

Part 1

January 24, 2007

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

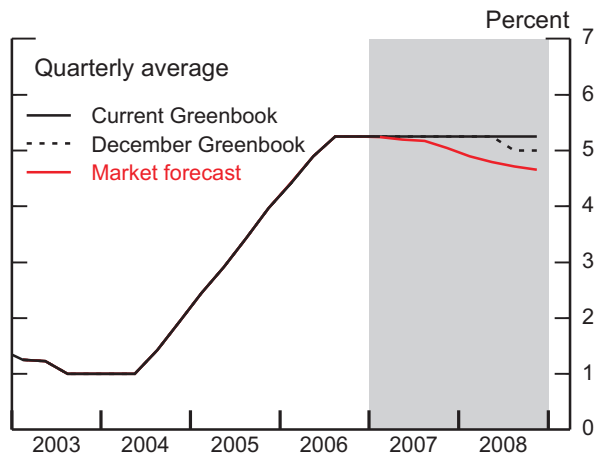
Summary and Outlook

January 24, 2007

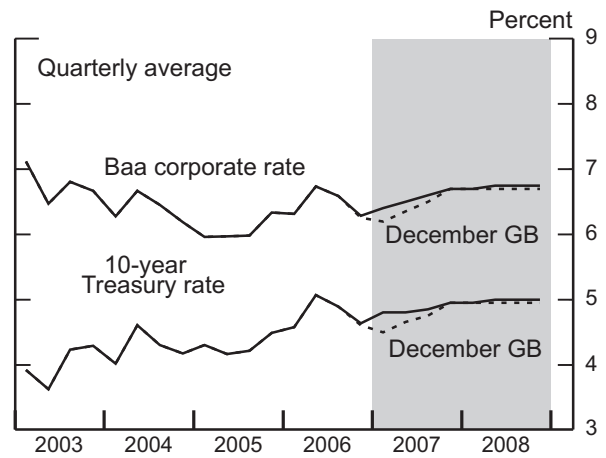
Summary and Outlook

Key Background Factors Underlying the Baseline Staff Projection

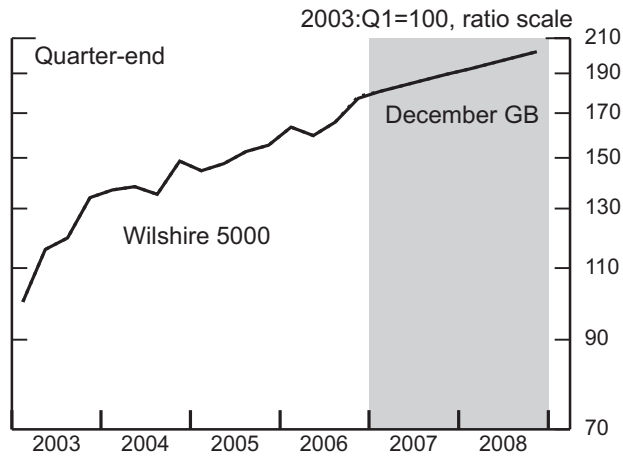
Federal Funds Rate



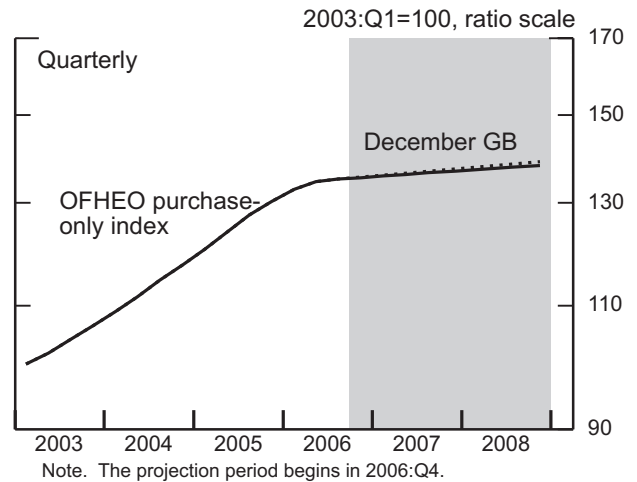
Long-Term Interest Rates



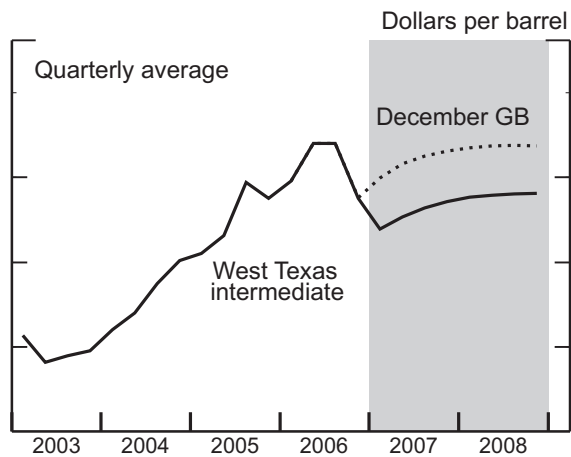
Equity Prices



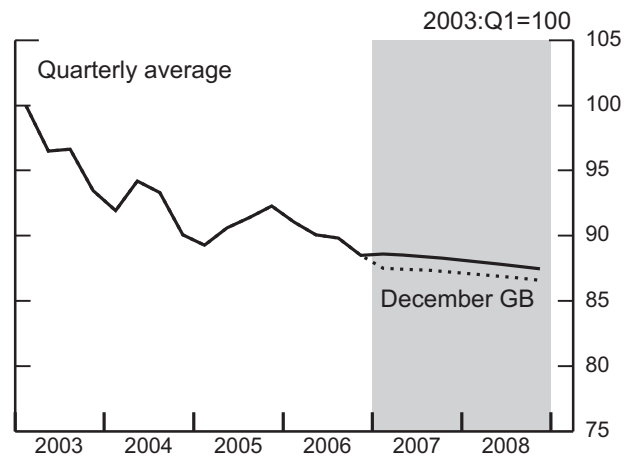
House Prices



Crude Oil Prices



Broad Real Dollar



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

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

Measure	2006:Q4		2007:Q1	
	Dec. GB	Jan. GB	Dec. GB	Jan. GB
Real GDP	1.3	2.6	1.7	2.0
Private domestic final purchases	1.2	2.1	1.3	2.0
Personal consumption expenditures	3.1	4.6	2.7	3.6
Residential investment	-23.8	-20.6	-20.3	-21.2
Business fixed investment	4.1	-1.4	3.9	3.9
Government outlays for consumption and investment	3.4	4.9	2.9	2.3
	Contribution to growth (percentage points)			
Inventory investment	-.9	-1.2	.3	.3
Net exports	.5	1.1	-.3	-.5

pace is about $\frac{3}{4}$ percentage point faster than we had projected in the December Greenbook.

That unexpected strength in private spending has been mirrored in the recent labor market data, which continue to provide little indication of the slowdown in the pace of hiring that we had expected. Increases in private payroll employment averaged 119,000 in the fourth quarter, close to the average pace in the previous two quarters, and the unemployment rate held steady at 4.5 percent in December. In response, we have revised up our forecast for private payroll gains in the first quarter by 25,000 per month, to an average of about 100,000 per month. We continue to expect the unemployment rate to average 4.6 percent in the first quarter.

Manufacturing production jumped 0.7 percent in December after some very soft readings in the fall. Forward-looking indicators point to more-modest monthly increases in manufacturing output—on the order of 0.2 percent—in coming months. Production of semiconductors, computers, and aircraft appears poised for continued solid gains, but output in sectors related to construction and motor vehicles appears likely to remain soft. As for motor vehicles, automakers' schedules call for only a slight increase in the production of light vehicles from the low pace of the fourth quarter. Production of medium and heavy trucks is expected to drop sharply this quarter after last year's surge to

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	2.3	2.2	2.3	2.5
Previous	1.7	2.0	2.2	2.5
Final sales	2.9	2.0	2.2	2.5
Previous	2.1	1.9	2.1	2.5
PCE	3.7	3.0	2.8	2.7
Previous	3.0	2.5	2.5	2.6
Residential investment	-19.6	-15.2	-8.8	2.0
Previous	-21.3	-14.0	-7.6	1.4
BFI	4.1	5.8	5.1	4.2
Previous	6.7	4.1	3.9	4.1
Government purchases	3.3	2.2	2.1	1.9
Previous	2.7	2.7	2.4	1.9
Exports	7.2	5.2	5.1	5.1
Previous	5.9	5.5	5.4	5.6
Imports	1.8	5.1	5.0	5.1
Previous	3.0	3.9	4.2	5.1
Contribution to growth (percentage points)				
Inventory change	-.6	.1	.1	-.0
Previous	-.4	.0	.1	.0
Net exports	.5	-.2	-.2	-.3
Previous	.1	-.0	-.1	-.2

Greenbook, the strength largely reflecting the lagged effects of the faster pace of real income growth that we now project over the first half of this year.

As noted earlier, the inventory of unsold new homes remains high. Accordingly, we forecast that single-family housing starts will remain weak in 2007, averaging 1.2 million units. That level of starts should go a long way toward eliminating the excess stock of unsold new homes, given our forecast that sales will stabilize and begin to edge up in the middle of this year. As the inventory adjustment proceeds, we expect single-family starts to turn up and to reach a pace of 1.3 million units by the end of 2008. In the multifamily sector—where construction activity has been relatively stable in recent years—we expect

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	2.5	2.5
<i>Contributions¹</i>							
Capital deepening	.7	1.4	.6	.5	.7	.6	.6
Previous	.7	1.4	.6	.5	.7	.6	.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	2.6	2.5

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

1. Percentage points.

The Outlook for the Labor Market

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

Measure	2005	2006	2007	2008
Output per hour, nonfarm business	2.5	1.5	2.4	2.6
Previous	2.5	1.2	2.6	2.7
Nonfarm private payroll employment	1.6	1.5	.7	.4
Previous	1.6	1.4	.5	.4
Household survey employment	1.9	2.1	.4	.5
Previous	1.9	1.8	.2	.5
Labor force participation rate ¹	66.1	66.3	66.0	65.7
Previous	66.1	66.2	65.8	65.6
Civilian unemployment rate ¹	5.0	4.5	4.8	4.9
Previous	5.0	4.5	5.0	5.1
MEMO				
GDP gap ²	-.0	.4	.1	.1
Previous	-.0	.1	-.3	-.3

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	1.9	2.2	2.1
Previous	3.1	2.0	2.8	2.1
Food and beverages	2.1	2.3	2.9	2.2
Previous	2.1	2.6	2.5	2.3
Energy	21.2	-3.9	1.8	2.2
Previous	21.2	-4.7	9.5	1.1
Excluding food and energy	2.1	2.3	2.2	2.0
Previous	2.1	2.4	2.3	2.1
Consumer price index	3.7	2.0	2.4	2.2
Previous	3.7	2.0	3.1	2.2
Excluding food and energy	2.1	2.7	2.4	2.2
Previous	2.1	2.8	2.5	2.3
GDP chain-weighted price index	3.1	2.6	2.6	2.3
Previous	3.1	2.5	2.6	2.4
ECI for compensation of private industry workers ¹	2.9	3.2	4.0	4.0
Previous	2.9	3.2	4.1	4.1
Compensation per hour, nonfarm business sector	4.1	4.9	4.9	4.9
Previous	4.1	4.9	5.1	5.0
Prices of core nonfuel imports	2.2	2.9	1.5	1.0
Previous	2.2	2.9	2.1	1.0

1. December to December.

the pace of hiring in coming quarters. Consequently, productivity is forecast to rise about in line with its trend this year and next, whereas payroll employment gains are expected to slow to about 60,000 per month in the second half of 2007 and in 2008.² These projected employment gains are below our estimate of the pace needed to absorb the projected increases in the labor force; accordingly, we expect the unemployment rate to rise to 4.9 percent by the end of 2008.

Prices and wages. Core PCE inflation is expected to edge down to 2.2 percent this year and 2 percent next year, 0.1 percentage point less each year than anticipated in the

² We estimate that the monthly pace of payroll employment growth consistent with no change in the unemployment rate will slow from about 110,000 in 2006 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	
	H2	H1	H2	H1	H2
<i>Real GDP</i>					
Greenbook baseline	2.3	2.2	2.4	2.5	2.5
Buoyant consumer spending		2.8	3.2	3.5	3.2
Weak investment		1.8	1.9	1.9	1.9
More extensive housing correction		2.1	1.8	2.0	2.3
Lower NAIRU		2.4	2.6	2.8	2.8
Slower productivity growth		1.9	1.5	1.3	1.3
with stable participation		2.2	2.2	2.3	2.3
Market-based federal funds rate		2.2	2.4	2.7	2.8
<i>Unemployment rate¹</i>					
Greenbook baseline	4.5	4.7	4.8	4.9	4.9
Buoyant consumer spending		4.6	4.6	4.5	4.3
Weak investment		4.7	4.9	5.1	5.2
More extensive housing correction		4.7	4.9	5.1	5.2
Lower NAIRU		4.7	4.7	4.8	4.7
Slower productivity growth		4.7	4.8	5.1	5.2
with stable participation		4.7	4.8	4.9	5.0
Market-based federal funds rate		4.7	4.8	4.9	4.8
<i>Core PCE inflation</i>					
Greenbook baseline	2.1	2.2	2.1	2.0	2.0
Buoyant consumer spending		2.2	2.1	2.0	2.1
Weak investment		2.2	2.1	2.1	2.1
More extensive housing correction		2.2	2.1	2.0	2.0
Lower NAIRU		2.1	1.9	1.7	1.7
Slower productivity growth		2.3	2.3	2.2	2.3
with stable participation		2.3	2.4	2.4	2.4
Market-based federal funds rate		2.2	2.1	2.1	2.1
<i>Federal funds rate¹</i>					
Greenbook baseline	5.3	5.3	5.3	5.3	5.3
Buoyant consumer spending		5.5	5.9	6.4	6.7
Weak investment		5.2	5.0	4.8	4.7
More extensive housing correction		5.3	5.0	4.7	4.6
Lower NAIRU		5.2	5.1	4.9	4.8
Slower productivity growth		5.6	5.7	5.7	5.4
with stable participation		5.4	5.5	5.6	5.6
Market-based federal funds rate		5.2	5.1	4.8	4.7

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

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

Measure	2007	2008
<i>Real GDP</i> (percent change, Q4 to Q4)		
Projection	2.3	2.5
Confidence interval		
Greenbook forecast errors	.8–3.8	.8–4.2
FRB/US stochastic simulations	1.1–3.6	.9–4.3
<i>Civilian unemployment rate</i> (percent, Q4)		
Projection	4.8	4.9
Confidence interval		
Greenbook forecast errors	4.4–5.3	4.0–5.8
FRB/US stochastic simulations	4.5–5.2	4.3–5.4
<i>PCE prices</i> <i>excluding food and energy</i> (percent change, Q4 to Q4)		
Projection	2.2	2.0
Confidence interval		
Greenbook forecast errors	1.6–2.7	1.1–2.9
FRB/US stochastic simulations	1.7–2.7	1.3–2.8
<i>Federal funds rate</i> (percent, Q4)		
Projection	5.2	5.2
Confidence interval		
FRB/US stochastic simulations	4.4–6.2	4.0–6.8

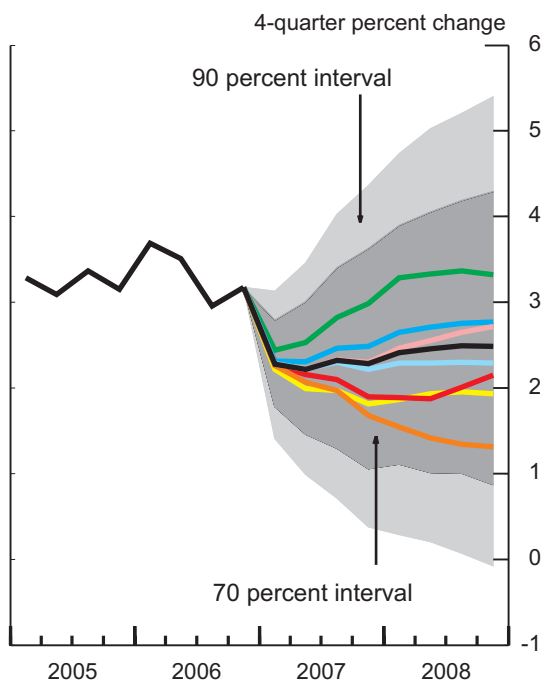
Note. Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1986-2005 set of model equation residuals. Intervals derived from Greenbook forecast errors are based on the 1986-2005 set of Greenbook historical errors.

