

Part 1

June 21, 2006

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

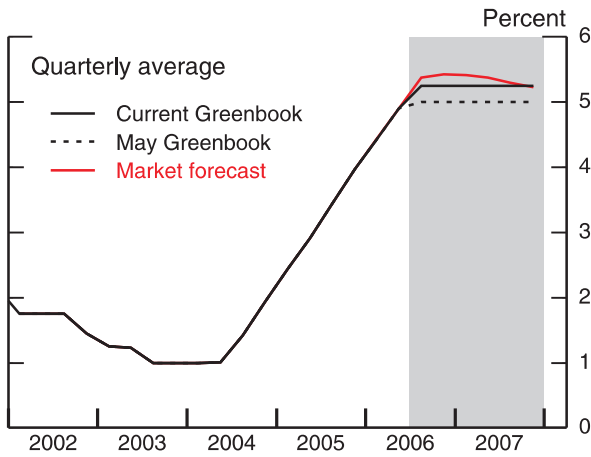
Summary and Outlook

June 21, 2006

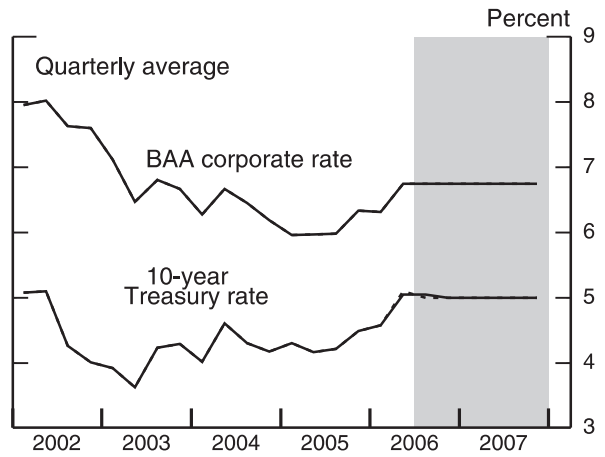
Summary and Outlook

Key Background Factors Underlying the Baseline Staff Projection

Federal Funds Rate

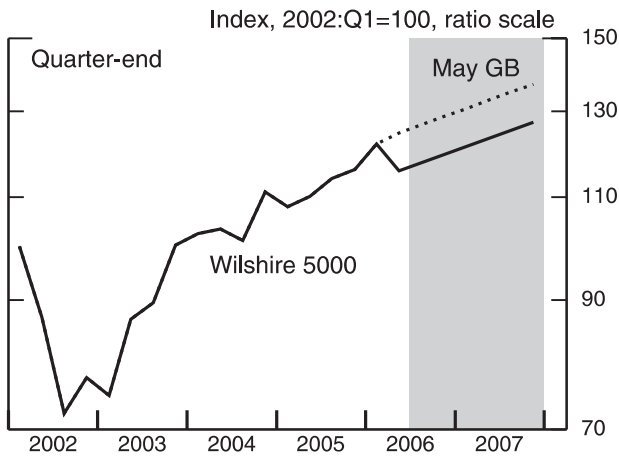


Long-term Interest Rates

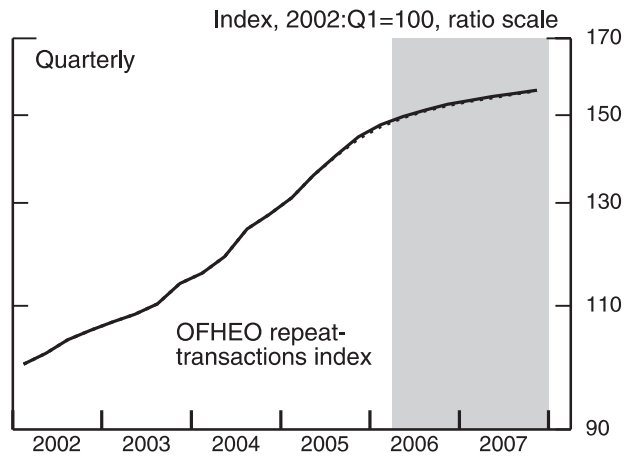


Note. The projection for the BAA corporate rate is unchanged from the May Greenbook. Dotted line for the 10-year Treasury rate represents May Greenbook projection.

Equity Prices

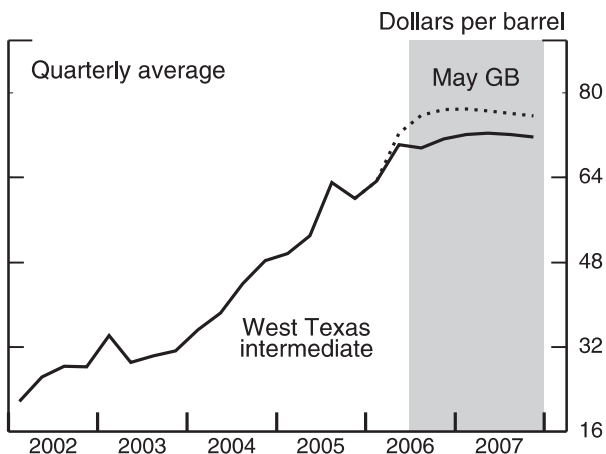


House Prices

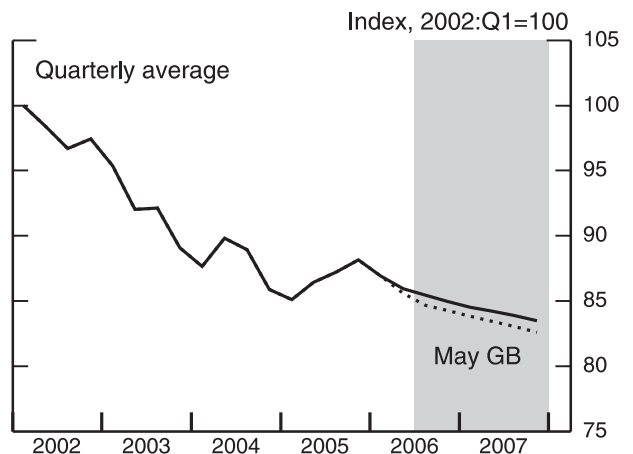


Note. The projection period begins in 2006:Q2. Dotted line represents May Greenbook projection.

Crude Oil Prices



Broad Real Dollar



Note. Shading represents the projection period.

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

Measure	2006:Q1		2006:Q2	
	May GB	June GB	May GB	June GB
Real GDP	5.3	5.8	3.7	2.0
Private domestic final purchases	6.6	5.9	3.4	1.8
Personal consumption expenditures	5.5	5.2	3.7	2.2
Residential investment	3.8	1.7	-1.7	-7.4
Business fixed investment	15.6	13.2	4.4	4.8
Government outlays for consumption and investment	4.4	4.8	.5	.9
	Contribution to growth (percentage points)			
Inventory investment	-.5	-.0	.3	.1
Net exports	-.7	-.2	.3	.2

Recent data suggest that the residential construction sector is weaker than we had previously thought. Single-family housing starts fell to an average annual rate of 1.57 million units in April and May, and other near-term indicators of housing activity, including the permits data and inventories of homes for sale, suggest that underlying conditions have deteriorated as well. We now expect real residential investment to fall at an annual rate of about 7 percent this quarter, a downward revision of almost 6 percentage points from the May Greenbook forecast.

As we had projected last Greenbook, real spending on equipment and software (E&S) appears to have decelerated sharply, from an annual rate of growth of 14 percent in the first quarter to about 2 percent this quarter. Much of this deceleration reflects a retrenchment in business spending on motor vehicles and a flattening out of outlays on communications equipment; spending in both of these categories surged in the first quarter. The data on orders and shipments for capital goods suggest that growth in equipment spending outside the high-tech and transportation sectors—which accounts for about one-half of total E&S—will rebound this quarter from its low first-quarter pace.

The pickup in business investment in nonresidential structures (NRS) that occurred at the start of this year appears to be continuing, with spending boosted not only by further expansion in drilling and mining but also by increased activity in other construction

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

Measure	2006		2007
	H1	H2	
Real GDP	3.9	2.7	2.7
Previous	4.5	3.1	3.0
Final sales	3.9	2.6	2.6
Previous	4.6	3.1	2.9
PCE	3.7	3.0	2.9
Previous	4.6	3.4	3.2
Residential investment	-2.9	-7.5	-1.7
Previous	1.0	-1.4	-.7
BFI	8.9	6.8	5.4
Previous	9.8	7.9	6.1
Government purchases	2.8	1.5	1.3
Previous	2.4	1.6	1.4
Exports	10.0	5.2	5.2
Previous	9.3	5.6	5.8
Imports	6.3	3.5	4.6
Previous	7.2	5.7	5.1
Contribution to growth (percentage points)			
Inventory change	.0	.1	.1
Previous	-.1	.0	.1
Net exports	-.0	-.0	-.2
Previous	-.2	-.4	-.3

including a decline in federal hurricane-related spending, subdued motor vehicle production, and a partial adjustment in the level of consumer spending to higher energy prices. Going forward, the expansion is expected to pick up but still to proceed at a below-potential pace as growth is restrained importantly by the anticipated housing market adjustment, the remaining effects of the tightening in monetary policy, and the waning of wealth effects. In such an environment, the unemployment rate is expected to move up to 5¼ percent, which is slightly above our estimate of the NAIRU.

Decomposition of Structural Labor Productivity

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

Measure	1974-95	1996-2000	2001-04	2004	2005	2006	2007
Structural labor productivity	1.5	2.5	3.3	3.1	3.1	3.0	3.0
Previous	1.5	2.5	3.3	3.1	3.1	3.1	3.1
<i>Contributions¹</i>							
Capital deepening	.7	1.4	.7	.7	1.0	1.0	1.0
Previous	.7	1.4	.7	.7	1.0	1.0	1.1
Multifactor productivity	.5	.8	2.3	2.1	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	3.2	2.9	2.9	3.2	3.2
Previous	3.0	3.4	3.1	2.9	2.9	3.2	3.3

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

1. Percentage points.

The Outlook for the Labor Market

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

Measure	2004	2005	2006	2007
Output per hour, nonfarm business	2.6	2.5	2.6	2.9
Previous	2.6	2.5	2.8	3.1
Nonfarm private payroll employment	1.7	1.6	1.4	.4
Previous	1.7	1.6	1.5	.6
Household survey employment	1.3	1.9	1.2	.3
Previous	1.3	1.9	1.2	.6
Labor force participation rate ¹	66.0	66.1	66.0	65.7
Previous	66.0	66.1	66.0	65.8
Civilian unemployment rate ¹	5.4	5.0	4.9	5.2
Previous	5.4	5.0	4.8	5.0
MEMO				
GDP gap ²	-.7	-.4	-.3	-.8
Previous	-.7	-.4	.1	-.2

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.

Inflation Projections (Percent change, Q4 to Q4, except as noted)				
Measure	2004	2005	2006	2007
PCE chain-weighted price index	3.1	3.0	2.5	2.2
Previous	3.1	3.0	2.5	2.0
Food and beverages	2.9	2.1	2.4	2.3
Previous	2.9	2.1	2.4	2.2
Energy	17.9	21.8	4.1	1.4
Previous	17.9	21.8	7.4	1.5
Excluding food and energy	2.2	2.0	2.4	2.2
Previous	2.2	2.0	2.2	2.0
Consumer price index	3.3	3.7	2.6	2.3
Previous	3.3	3.7	2.8	2.2
Excluding food and energy	2.1	2.1	2.7	2.4
Previous	2.1	2.1	2.5	2.3
GDP chain-weighted price index	2.9	3.1	2.7	2.3
Previous	2.9	3.1	2.6	2.3
ECI for compensation of private industry workers ¹	3.8	2.9	3.2	3.7
Previous	3.8	2.9	3.2	3.8
Compensation per hour, nonfarm business sector	5.9	2.8	5.1	5.2
Previous	5.9	3.7	5.2	5.4
Prices of core nonfuel imports	3.7	2.2	3.1	1.5
Previous	3.7	2.2	3.1	1.3

1. December to December.

Prices and labor costs. Core consumer price inflation has come in above our expectations, and in response, we have marked up our projection for the increase in core PCE prices 0.2 percentage point this year and next. Nonetheless, the basic contour of our forecast is unchanged. Despite the higher incoming data on prices, measures of longer-run inflation expectations remain within the range observed over the past few years; we anticipate that these expectations will remain reasonably well anchored over the next year and a half. Moreover, many of the forces that have driven up core inflation are likely to abate over the forecast period: Energy prices are expected to flatten out, core nonfuel import prices are projected to decelerate from a pace of 3 percent this year to 1½ percent in 2007, and increases in rents are expected to moderate (although not to the slow pace

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	3.9	2.7	2.7
Housing slump	3.9	2.0	2.1
Robust investment	3.9	3.2	3.2
Greater pricing power	3.9	2.6	2.4
Rising inflation expectations	3.9	2.6	2.7
Skittish investors	3.9	2.4	1.9
Lower NAIRU	3.9	2.9	3.0
<i>Unemployment rate¹</i>			
Greenbook Baseline	4.7	4.9	5.2
Housing slump	4.7	5.0	5.7
Robust investment	4.7	4.8	4.9
Greater pricing power	4.7	4.9	5.4
Rising inflation expectations	4.7	4.9	5.2
Skittish investors	4.7	4.9	5.6
Lower NAIRU	4.7	4.9	5.1
<i>Core PCE inflation</i>			
Greenbook Baseline	2.5	2.2	2.2
Housing slump	2.5	2.2	2.2
Robust investment	2.5	2.2	2.1
Greater pricing power	2.5	2.9	3.2
Rising inflation expectations	2.5	2.5	2.8
Skittish investors	2.5	2.4	2.7
Lower NAIRU	2.5	2.0	1.8
<i>Federal funds rate¹</i>			
Greenbook Baseline	4.9	5.3	5.3
Housing slump	4.9	5.1	4.4
Robust investment	4.9	5.5	5.8
Greater pricing power	4.9	5.4	6.1
Rising inflation expectations	4.9	5.3	5.8
Skittish investors	4.9	5.3	5.0
Lower NAIRU	4.9	5.1	4.7

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

similar to that seen during the early 1990s. The reductions in employment and income implied by the falloff in construction activity, coupled with the loss in wealth, directly damp consumer spending and indirectly depress business investment. Overall, real GDP growth slows to an annual pace of 2 percent on average over the second half of 2006 and in 2007, causing the unemployment rate to climb to 5¾ percent by the end of next year.

**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	3.3	2.7
Confidence interval		
Greenbook forecast errors	2.1–4.5	1.1–4.3
FRB/US stochastic simulations	2.4–4.2	1.2–4.2
<i>Civilian unemployment rate</i> (percent, Q4)		
Projection	4.9	5.2
Confidence interval		
Greenbook forecast errors	4.6–5.2	4.4–6.0
FRB/US stochastic simulations	4.5–5.2	4.5–5.8
<i>PCE prices</i> <i>excluding food and energy</i> (percent change, Q4 to Q4)		
Projection	2.4	2.2
Confidence interval		
Greenbook forecast errors	1.9–2.8	1.4–3.0
FRB/US stochastic simulations	2.1–2.7	1.5–2.9
<i>Federal funds rate</i> (percent, Q4)		
Projection	5.2	5.2
Confidence interval		
FRB/US stochastic simulations	4.7–5.8	4.1–6.6

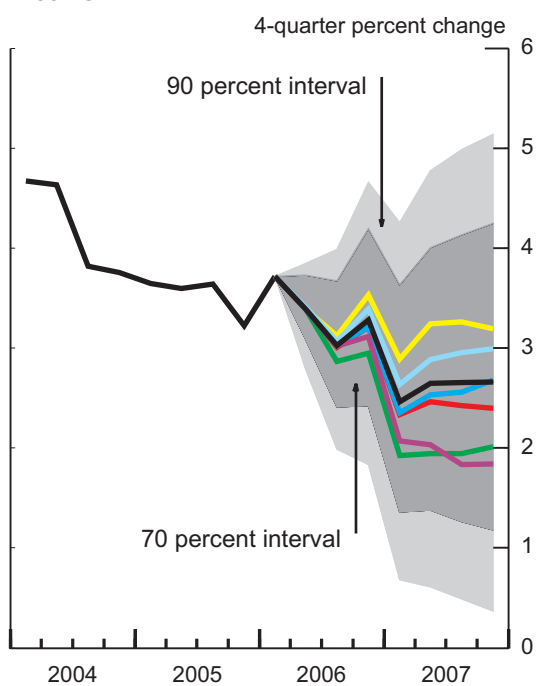
NOTE. Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1986–2004 set of model equation residuals. Intervals derived from Greenbook forecast errors are based on the 1986–2004 set of Greenbook historical errors.

