

## **Part 1**

August 2, 2007

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

August 2, 2007

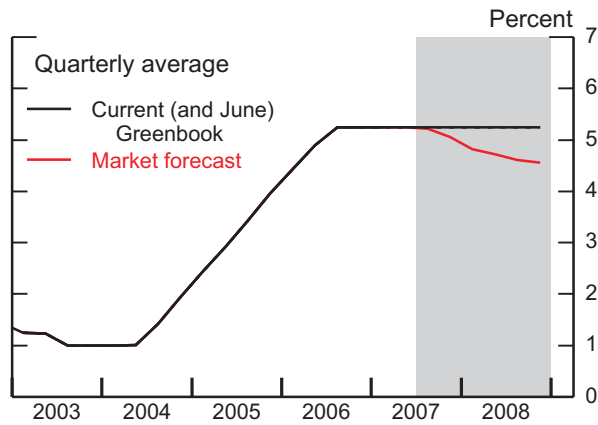
## **Summary and Outlook**

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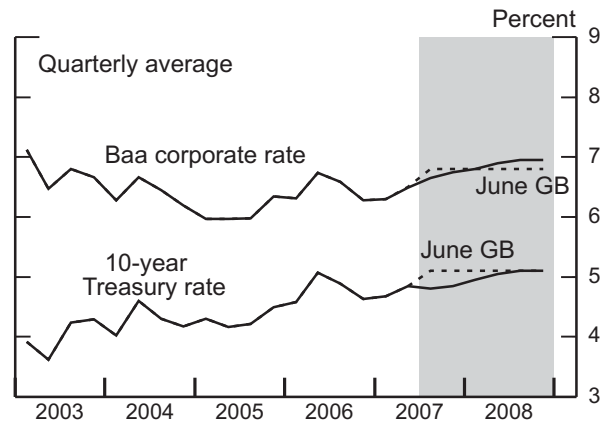
Class II FOMC -- Restricted (FR)

## Key Background Factors Underlying the Baseline Staff Projection

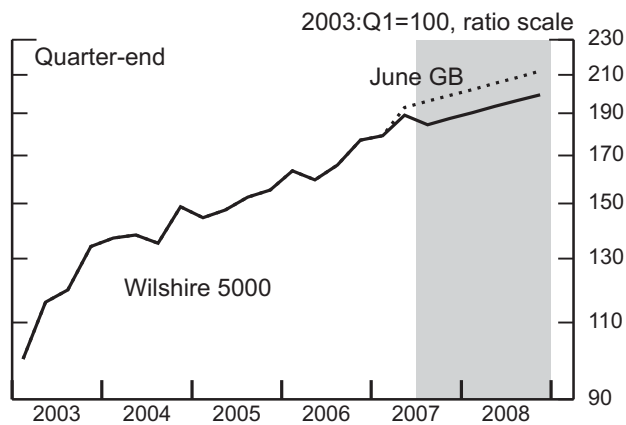
Federal Funds Rate



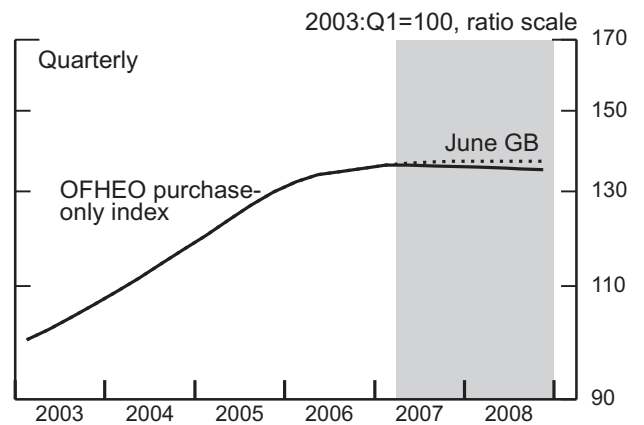
Long-Term Interest Rates



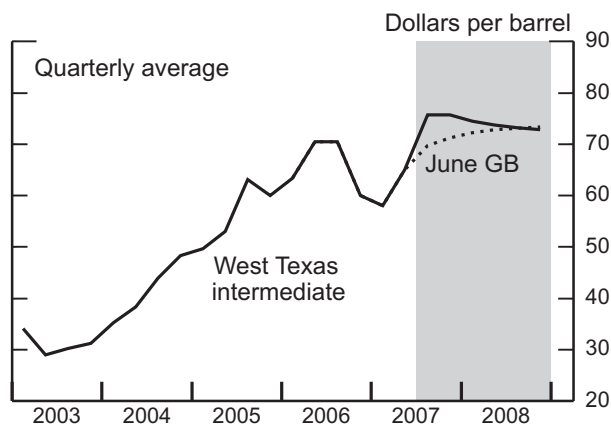
Equity Prices



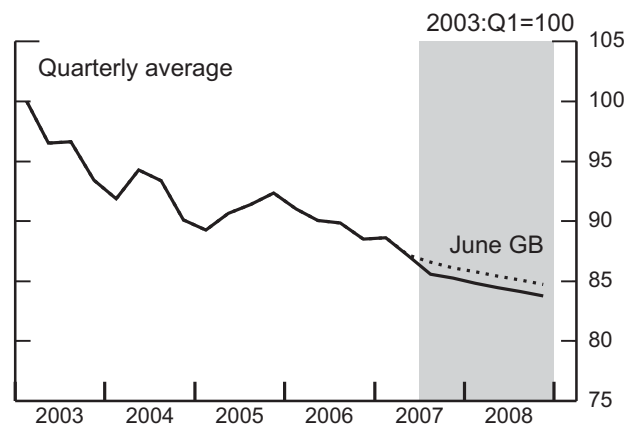
House Prices



Crude Oil Prices



Broad Real Dollar



Note. In each panel, shading represents the projection period.

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

Measure	2007:Q2		2007:Q3	
	June GB	August GB	June GB	August GB
<b>Real GDP</b>	<b>3.0</b>	<b>3.4</b>	<b>2.5</b>	<b>2.2</b>
Private domestic final purchases	.9	1.5	1.3	.7
Personal consumption expenditures	1.6	1.3	2.3	2.0
Residential investment	-12.2	-10.4	-18.3	-19.6
Business fixed investment	2.8	9.6	4.4	2.4
Government outlays for consumption and investment	4.7	4.5	3.4	3.2
	Contribution to growth (percentage points)			
Inventory investment	.3	.2	.3	.4
Net exports	1.0	1.0	.3	.5

surge in energy prices. For the third quarter, we expect the pace of real consumer spending to move up to 2 percent at an annual rate as energy price increases abate and as consumption moves more in line with the underlying fundamentals.

Housing demand appears to have deteriorated since the last Greenbook. Sales of new and existing homes were weaker than expected in June—the former especially so—and credit availability in the subprime market has tightened further. Despite the ongoing deterioration in demand, housing starts have changed little in recent months. According to the official tally from the Census Bureau, builders have made no progress in reducing their inventories of unsold new homes,

. Given the supply imbalance and our expectation of continued weakness in demand, we anticipate that builders will soon act to cut production further. In all, we project that residential investment will contract at an annual rate of 20 percent in the third quarter following the surprisingly modest decline of only 10½ percent in the second quarter.

Real investment in equipment and software (E&S) rose at an annual rate of 2¾ percent in the second quarter, held down by continued weakness in transportation outlays. Excluding the transportation sector, E&S spending in the second quarter was quite brisk, rising 9½ percent at an annual rate. Much of this increase was attributable to spending on capital goods outside of high-tech; outlays in this category posted large gains after having

**Projections of Real GDP**

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

Measure	2007		2008
	H1	H2	
<b>Real GDP</b>	<b>2.0</b>	<b>1.9</b>	<b>2.0</b>
Previous	2.0	2.3	2.5
Final sales	2.3	1.5	2.1
Previous	2.3	1.9	2.6
PCE	2.5	2.0	2.0
Previous	3.0	2.3	2.5
Residential investment	-13.4	-20.5	-4.0
Previous	-14.1	-16.7	-1.3
BFI	5.8	3.4	3.1
Previous	3.1	4.0	4.6
Government purchases	2.0	3.0	1.5
Previous	2.8	3.2	1.9
Exports	3.3	6.2	5.8
Previous	3.3	6.0	5.7
Imports	.7	2.7	3.0
Previous	1.4	3.8	3.8
Contribution to growth (percentage points)			
Inventory change	-.2	.4	-.1
Previous	-.3	.5	-.1
Net exports	.3	.2	.2
Previous	.1	.1	.0

income growth over the forecast period, so that the personal saving rate, which was revised up in the NIPA revisions, moves higher over the forecast period.

In this projection, we have factored in an estimate of the effect that developments in the subprime-mortgage market will have on consumption. In particular, most households with variable-rate subprime mortgages will face at least one interest rate reset over the next year and a half and, thus, rising debt-service costs. However, some rough figures

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

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

Measure	1974-95	1996-2000	2001-03	2004	2005	2006	2007	2008
<b>Structural labor productivity</b>	<b>1.5</b>	<b>2.5</b>	<b>3.1</b>	<b>2.4</b>	<b>2.0</b>	<b>2.0</b>	<b>1.9</b>	<b>1.8</b>
Previous	1.5	2.5	3.1	2.7	2.3	2.3	2.2	2.1
<i>Contributions<sup>1</sup></i>								
Capital deepening	.7	1.4	.7	.6	.6	.7	.6	.6
Previous	.7	1.4	.7	.6	.6	.7	.6	.6
Multifactor productivity	.5	.7	2.1	1.5	1.1	1.1	1.1	1.1
Previous	.5	.7	2.1	1.8	1.5	1.4	1.4	1.4
Labor composition	.3	.3	.3	.3	.3	.2	.2	.2
MEMO								
Potential GDP	3.0	3.3	3.0	2.3	2.2	2.2	2.2	2.2
Previous	3.0	3.3	3.0	2.6	2.5	2.6	2.6	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	2005	2006	2007	2008
Output per hour, nonfarm business	2.1	.9	1.7	2.0
Previous	2.1	1.6	2.1	2.5
Nonfarm private payroll employment	2.0	1.8	1.0	.6
Previous	2.0	1.8	1.0	.6
Household survey employment	1.9	2.1	.6	.7
Previous	1.9	2.1	.4	.7
Labor force participation rate <sup>1</sup>	66.1	66.3	66.0	65.8
Previous	66.1	66.3	65.9	65.8
Civilian unemployment rate <sup>1</sup>	5.0	4.5	4.7	4.8
Previous	5.0	4.5	4.7	4.8
MEMO				
GDP gap <sup>2</sup>	.3	.7	.4	.2
Previous	.2	.7	.3	.3

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 H1	2007 H2	2008
PCE chain-weighted price index	1.9	3.9	2.1	1.8
Previous	1.9	3.9	1.9	2.0
Food and beverages	2.3	4.7	3.3	2.2
Previous	2.3	4.6	2.6	2.2
Energy	-4.0	32.6	-.9	-1.6
Previous	-3.7	33.3	-3.3	1.2
Excluding food and energy	2.3	1.9	2.1	2.0
Previous	2.2	1.9	2.2	2.0
Consumer price index	1.9	4.9	2.2	1.9
Previous	1.9	4.9	1.9	2.2
Excluding food and energy	2.7	2.1	2.4	2.2
Previous	2.7	2.1	2.4	2.2
GDP chain-weighted price index	2.7	3.5	1.8	2.2
Previous	2.5	3.5	1.6	2.2
ECI for compensation of private industry workers <sup>1</sup>	3.2	2.9	3.8	3.9
Previous	3.2	3.1	3.8	4.0
Compensation per hour, nonfarm business sector	5.1	3.8	4.5	4.7
Previous	5.6	3.3	4.8	4.9
Prices of core nonfuel imports	2.4	3.1	3.6	1.6
Previous	2.7	3.7	3.3	1.6

1. December to December.

project productivity growth to move up from an annual rate of about 1½ percent in the first half of 2007 to an annual rate of about 2 percent over the next year and a half. We anticipate that increases in private employment will average about [65,000] per month over the forecast period, down from an average of [115,000] per month over the first half of this year. This pace of hiring causes the unemployment rate to edge up over the projection period, reaching 4¾ percent by the end of 2008.

**Prices and wages.** We project core PCE prices to rise to an annual rate of 2.1 percent in the second half of 2007 and 2 percent in 2008. As noted previously, the low readings on core inflation over the past several months have persuaded us to revise down the projection for the second half of this year despite small adverse changes in several

**Alternative Scenarios**

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

Measure and scenario	2006	2007		2008	
		H1	H2	H1	H2
<i>Real GDP</i>					
Greenbook baseline	2.6	2.0	1.9	1.9	2.1
Greater housing correction	...	2.0	1.6	1.3	1.6
With spillovers to confidence	...	2.0	1.2	.8	1.2
And with spillovers to financial markets	...	2.0	1.0	.3	.8
Flat saving rate	...	2.0	2.4	2.7	2.6
Lower NAIRU	...	2.0	2.1	2.3	2.7
Flat markup	...	2.0	1.6	1.5	1.9
Market fed fund rates	...	2.0	1.9	2.0	2.4
<i>Unemployment rate<sup>1</sup></i>					
Greenbook baseline	4.5	4.5	4.7	4.8	4.8
Greater housing correction	...	4.5	4.7	4.9	5.0
With spillovers to confidence	...	4.5	4.8	5.1	5.3
And with spillovers to financial markets	...	4.5	4.8	5.2	5.5
Flat saving rate	...	4.5	4.6	4.6	4.4
Lower NAIRU	...	4.5	4.6	4.6	4.5
Flat markup	...	4.5	4.7	4.9	5.0
Market fed fund rates	...	4.5	4.7	4.8	4.7
<i>Core PCE inflation</i>					
Greenbook baseline	2.3	1.9	2.1	2.1	2.0
Greater housing correction	...	1.9	2.1	2.1	2.0
With spillovers to confidence	...	1.9	2.1	2.1	2.0
And with spillovers to financial markets	...	1.9	2.1	2.1	2.0
Flat saving rate	...	1.9	2.1	2.1	2.0
Lower NAIRU	...	1.9	2.1	2.0	1.8
Flat markup	...	1.9	2.6	2.6	2.4
Market fed fund rates	...	1.9	2.1	2.2	2.1
<i>Federal funds rate<sup>1</sup></i>					
Greenbook baseline	5.2	5.3	5.3	5.3	5.3
Greater housing correction	...	5.3	5.2	4.9	4.6
With spillovers to confidence	...	5.3	5.0	4.5	4.0
And with spillovers to financial markets	...	5.3	5.0	4.2	3.5
Flat saving rate	...	5.3	5.6	6.0	6.3
Lower NAIRU	...	5.3	5.3	5.3	5.3
Flat markup	...	5.3	5.3	5.4	5.5
Market fed fund rates	...	5.3	5.1	4.8	4.6

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

... Not applicable.