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

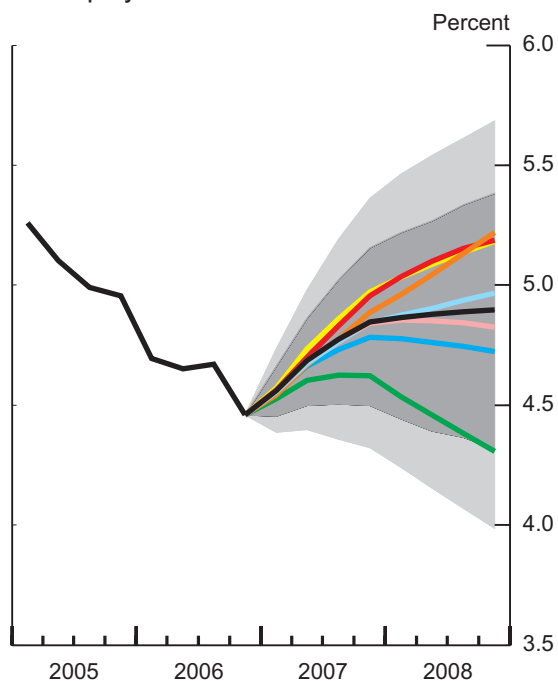
Confidence Intervals based on FRB/US Stochastic Simulations

- | | | |
|-----------------------------|-------------------------------------|--|
| ■ Greenbook baseline | ■ More extensive housing correction | ■ Slower productivity growth with stable participation |
| ■ Buoyant consumer spending | ■ Lower NAIUR | ■ Slower productivity growth |
| ■ Weak investment | ■ Market-based federal funds rate | |

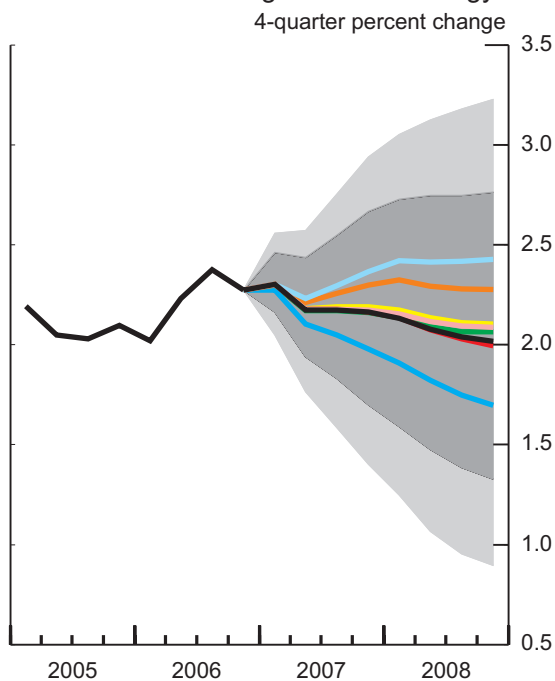
Real GDP



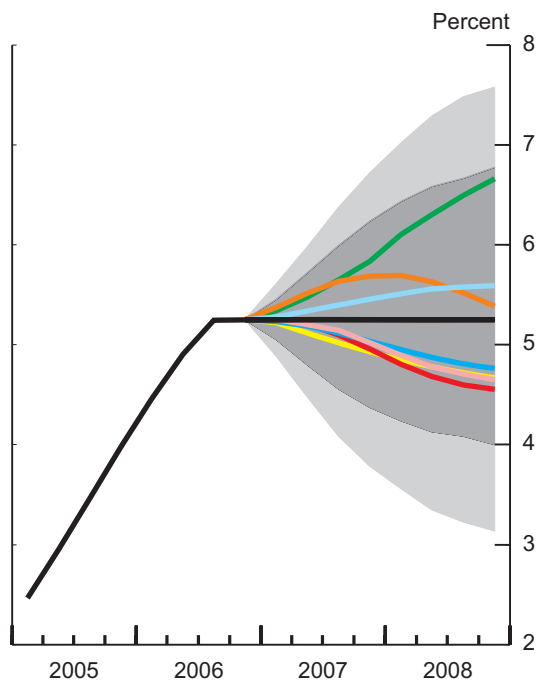
Unemployment Rate



PCE Prices excluding Food and Energy



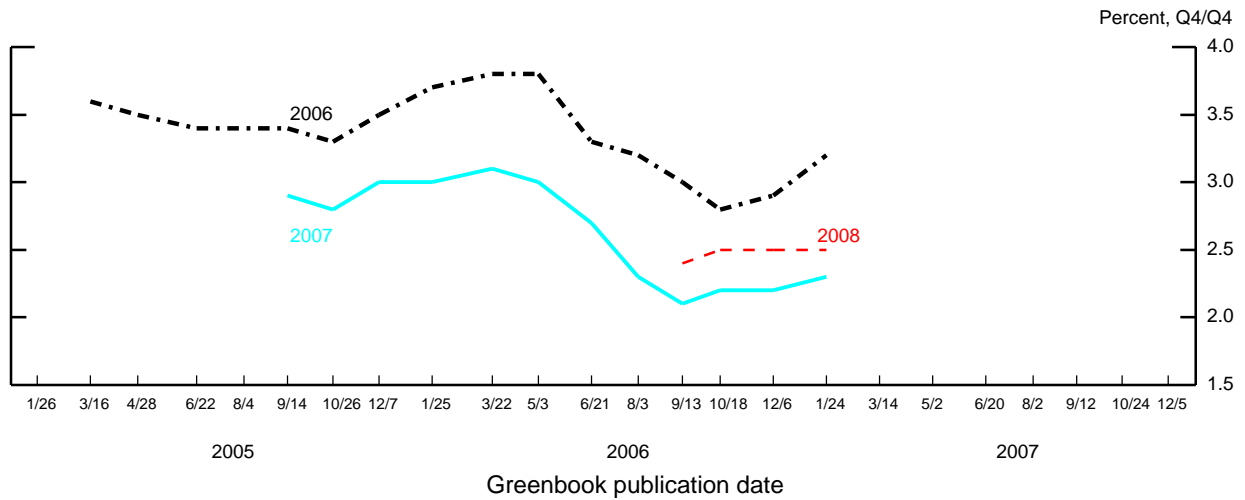
Federal Funds Rate



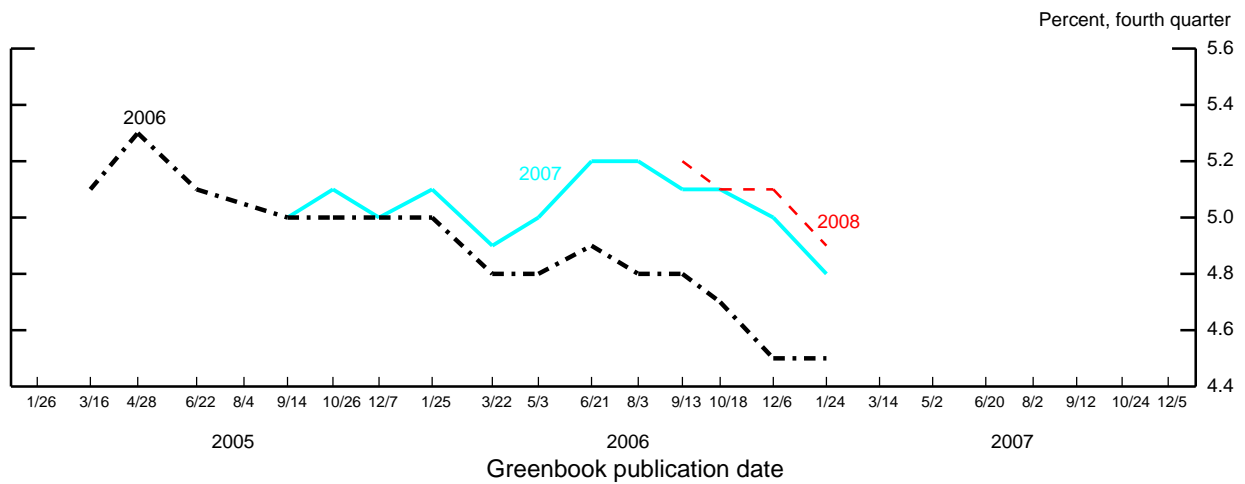
Class II FOMC - Restricted (FR)

Evolution of the Staff Forecast

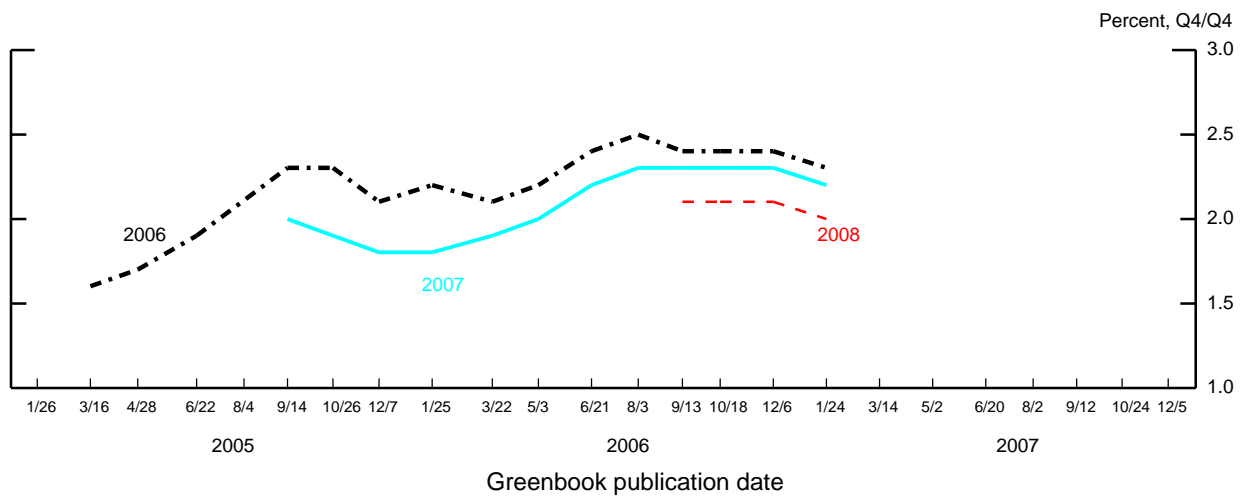
Change in Real GDP



Unemployment Rate



Change in PCE Prices excluding Food and Energy



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	
	12/06/06	01/24/07	12/06/06	01/24/07	12/06/06	01/24/07	12/06/06	01/24/07	12/06/06	01/24/07
<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	3.8	3.8	2.0	2.0	2.4	2.4	2.2	2.2	4.7	4.7
Q4	2.9	4.6	1.3	2.6	-5	-8	2.6	2.1	4.5	4.5
2007:Q1	5.2	5.7	1.7	2.0	3.7	1.9	2.4	2.2	4.6	4.6
Q2	4.7	4.7	2.2	2.3	2.6	2.4	2.3	2.2	4.8	4.7
Q3	4.9	4.7	2.4	2.4	2.5	2.4	2.3	2.2	4.9	4.8
Q4	4.7	4.7	2.4	2.5	2.3	2.2	2.3	2.1	5.0	4.8
2008:Q1	5.1	5.0	2.5	2.5	2.2	2.2	2.2	2.1	5.0	4.9
Q2	5.0	4.9	2.5	2.5	2.1	2.1	2.1	2.0	5.0	4.9
Q3	4.9	4.8	2.5	2.5	2.1	2.0	2.1	2.0	5.1	4.9
Q4	4.8	4.7	2.5	2.5	2.0	2.0	2.1	2.0	5.1	4.9
<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	3.3	4.2	1.7	2.3	1.0	.8	2.4	2.1	-2	-2
2007:Q2	5.0	5.2	2.0	2.2	3.1	2.2	2.4	2.2	.3	.2
Q4	4.8	4.7	2.4	2.4	2.4	2.3	2.3	2.1	.2	.1
2008:Q2	5.1	4.9	2.5	2.5	2.2	2.1	2.2	2.0	.0	.1
Q4	4.8	4.7	2.5	2.5	2.0	2.0	2.1	2.0	.1	.0
<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	5.8	2.9	3.2	2.0	1.9	2.4	2.3	-5	-5
2007:Q4	4.9	5.0	2.2	2.3	2.8	2.2	2.3	2.2	.5	.4
2008:Q4	4.9	4.8	2.5	2.5	2.1	2.1	2.1	2.0	.1	.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	6.3	6.4	3.3	3.3	2.8	2.8	2.3	2.2	4.6	4.6
2007	4.5	4.9	1.9	2.3	2.3	1.8	2.4	2.2	4.8	4.7
2008	4.9	4.8	2.5	2.5	2.2	2.2	2.2	2.1	5.0	4.9

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

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

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

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

Item	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	2.6	2.0	2.3	2.4	2.5	2.5	2.5	2.5	2.5	3.2	2.3	2.5
Final sales <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
Priv. dom. final purch. <i>Previous</i>	5.6	2.1	1.9	3.9	1.6	2.4	2.5	2.0	2.2	2.8	2.7	2.5	3.4	2.2	2.5
	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
	5.5	1.8	2.1	2.1	2.0	2.3	2.5	2.5	2.8	2.8	2.8	2.9	2.8	2.3	2.8
	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
Personal cons. expend. <i>Previous</i>	4.8	2.6	2.8	4.6	3.6	2.4	2.5	2.6	2.7	2.7	2.7	2.7	3.7	2.8	2.7
Durables	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
Nondurables	19.8	-1	6.4	10.2	6.1	1.4	3.9	3.9	4.8	4.2	4.0	4.1	8.8	3.8	4.3
Services	5.9	1.4	1.5	6.8	5.3	3.1	2.6	2.6	2.8	2.8	2.9	2.9	3.9	3.4	2.8
	1.6	3.7	2.8	2.6	2.4	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.7	2.2	2.3
Residential investment <i>Previous</i>	-3	-11.1	-18.7	-20.6	-21.2	-8.7	-2.2	-1.6	-7	2.2	2.7	4.1	-13.0	-8.8	2.0
	-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
Business fixed invest. <i>Previous</i>	13.7	4.4	10.0	-1.4	3.9	7.7	4.4	4.2	4.9	4.0	4.0	4.0	6.5	5.1	4.2
Equipment & software <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
	15.6	-1.4	7.7	-4.1	3.4	8.5	4.5	4.7	6.3	5.2	5.6	5.9	4.2	5.2	5.7
	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
Nonres. structures <i>Previous</i>	8.7	20.3	15.7	5.0	5.3	6.0	4.3	3.1	1.9	1.5	.7	.1	12.3	4.7	1.1
	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
Net exports ² <i>Previous</i> ²	-637	-624	-629	-596	-610	-610	-609	-625	-642	-643	-646	-657	-621	-613	-647
Exports	-637	-624	-629	-615	-624	-617	-609	-624	-637	-633	-631	-650	-626	-619	-638
Imports	14.0	6.2	6.8	7.5	5.3	5.2	5.0	4.8	4.9	5.1	5.2	5.3	8.6	5.1	5.1
	9.1	1.4	5.6	-1.8	6.7	3.5	3.2	6.5	6.9	3.7	4.2	5.8	3.5	5.0	5.1
Govt. cons. & invest. <i>Previous</i>	4.9	.8	1.7	4.9	2.3	2.2	2.0	2.0	2.0	2.0	1.8	1.8	3.0	2.1	1.9
Federal	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
Defense	8.8	-4.5	1.3	8.8	1.9	1.5	1.3	1.3	1.4	1.4	1.3	1.3	3.4	1.5	1.3
Nondefense	8.9	-2.0	-1.2	14.9	2.8	2.2	2.0	2.0	2.0	2.0	2.0	2.0	4.9	2.2	2.0
State & local	8.5	-9.3	6.5	-2.7	.0	.0	.0	.0	.0	.0	.0	.0	.5	.0	.0
	2.7	4.0	1.9	2.7	2.6	2.6	2.4	2.4	2.4	2.4	2.1	2.1	2.8	2.5	2.2
Change in bus. inventories ² <i>Previous</i> ²	41	54	55	20	30	27	22	35	44	36	31	30	43	29	35
Nonfarm ²	41	54	57	31	40	34	27	40	49	40	34	45	46	35	42
Farm ²	37	52	53	21	31	27	22	35	44	36	30	30	41	29	35
	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.

