This outlook is about unchanged from the June Greenbook, in line with our projections for the dollar and foreign growth.

### Alternative Simulation

Although our benchmark forecast is for oil prices to remain nearly flat over the forecast period, prices could jump considerably higher in the event of a significant supply disruption. To explore the implications of this possibility, we used SIGMA, the staff's forward-looking multi-country model, to analyze the effects of an immediate and permanent rise in oil prices to \$120 per barrel.<sup>1</sup>

#### Alternative Simulation: Higher Oil Prices (Percent change from previous period, annual rate)

Indicator and simulation	2006		2007	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	4.3	2.1	2.2	2.3
Permanent oil price rise	4.3	1.8	2.0	2.1
<i>U.S. PCE prices excluding food and energy</i>				
Baseline	2.5	2.5	2.3	2.2
Permanent oil price rise	2.5	2.7	2.6	2.5
<i>U.S. trade balance (percent of GDP)</i>				
Baseline	-5.9	-5.9	-6.1	-5.9
Permanent oil price rise	-5.9	-6.6	-6.8	-6.6

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.

We assume that the oil price shock occurs in the third quarter of 2006 and that both households and firms understand the permanent nature of the shock. U.S. real GDP growth declines about  $\frac{1}{4}$  percentage point below baseline over the remainder of the forecast period. Consumer spending (relative to baseline) falls in response to the reduction in permanent income, while firms reduce investment as higher energy costs depress the productivity of capital. The core PCE inflation rate rises 0.2 percentage point above baseline in the latter half of 2006 and peaks at 0.3 percentage point above baseline in 2007. The rise in core inflation results from higher production costs, as a decline in labor productivity is only gradually offset by falling real wages.

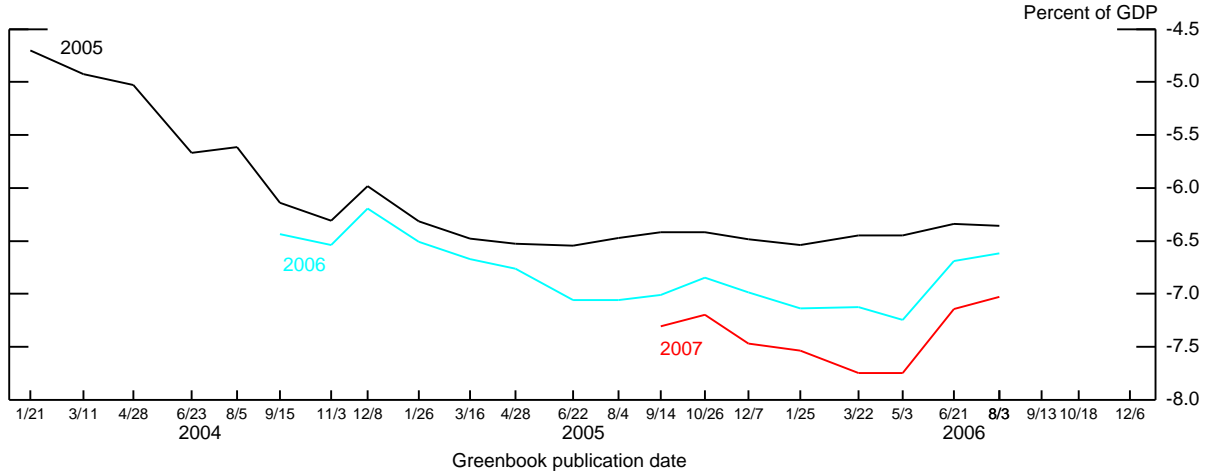
<sup>1</sup> The effects of an oil shock that are reported below for SIGMA are within the range of estimates derived from other macroeconomic models used at the Board. These models include the FRB/Global model and variants of the FRB/US model with model-consistent expectations.



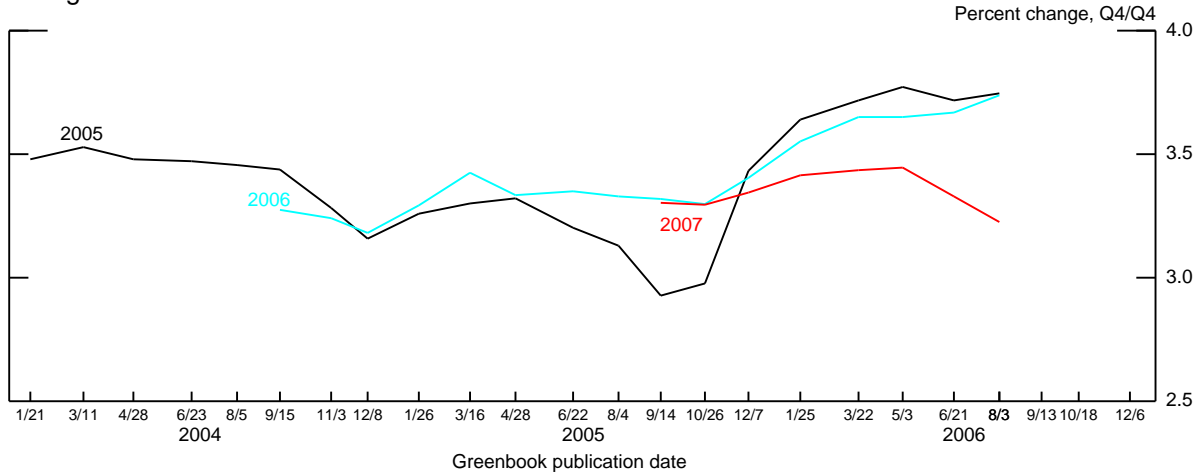
Class II FOMC -- Restricted (FR)

## Evolution of the Staff Forecast

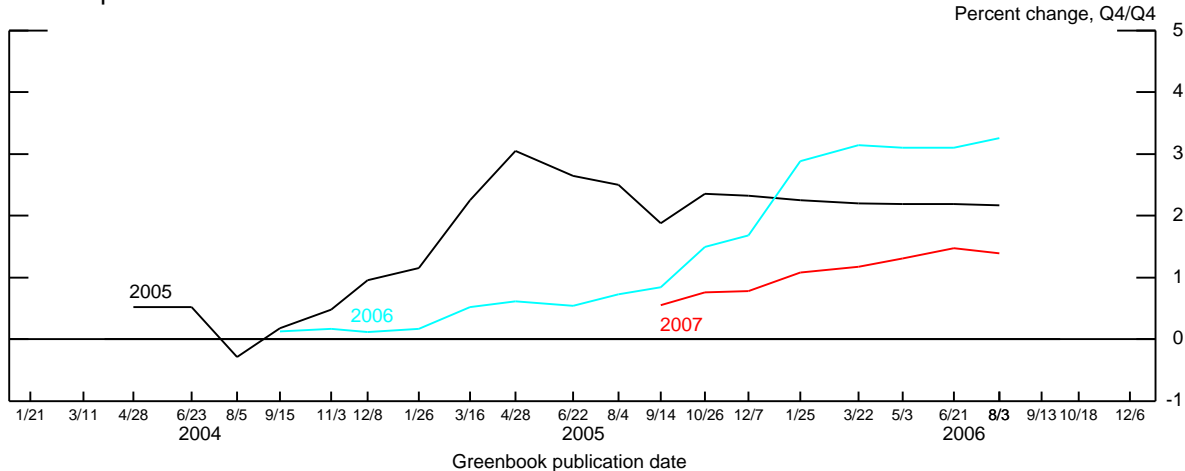
Current Account Balance



Foreign Real GDP



Core Import Prices\*



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

Class II FOMC  
Restricted (FR) August 3, 2006

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

Measure and country	1999	2000	2001	2002	2003	2004	2005	Projected 2006	2007
<b>REAL GDP (1)</b>									
-----									
Total foreign	5.1	4.2	0.4	3.1	3.0	3.8	3.7	3.7	3.2
Industrial Countries	4.4	3.6	0.9	2.5	1.8	2.5	2.7	2.7	2.2
of which:									
Canada	5.9	4.1	1.3	3.5	1.5	3.7	2.8	2.6	2.5
Japan	0.2	3.3	-1.5	2.0	2.6	0.5	4.0	2.9	1.9
United Kingdom	3.5	3.1	2.0	2.3	3.3	2.6	1.8	2.9	2.5
Euro Area (2)	4.1	3.3	1.1	1.2	1.0	1.6	1.7	2.4	1.5
Germany	3.5	2.3	1.1	0.2	0.2	0.5	1.7	2.3	0.8
Developing Countries	6.3	5.2	-0.4	3.9	4.7	5.7	5.3	5.3	4.7
Asia	8.8	5.8	1.1	6.3	6.9	6.1	7.2	6.2	5.6
Korea	11.8	4.3	4.7	7.8	4.2	2.9	5.3	4.0	3.9
China	7.7	8.2	7.8	9.2	10.5	10.1	9.9	10.9	8.2
Latin America	4.4	4.4	-1.3	1.6	2.3	5.2	3.1	4.4	3.7
Mexico	5.5	4.8	-1.3	2.0	2.1	4.8	2.7	4.1	3.4
Brazil	3.4	3.8	-0.9	4.1	0.9	4.7	1.5	4.2	3.8
<b>CONSUMER PRICES (3)</b>									
-----									
Industrial Countries	1.2	1.8	0.9	2.1	1.3	1.8	1.6	2.0	1.7
of which:									
Canada	2.4	3.1	1.1	3.8	1.7	2.3	2.3	2.4	1.8
Japan	-1.0	-0.9	-1.0	-0.5	-0.4	0.5	-0.5	1.0	0.7
United Kingdom (4)	1.1	0.9	1.1	1.5	1.3	1.4	2.1	2.4	1.9
Euro Area (2)	1.5	2.5	2.1	2.3	2.0	2.3	2.3	2.2	2.0
Germany	1.1	1.7	1.4	1.2	1.1	2.1	2.2	1.6	2.5
Developing Countries	4.5	4.1	2.8	2.9	3.1	3.9	3.1	3.4	3.4
Asia	0.1	1.8	1.2	0.8	2.2	3.2	2.7	3.2	3.2
Korea	1.2	2.5	3.3	3.4	3.5	3.4	2.5	3.2	3.5
China	-1.0	1.0	-0.1	-0.5	2.7	3.3	1.4	2.9	3.0
Latin America	12.5	8.4	5.3	6.4	4.9	5.7	3.8	3.6	3.8
Mexico	13.4	8.7	5.1	5.2	3.9	5.3	3.1	3.3	3.5
Brazil	8.4	6.4	7.5	10.7	11.5	7.2	6.1	3.7	4.3

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.

