

Report to the FOMC on Economic Conditions and Monetary Policy



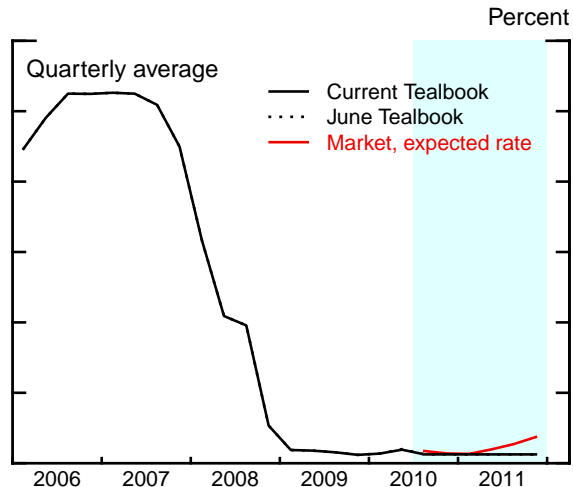
Book A

Economic and Financial Conditions: Current Situation and Outlook

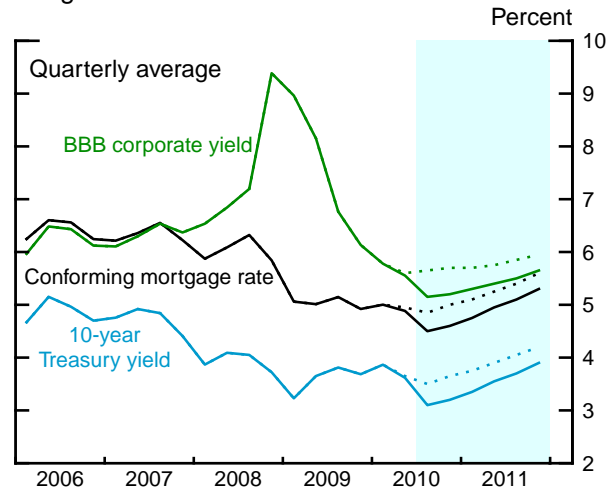
August 4, 2010

Key Background Factors Underlying the Baseline Staff Projection

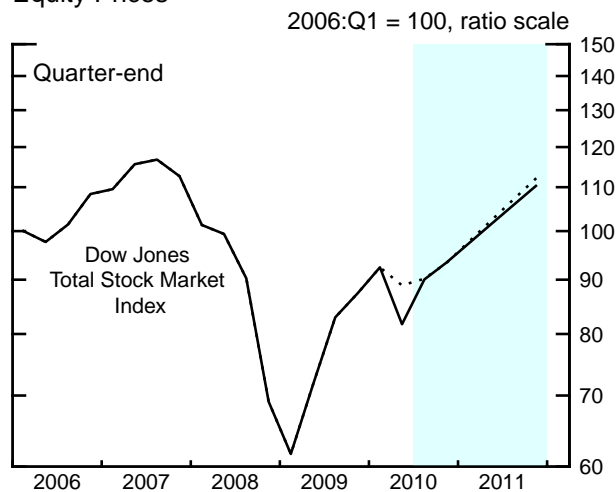
Federal Funds Rate



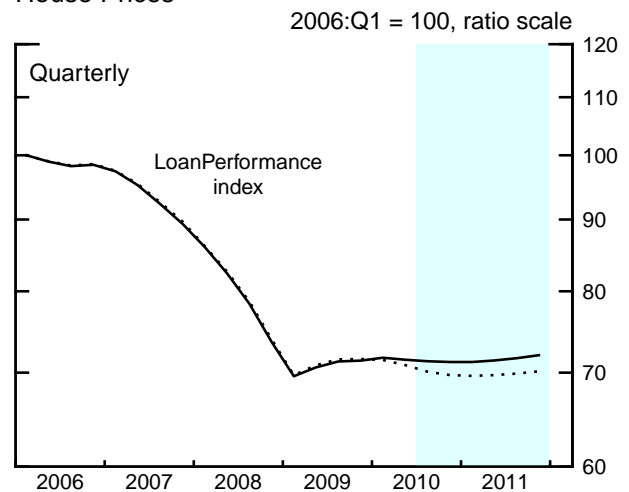
Long-Term Interest Rates



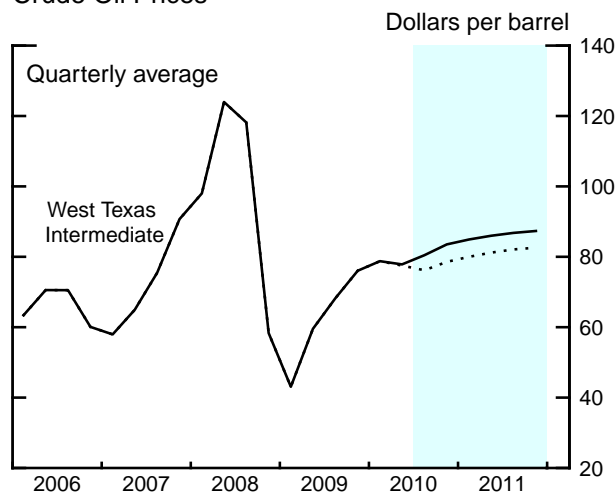
Equity Prices



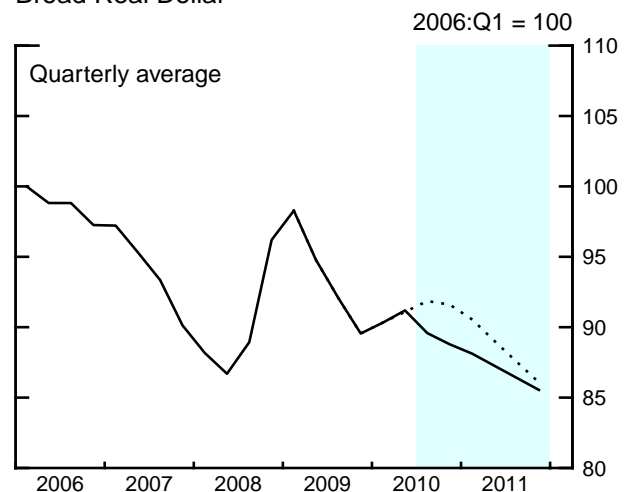
House Prices



Crude Oil Prices



Broad Real Dollar



Note: Shading represents the projection period, which begins in 2010:Q3. In the upper-left panel that reports the federal funds rate, the black dotted line is not apparent because the paths of the federal funds rate in the June and the current Tealbooks are the same.

The Effects of Fiscal Policy on the Economy

Fiscal policy has provided significant support to economic activity during the past two years, reflecting both discretionary fiscal policy actions, such as the American Recovery and Reinvestment Act of 2009 (ARRA), and the influence of automatic stabilizers—the changes in government revenues and outlays that occur endogenously over the business cycle. During the remainder of the projection period, however, we estimate that the support from both types of fiscal policies—summed across all levels of government—will wane. Although we are comfortable with the broad contour of the macroeconomic effects implied by our analysis, considerable uncertainty surrounds the precise magnitude and timing of the support to economic activity from fiscal policy.

Our analysis starts with the staff's measure of fiscal impetus (FI), which is an estimate of the direct effects of discretionary fiscal policy actions on aggregate demand. Changes in aggregate demand captured by FI reflect the increase in purchases of goods and services by governments as well as the direct changes in demand from households and firms resulting from policy initiatives affecting taxes and transfer payments.

In the case of taxes and transfers, FI's estimates of consumer spending effects are derived from econometric evidence suggesting that household

spending responds less, and more gradually, to tax changes than to changes in transfers. With regard to the temporary boost to grants-in-aid to state and local governments from the ARRA, our estimates of impetus assume—based on survey evidence—that these governments have been phasing in their response over time in order to avoid a sharp drop-off in outlays when those grants end. Importantly, in the case of the ARRA, the lagged spending effects assumed by the staff are more drawn out than those apparently assumed in the analysis of some other public and private forecasters.

The table below shows the staff's estimates of the effect of FI on the change in real GDP from 2008 through 2011, measured on a Q4-over-Q4 basis. Federal FI includes not only the effects of the ARRA, but also the effects of other policy changes such as the stimulus package enacted in 2008, extensions of emergency unemployment compensation, and ongoing increases in real federal purchases of goods and services. Federal FI also includes the effects of changes in state and local purchases prompted by changes in federal grants-in-aid. All told, we estimate that federal FI (line 2) boosted the rate of change in real GDP about 1¼ percentage points last year and will provide a lift to GDP growth of about ½ percentage point this year; we expect federal FI to exert a drag of about ½ percentage point on

Fiscal Impetus
(Percentage point contribution to rate of change in real GDP, Q4/Q4 basis)

Category	2008	2009	2010	2011
1. Total	1.0	.7	.2	.0
2. Federal	1.1	1.3	.6	-.4
<i>Of which:</i> Grants to state and local	.0	.5	.2	-.3
3. State and local (excluding effects of grants)	-.1	-.6	-.3	.4
<i>Memo:</i>				
State and local (including effects of grants)	-.1	-.1	-.1	.1

real GDP growth next year as stimulus policies wind down. State and local FI (line 3) shows the restraint on aggregate demand imposed by the policy reactions of these governments to the tight budget conditions they face; to avoid double counting, state and local FI does not include the effects of federal grants-in-aid. We estimate that changes in state and local fiscal policies reduced the rate of change in real GDP $\frac{1}{2}$ percentage point last year, and they are expected to lower GDP growth by $\frac{1}{4}$ percentage point this year. However, these effects are anticipated to boost real GDP growth $\frac{1}{2}$ percentage point next year as the economy continues to recover and state and local budget conditions improve.

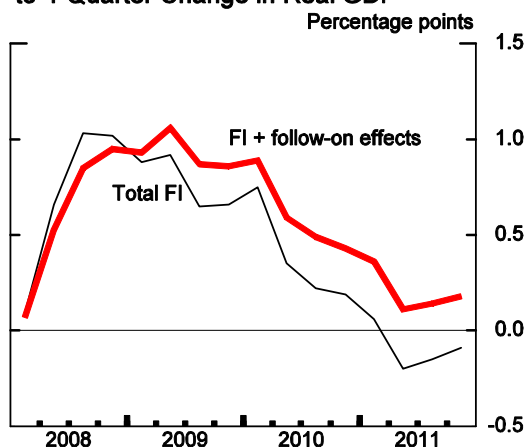
The direct impetus to aggregate demand measured by FI is augmented by follow-on effects as spending responds further to the endogenous changes in income, wealth, and other factors. The lower-left figure shows our estimates of total government FI (the black line) and total FI including follow-on effects (the red line), with the follow-on effects estimated using the staff's FRB/US model. After including follow-on effects, all discretionary fiscal policy

actions are estimated to have increased the rate of change in real GDP about 1 percentage point last year and will add about $\frac{1}{2}$ percentage point this year and $\frac{1}{4}$ percentage point next year.

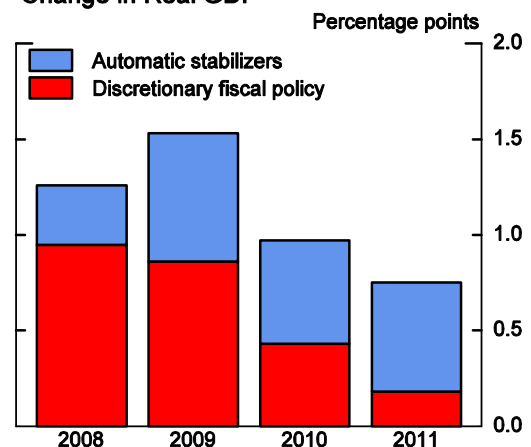
Automatic stabilizers—the decrease in taxes and increase in transfer payments that occur endogenously in a recession at all levels of government—have also supported economic activity. As shown by the blue portion of the bars in the lower-right figure, automatic stabilizers (including their follow-on effects) are estimated to have added $\frac{3}{4}$ percentage point to the rate of change in real GDP in 2009 and will add about $\frac{1}{2}$ percentage point to real GDP growth both this year and next year.

The lower-right figure shows the combined effects of the automatic stabilizers and discretionary policy actions at all levels of government (including follow-on effects). Overall fiscal policy boosted the rate of change in real GDP about $1\frac{1}{2}$ percentage points in 2009 and will add roughly 1 percentage point this year and $\frac{3}{4}$ percentage point next year.

Contribution of Discretionary Fiscal Policy to 4-Quarter Change in Real GDP



Contribution of Fiscal Policy to Change in Real GDP

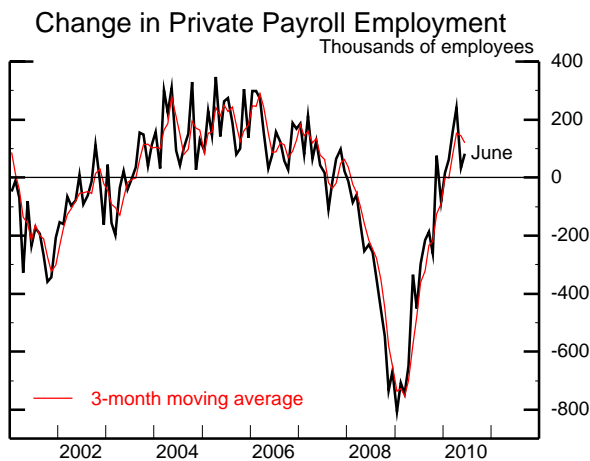


Summary of the Near-Term Outlook

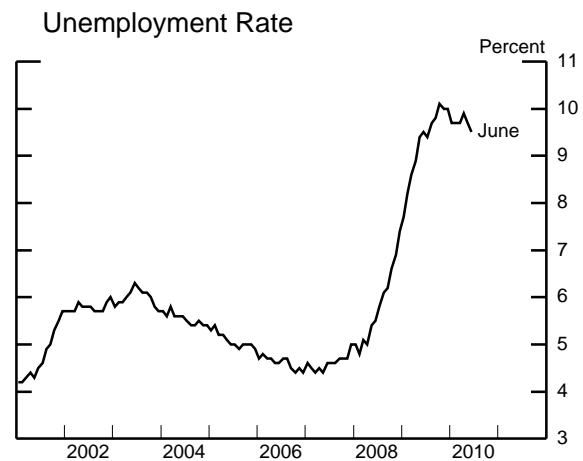
(Percent change at annual rate except as noted)

Measure	2010:Q2		2010:Q3	
	Previous Tealbook	Current Tealbook	Previous Tealbook	Current Tealbook
Real GDP	3.6	2.1	2.7	2.4
Private domestic final purchases	4.5	4.3	2.5	1.5
Personal consumption expenditures	2.9	1.6	2.2	1.6
Residential investment	18.7	28.5	-5.5	-8.6
Nonres. structures	-.8	4.8	-2.2	.6
Equipment and software	20.3	26.1	10.4	3.9
Federal purchases	6.9	9.2	5.2	4.3
State and local purchases	-.6	1.4	.0	-.5
Contribution to change in real GDP (percentage points)				
Inventory investment	-.3	.6	.6	.8
Net exports	-.2	-2.9	-.3	.1

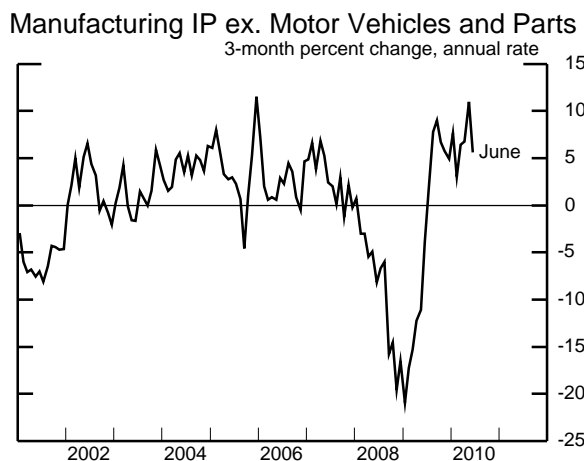
Recent Nonfinancial Developments (1)



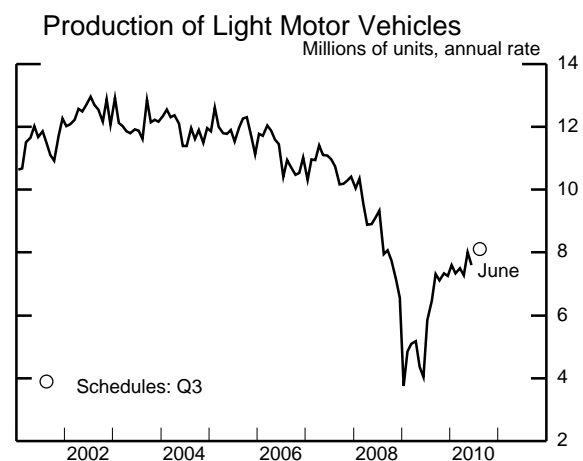
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.



Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

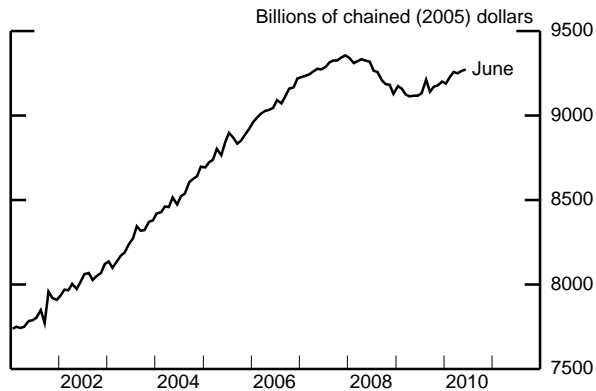


Source: Federal Reserve Board, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

Note: Schedules data are from Ward's Communications.
Source: Ward's Auto Infobank.

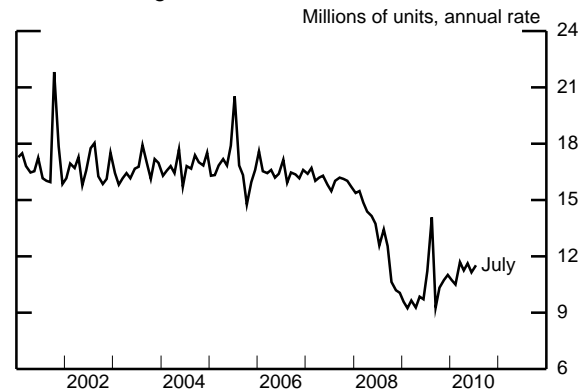
Recent Nonfinancial Developments (2)

Real PCE



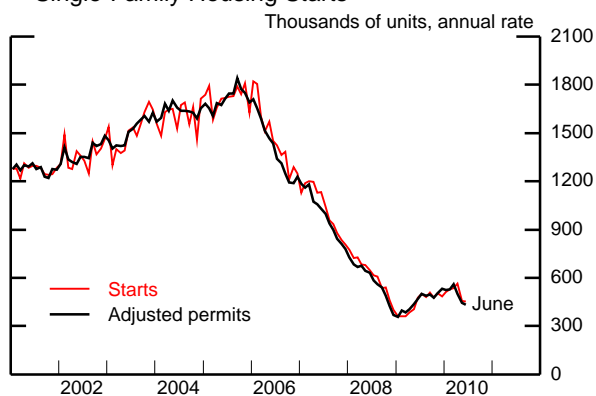
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis

Sales of Light Motor Vehicles



Source: Ward's Auto Infobank.

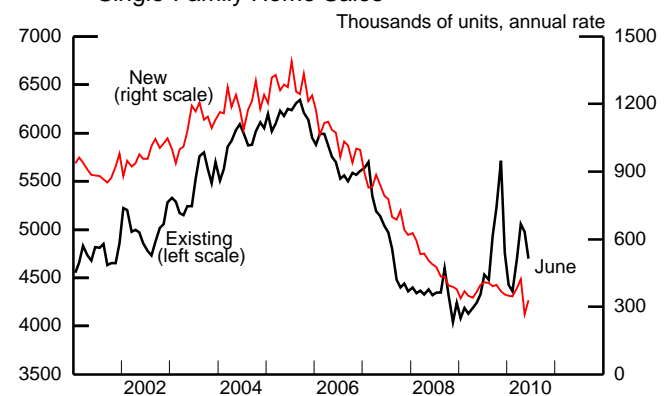
Single-Family Housing Starts



Note: Adjusted permits equal permits plus starts outside of permit-issuing areas.

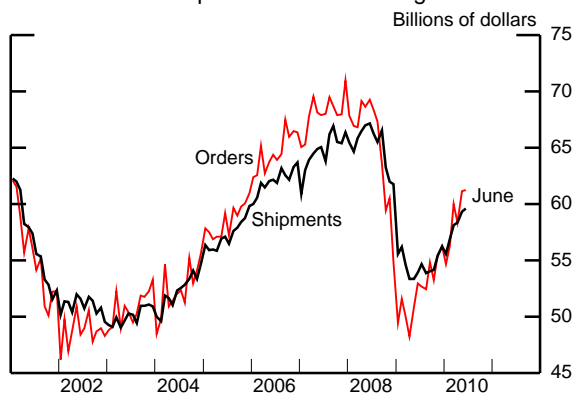
Source: U.S. Census Bureau.

Single-Family Home Sales



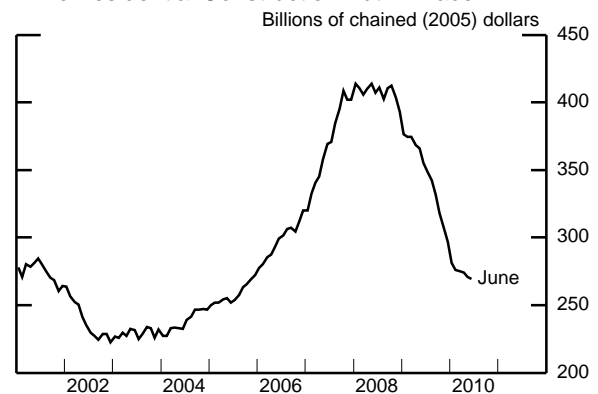
Source: For existing, National Association of Realtors; for new, U.S. Census Bureau.

Nondefense Capital Goods Excluding Aircraft



Source: U.S. Census Bureau.

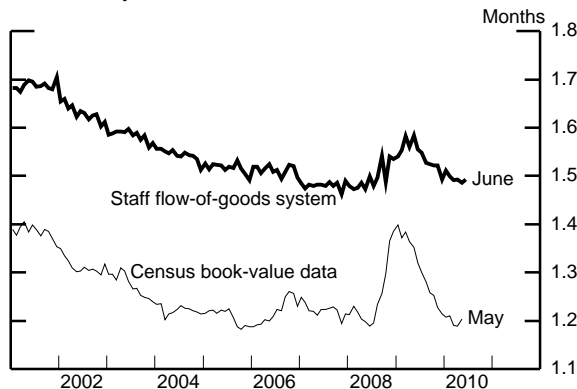
Nonresidential Construction Put in Place



Source: U.S. Census Bureau.

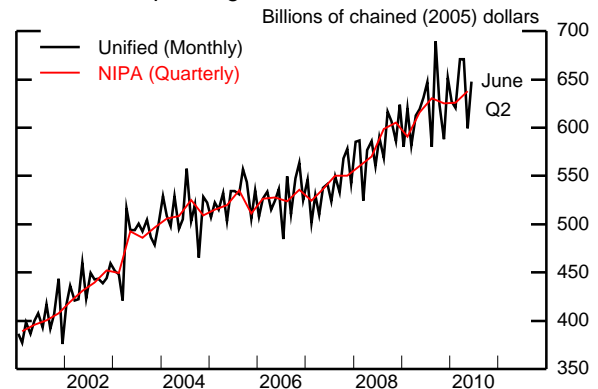
Recent Nonfinancial Developments (3)

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.
Source: U.S. Census Bureau; staff calculation.

Defense Spending



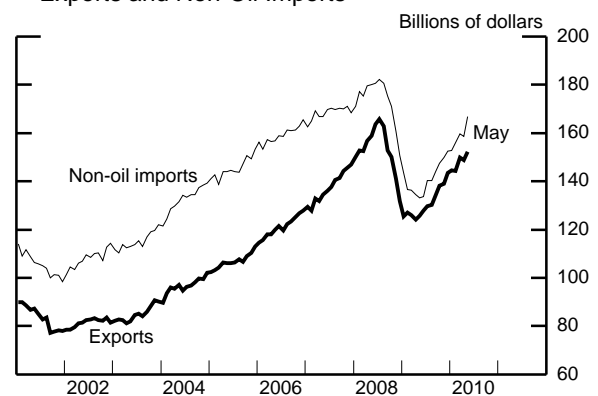
Note: The unified series is seasonally adjusted and deflated by BEA prices. The NIPA series excludes the consumption of fixed capital.
Source: Monthly Treasury Statement.

Trade Balance



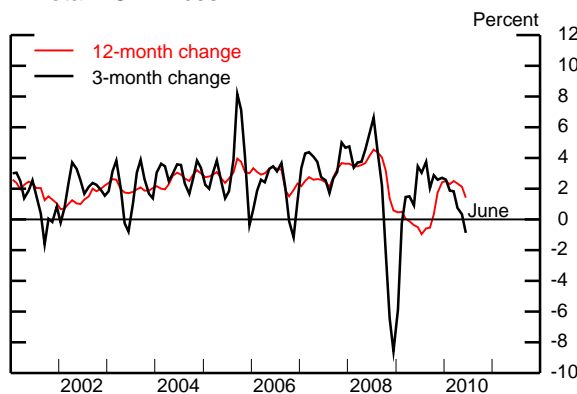
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; U.S. Census Bureau.

Exports and Non-Oil Imports



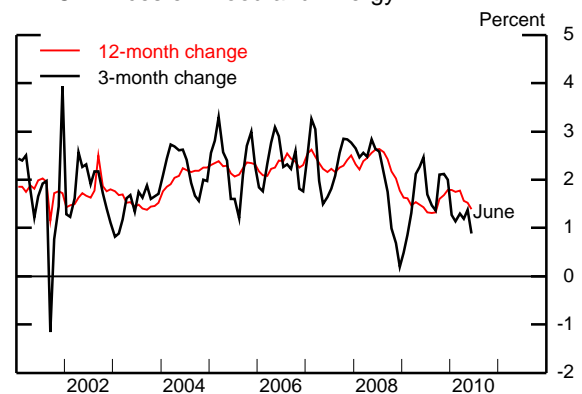
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; U.S. Census Bureau.

Total PCE Prices



Note: 3-month changes are at an annual rate.
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

PCE Prices ex. Food and Energy



Note: 3-month changes are at an annual rate.
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

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

Measure	2008	2009	2010		2011
			H1	H2	
Real GDP	-2.8	.2	2.9	2.5	3.6
Previous Tealbook	-1.9	.1	3.4	3.0	3.7
Final sales	-1.9	-.3	1.3	2.4	3.8
Previous Tealbook	-1.4	-.1	2.6	2.6	3.4
Personal consumption expenditures	-1.9	.2	1.7	1.8	3.5
Previous Tealbook	-1.8	1.0	3.1	2.3	3.1
Residential investment	-24.6	-13.4	6.1	-.5	19.0
Previous Tealbook	-21.0	-12.5	3.0	4.9	17.1
Nonresidential structures	-1.5	-26.5	-7.2	.7	-.5
Previous Tealbook	3.2	-25.3	-8.3	-1.2	-.2
Equipment and software	-11.8	-4.9	23.2	7.2	11.6
Previous Tealbook	-10.7	-7.5	16.8	11.3	10.8
Federal purchases	9.2	3.6	5.4	2.3	1.0
Previous Tealbook	8.9	3.6	4.0	3.0	1.4
State and local purchases	-.4	-1.0	-1.2	-.4	.0
Previous Tealbook	-.3	-.1	-2.3	.2	.5
Exports	-2.9	-.1	10.8	10.3	8.2
Previous Tealbook	-3.4	-.7	9.7	7.7	7.4
Imports	-6.0	-7.2	19.7	5.1	6.5
Previous Tealbook	-6.8	-6.6	11.5	6.9	6.9
Contributions to change in real GDP (percentage points)					
Inventory change	-.8	.5	1.6	.1	-.2
Previous Tealbook	-.5	.1	.8	.4	.3
Net exports	.7	1.2	-1.5	.5	.0
Previous Tealbook	.7	1.0	-.5	-.1	-.2

Real GDP

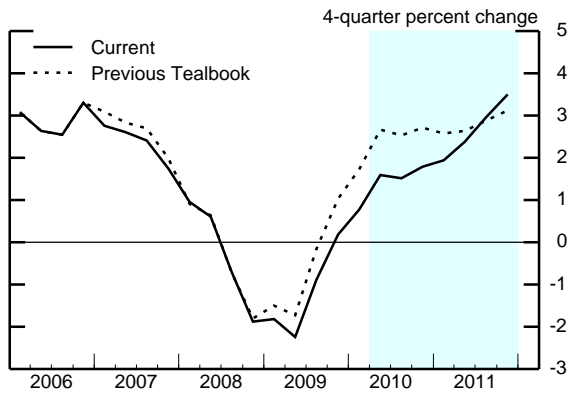


Note: The shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research (NBER). The vertical line represents the last business cycle peak as defined by the NBER.

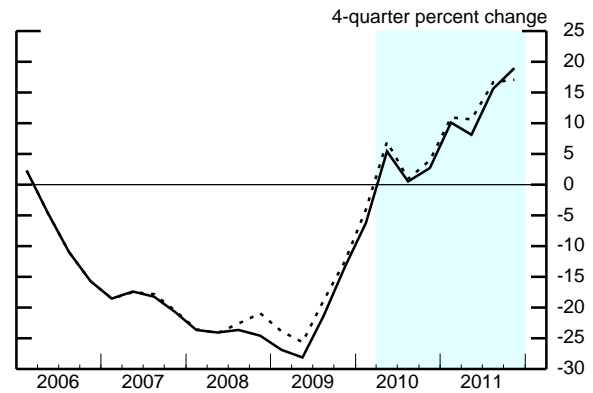
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Components of Final Demand

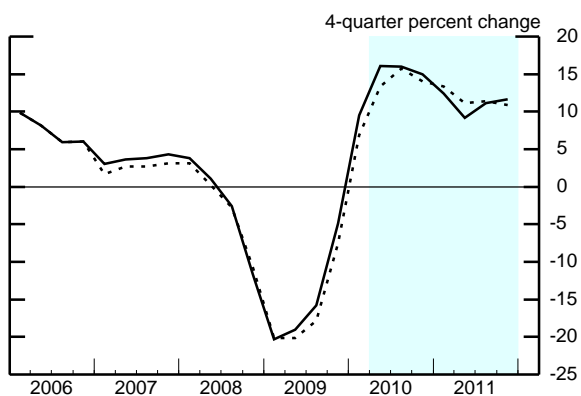
Personal Consumption Expenditures



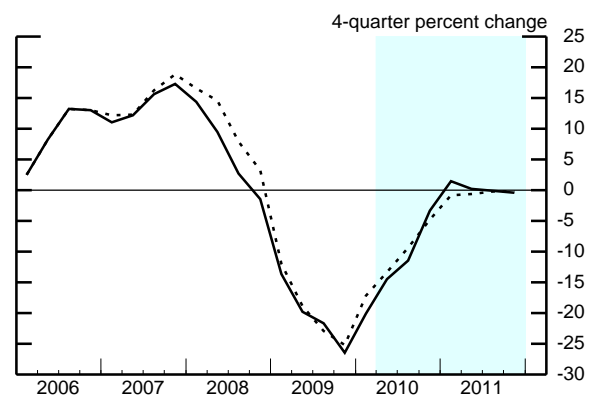
Residential Investment



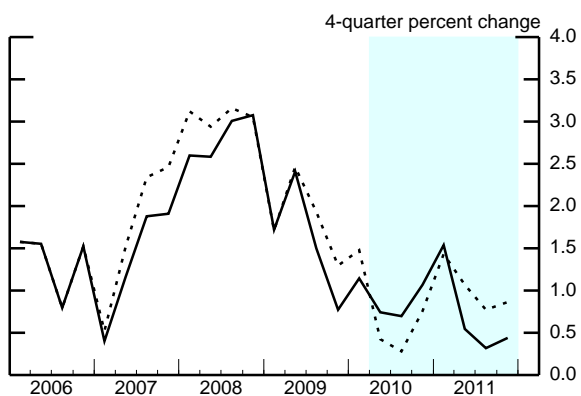
Equipment and Software



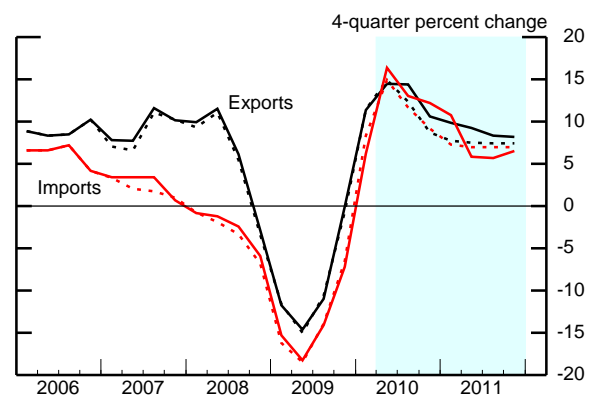
Nonresidential Structures



Government Consumption & Investment



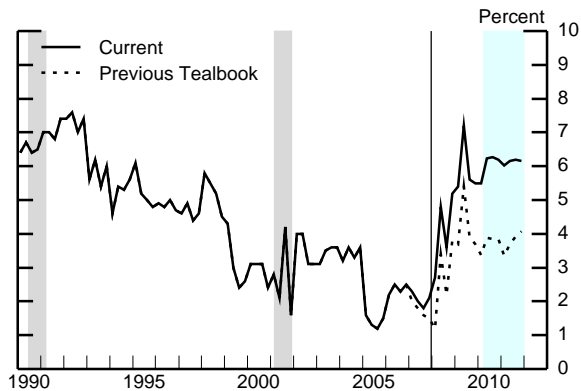
Exports and Imports



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

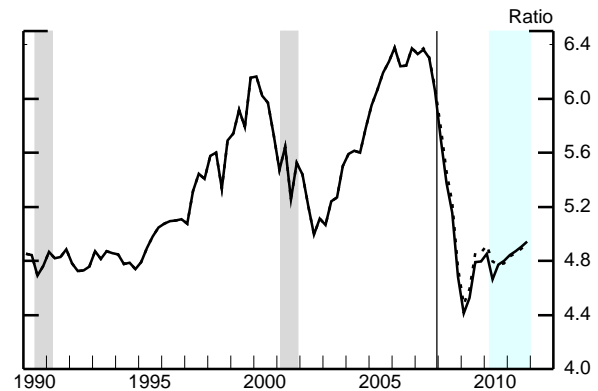
Aspects of the Medium-Term Projection

Personal Saving Rate



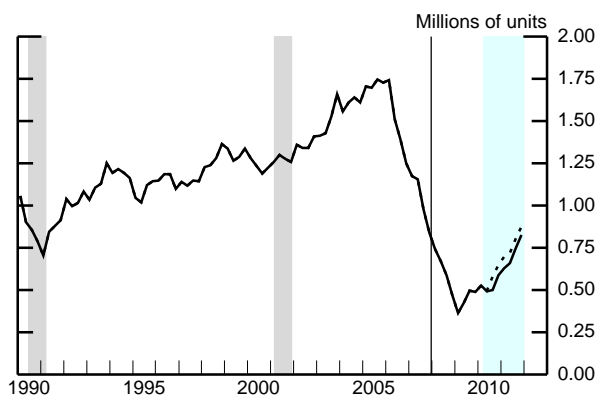
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Wealth-to-Income Ratio



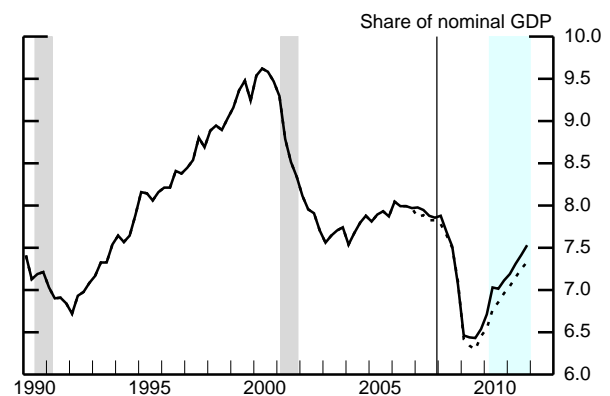
Note: Household net worth as a ratio to disposable personal income.
Source: Flow of Funds Accounts.

