

Part 1

October 18, 2006

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

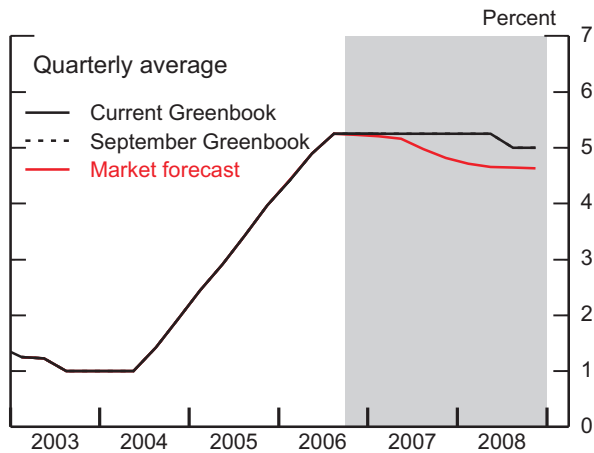
Summary and Outlook

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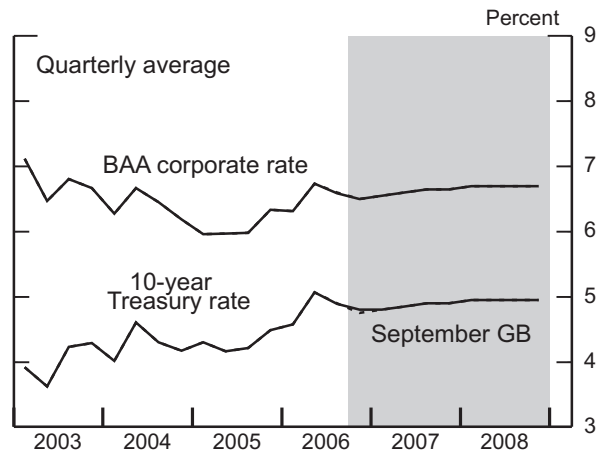
Key Background Factors Underlying the Baseline Staff Projection

Federal Funds Rate



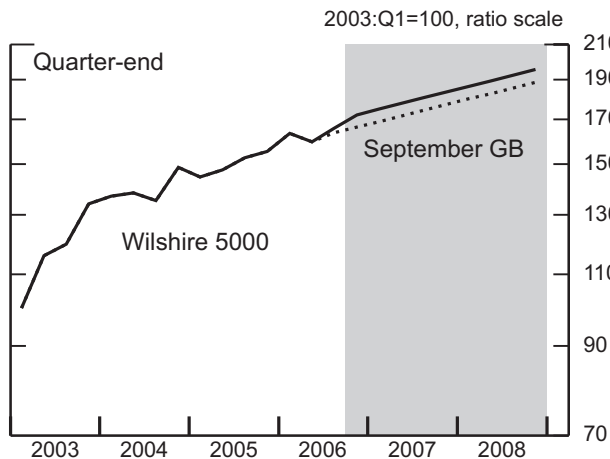
Note. The assumed federal funds rate is unchanged from the September Greenbook.

Long-Term Interest Rates

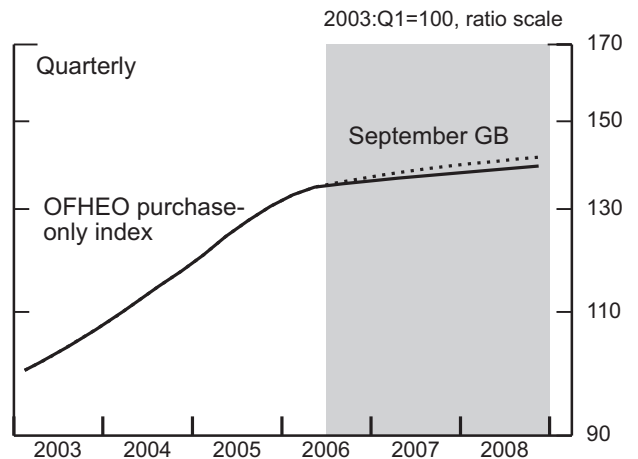


Note. The projection for the BAA corporate rate is unchanged from the September Greenbook.

Equity Prices

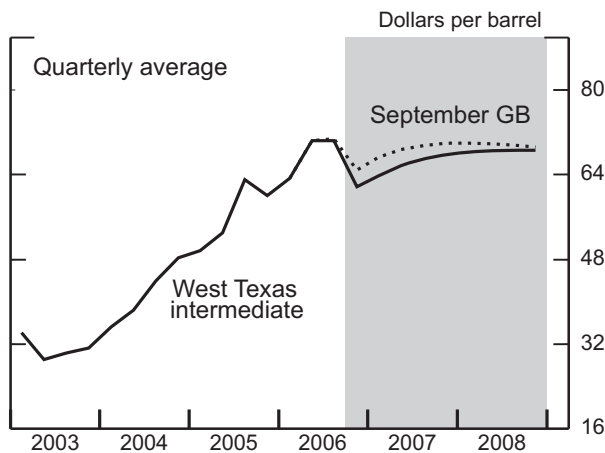


House Prices

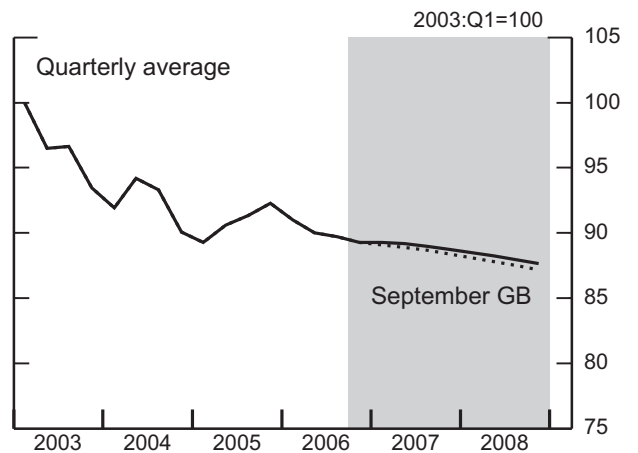


Note. The projection period begins in 2006:Q3.

Crude Oil Prices



Broad Real Dollar



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

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

Measure	2006:Q3		2006:Q4	
	Sept. GB	Oct. GB	Sept. GB	Oct. GB
Real GDP	1.8	1.0	1.7	2.3
Private domestic final purchases	2.1	2.3	1.8	1.7
Personal consumption expenditures	3.1	2.9	2.7	3.1
Residential investment	-20.6	-18.8	-20.5	-20.8
Business fixed investment	9.5	12.0	9.2	5.8
Government outlays for consumption and investment	2.7	.8	1.9	3.0
	Contribution to growth (percentage points)			
Inventory investment	-.5	-.7	-.1	-.0
Net exports	-.0	-.6	-.1	.3

Similarly, the recent data on labor market conditions have been in line with our expectations. In particular, the monthly increase in private payroll employment averaged 108,000 through the three months ending in September. We anticipate that the slower pace of activity in the second half of this year will lead to a moderation in hiring in coming months; as a result, we expect the unemployment rate to edge up from 4.6 percent in September to 4.8 percent by the end of the year.¹

We estimate that manufacturing production increased at an annual rate of 3¾ percent in the third quarter after rising at a 5¼ percent pace in the first half of the year. In part, the recent weakness has resulted from cutbacks in motor vehicle assemblies that were implemented to deal with uncomfortably high levels of inventories. But even apart from motor vehicles, factory production has eased noticeably in August and September. Manufacturing production is projected to slow further, to an annual rate of about 2 percent in the fourth quarter, a move reflecting smaller gains outside of the high-tech and transportation sectors.

¹ The BLS announced that its preliminary estimate of the annual benchmark revision to the establishment survey would raise the level of total nonfarm employment in March 2006 by 810,000, which implies that the rate of employment growth from the first quarter of 2005 to the first quarter of 2006 was 0.6 percentage point higher than previously reported. However, the benchmark revision will not affect the level of income over this period because the BEA has already incorporated the wage and salary information from the relevant unemployment insurance tax records into the national accounts.

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	1.6	2.1	2.2	2.5
Previous	1.7	2.0	2.1	2.4
Final sales	2.0	2.1	2.1	2.3
Previous	2.1	2.0	2.1	2.2
PCE	3.0	2.6	2.6	2.8
Previous	2.9	2.5	2.5	2.7
Residential investment	-19.8	-12.5	-7.7	2.2
Previous	-20.6	-12.6	-7.5	2.2
BFI	8.9	4.9	4.4	3.8
Previous	9.3	4.7	4.2	3.0
Government purchases	1.9	2.6	2.1	1.2
Previous	2.3	2.2	1.9	1.2
Exports	6.1	4.6	4.5	4.9
Previous	4.8	4.7	4.6	5.1
Imports	4.8	3.8	4.2	5.4
Previous	3.5	3.2	3.7	5.3
	Contribution to growth (percentage points)			
Inventory change	-.3	.0	.1	.2
Previous	-.3	-.0	-.0	.2
Net exports	-.1	-.1	-.2	-.4
Previous	-.1	-.0	-.1	-.3

gradual decline in the wealth-to-income ratio. In addition, we estimate that, over the past few years, consumers have partially buffered their spending from the real income effects of higher energy prices by temporarily reducing their saving—an effect we expect to be unwound over the next two years. All told, we expect the personal saving rate to rise from less than zero currently to 1¼ percent in 2008.

Residential construction activity is projected to decline well into next year before edging up a bit in 2008. Although we expect that relatively low mortgage rates and solid income growth should lead to some firming in the demand for housing, the currently high backlog of unsold homes suggests that production will be slow to turn upward. As a

Decomposition of Structural Labor Productivity

(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	2.6	2.5
Previous	1.5	2.5	3.0	2.7	2.8	2.8	2.7
<i>Contributions¹</i>							
Capital deepening	.7	1.4	.6	.5	.7	.7	.6
Previous	.7	1.4	.6	.6	.7	.7	.7
Multifactor productivity	.5	.8	2.1	1.8	1.7	1.7	1.7
Previous	.5	.8	2.1	1.9	1.8	1.8	1.8
Labor composition	.3	.3	.3	.3	.2	.2	.2
MEMO							
Potential GDP	3.0	3.3	2.9	2.6	2.7	2.7	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	1.7	2.5	2.7
Previous	2.5	1.9	2.4	2.7
Nonfarm private payroll employment	1.6	1.3	.4	.4
Previous	1.6	1.3	.2	.3
Household survey employment	1.9	1.5	.3	.6
Previous	1.9	1.4	.3	.6
Labor force participation rate ¹	66.1	66.1	65.8	65.5
Previous	66.1	66.1	65.7	65.5
Civilian unemployment rate ¹	5.0	4.7	5.1	5.1
Previous	5.0	4.8	5.1	5.2
MEMO				
GDP gap ²	-.0	.1	-.4	-.4
Previous	-.0	.2	-.4	-.5

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	2.7	2.1
Previous	3.1	2.2	2.5	2.0
Food and beverages	2.1	2.5	2.4	2.2
Previous	2.1	2.5	2.4	2.2
Energy	21.2	-5.9	9.0	1.4
Previous	21.2	-.6	5.6	-.0
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	3.0	2.2
Previous	3.7	2.5	2.7	2.1
Excluding food and energy	2.1	2.9	2.5	2.3
Previous	2.1	2.9	2.5	2.3
GDP chain-weighted price index	3.1	2.5	2.7	2.5
Previous	3.1	2.7	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	6.5	5.1	4.9
Previous	4.1	6.5	5.3	5.1
Prices of core nonfuel imports	2.2	3.2	1.4	1.0
Previous	2.2	3.1	1.4	1.0

1. December to December.

Wages and prices. We have made no material changes to our projection of core consumer price inflation in this forecast. Given the backdrop of apparently well-anchored inflation expectations, we expect that a diminishing upward impetus from energy prices and smaller increases in rents, along with the emergence of a small margin of slack in resource utilization, will cause core PCE price inflation to edge down from 2.4 percent this year to 2.3 percent in 2007 and 2.1 percent in 2008. Overall PCE price inflation is expected to pick up next year, to 2.7 percent, as the recent and projected near-term declines in energy prices are partially reversed early in the year. In 2008, the direct effects of changes in energy prices are expected to be small, so the total PCE price index rises at the same rate as the core index.

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	1.6	2.1	2.3	2.5
Housing correction with spillovers	4.1	.3	.1	1.5	2.3
Milder housing cycle	4.1	1.8	2.6	2.5	2.5
Stronger demand	4.1	2.1	3.0	3.1	3.1
Higher expected inflation	4.1	1.6	2.1	2.3	2.4
Less-persistent inflation	4.1	1.6	2.2	2.5	2.7
Market-based federal funds rate	4.1	1.6	2.1	2.4	2.8
<i>Unemployment rate</i> ¹					
Greenbook baseline	4.7	4.7	5.0	5.1	5.1
Housing correction with spillovers	4.7	4.8	5.5	5.8	6.0
Milder housing cycle	4.7	4.7	4.9	5.0	4.9
Stronger demand	4.7	4.7	4.8	4.8	4.5
Higher expected inflation	4.7	4.7	5.0	5.1	5.1
Less-persistent inflation	4.7	4.7	5.0	5.0	5.0
Market-based federal funds rate	4.7	4.7	5.0	5.1	5.0
<i>Core PCE inflation</i>					
Greenbook baseline	2.4	2.3	2.4	2.3	2.1
Housing correction with spillovers	2.4	2.3	2.4	2.3	2.0
Milder housing cycle	2.4	2.3	2.4	2.3	2.1
Stronger demand	2.4	2.3	2.4	2.3	2.1
Higher expected inflation	2.4	2.4	2.7	2.6	2.5
Less-persistent inflation	2.4	2.2	2.1	1.8	1.6
Market-based federal funds rate	2.4	2.3	2.4	2.3	2.2
<i>Federal funds rate</i> ¹					
Greenbook baseline	4.9	5.3	5.3	5.3	5.0
Housing correction with spillovers	4.9	4.9	3.9	3.5	3.2
Milder housing cycle	4.9	5.3	5.6	5.7	5.4
Stronger demand	4.9	5.4	5.8	6.2	6.3
Higher expected inflation	4.9	5.3	5.4	5.6	5.4
Less-persistent inflation	4.9	5.3	5.2	5.1	4.6
Market-based federal funds rate	4.9	5.3	5.2	4.9	4.7

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

from these events is severe: Real GDP contracts this quarter and in the first quarter of next year, and growth in output recovers slowly thereafter, causing the unemployment rate to level out at 6 percent in 2008. As monetary policy eases in response to the weakness in real activity, the federal funds rate declines gradually to about 3¼ percent by

**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	2.8	2.2	2.5
Confidence interval			
Greenbook forecast errors	2.3–3.3	.6–3.8	.7–4.3
FRB/US stochastic simulations	2.4–3.3	1.0–3.6	.9–4.4
<i>Civilian unemployment rate</i> (percent, Q4)			
Projection	4.7	5.1	5.1
Confidence interval			
Greenbook forecast errors	4.6–4.8	4.5–5.7	4.1–6.1
FRB/US stochastic simulations	4.6–4.8	4.7–5.4	4.5–5.7
<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	2.2–2.5	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	5.0–5.6	4.3–6.4	3.7–6.6

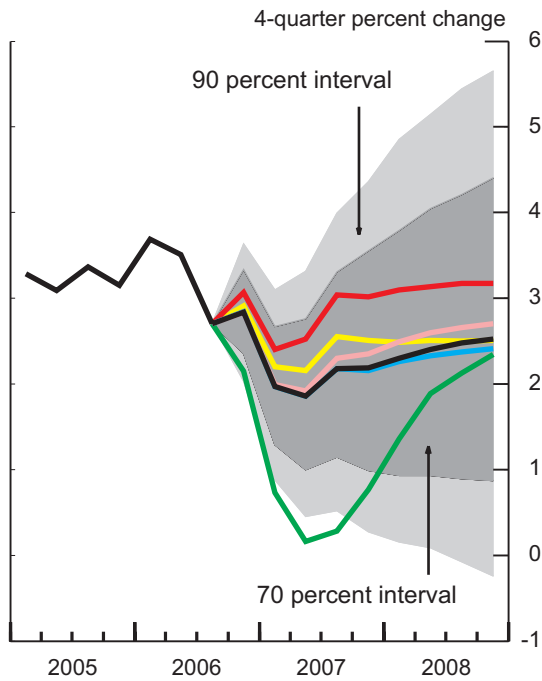
Note. Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1986-2005 set of model equation residuals. Intervals derived from Greenbook forecast errors are based on the 1986-2004 set of Greenbook historical errors.