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

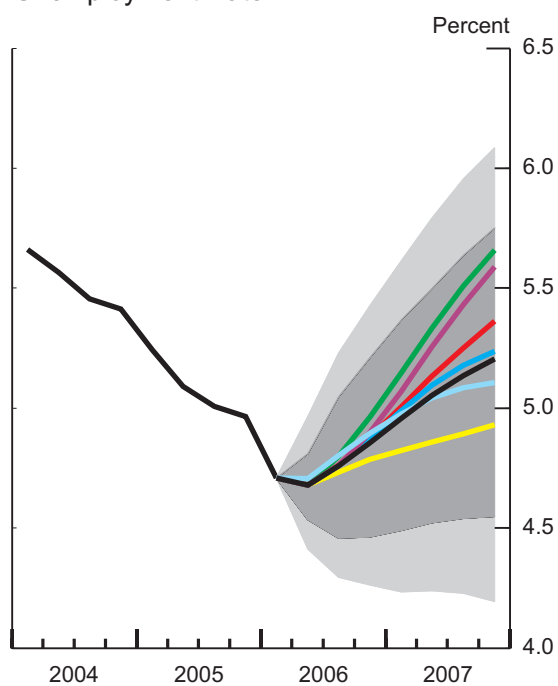
Confidence Intervals based on FRB/US Stochastic Simulations

- | | | |
|----------------------|---------------------------------|----------------|
| ■ Greenbook baseline | ■ Greater pricing power | ■ Lower NAIURU |
| ■ Housing slump | ■ Rising inflation expectations | |
| ■ Robust investment | ■ Skittish investors | |

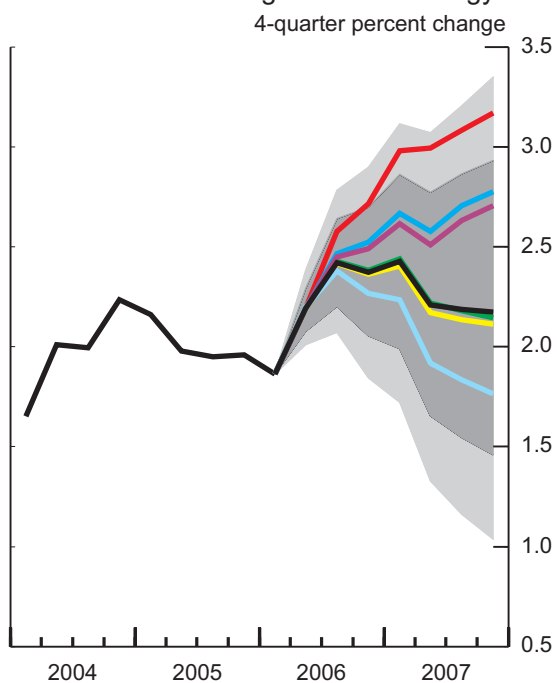
Real GDP



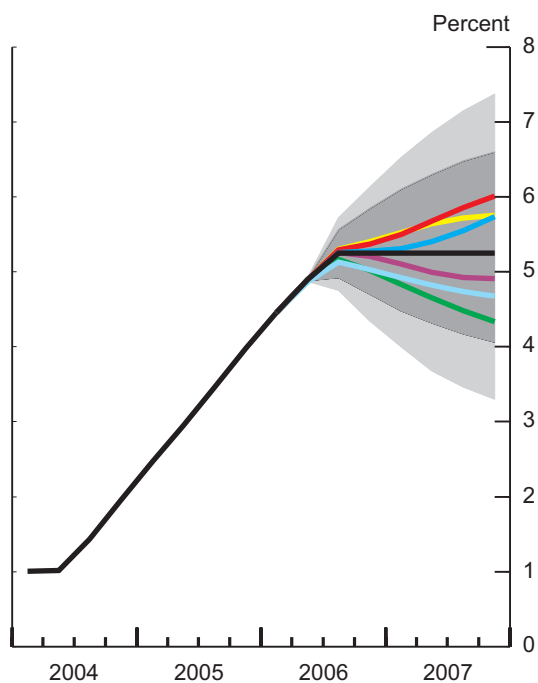
Unemployment Rate



PCE Prices excluding Food and Energy



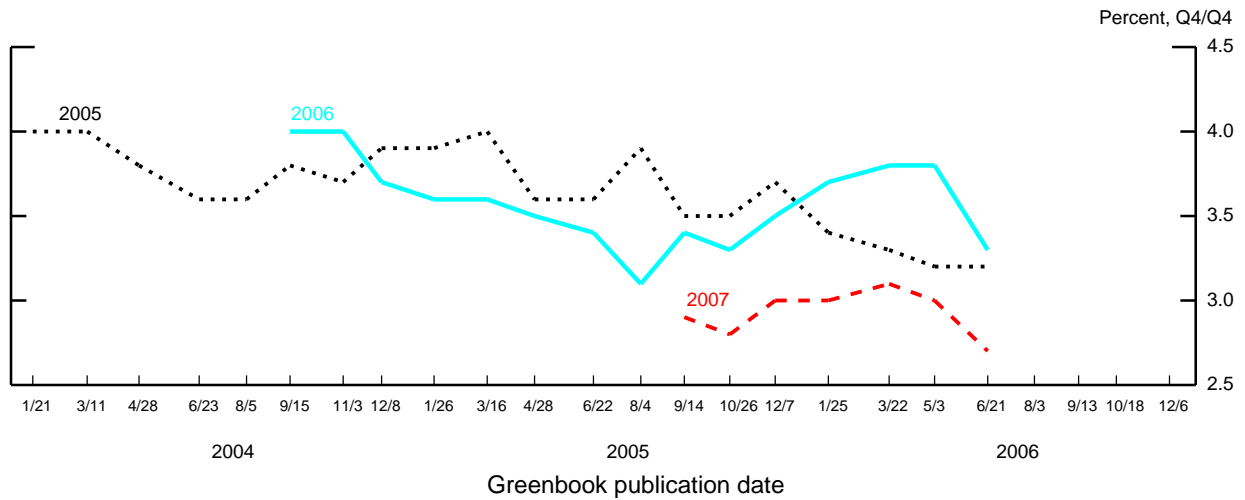
Federal Funds Rate



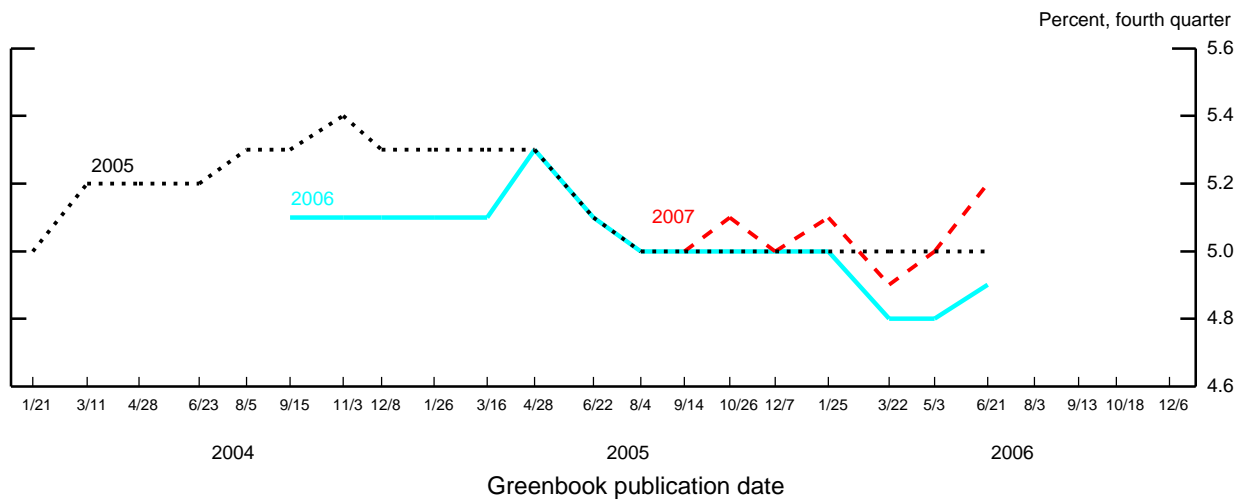
Class II FOMC - Restricted (FR)

Evolution of the Staff Forecast

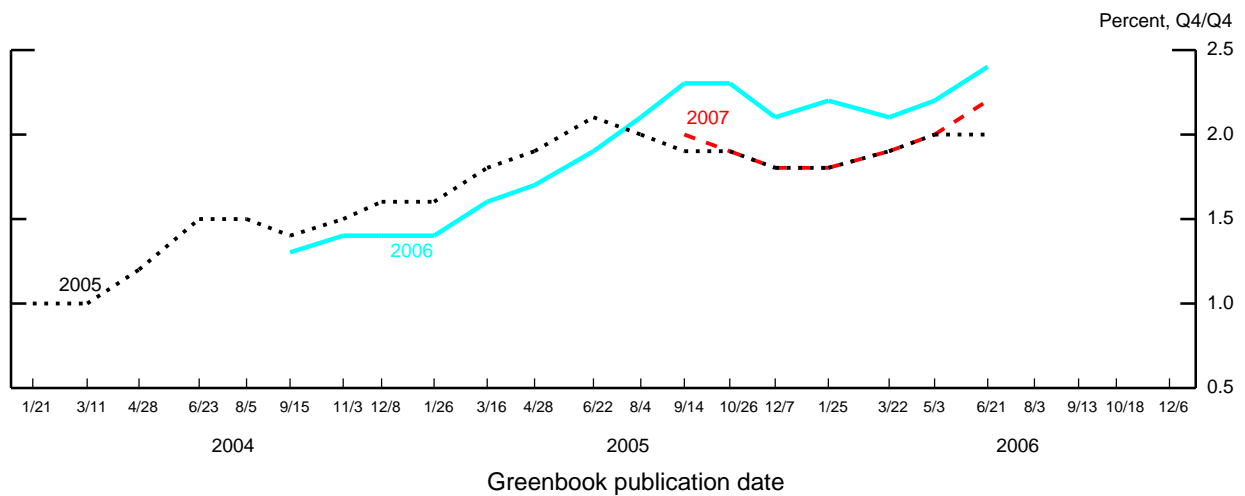
Change in Real GDP



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 ¹	
	5/3/06	6/21/06	5/3/06	6/21/06	5/3/06	6/21/06	5/3/06	6/21/06	5/3/06	6/21/06
<i>Quarterly</i>										
2005:Q1	7.0	7.0	3.8	3.8	2.3	2.3	2.4	2.4	5.2	5.2
2005:Q2	6.0	6.0	3.3	3.3	3.3	3.3	1.7	1.7	5.1	5.1
2005:Q3	7.6	7.6	4.1	4.1	3.7	3.7	1.4	1.4	5.0	5.0
2005:Q4	5.2	5.2	1.7	1.7	2.9	2.9	2.4	2.4	5.0	5.0
2006:Q1	8.8	9.3	5.3	5.8	2.0	2.0	2.0	2.0	4.7	4.7
2006:Q2	7.0	5.9	3.7	2.0	3.9	4.3	2.5	3.1	4.7	4.7
2006:Q3	5.1	5.0	3.2	2.7	2.1	1.8	2.2	2.3	4.8	4.8
2006:Q4	5.2	4.3	3.1	2.7	2.2	1.8	2.1	2.2	4.8	4.9
2007:Q1	5.4	4.8	3.0	2.5	2.2	2.2	2.1	2.2	4.9	5.0
2007:Q2	5.5	5.3	3.0	2.8	2.0	2.2	2.0	2.2	4.9	5.1
2007:Q3	5.3	5.1	3.0	2.7	1.9	2.1	2.0	2.2	4.9	5.1
2007:Q4	5.1	4.9	3.0	2.7	1.8	2.0	1.9	2.1	5.0	5.2
<i>Two-quarter²</i>										
2005:Q2	6.5	6.5	3.6	3.6	2.8	2.8	2.1	2.1	-3	-3
2005:Q4	6.4	6.4	2.9	2.9	3.3	3.3	1.9	1.9	-1	-1
2006:Q2	7.9	7.6	4.5	3.9	3.0	3.1	2.3	2.5	-3	-3
2006:Q4	5.1	4.7	3.1	2.7	2.1	1.8	2.1	2.2	.1	.2
2007:Q2	5.4	5.1	3.0	2.6	2.1	2.2	2.0	2.2	.1	.2
2007:Q4	5.2	5.0	3.0	2.7	1.9	2.1	1.9	2.2	.1	.1
<i>Four-quarter³</i>										
2004:Q4	6.8	6.8	3.8	3.8	3.1	3.1	2.2	2.2	-4	-4
2005:Q4	6.4	6.4	3.2	3.2	3.0	3.0	2.0	2.0	-4	-4
2006:Q4	6.5	6.1	3.8	3.3	2.5	2.5	2.2	2.4	-2	-1
2007:Q4	5.3	5.0	3.0	2.7	2.0	2.2	2.0	2.2	.2	.3
<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	3.5	3.5	2.8	2.8	2.0	2.0	5.1	5.1
2006	6.7	6.6	3.6	3.4	2.8	2.8	2.1	2.2	4.8	4.8
2007	5.4	4.9	3.1	2.6	2.2	2.2	2.1	2.2	4.9	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	1.7	5.8	2.0	2.7	2.7	2.5	2.8	2.7	2.7	3.2	3.3	2.7
Final sales <i>Previous</i>	3.8	3.3	4.1	1.7	5.3	3.7	3.2	3.1	3.0	3.0	3.0	3.0	3.2	3.8	3.0
Priv. dom. final purch. <i>Previous</i>	3.5	5.6	4.6	-2	5.9	1.9	2.9	2.4	2.3	3.0	2.9	2.1	3.3	3.3	2.6
	3.5	5.6	4.6	-2	5.8	3.3	3.3	2.8	2.7	3.5	3.1	2.3	3.3	3.8	2.9
	4.1	4.5	4.8	1.5	5.9	1.8	2.6	2.9	2.8	3.0	2.9	2.8	3.7	3.3	2.9
	4.1	4.5	4.8	1.5	6.6	3.4	3.7	3.5	3.3	3.4	3.3	3.1	3.7	4.3	3.3
Personal cons. expend. <i>Previous</i>	3.5	3.4	4.1	.9	5.2	2.2	3.2	2.8	3.0	2.9	2.9	2.8	2.9	3.3	2.9
Durables	3.5	3.4	4.1	.9	5.5	3.7	3.5	3.4	3.2	3.2	3.2	3.1	2.9	4.0	3.2
Nondurables	2.6	7.9	9.3	-16.6	20.4	1.4	7.8	4.4	5.1	5.0	5.0	4.5	.2	8.3	4.9
Services	5.3	3.6	3.5	5.0	5.8	.7	2.3	3.1	3.2	3.2	3.2	3.2	4.4	3.0	3.2
	2.8	2.3	3.3	2.6	2.2	3.1	2.7	2.4	2.5	2.4	2.4	2.4	2.8	2.6	2.4
Residential investment <i>Previous</i>	9.5	10.8	7.3	2.8	1.7	-7.4	-11.6	-3.2	-2.7	-5	-1.5	-2.2	7.6	-5.2	-1.7
	9.5	10.8	7.3	2.8	3.8	-1.7	-2.1	-6	-2	-2	-6	-2.0	7.6	-2	-7
Business fixed invest. <i>Previous</i>	5.7	8.8	8.5	4.5	13.2	4.8	7.2	6.4	4.7	5.7	5.5	5.5	6.9	7.9	5.4
Equipment & software	5.7	8.8	8.5	4.5	15.6	4.4	8.9	6.8	5.4	6.5	6.3	6.1	6.9	8.9	6.1
<i>Previous</i>	8.3	10.9	10.6	5.0	13.8	1.8	6.6	5.9	4.4	6.1	6.0	6.1	8.7	6.9	5.7
	8.3	10.9	10.6	5.0	17.0	2.1	8.8	6.2	5.0	6.6	6.5	6.3	8.7	8.4	6.1
Nonres. structures	-2.0	2.7	2.2	3.1	11.8	13.2	8.6	7.5	5.4	4.9	4.3	4.0	1.5	10.3	4.6
<i>Previous</i>	-2.0	2.7	2.2	3.1	11.6	10.7	9.2	8.6	6.5	6.1	5.7	5.6	1.5	10.0	6.0
Net exports ² <i>Previous</i> ²	-645	-614	-617	-655	-660	-654	-644	-655	-667	-663	-658	-676	-633	-653	-666
Exports	-645	-614	-617	-655	-675	-666	-672	-686	-699	-691	-693	-713	-633	-675	-699
Imports	7.5	10.7	2.5	5.1	14.9	5.4	5.3	5.1	5.1	5.4	5.3	5.2	6.4	7.6	5.2
	7.4	-3	2.4	12.1	10.5	2.3	1.3	5.6	5.9	2.7	2.7	7.2	5.3	4.9	4.6
Govt. cons. & invest. <i>Previous</i>	1.9	2.5	2.9	-8	4.8	.9	1.5	1.4	1.3	1.3	1.3	1.3	1.6	2.1	1.3
Federal	1.9	2.5	2.9	-8	4.4	.5	1.6	1.6	1.4	1.4	1.4	1.4	1.6	2.0	1.4
Defense	2.4	2.4	7.4	-2.6	10.5	-7	.9	.6	.0	.0	.0	.0	2.3	2.7	.0
Nondefense	3.0	3.7	10.0	-8.9	9.6	4.0	1.4	.9	.0	.0	.0	.0	1.7	3.9	.0
State & local	1.1	-2	2.4	11.7	12.2	-9.4	-1	.0	.0	.0	.0	.0	3.6	.4	.0
	1.6	2.6	.2	.2	1.6	1.8	1.9	1.9	2.1	2.1	2.1	2.1	1.2	1.8	2.1
Change in bus. inventories ² <i>Previous</i> ²	58	-2	-13	38	35	38	33	42	49	41	35	53	20	37	44
Nonfarm ²	58	-2	-13	38	25	36	31	38	48	34	32	53	20	33	42
Farm ²	62	3	-8	43	41	39	32	41	48	40	34	52	25	38	43
	-2	-4	-5	-4	-4	-1	1	1	1	1	1	1	-4	-1	1

