

Part 1

December 6, 2006

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

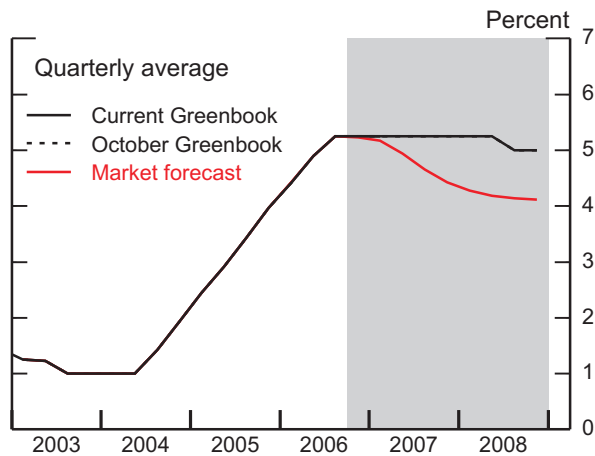
Summary and Outlook

December 6, 2006

Summary and Outlook

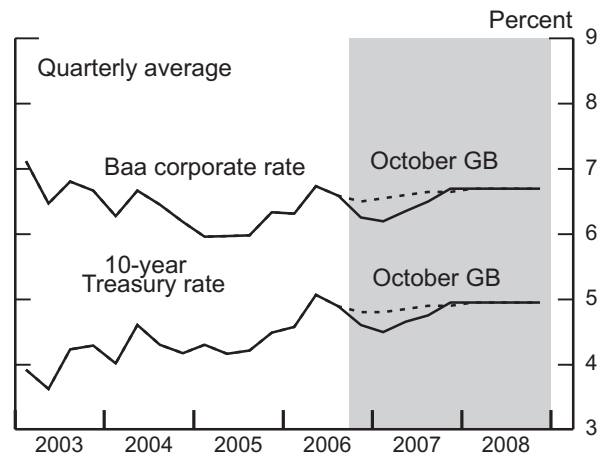
Key Background Factors Underlying the Baseline Staff Projection

Federal Funds Rate

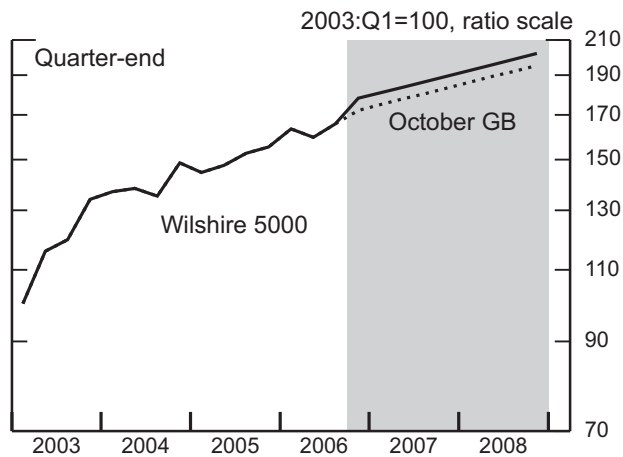


Note. The assumed federal funds rate is unchanged from the October Greenbook.

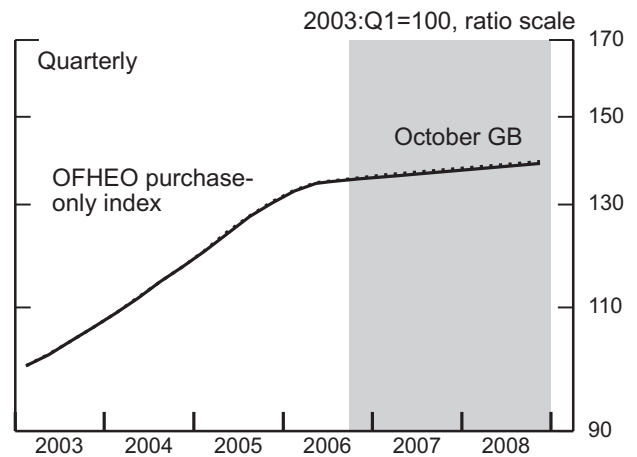
Long-Term Interest Rates



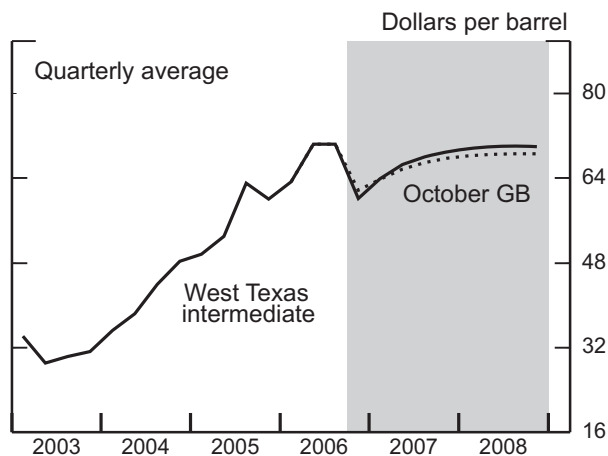
Equity Prices



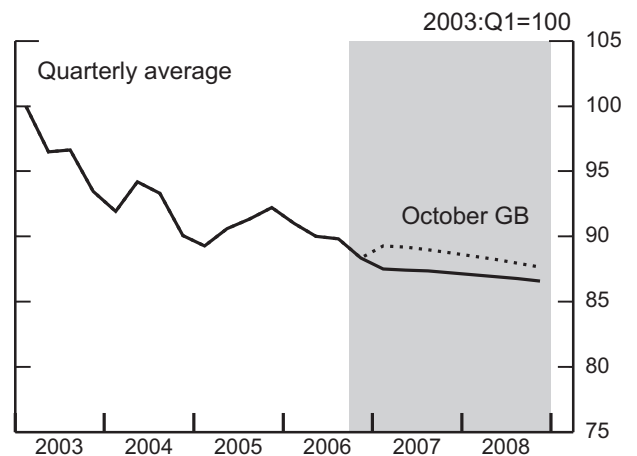
House Prices



Crude Oil Prices



Broad Real Dollar



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

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

Measure	2006:Q3		2006:Q4	
	Oct. GB	Dec. GB	Oct. GB	Dec. GB
Real GDP	1.0	2.0	2.3	1.3
Private domestic final purchases	2.3	2.0	1.7	1.2
Personal consumption expenditures	2.9	2.9	3.1	3.1
Residential investment	-18.8	-18.7	-20.8	-23.8
Business fixed investment	12.0	9.4	5.8	4.1
Government outlays for consumption and investment	.8	2.0	3.0	3.4
	Contribution to growth (percentage points)			
Inventory investment	-.7	.1	-.0	-.9
Net exports	-.6	-.2	.3	.5

In putting together our GDP forecast, we have assumed that the unwinding of these anomalies will hold down growth this quarter by about ½ percentage point.⁴ At the same time, we have interpreted recent data as suggesting a slightly lower pace of real output growth outside of motor vehicles this quarter than we had assumed in our previous projection. As a result, we have marked down our forecast for measured GDP growth in the fourth quarter by 1 percentage point, to an annual rate of 1¼ percent. Adjusting for our estimate of the measurement problem, our current forecast would show real GDP growth of about 1 percent in the third quarter and nearly 2 percent in the fourth quarter.

The latest BEA release also included a sharp downward revision to the previously published estimate of wages and salaries in the second quarter. Indeed, this adjustment, which brings on board information from unemployment insurance tax records, effectively reversed the earlier upward revision that the BEA made to the first quarter and now suggests that the entire first-quarter spike in wages and salaries was transitory; we had previously assumed that only about half of that spike would be transitory. Largely as a consequence of this revision, we have marked down our forecast of growth in real disposable income this year by ½ percentage point, to 3 percent, which leaves the saving

relevant for valuing end-of-quarter stocks led to a sharp increase in the BEA's estimate of the real value of light truck inventories in the third quarter that we believe distorted the published estimate of GDP growth.

⁴ The fourth-quarter unwinding is smaller than the overstatement in the third quarter because some of that overstatement was an offset to opposite-signed measurement errors in the first half of the year.

Projections of Real GDP

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

Measure	2006: H2	2007: H1	2007	2008
Real GDP	1.7	2.0	2.2	2.5
Previous	1.6	2.1	2.2	2.5
Final sales	2.1	1.9	2.1	2.5
Previous	2.0	2.1	2.1	2.3
PCE	3.0	2.5	2.5	2.6
Previous	3.0	2.6	2.6	2.8
Residential investment	-21.3	-14.0	-7.6	1.4
Previous	-19.8	-12.5	-7.7	2.2
BFI	6.7	4.1	3.9	4.1
Previous	8.9	4.9	4.4	3.8
Government purchases	2.7	2.7	2.4	1.9
Previous	1.9	2.6	2.1	1.2
Exports	5.9	5.5	5.4	5.6
Previous	6.1	4.6	4.5	4.9
Imports	3.0	3.9	4.2	5.1
Previous	4.8	3.8	4.2	5.4
Contribution to growth (percentage points)				
Inventory change	-.4	.0	.1	.0
Previous	-.3	.0	.1	.2
Net exports	.1	-.0	-.1	-.2
Previous	-.1	-.1	-.2	-.4

As noted above, the incoming data suggest that homebuilders are aggressively scaling back new projects in response to the uncomfortably high level of inventories of new single-family homes. We have carried over some of the greater weakness into next year as well, leaving our forecast for single-family housing starts in 2007 at 1.2 million units, about 50,000 units below our previous projection. Given our expectation that the demand for housing will stabilize, this pace of starts should make a significant dent in the current oversupply of new homes by the end of next year. At that point, we think that starts will begin to turn up again, and we project them to run at a 1.3 million unit pace by the end of 2008. Multifamily starts, which have edged down only a little over the course of this year, are projected to be 330,000 units next year and then return to a 350,000 unit pace in

Decomposition of Structural Labor Productivity Nonfarm Business Sector

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

Measure	1974-95	1996-2000	2001-04	2005	2006	2007	2008
Structural labor productivity	1.5	2.5	3.0	2.5	2.6	2.5	2.5
Previous	1.5	2.5	3.0	2.5	2.6	2.6	2.5
<i>Contributions¹</i>							
Capital deepening	.7	1.4	.6	.5	.7	.6	.6
Previous	.7	1.4	.6	.5	.7	.7	.6
Multifactor productivity	.5	.8	2.1	1.8	1.7	1.7	1.7
Previous	.5	.8	2.1	1.8	1.7	1.7	1.7
Labor composition	.3	.3	.3	.3	.2	.2	.2
MEMO							
Potential GDP	3.0	3.3	2.9	2.6	2.7	2.6	2.5
Previous	3.0	3.3	2.9	2.6	2.7	2.7	2.5

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

1. Percentage points.

The Outlook for the Labor Market

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

Measure	2005	2006	2007	2008
Output per hour, nonfarm business	2.5	1.2	2.6	2.7
Previous	2.5	1.7	2.5	2.7
Nonfarm private payroll employment	1.6	1.4	.5	.4
Previous	1.6	1.3	.4	.4
Household survey employment	1.9	1.8	.2	.5
Previous	1.9	1.5	.3	.6
Labor force participation rate ¹	66.1	66.2	65.8	65.6
Previous	66.1	66.1	65.8	65.5
Civilian unemployment rate ¹	5.0	4.5	5.0	5.1
Previous	5.0	4.7	5.1	5.1
MEMO				
GDP gap ²	-.0	.1	-.3	-.3
Previous	-.0	.1	-.4	-.4

1. Percent, average for the fourth quarter.

2. Percent difference between actual and potential GDP in the fourth quarter of the year indicated. A negative number indicates that the economy is operating below potential.

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

Measure	2005	2006	2007	2008
PCE chain-weighted price index	3.1	2.0	2.8	2.1
Previous	3.1	1.9	2.7	2.1
Food and beverages	2.1	2.6	2.5	2.3
Previous	2.1	2.5	2.4	2.2
Energy	21.2	-4.7	9.5	1.1
Previous	21.2	-5.9	9.0	1.4
Excluding food and energy	2.1	2.4	2.3	2.1
Previous	2.1	2.4	2.3	2.1
Consumer price index	3.7	2.0	3.1	2.2
Previous	3.7	2.0	3.0	2.2
Excluding food and energy	2.1	2.8	2.5	2.3
Previous	2.1	2.9	2.5	2.3
GDP chain-weighted price index	3.1	2.5	2.6	2.4
Previous	3.1	2.5	2.7	2.5
ECI for compensation of private industry workers ¹	2.9	3.2	4.1	4.1
Previous	2.9	3.2	4.0	4.0
Compensation per hour, nonfarm business sector	4.1	4.9	5.1	5.0
Previous	4.1	6.5	5.1	4.9
Prices of core nonfuel imports	2.2	2.9	2.1	1.0
Previous	2.2	3.2	1.4	1.0

1. December to December.

hours worked on a trajectory roughly consistent with slightly above-trend increases in productivity in both 2007 and 2008. As a result, payroll employment gains are projected to moderate from roughly 100,000 per month in the second half of this year to about 75,000 per month in 2007 and 65,000 per month in 2008. With these gains below our estimate of trend increases in employment, the unemployment rate is expected to rise above 5 percent by the middle of 2008.⁷

⁷ As noted in the last Greenbook, we estimate that the monthly pace of payroll employment growth consistent with no change in the unemployment rate will slow from about 105,000 in the current quarter to roughly 80,000 in 2008.

Alternative Scenarios

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

Measure and scenario	2006		2007		2008
	H1	H2	H1	H2	
<i>Real GDP</i>					
Greenbook baseline	4.1	1.7	2.0	2.4	2.5
Faster labor force growth	4.1	1.7	2.2	2.8	2.9
Lower NAIRU	4.1	1.7	1.9	2.4	2.8
Greater wage acceleration	4.1	1.7	1.8	2.1	2.1
Stronger growth	4.1	2.1	2.9	3.1	2.9
Extended housing decline	4.1	1.7	1.6	1.8	2.3
Tighter financial conditions	4.1	1.7	1.8	1.7	1.9
Market-based federal funds rate	4.1	1.7	2.0	2.6	3.1
<i>Unemployment rate</i> ¹					
Greenbook baseline	4.7	4.5	4.8	5.0	5.1
Faster labor force growth	4.7	4.5	4.8	5.0	5.0
Lower NAIRU	4.7	4.5	4.7	4.9	4.8
Greater wage acceleration	4.7	4.5	4.8	5.1	5.3
Stronger growth	4.7	4.5	4.6	4.7	4.6
Extended housing decline	4.7	4.5	4.9	5.2	5.4
Tighter financial conditions	4.7	4.5	4.8	5.1	5.5
Market-based federal funds rate	4.7	4.5	4.8	5.0	4.9
<i>Core PCE inflation</i>					
Greenbook baseline	2.4	2.4	2.4	2.3	2.1
Faster labor force growth	2.4	2.4	2.4	2.3	2.2
Lower NAIRU	2.4	2.3	2.2	2.0	1.8
Greater wage acceleration	2.4	2.6	3.1	3.2	3.3
Stronger growth	2.4	2.4	2.4	2.3	2.1
Extended housing decline	2.4	2.4	2.4	2.3	2.1
Tighter financial conditions	2.4	2.4	2.3	2.2	2.1
Market-based federal funds rate	2.4	2.4	2.4	2.4	2.3
<i>Federal funds rate</i> ¹					
Greenbook baseline	4.9	5.3	5.3	5.3	5.0
Faster labor force growth	4.9	5.3	5.3	5.3	5.2
Lower NAIRU	4.9	5.3	5.0	4.6	4.2
Greater wage acceleration	4.9	5.3	5.5	5.8	5.9
Stronger growth	4.9	5.3	5.7	6.1	6.0
Extended housing decline	4.9	5.3	5.2	4.9	4.3
Tighter financial conditions	4.9	5.3	5.2	4.9	4.0
Market-based federal funds rate	4.9	5.3	5.0	4.5	4.1

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

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

Measure	2006	2007	2008
<i>Real GDP</i> (percent change, Q4 to Q4)			
Projection	2.9	2.2	2.5
Confidence interval			
Greenbook forecast errors	2.4–3.3	.6–3.8	.7–4.3
FRB/US stochastic simulations	2.6–3.2	.9–3.5	.9–4.4
<i>Civilian unemployment rate</i> (percent, Q4)			
Projection	4.5	5.0	5.1
Confidence interval			
Greenbook forecast errors	4.4–4.6	4.4–5.6	4.1–6.1
FRB/US stochastic simulations	4.4–4.5	4.6–5.3	4.5–5.6
<i>PCE prices</i> excluding food and energy (percent change, Q4 to Q4)			
Projection	2.4	2.3	2.1
Confidence interval			
Greenbook forecast errors	2.2–2.6	1.6–3.0	1.2–3.1
FRB/US stochastic simulations	2.3–2.5	1.8–2.9	1.4–2.9
<i>Federal funds rate</i> (percent, Q4)			
Projection	5.2	5.2	5.0
Confidence interval			
FRB/US stochastic simulations	5.2–5.3	4.3–6.3	3.8–6.6

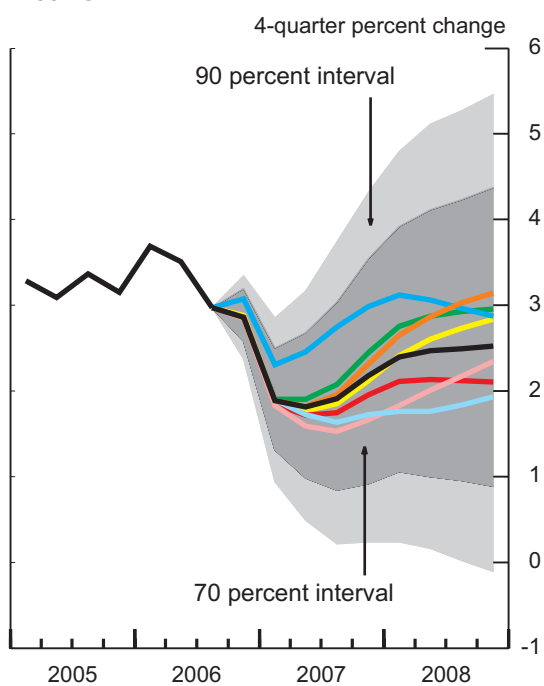
Note. Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1986-2005 set of model equation residuals. Intervals derived from Greenbook forecast errors are based on the 1986-2004 set of Greenbook historical errors.