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	3.2 2.9	2.3 2.2	2.5 2.5
Final sales <i>Previous</i>	2.9 2.9	1.5 1.5	.8 .8	3.7 3.7	3.1 3.1	3.2 3.2	3.4 3.0	2.2 2.1	2.5 2.5
Priv. dom. final purch. <i>Previous</i>	4.3 4.3	1.0 1.0	1.1 1.1	4.1 4.1	4.4 4.4	3.6 3.6	2.8 2.6	2.3 2.0	2.8 2.7
Personal cons. expend. <i>Previous</i>	4.1 4.1	2.8 2.8	1.9 1.9	3.4 3.4	4.0 4.0	2.9 2.9	3.7 3.3	2.8 2.5	2.7 2.6
Durables	4.7	10.8	1.2	8.3	5.6	2.5	8.8	3.8	4.3
Nondurables	3.0	1.9	2.1	3.9	3.8	4.4	3.9	3.4	2.8
Services	4.5	1.6	1.9	2.2	3.7	2.3	2.7	2.2	2.3
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	-13.0 -13.9	-8.8 -7.6	2.0 1.4
Business fixed invest. <i>Previous</i>	7.8 7.8	-9.6 -9.6	-6.5 -6.5	4.9 4.9	6.9 6.9	5.6 5.6	6.5 7.8	5.1 3.9	4.2 4.1
Equipment & software <i>Previous</i>	7.5 7.5	-9.0 -9.0	-3.4 -3.4	6.6 6.6	8.3 8.3	7.0 7.0	4.2 5.9	5.2 3.7	5.7 5.6
Nonres. structures <i>Previous</i>	8.8 8.8	-11.1 -11.1	-14.9 -14.9	.2 .2	2.7 2.7	1.8 1.8	12.3 12.5	4.7 4.4	1.1 1.1
Net exports ² <i>Previous</i> ²	-379 -379	-399 -399	-471 -471	-519 -519	-591 -591	-619 -619	-621 -626	-613 -619	-647 -638
Exports	6.5	-11.9	3.8	5.8	7.0	6.7	8.6	5.1	5.1
Imports	11.2	-7.6	9.7	4.8	10.6	5.2	3.5	5.0	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	3.0 2.8	2.1 2.4	1.9 1.9
Federal	-2.2	6.4	7.8	5.5	2.3	2.1	3.4	1.5	1.3
Defense	-3.5	6.5	8.4	7.5	2.5	1.9	4.9	2.2	2.0
Nondefense	.3	6.3	6.8	1.9	1.8	2.4	.5	.0	.0
State & local	1.7	4.2	2.1	-.4	.4	.8	2.8	2.5	2.2
Change in bus. inventories ² <i>Previous</i> ²	56 56	-32 -32	12 12	14 14	53 53	20 20	43 46	29 35	35 42
Nonfarm ²	58	-32	15	14	47	20	41	29	35
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	2.6	2.0	2.3	2.4	2.5	2.5	2.5	2.5	2.5	3.2	2.3	2.5
Final sales <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
Priv. dom. final purch. <i>Previous</i>	5.6	2.1	1.9	3.8	1.7	2.4	2.5	2.0	2.2	2.8	2.7	2.5	3.4	2.2	2.5
Personal cons. expend. <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
Durables	4.7	1.5	1.8	1.8	1.7	2.0	2.1	2.2	2.4	2.4	2.4	2.5	2.4	2.0	2.4
Nondurables	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
Services															
Personal cons. expend. <i>Previous</i>	3.4	1.8	2.0	3.2	2.5	1.6	1.7	1.8	1.9	1.9	1.9	1.9	2.6	1.9	1.9
Durables	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
Nondurables	1.5	.0	.5	.8	.5	.1	.3	.3	.4	.3	.3	.3	.7	.3	.3
Services	1.2	.3	.3	1.4	1.1	.6	.5	.5	.6	.6	.6	.6	.8	.7	.6
	.7	1.5	1.1	1.1	1.0	.9	.9	.9	1.0	1.0	1.0	1.0	1.1	.9	1.0
Residential investment <i>Previous</i>	.0	-.7	-1.2	-1.3	-1.2	-.4	-.1	-.1	.0	.1	.1	.2	-.8	-.5	.1
	.0	-.7	-1.2	-1.5	-1.2	-.4	-.1	.0	-.1	.0	.1	.2	-.9	-.4	.1
Business fixed invest. <i>Previous</i>	1.4	.5	1.0	-.2	.4	.8	.5	.4	.5	.4	.4	.4	.7	.5	.5
Equipment & software <i>Previous</i>	1.4	.5	1.0	.4	.4	.5	.4	.4	.5	.5	.4	.4	.8	.4	.4
	1.1	-.1	.6	-.3	.2	.6	.3	.3	.5	.4	.4	.4	.3	.4	.4
	1.1	-.1	.5	.2	.2	.3	.3	.3	.4	.4	.4	.4	.4	.3	.4
Nonres. structures <i>Previous</i>	.3	.6	.5	.2	.2	.2	.1	.1	.1	.1	.0	.0	.4	.2	.0
	.3	.6	.4	.2	.2	.2	.1	.1	.1	.1	.0	.0	.4	.1	.0
Net exports <i>Previous</i>	.0	.4	-.2	1.1	-.5	.0	.0	-.5	-.6	.0	-.1	-.4	.3	-.2	-.3
Exports	.0	.4	-.2	.5	-.3	.3	.2	-.5	-.5	.1	.1	-.6	.2	-.1	-.2
Imports	1.4	.7	.7	.8	.6	.6	.6	.5	.6	.6	.6	.6	.9	.6	.6
	-1.5	-.2	-.9	.3	-1.1	-.6	-.5	-1.1	-1.1	-.6	-.7	-1.0	-.6	-.8	-.8
Govt. cons. & invest. <i>Previous</i>	.9	.2	.3	.9	.4	.4	.4	.4	.4	.4	.3	.4	.6	.4	.4
Federal	.9	.2	.4	.6	.6	.5	.4	.4	.4	.4	.3	.3	.5	.5	.4
Defense	.6	-.3	.1	.6	.1	.1	.1	.1	.1	.1	.1	.1	.2	.1	.1
Nondefense	.4	-.1	-.1	.7	.1	.1	.1	.1	.1	.1	.1	.1	.2	.1	.1
State & local	.2	-.2	.2	-.1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
	.3	.5	.2	.3	.3	.3	.3	.3	.3	.3	.3	.3	.3	.3	.3
Change in bus. inventories <i>Previous</i>	.0	.4	.1	-1.2	.3	-.1	-.2	.4	.3	-.3	-.2	.0	-.2	.1	.0
Nonfarm	.0	.4	.1	-.9	.3	-.2	-.2	.5	.3	-.3	-.2	.4	-.1	.1	.0
Farm	.0	.5	.1	-1.1	.3	-.1	-.2	.4	.3	-.3	-.2	.0	-.2	.1	.0
	.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)

January 24, 2007

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	1.9	1.9	3.7	2.4	2.3	2.2	2.4	2.3	2.2	2.1	2.6	2.6	2.3
PCE 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
Energy	2.0	4.0	2.4	-8	1.9	2.4	2.4	2.2	2.2	2.1	2.0	2.0	1.9	2.2	2.1
<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	.1	29.7	3.7	-36.6	-5.7	3.2	6.1	4.0	3.2	2.3	1.9	1.4	-3.9	1.8	2.2
<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
Ex. food & energy	2.7	1.7	2.9	1.8	3.6	3.1	2.6	2.4	2.3	2.2	2.2	2.2	2.3	2.9	2.2
<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
CPI	2.1	2.7	2.2	2.1	2.2	2.2	2.2	2.1	2.1	2.0	2.0	2.0	2.3	2.2	2.0
<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
Ex. food & energy	2.2	4.9	3.0	-2.1	2.0	2.6	2.6	2.4	2.3	2.2	2.1	2.1	2.0	2.4	2.2
<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
ECL, hourly compensation ²	2.4	3.6	3.0	1.8	2.4	2.5	2.3	2.3	2.2	2.2	2.2	2.2	2.7	2.4	2.2
<i>Previous</i> 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
Nonfarm business sector	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
Output per hour	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
<i>Previous</i>	4.3	1.2	-2	.9	1.5	2.5	2.7	2.8	2.7	2.6	2.6	2.5	1.5	2.4	2.6
Compensation per hour	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
<i>Previous</i>	13.7	-1.2	3.1	4.6	4.9	4.9	4.9	4.9	4.9	5.0	4.8	4.8	4.9	4.9	4.9
Unit labor costs	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
<i>Previous</i>	9.0	-2.4	3.2	3.7	3.3	2.3	2.2	2.0	2.1	2.3	2.1	2.2	3.3	2.4	2.2
<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

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	.5	.5	.4	.2	.2	.2	.2	.2	.2	.2	1.9	1.0	.7
Unemployment rate ³	4.7	4.7	4.7	4.5	4.6	4.7	4.8	4.8	4.9	4.9	4.9	4.9	4.5	4.8	4.9
<i>Previous³</i>	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
GDP gap ⁴	.7	.6	.5	.4	.3	.2	.2	.1	.1	.1	.1	.1	.4	.1	.1
<i>Previous⁴</i>	.7	.6	.5	.1	-.1	-.2	-.2	-.3	-.3	-.3	-.3	-.3	.1	-.3	-.3
Industrial production ⁵	5.0	6.5	4.0	-.5	2.8	3.4	3.2	3.4	4.0	3.4	3.5	3.6	3.7	3.2	3.6
<i>Previous⁵</i>	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
Manufacturing industr. prod. ⁵	5.5	5.5	4.4	-1.4	3.4	3.7	3.5	3.6	4.5	4.0	3.6	3.7	3.5	3.5	4.0
<i>Previous⁵</i>	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
Capacity utilization rate - mfg. ³	80.1	80.6	80.9	80.2	80.3	80.5	80.7	81.0	81.2	81.3	81.3	81.4	80.2	81.0	81.4
<i>Previous³</i>	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
Housing starts ⁶	2.1	1.9	1.7	1.6	1.5	1.5	1.5	1.5	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	16.3	16.6	16.5	16.5	16.5	16.6	16.7	16.7	16.7	16.5	16.5	16.7
<i>Income and saving</i>															
Nominal GDP ⁵	9.0	5.9	3.8	4.6	5.7	4.7	4.7	4.7	5.0	4.9	4.8	4.7	5.8	5.0	4.8
Real disposable pers. income ⁵	4.6	-1.5	4.1	6.5	5.0	3.0	3.3	3.4	4.1	3.2	3.5	3.4	3.4	3.7	3.5
<i>Previous⁵</i>	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
Personal saving rate ³	-.3	-1.4	-1.2	-.7	-.4	-.2	.0	.2	.5	.6	.8	1.0	-.7	.2	1.0
<i>Previous³</i>	-.3	-1.4	-1.3	-.7	-.5	-.4	-.2	.0	.4	.6	.8	1.0	-.7	.0	1.0
Corporate profits ⁷	60.8	5.9	16.4	.2	-.6	-4.1	1.6	-1.1	1.3	.2	.3	-.8	18.7	-1.1	.2
Profit share of GNP ³	12.0	12.0	12.4	12.3	12.1	11.9	11.8	11.6	11.5	11.4	11.3	11.1	12.3	11.6	11.1
Net federal saving ⁸	-147	-163	-166	-201	-216	-217	-221	-238	-264	-264	-263	-273	-169	-223	-266
Net state & local saving ⁸	13	26	-10	-4	4	5	-5	-8	-8	-8	-17	-19	6	-1	-13
Gross national saving rate ³	14.4	13.5	13.5	13.5	13.5	13.4	13.3	13.2	13.2	13.2	13.2	13.1	13.5	13.2	13.1
Net national saving rate ³	2.9	1.9	1.9	2.1	2.2	2.0	2.0	1.8	1.8	1.8	1.8	1.8	2.1	1.8	1.8

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)

January 24, 2007

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	2531	2661	507	772	597	574	519	832	607	602	552	873	634	619
Outlays ¹	2473	2655	2763	2930	691	676	639	654	728	706	674	735	744	732	719	768
Surplus/deficit ¹	-319	-248	-232	-269	-184	96	-42	-80	-209	125	-67	-133	-192	141	-85	-149
<i>Previous</i>	-319	-248	-247	-285	-184	96	-42	-102	-200	118	-64	-134	-188	123	-86	-147
On-budget	-494	-435	-417	-469	-216	11	-60	-143	-232	37	-80	-200	-216	46	-98	-222
Off-budget	175	186	185	199	32	85	19	62	22	88	13	67	24	95	13	73
Means of financing																
Borrowing	297	237	216	271	156	-75	43	59	181	-94	70	123	165	-110	94	139
Cash decrease	1	-16	17	0	28	-38	-6	21	16	-25	5	10	15	-25	0	10
Other ²	22	28	-1	-2	-1	16	5	0	12	-6	-8	-0	12	-6	-8	-0
Cash operating balance, end of period	36	52	35	35	8	46	52	31	15	40	35	25	10	35	35	25
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	2174	2482	2622	2733	2491	2523	2565	2571	2612	2638	2667	2692	2719	2747	2775	2802
Expenditures	2509	2667	2836	2990	2638	2686	2730	2772	2828	2855	2888	2929	2983	3012	3038	3076
Consumption expenditures	758	797	845	886	804	802	809	825	844	851	859	866	885	892	900	907
Defense	509	533	570	601	538	538	539	556	569	575	581	587	600	606	612	618
Nondefense	249	264	274	284	266	265	270	269	275	276	278	279	285	286	288	289
Other spending	1751	1870	1991	2105	1834	1884	1921	1947	1984	2004	2029	2063	2098	2120	2138	2168
Current account surplus	-335	-185	-214	-257	-147	-163	-166	-201	-216	-217	-221	-238	-264	-264	-263	-273
Gross investment	107	117	126	130	118	117	118	124	125	126	127	128	129	130	131	132
Gross saving less gross investment ³	-344	-199	-231	-273	-163	-177	-179	-219	-234	-234	-239	-254	-280	-280	-278	-288
Fiscal indicators⁴																
High-employment (HEB)																
surplus/deficit	-339	-222	-252	-282	-191	-208	-205	-250	-256	-252	-252	-266	-289	-288	-285	-295
Change in HEB, percent of potential GDP	-0.3	-1.0	0.1	0.1	-0.7	0.1	-0.0	0.3	0.0	-0.0	-0.0	0.1	0.1	-0.0	-0.0	0.0
Fiscal impetus (FI), percent of GDP																
<i>Previous</i>	0.2	0.3	0.3	0.1	0.2	-0.0	0.0	0.1	0.1	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0
	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

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** **January 24, 2007**
(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	5.9	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	11.8	13.8	4.2	7.8	10.2	7.0	6.4
2006	7.8	8.2	8.7	4.7	9.3	8.4	3.9	5.8
2007	6.5	5.9	6.1	4.4	7.6	7.4	5.7	5.0
2008	6.1	5.7	6.1	3.6	6.6	7.1	5.6	4.8
<i>Quarter</i>								
2006:1	9.5	9.7	10.9	2.4	9.6	3.5	11.3	9.0
2	6.7	9.1	9.1	6.3	8.4	6.6	-2.4	5.9
3	6.6	6.8	7.2	5.5	7.7	9.3	3.3	3.8
4	7.5	6.2	6.3	4.5	10.3	13.3	3.3	4.6
2007:1	7.9	5.9	6.1	4.8	8.2	6.8	12.9	5.7
2	4.8	5.8	6.0	4.5	7.5	7.5	-3.9	4.7
3	6.2	5.7	6.0	4.2	7.2	7.4	5.4	4.7
4	6.5	5.6	6.0	4.0	6.5	7.2	8.2	4.7
2008:1	6.8	5.6	6.0	3.8	6.2	7.1	11.0	5.0
2	4.2	5.6	6.0	3.6	6.6	7.0	-4.9	4.9
3	6.2	5.5	6.0	3.5	6.5	6.9	6.9	4.8
4	6.5	5.5	6.0	3.5	6.5	6.8	9.0	4.7

