

Part 1

December 5, 2007

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

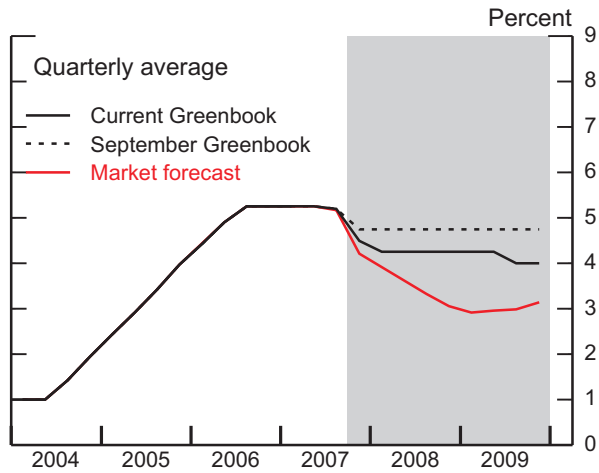
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Summary and Outlook

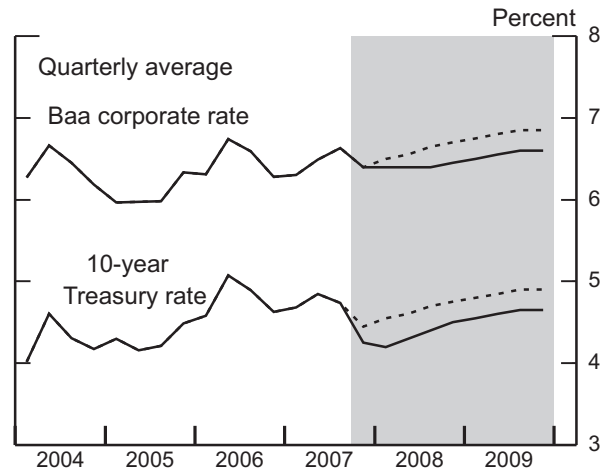
Class II FOMC -- Restricted (FR)

Key Background Factors Underlying the Baseline Staff Projection

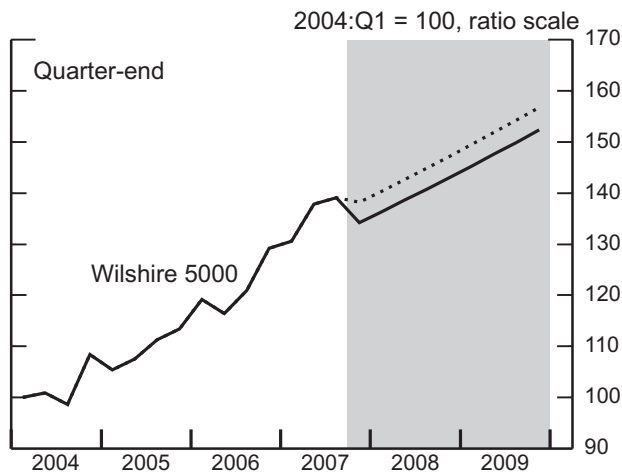
Federal Funds Rate



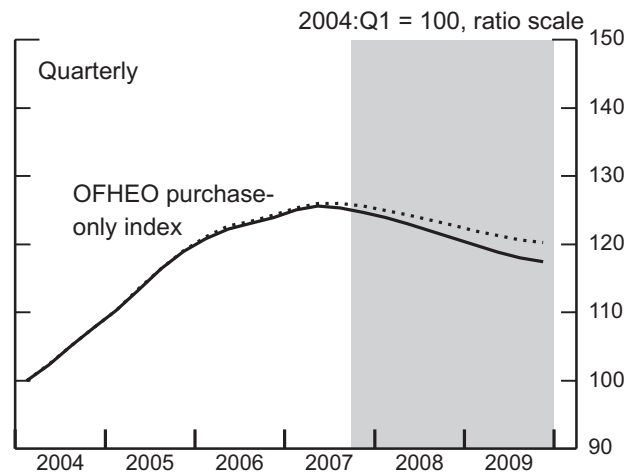
Long-Term Interest Rates



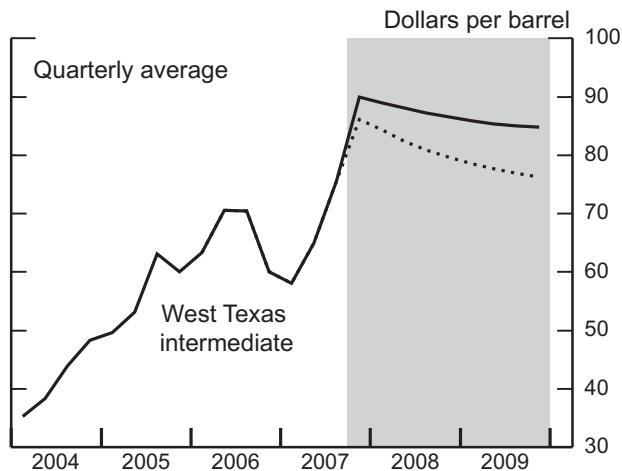
Equity Prices



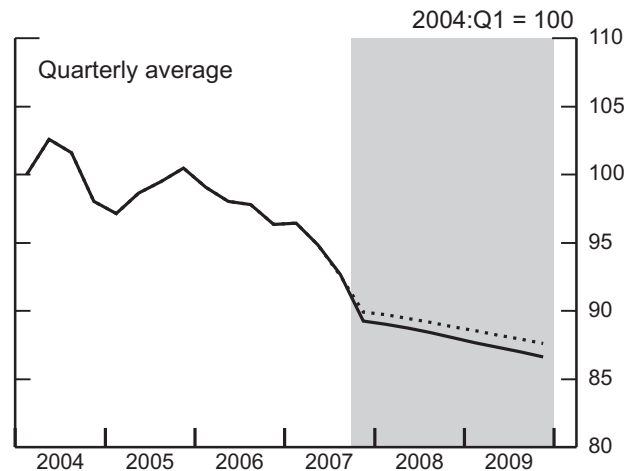
House Prices



Crude Oil Prices



Broad Real Dollar



Note. In each panel, shading represents the projection period, which begins in 2007:Q4.

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

Measure	2007:Q3		2007:Q4	
	Oct. GB	Dec. GB	Oct. GB	Dec. GB
Real GDP	3.3	5.0	1.4	.1
Private domestic final purchases	2.0	2.1	.3	-.2
Personal consumption expenditures	3.2	2.7	2.3	1.3
Residential investment	-22.4	-20.3	-32.8	-30.0
Business fixed investment	6.2	10.1	3.2	4.4
Government outlays for consumption and investment	3.2	3.9	3.1	2.4
	Contribution to growth (percentage points)			
Inventory investment	-.3	1.0	.6	-.4
Net exports	1.3	1.4	.0	.1

and financial markets appeared to weigh on consumer sentiment and as higher top-line inflation eroded gains in real income. Those negative influences seem to have been a bit greater than we thought at the time of the October Greenbook, and we now expect them to exert more restraint on consumer spending in coming months. Furthermore, the BEA revised down its estimate of wage and salary income for the second quarter, which lowered the level of personal income more than \$40 billion; factoring in the faster rise in energy prices this quarter as well, we currently estimate that this year's increase in real disposable personal income will be 2¼ percent, compared with our projection of 2¾ percent in the last Greenbook. After having increased at an annual rate of 2.7 percent in the third quarter, real PCE is projected to rise at an annual rate of 1.3 percent in the current quarter—1 percentage point below our previous forecast.

Sales of new and existing homes in September and October were, on average, significantly lower than during the summer, and the contraction in the construction of new single-family homes intensified. The declines in single-family starts and, especially, permit issuance were greater than we had expected and suggest that activity in coming months will run below the levels we had expected at the time of the October Greenbook. In the near term, the substantial bounceback in multifamily starts in October from the surprisingly low level in September provides some offset to overall outlays for residential construction in the fourth quarter. However, the lower trajectory for homebuilding now shows through to a larger drop in residential investment in the first quarter of 2008.

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

Measure	2007: H2	2008: H1	2008	2009
Real GDP	2.5	1.0	1.3	2.1
Previous	2.4	1.6	1.7	2.2
Final sales	2.2	1.2	1.3	2.1
Previous	2.2	1.6	1.8	2.1
PCE	2.0	1.4	1.5	2.2
Previous	2.7	1.5	1.7	2.1
Residential investment	-25.3	-22.6	-14.6	-2.3
Previous	-27.7	-16.1	-7.5	2.0
BFI	7.3	.6	.6	2.4
Previous	4.7	2.2	1.9	3.0
Government purchases	3.1	2.1	1.6	.8
Previous	3.2	2.1	1.7	1.0
Exports	13.0	7.0	7.0	6.7
Previous	12.2	7.1	6.9	6.3
Imports	4.3	.7	2.1	4.1
Previous	4.4	1.7	2.7	4.5
Contribution to growth (percentage points)				
Inventory change	.3	-.2	.0	.0
Previous	.2	.0	-.1	.1
Net exports	.7	.7	.5	.1
Previous	.6	.6	.4	.0

2¼ percent; real income gains are projected to pick up as the pace of economic activity firms and energy prices continue to fall, and the fallout from the stress in financial markets is expected to diminish.

Residential investment. With the outlook for mortgage finance having worsened and home values anticipated to depreciate somewhat more than we thought earlier, we are expecting a greater slump in home sales in coming quarters than we previously projected. Accordingly, we have deepened the contraction in homebuilding; starts of new single-family houses are expected to bottom out at 810,000 units in 2008—roughly 100,000

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	2.7	2.0	1.9	1.8	1.8
Previous	1.5	2.5	2.7	2.0	1.9	1.8	1.8
<i>Contributions¹</i>							
Capital deepening	.7	1.4	.7	.7	.6	.6	.5
Previous	.7	1.4	.7	.7	.6	.5	.5
Multifactor productivity	.5	.7	1.8	1.1	1.1	1.1	1.1
Previous	.5	.7	1.8	1.1	1.1	1.1	1.1
Labor composition	.3	.3	.3	.2	.2	.2	.1
MEMO							
Potential GDP	3.0	3.3	2.7	2.2	2.2	2.2	2.1
Previous	3.0	3.3	2.7	2.2	2.2	2.2	2.1

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	.9	2.3	1.3	1.9
Previous	.9	2.0	1.8	1.9
Nonfarm private payroll employment	1.8	1.2	.4	.7
Previous	1.8	1.1	.5	.8
Household survey employment	2.1	.4	.6	.8
Previous	2.1	.6	.7	.8
Labor force participation rate ¹	66.3	65.9	65.7	65.5
Previous	66.3	66.0	65.8	65.6
Civilian unemployment rate ¹	4.5	4.7	4.9	5.0
Previous	4.5	4.7	4.8	4.8
MEMO				
GDP gap ²	.4	.5	-.4	-.4
Previous	.4	.5	.0	.1

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.

Inflation Projections (Percent change, Q4 to Q4, except as noted)				
Measure	2006	2007	2008	2009
PCE chain-weighted price index	1.9	3.2	2.0	1.7
Previous	1.9	3.0	1.8	1.7
Food and beverages	2.3	4.6	2.2	2.0
Previous	2.3	4.5	2.1	2.1
Energy	-4.0	18.6	1.8	-1.3
Previous	-4.0	16.1	.4	-2.1
Excluding food and energy	2.3	2.0	2.0	1.9
Previous	2.3	1.8	1.9	1.9
Consumer price index	1.9	3.9	2.2	1.8
Previous	1.9	3.7	2.0	1.7
Excluding food and energy	2.7	2.3	2.2	2.1
Previous	2.7	2.3	2.1	2.1
GDP chain-weighted price index	2.7	2.4	2.2	2.0
Previous	2.7	2.0	2.3	2.1
ECI for compensation of private industry workers ¹	3.2	3.2	3.7	3.7
Previous	3.2	3.4	3.7	3.7
Compensation per hour, nonfarm business sector	5.0	3.7	4.5	4.2
Previous	5.0	4.7	4.5	4.3
Prices of core nonfuel imports	2.4	2.9	1.1	.9
Previous	2.4	3.0	1.2	.7

1. December to December.

Our principal indicators of hourly compensation have recently shown very different rates of inflation. We now estimate that hourly compensation in the nonfarm business sector, which tends to fluctuate widely, will increase 3¾ percent in 2007 after having risen 5 percent in 2006. The employment cost index (ECI) for hourly compensation rose 3¼ percent in 2006 and is expected to do so again in 2007. This year, ECI wages and salaries have accelerated, but the rise in benefit costs has been unusually slow. In 2008 and 2009, we are projecting a faster rise in benefit costs while wage inflation remains relatively stable, and our forecast shows increases in overall ECI inflation of 3¾ percent in both years. Our projection for nonfarm business hourly compensation is for an increase of 4½ percent in 2008 and 4¼ percent in 2009—in line, on average, with its recent trend.

