

Part 1

September 12, 2007

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

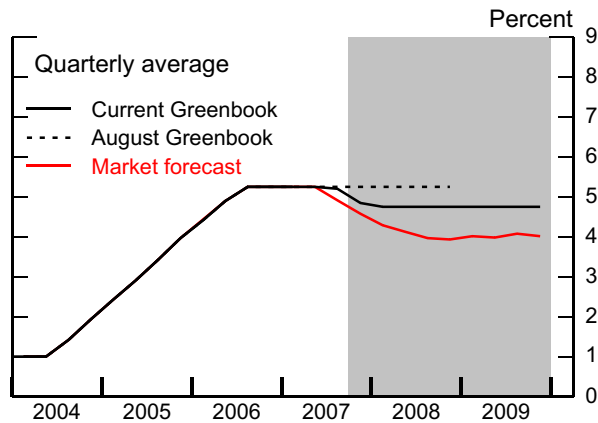
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Summary and Outlook

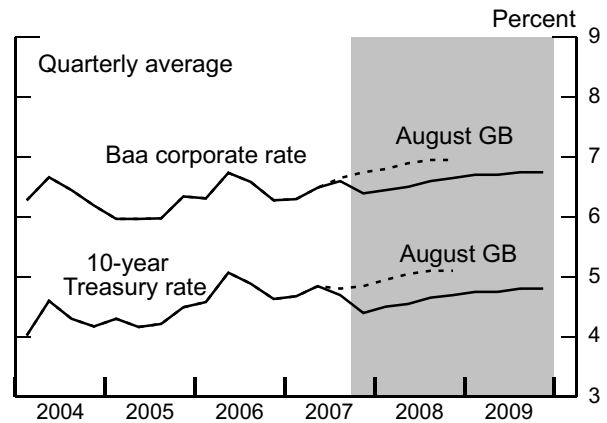
Class II FOMC -- Restricted (FR)

Key Background Factors Underlying the Baseline Staff Projection

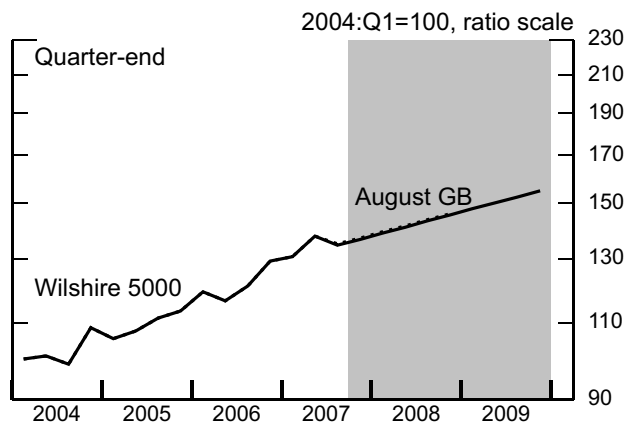
Federal Funds Rate



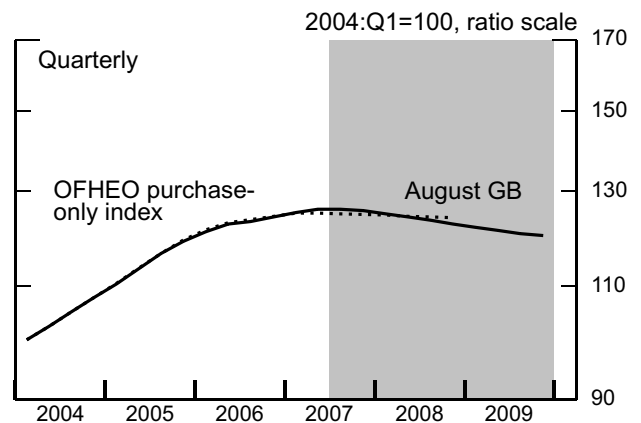
Long-Term Interest Rates



Equity Prices

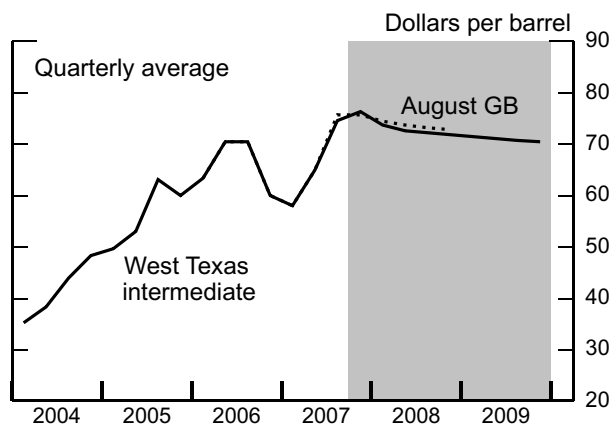


House Prices

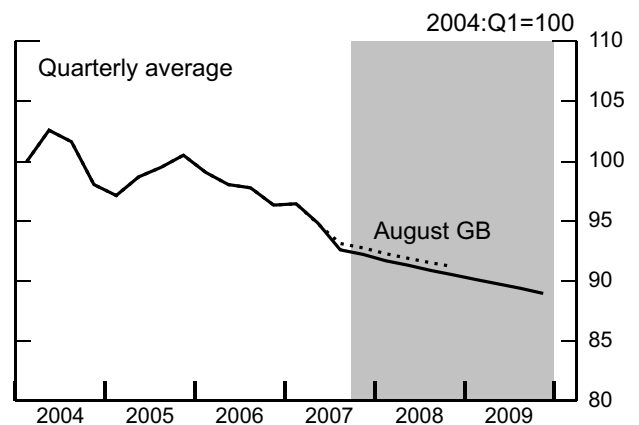


Note. The projection period begins in 2007:Q3.

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		2007:Q4	
	Aug. GB	Sept. GB	Aug. GB	Sept. GB	Aug. GB	Sept. GB
Real GDP	3.4	3.7	2.2	2.6	1.6	1.0
Private domestic final purchases	1.5	1.7	.7	.9	.9	.3
Personal consumption expenditures	1.3	1.4	2.0	2.4	1.9	1.9
Residential investment	-10.4	-12.4	-19.6	-21.0	-21.3	-28.2
Business fixed investment	9.6	10.4	2.4	1.9	4.4	3.5
Government outlays for consumption and investment	4.5	4.1	3.2	2.9	2.7	3.1
	Contribution to growth (percentage points)					
Inventory investment	.2	.1	.4	.4	.4	.3
Net exports	1.0	1.3	.5	.8	-.1	-.2

Real consumer spending entered the second half of the year on a favorable note and is projected to increase at an annual rate of 2½ percent this quarter. Real expenditures on goods rose briskly in July despite a second month of disappointing motor vehicle sales. In August, auto sales bounced back to a rate of 16¼ million units, well above the June-July average pace. However, consumer sentiment dropped in August amid downbeat news reports on economic and financial developments. Reflecting this deterioration in sentiment and the slower income growth that will accompany the softer labor market, fourth-quarter PCE growth slows to just below an annual rate of 2 percent.

Housing demand appears to have deteriorated further since the last Greenbook. Although sales of new and existing homes in July came in close to our expectations, forward-looking indicators—such as pending home sales and homebuying sentiment—suggest that worsening conditions in the mortgage markets will lead to substantially weaker sales in the months ahead. Builders cut single-family housing starts a further 7¼ percent in July, but the inventory of unsold new homes remains elevated. Given this supply imbalance and our expectation of continued weakness in demand, we anticipate that builders will slash production further in coming months. Single-family starts are projected to drop from an average level of 1.17 million units in the second quarter to just under 900,000 units early next year. In all, we project that real residential investment will contract at annual rates of 21 percent in the third quarter and 28 percent in the fourth quarter.

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

Measure	2007		2008	2009
	H1	H2		
Real GDP	2.1	1.8	1.7	2.2
Previous	2.0	1.9	2.0	...
Final sales	2.4	1.4	1.7	2.1
Previous	2.3	1.5	2.1	...
PCE	2.6	2.2	1.8	2.1
Previous	2.5	2.0	2.0	...
Residential investment	-14.4	-24.7	-7.4	2.5
Previous	-13.4	-20.5	-4.0	...
BFI	6.2	2.7	1.9	3.1
Previous	5.8	3.4	3.1	...
Government purchases	1.8	3.0	1.7	1.0
Previous	2.0	3.0	1.5	...
Exports	4.4	9.6	5.8	5.9
Previous	3.3	6.2	5.8	...
Imports	.6	4.6	2.7	4.4
Previous	.7	2.7	3.0	...
Contribution to growth (percentage points)				
Inventory change	-.3	.4	-.0	.1
Previous	-.2	.4	-.1	...
Net exports	.4	.3	.2	-.0
Previous	.3	.2	.2	...

... Not applicable.

largely recovered by the end of next year, we are projecting real GDP growth to improve to 2¼ percent in 2009, a touch above its potential rate of growth. The subpar pace of activity over the next year and a half is projected to push the unemployment rate up to nearly 5 percent by 2009, a shade above the staff's revised estimate of the NAIRU.

Household spending. Real consumer spending is projected to increase 1¾ percent in 2008, a pace that is about ¼ percentage point below our forecast in the August Greenbook and well below the expected pace of real income growth next year. In part,

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	2009
Structural labor productivity	1.5	2.5	3.1	2.4	2.0	2.0	1.9	1.8	1.8
Previous	1.5	2.5	3.1	2.4	2.0	2.0	1.9	1.8	...
<i>Contributions</i> ¹									
Capital deepening	.7	1.4	.7	.6	.6	.7	.6	.6	.5
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	1.1
Previous	.5	.7	2.1	1.5	1.1	1.1	1.1	1.1	...
Labor composition	.3	.3	.3	.3	.3	.2	.2	.2	.1
MEMO									
Potential GDP	3.0	3.3	3.0	2.3	2.2	2.2	2.2	2.2	2.1
Previous	3.0	3.3	3.0	2.3	2.2	2.2	2.2	2.2	...

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

1. Percentage points.

... Not applicable.

remains at that level going forward. Because this change implies that the level of employment, and thus production, can now be higher without putting upward pressure on inflation, we have also raised our estimate of the level of potential output. The upward revision to the level of potential output is phased in gradually and, by the end of 2006, has cumulated to ¼ percent, implying that the output gap is smaller by that amount in the first half of this year than we thought previously. However, we have not changed our assumptions about the *growth* of potential going forward and continue to assume a trend rate of expansion in the economy of a little over 2 percent. The higher level of potential output in this forecast and the downward adjustments that we have made to actual GDP result in a lower average level of resource utilization in this forecast. Indeed, the GDP gap is effectively zero at the end of this year, and in 2009, we expect the level of actual output to fall short of potential by ¼ percentage point.

Productivity and the labor market. As noted earlier, we expect employment to essentially flatten out in coming months, when activity is projected to be especially weak. With the growth of real output expected to pick up some as we move into 2008, private

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	1.9	1.7	1.9
Previous	.9	1.7	2.0	...
Nonfarm private payroll employment	1.8	1.0	.5	.8
Previous	1.8	1.0	.6	...
Household survey employment	2.1	.6	.6	.8
Previous	2.1	.6	.7	...
Labor force participation rate ¹	66.3	66.0	65.8	65.6
Previous	66.3	66.0	65.8	...
Civilian unemployment rate ¹	4.5	4.7	4.9	4.9
Previous	4.5	4.7	4.8	...
MEMO				
GDP gap ²	.4	.2	-.3	-.2
Previous	.7	.4	.2	...

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.

... Not applicable.

payroll increases rise to a pace of 50,000 per month that year. In 2009, when economic growth is expected to move back in line with potential growth, we expect private payroll gains to gradually increase to about 75,000 per month, closer in line with the underlying trend. The sluggish pace of job creation over the next year or so is projected to push the unemployment rate up to nearly 5 percent over the forecast period.²

As in recent Greenbooks, the level of productivity is currently running below our estimate of the structural level, reflecting the surprisingly strong pace of employment growth over the first half of the year. We had been attributing the size of that shortfall to an unusually marked cyclical slowing in productivity. However, evidence of a more pronounced slowing in employment growth this quarter shrinks the size of this gap, and in both 2008 and 2009, labor productivity is projected to rise at about its trend rate.

² Despite the sizable downward revisions that we have made to real GDP growth, the rise in the unemployment rate is only a little steeper than in the previous Greenbook. Using our former estimate of the NAIRU, the unemployment rate in recent quarters had been lower than would have been consistent with an Okun's law relationship, and we had expected the disconnect to be remedied over time, putting upward pressure on the unemployment rate. Now that we have changed our NAIRU assumption, the current level of the unemployment rate seems roughly in line with Okun's law, thereby removing that source of upward pressure.

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

Measure	2006	2007	2008	2009
PCE chain-weighted price index	1.9	2.9	1.7	1.8
Previous	1.9	3.0	1.8	...
Food and beverages	2.3	4.2	2.2	2.1
Previous	2.3	4.0	2.2	...
Energy	-4.0	14.7	-2.6	-9
Previous	-4.0	14.6	-1.6	...
Excluding food and energy	2.3	1.9	1.9	1.9
Previous	2.3	2.0	2.0	...
Consumer price index	1.9	3.6	1.7	1.8
Previous	1.9	3.5	1.9	...
Excluding food and energy	2.7	2.3	2.1	2.1
Previous	2.7	2.2	2.2	...
GDP chain-weighted price index	2.7	2.5	2.1	2.1
Previous	2.7	2.6	2.2	...
ECI for compensation of private industry workers ¹	3.2	3.4	3.7	3.6
Previous	3.2	3.4	3.9	...
Compensation per hour, nonfarm business sector	5.0	4.7	4.4	4.2
Previous	5.1	4.2	4.7	...
Prices of core nonfuel imports	2.4	2.9	1.2	1.0
Previous	2.4	3.4	1.6	...

1. December to December.

... Not applicable.

Prices and labor costs. We now view both product and labor market conditions as being less tight over the course of the projection period than we did in the August Greenbook. This reduction in resource utilization implies less upward pressure on core consumer price inflation and has led us to shave 0.1 percentage point from our core PCE price inflation projection in both 2008 and 2009.

