

Prefatory Note

The attached document represents the most complete and accurate version available based on original files from the FOMC Secretariat at the Board of Governors of the Federal Reserve System.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

Class II FOMC – Restricted (FR)

Report to the FOMC on Economic Conditions and Monetary Policy



Book A

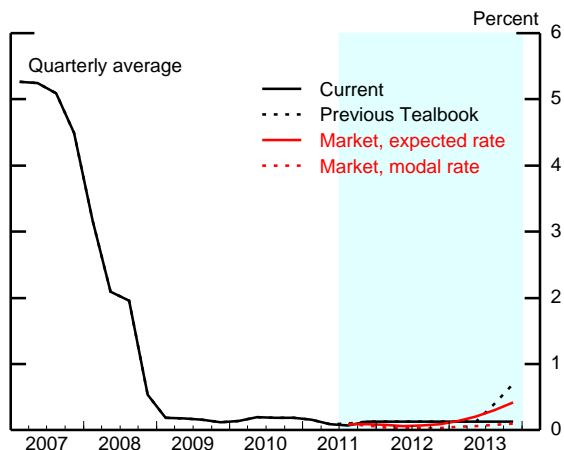
Economic and Financial Conditions: Current Situation and Outlook

September 14, 2011

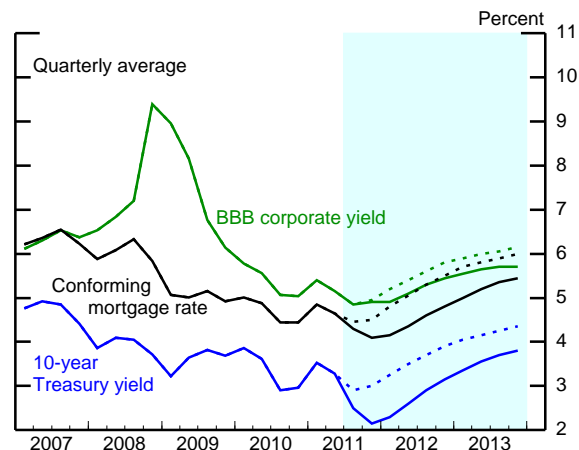
Prepared for the Federal Open Market Committee
by the staff of the Board of Governors of the Federal Reserve System

Key Background Factors underlying the Baseline Staff Projection

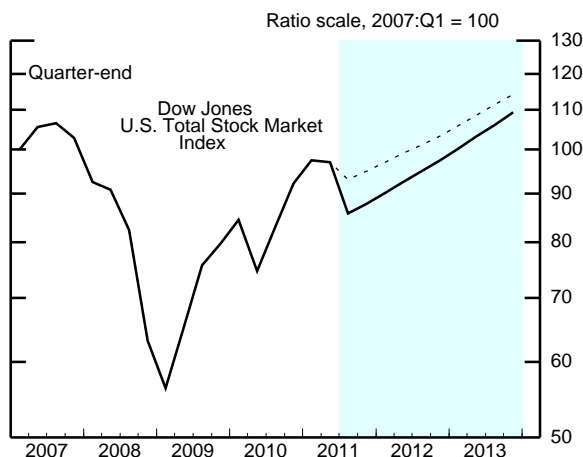
Federal Funds Rate



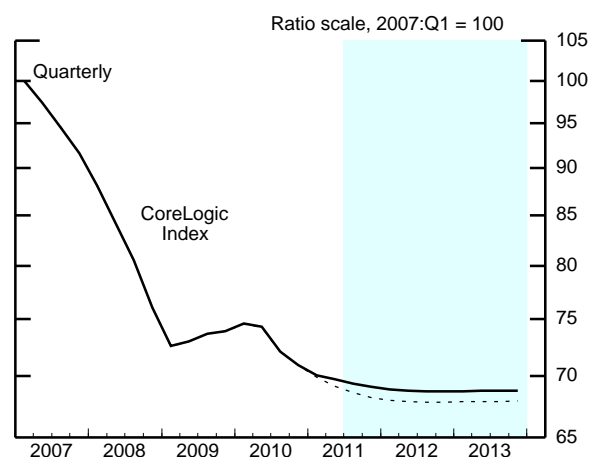
Long-Term Interest Rates



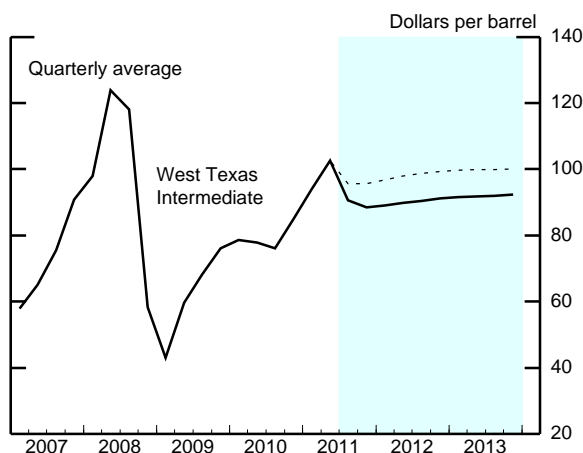
Equity Prices



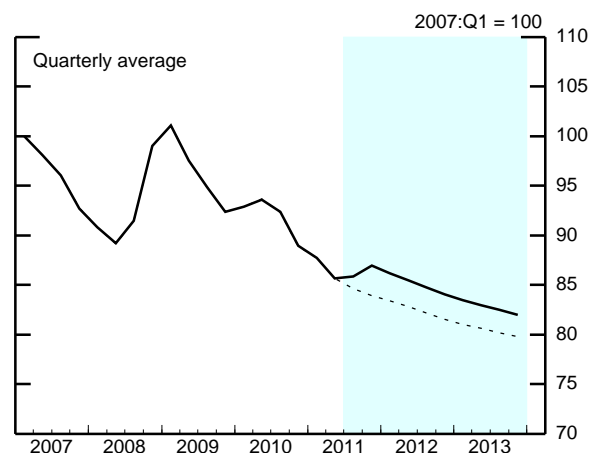
House Prices



Crude Oil Prices



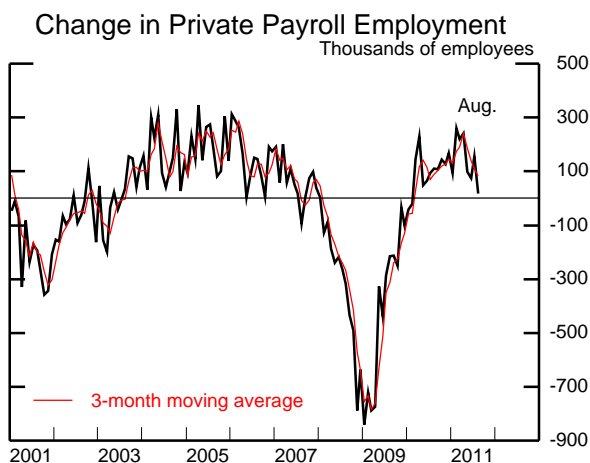
Broad Real Dollar



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

Measure	2011:Q2		2011:Q3		2011:Q4	
	Previous Tealbook	Current Tealbook	Previous Tealbook	Current Tealbook	Previous Tealbook	Current Tealbook
Real GDP	1.4	1.2	2.9	2.5	2.4	2.0
Private domestic final purchases	1.1	1.7	1.9	2.1	2.2	1.2
Personal consumption expenditures	.1	.4	1.6	1.7	1.9	1.1
Residential investment	3.5	3.8	3.1	-1.3	.5	-.8
Nonres. structures	15.2	22.6	-2.0	3.7	-.2	-1.6
Equipment and software	5.6	6.7	6.3	6.0	6.3	4.2
Federal purchases	2.2	1.9	1.9	-.7	1.4	3.7
State and local purchases	-2.9	-2.9	-1.8	-2.6	-.8	-1.2
Contribution to change in real GDP (percentage points)						
Inventory investment	.1	-.2	1.4	.8	-.6	.2
Net exports	.6	.3	.0	.3	1.2	.6

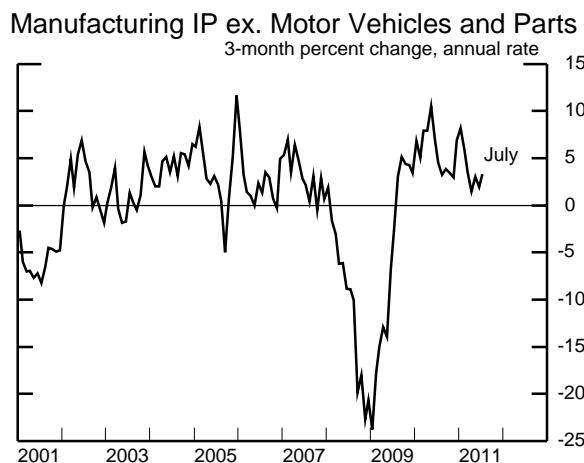
Recent Nonfinancial Developments (1)



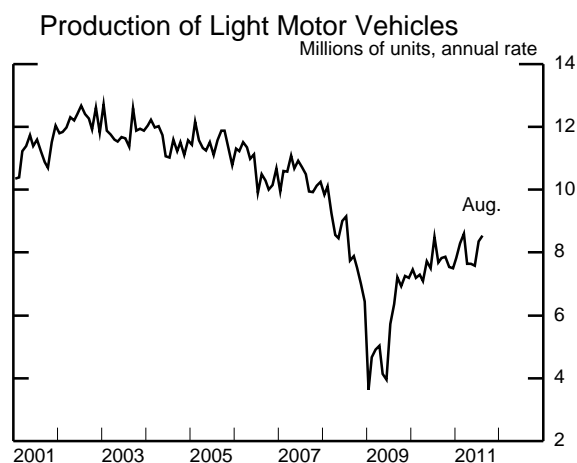
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.



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



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

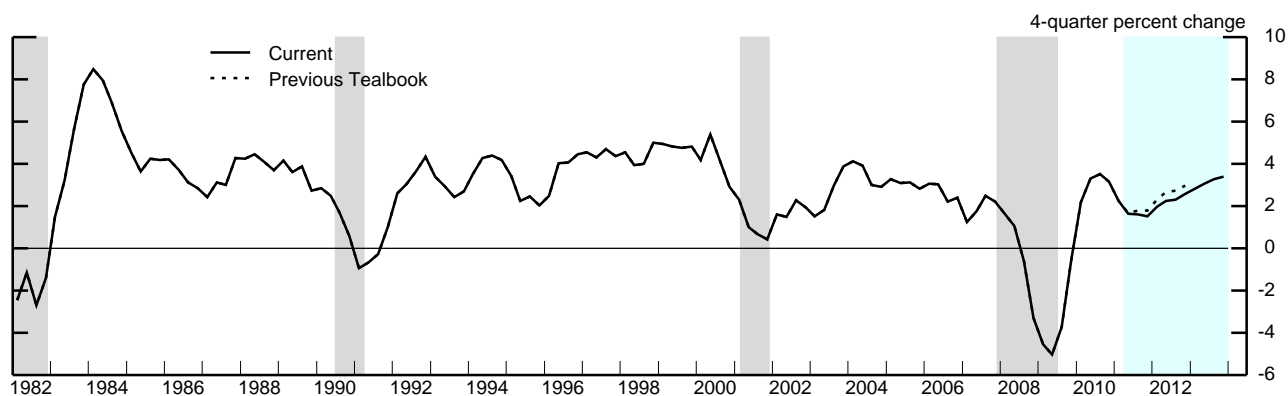


Source: Ward's Auto Infobank.

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

Measure	2011		2012	2013
	H1	H2		
Real GDP	.8	2.2	2.6	3.4
Previous Tealbook	.9	2.7	3.0	
Final sales	.7	1.7	2.4	2.9
Previous Tealbook	.7	2.3	2.9	
Personal consumption expenditures	1.2	1.4	2.3	3.1
Previous Tealbook	1.1	1.8	2.5	
Residential investment	.6	-1.0	7.2	9.6
Previous Tealbook	.5	1.8	6.1	
Nonresidential structures	2.5	1.0	-3.4	.6
Previous Tealbook	-.7	-1.1	-1.3	
Equipment and software	7.7	5.1	5.3	6.7
Previous Tealbook	7.1	6.3	5.6	
Federal purchases	-3.9	1.5	-.7	-4.0
Previous Tealbook	-3.8	1.6	-.9	
State and local purchases	-3.1	-1.9	-.4	.8
Previous Tealbook	-3.1	-1.3	-.2	
Exports	5.7	8.8	7.4	7.1
Previous Tealbook	6.9	10.0	9.0	
Imports	4.8	4.1	3.4	4.9
Previous Tealbook	4.7	4.4	3.3	
Contributions to change in real GDP (percentage points)				
Inventory change	.1	.5	.2	.5
Previous Tealbook	.2	.4	.0	
Net exports	.0	.5	.5	.2
Previous Tealbook	.1	.6	.7	

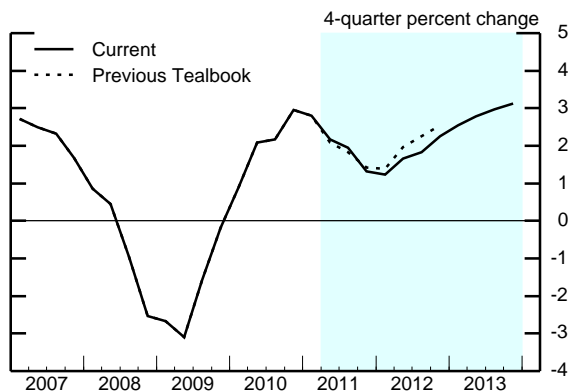
Real GDP



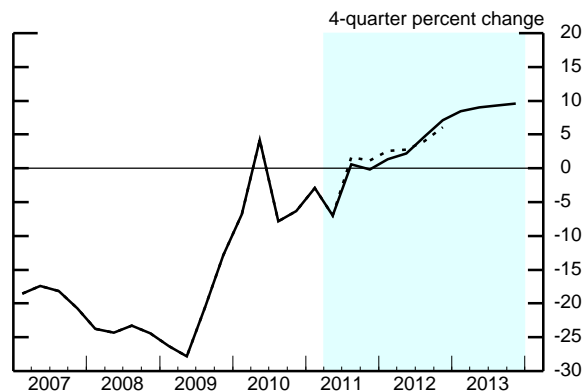
Note: The gray shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Components of Final Demand

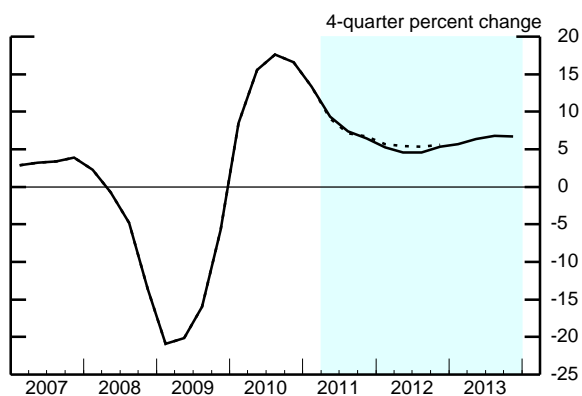
Personal Consumption Expenditures



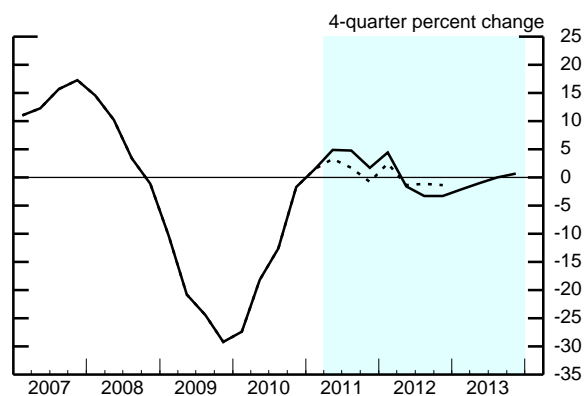
Residential Investment



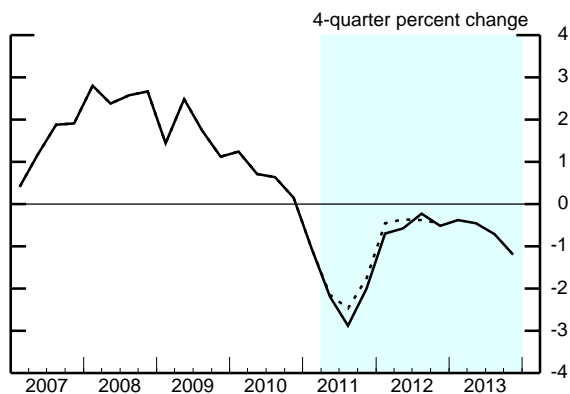
Equipment and Software



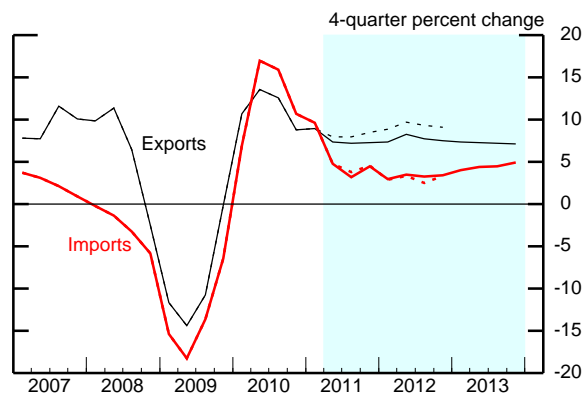
Nonresidential Structures



Government Consumption & Investment



Exports and Imports



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

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

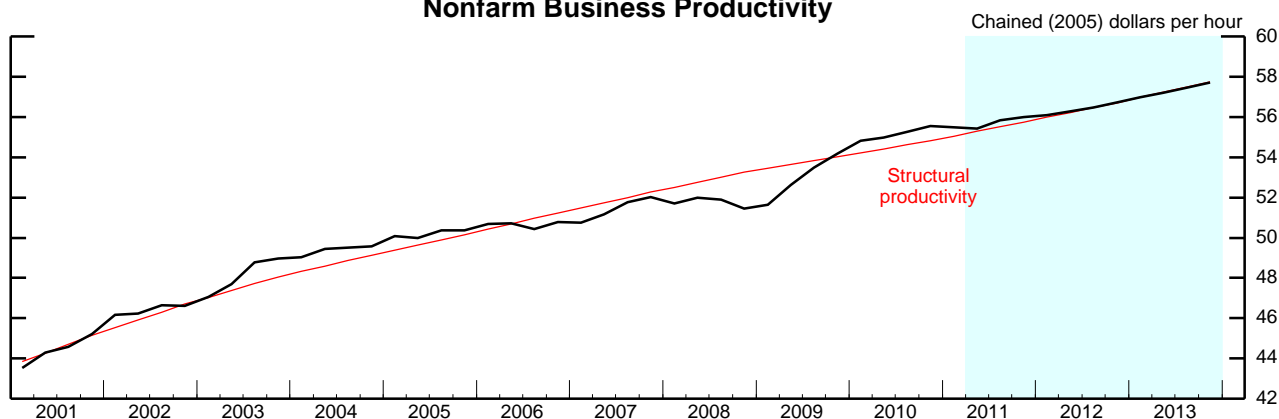
Measure	1974-1995	1996-2000	2001-2009	2010	2011	2012	2013
Potential GDP	3.0	3.5	2.5	1.7	2.1	2.1	2.2
Previous Tealbook	3.0	3.5	2.5	1.7	2.1	2.1	
<i>Selected contributions¹</i>							
Structural labor productivity	1.5	2.7	2.4	1.5	1.7	1.7	1.9
Previous Tealbook	1.5	2.7	2.4	1.5	1.7	1.7	
Capital deepening	.7	1.5	.8	.4	.6	.6	.8
Previous Tealbook	.7	1.5	.8	.4	.6	.6	
Multifactor productivity	.5	.9	1.4	1.0	1.0	1.0	1.0
Previous Tealbook	.5	.9	1.4	1.0	1.0	1.0	
Trend hours	1.5	1.0	.6	.5	.6	.7	.6
Previous Tealbook	1.5	1.0	.6	.5	.6	.7	
Labor force participation	.4	.0	-.3	-.4	-.3	-.2	-.3
Previous Tealbook	.4	.0	-.3	-.4	-.3	-.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.