Alternative Scenarios

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

Measure and scenario	2007		2008		2009
	H1	H2	H1	H2	
<i>Real GDP</i>					
Greenbook baseline	2.2	2.5	1.0	1.6	2.1
Greater housing correction	2.2	2.5	.7	1.2	1.7
Credit crunch	2.2	2.5	-1.3	.6	2.9
Stronger domestic demand	2.2	2.6	1.5	1.9	2.1
With better export performance	2.2	2.6	1.7	2.1	2.3
More room to grow	2.2	2.5	1.5	2.3	2.9
Greater cost pressure	2.2	2.5	1.0	1.4	1.9
Market-based federal funds rate	2.2	2.5	1.1	2.0	2.9
<i>Unemployment rate¹</i>					
Greenbook baseline	4.5	4.7	4.8	4.9	5.0
Greater housing correction	4.5	4.7	4.8	5.0	5.3
Credit crunch	4.5	4.7	5.1	5.5	5.4
Stronger domestic demand	4.5	4.7	4.7	4.7	4.8
With better export performance	4.5	4.7	4.7	4.7	4.7
More room to grow	4.5	4.7	4.8	4.9	5.0
Greater cost pressure	4.5	4.7	4.8	4.9	5.1
Market-based federal funds rate	4.5	4.7	4.8	4.8	4.7
<i>Core PCE inflation</i>					
Greenbook baseline	1.9	2.0	2.0	1.9	1.9
Greater housing correction	1.9	2.0	2.0	1.9	1.9
Credit crunch	1.9	2.0	2.0	1.9	1.8
Stronger domestic demand	1.9	2.0	2.0	1.9	1.9
With better export performance	1.9	2.0	2.0	1.9	1.9
More room to grow	1.9	2.0	1.9	1.7	1.7
Greater cost pressure	1.9	2.0	2.1	2.4	2.4
Market-based federal funds rate	1.9	2.0	2.1	2.0	2.1
<i>Federal funds rate¹</i>					
Greenbook baseline	5.3	4.5	4.3	4.3	4.0
Greater housing correction	5.3	4.5	4.2	4.0	3.3
Credit crunch	5.3	4.5	3.4	2.6	3.3
Stronger domestic demand	5.3	4.5	4.6	4.7	4.3
With better export performance	5.3	4.5	4.6	4.9	4.7
More room to grow	5.3	4.4	4.2	4.1	3.8
Greater cost pressure	5.3	4.5	4.3	4.4	4.3
Market-based federal funds rate	5.3	4.2	3.6	3.1	3.1

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

spending to real estate wealth is twice as great as assumed in the baseline, putting this response at the upper end of the range of empirical estimates. In addition, the cumulative decline in nominal home prices is 15 percent rather than 6 percent, cutting an additional

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

Measure	2007	2008	2009
<i>Real GDP</i> (percent change, Q4 to Q4)			
Projection	2.3	1.3	2.1
Confidence interval			
Greenbook forecast errors	1.9–2.8	-.2–2.8	.7–3.4
FRB/US stochastic simulations	2.0–2.6	.1–2.5	.7–3.6
<i>Civilian unemployment rate</i> (percent, Q4)			
Projection	4.7	4.9	5.0
Confidence interval			
Greenbook forecast errors	4.6–4.8	4.3–5.5	4.0–6.0
FRB/US stochastic simulations	4.6–4.8	4.4–5.3	4.3–5.6
<i>PCE prices</i> excluding food and energy (percent change, Q4 to Q4)			
Projection	2.0	2.0	1.9
Confidence interval			
Greenbook forecast errors	1.7–2.2	1.3–2.7	1.0–2.9
FRB/US stochastic simulations	1.9–2.0	1.6–2.4	1.4–2.6
<i>Federal funds rate</i> (percent, Q4)			
Projection	4.5	4.3	4.0
Confidence interval			
FRB/US stochastic simulations	4.5–4.5	3.1–5.4	2.5–5.7

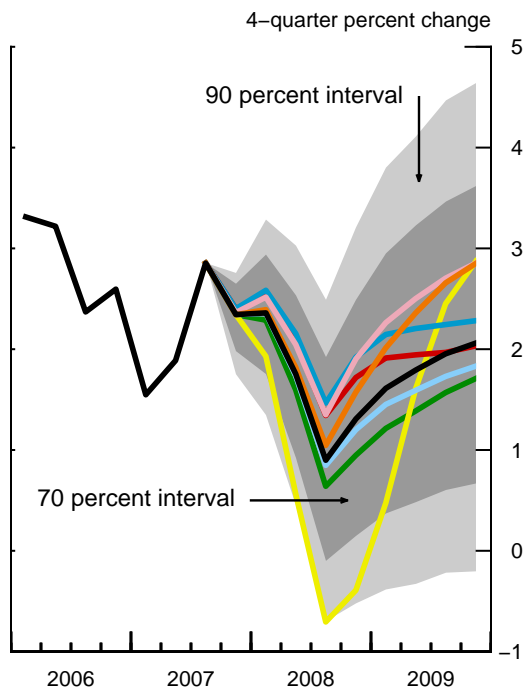
Note. Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1986-2005 set of model equation residuals. Intervals derived from Greenbook forecast errors are based on the 1986-2005 set of Greenbook historical errors.

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

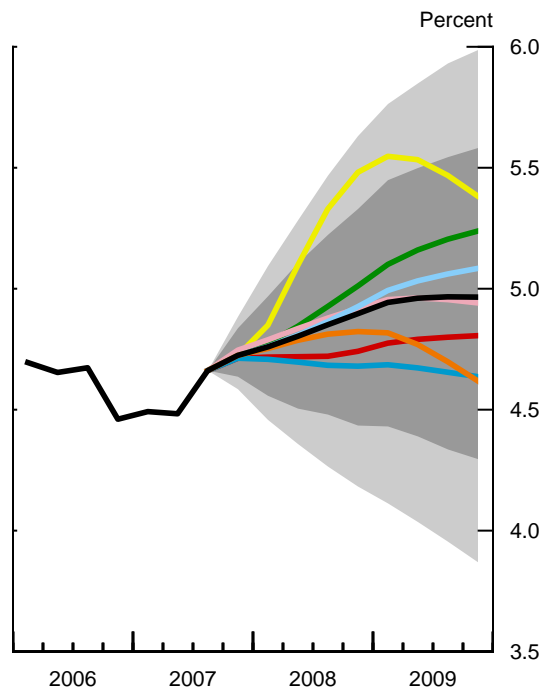
Confidence Intervals based on FRB/US Stochastic Simulations

- | | | |
|------------------------------|--------------------------------------|-----------------------------------|
| ■ Greenbook baseline | ■ Stronger domestic demand (SDD) | ■ Greater cost pressure |
| ■ Greater housing correction | ■ SDD with better export performance | ■ Market-based federal funds rate |
| ■ Credit crunch | ■ More room to grow | |

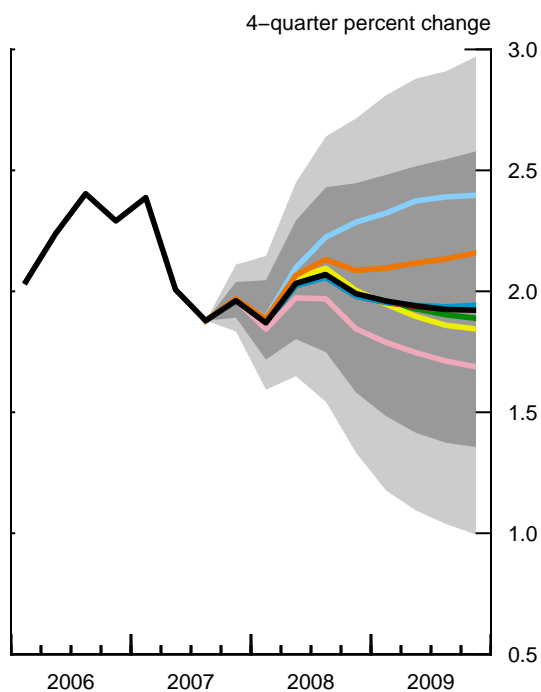
Real GDP



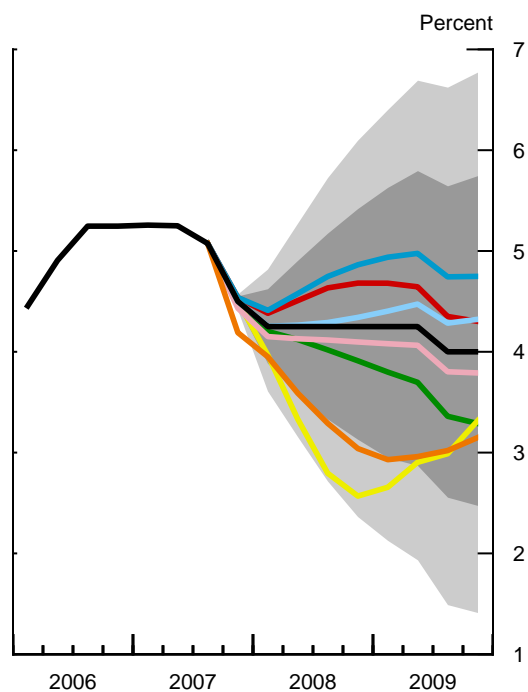
Unemployment Rate



PCE Prices excluding Food and Energy



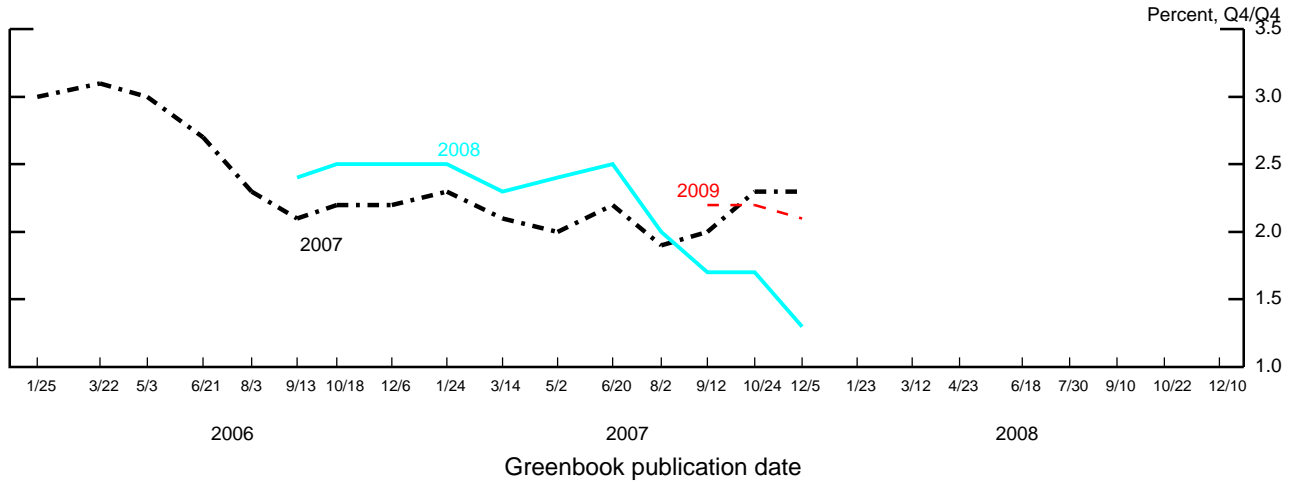
Federal Funds Rate



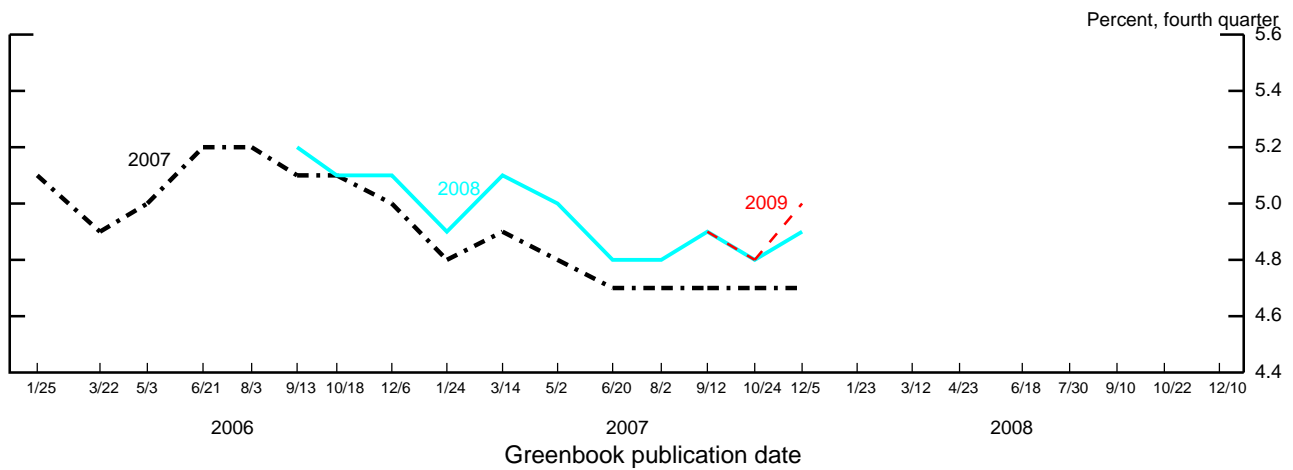
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Evolution of the Staff Forecast