August 3, 2006

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

Measure and country	2005				2006				Projected 2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	2.8	3.9	4.4	3.9	4.6	3.7	3.4	3.3	3.2	3.2	3.3	3.3
Industrial Countries	2.2	3.3	2.5	2.6	3.1	2.8	2.5	2.2	2.1	2.2	2.3	2.3
of which:												
Canada	2.2	3.4	3.2	2.6	3.8	2.1	2.4	2.2	2.4	2.3	2.6	2.6
Japan	5.1	5.5	1.0	4.5	3.1	4.0	2.5	2.1	2.0	1.9	1.9	1.8
United Kingdom	0.9	2.2	1.6	2.7	3.0	3.4	2.8	2.5	2.5	2.5	2.5	2.5
Euro Area (2)	1.5	1.7	2.5	1.1	2.5	2.9	2.2	2.0	1.0	1.7	1.7	1.7
Germany	2.4	1.7	2.5	0.0	1.5	3.3	2.1	2.3	-0.9	1.5	1.4	1.4
Developing Countries	3.6	4.8	7.1	5.7	6.6	4.8	4.8	4.8	4.7	4.7	4.6	4.6
Asia	5.4	7.7	7.9	7.8	7.3	5.8	5.8	5.8	5.7	5.6	5.6	5.6
Korea	2.1	5.9	6.6	6.7	4.9	3.3	3.9	3.9	3.9	3.9	3.9	3.9
China	11.9	7.2	8.9	11.5	13.3	11.7	9.5	9.0	8.5	8.1	8.1	8.1
Latin America	1.2	1.5	6.5	3.2	6.3	3.8	3.8	3.8	3.7	3.7	3.6	3.6
Mexico	0.4	-0.5	8.5	2.7	6.3	3.4	3.4	3.5	3.5	3.5	3.4	3.4
Brazil	0.4	5.5	-3.3	3.8	5.7	3.8	3.8	3.7	3.8	3.8	3.8	3.8
CONSUMER PRICES (3)	Four-quarter changes											
Industrial Countries	1.5	1.5	1.8	1.6	1.9	2.1	1.9	2.0	2.1	1.8	1.7	1.7
of which:												
Canada	2.1	1.9	2.7	2.3	2.5	2.5	2.3	2.4	2.3	2.0	1.8	1.8
Japan	-0.2	-0.1	-0.2	-0.5	0.4	0.7	1.0	1.0	0.7	0.7	0.7	0.7
United Kingdom (4)	1.7	2.0	2.4	2.1	2.0	2.2	2.1	2.4	2.5	2.2	2.0	1.9
Euro Area (2)	2.1	2.0	2.3	2.3	2.3	2.4	2.3	2.2	2.6	2.2	2.0	2.0
Germany	1.7	1.6	2.1	2.2	2.1	2.1	1.8	1.6	3.0	2.7	2.5	2.5
Developing Countries	3.5	3.3	3.0	3.1	3.1	3.0	3.1	3.4	3.7	3.8	3.6	3.4
Asia	2.9	2.4	2.3	2.7	2.5	2.6	2.8	3.2	3.8	3.9	3.5	3.2
Korea	3.1	3.0	2.4	2.5	2.4	2.3	2.5	3.2	3.9	4.2	4.0	3.5
China	2.7	1.8	1.3	1.4	1.2	1.4	2.1	2.9	3.6	3.7	3.3	3.0
Latin America	4.9	5.1	4.5	3.8	4.2	3.5	3.5	3.6	3.4	3.7	3.8	3.8
Mexico	4.4	4.5	4.0	3.1	3.7	3.1	3.1	3.3	3.0	3.4	3.5	3.5
Brazil	7.4	7.7	6.2	6.1	5.6	4.3	4.1	3.7	3.4	3.9	4.4	4.3

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.

August 3, 2006

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1999	2000	2001	2002	2003	2004	2005	Projected 2006	Projected 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	-0.8	-0.1	0.1	-0.1
Exports of G&S	0.6	0.7	-1.3	0.4	0.6	0.7	0.7	0.8	0.6
Imports of G&S	-1.6	-1.6	1.1	-1.3	-0.7	-1.5	-0.8	-0.7	-0.7
	Percentage change, Q4/Q4								
Exports of G&S	5.6	6.5	-11.9	3.8	5.8	7.0	6.7	7.1	5.1
Services	5.3	1.8	-8.9	10.2	3.0	7.1	3.1	6.1	6.4
Computers	13.4	22.7	-23.5	-1.1	11.3	6.4	14.1	8.9	14.4
Semiconductors	34.6	27.6	-34.6	10.1	38.3	-6.3	17.2	18.4	17.0
Other Goods 1/	3.3	5.9	-10.2	0.7	4.9	8.0	7.5	6.8	3.5
Imports of G&S	12.1	11.2	-7.6	9.7	4.8	10.6	5.2	3.9	4.0
Services	6.6	10.6	-5.9	8.8	2.2	7.6	1.9	4.2	2.5
Oil	-3.4	13.3	3.7	3.8	1.2	9.6	0.9	-6.9	0.2
Computers	26.0	13.9	-13.6	13.2	17.0	22.5	11.8	20.1	17.5
Semiconductors	34.2	22.8	-51.1	11.0	-0.1	9.3	7.5	11.6	17.0
Other Goods 2/	13.0	10.3	-6.5	10.0	5.2	10.7	6.2	5.3	4.1
	Billions of Chained 2000 Dollars								
Net Goods & Services	-296.2	-379.5	-399.1	-471.3	-518.9	-590.9	-619.2	-625.8	-625.0
Exports of G&S	1008.2	1096.3	1036.7	1013.3	1026.1	1120.4	1196.1	1291.2	1356.9
Imports of G&S	1304.4	1475.8	1435.8	1484.6	1545.0	1711.3	1815.3	1917.0	1982.0
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-299.8	-415.2	-389.0	-472.4	-527.5	-665.3	-791.5	-878.3	-976.7
Current Acct as Percent of GDP	-3.2	-4.2	-3.8	-4.5	-4.8	-5.7	-6.4	-6.6	-7.0
Net Goods & Services (BOP)	-263.3	-377.6	-362.8	-421.1	-494.9	-611.3	-716.7	-782.9	-838.1
Investment Income, Net	19.1	25.7	30.3	17.8	42.3	33.6	17.6	-2.4	-46.1
Direct, Net	78.2	94.9	115.9	102.4	112.8	123.9	134.4	163.6	189.8
Portfolio, Net	-59.1	-69.2	-85.5	-84.6	-70.5	-90.2	-116.8	-166.0	-235.9
Other Income & Transfers, Net	-55.6	-63.3	-56.5	-69.2	-74.9	-87.6	-92.4	-93.0	-92.5

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	0.2	-0.7	0.5	-0.5	-0.7	-1.6	-0.2	-0.8
Exports of G&S	0.5	1.0	0.3	-0.3	-0.5	-0.2	1.0	1.8	0.7	0.6	0.5	1.0
Imports of G&S	-1.4	-1.6	-0.8	-1.2	0.7	-0.6	-0.5	-2.3	-1.4	-2.2	-0.7	-1.8
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	5.2	10.6	2.9	-3.1	-5.3	-1.7	11.4	20.8	7.2	6.2	4.8	9.9
Services	22.9	2.7	4.6	11.7	-20.0	-2.8	17.5	23.1	7.5	5.6	-2.8	19.2
Computers	-21.1	14.7	-6.0	12.6	-2.3	-5.2	34.7	23.2	-5.8	-3.1	20.7	16.5
Semiconductors	22.3	42.1	12.6	-25.0	37.4	30.9	44.6	40.7	11.5	-7.8	-19.1	-7.2
Other Goods 1/	-1.6	12.5	2.0	-9.1	0.3	-2.9	5.1	18.2	7.6	8.1	9.7	6.4
Imports of G&S	11.7	12.5	5.7	9.0	-5.0	4.1	3.8	17.6	10.2	16.0	4.4	12.0
Services	24.7	-3.0	1.7	14.0	-10.6	-15.7	21.2	19.6	10.9	7.6	3.1	9.0
Oil	-9.8	-10.3	-12.7	64.3	-9.7	12.4	-6.0	9.9	37.2	-22.9	-6.4	45.5
Computers	52.2	5.3	2.8	-0.2	11.4	10.7	11.1	36.9	21.1	30.2	27.5	11.9
Semiconductors	39.8	34.8	-6.2	-14.0	-6.3	1.1	-4.2	9.7	43.3	19.6	3.8	-19.9
Other Goods 2/	7.7	19.6	9.2	4.0	-3.1	7.2	-0.1	18.1	5.3	23.2	4.2	11.0
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-441.3	-458.9	-472.2	-513.0	-507.2	-526.9	-513.8	-527.8	-548.5	-593.9	-599.4	-621.9
Exports of G&S	992.8	1018.0	1025.2	1017.2	1003.3	999.0	1026.3	1075.8	1094.8	1111.3	1124.3	1151.3
Imports of G&S	1434.0	1476.9	1497.4	1530.2	1510.5	1525.9	1540.0	1603.6	1643.2	1705.2	1723.7	1773.1
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-436.2	-476.9	-476.3	-500.3	-548.7	-524.4	-526.2	-510.8	-583.3	-667.1	-665.3	-745.4
Current Account as % of GDP	-4.2	-4.6	-4.5	-4.7	-5.1	-4.8	-4.7	-4.6	-5.1	-5.7	-5.6	-6.2
Net Goods & Services (BOP)	-372.7	-413.1	-429.0	-469.4	-496.9	-492.9	-491.9	-497.9	-544.6	-605.6	-626.7	-668.3
Investment Income, Net	15.3	1.1	16.5	38.3	24.4	41.7	39.2	63.8	57.3	28.2	33.4	15.6
Direct, Net	104.8	90.9	97.6	116.2	97.2	108.4	109.3	136.3	130.4	113.4	122.8	128.8
Portfolio, Net	-89.5	-89.8	-81.1	-77.8	-72.7	-66.6	-70.1	-72.5	-73.1	-85.2	-89.4	-113.2
Other Inc. & Transfers, Net	-78.8	-64.8	-63.8	-69.2	-76.2	-73.2	-73.5	-76.7	-96.1	-89.7	-72.0	-92.7