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

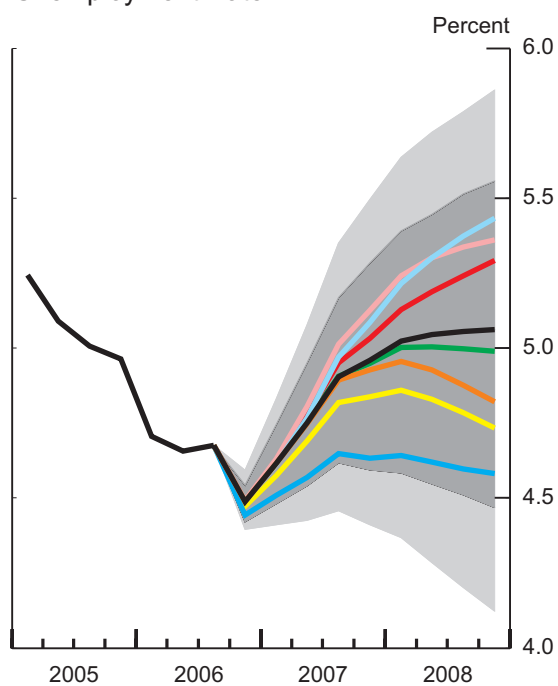
Confidence Intervals based on FRB/US Stochastic Simulations

- | | | |
|-----------------------------|-----------------------------|-----------------------------------|
| ■ Greenbook baseline | ■ Greater wage acceleration | ■ Tighter financial conditions |
| ■ Faster labor force growth | ■ Stronger growth | ■ Market-based federal funds rate |
| ■ Lower NAIUR | ■ Extended housing decline | |

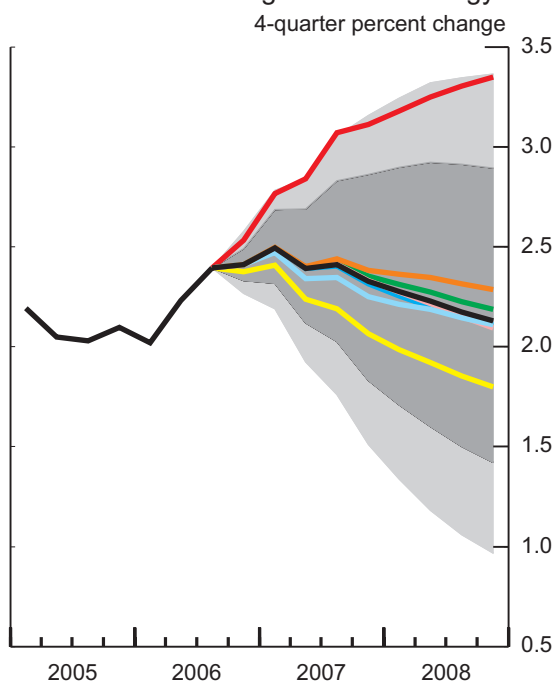
Real GDP



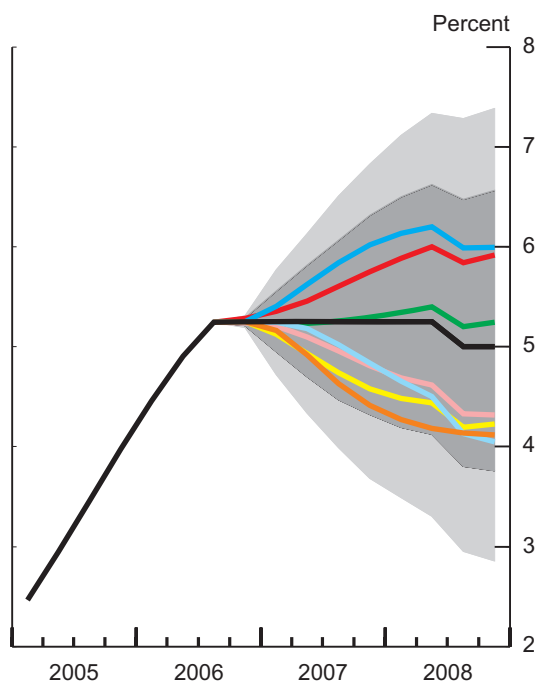
Unemployment Rate



PCE Prices excluding Food and Energy



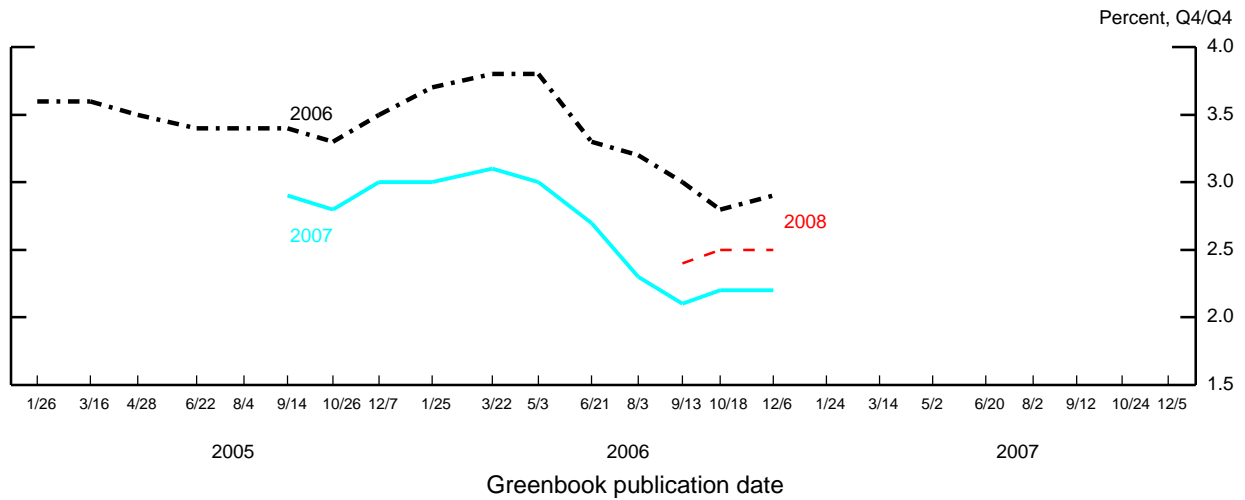
Federal Funds Rate



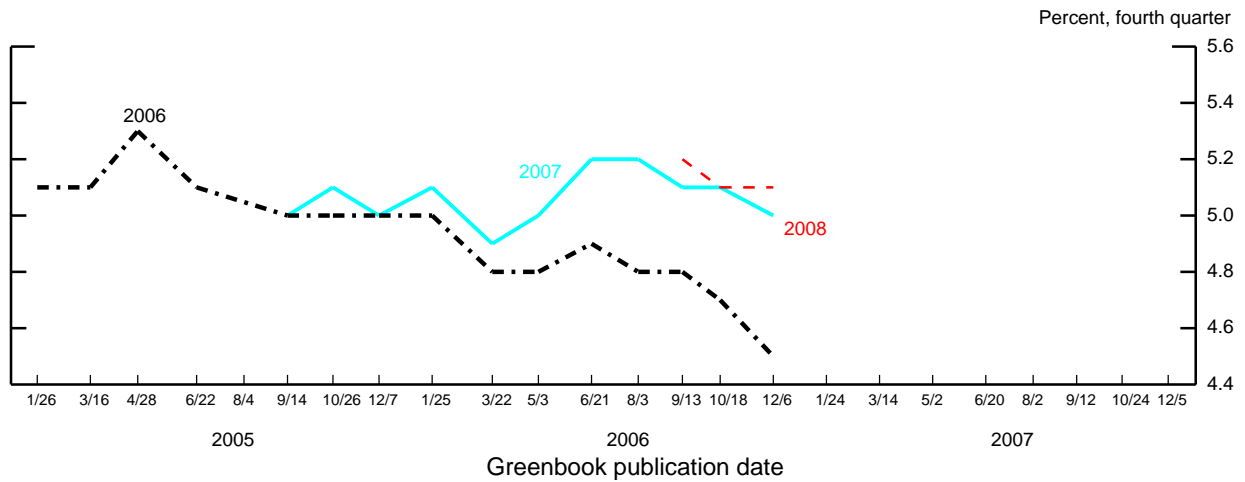
Class II FOMC - Restricted (FR)

Evolution of the Staff Forecast

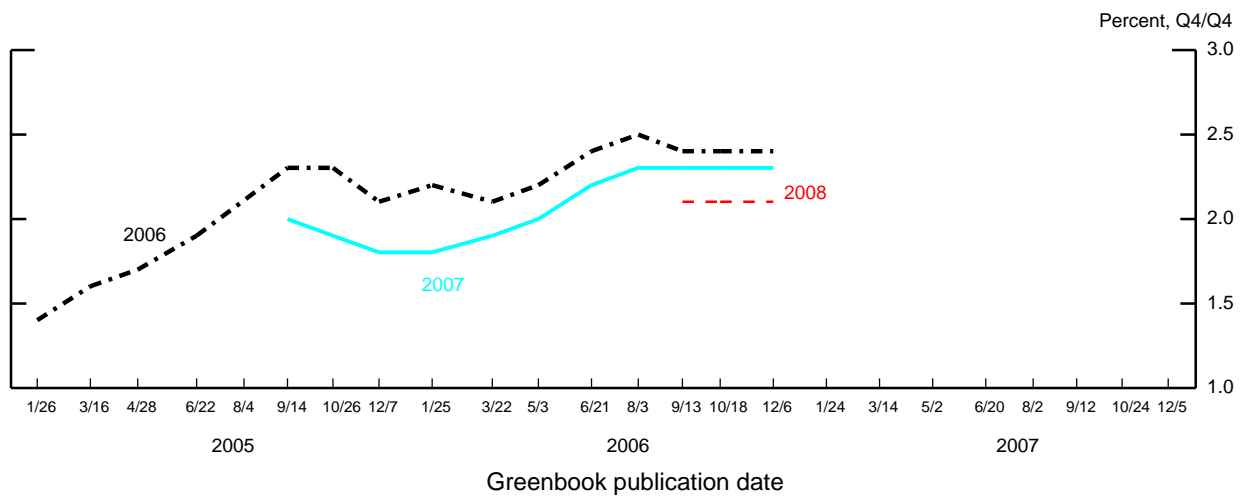
Change in Real GDP



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	
	10/18/06	12/06/06	10/18/06	12/06/06	10/18/06	12/06/06	10/18/06	12/06/06	10/18/06	12/06/06
<i>Quarterly</i>										
2006:Q1	9.0	9.0	5.6	5.6	2.0	2.0	2.1	2.1	4.7	4.7
Q2	5.9	5.9	2.6	2.6	4.0	4.0	2.7	2.7	4.7	4.7
Q3	2.8	3.8	1.0	2.0	2.4	2.4	2.2	2.2	4.7	4.7
Q4	4.0	2.9	2.3	1.3	-8	-5	2.4	2.6	4.7	4.5
2007:Q1	5.1	5.2	2.1	1.7	3.3	3.7	2.4	2.4	4.8	4.6
Q2	4.9	4.7	2.1	2.2	2.7	2.6	2.3	2.3	5.0	4.8
Q3	4.9	4.9	2.2	2.4	2.5	2.5	2.2	2.3	5.0	4.9
Q4	4.8	4.7	2.3	2.4	2.3	2.3	2.2	2.3	5.1	5.0
2008:Q1	5.2	5.1	2.5	2.5	2.2	2.2	2.2	2.2	5.1	5.0
Q2	5.1	5.0	2.5	2.5	2.1	2.1	2.1	2.1	5.1	5.0
Q3	5.0	4.9	2.5	2.5	2.1	2.1	2.1	2.1	5.1	5.1
Q4	4.9	4.8	2.5	2.5	2.0	2.0	2.1	2.1	5.1	5.1
<i>Two-quarter²</i>										
2006:Q2	7.5	7.5	4.1	4.1	3.0	3.0	2.4	2.4	-3	-3
Q4	3.4	3.3	1.6	1.7	.8	1.0	2.3	2.4	.0	-2
2007:Q2	5.0	5.0	2.1	2.0	3.0	3.1	2.4	2.4	.3	.3
Q4	4.8	4.8	2.3	2.4	2.4	2.4	2.3	2.3	.1	.2
2008:Q2	5.2	5.1	2.5	2.5	2.2	2.2	2.2	2.2	.0	.0
Q4	4.9	4.8	2.5	2.5	2.1	2.0	2.1	2.1	.0	.1
<i>Four-quarter³</i>										
2005:Q4	6.4	6.4	3.1	3.1	3.1	3.1	2.1	2.1	-4	-4
2006:Q4	5.4	5.4	2.8	2.9	1.9	2.0	2.4	2.4	-3	-5
2007:Q4	4.9	4.9	2.2	2.2	2.7	2.8	2.3	2.3	.4	.5
2008:Q4	5.0	4.9	2.5	2.5	2.1	2.1	2.1	2.1	.0	.1
<i>Annual</i>										
2005	6.3	6.3	3.2	3.2	2.9	2.9	2.1	2.1	5.1	5.1
2006	6.2	6.3	3.2	3.3	2.8	2.8	2.3	2.3	4.7	4.6
2007	4.6	4.5	2.0	1.9	2.2	2.3	2.4	2.4	5.0	4.8
2008	5.0	4.9	2.4	2.5	2.2	2.2	2.2	2.2	5.1	5.0

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

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

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

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

Item	2006				2007				2008				2006 ¹	2007 ¹	2008 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous</i>	5.6	2.6	2.0	1.3	1.7	2.2	2.4	2.4	2.5	2.5	2.5	2.5	2.9	2.2	2.5
Final sales <i>Previous</i>	5.6	2.6	1.0	2.3	2.1	2.1	2.2	2.3	2.5	2.5	2.5	2.5	2.8	2.2	2.5
Priv. dom. final purch. <i>Previous</i>	5.6	2.1	1.9	2.2	1.4	2.5	2.7	2.0	2.2	2.8	2.8	2.1	3.0	2.1	2.5
	5.6	2.1	1.6	2.3	1.6	2.5	2.5	1.9	2.2	2.6	2.6	2.0	2.9	2.1	2.3
	5.5	1.8	2.0	1.2	1.3	2.0	2.4	2.5	2.7	2.7	2.7	2.8	2.6	2.0	2.7
	5.5	1.8	2.3	1.7	1.6	2.3	2.4	2.6	2.9	2.8	2.9	2.8	2.8	2.2	2.9
Personal cons. expend. <i>Previous</i>	4.8	2.6	2.9	3.1	2.7	2.3	2.4	2.4	2.6	2.6	2.6	2.6	3.3	2.5	2.6
Durables	4.8	2.6	2.9	3.1	2.6	2.6	2.6	2.6	2.8	2.7	2.8	2.8	3.3	2.6	2.8
Nondurables	19.8	-1	6.0	4.4	4.5	2.8	3.5	3.3	4.2	4.1	4.1	4.1	7.3	3.5	4.2
Services	5.9	1.4	1.1	3.2	2.5	2.8	2.8	2.8	2.9	2.9	2.9	2.9	2.9	2.7	2.9
	1.6	3.7	3.1	2.8	2.4	2.1	2.1	2.1	2.2	2.2	2.2	2.2	2.8	2.1	2.2
Residential investment <i>Previous</i>	-3	-11.1	-18.7	-23.8	-20.3	-7.2	-1.5	.0	-1.3	.8	1.8	4.5	-13.9	-7.6	1.4
	-3	-11.1	-18.8	-20.8	-17.2	-7.5	-4.3	-1.1	1.4	1.5	2.9	3.2	-13.1	-7.7	2.2
Business fixed invest. <i>Previous</i>	13.7	4.4	9.4	4.1	3.9	4.3	3.7	3.9	4.8	4.2	3.9	3.6	7.8	3.9	4.1
Equipment & software <i>Previous</i>	13.7	4.4	12.0	5.8	4.9	4.8	4.1	3.9	4.6	3.7	3.5	3.2	8.9	4.4	3.8
	15.6	-1.4	7.2	3.0	2.8	4.0	3.7	4.3	6.0	5.4	5.5	5.3	5.9	3.7	5.6
	15.6	-1.4	8.1	2.5	3.3	4.6	4.3	4.5	6.1	4.9	5.1	4.9	6.0	4.1	5.3
Nonres. structures <i>Previous</i>	8.7	20.3	14.8	6.6	6.2	4.8	3.7	3.0	2.1	1.8	.6	.0	12.5	4.4	1.1
	8.7	20.3	21.8	13.7	8.6	5.2	3.7	2.7	1.7	1.2	.5	-2	16.0	5.1	.8
Net exports ² <i>Previous</i> ²	-637	-624	-629	-615	-624	-617	-609	-624	-637	-633	-631	-650	-626	-619	-638
Exports	-637	-624	-639	-631	-641	-638	-634	-653	-670	-671	-673	-695	-633	-642	-677
Imports	14.0	6.2	6.3	5.4	5.5	5.6	5.4	5.3	5.4	5.6	5.6	5.7	7.9	5.4	5.6
	9.1	1.4	5.3	.7	5.6	2.2	2.2	6.8	6.4	3.1	3.5	7.8	4.1	4.2	5.1
Govt. cons. & invest. <i>Previous</i>	4.9	.8	2.0	3.4	2.9	2.6	2.0	2.0	2.0	2.0	1.8	1.8	2.8	2.4	1.9
Federal	4.9	.8	.8	3.0	3.1	2.1	1.7	1.5	1.2	1.2	1.2	1.2	2.4	2.1	1.2
Defense	8.8	-4.5	1.5	4.2	3.6	2.7	1.4	1.4	1.4	1.4	1.4	1.4	2.4	2.3	1.4
Nondefense	8.9	-2.0	-1.1	8.2	5.4	4.0	2.0	2.0	2.0	2.0	2.0	2.0	3.4	3.3	2.0
State & local	8.5	-9.3	6.8	-3.6	.0	.0	.0	.0	.0	.0	.0	.0	.3	.0	.0
	2.7	4.0	2.4	3.0	2.5	2.5	2.3	2.3	2.3	2.3	2.0	2.0	3.0	2.4	2.2
Change in bus. inventories ² <i>Previous</i> ²	41	54	57	31	40	34	27	40	49	40	34	45	46	35	42
Nonfarm ²	41	54	35	35	47	37	29	42	53	51	48	65	41	39	54
Farm ²	37	52	55	33	42	33	26	40	49	40	33	45	44	35	42
	4	2	2	-1	-0	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.

