

Part 1

September 10, 2008

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

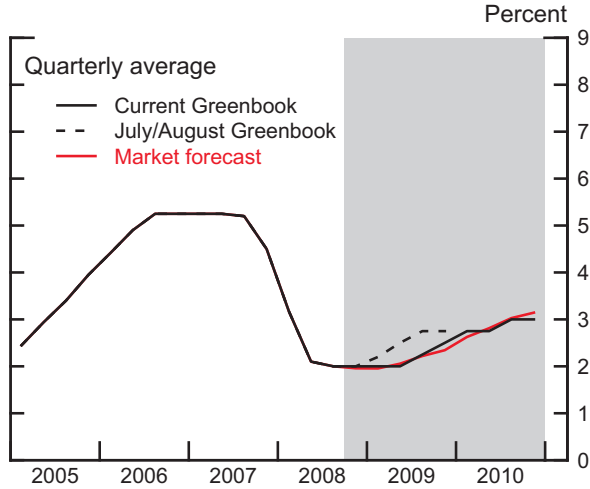
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Summary and Outlook

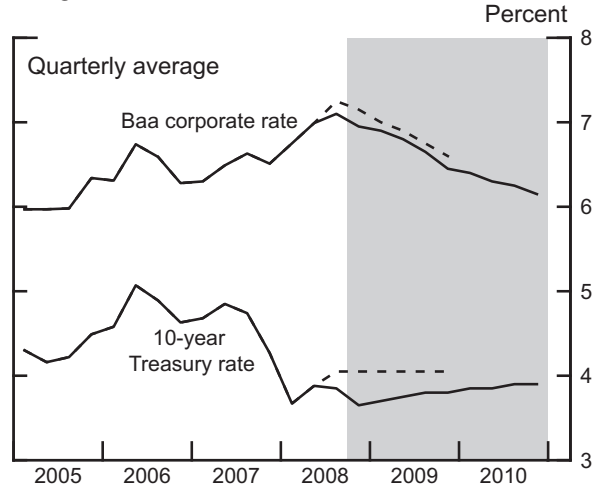
Class II FOMC - Restricted (FR)

Key Background Factors Underlying the Baseline Staff Projection

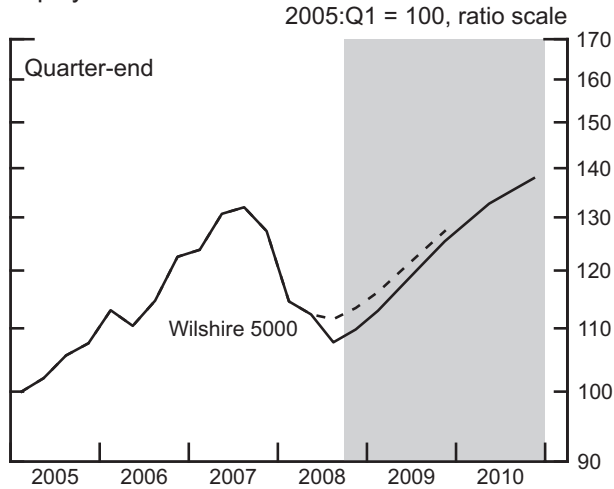
Federal Funds Rate



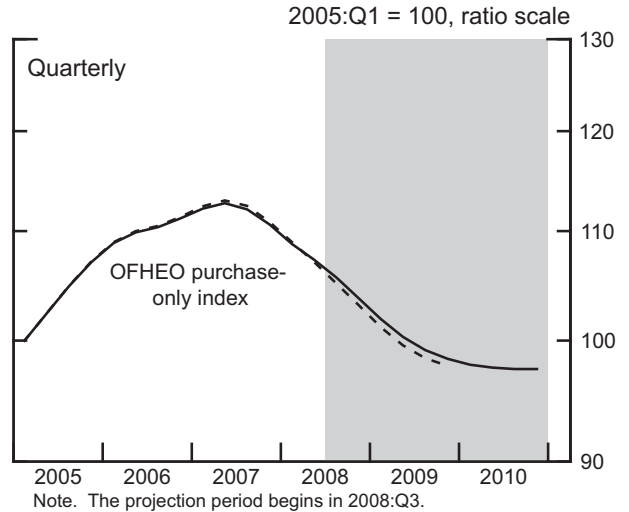
Long-Term Interest Rates



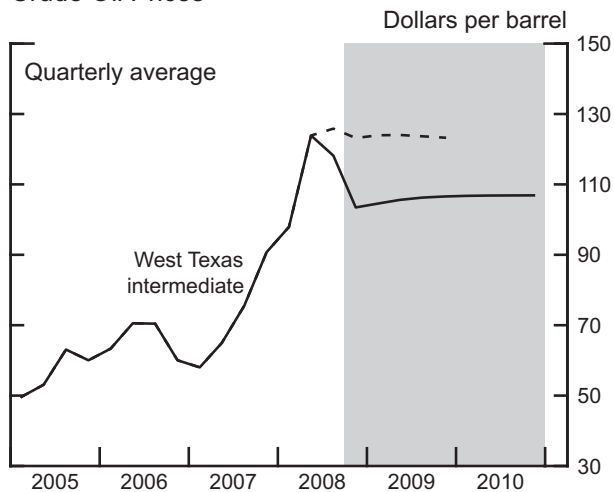
Equity Prices



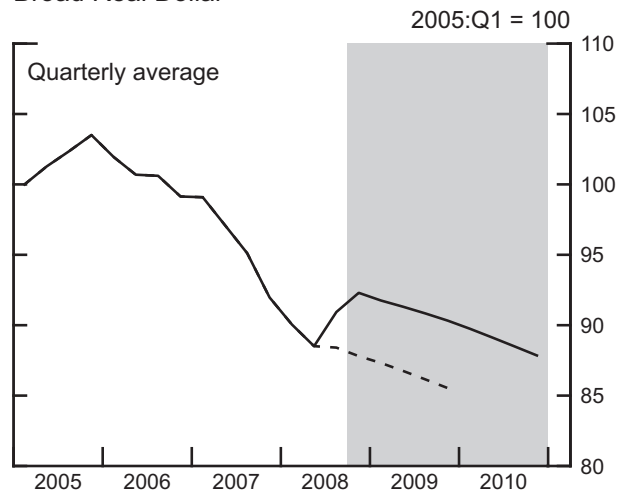
House Prices



Crude Oil Prices



Broad Real Dollar



Note. In each panel, shading represents the projection period, which begins in 2008:Q4 except as noted.

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

Measure	2008:Q2		2008:Q3		2008:Q4	
	July/ Aug. GB	Sept. GB	July/ Aug. GB	Sept. GB	July/ Aug. GB	Sept. GB
Real GDP	2.7	3.5	.7	.6	.4	1.1
Private domestic final purchases	1.1	1.3	-.1	-1.2	-3.9	-2.1
Personal consumption expenditures	2.0	1.7	1.6	-.5	-2.8	-1.6
Residential investment	-19.4	-13.4	-24.1	-17.6	-29.7	-20.0
Business fixed investment	3.3	3.5	-2.7	.1	-2.3	.7
Government outlays for consumption and investment	4.1	4.1	1.5	1.9	1.7	1.7
	Contribution to growth (percentage points)					
Inventory investment	-1.4	-1.5	-.5	.6	2.7	1.5
Net exports	2.3	3.1	1.0	.7	.8	1.0

ongoing deterioration in labor market conditions, widespread declines in industrial production (IP), and recent soft readings on consumer spending point to a marked deceleration in real GDP in the second half of the year. This downshift in the pace of activity likely reflects the effects on spending of restrictive credit conditions, declining household wealth, and the waning influence of the tax rebates. The quarterly pattern of growth has been modified to reflect our view that the tax rebates contributed more to consumer spending growth in the second quarter—and thus less in the third—than we had previously anticipated.

In the labor market, private payroll employment declined another 100,000 in August, while the unemployment rate jumped 0.4 percentage point, to 6.1 percent. Although the decline in payrolls was close to our forecast, we were surprised by the extent of the increase in unemployment. Preliminary readings on the number of individuals filing for extended unemployment compensation suggest that some of the unexpected rise in the jobless rate may stem from a larger effect on measured unemployment from the TEUC program than we had built into the July/August projection. However, the jump in the unemployment rate and the elevated readings on regular initial claims in recent weeks suggest to us that labor market conditions have deteriorated somewhat more than we had

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

Measure	2008		2009	2010
	H1	H2		
Real GDP	2.2	.8	2.1	2.7
Previous	1.8	.6	2.2	...
Final sales	2.9	-.2	1.6	2.8
Previous	2.5	-.5	1.4	...
PCE	1.3	-1.1	1.9	2.6
Previous	1.6	-.7	1.2	...
Residential investment	-19.5	-18.8	-6.2	17.1
Previous	-22.0	-26.9	-8.3	...
BFI	3.0	.4	-.3	4.9
Previous	1.9	-2.5	-.6	...
Government purchases	3.0	1.8	1.3	.8
Previous	3.1	1.6	1.5	...
Exports	9.1	5.6	5.6	5.1
Previous	8.1	7.0	7.5	...
Imports	-4.2	-.5	2.8	4.9
Previous	-3.0	.1	2.4	...
Contribution to growth (percentage points)				
Inventory change	-.8	1.0	.4	-.1
Previous	-.7	1.1	.7	...
Net exports	1.9	.8	.3	-.1
Previous	1.5	.9	.6	...

The basic contour of real consumer spending is unchanged from the July/August Greenbook. After essentially no growth in 2008, consumer spending is projected to rise about 2 percent in 2009 as real income growth increases, consumer sentiment improves, and credit conditions begin to recover. For 2010, we look for the increase in consumption expenditures to move back up to about 2½ percent, reflecting further gains in both real income and household wealth and an improvement in borrowing conditions.

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

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

Measure	1974-95	1996-2000	2001-06	2007	2008	2009	2010
Structural labor productivity	1.5	2.5	2.6	2.1	2.0	2.0	2.0
Previous	1.5	2.5	2.7	2.1	2.0	2.0	...
<i>Contributions¹</i>							
Capital deepening	.7	1.4	.7	.7	.5	.5	.7
Previous	.7	1.4	.7	.6	.5	.5	...
Multifactor productivity	.5	.7	1.6	1.2	1.3	1.3	1.2
Previous	.5	.7	1.7	1.2	1.3	1.3	...
Labor composition	.3	.3	.3	.2	.2	.2	.1
MEMO							
Potential GDP	3.0	3.4	2.6	2.5	2.5	2.5	2.4
Previous	3.0	3.4	2.7	2.5	2.5	2.5	...

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

1. Percentage points.

The Outlook for the Labor Market

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

Measure	2007	2008	2009	2010
Output per hour, nonfarm business	2.7	2.4	1.8	2.1
Previous	2.9	2.1	1.8	...
Nonfarm private payroll employment	.9	-.9	.7	.9
Previous	.9	-.8	.8	...
Household survey employment	.4	-.6	.6	1.0
Previous	.4	-.6	.7	...
Labor force participation rate ¹	66.0	66.0	65.7	65.5
Previous	66.0	65.9	65.6	...
Civilian unemployment rate ¹	4.8	6.2	6.2	5.9
Previous	4.8	5.9	5.9	...
MEMO				
GDP gap ²	-.2	-1.2	-1.6	-1.4
Previous	.1	-1.3	-1.5	...

1. Percent, average for the fourth quarter.

2. Actual less potential GDP in the fourth quarter of the year indicated as a percent of potential GDP. A negative number thus indicates that the economy is operating below potential.

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

Measure	2007	2008	2009	2010
PCE chain-weighted price index	3.5	3.5	2.2	1.9
Previous	3.4	3.7	2.4	...
Food and beverages	4.5	6.1	3.2	2.1
Previous	4.5	5.4	3.1	...
Energy	19.1	10.8	1.2	.8
Previous	19.6	17.4	2.5	...
Excluding food and energy	2.2	2.4	2.1	1.9
Previous	2.1	2.3	2.2	...
Consumer price index	4.0	4.0	2.3	2.0
Previous	4.0	4.4	2.5	...
Excluding food and energy	2.3	2.6	2.3	2.1
Previous	2.3	2.5	2.4	...
GDP chain-weighted price index	2.6	2.9	2.2	1.9
Previous	2.6	2.2	2.3	...
ECI for compensation of private industry workers ¹	3.0	2.9	3.1	3.0
Previous	3.0	3.4	3.4	...
Compensation per hour, nonfarm business sector	3.6	4.1	3.9	3.6
Previous	4.4	4.2	4.1	...
Prices of core nonfuel imports	3.4	7.1	1.0	1.3
Previous	3.3	6.9	1.4	...

1. December to December.

rising energy and materials prices recedes, core nonfuel import prices decelerate, and resource utilization remains slack. Reflecting these considerations, our projection calls for core PCE inflation to slow from 2.4 percent in 2008 to 2.1 percent in 2009 and to 1.9 percent in 2010.

Overall PCE inflation is projected to slow from 3½ percent this year to 2¼ percent in 2009. This decline in inflation mainly reflects the sharp deceleration in energy prices now under way as a result of the recent decline in crude oil prices. We also expect a noticeable step-down in food price inflation next year as crude food costs decelerate in line with current futures-markets expectations. In 2010, overall PCE inflation is expected

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

Measure	2008	2009	2010	2011	2012	2013
Real GDP	1.5	2.1	2.7	3.3	3.1	2.8
Civilian unemployment rate ¹	6.2	6.2	5.9	5.3	4.9	4.7
PCE prices, total	3.5	2.2	1.9	1.8	1.7	1.7
Core PCE prices	2.4	2.1	1.9	1.8	1.7	1.7
Federal funds rate ¹	2.0	2.5	3.0	3.3	3.8	4.2

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

Core inflation enters 2011 somewhat above the assumed long-run objective, accompanied by considerable economic slack. As the lingering effects of financial turmoil continue to fade away and residential construction extends its recovery, real GDP expands 3 percent per year, on average, from 2011 to 2013 despite a gradual rise in the federal funds rate to 4¼ percent. With actual output growth outpacing its potential, the unemployment rate falls back to the NAIRU by late 2013. Given the persistent (albeit diminishing) slack and tightening monetary policy over this period, inflation moves down to 1.7 percent in 2012 and 2013.

Financial Flows and Conditions

Domestic nonfinancial debt rose at an annual rate of about 4½ percent in the first half of 2008, down from 8½ percent last year; we expect debt will increase at an average annual rate of about 4½ percent through the end of 2010.

In the household sector, debt expanded at an annual rate of 2¼ percent in the first half of this year, well below the nearly 7 percent rise in 2007, as the rise in mortgage debt slowed dramatically. We expect overall household debt to increase at a subdued pace of less than 1½ percent, on average, through the end of 2009, before picking up moderately in 2010. The projection of a slow rise in overall household debt is mainly the result of the persistent weakness expected in home mortgage borrowing amid falling home prices and tighter standards on mortgage loans. In addition, we anticipate that the growth of consumer credit will be tempered by tight lending conditions for other forms of household debt and sluggish increases in consumer durables spending.

The debt of nonfinancial businesses rose at an annual rate of 6½ percent in the first half of this year after increasing 13 percent in 2007; we expect that it will increase at an

Alternative Scenarios						
(Percent change, annual rate, from end of preceding period except as noted)						
Measure and scenario	2008		2009	2010	2011	2012-13
	H1	H2				
<i>Real GDP</i>						
Greenbook extension	2.2	0.8	2.1	2.7	3.3	2.9
More-persistent headwinds	2.2	-0.1	0.2	2.2	3.9	3.5
Typical recession	2.2	-1.5	1.0	3.7	4.4	3.4
Financial rebound	2.2	1.4	2.9	3.2	3.4	2.6
Stronger aggregate supply	2.3	1.1	2.6	3.2	3.8	3.4
Costly reallocation	2.2	-0.3	1.6	2.6	3.4	2.9
Unanchored inflation expectations	2.2	0.7	2.1	2.5	3.1	2.8
<i>Unemployment rate¹</i>						
Greenbook extension	5.3	6.2	6.2	5.9	5.3	4.7
More-persistent headwinds	5.3	6.3	6.9	6.9	6.0	4.8
Typical recession	5.3	6.5	7.0	6.6	5.5	4.4
Financial rebound	5.3	6.1	5.9	5.4	4.7	4.4
Stronger aggregate supply	5.3	6.2	6.1	5.7	5.1	4.4
Costly reallocation	5.3	6.2	6.6	6.2	5.4	4.8
Unanchored inflation expectations	5.3	6.2	6.2	6.0	5.4	4.9
<i>Core PCE inflation</i>						
Greenbook extension	2.2	2.7	2.1	1.9	1.8	1.7
More-persistent headwinds	2.2	2.7	2.1	1.9	1.6	1.4
Typical recession	2.2	2.7	2.0	1.7	1.5	1.4
Financial rebound	2.2	2.7	2.1	1.9	1.9	1.9
Stronger aggregate supply	2.2	2.6	1.7	1.3	1.2	1.0
Costly reallocation	2.2	2.7	2.3	2.2	2.1	1.8
Unanchored inflation expectations	2.2	3.2	2.8	2.5	2.4	2.3
<i>Federal funds rate¹</i>						
Greenbook extension	2.1	2.0	2.5	3.0	3.3	4.2
More-persistent headwinds	2.1	1.6	0.4	0.6	1.9	3.8
Typical recession	2.1	1.0	0.2	1.6	3.0	4.4
Financial rebound	2.1	2.2	3.5	4.4	4.6	4.8
Stronger aggregate supply	2.1	2.0	2.1	2.2	2.4	3.1
Costly reallocation	2.1	2.0	2.3	3.0	3.6	4.3
Unanchored inflation expectations	2.1	2.1	3.2	3.9	4.0	4.7

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

will improve more quickly and restrain spending by less than we anticipate in the baseline. The next two scenarios investigate risks associated with the supply side of the economy. First, we consider the possibility that the NAIRU may be lower and structural productivity growth faster than we estimate, both in the past and future. Next, we explore a contrasting risk—that recent disruptions to the economy may temporarily boost the

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

Measure	2008	2009	2010	2011	2012	2013
<i>Real GDP</i> (percent change, Q4 to Q4)						
Projection	1.5	2.1	2.7	3.3	3.1	2.8
Confidence interval						
Greenbook forecast errors	.7–2.3	.5–3.7	1.3–4.1	...	...	...
FRB/US stochastic simulations	.9–2.1	.9–3.4	1.3–4.1	1.8–4.9	1.5–4.7	1.2–4.4
<i>Civilian unemployment rate</i> (percent, Q4)						
Projection	6.2	6.2	5.9	5.3	4.9	4.7
Confidence interval						
Greenbook forecast errors	5.9–6.4	5.5–6.8	4.9–6.9	...	...	...
FRB/US stochastic simulations	6.0–6.4	5.7–6.6	5.3–6.4	4.6–5.9	4.2–5.6	3.9–5.4
<i>PCE prices, total</i> (percent change, Q4 to Q4)						
Projection	3.5	2.2	1.9	1.8	1.7	1.7
Confidence interval						
Greenbook forecast errors	3.0–3.9	1.3–3.1	.6–3.1	...	...	...
FRB/US stochastic simulations	3.1–3.8	1.5–3.0	1.1–2.7	1.0–2.7	.8–2.7	.8–2.7
<i>PCE prices excluding food and energy</i> (percent change, Q4 to Q4)						
Projection	2.4	2.1	1.9	1.8	1.7	1.7
Confidence interval						
Greenbook forecast errors	2.1–2.8	1.5–2.8	.8–3.0	...	...	...
FRB/US stochastic simulations	2.3–2.6	1.7–2.6	1.4–2.5	1.2–2.5	1.0–2.4	1.0–2.5
<i>Federal funds rate</i> (percent, Q4)						
Projection	2.0	2.5	3.0	3.3	3.8	4.2
Confidence interval						
FRB/US stochastic simulations	1.6–2.4	1.3–3.8	1.6–4.6	1.8–4.9	2.4–5.6	2.8–6.0

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

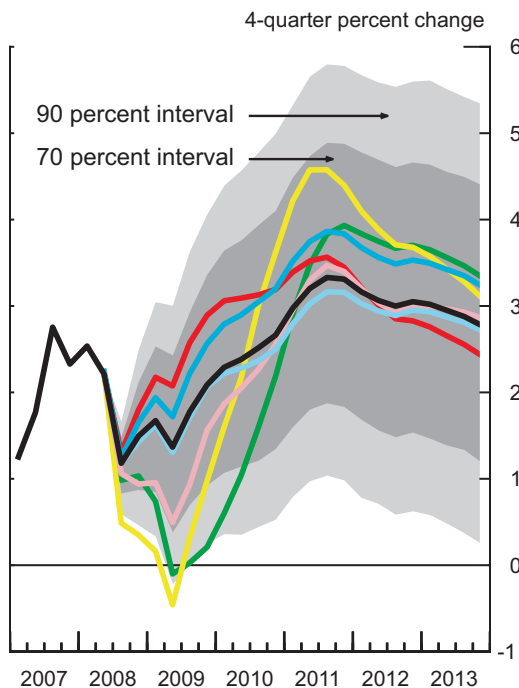
... Not applicable. The Greenbook forecast horizon has typically extended about two years.