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

2. Billions of chained (2000) dollars.

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

Item	1999 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	3.2 3.2	3.3 3.8	2.7 3.0
Final sales <i>Previous</i>	4.2 4.2	2.9 2.9	1.5 1.5	.8 .8	4.0 4.0	3.6 3.6	3.3 3.3	3.3 3.8	2.6 2.9
Priv. dom. final purch. <i>Previous</i>	5.3 5.3	4.3 4.3	1.0 1.0	1.1 1.1	4.4 4.4	4.8 4.8	3.7 3.7	3.3 4.3	2.9 3.3
Personal cons. expend. <i>Previous</i>	4.9 4.9	4.1 4.1	2.8 2.8	1.9 1.9	3.8 3.8	3.8 3.8	2.9 2.9	3.3 4.0	2.9 3.2
Durables	7.3	4.7	10.8	1.2	9.2	5.2	.2	8.3	4.9
Nondurables	4.9	3.0	1.9	2.1	4.1	4.6	4.4	3.0	3.2
Services	4.4	4.5	1.6	1.9	2.5	3.1	2.8	2.6	2.4
Residential investment <i>Previous</i>	3.6 3.6	-1.9 -1.9	1.4 1.4	7.0 7.0	11.8 11.8	6.6 6.6	7.6 7.6	-5.2 -2	-1.7 -7
Business fixed invest. <i>Previous</i>	7.7 7.7	7.8 7.8	-9.6 -9.6	-6.5 -6.5	5.6 5.6	10.9 10.9	6.9 6.9	7.9 8.9	5.4 6.1
Equipment & software <i>Previous</i>	10.8 10.8	7.5 7.5	-9.0 -9.0	-3.4 -3.4	7.2 7.2	13.8 13.8	8.7 8.7	6.9 8.4	5.7 6.1
Nonres. structures <i>Previous</i>	-9 -9	8.8 8.8	-11.1 -11.1	-14.9 -14.9	1.2 1.2	2.7 2.7	1.5 1.5	10.3 10.0	4.6 6.0
Net exports ² <i>Previous</i> ²	-296 -296	-379 -379	-399 -399	-471 -471	-521 -521	-601 -601	-633 -633	-653 -675	-666 -699
Exports	5.6	6.5	-11.9	3.8	6.0	6.1	6.4	7.6	5.2
Imports	12.1	11.2	-7.6	9.7	5.1	10.6	5.3	4.9	4.6
Govt. cons. & invest. <i>Previous</i>	4.2 4.2	.4 .4	5.0 5.0	4.0 4.0	1.9 1.9	2.1 2.1	1.6 1.6	2.1 2.0	1.3 1.4
Federal	4.2	-2.2	6.4	7.8	5.5	4.2	2.3	2.7	.0
Defense	4.3	-3.5	6.5	8.4	7.5	4.9	1.7	3.9	.0
Nondefense	4.1	.3	6.3	6.8	1.6	2.8	3.6	.4	.0
State & local	4.2	1.7	4.2	2.1	.0	.9	1.2	1.8	2.1
Change in bus. inventories ² <i>Previous</i> ²	69 69	56 56	-32 -32	12 12	15 15	52 52	20 20	37 33	44 42
Nonfarm ²	72	58	-32	15	15	50	25	38	43
Farm ²	-3	-1	0	-2	0	2	-4	-1	1

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

2. Billions of chained (2000) dollars.

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

Item	2005				2006				2007				2005 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	1.7	5.8	2.0	2.7	2.7	2.5	2.8	2.7	2.7	3.2	3.3	2.7
Final sales <i>Previous</i>	3.8	3.3	4.1	1.7	5.3	3.7	3.2	3.1	3.0	3.0	3.0	3.0	3.2	3.8	3.0
Priv. dom. final purch. <i>Previous</i>	3.5	5.5	4.6	-2	5.9	1.9	2.9	2.4	2.3	3.0	2.9	2.1	3.3	3.2	2.6
Personal cons. expend. <i>Previous</i>	3.5	5.5	4.6	-2	5.8	3.3	3.3	2.8	2.7	3.5	3.1	2.3	3.3	3.8	2.9
Durables	3.6	3.9	4.2	1.3	5.2	1.6	2.2	2.5	2.5	2.6	2.6	2.5	3.2	2.9	2.5
Nondurables	3.6	3.9	4.2	1.3	5.7	2.9	3.2	3.1	2.9	3.0	2.9	2.7	3.2	3.7	2.9
Services	2.4	2.4	2.9	.6	3.7	1.5	2.2	2.0	2.1	2.0	2.0	2.0	2.1	2.3	2.0
Residential investment <i>Previous</i>	2.4	2.4	2.9	.6	3.8	2.6	2.4	2.4	2.3	2.2	2.2	2.2	2.1	2.8	2.2
Business fixed invest. <i>Previous</i>	.2	.6	.8	-1.5	1.5	.1	.6	.3	.4	.4	.4	.4	.0	.6	.4
Equipment & software <i>Previous</i>	1.1	.7	.7	1.0	1.2	.1	.5	.6	.7	.7	.7	.7	.9	.6	.7
Nonres. structures <i>Previous</i>	1.2	1.0	1.4	1.1	1.0	1.3	1.1	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.0
Net exports <i>Previous</i>	.5	.6	.4	.2	.1	-.5	-.7	-.2	-.2	.0	-.1	-.1	.4	-.3	-.1
Exports	.5	.6	.4	.2	.2	-.1	-.1	.0	.0	.0	.0	-.1	.4	.0	.0
Imports	.6	.9	.9	.5	1.4	.5	.8	.7	.5	.6	.6	.6	.7	.8	.6
Govt. cons. & invest. <i>Previous</i>	.6	.9	.9	.5	1.6	.5	1.0	.8	.6	.7	.7	.7	.7	1.0	.7
Federal	.6	.8	.8	.4	1.1	.1	.5	.5	.3	.5	.5	.5	.7	.5	.4
Defense	.6	.8	.8	.4	1.3	.2	.7	.5	.4	.5	.5	.5	.7	.7	.5
Nondefense	-.1	.1	.1	.1	.3	.4	.3	.2	.2	.2	.1	.1	.0	.3	.2
State & local	-.1	.1	.1	.1	.3	.3	.3	.3	.2	.2	.2	.2	.0	.3	.2
Change in bus. inventories <i>Previous</i>	-.4	1.1	-.1	-1.4	-.2	.2	.3	-.4	-.4	.1	.1	-.6	-.2	.0	-.2
Nonfarm	-.4	1.1	-.1	-1.4	-.7	.3	-.2	-.5	-.5	.2	-.1	-.7	-.2	-.3	-.3
Farm	.7	1.1	.3	.5	1.5	.6	.6	.5	.6	.6	.6	.6	.6	.8	.6
	-1.1	.0	-.4	-1.9	-1.7	-.4	-.2	-.9	-1.0	-.5	-.5	-1.2	-.9	-.8	-.8
Govt. cons. & invest. <i>Previous</i>	.4	.5	.5	-2	.9	.2	.3	.3	.2	.3	.3	.3	.3	.4	.3
Federal	.4	.5	.5	-2	.8	.1	.3	.3	.3	.3	.3	.3	.3	.4	.3
Defense	.2	.2	.5	-2	.7	.0	.1	.0	.0	.0	.0	.0	.2	.2	.0
Nondefense	.1	.2	.5	-4	.4	.2	.1	.0	.0	.0	.0	.0	.1	.2	.0
State & local	.0	.0	.1	.3	.3	-.2	.0	.0	.0	.0	.0	.0	.1	.0	.0
Change in bus. inventories <i>Previous</i>	.2	.3	.0	.0	.2	.2	.2	.2	.2	.3	.3	.3	.1	.2	.3
Nonfarm	.3	-2.1	-.4	1.9	.0	.1	-.2	.3	.2	-.2	-.2	.6	-.1	.0	.1
Farm	.3	-2.1	-.4	1.9	-.5	.3	-.1	.2	.3	-.5	-.1	.7	-.1	.0	.1
	.4	-2.1	-.4	1.9	-.1	.0	-.2	.3	.2	-.2	-.2	.6	-.1	.0	.1
	-.1	-.1	.0	.0	.0	.1	.1	.0	.0	.0	.0	.0	.0	.1	.0

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

Class II FOMC
Restricted (FR)

June 21, 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	2005 ¹	2006 ¹	2007 ¹
GDP 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
PCE chain-wt. price index <i>Previous</i>	3.1	2.6	3.3	3.5	3.3	3.2	1.9	2.1	2.3	2.4	2.2	2.0	3.1	2.6	2.3
Energy <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
Food <i>Previous</i>	2.3	3.3	3.7	2.9	2.0	3.9	2.1	2.2	2.2	2.0	1.9	1.8	3.0	2.5	2.0
Ex. food & energy <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
CPI <i>Previous</i>	3.6	28.6	50.0	10.3	-2	30.0	.4	2.3	3.0	1.7	1.1	.1	21.8	7.4	1.5
Ex. food & energy <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
ECL, hourly compensation ² <i>Previous</i>	1.0	3.5	1.3	2.4	2.7	1.9	2.4	2.4	2.3	2.2	2.2	2.1	2.1	2.4	2.2
Nonfarm business sector Output per hour <i>Previous</i>	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
Compensation per hour <i>Previous</i>	2.4	1.7	1.4	2.4	2.0	2.5	2.2	2.1	2.1	2.0	2.0	1.9	2.0	2.2	2.0
Unit labor costs <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
ECL, hourly compensation ² <i>Previous</i>	2.3	3.8	5.5	3.3	2.2	4.4	2.2	2.4	2.4	2.2	2.1	2.0	3.7	2.8	2.2
Nonfarm business sector Output per hour <i>Previous</i>	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
Compensation per hour <i>Previous</i>	2.6	1.8	1.6	2.4	2.4	2.7	2.4	2.4	2.3	2.3	2.2	2.2	2.1	2.5	2.3
ECL, hourly compensation ² <i>Previous</i>	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
Nonfarm business sector Output per hour <i>Previous</i>	3.8	2.5	2.9	2.8	2.4	3.4	3.5	3.7	3.7	3.7	3.9	3.9	2.9	3.2	3.8
Compensation per hour <i>Previous</i>	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
Unit labor costs <i>Previous</i>	3.8	2.4	4.2	-.4	3.3	2.5	2.7	2.9	3.1	3.1	3.1	3.1	2.5	2.8	3.1
ECL, hourly compensation ² <i>Previous</i>	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
Nonfarm business sector Output per hour <i>Previous</i>	5.6	1.3	5.5	2.6	5.0	4.6	5.5	5.5	5.5	5.4	5.3	5.3	3.7	5.2	5.4
Compensation per hour <i>Previous</i>	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
Unit labor costs <i>Previous</i>	1.8	-1.0	1.2	3.0	1.7	2.0	2.7	2.5	2.3	2.3	2.2	2.2	1.2	2.2	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	.5	.5	.4	.6	.4	.4	.3	.2	.2	.2	.1	1.9	1.7	.7
Unemployment rate ³	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
<i>Previous³</i>	5.2	5.1	5.0	5.0	4.7	4.7	4.8	4.8	4.9	4.9	4.9	5.0	5.0	4.8	5.0
GDP gap ⁴	-5	-4	-1	-4	.3	.0	-1	-3	-4	-5	-7	-8	-4	-3	-8
<i>Previous⁴</i>	-5	-4	-1	-4	.1	.2	.1	.1	.0	.0	-1	-2	-4	.1	-2
Industrial production ⁵	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
<i>Previous⁵</i>	3.8	1.6	1.4	5.3	4.5	7.2	5.8	4.5	4.0	3.1	2.8	2.8	3.0	5.5	3.2
Manufacturing industr. prod. ⁵	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
<i>Previous⁵</i>	4.5	1.3	2.0	9.1	5.4	5.5	5.4	4.3	4.1	3.3	3.1	3.1	4.2	5.2	3.4
Capacity utilization rate - mfg. ³	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
<i>Previous³</i>	78.7	78.5	78.5	79.8	80.4	80.9	81.5	81.8	82.1	82.1	82.1	82.0	79.8	81.8	82.0
Housing starts ⁶	2.1	2.1	2.1	2.1	2.1	1.9	1.9	1.9	1.9	1.9	1.9	1.9	2.1	2.0	1.9
Light motor vehicle sales ⁶	16.5	17.2	17.9	15.8	16.9	16.4	16.7	16.7	16.7	16.7	16.7	16.7	16.9	16.7	16.7
<i>Income and saving</i>															
Nominal GDP ⁵	7.0	6.0	7.6	5.2	9.3	5.9	5.0	4.3	4.8	5.3	5.1	4.9	6.4	6.1	5.0
Real disposable pers. income ⁵	-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
<i>Previous⁵</i>	-3.4	.2	-1.4	6.7	3.2	3.8	5.5	4.2	4.6	4.6	3.9	3.7	.5	4.2	4.2
Personal saving rate ³	.5	-2	-1.6	-5	-1.3	-1.3	-8	-3	.1	.4	.6	.9	-5	-3	.9
<i>Previous³</i>	.5	-2	-1.6	-2	-.7	-.7	-.2	.0	.4	.7	.9	1.0	-.2	.0	1.0
Corporate profits ⁷	24.5	19.7	-15.2	71.1	35.4	6.8	-3.1	-9.0	-5.3	.2	-.4	.6	21.3	6.2	-1.2
Profit share of GNP ³	10.5	10.9	10.2	11.6	12.2	12.2	12.0	11.6	11.3	11.2	11.1	11.0	11.6	11.6	11.0
Net federal saving ⁸	-298	-297	-408	-303	-241	-295	-313	-329	-355	-356	-359	-367	-323	-295	-359
Net state & local saving ⁸	7	21	-6	-10	19	36	23	21	26	27	27	31	3	25	28
Gross national saving rate ³	13.4	13.1	13.6	13.2	13.7	13.4	13.4	13.3	13.3	13.3	13.4	13.4	13.2	13.3	13.4
Net national saving rate ³	1.7	1.6	-1.3	1.4	2.4	2.2	2.2	2.0	1.9	2.0	2.0	2.0	1.4	2.0	2.0

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

2. Change, millions.

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

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

Annual values are for the fourth quarter of the year indicated.