Class II FOMC
Restricted (FR)

December 6, 2006

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

Item	2000 ¹	2001 ¹	2002 ¹	2003 ¹	2004 ¹	2005 ¹	2006 ¹	2007 ¹	2008 ¹
Real GDP <i>Previous</i>	2.2 2.2	.2 .2	1.9 1.9	3.7 3.7	3.4 3.4	3.1 3.1	2.9 2.8	2.2 2.2	2.5 2.5
Final sales <i>Previous</i>	2.9	1.5	.8	3.7	3.1	3.2	3.0	2.1	2.5
Priv. dom. final purch. <i>Previous</i>	2.9	1.5	.8	3.7	3.1	3.2	2.9	2.1	2.3
	4.3	1.0	1.1	4.1	4.4	3.6	2.6	2.0	2.7
	4.3	1.0	1.1	4.1	4.4	3.6	2.8	2.2	2.9
Personal cons. expend. <i>Previous</i>	4.1	2.8	1.9	3.4	4.0	2.9	3.3	2.5	2.6
	4.1	2.8	1.9	3.4	4.0	2.9	3.3	2.6	2.8
Durables	4.7	10.8	1.2	8.3	5.6	2.5	7.3	3.5	4.2
Nondurables	3.0	1.9	2.1	3.9	3.8	4.4	2.9	2.7	2.9
Services	4.5	1.6	1.9	2.2	3.7	2.3	2.8	2.1	2.2
Residential investment <i>Previous</i>	-1.9 -1.9	1.4 1.4	7.0 7.0	11.7 11.7	6.1 6.1	9.0 9.0	-13.9 -13.1	-7.6 -7.7	1.4 2.2
Business fixed invest. <i>Previous</i>	7.8	-9.6	-6.5	4.9	6.9	5.6	7.8	3.9	4.1
	7.8	-9.6	-6.5	4.9	6.9	5.6	8.9	4.4	3.8
Equipment & software <i>Previous</i>	7.5	-9.0	-3.4	6.6	8.3	7.0	5.9	3.7	5.6
	7.5	-9.0	-3.4	6.6	8.3	7.0	6.0	4.1	5.3
Nonres. structures <i>Previous</i>	8.8	-11.1	-14.9	.2	2.7	1.8	12.5	4.4	1.1
	8.8	-11.1	-14.9	.2	2.7	1.8	16.0	5.1	.8
Net exports ² <i>Previous</i> ²	-379 -379	-399 -399	-471 -471	-519 -519	-591 -591	-619 -619	-626 -633	-619 -642	-638 -677
Exports	6.5	-11.9	3.8	5.8	7.0	6.7	7.9	5.4	5.6
Imports	11.2	-7.6	9.7	4.8	10.6	5.2	4.1	4.2	5.1
Govt. cons. & invest. <i>Previous</i>	.4 .4	5.0 5.0	4.0 4.0	1.7 1.7	1.1 1.1	1.2 1.2	2.8 2.4	2.4 2.1	1.9 1.2
Federal	-2.2	6.4	7.8	5.5	2.3	2.1	2.4	2.3	1.4
Defense	-3.5	6.5	8.4	7.5	2.5	1.9	3.4	3.3	2.0
Nondefense	.3	6.3	6.8	1.9	1.8	2.4	.3	.0	.0
State & local	1.7	4.2	2.1	-.4	.4	.8	3.0	2.4	2.2
Change in bus. inventories ² <i>Previous</i> ²	56 56	-32 -32	12 12	14 14	53 53	20 20	46 41	35 39	42 54
Nonfarm ²	58	-32	15	14	47	20	44	35	42
Farm ²	-1	0	-2	0	6	0	2	1	1

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

2. Billions of chained (2000) dollars.

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

Item	2006				2007				2008				2006 ¹	2007 ¹	2008 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous</i>	5.6	2.6	2.0	1.3	1.7	2.2	2.4	2.4	2.5	2.5	2.5	2.5	2.9	2.2	2.5
Final sales <i>Previous</i>	5.6	2.6	1.0	2.3	2.1	2.1	2.2	2.3	2.5	2.5	2.5	2.5	2.8	2.2	2.5
Priv. dom. final purch. <i>Previous</i>	5.6	2.1	1.9	2.2	1.4	2.5	2.6	2.0	2.2	2.8	2.7	2.1	3.0	2.1	2.5
Personal cons. expend. <i>Previous</i>	5.6	2.1	1.6	2.3	1.6	2.5	2.5	1.9	2.0	2.6	2.6	2.0	2.9	2.1	2.3
Durables	4.7	1.5	1.7	1.1	1.1	1.7	2.0	2.1	2.3	2.3	2.3	2.4	2.3	1.7	2.3
Nondurables	4.7	1.5	2.0	1.5	1.4	2.0	2.1	2.2	2.5	2.4	2.5	2.4	2.4	1.9	2.5
Services															
Personal cons. expend. <i>Previous</i>	3.4	1.8	2.0	2.1	1.9	1.6	1.7	1.7	1.8	1.8	1.8	1.8	2.3	1.7	1.8
Durables	3.4	1.8	2.0	2.1	1.8	1.9	1.9	1.9	2.0	1.9	1.9	1.9	2.3	1.9	1.9
Nondurables	1.5	.0	.5	.3	.4	.2	.3	.3	.3	.3	.3	.3	.6	.3	.3
Services	1.2	.3	.2	.7	.5	.6	.6	.6	.6	.6	.6	.6	.6	.6	.6
Residential investment <i>Previous</i>	.7	1.5	1.3	1.1	1.0	.9	.9	.9	.9	.9	.9	.9	1.2	.9	.9
Residential investment <i>Previous</i>	.0	.7	-1.2	-1.5	-1.2	-.4	-1	.0	-1	.0	.1	.2	-.9	-.4	.1
Business fixed invest. <i>Previous</i>	.0	-.7	-1.2	-1.3	-1.0	-.4	-2	-.1	.1	.1	.1	.2	-.8	-.4	.1
Equipment & software <i>Previous</i>	1.4	.5	1.0	.4	.4	.5	.4	.4	.5	.5	.4	.4	.8	.4	.4
Nonres. structures <i>Previous</i>	1.4	.5	1.2	.6	.5	.5	.4	.4	.5	.4	.4	.4	.9	.5	.4
Net exports <i>Previous</i>	1.1	-1	.5	.2	.2	.3	.3	.3	.4	.4	.4	.4	.4	.3	.4
Exports	1.1	-1	.6	.2	.2	.3	.3	.3	.4	.4	.4	.4	.4	.3	.4
Imports	.3	.6	.4	.2	.2	.2	.1	.1	.1	.1	.0	.0	.4	.1	.0
Govt. cons. & invest. <i>Previous</i>	.3	.6	.6	.4	.3	.2	.1	.1	.1	.0	.0	.0	.5	.2	.0
Net exports <i>Previous</i>	.0	.4	-2	.5	-.3	.3	.2	-.5	-.5	.1	.1	-.6	.2	-.1	-.2
Exports	.0	.4	-6	.3	-.4	.1	.1	-.7	-.6	.0	-.1	-.7	.0	-.2	-.4
Imports	1.4	.7	.7	.6	.6	.6	.6	.6	.6	.6	.6	.7	.8	.6	.6
Govt. cons. & invest. <i>Previous</i>	-1.5	-2	-9	-1	-.9	-.4	-.4	-1.1	-1.1	-.5	-.6	-1.3	-.7	-.7	-.9
Federal	.9	.2	.4	.6	.6	.5	.4	.4	.4	.4	.3	.3	.5	.5	.4
Defense	.9	.2	.2	.6	.6	.4	.3	.3	.2	.2	.2	.2	.5	.4	.2
Nondefense	.6	-.3	.1	.3	.2	.2	.1	.1	.1	.1	.1	.1	.2	.2	.1
State & local	.4	-1	-1	.4	.2	.2	.1	.1	.1	.1	.1	.1	.2	.2	.1
Change in bus. inventories <i>Previous</i>	.2	-.2	.2	-1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
Nonfarm	.3	.5	.3	.4	.3	.3	.3	.3	.3	.3	.2	.2	.4	.3	.3
Farm	.0	.4	.1	-.9	.3	-.2	-.2	.5	.3	-.3	-.2	.4	-.1	.1	.0
Change in bus. inventories <i>Previous</i>	.0	.4	-.7	.0	.4	-.4	-.3	.5	.4	-.1	-.1	.6	-.1	.1	.2
Nonfarm	.0	.5	.1	-.8	.3	-.3	-.2	.5	.3	-.3	-.2	.4	.0	.1	.0
Farm	.0	-.1	.0	-.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.

Class II FOMC
Restricted (FR)

December 6, 2006

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

Item	2006				2007				2008				2006 ¹	2007 ¹	2008 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP chain-wt. price index <i>Previous</i>	3.3	3.3	1.8	1.5	3.5	2.4	2.4	2.3	2.5	2.4	2.3	2.2	2.5	2.6	2.4
PCE chain-wt. price index <i>Previous</i>	3.3	3.3	1.8	1.6	3.0	2.7	2.6	2.4	2.6	2.5	2.4	2.3	2.5	2.7	2.5
Energy <i>Previous</i>	2.0	4.0	2.4	-5	3.7	2.6	2.5	2.3	2.2	2.1	2.1	2.0	2.0	2.8	2.1
Food <i>Previous</i>	2.0	4.0	2.4	-8	3.3	2.7	2.5	2.3	2.2	2.1	2.1	2.0	1.9	2.7	2.1
Ex. food & energy <i>Previous</i>	.1	29.7	3.7	-38.9	26.2	5.9	4.7	2.8	1.9	1.3	.8	.4	-4.7	9.5	1.1
CPI <i>Previous</i>	.1	29.7	3.5	-41.6	19.9	8.0	5.4	3.4	2.4	1.7	1.1	.5	-5.9	9.0	1.4
Ex. food & energy <i>Previous</i>	2.7	1.7	2.9	2.9	2.7	2.4	2.4	2.4	2.4	2.4	2.3	2.3	2.6	2.5	2.3
ECL, hourly compensation ² <i>Previous</i> ²	2.7	1.7	2.9	2.7	2.4	2.4	2.4	2.3	2.3	2.3	2.2	2.2	2.5	2.4	2.2
Nonfarm business sector Output per hour <i>Previous</i>	2.1	2.7	2.2	2.6	2.4	2.3	2.3	2.3	2.2	2.1	2.1	2.1	2.4	2.3	2.1
Compensation per hour <i>Previous</i>	2.1	2.7	2.2	2.4	2.4	2.3	2.3	2.2	2.2	2.1	2.1	2.1	2.4	2.3	2.1
Unit labor costs <i>Previous</i>	2.2	4.9	3.0	-1.9	4.3	2.9	2.7	2.5	2.3	2.3	2.2	2.1	2.0	3.1	2.2
	2.2	4.9	3.0	-1.9	3.8	2.9	2.7	2.5	2.4	2.3	2.1	2.1	2.0	3.0	2.2
	2.4	3.6	3.0	2.3	2.7	2.6	2.5	2.5	2.4	2.4	2.3	2.3	2.8	2.5	2.3
	2.4	3.6	3.0	2.9	2.6	2.5	2.5	2.4	2.4	2.4	2.3	2.3	2.9	2.5	2.3
	2.4	3.2	3.6	3.8	4.0	4.1	4.1	4.1	4.1	4.1	4.1	4.1	3.2	4.1	4.1
	2.4	3.2	3.6	3.8	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.2	4.0	4.0
Nonfarm business sector Output per hour <i>Previous</i>	4.3	1.2	.0	-.5	1.9	2.8	2.9	2.9	2.7	2.7	2.6	2.6	1.2	2.6	2.7
Compensation per hour <i>Previous</i>	4.3	1.2	-.8	2.4	2.4	2.4	2.5	2.6	2.7	2.7	2.7	2.6	1.7	2.5	2.7
Unit labor costs <i>Previous</i>	13.7	-1.2	2.6	4.9	5.0	5.2	5.1	5.0	5.0	5.2	5.0	4.9	4.9	5.1	5.0
	13.7	6.7	1.3	4.7	5.2	5.2	5.1	5.1	5.0	5.0	4.9	4.9	6.5	5.1	4.9
Unit labor costs <i>Previous</i>	9.0	-2.4	2.6	5.5	3.0	2.3	2.1	2.0	2.2	2.4	2.3	2.2	3.6	2.4	2.3
	9.0	5.4	2.1	2.3	2.8	2.7	2.5	2.4	2.2	2.2	2.2	2.2	4.7	2.6	2.2

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

2. Private-industry workers.

Other Macroeconomic Indicators

Item	2006				2007				2008				2006 ¹	2007 ¹	2008 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Employment and production</i>															
Nonfarm payroll employment ²	.6	.4	.4	.4	.3	.2	.2	.2	.2	.2	.2	.2	1.8	.9	.7
Unemployment rate ³	4.7	4.7	4.7	4.5	4.6	4.8	4.9	5.0	5.0	5.0	5.1	5.1	4.5	5.0	5.1
<i>Previous³</i>	4.7	4.7	4.7	4.7	4.8	5.0	5.0	5.1	5.1	5.1	5.1	5.1	4.7	5.1	5.1
GDP gap ⁴	.7	.6	.5	.1	-1	-2	-2	-3	-3	-3	-3	-3	.1	-3	-3
<i>Previous⁴</i>	.7	.6	.2	.1	.0	-2	-3	-4	-4	-4	-4	-4	.1	-4	-4
Industrial production ⁵	5.1	6.6	4.2	.7	2.8	3.4	3.3	3.3	4.0	3.6	3.7	3.2	4.1	3.2	3.6
<i>Previous⁵</i>	5.1	6.6	3.6	1.0	3.5	3.3	3.6	2.9	3.6	3.4	3.5	2.7	4.1	3.3	3.3
Manufacturing industr. prod. ⁵	5.3	5.1	4.5	.1	3.0	3.7	3.4	3.8	4.3	4.0	3.9	4.0	3.7	3.5	4.1
<i>Previous⁵</i>	5.3	5.1	3.8	2.0	3.6	3.4	3.6	3.4	3.8	3.8	3.8	3.3	4.0	3.5	3.7
Capacity utilization rate - mfg. ³	80.3	80.8	81.2	80.7	80.8	80.9	80.9	80.9	81.1	81.2	81.3	81.4	80.7	80.9	81.4
<i>Previous³</i>	80.3	80.8	81.1	81.0	81.1	81.2	81.2	81.2	81.2	81.3	81.3	81.3	81.0	81.2	81.3
Housing starts ⁶	2.1	1.9	1.7	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.8	1.5	1.6
Light motor vehicle sales ⁶	16.9	16.3	16.6	16.1	16.4	16.4	16.5	16.5	16.5	16.6	16.6	16.6	16.5	16.4	16.6
<i>Income and saving</i>															
Nominal GDP ⁵	9.0	5.9	3.8	2.9	5.2	4.7	4.9	4.7	5.1	5.0	4.9	4.8	5.4	4.9	4.9
Real disposable pers. income ⁵	4.6	-1.5	3.7	5.3	3.5	2.7	3.2	3.3	4.3	3.2	3.5	3.4	3.0	3.2	3.6
<i>Previous⁵</i>	4.6	1.7	2.3	5.9	3.1	2.8	3.7	3.6	4.3	3.0	3.4	3.1	3.6	3.3	3.5
Personal saving rate ³	-3	-1.4	-1.3	-7	-5	-4	-2	.0	.4	.6	.8	1.0	-.7	.0	1.0
<i>Previous³</i>	-3	-.6	-.7	.0	.1	.2	.4	.7	1.0	1.1	1.3	1.4	.0	.7	1.4
Corporate profits ⁷	60.8	5.9	15.7	-8.6	4.0	.2	1.8	-.9	1.3	.4	-.5	-.7	15.8	1.3	.1
Profit share of GNP ³	12.0	12.0	12.4	12.0	12.0	11.9	11.8	11.6	11.5	11.4	11.3	11.1	12.0	11.6	11.1
Net federal saving ⁸	-147	-163	-172	-199	-226	-233	-239	-254	-286	-285	-282	-292	-170	-238	-286
Net state & local saving ⁸	13	26	-2	4	-3	-3	-13	-16	-14	-14	-22	-24	10	-9	-19
Gross national saving rate ³	14.4	13.5	13.5	13.4	13.2	13.1	13.1	13.0	13.0	13.0	13.0	13.0	13.4	13.0	13.0
Net national saving rate ³	2.9	1.9	2.0	2.0	1.8	1.7	1.7	1.6	1.6	1.7	1.7	1.6	2.0	1.6	1.6

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

2. Change, millions.

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

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

5. Percent change, annual rate.

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

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

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

**Class II FOMC
Restricted (FR)**

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

December 6, 2006

Item	Fiscal year				2006				2007				2008				
	2005 ^a	2006 ^a	2007	2008	Q1 ^a	Q2 ^a	Q3 ^a	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Unified budget	Not seasonally adjusted																
	Receipts ¹	2154	2407	2526	2653	507	772	597	581	526	814	606	602	558	857	635	622
	Outlays ¹	2473	2655	2774	2937	691	676	639	682	726	696	670	736	746	734	721	769
	Surplus/deficit ¹	319	-248	-247	-285	-184	96	-42	-102	-200	118	-64	-134	-188	123	-86	-147
	<i>Previous</i>	-319	-248	-254	-282	-183	97	-42	-111	-191	113	-65	-144	-183	127	-83	-154
	On-budget	143	-435	-434	-486	-216	11	-60	-164	-223	30	-77	-201	-212	28	-100	-220
	Off-budget	175	186	186	201	32	85	19	63	23	88	13	68	24	95	14	74
	Means of financing																
	Borrowing	297	237	227	291	156	-75	43	65	179	-89	72	124	167	-94	95	137
	Cash decrease	1	-16	17	0	28	-38	-6	27	15	-25	0	10	15	-25	0	10
Other ²	22	28	3	-7	-1	16	5	10	6	-4	-8	-0	6	-4	-8	-0	
Cash operating balance, end of period	36	52	35	35	8	46	52	25	10	35	35	25	10	35	35	25	
NIPA federal sector	Seasonally adjusted annual rates																
	Receipts	2174	2481	2606	2715	2491	2523	2560	2558	2597	2621	2647	2673	2701	2730	2758	2786
	Expenditures	2509	2667	2830	2992	2638	2686	2732	2757	2823	2854	2886	2927	2986	3015	3040	3077
	Consumption expenditures	758	796	840	883	804	802	809	816	839	849	856	864	882	890	898	905
	Defense	509	533	567	600	538	538	539	548	566	574	580	586	599	605	611	617
	Nondefense	249	264	273	283	266	265	270	268	273	275	276	278	283	285	286	288
	Other spending	1751	1871	1990	2109	1834	1884	1923	1940	1984	2005	2030	2063	2104	2125	2143	2172
	Current account surplus	-335	-186	-224	-277	-147	-163	-172	-199	-225	-233	-238	-254	-286	-285	-282	-291
	Gross investment	107	117	125	129	118	117	118	122	124	126	127	128	129	130	131	132
	Gross saving less gross investment ³	-344	-201	-240	-293	-163	-177	-185	-214	-242	-250	-255	-271	-302	-300	-298	-306
Fiscal indicators ⁴																	
	High-employment (HEB) surplus/deficit	-336	-221	-246	-282	-188	-206	-209	-232	-249	-250	-250	-263	-291	-289	-285	-293
	Change in HEB, percent of potential GDP	-0.3	-1.0	0.1	0.2	-0.7	0.1	0.0	0.2	0.1	-0.0	-0.0	0.1	0.2	-0.0	-0.0	0.0
	Fiscal impetus (FI), percent of GDP	0.2	0.3	0.3	0.1	0.2	-0.0	0.0	0.1	0.2	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0
	<i>Previous</i>	0.2	0.3	0.3	-0.0	0.2	-0.0	0.1	0.1	0.2	0.0	-0.0	0.0	-0.0	-0.0	-0.0	-0.0

1. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus and the Postal Service surplus are excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.
2. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.
3. Gross saving is the current account surplus plus consumption of fixed capital of the general government as well as government enterprises.
4. HEB is gross saving less gross investment (NIPA) of the federal government in current dollars, with cyclically sensitive receipts and outlays adjusted to the staff's measure of potential output and the NAIRU. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (2000) dollars, scaled by real GDP. The annual FI estimates are on a calendar year basis. Also, for FI and the change in HEB, positive values indicate aggregate demand stimulus.

a--Actual

Class II FOMC Restricted (FR) **Change in Debt of the Domestic Nonfinancial Sectors** **December 6, 2006**
(Percent)

Period ¹	Total	Households			Business	State and local governments	Federal government	Memo: Nominal GDP
		Total	Home mortgages	Consumer credit				
<i>Year</i>								
2001	6.3	9.3	10.1	8.6	6.0	8.8	-2	2.7
2002	7.2	10.6	12.9	6.0	2.5	11.0	7.6	3.6
2003	8.2	11.6	14.3	5.2	2.7	8.3	10.9	5.9
2004	9.0	11.6	14.1	5.5	5.9	7.4	9.0	6.7
2005	9.5	11.7	13.8	4.1	7.8	10.2	7.0	6.4
2006	7.5	8.2	8.7	5.0	8.6	7.1	4.0	5.4
2007	6.4	6.0	6.4	4.1	7.3	5.6	5.8	4.9
2008	6.1	5.8	6.4	3.4	6.8	5.3	5.9	4.9
<i>Quarter</i>								
2006:1	9.5	9.7	10.9	2.1	9.6	3.5	11.3	9.0
2	6.7	9.2	9.1	6.7	8.4	6.6	-2.4	5.9
3	6.7	6.8	7.2	5.7	7.7	9.3	3.3	3.8
4	6.4	6.3	6.5	5.1	7.6	8.4	3.8	2.9
2007:1	7.5	5.9	6.3	4.4	7.6	4.0	12.7	5.2
2	4.7	5.9	6.3	4.3	7.2	6.1	-3.4	4.7
3	6.2	5.8	6.3	3.9	7.1	6.0	5.5	4.9
4	6.5	5.7	6.3	3.6	6.7	5.9	8.2	4.7
2008:1	6.9	5.7	6.3	3.4	6.5	5.3	11.1	5.1
2	4.4	5.7	6.3	3.4	6.7	5.2	-3.7	5.0
3	6.1	5.7	6.3	3.3	6.6	5.1	6.9	4.9
4	6.4	5.7	6.2	3.4	6.6	5.1	8.8	4.8

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2006: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 6, 2006

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

Category	2005	2006	2007	2008	2006			2007			2008				
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Domestic nonfinancial sectors															
Net funds raised															
Total	1950.7	1411.2	1539.4	1620.0	1268.1	1192.2	1802.9	1096.4	1558.7	1699.7	1855.2	1117.8	1692.2	1814.8	
Net equity issuance	-363.4	-595.1	-280.0	-232.0	-579.6	-616.0	-340.0	-280.0	-260.0	-240.0	-232.0	-232.0	-232.0	-232.0	
Net debt issuance	2314.1	2006.3	1819.4	1852.0	1847.7	1808.2	2142.9	1376.4	1818.7	1939.7	2087.2	1349.8	1924.2	2046.8	
Borrowing indicators															
Debt (percent of GDP) ¹	204.6	208.9	213.7	216.4	209.9	211.9	212.8	213.6	213.9	214.8	215.7	216.0	216.3	217.1	
Borrowing (percent of GDP)	18.6	15.2	13.2	12.8	13.9	13.5	15.8	10.0	13.1	13.8	14.6	9.4	13.2	13.9	
Households															
Net borrowing ²	1238.6	969.5	761.6	783.6	841.6	786.1	758.7	762.4	760.9	764.3	769.1	778.9	787.6	798.9	
Home mortgages	1077.7	773.2	621.7	658.4	672.7	620.6	611.1	615.8	625.3	634.8	644.2	653.7	663.2	672.7	
Consumer credit	91.3	116.0	100.8	86.8	135.8	122.6	107.1	107.3	97.1	91.7	87.0	87.0	85.9	87.4	
Debt/DPI (percent) ³	123.7	128.9	130.5	130.5	130.0	130.6	130.3	130.5	130.5	130.6	130.4	130.5	130.5	130.6	
Business															
Financing gap ⁴	-138.6	31.5	78.5	164.5	27.8	28.5	56.8	68.4	76.6	112.2	143.4	151.5	165.4	197.9	
Net equity issuance	-363.4	-595.1	-280.0	-232.0	-579.6	-616.0	-340.0	-280.0	-260.0	-240.0	-232.0	-232.0	-232.0	-232.0	
Credit market borrowing	597.3	715.0	660.0	653.3	669.8	675.6	682.0	664.6	659.0	634.3	632.1	654.5	659.9	666.6	
State and local governments															
Net borrowing	171.3	131.9	112.2	110.8	176.3	162.5	80.4	122.8	122.8	122.8	110.8	110.8	110.8	110.8	
Current surplus ⁵	203.8	206.2	171.8	169.8	178.9	179.6	174.6	176.5	168.3	167.8	171.0	173.8	167.3	167.2	
Federal government															
Net borrowing	306.9	189.9	285.7	304.4	160.1	184.0	621.9	-173.4	276.0	418.4	575.2	-194.3	366.0	470.6	
Net borrowing (n.s.a.)	306.9	189.9	285.7	304.4	43.4	65.1	178.7	-89.1	72.3	123.7	167.0	-94.3	94.9	136.8	
Unified deficit (n.s.a.)	321.8	230.3	279.5	297.8	41.7	101.5	199.9	-118.0	64.0	133.6	188.0	-123.3	86.5	146.7	
Depository institutions															
Funds supplied	814.1	640.5	508.4	386.9	404.0	150.9	584.1	534.8	565.2	349.6	360.3	401.2	413.4	372.9	

Note. Data after 2006: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.