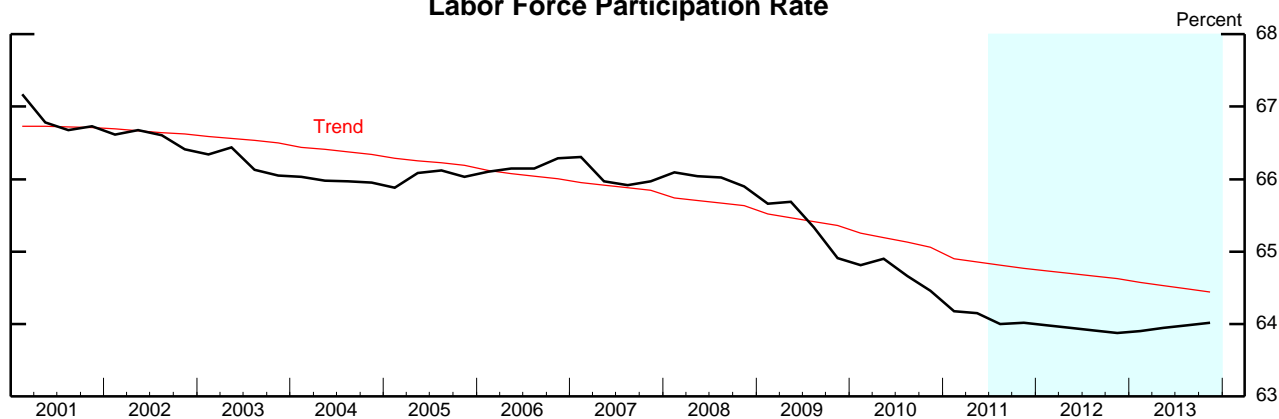
1. Percentage points.

Source: Staff assumptions.

Nonfarm Business Productivity



Labor Force Participation Rate



Source: For both figures, 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	2010	2011	2012	2013
Output per hour, nonfarm business	2.5	.8	1.3	1.8
Previous Tealbook	2.5	.5	1.7	
Nonfarm private employment	.9	1.5	1.8	2.3
Previous Tealbook	.9	1.6	2.1	
Labor force participation rate ¹	64.5	64.0	63.9	64.0
Previous Tealbook	64.5	64.2	64.3	
Civilian unemployment rate ¹	9.6	9.1	8.7	8.1
Previous Tealbook	9.6	9.2	8.5	
Memo: GDP gap ²	-5.6	-6.2	-5.8	-4.7
Previous Tealbook	-5.6	-5.9	-5.2	

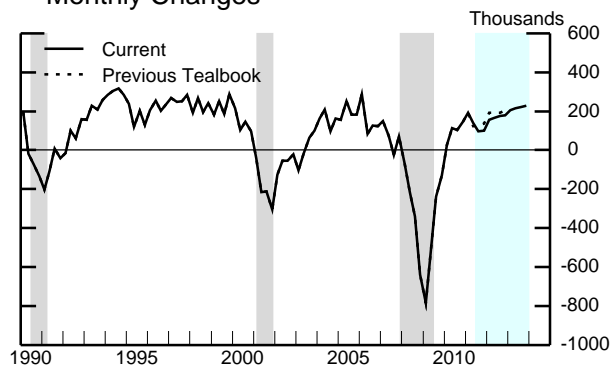
Note: A negative number indicates that the economy is operating below potential.

1. Percent, average for the fourth quarter.

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

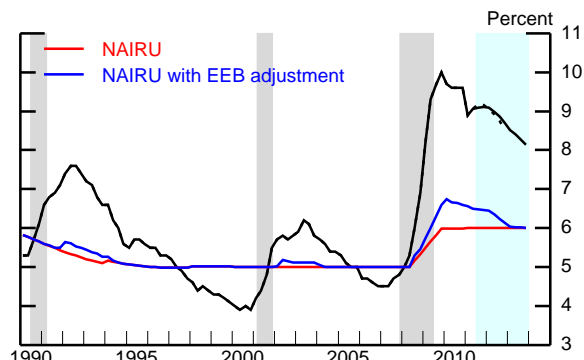
Source: U.S. Department of Labor, Bureau of Labor Statistics; staff assumptions.

Private Payroll Employment, Average Monthly Changes



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

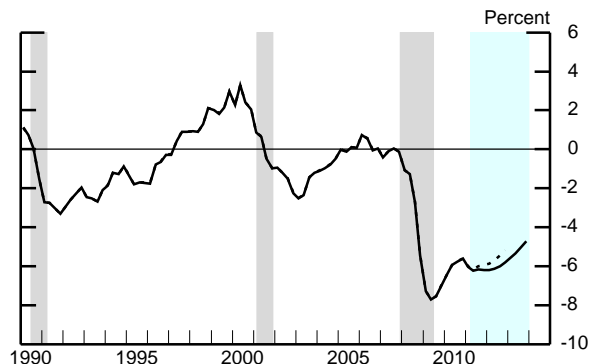
Unemployment Rate



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 assumptions.

GDP Gap

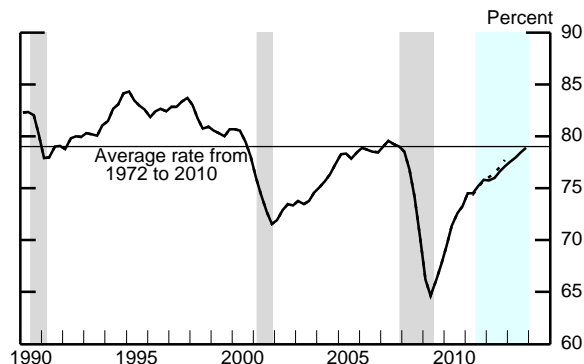


Note: The GDP gap is the percent difference between actual and potential GDP; a negative number indicates that the economy is operating below potential.

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

Note: The gray shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research.

Manufacturing Capacity Utilization Rate



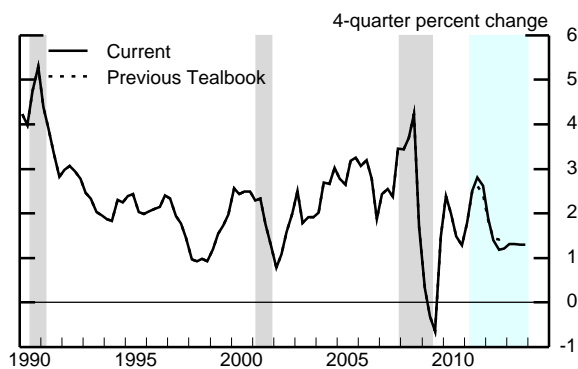
Source: Federal Reserve Board, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

Inflation Projections (Percent change, Q4 to Q4)

Measure	2010	2011	2012	2013
PCE chain-weighted price index	1.3	2.6	1.2	1.3
Previous Tealbook	1.3	2.4	1.5	
Food and beverages	1.3	4.6	1.4	1.4
Previous Tealbook	1.3	4.3	1.4	
Energy	6.2	11.6	-3.1	.6
Previous Tealbook	6.2	9.3	1.4	
Excluding food and energy	1.0	1.9	1.5	1.3
Previous Tealbook	1.0	1.8	1.5	
Prices of core goods imports ¹	2.6	4.8	1.4	1.5
Previous Tealbook	2.6	4.9	1.5	

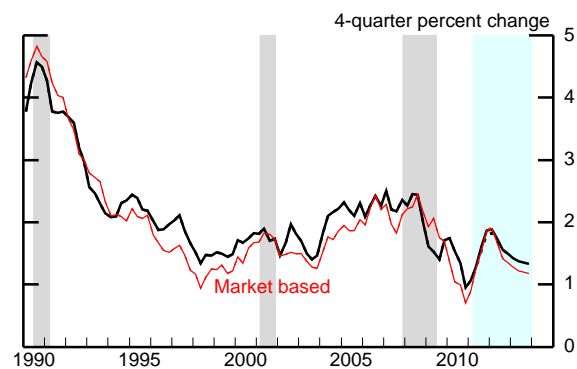
1. Core goods imports exclude computers, semiconductors, oil, and natural gas.
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Total PCE Prices



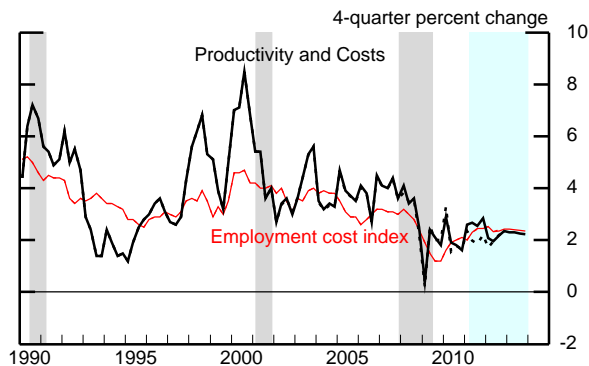
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

PCE Prices ex. Food and Energy



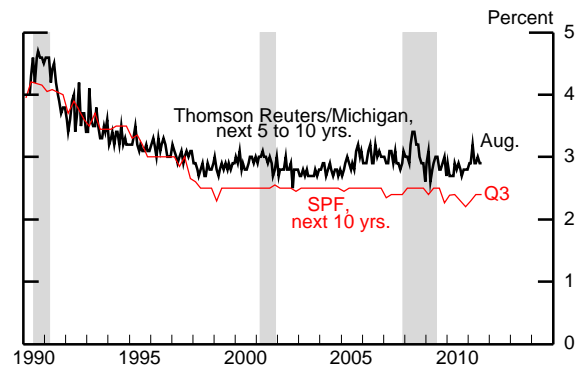
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

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; Federal Reserve Bank of Philadelphia.

Note: The gray shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research.

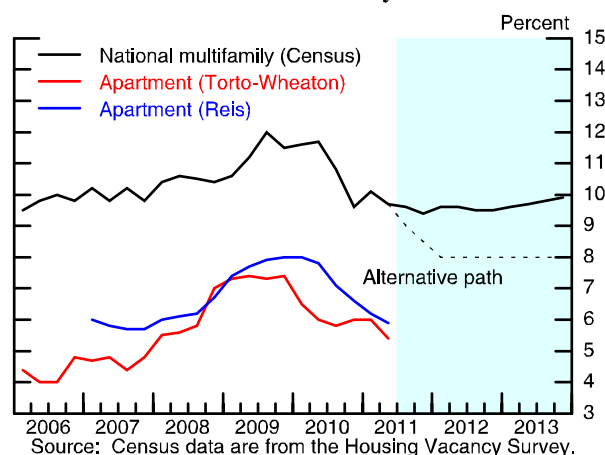
Rents and Inflation

Rental markets have tightened over the past year, as shown in the lower-left figure by the declines in several measures of rental vacancy rates. Over the same period, rental inflation (the black line in the lower-right figure, which includes owners' equivalent rent as well as tenants' rent) has picked up to a rate of 1¼ percent in the first half of this year, and it appears to have stepped up to above 2 percent in the current quarter.

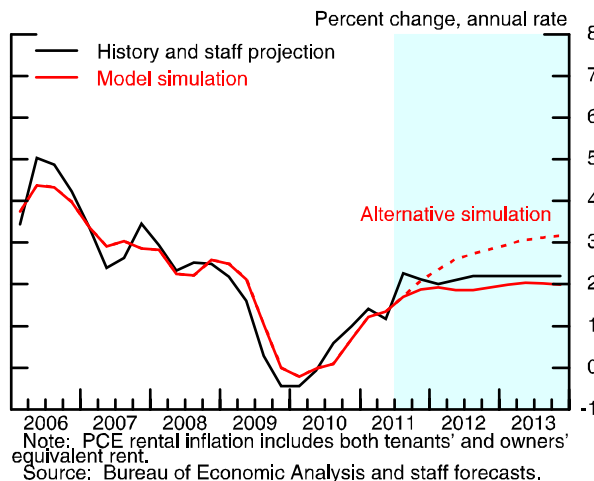
Our models—which relate PCE rental inflation to the Census vacancy rate as well as to its own lags, changes in utilities prices, the unemployment rate, and measures of housing affordability—have tracked actual rental inflation reasonably well in recent quarters. In particular, as shown by the solid red line in the lower-right figure, a simulation from one of our models starting in 2006 captures the upturn in actual rental price inflation quite well. Over the projection period, this simulation projects rental inflation close to 2 percent, as does the Board staff forecast.

Of course, the projection from the model simulation depends on our forecasts of the model determinants—in particular, the vacancy rate. Based on lags of the unemployment rate, multifamily housing starts, and rental inflation, we project the vacancy rate to remain near current levels over the medium term. However, if rental demand proves much stronger than anticipated, vacancy rates likely would fall more sharply and rents would increase more than we project. For instance, if the Census vacancy rate were to fall to 8 percent in early 2012 (the dotted line in the lower-left figure), a rate last seen in the mid-1980s, the model predicts that rental inflation would move up to 3 percent by the end of next year (the dotted line in the lower-right figure), ¾ percentage point higher than the Tealbook projection. Still, because rents constitute only about 18 percent of the core PCE price index, an increase of this magnitude would add, all else being equal, only a little more than 0.1 percentage point to core PCE inflation in 2012. (The effect on the core CPI would be about twice as large, reflecting the larger weight of housing in the CPI.)

Measures of Vacancy Rates



PCE Rental Inflation



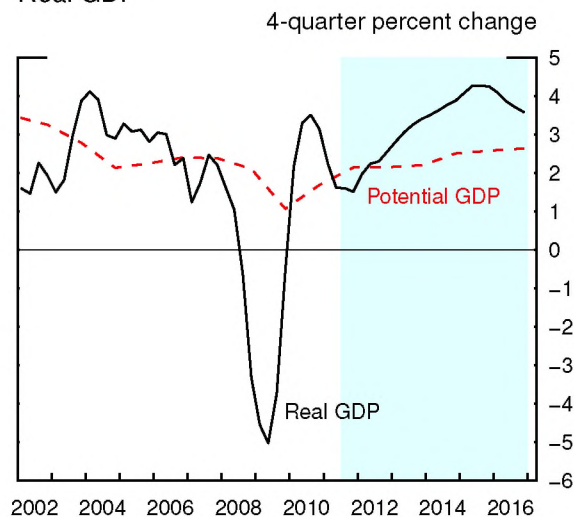
The Long-Term Outlook

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

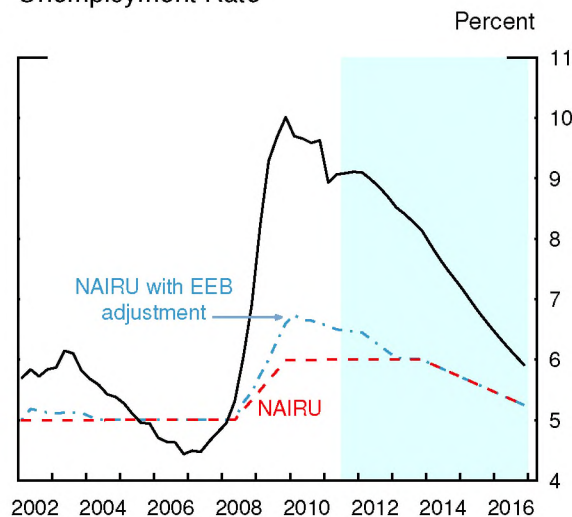
Item	2011	2012	2013	2014	2015	2016
Real GDP	1.5	2.6	3.4	3.9	4.2	3.6
Civilian unemployment rate ¹	9.1	8.7	8.1	7.3	6.6	5.9
PCE prices, total	2.6	1.2	1.3	1.4	1.5	1.6
Core PCE prices	1.9	1.5	1.3	1.4	1.5	1.6
Federal funds rate ¹	.1	.1	.1	.6	2.1	3.1
10-year Treasury yield ¹	2.2	3.2	3.8	3.9	4.1	4.3

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

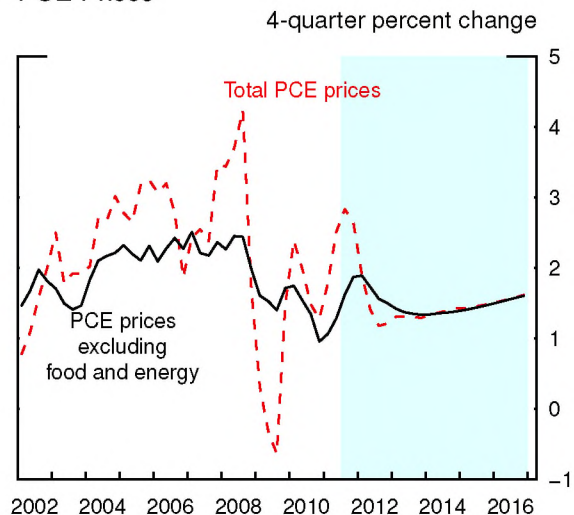
Real GDP



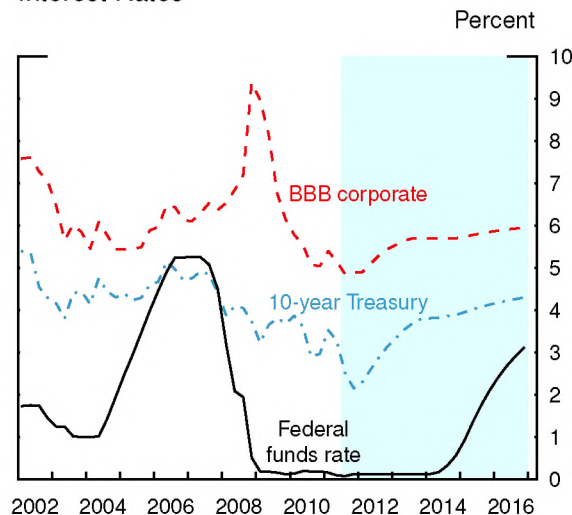
Unemployment Rate



PCE Prices



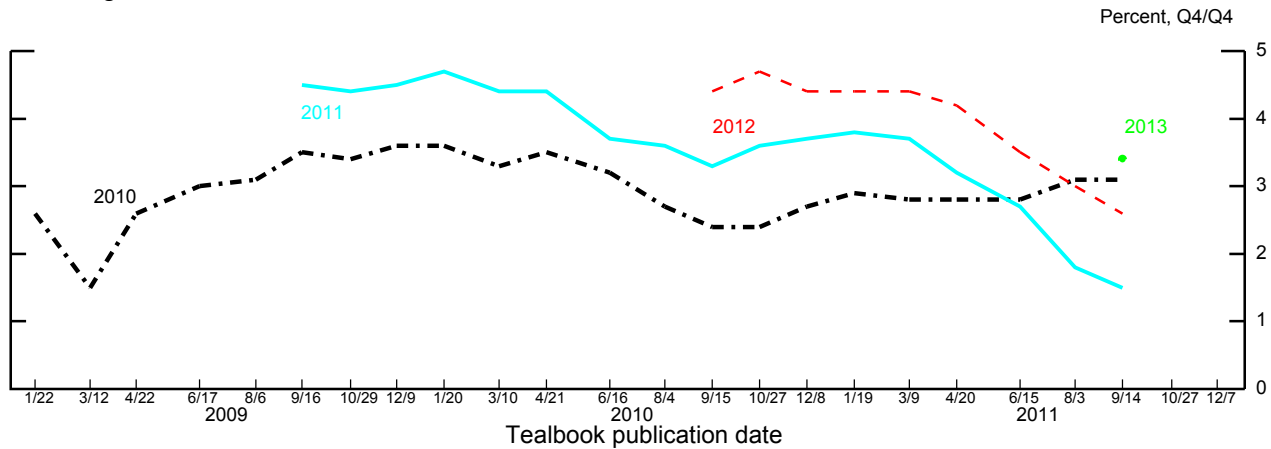
Interest Rates



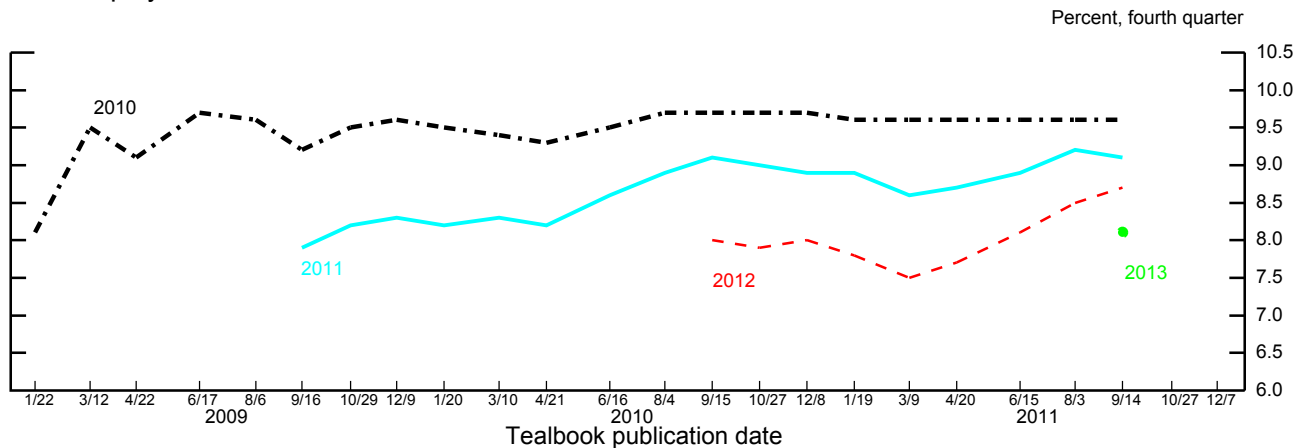
Note: In each panel, shading represents the projection period.