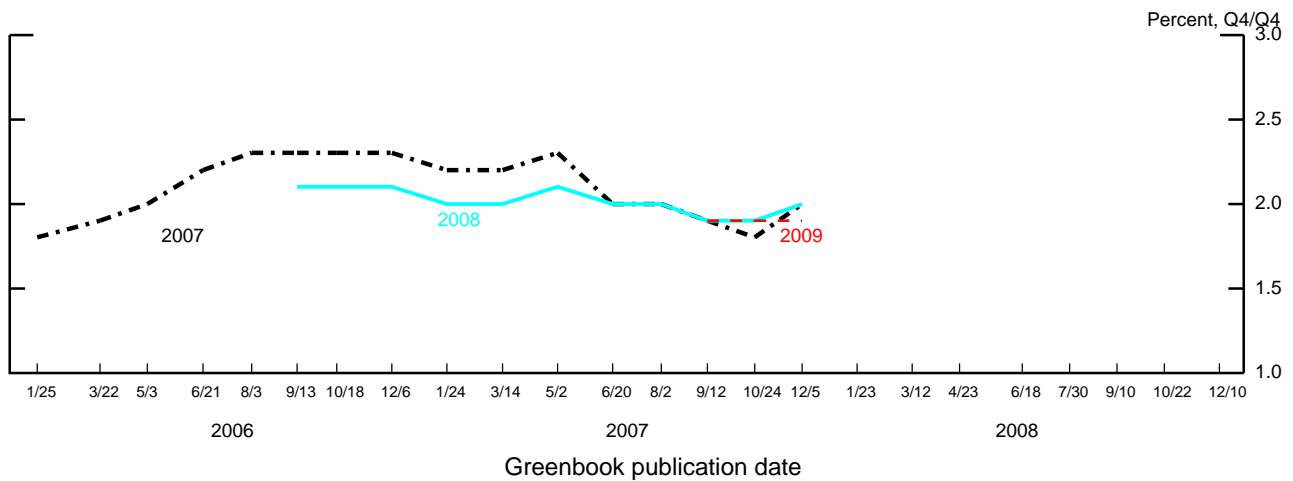
Change in Real GDP



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	
	10/24/07	12/05/07	10/24/07	12/05/07	10/24/07	12/05/07	10/24/07	12/05/07	10/24/07	12/05/07
<i>Quarterly</i>										
2007:Q1	4.9	4.9	.6	.6	3.5	3.5	2.4	2.4	4.5	4.5
2007:Q2	6.6	6.6	3.8	3.8	4.3	4.3	1.4	1.4	4.5	4.5
2007:Q3	3.9	5.9	3.3	5.0	1.5	1.7	1.6	1.8	4.7	4.7
2007:Q4	2.3	1.9	1.4	.1	2.7	3.5	2.0	2.2	4.7	4.7
2008:Q1	4.2	3.2	1.5	.7	2.3	2.5	1.9	2.1	4.7	4.8
2008:Q2	4.0	3.6	1.8	1.4	1.7	2.0	1.9	2.0	4.7	4.8
2008:Q3	4.0	3.5	1.9	1.5	1.7	1.8	1.9	2.0	4.7	4.9
2008:Q4	3.9	3.7	1.9	1.7	1.7	1.7	1.9	1.9	4.8	4.9
2009:Q1	4.4	4.0	2.1	1.9	1.7	1.7	1.9	1.9	4.8	4.9
2009:Q2	4.4	4.2	2.2	2.1	1.7	1.7	1.9	1.9	4.8	5.0
2009:Q3	4.3	4.1	2.2	2.1	1.7	1.7	1.9	1.9	4.8	5.0
2009:Q4	4.3	4.0	2.2	2.1	1.7	1.7	1.9	1.9	4.8	5.0
<i>Two-quarter²</i>										
2007:Q2	5.7	5.7	2.2	2.2	3.9	3.9	1.9	1.9	.0	.0
2007:Q4	3.1	3.9	2.4	2.5	2.1	2.6	1.8	2.0	.2	.2
2008:Q2	4.1	3.4	1.6	1.0	2.0	2.3	1.9	2.0	.0	.1
2008:Q4	4.0	3.6	1.9	1.6	1.7	1.8	1.9	1.9	.1	.1
2009:Q2	4.4	4.1	2.2	2.0	1.7	1.7	1.9	1.9	.0	.1
2009:Q4	4.3	4.1	2.2	2.1	1.7	1.7	1.9	1.9	.0	.0
<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	4.4	4.8	2.3	2.3	3.0	3.2	1.8	2.0	.2	.2
2008:Q4	4.0	3.5	1.7	1.3	1.8	2.0	1.9	2.0	.1	.2
2009:Q4	4.3	4.1	2.2	2.1	1.7	1.7	1.9	1.9	.0	.1
<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	4.6	4.8	2.0	2.2	2.4	2.5	2.0	2.1	4.6	4.6
2008	3.9	3.6	2.0	1.6	2.2	2.5	1.8	2.0	4.7	4.8
2009	4.2	3.9	2.1	1.9	1.7	1.8	1.9	1.9	4.8	5.0

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

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

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

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

Item	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	5.0	.1	.7	1.4	1.5	1.7	1.9	2.1	2.1	2.1	2.3	1.3	2.1
Final sales <i>Previous</i>	.6	3.8	3.3	1.4	1.5	1.8	1.9	1.9	2.1	2.2	2.2	2.2	2.3	1.7	2.2
Priv. dom. final purch. <i>Previous</i>	1.3	3.6	4.0	.4	.4	1.9	1.7	1.1	1.7	2.7	2.6	1.4	2.3	1.3	2.1
Personal cons. expend. <i>Previous</i>	1.3	3.6	3.6	.9	.8	2.4	2.2	1.8	1.8	2.5	2.4	1.6	2.3	1.8	2.1
Durables	2.2	1.7	2.1	-2	-3	.4	.9	1.3	1.8	2.0	2.2	2.2	1.5	.6	2.1
Nondurables	2.2	1.7	2.0	.3	.4	1.1	1.7	2.0	2.1	2.1	2.2	2.4	1.5	1.3	2.2
Services	3.7	1.4	2.7	1.3	1.4	1.4	1.5	1.7	2.0	2.2	2.3	2.3	2.3	1.5	2.2
Residential investment <i>Previous</i>	3.7	1.4	3.2	2.3	1.5	1.6	1.7	2.1	1.9	2.0	2.1	2.3	2.6	1.7	2.1
Business fixed invest. <i>Previous</i>	8.8	1.7	4.0	3.0	.4	1.6	1.0	2.7	3.6	2.9	2.9	2.9	4.3	1.4	3.1
Equipment & software <i>Previous</i>	3.0	-5	1.9	-4	.5	1.8	2.0	2.0	2.1	2.1	2.1	2.1	1.0	1.6	2.1
Nonres. structures <i>Previous</i>	3.1	2.3	2.8	1.8	2.0	1.1	1.3	1.3	1.7	2.2	2.3	2.3	2.5	1.4	2.1
Net exports ² <i>Previous</i> ²	-16.3	-11.8	-20.3	-30.0	-28.7	-16.1	-6.5	-4.7	-2.2	-2.6	-1.5	-2.8	-19.9	-14.6	-2.3
Exports	-16.3	-11.8	-22.4	-32.8	-21.4	-10.4	1.3	2.4	2.1	2.0	2.0	1.9	-21.2	-7.5	2.0
Imports	2.1	11.0	10.1	4.4	.9	.3	.0	1.0	1.9	2.3	2.7	2.6	6.9	.6	2.4
Govt. cons. & invest. <i>Previous</i>	2.1	11.0	6.2	3.2	2.3	2.1	1.5	1.7	3.1	2.7	3.0	3.0	5.6	1.9	3.0
Federal	.3	4.7	7.2	4.3	1.1	.0	-2	1.3	2.2	3.0	3.6	3.5	4.1	.5	3.1
Defense	.3	4.7	7.4	3.0	2.7	2.5	2.0	2.4	3.9	3.4	3.8	3.9	3.8	2.4	3.7
Nondefense	6.4	26.2	16.6	4.7	.5	1.0	.6	.3	1.2	1.0	1.0	1.0	13.2	.6	1.0
State & local	6.4	26.2	3.7	3.6	1.5	1.4	.6	.3	1.5	1.3	1.3	1.3	9.6	.9	1.3
Change in bus. inventories ² <i>Previous</i> ²	-612	-574	-533	-528	-520	-485	-465	-468	-470	-448	-431	-447	-562	-484	-449
Exports	-612	-574	-536	-535	-532	-500	-484	-487	-493	-475	-463	-481	-564	-501	-478
Imports	1.1	7.5	18.9	7.4	7.0	7.1	7.0	6.9	6.8	6.8	6.7	6.5	8.6	7.0	6.7
Govt. cons. & invest. <i>Previous</i>	3.9	-2.7	4.3	4.3	3.3	-1.8	1.1	6.1	5.6	.9	1.8	8.3	2.4	2.1	4.1
Federal	-5	4.1	3.9	2.4	2.2	1.9	1.3	1.0	1.0	1.0	.8	.6	2.5	1.6	.8
Defense	-5	4.1	3.2	3.1	2.1	2.0	1.4	1.2	1.1	1.1	1.0	.9	2.5	1.7	1.0
Nondefense	-6.3	6.0	7.0	2.5	3.2	2.8	2.0	1.2	1.3	1.2	1.3	.9	2.2	2.3	1.1
State & local	-10.8	8.5	10.1	3.3	4.6	4.0	2.9	1.7	1.4	1.2	1.4	.8	2.4	3.3	1.2
Change in bus. inventories ² <i>Previous</i> ²	3.8	-9	.9	.8	.1	.1	.1	.3	.9	1.0	1.0	1.0	1.6	.2	1.0
Nonfarm ²	3.0	3.0	2.1	2.4	1.7	1.4	.9	.9	.9	.8	.5	.5	2.6	1.2	.7
Farm ²	0	6	33	21	28	12	5	21	28	12	-1	22	15	16	15
Nonfarm ²	0	6	-3	13	32	14	4	5	15	6	0	18	4	14	10
Farm ²	-6	1	30	20	27	12	4	21	27	11	-3	21	11	16	14
	5	4	3	1	1	1	1	1	1	1	1	1	3	1	1

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

2. Billions of chained (2000) dollars.

Class II FOMC
Restricted (FR)

December 5, 2007

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	2.3	1.3	2.1
	.2	1.9	3.7	3.1	2.9	2.6	2.3	1.7	2.2
Final sales <i>Previous</i>	1.5	.8	3.7	2.8	2.9	3.0	2.3	1.3	2.1
	1.5	.8	3.7	2.8	2.9	3.0	2.3	1.8	2.1
Priv. dom. final purch. <i>Previous</i>	1.0	1.1	4.1	4.3	3.3	2.4	1.5	.6	2.1
	1.0	1.1	4.1	4.3	3.3	2.4	1.5	1.3	2.2
Personal cons. expend. <i>Previous</i>	2.8	1.9	3.4	3.7	2.8	3.4	2.3	1.5	2.2
	2.8	1.9	3.4	3.7	2.8	3.4	2.6	1.7	2.1
Durables	10.8	1.2	8.3	5.6	1.2	6.6	4.3	1.4	3.1
Nondurables	1.9	2.1	3.9	3.5	3.6	3.6	1.0	1.6	2.1
Services	1.6	1.9	2.2	3.3	2.7	2.6	2.5	1.4	2.1
Residential investment <i>Previous</i>	1.4	7.0	11.7	6.7	6.4	-12.8	-19.9	-14.6	-2.3
	1.4	7.0	11.7	6.7	6.4	-12.8	-21.2	-7.5	2.0
Business fixed invest. <i>Previous</i>	-9.6	-6.5	4.9	7.5	5.1	5.2	6.9	.6	2.4
	-9.6	-6.5	4.9	7.5	5.1	5.2	5.6	1.9	3.0
Equipment & software <i>Previous</i>	-9.0	-3.4	6.6	9.4	7.1	2.5	4.1	.5	3.1
	-9.0	-3.4	6.6	9.4	7.1	2.5	3.8	2.4	3.7
Nonres. structures <i>Previous</i>	-11.1	-14.9	.2	2.3	-.3	12.3	13.2	.6	1.0
	-11.1	-14.9	.2	2.3	-.3	12.3	9.6	.9	1.3
Net exports ² <i>Previous</i> ²	-399	-471	-519	-594	-618	-624	-562	-484	-449
	-399	-471	-519	-594	-618	-624	-564	-501	-478
Exports	-11.9	3.8	5.8	7.4	7.0	9.3	8.6	7.0	6.7
Imports	-7.6	9.7	4.8	11.5	5.1	3.7	2.4	2.1	4.1
Govt. cons. & invest. <i>Previous</i>	5.0	4.0	1.7	.7	.9	2.5	2.5	1.6	.8
	5.0	4.0	1.7	.7	.9	2.5	2.5	1.7	1.0
Federal	6.4	7.8	5.5	2.4	1.3	3.7	2.2	2.3	1.1
Defense	6.5	8.4	7.5	2.5	1.1	5.9	2.4	3.3	1.2
Nondefense	6.3	6.8	1.9	2.3	1.9	-.7	1.6	.2	1.0
State & local	4.2	2.1	-.4	-.4	.7	1.8	2.6	1.2	.7
Change in bus. inventories ² <i>Previous</i> ²	-32	12	14	54	33	40	15	16	15
	-32	12	14	54	33	40	4	14	10
Nonfarm ²	-32	15	14	48	34	42	11	16	14
Farm ²	0	-2	0	6	-0	-1	3	1	1

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

2. Billions of chained (2000) dollars.

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

Item	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	5.0	.1	.7	1.4	1.5	1.7	1.9	2.1	2.1	2.1	2.3	1.3	2.1
Final sales <i>Previous</i>	.6	3.8	3.3	1.4	1.5	1.8	1.9	1.9		2.1	2.2	2.2	2.3	1.7	2.2
Priv. dom. final purch. <i>Previous</i>	1.3	3.6	4.0	.4	.4	1.9	1.7	1.1		1.7	2.6	1.4	2.3	1.3	2.1
Personal cons. expend. <i>Previous</i>	1.3	3.6	3.6	.9	.8	2.4	2.2	1.8		1.8	2.5	1.6	2.3	1.8	2.1
Durables	1.9	1.5	1.9	-2	-3	.4	.8	1.1		1.6	1.7	1.8	1.3	.5	1.7
Nondurables	1.9	1.5	1.7	.3	.4	.9	1.4	1.7		1.8	1.7	2.0	1.3	1.1	1.8
Services	2.6	1.0	1.9	.9	1.0	1.0	1.0	1.2		1.4	1.6	1.6	1.6	1.0	1.6
Residential investment <i>Previous</i>	2.6	1.0	2.2	1.6	1.1	1.1	1.2	1.5		1.4	1.4	1.6	1.9	1.2	1.5
Durables	.7	.1	.3	.2	.0	.1	.1	.2		.3	.2	.2	.3	.1	.2
Nondurables	.6	-.1	.4	-.1	.1	.4	.4	.4		.4	.4	.4	.2	.3	.4
Services	1.3	1.0	1.2	.7	.8	.5	.5	.6		.7	.9	1.0	1.0	.6	.9
Residential investment <i>Previous</i>	-9	-.6	-1.1	-1.5	-1.3	-.6	-2	-2		-1	-1	-1	-1.1	-.6	-1
Business fixed invest. <i>Previous</i>	-9	-.6	-1.2	-1.7	-1.0	-.4	.0	.1		.1	.1	.1	-1.1	-.3	.1
Equipment & software <i>Previous</i>	.2	1.1	1.1	.5	.1	.0	.0	.1		.2	.2	.3	.7	.1	.3
Nonres. structures <i>Previous</i>	.2	1.1	.7	.3	.2	.2	.2	.2		.3	.3	.3	.6	.2	.3
Net exports <i>Previous</i>	.0	.3	.5	.3	.1	.0	.0	.1		.2	.2	.2	.3	.0	.2
Exports	.0	.3	.5	.2	.2	.2	.1	.2		.3	.2	.3	.3	.2	.3
Imports	.2	.8	.5	.2	.0	.0	.0	.0		.0	.0	.0	.4	.0	.0
Govt. cons. & invest. <i>Previous</i>	.2	.8	.1	.1	.0	.0	.0	.0		.1	.0	.0	.3	.0	.0
Federal	-.5	1.3	1.4	.1	.3	1.2	.7	-.2		-1	.7	-.6	.6	.5	.1
Defense	-.5	1.3	1.3	.0	.0	1.1	.5	-.1		-2	.6	-.6	.5	.4	.0
Nondefense	.1	.9	2.1	.9	.8	.9	.9	.9		.9	.9	.8	1.0	.9	.9
State & local	-.6	.5	-.7	-.7	-.6	.3	-.2	-1.0		-1.0	-.2	-1.4	-.4	-.4	-.7
Change in bus. inventories <i>Previous</i>	-.1	.8	.8	.5	.4	.4	.3	.2		.2	.2	.1	.5	.3	.2
Nonfarm	-.1	.8	.6	.6	.4	.4	.3	.2		.2	.2	.2	.5	.3	.2
Farm	-.5	.4	.5	.2	.2	.2	.1	.1		.1	.1	.1	.2	.2	.1
Nonfarm	-.5	.4	.5	.2	.2	.2	.1	.1		.1	.1	.0	.1	.2	.1
Farm	.1	.0	.0	.0	.0	.0	.0	.0		.0	.0	.0	.0	.0	.0
State & local	.4	.4	.3	.3	.2	.2	.1	.1		.1	.1	.1	.3	.2	.1
Change in bus. inventories <i>Previous</i>	-.7	.2	1.0	-.4	.2	-.5	-.3	.6		.2	-.5	.8	.0	.0	.0
Nonfarm	-.7	.2	-.3	.6	.7	-.6	-.3	.0		.4	-.3	.6	.0	-.1	.1
Farm	-.7	.3	1.0	-.3	.2	-.5	-.3	.6		.2	-.5	.8	.1	.0	.0
Farm	.0	-.1	.0	.0	.0	.0	.0	.0		.0	.0	.0	.0	.0	.0