1. Merchandise exports excluding computers and semiconductors.

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

## 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	-0.2	0.7	-0.1	-1.1	-0.0	0.3	0.3	-0.2	-0.3	0.2	0.2	-0.6
Exports of G&S	0.5	0.9	0.3	1.0	1.4	0.4	0.6	0.6	0.6	0.6	0.6	0.6
Imports of G&S	-0.6	-0.2	-0.4	-2.0	-1.5	-0.1	-0.3	-0.7	-0.8	-0.4	-0.3	-1.2
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	4.7	9.4	3.2	9.6	14.0	3.9	5.6	5.1	5.0	5.2	5.2	5.2
Services	2.9	2.0	2.1	5.5	6.7	5.8	5.9	5.9	5.8	6.4	6.6	6.6
Computers	13.6	21.9	17.8	3.9	9.8	-2.0	14.4	14.4	14.4	14.4	14.4	14.4
Semiconductors	-7.7	21.3	26.3	33.6	15.7	28.8	12.6	17.0	17.0	17.0	17.0	17.0
Other Goods 1/	5.8	11.9	1.8	10.7	17.8	2.0	4.6	3.6	3.5	3.5	3.4	3.4
Imports of G&S	4.1	1.4	2.5	13.2	9.1	0.5	1.8	4.4	5.0	2.2	1.9	6.9
Services	-0.2	-1.5	1.2	8.3	7.4	4.5	2.7	2.1	2.2	2.5	2.7	2.9
Oil	7.0	-21.2	-12.5	40.5	-4.8	-18.6	-10.0	8.0	12.6	-11.8	-14.0	17.9
Computers	9.2	9.4	19.6	9.3	34.3	15.0	14.8	17.5	17.5	17.5	17.5	17.5
Semiconductors	-7.4	8.4	15.6	14.9	3.6	9.6	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 2/	4.4	5.8	2.7	12.3	12.4	1.9	3.6	3.6	3.4	3.9	4.4	4.8
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-626.4	-606.1	-607.6	-636.6	-636.6	-626.7	-617.7	-622.3	-629.7	-623.4	-615.5	-631.6
Exports of G&S	1164.5	1191.0	1200.5	1228.4	1269.3	1281.4	1299.0	1315.1	1331.3	1348.3	1365.4	1382.7
Imports of G&S	1790.9	1797.1	1808.1	1865.0	1905.9	1908.2	1916.6	1937.4	1961.0	1971.6	1980.9	2014.3
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-766.9	-773.0	-733.7	-892.4	-834.7	-860.9	-882.4	-935.0	-964.0	-966.2	-966.2	-1010.7
Current Account as % of GDP	-6.3	-6.3	-5.8	-7.0	-6.4	-6.5	-6.6	-6.9	-7.1	-7.0	-6.9	-7.1
Net Goods & Services (BOP)	-672.4	-688.2	-727.2	-779.1	-763.0	-772.7	-782.6	-813.5	-845.6	-834.9	-824.5	-847.4
Investment Income, Net	20.7	14.2	37.9	-2.3	14.0	-1.0	-3.1	-19.4	-29.5	-41.0	-49.7	-64.3
Direct, Net	121.4	124.2	161.5	130.6	155.6	156.5	170.4	172.0	181.1	187.0	195.4	195.7
Portfolio, Net	-100.7	-110.0	-123.6	-132.9	-141.6	-157.5	-173.4	-191.3	-210.6	-228.0	-245.1	-260.0
Other Inc. & Transfers, Net	-115.1	-99.0	-44.3	-111.0	-85.7	-87.3	-96.8	-102.1	-88.9	-90.3	-92.0	-99.0

1. Merchandise exports excluding computers and semiconductors.

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

## **Part 2**

August 3, 2006

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

August 3, 2006

## **Recent Developments**

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generally indicate perceptions that the demand for labor continues to increase at a modest pace.

Based on the latest national income and product accounts (NIPA) data, the staff estimates that productivity in the nonfarm business sector increased at an annual rate of 4.0 percent in the first quarter and 2.2 percent in the second quarter. Over the four quarters ending in the second quarter of 2006, productivity rose an estimated 2.6 percent, a step up from the 1.7 percent pace in the preceding four quarters.

### Output per Hour<sup>1</sup>

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

Sector	2004:Q2 to 2005:Q2	2005:Q2 to 2006:Q2	2005		2006	
			Q3	Q4	Q1	Q2
Nonfarm business						
All persons	1.7	2.6	4.4	-.1	4.0	2.2
All employees <sup>2</sup>	2.0	2.3	3.3	-.7	4.9	1.8

1. Staff estimates.

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

### Industrial Production

Total industrial production rose 0.8 percent in June and increased at a robust annual rate of 6.6 percent for the second quarter as a whole. Activity in the manufacturing sector strengthened in June and expanded 5.4 percent for the quarter; gains were widespread among industries. Mining output increased 9 percent in the second quarter, supported by continued, though waning, hurricane-related recovery efforts in the energy-extraction industries. The output at utilities jumped more than 15 percent in the second quarter, an increase that largely reversed a weather-related drop in the first quarter.

The utilization of industrial capacity in June stood at its highest level in six years. Over the past 3½ years, utilization rates have risen fairly steadily at all stages of processing. In June, the operating rate among industries in the crude stage was nearly 3 percentage points above its 1972–2005 average. Among primary and semifinished producers, the operating rate was 1.2 percentage points above average, and for industries in the finished stage, the operating rate was 1.8 percentage points above average. Moreover, the increase in the rate of capacity utilization in recent years has been widespread across manufacturing industries.

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

Item	2005	2006						
		Q1	Q2	Q3	May	June	July	Aug.
U.S. production <sup>1</sup>	11.5	11.2	11.1	11.3	10.9	11.3	11.3	11.1
Autos	4.3	4.5	4.3	4.5	4.3	4.1	4.5	4.4
Light trucks	7.2	6.7	6.8	6.8	6.5	7.1	6.8	6.7
Days' supply <sup>2</sup>	69	69	74	n.a.	74	75	n.a.	n.a.
Autos	52	53	54	n.a.	55	55	n.a.	n.a.
Light trucks	81	80	90	n.a.	88	90	n.a.	n.a.
Inventories <sup>3</sup>	3.04	3.01	3.05	n.a.	2.98	3.05	n.a.	n.a.
Autos	.93	.99	.95	n.a.	.96	.95	n.a.	n.a.
Light trucks	2.11	2.03	2.09	n.a.	2.01	2.09	n.a.	n.a.
Memo: U.S. production, total motor vehicles <sup>4</sup>	12.0	11.7	11.6	11.6	11.3	11.6	11.7	11.5

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

1. Production rates for the third quarter reflect the latest industry schedules.

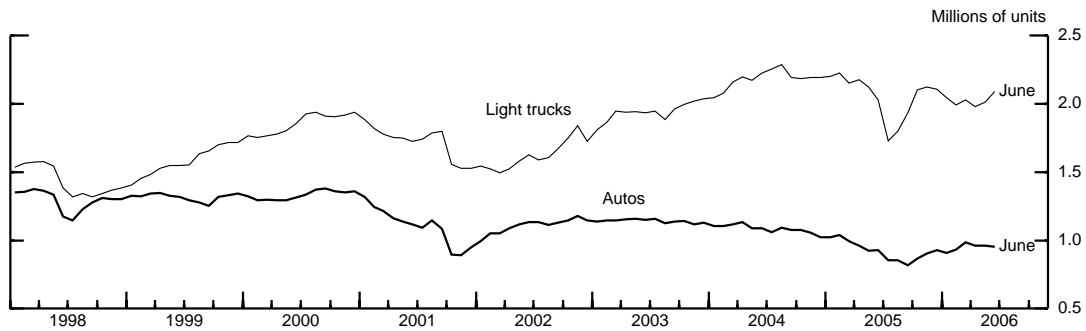
2. Annual and quarterly values are calculated with end-of-period stocks and average reported sales.

