

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

March 9, 2011

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

Domestic Economic Developments and Outlook

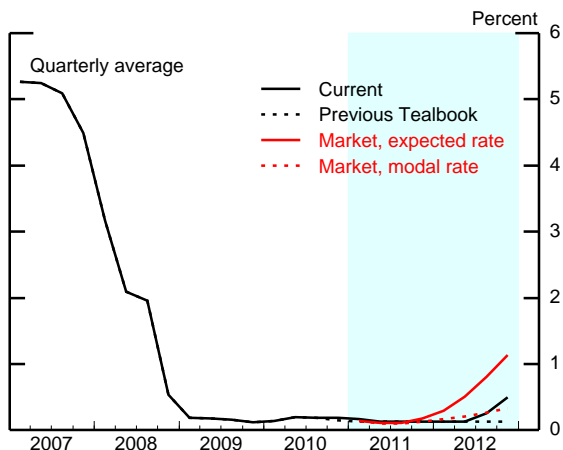
The information we have received since the time of the January Tealbook suggests that the economic recovery has continued to proceed at a moderate pace. Although the rise in real GDP in the fourth quarter was about $\frac{1}{2}$ percentage point less than the previous Tealbook forecast and consumer spending in January came in below our expectations, the limited information that we have for February has thus far been more encouraging. Moreover, forward-looking signals of activity in coming months point to solid growth, much along the lines of what we anticipated in the January Tealbook. In particular, the latest indicators of factory output and business equipment spending have remained upbeat, motor vehicle sales picked up noticeably in February, and readings from the labor market have been stronger, on net, than we had anticipated. In all, the incoming data appear consistent with real GDP increasing at an annual rate averaging $3\frac{1}{2}$ percent in the first half of this year, just slightly below our forecast in the January Tealbook.

The trajectory of our medium-term forecast is also quite similar to that in the previous Tealbook. While equity prices are somewhat higher in this projection and the exchange value of the dollar a little lower, these positive influences on activity are essentially offset by higher oil prices and slightly more-restrictive fiscal policy assumptions. As a result, we continue to project that the pace of real GDP growth will step up to $3\frac{3}{4}$ percent in 2011 and to $4\frac{1}{2}$ percent in 2012. As has been true in previous projections, economic activity this year and next should be supported by accommodative monetary policy, increasing credit availability, and rising household and business confidence. Meanwhile, we have taken on board the appreciable decline in the unemployment rate in recent months, putting the projected jobless rate at $8\frac{1}{2}$ percent at the end of this year and $7\frac{1}{2}$ percent at the end of 2012, several tenths below our forecast in the January Tealbook.

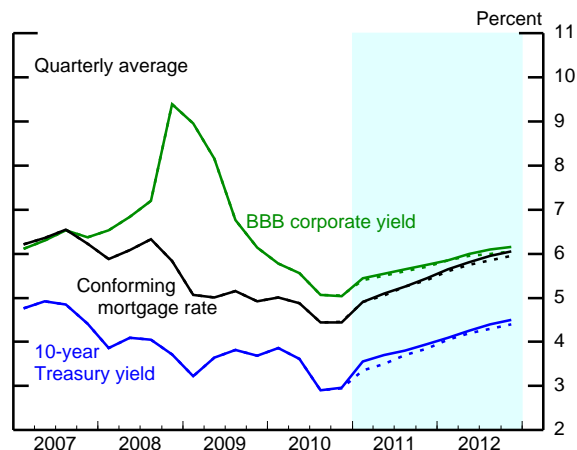
In response to the narrower margin of resource slack in this projection and a higher path of energy and import prices, we have marked up our projection for inflation relative to the January Tealbook. In particular, we have boosted our forecast for core PCE inflation by $\frac{1}{4}$ percentage point to $1\frac{1}{4}$ percent in both 2011 and 2012. Given our projections for the continued pass-through of near-term commodity price increases into

Key Background Factors underlying the Baseline Staff Projection

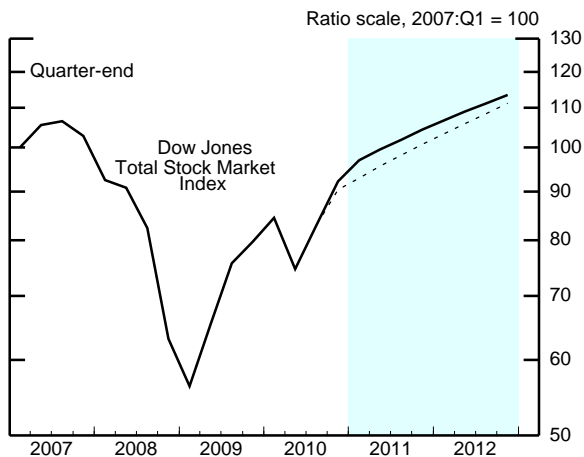
Federal Funds Rate



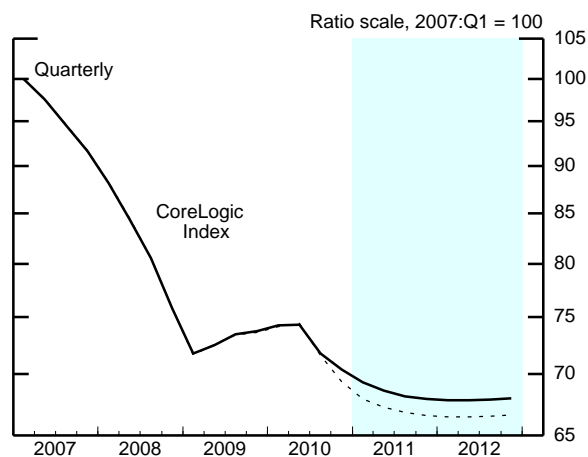
Long-Term Interest Rates



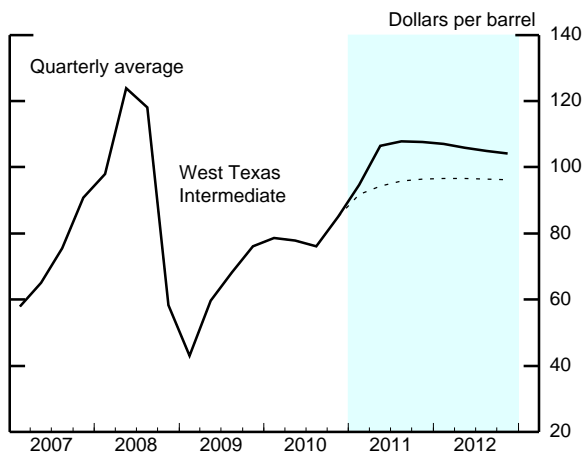
Equity Prices



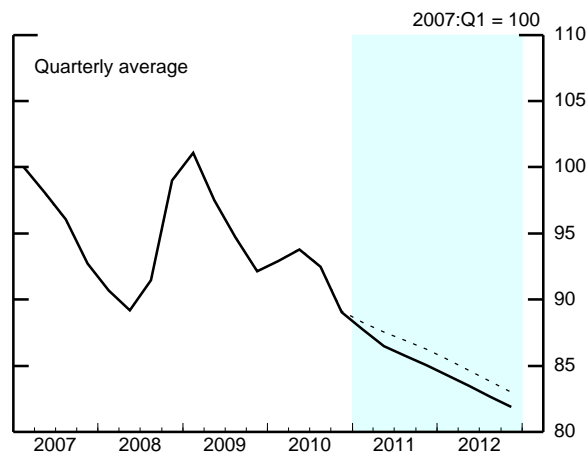
House Prices



Crude Oil Prices



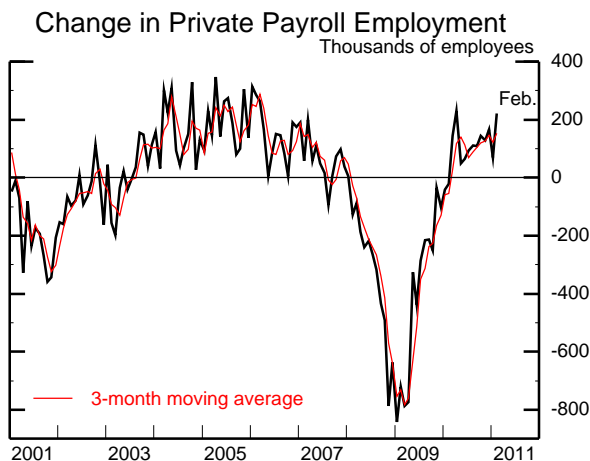
Broad Real Dollar



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

Measure	2010:Q4		2011:Q1		2011:Q2	
	Previous Tealbook	Current Tealbook	Previous Tealbook	Current Tealbook	Previous Tealbook	Current Tealbook
Real GDP	3.8	3.2	3.6	3.2	3.7	3.8
Private domestic final purchases	4.0	4.4	3.9	3.0	4.3	4.2
Personal consumption expenditures	4.1	4.1	3.1	2.5	3.5	3.5
Residential investment	.7	2.8	3.2	3.7	9.2	7.3
Nonres. structures	3.7	6.7	-.8	-10.4	.0	-.9
Equipment and software	3.7	6.6	13.3	12.7	13.0	12.5
Federal purchases	1.1	-.2	2.1	-4.7	.9	4.6
State and local purchases	-.9	-2.6	-.1	-2.1	.2	-.7
Contribution to change in real GDP (percentage points)						
Inventory investment	-3.0	-3.5	.5	1.1	.3	.1
Net exports	3.5	3.3	-.2	.2	-.3	-.1