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

Class II FOMC
Restricted (FR)

December 5, 2007

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	.9	1.8	2.5	2.2	2.0	1.9	2.1	2.0	1.9	1.9	2.4	2.2	2.0
PCE chain-wt. price index <i>Previous</i>	4.2	2.6	.5	.8	2.7	2.2	2.1	2.0	2.2	2.2	2.1	2.0	2.0	2.3	2.1
Energy <i>Previous</i>	3.5	4.3	1.7	3.5	2.5	2.0	1.8	1.7	1.7	1.7	1.7	1.7	3.2	2.0	1.7
Food <i>Previous</i>	3.5	4.3	1.5	2.7	2.3	1.7	1.7	1.7	1.7	1.7	1.7	1.7	3.0	1.8	1.7
Ex. food & energy <i>Previous</i>	16.1	51.3	-6.7	20.8	8.5	1.1	-7	-1.4	-1.5	-1.4	-1.1	-1.0	18.6	1.8	-1.3
CPI <i>Previous</i>	16.1	51.3	-6.8	11.2	8.2	-1.4	-2.0	-2.6	-2.4	-2.3	-2.1	-1.8	16.1	.4	-2.1
Ex. food & energy <i>Previous</i>	4.8	4.7	4.7	4.1	2.8	2.1	2.0	2.0	2.0	2.0	2.0	2.0	4.6	2.2	2.0
CPI <i>Previous</i>	4.8	4.7	4.7	3.7	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	4.5	2.1	2.1
Ex. food & energy <i>Previous</i>	2.4	1.4	1.8	2.2	2.1	2.0	2.0	1.9	1.9	1.9	1.9	1.9	2.0	2.0	1.9
CPI <i>Previous</i>	2.4	1.4	1.6	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.8	1.9	1.9
Ex. food & energy <i>Previous</i>	3.8	6.0	1.9	4.0	2.9	2.1	1.9	1.7	1.8	1.8	1.8	1.8	3.9	2.2	1.8
ECL, hourly compensation ² <i>Previous</i> ²	3.8	6.0	1.9	3.2	2.8	1.9	1.7	1.7	1.7	1.7	1.7	1.7	3.7	2.0	1.7
Nonfarm business sector Output per hour <i>Previous</i>	2.3	1.9	2.5	2.3	2.3	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.3	2.2	2.1
Compensation per hour <i>Previous</i>	2.3	1.9	2.5	2.3	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.3	2.1	2.1
Unit labor costs <i>Previous</i>	2.3	3.5	3.1	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.6	3.2	3.7	3.7
	.7	2.2	6.3	.2	.5	1.5	1.6	1.8	3.7	3.7	3.7	3.6	3.4	3.7	3.7
Nonfarm business sector Output per hour <i>Previous</i>	.7	2.2	6.3	.2	.5	1.5	1.6	1.8	2.0	2.0	1.9	1.9	2.3	1.3	1.9
Compensation per hour <i>Previous</i>	5.9	1.0	4.2	3.6	1.6	1.8	1.9	1.9	2.0	2.0	1.8	1.8	2.0	1.8	1.9
Unit labor costs <i>Previous</i>	5.9	4.3	4.5	4.3	4.1	4.6	4.6	4.6	4.4	4.3	4.2	4.1	3.7	4.5	4.2
	5.2	-1.1	-2.0	3.4	4.2	4.6	4.6	4.5	4.4	4.4	4.3	4.3	4.7	4.5	4.3
	5.2	2.2	.4	2.9	3.6	3.1	2.9	2.7	2.3	2.3	2.3	2.1	1.3	3.1	2.3
					2.6	2.7	2.6	2.5	2.3	2.3	2.4	2.4	2.7	2.6	2.4

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	.5	.4	.3	.4	.2	.1	.1	.1	.2	.2	.3	.3	1.6	.6	.9
Unemployment rate ³	4.5	4.5	4.7	4.7	4.8	4.8	4.9	4.9	4.9	5.0	5.0	5.0	4.7	4.9	5.0
<i>Previous³</i>	4.5	4.5	4.7	4.7	4.7	4.7	4.7	4.8	4.8	4.8	4.8	4.8	4.7	4.8	4.8
GDP gap ⁴	.0	.4	1.0	.5	.1	-.1	-.3	-.4	-.4	-.4	-.4	-.4	.5	-.4	-.4
<i>Previous⁴</i>	.0	.4	.7	.5	.3	.2	.1	.0	.0	.1	.1	.1	.5	.0	.1
Industrial production ⁵	1.1	3.5	4.4	-.7	1.7	1.3	2.2	3.5	2.8	2.2	2.5	2.6	2.0	2.2	2.5
<i>Previous⁵</i>	1.1	3.5	4.0	1.4	2.5	1.5	2.9	4.2	3.1	2.6	2.9	3.0	2.5	2.8	2.9
Manufacturing industr. prod. ⁵	.8	4.3	4.1	-1.0	.9	1.5	2.1	3.6	3.0	2.4	2.7	2.8	2.0	2.0	2.7
<i>Previous⁵</i>	.8	4.3	4.0	.8	2.6	1.7	3.1	4.2	3.4	2.9	3.2	3.2	2.5	2.9	3.2
Capacity utilization rate - mfg. ³	79.8	80.3	80.7	80.0	79.8	79.6	79.5	79.7	79.8	79.8	79.8	79.8	80.0	79.7	79.8
<i>Previous³</i>	79.8	80.3	80.6	80.4	80.4	80.2	80.3	80.6	80.8	80.8	80.9	81.0	80.4	80.6	81.0
Housing starts ⁶	1.5	1.5	1.3	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.4	1.1	1.1
Light motor vehicle sales ⁶	16.4	16.0	15.9	16.0	16.0	15.9	15.8	15.9	15.9	15.9	15.9	15.9	16.1	15.9	15.9
<i>Income and saving</i>															
Nominal GDP ⁵	4.9	6.6	5.9	1.9	3.2	3.6	3.5	3.7	4.0	4.2	4.1	4.0	4.8	3.5	4.1
Real disposable pers. income ⁵	5.4	-.8	4.4	-.2	2.2	1.2	2.6	2.5	3.5	2.3	2.6	2.3	2.2	2.1	2.7
<i>Previous⁵</i>	5.4	.6	4.3	.7	1.7	2.0	2.4	2.5	3.7	2.9	2.5	2.6	2.7	2.2	2.9
Personal saving rate ³	1.0	.3	.6	.2	.4	.4	.6	.8	1.2	1.2	1.3	1.3	.2	.8	1.3
<i>Previous³</i>	1.0	.6	.9	.5	.5	.6	.8	.9	1.3	1.5	1.6	1.7	.5	.9	1.7
Corporate profits ⁷	4.4	26.8	-3.4	-6.6	-.6	-1.1	-3.7	-6.5	-.7	1.4	.3	.9	4.5	-3.0	.5
Profit share of GNP ³	11.4	11.9	11.6	11.4	11.2	11.1	10.9	10.6	10.5	10.5	10.4	10.3	11.4	10.6	10.3
Net federal saving ⁸	-219	-207	-228	-237	-289	-271	-291	-309	-344	-342	-349	-360	-223	-290	-349
Net state & local saving ⁸	-6	13	-7	-23	-33	-34	-37	-37	-36	-33	-31	-26	-6	-35	-31
Gross national saving rate ³	13.8	13.8	13.4	12.9	12.6	12.7	12.6	12.5	12.5	12.5	12.5	12.5	12.9	12.5	12.5
Net national saving rate ³	1.7	1.7	1.4	.6	.3	.3	.3	.1	.1	.1	.1	.1	.6	.1	.1

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

2. Change, millions.

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

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

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

5. Percent change, annual rate.

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

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

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

**Class II FOMC
Restricted (FR)**

Staff Projections of Federal Sector Accounts and Related Items

(Billions of dollars except as noted)

December 5, 2007

Item	Fiscal year				2007				2008				2009			
	2006 ^a	2007 ^a	2008	2009	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts ¹	2407	2568	2632	2750	547	824	622	594	554	838	646	633	570	869	678	653
Outlays ¹	2655	2730	2892	3034	725	687	664	725	732	725	711	763	767	761	743	798
Surplus/deficit ¹	-248	-163	-261	-284	-178	137	-42	-131	-178	114	-65	-129	-197	107	-65	-145
<i>Previous</i>	-248	-163	-217	-245	-178	137	-42	-118	-172	126	-53	-116	-193	118	-54	-132
On-budget	-435	-344	-456	-485	-212	53	-49	-198	-202	22	-78	-201	-219	11	-76	-219
Off-budget	186	181	195	201	34	85	7	67	24	91	13	71	22	96	11	74
Means of financing																
Borrowing	237	206	211	302	152	-110	106	103	145	-102	65	124	186	-78	69	139
Cash decrease	-16	-23	40	0	25	-19	-50	30	19	-14	4	10	15	-25	0	10
Other ²	28	-20	10	-18	1	-8	-14	-3	14	3	-5	-5	-5	-5	-5	-5
Cash operating balance, end of period	52	75	35	35	6	25	75	45	25	39	35	25	10	35	35	25
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	2437	2635	2731	2811	2620	2670	2689	2700	2722	2740	2760	2777	2796	2822	2850	2877
Expenditures	2685	2844	3003	3148	2838	2877	2917	2937	3011	3012	3051	3086	3140	3165	3200	3237
Consumption expenditures	798	843	901	941	830	850	867	878	900	909	918	925	939	946	954	960
Defense	533	570	616	644	556	574	589	598	614	622	629	634	643	648	653	656
Nondefense	266	273	285	297	274	276	278	280	286	278	289	291	296	299	301	304
Other spending	1887	2001	2101	2206	2008	2027	2050	2059	2111	2102	2133	2161	2201	2218	2246	2277
Current account surplus	-248	-209	-272	-336	-219	-207	-228	-237	-289	-271	-291	-309	-344	-342	-349	-360
Gross investment	117	121	127	131	117	120	123	124	126	128	129	130	131	131	132	132
Gross saving less gross investment ³	-262	-220	-285	-348	-227	-216	-240	-249	-301	-284	-303	-320	-356	-354	-360	-370
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-282	-245	-290	-331	-241	-236	-278	-268	-308	-285	-297	-308	-339	-336	-343	-353
Change in HEB, percent of potential GDP	-0.5	-0.4	0.2	0.2	0.1	-0.1	0.3	-0.1	0.3	-0.2	0.1	0.1	0.2	-0.0	0.0	0.0
Fiscal impetus (FI), percent of GDP	0.3	0.2	0.2	0.1	-0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Previous</i>	0.3	0.2	0.2	0.1	-0.0	0.1	0.1	0.1	0.1	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** **December 5, 2007**
(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	10.9	13.3	5.7	2.4	11.0	7.6	3.6
2003	8.1	11.5	14.2	5.2	2.6	8.3	10.9	5.9
2004	8.9	11.3	13.9	5.5	5.8	7.4	9.0	6.5
2005	9.1	10.7	12.6	4.3	7.8	10.2	7.0	6.3
2006	8.8	10.3	11.3	4.5	9.6	8.2	3.9	5.4
2007	8.1	6.8	7.0	5.4	10.8	10.6	5.1	4.8
2008	4.7	3.6	3.3	3.8	5.9	7.0	4.5	3.5
2009	4.7	3.3	3.1	3.1	5.7	6.5	5.9	4.1
<i>Quarter</i>								
2007:1	8.0	7.1	7.8	4.7	9.3	11.2	6.7	4.9
2	7.2	7.6	8.0	5.3	10.7	10.3	-1.4	6.6
3	8.9	6.9	6.8	6.1	11.9	8.4	8.8	5.9
4	7.1	4.9	4.7	5.0	9.7	11.0	6.2	1.9
2008:1	5.4	4.1	3.8	4.5	6.6	7.1	5.8	3.2
2	3.9	3.6	3.3	3.9	5.8	7.0	-7	3.6
3	4.5	3.3	3.0	3.4	5.4	6.7	5.3	3.5
4	4.8	3.2	2.9	3.2	5.3	6.6	7.5	3.7
2009:1	5.0	3.1	2.8	3.1	5.5	6.5	8.6	4.0
2	3.8	3.1	2.9	3.0	5.6	6.4	1.1	4.2
3	4.6	3.3	3.1	3.0	5.6	6.3	5.3	4.1
4	5.2	3.6	3.6	3.0	5.5	6.2	8.2	4.0