Despite these downward revisions, the overall contour of the inflation projection is similar to that of previous Greenbooks, with the rise in the core PCE price index expected to hold steady at just below 2 percent throughout the forecast period. As noted earlier, we believe that the slow pace of inflation earlier this year will prove to be transitory. However, the diminishing pressure from resource utilization should help to keep core

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	2.1	1.8	1.5	1.9	2.2
Greater housing correction	2.1	1.8	1.3	1.6	2.0
With larger wealth effect	2.1	1.7	1.0	1.3	1.9
Bank capital crunch	2.1	1.2	-1.2	2.6	2.9
Faster rebound	2.1	2.3	2.2	2.2	2.1
With stronger demand	2.1	2.3	2.7	2.7	2.7
More cost pass-through	2.1	1.8	1.3	1.6	1.9
Greater wage restraint	2.1	1.7	1.3	1.9	2.6
Market-based federal funds rate	2.1	1.8	1.7	2.3	2.7
<i>Unemployment rate¹</i>					
Greenbook baseline	4.5	4.7	4.8	4.9	4.9
Greater housing correction	4.5	4.7	4.8	5.0	5.1
With larger wealth effect	4.5	4.7	4.9	5.1	5.3
Bank capital crunch	4.5	4.8	5.3	5.4	5.2
Faster rebound	4.5	4.6	4.6	4.6	4.6
With stronger demand	4.5	4.6	4.5	4.5	4.2
More cost pass-through	4.5	4.7	4.8	5.0	5.1
Greater wage restraint	4.5	4.7	4.8	5.0	4.8
Market-based federal funds rate	4.5	4.7	4.8	4.8	4.6
<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
With larger wealth effect	1.9	2.0	2.0	1.9	1.8
Bank capital crunch	1.9	2.0	2.0	1.8	1.8
Faster rebound	1.9	2.0	2.0	1.9	1.9
With stronger demand	1.9	2.0	2.0	1.9	2.0
More cost pass-through	1.9	2.2	2.4	2.3	2.5
Greater wage restraint	1.9	1.8	1.5	1.4	1.3
Market-based federal funds rate	1.9	2.0	2.1	2.0	2.1
<i>Federal funds rate¹</i>					
Greenbook baseline	5.3	4.9	4.8	4.8	4.8
Greater housing correction	5.3	4.9	4.7	4.5	4.3
With larger wealth effect	5.3	4.9	4.6	4.3	3.9
Bank capital crunch	5.3	4.7	3.3	3.4	4.5
Faster rebound	5.3	5.1	5.3	5.5	5.3
With stronger demand	5.3	5.1	5.6	6.0	6.5
More cost pass-through	5.3	4.9	4.9	5.0	5.1
Greater wage restraint	5.3	4.8	4.5	4.1	4.1
Market-based federal funds rate	5.3	4.7	4.2	4.0	4.1

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

**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	2.0	1.7	2.2
Confidence interval			
Greenbook forecast errors	1.2–2.7	.1–3.3	.4–3.9
FRB/US stochastic simulations	1.4–2.5	.5–3.0	.7–3.7
<i>Civilian unemployment rate</i> (percent, Q4)			
Projection	4.7	4.9	4.9
Confidence interval			
Greenbook forecast errors	4.5–4.9	4.2–5.6	3.7–6.1
FRB/US stochastic simulations	4.6–4.8	4.5–5.3	4.3–5.4
<i>PCE prices</i> excluding food and energy (percent change, Q4 to Q4)			
Projection	1.9	1.9	1.9
Confidence interval			
Greenbook forecast errors	1.6–2.2	1.2–2.6	.8–3.0
FRB/US stochastic simulations	1.8–2.1	1.5–2.5	1.3–2.6
<i>Federal funds rate</i> (percent, Q4)			
Projection	4.9	4.8	4.8
Confidence interval			
FRB/US stochastic simulations	4.5–5.2	3.6–6.1	3.3–6.5

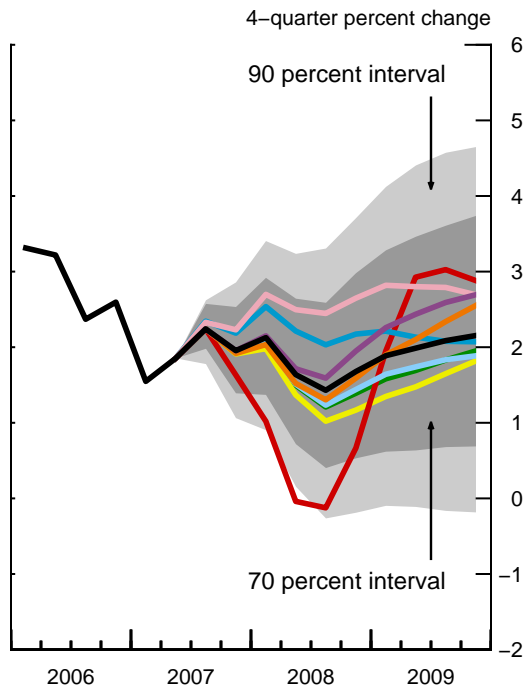
Note. Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1986-2005 set of model equation residuals. Intervals derived from Greenbook forecast errors are based on the 1986-2005 set of Greenbook historical errors.

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

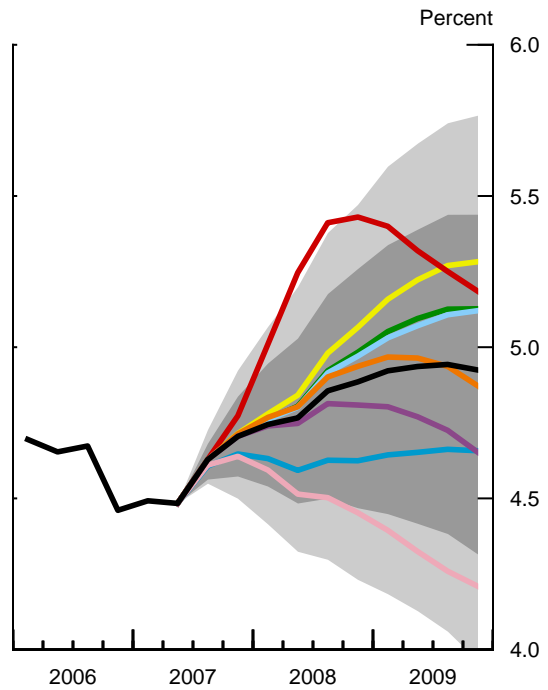
Confidence Intervals based on FRB/US Stochastic Simulations

- | | | |
|----------------------------------|-------------------------------------|---------------------------------|
| Greenbook baseline | Bank capital crunch | More cost pass-through |
| Greater housing correction (GHC) | Faster rebound | Greater wage restraint |
| GHC with larger wealth effect | Faster rebound with stronger demand | Market-based federal funds rate |

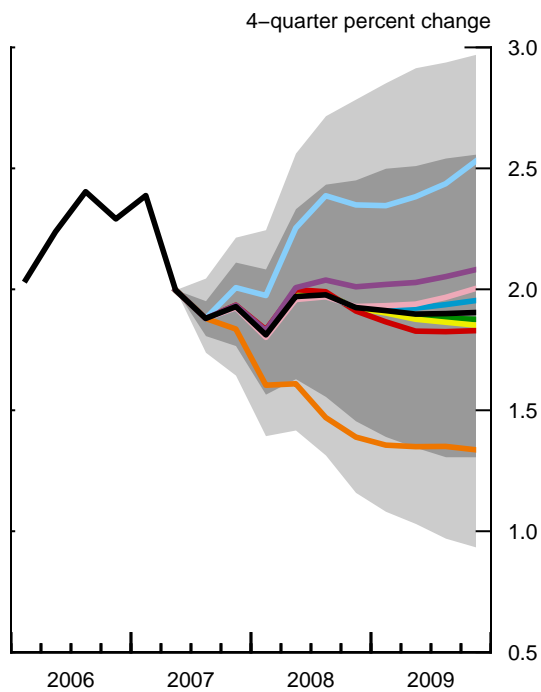
Real GDP



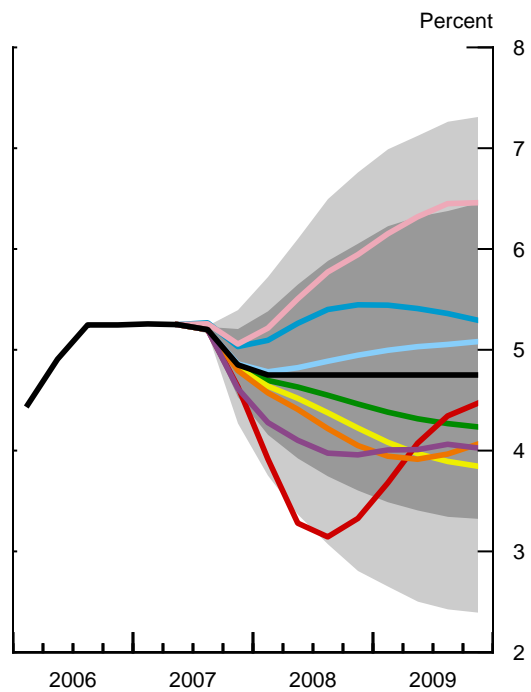
Unemployment Rate



PCE Prices excluding Food and Energy



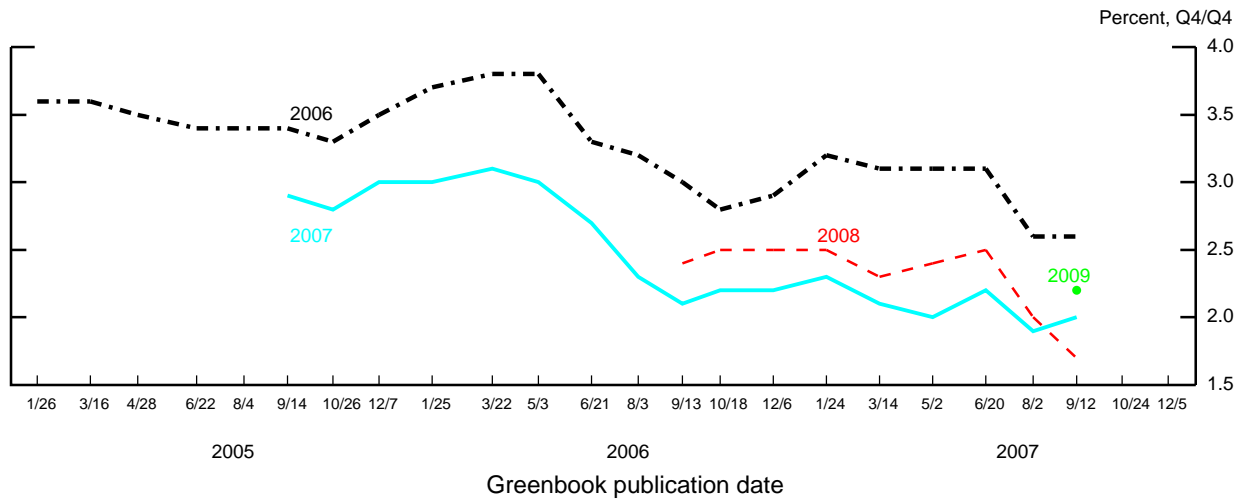
Federal Funds Rate



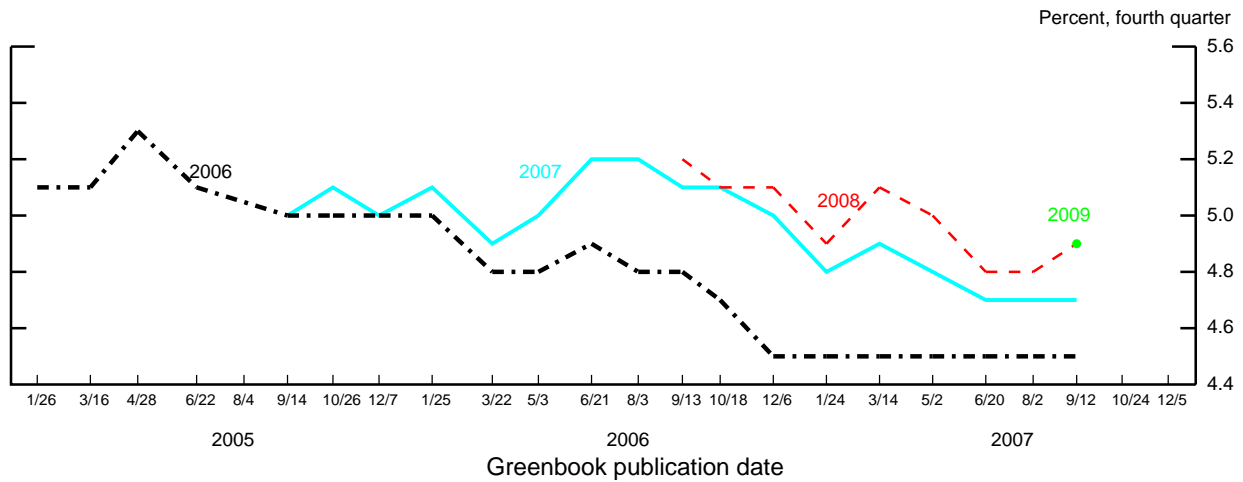
Class II FOMC - Restricted (FR)

