

Part 1

December 10, 2008

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

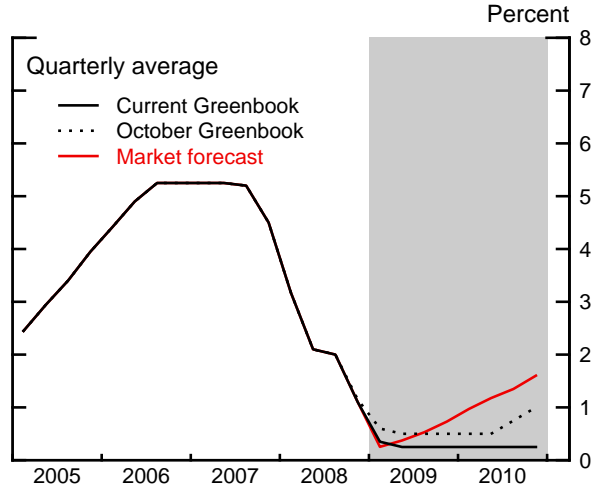
December 10, 2008

Summary and Outlook

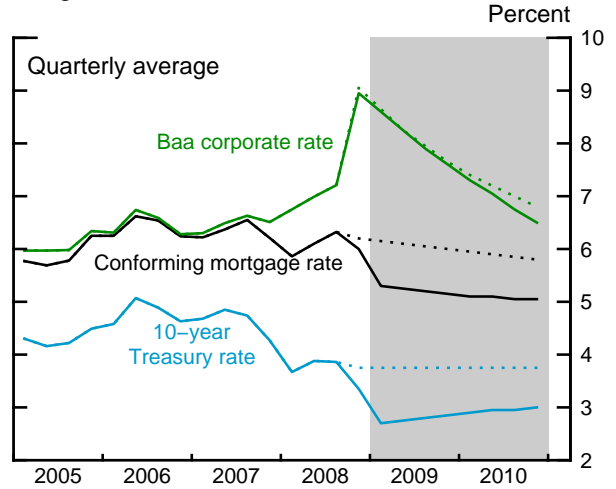
Class II FOMC – Restricted (FR)

Key Background Factors Underlying the Baseline Staff Projection

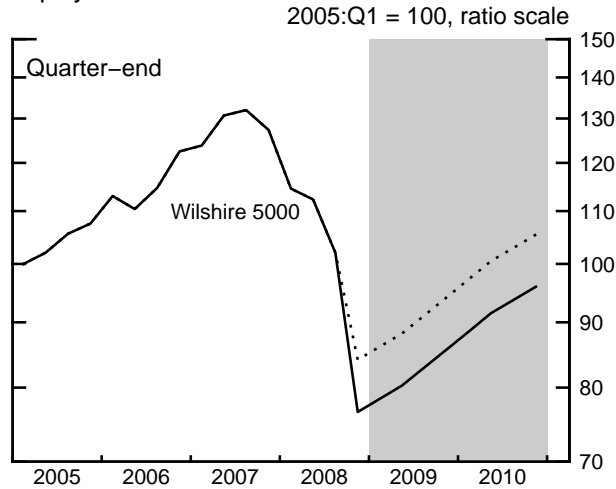
Federal Funds Rate



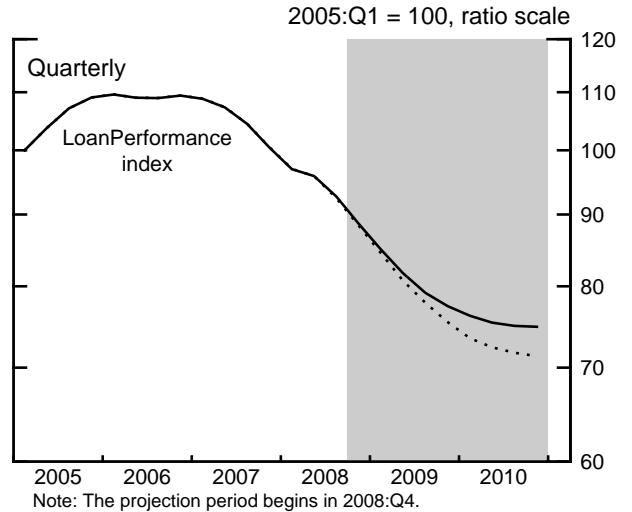
Long-Term Interest Rates



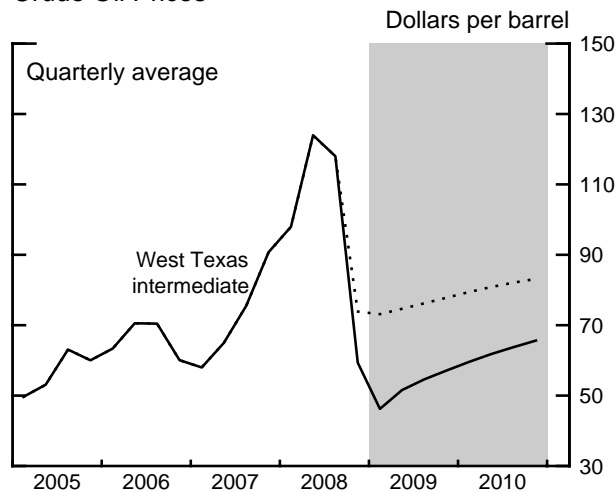
Equity Prices



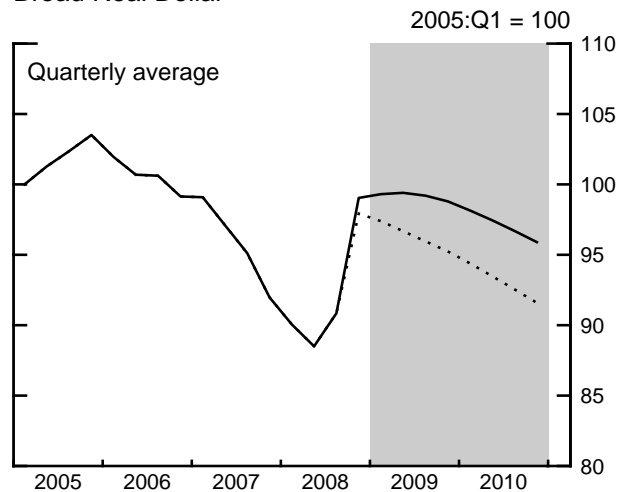
House Prices



Crude Oil Prices



Broad Real Dollar



Note: In each panel, shading represents the projection period, which begins in 2009:Q1 except as noted.

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

| Measure | 2008:Q3 | | 2008:Q4 | |
|---|---|------------|-------------|-------------|
| | Oct. GB | Dec. GB | Oct. GB | Dec. GB |
| Real GDP | -1.0 | -.4 | -1.3 | -4.7 |
| Private domestic final purchases | -3.5 | -3.9 | -4.4 | -6.6 |
| Personal consumption expenditures | -3.3 | -3.7 | -2.4 | -4.3 |
| Residential investment | -19.7 | -15.7 | -24.4 | -27.0 |
| Business fixed investment | .8 | -.6 | -9.9 | -14.0 |
| Government outlays for consumption and investment | 4.8 | 5.8 | -1.0 | 1.2 |
| | Contribution to growth (percentage points) | | | |
| Inventory investment | -.2 | .7 | 2.2 | .3 |
| Net exports | 1.2 | 1.1 | .4 | .4 |

Some of the recent weakness reflects the cutbacks in motor vehicle assemblies that automakers have made in response to plunging sales. Moreover, declines in the production of a variety of consumer durables other than motor vehicles have steepened, the output of high-technology products appears to be decreasing further, and the falloff in production of materials indicates broad weakness in demand. Given the current economic climate, we are expecting further broad-based declines in factory output in coming months, with overall manufacturing IP projected to fall at an annual rate of about 9 percent in the first quarter. As a result, capacity utilization in manufacturing is expected to drop to about 71 percent by March, well below its long-run average of about 80 percent.

Real PCE looks to be on track to decline at a 4¼ percent annual rate in the fourth quarter, following a 3¾ percent decline in the third quarter; our fourth-quarter estimate is about 2 percentage points more negative than our forecast in the previous Greenbook. Sales of light motor vehicles have been especially weak, with unit sales plummeting to an average annual rate of 10¼ million units in October and November from a 13 million unit pace in the third quarter. Even when motor vehicles are excluded, however, real PCE is projected to decline at a 3 percent pace this quarter. Although the sharp drop in consumer energy prices has helped to cushion the loss of purchasing power associated with the deteriorating labor market, the ongoing declines in housing and equity wealth, coupled with tight credit availability and depressed confidence, seem likely to restrain

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

| Measure | 2008: H2 | 2009: H1 | 2009 | 2010 |
|---|-------------|-------------|------------|------------|
| Real GDP | -2.6 | -3.1 | -.9 | 2.4 |
| Previous | -1.2 | -.9 | -.1 | 2.3 |
| Final sales | -3.1 | -2.4 | -1.4 | 2.4 |
| Previous | -2.1 | -.9 | -.5 | 2.3 |
| PCE | -4.0 | -.2 | .7 | 2.7 |
| Previous | -2.9 | .4 | 1.0 | 2.4 |
| Residential investment | -21.6 | -22.2 | -10.4 | 8.9 |
| Previous | -22.1 | -21.0 | -15.8 | 13.4 |
| BFI | -7.5 | -19.7 | -16.9 | 4.8 |
| Previous | -4.7 | -12.2 | -10.9 | 4.1 |
| Government purchases | 3.4 | .8 | 1.2 | 1.2 |
| Previous | 1.9 | 1.2 | .9 | .5 |
| Exports | -.4 | -2.7 | -1.3 | 2.6 |
| Previous | 5.3 | 3.1 | 2.8 | 3.9 |
| Imports | -4.2 | -5.6 | -1.0 | 4.9 |
| Previous | -.7 | -.7 | .9 | 4.3 |
| Contribution to growth (percentage points) | | | | |
| Inventory change | .5 | -.7 | .4 | .0 |
| Previous | 1.0 | .0 | .4 | -.0 |
| Net exports | .7 | .5 | -.0 | -.4 |
| Previous | .8 | .5 | .2 | -.2 |

... Not applicable.

result, we now anticipate that single-family housing starts will begin to turn up in the middle of next year and have raised our projection of starts for 2009 as a whole by about 20,000 units to 480,000 units. However, partly because the reduced-rate mortgage financing program pulls forward some sales and starts from 2010 into 2009, the level of starts at the end of 2010 is only a touch higher than our projection in the October Greenbook. Consistent with our forecast for housing starts, we expect real residential investment to decline more than 10 percent next year, after decreasing approximately

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

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

| Measure | 1974-95 | 1996-2000 | 2001-06 | 2007 | 2008 | 2009 | 2010 |
|--------------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Structural labor productivity | 1.5 | 2.5 | 2.6 | 2.1 | 1.9 | 1.7 | 1.7 |
| Previous | 1.5 | 2.5 | 2.6 | 2.1 | 2.0 | 1.9 | 1.8 |
| <i>Contributions</i> ¹ | | | | | | | |
| Capital deepening | .7 | 1.4 | .7 | .6 | .4 | -.0 | .1 |
| Previous | .7 | 1.4 | .7 | .6 | .5 | .2 | .3 |
| Multifactor productivity | .5 | .7 | 1.6 | 1.2 | 1.3 | 1.6 | 1.5 |
| Previous | .5 | .7 | 1.6 | 1.2 | 1.3 | 1.5 | 1.4 |
| Labor composition | .3 | .3 | .3 | .2 | .2 | .2 | .1 |
| MEMO | | | | | | | |
| Potential GDP | 3.0 | 3.4 | 2.6 | 2.5 | 2.5 | 2.2 | 2.2 |
| Previous | 3.0 | 3.4 | 2.6 | 2.5 | 2.5 | 2.4 | 2.3 |

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

1. Percentage points.

... Not applicable.

The Outlook for the Labor Market

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

| Measure | 2007 | 2008 | 2009 | 2010 |
|---|------|------|------|------|
| Output per hour, nonfarm business | 2.7 | 2.0 | .8 | 2.4 |
| Previous | 2.7 | 1.7 | 1.7 | 2.2 |
| Nonfarm private payroll employment | .9 | -1.8 | -1.9 | .4 |
| Previous | .9 | -1.2 | -1.4 | .7 |
| Household survey employment | .4 | -1.3 | -.9 | .6 |
| Previous | .4 | -.8 | -.5 | .8 |
| Labor force participation rate ¹ | 66.0 | 65.9 | 65.5 | 65.3 |
| Previous | 66.0 | 66.0 | 65.6 | 65.4 |
| Civilian unemployment rate ¹ | 4.8 | 6.7 | 8.1 | 8.2 |
| Previous | 4.8 | 6.3 | 7.2 | 7.2 |
| MEMO | | | | |
| GDP gap ² | -.3 | -3.1 | -6.0 | -5.8 |
| Previous | -.2 | -2.3 | -4.7 | -4.7 |

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.

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

| Measure | 2007 | 2008 | 2009 | 2010 |
|---|------|------|------|------|
| PCE chain-weighted price index | 3.5 | 1.9 | .7 | 1.0 |
| Previous | 3.5 | 2.8 | 1.4 | 1.4 |
| Food and beverages | 4.5 | 6.3 | 2.0 | 1.0 |
| Previous | 4.5 | 6.2 | 2.2 | 1.4 |
| Energy | 19.1 | -9.8 | -8.1 | 4.8 |
| Previous | 19.1 | -1.0 | -2.3 | 3.3 |
| Excluding food and energy | 2.2 | 2.0 | 1.1 | .8 |
| Previous | 2.2 | 2.4 | 1.5 | 1.3 |
| Consumer price index | 4.0 | 1.7 | .7 | 1.3 |
| Previous | 4.0 | 2.8 | 1.5 | 1.7 |
| Excluding food and energy | 2.3 | 2.1 | 1.3 | 1.0 |
| Previous | 2.3 | 2.4 | 1.7 | 1.5 |
| GDP chain-weighted price index | 2.6 | 2.6 | 1.5 | .8 |
| Previous | 2.6 | 3.0 | 1.6 | 1.3 |
| ECI for compensation of private industry workers ¹ | 3.0 | 2.5 | 2.0 | 1.6 |
| Previous | 3.0 | 2.9 | 2.3 | 1.5 |
| Compensation per hour, nonfarm business sector | 3.6 | 3.2 | 2.4 | 1.6 |
| Previous | 3.6 | 4.0 | 3.1 | 2.1 |
| Prices of core goods imports ² | 3.4 | 3.9 | -2.7 | 1.3 |
| Previous | 3.4 | 5.5 | -.5 | 1.5 |

1. December to December.

2. Core goods imports exclude computers, semiconductors, oil, and natural gas.

Prices and labor costs. We currently project that core PCE price inflation will decline from 2 percent this year to 1 percent next year and to $\frac{3}{4}$ percent in 2010. This ratcheting down in core inflation reflects widening slack in resource utilization, fading cost pressures from energy and materials prices, and a net decline in core import prices; these factors also result in some reduction in long-run inflation expectations. Each of these disinflationary factors is more significant in this forecast than in the October Greenbook, and our projection for core inflation in each of the next two years is about $\frac{1}{2}$ percentage point lower. Headline PCE price inflation is projected to slow from 2 percent this year to about $\frac{3}{4}$ percent in 2009, reflecting these same factors and a further drop in energy prices

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

| Measure | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------|------|------|------|------|------|
| Real GDP | -0.4 | -0.9 | 2.4 | 5.1 | 5.7 | 5.6 |
| Civilian unemployment rate ¹ | 6.7 | 8.1 | 8.2 | 6.8 | 5.4 | 4.2 |
| PCE prices, total | 1.9 | 0.7 | 1.0 | 0.8 | 0.7 | 0.8 |
| Core PCE prices | 2.0 | 1.1 | 0.8 | 0.6 | 0.6 | 0.7 |
| Federal funds rate ¹ | 1.1 | 0.3 | 0.3 | 0.3 | 0.3 | 1.3 |

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

outpacing its potential by a wide margin, the unemployment rate declines steadily over this period and falls below the NAIRU in 2013. Nevertheless, reflecting the considerable margin of slack on average over this period, inflation moves down, on net, a bit further after 2010.

Financial Flows and Conditions

We expect that the growth of domestic nonfinancial debt will increase from an annual rate of $4\frac{1}{4}$ percent in the first half of this year to $6\frac{3}{4}$ percent in the second half as government programs aimed toward addressing financial market strains substantially boost federal borrowing. Excluding the federal sector, we forecast that debt will contract at an annual rate of about $\frac{1}{2}$ percent in the second half of this year, after having expanded at close to a 3 percent pace in the first half and $7\frac{1}{2}$ percent in the latter half of 2007. Looking ahead, federal debt is projected to expand at a rapid pace throughout the forecast period, but borrowing by households and nonfinancial businesses is expected to be light by historical standards in 2009 and 2010.

In the third quarter, household debt is estimated to have contracted at an annual rate of $\frac{3}{4}$ percent—the first net decrease in the 56-year history of this quarterly series—and preliminary data point to a $2\frac{1}{2}$ percent annual rate of decline this quarter. Mortgage borrowing and nonmortgage consumer credit have been sharply curtailed by the effects of falling home prices, the substantial deterioration of the labor market, and tighter terms and standards for loans. With these conditions expected to persist well into 2009 and to ease only gradually thereafter, we expect household debt to contract next year and to expand only a little in 2010.

Growth of nonfinancial business debt is expected to slow to an annual rate of $3\frac{1}{4}$ percent in the second half of this year, down from $6\frac{1}{2}$ percent in the first half. The slowdown

| Alternative Scenarios | | | | | | |
|---|------|------|------|------|------|---------|
| (Percent change, annual rate, from end of preceding period except as noted) | | | | | | |
| Measure and scenario | 2008 | 2009 | | 2010 | 2011 | 2012-13 |
| | H2 | H1 | H2 | | | |
| <i>Real GDP</i> | | | | | | |
| Greenbook Extension | -2.6 | -3.1 | 1.3 | 2.4 | 5.1 | 5.7 |
| More financial stress | -2.6 | -4.0 | -0.6 | 0.7 | 4.4 | 5.5 |
| Faster recovery | -2.6 | -3.0 | 4.8 | 5.8 | 5.8 | 3.0 |
| Bigger fiscal package | -2.6 | -1.8 | 1.5 | 2.6 | 5.0 | 5.4 |
| Anchored inflation expectations | -2.6 | -3.1 | 1.3 | 2.5 | 5.2 | 5.5 |
| Deflation | -2.6 | -3.1 | 1.3 | 2.4 | 5.1 | 5.5 |
| <i>Unemployment rate¹</i> | | | | | | |
| Greenbook Extension | 6.7 | 7.8 | 8.1 | 8.2 | 6.8 | 4.2 |
| More financial stress | 6.7 | 7.9 | 8.5 | 9.2 | 8.1 | 5.4 |
| Faster recovery | 6.7 | 7.8 | 7.7 | 6.5 | 4.6 | 3.9 |
| Bigger fiscal package | 6.7 | 7.6 | 7.8 | 7.8 | 6.5 | 4.1 |
| Anchored inflation expectations | 6.7 | 7.8 | 8.1 | 8.2 | 6.8 | 4.2 |
| Deflation | 6.7 | 7.8 | 8.1 | 8.2 | 6.8 | 4.3 |
| <i>Core PCE inflation</i> | | | | | | |
| Greenbook Extension | 1.9 | 1.4 | 0.9 | 0.8 | 0.6 | 0.7 |
| More financial stress | 1.9 | 1.4 | 0.8 | 0.3 | -0.1 | -0.2 |
| Faster recovery | 1.9 | 1.4 | 0.9 | 1.2 | 1.4 | 1.6 |
| Bigger fiscal package | 1.9 | 1.4 | 1.0 | 1.0 | 0.9 | 0.9 |
| Anchored inflation expectations | 1.9 | 1.4 | 1.0 | 1.1 | 1.2 | 1.5 |
| Deflation | 1.9 | 1.2 | 0.6 | 0.3 | -0.1 | -0.3 |
| <i>Federal funds rate¹</i> | | | | | | |
| Greenbook Extension | 1.1 | 0.3 | 0.3 | 0.3 | 0.3 | 1.3 |
| More financial stress | 1.1 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Faster recovery | 1.1 | 0.3 | 0.3 | 1.0 | 4.2 | 5.4 |
| Bigger fiscal package | 1.1 | 0.3 | 0.3 | 0.3 | 0.3 | 3.6 |
| Anchored inflation expectations | 1.1 | 0.3 | 0.3 | 0.3 | 0.3 | 3.8 |
| Deflation | 1.1 | 0.3 | 0.3 | 0.3 | 0.3 | 1.6 |

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

from the recession will be more in line with historical experience, and thus faster than we anticipate. The third scenario considers a larger fiscal stimulus package. The fourth scenario assumes that inflation expectations are better-anchored than in the baseline, thereby mitigating the drop in inflation. In contrast, the final scenario assumes a larger reduction in inflation, more in line with some of the models the staff monitors. In each

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

| Measure | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---------|---------|---------|---------|---------|---------|
| <i>Real GDP</i> (percent change, Q4 to Q4) | | | | | | |
| Projection | -0.4 | -0.9 | 2.4 | 5.1 | 5.7 | 5.6 |
| Confidence interval | | | | | | |
| Greenbook forecast errors | -.8-.1 | -2.4-.6 | 1.1-3.8 | ... | ... | ... |
| FRB/US stochastic simulations | -.7-.1 | -2.0-.1 | 1.1-3.6 | 3.5-6.3 | 4.1-7.1 | 4.0-6.9 |
| <i>Civilian unemployment rate</i> (percent, Q4) | | | | | | |
| Projection | 6.7 | 8.1 | 8.2 | 6.8 | 5.4 | 4.2 |
| Confidence interval | | | | | | |
| Greenbook forecast errors | 6.6-6.8 | 7.5-8.7 | 7.2-9.2 | ... | ... | ... |
| FRB/US stochastic simulations | 6.6-6.8 | 7.7-8.5 | 7.7-8.8 | 6.3-7.6 | 4.9-6.3 | 3.6-5.2 |
| <i>PCE prices, total</i> (percent change, Q4 to Q4) | | | | | | |
| Projection | 1.9 | 0.7 | 1.0 | 0.8 | 0.7 | 0.8 |
| Confidence interval | | | | | | |
| Greenbook forecast errors | 1.7-2.1 | -.1-1.6 | .0-2.1 | ... | ... | ... |
| FRB/US stochastic simulations | 1.8-2.0 | .1-1.4 | .2-1.7 | -.1-1.5 | -.3-1.5 | -.3-1.6 |
| <i>PCE prices excluding food and energy</i> (percent change, Q4 to Q4) | | | | | | |
| Projection | 2.0 | 1.1 | 0.8 | 0.6 | 0.6 | 0.7 |
| Confidence interval | | | | | | |
| Greenbook forecast errors | 1.8-2.3 | .6-1.7 | -.2-1.7 | ... | ... | ... |
| FRB/US stochastic simulations | 2.0-2.1 | .7-1.5 | .2-1.3 | -.1-1.2 | -.3-1.2 | -.2-1.4 |
| <i>Federal funds rate</i> (percent, Q4) | | | | | | |
| Projection | 1.1 | 0.3 | 0.3 | 0.3 | 0.3 | 1.3 |
| Confidence interval | | | | | | |
| FRB/US stochastic simulations | 1.1-1.1 | .3-1.3 | .3-1.6 | .3-1.7 | .3-1.6 | .3-2.7 |

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

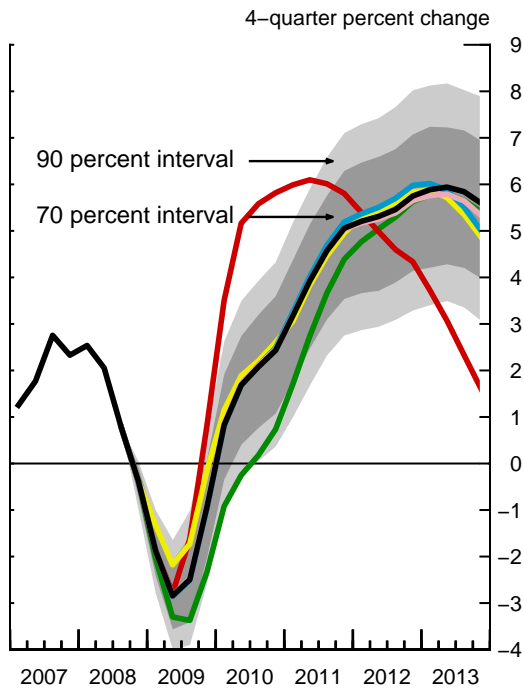
... Not applicable. The Greenbook forecast horizon has typically extended about two years.