Single-Family Housing Starts



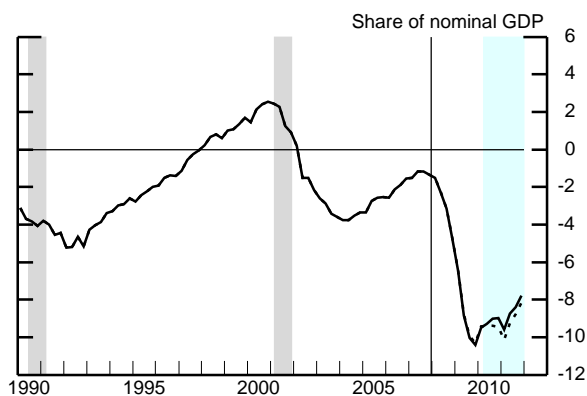
Source: U.S. Census Bureau.

Equipment and Software Spending



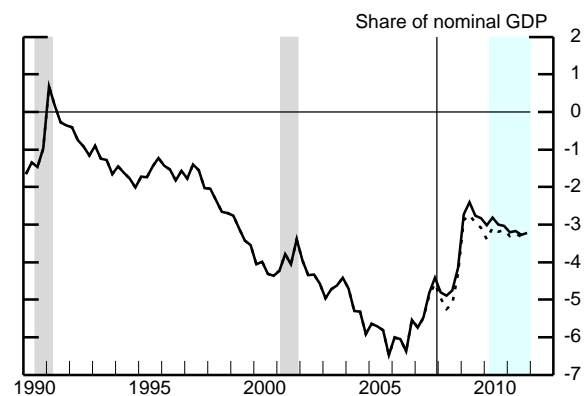
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Federal Surplus/Deficit



Note: Share of federal government surplus/deficit is shown as a 4-quarter moving average.
Source: Monthly Treasury Statement.

Current Account Surplus/Deficit



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

Note: The shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research (NBER). The vertical lines represent the last business cycle peak as defined by the NBER.

The Long-Run Prospects for Housing Construction

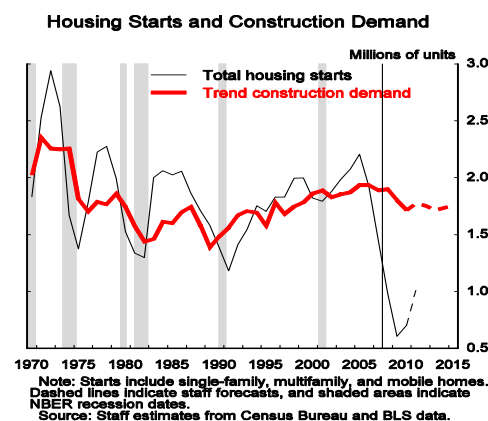
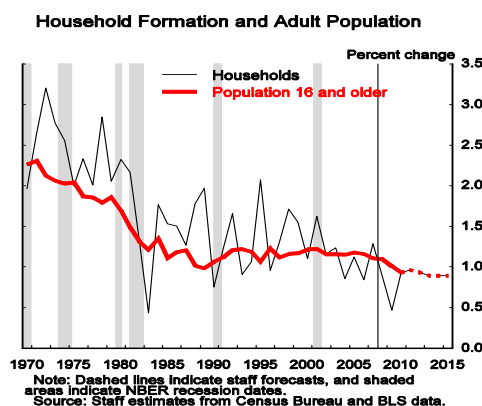
Estimates of the number of new housing units needed to keep pace with demographic trends, demolitions, and secondary housing offer a rough gauge of the trend in construction activity over the long run. Although these estimates are quite sensitive to assumptions, they provide a guidepost for where construction starts may settle when housing and mortgage markets recover and vacant units recede to normal levels.

The main source of trend construction demand is net household formation. The black line in the lower left figure shows annual growth rates in the number of households, a volatile series that tends to fall noticeably around recessions. Cutting through this volatility, the growth rate in the adult population—the red line—can be regarded as a rough proxy for the underlying rate of household formation. Looking forward, the Census Bureau projects that the growth rate of the adult population will average just below 1 percent over the next five years; we estimate that this projection implies an underlying household formation rate of about 1.1 million units per year over this period.

In addition to household formation, housing units will be needed to replace demolished units and

for nonprimary residences (including second and seasonal houses). Working from estimates of the demolition rate, we think that nearly 300,000 units per year will need to be replaced. Demand for new nonprimary residences is more difficult to assess, but fitted time trends for the number of units per household, along with the projected trend in household formation, imply that 350,000 units per year will need to be built. Taken together, demand from these three sources totals 1¾ million units.

The figure in the lower right compares historical and projected total housing starts (the black line) with trend construction demand (the red line). Starts have broadly tracked this benchmark over history, though substantial misalignments have persisted for some periods. For example, starts generally ran above trend demand from 1995 to 2005. In contrast, starts have dropped far below trend demand since 2006—the biggest discrepancy over the period shown. We expect only a small portion of this gap to close over the medium term, as the transition toward benchmark levels is restrained by the overhang of vacant houses and by credit conditions that ease only gradually.



Decomposition of Potential GDP
(Percent change, Q4 to Q4, except as noted)

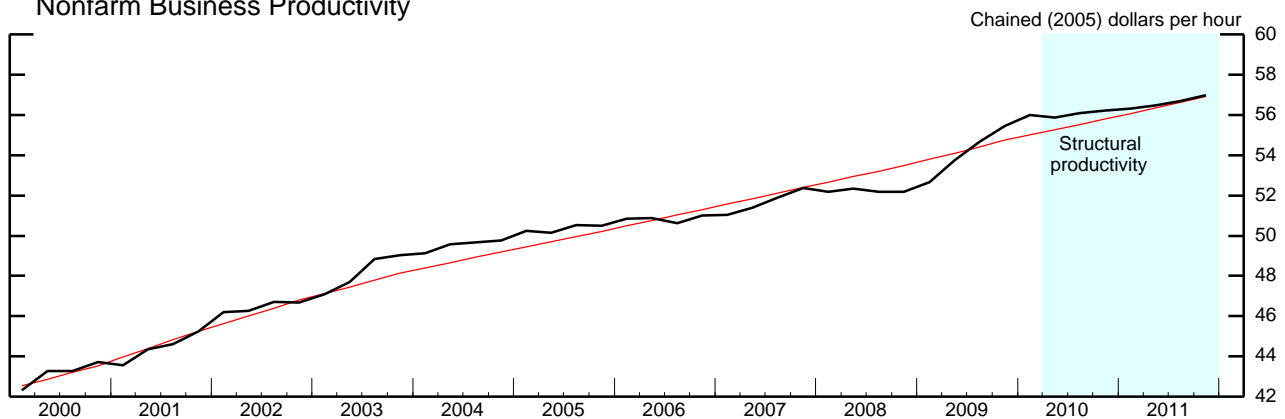
Measure	1974-1995	1996-2000	2001-2007	2008	2009	2010	2011
Potential GDP	3.0	3.5	2.8	2.5	2.6	2.4	2.5
Previous Tealbook	3.0	3.5	2.8	2.7	2.7	2.3	2.4
<i>Selected contributions¹</i>							
Structural labor productivity	1.5	2.7	2.6	2.1	2.4	1.9	2.0
Previous Tealbook	1.5	2.7	2.6	2.3	2.6	1.8	2.0
Capital deepening	.7	1.5	.7	.5	.1	.3	.6
Previous Tealbook	.7	1.5	.7	.5	.0	.2	.5
Multifactor productivity	.5	.9	1.6	1.3	2.1	1.5	1.4
Previous Tealbook	.5	.9	1.6	1.6	2.4	1.5	1.4
Trend hours	1.7	1.1	.8	.7	.4	.7	.7
Previous Tealbook	1.7	1.1	.8	.8	.5	.8	.8
Labor force participation	.5	.0	-.2	-.2	-.2	-.2	-.2
Previous Tealbook	.5	.0	-.2	-.2	-.2	-.2	-.2

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

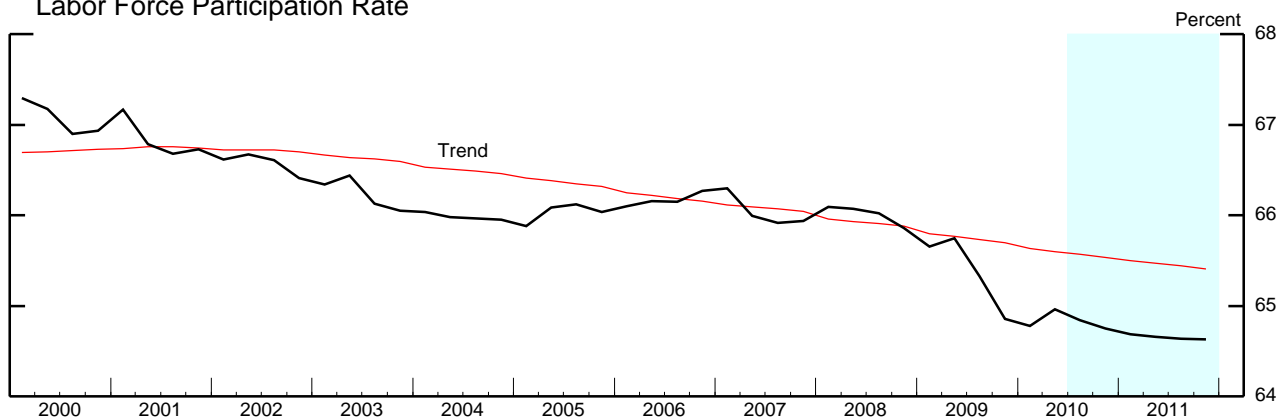
1. Percentage points.

Source: Staff assumptions.

Nonfarm Business Productivity



Labor Force Participation Rate



Source: U.S. Department of Labor, Bureau of Labor Statistics; staff assumptions.

The Outlook for the Labor Market

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

Measure	2008	2009	2010	2011
Output per hour, nonfarm business	-.3	6.3	1.4	1.3
Previous Tealbook	1.4	5.6	1.2	.9
Nonfarm private employment	-2.7	-4.7	1.2	2.7
Previous Tealbook	-2.7	-4.7	1.6	3.0
Labor force participation rate ¹	65.9	64.9	64.7	64.6
Previous Tealbook	65.9	64.9	64.8	64.7
Civilian unemployment rate ¹	6.9	10.0	9.7	8.9
Previous Tealbook	6.9	10.0	9.5	8.6
MEMO				
GDP gap ²	-5.7	-7.9	-7.6	-6.6
Previous Tealbook	-4.8	-7.3	-6.5	-5.4

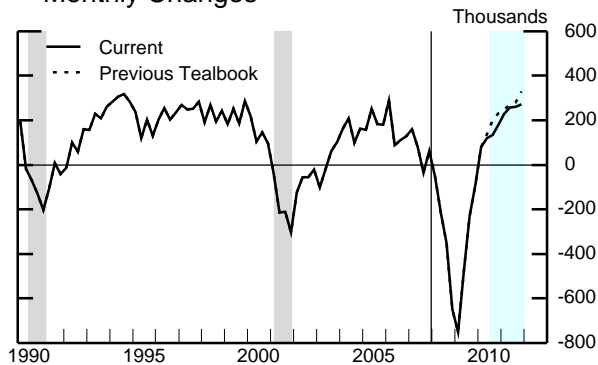
Note: A negative number indicates that the economy is operating below potential.

1. Percent, average for the fourth quarter.

2. Percent difference between actual and potential GDP in the fourth quarter of the year indicated.

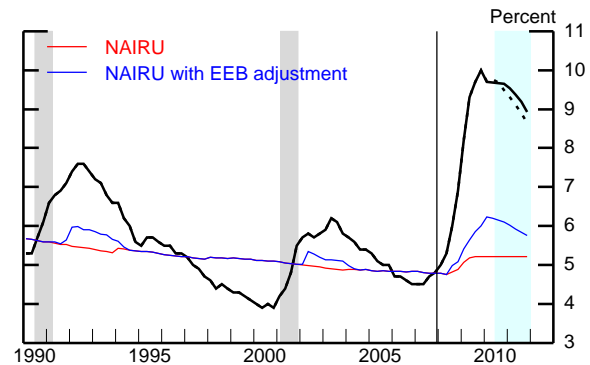
Source: U.S. Department of Labor, Bureau of Labor Statistics; staff assumptions.

Private Payroll Employment, Average
Monthly Changes



Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

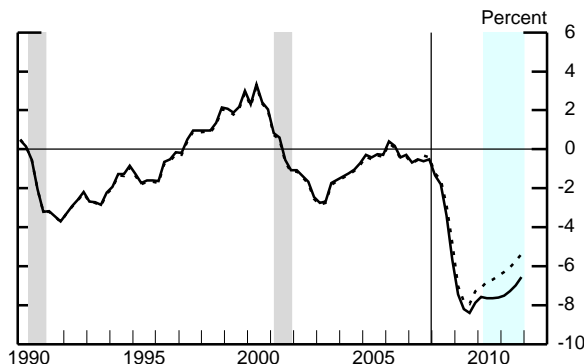
Unemployment Rate



Note: The EEB adjustment is the staff estimate of the effect of extended and emergency unemployment compensation programs on the NAIRU.

Source: U.S. Dept. of Labor, Bureau of Labor Statistics; staff assumption.

GDP Gap

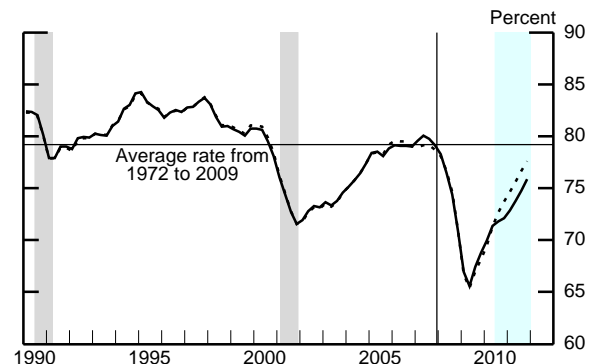


Note: The GDP gap is the percent difference between actual and potential GDP; a negative number indicates that the economy is operating below potential.

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

Note: The shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research (NBER). The vertical lines represent the last business cycle peak as defined by the NBER.

Manufacturing Capacity Utilization Rate



Source: Federal Reserve Board, G. 17 Statistical Release, "Industrial Production and Capacity Utilization."

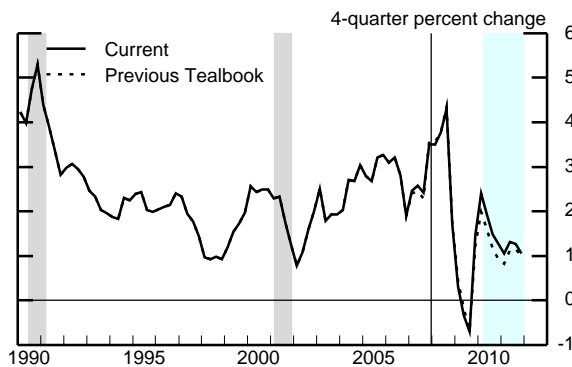
Inflation Projections (Percent change, Q4 to Q4)

Measure	2008	2009	2010	2011
PCE chain-weighted price index	1.7	1.5	1.3	1.1
Previous Tealbook	1.7	1.2	.9	1.0
Food and beverages	6.9	-1.6	1.3	.7
Previous Tealbook	6.8	-1.7	1.5	.7
Energy	-9.0	2.7	4.5	3.8
Previous Tealbook	-9.1	1.1	2.3	3.9
Excluding food and energy	2.0	1.7	1.1	.9
Previous Tealbook	2.0	1.5	.8	.8
Prices of core goods imports ¹	3.5	-1.9	2.7	1.2
Previous Tealbook	3.8	-1.6	1.7	1.5

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

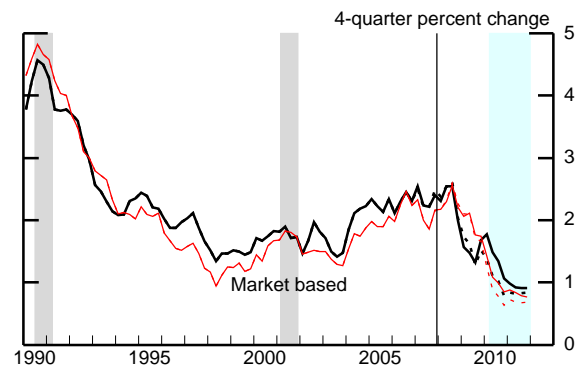
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis..

Total PCE Prices



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

PCE Prices ex. Food and Energy



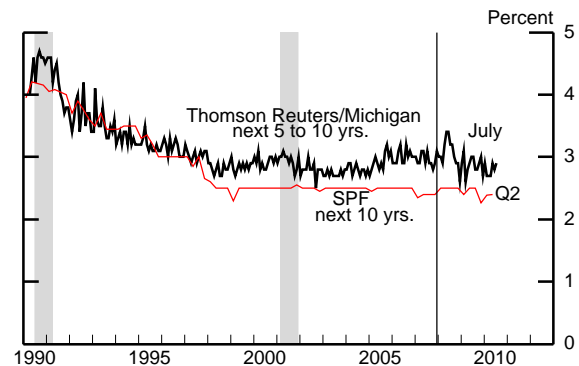
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Compensation per Hour



Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

Long-Term Inflation Expectations



Note: The Survey of Professional Forecasters (SPF) projection is for the CPI.

Source: Thomson Reuters/University of Michigan Surveys of Consumers; The Federal Reserve Bank of Philadelphia.

Note: The shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research (NBER). The vertical lines represent the last business cycle peak as defined by the NBER.

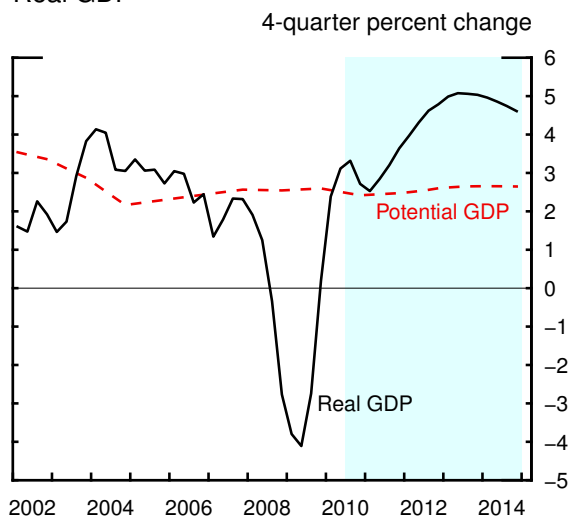
The Long-Term Outlook

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

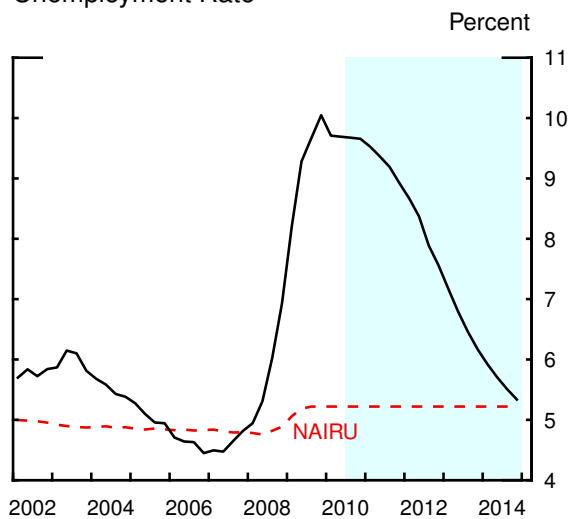
Item	2010	2011	2012	2013	2014
Real GDP	2.7	3.6	4.8	5.0	4.6
Civilian unemployment rate ¹	9.7	8.9	7.6	6.2	5.3
PCE prices, total	1.3	1.1	1.0	1.2	1.4
Core PCE prices	1.1	.9	1.0	1.1	1.4
Federal funds rate ¹	.1	.1	.4	2.1	3.3

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

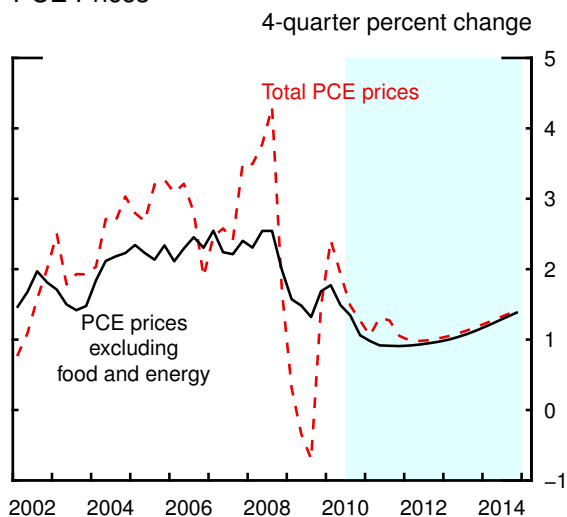
Real GDP



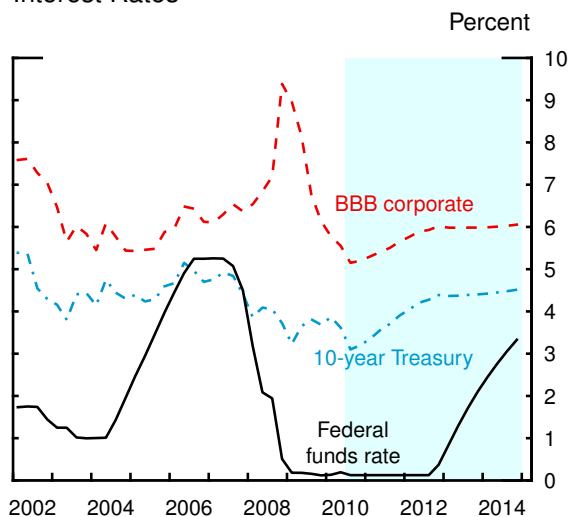
Unemployment Rate



PCE Prices



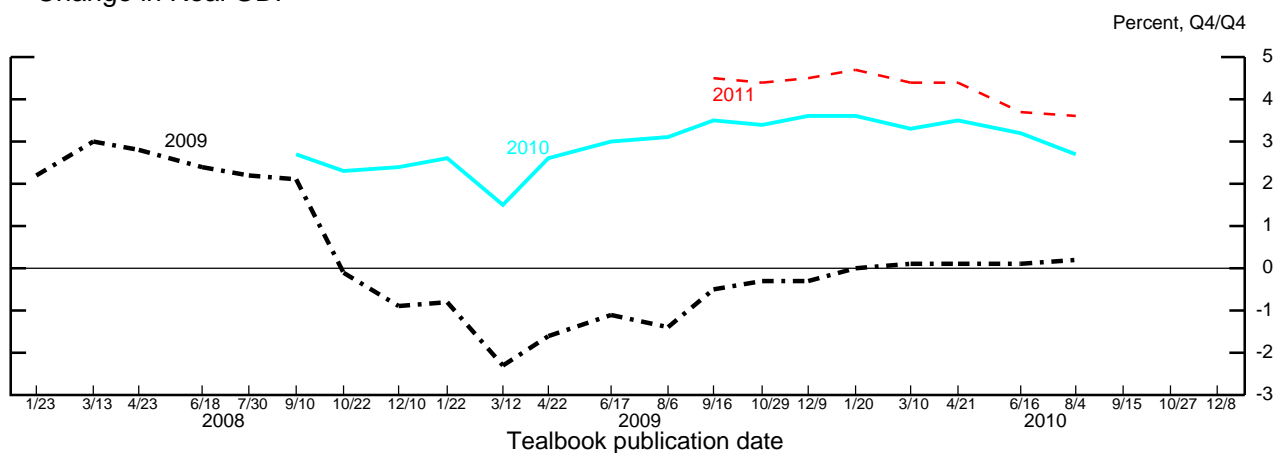
Interest Rates



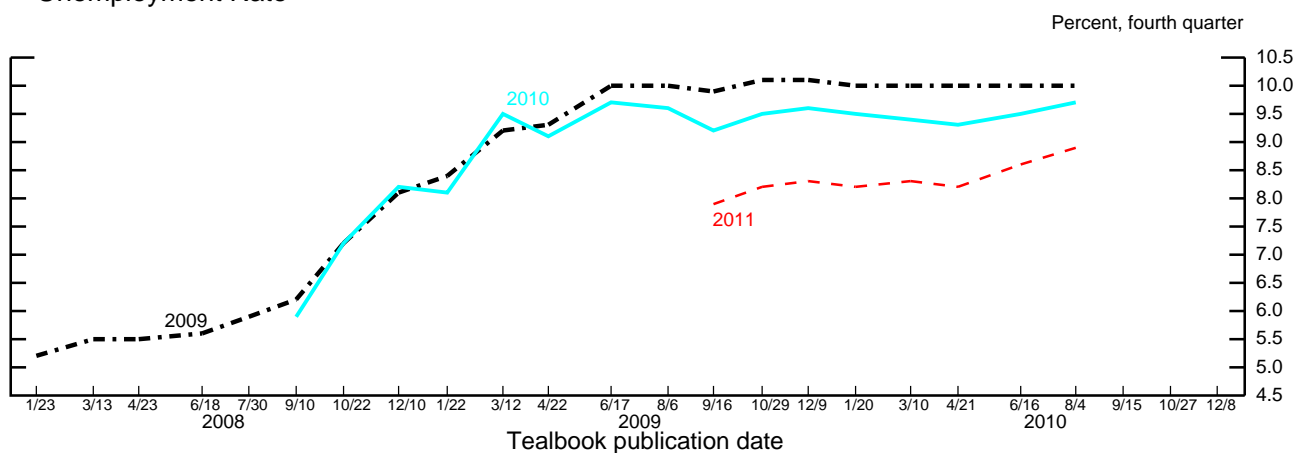
Note: In each panel, shading represents the projection period.

Evolution of the Staff Forecast

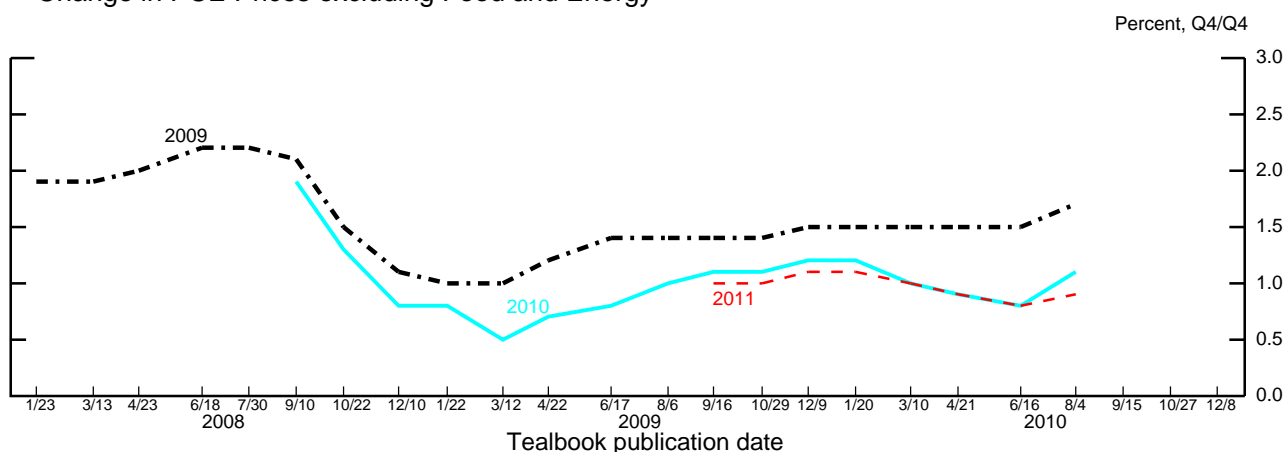
Change in Real GDP



Unemployment Rate



Change in PCE Prices excluding Food and Energy*

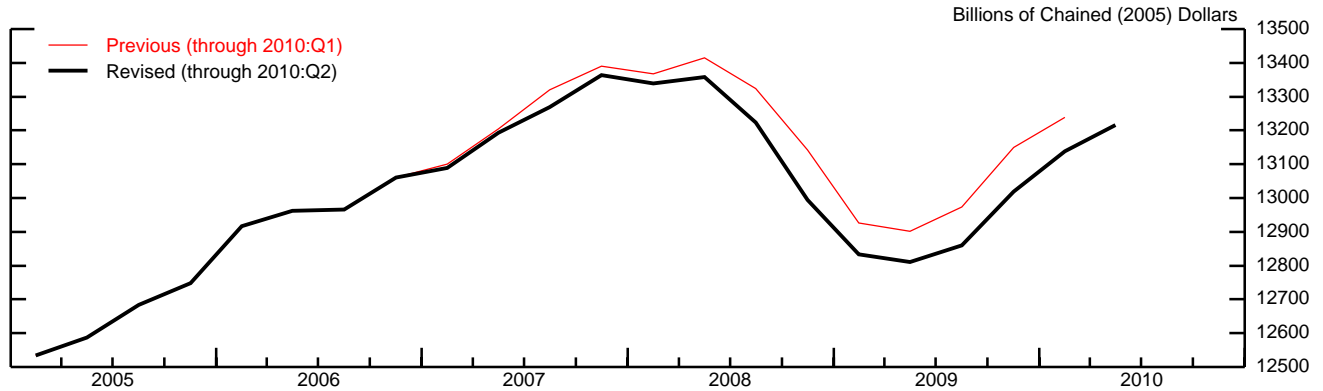


*Because the core PCE price index was redefined as part of the comprehensive revisions to the NIPA, projections prior to the August 2009 Tealbook are not strictly comparable with more recent projections.