5. Percent change, annual rate.

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

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

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

**Class II FOMC
Restricted (FR)**

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

June 21, 2006

Item	Fiscal year				2005				2006				2007				
	2004 ^a	2005 ^a	2006	2007	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1 ^a	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Unified budget	Not seasonally adjusted																
	Receipts ¹	1880	2154	2376	2443	452	665	549	530	507	769	569	550	508	789	597	579
	Outlays ¹	2293	2472	2672	2773	628	620	618	650	691	671	660	679	727	691	676	734
	Surplus/deficit ¹	-412	-318	-296	-330	-177	45	-69	-119	-184	98	-91	-129	-219	97	-79	-155
	Previous	-412	-318	-293	-320	-177	45	-69	-119	-184	100	-90	-133	-205	88	-70	-150
	On-budget	-568	-494	-471	-508	-202	-37	-84	-170	-216	17	-103	-188	-241	13	-92	-214
	Off-budget	155	175	175	178	25	83	15	51	32	81	12	60	22	84	12	60
Means of financing																	
Borrowing	378	297	292	348	165	-43	73	112	156	-83	107	124	204	-68	88	145	
Cash decrease	-1	1	5	-5	2	-11	-2	-1	28	-17	-5	6	15	-25	0	10	
Other ²	35	21	-2	-13	10	8	-1	8	-1	2	-11	-1	0	-4	-8	-0	
Cash operating balance, end of period	36	36	30	35	22	33	36	37	8	25	30	25	10	35	35	25	
NIPA federal sector	Seasonally adjusted annual rates																
Receipts	1933	2159	2395	2499	2197	2228	2156	2307	2396	2432	2443	2461	2485	2512	2538	2567	
Expenditures	2348	2503	2683	2849	2495	2525	2564	2610	2638	2727	2756	2790	2840	2868	2897	2934	
Consumption expenditures	711	760	803	839	760	763	783	773	806	814	821	826	840	844	848	852	
Defense	474	510	536	563	509	512	529	514	534	545	549	554	563	566	568	571	
Nondefense	237	250	268	277	251	251	254	259	272	269	271	272	277	278	280	281	
Other spending	1637	1742	1879	2010	1735	1762	1781	1837	1831	1913	1935	1964	2000	2024	2049	2082	
Current account surplus	-415	-344	-288	-350	-298	-297	-408	-303	-241	-295	-313	-329	-355	-356	-359	-367	
Gross investment	99	106	116	117	101	107	109	115	119	116	116	117	117	117	117	117	
Gross saving less gross investment ³	-421	-352	-303	-361	-302	-307	-418	-319	-259	-309	-326	-342	-367	-367	-369	-376	
Fiscal indicators ⁴																	
High-employment (HEB) surplus/deficit	-382	-340	-307	-349	-287	-297	-418	-311	-270	-317	-328	-341	-356	-351	-347	-349	
Change in HEB, percent of potential GDP	0.7	-0.5	-0.4	0.2	-0.6	0.0	0.9	-0.9	-0.4	0.3	0.0	0.1	0.1	-0.1	-0.1	-0.0	
Fiscal impetus (FI) percent of GDP	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	
Previous	0.8	0.3	0.4	0.1	0.0	0.1	0.1	-0.0	0.3	0.0	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** **June 21, 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	7.7	6.1	8.9	-2	2.7
2002	6.9	9.7	11.9	4.5	2.7	11.1	7.6	3.6
2003	8.1	11.3	14.3	4.2	2.7	8.2	10.9	6.1
2004	8.8	11.2	13.6	4.2	5.9	7.4	9.0	6.8
2005	9.5	11.7	14.2	2.7	7.9	10.3	7.0	6.4
2006	8.0	9.2	10.9	2.6	8.0	4.9	6.5	6.1
2007	6.4	6.3	7.1	3.2	6.4	4.3	7.4	5.0
<i>Quarter</i>								
2005:1	9.8	9.8	11.8	3.0	6.6	12.1	14.4	7.0
2	8.1	11.9	13.9	3.8	8.2	6.0	.1	6.0
3	9.5	12.3	14.9	4.7	7.6	13.1	5.1	7.6
4	9.4	11.1	13.4	-7	8.3	8.6	7.8	5.2
2006:1	10.9	11.6	13.6	2.2	9.9	5.8	12.9	9.3
2	6.2	8.8	10.5	2.7	8.5	4.5	-3.7	5.9
3	7.4	8.1	9.5	3.0	6.6	5.9	7.9	5.0
4	6.8	7.2	8.4	2.5	6.2	3.1	8.4	4.3
2007:1	8.0	6.6	7.7	2.7	6.3	4.3	16.0	4.8
2	4.6	6.3	7.1	3.0	6.3	4.2	-2.3	5.3
3	5.9	6.0	6.7	3.3	6.3	4.2	5.8	5.1
4	6.4	5.7	6.3	3.5	6.1	4.1	9.4	4.9

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

June 21, 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
<i>Domestic nonfinancial sectors</i>														
Net funds raised														
Total	1815.8	1935.5	1722.7	1577.7	1934.8	2014.1	2331.3	1232.5	1707.9	1618.9	2041.2	1098.5	1504.4	1666.7
Net equity issuance	-126.6	-363.8	-402.5	-242.4	-470.8	-420.0	-543.6	-444.0	-340.0	-282.4	-242.4	-242.4	-242.4	-242.4
Net debt issuance	1942.4	2299.3	2125.2	1820.1	2405.6	2434.1	2874.9	1676.5	2047.9	1901.3	2283.6	1340.9	1746.8	1909.1
Borrowing indicators														
Debt (percent of GDP) ¹	197.1	202.2	206.3	210.7	202.2	204.4	205.0	206.4	207.4	208.8	210.2	210.7	210.9	211.6
Borrowing (percent of GDP)	16.6	18.4	16.0	13.0	19.1	19.1	22.0	12.7	15.3	14.0	16.7	9.7	12.4	13.4
Households														
Net borrowing ²	1032.8	1208.7	1060.9	791.1	1333.2	1242.8	1333.9	1043.9	981.4	884.3	830.9	799.7	778.6	755.0
Home mortgages	910.1	1078.4	950.5	688.3	1207.7	1122.3	1181.5	946.1	879.8	794.7	737.9	700.1	671.7	643.3
Consumer credit	86.2	57.4	56.9	70.8	100.5	-15.3	48.1	58.5	65.5	55.6	61.1	67.7	75.0	79.3
Debt/DPI (percent) ³	112.8	120.7	126.2	127.4	122.1	123.3	125.5	126.6	127.0	127.4	127.3	127.5	127.5	127.5
Business														
Financing gap ⁴	46.4	-93.2	88.2	151.0	-237.0	-130.7	32.2	82.1	95.0	143.6	123.9	138.0	151.0	191.1
Net equity issuance	-126.6	-363.8	-402.5	-242.4	-470.8	-420.0	-543.6	-444.0	-340.0	-282.4	-242.4	-242.4	-242.4	-242.4
Credit market borrowing	432.4	611.0	669.2	578.1	611.5	676.8	825.7	728.3	574.8	548.1	571.2	577.3	584.5	579.5
State and local governments														
Net borrowing	115.3	172.6	90.6	82.8	228.9	155.5	107.6	84.0	111.7	59.0	82.8	82.8	82.8	82.8
Current surplus ⁵	181.3	206.3	197.3	206.6	208.3	195.3	192.5	206.2	195.7	195.0	202.4	204.8	207.1	212.1
Federal government														
Net borrowing	361.9	306.9	304.7	368.1	231.9	359.0	607.7	-179.7	380.0	409.9	798.7	-118.9	300.9	491.8
Net borrowing (n.s.a.)	361.9	306.9	304.7	368.1	72.8	112.2	156.1	-82.9	107.0	124.5	203.9	-68.1	87.7	144.7
Unified deficit (n.s.a.)	400.7	319.7	305.6	355.9	69.0	119.3	183.7	-98.1	91.2	128.9	219.1	-97.1	79.3	154.6
<i>Depository institutions</i>														
Funds supplied	796.9	814.2	658.2	480.4	859.0	481.7	1039.1	766.6	405.7	421.3	573.1	439.8	548.4	360.1

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.

International Developments

Financial market volatility and lowered expectations for U.S. economic growth following some lackluster data releases have raised concerns about the strength and durability of the economic expansion abroad. Although indicators of foreign economic activity remain generally favorable and emerging-market fundamentals are still strong, a shift by global investors away from risky assets has raised the specter of a larger correction in financial markets that could have additional negative effects on real activity, especially in emerging markets. At the same time, rising inflationary pressures have prompted a tightening of monetary policy in a number of industrial and emerging-market economies in the past few weeks, adding to fears that economic growth could slow more than desired.

At this time we do not see either rapidly rising inflation or a global recession as likely outcomes. Our forecast shows a moderate slowdown in foreign economic growth from its strong first-quarter pace and is only slightly weaker than in the May Greenbook. However, downside risks do appear to have increased for some of the more vulnerable emerging-market economies. Nevertheless, some upside risks have increased as well. In particular, the Chinese economy now appears not to have slowed as much as anticipated in response to recently imposed administrative measures to curb investment. In addition, the recent decline in oil prices should help ease inflationary pressures and may reduce the need for further monetary policy tightening going forward.

Summary of Staff Projections

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

Indicator	2005		2006	Projection		
	H1	H2	Q1	2006		2007
				Q2	H2	
Foreign output	3.3	4.1	4.5	3.5	3.3	3.3
<i>May GB</i>	3.3	4.2	4.0	3.7	3.5	3.4
Foreign CPI	2.0	2.6	2.0	2.7	2.7	2.5
<i>May GB</i>	2.0	2.6	2.0	2.8	2.8	2.5

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

By the fourth quarter, core import prices are projected to decelerate, reflecting a moderation of the effect 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 slightly higher than in the May Greenbook in both the second half of this year and next year, as the effect on the forecast of higher commodity prices is partially offset by the slightly stronger dollar.

Staff Projections of Selected Trade Prices

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

Indicator	2005		2006	Projection		
	H1	H2	Q1	2006		2007
				Q2	H2	
<i>Exports</i>						
Core goods	4.9	2.9	3.6	6.9	5.1	1.7
May GB	4.9	2.9	3.3	5.1	4.3	1.7
<i>Imports</i>						
Nonfuel core goods	3.3	1.1	1.8	3.3	3.6	1.5
May GB	3.3	1.1	1.7	3.8	3.5	1.3
Oil (dollars per barrel)	46.28	55.39	55.10	63.03	65.43	66.63
May GB	46.30	55.40	55.12	64.73	71.03	70.65

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

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

Core export prices are projected to increase at an annual rate of almost 7 percent in the current quarter, nearly twice the rate recorded in the first quarter and 2 percentage points higher than was projected in the May Greenbook. The sharp pickup has been concentrated in prices of material-intensive goods. The average level of prices for exported nonagricultural industrial supplies in April and May was 15 percent at an annual rate above the first-quarter average. In addition, after several months of decline, prices of agricultural products rose in May.

Core export price inflation is expected to remain high at 6½ percent in the third quarter, reflecting the recent strength of producer prices for intermediate materials excluding food and energy as well as the prices of primary commodities (especially metals). Thereafter,

year as U.S. growth stabilizes and core import price inflation declines. Similarly, the growth of imported services should recover as the effects of the step-down in U.S. growth and rapid fall in the dollar earlier this year wane. Imports of computers and semiconductors are expected to continue growing apace. Our projection for the current quarter is a little higher than in the previous Greenbook, as the effect on core imports of slower U.S. growth and weak non-oil nominal import data for April is more than offset by an upward revision to imports of oil and natural gas. We have revised down our projection for real import growth $2\frac{1}{4}$ percentage points in the second half of this year in response to the markdown in U.S. growth as well as lower projected oil imports, and we have revised down our projection for next year $\frac{1}{2}$ percentage point.

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

Indicator	2005		2006	Projection		
	H1	H2	Q1	2006		2007
				Q2	H2	
Real exports	9.1	3.8	14.9	5.4	5.2	5.2
<i>May GB</i>	<i>9.1</i>	<i>3.8</i>	<i>12.7</i>	<i>6.0</i>	<i>5.6</i>	<i>5.8</i>
Real imports	3.5	7.1	10.5	2.3	3.5	4.6
<i>May GB</i>	<i>3.5</i>	<i>7.1</i>	<i>12.7</i>	<i>1.9</i>	<i>5.7</i>	<i>5.1</i>

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

Real exports of goods and services rose nearly 15 percent in the first quarter in response to strong foreign growth as well as the continued recovery of exports of industrial supplies from supply disruptions following last year's hurricanes. The first-quarter increase was a little more than 2 percentage points higher than shown in the May Greenbook, with most of the revision attributable to higher first-quarter services exports.

We estimate that real export growth fell to $5\frac{1}{2}$ percent in the current quarter, a pace in line with the projected path of relative prices and foreign growth. The expected deceleration is almost entirely concentrated in core goods. Going forward, we expect total export growth to continue at about its second-quarter pace throughout the forecast period. The growth of exported core goods edges down as the lagged effects of the sharp

**Alternative Simulation:
15 Percent Dollar Depreciation**
(Percent change from previous period, annual rate)

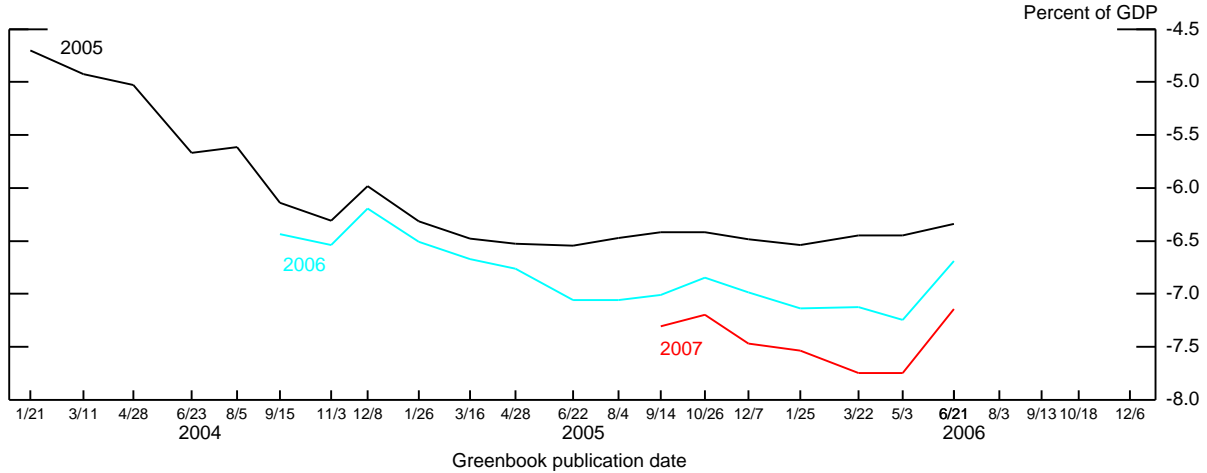
Indicator and simulation	2006		2007	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	3.9	2.7	2.6	2.7
Alternative	3.9	2.8	3.2	3.5
<i>U.S. PCE prices excluding food and energy</i>				
Baseline	2.5	2.2	2.2	2.2
Alternative	2.5	2.3	2.4	2.5
<i>U.S. federal funds rate, annual rate</i>				
Baseline	4.9	5.3	5.3	5.3
Alternative	4.9	5.4	5.7	6.3
<i>U.S. trade balance, percent of GDP</i>				
Baseline	-5.9	-5.9	-6.1	-5.9
Alternative	-5.9	-6.0	-6.2	-5.8

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 Taylor rules.

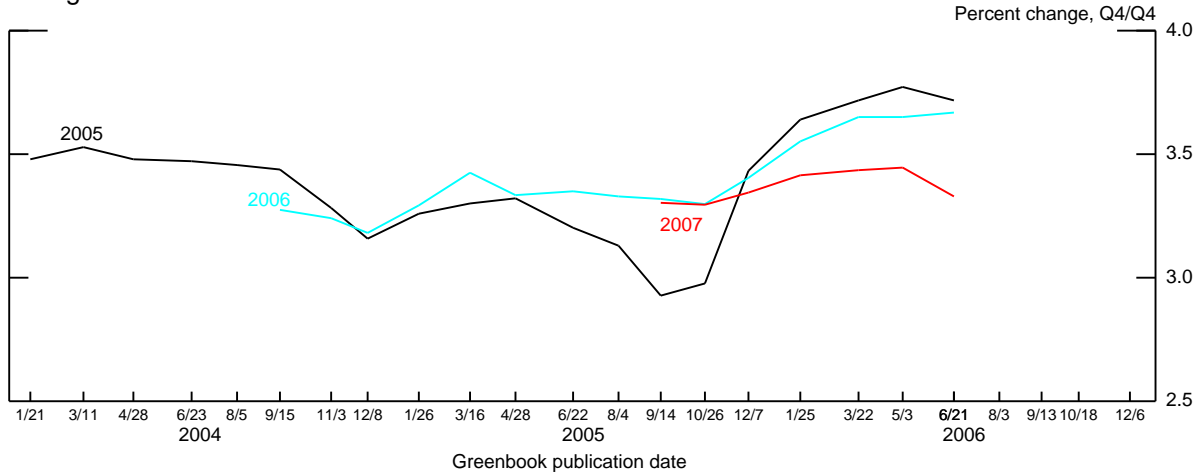
Class II FOMC -- Restricted (FR)

Evolution of the Staff Forecast

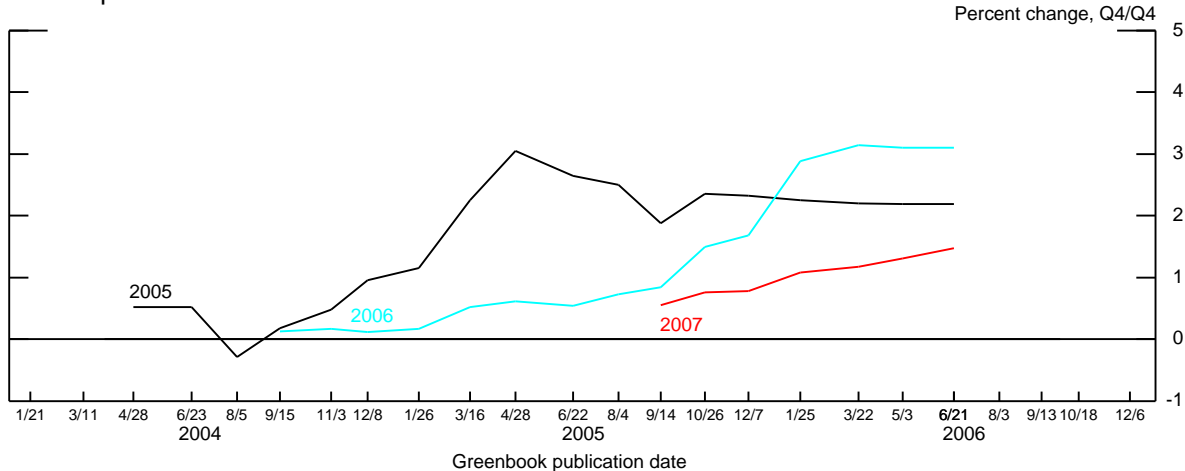
Current Account Balance



Foreign Real GDP



Core Import Prices*



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

Class II FOMC
Restricted (FR) June 21, 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
REAL GDP (1)									

Total foreign	5.1	4.2	0.4	3.1	2.9	3.8	3.7	3.7	3.3
Industrial Countries	4.4	3.6	0.9	2.5	1.8	2.5	2.6	2.7	2.4
of which:									
Canada	5.9	4.1	1.3	3.5	1.5	3.7	2.8	2.9	2.9
Japan	0.2	3.3	-1.5	2.0	2.6	0.5	4.0	2.5	1.8
United Kingdom	3.4	3.2	2.0	2.1	3.1	2.6	1.8	2.5	2.7
Euro Area (2)	4.1	3.3	1.1	1.2	1.0	1.6	1.7	2.3	1.5
Germany	3.5	2.3	1.1	0.2	0.2	0.5	1.7	2.3	0.9
Developing Countries	6.3	5.2	-0.3	3.9	4.7	5.7	5.3	5.1	4.6
Asia	8.8	5.8	1.1	6.3	6.9	6.1	7.2	6.0	5.7
Korea	11.8	4.3	4.7	7.8	4.2	2.9	5.3	4.4	4.1
China	7.7	8.2	7.8	9.2	10.5	10.1	9.9	9.1	8.1
Latin America	4.4	4.4	-1.3	1.6	2.3	5.2	3.1	4.2	3.6
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	3.9	3.2
CONSUMER PRICES (3)									

Industrial Countries	1.2	1.8	0.9	2.1	1.3	1.8	1.6	1.8	1.7
of which:									
Canada	2.4	3.1	1.1	3.8	1.7	2.3	2.3	2.3	1.9
Japan	-1.0	-0.9	-1.0	-0.5	-0.4	0.5	-0.5	0.9	0.7
United Kingdom (4)	1.1	0.9	1.1	1.5	1.3	1.4	2.1	2.1	2.0
Euro Area (2)	1.5	2.5	2.1	2.3	2.0	2.3	2.3	2.0	2.0
Germany	1.1	1.7	1.4	1.2	1.1	2.1	2.2	1.4	2.5
Developing Countries	4.5	4.1	2.8	2.9	3.1	3.9	3.1	3.4	3.3
Asia	0.1	1.8	1.2	0.8	2.2	3.2	2.7	3.2	3.1
Korea	1.2	2.5	3.3	3.4	3.5	3.4	2.5	3.4	3.2
China	-1.0	1.0	-0.1	-0.5	2.7	3.3	1.4	3.0	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	3.4	3.5
Brazil	8.4	6.4	7.5	10.7	11.5	7.2	6.1	4.1	4.1

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.