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

Measure	2007	2008
<i>Real GDP</i> (percent change, Q4 to Q4)		
Projection	1.9	2.0
Confidence interval		
Greenbook forecast errors	1.2–2.7	.4–3.5
FRB/US stochastic simulations	1.2–2.6	.8–3.3
<i>Civilian unemployment rate</i> (percent, Q4)		
Projection	4.7	4.8
Confidence interval		
Greenbook forecast errors	4.5–4.9	4.1–5.5
FRB/US stochastic simulations	4.5–4.9	4.4–5.2
<i>PCE prices</i> <i>excluding food and energy</i> (percent change, Q4 to Q4)		
Projection	2.0	2.0
Confidence interval		
Greenbook forecast errors	1.7–2.3	1.3–2.7
FRB/US stochastic simulations	1.8–2.2	1.5–2.6
<i>Federal funds rate</i> (percent, Q4)		
Projection	5.3	5.3
Confidence interval		
FRB/US stochastic simulations	4.8–5.7	4.0–6.6

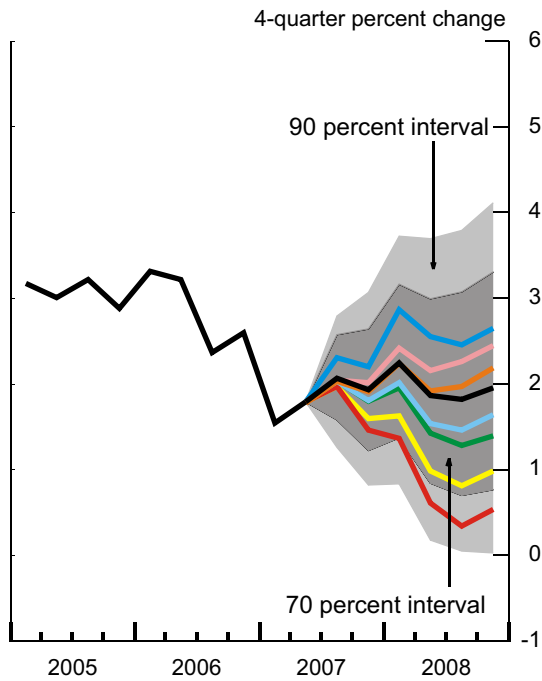
Note. Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1986-2005 set of model equation residuals. Intervals derived from Greenbook forecast errors are based on the 1986-2005 set of Greenbook historical errors.

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

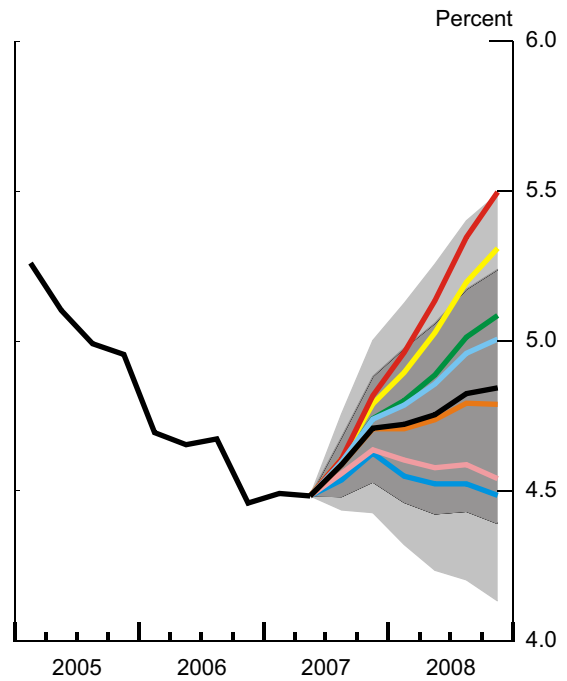
Confidence Intervals based on FRB/US Stochastic Simulations

- |                                     |   |                                   |
|-------------------------------------|---|-----------------------------------|
| ■ Greenbook baseline                | ■ GHC with spillovers to confidence and financial markets | ■ Lower NAIUR                     |
| ■ Greater housing correction (GHC)  | ■ Flat saving rate  | ■ Flat markup                     |
| ■ GHC with spillovers to confidence |   | ■ Market-based federal funds rate |

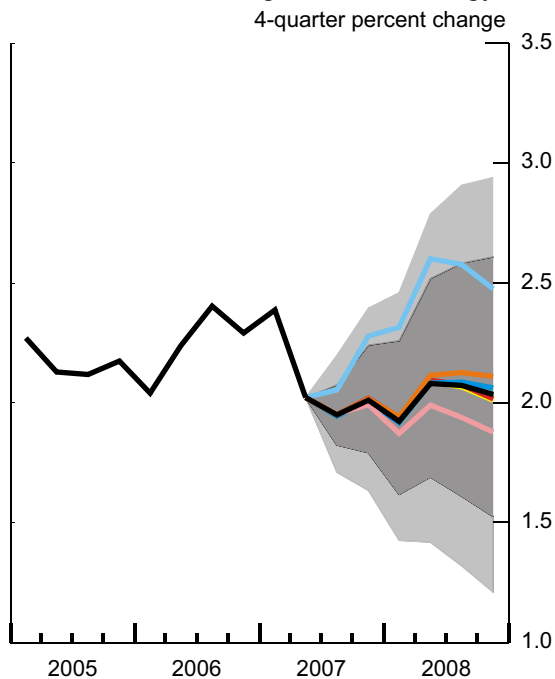
Real GDP



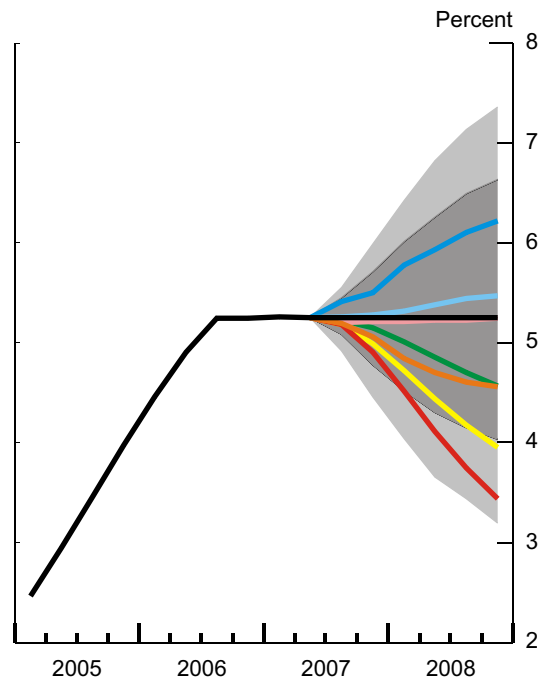
Unemployment Rate



PCE Prices excluding Food and Energy



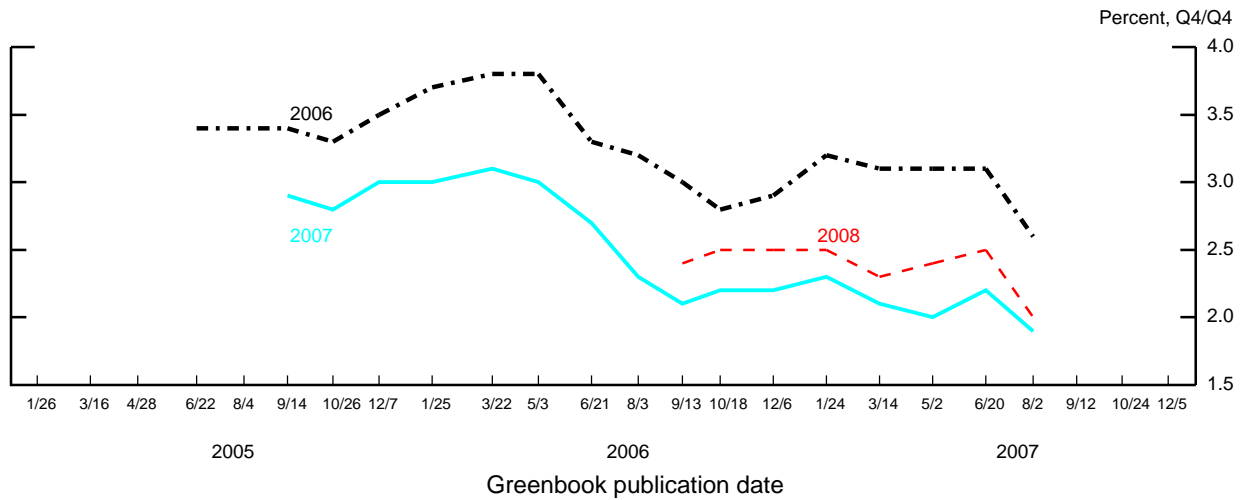
Federal Funds Rate



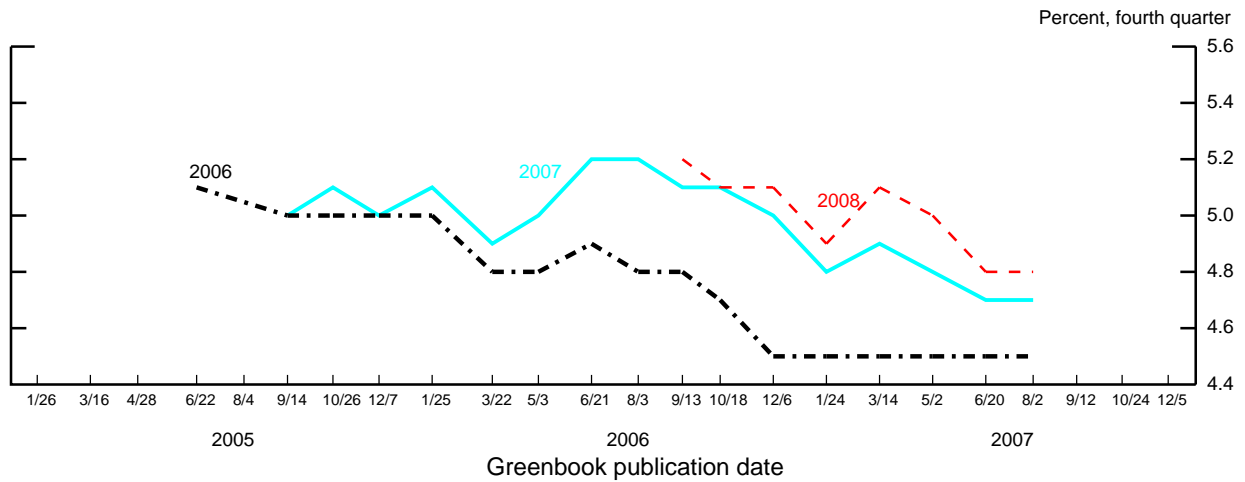
Class II FOMC - Restricted (FR)

## Evolution of the Staff Forecast

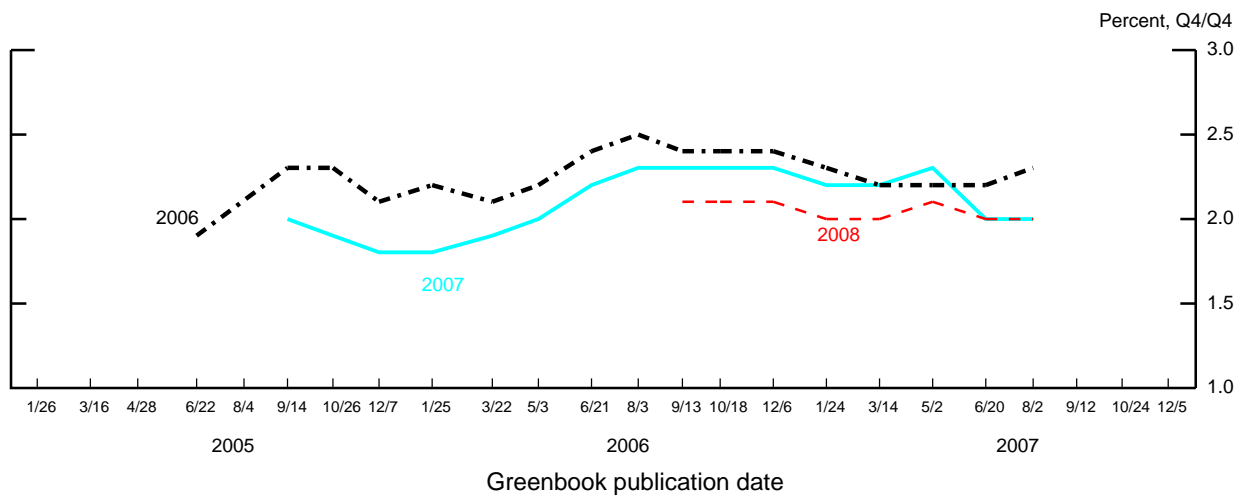
### Change in Real GDP



### Unemployment Rate



### Change in PCE Prices excluding Food and Energy



Class II FOMC  
Restricted (FR)