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

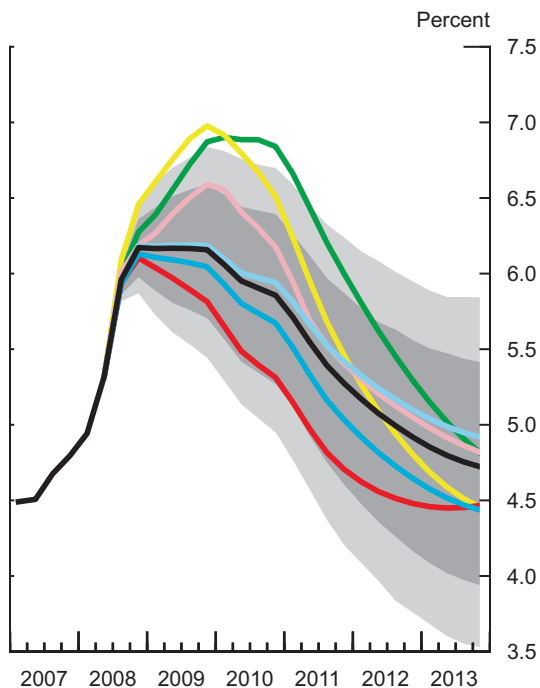
Confidence Intervals based on FRB/US Stochastic Simulations

- | | | |
|-----------------------------|-----------------------------|-------------------------------------|
| ■ Greenbook extension | ■ Financial rebound | ■ Costly reallocation |
| ■ More-persistent headwinds | ■ Stronger aggregate supply | ■ Unanchored inflation expectations |
| ■ Typical recession | | |

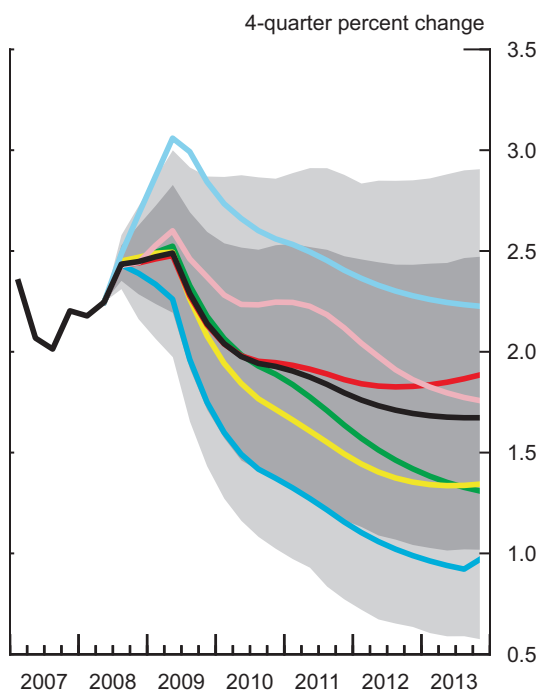
Real GDP



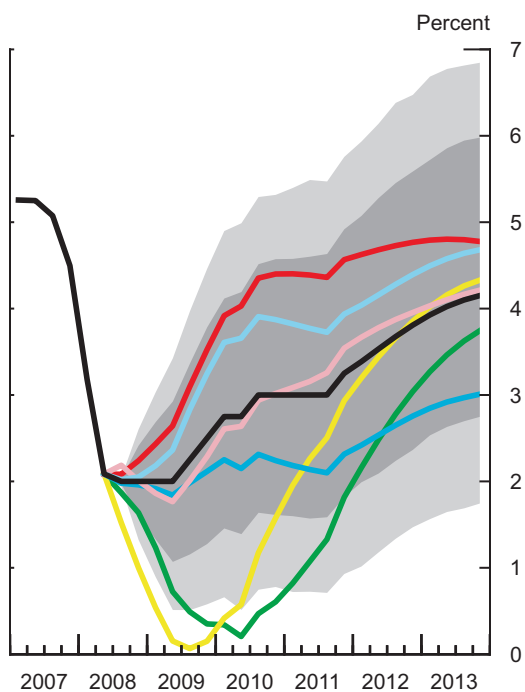
Unemployment Rate



PCE Prices excluding Food and Energy



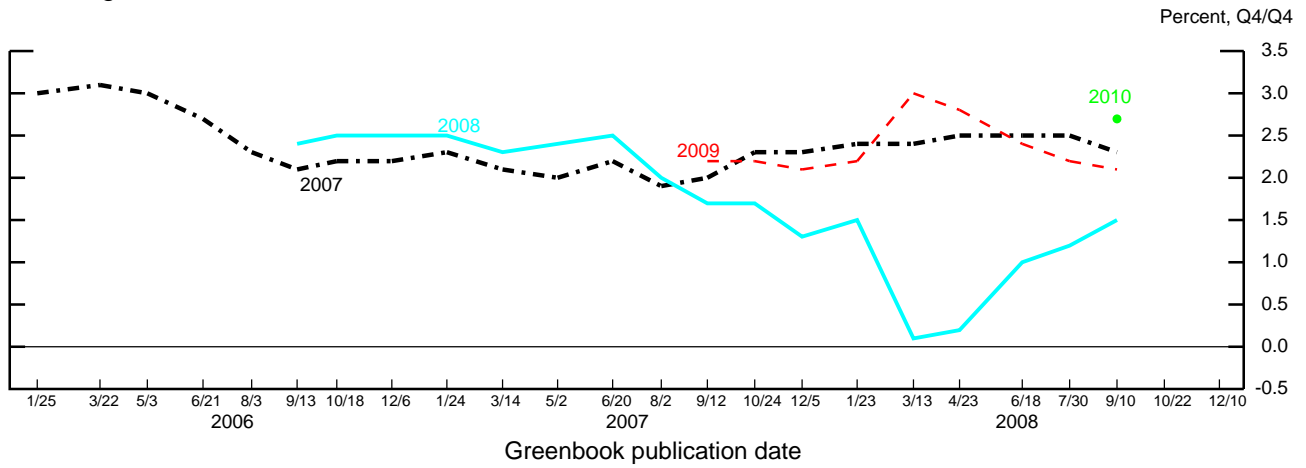
Federal Funds Rate



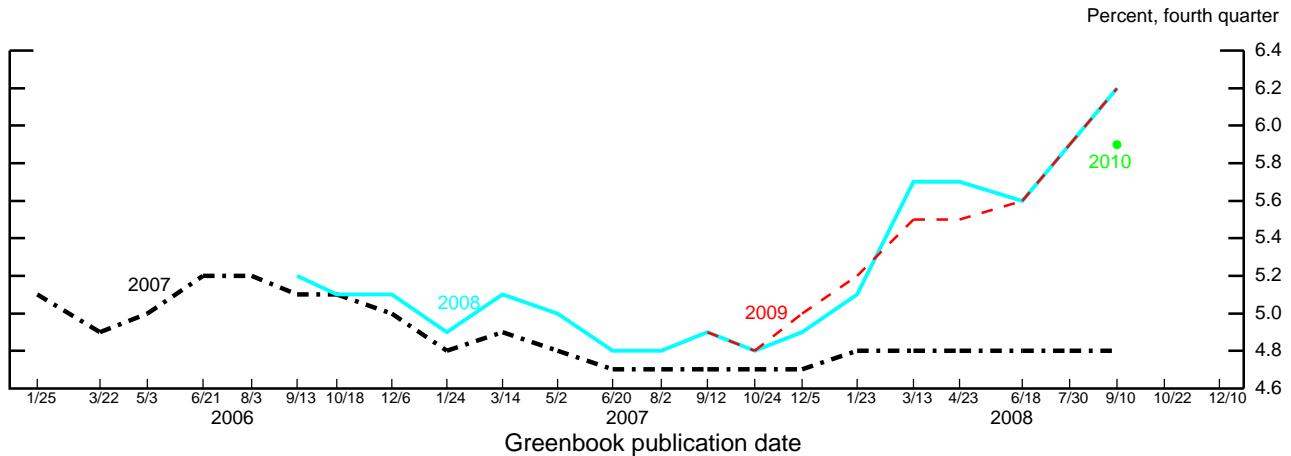
Class II FOMC - Restricted (FR)

Evolution of the Staff Forecast

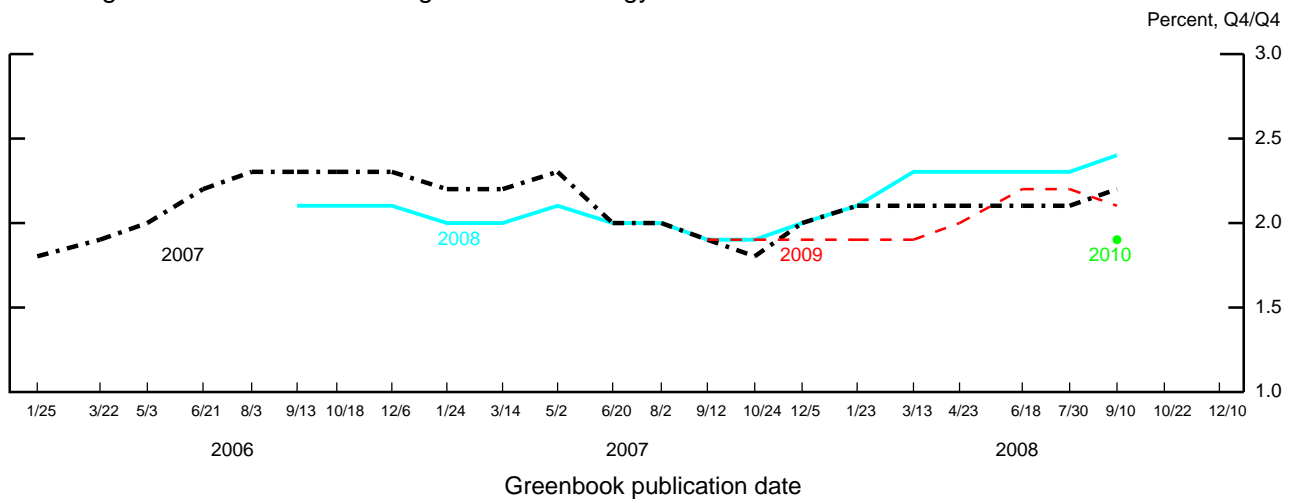
Change in Real GDP



Unemployment Rate



Change in PCE Prices excluding Food and Energy



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

Interval	Nominal GDP		Real GDP		PCE price index		Core PCE price index		Unemployment rate ¹	
	07/30/08	09/10/08	07/30/08	09/10/08	07/30/08	09/10/08	07/30/08	09/10/08	07/30/08	09/10/08
<i>Quarterly</i>										
2008:Q1	3.7	3.5	1.0	.9	3.6	3.6	2.3	2.3	4.9	4.9
Q2	3.2	4.7	2.7	3.5	4.1	4.2	1.9	2.1	5.3	5.3
Q3	4.3	5.5	.7	.6	4.7	5.5	2.6	2.9	5.8	6.0
Q4	2.4	3.8	.4	1.1	2.5	.6	2.6	2.6	5.9	6.2
2009:Q1	4.0	4.0	1.4	1.6	2.9	2.3	2.4	2.4	6.0	6.2
Q2	4.9	4.6	2.3	2.2	2.4	2.4	2.3	2.2	6.0	6.2
Q3	4.7	4.4	2.4	2.2	2.2	2.2	2.2	2.1	6.0	6.2
Q4	4.8	4.3	2.6	2.3	2.0	2.0	2.1	2.0	5.9	6.2
2010:Q1	...	4.3	...	2.4	...	1.9	...	2.0	...	6.1
Q2	...	4.6	...	2.6	...	1.9	...	1.9	...	6.0
Q3	...	4.7	...	2.8	...	1.8	...	1.9	...	5.9
Q4	...	4.8	...	2.9	...	1.8	...	1.9	...	5.9
<i>Two-quarter²</i>										
2008:Q2	3.4	4.1	1.8	2.2	3.9	3.9	2.1	2.2	.5	.5
Q4	3.4	4.7	.6	.8	3.6	3.0	2.6	2.7	.6	.9
2009:Q2	4.4	4.3	1.9	1.9	2.7	2.4	2.3	2.3	.1	.0
Q4	4.7	4.3	2.5	2.3	2.1	2.1	2.1	2.0	-.1	.0
2010:Q2	...	4.5	...	2.5	...	1.9	...	1.9	...	-.2
Q4	...	4.8	...	2.8	...	1.8	...	1.9	...	-.1
<i>Four-quarter³</i>										
2007:Q4	5.1	4.9	2.5	2.3	3.4	3.5	2.1	2.2	.4	.4
2008:Q4	3.4	4.4	1.2	1.5	3.7	3.5	2.3	2.4	1.1	1.4
2009:Q4	4.6	4.3	2.2	2.1	2.4	2.2	2.2	2.1	.0	.0
2010:Q4	...	4.6	...	2.7	...	1.9	...	1.9	...	-.3
<i>Annual</i>										
2007	4.9	4.8	2.2	2.0	2.5	2.6	2.1	2.2	4.6	4.6
2008	3.9	4.3	1.8	1.9	3.7	3.8	2.2	2.3	5.5	5.6
2009	4.0	4.4	1.6	1.7	2.9	2.5	2.4	2.3	6.0	6.2
2010	...	4.5	...	2.5	...	2.0	...	2.0	...	5.9

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

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

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

Changes in Real Gross Domestic Product and Related Items

(Percent, annual rate except as noted)

Item	2008				2009				2010				2008 ¹	2009 ¹	2010 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous</i>	.9 1.0	3.5 2.7	.6 .7	1.1 .4	1.6 1.4	2.2 2.3	2.2 2.4	2.3 2.6	2.4 ...	2.6 ...	2.8 ...	2.9 ...	1.5 1.2	2.1 2.2	2.7 ...
Final sales <i>Previous</i>	.9	5.0	.0	-.4	.8	2.2	2.1	1.6	1.8	3.6	3.4	2.4	1.4	1.6	2.8
Priv. dom. final purch. <i>Previous</i>	.9	4.1	1.2	-2.2	.1	2.5	1.9	1.4	...	...	...	...	1.0	1.4	...
	-.3	1.3	-1.2	-2.1	.5	1.1	1.6	2.1	2.9	3.3	3.6	3.5	-.6	1.3	3.3
	-.3	1.1	-.1	-3.9	-.7	.8	1.1	1.6	...	...	...	...	-.8	.7	...
Personal cons. expend. <i>Previous</i>	.9	1.7	-.5	-1.6	1.5	1.8	2.1	2.2	2.4	2.5	2.6	2.6	.1	1.9	2.6
Durables	1.1	2.0	1.6	-2.8	.8	1.2	1.3	1.6	...	...	...	...	.4	1.2	...
Nondurables	-.4	2.5	-.4	2.5	6.1	4.2	5.1	4.1	5.7	5.4	4.7	3.5	-.2	4.9	4.8
Services	2.4	4.2	-2.8	-4.1	1.1	1.8	2.1	2.3	2.5	2.6	2.8	2.9	-.8	1.8	2.7
	2.4	1.3	1.2	-1.0	1.0	1.4	1.6	1.7	1.9	2.0	2.2	2.4	1.0	1.4	2.1
Residential investment <i>Previous</i>	-25.1 -24.6	-13.4 -19.4	-17.6 -24.1	-20.0 -29.7	-15.9 -26.0	-4.9 -1.9	-6.7 -4.5	4.0 1.9	10.0 ...	19.0 ...	21.6 ...	18.2 ...	-19.1 -24.5	-6.2 -8.3	17.1 ...
Business fixed invest. <i>Previous</i>	2.4 .6	3.5 3.3	.1 -2.7	.7 -2.3	-1.3 -3.5	-2.0 -1.3	.7 .8	1.4 1.8	4.2 ...	4.3 ...	5.6 ...	5.6 ...	1.7 -.3	-.3 -.6	4.9 ...
Equipment & software <i>Previous</i>	-.6	-3.5	-2.9	4.1	1.9	1.2	4.2	4.4	8.3	7.7	8.8	8.4	-.8	2.9	8.3
Nonres. structures <i>Previous</i>	8.6 1.2	18.5 11.1	5.8 -.5	-5.4 -6.2	-7.2 -5.8	-7.6 -3.7	-5.7 -2.5	-4.4 -3.2	-.3 ...	-2.2 ...	-.7...	.1 ...	6.5 1.2	-6.2 -3.8	-1.6 ...
Net exports ² <i>Previous</i> ²	-462 -480	-377 -415	-358 -387	-329 -364	-326 -351	-298 -311	-284 -289	-292 -292	-312 ...	-291 ...	-284 ...	-303 ...	-381 -411	-300 -311	-298 ...
Exports	5.1	13.2	4.0	7.2	5.6	5.7	5.7	5.6	5.4	5.1	4.9	4.9	7.3	5.6	5.1
Imports	-.8	-7.6	-.8	-.3	3.9	-1.0	1.7	6.7	8.7	.1	2.9	8.1	-2.4	2.8	4.9
Govt. cons. & invest. <i>Previous</i>	1.9 2.1	4.1 4.1	1.9 1.5	1.7 1.7	1.5 1.8	1.4 1.8	1.1 1.3	1.1 1.1	.8...	.8...	.8...	.8 ...	2.4 2.4	1.3 1.5	.8 ...
Federal	5.8	6.8	2.7	2.9	3.0	2.7	2.6	2.6	2.0	2.0	2.0	2.0	4.5	2.8	2.0
Defense	7.3	7.4	4.7	4.9	3.7	3.2	3.0	2.9	2.0	2.0	2.0	2.0	6.1	3.2	2.0
Nondefense	2.9	5.5	-1.6	-1.4	1.5	1.6	1.8	2.1	2.0	2.0	1.9	1.9	1.3	1.8	2.0
State & local	-.3	2.5	1.4	1.0	.6	.6	.2	.2	.2	.1	.1	.1	1.2	.4	.1
Change in bus. inventories ² <i>Previous</i> ²	-10 -20	-52 -57	-37 -70	2 2	22 38	24 36	28 49	47 85	61 ...	35 ...	20 ...	33 ...	-24 -36	30 52	37 ...
Nonfarm ² Farm ²	-18 6	-55 2	-39 1	1 1	21 1	23 1	28 1	47 1	62 1	35 1	19 1	33 1	-28 2	30 1	37 1

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

2. Billions of chained (2000) dollars.

Class II FOMC
Restricted (FR)

September 10, 2008

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

Item	2002 ¹	2003 ¹	2004 ¹	2005 ¹	2006 ¹	2007 ¹	2008 ¹	2009 ¹	2010 ¹
Real GDP <i>Previous</i>	1.9 1.9	3.7 3.7	3.1 3.1	2.7 2.9	2.4 2.6	2.3 2.5	1.5 1.2	2.1 2.2	2.7 ...
Final sales <i>Previous</i>	.8 .8	3.7 3.7	2.8 2.8	2.7 2.9	2.8 3.0	2.5 2.8	1.4 1.0	1.6 1.4	2.8 ...
Priv. dom. final purch. <i>Previous</i>	1.1 1.1	4.1 4.1	4.3 4.3	3.1 3.3	2.3 2.4	1.4 1.8	-6 -8	1.3 .7	3.3 ...
Personal cons. expend. <i>Previous</i>	1.9 1.9	3.4 3.4	3.7 3.7	2.6 2.8	3.2 3.4	2.2 2.6	.1 .4	1.9 1.2	2.6 ...
Durables	1.2	8.3	5.6	1.2	6.9	4.2	-2.1	4.9	4.8
Nondurables	2.1	3.9	3.5	3.6	3.2	1.7	-8	1.8	2.7
Services	1.9	2.2	3.3	2.4	2.6	2.1	1.0	1.4	2.1
Residential investment <i>Previous</i>	7.0 7.0	11.7 11.7	6.7 6.7	5.4 6.4	-15.5 -12.8	-19.0 -18.6	-19.1 -24.5	-6.2 -8.3	17.1 ...
Business fixed invest. <i>Previous</i>	-6.5 -6.5	4.9 4.9	7.5 7.5	4.9 5.1	6.5 5.2	6.4 7.1	1.7 -3	-3 -6	4.9 ...
Equipment & software <i>Previous</i>	-3.4 -3.4	6.6 6.6	9.4 9.4	7.0 7.1	4.2 2.5	2.8 3.6	-8 -1.1	2.9 1.1	8.3 ...
Nonres. structures <i>Previous</i>	-14.9 -14.9	.2 .2	2.3 2.3	-5 -3	12.8 12.3	14.5 15.1	6.5 1.2	-6.2 -3.8	-1.6 ...
Net exports ² <i>Previous</i> ²	-471 -471	-519 -519	-594 -594	-617 -618	-616 -624	-547 -556	-381 -411	-300 -311	-298 ...
Exports	3.8	5.8	7.4	7.0	10.1	8.9	7.3	5.6	5.1
Imports	9.7	4.8	11.5	4.8	3.8	1.1	-2.4	2.8	4.9
Govt. cons. & invest. <i>Previous</i>	4.0 4.0	1.7 1.7	.7 .7	.6 .9	2.1 2.5	2.4 2.3	2.4 2.4	1.3 1.5	.8 ...
Federal	7.8	5.5	2.4	1.0	2.9	2.3	4.5	2.8	2.0
Defense	8.4	7.5	2.5	.8	4.1	2.7	6.1	3.2	2.0
Nondefense	6.8	1.9	2.3	1.4	.5	1.5	1.3	1.8	2.0
State & local	2.1	-4	-4	.3	1.6	2.4	1.2	.4	.1
Change in bus. inventories ² <i>Previous</i> ²	12 12	14 14	54 54	39 33	42 40	-2 5	-24 -36	30 52	37 ...
Nonfarm ²	15	14	48	39	46	-4	-28	30	37
Farm ²	-2	0	6	0	-3	1	2	1	1