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2007:Q3 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

Class II FOMC Restricted (FR) **Flow of Funds Projections: Highlights** **December 5, 2007**
(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	1715.8	1582.2	1112.8	1274.6	1824.8	1398.6	1171.0	825.0	1176.0	1279.2	1365.1	995.5	1258.5	1479.1		
Net equity issuance	-614.1	-741.2	-361.0	-272.0	-846.0	-776.0	-508.0	-392.0	-272.0	-272.0	-272.0	-272.0	-272.0	-272.0		
Net debt issuance	2329.9	2323.4	1473.8	1546.6	2670.8	2174.6	1679.0	1217.0	1448.0	1551.2	1637.1	1267.5	1530.5	1751.1		
Borrowing indicators																
Debt (percent of GDP) ¹	209.9	217.0	222.7	224.5	217.0	220.3	221.9	222.5	222.9	223.5	224.1	224.2	224.4	224.9		
Borrowing (percent of GDP)	17.7	16.8	10.3	10.4	19.1	15.5	11.9	8.5	10.1	10.7	11.2	8.6	10.2	11.6		
Households																
Net borrowing ²	1203.1	881.3	494.5	472.8	924.8	674.5	561.0	503.2	463.7	450.2	439.4	448.1	475.7	528.1		
Home mortgages	997.7	686.5	348.1	341.0	691.0	486.2	396.5	354.0	325.7	316.3	306.8	316.3	344.6	396.5		
Consumer credit	104.4	129.5	96.9	81.0	150.5	125.1	114.4	100.1	88.9	84.3	82.4	81.2	79.9	80.4		
Debt/DPI (percent) ³	128.0	131.4	132.6	131.3	131.9	132.8	132.7	133.0	132.7	132.3	131.7	131.4	131.0	130.8		
Business																
Financing gap ⁴	186.6	254.7	309.4	349.5	278.7	299.4	310.5	294.5	296.1	336.5	350.7	338.7	335.5	373.1		
Net equity issuance	-614.1	-741.2	-361.0	-272.0	-846.0	-776.0	-508.0	-392.0	-272.0	-272.0	-272.0	-272.0	-272.0	-272.0		
Credit market borrowing	792.2	978.6	592.3	602.5	1132.9	951.2	664.4	594.7	557.3	552.9	581.1	606.3	611.3	611.4		
State and local governments																
Net borrowing	151.1	212.8	155.7	153.7	178.1	236.6	157.7	157.7	153.7	153.7	153.7	153.7	153.7	153.7		
Current surplus ⁵	243.8	206.6	161.1	173.3	193.2	168.1	160.5	161.4	160.5	162.0	165.7	170.7	174.9	181.6		
Federal government																
Net borrowing	183.4	250.7	231.3	317.6	435.0	312.3	296.0	-38.5	273.3	394.5	462.9	59.4	289.8	458.0		
Net borrowing (n.s.a.)	183.4	250.7	231.3	317.6	105.7	103.1	144.6	-102.2	65.3	123.6	186.4	-77.7	69.4	139.5		
Unified deficit (n.s.a.)	209.2	213.1	259.1	299.6	41.9	130.6	178.5	-113.8	65.3	129.1	196.9	-107.2	64.9	145.0		
<i>Depository institutions</i>																
Funds supplied	693.7	797.0	404.1	482.9	1138.4	846.2	494.1	456.4	405.9	260.0	517.2	524.4	502.3	387.7		

Note. Data after 2007:Q3 are staff projections.

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

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

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

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

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

n.s.a. Not seasonally adjusted.

2.6.4 FOF

International Developments

Conditions in financial markets abroad deteriorated over the intermeeting period as concerns about the U.S. housing sector and exposure to mortgage-related assets intensified. In advanced foreign economies, term money market yields rose, sovereign bond yields dropped, and equity indexes declined. Recent indicators suggest that total foreign GDP growth will slow from a surprisingly strong rate of 4½ percent in the third quarter to 2¾ percent in the current quarter. Foreign growth is expected to remain near this pace in early 2008 before picking up to a rate of 3¼ percent thereafter. This outlook, which is a little softer over the next year than we previously projected, reflects the reduced pace of U.S. activity and, for the advanced foreign economies, larger and more-persistent effects from the turmoil in financial markets. Although we have seen little evidence pointing to a more substantial slowing of activity abroad, such an outcome remains an important risk.

Summary of Staff Projections

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

Indicator	2007		Projection			
	H1	Q3	2007: Q4	2008		2009
				H1	H2	
Foreign output	4.3	4.5	2.8	2.9	3.2	3.2
October GB	4.3	3.5	3.1	3.2	3.3	3.2
Foreign CPI	3.0	4.0	3.7	2.4	2.4	2.4
October GB	2.9	4.0	2.6	2.4	2.4	2.4
Contribution to U.S. real GDP growth (percentage points)						
U.S. net exports	0.4	1.4	0.1	0.7	0.3	0.1
October GB	0.4	1.3	0.0	0.6	0.2	0.0

Note. Change for year measured as Q4/Q4; half-years are Q2/Q4 or Q4/Q2.

Oil prices have been quite volatile since we completed the October Greenbook. Spot prices spiked to record highs and then reversed course to register little net change. Futures prices for delivery in 2009, however, have moved up about \$8 per barrel. Over the same period, the nominal trade-weighted exchange value of the dollar has declined about ½ percent. Accordingly, our starting point for the broad real dollar is a bit lower than in the previous projection, and we continue to project modest further depreciation.

For the first quarter of next year, we expect core import prices to rise at a 2¼ percent pace, pushed up by the recent decline of the dollar, and then to decelerate to less than a 1 percent pace as the dollar's effect quickly wanes. The subdued inflation outlook reflects the projected slowing of the rate of depreciation of the dollar and, consistent with futures markets, the basically flat path for commodities prices. Compared with the October Greenbook, this forecast is little changed, as the effect of the lower value of the dollar is offset by the lower path of commodity prices.

Staff Projections of Selected Trade Prices

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

Trade category	2007		Projection			
	H1	Q3	2007: Q4	2008		2009
				H1	H2	
<i>Imports</i>						
Core goods	3.1	2.8	2.5	1.5	0.8	0.9
October GB	3.1	2.9	2.7	1.5	0.8	0.7
Oil (dollars per barrel)	63.84	70.33	82.40	83.56	82.04	80.32
October GB	63.84	70.56	81.92	78.19	75.15	71.80
<i>Exports</i>						
Core goods	6.7	4.4	5.5	1.5	0.7	0.8
October GB	6.7	3.1	2.4	1.0	0.5	0.7

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

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

We project that core export prices will rise at an annual rate of 5½ percent in the current quarter, a pace faster than in the third quarter and well above the rate in the previous forecast. Core export prices rose surprisingly sharply in October; soaring prices for agricultural products and higher prices for petroleum products accounted for most of the increase, but prices for finished goods also rose moderately.

Over the next several quarters, we project that core export price inflation will slow, leveling out at an annual rate below 1 percent in the second half of next year. The slowing is due primarily to the waning effects of the recent increases in prices for oil and various agricultural products. Further out, core export prices rise at the low rate of inflation projected for domestically produced goods.

Trade in Goods and Services

Real net exports added more than 1¼ percentage points to U.S. GDP growth in the third quarter, as exports surged and imports increased only moderately. In the current quarter, we project that real net exports will contribute 0.1 percentage point to GDP growth as exports decelerate to a still-robust pace. Net exports are expected to add ½ percentage point to growth in 2008 and a little less than ¼ percentage point in 2009, as exports continue to grow strongly and imports gradually accelerate. These contributions are about 0.1 percentage point more positive than in the October Greenbook; they reflect a higher forecast for exports because of the weaker dollar and a lower forecast for imports because of the downward revision to the projection for U.S. growth.

Real exports of goods and services are estimated to have shot up at an annual rate of 19 percent in the third quarter, led by strong increases in exports of automotive products, aircraft, and agricultural goods. In the current quarter, we expect export growth to fall to a still-robust rate of 7½ percent, as the growth of core exports declines to a pace more consistent with foreign GDP growth and relative prices. Exports of computers are also projected to decelerate after strong growth in the third quarter. In contrast, exports of services and semiconductors are expected to bounce back from relatively weak growth in the third quarter.

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

Measure	2007		Projection			
	H1	Q3	2007: Q4	2008		2009
				H1	H2	
Real exports	4.3	18.9	7.4	7.0	6.9	6.7
October GB	4.3	16.9	7.7	7.1	6.7	6.3
Real imports	0.5	4.3	4.3	0.7	3.5	4.1
October GB	0.5	3.5	5.3	1.7	3.7	4.5

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

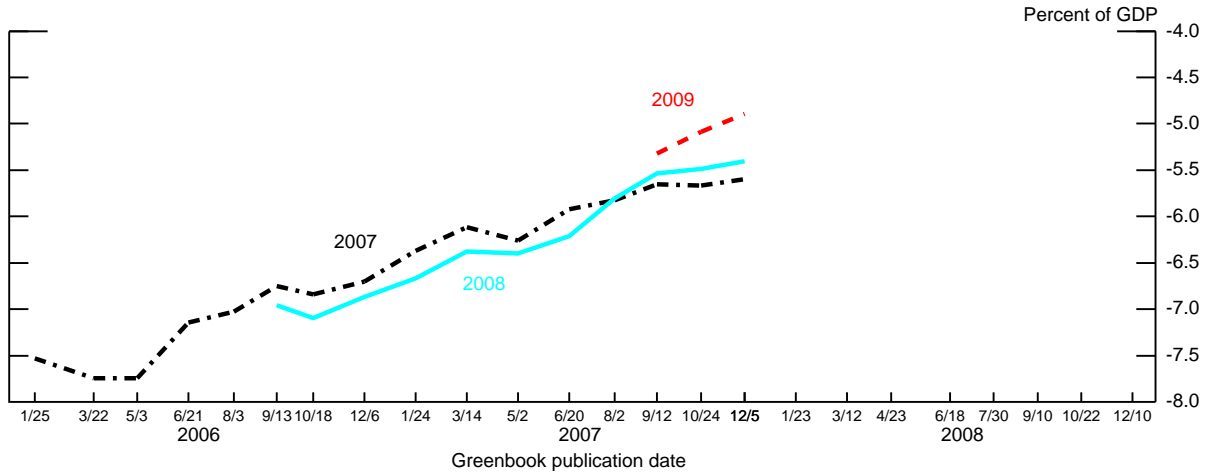
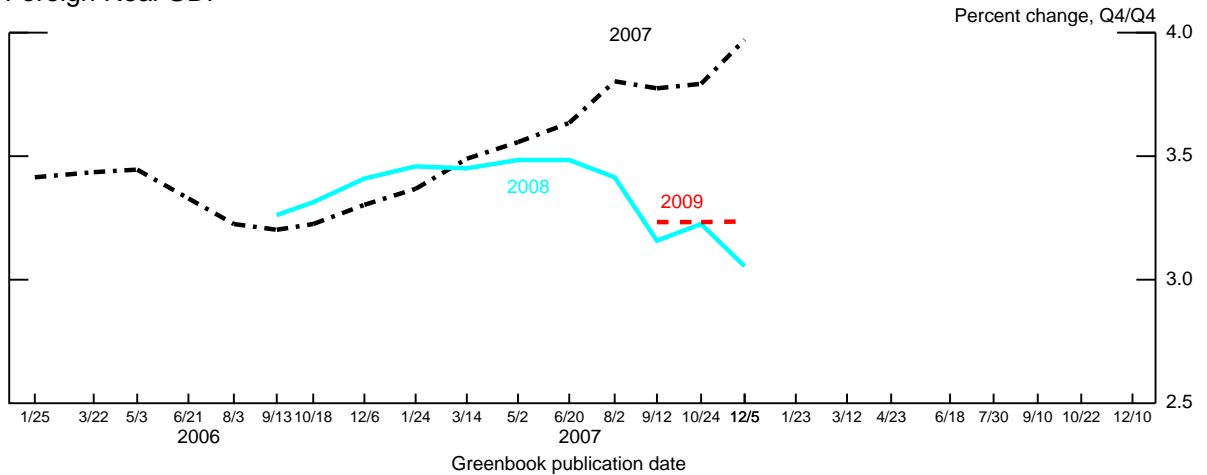
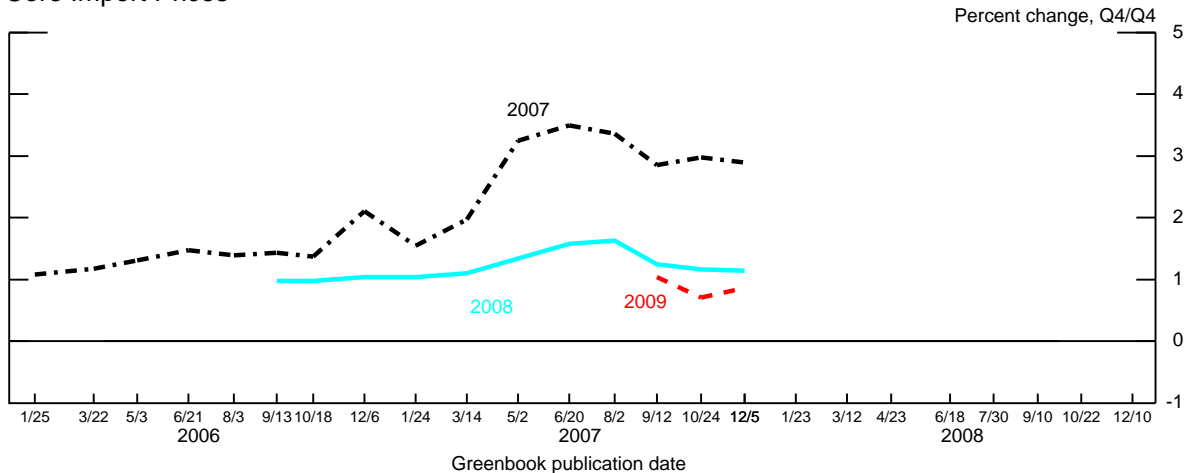
Export growth is anticipated to moderate over the course of 2008 and 2009. Exports of core goods are projected to remain strong throughout the forecast period, supported by past dollar depreciation and continued solid foreign GDP growth. However, exports of

