

Part 1

July 30, 2008

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

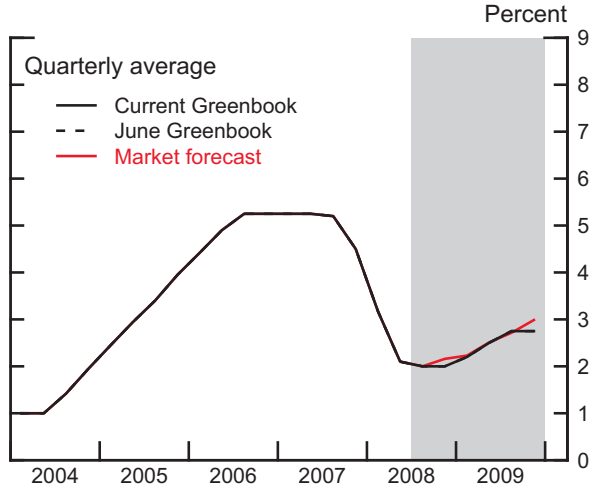
Summary and Outlook

July 30, 2008

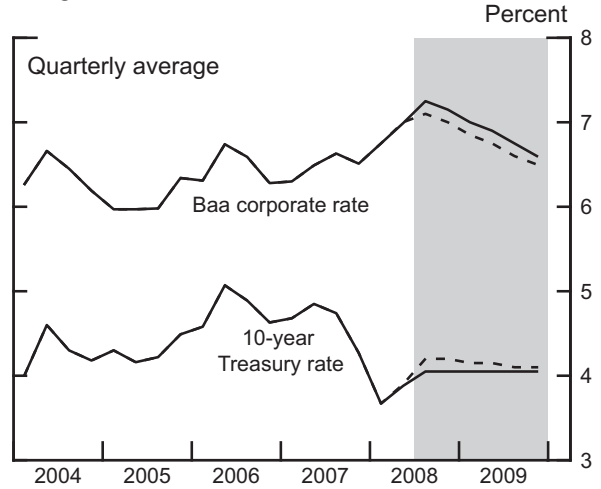
Summary and Outlook

Key Background Factors Underlying the Baseline Staff Projection

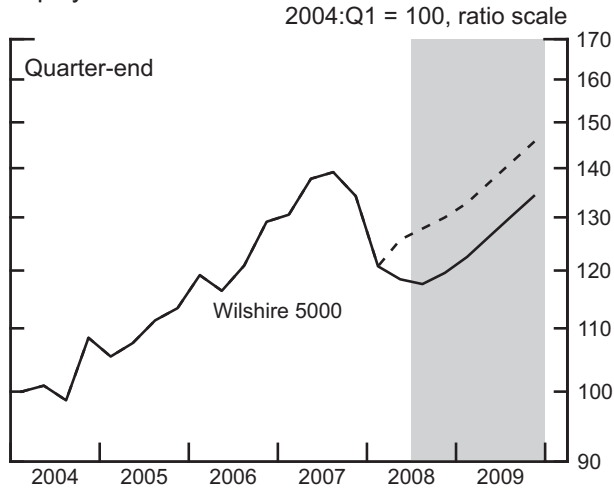
Federal Funds Rate



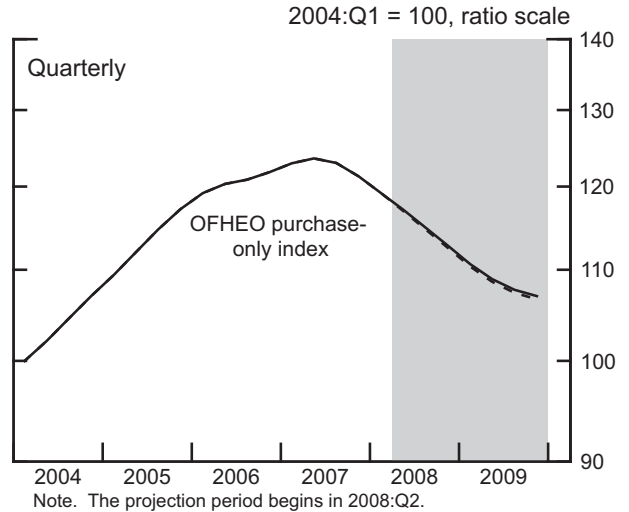
Long-Term Interest Rates



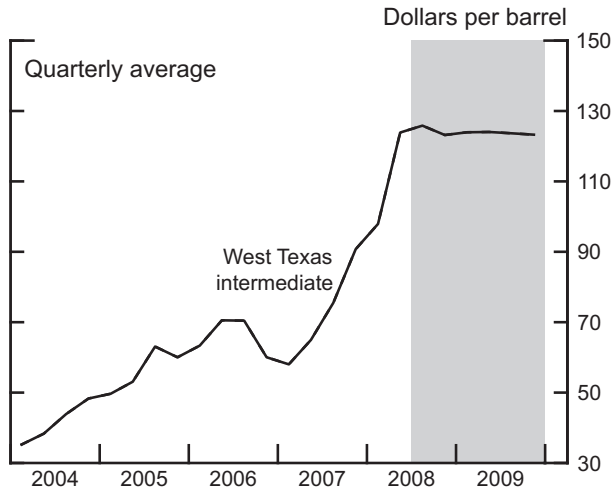
Equity Prices



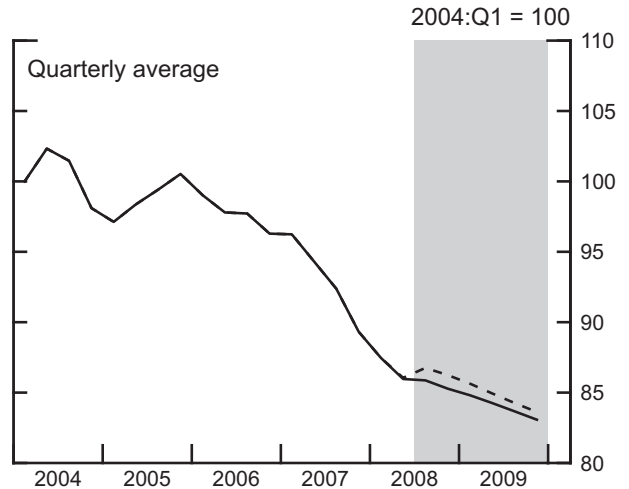
House Prices



Crude Oil Prices



Broad Real Dollar



Note. In each panel, shading represents the projection period, which begins in 2008:Q3 except as noted. In the upper-left panel that reports the federal funds rate, the dashed line is not apparent because the paths of the federal funds rate in the June and current Greenbooks are the same.

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

Measure	2008:Q2		2008:Q3	
	June GB	July GB	June GB	July GB
Real GDP	1.7	2.7	.9	.7
Private domestic final purchases	.5	1.1	.9	-.1
Personal consumption expenditures	2.2	2.0	2.6	1.6
Residential investment	-23.7	-19.4	-24.8	-24.1
Business fixed investment	-1.2	3.3	-.9	-2.7
Government outlays for consumption and investment	3.1	4.1	1.6	1.5
	Contribution to growth (percentage points)			
Inventory investment	-1.5	-1.4	-.9	-.5
Net exports	2.1	2.3	.7	1.0

Activity in the manufacturing sector has also been subdued in recent months. Although manufacturing industrial production ticked up in June, the increase was attributable to a resumption of production at automotive plants that had been idled by strikes from March to May. Despite the rebound, motor vehicle production was quite soft in June, and current schedules imply only a small additional increase in the third quarter; even so, motor vehicle inventories—especially those of light trucks and sport-utility vehicles—are likely to remain excessive in the face of flagging sales. Manufacturing IP apart from motor vehicles fell at an annual rate of about 2 percent in the second quarter, as the boost from net trade provided only a partial offset to the weakness in domestic demand; we expect non-auto production to continue to decline modestly in the third quarter, in line with the pattern of new orders and other indicators.

Personal consumption expenditures (PCE) turned in a solid performance for much of the second quarter despite a sharp drop in sentiment and deteriorating fundamentals. However, the latest data on retail sales and purchases of motor vehicles point to a considerable slackening in spending around midyear, and we now project real PCE to rise at an annual rate of just 1½ percent in the third quarter, 1 percentage point less than in the June Greenbook. We still expect the tax rebates to provide important support to consumption this quarter (and have built in a small additional boost from the extension of unemployment benefits), but this stimulus is likely to be offset by a long list of negatives, including mounting job losses, high energy prices, declining wealth, and tighter lending

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

Measure	2008		2009
	H1	H2	
Real GDP	1.8	.6	2.2
Previous	1.4	.7	2.4
Final sales	2.5	-.5	1.4
Previous	2.0	-.5	1.9
PCE	1.6	-.7	1.2
Previous	1.7	-.7	1.5
Residential investment	-22.0	-26.9	-8.3
Previous	-24.2	-25.8	-6.4
BFI	1.9	-2.5	-.6
Previous	-.7	-1.1	1.9
Government purchases	3.1	1.6	1.5
Previous	2.6	1.8	1.5
Exports	8.1	7.0	7.5
Previous	6.4	7.2	7.5
Imports	-3.0	.1	2.4
Previous	-3.7	1.0	2.8
Contribution to growth (percentage points)			
Inventory change	-.7	1.1	.7
Previous	-.6	1.1	.5
Net exports	1.5	.9	.6
Previous	1.5	.7	.5

financial headwinds slacken a bit. For the year as a whole, we expect real E&S outlays to rise just 1 percent, 1½ percentage points less than in the June Greenbook.

We now expect real investment in nonresidential structures to fall nearly 4 percent in 2009; in the June Greenbook, we had projected a small increase. We have scaled back the projected rise in investment in drilling and mining structures because of the lower energy prices. We have also deepened the projected contraction in building construction to 9 percent (compared with 6 percent in the June Greenbook) in line with the weaker

Decomposition of Structural Labor Productivity**Nonfarm Business Sector**

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

Measure	1974-95	1996-2000	2001-05	2006	2007	2008	2009
Structural labor productivity	1.5	2.5	2.8	2.1	2.1	2.0	2.0
Previous	1.5	2.5	2.8	2.1	2.1	2.0	2.0
<i>Contributions</i> ¹							
Capital deepening	.7	1.4	.7	.7	.6	.5	.5
Previous	.7	1.4	.7	.7	.6	.5	.6
Multifactor productivity	.5	.7	1.8	1.1	1.2	1.3	1.3
Previous	.5	.7	1.8	1.1	1.2	1.3	1.3
Labor composition	.3	.3	.3	.2	.2	.2	.2
MEMO							
Potential GDP	3.0	3.4	2.8	2.4	2.5	2.5	2.5
Previous	3.0	3.4	2.8	2.4	2.5	2.5	2.5

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	2006	2007	2008	2009
Output per hour, nonfarm business	.8	2.9	2.1	1.8
Previous	.8	2.9	1.8	2.1
Nonfarm private payroll employment	1.7	.9	-.8	.8
Previous	1.7	.9	-.6	1.0
Household survey employment	2.1	.4	-.6	.7
Previous	2.1	.4	-.3	.8
Labor force participation rate ¹	66.3	66.0	65.9	65.6
Previous	66.3	66.0	65.8	65.6
Civilian unemployment rate ¹	4.4	4.8	5.9	5.9
Previous	4.4	4.8	5.6	5.6
MEMO				
GDP gap ²	.1	.1	-1.3	-1.5
Previous	.1	.1	-1.4	-1.5

1. Percent, average for the fourth quarter.

2. Actual less potential GDP in the fourth quarter of the year indicated as a percent of potential GDP. A negative number thus indicates that the economy is operating below potential.

upside surprise in output in the second quarter, productivity in the nonfarm business sector appears to have risen smartly then, as it has over the past year. We expect productivity growth to slow appreciably in the second half as output decelerates; in 2009, it should move back up toward its underlying structural pace as output growth improves and businesses return to more normal operations and staffing. The unemployment rate is expected to be 5.9 percent in the fourth quarter of 2009; this projection is 0.3 percentage point higher than that in the June Greenbook, with the TEUC program accounting for more than half of the difference.⁵

Inflation Projections

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

Measure	2006	2007	2008	2009
PCE chain-weighted price index	1.9	3.4	3.7	2.4
Previous	1.9	3.4	4.2	2.1
Food and beverages	2.3	4.5	5.4	3.1
Previous	2.3	4.5	4.1	2.3
Energy	-4.0	19.6	17.4	2.5
Previous	-4.0	19.6	28.0	.8
Excluding food and energy	2.3	2.1	2.3	2.2
Previous	2.3	2.1	2.3	2.2
Consumer price index	1.9	4.0	4.4	2.5
Previous	1.9	4.0	5.0	2.2
Excluding food and energy	2.7	2.3	2.5	2.4
Previous	2.7	2.3	2.4	2.4
GDP chain-weighted price index	2.7	2.6	2.2	2.3
Previous	2.7	2.6	2.0	2.2
ECI for compensation of private industry workers ¹	3.2	3.0	3.4	3.4
Previous	3.2	3.0	3.4	3.4
Compensation per hour, nonfarm business sector	5.0	4.4	4.2	4.1
Previous	5.0	4.4	4.1	4.1
Prices of core nonfuel imports	2.4	3.3	6.9	1.4
Previous	2.4	3.3	5.8	1.4

1. December to December.

⁵ We do not expect the increment to joblessness from the TEUC program to have much effect on wages, given the marginal attachment of many of the affected individuals to the labor force.

The Long-Term Outlook
(Percent change, Q4 to Q4, except as noted)

Measure	2007	2008	2009	2010	2011	2012
Real GDP	2.5	1.2	2.2	3.1	3.2	3.0
Civilian unemployment rate ¹	4.8	5.9	5.9	5.5	5.1	4.9
PCE prices, total	3.4	3.7	2.4	1.9	1.9	1.7
Core PCE prices	2.1	2.3	2.2	2.0	1.8	1.7
Federal funds rate ¹	4.5	2.0	2.8	3.3	3.5	4.1

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

- Beyond 2009, foreign real GDP expands $3\frac{1}{4}$ percent per year while the dollar depreciates $1\frac{1}{4}$ percent per year in real terms; nominal crude oil prices are roughly flat, consistent with far-dated futures prices. Under these assumptions, the current account deficit diminishes to about $3\frac{1}{4}$ percent of GDP by 2012, and movements in prices of energy and imports have only minor implications for domestic inflation.
- The NAIRU remains flat at $4\frac{3}{4}$ percent, and potential GDP continues to expand about $2\frac{1}{2}$ percent per year from 2010 to 2012.