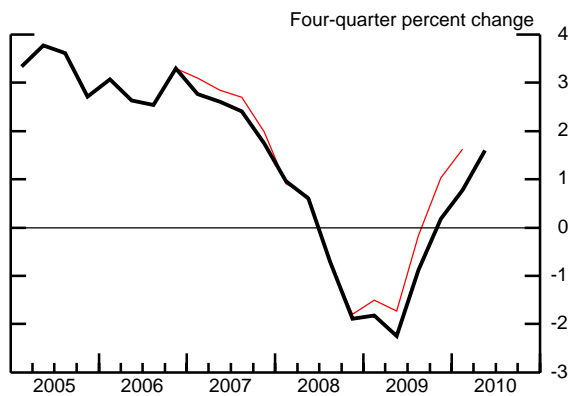
August 3, 2010

Annual Revision to the National Income and Product Accounts

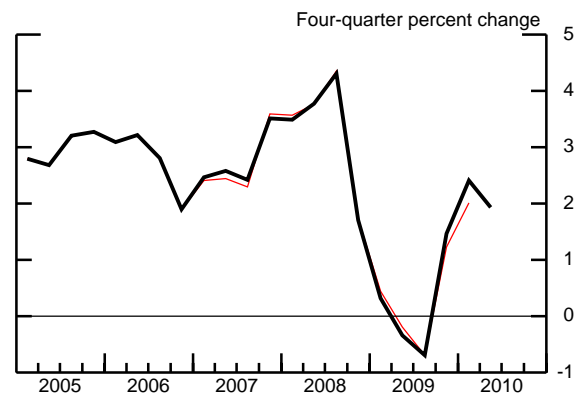
Real GDP



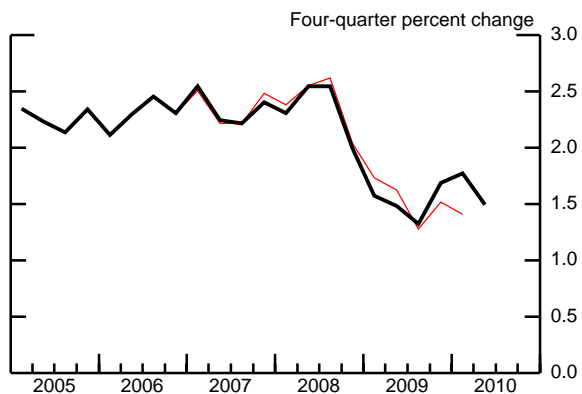
Real Personal Consumption Expenditures



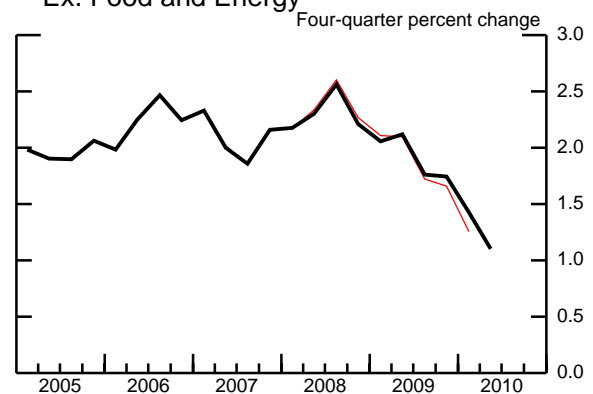
Total PCE Prices



PCE Prices Ex. Food and Energy



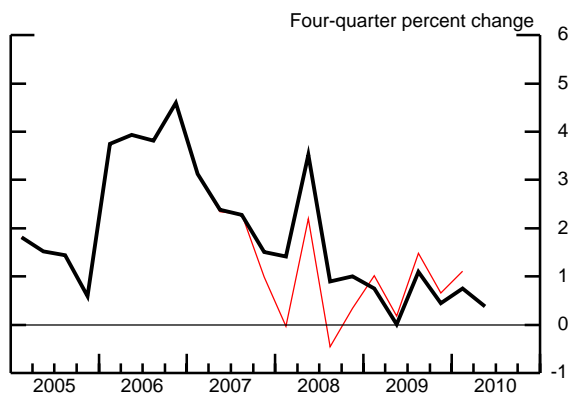
Market-Based PCE Prices Ex. Food and Energy



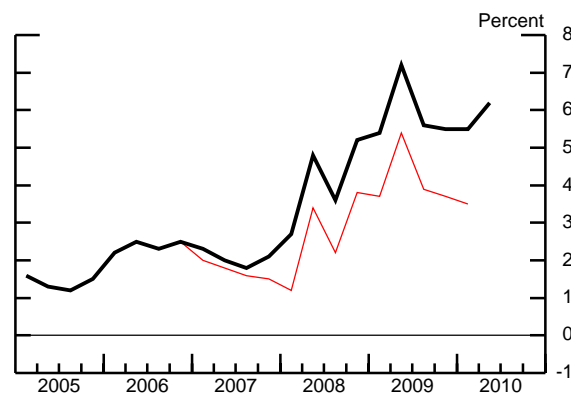
August 3, 2010

Annual Revision to the National Income and Product Accounts

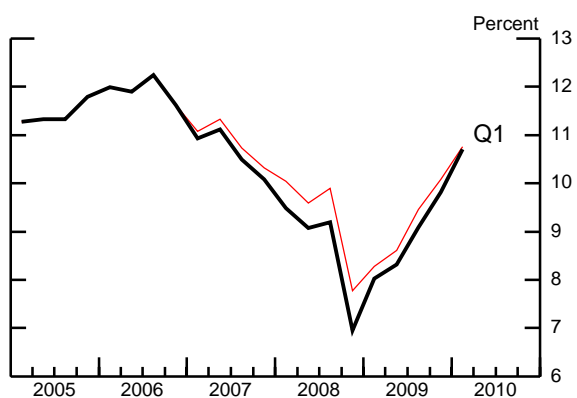
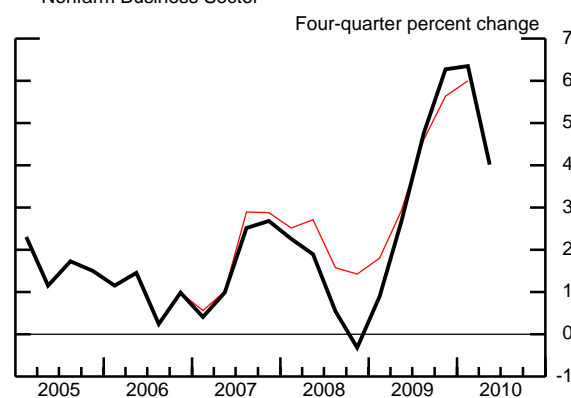
Real DPI



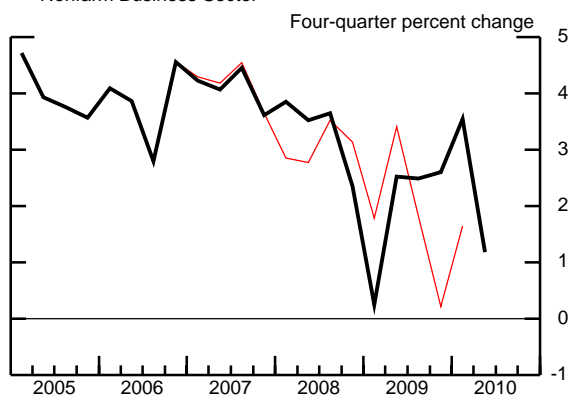
Personal Saving Rate



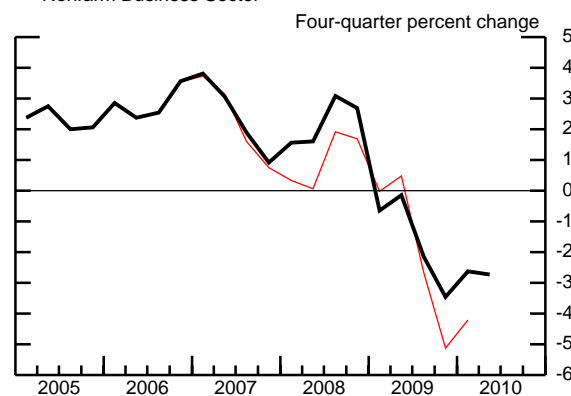
Profits as a Share of GNP

Productivity*
Nonfarm Business Sector

* Staff estimates.

Compensation per Hour*
Nonfarm Business Sector

* Staff estimates.

Unit Labor Costs*
Nonfarm Business Sector

* Staff estimates.

International Economic Developments and Outlook

Economic indicators in Europe have been surprisingly resilient, leading us to edge up our projection for the region's growth. In addition, the generally positive reception of the EU bank stress tests and the modest improvements in financial indicators for Europe have reduced our assessment of the downside risks to our forecast stemming from fiscal stresses in the region. That said, we still expect European growth to face significant headwinds as fiscal policy starts to consolidate, European banks continue to repair balance sheets, and the bounceback in global trade and manufacturing plays through (see the section "Developments in Global Trade"). Lessening policy support and a maturation of the recovery in trade are also expected to contribute to some slowing in the emerging market economies. Indeed, Chinese GDP for the second quarter was somewhat weaker than we had expected, which, along with a markdown to growth in Latin America in the second half of the year, led us to forecast a slightly more pronounced near-term moderation for emerging market economies than we had projected in the June Tealbook. On balance, the contour of our projection for foreign activity is little changed from the June Tealbook. We continue to see growth abroad stepping down from above 4½ percent in the first half of this year to a more sustainable 3¼ to 3½ percent rate through the forecast period.

Summary of Staff Projections

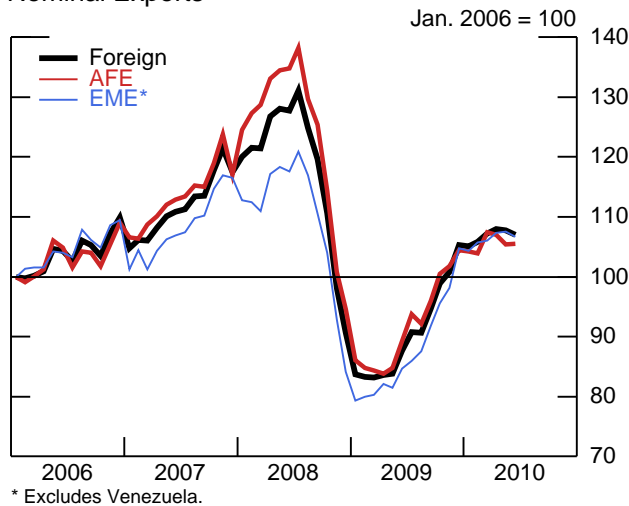
(Percent change from end of previous period, annual rate)

Indicator	2009	2010	Projection		
		Q1	2010		2011
			Q2	H2	
Foreign output	.4	4.8	4.7	3.2	3.4
June TB	.4	4.9	4.3	3.3	3.3
Foreign CPI	1.2	3.4	1.3	2.0	2.2
June TB	1.2	3.4	2.0	1.9	2.2

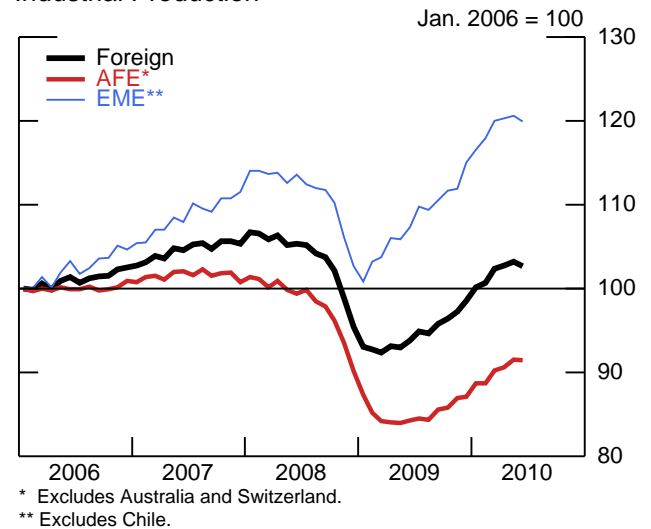
Inflation in the foreign economies came in lower than we had anticipated for the second quarter, largely reflecting faster pass-through of energy and non-oil commodity price declines than had been expected. With commodity prices flattening out, we have

Recent Foreign Indicators

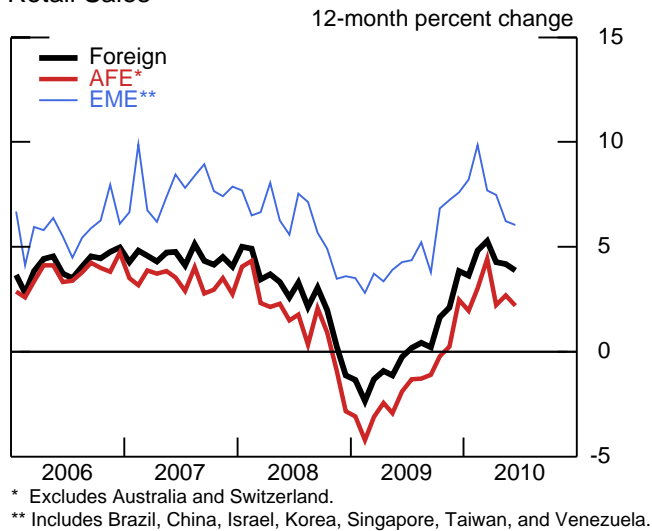
Nominal Exports



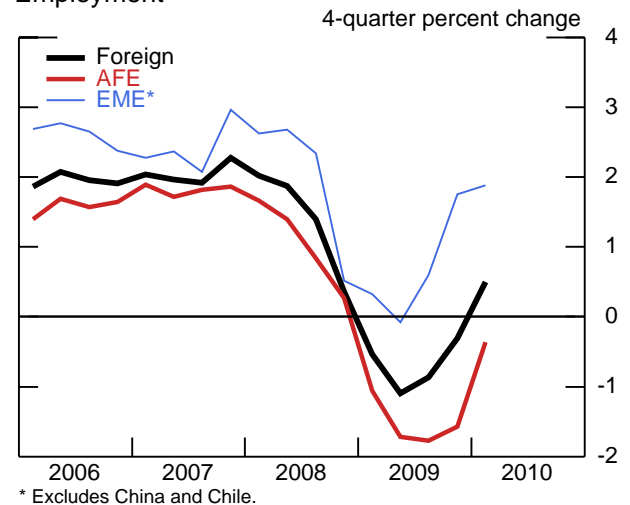
Industrial Production



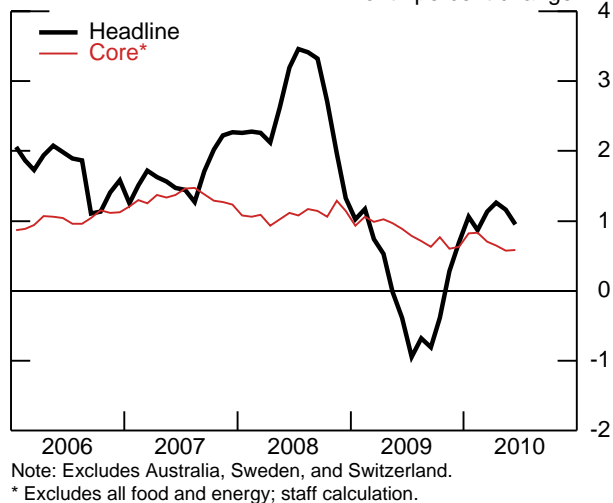
Retail Sales



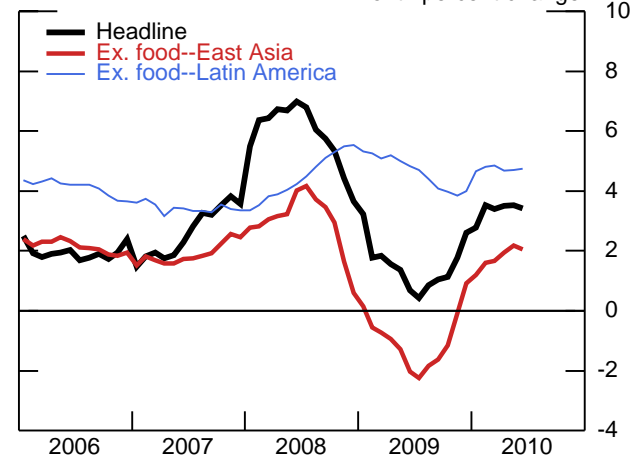
Employment



Consumer Prices: Advanced Foreign Economies

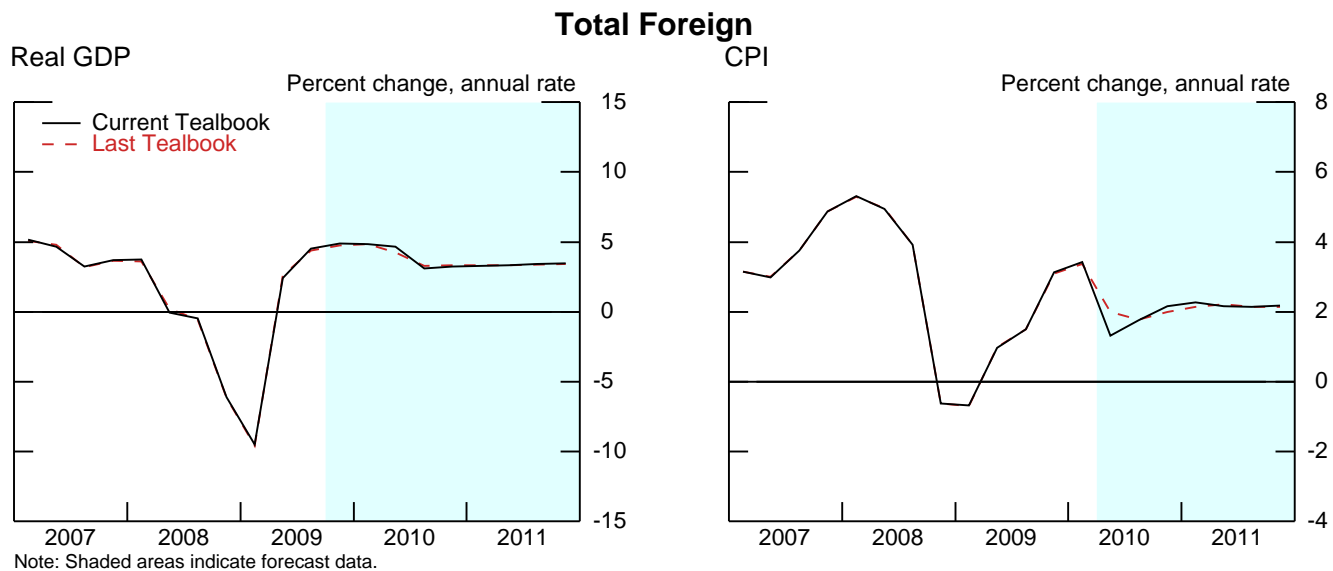


Consumer Prices: Emerging Market Economies

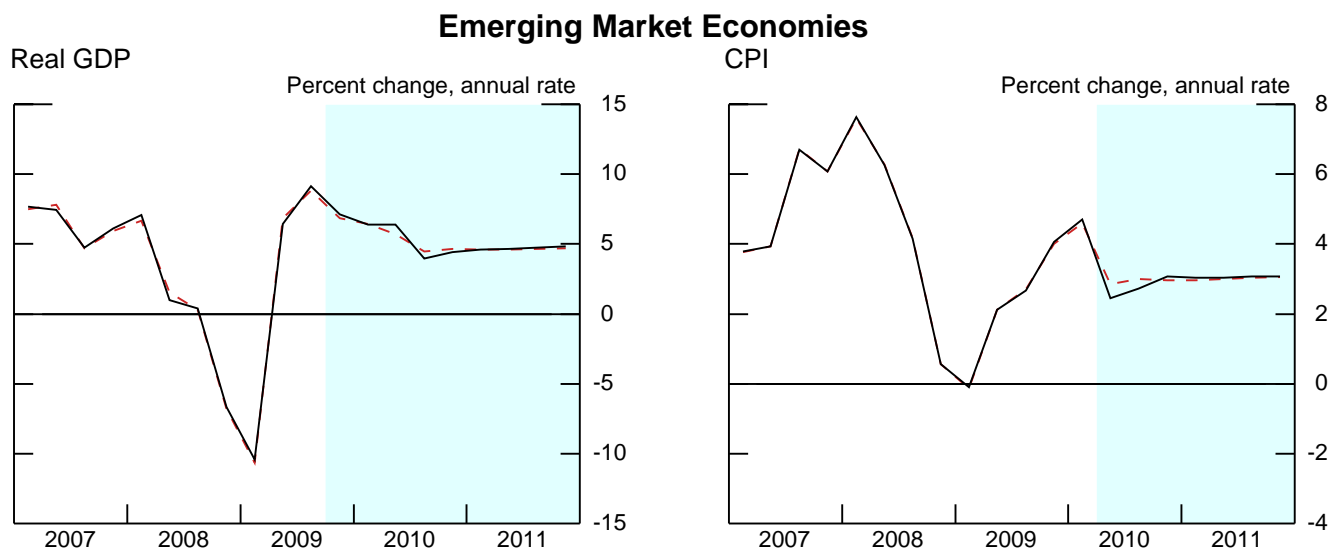
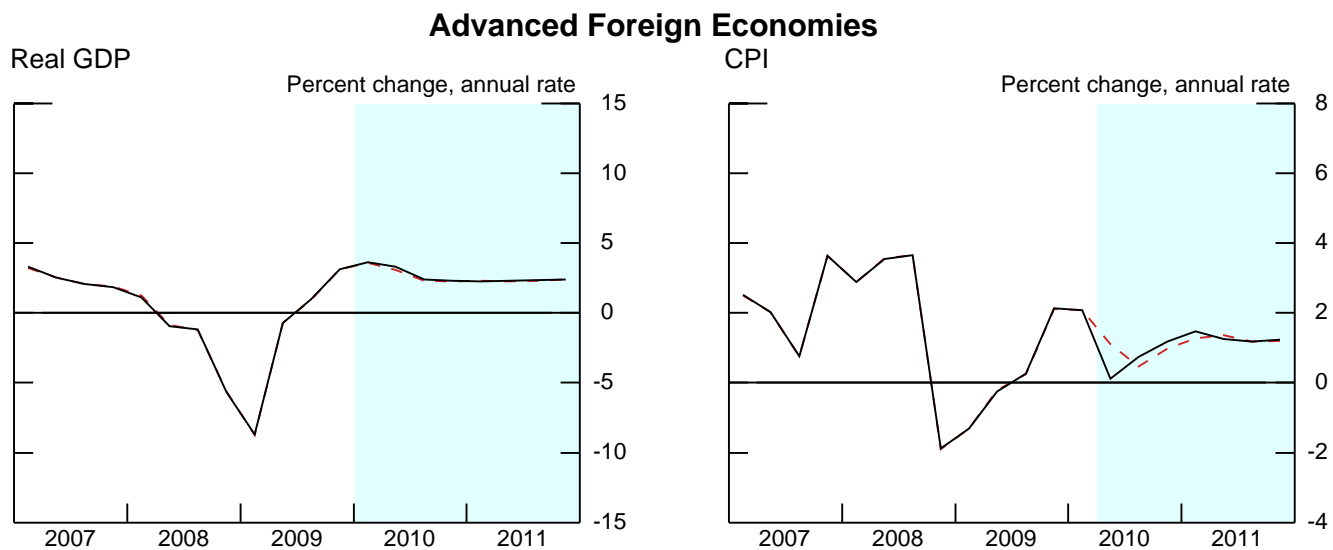


Source: Haver Analytics and CEIC.

The Foreign Outlook



Int'l Econ Devel & Outlook



not read too much into this surprise and continue to expect inflation to move up later this year and then stabilize at a subdued 2¼ percent pace.

As mentioned above, policy support is expected to diminish over the course of the forecast period. Fiscal policy in the advanced economies is expected to turn from being roughly neutral for growth this year to exerting a ¾ percentage point drag in 2011. Monetary policy abroad is expected to remain generally accommodative over the forecast period. That said, a number of central banks, including those in Canada, Australia, Brazil, India, and Korea, have already initiated policy tightening. The effect of Chinese measures to rein in lending and moderate the pace of GDP growth has been manifest somewhat more quickly than expected, and we believe that the pace of tightening is likely to slow a bit going forward.

ADVANCED FOREIGN ECONOMIES

We estimate that real GDP in the advanced foreign economies (AFE) grew at an annual rate of 3¼ percent in the second quarter, near the rapid first-quarter pace of 3.6 percent and a little faster than we wrote down in June. We project that growth will move down to below 2½ percent in the second half of this year and remain at that pace in 2011, as fiscal consolidation and the slow revival of bank lending in a number of countries restrain growth and as the boost to activity from the recovery in inventories wanes.

Staff Projections for Advanced Foreign Economies
(Percent change from end of previous period, annual rate)

Indicator	2009	2010	Projection		
		Q1	2010		2011
			Q2	H2	
Real GDP	-1.4	3.6	3.3	2.4	2.3
June TB	-1.5	3.6	3.1	2.3	2.3
CPI	.2	2.1	.1	1.0	1.3
June TB	.2	2.1	1.1	.7	1.3

Recent indicators for the euro area have shown little imprint of the fiscal stresses that erupted through the spring. Industrial production, which has risen in line with

demand. It is possible, however, that the drag on growth may be less severe than we expect, particularly if market confidence and economic sentiment respond more positively to policy measures, a possibility discussed in the box titled “Can Fiscal Consolidation Be Stimulative?”

EMERGING MARKET ECONOMIES

Incoming data point to a moderation of economic growth in most emerging market economies (EMEs). Among the three EMEs for which we have second-quarter GDP, growth stepped down from its first-quarter pace—by somewhat more than we had expected in China but by less than expected in Korea and Singapore. In other EMEs, purchasing managers indexes generally have moved lower but still indicate expansion of manufacturing sectors, and industrial production in many countries has begun to decelerate, particularly in emerging Asia and Brazil. In contrast, Mexican indicators suggest that economic activity rebounded sharply in the second quarter, after contracting in the first quarter, contributing to the upward revision to EME growth last quarter.

We are not seeing much adverse effect of the European situation on the EMEs. Flows into emerging-market-dedicated investment funds have rebounded since their weakness in May, and EME exports to Europe do not yet show any signs of slowing.

Staff Projections for Emerging Market Economies
(Percent change from end of previous period, annual rate)

Indicator	2009	2010	Projection		
		Q1	2010		2011
			Q2	H2	
Real GDP	2.8	6.4	6.4	4.2	4.7
June TB	2.7	6.5	5.7	4.6	4.6
CPI	2.2	4.7	2.4	2.9	3.0
June TB	2.2	4.6	2.9	3.0	3.0

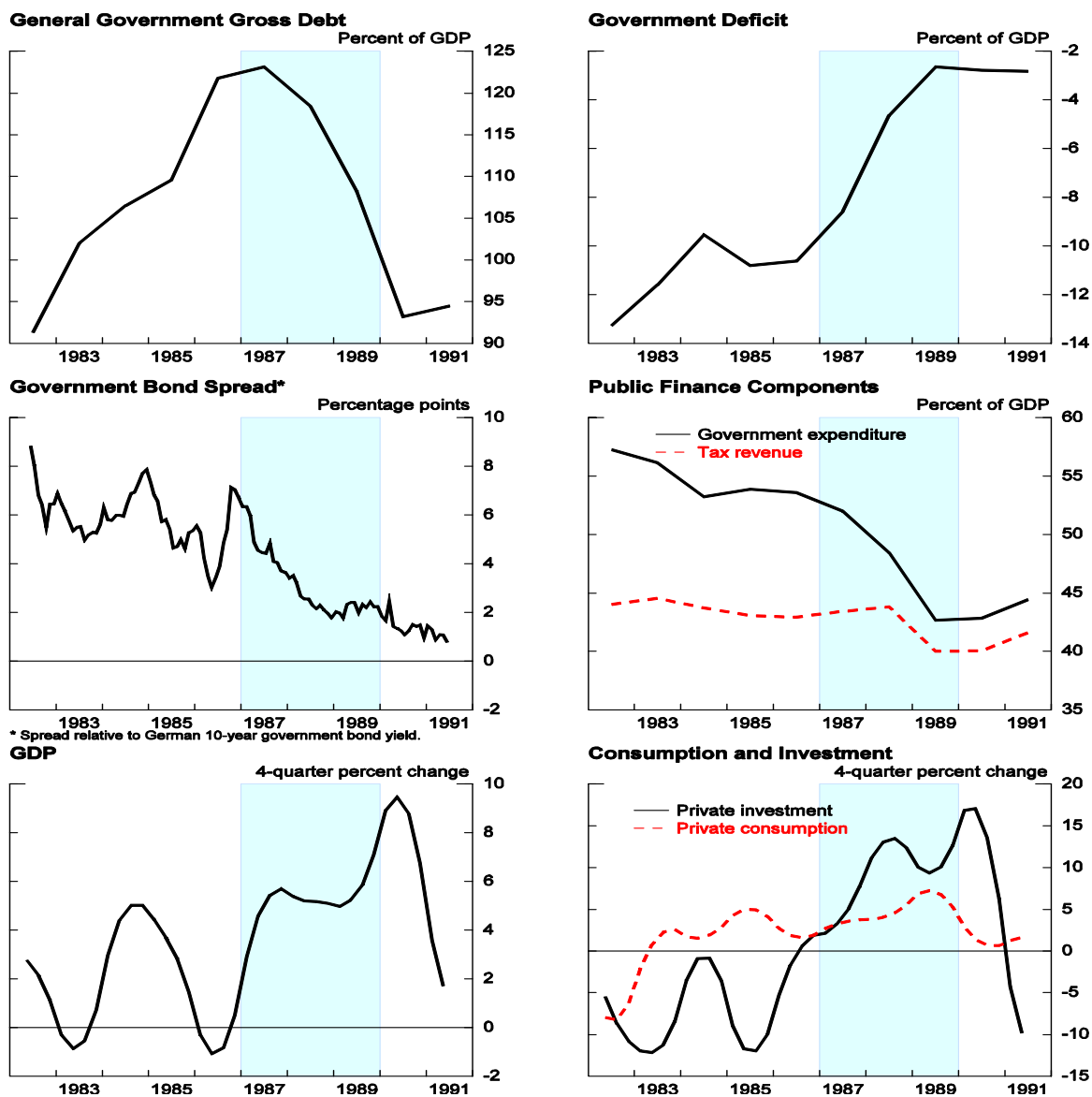
We expect EME growth to hover around 4½ percent over the forecast period. Relative to our June forecast, this projection is about ½ percentage point lower in the second half of this year, reflecting a combination of a bit less momentum in the Chinese economy, a downward revision to Mexico’s outlook in line with weaker U.S. industrial

in countries with low government debt–GDP ratios causes output to contract, even while output tends to expand in countries with high levels of government debt.² Thus, the evidence showing that fiscal consolidation can be stimulative under particular conditions should not be interpreted as

undermining the wide body of empirical evidence—including from structural models and vector autoregressions—indicating that fiscal consolidations usually tend to reduce output in the near term.

² Ethan Ilzetki, Enrique G. Mendoza, and Carlos A. Végh (2010), “How Big (Small?) Are Fiscal Multipliers?” unpublished paper, University of Maryland, May.

Ireland's Fiscal Consolidation (1987-89)

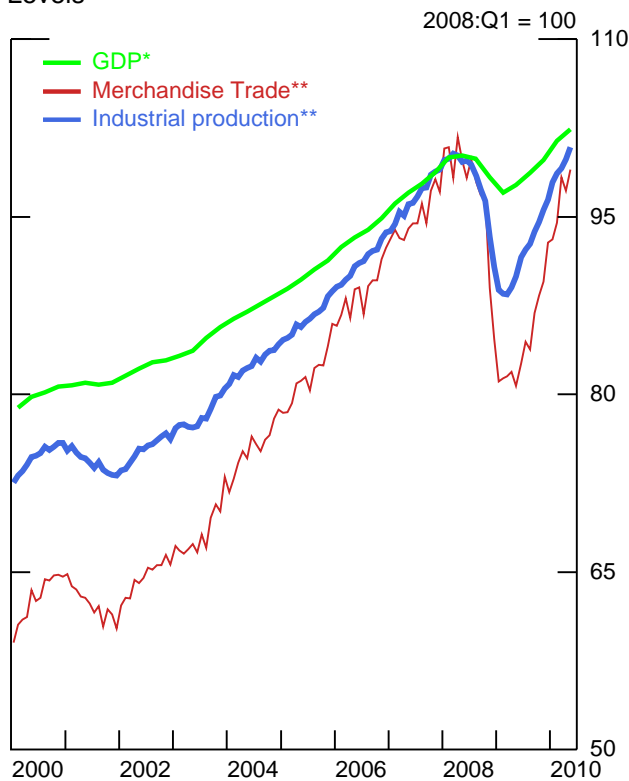


Source: OECD and Haver Analytics.

Developments in Global Trade

Real Global GDP, Trade, and Industrial Production

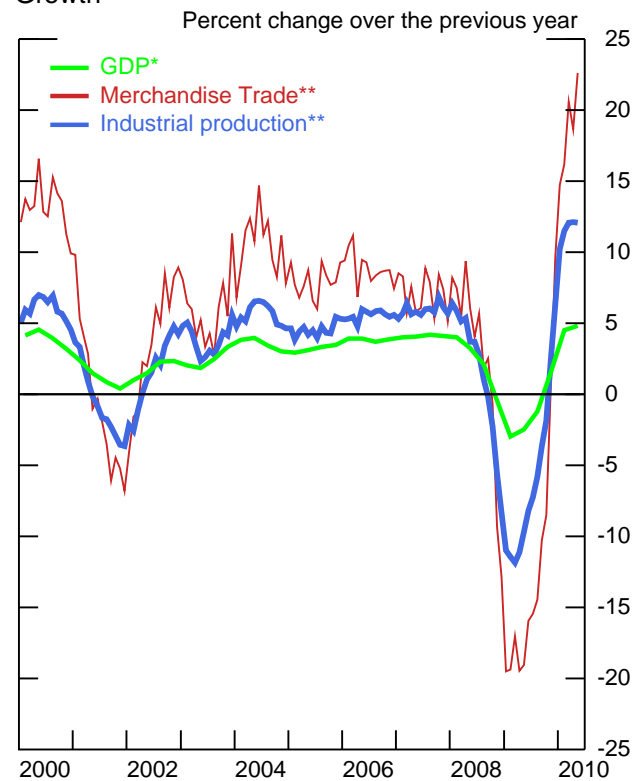
Levels



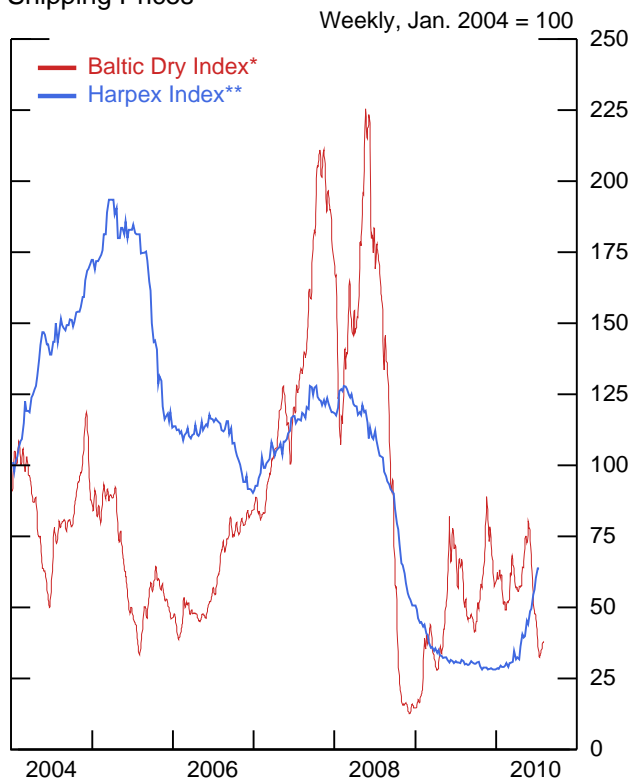
*Source: Staff estimate.