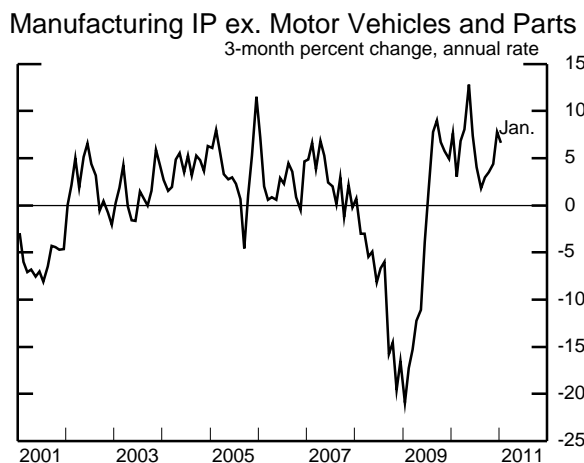
Recent Nonfinancial Developments (1)



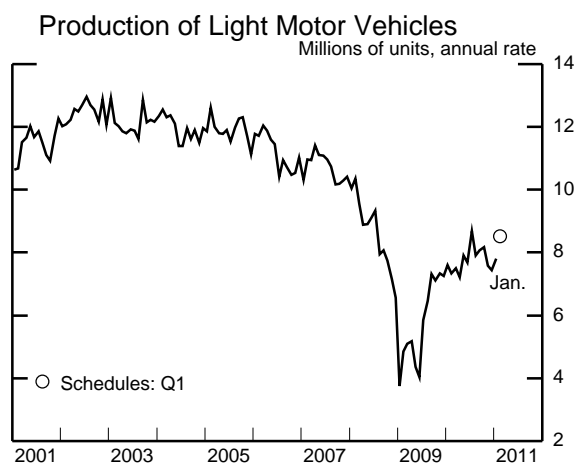
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.



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



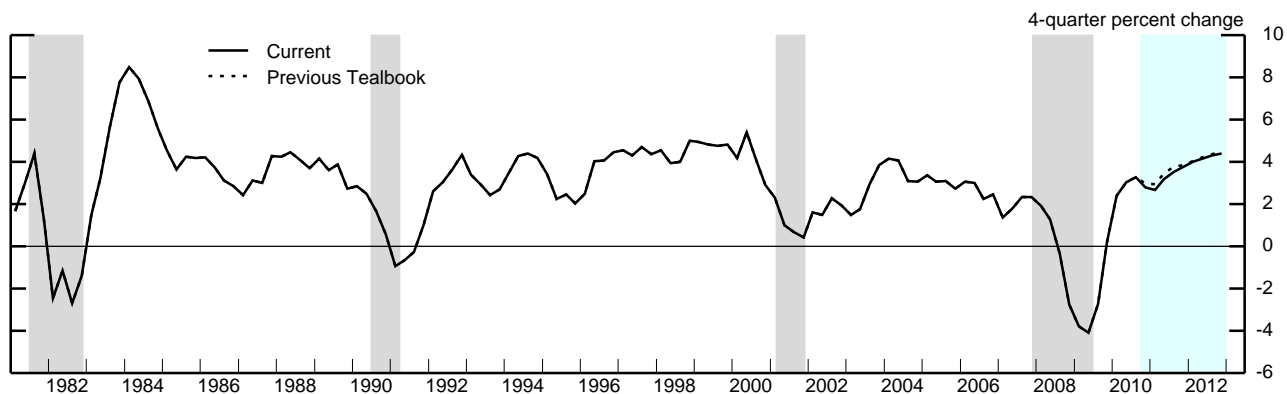
Source: Federal Reserve Board, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

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

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

Measure	2009	2010	2011	2012
Real GDP	.2	2.8	3.7	4.4
Previous Tealbook	.2	2.9	3.8	4.4
Final sales	-.3	2.4	3.6	4.1
Previous Tealbook	-.3	2.4	3.8	4.1
Personal consumption expenditures	.2	2.6	3.2	3.9
Previous Tealbook	.2	2.6	3.5	3.8
Residential investment	-13.4	-4.7	8.4	13.4
Previous Tealbook	-13.4	-5.2	9.1	13.5
Nonresidential structures	-26.5	-4.2	-3.0	-.1
Previous Tealbook	-26.5	-4.9	-.4	.0
Equipment and software	-4.9	16.6	13.0	9.6
Previous Tealbook	-4.9	15.8	13.6	10.6
Federal purchases	3.6	4.8	.3	-.8
Previous Tealbook	3.6	5.2	1.0	.0
State and local purchases	-1.0	-1.3	-.7	.5
Previous Tealbook	-1.0	-.8	.3	1.2
Exports	-.1	9.2	10.0	9.0
Previous Tealbook	-.1	9.0	9.2	8.6
Imports	-7.2	11.0	5.9	5.5
Previous Tealbook	-7.2	10.6	6.7	6.0
Contributions to change in real GDP (percentage points)				
Inventory change	.5	.4	.2	.3
Previous Tealbook	.5	.5	.0	.3
Net exports	1.2	-.5	.3	.3
Previous Tealbook	1.2	-.5	.1	.2

Real GDP



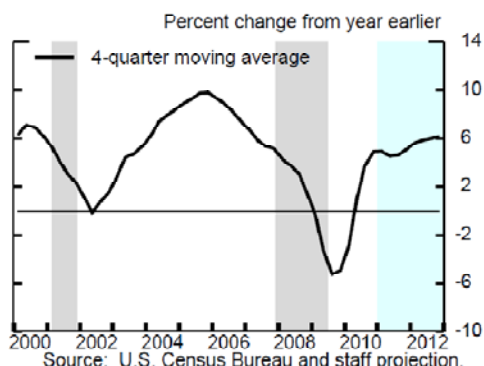
Note: The gray shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The Fiscal Condition of State and Local Governments

State and local governments have faced significant fiscal strains since the onset of the recession, primarily because of a drop in their tax revenues. Tax receipts, shown in the left-hand figure below, plunged in 2009, reflecting the adverse effects of the economic downturn on income and sales taxes, most of which are collected by state governments. In contrast, property tax collections—primarily accruing at the local level—continued to rise despite the fall in house prices. It appears that property tax collections have been held up by the substantial lag from market values to assessed values and by the willingness of some jurisdictions to raise property tax rates. Nevertheless, local governments have had substantial budget difficulties due to cuts in grants-in-aid from state governments.

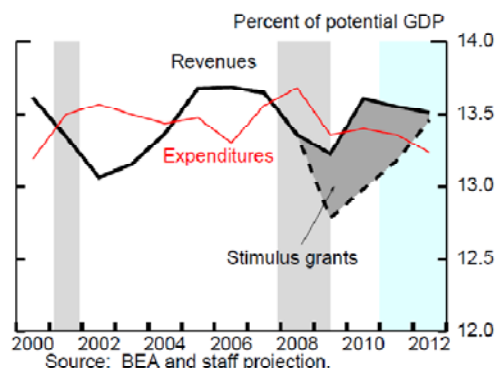
The non-infrastructure stimulus grants provided by the federal government, the dark gray area in the right-hand figure below, have helped offset much of the shortfall in tax revenues seen by states and localities. Even so, these governments have reduced operating expenditures other than transfers in order to satisfy requirements that operating budgets be balanced and to meet an increased demand for Medicaid (which reflects, in part, a cyclical pickup).¹ Notably, as shown in the left-hand figure on the facing page, the sector trimmed payrolls by roughly 400,000 workers over the past two years with the decline mostly at the local level. Turning to capital budgets, construction expenditures (not shown) have fallen about 8 percent from their peak in mid 2009.² As a result of the cuts in total purchases, the sector subtracted about 0.15 percentage point from the rate of change in real GDP in both 2009 and 2010.