With core inflation entering 2010 above 2 percent, the federal funds rate continues to climb to just above 4 percent by the end of 2012. This monetary policy stance generates sufficient economic slack to bring inflation down to $1\frac{3}{4}$ percent in 2012, with the unemployment rate poised to settle in at the NAIRU in 2013. Real GDP advances a bit more than 3 percent per year, on average, from 2010 to 2012, $\frac{1}{2}$ percentage point above its projected potential growth rate over that period.

Financial Flows and Conditions

Growth of domestic nonfinancial debt slowed from $8\frac{1}{4}$ percent in 2007 to a 5 percent annual rate in the first half of this year, and we expect growth of just $4\frac{1}{2}$ percent, on average, through the end of next year.

In the household sector, debt growth slowed sharply from a $6\frac{3}{4}$ percent pace in 2007 to a 3 percent annual rate in the first half of this year. We anticipate growth of only $2\frac{1}{4}$ percent, on average, through the end of 2009. The deceleration is mainly due to a slowdown in home mortgage borrowing amid falling home prices and tightened standards on mortgage loans. In addition, tighter lending conditions for other forms of household

Alternative Scenarios

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

Measure and scenario	2008		2009	2010	2011-12
	H1	H2			
<i>Real GDP</i>					
Greenbook baseline	1.8	0.6	2.2	3.1	3.1
Severe financial stress	1.8	-0.4	0.5	2.6	3.6
Typical recession	1.8	-1.1	1.5	4.1	3.6
Resilient spending	1.8	3.1	1.8	2.5	2.8
Stronger productivity	1.8	0.8	2.7	3.8	3.7
Costly sectoral reallocation	1.8	-0.5	1.9	3.4	3.3
Inflationary spiral	1.8	0.5	2.2	2.9	2.8
<i>Unemployment rate¹</i>					
Greenbook baseline	5.3	5.9	5.9	5.5	4.9
Severe financial stress	5.3	6.0	6.7	6.5	5.4
Typical recession	5.3	6.1	6.5	5.9	4.8
Resilient spending	5.3	5.6	5.5	5.3	5.0
Stronger productivity	5.3	5.9	5.9	5.3	4.5
Costly sectoral reallocation	5.3	5.5	6.1	5.6	4.9
Inflationary spiral	5.3	5.9	5.9	5.6	5.3
<i>Core PCE inflation</i>					
Greenbook baseline	2.1	2.6	2.2	2.0	1.8
Severe financial stress	2.1	2.6	2.2	1.9	1.5
Typical recession	2.1	2.6	2.1	1.8	1.5
Resilient spending	2.1	2.6	2.3	2.1	2.0
Stronger productivity	2.1	2.5	2.0	1.7	1.5
Costly sectoral reallocation	2.1	2.7	2.4	2.3	2.0
Inflationary spiral	2.1	2.8	2.9	2.9	2.7
<i>Federal funds rate¹</i>					
Greenbook baseline	2.1	2.0	2.8	3.3	4.1
Severe financial stress	2.1	1.6	0.8	1.1	3.2
Typical recession	2.1	1.2	1.2	2.7	4.2
Resilient spending	2.1	3.0	3.8	3.5	4.0
Stronger productivity	2.1	1.9	2.8	3.4	4.4
Costly sectoral reallocation	2.1	2.0	2.7	3.5	4.4
Inflationary spiral	2.1	2.0	3.4	4.4	4.9

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

policy responds to changes from the baseline scenario as implied by an estimated Taylor rule.

Severe financial stress. Our baseline forecast assumes a gradual waning in financial market strains over the next two years. In this scenario, credit losses and solvency

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

Measure	2008	2009	2010	2011	2012
<i>Real GDP</i> (percent change, Q4 to Q4)					
Projection	1.2	2.2	3.1	3.2	3.0
Confidence interval					
Greenbook forecast errors	.4–1.9	.6–3.8	1.7–4.5
FRB/US stochastic simulations	.4–2.0	.9–3.6	1.5–4.7	1.4–4.9	1.2–4.7
<i>Civilian unemployment rate</i> (percent, Q4)					
Projection	5.9	5.9	5.5	5.1	4.9
Confidence interval					
Greenbook forecast errors	5.7–6.1	5.2–6.6	4.5–6.5
FRB/US stochastic simulations	5.6–6.2	5.4–6.4	4.8–6.0	4.4–5.8	4.0–5.7
<i>PCE prices, total</i> (percent change, Q4 to Q4)					
Projection	3.7	2.4	1.9	1.9	1.7
Confidence interval					
Greenbook forecast errors	3.3–4.1	1.5–3.2	.6–3.1
FRB/US stochastic simulations	3.2–4.3	1.6–3.3	.9–2.9	.9–3.0	.8–2.8
<i>PCE prices excluding food and energy</i> (percent change, Q4 to Q4)					
Projection	2.3	2.2	2.0	1.8	1.7
Confidence interval					
Greenbook forecast errors	2.0–2.7	1.5–2.9	.9–3.1
FRB/US stochastic simulations	2.1–2.6	1.7–2.8	1.4–2.7	1.1–2.6	1.1–2.6
<i>Federal funds rate</i> (percent, Q4)					
Projection	2.0	2.8	3.3	3.5	4.1
Confidence interval					
FRB/US stochastic simulations	1.5–2.5	1.5–4.1	2.0–4.8	2.1–5.2	2.7–5.8

Notes: Intervals derived from Greenbook forecast errors are based on projections made from 1987-2007. Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1987-2007 set of model equation residuals.

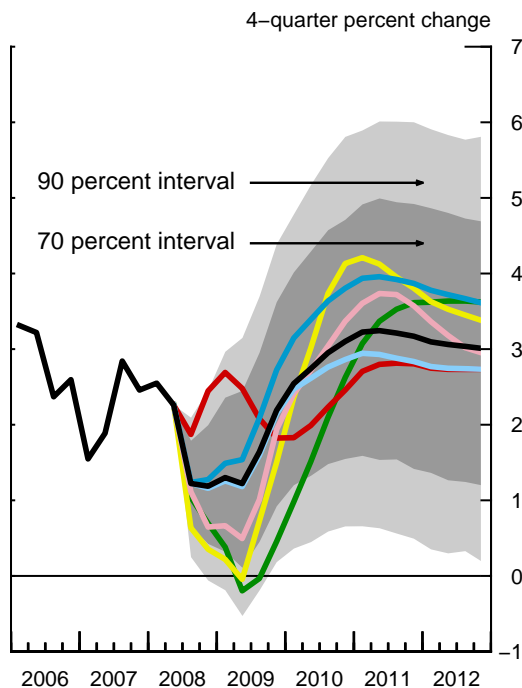
... Not applicable. The Greenbook forecast horizon has typically extended about two years.

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

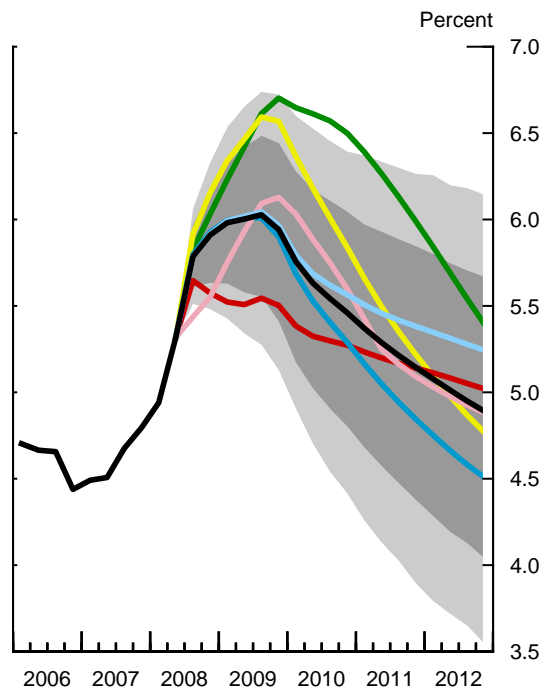
Confidence Intervals based on FRB/US Stochastic Simulations

- Greenbook baseline
- Severe financial stress
- Typical recession
- Resilient spending
- Stronger productivity
- Costly sectoral reallocation
- Inflationary spiral

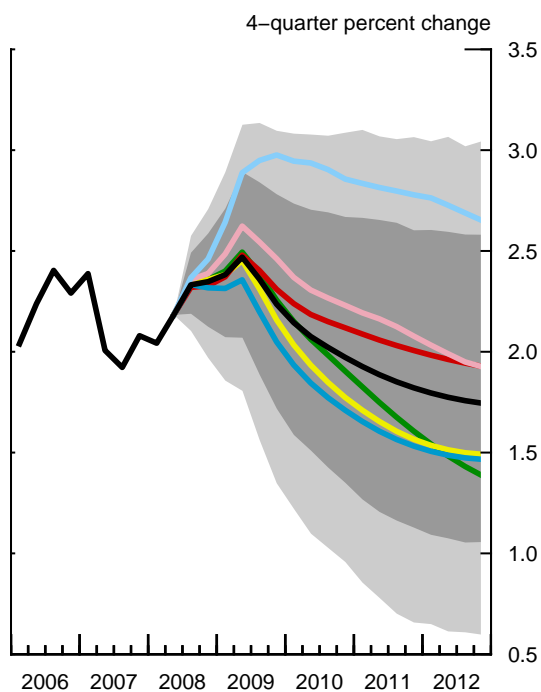
Real GDP



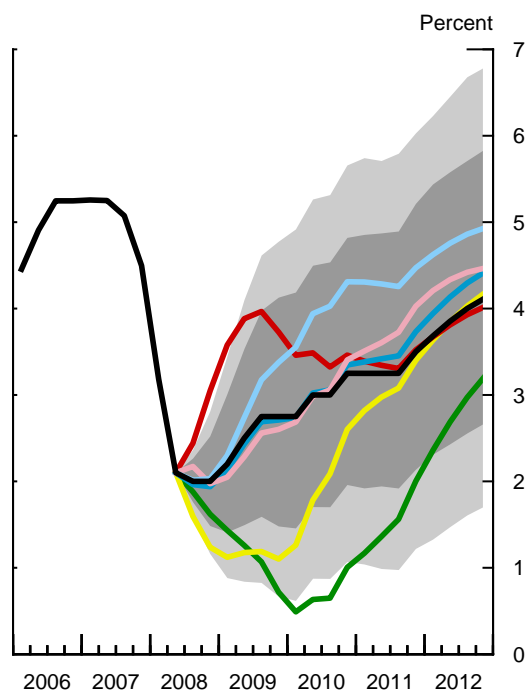
Unemployment Rate



PCE Prices excluding Food and Energy



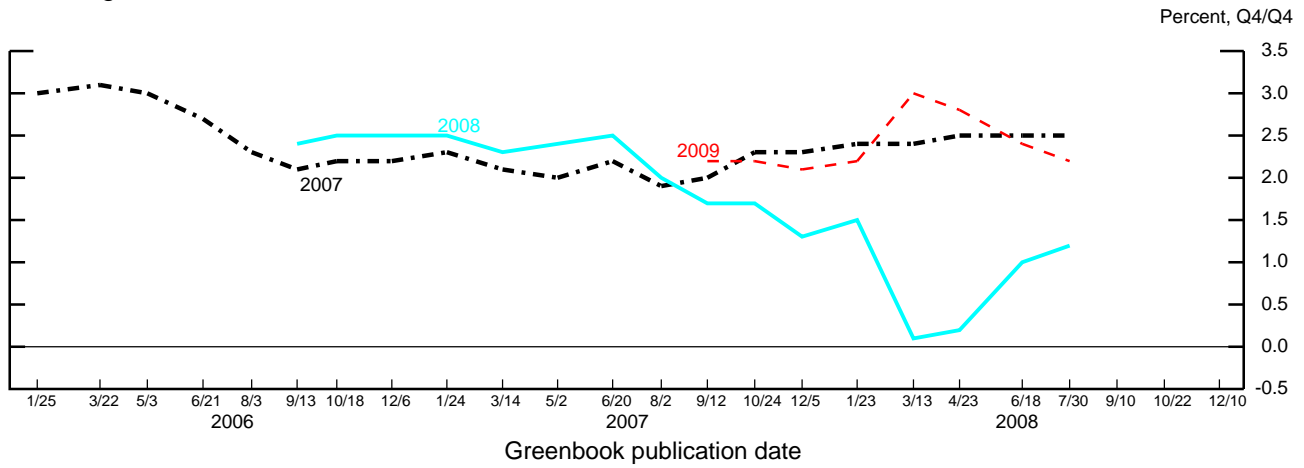
Federal Funds Rate



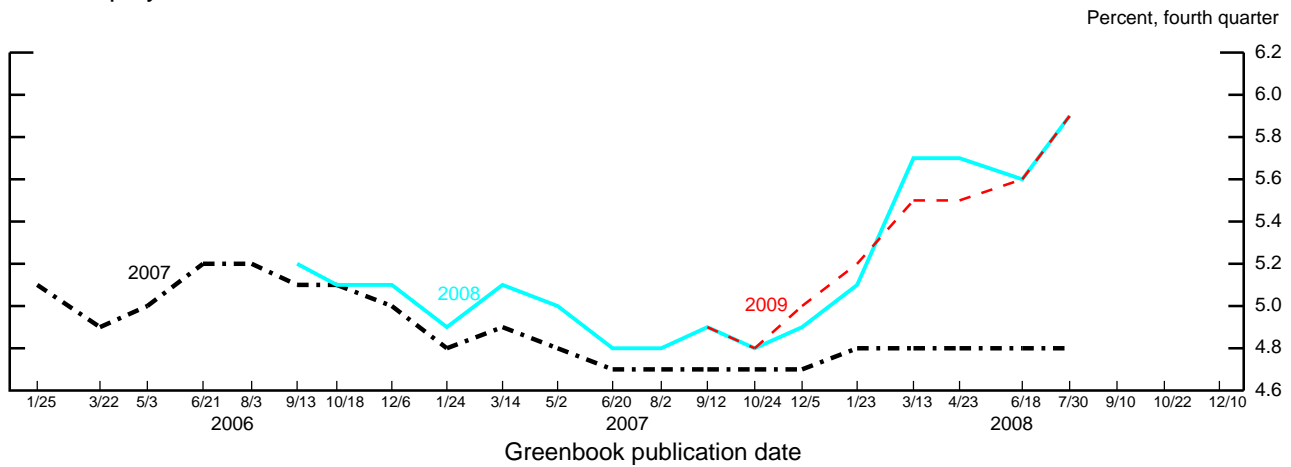
Class II FOMC - Restricted (FR)