Forecast Confidence Intervals and Alternative Scenarios

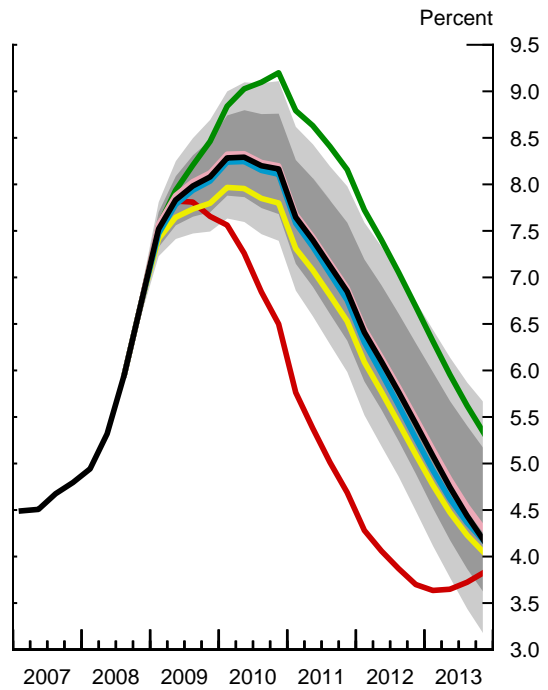
Confidence Intervals Based on FRB/US Stochastic Simulations

■ Greenbook Extension ■ Faster recovery ■ Anchored inflation expectations
 ■ More financial stress ■ Bigger fiscal package ■ Deflation

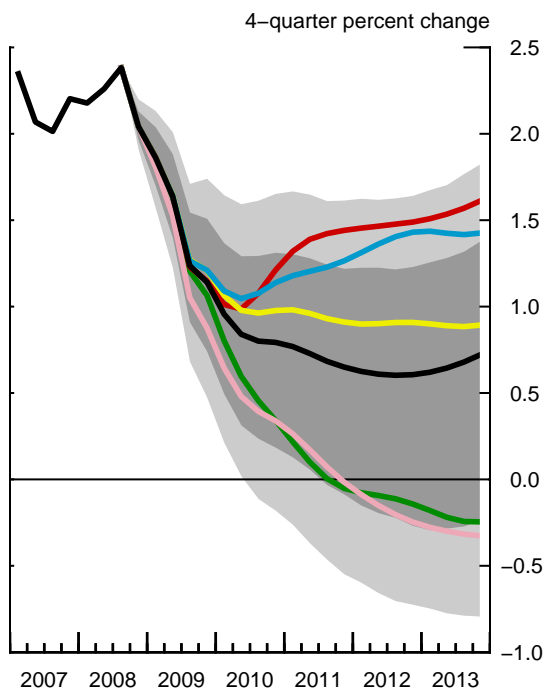
Real GDP



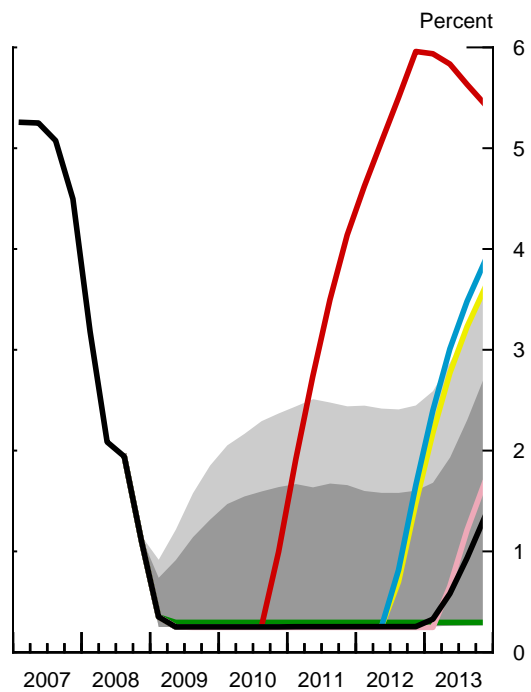
Unemployment Rate



PCE Prices excluding Food and Energy



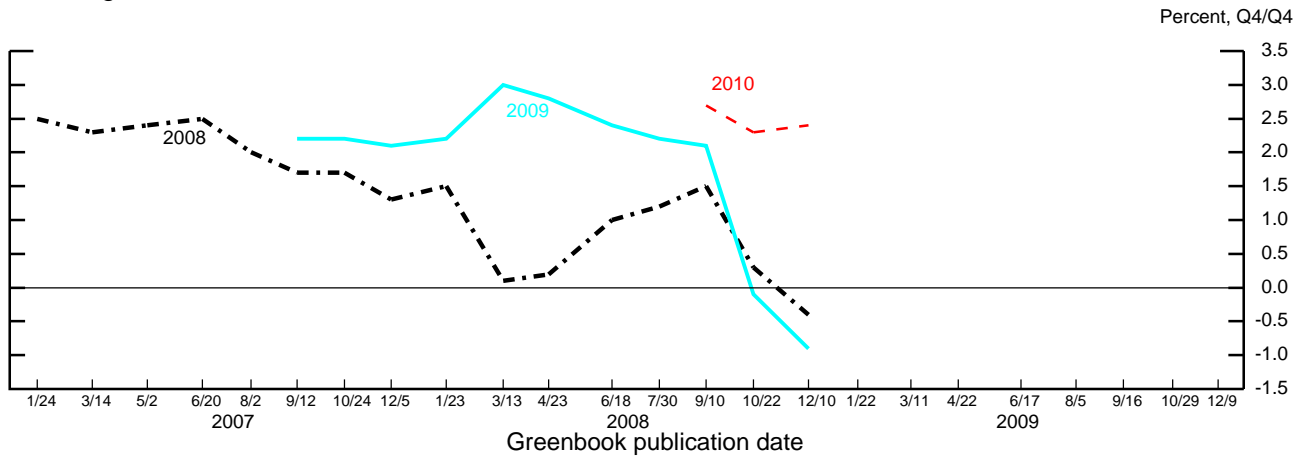
Federal Funds Rate



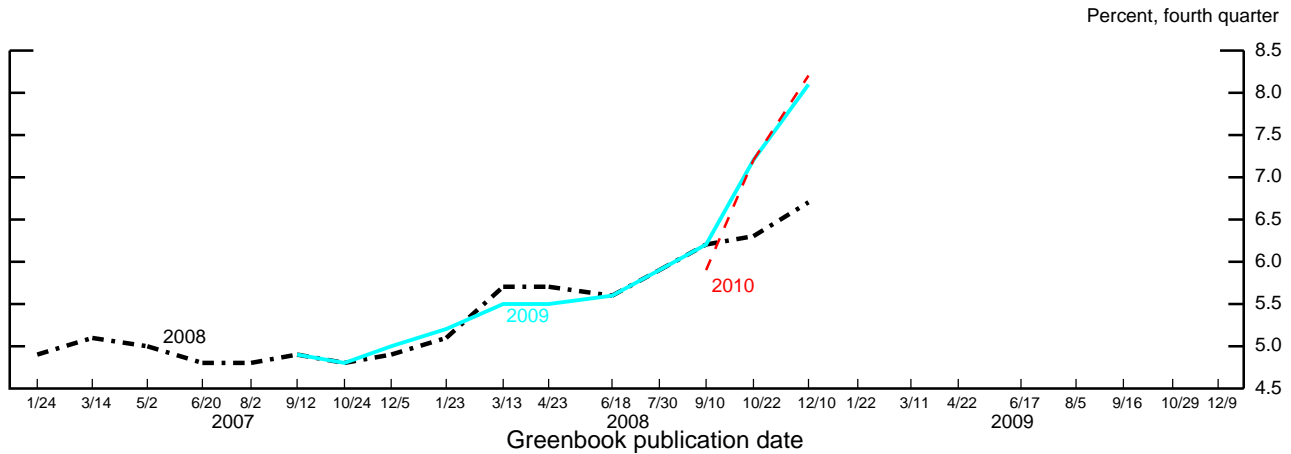
Class II FOMC - Restricted (FR)

Evolution of the Staff Forecast

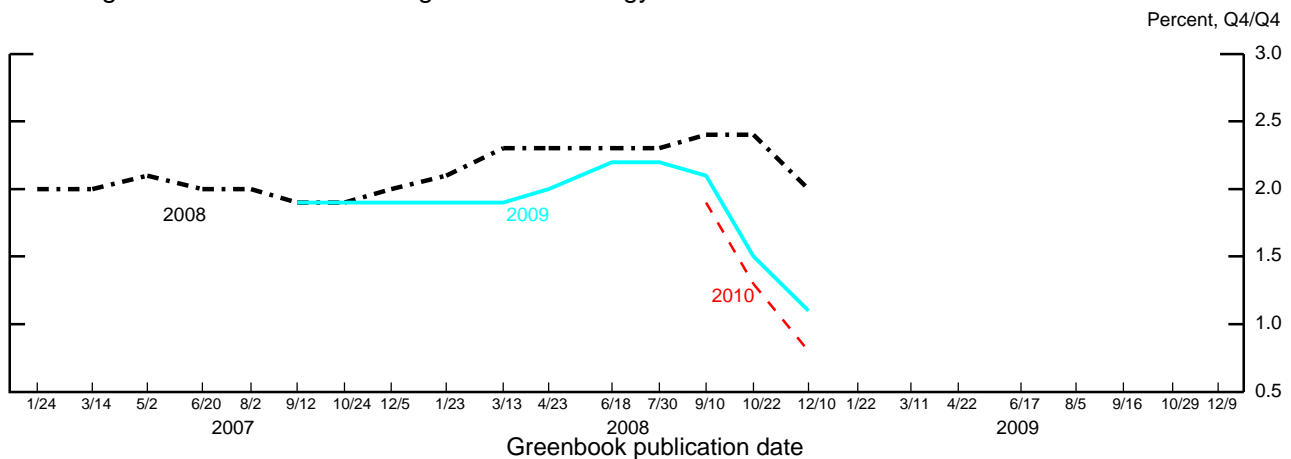
Change in Real GDP



Unemployment Rate



Change in PCE Prices excluding Food and Energy



Changes in GDP, Prices, and Unemployment
(Percent, annual rate except as noted)

| Interval | Nominal GDP | | Real GDP | | PCE price index | | Core PCE price index | | Unemployment rate ¹ | |
|---------------------------------|-------------|----------|----------|----------|-----------------|----------|----------------------|----------|--------------------------------|----------|
| | 10/22/08 | 12/10/08 | 10/22/08 | 12/10/08 | 10/22/08 | 12/10/08 | 10/22/08 | 12/10/08 | 10/22/08 | 12/10/08 |
| <i>Quarterly</i> | | | | | | | | | | |
| 2008:Q1 | 3.5 | 3.5 | .9 | .9 | 3.6 | 3.6 | 2.3 | 2.3 | 4.9 | 4.9 |
| Q2 | 4.1 | 4.1 | 2.8 | 2.8 | 4.3 | 4.3 | 2.2 | 2.2 | 5.3 | 5.3 |
| Q3 | 3.0 | 3.6 | -1.0 | -4 | 5.6 | 5.2 | 3.1 | 2.6 | 6.0 | 6.0 |
| Q4 | 2.9 | -2.4 | -1.3 | -4.7 | -2.2 | -5.1 | 2.3 | 1.2 | 6.3 | 6.7 |
| 2009:Q1 | .6 | -3.0 | -1.4 | -5.0 | .7 | -1.8 | 1.9 | 1.5 | 6.6 | 7.5 |
| Q2 | 1.2 | .4 | -.4 | -1.2 | 1.7 | 2.2 | 1.6 | 1.3 | 6.9 | 7.8 |
| Q3 | 1.8 | 2.4 | .4 | 1.0 | 1.6 | 1.5 | 1.4 | 1.0 | 7.1 | 8.0 |
| Q4 | 2.3 | 2.5 | 1.0 | 1.6 | 1.6 | 1.2 | 1.4 | .8 | 7.2 | 8.1 |
| 2010:Q1 | 2.7 | 2.7 | 1.5 | 1.9 | 1.5 | 1.1 | 1.4 | .8 | 7.3 | 8.3 |
| Q2 | 3.4 | 3.1 | 2.0 | 2.2 | 1.5 | 1.1 | 1.4 | .8 | 7.3 | 8.3 |
| Q3 | 3.8 | 3.4 | 2.5 | 2.6 | 1.4 | 1.0 | 1.3 | .8 | 7.3 | 8.2 |
| Q4 | 4.3 | 3.7 | 3.0 | 3.0 | 1.4 | .9 | 1.3 | .7 | 7.2 | 8.2 |
| <i>Two-quarter²</i> | | | | | | | | | | |
| 2008:Q2 | 3.8 | 3.8 | 1.8 | 1.8 | 3.9 | 3.9 | 2.2 | 2.2 | .5 | .5 |
| Q4 | 3.0 | .6 | -1.2 | -2.6 | 1.6 | -.1 | 2.7 | 1.9 | 1.0 | 1.4 |
| 2009:Q2 | .9 | -1.3 | -.9 | -3.1 | 1.2 | .2 | 1.7 | 1.4 | .6 | 1.1 |
| Q4 | 2.1 | 2.5 | .7 | 1.3 | 1.6 | 1.3 | 1.4 | .9 | .3 | .3 |
| 2010:Q2 | 3.1 | 2.9 | 1.8 | 2.1 | 1.5 | 1.1 | 1.4 | .8 | .1 | .2 |
| Q4 | 4.0 | 3.6 | 2.8 | 2.8 | 1.4 | 1.0 | 1.3 | .8 | -.1 | -.1 |
| <i>Four-quarter³</i> | | | | | | | | | | |
| 2007:Q4 | 4.9 | 4.9 | 2.3 | 2.3 | 3.5 | 3.5 | 2.2 | 2.2 | .4 | .4 |
| 2008:Q4 | 3.4 | 2.2 | .3 | -.4 | 2.8 | 1.9 | 2.4 | 2.0 | 1.5 | 1.9 |
| 2009:Q4 | 1.5 | .6 | -.1 | -.9 | 1.4 | .7 | 1.5 | 1.1 | .9 | 1.4 |
| 2010:Q4 | 3.5 | 3.2 | 2.3 | 2.4 | 1.4 | 1.0 | 1.3 | .8 | .0 | .1 |
| <i>Annual</i> | | | | | | | | | | |
| 2007 | 4.8 | 4.8 | 2.0 | 2.0 | 2.6 | 2.6 | 2.2 | 2.2 | 4.6 | 4.6 |
| 2008 | 3.8 | 3.6 | 1.4 | 1.2 | 3.6 | 3.3 | 2.3 | 2.2 | 5.6 | 5.7 |
| 2009 | 1.9 | .0 | -.5 | -2.0 | 1.3 | .1 | 2.0 | 1.5 | 7.0 | 7.9 |
| 2010 | 2.8 | 2.7 | 1.5 | 1.8 | 1.5 | 1.2 | 1.3 | .8 | 7.3 | 8.2 |

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 | 2008 | | | | 2009 | | | | 2010 | | | | 2008 ¹ | 2009 ¹ | 2010 ¹ |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|-------------------|-------------------|-------------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| Real GDP <i>Previous</i> | .9 | 2.8 | -4 | -4.7 | -5.0 | -1.2 | 1.0 | 1.6 | 1.9 | 2.2 | 2.6 | 3.0 | -4 | -9 | 2.4 |
| Final sales <i>Previous</i> | .9 | 2.8 | -1.0 | -1.3 | -1.4 | -4 | .4 | 1.0 | 1.5 | 2.0 | 2.5 | 3.0 | .3 | -1 | 2.3 |
| Priv. dom. final purch. <i>Previous</i> | .9 | 4.4 | -1.1 | -4.9 | -3.5 | -1.2 | -8 | .1 | 1.2 | 2.9 | 2.9 | 2.6 | -3 | -1.4 | 2.4 |
| Personal cons. expend. <i>Previous</i> | .9 | 4.4 | -8 | -3.5 | -1.4 | -4 | -2 | .1 | 1.0 | 2.8 | 2.7 | 2.7 | .2 | -5 | 2.3 |
| Durables | -3 | .7 | -3.9 | -6.6 | -5.2 | -2.2 | -9 | .5 | 2.2 | 3.1 | 3.6 | 3.7 | -2.5 | -2.0 | 3.2 |
| Nondurables | -3 | .7 | -3.5 | -4.4 | -2.8 | -1.3 | -6 | .3 | 1.8 | 2.7 | 3.3 | 3.9 | -1.9 | -1.1 | 2.9 |
| Services | | | | | | | | | | | | | | | |
| Personal cons. expend. <i>Previous</i> | .9 | 1.2 | -3.7 | -4.3 | -1.3 | .9 | 1.4 | 2.0 | 2.3 | 2.8 | 2.9 | 3.0 | -1.5 | .7 | 2.7 |
| Durables | .9 | 1.2 | -3.3 | -2.4 | -1 | 1.0 | 1.5 | 1.7 | 2.0 | 2.2 | 2.5 | 2.8 | -9 | 1.0 | 2.4 |
| Nondurables | -4.3 | -2.8 | -15.2 | -25.8 | -9.7 | 6.4 | 3.8 | 5.0 | 4.5 | 7.9 | 7.1 | 6.4 | -12.5 | 1.2 | 6.5 |
| Services | -4 | 3.9 | -6.9 | -6.0 | -2.1 | -1.0 | 1.0 | 1.5 | 2.2 | 2.4 | 2.5 | 2.7 | -2.5 | -2 | 2.5 |
| Residential investment <i>Previous</i> | 2.4 | .7 | .0 | .6 | .3 | 1.0 | 1.3 | 1.7 | 2.1 | 2.2 | 2.5 | 2.6 | .9 | 1.1 | 2.3 |
| | | | | | | | | | | | | | | | |
| Residential investment <i>Previous</i> | -25.1 | -13.3 | -15.7 | -27.0 | -32.5 | -10.4 | -3.0 | 9.9 | 8.6 | 7.0 | 11.1 | 9.1 | -20.5 | -10.4 | 8.9 |
| Business fixed invest. <i>Previous</i> | -25.1 | -13.3 | -19.7 | -24.4 | -24.8 | -17.0 | -17.1 | -2.8 | 4.6 | 14.9 | 15.1 | 19.5 | -20.8 | -15.8 | 13.4 |
| Business fixed invest. <i>Previous</i> | 2.4 | 2.5 | -6 | -14.0 | -19.8 | -19.6 | -15.7 | -12.3 | -9 | 4.6 | 7.3 | 8.4 | -2.7 | -16.9 | 4.8 |
| Equipment & software <i>Previous</i> | 2.4 | 2.5 | .8 | -9.9 | -12.6 | -11.9 | -10.6 | -8.3 | -5 | 2.7 | 6.3 | 8.2 | -1.2 | -10.9 | 4.1 |
| Equipment & software <i>Previous</i> | -6 | -5.0 | -5.7 | -18.2 | -18.1 | -14.1 | -10.1 | -7.0 | 5.3 | 12.4 | 14.7 | 15.1 | -7.6 | -12.4 | 11.8 |
| Nonres. structures <i>Previous</i> | -6 | -5.0 | -2.0 | -11.1 | -11.4 | -8.4 | -6.8 | -4.0 | 6.0 | 9.0 | 12.1 | 14.0 | -4.7 | -7.7 | 10.2 |
| Nonres. structures <i>Previous</i> | 8.6 | 18.5 | 9.5 | -6.1 | -22.7 | -28.4 | -25.0 | -21.4 | -12.0 | -10.0 | -7.0 | -5.3 | 7.2 | -24.4 | -8.6 |
| Net exports ² <i>Previous</i> ² | 8.6 | 18.5 | 6.0 | -7.7 | -14.6 | -17.8 | -17.3 | -16.0 | -12.0 | -9.1 | -5.1 | -3.5 | 5.9 | -16.4 | -7.5 |
| Exports | -462 | -381 | -352 | -343 | -316 | -311 | -324 | -344 | -372 | -372 | -380 | -397 | -385 | -324 | -380 |
| Imports | -462 | -381 | -346 | -335 | -317 | -303 | -299 | -307 | -326 | -313 | -312 | -326 | -381 | -307 | -319 |
| Govt. cons. & invest. <i>Previous</i> | 5.1 | 12.3 | 3.4 | -4.1 | -2.2 | -3.2 | -7 | .9 | 1.7 | 2.2 | 2.9 | 3.5 | 4.0 | -1.3 | 2.6 |
| Federal | -8 | -7.3 | -3.2 | -5.2 | -7.4 | -3.7 | 2.2 | 5.2 | 7.7 | 1.8 | 3.9 | 6.5 | -4.2 | -1.0 | 4.9 |
| Defense | 1.9 | 3.9 | 5.8 | 1.2 | -4 | 2.1 | 1.4 | 1.8 | 1.9 | 1.6 | .6 | .6 | 3.2 | 1.2 | 1.2 |
| Nondefense | 1.9 | 3.9 | 4.8 | -1.0 | 1.4 | 1.0 | .7 | .6 | .9 | .9 | .1 | .1 | 2.4 | .9 | .5 |
| State & local | 5.8 | 6.6 | 13.6 | 3.8 | .6 | 3.6 | 2.6 | 3.8 | 4.0 | 3.3 | .7 | .7 | 7.4 | 2.6 | 2.2 |
| Change in bus. inventories ² <i>Previous</i> ² | 7.3 | 7.3 | 18.0 | 5.9 | .1 | 4.4 | 2.9 | 3.2 | 1.9 | 1.9 | 2.0 | 1.9 | 9.5 | 2.6 | 1.9 |
| Nonfarm ² | 2.9 | 5.0 | 4.5 | -8 | 1.7 | 1.8 | 2.0 | 5.2 | 8.7 | 6.3 | -2.0 | -2.0 | 2.9 | 2.7 | 2.7 |
| Farm ² | -3 | 2.5 | 1.4 | -4 | -1.0 | 1.2 | .7 | .7 | .6 | .6 | .6 | .6 | .8 | .4 | .6 |
| | | | | | | | | | | | | | | | |
| Change in bus. inventories ² <i>Previous</i> ² | -10 | -51 | -33 | -29 | -73 | -73 | -19 | 22 | 42 | 23 | 16 | 28 | -31 | -36 | 27 |
| Nonfarm ² | -10 | -51 | -57 | 1 | 2 | 2 | 18 | 43 | 56 | 35 | 30 | 38 | -29 | 16 | 40 |
| Farm ² | -18 | -55 | -33 | -30 | -73 | -72 | -20 | 21 | 40 | 22 | 15 | 26 | -34 | -36 | 26 |
| | 6 | 2 | -0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 1 | 1 |

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

2. Billions of chained (2000) dollars.

Changes in Real Gross Domestic Product and Related Items

(Change from fourth quarter of previous year to fourth quarter of year indicated, unless otherwise noted)

| Item | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|----------------|--------------|--------------|--------------|----------------|----------------|----------------|----------------|--------------|
| Real GDP <i>Previous</i> | 1.9 1.9 | 3.7 3.7 | 3.1 3.1 | 2.7 2.7 | 2.4 2.4 | 2.3 2.3 | -4 .3 | -9 -1 | 2.4 2.3 |
| Final sales <i>Previous</i> | .8 .8 | 3.7 3.7 | 2.8 2.8 | 2.7 2.7 | 2.8 2.8 | 2.5 2.5 | -3 .2 | -1.4 -5 | 2.4 2.3 |
| Priv. dom. final purch. <i>Previous</i> | 1.1 1.1 | 4.1 4.1 | 4.3 4.3 | 3.1 3.1 | 2.3 2.3 | 1.4 1.4 | -2.5 -1.9 | -2.0 -1.1 | 3.2 2.9 |
| Personal cons. expend. <i>Previous</i> | 1.9 1.9 | 3.4 3.4 | 3.7 3.7 | 2.6 2.6 | 3.2 3.2 | 2.2 2.2 | -1.5 -9 | .7 1.0 | 2.7 2.4 |
| Durables | 1.2 | 8.3 | 5.6 | 1.2 | 6.9 | 4.2 | -12.5 | 1.2 | 6.5 |
| Nondurables | 2.1 | 3.9 | 3.5 | 3.6 | 3.2 | 1.7 | -2.5 | -2 | 2.5 |
| Services | 1.9 | 2.2 | 3.3 | 2.4 | 2.6 | 2.1 | .9 | 1.1 | 2.3 |
| Residential investment <i>Previous</i> | 7.0 7.0 | 11.7 11.7 | 6.7 6.7 | 5.4 5.4 | -15.5 -15.5 | -19.0 -19.0 | -20.5 -20.8 | -10.4 -15.8 | 8.9 13.4 |
| Business fixed invest. <i>Previous</i> | -6.5 -6.5 | 4.9 4.9 | 7.5 7.5 | 4.9 4.9 | 6.5 6.5 | 6.4 6.4 | -2.7 -1.2 | -16.9 -10.9 | 4.8 4.1 |
| Equipment & software <i>Previous</i> | -3.4 -3.4 | 6.6 6.6 | 9.4 9.4 | 7.0 7.0 | 4.2 4.2 | 2.8 2.8 | -7.6 -4.7 | -12.4 -7.7 | 11.8 10.2 |
| Nonres. structures <i>Previous</i> | -14.9 -14.9 | .2 .2 | 2.3 2.3 | -5 -5 | 12.8 12.8 | 14.5 14.5 | 7.2 5.9 | -24.4 -16.4 | -8.6 -7.5 |
| Net exports ¹ <i>Previous¹</i> | -471 -471 | -519 -519 | -594 -594 | -617 -617 | -616 -616 | -547 -547 | -385 -381 | -324 -307 | -380 -319 |
| Exports | 3.8 | 5.8 | 7.4 | 7.0 | 10.1 | 8.9 | 4.0 | -1.3 | 2.6 |
| Imports | 9.7 | 4.8 | 11.5 | 4.8 | 3.8 | 1.1 | -4.2 | -1.0 | 4.9 |
| Govt. cons. & invest. <i>Previous</i> | 4.0 4.0 | 1.7 1.7 | .7 .7 | .6 .6 | 2.1 2.1 | 2.4 2.4 | 3.2 2.4 | 1.2 .9 | 1.2 .5 |
| Federal | 7.8 | 5.5 | 2.4 | 1.0 | 2.9 | 2.3 | 7.4 | 2.6 | 2.2 |
| Defense | 8.4 | 7.5 | 2.5 | .8 | 4.1 | 2.7 | 9.5 | 2.6 | 1.9 |
| Nondefense | 6.8 | 1.9 | 2.3 | 1.4 | .5 | 1.5 | 2.9 | 2.7 | 2.7 |
| State & local | 2.1 | -.4 | -.4 | .3 | 1.6 | 2.4 | .8 | .4 | .6 |
| Change in bus. inventories ¹ <i>Previous¹</i> | 12 12 | 14 14 | 54 54 | 39 39 | 42 42 | -2 -2 | -31 -29 | -36 16 | 27 40 |
| Nonfarm ¹ | 15 | 14 | 48 | 39 | 46 | -4 | -34 | -36 | 26 |
| Farm ¹ | -2 | 0 | 6 | 0 | -3 | 1 | 2 | 1 | 1 |

1. Billions of chained (2000) dollars.

Class II FOMC
Restricted (FR)