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

2. Billions of chained (2000) dollars.

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

Item	2008				2009				2010				2008 ¹	2009 ¹	2010 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008 ¹	2009 ¹	2010 ¹
Real GDP <i>Previous</i>	.9 1.0	3.5 2.7	.6 .7	1.1 .4	1.6 1.4	2.2 2.3	2.2 2.4	2.3 2.6	2.4 ...	2.6 ...	2.8 ...	2.9 ...	1.5 1.2	2.1 2.2	2.7 ...
Final sales <i>Previous</i>	.9 1.0	5.0 4.1	.0 1.2	-.4 -2.3	.8 .1	2.2 2.4	2.1 1.9	1.6 1.4	1.8 ...	3.6 ...	3.3 ...	2.4 ...	1.4 1.0	1.6 1.4	2.8 ...
Priv. dom. final purch. <i>Previous</i>	-.3 -.3	1.1 1.0	-1.0 -.1	-1.8 -3.4	.4 -.6	.9 .7	1.4 .9	1.8 1.4	2.4 ...	2.7 ...	3.0 ...	2.9 ...	-.5 -.7	1.1 .6	2.8 ...
Personal cons. expend. <i>Previous</i>	.6 .8	1.3 1.4	-.4 1.1	-1.1 -2.1	1.1 .6	1.3 .8	1.5 .9	1.5 1.1	1.7 ...	1.8 ...	1.8 ...	1.8...	.1 .3	1.3 .9	1.8 ...
Durables	-.3	-.2	-.3	.2	.4	.3	.4	.3	.4	.4	.3	.2	-.2	.3	.3
Nondurables	-.1	.9	-.6	-.9	.2	.4	.4	.5	.5	.5	.6	.6	-.2	.4	.6
Services	1.0	.6	.5	-.4	.4	.6	.7	.7	.8	.9	.9	1.0	.4	.6	.9
Residential investment <i>Previous</i>	-1.1 -1.1	-.5 -.8	-.7 -.9	-.7 -1.1	-.5 -.9	-.1 -.1	-.2 -.1	.1 .1	.3...	.5...	.6...	.5 ...	-.8 -1.0	-.2 -.2	.5 ...
Business fixed invest. <i>Previous</i>	.3 .1	.4 .4	.0 -.3	.1 -.2	-.1 -.4	-.2 -.1	.1 .1	.1 .2	.4...	.4...	.6...	.6...	.2 .0	.0 -.1	.5 ...
Equipment & software <i>Previous</i>	.0 .0	-.3 .0	-.2 -.3	.3 .0	.1 -.2	.1 .0	.3 .2	.3 .3	.6...	.5...	.6...	.6 ...	-.1 -.1	.2 .1	.6 ...
Nonres. structures <i>Previous</i>	.3 .0	.6 .4	.2 .0	-.2 -.2	-.3 -.2	-.3 -.1	-.2 -.1	-.2 -.1	-.1 ...	-.1...	.0...	.0...	.2 .0	-.2 -.1	-.1 ...
Net exports <i>Previous</i>	.8 .8	3.1 2.3	.7 1.0	1.0 .8	.1 .4	1.0 1.4	.5 .7	-.4 -.2	-.7...	.7...	.2 ...	-.7 ...	1.4 1.2	.3 .6	-.1 ...
Exports	.6	1.6	.5	1.0	.8	.8	.8	.8	.8	.7	.7	.7	.9	.8	.7
Imports	.1	1.4	.1	.1	-.7	.2	-.3	-1.1	-1.5	.0	-.5	-1.4	.4	-.5	-.9
Govt. cons. & invest. <i>Previous</i>	.4 .4	.8 .8	.4 .3	.3 .3	.3 .4	.3 .4	.2 .3	.2 .2	.2...	.2...	.2...	.2...	.5 .5	.3 .3	.2 ...
Federal	.4	.5	.2	.2	.2	.2	.2	.2	.1	.1	.2	.2	.3	.2	.1
Defense	.3	.4	.2	.2	.2	.2	.2	.1	.1	.1	.1	.1	.3	.2	.1
Nondefense	.1	.1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
State & local	.0	.3	.2	.1	.1	.1	.0	.0	.0	.0	.0	.0	.1	.1	.0
Change in bus. inventories <i>Previous</i>	.0 .0	-1.5 -1.4	.6 -.5	1.5 2.7	.8 1.3	.1 -.1	.2 .5	.7 1.3	.6 ...	-1.0 ...	-.6...	.5...	.1 .2	.4 .7	-.1 ...
Nonfarm	.2	-1.4	.6	1.5	.8	.1	.2	.7	.6	-1.0	-.6	.5	.2	.4	-.1
Farm	-.2	-.2	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	-.1	.0	.0

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

Class II FOMC
Restricted (FR)

September 10, 2008

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

Item	2008				2009				2010				2008 ¹	2009 ¹	2010 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP chain-wt. price index <i>Previous</i>	2.6	1.2	4.9	2.7	2.3	2.3	2.1	2.0	1.9	2.0	1.9	1.9	2.9	2.2	1.9
PCE chain-wt. price index <i>Previous</i>	2.7	.5	3.5	2.0	2.6	2.5	2.2	2.1	...	...	...	...	2.2	2.3	...
Energy <i>Previous</i>	3.6	4.2	5.5	.6	2.3	2.4	2.2	2.0	1.9	1.9	1.8	1.8	3.5	2.2	1.9
Food <i>Previous</i>	3.6	4.1	4.7	2.5	2.9	2.4	2.2	2.0	...	...	...	...	3.7	2.4	...
Ex. food & energy <i>Previous</i>	19.0	27.6	34.7	-26.4	-1.4	3.0	2.1	1.2	1.0	.7	.7	.8	10.8	1.2	.8
CPI <i>Previous</i>	18.6	28.1	28.4	-2.5	5.9	2.7	1.1	.5	...	...	...	...	17.4	2.5	...
Ex. food & energy <i>Previous</i>	4.9	6.4	8.0	5.0	4.1	3.5	2.8	2.4	2.2	2.1	2.0	2.0	6.1	3.2	2.1
ECL, hourly compensation ² <i>Previous</i> ²	4.8	6.5	5.9	4.4	3.9	3.3	2.7	2.4	...	...	...	...	5.4	3.1	...
Nonfarm business sector Output per hour <i>Previous</i>	2.3	2.1	2.9	2.6	2.4	2.2	2.1	2.0	2.0	1.9	1.9	1.9	2.4	2.1	1.9
Compensation per hour <i>Previous</i>	2.3	1.9	2.6	2.6	2.4	2.3	2.2	2.1	...	...	...	...	2.3	2.2	...
Unit labor costs <i>Previous</i>	4.3	5.0	7.2	-.4	2.3	2.6	2.3	2.2	2.1	2.0	2.0	2.0	4.0	2.3	2.0
	4.3	5.0	5.9	2.4	3.1	2.6	2.2	2.1	...	...	...	...	4.4	2.5	...
	2.5	1.9	3.4	2.7	2.5	2.3	2.2	2.2	2.2	2.1	2.1	2.1	2.6	2.3	2.1
	2.5	1.9	2.8	2.7	2.5	2.4	2.3	2.3	...	...	...	...	2.5	2.4	...
	3.0	2.3	3.2	3.2	3.1	3.1	3.1	3.1	3.0	3.0	3.0	3.0	2.9	3.1	3.0
	3.0	3.3	3.5	3.5	3.4	3.4	3.4	3.4	...	...	...	...	3.4	3.4	...
	2.6	4.5	1.0	1.7	1.7	1.8	1.8	1.8	2.0	2.0	2.1	2.1	2.4	1.8	2.1
	2.8	3.4	1.2	.9	1.4	2.0	1.9	1.9	...	...	...	...	2.1	1.8	...
	3.8	3.7	4.7	4.0	4.0	3.9	3.8	3.8	3.7	3.6	3.6	3.6	4.1	3.9	3.6
	5.0	4.0	4.1	4.0	4.1	4.1	4.1	4.0	...	...	...	...	4.2	4.1	...
	1.2	-.7	3.7	2.3	2.3	2.0	2.0	2.0	1.7	1.5	1.4	1.4	1.6	2.1	1.5
	2.1	.6	2.8	3.0	2.6	2.0	2.1	2.1	...	...	...	...	2.1	2.2	...

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

2. Private-industry workers.

Other Macroeconomic Indicators

Item	2008				2009				2010				2008 ¹	2009 ¹	2010 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Employment and production</i>															
Nonfarm payroll employment ²	-1	-2	-2	-3	.2	.3	.3	.2	.3	.5	.1	.2	-9	.9	1.2
Unemployment rate ³	4.9	5.3	6.0	6.2	6.2	6.2	6.2	6.2	6.1	6.0	5.9	5.9	6.2	6.2	5.9
<i>Previous³</i>	4.9	5.3	5.8	5.9	6.0	6.0	6.0	5.9	...	...	...	...	5.9	5.9	...
GDP gap ⁴	-6	-4	-9	-1.2	-1.4	-1.5	-1.6	-1.6	-1.6	-1.6	-1.5	-1.4	-1.2	-1.6	-1.4
<i>Previous⁴</i>	-3	-3	-7	-1.3	-1.5	-1.5	-1.6	-1.5	...	...	...	...	-1.3	-1.5	...
Industrial production ⁵	.4	-3.2	-2.6	4.1	3.2	2.2	3.1	3.5	3.8	4.1	3.8	3.7	-4	3.0	3.8
<i>Previous⁵</i>	.5	-3.1	1.3	1.1	1.7	1.7	2.4	3.9	...	...	...	...	-1	2.4	...
Manufacturing industr. prod. ⁵	-1.0	-3.9	-2.1	1.3	2.3	2.3	3.0	3.5	4.4	4.8	4.3	4.2	-1.5	2.8	4.5
<i>Previous⁵</i>	-9	-3.7	.2	-1	1.1	1.9	2.4	3.9	...	...	...	...	-1.1	2.3	...
Capacity utilization rate - mfg. ³	78.7	77.6	76.8	76.8	77.0	77.1	77.4	77.8	78.4	79.0	79.5	80.1	76.8	77.8	80.1
<i>Previous³</i>	78.7	77.6	77.3	77.0	77.0	77.1	77.3	77.8	...	...	...	...	77.0	77.8	...
Housing starts ⁶	1.1	1.0	.9	.8	.8	.8	.9	.9	1.0	1.1	1.1	1.2	1.0	.9	1.1
Light motor vehicle sales ⁶	15.2	14.1	13.2	13.7	14.3	14.5	14.8	15.0	15.3	15.6	15.9	15.9	14.1	14.6	15.7
<i>Income and saving</i>															
Nominal GDP ⁵	3.5	4.7	5.5	3.8	4.0	4.6	4.4	4.3	4.3	4.6	4.7	4.8	4.4	4.3	4.6
Real disposable pers. income ⁵	-7	11.4	-8.3	-1.5	4.3	1.5	1.5	2.6	3.6	1.9	3.4	2.8	.0	2.5	2.9
<i>Previous⁵</i>	1.4	11.3	-9.2	-2.6	3.5	1.4	1.6	2.7	...	...	...	...	.0	2.3	...
Personal saving rate ³	.2	2.6	.7	.7	1.4	1.4	1.3	1.4	1.7	1.6	1.8	1.8	.7	1.4	1.8
<i>Previous³</i>	.4	2.6	-2	-1	.6	.7	.8	1.1	...	...	...	...	-1	1.1	...
Corporate profits ⁷	-4.3	-8.6	12.4	7.2	3.7	5.1	4.1	4.5	6.4	4.7	4.4	4.7	1.3	4.4	5.0
Profit share of GNP ³	11.2	10.8	11.0	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1
Net federal saving ⁸	-331	-636	-450	-383	-428	-417	-402	-411	-431	-406	-421	-420	-450	-415	-419
Net state & local saving ⁸	-52	-76	-80	-86	-77	-79	-72	-67	-60	-57	-47	-40	-73	-74	-51
Gross national saving rate ³	12.4	11.6	11.5	12.2	12.1	12.2	12.2	12.3	12.5	12.5	12.6	12.7	12.2	12.3	12.7
Net national saving rate ³	.0	-1.0	-1.0	-3	-3	-2	-1	.1	.3	.4	.6	.8	-3	.1	.8

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

2. Change, millions.

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

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

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

5. Percent change, annual rate.

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

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

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

**Class II FOMC
Restricted (FR)**

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

September 10, 2008

Item	Fiscal year				2008				2009				2010				
	2007 ^a	2008	2009	2010	Q1 ^a	Q2 ^a	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Unified budget	Not seasonally adjusted																
	Receipts ¹	2568	2555	2691	2819	540	788	621	642	536	833	681	650	586	875	709	684
	Outlays ¹	2729	2958	3146	3249	746	744	755	786	798	789	773	828	816	811	794	859
	Surplus/deficit ¹	-162	-403	-455	-430	-206	44	-134	-144	-262	43	-92	-178	-230	64	-85	-175
	Previous	-162	-358	-395	-399	-206	44	-89	-133	-242	59	-79	-164	-226	69	-79	-168
	On-budget	-343	-596	-641	-615	-237	-47	-146	-216	-279	-47	-98	-247	-247	-31	-90	-244
	Off-budget	181	194	186	185	31	91	12	72	17	91	6	68	17	95	5	69
	Means of financing																
	Borrowing	206	395	508	448	200	-48	153	151	259	-16	114	168	220	-40	100	165
	Cash decrease	-23	30	-5	0	11	-7	8	5	15	-15	-10	15	15	-20	-10	15
Other ²	-22	-22	-48	-18	-5	12	-28	-12	-12	-12	-12	-5	-5	-5	-5	-5	
Cash operating balance, end of period	75	45	50	50	46	53	45	40	25	40	50	35	20	40	50	35	
NIPA federal sector	Seasonally adjusted annual rates																
	Receipts	2624	2629	2787	2950	2673	2491	2671	2716	2769	2800	2862	2896	2934	2966	3004	3042
	Expenditures	2832	3042	3194	3367	3003	3127	3121	3099	3197	3217	3265	3307	3365	3372	3425	3462
	Consumption expenditures	842	904	962	1006	898	918	929	938	958	970	981	992	1002	1011	1021	1031
	Defense	569	620	665	696	614	629	640	649	663	671	679	686	693	699	705	711
	Nondefense	273	285	296	311	284	289	289	289	296	299	302	306	309	312	316	319
	Other spending	1990	2137	2233	2361	2105	2209	2192	2160	2239	2247	2284	2315	2363	2360	2404	2431
	Current account surplus	-209	-413	-408	-417	-331	-636	-450	-383	-428	-417	-402	-411	-431	-406	-421	-420
	Gross investment	123	134	148	155	129	139	142	144	147	149	151	153	154	156	157	159
	Gross saving less gross investment ³	-221	-431	-433	-443	-344	-657	-473	-407	-453	-442	-428	-437	-456	-431	-446	-445
Fiscal indicators ⁴																	
	High-employment (HEB) surplus/deficit	-229	-409	-350	-348	-329	-638	-423	-337	-375	-355	-333	-337	-361	-338	-355	-359
	Change in HEB, percent of potential GDP	-0.3	1.2	-0.5	-0.1	0.6	2.1	-1.5	-0.6	0.2	-0.2	-0.2	0.0	0.1	-0.2	0.1	-0.0
	Fiscal impetus (FI), percent of GDP	0.2	0.7	-0.0	0.0	0.1	0.5	0.5	-0.3	-0.2	0.1	-0.1	-0.0	-0.0	0.0	0.0	0.0
	Previous	0.2	0.7	0.0	-0.0	0.1	0.4	0.7	-0.5	-0.1	0.1	-0.1	-0.0	-0.0	0.0	0.0	0.0

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

a--Actual

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

Period ¹	Total	Households			Business	State and local governments	Federal government	Memo: Nominal GDP
		Total	Home mortgages	Consumer credit				
<i>Year</i>								
2003	8.1	11.5	14.2	5.2	2.5	8.3	10.9	5.9
2004	8.9	11.2	13.7	5.5	6.2	7.4	9.0	6.5
2005	9.5	11.2	13.1	4.3	8.5	10.2	7.0	6.3
2006	9.1	10.2	11.2	4.5	10.5	8.1	3.9	5.3
2007	8.6	6.8	6.8	5.6	13.0	9.3	4.9	4.9
2008	4.2	1.6	.9	3.4	5.2	4.9	8.9	4.4
2009	4.4	1.7	1.2	2.7	4.8	7.4	9.4	4.3
2010	4.9	3.4	2.9	4.3	5.1	7.0	7.3	4.6
<i>Quarter</i>								
2008:1	5.4	3.3	2.6	5.2	7.4	3.4	8.1	3.5
2	3.5	1.4	.8	4.4	5.7	.5	5.9	4.7
3	3.9	.8	.2	2.0	3.4	8.6	11.1	5.5
4	3.7	.7	.1	2.0	4.0	7.0	9.5	3.8
2009:1	4.1	.7	.1	2.0	4.1	7.2	11.6	4.0
2	3.8	1.2	.5	2.5	4.5	7.1	7.6	4.6
3	4.5	2.2	1.8	2.9	5.2	7.3	7.3	4.4
4	5.1	2.7	2.4	3.2	5.1	7.2	9.8	4.3
2010:1	4.9	3.1	2.7	3.7	5.1	7.0	8.0	4.3
2	4.6	3.3	2.8	4.2	5.1	6.9	5.5	4.6
3	4.6	3.4	2.9	4.5	4.8	6.8	5.9	4.7
4	5.2	3.5	3.0	4.7	4.8	6.7	8.9	4.8

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2008:Q2 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

**Class II FOMC
Restricted (FR)**

Flow of Funds Projections: Highlights

September 10, 2008

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

Category	2007	2008	2009	2010	2008				2009				2010			
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<i>Domestic nonfinancial sectors</i>																
Net funds raised																
Total	1681.0	902.7	1173.0	1417.0	861.9	762.7	1036.7	965.5	1232.5	1457.4	1435.9	1319.8	1340.9	1571.5		
Net equity issuance	-834.2	-431.5	-297.0	-272.0	-404.0	-452.0	-332.0	-312.0	-272.0	-272.0	-272.0	-272.0	-272.0	-272.0		
Net debt issuance	2515.2	1334.2	1470.0	1689.0	1265.9	1214.7	1368.7	1277.5	1504.5	1729.4	1707.9	1591.8	1612.9	1843.5		
Borrowing indicators																
Debt (percent of GDP) ¹	220.6	224.9	224.8	225.2	224.7	224.8	224.8	224.5	224.4	224.7	225.1	225.2	225.1	225.2		
Borrowing (percent of GDP)	18.2	9.3	9.8	10.8	8.7	8.3	9.3	8.5	10.0	11.3	11.1	10.2	10.2	11.5		
Households																
Net borrowing ²	880.4	217.5	241.4	481.8	117.3	102.9	103.7	164.9	310.9	386.0	445.5	469.0	497.7	515.1		
Home mortgages	669.6	97.0	127.6	312.0	23.6	9.5	9.5	56.7	189.1	255.3	293.1	302.5	321.4	330.9		
Consumer credit	136.0	87.5	70.8	117.5	51.8	52.0	52.3	65.8	78.4	86.7	101.0	114.5	123.7	130.7		
Debt/DPI (percent) ³	131.8	130.8	128.5	125.9	130.8	131.3	129.4	128.5	127.8	127.2	126.4	126.2	125.6	125.3		
Business																
Financing gap ⁴	185.6	255.6	301.0	309.9	244.9	247.3	308.0	290.6	291.5	313.8	333.0	301.8	288.4	316.1		
Net equity issuance	-834.2	-431.5	-297.0	-272.0	-404.0	-452.0	-332.0	-312.0	-272.0	-272.0	-272.0	-272.0	-272.0	-272.0		
Credit market borrowing	1211.6	551.9	534.6	589.4	371.3	438.2	452.5	508.1	590.8	587.0	597.8	604.5	570.4	585.0		
State and local governments																
Net borrowing	186.1	108.3	169.5	173.5	190.8	157.5	165.5	165.5	173.5	173.5	173.5	173.5	173.5	173.5		
Current surplus ⁵	246.6	142.0	140.1	170.8	127.1	123.4	133.9	133.7	142.9	150.0	158.7	163.8	175.9	184.6		
Federal government																
Net borrowing	237.1	456.4	524.6	444.3	586.5	516.2	647.1	439.0	429.3	583.0	491.1	344.7	371.3	569.9		
Net borrowing (n.s.a.)	237.1	456.4	524.6	444.3	153.5	151.1	258.8	-16.3	114.2	167.8	219.8	-39.8	99.7	164.6		
Unified deficit (n.s.a.)	187.9	440.0	489.1	426.3	134.0	144.2	262.0	-43.4	92.2	178.3	230.3	-64.3	85.2	175.1		
<i>Depository institutions</i>																
Funds supplied	851.7	385.0	456.5	728.3	300.7	266.7	227.8	381.7	639.8	576.8	735.7	938.6	702.0	537.1		

Note. Data after 2008:Q2 are staff projections.

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

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

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

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

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

n.s.a. Not seasonally adjusted.

2.6.4 FOF

International Developments

Our near-term outlook for foreign economic activity is even gloomier than in the previous Greenbook. Based on surprisingly weak incoming data, we revised downward our estimate of output growth in the second quarter by nearly 1 percentage point in both the advanced and emerging market economies. We expect that overall foreign growth will remain sluggish in the second half of this year before strengthening in 2009, as financial market stresses begin to ease and U.S. activity picks up. However, given continued unsettled conditions in financial markets, troubled housing sectors, and negative sentiment in many countries, there are significant downside risks to the recovery scenario both in advanced and developing economies.