August 2, 2007

### Changes in GDP, Prices, and Unemployment

(Percent, annual rate except as noted)

Interval	Nominal GDP		Real GDP		PCE price index		Core PCE price index		Unemployment rate <sup>1</sup>	
	06/20/07	08/02/07	06/20/07	08/02/07	06/20/07	08/02/07	06/20/07	08/02/07	06/20/07	08/02/07
<i>Quarterly</i>										
2006:Q1	9.0	8.4	5.6	4.8	2.0	1.7	2.1	2.0	4.7	4.7
Q2	5.9	6.0	2.6	2.4	4.0	4.3	2.7	2.9	4.7	4.7
Q3	3.8	3.4	2.0	1.1	2.4	2.6	2.2	2.3	4.7	4.7
Q4	4.1	3.8	2.5	2.1	-1.0	-9	1.8	1.9	4.5	4.5
2007:Q1	5.1	4.9	1.0	.6	3.5	3.5	2.4	2.4	4.5	4.5
Q2	6.0	6.2	3.0	3.4	4.4	4.3	1.4	1.4	4.5	4.5
Q3	3.8	3.6	2.5	2.2	1.8	2.2	2.2	2.0	4.6	4.6
Q4	4.1	3.7	2.2	1.6	1.9	2.0	2.2	2.2	4.7	4.7
2008:Q1	4.8	4.1	2.5	1.8	2.0	1.7	2.1	2.1	4.7	4.7
Q2	4.9	4.2	2.5	1.9	2.1	1.9	2.1	2.1	4.8	4.8
Q3	4.7	4.3	2.5	2.0	2.0	1.9	2.0	2.0	4.8	4.8
Q4	4.6	4.3	2.5	2.1	2.0	1.9	2.0	2.0	4.8	4.8
<i>Two-quarter<sup>2</sup></i>										
2006:Q2	7.5	7.2	4.1	3.6	3.0	3.0	2.4	2.5	-3	-3
Q4	4.0	3.6	2.2	1.6	.7	.8	2.0	2.1	-2	-2
2007:Q2	5.6	5.5	2.0	2.0	3.9	3.9	1.9	1.9	.0	.0
Q4	4.0	3.7	2.3	1.9	1.9	2.1	2.2	2.1	.2	.2
2008:Q2	4.8	4.2	2.5	1.9	2.0	1.8	2.1	2.1	.1	.1
Q4	4.7	4.3	2.5	2.1	2.0	1.9	2.0	2.0	.0	.0
<i>Four-quarter<sup>3</sup></i>										
2005:Q4	6.4	6.3	3.1	2.9	3.1	3.2	2.1	2.2	-4	-4
2006:Q4	5.7	5.4	3.1	2.6	1.9	1.9	2.2	2.3	-5	-5
2007:Q4	4.8	4.6	2.2	1.9	2.9	3.0	2.0	2.0	.2	.2
2008:Q4	4.8	4.2	2.5	2.0	2.0	1.8	2.0	2.0	.2	.1
<i>Annual</i>										
2005	6.3	6.4	3.2	3.1	2.9	2.9	2.1	2.2	5.1	5.1
2006	6.3	6.1	3.3	2.9	2.7	2.8	2.2	2.2	4.6	4.6
2007	4.8	4.6	2.1	1.8	2.4	2.5	2.0	2.1	4.6	4.6
2008	4.6	4.2	2.5	2.0	2.1	2.0	2.0	2.0	4.8	4.8

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	2006				2007				2008				2006 <sup>1</sup>	2007 <sup>1</sup>	2008 <sup>1</sup>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous</i>	4.8 5.6	2.4 2.6	1.1 2.0	2.1 2.5	.6 1.0	3.4 3.0	2.2 2.5	1.6 2.2	1.8 2.5	1.9 2.5	2.0 2.5	2.1 2.5	2.6 3.1	1.9 2.2	2.0 2.5
Final sales <i>Previous</i>	5.4 5.6	2.0 2.1	1.0 1.9	3.5 3.7	1.3 1.9	3.3 2.7	1.8 2.2	1.2 1.6	1.3 2.0	2.7 3.4	2.3 2.8	1.9 2.3	3.0 3.3	1.9 2.1	2.1 2.6
Priv. dom. final purch. <i>Previous</i>	5.1 5.5	1.6 1.8	1.3 2.1	1.8 1.6	2.2 2.8	1.5 .9	.7 1.3	.9 1.5	1.2 2.2	1.8 2.6	2.2 2.8	2.2 2.8	2.4 2.7	1.3 1.6	1.9 2.6
Personal cons. expend. <i>Previous</i>	4.4 4.8	2.4 2.6	2.8 2.8	3.9 4.2	3.7 4.3	1.3 1.6	2.0 2.3	1.9 2.3	2.0 2.5	2.0 2.5	2.0 2.6	2.0 2.5	3.4 3.6	2.2 2.6	2.0 2.5
Durables	16.6	.8	5.6	3.9	8.8	1.6	.4	3.1	3.3	2.4	2.3	2.4	6.6	3.5	2.6
Nondurables	4.5	2.3	3.2	4.3	3.0	-.8	2.7	1.9	2.1	2.0	2.0	2.0	3.6	1.7	2.0
Services	2.1	2.7	2.0	3.7	3.1	2.2	1.9	1.7	1.8	1.9	2.0	2.0	2.6	2.2	1.9
Residential investment <i>Previous</i>	-.7 -.3	-11.7 -11.1	-20.4 -18.7	-17.2 -19.8	-16.3 -15.8	-10.4 -12.2	-19.6 -18.3	-21.3 -15.0	-15.9 -9.5	-4.5 -1.3	2.1 2.0	3.4 4.1	-12.8 -12.8	-17.0 -15.4	-4.0 -1.3
Business fixed invest. <i>Previous</i>	13.3 13.7	4.2 4.4	5.1 10.0	-1.4 -3.1	2.1 3.3	9.6 2.8	2.4 4.4	4.4 3.6	3.3 5.2	3.1 4.8	3.1 4.5	3.0 3.9	5.2 6.1	4.6 3.6	3.1 4.6
Equipment & software <i>Previous</i>	13.0 15.6	-.1 -1.4	2.9 7.7	-4.9 -4.8	.3 2.8	2.7 -2	2.8 5.3	5.0 4.0	4.1 5.8	3.7 5.7	3.8 5.8	3.9 5.6	2.5 4.0	2.7 2.9	3.8 5.7
Nonres. structures <i>Previous</i>	15.0 8.7	16.4 20.3	10.8 15.7	7.4 .8	6.4 4.7	26.6 10.0	1.4 2.6	3.2 2.8	1.6 3.8	1.8 2.9	1.5 1.7	1.1 .4	12.3 11.2	9.0 5.0	1.5 2.2
Net exports <sup>2</sup> <i>Previous</i> <sup>2</sup>	-640 -637	-627 -624	-634 -629	-597 -583	-612 -604	-581 -574	-565 -564	-566 -570	-569 -579	-544 -557	-538 -555	-544 -564	-624 -618	-581 -578	-549 -564
Exports	11.5	5.7	5.7	14.3	1.1	5.6	6.3	6.1	5.9	5.8	5.7	5.6	9.3	4.8	5.8
Imports	6.9	.9	5.4	1.6	3.9	-2.4	1.0	4.5	4.8	-.9	2.9	5.4	3.7	1.7	3.0
Govt. cons. & invest. <i>Previous</i>	4.9 4.9	1.0 .8	.8 1.7	3.5 3.4	-.5 1.0	4.5 4.7	3.2 3.4	2.7 2.9	1.8 2.2	1.7 2.1	1.4 1.7	1.3 1.7	2.5 2.7	2.5 3.0	1.5 1.9
Federal	8.4	-1.6	.9	7.3	-6.3	6.7	5.2	4.3	1.8	1.6	1.6	1.5	3.7	2.3	1.6
Defense	6.8	2.3	-1.5	16.9	-10.8	9.5	7.5	5.9	2.7	2.4	2.4	2.1	5.9	2.7	2.4
Nondefense	11.9	-8.8	6.0	-10.0	3.8	1.3	.6	.8	.0	.0	.0	.1	-.7	1.6	.0
State & local	2.9	2.5	.7	1.3	3.0	3.3	2.1	1.9	1.8	1.8	1.2	1.2	1.8	2.6	1.5
Change in bus. inventories <sup>2</sup> <i>Previous</i> <sup>2</sup>	38 41	51 54	54 55	17 22	0 -2	5 6	15 16	25 32	41 47	17 23	8 15	13 21	40 43	11 13	20 27
Nonfarm <sup>2</sup> Farm <sup>2</sup>	38 1	58 -5	58 -3	14 4	-6 5	-1 4	14 1	24 1	41 1	16 1	7 1	12 1	42 -1	8 3	19 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)

August 2, 2007

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

Item	2000 <sup>1</sup>	2001 <sup>1</sup>	2002 <sup>1</sup>	2003 <sup>1</sup>	2004 <sup>1</sup>	2005 <sup>1</sup>	2006 <sup>1</sup>	2007 <sup>1</sup>	2008 <sup>1</sup>
Real GDP <i>Previous</i>	2.2 2.2	.2 .2	1.9 1.9	3.7 3.7	3.1 3.4	2.9 3.1	2.6 3.1	1.9 2.2	2.0 2.5
Final sales <i>Previous</i>	2.9	1.5	.8	3.7	2.8	2.9	3.0	1.9	2.1
Priv. dom. final purch. <i>Previous</i>	2.9 4.3 4.3	1.5 1.0 1.0	.8 1.1 1.1	3.7 4.1 4.1	3.1 4.3 4.4	3.2 3.3 3.6	3.3 2.4 2.7	2.1 1.3 1.6	2.6 1.9 2.6
Personal cons. expend. <i>Previous</i>	4.1 4.1	2.8 2.8	1.9 1.9	3.4 3.4	3.7 4.0	2.8 2.9	3.4 3.6	2.2 2.6	2.0 2.5
Durables	4.7	10.8	1.2	8.3	5.6	1.2	6.6	3.5	2.6
Nondurables	3.0	1.9	2.1	3.9	3.5	3.6	3.6	1.7	2.0
Services	4.5	1.6	1.9	2.2	3.3	2.7	2.6	2.2	1.9
Residential investment <i>Previous</i>	-1.9 -1.9	1.4 1.4	7.0 7.0	11.7 11.7	6.7 6.1	6.4 9.0	-12.8 -12.8	-17.0 -15.4	-4.0 -1.3
Business fixed invest. <i>Previous</i>	7.8 7.8	-9.6 -9.6	-6.5 -6.5	4.9 4.9	7.5 6.9	5.1 5.6	5.2 6.1	4.6 3.6	3.1 4.6
Equipment & software <i>Previous</i>	7.5 7.5	-9.0 -9.0	-3.4 -3.4	6.6 6.6	9.4 8.3	7.1 7.0	2.5 4.0	2.7 2.9	3.8 5.7
Nonres. structures <i>Previous</i>	8.8 8.8	-11.1 -11.1	-14.9 -14.9	.2 .2	2.3 2.7	-3 1.8	12.3 11.2	9.0 5.0	1.5 2.2
Net exports <sup>2</sup> <i>Previous</i> <sup>2</sup>	-379 -379	-399 -399	-471 -471	-519 -519	-594 -591	-618 -619	-624 -618	-581 -578	-549 -564
Exports	6.5	-11.9	3.8	5.8	7.4	7.0	9.3	4.8	5.8
Imports	11.2	-7.6	9.7	4.8	11.5	5.1	3.7	1.7	3.0
Govt. cons. & invest. <i>Previous</i>	.4 .4	5.0 5.0	4.0 4.0	1.7 1.7	.7 1.1	.9 1.2	2.5 2.7	2.5 3.0	1.5 1.9
Federal	-2.2	6.4	7.8	5.5	2.4	1.3	3.7	2.3	1.6
Defense	-3.5	6.5	8.4	7.5	2.5	1.1	5.9	2.7	2.4
Nondefense	.3	6.3	6.8	1.9	2.3	1.9	-.7	1.6	.0
State & local	1.7	4.2	2.1	-.4	-.4	.7	1.8	2.6	1.5
Change in bus. inventories <sup>2</sup> <i>Previous</i> <sup>2</sup>	56 56	-32 -32	12 12	14 14	54 53	33 20	40 43	11 13	20 27
Nonfarm <sup>2</sup>	58	-32	15	14	48	34	42	8	19
Farm <sup>2</sup>	-1	0	-2	0	6	-0	-1	3	1