3. End-of-period stocks.

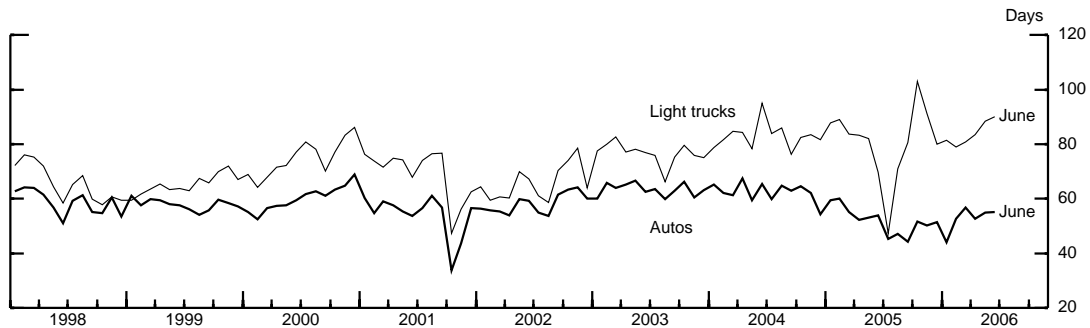
4. Includes medium and heavy trucks.

n.a. Not available.

**Inventories of Light Vehicles**

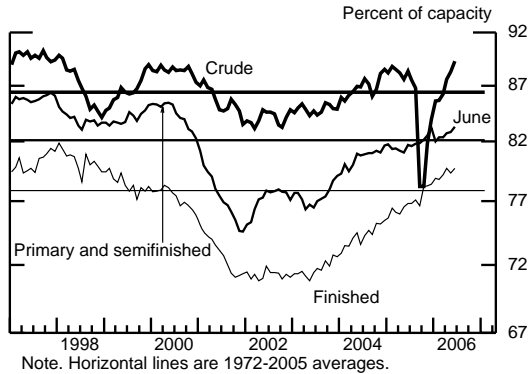


**Days' Supply of Light Vehicles**

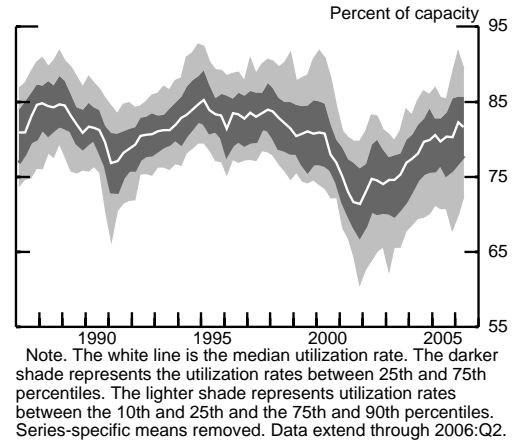


## Indicators of Industrial Activity

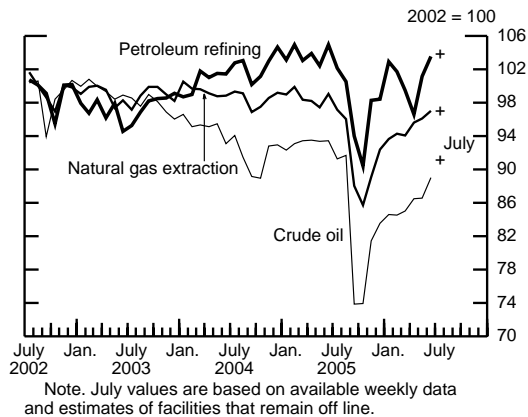
Capacity Utilization by Stage of Processing



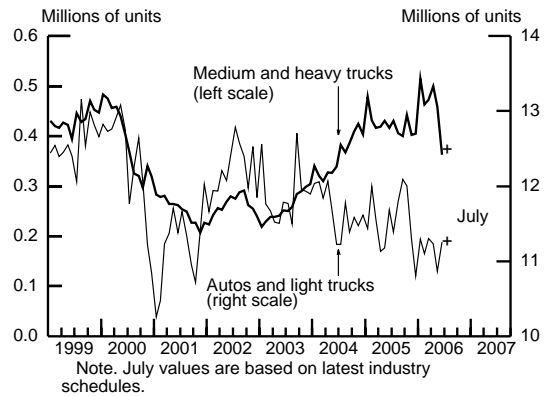
Distribution of Industry-Level Manufacturing Utilization Rates



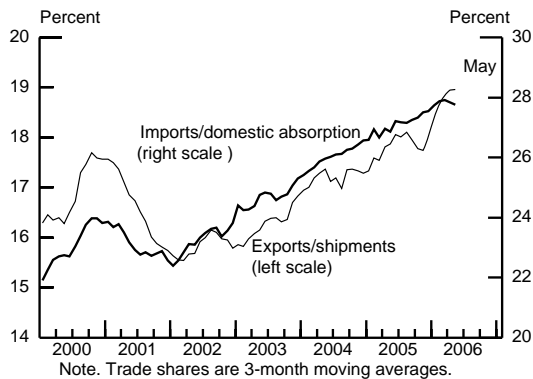
Energy IP



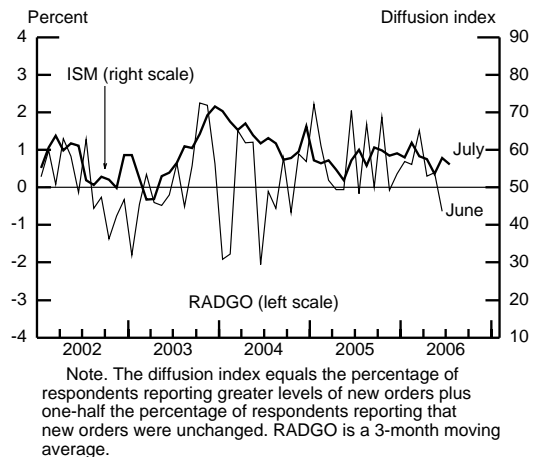
Motor Vehicle Assemblies



Trade Shares



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



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

Category	2005	2005	2006				
		Q4	Q1	Q2	May	June	July
Total	16.9	15.9	16.9	16.3	16.1	16.1	17.1
Autos	7.7	7.5	7.8	7.8	7.8	7.7	8.2
Light trucks	9.2	8.3	9.1	8.5	8.3	8.4	8.9
North American <sup>1</sup>	13.5	12.6	13.4	12.6	12.4	12.5	13.2
Autos	5.5	5.4	5.7	5.4	5.4	5.3	5.6
Light trucks	8.0	7.2	7.7	7.1	7.0	7.2	7.6
Foreign-produced	3.4	3.3	3.4	3.7	3.7	3.7	4.0
Autos	2.2	2.1	2.1	2.4	2.4	2.4	2.7
Light trucks	1.2	1.2	1.3	1.3	1.3	1.2	1.3
Memo: Big Three domestic market share (percent) <sup>2</sup>	56.8	53.4	55.8	53.9	52.7	55.5	52.1

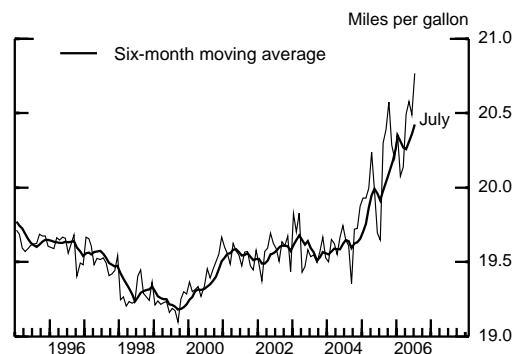
Note. Components may not sum to totals because of rounding.

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

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

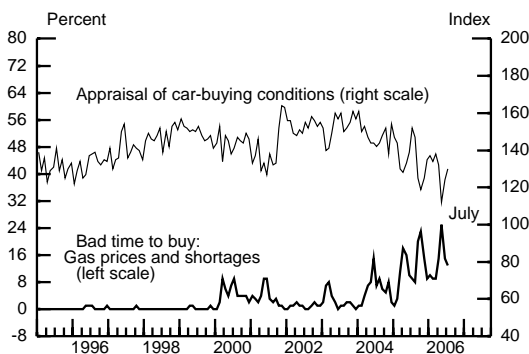
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**New Light Vehicle Fuel Economy**

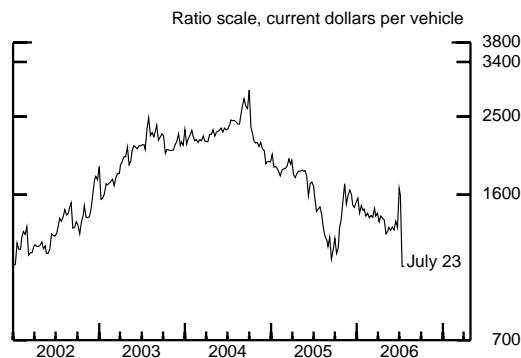


Source. Staff estimate based on a monthly sales-weighted average of city mileage ratings for all new models. Data are seasonally adjusted.