Evolution of the Staff Forecast

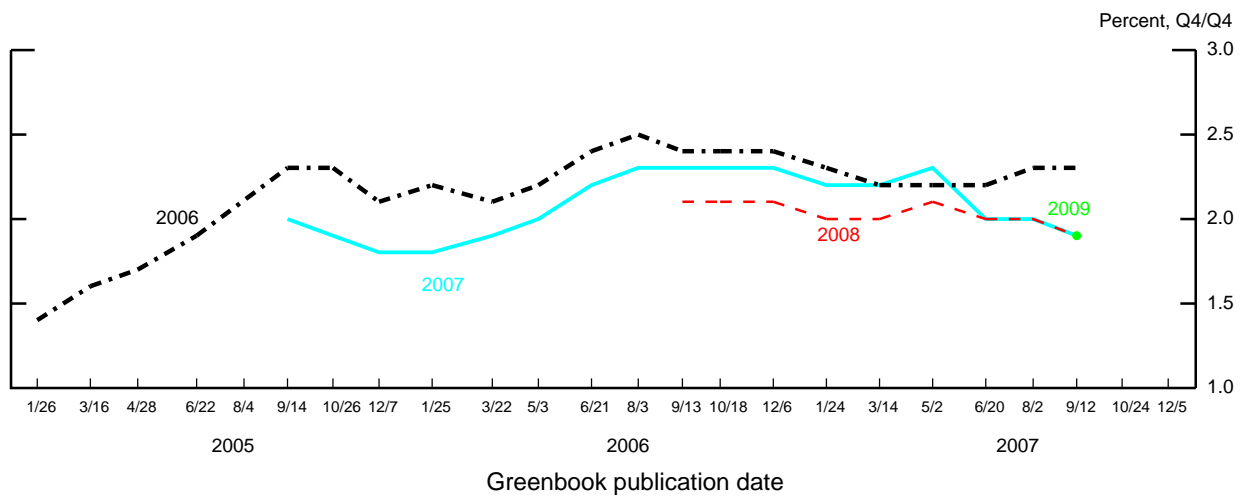
Change in Real GDP



Unemployment Rate



Change in PCE Prices excluding Food and Energy



Class II FOMC
Restricted (FR)

September 12, 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 ¹	
	08/02/07	09/12/07	08/02/07	09/12/07	08/02/07	09/12/07	08/02/07	09/12/07	08/02/07	09/12/07
<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	6.2	6.5	3.4	3.7	4.3	4.2	1.4	1.3	4.5	4.5
2007:Q3	3.6	3.5	2.2	2.6	2.2	1.6	2.0	1.9	4.6	4.6
2007:Q4	3.7	3.2	1.6	1.0	2.0	2.4	2.2	2.1	4.7	4.7
2008:Q1	4.1	3.5	1.8	1.3	1.7	1.5	2.1	2.0	4.7	4.7
2008:Q2	4.2	3.8	1.9	1.7	1.9	1.8	2.1	2.0	4.8	4.8
2008:Q3	4.3	3.9	2.0	1.8	1.9	1.8	2.0	1.9	4.8	4.9
2008:Q4	4.3	4.0	2.1	1.9	1.9	1.8	2.0	1.9	4.8	4.9
2009:Q1	...	4.3	...	2.1	...	1.8	...	1.9	...	4.9
2009:Q2	...	4.3	...	2.1	...	1.8	...	1.9	...	4.9
2009:Q3	...	4.3	...	2.2	...	1.8	...	1.9	...	4.9
2009:Q4	...	4.2	...	2.2	...	1.8	...	1.9	...	4.9
<i>Two-quarter²</i>										
2007:Q2	5.5	5.7	2.0	2.1	3.9	3.9	1.9	1.9	.0	.0
2007:Q4	3.7	3.4	1.9	1.8	2.1	2.0	2.1	2.0	.2	.2
2008:Q2	4.2	3.6	1.9	1.5	1.8	1.6	2.1	2.0	.1	.1
2008:Q4	4.3	3.9	2.1	1.9	1.9	1.8	2.0	1.9	.0	.1
2009:Q2	...	4.3	...	2.1	...	1.8	...	1.9	...	.0
2009:Q4	...	4.3	...	2.2	...	1.8	...	1.9	...	.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	4.6	4.5	1.9	2.0	3.0	2.9	2.0	1.9	.2	.2
2008:Q4	4.2	3.8	2.0	1.7	1.8	1.7	2.0	1.9	.1	.2
2009:Q4	...	4.3	...	2.2	...	1.8	...	1.9	...	.0
<i>Annual</i>										
2006	6.1	6.1	2.9	2.9	2.8	2.8	2.2	2.2	4.6	4.6
2007	4.6	4.6	1.8	1.9	2.5	2.4	2.1	2.0	4.6	4.6
2008	4.2	3.8	2.0	1.7	2.0	2.0	2.0	1.9	4.8	4.8
2009	...	4.1	...	2.0	...	1.8	...	1.9	...	4.9

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	3.7	2.6	1.0	1.3	1.7	1.8	1.9	2.1	2.1	2.2	2.2	2.0	1.7	2.2
Final sales <i>Previous</i>	.6	3.4	2.2	1.6	1.8	1.9	2.0	2.1	...	...	...	...	1.9	2.0	...
Priv. dom. final purch. <i>Previous</i>	1.3	3.5	2.2	.6	.8	2.3	2.1	1.7	1.8	2.7	2.3	1.6	1.9	1.7	2.1
Personal cons. expend. <i>Previous</i>	1.3	3.3	1.8	1.2	1.3	2.7	2.3	1.9	...	...	...	...	1.9	2.1	...
Durables	2.2	1.7	.9	.3	.5	1.2	1.8	1.9	2.2	2.3	2.3	2.3	1.3	1.3	2.3
Nondurables	2.2	1.5	.7	.9	1.2	1.8	2.2	2.2	...	...	...	...	1.3	1.9	...
Services	3.7	1.4	2.4	1.9	1.7	1.7	1.8	1.9	2.1	2.1	2.1	2.1	2.4	1.8	2.1
Residential investment <i>Previous</i>	3.7	1.3	2.0	1.9	2.0	2.0	2.0	2.0	...	...	...	...	2.2	2.0	...
Business fixed invest. <i>Previous</i>	8.8	1.7	3.2	2.3	1.9	1.7	1.8	2.3	3.0	3.0	2.9	3.0	4.0	1.9	3.0
Equipment & software <i>Previous</i>	3.0	-3	1.8	1.5	1.7	1.8	2.0	2.0	2.1	2.1	2.1	2.1	1.5	1.9	2.1
Nonres. structures <i>Previous</i>	3.1	2.3	2.6	2.0	1.6	1.6	1.7	1.8	2.0	2.0	2.0	2.0	2.5	1.7	2.0
Net exports ² <i>Previous</i> ²	-16.3	-12.4	-21.0	-28.2	-21.6	-10.2	1.7	2.7	2.3	2.4	2.6	2.7	-19.7	-7.4	2.5
Exports	-16.3	-10.4	-19.6	-21.3	-15.9	-4.5	2.1	3.4	...	...	...	...	-17.0	-4.0	...
Imports	2.1	10.4	1.9	3.5	2.2	2.0	1.7	1.8	2.9	3.1	3.1	3.2	4.5	1.9	3.1
Govt. cons. & invest. <i>Previous</i>	2.1	9.6	2.4	4.4	3.3	3.1	3.1	3.0	...	...	...	...	4.6	3.1	...
Federal	.3	4.1	2.7	4.7	3.0	2.4	2.4	2.7	3.7	4.0	4.0	4.2	3.0	2.6	4.0
Defense	.3	2.7	2.8	5.0	4.1	3.7	3.8	3.9	...	...	...	...	2.7	3.8	...
Nondefense	6.4	25.7	.4	1.0	.6	1.1	.3	.0	1.3	1.2	1.2	1.2	7.9	.5	1.2
State & local	6.4	26.6	1.4	3.2	1.6	1.8	1.5	1.1	...	...	...	...	9.0	1.5	...
Change in bus. inventories ² <i>Previous</i> ²	-612	-574	-548	-554	-555	-527	-519	-524	-533	-516	-508	-525	-572	-531	-520
Exports	-612	-581	-565	-566	-569	-544	-538	-544	...	...	...	...	-581	-549	...
Imports	1.1	7.8	13.3	5.9	5.8	5.8	5.9	5.9	5.9	5.9	5.9	5.8	6.9	5.8	5.9
Govt. cons. & invest. <i>Previous</i>	3.9	-2.5	3.8	5.4	4.3	-1.3	2.6	5.4	6.1	1.1	2.9	7.7	2.6	2.7	4.4
Federal	-.5	4.1	2.9	3.1	2.2	1.9	1.4	1.2	1.1	1.1	.9	.9	2.4	1.7	1.0
Defense	-.5	4.5	3.2	2.7	1.8	1.7	1.4	1.3	...	...	...	...	2.5	1.5	...
Nondefense	-6.3	5.9	6.0	4.5	3.0	2.5	1.8	1.3	1.1	1.0	1.0	1.0	2.4	2.2	1.0
State & local	-10.8	8.6	8.3	6.2	4.5	3.6	2.6	1.9	1.2	1.0	1.0	1.0	2.8	3.2	1.1
Change in bus. inventories ² <i>Previous</i> ²	3.8	-.5	1.4	.8	.0	.0	.0	.1	.8	.9	.9	.9	1.6	.0	.9
Nonfarm ²	3.0	3.1	1.2	2.3	1.7	1.6	1.2	1.1	1.1	1.1	.9	.9	2.4	1.4	1.0
Farm ²	0	4	14	23	36	20	12	19	28	11	7	26	10	22	18
Nonfarm ²	0	5	15	25	41	17	8	13	...	...	...	...	11	20	...
Farm ²	-6	-1	13	22	37	19	11	18	28	10	6	26	7	21	17
	5	4	1	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)

September 12, 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	2.0	1.7	2.2
	.2	1.9	3.7	3.1	2.9	2.6	1.9	2.0	...
Final sales <i>Previous</i>	1.5	.8	3.7	2.8	2.9	3.0	1.9	1.7	2.1
	1.5	.8	3.7	2.8	2.9	3.0	1.9	2.1	...
Priv. dom. final purch. <i>Previous</i>	1.0	1.1	4.1	4.3	3.3	2.4	1.3	1.3	2.3
	1.0	1.1	4.1	4.3	3.3	2.4	1.3	1.9	...
Personal cons. expend. <i>Previous</i>	2.8	1.9	3.4	3.7	2.8	3.4	2.4	1.8	2.1
	2.8	1.9	3.4	3.7	2.8	3.4	2.2	2.0	...
Durables	10.8	1.2	8.3	5.6	1.2	6.6	4.0	1.9	3.0
Nondurables	1.9	2.1	3.9	3.5	3.6	3.6	1.5	1.9	2.1
Services	1.6	1.9	2.2	3.3	2.7	2.6	2.5	1.7	2.0
Residential investment <i>Previous</i>	1.4	7.0	11.7	6.7	6.4	-12.8	-19.7	-7.4	2.5
	1.4	7.0	11.7	6.7	6.4	-12.8	-17.0	-4.0	...
Business fixed invest. <i>Previous</i>	-9.6	-6.5	4.9	7.5	5.1	5.2	4.5	1.9	3.1
	-9.6	-6.5	4.9	7.5	5.1	5.2	4.6	3.1	...
Equipment & software <i>Previous</i>	-9.0	-3.4	6.6	9.4	7.1	2.5	3.0	2.6	4.0
	-9.0	-3.4	6.6	9.4	7.1	2.5	2.7	3.8	...
Nonres. structures <i>Previous</i>	-11.1	-14.9	.2	2.3	-.3	12.3	7.9	.5	1.2
	-11.1	-14.9	.2	2.3	-.3	12.3	9.0	1.5	...
Net exports ² <i>Previous</i> ²	-399	-471	-519	-594	-618	-624	-572	-531	-520
	-399	-471	-519	-594	-618	-624	-581	-549	...
Exports	-11.9	3.8	5.8	7.4	7.0	9.3	6.9	5.8	5.9
Imports	-7.6	9.7	4.8	11.5	5.1	3.7	2.6	2.7	4.4
Govt. cons. & invest. <i>Previous</i>	5.0	4.0	1.7	.7	.9	2.5	2.4	1.7	1.0
	5.0	4.0	1.7	.7	.9	2.5	2.5	1.5	...
Federal	6.4	7.8	5.5	2.4	1.3	3.7	2.4	2.2	1.0
Defense	6.5	8.4	7.5	2.5	1.1	5.9	2.8	3.2	1.1
Nondefense	6.3	6.8	1.9	2.3	1.9	-.7	1.6	.0	.9
State & local	4.2	2.1	-.4	-.4	.7	1.8	2.4	1.4	1.0
Change in bus. inventories ² <i>Previous</i> ²	-32	12	14	54	33	40	10	22	18
	-32	12	14	54	33	40	11	20	...
Nonfarm ²	-32	15	14	48	34	42	7	21	17
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	3.7	2.6	1.0	1.3	1.7	1.8	1.9	2.1	2.1	2.2	2.2	2.0	1.7	2.2
Final sales <i>Previous</i>	.6	3.4	2.2	1.6	1.8	1.9	2.0	2.1	...	...	...	...	1.9	2.0	...
Priv. dom. final purch. <i>Previous</i>	1.3	3.5	2.2	.6	.8	2.3	2.0	1.7	1.8	2.7	2.3	1.6	1.9	1.7	2.1
Personal cons. expend. <i>Previous</i>	1.3	3.3	1.8	1.2	1.3	2.7	2.3	1.9	...	...	...	...	1.9	2.1	...
Durables	1.9	1.5	.8	.3	.4	1.0	1.5	1.7	1.9	1.9	1.9	1.9	1.1	1.1	1.9
Nondurables	1.9	1.3	.6	.7	1.0	1.5	1.8	1.9	...	...	...	...	1.1	1.6	...
Services	2.6	1.0	1.7	1.3	1.2	1.2	1.3	1.4	1.5	1.5	1.5	1.5	1.7	1.2	1.5
Residential investment <i>Previous</i>	2.6	.9	1.4	1.4	1.4	1.4	1.4	1.4	...	...	...	...	1.6	1.4	...
Business fixed invest. <i>Previous</i>	.7	.1	.2	.2	.1	.1	.1	.2	.2	.2	.2	.2	.3	.1	.2
Equipment & software <i>Previous</i>	.6	-.1	.4	.3	.3	.4	.4	.4	.4	.4	.4	.4	.3	.4	.4
Nonres. structures <i>Previous</i>	1.3	1.0	1.1	.8	.7	.7	.7	.8	.9	.9	.9	.9	1.0	.7	.9
Net exports <i>Previous</i>	-9	-7	-1.1	-1.4	-1.0	-.4	.1	.1	.1	.1	.1	.1	-1.0	-.3	.1
Exports	-9	-5	-1.0	-1.1	-.7	-.2	.1	.1	...	...	...	...	-.9	-.2	...
Imports	.2	1.1	.2	.4	.2	.2	.2	.2	.3	.3	.3	.3	.5	.2	.3
Govt. cons. & invest. <i>Previous</i>	.2	1.0	.3	.5	.3	.3	.3	.3	...	...	...	...	.5	.3	...
Federal	.0	.3	.2	.3	.2	.2	.2	.2	.3	.3	.3	.3	.2	.2	...
Defense	.0	.2	.2	.4	.3	.3	.3	.3	...	...	...	...	.2	.2	...
Nondefense	.2	.8	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.3	.0	.0
State & local	.2	.8	.0	.1	.1	.1	.1	.0	...	...	...	...	.3	.1	...
Change in bus. inventories <i>Previous</i>	-5	1.3	.8	-2	-1	.9	.3	-2	-3	.5	.2	-6	.4	.2	.0
Nonfarm	-5	1.0	.5	-1	-1	.8	.2	-2	...	...	...	...	.3	.2	...
Farm	.1	.9	1.5	.7	.7	.7	.7	.7	.7	.7	.7	.7	.8	.7	.7
	-6	.4	-.6	-.9	-.7	.2	-.4	-.9	-1.0	-.2	-.5	-1.3	-.4	-.5	-.7
Govt. cons. & invest. <i>Previous</i>	-1	.8	.6	.6	.4	.4	.3	.2	.2	.2	.2	.2	.5	.3	.2
Federal	-1	.9	.6	.5	.4	.3	.3	.3	...	...	...	...	.5	.3	...
Defense	-5	.4	.4	.3	.2	.2	.1	.1	.1	.1	.1	.1	.2	.2	.1
Nondefense	-5	.4	.4	.3	.2	.2	.1	.1	.1	.1	.1	.1	.1	.2	.1
State & local	.1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
Change in bus. inventories <i>Previous</i>	.4	.4	.1	.3	.2	.2	.1	.1	.1	.1	.1	.1	.3	.2	.1
Nonfarm	-7	.1	.4	.3	.5	-.6	-.3	.2	.3	-.6	-.2	.6	.1	.0	.1
Farm	-7	.2	.4	.4	.6	-.8	-.3	.2	...	...	...	...	.1	-.1	...
	-7	.2	.5	.3	.5	-.6	-.3	.2	.3	-.6	-.2	.6	.1	.0	.1
	.0	.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)