State & Local Tax Receipts



Note: Shaded bars indicate recessions defined by the National Bureau of Economic Research.

Operating Budget: State & Local Revenues and Expenditures Excluding Infrastructure

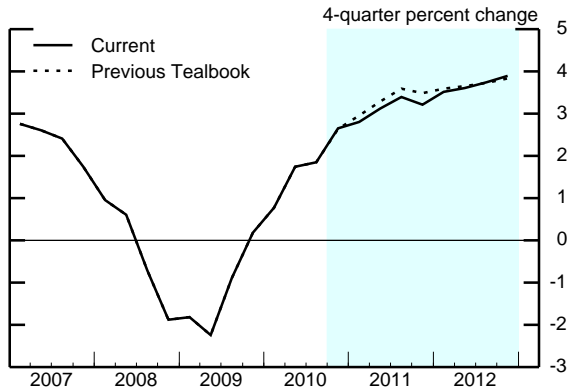


¹ Operating budgets, as presented in the national income and product accounts, consist of operating revenues (tax receipts plus non-infrastructure grants)—the black line in the right-hand figure above—and operating expenditures (expenditures excluding outlays for infrastructure)—the red line in the figure. Revenues (including grants) and expenditures associated with infrastructure projects are part of separate capital budgets.

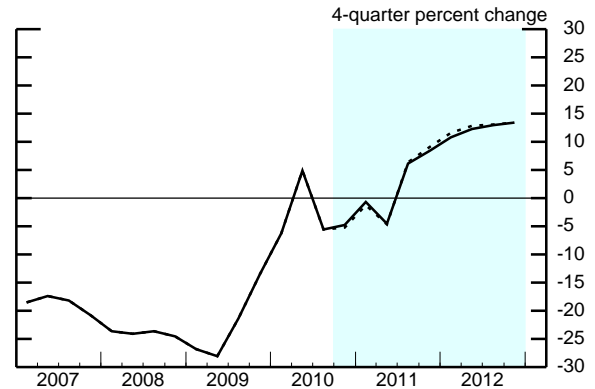
² The reduction in construction outlays is heavily concentrated in the local education category. In contrast, highway construction, which is receiving considerable support from the infrastructure stimulus grants provided by the federal government, has increased over this period.

Components of Final Demand

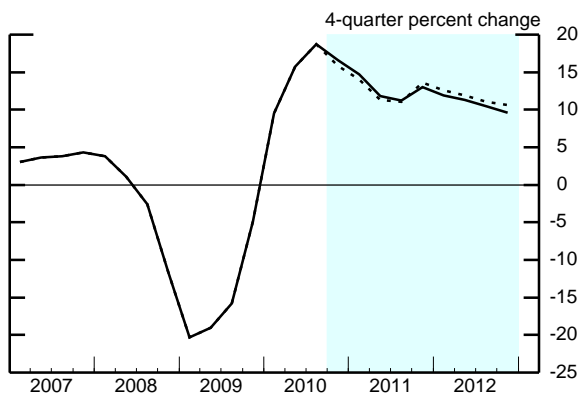
Personal Consumption Expenditures



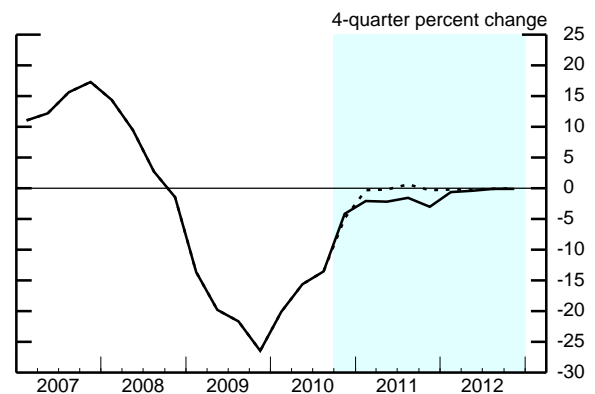
Residential Investment



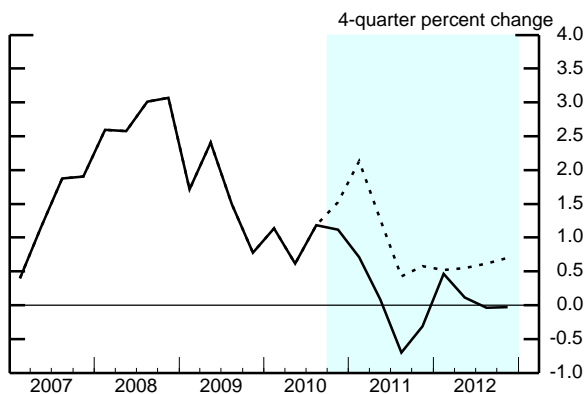
Equipment and Software



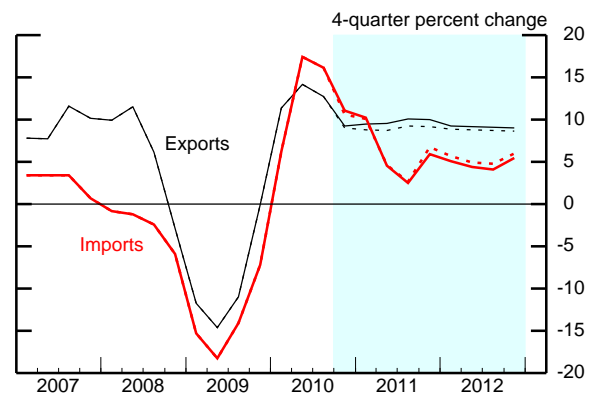
Nonresidential Structures



Government Consumption & Investment



Exports and Imports



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

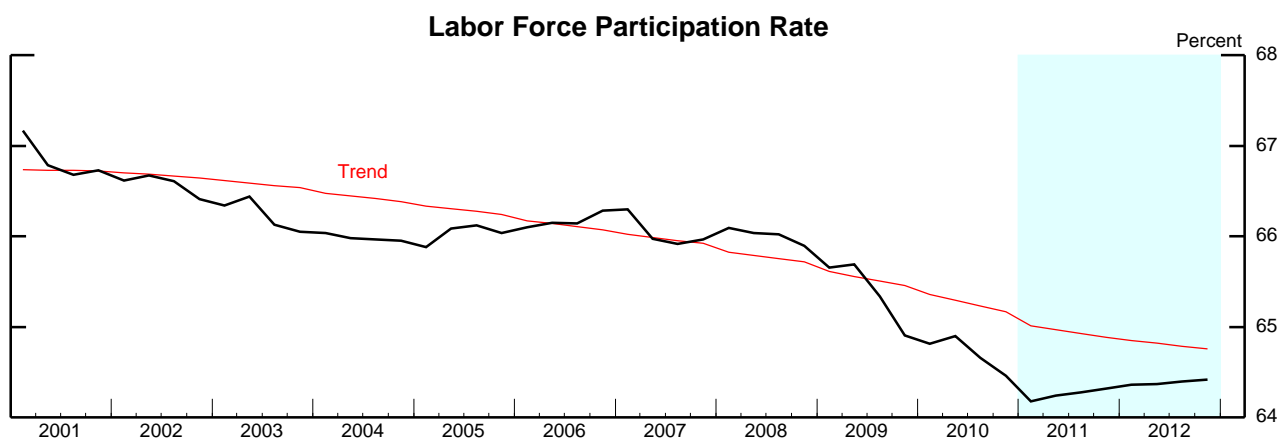
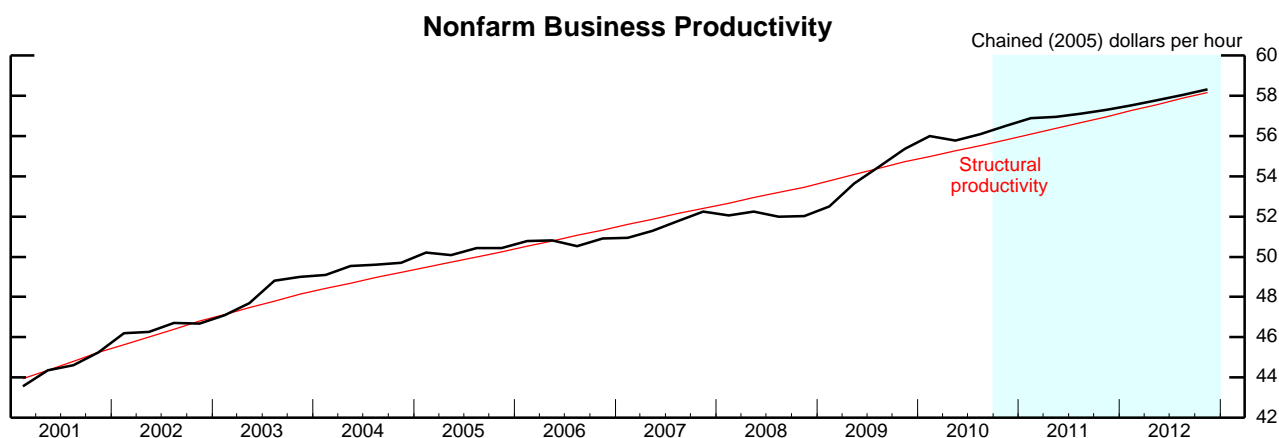
Decomposition of Potential GDP
(Percent change, Q4 to Q4, except as noted)