December 10, 2008

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

| Item | 2008 | | | | 2009 | | | | 2010 | | | | 2008 ¹ | 2009 ¹ | 2010 ¹ |
|---|------|------|------|------|------|------|------|------|------|-----|-----|------|-------------------|-------------------|-------------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| Real GDP <i>Previous</i> | .9 | 2.8 | -4 | -4.7 | -5.0 | -1.2 | 1.0 | 1.6 | 1.9 | 2.2 | 2.6 | 3.0 | -4 | -9 | 2.4 |
| Final sales <i>Previous</i> | .9 | 2.8 | -1.0 | -1.3 | -1.4 | -4 | .4 | 1.0 | 1.5 | 2.0 | 2.5 | 3.0 | .3 | -1 | 2.3 |
| Priv. dom. final purch. <i>Previous</i> | .9 | 4.3 | -1.1 | -5.0 | -3.4 | -1.2 | -8 | .1 | 1.2 | 2.9 | 2.9 | 2.6 | -3 | -1.4 | 2.4 |
| Personal cons. expend. <i>Previous</i> | .9 | 4.3 | -8 | -3.5 | -1.4 | -4 | -2 | .1 | 1.0 | 2.8 | 2.7 | 2.7 | .2 | -5 | 2.3 |
| Durables | -3 | .6 | -3.3 | -5.6 | -4.3 | -1.8 | -7 | .4 | 1.8 | 2.5 | 3.0 | 3.0 | -2.2 | -1.6 | 2.6 |
| Nondurables | -3 | .6 | -3.0 | -3.8 | -2.3 | -1.1 | -5 | .3 | 1.5 | 2.2 | 2.7 | 3.2 | -1.6 | -9 | 2.4 |
| Services | .6 | .9 | -2.7 | -3.0 | -.9 | .6 | 1.0 | 1.4 | 1.6 | 1.9 | 2.0 | 2.1 | -1.1 | .5 | 1.9 |
| Residential investment <i>Previous</i> | .6 | .9 | -2.3 | -1.7 | -.1 | .7 | 1.1 | 1.2 | 1.4 | 1.6 | 1.7 | 2.0 | -.7 | .7 | 1.7 |
| Durables | -3 | -2 | -1.2 | -2.0 | -.6 | .4 | .2 | .3 | .3 | .5 | .4 | .4 | -.9 | .1 | .4 |
| Nondurables | -1 | .8 | -1.5 | -1.3 | -.4 | -2 | .2 | .3 | .4 | .5 | .5 | .5 | -.5 | .0 | .5 |
| Services | 1.0 | .3 | .0 | .3 | .2 | .4 | .6 | .8 | .9 | 1.0 | 1.1 | 1.1 | .4 | .5 | 1.0 |
| Residential investment <i>Previous</i> | -1.1 | -.5 | -.6 | -1.0 | -1.1 | -.3 | -.1 | .3 | .2 | .2 | .3 | .2 | -.8 | -.3 | .2 |
| Business fixed invest. <i>Previous</i> | -1.1 | -.5 | -.8 | -.9 | -.8 | -.5 | -.5 | -.1 | .1 | .4 | .4 | .5 | -.8 | -.5 | .3 |
| Equipment & software <i>Previous</i> | .3 | .3 | -.1 | -1.6 | -2.3 | -2.2 | -1.6 | -1.2 | -.1 | .4 | .6 | .7 | -.3 | -1.8 | .4 |
| Nonres. structures <i>Previous</i> | .3 | .3 | .1 | -1.1 | -1.4 | -1.3 | -1.1 | -.8 | .0 | .3 | .6 | .8 | -.1 | -1.2 | .4 |
| Net exports <i>Previous</i> | .0 | -.4 | -.4 | -1.4 | -1.3 | -1.0 | -.7 | -.4 | .3 | .7 | .8 | .9 | -.6 | -.8 | .7 |
| Exports | .0 | -.4 | -.1 | -.8 | -.8 | -.6 | -.4 | -.3 | .4 | .5 | .7 | .9 | -.3 | -.5 | .6 |
| Imports | .3 | .6 | .4 | -.2 | -1.0 | -1.2 | -1.0 | -.8 | -.4 | -.3 | -.2 | -.1 | .3 | -1.0 | -.3 |
| Govt. cons. & invest. <i>Previous</i> | .3 | .6 | .2 | -.3 | -.6 | -.7 | -.7 | -.6 | -.4 | -.3 | -.2 | -.1 | .2 | -.6 | -.2 |
| Federal | .8 | 2.9 | 1.1 | .4 | .9 | .1 | -.4 | -.7 | -.9 | .0 | -.2 | -.6 | 1.2 | .0 | -.4 |
| Defense | .8 | 2.9 | 1.2 | .4 | .6 | .5 | .2 | -.3 | -.7 | .4 | .0 | -.5 | 1.3 | .2 | -.2 |
| Nondefense | .6 | 1.5 | .5 | -.6 | -.3 | -.4 | -.1 | .1 | .2 | .3 | .4 | .4 | .5 | -.2 | .3 |
| State & local | .1 | 1.4 | .6 | .9 | 1.2 | .6 | -.3 | -.8 | -1.2 | -.3 | -.6 | -1.0 | .7 | .2 | -.8 |
| Govt. cons. & invest. <i>Previous</i> | .4 | .8 | 1.1 | .3 | -.1 | .4 | .3 | .4 | .4 | .3 | .1 | .1 | .6 | .3 | .2 |
| Federal | .4 | .8 | 1.0 | -.2 | .3 | .2 | .1 | .1 | .2 | .2 | .0 | .0 | .5 | .2 | .1 |
| Defense | .4 | .5 | 1.0 | .3 | .1 | .3 | .2 | .3 | .3 | .3 | .1 | .1 | .5 | .2 | .2 |
| Nondefense | .3 | .4 | .9 | .3 | .0 | .2 | .2 | .2 | .1 | .1 | .1 | .1 | .5 | .1 | .1 |
| State & local | .1 | .1 | .1 | .0 | .0 | .0 | .0 | .1 | .2 | .2 | .0 | .0 | .1 | .1 | .1 |
| Change in bus. inventories <i>Previous</i> | .0 | .3 | .2 | .0 | -.1 | .2 | .1 | .1 | .1 | .1 | .1 | .1 | .1 | .0 | .1 |
| Nonfarm | .0 | -1.5 | .7 | .3 | -1.6 | .0 | 1.9 | 1.4 | .7 | -.6 | -.2 | .4 | -.1 | .4 | .0 |
| Farm | .0 | -1.5 | -.2 | 2.2 | .0 | .0 | .6 | .9 | .5 | -.8 | -.2 | .3 | .1 | .4 | .0 |
| Nonfarm | .2 | -1.4 | .8 | .1 | -1.5 | .0 | 1.9 | 1.5 | .7 | -.6 | -.2 | .4 | -.1 | .5 | .0 |
| Farm | -.2 | -.1 | -.1 | .1 | .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.

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

| Item | 2008 | | | | 2009 | | | | 2010 | | | | 2008 ¹ | 2009 ¹ | 2010 ¹ |
|--|------|------|------|-------|-------|------|-----|-----|------|-----|-----|-----|-------------------|-------------------|-------------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| GDP chain-wt. price index <i>Previous</i> | 2.6 | 1.1 | 4.1 | 2.4 | 2.1 | 1.6 | 1.4 | .9 | .8 | .9 | .8 | .7 | 2.6 | 1.5 | .8 |
| PCE chain-wt. price index <i>Previous</i> | 2.6 | 1.1 | 4.1 | 4.3 | 2.0 | 1.6 | 1.5 | 1.3 | 1.2 | 1.4 | 1.3 | 1.2 | 3.0 | 1.6 | 1.3 |
| Energy <i>Previous</i> | 3.6 | 4.3 | 5.2 | -5.1 | -1.8 | 2.2 | 1.5 | 1.2 | 1.1 | 1.1 | 1.0 | .9 | 1.9 | .7 | 1.0 |
| Food <i>Previous</i> | 3.6 | 4.3 | 5.6 | -2.2 | .7 | 1.7 | 1.6 | 1.6 | 1.5 | 1.5 | 1.4 | 1.4 | 2.8 | 1.4 | 1.4 |
| Ex. food & energy <i>Previous</i> | 19.0 | 27.4 | 31.6 | -66.8 | -48.3 | 19.2 | 8.7 | 6.2 | 6.3 | 5.2 | 4.2 | 3.6 | -9.8 | -8.1 | 4.8 |
| | 19.0 | 27.4 | 31.7 | -51.9 | -17.6 | 3.4 | 3.5 | 3.5 | 3.8 | 3.6 | 3.2 | 2.9 | -1.0 | -2.3 | 3.3 |
| | 4.9 | 6.4 | 8.5 | 5.3 | 2.4 | 1.8 | 2.0 | 1.7 | 1.0 | .9 | .9 | .9 | 6.3 | 2.0 | 1.0 |
| | 4.9 | 6.4 | 8.5 | 5.2 | 2.5 | 1.9 | 2.3 | 2.1 | 1.5 | 1.5 | 1.4 | 1.4 | 6.2 | 2.2 | 1.4 |
| | 2.3 | 2.2 | 2.6 | 1.2 | 1.5 | 1.3 | 1.0 | .8 | .8 | .8 | .8 | .7 | 2.0 | 1.1 | .8 |
| | 2.3 | 2.2 | 3.1 | 2.3 | 1.9 | 1.6 | 1.4 | 1.4 | 1.4 | 1.4 | 1.3 | 1.3 | 2.4 | 1.5 | 1.3 |
| CPI <i>Previous</i> | 4.3 | 5.0 | 6.7 | -8.5 | -3.2 | 2.6 | 1.9 | 1.4 | 1.4 | 1.3 | 1.2 | 1.1 | 1.7 | .7 | 1.3 |
| Ex. food & energy <i>Previous</i> | 4.3 | 5.0 | 6.7 | -4.5 | .3 | 1.9 | 1.8 | 1.8 | 1.8 | 1.7 | 1.7 | 1.6 | 2.8 | 1.5 | 1.7 |
| | 2.5 | 1.9 | 3.2 | .8 | 1.6 | 1.5 | 1.3 | 1.0 | 1.0 | 1.0 | 1.0 | .9 | 2.1 | 1.3 | 1.0 |
| | 2.5 | 1.9 | 3.2 | 2.2 | 2.1 | 1.8 | 1.6 | 1.6 | 1.6 | 1.6 | 1.5 | 1.5 | 2.4 | 1.7 | 1.5 |
| ECI, hourly compensation ² <i>Previous</i> ² | 3.0 | 2.3 | 2.6 | 2.2 | 2.0 | 2.0 | 1.9 | 1.9 | 1.8 | 1.7 | 1.6 | 1.5 | 2.5 | 2.0 | 1.6 |
| | 3.0 | 2.3 | 3.1 | 3.2 | 2.6 | 2.4 | 2.2 | 1.9 | 1.6 | 1.6 | 1.5 | 1.5 | 2.9 | 2.3 | 1.5 |
| Nonfarm business sector Output per hour <i>Previous</i> | 2.6 | 3.6 | 1.4 | .4 | -2.5 | .2 | 2.6 | 2.8 | 2.7 | 2.5 | 2.1 | 2.2 | 2.0 | .8 | 2.4 |
| Compensation per hour <i>Previous</i> | 2.6 | 3.6 | -.3 | .8 | 1.4 | 1.2 | 2.3 | 2.0 | 2.5 | 2.0 | 2.0 | 2.4 | 1.7 | 1.7 | 2.2 |
| Unit labor costs <i>Previous</i> | 3.8 | .9 | 4.1 | 4.2 | 2.2 | 2.7 | 2.4 | 2.1 | 1.8 | 1.6 | 1.5 | 1.4 | 3.2 | 2.4 | 1.6 |
| | 3.8 | 3.7 | 4.5 | 3.9 | 3.4 | 3.2 | 3.0 | 2.9 | 2.4 | 2.2 | 2.0 | 1.9 | 4.0 | 3.1 | 2.1 |
| | 1.2 | -2.6 | 2.6 | 3.8 | 4.8 | 2.5 | -2 | -7 | -9 | -8 | -6 | -8 | 1.2 | 1.6 | -8 |
| | 1.2 | .1 | 4.8 | 3.0 | 1.9 | 2.0 | .7 | .9 | -.1 | .2 | .0 | -.5 | 2.2 | 1.4 | -1 |
| Core goods imports chain-wt price index ³ <i>Previous</i> ³ | 8.5 | 10.6 | 4.6 | -7.0 | -8.5 | -2.4 | -7 | 1.0 | 1.4 | 1.4 | 1.3 | 1.3 | 3.9 | -2.7 | 1.3 |
| | 8.5 | 10.6 | 6.5 | -2.9 | -4.5 | .2 | .7 | 1.6 | 1.6 | 1.5 | 1.5 | 1.5 | 5.5 | -5 | 1.5 |

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

2. Private-industry workers.

3. Core goods imports exclude computers, semiconductors, oil, and natural gas.

Changes in Prices and Costs

(Change from fourth quarter of previous year to fourth quarter of year indicated, unless otherwise noted)

| Item | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|
| GDP chain-wt price index <i>Previous</i> | 1.7 1.7 | 2.2 2.2 | 3.2 3.2 | 3.5 3.5 | 2.8 2.8 | 2.6 2.6 | 2.6 3.0 | 1.5 1.6 | .8 1.3 |
| PCE chain-wt price index <i>Previous</i> | 1.8 1.8 | 1.9 1.9 | 3.1 3.1 | 3.3 3.3 | 1.9 1.9 | 3.5 3.5 | 1.9 2.8 | .7 1.4 | 1.0 1.4 |
| Energy <i>Previous</i> | 7.7 7.7 | 7.6 7.6 | 18.3 18.3 | 23.1 23.1 | -4.0 -4.0 | 19.1 19.1 | -9.8 -1.0 | -8.1 -2.3 | 4.8 3.3 |
| Food <i>Previous</i> | 1.3 1.3 | 2.6 2.6 | 2.9 2.9 | 2.1 2.1 | 2.3 2.3 | 4.5 4.5 | 6.3 6.2 | 2.0 2.2 | 1.0 1.4 |
| Ex. food & energy <i>Previous</i> | 1.6 1.6 | 1.4 1.4 | 2.2 2.2 | 2.2 2.2 | 2.3 2.3 | 2.2 2.2 | 2.0 2.4 | 1.1 1.5 | .8 1.3 |
| CPI <i>Previous</i> | 2.3 2.3 | 2.0 2.0 | 3.4 3.4 | 3.8 3.8 | 1.9 1.9 | 4.0 4.0 | 1.7 2.8 | .7 1.5 | 1.3 1.7 |
| Ex. food & energy <i>Previous</i> | 2.1 2.1 | 1.2 1.2 | 2.1 2.1 | 2.1 2.1 | 2.7 2.7 | 2.3 2.3 | 2.1 2.4 | 1.3 1.7 | 1.0 1.5 |
| ECI, hourly compensation ¹ <i>Previous</i> ¹ | 3.1 3.1 | 4.0 4.0 | 3.8 3.8 | 2.9 2.9 | 3.2 3.2 | 3.0 3.0 | 2.5 2.9 | 2.0 2.3 | 1.6 1.5 |
| Nonfarm business sector Output per hour <i>Previous</i> | 2.9 2.9 | 4.7 4.7 | 1.8 1.8 | 1.5 1.5 | .6 .6 | 2.7 2.7 | 2.0 1.7 | .8 1.7 | 2.4 2.2 |
| Compensation per hour <i>Previous</i> | 3.2 3.2 | 5.3 5.3 | 3.9 3.9 | 3.6 3.6 | 4.3 4.3 | 3.6 3.6 | 3.2 4.0 | 2.4 3.1 | 1.6 2.1 |
| Unit labor costs <i>Previous</i> | .2 .2 | .5 .5 | 2.1 2.1 | 2.1 2.1 | 3.6 3.6 | .9 .9 | 1.2 2.2 | 1.6 1.4 | -.8 -.1 |
| Core goods imports chain-wt. price index ² <i>Previous</i> ² | .1 .1 | 1.6 1.6 | 3.6 3.6 | 2.2 2.2 | 2.4 2.4 | 3.4 3.4 | 3.9 5.5 | -2.7 -.5 | 1.3 1.5 |

1. Private-industry workers.

2. Core goods imports exclude computers, semiconductors, oil and natural gas.

Other Macroeconomic Indicators

| Item | 2008 | | | | 2009 | | | | 2010 | | | | 2008 ¹ | 2009 ¹ | 2010 ¹ |
|---|------|-------|------|-------|-------|------|------|------|------|------|------|------|-------------------|-------------------|-------------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2008 ¹ | 2009 ¹ | 2010 ¹ |
| <i>Employment and production</i> | | | | | | | | | | | | | | | |
| Nonfarm payroll employment ² | -1 | -2 | -4 | -1.2 | -1.4 | -4 | -2 | -1 | -1.4 | -4 | -2 | -1 | -1.9 | -2.1 | .5 |
| Unemployment rate ³ | 4.9 | 5.3 | 6.0 | 6.7 | 7.5 | 7.8 | 8.0 | 8.1 | 8.3 | 8.3 | 8.2 | 8.2 | 6.7 | 8.1 | 8.2 |
| <i>Previous³</i> | 4.9 | 5.3 | 6.0 | 6.3 | 6.6 | 6.9 | 7.1 | 7.2 | 7.3 | 7.3 | 7.3 | 7.2 | 6.3 | 7.2 | 7.2 |
| GDP gap ⁴ | -7 | -6 | -1.3 | -3.1 | -4.8 | -5.6 | -5.9 | -6.0 | -6.1 | -6.1 | -6.0 | -5.8 | -3.1 | -6.0 | -5.8 |
| <i>Previous⁴</i> | -6 | -5 | -1.4 | -2.3 | -3.2 | -3.9 | -4.3 | -4.7 | -4.9 | -4.9 | -4.9 | -4.7 | -2.3 | -4.7 | -4.7 |
| Industrial production ⁵ | .4 | -3.4 | -7.6 | -9.1 | -6.5 | -1.0 | .2 | 1.4 | 1.6 | 2.1 | 3.3 | 3.3 | -5.0 | -1.5 | 2.6 |
| <i>Previous⁵</i> | .4 | -3.1 | -6.0 | -6 | -1 | -1 | 1.4 | 2.5 | 1.7 | 2.7 | 3.1 | 3.3 | -2.4 | .9 | 2.7 |
| Manufacturing industr. prod. ⁵ | -1.0 | -4.0 | -7.8 | -13.2 | -8.5 | .0 | 1.0 | 1.2 | 1.1 | 2.0 | 3.4 | 3.5 | -6.6 | -1.7 | 2.5 |
| <i>Previous⁵</i> | -1.0 | -3.8 | -5.8 | -4.8 | -2.6 | -4 | .9 | 1.9 | 2.2 | 3.2 | 3.5 | 3.9 | -3.8 | -1 | 3.2 |
| Capacity utilization rate - mfg. ³ | 78.7 | 77.5 | 75.7 | 72.8 | 71.2 | 71.2 | 71.3 | 71.6 | 71.8 | 72.3 | 73.0 | 73.7 | 72.8 | 71.6 | 73.7 |
| <i>Previous³</i> | 78.7 | 77.6 | 76.1 | 74.9 | 74.3 | 74.1 | 74.1 | 74.4 | 74.7 | 75.1 | 75.7 | 76.3 | 74.9 | 74.4 | 76.3 |
| Housing starts ⁶ | 1.1 | 1.0 | .9 | .7 | .7 | .7 | .8 | .8 | .9 | .9 | 1.0 | 1.0 | .9 | .7 | .9 |
| Light motor vehicle sales ⁶ | 15.2 | 14.1 | 12.9 | 10.3 | 10.5 | 11.3 | 11.6 | 12.0 | 12.2 | 12.9 | 13.3 | 13.6 | 13.1 | 11.3 | 13.0 |
| <i>Income and saving</i> | | | | | | | | | | | | | | | |
| Nominal GDP ⁵ | 3.5 | 4.1 | 3.6 | -2.4 | -3.0 | .4 | 2.4 | 2.5 | 2.7 | 3.1 | 3.4 | 3.7 | 2.2 | .6 | 3.2 |
| Real disposable pers. income ⁵ | -7 | 10.7 | -9.2 | 5.7 | 8.1 | .9 | -5 | 1.1 | 1.9 | 1.5 | 2.0 | 2.3 | 1.3 | 2.4 | 1.9 |
| <i>Previous⁵</i> | -7 | 11.9 | -8.4 | -2 | 3.7 | .3 | .1 | 1.2 | 1.7 | .9 | 2.7 | 2.4 | .4 | 1.3 | 1.9 |
| Personal saving rate ³ | .2 | 2.5 | 1.1 | 3.4 | 5.7 | 5.8 | 5.4 | 5.3 | 5.2 | 5.0 | 4.9 | 4.8 | 3.4 | 5.3 | 4.8 |
| <i>Previous³</i> | .2 | 2.7 | 1.5 | 2.1 | 3.1 | 3.0 | 2.8 | 2.8 | 2.8 | 2.5 | 2.6 | 2.6 | 2.1 | 2.8 | 2.6 |
| Corporate profits ⁷ | -4.3 | -14.3 | -3.0 | -22.0 | -21.9 | -1.6 | 1.4 | 6.3 | 4.2 | 7.0 | 8.8 | 6.7 | -11.2 | -4.6 | 6.7 |
| Profit share of GNP ³ | 11.2 | 10.6 | 10.5 | 9.9 | 9.4 | 9.4 | 9.3 | 9.4 | 9.4 | 9.5 | 9.6 | 9.7 | 9.9 | 9.4 | 9.7 |
| Net federal saving ⁸ | -331 | -650 | -544 | -555 | -707 | -796 | -822 | -830 | -876 | -869 | -892 | -893 | -520 | -789 | -882 |
| Net state & local saving ⁸ | -52 | -67 | -102 | -103 | -92 | -97 | -101 | -95 | -90 | -89 | -83 | -77 | -81 | -96 | -85 |
| Gross national saving rate ³ | 12.4 | 11.3 | 11.4 | 12.7 | 12.7 | 12.1 | 11.7 | 11.6 | 11.4 | 11.4 | 11.3 | 11.3 | 12.7 | 11.6 | 11.3 |
| Net national saving rate ³ | .0 | -1.3 | -2.0 | -.3 | -.7 | -1.5 | -1.9 | -2.1 | -2.3 | -2.3 | -2.4 | -2.4 | -.3 | -2.1 | -2.4 |

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. 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.

Other Macroeconomic Indicators

(Change from fourth quarter of previous year to fourth quarter of year indicated, unless otherwise noted)

| Item | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|------|------|------|------|------|------|-------|------|------|
| <i>Employment and production</i> | | | | | | | | | |
| Nonfarm payroll employment ¹ | -7 | -1 | 2.1 | 2.4 | 2.1 | 1.2 | -1.9 | -2.1 | .5 |
| Unemployment rate ² | 5.8 | 5.8 | 5.4 | 4.9 | 4.4 | 4.8 | 6.7 | 8.1 | 8.2 |
| <i>Previous²</i> | 5.8 | 5.8 | 5.4 | 4.9 | 4.4 | 4.8 | 6.3 | 7.2 | 7.2 |
| GDP gap ³ | -2.5 | -1.7 | -7 | -2 | -1 | -3 | -3.1 | -6.0 | -5.8 |
| <i>Previous³</i> | -2.4 | -1.6 | -6 | -1 | .0 | -2 | -2.3 | -4.7 | -4.7 |
| Industrial production ⁴ | 2.6 | 1.5 | 3.1 | 2.6 | 1.7 | 2.1 | -5.0 | -1.5 | 2.6 |
| <i>Previous⁴</i> | 2.6 | 1.5 | 3.1 | 2.6 | 1.7 | 2.1 | -2.4 | .9 | 2.7 |
| Manufacturing industr. prod. ⁴ | 2.6 | 1.7 | 3.7 | 3.7 | 1.1 | 2.3 | -6.6 | -1.7 | 2.5 |
| <i>Previous⁴</i> | 2.6 | 1.7 | 3.7 | 3.7 | 1.1 | 2.3 | -3.8 | -1 | 3.2 |
| Capacity utilization rate - mfg. ² | 73.2 | 74.8 | 77.5 | 79.2 | 79.0 | 79.3 | 72.8 | 71.6 | 73.7 |
| <i>Previous²</i> | 73.2 | 74.8 | 77.5 | 79.2 | 79.0 | 79.3 | 74.9 | 74.4 | 76.3 |
| Housing starts ⁵ | 1.7 | 1.8 | 2.0 | 2.1 | 1.8 | 1.4 | .9 | .7 | .9 |
| Light motor vehicle sales ⁵ | 16.7 | 16.6 | 16.8 | 16.9 | 16.5 | 16.1 | 13.1 | 11.3 | 13.0 |
| <i>Income and saving</i> | | | | | | | | | |
| Nominal GDP ⁴ | 3.6 | 5.9 | 6.5 | 6.3 | 5.3 | 4.9 | 2.2 | .6 | 3.2 |
| Real disposable pers. income ⁴ | 2.9 | 3.7 | 4.1 | .9 | 3.6 | 1.8 | 1.3 | 2.4 | 1.9 |
| <i>Previous⁴</i> | 2.9 | 3.7 | 4.1 | .9 | 3.6 | 1.8 | .4 | 1.3 | 1.9 |
| Personal saving rate ² | 1.8 | 2.2 | 2.5 | .8 | .9 | .4 | 3.4 | 5.3 | 4.8 |
| <i>Previous²</i> | 1.8 | 2.2 | 2.5 | .8 | .9 | .4 | 2.1 | 2.8 | 2.6 |
| Corporate profits ⁶ | 20.6 | 12.6 | 20.3 | 18.8 | 6.9 | -2.0 | -11.2 | -4.6 | 6.7 |
| Profit share of GNP ² | 9.0 | 9.5 | 10.8 | 12.0 | 12.2 | 11.3 | 9.9 | 9.4 | 9.7 |
| Net federal saving ⁷ | -248 | -372 | -371 | -292 | -201 | -229 | -520 | -789 | -882 |
| Net state & local saving ⁷ | -34 | -20 | 2 | 29 | 46 | 10 | -81 | -96 | -85 |
| Gross national saving rate ² | 13.6 | 13.7 | 13.8 | 15.0 | 15.5 | 13.4 | 12.7 | 11.6 | 11.3 |
| Net national saving rate ² | 1.5 | 1.9 | 2.1 | 2.8 | 3.4 | 1.2 | -.3 | -2.1 | -2.4 |

1. Change, millions.

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

3. Percent difference between actual and potential GDP; a negative number indicates that the economy is operating below potential.

Values are for the fourth quarter of the year indicated.