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

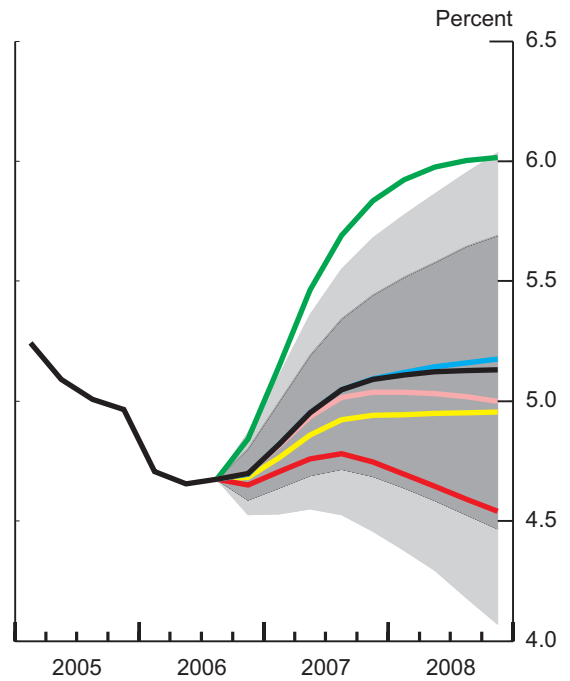
Confidence Intervals based on FRB/US Stochastic Simulations

- | | | |
|--------------------------------------|------------------------|-----------------------------|
| ■ Greenbook baseline | ■ Milder housing cycle | ■ Higher expected inflation |
| ■ Housing correction with spillovers | ■ Stronger demand | ■ Less-persistent inflation |

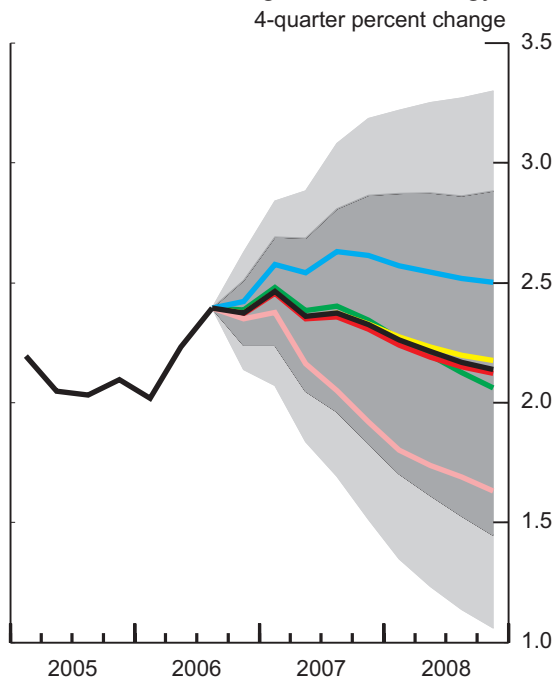
Real GDP



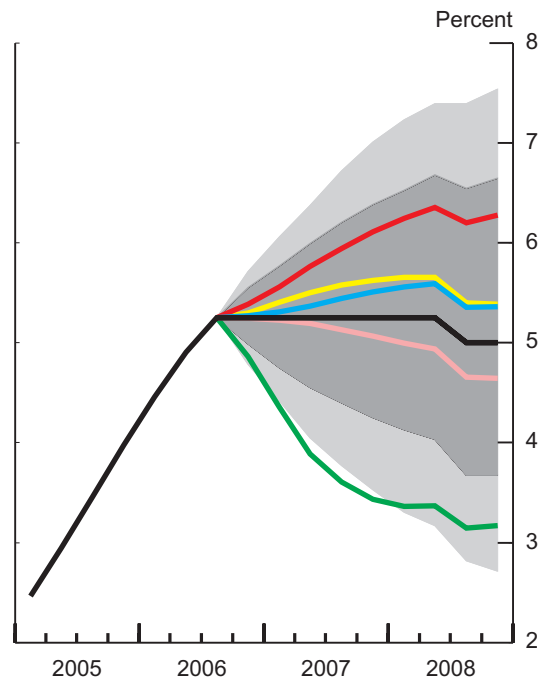
Unemployment Rate



PCE Prices excluding Food and Energy



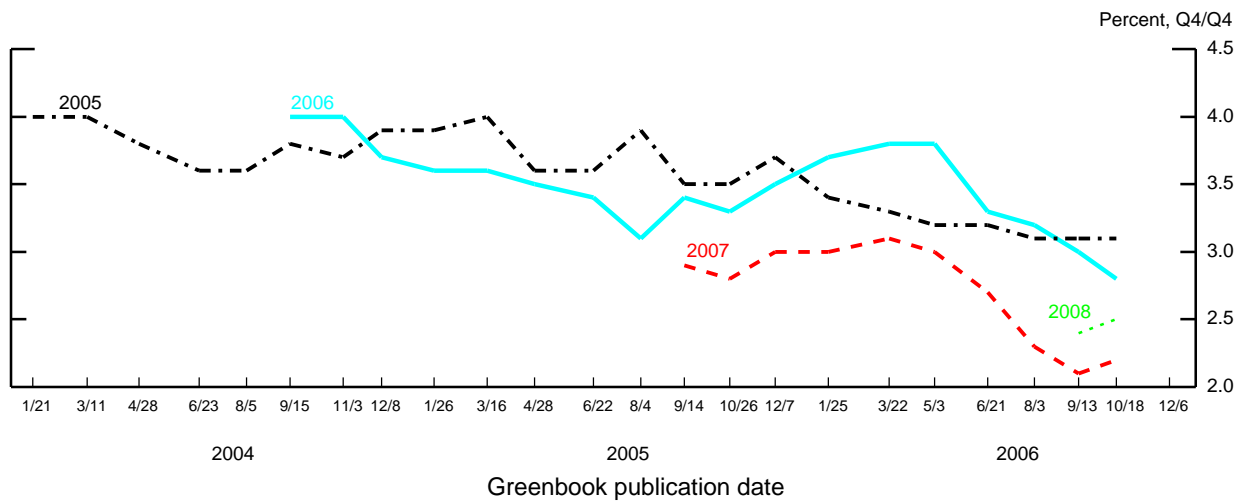
Federal Funds Rate



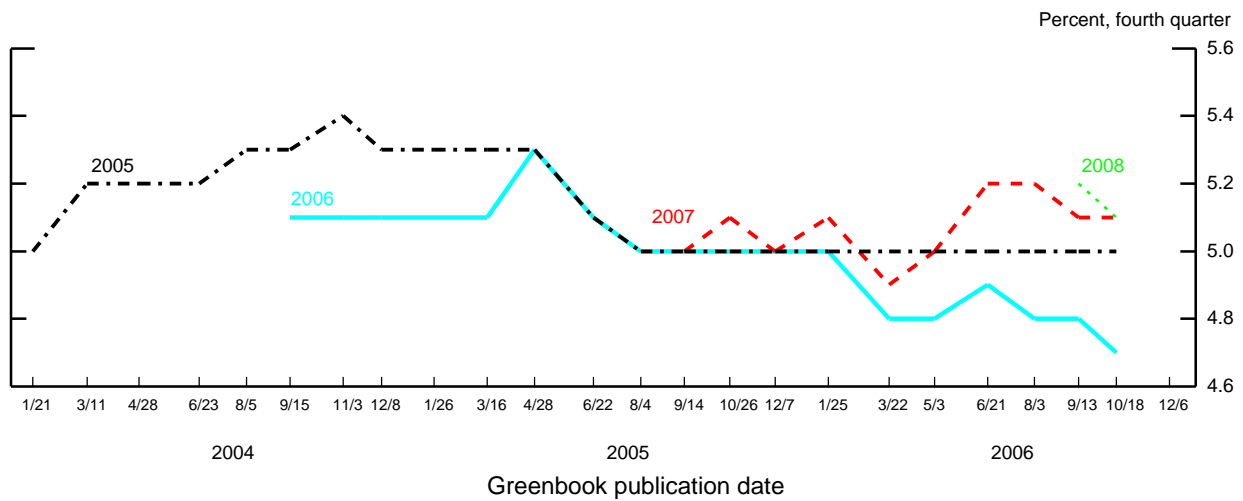
Class II FOMC - Restricted (FR)

Evolution of the Staff Forecast

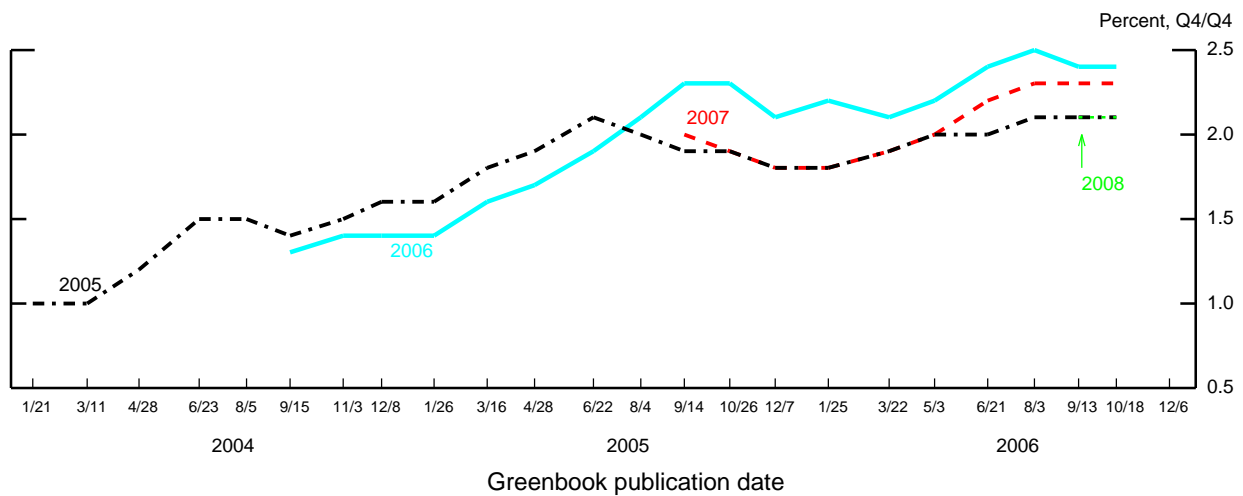
Change in Real GDP



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	
	09/13/06	10/18/06	09/13/06	10/18/06	09/13/06	10/18/06	09/13/06	10/18/06	09/13/06	10/18/06
<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	6.3	5.9	2.8	2.6	4.1	4.0	2.8	2.7	4.7	4.7
Q3	4.0	2.8	1.8	1.0	2.5	2.4	2.3	2.2	4.7	4.7
Q4	3.7	4.0	1.7	2.3	.3	-.8	2.5	2.4	4.8	4.7
2007:Q1	4.6	5.1	1.9	2.1	2.9	3.3	2.4	2.4	4.9	4.8
Q2	4.9	4.9	2.0	2.1	2.5	2.7	2.3	2.3	5.0	5.0
Q3	4.8	4.9	2.1	2.2	2.4	2.5	2.3	2.3	5.0	5.0
Q4	4.6	4.8	2.2	2.3	2.2	2.3	2.2	2.2	5.1	5.1
2008:Q1	4.9	5.2	2.3	2.5	2.1	2.2	2.2	2.2	5.1	5.1
Q2	5.1	5.1	2.4	2.5	2.1	2.1	2.2	2.1	5.2	5.1
Q3	4.9	5.0	2.5	2.5	2.0	2.1	2.1	2.1	5.2	5.1
Q4	4.8	4.9	2.5	2.5	2.0	2.0	2.1	2.1	5.2	5.1
<i>Two-quarter²</i>										
2006:Q2	7.6	7.5	4.2	4.1	3.1	3.0	2.5	2.4	-.3	-.3
Q4	3.9	3.4	1.7	1.6	1.4	.8	2.4	2.3	.1	.0
2007:Q2	4.7	5.0	2.0	2.1	2.7	3.0	2.4	2.4	.2	.3
Q4	4.7	4.8	2.2	2.3	2.3	2.4	2.3	2.3	.1	.1
2008:Q2	5.0	5.2	2.4	2.5	2.1	2.2	2.2	2.2	.1	.0
Q4	4.9	4.9	2.5	2.5	2.0	2.1	2.1	2.1	.0	.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	5.7	5.4	3.0	2.8	2.2	1.9	2.4	2.4	-.2	-.3
2007:Q4	4.7	4.9	2.1	2.2	2.5	2.7	2.3	2.3	.3	.4
2008:Q4	4.9	5.0	2.4	2.5	2.0	2.1	2.1	2.1	.1	.0
<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	6.4	6.2	3.3	3.2	2.9	2.8	2.3	2.3	4.7	4.7
2007	4.5	4.6	2.0	2.0	2.3	2.2	2.4	2.4	5.0	5.0
2008	4.9	5.0	2.3	2.4	2.2	2.2	2.2	2.2	5.2	5.1