Measure	1974-1995	1996-2000	2001-2008	2009	2010	2011	2012
Potential GDP	3.0	3.5	2.7	2.0	2.1	2.4	2.6
Previous Tealbook	3.0	3.5	2.7	2.2	2.5	2.5	2.6
<i>Selected contributions¹</i>							
Structural labor productivity	1.5	2.7	2.5	2.3	2.0	2.0	2.1
Previous Tealbook	1.5	2.7	2.5	2.3	2.0	2.0	2.1
Capital deepening	.7	1.5	.7	.4	.5	.7	.9
Previous Tealbook	.7	1.5	.7	.3	.4	.7	.9
Multifactor productivity	.5	.9	1.6	1.8	1.3	1.2	1.2
Previous Tealbook	.5	.9	1.6	1.9	1.5	1.3	1.2
Trend hours	1.5	1.1	.8	-.1	.5	.6	.7
Previous Tealbook	1.5	1.1	.8	.0	.7	.7	.7
Labor force participation	.4	.0	-.2	-.3	-.4	-.3	-.2
Previous Tealbook	.4	.0	-.2	-.2	-.2	-.2	-.2

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

1. Percentage points.

Source: Staff assumptions.



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	2009	2010	2011	2012
Output per hour, nonfarm business	6.5	2.0	1.4	1.7
Previous Tealbook	6.2	1.7	1.5	1.9
Nonfarm private employment	-5.0	.9	2.4	3.2
Previous Tealbook	-4.7	1.1	2.3	3.2
Labor force participation rate ¹	64.9	64.5	64.3	64.4
Previous Tealbook	64.9	64.5	64.6	64.6
Civilian unemployment rate ¹	10.0	9.6	8.6	7.5
Previous Tealbook	10.0	9.6	8.9	7.8
Memo: GDP gap ²	-6.6	-5.9	-4.7	-3.0
Previous Tealbook	-6.7	-6.3	-5.1	-3.3

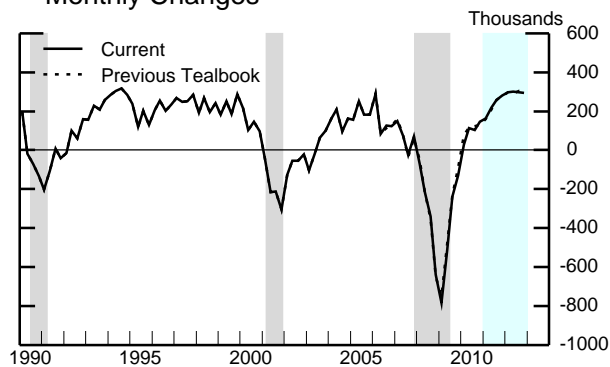
Note: A negative number indicates that the economy is operating below potential.

1. Percent, average for the fourth quarter.

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

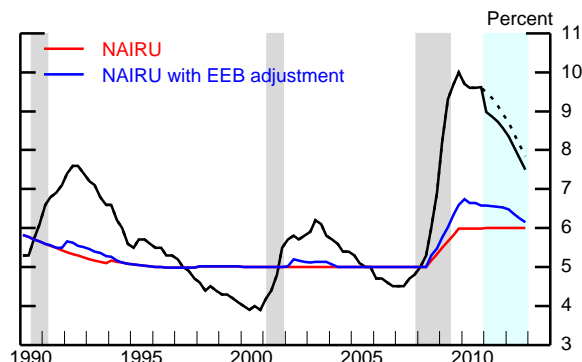
Source: U.S. Department of Labor, Bureau of Labor Statistics; staff assumptions.

Private Payroll Employment, Average
Monthly Changes



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

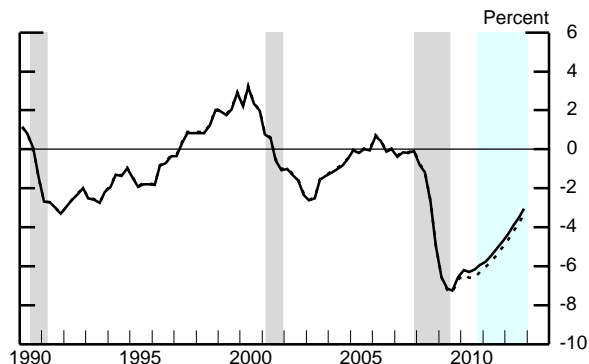
Unemployment Rate



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

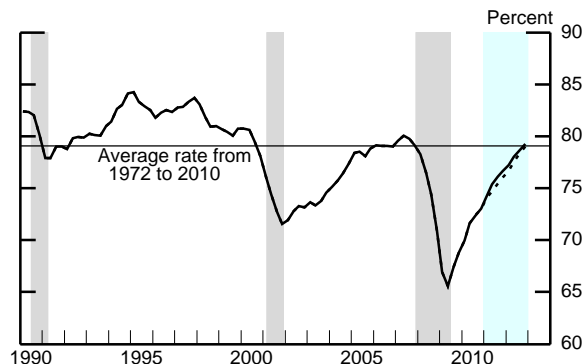


Note: The GDP gap is the percent difference between actual and potential GDP; a negative number indicates that the economy is operating below potential.

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



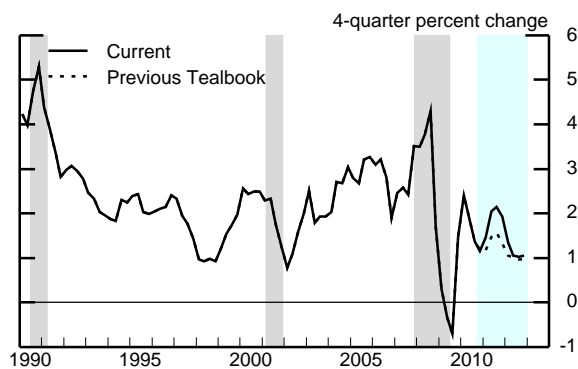
Source: Federal Reserve Board, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

Inflation Projections (Percent change, Q4 to Q4)

Measure	2009	2010	2011	2012
PCE chain-weighted price index	1.5	1.2	1.9	1.1
Previous Tealbook	1.5	1.2	1.3	1.0
Food and beverages	-1.6	1.3	3.4	1.3
Previous Tealbook	-1.6	1.3	1.7	1.1
Energy	2.7	5.9	11.0	-1.3
Previous Tealbook	2.7	6.3	6.2	.1
Excluding food and energy	1.7	.8	1.2	1.2
Previous Tealbook	1.7	.8	1.0	1.0
Prices of core goods imports ¹	-1.9	2.7	4.6	1.4
Previous Tealbook	-1.9	3.1	3.2	1.4