September 12, 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	2.7	.8	2.3	2.1	2.1	2.1	2.0	2.2	2.1	2.0	2.0	2.5	2.1	2.1
PCE chain-wt. price index <i>Previous</i>	4.2	2.7	1.4	2.1	2.2	2.3	2.3	2.2	...	...	...	...	2.6	2.2	...
Energy <i>Previous</i>	3.5	4.2	1.6	2.4	1.5	1.8	1.8	1.8	1.8	1.8	1.8	1.8	2.9	1.7	1.8
Food <i>Previous</i>	3.5	4.3	2.2	2.0	1.7	1.9	1.9	1.9	...	...	...	...	3.0	1.8	...
Ex. food & energy <i>Previous</i>	16.1	51.3	-6.9	5.8	-6.7	-2.1	-6	-8	-9	-8	-8	-9	14.7	-2.6	-9
CPI <i>Previous</i>	16.1	51.5	.1	-1.9	-4.2	-1.7	-3	-2	...	...	...	...	14.6	-1.6	...
Ex. food & energy <i>Previous</i>	4.8	4.7	4.2	2.9	2.4	2.3	2.2	2.2	2.1	2.1	2.1	2.1	4.2	2.2	2.1
CPI <i>Previous</i>	4.8	4.7	3.8	2.8	2.4	2.3	2.2	2.2	...	...	...	...	4.0	2.2	...
Ex. food & energy <i>Previous</i>	2.4	1.3	1.9	2.1	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
CPI <i>Previous</i>	2.4	1.4	2.0	2.2	2.1	2.1	2.0	2.0	...	...	...	...	2.0	2.0	...
Ex. food & energy <i>Previous</i>	3.8	6.0	1.9	2.6	1.4	1.8	1.9	1.8	1.8	1.8	1.8	1.8	3.6	1.7	1.8
Ex. food & energy <i>Previous</i>	3.8	6.0	2.4	2.0	1.7	1.9	2.0	2.0	...	...	...	...	3.5	1.9	...
Ex. food & energy <i>Previous</i>	2.3	1.9	2.6	2.3	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.3	2.1	2.1
Ex. food & energy <i>Previous</i>	2.3	1.9	2.4	2.4	2.3	2.3	2.2	2.2	...	...	...	...	2.2	2.2	...
EI, hourly compensation ² <i>Previous</i> ²	2.3	3.5	3.8	3.8	3.7	3.7	3.7	3.7	3.7	3.6	3.6	3.6	3.4	3.7	3.6
Nonfarm business sector Output per hour <i>Previous</i>	2.3	3.5	3.8	3.8	3.9	3.9	3.9	3.9	...	...	...	...	3.4	3.9	...
Compensation per hour <i>Previous</i>	.7	2.2	3.4	1.4	1.3	1.8	1.8	2.0	1.9	1.8	1.9	1.9	1.9	1.7	1.9
Unit labor costs <i>Previous</i>	.7	2.0	2.3	1.6	1.9	1.9	2.0	2.1	...	...	...	...	1.7	2.0	...
Compensation per hour <i>Previous</i>	5.9	4.1	5.0	3.9	3.9	4.5	4.6	4.5	4.3	4.3	4.2	4.2	4.7	4.4	4.2
Unit labor costs <i>Previous</i>	3.6	4.0	4.3	4.6	4.7	4.7	4.7	4.7	...	...	...	...	4.2	4.7	...
Unit labor costs <i>Previous</i>	5.2	1.8	1.5	2.4	2.5	2.7	2.7	2.5	2.4	2.4	2.3	2.2	2.7	2.6	2.3
Unit labor costs <i>Previous</i>	2.9	2.0	1.9	3.0	2.8	2.7	2.7	2.5	...	...	...	...	2.4	2.7	...

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

2. Private-industry workers.

Class II FOMC
Restricted (FR)

September 12, 2007

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	.2	.2	.1	.2	.2	.2	.2	.3	.3	.3	1.3	.8	1.0
Unemployment rate ³	4.5	4.5	4.6	4.7	4.7	4.8	4.9	4.9	4.9	4.9	4.9	4.9	4.7	4.9	4.9
<i>Previous³</i>	4.5	4.5	4.6	4.7	4.7	4.8	4.8	4.8	...	...	...	...	4.7	4.8	...
GDP gap ⁴	.1	.4	.5	.2	.0	-1	-2	-3	-3	-3	-2	-2	.2	-3	-2
<i>Previous⁴</i>	.3	.6	.6	.4	.3	.3	.2	.2	...	...	...	...	.4	.2	...
Industrial production ⁵	1.1	3.3	3.6	1.1	1.0	1.5	2.4	3.6	3.1	2.7	2.8	2.8	2.2	2.1	2.8
<i>Previous⁵</i>	1.1	2.9	2.9	2.2	2.3	2.0	2.5	3.9	...	...	...	...	2.3	2.7	...
Manufacturing industr. prod. ⁵	.8	3.9	4.0	.5	.7	1.7	2.5	3.5	3.3	3.0	3.0	3.0	2.3	2.1	3.1
<i>Previous⁵</i>	.8	3.4	4.4	1.3	1.7	2.1	2.7	3.7	...	...	...	...	2.4	2.5	...
Capacity utilization rate - mfg. ³	79.8	80.2	80.6	80.3	79.9	79.8	79.8	80.0	80.1	80.2	80.3	80.4	80.3	80.0	80.4
<i>Previous³</i>	79.8	80.1	80.5	80.4	80.2	80.1	80.1	80.3	...	...	...	...	80.4	80.3	...
Housing starts ⁶	1.5	1.5	1.3	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.2	1.3
Light motor vehicle sales ⁶	16.4	16.0	15.8	15.9	16.0	16.0	16.1	16.1	16.1	16.1	16.1	16.1	16.0	16.0	16.1
<i>Income and saving</i>															
Nominal GDP ⁵	4.9	6.5	3.5	3.2	3.5	3.8	3.9	4.0	4.3	4.3	4.3	4.2	4.5	3.8	4.3
Real disposable pers. income ⁵	5.4	.2	4.0	.2	3.1	2.4	2.5	2.8	3.6	2.4	2.4	2.2	2.4	2.7	2.6
<i>Previous⁵</i>	5.9	-8	2.9	1.9	3.7	2.2	2.6	2.6	...	...	...	...	2.5	2.8	...
Personal saving rate ³	1.0	.5	.9	.5	.9	1.0	1.2	1.4	1.7	1.8	1.9	1.9	.5	1.4	1.9
<i>Previous³</i>	1.1	.6	.8	.8	1.2	1.2	1.4	1.5	...	...	...	...	.8	1.5	...
Corporate profits ⁷	4.4	24.7	-2.0	-.7	-3.6	-1.7	-2.0	-2.5	-1.0	1.6	1.6	1.7	6.1	-2.4	1.0
Profit share of GNP ³	11.4	11.8	11.7	11.6	11.4	11.2	11.1	10.9	10.8	10.7	10.6	10.6	11.6	10.9	10.6
Net federal saving ⁸	-219	-194	-222	-223	-277	-280	-288	-307	-334	-336	-333	-333	-214	-288	-334
Net state & local saving ⁸	-6	8	-3	-0	-6	-9	-14	-16	-21	-21	-22	-23	-0	-11	-22
Gross national saving rate ³	13.8	14.0	13.8	13.4	13.1	13.1	13.1	13.0	13.0	13.0	13.1	13.1	13.4	13.0	13.1
Net national saving rate ³	1.7	1.9	1.8	1.3	1.0	1.0	.9	.8	.8	.8	.9	.9	1.3	.8	.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)

September 12, 2007

Item	Fiscal year				2007				2008				2009			
	2006 ^a	2007	2008	2009	Q1 ^a	Q2 ^a	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts ¹	2407	2569	2670	2769	547	824	623	606	558	851	655	642	569	875	682	655
Outlays ¹	2655	2729	2896	3024	725	687	663	724	734	722	716	758	766	754	746	787
Surplus/deficit ¹	-248	-161	-226	-255	-178	137	-40	-118	-176	129	-61	-115	-197	121	-64	-131
<i>Previous</i>	-248	-165	-225	<i>n.a.</i>	-178	137	-44	-112	-177	127	-63	-116	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
On-budget	-435	-352	-430	-472	-212	53	-56	-187	-202	35	-76	-189	-224	21	-80	-210
Off-budget	186	191	204	217	34	85	16	69	26	94	15	74	27	101	16	79
Means of financing																
Borrowing	237	189	196	273	152	-110	88	80	148	-98	66	110	187	-92	68	126
Cash decrease	-16	-18	35	0	25	-19	-45	40	21	-26	0	10	15	-25	0	10
Other ²	28	-10	-5	-18	1	-8	-3	-2	6	-5	-5	-5	-5	-5	-5	-5
Cash operating balance, end of period	52	70	35	35	6	25	70	30	9	35	35	25	10	35	35	25
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	2437	2643	2755	2850	2620	2683	2705	2727	2743	2764	2786	2809	2835	2863	2892	2922
Expenditures	2685	2846	3022	3177	2838	2877	2927	2950	3020	3044	3074	3115	3169	3199	3225	3255
Consumption expenditures	798	843	901	941	830	850	865	879	900	909	917	924	939	946	953	960
Defense	533	570	615	644	556	574	587	598	613	621	628	633	643	647	652	656
Nondefense	266	273	286	297	274	276	278	281	286	276	288	291	296	299	301	304
Other spending	1887	2004	2121	2236	2008	2027	2062	2072	2120	2135	2157	2191	2230	2253	2272	2295
Current account surplus	-248	-204	-267	-327	-219	-194	-222	-223	-277	-280	-288	-307	-334	-336	-333	-333
Gross investment	117	121	128	131	117	119	123	125	127	128	130	130	131	132	132	133
Gross saving less gross investment ³	-262	-215	-281	-341	-227	-203	-234	-237	-291	-294	-302	-320	-347	-349	-346	-345
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-284	-237	-284	-328	-241	-225	-259	-251	-295	-293	-295	-309	-334	-336	-333	-334
Change in HEB, percent of potential GDP	-0.5	-0.4	0.3	0.2	0.1	-0.1	0.2	-0.1	0.3	-0.0	-0.0	0.1	0.1	-0.0	-0.0	-0.0
Fiscal impetus (FI), percent of GDP	0.3	0.2	0.3	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	<i>n.a.</i>	-0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>

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** **September 12, 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	10.8	13.3	5.7	2.5	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	11.4	13.9	5.5	5.8	7.4	9.0	6.5
2005	9.0	10.5	12.3	4.3	7.7	10.2	7.0	6.3
2006	8.7	10.0	10.9	4.6	9.6	8.2	3.9	5.4
2007	6.9	6.0	6.2	4.4	9.0	10.1	4.3	4.5
2008	4.8	3.5	3.4	2.9	6.3	7.2	4.4	3.8
2009	4.9	3.5	3.5	2.8	6.1	6.3	5.4	4.3
<i>Quarter</i>								
2007:1	7.9	7.1	7.7	4.9	8.9	11.1	6.7	4.9
2	7.1	7.1	7.3	5.0	10.6	11.9	-1.4	6.5
3	6.7	5.1	5.1	4.0	8.3	8.7	7.4	3.5
4	5.4	4.3	4.2	3.5	7.0	7.1	4.4	3.2
2008:1	5.2	3.8	3.7	3.2	6.1	7.3	6.1	3.5
2	4.0	3.5	3.4	2.9	6.4	7.2	-.4	3.8
3	4.8	3.3	3.2	2.8	6.1	6.9	5.3	3.9
4	4.8	3.2	3.0	2.7	5.9	6.8	6.5	4.0
2009:1	5.3	3.4	3.3	2.7	6.0	6.3	8.7	4.3
2	3.9	3.5	3.4	2.7	6.0	6.2	.1	4.3
3	4.8	3.5	3.5	2.7	5.9	6.1	5.3	4.3
4	5.1	3.6	3.6	2.8	5.9	6.0	7.3	4.2