4. Percent change.

5. Level, millions, values are annual averages.

6. Percent change, with inventory valuation and capital consumption adjustments.

7. Billions of dollars, values are annual averages.

**Class II FOMC
Restricted (FR)**

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

December 10, 2008

| Item | Fiscal year | | | | 2008 | | | | 2009 | | | | 2010 | | | | |
|---|-------------------|-------------------|-------|------|----------------------------------|-----------------|-----------------|------|------|------|------|------|------|------|------|------|------|
| | 2007 ^a | 2008 ^a | 2009 | 2010 | Q1 ^a | Q2 ^a | Q3 ^a | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | |
| Unified budget | | | | | Not seasonally adjusted | | | | | | | | | | | | |
| Receipts ¹ | 2568 | 2524 | 2377 | 2429 | 540 | 788 | 590 | 559 | 484 | 591 | 742 | 591 | 565 | 517 | 743 | 604 | 586 |
| Outlays ¹ | 2729 | 2978 | 4053 | 3272 | 746 | 761 | 759 | 1062 | 1051 | 1057 | 882 | 825 | 825 | 829 | 819 | 799 | 865 |
| Surplus/deficit ¹ | -162 | -455 | -1675 | -842 | -206 | 27 | -169 | -503 | -567 | -315 | -291 | -260 | -260 | -312 | -76 | -195 | -278 |
| <i>Previous</i> | -162 | -455 | -853 | -587 | -206 | 27 | -169 | -456 | -277 | 9 | -128 | -212 | -212 | -258 | 11 | -128 | -218 |
| On-budget | -343 | -638 | -1832 | -992 | -237 | -64 | -171 | -569 | -577 | -400 | -287 | -317 | -317 | -322 | -162 | -192 | -338 |
| Off-budget | 181 | 183 | 157 | 150 | 31 | 91 | 2 | 66 | 10 | 85 | 4 | 57 | 57 | 10 | 86 | -3 | 59 |
| Means of financing | | | | | | | | | | | | | | | | | |
| Borrowing | 206 | 768 | 1461 | 860 | 200 | -48 | 526 | 529 | 343 | 281 | 307 | 249 | 249 | 302 | 100 | 210 | 268 |
| Cash decrease | -23 | -296 | 322 | 0 | 11 | -7 | -318 | 32 | 264 | 30 | -5 | 15 | 15 | 15 | -20 | -10 | 15 |
| Other ² | -22 | -17 | -108 | -18 | -5 | 29 | -39 | -59 | -41 | 4 | -12 | -5 | -5 | -5 | -5 | -5 | -5 |
| Cash operating balance, end of period | 75 | 372 | 50 | 50 | 46 | 53 | 372 | 339 | 75 | 45 | 50 | 35 | 35 | 20 | 40 | 50 | 35 |
| NIPA federal sector | | | | | Seasonally adjusted annual rates | | | | | | | | | | | | |
| Receipts | 2624 | 2606 | 2528 | 2569 | 2673 | 2479 | 2595 | 2583 | 2512 | 2493 | 2525 | 2552 | 2552 | 2554 | 2573 | 2598 | 2623 |
| Expenditures | 2832 | 3047 | 3248 | 3436 | 3003 | 3128 | 3140 | 3137 | 3219 | 3289 | 3347 | 3382 | 3382 | 3430 | 3442 | 3490 | 3517 |
| Consumption expenditures | 842 | 910 | 980 | 1032 | 898 | 918 | 954 | 962 | 974 | 987 | 998 | 1011 | 1011 | 1029 | 1042 | 1048 | 1053 |
| Defense | 569 | 624 | 677 | 707 | 614 | 629 | 660 | 666 | 671 | 681 | 689 | 696 | 696 | 704 | 710 | 717 | 723 |
| Nondefense | 273 | 286 | 303 | 326 | 284 | 289 | 294 | 295 | 302 | 306 | 309 | 315 | 325 | 325 | 332 | 331 | 330 |
| Other spending | 1990 | 2136 | 2268 | 2404 | 2105 | 2210 | 2186 | 2176 | 2245 | 2302 | 2349 | 2371 | 2371 | 2401 | 2400 | 2442 | 2464 |
| Current account surplus | -209 | -440 | -720 | -867 | -331 | -650 | -545 | -555 | -707 | -796 | -822 | -830 | -830 | -876 | -869 | -892 | -893 |
| Gross investment | 123 | 134 | 146 | 151 | 129 | 138 | 144 | 145 | 144 | 146 | 148 | 149 | 149 | 150 | 151 | 153 | 154 |
| Gross saving less gross investment ³ | -221 | -458 | -742 | -888 | -344 | -671 | -569 | -579 | -728 | -818 | -843 | -852 | -852 | -897 | -889 | -912 | -913 |
| Fiscal indicators⁴ | | | | | | | | | | | | | | | | | |
| High-employment (HEB) surplus/deficit | -225 | -430 | -527 | -572 | -325 | -646 | -507 | -450 | -532 | -570 | -556 | -542 | -542 | -584 | -570 | -593 | -599 |
| Change in HEB, percent of potential GDP | -0.3 | 1.4 | 0.5 | 0.2 | 0.6 | 2.2 | -1.0 | -0.4 | 0.5 | 0.2 | -0.1 | -0.1 | -0.1 | 0.2 | -0.1 | 0.1 | 0.0 |
| Fiscal impetus (FI), percent of GDP | 0.2 | 0.8 | 0.6 | 0.7 | 0.1 | 0.5 | 0.7 | -0.3 | 0.0 | 0.4 | 0.1 | 0.1 | 0.1 | 0.3 | 0.1 | 0.1 | 0.1 |
| <i>Previous</i> | 0.2 | 0.7 | -0.0 | 0.1 | 0.1 | 0.5 | 0.6 | -0.5 | -0.1 | 0.1 | -0.1 | -0.1 | -0.1 | 0.1 | 0.1 | 0.0 | 0.0 |

1. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus and the Postal Service surplus are excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.

2. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.

3. Gross saving is the current account surplus plus consumption of fixed capital of the general government as well as government enterprises.

4. HEB is gross saving less gross investment (NIPA) of the federal government in current dollars, with cyclically sensitive receipts and outlays adjusted to the staff's measure of potential output and the NAIRU. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (2000) dollars, scaled by real GDP. The annual FI estimates are on a calendar year basis. Also, for FI and the change in HEB, positive values indicate aggregate demand stimulus.

a--Actual

Class II FOMC Restricted (FR) **Change in Debt of the Domestic Nonfinancial Sectors** **December 10, 2008**
(Percent)

| Period ¹ | Total | Households | | | Business | State and local governments | Federal government | Memo: Nominal GDP |
|---------------------|-------|------------|----------------|-----------------|----------|-----------------------------|--------------------|-------------------|
| | | Total | Home mortgages | Consumer credit | | | | |
| <i>Year</i> | | | | | | | | |
| 2003 | 8.1 | 11.6 | 14.2 | 5.2 | 2.5 | 8.3 | 10.9 | 5.9 |
| 2004 | 8.9 | 11.1 | 13.6 | 5.5 | 6.2 | 7.4 | 9.0 | 6.5 |
| 2005 | 9.5 | 11.0 | 13.2 | 4.3 | 8.7 | 10.2 | 7.0 | 6.3 |
| 2006 | 9.0 | 10.2 | 11.2 | 4.5 | 10.5 | 8.1 | 3.9 | 5.3 |
| 2007 | 8.6 | 6.8 | 6.8 | 5.5 | 13.1 | 9.3 | 4.9 | 4.9 |
| 2008 | 5.6 | .1 | -.7 | 1.7 | 4.9 | 2.2 | 23.6 | 2.2 |
| 2009 | 4.4 | -1.0 | -1.2 | -1.3 | 2.6 | 5.9 | 18.7 | .6 |
| 2010 | 4.3 | 1.1 | .3 | 3.1 | 3.0 | 6.0 | 11.7 | 3.2 |
| <i>Quarter</i> | | | | | | | | |
| 2008:1 | 5.3 | 3.2 | 2.6 | 4.7 | 7.2 | 3.4 | 8.1 | 3.5 |
| 2 | 3.1 | .6 | -.1 | 3.9 | 5.6 | .8 | 5.9 | 4.1 |
| 3 | 7.2 | -.8 | -2.4 | 1.2 | 2.9 | 2.9 | 39.2 | 3.6 |
| 4 | 6.3 | -2.5 | -2.8 | -2.8 | 3.4 | 1.6 | 34.9 | -2.4 |
| 2009:1 | 3.3 | -1.9 | -1.8 | -3.4 | 2.4 | 5.1 | 15.6 | -3.0 |
| 2 | 5.5 | -1.2 | -1.4 | -1.8 | 2.5 | 5.4 | 24.8 | .4 |
| 3 | 4.6 | -.7 | -.9 | -.7 | 2.7 | 6.3 | 17.2 | 2.4 |
| 4 | 3.8 | -.3 | -.7 | .5 | 2.7 | 6.2 | 12.5 | 2.5 |
| 2010:1 | 3.8 | .2 | -.5 | 1.5 | 3.0 | 6.0 | 10.9 | 2.7 |
| 2 | 4.2 | .7 | .0 | 2.8 | 3.1 | 5.9 | 11.7 | 3.1 |
| 3 | 4.1 | 1.3 | .5 | 3.7 | 2.8 | 5.8 | 10.2 | 3.4 |
| 4 | 4.9 | 2.1 | 1.4 | 4.5 | 3.0 | 5.7 | 12.1 | 3.7 |

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2008:Q3 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

Class II FOMC Restricted (FR) **Flow of Funds Projections: Highlights** **December 10, 2008**
(Billions of dollars at seasonally adjusted annual rates except as noted)

| Category | 2007 | 2008 | 2009 | 2010 | 2008 | | | | 2009 | | | | 2010 | | | |
|--------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----|----|
| | | | | | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| <i>Domestic nonfinancial sectors</i> | | | | | | | | | | | | | | | | |
| Net funds raised | | | | | | | | | | | | | | | | |
| Total | 1692.2 | 1373.3 | 1211.8 | 1269.1 | 1934.5 | 1630.0 | 832.0 | 1605.8 | 1325.9 | 1083.6 | 1086.9 | 1258.4 | 1208.7 | 1522.2 | | |
| Net equity issuance | -831.2 | -410.5 | -255.0 | -240.0 | -413.6 | -460.0 | -280.0 | -260.0 | -240.0 | -240.0 | -240.0 | -240.0 | -240.0 | -240.0 | | |
| Net debt issuance | 2523.4 | 1783.8 | 1466.8 | 1509.1 | 2348.1 | 2090.0 | 1112.0 | 1865.8 | 1565.9 | 1323.6 | 1326.9 | 1498.4 | 1448.7 | 1762.2 | | |
| Borrowing indicators | | | | | | | | | | | | | | | | |
| Debt (percent of GDP) ¹ | 220.6 | 228.0 | 239.3 | 243.1 | 226.6 | 231.9 | 236.4 | 238.8 | 240.3 | 241.4 | 242.0 | 242.6 | 243.1 | 243.5 | | |
| Borrowing (percent of GDP) | 18.3 | 12.5 | 10.3 | 10.3 | 16.3 | 14.6 | 7.8 | 13.1 | 10.9 | 9.2 | 9.1 | 10.2 | 9.8 | 11.8 | | |
| Households | | | | | | | | | | | | | | | | |
| Net borrowing ² | 876.3 | 11.5 | -137.3 | 147.3 | -117.4 | -349.9 | -257.4 | -166.4 | -90.2 | -35.4 | 21.5 | 102.3 | 173.8 | 291.7 | | |
| Home mortgages | 674.5 | -73.6 | -124.2 | 35.5 | -258.9 | -300.0 | -189.3 | -142.0 | -94.6 | -71.0 | -47.3 | 0.0 | 47.3 | 142.0 | | |
| Consumer credit | 133.6 | 44.6 | -35.0 | 80.3 | 30.5 | -72.0 | -89.3 | -45.6 | -17.7 | 12.6 | 38.0 | 71.3 | 95.0 | 116.7 | | |
| Debt/DPI (percent) ³ | 131.5 | 129.8 | 125.7 | 122.6 | 130.4 | 129.8 | 127.1 | 125.7 | 125.1 | 124.2 | 123.3 | 122.7 | 122.1 | 121.6 | | |
| Business | | | | | | | | | | | | | | | | |
| Financing gap ⁴ | 185.6 | 181.2 | 73.3 | 78.7 | 134.5 | 103.0 | 93.0 | 54.1 | 63.2 | 82.8 | 98.1 | 72.9 | 62.7 | 81.0 | | |
| Net equity issuance | -831.2 | -410.5 | -255.0 | -240.0 | -413.6 | -460.0 | -280.0 | -260.0 | -240.0 | -240.0 | -240.0 | -240.0 | -240.0 | -240.0 | | |
| Credit market borrowing | 1224.2 | 516.2 | 291.6 | 341.0 | 321.7 | 375.6 | 270.4 | 282.8 | 308.0 | 305.2 | 345.6 | 350.3 | 322.4 | 345.6 | | |
| State and local governments | | | | | | | | | | | | | | | | |
| Net borrowing | 185.9 | 48.4 | 131.6 | 141.6 | 65.3 | 35.0 | 113.6 | 121.6 | 145.6 | 145.6 | 141.6 | 141.6 | 141.6 | 141.6 | | |
| Current surplus ⁵ | 246.6 | 146.7 | 119.3 | 136.7 | 109.6 | 107.3 | 120.9 | 118.0 | 115.7 | 122.6 | 129.0 | 131.5 | 139.8 | 146.7 | | |
| Federal government | | | | | | | | | | | | | | | | |
| Net borrowing | 237.1 | 1207.7 | 1181.0 | 879.1 | 2078.5 | 2029.3 | 985.4 | 1627.8 | 1202.4 | 908.2 | 818.2 | 904.2 | 810.9 | 983.2 | | |
| Net borrowing (n.s.a.) | 237.1 | 1207.7 | 1181.0 | 879.1 | 526.5 | 529.4 | 343.4 | 280.9 | 307.5 | 249.1 | 301.6 | 100.0 | 209.6 | 267.9 | | |
| Unified deficit (n.s.a.) | 187.9 | 851.0 | 1431.9 | 861.1 | 168.9 | 503.0 | 566.9 | 314.7 | 290.6 | 259.6 | 312.1 | 75.5 | 195.1 | 278.4 | | |
| <i>Depository institutions</i> | | | | | | | | | | | | | | | | |
| Funds supplied | 851.7 | 184.2 | 265.8 | 460.4 | -43.3 | -188.1 | 261.5 | 81.0 | 341.0 | 379.6 | 468.7 | 618.8 | 460.9 | 293.1 | | |

Note. Data after 2008:Q3 are staff projections.

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

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

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

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

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

n.s.a. Not seasonally adjusted.

2.6.4 FOF

International Developments

The near-term outlook for growth abroad has deteriorated substantially since the time of the last Greenbook amid continuing financial stress, and we now project that foreign activity will contract 1½ percent at an annual rate in the current quarter. This is a significant downward revision from the ½ percent growth rate projected in the October Greenbook, reflecting both incoming data that point to less domestic demand abroad and the deeper projected contraction in the United States. Foreign activity is now forecast to stabilize during the first half of next year and then to pick up gradually thereafter.

The slower pace of activity has put further downward pressure on prices for oil and other commodities. The spot price of West Texas intermediate (WTI) crude oil has declined by more than 40 percent since the time of the October Greenbook, and indexes for nonfuel primary commodities prices have declined about 15 percent. In light of these lower commodity prices and greater slack abroad, we have marked down our forecast for foreign CPI inflation by more than a percentage point in both the current quarter and the first half of 2009.

Summary of Staff Projections

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

| Indicator | 2008 | | Projection | | | |
|--|------|-----|-------------|------|-----|------|
| | H1 | Q3 | 2008: Q4 | 2009 | | 2010 |
| | | | | H1 | H2 | |
| Foreign output | 1.8 | .7 | -1.6 | -.6 | 1.5 | 2.8 |
| Previous Greenbook | 1.7 | .5 | .5 | .9 | 1.8 | 2.9 |
| Foreign CPI | 5.1 | 4.4 | -.1 | .9 | 1.8 | 2.0 |
| Previous Greenbook | 5.1 | 4.4 | 1.3 | 2.1 | 2.1 | 2.1 |
| Contribution to growth (percentage points) | | | | | | |
| U.S. net exports | 1.8 | 1.1 | .4 | .5 | -.5 | -.4 |
| Previous Greenbook | 1.8 | 1.2 | .4 | .5 | -.1 | -.2 |

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

Prices of Internationally Traded Goods

Core import prices fell sharply in October. The decline was primarily due to lower prices for metals and, to a lesser extent, foods. In contrast, prices of imported finished goods were little changed. Combining these October readings with more recent moves in commodity prices and the dollar, we now estimate that core import prices will decline at an annual rate of 7 percent in the fourth quarter and 8½ percent in the first quarter of next year. We expect core import prices to turn up in the second half of 2009, as commodity prices are projected to firm and the dollar begins to depreciate again. Relative to the previous Greenbook, we have revised down our forecast for import price inflation substantially for the current and next several quarters, reflecting the stronger path for the dollar and the weaker commodity price forecast.

Staff Projections of Selected Trade Prices

(Percent change from end of previous period, annual rate, excepted as noted)

| Trade category | 2008 | | Projection | | | |
|--------------------------|--------|--------|-------------|-------|-------|-------|
| | H1 | Q3 | 2008: Q4 | 2009 | | 2010 |
| | | | | H1 | H2 | |
| <i>Imports</i> | | | | | | |
| Core goods | 9.5 | 4.6 | -7.0 | -5.5 | .1 | 1.3 |
| Previous Greenbook | 9.5 | 6.5 | -2.9 | -2.2 | 1.1 | 1.5 |
| Oil (dollars per barrel) | 108.65 | 117.53 | 68.09 | 47.92 | 52.64 | 61.12 |
| Previous Greenbook | 108.65 | 117.85 | 75.26 | 70.17 | 73.32 | 78.65 |
| <i>Exports</i> | | | | | | |
| Core goods | 13.0 | 6.7 | -13.5 | -5.4 | .6 | .9 |
| Previous Greenbook | 13.0 | 7.8 | -6.0 | -1.3 | .9 | 1.0 |

Note: Prices for core exports exclude computers and semiconductors. Prices for core imports exclude computers, semiconductors, oil, and natural gas. Both prices are on a National Income and Product Account 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.

Given the recent declines in commodity prices and the sharp decline in core export prices in October, we expect core export prices to fall 13½ percent (annual rate) in the fourth quarter and 8½ percent in the first quarter of 2009. Thereafter, core export price inflation is projected to average under 1 percent. Compared with the previous Greenbook, core export price inflation has been marked down considerably in the near term, reflecting lower projected prices for petroleum products, intermediate goods, and other commodities.

Trade in Goods and Services

Real exports of goods and services increased at an annual rate of 3½ percent in the third quarter, about half the pace projected in the October Greenbook, on account of weaker-than-expected exports in the trade data for September. We project that exports will decline 4 percent in the fourth quarter and a further 2¾ percent in the first half of 2009, pulled down by the contraction in economic activity abroad. Exports are expected to trough in the second half of 2009 and then expand at a 2½ percent pace in 2010 as foreign growth recovers. Compared with the previous Greenbook, we lowered our forecast for export growth in the fourth quarter and the first half of 2009 by 6 percentage points, largely reflecting the downward revision to our projection for foreign growth. We revised down our forecasts for the second half of 2009 and 2010 by 2½ and 1¼ percentage points, respectively, on account of the higher projected path for the dollar.

**Staff Projections for
Trade in Goods and Services**
(Percent change from end of previous period, annual rate)

| Measure | 2008 | | Projection | | | |
|--------------------|------|------|-------------|------|-----|------|
| | H1 | Q3 | 2008: Q4 | 2009 | | 2010 |
| | | | | H1 | H2 | |
| Real imports | -4.1 | -3.2 | -5.2 | -5.6 | 3.7 | 4.9 |
| Previous Greenbook | -4.1 | -1.0 | -.3 | -.7 | 2.5 | 4.3 |
| Real exports | 8.6 | 3.4 | -4.1 | -2.7 | .1 | 2.6 |
| Previous Greenbook | 8.6 | 8.0 | 2.6 | 3.1 | 2.5 | 3.9 |

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

Real imports of goods and services fell 3¼ percent in the third quarter, reflecting declining real imports of oil, automotive products, and computers. The decline in imports was about 2¼ percentage points larger than projected in the previous Greenbook, as imports in September came in below our expectations. We expect imports to continue to decline in the fourth quarter and in the first half of 2009, consistent with shrinking U.S. demand. Real import growth is expected to turn positive in the second half of 2009 and then to pick up further in 2010 in line with the upturn in U.S. activity. We revised down our outlook for import growth in the fourth quarter and the first half of 2009 by about 5 percentage points on average, on account of the deteriorating outlook for economic activity in the United States. Our projection for the remainder of the forecast period is a bit higher, reflecting slightly higher U.S. growth, the stronger dollar, and lower import prices.

Alternative Simulation

Our alternative simulation uses the FRB-Global model to explore the risk that foreign activity may turn out to be weaker than expected. The shock we consider temporarily reduces real GDP growth in major U.S. trading partners by 1 percentage point (per year) relative to baseline. The shock begins next quarter and by the end of 2010 reduces the level of foreign GDP by 2 percent. It then gradually dies away. The fall in foreign activity reduces U.S. real net exports directly through lower foreign spending and indirectly through a modest appreciation of the dollar. As a result, U.S. GDP growth declines about 0.3 percentage point relative to baseline in 2009 and 0.5 percentage point in 2010. The effects of the shock are amplified because the federal funds rate is constrained by its effective lower bound. Core PCE inflation declines 0.1 percentage point below baseline in 2009 and 0.2 percentage point below baseline in 2010, reflecting the effects of lower import prices and weaker aggregate demand. The contraction in U.S. net exports associated with weaker foreign demand and an induced appreciation of the dollar eventually causes a significant deterioration of the U.S. trade balance of around 0.5 percent of GDP by the end of 2013.

Alternative Scenario: Lower Foreign Demand

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

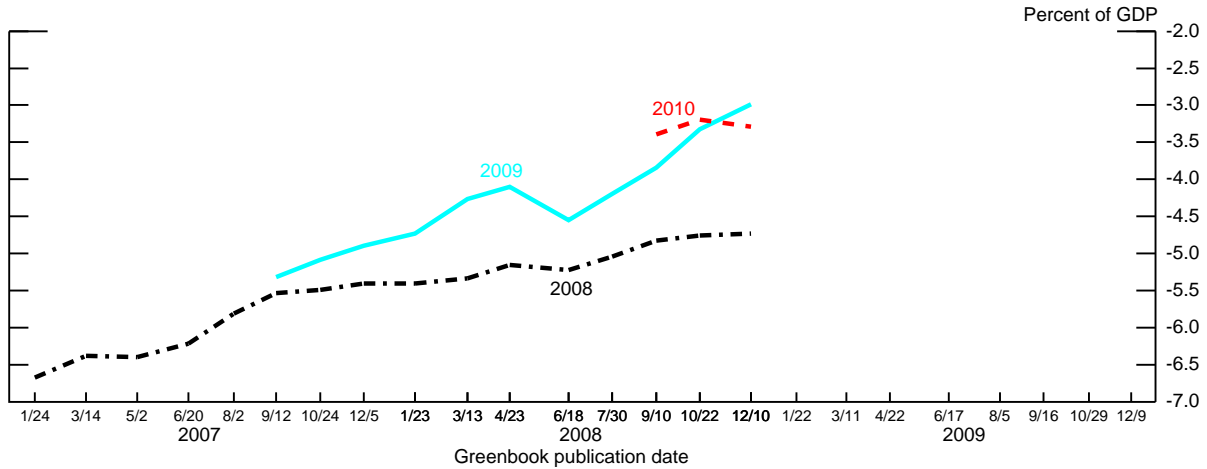
| Indicator and simulation | 2009 | | 2010 | | 2011 | 2012-13 |
|--|------|------|------|------|------|---------|
| | H1 | H2 | H1 | H2 | | |
| <i>U.S. real GDP</i> | | | | | | |
| Baseline | -3.1 | 1.3 | 2.1 | 2.8 | 5.1 | 5.7 |
| Lower Foreign Demand | -3.3 | 1.0 | 1.7 | 2.3 | 4.6 | 5.3 |
| <i>U.S. PCE prices excluding food and energy</i> | | | | | | |
| Baseline | 1.4 | .9 | .8 | .8 | .7 | .7 |
| Lower Foreign Demand | 1.4 | .8 | .6 | .6 | .4 | .2 |
| <i>U.S federal funds rate (percent)</i> | | | | | | |
| Baseline | .3 | .3 | .3 | .3 | .3 | 1.3 |
| Lower Foreign Demand | .3 | .3 | .3 | .3 | .3 | .3 |
| <i>U.S. trade balance (percent share of GDP)</i> | | | | | | |
| Baseline | -2.3 | -2.6 | -3.0 | -3.2 | -3.6 | -4.3 |
| Lower Foreign Demand | -2.2 | -2.5 | -3.0 | -3.3 | -4.0 | -4.9 |

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

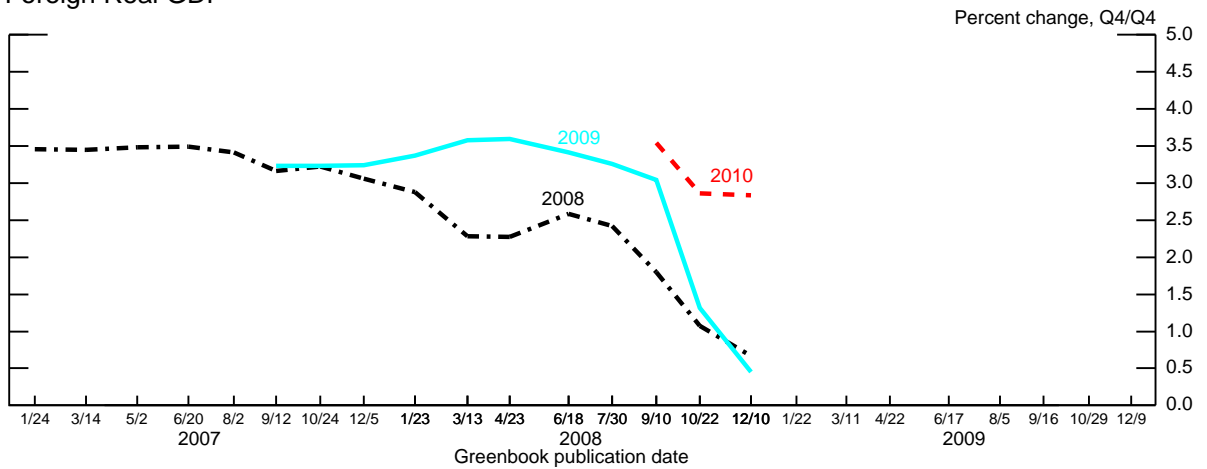
Class II FOMC -- Restricted (FR)