**Michigan Survey Index of Car-Buying Attitudes**



**Average Value of Incentives on Light Vehicles**



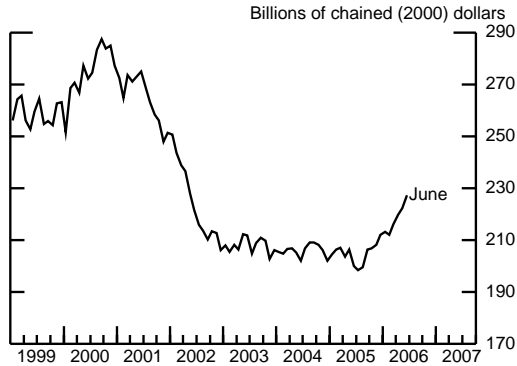
Note. Weighted average of customer cash rebate and interest rate reduction. Data are seasonally adjusted.  
Source. J.D. Power and Associates.

## Nonresidential Construction and Indicators

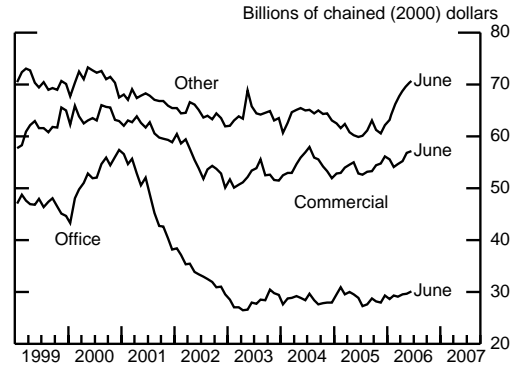
### Real Construction

(All spending series are seasonally adjusted, annual rate; nominal CIPIP deflated by BEA prices through Q1 and by staff projection thereafter)

Total Structures

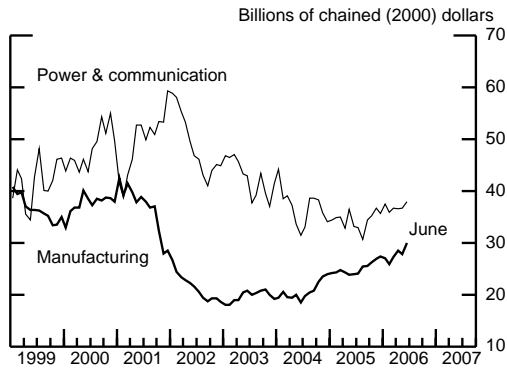


Office, Commercial, and Other

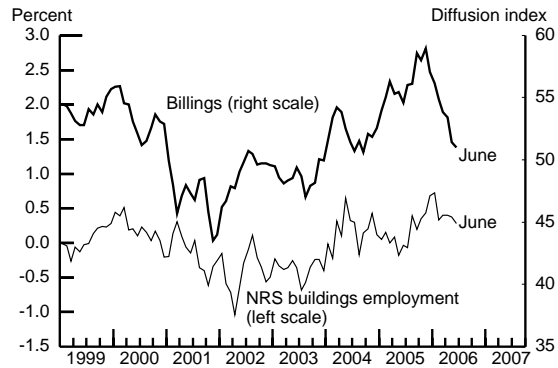


Note. Other includes religious, educational, lodging, amusement and recreation, transportation, and health-care facilities.

Manufacturing and Power & Communication

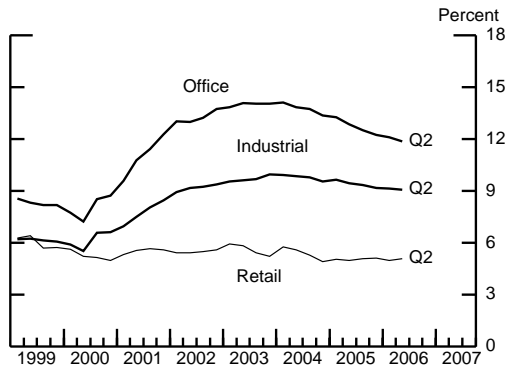


Architectural Billings and Nonresidential Buildings Employment



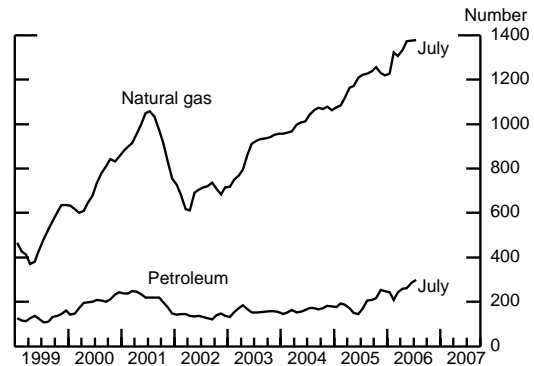
Note. Both series are 3-month moving averages.  
Source. For billings, American Institute of Architects; for nonresidential buildings employment, Bureau of Labor Statistics.

Vacancy Rates



Source. For office and industrial, CoStar Property Professional; for retail, National Council of Real Estate Investment Fiduciaries.

Drilling Rigs in Operation



Note. July values are averages through July 28, 2006.  
Source. DOE/Baker Hughes.

**Nonfarm Inventory Investment**  
(Billions of dollars; seasonally adjusted annual rate)

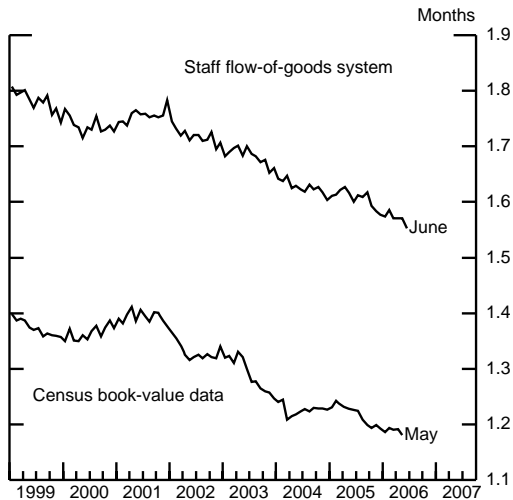
Measure and sector	2005	2006				
	Q4	Q1	Q2	Apr.	May	June
<i>Real inventory investment (chained 2000 dollars)</i>						
<b>Total nonfarm business</b>	<b>38.6</b>	<b>36.8</b>	<b>57.5<sup>e</sup></b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Motor vehicles	23.4	8.5	.0 <sup>e</sup>	n.a.	n.a.	n.a.
Nonfarm ex. motor vehicles	15.2	28.3	57.5 <sup>e</sup>	n.a.	n.a.	n.a.
<b>Manufacturing and trade ex. wholesale and retail motor vehicles and parts</b>	<b>16.9</b>	<b>22.7</b>	<b>n.a.</b>	<b>41.3<sup>e</sup></b>	<b>52.5<sup>e</sup></b>	<b>n.a.</b>
Manufacturing	.5	7.6	n.a.	26.6 <sup>e</sup>	9.0 <sup>e</sup>	n.a.
Wholesale trade ex. motor vehicles & parts	9.9	7.9	n.a.	17.5	24.4	n.a.
Retail trade ex. motor vehicles & parts	6.6	7.2	n.a.	-2.8	19.1	n.a.
<i>Book-value inventory investment (current dollars)</i>						
<b>Manufacturing and trade ex. wholesale and retail motor vehicles and parts</b>	<b>56.2</b>	<b>53.3</b>	<b>n.a.</b>	<b>100.9</b>	<b>113.7</b>	<b>n.a.</b>
Manufacturing	23.3	23.5	46.1	52.7	39.7	45.9
Wholesale trade ex. motor vehicles & parts	20.7	17.9	n.a.	42.2	43.9	n.a.
Retail trade ex. motor vehicles & parts	12.2	12.0	n.a.	5.9	30.0	n.a.

<sup>e</sup> Staff estimates of real inventory investment based on revised book-value data.

n.a. Not available.

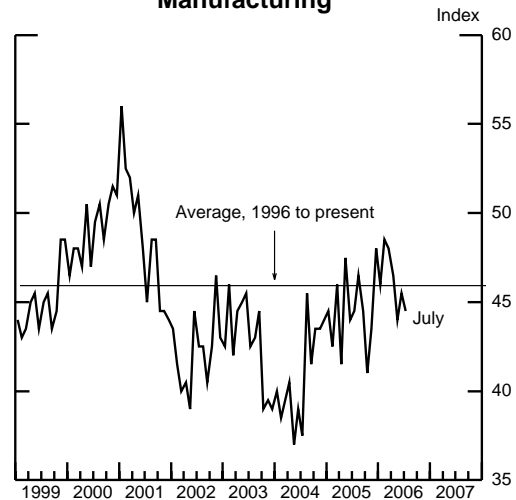
Source. For real inventory investment, BEA. For book-value data, Census Bureau.

**Inventory Ratios Ex. Motor Vehicles**



Note. Flow-of-goods system covers total industry ex. motor vehicles and parts, and inventories are relative to consumption. Census data cover manufacturing and trade ex. motor vehicles and parts, and inventories are relative to sales.

**ISM Customer Inventories:  
Manufacturing**



Note. A number above 50 indicates inventories are "too high."