Evolution of the Staff Forecast

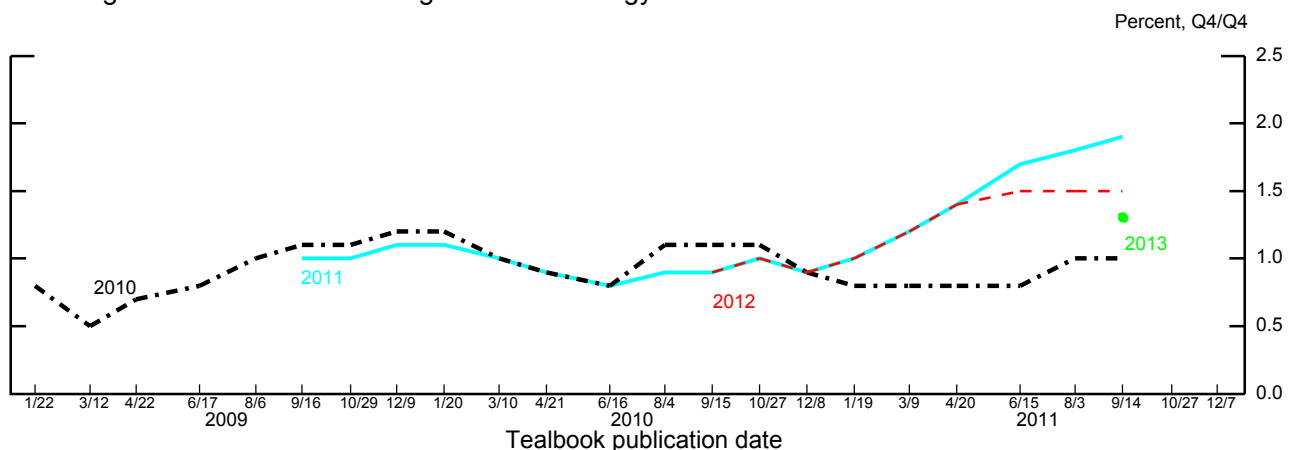
Change in Real GDP



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.

The Foreign Outlook

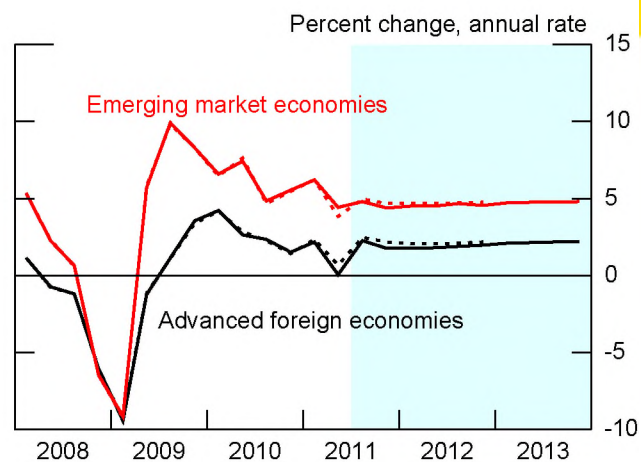
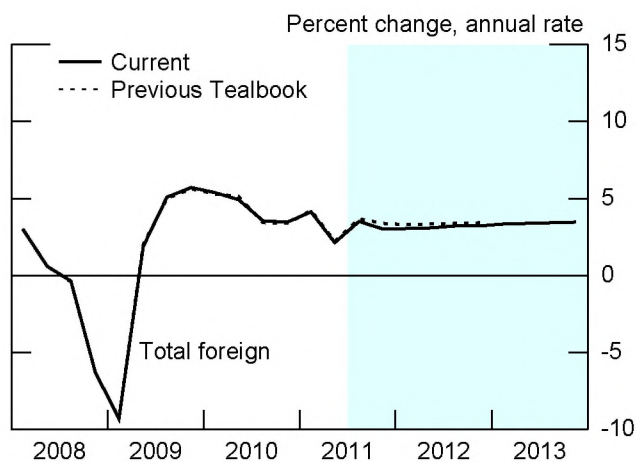
(Percent change, annual rate)

	2010	2011				2012	2013
		Q1	Q2	Q3	Q4		
Real GDP							
Total foreign	4.3	4.1	2.2	3.5	3.0	3.2	3.4
Previous Tealbook	4.3	4.2	2.2	3.7	3.4	3.4	n.a.
Advanced foreign economies	2.7	2.2	.1	2.3	1.8	1.9	2.2
Previous Tealbook	2.7	2.4	.7	2.5	2.2	2.1	n.a.
Emerging market economies	6.1	6.2	4.4	4.8	4.4	4.6	4.8
Previous Tealbook	6.1	6.2	3.9	5.0	4.7	4.7	n.a.
Consumer Prices							
Total foreign	3.2	4.3	3.2	2.9	2.2	2.3	2.4
Previous Tealbook	3.2	4.3	3.2	2.5	2.2	2.4	n.a.
Advanced foreign economies	1.7	3.3	2.1	.8	1.3	1.3	1.4
Previous Tealbook	1.8	3.3	2.2	.5	1.5	1.4	n.a.
Emerging market economies	4.4	5.1	4.0	4.6	2.8	3.2	3.1
Previous Tealbook	4.4	5.1	4.0	4.0	2.8	3.2	n.a.

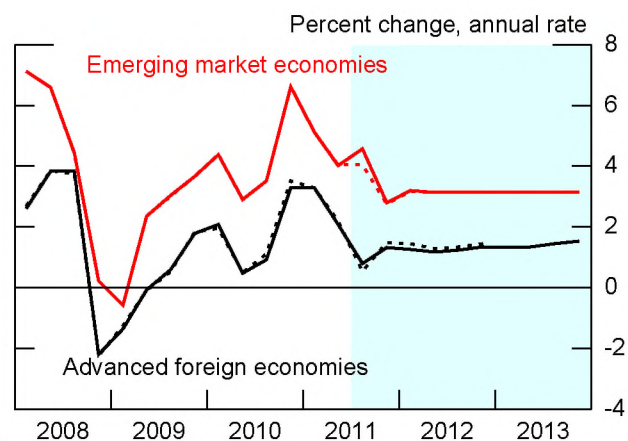
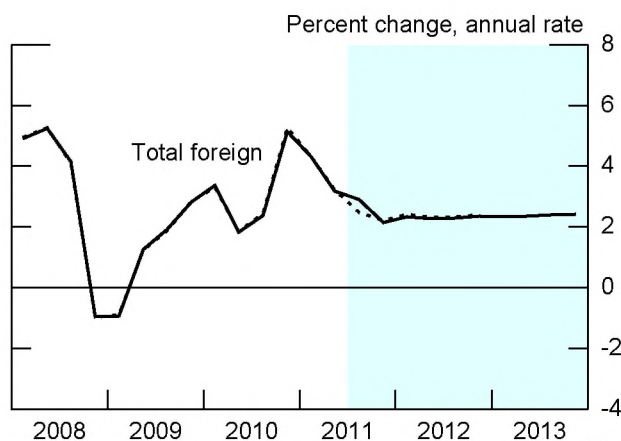
n.a. Not available.

Note: Annualized percent change from final quarter of preceding period to final quarter of period indicated.

Real GDP

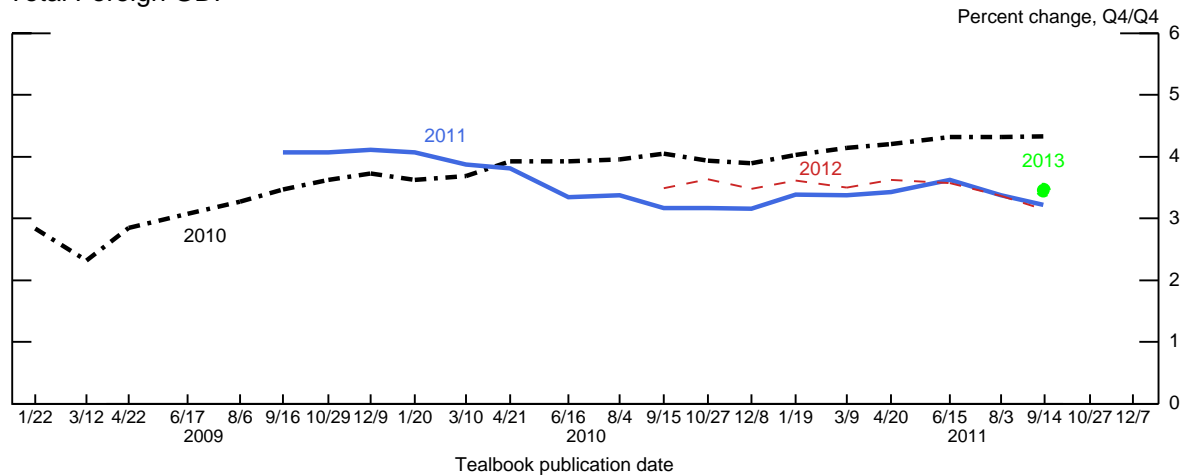


Consumer Prices

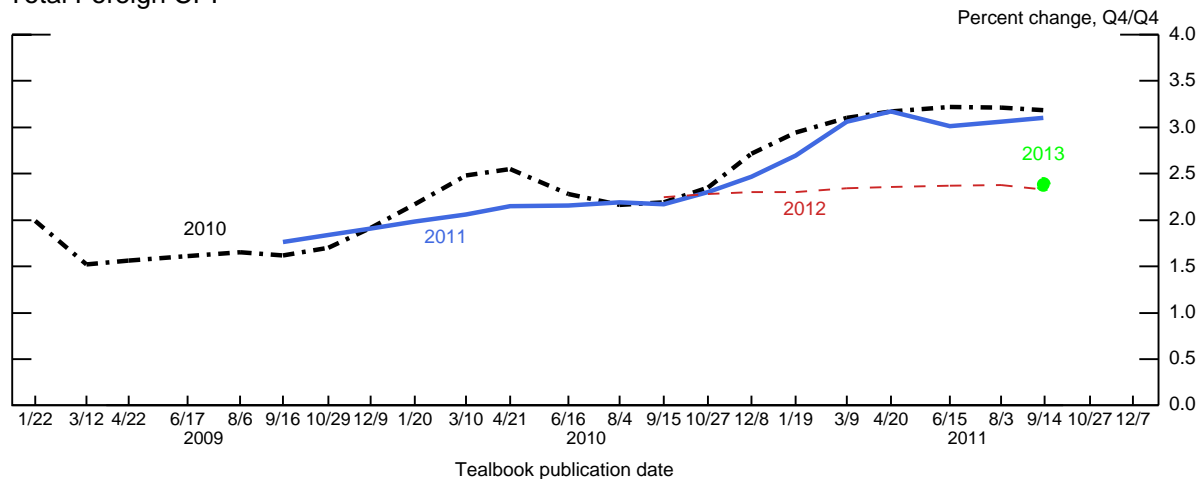


Evolution of Staff's International Forecast

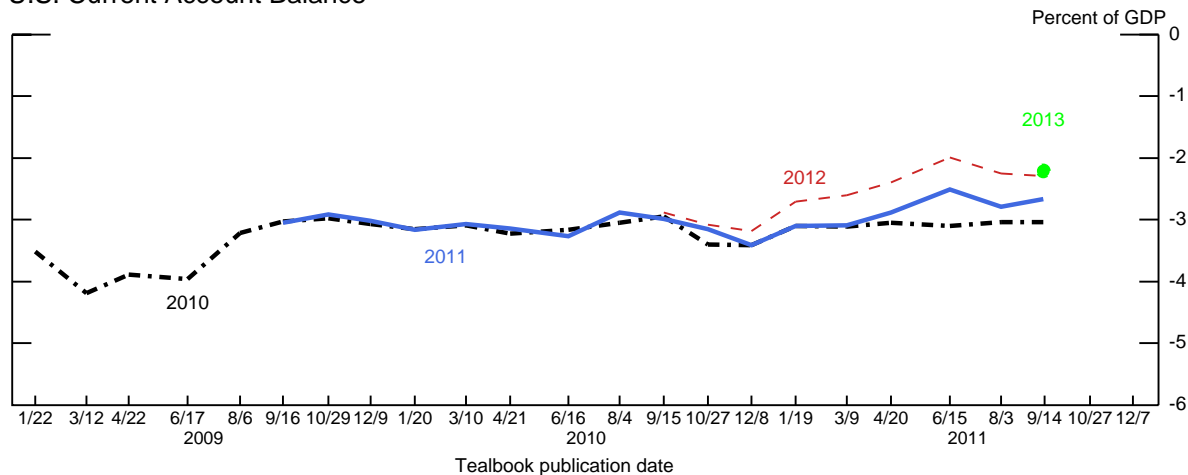
Total Foreign GDP



Total Foreign CPI

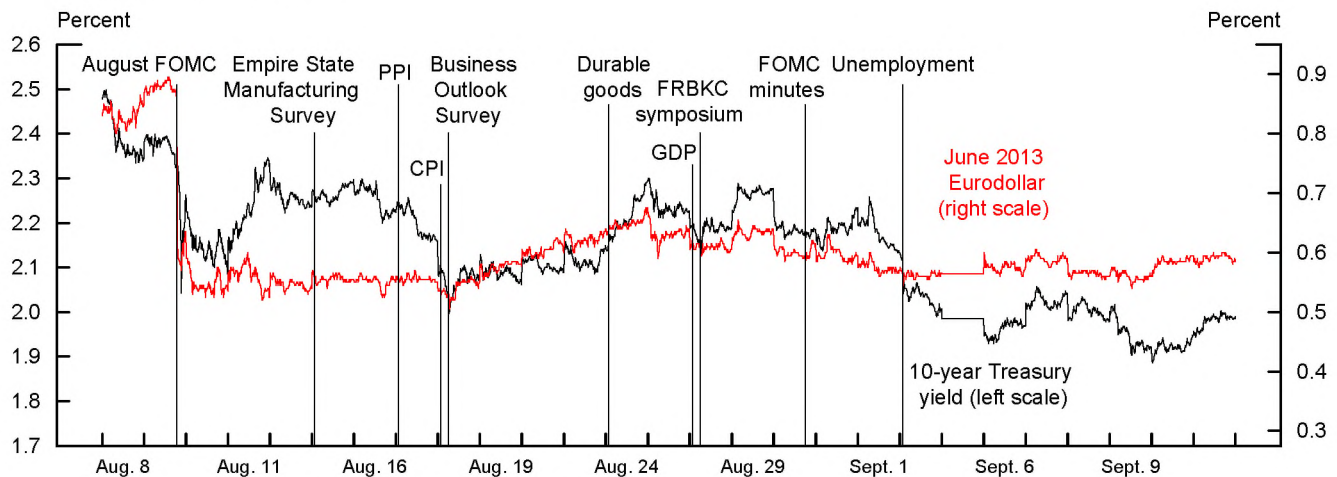


U.S. Current Account Balance



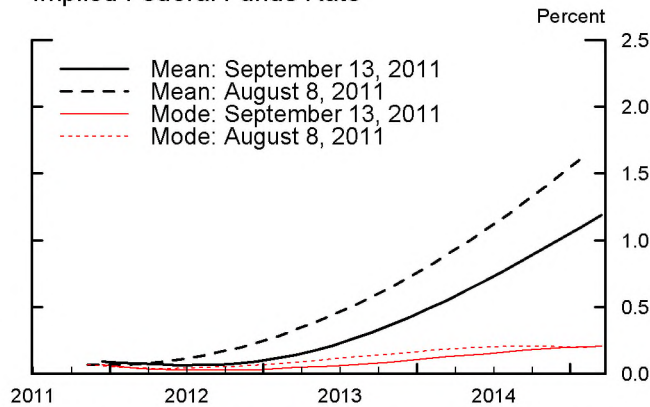
Policy Expectations and Treasury Yields

Selected Interest Rates



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

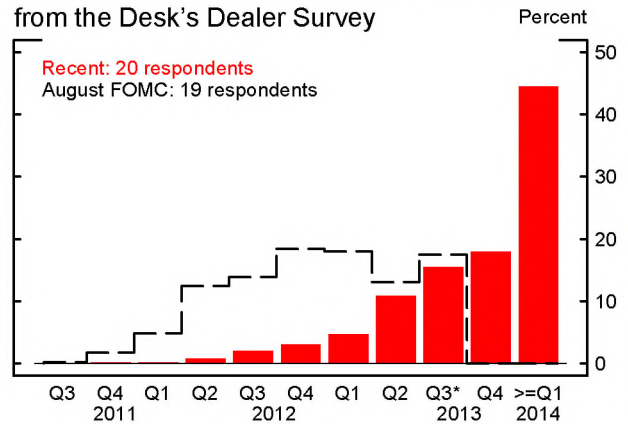
Implied Federal Funds Rate



Note: Mean is estimated using OIS quotes. Mode is estimated from the distribution of federal funds rate implied by interest rate caps. Both include a term premium of zero basis points per month.

Source: Bloomberg and CME Group.

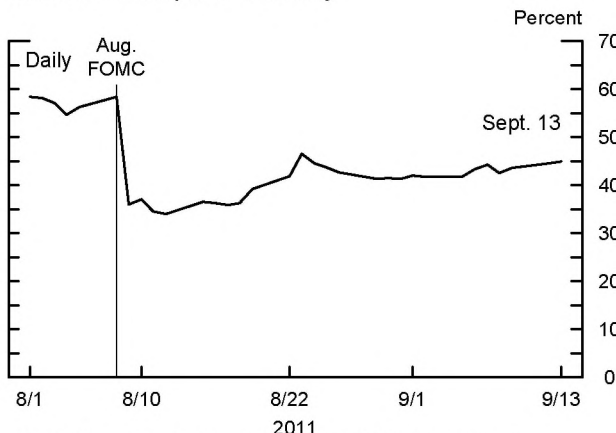
Distribution of the Quarter of First Rate Increase from the Desk's Dealer Survey



*For the August FOMC, the probability reported in the 2013:Q3 bin corresponds to the probability that the first policy rate hike will occur in 2013:Q3 or later.

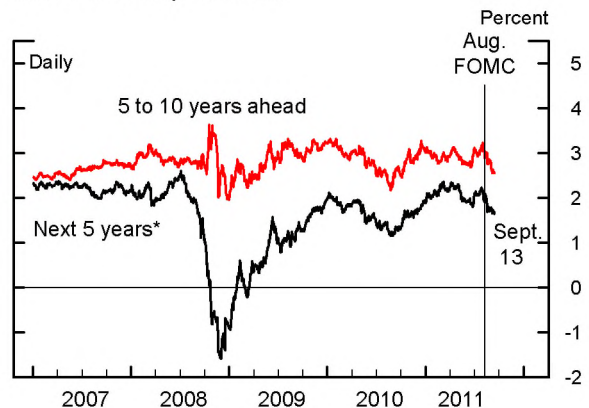
Source: Desk Dealer Survey from September 12, 2011.

Short Rate Implied Volatility



Note: Based on basis point implied volatility from 1-year swaptions 1 year ahead.
Source: Bloomberg.

Inflation Compensation



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

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

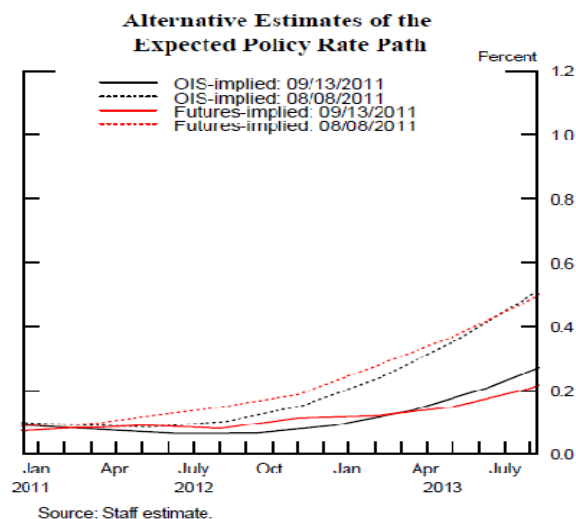
Source: Barclays PLC and staff estimates.