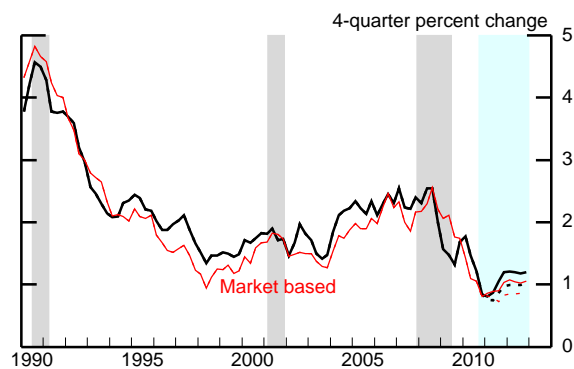
1. Core goods imports exclude computers, semiconductors, oil, and natural gas.
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Total PCE Prices



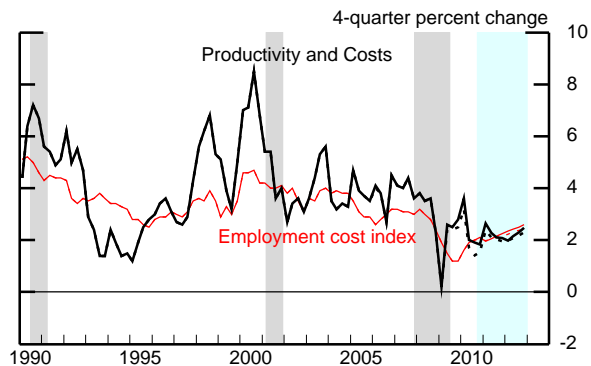
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

PCE Prices ex. Food and Energy



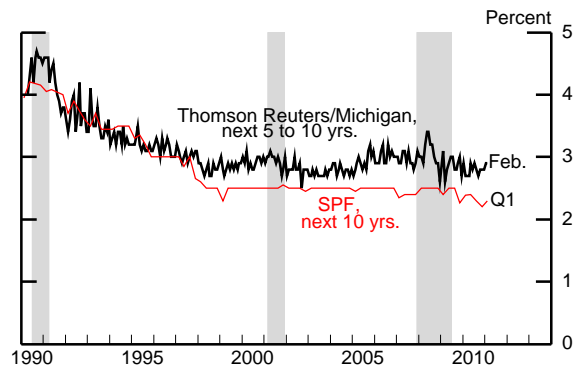
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

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.

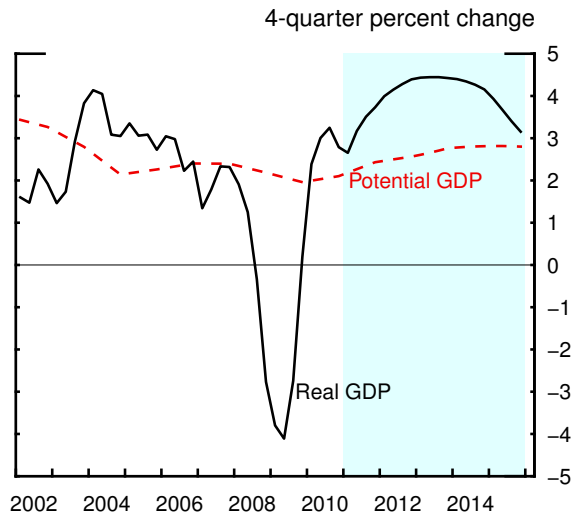
The Long-Term Outlook

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

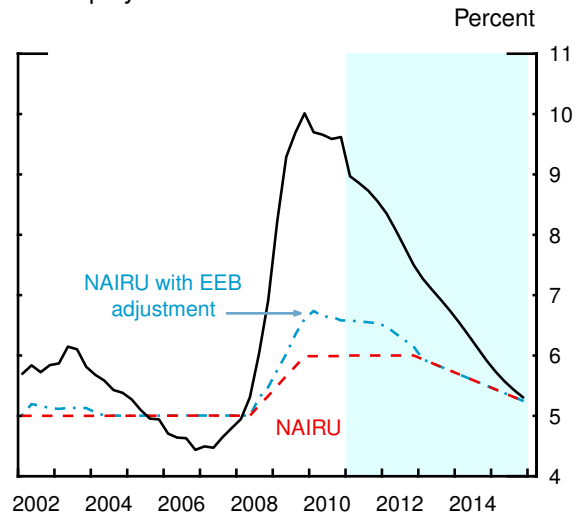
Item	2010	2011	2012	2013	2014	2015
Real GDP	2.8	3.7	4.4	4.4	4.2	3.2
Civilian unemployment rate ¹	9.6	8.6	7.5	6.7	5.9	5.3
PCE prices, total	1.2	1.9	1.1	1.4	1.5	1.7
Core PCE prices	.8	1.2	1.2	1.3	1.5	1.7
Federal funds rate ¹	.2	.1	.5	2.1	3.7	4.2
10-year Treasury yield ¹	3.0	4.0	4.5	4.8	5.0	5.1