**Source: Netherlands Bureau for Economic Policy Analysis.
Trade is the average of imports and exports.

Growth



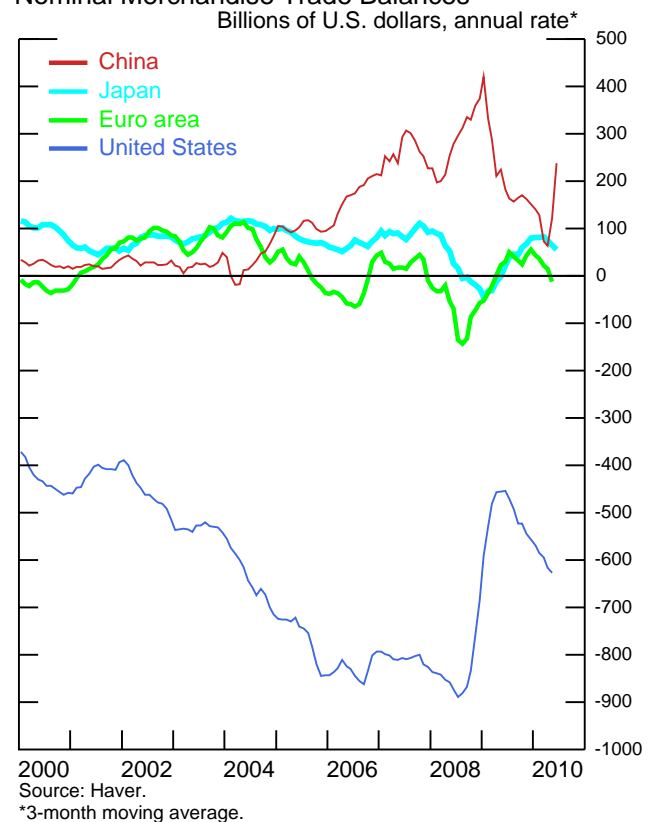
Shipping Prices



*Source: Baltic Exchange.

**Source: Harper Petersen.

Nominal Merchandise Trade Balances

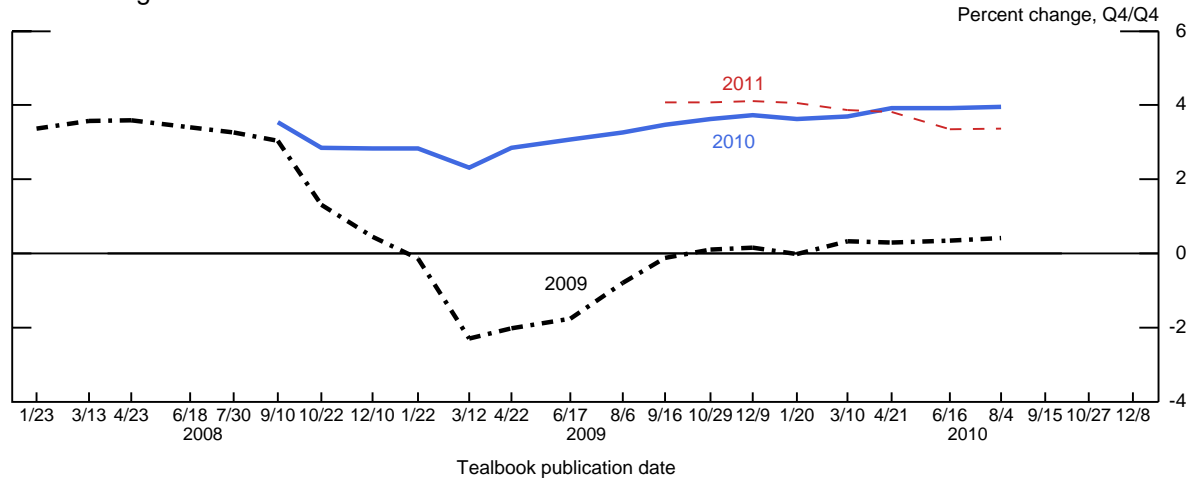


Source: Haver.

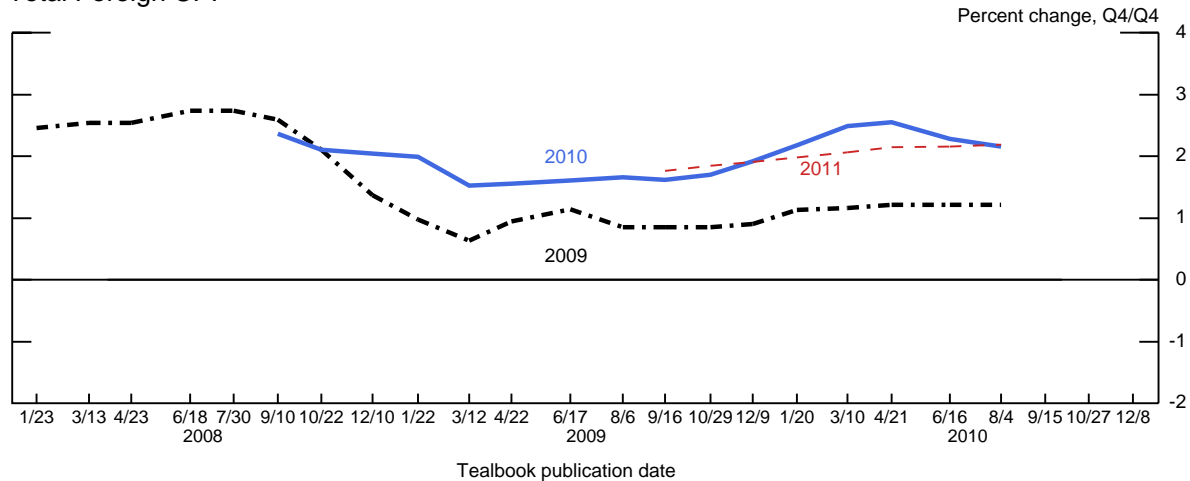
*3-month moving average.

Evolution of Staff's International Forecast

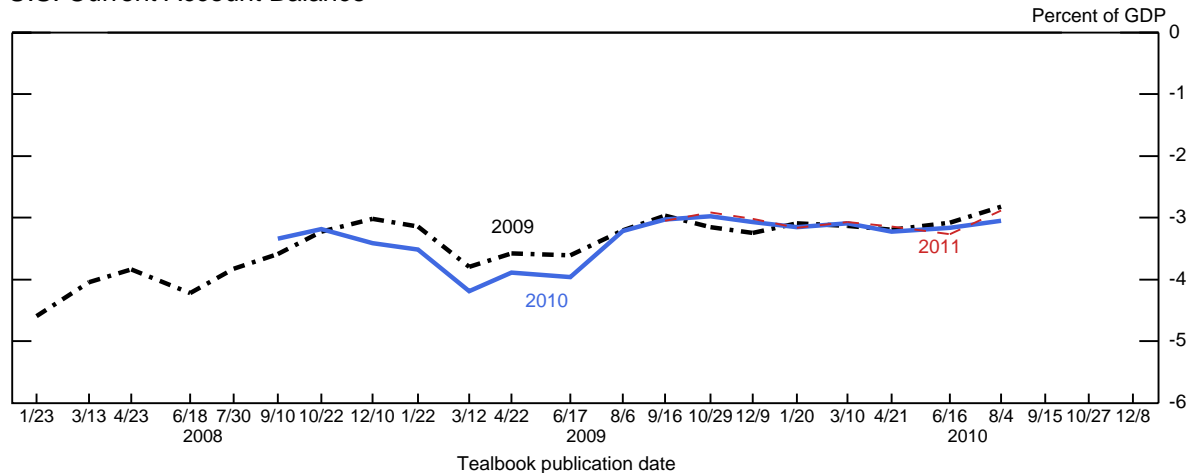
Total Foreign GDP



Total Foreign CPI

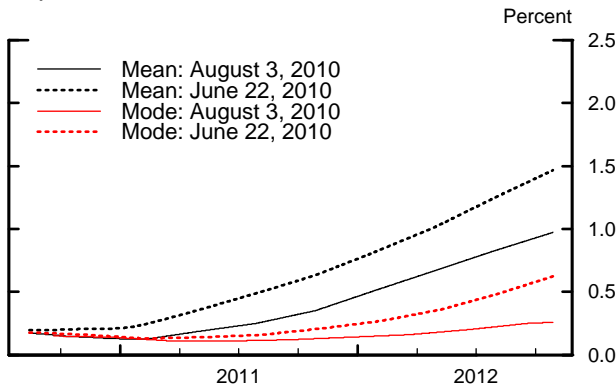


U.S. Current Account Balance



Policy Expectations and Treasury Yields

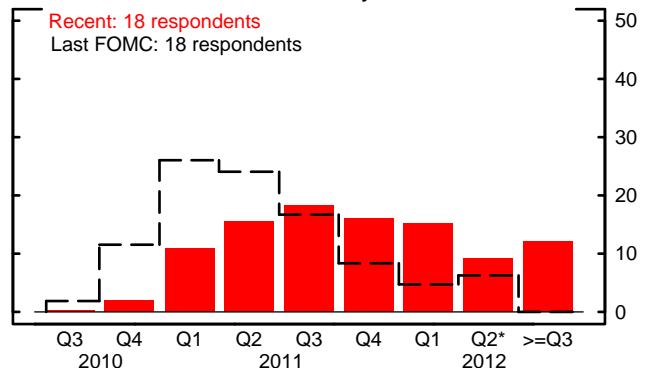
Implied Federal Funds Rate



Note: Mean is estimated from federal funds and Eurodollar futures. Mode is estimated from distribution of federal funds rate implied by interest rate caps. Both include an allowance for term premiums and other adjustments.

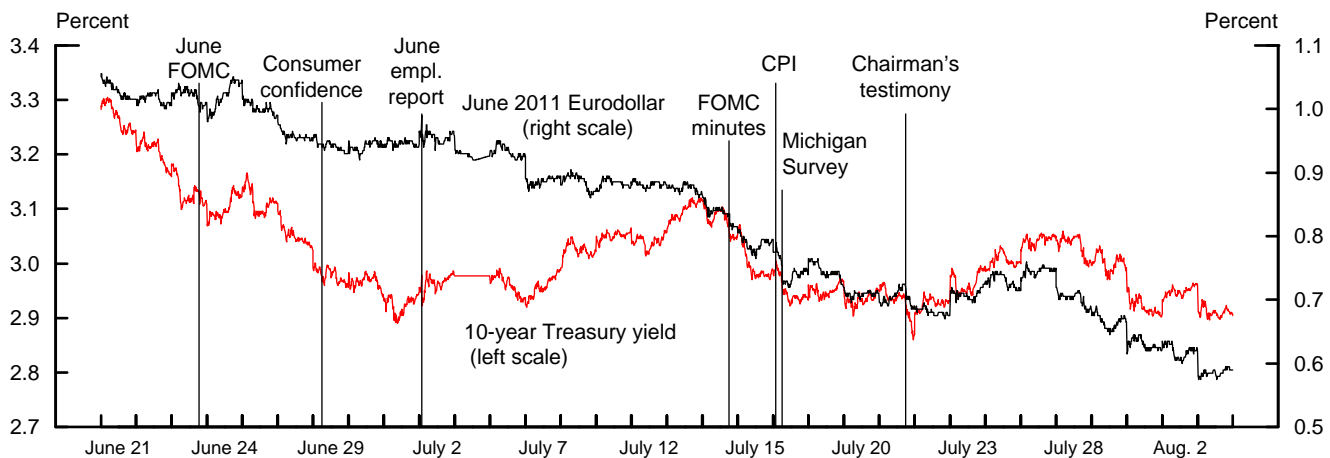
Source: Bloomberg and CME Group.

Implied Expectation of Quarter of First Rate Increase from the Desk's Dealer Survey



*For the last FOMC, the probability reported in the 2012:Q2 bin corresponds to the probability that the first policy rate hike will occur in 2012:Q2 or later.

Interest Rates



Note: 5-minute intervals. 8:00 a.m. to 4:00 p.m. No adjustments for term premiums.

Source: Bloomberg.

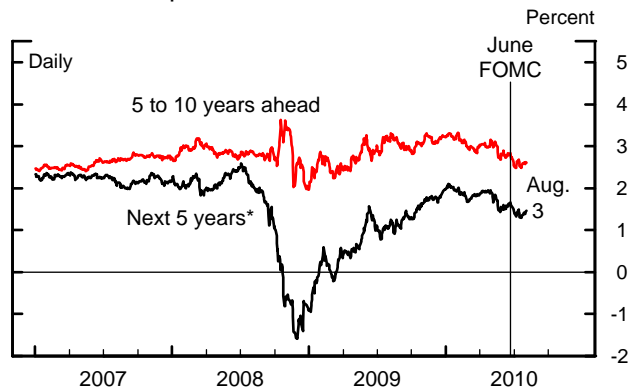
10-Year Treasury Implied Volatility



Note: 10-year Treasury note implied volatility derived from options on futures contracts.

Source: Bloomberg.

Inflation Compensation



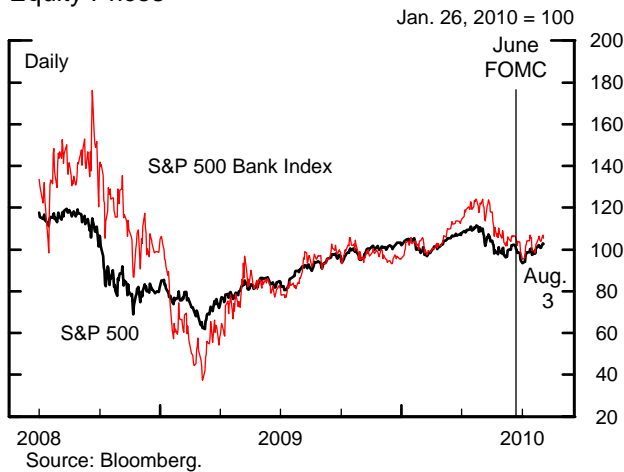
Note: Estimates based on smoothed nominal and inflation-indexed Treasury yield curves.

*Adjusted for the indexation-lag (carry) effect.

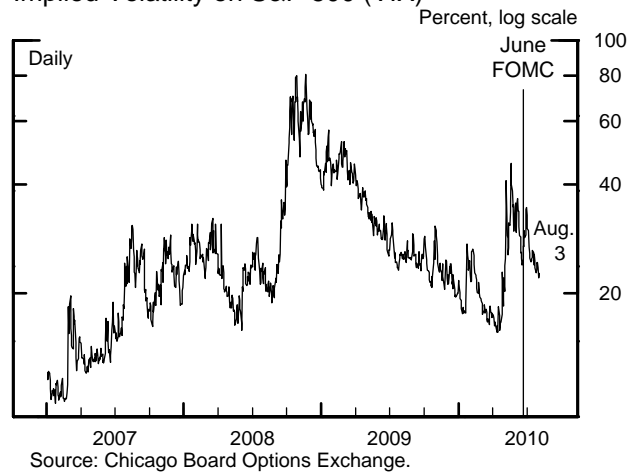
Source: Barclays PLC and staff estimates.

Asset Market Developments

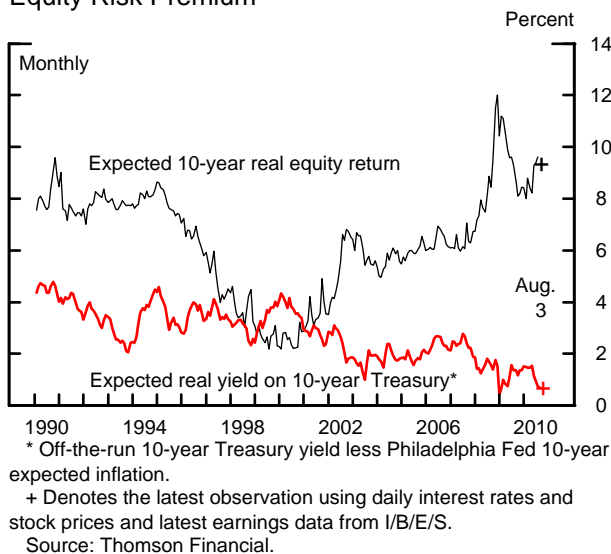
Equity Prices



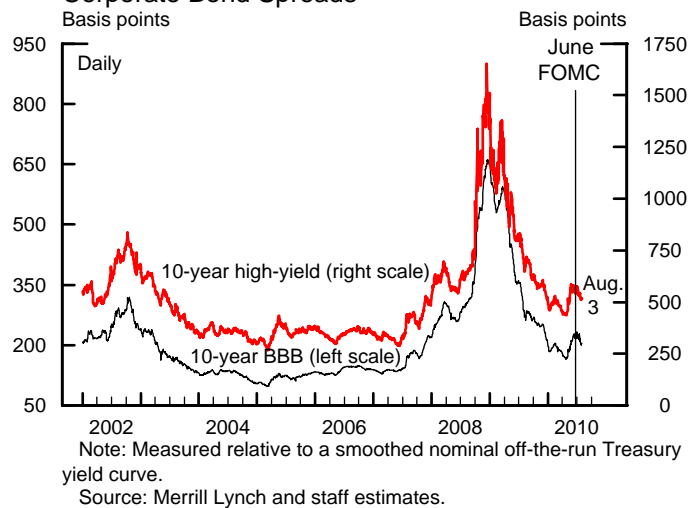
Implied Volatility on S&P 500 (VIX)



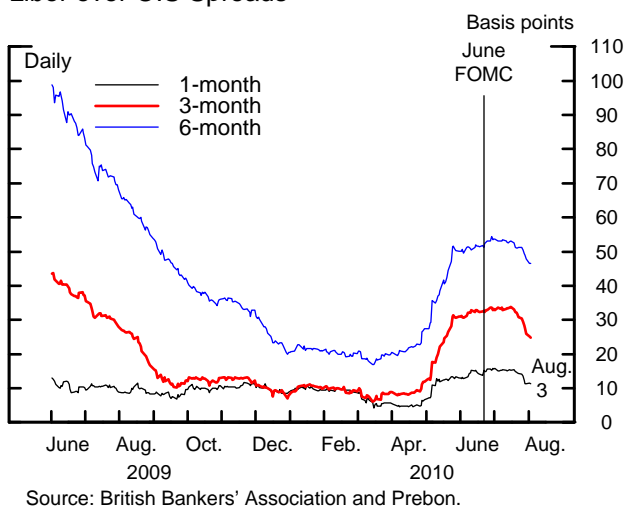
Equity Risk Premium



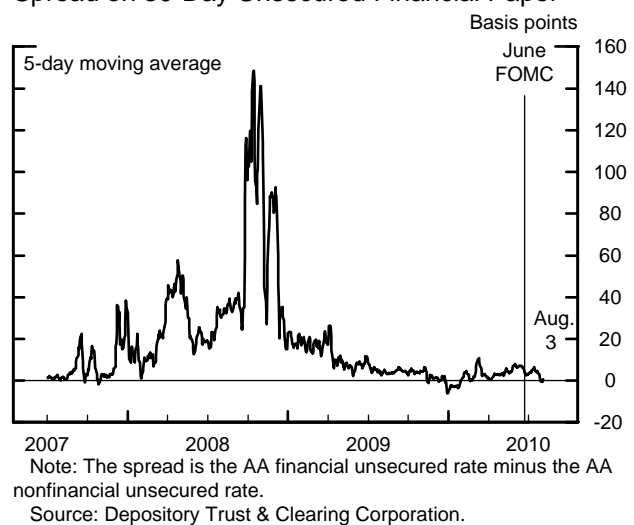
Corporate Bond Spreads



Libor over OIS Spreads

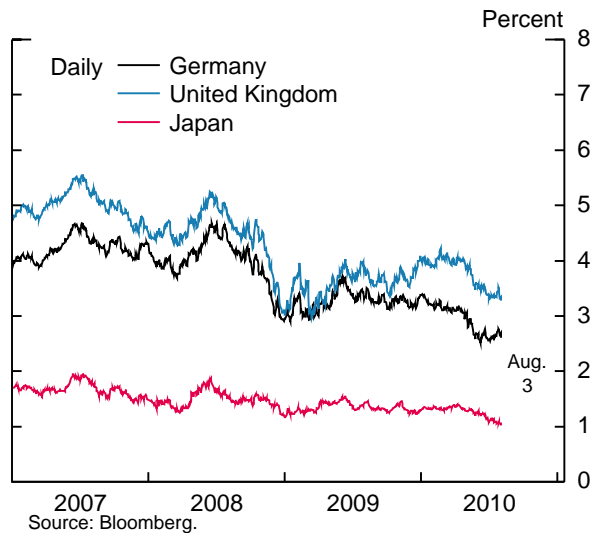


Spread on 30-Day Unsecured Financial Paper

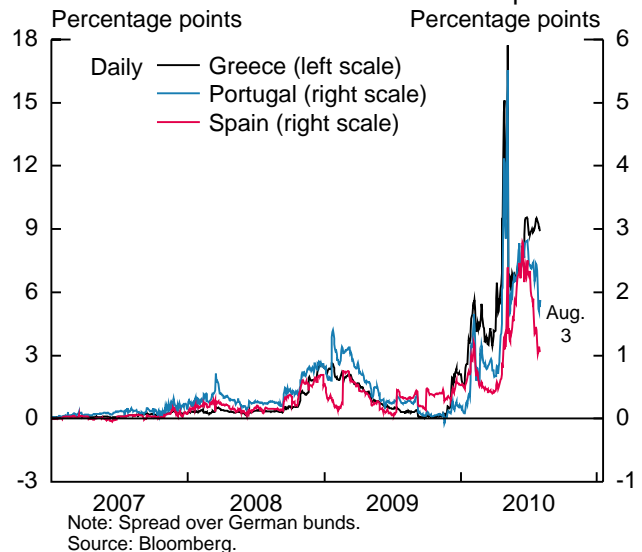


Foreign Developments

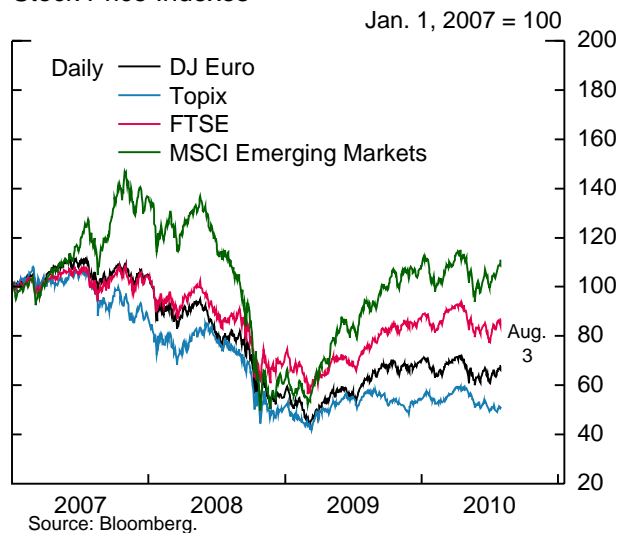
Nominal 10-Year Government Bond Yields



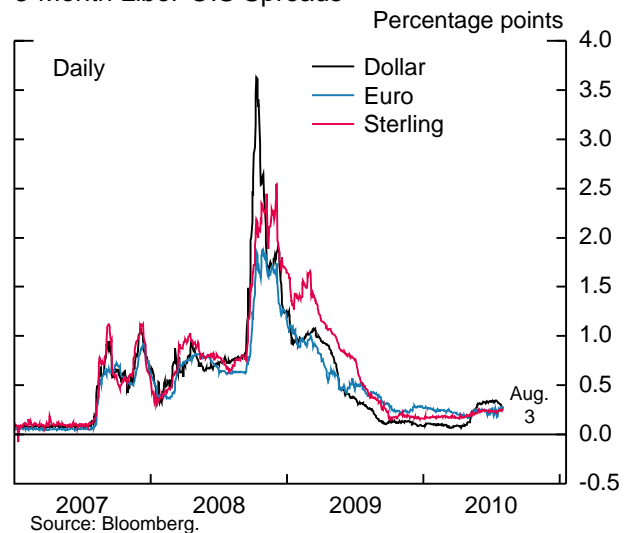
Euro-Area 2-Year Government Bond Spreads



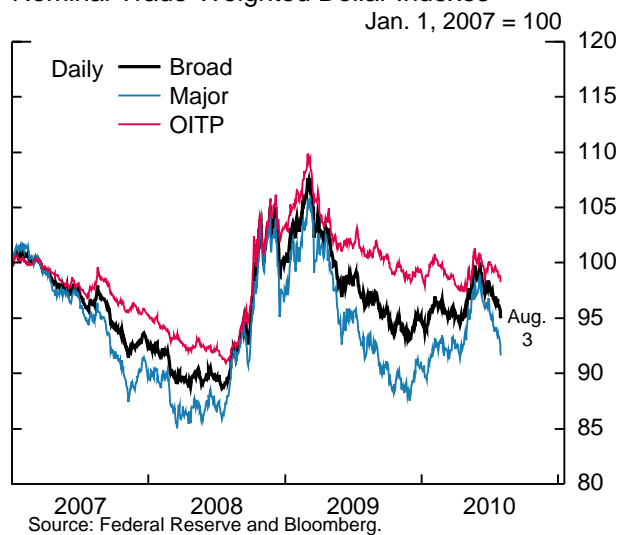
Stock Price Indexes



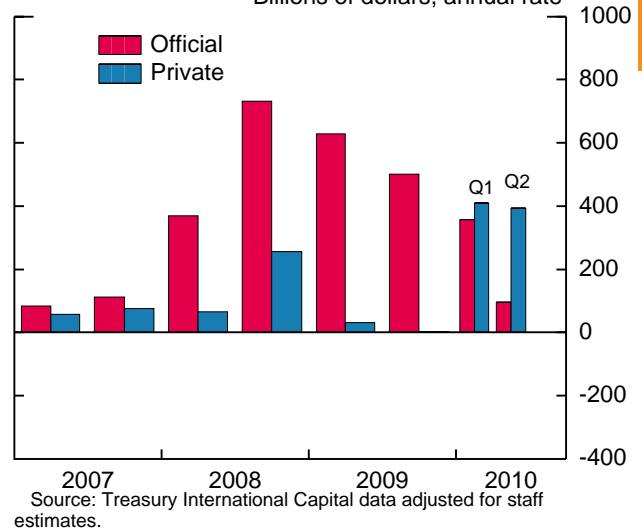
3-Month Libor-OIS Spreads



Nominal Trade-Weighted Dollar Indexes



Foreign Net Purchases of U.S. Treasury Securities



How Many Borrowers Have an Incentive to Refinance and Are Likely Able to Do So?

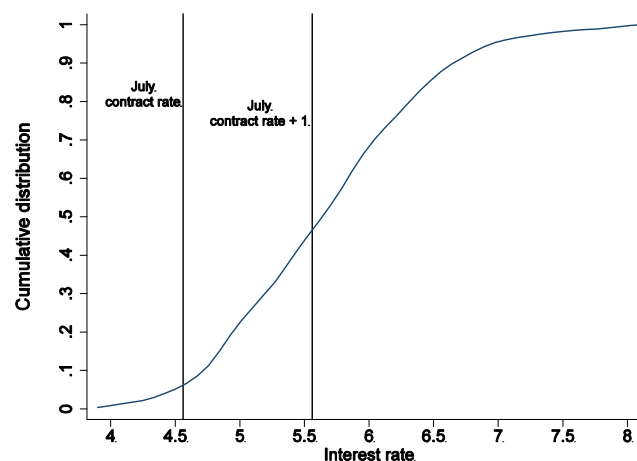
The historically low level of mortgage rates has created a substantial incentive for many borrowers to refinance their mortgages. Indeed, the index of refinancing applications rose more than 40 percent in June and remained at that elevated level in July. Refinancing can lower borrowers' mortgage payments and reduce debt service burdens, thereby improving their financial positions. This box explores the incentives to refinance and discusses some potential constraints on refinancing activity.

To measure the financial incentive to refinance, we consider the difference between the interest rate on loans currently outstanding and the contract rate on new conforming 30-year fixed-rate mortgages. The figure below plots the cumulative distribution of interest rates on outstanding prime, fixed-rate loans in May 2010 (the latest month for which the data are available).¹ Almost 90 percent of outstanding mortgages had an interest rate that was above the average contract rate that prevailed in July on new conforming 30-year fixed-rate loans. More than 50 percent of borrowers had a large

incentive to refinance in the sense that their loan carried an interest rate more than 1 percentage point greater than the July contract rate. A back-of-the-envelope calculation suggests that refinancing would reduce the monthly payment of these borrowers by an average of \$180. In addition, about one-fourth of loans had an interest rate between $\frac{1}{2}$ and 1 percentage point more than the July contract rate, giving those borrowers a moderate incentive to refinance. We estimate the average monthly savings for these borrowers to be about \$100.

Despite the potential interest savings, tight credit conditions may prevent many borrowers from refinancing for at least two reasons. First, following several years of steep house price declines, many borrowers currently have less than 20 percent equity in their homes, making it difficult to refinance given that most private lenders require a loan-to-value (LTV) ratio below 80 percent. Accordingly, we assume that any mortgage with an LTV ratio greater than 80 percent will not be refinanced, unless the borrower is eligible for the Home Affordable

¹ Prime, fixed-rate loans constituted the bulk of outstanding first-lien mortgages—78 percent in May 2010. We exclude subprime and adjustable-rate mortgages because the incentive to refinance is less sensitive to the current rate available on new fixed-rate mortgages.



Refinance Plan (HARP).² Under this program, borrowers with an LTV of up to 125 percent may be able to refinance if their existing loan is guaranteed by Fannie Mae or Freddie Mac and if they are not delinquent on the loan. As shown in the table, only 35 percent of loans in May 2010 had both a large incentive to refinance and a qualifying LTV (through either a private channel or HARP).

Second, borrowers may be unable to refinance because their credit is impaired. To adjust our estimates for this constraint, we exclude loans that were delinquent at any point in the previous year. Combining the LTV/HARP and credit-quality criteria, we estimate that only 32 percent of all prime, fixed-rate loans—or 60 percent of the loans with a large incentive to refinance—had a large incentive to refinance and appear likely to be eligible to do so. These same criteria suggest that an additional 15 percent of borrowers had a moderate incentive to refinance and would likely be eligible.

Of course, if the contract rate on new mortgages were to fall appreciably further, borrowers'

incentive to refinance would increase. As shown in the last row of the first column of the table, the potential step-up in refinancing activity under such conditions could be considerable because a substantial fraction of borrowers fall into this category and have suitable LTV ratios and credit histories.

The staff forecast for refinancing activity is substantially lower than would be implied by the calculations presented in this discussion, owing to large transactions costs and other barriers to refinancing.³ For example, take-up rates under HARP are much lower than we initially projected. Moreover, because the refinancing process now takes more time and mortgage originators continue to be capacity constrained, we expect some refinancing activity to be delayed. Consequently, conditional on our expectation that mortgage rates remain low, the current refinancing wave could be drawn out through the end of the year.

² Requiring an LTV of 80 percent might be too strict because some borrowers might be able to refinance through the FHA, which allows higher LTVs, and other borrowers might be able to bring cash to the settlement. However, our measure of LTV does not include second liens, so we are underestimating the total debt on the property in many cases.

³ Not only does refinancing entail monetary and time costs, but some evidence points to other, possibly nonrational, barriers. For example, about 5 percent of borrowers in the 1980s were extremely unlikely to prepay their mortgage, regardless of the apparent financial incentive (See Yongheng Deng, John M. Quigley, and Robert Van Order (2000), "Mortgage Terminations, Heterogeneity and the Exercise of Mortgage Options," *Econometrica*, vol. 68, pp. 275–307).

Distribution of Prime, Fixed-Rate Loans in May 2010

Gap = Current Rate – July 2010 Contract Rate (4.56 percent)

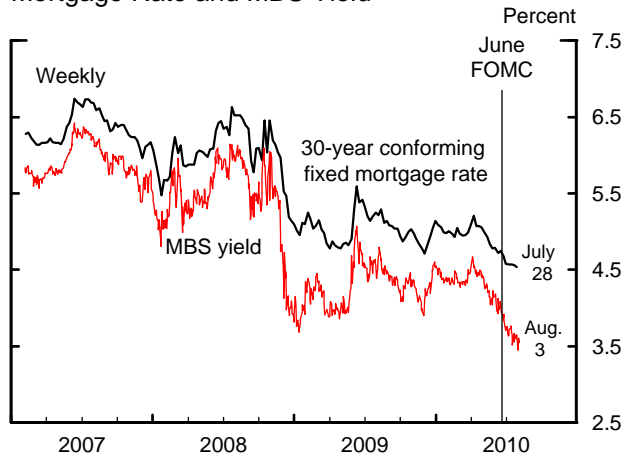
	Gap<0.5	0.5<Gap<1	1<Gap
Incentive to refinance	Small	Moderate	Large
Percent of loans	25	21	54
Percent of loans with:			
(a) LTV≤80 or HARP-eligible	18	15	35
(b) Both (a) and good credit	17	15	32

Note: Weighted by current loan balance. Prime, fixed-rate loans constitute 78 percent of all outstanding first liens. LTV does not include second liens. Good credit is defined as not having been delinquent on the mortgage in the past 12 months.