Evolution of the Staff Forecast

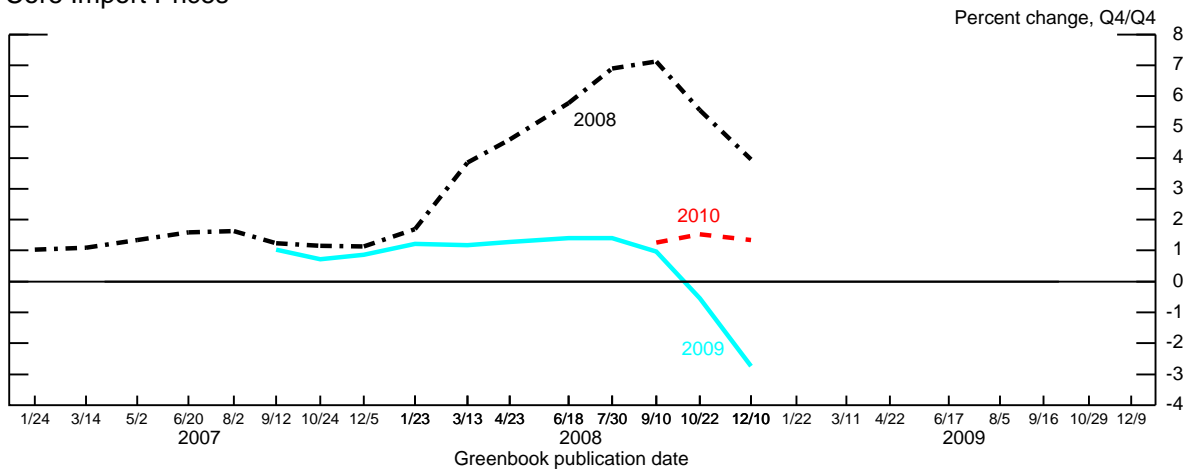
Current Account Balance



Foreign Real GDP



Core Import Prices*



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

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

| Measure and country | 2008 | | | | Projected 2009 | | | | 2010 | | | |
|---|------|------|------|------|-------------------|------|------|------|------|------|------|------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| ----- Quarterly changes at an annual rate ----- | | | | | | | | | | | | |
| REAL GDP (1) | | | | | | | | | | | | |
| Total Foreign | 2.3 | 1.3 | 0.7 | -1.6 | -1.2 | 0.1 | 1.2 | 1.8 | 2.3 | 2.7 | 3.1 | 3.2 |
| Advanced Foreign Economies | 1.0 | -0.3 | -0.0 | -2.2 | -2.2 | -1.3 | 0.2 | 0.9 | 1.4 | 1.8 | 2.1 | 2.2 |
| of which: | | | | | | | | | | | | |
| Canada | -0.6 | 0.6 | 1.3 | -2.0 | -3.0 | -1.9 | -0.0 | 0.7 | 1.6 | 2.0 | 2.2 | 2.4 |
| Japan | 2.4 | -3.7 | -1.8 | -4.1 | -1.9 | -0.7 | -0.2 | 0.4 | 1.0 | 1.2 | 1.3 | 1.3 |
| United Kingdom | 1.1 | 0.0 | -2.0 | -2.6 | -1.9 | -1.1 | 0.4 | 1.9 | 0.7 | 1.4 | 2.3 | 2.5 |
| Euro Area (2) | 2.7 | -0.7 | -0.8 | -1.8 | -1.5 | -0.9 | 0.4 | 0.9 | 1.4 | 1.8 | 2.1 | 2.1 |
| Germany | 5.7 | -1.7 | -2.1 | -1.9 | -1.7 | -1.0 | 0.3 | 0.9 | 1.4 | 1.8 | 2.0 | 2.1 |
| Emerging Market Economies | 4.0 | 3.4 | 1.7 | -0.8 | 0.2 | 1.8 | 2.6 | 3.0 | 3.5 | 4.0 | 4.3 | 4.6 |
| Asia | 7.8 | 3.9 | 0.3 | 0.5 | 1.6 | 3.1 | 4.1 | 4.7 | 5.3 | 5.6 | 5.8 | 6.0 |
| Korea | 3.3 | 3.4 | 2.1 | -0.5 | 0.0 | 1.5 | 2.2 | 3.0 | 3.5 | 3.8 | 3.9 | 4.0 |
| China | 11.3 | 10.8 | 5.4 | 4.7 | 6.0 | 7.0 | 7.6 | 8.0 | 8.7 | 8.9 | 9.0 | 9.0 |
| Latin America | -0.1 | 2.6 | 3.0 | -2.7 | -1.8 | 0.2 | 0.8 | 1.1 | 1.6 | 2.2 | 2.7 | 3.1 |
| Mexico | -0.8 | 0.8 | 2.6 | -3.9 | -2.6 | -0.4 | 0.3 | 0.6 | 1.1 | 1.8 | 2.5 | 3.0 |
| Brazil | 6.9 | 6.4 | 7.4 | -0.5 | 1.0 | 1.5 | 2.2 | 2.5 | 3.0 | 3.3 | 3.3 | 3.3 |
| ----- Four-quarter changes ----- | | | | | | | | | | | | |
| CONSUMER PRICES (3) | | | | | | | | | | | | |
| Total Foreign | 4.1 | 4.7 | 4.8 | 3.6 | 2.5 | 1.5 | 0.9 | 1.4 | 1.8 | 1.9 | 2.0 | 2.0 |
| Advanced Foreign Economies | 2.2 | 2.7 | 3.4 | 2.3 | 1.3 | 0.4 | -0.3 | 0.4 | 1.1 | 1.3 | 1.3 | 1.3 |
| of which: | | | | | | | | | | | | |
| Canada | 1.8 | 2.3 | 3.4 | 2.4 | 1.7 | 0.4 | -0.6 | 0.2 | 0.9 | 1.2 | 1.3 | 1.3 |
| Japan | 1.0 | 1.4 | 2.2 | 1.2 | -0.0 | -0.9 | -1.9 | -1.4 | -0.6 | -0.2 | -0.1 | -0.1 |
| United Kingdom (4) | 2.4 | 3.4 | 4.8 | 3.5 | 1.9 | 0.8 | -0.4 | 0.4 | 2.5 | 2.5 | 2.5 | 2.4 |
| Euro Area (2) | 3.4 | 3.6 | 3.8 | 2.4 | 1.5 | 1.1 | 0.9 | 1.5 | 2.0 | 2.0 | 2.0 | 2.0 |
| Germany | 3.1 | 3.0 | 3.3 | 2.0 | 1.4 | 1.0 | 0.6 | 1.0 | 1.2 | 1.3 | 1.3 | 1.4 |
| Emerging Market Economies | 5.9 | 6.7 | 6.2 | 5.0 | 3.7 | 2.6 | 2.0 | 2.4 | 2.5 | 2.6 | 2.7 | 2.8 |
| Asia | 6.5 | 7.1 | 6.0 | 4.3 | 2.6 | 1.4 | 1.0 | 1.8 | 2.0 | 2.2 | 2.4 | 2.5 |
| Korea | 3.8 | 4.8 | 5.5 | 4.6 | 4.3 | 2.7 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| China | 8.0 | 7.8 | 5.2 | 3.5 | 1.4 | 0.6 | 0.8 | 1.6 | 1.8 | 2.1 | 2.4 | 2.5 |
| Latin America | 4.5 | 5.5 | 6.1 | 6.3 | 5.9 | 5.0 | 4.1 | 3.7 | 3.6 | 3.5 | 3.5 | 3.4 |
| Mexico | 3.9 | 4.9 | 5.5 | 5.7 | 5.4 | 4.5 | 3.6 | 3.1 | 3.0 | 3.0 | 2.9 | 2.9 |
| Brazil | 4.6 | 5.5 | 6.3 | 6.3 | 6.0 | 5.5 | 4.9 | 5.0 | 4.9 | 4.8 | 4.7 | 4.6 |

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

| Measure and country | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|----------------------------|------|------|------|------|------|------|------|------|------|
| REAL GDP (1) | | | | | | | | | |
| ----- | | | | | | | | | |
| Total Foreign | 3.0 | 2.9 | 3.8 | 4.0 | 4.0 | 4.2 | 0.7 | 0.5 | 2.8 |
| Advanced Foreign Economies | 2.5 | 1.8 | 2.6 | 2.7 | 2.7 | 2.6 | -0.4 | -0.6 | 1.9 |
| of which: | | | | | | | | | |
| Canada | 3.5 | 1.5 | 3.7 | 3.0 | 2.2 | 2.8 | -0.2 | -1.1 | 2.0 |
| Japan | 2.1 | 2.4 | 1.1 | 2.9 | 2.1 | 2.0 | -1.9 | -0.6 | 1.2 |
| United Kingdom | 2.4 | 3.2 | 2.3 | 2.0 | 3.2 | 2.9 | -0.9 | -0.2 | 1.7 |
| Euro Area (2) | 1.1 | 1.2 | 1.8 | 2.1 | 3.3 | 2.1 | -0.2 | -0.3 | 1.9 |
| Germany | 0.0 | 0.2 | 0.2 | 1.6 | 4.1 | 1.7 | -0.1 | -0.4 | 1.8 |
| Emerging Market Economies | 3.9 | 4.5 | 5.5 | 5.8 | 5.7 | 6.4 | 2.1 | 1.9 | 4.1 |
| Asia | 6.4 | 6.9 | 6.0 | 7.6 | 7.0 | 7.8 | 3.1 | 3.4 | 5.7 |
| Korea | 7.7 | 4.1 | 2.9 | 5.6 | 4.2 | 5.9 | 2.1 | 1.7 | 3.8 |
| China | 8.6 | 10.3 | 9.8 | 10.2 | 10.6 | 11.4 | 8.0 | 7.1 | 8.9 |
| Latin America | 1.6 | 1.8 | 5.0 | 3.9 | 4.4 | 4.9 | 0.7 | 0.1 | 2.4 |
| Mexico | 2.0 | 1.3 | 4.4 | 3.4 | 3.7 | 4.2 | -0.4 | -0.5 | 2.1 |
| Brazil | 4.9 | 1.0 | 4.7 | 3.6 | 4.6 | 6.1 | 5.0 | 1.8 | 3.2 |
| CONSUMER PRICES (3) | | | | | | | | | |
| ----- | | | | | | | | | |
| Total Foreign | 2.5 | 2.1 | 2.8 | 2.3 | 2.1 | 3.6 | 3.6 | 1.4 | 2.0 |
| Advanced Foreign Economies | 2.1 | 1.3 | 1.8 | 1.6 | 1.4 | 2.2 | 2.3 | 0.4 | 1.3 |
| of which: | | | | | | | | | |
| Canada | 3.8 | 1.7 | 2.3 | 2.3 | 1.3 | 2.4 | 2.4 | 0.2 | 1.3 |
| Japan | -0.5 | -0.3 | 0.5 | -1.0 | 0.3 | 0.5 | 1.2 | -1.4 | -0.1 |
| United Kingdom (4) | 1.5 | 1.3 | 1.4 | 2.1 | 2.7 | 2.1 | 3.5 | 0.4 | 2.4 |
| Euro Area (2) | 2.3 | 2.0 | 2.3 | 2.3 | 1.8 | 2.9 | 2.4 | 1.5 | 2.0 |
| Germany | 1.2 | 1.1 | 2.1 | 2.2 | 1.3 | 3.1 | 2.0 | 1.0 | 1.4 |
| Emerging Market Economies | 2.9 | 3.1 | 3.9 | 3.0 | 2.9 | 5.1 | 5.0 | 2.4 | 2.8 |
| Asia | 0.8 | 2.3 | 3.1 | 2.6 | 2.3 | 5.4 | 4.3 | 1.8 | 2.5 |
| Korea | 3.4 | 3.5 | 3.4 | 2.5 | 2.1 | 3.4 | 4.6 | 1.9 | 1.9 |
| China | -0.6 | 2.7 | 3.2 | 1.4 | 2.1 | 6.6 | 3.5 | 1.6 | 2.5 |
| Latin America | 6.4 | 4.9 | 5.6 | 3.8 | 4.1 | 4.3 | 6.3 | 3.7 | 3.4 |
| Mexico | 5.2 | 3.9 | 5.3 | 3.1 | 4.1 | 3.8 | 5.7 | 3.1 | 2.9 |
| Brazil | 10.7 | 11.5 | 7.2 | 6.1 | 3.2 | 4.3 | 6.3 | 5.0 | 4.6 |

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)

December 10, 2008

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Projected 2009 | ----- 2010 |
|--------------------------------|--|--------|--------|--------|--------|--------|--------|-------------------|---------------|
| NIPA REAL EXPORTS and IMPORTS | | | | | | | | | |
| | Percentage point contribution to GDP growth, Q4/Q4 | | | | | | | | |
| Net Goods & Services | -0.9 | -0.1 | -0.9 | -0.1 | 0.4 | 0.8 | 1.2 | -0.0 | -0.4 |
| Exports of G&S | 0.4 | 0.6 | 0.7 | 0.7 | 1.1 | 1.0 | 0.5 | -0.2 | 0.3 |
| Imports of G&S | -1.3 | -0.7 | -1.7 | -0.8 | -0.6 | -0.2 | 0.7 | 0.2 | -0.8 |
| | Percentage change, Q4/Q4 | | | | | | | | |
| Exports of G&S | 3.8 | 5.8 | 7.4 | 7.0 | 10.1 | 8.9 | 4.0 | -1.3 | 2.6 |
| Services | 10.2 | 3.0 | 8.3 | 4.0 | 11.5 | 9.3 | 1.3 | -3.4 | 2.8 |
| Computers | -1.1 | 11.3 | 5.8 | 14.2 | 8.1 | 0.9 | 13.7 | -0.9 | 9.5 |
| Semiconductors | 10.1 | 38.3 | -6.0 | 17.6 | 2.9 | 29.3 | 4.0 | -0.7 | 11.0 |
| Core Goods 1/ | 0.6 | 4.9 | 8.0 | 7.4 | 10.0 | 8.2 | 5.0 | -0.4 | 1.9 |
| Imports of G&S | 9.7 | 4.8 | 11.5 | 4.8 | 3.8 | 1.1 | -4.2 | -1.0 | 4.9 |
| Services | 8.8 | 2.2 | 9.3 | -0.1 | 8.0 | 1.8 | -2.1 | 1.1 | 2.9 |
| Oil | 3.8 | 1.2 | 10.8 | 1.0 | -9.2 | 0.6 | -7.3 | -6.6 | 3.2 |
| Natural Gas | 19.5 | 1.3 | 4.9 | 13.7 | -12.6 | 12.1 | -9.9 | -4.8 | 0.8 |
| Computers | 13.2 | 17.0 | 23.2 | 12.5 | 13.8 | 8.4 | 3.8 | -0.2 | 15.5 |
| Semiconductors | 11.0 | -0.1 | 9.8 | 7.5 | -0.3 | 3.8 | 1.8 | -1.4 | 5.0 |
| Core Goods 2/ | 10.0 | 5.2 | 11.4 | 5.9 | 5.7 | 0.1 | -4.0 | -0.8 | 5.2 |
| | Billions of Chained 2000 Dollars | | | | | | | | |
| Net Goods & Services | -471.3 | -518.9 | -593.8 | -616.6 | -615.7 | -546.5 | -384.7 | -323.7 | -380.3 |
| Exports of G&S | 1013.3 | 1026.1 | 1126.1 | 1205.3 | 1314.8 | 1425.9 | 1536.2 | 1523.0 | 1542.7 |
| Imports of G&S | 1484.6 | 1545.0 | 1719.9 | 1821.9 | 1930.5 | 1972.4 | 1920.9 | 1846.7 | 1923.0 |
| | Billions of dollars | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -461.3 | -523.4 | -625.0 | -729.0 | -788.1 | -731.2 | -676.5 | -428.0 | -483.8 |
| Current Acct as Percent of GDP | -4.4 | -4.8 | -5.3 | -5.9 | -6.0 | -5.3 | -4.7 | -3.0 | -3.3 |
| Net Goods & Services (BOP) | -423.7 | -496.9 | -607.7 | -711.6 | -753.3 | -700.3 | -654.2 | -354.4 | -460.3 |
| Investment Income, Net | 33.0 | 51.0 | 73.4 | 78.8 | 63.8 | 88.8 | 108.2 | 55.6 | 103.7 |
| Direct, Net | 102.4 | 112.7 | 150.9 | 173.2 | 184.1 | 233.9 | 248.9 | 174.7 | 192.6 |
| Portfolio, Net | -69.4 | -61.7 | -77.5 | -94.4 | -120.3 | -145.1 | -140.7 | -119.1 | -88.9 |
| Other Income & Transfers, Net | -70.5 | -77.5 | -90.6 | -96.2 | -98.6 | -119.7 | -130.4 | -129.2 | -127.2 |

1. Merchandise exports excluding computers and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | 2005 | | | | 2006 | | | | 2007 | | | |
|-------------------------------|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 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 | 0.3 | 0.8 | -0.1 | -1.3 | 0.1 | 0.6 | -0.1 | 1.3 | -1.2 | 1.7 | 2.0 | 0.9 |
| Exports of G&S | 0.8 | 0.9 | 0.0 | 1.1 | 1.7 | 0.6 | 0.4 | 1.7 | 0.1 | 1.0 | 2.5 | 0.5 |
| Imports of G&S | -0.5 | -0.1 | -0.1 | -2.4 | -1.6 | 0.0 | -0.5 | -0.3 | -1.2 | 0.7 | -0.5 | 0.4 |
| | Percentage change from previous period, s.a.a.r. | | | | | | | | | | | |
| Exports of G&S | 8.1 | 8.8 | 0.4 | 10.9 | 16.7 | 5.5 | 3.5 | 15.6 | 0.6 | 8.8 | 23.0 | 4.4 |
| Services | 10.2 | -2.8 | 3.2 | 5.7 | 13.4 | 2.7 | 3.2 | 28.6 | -2.7 | 13.3 | 25.9 | 2.7 |
| Computers | 16.8 | 27.9 | 8.3 | 5.2 | 12.0 | 17.5 | -7.9 | 12.7 | 3.9 | -4.0 | 14.4 | -9.2 |
| Semiconductors | -5.2 | 11.7 | 30.7 | 38.0 | 20.3 | 16.1 | -5.6 | -15.0 | 15.9 | 23.7 | 20.5 | 61.7 |
| Core Goods 1/ | 7.3 | 13.8 | -2.9 | 12.4 | 18.3 | 5.6 | 4.8 | 11.8 | 1.3 | 6.6 | 22.1 | 3.7 |
| Imports of G&S | 3.2 | 0.6 | 0.8 | 15.3 | 10.3 | 0.1 | 3.1 | 2.0 | 7.7 | -3.7 | 3.0 | -2.3 |
| Services | -5.7 | -0.0 | -1.0 | 6.8 | 17.7 | -2.0 | -0.3 | 18.4 | 4.2 | -2.0 | 6.3 | -0.9 |
| Oil | 5.1 | -27.1 | -11.6 | 53.6 | -2.8 | -27.1 | 7.5 | -10.6 | 30.9 | -22.3 | -13.5 | 16.5 |
| Natural Gas | 58.6 | -14.1 | 111.1 | -41.9 | -50.7 | 91.9 | 26.6 | -51.2 | 70.8 | 74.2 | 28.2 | -58.6 |
| Computers | 3.2 | 11.6 | 20.4 | 15.4 | 20.7 | 21.1 | 19.7 | -4.3 | 34.9 | -6.5 | -0.2 | 9.7 |
| Semiconductors | -9.2 | 7.7 | 14.0 | 20.0 | 0.2 | -0.5 | 17.7 | -15.8 | 1.2 | 6.7 | 1.0 | 6.4 |
| Core Goods 2/ | 4.8 | 6.1 | 0.3 | 12.7 | 13.7 | 4.9 | 1.2 | 3.2 | 2.2 | -1.1 | 5.8 | -6.0 |
| | Billions of Chained 2000 Dollars, s.a.a.r. | | | | | | | | | | | |
| Net Goods & Services | -623.7 | -601.3 | -603.6 | -637.8 | -636.0 | -619.4 | -623.0 | -584.2 | -618.6 | -571.2 | -511.8 | -484.5 |
| Exports of G&S | 1177.9 | 1203.1 | 1204.3 | 1235.7 | 1284.3 | 1301.4 | 1312.6 | 1361.1 | 1363.2 | 1392.2 | 1466.2 | 1482.1 |
| Imports of G&S | 1801.7 | 1804.4 | 1807.9 | 1873.6 | 1920.2 | 1920.9 | 1935.7 | 1945.3 | 1981.8 | 1963.4 | 1978.0 | 1966.5 |
| | Billions of dollars, s.a.a.r. | | | | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -696.2 | -711.3 | -675.6 | -832.9 | -783.8 | -799.6 | -843.6 | -725.4 | -787.7 | -776.4 | -691.8 | -669.0 |
| Current Account as % of GDP | -5.7 | -5.8 | -5.4 | -6.6 | -6.0 | -6.1 | -6.4 | -5.4 | -5.8 | -5.7 | -5.0 | -4.8 |
| Net Goods & Services (BOP) | -664.0 | -682.9 | -721.4 | -778.0 | -756.4 | -767.4 | -789.9 | -699.5 | -718.2 | -715.3 | -672.5 | -695.1 |
| Investment Income, Net | 88.6 | 77.8 | 88.7 | 59.9 | 65.2 | 70.7 | 51.7 | 67.7 | 57.8 | 45.8 | 98.9 | 152.6 |
| Direct, Net | 170.2 | 168.5 | 187.8 | 166.3 | 177.2 | 189.2 | 171.9 | 198.2 | 201.1 | 196.2 | 238.8 | 299.3 |
| Portfolio, Net | -81.6 | -90.7 | -99.0 | -106.5 | -112.0 | -118.5 | -120.3 | -130.5 | -143.2 | -150.4 | -139.9 | -146.7 |
| Other Inc. & Transfers, Net | -120.9 | -106.2 | -42.9 | -114.8 | -92.6 | -103.0 | -105.4 | -93.6 | -127.4 | -106.9 | -118.3 | -126.4 |

1. Merchandise exports excluding computers and semiconductors.

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

December 10, 2008

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | 2008 | | | | 2009 | | | | Projected 2010 | | | |
|-------------------------------|--|--------|--------|--------|--------|--------|--------|--------|----------------|--------|--------|--------|
| | 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 | 2.9 | 1.1 | 0.4 | 0.9 | 0.1 | -0.4 | -0.7 | -0.9 | 0.0 | -0.2 | -0.6 |
| Exports of G&S | 0.6 | 1.5 | 0.5 | -0.6 | -0.3 | -0.4 | -0.1 | 0.1 | 0.2 | 0.3 | 0.4 | 0.4 |
| Imports of G&S | 0.1 | 1.4 | 0.6 | 0.9 | 1.2 | 0.6 | -0.3 | -0.8 | -1.2 | -0.3 | -0.6 | -1.0 |
| | Percentage change from previous period, s.a.a.r. | | | | | | | | | | | |
| Exports of G&S | 5.1 | 12.3 | 3.4 | -4.1 | -2.2 | -3.2 | -0.7 | 0.9 | 1.7 | 2.2 | 2.9 | 3.5 |
| Services | 5.5 | -8.0 | 3.2 | -8.3 | -3.1 | -2.3 | 3.4 | 1.8 | 6.3 | -1.5 | 3.1 | 3.8 |
| Oil | 17.6 | -38.1 | -5.5 | 7.4 | -5.5 | -20.6 | -11.6 | 14.8 | 22.9 | -17.9 | -8.6 | 4.8 |
| Natural Gas | -40.5 | 3.7 | -37.5 | 71.2 | -13.5 | 9.0 | 34.5 | -35.2 | 3.2 | 18.5 | 37.4 | -38.6 |
| Computers | 6.3 | 26.0 | -13.2 | -0.0 | -3.9 | -3.9 | -0.0 | 7.5 | 15.5 | 15.5 | 15.5 | 15.5 |
| Semiconductors | -3.3 | 14.4 | -3.0 | 0.0 | -3.9 | -3.9 | 0.0 | 2.5 | 5.0 | 5.0 | 5.0 | 5.0 |
| Core Goods 1/ | 4.7 | 16.1 | 3.2 | -3.2 | -0.3 | -2.6 | 0.1 | 1.3 | 1.5 | 1.7 | 2.0 | 2.3 |
| Imports of G&S | -0.8 | -7.3 | -3.2 | -5.2 | -7.4 | -3.7 | 2.2 | 5.2 | 7.7 | 1.8 | 3.9 | 6.5 |
| Services | 5.5 | -8.0 | 3.2 | -8.3 | -3.1 | -2.3 | 3.4 | 1.8 | 6.3 | -1.5 | 3.1 | 3.8 |
| Oil | 17.6 | -38.1 | -5.5 | 7.4 | -5.5 | -20.6 | -11.6 | 14.8 | 22.9 | -17.9 | -8.6 | 4.8 |
| Natural Gas | -40.5 | 3.7 | -37.5 | 71.2 | -13.5 | 9.0 | 34.5 | -35.2 | 3.2 | 18.5 | 37.4 | -38.6 |
| Computers | 6.3 | 26.0 | -13.2 | -0.0 | -3.9 | -3.9 | -0.0 | 7.5 | 15.5 | 15.5 | 15.5 | 15.5 |
| Semiconductors | -3.3 | 14.4 | -3.0 | 0.0 | -3.9 | -3.9 | 0.0 | 2.5 | 5.0 | 5.0 | 5.0 | 5.0 |
| Core Goods 2/ | -6.4 | 2.4 | -2.5 | -9.0 | -9.0 | -2.9 | 3.7 | 5.5 | 5.4 | 5.2 | 5.0 | 5.1 |
| | Billions of Chained 2000 Dollars, s.a.a.r. | | | | | | | | | | | |
| Net Goods & Services | -462.0 | -381.3 | -352.4 | -343.2 | -316.1 | -311.2 | -323.6 | -344.0 | -372.4 | -372.3 | -379.6 | -396.8 |
| Exports of G&S | 1500.6 | 1544.7 | 1557.8 | 1541.5 | 1532.8 | 1520.3 | 1517.8 | 1521.1 | 1527.5 | 1536.0 | 1547.1 | 1560.4 |
| Imports of G&S | 1962.6 | 1926.0 | 1910.2 | 1884.7 | 1848.9 | 1831.5 | 1841.4 | 1865.0 | 1899.9 | 1908.3 | 1926.6 | 1957.1 |
| | Billions of dollars, s.a.a.r. | | | | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -702.6 | -732.6 | -716.8 | -553.9 | -440.7 | -417.6 | -418.6 | -435.0 | -475.4 | -471.3 | -480.2 | -508.4 |
| Current Account as % of GDP | -5.0 | -5.1 | -5.0 | -3.9 | -3.1 | -2.9 | -2.9 | -3.0 | -3.3 | -3.2 | -3.3 | -3.4 |
| Net Goods & Services (BOP) | -708.4 | -722.2 | -707.4 | -478.9 | -330.8 | -338.0 | -357.1 | -391.6 | -438.7 | -446.2 | -463.3 | -493.2 |
| Investment Income, Net | 140.0 | 116.5 | 114.8 | 61.5 | 27.3 | 46.9 | 65.0 | 83.0 | 89.8 | 101.3 | 109.6 | 114.2 |
| Direct, Net | 281.0 | 255.4 | 256.1 | 203.2 | 170.7 | 174.1 | 174.6 | 179.2 | 184.3 | 190.3 | 195.7 | 200.2 |
| Portfolio, Net | -141.0 | -138.9 | -141.2 | -141.7 | -143.4 | -127.2 | -109.7 | -96.2 | -94.5 | -89.0 | -86.1 | -85.9 |
| Other Inc. & Transfers, Net | -134.2 | -126.9 | -124.3 | -136.5 | -137.3 | -126.5 | -126.5 | -126.5 | -126.5 | -126.5 | -126.5 | -129.5 |