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2007:Q2 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** **September 12, 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	1678.9	1297.7	1125.4	1303.8	1203.8	983.9	1161.5	868.1	1217.9	1253.9	1445.5	1012.8	1311.6	1445.4		
Net equity issuance	-614.1	-700.3	-352.0	-272.0	-806.4	-652.0	-432.0	-392.0	-292.0	-292.0	-272.0	-272.0	-272.0	-272.0		
Net debt issuance	2293.0	1998.0	1477.4	1575.8	2010.2	1635.9	1593.5	1260.1	1509.9	1545.9	1717.5	1284.8	1583.6	1717.4		
Borrowing indicators																
Debt (percent of GDP) ¹	209.6	215.9	220.3	221.7	217.1	218.6	219.6	220.1	220.4	220.9	221.3	221.6	221.7	222.1		
Borrowing (percent of GDP)	17.4	14.5	10.3	10.6	14.5	11.7	11.3	8.8	10.5	10.6	11.7	8.7	10.6	11.3		
Households																
Net borrowing ²	1165.7	771.9	475.6	500.6	676.4	577.9	515.7	482.2	460.2	444.4	476.9	493.0	508.0	524.7		
Home mortgages	958.4	605.2	348.0	375.4	514.4	429.4	382.2	353.9	335.1	320.9	353.9	368.1	382.2	397.3		
Consumer credit	105.6	107.0	73.9	71.8	98.5	87.0	80.5	74.7	71.3	69.1	69.1	71.6	72.4	74.0		
Debt/DPI (percent) ³	127.6	130.2	130.8	129.5	130.7	131.4	131.2	131.1	130.8	130.4	129.7	129.5	129.3	129.2		
Business																
Financing gap ⁴	186.6	225.6	272.3	309.6	217.5	241.9	273.1	261.3	265.3	289.3	309.3	297.1	300.2	331.9		
Net equity issuance	-614.1	-700.3	-352.0	-272.0	-806.4	-652.0	-432.0	-392.0	-292.0	-292.0	-272.0	-272.0	-272.0	-272.0		
Credit market borrowing	791.6	813.6	616.4	636.5	784.2	682.3	605.4	638.4	617.2	604.8	627.1	638.1	640.2	640.6		
State and local governments																
Net borrowing	152.4	201.9	159.7	149.7	184.9	153.7	161.7	161.7	157.7	157.7	149.7	149.7	149.7	149.7		
Current surplus ⁵	243.8	199.0	185.9	185.6	186.1	191.6	187.2	186.5	184.7	185.2	182.4	185.5	186.6	188.0		
Federal government																
Net borrowing	183.4	210.5	225.6	289.0	364.8	221.9	310.7	-22.2	274.9	339.0	463.8	4.0	285.7	402.4		
Net borrowing (n.s.a.)	183.4	210.5	225.6	289.0	88.2	80.5	148.3	-98.1	65.7	109.7	186.6	-91.6	68.4	125.6		
Unified deficit (n.s.a.)	209.2	198.5	223.3	271.0	39.9	118.0	175.8	-128.9	61.2	115.2	197.1	-121.1	63.9	131.1		
<i>Depository institutions</i>																
Funds supplied	693.7	597.6	334.7	536.2	995.8	183.5	280.5	388.4	386.0	283.8	572.2	566.7	552.6	453.1		

Note. Data after 2007:Q2 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: H1	Projection			
			2007		2008	2009
			Q3	Q4		
Foreign output	3.9	4.3	3.4	3.1	3.2	3.2
August GB	3.9	4.1	3.6	3.5	3.4	...
Foreign CPI	2.1	2.9	4.1	2.3	2.3	2.3
August GB	2.1	2.9	3.1	2.3	2.3	...
Contribution to growth (percentage points)						
U.S. net exports	0.4	0.4	0.8	-0.2	0.2	0.0
August GB	0.4	0.3	0.5	-0.1	0.2	...

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

... Not applicable.

Oil Prices

The spot price of West Texas intermediate (WTI) crude oil closed at \$78.24 per barrel on September 11, up about \$2 since the time of the August Greenbook. In contrast, WTI futures prices for delivery in 2008 and beyond fell a bit. Given the path of futures prices, we project that the price of imported oil, which includes a mix of grades and petroleum products, will rise from \$70 per barrel in the current quarter to \$72 in the fourth quarter and then fall to about \$66 by the end of the forecast period. Relative to the August Greenbook, this projection is about \$1 per barrel lower, on average, in 2008.

The relatively small change in our projected path of oil prices masks some notable developments over the past month. Prices fell rapidly throughout much of early August, primarily reflecting concerns about the potential negative impact of recent financial market developments on the global demand for oil. Late in the month, however, and moving into early September, larger than expected U.S. inventory draws – reflecting, in part, production disruptions related to Hurricane Dean – helped drive prices higher, more than offsetting the earlier declines.

On September 11, OPEC member countries (not including Iraq and Angola) agreed to increase crude oil production 500,000 barrels per day, effective November 1, 2007.

However, it is unclear whether the proposed production hike will actually be implemented. Moreover, the size of the agreed increase is relatively small, restoring less

Staff Projections of Selected Trade Prices

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

Trade category	2006	2007: H1	Projection			
			2007		2008	2009
			Q3	Q4		
<i>Imports</i>						
Core goods	2.4	3.0	2.8	2.5	1.2	1.0
August GB	2.4	3.1	4.1	3.1	1.6	...
Oil (dollars per barrel)	55.33	63.84	70.25	72.09	67.32	65.99
August GB	55.33	63.78	71.30	71.57	68.38	...
<i>Exports</i>						
Core goods	4.3	6.6	2.9	2.0	0.7	0.9
August GB	4.3	6.5	4.2	2.6	1.5	...

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

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

... Not applicable.

After rising at an annual rate of 7 percent in the second quarter, we expect core export prices to decelerate sharply to 3 percent in the current quarter. Data for July showed only a tepid increase in core export prices, and prices for material-intensive goods, which rose at a double-digit rate in the first half of this year, were flat. Prices for exported industrial supplies (excluding fuels and agricultural products), which fell in July for the first time this year, were pulled down by declines in prices for some metals. We expect core export prices to decelerate further, leveling out below 1 percent early next year. This projection reflects an expected path for commodity prices that is consistent with futures markets and is roughly flat over the next two years. The forecast is down 1¼ percentage points in the current quarter, primarily because of a downward revision to projected U.S. producer prices for petroleum and, to a lesser extent, because of the recent decline in spot prices for metals. The forecast is also down through the end of next year, due to lower projected inflation for metals and agricultural exports.

Trade in Goods and Services

After contributing 1¼ percentage points at an annual rate to U.S. GDP growth last quarter, we project that real net exports will add more than ¾ percentage point to GDP growth in the current quarter. For the remainder of the forecast period, the contribution is expected to be more modest, but to remain positive on average, as import growth picks

up from its recent slow pace and as export growth moderates. Compared with the August Greenbook projection, the contribution of net exports has been revised up somewhat in the second and third quarters, as the June and July data on nominal exports came in particularly strong, but is little changed thereafter.

Real imports of goods and services fell at an annual rate of 2½ percent in the second quarter, in line with the estimate in the August Greenbook. After a modest increase in June, nominal imports rose briskly in July, with noticeable gains in imports of automotive products and machinery. Accordingly, we expect that real imports will rise at a 3¾ percent pace in the current quarter. Much of the projected turnaround reflects a pickup in core imports and services, as the unusual contraction in the second quarter gives way to growth more in line with U.S. GDP. Imports of computers, which declined in the previous quarter, are also expected to move up, and we project imports of oil to continue to decline.

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

Measure	2006	2007: H1	Projection			
			2007		2008	2009
			Q3	Q4		
Real imports	3.7	0.6	3.8	5.4	2.7	4.4
August GB	3.7	0.7	1.0	4.5	3.0	...
Real exports	9.3	4.4	13.3	5.9	5.8	5.9
August GB	9.3	3.3	6.3	6.1	5.8	...

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

In the fourth quarter, real import growth is expected to strengthen further, as a rebound in oil imports offsets some moderation in core goods and services, which are restrained by the step down in U.S. GDP growth. Over the course of 2008 and into 2009, imports of core goods and services gradually accelerate in response to firming GDP growth and the deceleration of import prices. Imports of computers and semiconductors expand steadily as well, whereas, smoothing through the quarterly volatility, oil imports are roughly flat. Compared with the August Greenbook projection, the forecast for real imports is stronger in the third quarter, as imports in July came in above expectations. Thereafter, the outlook is little changed, as the restraint from slightly slower U.S. real GDP growth is offset by the lower path of core import prices.

Alternative Scenarios:
Weaker Foreign Demand and Dollar Appreciation
 (Percent change from previous period, annual rate)

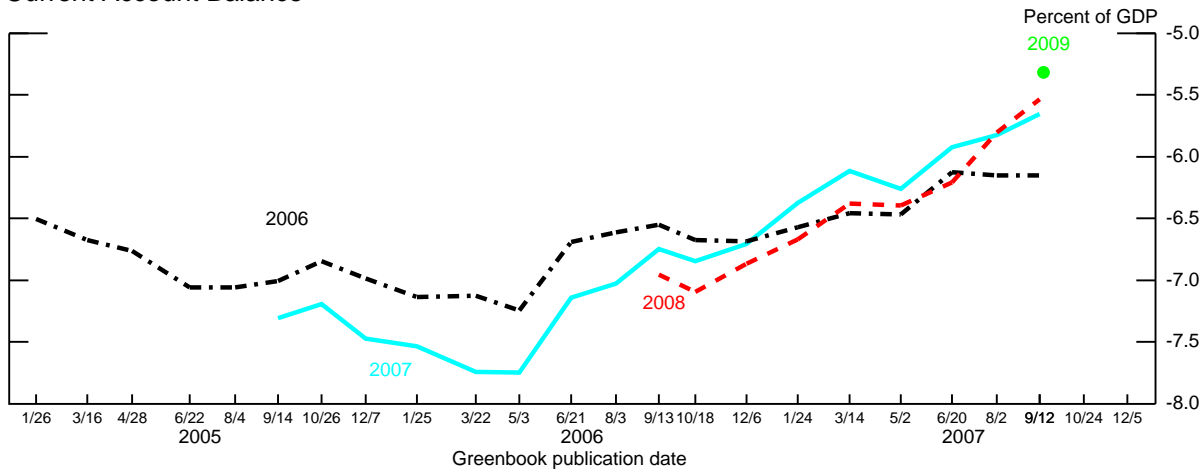
Indicator and simulation	2007		2008		2009	
	H1	H2	H1	H2	H1	H2
<i>U.S. real GDP</i>						
Baseline	2.1	1.8	1.5	1.9	2.1	2.2
Weaker foreign demand	2.1	1.8	1.3	1.6	1.8	2.0
Additional dollar appreciation	2.1	1.8	1.0	1.0	1.2	1.9
<i>U.S. PCE prices (excluding food and energy)</i>						
Baseline	1.9	2.0	2.0	1.9	1.9	1.9
Weaker foreign demand	1.9	2.0	1.9	1.8	1.8	1.8
Additional dollar appreciation	1.9	2.0	1.8	1.7	1.7	1.7
<i>U.S. federal funds rate, (percent)</i>						
Baseline	5.25	5.0	4.75	4.75	4.75	4.75
Weaker foreign demand	5.25	5.0	4.65	4.35	4.15	3.95
Additional dollar appreciation	5.25	5.0	4.45	3.85	3.25	2.95
<i>U.S. trade balance (percent of GDP)</i>						
Baseline	-5.2	-5.2	-5.0	-4.7	-4.6	-4.4
Weaker foreign demand	-5.2	-5.1	-4.9	-4.7	-4.7	-4.6
Additional dollar appreciation	-5.2	-5.1	-4.8	-4.8	-5.0	-5.0

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.

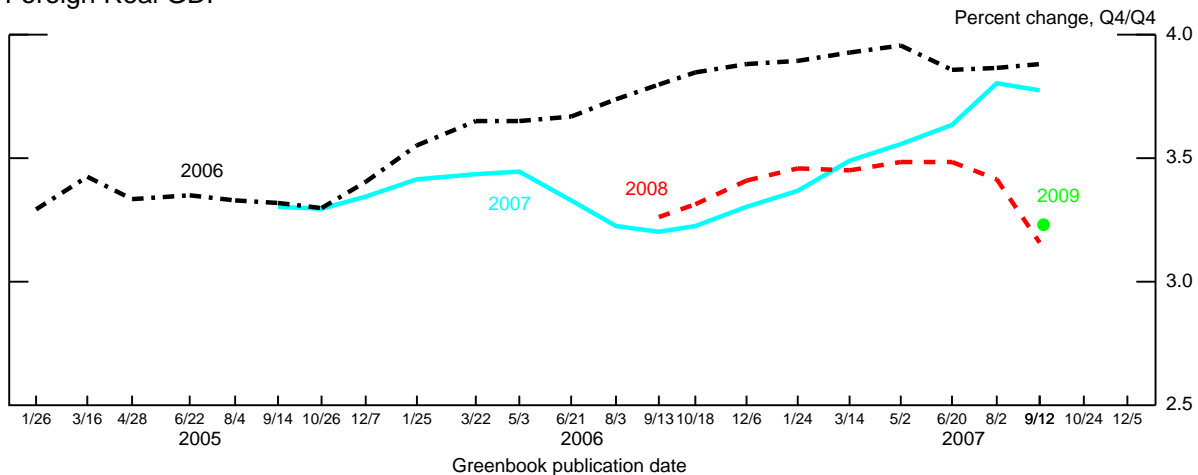
Class II FOMC -- Restricted (FR)

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.