Policy Rate Expectations and Term Premiums

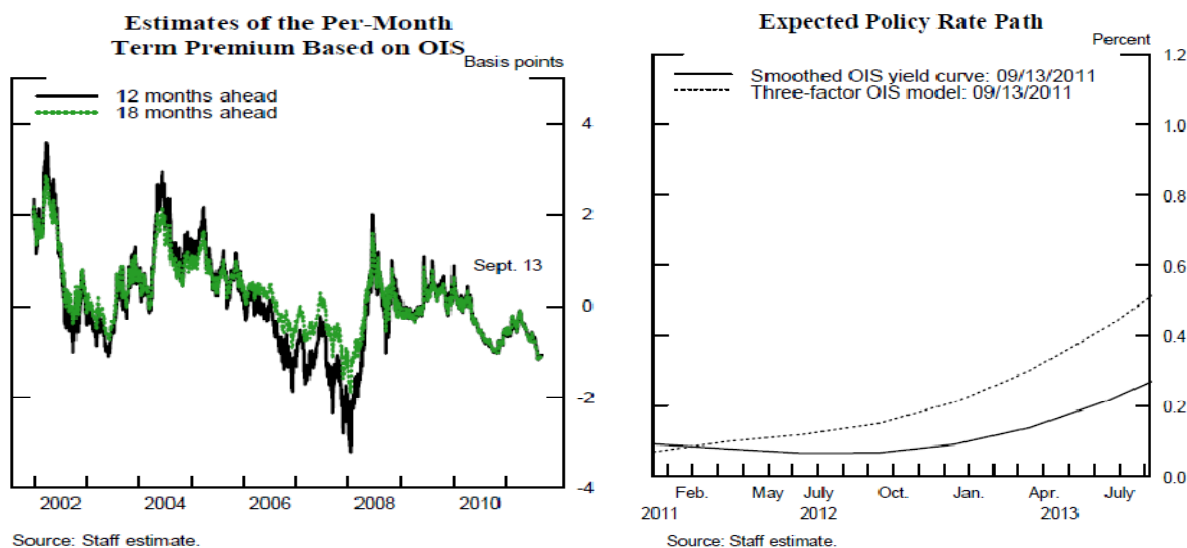
The Board staff recently implemented some modest changes in its computations of the expected federal funds rate path.

Traditionally, the staff used federal funds and Eurodollar futures to derive the expected federal funds rate path for horizons of up to two years; these contracts are quite liquid and widely used by market participants as indicators of policy expectations. Two transformations were applied to raw futures rates. First, federal funds versus Libor basis swap spreads were subtracted from the Eurodollar futures rates to make them comparable to federal funds futures rates. Second, federal funds futures rates were converted into expected federal funds rates by subtracting a judgmental estimate of the term premium priced into the futures rates. For most of the last few years, the staff assumed a term premium of 1 basis point per month. But that assumption recently generated estimates of expected federal funds rates that were negative. As a result, since August 7, the staff has been assuming a term premium of zero basis points per month in this calculation.

Another problem that the staff encountered with the traditional methodology was that the use of federal funds and Eurodollar futures rates sometimes generated kinks in the estimated expected federal funds rate path on the date of the shift from federal funds to Eurodollar futures. To avoid such problems, the staff recently shifted to using the overnight index swap (OIS) curve as the basis for its expected funds rate calculations. OIS rates are analogous to federal funds futures rates, and the OIS market has become increasingly liquid over time. By using a single data source, policy rate expectations based on the OIS curve are less subject to the data problems present under our previous procedure. Under the new procedure, the staff uses the raw OIS data to estimate forward OIS rates and then subtracts a term premium estimate from these forward rates to obtain the expected funds rate path. As previously noted, the currently assumed monthly term premium is zero basis points per month. The figure below shows that the expected funds rate paths calculated under the old and the new method are quite similar.



The assumption of a constant term premium is a strong one. Indeed, research has generally shown that term premiums are time varying.¹ To estimate a time-varying term premium directly, the staff is developing a three-factor no-arbitrage term structure model for OIS rates.² As illustrated in the lower-left figure, a preliminary version of this model suggests that the term premium has varied significantly over time and currently stands at about negative 1 basis point per month at the 12-month horizon. With a negative term premium, the model-based expected funds rate path is somewhat above the path calculated with the assumed term premium of zero basis points and implies that the federal fund rate will first rise above the current target range in the first quarter of 2013 (lower-right figure). For now, the staff will employ its judgmental term premium assumption along with OIS rates to calculate the expected funds rate path but will continue to refine work on the term structure modeling of the OIS curve with the goal of developing reliable joint estimates of the expected funds rate path and a time-varying term premium. This work and past efforts to identify a time-varying term premium point to the uncertainties associated with market-based estimates of the expected trajectory of the federal funds rate.

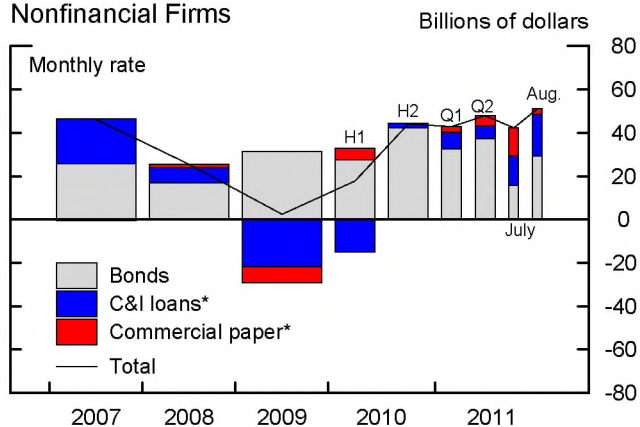


¹ See, for example, an article by Monika Piazzesi and Eric Swanson (2008), "Futures Prices as Risk-Adjusted Forecasts of Monetary Policy," *Journal of Monetary Economics*, vol. 55, pp. 677-91.

² See memorandums by Benson Durham (2007), "Another Estimate of the Term Premium at the Short End of the Yield Curve," memorandum, Board of Governors of the Federal Reserve System, Division of Monetary Affairs, February 13; and Canlin Li and Min Wei (2011), "An Affine Term Structure Model of Overnight Index Swaps (OIS) with Survey Forecasts," memorandum, Board of Governors of the Federal Reserve System, Division of Monetary Affairs, April 6.

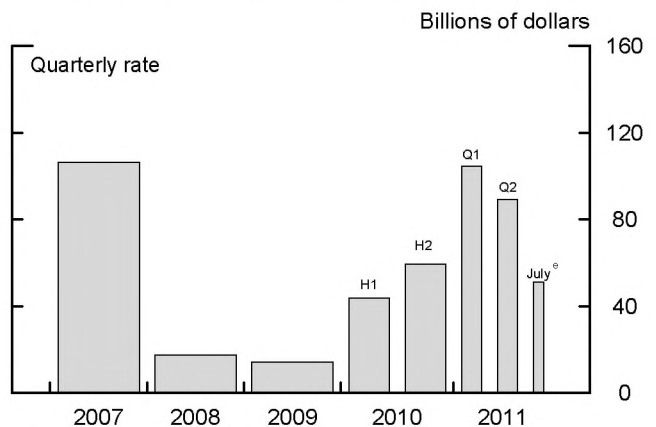
Business Finance

Selected Components of Net Debt Financing,
Nonfinancial Firms



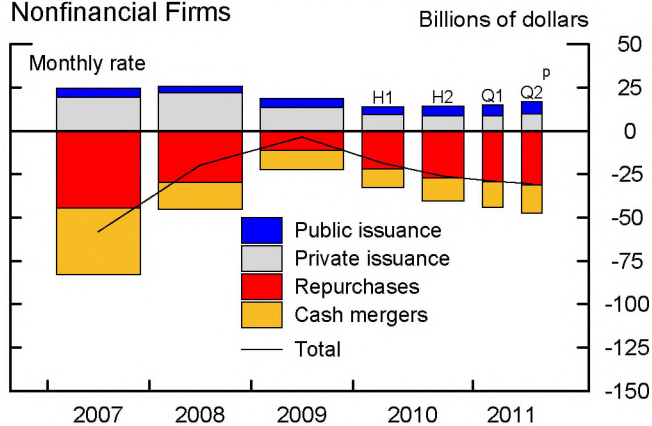
* Period-end basis, seasonally adjusted.
Source: Depository Trust & Clearing Corporation; Thomson Financial; Federal Reserve Board.

Institutional Leveraged Loan Issuance



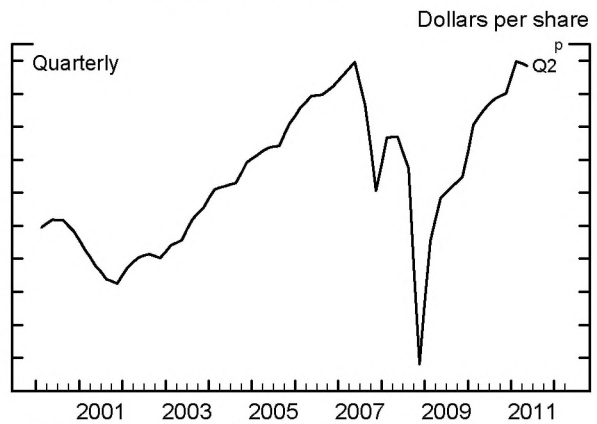
^e Estimate.
Source: Reuters Loan Pricing Corporation.

Selected Components of Net Equity Issuance,
Nonfinancial Firms



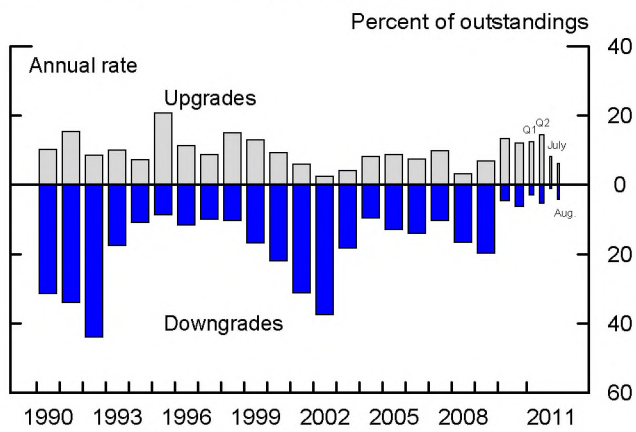
^p Preliminary.
Source: Thomson Financial, Investment Benchmark Report; Money Tree Report by PricewaterhouseCoopers, National Venture Capital Association, and Venture Economics.

S&P 500 Earnings Per Share



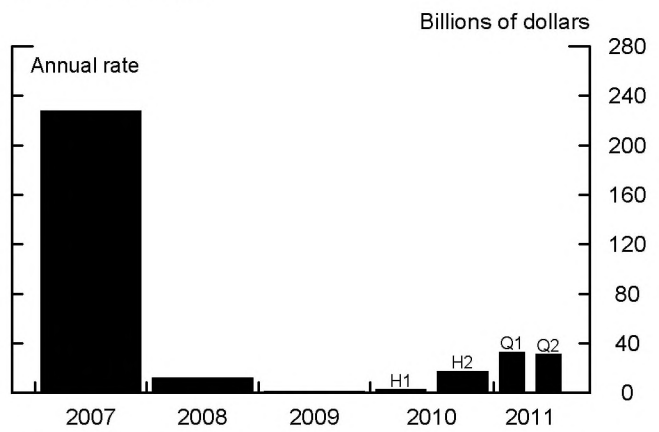
Note: Data are seasonally adjusted by Board staff.
^p Preliminary.
Source: Thomson Financial.

Bond Ratings Changes of Nonfinancial Firms



Source: Calculated using data from Moody's Investors Service.

CMBS Issuance



Source: Commercial Mortgage Alert.

Federal Reserve Balance Sheet
Billions of dollars

	Change since last FOMC	Current (09/12/11)
Total assets	-9	2,866
Selected assets:		
Liquidity programs for financial firms	-0	+0
Primary, secondary, and seasonal credit	-0	+0
Foreign central bank liquidity swaps	0	0
Term Asset-Backed Securities Loan Facility (TALF)	-0	12
Net portfolio holdings of Maiden Lane LLCs	-3	50
Maiden Lane	-3	18
Maiden Lane II	-0	10
Maiden Lane III	-0	21
Securities held outright*	-0	2,654
U.S. Treasury securities	15	1,659
Agency debt securities	-3	110
Agency mortgage-backed securities	-12	885
Total liabilities	-9	2,814
Selected liabilities:		
Federal Reserve notes in circulation	7	999
Reverse repurchase agreements	22	99
Foreign official and international accounts	22	99
Others	0	0
Reserve balances of depository institutions**	-25	1,620
Term deposits held by depository institutions	-5	0
U.S. Treasury, General Account	-15	14
U.S. Treasury, Supplementary Financing Account	0	0
Other deposits	7	62
Total capital	+0	52

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

* Par value.

** Includes required clearing balances and overdrafts. Excludes as-of adjustments.

Alternative Scenarios

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

Measure and scenario	2011		2012	2013	2014	2015-16
	H1	H2				
<i>Real GDP</i>						
Extended Tealbook baseline	.8	2.2	2.6	3.4	3.9	3.9
Recession	.8	-2.8	-1.5	3.9	4.6	5.6
Faster snapback	.8	2.8	3.4	3.7	3.6	3.2
Greater supply-side damage	.8	1.9	2.0	2.6	2.8	3.2
with higher inflation expectations	.8	1.9	2.0	2.5	2.5	3.1
Very severe financial stress in Europe	.8	.3	-1.2	2.2	4.6	4.8
<i>Unemployment rate¹</i>						
Extended Tealbook baseline	9.1	9.1	8.7	8.1	7.3	5.9
Recession	9.1	9.6	11.6	11.4	10.2	7.1
Faster snapback	9.1	9.0	8.2	7.3	6.5	5.9
Greater supply-side damage	9.1	9.0	8.5	8.0	7.6	6.9
with higher inflation expectations	9.1	9.0	8.5	8.1	7.8	7.2
Very severe financial stress in Europe	9.1	9.3	10.4	10.4	9.4	7.2
<i>Total PCE prices</i>						
Extended Tealbook baseline	3.6	1.7	1.2	1.3	1.4	1.6
Recession	3.6	1.7	.8	.2	-.2	.0
Faster snapback	3.6	1.7	1.2	1.4	1.7	2.0
Greater supply-side damage	3.6	1.8	1.4	1.6	1.7	1.8
with higher inflation expectations	3.6	1.8	2.0	2.6	2.6	2.5
Very severe financial stress in Europe	3.6	-.1	-.8	.5	1.3	2.0
<i>Core PCE prices</i>						
Extended Tealbook baseline	1.9	1.9	1.5	1.3	1.4	1.5
Recession	1.9	1.9	1.1	.2	-.2	-.1
Faster snapback	1.9	1.9	1.5	1.4	1.7	1.9
Greater supply-side damage	1.9	2.0	1.7	1.6	1.7	1.7
with higher inflation expectations	1.9	2.0	2.3	2.6	2.6	2.4
Very severe financial stress in Europe	1.9	1.1	.1	.6	1.2	1.8
<i>Federal funds rate¹</i>						
Extended Tealbook baseline	.1	.1	.1	.1	.6	3.1
Recession	.1	.1	.1	.1	.1	.6
Faster snapback	.1	.3	1.1	1.3	1.4	3.0
Greater supply-side damage	.1	.1	.1	.8	1.5	3.2
with higher inflation expectations	.1	.1	.5	2.0	2.6	3.9
Very severe financial stress in Europe	.1	.1	.1	.1	.1	2.6

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

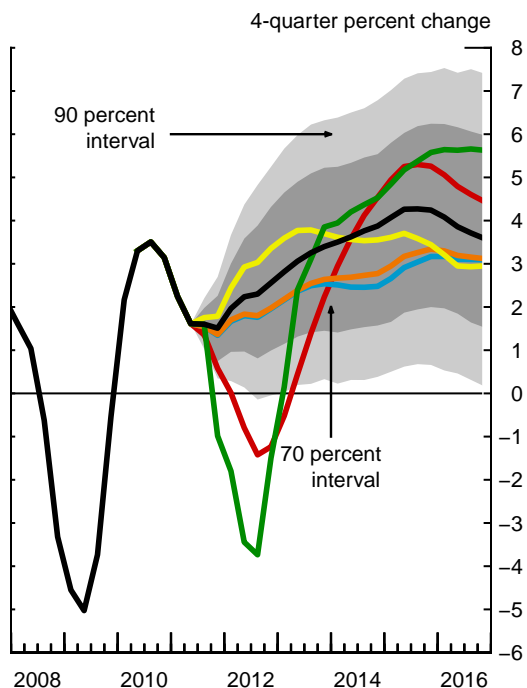
Forecast Confidence Intervals and Alternative Scenarios

Confidence Intervals Based on FRB/US Stochastic Simulations

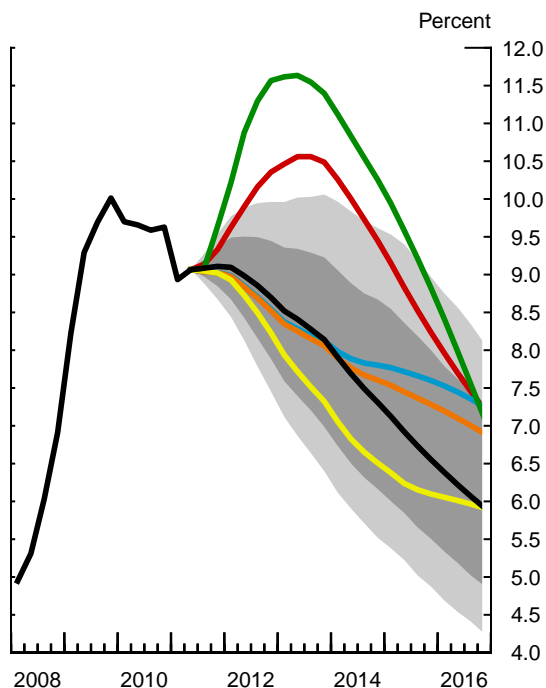
Extended Tealbook baseline
Recession
Faster snapback

Greater supply-side damage
with higher inflation expectations
Very severe financial stress in Europe

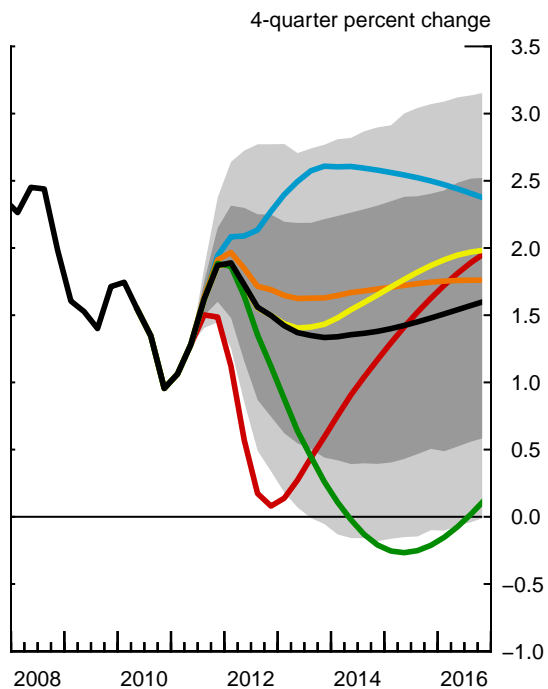
Real GDP



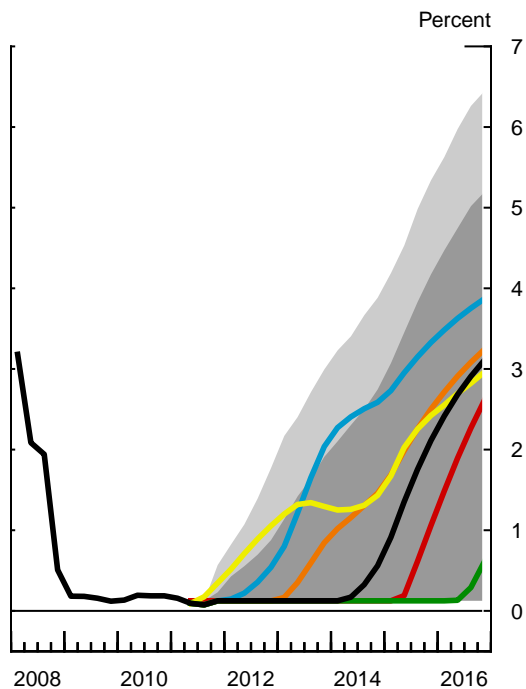
Unemployment Rate



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	2011	2012	2013	2014	2015	2016
<i>Real GDP</i> (percent change, Q4 to Q4)						
Projection	1.5	2.6	3.4	3.9	4.2	3.6
Confidence interval						
Tealbook forecast errors	.7–2.4	.7–4.4	1.6–5.2	...	...	...
FRB/US stochastic simulations	.7–2.3	1.0–4.3	1.4–5.2	1.6–5.5	2.0–6.2	1.5–6.0
<i>Civilian unemployment rate</i> (percent, Q4)						
Projection	9.1	8.7	8.1	7.3	6.6	5.9
Confidence interval						
Tealbook forecast errors	8.8–9.5	7.9–9.5	6.7–9.6	...	...	...
FRB/US stochastic simulations	8.8–9.4	7.9–9.4	7.0–9.2	6.2–8.7	5.5–8.0	4.9–7.3
<i>PCE prices, total</i> (percent change, Q4 to Q4)						
Projection	2.6	1.2	1.3	1.4	1.5	1.6
Confidence interval						
Tealbook forecast errors	2.2–3.1	.1–2.3	.1–2.5	...	...	...
FRB/US stochastic simulations	2.2–3.2	.2–2.3	.1–2.5	.1–2.7	.1–2.7	.3–2.9
<i>PCE prices excluding food and energy</i> (percent change, Q4 to Q4)						
Projection	1.9	1.5	1.3	1.4	1.5	1.6
Confidence interval						
Tealbook forecast errors	1.6–2.2	.8–2.2	.3–2.4	...	...	...
FRB/US stochastic simulations	1.6–2.1	.7–2.2	.4–2.2	.4–2.3	.5–2.4	.6–2.5
<i>Federal funds rate</i> (percent, Q4)						
Projection	.1	.1	.1	.6	2.1	3.1
Confidence interval						
FRB/US stochastic simulations	.1–.2	.1–.9	.1–1.9	.1–2.7	.3–4.2	1.1–5.2

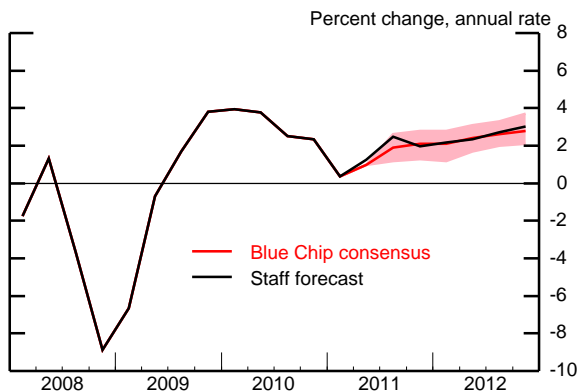
Note: Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1969–2009 set of model equation residuals.