Source: Lender Processing Services.

Household Finance

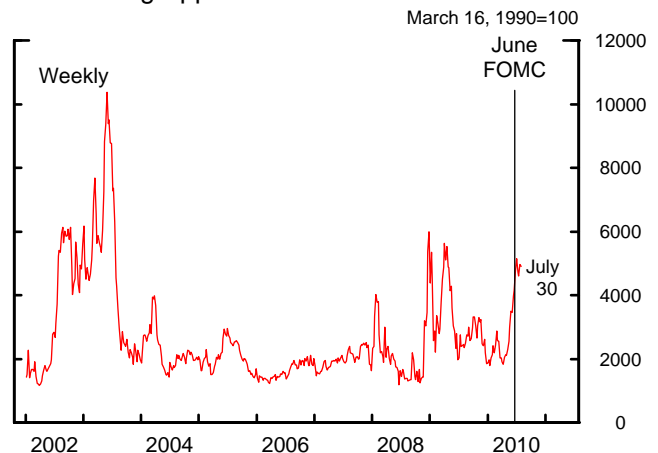
Mortgage Rate and MBS Yield



Note: For MBS yield, Fannie Mae 30-year current coupon rate.

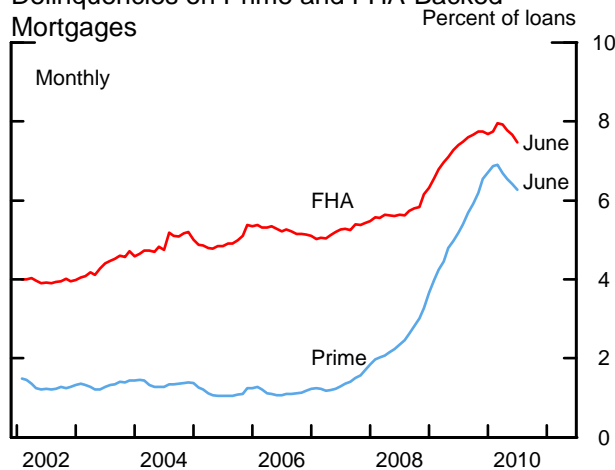
Source: For mortgage rate, Freddie Mac; for MBS yield, Bloomberg.

Refinancing Applications



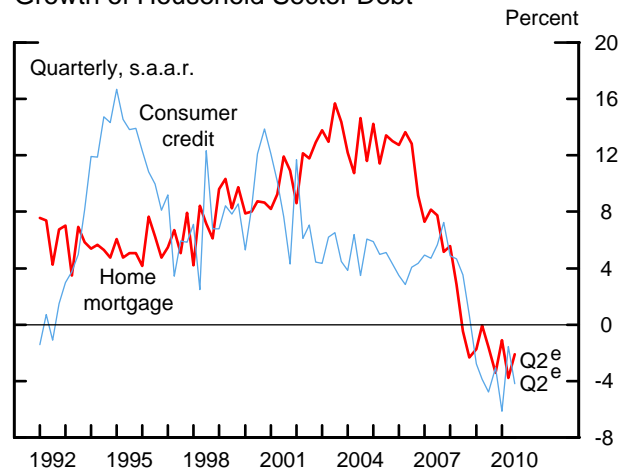
Note: Seasonally adjusted by FRB staff.
Source: Mortgage Bankers Association.

Delinquencies on Prime and FHA-Backed Mortgages



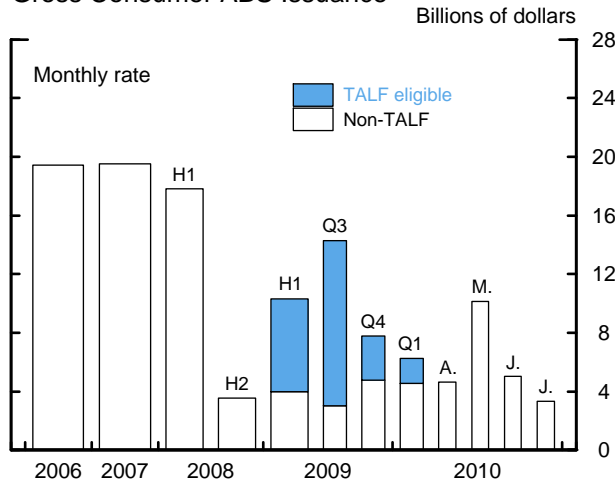
Note: Percent of loans 90 or more days past due or in foreclosure. Prime includes near-prime mortgages.
Source: McDash.

Growth of Household Sector Debt



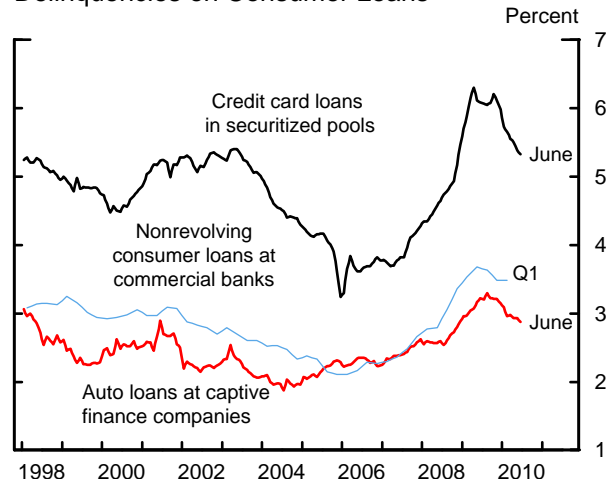
e Estimate.
Source: Federal Reserve.

Gross Consumer ABS Issuance



Note: Credit card, auto, and student loan ABS.
Source: Inside MBS & ABS; Merrill Lynch; Bloomberg; Federal Reserve Board.

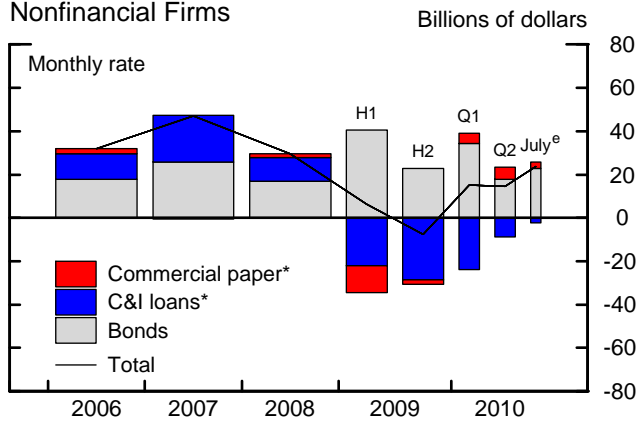
Delinquencies on Consumer Loans



Source: For credit cards, Moody's Investors Service; for nonrevolving consumer loans, Call Report; for auto loans, Federal Reserve Board.

Business Finance

Selected Components of Net Debt Financing,
Nonfinancial Firms

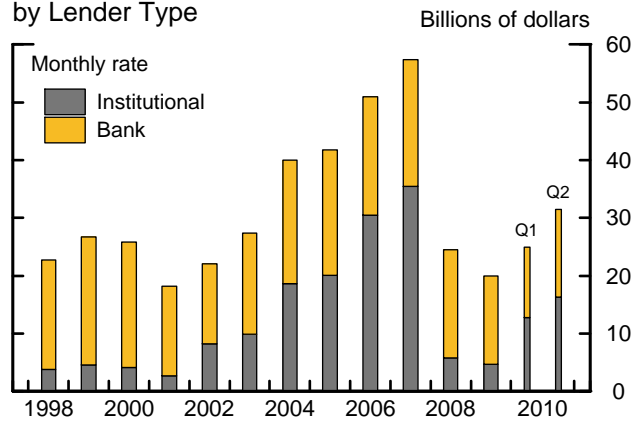


* Seasonally adjusted, period-end basis.

^e Estimate.

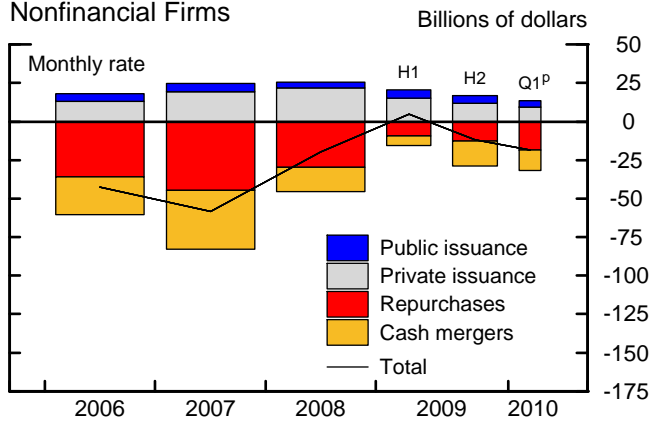
Source: Depository Trust & Clearing Corporation; Thomson Financial; Federal Reserve Board.

Syndicated Leveraged Loan Issuance,
by Lender Type



Source: Thomson Reuters LPC.

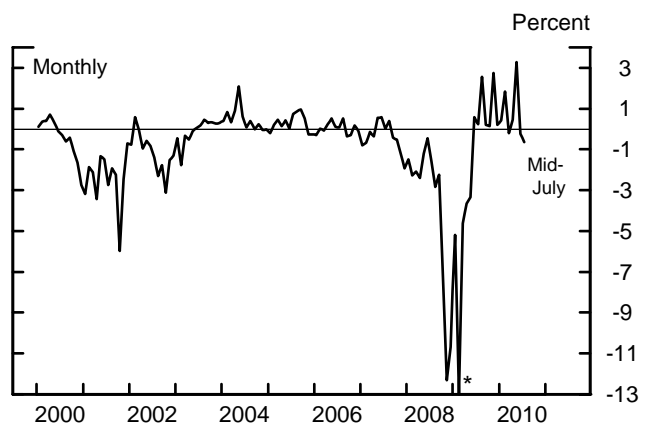
Selected Components of Net Equity Issuance,
Nonfinancial Firms



^p Preliminary.

Source: Thomson Financial, Investment Benchmark Report; Money Tree Report by PricewaterhouseCoopers, National Venture Capital Association, and Venture Economics.

Revisions to Expected S&P 500 Earnings

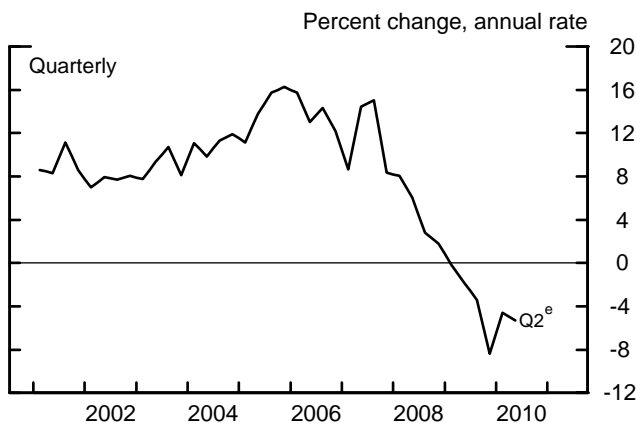


Note: Index is a weighted average of the percent change in the consensus forecasts of current-year and following-year earnings per share for a fixed sample.

* Revision in Feb. 2009 was -17.2%.

Source: Thomson Financial.

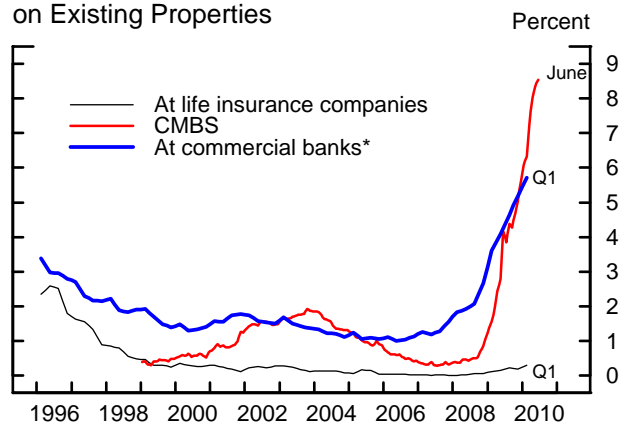
Commercial Mortgage Debt



^e Estimate.

Source: Federal Reserve.

Delinquency Rates on Commercial Mortgages
on Existing Properties



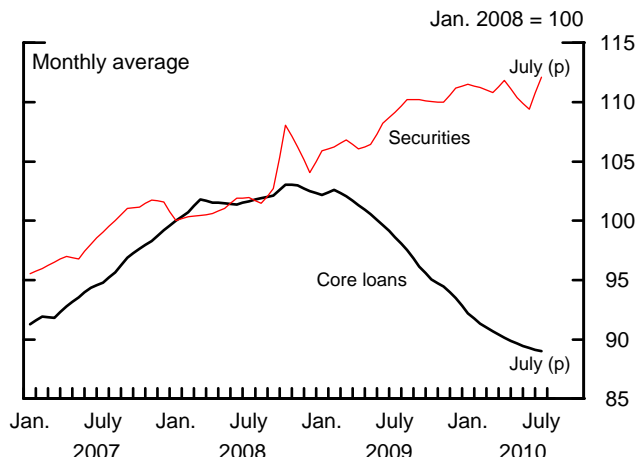
Note: CMBS are commercial mortgage-backed securities.

* Excluding farmland.

Source: Citigroup; Call Report data; ACLI.

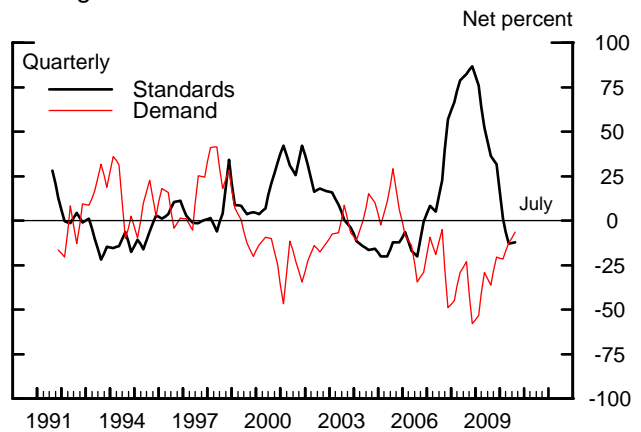
Commercial Banking and Money

Bank Credit



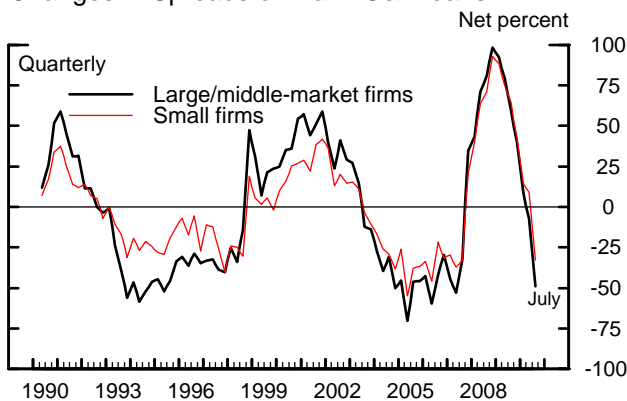
Note: The data have been adjusted to remove the effects of consolidations of assets under FAS 166 and FAS 167. Core loans consist of commercial and industrial, real estate, and consumer loans.
p Preliminary.
Source: Federal Reserve.

Changes in Standards and Demand for Bank Loans



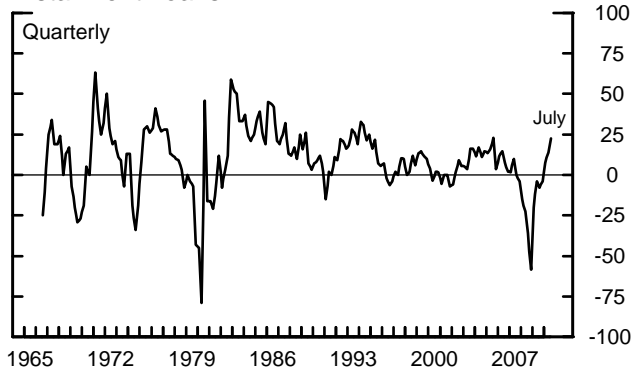
Note: A composite index of changes in standards or loan demand that represents the net percentage of loans on respondents' balance sheets that were in categories for which banks reported tighter lending standards or stronger loan demand over the past 3 months.
Source: Senior Loan Officer Opinion Survey on Bank Lending Practices.

Changes in Spreads on Bank C&I Loans



Note: Net percent of respondents that widened spreads over the past 3 months.
Source: Senior Loan Officer Opinion Survey on Bank Lending Practices.

Changes in Banks' Willingness to Make Consumer Installment Loans



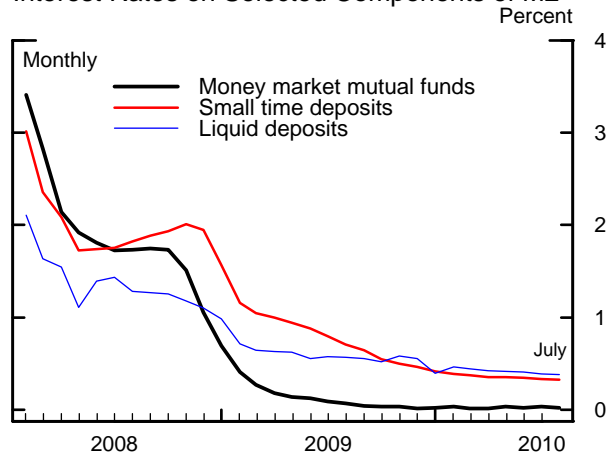
Source: Senior Loan Officer Opinion Survey on Bank Lending Practices.

Growth of M2 and Its Components

Percent, s.a.a.r.	M2	Liquid deposits	Small time deposits	RMMF	Curr.
2008	8.6	6.9	12.3	13.6	5.8
2009					
H1	7.6	16.4	-6.1	-15.4	10.8
H2	2.4	16.5	-26.4	-31.0	2.9
2010					
Q1	0.0	9.2	-25.0	-27.1	2.1
Q2	2.0	8.4	-18.6	-20.2	6.4
July (e)	-0.8	2.7	-16.6	-11.5	4.5

Note: RMMF are retail money market mutual funds.
e Estimate.
Source: Federal Reserve.

Interest Rates on Selected Components of M2



Source: Federal Reserve; Call Report; Bank Rate Monitor.

Federal Reserve Balance Sheet
Billions of dollars

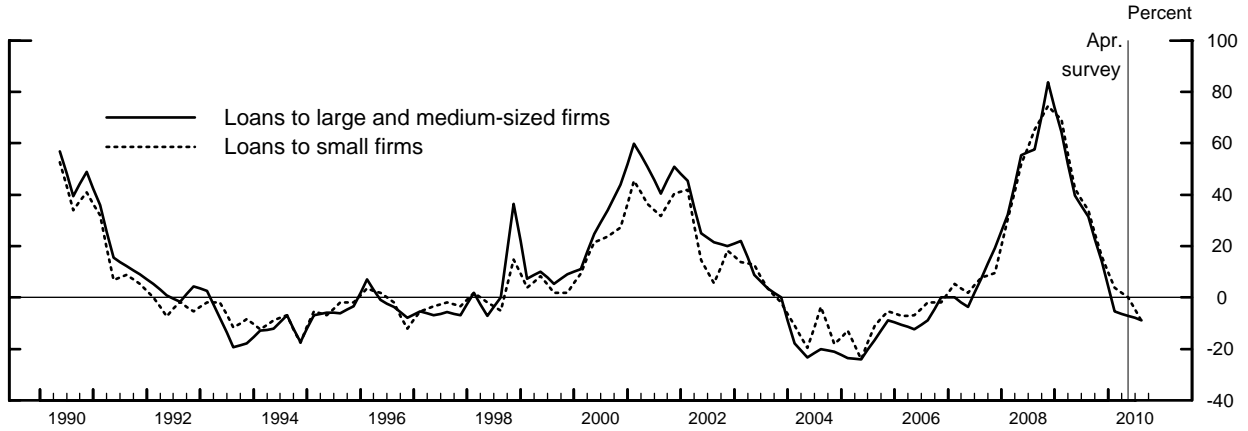
	Change since last FOMC	Current (08/02/10)	Maximum level	Date of maximum level
Total assets	-18	2,329	2,364	05/13/10
Selected assets:				
Liquidity programs for financial firms	-0	1	1,176	11/06/08
Primary, secondary, and seasonal credit	-0	+0	114	10/28/08
Term auction credit (TAF)	0	0	493	03/11/09
Foreign central bank liquidity swaps	+0	1	586	12/04/08
Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF)	0	0	152	10/01/08
Lending through other credit facilities	-3	40	351	01/23/09
Net portfolio holdings of Commercial Paper Funding Facility LLC (CPFF)	+0	+0	351	01/23/09
Term Asset-Backed Securities Loan Facility (TALF)	-3	40	49	03/11/10
Support for specific institutions	1	118	121	05/05/10
Credit extended to AIG, net	-2	24	91	10/27/08
Preferred interests in AIA Aurora LLC and ALICO Holdings LLC	+0	26	26	08/02/10
Net portfolio holdings of Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC	2	69	75	12/30/08
Securities held outright*	-17	2,054	2,073	06/14/10
U.S. Treasury securities	+0	777	791	08/14/07
Agency debt securities	-6	159	169	03/11/10
Agency mortgage-backed securities	-11	1,118	1,129	06/14/10
Memo: Term securities lending facility (TSLF)	0	0	236	10/01/08
Total liabilities	-20	2,270	2,309	05/13/10
Selected liabilities:				
Federal Reserve notes in circulation	5	904	908	07/07/10
Reserve balances of depository institutions	-41	1,013	1,249	02/24/10
Term deposits held by depository institutions	1	2	4	07/28/10
U.S. Treasury, general account	15	68	187	12/31/09
U.S. Treasury, supplementary financing account	-0	200	559	10/22/08
Other deposits	-2	+0	81	03/12/10
Total capital	2	59	59	08/02/10

+0 (-0) denotes positive (negative) value rounded to zero

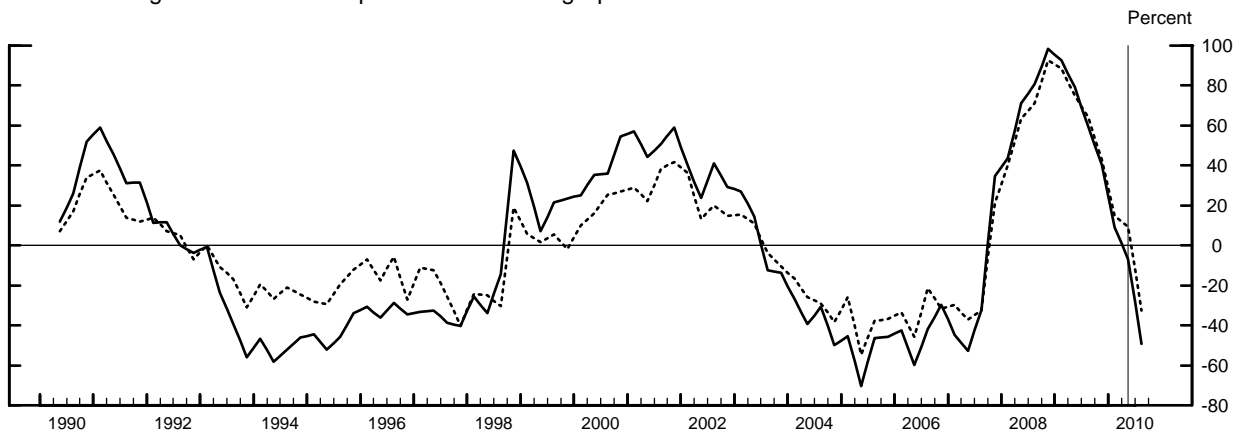
* Par value.

Measures of Supply and Demand for Commercial and Industrial Loans, by Size of Firm Seeking Loan

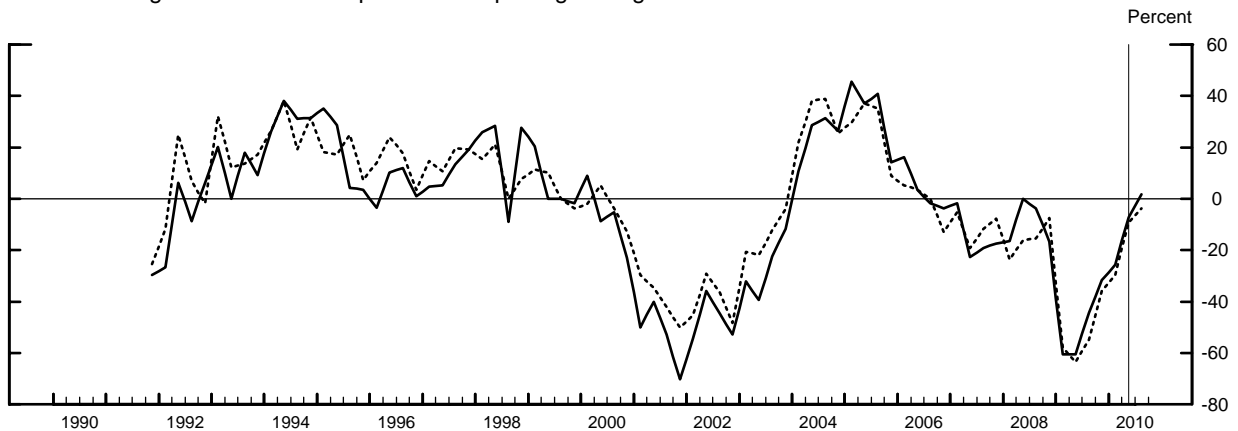
Net Percentage of Domestic Respondents Tightening Standards for Commercial and Industrial Loans



Net Percentage of Domestic Respondents Increasing Spreads of Loan Rates over Banks' Costs of Funds

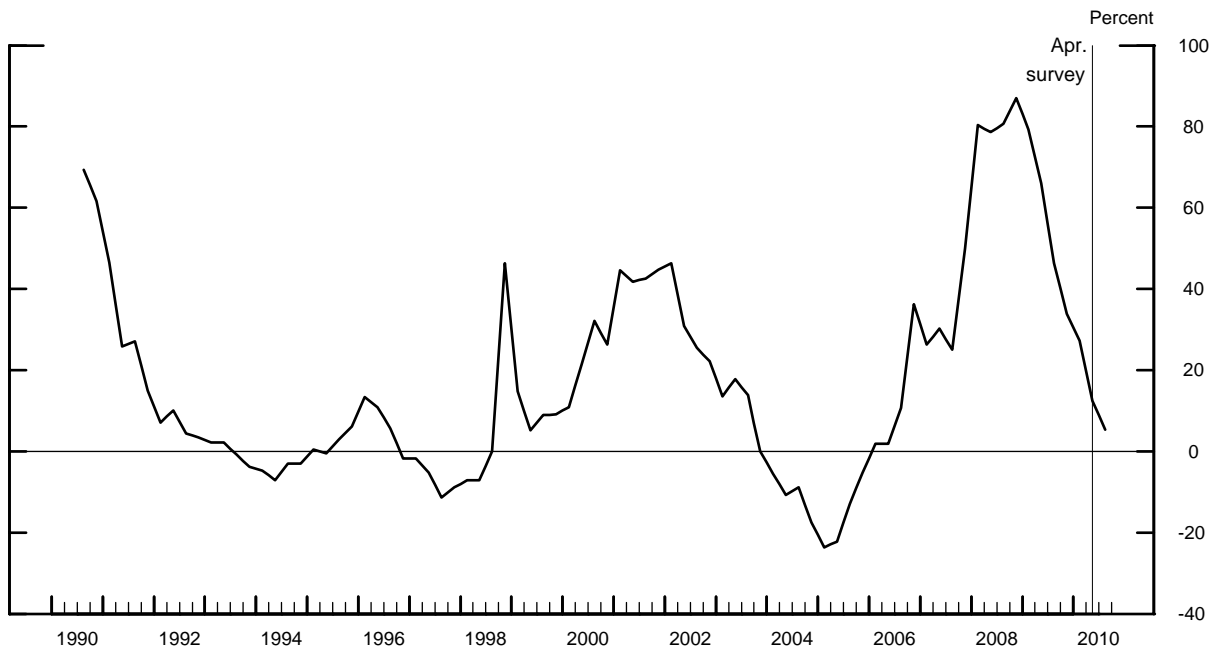


Net Percentage of Domestic Respondents Reporting Stronger Demand for Commercial and Industrial Loans

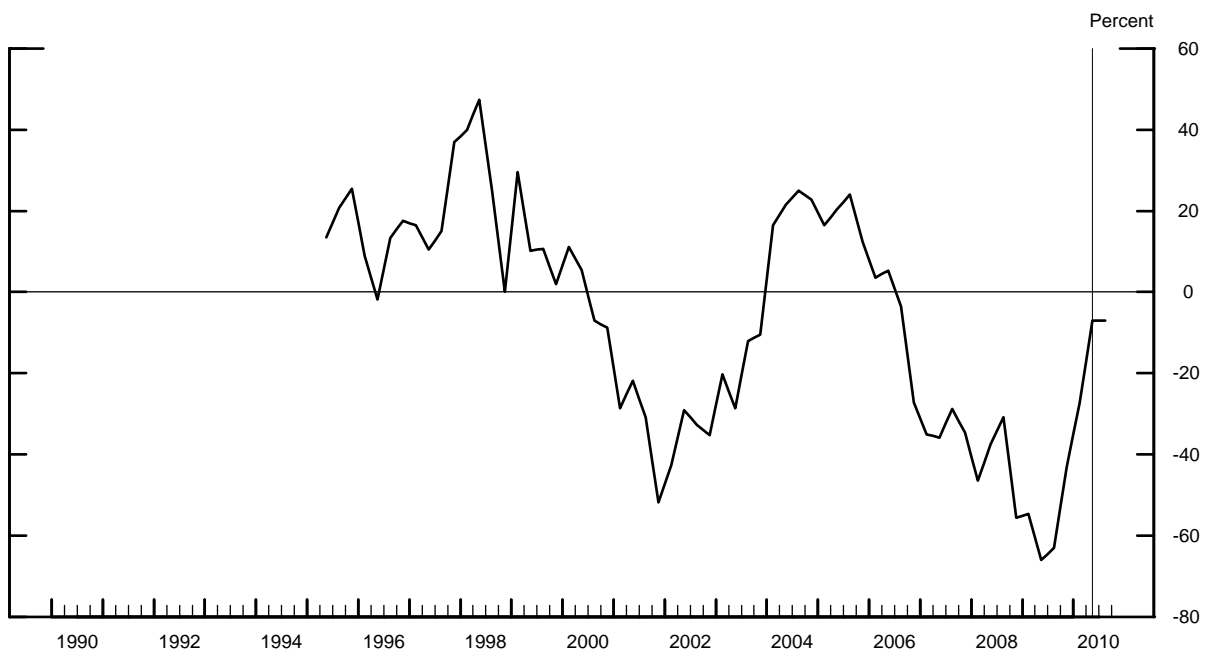


Measures of Supply and Demand for Commercial Real Estate Loans

Net Percentage of Domestic Respondents Tightening Standards for Commercial Real Estate Loans

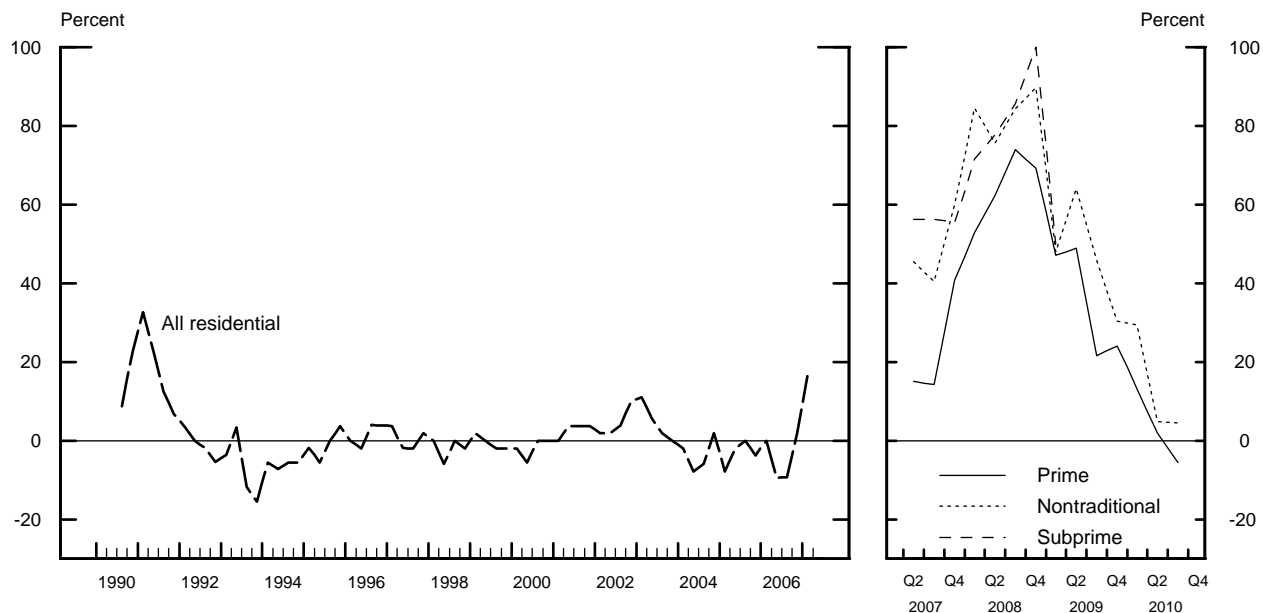


Net Percentage of Domestic Respondents Reporting Stronger Demand for Commercial Real Estate Loans



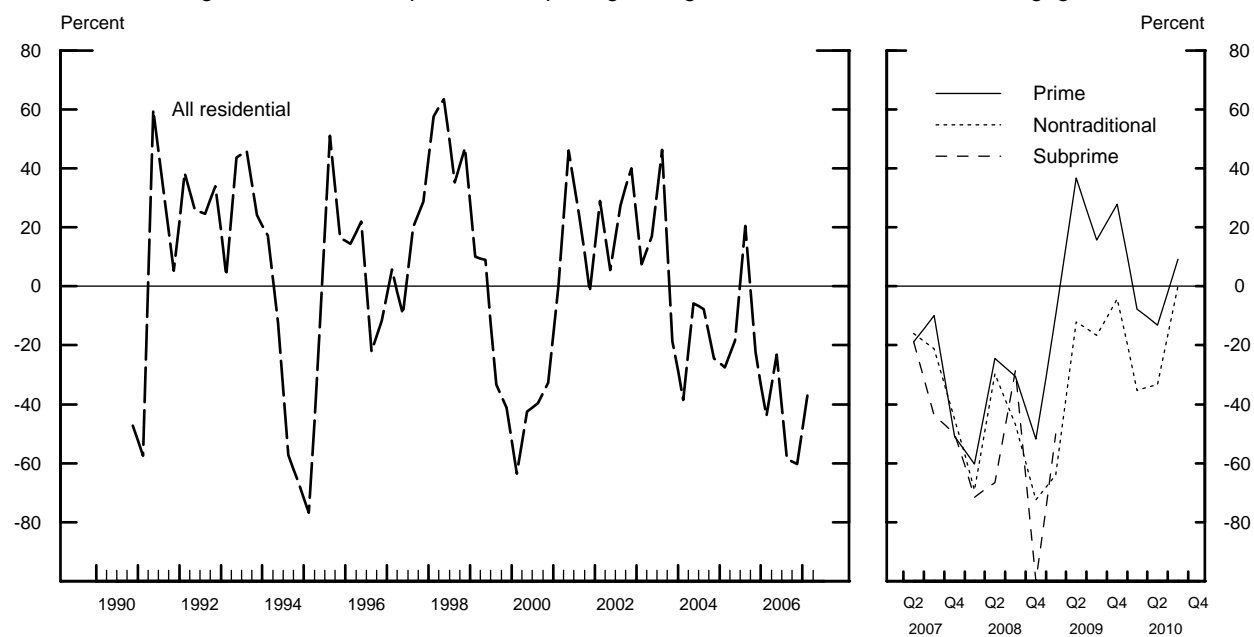
Measures of Supply and Demand for Residential Mortgage Loans

Net Percentage of Domestic Respondents Tightening Standards for Residential Mortgage Loans



Note: For data starting in 2007:Q2, changes in standards for prime, nontraditional, and subprime mortgage loans are reported separately. Series are not reported when the number of respondents is 3 or fewer.