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

January 24, 2007

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

Category	2005	2006	2007	2008	2006				2007				2008			
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<i>Domestic nonfinancial sectors</i>																
Net funds raised																
Total	1953.7	1441.0	1551.3	1619.0	1287.0	1281.9	1852.5	1050.7	1589.3	1712.8	1848.9	1081.6	1703.7	1842.0		
Net equity issuance	-363.4	-637.3	-314.0	-232.0	-554.6	-823.6	-420.0	-352.0	-252.0	-232.0	-232.0	-232.0	-232.0	-232.0		
Net debt issuance	2317.1	2078.3	1865.3	1851.0	1841.6	2105.5	2272.5	1402.7	1841.3	1944.8	2080.9	1313.6	1935.7	2074.0		
Borrowing indicators																
Debt (percent of GDP) ¹	204.6	209.0	213.3	216.3	209.9	211.3	212.3	213.2	213.7	214.6	215.5	215.9	216.1	217.1		
Borrowing (percent of GDP)	18.6	15.7	13.4	12.7	13.8	15.6	16.6	10.2	13.2	13.8	14.5	9.1	13.2	14.0		
Households																
Net borrowing ²	1241.6	965.0	749.9	766.2	835.5	777.3	758.5	747.9	744.7	748.5	754.7	762.1	769.5	778.5		
Home mortgages	1077.7	768.4	593.3	625.3	672.7	601.6	592.1	587.4	592.1	601.6	611.1	620.6	630.0	639.5		
Consumer credit	94.3	109.9	108.0	92.7	129.7	107.6	116.2	111.6	104.5	99.5	96.0	93.6	91.1	90.3		
Debt/DPI (percent) ³	123.7	128.7	130.0	130.1	129.9	130.2	129.9	130.1	130.1	130.1	129.9	130.0	130.1	130.1		
Business																
Financing gap ⁴	-138.6	25.9	55.2	147.8	47.9	-14.0	15.3	44.7	61.7	99.1	129.0	138.0	151.6	172.5		
Net equity issuance	-363.4	-637.3	-314.0	-232.0	-554.6	-823.6	-420.0	-352.0	-252.0	-232.0	-232.0	-232.0	-232.0	-232.0		
Credit market borrowing	597.3	773.9	685.1	643.9	669.8	911.4	744.0	695.6	674.8	625.8	606.8	655.8	651.7	661.4		
State and local governments																
Net borrowing	171.3	156.0	149.7	153.7	176.3	258.8	137.7	153.7	153.7	153.7	153.7	153.7	153.7	153.7		
Current surplus ⁵	203.8	203.0	181.6	177.8	171.8	173.8	183.5	186.6	178.5	177.8	179.3	181.8	175.1	174.7		
Federal government																
Net borrowing	306.9	183.4	280.7	287.2	160.1	158.0	632.3	-194.5	268.0	416.8	565.7	-258.0	360.8	480.4		
Net borrowing (n.s.a.)	306.9	183.4	280.7	287.2	43.4	58.6	181.3	-94.4	70.4	123.3	164.7	-110.2	93.6	139.2		
Unified deficit (n.s.a.)	321.8	209.2	284.5	285.4	41.7	80.4	209.5	-125.3	67.1	133.3	192.0	-141.0	85.2	149.2		
<i>Depository institutions</i>																
Funds supplied	814.1	810.2	492.3	333.4	404.0	829.6	585.8	590.9	664.2	128.5	93.3	507.5	370.2	362.7		

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

Since the December FOMC meeting, prospects for foreign economic growth have been improved by a decline in spot and future oil prices of around \$8 to \$10 per barrel and an increase in the broad nominal value of the dollar of a little more than 1 percent. We have lowered our projected path of oil prices and raised our projected path of the broad real dollar accordingly. In addition, readings on foreign activity during the intermeeting period have been strong. All together, these developments suggest that the expansion abroad should continue at a pace that is a notch higher than the already healthy pace in the previous Greenbook. Foreign consumer price inflation, which declined as oil prices trended down, will move back up as oil prices reverse some of their decline but will remain below the rate previously forecast.

Summary of Staff Projections

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

Indicator	2006		Projection				
	H1	Q3	2006 Q4	2007			2008
				Q1	Q2	H2	
Foreign output	4.4	3.3	3.5	3.3	3.4	3.4	3.5
December GB	4.4	3.4	3.3	3.2	3.3	3.3	3.4
Foreign CPI	2.4	1.8	1.5	2.1	2.0	2.1	2.1
December GB	2.4	1.8	1.4	2.5	2.4	2.3	2.2

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

Core import price inflation is forecast to remain subdued, moving from about 2 percent at present to 1 percent in 2008 as nonfuel commodity prices flatten out and the dollar depreciates only slightly. The forecast for core import price inflation is lower this year than in the previous Greenbook, largely reflecting the recent increase in the dollar.

Real net exports of goods and services are estimated to have made a positive arithmetic contribution to U.S. GDP growth of more than 1 percentage point in the last quarter of 2006—more than $\frac{1}{2}$ percentage point higher than projected in the December Greenbook. This year and next, net exports are forecast to subtract around $\frac{1}{4}$ percentage point from U.S. GDP growth. The magnitude of the negative contribution is somewhat greater than in the previous Greenbook, largely because of the higher path for the dollar.

futures markets, and that the effects of earlier commodity price increases will diminish quickly over the next several quarters. Compared with the December Greenbook, our projection is down 1 percentage point on average in the first half, in light of the recent strengthening of the dollar, but it is little changed thereafter.

Staff Projections of Selected Trade Prices

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

Indicator	2006		Projection				
	H1	Q3	2006: Q4	2007			2008
				Q1	Q2	H2	
<i>Exports</i>							
Core goods	5.3	5.8	1.0	4.0	2.7	1.4	1.0
December GB	5.3	5.8	-0.2	4.0	3.7	1.5	1.2
<i>Imports</i>							
Core goods	2.7	4.3	1.7	2.0	1.6	1.3	1.0
December GB	2.7	4.2	2.0	3.3	2.2	1.5	1.0
Oil (dollars per barrel)	63.75	66.55	55.43	50.08	51.39	54.48	55.97
December GB	63.75	66.58	56.08	58.68	61.32	63.98	65.03

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 price inflation dropped from 5¾ percent at an annual rate in the third quarter to just 1 percent in the fourth quarter. Data on export prices in the fourth quarter were quite weak on average, in part reflecting the slower pace of commodity price increases relative to the third quarter. Even so, this estimate is up noticeably from the last Greenbook, when we projected that core export prices had fallen slightly. Core export prices came in very close to our expectations in November but exceeded our expectations in December; prices for agricultural industrial supplies, fuels, and building materials all moved up strongly.

We expect core export price inflation to move up in the current quarter to 4 percent, in line with projected increases in U.S. prices, especially agricultural prices, and reflecting the high level of core export prices in December. Further out we project core export price inflation to slow gradually to 1 percent by the end of 2008, as agricultural prices flatten out. Compared with the previous Greenbook, this outlook is little changed aside

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
				Q1	Q2	H2	
Real exports	10.0	6.8	7.5	5.3	5.2	4.9	5.1
December GB	10.0	6.3	5.4	5.5	5.6	5.4	5.6
Real imports	5.2	5.6	-1.8	6.7	3.5	4.9	5.1
December GB	5.2	5.3	.7	5.6	2.2	4.5	5.1

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

We project that import growth will slow to 3½ percent in the second quarter, largely on account of a quirky seasonal adjustment factor that depresses real oil imports, before climbing to about 5 percent in the second half of 2007 and in 2008. Core import growth is expected to pick up throughout 2007, supported by firming U.S. GDP growth and a deceleration in core import prices, before leveling off at just over 5½ percent in 2008. Imports of services are expected to grow steadily throughout the projection period, as are imports of computers and semiconductors. Our forecast for import growth in the final three quarters of this year has been revised up about ¾ percentage point from the December Greenbook forecast, because of a smaller projected decline in real oil imports as well as the positive effect of the higher projected path of the dollar on imports of core goods and services.

Real exports of goods and services are estimated to have increased 7½ percent in the fourth quarter, a bit faster than the pace of growth in the third quarter, as an acceleration in exports of services more than offsets a decline in the growth rate of core exports. This estimate is about 2 percentage points stronger than the one in the December Greenbook, largely because of stronger-than-expected exports in both the October and the November trade data, with exports of aircraft exhibiting particular strength. We project that real export growth will decline to 5¼ percent in the current quarter, as exports of aircraft flatten out and exports of both core goods and services decelerate to rates consistent with the pace of foreign GDP growth and recent developments in relative prices. Our projection for the first quarter is about ¼ percentage point lower than that in the previous Greenbook, largely because of negative effects of the higher projected path of the dollar on exports of core goods and services.

This leads monetary policy abroad to tighten, raising real interest rates and causing foreign activity to decelerate. This shock is phased in beginning in the first quarter of 2007 and is also calibrated to lower foreign GDP 2 percent below baseline in the second half of 2008. In the second scenario, there are noticeably smaller spillover effects on U.S. activity and prices than in the first scenario because the dollar depreciates in response to higher real interest rates abroad. Accordingly, the reduction of U.S. real net exports is smaller, and U.S. GDP growth declines only 0.1 percentage point below baseline in the second half of 2007 and in 2008. Core PCE inflation is unchanged in the second half of 2007 and is down about 0.1 percentage point on average in 2008, as the effect of lower resource utilization on domestic inflation is offset to some extent by a rise in import prices.

Alternative Scenarios
Lower Foreign Demand and Higher Foreign Inflation
(Percent change from previous period, annual rate, except as noted)

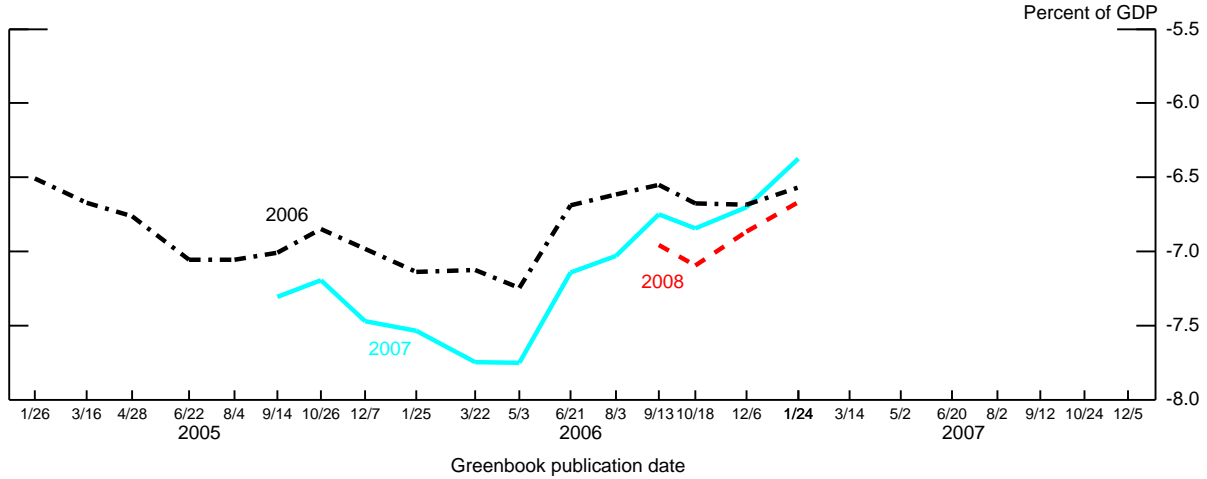
Indicator and simulation	2007		2008	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	2.2	2.4	2.5	2.5
Lower foreign demand	2.1	2.2	2.2	2.1
Higher foreign inflation	2.1	2.3	2.4	2.4
<i>U.S. core PCE inflation</i>				
Baseline	2.2	2.1	2.0	2.0
Lower foreign demand	2.2	2.0	1.8	1.8
Higher foreign inflation	2.2	2.1	1.9	1.8
<i>U.S. federal funds rate (percent)</i>				
Baseline	5.3	5.3	5.3	5.3
Lower foreign demand	5.2	5.0	4.7	4.4
Higher foreign inflation	5.3	5.2	5.1	4.9
<i>U.S. trade balance (percent of GDP)</i>				
Baseline	-5.1	-5.2	-5.3	-5.2
Lower foreign demand	-5.0	-5.2	-5.4	-5.5
Higher foreign inflation	-5.1	-5.2	-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 adjust their policy rates according to Taylor rules.

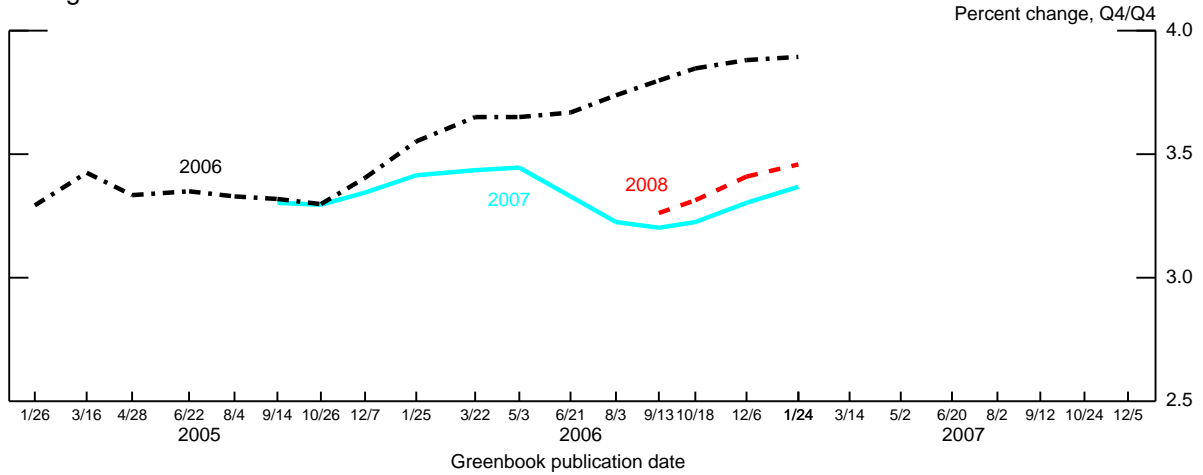
Class II FOMC -- Restricted (FR)

Evolution of the Staff Forecast

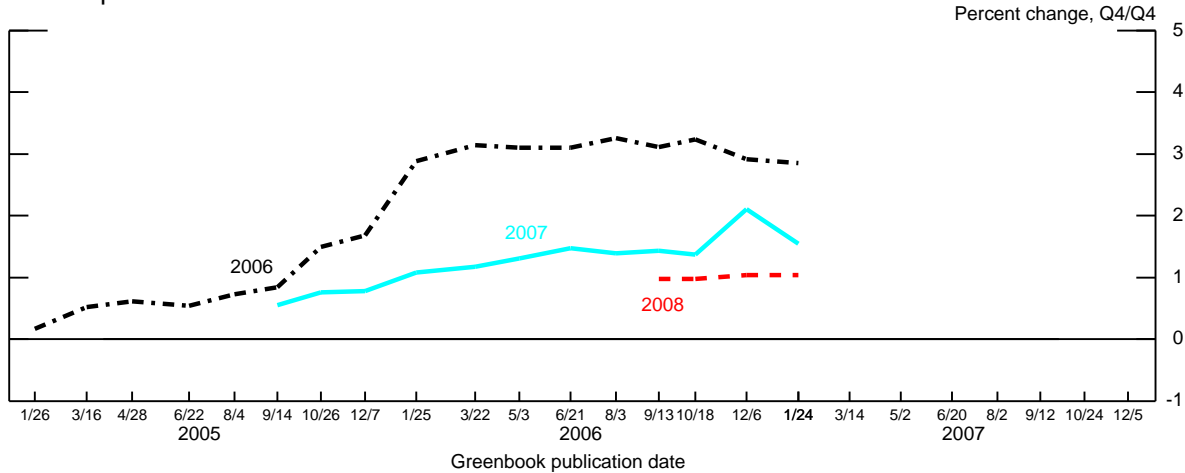
Current Account Balance



Foreign Real GDP



Core Import Prices*



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

Class II FOMC
Restricted (FR) January 24, 2007

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	0.3	3.1	3.0	3.8	3.7	3.9	3.4	3.5
Advanced Foreign Economies	3.6	0.9	2.5	1.8	2.6	2.6	2.7	2.4	2.5
of which:									
Canada	4.1	1.3	3.5	1.5	3.7	2.8	2.5	2.6	2.9
Japan	3.1	-1.7	2.0	2.4	1.1	2.9	2.0	1.9	1.7
United Kingdom	3.1	2.0	2.3	3.3	2.6	2.0	3.0	2.9	2.5
Euro Area (2)	3.3	1.0	1.1	1.0	1.5	1.8	3.0	1.8	1.8
Germany	2.3	1.1	0.0	0.2	0.2	1.7	3.4	1.5	1.6
Emerging Market Economies	5.2	-0.4	3.8	4.7	5.6	5.4	5.6	4.8	4.9
Asia	5.8	1.0	6.2	6.8	6.0	7.3	6.5	6.0	6.2
Korea	4.3	4.7	7.8	4.2	2.9	5.3	4.2	4.6	4.8
China	7.8	7.1	8.4	10.1	9.6	9.9	9.9	8.8	9.1
Latin America	4.4	-1.3	1.5	2.0	5.2	3.2	4.9	3.5	3.5
Mexico	4.8	-1.3	2.0	2.0	4.8	2.7	4.7	3.4	3.4
Brazil	3.8	-1.0	4.1	0.9	4.8	1.6	3.0	3.5	3.5
CONSUMER PRICES (3)									