**Broad Measures of Inflation**

(Percent change, Q2 to Q2)

Measure	2003	2004	2005	2006
<i>Product prices</i>				
GDP price index	2.1	2.9	2.8	3.3
Less food and energy	1.9	2.6	2.9	3.1
Nonfarm business chain price index	1.2	2.3	3.0	3.3
<i>Expenditure prices</i>				
Gross domestic purchases price index	2.1	3.1	3.2	3.6
Less food and energy	1.8	2.6	2.8	2.8
PCE price index	1.8	2.8	2.6	3.3
Less food and energy	1.4	2.1	2.0	2.3
PCE price index, market-based components	1.7	2.4	2.4	3.2
Less food and energy	1.2	1.5	1.7	1.9
CPI	2.2	2.8	3.0	4.0
Less food and energy	1.5	1.8	2.1	2.5
Chained CPI	1.9	2.7	2.6	3.4
Less food and energy	1.2	1.7	2.0	2.2
Median CPI	2.3	2.3	2.3	3.0
Trimmed mean CPI	1.9	2.1	2.2	2.7
Trimmed mean PCE	1.7	2.3	2.2	2.6

**Surveys of Inflation Expectations**

(Percent)

Period	Actual CPI inflation <sup>1</sup>	University of Michigan				Professional forecasters (10 years) <sup>4</sup>
		1 year <sup>2</sup>		5 to 10 years <sup>3</sup>		
		Mean	Median	Mean	Median	
2004: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	3.6	3.7	3.0	3.3	2.9	2.5
Q2	4.0	4.5	3.5	3.6	3.1	2.5
Mar.	3.4	3.8	3.0	3.3	2.9	2.5
Apr.	3.5	4.4	3.3	3.6	3.1	...
May	4.2	4.7	4.0	3.8	3.2	...
June	4.3	4.4	3.3	3.4	2.9	2.5
July	n.a.	3.8	3.2	3.2	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?

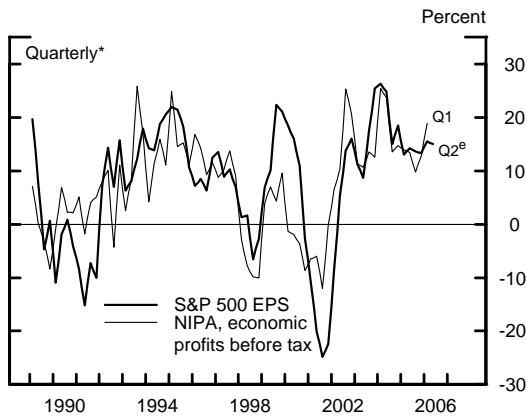
4. Quarterly CPI projections compiled by the Federal Reserve Bank of Philadelphia.

... Not applicable.

n.a. Not available.

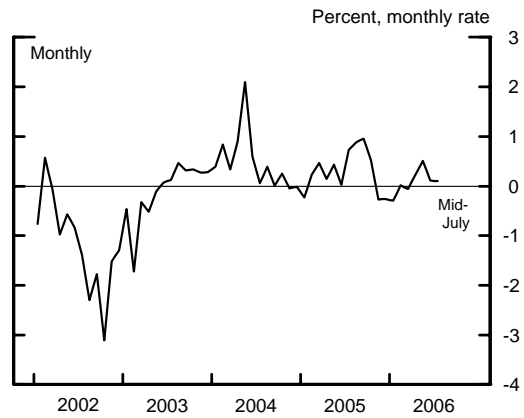
## Corporate Earnings and Credit Quality

Corporate Earnings Growth



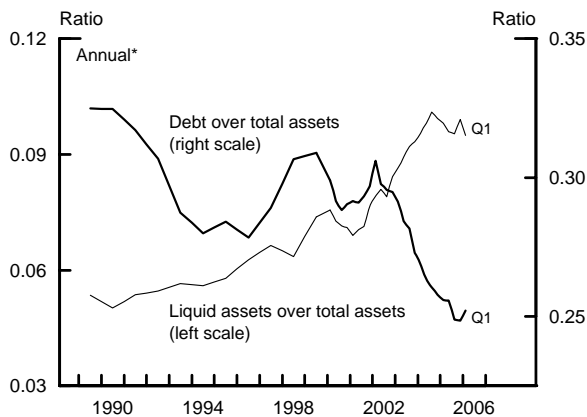
\* Change from four quarters earlier.  
e Staff estimate.  
Source: I/B/E/S for S&P 500 EPS.

S&P 500 EPS Revisions Index



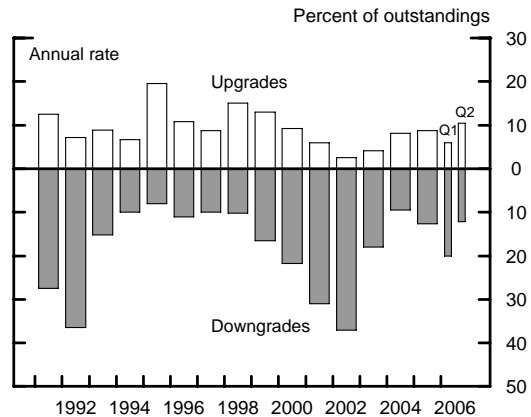
Note. Index is a weighted average of the percent change in the consensus forecasts of current-year and following-year EPS for constant sample.

Financial Ratios for Nonfinancial Corporations



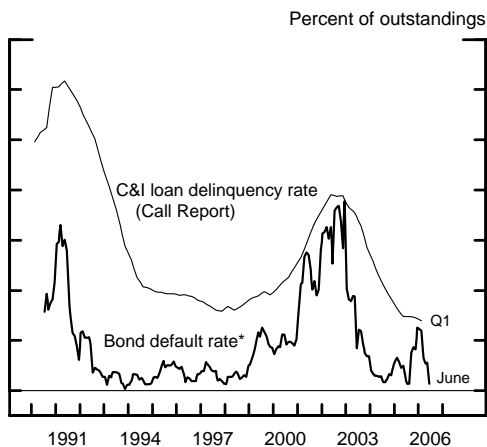
Note. Compustat data.  
\* Data are quarterly starting in 2000:Q1.

Bond Ratings Changes of Nonfinancial Companies



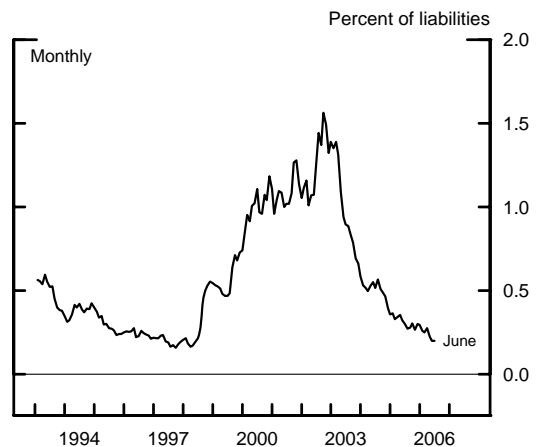
Source. Calculated with data from Moody's Investors Service.

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	Q1	Q2	June	July <sup>P</sup>
<i>Nonfinancial corporations</i>									
Stocks <sup>1</sup>	5.2	3.7	5.4	3.8	5.3	5.6	4.9	5.3	1.9
Initial public offerings	.7	.4	1.6	1.6	1.8	1.7	2.1	1.9	.4
Seasoned offerings	4.4	3.3	3.8	2.1	3.5	3.9	2.7	3.5	1.6
Bonds <sup>2</sup>	24.8	31.6	22.8	18.1	20.3	29.1	29.6	28.6	11.6
Investment grade	15.7	16.0	8.3	7.9	9.0	15.7	13.3	10.1	6.1
Speculative grade	4.8	11.3	9.5	6.2	6.5	6.8	9.7	14.4	4.6
Other (sold abroad/unrated)	4.2	4.3	4.9	4.0	4.8	6.6	6.6	4.1	1.0
<i>Memo</i>									
Net issuance of commercial paper <sup>3</sup>	-5.7	-3.4	1.5	2.6	-3.4	3.5	3.3	10.3	-3.0
Change in C&I loans at commercial banks <sup>3,4</sup>	-5.2	-7.7	3.3	9.5	10.5	11.9	16.7	20.1	8.3
<i>Financial corporations</i>									
Stocks <sup>1</sup>	4.0	6.6	6.9	5.3	4.8	3.6	5.1	4.6	4.9
Bonds <sup>2</sup>	87.0	111.1	139.4	167.3	185.7	180.1	194.6	237.0	54.3

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

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

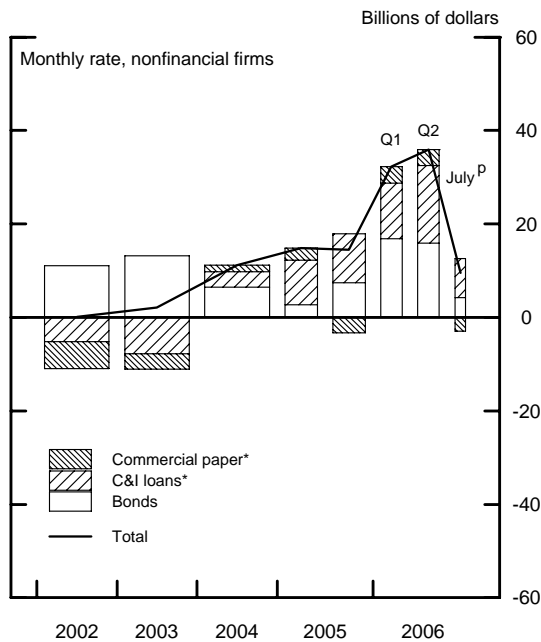
2. Data include regular and 144a private placements. Bond totals reflect gross proceeds rather than par value of original discount bonds. Bonds are categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's.

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

4. Adjusted for FIN 46 effects.

p Preliminary.