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

2. Billions of chained (2000) dollars.

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

Item	2006				2007				2008				2006 <sup>1</sup>	2007 <sup>1</sup>	2008 <sup>1</sup>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous</i>	4.8 5.6	2.4 2.6	1.1 2.0	2.1 2.5	.6 1.0	3.4 3.0	2.2 2.5	1.6 2.2	1.8 2.5	1.9 2.5	2.0 2.5	2.1 2.5	2.6 3.1	1.9 2.2	2.0 2.5
Final sales <i>Previous</i>	5.3	2.0	1.0	3.4	1.3	3.3	1.8	1.2	1.3	2.7	2.3	1.9	2.9	1.9	2.1
Priv. dom. final purch. <i>Previous</i>	5.6	2.1	1.9	3.6	1.9	2.7	2.2	1.6	.7	2.0	3.4	2.3	3.3	2.1	2.6
	4.4	1.4	1.1	1.5	1.9	1.3	.6			1.0	1.5	1.9	2.1	1.1	1.6
	4.7	1.5	1.8	1.4	2.4	.8	1.2	1.3		1.9	2.2	2.4	2.3	1.4	2.2
Personal cons. expend. <i>Previous</i>	3.0 3.4	1.6 1.8	1.9 2.0	2.7 2.9	2.6 3.0	.9 1.2	1.4 1.6	1.4 1.6	1.4 1.8	1.4 1.8	1.4 1.8	1.4 1.8	2.3 2.5	1.6 1.9	1.4 1.8
Durables	1.2	.1	.4	.3	.7	.1	.0	.2	.2	.2	.2	.2	.5	.3	.2
Nondurables	.9	.5	.6	.9	.6	-.2	.6	.4	.4	.4	.4	.4	.7	.3	.4
Services	.9	1.1	.8	1.5	1.3	.9	.8	.7	.8	.8	.8	.9	1.1	.9	.8
Residential investment <i>Previous</i>	-1 .0	-.8 -.7	-1.3 -1.2	-1.0 -1.2	-.9 -.9	-.5 -.6	-1.0 -1.0	-1.1 -.7	-.7 -.4	-.2 -.1	.1 .1	.1 .2	-.8 -.8	-.9 -.8	-.2 -.1
Business fixed invest. <i>Previous</i>	1.3 1.4	.4 .5	.5 1.0	-.2 -.3	.2 .3	1.0 .3	.3 .5	.5 .4	.3 .5	.3 .5	.3 .5	.3 .4	.5 .6	.5 .4	.3 .5
Equipment & software <i>Previous</i>	.9 1.1	.0 -1.1	.2 .6	-.4 -.4	.0 .2	.2 .0	.2 .4	.4 .3	.3 .4	.3 .4	.3 .4	.3 .4	.2 .3	.2 .2	.3 .4
Nonres. structures <i>Previous</i>	.4 .3	.5 .6	.3 .5	.2 .0	.2 .1	.8 .3	.0 .1	.1 .1	.1 .1	.1 .1	.1 .1	.0 .0	.4 .3	.3 .2	.1 .1
Net exports <i>Previous</i>	.1 .0	.5 .4	-.3 -2	1.3 1.6	-.5 -.7	1.0 1.0	.5 .3	-.1 -.2	-.1 -.3	.8 .7	.2 .1	-.2 -.4	.4 .5	.3 .1	.2 .0
Exports	1.2	.6	.6	1.5	.1	.6	.7	.7	.7	.7	.7	.7	1.0	.5	.7
Imports	-1.1	-.1	-.9	-.3	-.6	.4	-.2	-.8	-.8	.2	-.5	-.9	-.6	-.3	-.5
Govt. cons. & invest. <i>Previous</i>	.9 .9	.2 .2	.1 .3	.7 .6	-.1 .2	.9 .9	.6 .7	.5 .6	.4 .4	.3 .4	.3 .3	.3 .3	.5 .5	.5 .6	.3 .4
Federal	.6	-.1	.1	.5	-.5	.5	.4	.3	.1	.1	.1	.1	.3	.2	.1
Defense	.3	.1	-.1	.7	-.5	.4	.3	.3	.1	.1	.1	.1	.3	.1	.1
Nondefense	.3	-.2	.1	-.2	.1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
State & local	.4	.3	.1	.2	.4	.4	.3	.2	.2	.2	.2	.2	.2	.3	.2
Change in bus. inventories <i>Previous</i>	-.5 .0	.5 .4	.1 .1	-1.3 -1.2	-.7 -.9	.2 .3	.4 .3	.4 .6	.6 .5	-.8 -.8	-.3 -.3	.2 .2	-.3 -.2	.1 .1	-.1 -.1
Nonfarm	-.5	.7	.0	-1.6	-.7	.2	.5	.4	.6	-.8	-.3	.2	-.3	.1	-.1
Farm	.0	-.2	.1	.3	.0	.0	-.1	.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)

August 2, 2007

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

Item	2006				2007				2008				2006 <sup>1</sup>	2007 <sup>1</sup>	2008 <sup>1</sup>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP chain-wt. price index <i>Previous</i>	3.4	3.5	2.4	1.7	4.2	2.7	1.4	2.1	2.2	2.3	2.3	2.2	2.7	2.6	2.2
PCE chain-wt. price index <i>Previous</i>	3.3	3.3	1.9	1.7	4.1	2.9	1.3	1.9	2.2	2.3	2.2	2.1	2.5	2.5	2.2
Energy	1.7	4.3	2.6	-9	3.5	4.3	2.2	2.0	1.7	1.9	1.9	1.9	1.9	3.0	1.8
<i>Previous</i>	2.0	4.0	2.4	-1.0	3.5	4.4	1.8	1.9	2.0	2.1	2.0	2.0	1.9	2.9	2.0
Energy	-3.4	31.8	5.1	-36.6	16.1	51.5	.1	-1.9	-4.2	-1.7	-3	-2	-4.0	14.6	-1.6
<i>Previous</i>	.1	29.7	3.7	-36.0	16.1	52.9	-3.9	-2.8	1.0	1.5	1.3	.9	-3.7	13.5	1.2
Food	2.5	1.7	3.0	1.9	4.8	4.7	3.8	2.8	2.4	2.3	2.2	2.2	2.3	4.0	2.2
<i>Previous</i>	2.7	1.7	2.9	1.9	4.8	4.5	2.7	2.4	2.3	2.3	2.2	2.2	2.3	3.6	2.2
Ex. food & energy	2.0	2.9	2.3	1.9	2.4	1.4	2.0	2.2	2.1	2.1	2.0	2.0	2.3	2.0	2.0
<i>Previous</i>	2.1	2.7	2.2	1.8	2.4	1.4	2.2	2.2	2.1	2.1	2.0	2.0	2.2	2.0	2.0
CPI	1.8	5.1	3.0	-2.0	3.8	6.0	2.4	2.0	1.7	1.9	2.0	2.0	1.9	3.5	1.9
<i>Previous</i>	1.8	5.1	3.0	-2.0	3.8	6.0	1.9	1.9	2.2	2.2	2.1	2.1	1.9	3.4	2.2
Ex. food & energy	2.4	3.2	3.2	1.8	2.3	1.9	2.4	2.4	2.3	2.3	2.2	2.2	2.7	2.2	2.2
<i>Previous</i>	2.4	3.2	3.2	1.8	2.3	1.9	2.4	2.4	2.3	2.3	2.2	2.2	2.7	2.2	2.2
ECL, hourly compensation <sup>2</sup>	2.8	3.2	3.6	3.2	2.3	3.5	3.8	3.8	3.9	3.9	3.9	3.9	3.2	3.4	3.9
<i>Previous</i> <sup>2</sup>	2.8	3.2	3.6	3.2	2.3	3.8	3.8	3.8	4.0	4.0	4.0	4.0	3.2	3.4	4.0
Nonfarm business sector <sup>3</sup>															
Output per hour	2.5	.9	-1.6	1.8	.7	2.0	2.3	1.6	1.9	1.9	2.0	2.1	.9	1.7	2.0
<i>Previous</i>	3.5	1.2	-.5	2.1	1.4	2.0	2.8	2.2	2.6	2.5	2.4	2.4	1.6	2.1	2.5
Compensation per hour	7.1	-.1	1.4	12.4	3.6	4.0	4.3	4.6	4.7	4.7	4.7	4.7	5.1	4.2	4.7
<i>Previous</i>	12.9	-1.4	.6	11.2	2.7	3.9	4.7	4.9	4.9	4.8	4.9	4.8	5.6	4.0	4.9
Unit labor costs	4.4	-1.0	3.0	10.4	2.9	2.0	1.9	3.0	2.8	2.7	2.7	2.5	4.1	2.4	2.7
<i>Previous</i>	9.1	-2.5	1.1	8.9	1.3	1.8	1.9	2.6	2.2	2.3	2.4	2.3	4.0	1.9	2.3

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

2. Private-industry workers.

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



## Other Macroeconomic Indicators

Item	2006				2007				2008				2006 <sup>1</sup>	2007 <sup>1</sup>	2008 <sup>1</sup>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Employment and production</i>															
Nonfarm payroll employment <sup>2</sup>	.7	.5	.5	.5	.5	.4	.4	.2	.2	.2	.3	.2	2.3	1.5	.9
Unemployment rate <sup>3</sup>	4.7	4.7	4.7	4.5	4.5	4.5	4.6	4.7	4.7	4.8	4.8	4.8	4.5	4.7	4.8
<i>Previous<sup>3</sup></i>	4.7	4.7	4.7	4.5	4.5	4.5	4.6	4.7	4.7	4.8	4.8	4.8	4.5	4.7	4.8
GDP gap <sup>4</sup>	.9	1.0	.7	.7	.3	.6	.6	.4	.3	.3	.2	.2	.7	.4	.2
<i>Previous<sup>4</sup></i>	.9	.9	.7	.7	.3	.4	.4	.3	.3	.3	.3	.3	.7	.3	.3
Industrial production <sup>5</sup>	5.0	6.5	4.0	-1.5	1.1	2.9	2.9	2.2	2.3	2.0	2.5	3.9	3.5	2.3	2.7
<i>Previous<sup>5</sup></i>	5.0	6.5	4.0	-1.5	.8	2.8	3.2	2.4	2.8	2.4	2.9	4.1	3.5	2.3	3.1
Manufacturing industr. prod. <sup>5</sup>	5.5	5.5	4.4	-1.7	.8	3.4	4.4	1.3	1.7	2.1	2.7	3.7	3.4	2.4	2.5
<i>Previous<sup>5</sup></i>	5.5	5.5	4.4	-1.7	.7	3.3	3.6	2.1	2.5	2.7	3.1	3.9	3.4	2.4	3.1
Capacity utilization rate - mfg. <sup>3</sup>	80.1	80.6	80.9	80.1	79.8	80.1	80.5	80.4	80.2	80.1	80.1	80.3	80.1	80.4	80.3
<i>Previous<sup>3</sup></i>	80.1	80.6	80.9	80.1	79.8	80.1	80.4	80.4	80.3	80.3	80.4	80.6	80.1	80.4	80.6
Housing starts <sup>6</sup>	2.1	1.9	1.7	1.6	1.5	1.5	1.3	1.3	1.3	1.3	1.3	1.4	1.8	1.4	1.3
Light motor vehicle sales <sup>6</sup>	16.8	16.4	16.5	16.3	16.4	16.0	15.8	16.1	16.3	16.3	16.3	16.3	16.5	16.1	16.3
<i>Income and saving</i>															
Nominal GDP <sup>5</sup>	8.4	6.0	3.4	3.8	4.9	6.2	3.6	3.7	4.1	4.2	4.3	4.3	5.4	4.6	4.2
Real disposable pers. income <sup>5</sup>	4.9	.2	1.7	6.2	5.9	-.8	2.9	1.9	3.7	2.2	2.6	2.6	3.2	2.5	2.8
<i>Previous<sup>5</sup></i>	4.6	-1.5	3.2	6.4	4.6	-1.1	3.3	3.3	4.6	2.8	3.5	3.3	3.2	2.5	3.5
Personal saving rate <sup>3</sup>	.9	.3	.0	.4	1.1	.6	.8	.8	1.2	1.2	1.4	1.5	.4	.8	1.5
<i>Previous<sup>3</sup></i>	-.3	-1.4	-1.4	-.9	-.8	-1.6	-1.4	-1.1	-.6	-.6	-.3	-.1	-.9	-1.1	-.1
Corporate profits <sup>7</sup>	32.5	16.8	4.4	-14.5	4.4	8.3	.0	-.9	-2.8	.2	1.9	1.1	8.4	2.9	.1
Profit share of GNP <sup>3</sup>	11.6	11.9	12.0	11.4	11.4	11.4	11.3	11.2	11.0	10.9	10.9	10.8	11.4	11.2	10.8
Net federal saving <sup>8</sup>	-220	-240	-239	-181	-210	-210	-241	-250	-301	-302	-305	-319	-220	-228	-307
Net state & local saving <sup>8</sup>	36	43	12	8	-6	7	-18	-22	-31	-25	-37	-40	25	-10	-33
Gross national saving rate <sup>3</sup>	14.4	14.1	13.6	14.2	13.6	13.5	13.3	13.2	13.0	13.1	13.1	13.0	14.2	13.2	13.0
Net national saving rate <sup>3</sup>	2.8	2.3	1.6	1.8	1.9	1.5	1.2	1.1	.9	.9	.9	.9	1.8	1.1	.9