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	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
Final sales <i>Previous</i>	5.6	2.8	1.8	1.7	1.9	2.0	2.1	2.2	2.3	2.4	2.5	2.5	3.0	2.1	2.4
Priv. dom. final purch. <i>Previous</i>	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
	5.6	2.1	2.3	1.8	1.5	2.5	2.6	1.9	1.8	2.6	2.6	1.9	3.0	2.1	2.2
	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
	5.5	1.8	2.1	1.8	1.4	2.2	2.4	2.5	2.6	2.7	2.8	2.8	2.8	2.1	2.7
Personal cons. expend. <i>Previous</i>	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
	4.8	2.6	3.1	2.7	2.5	2.5	2.6	2.6	2.6	2.7	2.8	2.8	3.3	2.5	2.7
Durables	19.8	-1	4.8	6.7	4.2	4.2	4.2	4.1	4.7	4.2	4.3	4.3	7.6	4.2	4.4
Nondurables	5.9	1.4	2.1	3.4	3.1	3.1	3.1	3.2	3.3	3.3	3.3	3.3	3.2	3.1	3.3
Services	1.6	3.7	2.9	2.2	2.1	2.1	2.1	2.1	2.2	2.2	2.2	2.2	2.6	2.1	2.2
Residential investment <i>Previous</i>	-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
	-3	-10.9	-20.6	-20.5	-17.4	-7.6	-3.2	-8	.8	1.5	3.1	3.3	-13.5	-7.5	2.2
Business fixed invest. <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
	13.7	4.4	9.5	9.2	4.7	4.8	3.8	3.6	3.5	3.1	2.9	2.4	9.1	4.2	3.0
Equipment & software <i>Previous</i>	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
	15.6	-1.5	7.1	7.5	3.8	5.0	4.2	4.3	4.9	4.8	5.1	5.0	7.0	4.3	4.9
Nonres. structures <i>Previous</i>	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
	8.7	21.0	15.4	13.0	6.7	4.4	2.8	2.2	.6	-4	-1.5	-2.9	14.5	4.0	-1.0
Net exports ² <i>Previous</i> ²	-637	-624	-639	-631	-641	-638	-634	-653	-670	-671	-673	-695	-633	-642	-677
	-637	-624	-625	-627	-634	-628	-622	-638	-658	-656	-656	-676	-628	-631	-661
Exports	14.0	6.2	7.4	4.9	4.6	4.6	4.5	4.4	4.5	4.8	5.0	5.2	8.1	4.5	4.9
Imports	9.1	1.4	8.1	1.7	5.2	2.4	2.3	6.9	6.5	3.4	3.7	7.8	5.0	4.2	5.4
Govt. cons. & invest. <i>Previous</i>	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
	4.9	.9	2.7	1.9	2.4	2.1	1.7	1.5	1.2	1.2	1.2	1.2	2.6	1.9	1.2
Federal	8.8	-4.5	.6	4.8	5.0	2.2	1.3	.7	.0	.0	.0	.0	2.3	2.3	.0
Defense	8.9	-2.0	-3.1	10.0	7.5	3.3	1.9	1.0	.0	.0	.0	.0	3.3	3.4	.0
Nondefense	8.5	-9.3	8.4	-5.0	.0	.0	.0	.0	.0	.0	.0	.0	.3	.0	.0
State & local	2.7	4.0	1.0	2.0	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.9	2.4	2.0	1.9
Change in bus. inventories ² <i>Previous</i> ²	41	54	35	35	47	37	29	42	53	51	48	65	41	39	54
	41	60	46	44	57	44	31	40	54	50	45	64	48	43	53
Nonfarm ² Farm ²	37	52	36	35	47	36	28	42	53	51	48	66	40	38	54
	4	2	-1	-0	1	1	1	1	1	1	1	1	1	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	2.8 3.0	2.2 2.1	2.5 2.4
Final sales <i>Previous</i>	2.9	1.5	.8	3.7	3.1	3.2	2.9	2.1	2.3
Priv. dom. final purch. <i>Previous</i>	2.9 4.3 4.3	1.5 1.0 1.0	.8 1.1 1.1	3.7 4.1 4.1	3.1 4.4 4.4	3.2 3.6 3.6	3.0 2.8 2.8	2.1 2.2 2.1	2.2 2.9 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	3.3 3.3	2.6 2.5	2.8 2.7
Durables	4.7	10.8	1.2	8.3	5.6	2.5	7.6	4.2	4.4
Nondurables	3.0	1.9	2.1	3.9	3.8	4.4	3.2	3.1	3.3
Services	4.5	1.6	1.9	2.2	3.7	2.3	2.6	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	-13.1 -13.5	-7.7 -7.5	2.2 2.2
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	8.9 9.1	4.4 4.2	3.8 3.0
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	6.0 7.0	4.1 4.3	5.3 4.9
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	16.0 14.5	5.1 4.0	.8 -1.0
Net exports ² <i>Previous</i> ²	-379 -379	-399 -399	-471 -471	-519 -519	-591 -591	-619 -619	-633 -628	-642 -631	-677 -661
Exports	6.5	-11.9	3.8	5.8	7.0	6.7	8.1	4.5	4.9
Imports	11.2	-7.6	9.7	4.8	10.6	5.2	5.0	4.2	5.4
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	2.4 2.6	2.1 1.9	1.2 1.2
Federal	-2.2	6.4	7.8	5.5	2.3	2.1	2.3	2.3	.0
Defense	-3.5	6.5	8.4	7.5	2.5	1.9	3.3	3.4	.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	2.4	2.0	1.9
Change in bus. inventories ² <i>Previous</i> ²	56 56	-32 -32	12 12	14 14	53 53	20 20	41 48	39 43	54 53
Nonfarm ²	58	-32	15	14	47	20	40	38	54
Farm ²	-1	0	-2	0	6	0	1	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	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
Final sales <i>Previous</i>	5.6	2.8	1.8	1.7	1.9	2.0	2.1	2.2	2.3	2.4	2.5	2.5	3.0	2.1	2.4
Priv. dom. final purch. <i>Previous</i>	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
Personal cons. expend. <i>Previous</i>	5.6	2.1	2.3	1.8	1.5	2.5	2.5	1.9	1.8	2.6	2.6	1.9	2.9	2.1	2.2
Durables	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
Nondurables	4.7	1.6	1.8	1.6	1.2	1.9	2.0	2.2	2.3	2.3	2.4	2.4	2.4	1.8	2.3
Services	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
Residential investment <i>Previous</i>	3.4	1.8	2.2	1.9	1.7	1.8	1.8	1.8	1.9	1.9	1.9	2.0	2.3	1.8	1.9
Business fixed invest. <i>Previous</i>	1.5	.0	.4	.5	.3	.3	.3	.3	.4	.3	.3	.3	.6	.3	.3
Equipment & software <i>Previous</i>	1.2	.3	.4	.7	.6	.6	.6	.6	.7	.7	.7	.7	.6	.6	.7
Nonres. structures <i>Previous</i>	.7	1.5	1.2	.9	.9	.9	.9	.9	.9	.9	.9	.9	1.1	.9	.9
Net exports <i>Previous</i>	.0	-.7	-1.2	-1.3	-1.0	-.4	-.2	-.1	.1	.1	.1	.2	-.8	-.4	.1
Exports	.0	-.7	-1.3	-1.3	-1.0	-.4	-.2	.0	.0	.1	.1	.2	-.8	-.4	.1
Imports	1.4	.5	1.2	.6	.5	.5	.4	.4	.5	.4	.4	.4	.9	.5	.4
Govt. cons. & invest. <i>Previous</i>	1.4	.5	1.0	.9	.5	.5	.4	.4	.4	.3	.3	.3	.9	.5	.3
Federal	1.1	-.1	.6	.2	.2	.3	.3	.3	.4	.4	.4	.4	.4	.3	.4
Defense	1.1	-.1	.5	.5	.3	.4	.3	.3	.4	.3	.4	.4	.5	.3	.4
Nondefense	.3	.6	.6	.4	.3	.2	.1	.1	.1	.0	.0	.0	.5	.2	.0
State & local	.3	.6	.4	.4	.2	.1	.1	.1	.0	.0	-.1	-.1	.4	.1	.0
Change in bus. inventories <i>Previous</i>	.0	.4	-.6	.3	-.4	.1	.1	-.7	-.6	.0	-.1	-.7	.0	-.2	-.4
Nonfarm	.0	.4	.0	-.1	-.2	.2	.2	-.6	-.7	.0	.0	-.7	.1	-.1	-.3
Farm	1.4	.7	.8	.5	.5	.5	.5	.5	.5	.5	.6	.6	.9	.5	.6
Farm	-1.5	-.2	-1.3	-.3	-.9	-.4	-.4	-1.2	-1.1	-.6	-.6	-1.3	-.8	-.7	-.9
Govt. cons. & invest. <i>Previous</i>	.9	.2	.2	.6	.6	.4	.3	.3	.2	.2	.2	.2	.5	.4	.2
Federal	.9	.2	.5	.4	.5	.4	.3	.3	.2	.2	.2	.2	.5	.4	.2
Defense	.6	-.3	.0	.3	.3	.2	.1	.0	.0	.0	.0	.0	.2	.2	.0
Nondefense	.4	-.1	-.1	.4	.3	.2	.1	.0	.0	.0	.0	.0	.2	.2	.0
State & local	.2	-.2	.2	-.1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
Change in bus. inventories <i>Previous</i>	.3	.5	.1	.2	.2	.2	.2	.2	.2	.2	.2	.2	.3	.2	.2
Nonfarm	.0	.4	-.7	.0	.4	-.4	-.3	.5	.4	-.1	-.1	.6	-.1	.1	.2
Farm	.0	.7	-.5	-.1	.5	-.5	-.5	.3	.5	-.2	-.2	.6	.0	.0	.2
Farm	.0	.5	-.6	.0	.4	-.4	-.3	.5	.4	-.1	-.1	.6	.0	.1	.2
Farm	.0	-.1	-.1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0

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

Class II FOMC
Restricted (FR)

October 18, 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	1.6	3.0	2.7	2.6	2.4	2.6	2.5	2.4	2.3	2.5	2.7	2.5
PCE chain-wt. price index <i>Previous</i>	3.3	3.4	2.2	1.9	2.6	2.8	2.6	2.3	2.5	2.6	2.4	2.2	2.7	2.6	2.4
Energy	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
<i>Previous</i>	2.0	4.1	2.5	.3	2.9	2.5	2.4	2.2	2.1	2.1	2.0	2.0	2.2	2.5	2.0
Energy	.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
<i>Previous</i>	.1	29.7	5.0	-28.4	11.1	5.8	3.9	1.7	.7	.1	-.3	-.5	-.6	5.6	.0
Food	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
<i>Previous</i>	2.7	1.7	2.8	2.6	2.4	2.4	2.4	2.3	2.3	2.3	2.2	2.2	2.5	2.4	2.2
Ex. food & energy	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
<i>Previous</i>	2.1	2.8	2.3	2.5	2.4	2.3	2.3	2.2	2.2	2.2	2.1	2.1	2.4	2.3	2.1
CPI	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
<i>Previous</i>	2.2	4.9	3.1	-.2	3.3	2.8	2.6	2.3	2.2	2.1	2.0	2.0	2.5	2.7	2.1
Ex. food & energy	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
<i>Previous</i>	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
ECI, hourly compensation ²	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
<i>Previous</i> ²	2.4	3.2	3.6	3.8	4.0	4.0	4.1	4.1	4.1	4.1	4.1	4.1	3.2	4.1	4.1
Nonfarm business sector	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
Output per hour	4.3	1.4	.4	1.6	2.4	2.4	2.4	2.6	2.6	2.7	2.8	2.9	1.9	2.4	2.7
<i>Previous</i>	13.7	6.7	1.3	4.7	5.2	5.2	5.1	5.1	5.1	5.0	4.9	4.9	6.5	5.1	4.9
Compensation per hour	13.7	6.6	1.5	4.8	5.3	5.3	5.3	5.3	5.3	5.2	5.2	5.1	6.5	5.3	5.1
<i>Previous</i>	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
Unit labor costs	9.0	5.1	1.1	3.2	2.8	2.8	2.8	2.7	2.6	2.6	2.4	2.2	4.5	2.8	2.3
<i>Previous</i>															

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	.3	.2	.1	.1	.2	.2	.2	.2	.2	1.6	.6	.7
Unemployment rate ³	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
<i>Previous³</i>	4.7	4.7	4.7	4.8	4.9	5.0	5.0	5.1	5.1	5.2	5.2	5.2	4.8	5.1	5.2
GDP gap ⁴	.7	.6	.2	.1	.0	-.2	-.3	-.4	-.4	-.4	-.4	-.4	.1	-.4	-.4
<i>Previous⁴</i>	.7	.7	.5	.2	.0	-.1	-.3	-.4	-.4	-.5	-.5	-.5	.2	-.4	-.5
Industrial production ⁵	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
<i>Previous⁵</i>	5.1	6.2	5.5	2.3	4.1	3.6	3.4	3.1	3.2	3.3	3.4	2.7	4.8	3.6	3.2
Manufacturing industr. prod. ⁵	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
<i>Previous⁵</i>	5.3	5.1	4.7	2.7	4.0	3.6	3.5	3.5	3.9	3.6	3.7	3.4	4.5	3.7	3.6
Capacity utilization rate - mfg. ³	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
<i>Previous³</i>	80.3	80.8	81.2	81.3	81.5	81.6	81.7	81.6	81.7	81.7	81.8	81.7	81.3	81.6	81.7
Housing starts ⁶	2.1	1.9	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.7	1.8	1.6	1.6
Light motor vehicle sales ⁶	16.9	16.3	16.6	16.5	16.5	16.5	16.5	16.5	16.6	16.6	16.6	16.6	16.6	16.5	16.6
<i>Income and saving</i>															
Nominal GDP ⁵	9.0	5.9	2.8	4.0	5.1	4.9	4.9	4.8	5.2	5.1	5.0	4.9	5.4	4.9	5.0
Real disposable pers. income ⁵	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
<i>Previous⁵</i>	4.6	1.6	3.2	5.1	3.8	2.9	3.7	3.6	4.4	2.9	3.4	3.2	3.6	3.5	3.5
Personal saving rate ³	-.3	-.6	-.7	.0	.1	.2	.4	.7	1.0	1.1	1.3	1.4	.0	.7	1.4
<i>Previous³</i>	-.3	-.6	-.6	.0	.3	.4	.7	1.0	1.4	1.4	1.6	1.7	.0	1.0	1.7
Corporate profits ⁷	60.8	5.9	-1.8	-6.4	1.2	-4.0	-1.6	.6	.9	2.9	2.5	1.9	11.9	-1.0	2.1
Profit share of GNP ³	12.0	12.0	11.9	11.6	11.5	11.3	11.1	11.0	10.9	10.8	10.8	10.7	11.6	11.0	10.7
Net federal saving ⁸	-147	-132	-206	-199	-217	-226	-233	-244	-269	-265	-261	-267	-171	-230	-265
Net state & local saving ⁸	13	26	27	19	19	21	13	13	15	18	10	9	21	17	13
Gross national saving rate ³	14.4	14.4	13.6	13.9	13.7	13.5	13.4	13.4	13.4	13.4	13.5	13.4	13.9	13.4	13.4
Net national saving rate ³	2.9	2.8	2.2	2.5	2.3	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.5	2.0	2.1

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)