Advanced Foreign Economies	1.9	0.9	2.1	1.3	1.8	1.5	1.4	1.5	1.5
of which:									
Canada	3.1	1.1	3.8	1.7	2.3	2.3	1.3	1.7	2.0
Japan	-0.5	-1.1	-0.5	-0.4	0.5	-1.0	0.4	0.2	0.5
United Kingdom (4)	0.9	1.1	1.5	1.3	1.4	2.1	2.7	2.0	1.8
Euro Area (2)	2.5	2.1	2.3	2.0	2.3	2.3	1.8	1.9	1.7
Germany	1.7	1.5	1.2	1.1	2.1	2.2	1.3	2.4	1.4
Emerging Market Economies	4.1	2.8	2.9	3.0	3.9	3.0	2.7	2.8	2.7
Asia	1.8	1.2	0.8	2.2	3.2	2.6	2.1	2.3	2.2
Korea	2.5	3.3	3.4	3.5	3.4	2.5	2.1	2.0	2.3
China	1.0	-0.1	-0.5	2.7	3.3	1.4	1.8	2.1	1.9
Latin America	8.4	5.3	6.4	4.9	5.7	3.8	4.2	3.8	3.7
Mexico	8.7	5.1	5.2	3.9	5.3	3.1	4.1	3.6	3.5
Brazil	6.4	7.5	10.7	11.5	7.2	6.1	3.1	3.5	3.5

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				2007				Projected			
	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	3.3	3.5	3.3	3.4	3.4	3.4	3.5	3.5	3.5	3.5
Advanced Foreign Economies	3.3	2.7	2.0	2.7	2.2	2.4	2.5	2.4	2.5	2.5	2.5	2.4
of which:												
Canada	3.8	2.0	1.7	2.3	2.5	2.4	2.7	2.7	2.9	2.9	3.0	2.9
Japan	2.7	1.1	0.8	3.5	1.8	2.0	1.9	1.9	1.7	1.7	1.7	1.6
United Kingdom	2.9	3.0	2.8	3.4	3.2	3.0	2.8	2.6	2.5	2.5	2.5	2.5
Euro Area (2)	3.3	4.0	2.1	2.6	1.4	2.1	2.0	1.9	1.8	1.8	1.8	1.8
Germany	3.2	4.4	2.6	3.6	-0.2	2.2	2.1	1.8	1.7	1.7	1.6	1.6
Emerging Market Economies	6.6	6.1	5.2	4.7	4.7	4.8	4.8	4.8	4.8	4.8	4.9	4.9
Asia	7.5	5.9	7.0	5.8	5.8	6.0	6.0	6.1	6.2	6.2	6.3	6.3
Korea	4.9	3.4	4.4	4.2	4.5	4.5	4.6	4.7	4.7	4.8	4.8	4.8
China	12.2	12.0	7.0	8.6	8.8	8.8	8.8	8.8	9.0	9.0	9.1	9.3
Latin America	6.2	5.9	4.3	3.1	3.6	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Mexico	6.6	5.6	4.1	2.6	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Brazil	4.8	1.7	2.0	3.8	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
CONSUMER PRICES (3)	Four-quarter changes											
Advanced Foreign Economies	1.8	2.0	1.6	1.4	1.3	1.0	1.2	1.5	1.6	1.6	1.5	1.5
of which:												
Canada	2.5	2.6	1.6	1.3	1.0	0.8	1.3	1.7	2.0	2.0	2.0	2.0
Japan	-0.1	0.2	0.6	0.4	-0.0	0.0	-0.2	0.2	0.4	0.5	0.5	0.5
United Kingdom (4)	2.0	2.2	2.4	2.7	2.8	2.5	2.1	2.0	1.9	1.9	1.8	1.8
Euro Area (2)	2.3	2.5	2.1	1.8	2.0	1.6	1.7	1.9	1.8	1.8	1.7	1.7
Germany	2.1	2.1	1.6	1.3	2.5	2.2	2.3	2.4	1.5	1.5	1.4	1.4
Emerging Market Economies	3.0	2.9	2.7	2.7	2.9	2.7	2.8	2.8	2.7	2.7	2.7	2.7
Asia	2.4	2.6	2.1	2.1	2.4	2.1	2.3	2.3	2.2	2.2	2.2	2.2
Korea	2.1	2.3	2.5	2.1	2.0	1.6	1.4	2.0	2.3	2.6	2.5	2.3
China	1.2	1.4	1.2	1.8	2.2	2.1	2.3	2.1	2.0	2.0	1.9	1.9
Latin America	4.2	3.5	3.8	4.2	4.0	4.3	4.1	3.8	3.7	3.7	3.7	3.7
Mexico	3.7	3.1	3.5	4.1	4.0	4.3	3.9	3.6	3.5	3.5	3.5	3.5
Brazil	5.6	4.3	3.8	3.1	2.6	2.9	3.5	3.5	3.5	3.5	3.5	3.5

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	0.3	-0.2	-0.3
Exports of G&S	0.7	-1.3	0.4	0.6	0.7	0.7	0.9	0.6	0.6
Imports of G&S	-1.6	1.1	-1.3	-0.7	-1.5	-0.8	-0.6	-0.8	-0.8
	Percentage change, Q4/Q4								
Exports of G&S	6.5	-11.9	3.8	5.8	7.0	6.7	8.6	5.1	5.1
Services	1.8	-8.9	10.2	3.0	7.1	3.1	5.4	5.8	5.0
Computers	22.7	-23.5	-1.1	11.3	6.4	14.1	10.0	14.2	14.4
Semiconductors	27.6	-34.6	10.1	38.3	-6.3	17.2	5.5	19.2	17.0
Core Goods 1/	5.9	-10.2	0.6	4.9	8.0	7.5	10.2	3.6	4.1
Imports of G&S	11.2	-7.6	9.7	4.8	10.6	5.2	3.5	5.0	5.1
Services	10.6	-5.9	8.8	2.2	7.6	1.9	5.4	3.2	3.5
Oil	13.3	3.7	3.8	1.2	9.6	0.9	-9.1	4.0	-0.2
Natural Gas	37.3	-6.5	19.5	1.3	6.6	11.9	-13.7	4.7	1.5
Computers	13.9	-13.6	13.2	17.0	22.5	11.8	15.9	17.3	17.5
Semiconductors	22.8	-51.1	11.0	-0.1	9.3	7.5	1.7	17.0	17.0
Core Goods 2/	10.3	-6.5	10.0	5.2	10.7	6.2	5.5	4.5	5.5
	Billions of Chained 2000 Dollars								
Net Goods & Services	-379.5	-399.1	-471.3	-518.9	-590.9	-619.2	-621.5	-613.5	-646.6
Exports of G&S	1096.3	1036.7	1013.3	1026.1	1120.4	1196.1	1300.4	1376.6	1445.7
Imports of G&S	1475.8	1435.8	1484.6	1545.0	1711.3	1815.3	1921.9	1990.1	2092.2
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-415.2	-389.0	-472.4	-527.5	-665.3	-791.5	-870.4	-886.0	-971.7
Current Acct as Percent of GDP	-4.2	-3.8	-4.5	-4.8	-5.7	-6.4	-6.6	-6.4	-6.7
Net Goods & Services (BOP)	-377.6	-362.8	-421.1	-494.9	-611.3	-716.7	-763.1	-714.7	-767.4
Investment Income, Net	25.7	30.3	17.8	42.3	33.6	17.6	-12.3	-71.9	-103.7
Direct, Net	94.9	115.9	102.4	112.8	123.9	134.4	140.7	130.3	157.5
Portfolio, Net	-69.2	-85.5	-84.6	-70.5	-90.2	-116.8	-153.1	-202.1	-261.1
Other Income & Transfers, Net	-63.3	-56.5	-69.2	-74.9	-87.6	-92.4	-95.0	-99.4	-100.6

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.

January 24, 2007

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2006				2007				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	-0.0	0.4	-0.2	1.1	-0.5	0.0	0.0	-0.5	-0.6	-0.0	-0.1	-0.4
Exports of G&S	1.4	0.7	0.7	0.8	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.6
Imports of G&S	-1.5	-0.2	-0.9	0.3	-1.1	-0.6	-0.5	-1.1	-1.1	-0.6	-0.7	-1.0
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	14.0	6.2	6.8	7.5	5.3	5.2	5.0	4.8	4.9	5.1	5.2	5.3
Services	6.7	6.7	0.8	7.4	5.7	6.1	5.9	5.6	5.3	5.1	4.9	4.9
Computers	9.8	12.0	-0.1	19.3	13.7	14.4	14.4	14.4	14.4	14.4	14.4	14.4
Semiconductors	15.7	29.9	-12.4	-5.9	26.2	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Core Goods 1/	17.8	4.4	11.4	7.8	3.7	3.7	3.5	3.3	3.7	4.1	4.3	4.5
Imports of G&S	9.1	1.4	5.6	-1.8	6.7	3.5	3.2	6.5	6.9	3.7	4.2	5.8
Services	7.4	9.9	-2.6	7.2	2.3	3.5	3.5	3.5	3.5	3.5	8.0	-0.8
Oil	-4.8	-18.3	7.1	-18.1	25.5	-8.8	-12.6	16.9	18.6	-14.2	-15.7	15.5
Natural Gas	-24.6	42.1	-26.4	-29.5	-21.8	40.8	19.0	-8.3	-14.4	34.3	20.5	-23.5
Computers	34.3	17.0	18.4	-3.0	16.9	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Semiconductors	3.6	-1.3	21.6	-13.9	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Core Goods 2/	12.4	2.4	6.9	0.8	4.4	4.0	4.6	5.0	5.3	5.6	5.7	5.7
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-636.6	-624.2	-628.8	-596.3	-610.3	-610.0	-609.0	-624.6	-641.7	-642.5	-645.5	-656.5
Exports of G&S	1269.3	1288.5	1310.0	1333.9	1351.3	1368.5	1385.3	1401.5	1418.4	1436.2	1454.6	1473.5
Imports of G&S	1905.9	1912.7	1938.8	1930.2	1961.6	1978.4	1994.3	2026.1	2060.1	2078.7	2100.1	2130.0
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-852.8	-868.5	-902.2	-858.1	-850.1	-876.5	-888.0	-929.3	-953.8	-960.8	-971.6	-1000.4
Current Account as % of GDP	-6.6	-6.6	-6.8	-6.4	-6.2	-6.3	-6.4	-6.6	-6.7	-6.6	-6.6	-6.7
Net Goods & Services (BOP)	-764.6	-772.5	-801.3	-714.3	-702.0	-706.1	-713.0	-737.7	-764.7	-762.4	-764.6	-777.8
Investment Income, Net	-3.6	-2.1	-8.7	-34.8	-52.3	-73.2	-76.2	-85.7	-90.2	-99.5	-108.1	-116.7
Direct, Net	137.2	152.2	143.2	130.4	126.9	121.0	133.7	139.5	149.5	154.7	160.4	165.4
Portfolio, Net	-140.8	-154.4	-151.9	-165.2	-179.2	-194.3	-209.8	-225.2	-239.8	-254.2	-268.5	-282.1
Other Inc. & Transfers, Net	-84.7	-93.9	-92.3	-109.0	-95.8	-97.2	-98.9	-105.9	-98.9	-98.9	-98.9	-105.9

1. Merchandise exports excluding computers and semiconductors.

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

Part 2

January 24, 2007

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

January 24, 2007

Recent Developments

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

Item	2006			2007	2006	2007		
	Q2	Q3	Q4	Q1	Dec.	Jan.	Feb.	Mar.
U.S. production ¹	11.1	10.5	10.5	10.5	10.8	10.2	10.6	10.7
Autos	4.3	4.3	4.4	4.0	4.4	4.0	4.0	4.1
Light trucks	6.7	6.2	6.1	6.5	6.4	6.3	6.6	6.6
Days' supply ²	75	70	70	n.a.	69	n.a.	n.a.	n.a.
Autos	54	54	60	n.a.	57	n.a.	n.a.	n.a.
Light trucks	90	82	78	n.a.	78	n.a.	n.a.	n.a.
Inventories ³	3.06	2.95	2.84	n.a.	2.84	n.a.	n.a.	n.a.
Autos	.95	.95	1.03	n.a.	1.03	n.a.	n.a.	n.a.
Light trucks	2.10	1.99	1.81	n.a.	1.81	n.a.	n.a.	n.a.
Memo: U.S. production, total motor vehicles ⁴	11.5	11.0	10.9	10.8	11.3	10.6	10.9	11.0

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

1. Production rates for the first quarter reflect the latest industry schedules.

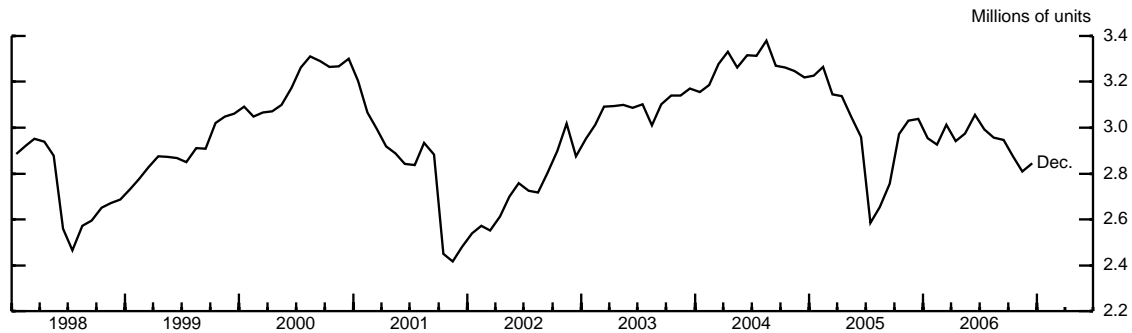
2. Quarterly values are calculated with end-of-period stocks and average reported sales.

3. End-of-period stocks.

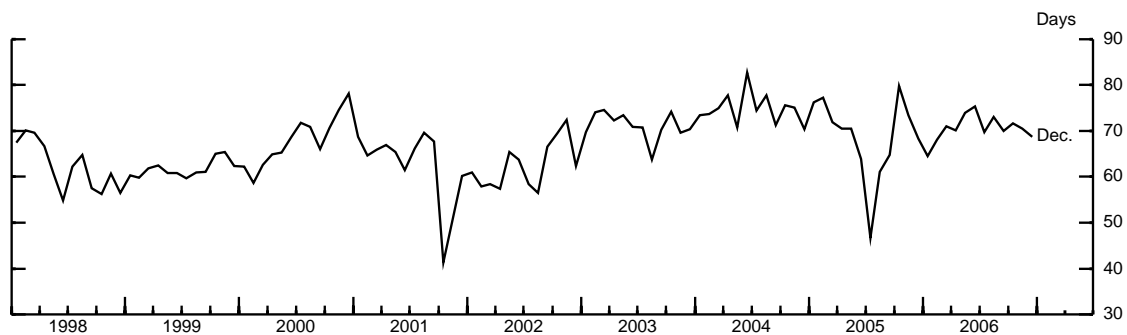
4. Includes medium and heavy trucks.

n.a. Not available.