Evolution of the Staff Forecast

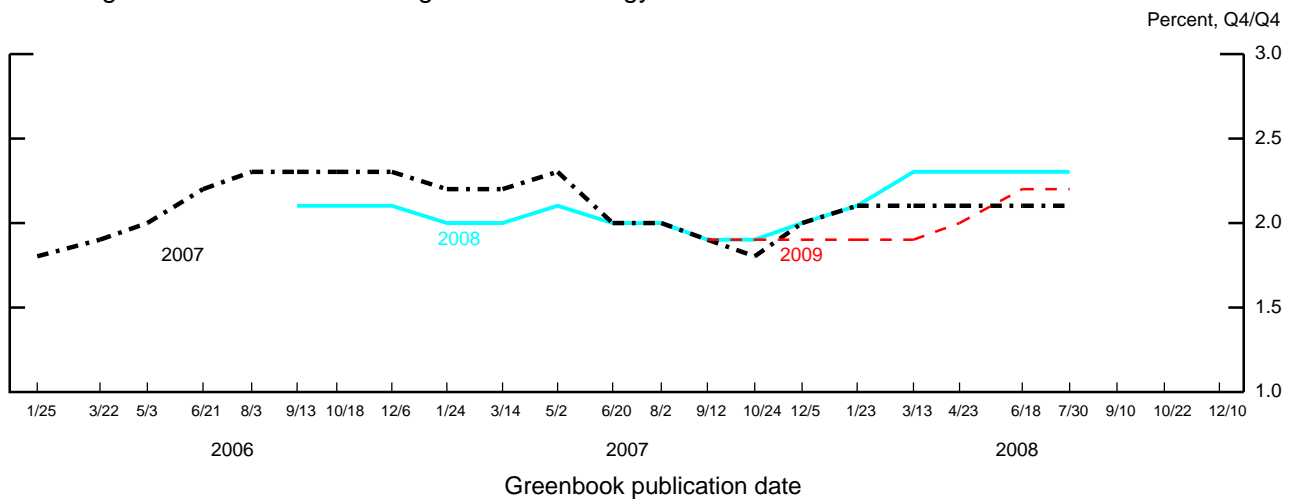
Change in Real GDP



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	
	06/18/08	07/30/08	06/18/08	07/30/08	06/18/08	07/30/08	06/18/08	07/30/08	06/18/08	07/30/08
<i>Quarterly</i>										
2007:Q1	4.9	4.9	.6	.6	3.5	3.5	2.4	2.4	4.5	4.5
Q2	6.6	6.6	3.8	3.8	4.3	4.3	1.4	1.4	4.5	4.5
Q3	6.0	6.0	4.9	4.9	1.8	1.8	2.0	2.0	4.7	4.7
Q4	3.0	3.0	.6	.6	3.9	3.9	2.5	2.5	4.8	4.8
2008:Q1	3.9	3.7	1.1	1.0	3.6	3.6	2.2	2.3	4.9	4.9
Q2	1.9	3.2	1.7	2.7	4.1	4.1	2.0	1.9	5.3	5.3
Q3	3.9	4.3	.9	.7	5.9	4.7	2.5	2.6	5.5	5.8
Q4	2.7	2.4	.5	.4	3.1	2.5	2.6	2.6	5.6	5.9
2009:Q1	3.8	4.0	1.4	1.4	2.5	2.9	2.4	2.4	5.7	6.0
Q2	5.1	4.9	2.7	2.3	2.1	2.4	2.3	2.3	5.7	6.0
Q3	4.9	4.7	2.8	2.4	2.0	2.2	2.1	2.2	5.7	6.0
Q4	4.8	4.8	2.8	2.6	2.0	2.0	2.1	2.1	5.6	5.9
<i>Two-quarter²</i>										
2007:Q2	5.7	5.7	2.2	2.2	3.9	3.9	1.9	1.9	.1	.1
Q4	4.5	4.5	2.7	2.7	2.9	2.9	2.3	2.3	.3	.3
2008:Q2	2.9	3.4	1.4	1.8	3.8	3.9	2.1	2.1	.5	.5
Q4	3.3	3.4	.7	.6	4.5	3.6	2.5	2.6	.3	.6
2009:Q2	4.4	4.4	2.0	1.9	2.3	2.7	2.3	2.3	.1	.1
Q4	4.9	4.7	2.8	2.5	2.0	2.1	2.1	2.1	-.1	-.1
<i>Four-quarter³</i>										
2006:Q4	5.4	5.4	2.6	2.6	1.9	1.9	2.3	2.3	-.5	-.5
2007:Q4	5.1	5.1	2.5	2.5	3.4	3.4	2.1	2.1	.4	.4
2008:Q4	3.1	3.4	1.0	1.2	4.2	3.7	2.3	2.3	.8	1.1
2009:Q4	4.6	4.6	2.4	2.2	2.1	2.4	2.2	2.2	.0	.0
<i>Annual</i>										
2006	6.1	6.1	2.9	2.9	2.8	2.8	2.2	2.2	4.6	4.6
2007	4.9	4.9	2.2	2.2	2.5	2.5	2.1	2.1	4.6	4.6
2008	3.7	3.9	1.7	1.8	3.8	3.7	2.2	2.2	5.3	5.5
2009	3.9	4.0	1.7	1.6	2.9	2.9	2.3	2.4	5.7	6.0

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	2007				2008				2009				2007 ¹	2008 ¹	2009 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous</i>	.6	3.8	4.9	.6	1.0	2.7	.7	.4	1.4	2.3	2.4	2.6	2.5	1.2	2.2
	.6	3.8	4.9	.6	1.1	1.7	.9	.5	1.4	2.7	2.8	2.8	2.5	1.0	2.4
Final sales <i>Previous</i>	1.3	3.6	4.0	2.4	.9	4.1	1.2	-2.2	.1	2.5	1.9	1.4	2.8	1.0	1.4
Priv. dom. final purch. <i>Previous</i>	1.3	3.6	4.0	2.4	.9	3.2	1.7	-2.6	.6	2.8	2.5	1.6	2.8	.8	1.9
	2.2	1.7	2.2	1.1	-3	1.1	-1	-3.9	-7	.8	1.1	1.6	1.8	-8	.7
	2.2	1.7	2.2	1.1	-4	.5	.9	-4.4	-2	1.2	1.9	2.2	1.8	-9	1.3
Personal cons. expend. <i>Previous</i>	3.7	1.4	2.8	2.3	1.1	2.0	1.6	-2.8	.8	1.2	1.3	1.6	2.6	.4	1.2
Durables	3.7	1.4	2.8	2.3	1.2	2.2	2.6	-3.8	1.0	1.5	1.7	1.9	2.6	.5	1.5
Nondurables	8.8	1.7	4.5	2.0	-6.0	-3.8	3.1	2.6	3.7	3.6	3.8	3.7	4.2	-1.1	3.7
Services	3.0	-5	2.2	1.2	-2	4.2	.9	-4.2	.9	1.5	1.7	1.9	1.5	.1	1.5
	3.1	2.3	2.8	2.8	3.1	1.9	1.6	-3.0	.3	.6	.7	1.0	2.8	.9	.7
Residential investment <i>Previous</i>	-16.3	-11.8	-20.5	-25.2	-24.6	-19.4	-24.1	-29.7	-26.0	-1.9	-4.5	1.9	-18.6	-24.5	-8.3
	-16.3	-11.8	-20.5	-25.2	-24.7	-23.7	-24.8	-26.9	-22.0	-4.1	.5	2.2	-18.6	-25.0	-6.4
Business fixed invest. <i>Previous</i>	2.1	11.0	9.3	6.0	.6	3.3	-2.7	-2.3	-3.5	-1.3	.8	1.8	7.1	-3	-6
Equipment & software <i>Previous</i>	2.1	11.0	9.3	6.0	-2	-1.2	-9	-1.2	-1.3	.8	3.6	4.4	7.1	-9	1.9
	.3	4.7	6.2	3.1	.2	-4	-3.7	-3	-2.4	-1	2.5	4.4	3.6	-1.1	1.1
	.3	4.7	6.2	3.1	-1.1	-5.4	-1.3	-1.1	-1.2	1.3	4.8	5.7	3.6	-2.2	2.6
Nonres. structures <i>Previous</i>	6.4	26.2	16.4	12.4	1.2	11.1	-5	-6.2	-5.8	-3.7	-2.5	-3.2	15.1	1.2	-3.8
	6.4	26.2	16.4	12.4	1.7	7.8	-1	-1.4	-1.4	.0	1.4	2.0	15.1	1.9	.5
Net exports ² <i>Previous</i> ²	-612	-574	-533	-503	-480	-415	-387	-364	-351	-311	-289	-292	-556	-411	-311
Exports	-612	-574	-533	-503	-481	-421	-401	-377	-366	-327	-307	-315	-556	-420	-329
Imports	1.1	7.5	19.1	6.5	5.4	10.8	6.8	7.3	7.5	7.6	7.5	7.6	8.4	7.6	7.5
	3.9	-2.7	4.4	-1.4	-7	-5.3	-6	.8	3.4	-2.1	1.5	7.0	1.0	-1.5	2.4
Govt. cons. & invest. <i>Previous</i>	-5	4.1	3.8	2.0	2.1	4.1	1.5	1.7	1.8	1.8	1.3	1.1	2.3	2.4	1.5
Federal	-5	4.1	3.8	2.0	2.1	3.1	1.6	1.9	2.1	1.7	1.2	1.1	2.3	2.2	1.5
Defense	-6.3	6.0	7.1	.5	4.3	8.1	2.0	3.3	3.6	3.5	2.8	2.2	1.7	4.4	3.0
Nondefense	-10.8	8.5	10.1	-5	5.6	11.7	2.9	4.4	4.8	4.7	3.5	2.7	1.5	6.1	3.9
State & local	3.8	.9	1.1	2.8	1.7	.8	.1	.9	1.0	1.0	1.0	1.0	2.1	.9	1.0
	3.0	3.0	1.9	2.8	.8	1.9	1.2	.9	.8	.8	.4	.4	2.7	1.2	.6
Change in bus. inventories ² <i>Previous</i> ²	0	6	31	-18	-20	-57	-70	2	38	36	49	85	5	-36	52
Nonfarm ²	0	6	31	-18	-13	-54	-78	7	28	25	33	66	5	-35	38
Farm ²	-6	1	26	-22	-19	-60	-73	1	38	35	50	87	0	-38	53
	5	4	4	2	-1	1	1	1	1	1	1	1	4	0	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	2001 ¹	2002 ¹	2003 ¹	2004 ¹	2005 ¹	2006 ¹	2007 ¹	2008 ¹	2009 ¹
Real GDP <i>Previous</i>	.2	1.9	3.7	3.1	2.9	2.6	2.5	1.2	2.2
	.2	1.9	3.7	3.1	2.9	2.6	2.5	1.0	2.4
Final sales <i>Previous</i>	1.5	.8	3.7	2.8	2.9	3.0	2.8	1.0	1.4
Priv. dom. final purch. <i>Previous</i>	1.5	.8	3.7	2.8	2.9	3.0	2.8	.8	1.9
	1.0	1.1	4.1	4.3	3.3	2.4	1.8	-8	.7
	1.0	1.1	4.1	4.3	3.3	2.4	1.8	-9	1.3
Personal cons. expend. <i>Previous</i>	2.8	1.9	3.4	3.7	2.8	3.4	2.6	.4	1.2
	2.8	1.9	3.4	3.7	2.8	3.4	2.6	.5	1.5
Durables	10.8	1.2	8.3	5.6	1.2	6.6	4.2	-1.1	3.7
Nondurables	1.9	2.1	3.9	3.5	3.6	3.6	1.5	.1	1.5
Services	1.6	1.9	2.2	3.3	2.7	2.6	2.8	.9	.7
Residential investment <i>Previous</i>	1.4	7.0	11.7	6.7	6.4	-12.8	-18.6	-24.5	-8.3
	1.4	7.0	11.7	6.7	6.4	-12.8	-18.6	-25.0	-6.4
Business fixed invest. <i>Previous</i>	-9.6	-6.5	4.9	7.5	5.1	5.2	7.1	-3	-6
	-9.6	-6.5	4.9	7.5	5.1	5.2	7.1	-9	1.9
Equipment & software <i>Previous</i>	-9.0	-3.4	6.6	9.4	7.1	2.5	3.6	-1.1	1.1
	-9.0	-3.4	6.6	9.4	7.1	2.5	3.6	-2.2	2.6
Nonres. structures <i>Previous</i>	-11.1	-14.9	.2	2.3	-3	12.3	15.1	1.2	-3.8
	-11.1	-14.9	.2	2.3	-3	12.3	15.1	1.9	.5
Net exports ² <i>Previous</i> ²	-399	-471	-519	-594	-618	-624	-556	-411	-311
	-399	-471	-519	-594	-618	-624	-556	-420	-329
Exports	-11.9	3.8	5.8	7.4	7.0	9.3	8.4	7.6	7.5
Imports	-7.6	9.7	4.8	11.5	5.1	3.7	1.0	-1.5	2.4
Govt. cons. & invest. <i>Previous</i>	5.0	4.0	1.7	.7	.9	2.5	2.3	2.4	1.5
	5.0	4.0	1.7	.7	.9	2.5	2.3	2.2	1.5
Federal	6.4	7.8	5.5	2.4	1.3	3.7	1.7	4.4	3.0
Defense	6.5	8.4	7.5	2.5	1.1	5.9	1.5	6.1	3.9
Nondefense	6.3	6.8	1.9	2.3	1.9	-7	2.1	.9	1.0
State & local	4.2	2.1	-4	-4	.7	1.8	2.7	1.2	.6
Change in bus. inventories ² <i>Previous</i> ²	-32	12	14	54	33	40	5	-36	52
	-32	12	14	54	33	40	5	-35	38
Nonfarm ²	-32	15	14	48	34	42	0	-38	53
Farm ²	0	-2	0	6	-0	-1	4	0	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	2007				2008				2009				2007 ¹	2008 ¹	2009 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2007 ¹	2008 ¹	2009 ¹
Real GDP <i>Previous</i>	.6	3.8	4.9	.6	1.0	2.7	.7	.4	1.4	2.3	2.4	2.6	2.5	1.2	2.2
Final sales <i>Previous</i>	.6	3.8	4.9	.6	1.1	1.7	.9	.5	1.4	2.7	2.8	2.8	2.5	1.0	2.4
Priv. dom. final purch. <i>Previous</i>	1.3	3.6	4.0	2.4	1.0	4.1	1.2	-2.3	.1	2.4	1.9	1.4	2.8	1.0	1.4
Personal cons. expend. <i>Previous</i>	1.3	3.6	4.0	2.4	.9	3.2	1.7	-2.7	.6	2.8	2.5	1.7	2.8	.8	1.9
Durables	1.9	1.5	1.9	1.0	-3	1.0	-1	-3.4	-6	.7	.9	1.4	1.6	-7	.6
Nondurables	1.9	1.5	1.9	1.0	-3	.4	.8	-3.9	-1	1.1	1.6	1.9	1.6	-8	1.1
Services	2.6	1.0	2.0	1.6	.8	1.4	1.1	-2.1	.6	.8	.9	1.1	1.8	.3	.9
Residential investment <i>Previous</i>	2.6	1.0	2.0	1.6	.8	1.5	1.8	-2.8	.7	1.1	1.2	1.4	1.8	.4	1.1
Business fixed invest. <i>Previous</i>	.7	.1	.4	.2	-5	-3	.2	.2	.3	.3	.3	.3	.3	-1	.3
Equipment & software <i>Previous</i>	.6	-1	.5	.3	.0	.9	.2	-.9	.2	.3	.4	.4	.3	.0	.3
Nonres. structures <i>Previous</i>	1.3	1.0	1.2	1.2	1.3	.8	.7	-1.3	.1	.3	.3	.5	1.2	.4	.3
Net exports <i>Previous</i>	-9	-6	-1.1	-1.3	-1.1	-8	-9	-1.1	-9	-1	-1	.1	-1.0	-1.0	-2
Exports	-9	-6	-1.1	-1.3	-1.1	-1.0	-1.0	-1.0	-7	-1	.0	.1	-1.0	-1.0	-2
Imports	.2	1.1	1.0	.6	.1	.4	-3	-2	-4	-1	.1	.2	.7	.0	-1
Govt. cons. & invest. <i>Previous</i>	.2	1.1	1.0	.6	.0	-1	-1	-1	-1	.1	.4	.4	.7	-1	.2
Federal	.0	.3	.4	.2	.0	.0	-3	.0	-2	.0	.2	.3	.3	-1	.1
Defense	.0	.3	.4	.2	-1	-4	-1	-1	-1	.1	.3	.4	.3	-2	.2
Nondefense	.2	.8	.5	.4	.0	.4	.0	-2	-2	-1	-1	-1	.5	.0	-1
State & local	.2	.8	.5	.4	.1	.3	.0	.0	.0	.0	.0	.1	.5	.1	.0
Change in bus. inventories <i>Previous</i>	-5	1.3	1.4	1.0	.8	2.3	1.0	.8	.4	1.4	.7	-2	.8	1.2	.6
Nonfarm	-5	1.3	1.4	1.0	.8	2.1	.7	.8	.3	1.4	.7	-4	.8	1.1	.5
Farm	.1	.9	2.1	.8	.7	1.3	.9	.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0
	-6	.5	-7	.2	.1	1.0	.1	-2	-6	.4	-3	-1.3	-2	.3	-4
Govt. cons. & invest. <i>Previous</i>	-1	.8	.7	.4	.4	.8	.3	.3	.4	.4	.3	.2	.4	.5	.3
Federal	-1	.8	.7	.4	.4	.6	.3	.4	.4	.3	.3	.2	.4	.4	.3
Defense	-5	.4	.5	.0	.3	.6	.1	.2	.3	.3	.2	.2	.1	.3	.2
Nondefense	-5	.4	.5	.0	.3	.6	.1	.2	.2	.2	.2	.1	.1	.3	.2
State & local	.1	.0	.0	.1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
Change in bus. inventories <i>Previous</i>	.4	.4	.2	.3	.1	.2	.2	.1	.1	.1	.1	.1	.3	.2	.1
Nonfarm	-7	.2	.9	-1.8	.0	-1.4	-5	2.7	1.3	-1	.5	1.3	-3	.2	.7
Farm	-7	.2	.9	-1.8	.3	-1.5	-9	3.1	.8	-1	.3	1.2	-3	.3	.5
	-7	.3	.9	-1.7	.2	-1.5	-5	2.7	1.3	-1	.5	1.3	-3	.2	.7
	.0	-1	.0	-1	-1	.1	.0	.0	.0	.0	.0	.0	.0	.0	.0