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.

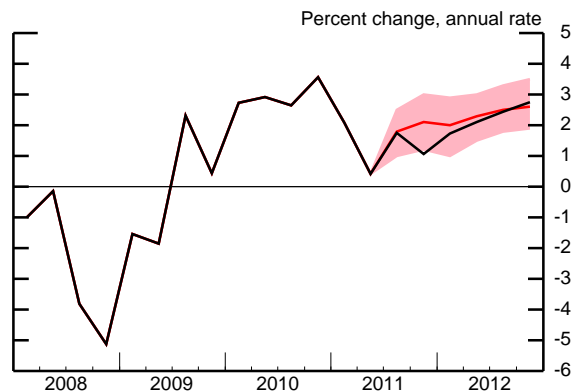
Tealbook Forecast Compared with Blue Chip (Blue Chip survey released September 10, 2011)

Real GDP

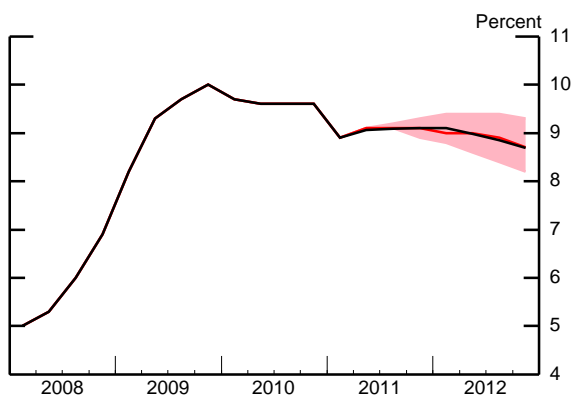


Note: The shaded area represents the area between the Blue Chip top 10 and bottom 10 averages.

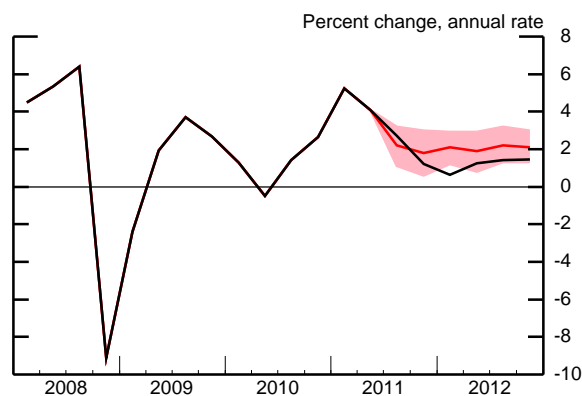
Real PCE



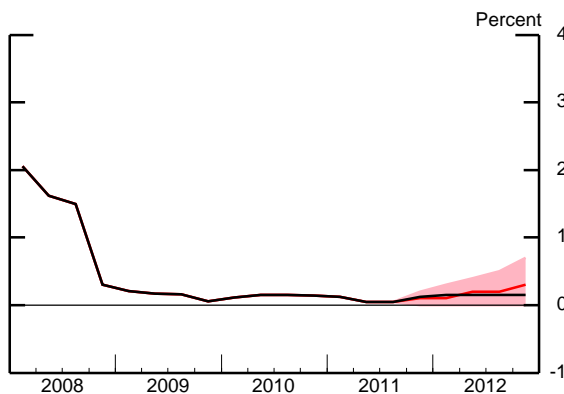
Unemployment Rate



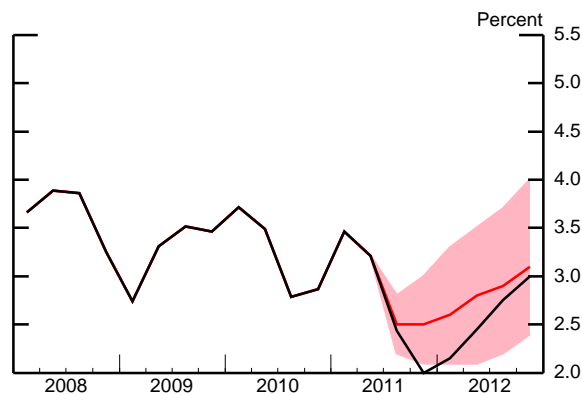
Consumer Price Index



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	
	08/03/11	09/14/11	08/03/11	09/14/11	08/03/11	09/14/11	08/03/11	09/14/11	08/03/11	09/14/11
<i>Quarterly</i>										
2011:Q1	3.1	3.1	.4	.4	3.9	3.9	1.6	1.6	8.9	8.9
Q2	3.9	3.8	1.4	1.2	3.1	3.2	2.1	2.2	9.1	9.1
Q3	5.1	5.3	2.9	2.5	1.5	2.2	1.9	2.1	9.2	9.1
Q4	3.6	3.9	2.4	2.0	1.1	1.2	1.7	1.7	9.2	9.1
2012:Q1	3.2	2.9	2.4	2.2	1.6	.9	1.6	1.6	9.1	9.1
Q2	5.9	4.5	2.9	2.3	1.5	1.3	1.5	1.5	8.9	9.0
Q3	4.6	4.0	3.2	2.7	1.4	1.3	1.4	1.4	8.7	8.9
Q4	4.6	4.2	3.4	3.0	1.4	1.3	1.4	1.4	8.5	8.7
2013:Q1	...	4.1	...	3.2	...	1.3	...	1.3	...	8.5
Q2	...	5.5	...	3.3	...	1.3	...	1.3	...	8.4
Q3	...	4.9	...	3.5	...	1.3	...	1.3	...	8.3
Q4	...	4.8	...	3.6	...	1.3	...	1.4	...	8.1
<i>Two-quarter²</i>										
2011:Q2	3.5	3.5	.9	.8	3.5	3.6	1.8	1.9	-5	-5
Q4	4.4	4.6	2.7	2.2	1.3	1.7	1.8	1.9	.1	.0
2012:Q2	4.5	3.7	2.6	2.3	1.5	1.1	1.6	1.6	-3	-1
Q4	4.6	4.1	3.3	2.9	1.4	1.3	1.4	1.4	-4	-3
2013:Q2	...	4.8	...	3.2	...	1.3	...	1.3	...	-3
Q4	...	4.9	...	3.5	...	1.3	...	1.3	...	-3
<i>Four-quarter³</i>										
2010:Q4	4.7	4.7	3.1	3.1	1.3	1.3	1.0	1.0	-4	-4
2011:Q4	3.9	4.0	1.8	1.5	2.4	2.6	1.8	1.9	-4	-5
2012:Q4	4.5	3.9	3.0	2.6	1.5	1.2	1.5	1.5	-7	-4
2013:Q4	...	4.8	...	3.4	...	1.3	...	1.3	...	-6
<i>Annual</i>										
2010	4.2	4.2	3.0	3.0	1.8	1.8	1.4	1.4	9.6	9.6
2011	4.0	4.0	1.9	1.7	2.3	2.4	1.4	1.5	9.1	9.0
2012	4.3	3.9	2.7	2.3	1.5	1.4	1.6	1.7	8.8	8.9
2013	...	4.6	...	3.1	...	1.3	...	1.4	...	8.3

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)

Item	2011				2012				2013				2011 ¹	2012 ¹	2013 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous Tealbook</i>	.4	1.2	2.5	2.0	2.2	2.3	2.7	3.0	3.2	3.3	3.5	3.6	1.5	2.6	3.4
Final sales <i>Previous Tealbook</i>	.4	1.4	2.9	2.4	2.4	2.9	3.2	3.4	...	...	...	...	1.8	3.0	...
Priv. dom. final purch. <i>Previous Tealbook</i>	.0	1.5	1.7	1.8	2.0	2.2	2.4	3.0	2.8	3.0	3.0	2.8	1.2	2.4	2.9
Personal cons. expend. <i>Previous Tealbook</i>	.0	1.3	1.5	3.1	2.6	2.8	3.0	3.3	...	...	...	...	1.5	2.9	...
Durables	2.0	1.7	2.1	1.2	1.8	2.2	2.7	3.2	3.2	3.5	3.7	3.8	1.7	2.5	3.5
Nondurables	2.0	1.1	1.9	2.2	2.0	2.6	3.1	3.4	...	...	...	...	1.8	2.8	...
Services	2.1	.4	1.7	1.1	1.7	2.1	2.4	2.7	2.9	3.1	3.2	3.4	1.3	2.3	3.1
Residential investment <i>Previous Tealbook</i>	2.1	.1	1.6	1.9	1.9	2.4	2.8	3.0	...	...	...	...	1.4	2.5	...
Business fixed invest. <i>Previous Tealbook</i>	11.7	-5.2	4.8	3.7	5.0	5.8	7.2	8.2	7.7	8.8	8.8	8.5	3.6	6.5	8.4
Equipment & software <i>Previous Tealbook</i>	1.6	.4	-3	.9	.9	1.3	1.4	1.6	1.8	2.0	2.2	2.5	.6	1.3	2.1
Nonres. structures <i>Previous Tealbook</i>	.8	1.4	2.0	.7	1.5	1.8	2.0	2.3	2.5	2.5	2.6	2.8	1.2	1.9	2.6
Net exports ² <i>Previous Tealbook</i> ²	-2.4	3.8	-1.3	-8	3.8	7.2	8.7	9.1	8.8	9.7	9.7	10.3	-2	7.2	9.6
Exports	-2.4	3.5	3.1	.5	3.1	4.2	8.4	8.8	...	...	...	...	1.1	6.1	...
Imports	2.1	10.7	5.4	2.6	1.6	1.9	3.6	4.7	4.0	5.2	5.9	5.4	5.1	2.9	5.1
Gov't. cons. & invest. <i>Previous Tealbook</i>	2.1	8.1	4.0	4.5	2.6	3.0	4.3	5.0	...	...	...	...	4.7	3.7	...
Federal	8.7	6.7	6.0	4.2	4.0	3.9	6.1	7.1	5.5	6.7	7.7	7.0	6.4	5.3	6.7
Defense	8.7	5.6	6.3	6.3	4.4	4.6	6.2	7.1	...	...	...	...	6.7	5.6	...
Nondefense	-14.3	22.6	3.7	-1.6	-4.8	-3.6	-3.2	-1.8	-1	.8	.9	1.0	1.7	-3.4	.6
State & local	-14.3	15.2	-2.0	-2	-2.2	-1.2	-1.0	-1.0	...	...	...	...	-9	-1.3	...
Change in bus. inventories ² <i>Previous Tealbook</i> ²	-424	-416	-405	-384	-361	-344	-337	-322	-313	-304	-297	-293	-407	-341	-302
Nonfarm ²	-424	-406	-405	-366	-332	-307	-290	-271	...	...	...	...	-400	-300	...
Farm ²	7.9	3.7	9.5	8.2	7.9	7.5	7.3	7.1	7.3	7.3	7.1	6.8	7.3	7.4	7.1
	8.3	1.3	5.5	2.8	2.2	3.2	4.7	3.4	4.7	4.6	5.0	5.3	4.4	3.4	4.9
	-5.9	-1.0	-1.8	.8	-8	-5	-4	-3	-3	-8	-1.5	-2.2	-2.0	-5	-1.2
	-5.9	-8	-3	.1	-7	-5	-4	-2	...	...	...	...	-1.8	-5	...
	-9.4	1.9	-7	3.7	-7	-6	-8	-8	-1.4	-2.9	-4.9	-6.8	-1.2	-7	-4.0
	-12.6	7.1	2.0	3.8	-5	.2	.0	.1	-8	-3.1	-6.0	-8.7	-2	.0	-4.7
	-2.7	-7.6	-6.2	3.6	-1.1	-2.2	-2.6	-2.6	-2.6	-2.7	-2.7	-2.7	-3.4	-2.2	-2.7
	-3.4	-2.9	-2.6	-1.2	-8	-5	-2	.0	.5	.7	.9	.9	-2.5	-4	.8
Change in bus. inventories ² <i>Previous Tealbook</i> ²	49	45	69	75	79	83	92	93	105	114	132	158	59	87	127
Nonfarm ²	49	53	99	80	74	78	83	85	...	...	...	...	70	80	...
Farm ²	60	54	71	77	78	82	92	92	104	114	131	157	65	86	126
	-8	-9	-2	-2	1	1	1	1	1	1	1	1	-5	1	1

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	2005	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP	2.8	2.4	2.2	-3.3	-5	3.1	1.5	2.6	3.4
<i>Previous Tealbook</i>	2.8	2.4	2.2	-3.3	-5	3.1	1.8	3.0	...
Final sales	2.7	2.8	2.4	-2.6	-8	2.4	1.2	2.4	2.9
<i>Previous Tealbook</i>	2.7	2.8	2.4	-2.6	-8	2.4	1.5	2.9	...
Priv. dom. final purch.	3.2	2.4	1.2	-4.5	-2.5	3.6	1.7	2.5	3.5
<i>Previous Tealbook</i>	3.2	2.4	1.2	-4.5	-2.5	3.6	1.8	2.8	...
Personal cons. expend.	2.8	3.2	1.7	-2.5	-2	3.0	1.3	2.3	3.1
<i>Previous Tealbook</i>	2.8	3.2	1.7	-2.5	-2	3.0	1.4	2.5	...
Durables	2.8	7.0	4.6	-13.0	3.0	10.9	3.6	6.5	8.4
Nondurables	3.1	2.9	.8	-3.1	.6	3.5	.6	1.3	2.1
Services	2.7	2.6	1.4	-.5	-.9	1.6	1.2	1.9	2.6
Residential investment	5.3	-15.7	-20.7	-24.4	-12.9	-6.3	-.2	7.2	9.6
<i>Previous Tealbook</i>	5.3	-15.7	-20.7	-24.4	-12.9	-6.3	1.1	6.1	...
Business fixed invest.	4.5	7.8	7.9	-9.4	-14.4	11.1	5.1	2.9	5.1
<i>Previous Tealbook</i>	4.5	7.8	7.9	-9.4	-14.4	11.1	4.7	3.7	...
Equipment & software	6.2	6.0	3.9	-13.6	-5.8	16.6	6.4	5.3	6.7
<i>Previous Tealbook</i>	6.2	6.0	3.9	-13.6	-5.8	16.6	6.7	5.6	...
Nonres. structures	-.1	13.0	17.3	-1.2	-29.3	-1.8	1.7	-3.4	.6
<i>Previous Tealbook</i>	-.1	13.0	17.3	-1.2	-29.3	-1.8	-.9	-1.3	...
Net exports¹	-723	-729	-649	-495	-359	-422	-407	-341	-302
<i>Previous Tealbook¹</i>	-723	-729	-649	-495	-359	-422	-400	-300	...
Exports	6.7	10.2	10.1	-2.5	-.1	8.8	7.3	7.4	7.1
Imports	5.2	4.1	.8	-5.9	-6.5	10.7	4.4	3.4	4.9
Gov't. cons. & invest.	.7	1.5	1.9	2.7	1.1	.1	-2.0	-.5	-1.2
<i>Previous Tealbook</i>	.7	1.5	1.9	2.7	1.1	.1	-1.8	-.5	...
Federal	1.2	2.2	3.1	8.8	4.6	2.9	-1.2	-.7	-4.0
Defense	.4	4.4	2.6	9.8	3.5	1.5	-.2	.0	-4.7
Nondefense	2.6	-2.3	4.2	6.8	6.9	5.7	-3.4	-2.2	-2.7
State & local	.4	1.2	1.2	-.9	-1.1	-1.7	-2.5	-.4	.8
Change in bus. inventories¹	50	59	28	-36	-145	59	59	87	127
<i>Previous Tealbook¹</i>	50	59	28	-36	-145	59	70	80	...
Nonfarm¹	50	63	29	-38	-144	61	65	86	126
Farm¹	0	-4	-1	1	-1	-1	-5	1	1