June 21, 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	2.7	3.8	4.4	3.9	4.5	3.5	3.3	3.3	3.2	3.4	3.4	3.3
Industrial Countries	2.2	3.2	2.5	2.6	3.1	2.7	2.5	2.3	2.2	2.5	2.5	2.4
of which:												
Canada	2.2	3.4	3.2	2.6	3.8	2.5	2.6	2.6	2.8	2.9	3.0	3.0
Japan	5.1	5.5	1.0	4.5	3.1	3.0	2.4	1.6	1.9	1.8	1.7	1.6
United Kingdom	0.8	2.1	2.1	2.3	2.3	2.5	2.6	2.6	2.6	2.7	2.8	2.7
Euro Area (2)	1.4	1.6	2.6	1.2	2.4	2.7	2.0	2.0	1.0	1.7	1.7	1.7
Germany	2.4	1.7	2.5	0.0	1.5	3.2	2.0	2.4	-0.9	1.6	1.4	1.4
Developing Countries	3.6	4.8	7.1	5.7	6.6	4.6	4.6	4.7	4.7	4.7	4.6	4.6
Asia	5.4	7.7	7.9	7.8	7.3	5.5	5.5	5.6	5.7	5.7	5.7	5.7
Korea	2.1	5.9	6.6	6.7	4.9	4.3	4.2	4.2	4.1	4.1	4.1	4.1
China	11.9	7.2	8.9	11.5	13.3	8.0	7.5	7.7	8.1	8.1	8.1	8.1
Latin America	1.2	1.4	6.5	3.2	6.2	3.5	3.6	3.7	3.6	3.6	3.5	3.5
Mexico	0.4	-0.5	8.5	2.7	6.3	3.2	3.4	3.5	3.5	3.5	3.4	3.4
Brazil	0.4	5.5	-3.3	3.8	5.7	3.2	3.2	3.3	3.3	3.2	3.2	3.2
CONSUMER PRICES (3)	Four-quarter changes											
Industrial Countries	1.5	1.5	1.8	1.6	1.9	2.0	1.8	1.8	1.9	1.7	1.7	1.7
of which:												
Canada	2.1	1.9	2.7	2.3	2.5	2.7	2.2	2.3	2.2	1.9	1.9	1.9
Japan	-0.2	-0.1	-0.2	-0.5	0.4	0.6	0.8	0.9	0.5	0.6	0.6	0.7
United Kingdom (4)	1.7	2.0	2.4	2.1	2.0	2.1	1.9	2.1	2.3	2.1	2.1	2.0
Euro Area (2)	2.1	2.0	2.3	2.3	2.3	2.4	2.1	2.0	2.4	2.1	2.0	2.0
Germany	1.7	1.6	2.1	2.2	2.1	2.1	1.6	1.4	2.8	2.5	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	3.5	3.3
Asia	2.9	2.4	2.3	2.7	2.4	2.5	2.8	3.2	3.8	3.8	3.4	3.1
Korea	3.1	3.0	2.4	2.5	2.4	2.4	2.7	3.4	3.9	4.0	3.6	3.2
China	2.7	1.8	1.3	1.4	1.2	1.4	2.1	3.0	3.7	3.8	3.3	3.0
Latin America	4.9	5.1	4.5	3.8	4.2	3.6	3.6	3.6	3.5	3.7	3.8	3.8
Mexico	4.4	4.5	4.0	3.1	3.7	3.2	3.2	3.4	3.1	3.4	3.5	3.5
Brazil	7.4	7.7	6.2	6.1	5.6	4.5	4.7	4.1	3.8	4.0	4.1	4.1

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.

June 21, 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	-0.9	-0.2	0.0	-0.2
Exports of G&S	0.6	0.7	-1.3	0.4	0.6	0.6	0.6	0.8	0.6
Imports of G&S	-1.6	-1.6	1.1	-1.3	-0.7	-1.5	-0.9	-0.8	-0.8
	Percentage change, Q4/Q4								
Exports of G&S	5.6	6.5	-11.9	3.8	6.0	6.1	6.4	7.6	5.2
Services	5.3	1.8	-8.9	10.2	4.5	4.6	2.8	6.1	6.6
Computers	13.4	22.7	-23.5	-1.1	11.0	6.3	13.7	9.8	14.4
Semiconductors	34.6	27.6	-34.6	10.1	38.8	-6.1	17.5	19.9	17.0
Other Goods 1/	3.3	5.9	-10.2	0.7	4.5	7.8	7.2	7.5	3.5
Imports of G&S	12.1	11.2	-7.6	9.7	5.1	10.6	5.3	4.9	4.6
Services	6.6	10.6	-5.9	8.8	4.2	7.7	2.4	3.5	3.0
Oil	-3.4	13.3	3.7	3.8	1.5	9.7	1.9	-7.8	0.6
Computers	26.0	13.9	-13.6	13.2	16.8	22.2	12.1	20.0	17.5
Semiconductors	34.2	22.8	-51.1	11.0	-0.2	9.4	7.7	14.6	17.0
Other Goods 2/	13.0	10.3	-6.5	10.0	5.2	10.6	6.3	7.4	4.8
	Billions of Chained 2000 Dollars								
Net Goods & Services	-296.2	-379.5	-399.1	-471.3	-521.4	-601.3	-633.1	-653.2	-666.1
Exports of G&S	1008.2	1096.3	1036.7	1013.3	1031.2	1117.9	1195.3	1285.3	1352.2
Imports of G&S	1304.4	1475.8	1435.8	1484.6	1552.6	1719.2	1828.3	1938.5	2018.2
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-299.8	-415.2	-389.0	-472.4	-527.5	-665.3	-791.5	-890.5	-997.5
Current Acct as Percent of GDP	-3.2	-4.2	-3.8	-4.5	-4.8	-5.7	-6.3	-6.7	-7.1
Net Goods & Services (BOP)	-263.3	-377.6	-362.8	-421.1	-494.9	-611.3	-716.7	-785.6	-838.5
Investment Income, Net	19.1	25.7	30.3	17.8	42.3	33.6	17.6	-9.1	-66.4
Direct, Net	78.2	94.9	115.9	102.4	112.8	123.9	134.4	159.7	177.5
Portfolio, Net	-59.1	-69.2	-85.5	-84.6	-70.5	-90.2	-116.8	-168.8	-243.9
Other Income & Transfers, Net	-55.6	-63.3	-56.5	-69.2	-74.9	-87.6	-92.4	-95.9	-92.6

1. Merchandise exports excluding computers and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2002				2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	-1.0	-0.6	-0.5	-1.5	0.1	-0.7	0.5	-0.5	-1.2	-1.4	-0.2	-1.0
Exports of G&S	0.5	1.0	0.3	-0.3	-0.3	-0.2	1.0	1.7	0.5	0.7	0.5	0.7
Imports of G&S	-1.4	-1.6	-0.8	-1.2	0.4	-0.5	-0.6	-2.2	-1.6	-2.0	-0.7	-1.7
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	5.2	10.6	2.9	-3.1	-2.9	-2.1	11.5	19.1	5.0	6.9	5.5	7.1
Services	22.9	2.7	4.6	11.7	-11.9	-6.6	17.2	23.7	-0.4	4.8	-0.6	15.5
Computers	-21.1	14.7	-6.0	12.6	-5.7	0.2	35.9	18.2	-7.4	1.6	21.7	11.5
Semiconductors	22.3	42.1	12.6	-25.0	34.8	33.9	43.7	43.2	7.0	-4.8	-19.4	-5.5
Other Goods 1/	-1.6	12.5	2.0	-9.1	0.0	-2.0	5.5	15.4	8.6	9.2	9.5	3.8
Imports of G&S	11.7	12.5	5.7	9.0	-2.5	3.3	4.1	16.5	12.0	14.5	4.7	11.3
Services	24.7	-3.0	1.7	14.0	-2.2	-10.2	21.4	10.7	10.0	13.7	4.6	3.1
Oil	-9.8	-10.3	-12.7	64.3	-9.0	7.8	-1.3	9.5	35.7	-26.0	-0.5	45.0
Computers	52.2	5.3	2.8	-0.2	11.5	12.4	8.7	36.4	21.2	34.3	25.3	9.5
Semiconductors	39.8	34.8	-6.2	-14.0	-6.7	1.5	-3.7	8.9	42.6	20.2	4.7	-20.3
Other Goods 2/	7.7	19.6	9.2	4.0	-1.8	5.4	-0.4	18.7	8.1	20.3	3.1	11.5
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-441.3	-458.9	-472.2	-513.0	-510.7	-528.4	-516.2	-530.2	-563.0	-601.7	-606.5	-634.1
Exports of G&S	992.8	1018.0	1025.2	1017.2	1009.7	1004.5	1032.2	1078.4	1091.8	1110.2	1125.0	1144.5
Imports of G&S	1434.0	1476.9	1497.4	1530.2	1520.4	1532.9	1548.4	1608.6	1654.8	1711.9	1731.5	1778.6
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-436.2	-476.9	-476.3	-500.3	-553.6	-521.3	-523.4	-511.7	-589.3	-662.7	-661.2	-747.9
Current Account as % of GDP	-4.2	-4.6	-4.5	-4.7	-5.2	-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	-501.8	-489.8	-489.1	-498.8	-550.6	-601.1	-622.6	-670.8
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.

June 21, 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	-0.2	0.2	0.3	-0.4	-0.4	0.1	0.1	-0.6
Exports of G&S	0.7	1.1	0.3	0.5	1.5	0.6	0.6	0.5	0.6	0.6	0.6	0.6
Imports of G&S	-1.1	0.0	-0.4	-1.9	-1.7	-0.4	-0.2	-0.9	-1.0	-0.5	-0.5	-1.2
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	7.5	10.7	2.5	5.1	14.9	5.4	5.3	5.1	5.1	5.4	5.3	5.2
Services	12.5	-0.4	1.0	-1.4	6.6	6.1	5.9	5.9	6.0	6.7	6.9	6.9
Computers	12.6	26.9	18.5	-1.3	10.1	1.0	14.4	14.4	14.4	14.4	14.4	14.4
Semiconductors	-12.9	26.7	24.4	38.7	15.4	30.9	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 1/	6.1	14.9	1.2	6.9	19.2	3.9	3.9	3.6	3.6	3.6	3.5	3.4
Imports of G&S	7.4	-0.3	2.4	12.1	10.5	2.3	1.3	5.6	5.9	2.7	2.7	7.2
Services	3.7	4.4	-3.2	4.8	9.7	-0.9	2.8	2.7	2.4	3.2	3.2	3.2
Oil	3.4	-24.5	-3.1	42.5	-4.6	-18.5	-16.8	11.6	14.3	-12.4	-13.5	18.4
Computers	11.3	13.7	15.2	8.2	34.2	14.8	14.8	17.5	17.5	17.5	17.5	17.5
Semiconductors	-7.9	8.3	18.0	14.5	3.8	21.5	16.9	17.0	17.0	17.0	17.0	17.0
Other Goods 2/	8.6	2.9	2.4	11.7	14.7	6.0	4.7	4.5	4.2	4.7	5.1	5.2
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-645.4	-614.2	-617.5	-655.2	-659.7	-654.3	-644.1	-654.8	-666.8	-662.5	-658.4	-676.5
Exports of G&S	1165.3	1195.4	1202.7	1217.6	1260.6	1277.1	1293.6	1309.7	1326.1	1343.5	1360.9	1378.3
Imports of G&S	1810.7	1809.6	1820.2	1872.9	1920.2	1931.4	1937.8	1964.5	1992.9	2006.0	2019.2	2054.8
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-766.9	-773.0	-733.7	-892.4	-834.7	-892.1	-890.3	-945.1	-975.4	-983.6	-991.0	-1039.9
Current Account as % of GDP	-6.3	-6.2	-5.8	-7.0	-6.4	-6.7	-6.6	-7.0	-7.1	-7.1	-7.0	-7.3
Net Goods & Services (BOP)	-672.4	-688.2	-727.2	-779.1	-763.0	-789.7	-780.3	-809.5	-841.2	-833.4	-827.7	-851.8
Investment Income, Net	20.7	14.2	37.9	-2.3	14.0	-3.6	-13.2	-33.4	-45.3	-59.9	-71.2	-89.1
Direct, Net	121.4	124.2	161.5	130.6	155.6	156.5	164.2	162.6	169.8	174.7	182.8	182.9
Portfolio, Net	-100.7	-110.0	-123.6	-132.9	-141.6	-160.0	-177.4	-196.1	-215.0	-234.6	-254.0	-272.0
Other Inc. & Transfers, Net	-115.1	-99.0	-44.3	-111.0	-85.7	-98.8	-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

June 21, 2006

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

June 21, 2006

Recent Developments

Labor Output per Hour

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

Sector	2004:Q1 to 2005:Q1	2005:Q1 to 2006:Q1	2005			2006
			Q2	Q3	Q4	Q1
Nonfarm business						
All persons	3.0	2.7 ¹	2.4	4.2	-.3	4.4 ¹
All employees ²	3.1	2.4 ¹	2.3	3.1	-.9	5.4 ¹
Nonfinancial corporations ³	5.4	3.7	4.6	4.1	2.4	3.7

1. Staff estimates.

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

3. All corporations doing business in the United States except banks, stock and commodity brokers, and finance and insurance companies. The sector accounts for about two-thirds of business employment.

over the four quarters ending in 2006:Q1. This rate of increase was down nearly 1¾ percentage points from the gain posted over the previous four quarters.

Industrial Production

Industrial production (IP) surged 0.8 percent in April and then edged down 0.1 percent in May; the limited available indicators thus far for June suggest that IP will rise moderately this month. The choppy pattern primarily reflects changes in manufacturing output, which rose 0.7 percent in April before declining 0.1 percent in May. On average, manufacturing production has increased at a monthly rate of 0.3 percent since the start of 2006, down from the 0.4 percent average pace of expansion from mid-2003 to the end of 2005.

Manufacturing capacity utilization stood at 80.5 percent in May, about ¾ percentage point above its 1972-2005 average and about 1 percentage point below its most recent peak in April 2000. The operating rate for industries at the crude stage of processing has snapped back from the effects of last year's hurricanes and is now a little above its long-run average. The operating rate for industries at the primary and semifinished stages of processing has generally risen since 2003 and is also a little above its long-run average. Capacity utilization for industries in the finished stage of processing has increased more quickly and is now well above its long-run average. Despite the above-average utilization rates at all stages of processing, the Institute for Supply Management's business surveys continue to report very few items in short supply.