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

July 30, 2008

Class II FOMC
Restricted (FR)Changes in Prices and Costs
(Percent, annual rate except as noted)

Item	2007				2008				2009				2007 ¹	2008 ¹	2009 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP chain-wt. price index <i>Previous</i>	4.2	2.6	1.0	2.4	2.7	.5	3.5	2.0	2.6	2.5	2.2	2.1	2.6	2.2	2.3
PCE chain-wt. price index <i>Previous</i>	4.2	2.6	1.0	2.4	2.7	.2	3.0	2.3	2.4	2.3	2.1	2.0	2.6	2.0	2.2
Energy	3.5	4.3	1.8	3.9	3.6	4.1	4.7	2.5	2.9	2.4	2.2	2.0	3.4	3.7	2.4
<i>Previous</i>	3.5	4.3	1.8	3.9	3.6	4.1	5.9	3.1	2.5	2.1	2.0	2.0	3.4	4.2	2.1
Food	16.1	51.3	-6.7	24.9	18.6	28.1	28.4	-2.5	5.9	2.7	1.1	.5	19.6	17.4	2.5
<i>Previous</i>	16.1	51.3	-6.7	24.9	18.6	27.4	61.7	10.0	3.5	.0	-.5	.2	19.6	28.0	.8
Food	4.8	4.7	4.7	3.6	4.8	6.5	5.9	4.4	3.9	3.3	2.7	2.4	4.5	5.4	3.1
<i>Previous</i>	4.8	4.7	4.7	3.6	4.8	6.1	3.0	2.7	2.5	2.4	2.3	2.2	4.5	4.1	2.3
Ex. food & energy	2.4	1.4	2.0	2.5	2.3	1.9	2.6	2.6	2.4	2.3	2.2	2.1	2.1	2.3	2.2
<i>Previous</i>	2.4	1.4	2.0	2.5	2.2	2.0	2.5	2.6	2.4	2.3	2.1	2.1	2.1	2.3	2.2
CPI	3.7	4.6	2.8	5.0	4.3	5.0	5.9	2.4	3.1	2.6	2.2	2.1	4.0	4.4	2.5
<i>Previous</i>	3.7	4.6	2.8	5.0	4.3	4.7	7.6	3.5	2.7	2.1	2.0	2.1	4.0	5.0	2.2
Ex. food & energy	2.3	2.0	2.5	2.5	2.5	1.9	2.8	2.7	2.5	2.4	2.3	2.3	2.3	2.5	2.4
<i>Previous</i>	2.3	2.0	2.5	2.5	2.5	1.7	2.6	2.7	2.5	2.4	2.3	2.3	2.3	2.4	2.4
ECL, hourly compensation ² <i>Previous</i> ²	2.7	3.1	3.1	3.5	3.0	3.3	3.5	3.5	3.4	3.4	3.4	3.4	3.0	3.4	3.4
Nonfarm business sector Output per hour <i>Previous</i>	2.7	3.1	3.1	3.5	3.0	3.3	3.5	3.5	3.4	3.4	3.4	3.4	3.0	3.4	3.4
Compensation per hour <i>Previous</i>	1.3	2.7	6.0	1.8	2.8	3.4	1.2	.9	1.4	2.0	1.9	1.9	2.9	2.1	1.8
<i>Previous</i>	1.3	2.7	6.0	1.8	2.9	2.3	1.2	.8	1.3	2.4	2.3	2.2	2.9	1.8	2.1
Unit labor costs <i>Previous</i>	6.4	1.3	3.3	6.6	5.0	4.0	4.1	4.0	4.1	4.1	4.1	4.0	4.4	4.2	4.1
<i>Previous</i>	6.4	1.3	3.3	6.6	4.9	3.9	4.0	3.9	4.1	4.1	4.1	4.1	4.4	4.1	4.1
Unit labor costs <i>Previous</i>	5.0	-1.3	-2.5	4.7	2.1	.6	2.8	3.0	2.6	2.0	2.1	2.1	1.4	2.1	2.2
<i>Previous</i>	5.0	-1.3	-2.5	4.7	2.0	1.5	2.7	3.0	2.8	1.7	1.8	1.8	1.4	2.3	2.0

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

2. Private-industry workers.

Other Macroeconomic Indicators

Item	2007				2008				2009				2007 ¹	2008 ¹	2009 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Employment and production</i>															
Nonfarm payroll employment ²	4	.3	.3	.3	-1	-2	-2	-1	.2	.2	.3	.4	1.2	-.7	1.0
Unemployment rate ³	4.5	4.5	4.7	4.8	4.9	5.3	5.8	5.9	6.0	6.0	6.0	5.9	4.8	5.9	5.9
<i>Previous³</i>	4.5	4.5	4.7	4.8	4.9	5.3	5.5	5.6	5.7	5.7	5.7	5.6	4.8	5.6	5.6
GDP gap ⁴	-4	.0	.5	.1	-3	-3	-7	-1.3	-1.5	-1.5	-1.6	-1.5	.1	-1.3	-1.5
<i>Previous⁴</i>	-4	.0	.5	.1	-3	-5	-9	-1.4	-1.6	-1.6	-1.5	-1.5	.1	-1.4	-1.5
Industrial production ⁵	1.5	3.2	3.6	.3	.5	-3.1	1.3	1.1	1.7	1.7	2.4	3.9	2.1	-.1	2.4
<i>Previous⁵</i>	1.5	3.2	3.6	.3	-3	-3.2	1.8	2.4	2.6	1.9	2.4	3.8	2.1	.1	2.7
Manufacturing industr. prod. ⁵	1.1	4.7	4.0	-.6	-9	-3.7	.2	-.1	1.1	1.9	2.4	3.9	2.3	-1.1	2.3
<i>Previous⁵</i>	1.1	4.7	4.0	-.6	-1.2	-3.5	.7	.9	1.8	2.2	2.7	3.8	2.3	-.8	2.6
Capacity utilization rate - mfg. ³	78.9	79.5	79.8	79.3	78.7	77.6	77.3	77.0	77.0	77.1	77.3	77.8	79.3	77.0	77.8
<i>Previous³</i>	78.9	79.5	79.8	79.3	78.6	77.6	77.4	77.3	77.4	77.5	77.7	78.1	79.3	77.3	78.1
Housing starts ⁶	1.5	1.5	1.3	1.2	1.1	1.0	.9	.7	.8	.8	.9	.9	1.4	.9	.9
Light motor vehicle sales ⁶	16.3	16.0	15.9	16.1	15.2	14.1	14.0	14.3	14.5	14.7	14.8	14.9	16.1	14.4	14.7
<i>Income and saving</i>															
Nominal GDP ⁵	4.9	6.6	6.0	3.0	3.7	3.2	4.3	2.4	4.0	4.9	4.7	4.8	5.1	3.4	4.6
Real disposable pers. income ⁵	5.4	-.8	4.0	.9	1.4	11.3	-9.2	-2.6	3.5	1.4	1.6	2.7	2.4	.0	2.3
<i>Previous⁵</i>	5.4	-.8	4.0	.9	1.7	12.0	-10.4	-2.8	3.7	1.7	1.4	2.4	2.4	-.2	2.3
Personal saving rate ³	1.0	.3	.4	.2	.4	2.6	-.2	-.1	.6	.7	.8	1.1	.2	-.1	1.1
<i>Previous³</i>	1.0	.3	.4	.2	.5	2.8	-.5	-.3	.4	.4	.4	.5	.2	-.3	.5
Corporate profits ⁷	4.4	26.8	-4.9	-12.4	-1.3	15.0	2.9	-.5	3.2	2.9	1.6	3.8	2.5	3.8	2.9
Profit share of GNP ³	11.4	11.9	11.5	11.0	10.9	11.2	11.2	11.1	11.1	11.0	10.9	10.9	11.0	11.1	10.9
Net federal saving ⁸	-219	-207	-230	-218	-308	-610	-431	-387	-419	-411	-394	-398	-221	-434	-405
Net state & local saving ⁸	-6	13	-13	-42	-68	-65	-67	-74	-73	-74	-69	-65	-12	-69	-70
Gross national saving rate ³	13.8	13.8	13.2	12.6	11.8	11.6	10.9	11.3	11.2	11.3	11.5	11.7	12.6	11.3	11.7
Net national saving rate ³	1.7	1.7	1.2	.4	-.3	-.6	-1.4	-1.0	-1.0	-.8	-.6	-.3	.4	-1.0	-.3

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)

July 30, 2008

Item	Fiscal year				2007				2008				2009					
	2006 ^a	2007 ^a	2008	2009	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1 ^a	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Unified budget																		
Receipts ¹	2407	2568	2564	2695	547	824	622	606	540	788	630	638	539	836	682	652		
Outlays ¹	2655	2729	2922	3090	725	687	663	713	746	744	720	771	781	777	761	816		
Surplus/deficit ¹	-248	-162	-358	-395	-178	137	-41	-107	-206	44	-89	-133	-242	59	-79	-164		
<i>Previous</i>	-248	-162	-370	-394	-178	137	-41	-107	-206	39	-96	-142	-240	72	-83	-165		
On-budget	-434	-343	-552	-583	-212	53	-48	-166	-237	-47	-102	-204	-260	-33	-86	-233		
Off-budget	186	181	194	188	34	85	7	59	31	91	12	71	18	92	7	69		
									Not seasonally adjusted									
Means of financing																		
Borrowing	237	206	361	448	152	-110	106	89	200	-48	120	139	234	-27	101	153		
Cash decrease	-16	-23	30	-5	25	-19	-50	18	11	-7	8	6	19	-20	-10	15		
Other ²	28	-22	-33	-48	1	-8	-15	-1	-5	12	-39	-12	-12	-12	-12	-5		
Cash operating balance, end of period	52	75	45	50	6	25	75	57	46	53	45	39	20	40	50	35		
NIPA federal sector																		
Receipts	2437	2635	2625	2804	2620	2670	2689	2715	2702	2412	2670	2737	2788	2816	2877	2911		
Expenditures	2685	2845	3017	3207	2838	2877	2920	2933	3010	3023	3101	3124	3207	3227	3271	3309		
Consumption expenditures	798	843	907	967	830	850	868	877	901	921	931	942	963	976	987	997		
Defense	533	570	620	667	556	574	590	596	614	631	639	649	664	674	682	690		
Nondefense	266	273	287	300	274	276	278	281	287	289	291	293	299	302	305	307		
Other spending	1887	2001	2109	2240	2008	2027	2052	2056	2109	2102	2170	2182	2244	2251	2284	2312		
Current account surplus	-248	-209	-392	-403	-219	-207	-230	-218	-308	-610	-431	-387	-419	-411	-394	-398		
Gross investment	117	121	125	135	117	120	123	121	123	128	130	132	134	137	139	141		
Gross saving less gross investment ³	-262	-221	-403	-418	-227	-216	-242	-227	-318	-624	-445	-401	-434	-427	-411	-414		
Fiscal indicators⁴																		
High-employment (HEB)																		
surplus/deficit	-278	-233	-389	-336	-233	-223	-259	-233	-311	-610	-403	-336	-355	-338	-314	-317		
Change in HEB, percent of potential GDP	-0.5	-0.4	1.0	-0.5	0.1	-0.1	0.2	-0.2	0.5	2.1	-1.5	-0.5	0.1	-0.1	-0.2	-0.0		
Fiscal impetus (FI), percent of GDP	0.3	0.2	0.7	0.0	-0.0	0.1	0.1	0.0	0.1	0.4	0.7	-0.5	-0.1	0.1	-0.1	-0.0		
<i>Previous</i>	0.3	0.2	0.6	-0.0	-0.0	0.1	0.1	0.0	0.1	0.4	0.7	-0.5	-0.1	0.1	-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** **July 30, 2008**
(Percent)