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

2. Change, millions.

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

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

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

5. Percent change, annual rate.

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

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

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

**Class II FOMC  
Restricted (FR)**

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

**August 2, 2007**

Item	Fiscal year				2006				2007				2008				
	2005 <sup>a</sup>	2006 <sup>a</sup>	2007	2008	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4 <sup>a</sup>	Q1 <sup>a</sup>	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Unified budget	Not seasonally adjusted																
	Receipts <sup>1</sup>	2154	2407	2567	2670	507	772	597	574	547	824	622	611	556	849	654	642
	Outlays <sup>1</sup>	2472	2655	2732	2895	691	676	639	654	725	687	665	723	733	723	716	758
	Surplus/deficit <sup>1</sup>	-318	-248	-165	-225	-184	96	-42	-80	-178	137	-44	-112	-177	127	-63	-116
	Previous	-318	-248	-170	-229	-184	96	-42	-80	-178	130	-42	-103	-208	135	-52	-103
	On-budget	-494	-435	-355	-431	-216	11	-60	-135	-212	53	-59	-182	-203	33	-78	-191
	Off-budget	175	186	190	205	32	85	19	55	34	85	16	70	26	94	16	75
	Means of financing																
	Borrowing	297	237	176	221	156	-75	43	59	152	-110	75	98	152	-97	67	111
	Cash decrease	1	-16	7	10	28	-38	-6	21	25	-19	-20	16	20	-26	0	10
Other <sup>2</sup>	21	28	-18	-6	-1	16	5	0	1	-8	-11	-2	5	-5	-5	-5	
Cash operating balance, end of period	36	52	45	35	8	46	52	31	6	25	45	29	9	35	35	25	
NIPA federal sector	Seasonally adjusted annual rates																
Receipts	2182	2437	2635	2729	2437	2472	2513	2562	2628	2668	2682	2698	2716	2738	2764	2791	
Expenditures	2511	2685	2846	3019	2656	2711	2752	2743	2838	2878	2924	2948	3017	3041	3069	3110	
Consumption expenditures	759	798	843	898	805	807	813	826	830	851	865	878	897	904	912	920	
Defense	509	533	570	612	536	540	542	562	556	574	587	597	611	617	623	629	
Nondefense	250	266	273	286	269	267	271	265	274	276	278	280	286	288	289	291	
Other spending	1752	1887	2003	2121	1851	1905	1939	1917	2008	2027	2059	2070	2120	2136	2157	2190	
Current account surplus	-329	-248	-211	-290	-220	-240	-239	-181	-210	-210	-241	-250	-301	-302	-305	-319	
Gross investment	108	117	120	127	117	120	119	123	117	119	122	125	126	127	128	129	
Gross saving less gross investment <sup>3</sup>	-339	-262	-222	-303	-233	-255	-252	-197	-218	-219	-254	-264	-315	-315	-318	-331	
Fiscal indicators <sup>4</sup>																	
High-employment (HEB) surplus/deficit	-337	-292	-251	-319	-268	-296	-284	-232	-242	-249	-283	-286	-332	-329	-328	-340	
Change in HEB, percent of potential GDP	-0.3	-0.5	-0.4	0.4	-0.4	0.2	-0.1	-0.4	0.0	0.0	0.2	-0.0	0.3	-0.0	-0.0	0.1	
Fiscal impetus (FI), percent of GDP	0.2	0.3	0.2	0.2	0.2	0.0	0.0	0.1	-0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	
Previous	0.2	0.3	0.2	0.2	0.2	-0.0	0.0	0.1	0.0	0.1	0.1	0.1	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** **August 2, 2007**  
(Percent)

Period <sup>1</sup>	Total	Households			Business	State and local governments	Federal government	Memo: Nominal GDP
		Total	Home mortgages	Consumer credit				
<i>Year</i>								
2001	6.3	9.3	10.1	8.6	5.9	8.8	-2	2.7
2002	7.2	10.6	12.9	5.9	2.5	11.0	7.6	3.6
2003	8.2	11.6	14.4	5.2	2.6	8.3	10.9	5.9
2004	9.0	11.6	14.2	5.5	5.8	7.4	9.0	6.5
2005	9.4	11.5	13.4	4.2	7.6	10.2	7.0	6.3
2006	8.1	8.7	9.3	4.5	9.6	8.2	3.9	5.4
2007	6.5	5.3	5.3	3.9	8.8	9.3	4.4	4.6
2008	5.3	4.4	4.6	2.8	6.4	7.4	4.6	4.2
<i>Quarter</i>								
2006:1	8.9	9.3	10.6	2.2	10.0	3.3	8.0	8.4
2	7.5	9.2	9.5	6.0	8.8	6.7	1.0	6.0
3	6.9	7.9	8.6	5.4	7.0	8.2	3.6	3.4
4	8.2	7.2	7.3	4.1	11.4	13.6	2.8	3.8
2007:1	7.2	6.0	6.2	4.5	9.0	8.6	6.7	4.9
2	6.3	5.4	5.4	4.1	10.7	11.5	-1.4	6.2
3	6.2	4.8	4.8	3.5	7.5	8.1	6.3	3.6
4	5.7	4.6	4.6	3.3	6.7	7.9	5.8	3.7
2008:1	5.2	4.4	4.5	3.0	6.3	7.4	4.0	4.1
2	4.9	4.4	4.5	2.8	6.5	7.2	2.0	4.2
3	5.3	4.3	4.5	2.7	6.2	7.1	5.3	4.3
4	5.5	4.3	4.5	2.6	6.1	7.0	6.7	4.3

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2007:Q1 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

**Class II FOMC Restricted (FR)** **Flow of Funds Projections: Highlights** **August 2, 2007**  
(Billions of dollars at seasonally adjusted annual rates except as noted)

Category	2005	2006	2007	2008	2006				2007				2008			
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<i>Domestic nonfinancial sectors</i>																
Net funds raised																
Total	1911.7	1542.5	1243.8	1284.6	1374.5	1584.5	1496.9	1121.3	1250.5	1106.5	1231.7	1172.6	1327.7	1406.6		
Net equity issuance	-363.4	-606.1	-626.7	-337.0	-534.0	-719.2	-584.8	-730.0	-580.0	-612.0	-352.0	-332.0	-332.0	-332.0		
Net debt issuance	2275.1	2148.6	1870.5	1621.6	1908.5	2303.7	2081.7	1851.3	1830.5	1718.5	1583.7	1504.6	1659.7	1738.6		
Borrowing indicators																
Debt (percent of GDP) <sup>1</sup>	204.6	209.6	215.0	218.6	210.4	212.4	213.9	214.3	215.7	216.9	217.7	218.2	218.6	219.2		
Borrowing (percent of GDP)	18.3	16.3	13.6	11.3	14.4	17.2	15.4	13.5	13.2	12.3	11.2	10.5	11.5	11.9		
Households																
Net borrowing <sup>2</sup>	1215.2	1021.6	678.3	594.6	973.9	906.8	766.8	698.7	636.5	611.3	593.3	595.1	593.0	596.9		
Home mortgages	1051.8	828.4	517.3	466.9	806.5	695.2	598.0	528.2	481.0	462.1	462.1	466.9	466.9	471.6		
Consumer credit	94.4	104.8	94.5	70.8	127.3	99.6	109.3	100.0	86.5	82.2	74.8	71.9	69.2	67.4		
Debt/DPI (percent) <sup>3</sup>	123.1	127.8	129.2	129.5	128.9	129.6	128.8	129.5	129.5	129.8	129.5	129.6	129.5	129.5		
Business																
Financing gap <sup>4</sup>	-127.4	167.4	182.7	229.4	155.5	310.8	184.7	160.2	179.2	206.7	239.0	222.4	220.0	236.1		
Net equity issuance	-363.4	-606.1	-626.7	-337.0	-534.0	-719.2	-584.8	-730.0	-580.0	-612.0	-352.0	-332.0	-332.0	-332.0		
Credit market borrowing	581.7	791.3	789.8	631.9	606.5	995.9	815.9	988.3	709.9	645.0	622.3	645.1	629.5	630.9		
State and local governments																
Net borrowing	171.4	152.3	187.1	161.7	156.6	264.5	172.3	235.7	170.7	169.7	161.7	161.7	161.7	161.7		
Current surplus <sup>5</sup>	222.5	243.5	178.2	166.3	234.1	232.1	177.7	193.7	171.0	170.3	164.3	172.7	164.0	164.2		
Federal government																
Net borrowing	306.9	183.4	215.3	233.4	171.4	136.5	326.7	-71.5	313.4	292.5	206.5	102.7	275.6	349.1		
Net borrowing (n.s.a.)	306.9	183.4	215.3	233.4	43.4	58.7	152.2	-110.3	75.3	98.0	152.3	-96.7	67.1	110.7		
Unified deficit (n.s.a.)	321.8	209.2	196.8	229.3	41.7	80.4	178.0	-137.5	43.9	112.4	177.3	-126.8	62.6	116.2		
<i>Depository institutions</i>																
Funds supplied	814.1	748.7	443.4	299.2	386.9	600.9	473.6	648.8	548.8	102.3	118.7	398.7	315.7	363.8		

Note. Data after 2007: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

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

Indicator	2006	2007: Q1	Projection		
			2007		2008
			Q2	H2	
Foreign output	3.9	3.9	4.2	3.6	3.4
June GB	3.9	3.7	3.8	3.6	3.5
Foreign CPI	2.1	2.9	3.0	2.7	2.3
June GB	2.1	2.8	2.7	2.5	2.3
Contribution to growth (percentage points)					
U.S. net exports	.4	-.5	1.0	.2	.2
June GB	.5	-.7	1.0	.1	.0

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

**Oil Prices**

The spot price of West Texas intermediate (WTI) crude oil closed at \$76.54 on August 1, up sharply from the time of the June Greenbook. Futures prices for delivery of WTI over the near term also rose, but prices further out were little changed compared with those in the June Greenbook. As a result, the futures curve now slopes downward throughout the projection period. Informed by futures prices, we project that the price of imported oil will peak next quarter at \$71.57 per barrel and then gradually decline to about \$68 by the end of next year. Relative to the June Greenbook, this projection is about \$3.50 per barrel higher in the second half of this year but less than \$1 lower by the final quarter of 2008.

Against the backdrop of continued OPEC supply restraint, the recent rise in near-term prices partly reflects temporary supply disruptions in the North Sea. In addition, as inventories of WTI have run off, the spot price of WTI relative to the price of other grades of crude oil has moved back up. The broader picture continues to be one of a tight market. With global oil demand expected to remain strong in the second half of this year, crude oil inventories could decline rapidly if OPEC does not increase production. The risk of further supply disruptions in Iraq, Iran, Nigeria, and Venezuela also continues to support oil prices.

inflation is expected to hit 4½ percent in the current quarter, boosted by a sharp increase in food prices. We assume that Chinese authorities will take action to restrain food price inflation if necessary, possibly including restricting the production of ethanol, which has contributed directly to higher corn prices and indirectly to higher meat prices. Chinese inflation is thus expected to drop to 2¾ percent by the end of 2008.

### Prices of Internationally Traded Goods

Core import price inflation picked up to a 3½ percent annual rate in the second quarter, largely because of an acceleration of prices for imported industrial supplies, particularly metals, and continued increases in the prices of imported food. In the third quarter, we expect core import price inflation to rise further, in part reflecting the recent depreciation of the dollar. Thereafter, core import prices decelerate as commodity prices level off and the pace of dollar depreciation slows. Data for the second quarter came in about 1 percentage point lower than we had expected in the June Greenbook, but our forecast is up ¼ percentage point in the second half of this year owing to the recent depreciation of the dollar.

### Staff Projections of Selected Trade Prices

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

Indicator	2006	2007: Q1	Projection		
			2007		2008
			Q2	H2	
<i>Imports</i>					
Core goods	2.4	2.7	3.6	3.6	1.6
June GB	2.7	2.8	4.5	3.3	1.6
Oil (dollars per barrel)	55.33	54.39	63.78	71.57	68.38
June GB	55.33	54.39	63.24	68.32	68.79
<i>Exports</i>					
Core goods	4.3	6.0	7.0	3.4	1.5
June GB	4.2	5.9	6.0	3.2	1.2

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.

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

Measure	2006	2007: Q1	Projection		
			2007		2008
			Q2	H2	
Real imports	3.7	3.9	-2.4	2.7	3.0
June GB	3.3	5.4	-2.4	3.8	3.8
Real exports	9.3	1.1	5.6	6.2	5.8
June GB	9.4	1.2	5.4	6.0	5.7

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

We estimate that real exports of goods and services rose 5½ percent at an annual rate in the second quarter, significantly higher than the 1 percent pace in the first quarter but similar to our projection in the June Greenbook. Exports of both services and core goods accelerated, increasing 7¼ percent and 5 percent respectively. Compared with the depressed rate of growth recorded for both categories in the first quarter, this quicker pace was more in line with foreign activity and relative prices. However, falling real exports of computers held down overall export growth slightly last quarter.

Given the recent depreciation of the dollar and our expectations of solid foreign growth, we project that the growth of real exports of goods and services will improve further in the second half of the year, to 6¼ percent. Because services respond rapidly to dollar movements, exports of services are expected to increase 8 percent in the second half of 2007, almost double the first-half pace. In 2008, however, exports of services are anticipated to decelerate as the effect of the recent dollar movement fades. This deceleration will cause total export growth to shift down to 5¾ percent next year, even as favorable relative prices lead core export growth to edge up and overseas sales of high-tech goods expand. Compared with the June Greenbook, the current projection is a touch higher, mostly because of the weaker dollar.

### Alternative Simulations

Our baseline forecast projects a modest depreciation of the broad real dollar, but the dollar's recent weakness may presage a considerably larger decline. We use the FRB/Global model to examine the effects of a risk-premium shock in the third quarter of 2007 that would generate a 10 percent depreciation of the dollar in the absence of an

**Alternative Simulation:  
10 Percent Dollar Depreciation**

(Percent change from previous period, annual rate, except as noted)

Indicator and simulation	2007		2008	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	2.0	1.9	1.9	2.1
Low pass-through	2.0	2.3	2.8	2.7
High pass-through	2.0	2.4	3.1	2.7
<i>U.S. core PCE inflation</i>				
Baseline	1.9	2.1	2.1	2.0
Low pass-through	1.9	2.4	2.1	2.1
High pass-through	1.9	2.6	2.2	2.1
<i>U.S. federal funds rate (percent)</i>				
Baseline	5.3	5.3	5.3	5.3
Low pass-through	5.3	5.5	6.1	6.5
High pass-through	5.3	5.7	6.5	7.0
<i>U.S. trade balance (percent of GDP)</i>				
Baseline	-5.2	-5.3	-5.2	-4.9
Low pass-through	-5.2	-5.5	-5.0	-4.5
High pass-through	-5.2	-5.8	-5.2	-4.5

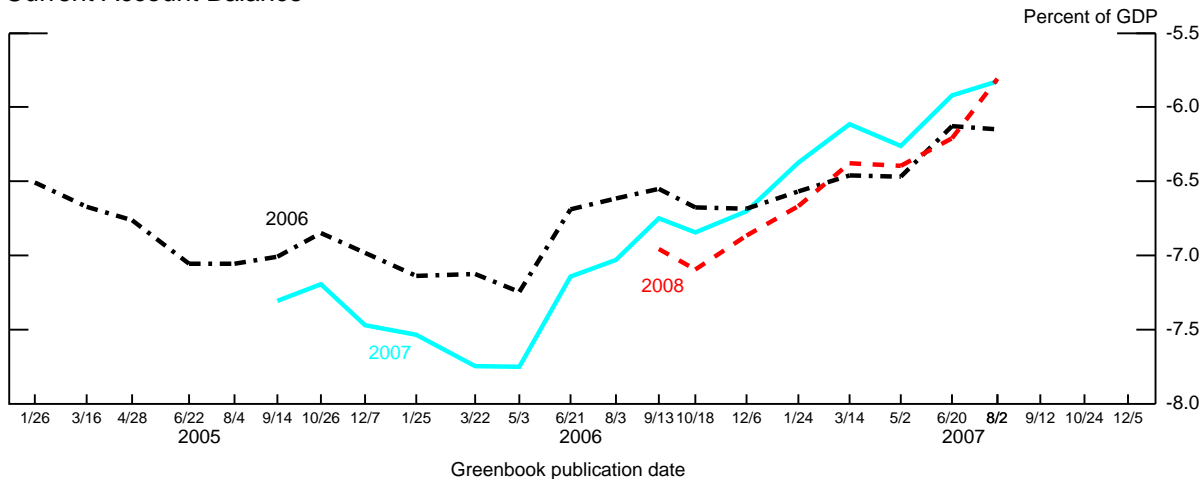
NOTE. Half year changes are measured as Q2/Q4 or Q4/Q2. The federal funds rate is the average rate for the final quarter of the period.