1. Billions of chained (2005) dollars.

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

Item	2011				2012				2013				2011 ¹	2012 ¹	2013 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous Tealbook</i>	.4	1.2	2.5	2.0	2.2	2.3	2.7	3.0	3.2	3.3	3.5	3.6	1.5	2.6	3.4
Final sales <i>Previous Tealbook</i>	.4	1.4	2.9	2.4	2.4	2.9	3.2	3.4	...	...	...	...	1.8	3.0	...
Priv. dom. final purch. <i>Previous Tealbook</i>	.0	1.5	1.7	1.8	2.0	2.2	2.4	3.0	2.8	3.0	2.9	2.8	1.2	2.4	2.9
Personal cons. expend. <i>Previous Tealbook</i>	.0	1.3	1.5	3.0	2.6	2.8	3.0	3.3	...	...	...	...	1.5	2.9	...
Durables	1.6	1.4	1.8	1.0	1.5	1.8	2.3	2.6	2.6	2.9	3.0	3.1	1.4	2.0	2.9
Nondurables	1.6	.9	1.6	1.8	1.7	2.1	2.6	2.8	...	...	...	...	1.5	2.3	...
Services	1.5	.3	1.2	.8	1.2	1.5	1.7	1.9	2.0	2.2	2.2	2.4	.9	1.6	2.2
Residential investment <i>Previous Tealbook</i>	1.5	.1	1.2	1.4	1.4	1.7	2.0	2.1	...	...	...	...	1.0	1.8	...
Business fixed invest. <i>Previous Tealbook</i>	.9	-.4	.4	.3	.4	.4	.5	.6	.6	.7	.7	.6	.3	.5	.6
Equipment & software <i>Previous Tealbook</i>	.3	.1	-.1	.2	.2	.2	.2	.3	.3	.3	.3	.4	.1	.2	.3
Nonres. structures <i>Previous Tealbook</i>	.4	.6	.9	.3	.7	.9	.9	1.1	1.2	1.2	1.2	1.3	.6	.9	1.2
Net exports <i>Previous Tealbook</i>	-.1	.1	.0	.0	.1	.2	.2	.2	.2	.2	.2	.2	.0	.2	.2
Exports	-.1	.1	.1	.0	.1	.1	.2	.2	...	...	...	...	.0	.1	...
Imports	.2	1.0	.5	.3	.2	.2	.4	.5	.4	.5	.6	.5	.5	.3	.5
Gov't. cons. & invest. <i>Previous Tealbook</i>	.2	.8	.4	.4	.3	.3	.4	.5	...	...	...	...	.5	.4	...
Federal	.6	.5	.4	.3	.3	.3	.4	.5	.4	.5	.6	.5	.5	.4	.5
Defense	.6	.4	.5	.5	.3	.3	.5	.5	...	...	...	...	.5	.4	...
Nondefense	-.4	.5	.1	.0	-.1	-.1	-.1	.0	.0	.0	.0	.0	.0	-.1	.0
State & local	-.4	.4	-.1	.0	-.1	.0	.0	.0	...	...	...	...	.0	.0	...
Change in bus. inventories <i>Previous Tealbook</i>	-.3	.3	.3	.6	.7	.5	.2	.4	.2	.3	.2	.1	.2	.5	.2
Nonfarm	-.3	.6	.0	1.2	1.1	.7	.5	.5	...	...	...	...	.4	.7	...
Farm	1.0	.5	1.3	1.1	1.1	1.0	1.0	1.0	1.1	1.1	1.0	1.0	1.0	1.1	1.0
	-1.4	-.2	-1.0	-.5	-.4	-.6	-.8	-.6	-.8	-.8	-.9	-.9	-.7	-.6	-.9
Gov't. cons. & invest. <i>Previous Tealbook</i>	-1.2	-.2	-.4	.2	-.2	-.1	-.1	-.1	.0	-.1	-.3	-.4	-.4	-.1	-.2
Federal	-1.2	-.2	-.1	.0	-.1	-.1	-.1	.0	...	...	...	...	-.4	-.1	...
Defense	-.8	.2	-.1	.3	-.1	.0	-.1	-.1	-.1	-.2	-.4	-.5	-.1	-.1	-.3
Nondefense	-.7	.4	.1	.2	.0	.0	.0	.0	.0	-.2	-.3	-.5	.0	.0	-.3
State & local	-1.1	-.2	-.2	.1	.0	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1
Change in bus. inventories <i>Previous Tealbook</i>	-.4	-.4	-.3	-.1	-.1	-.1	.0	.0	.1	.1	.1	.1	-.3	.0	.1
Nonfarm	.3	-.2	.8	.2	.1	.1	.3	.0	.4	.3	.6	.8	.3	.2	.5
Farm	.3	.1	1.4	-.6	-.2	.1	.2	.1	...	...	...	...	.3	.0	...
	.4	-.2	.6	.2	.1	.1	.3	.0	.4	.3	.5	.8	.3	.1	.5
	-1	.0	.2	.0	.1	.0	.0	.0	.0	.0	.0	.0	.0	.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	2011				2012				2013				2011 ¹	2012 ¹	2013 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP chain-wt. price index <i>Previous Tealbook</i>	2.5 2.5	2.4 2.3	2.8 2.1	1.8 1.2	.7 .7	2.1 2.9	1.2 1.3	1.2 1.2	.9 ...	2.2 ...	1.3 ...	1.2 ...	2.4 2.0	1.3 1.5	1.4 ...
PCE chain-wt. price index <i>Previous Tealbook</i>	3.9 3.9	3.2 3.1	2.2 1.5	1.2 1.1	.9 1.6	1.3 1.5	1.3 1.4	1.3 1.4	1.3 ...	1.3 ...	1.3 ...	1.3 ...	2.6 2.4	1.2 1.5	1.3 ...
Energy <i>Previous Tealbook</i>	40.7 40.7	15.0 14.9	2.2 -5.2	-6.1 -7.0	-9.5 .8	-2.6 1.9	-3 1.8	.3 1.3	.7...	.6...	.4...	.5 ...	11.6 9.3	-3.1 1.4	.6 ...
Food <i>Previous Tealbook</i>	6.5 6.5	6.4 6.4	3.3 2.6	2.2 2.0	1.4 1.4	1.3 1.3	1.4 1.4	1.4 1.4	1.4 ...	1.4 ...	1.3 ...	1.4 ...	4.6 4.3	1.4 1.4	1.4 ...
Ex. food & energy <i>Previous Tealbook</i>	1.6 1.6	2.2 2.1	2.1 1.9	1.7 1.7	1.6 1.6	1.5 1.5	1.4 1.4	1.4 1.4	1.3 ...	1.3 ...	1.3 ...	1.4 ...	1.9 1.8	1.5 1.5	1.3 ...
Ex. food & energy, market based <i>Previous Tealbook</i>	1.3 1.3	2.4 2.4	2.2 2.2	1.5 1.5	1.5 1.5	1.4 1.4	1.3 1.3	1.3 1.3	1.2 ...	1.1 ...	1.2 ...	1.2 ...	1.9 1.9	1.4 1.4	1.2 ...
CPI <i>Previous Tealbook</i>	5.2 5.2	4.1 4.1	2.7 1.8	1.2 1.0	.6 1.6	1.2 1.6	1.4 1.6	1.4 1.5	1.4 ...	1.4 ...	1.3 ...	1.4 ...	3.3 3.0	1.2 1.6	1.4 ...
Ex. food & energy <i>Previous Tealbook</i>	1.7 1.7	2.5 2.5	2.6 2.6	2.0 1.8	1.7 1.7	1.6 1.6	1.6 1.6	1.5 1.6	1.4 ...	1.4 ...	1.4 ...	1.4 ...	2.2 2.2	1.6 1.6	1.4 ...
ECI, hourly compensation ² <i>Previous Tealbook</i> ²	2.1 2.1	3.2 3.2	2.3 2.2	2.1 2.2	2.4 2.4	2.4 2.4	2.5 2.5	2.5 2.5	2.3 ...	2.3 ...	2.3 ...	2.4 ...	2.5 2.5	2.4 2.5	2.3 ...
Nonfarm business sector Output per hour <i>Previous Tealbook</i>	-6 -5	-3 -9	3.0 2.3	1.0 .9	.8 1.1	1.2 1.6	1.6 2.0	1.7 2.1	1.7 ...	1.6 ...	1.8 ...	1.8...	.8 .5	1.3 1.7	1.8 ...
Compensation per hour <i>Previous Tealbook</i>	5.6 4.3	2.7 1.2	1.4 1.3	1.7 2.0	2.4 2.4	2.2 2.2	2.3 2.2	2.3 2.3	2.2 ...	2.2 ...	2.2 ...	2.2 ...	2.8 2.2	2.3 2.3	2.2 ...
Unit labor costs <i>Previous Tealbook</i>	6.2 4.9	3.0 2.1	-1.6 -1.0	.8 1.1	1.6 1.2	1.0 .6	.8 .3	.6 .2	.5...	.6...	.4...	.4 ...	2.1 1.7	1.0 .6	.5 ...
Core goods imports chain-wt. price index ³ <i>Previous Tealbook</i> ³	8.3 8.3	7.4 6.3	2.6 3.1	1.0 2.0	.9 1.4	1.4 1.5	1.6 1.6	1.6 1.5	1.6 ...	1.5 ...	1.4 ...	1.4 ...	4.8 4.9	1.4 1.5	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	2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP chain-wt. price index <i>Previous Tealbook</i>	3.5 3.5	2.9 2.9	2.6 2.6	2.1 2.1	.7 .7	1.6 1.6	2.4 2.0	1.3 1.5	1.4 ...
PCE chain-wt. price index <i>Previous Tealbook</i>	3.2 3.2	1.9 1.9	3.5 3.5	1.7 1.7	1.5 1.5	1.3 1.3	2.6 2.4	1.2 1.5	1.3 ...
Energy <i>Previous Tealbook</i>	21.5 21.5	-3.7 -3.7	19.3 19.3	-8.8 -8.8	2.6 2.6	6.2 6.2	11.6 9.3	-3.1 1.4	.6 ...
Food <i>Previous Tealbook</i>	1.5 1.5	1.7 1.7	4.7 4.7	7.0 7.0	-1.7 -1.7	1.3 1.3	4.6 4.3	1.4 1.4	1.4 ...
Ex. food & energy <i>Previous Tealbook</i>	2.3 2.3	2.3 2.3	2.4 2.4	2.0 2.0	1.7 1.7	1.0 1.0	1.9 1.8	1.5 1.5	1.3 ...
Ex. food & energy, market based <i>Previous Tealbook</i>	2.0 2.0	2.2 2.2	2.1 2.1	2.2 2.2	1.7 1.7	.7 .7	1.9 1.9	1.4 1.4	1.2 ...
CPI <i>Previous Tealbook</i>	3.7 3.7	2.0 2.0	4.0 4.0	1.6 1.6	1.5 1.5	1.2 1.2	3.3 3.0	1.2 1.6	1.4 ...
Ex. food & energy <i>Previous Tealbook</i>	2.1 2.1	2.7 2.7	2.3 2.3	2.0 2.0	1.7 1.7	.6 .6	2.2 2.2	1.6 1.6	1.4 ...
ECL, hourly compensation ¹ <i>Previous Tealbook</i> ¹	2.9 2.9	3.2 3.2	3.0 3.0	2.4 2.4	1.2 1.2	2.1 2.1	2.5 2.5	2.4 2.5	2.3 ...
Nonfarm business sector Output per hour <i>Previous Tealbook</i>	1.6 1.6	.8 .8	2.5 2.5	-1.1 -1.2	5.3 5.3	2.5 2.5	.8 .5	1.3 1.7	1.8 ...
Compensation per hour <i>Previous Tealbook</i>	3.5 3.5	4.5 4.5	3.6 3.6	2.5 2.2	1.8 2.0	1.6 1.7	2.8 2.2	2.3 2.3	2.2 ...
Unit labor costs <i>Previous Tealbook</i>	1.9 1.9	3.6 3.6	1.1 1.1	3.7 3.4	-3.3 -3.1	-9 -9	2.1 1.7	1.0 .6	.5 ...
Core goods imports chain-wt. price index ² <i>Previous Tealbook</i> ²	2.2 2.2	2.5 2.5	2.9 2.9	3.7 3.7	-1.7 -1.7	2.6 2.6	4.8 4.9	1.4 1.5	1.5 ...

1. Private-industry workers.

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

Other Macroeconomic Indicators

Item	2011				2012				2013				2011 ¹	2012 ¹	2013 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Employment and production</i>															
Nonfarm payroll employment ²	4	.5	.1	.2	.3	.4	.5	.5	.6	.7	.7	.7	1.2	1.7	2.7
Unemployment rate ³	8.9	9.1	9.1	9.1	9.1	9.0	8.9	8.7	8.5	8.4	8.3	8.1	9.1	8.7	8.1
<i>Previous Tealbook³</i>	8.9	9.1	9.2	9.2	9.1	8.9	8.7	8.5	...	...	...	...	9.2	8.5	...
NAIRU ³	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
<i>Previous Tealbook³</i>	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	...	...	...	...	6.0	6.0	...
GDP gap ⁴	-6.0	-6.2	-6.2	-6.2	-6.2	-6.1	-6.0	-5.8	-5.6	-5.3	-5.0	-4.7	-6.2	-5.8	-4.7
<i>Previous Tealbook⁴</i>	-6.0	-6.2	-6.0	-5.9	-5.9	-5.7	-5.5	-5.2	...	...	...	...	-5.9	-5.2	...
Industrial production ⁵	4.8	1.0	5.9	4.2	1.2	2.4	3.7	3.0	3.4	3.7	3.5	3.6	4.0	2.6	3.5
<i>Previous Tealbook⁵</i>	4.8	.8	5.9	4.1	2.3	2.9	3.8	4.1	...	...	...	...	3.9	3.3	...
Manufacturing industr. prod. ⁵	7.1	1.0	5.1	4.0	.6	2.6	4.5	3.6	3.7	4.1	3.9	3.9	4.3	2.8	3.9
<i>Previous Tealbook⁵</i>	7.2	.2	4.9	4.7	2.7	3.4	4.2	4.8	...	...	...	...	4.2	3.8	...
Capacity utilization rate - mfg. ³	74.5	74.5	75.3	75.8	75.7	76.0	76.6	77.1	77.5	78.0	78.4	78.9	75.8	77.1	78.9
<i>Previous Tealbook³</i>	74.5	74.4	75.1	75.8	76.1	76.5	77.1	77.7	...	...	...	...	75.8	77.7	...
Housing starts ⁶	.6	.6	.6	.6	.7	.7	.8	.8	.9	.9	1.0	1.0	.6	.7	.9
Light motor vehicle sales ⁶	13.0	12.1	12.4	12.9	13.2	13.2	13.5	13.8	14.0	14.3	14.5	14.7	12.6	13.4	14.4
<i>Income and saving</i>															
Nominal GDP ⁵	3.1	3.8	5.3	3.9	2.9	4.5	4.0	4.2	4.1	5.5	4.9	4.8	4.0	3.9	4.8
Real disposable pers. income ⁵	1.2	.9	.4	3.2	-1	3.4	3.8	3.7	2.4	2.9	3.0	3.1	1.4	2.7	2.9
<i>Previous Tealbook⁵</i>	.7	.7	1.8	3.1	-1	3.3	3.4	3.8	...	...	...	...	1.6	2.6	...
Personal saving rate ³	5.0	5.2	5.0	5.4	5.0	5.3	5.5	5.7	5.6	5.6	5.5	5.5	5.4	5.7	5.5
<i>Previous Tealbook³</i>	4.9	5.1	5.1	5.4	4.9	5.1	5.2	5.3	...	...	...	...	5.4	5.3	...
Corporate profits ⁷	4.2	13.1	7.6	3.6	-6.8	2.7	-3.1	-1.4	2.7	12.7	8.6	6.9	7.1	-2.2	7.7
Profit share of GNP ³	12.4	12.7	12.8	12.8	12.4	12.4	12.2	12.0	12.0	12.2	12.3	12.4	12.8	12.0	12.4
Net federal saving ⁸	-1,201	-1,266	-1,196	-1,211	-1,024	-1,000	-986	-970	-897	-866	-839	-805	-1,218	-995	-852
Net state & local saving ⁸	-57	-48	-50	-66	-63	-51	-49	-45	-45	-34	-36	-36	-55	-52	-38
Gross national saving rate ³	12.6	12.7	13.0	13.2	13.4	13.7	13.8	13.8	13.9	14.2	14.4	14.6	13.2	13.8	14.6
Net national saving rate ³	-1	.1	.5	.8	1.0	1.4	1.4	1.4	1.5	1.9	2.1	2.3	.8	1.4	2.3

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.

Greensheets

Other Macroeconomic Indicators

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

Item	2005	2006	2007	2008	2009	2010	2011	2012	2013
<i>Employment and production</i>									
Nonfarm payroll employment ¹	2.4	2.1	1.2	-2.8	-5.6	.7	1.2	1.7	2.7
Unemployment rate ²	5.0	4.5	4.8	6.9	10.0	9.6	9.1	8.7	8.1
<i>Previous Tealbook</i> ²	5.0	4.5	4.8	6.9	10.0	9.6	9.2	8.5	...
NAIRU ²	5.0	5.0	5.0	5.3	6.0	6.0	6.0	6.0	6.0
<i>Previous Tealbook</i> ²	5.0	5.0	5.0	5.3	6.0	6.0	6.0	6.0	...
GDP gap ³	.1	.0	-1	-5.4	-6.9	-5.6	-6.2	-5.8	-4.7
<i>Previous Tealbook</i> ³	.1	.1	-1	-5.4	-6.9	-5.6	-5.9	-5.2	...
Industrial production ⁴	2.3	2.3	2.5	-9.1	-5.5	6.2	4.0	2.6	3.5
<i>Previous Tealbook</i> ⁴	2.3	2.3	2.5	-9.1	-5.5	6.2	3.9	3.3	...
Manufacturing industr. prod. ⁴	3.4	2.0	2.8	-11.8	-6.1	6.1	4.3	2.8	3.9
<i>Previous Tealbook</i> ⁴	3.4	2.0	2.8	-11.8	-6.1	6.1	4.2	3.8	...
Capacity utilization rate - mfg. ²	78.5	78.4	79.0	70.1	67.7	73.3	75.8	77.1	78.9
<i>Previous Tealbook</i> ²	78.5	78.4	79.0	70.1	67.7	73.3	75.8	77.7	...
Housing starts ⁵	2.1	1.8	1.4	.9	.6	.6	.6	.7	.9
Light motor vehicle sales ⁵	16.9	16.5	16.1	13.1	10.3	11.5	12.6	13.4	14.4
<i>Income and saving</i>									
Nominal GDP ⁴	6.4	5.3	4.9	-1.2	.0	4.7	4.0	3.9	4.8
Real disposable pers. income ⁴	.6	4.6	1.6	1.0	-2.4	3.5	1.4	2.7	2.9
<i>Previous Tealbook</i> ⁴	.6	4.6	1.6	1.0	-2.4	3.5	1.6	2.6	...
Personal saving rate ²	1.6	2.8	2.5	6.2	4.3	5.2	5.4	5.7	5.5
<i>Previous Tealbook</i> ²	1.6	2.8	2.5	6.2	4.3	5.2	5.4	5.3	...
Corporate profits ⁶	19.6	3.7	-8.1	-33.5	61.8	18.2	7.1	-2.2	7.7
Profit share of GNP ²	11.8	11.6	10.1	6.8	11.0	12.4	12.8	12.0	12.4
Net federal saving ⁷	-283	-204	-245	-613	-1218	-1274	-1218	-995	-852
Net state & local saving ⁷	26	51	12	-72	-78	-25	-55	-52	-38
Gross national saving rate ²	15.6	16.5	13.9	12.6	11.3	12.3	13.2	13.8	14.6
Net national saving rate ²	3.6	4.4	1.7	-6	-1.9	-4	.8	1.4	2.3

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				2011				2012				2013			
	2010 ^a	2011	2012	2013	Q1 ^a	Q2 ^a	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget																
Receipts ¹	2163	2320	2549	2768	488	714	586	553	551	788	656	637	574	848	709	665
Outlays ¹	3456	3616	3632	3633	949	855	911	922	960	896	854	939	932	895	867	950
Surplus/deficit ¹	-1293	-1296	-1083	-865	-460	-141	-325	-369	-409	-108	-198	-302	-358	-47	-157	-286
<i>Previous Tealbook</i>																
On-budget	-1293	-1306	-1138	-944	-460	-141	-336	-373	-425	-135	-206	-318	-378	-76	-172	-310
Off-budget	-1370	-1349	-1120	-914	-451	-202	-306	-386	-398	-162	-175	-336	-344	-100	-135	-317
	77	54	37	49	-10	61	-19	17	-11	54	-23	34	-15	53	-22	32
Means of financing																
Borrowing	1474	1128	1054	945	260	93	407	329	393	113	218	322	378	67	177	306
Cash decrease	-35	200	60	0	225	-19	27	19	26	15	0	0	0	0	0	0
Other ²	-146	-32	-30	-80	-24	67	-109	20	-10	-20	-20	-20	-20	-20	-20	-20
Cash operating balance, end of period	310	110	50	50	118	137	110	90	65	50	50	50	50	50	50	50
NIPA federal sector																
Receipts	2379	2537	2785	2999	2528	2563	2585	2614	2807	2843	2875	2909	2983	3031	3074	3117
Expenditures	3648	3774	3840	3892	3729	3829	3780	3824	3831	3843	3861	3879	3880	3896	3914	3922
Consumption expenditures	1042	1069	1100	1105	1059	1077	1079	1093	1100	1102	1104	1106	1110	1107	1099	1086
Defense	697	714	745	754	701	723	729	738	744	747	750	753	758	756	749	738
Nondefense	346	355	355	351	358	354	349	355	356	356	354	353	352	351	350	348
Other spending	2606	2706	2740	2787	2670	2752	2702	2732	2731	2741	2757	2773	2770	2790	2815	2836
Current account surplus	-1269	-1237	-1055	-893	-1201	-1266	-1196	-1211	-1024	-1000	-986	-970	-897	-866	-839	-805
Gross investment	165	164	163	162	161	160	161	163	163	163	163	164	163	162	159	154
Gross saving less gross investment ³	-1305	-1266	-1074	-903	-1227	-1289	-1218	-1233	-1044	-1018	-1002	-985	-909	-874	-843	-802
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-938	-920	-700	-553	-893	-933	-862	-864	-666	-640	-628	-619	-550	-528	-514	-493
Change in HEB, percent of potential GDP	1.1	-3	-1.6	-1.0	-7	2	-5	0	-1.2	-2	-1	-1	-4	-2	-1	-1
Fiscal impetus (FI), percent of GDP	0.5	-0.1	-1.0	-0.8	-0.6	0.4	-0.1	0.1	-1.4	-0.9	-0.8	-0.7	-0.8	-0.6	-0.8	-0.8
<i>Previous Tealbook</i>	0.5	-0.1	-1.1	-0.6	-0.5	0.3	0.1	-0.2	-1.5	-1.0	-1.0	-0.8	-0.5	-0.5	-0.7	-0.8

1. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus and the Postal Service surplus are excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.

2. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.

3. Gross saving is the current account surplus plus consumption of fixed capital of the general government as well as government enterprises.

4. HEB is gross saving less gross investment (NIPA) of the federal government in current dollars, with cyclically sensitive receipts and outlays adjusted to the staff's measure of potential output and the NAIRU. 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 (2005) dollars, scaled by real GDP. The FI estimates are calendar year contributions to Q4/Q4 real GDP growth. Also, for FI and the change in HEB, positive values indicate aggregate demand stimulus. Quarterly figures for change in HEB and FI are not at annual rates.