Class II FOMC

Restricted (FR)

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

September 12, 2007

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	3.8	3.9	3.8	3.2	3.2
Advanced Foreign Economies	0.9	2.5	1.8	2.6	2.7	2.5	2.6	2.0	2.1
of which:									
Canada	1.3	3.5	1.5	3.5	3.2	1.9	2.8	1.6	2.0
Japan	-1.7	2.0	2.4	1.1	2.8	2.5	1.1	1.9	1.6
United Kingdom	2.1	2.3	3.4	2.6	1.8	3.1	2.7	2.4	2.4
Euro Area (2)	1.1	1.0	1.1	1.6	1.9	3.3	2.2	2.0	2.0
Germany	1.1	-0.0	0.1	0.1	1.6	3.9	2.1	2.0	2.0
Emerging Market Economies	-0.4	4.0	4.8	5.6	5.4	5.7	5.5	4.8	4.8
Asia	1.1	6.4	6.9	5.9	7.5	6.7	7.5	6.3	6.3
Korea	4.7	7.7	4.2	2.9	5.7	4.0	5.2	4.6	4.4
China	7.1	8.5	10.1	9.6	10.0	10.4	11.8	9.7	9.5
Latin America	-1.3	1.6	2.4	5.3	3.1	4.9	3.6	3.3	3.4
Mexico	-1.3	2.0	2.1	4.8	2.5	4.3	3.2	3.1	3.2
Brazil	-0.7	5.0	0.8	5.0	3.1	4.7	3.8	4.1	4.1
CONSUMER PRICES (3)									

Advanced Foreign Economies	0.9	2.1	1.3	1.8	1.5	1.3	2.0	1.7	1.7
of which:									
Canada	1.1	3.8	1.7	2.3	2.2	1.3	3.0	2.4	2.0
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	1.9	2.1	2.0
Euro Area (2)	2.1	2.3	2.0	2.3	2.3	1.8	2.2	1.8	1.9
Germany	1.5	1.2	1.1	2.1	2.2	1.3	2.2	1.7	1.8
Emerging Market Economies	2.8	2.9	3.1	3.9	3.0	2.9	4.1	3.0	3.1
Asia	1.2	0.8	2.2	3.2	2.6	2.3	4.2	2.7	2.8
Korea	3.3	3.3	3.5	3.4	2.5	2.1	2.8	2.7	2.3
China	-0.1	-0.6	2.7	3.3	1.4	2.1	5.4	2.6	2.9
Latin America	5.3	6.4	4.9	5.7	3.8	4.2	4.0	3.7	3.8
Mexico	5.1	5.2	3.9	5.3	3.1	4.1	3.5	3.5	3.5
Brazil	7.5	10.7	11.5	7.2	6.1	3.2	4.3	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.

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	4.1	4.6	3.4	3.1	3.1	3.1	3.2	3.3	3.2	3.2	3.2	3.2
Advanced Foreign Economies	3.7	2.4	2.3	1.9	1.9	1.9	2.0	2.1	2.1	2.1	2.1	2.1
of which:												
Canada	3.9	3.4	2.2	1.7	1.5	1.5	1.6	2.0	2.0	2.0	2.0	2.1
Japan	3.0	-1.2	1.3	1.6	2.0	2.2	1.9	1.7	1.7	1.7	1.6	1.6
United Kingdom	2.8	3.4	2.5	2.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Euro Area (2)	2.9	1.4	2.5	2.0	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0
Germany	2.2	1.0	2.9	2.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Emerging Market Economies	4.7	7.7	4.9	4.7	4.7	4.8	4.9	4.9	4.9	4.9	4.8	4.8
Asia	7.5	10.1	6.2	6.2	6.3	6.3	6.4	6.3	6.3	6.3	6.3	6.3
Korea	3.6	7.4	5.0	4.7	4.6	4.6	4.6	4.5	4.5	4.5	4.4	4.4
China	14.2	14.7	9.4	9.2	9.5	9.7	10.0	9.7	9.5	9.5	9.5	9.5
Latin America	1.9	5.5	3.6	3.2	3.2	3.2	3.5	3.5	3.5	3.5	3.4	3.4
Mexico	1.2	5.3	3.4	2.9	2.8	2.9	3.3	3.3	3.3	3.3	3.2	3.2
Brazil	3.1	4.3	4.0	4.0	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
CONSUMER PRICES (3)												
----- Four-quarter changes -----												
Advanced Foreign Economies	1.6	1.6	1.6	2.0	1.9	1.7	1.8	1.7	1.7	1.7	1.7	1.7
of which:												
Canada	1.9	2.0	2.3	3.0	2.5	2.3	2.5	2.4	2.2	2.1	2.0	2.0
Japan	-0.1	-0.0	-0.1	0.1	0.3	0.2	0.2	0.3	0.4	0.5	0.5	0.5
United Kingdom (4)	2.9	2.6	1.9	1.9	1.8	1.8	2.2	2.1	2.0	2.0	2.0	2.0
Euro Area (2)	1.9	1.9	1.9	2.2	2.1	1.9	1.9	1.8	1.9	1.9	1.9	1.9
Germany	1.9	2.0	2.1	2.2	1.9	1.7	1.7	1.7	1.7	1.8	1.8	1.8
Emerging Market Economies	3.1	3.3	4.3	4.1	4.0	3.9	2.9	3.0	3.0	3.0	3.1	3.1
Asia	2.7	3.0	4.4	4.2	4.1	3.8	2.6	2.7	2.7	2.7	2.7	2.8
Korea	2.0	2.5	2.3	2.8	3.3	2.8	2.8	2.7	2.6	2.5	2.4	2.3
China	2.8	3.6	6.0	5.4	5.1	4.5	2.3	2.6	2.6	2.6	2.7	2.9
Latin America	4.2	4.2	4.2	4.0	3.7	4.0	3.8	3.7	3.7	3.8	3.8	3.8
Mexico	4.1	4.0	3.9	3.5	3.4	3.8	3.6	3.5	3.5	3.5	3.5	3.5
Brazil	3.1	3.4	4.2	4.3	3.8	3.9	3.7	3.7	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.

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	0.4	0.2	-0.0
Exports of G&S	-1.3	0.4	0.6	0.7	0.7	1.0	0.8	0.7	0.7
Imports of G&S	1.1	-1.3	-0.7	-1.7	-0.8	-0.6	-0.4	-0.5	-0.7
	Percentage change, Q4/Q4								
Exports of G&S	-11.9	3.8	5.8	7.4	7.0	9.3	6.9	5.8	5.9
Services	-8.9	10.2	3.0	8.3	4.1	8.3	6.6	6.1	5.0
Computers	-23.5	-1.1	11.3	5.8	14.0	8.2	0.9	9.5	9.5
Semiconductors	-34.6	10.1	38.3	-6.0	17.5	2.4	17.8	11.0	11.0
Core Goods 1/	-10.2	0.6	4.9	8.0	7.5	10.2	6.9	5.3	5.9
Imports of G&S	-7.6	9.7	4.8	11.5	5.1	3.7	2.6	2.7	4.4
Services	-5.9	8.8	2.2	9.3	1.4	6.1	0.7	2.0	3.0
Oil	3.7	3.8	1.2	10.8	1.2	-9.0	2.7	-1.7	1.2
Natural Gas	-6.5	19.5	1.3	4.9	11.3	-13.4	6.6	1.3	0.3
Computers	-13.6	13.2	17.0	23.2	12.2	13.6	13.8	15.5	15.5
Semiconductors	-51.1	11.0	-0.1	9.8	7.6	-0.5	7.0	5.0	5.0
Core Goods 2/	-6.5	10.0	5.2	11.4	6.0	5.9	2.1	3.0	4.7
	Billions of Chained 2000 Dollars								
Net Goods & Services	-399.1	-471.3	-518.9	-593.8	-618.0	-624.5	-572.2	-531.3	-520.2
Exports of G&S	1036.7	1013.3	1026.1	1126.1	1203.4	1304.1	1400.9	1496.8	1584.7
Imports of G&S	1435.8	1484.6	1545.0	1719.9	1821.5	1928.6	1973.1	2028.0	2104.9
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-384.7	-459.6	-522.1	-640.2	-754.8	-811.5	-780.0	-792.8	-793.2
Current Acct as Percent of GDP	-3.8	-4.4	-4.8	-5.5	-6.1	-6.2	-5.7	-5.5	-5.3
Net Goods & Services (BOP)	-365.1	-423.7	-496.9	-612.1	-714.4	-758.5	-716.0	-692.5	-671.8
Investment Income, Net	36.9	33.2	51.1	62.5	54.5	43.2	37.3	2.4	-20.6
Direct, Net	115.9	102.4	112.7	139.4	152.5	174.2	220.0	239.8	258.6
Portfolio, Net	-79.0	-69.1	-61.5	-76.9	-98.1	-131.0	-182.7	-237.4	-279.2
Other Income & Transfers, Net	-56.5	-69.2	-76.3	-90.6	-94.9	-96.1	-101.4	-102.7	-100.7

1. Merchandise exports excluding computers and semiconductors.

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

Class II FOMC
Restricted (FR)

September 12, 2007

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.

September 12, 2007

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2007				Projected 2008				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	0.8	-0.2	-0.1	0.9	0.3	-0.2	-0.3	0.5	0.2	-0.6
Exports of G&S	0.1	0.9	1.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Imports of G&S	-0.6	0.4	-0.6	-0.9	-0.7	0.2	-0.4	-0.9	-1.0	-0.2	-0.5	-1.3
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	1.1	7.8	13.3	5.9	5.8	5.8	5.9	5.9	5.9	5.9	5.9	5.8
Services	1.6	9.7	7.8	7.3	6.7	6.2	5.9	5.6	5.3	5.0	4.9	4.9
Computers	-8.2	-16.9	24.4	9.3	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
Semiconductors	25.4	24.4	6.4	15.9	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Core Goods 1/	0.3	7.3	15.9	4.7	4.9	5.2	5.5	5.8	5.8	5.9	6.0	5.9
Imports of G&S	3.9	-2.5	3.8	5.4	4.3	-1.3	2.6	5.4	6.1	1.1	2.9	7.7
Services	2.3	-2.0	2.5	-0.1	0.8	2.0	7.0	-1.6	3.0	3.0	3.1	3.1
Oil	29.6	-22.2	-14.9	29.5	16.3	-26.5	-11.8	23.6	16.3	-22.3	-12.6	32.5
Natural Gas	8.3	254.9	-7.4	-63.7	4.5	21.5	20.5	-31.0	-0.5	21.1	18.5	-29.1
Computers	41.1	-13.2	7.6	27.2	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5
Semiconductors	4.0	8.2	5.3	10.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Core Goods 2/	-2.3	-0.2	8.6	2.5	1.8	2.8	3.5	3.9	4.4	4.6	4.8	5.0
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-612.1	-574.1	-548.5	-554.1	-554.9	-527.4	-518.9	-523.7	-532.5	-515.8	-508.0	-524.6
Exports of G&S	1354.7	1380.2	1424.1	1444.7	1465.1	1485.8	1507.1	1529.1	1551.0	1573.2	1595.8	1618.6
Imports of G&S	1966.8	1954.3	1972.5	1998.8	2020.0	2013.2	2026.1	2052.8	2083.5	2089.0	2103.9	2143.2
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-773.5	-757.9	-782.5	-806.2	-822.7	-782.4	-774.6	-791.4	-804.4	-783.3	-776.7	-808.4
Current Account as % of GDP	-5.7	-5.5	-5.6	-5.8	-5.8	-5.5	-5.4	-5.4	-5.5	-5.3	-5.2	-5.3
Net Goods & Services (BOP)	-710.3	-710.7	-713.3	-729.5	-726.5	-687.7	-675.3	-680.6	-692.5	-666.6	-654.5	-673.8
Investment Income, Net	48.1	47.7	32.5	21.0	10.5	4.3	-0.2	-4.9	-12.9	-17.7	-23.1	-28.6
Direct, Net	205.3	220.6	224.6	229.5	232.5	236.6	242.3	247.9	250.1	255.6	261.5	267.1
Portfolio, Net	-157.2	-173.0	-192.2	-208.4	-222.0	-232.4	-242.6	-252.8	-263.0	-273.4	-284.6	-295.7
Other Inc. & Transfers, Net	-111.3	-94.8	-101.7	-97.8	-106.7	-99.0	-99.0	-106.0	-99.0	-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

September 12, 2007

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

September 12, 2007

Recent Developments

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

Item	2007							
	Q1	Q2	Q3	Q4	June	July	Aug.	Sept.
U.S. production ¹	10.2	10.8	10.9	10.2	11.0	11.1	10.7	10.9
Autos	4.0	3.9	3.9	3.6	4.1	4.1	3.9	3.7
Light trucks	6.3	6.9	7.0	6.6	7.0	7.0	6.8	7.2
Days' supply ²	65	67	n.a.	n.a.	69	76	69	n.a.
Autos	60	55	n.a.	n.a.	56	65	61	n.a.
Light trucks	69	75	n.a.	n.a.	80	84	74	n.a.
Inventories ³	2.67	2.67	n.a.	n.a.	2.67	2.87	2.85	n.a.
Autos	1.00	.95	n.a.	n.a.	.95	1.04	1.02	n.a.
Light trucks	1.67	1.72	n.a.	n.a.	1.72	1.83	1.83	n.a.
Memo: U.S. production, total motor vehicles ⁴	10.6	11.1	11.2	10.5	11.3	11.4	10.9	11.2

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

1. Production rates in September and the third and fourth quarters reflect the latest industry schedules.

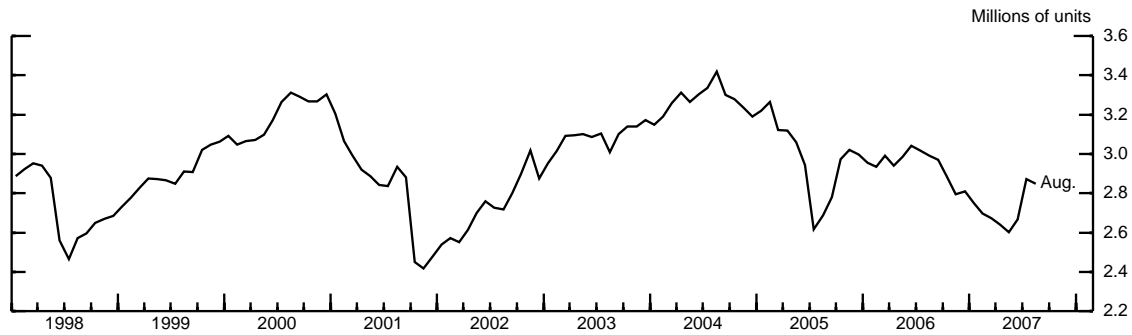
2. Quarterly values are calculated with end-of-period stocks and average reported sales.