Alternative Scenarios
10 Percent Dollar Depreciation and Disorderly Correction
(Percent change from previous period, annual rate, except as noted)

Indicator and simulation	2008		2009	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	1.0	1.6	2.0	2.1
10 percent dollar depreciation	1.2	2.2	2.6	2.4
Disorderly dollar correction	0.9	1.5	2.0	2.1
<i>U.S. core PCE prices</i>				
Baseline	2.0	1.9	1.9	1.9
10 percent dollar depreciation	2.3	1.9	2.0	2.0
Disorderly dollar correction	2.3	1.9	2.0	1.9
<i>U.S. federal funds rate (percent)</i>				
Baseline	4.25	4.25	4.25	4.0
10 percent dollar depreciation	4.45	4.85	5.15	5.1
Disorderly dollar correction	4.35	4.35	4.35	4.1
<i>U.S. trade balance (percent of GDP)</i>				
Baseline	-5.1	-4.6	-4.5	-4.2
10 percent dollar depreciation	-5.4	-4.6	-4.3	-3.9
Disorderly dollar correction	-5.3	-4.5	-4.1	-3.6

NOTE. Half-year changes are measured as Q2/Q4 or Q4/Q2. The federal funds rate is the average rate for the final quarter of the period. 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) December 5, 2007

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

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

Total foreign	0.4	3.1	3.0	3.8	3.9	3.9	4.0	3.1	3.2
Advanced Foreign Economies	0.9	2.5	1.8	2.5	2.8	2.5	2.6	1.8	2.1
of which:									
Canada	1.3	3.5	1.5	3.5	3.2	1.9	2.9	1.7	2.0
Japan	-1.7	2.0	2.4	1.1	2.8	2.4	1.3	1.5	1.5
United Kingdom	2.1	2.3	3.4	2.6	1.8	3.2	2.9	2.1	2.6
Euro Area (2)	1.0	1.1	1.2	1.6	1.9	3.3	2.2	1.7	2.1
Germany	1.1	-0.0	0.1	0.1	1.6	3.9	1.9	1.6	2.2
Emerging Market Economies	-0.4	4.0	4.8	5.6	5.4	5.8	5.8	4.8	4.8
Asia	1.1	6.4	6.9	5.9	7.5	6.7	7.7	6.1	6.2
Korea	4.7	7.7	4.2	2.9	5.7	4.0	5.3	4.3	4.2
China	7.1	8.5	10.1	9.6	10.0	10.4	11.4	9.7	9.5
Latin America	-1.3	1.6	2.4	5.3	3.1	4.9	4.0	3.4	3.5
Mexico	-1.3	2.0	2.1	4.8	2.5	4.3	3.6	3.0	3.2
Brazil	-0.7	5.0	0.8	5.0	3.1	4.7	3.7	3.9	4.0
CONSUMER PRICES (3)									

Advanced Foreign Economies	0.9	2.1	1.3	1.8	1.5	1.3	2.1	1.6	1.6
of which:									
Canada	1.1	3.8	1.7	2.3	2.2	1.3	2.6	2.0	1.9
Japan	-1.1	-0.5	-0.3	0.5	-1.0	0.3	0.1	0.3	0.5
United Kingdom (4)	1.0	1.5	1.3	1.4	2.1	2.7	2.1	2.1	2.1
Euro Area (2)	2.1	2.3	2.0	2.3	2.3	1.8	2.7	1.7	1.9
Germany	1.5	1.2	1.1	2.1	2.2	1.3	2.8	1.6	1.8
Emerging Market Economies	2.8	2.9	3.1	3.9	3.0	2.9	4.9	3.3	3.2
Asia	1.2	0.8	2.2	3.2	2.6	2.3	5.1	3.0	3.0
Korea	3.3	3.3	3.5	3.4	2.5	2.1	3.3	3.1	2.6
China	-0.1	-0.6	2.7	3.3	1.4	2.1	6.4	2.9	3.0
Latin America	5.3	6.4	4.9	5.7	3.8	4.2	4.3	4.0	3.7
Mexico	5.1	5.2	3.9	5.3	3.1	4.1	3.8	3.6	3.3
Brazil	7.5	10.7	11.5	7.2	6.1	3.2	4.2	4.2	4.0

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

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

Measure and country	2007				Projected 2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	4.0	4.6	4.5	2.8	2.9	3.0	3.1	3.2	3.2	3.2	3.2	3.2
Advanced Foreign Economies	3.6	2.3	3.0	1.7	1.6	1.7	1.9	2.0	2.0	2.1	2.1	2.1
of which:												
Canada	3.5	3.8	2.9	1.6	1.3	1.6	1.8	2.0	2.0	2.0	2.0	2.0
Japan	2.6	-1.6	2.6	1.6	1.6	1.5	1.5	1.5	1.4	1.6	1.6	1.6
United Kingdom	3.2	3.3	3.0	1.9	1.9	1.9	2.2	2.4	2.5	2.6	2.6	2.6
Euro Area (2)	3.2	1.2	2.9	1.6	1.5	1.6	1.8	2.0	2.1	2.1	2.1	2.1
Germany	2.2	1.0	2.8	1.5	1.3	1.4	1.7	2.0	2.2	2.2	2.2	2.2
Emerging Market Economies	4.6	8.0	6.4	4.3	4.7	4.7	4.9	4.9	4.9	4.9	4.8	4.8
Asia	7.2	10.6	7.3	6.0	6.0	6.1	6.2	6.2	6.2	6.2	6.2	6.2
Korea	3.6	7.4	5.4	4.7	4.3	4.4	4.4	4.3	4.3	4.3	4.2	4.2
China	14.2	14.1	8.2	9.0	9.5	9.7	10.0	9.7	9.5	9.5	9.5	9.5
Latin America	2.0	5.8	5.8	2.5	3.3	3.1	3.5	3.6	3.5	3.5	3.5	3.5
Mexico	1.2	5.7	5.9	1.8	2.9	2.7	3.2	3.4	3.3	3.3	3.2	3.2
Brazil	3.6	3.2	4.2	3.7	3.8	3.8	3.9	4.0	4.0	4.0	4.0	4.0
CONSUMER PRICES (3)	Four-quarter changes											
Advanced Foreign Economies	1.6	1.6	1.5	2.1	1.8	1.6	1.8	1.6	1.6	1.6	1.6	1.6
of which:												
Canada	1.9	2.0	2.1	2.6	2.0	1.7	2.1	2.0	2.0	1.9	1.9	1.9
Japan	-0.1	-0.0	-0.1	0.1	0.3	0.2	0.1	0.3	0.4	0.5	0.5	0.5
United Kingdom (4)	2.9	2.6	1.8	2.1	2.1	2.0	2.5	2.1	2.0	2.0	2.1	2.1
Euro Area (2)	1.9	1.9	1.9	2.7	2.6	2.4	2.4	1.7	1.8	1.8	1.8	1.9
Germany	1.9	2.0	2.2	2.8	2.4	2.2	2.1	1.6	1.7	1.7	1.7	1.8
Emerging Market Economies	3.1	3.3	4.4	4.9	4.9	4.8	3.8	3.3	3.3	3.2	3.2	3.2
Asia	2.7	3.0	4.5	5.1	5.1	4.9	3.6	3.0	3.0	3.0	3.0	3.0
Korea	2.0	2.5	2.3	3.3	3.9	3.5	3.6	3.1	2.9	2.8	2.7	2.6
China	2.8	3.6	6.1	6.4	6.2	5.6	3.4	2.9	2.9	2.8	2.9	3.0
Latin America	4.2	4.3	4.3	4.3	4.2	4.5	4.2	4.0	3.8	3.8	3.7	3.7
Mexico	4.1	4.0	4.0	3.8	3.8	4.1	3.8	3.6	3.5	3.4	3.4	3.3
Brazil	3.1	3.4	4.2	4.2	4.1	4.2	4.2	4.2	4.1	4.0	4.0	4.0

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2001	2002	2003	2004	2005	2006	----- 2007	Projected 2008	----- 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	0.6	0.5	0.1
Exports of G&S	-1.3	0.4	0.6	0.7	0.7	1.0	1.0	0.9	0.9
Imports of G&S	1.1	-1.3	-0.7	-1.7	-0.8	-0.6	-0.4	-0.4	-0.7
	Percentage change, Q4/Q4								
Exports of G&S	-11.9	3.8	5.8	7.4	7.0	9.3	8.6	7.0	6.7
Services	-8.9	10.2	3.0	8.3	4.1	8.3	5.7	6.5	4.9
Computers	-23.5	-1.1	11.3	5.8	14.0	8.2	-0.4	9.5	9.5
Semiconductors	-34.6	10.1	38.3	-6.0	17.5	2.4	16.8	11.0	11.0
Core Goods 1/	-10.2	0.6	4.9	8.0	7.5	10.2	9.9	7.0	7.2
Imports of G&S	-7.6	9.7	4.8	11.5	5.1	3.7	2.4	2.1	4.1
Services	-5.9	8.8	2.2	9.3	1.4	6.1	-0.6	0.9	3.2
Oil	3.7	3.8	1.2	10.8	1.2	-9.0	2.9	-1.1	-0.4
Natural Gas	-6.5	19.5	1.3	4.9	11.3	-13.4	-6.6	21.2	3.8
Computers	-13.6	13.2	17.0	23.2	12.2	13.6	8.2	15.5	15.5
Semiconductors	-51.1	11.0	-0.1	9.8	7.6	-0.5	6.1	5.0	5.0
Core Goods 2/	-6.5	10.0	5.2	11.4	6.0	5.9	2.5	2.1	4.7
	Billions of Chained 2000 Dollars								
Net Goods & Services	-399.1	-471.3	-518.9	-593.8	-618.0	-624.5	-562.0	-484.4	-449.2
Exports of G&S	1036.7	1013.3	1026.1	1126.1	1203.4	1304.1	1410.3	1530.1	1634.4
Imports of G&S	1435.8	1484.6	1545.0	1719.9	1821.5	1928.6	1972.2	2014.6	2083.6
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-384.7	-459.6	-522.1	-640.2	-754.8	-811.5	-774.3	-774.4	-729.0
Current Acct as Percent of GDP	-3.8	-4.4	-4.8	-5.5	-6.1	-6.2	-5.6	-5.4	-4.9
Net Goods & Services (BOP)	-365.1	-423.7	-496.9	-612.1	-714.4	-758.5	-714.6	-697.8	-640.7
Investment Income, Net	36.9	33.2	51.1	62.5	54.5	43.2	44.1	29.9	16.2
Direct, Net	115.9	102.4	112.7	139.4	152.5	174.2	208.4	245.9	266.9
Portfolio, Net	-79.0	-69.1	-61.5	-76.9	-98.1	-131.0	-164.2	-216.1	-250.7
Other Income & Transfers, Net	-56.5	-69.2	-76.3	-90.6	-94.9	-96.1	-103.8	-106.5	-104.5

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	2.9	13.2	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	-559.8	-634.7	-632.3	-733.8	-729.6	-732.9	-693.6	-863.2	-802.4	-822.4	-869.3	-751.8
Current Account as % of GDP	-4.9	-5.5	-5.4	-6.1	-6.0	-6.0	-5.5	-6.8	-6.2	-6.3	-6.6	-5.6
Net Goods & Services (BOP)	-544.1	-602.4	-626.4	-675.4	-666.6	-682.7	-723.8	-784.4	-758.8	-770.3	-797.2	-707.7
Investment Income, Net	82.2	59.4	69.2	39.2	56.2	53.5	72.8	35.3	48.3	49.2	30.0	45.3
Direct, Net	146.2	129.6	143.4	138.4	140.4	147.3	176.1	146.2	168.0	178.6	161.9	188.3
Portfolio, Net	-63.9	-70.3	-74.2	-99.2	-84.3	-93.8	-103.3	-110.9	-119.8	-129.4	-132.0	-143.0
Other Inc. & Transfers, Net	-97.8	-91.7	-75.1	-97.6	-119.2	-103.8	-42.6	-114.1	-91.8	-101.2	-102.1	-89.4