Period ¹	Total	Households			Business	State and local governments	Federal government	Memo: Nominal GDP
		Total	Home mortgages	Consumer credit				
<i>Year</i>								
2002	7.3	10.8	13.3	5.7	2.4	11.0	7.6	3.6
2003	8.1	11.5	14.2	5.2	2.4	8.3	10.9	5.9
2004	8.8	11.2	13.7	5.5	5.8	7.4	9.0	6.5
2005	9.2	11.2	13.1	4.3	7.7	10.2	7.0	6.3
2006	8.8	10.2	11.2	4.5	9.7	8.2	3.9	5.4
2007	8.2	6.8	6.8	5.7	11.7	9.2	4.9	5.1
2008	4.8	2.6	2.3	3.3	5.7	6.1	8.0	3.4
2009	4.5	2.3	1.9	2.8	4.8	6.8	8.4	4.6
<i>Quarter</i>								
2007:1	8.0	7.0	7.9	4.8	9.4	11.2	6.7	4.9
2	7.1	7.2	7.4	5.6	11.0	10.3	-1.4	6.6
3	9.1	6.4	5.3	8.1	13.7	6.5	8.8	6.0
4	7.5	6.1	5.8	3.9	10.6	7.7	5.1	3.0
2008:1	6.1	3.3	3.0	4.9	8.1	6.4	9.5	3.7
2	3.8	2.6	2.2	3.3	5.8	1.8	3.8	3.2
3	4.6	2.3	1.9	2.6	4.2	9.1	9.4	4.3
4	4.2	2.2	1.8	2.3	4.2	6.5	8.4	2.4
2009:1	4.5	2.1	1.8	2.2	4.1	6.8	10.7	4.0
2	3.9	2.2	1.8	2.7	4.6	6.7	5.4	4.9
3	4.5	2.3	1.9	2.9	5.1	6.6	7.6	4.7
4	4.7	2.4	2.0	3.2	5.1	6.5	8.7	4.8

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2008: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

July 30, 2008

(Billions of dollars at seasonally adjusted annual rates except as noted)

Category	2006	2007	2008	2009	2007				2008				2009			
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<i>Domestic nonfinancial sectors</i>																
Net funds raised																
Total	1720.4	1533.0	1071.9	1188.8	1906.2	1195.8	1393.2	860.4	1086.5	947.3	1217.5	1007.8	1220.7	1309.3		
Net equity issuance	-614.1	-830.7	-414.5	-272.0	-831.2	-1104.8	-515.2	-346.7	-384.0	-412.0	-272.0	-272.0	-272.0	-272.0		
Net debt issuance	2334.5	2363.7	1486.3	1460.8	2737.4	2300.6	1908.4	1207.1	1470.5	1359.3	1489.5	1279.8	1492.7	1581.3		
Borrowing indicators																
Debt (percent of GDP) ¹	210.3	217.4	222.7	224.0	217.4	220.2	222.0	223.0	223.0	224.0	224.3	223.9	223.7	223.6		
Borrowing (percent of GDP)	17.7	17.1	10.3	9.8	19.6	16.3	13.4	8.4	10.2	9.3	10.1	8.6	9.9	10.4		
Households																
Net borrowing ²	1196.9	883.6	363.4	326.0	856.2	829.9	460.5	366.2	322.7	304.1	300.0	317.4	334.5	352.0		
Home mortgages	990.2	668.8	239.6	204.2	547.1	604.9	320.9	231.4	207.7	198.3	193.6	198.3	207.7	217.2		
Consumer credit	104.4	138.3	84.7	73.5	202.1	98.5	125.6	84.7	68.5	59.8	58.9	71.1	78.2	85.7		
Debt/DPI (percent) ³	128.3	131.6	130.7	129.6	132.0	132.5	132.4	128.5	130.9	131.7	130.4	129.9	129.4	128.6		
Business																
Financing gap ⁴	186.6	253.7	199.5	308.5	271.4	302.6	232.8	186.6	148.8	229.9	305.9	285.6	300.8	341.9		
Net equity issuance	-614.1	-830.7	-414.5	-272.0	-831.2	-1104.8	-515.2	-346.7	-384.0	-412.0	-272.0	-272.0	-272.0	-272.0		
Credit market borrowing	803.1	1057.8	579.7	514.6	1307.7	1048.1	819.7	603.6	445.6	450.2	438.2	495.2	562.9	561.8		
State and local governments																
Net borrowing	151.2	185.2	132.7	157.5	138.5	164.8	139.5	39.1	202.7	149.5	157.5	157.5	157.5	157.5		
Current surplus ⁵	243.8	223.7	146.2	142.6	229.2	200.6	173.4	138.9	138.6	133.8	136.6	138.0	144.5	151.1		
Federal government																
Net borrowing	183.4	237.1	410.5	462.8	435.0	257.8	488.8	198.3	499.4	455.5	593.8	309.6	437.7	509.9		
Net borrowing (n.s.a.)	183.4	237.1	410.5	462.8	105.7	89.4	200.2	-48.4	119.9	138.9	234.4	-26.6	101.4	153.5		
Unified deficit (n.s.a.)	209.2	187.9	383.9	426.8	40.6	106.8	205.9	-44.1	89.4	132.6	241.9	-58.6	79.4	164.0		
<i>Depository institutions</i>																
Funds supplied	693.7	851.7	321.1	491.3	1141.1	1062.4	645.7	84.8	356.3	197.7	257.8	532.0	628.4	546.7		

Note. Data after 2008: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

Recent indicators have confirmed our expectation that the pace of economic activity abroad would slow in the second quarter. Foreign economic growth in the second quarter was below trend, with particular softness in the advanced foreign economies. We expect overall foreign growth to remain weak in the second half of this year before strengthening in 2009, in line with the projected easing of financial stresses and the pickup in U.S. activity. This outlook is a touch below that in the last forecast, reflecting weaker-than-expected data in the near term and the small markdown to U.S. growth further out.

The sharp decline in oil prices in recent weeks should relieve some upward pressure on top-line inflation abroad. Even so, we have revised up both our estimate of inflation in the second quarter and our projection for the remainder of 2008, as recent data suggest that past commodity price increases are likely having larger and more persistent effects on inflation than we had anticipated. However, we expect inflation to moderate in 2009 as commodity prices level off.

Summary of Staff Projections

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

Indicator	2007	2008: Q1	Projection		
			2008		2009
			Q2	H2	
Foreign output	4.1	2.8	2.0	2.4	3.3
June GB	4.1	2.9	2.2	2.6	3.4
Foreign CPI	3.6	4.8	5.4	4.2	2.7
June GB	3.6	4.8	4.8	3.8	2.7
Contribution to growth (percentage points)					
U.S. net exports	.8	.8	2.3	.9	.6
June GB	.8	.8	2.1	.7	.5

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

The foreign exchange value of the dollar fell through mid-July, apparently on heightened concern about the U.S. financial system, but the dollar has since rebounded somewhat. On balance, the trade-weighted broad real dollar is about 1 percent lower than in the June Greenbook. Going forward, we project that the broad real dollar will depreciate at a pace

Staff Projections of Selected Trade Prices

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

Indicator	2007	2008: Q1	Projection		
			2008		2009
			Q2	H2	
<i>Imports</i>					
Core goods	3.3	8.3	11.5	4.0	1.4
June GB	3.3	8.3	10.5	2.3	1.4
Imported Oil (dollars/barrel)	80.11	87.44	108.60	117.07	118.77
June GB	80.11	87.44	109.88	131.05	131.20
<i>Exports</i>					
Core goods	6.4	12.2	9.5	4.1	1.6
June GB	6.4	12.4	8.6	3.7	1.3

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

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

Trade in Goods and Services

Real exports of goods and services are estimated to have increased 10¾ percent at an annual rate in the second quarter, supported by large gains in exports of capital goods and industrial supplies. We project that export growth will step down to a still robust 7 percent pace in the second half of 2008, supported by the effects of previous dollar depreciation. Export growth edges up in 2009, as the recovery in foreign GDP growth more than offsets the waning effect of previous dollar depreciation. Stronger-than-expected exports in the May trade data led us to revise up our estimate for the second quarter by 3½ percentage points. Beyond the second quarter, our forecast is little changed.

Real imports of goods and services are estimated to have declined 5¼ percent in the second quarter, as a large drop in real oil imports more than offset modest growth in non-oil goods and services. Imports are expected to remain depressed in the second half of the year despite a resumption in oil import growth, as weak U.S. demand and high core import price inflation restrain imports of non-oil goods. In 2009, real import growth is expected to step up to 2½ percent, as U.S. growth strengthens and non-oil import price inflation declines. We have revised up our second quarter estimate by 1½ percentage points on account of stronger-than-expected imports of core goods and computers in the May trade data. We have revised down our projections for the second half of this year and 2009 by about ¾ percentage point, in line with the markup in the projected pace of core import price inflation as well as the small downward revision to the U.S. growth outlook.

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

Measure	2007	2008: Q1	Projection		
			2008		2009
			Q2	H2	
Real imports	1.0	-.7	-5.3	.1	2.4
June GB	1.0	-.5	-6.7	1.0	2.8
Real exports	8.4	5.4	10.8	7.0	7.5
June GB	8.4	5.6	7.2	7.2	7.5

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

Alternative Simulations

Higher import prices. Our baseline forecast calls for import prices to decelerate late this year and in 2009. However, recent experience highlights the upside risks to this forecast. In our first simulation, we use the SIGMA model to examine the effects of an increase in the markups of firms exporting to the United States. The rise in markups may reflect some “catch up” adjustment by foreign exporters seeking to let more of the past dollar depreciation pass through to the U.S. prices of their goods. It could also reflect a decision to pass a higher share of rising commodity costs on to U.S. buyers. The shock to markups occurs in the third quarter of 2008 and pushes U.S. non-oil import price inflation 2.5 percentage points above baseline over the following two years. Monetary policies in

Alternative Scenarios:
Higher Foreign Export Markups And Weaker Foreign Demand
 (Percent change from previous period, annual rate, except as noted)

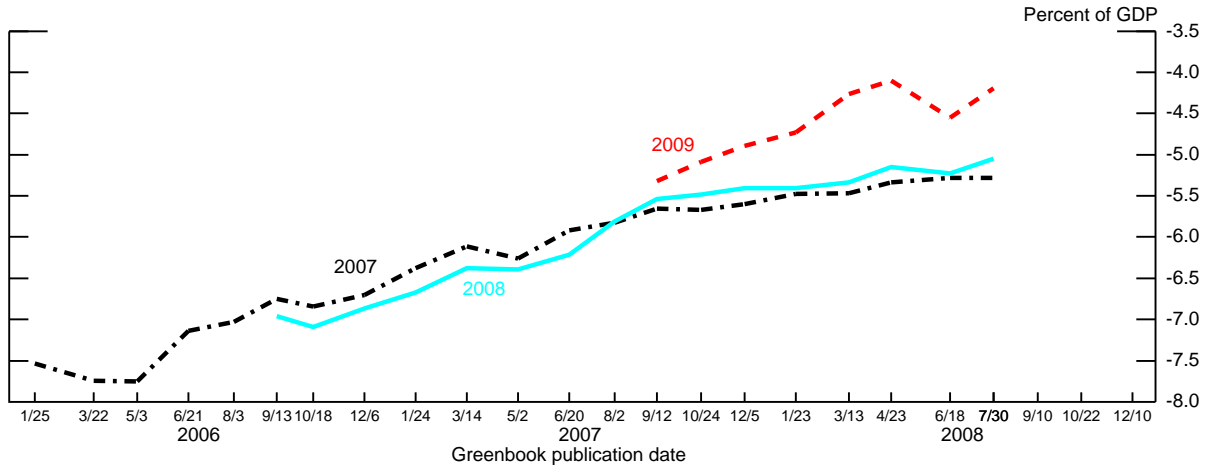
Indicator and simulation	2008	2009		2010	2011-12
	H2	H1	H2		
<i>U.S. real GDP</i>					
Baseline	0.6	1.9	2.5	3.1	3.1
Higher foreign export markups	0.8	2.1	2.5	2.9	2.9
Weaker foreign demand	0.3	1.6	2.3	3.3	3.4
<i>U.S. PCE prices excluding food and energy</i>					
Baseline	2.6	2.3	2.1	2.0	1.8
Higher foreign export markups	2.9	2.7	2.4	2.1	1.6
Weaker foreign demand	2.6	2.2	1.9	1.8	1.8
<i>U.S federal funds rate (percent)</i>					
Baseline	2.0	2.5	2.8	3.3	4.1
Higher foreign export markups	2.3	3.1	3.4	3.6	4.0
Weaker foreign demand	2.0	2.4	2.5	2.8	3.8
<i>U.S. trade balance (percent share of GDP)</i>					
Baseline	-5.0	-4.6	-4.1	-3.9	-3.6
Higher foreign export markups	-5.2	-4.9	-4.4	-4.1	-3.6
Weaker foreign demand	-5.2	-5.0	-4.7	-4.7	-4.2

NOTE. H1 is Q2/Q4; H2 is Q4/Q2. The federal funds rate is the average rate for the final quarter of the period.