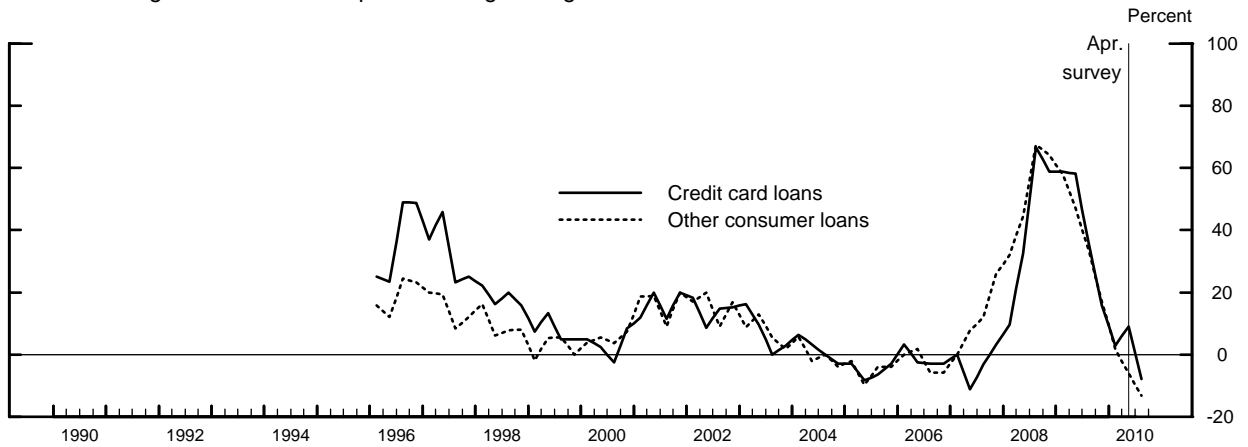
Net Percentage of Domestic Respondents Reporting Stronger Demand for Residential Mortgage Loans



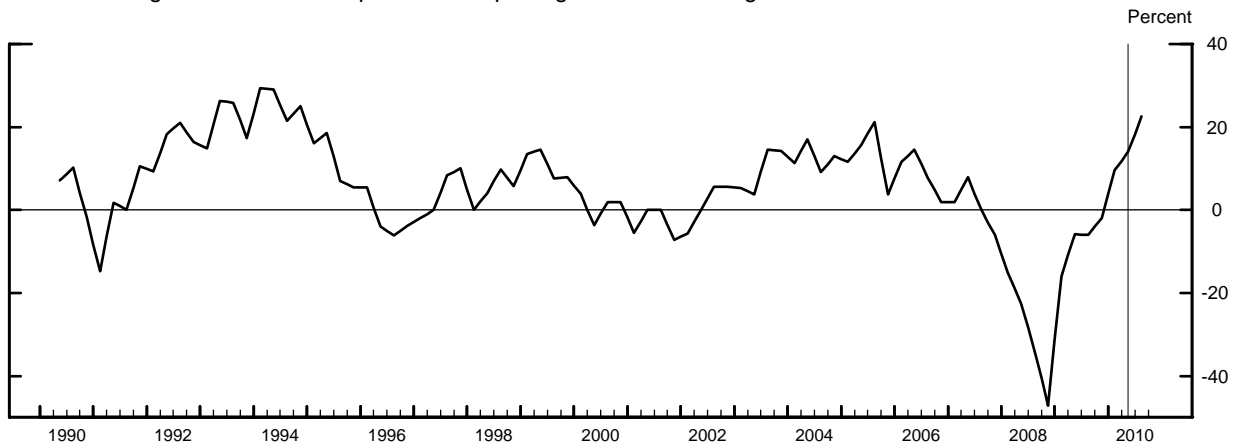
Note: For data starting in 2007:Q2, changes in demand for prime, nontraditional, and subprime mortgage loans are reported separately. Series are not reported when the number of respondents is 3 or fewer.

Measures of Supply and Demand for Consumer Loans

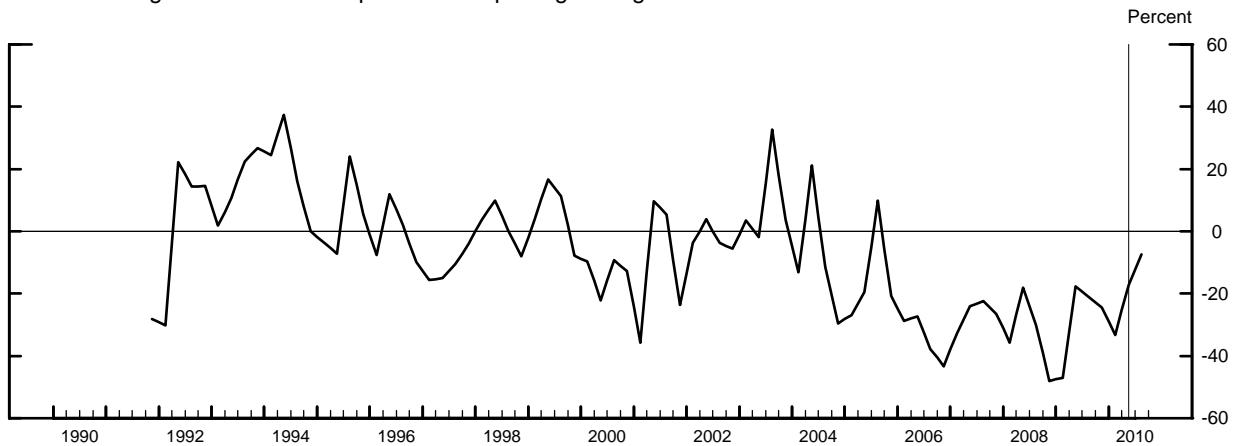
Net Percentage of Domestic Respondents Tightening Standards for Consumer Loans



Net Percentage of Domestic Respondents Reporting Increased Willingness to Make Consumer Installment Loans



Net Percentage of Domestic Respondents Reporting Stronger Demand for Consumer Loans



Alternative Scenarios

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

Measure and scenario	2010		2011	2012	2013-14
	H1	H2			
<i>Real GDP</i>					
Extended Tealbook baseline	2.9	2.5	3.6	4.8	4.8
Weaker recovery	2.9	1.6	2.3	4.6	5.2
Lower potential	2.9	2.1	2.8	3.3	3.6
Virtuous circle	2.9	3.0	5.0	5.6	4.9
Higher inflation	2.9	2.5	3.5	4.5	4.4
Greater disinflation	2.9	2.5	3.6	4.8	5.4
Double-dip recession in Europe	2.9	2.3	3.1	4.7	5.0
Dollar depreciation	2.9	2.7	4.3	4.9	4.5
<i>Unemployment rate¹</i>					
Extended Tealbook baseline	9.7	9.7	8.9	7.6	5.3
Weaker recovery	9.7	9.8	9.5	8.2	5.5
Lower potential	9.7	9.8	9.4	8.8	7.4
Virtuous circle	9.7	9.6	8.4	6.8	4.6
Higher inflation	9.7	9.7	8.9	7.7	5.7
Greater disinflation	9.7	9.7	8.9	7.6	4.8
Double-dip recession in Europe	9.7	9.7	9.0	7.8	5.5
Dollar depreciation	9.7	9.7	8.6	7.2	5.0
<i>Core PCE inflation</i>					
Extended Tealbook baseline	1.2	.9	.9	1.0	1.3
Weaker recovery	1.2	.9	.9	.9	1.2
Lower potential	1.2	1.1	1.4	1.5	1.8
Virtuous circle	1.2	.9	1.0	1.1	1.4
Higher inflation	1.2	1.2	1.6	1.8	2.0
Greater disinflation	1.2	.8	.4	.0	.0
Double-dip recession in Europe	1.2	.8	.7	.9	1.3
Dollar depreciation	1.2	1.1	1.3	1.1	1.3
<i>Federal funds rate¹</i>					
Extended Tealbook baseline	.2	.1	.1	.4	3.3
Weaker recovery	.2	.1	.1	.1	2.9
Lower potential	.2	.1	1.1	1.9	3.9
Virtuous circle	.2	.1	.1	1.4	4.3
Higher inflation	.2	.1	.3	1.5	3.8
Greater disinflation	.2	.1	.1	.1	1.8
Double-dip recession in Europe	.2	.1	.1	.2	3.1
Dollar depreciation	.2	.1	.1	.6	3.6

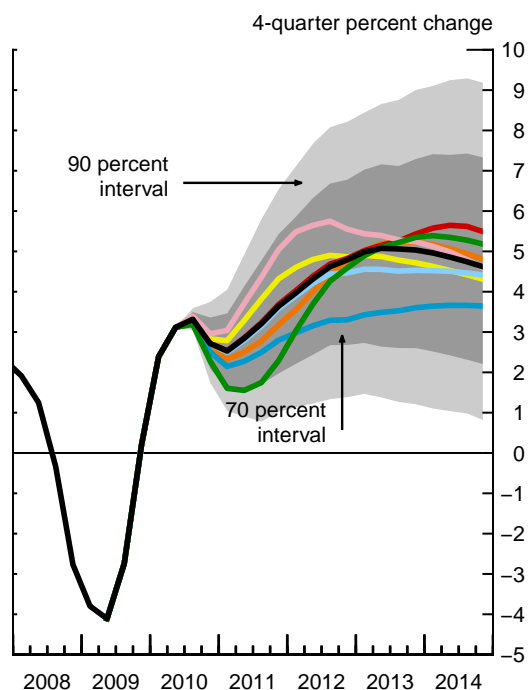
1. Percent, average for the final quarter of the period.

Forecast Confidence Intervals and Alternative Scenarios

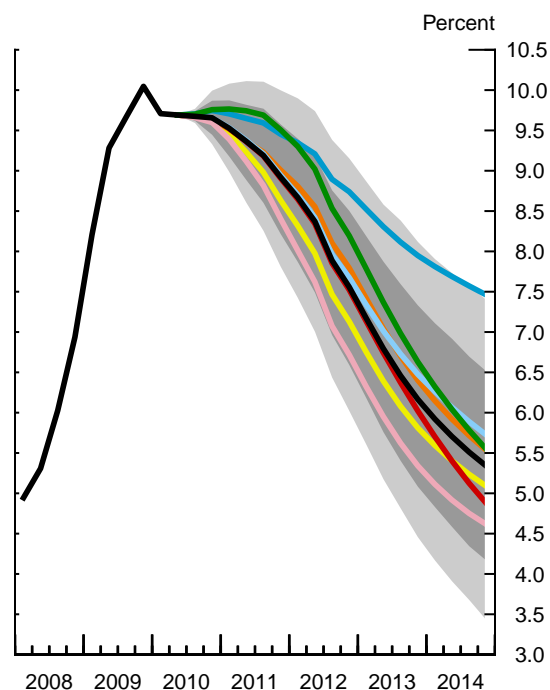
Confidence Intervals Based on FRB/US Stochastic Simulations

- | | | |
|------------------------------|------------------------|----------------------------------|
| ■ Extended Tealbook baseline | ■ Virtuous circle | ■ Double-dip recession in Europe |
| ■ Weaker recovery | ■ Higher inflation | ■ Dollar depreciation |
| ■ Lower potential | ■ Greater disinflation | |

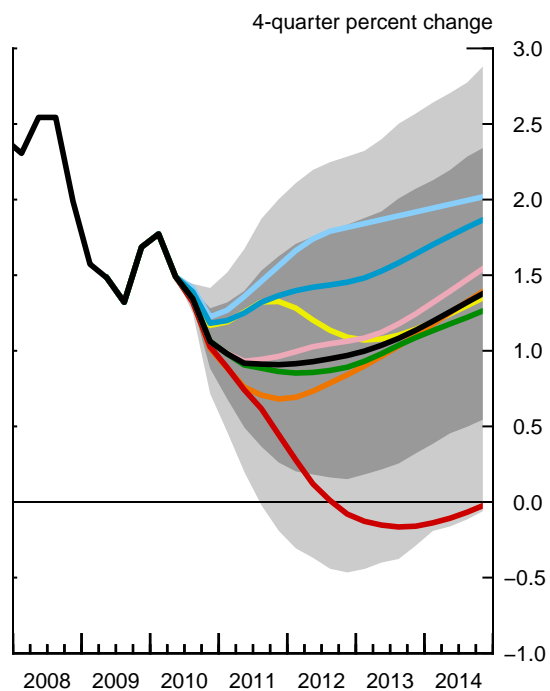
Real GDP



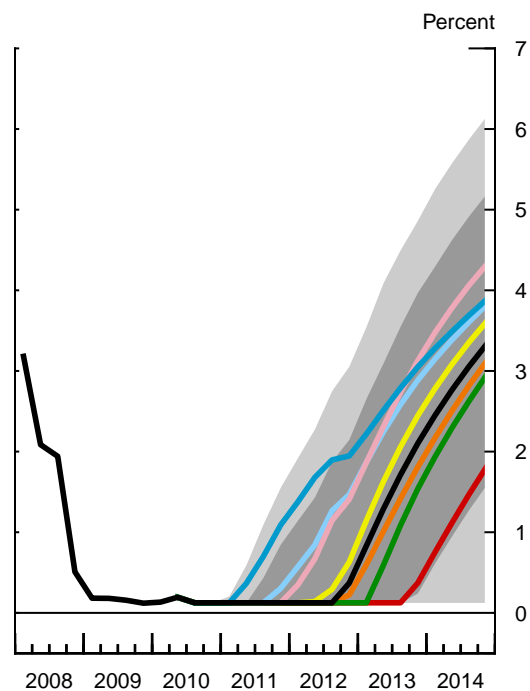
Unemployment Rate



PCE Prices excluding Food and Energy



Federal Funds Rate



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

Measure	2010	2011	2012	2013	2014
<i>Real GDP</i> (percent change, Q4 to Q4)					
Projection	2.7	3.6	4.8	5.0	4.6
Confidence interval					
Tealbook forecast errors	1.9–3.6	1.8–5.5	2.9–6.7
FRB/US stochastic simulations	2.1–3.4	2.0–5.4	2.7–6.8	2.6–7.3	2.2–7.3
<i>Civilian unemployment rate</i> (percent, Q4)					
Projection	9.7	8.9	7.6	6.2	5.3
Confidence interval					
Tealbook forecast errors	9.3–10.0	8.1–9.7	6.4–8.8
FRB/US stochastic simulations	9.4–9.9	8.2–9.6	6.6–8.5	5.1–7.3	4.2–6.5
<i>PCE prices, total</i> (percent change, Q4 to Q4)					
Projection	1.3	1.1	1.0	1.2	1.4
Confidence interval					
Tealbook forecast errors	.8–1.7	-.1–2.2	-.3–2.3
FRB/US stochastic simulations	1.0–1.6	.1–2.1	.0–2.1	.1–2.4	.3–2.7
<i>PCE prices excluding food and energy</i> (percent change, Q4 to Q4)					
Projection	1.1	.9	1.0	1.1	1.4
Confidence interval					
Tealbook forecast errors	.7–1.4	.2–1.6	.0–2.0
FRB/US stochastic simulations	.9–1.3	.3–1.6	.2–1.8	.3–2.1	.5–2.3
<i>Federal funds rate</i> (percent, Q4)					
Projection	.1	.1	.4	2.1	3.3
Confidence interval					
FRB/US stochastic simulations	.1–.1	.1–.8	.1–2.1	.2–4.0	1.6–5.2

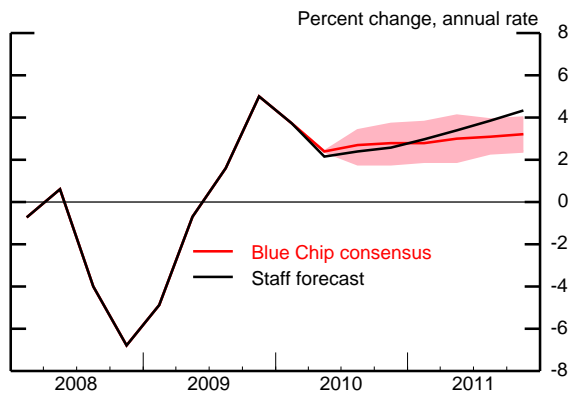
Note: Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1969–2009 set of model equation residuals.

Intervals derived from Tealbook forecast errors are based on projections made from 1979–2009, except for PCE prices excluding food and energy, where the sample is 1981–2009.

... Not applicable. The Tealbook forecast horizon has typically extended about 2 years.

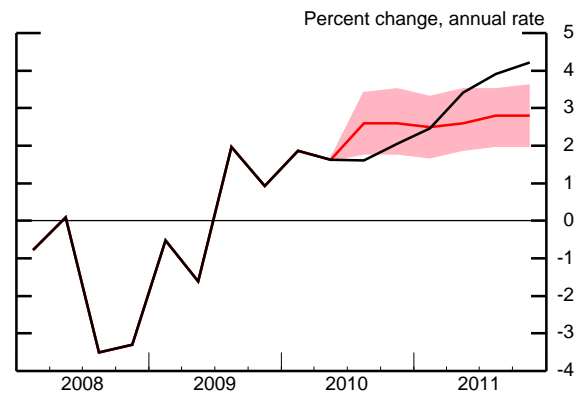
Tealbook Forecast Compared with Blue Chip (Blue Chip survey released July 10, 2010)

Real GDP

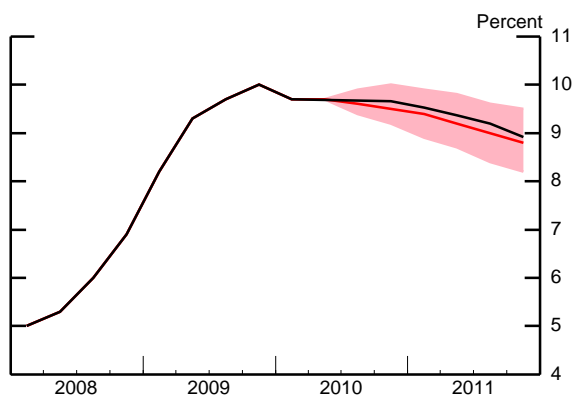


Note: The shaded area represents the area between the Blue Chip top ten and bottom ten averages.

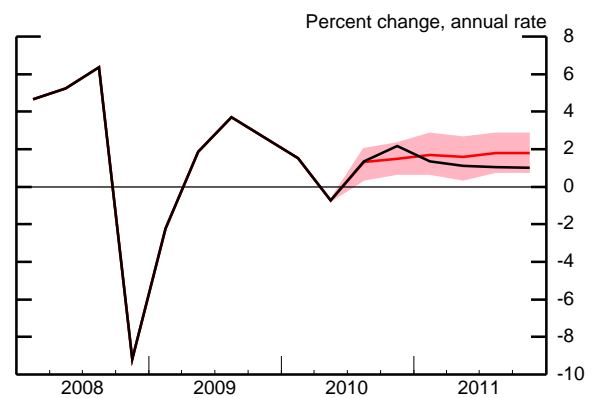
Real PCE



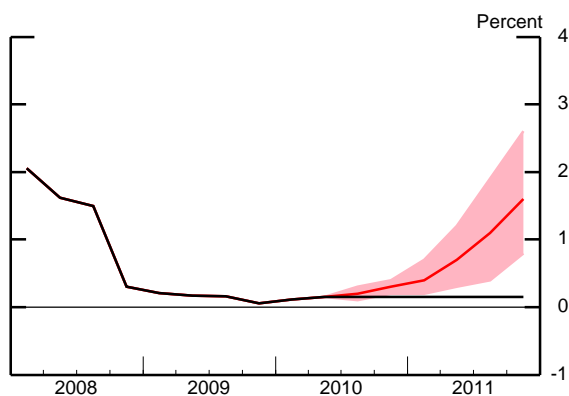
Unemployment Rate



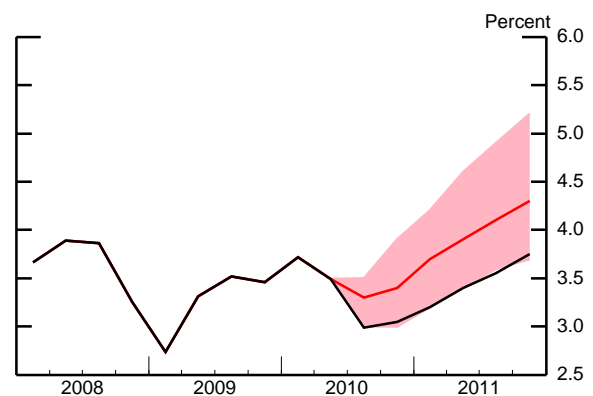
Consumer Price Index



Treasury Bill Rate



10-Year Treasury Yield



Note: The yield is for on-the-run Treasury securities. Over the forecast period, the staff's projected yield is assumed to be 15 basis points below the off-the-run yield.

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	
	06/16/10	08/04/10	06/16/10	08/04/10	06/16/10	08/04/10	06/16/10	08/04/10	06/16/10	08/04/10
<i>Quarterly</i>										
2009:Q1	-4.6	-3.9	-6.4	-4.9	-1.5	-1.6	1.1	.9	8.2	8.2
2009:Q2	-8	-4	-7	-7	1.4	1.9	2.0	2.3	9.3	9.3
2009:Q3	2.6	2.3	2.2	1.6	2.2	2.9	1.2	1.5	9.7	9.7
2009:Q4	6.1	4.7	5.6	5.0	2.5	2.7	1.8	2.1	10.0	10.0
2010:Q1	4.2	4.8	3.1	3.7	1.5	2.1	.6	1.2	9.7	9.7
2010:Q2	4.8	4.0	3.6	2.1	-2	.1	.9	1.1	9.8	9.7
2010:Q3	3.4	3.8	2.7	2.4	.9	1.1	.8	.9	9.7	9.7
2010:Q4	4.3	3.4	3.2	2.6	1.5	1.8	.8	.9	9.5	9.7
2011:Q1	4.2	4.1	3.3	3.0	1.1	1.2	.8	.9	9.3	9.5
2011:Q2	4.3	4.4	3.5	3.4	1.0	1.0	.8	.9	9.1	9.4
2011:Q3	4.6	4.8	3.8	3.9	1.0	1.0	.8	.9	8.9	9.2
2011:Q4	4.8	5.3	4.1	4.3	.9	1.0	.8	.9	8.6	8.9
<i>Two-quarter²</i>										
2009:Q2	-2.7	-2.2	-3.6	-2.8	-1	.1	1.6	1.6	2.4	2.4
2009:Q4	4.3	3.5	3.9	3.3	2.5	2.8	1.5	1.8	.7	.7
2010:Q2	4.5	4.4	3.4	2.9	.7	1.1	.8	1.2	-2	-3
2010:Q4	3.8	3.6	3.0	2.5	1.2	1.5	.8	.9	-3	.0
2011:Q2	4.3	4.2	3.4	3.2	1.1	1.1	.8	.9	-4	-3
2011:Q4	4.7	5.1	3.9	4.1	.9	1.0	.8	.9	-5	-5
<i>Four-quarter³</i>										
2008:Q4	.1	-.7	-1.9	-2.8	1.7	1.7	2.0	2.0	2.1	2.1
2009:Q4	.7	.6	.1	.2	1.2	1.5	1.5	1.7	3.1	3.1
2010:Q4	4.2	4.0	3.2	2.7	.9	1.3	.8	1.1	-5	-3
2011:Q4	4.5	4.7	3.7	3.6	1.0	1.1	.8	.9	-9	-8
<i>Annual</i>										
2008	2.6	2.2	.4	.0	3.3	3.3	2.4	2.3	5.8	5.8
2009	-1.3	-1.7	-2.4	-2.6	.2	.2	1.5	1.5	9.3	9.3
2010	4.1	3.8	3.3	2.9	1.4	1.8	1.1	1.4	9.7	9.7
2011	4.3	4.1	3.4	3.1	1.0	1.2	.8	.9	9.0	9.3

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)

Class II FOMC - Restricted (FR)

August 4, 2010

Item	2009				2010				2011				2009 ¹	2010 ¹	2011 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous Tealbook</i>	-4.9 -6.4	-7 -7	1.6 2.2	5.0 5.6	3.7 3.1	2.1 3.6	2.4 2.7	2.6 3.2	3.0 3.3	3.4 3.5	3.9 3.8	4.3 4.1	.2 .1	2.7 3.2	3.6 3.7
Final sales <i>Previous Tealbook</i>	-3.9 -4.1	.2 .7	.4 1.5	2.1 1.7	1.1 1.2	1.6 3.9	1.6 2.2	3.2 3.0	3.0 3.1	3.7 3.4	3.9 3.3	4.8 3.7	-.3 -.1	1.9 2.6	3.8 3.4
Priv. dom. final purch. <i>Previous Tealbook</i>	-7.1 -7.2	-2.9 -2.7	1.8 2.2	.6 2.1	2.1 3.0	4.3 4.5	1.5 2.5	2.9 3.4	3.4 3.8	4.5 4.1	4.9 4.2	5.3 4.2	-2.0 -1.5	2.7 3.3	4.5 4.1
Personal cons. expend. <i>Previous Tealbook</i>	-.5 .6	-1.6 -.9	2.0 2.8	.9 1.6	1.9 3.4	1.6 2.9	1.6 2.2	2.0 2.3	2.5 2.9	3.4 3.1	3.9 3.2	4.2 3.3	.2 1.0	1.8 2.7	3.5 3.1
Durables	4.8	-3.1	20.1	-1.1	8.8	7.5	6.8	5.6	7.0	8.8	9.8	12.9	4.8	7.2	9.6
Nondurables	.4	-.7	1.7	3.1	4.2	1.6	.7	2.0	3.1	3.2	3.0	3.0	1.1	2.1	3.1
Services	-1.6	-1.7	-.5	.5	.1	.8	1.1	1.5	1.6	2.7	3.3	3.3	-.8 .9	.9	2.7
Residential investment <i>Previous Tealbook</i>	-36.2 -38.2	-19.7 -23.3	10.6 18.9	-.8 3.8	-12.3 -10.6	28.5 18.7	-8.6 -5.5	8.3 16.4	15.6 15.9	19.3 17.3	19.6 17.3	21.5 17.8	-13.4 -12.5	2.8 3.9	19.0 17.1
Business fixed invest. <i>Previous Tealbook</i>	-35.2 -39.2	-7.5 -9.6	-1.7 -5.9	-1.4 5.3	7.8 3.7	19.8 13.5	3.0 6.5	7.8 8.5	7.2 7.6	8.8 8.0	8.5 7.9	9.0 7.3	-12.7 -14.1	9.4 8.0	8.4 7.7
Equipment & software <i>Previous Tealbook</i>	-31.6 -36.4	.2 -4.9	4.2 1.5	14.6 19.0	20.4 13.5	26.1 20.3	3.9 10.4	10.5 12.2	10.1 10.7	12.2 11.3	11.8 11.1	12.5 10.1	-4.9 -7.5	14.9 14.0	11.6 10.8
Nonres. structures <i>Previous Tealbook</i>	-41.0 -43.6	-20.2 -17.3	-12.4 -18.4	-29.2 -18.0	-17.8 -15.2	4.8 -.8	.6 -2.2	.7 -2	-.2 -.1	-.3 -2	-.6 -.3	-.8 -2	-26.5 -25.3	-3.3 -4.8	-.5 -.2
Net exports ² <i>Previous Tealbook</i> ²	-389 -386	-342 -330	-391 -357	-330 -348	-338 -374	-426 -380	-422 -390	-395 -387	-390 -393	-394 -399	-400 -409	-391 -407	-363 -356	-395 -383	-394 -402
Exports	-27.8	-1.0	12.2	24.4	11.4	10.3	11.9	8.7	8.3	8.1	8.2	8.1	-.1	10.6	8.2
Imports	-35.3	-10.6	21.9	4.9	11.2	28.8	8.6	1.7	5.8	7.3	7.9	4.9	-7.2	12.1	6.5
Gov't cons. & invest. <i>Previous Tealbook</i>	-3.0 -2.6	6.1 6.7	1.6 2.6	-1.4 -1.3	-1.6 -1.9	4.5 2.4	1.4 2.1	.0 .6	.3 .7	.4 .9	.5 .9	.5 .9	.8 1.3	1.1 .8	.4 .9
Federal	-5.0	14.9	5.7	.0	1.8	9.2	4.3	.5	.9	1.0	1.1	.9	3.6	3.9	1.0
Defense	-8.4	16.8	9.0	-2.5	.4	7.4	6.5	.8	.0	.0	.2	-.1	3.3	3.7	.0
Nondefense	2.6	10.9	-.9	5.6	5.0	13.0	-.3	-2	3.0	3.1	3.1	3.2	4.5	4.2	3.1
State & local	-1.7	1.0	-1.0	-2.3	-3.8	1.4	-.5	-.2	-.2	.0	.1	.2	-1.0	-.8	.0
Change in bus. inventories ² <i>Previous Tealbook</i> ²	-126 -114	-162 -160	-128 -139	-37 -20	44 41	61 31	87 48	68 54	69 61	62 65	59 81	46 94	-113 -108	65 43	59 75
Nonfarm ²	-129	-169	-128	-43	37	51	82	63	65	58	56	42	-117	58	55
Farm ²	2	6	-1	6	8	10	6	6	4	4	4	4	3	7	4

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

2. Billions of chained (2005) dollars.

Changes in Real Gross Domestic Product and Related Items
(Change from fourth quarter of previous year to fourth quarter of year indicated, unless otherwise noted)