Sizable recent declines in oil and some food commodity prices should allow headline inflation in our trading partners to fall substantially from its recent elevated pace. Moreover, slower growth in foreign real activity is expected to eventually have a restraining influence on price inflation. Relative to the July/August Greenbook, we have revised downward our forecast for foreign consumer price inflation about $\frac{3}{4}$ percentage point in the second half of this year, in line with the downward revisions to our forecast for the path of oil and other commodity prices.

Summary of Staff Projections

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

Indicator	2007	2008: H1	Projection			
			2008		2009	2010
			Q3	Q4		
Foreign output	4.2	1.7	1.8	2.0	3.0	3.5
July/Aug. Greenbook	4.1	2.4	2.4	2.5	3.3	...
Foreign CPI	3.6	5.1	4.4	2.7	2.6	2.4
July/Aug. Greenbook	3.6	5.1	5.1	3.3	2.7	...
Contribution to growth (percentage points)						
U.S. net exports	0.8	1.9	0.7	1.0	0.3	-0.1
July/Aug. Greenbook	0.8	1.5	1.0	0.8	0.6	...

Note. Changes for years measured as Q4/Q4; half-year is measured as Q2/Q4.

... Not applicable.

supplies. We expect core export price inflation to slow in the third quarter to 10 percent, reflecting lower rates of inflation for metals and nonfuel intermediate inputs. The projected flattening out of commodity prices is expected to push core export price inflation down to 1¼ percent by the end of 2010.

Staff Projections of Selected Trade Prices

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

Trade category	2007	2008: H1	Projection			
			2008		2009	2010
			Q3	Q4		
<i>Imports</i>						
Core goods	3.4	9.5	7.5	2.1	1.0	1.3
July/Aug. Greenbook	3.3	9.9	5.8	2.2	1.4	...
Oil (dollars per barrel)	80.11	108.51	111.71	98.35	102.07	102.39
July/Aug. Greenbook	80.11	108.60	113.29	117.07	118.77	...
<i>Exports</i>						
Core goods	6.2	13.1	9.9	1.0	1.5	1.2
July/Aug. Greenbook	6.4	10.9	5.9	2.3	1.6	...

NOTE. Prices for core exports exclude computers and semiconductors. Prices for core imports exclude computers, semiconductors, oil, and natural gas. Both prices are on a National Income and Product Account chain-weighted basis.

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

... Not applicable.

Trade in Goods and Services

Real exports of goods and services surged at an annual rate of 13¼ percent in the second quarter, with growth widely distributed across categories of goods as well as destinations. The second-quarter increase was 2½ percentage points higher than estimated in the previous Greenbook. We project that the dollar's sizable depreciation during the past couple of years will support export growth of 5½ percent in the second half of 2008. We expect that the strike at Boeing will disrupt aircraft exports in the third quarter and assume that a resolution of the strike will allow aircraft exports to recover in the fourth quarter. After continuing apace in 2009, total exports are expected to decelerate a bit in 2010 as the stimulative influence of previous dollar depreciation fades, offsetting the effects of strengthening growth abroad. Compared with the previous Greenbook, we have lowered our forecast for export growth by about 1¾ percentage points in the second

half of 2008 and in 2009 on account of the higher projected path for the dollar and weaker outlook for foreign economic activity.

Real imports of goods and services declined at an annual rate of 7½ percent in the second quarter, led by a steep fall in real imports of oil that partly reflects residual seasonality. The second-quarter decline in imports was about 2¼ percentage points larger than estimated in the last Greenbook, as imports came in weaker than expected in the trade data for June. Real imports are expected to fall slightly in the second half of 2008, notwithstanding some rise in oil imports, as weak U.S. activity and higher import prices restrain imports of non-oil goods. Real import growth is expected to pick up in 2009 and then rise further in 2010, as U.S. growth strengthens and non-oil import price inflation abruptly steps down. Lower projected real imports of oil have led us to revise down our forecast for overall import growth in the fourth quarter by 1¼ percentage points, while the stronger dollar contributes to a modest upward revision in 2009.

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

Measure	2007	2008: H1	Projection			
			2008		2009	2010
			Q3	Q4		
Real imports	1.1	-4.2	-.8	-.3	2.8	4.9
July/Aug. Greenbook	1.0	-3.0	-.6	.8	2.4	...
Real exports	8.9	9.1	4.0	7.2	5.6	5.1
July/Aug. Greenbook	8.4	8.1	6.8	7.3	7.5	...

NOTE. Changes for years are measured as Q4/Q4; half-year is measured as Q2/Q4.

Alternative Simulations

Although our baseline projection has the dollar depreciating gradually over the forecast period, it is possible that the dollar may extend its recent upturn. In our first alternative scenario, we use the FRB/Global model to examine the implications of a continued appreciation of the dollar. In particular, we consider the effects of a sequence of shocks to the foreign exchange risk premium that begin in the fourth quarter of 2008 and induce the dollar to appreciate by 10 percent after four quarters in the absence of endogenous changes in domestic or foreign interest rates. The appreciation of the dollar causes U.S. net exports to contract, reducing real GDP growth 0.3 percentage point relative to baseline in 2009 and 0.4 percentage point in 2010. Core PCE price inflation declines

Alternative Scenarios:
Dollar Appreciation and a Disorderly Decline in the Dollar
 (Percent change from previous period, annual rate, except as noted)

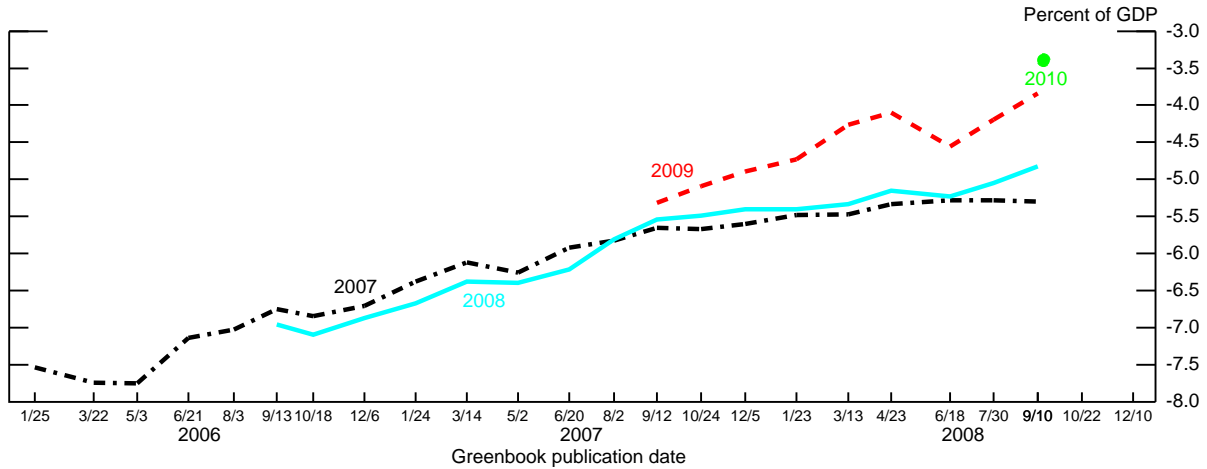
Indicator and simulation	2008	2009		2010	2011-13
	H2	H1	H2		
<i>U.S. real GDP</i>					
Baseline	0.8	1.9	2.3	2.7	3.0
Dollar appreciation	0.8	1.7	1.9	2.3	3.2
Disorderly dollar decline	0.8	1.9	2.3	2.7	2.6
<i>U.S. PCE prices excluding food and energy</i>					
Baseline	2.7	2.3	2.0	1.9	1.7
Dollar appreciation	2.6	2.2	1.9	1.8	1.6
Disorderly dollar decline	2.8	2.5	2.1	2.0	1.9
<i>U.S. federal funds rate (percent)</i>					
Baseline	2.0	2.0	2.5	3.0	3.7
Dollar appreciation	2.0	1.9	2.1	2.1	3.2
Disorderly dollar decline	2.0	2.1	2.7	3.3	3.5
<i>U.S. trade balance (percent share of GDP)</i>					
Baseline	-4.0	-3.7	-3.6	-3.5	-3.1
Dollar appreciation	-3.9	-3.5	-3.5	-3.7	-3.8
Disorderly dollar decline	-4.1	-3.9	-3.6	-3.0	-1.7

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

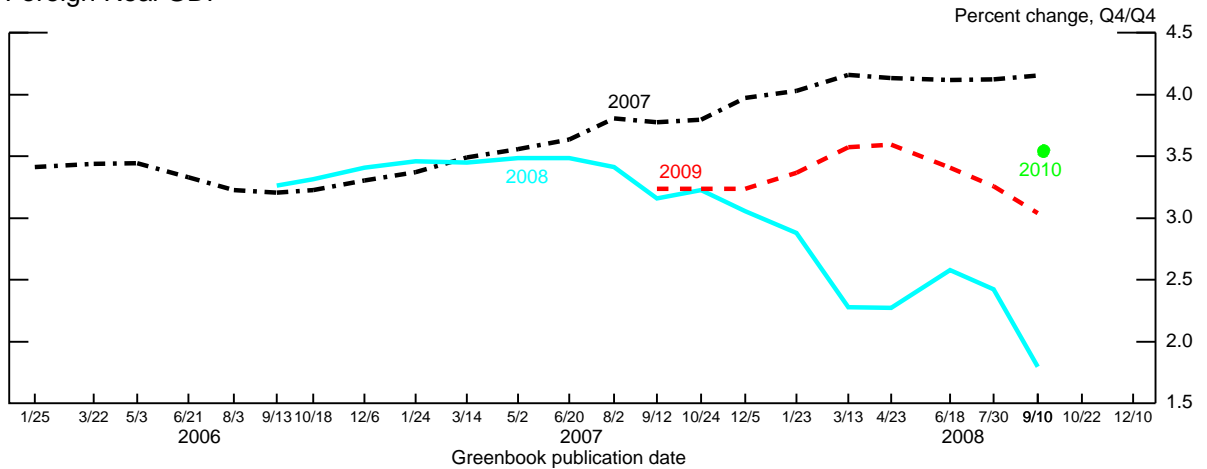
Class II FOMC -- Restricted (FR)

Evolution of the Staff Forecast

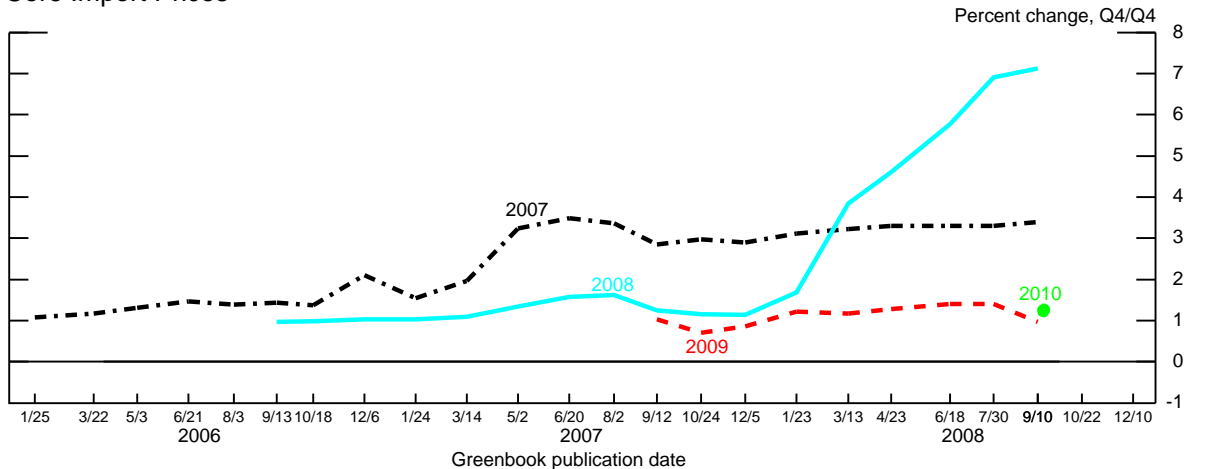
Current Account Balance



Foreign Real GDP



Core Import Prices*



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

Class II FOMC
Restricted (FR)

September 10, 2008

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

Measure and country	2008				Projected 2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total Foreign	2.3	1.1	1.8	2.0	2.5	3.0	3.3	3.4	3.5	3.5	3.6	3.6
Advanced Foreign Economies	1.0	-0.3	0.4	0.5	1.1	1.8	2.1	2.2	2.2	2.3	2.3	2.3
of which:												
Canada	-0.8	0.3	0.2	0.4	1.0	2.2	2.5	2.5	2.5	2.5	2.5	2.5
Japan	3.2	-2.4	1.5	0.6	1.0	1.4	1.4	1.6	1.7	1.7	1.7	1.7
United Kingdom	1.1	0.2	-0.4	-0.3	0.3	1.0	1.4	1.8	2.1	2.4	2.6	2.7
Euro Area (2)	2.7	-0.8	0.3	0.7	1.2	1.7	2.0	2.1	2.1	2.1	2.2	2.2
Germany	5.2	-2.0	0.2	0.8	1.2	1.8	2.3	2.7	2.7	2.7	2.8	2.8
Emerging Market Economies	4.0	3.0	3.7	4.0	4.3	4.6	4.8	5.1	5.2	5.2	5.2	5.2
Asia	8.0	3.2	5.2	5.4	5.9	6.1	6.3	6.3	6.4	6.5	6.5	6.5
Korea	3.3	3.4	3.5	3.7	3.9	4.3	4.4	4.5	4.6	4.6	4.7	4.7
China	11.7	9.9	8.9	8.7	9.3	9.3	9.5	9.5	9.6	9.6	9.6	9.6
Latin America	-0.3	2.5	1.9	2.3	2.6	2.9	3.3	3.8	3.9	3.9	4.0	4.0
Mexico	-0.5	0.6	1.3	1.7	2.2	2.6	3.0	3.8	3.9	3.9	3.9	3.9
Brazil	3.4	6.5	3.6	3.6	3.8	3.8	3.9	3.9	3.9	3.9	3.9	3.9
CONSUMER PRICES (3)	Four-quarter changes											
Total Foreign	4.1	4.7	4.8	4.3	3.8	3.1	2.6	2.6	2.5	2.5	2.4	2.4
Advanced Foreign Economies	2.2	2.7	3.3	2.9	2.8	2.2	1.8	1.8	1.8	1.7	1.7	1.6
of which:												
Canada	1.8	2.3	3.0	2.9	3.0	2.2	1.8	2.0	2.0	1.9	1.9	1.9
Japan	1.0	1.4	2.1	1.9	1.7	1.4	0.5	0.5	0.5	0.5	0.5	0.5
United Kingdom (4)	2.4	3.4	4.6	5.0	4.8	3.9	2.9	2.4	2.1	2.0	2.0	1.9
Euro Area (2)	3.4	3.6	3.9	3.1	2.7	2.4	2.2	2.3	2.3	2.1	2.0	1.9
Germany	3.1	3.0	3.0	2.4	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Emerging Market Economies	5.9	6.7	6.2	5.7	4.8	4.0	3.5	3.3	3.2	3.2	3.1	3.1
Asia	6.5	7.1	6.2	5.5	4.4	3.6	3.3	3.2	3.1	3.0	3.0	2.9
Korea	3.8	4.8	5.6	5.1	5.0	3.6	2.9	2.7	2.6	2.6	2.6	2.6
China	8.0	7.8	5.5	4.7	3.2	2.9	3.3	3.2	3.1	3.0	3.0	2.9
Latin America	4.5	5.5	6.0	6.0	5.6	4.8	3.9	3.7	3.6	3.5	3.5	3.5
Mexico	3.9	4.9	5.4	5.3	5.1	4.2	3.4	3.2	3.1	3.0	3.0	3.0
Brazil	4.6	5.5	6.3	6.3	5.9	5.3	4.6	4.6	4.5	4.5	4.5	4.5

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

Measure and country	2002	2003	2004	2005	2006	2007	2008	2009	2010
REAL GDP (1)									

Total Foreign	3.0	2.9	3.8	4.0	4.0	4.2	1.8	3.0	3.5
Advanced Foreign Economies	2.5	1.8	2.6	2.7	2.7	2.5	0.4	1.8	2.3
of which:									
Canada	3.5	1.5	3.7	3.0	2.2	2.8	0.0	2.0	2.5
Japan	2.0	2.4	1.1	2.9	2.5	1.4	0.7	1.3	1.7
United Kingdom	2.3	3.4	2.6	1.8	3.2	2.8	0.1	1.1	2.4
Euro Area (2)	1.1	1.2	1.7	2.1	3.3	2.1	0.7	1.7	2.2
Germany	0.0	0.2	0.2	1.6	4.1	1.7	1.0	2.0	2.7
Emerging Market Economies	3.9	4.5	5.5	5.8	5.7	6.4	3.7	4.7	5.2
Asia	6.4	6.9	6.0	7.6	7.0	7.8	5.5	6.2	6.5
Korea	7.7	4.1	2.9	5.6	4.2	5.9	3.5	4.2	4.6
China	8.6	10.3	9.8	10.2	10.6	11.3	9.8	9.4	9.6
Latin America	1.6	1.8	4.9	3.9	4.5	4.9	1.6	3.1	4.0
Mexico	2.0	1.3	4.4	3.4	3.7	4.2	0.8	2.9	3.9
Brazil	4.9	1.0	4.5	3.4	5.0	6.1	4.2	3.8	3.9
CONSUMER PRICES (3)									

Total Foreign	2.5	2.1	2.8	2.3	2.1	3.6	4.3	2.6	2.4
Advanced Foreign Economies	2.1	1.3	1.8	1.6	1.4	2.2	2.9	1.8	1.6
of which:									
Canada	3.8	1.7	2.3	2.3	1.3	2.4	2.9	2.0	1.9
Japan	-0.5	-0.3	0.5	-1.0	0.3	0.5	1.9	0.5	0.5
United Kingdom (4)	1.5	1.3	1.4	2.1	2.7	2.1	5.0	2.4	1.9
Euro Area (2)	2.3	2.0	2.3	2.3	1.8	2.9	3.1	2.3	1.9
Germany	1.2	1.1	2.1	2.2	1.3	3.1	2.4	2.0	2.0
Emerging Market Economies	2.9	3.1	3.9	3.0	2.9	5.1	5.7	3.3	3.1
Asia	0.8	2.3	3.1	2.6	2.3	5.4	5.5	3.2	2.9
Korea	3.4	3.5	3.4	2.5	2.1	3.4	5.1	2.7	2.6
China	-0.6	2.7	3.2	1.4	2.1	6.6	4.7	3.2	2.9
Latin America	6.4	4.9	5.7	3.8	4.1	4.3	6.0	3.7	3.5
Mexico	5.2	3.9	5.3	3.1	4.1	3.8	5.3	3.2	3.0
Brazil	10.7	11.5	7.2	6.1	3.2	4.3	6.3	4.6	4.5

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2002	2003	2004	2005	2006	2007	----- 2008	Projected 2009	----- 2010
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-0.9	-0.1	-0.9	-0.1	0.4	0.8	1.4	0.3	-0.1
Exports of G&S	0.4	0.6	0.7	0.7	1.1	1.0	0.9	0.8	0.7
Imports of G&S	-1.3	-0.7	-1.7	-0.8	-0.6	-0.2	0.4	-0.5	-0.9
	Percentage change, Q4/Q4								
Exports of G&S	3.8	5.8	7.4	7.0	10.1	8.9	7.3	5.6	5.1
Services	10.2	3.0	8.3	4.0	11.5	9.3	4.4	3.4	5.0
Computers	-1.1	11.3	5.8	14.2	8.1	0.9	14.8	9.5	9.5
Semiconductors	10.1	38.3	-6.0	17.6	2.9	29.3	4.5	11.0	11.0
Core Goods 1/	0.6	4.9	8.0	7.4	10.0	8.2	8.5	6.3	4.8
Imports of G&S	9.7	4.8	11.5	4.8	3.8	1.1	-2.4	2.8	4.9
Services	8.8	2.2	9.3	-0.1	8.0	1.8	-0.6	3.6	3.7
Oil	3.8	1.2	10.8	1.0	-9.2	0.6	-5.9	-1.5	1.7
Natural Gas	19.5	1.3	4.9	13.7	-12.6	12.1	-15.4	4.2	0.5
Computers	13.2	17.0	23.2	12.5	13.8	8.4	11.5	15.5	15.5
Semiconductors	11.0	-0.1	9.8	7.5	-0.3	3.8	5.2	5.0	5.0
Core Goods 2/	10.0	5.2	11.4	5.9	5.7	0.1	-2.5	2.9	5.5
	Billions of Chained 2000 Dollars								
Net Goods & Services	-471.3	-518.9	-593.8	-616.6	-615.7	-546.5	-381.3	-299.9	-297.6
Exports of G&S	1013.3	1026.1	1126.1	1205.3	1314.8	1425.9	1550.5	1646.1	1734.0
Imports of G&S	1484.6	1545.0	1719.9	1821.9	1930.5	1972.4	1931.8	1946.0	2031.6
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-461.3	-523.4	-625.0	-729.0	-788.1	-731.2	-695.5	-577.2	-532.7
Current Acct as Percent of GDP	-4.4	-4.8	-5.3	-5.9	-6.0	-5.3	-4.8	-3.8	-3.4
Net Goods & Services (BOP)	-423.7	-496.9	-607.7	-711.6	-753.3	-700.3	-670.4	-556.7	-556.5
Investment Income, Net	33.0	51.0	73.4	78.8	63.8	88.8	100.1	102.7	145.1
Direct, Net	102.4	112.7	150.9	173.2	184.1	233.9	250.5	238.9	262.7
Portfolio, Net	-69.4	-61.7	-77.5	-94.4	-120.3	-145.1	-150.4	-136.2	-117.6
Other Income & Transfers, Net	-70.5	-77.5	-90.6	-96.2	-98.6	-119.7	-125.2	-123.2	-121.2