The output of energy expanded a solid 0.9 percent in April and 0.7 percent in May, in part the result of continued recovery from last year's hurricanes. In particular, crude oil extraction jumped 2½ percent in April before easing a bit in May. As of early June, the amount of crude oil production capacity in the Gulf of Mexico that remains shut in stood

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

Item	2005	2006						
		Q1	Q2	Q3	Mar.	Apr.	May	June
U.S. production ¹	11.5	11.2	11.1	11.5	11.3	11.2	10.9	11.1
Autos	4.3	4.5	4.3	4.4	4.5	4.5	4.3	4.0
Light trucks	7.2	6.7	6.8	7.0	6.8	6.7	6.5	7.1
Days' supply ²	69	69	n.a.	n.a.	71	70	74	n.a.
Autos	52	53	n.a.	n.a.	57	52	55	n.a.
Light trucks	81	80	n.a.	n.a.	80	84	89	n.a.
Inventories ³	3.04	3.01	n.a.	n.a.	3.01	2.94	2.98	n.a.
Autos	.93	.99	n.a.	n.a.	.99	.96	.96	n.a.
Light trucks	2.11	2.03	n.a.	n.a.	2.03	1.98	2.01	n.a.
Memo: U.S. production, total motor vehicles ⁴	12.0	11.7	11.5	11.8	11.8	11.7	11.3	11.5

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

1. Production rates for June and the second and third quarters reflect the latest schedules from Ward's Communications.

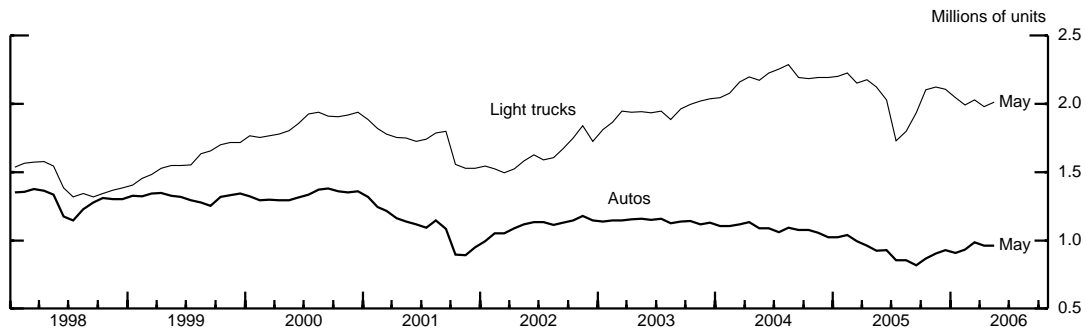
2. Annual and quarterly values are calculated with end-of-period stocks and average reported sales.

3. End-of-period stocks.

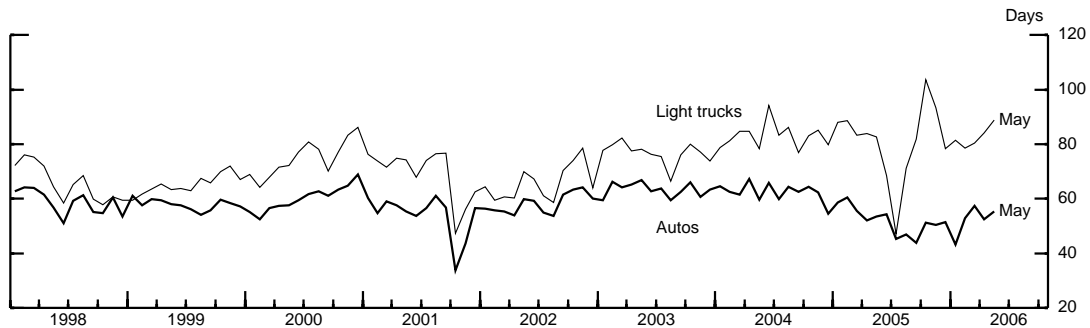
4. Includes medium and heavy trucks.

n.a. Not available.

Inventories of Light Vehicles



Days' Supply of Light Vehicles



Retail and Food Services Sales

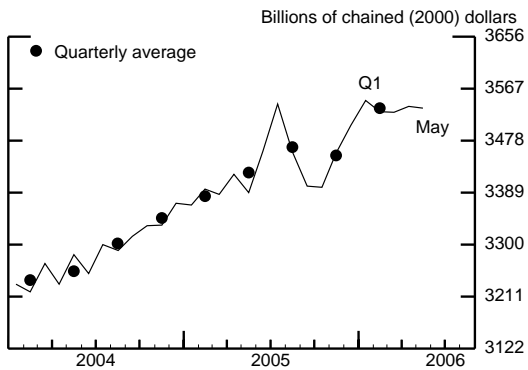
(Percent change from preceding period; seasonally adjusted current dollars)

Category	2005		2006			
	Q3	Q4	Q1	Mar.	Apr.	May
	Annual rate		Monthly rate			
Total sales	8.8	1.9	13.4	.7	.8	.1
Retail control ¹	10.1	6.8	8.9	.4	1.1	.6
Ex. sales at gasoline stations	4.9	8.0	9.4	.4	.4	.4
Memo: Real PCE control ²	4.0	5.8	8.6	-.1	.1	.0

1. Total sales less outlays at building material and supply stores and automobile and other motor vehicle dealers.

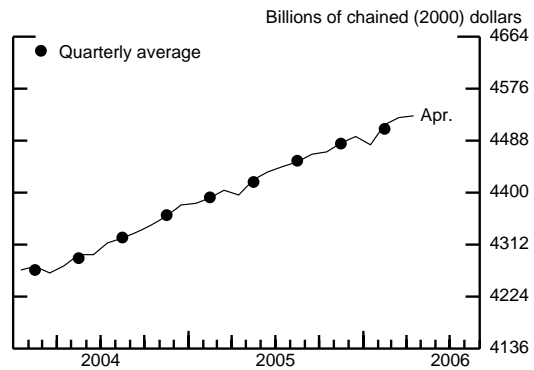
2. Total goods spending excluding autos and trucks. Values for March, April, and Q1 are staff estimates; value for May is a staff forecast.

Real PCE Goods

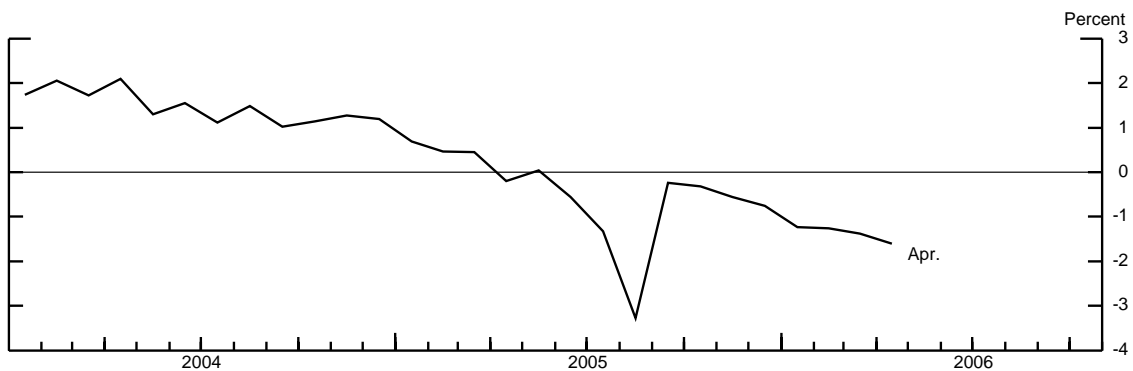


Note. Values for March, April, and Q1 are staff estimates; value for May 2006 is a staff forecast.

Real PCE Services



Personal Saving Rate



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

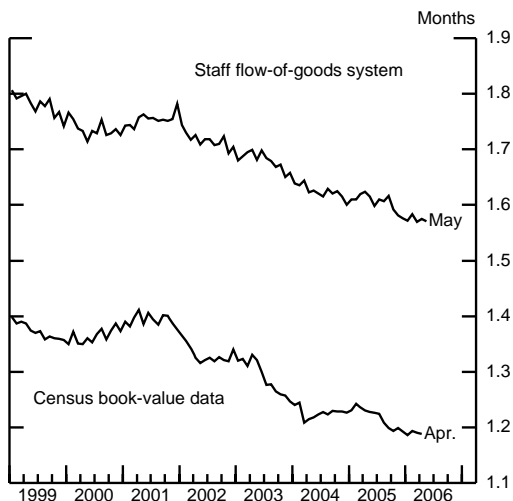
Measure and sector	2005		2006			
	Q3	Q4	Q1	Feb.	Mar.	Apr.
<i>Real inventory investment (chained 2000 dollars)</i>						
Total nonfarm business	-8.1	43.0	40.5^e	n.a.	n.a.	n.a.
Motor vehicles	-19.6	26.7	-8 ^e	n.a.	n.a.	n.a.
Nonfarm ex. motor vehicles	11.5	16.3	41.3 ^e	n.a.	n.a.	n.a.
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	10.9	14.6	24.5^e	-11.7^e	45.9^e	n.a.
Manufacturing	-2.5	.6	10.3 ^e	-30.8 ^e	30.7 ^e	n.a.
Wholesale trade ex. motor vehicles & parts	11.6	7.3	6.6 ^e	21.9 ^e	2.1 ^e	n.a.
Retail trade ex. motor vehicles & parts	1.8	6.7	7.6 ^e	-2.9 ^e	13.1 ^e	n.a.
<i>Book-value inventory investment (current dollars)</i>						
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	35.2	56.2	53.3	6.7	82.0	69.9
Manufacturing	5.3	23.3	23.5	-25.7	46.8	35.9
Wholesale trade ex. motor vehicles & parts	20.4	20.7	17.9	28.6	15.4	28.5
Retail trade ex. motor vehicles & parts	9.5	12.2	12.0	3.8	19.8	5.5

^e Staff estimates of real inventory investment based on revised book-value data.

n.a. Not available.

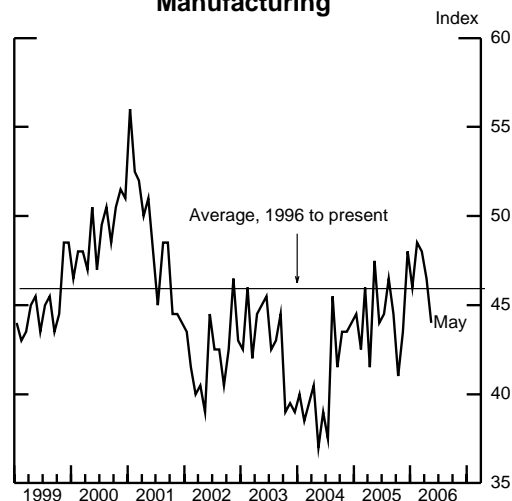
Source. For real inventory investment, BEA. For book-value data, Census Bureau.

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.

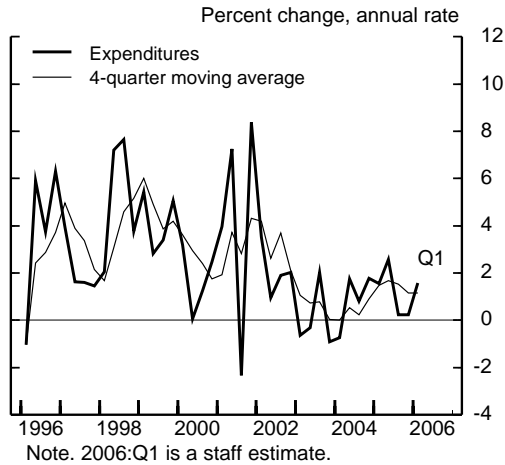
**ISM Customer Inventories:
Manufacturing**



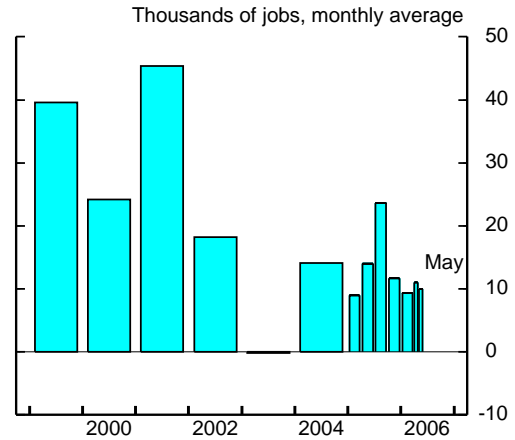
Note. A number above 50 indicates inventories are "too high."

State and Local Indicators

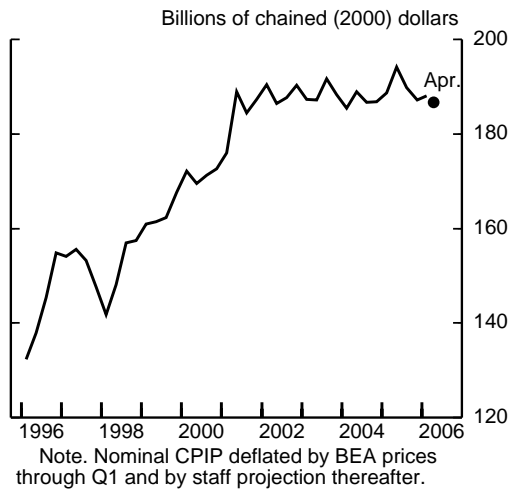
Real Expenditures on Consumption and Investment



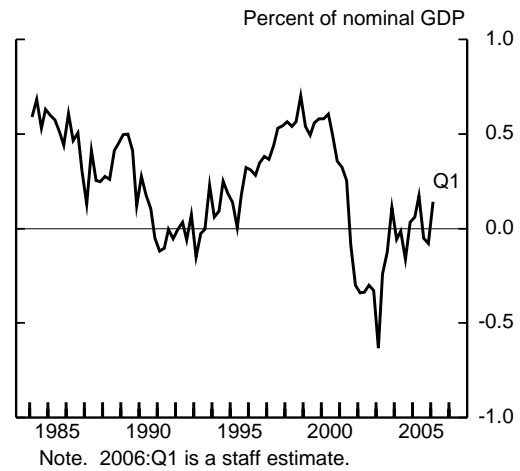
Net Change in Employment



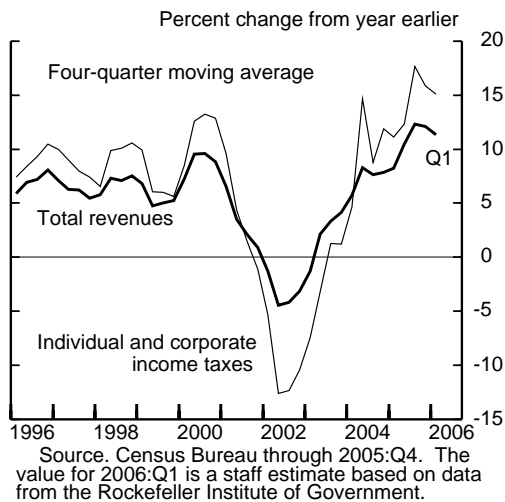
Real Construction



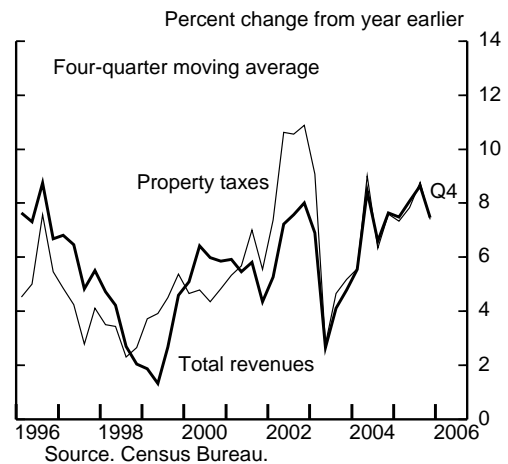
Net Saving



State Revenues



Local Revenues



Measures of Inflation (Percent)						
Measures	12-month change		3-month change		1-month change	
	May 2005	May 2006	Annual rate		Monthly rate	
			Feb. 2006	May 2006	Apr. 2006	May 2006
<i>CPI</i>						
Total	2.8	4.2	2.7	5.7	.6	.4
Food	2.4	1.9	2.7	.6	.0	.1
Energy	9.9	23.6	6.3	35.0	3.9	2.4
Ex. food and energy	2.2	2.4	2.0	3.8	.3	.3
Core goods	.6	.3	.3	1.7	.1	.1
Core services	2.7	3.3	3.0	4.4	.3	.4
Chained CPI (n.s.a.) ¹	2.4	3.4
Ex. food and energy ¹	2.0	2.2
<i>PCE prices</i> ²						
Total	2.5	3.3	2.1	5.2	.5	.4
Food	2.2	2.0	2.5	1.8	.1	.2
Energy	10.1	23.3	6.4	41.3	4.5	2.8
Ex. food and energy	2.0	2.2	1.7	3.4	.2	.3
Core goods	.2	-.2	-.3	1.5	.1	.0
Core services	2.8	3.1	2.6	4.2	.3	.3
Core market-based	1.7	1.8	1.3	3.2	.2	.3
Core non-market-based	3.6	n.a.	3.4	n.a.	.4	n.a.
<i>PPI</i>						
Total finished goods	3.6	4.5	-1.5	6.7	.9	.2
Food	.8	-1.5	-7.7	.8	.1	-.5
Energy	10.5	20.6	-9.1	27.8	4.0	.4
Ex. food and energy	2.8	1.5	3.4	2.0	.1	.3
Core consumer goods	2.8	1.6	3.9	1.9	.1	.2
Capital equipment	2.8	1.4	2.5	2.5	.2	.3
Intermediate materials	6.3	8.9	3.8	7.6	.9	1.1
Ex. food and energy	5.4	6.3	6.8	6.9	.4	1.1
Crude materials	5.4	8.6	-40.2	1.5	1.2	2.0
Ex. food and energy	10.7	26.7	20.4	57.3	4.7	6.2

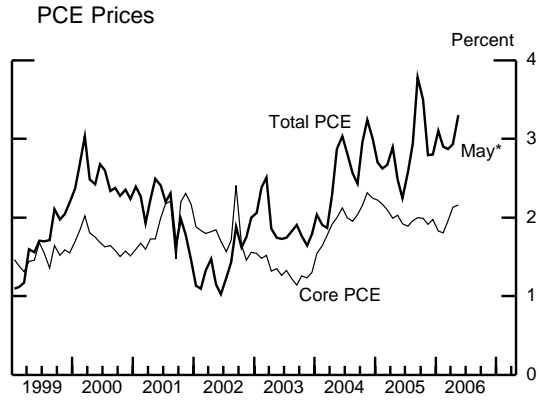
1. Higher-frequency figures are not applicable for data that are not seasonally adjusted.