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

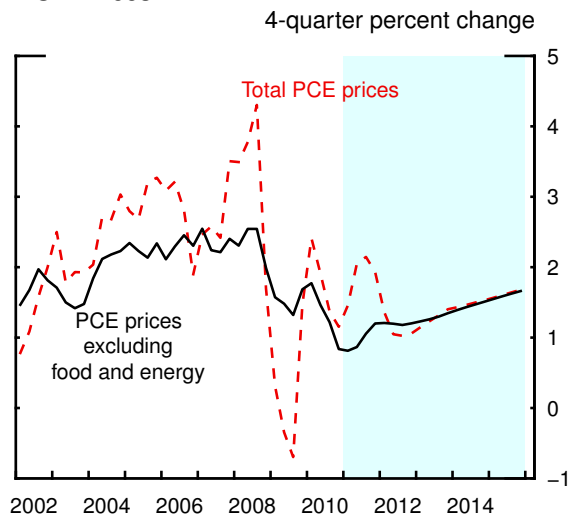
Real GDP



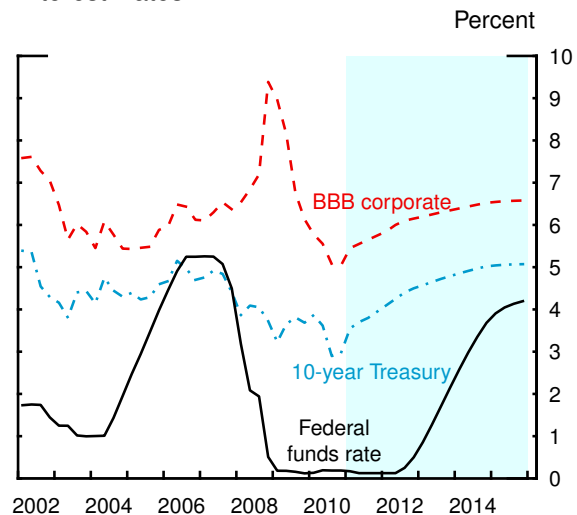
Unemployment Rate



PCE Prices



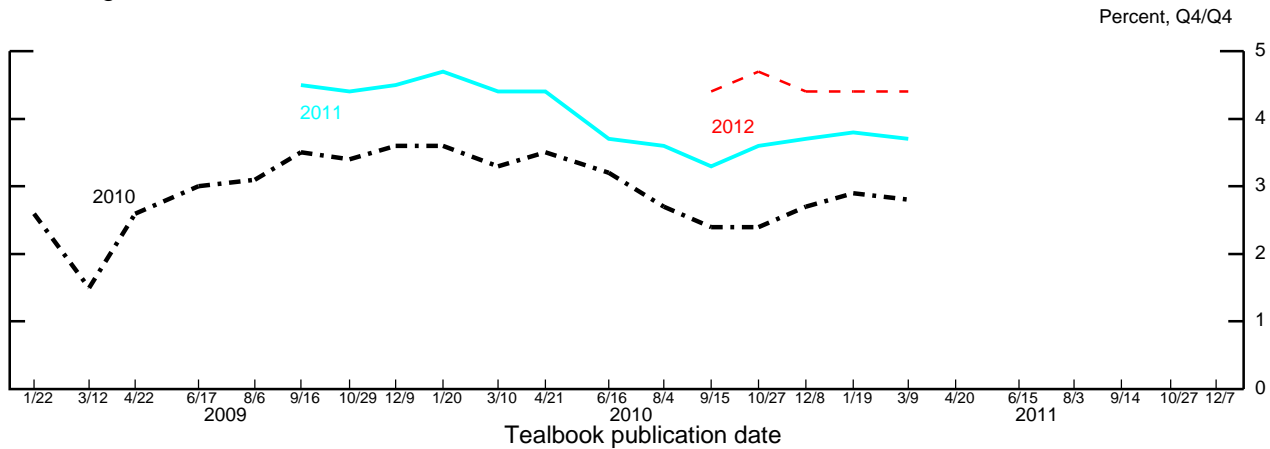
Interest Rates



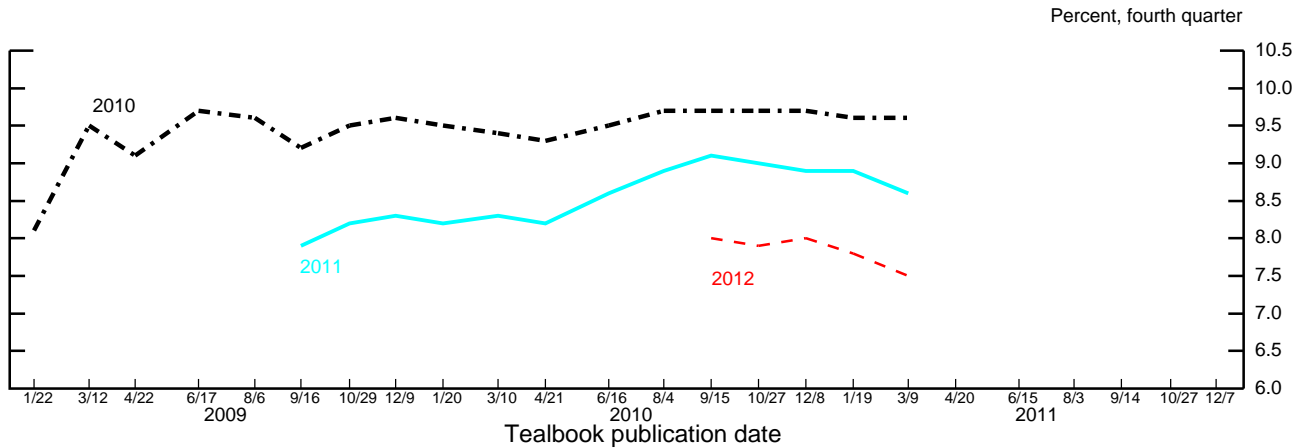
Note: In each panel, shading represents the projection period.

Evolution of the Staff Forecast

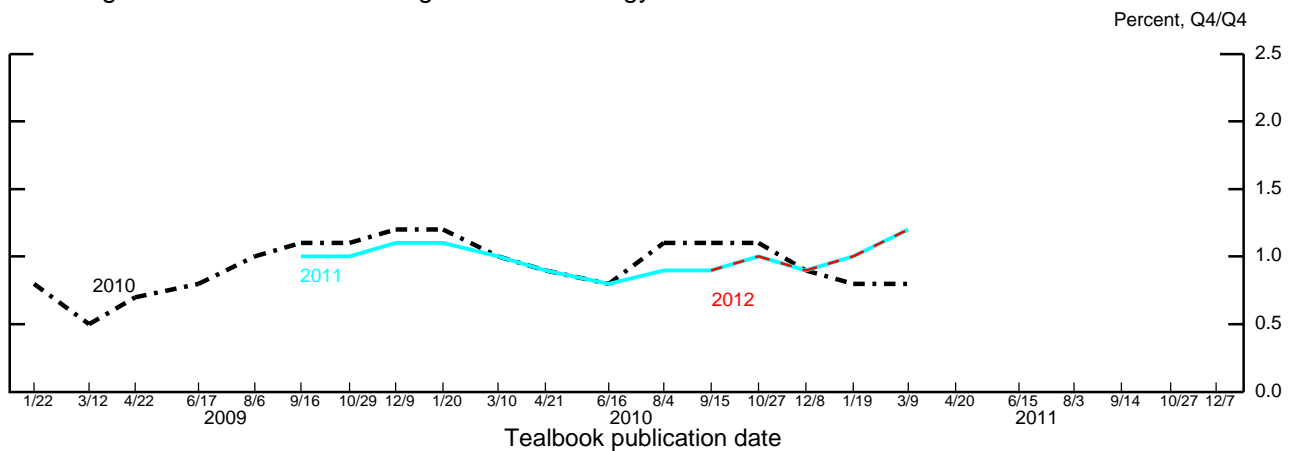
Change in Real GDP



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.

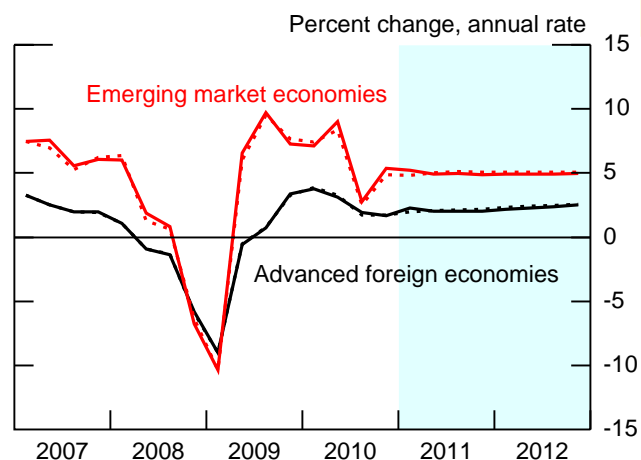
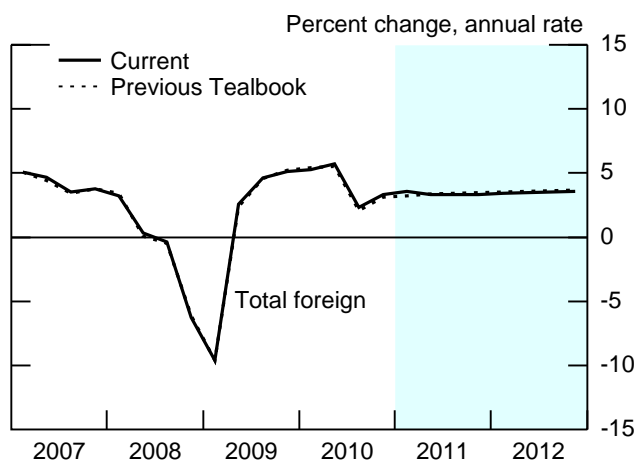
The Foreign Outlook

(Percent change, annual rate)

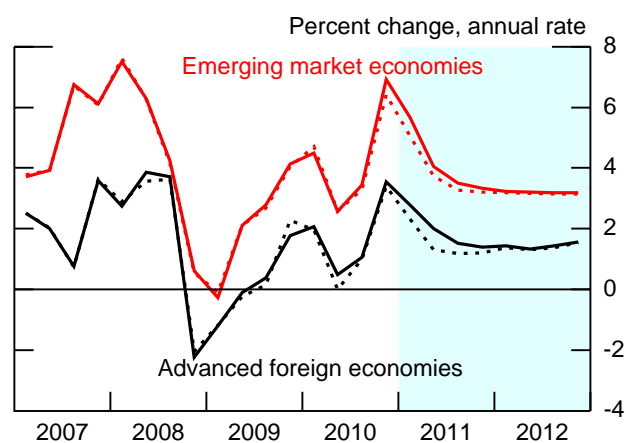
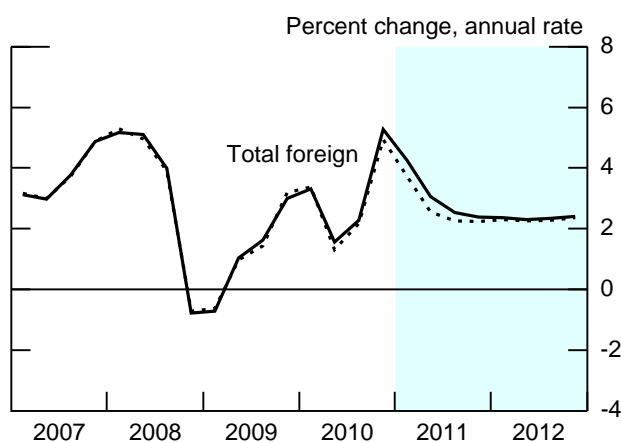
	2010			2011			2012 ^P
	H1	Q3	Q4 ^e	Q1 ^P	Q2 ^P	H2 ^P	
Real GDP							
Total foreign	5.5	2.3	3.3	3.6	3.3	3.3	3.5
Previous Tealbook	5.5	2.1	3.1	3.2	3.4	3.5	3.6
Advanced foreign economies	3.5	1.9	1.7	2.3	2.0	2.0	2.3
Previous Tealbook	3.6	1.7	1.7	2.0	2.1	2.2	2.4
Emerging market economies	8.1	2.8	5.4	5.2	4.9	4.9	4.9
Previous Tealbook	7.9	2.5	4.9	4.8	5.0	5.1	5.1
Consumer Prices							
Total foreign	2.4	2.3	5.3	4.3	3.1	2.5	2.3
Previous Tealbook	2.3	2.2	4.9	3.7	2.6	2.2	2.3
Advanced foreign economies	1.3	1.1	3.6	2.8	2.0	1.5	1.4
Previous Tealbook	1.0	1.0	3.4	2.3	1.3	1.2	1.4
Emerging market economies	3.5	3.4	6.9	5.7	4.0	3.4	3.2
Previous Tealbook	3.6	3.3	6.4	5.1	3.7	3.2	3.2