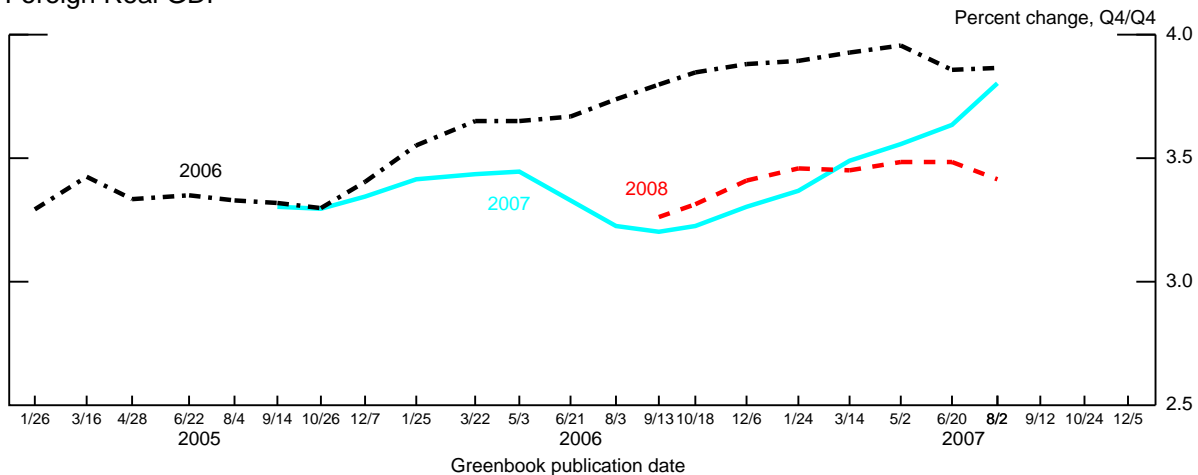
Class II FOMC -- Restricted (FR)

## Evolution of the Staff Forecast

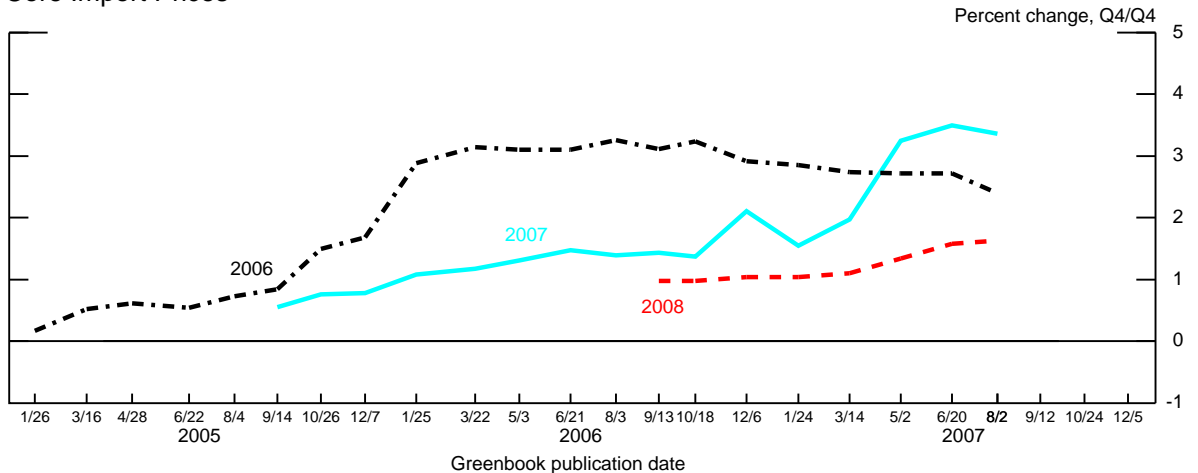
Current Account Balance



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, Q4 to Q4)

Measure and country	2000	2001	2002	2003	2004	2005	2006	Projected 2007	2008
REAL GDP (1)									
-----									
Total foreign	4.2	0.4	3.1	3.0	3.8	3.8	3.9	3.8	3.4
Advanced Foreign Economies	3.5	0.9	2.5	1.8	2.5	2.7	2.5	3.0	2.4
of which:									
Canada	4.1	1.3	3.5	1.5	3.5	3.2	1.9	3.1	2.4
Japan	3.1	-1.7	2.0	2.4	1.1	2.8	2.4	2.3	1.8
United Kingdom	3.1	2.1	2.3	3.4	2.6	1.8	3.1	2.8	2.5
Euro Area (2)	3.2	1.1	1.0	1.1	1.6	1.9	3.3	2.6	2.1
Germany	2.3	1.1	0.0	0.2	0.2	1.7	3.9	2.6	2.1
Emerging Market Economies	5.1	-0.4	4.0	4.8	5.6	5.4	5.7	5.0	4.9
Asia	5.6	1.1	6.4	6.9	5.9	7.5	6.7	6.9	6.3
Korea	4.4	4.7	7.7	4.2	2.9	5.7	4.0	5.0	4.5
China	7.8	7.1	8.5	10.1	9.6	10.0	10.4	11.9	9.7
Latin America	4.5	-1.3	1.6	2.4	5.3	3.1	4.9	3.0	3.5
Mexico	4.8	-1.3	2.0	2.1	4.8	2.5	4.3	2.6	3.2
Brazil	4.4	-0.7	5.0	0.8	5.0	3.1	4.7	3.9	4.2
CONSUMER PRICES (3)									
-----									
Advanced Foreign Economies	1.9	0.9	2.1	1.3	1.8	1.5	1.3	2.2	1.6
of which:									
Canada	3.1	1.1	3.8	1.7	2.3	2.2	1.3	3.1	2.0
Japan	-0.5	-1.1	-0.5	-0.3	0.5	-1.0	0.3	0.2	0.4
United Kingdom (4)	0.9	1.1	1.5	1.3	1.4	2.1	2.7	2.2	2.0
Euro Area (2)	2.5	2.1	2.3	2.0	2.3	2.3	1.8	2.3	1.9
Germany	1.7	1.5	1.2	1.1	2.1	2.2	1.3	2.4	1.8
Emerging Market Economies	4.1	2.8	2.9	3.1	3.9	3.0	2.9	3.5	3.1
Asia	1.8	1.2	0.8	2.2	3.2	2.6	2.3	3.5	2.8
Korea	2.5	3.3	3.3	3.5	3.4	2.5	2.1	3.5	2.9
China	1.0	-0.1	-0.6	2.7	3.3	1.4	2.1	4.0	2.8
Latin America	8.4	5.3	6.4	4.9	5.7	3.8	4.2	3.7	3.8
Mexico	8.7	5.1	5.2	3.9	5.3	3.1	4.1	3.3	3.5
Brazil	6.4	7.5	10.7	11.5	7.2	6.1	3.2	4.1	3.7

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

August 2, 2007

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

Measure and country	2006				2007				Projected 2008			
	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	3.8	3.3	3.5	3.9	4.2	3.6	3.5	3.4	3.4	3.4	3.4
Advanced Foreign Economies	3.3	2.4	1.9	2.5	3.7	2.9	2.7	2.6	2.4	2.4	2.3	2.3
of which:												
Canada	3.4	1.5	1.3	1.5	3.7	3.2	2.8	2.6	2.4	2.5	2.5	2.4
Japan	2.2	1.8	0.3	5.4	3.3	1.9	2.1	2.1	1.9	1.9	1.8	1.7
United Kingdom	3.3	3.3	2.8	3.3	2.8	3.3	2.6	2.7	2.6	2.6	2.5	2.4
Euro Area (2)	3.7	3.7	2.3	3.6	2.9	2.6	2.7	2.4	2.2	2.1	2.0	2.0
Germany	3.4	5.0	3.3	4.0	2.1	2.6	3.0	2.7	2.4	2.2	2.0	2.0
Emerging Market Economies	6.9	5.9	5.2	4.9	4.3	6.0	4.9	4.8	4.8	4.9	4.9	4.9
Asia	7.1	6.4	6.8	6.6	7.2	8.4	6.0	6.2	6.3	6.3	6.4	6.3
Korea	4.0	3.2	5.0	3.8	3.6	7.0	4.7	4.6	4.5	4.5	4.5	4.5
China	11.5	11.7	8.0	10.5	14.2	14.7	9.5	9.5	9.5	9.7	10.0	9.7
Latin America	7.4	5.3	4.1	2.7	1.4	3.6	3.7	3.3	3.3	3.5	3.5	3.5
Mexico	7.5	5.4	2.7	1.5	0.6	3.2	3.5	3.0	3.0	3.2	3.3	3.3
Brazil	5.2	-1.4	11.2	4.3	3.1	4.3	4.2	4.2	4.2	4.2	4.2	4.2
CONSUMER PRICES (3)												
----- Four-quarter changes -----												
Advanced Foreign Economies	1.8	2.0	1.6	1.3	1.6	1.6	1.8	2.2	2.0	1.7	1.6	1.6
of which:												
Canada	2.5	2.6	1.6	1.3	1.9	2.0	2.6	3.1	2.5	2.2	2.0	2.0
Japan	-0.2	0.2	0.6	0.3	-0.1	0.0	-0.1	0.2	0.5	0.4	0.3	0.4
United Kingdom (4)	2.0	2.2	2.4	2.7	2.8	2.6	2.3	2.2	2.1	2.1	2.1	2.0
Euro Area (2)	2.3	2.5	2.1	1.8	1.9	1.9	2.1	2.3	2.3	2.0	1.9	1.9
Germany	2.1	2.1	1.6	1.3	1.9	2.0	2.2	2.4	2.1	1.9	1.7	1.8
Emerging Market Economies	3.0	2.9	2.7	2.9	3.1	3.3	3.6	3.5	3.5	3.4	3.1	3.1
Asia	2.4	2.5	2.2	2.3	2.7	3.0	3.5	3.5	3.5	3.2	2.8	2.8
Korea	2.1	2.3	2.5	2.1	2.0	2.5	2.7	3.5	4.1	3.7	3.3	2.9
China	1.2	1.3	1.2	2.1	2.8	3.6	4.4	4.0	3.8	3.2	2.6	2.8
Latin America	4.2	3.5	3.8	4.2	4.2	4.2	3.9	3.7	3.4	3.8	3.8	3.8
Mexico	3.7	3.1	3.5	4.1	4.1	4.0	3.6	3.3	3.1	3.5	3.5	3.5
Brazil	5.6	4.3	3.8	3.2	3.1	3.4	4.1	4.1	3.7	3.7	3.7	3.7

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)

August 2, 2007

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000	2001	2002	2003	2004	2005	2006	Projected 2007	Projected 2008
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-0.9	-0.2	-0.9	-0.1	-0.9	-0.1	0.4	0.3	0.2
Exports of G&S	0.7	-1.3	0.4	0.6	0.7	0.7	1.0	0.5	0.7
Imports of G&S	-1.6	1.1	-1.3	-0.7	-1.7	-0.8	-0.6	-0.3	-0.5
	Percentage change, Q4/Q4								
Exports of G&S	6.5	-11.9	3.8	5.8	7.4	7.0	9.3	4.8	5.8
Services	1.8	-8.9	10.2	3.0	8.3	4.1	8.3	6.1	6.2
Computers	22.7	-23.5	-1.1	11.3	5.8	14.0	8.2	1.0	9.5
Semiconductors	27.6	-34.6	10.1	38.3	-6.0	17.5	2.4	14.9	11.0
Core Goods 1/	5.9	-10.2	0.6	4.9	8.0	7.5	10.2	3.8	5.2
Imports of G&S	11.2	-7.6	9.7	4.8	11.5	5.1	3.7	1.7	3.0
Services	10.6	-5.9	8.8	2.2	9.3	1.4	6.1	0.4	2.6
Oil	13.3	3.7	3.8	1.2	10.8	1.2	-9.0	2.1	-1.4
Natural Gas	37.3	-6.5	19.5	1.3	4.9	11.3	-13.4	0.0	7.6
Computers	13.9	-13.6	13.2	17.0	23.2	12.2	13.6	14.1	15.5
Semiconductors	22.8	-51.1	11.0	-0.1	9.8	7.6	-0.5	7.3	5.0
Core Goods 2/	10.3	-6.5	10.0	5.2	11.4	6.1	5.9	1.0	3.2
	Billions of Chained 2000 Dollars								
Net Goods & Services	-379.5	-399.1	-471.3	-518.9	-593.8	-618.0	-624.5	-581.2	-549.1
Exports of G&S	1096.3	1036.7	1013.3	1026.1	1126.1	1203.4	1304.1	1384.3	1466.0
Imports of G&S	1475.8	1435.8	1484.6	1545.0	1719.9	1821.5	1928.6	1965.6	2015.2
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-417.4	-384.7	-459.6	-522.1	-640.2	-754.8	-811.5	-804.1	-834.7
Current Acct as Percent of GDP	-4.3	-3.8	-4.4	-4.8	-5.5	-6.1	-6.2	-5.8	-5.8
Net Goods & Services (BOP)	-379.8	-365.1	-423.7	-496.9	-612.1	-714.4	-758.5	-729.4	-721.7
Investment Income, Net	25.7	36.9	33.2	51.1	62.5	54.5	43.2	26.2	-10.4
Direct, Net	94.9	115.9	102.4	112.7	139.4	152.5	174.2	211.1	237.6
Portfolio, Net	-69.2	-79.0	-69.1	-61.5	-76.9	-98.1	-131.0	-184.9	-247.9
Other Income & Transfers, Net	-63.3	-56.5	-69.2	-76.3	-90.6	-94.9	-96.1	-100.9	-102.7