Item	2003	2004	2005	2006	2007	2008	2009	2010	2011
Real GDP									
<i>Previous Tealbook</i>	3.8	3.1	2.7	2.4	2.3	-2.8	.2	2.7	3.6
	3.8	3.1	2.7	2.4	2.5	-1.9	.1	3.2	3.7
Final sales									
<i>Previous Tealbook</i>	3.8	2.8	2.7	2.8	2.5	-1.9	-.3	1.9	3.8
Priv. dom. final purch.	3.8	2.8	2.7	2.8	2.7	-1.4	-.1	2.6	3.4
<i>Previous Tealbook</i>	4.2	4.2	3.1	2.5	1.3	-3.8	-2.0	2.7	4.5
	4.2	4.2	3.1	2.5	1.4	-3.2	-1.5	3.3	4.1
Personal cons. expend.									
<i>Previous Tealbook</i>	3.4	3.5	2.7	3.3	1.7	-1.9	.2	1.8	3.5
	3.4	3.5	2.7	3.3	2.0	-1.8	1.0	2.7	3.1
Durables									
<i>Previous Tealbook</i>	8.9	5.5	2.1	6.3	3.9	-12.3	4.8	7.2	9.6
Nondurables	3.9	3.0	3.3	3.2	.8	-2.9	1.1	2.1	3.1
Services	2.2	3.4	2.6	2.8	1.7	.3	-.8	.9	2.7
Residential investment									
<i>Previous Tealbook</i>	11.5	6.6	5.3	-15.7	-20.7	-24.6	-13.4	2.8	19.0
	11.5	6.6	5.3	-15.7	-20.5	-21.0	-12.5	3.9	17.1
Business fixed invest.									
<i>Previous Tealbook</i>	5.9	7.0	4.4	7.8	8.2	-8.3	-12.7	9.4	8.4
	5.9	7.0	4.4	7.8	7.9	-6.0	-14.1	8.0	7.7
Equipment & software									
<i>Previous Tealbook</i>	7.5	8.8	6.1	6.0	4.3	-11.8	-4.9	14.9	11.6
	7.5	8.8	6.1	6.0	3.2	-10.7	-7.5	14.0	10.8
Nonres. structures									
<i>Previous Tealbook</i>	1.3	1.7	-.1	13.0	17.3	-1.5	-26.5	-3.3	-.5
	1.3	1.7	-.1	13.0	18.9	3.2	-25.3	-4.8	-.2
Net exports¹									
<i>Previous Tealbook¹</i>	-604	-688	-723	-729	-655	-504	-363	-395	-394
	-604	-688	-723	-729	-648	-494	-356	-383	-402
Exports									
<i>Previous Tealbook</i>	6.2	7.1	6.7	10.2	10.1	-2.9	-.1	10.6	8.2
	5.1	10.9	5.2	4.1	.7	-6.0	-7.2	12.1	6.5
Imports									
<i>Previous Tealbook</i>	1.6	.6	.7	1.5	1.9	3.1	.8	1.1	.4
	1.6	.6	.7	1.5	2.5	3.0	1.3	.8	.9
Federal									
<i>Previous Tealbook</i>	5.7	2.3	1.2	2.2	3.1	9.2	3.6	3.9	1.0
	8.4	2.4	.4	4.4	2.6	9.5	3.3	3.7	.0
Defense									
<i>Previous Tealbook</i>	.7	2.3	2.6	-2.3	4.2	8.5	4.5	4.2	3.1
	-.5	-.4	.4	1.2	1.2	-.4	-1.0	-.8	.0
State & local									
<i>Previous Tealbook</i>	17	66	50	59	28	-38	-113	65	59
	17	66	50	59	19	-26	-108	43	75
Change in bus. inventories¹									
<i>Previous Tealbook¹</i>	17	58	50	63	29	-39	-117	58	55
	17	58	50	63	29	-39	-117	58	55
Nonfarm¹									
<i>Previous Tealbook¹</i>	0	8	0	-.4	-1	1	3	7	4
	0	8	0	-.4	-1	1	3	7	4

1. Billions of chained (2005) dollars.

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

Item	2009				2010				2011				2009 ¹	2010 ¹	2011 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous Tealbook</i>	-4.9	-7	1.6	5.0	3.7	2.1	2.4	2.6	3.0	3.4	3.9	4.3	.2	2.7	3.6
	-6.4	-7	2.2	5.6	3.1	3.6	2.7	3.2	3.3	3.5	3.8	4.1	.1	3.2	3.7
Final sales <i>Previous Tealbook</i>	-3.8	.3	.5	2.2	1.1	1.6	1.6	3.2	3.0	3.6	3.9	4.7	-.3	1.9	3.8
Priv. dom. final purch. <i>Previous Tealbook</i>	-4.1	.7	1.5	1.8	1.2	3.9	2.2	3.0	3.1	3.4	3.3	3.7	-.1	2.6	3.4
	-6.1	-2.4	1.5	.6	1.7	3.5	1.2	2.4	2.8	3.7	4.0	4.4	-1.6	2.2	3.7
	-6.1	-2.3	1.8	1.8	2.5	3.7	2.1	2.8	3.1	3.4	3.4	3.5	-1.3	2.8	3.4
Personal cons. expend. <i>Previous Tealbook</i>	-.3	-1.1	1.4	.7	1.3	1.2	1.1	1.4	1.7	2.4	2.8	3.0	.1	1.3	2.5
Durables	.4	-.6	2.0	1.2	2.4	2.0	1.6	1.6	2.1	2.2	2.2	2.3	.7	1.9	2.2
Nondurables	.1	-.1	1.4	-.1	.6	.5	.5	.4	.5	.6	.7	.9	.3	.5	.7
Services	-.8	-.8	-.2	.3	.7	.3	.1	.3	.5	.5	.5	.5	.2	.3	.5
					.0	.4	.5	.7	.7	1.3	1.6	1.6	-.4	.4	1.3
Residential investment <i>Previous Tealbook</i>	-1.2	-.5	.3	.0	-.3	.6	-.2	.2	.4	.4	.5	.5	-.4	.1	.5
	-1.3	-.7	.4	.1	-.3	.4	-.1	.4	.4	.4	.4	.5	-.4	.1	.4
Business fixed invest. <i>Previous Tealbook</i>	-4.5	-.7	-.1	-.1	.7	1.7	.3	.7	.7	.8	.8	.9	-1.4	.9	.8
Equipment & software <i>Previous Tealbook</i>	-5.3	-1.0	-.6	.5	.3	1.2	.6	.8	.7	.8	.8	.7	-1.6	.7	.7
	-2.5	.0	.3	.9	1.2	1.6	.3	.7	.7	.8	.8	.9	-.3	1.0	.8
	-3.0	-.3	.1	1.1	.8	1.2	.7	.8	.7	.8	.8	.7	-.5	.9	.7
Nonres. structures <i>Previous Tealbook</i>	-2.0	-.8	-.4	-1.0	-.5	.1	.0	.0	.0	.0	.0	.0	-1.1	-.1	.0
	-2.3	-.7	-.7	-.6	-.5	.0	-.1	.0	.0	.0	.0	.0	-1.1	-.1	.0
Net exports <i>Previous Tealbook</i>	2.9	1.5	-1.4	1.9	-.3	-2.9	.1	.8	.1	-.1	-.2	.2	1.2	-.5	.0
Exports	2.6	1.7	-.8	.3	-.9	-.2	-.3	.1	-.2	-.2	-.3	.1	1.0	-.3	-.2
Imports	-3.6	-.1	1.3	2.6	1.3	1.2	1.4	1.1	1.1	1.0	1.1	1.1	.0	1.3	1.1
	6.5	1.6	-2.7	-.7	-1.6	-4.1	-1.3	-.3	-.9	-1.2	-1.3	-.8	1.2	-1.8	-1.1
Gov't. cons. & invest. <i>Previous Tealbook</i>	-.6	1.2	.3	-.3	-.3	.9	.3	.0	.1	.1	.1	.1	.2	.2	.1
Federal	-.5	1.3	.6	-.3	-.4	.5	.4	.1	.2	.2	.2	.2	.3	.2	.2
Defense	-.4	1.1	.5	.0	.2	.7	.3	.0	.1	.1	.1	.1	.3	.3	.1
Nondefense	-.5	.9	.5	-.1	.0	.4	.4	.0	.0	.0	.0	.0	.2	.2	.0
State & local	.1	.3	.0	.1	.1	.3	.0	.0	.1	.1	.1	.1	.1	.1	.1
	-.2	.1	-.1	-.3	-.5	.2	-.1	.0	.0	.0	.0	.0	-.1	-.1	.0
Change in bus. inventories <i>Previous Tealbook</i>	-1.1	-1.0	1.1	2.8	2.6	.6	.8	-.6	.0	-.2	-.1	-.4	.5	.8	-.2
Nonfarm	-2.4	-1.4	.7	3.8	1.9	-.3	.6	.2	.2	.1	.5	.4	.1	.6	.3
Farm	-1.0	-1.2	1.3	2.6	2.6	.5	1.0	-.6	.1	-.2	-.1	-.4	.5	.8	-.2
	-.1	.1	-.2	-.2	.1	.1	-.2	.0	-.1	.0	.0	.0	.1	.0	.0

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

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

Item	2009				2010				2011				2009 ¹	2010 ¹	2011 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP chain-wt. price index <i>Previous Tealbook</i>	1.1 1.9	.3 .0	.7 .4	-2 .5	1.0 1.0	1.8 1.1	1.3 .6	.8 1.0	1.1 .9	.9 .8	.9 .8	1.0 .7	.5 .7	1.2 1.0	1.0 .8
PCE chain-wt. price index <i>Previous Tealbook</i>	-1.6 -1.5	1.9 1.4	2.9 2.6	2.7 2.5	2.1 1.5	.1 -2	1.1 .9	1.8 1.5	1.2 1.1	1.0 1.0	1.0 1.0	1.0 .9	1.5 1.2	1.3 .9	1.1 1.0
Energy <i>Previous Tealbook</i>	-36.3 -36.7	4.8 -2.0	41.5 40.6	18.0 19.9	16.4 16.1	-17.5 -18.6	5.1 1.2	18.2 14.6	6.8 6.3	3.9 4.3	2.6 3.2	1.9 2.1	2.7 1.1	4.5 2.3	3.8 3.9
Food <i>Previous Tealbook</i>	-8 -1.1	-3.3 -3.6	-2.4 -2.1	-1 -1	1.8 1.9	1.6 1.9	.7 1.3	1.2 1.1	.8 .7	.7 .7	.7 .7	.7 .7	-1.6 -1.7	1.3 1.5	.7 .7
Ex. food & energy <i>Previous Tealbook</i>	.9 1.1	2.3 2.0	1.5 1.2	2.1 1.8	1.2 .6	1.1 .9	.9 .8	.9 .8	.9 .8	.9 .8	.9 .8	.9 .8	1.7 1.5	1.1 .8	.9 .8
CPI <i>Previous Tealbook</i>	-2.2 -2.2	1.9 1.9	3.7 3.7	2.6 2.6	1.5 1.5	-.7 -1.0	1.4 .9	2.2 1.8	1.3 1.2	1.1 1.1	1.0 1.0	1.0 .9	1.5 1.5	1.1 .8	1.1 1.1
Ex. food & energy <i>Previous Tealbook</i>	1.6 1.6	2.3 2.3	1.5 1.5	1.5 1.5	.0 .0	.9 .6	1.1 .7	.9 .7	.8 .8	.9 .8	.9 .8	.9 .8	1.7 1.7	.7 .5	.9 .8
ECL, hourly compensation ² <i>Previous Tealbook</i> ²	.7 .7	1.1 1.1	1.5 1.5	1.5 1.5	2.6 2.6	1.8 1.8	1.9 1.9	1.9 1.9	2.4 2.2	1.9 2.0	1.9 2.0	1.9 2.0	1.2 1.2	2.0 2.0	2.0 2.0
Nonfarm business sector Output per hour <i>Previous Tealbook</i>	3.6 .9	8.5 7.6	7.0 7.8	6.0 6.3	3.8 2.9	-1.0 .1	1.6 .7	1.0 .9	.7 .7	1.1 .7	1.5 1.0	2.0 1.0	6.3 5.6	1.4 1.2	1.3 .9
Compensation per hour <i>Previous Tealbook</i>	-3.6 -4.2	9.3 7.7	3.5 -4	1.6 -1.9	.0 1.5	-.3 .7	1.5 2.3	2.3 2.3	3.0 3.1	2.1 2.2	1.9 2.0	1.9 2.0	2.6 .2	.9 1.7	2.2 2.3
Unit labor costs <i>Previous Tealbook</i>	-6.9 -5.0	.7 .1	-3.3 -7.6	-4.2 -7.7	-3.7 -1.4	.7 .6	-1 1.5	1.3 1.4	2.2 2.4	1.0 1.5	.3 1.0	-.2 1.0	-3.5 -5.1	-.5 .5	.8 1.5
Core goods imports chain-wt. price index ³ <i>Previous Tealbook</i> ³	-10.0 -9.4	-2.4 -2.3	1.2 1.3	4.3 4.7	4.2 4.1	3.2 3.0	1.3 -1	2.0 .0	1.4 1.1	1.2 1.4	1.2 1.8	1.1 1.8	-1.9 -1.6	2.7 1.7	1.2 1.5

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

2. Private-industry workers.

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

Greensheets

Changes in Prices and Costs

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

Item	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP chain-wt. price index <i>Previous Tealbook</i>	2.1 2.1	3.2 3.2	3.5 3.5	2.9 2.9	2.6 2.7	2.1 1.9	.5 .7	1.2 1.0	1.0 .8
PCE chain-wt. price index <i>Previous Tealbook</i>	1.9 1.9	3.0 3.0	3.3 3.3	1.9 1.9	3.5 3.6	1.7 1.7	1.5 1.2	1.3 .9	1.1 1.0
Energy <i>Previous Tealbook</i>	8.6 8.6	18.6 18.6	21.5 21.5	-3.7 -3.7	19.4 19.7	-9.0 -9.1	2.7 1.1	4.5 2.3	3.8 3.9
Food <i>Previous Tealbook</i>	3.2 3.2	2.7 2.7	1.5 1.5	1.7 1.7	4.8 4.7	6.9 6.8	-1.6 -1.7	1.3 1.5	.7 .7
Ex. food & energy <i>Previous Tealbook</i>	1.5 1.5	2.2 2.2	2.3 2.3	2.3 2.3	2.4 2.5	2.0 2.0	1.7 1.5	1.1 .8	.9 .8
CPI <i>Previous Tealbook</i>	2.0 2.0	3.4 3.4	3.7 3.7	1.9 1.9	4.0 4.0	1.6 1.6	1.5 1.5	1.1 .8	1.1 1.1
Ex. food & energy <i>Previous Tealbook</i>	1.2 1.2	2.2 2.2	2.1 2.1	2.7 2.7	2.3 2.3	2.0 2.0	1.7 1.7	.7 .5	.9 .8
ECL, hourly compensation ¹ <i>Previous Tealbook¹</i>	4.0 4.0	3.8 3.8	2.9 2.9	3.2 3.2	3.0 3.0	2.4 2.4	1.2 1.2	2.0 2.0	2.0 2.0
Nonfarm business sector Output per hour <i>Previous Tealbook</i>	5.0 5.0	1.5 1.5	1.5 1.5	1.0 1.0	2.7 2.9	-3 1.4	6.3 5.6	1.4 1.2	1.3 .9
Compensation per hour <i>Previous Tealbook</i>	5.7 5.7	3.4 3.4	3.6 3.6	4.5 4.5	3.6 3.6	2.3 3.1	2.6 .2	.9 1.7	2.2 2.3
Unit labor costs <i>Previous Tealbook</i>	.6 .6	1.9 1.9	2.0 2.0	3.5 3.5	.9 .7	2.7 1.7	-3.5 -5.1	-5 .5	.8 1.5
Core goods imports chain-wt. price index ² <i>Previous Tealbook²</i>	1.6 1.6	3.6 3.6	2.2 2.2	2.5 2.5	2.9 3.5	3.5 3.8	-1.9 -1.6	2.7 1.7	1.2 1.5

1. Private-industry workers.

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

Other Macroeconomic Indicators

Item	2009				2010				2011				2009 ¹	2010 ¹	2011 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Employment and production</i>															
Nonfarm payroll employment ²	-2.2	-1.7	-1.0	-4	.1	.7	.1	.4	.7	.8	.8	.8	-5.4	1.2	3.1
Unemployment rate ³	8.2	9.3	9.7	10.0	9.7	9.7	9.7	9.7	9.5	9.4	9.2	8.9	10.0	9.7	8.9
<i>Previous Tealbook³</i>	8.2	9.3	9.7	10.0	9.7	9.8	9.7	9.5	9.3	9.1	8.9	8.6	10.0	9.5	8.6
NAIRU ³	5.1	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
<i>Previous Tealbook³</i>	5.1	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
GDP gap ⁴	-7.4	-8.2	-8.4	-7.9	-7.6	-7.6	-7.7	-7.6	-7.5	-7.3	-7.0	-6.6	-7.9	-7.6	-6.6
<i>Previous Tealbook⁴</i>	-7.0	-7.8	-7.9	-7.3	-7.1	-6.8	-6.7	-6.5	-6.3	-6.1	-5.8	-5.4	-7.3	-6.5	-5.4
Industrial production ⁵	-17.6	-10.3	8.3	7.0	7.0	6.6	3.5	1.4	3.5	4.4	4.6	5.1	-3.8	4.6	4.4
<i>Previous Tealbook⁵</i>	-19.0	-10.4	6.4	6.8	7.6	7.5	6.0	4.6	4.8	4.7	5.2	4.4	-4.7	6.4	4.8
Manufacturing industr. prod. ⁵	-21.0	-9.3	10.4	7.1	6.1	7.9	2.7	2.0	4.2	5.5	5.5	6.6	-4.1	4.6	5.5
<i>Previous Tealbook⁵</i>	-22.0	-8.8	8.4	5.6	6.3	9.9	6.8	5.3	4.9	5.5	5.8	4.9	-5.0	7.1	5.3
Capacity utilization rate - mfg. ³	67.0	65.6	67.4	68.8	70.0	71.3	71.8	72.1	72.8	73.8	74.7	75.9	68.8	72.1	75.9
<i>Previous Tealbook³</i>	66.7	65.4	67.0	68.2	69.5	71.3	72.6	73.7	74.6	75.6	76.7	77.6	68.2	73.7	77.6
Housing starts ⁶	.5	.5	.6	.6	.6	.6	.6	.7	.8	.9	1.0	1.1	.6	.6	.9
Light motor vehicle sales ⁶	9.5	9.6	11.5	10.7	11.0	11.3	11.4	11.6	12.0	12.6	13.4	14.3	10.3	11.4	13.1
<i>Income and saving</i>															
Nominal GDP ⁵	-3.9	-4	2.3	4.7	4.8	4.0	3.8	3.4	4.1	4.4	4.8	5.3	.6	4.0	4.7
Real disposable pers. income ⁵	.4	5.9	-4.4	.0	1.7	4.4	1.1	1.5	1.7	3.9	4.0	4.0	.4	2.2	3.4
<i>Previous Tealbook⁵</i>	.2	6.2	-3.6	.0	1.9	4.8	1.9	2.2	.8	4.5	4.1	3.9	.7	2.7	3.3
Personal saving rate ³	5.4	7.2	5.6	5.5	5.5	6.2	6.3	6.2	6.0	6.2	6.2	6.2	5.5	6.2	6.2
<i>Previous Tealbook³</i>	3.7	5.4	3.9	3.7	3.4	3.9	3.8	3.8	3.4	3.7	3.9	4.1	3.7	3.8	4.1
Corporate profits ⁷	71.2	14.8	47.1	42.8	48.9	20.0	4.0	3.5	1.8	2.1	3.6	3.5	42.5	17.8	2.8
Profit share of GNP ³	8.0	8.3	9.1	9.8	10.7	11.1	11.1	11.1	11.1	11.0	11.0	10.9	9.8	11.1	10.9
Net federal saving ⁸	-1,003	-1,337	-1,357	-1,310	-1,310	-1,338	-1,338	-1,337	-1,249	-1,218	-1,220	-1,204	-1,252	-1,331	-1,223
Net state & local saving ⁸	-42	-34	-19	14	29	5	21	29	-10	-18	-14	-11	-20	21	-13
Gross national saving rate ³	11.4	10.7	10.1	10.8	11.2	11.8	11.8	11.9	12.1	12.4	12.5	12.6	10.8	11.9	12.6
Net national saving rate ³	-2.3	-2.8	-3.3	-2.3	-1.7	-8	-6	-5	-3	.1	.2	.4	-2.3	-5	.4

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

2. Change, millions.

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

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

Annual values are for the fourth quarter of the year indicated.

5. Percent change, annual rate.

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

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

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

August 4, 2010

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Other Macroeconomic Indicators

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

Item	2003	2004	2005	2006	2007	2008	2009	2010	2011
<i>Employment and production</i>									
Nonfarm payroll employment ¹	-1	2.0	2.4	2.1	1.2	-2.8	-5.4	1.2	3.1
Unemployment rate ²	5.8	5.4	5.0	4.5	4.8	6.9	10.0	9.7	8.9
<i>Previous Tealbook²</i>	5.8	5.4	5.0	4.5	4.8	6.9	10.0	9.5	8.6
NAIRU ²	4.9	4.9	4.8	4.8	4.8	4.9	5.2	5.2	5.2
<i>Previous Tealbook²</i>	4.9	4.9	4.8	4.8	4.8	4.9	5.2	5.2	5.2
GDP gap ³	-1.6	-7	-3	-3	-5	-5.7	-7.9	-7.6	-6.6
<i>Previous Tealbook³</i>	-1.6	-8	-4	-4	-4	-4.8	-7.3	-6.5	-5.4
Industrial production ⁴	1.4	2.9	2.3	2.5	2.3	-7.6	-3.8	4.6	4.4
<i>Previous Tealbook⁴</i>	1.6	3.0	2.6	1.8	1.8	-6.7	-4.7	6.4	4.8
Manufacturing industr. prod. ⁴	1.6	3.5	3.5	2.0	2.6	-10.0	-4.1	4.6	5.5
<i>Previous Tealbook⁴</i>	1.8	3.6	3.8	1.2	1.9	-8.7	-5.0	7.1	5.3
Capacity utilization rate - mfg. ²	74.6	77.4	78.8	79.0	79.1	70.9	68.8	72.1	75.9
<i>Previous Tealbook²</i>	74.6	77.3	79.2	79.0	78.7	70.9	68.2	73.7	77.6
Housing starts ⁵	1.8	2.0	2.1	1.8	1.4	.9	.6	.6	.9
Light motor vehicle sales ⁵	16.6	16.8	16.9	16.5	16.1	13.1	10.3	11.4	13.1
<i>Income and saving</i>									
Nominal GDP ⁴	6.0	6.4	6.3	5.4	5.0	-7	.6	4.0	4.7
Real disposable pers. income ⁴	3.9	3.5	.6	4.6	1.5	1.0	.4	2.2	3.4
<i>Previous Tealbook⁴</i>	3.9	3.5	.6	4.6	1.0	.3	.7	2.7	3.3
Personal saving rate ²	3.6	3.6	1.5	2.5	2.1	5.2	5.5	6.2	6.2
<i>Previous Tealbook²</i>	3.6	3.6	1.5	2.5	1.5	3.8	3.7	3.8	4.1
Corporate profits ⁶	12.2	21.9	19.6	3.7	-8.1	-31.9	42.5	17.8	2.8
Profit share of GNP ²	9.1	10.5	11.8	11.6	10.1	6.9	9.8	11.1	10.9
Net federal saving ⁷	-376	-379	-283	-204	-245	-616	-1252	-1331	-1223
Net state & local saving ⁷	-39	-8	26	51	12	-47	-20	21	-13
Gross national saving rate ²	14.3	14.3	15.5	16.3	13.6	11.8	10.8	11.9	12.6
Net national saving rate ²	2.5	2.7	3.5	4.2	1.3	-1.4	-2.3	-5	.4

1. Change, millions.

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

3. Percent difference between actual and potential GDP; a negative number indicates that the economy is operating below potential. Values are for the fourth quarter of the year indicated.

4. Percent change.

5. Level, millions; values are annual averages.

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

7. Billions of dollars; values are annual averages.

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

Item	Fiscal year				2009				2010				2011				
	2008 ^a	2009 ^a	2010	2011	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1 ^a	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Unified budget	Not seasonally adjusted																
	Receipts ¹	2524	2104	2162	2431	442	599	516	488	466	643	565	546	513	733	639	608
	Outlays ¹	2983	3520	3468	3701	891	904	845	876	795	930	867	943	948	904	906	923
	Surplus/deficit ¹	-458	-1416	-1306	-1270	-449	-305	-329	-388	-329	-287	-302	-397	-435	-171	-267	-315
	<i>Previous Tealbook</i>	-458	-1416	-1381	-1341	-449	-305	-329	-388	-329	-318	-346	-410	-446	-198	-287	-329
	On-budget	-642	-1553	-1394	-1366	-468	-382	-318	-394	-359	-351	-289	-440	-433	-236	-258	-364
	Off-budget	183	137	88	96	19	77	-11	6	30	64	-13	43	-2	65	-9	49
	Means of financing																
	Borrowing	768	1743	1385	1317	465	338	379	261	478	344	301	449	390	196	282	305
	Cash decrease	-296	96	5	20	98	-49	43	82	-25	-71	19	0	50	-20	-10	15
Other ²	-13	-424	-83	-68	-114	16	-92	45	-124	14	-18	-53	-5	-5	-5	-5	
Cash operating balance, end of period	372	275	270	250	269	318	275	194	219	290	270	270	220	240	250	235	
NIPA federal sector	Seasonally adjusted annual rates																
Receipts	2556	2261	2329	2519	2224	2191	2176	2232	2327	2362	2395	2423	2515	2551	2588	2626	
Expenditures	3072	3355	3653	3775	3227	3528	3533	3542	3637	3700	3733	3760	3764	3768	3808	3830	
Consumption expenditures	912	977	1029	1082	958	989	1000	1002	1017	1039	1060	1064	1080	1087	1095	1102	
Defense	620	659	692	727	643	663	677	673	684	695	715	719	726	729	732	735	
Nondefense	291	318	337	355	315	326	323	328	333	344	345	346	353	358	362	367	
Other spending	2160	2378	2624	2693	2269	2539	2533	2540	2620	2661	2674	2696	2684	2681	2713	2728	
Current account surplus	-515	-1094	-1324	-1256	-1003	-1337	-1357	-1310	-1310	-1338	-1338	-1337	-1249	-1218	-1220	-1204	
Gross investment	140	151	164	171	145	151	156	158	161	168	171	172	171	171	172	172	
Gross saving less gross investment ³	-537	-1122	-1361	-1293	-1025	-1364	-1388	-1342	-1344	-1377	-1379	-1377	-1287	-1255	-1256	-1239	
Fiscal indicators ⁴																	
High-employment (HEB) surplus/deficit	-457	-758	-918	-858	-686	-962	-949	-896	-904	-936	-937	-930	-846	-820	-834	-836	
Change in HEB, percent of potential GDP	1.6	1.9	0.9	-0.6	1.6	1.8	-0.1	-0.4	0.0	0.1	-0.1	-0.1	-0.6	-0.2	0.0	-0.0	
Fiscal impetus (FI), percent of GDP	0.8	1.2	0.9	-0.2	0.1	0.8	0.3	0.2	0.2	0.3	0.1	-0.0	-0.1	-0.1	-0.1	-0.1	
<i>Previous Tealbook</i>	0.8	1.0	0.8	-0.1	0.0	0.7	0.3	0.1	0.1	0.2	0.2	0.1	-0.2	-0.0	-0.1	-0.2	

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 changes in federal spending and taxes in chained (2005) dollars, scaled by real GDP. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary aggregate demand stimulus.

^a Actual.

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

Period ¹	Total	Households			Business	State and local governments	Federal government	Memo: Nominal GDP
		Total	Home mortgages	Consumer credit				
<i>Year</i>								
2004	8.8	11.0	13.4	5.6	6.2	7.3	9.0	6.4
2005	9.5	11.1	13.3	4.5	8.7	10.2	7.0	6.3
2006	9.0	10.1	11.2	4.1	10.6	8.3	3.9	5.4
2007	8.7	6.7	6.8	5.8	13.1	9.5	4.9	5.0
2008	6.0	.3	-.4	1.5	5.4	2.2	24.2	-.7
2009	3.1	-1.7	-1.5	-4.4	-2.5	4.8	22.7	.6
2010	4.6	-1.3	-2.0	-1.6	1.2	3.0	20.1	4.0
2011	5.0	1.6	.3	5.1	2.7	4.7	12.5	4.7
<i>Quarter</i>								
2008:1	5.7	3.3	2.8	4.6	8.0	3.9	8.1	1.0
2	3.3	.1	-.5	3.5	6.7	1.3	5.9	4.1
3	8.3	-.5	-2.4	.7	5.6	3.4	39.2	.4
4	6.1	-1.8	-1.8	-2.7	1.1	.1	37.0	-7.9
2009:1	3.8	-1.2	-.1	-3.9	-.7	4.7	22.6	-3.9
2	4.3	-1.6	-1.6	-4.8	-2.9	4.0	28.2	-.4
3	2.7	-2.5	-3.4	-3.1	-3.0	5.6	20.6	2.3
4	1.3	-1.6	-1.1	-6.2	-3.5	4.6	12.6	4.7
2010:1	3.6	-2.4	-3.8	-1.7	.2	4.2	18.5	4.8
2	4.9	-1.9	-2.1	-4.2	.5	-2.3	24.0	4.0
3	3.8	-.9	-1.5	-1.2	1.7	5.0	13.5	3.8
4	5.8	.2	-.5	.8	2.1	5.2	19.1	3.4
2011:1	4.4	.8	-.3	3.1	2.5	4.8	11.7	4.1
2	5.2	1.2	.0	4.3	2.4	4.8	14.2	4.4
3	4.8	1.9	.5	5.7	2.9	4.4	11.0	4.8
4	5.1	2.5	1.0	7.1	3.0	4.4	11.0	5.3

Note: Quarterly data are at seasonally adjusted annual rates.

1. Data after 2010:Q1 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.

Flow of Funds Projections: Highlights
(Billions of dollars at seasonally adjusted annual rates except as noted)

Category	2008	2009	2010	2011	2009				2010				2011			
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<i>Domestic nonfinancial sectors</i>																
Net funds raised																
Total	1563.2	966.1	1425.8	1617.9	992.4	141.3	1038.3	1589.7	1165.3	1909.8	1414.0	1743.2	1585.0	1729.4	1414.0	1743.2
Net equity issuance	-336.0	-63.3	-171.6	-188.0	65.7	-312.2	-207.6	-110.6	-188.0	-180.0	-180.0	-180.0	-196.0	-196.0	-180.0	-180.0
Net debt issuance	1899.2	1029.4	1597.3	1805.9	926.7	453.6	1246.0	1700.3	1353.3	2089.8	1594.0	1923.2	1781.0	1925.4	1594.0	1923.2
<i>Borrowing indicators</i>																
Debt (percent of GDP) ¹	227.3	241.8	242.1	243.8	243.9	242.3	241.1	241.4	241.8	242.7	243.3	243.6	243.8	243.6	243.3	243.6
Borrowing (percent of GDP)	13.2	7.3	10.9	11.8	6.6	3.2	8.6	11.7	9.2	14.1	10.6	12.7	11.6	12.4	10.6	12.7
<i>Households</i>																
Net borrowing ²	35.9	-240.8	-172.3	216.5	-349.1	-220.3	-325.7	-263.4	-125.3	25.2	104.2	166.8	253.1	341.8	104.2	166.8
Home mortgages	-46.6	-162.6	-202.1	30.4	-359.6	-113.5	-389.8	-215.0	-152.8	-50.7	-30.4	0.0	50.6	101.4	-30.4	0.0
Consumer credit	38.8	-115.3	-39.2	125.1	-79.5	-155.4	-42.9	-103.6	-28.7	18.3	75.5	106.3	140.5	178.0	75.5	106.3
Debt/DPI (percent) ³	126.2	124.4	118.9	114.9	124.0	122.5	120.9	119.0	118.0	116.9	116.2	115.1	114.1	113.3	116.2	115.1
<i>Business</i>																
Financing gap ⁴	260.3	-17.9	2.9	31.2	-78.4	-14.6	43.2	-32.5	5.2	-4.2	17.1	15.0	46.6	46.1	17.1	15.0
Net equity issuance	-336.0	-63.3	-171.6	-188.0	65.7	-312.2	-207.6	-110.6	-188.0	-180.0	-180.0	-180.0	-196.0	-196.0	-180.0	-180.0
Credit market borrowing	576.1	-281.9	125.8	302.5	-336.7	-389.3	26.9	57.4	189.3	229.4	276.8	269.8	323.2	340.3	276.8	269.8
<i>State and local governments</i>																
Net borrowing	48.1	108.2	71.6	113.7	127.6	107.4	98.6	-55.7	117.7	125.7	117.7	117.7	109.7	109.7	117.7	117.7
Current surplus ⁵	206.8	244.1	238.3	209.2	255.1	276.4	237.3	225.2	241.0	249.9	211.1	203.8	209.2	212.7	211.1	203.8
<i>Federal government</i>																
Net borrowing	1239.2	1443.9	1572.5	1173.2	1484.9	955.8	1446.1	1962.0	1171.6	1709.5	1095.4	1368.9	1095.0	1133.6	1095.4	1368.9
Net borrowing (n.s.a.)	1239.2	1443.9	1572.5	1173.2	378.7	261.4	477.7	344.5	300.9	449.4	389.8	196.2	281.8	305.4	389.8	196.2
Unified deficit (n.s.a.)	680.5	1471.3	1314.6	1188.5	329.4	388.1	328.9	287.0	302.1	396.6	435.1	171.2	266.8	315.4	435.1	171.2
<i>Depository institutions</i>																
Funds supplied	407.6	-639.9	-49.7	159.6	-1001.3	-536.7	-570.2	281.4	59.7	30.1	132.6	153.0	168.5	184.2	132.6	153.0

Note: Data after 2010:Q1 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.