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

Real GDP



Consumer Prices



Food Prices and Foreign Inflation

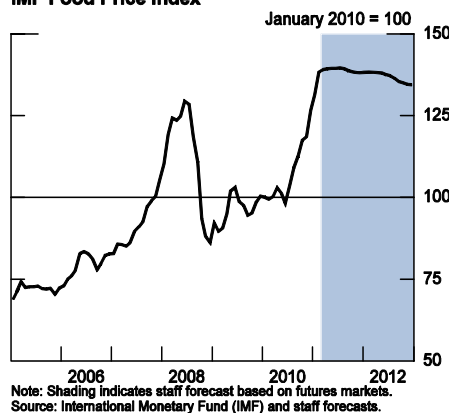
Food commodity prices have jumped dramatically since mid-2010, regaining their 2008 peaks, as prices for corn, soybeans, and wheat, among other products, have surged (see the figures below). These increases are raising headline inflation, particularly in emerging market economies (EMEs), and are placing an increased burden on the poor.

Both demand and supply factors are contributing to the food price run-up. The global recovery, with especially robust growth in EMEs, has boosted world demand for food. At the same time, the supply of wheat has been reduced by droughts in Russia and Ukraine this past summer and in Argentina, East Africa, and China more recently, as well as excessive and untimely rains last summer in Canada, Europe, and Australia. Likewise, high temperatures in the United States led to disappointing corn yields in the fall. Prices for soybeans have also been boosted by poor weather. (Unlike prices for other staple crops, rice prices have increased only modestly amid record production.) Policy decisions are also raising prices: A few food-importing countries have made large precautionary purchases, and some major producing countries have curtailed food exports.

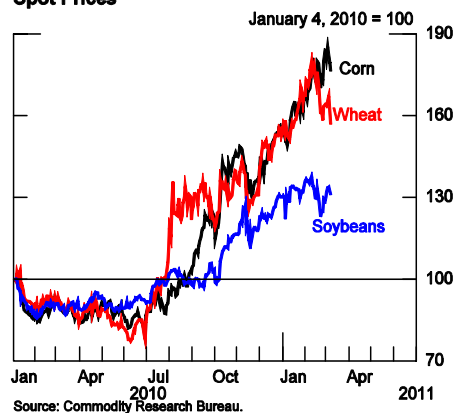
Barring further supply shocks, there is good reason to expect that food price increases will be more moderate going forward. For corn and soybeans, the futures markets predict that prices will begin to ease later this year, consistent with the return of more normal weather conditions and an expansion of the acreage devoted to these crops. Futures markets currently show wheat prices increasing but at a more subdued pace over the next year.

For the advanced foreign economies, as for the United States, the jump in food commodity prices has increased headline inflation only minimally: Consumer prices for food have risen at about the same pace as overall inflation during the past year (lower-left figure on the facing page), although larger increases may yet come.

IMF Food Price Index

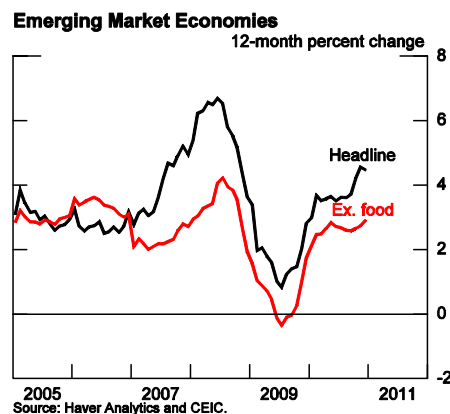
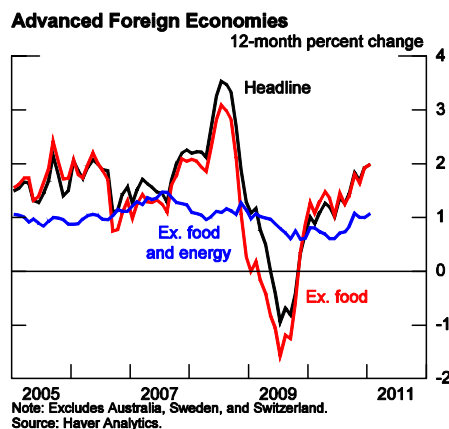


Spot Prices



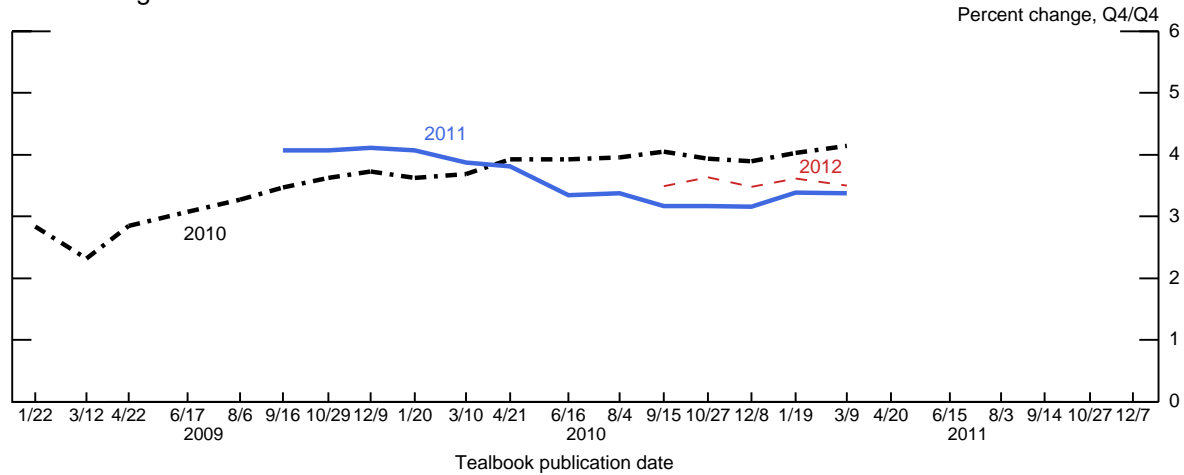
In contrast, surging crop prices have had a significant effect on consumer prices for food in the EMEs. These prices jumped nearly 7 percent over the 12 months ending in January, accounting for most of the increase in EME headline inflation over the past year (lower-right figure). The relatively larger effect of food commodity prices on EME inflation in part reflects the fact that food products consumed in the EMEs are more heavily weighted toward less processed foods, the prices of which are influenced more directly by raw commodity prices. In addition, food products comprise one-fourth to one-third of the weight in the typical EME consumer price index compared with a less than 10 percent weight for the advanced economies.

The surge in food commodity prices poses challenges for monetary policymakers, especially in the EMEs. As output gaps in the EMEs have narrowed, central banks have struggled to calibrate a pace of monetary tightening that would keep inflation in check without attracting substantial capital inflows and inducing unwelcome currency appreciation. Rising food prices further complicate the policymaker's task: Should the commodity boom lose steam, as indicated by futures markets, monetary policy would have increased room for maneuver. Conversely, further shocks to food prices, especially in an environment of dwindling resource slack, could spill over into inflation expectations, wages, and core inflation, requiring a step-up in the pace of monetary tightening.