1. Merchandise exports excluding computers and semiconductors.

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

December 5, 2007

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2007				Projected				2009			
	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	0.1	0.3	1.2	0.7	-0.2	-0.1	0.7	0.5	-0.6
Exports of G&S	0.1	0.9	2.1	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.8
Imports of G&S	-0.6	0.5	-0.7	-0.7	-0.6	0.3	-0.2	-1.0	-1.0	-0.2	-0.3	-1.4
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	1.1	7.5	18.9	7.4	7.0	7.1	7.0	6.9	6.8	6.8	6.7	6.5
Services	1.6	9.6	4.0	7.9	7.2	6.6	6.2	5.8	5.3	5.0	4.7	4.4
Computers	-8.2	-17.8	19.0	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
Semiconductors	25.4	23.2	3.0	17.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Core Goods 1/	0.3	7.1	27.3	6.7	6.6	7.1	7.0	7.1	7.2	7.3	7.4	7.1
Imports of G&S	3.9	-2.7	4.3	4.3	3.3	-1.8	1.1	6.1	5.6	0.9	1.8	8.3
Services	2.3	-1.7	0.9	-3.9	-1.6	0.7	6.4	-1.7	3.0	3.3	3.3	3.3
Oil	29.6	-22.3	-18.7	36.7	12.8	-22.3	-15.0	28.2	10.8	-21.1	-16.4	34.9
Natural Gas	8.3	258.5	-16.6	-76.5	89.1	48.4	18.3	-35.0	11.9	41.6	14.4	-36.0
Computers	41.1	-13.1	-3.3	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5
Semiconductors	4.0	3.3	4.7	12.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Core Goods 2/	-2.3	-0.5	12.0	1.5	0.2	2.0	2.9	3.5	4.1	4.7	4.9	5.0
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-612.1	-573.9	-533.4	-528.5	-519.8	-485.0	-464.6	-468.4	-470.3	-448.3	-431.2	-447.2
Exports of G&S	1354.7	1379.5	1440.5	1466.4	1491.4	1517.2	1543.0	1568.9	1594.8	1621.2	1647.7	1673.8
Imports of G&S	1966.8	1953.4	1973.8	1994.9	2011.2	2002.3	2007.6	2037.3	2065.1	2069.5	2078.9	2121.0
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-788.4	-763.2	-734.7	-810.8	-826.0	-772.7	-744.0	-754.7	-753.6	-723.0	-704.5	-734.9
Current Account as % of GDP	-5.8	-5.5	-5.3	-5.8	-5.8	-5.4	-5.2	-5.2	-5.1	-4.9	-4.7	-4.9
Net Goods & Services (BOP)	-710.3	-710.7	-689.0	-748.2	-749.9	-699.1	-670.1	-672.2	-673.7	-639.5	-615.1	-634.3
Investment Income, Net	36.2	44.2	57.2	39.0	34.3	29.1	28.9	27.3	22.9	19.3	13.3	9.1
Direct, Net	191.0	198.6	215.3	228.5	239.1	242.5	248.4	253.8	257.5	263.2	269.6	277.4
Portfolio, Net	-154.8	-154.4	-158.1	-189.6	-204.7	-213.4	-219.6	-226.5	-234.6	-243.9	-256.3	-268.2
Other Inc. & Transfers, Net	-114.3	-96.6	-102.9	-101.6	-110.5	-102.8	-102.8	-109.8	-102.8	-102.8	-102.8	-109.8

1. Merchandise exports excluding computers and semiconductors.

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

Part 2

December 5, 2007

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

December 5, 2007

Recent Developments

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

Item	2007							
	Q1	Q2	Q3	Q4	Sept.	Oct.	Nov.	Dec.
U.S. production ¹	10.2	10.8	10.7	10.0	10.1	10.1	10.0	9.8
Autos	4.0	3.9	3.9	3.6	3.6	3.9	3.4	3.5
Light trucks	6.3	6.9	6.7	6.4	6.5	6.2	6.6	6.4
Days' supply ²	65	67	69	n.a.	68	69	n.a.	n.a.
Autos	60	55	59	n.a.	58	59	n.a.	n.a.
Light trucks	69	76	75	n.a.	74	76	n.a.	n.a.
Inventories ³	2.67	2.67	2.75	n.a.	2.75	2.74	n.a.	n.a.
Autos	1.01	.95	.99	n.a.	.99	.99	n.a.	n.a.
Light trucks	1.67	1.72	1.76	n.a.	1.76	1.75	n.a.	n.a.
Memo: U.S. production, total motor vehicles ⁴	10.6	11.1	10.9	10.2	10.4	10.4	10.3	10.1

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

1. Production rates for November and December reflect the latest industry schedules.

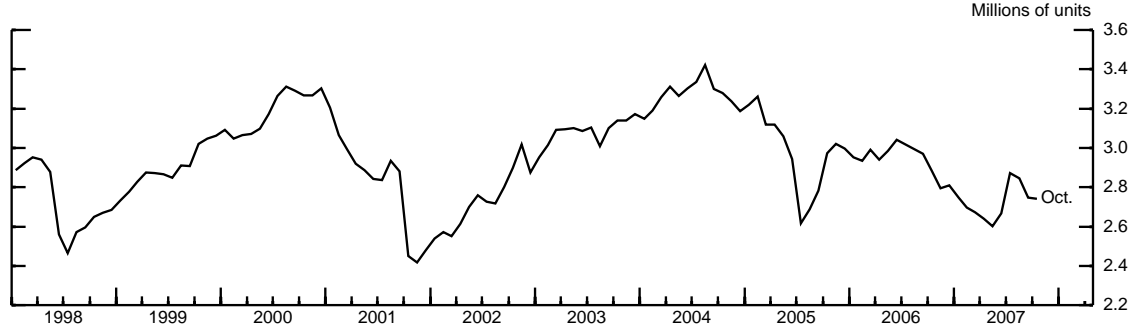
2. Quarterly values are calculated with end-of-period stocks and average reported sales.

3. End-of-period stocks.

4. Includes medium and heavy trucks.

n.a. Not available.

Inventories of Light Vehicles



Days' Supply of Light Vehicles



Broad Measures of Inflation

(Percent change, Q3 to Q3)

Measure	2004	2005	2006	2007
<i>Product prices</i>				
GDP price index	3.0	3.3	3.2	2.4
Less food and energy	2.9	3.2	3.2	2.2
Nonfarm business chain price index	2.5	3.5	3.0	1.5
<i>Expenditure prices</i>				
Gross domestic purchases price index	3.3	3.8	3.3	2.3
Less food and energy	2.9	3.0	3.0	2.1
PCE price index	2.7	3.2	2.9	2.1
Less food and energy	2.1	2.1	2.4	1.9
PCE price index, market-based components	2.3	3.1	2.7	2.0
Less food and energy	1.4	1.7	2.1	1.7
CPI	2.7	3.8	3.4	2.4
Less food and energy	1.8	2.1	2.8	2.1
Chained CPI	2.5	3.4	2.8	2.1
Less food and energy	1.7	1.8	2.6	1.8
Median CPI	2.3	2.4	3.2	2.8
Trimmed mean CPI	2.1	2.3	2.9	2.4
Trimmed mean PCE	2.4	2.4	2.8	2.2

Surveys of Inflation Expectations

(Percent)

Period	Actual CPI inflation ¹	Reuters/Michigan Survey				Professional forecasters (10 years) ⁴	
		1 year ²		5 to 10 years ³			
		Mean	Median	Mean	Median	CPI	PCE
2006:Q1	3.6	3.7	3.0	3.3	2.9	2.5	...
Q2	4.0	4.5	3.5	3.6	3.1	2.5	...
Q3	3.3	4.0	3.4	3.3	3.0	2.5	...
Q4	1.9	3.5	3.0	3.5	3.0	2.5	...
2007:Q1	2.4	3.6	3.0	3.4	2.9	2.4	2.0
Q2	2.7	4.2	3.3	3.5	3.0	2.4	2.0
Q3	2.4	4.1	3.2	3.5	3.0	2.4	2.1
Q4	n.a.	n.a.	n.a.	n.a.	n.a.	2.4	2.1
2007:July	2.4	4.2	3.4	3.6	3.1
Aug.	2.0	4.0	3.2	3.4	2.9	2.4	2.1
Sept.	2.8	4.0	3.1	3.4	2.9
Oct.	3.5	3.7	3.1	3.1	2.8
Nov.	n.a.	4.3	3.4	3.4	2.9	2.4	2.1

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?

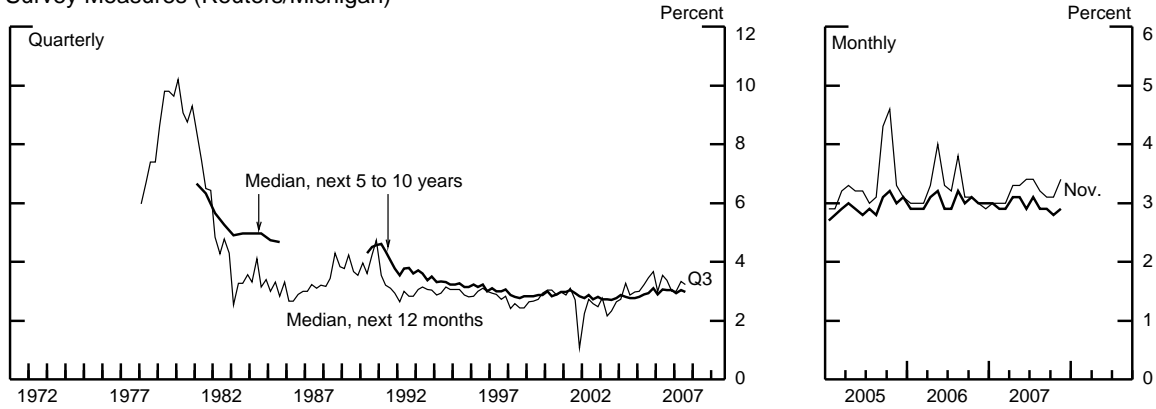
4. Median CPI and PCE price projections compiled by the Federal Reserve Bank of Philadelphia.

... Not applicable.

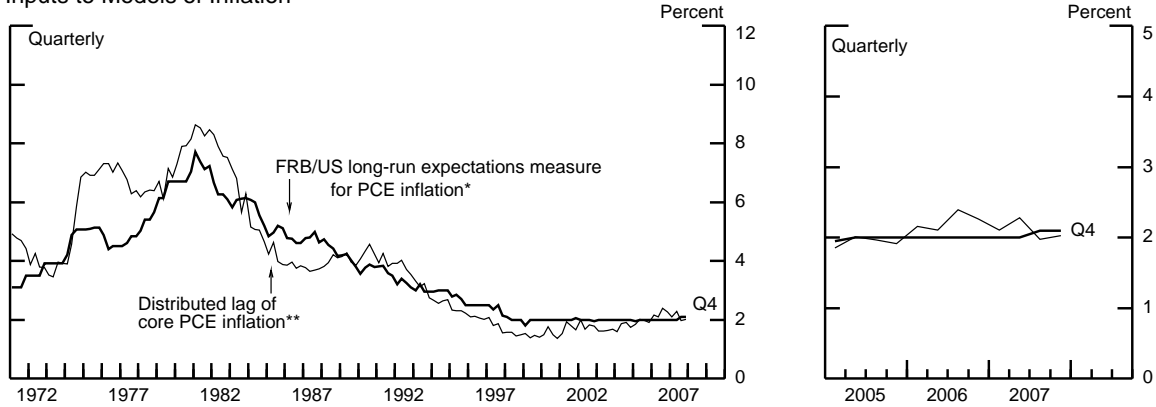
n.a. Not available.

Measures of Expected Inflation

Survey Measures (Reuters/Michigan)



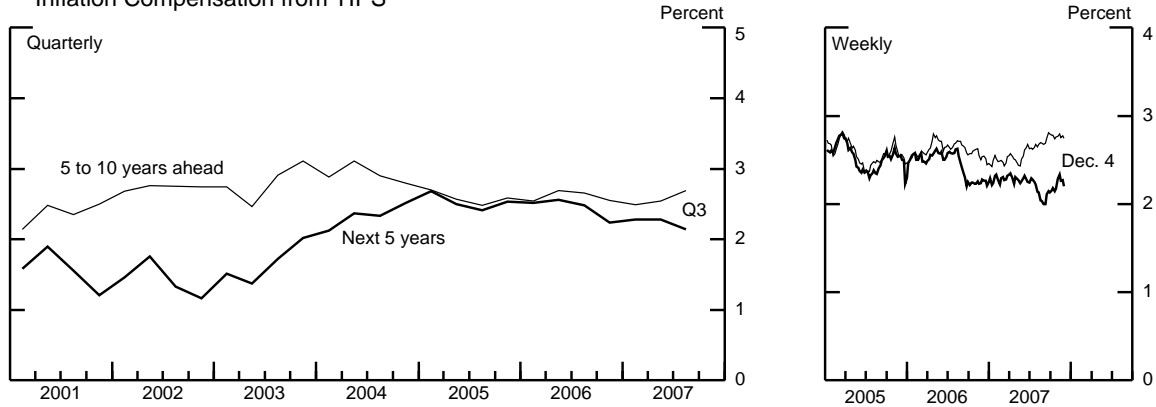
Inputs to Models of Inflation



*For 2007 forward, the median projection for PCE inflation over the next 10 years from the Survey of Professional Forecasters (SPF); for 1991 to 2006, the equivalent SPF projection for the CPI; for 1981 to 1991, a related survey for the CPI conducted by Richard Hoey; and for the period preceding 1981, a model-based estimate constructed by Board staff. The survey data before 2007 are adjusted down 0.5 percentage point to put the CPI projections approximately on a PCE basis.

**Derived from one of the reduced-form Phillips curves used by Board staff.

Inflation Compensation from TIPS



Note. Based on a comparison of an estimated TIPS yield curve with an estimated nominal off-the-run Treasury yield curve, with an adjustment for the indexation-lag effect.

State and Local Government Finance

Gross Offerings of Municipal Securities

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

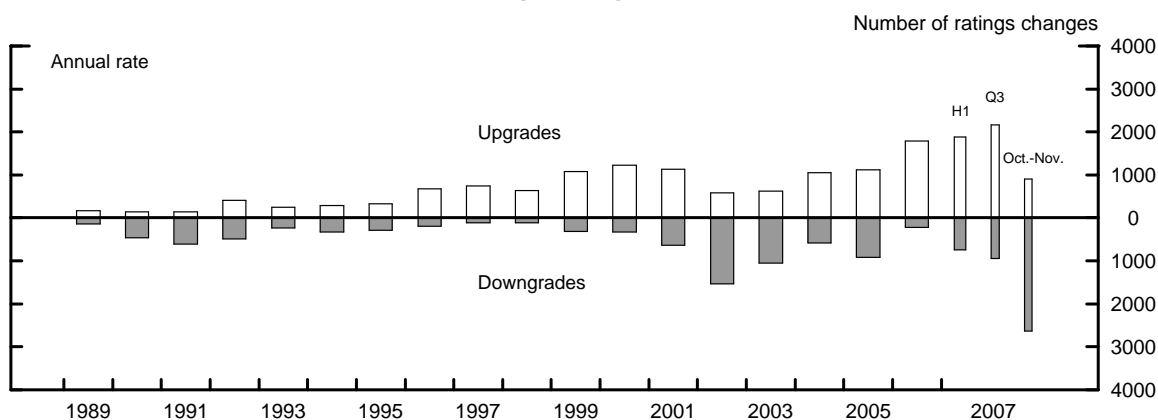
Type of security	2003	2004	2005	2006	2007			
					H1	Q3	Oct.	Nov. ^p
Total	37.9	34.7	38.4	36.1	41.8	36.2	54.2	35.0
Long-term ¹	32.0	29.8	34.1	32.5	38.4	30.6	44.4	28.0
Refundings ²	10.0	10.8	15.6	10.6	16.3	7.6	13.7	7.0
New capital	22.1	19.0	18.6	21.9	22.1	22.9	30.7	21.0
Short-term	5.8	4.9	4.2	3.7	3.4	5.7	9.8	7.0
Memo: Long-term taxable	3.5	2.0	2.1	2.5	2.2	3.0	2.4	4.0

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

p Based on preliminary data through November 29, 2007.