Greensheets

Foreign Real GDP and Consumer Prices: Selected Countries

(Quarterly percent changes at an annual rate)

Measure and country	2009				2010				Projected-----			
	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP ¹												
Total foreign	-9.5	2.4	4.5	4.9	4.8	4.7	3.1	3.2	3.3	3.3	3.4	3.5
<i>Previous Tealbook</i>	-9.6	2.6	4.4	4.8	4.9	4.3	3.3	3.3	3.3	3.3	3.4	3.4
Advanced foreign economies	-8.7	-7	1.0	3.1	3.6	3.3	2.4	2.3	2.3	2.3	2.3	2.4
Canada	-7.0	-2.8	.9	4.9	6.1	3.6	3.3	3.3	3.3	3.2	3.2	3.2
Japan	-15.8	6.9	.4	4.6	5.0	2.8	1.5	1.6	1.7	1.7	1.7	1.7
United Kingdom	-9.0	-2.8	-1.0	1.7	1.3	4.5	2.6	2.3	1.4	2.1	2.3	2.4
Euro area	-9.8	-3	1.6	.5	.8	2.8	1.4	1.2	1.2	1.2	1.3	1.4
Germany	-13.4	1.8	2.9	.7	.6	5.2	2.1	1.6	1.6	1.6	1.7	1.8
Emerging market economies	-10.4	6.5	9.2	7.1	6.4	6.4	4.0	4.4	4.6	4.6	4.7	4.8
Asia	-2.2	12.8	10.7	7.7	13.1	7.6	4.3	5.2	5.7	5.7	5.8	5.8
Korea	1.0	9.8	13.4	.7	8.8	6.0	4.5	4.0	4.0	4.1	4.2	4.4
China	8.9	12.7	12.5	11.9	9.9	6.9	8.1	8.3	8.4	8.4	8.5	8.5
Latin America	-18.2	1.5	8.1	7.1	.6	5.3	3.7	3.7	3.6	3.6	3.7	3.8
Mexico	-24.5	1.2	10.1	7.9	-1.4	6.0	3.3	3.5	3.5	3.5	3.6	3.8
Brazil	-5.9	6.0	9.0	9.3	11.4	2.8	3.8	3.8	3.8	4.0	4.0	4.0
Consumer prices ²												
Total foreign	-7	1.0	1.5	3.1	3.4	1.3	1.8	2.2	2.3	2.2	2.1	2.2
<i>Previous Tealbook</i>	-7	1.0	1.5	3.1	3.4	2.0	1.8	2.0	2.1	2.2	2.1	2.1
Advanced foreign economies	-1.3	-2	.3	2.1	2.1	.1	.7	1.2	1.5	1.2	1.2	1.2
Canada	-1.0	.1	.6	3.7	2.3	-9	1.6	1.6	1.8	1.9	2.0	2.0
Japan	-3.0	-1.7	-2.1	-1.3	.7	-9	-1.0	-1.0	-8	-7	-6	-6
United Kingdom	.8	1.6	2.9	3.2	5.5	2.3	1.0	1.8	5.0	1.4	1.4	1.5
Euro Area	-1.0	-2	.6	2.3	1.8	1.4	.7	1.7	1.6	1.5	1.2	1.3
Germany	-5	-1	.2	1.8	1.4	.7	.8	1.5	1.5	1.4	1.1	1.1
Emerging market economies	-1	2.1	2.7	4.1	4.7	2.4	2.7	3.1	3.0	3.0	3.1	3.1
Asia	-2.2	.6	2.2	4.7	3.6	2.0	2.4	2.6	2.6	2.6	2.6	2.6
Korea	2.1	2.3	2.1	3.1	3.3	1.9	2.0	2.3	2.3	2.4	2.4	2.4
China	-3.4	-0	1.3	4.6	3.0	2.6	2.0	2.4	2.4	2.4	2.5	2.5
Latin America	4.7	5.5	3.3	2.6	7.8	3.6	3.6	4.0	4.0	4.0	4.1	4.1
Mexico	4.7	5.8	3.3	2.0	7.9	2.7	3.4	3.7	3.7	3.7	3.7	3.7
Brazil	4.9	5.0	3.2	3.6	7.4	5.9	2.4	4.3	4.3	4.3	4.3	4.3

¹ Foreign GDP aggregates calculated using shares of U.S. exports.² Foreign CPI aggregates calculated using shares of U.S. non-oil imports.

Foreign Real GDP and Consumer Prices: Selected Countries
(Percent change, Q4 to Q4)

Measure and country	2003	2004	2005	2006	2007	2008	2009	2010	Projected----- 2011
Real GDP ¹									
Total foreign	2.9	3.9	4.1	3.9	4.2	-8	.4	4.0	3.4
<i>Previous Tealbook</i>	2.9	3.8	4.1	3.9	4.2	-8	.4	3.9	3.3
Advanced foreign economies	1.8	2.6	2.8	2.5	2.4	-1.7	-1.4	2.9	2.3
Canada	1.5	3.7	3.1	1.9	2.5	-9	-1.1	4.0	3.2
Japan	2.4	1.1	2.9	2.1	1.8	-4.2	-1.4	2.7	1.7
United Kingdom	3.2	2.4	2.4	2.7	2.4	-2.7	-2.9	2.7	2.0
Euro area	1.2	1.8	2.1	3.5	2.2	-2.0	-2.1	1.5	1.3
Germany	.1	.2	1.6	4.3	1.6	-1.8	-2.2	2.4	1.7
Emerging market economies	4.5	5.6	5.9	5.8	6.5	.3	2.8	5.3	4.7
Asia	7.0	6.0	7.8	7.2	8.4	.9	7.1	7.5	5.7
Korea	3.6	2.7	5.2	4.6	5.7	-3.2	6.1	5.8	4.2
China	10.3	10.0	10.5	11.0	12.6	7.2	11.5	8.3	8.4
Latin America	1.7	5.1	3.9	4.6	4.6	-4	-1.0	3.3	3.7
Mexico	1.2	4.6	3.5	3.8	3.8	-1.2	-2.4	2.8	3.6
Brazil	.8	5.1	3.5	4.8	6.8	.9	4.4	5.4	3.9
Consumer prices ²									
Total foreign	2.1	2.8	2.3	2.1	3.7	3.4	1.2	2.2	2.2
<i>Previous Tealbook</i>	2.1	2.8	2.3	2.1	3.7	3.4	1.2	2.3	2.2
Advanced foreign economies	1.3	1.8	1.6	1.4	2.2	2.0	.2	1.0	1.3
Canada	1.7	2.3	2.3	1.4	2.5	1.9	.8	1.1	1.9
Japan	-.3	.5	-1.0	.3	.6	1.0	-2.0	-.6	-.7
United Kingdom	1.3	1.4	2.1	2.7	2.1	3.9	2.1	2.6	2.3
Euro Area	2.0	2.3	2.3	1.8	2.9	2.3	.4	1.4	1.4
Germany	1.1	2.1	2.2	1.3	3.1	1.7	.3	1.1	1.3
Emerging market economies	3.1	3.9	3.0	2.9	5.1	4.6	2.2	3.2	3.0
Asia	2.3	3.1	2.6	2.4	5.5	3.7	1.3	2.6	2.6
Korea	3.5	3.4	2.5	2.1	3.4	4.5	2.4	2.4	2.4
China	2.7	3.2	1.4	2.1	6.6	2.6	.6	2.5	2.5
Latin America	4.9	5.6	3.7	4.1	4.2	6.6	4.0	4.7	4.1
Mexico	3.9	5.3	3.1	4.1	3.8	6.2	4.0	4.4	3.7
Brazil	11.5	7.2	6.1	3.2	4.3	6.2	4.2	5.0	4.3

¹ Foreign GDP aggregates calculated using shares of U.S. exports.

² Foreign CPI aggregates calculated using shares of U.S. non-oil imports.

Greensheets

U.S. Current Account

Quarterly Data

	2009				2010				Projected-----			
									2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Billions of dollars, s.a.a.r.</i>												
U.S. current account balance	-382.3	-337.8	-390.0	-403.6	-436.0	-499.8	-469.3	-452.7	-465.8	-453.7	-461.4	-448.3
<i>Previous Tealbook</i>	-409.6	-388.4	-421.1	-445.4	-496.7	-457.0	-476.0	-476.1	-502.4	-497.6	-516.5	-513.8
Current account as percent of GDP	-2.7	-2.4	-2.8	-2.8	-3.0	-3.4	-3.2	-3.0	-3.1	-3.0	-3.0	-2.9
<i>Previous Tealbook</i>	-2.9	-2.7	-3.0	-3.1	-3.4	-3.1	-3.2	-3.2	-3.3	-3.2	-3.3	-3.3
Net goods & services	-361.8	-321.8	-397.3	-418.8	-461.0	-513.9	-501.7	-498.2	-501.1	-508.9	-520.2	-513.1
Investment income, net	106.3	112.9	149.6	148.1	175.0	152.4	155.9	164.6	167.3	172.0	178.3	179.9
Direct, net	246.8	238.2	265.1	258.2	281.5	261.1	267.6	277.8	285.0	293.3	303.1	310.0
Portfolio, net	-140.5	-125.3	-115.5	-110.1	-106.5	-108.7	-111.7	-113.2	-117.7	-121.3	-124.8	-130.2
Other income and transfers, net	-126.9	-128.9	-142.3	-132.9	-150.0	-138.3	-123.5	-119.1	-132.0	-116.9	-119.5	-115.1

Annual Data

	2003	2004	2005	2006	2007	2008	2009	2010	-----Projected----- 2011
	Billions of dollars								
U.S. current account balance	-520.7	-630.5	-747.6	-802.6	-718.1	-668.9	-378.4	-464.5	-457.3
Previous Tealbook	-520.7	-630.5	-747.6	-802.4	-727.3	-708.9	-416.1	-476.4	-507.6
Current account as percent of GDP	-4.7	-5.3	-5.9	-6.0	-5.1	-4.7	-2.7	-3.2	-3.0
Previous Tealbook	-4.7	-5.3	-5.9	-6.0	-5.2	-4.9	-2.9	-3.2	-3.3
Net goods & services	-494.2	-609.3	-714.2	-759.2	-702.1	-698.8	-374.9	-493.7	-510.8
Investment income, net	51.0	73.4	78.8	54.7	106.6	159.3	129.2	162.0	174.4
Direct, net	112.7	150.9	173.2	174.0	241.6	287.7	252.1	272.0	297.9
Portfolio, net	-61.7	-77.5	-94.4	-119.4	-134.9	-128.4	-122.8	-110.0	-123.5
Other income and transfers, net	-77.5	-94.5	-112.2	-98.1	-122.6	-129.3	-132.8	-132.7	-120.9

Report to the FOMC on Economic Conditions and Monetary Policy



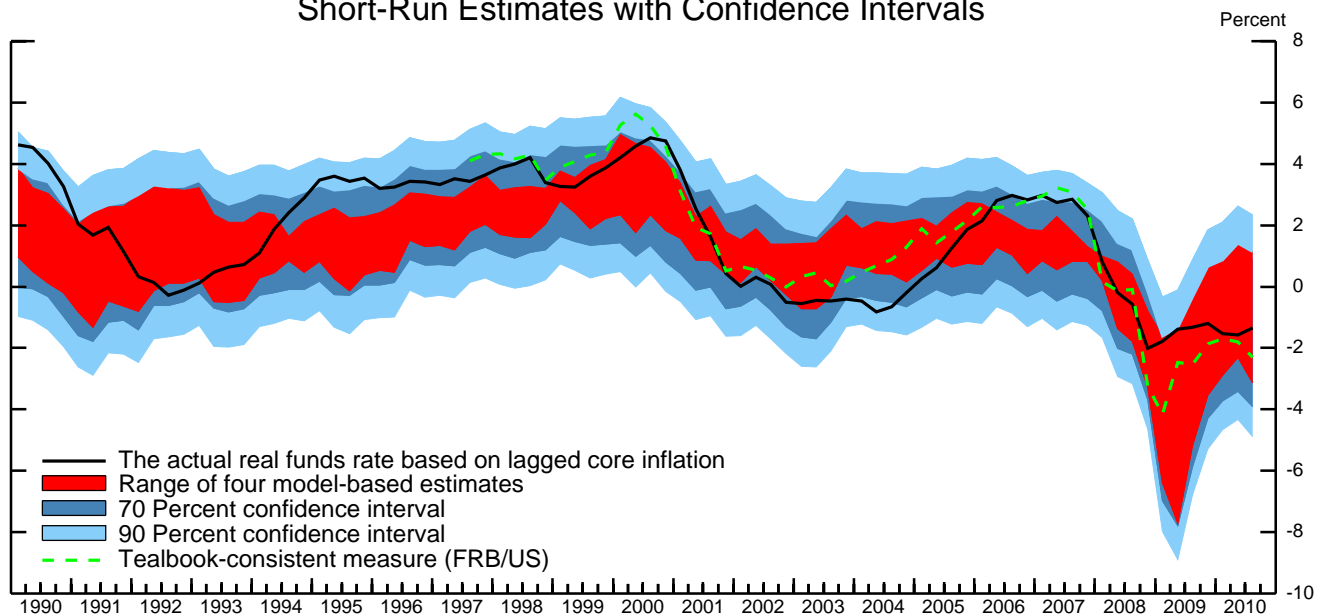
Book B

Monetary Policy: Strategies and Alternatives

August 5, 2010

Equilibrium Real Federal Funds Rate

Short-Run Estimates with Confidence Intervals



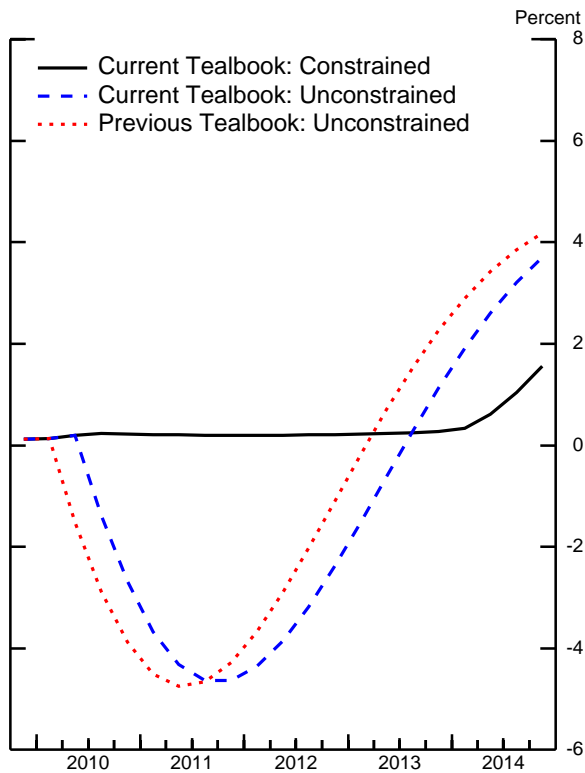
Short-Run and Medium-Run Measures

	Current Tealbook	Current Quarter Estimate as of Previous Tealbook	Previous Tealbook
Short-Run Measures			
Single-equation model	-2.7	-1.4	-1.4
Small structural model	-3.1	-1.1	-0.9
EDO model	1.1	1.2	1.2
FRB/US model	-2.5	-2.5	-2.6
Confidence intervals for four model-based estimates			
70 percent confidence interval	-3.9 to 0.9		
90 percent confidence interval	-4.9 to 2.3		
Tealbook-consistent measures			
EDO model	-5.4	-3.2	-4.3
FRB/US model	-2.3	-1.5	-1.8
Medium-Run Measures			
Single-equation model	1.0	1.2	1.2
Small structural model	1.3	1.5	1.6
Confidence intervals for two model-based estimates			
70 percent confidence interval	0.2 to 2.1		
90 percent confidence interval	-0.5 to 2.6		
TIPS-based factor model	2.0		2.0
Memo			
Actual real federal funds rate	-1.4		-1.0

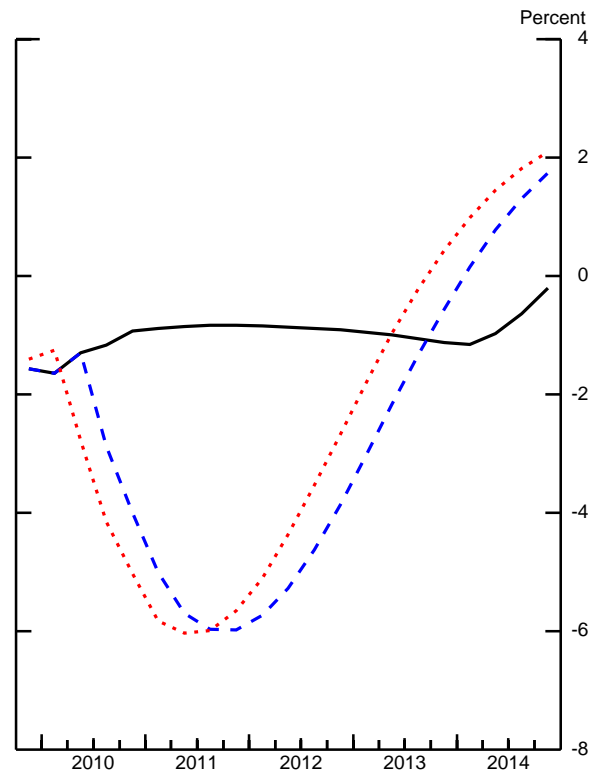
Note: Explanatory Note A provides background information regarding the construction of these measures and confidence intervals. The actual real federal funds rate shown is based on lagged core inflation as a proxy for inflation expectation. For information regarding alternative measures, see Explanatory Note A. Estimates of r^* may change at the beginning of a quarter even when there is no shift in the staff outlook because the twelve quarter horizon covered by the calculation has rolled forward one quarter. Therefore, whenever the Tealbook is published early in the quarter, this table includes a third column labeled "Current Quarter Estimate as of Previous Tealbook."

Constrained vs. Unconstrained Monetary Policy (2 Percent Inflation Goal)

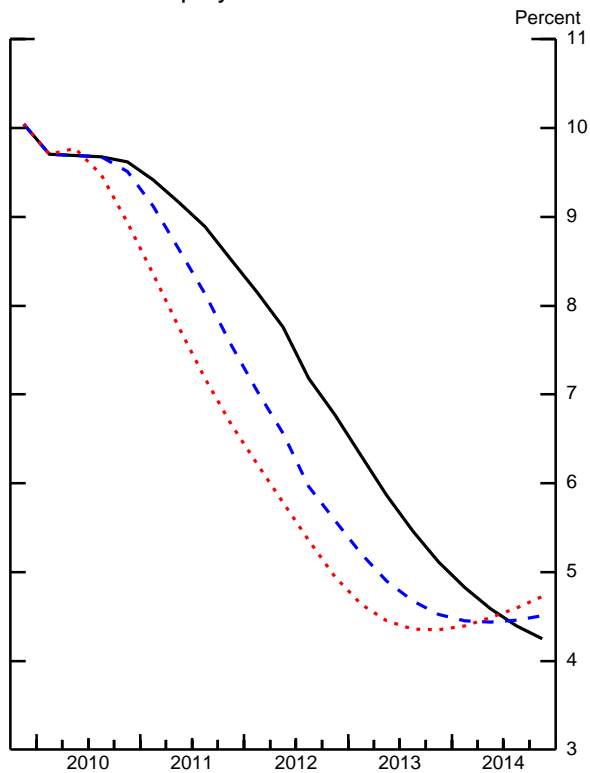
Nominal Federal Funds Rate



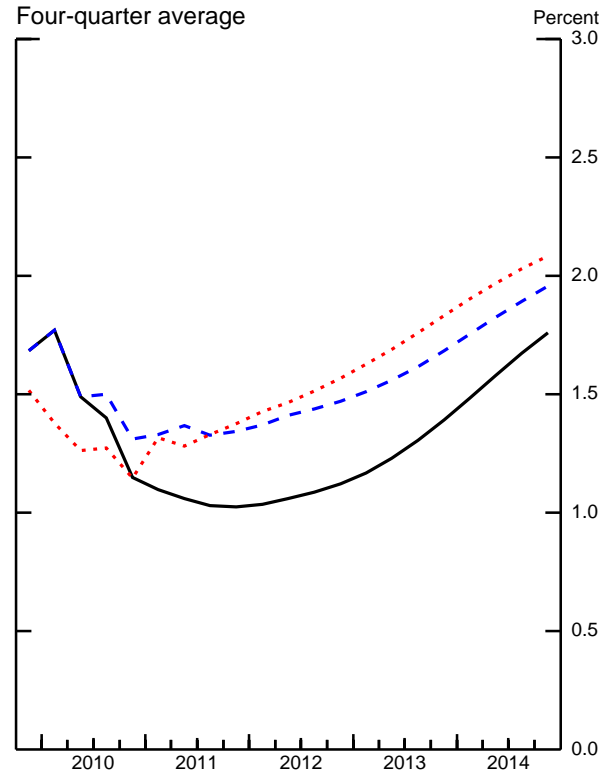
Real Federal Funds Rate



Civilian Unemployment Rate

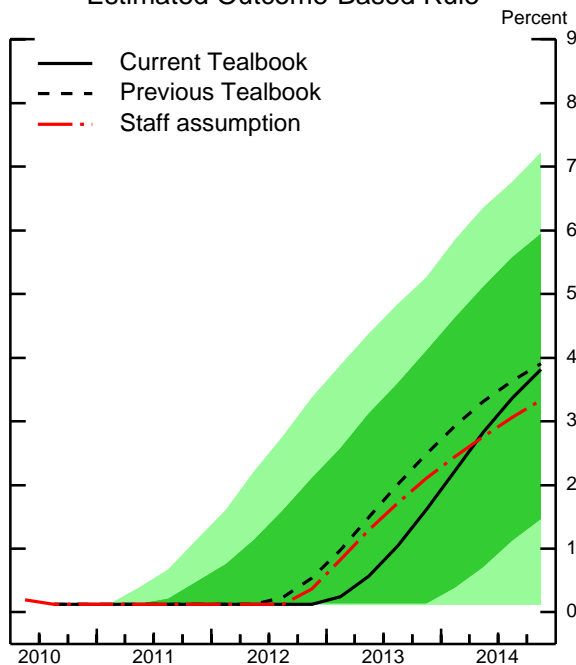


Core PCE Inflation Four-quarter average

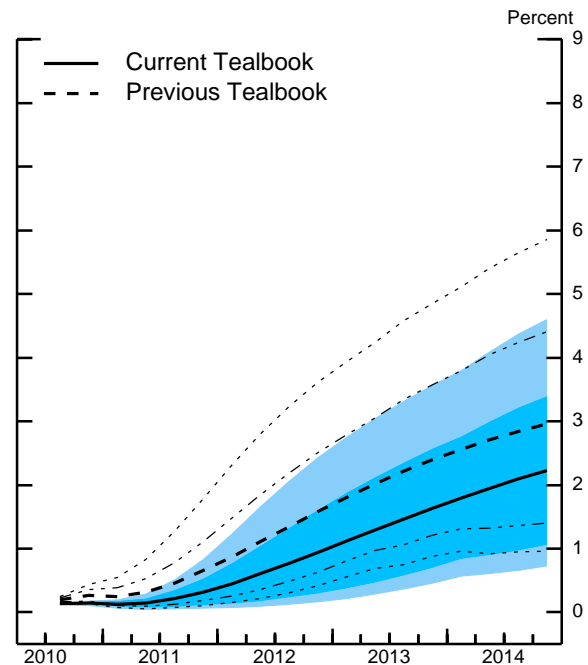


The Policy Outlook in an Uncertain Environment

FRB/US Model Simulations of
Estimated Outcome-Based Rule



Information from Financial Markets



Note: In both panels, the dark and light shading represent the 70 and 90 percent confidence intervals respectively. Financial market quotes are as of August 4.

Near-Term Prescriptions of Simple Policy Rules

	Constrained Policy		Unconstrained Policy	
	<u>2010Q3</u>	<u>2010Q4</u>	<u>2010Q3</u>	<u>2010Q4</u>
Taylor (1993) rule	0.13	0.13	-0.81	-1.23
<i>Previous Tealbook</i>	0.13	0.13	-0.80	-1.07
Taylor (1999) rule	0.13	0.13	-4.64	-5.04
<i>Previous Tealbook</i>	0.13	0.13	-4.16	-4.32
Estimated outcome-based rule	0.13	0.13	-0.60	-1.62
<i>Previous Tealbook</i>	0.13	0.13	-0.47	-1.28
Estimated forecast-based rule	0.13	0.13	-0.70	-1.72
<i>Previous Tealbook</i>	0.13	0.13	-0.46	-1.18
First-difference rule	0.13	0.13	-0.17	-0.38
<i>Previous Tealbook</i>	0.13	0.13	-0.02	-0.13

Memo

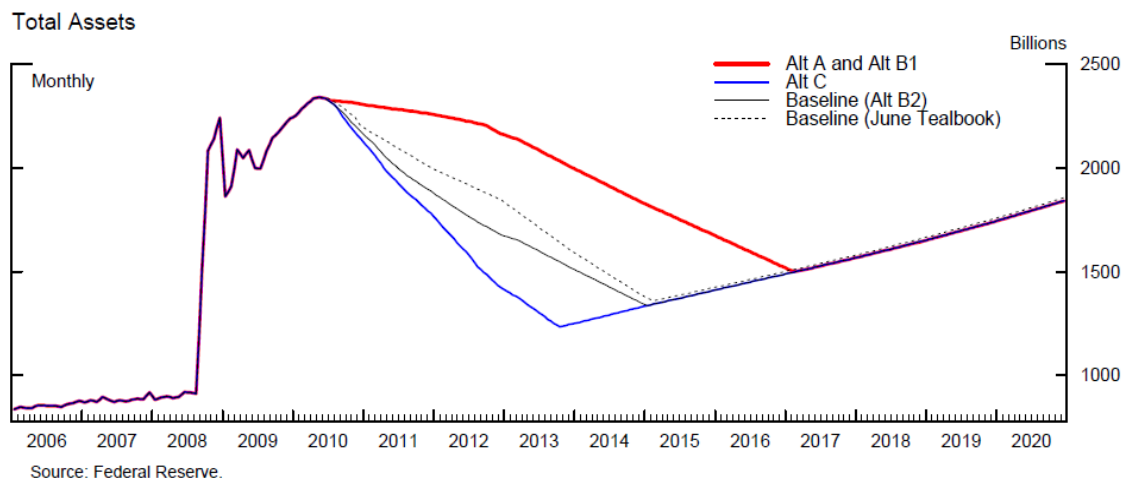
	<u>2010Q3</u>	<u>2010Q4</u>
Staff assumption	0.13	0.13
Fed funds futures	0.16	0.14
Median expectation of primary dealers	0.13	0.13
Blue Chip forecast (August 1, 2010)	0.20	0.20

Note: In calculating the near-term prescriptions of these simple policy rules, policymakers' long-run inflation objective is assumed to be 2 percent. Explanatory Note B provides further background information.

LONG-RUN PROJECTIONS OF THE BALANCE SHEET AND MONETARY BASE

The staff have prepared three scenarios for the Federal Reserve's balance sheet that correspond to the policy alternatives presented above: a baseline scenario that corresponds to Alternative B2, a second scenario that corresponds to Alternatives A and B1, and a third scenario that corresponds to Alternative C. Projections under each scenario are based on assumptions about each component of the balance sheet. Details of these assumptions are described in Explanatory Note C.

Under all three scenarios, the balance sheet declines from its May 2010 peak of \$2.34 trillion in May 2010 and continues to contract for a number of years as securities mature, prepay, or are sold, or as credit extensions are repaid; however, the rate of contraction differs depending on whether the principal payments from assets are reinvested. After reserve balances hit the assumed \$25 billion floor and the U.S. Treasury's supplementary financing account has been drained, the balance sheet begins



to expand as purchases of Treasury securities match the growth of Federal Reserve capital and notes in circulation. In all three scenarios, the balance sheet reaches a size of about \$1.8 trillion by the end of 2020.⁸

In the scenario that corresponds to Alternative B2, the FOMC continues to allow agency MBS and agency debt securities to roll off as they mature or are prepaid. In this baseline scenario, we assume that the FOMC begins asset sales in the second quarter of

⁸ The composition of Federal Reserve assets in these projections differs notably at times from historical patterns. Prior to August 2007, U.S. Treasury securities were about 90 percent of assets, and the Federal Reserve did not hold any agency debt or MBS. By contrast, under the baseline scenario, Treasury securities are projected to account for only around 35 percent of total assets at the end of 2010. However, by the end of 2020, Treasury securities in the SOMA portfolio account for 96 percent of total assets.

Federal Reserve Balance Sheet
End-of-Year Projections -- Baseline Scenario

	Jun 30, 2010	End-of-Year					
		2010	2012	2014	2016	2018	2020
		\$ Billions					
Total assets	2,334	2,177	1,678	1,348	1,485	1,648	1,841
Selected assets:							
Liquidity programs for financial firms	2	0	0	0	0	0	0
Primary, secondary, and seasonal credit	1	0	0	0	0	0	0
Central bank liquidity swaps	1	0	0	0	0	0	0
Lending through other credit facilities	42	41	12	2	0	0	0
Term Asset-Backed Securities Loan Facility (TALF)	42	41	12	2	0	0	0
Support for specific institutions	118	102	31	13	5	0	0
Credit extended to AIG	50	49	0	0	0	0	0
Net portfolio holdings of Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC	67	53	31	13	5	0	0
Securities held outright	2,060	1,929	1,544	1,252	1,406	1,577	1,773
U.S. Treasury securities	777	775	775	775	1,221	1,577	1,773
Agency debt securities	165	147	77	39	16	0	0
Agency mortgage-backed securities	1,118	1,007	692	438	169	0	0
Special drawing rights certificate account	5	5	7	7	7	7	7
Net portfolio holdings of TALF LLC	1	1	1	1	0	0	0
Total other assets	112	103	89	78	72	69	66
Total liabilities	2,278	2,118	1,600	1,245	1,349	1,468	1,603
Selected liabilities:							
Federal Reserve notes in circulation	904	919	981	1,119	1,241	1,360	1,495
Reverse repurchase agreements with foreign official and international accounts	67	67	59	59	59	59	59
Deposits with Federal Reserve Banks	1,263	1,113	546	53	35	35	35
Reserve balances held by depository institutions	972	831	336	25	25	25	25
U.S. Treasury, general account	88	80	5	5	5	5	5
U.S. Treasury, supplementary financing account	200	200	200	18	0	0	0
Total capital	56	59	78	103	136	180	239

Source: Federal Reserve H.4.1 statistical release and staff calculations.

Growth Rates for the Monetary Base			
Date	Baseline	Alternative A and B1	Alternative C
Percent, annual rate			
Monthly			
Jan-10	-17.8	-17.8	-17.8
Feb-10	72.2	72.2	72.2
Mar-10	-19.7	-19.7	-19.7
Apr-10	-37.6	-37.6	-37.6
May-10	-2.0	-2.0	-2.0
Jun-10	-5.8	-5.8	-5.8
Jul-10	27.1	29.7	27.3
Aug-10	10.4	19.0	10.6
Sep-10	-33.8	-20.6	-40.3
Oct-10	-19.8	-3.9	-27.6
Nov-10	-9.2	7.0	-12.0
Dec-10	-29.4	-14.3	-33.3
Quarterly			
Q1 2010	14.0	14.0	14.0
Q2 2010	-10.4	-10.4	-10.4
Q3 2010	6.0	10.3	5.4
Q4 2010	-18.1	-3.9	-23.0
Annual - Q4 to Q4			
2009	41.5	41.5	41.5
2010	-2.3	2.4	-3.7
2011	-13.3	-0.1	-17.1
2012	-13.2	-4.3	-23.2
2013	-11.8	-8.8	-2.8

Note. Not seasonally adjusted.

Growth Rates for M2
(Percent, seasonally adjusted annual rate)

Monthly Growth Rates	Tealbook Forecast*
Jan-10	-7.9
Feb-10	8.7
Mar-10	-3.4
Apr-10	-3.9
May-10	11.6
Jun-10	4.4
Jul-10	-0.8
Aug-10	1.5
Sep-10	1.6
Oct-10	1.5
Nov-10	1.7
Dec-10	1.7
Quarterly Growth Rates	
2010 Q1	0.0
2010 Q2	2.0
2010 Q3	2.5
2010 Q4	1.6
Annual Growth Rates	
2009	5.1
2010	1.5
2011	2.5

* This forecast is consistent with nominal GDP and interest rates in the Tealbook forecast. Actual data through July 2010; projections thereafter.

Federal Reserve Balance Sheet
End-of-Year Projections -- Baseline Scenario

	Jun 30, 2010	End-of-Year					
		2010	2012	2014	2016	2018	2020
		\$ Billions					
<u>Total assets</u>	2,334	2,177	1,678	1,348	1,485	1,648	1,841
Selected assets:							
Liquidity programs for financial firms	2	0	0	0	0	0	0
Primary, secondary, and seasonal credit	1	0	0	0	0	0	0
Central bank liquidity swaps	1	0	0	0	0	0	0
Lending through other credit facilities	42	41	12	2	0	0	0
Term Asset-Backed Securities Loan Facility (TALF)	42	41	12	2	0	0	0
Support for specific institutions	118	102	31	13	5	0	0
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Securities held outright	2,060	1,929	1,544	1,252	1,406	1,577	1,773
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Agency mortgage-backed securities	1,118	1,007	692	438	169	0	0
Special drawing rights certificate account	5	5	7	7	7	7	7
Net portfolio holdings of TALF LLC	1	1	1	1	0	0	0
Total other assets	112	103	89	78	72	69	66
<u>Total liabilities</u>	2,278	2,118	1,600	1,245	1,349	1,468	1,603
Selected liabilities:							
Federal Reserve notes in circulation	904	919	981	1,119	1,241	1,360	1,495
Reverse repurchase agreements with foreign official and international accounts	67	67	59	59	59	59	59
Deposits with Federal Reserve Banks	1,263	1,113	546	53	35	35	35
Reserve balances held by depository institutions	972	831	336	25	25	25	25
U.S. Treasury, general account	88	80	5	5	5	5	5
U.S. Treasury, supplementary financing account	200	200	200	18	0	0	0
<u>Total capital</u>	56	59	78	103	136	180	239

Source: Federal Reserve H.4.1 statistical release and staff calculations.