1. Merchandise exports excluding computers and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2005				2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	0.3	0.8	-0.1	-1.3	0.1	0.6	-0.1	1.3	-1.2	1.7	2.0	0.9
Exports of G&S	0.8	0.9	0.0	1.1	1.7	0.6	0.4	1.7	0.1	1.0	2.5	0.5
Imports of G&S	-0.5	-0.1	-0.1	-2.4	-1.6	0.0	-0.5	-0.3	-1.2	0.7	-0.5	0.4
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	8.1	8.8	0.4	10.9	16.7	5.5	3.5	15.6	0.6	8.8	23.0	4.4
Services	10.2	-2.8	3.2	5.7	13.4	2.7	3.2	28.6	-2.7	13.3	25.9	2.7
Computers	16.8	27.9	8.3	5.2	12.0	17.5	-7.9	12.7	3.9	-4.0	14.4	-9.2
Semiconductors	-5.2	11.7	30.7	38.0	20.3	16.1	-5.6	-15.0	15.9	23.7	20.5	61.7
Core Goods 1/	7.3	13.8	-2.9	12.4	18.3	5.6	4.8	11.8	1.3	6.6	22.1	3.7
Imports of G&S	3.2	0.6	0.8	15.3	10.3	0.1	3.1	2.0	7.7	-3.7	3.0	-2.3
Services	-5.7	-0.0	-1.0	6.8	17.7	-2.0	-0.3	18.4	4.2	-2.0	6.3	-0.9
Oil	5.1	-27.1	-11.6	53.6	-2.8	-27.1	7.5	-10.6	30.9	-22.3	-13.5	16.5
Natural Gas	58.6	-14.1	111.1	-41.9	-50.7	91.9	26.6	-51.2	70.8	74.2	28.2	-58.6
Computers	3.2	11.6	20.4	15.4	20.7	21.1	19.7	-4.3	34.9	-6.5	-0.2	9.7
Semiconductors	-9.2	7.7	14.0	20.0	0.2	-0.5	17.7	-15.8	1.2	6.7	1.0	6.4
Core Goods 2/	4.8	6.1	0.3	12.7	13.7	4.9	1.2	3.2	2.2	-1.1	5.8	-6.0
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-623.7	-601.3	-603.6	-637.8	-636.0	-619.4	-623.0	-584.2	-618.6	-571.2	-511.8	-484.5
Exports of G&S	1177.9	1203.1	1204.3	1235.7	1284.3	1301.4	1312.6	1361.1	1363.2	1392.2	1466.2	1482.1
Imports of G&S	1801.7	1804.4	1807.9	1873.6	1920.2	1920.9	1935.7	1945.3	1981.8	1963.4	1978.0	1966.5
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-696.2	-711.3	-675.6	-832.9	-783.8	-799.6	-843.6	-725.4	-787.7	-776.4	-691.8	-669.0
Current Account as % of GDP	-5.7	-5.8	-5.4	-6.6	-6.0	-6.1	-6.4	-5.4	-5.8	-5.7	-5.0	-4.8
Net Goods & Services (BOP)	-664.0	-682.9	-721.4	-778.0	-756.4	-767.4	-789.9	-699.5	-718.2	-715.3	-672.5	-695.1
Investment Income, Net	88.6	77.8	88.7	59.9	65.2	70.7	51.7	67.7	57.8	45.8	98.9	152.6
Direct, Net	170.2	168.5	187.8	166.3	177.2	189.2	171.9	198.2	201.1	196.2	238.8	299.3
Portfolio, Net	-81.6	-90.7	-99.0	-106.5	-112.0	-118.5	-120.3	-130.5	-143.2	-150.4	-139.9	-146.7
Other Inc. & Transfers, Net	-120.9	-106.2	-42.9	-114.8	-92.6	-103.0	-105.4	-93.6	-127.4	-106.9	-118.3	-126.4

1. Merchandise exports excluding computers and semiconductors.

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

September 10, 2008

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2008				Projected 2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	0.8	3.1	0.7	1.0	0.1	1.0	0.5	-0.4	-0.7	0.7	0.2	-0.7
Exports of G&S	0.6	1.6	0.5	1.0	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.7
Imports of G&S	0.1	1.4	0.1	0.1	-0.7	0.2	-0.3	-1.1	-1.5	-0.0	-0.5	-1.4
Percentage change from previous period, s.a.a.r.												
Exports of G&S	5.1	13.2	4.0	7.2	5.6	5.7	5.7	5.6	5.4	5.1	4.9	4.9
Services	6.4	5.9	3.4	2.0	2.7	3.3	3.6	4.0	4.4	4.8	5.3	5.5
Computers	0.4	57.7	-0.0	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
Semiconductors	4.6	-7.5	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Core Goods 1/	4.7	16.4	4.1	9.4	6.6	6.4	6.2	5.9	5.5	5.0	4.4	4.3
Imports of G&S	-0.8	-7.6	-0.8	-0.3	3.9	-1.0	1.7	6.7	8.7	0.1	2.9	8.1
Services	5.5	-7.6	2.7	-2.3	3.2	4.4	3.5	3.2	7.4	-0.3	3.9	4.1
Oil	17.6	-39.2	4.7	4.9	13.2	-20.5	-12.4	19.7	22.9	-19.2	-12.3	23.0
Natural Gas	-40.5	4.3	18.2	-30.0	6.8	7.3	43.1	-28.0	2.1	1.8	37.6	-28.7
Computers	6.3	25.9	0.0	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5
Semiconductors	-3.3	14.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Core Goods 2/	-6.4	2.2	-3.9	-1.7	0.7	2.7	3.9	4.4	4.9	5.4	5.7	5.9
Billions of Chained 2000 Dollars, s.a.a.r.												
Net Goods & Services	-462.0	-376.6	-357.7	-328.9	-325.5	-298.0	-283.5	-292.5	-311.7	-290.8	-284.5	-303.4
Exports of G&S	1500.6	1547.9	1563.1	1590.4	1612.3	1634.7	1657.4	1680.0	1702.2	1723.6	1744.5	1765.6
Imports of G&S	1962.6	1924.5	1920.8	1919.4	1937.8	1932.7	1940.9	1972.5	2013.9	2014.5	2029.0	2069.0
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-705.5	-722.7	-714.2	-639.7	-635.5	-577.4	-547.0	-548.9	-565.3	-523.3	-508.1	-534.0
Current Account as % of GDP	-5.0	-5.0	-4.9	-4.4	-4.3	-3.9	-3.6	-3.6	-3.7	-3.4	-3.2	-3.3
Net Goods & Services (BOP)	-699.7	-705.9	-689.8	-586.2	-588.9	-553.4	-535.1	-549.6	-578.7	-546.6	-536.9	-563.8
Investment Income, Net	126.3	102.6	94.5	76.9	84.6	96.5	108.6	121.2	133.9	143.8	149.3	153.3
Direct, Net	267.4	251.1	252.2	231.3	231.8	236.3	241.2	246.2	252.7	260.2	265.7	272.1
Portfolio, Net	-141.1	-148.5	-157.8	-154.3	-147.2	-139.9	-132.6	-125.1	-118.8	-116.3	-116.4	-118.8
Other Inc. & Transfers, Net	-132.1	-119.4	-118.9	-130.5	-131.3	-120.5	-120.5	-120.5	-120.5	-120.5	-120.5	-123.5

1. Merchandise exports excluding computers and semiconductors.

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

Part 2

September 10, 2008

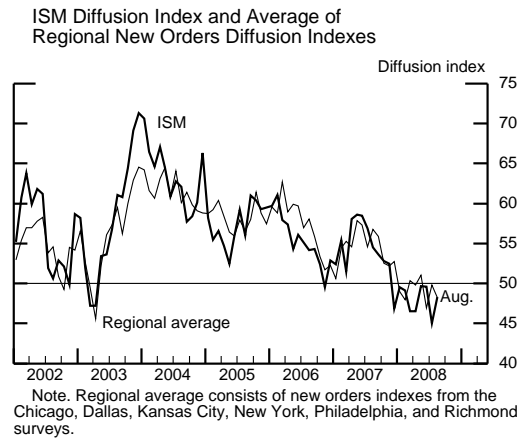
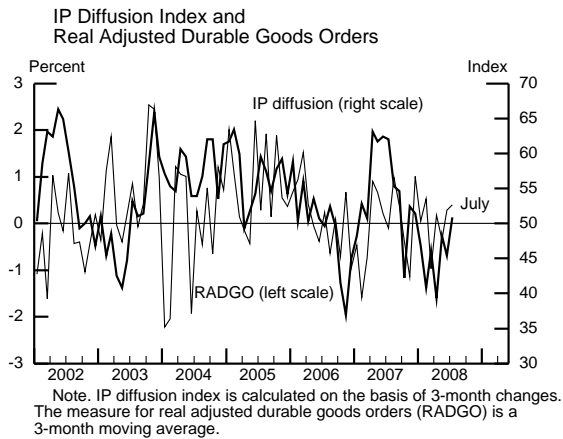
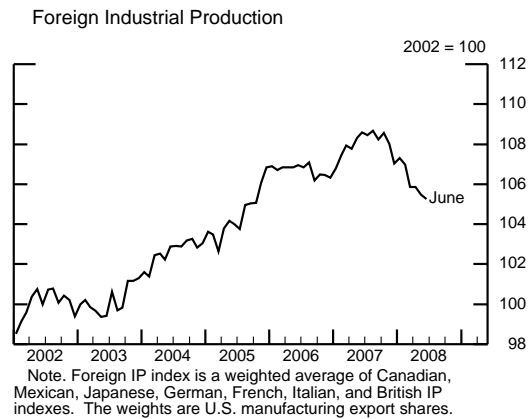
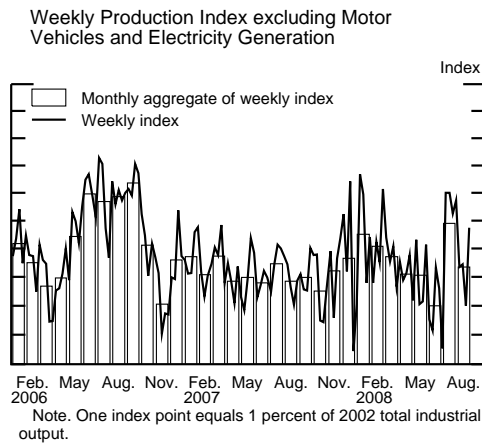
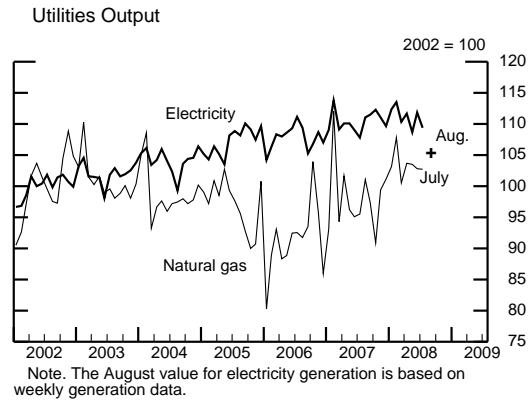
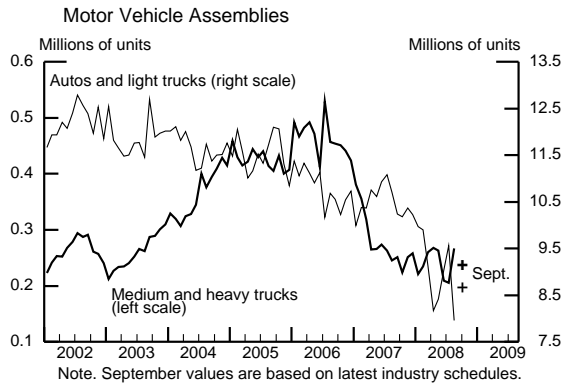
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

September 10, 2008

Recent Developments

Indicators of Industrial Activity



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

Category	2007	2007	2008				
		Q4	Q1	Q2	June	July	Aug.
Total	16.1	16.0	15.2	14.1	13.6	12.5	13.7
Autos	7.6	7.7	7.4	7.6	7.5	6.9	6.8
Light trucks	8.5	8.2	7.8	6.5	6.1	5.6	6.9
North American ¹	12.3	12.2	11.5	10.4	9.9	9.1	10.4
Autos	5.2	5.4	5.1	5.0	4.9	4.4	4.5
Light trucks	7.1	6.8	6.5	5.3	5.1	4.6	5.9
Foreign-produced	3.8	3.8	3.7	3.7	3.7	3.5	3.3
Autos	2.4	2.4	2.4	2.6	2.7	2.5	2.3
Light trucks	1.4	1.4	1.3	1.1	1.0	1.0	1.0
Memo: Detroit Three domestic market share (percent) ²	51.3	50.5	50.2	45.9	45.3	42.4	45.9

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

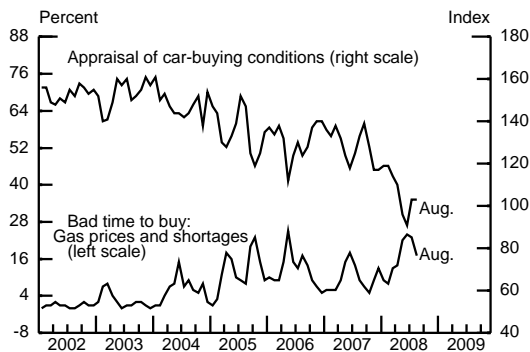
1. Excludes some vehicles produced in Canada that are classified as imports by the industry.

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

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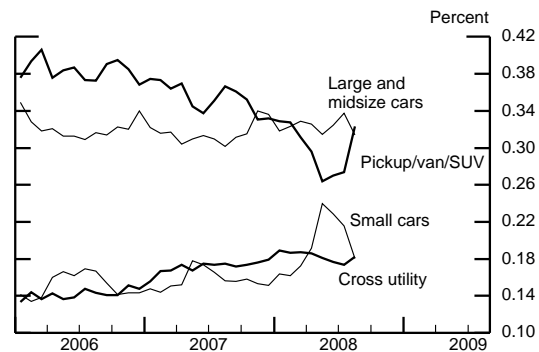
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Car-Buying Attitudes



Source. Reuters/University of Michigan Survey.

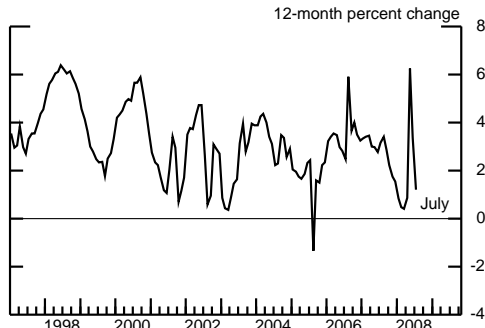
Market Share of Light Vehicles by Segment



Note. Data through May. FRB seasonals.

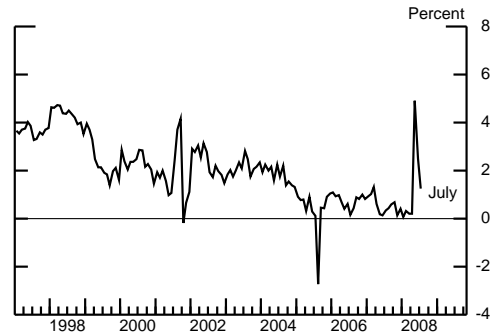
Fundamentals of Household Spending

Change in Real DPI



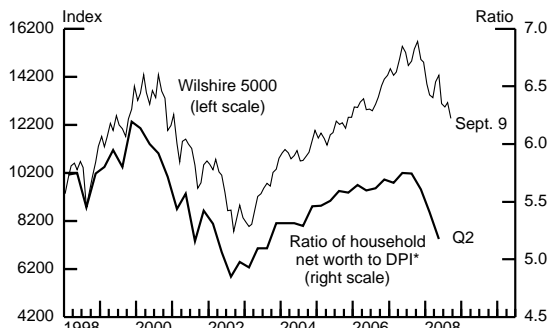
Note. Values for December 2004 and December 2005 exclude the effect on income of the one-time Microsoft dividend in December 2004.

Personal Saving Rate



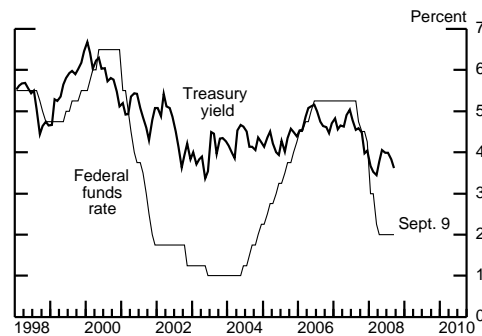
Note. The value for December 2004 excludes the effect on income of the one-time Microsoft dividend in that month.

Household Net Worth and Wilshire 5000

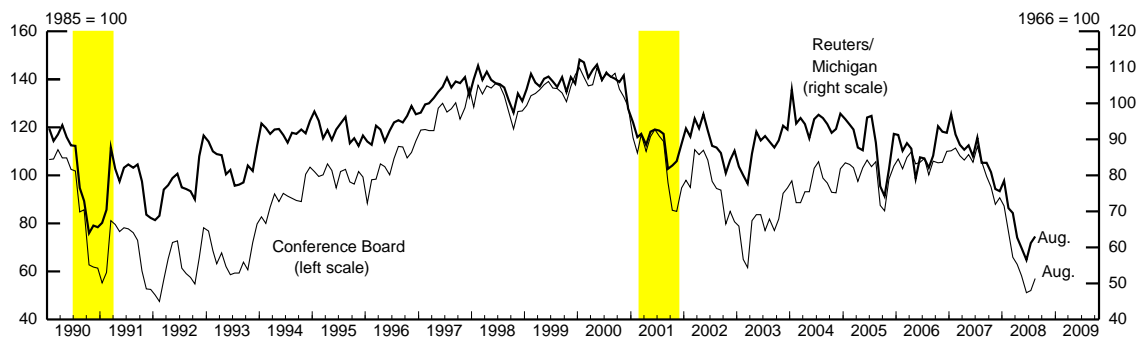


*The value for 2004:Q4 excludes the effect on income of the one-time Microsoft dividend in December 2004.

Target Federal Funds Rate and 10-Year Treasury Yield



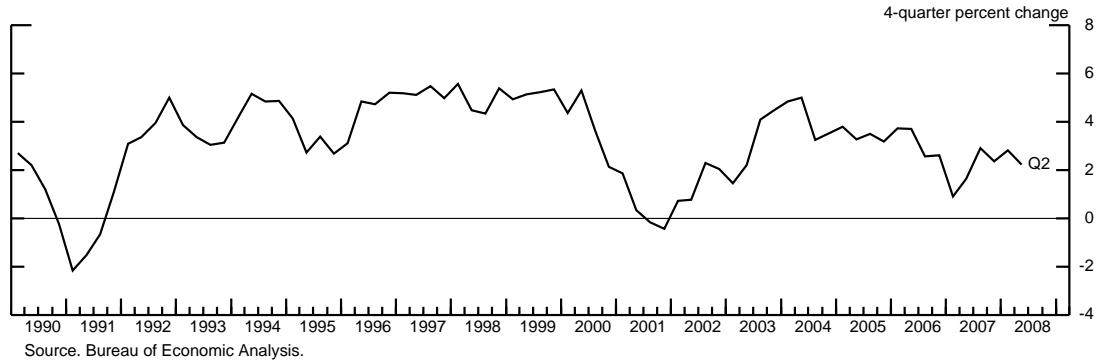
Consumer Confidence



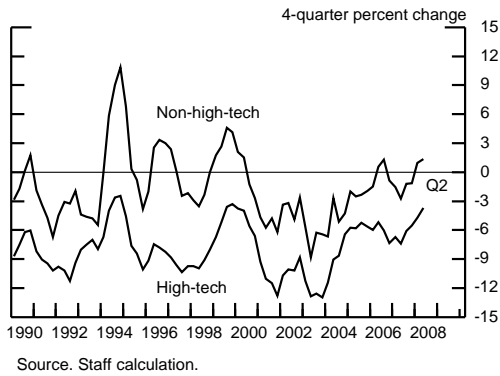
Note. Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research.