1. Merchandise exports excluding computers and semiconductors.

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

Part 2

December 10, 2008

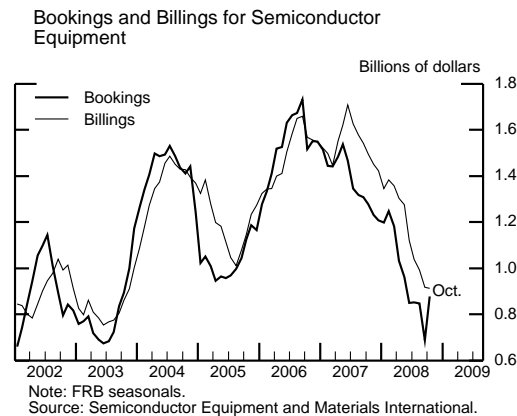
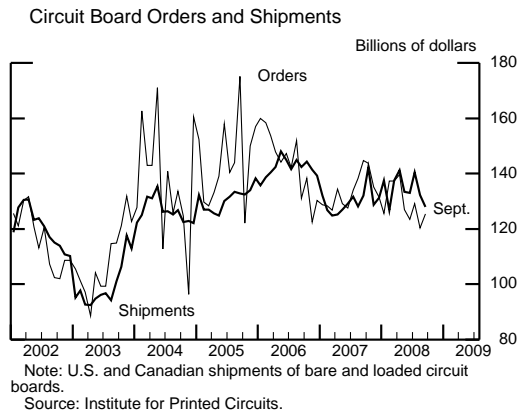
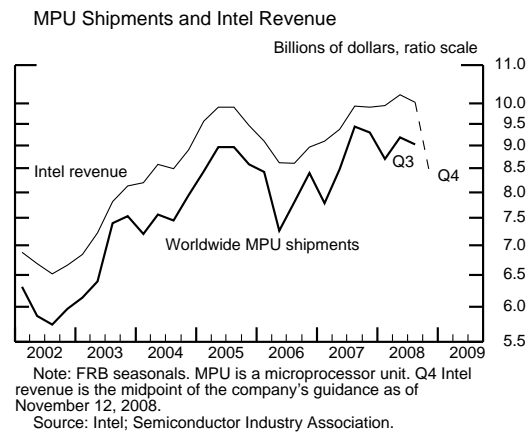
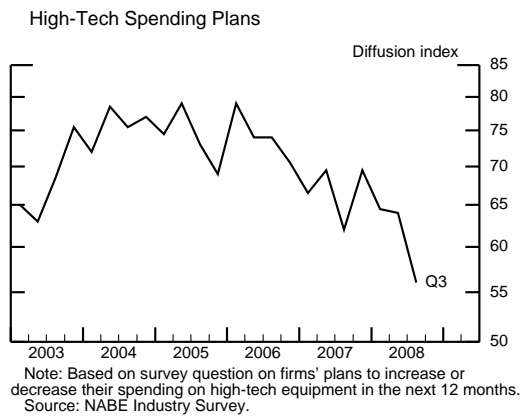
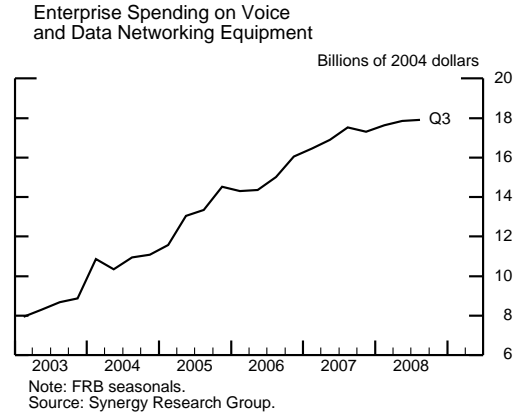
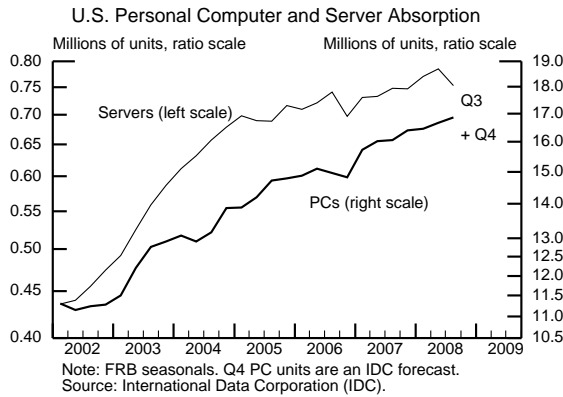
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

December 10, 2008

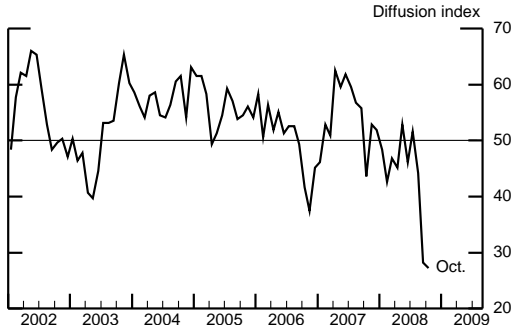
Recent Developments

Indicators of High-Tech Manufacturing Activity



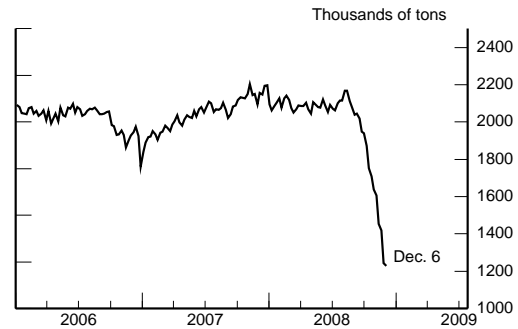
Indicators of Industrial Activity

Industrial Production Diffusion Index



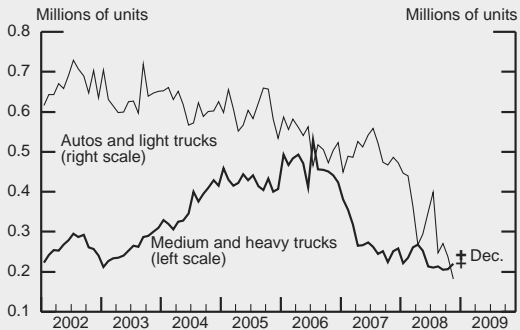
Note: The diffusion index equals the percentage of series that increased over 3 months plus one-half the percentage that were unchanged.
Source: Federal Reserve, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

Weekly Steel Production



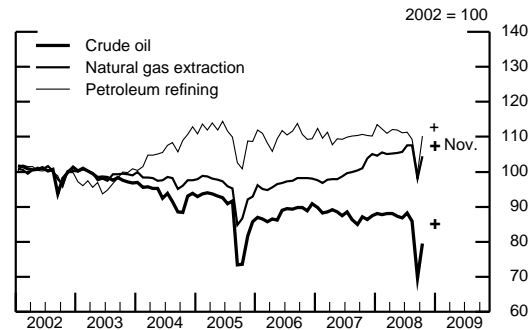
Note: FRB seasonals.
Source: American Iron and Steel Institute.

Motor Vehicle Assemblies



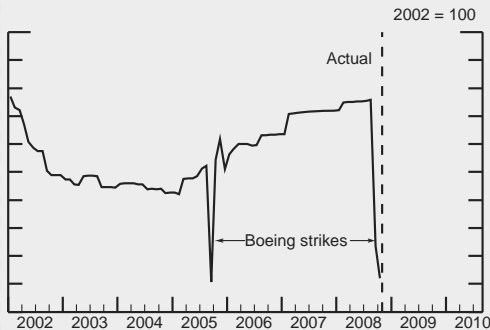
Note: December values are based on latest industry schedules.
Source: Ward's Communications

Energy Industrial Production



Note: November values based on available weekly data from the Dept. of Energy (DOE) and estimates of facilities that remain offline from DOE and Dept. of the Interior.
Source: Federal Reserve, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

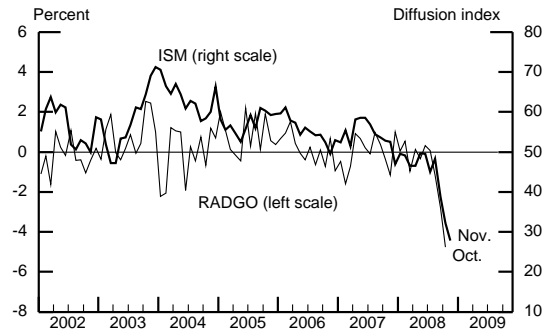
Boeing Commercial Aircraft Completions: Actual



Note: 1998 price-weighted index. Actual completions equal deliveries plus the change in the stock of finished aircraft.

Source: Boeing.

ISM New Orders Diffusion Index and Change in Real Adjusted Durable Goods Orders



Note: The measure for real adjusted durable goods orders (RADGO) is a 3-month moving average.

Source: Institute for Supply Management (ISM). RADGO is compiled by FRB staff based on data from the Bureau of Labor Statistics and the U.S. Census Bureau.

Content partially redacted.

Content partially redacted.

Sales of Light Vehicles
(Millions of units at an annual rate; FRB seasonals)

| Category | 2007 | 2008 | | | | | |
|--|------|------|------|------|-------|------|------|
| | | Q1 | Q2 | Q3 | Sept. | Oct. | Nov. |
| Total | 16.1 | 15.2 | 14.1 | 12.9 | 12.5 | 10.5 | 10.1 |
| Autos | 7.6 | 7.4 | 7.6 | 6.6 | 6.2 | 5.6 | 5.0 |
| Light trucks | 8.5 | 7.8 | 6.5 | 6.3 | 6.3 | 4.9 | 5.2 |
| North American ¹ | 12.3 | 11.5 | 10.4 | 9.7 | 9.5 | 7.7 | 7.6 |
| Autos | 5.2 | 5.1 | 5.0 | 4.4 | 4.3 | 3.7 | 3.3 |
| Light trucks | 7.1 | 6.5 | 5.3 | 5.3 | 5.2 | 4.0 | 4.3 |
| Foreign-produced | 3.8 | 3.7 | 3.7 | 3.2 | 2.9 | 2.8 | 2.6 |
| Autos | 2.4 | 2.4 | 2.6 | 2.2 | 1.9 | 1.9 | 1.7 |
| Light trucks | 1.4 | 1.3 | 1.1 | 1.0 | 1.0 | .9 | .9 |
| Memo: Detroit Three domestic market share (percent) ² | 51.4 | 50.2 | 45.9 | 46.7 | 51.8 | 46.0 | 47.7 |

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

1. Excludes some vehicles produced in Canada that are classified as imports by the industry.

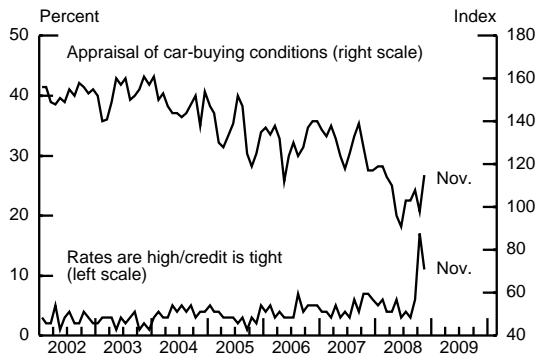
2. Domestic market share excludes sales of foreign brands affiliated with the Detroit Three.

Source: Ward's Communications. Adjusted using FRB seasonals.

Content redacted.

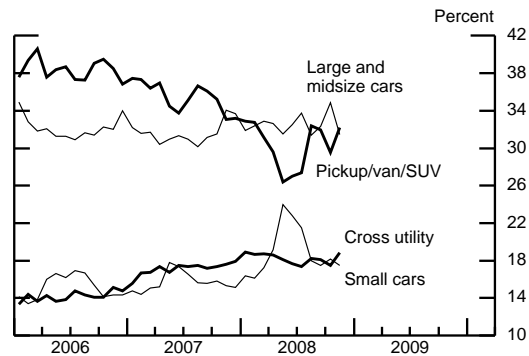
Content redacted.

Car-Buying Attitudes



Source: Reuters/University of Michigan Survey.

Market Share of Light Vehicles by Segment



Note: Data through November. FRB seasonals.
Source: Ward's Communications. Adjusted using FRB seasonals.

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

| Item | 2008 | | | 2009 | 2008 | | | |
|---|------|------|------|------|-------|------|------|------|
| | Q2 | Q3 | Q4 | Q1 | Sept. | Oct. | Nov. | Dec. |
| U.S. production ¹ | 8.5 | 8.6 | 7.6 | 7.6 | 8.2 | 7.9 | 7.3 | 7.7 |
| Autos | 3.7 | 4.2 | 3.6 | 3.3 | 4.0 | 3.8 | 3.4 | 3.6 |
| Light trucks | 4.9 | 4.3 | 4.0 | 4.3 | 4.2 | 4.0 | 3.9 | 4.1 |
| Days' supply ² | 72 | 76 | n.a. | n.a. | 77 | 97 | 100 | n.a. |
| Autos | 48 | 67 | n.a. | n.a. | 68 | 88 | 103 | n.a. |
| Light trucks | 94 | 84 | n.a. | n.a. | 85 | 105 | 98 | n.a. |
| Inventories ³ | 2.41 | 2.40 | n.a. | n.a. | 2.40 | 2.45 | 2.46 | n.a. |
| Autos | 0.78 | 0.96 | n.a. | n.a. | 0.96 | 1.06 | 1.11 | n.a. |
| Light trucks | 1.63 | 1.44 | n.a. | n.a. | 1.44 | 1.39 | 1.36 | n.a. |
| Memo: U.S. production, total motor vehicles ⁴ | 8.8 | 8.8 | 7.8 | 7.9 | 8.4 | 8.1 | 7.5 | 7.9 |

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

1. Production rates for December, the fourth quarter of 2008 and the first quarter of 2009 reflect the latest industry schedules.

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

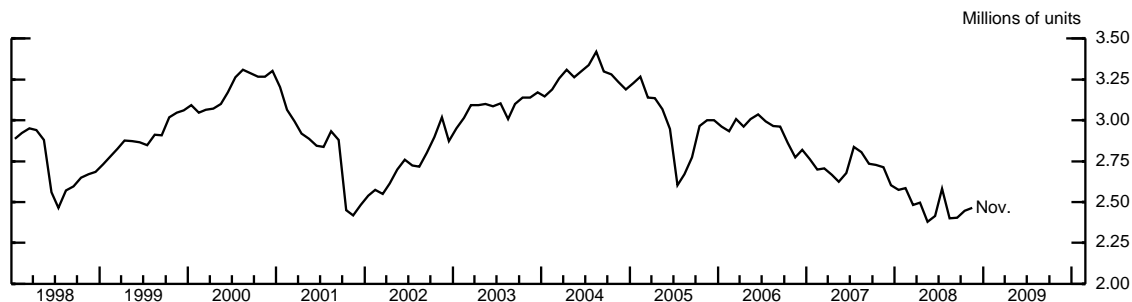
3. End-of-period stocks.

4. Includes medium and heavy trucks.

n.a. Not available.

Source: Ward's Communications

Inventories of Light Vehicles



Source: Ward's Communications. Adjusted using FRB seasonals.

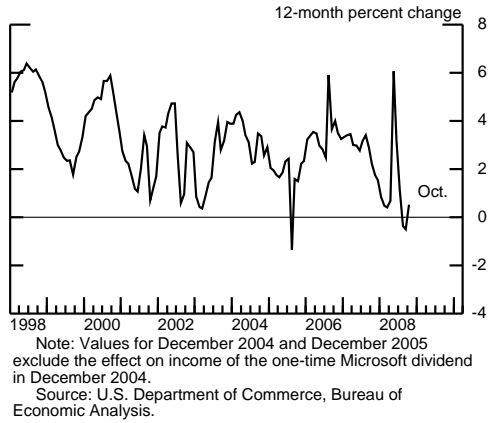
Days' Supply of Light Vehicles



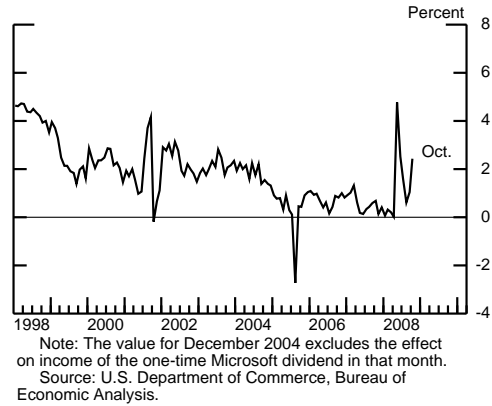
Source: Constructed from Ward's Communications data. Adjusted using FRB seasonals.

Fundamentals of Household Spending

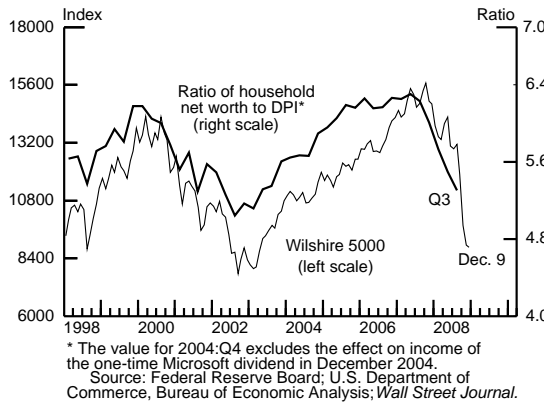
Change in Real Disposable Personal Income



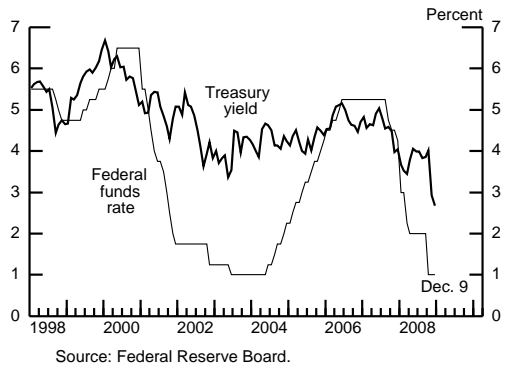
Personal Saving Rate



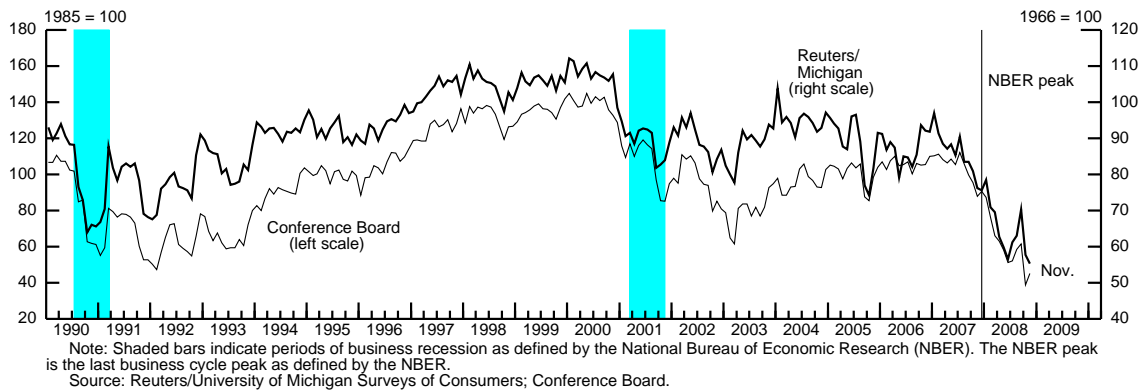
Household Net Worth and Wilshire 5000



Target Federal Funds Rate and 10-Year Treasury Yield

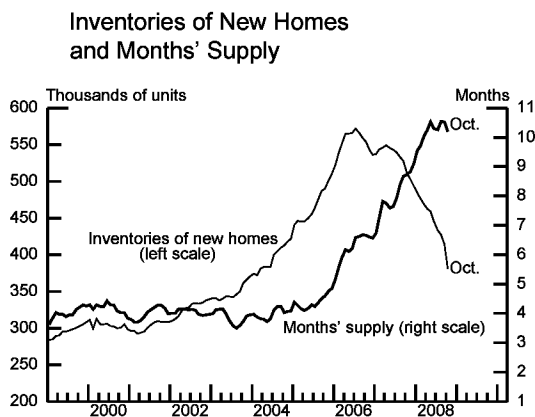
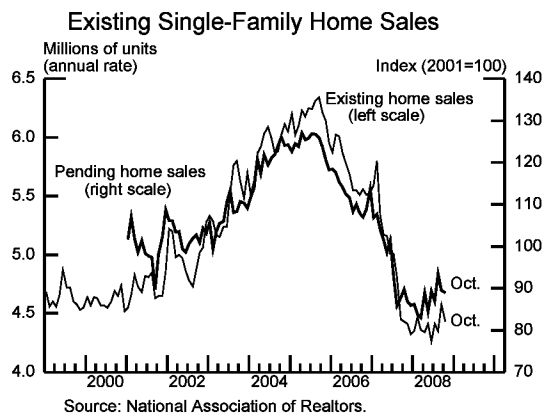
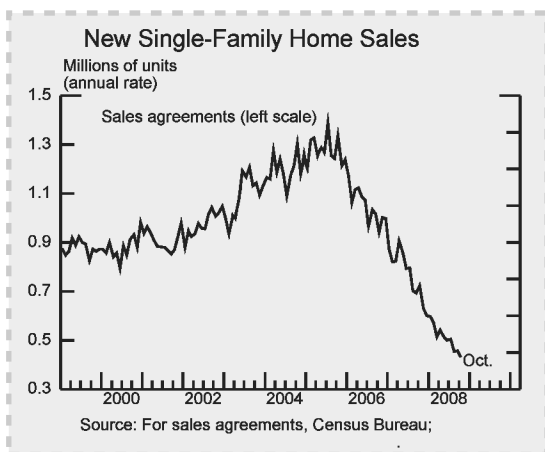


Consumer Confidence



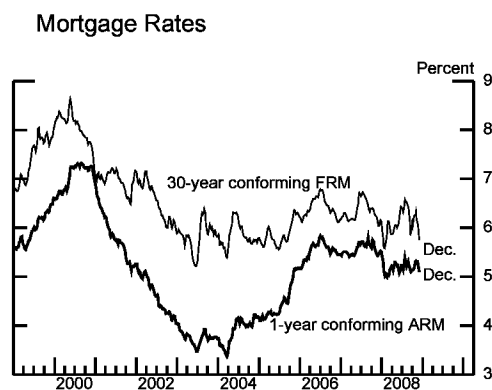
Indicators of Single-Family Housing

Content partially redacted.



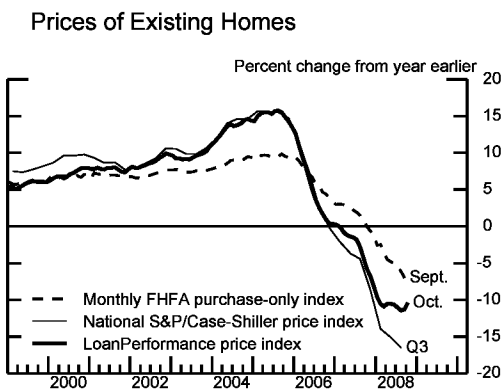
Note: Months' supply is calculated using the 3-month moving average of sales.

Source: Census Bureau.

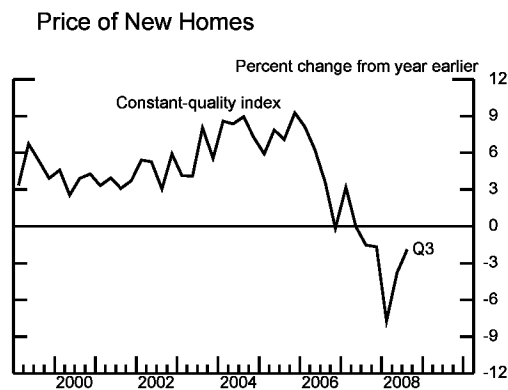


Note: The December reading is a 2-week moving average of data available through Dec. 3, 2008.

Source: Federal Home Loan Mortgage Corporation.