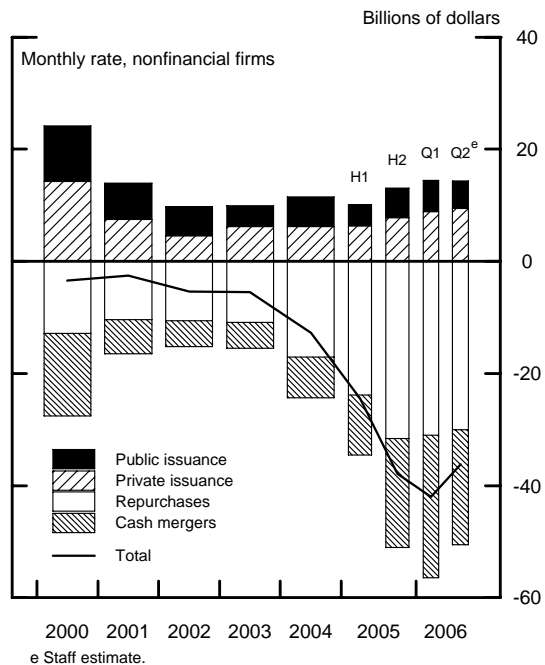
### Selected Components of Net Debt Financing



\* Seasonally adjusted, period-end basis.

p Preliminary.

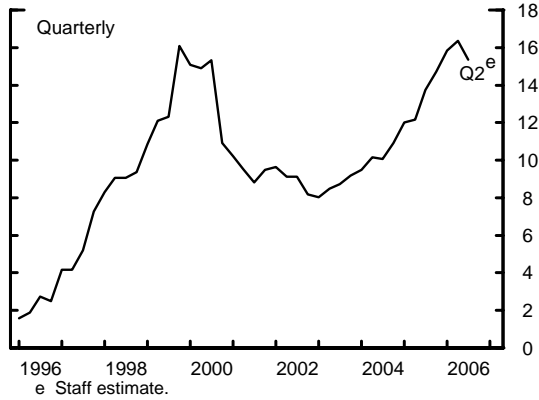
### Components of Net Equity Issuance



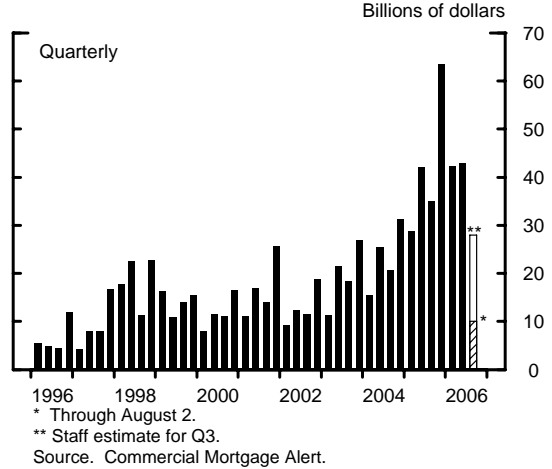
e Staff estimate.

## Commercial Real Estate

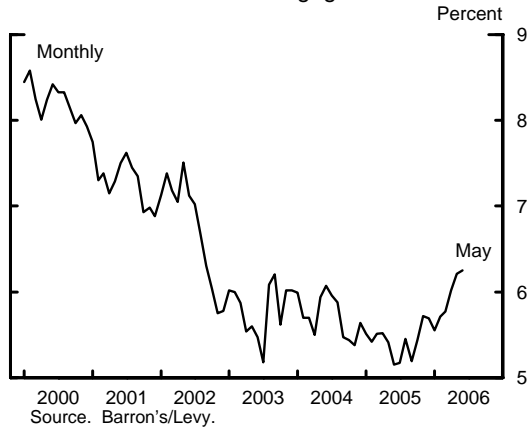
Growth of Commercial Mortgage Debt  
Percent change from year earlier



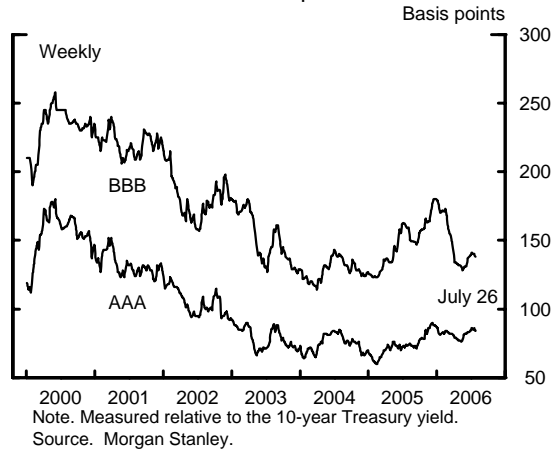
Gross Issuance of CMBS



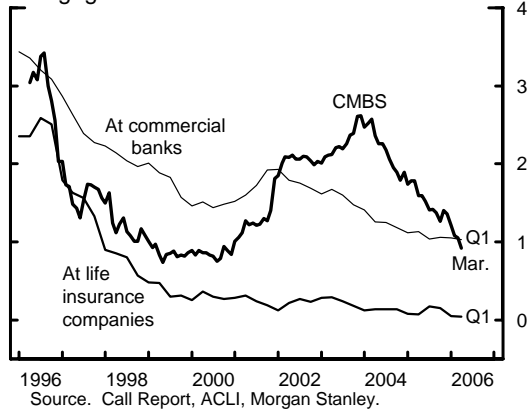
Ten-Year Commercial Mortgage Rates



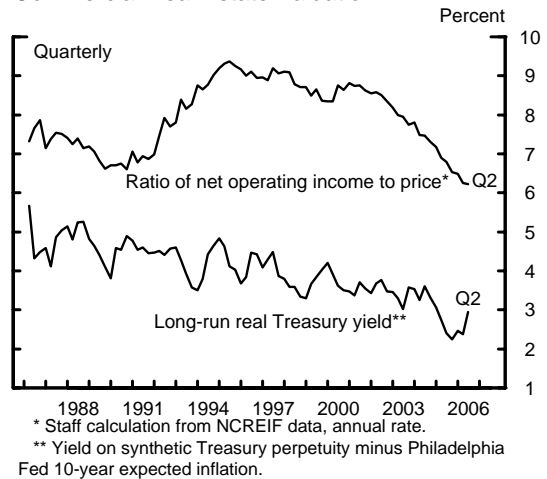
Investment-Grade CMBS Spreads



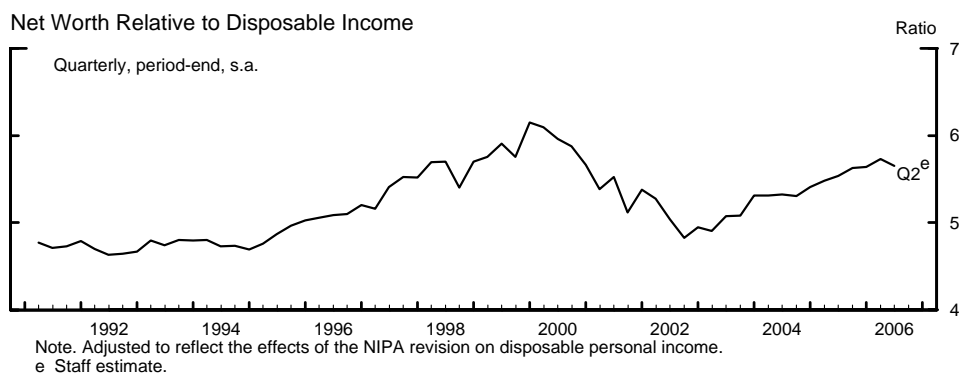
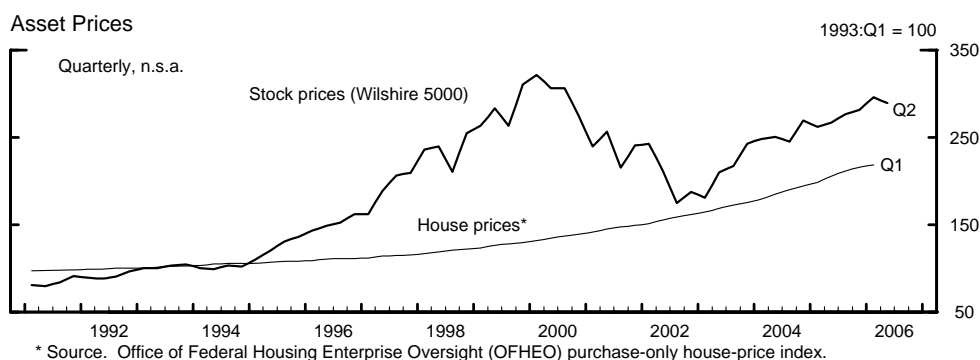
Delinquency Rates on Commercial Mortgages and CMBS



Commercial Real Estate Valuation



## Household Assets



## Net Flows into Long-Term Mutual Funds

(Billions of dollars, monthly rate)

Fund type	2004	2005		2006		2006			Assets June
		H1	H2	Q1	Q2	May	June	July <sup>e</sup>	
<b>Total long-term funds</b>	<b>17.5</b>	<b>18.3</b>	<b>13.7</b>	<b>38.9</b>	<b>6.3</b>	<b>0.5</b>	<b>-9.2</b>	<b>2.4</b>	<b>7,220</b>
<b>Equity funds</b>	<b>14.8</b>	<b>12.3</b>	<b>10.3</b>	<b>31.1</b>	<b>7.0</b>	<b>3.2</b>	<b>-8.4</b>	<b>-1.6</b>	<b>5,249</b>
Domestic	9.3	4.1	1.0	10.7	-2.4	-5.9	-9.3	-6.7	4,169
International	5.6	8.2	9.2	20.4	9.4	9.0	0.9	5.1	1,080
<b>Hybrid funds</b>	<b>3.6</b>	<b>3.4</b>	<b>0.9</b>	<b>0.4</b>	<b>-0.1</b>	<b>-0.2</b>	<b>-0.4</b>	<b>-0.2</b>	<b>585</b>
<b>Bond funds</b>	<b>-0.9</b>	<b>2.5</b>	<b>2.6</b>	<b>7.4</b>	<b>-0.7</b>	<b>-2.5</b>	<b>-0.3</b>	<b>4.2</b>	<b>1,386</b>
High-yield	-0.8	-1.6	-1.0	-0.4	-1.4	-2.2	-1.8	0.4	142
Other taxable	1.0	3.7	3.1	5.8	0.7	-0.7	1.1	3.2	899
Municipals	-1.1	0.4	0.4	2.1	0.1	0.3	0.3	0.5	344

Note. Excludes reinvested dividends.

e Staff estimates based on confidential ICI weekly data.