Fundamentals of Equipment and Software Investment

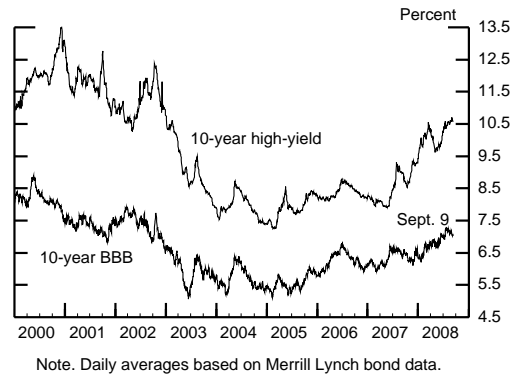
Real Business Output



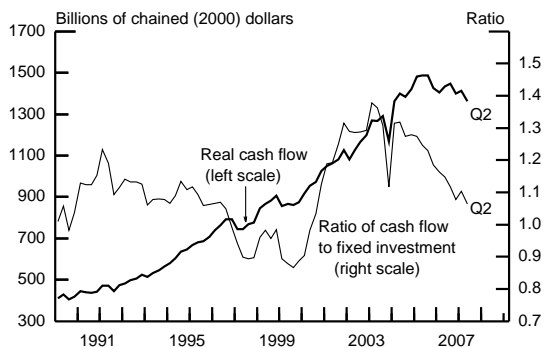
User Cost of Capital



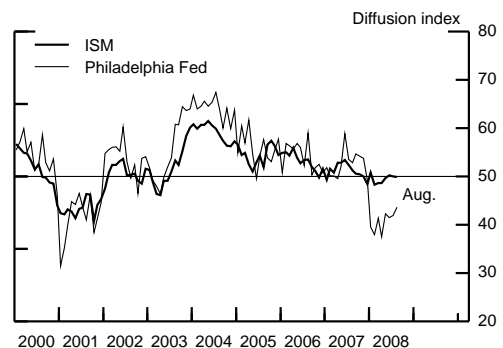
Corporate Bond Yields



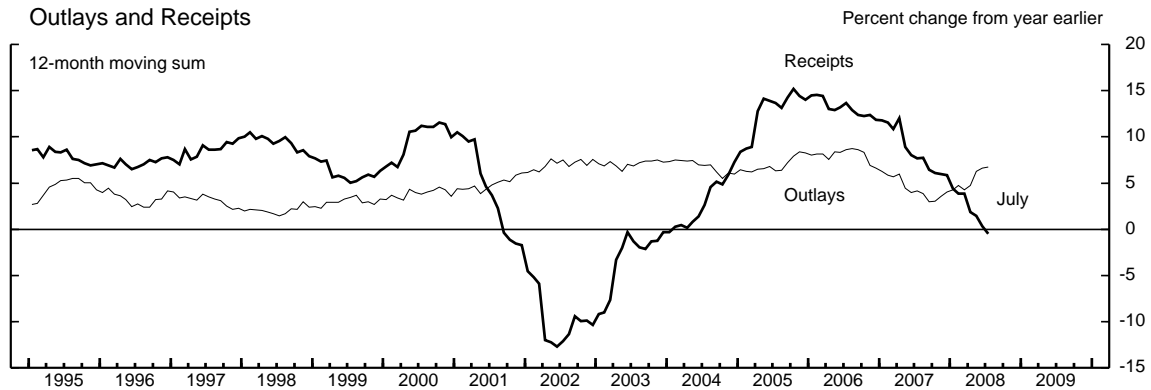
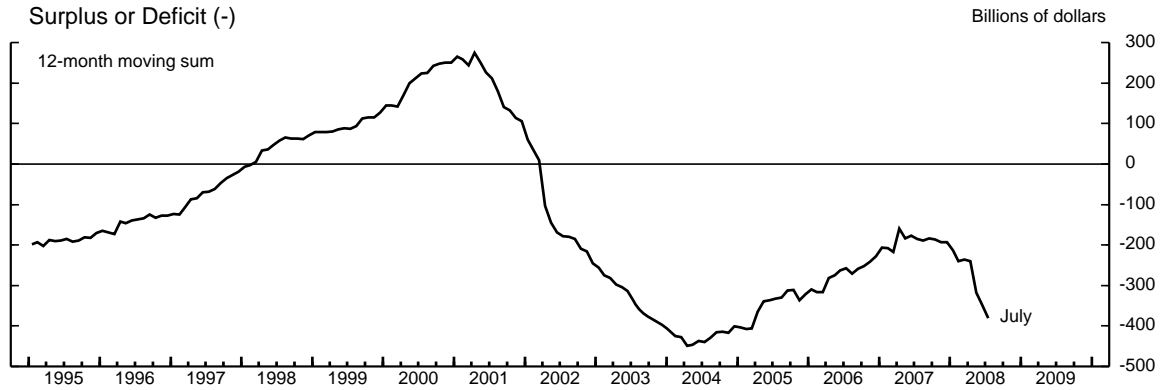
Corporate Cash Flow



Surveys of Business Conditions



Federal Government Budget
(Unified basis; adjusted for payment-timing shifts and financial transactions; data from Monthly Treasury Statement)



Recent Federal Outlays and Receipts

(Billions of dollars except as noted)

Function or source	July			12 months ending in July		
	2007	2008	Percent change	2007	2008	Percent change
Outlays	226.3	249.0	10.0	2,743.5	2,927.4	6.7
Net interest	24.0	24.1	.1	236.4	245.6	3.9
National defense	46.8	55.1	17.8	556.5	611.9	10.0
Major transfers ¹	122.2	136.0	11.3	1,510.1	1,623.8	7.5
Other	33.3	33.8	1.5	440.6	446.1	1.3
Receipts	170.4	160.5	-5.8	2,559.0	2,546.3	-.5
Individual income and payroll taxes	142.3	131.0	-7.9	1,966.8	1,991.5	1.3
Corporate income taxes	9.6	10.3	6.6	381.9	327.9	-14.1
Other	18.5	19.2	3.9	210.3	227.0	7.9
Surplus or deficit (-)	-55.9	-88.5	...	-184.6	-381.1	...
Memo:						
Unadjusted surplus or deficit (-)	-36.4	-102.8	...	-166.0	-375.6	...

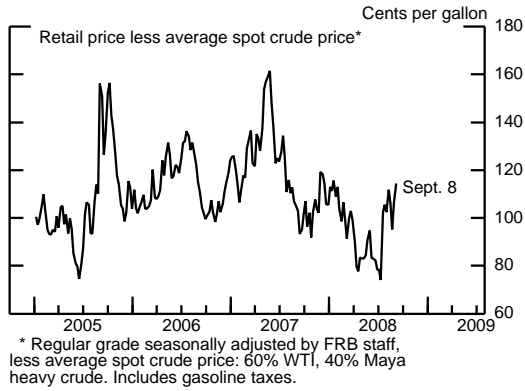
1. Includes Social Security, Medicare, Medicaid, and income security programs.

... Not applicable.

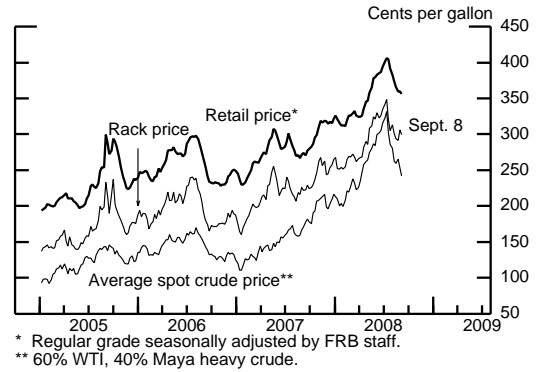
Energy and Food Price Indicators

(Data from Energy Information Administration except as noted)

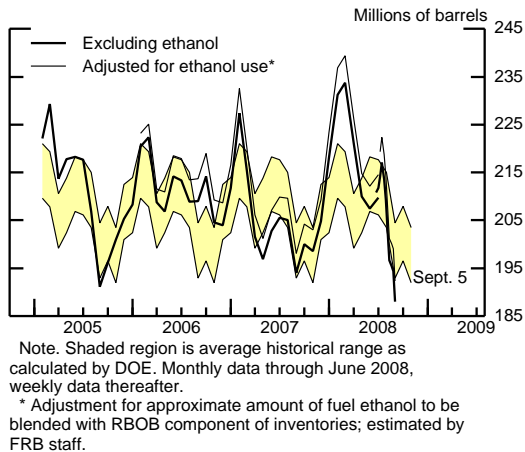
Total Gasoline Margin



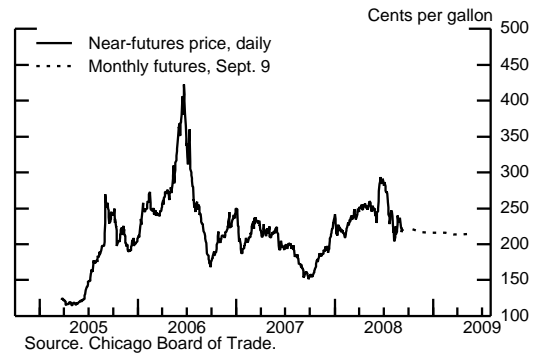
Gasoline Price Decomposition



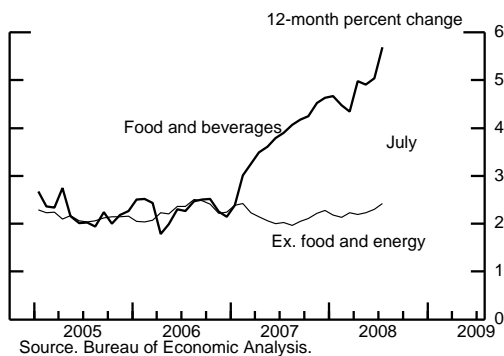
Gasoline Inventories



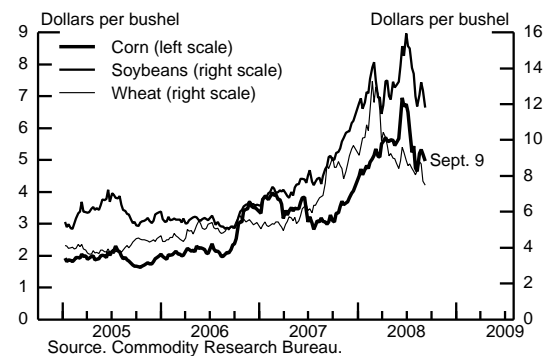
Ethanol Prices



PCE Food Prices

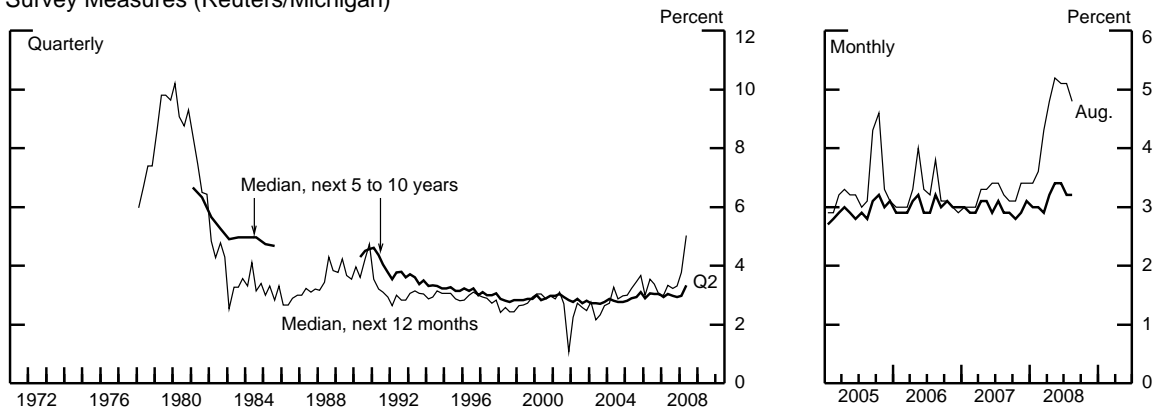


Spot Agricultural Commodity Prices

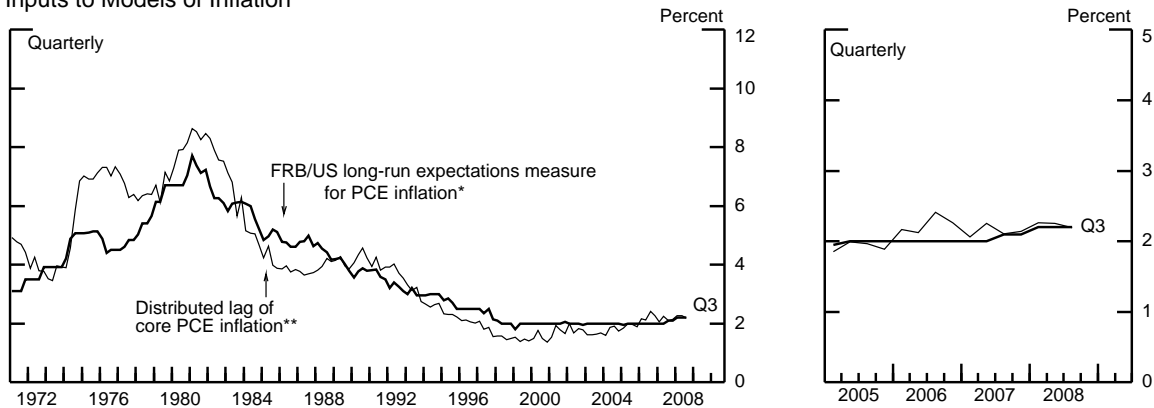


Measures of Expected Inflation

Survey Measures (Reuters/Michigan)



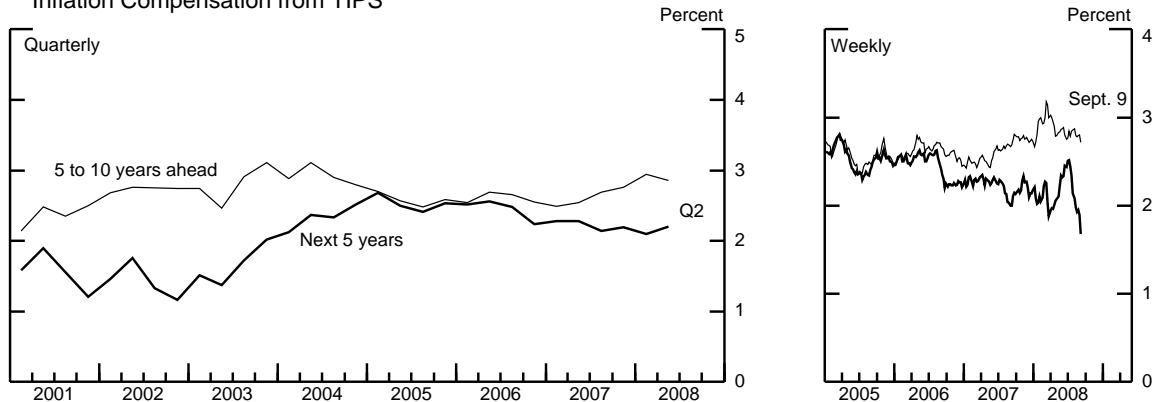
Inputs to Models of Inflation



*For 2007 forward, the median projection for PCE inflation over the next 10 years from the Survey of Professional Forecasters (SPF); for 1991 to 2006, the equivalent SPF projection for the CPI; for 1981 to 1991, a related survey for the CPI conducted by Richard Hovey; and for the period preceding 1981, a model-based estimate constructed by Board staff. The survey data before 2007 are adjusted down 0.5 percentage point to put the CPI projections approximately on a PCE basis.

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

Inflation Compensation from TIPS

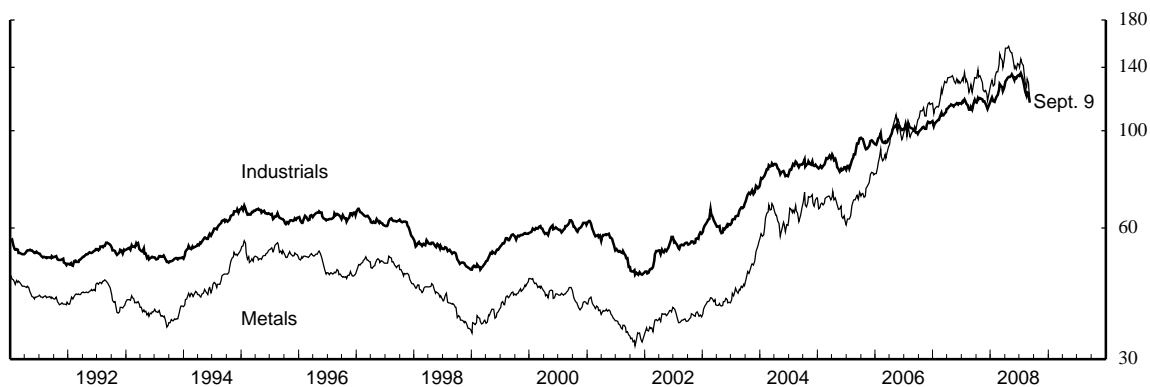


Note. Based on a comparison of an estimated TIPS yield curve with an estimated nominal off-the-run Treasury yield curve, with an adjustment for the indexation-lag effect.

Commodity Price Indexes

Journal of Commerce

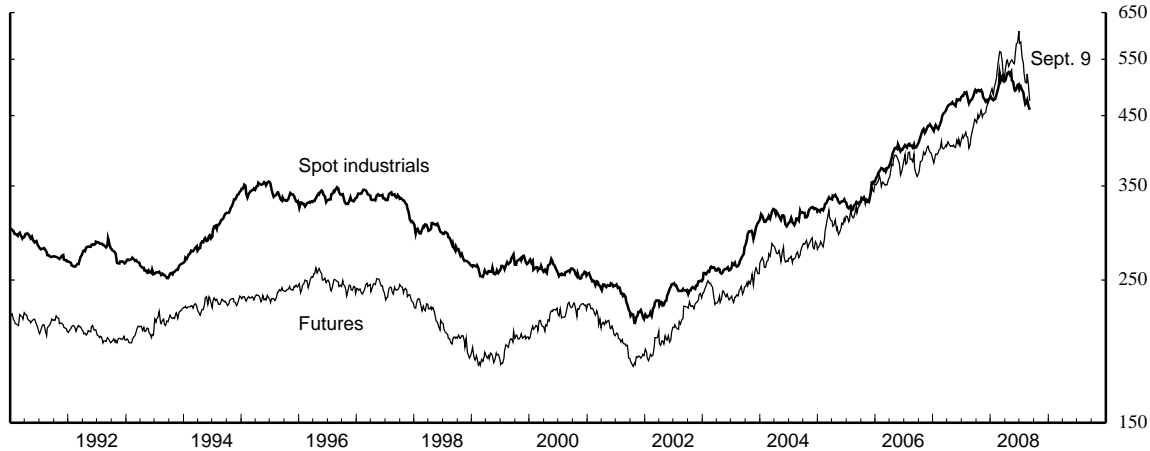
Ratio scale, 2006 = 100



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

Commodity Research Bureau

Ratio scale, 1967 = 100



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

Selected Commodity Price Indexes (Percent change)

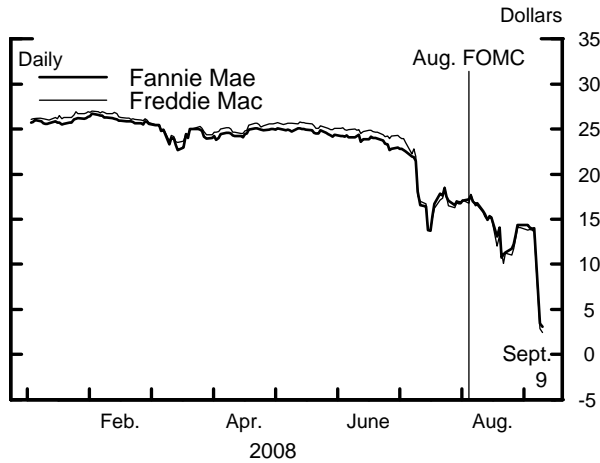
Index	2007 ¹	12/18/07 to 7/29/08 ²	7/29/08 ² to 9/9/08	52-week change to 9/9/08
JOC industrials	7.6	15.7	-10.5	3.7
JOC metals	2.1	20.4	-17.9	-5.3
CRB spot industrials	8.2	3.6	-6.1	-3.8
CRB spot foodstuffs	25.5	23.4	-7.5	19.7
CRB futures	18.2	16.1	-12.5	11.6

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

2. July 29, 2008, is the Tuesday preceding publication of the July Greenbook.

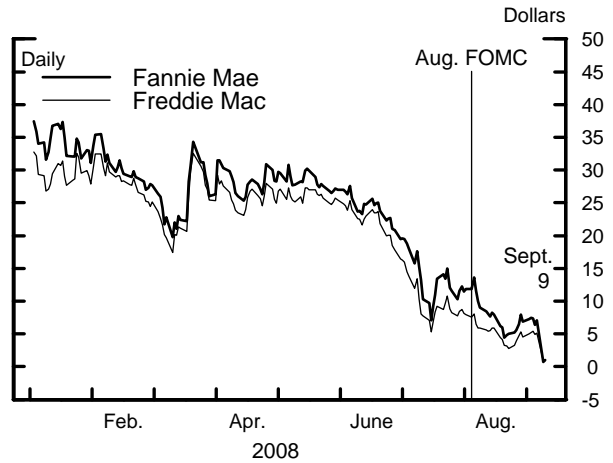
Financial Institutions

GSE Preferred Stock Prices



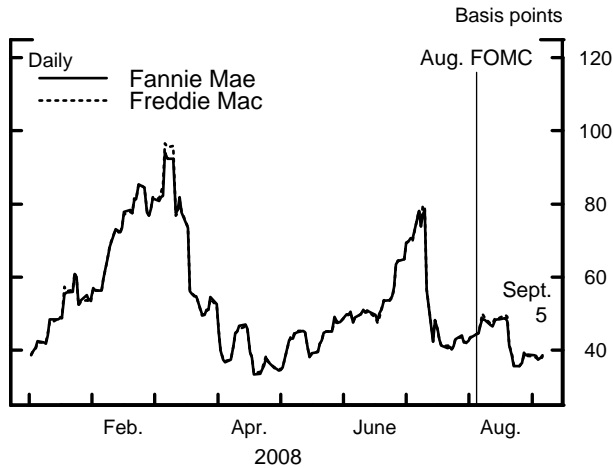
Source: Bloomberg.