October 18, 2006

Item	Fiscal year			2006			2007			2008		
	2005 ^a	2006 ^a	2007	2008	Q1 ^a	Q2 ^a	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget												
Receipts ¹	2154	2407	2521	2657	507	772	597	576	534	809	603	602
Outlays ¹	2473	2654	2775	2939	691	675	639	686	724	696	668	745
Surplus/deficit ¹	-318	-248	-254	-282	-183	97	-42	-111	-191	113	-65	-144
<i>Previous</i>	-318	-266	-283	-308	-184	96	-59	-123	-201	107	-66	-151
On-budget	-494	-434	-444	-487	-215	12	-61	-174	-214	24	-79	-212
Off-budget	175	186	190	205	32	85	19	64	24	89	14	69
Means of financing												
Borrowing	297	237	244	288	156	-75	43	85	170	-84	74	134
Cash decrease	1	-16	17	0	28	-38	-6	27	14	-24	0	10
Other ²	22	27	-8	-7	-1	15	5	-1	6	-4	-8	-0
Cash operating balance, end of period	36	52	35	35	8	46	52	25	11	35	35	25
NIPA federal sector												
Receipts	2174	2484	2609	2725	2491	2555	2540	2557	2601	2625	2651	2681
Expenditures	2509	2671	2828	2984	2638	2686	2746	2757	2818	2851	2885	2926
Consumption expenditures	758	797	843	882	804	802	809	818	843	852	860	866
Defense	509	532	569	597	538	538	538	549	569	576	582	587
Nondefense	249	264	274	285	266	265	272	269	275	276	278	279
Other spending	1751	1874	1984	2103	1834	1884	1937	1938	1975	1999	2025	2060
Current account surplus	-335	-187	-219	-260	-147	-132	-206	-199	-217	-226	-233	-244
Gross investment	107	117	124	127	118	117	117	121	124	125	126	127
Gross saving less gross investment ³	-344	-201	-235	-274	-163	-145	-219	-214	-233	-242	-249	-260
Fiscal indicators⁴												
High-employment (HEB) surplus/deficit	-336	-220	-237	-260	-188	-174	-235	-228	-239	-240	-243	-249
Change in HEB, percent of potential GDP	-0.3	-1.0	0.0	0.1	-0.8	-0.1	0.4	-0.1	0.1	-0.0	-0.0	0.0
Fiscal impetus (FI), percent of GDP	0.2	0.3	0.3	-0.0	0.2	-0.0	0.1	0.1	0.2	0.0	-0.0	0.0
<i>Previous</i>	0.2	0.4	0.3	0.0	0.2	-0.0	0.1	0.0	0.2	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** **October 18, 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	9.4	10.1	8.9	6.0	8.8	-2	2.7
2002	7.2	10.6	12.9	5.7	2.5	11.0	7.6	3.6
2003	8.2	11.7	14.3	5.3	2.6	8.3	10.9	5.9
2004	8.9	11.5	14.1	5.3	5.9	7.4	9.0	6.7
2005	9.5	11.7	13.8	4.1	7.7	10.2	7.0	6.4
2006	7.4	8.3	9.1	4.0	7.9	6.6	4.5	5.4
2007	6.3	6.2	6.9	3.8	7.0	4.4	6.0	4.9
2008	6.1	5.9	6.5	3.7	6.7	4.6	5.7	5.0
<i>Quarter</i>								
2006:1	9.5	9.6	10.9	2.0	9.5	3.5	11.3	9.0
2	6.4	9.1	9.1	5.9	7.6	6.6	-2.4	5.9
3	6.5	7.0	7.8	4.1	6.9	9.4	3.3	2.8
4	6.4	6.7	7.5	3.9	6.6	6.3	5.4	4.0
2007:1	7.2	6.3	6.9	3.8	7.0	2.9	12.0	5.1
2	4.7	6.1	6.7	3.9	6.8	5.0	-3.1	4.9
3	6.1	6.0	6.6	3.7	6.9	4.7	5.6	4.9
4	6.6	5.9	6.5	3.7	6.6	4.6	9.0	4.8
2008:1	6.8	5.9	6.4	3.7	6.4	4.6	10.7	5.2
2	4.3	5.8	6.4	3.7	6.6	4.5	-3.9	5.1
3	6.1	5.8	6.3	3.7	6.6	4.5	6.6	5.0
4	6.5	5.8	6.3	3.7	6.6	4.4	9.3	4.9

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2006:Q2 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

**Class II FOMC
Restricted (FR)**

Flow of Funds Projections: Highlights

October 18, 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
<i>Domestic nonfinancial sectors</i>														
Net funds raised														
Total	1951.5	1429.3	1540.5	1612.3	1233.8	1329.3	1788.3	1101.8	1549.4	1722.5	1830.4	1099.3	1674.5	1845.0
Net equity issuance	-363.6	-541.4	-260.0	-232.0	-572.8	-480.0	-280.0	-260.0	-260.0	-240.0	-232.0	-232.0	-232.0	-232.0
Net debt issuance	2315.1	1970.7	1800.5	1844.3	1806.6	1809.3	2068.3	1361.8	1809.4	1962.5	2062.4	1331.3	1906.5	2077.0
Borrowing indicators														
Debt (percent of GDP) ¹	204.6	208.9	213.4	215.7	210.2	211.6	212.5	213.1	213.4	214.3	215.1	215.4	215.5	216.4
Borrowing (percent of GDP)	18.6	14.9	13.0	12.7	13.6	13.5	15.2	9.9	13.0	13.9	14.5	9.2	13.0	14.0
Households														
Net borrowing ²	1241.5	984.9	795.5	806.9	867.1	841.2	801.7	795.8	792.4	792.1	797.4	803.5	809.6	817.2
Home mortgages	1078.1	810.2	665.4	674.9	729.3	710.4	672.5	663.0	663.0	663.0	667.8	672.5	677.2	682.0
Consumer credit	91.1	93.3	92.5	93.9	96.4	92.6	91.3	95.1	91.9	91.5	91.9	93.0	94.1	96.5
Debt/DPI (percent) ³	123.8	128.5	130.3	130.5	129.5	130.1	130.1	130.4	130.3	130.3	130.2	130.4	130.5	130.7
Business														
Financing gap ⁴	-138.6	55.9	150.4	247.4	66.1	86.7	119.8	137.3	155.4	189.2	222.7	235.3	248.6	282.8
Net equity issuance	-363.6	-541.4	-260.0	-232.0	-572.8	-480.0	-280.0	-260.0	-260.0	-240.0	-232.0	-232.0	-232.0	-232.0
Credit market borrowing	595.3	653.9	625.4	644.0	600.0	583.7	621.9	621.9	640.4	617.3	615.6	642.6	651.7	665.9
State and local governments														
Net borrowing	171.5	122.6	86.2	94.8	179.5	122.5	56.4	98.8	94.8	94.8	94.8	94.8	94.8	94.8
Current surplus ⁵	203.8	215.6	196.6	200.5	200.8	195.1	196.8	200.2	193.4	195.8	199.9	204.3	198.4	199.4
Federal government														
Net borrowing	306.9	209.3	293.4	298.7	160.0	261.9	588.3	-154.7	281.8	458.3	554.6	-209.5	350.5	499.2
Net borrowing (n.s.a.)	306.9	209.3	293.4	298.7	43.4	84.6	170.3	-84.4	73.8	133.7	161.9	-98.1	91.0	143.9
Unified deficit (n.s.a.)	322.1	238.5	286.7	292.1	42.0	110.5	190.5	-112.8	65.4	143.6	182.8	-127.1	82.6	153.8
<i>Depository institutions</i>														
Funds supplied	814.1	651.6	521.7	380.5	417.4	163.5	629.4	542.2	570.8	344.5	357.6	394.9	405.5	363.9

Note. Data after 2006:Q2 are staff projections.

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

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

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

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

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

n.s.a. Not seasonally adjusted.

International Developments

Recent data confirm that growth in foreign output moderated from the rapid pace earlier this year to a more sustainable annual rate of 3¼ percent in the third quarter. We expect foreign activity to continue to expand at this solid pace over the forecast period.

Although our outlook for foreign real GDP growth in the aggregate is unchanged, it reflects a slightly weaker near-term forecast for emerging-market economies and a slightly stronger forecast for the advanced foreign economies.

The decline in oil prices since the summer should continue to feed through to foreign consumer price inflation over the remainder of this year; our forecast is for inflation to dip below 2 percent in the current quarter, ½ percentage point lower than in the September Greenbook. Inflation should be held in check over the forecast period, as oil prices are expected to only partially reverse their drop since early August, and monetary and fiscal restraint abroad are expected to keep foreign growth at rates close to potential.

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

Indicator	2005	2006: H1	Projection			
			2006		2007	2008
			Q3	Q4		
Foreign output	3.8	4.4	3.3	3.3	3.2	3.3
September GB	3.7	4.3	3.3	3.3	3.2	3.3
Foreign CPI	2.2	2.4	2.1	1.7	2.3	2.1
September GB	2.2	2.3	2.4	2.3	2.3	2.2

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

As measured by the broad nominal index, the foreign exchange value of the dollar has appreciated just a little over the intermeeting period, resulting in a slightly higher starting point for the projected path of the dollar. As in the previous Greenbook, we continue to expect a modest depreciation over the forecast period.

We now estimate that the arithmetic contribution of real net exports to U.S. GDP growth was a negative ½ percentage point in the third quarter and that it will swing to a positive ¼ percentage point in the fourth quarter. Compared with our previous forecast of roughly neutral contributions in both quarters, these changes reflect surprisingly strong partial data on third-quarter imports as well as a revision to the expected path of oil imports in

Staff Projections of Selected Trade Prices

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

Trade category	2005	2006: H1	Projection			
			2006		2007	2008
			Q3	Q4		
<i>Exports</i>						
Core goods	3.9	5.3	6.0	2.7	2.2	1.2
September GB	3.9	5.2	6.3	3.2	2.2	1.1
<i>Imports</i>						
Nonfuel core goods	2.2	2.7	4.2	3.3	1.4	1.0
September GB	2.2	2.7	3.9	3.2	1.4	1.0
Oil (dollars per barrel)	55.39	63.75	65.69	55.17	62.69	63.66
September GB	55.39	63.75	65.37	59.10	64.81	64.32

NOTE. Prices for core exports exclude computers and semiconductors. Prices for nonfuel 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 rose at an annual rate of 6 percent in the third quarter after increasing at a 7 percent pace in the second quarter. Prices of exported industrial supplies rose 11½ percent in the third quarter, a surge that would have been even larger if petroleum prices had not fallen sharply in September. The effects of this decline in petroleum prices will continue to be felt in the current quarter. As a result, core export prices are projected to increase at an annual rate of only 2¾ percent this quarter, notwithstanding some lagged effects of higher prices for metals. We expect export price inflation to edge up in the first half of 2007 along with the prices of petroleum products, but this increase should be short lived. In subsequent quarters, core export price inflation should decline, as prices for intermediate materials and primary commodities decelerate. Compared with the previous Greenbook, core export price inflation is ¼ percentage point lower in the third quarter and ½ percentage point lower in the fourth quarter because of the recent drop in petroleum prices. For 2007 and 2008, the forecast is little changed.

Trade in Goods and Services

We now estimate that real net exports of goods and services subtracted just over ½ percentage point from the growth of U.S. real GDP in the third quarter, as recent import data—for both oil and core goods—have come in much stronger than we had expected. In the current quarter, we see the contribution from net exports swinging to a positive ¼ percentage point, as imports decelerate sharply. Our previous forecast had

price inflation for services imports. Growth of imports of computers and semiconductors should remain solid. Compared with the September Greenbook, our projection for overall real import growth has been revised up $\frac{1}{2}$ percentage point for 2007, in part because of the upward revision to the projected path of U.S. growth, and is little changed in 2008.

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

Measure	2005	2006: H1	Projection			
			2006		2007	2008
			Q3	Q4		
Real exports	6.7	10.0	7.4	4.9	4.5	4.9
September GB	6.7	10.1	4.7	4.9	4.6	5.1
Real imports	5.2	5.2	8.1	1.7	4.2	5.4
September GB	5.2	5.2	3.2	3.8	3.7	5.3

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

Real exports of goods and services are estimated to have risen at an annual rate of about $7\frac{1}{2}$ percent in the third quarter. This projection is $2\frac{3}{4}$ percentage points stronger than in the September Greenbook, as the August nominal trade data indicated much stronger export growth than we had expected, particularly of core goods. As with imports, the strength was spread fairly evenly across a number of categories, with the largest increases in industrial supplies and capital goods. We now estimate that real exports of core goods grew nearly 12 percent in the third quarter. Real services exports, however, are now estimated to have fallen slightly, as August data on nominal services unexpectedly continued the softness seen in recent months. Exports of computers and semiconductors are estimated to have posted only lackluster growth in the third quarter.

In the current quarter and over the next two years, we project that the growth of real exports of goods and services will proceed at an average annual rate of $4\frac{3}{4}$ percent, with growth being slightly higher near the end of the forecast period. After its third-quarter burst, core export growth slows to $3\frac{3}{4}$ percent in the fourth quarter and to just above 3 percent next year before picking up again in 2008. Against the backdrop of continued solid support from foreign GDP growth, the contours of this forecast reflect both the lagged effects of the dollar's appreciation in 2005, which pulls core export growth down slightly next year, and subsequent dollar depreciation, which raises core export growth in

prices of either sign would be unlikely to push core inflation very far from the 2 to 2½ percent range projected in our baseline forecast, as long as long-run inflation expectations remain anchored.

**Alternative Simulations:
Alternative Oil Price Paths**
(Percent change from previous period, annual rate)

Indicator and simulation	2006		2007		2008	
	H1	H2	H1	H2	H1	H2
<i>U.S. real GDP</i>						
Baseline	4.1	1.6	2.1	2.3	2.5	2.5
Permanently lower oil price	4.1	1.8	2.3	2.4	2.6	2.5
Permanently higher oil price	4.1	1.5	1.9	2.2	2.4	2.5
<i>U.S. PCE prices excluding food and energy</i>						
Baseline	2.4	2.3	2.4	2.3	2.2	2.1
Permanently lower oil price	2.4	2.2	2.2	2.0	2.0	1.9
Permanently higher oil price	2.4	2.3	2.6	2.5	2.4	2.2
<i>U.S. trade balance (percent of GDP)</i>						
Baseline	-5.9	-5.8	-5.7	-5.7	-5.8	-5.7
Permanently lower oil price	-5.9	-5.2	-5.2	-5.2	-5.4	-5.3
Permanently higher oil price	-5.9	-6.2	-6.1	-6.1	-6.1	-6.0

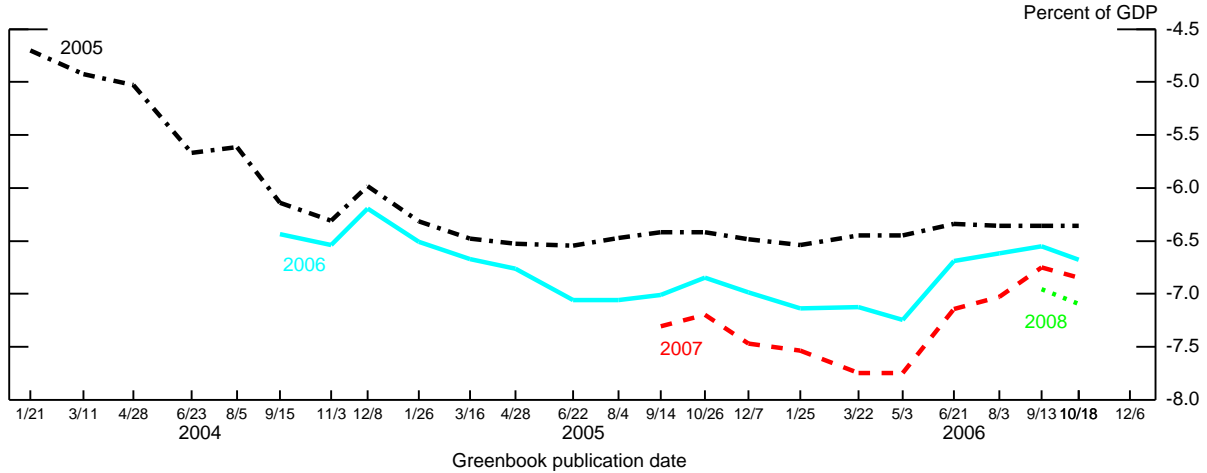
Note. H1 is Q2/Q4; H2 is Q4/Q2. The federal funds rate is adjusted according to a Taylor rule.

responses of our model are close to log linear and that a \$20 rise from a given base implies a smaller logarithmic percentage change than a \$20 decrease (even though the arithmetic changes are the same).