Source. Investment Company Institute.

## State and Local Government Finance

### Gross Offerings of Municipal Securities

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

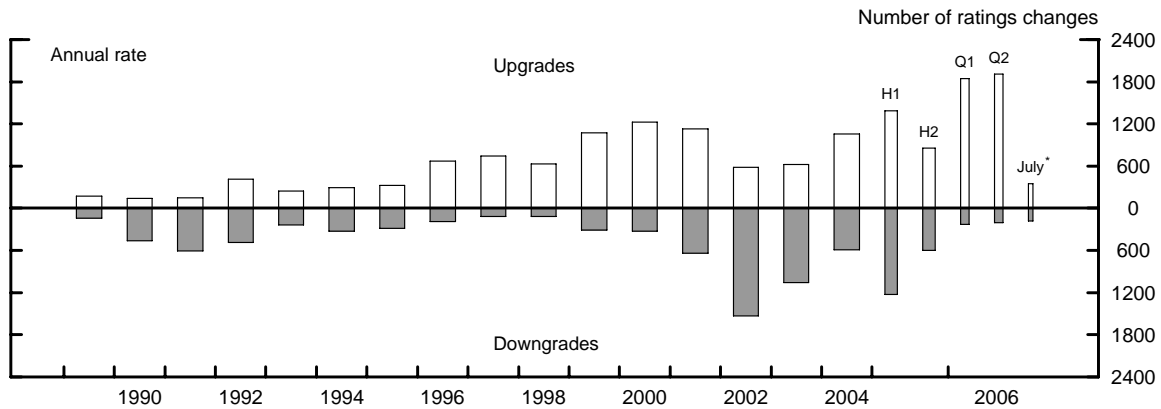
Type of security	2002	2003	2004	2005		2006		
				H1	H2	Q1	Q2	July <sup>e</sup>
Total	36.3	37.9	34.7	38.1	38.6	26.1	40.0	32.2
Long-term <sup>1</sup>	30.3	32.0	29.8	35.0	33.3	24.1	36.3	28.3
Refundings <sup>2</sup>	10.1	10.0	10.8	17.1	13.8	9.0	10.1	3.7
New capital	20.2	22.1	19.0	17.9	19.4	15.2	26.2	24.6
Short-term	6.0	5.8	4.9	3.1	5.3	1.9	3.7	3.9
Memo: Long-term taxable	1.7	3.5	2.0	2.0	2.2	1.2	4.3	4.3

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

e Staff estimate based on preliminary data through July 27, 2006.

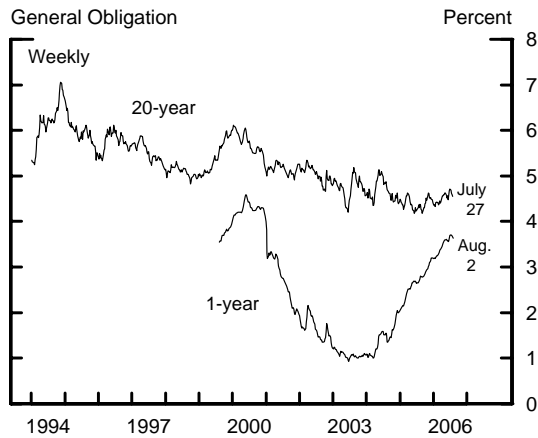
### Ratings Changes



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

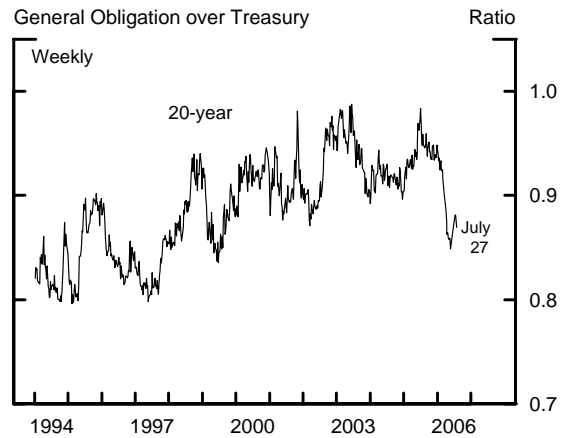
\* Staff estimate based on data through July 26, 2006.

### Municipal Bond Yields



Source: Municipal Market Advisors 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	2006				July (e)
			Q1	Q2	June	July (e)	
M2	5.3	4.0	6.3	3.2	5.9	4.7	6,857
Components <sup>2</sup>							
Currency	5.5	3.5	7.2	4.1	-2.9	-.6	741
Liquid deposits <sup>3</sup>	10.0	2.0	3.7	-1.8	-1.2	-2.1	4,252
Small time deposits	-.3	18.9	15.7	17.0	20.1	24.3	1,084
Retail money market funds	-11.4	-.3	8.1	13.5	35.3	21.2	773
Memo:							
Institutional money market funds	-5.6	5.1	9.1	11.5	15.6	11.0	1,213
Monetary base	5.6	3.5	6.0	4.4	-1.4	8.7	811

Note. M2 is the sum of currency, liquid deposits, small time deposits, retail money market funds, and nonbank traveler's checks. Acting on its announcement of November 10, 2005, the Board of Governors ceased 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	Q1 2006	Q2 2006	June 2006	July 2006 <sup>e</sup>	Level, <sup>1</sup> July 2006 <sup>e</sup>
Total <sup>2</sup>	8.9	10.5	10.8	12.9	7.7	10.2	7,738
<i>Loans<sup>3</sup></i>							
Total	9.8	11.6	11.2	11.8	8.1	9.8	5,726
To businesses							
Commercial and industrial	1.3	13.2	14.9	16.9	14.7	14.7	1,115
Commercial real estate	13.8	17.1	15.9	13.9	13.7	12.3	1,371
To households							
Residential real estate	14.0	12.0	6.4	9.4	17.1	11.4	1,735
Revolving home equity	43.7	11.3	-2.2	-4.6	1.1	5.9	431
Consumer	8.8	3.1	3.2	10.2	8.4	3.0	723
Originated <sup>4</sup>	5.9	.7	8.3	5.7	8.4	4.5	1,096
Other <sup>5</sup>	7.7	8.4	16.2	8.3	-29.4	.8	781
<i>Securities</i>							
Adjusted <sup>2</sup>	6.6	7.7	9.6	15.9	6.6	11.6	2,012
Reported	5.2	5.3	7.4	18.2	-6.4	5.8	2,146
Treasury and agency	4.9	.0	8.3	8.3	6.4	10.0	1,209
Other <sup>6</sup>	5.7	13.3	6.3	31.5	-22.5	.5	936

Note. Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding averages. Data are adjusted to remove estimated effects of consolidation related to FIN 46 and for breaks caused by reclassifications.

1. Billions of dollars. Pro rata averages of weekly (Wednesday) levels.

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

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.

6. 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.

e Estimated.

Incoming data for the **ASEAN** economies suggest that economic activity moderated in the second quarter. In Singapore, the advance unofficial estimate of second-quarter real GDP growth (not shown) suggests that growth dropped to just over 1 percent following a strong first-quarter performance, due mostly to a contraction in the volatile biomedical sector. Industrial production in Singapore appears to be rebounding, however. Elsewhere in the region, industrial production has weakened in Indonesia and Malaysia in recent months. Trade balances are down relative to the first quarter.

Twelve-month consumer price inflation in the region has moderated a bit of late, but remains elevated due to higher food prices in some countries as well as higher energy prices. Citing the moderation in inflation and the need to stimulate the domestic economy, Bank Indonesia lowered interest rates 25 basis points in early July for the second time in two months. In Thailand, the central bank left its benchmark rate unchanged at its recent meeting in mid-July after raising it thirteen times in fifteen consecutive meetings.

**ASEAN Economic Indicators: Growth**  
(Percent change from previous period, s.a., except as noted)

Indicator	2004	2005	2006				
			Q1	Q2	Apr.	May	June
<i>Real GDP</i> <sup>1</sup>							
Indonesia	7.0	5.0	3.0	n.a.	...	...	
Malaysia	5.9	5.2	9.4	n.a.	...	...	
Philippines	5.5	5.5	3.8	n.a.	...	...	
Singapore	6.6	8.5	6.8	n.a.	...	...	
Thailand	5.4	4.7	3.0	n.a.	...	...	
<i>Industrial production</i> <sup>2</sup>							
Indonesia <sup>3</sup>	3.3	1.3	.5	n.a.	7.5	-8.6	n.a.
Malaysia	11.7	4.1	3.9	n.a.	-7.1	-.6	n.a.
Philippines	1.0	2.2	-16.3	n.a.	-2.8	7.5	n.a.
Singapore	13.9	9.5	2.1	-2.0	-11.5	2.1	19.3
Thailand	11.8	9.1	2.6	1.8	-4.3	5.9	.4

1. Annual rate. Annual data are Q4/Q4.

2. Annual data are annual averages.

3. Staff estimate.

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