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>								
2006	9.0	10.0	11.1	4.1	10.6	8.3	3.9	5.3
2007	8.6	6.7	6.8	5.8	13.1	9.5	4.9	4.9
2008	6.0	.2	-.5	1.5	5.5	2.3	24.2	-1.2
2009	3.1	-1.6	-1.4	-4.4	-2.7	4.9	22.7	.0
2010	4.2	-2.0	-2.9	-1.8	.4	4.5	20.2	4.7
2011	3.8	-.5	-1.8	3.5	3.2	-.1	11.6	4.0
2012	4.6	1.4	-.2	6.1	3.5	3.8	10.0	3.9
2013	4.5	1.9	.1	7.3	4.3	3.6	8.1	4.8
<i>Quarter</i>								
2010:1	3.5	-3.1	-4.9	-4.1	-.5	4.5	20.6	5.5
2	3.9	-2.1	-2.5	-3.1	-1.7	-.3	22.5	5.4
3	3.9	-2.1	-2.5	-1.9	1.4	4.8	16.0	3.9
4	5.1	-.8	-1.8	2.0	2.2	8.9	16.4	4.2
2011:1	1.9	-2.0	-2.7	2.2	2.8	-4.2	7.9	3.1
2	3.0	-.6	-2.4	3.4	4.0	-3.2	8.6	3.8
3	5.1	.1	-1.2	3.7	3.2	1.6	14.9	5.3
4	4.9	.4	-1.0	4.4	2.7	5.7	13.2	3.9
2012:1	4.8	.9	-.5	5.1	2.9	3.8	12.2	2.9
2	4.1	1.2	-.2	5.5	3.4	3.8	8.4	4.5
3	3.7	1.5	-.0	6.2	3.6	3.7	6.3	4.0
4	5.4	1.8	.1	6.9	4.0	3.6	11.7	4.2
2013:1	5.2	1.8	.1	7.0	4.1	3.6	10.5	4.1
2	3.9	1.8	.1	7.0	4.1	3.6	6.1	5.5
3	3.5	1.9	.1	7.2	4.3	3.5	4.5	4.9
4	5.2	1.9	.1	7.2	4.3	3.5	10.2	4.8

Note: Quarterly data are at seasonally adjusted annual rates.

1. Data after 2011: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.

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

Category	2010	2011	2012	2013	2011				2012				2013			
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<i>Domestic nonfinancial sectors</i>																
Net funds raised																
Total	1173.2	942.3	1332.6	1425.7	1399.0	1399.8	1453.0	1188.0	998.8	1690.6	1702.4	1227.2	1029.1	1744.2		
Net equity issuance	-277.9	-420.5	-380.0	-340.0	-460.0	-420.0	-360.0	-360.0	-400.0	-400.0	-320.0	-320.0	-360.0	-360.0		
Net debt issuance	1451.1	1362.9	1712.6	1765.7	1859.0	1819.8	1813.0	1548.0	1398.8	2090.6	2022.4	1547.2	1389.1	2104.2		
<i>Borrowing indicators</i>																
Debt (percent of GDP) ¹	243.4	243.3	243.8	243.8	241.7	242.4	243.7	243.7	243.6	243.9	244.6	244.0	243.4	243.1		
Borrowing (percent of GDP)	10.0	9.0	10.9	10.8	12.2	11.9	11.7	9.9	8.9	13.1	12.6	9.5	8.4	12.6		
<i>Households</i>																
Net borrowing ²	-275.5	-70.9	182.0	253.7	11.6	51.1	118.8	165.1	205.7	238.3	244.3	248.6	258.6	263.2		
Home mortgages	-298.3	-183.4	-14.8	9.9	-119.1	-99.0	-49.4	-19.7	-0.0	9.9	9.9	9.9	9.9	9.9		
Consumer credit	-44.2	84.8	152.7	194.7	92.0	110.3	127.5	141.1	160.5	181.8	186.8	190.1	199.1	202.7		
Debt/DPI (percent) ³	120.7	114.7	111.3	108.3	113.9	112.7	112.7	111.7	110.7	109.8	109.2	108.6	108.0	107.3		
<i>Business</i>																
Financing gap ⁴	-197.3	-202.7	-107.7	15.5	-210.2	-227.7	-153.6	-141.1	-88.2	-47.9	10.9	-2.9	11.2	43.0		
Net equity issuance	-277.9	-420.5	-380.0	-340.0	-460.0	-420.0	-360.0	-360.0	-400.0	-400.0	-320.0	-320.0	-360.0	-360.0		
Credit market borrowing	39.6	346.5	391.2	492.2	356.3	296.1	325.9	381.0	404.1	453.8	472.8	483.8	502.7	509.5		
<i>State and local governments</i>																
Net borrowing	106.9	-1.7	92.8	91.8	37.8	137.8	93.8	93.8	91.8	91.8	91.8	91.8	91.8	91.8		
Current surplus ⁵	257.0	196.4	197.9	219.9	193.5	179.0	184.0	198.2	201.4	207.8	209.6	222.9	222.5	224.4		
<i>Federal government</i>																
Net borrowing	1580.2	1089.0	1046.6	928.0	1453.3	1334.9	1274.5	908.1	697.2	1306.7	1213.4	723.0	536.0	1239.7		
Net borrowing (n.s.a.)	1580.2	1089.0	1046.6	928.0	406.7	329.4	393.4	113.1	217.7	322.3	378.2	66.9	177.4	305.6		
Unified deficit (n.s.a.)	1275.1	1295.5	1017.0	848.0	325.3	368.7	409.2	107.7	197.7	302.3	358.2	46.9	157.4	285.6		
<i>Depository institutions</i>																
Funds supplied	-191.1	97.6	330.2	392.0	248.4	365.9	311.5	352.4	323.9	332.9	342.6	373.4	412.6	439.3		

Note: Data after 2011: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.

Foreign Real GDP and Consumer Prices: Selected Countries

(Quarterly percent changes at an annual rate)

Measure and country	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP ¹												
Total foreign	4.1	2.2	3.5	3.0	3.1	3.1	3.2	3.2	3.4	3.4	3.4	3.5
<i>Previous Tealbook</i>	4.2	2.2	3.7	3.4	3.3	3.3	3.4	3.4	...	...	...	...
Advanced foreign economies	2.2	.1	2.3	1.8	1.8	1.8	1.9	2.0	2.1	2.2	2.2	2.2
Canada	3.6	-4	2.7	2.0	2.0	2.0	2.1	2.2	2.4	2.4	2.5	2.5
Japan	-3.7	-2.1	4.7	3.3	2.8	2.3	2.1	1.9	1.7	1.6	1.5	1.5
United Kingdom	1.9	.7	2.2	1.7	1.9	2.0	2.1	2.2	2.4	2.4	2.5	2.6
Euro area	3.1	.6	.8	.7	.8	1.0	1.2	1.4	1.6	1.7	1.8	1.8
Germany	5.5	.5	1.5	1.5	1.5	1.7	1.9	2.2	2.2	2.3	2.5	2.5
Emerging market economies	6.2	4.4	4.8	4.4	4.5	4.5	4.7	4.6	4.7	4.8	4.8	4.8
Asia	8.5	4.9	5.7	5.3	5.6	5.6	5.8	5.8	5.9	6.0	6.0	6.0
Korea	5.4	3.6	3.7	3.7	3.7	3.8	3.9	3.9	4.1	4.2	4.3	4.5
China	8.7	9.1	8.0	8.2	8.2	8.2	8.2	8.2	8.3	8.3	8.3	8.3
Latin America	4.0	4.1	4.0	3.4	3.3	3.3	3.5	3.2	3.4	3.4	3.4	3.5
Mexico	2.4	4.5	4.3	3.4	3.3	3.3	3.6	3.2	3.3	3.3	3.3	3.3
Brazil	5.0	3.1	3.2	3.2	3.2	3.3	3.3	3.3	3.7	3.8	3.8	4.0
Consumer prices ²												
Total foreign	4.3	3.2	2.9	2.2	2.3	2.3	2.3	2.4	2.4	2.4	2.4	2.4
<i>Previous Tealbook</i>	4.3	3.2	2.5	2.2	2.4	2.3	2.4	2.4	...	...	...	...
Advanced foreign economies	3.3	2.1	.8	1.3	1.3	1.2	1.3	1.4	1.3	1.4	1.5	1.5
Canada	3.6	3.1	.3	1.8	2.0	1.8	1.9	1.8	1.9	1.9	1.9	1.9
Japan	.4	-8	.9	-5	-6	-4	-4	-3	-3	-3	-3	-2
United Kingdom	7.7	3.5	2.2	3.6	2.6	1.6	1.8	3.1	1.9	1.7	1.9	3.0
Euro Area	3.7	2.7	.9	1.4	1.3	1.3	1.4	1.4	1.5	1.6	1.8	1.8
Germany	3.7	2.2	1.1	1.4	1.5	1.6	1.6	1.6	1.7	1.7	1.8	1.8
Emerging market economies	5.1	4.0	4.6	2.8	3.2	3.1	3.1	3.1	3.2	3.1	3.1	3.1
Asia	5.4	4.7	5.0	2.4	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Korea	5.7	2.2	5.5	4.0	3.1	2.9	2.9	2.9	3.0	2.9	2.9	2.9
China	4.6	5.8	5.9	1.8	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Latin America	4.3	2.5	3.9	3.8	4.0	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Mexico	3.6	1.8	3.7	3.5	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Brazil	9.5	7.5	5.1	5.2	5.7	5.3	4.9	4.9	5.3	5.1	4.9	4.9

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	2005	2006	2007	2008	2009	2010	2011	2012	2013
	-----Projected-----								
Real GDP ¹									
Total foreign	4.0	4.2	4.3	-8	.7	4.3	3.2	3.2	3.4
<i>Previous Tealbook</i>	4.0	4.2	4.2	-8	.7	4.3	3.4	3.4	...
Advanced foreign economies	2.8	2.6	2.5	-1.7	-1.6	2.7	1.6	1.9	2.2
Canada	3.1	1.9	2.5	-7	-1.4	3.3	2.0	2.1	2.4
Japan	2.9	2.1	1.8	-4.7	-1.8	2.5	.5	2.3	1.6
United Kingdom	2.4	2.7	2.4	-2.7	-2.8	1.5	1.6	2.0	2.5
Euro area	2.1	3.7	2.3	-2.1	-2.1	2.0	1.3	1.1	1.7
Germany	1.6	4.9	2.4	-1.9	-2.2	3.8	2.2	1.8	2.4
Emerging market economies	5.8	6.3	6.7	.4	3.4	6.1	5.0	4.6	4.8
Asia	7.6	7.8	8.8	.9	7.9	7.5	6.1	5.7	6.0
Korea	5.2	4.6	5.8	-3.2	6.3	4.7	4.1	3.8	4.3
China	10.3	12.8	13.7	7.7	11.4	9.6	8.5	8.2	8.3
Latin America	3.9	4.8	4.4	-4	-9	4.5	3.9	3.3	3.4
Mexico	3.6	4.1	3.5	-1.2	-2.3	4.2	3.6	3.3	3.3
Brazil	2.2	4.8	6.6	.8	5.0	5.0	3.6	3.3	3.8
Consumer prices ²									
Total foreign	2.3	2.2	3.7	3.3	1.3	3.2	3.1	2.3	2.4
<i>Previous Tealbook</i>	2.3	2.2	3.7	3.3	1.3	3.2	3.1	2.4	...
Advanced foreign economies	1.6	1.4	2.2	2.0	.2	1.7	1.9	1.3	1.4
Canada	2.3	1.4	2.5	1.8	.8	2.2	2.2	1.9	1.9
Japan	-.7	.3	.5	1.0	-2.0	-.3	-.0	-.4	-.3
United Kingdom	2.1	2.7	2.1	3.9	2.1	3.4	4.2	2.3	2.1
Euro Area	2.3	1.8	2.9	2.3	.4	2.0	2.2	1.4	1.7
Germany	2.2	1.3	3.1	1.7	.3	1.6	2.1	1.6	1.7
Emerging market economies	3.0	2.9	5.1	4.6	2.1	4.4	4.1	3.2	3.1
Asia	2.5	2.4	5.5	3.6	1.3	4.3	4.4	2.9	2.8
Korea	2.5	2.1	3.4	4.5	2.4	3.6	4.4	2.9	2.9
China	1.4	2.1	6.7	2.5	.6	4.7	4.5	2.7	2.7
Latin America	3.8	4.2	4.2	6.7	3.9	4.4	3.6	3.9	3.9
Mexico	3.1	4.1	3.8	6.2	4.0	4.3	3.2	3.7	3.7
Brazil	6.1	3.2	4.3	6.2	4.2	5.4	6.8	5.2	5.1

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

U.S. Current Account

Quarterly Data

	2011				2012				Projected-----2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
U.S. current account balance	-473.8	-476.6	-438.8	-401.5	-393.4	-346.9	-351.9	-355.2	-371.1	-340.1	-349.9	-363.2
<i>Previous Tealbook</i>	<i>-477.1</i>	<i>-469.3</i>	<i>-448.7</i>	<i>-428.1</i>	<i>-431.4</i>	<i>-356.8</i>	<i>-354.6</i>	<i>-360.6</i>	...	...	...	...
Current account as percent of GDP	-3.2	-3.2	-2.9	-2.6	-2.5	-2.2	-2.2	-2.2	-2.3	-2.1	-2.1	-2.2
<i>Previous Tealbook</i>	<i>-3.2</i>	<i>-3.1</i>	<i>-3.0</i>	<i>-2.8</i>	<i>-2.8</i>	<i>-2.3</i>	<i>-2.2</i>	<i>-2.2</i>	...	...	...	...
Net goods & services	-559.9	-580.0	-540.2	-497.9	-499.0	-450.8	-449.4	-442.0	-456.0	-414.3	-409.6	-414.3
Investment income, net	228.1	251.0	242.6	239.6	247.4	241.8	238.7	230.1	226.6	212.1	200.9	194.3
Direct, net	324.7	356.1	333.2	311.2	307.5	305.9	309.4	313.1	317.1	310.1	307.0	308.5
Portfolio, net	-96.6	-105.1	-90.6	-71.6	-60.1	-64.1	-70.6	-83.0	-90.5	-98.0	-106.2	-114.2
Other income and transfers, net	-142.0	-147.6	-141.2	-143.3	-141.8	-137.9	-141.2	-143.3	-141.8	-137.9	-141.2	-143.3

Billions of dollars, s.a.a.r.

Annual Data

	Projected-----2013									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	
U.S. current account balance	-745.8	-800.6	-710.3	-677.1	-376.6	-470.9	-447.7	-361.8	-356.1	
<i>Previous Tealbook</i>	<i>-745.8</i>	<i>-800.6</i>	<i>-710.3</i>	<i>-677.1</i>	<i>-376.6</i>	<i>-470.9</i>	<i>-455.8</i>	<i>-375.9</i>	...	
Current account as percent of GDP	-5.9	-6.0	-5.1	-4.7	-2.7	-3.2	-3.0	-2.3	-2.2	
<i>Previous Tealbook</i>	<i>-5.9</i>	<i>-6.0</i>	<i>-5.1</i>	<i>-4.7</i>	<i>-2.7</i>	<i>-3.2</i>	<i>-3.0</i>	<i>-2.4</i>	...	
Net goods & services	-708.6	-753.3	-696.7	-698.3	-381.3	-500.0	-544.5	-460.3	-423.5	
Investment income, net	78.7	54.7	111.1	157.8	137.1	174.5	240.3	239.5	208.5	
Direct, net	173.2	174.0	244.6	284.3	262.2	280.6	331.3	309.0	310.7	
Portfolio, net	-94.5	-119.4	-133.5	-126.5	-125.1	-106.2	-91.0	-69.4	-102.2	
Other income and transfers, net	-115.9	-102.0	-124.7	-136.6	-132.3	-145.3	-143.5	-141.0	-141.0	

Billions of dollars

Class I FOMC – Restricted Controlled (FR)

Report to the FOMC on Economic Conditions and Monetary Policy



Book B

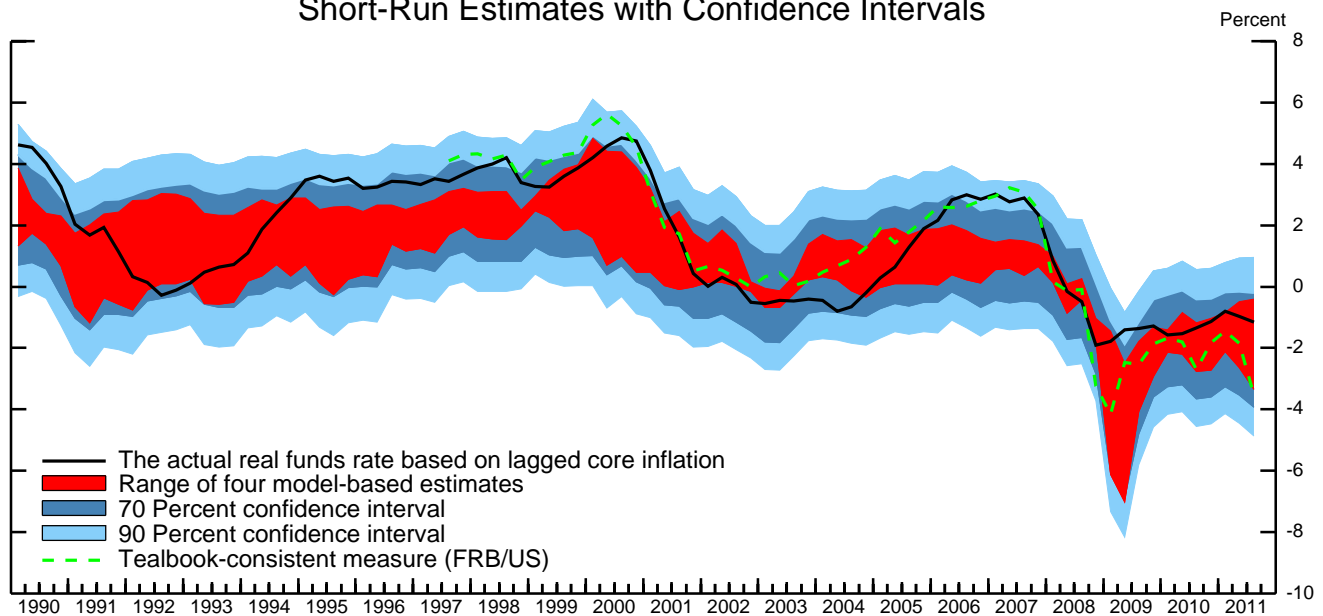
Monetary Policy: Strategies and Alternatives

September 15, 2011

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

Equilibrium Real Federal Funds Rate

Short-Run Estimates with Confidence Intervals



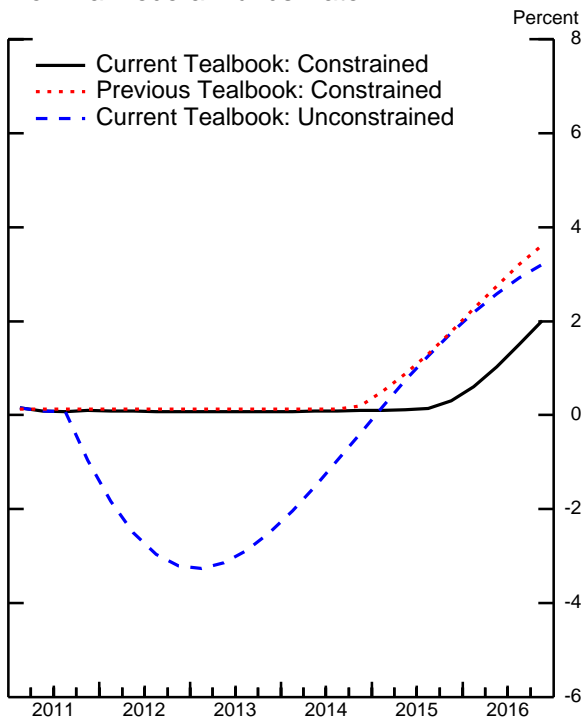
Short-Run and Medium-Run Measures

	Current Tealbook	Previous Tealbook
Short-Run Measures		
Single-equation model	-2.4	-2.3
Small structural model	-2.2	-2.1
EDO model	-0.4	-0.2
FRB/US model	-3.4	-2.7
Confidence intervals for four model-based estimates		
70 percent confidence interval	-3.9 to -0.2	
90 percent confidence interval	-4.9 to 1.0	
Tealbook-consistent measures		
EDO model	-4.7	-3.3
FRB/US model	-3.5	-2.9
Medium-Run Measures		
Single-equation model	0.9	1.0
Small structural model	0.7	0.8
Confidence intervals for two model-based estimates		
70 percent confidence interval	-0.1 to 1.7	
90 percent confidence interval	-0.7 to 2.4	
TIPS-based factor model	1.7	1.8
Memo		
Actual real federal funds rate	-1.1	-1.1

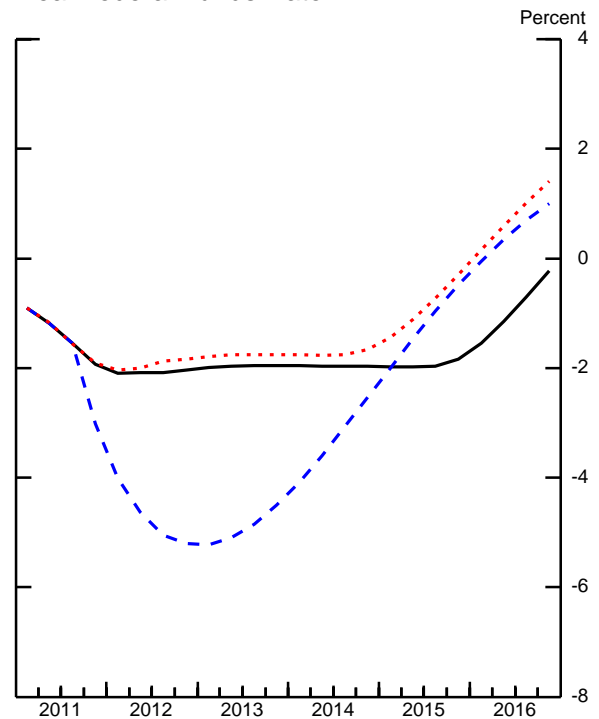
Note: Explanatory Note A provides background information regarding the construction of these measures and confidence intervals. The actual real federal funds rate shown is generated using lagged core inflation as a proxy for inflation expectations. For information regarding alternative measures, see Explanatory Note A.