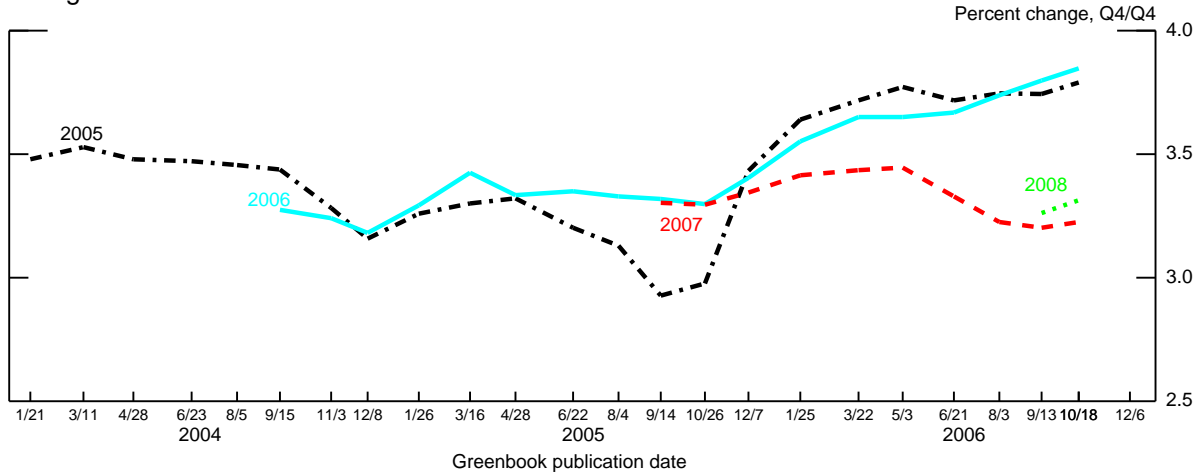
Class II FOMC -- Restricted (FR)

Evolution of the Staff Forecast

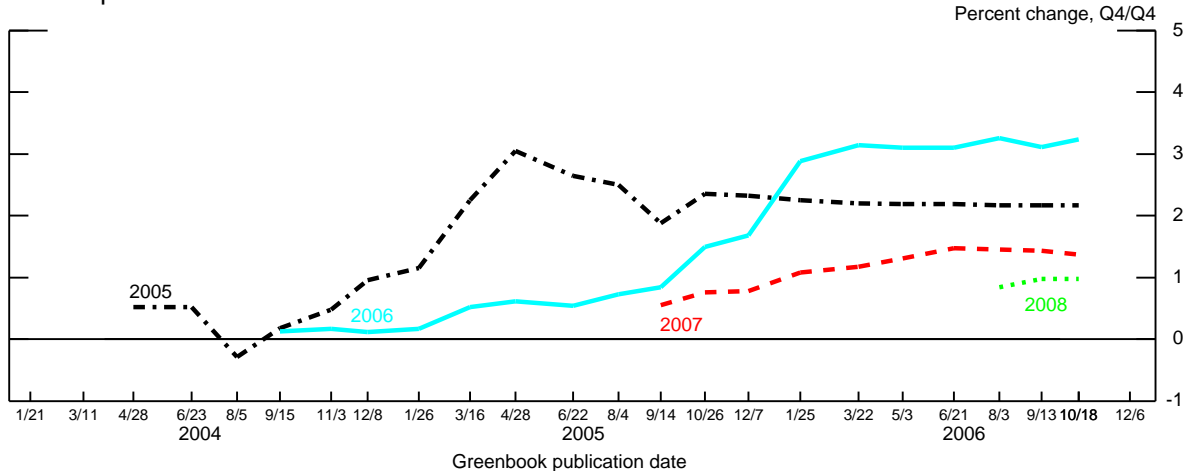
Current Account Balance



Foreign Real GDP



Core Import Prices*



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

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	3.8	3.2	3.3
Industrial Countries	3.6	0.9	2.5	1.8	2.5	2.7	2.7	2.3	2.3
of which:									
Canada	4.1	1.3	3.5	1.5	3.7	2.8	2.5	2.5	2.7
Japan	3.4	-1.5	2.0	2.6	0.5	4.0	2.0	1.8	1.6
United Kingdom	3.1	2.0	2.3	3.3	2.6	1.9	2.7	2.5	2.4
Euro Area (2)	3.3	1.0	1.1	1.0	1.5	1.8	3.1	1.6	1.7
Germany	2.3	1.1	0.0	0.2	0.2	1.7	3.2	1.0	1.5
Developing Countries	5.2	-0.4	3.8	4.7	5.6	5.4	5.5	4.6	4.7
Asia	5.8	1.0	6.2	6.8	6.0	7.3	6.1	5.7	5.9
Korea	4.3	4.7	7.8	4.2	2.9	5.3	4.0	4.3	4.5
China	7.8	7.1	8.4	10.1	9.6	9.9	10.7	8.3	8.4
Latin America	4.4	-1.3	1.5	2.4	5.2	3.2	4.9	3.5	3.4
Mexico	4.8	-1.3	2.0	2.0	4.8	2.7	4.7	3.3	3.3
Brazil	3.8	-1.0	4.1	0.9	4.8	1.5	3.3	3.2	3.2
CONSUMER PRICES (3)									

Industrial Countries	1.9	0.9	2.1	1.3	1.8	1.5	1.6	1.6	1.5
of which:									
Canada	3.1	1.1	3.8	1.7	2.3	2.3	1.8	1.8	2.0
Japan	-0.5	-1.1	-0.5	-0.4	0.5	-1.0	0.7	0.5	0.6
United Kingdom (4)	0.9	1.1	1.5	1.3	1.4	2.1	2.8	2.2	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	1.4	1.2	1.1	2.1	2.2	0.9	2.5	1.4
Developing Countries	4.1	2.8	2.9	3.1	3.9	3.0	2.8	3.0	2.8
Asia	1.8	1.2	0.8	2.2	3.2	2.6	2.2	2.6	2.4
Korea	2.5	3.3	3.4	3.5	3.4	2.5	2.9	3.0	2.3
China	1.0	-0.1	-0.5	2.7	3.3	1.4	1.8	2.3	2.1
Latin America	8.4	5.3	6.4	4.9	5.7	3.8	3.9	3.7	3.7
Mexico	8.7	5.1	5.2	3.9	5.3	3.1	3.8	3.5	3.5
Brazil	6.4	7.5	10.7	11.5	7.2	6.1	3.0	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.

October 18, 2006

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	4.0	3.3	3.3	3.2	3.2	3.2	3.3	3.3	3.3	3.3	3.3
Industrial Countries	3.2	2.5	2.4	2.5	2.1	2.3	2.3	2.3	2.3	2.3	2.4	2.4
of which:												
Canada	3.6	2.0	2.1	2.4	2.4	2.4	2.5	2.6	2.7	2.7	2.8	2.8
Japan	3.3	1.0	1.7	2.2	2.0	1.9	1.7	1.8	1.7	1.7	1.6	1.5
United Kingdom	2.6	2.8	2.7	2.6	2.6	2.6	2.5	2.5	2.4	2.4	2.4	2.4
Euro Area (2)	3.1	3.8	2.9	2.7	1.2	1.9	1.8	1.7	1.7	1.7	1.8	1.8
Germany	2.7	3.6	2.9	3.4	-0.7	1.7	1.6	1.6	1.5	1.5	1.5	1.5
Developing Countries	6.8	6.1	4.5	4.5	4.6	4.6	4.6	4.6	4.6	4.7	4.7	4.7
Asia	7.5	5.6	5.8	5.6	5.7	5.7	5.7	5.7	5.9	5.9	5.9	6.0
Korea	4.9	3.4	3.9	3.9	4.1	4.2	4.3	4.4	4.4	4.5	4.5	4.5
China	12.5	12.1	9.4	9.0	8.5	8.2	8.2	8.2	8.3	8.3	8.4	8.5
Latin America	6.7	6.2	3.3	3.4	3.5	3.5	3.5	3.5	3.4	3.4	3.4	3.4
Mexico	6.6	6.1	3.1	3.1	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Brazil	5.2	1.8	3.0	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
CONSUMER PRICES (3)	Four-quarter changes											
Industrial Countries	1.8	2.0	1.8	1.6	1.7	1.4	1.4	1.6	1.5	1.5	1.5	1.5
of which:												
Canada	2.5	2.6	2.0	1.8	1.8	1.5	1.5	1.8	1.9	1.9	2.0	2.0
Japan	-0.1	0.2	0.6	0.7	0.4	0.5	0.4	0.5	0.6	0.6	0.6	0.6
United Kingdom (4)	2.0	2.2	2.4	2.8	3.0	2.8	2.4	2.2	2.0	1.8	1.8	1.8
Euro Area (2)	2.3	2.5	2.1	1.7	2.1	1.8	1.7	2.0	1.7	1.7	1.6	1.6
Germany	2.1	2.1	1.6	0.9	2.3	2.0	2.1	2.5	1.4	1.4	1.4	1.4
Developing Countries	3.0	2.9	2.7	2.8	2.9	2.9	3.0	3.0	2.9	2.8	2.8	2.8
Asia	2.4	2.6	2.2	2.2	2.6	2.4	2.6	2.6	2.5	2.4	2.4	2.4
Korea	2.4	2.3	2.5	2.9	3.4	3.6	3.3	3.0	2.7	2.5	2.4	2.3
China	1.2	1.4	1.2	1.8	2.2	2.1	2.4	2.3	2.3	2.2	2.1	2.1
Latin America	4.2	3.5	3.8	3.9	3.7	4.1	3.8	3.7	3.7	3.7	3.7	3.7
Mexico	3.7	3.1	3.5	3.8	3.6	3.9	3.5	3.5	3.5	3.5	3.5	3.5
Brazil	5.6	4.3	3.8	3.0	2.5	2.8	3.4	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.

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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	0.0	-0.2	-0.4
Exports of G&S	0.7	-1.3	0.4	0.6	0.7	0.7	0.9	0.5	0.6
Imports of G&S	-1.6	1.1	-1.3	-0.7	-1.5	-0.8	-0.8	-0.7	-0.9
	Percentage change, Q4/Q4								
Exports of G&S	6.5	-11.9	3.8	5.8	7.0	6.7	8.1	4.5	4.9
Services	1.8	-8.9	10.2	3.0	7.1	3.1	4.3	4.9	4.9
Computers	22.7	-23.5	-1.1	11.3	6.4	14.1	10.4	14.4	14.4
Semiconductors	27.6	-34.6	10.1	38.3	-6.3	17.2	16.9	17.0	17.0
Other Goods 1/	5.9	-10.2	0.7	4.9	8.0	7.5	9.3	3.2	3.8
Imports of G&S	11.2	-7.6	9.7	4.8	10.6	5.2	5.0	4.2	5.4
Services	10.6	-5.9	8.8	2.2	7.6	1.9	4.4	3.2	3.6
Oil	13.3	3.7	3.8	1.2	9.6	0.9	-6.0	0.0	0.4
Computers	13.9	-13.6	13.2	17.0	22.5	11.8	21.7	17.5	17.5
Semiconductors	22.8	-51.1	11.0	-0.1	9.3	7.5	9.4	17.0	17.0
Other Goods 2/	10.3	-6.5	10.0	5.2	10.7	6.2	6.8	4.1	5.8
	Billions of Chained 2000 Dollars								
Net Goods & Services	-379.4	-399.1	-471.3	-518.9	-590.9	-619.2	-632.6	-641.6	-677.3
Exports of G&S	1096.3	1036.7	1013.3	1026.1	1120.4	1196.1	1299.3	1365.0	1428.6
Imports of G&S	1475.8	1435.8	1484.6	1545.0	1711.3	1815.3	1931.9	2006.7	2105.9
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-415.2	-389.0	-472.4	-527.5	-665.3	-791.5	-883.1	-946.7	-1030.3
Current Acct as Percent of GDP	-4.2	-3.8	-4.5	-4.8	-5.7	-6.4	-6.7	-6.8	-7.1
Net Goods & Services (BOP)	-377.6	-362.8	-421.1	-494.9	-611.3	-716.7	-772.0	-785.1	-834.9
Investment Income, Net	25.7	30.3	17.8	42.3	33.6	17.6	-18.8	-70.3	-103.0
Direct, Net	94.9	115.9	102.4	112.8	123.9	134.4	141.8	154.6	181.3
Portfolio, Net	-69.2	-85.5	-84.6	-70.5	-90.2	-116.8	-160.6	-224.9	-284.2
Other Income & Transfers, Net	-63.3	-56.5	-69.2	-74.9	-87.6	-92.4	-92.3	-91.3	-92.5

1. Merchandise exports excluding computers and semiconductors.

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

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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
Other Goods 1/	0.3	-2.9	5.1	18.2	7.6	8.1	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
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
Other 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, computers, and semiconductors.