International Developments

The most notable international development to affect the outlook since the time of the October Greenbook has been a decline in the foreign exchange value of the dollar. Over the intermeeting period, the nominal trade-weighted dollar has fallen 2 percent, with most of that depreciation occurring against the major foreign currencies. As in previous forecasts, we project that investor concerns relating to the financing of the current account deficit will lead to a further decline in the dollar over the forecast period. This decline is a little slower than in the previous projection, as U.S. market interest rates rise more steeply, albeit from lower levels, than in our October forecast.

We estimate that real net exports will make a small positive contribution to the growth of real GDP in 2006, as incoming data have led us to mark up the contribution in the second half of this year by ¼ percentage point. The lower path of the dollar has led us to temper somewhat the decline in real net exports over the forecast period. We now project that the external sector will subtract 0.1 percentage point from GDP growth in 2007 and 0.2 percentage point in 2008. As in previous forecasts, the current account deficit is projected to widen to more than \$1 trillion by the end of 2008, or about 7 percent of GDP. The deterioration in the current account balance reflects a widening of the trade deficit as well as a sizable fall in net investment income receipts.

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

Indicator	2006		Projection			
	H1	Q3	2006: Q4	2007		2008
				H1	H2	
Foreign output	4.4	3.4	3.3	3.3	3.3	3.4
October GB	4.4	3.3	3.3	3.2	3.3	3.3
Foreign CPI	2.4	1.8	1.4	2.5	2.3	2.2
October GB	2.4	2.1	1.7	2.4	2.2	2.1

NOTE. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2.

Incoming data have reinforced our view that foreign economic activity has decelerated to a solid but more sustainable pace. We have nudged up our estimate of foreign GDP growth in the third quarter, as somewhat stronger-than-expected performance in the emerging market economies more than offset weaker growth in the advanced economies.

about flat, consistent with futures markets, and that the effects of earlier commodity price increases will diminish over the next several quarters. Compared with the October Greenbook, our projection of core import price inflation is 1 percentage point higher in the first half of 2007, reflecting the lower dollar, and ½ percentage point higher in the second half, owing to a slightly higher projected path for nonfuel commodity prices.

Staff Projections of Selected Trade Prices

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

Trade category	2006		Projection			
	H1	Q3	2006: Q4	2007		2008
				H1	H2	
<i>Exports</i>						
Core goods	5.3	5.8	-.2	3.9	1.5	1.2
October GB	5.3	6.0	2.7	3.0	1.4	1.2
<i>Imports</i>						
Core goods	2.7	4.2	2.0	2.8	1.5	1.0
October GB	2.7	4.2	3.3	1.7	1.0	1.0
Oil (dollars per barrel)	63.75	66.58	56.08	61.32	63.98	65.03
October GB	63.75	65.69	55.17	60.33	62.69	63.66

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

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

We estimate that core export prices fell ¼ percent at an annual rate in the current quarter after increasing 5¾ percent in the third quarter. Lower prices for petroleum products in September and October account for much of the decline. Export price inflation should bounce back in the first half of 2007 along with prices of petroleum products and agricultural goods. In subsequent quarters, we project that core export price inflation will decline as prices for intermediate materials and primary commodities decelerate. Compared with the previous Greenbook, core export price inflation is almost 3 percentage points lower in the fourth quarter because of a surprisingly large drop in October prices, concentrated in industrial supplies. However, for the first half of 2007, we have revised up core export price inflation almost 1 percentage point to reflect higher projected prices for agricultural goods.

Trade in Goods and Services

Incoming trade data and the lower path for the dollar have led us to revise up our projection for real net exports over the forecast period. In the third quarter, real net exports subtracted $\frac{1}{4}$ percentage point from the growth of real GDP, less than the $\frac{1}{2}$ percentage point subtraction projected in the October Greenbook. In the current quarter, we expect real net exports to add $\frac{1}{2}$ percentage point to real GDP growth as import growth slows sharply. Thereafter, the contribution turns negative again, with net exports subtracting about 0.1 percentage point from GDP growth in 2007 and 0.2 percentage point in 2008; although export growth is projected to exceed import growth, the higher level of imports results in a fall in net exports. Our projection for the contribution to GDP growth is about 0.1 percentage point more positive over the forecast period, largely as a result of the lower path for the dollar.

Real imports of goods and services increased $5\frac{1}{4}$ percent at an annual rate in the third quarter, as strong growth in imports of core goods more than offset a decline in imports of services. The third-quarter figure for total real import growth is about $2\frac{3}{4}$ percentage points lower than in the October Greenbook, as recent trade data came in below expectations. In the current quarter, we project that import growth will slow to $\frac{3}{4}$ percent, reflecting in large part a sharp drop in oil imports; less oil is expected to be imported in the near term as unusually high oil inventories are drawn down toward more normal levels. Also, following surprisingly strong growth in the third quarter, we expect core imports to decelerate to a rate consistent with the modest projected pace of U.S. GDP growth.

Staff Projections for Trade in Goods and Services

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

Measure	2006		Projection			
	H1	Q3	2006: Q4	2007		2008
				H1	H2	
Real exports	10.0	6.3	5.4	5.5	5.4	5.6
October GB	10.0	7.4	4.9	4.6	4.4	4.9
Real imports	5.2	5.3	.7	3.9	4.5	5.1
October GB	5.2	8.1	1.7	3.8	4.6	5.4

NOTE. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2.

premium shock in 2007:Q1 that would generate a 10 percent depreciation of the dollar in the absence of adjustment of domestic or foreign interest rates.

The decline in the dollar boosts U.S. real GDP growth 0.5 percentage point above baseline in 2007 and about 0.3 percentage point in 2008. Output rises because U.S. exports become more competitive abroad and because U.S. consumers substitute away from imports toward domestically produced goods. Core PCE price inflation increases about 0.2 percentage point above baseline in 2007, mainly because of higher import prices, and 0.1 percentage point in 2008 in response to higher resource utilization. With U.S. monetary policy responding according to a Taylor rule, the federal funds rate increases more than 100 basis points above its baseline level by the end of 2008. The nominal trade balance exhibits a J-curve effect, initially falling before rising about 0.4 percent of GDP above baseline in 2008.

**Alternative Simulation:
10 Percent Dollar Depreciation**

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

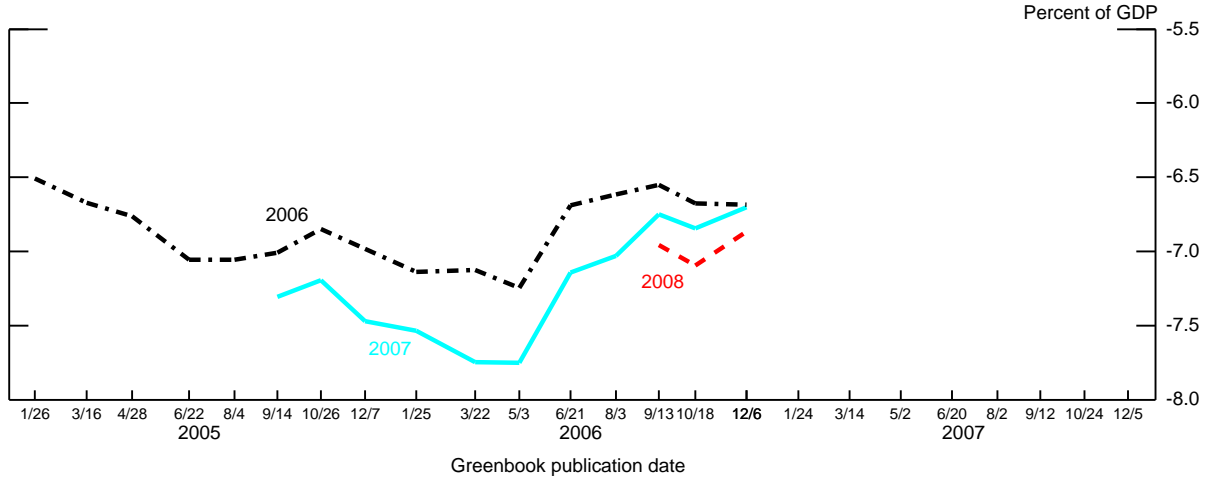
Indicator and simulation	2007		2008	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	2.0	2.4	2.5	2.5
Alternative	2.3	3.1	3.0	2.5
<i>U.S. core PCE inflation</i>				
Baseline	2.4	2.3	2.2	2.1
Alternative	2.7	2.4	2.3	2.2
<i>U.S. federal funds rate (percent)</i>				
Baseline	5.3	5.3	5.3	5.0
Alternative	5.7	6.2	6.4	6.2
<i>U.S. trade balance (percent of GDP)</i>				
Baseline	-5.7	-5.6	-5.7	-5.6
Alternative	-5.9	-5.5	-5.3	-5.2

NOTE. Half year changes are measured as Q2/Q4 or Q4/Q2. The federal funds rate is the average rate for the final quarter of the period. The monetary authorities in the United States and the major foreign economies adjust their policy rates according to Taylor rules.

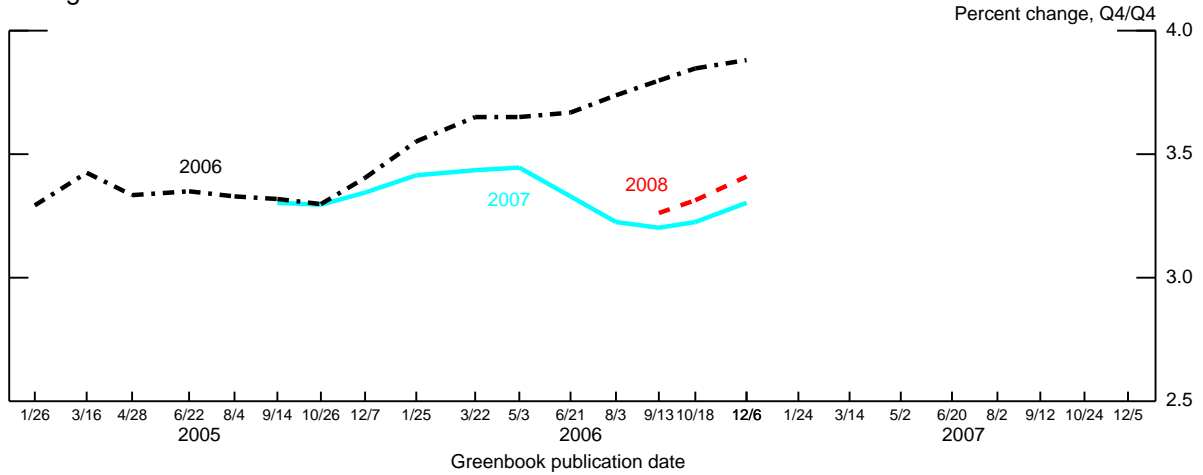
Class II FOMC -- Restricted (FR)

Evolution of the Staff Forecast

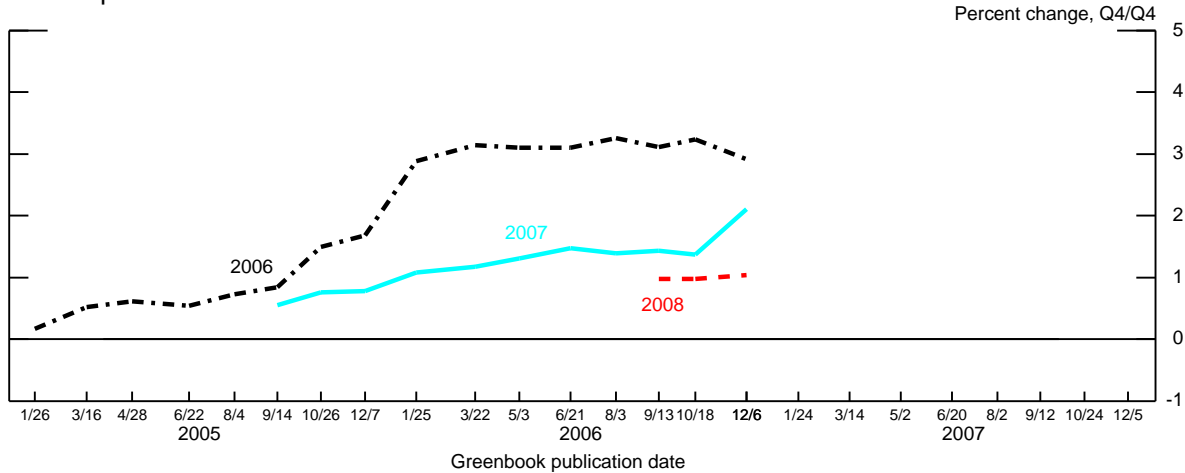
Current Account Balance



Foreign Real GDP



Core Import Prices*



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

Class II FOMC
Restricted (FR) December 6, 2006

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

Measure and country	2000	2001	2002	2003	2004	2005	2006	2007	2008
REAL GDP (1)									

Total foreign	4.2	0.4	3.0	3.0	3.8	3.8	3.9	3.3	3.4
Advanced Foreign Economies	3.6	0.9	2.5	1.8	2.5	2.7	2.6	2.3	2.4
of which:									
Canada	4.1	1.3	3.5	1.5	3.7	2.8	2.4	2.5	2.8
Japan	3.4	-1.5	2.0	2.8	0.4	4.1	2.3	2.0	1.6
United Kingdom	3.1	2.0	2.3	3.3	2.6	1.9	2.7	2.6	2.4
Euro Area (2)	3.3	1.0	1.1	1.0	1.5	1.8	3.0	1.7	1.8
Germany	2.3	1.1	0.0	0.2	0.2	1.7	3.5	1.3	1.6
Emerging Market Economies	5.2	-0.4	3.8	4.7	5.6	5.4	5.6	4.7	4.8
Asia	5.8	1.0	6.2	6.8	6.0	7.3	6.5	5.8	6.1
Korea	4.3	4.7	7.8	4.2	2.9	5.3	4.2	4.3	4.6
China	7.8	7.1	8.4	10.1	9.6	9.9	9.9	8.5	8.8
Latin America	4.4	-1.3	1.5	2.4	5.2	3.2	4.8	3.7	3.6
Mexico	4.8	-1.3	2.0	2.0	4.8	2.7	4.8	3.5	3.5
Brazil	3.8	-1.0	4.1	0.9	4.8	1.6	2.9	3.2	3.2
CONSUMER PRICES (3)									

Advanced Foreign Economies	1.9	0.9	2.1	1.3	1.8	1.5	1.4	1.8	1.6
of which:									
Canada	3.1	1.1	3.8	1.7	2.3	2.3	1.4	2.2	2.0
Japan	-0.5	-1.1	-0.5	-0.4	0.5	-1.0	0.4	0.5	0.7
United Kingdom (4)	0.9	1.1	1.5	1.3	1.4	2.1	2.8	2.1	1.8
Euro Area (2)	2.5	2.1	2.3	2.0	2.3	2.3	1.7	2.0	1.6
Germany	1.7	1.5	1.2	1.1	2.2	2.2	1.3	2.4	1.3
Emerging Market Economies	4.1	2.8	2.9	3.1	3.9	3.0	2.6	3.0	2.8
Asia	1.8	1.2	0.8	2.2	3.2	2.6	2.0	2.6	2.4
Korea	2.5	3.3	3.4	3.5	3.4	2.5	2.2	2.9	2.4
China	1.0	-0.1	-0.5	2.7	3.3	1.4	1.6	2.4	2.2
Latin America	8.4	5.3	6.4	4.9	5.7	3.8	4.1	3.8	3.7
Mexico	8.7	5.1	5.2	3.9	5.3	3.1	4.1	3.5	3.5
Brazil	6.4	7.5	10.7	11.5	7.2	6.1	3.1	3.7	3.7