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	2.5
Less food and energy	2.7	3.0	3.1	2.3
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	2.4

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	
2005: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
Q3	n.a.	n.a.	n.a.	n.a.	n.a.	2.4
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	2.4	4.2	3.4	3.6	3.1	...
Aug.	n.a.	4.0	3.2	3.4	2.9	2.4

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?

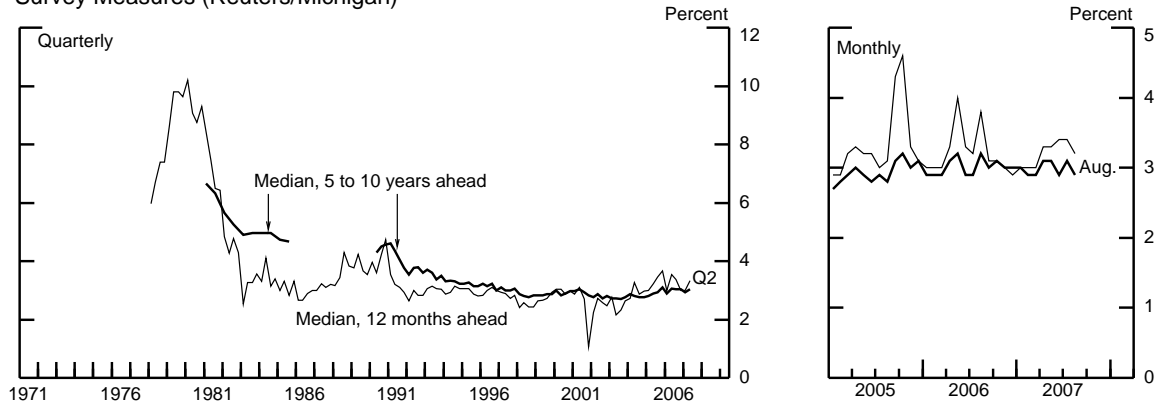
4. Quarterly CPI projections compiled by the Federal Reserve Bank of Philadelphia.

... Not applicable.

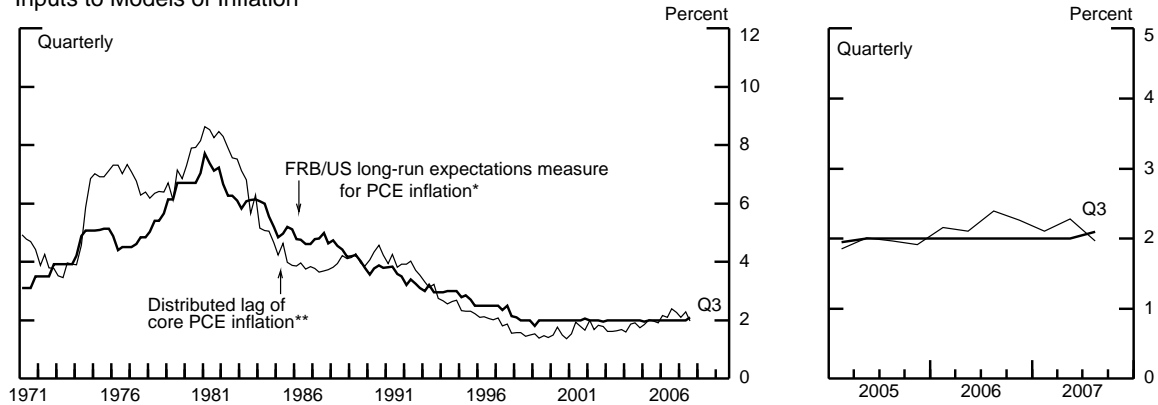
n.a. Not available.

Measures of Expected Inflation

Survey Measures (Reuters/Michigan)



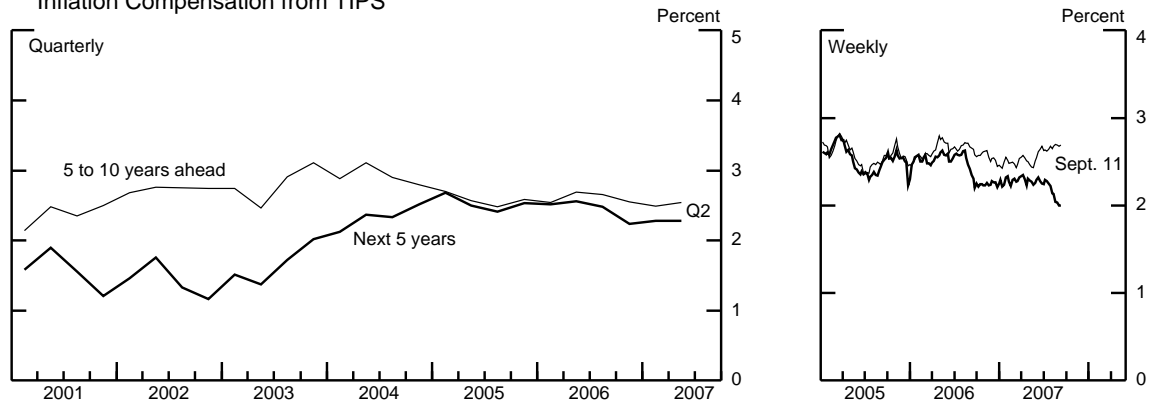
Inputs to Models of Inflation



*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

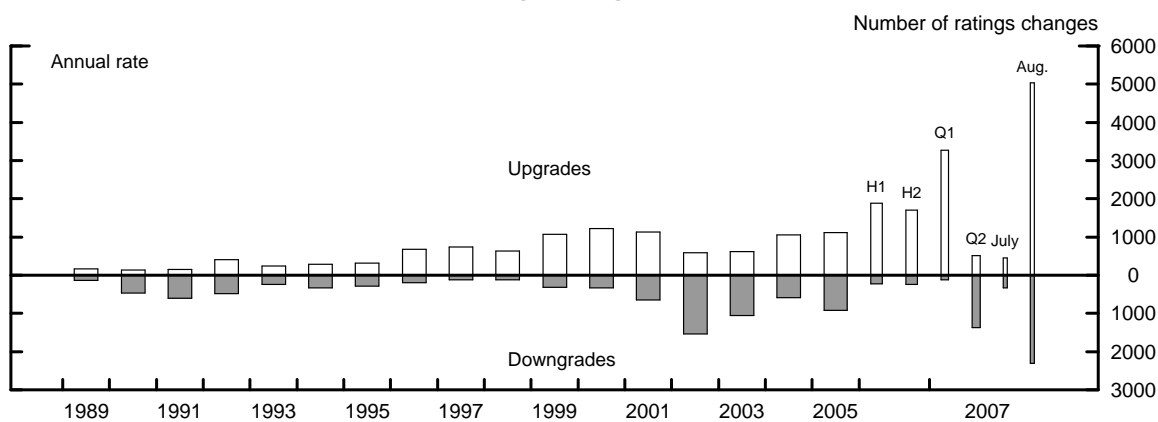
(Billions of dollars; monthly rate, not seasonally adjusted)

Type of security	2003	2004	2005	2006	2007			
					Q1	Q2	July	Aug.
Total	37.9	34.7	38.4	36.1	37.9	45.5	34.2	34.4
Long-term ¹	32.0	29.8	34.1	32.5	35.7	41.1	31.2	26.0
Refundings ²	10.0	10.8	15.6	10.6	17.7	14.9	8.0	6.8
New capital	22.1	19.0	18.6	21.9	18.0	26.2	23.2	19.3
Short-term	5.8	4.9	4.2	3.7	2.2	4.4	3.0	8.3
Memo: Long-term taxable	3.5	2.0	2.1	2.5	1.2	2.9	2.5	.9

1. Includes issues for public and private purposes.

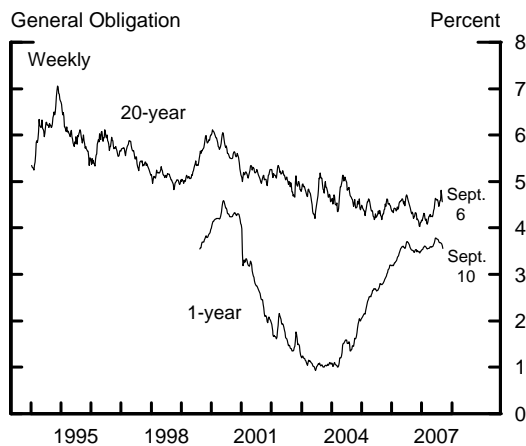
2. All issues that include any refunding bonds.

Ratings Changes



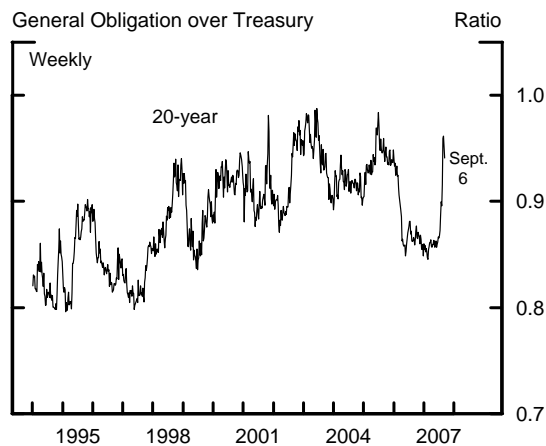
Source: S&P's Credit Week Municipal and Ratings Direct.

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) ¹						Level (billions of dollars),
	2005	2006	2007				Aug. (p)
			Q1	Q2	July	Aug. (p)	
M2	4.1	4.9	7.1	6.7	4.2	10.7	7,334
Components ²							
Currency	3.5	3.6	1.7	2.1	5.1	.5	759
Liquid deposits ³	2.0	.8	6.6	7.0	1.5	8.9	4,475
Small time deposits	18.9	18.6	4.5	4.2	.3	2.0	1,179
Retail money market funds	-.2	13.0	18.9	13.1	22.6	40.3	915
Memo:							
Institutional money market funds	4.9	15.9	11.2	28.2	26.9	60.7	1,586
Monetary base	3.5	3.2	1.6	2.3	3.0	5.1	825

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.

p Preliminary.

Commercial Bank Credit

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

Type of credit	2005	2006	Q1 2007	Q2 2007	July 2007	Aug. 2007 ^e	Level ¹ Aug. 2007 ^e
Total	10.5	9.5	9.1	9.4	9.7	15.5	8,450
<i>Loans²</i>							
Total	11.6	10.7	9.9	9.4	9.5	18.1	6,349
To businesses							
Commercial and industrial	13.5	16.4	7.9	11.1	18.8	31.5	1,288
Commercial real estate	17.0	13.6	10.3	11.4	2.1	8.1	1,530
To households							
Residential real estate	11.9	7.2	9.5	6.4	5.1	.8	1,837
Revolving home equity	13.3	1.5	3.5	.1	5.8	8.9	462
Other	11.4	9.4	11.7	8.6	4.9	-2.0	1,375
Consumer	3.1	5.2	7.5	5.2	12.0	3.6	770
Originated ³	.7	6.4	8.1	2.2	15.6	8.7	1,161
Other ⁴	8.5	11.0	14.8	13.3	16.2	65.4	925
<i>Securities</i>							
Total	7.5	5.9	6.6	9.4	10.1	7.8	2,100
Treasury and agency	2.4	1.2	2.1	-6.8	8.5	-1.3	1,186
Other ⁵	17.5	13.7	13.3	33.3	12.1	19.8	914

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.

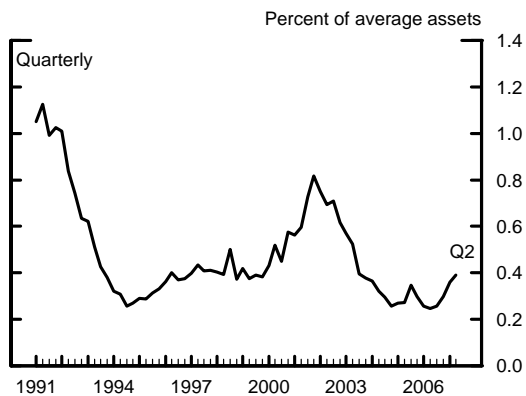
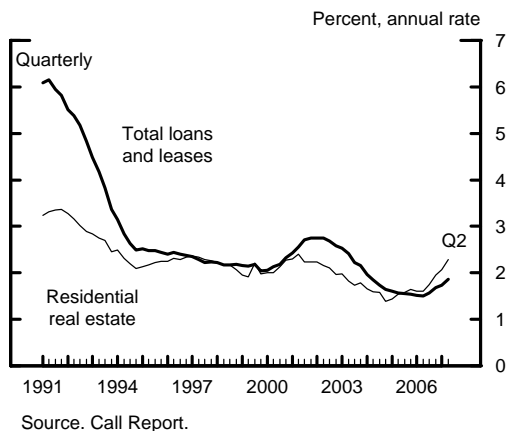
3. Includes an estimate of outstanding loans securitized by commercial banks.

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.