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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	-0.6	0.3	-0.4	0.1	0.1	-0.7	-0.6	-0.0	-0.1	-0.7
Exports of G&S	1.4	0.7	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Imports of G&S	-1.5	-0.2	-1.3	-0.3	-0.9	-0.4	-0.4	-1.2	-1.1	-0.6	-0.6	-1.3
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	14.0	6.2	7.4	4.9	4.6	4.6	4.5	4.4	4.5	4.8	5.0	5.2
Services	6.7	6.7	-0.9	4.8	4.5	5.0	5.1	5.1	4.9	4.8	4.9	5.0
Computers	9.8	12.0	3.1	17.0	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4
Semiconductors	15.7	29.9	6.2	16.9	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 1/	17.8	4.4	11.8	3.7	3.5	3.3	3.0	2.9	3.2	3.7	3.9	4.2
Imports of G&S	9.1	1.4	8.1	1.7	5.2	2.4	2.3	6.9	6.5	3.4	3.7	7.8
Services	7.4	9.9	-2.4	3.1	3.0	3.2	3.3	3.2	3.6	3.6	3.6	3.5
Oil	-4.8	-18.3	9.1	-7.9	13.5	-13.2	-15.1	19.8	14.3	-15.7	-13.2	21.2
Computers	34.3	17.0	18.9	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Semiconductors	3.6	-1.3	19.8	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 2/	12.4	2.4	10.4	2.5	3.5	3.8	4.4	4.8	5.5	5.9	6.0	6.0
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-636.6	-624.2	-638.7	-630.9	-641.1	-637.8	-634.3	-653.3	-670.3	-671.3	-672.8	-694.7
Exports of G&S	1269.3	1288.5	1311.8	1327.5	1342.4	1357.7	1372.6	1387.4	1402.9	1419.5	1436.9	1455.2
Imports of G&S	1905.9	1912.7	1950.5	1958.5	1983.5	1995.5	2006.9	2040.7	2073.2	2090.8	2109.7	2149.9
US CURRENT ACCOUNT BALANCE												
Current Account as % of GDP	-852.8	-873.6	-914.2	-891.9	-923.5	-935.1	-942.3	-985.7	-1009.8	-1016.6	-1024.9	-1069.9
	-6.6	-6.6	-6.9	-6.6	-6.8	-6.8	-6.8	-7.0	-7.1	-7.0	-7.0	-7.2
Net Goods & Services (BOP)	-764.6	-775.3	-805.7	-742.6	-778.3	-778.4	-778.2	-805.5	-831.6	-827.7	-826.9	-853.2
Investment Income, Net	-3.6	-10.1	-13.0	-48.4	-57.6	-67.6	-73.3	-82.5	-87.5	-98.2	-107.2	-119.0
Direct, Net	137.2	144.1	152.1	133.9	142.7	149.8	160.6	165.5	174.3	178.4	184.7	187.7
Portfolio, Net	-140.8	-154.2	-165.0	-182.3	-200.3	-217.4	-233.9	-248.0	-261.8	-276.5	-292.0	-306.7
Other Inc. & Transfers, Net	-84.7	-88.3	-95.5	-100.8	-87.6	-89.0	-90.7	-97.7	-90.7	-90.7	-90.7	-97.7

1. Merchandise exports excluding computers and semiconductors.

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

Part 2

October 18, 2006

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

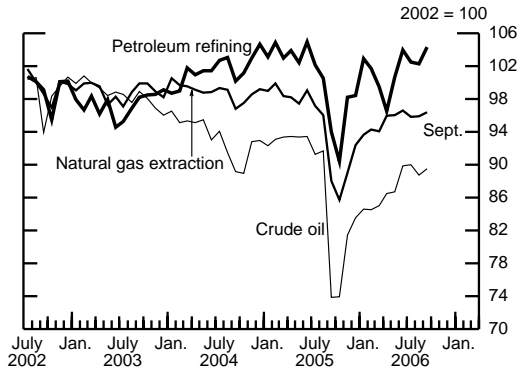
Recent Developments

October 18, 2006

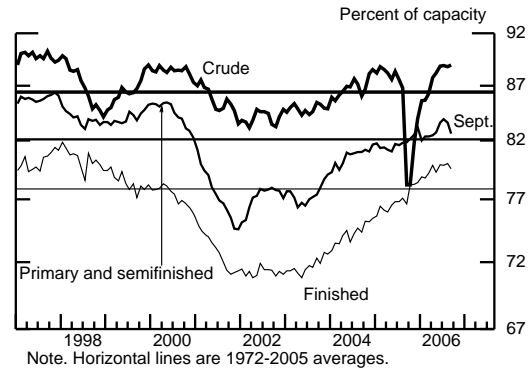
Recent Developments

Indicators of Industrial Activity

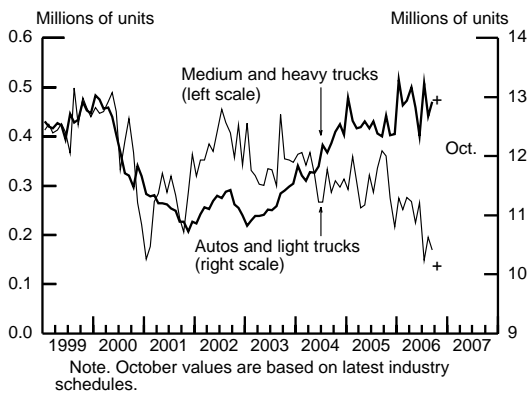
Energy IP



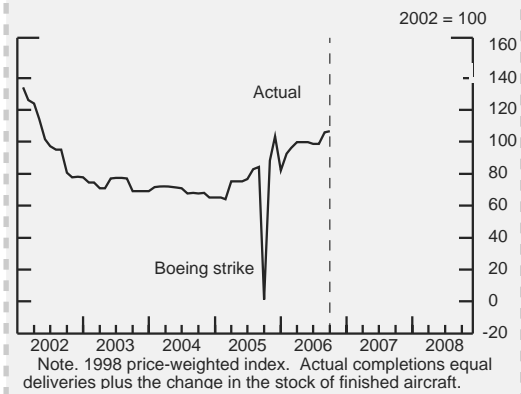
Capacity Utilization by Stage of Processing



Motor Vehicle Assemblies

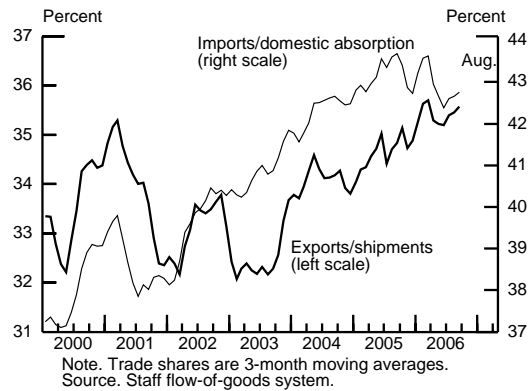


Boeing Commercial Aircraft Completions: Actual

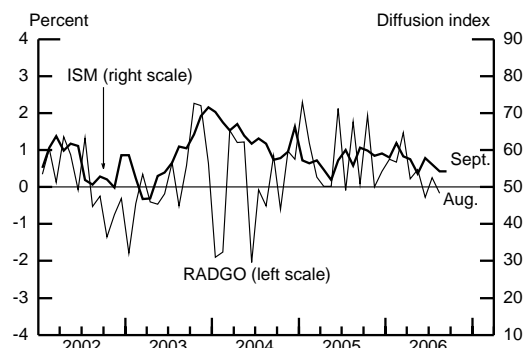


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Trade Shares: Business Equipment



New Orders: ISM Survey and Change in Real Adjusted Durable Goods Orders (RADGO)



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

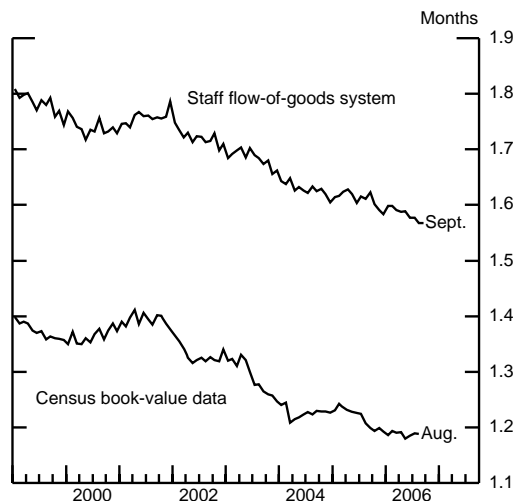
Measure and sector	2005	2006				
	Q4	Q1	Q2	June	July	Aug.
<i>Real inventory investment (chained 2000 dollars)</i>						
Total nonfarm business	38.6	36.8	52.2	n.a.	n.a.	n.a.
Motor vehicles	23.4	8.5	3.0	n.a.	n.a.	n.a.
Nonfarm ex. motor vehicles	15.2	28.3	49.2	n.a.	n.a.	n.a.
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	16.9	22.7	36.3	33.4	15.1^e	n.a.
Manufacturing	.5	7.6	11.0	9.7	6.3 ^e	n.a.
Wholesale trade ex. motor vehicles & parts	9.9	7.9	18.4	15.1	9.0 ^e	n.a.
Retail trade ex. motor vehicles & parts	6.6	7.2	6.9	8.6	-.2 ^e	n.a.
<i>Book-value inventory investment (current dollars)</i>						
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	56.2	53.3	109.1	110.2	94.4	98.1
Manufacturing	23.3	23.5	48.3	52.6	44.6	21.4
Wholesale trade ex. motor vehicles & parts	20.7	17.9	43.2	38.9	38.1	55.2
Retail trade ex. motor vehicles & parts	12.2	12.0	17.5	18.7	11.7	21.4

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

n.a. Not available.

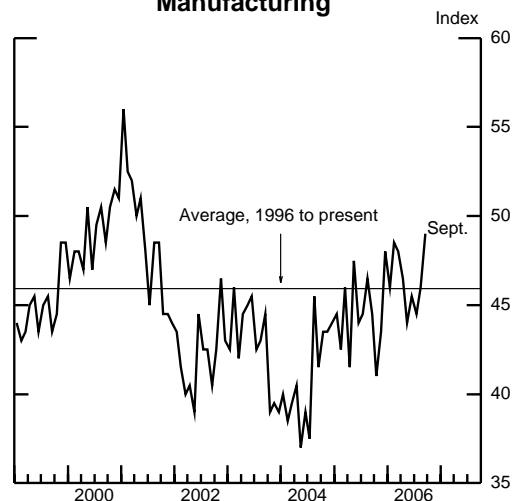
Source. For real inventory investment, BEA. For book-value data, Census Bureau.

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.

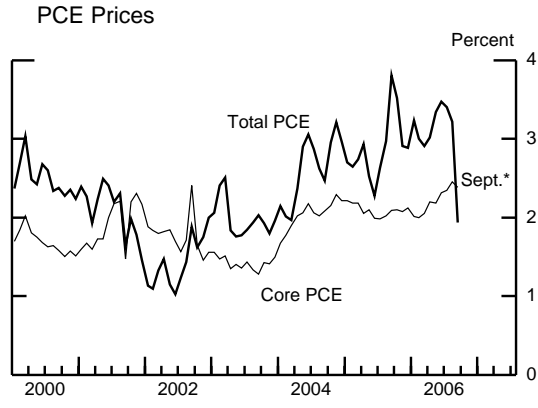
**ISM Customer Inventories:
Manufacturing**



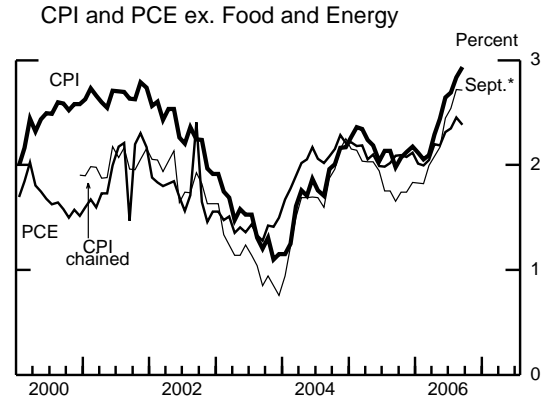
Note. A number above 50 indicates inventories are "too high."

Consumer Prices

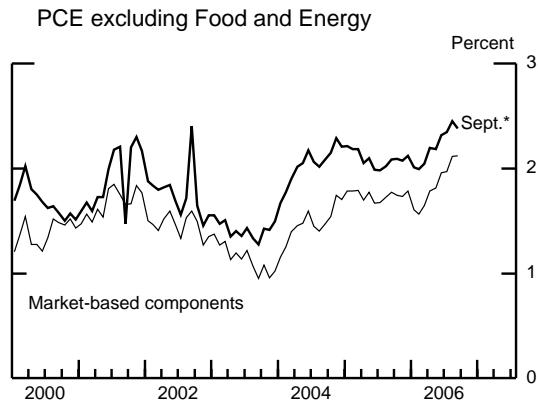
(12-month change except as noted)



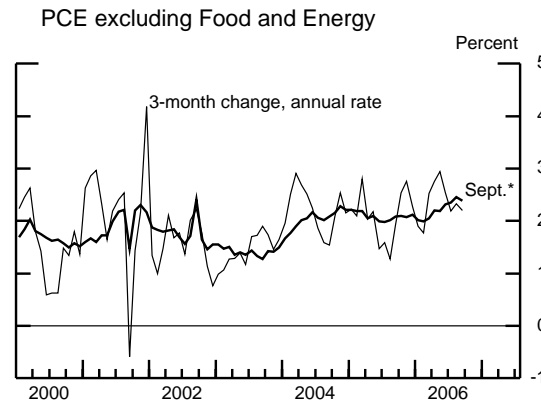
* Staff estimate.



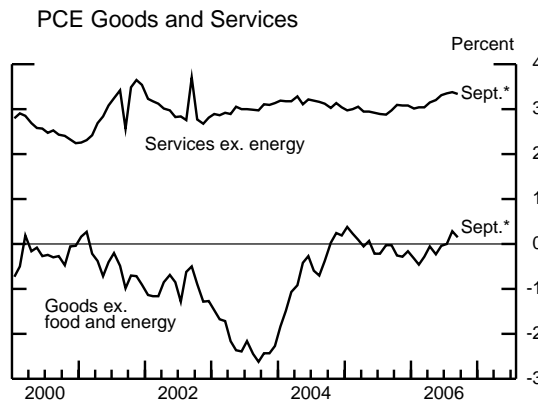
* PCE for September is a staff estimate.



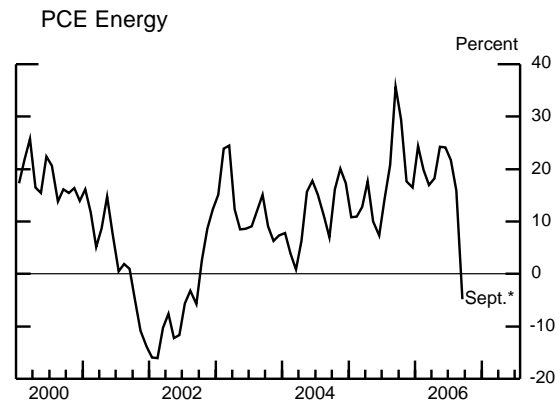
* Staff estimate.



* Staff estimate.