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

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

Measure and country	2006				Projected 2007				2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	4.7	4.1	3.4	3.3	3.2	3.3	3.3	3.3	3.4	3.4	3.4	3.4
Advanced Foreign Economies	3.3	2.7	2.1	2.5	2.2	2.3	2.3	2.3	2.4	2.4	2.4	2.4
of which:												
Canada	3.8	2.0	1.7	2.2	2.4	2.4	2.5	2.6	2.8	2.8	2.8	2.8
Japan	3.2	1.5	2.0	2.5	2.2	2.0	1.8	1.8	1.7	1.6	1.6	1.5
United Kingdom	2.6	2.8	2.7	2.8	2.7	2.6	2.6	2.5	2.4	2.4	2.4	2.4
Euro Area (2)	3.4	4.0	2.1	2.7	1.3	2.0	1.9	1.8	1.8	1.8	1.8	1.8
Germany	3.2	4.4	2.6	3.7	-0.3	1.9	1.8	1.6	1.6	1.6	1.6	1.6
Emerging Market Economies	6.6	6.0	5.4	4.5	4.7	4.7	4.7	4.7	4.8	4.8	4.8	4.9
Asia	7.5	5.9	7.0	5.6	5.7	5.8	5.8	5.8	6.0	6.0	6.1	6.1
Korea	4.9	3.4	4.4	4.1	4.1	4.2	4.4	4.5	4.6	4.6	4.6	4.6
China	12.2	12.0	7.0	8.5	8.5	8.5	8.5	8.5	8.7	8.7	8.8	9.0
Latin America	6.1	5.9	4.1	3.3	3.7	3.7	3.7	3.7	3.6	3.6	3.6	3.6
Mexico	6.6	5.6	4.1	2.9	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Brazil	4.8	1.7	2.0	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
CONSUMER PRICES (3)	Four-quarter changes											
Advanced Foreign Economies	1.8	2.0	1.6	1.4	1.5	1.3	1.5	1.8	1.6	1.6	1.6	1.6
of which:												
Canada	2.5	2.6	1.6	1.4	1.5	1.3	1.8	2.2	2.1	2.0	2.0	2.0
Japan	-0.1	0.2	0.6	0.4	0.2	0.3	0.2	0.5	0.6	0.6	0.7	0.7
United Kingdom (4)	2.0	2.2	2.4	2.8	2.9	2.7	2.4	2.1	2.0	1.8	1.8	1.8
Euro Area (2)	2.3	2.5	2.1	1.7	2.1	1.7	1.7	2.0	1.8	1.7	1.7	1.6
Germany	2.1	2.1	1.6	1.3	2.6	2.3	2.3	2.4	1.5	1.4	1.4	1.3
Emerging Market Economies	3.0	2.9	2.7	2.6	2.7	2.7	2.9	3.0	3.0	2.9	2.9	2.8
Asia	2.4	2.6	2.1	2.0	2.3	2.1	2.4	2.6	2.6	2.5	2.5	2.4
Korea	2.4	2.3	2.5	2.2	2.3	2.6	2.3	2.9	2.8	2.6	2.5	2.4
China	1.2	1.4	1.2	1.6	1.9	1.9	2.2	2.4	2.4	2.3	2.2	2.2
Latin America	4.2	3.5	3.8	4.1	4.0	4.3	4.0	3.8	3.8	3.8	3.7	3.7
Mexico	3.7	3.1	3.5	4.1	3.8	4.1	3.8	3.5	3.5	3.5	3.5	3.5
Brazil	5.6	4.3	3.8	3.1	2.6	2.9	3.6	3.7	3.7	3.7	3.7	3.7

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000	2001	2002	2003	2004	2005	----- 2006	Projected 2007	----- 2008
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-0.9	-0.2	-0.9	-0.1	-0.8	-0.1	0.2	-0.1	-0.2
Exports of G&S	0.7	-1.3	0.4	0.6	0.7	0.7	0.8	0.6	0.6
Imports of G&S	-1.6	1.1	-1.3	-0.7	-1.5	-0.8	-0.7	-0.7	-0.9
	Percentage change, Q4/Q4								
Exports of G&S	6.5	-11.9	3.8	5.8	7.0	6.7	7.9	5.4	5.6
Services	1.8	-8.9	10.2	3.0	7.1	3.1	4.6	6.3	5.1
Computers	22.7	-23.5	-1.1	11.3	6.4	14.1	9.4	14.4	14.4
Semiconductors	27.6	-34.6	10.1	38.3	-6.3	17.2	11.4	17.0	17.0
Core Goods 1/	5.9	-10.2	0.6	4.9	8.0	7.5	9.2	4.0	4.8
Imports of G&S	11.2	-7.6	9.7	4.8	10.6	5.2	4.1	4.2	5.1
Services	10.6	-5.9	8.8	2.2	7.6	1.9	3.9	2.6	3.7
Oil	13.3	3.7	3.8	1.2	9.6	0.9	-7.6	2.1	0.4
Natural Gas	37.3	-6.5	19.5	1.3	6.6	11.9	-15.1	9.6	2.6
Computers	13.9	-13.6	13.2	17.0	22.5	11.8	20.9	17.5	17.5
Semiconductors	22.8	-51.1	11.0	-0.1	9.3	7.5	9.8	17.0	17.0
Core Goods 2/	10.3	-6.5	10.0	5.2	10.7	6.2	6.0	3.7	5.5
	Billions of Chained 2000 Dollars								
Net Goods & Services	-379.5	-399.1	-471.3	-518.9	-590.9	-619.2	-626.4	-618.6	-637.9
Exports of G&S	1096.3	1036.7	1013.3	1026.1	1120.4	1196.1	1297.9	1370.9	1446.0
Imports of G&S	1475.8	1435.8	1484.6	1545.0	1711.3	1815.3	1924.3	1989.5	2084.0
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-415.2	-389.0	-472.4	-527.5	-665.3	-791.5	-884.9	-927.0	-996.2
Current Acct as Percent of GDP	-4.2	-3.8	-4.5	-4.8	-5.7	-6.4	-6.7	-6.7	-6.9
Net Goods & Services (BOP)	-377.6	-362.8	-421.1	-494.9	-611.3	-716.7	-771.8	-778.1	-813.7
Investment Income, Net	25.7	30.3	17.8	42.3	33.6	17.6	-21.3	-53.7	-86.1
Direct, Net	94.9	115.9	102.4	112.8	123.9	134.4	138.6	164.9	191.1
Portfolio, Net	-69.2	-85.5	-84.6	-70.5	-90.2	-116.8	-160.0	-218.5	-277.2
Other Income & Transfers, Net	-63.3	-56.5	-69.2	-74.9	-87.6	-92.4	-91.8	-95.2	-96.4

1. Merchandise exports excluding computers and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2003				2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	0.2	-0.7	0.5	-0.5	-0.7	-1.6	-0.2	-0.8	-0.2	0.7	-0.1	-1.1
Exports of G&S	-0.5	-0.2	1.0	1.8	0.7	0.6	0.5	1.0	0.5	0.9	0.3	1.0
Imports of G&S	0.7	-0.6	-0.5	-2.3	-1.4	-2.2	-0.7	-1.8	-0.6	-0.2	-0.4	-2.0
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	-5.3	-1.7	11.4	20.8	7.2	6.2	4.8	9.9	4.7	9.4	3.2	9.6
Services	-20.0	-2.8	17.5	23.1	7.5	5.6	-2.8	19.2	2.9	2.0	2.1	5.5
Computers	-2.3	-5.2	34.7	23.2	-5.8	-3.1	20.7	16.5	13.6	21.9	17.8	3.9
Semiconductors	37.4	30.9	44.6	40.7	11.5	-7.8	-19.1	-7.2	-7.7	21.3	26.3	33.6
Core Goods 1/	0.2	-2.9	5.2	18.3	7.7	8.2	9.7	6.4	5.8	11.9	1.8	10.7
Imports of G&S	-5.0	4.1	3.8	17.6	10.2	16.0	4.4	12.0	4.1	1.4	2.5	13.2
Services	-10.6	-15.7	21.2	19.6	10.9	7.6	3.1	9.0	-0.2	-1.5	1.2	8.3
Oil	-9.7	12.4	-6.0	9.9	37.2	-22.9	-6.4	45.5	7.0	-21.2	-12.5	40.5
Natural Gas	-45.9	72.5	66.4	-32.1	16.2	72.0	43.7	-55.1	23.0	12.3	109.8	-45.9
Computers	11.4	10.7	11.1	36.9	21.1	30.2	27.5	11.9	9.2	9.4	19.6	9.3
Semiconductors	-6.3	1.1	-4.2	9.7	43.3	19.6	3.8	-19.9	-7.4	8.4	15.6	14.9
Core Goods 2/	-3.1	7.2	-0.1	18.1	5.3	23.2	4.2	11.0	4.4	5.8	2.7	12.3
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-507.2	-526.9	-513.8	-527.8	-548.5	-593.9	-599.4	-621.9	-626.4	-606.1	-607.6	-636.6
Exports of G&S	1003.3	999.0	1026.3	1075.8	1094.8	1111.3	1124.3	1151.3	1164.5	1191.0	1200.5	1228.4
Imports of G&S	1510.5	1525.9	1540.0	1603.6	1643.2	1705.2	1723.7	1773.1	1790.9	1797.1	1808.1	1865.0
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-548.7	-524.4	-526.2	-510.8	-583.3	-667.1	-665.3	-745.4	-766.9	-773.0	-733.7	-892.4
Current Account as % of GDP	-5.1	-4.8	-4.7	-4.6	-5.1	-5.7	-5.6	-6.2	-6.3	-6.3	-5.8	-7.0
Net Goods & Services (BOP)	-496.9	-492.9	-491.9	-497.9	-544.6	-605.6	-626.7	-668.3	-672.4	-688.2	-727.2	-779.1
Investment Income, Net	24.4	41.7	39.2	63.8	57.3	28.2	33.4	15.6	20.7	14.2	37.9	-2.3
Direct, Net	97.2	108.4	109.3	136.3	130.4	113.4	122.8	128.8	121.4	124.2	161.5	130.6
Portfolio, Net	-72.7	-66.6	-70.1	-72.5	-73.1	-85.2	-89.4	-113.2	-100.7	-110.0	-123.6	-132.9
Other Inc. & Transfers, Net	-76.2	-73.2	-73.5	-76.7	-96.1	-89.7	-72.0	-92.7	-115.1	-99.0	-44.3	-111.0

1. Merchandise exports excluding computers and semiconductors.

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

December 6, 2006

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2006				2007				2008			
	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	-0.0	0.4	-0.2	0.5	-0.3	0.3	0.2	-0.5	-0.5	0.1	0.1	-0.6
Exports of G&S	1.4	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7
Imports of G&S	-1.5	-0.2	-0.9	-0.1	-0.9	-0.4	-0.4	-1.1	-1.1	-0.5	-0.6	-1.3
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	14.0	6.2	6.3	5.4	5.5	5.6	5.4	5.3	5.4	5.6	5.6	5.7
Services	6.7	6.7	-1.0	6.1	6.5	6.6	6.4	6.0	5.5	5.2	5.0	4.8
Computers	9.8	12.0	-0.4	17.0	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4
Semiconductors	15.7	29.9	-12.4	16.9	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Core Goods 1/	17.8	4.4	11.4	4.0	4.0	4.1	4.0	3.9	4.3	4.7	4.9	5.0
Imports of G&S	9.1	1.4	5.3	0.7	5.6	2.2	2.2	6.8	6.4	3.1	3.5	7.8
Services	7.4	9.9	-2.7	1.7	1.6	2.5	3.0	3.3	3.7	3.7	3.7	3.7
Oil	-4.8	-18.3	7.0	-12.3	20.8	-12.6	-14.4	20.4	14.8	-15.8	-13.1	20.7
Natural Gas	-24.6	42.1	-32.7	-27.8	-1.5	38.8	16.5	-9.3	-20.9	34.7	7.6	-3.3
Computers	34.3	17.0	18.7	14.8	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Semiconductors	3.6	-1.3	21.5	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Core Goods 2/	12.4	2.4	6.7	2.7	3.0	3.5	4.1	4.5	5.0	5.5	5.7	5.8
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-636.6	-624.2	-629.4	-615.3	-624.3	-616.6	-609.3	-624.2	-637.0	-633.3	-631.1	-650.3
Exports of G&S	1269.3	1288.5	1308.3	1325.7	1343.5	1361.9	1380.1	1397.9	1416.5	1435.9	1455.7	1475.9
Imports of G&S	1905.9	1912.7	1937.7	1941.0	1967.8	1978.5	1989.4	2022.2	2053.6	2069.2	2086.9	2126.2
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-852.8	-873.6	-918.5	-894.7	-911.1	-915.1	-919.7	-962.1	-981.4	-982.6	-989.9	-1031.1
Current Account as % of GDP	-6.6	-6.6	-6.9	-6.7	-6.7	-6.7	-6.6	-6.8	-6.9	-6.8	-6.8	-7.0
Net Goods & Services (BOP)	-764.6	-775.3	-805.0	-742.4	-772.9	-772.9	-771.0	-795.7	-816.9	-808.1	-803.4	-826.5
Investment Income, Net	-3.6	-10.1	-24.0	-47.6	-46.7	-49.3	-54.0	-64.8	-69.8	-79.8	-91.8	-102.9
Direct, Net	137.2	144.1	140.9	132.4	148.9	161.9	172.3	176.4	185.1	188.9	193.4	197.2
Portfolio, Net	-140.8	-154.2	-164.9	-180.0	-195.6	-211.1	-226.3	-241.2	-254.9	-268.7	-285.2	-300.1
Other Inc. & Transfers, Net	-84.7	-88.3	-89.4	-104.7	-91.5	-92.9	-94.6	-101.6	-94.6	-94.6	-94.6	-101.6

1. Merchandise exports excluding computers and semiconductors.

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

Part 2

December 6, 2006

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

December 6, 2006

Recent Developments

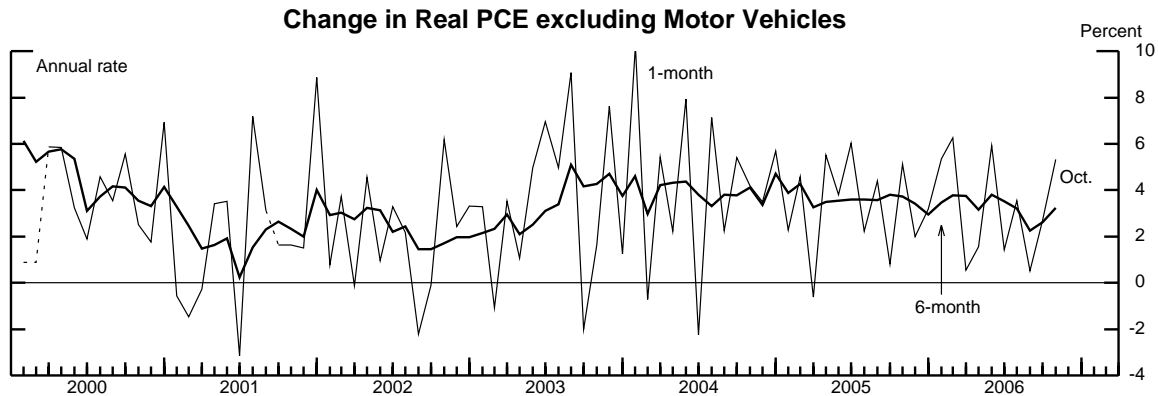
Real Personal Consumption Expenditures

(Percent change from the preceding period)

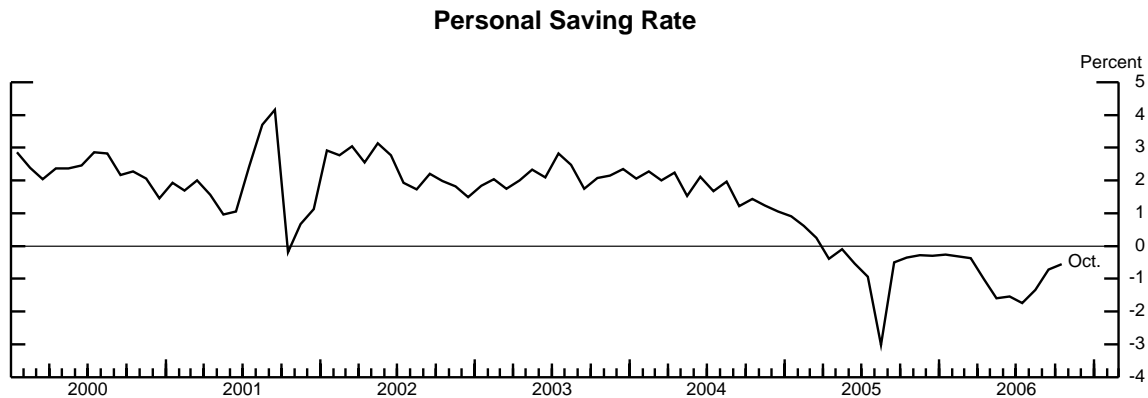
	2005	2006					
		Q1	Q2	Q3	Aug.	Sept.	Oct. ¹
		Annual rate			Monthly rate		
Total real PCE	3.5	4.8	2.6	2.9	-.1	.2	.4
Durable goods	5.5	19.8	-.1	6.0	-1.6	.6	.5
Motor vehicles	.6	18.9	-1.2	8.8	-3.7	-.9	.7
Excluding motor vehicles	9.5	20.5	.8	4.0	.0	1.7	.4
Nondurable goods	4.5	5.9	1.4	1.1	-.2	-.1	.7
Energy	-.5	-1.3	.7	4.9	-2.3	1.2	1.6
Other	5.1	6.9	1.5	.6	.2	-.2	.5
Services	2.6	1.6	3.7	3.1	.2	.2	.3
Energy	2.6	-29.7	15.8	22.7	-1.5	-2.6	6.5
Other	2.6	3.2	3.2	2.4	.2	.3	.1
Memo: Real PCE ex. motor vehicles	3.6	4.2	2.8	2.6	.0	.2	.4

1. The October value for motor vehicles is a staff estimate

. Consequently, aggregates that include motor vehicles differ slightly from published values.



Note. To keep the vertical scale within a range that reveals the variation in the 6-month change, we have smoothed the large 1-month changes in January and March 2000 and September 2001, periods indicated by the dotted lines.



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

Nonfarm Inventory Investment
(Billions of dollars; seasonally adjusted annual rate)

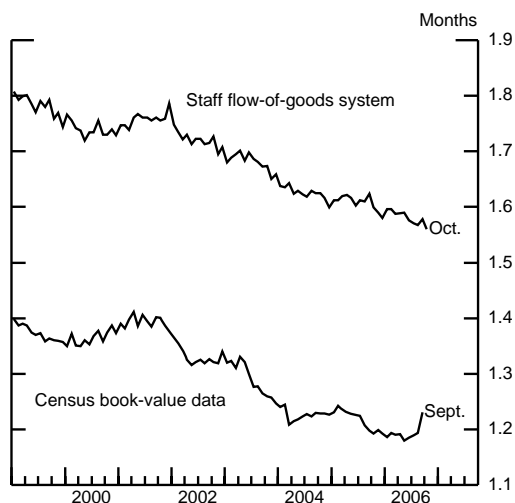
Measure and sector	2006					
	Q1	Q2	Q3	Aug.	Sept.	Oct.
<i>Real inventory investment</i> (chained 2000 dollars)						
Total nonfarm business	36.8	52.2	54.9^e	n.a.	n.a.	n.a.
Motor vehicles	8.5	3.0	-1.1	n.a.	n.a.	n.a.
Nonfarm ex. motor vehicles	28.3	49.2	56.0 ^e	n.a.	n.a.	n.a.
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	22.7	36.3	46.7^e	67.4^e	53.9^e	n.a.
Manufacturing	7.6	11.0	10.4 ^e	3.4 ^e	19.9 ^e	n.a.
Wholesale trade ex. motor vehicles & parts	7.9	18.4	27.8	44.3	28.1	n.a.
Retail trade ex. motor vehicles & parts	7.2	6.9	8.6	19.7	5.8	n.a.
<i>Book-value inventory investment</i> (current dollars)						
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	53.3	109.1	92.8	113.1	70.9	n.a.
Manufacturing	23.5	48.3	37.2	31.7	35.4	21.3
Wholesale trade ex. motor vehicles & parts	17.9	43.2	42.8	59.7	30.7	n.a.
Retail trade ex. motor vehicles & parts	12.0	17.5	12.8	21.7	4.9	n.a.

^e Staff estimate of real inventory investment based on revised book-value data.

n.a. Not available.

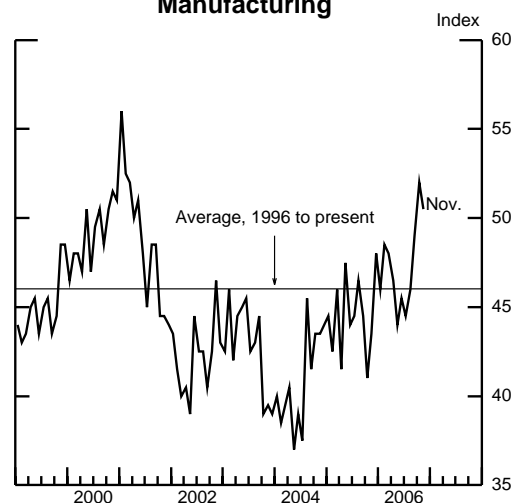
Source. For real inventory investment, BEA. For book-value data, Census Bureau.