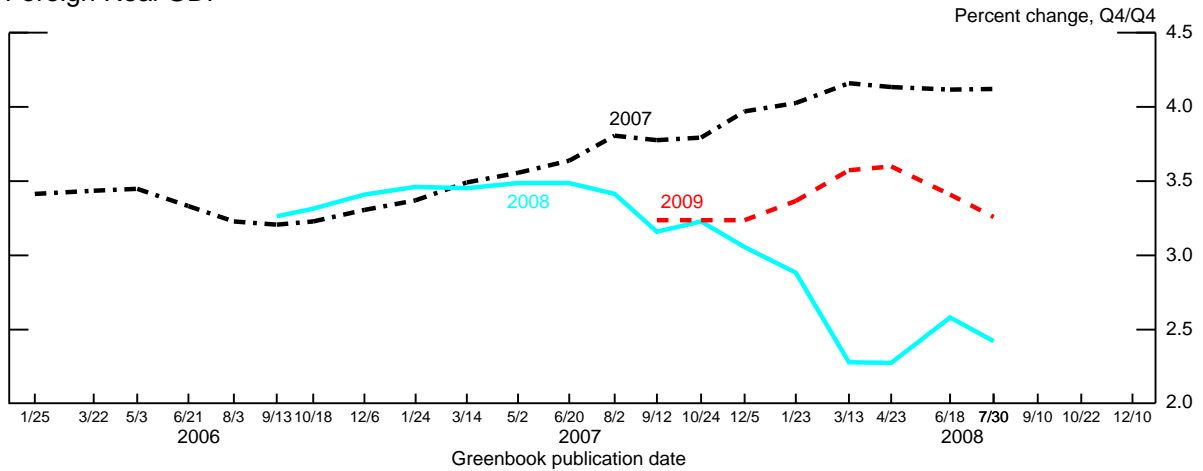
Class II FOMC -- Restricted (FR)

Evolution of the Staff Forecast

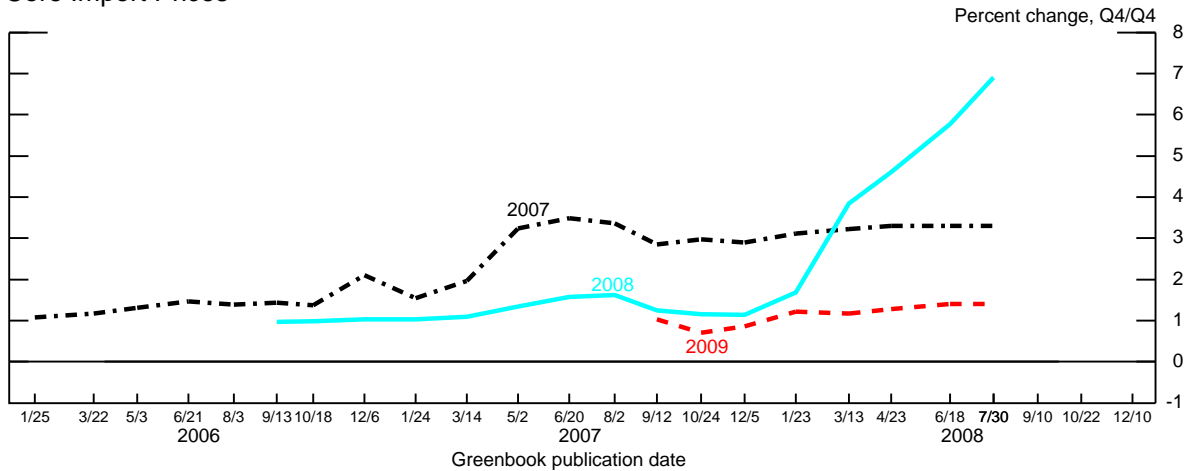
Current Account Balance



Foreign Real GDP



Core Import Prices*



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

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

Measure and country	2007				2008				Projected 2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total Foreign	4.8	4.5	4.2	3.1	2.8	2.0	2.4	2.5	2.8	3.3	3.4	3.6
Advanced Foreign Economies	3.8	2.4	2.3	1.5	1.4	0.7	1.0	1.1	1.4	2.0	2.2	2.4
of which:												
Canada	4.1	3.9	2.3	0.8	-0.3	0.9	1.2	1.2	1.3	2.4	2.5	2.7
Japan	4.5	-2.5	0.9	2.9	4.0	-0.1	0.8	1.3	1.6	1.6	1.6	1.7
United Kingdom	3.2	3.5	2.3	2.2	1.1	0.7	-0.3	-0.2	0.3	0.9	1.6	1.7
Euro Area (2)	3.3	1.4	2.6	1.5	2.9	0.4	0.8	1.2	1.6	1.9	2.2	2.2
Germany	2.6	0.7	2.7	1.1	6.3	0.2	0.6	1.3	1.6	2.2	2.6	2.8
Emerging Market Economies	6.0	7.2	6.6	5.2	4.7	3.7	4.2	4.4	4.6	4.9	5.0	5.2
Asia	8.6	9.3	7.7	5.6	7.7	4.8	5.7	5.7	6.1	6.3	6.3	6.4
Korea	4.0	7.1	6.0	6.4	3.3	3.3	3.6	3.8	3.9	4.3	4.3	4.4
China	15.1	11.4	8.2	10.6	11.7	9.9	9.2	8.9	9.5	9.5	9.6	9.6
Latin America	3.6	5.2	5.6	4.4	1.5	2.4	2.6	2.9	3.0	3.4	3.7	4.0
Mexico	2.7	4.8	5.0	3.3	2.1	1.6	2.1	2.6	2.7	3.1	3.5	4.0
Brazil	4.0	6.2	7.5	6.6	2.9	4.0	3.8	3.8	4.0	4.0	4.0	4.0
CONSUMER PRICES (3)	Four-quarter changes											
Total Foreign	2.3	2.5	3.0	3.6	4.1	4.7	4.9	4.6	4.2	3.5	2.9	2.7
Advanced Foreign Economies	1.5	1.6	1.5	2.2	2.2	2.7	3.4	3.2	3.1	2.6	2.0	1.9
of which:												
Canada	1.9	2.1	2.1	2.4	1.8	2.3	3.2	3.3	3.4	2.5	2.0	2.0
Japan	-0.1	-0.1	-0.1	0.5	1.0	1.4	2.2	2.0	1.9	1.5	0.6	0.5
United Kingdom (4)	2.9	2.5	1.8	2.1	2.4	3.4	4.6	5.3	5.1	4.2	3.3	2.4
Euro Area (2)	1.9	1.9	1.9	2.9	3.4	3.6	4.0	3.5	3.2	2.9	2.6	2.5
Germany	1.9	2.0	2.2	3.1	3.1	3.0	3.2	2.8	2.7	2.8	2.5	2.4
Emerging Market Economies	3.1	3.3	4.5	5.1	5.9	6.7	6.4	6.1	5.2	4.4	3.8	3.6
Asia	2.7	3.1	4.6	5.4	6.5	7.1	6.5	6.1	5.0	4.2	3.6	3.4
Korea	2.0	2.5	2.3	3.4	3.8	4.8	5.6	5.1	5.0	3.6	3.0	3.0
China	2.7	3.6	6.1	6.6	8.0	7.8	6.1	5.7	4.2	4.0	3.8	3.4
Latin America	4.2	4.1	4.3	4.3	4.5	5.5	6.0	5.9	5.7	4.9	4.2	4.0
Mexico	4.1	4.0	4.0	3.8	3.9	4.9	5.3	5.3	5.1	4.3	3.6	3.5
Brazil	3.1	3.4	4.2	4.3	4.6	5.5	6.5	6.8	6.5	6.0	5.1	5.0

1. Foreign GDP aggregates calculated using shares of U.S. exports.
2. Harmonized data for euro area from Eurostat.
3. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.
4. CPI excluding mortgage interest payments, which is the targeted inflation rate.

Class II FOMC
Restricted (FR) July 30, 2008

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

Measure and country	2001	2002	2003	2004	2005	2006	2007	Projected 2008	2009
REAL GDP (1)									

Total Foreign	0.4	3.0	2.9	3.8	4.0	4.0	4.1	2.4	3.3
Advanced Foreign Economies	0.9	2.5	1.8	2.6	2.7	2.7	2.5	1.0	2.0
Of which:									
Canada	1.3	3.5	1.5	3.7	3.0	2.2	2.8	0.7	2.2
Japan	-1.7	2.0	2.4	1.1	2.9	2.5	1.4	1.5	1.6
United Kingdom	2.1	2.3	3.4	2.6	1.8	3.2	2.8	0.3	1.1
Euro Area (2)	1.0	1.1	1.2	1.7	2.1	3.3	2.2	1.3	2.0
Germany	1.1	-0.0	0.1	0.1	1.6	3.9	1.7	2.1	2.3
Emerging Market Economies	-0.3	3.9	4.6	5.4	5.8	5.7	6.3	4.3	4.9
Asia	1.0	6.4	6.9	6.0	7.6	7.0	7.8	6.0	6.3
Korea	4.7	7.7	4.1	2.9	5.6	4.2	5.9	3.5	4.2
China	7.2	8.6	10.3	9.8	10.2	10.6	11.3	9.9	9.5
Latin America	-1.2	1.6	1.9	4.7	4.0	4.5	4.7	2.3	3.5
Mexico	-1.3	2.0	1.4	4.1	3.5	3.7	4.0	2.1	3.3
Brazil	-0.6	4.9	1.0	4.5	3.4	4.9	6.1	3.6	4.0
CONSUMER PRICES (3)									

Total Foreign	1.7	2.5	2.1	2.8	2.3	2.1	3.6	4.6	2.7
Advanced Foreign Economies	0.9	2.1	1.3	1.8	1.6	1.4	2.2	3.2	1.9
Of which:									
Canada	1.1	3.8	1.7	2.3	2.3	1.3	2.4	3.3	2.0
Japan	-1.1	-0.5	-0.3	0.5	-1.0	0.3	0.5	2.0	0.5
United Kingdom (4)	1.0	1.5	1.3	1.4	2.1	2.7	2.1	5.3	2.4
Euro Area (2)	2.1	2.3	2.0	2.3	2.3	1.8	2.9	3.5	2.5
Germany	1.5	1.2	1.1	2.1	2.2	1.3	3.1	2.8	2.4
Emerging Market Economies	2.8	2.9	3.1	3.9	3.0	2.9	5.1	6.1	3.6
Asia	1.2	0.8	2.3	3.1	2.6	2.3	5.4	6.1	3.4
Korea	3.3	3.4	3.5	3.4	2.5	2.1	3.4	5.1	3.0
China	-0.1	-0.6	2.7	3.2	1.4	2.1	6.6	5.7	3.4
Latin America	5.3	6.4	4.9	5.7	3.8	4.1	4.3	5.9	4.0
Mexico	5.1	5.2	3.9	5.3	3.1	4.1	3.8	5.3	3.5
Brazil	7.5	10.7	11.5	7.2	6.1	3.2	4.3	6.8	5.0

1. Foreign GDP aggregates calculated using shares of U.S. exports.
2. Harmonized data for euro area from Eurostat.
3. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.
4. CPI excluding mortgage interest payments, which is the targeted inflation rate.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2001	2002	2003	2004	2005	2006	2007	Projected 2008	Projected 2009
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-0.2	-0.9	-0.1	-0.9	-0.1	0.4	0.8	1.2	0.6
Exports of G&S	-1.3	0.4	0.6	0.7	0.7	1.0	1.0	1.0	1.0
Imports of G&S	1.1	-1.3	-0.7	-1.7	-0.8	-0.6	-0.2	0.3	-0.4
	Percentage change, Q4/Q4								
Exports of G&S	-11.9	3.8	5.8	7.4	7.0	9.3	8.4	7.6	7.5
Services	-8.9	10.2	3.0	8.3	4.1	8.3	7.0	6.3	6.2
Computers	-23.5	-1.1	11.3	5.8	14.0	8.2	-5.9	12.1	9.9
Semiconductors	-34.6	10.1	38.3	-6.0	17.5	2.4	27.6	4.1	11.1
Core Goods 1/	-10.2	0.6	4.9	8.0	7.5	10.2	8.8	8.1	7.9
Imports of G&S	-7.6	9.7	4.8	11.5	5.1	3.7	1.0	-1.5	2.4
Services	-5.9	8.8	2.2	9.3	1.4	6.1	2.0	1.6	3.0
Oil	3.7	3.8	1.2	10.8	1.2	-9.0	1.3	-4.9	-1.1
Natural Gas	-6.5	19.5	1.3	4.9	11.3	-13.4	-18.0	-1.3	7.0
Computers	-13.6	13.2	17.0	23.2	12.2	13.6	6.8	13.2	15.6
Semiconductors	-51.1	11.0	-0.1	9.8	7.6	-0.5	4.1	6.2	5.0
Core Goods 2/	-6.5	10.0	5.2	11.4	6.0	5.9	0.3	-2.3	2.5
	Billions of Chained 2000 Dollars								
Net Goods & Services	-399.1	-471.3	-518.9	-593.8	-618.0	-624.5	-555.6	-411.5	-310.9
Exports of G&S	1036.7	1013.3	1026.1	1126.1	1203.4	1304.1	1409.9	1532.1	1648.2
Imports of G&S	1435.8	1484.6	1545.0	1719.9	1821.5	1928.6	1965.4	1943.6	1959.1
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-384.7	-461.3	-523.4	-625.0	-729.0	-788.1	-731.2	-725.6	-626.9
Current Acct as Percent of GDP	-3.8	-4.4	-4.8	-5.3	-5.9	-6.0	-5.3	-5.0	-4.2
Net Goods & Services (BOP)	-365.1	-423.7	-496.9	-607.7	-711.6	-753.3	-700.3	-721.0	-654.7
Investment Income, Net	36.9	33.0	51.0	73.4	78.8	63.8	88.8	118.1	150.7
Direct, Net	115.9	102.4	112.7	150.9	173.2	184.1	233.9	279.4	302.9
Portfolio, Net	-79.0	-69.4	-61.7	-77.5	-94.4	-120.3	-145.1	-161.4	-152.2
Other Income & Transfers, Net	-56.5	-70.5	-77.5	-90.6	-96.2	-98.6	-119.7	-122.7	-123.0