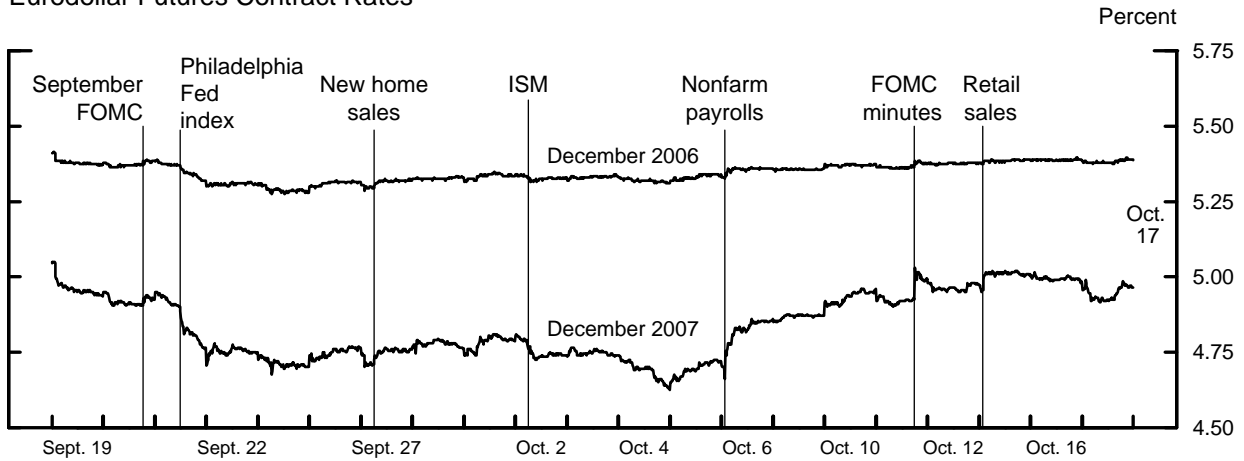
* Staff estimate.



* Staff estimate.

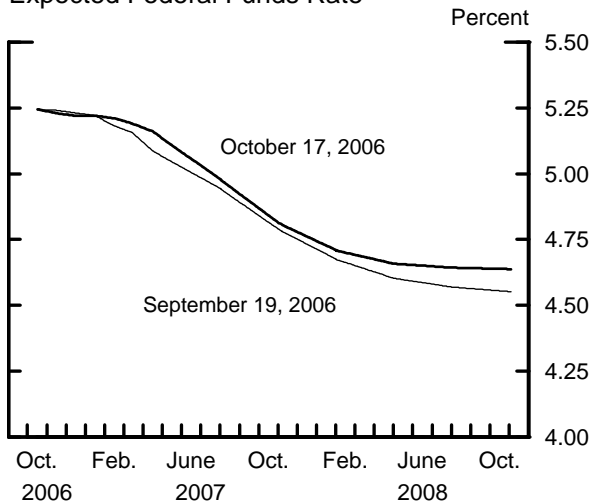
Policy Expectations and Treasury Yields

Eurodollar Futures Contract Rates



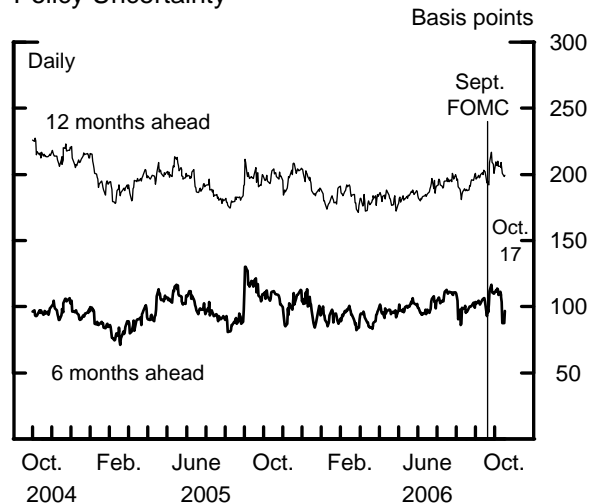
Note. 5-minute intervals.

Expected Federal Funds Rate



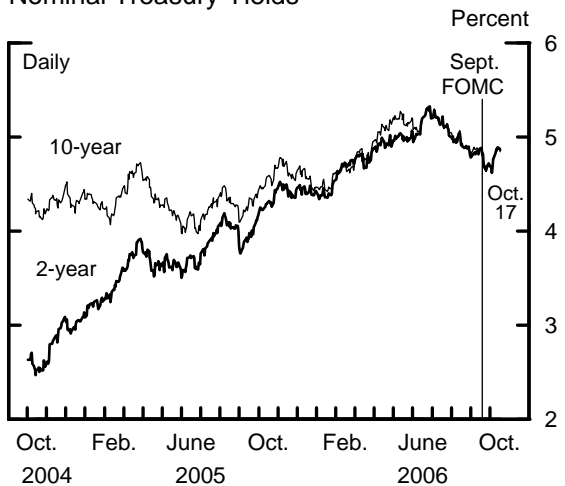
Note. Estimates from federal funds and Eurodollar futures, with an allowance for term premia and other adjustments.

Policy Uncertainty



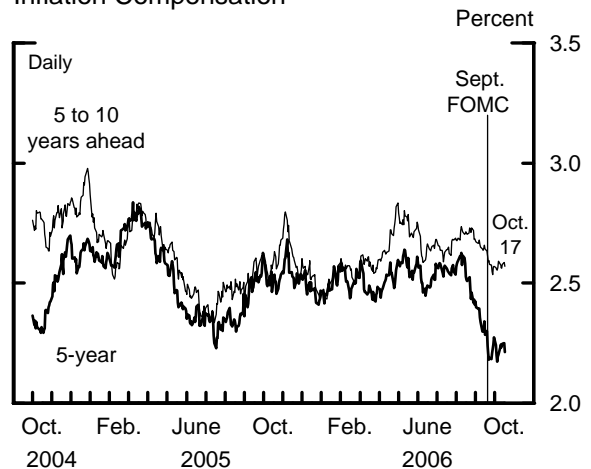
Note. Width of a 90 percent confidence interval for the federal funds rate computed from the term structures for both the expected federal funds rate and implied volatility.

Nominal Treasury Yields



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

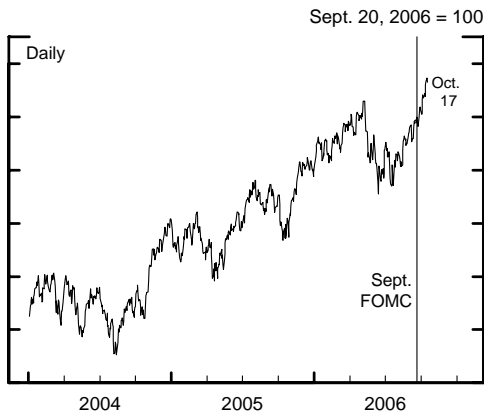
Inflation Compensation



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

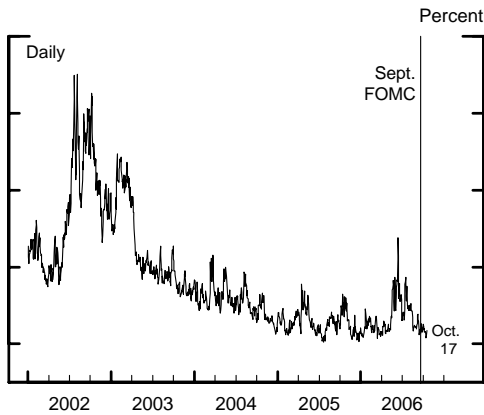


Trend Earnings to Price Ratio for S&P 500 and Long-Run Treasury Yield

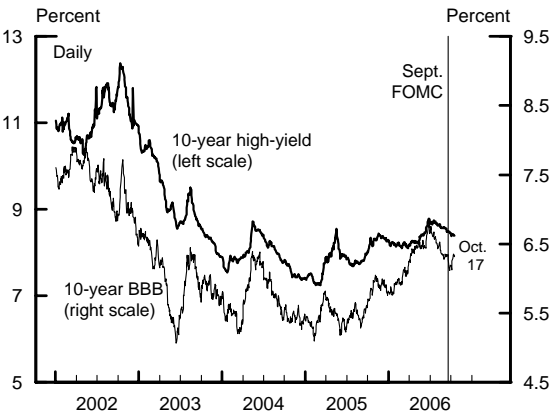


* Estimated yield on synthetic Treasury perpetuity minus Philadelphia Fed 10-year expected inflation.
 + Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.

Implied Volatility on S&P 500 (VIX)

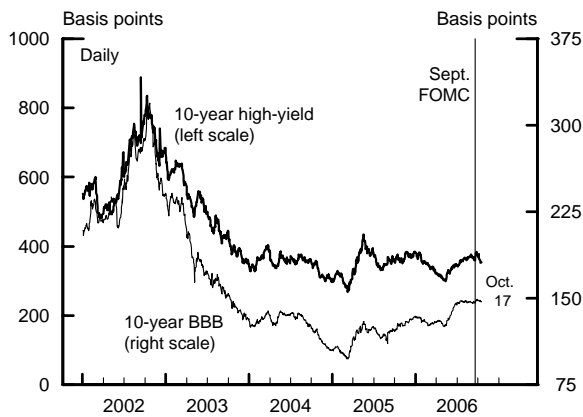


Corporate Bond Yields



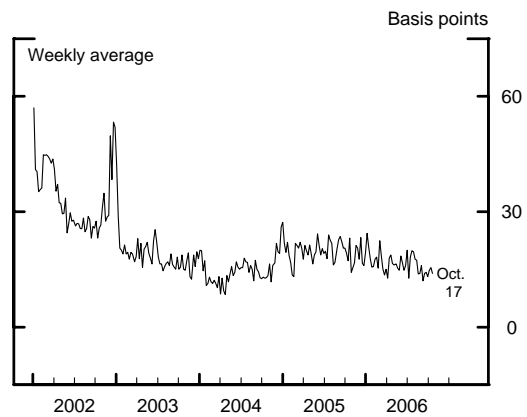
Note. Yields from smoothed yield curves based on Merrill Lynch bond data.

Corporate Bond Spreads



Note. Measured relative to comparable-maturity Treasuries.

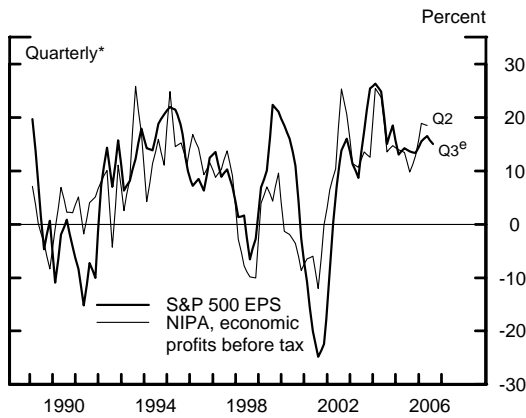
Commercial Paper Quality Spread



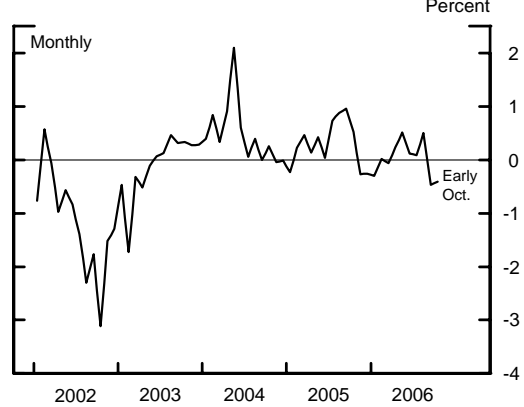
Note. Measured by the difference between yields on 30-day A2/P2 paper and A1/P1 paper.

Corporate Earnings and Credit Quality

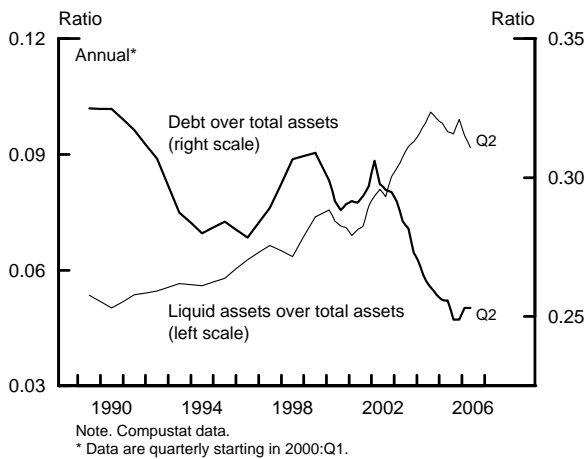
Corporate Earnings Growth



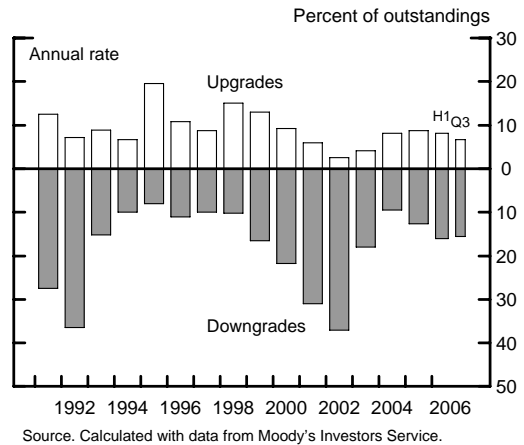
Revisions to Expected S&P 500 Earnings



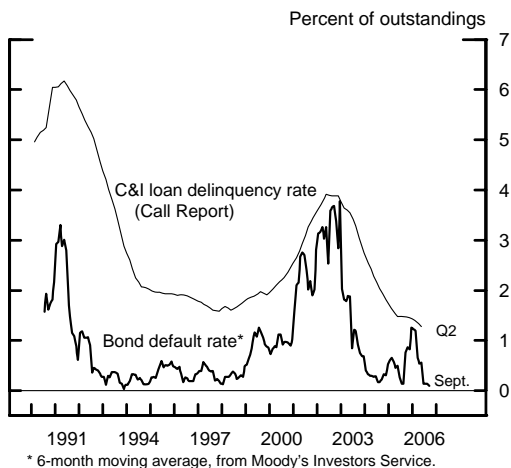
Financial Ratios for Nonfinancial Corporations



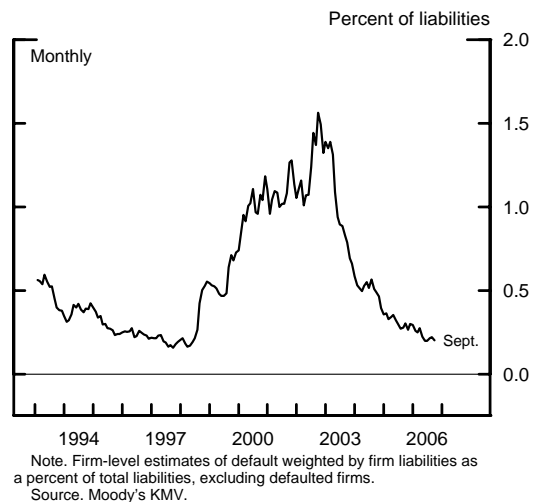
Bond Ratings Changes of Nonfinancial Companies