Inventories of Light Vehicles

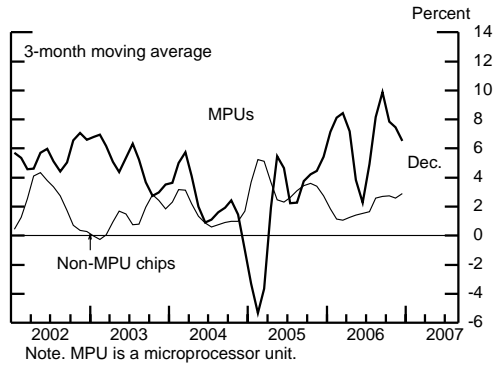


Days' Supply of Light Vehicles

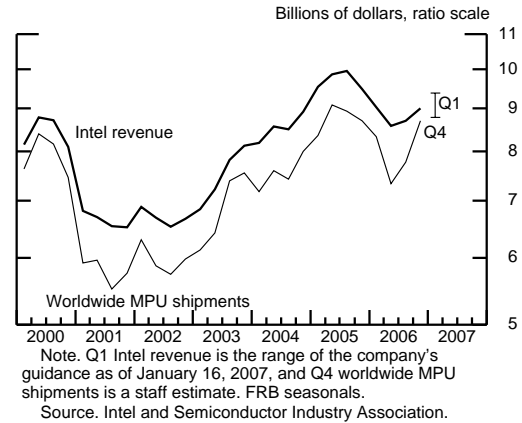


Indicators of High-Tech Manufacturing Activity

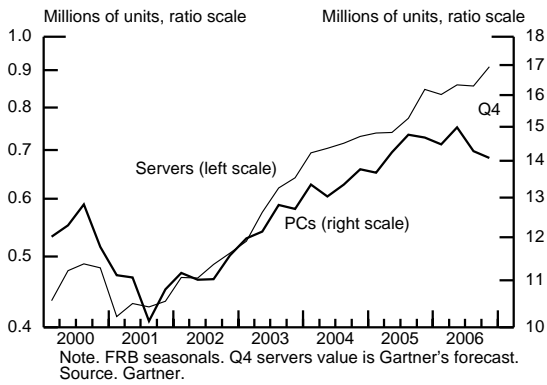
Rate of Change in Semiconductor Industrial Production



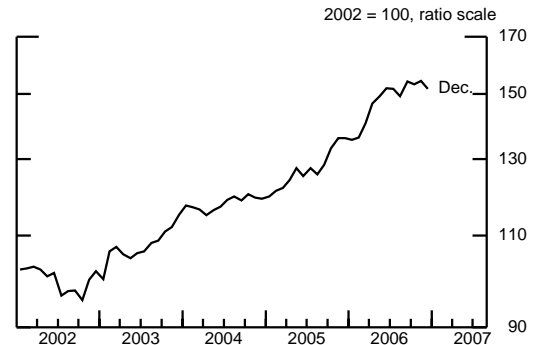
MPU Shipments and Intel Revenue



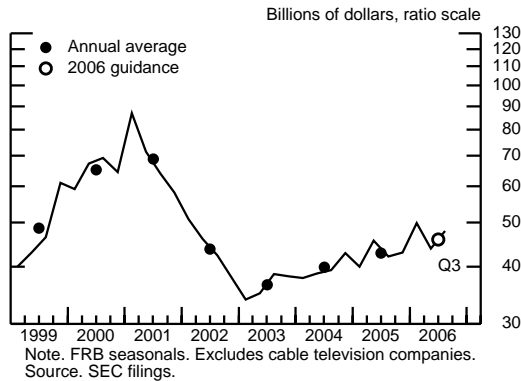
U.S. Personal Computer and Server Sales



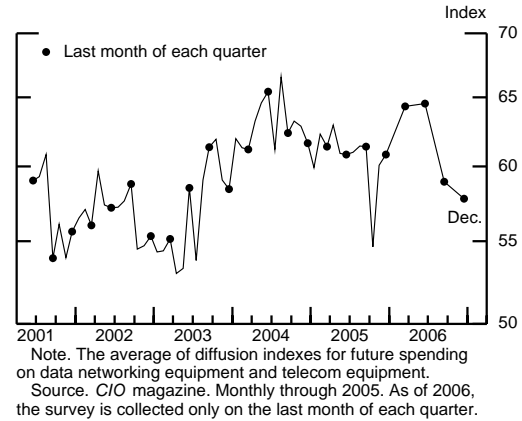
IP: Communications Equipment



Capital Expenditures by Telecommunications Service Providers



CIO Magazine Data Networking Equipment and Telecom Equipment Diffusion Index



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

Category	2006	2006					
		Q2	Q3	Q4	Oct.	Nov.	Dec.
Total	16.5	16.3	16.6	16.3	16.1	16.0	16.7
Autos	7.8	7.8	7.9	7.6	7.3	7.4	8.1
Light trucks	8.7	8.5	8.7	8.6	8.8	8.6	8.6
North American ¹	12.8	12.6	12.8	12.4	12.3	12.2	12.7
Autos	5.4	5.4	5.4	5.2	5.1	5.1	5.6
Light trucks	7.4	7.1	7.4	7.2	7.2	7.2	7.1
Foreign-produced	3.7	3.7	3.7	3.8	3.8	3.8	4.0
Autos	2.3	2.4	2.5	2.4	2.2	2.3	2.5
Light trucks	1.3	1.3	1.3	1.5	1.5	1.4	1.4
Memo: Big Three domestic market share (percent) ²	53.7	53.9	52.8	52.3	53.7	52.0	51.2

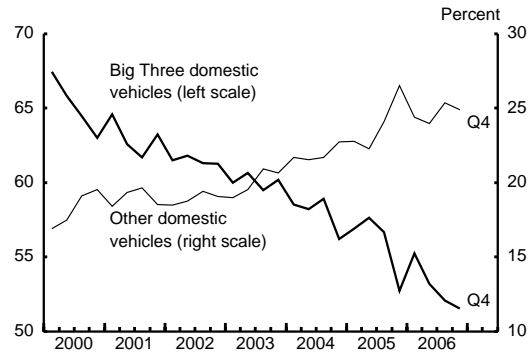
Note. Components may not sum to totals because of rounding.

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

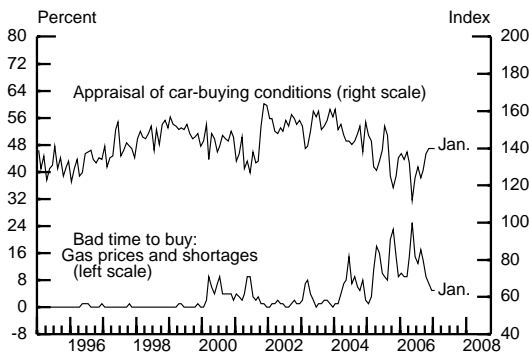
2. Domestic market share excludes sales of foreign brands affiliated with the Big Three.

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Market Share

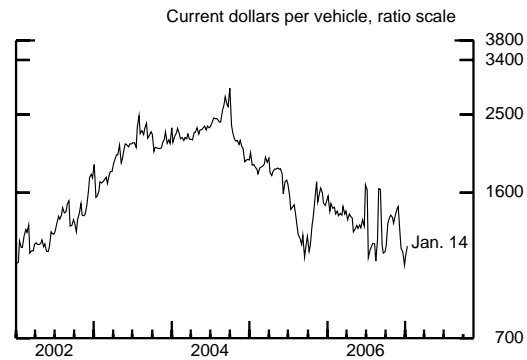


Car-Buying Attitudes



Source. Reuters/University of Michigan Survey.

Average Value of Incentives on Light Vehicles



Note. Weighted average of customer cash rebate and interest rate reduction. Data are seasonally adjusted.
Source. J.D. Power and Associates.

CBO Budget Projections and Economic Assumptions

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Baseline budget projections¹ (fiscal years)	Billions of dollars										
Total surplus	-172	-98	-116	-137	-12	170	159	185	208	192	249
On-budget	-357	-299	-332	-367	-258	-85	-101	-79	-57	-72	-10
Off-budget	185	201	216	230	246	255	261	264	265	264	259
Adjusted budget (fiscal years)											
Adjusted surplus	-207	-216	-213	-218	-232	-164	-222	-236	-258	-323	-322
Total adjustments	-35	-118	-97	-81	-220	-334	-381	-421	-466	-515	-571
War on terror ^{2,3}	-25	-53	-29	10	33	46	54	59	60	62	63
Expiring taxes	-9	-61	-59	-78	-233	-347	-386	-412	-437	-466	-498
Debt service ³	-1	-4	-9	-13	-20	-33	-49	-68	-89	-111	-136
Memo:	Percent of GDP										
Total surplus	-1.3	-0.7	-0.8	-0.9	-0.1	1.0	0.9	1.0	1.1	0.9	1.2
Adjusted surplus	-1.5	-1.5	-1.4	-1.4	-1.4	-1.0	-1.2	-1.3	-1.3	-1.6	-1.5
Economic assumptions (calendar years)	Percent change, year over year										
Nominal GDP	4.3	4.8	5.0	4.8	4.5	4.5	4.4	4.4	4.3	4.3	4.3
Real GDP	2.3	3.0	3.1	3.0	2.7	2.7	2.6	2.5	2.5	2.5	2.4
CPI-U	1.9	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Core CPI-U	2.6	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Core PCE prices	2.1	1.9	2.0	2.0	2.0	2.0	1.9	2.0	2.0	1.9	1.9
	Percent, annual average										
Unemployment rate	4.7	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Treasury yields											
Three-month	4.8	4.5	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Ten-year	4.8	5.0	5.1	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2

1. The on-budget surplus excludes the Social Security surplus and the Postal Service, which are off-budget. The baseline assumes that budget authority for discretionary programs grows with inflation after fiscal 2006 and that no new mandatory spending or tax legislation is enacted.

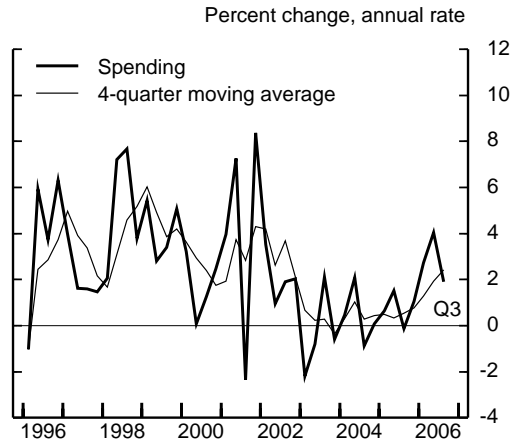
2. The adjustment reflects the CBO's estimates of an alternative policy scenario in which additional supplemental funding for the war on terror would increase spending above the baseline projection over the next 3 years, but it also assumes a subsequent phasing down of military activities in Iraq and Afghanistan instead of an extension of current appropriations for such activities.

3. Negative values indicate the effect on the surplus and reflect an increase in outlays.

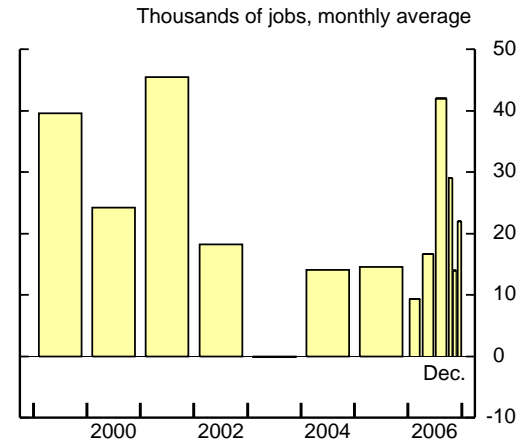
Source. Congressional Budget Office, *The Budget and Economic Outlook* (January 2007).

State and Local Indicators

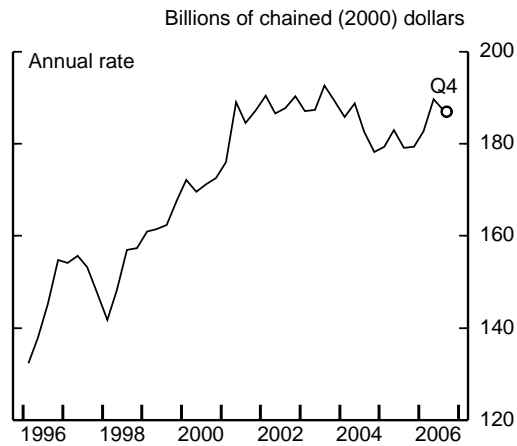
Real Spending on Consumption & Investment



Net Change in Employment

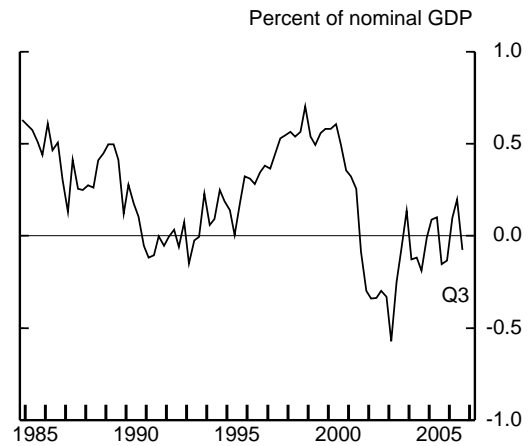


Real Construction

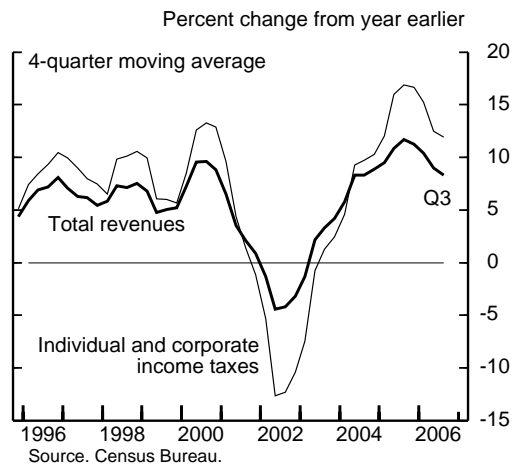


Note. Nominal CIPPI deflated by BEA prices through Q3 and by staff projection thereafter. Q4 is the average for October and November.

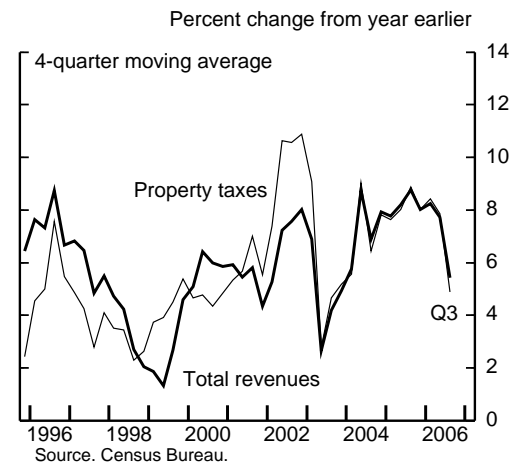
Net Saving



State Revenues

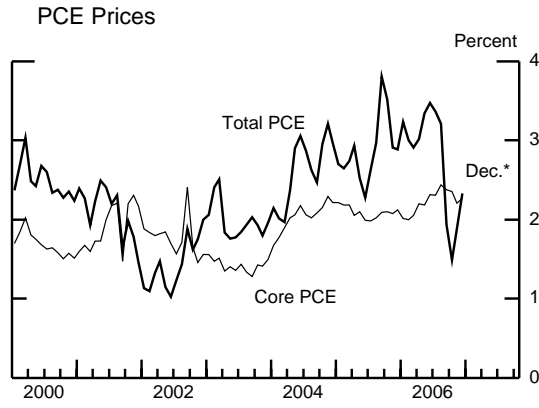


Local Revenues

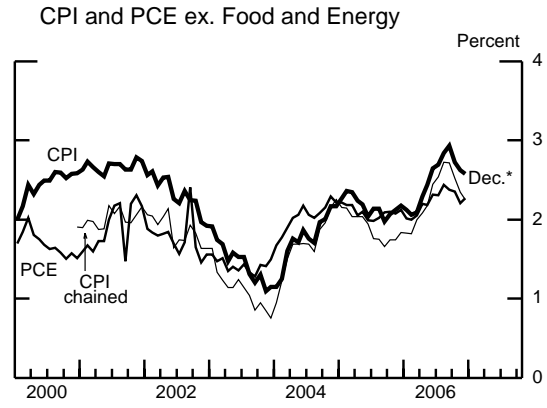


Consumer Prices

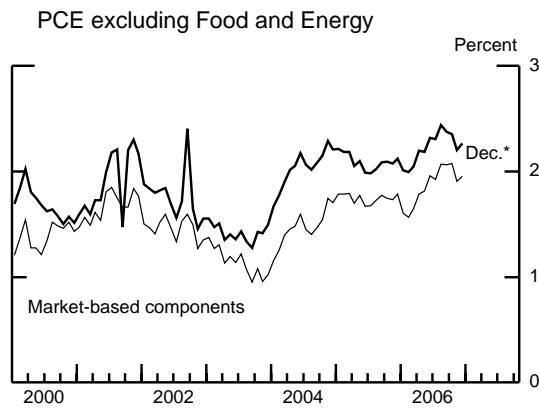
(12-month change except as noted)



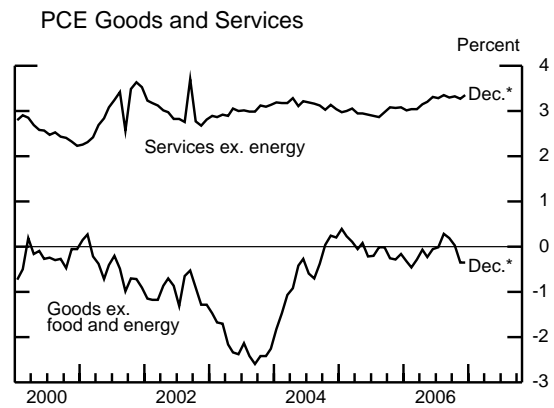
* Staff estimate.