1. Merchandise exports excluding computers and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2004				2005				2006			
	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	-0.8	-1.5	-0.4	-1.1	0.3	0.8	-0.1	-1.4	0.1	0.5	-0.2	1.2
Exports of G&S	0.9	0.6	0.3	1.0	0.6	0.9	0.2	1.1	1.2	0.6	0.6	1.5
Imports of G&S	-1.7	-2.1	-0.7	-2.0	-0.3	-0.1	-0.3	-2.5	-1.1	-0.1	-0.9	-0.3
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	10.0	6.5	3.1	10.0	6.0	9.5	2.1	10.6	11.5	5.7	5.7	14.3
Services	16.2	5.1	-3.4	16.8	6.5	0.9	2.6	6.3	2.9	3.9	2.0	26.0
Computers	-7.0	1.7	16.7	13.4	17.4	24.9	12.8	2.0	14.6	13.0	-3.9	9.9
Semiconductors	16.7	-13.4	-20.9	-2.4	-1.7	9.3	23.2	43.8	25.3	14.5	-11.5	-13.5
Core Goods 1/	7.8	9.2	7.7	7.4	5.6	13.1	0.2	11.6	14.9	5.7	9.2	11.0
Imports of G&S	12.3	15.2	4.8	13.8	2.1	0.8	2.1	16.2	6.9	0.9	5.4	1.6
Services	16.5	8.9	1.8	10.5	-3.5	-0.5	0.0	10.3	9.5	-0.1	1.3	14.2
Oil	39.2	-26.3	-7.1	58.3	5.4	-26.2	-14.2	57.1	-3.6	-26.1	3.3	-6.9
Natural Gas	33.4	43.1	48.5	-57.3	53.9	-4.0	108.6	-50.2	-49.4	123.0	24.1	-59.8
Computers	20.7	30.1	25.6	17.0	5.7	9.8	17.0	16.6	27.0	16.9	16.0	-3.2
Semiconductors	43.0	18.5	3.9	-17.4	-9.5	7.7	15.7	18.8	0.1	-1.5	20.9	-17.9
Core Goods 2/	6.5	23.0	5.4	11.6	2.3	6.1	2.8	13.1	9.7	5.4	5.5	3.1
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-549.1	-591.1	-602.7	-632.3	-624.4	-601.0	-604.1	-642.6	-640.1	-626.6	-633.8	-597.3
Exports of G&S	1101.8	1119.4	1128.0	1155.3	1172.4	1199.3	1205.6	1236.4	1270.6	1288.4	1306.6	1350.9
Imports of G&S	1650.9	1710.5	1730.8	1787.7	1796.8	1800.3	1809.7	1879.0	1910.7	1915.0	1940.4	1948.2
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-545.8	-622.7	-617.9	-713.6	-696.2	-711.3	-675.6	-832.9	-783.8	-799.6	-843.6	-725.4
Current Account as % of GDP	-4.8	-5.4	-5.2	-6.0	-5.7	-5.8	-5.4	-6.6	-6.0	-6.1	-6.4	-5.4
Net Goods & Services (BOP)	-540.6	-599.1	-621.5	-669.7	-664.0	-682.9	-721.4	-778.0	-756.4	-767.4	-789.9	-699.5
Investment Income, Net	92.7	68.2	78.7	53.8	88.6	77.8	88.7	59.9	65.2	70.7	51.7	67.7
Direct, Net	157.1	139.0	153.7	153.6	170.2	168.5	187.8	166.3	177.2	189.2	171.9	198.2
Portfolio, Net	-64.3	-70.9	-75.0	-99.8	-81.6	-90.7	-99.0	-106.5	-112.0	-118.5	-120.3	-130.5
Other Inc. & Transfers, Net	-97.9	-91.8	-75.1	-97.7	-120.9	-106.2	-42.9	-114.8	-92.6	-103.0	-105.4	-93.6

1. Merchandise exports excluding computers and semiconductors.

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

July 30, 2008

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2007				2008				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	-0.5	1.3	1.4	1.0	0.8	2.3	1.0	0.8	0.4	1.4	0.7	-0.2
Exports of G&S	0.1	0.9	2.1	0.8	0.7	1.3	0.9	0.9	1.0	1.0	1.0	1.0
Imports of G&S	-0.6	0.5	-0.7	0.2	0.1	1.0	0.1	-0.2	-0.6	0.4	-0.3	-1.3
Percentage change from previous period, s.a.a.r.												
Exports of G&S	1.1	7.5	19.1	6.5	5.4	10.8	6.8	7.3	7.5	7.6	7.5	7.6
Services	1.6	9.6	4.0	13.2	7.9	4.8	6.3	6.2	6.2	6.3	6.3	6.2
Oil	-8.2	-17.8	19.9	-13.3	0.2	44.2	-0.3	9.9	9.9	9.9	9.8	9.8
Natural Gas	25.4	23.2	6.3	61.4	5.6	-9.8	11.1	11.1	11.1	11.1	11.1	11.1
Computers	0.3	7.1	27.4	2.5	4.5	13.6	7.1	7.5	7.8	7.9	7.9	8.0
Semiconductors												
Core Goods 1/												
Imports of G&S	3.9	-2.7	4.4	-1.4	-0.7	-5.3	-0.6	0.8	3.4	-2.1	1.5	7.0
Services	2.3	-1.7	1.7	5.5	6.0	1.8	3.3	-4.5	1.7	3.4	3.4	3.7
Oil	29.6	-22.3	-18.2	28.1	16.6	-38.3	-2.2	16.4	12.9	-20.3	-10.5	19.0
Natural Gas	8.3	258.5	-16.7	-86.0	-37.9	91.4	33.5	-40.1	21.9	12.9	46.8	-35.1
Computers	41.1	-13.1	-3.8	10.3	6.1	34.1	-0.1	15.7	15.7	15.7	15.6	15.6
Semiconductors	4.0	3.3	3.4	5.5	-3.3	19.2	5.0	5.0	5.0	5.0	5.0	5.0
Core Goods 2/	-2.3	-0.5	11.8	-6.7	-6.4	2.0	-1.9	-2.6	-0.4	2.2	3.7	4.6
Billions of Chained 2000 Dollars, s.a.a.r.												
Net Goods & Services	-612.1	-573.9	-533.1	-503.2	-480.2	-415.2	-386.9	-363.6	-351.4	-311.5	-289.0	-291.8
Exports of G&S	1354.7	1379.5	1441.2	1464.1	1483.7	1522.3	1547.5	1574.9	1603.5	1632.9	1662.9	1693.5
Imports of G&S	1966.8	1953.4	1974.3	1967.3	1963.9	1937.5	1934.4	1938.5	1954.9	1944.4	1951.8	1985.3
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-787.7	-776.4	-691.8	-669.0	-705.5	-734.5	-740.4	-722.1	-711.1	-629.6	-585.5	-581.6
Current Account as % of GDP	-5.8	-5.6	-5.0	-4.8	-5.0	-5.1	-5.1	-5.0	-4.8	-4.2	-3.9	-3.8
Net Goods & Services (BOP)	-718.2	-715.3	-672.5	-695.1	-699.7	-739.1	-731.1	-714.0	-711.4	-655.0	-623.4	-628.8
Investment Income, Net	57.8	45.8	98.9	152.6	126.3	117.0	110.4	118.6	131.4	145.7	158.2	167.5
Direct, Net	201.1	196.2	238.8	299.3	267.4	277.0	282.2	291.1	297.5	301.7	304.3	308.0
Portfolio, Net	-143.2	-150.4	-139.9	-146.7	-141.1	-160.0	-171.8	-172.5	-166.1	-156.0	-146.1	-140.6
Other Inc. & Transfers, Net	-127.4	-106.9	-118.3	-126.4	-132.1	-112.4	-119.7	-126.7	-131.1	-120.3	-120.3	-120.3

1. Merchandise exports excluding computers and semiconductors.

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

Part 2

July 30, 2008

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

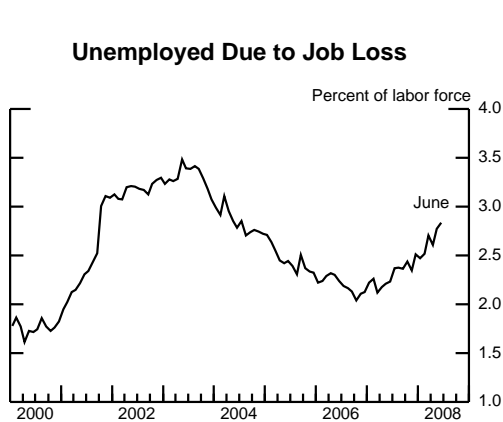
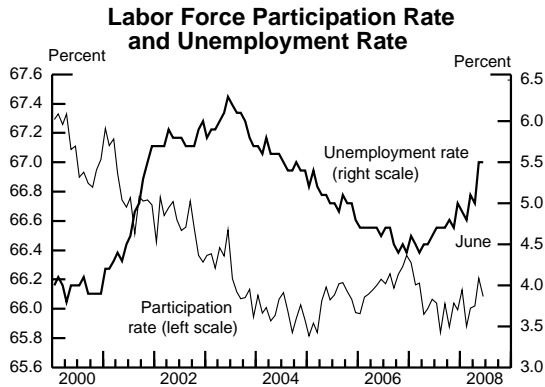
July 30, 2008

Recent Developments

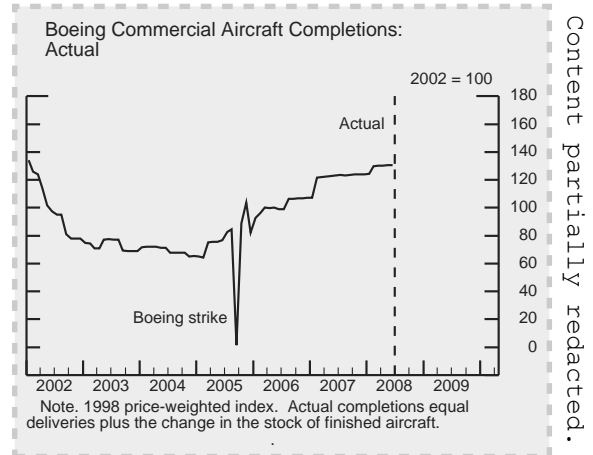
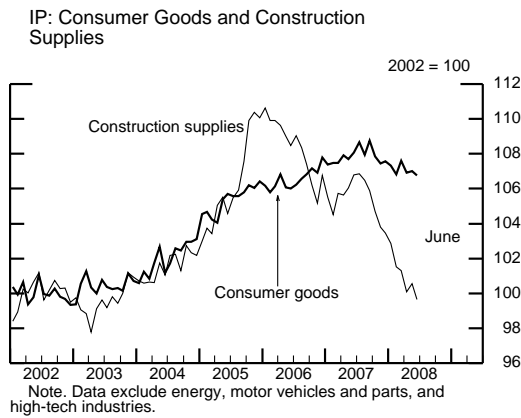
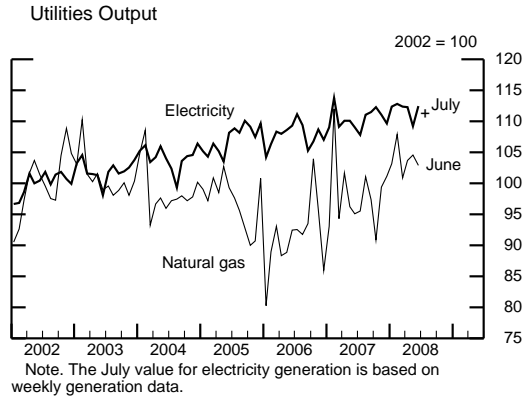
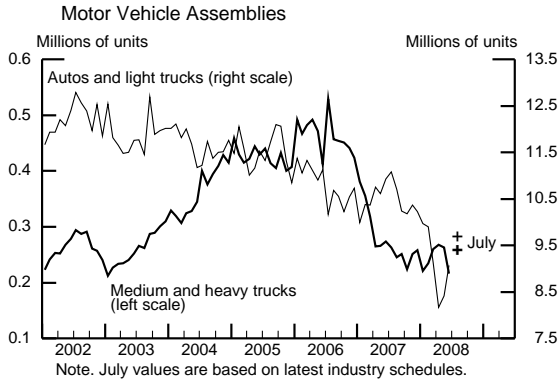
Selected Unemployment and Labor Force Participation Rates

(Percent; seasonally adjusted)

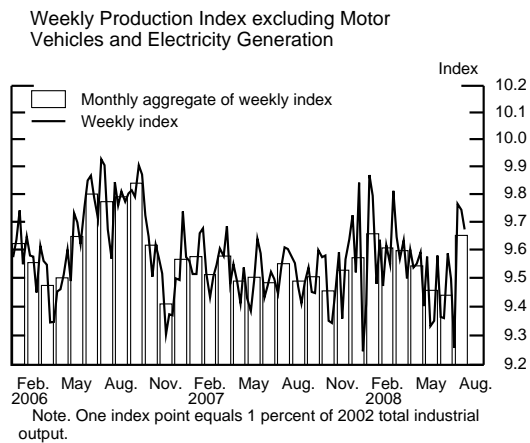
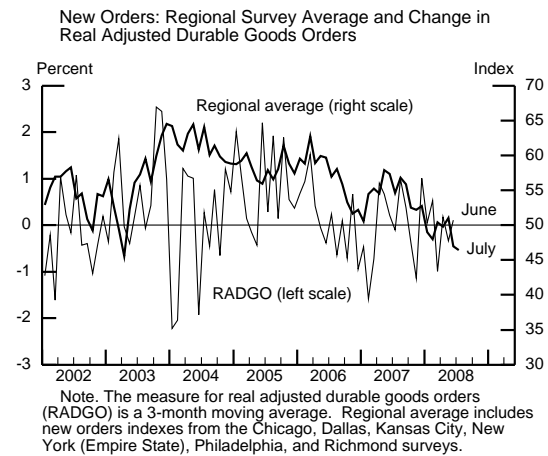
Rate and group	2007	2007	2008				
		Q4	Q1	Q2	Apr.	May	June
<i>Civilian unemployment rate</i>							
Total	4.6	4.8	4.9	5.3	5.0	5.5	5.5
Teenagers	15.7	16.4	16.8	17.4	15.4	18.7	18.1
20-24 years old	8.2	8.6	9.0	9.8	8.9	10.4	10.1
Men, 25 years and older	3.6	3.7	3.8	4.2	4.0	4.2	4.3
Women, 25 years and older	3.6	3.8	3.9	4.1	3.9	4.1	4.2
<i>Labor force participation rate</i>							
Total	66.0	66.0	66.0	66.1	66.0	66.2	66.1
Teenagers	41.3	41.0	40.3	41.4	41.1	42.6	40.5
20-24 years old	74.4	74.0	73.9	74.6	74.2	75.0	74.8
Men, 25 years and older	75.6	75.5	75.5	75.2	75.2	75.2	75.3
Women, 25 years and older	59.7	59.7	59.9	60.0	60.0	60.0	60.1



Indicators of Industrial Activity

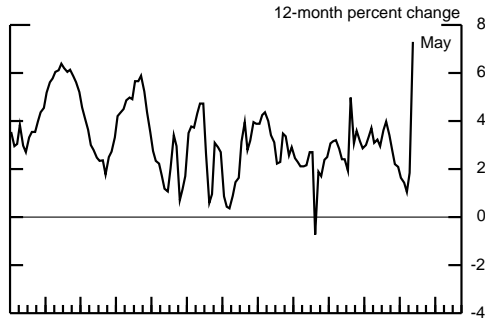


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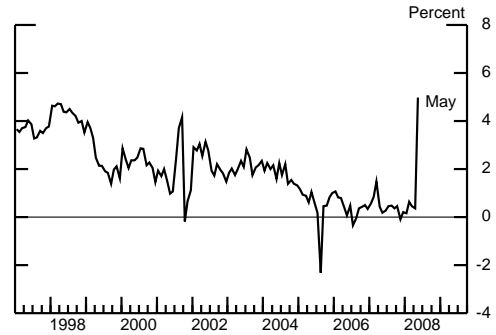
Fundamentals of Household Spending

Change in Real DPI



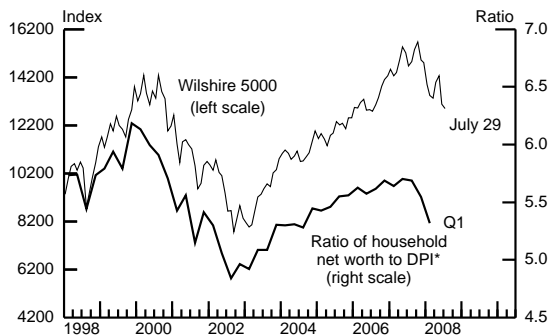
Note. Values for December 2004 and December 2005 exclude the effect on income of the one-time Microsoft dividend in December 2004.