Loan-Loss Provisioning**Delinquency Rates on Loans**

September 14, 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

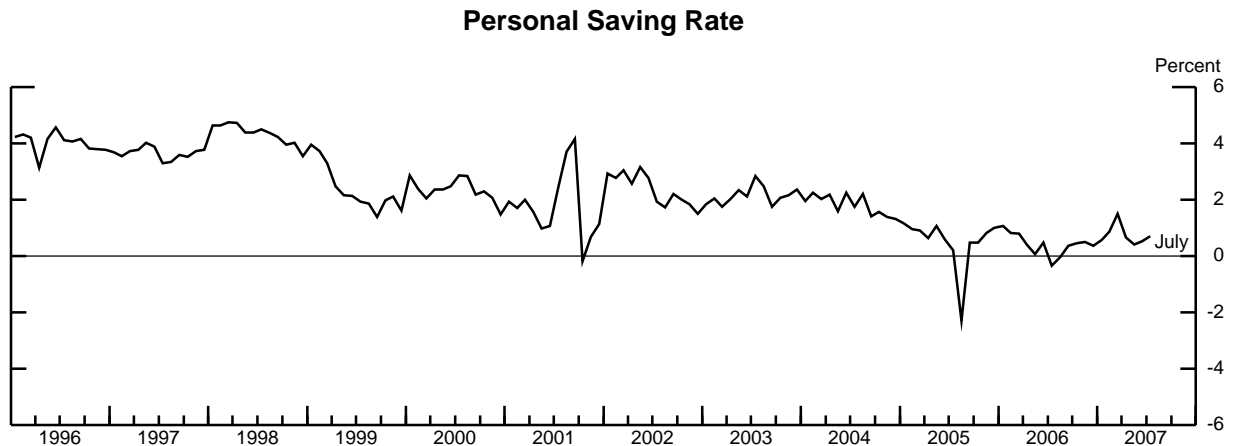
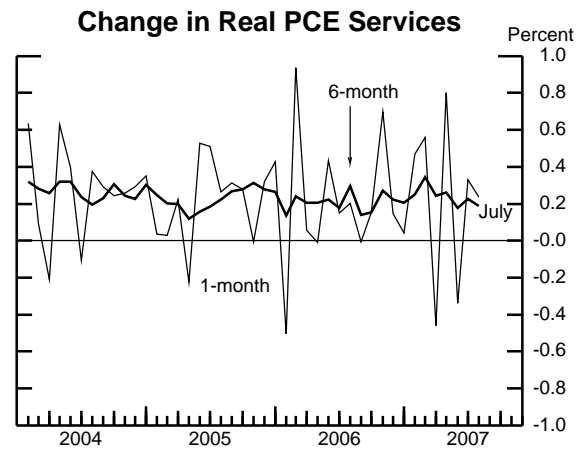
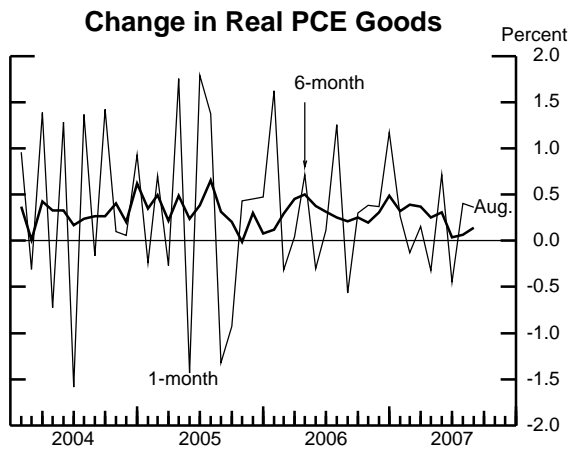
Retail and Food Services Sales

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

Category	2007					
	Q1	Q2	May	June	July	Aug.
	Annual rate		Monthly rate			
Total sales	6.3	5.4	1.6	-.8	.5	.3
Retail control ¹	7.7	8.0	1.4	.0	.7	-.3
Ex. sales at gasoline stations	5.5	5.4	1.0	.3	.8	.1
Memo: Real PCE control ²	4.0	.3	.6	-.1	.6	.0

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

2. Total goods spending excluding autos and trucks. The values for June, July, and Q2 are staff estimates. The value for August is a staff forecast.



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

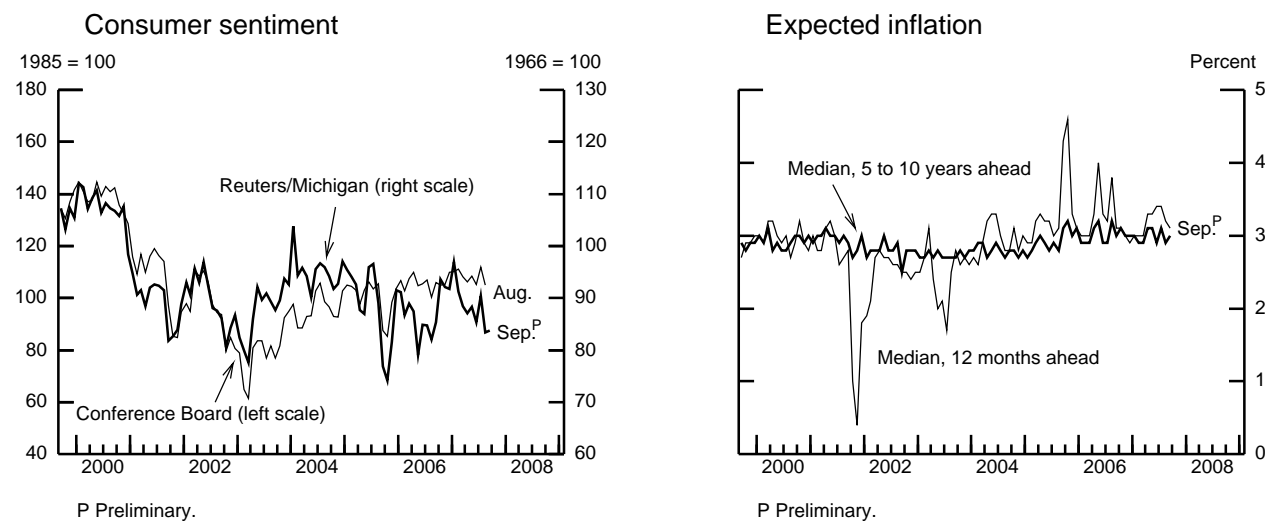
Category	2007							
	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept. ^P
Composite of current and expected conditions ¹	91.3	88.4	87.1	88.3	85.3	90.4	83.4	83.8
Current conditions ¹	106.7	103.5	104.6	105.1	101.9	104.5	98.4	98.3
Expected conditions ¹	81.5	78.7	75.9	77.6	74.7	81.5	73.7	74.4
Personal financial situation								
Now compared with 12 months ago ²	119	111	119	113	110	115	103	105
Expected in 12 months ²	122	126	127	125	117	125	120	118
Expected business conditions								
Next 12 months ²	106	95	87	97	94	105	87	85
Next 5 years ²	98	94	90	89	88	96	88	95
Appraisal of buying conditions								
Cars	133	138	132	124	118	125	133	144
Large household appliances ²	158	157	152	160	154	156	152	150
Houses	133	137	138	135	131	129	118	120
Expected unemployment change - next 12 months	125	123	129	120	125	123	131	129
Prob. household will lose a job - next 5 years	19	22	18	19	23	21	24	21
Expected inflation - next 12 months								
Mean	3.6	3.6	4.0	4.3	4.2	4.2	4.0	4.0
Median	3.0	3.0	3.3	3.3	3.4	3.4	3.2	3.1
Expected inflation - next 5 to 10 years								
Mean	3.3	3.3	3.6	3.7	3.3	3.6	3.4	3.5
Median	2.9	2.9	3.1	3.1	2.9	3.1	2.9	3.0

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.

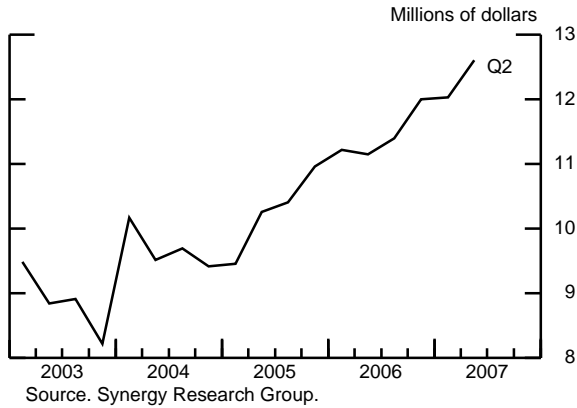
1. Feb. 1966 = 100.

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

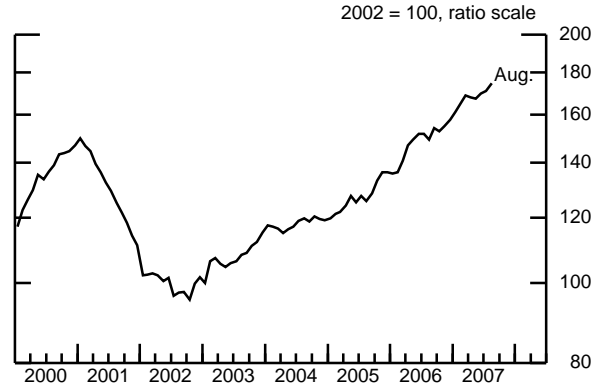


Indicators of High-Tech Manufacturing Activity

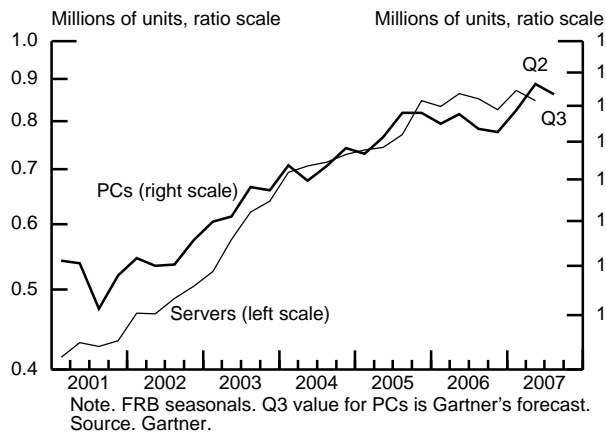
Enterprise Spending on Voice and Data Networking Equipment



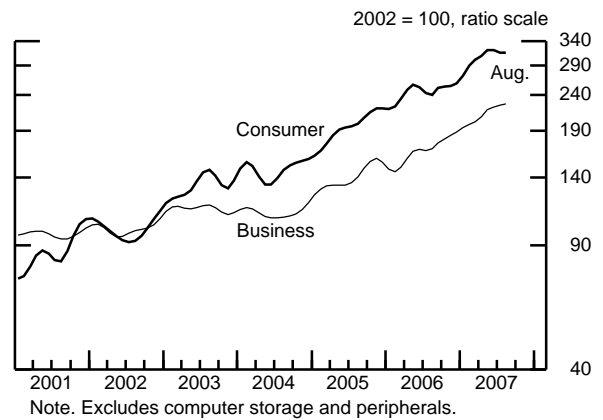
IP: Communications Equipment



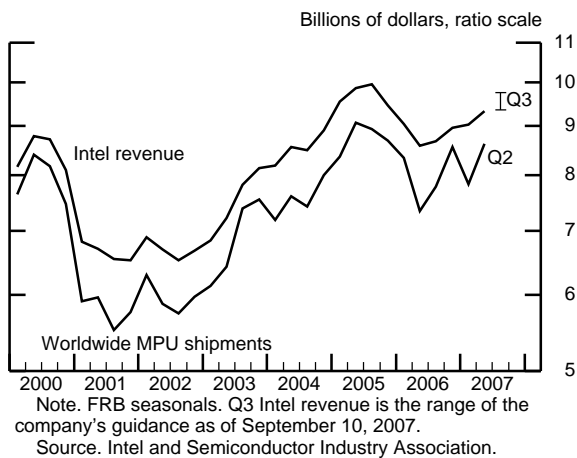
U.S. Personal Computer and Server Sales



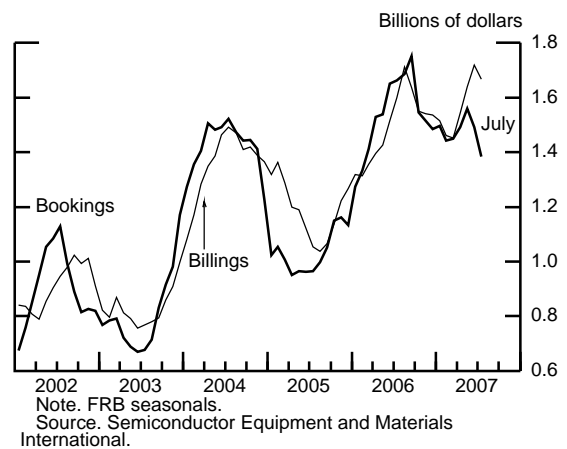
IP: Business and Consumer Computers



MPU Shipments and Intel Revenue



Bookings and Billings for Semiconductor Equipment



Commercial Bank Credit

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

Type of credit	2005	2006	Q1 2007	Q2 2007	July 2007	Aug. 2007 ^e	Level ¹ Aug. 2007 ^e
Total	10.5	9.5	8.9	9.4	9.7	16.3	8,451
<i>Loans²</i>							
Total	11.6	10.7	9.7	9.4	9.5	19.0	6,350
To businesses							
Commercial and industrial	13.5	16.4	7.9	11.0	18.8	31.8	1,288
Commercial real estate	17.0	13.6	10.3	11.5	2.2	8.1	1,530
To households							
Residential real estate	11.9	7.2	9.5	6.4	5.1	1.1	1,838
Revolving home equity	13.3	1.5	3.5	.1	5.8	9.2	462
Other	11.4	9.4	11.7	8.6	4.9	-1.6	1,375
Consumer	3.1	5.2	7.5	5.2	12.0	4.1	770
Originated ³	.7	6.4	8.0	2.2	15.6	9.1	1,161
Other ⁴	8.3	11.1	13.2	13.3	16.2	70.5	925
<i>Securities</i>							
Total	7.5	5.9	6.6	9.4	10.1	8.2	2,101
Treasury and agency	2.4	1.2	2.1	-6.8	8.5	-1.4	1,186
Other ⁵	17.5	13.7	13.3	33.3	12.1	20.7	915

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