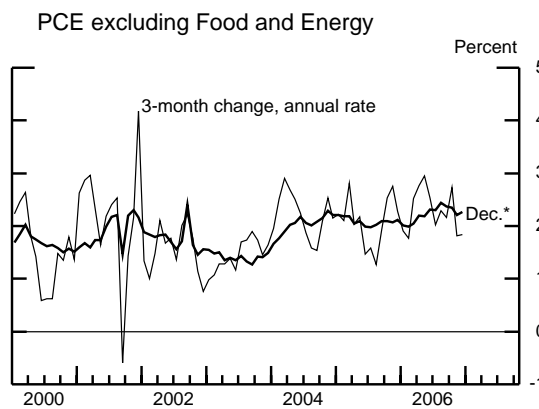
* PCE for December is a staff estimate.



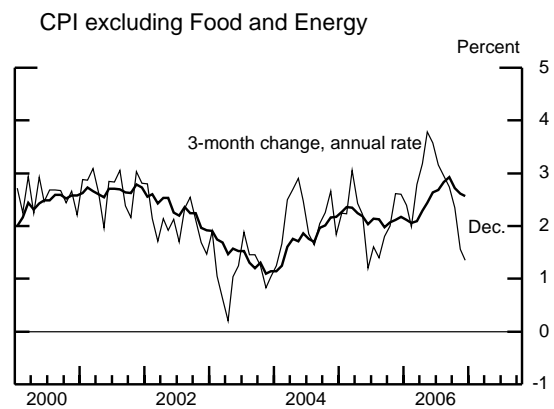
* Staff estimate.



* Staff estimate.

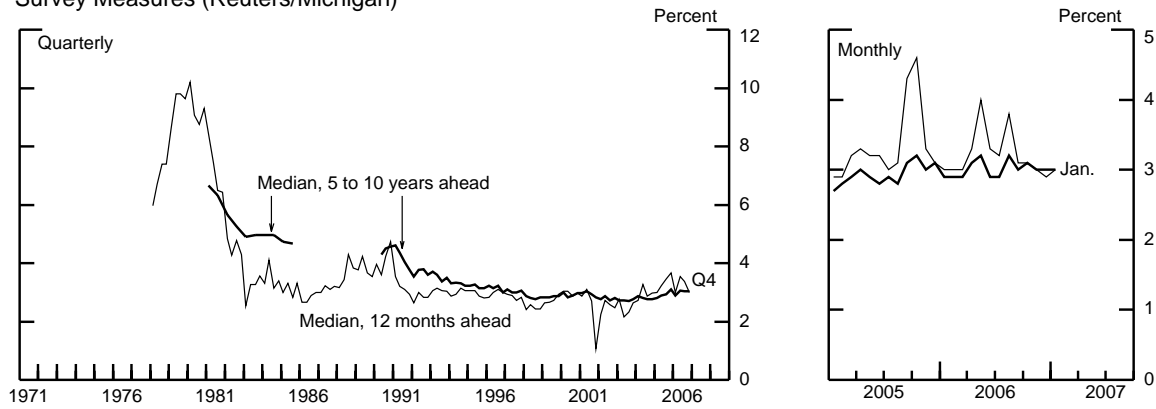


* Staff estimate.

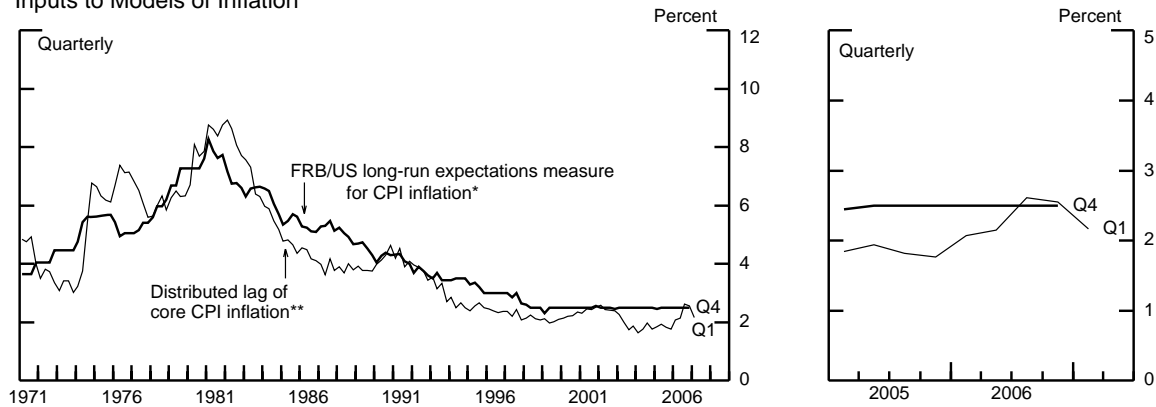


Measures of Expected Inflation

Survey Measures (Reuters/Michigan)



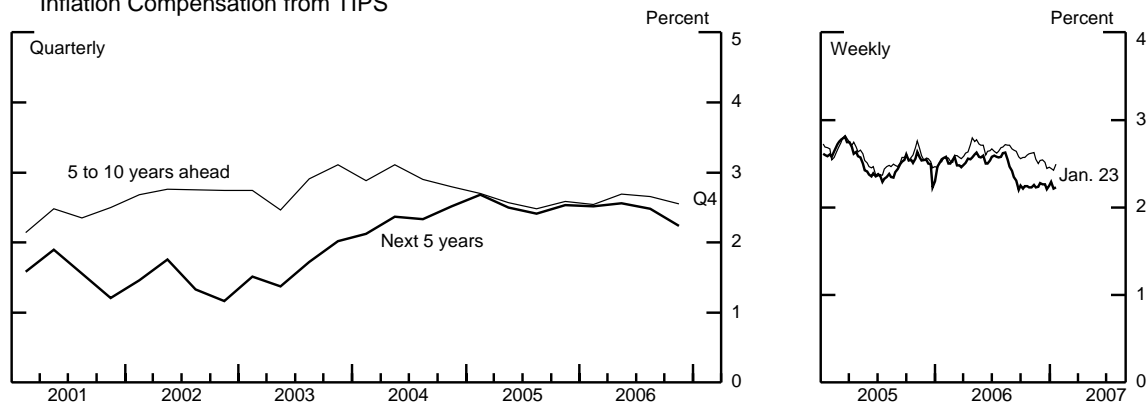
Inputs to Models of Inflation



* 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	2.8
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	Reuters/University of Michigan Index				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	1.9	3.5	3.0	3.5	3.0	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.	2.0	3.3	3.0	3.5	3.0	2.5
Dec.	2.5	3.5	2.9	3.4	3.0	...
2007:Jan.	n.a.	3.6	3.0	3.5	3.0	...

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.

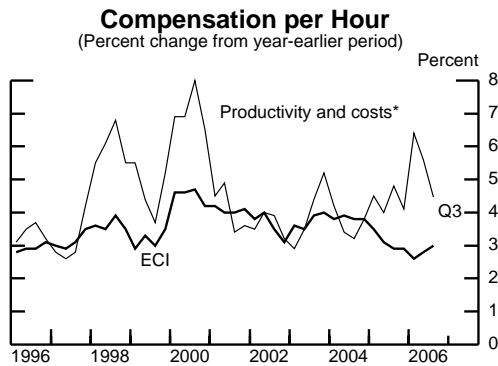
n.a. Not available.

Hourly Compensation and Unit Labor Costs

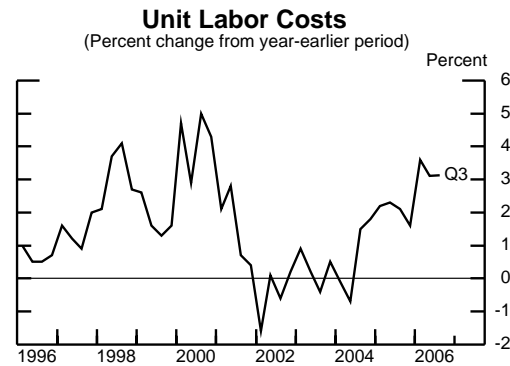
(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

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	4.5	2.9	13.7	-1.2	3.1
<i>Unit labor costs</i> Nonfarm business	2.1	3.1	3.0	9.0	-2.4	3.2

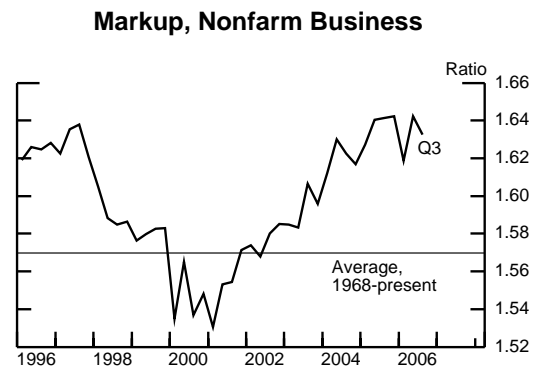
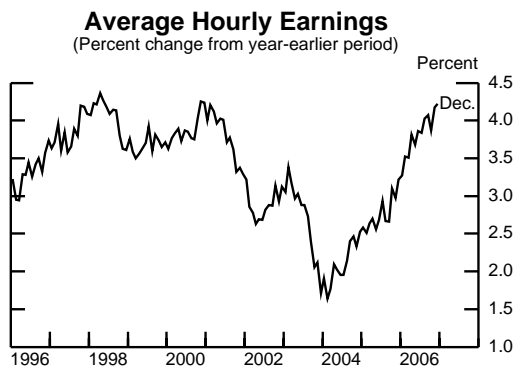
^e Staff estimate.



* 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.

Business Finance

Gross Issuance of Securities by U.S. Corporations

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

Type of security	2003	2004	2005	2006				2007
				H1	Q3	Q4	Dec.	Jan. ^e
<i>Nonfinancial corporations</i>								
Stocks ¹	3.7	5.4	4.6	5.2	2.6	5.6	5.4	3.0
Initial public offerings	.4	1.6	1.7	1.9	.7	2.7	1.8	n.a.
Seasoned offerings	3.3	3.8	2.8	3.3	1.9	2.9	3.5	n.a.
Bonds ²	31.6	22.7	19.1	30.5	18.7	36.2	29.6	20.0
Investment grade	15.9	8.2	8.4	14.4	10.5	12.7	10.4	n.a.
Speculative grade	11.3	9.7	6.4	8.4	4.8	10.4	15.2	n.a.
Other (sold abroad/unrated)	4.3	4.9	4.3	7.8	3.5	13.2	4.0	n.a.
<i>Memo</i>								
Net issuance of commercial paper ³	-3.4	1.5	-.4	3.4	-1.2	9.9	31.1	11.0
Change in C&I loans at commercial banks ^{3,4,5}	-7.7	3.2	9.9	14.5	14.7	7.0	7.2	n.a.
<i>Financial corporations</i>								
Stocks ¹	6.6	6.9	5.0	4.4	5.0	6.8	4.8	n.a.
Bonds ²	111.1	139.3	176.3	190.2	174.8	190.8	220.8	100.0

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.

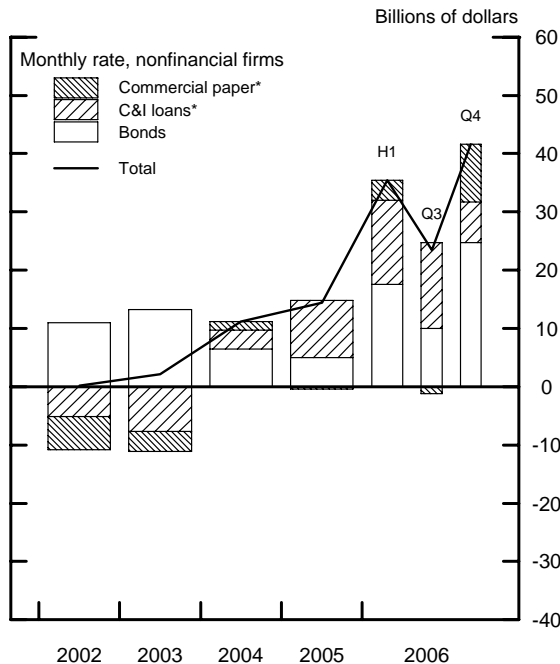
4. Adjusted for FIN 46 effects.

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.

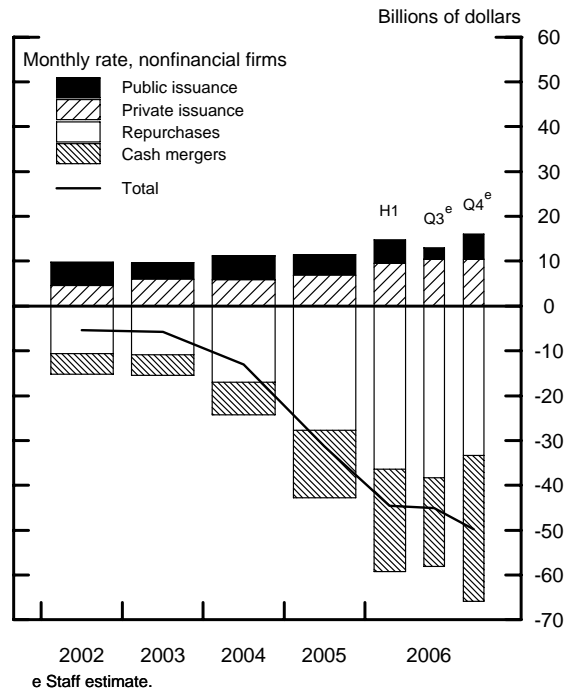
e. Staff estimate.

n.a. Not available.