Selected Default and Delinquency Rates



Expected Year-Ahead Defaults



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	July	Aug.	Sept.
<i>Nonfinancial corporations</i>									
Stocks ¹	5.2	3.7	5.4	4.6	5.2	2.6	2.0	2.0	3.6
Initial public offerings	.7	.4	1.6	1.7	1.9	.7	.4	.5	1.1
Seasoned offerings	4.4	3.3	3.8	2.8	3.3	1.9	1.6	1.5	2.5
Bonds ²	24.8	31.6	22.7	19.1	30.5	18.4	11.6	20.0	23.7
Investment grade	15.7	16.0	8.3	8.5	14.5	10.6	6.1	10.6	15.3
Speculative grade	4.8	11.3	9.5	6.4	8.3	4.6	4.6	4.7	4.5
Other (sold abroad/unrated)	4.2	4.3	4.9	4.3	7.8	3.2	1.0	4.7	3.9
<i>Memo</i>									
Net issuance of commercial paper ³	-5.7	-3.4	1.5	-.4	3.4	-1.2	-3.0	-.6	.0
Change in C&I loans at commercial banks ^{3,4}	-5.2	-7.7	3.2	10.0	14.6	13.4	17.5	19.5	3.1
<i>Financial corporations</i>									
Stocks ¹	4.0	6.6	6.9	5.0	4.4	5.1	4.9	3.2	7.1
Bonds ²	87.0	111.1	139.3	176.3	190.2	168.4	114.0	176.0	215.3

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

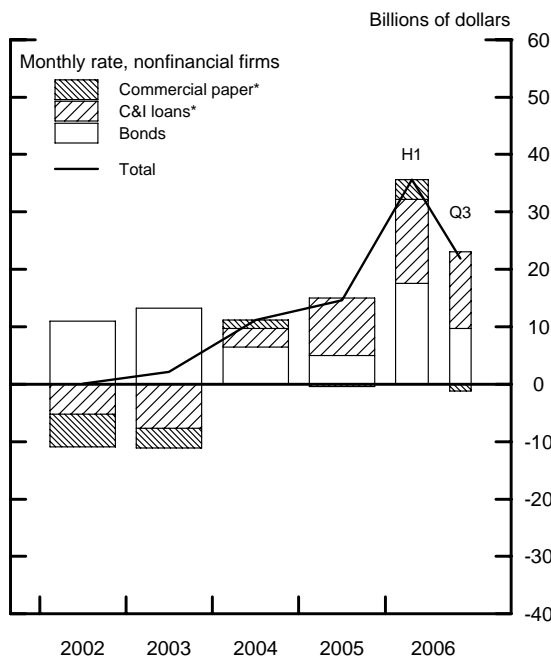
1. Excludes private placements and equity-for-equity swaps that occur in restructurings.

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.

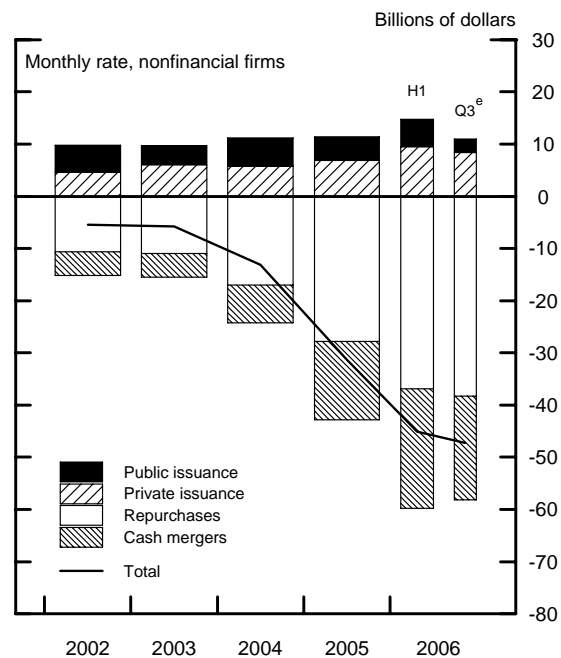
4. Adjusted for FIN 46 effects.

Selected Components of Net Debt Financing



* Seasonally adjusted, period-end basis.

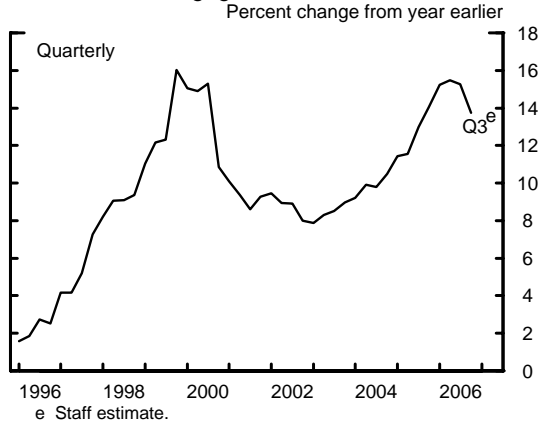
Components of Net Equity Issuance



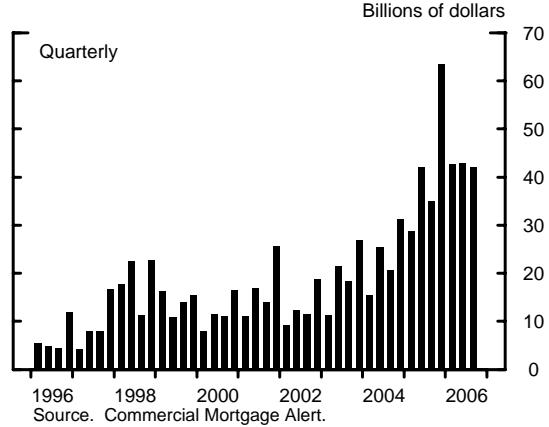
^e Staff estimate.

Commercial Real Estate

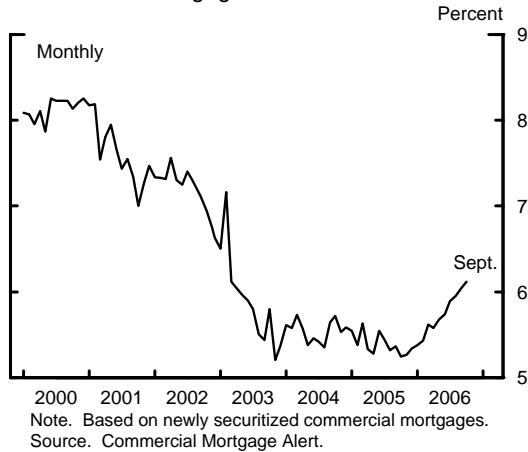
Commercial Mortgage Debt



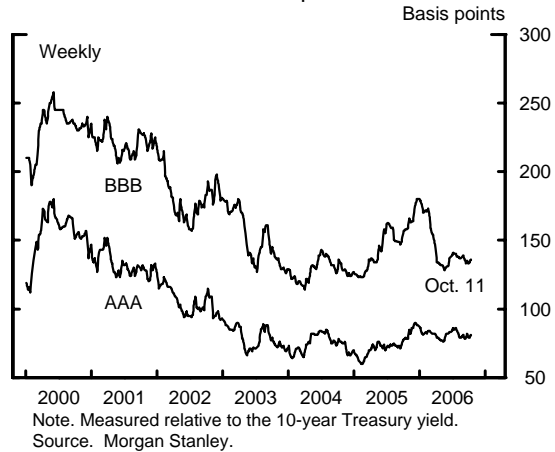
Gross Issuance of CMBS



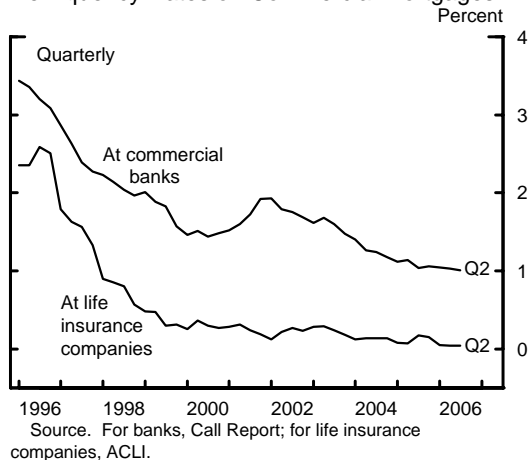
Commercial Mortgage Rates



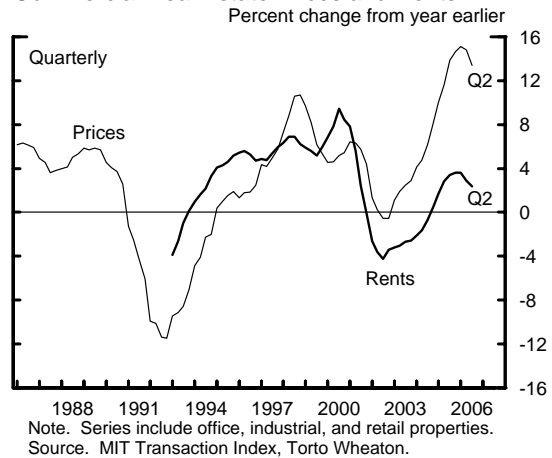
Investment-Grade CMBS Spreads



Delinquency Rates on Commercial Mortgages

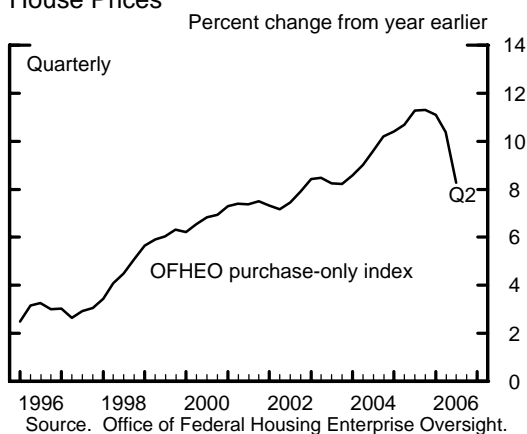


Commercial Real Estate Prices and Rents

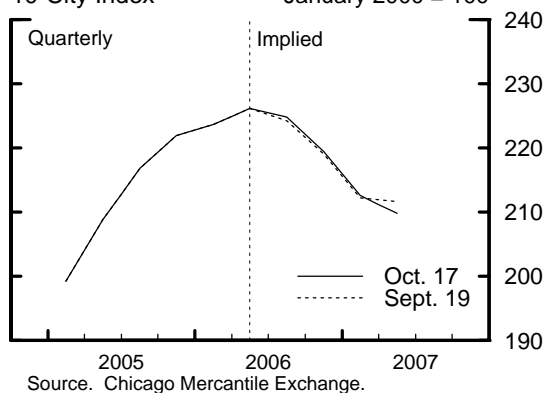


Household Assets

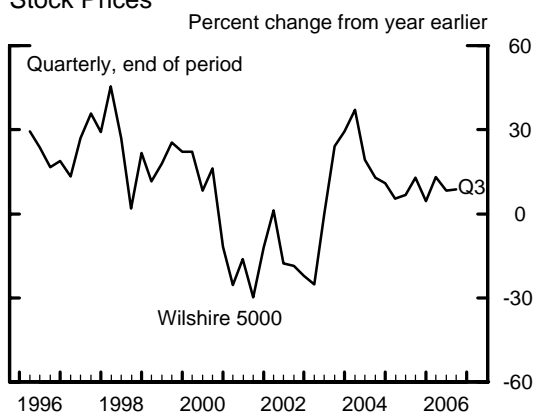
House Prices



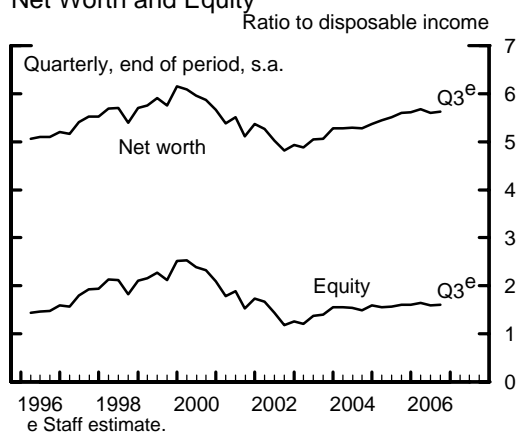
House-Price Path Implied by Futures on 10-City Index



Stock Prices



Net Worth and Equity



Net Flows into Long-Term Mutual Funds

(Billions of dollars, monthly rate)

Fund type	2004	2005	2006					Assets Aug.
			Q1	Q2	Q3 ^e	Aug.	Sept. ^e	
Total long-term funds	17.5	16.0	38.9	6.2	11.5	11.7	19.0	7,394
Equity funds	14.8	11.3	31.1	7.0	4.9	4.8	9.3	5,361
Domestic	9.3	2.6	10.7	-2.4	-2.9	-3.7	-1.0	4,222
International	5.6	8.7	20.4	9.4	7.9	8.5	10.3	1,139
Hybrid funds	3.6	2.1	0.4	-0.1	0.3	0.2	0.9	603
Bond funds	-0.9	2.6	7.4	-0.7	6.2	6.7	8.7	1,431
High-yield	-0.8	-1.3	-0.4	-1.4	0.5	0.5	0.5	147
Other taxable	1.0	3.4	5.8	0.7	4.4	4.7	6.3	930
Municipals	-1.1	0.4	2.1	0.1	1.2	1.4	1.9	354

Note. Excludes reinvested dividends.

e Staff estimate based on confidential weekly data.

Source. Investment Company Institute.

In **South Africa**, real GDP rose nearly 5 percent in the second quarter, due mostly to a rebound in government expenditures that more than offset a contraction in the external sector. More recently, average production was up from second-quarter levels, notably in the mining sector, but the trade balance continues to deteriorate due to excess growth of imports over exports. Twelve-month consumer price inflation has been rising of late, reaching 5.1 percent in August. The higher inflation owes to a weakening currency, rising food prices, and strong consumer spending, and has raised concern that it might exceed the central bank's 3-6 percent target range in coming months. Citing the need to contain inflation, the South African Reserve Bank raised its key interest rate 50 basis points to 8.5 percent on October 12.

The current account has widened significantly in the first half of this year, mostly reflecting a deterioration of the trade balance, but also large dividend payments to foreign shareholders. The wider current account deficit, among other factors, has put pressure on the currency, which has depreciated about 20 percent against the US dollar since January of this year.

South African Economic Indicators

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

Indicator	2004	2005	2006				
			Q1	Q2	June	July	Aug.
Real GDP ¹	5.6	4.3	4.0	4.9
Manuf. Production	4.2	3.6	1.0	1.5	1.7	-.4	-.7
Mining Production	3.7	1.2	-1.0	3.4	5.8	-4.3	3.1
Consumer Prices ²	4.3	4.1	4.4	4.3	4.9	5.0	5.1
Merch. trade Balance ³	-1.3	-2.9	-9.9	-9.7	-12.8	-11.6	-9.0
Current Account ³	-7.5	-10.1	-14.2	-16.9

1. Annual Rate. Annual data are Q4/Q4.

2. Percent change from year-earlier period for the CPIX, except annual data, which are Dec./Dec.

3. Billions of U.S. dollars, n.s.a., annual rate.

... Not applicable.