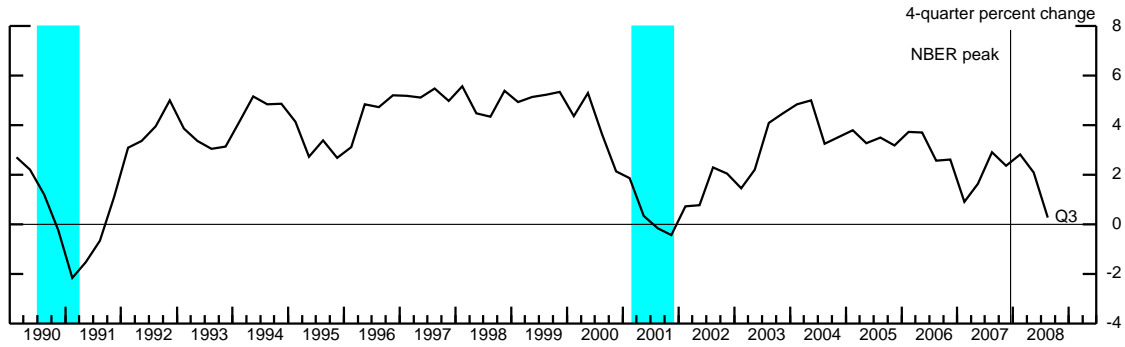
Source: For purchase-only index, Federal Housing Finance Agency; for S&P/Case-Shiller, Standard & Poor's; for LoanPerformance, First American CoreLogic.



Source: Census Bureau.

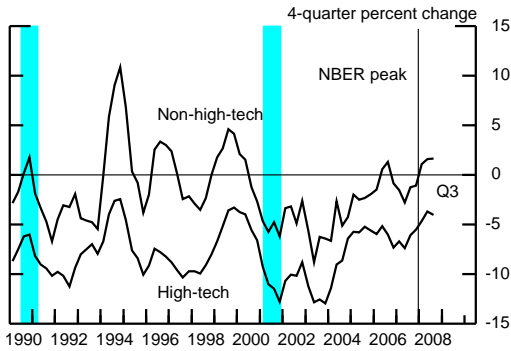
Fundamentals of Equipment and Software Investment

Real Business Output



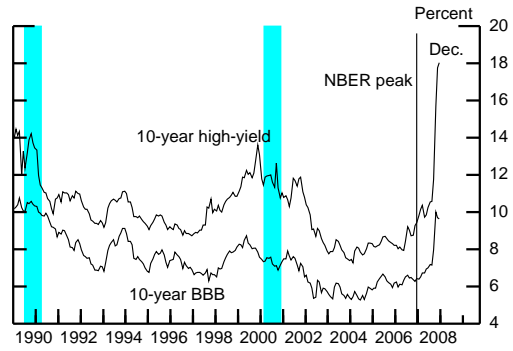
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

User Cost of Capital



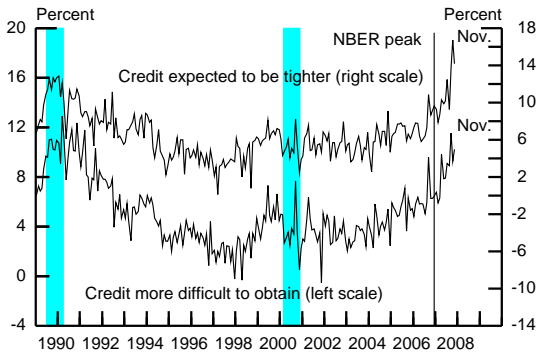
Source: Staff calculation.

Corporate Bond Yields



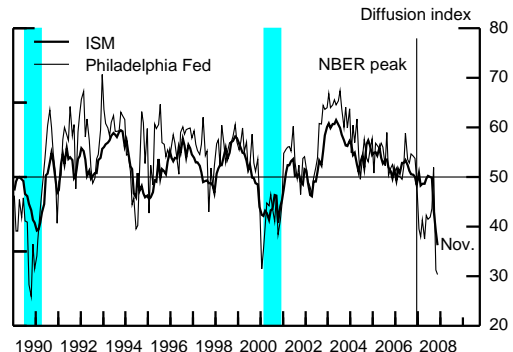
Source: Merrill Lynch.

NFIB: Survey on Loan Availability



Source: National Federation of Independent Business.

Surveys of Business Conditions

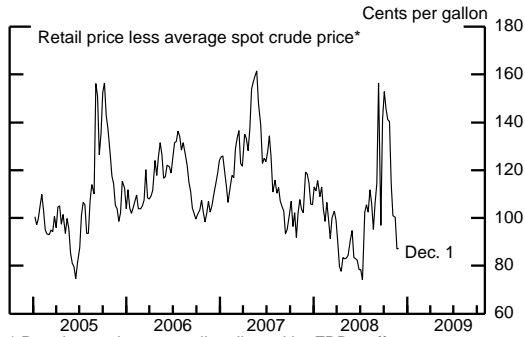


Source: Manufacturing ISM Report on Business; Philadelphia Fed Business Outlook Survey.

Energy and Food Price Indicators

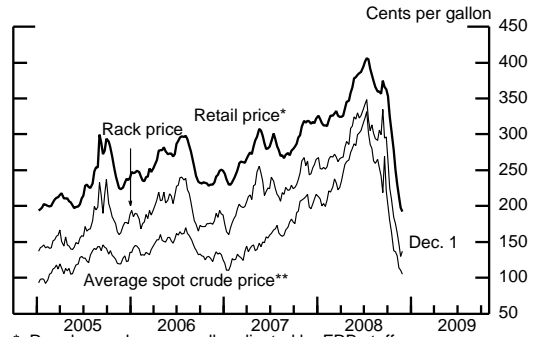
(Data from U.S. Department of Energy, Energy Information Administration except as noted)

Total Gasoline Margin



* Regular grade seasonally adjusted by FRB staff, less average spot crude price: 60% West Texas intermediate, 40% Maya heavy crude. Includes gasoline taxes.

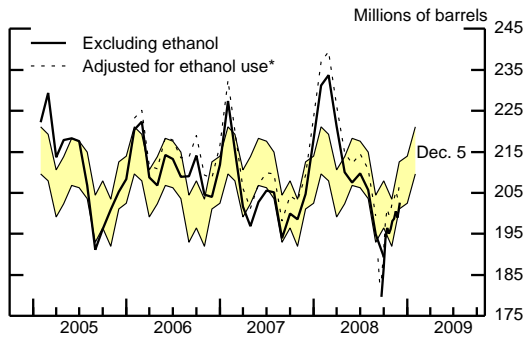
Gasoline Price Decomposition



* Regular grade seasonally adjusted by FRB staff.

** 60% West Texas intermediate, 40% Maya heavy crude.

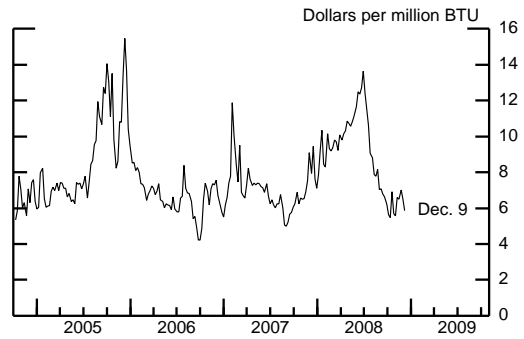
Gasoline Inventories



Note: Shaded region is average historical range as calculated by U.S. Dept. of Energy. Monthly data through September 2008, weekly data thereafter.

* Adjustment for approximate amount of fuel ethanol to be blended with RBOB component of inventories; estimated by FRB staff.

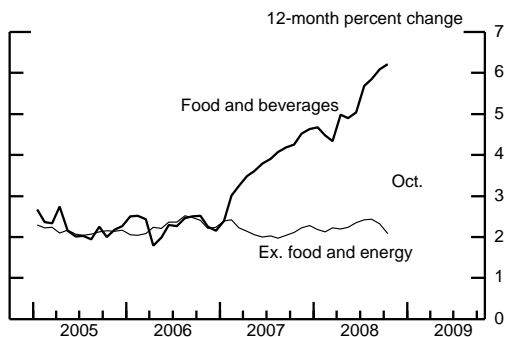
Natural Gas Prices



Note: National average spot price.

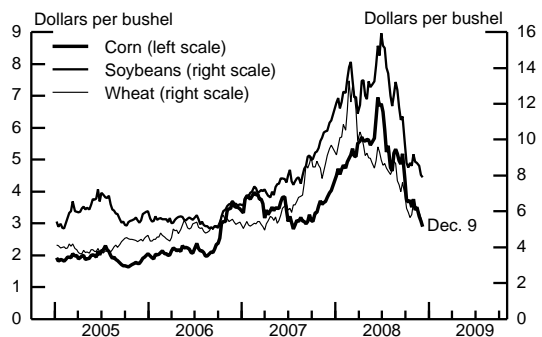
Source: Bloomberg.

PCE Food Prices



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Spot Agricultural Commodity Prices

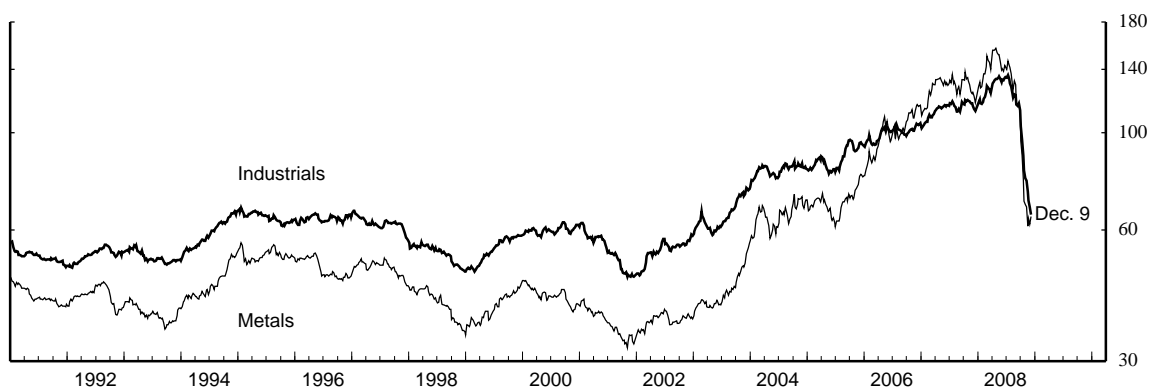


Source: Commodity Research Bureau.

Commodity Price Indexes

Journal of Commerce

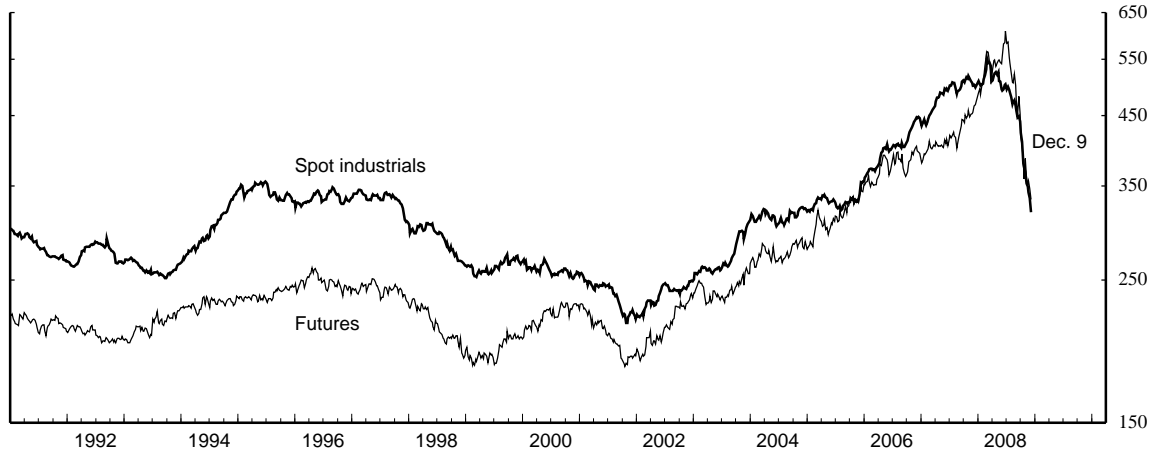
Ratio scale, 2006 = 100



Note: The *Journal of Commerce* (JOC) industrial price index is based almost entirely on industrial commodities, with a small weight given to energy commodities. Copyright for *Journal of Commerce* (JOC) data is held by CIBCR, 1994.

Commodity Research Bureau

Ratio scale, 1967 = 100



Note: The Commodity Research Bureau (CRB) spot industrials index consists entirely of industrial commodities, excluding energy. The CRB futures index gives about a 60 percent weight to food commodities and splits the remaining weight roughly equally among energy commodities, industrial commodities, and precious metals.

Selected Commodity Price Indexes (Percent change)

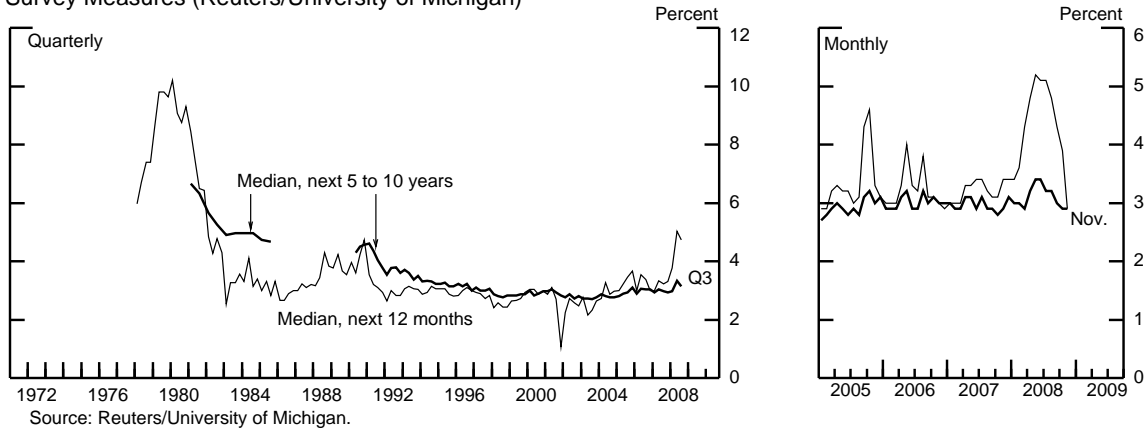
| Index | 2007 ¹ | 12/18/07 to 10/21/08 ² | 10/21/08 to 12/9/08 | 52-week change to 12/9/08 |
|----------------------|-------------------|---|---------------------------|---------------------------------|
| JOC industrials | 7.6 | -21.0 | -26.8 | -42.8 |
| JOC metals | 2.1 | -33.4 | -17.7 | -47.1 |
| CRB spot industrials | 11.1 | -23.9 | -16.1 | -36.6 |
| CRB spot foodstuffs | 25.5 | -3.7 | -15.7 | -18.8 |
| CRB futures | 18.2 | -18.1 | -12.8 | -28.3 |

1. From the last week of the preceding year to the last week of the year indicated.

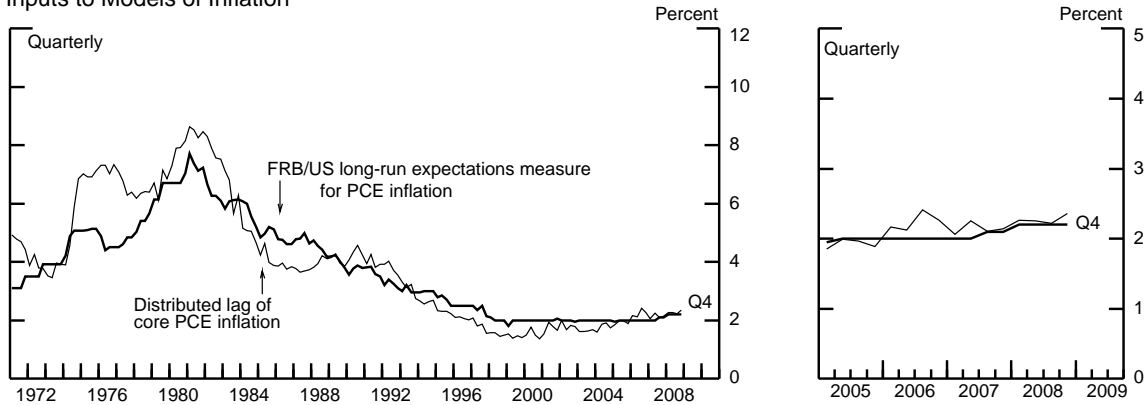
2. October 21, 2008, is the Tuesday preceding publication of the October Greenbook.

Measures of Expected Inflation

Survey Measures (Reuters/University of Michigan)

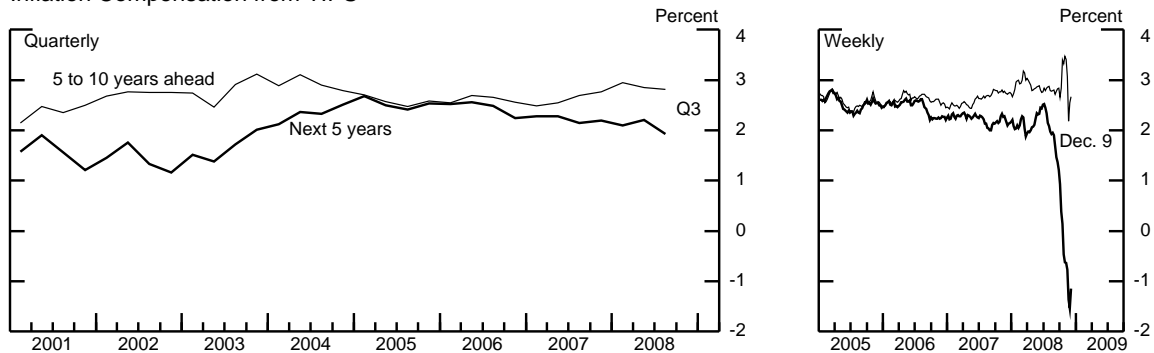


Inputs to Models of Inflation



Note: The distributed lag of core PCE inflation is derived from one of the reduced-form Phillips curves used by Board staff.
 Source: For the distributed lag of core PCE inflation, FRB staff calculations; for the FRB/US measure, for 2007 forward, the median projection for PCE inflation over the next 10 years from the Survey of Professional Forecasters (SPF); for 1990 to 2006, the equivalent SPF projection for the CPI; for 1981 to 1989, a related survey for the CPI conducted by Richard Hovey; 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.

Inflation Compensation from TIPS



Note: Based on a comparison of an estimated TIPS (Treasury inflation-protected securities) yield curve with an estimated nominal off-the-run Treasury yield curve, with an adjustment for the indexation-lag effect.
 Source: FRB staff calculations.

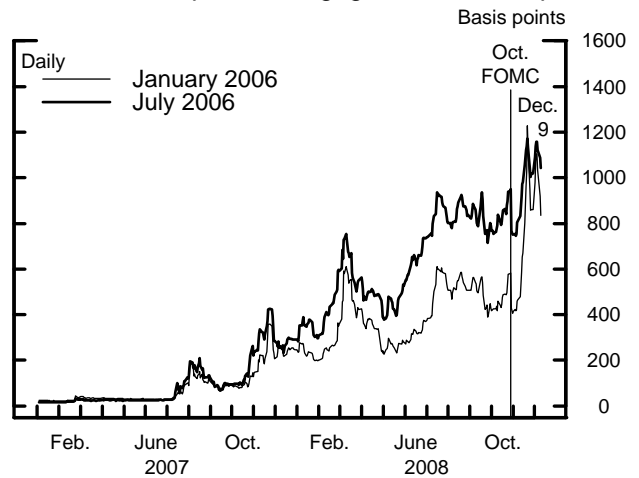
Financial Institutions and Market Functioning

Investment-Grade CDS Spreads for Financial Firms



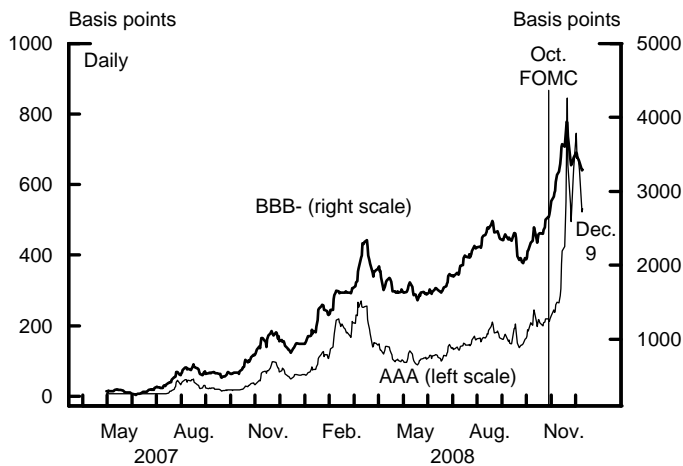
Note: Median spreads for 179 financial firms.
Source: Markit.

AAA-rated Subprime Mortgage CDS Index Spreads



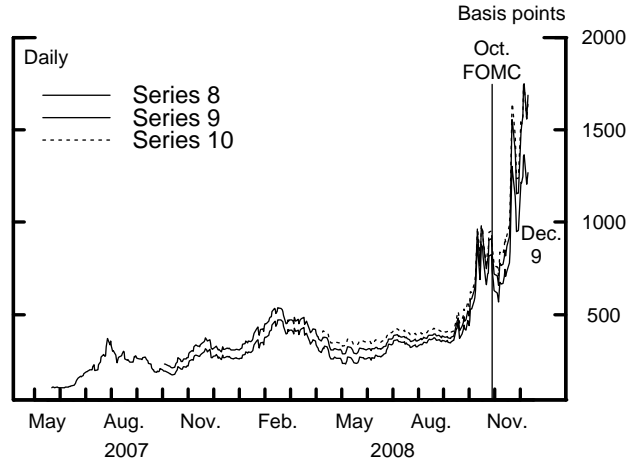
Source: JPMorgan.

CMBX Indexes



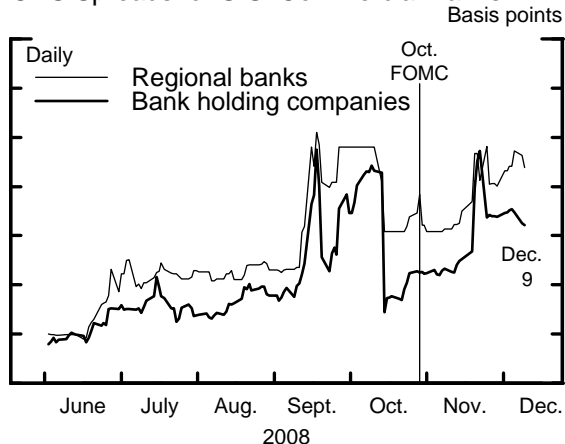
Note: Origination date is April 2007.
Source: JPMorgan.

LCDX Index



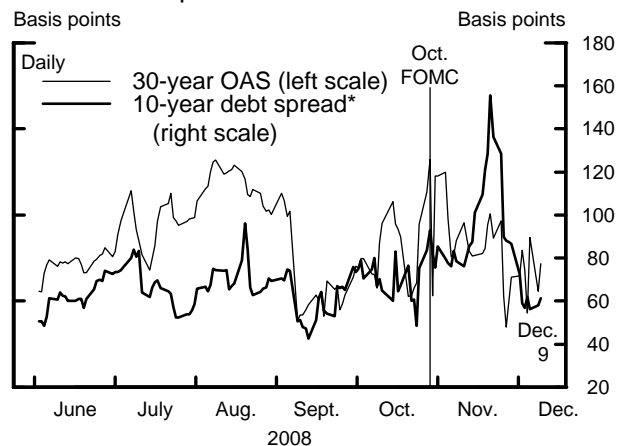
Note: The LCDX index rolls semi-annually when credits that experienced a credit event or exhibited poor liquidity are excluded from the index.
Source: Markit.

CDS Spreads for U.S. Commercial Banks



Note: Median spreads for 5 regional banks and 6 large bank holding companies (Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, and Wells Fargo).
Source: Markit.

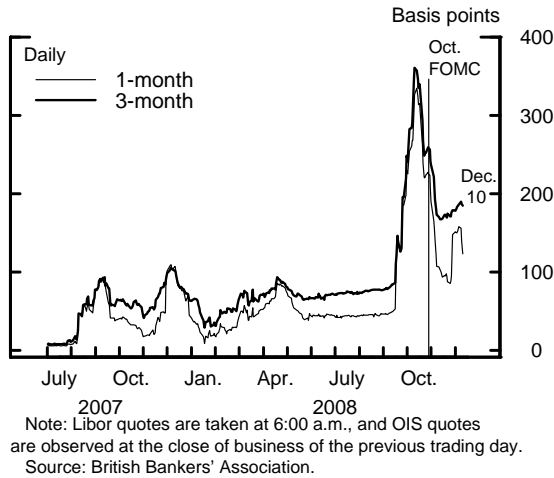
Fannie Mae Spreads



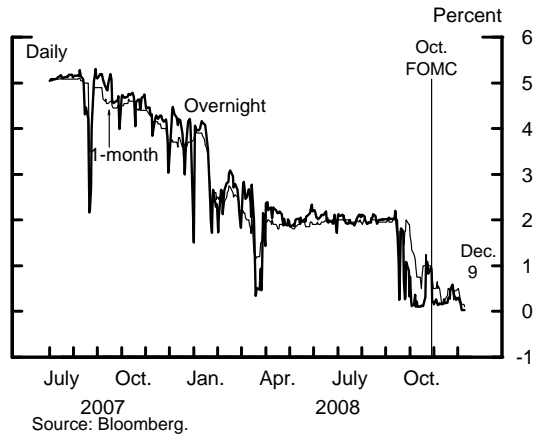
* Spread over Treasury securities of comparable maturity.
Source: Bloomberg.