GSE Common Stock Prices



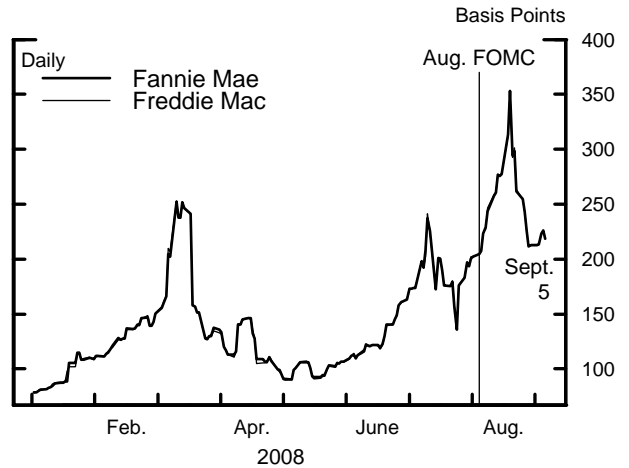
Source: Bloomberg.

CDS Senior Debt Spreads for GSEs



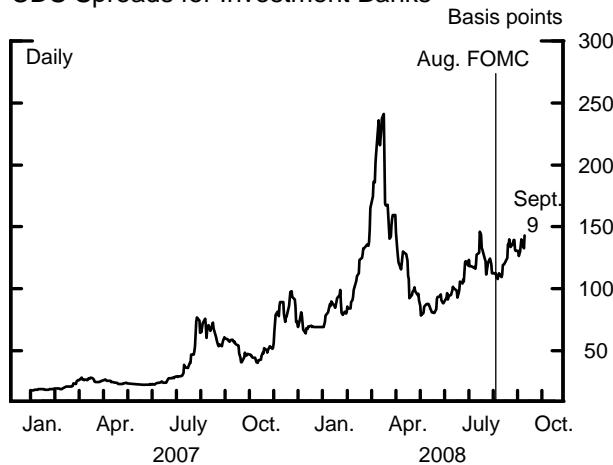
Note. Trading essentially halted after FHFA placed Fannie Mae and Freddie Mac in conservatorship.
Source: Markit.

CDS Subordinated Debt Spreads for GSEs



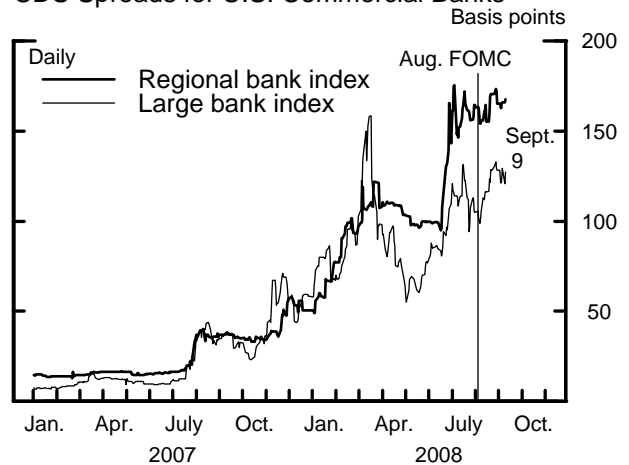
Note. Trading essentially halted after FHFA placed Fannie Mae and Freddie Mac in conservatorship.
Source: Markit.

CDS Spreads for Investment Banks



Note. Median spread for 10 investment banks.
Source: Markit.

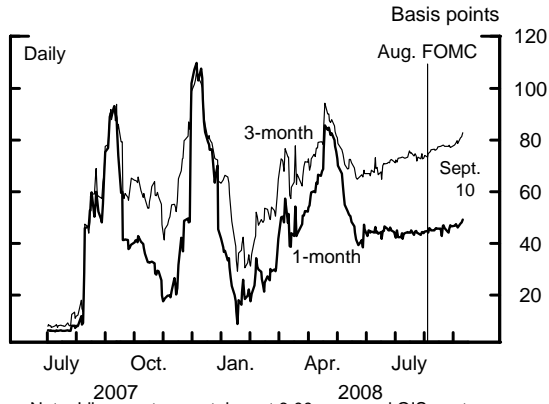
CDS Spreads for U.S. Commercial Banks



Note. Median spreads for 7 regional and 5 large commercial banks.
Source: Markit.

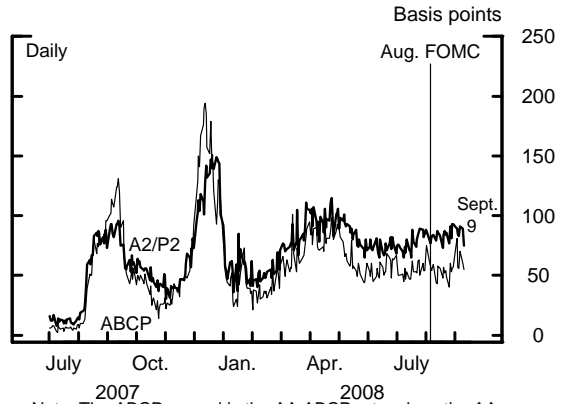
Short-Term Funding and Interbank Markets

Spread between Libor and OIS Rates



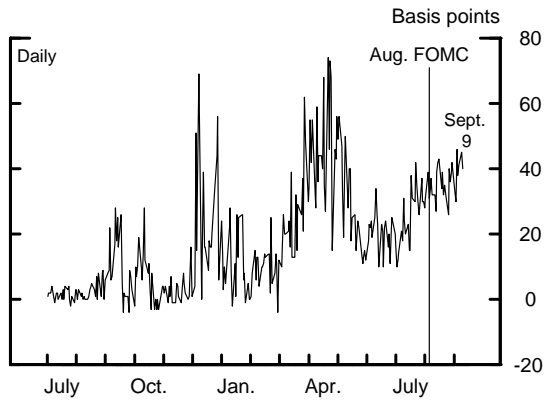
Note. Libor quotes are taken at 6:00 a.m., and OIS quotes are observed at the close of business of the previous trading day.
Source. British Banker's Association.

Spreads on 30-Day Commercial Paper



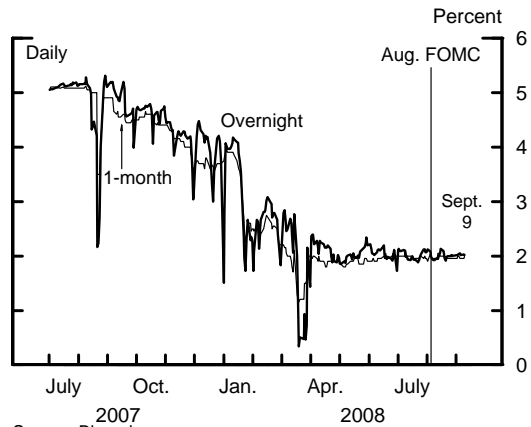
Note. The ABCP spread is the AA ABCP rate minus the AA nonfinancial rate. The A2/P2 spread is the A2/P2 nonfinancial rate minus the AA nonfinancial rate.
Source. Depository Trust & Clearing Corporation.

Commercial Paper Spread for Financial Firms



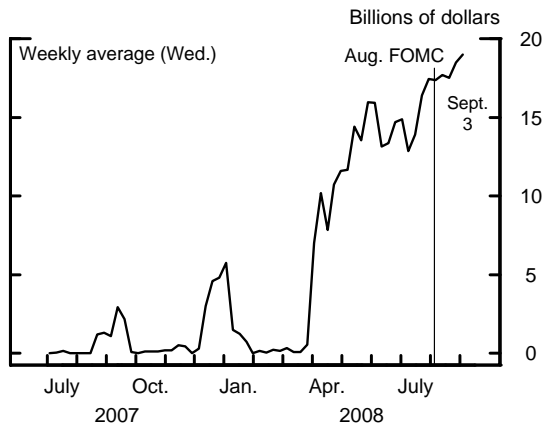
Note. 30-day AA financial rate minus 30-day AA nonfinancial rate.
Source. Markit.

Repo Rates on Treasury General Collateral



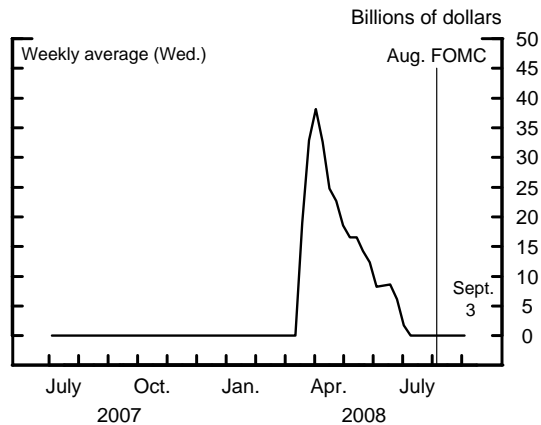
Source. Bloomberg.

Primary Credit Outstanding



Source. Federal Reserve.

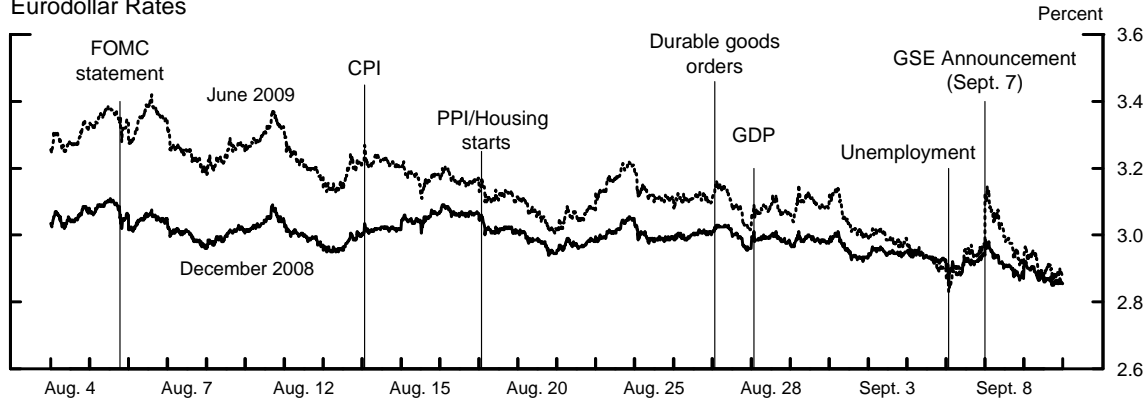
Primary Dealer Credit Facility



Source. Federal Reserve.

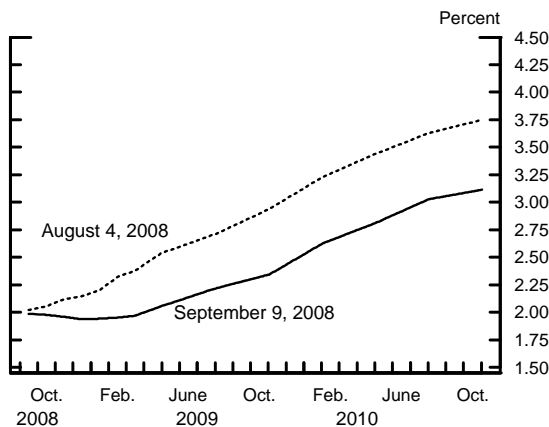
Policy Expectations and Treasury Yields

Eurodollar Rates



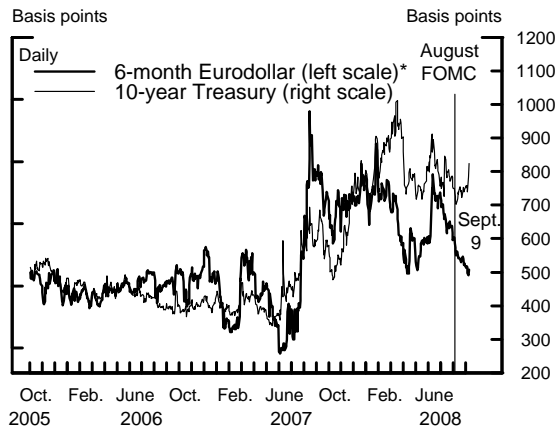
Note. 5-minute intervals. 8:00 a.m. to 4:00 p.m. No adjustments for term premiums.
Source. Bloomberg.

Implied Federal Funds Rate



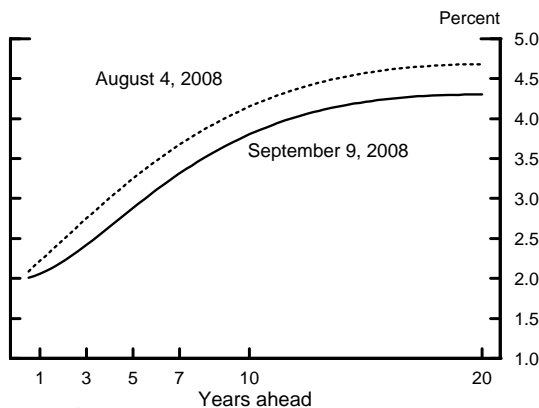
Note. Estimated from federal funds and Eurodollar futures, with an allowance for term premiums and other adjustments.
Source. Chicago Mercantile Exchange; CBOT.

Implied Volatility of Interest Rates



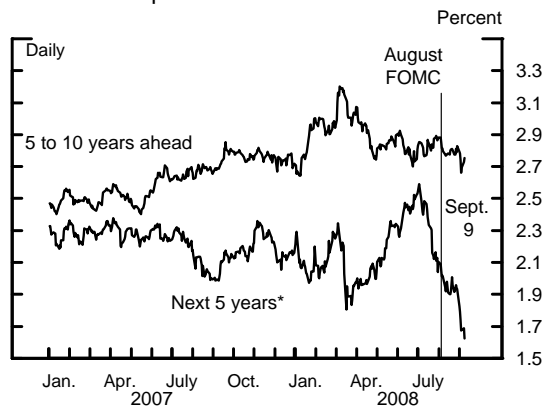
*Width of a 90 percent confidence interval computed from the term structures for the expected federal funds rate and implied volatility.

Treasury Yield Curve



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

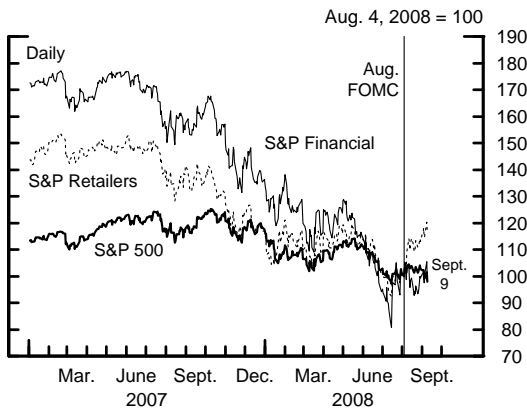
Inflation Compensation



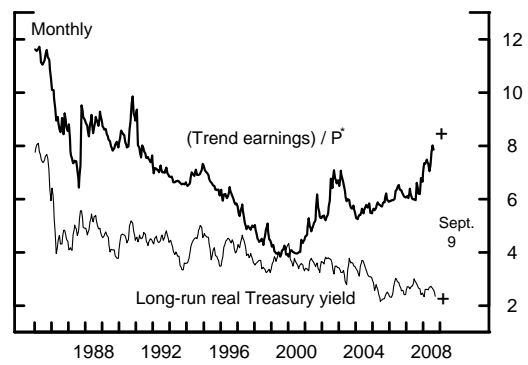
Note. Estimates based on smoothed nominal and inflation-indexed Treasury yields.
*Adjusted for lagged indexing of TIPS.
Source. Federal Reserve Bank of New York.

Corporate Yields, Risk Spreads, and Stock Prices

Selected Stock Price Indexes

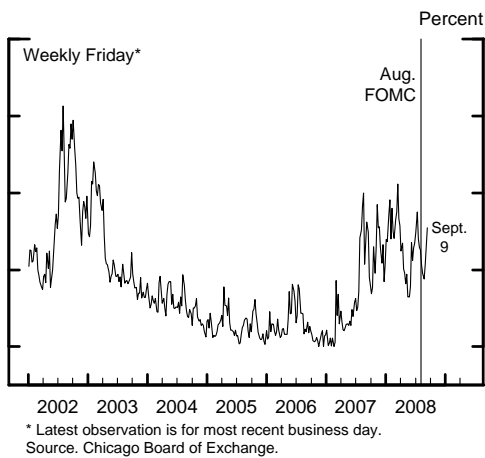


Ratio of Trend Earnings to Price for S&P 500 and Long-Run Treasury Yield

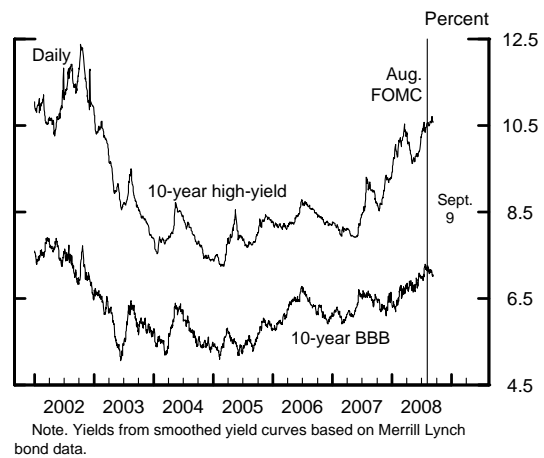


* Trend earnings are estimated using analysts' forecasts of year-ahead earnings from I/B/E/S.
+ Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.
Source: Thomson Financial.

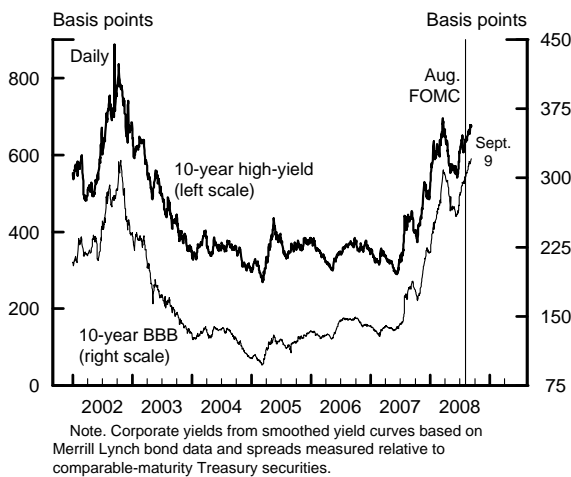
Implied Volatility on S&P 500 (VIX)



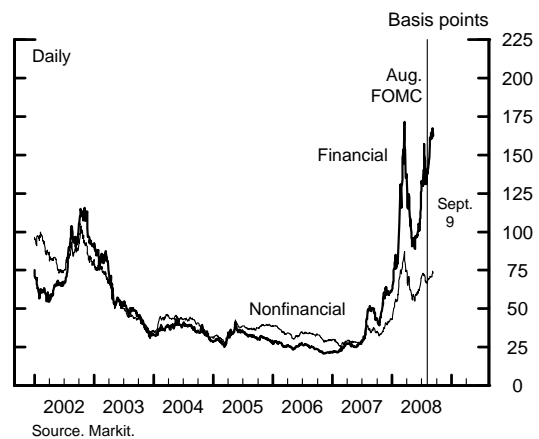
Corporate Bond Yields



Corporate Bond Spreads

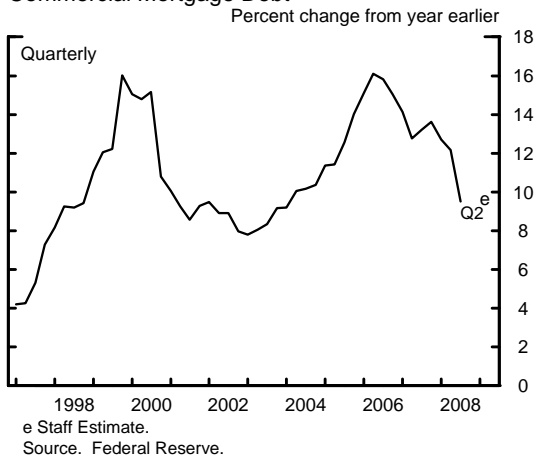


Investment-Grade CDS Indexes

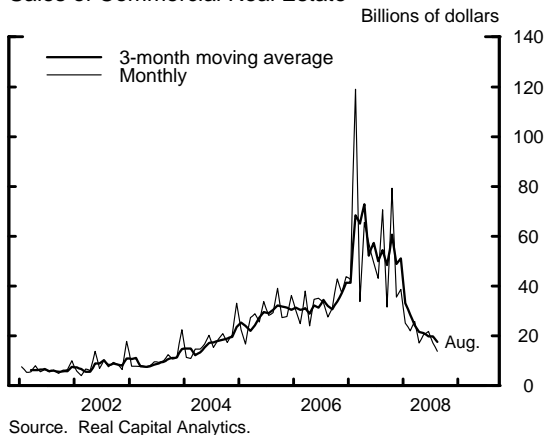


Commercial Real Estate

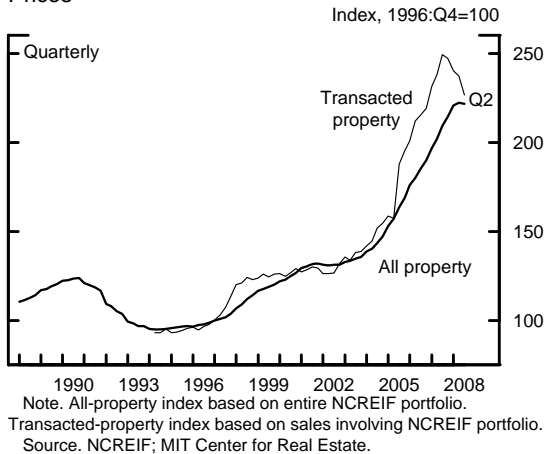
Commercial Mortgage Debt



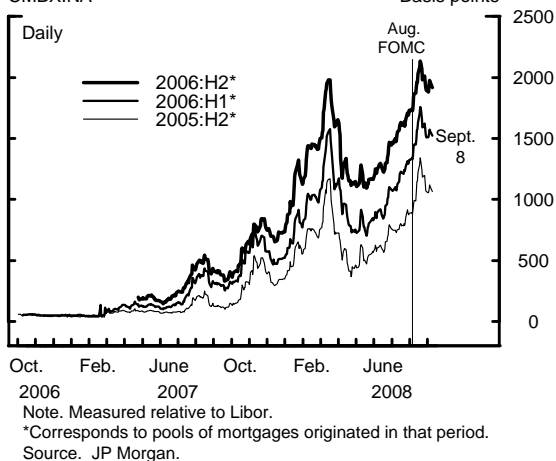
Sales of Commercial Real Estate



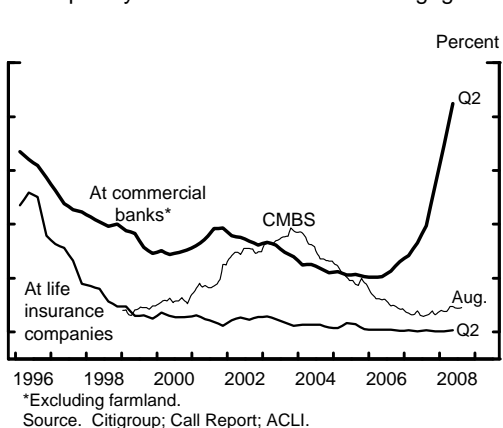
Prices



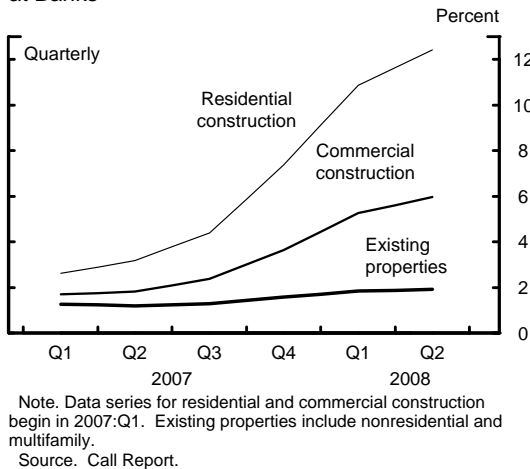
BBB Commercial Mortgage CDS Index Spreads