Personal Saving Rate



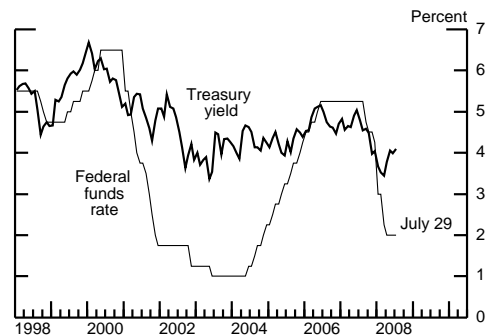
Note. The value for December 2004 excludes the effect on income of the one-time Microsoft dividend in that month.

Household Net Worth and Wilshire 5000

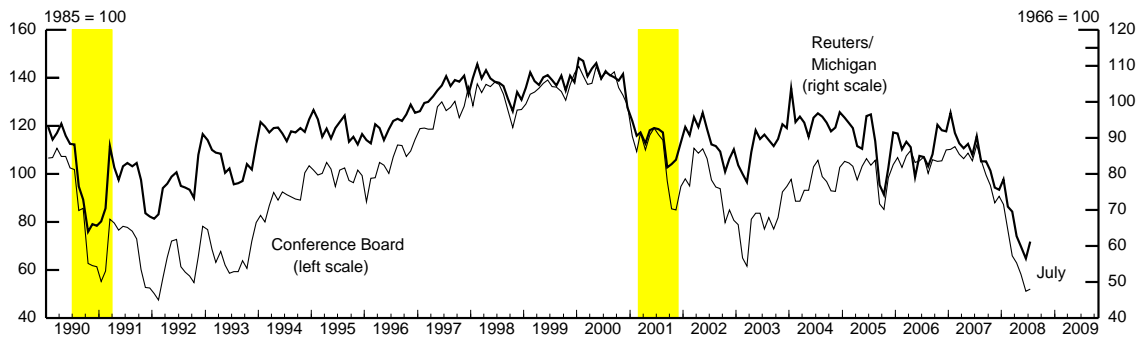


Note. The value for 2004:Q4 excludes the effect on income of the one-time Microsoft dividend in December 2004.

Target Federal Funds Rate and 10-Year Treasury Yield

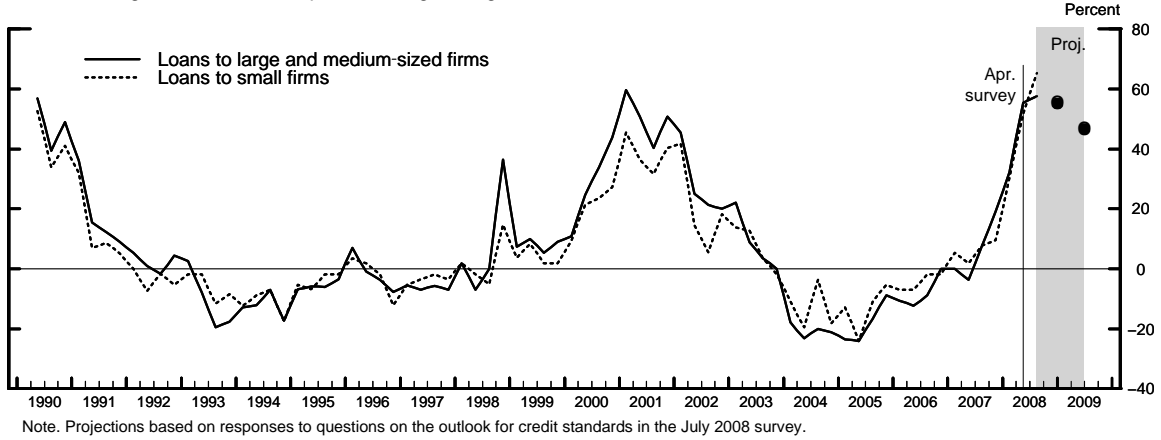


Consumer Confidence

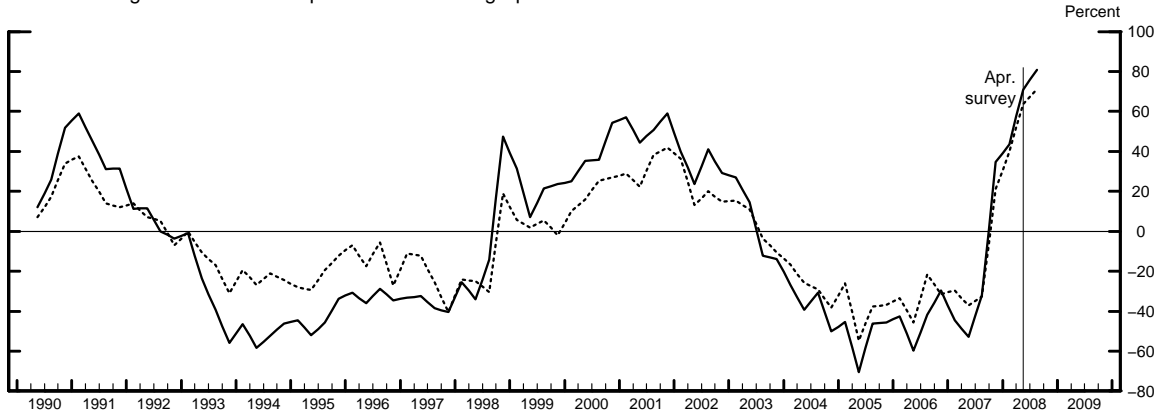


Measures of Supply and Demand for C&I Loans, by Size of Firm Seeking Loan

Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



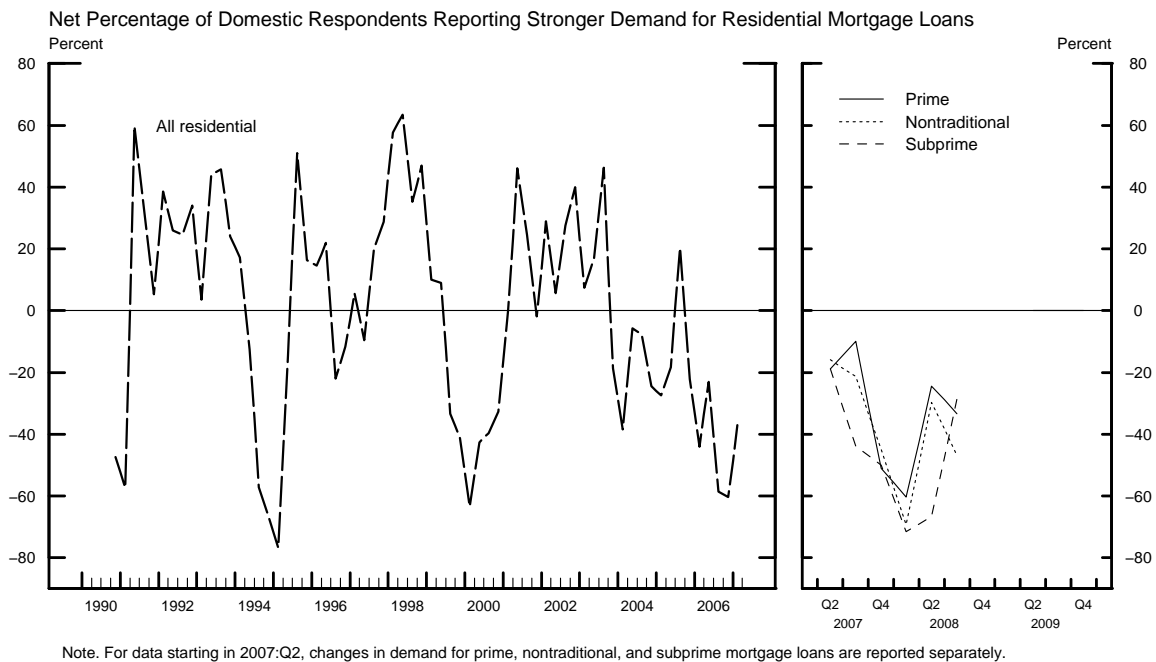
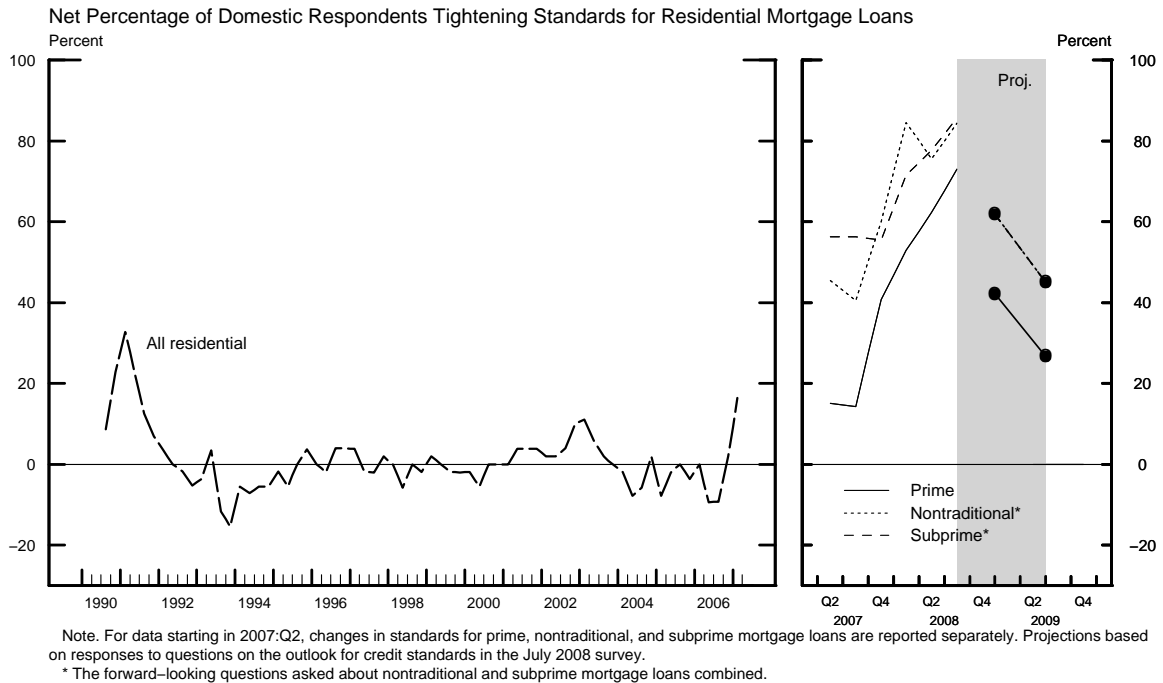
Net Percentage of Domestic Respondents Increasing Spreads of Loan Rates over Banks' Costs of Funds



Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

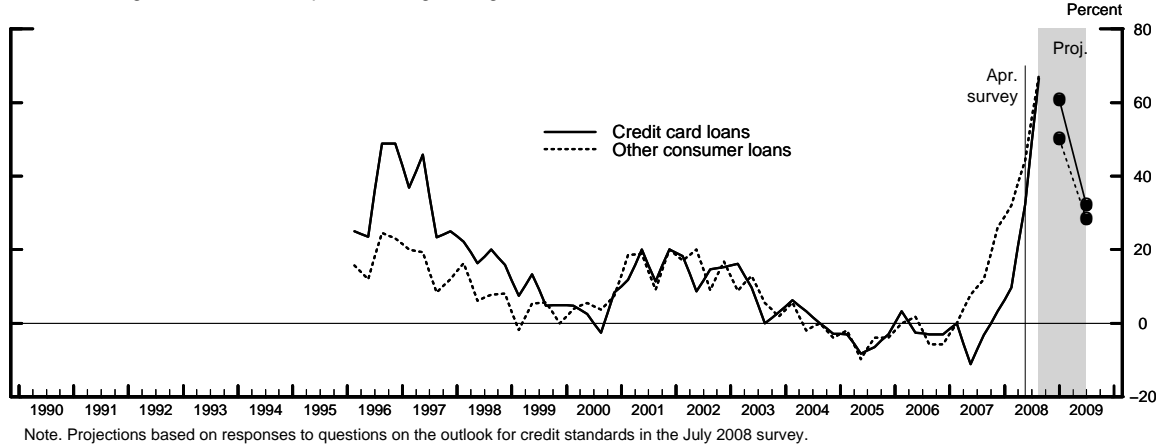


Measures of Supply and Demand for Residential Mortgage Loans

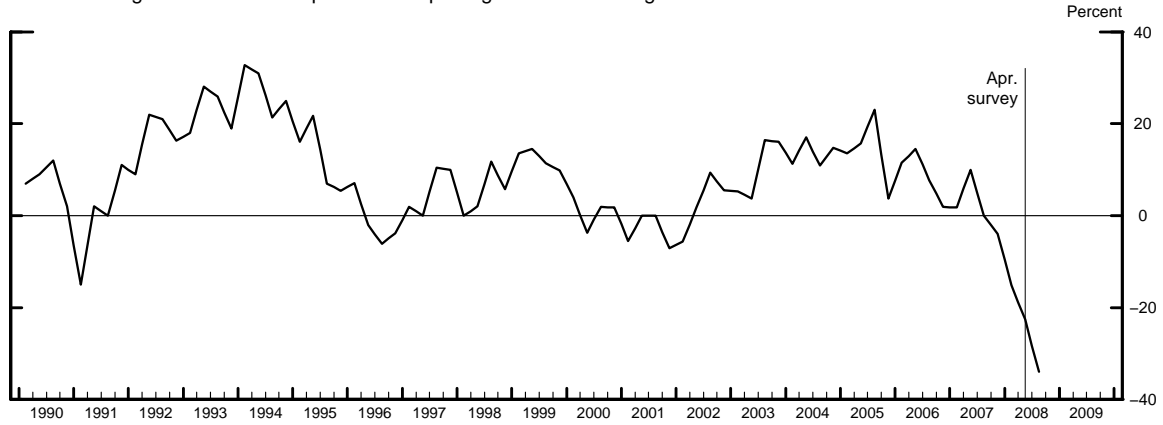


Measures of Supply and Demand for Consumer Loans

Net Percentage of Domestic Respondents Tightening Standards for Consumer Loans



Net Percentage of Domestic Respondents Reporting Increased Willingness to Make Consumer Installment Loans



Net Percentage of Domestic Respondents Reporting Stronger Demand for Consumer Loans