2. PCE prices in May are staff estimates.

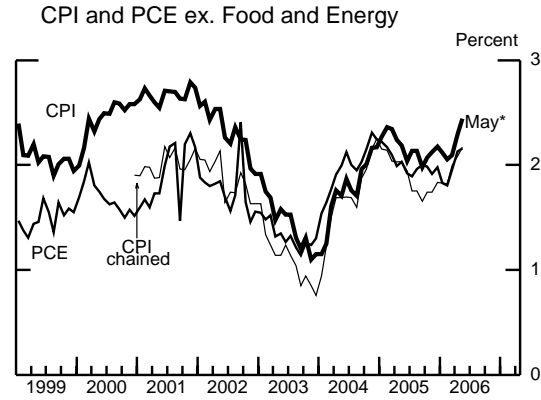
... Not applicable.

n.a. Not available.

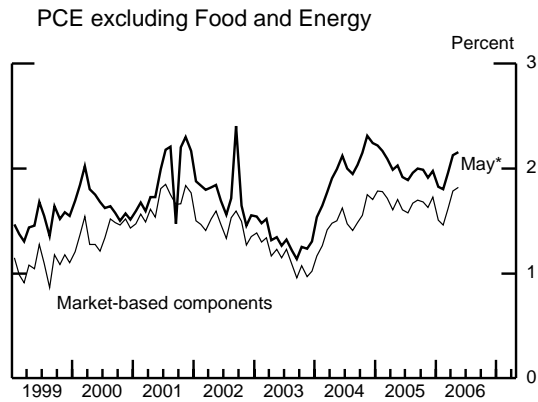
Consumer Price Inflation (12-month change except as noted)



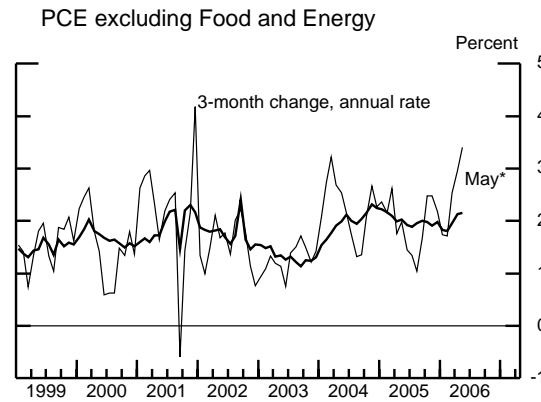
* Staff estimate.



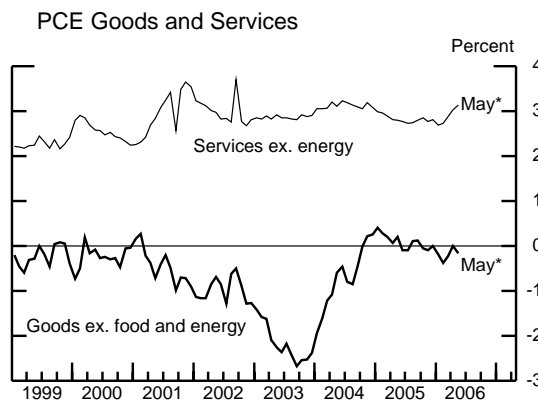
* PCE for May is a staff estimate.



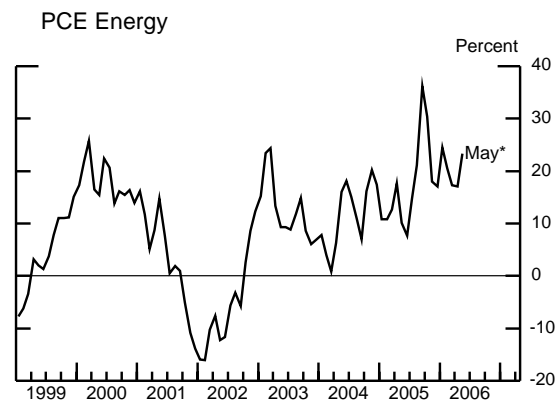
* Staff estimate.



* Staff estimate.



* Staff estimate.



* Staff estimate.

Broad Measures of Inflation

(Percent change, Q1 to Q1)

Measure	2003	2004	2005	2006
<i>Product prices</i>				
GDP price index	2.1	2.1	2.8	3.2
Less food and energy	2.0	1.9	2.7	3.0
Nonfarm business chain price index	1.6	1.5	2.6	3.1
<i>Expenditure prices</i>				
Gross domestic purchases price index	2.6	2.1	3.1	3.5
Less food and energy	1.9	1.9	2.6	2.7
PCE price index	2.3	1.9	2.7	3.0
Less food and energy	1.5	1.7	2.2	1.9
PCE price index, market-based components	2.3	1.7	2.4	2.9
Less food and energy	1.3	1.3	1.8	1.5
CPI	2.9	1.8	3.0	3.7
Less food and energy	1.8	1.3	2.3	2.1
Chained CPI	2.5	1.7	2.7	3.1
Less food and energy	1.4	1.2	2.1	1.9
Median CPI	2.7	2.0	2.3	2.6
Trimmed mean CPI	2.1	1.7	2.3	2.6

Surveys of Inflation Expectations

(Percent)

Period	Actual CPI inflation ¹	University of Michigan				Professional forecasters (10 years) ⁴
		1 year ²		5 to 10 years ³		
		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	n.a.	4.6	3.6	3.6	3.1	2.5
Feb.	3.6	3.6	3.0	3.3	2.9	...
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	n.a.	4.6	3.4	3.5	3.0	2.5

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

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

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

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

... Not applicable.

n.a. Not available.

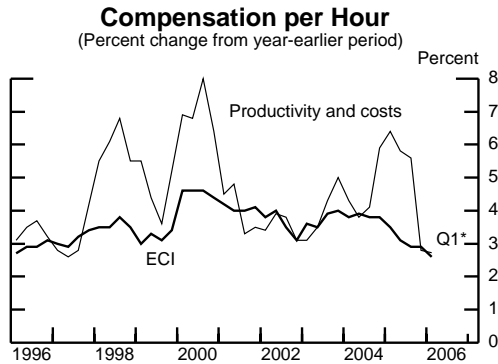
Hourly Compensation and Unit Labor Costs

(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

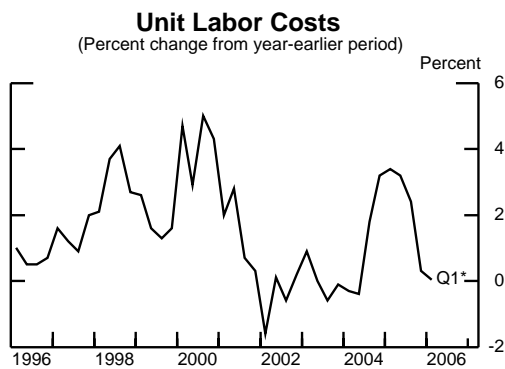
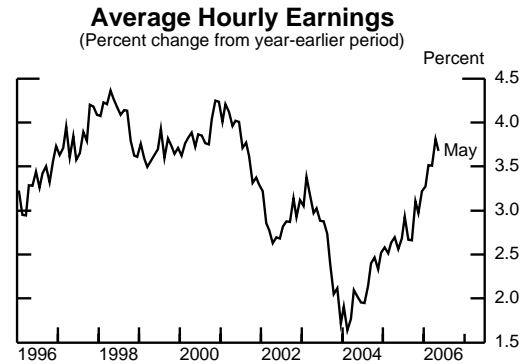
Category	2004:Q1 to 2005:Q1	2005:Q1 to 2006:Q1 ^e	2005			2006
			Q2	Q3	Q4	Q1 ^e
<i>Compensation per hour</i>						
Nonfarm business	6.4	2.7	1.3	5.5	-.9	5.1
Nonfinancial corporations ¹	6.7	2.8	1.1	6.3	-.8	5.0
<i>Unit labor costs</i>						
Nonfarm business	3.4	.0	-1.0	1.2	-.6	.6
Nonfinancial corporations ¹	1.2	-.8	-3.4	2.1	-3.2	1.3

1. All corporations doing business in the United States except banks, stock and commodity brokers, and finance and insurance companies. The sector accounts for about two-thirds of business employment.

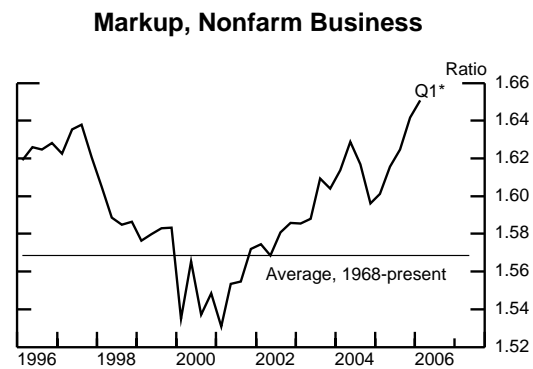
e Staff estimate.



* P&C value for 2006:Q1 is staff estimate.



* ULC value for 2006:Q1 is staff estimate.

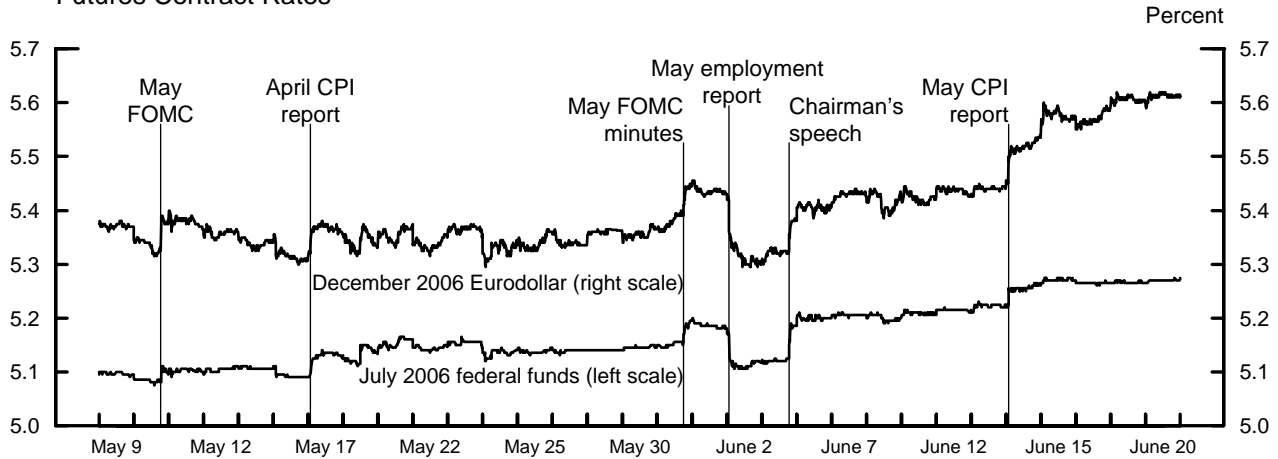


Note. The markup is the ratio of output price to unit labor costs.

* Values for 2006:Q1 are staff estimates.

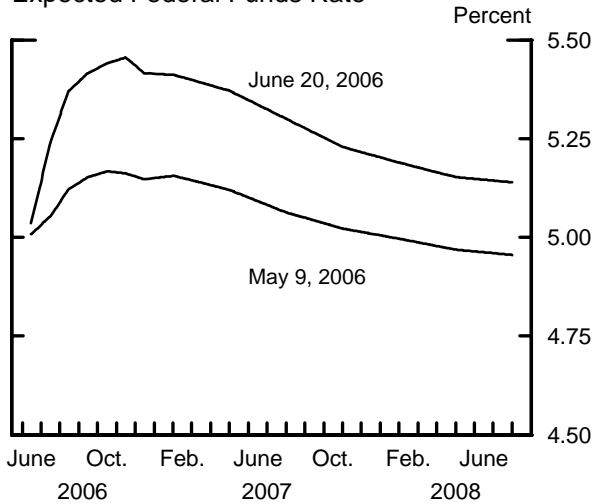
Policy Expectations and Treasury Yields

Futures Contract Rates



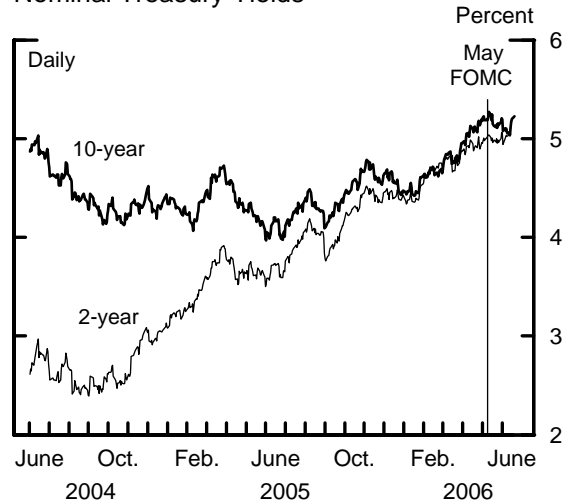
Note. 5-minute intervals.

Expected Federal Funds Rate



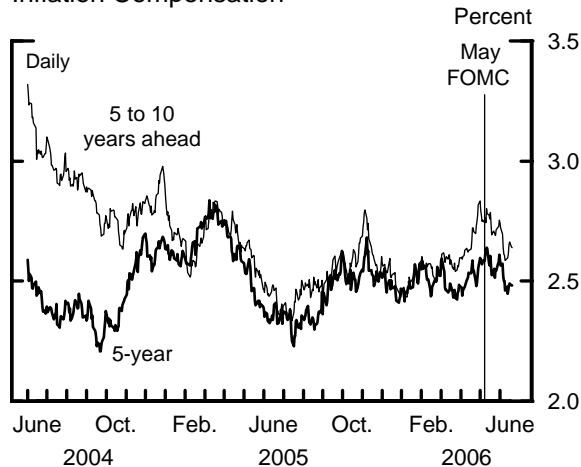
Note. Estimates from federal funds and Eurodollar futures, with an allowance for term premia and other adjustments.

Nominal Treasury Yields



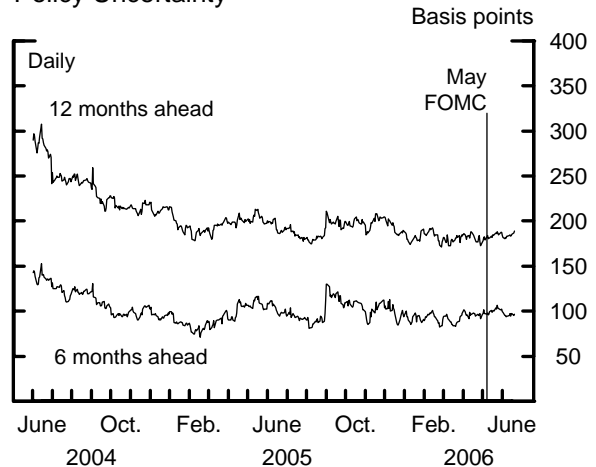
Note. Estimates from smoothed Treasury yield curve based on off-the-run securities.

Inflation Compensation



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

Policy Uncertainty



Note. Width of a 90 percent confidence interval for the federal funds rate computed from the term structures for both the expected federal funds rate and implied volatility.