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

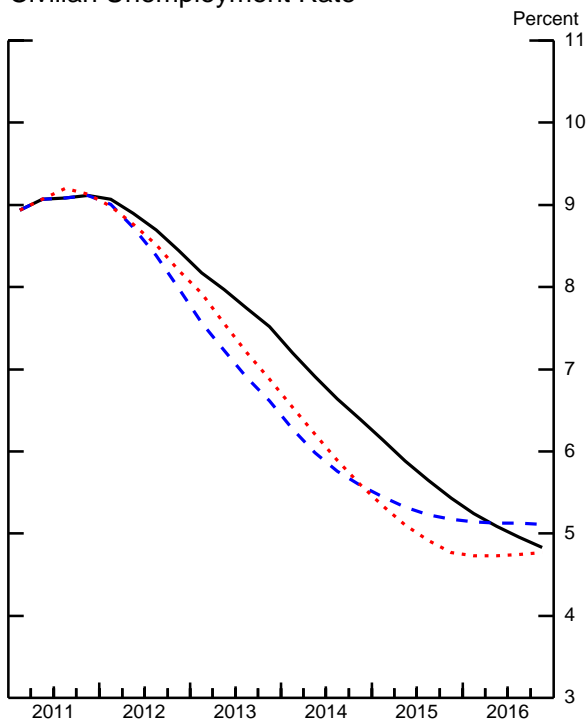
Nominal Federal Funds Rate



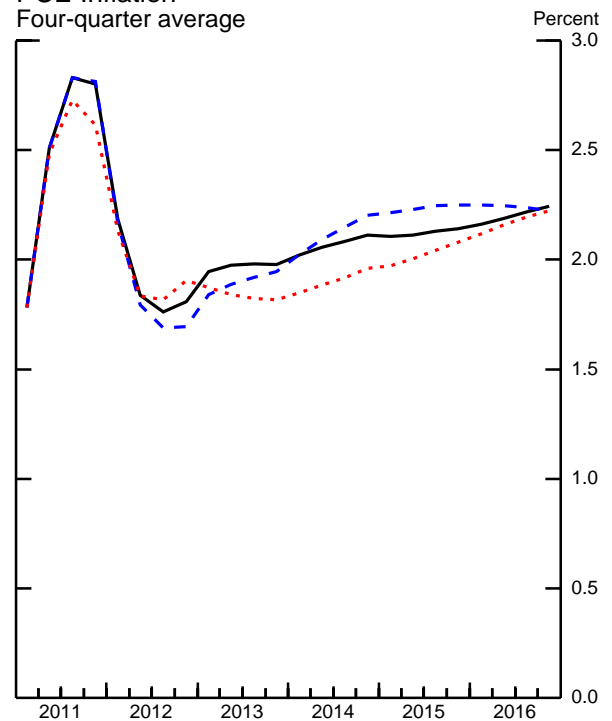
Real Federal Funds Rate



Civilian Unemployment Rate

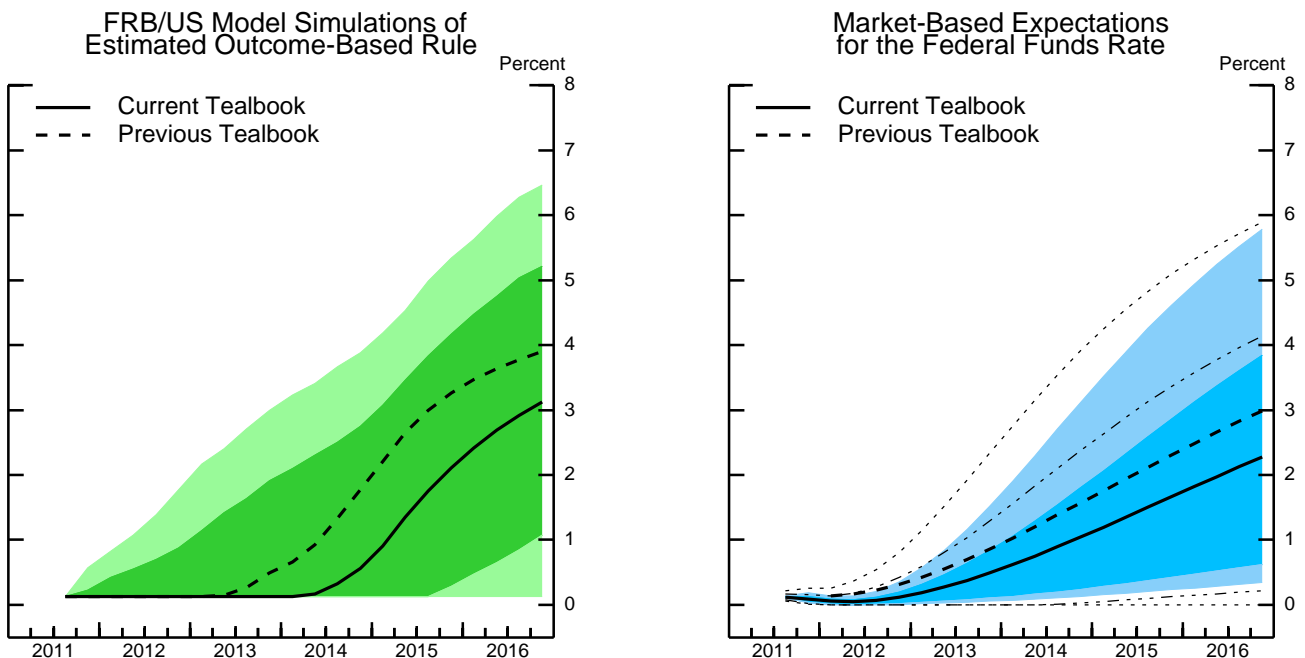


PCE Inflation
Four-quarter average



Note: The optimal control simulations are derived from a loss function that uses headline inflation and the lower right panel displays the behavior of simulated headline inflation.

Policy Rules and Market-Based Expectations for the Federal Funds Rate



Note: The staff baseline projection for the federal funds rate is derived from the outcome-based policy rule shown in the top-left panel. The top-right panel depicts the mean path and confidence intervals of future federal funds rates derived from market quotes as of September 14. In both panels, dark and light shadings represent the 70 and 90 percent confidence intervals respectively. Explanatory Note B provides further background information.

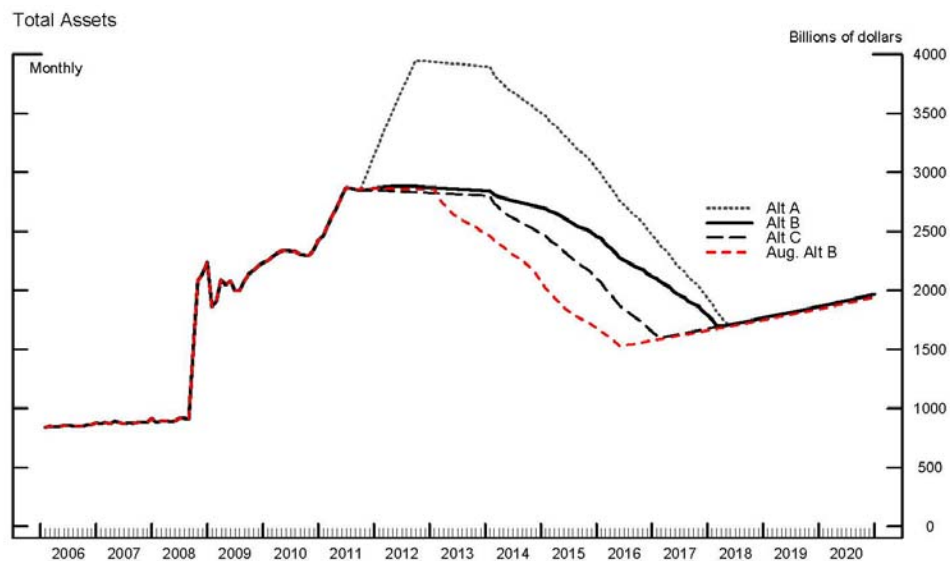
Near-Term Prescriptions of Simple Policy Rules

	Constrained Policy		Unconstrained Policy	
	2011Q4	2012Q1	2011Q4	2012Q1
Taylor (1993) rule	0.72	0.74	0.72	0.74
Previous Tealbook	0.76	0.81	0.76	0.81
Taylor (1999) rule	0.13	0.13	-2.37	-2.35
Previous Tealbook	0.13	0.13	-2.20	-2.12
Estimated outcome-based rule	0.13	0.13	-0.23	-0.57
Previous Tealbook Outlook	0.13	0.13	-0.15	-0.40
Estimated forecast-based rule	0.13	0.13	-0.30	-0.77
Previous Tealbook Outlook	0.13	0.13	-0.21	-0.53
First-difference rule	0.13	0.13	-0.07	-0.14
Previous Tealbook Outlook	0.13	0.25	0.12	0.25
Memo				
Staff assumption		0.13		0.13
Fed funds futures		0.07		0.07
Median expectation of primary dealers		0.13		0.13
Blue Chip forecast (September 1, 2011)		0.10		0.10

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. For rules which have the lagged policy rate as a right-hand-side variable, the lines denoted "Previous Tealbook Outlook" report rule prescriptions based on the previous Tealbook's staff outlook, but jumping off from the average value for the policy rate thus far in the quarter.

LONG-RUN PROJECTIONS OF THE BALANCE SHEET AND MONETARY BASE

The staff has prepared three scenarios for the Federal Reserve's balance sheet that correspond to the policy alternatives presented above: A baseline scenario corresponding to Alternative B, and two additional scenarios corresponding to Alternatives A and C. Projections under each scenario are based on assumptions about various components of the balance sheet. Details of these assumptions, as well as projections for each major component of the balance sheet, can be found in Explanatory Note C. Consistent with the staff's forecast, the three scenarios assume that the target federal funds rate lifts off in the third quarter of 2014.



For the scenario that corresponds to Alternative B, the Committee is assumed to sell \$400 billion (par value) of Treasury securities with remaining maturities of 3 years or less and purchase the same amount of securities with remaining maturities of 6 years or more over a nine-month period. It is also assumed that the Committee reinvests the proceeds from principal repayments from its holdings of agency securities into Treasury securities with remaining maturities of 6 years or more, while Treasury securities that mature are reinvested at auction following the Desk's current practice to purchase proportionally across all securities that are being issued until March 2014. Until that time, System Open Market Account (SOMA) security holdings remain constant at roughly \$2.6 trillion, and the size of the balance sheet, which includes other assets in addition to the SOMA portfolio, holds roughly steady at about \$2.9 trillion. In March 2014, six months before the assumed first increase in the target federal funds rate, reinvestment ceases, and the balance sheet begins to contract. In March 2015, roughly

Growth Rates for the Monetary Base				
Date	Alternative B	Alternative A	Alternative C	Memo : August Tealbook
Percent, annual rate				
Monthly				
Aug-10	-2.4	-2.4	-2.4	-2.4
Sep-10	-10.2	-10.2	-10.2	-10.2
Oct-10	-9.8	-9.8	-9.8	-9.8
Nov-10	3.2	3.2	3.2	3.2
Dec-10	16.8	16.8	16.8	16.8
Jan-11	23.3	23.3	23.3	23.3
Feb-11	57.6	57.6	57.6	57.6
Mar-11	97.8	97.8	97.8	97.8
Apr-11	74.4	74.4	74.4	74.4
May-11	42.1	42.1	42.1	42.1
Jun-11	35.9	35.9	35.9	35.9
Jul-11	27.0	27.0	27.0	26.9
Aug-11	3.6	3.6	3.6	16.2
Sep-11	-10.3	-9.9	-10.2	-0.5
Oct-11	2.2	23.4	1.0	-2.9
Nov-11	15.2	55.3	12.1	10.2
Dec-11	4.5	42.2	0.7	-1.0
Quarterly				
2010 Q3	-6.4	-6.4	-6.4	-6.4
2010 Q4	-3.2	-3.2	-3.2	-3.2
2011 Q1	36.8	36.8	36.8	36.8
2011 Q2	69.4	69.4	69.4	69.4
2011 Q3	21.4	21.5	21.5	25.5
2011 Q4	2.7	23.4	1.2	2.9
2012 Q1	12.5	49.4	8.6	6.6
2012 Q2	7.7	39.1	4.2	3.9
Annual - Q4 to Q4				
2009	52.5	52.5	52.5	52.5
2010	0.9	0.9	0.9	0.9
2011	35.9	42.9	35.4	37.3
2012	5.0	37.0	2.6	2.3
2013	-1.2	-1.2	-1.2	-12.5
2014	-4.9	-8.3	-9.4	-15.4
2015	-9.3	-13.2	-15.0	-22.1

Note: Not seasonally adjusted.

M2 Growth Rates

(percent, seasonally adjusted annual rate)

Monthly Growth Rates**Tealbook Forecast***

Jan-11	3.3
Feb-11	8.4
Mar-11	3.8
Apr-11	4.8
May-11	7.5
Jun-11	12.2
Jul-11	26.6
Aug-11	29.8
Sep-11	3.9
Oct-11	-2.1
Nov-11	-2.2
Dec-11	-2.1

Quarterly Growth Rates

2011 Q1	5.0
2011 Q2	6.4
2011 Q3	19.8
2011 Q4	2.7

Annual Growth Rates

2010	3.2
2011	8.7
2012	1.9
2013	3.2

* This forecast is consistent with nominal GDP and interest rates in the Tealbook forecast. Actual data through August 2011; projections thereafter.

Federal Reserve Balance Sheet

End-of-Year Projections -- Alternative A

Billions of dollars

	<u>Aug 31, 2011</u>	<u>2012</u>	<u>2014</u>	<u>2016</u>	<u>2018</u>	<u>2020</u>
Total assets	2,857	3,946	3,563	2,512	1,785	1,987
Selected assets						
Liquidity programs for financial firms	0	0	0	0	0	0
Primary, secondary, and seasonal credit	0	0	0	0	0	0
Central bank liquidity swaps	0	0	0	0	0	0
Lending through other credit facilities	12	4	0	0	0	0
Term Asset-Backed Securities Loan Facility (TALF)	12	4	0	0	0	0
Support for specific institutions	50	48	34	18	7	4
Credit extended to AIG	0	0	0	0	0	0
Net portfolio holdings of Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC	50	48	34	18	7	4
Securities held outright	2,647	3,639	3,334	2,348	1,660	1,879
U.S. Treasury securities	1,652	2,982	2,828	2,039	1,550	1,879
Agency debt securities	110	77	39	16	2	0
Agency mortgage-backed securities	885	579	468	293	108	0
Net portfolio holdings of TALF LLC	1	1	1	0	0	0
Total other assets	148	254	193	145	117	104
Total liabilities	2,806	3,876	3,470	2,389	1,622	1,772
Selected liabilities						
Federal Reserve notes in circulation	996	1,080	1,212	1,361	1,504	1,654
Reverse repurchase agreements	105	70	70	70	70	70
Deposits with Federal Reserve Banks	1,637	2,708	2,171	942	33	33
Reserve balances held by depository institutions	1,592	2,701	2,164	935	25	25
U.S. Treasury, General Account	42	5	5	5	5	5
U.S. Treasury, Supplementary Financing Account	0	0	0	0	0	0
Other balances	3	3	3	3	3	3
Interest on Federal Reserve Notes due to U.S. Treasury	1	0	0	0	0	0
Total capital	52	70	93	123	162	215

Explanatory Notes

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

Note: Components may not sum to totals due to rounding.

Federal Reserve Balance Sheet

End-of-Year Projections -- Alternative B

Billions of dollars

	<u>Aug 31, 2011</u>	<u>2012</u>	<u>2014</u>	<u>2016</u>	<u>2018</u>	<u>2020</u>
Total assets	2,857	2,902	2,740	2,130	1,785	1,987
Selected assets						
Liquidity programs for financial firms	0	0	0	0	0	0
Primary, secondary, and seasonal credit	0	0	0	0	0	0
Central bank liquidity swaps	0	0	0	0	0	0
Lending through other credit facilities	12	4	0	0	0	0
Term Asset-Backed Securities Loan Facility (TALF)	12	4	0	0	0	0
Support for specific institutions	50	48	34	18	7	4
Credit extended to AIG	0	0	0	0	0	0
Net portfolio holdings of Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC	50	48	34	18	7	4
Securities held outright	2,647	2,639	2,532	1,975	1,667	1,886
U.S. Treasury securities	1,652	1,982	2,026	1,666	1,557	1,886
Agency debt securities	110	77	39	16	2	0
Agency mortgage-backed securities	885	579	468	293	108	0
Net portfolio holdings of TALF LLC	1	1	1	0	0	0
Total other assets	148	210	173	137	111	97
Total liabilities	2,806	2,832	2,648	2,007	1,622	1,772
Selected liabilities						
Federal Reserve notes in circulation	996	1,080	1,212	1,361	1,504	1,654
Reverse repurchase agreements	105	70	70	70	70	70
Deposits with Federal Reserve Banks	1,637	1,664	1,349	560	33	33
Reserve balances held by depository institutions	1,592	1,657	1,341	553	25	25
U.S. Treasury, General Account	42	5	5	5	5	5
U.S. Treasury, Supplementary Financing Account	0	0	0	0	0	0
Other balances	3	3	3	3	3	3
Interest on Federal Reserve Notes due to U.S. Treasury	1	0	0	0	0	0
Total capital	52	70	93	123	162	215

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

Note: Components may not sum to totals due to rounding.

Federal Reserve Balance Sheet

End-of-Year Projections -- Alternative C

Billions of dollars

	<u>Aug 31, 2011</u>	<u>2012</u>	<u>2014</u>	<u>2016</u>	<u>2018</u>	<u>2020</u>
Total assets	2,857	2,826	2,533	1,694	1,785	1,987
Selected assets						
Liquidity programs for financial firms	0	0	0	0	0	0
Primary, secondary, and seasonal credit	0	0	0	0	0	0
Central bank liquidity swaps	0	0	0	0	0	0
Lending through other credit facilities	12	4	0	0	0	0
Term Asset-Backed Securities Loan Facility (TALF)	12	4	0	0	0	0
Support for specific institutions	50	48	34	18	7	4
Credit extended to AIG	0	0	0	0	0	0
Net portfolio holdings of Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC	50	48	34	18	7	4
Securities held outright	2,647	2,639	2,388	1,588	1,700	1,910
U.S. Treasury securities	1,652	1,950	1,840	1,252	1,580	1,910
Agency debt securities	110	77	39	16	2	0
Agency mortgage-backed securities	885	612	510	319	118	0
Net portfolio holdings of TALF LLC	1	1	1	0	0	0
Total other assets	148	135	109	88	77	73
Total liabilities	2,806	2,756	2,440	1,572	1,622	1,772
Selected liabilities						
Federal Reserve notes in circulation	996	1,080	1,212	1,361	1,504	1,654
Reverse repurchase agreements	105	70	70	70	70	70
Deposits with Federal Reserve Banks	1,637	1,589	1,141	125	33	33
Reserve balances held by depository institutions	1,592	1,581	1,134	117	25	25
U.S. Treasury, General Account	42	5	5	5	5	5
U.S. Treasury, Supplementary Financing Account	0	0	0	0	0	0
Other balances	3	3	3	3	3	3
Interest on Federal Reserve Notes due to U.S. Treasury	1	0	0	0	0	0
Total capital	52	70	93	123	162	215

Explanatory Notes

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

Note: Components may not sum to totals due to rounding.