1. Merchandise exports excluding computers and semiconductors.

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

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2003				2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	0.2	-0.7	0.5	-0.5	-0.8	-1.5	-0.4	-1.1	0.3	0.8	-0.1	-1.4
Exports of G&S	-0.5	-0.2	1.0	1.8	0.9	0.6	0.3	1.0	0.6	0.9	0.2	1.1
Imports of G&S	0.7	-0.6	-0.5	-2.3	-1.7	-2.1	-0.7	-2.0	-0.3	-0.1	-0.3	-2.5
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	-5.3	-1.7	11.4	20.8	10.0	6.5	3.1	10.0	6.0	9.5	2.1	10.6
Services	-20.0	-2.8	17.5	23.1	16.2	5.1	-3.4	16.8	6.5	0.9	2.6	6.3
Computers	-2.3	-5.2	34.7	23.2	-7.0	1.7	16.7	13.4	17.4	24.9	12.8	2.0
Semiconductors	37.4	30.9	44.6	40.7	16.7	-13.4	-20.9	-2.4	-1.7	9.3	23.2	43.8
Core Goods 1/	0.2	-2.9	5.2	18.3	7.8	9.2	7.7	7.4	5.7	13.2	0.2	11.5
Imports of G&S	-5.0	4.1	3.8	17.6	12.3	15.2	4.8	13.8	2.1	0.8	2.1	16.2
Services	-10.6	-15.7	21.2	19.6	16.5	8.9	1.8	10.5	-3.5	-0.5	0.0	10.3
Oil	-9.7	12.4	-6.0	9.9	39.2	-26.3	-7.1	58.3	5.4	-26.2	-14.2	57.1
Natural Gas	-45.9	72.5	66.4	-32.1	33.4	43.1	48.5	-57.3	53.9	-4.0	108.6	-50.2
Computers	11.4	10.7	11.1	36.9	20.7	30.1	25.6	17.0	5.7	9.8	17.0	16.6
Semiconductors	-6.3	1.1	-4.2	9.7	43.0	18.5	3.9	-17.4	-9.5	7.7	15.7	18.8
Core Goods 2/	-3.1	7.2	-0.1	18.0	6.5	23.0	5.4	11.6	2.2	6.2	3.0	13.5
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-507.2	-526.9	-513.8	-527.8	-549.1	-591.1	-602.7	-632.3	-624.4	-601.0	-604.1	-642.6
Exports of G&S	1003.3	999.0	1026.3	1075.8	1101.8	1119.4	1128.0	1155.3	1172.4	1199.3	1205.6	1236.4
Imports of G&S	1510.5	1525.9	1540.0	1603.6	1650.9	1710.5	1730.8	1787.7	1796.8	1800.3	1809.7	1879.0
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-540.4	-520.4	-522.1	-505.5	-559.8	-634.7	-632.3	-733.8	-729.6	-732.9	-693.6	-863.2
Current Account as % of GDP	-5.0	-4.8	-4.7	-4.5	-4.9	-5.5	-5.4	-6.1	-6.0	-6.0	-5.5	-6.8
Net Goods & Services (BOP)	-498.6	-494.8	-493.4	-500.9	-544.1	-602.4	-626.4	-675.4	-666.6	-682.7	-723.8	-784.4
Investment Income, Net	34.6	47.8	47.8	74.3	82.2	59.4	69.2	39.2	56.2	53.5	72.8	35.3
Direct, Net	97.1	108.2	109.2	136.2	146.2	129.6	143.4	138.4	140.4	147.3	176.1	146.2
Portfolio, Net	-62.4	-60.4	-61.4	-62.0	-63.9	-70.3	-74.2	-99.2	-84.3	-93.8	-103.3	-110.9
Other Inc. & Transfers, Net	-76.5	-73.4	-76.5	-78.8	-97.8	-91.7	-75.1	-97.6	-119.2	-103.8	-42.6	-114.1

1. Merchandise exports excluding computers and semiconductors.

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

August 2, 2007

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2006				2007				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	0.1	0.5	-0.3	1.3	-0.5	1.0	0.5	-0.1	-0.1	0.8	0.2	-0.2
Exports of G&S	1.2	0.6	0.6	1.5	0.1	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Imports of G&S	-1.1	-0.1	-0.9	-0.3	-0.6	0.4	-0.2	-0.8	-0.8	0.2	-0.5	-0.9
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	11.5	5.7	5.7	14.3	1.1	5.6	6.3	6.1	5.9	5.8	5.7	5.6
Services	2.9	3.9	2.0	26.0	1.6	7.2	8.2	7.7	6.9	6.4	5.9	5.5
Computers	14.6	13.0	-3.9	9.9	-8.2	-5.4	9.5	9.5	9.5	9.5	9.5	9.5
Semiconductors	25.3	14.5	-11.5	-13.5	25.4	12.9	11.0	11.0	11.0	11.0	11.0	11.0
Core Goods 1/	14.9	5.7	9.2	11.0	0.3	5.0	5.1	5.0	5.0	5.1	5.2	5.3
Imports of G&S	6.9	0.9	5.4	1.6	3.9	-2.4	1.0	4.5	4.8	-0.9	2.9	5.4
Services	9.5	-0.1	1.3	14.2	2.3	-4.0	2.1	1.2	1.9	2.5	7.4	-1.3
Oil	-3.6	-26.1	3.3	-6.9	29.6	-23.2	-10.8	22.3	15.7	-25.9	-10.2	22.6
Natural Gas	-49.4	123.0	24.1	-59.8	8.3	263.4	-47.2	-51.8	9.6	38.5	25.7	-29.8
Computers	27.0	16.9	16.0	-3.2	41.1	-10.0	15.5	15.5	15.5	15.5	15.5	15.5
Semiconductors	0.1	-1.5	20.9	-17.9	4.0	15.6	5.0	5.0	5.0	5.0	5.0	5.0
Core Goods 2/	9.7	5.4	5.5	3.1	-2.3	0.2	3.9	2.3	2.3	3.0	3.5	3.9
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-640.1	-626.6	-633.8	-597.3	-612.1	-581.5	-565.1	-566.2	-569.3	-544.3	-538.4	-544.5
Exports of G&S	1270.6	1288.4	1306.6	1350.9	1354.7	1373.2	1394.4	1415.1	1435.5	1455.8	1476.2	1496.6
Imports of G&S	1910.7	1915.0	1940.4	1948.2	1966.8	1954.7	1959.5	1981.3	2004.8	2000.2	2014.6	2041.1
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-802.4	-822.4	-869.3	-751.8	-770.3	-793.3	-822.2	-830.6	-858.1	-821.1	-818.8	-840.8
Current Account as % of GDP	-6.2	-6.3	-6.6	-5.6	-5.7	-5.8	-5.9	-5.9	-6.1	-5.7	-5.7	-5.8
Net Goods & Services (BOP)	-758.8	-770.3	-797.2	-707.7	-707.2	-723.7	-740.2	-746.4	-752.1	-715.8	-705.8	-712.9
Investment Income, Net	48.3	49.2	30.0	45.3	48.1	23.3	19.7	13.6	0.8	-6.3	-14.0	-21.9
Direct, Net	168.0	178.6	161.9	188.3	205.3	199.6	214.3	225.2	227.2	234.4	241.2	247.4
Portfolio, Net	-119.8	-129.4	-132.0	-143.0	-157.2	-176.4	-194.6	-211.6	-226.5	-240.7	-255.2	-269.3
Other Inc. & Transfers, Net	-91.8	-101.2	-102.1	-89.4	-111.3	-92.9	-101.7	-97.8	-106.7	-99.0	-99.0	-106.0

1. Merchandise exports excluding computers and semiconductors.

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

## **Part 2**

August 2, 2007

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

August 2, 2007

## **Recent Developments**

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

Item	2006	2007			2007			
	Q4	Q1	Q2	Q3	June	July	Aug.	Sept.
U.S. production <sup>1</sup>	10.5	10.2	10.8	11.4	11.0	11.8	11.2	11.2
Autos	4.4	4.0	3.9	4.2	4.1	4.6	4.0	3.9
Light trucks	6.1	6.3	6.9	7.3	7.0	7.2	7.3	7.3
Days' supply <sup>2</sup>	69	65	67	n.a.	69	n.a.	n.a.	n.a.
Autos	59	60	55	n.a.	56	n.a.	n.a.	n.a.
Light trucks	76	69	75	n.a.	80	n.a.	n.a.	n.a.
Inventories <sup>3</sup>	2.81	2.67	2.67	n.a.	2.67	n.a.	n.a.	n.a.
Autos	1.02	1.00	.95	n.a.	.95	n.a.	n.a.	n.a.
Light trucks	1.79	1.67	1.72	n.a.	1.72	n.a.	n.a.	n.a.
Memo: U.S. production, total motor vehicles <sup>4</sup>	11.0	10.6	11.1	11.8	11.3	12.1	11.6	11.5

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

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

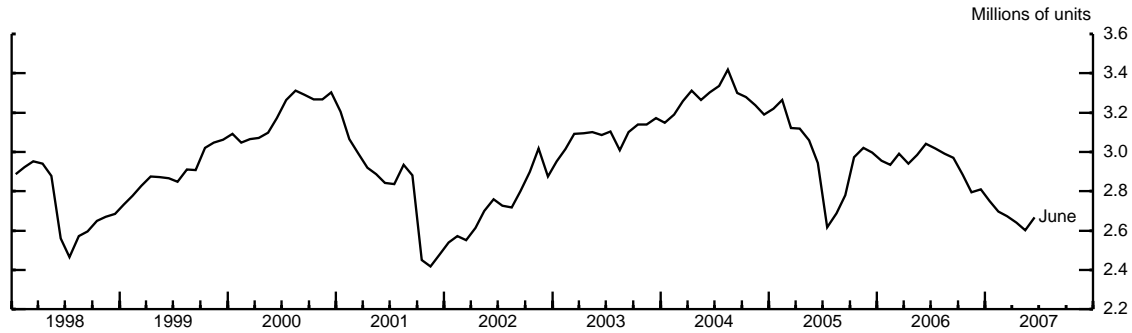
2. Quarterly values are calculated with end-of-period stocks and average reported sales.

3. End-of-period stocks.

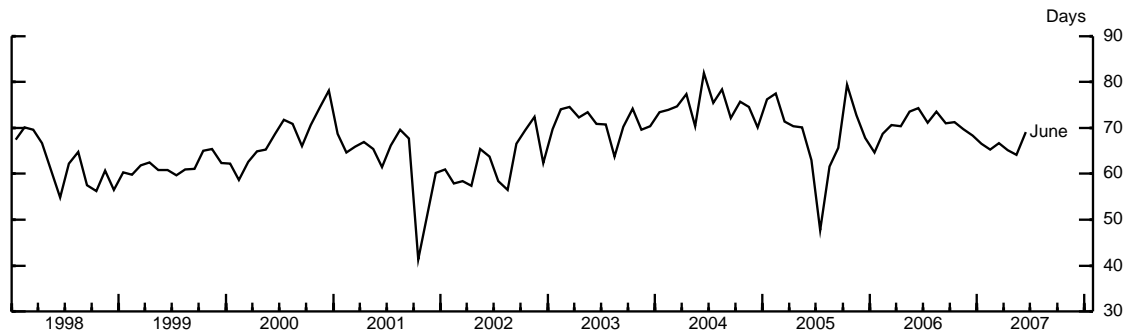
4. Includes medium and heavy trucks.

n.a. Not available.