Delinquency Rates on Commercial Mortgages

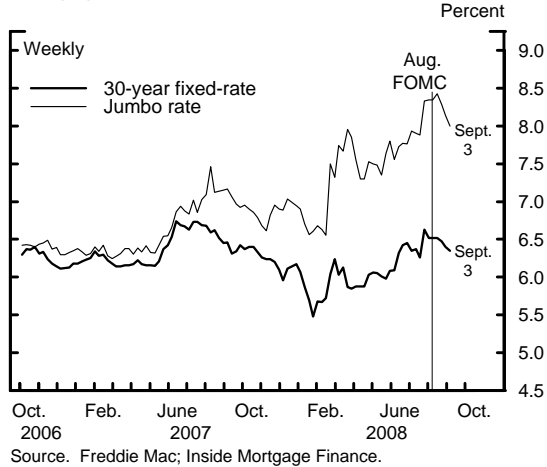


Delinquency Rates on Commercial Mortgages at Banks

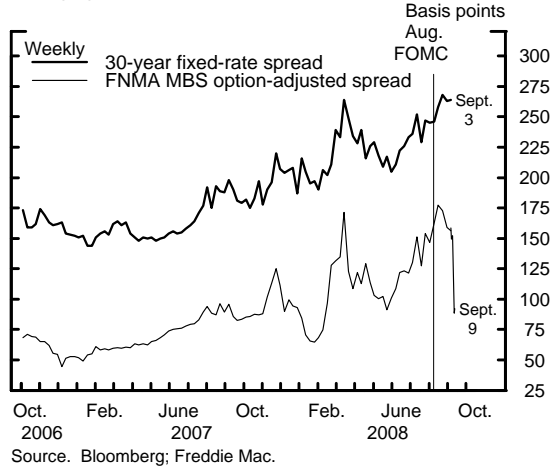


Residential Mortgages

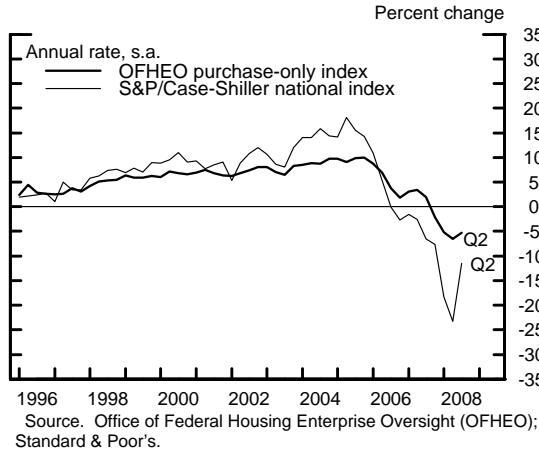
Mortgage Interest Rates



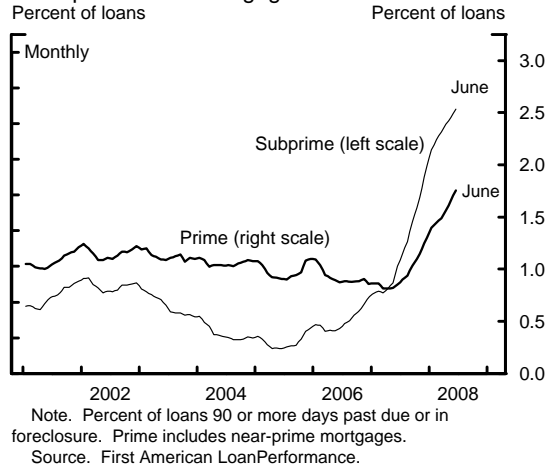
Mortgage Rate Spreads



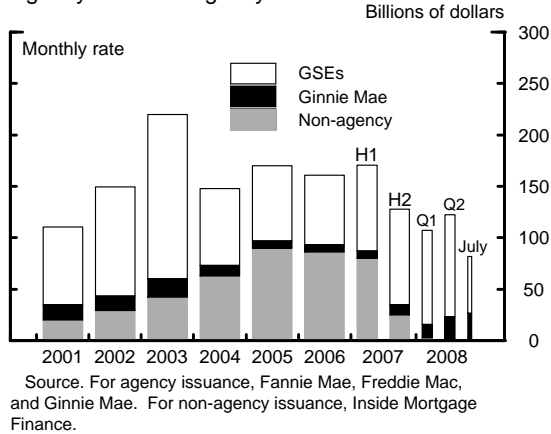
House Prices



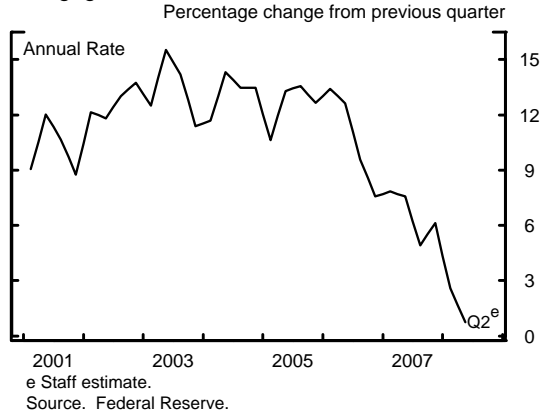
Delinquencies on Mortgages



Agency and Non-Agency MBS Issuance

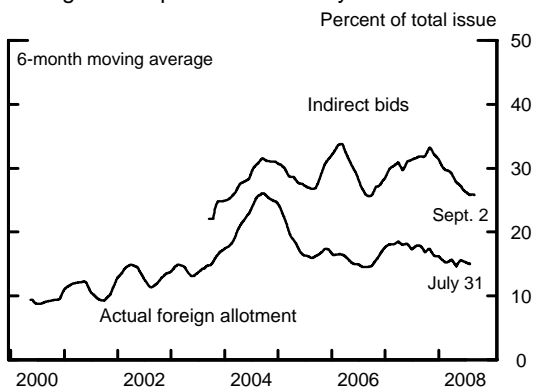


Mortgage Debt



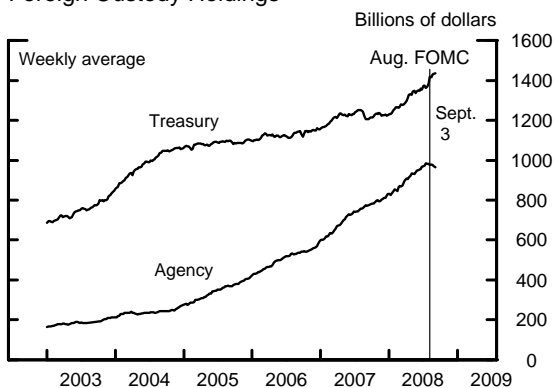
Treasury Finance

Foreign Participation in Treasury Auctions



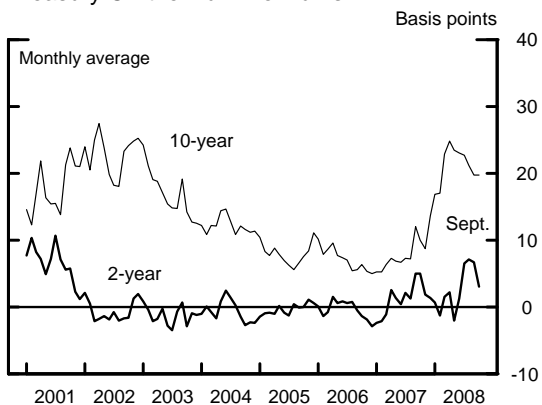
Note. Indirect bids and actual allotment are a percentage of the total amount accepted, including the amount tendered to the Federal Reserve. Moving averages include 2-, 5-, and 10-year original auctions and reopenings.

Foreign Custody Holdings



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

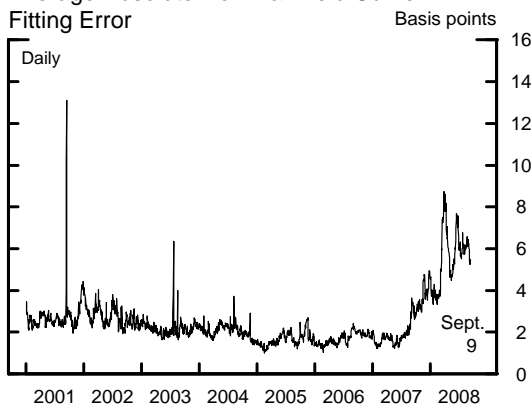
Treasury On-the-Run Premiums



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

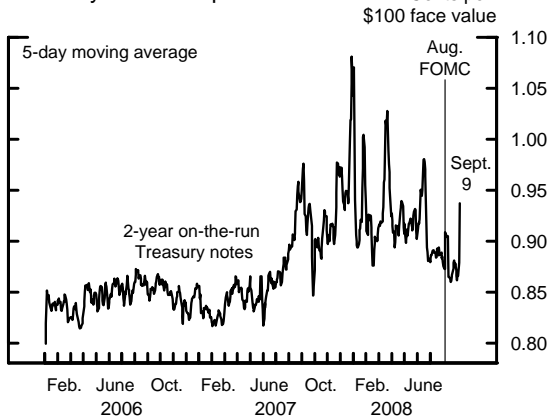
Source. Federal Reserve Bank of New York.

Average Absolute Nominal Yield Curve Fitting Error



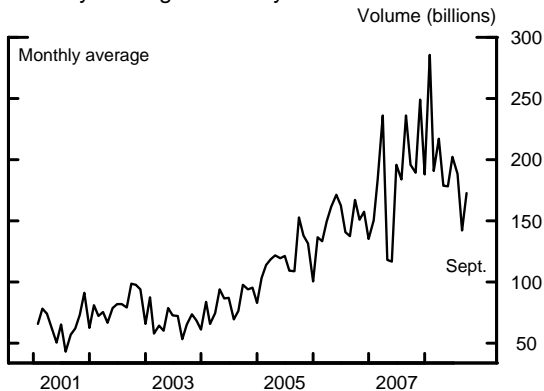
Note. Calculated from securities with 2 to 10 years until maturity, excluding on-the-run and first off-the-run securities.

Treasury Bid-Ask Spread



Source. BrokerTec Interdealer Market Data.

Monthly Average Treasury Market Volume



Note. September observation is average for month to date.
Source. BrokerTec Interdealer Market Data.

September 12, 2008

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

Prepared for the Federal Open Market Committee
by the staff of the Board of Governors of the Federal Reserve System

September 12, 2008

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

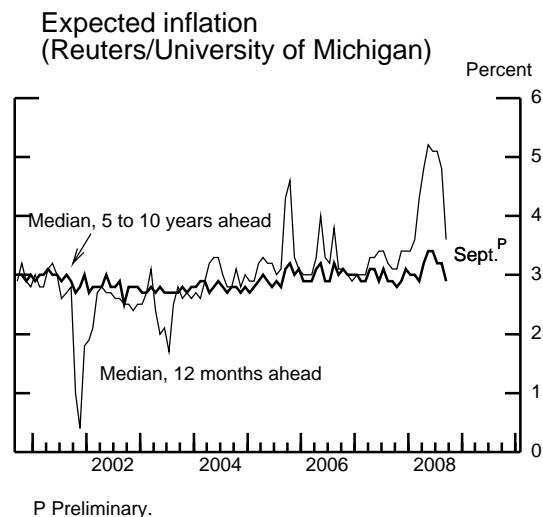
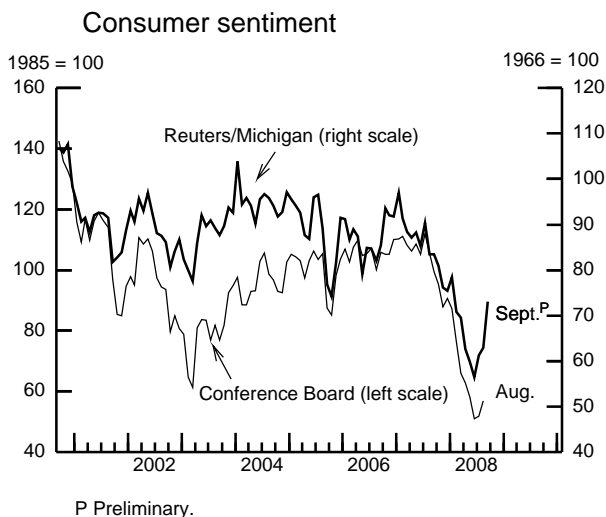
Category	2008							
	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept. ^P
Composite of current and expected conditions ¹	70.8	69.5	62.6	59.8	56.4	61.2	63.0	73.1
Current conditions ¹	83.8	84.2	77.0	73.3	67.6	73.1	71.0	76.5
Expected conditions ¹	62.4	60.1	53.3	51.1	49.2	53.5	57.9	70.9
Personal financial situation								
Now compared with 12 months ago ²	94	93	86	80	69	73	72	87
Expected in 12 months ²	112	112	100	98	96	105	105	123
Expected business conditions								
Next 12 months ²	54	46	40	36	38	42	52	75
Next 5 years ²	83	81	71	68	59	65	72	86
Appraisal of buying conditions								
Cars	119	114	110	96	91	103	103	114
Large household appliances ²	123	124	112	109	104	115	110	110
Houses	140	129	136	130	133	138	146	137
Expected unemployment change - next 12 months	141	148	154	153	159	154	150	137
Prob. household will lose a job - next 5 years	24	22	23	22	25	20	22	19
Expected inflation - next 12 months								
Mean	3.9	4.6	5.7	7.0	6.5	6.3	5.3	3.9
Median	3.6	4.3	4.8	5.2	5.1	5.1	4.8	3.6
Expected inflation - next 5 to 10 years								
Mean	3.4	3.2	3.5	4.0	4.0	3.5	3.9	3.1
Median	3.0	2.9	3.2	3.4	3.4	3.2	3.2	2.9

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

P Preliminary.

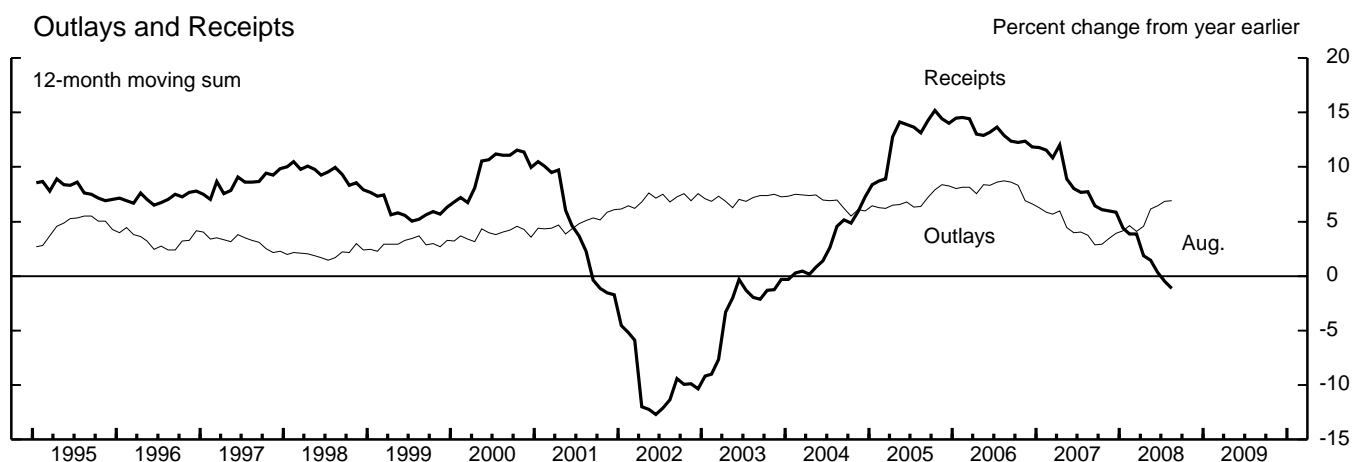
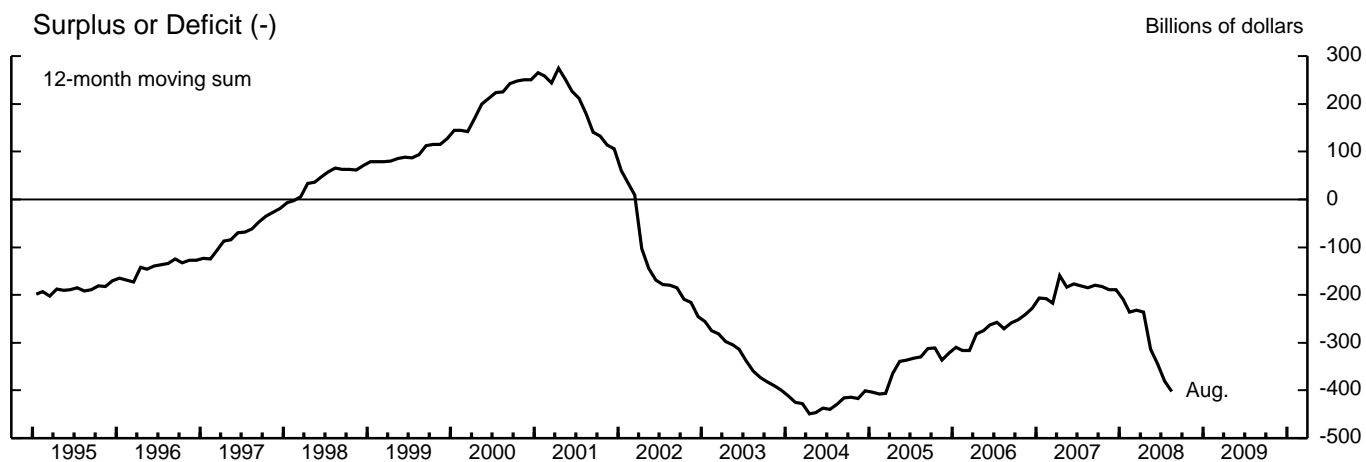
1. Feb. 1966 = 100.

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



Federal Government Budget

(Unified basis; adjusted for payment-timing shifts and financial transactions; data from Monthly Treasury Statement)



Recent Federal Outlays and Receipts

(Billions of dollars except as noted)

Function or source	August			12 months ending in August		
	2007	2008	Percent change	2007	2008	Percent change
Outlays	235.8	247.8	5.1	2,750.3	2,939.4	6.9
Net interest	22.8	25.1	10.2	238.0	247.9	4.2
National defense	48.9	52.1	6.7	557.7	615.2	10.3
Major transfers ¹	124.2	134.3	8.1	1,509.1	1,633.9	8.3
Other	39.9	36.2	-9.3	445.5	442.4	-.7
Receipts	166.5	157.0	-5.7	2,565.6	2,536.8	-1.1
Individual income and payroll taxes	141.1	135.3	-4.1	1,975.5	1,985.7	.5
Corporate income taxes	4.3	3.9	-9.7	379.4	327.4	-13.7
Other	21.1	17.8	-15.7	210.7	223.7	6.1
Surplus or deficit (-)	-69.2	-90.8	...	-184.6	-402.7	...
Memo:						
Unadjusted surplus or deficit (-)	-117.0	-111.9	...	-218.2	-370.5	...

1. Includes Social Security, Medicare, Medicaid, and income security programs.

... Not applicable.