Inventory Ratios ex. Motor Vehicles



Note. Flow-of-goods system covers total industry ex. motor vehicles and parts, and inventories are relative to consumption. Census data cover manufacturing and trade ex. motor vehicles and parts, and inventories are relative to sales.

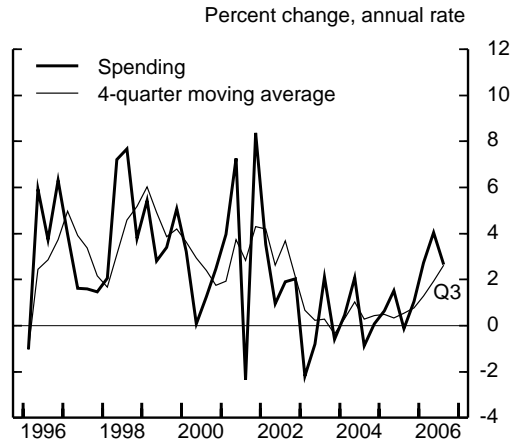
ISM Customer Inventories: Manufacturing



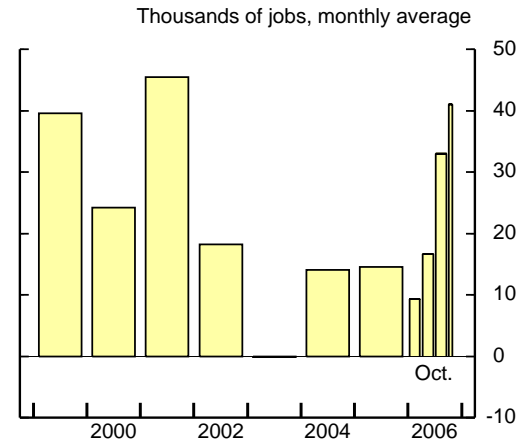
Note. A number above 50 indicates inventories are "too high."

State and Local Indicators

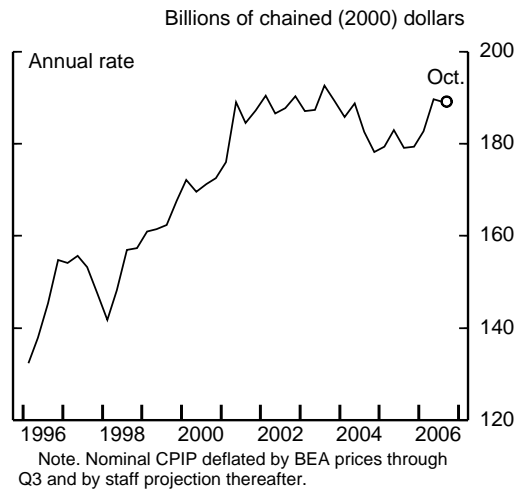
Real Spending on Consumption & Investment



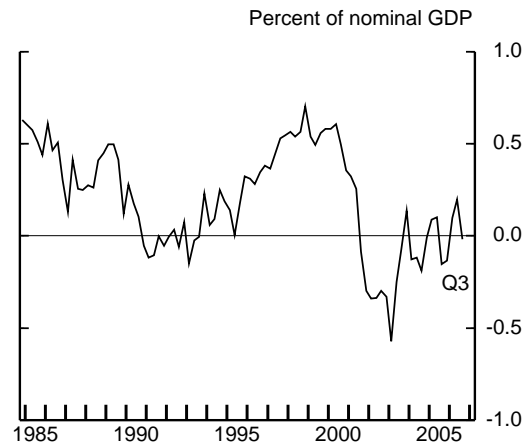
Net Change in Employment



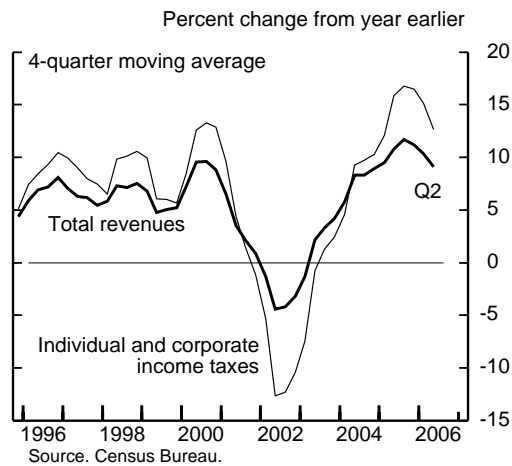
Real Construction



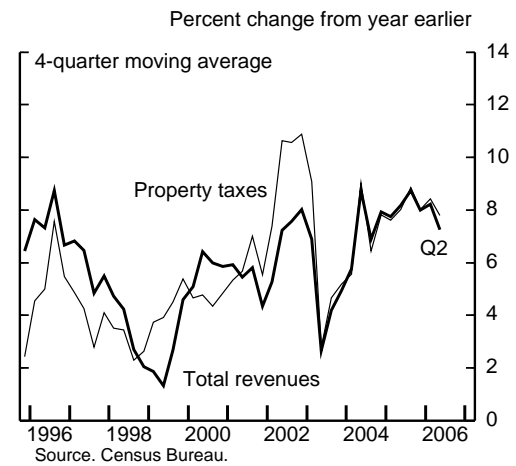
Net Saving



State Revenues



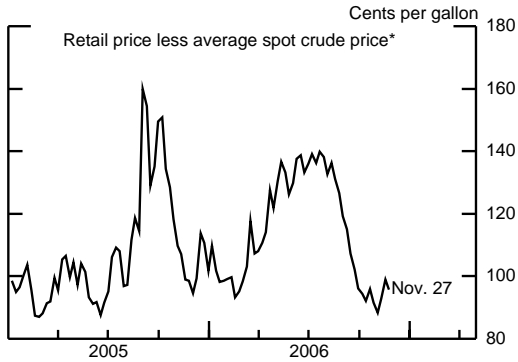
Local Revenues



Energy Prices and Inventories

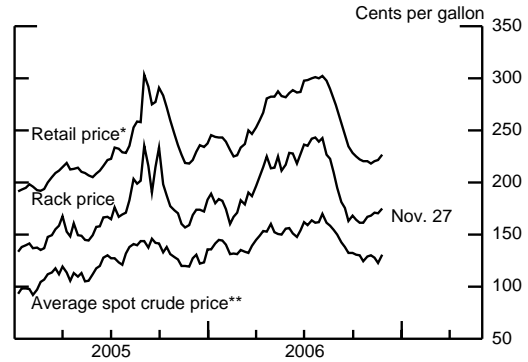
(Data from Energy Information Administration except as noted)

Total Gasoline Margin



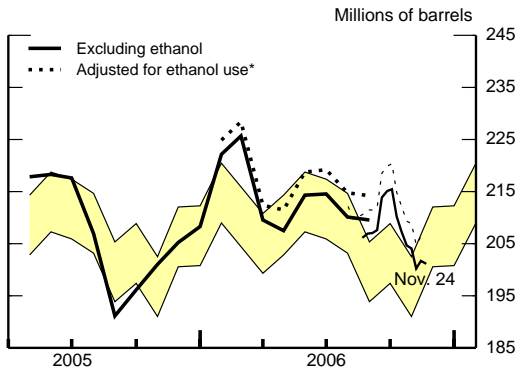
* Regular grade seasonally adjusted by FRB staff, less average spot crude price: 60% WTI, 40% Maya heavy crude.

Gasoline Price Decomposition



* Regular grade seasonally adjusted by FRB staff.
** 60% WTI, 40% Maya heavy crude.

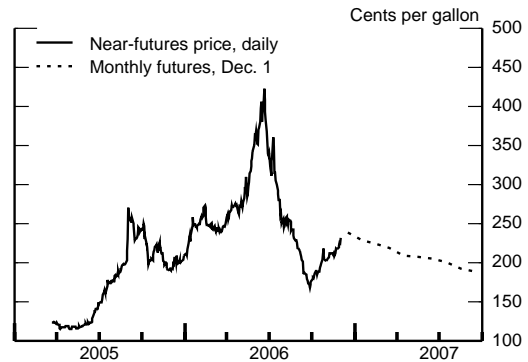
Gasoline Inventories



Note. Shaded region is average historical range as calculated by DOE. Monthly data through August 2006, weekly data thereafter.

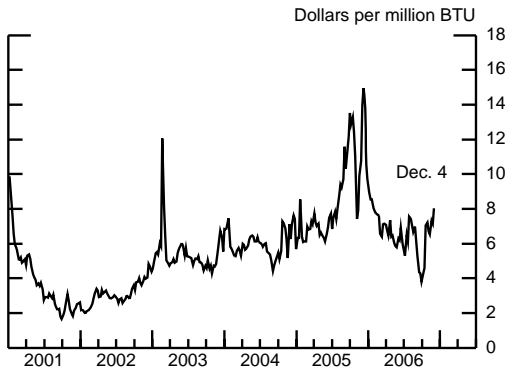
* Inventories of RBOB gasoline augmented to reflect fuel ethanol to be blended; estimated by FRB staff.

Ethanol Prices



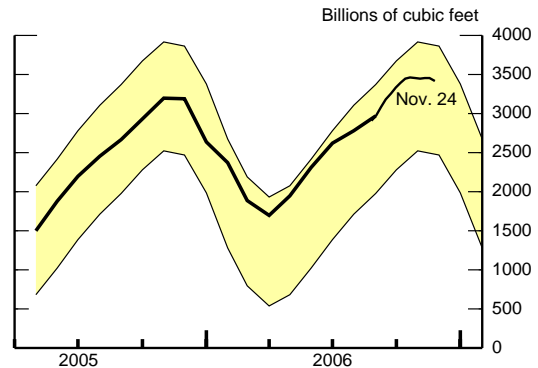
Source. Chicago Board of Trade.

Natural Gas Prices



Note. National average spot price.
Source. Bloomberg.

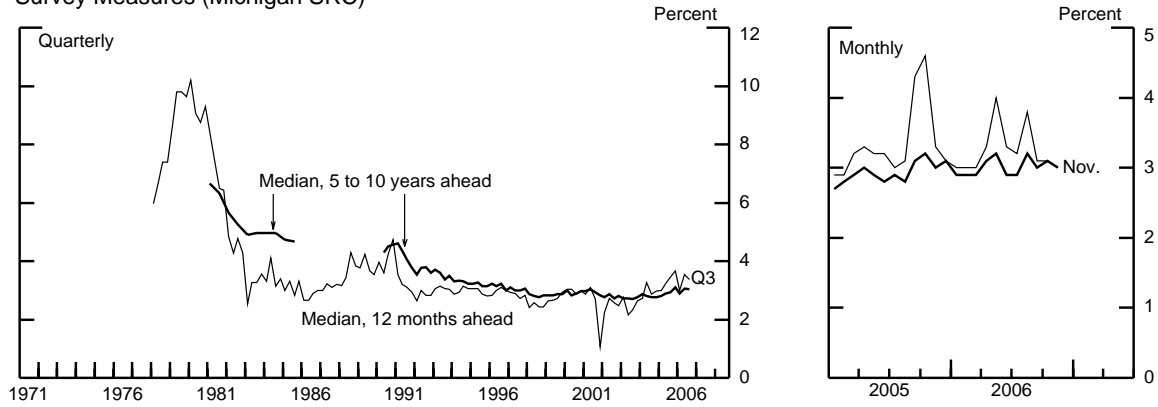
Natural Gas Inventories



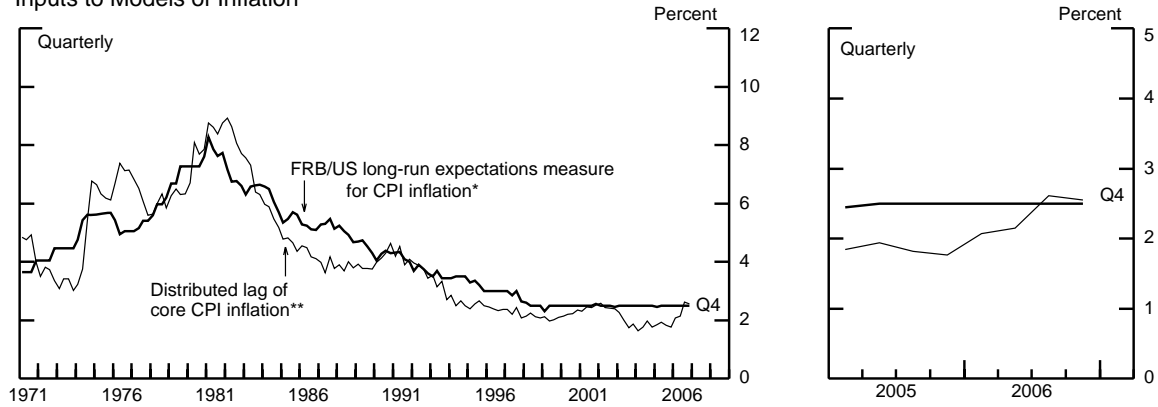
Note. Shaded region is historical range for 2000 to 2004 as calculated by FRB staff. Monthly data through August 2006, weekly data thereafter.

Measures of Expected Inflation

Survey Measures (Michigan SRC)



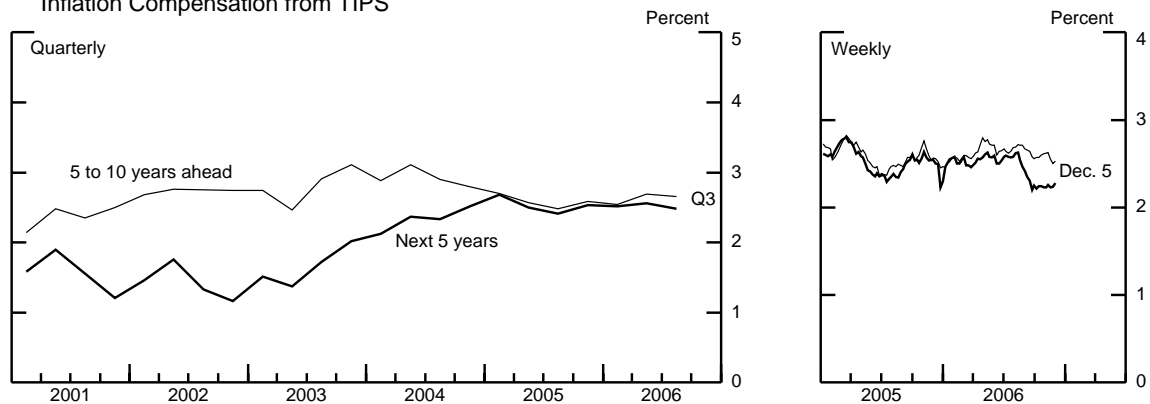
Inputs to Models of Inflation



* For 1991 forward, the median projection for CPI inflation over the next 10 years from the Survey of Professional Forecasters; for 1981 to 1991, a related survey conducted by Richard Hoey; and for the period preceding 1981, a model-based estimate constructed by Board staff.

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

Inflation Compensation from TIPS



Note. Based on a comparison of an estimated TIPS yield curve with an estimated nominal off-the-run Treasury yield curve, with an adjustment for the indexation-lag effect since March 2004.

Broad Measures of Inflation

(Percent change, Q3 to Q3)

Measure	2003	2004	2005	2006
<i>Product prices</i>				
GDP price index	2.2	2.9	3.1	2.9
Less food and energy	1.9	2.9	2.9	2.9
Nonfarm business chain price index	1.3	2.5	3.3	2.6
<i>Expenditure prices</i>				
Gross domestic purchases price index	2.3	3.2	3.6	3.1
Less food and energy	1.9	2.8	2.8	2.7
PCE price index	1.9	2.7	3.1	2.8
Less food and energy	1.3	2.1	2.0	2.4
PCE price index, market-based components	1.8	2.3	3.1	2.6
Less food and energy	1.1	1.4	1.7	2.0
CPI	2.2	2.7	3.8	3.3
Less food and energy	1.3	1.8	2.1	2.8
Chained CPI	2.0	2.5	3.1	3.0
Less food and energy	1.0	1.7	1.7	2.7
Median CPI	2.1	2.4	2.3	3.4
Trimmed mean CPI	1.8	2.1	2.3	2.9
Trimmed mean PCE	1.7	2.3	2.3	2.6

Surveys of Inflation Expectations

(Percent)

Period	Actual CPI inflation ¹	University of Michigan				Professional forecasters (10 years) ⁴
		1 year ²		5 to 10 years ³		
		Mean	Median	Mean	Median	
2005:Q1	3.0	3.6	3.0	3.2	2.8	2.5
Q2	2.9	3.9	3.2	3.3	2.9	2.5
Q3	3.8	4.3	3.5	3.5	2.9	2.5
Q4	3.7	4.6	3.7	3.5	3.1	2.5
2006:Q1	3.6	3.7	3.0	3.3	2.9	2.5
Q2	4.0	4.5	3.5	3.6	3.1	2.5
Q3	3.3	4.0	3.4	3.3	3.0	2.5
Q4	n.a.	n.a.	n.a.	n.a.	n.a.	2.5
2006:July	4.1	3.8	3.2	3.2	2.9	...
Aug.	3.8	4.6	3.8	3.5	3.2	2.5
Sept.	2.1	3.6	3.1	3.2	3.0	...
Oct.	1.3	3.7	3.1	3.5	3.1	...
Nov.	n.a.	3.3	3.0	3.5	3.0	2.5

1. Percent change from the same period in the preceding year.

2. Responses to the question, By about what percent do you expect prices to go up, on average, during the next 12 months?

3. Responses to the question, By about what percent per year do you expect prices to go up, on average, during the next 5 to 10 years?

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

... Not applicable.

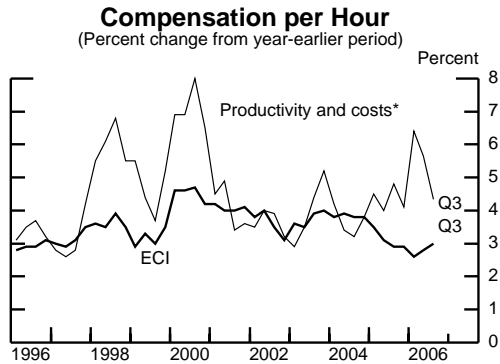
n.a. Not available.

Hourly Compensation and Unit Labor Costs

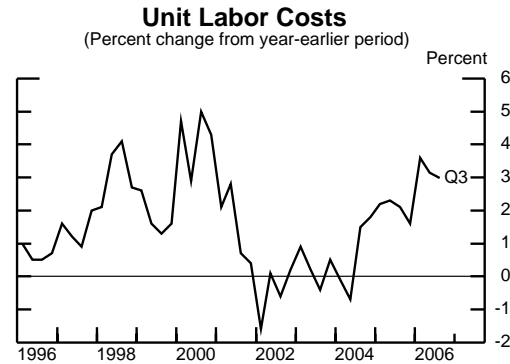
(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

Category	2004:Q3 to 2005:Q3	2005:Q3 to 2006:Q3 ^e	2005	2006		
			Q4	Q1	Q2	Q3 ^e
<i>Compensation per hour</i> Nonfarm business	4.8	4.3	2.9	13.7	-1.2	2.6
<i>Unit labor costs</i> Nonfarm business	2.1	3.0	3.0	9.0	-2.4	2.6

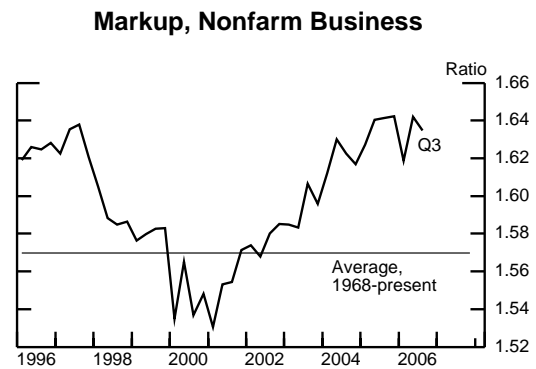
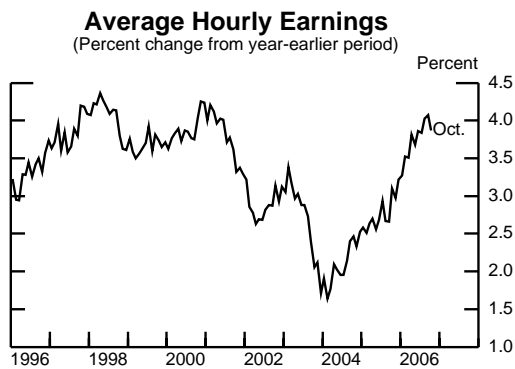
^e Staff estimate.