**Inventories of Light Vehicles**



**Days' Supply of Light Vehicles**



**Broad Measures of Inflation**

(Percent change, Q2 to Q2)

Measure	2004	2005	2006	2007
<i>Product prices</i>				
GDP price index	2.9	3.0	3.5	2.7
Less food and energy	2.7	3.1	3.3	2.5
Nonfarm business chain price index	2.2	3.2	3.5	2.0
<i>Expenditure prices</i>				
Gross domestic purchases price index	3.1	3.4	3.8	2.6
Less food and energy	2.7	3.0	3.1	2.4
PCE price index	2.8	2.6	3.3	2.3
Less food and energy	2.1	2.1	2.2	2.0
PCE price index, market-based components	2.4	2.4	3.2	2.2
Less food and energy	1.5	1.7	1.9	1.8
CPI	2.8	2.9	4.0	2.7
Less food and energy	1.8	2.2	2.4	2.3
Chained CPI	2.7	2.6	3.4	2.3
Less food and energy	1.7	1.9	2.4	1.9
Median CPI	2.4	2.3	2.9	3.2
Trimmed mean CPI	2.1	2.2	2.7	2.7
Trimmed mean PCE	2.3	2.3	2.7	2.5

**Surveys of Inflation Expectations**

(Percent)

Period	Actual CPI inflation <sup>1</sup>	Reuters/Michigan Survey				Professional forecasters (10 years) <sup>4</sup>
		1 year <sup>2</sup>		5 to 10 years <sup>3</sup>		
		Mean	Median	Mean	Median	
2005:Q3	3.8	4.3	3.5	3.5	2.9	2.5
Q4	3.7	4.6	3.7	3.5	3.1	2.5
2006:Q1	3.6	3.7	3.0	3.3	2.9	2.5
Q2	4.0	4.5	3.5	3.6	3.1	2.5
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
Q2	2.7	4.2	3.3	3.5	3.0	2.4
Mar.	2.8	3.6	3.0	3.3	2.9	...
Apr.	2.6	4.0	3.3	3.6	3.1	...
May	2.7	4.3	3.3	3.7	3.1	2.4
June	2.7	4.2	3.4	3.3	2.9	...
July	n.a.	4.2	3.4	3.6	3.1	...

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?

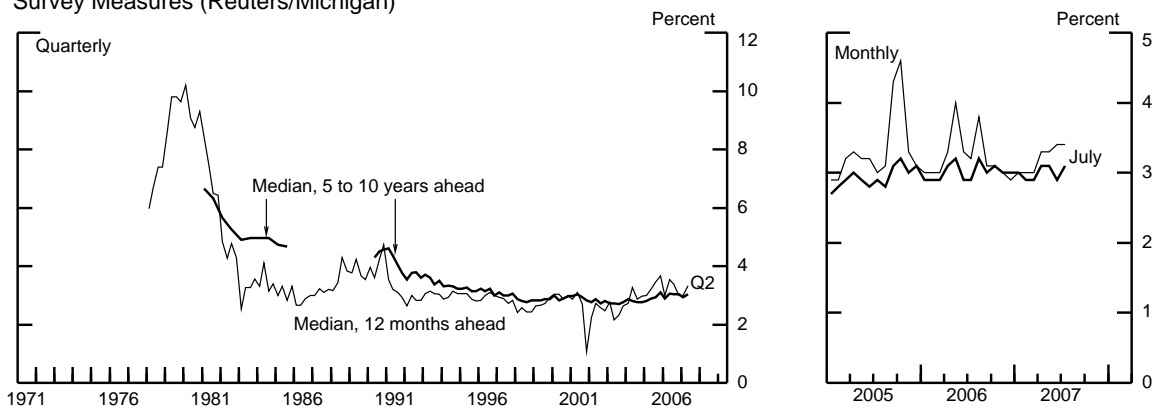
4. Quarterly CPI projections compiled by the Federal Reserve Bank of Philadelphia.

... Not applicable.

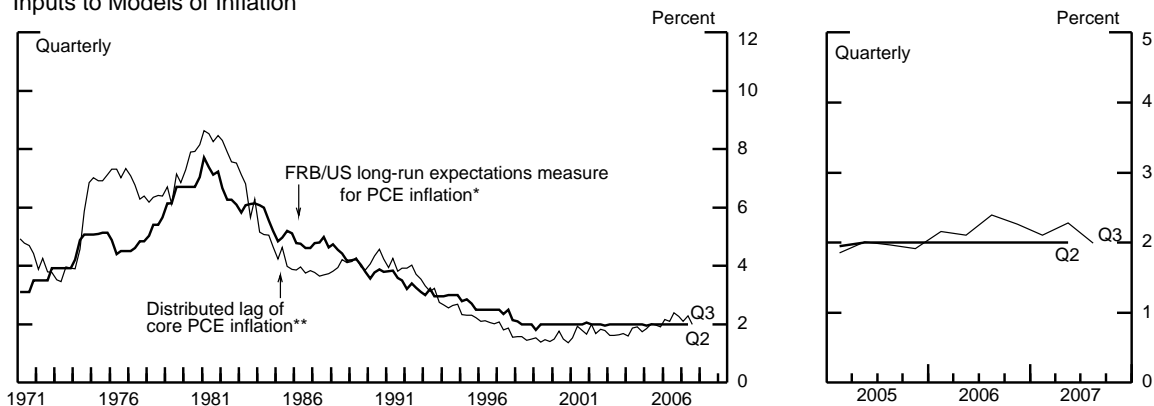
n.a. Not available.

## Measures of Expected Inflation

### Survey Measures (Reuters/Michigan)



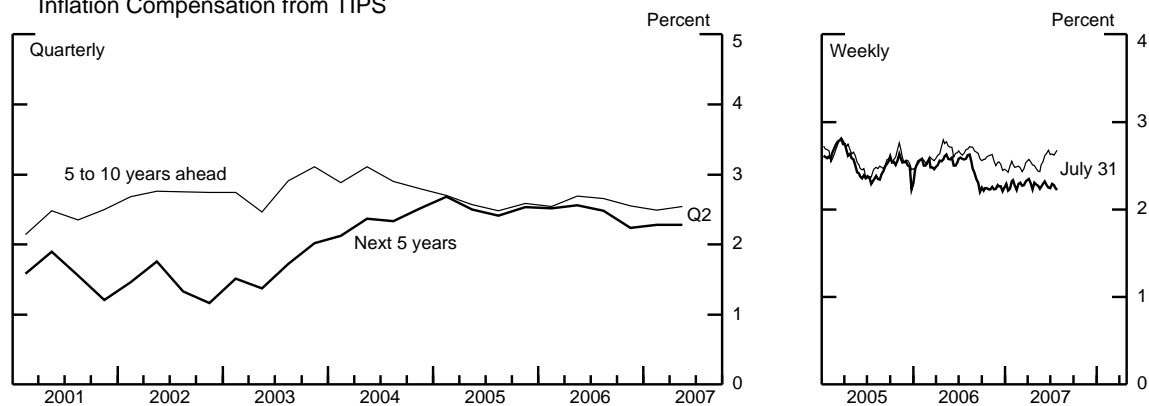
### Inputs to Models of Inflation



\*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)

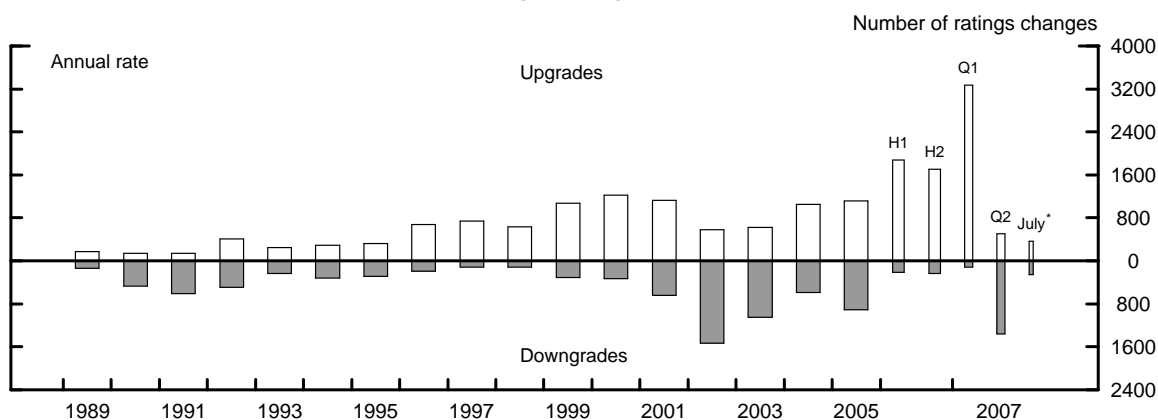
Type of security	2003	2004	2005	2006		2007		
				H1	H2	Q1	Q2	July <sup>p</sup>
Total	37.9	34.7	38.4	32.9	39.4	37.9	45.5	16.4
Long-term <sup>1</sup>	32.0	29.8	34.1	30.0	34.9	35.7	41.1	12.7
Refundings <sup>2</sup>	10.0	10.8	15.6	9.7	11.4	17.7	14.8	1.7
New capital	22.1	19.0	18.6	20.3	23.4	18.0	26.3	11.1
Short-term	5.8	4.9	4.2	2.8	4.5	2.2	4.4	3.6
Memo: Long-term taxable	3.5	2.0	2.1	2.8	2.3	1.2	2.6	.2

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

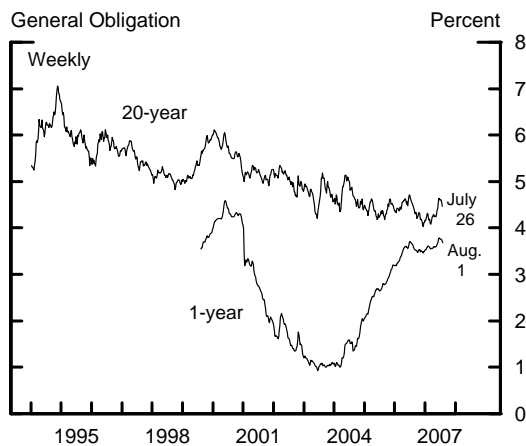
p Based on preliminary data through July 26, 2007.

### Ratings Changes



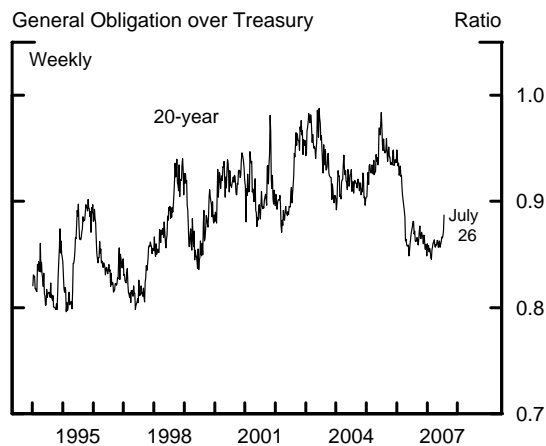
\* Staff estimate based on data through July 25, 2007.  
Source: S&P's Credit Week Municipal and Ratings Direct.

### Municipal Bond Yields



Source: Municipal Market Advisors and Bond Buyer.

### Municipal Bond Yield Ratio



Source: Bond Buyer.

**M2 Monetary Aggregate**  
(Based on seasonally adjusted data)

Aggregate and components	Percent change (annual rate) <sup>1</sup>					Level (billions of dollars),
	2005	2006	2007			July (e)
			Q1	Q2	July (e)	
M2	4.1	4.9	7.1	6.7	3.7	7,266
Components <sup>2</sup>						
Currency	3.5	3.6	1.7	2.1	4.9	758
Liquid deposits <sup>3</sup>	2.0	.8	6.6	7.0	.8	4,440
Small time deposits	18.9	18.6	4.5	4.2	-.5	1,176
Retail money market funds	-.2	13.0	18.9	13.1	22.6	885
Memo:						
Institutional money market funds	4.9	15.9	11.2	28.2	26.9	1,510
Monetary base	3.5	3.2	1.6	2.3	14.3	829

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	Q1 2007	Q2 2007	July 2007 <sup>e</sup>	Level, <sup>1</sup> July 2007 <sup>e</sup>
Total	10.5	9.6	8.6	9.4	9.1	8,339
<i>Loans<sup>2</sup></i>						
Total	11.6	10.7	9.9	9.4	9.6	6,256
To businesses						
Commercial and industrial	13.5	16.4	7.9	11.0	19.1	1,256
Commercial real estate	17.0	13.6	10.3	11.4	3.6	1,521
To households						
Residential real estate	11.9	7.2	9.6	6.7	3.1	1,834
Revolving home equity	13.3	1.5	3.5	.1	5.5	459
Other	11.4	9.4	11.7	8.9	2.4	1,375
Consumer	3.1	5.2	7.5	5.2	14.4	769
Originated <sup>3</sup>	.7	6.4	8.1	2.2	12.2	1,149
Other <sup>4</sup>	8.5	11.0	14.8	12.8	16.1	876
<i>Securities</i>						
Total	7.5	6.3	4.8	9.6	7.5	2,083
Treasury and agency	.0	3.0	-2.1	-7.9	-2.8	1,151
Other <sup>5</sup>	13.5	12.7	10.9	33.7	12.8	1,096

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 and March 2007 respectively. 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.

e Estimated.

August 3, 2007

# CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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## **Supplemental Notes**

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

### Commercial Bank Credit

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

Type of credit	2005	2006	Q1 2007	Q2 2007	July 2007 <sup>e</sup>	Level, <sup>1</sup> July 2007 <sup>e</sup>
Total	10.5	9.6	8.6	9.4	9.2	8,340
<i>Loans<sup>2</sup></i>						
Total	11.6	10.7	9.9	9.4	9.3	6,254
To businesses						
Commercial and industrial	13.5	16.4	7.9	11.0	18.5	1,255
Commercial real estate	17.0	13.6	10.3	11.5	5.6	1,524
To households						
Residential real estate	11.9	7.2	9.6	6.6	3.7	1,835
Revolving home equity	13.3	1.5	3.5	.1	5.5	459
Other	11.4	9.4	11.7	8.9	3.1	1,376
Consumer	3.1	5.2	7.5	5.2	14.1	769
Originated <sup>3</sup>	.7	6.4	8.0	2.2	13.7	1,151
Other <sup>4</sup>	8.5	11.0	14.8	12.8	10.4	872
<i>Securities</i>						
Total	7.5	6.3	4.8	9.6	9.2	2,085
Treasury and agency	.0	3.0	-2.1	-7.9	2.1	1,155
Other <sup>5</sup>	13.5	12.7	10.9	33.6	11.0	1,094

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 and March 2007 respectively. Data also account for breaks caused by reclassifications.

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e Estimated.