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	Apr.	May
<i>Nonfinancial corporations</i>								
Stocks ¹	5.2	3.7	5.4	3.8	5.3	5.6	3.3	5.4
Initial public offerings	.7	.4	1.6	1.6	1.8	1.7	1.7	2.7
Seasoned offerings	4.4	3.3	3.8	2.1	3.5	3.9	1.6	2.7
Bonds ²	24.8	31.6	22.8	18.1	20.3	29.1	26.6	32.6
Investment grade	15.7	16.0	8.3	7.9	9.0	15.7	11.0	18.5
Speculative grade	4.8	11.3	9.5	6.2	6.5	6.8	6.0	7.1
Other (sold abroad/unrated)	4.2	4.3	4.9	4.0	4.8	6.6	9.5	7.0
<i>Memo</i>								
Net issuance of commercial paper ³	-5.7	-3.4	1.5	2.6	-3.4	3.5	3.0	-3.3
Change in C&I loans at commercial banks ^{3,4}	-5.2	-7.7	3.3	9.4	10.5	12.0	18.9	10.8
<i>Financial corporations</i>								
Stocks ¹	4.0	6.6	6.9	5.3	4.8	3.6	4.4	6.3
Bonds ²	87.0	111.1	139.4	167.3	185.7	180.1	138.3	138.0

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

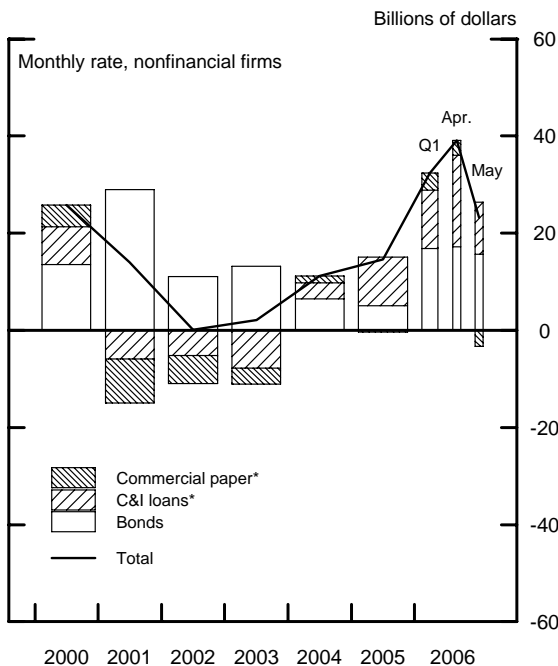
1. Excludes private placements and equity-for-equity swaps that occur in restructurings.

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

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

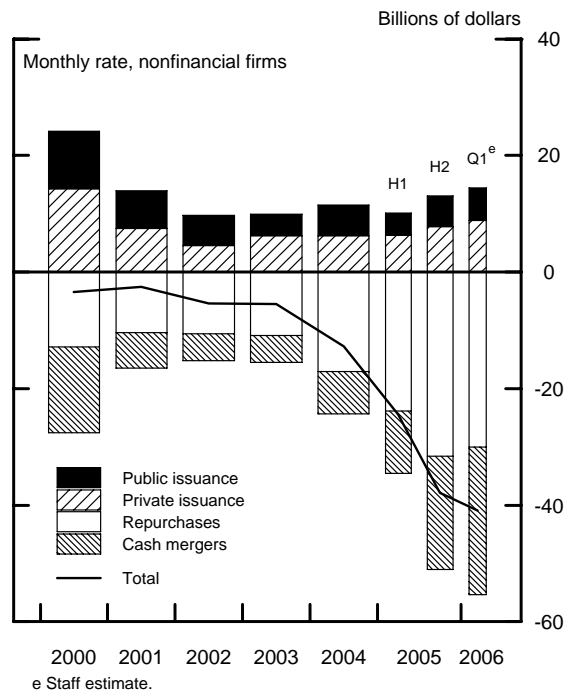
4. Adjusted for FIN 46 effects.

Selected Components of Net Debt Financing



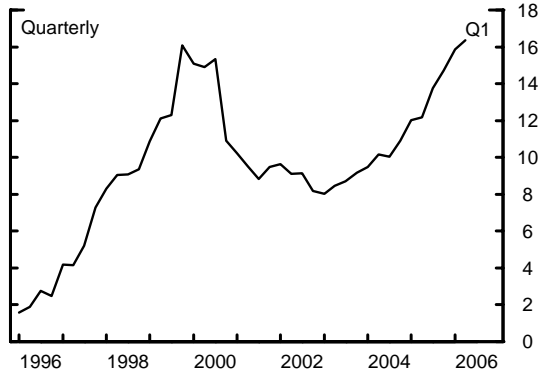
* Seasonally adjusted, period-end basis.

Components of Net Equity Issuance

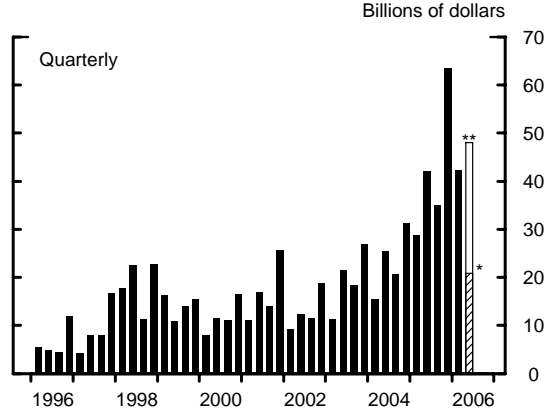


Commercial Real Estate

Growth of Commercial Mortgage Debt
Percent change from year earlier

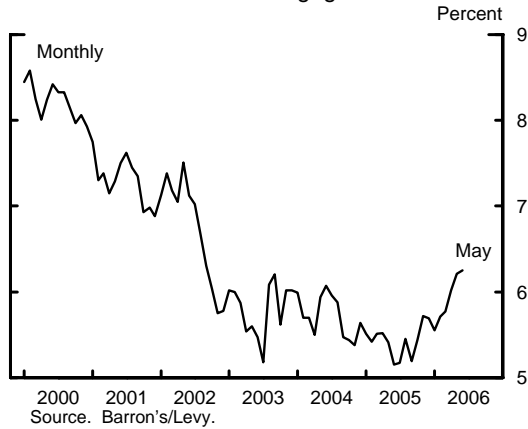


Gross Issuance of CMBS

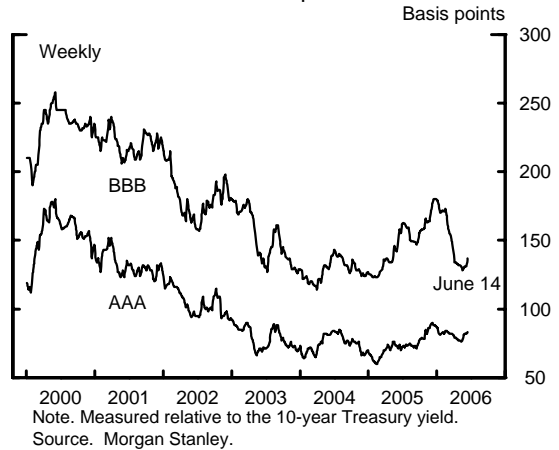


Source: Commercial Mortgage Alert.

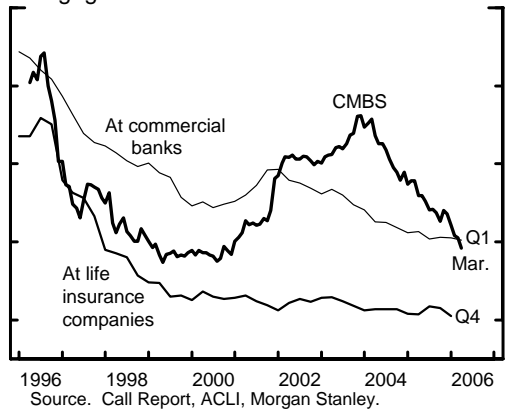
Ten-Year Commercial Mortgage Rates



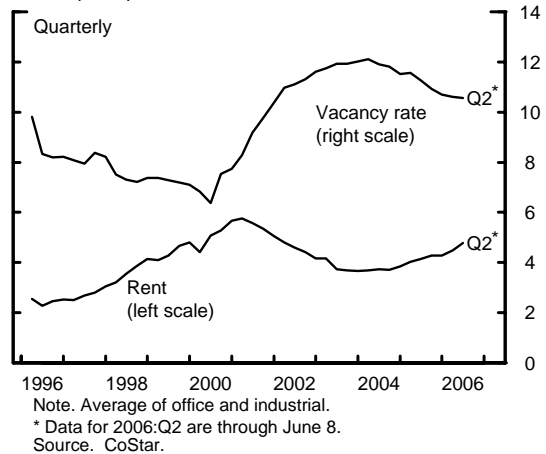
Investment-Grade CMBS Spreads



Delinquency Rates on Commercial Mortgage and CMBS

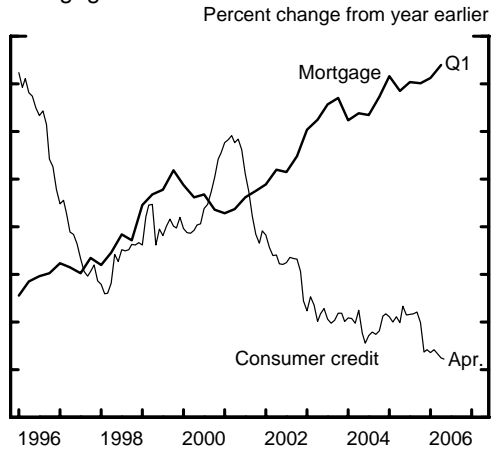


Average Rent and Vacancy Rate

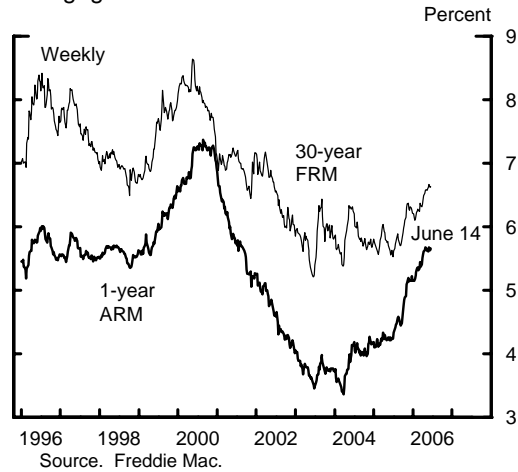


Household Liabilities

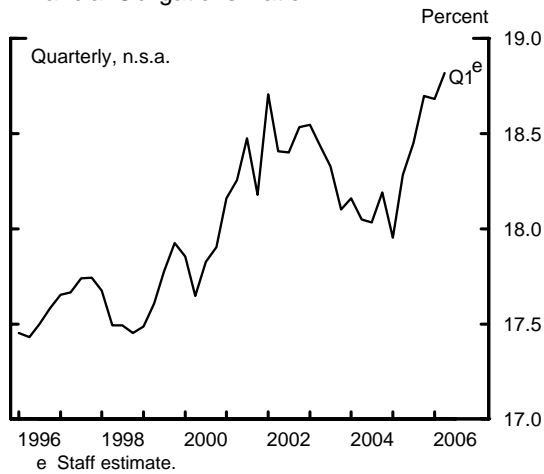
Mortgage and Consumer Debt



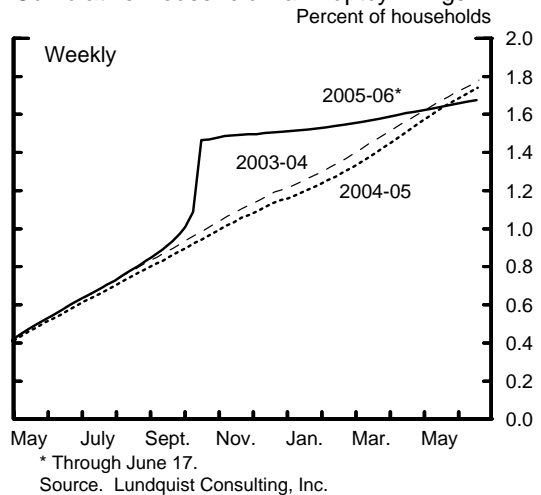
Mortgage Rates



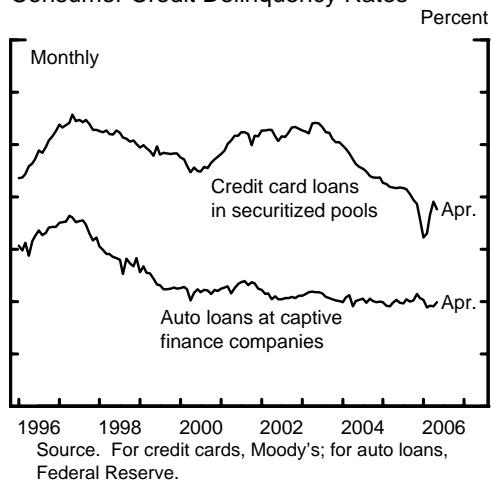
Financial Obligations Ratio



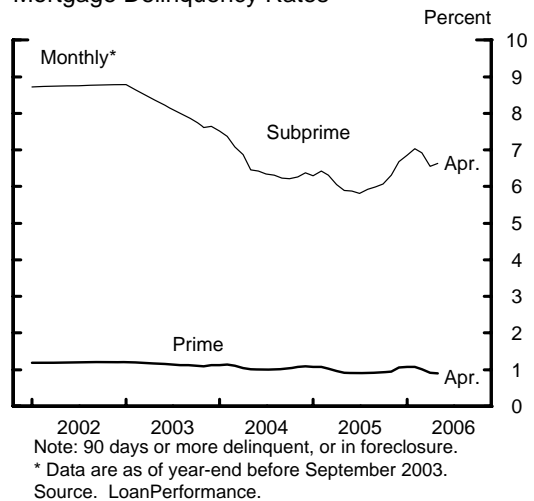
Cumulative Household Bankruptcy Filings



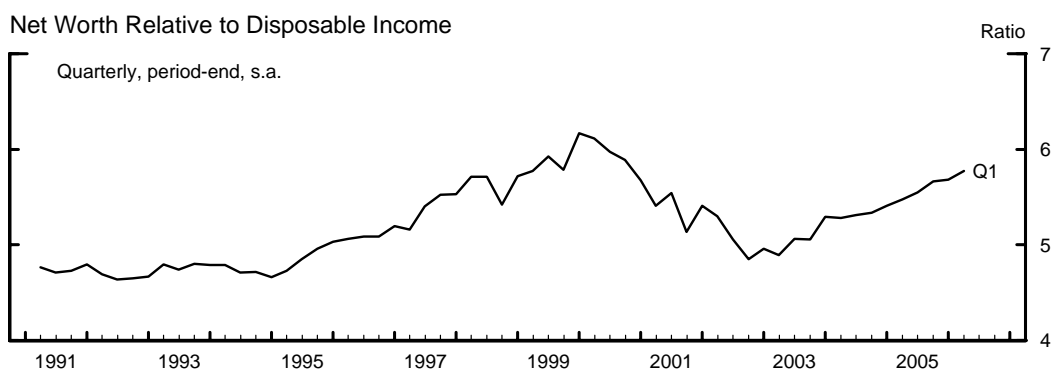
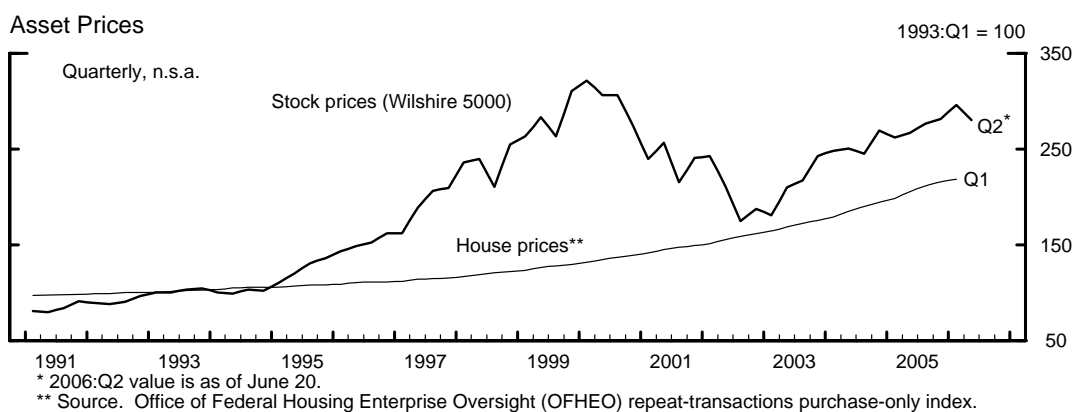
Consumer Credit Delinquency Rates



Mortgage Delinquency Rates



Household Assets



Net Flows into Long-Term Mutual Funds

(Billions of dollars, monthly rate)

Fund type	2004		2005		2006			Assets Apr.
	H1	H2	H1	H2	Q1	Apr.	May ^e	
Total long-term funds	20.0	15.0	18.1	13.7	38.9	27.9	0.2	7,459
Equity funds	19.7	9.9	12.2	10.3	31.1	26.4	0.3	5,473
Domestic	13.7	4.8	4.1	1.0	10.7	8.0	-9.6	4,337
International	6.0	5.1	8.1	9.2	20.4	18.4	10.0	1,136
Hybrid funds	4.1	3.0	3.4	0.9	0.4	0.4	-1.0	596
Bond funds	-3.8	2.0	2.5	2.6	7.4	1.1	0.9	1,389
High-yield	-2.1	0.5	-1.6	-1.0	-0.4	-0.4	-1.5	147
Other taxable	0.1	2.0	3.7	3.1	5.8	1.7	1.8	898
Municipals	-1.9	-0.4	0.4	0.4	2.1	-0.3	0.6	344

Note. Excludes reinvested dividends.

^e Staff estimates based on confidential ICI weekly data.

Source. Investment Company Institute.