* Value for 2006:Q3 is a staff estimate.



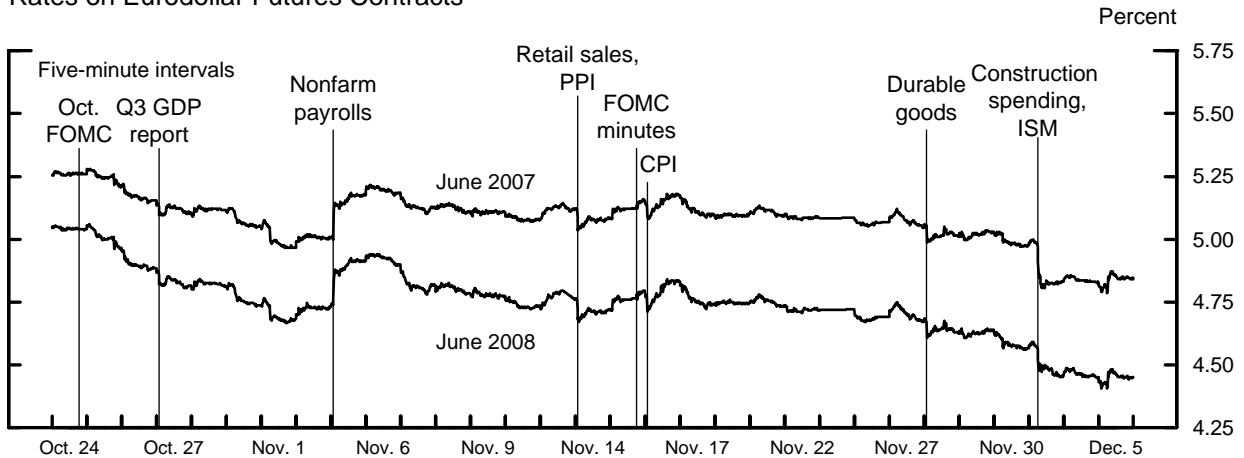
Note. Value for 2006:Q3 is a staff estimate.



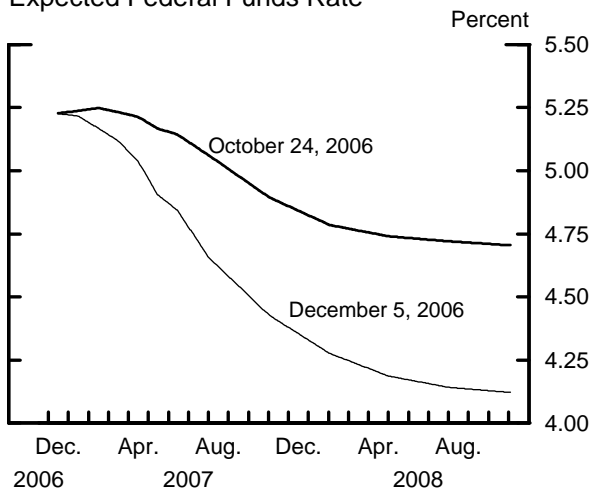
Note. The markup is the ratio of output price to unit labor costs. Value for 2006:Q3 is a staff estimate.

Policy Expectations and Treasury Yields

Rates on Eurodollar Futures Contracts

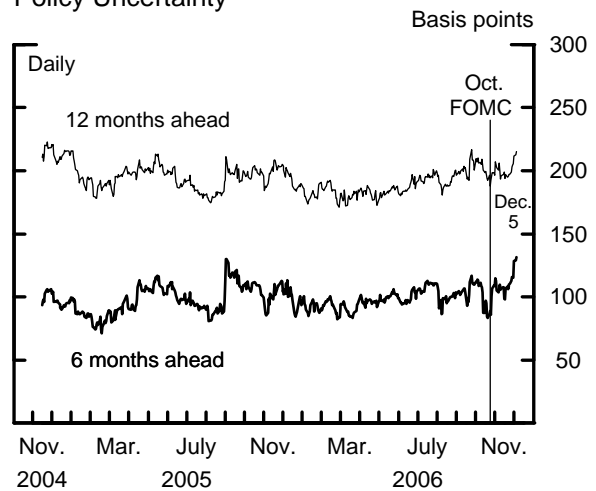


Expected Federal Funds Rate



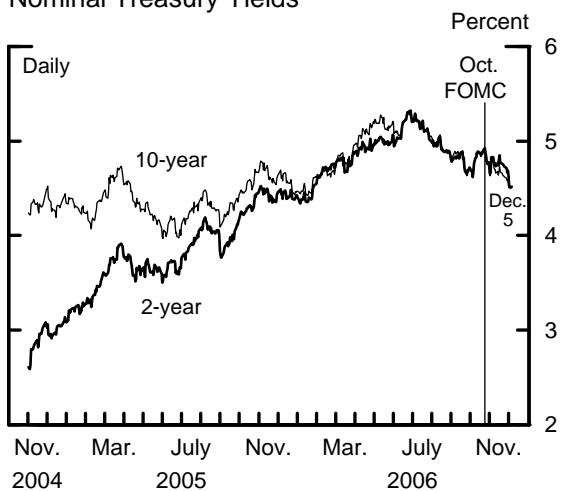
Note. Estimates from federal funds and Eurodollar futures, with an allowance for term premia and other adjustments.

Policy Uncertainty



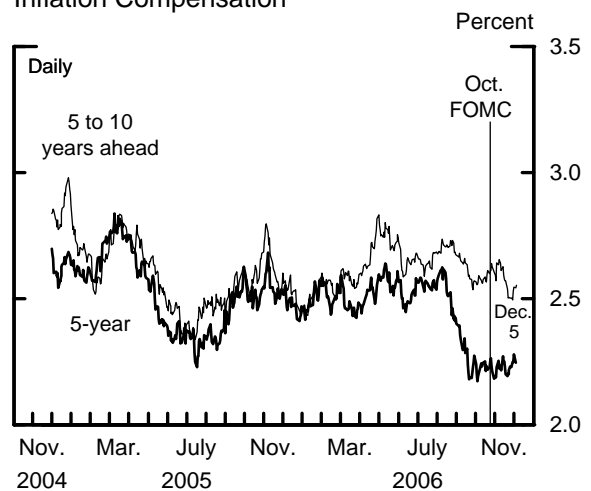
Note. Width of a 90 percent confidence interval for the federal funds rate computed from the term structures for both the expected federal funds rate and Eurodollar implied volatility.

Nominal Treasury Yields



Note. Estimates from smoothed Treasury yield curve based on off-the-run securities.

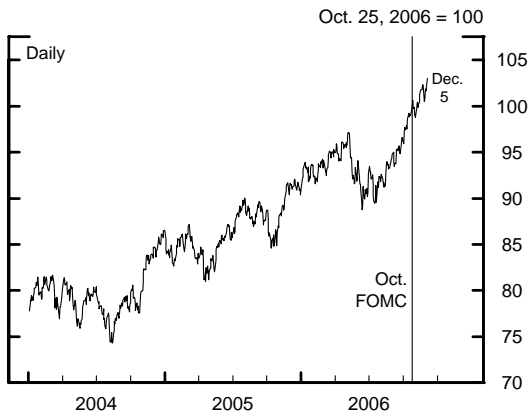
Inflation Compensation



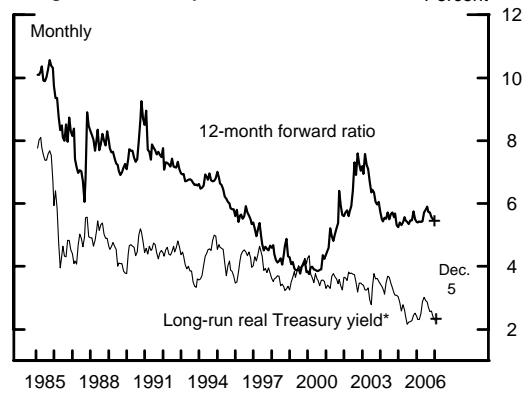
Note. Estimates based on smoothed nominal and inflation-indexed Treasury yield curves and adjusted for the indexation-lag effect.

Corporate Yields, Risk Spreads, and Stock Prices

Wilshire 5000

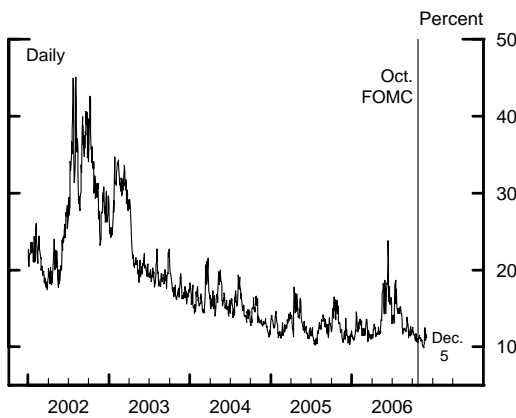


Ratio of Trend Earnings to Price for S&P 500 and Long-Run Treasury Yield

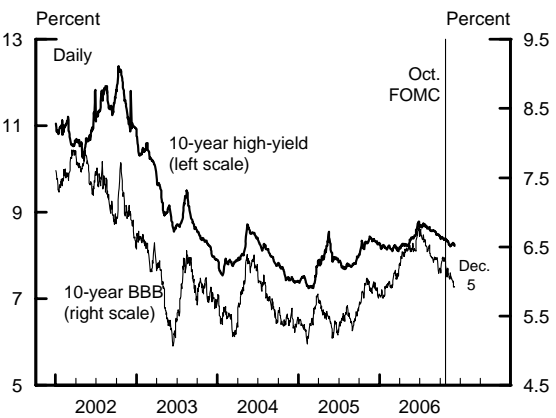


* Estimated yield on synthetic Treasury perpetuity minus Philadelphia Fed 10-year expected inflation.
 + Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.

Implied Volatility on S&P 500 (VIX)

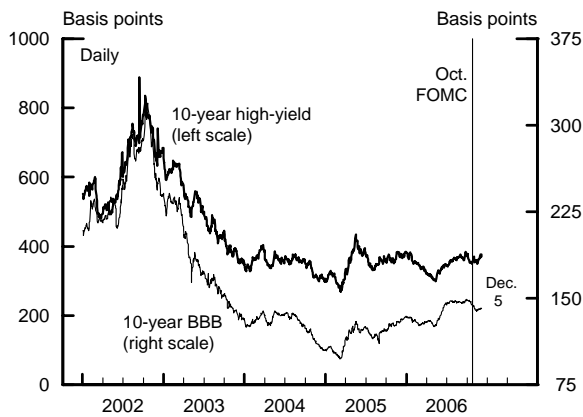


Corporate Bond Yields



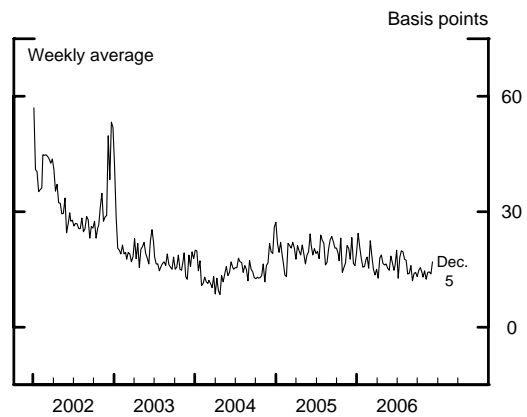
Note. Yields from smoothed yield curves based on Merrill Lynch bond data.

Corporate Bond Spreads



Note. Measured relative to comparable-maturity Treasuries.

Commercial Paper Quality Spread



Note. Measured by the difference between yields on 30-day A2/P2 paper and A1/P1 paper.

Business Finance

Gross Issuance of Securities by U.S. Corporations

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

Type of security	2002	2003	2004	2005	2006			
					H1	Q3	Oct.	Nov. ^p
<i>Nonfinancial corporations</i>								
Stocks ¹	5.2	3.7	5.4	4.6	5.2	2.6	3.9	7.1
Initial public offerings	.7	.4	1.6	1.7	1.9	.7	2.8	3.3
Seasoned offerings	4.4	3.3	3.8	2.8	3.3	1.9	1.1	3.8
Bonds ²	24.8	31.6	22.7	19.1	30.5	18.7	22.2	50.8
Investment grade	15.7	15.9	8.2	8.4	14.4	10.5	8.1	18.7
Speculative grade	4.9	11.3	9.7	6.4	8.4	4.8	5.9	8.9
Other (sold abroad/unrated)	4.2	4.3	4.9	4.3	7.8	3.5	8.1	23.2
<i>Memo</i>								
Net issuance of commercial paper ³	-5.7	-3.4	1.5	-.4	3.4	-1.2	-18.0	16.7
Change in C&I loans at commercial banks ^{3,4,5}	-5.2	-7.7	3.2	10.0	14.6	12.9	17.4	-.6
<i>Financial corporations</i>								
Stocks ¹	4.0	6.6	6.9	5.0	4.4	5.0	5.7	10.8
Bonds ²	87.0	111.1	139.3	176.3	190.2	174.8	165.3	127.6

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

1. Excludes private placements and equity-for-equity swaps that occur in restructurings.

2. Data include regular and 144a private placements. Bond totals reflect gross proceeds rather than par value of original discount bonds. Bonds are categorized according to Moody's bond ratings or to Standard & Poor's if unrated by Moody's.

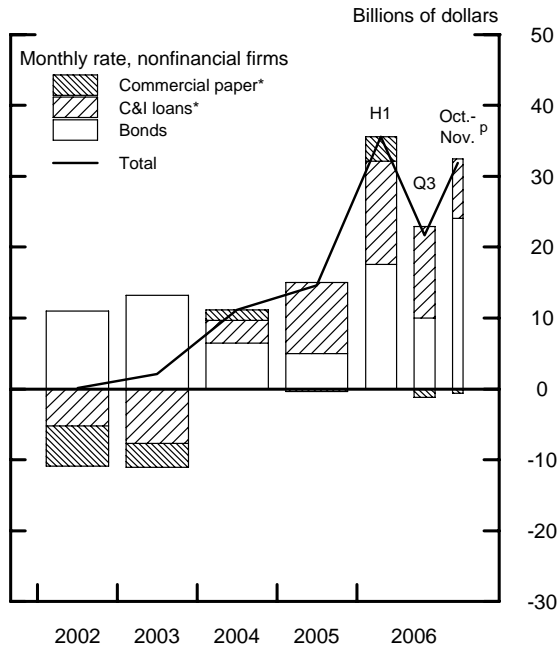
3. End-of-period basis, seasonally adjusted.

4. Adjusted for FIN 46 effects.

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

p Preliminary.

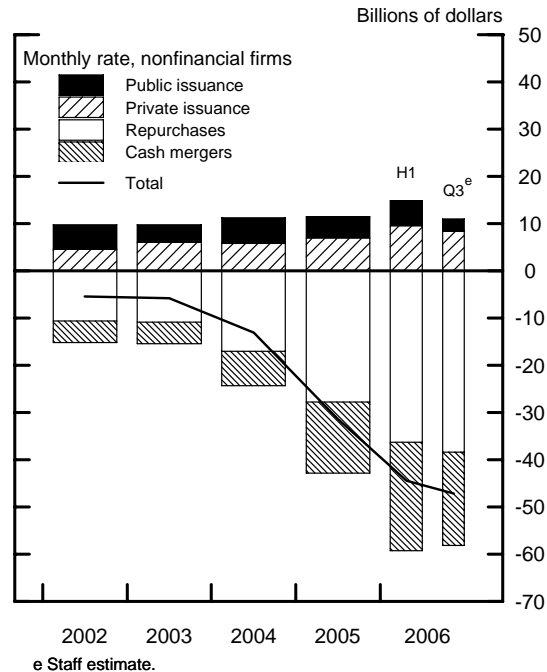
Selected Components of Net Debt Financing



* Seasonally adjusted, period-end basis.

p Preliminary.

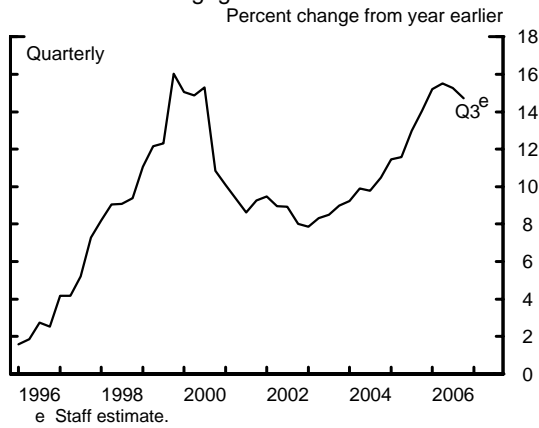
Components of Net Equity Issuance



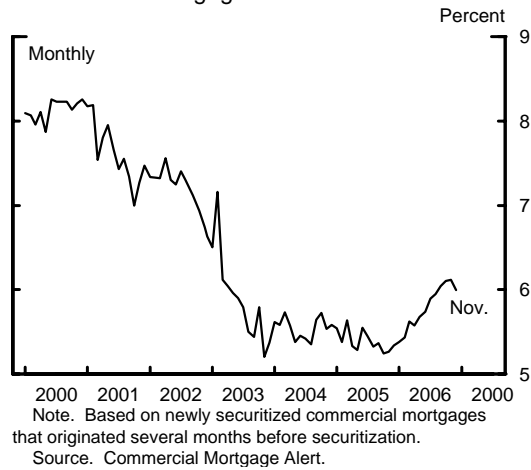
^e Staff estimate.