Selected Components of Net Debt Financing

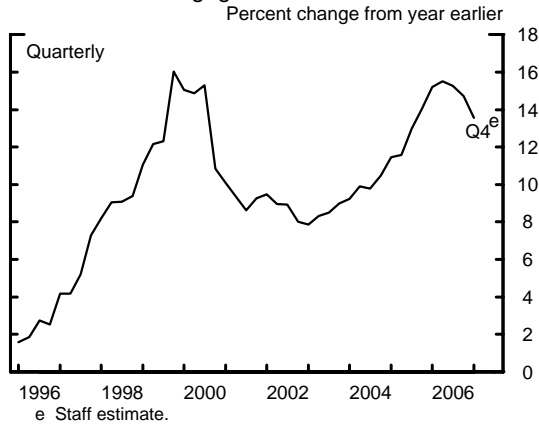


Components of Net Equity Issuance

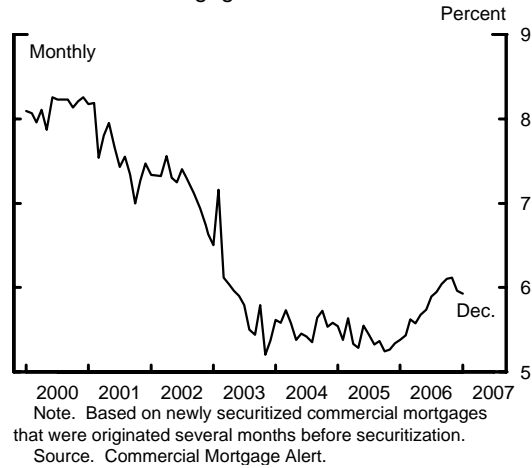


Commercial Real Estate

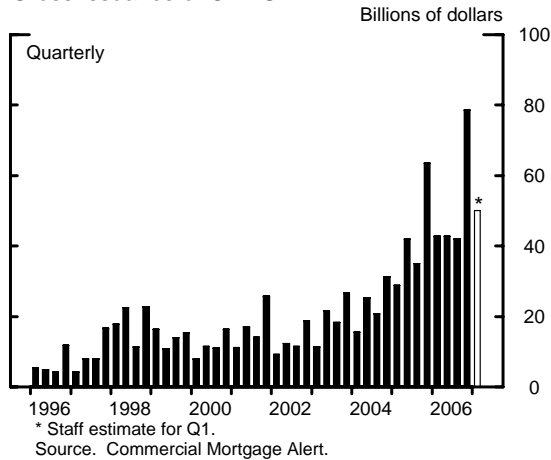
Commercial Mortgage Debt



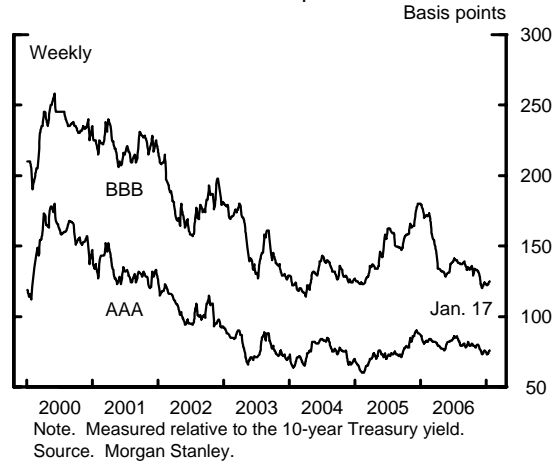
Commercial Mortgage Rate



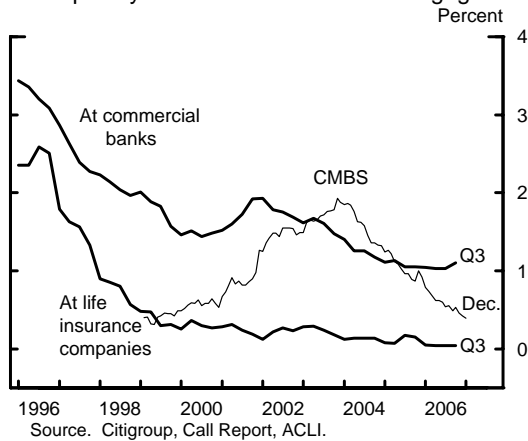
Gross Issuance of CMBS



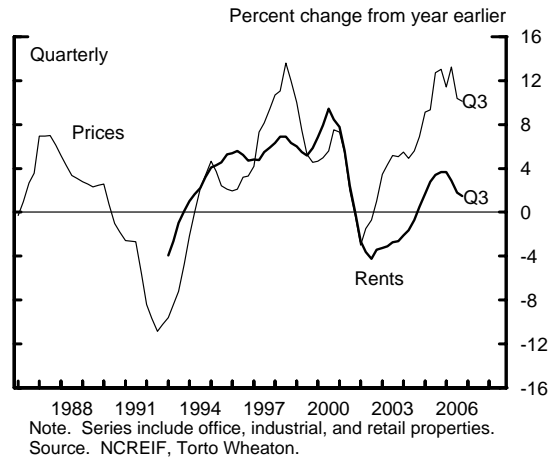
Investment-Grade CMBS Spreads



Delinquency Rates on Commercial Mortgages

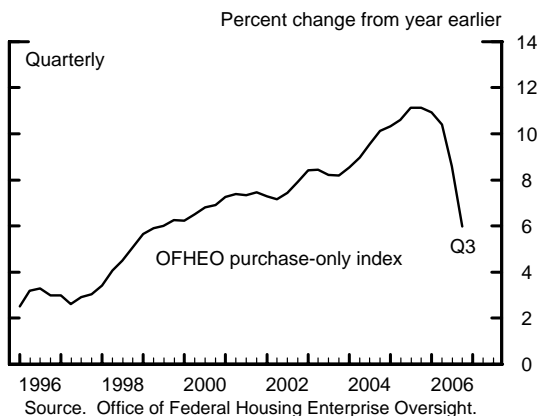


Commercial Real Estate Prices and Rents

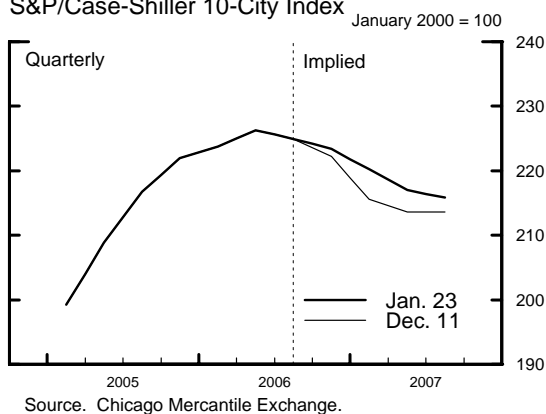


Household Assets

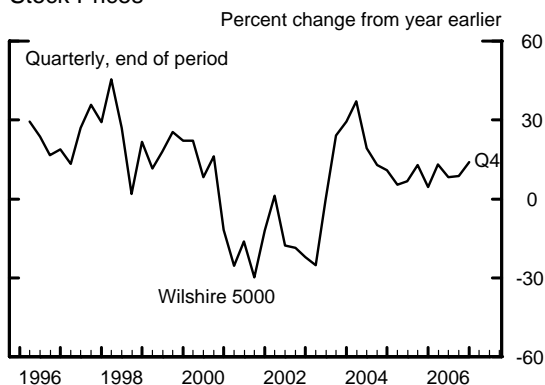
House Prices



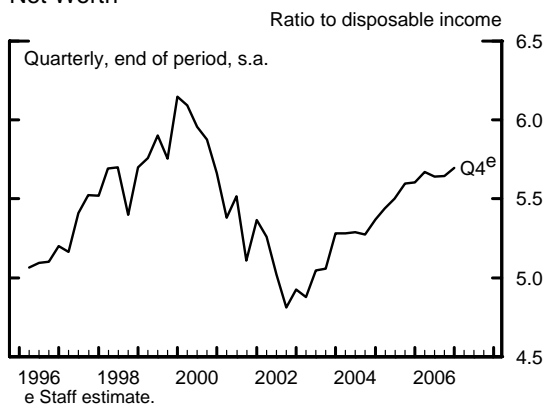
House-Price Path Implied by Futures on S&P/Case-Shiller 10-City Index



Stock Prices



Net Worth



Net Flows into Long-Term Mutual Funds
(Billions of dollars, monthly rate)

Fund type	2004	2005	2006					Assets Nov.
			Q1	Q2	Q3	Q4 ^e	Dec. ^e	
Total long-term funds	17.5	16.0	38.9	6.2	9.2	26.1	32.6	7,971
Equity funds	14.8	11.3	31.1	7.0	4.1	13.5	16.5	5,836
Domestic	9.3	2.6	10.7	-2.4	-3.6	1.0	2.4	4,568
International	5.6	8.7	20.4	9.4	7.7	12.5	14.1	1,268
Hybrid funds	3.6	2.1	0.4	-0.1	0.3	2.0	2.1	647
Bond funds	-0.9	2.6	7.4	-0.7	4.8	10.6	14.0	1,488
High-yield	-0.8	-1.3	-0.4	-1.4	0.4	0.9	1.2	155
Other taxable	1.0	3.5	5.8	0.7	3.3	7.7	11.0	968
Municipals	-1.1	0.4	2.1	0.1	1.0	2.0	1.7	365

Note. Excludes reinvested dividends.

e Staff estimate based on confidential weekly data.

Source. Investment Company Institute.

State and Local Government Finance

Gross Offerings of Municipal Securities

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

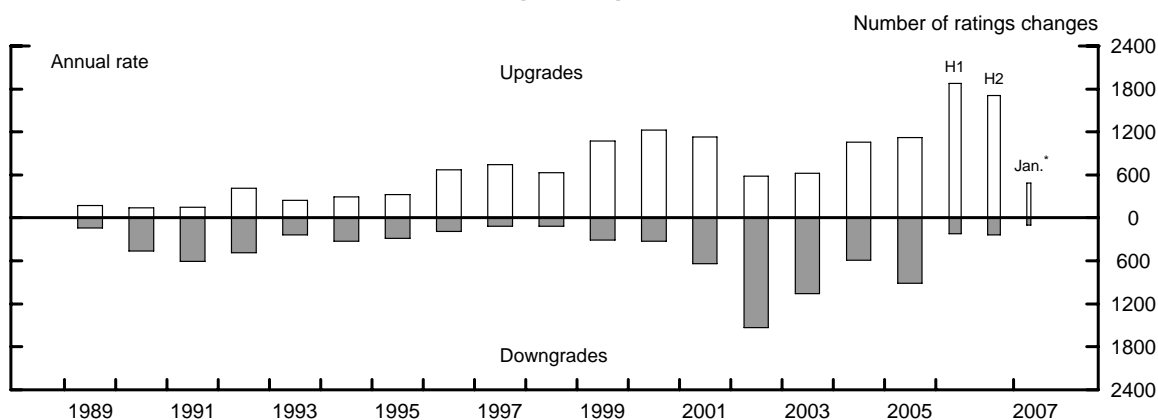
Type of security	2003	2004	2005	2006				2007
				H1	Q3	Q4	Dec.	Jan. ^e
Total	37.9	34.7	38.4	32.9	34.6	43.8	49.7	23.0
Long-term ¹	32.0	29.8	34.1	30.0	29.1	40.3	45.8	22.0
Refundings ²	10.0	10.8	15.5	9.7	8.0	14.1	10.8	9.0
New capital	22.1	19.0	18.7	20.3	21.1	26.2	35.0	13.0
Short-term	5.8	4.9	4.2	2.8	5.5	3.5	3.9	1.0
Memo: Long-term taxable	3.5	2.0	2.1	2.8	2.7	1.7	2.0	.0

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

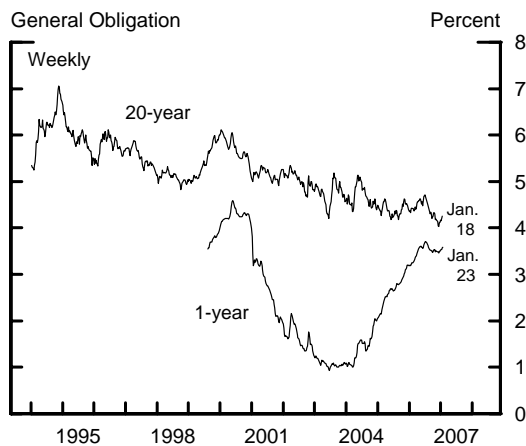
e Staff estimate based on preliminary data through January 18, 2007.

Ratings Changes



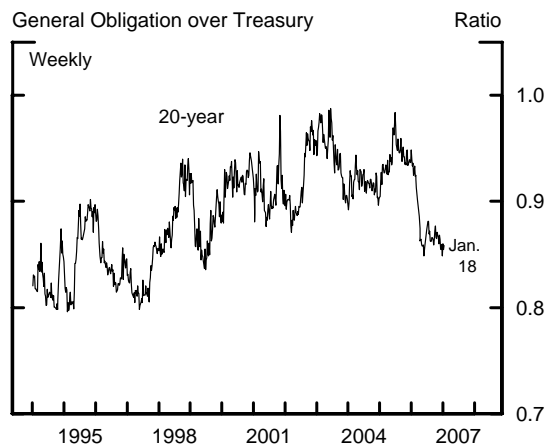
* Staff estimate based on data through January 17, 2007.
Source: S&P's Credit Week Municipal and Ratings Direct.

Municipal Bond Yields



Source: Municipal Market Advisors and Bond Buyer.

Municipal Bond Yield Ratio



Source: Bond Buyer.

M2 Monetary Aggregate
(Based on seasonally adjusted data)

Aggregate and components	Percent change (annual rate) ¹						Level (billions of dollars), Jan. (e)
	2005	2006	2006			2007	
			Q3	Q4	Dec.	Jan. (e)	
M2	4.1	5.0	4.2	6.8	7.6	9.0	7,074
Components ²							
Currency	3.6	3.6	1.1	3.1	3.9	1.8	751
Liquid deposits ³	2.0	.6	-1.2	2.7	5.3	8.9	4,329
Small time deposits	18.7	19.7	20.2	17.7	10.3	6.1	1,170
Retail money market funds	-.2	12.9	15.7	17.4	19.7	20.9	817
Memo:							
Institutional money market funds	4.9	15.7	17.2	20.8	26.3	-3.6	1,329
Monetary base	3.5	3.1	.7	2.5	3.9	1.1	813

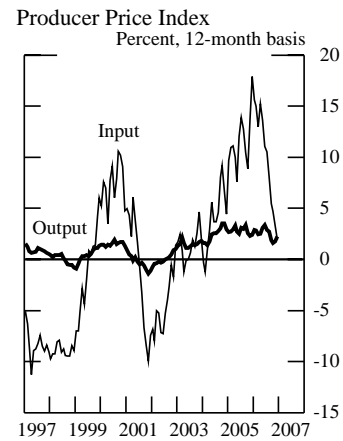
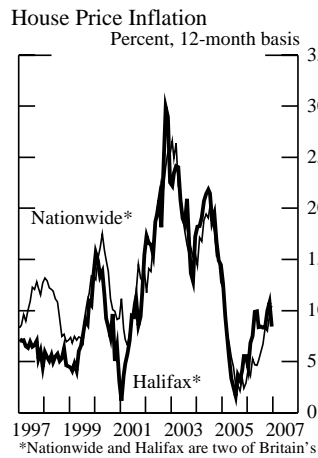
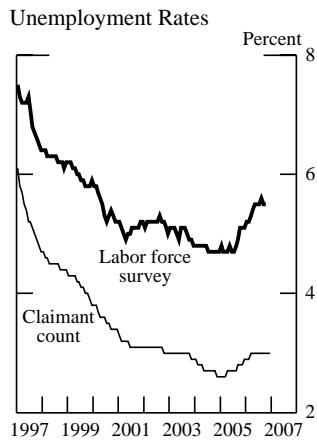
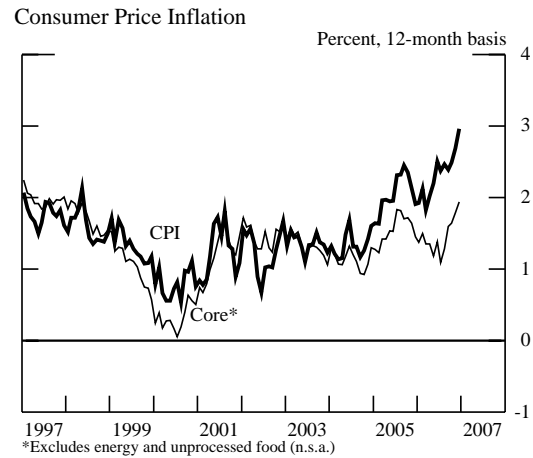
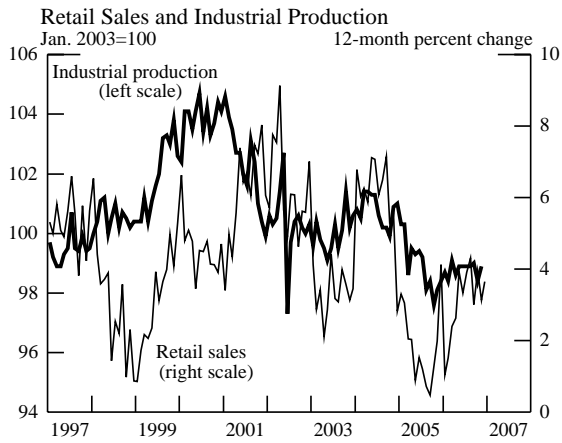
1. For years, Q4 to Q4; for quarters and months, calculated from corresponding average levels.

2. Nonbank traveler's checks are not listed.

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

e Estimated.

United Kingdom



Economic Indicators

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

Indicator	2006			2006			2007
	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
Real GDP ¹	3.0	2.8	3.4
Producer prices ²	13.3	7.9	3.3	4.5	3.5	2.0	n.a.
Average earnings ²	4.3	4.0	n.a.	4.2	3.9	n.a.	n.a.
Business confidence ³	12.0	13.0	8.3	9.0	5.0	11.0	12.0
Consumer confidence ⁴	-4.7	-6.0	-4.9	-3.5	-5.3	-5.8	n.a.
Trade balance ⁵	-26.3	-25.0	n.a.	-7.7	-9.0	n.a.	n.a.

1. Q4 figure is preliminary estimate (s.a.a.r.). 2. Percent change from year earlier.

3. Confederation of British Industry, percent balance.

4. Eurostat, percent balance.

5. Level in billions of US Dollars.

n.a. Not available. ... Not applicable.