Ratings Changes



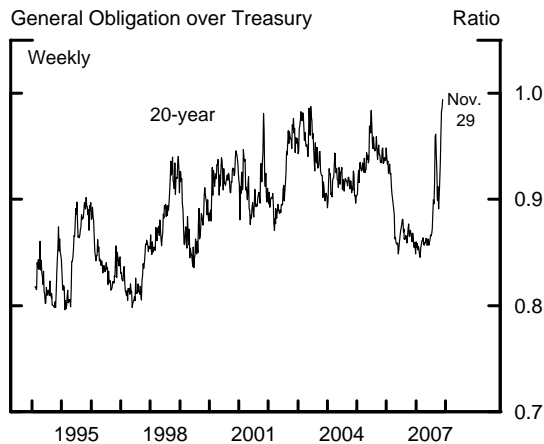
Source: S&P's Credit Week Municipal and Ratings Direct.

Five-year Credit Default Swap Premiums for Selected Financial Guarantors



Source: Markit.

Municipal Bond Yield Ratio



Source: Bond Buyer.

M2 Monetary Aggregate
(Based on seasonally adjusted data)

Aggregate and components	Percent change (annual rate) ¹							Level (billions of dollars),
	2005	2006	2007					Nov. (e)
			H1	Q2	Q3	Oct.	Nov. (e)	
M2	4.2	4.9	7.0	6.5	5.1	4.0	5.1	7,427
Components ²								
Currency	3.5	3.6	1.9	2.1	2.4	6.0	-.6	764
Liquid deposits ³	2.0	.7	6.9	7.1	2.7	.2	2.2	4,481
Small time deposits	19.4	18.5	4.1	2.6	.4	8.1	5.3	1,209
Retail money market funds	.0	12.9	16.3	13.1	26.7	15.5	23.3	967
Memo:								
Institutional money market funds	4.8	15.9	20.4	28.6	40.0	61.4	41.0	1,845
Monetary base	3.5	3.2	1.9	2.3	2.5	6.4	1.3	828

1. For years, Q4 to Q4; for quarters and months, calculated from corresponding average levels.

2. Nonbank traveler's checks are not listed.

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

e Estimated.

Commercial Bank Credit

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

Type of credit	2005	2006	H1 2007	Q3 2007	Sept. 2007	Oct. 2007	Nov. 2007 ^p	Level ¹ Nov. 2007 ^p
Total	10.4	9.7	9.3	12.4	15.8	7.2	3.3	8,688
<i>Loans²</i>								
Total	11.6	10.9	10.3	12.6	18.2	7.6	7.1	6,583
To businesses								
Commercial and industrial	13.4	16.5	10.1	24.4	44.0	31.7	13.3	1,390
Commercial real estate	16.9	13.8	11.2	6.2	7.2	3.8	5.9	1,563
To households								
Residential real estate	11.9	6.9	9.2	7.6	9.8	2.8	-6.8	1,872
Revolving home equity	13.3	1.4	1.9	6.5	10.9	13.6	10.9	476
Other	11.4	9.0	11.8	8.0	9.4	-8	-12.8	1,396
Consumer	3.1	5.9	6.5	10.5	11.5	-4.4	15.4	790
Originated ³	.7	6.9	5.2	10.3	9.2	.3	9.4	1,185
Other ⁴	8.4	11.8	14.3	19.3	22.8	-8	20.7	969
<i>Securities</i>								
Total	7.1	6.5	6.4	12.1	8.6	6.0	-8.3	2,105
Treasury and agency	1.8	2.6	-5.0	6.5	-23.1	-38.7	-19.0	1,110
Other ⁵	17.5	13.1	23.9	19.3	50.2	61.2	3.9	995

Note. Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. Data have been adjusted to remove the effects of mark-to-market accounting rules (FIN 39 and FAS 115), the consolidation of certain variable interest entities (FIN 46), the adoption of fair value accounting (FAS 159), and the effects of sizable thrift-to-bank and bank-to-thrift structure activity in October 2006, March 2007, and October 2007. Data also account for breaks caused by reclassifications.

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

2. Excludes interbank loans.

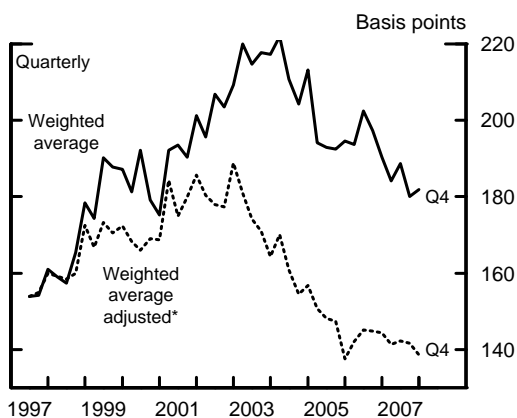
3. Includes an estimate of outstanding loans securitized by commercial banks.

4. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified.

Also includes lease financing receivables.

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

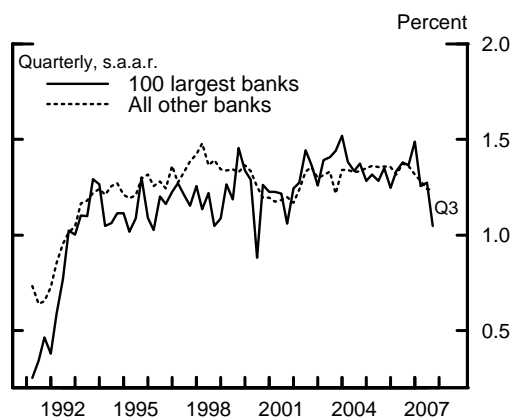
p Preliminary.

C&I Loan Rate Spreads

Note. Spreads over market interest rate on an instrument of comparable maturity on loans less than \$25 million (2006\$).

*Adjusted for changes in nonprice loan characteristics.

Source. Survey of Terms of Business Lending.

Return on Assets for Commercial Banks

Source. Call Report.

December 7, 2007

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

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

Reuters/University of Michigan Survey of Consumers
Indexes of consumer sentiment
 (Not seasonally adjusted)

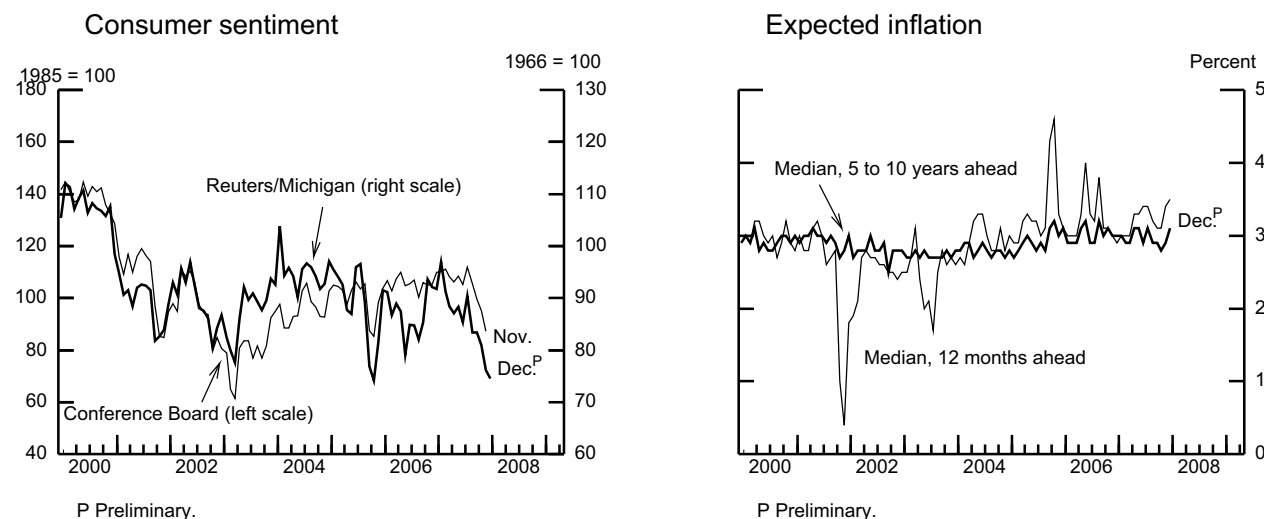
Category	2007							
	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec. ^P
Composite of current and expected conditions ¹	88.3	85.3	90.4	83.4	83.4	80.9	76.1	74.5
Current conditions ¹	105.1	101.9	104.5	98.4	97.9	97.6	91.5	92.1
Expected conditions ¹	77.6	74.7	81.5	73.7	74.1	70.1	66.2	63.2
Personal financial situation								
Now compared with 12 months ago ²	113	110	115	103	109	111	101	98
Expected in 12 months ²	125	117	125	120	119	119	115	111
Expected business conditions								
Next 12 months ²	97	94	105	87	82	78	73	65
Next 5 years ²	89	88	96	88	96	84	76	76
Appraisal of buying conditions								
Cars	124	118	125	133	139	128	117	115
Large household appliances ²	160	154	156	152	144	142	136	140
Houses	135	131	129	118	123	131	122	134
Expected unemployment change - next 12 months	120	125	123	131	127	130	128	138
Prob. household will lose a job - next 5 years	19	23	21	24	21	21	19	22
Expected inflation - next 12 months								
Mean	4.3	4.2	4.2	4.0	4.0	3.7	4.3	4.5
Median	3.3	3.4	3.4	3.2	3.1	3.1	3.4	3.5
Expected inflation - next 5 to 10 years								
Mean	3.7	3.3	3.6	3.4	3.4	3.1	3.4	3.6
Median	3.1	2.9	3.1	2.9	2.9	2.8	2.9	3.1

Note. Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall, plus 100.

P Preliminary.

1. Feb. 1966 = 100.

2. Indicates the question is one of the five equally-weighted components of the index of sentiment.



Commercial Bank Credit

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

Type of credit	2004	2005	H1 2006	Q3 2006	Oct. 2006*	Nov. 2006* ^e	Level, ¹ Nov. 2006* ^e
Total ²	8.9	10.5	11.9	7.7	.0	6.0	7,794
<i>Loans³</i>							
Total	9.7	11.6	11.7	10.0	3.5	5.3	5,835
To businesses							
Commercial and industrial	1.2	13.2	16.4	18.9	9.1	4.6	1,162
Commercial real estate	11.7	17.1	15.6	12.9	2.2	6.9	1,408
To households							
Residential real estate	15.6	12.0	7.7	7.0	6.5	-1.9	1,726
Revolving home equity	43.8	13.3	.1	3.2	.3	4.3	449
Consumer	8.8	3.1	6.7	5.8	-10.9	9.5	725
Originated ⁴	6.0	.5	7.1	5.5	-1.6	9.6	1,113
Other ⁵	7.4	8.4	12.0	3.0	4.8	15.8	814
<i>Securities</i>							
Adjusted ²	6.6	7.6	12.8	1.1	-10.6	8.1	1,960
Reported	5.2	5.3	13.0	2.1	-12.4	10.6	2,124
Treasury and agency	4.9	.0	8.3	4.2	-27.5	-2.0	1,171
Other ⁶	5.7	13.3	19.4	-.6	7.0	26.5	953

* Adjusted to remove the effects of a consolidation of a sizable amount of thrift assets onto a commercial bank's books in October 2006.

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

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

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

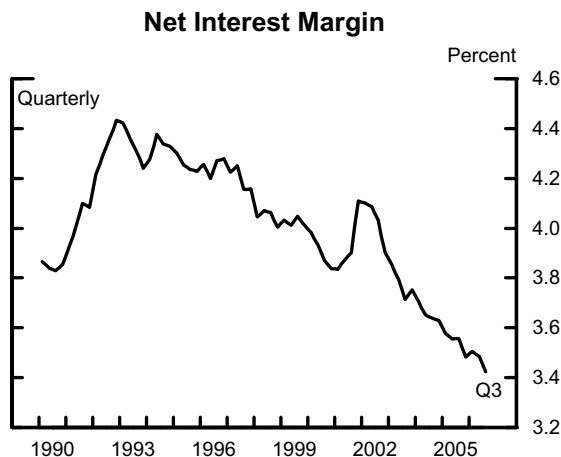
3. Excludes interbank loans.

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

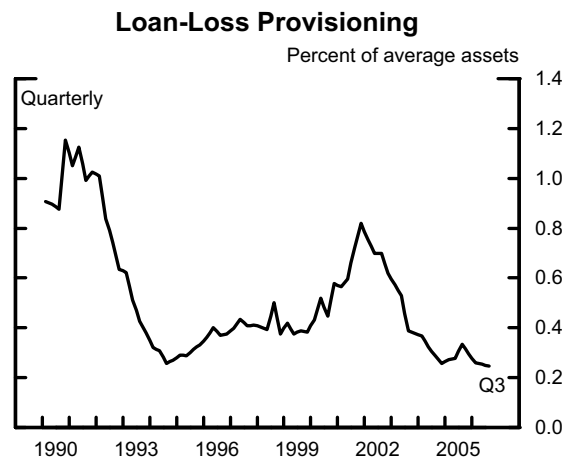
5. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

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

e Estimated.



Note. Net interest margin is net interest income divided by average interest-earning assets.
Source. Call Report.



Source. Call Report.