Commercial Real Estate

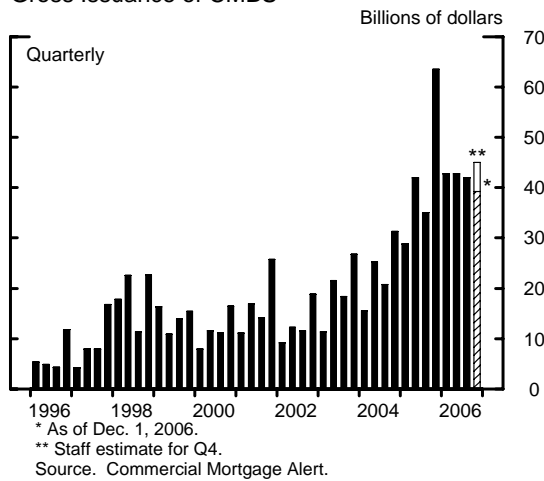
Commercial Mortgage Debt



Commercial Mortgage Rate



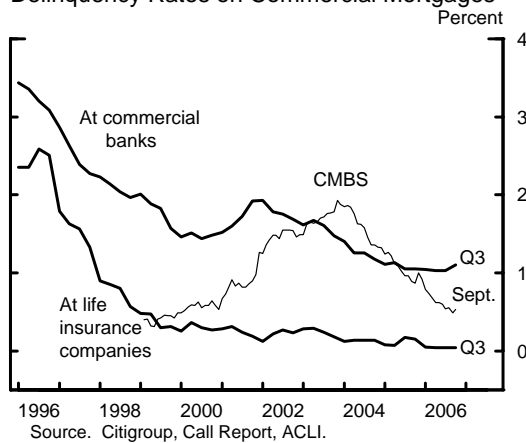
Gross Issuance of CMBS



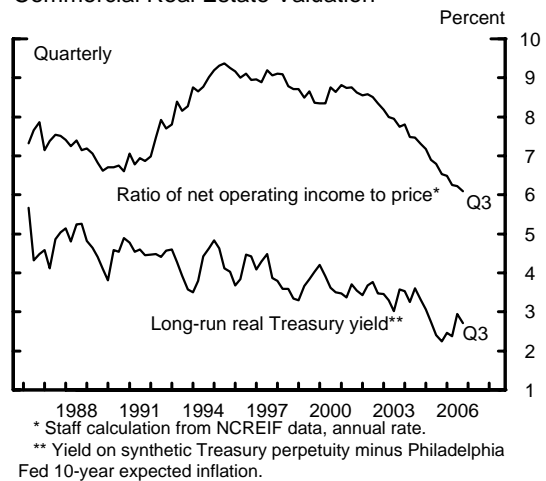
Investment-Grade CMBS Spreads



Delinquency Rates on Commercial Mortgages

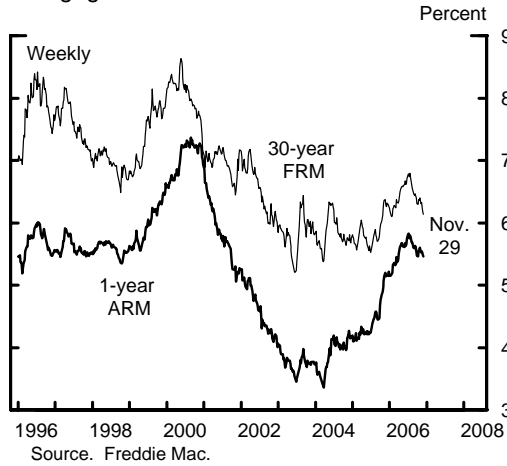


Commercial Real Estate Valuation

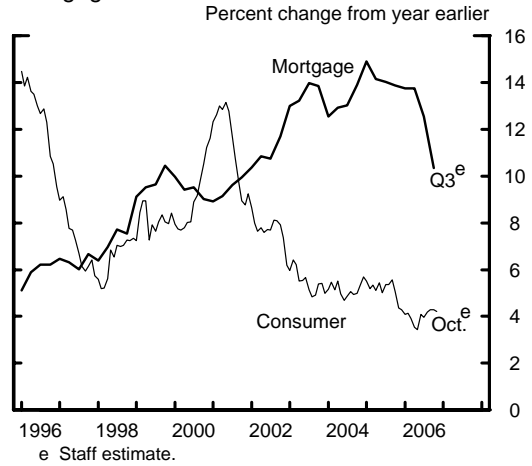


Household Liabilities

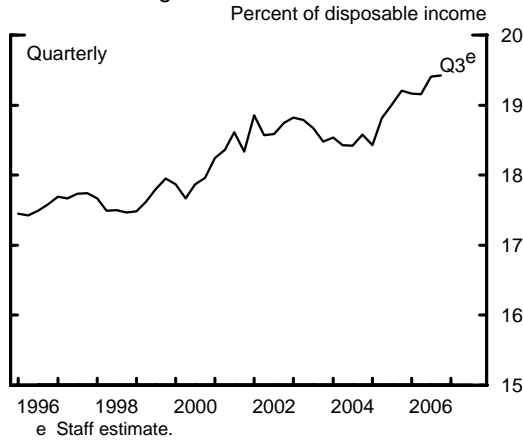
Mortgage Rates



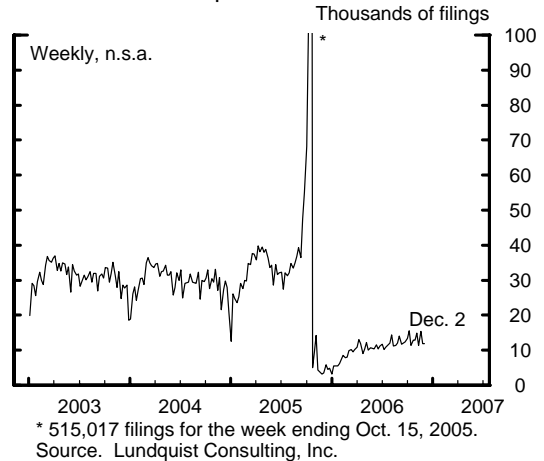
Mortgage Debt and Consumer Credit



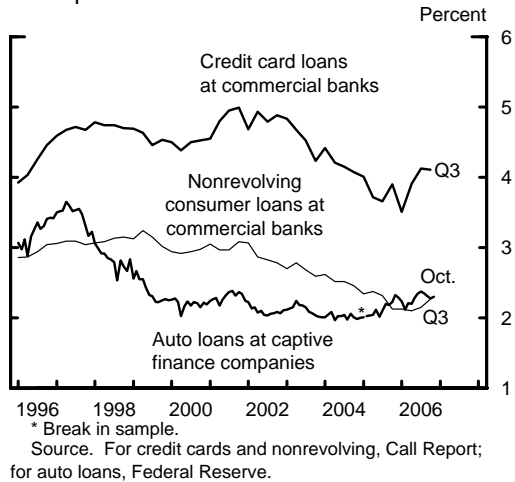
Financial Obligations Ratio



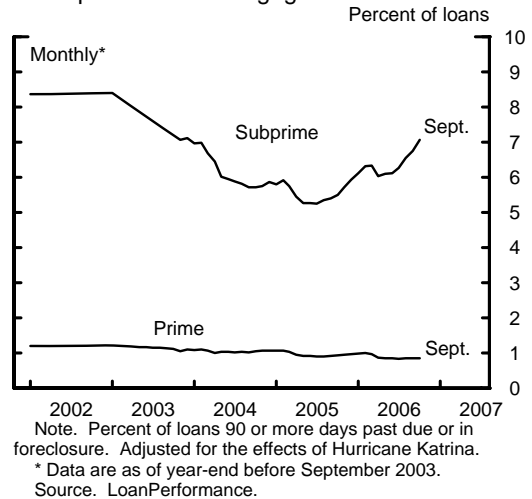
Household Bankruptcies



Delinquencies on Consumer Loans

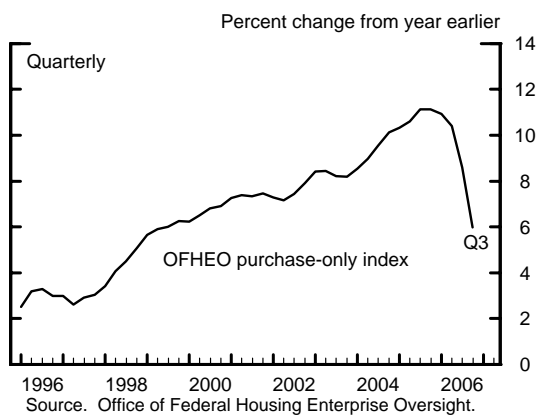


Delinquencies on Mortgages

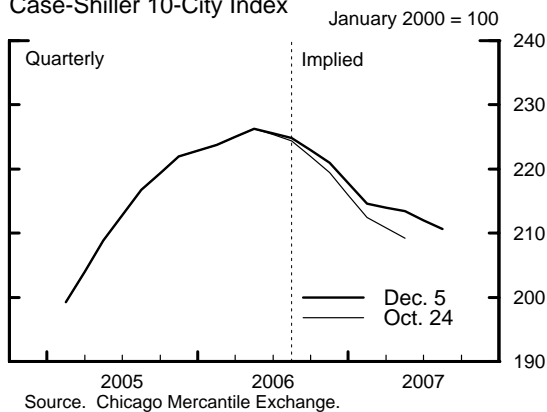


Household Assets

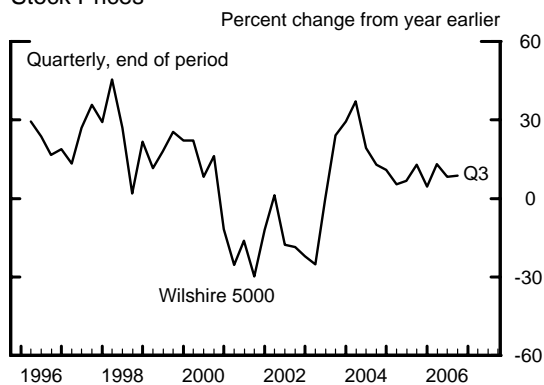
House Prices



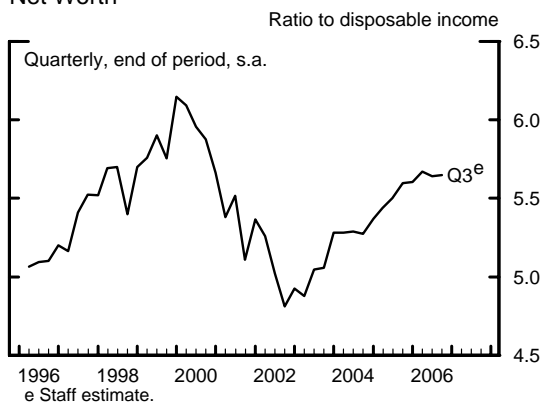
House-Price Path Implied by Futures on Case-Shiller 10-City Index



Stock Prices



Net Worth



Net Flows into Long-Term Mutual Funds

(Billions of dollars, monthly rate)

Fund type	2004	2005	2006					Assets Oct.
			Q1	Q2	Q3	Oct.	Nov. ^e	
Total long-term funds	17.5	16.0	38.9	6.2	9.2	24.4	19.1	7,767
Equity funds	14.8	11.3	31.1	7.0	4.1	12.2	10.4	5,670
Domestic	9.3	2.6	10.7	-2.4	-3.6	0.4	0.4	4,456
International	5.6	8.7	20.4	9.4	7.7	11.8	10.0	1,213
Hybrid funds	3.6	2.1	0.4	-0.1	0.3	1.6	1.8	633
Bond funds	-0.9	2.6	7.4	-0.7	4.8	10.6	6.8	1,464
High-yield	-0.8	-1.3	-0.4	-1.4	0.4	0.7	1.0	150
Other taxable	1.0	3.5	5.8	0.7	3.3	7.6	3.6	953
Municipals	-1.1	0.4	2.1	0.1	1.0	2.2	2.2	361

Note. Excludes reinvested dividends.

e Staff estimate based on confidential weekly data.

Source. Investment Company Institute.

M2 Monetary Aggregate
(Based on seasonally adjusted data)

Aggregate and components	Percent change (annual rate) ¹						Level (billions of dollars),
	2004	2005	2006				Nov. (e)
			Q2	Q3	Oct.	Nov. (e)	
M2	5.3	4.0	3.0	3.8	10.5	6.1	6,974
Components ²							
Currency	5.5	3.5	4.1	-.1	3.2	5.0	746
Liquid deposits ³	10.0	2.0	-1.9	-3.1	7.3	2.4	4,254
Small time deposits	-.3	18.8	17.2	21.9	22.2	14.3	1,159
Retail money market funds	-11.3	-.2	11.7	22.0	18.0	14.3	808
Memo:							
Institutional money market funds	-5.8	5.0	11.5	16.8	20.7	15.5	1,302
Monetary base	5.6	3.5	4.4	-.4	1.8	4.5	808

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

2. Nonbank traveler's checks are not listed.

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

e Estimated.

Commercial Bank Credit

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

Type of credit	2004	2005	H1 2006	Q3 2006	Oct. 2006*	Nov. 2006*e	Level, ¹ Nov. 2006*e
Total ²	8.9	10.5	11.9	8.0	-1.1	5.3	7,791
<i>Loans³</i>							
Total	9.7	11.6	11.7	10.0	3.5	4.4	5,830
To businesses							
Commercial and industrial	1.2	13.2	16.4	18.9	9.1	5.5	1,163
Commercial real estate	11.7	17.1	15.6	12.9	2.2	7.7	1,409
To households							
Residential real estate	15.6	12.0	7.7	7.0	6.4	-2.8	1,725
Revolving home equity	43.8	13.3	.1	3.2	.3	4.0	449
Consumer	8.8	3.1	6.7	5.8	-10.9	8.3	725
Originated ⁴	6.0	.5	7.1	5.5	-1.6	8.3	1,112
Other ⁵	7.4	8.4	12.0	3.0	4.8	9.4	809
<i>Securities</i>							
Adjusted ²	6.7	7.6	12.8	2.2	-14.9	7.8	1,961
Reported	5.2	5.3	13.0	2.1	-12.4	9.2	2,122
Treasury and agency	4.9	.0	8.3	4.2	-27.5	-.4	1,172
Other ⁶	5.7	13.3	19.4	-.6	7.0	21.4	949

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

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

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

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

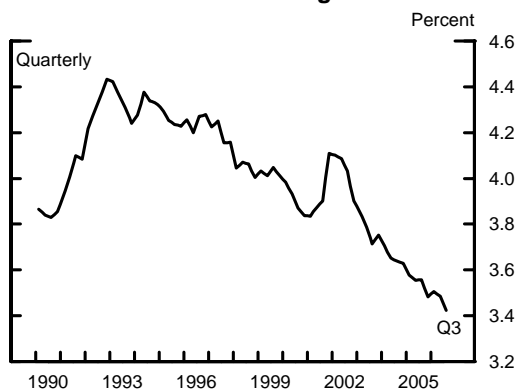
3. Excludes interbank loans.

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

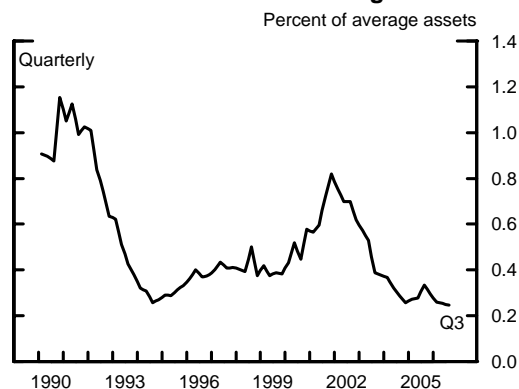
5. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

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

e Estimated.

Net Interest Margin

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

Loan-Loss Provisioning

Source. Call Report.

December 8, 2006

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 8, 2006

University of Michigan Survey Research Center: Survey of Consumer Attitudes
Indexes of consumer sentiment
(Not seasonally adjusted)

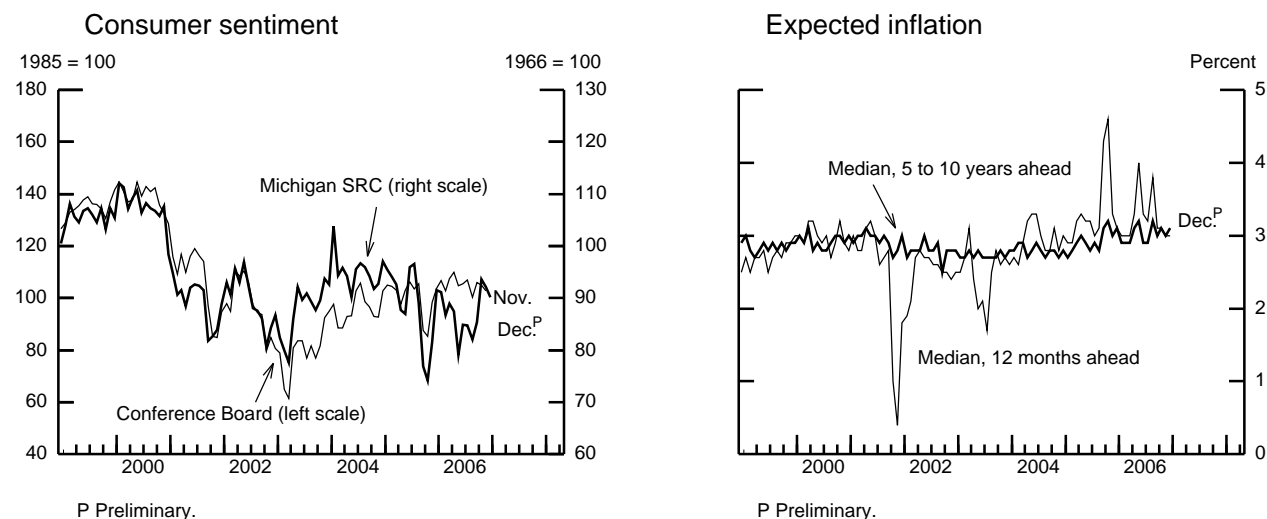
Category	2006							
	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec. ^P
Composite of current and expected conditions ¹	79.1	84.9	84.7	82.0	85.4	93.6	92.1	90.2
Current conditions ¹	96.1	105.0	103.5	103.8	96.6	107.3	106.0	108.2
Expected conditions ¹	68.2	72.0	72.5	68.0	78.2	84.8	83.2	78.6
Personal financial situation								
Now compared with 12 months ago ²	102	113	110	109	99	118	119	118
Expected in 12 months ²	112	120	122	112	122	131	125	123
Expected business conditions								
Next 12 months ²	81	88	87	75	99	113	112	97
Next 5 years ²	80	79	80	84	92	97	97	95
Appraisal of buying conditions								
Cars	112	124	130	124	128	137	140	137
Large household appliances ²	147	159	158	160	151	160	156	162
Houses	121	123	119	117	116	129	134	136
Expected unemployment change - next 12 months	127	127	129	130	125	122	121	123
Prob. household will lose a job - next 5 years	24	21	21	19	23	22	23	20
Expected inflation - next 12 months								
Mean	4.7	4.4	3.8	4.6	3.6	3.7	3.3	3.5
Median	4.0	3.3	3.2	3.8	3.1	3.1	3.0	3.0
Expected inflation - next 5 to 10 years								
Mean	3.8	3.4	3.2	3.5	3.2	3.5	3.5	3.6
Median	3.2	2.9	2.9	3.2	3.0	3.1	3.0	3.1

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

P Preliminary.

1. Feb. 1966 = 100.

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



Commercial Bank Credit

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

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

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

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

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

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

3. Excludes interbank loans.

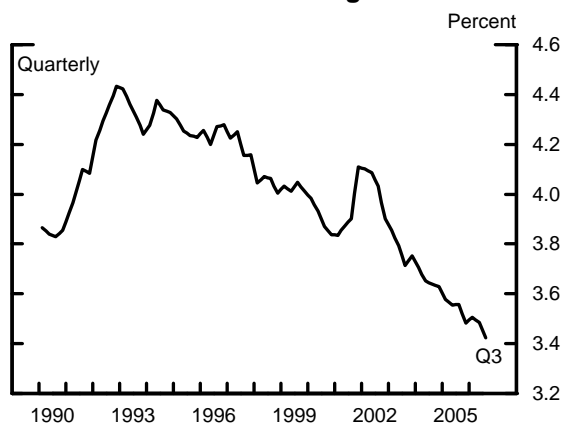
4. Includes an estimate of outstanding loans securitized by commercial banks.

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

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

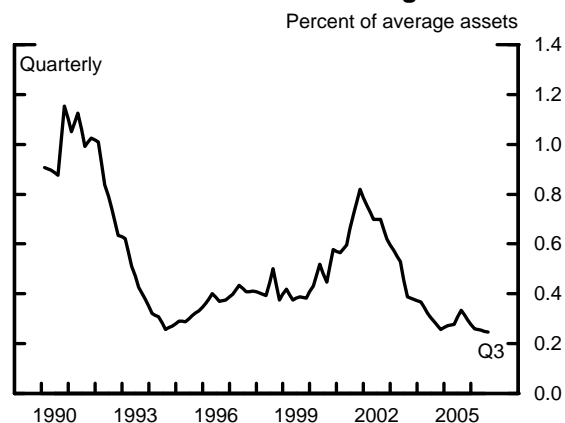
e Estimated.

Net Interest Margin



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

Loan-Loss Provisioning



Source. Call Report.