Short-Term Funding Markets

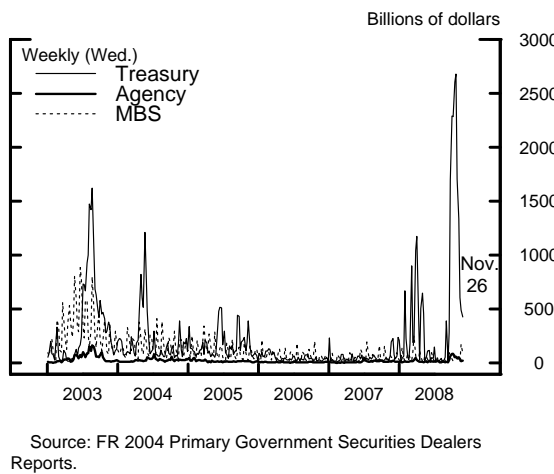
Spread of Libor over OIS Rates



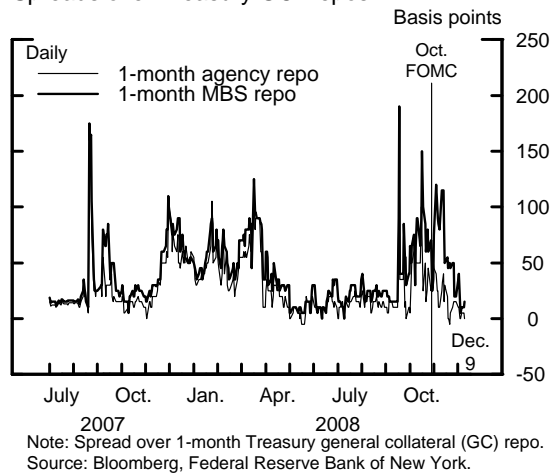
Repo Rates on Treasury General Collateral



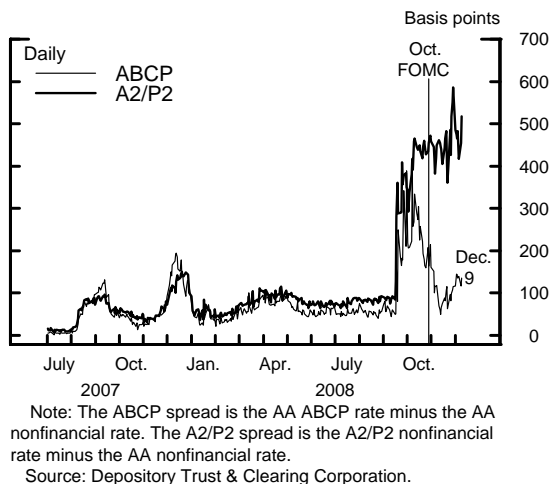
Fails to Deliver



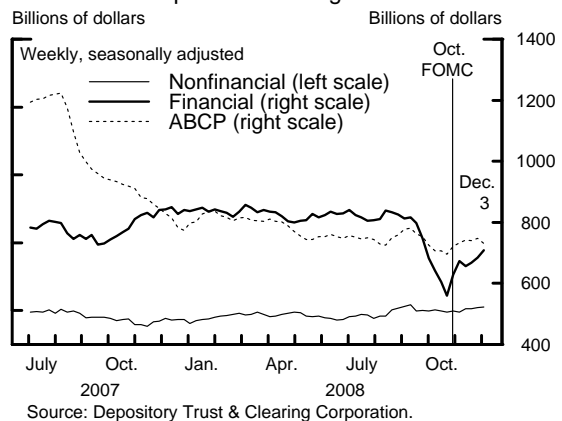
Spreads over Treasury GC Repos



Spreads on 30-Day Commercial Paper

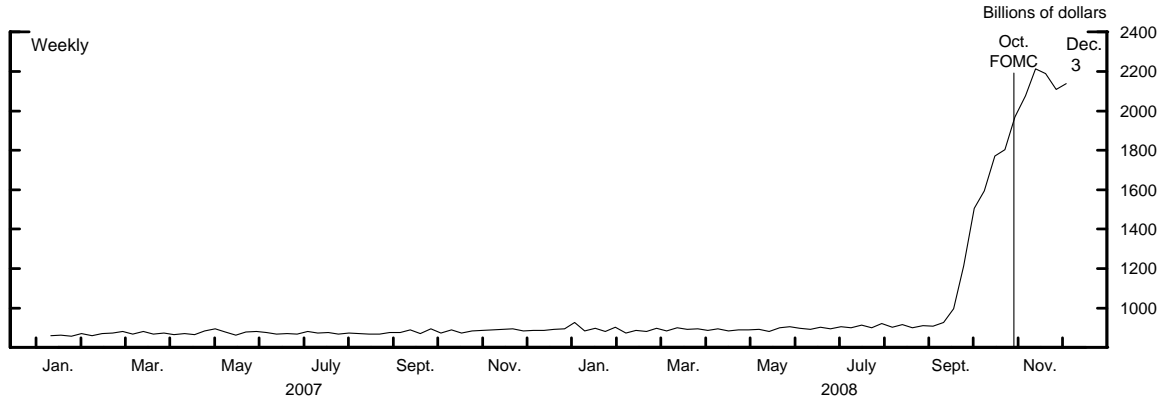


Commercial Paper Outstandings



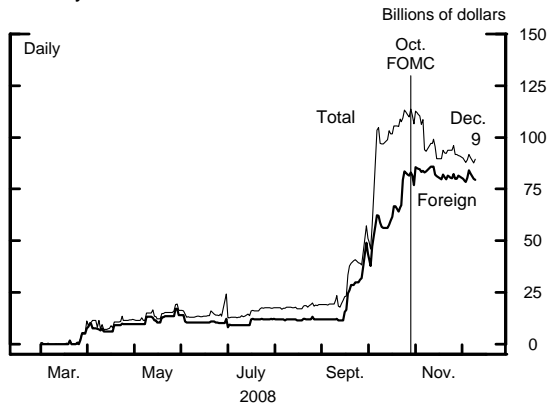
Federal Reserve Liquidity Provision

Total Federal Reserve Assets



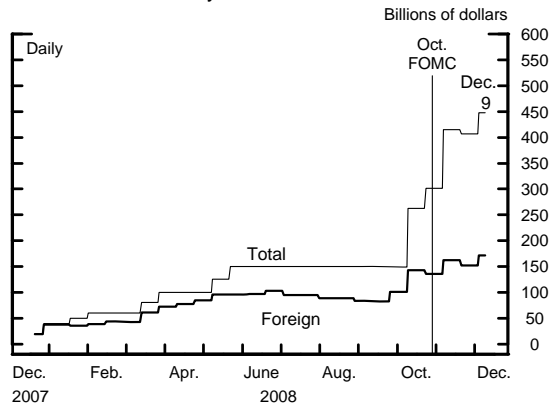
Source: Board of Governors of the Federal Reserve System, Statistical Release H.4.1, "Factors Affecting Reserve Balances."

Primary Credit



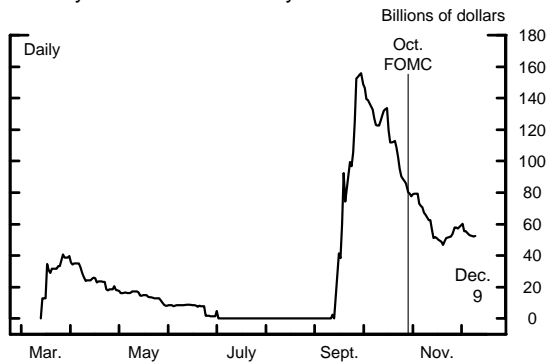
Source: Federal Reserve Board.

Term Auction Facility



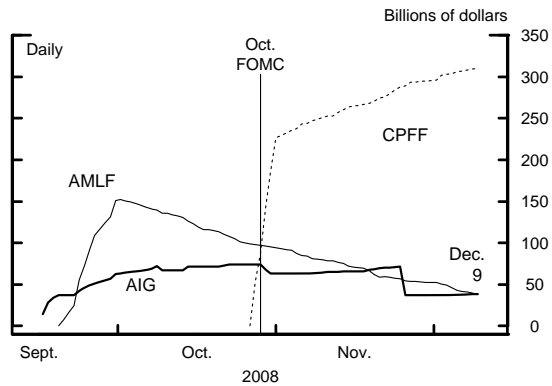
Source: Federal Reserve Board.

Primary Dealer Credit Facility



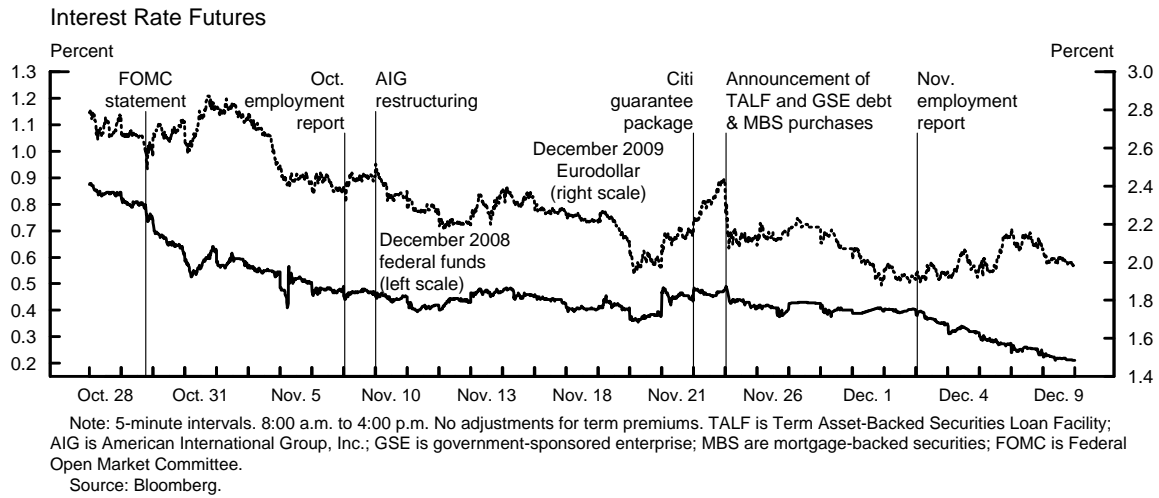
Source: Federal Reserve Board.

Other Credit Extensions

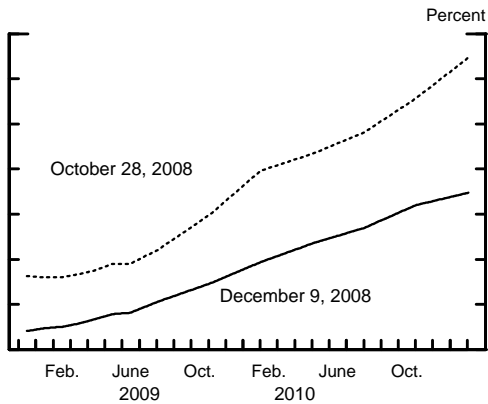


Note: AMLF is Asset-Backed Commercial Paper Money Market Mutual Fund Lending Facility; AIG is American International Group, Inc.; CPFF is Commercial Paper Funding Facility.
Source: Federal Reserve Board.

Policy Expectations and Treasury Yields

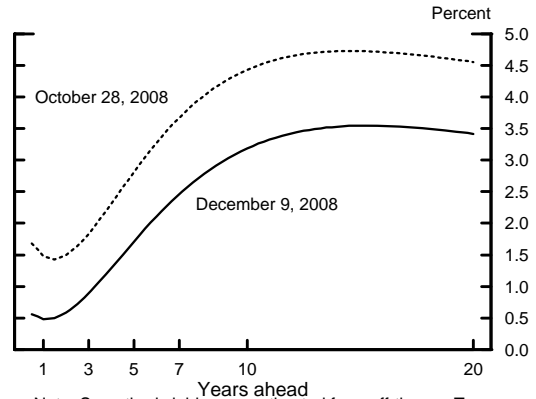


Implied Federal Funds Rate



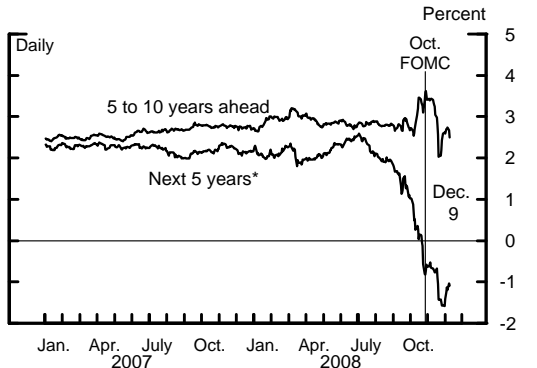
Note: Estimated from federal funds and Eurodollar futures, with an allowance for term premiums and other adjustments.
Source: Chicago Mercantile Exchange; CBOT.

Treasury Yield Curve



Note: Smoothed yield curve estimated from off-the-run Treasury coupon securities. Yields shown are those on notional par Treasury securities with semiannual coupons.
Source: Federal Reserve Bank of New York.

Inflation Compensation

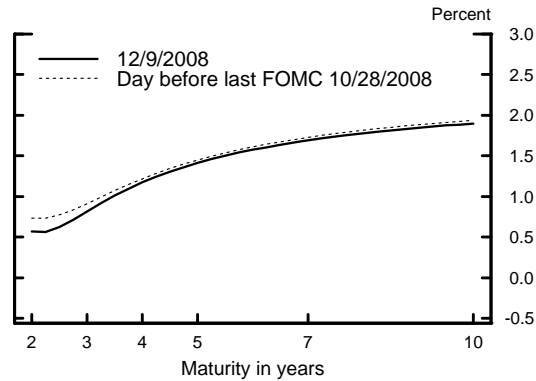


Note: Estimates based on smoothed nominal and inflation-indexed Treasury yields.

*Adjusted for lagged indexation of Treasury inflation-protected securities.

Source: Federal Reserve Bank of New York.

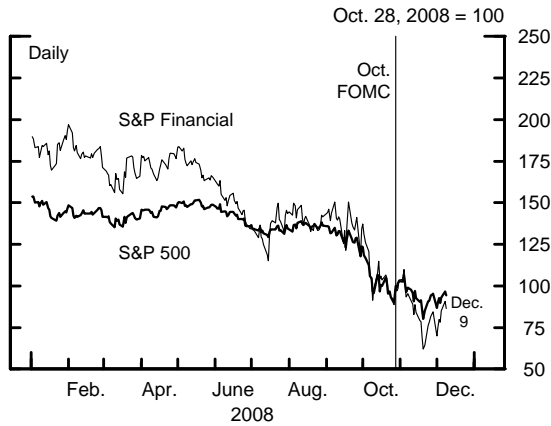
Inflation Swaps Yield Curve



Source: Barclays PLC.

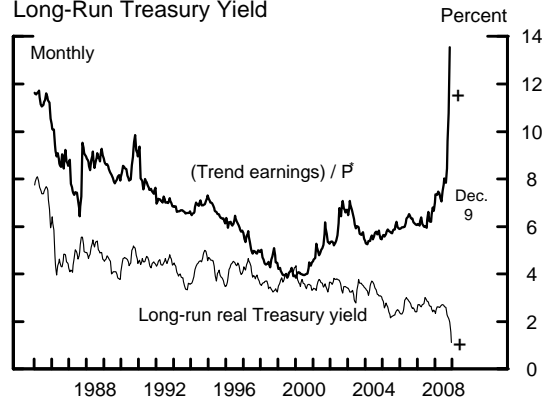
Corporate Yields, Risk Spreads, and Stock Prices

Selected Stock Price Indexes



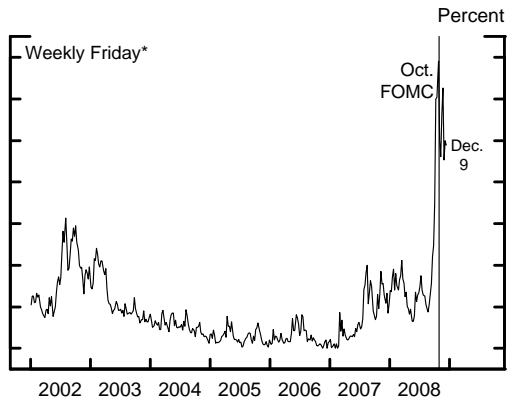
Source: Standard & Poor's.

Ratio of Trend Earnings to Price for S&P 500 and Long-Run Treasury Yield



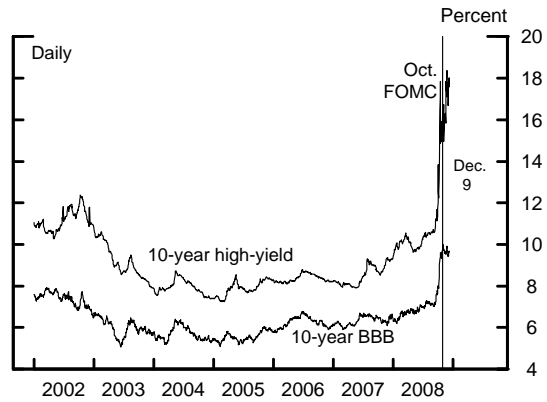
* Trend earnings are estimated using analysts' forecasts of year-ahead earnings from I/B/E/S.
+ Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.
Source: Thomson Financial.

Implied Volatility on S&P 500 (VIX)



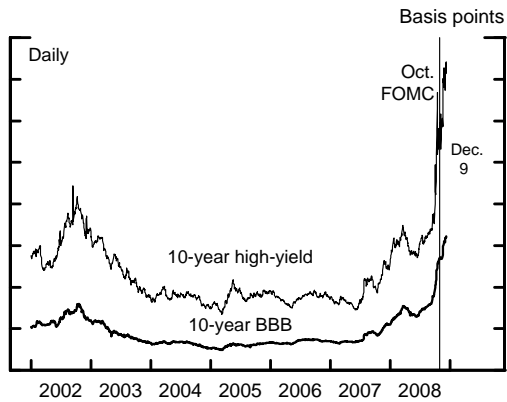
* Latest observation is for most recent business day.
Source: Chicago Board of Exchange.

Corporate Bond Yields



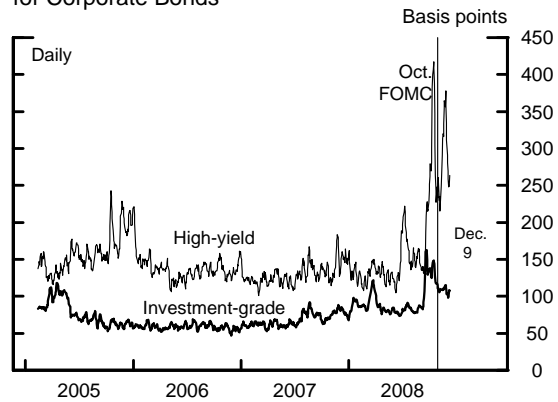
Note: Yields from smoothed yield curves based on Merrill Lynch bond data.

Corporate Bond Spreads



Note: Corporate yields from smoothed yield curves based on Merrill Lynch bond data and spreads measured relative to comparable-maturity Treasury securities.

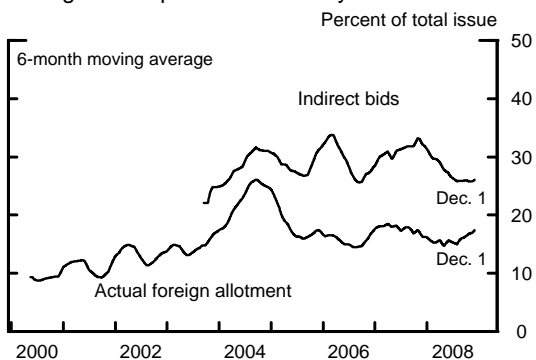
Estimated Median Bid-Ask Spread for Corporate Bonds



Source: Staff estimate using data from NASD's TRACE.

Treasury Finance

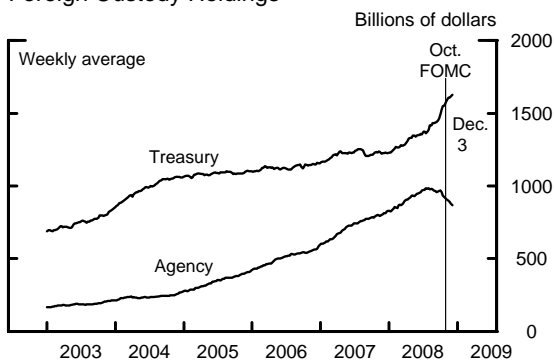
Foreign Participation in Treasury Auctions



Note: Indirect bids and actual allotment are a percentage of the total amount accepted, including the amount tendered to the Federal Reserve. Moving averages include 2-, 5-, and 10-year original auctions and reopenings.

Source: Federal Reserve Board.

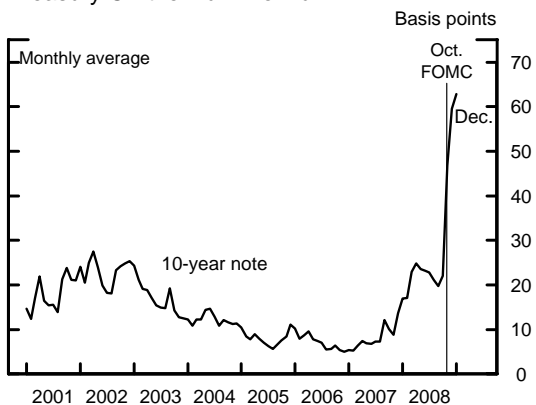
Foreign Custody Holdings



Note: Securities held in custody at the Federal Reserve Bank of New York on behalf of foreign official institutions.

Source: Federal Reserve Bank of New York.

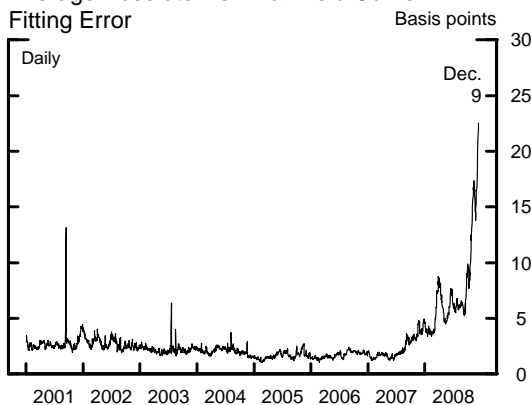
Treasury On-the-Run Premium



Note: Computed as the spread of the yield read from an estimated off-the-run yield curve over the on-the-run Treasury yield. December observation is the month-to-date average.

Source: Federal Reserve Bank of New York.

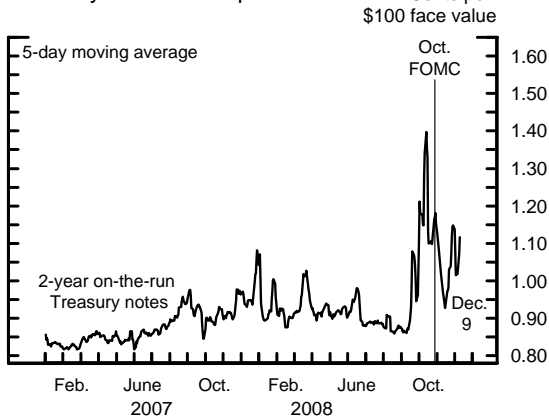
Average Absolute Nominal Yield Curve Fitting Error



Note: Calculated from securities with 2 to 10 years until maturity, excluding on-the-run and first off-the-run securities.

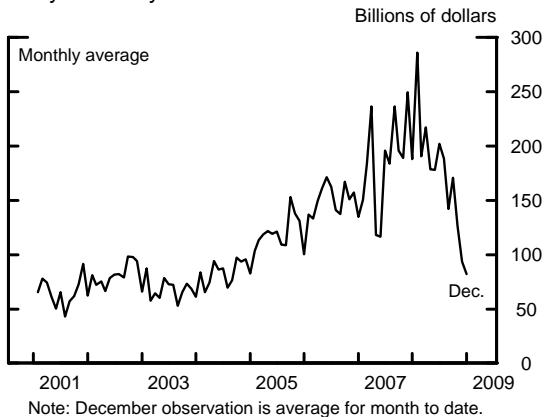
Source: Federal Reserve Board.

Treasury Bid-Asked Spread



Source: BrokerTec Interdealer Market Data.

Daily Treasury Market Volume



Note: December observation is average for month to date.

Source: BrokerTec Interdealer Market Data.

December 12, 2008

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

December 12, 2008

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

| Category | 2008 | | | | | | | |
|---|------|------|------|------|-------|------|------|-------------------|
| | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. ^P |
| Composite of current and expected conditions ¹ | 59.8 | 56.4 | 61.2 | 63.0 | 70.3 | 57.6 | 55.3 | 59.1 |
| Current conditions ¹ | 73.3 | 67.6 | 73.1 | 71.0 | 75.0 | 58.4 | 57.5 | 69.4 |
| Expected conditions ¹ | 51.1 | 49.2 | 53.5 | 57.9 | 67.2 | 57.0 | 53.9 | 52.4 |
| Personal financial situation | | | | | | | | |
| Now compared with 12 months ago ² | 80 | 69 | 73 | 72 | 86 | 60 | 59 | 61 |
| Expected in 12 months ² | 98 | 96 | 105 | 105 | 120 | 106 | 107 | 108 |
| Expected business conditions | | | | | | | | |
| Next 12 months ² | 36 | 38 | 42 | 52 | 65 | 49 | 42 | 37 |
| Next 5 years ² | 68 | 59 | 65 | 72 | 83 | 71 | 65 | 63 |
| Appraisal of buying conditions | | | | | | | | |
| Cars | 96 | 91 | 103 | 103 | 108 | 98 | 115 | 122 |
| Large household appliances ² | 109 | 104 | 115 | 110 | 107 | 89 | 88 | 117 |
| Houses | 130 | 133 | 138 | 146 | 140 | 117 | 145 | 128 |
| Expected unemployment change - next 12 months | 153 | 159 | 154 | 150 | 141 | 156 | 162 | 164 |
| Prob. household will lose a job - next 5 years | 22 | 25 | 20 | 22 | 21 | 24 | 27 | 26 |
| Expected inflation - next 12 months | | | | | | | | |
| Mean | 7.0 | 6.5 | 6.3 | 5.3 | 4.6 | 4.3 | 2.9 | 1.9 |
| Median | 5.2 | 5.1 | 5.1 | 4.8 | 4.3 | 3.9 | 2.9 | 1.7 |
| Expected inflation - next 5 to 10 years | | | | | | | | |
| Mean | 4.0 | 4.0 | 3.5 | 3.9 | 3.3 | 3.1 | 3.1 | 2.7 |
| Median | 3.4 | 3.4 | 3.2 | 3.2 | 3.0 | 2.9 | 2.9 | 2.7 |

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.