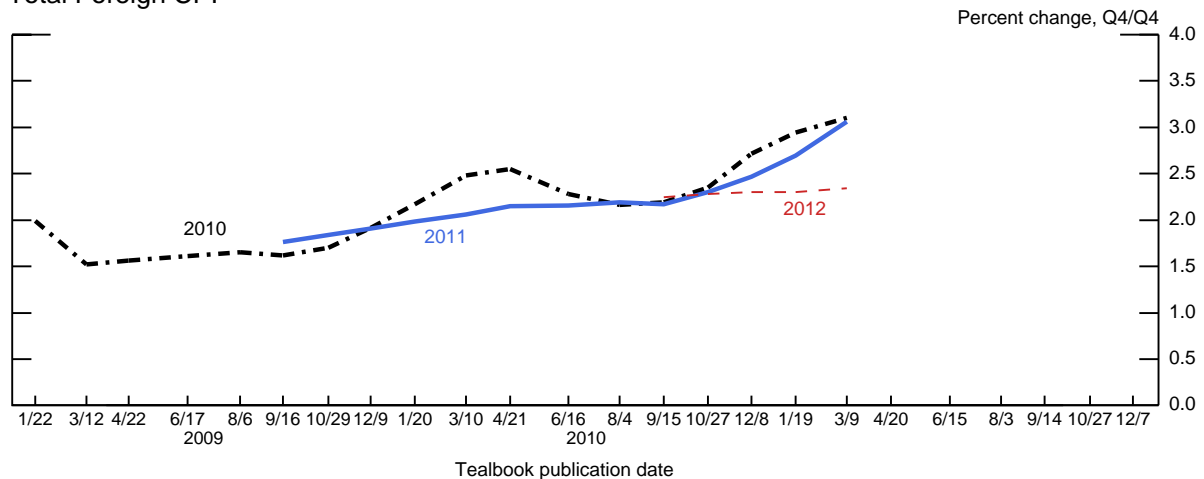


Evolution of Staff's International Forecast

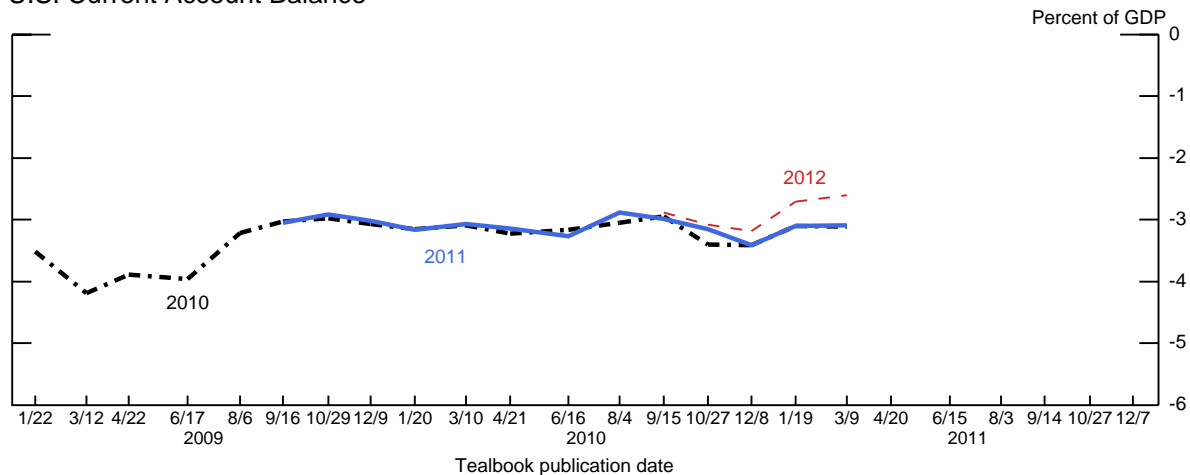
Total Foreign GDP



Total Foreign CPI

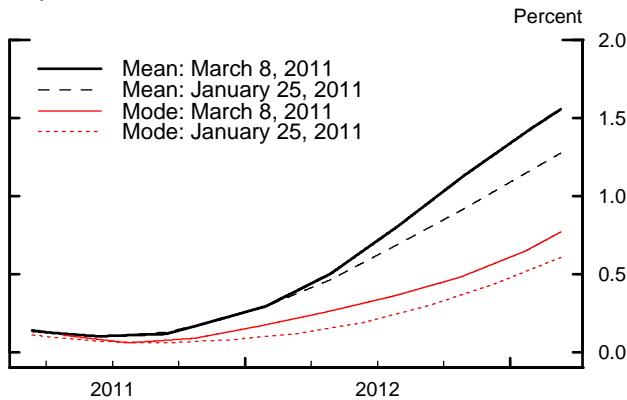


U.S. Current Account Balance



Policy Expectations and Treasury Yields

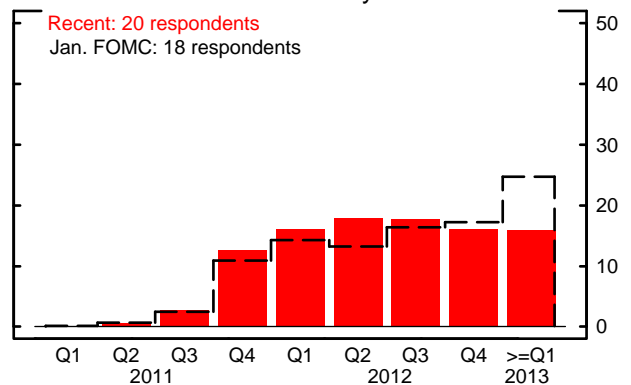
Implied Federal Funds Rate



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

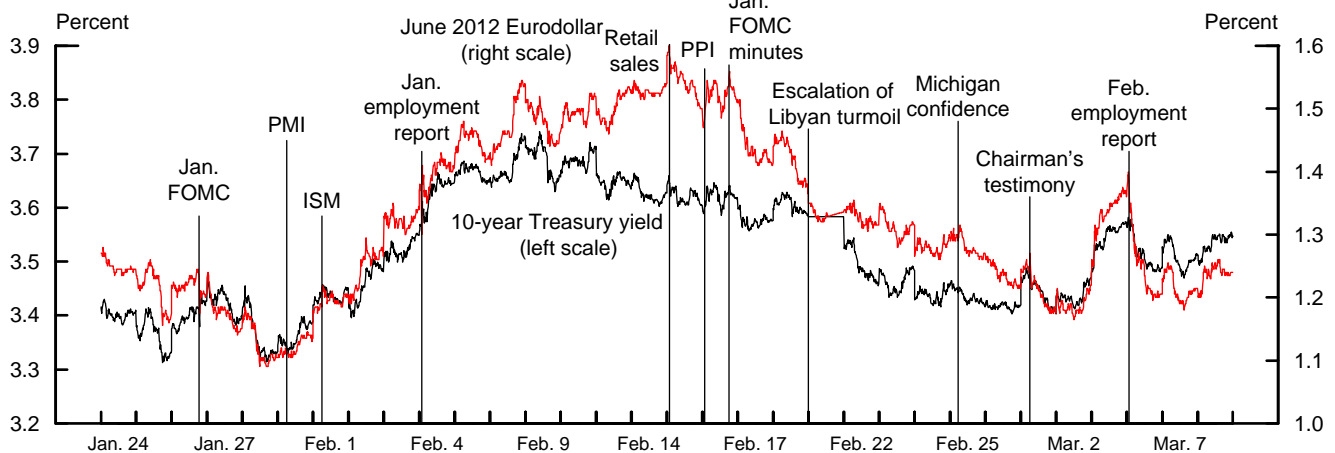
Source: Bloomberg and CME Group.

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



Source: Desk's Dealer Survey from March 8, 2011.

Selected Interest Rates



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

Source: Bloomberg.

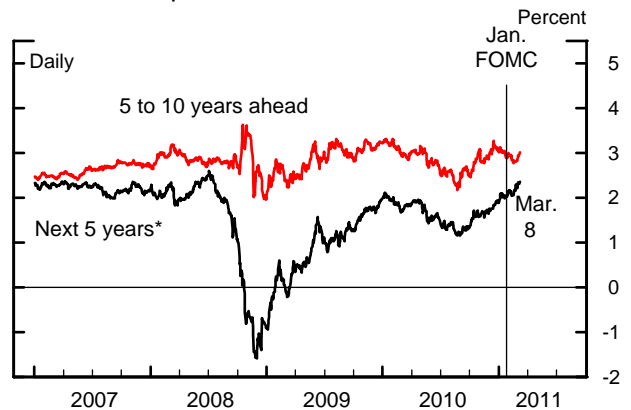
Long-Term Interest Rate Implied Volatility



Note: Derived from options on 10-year Treasury note futures.

Source: Bloomberg.

Inflation Compensation



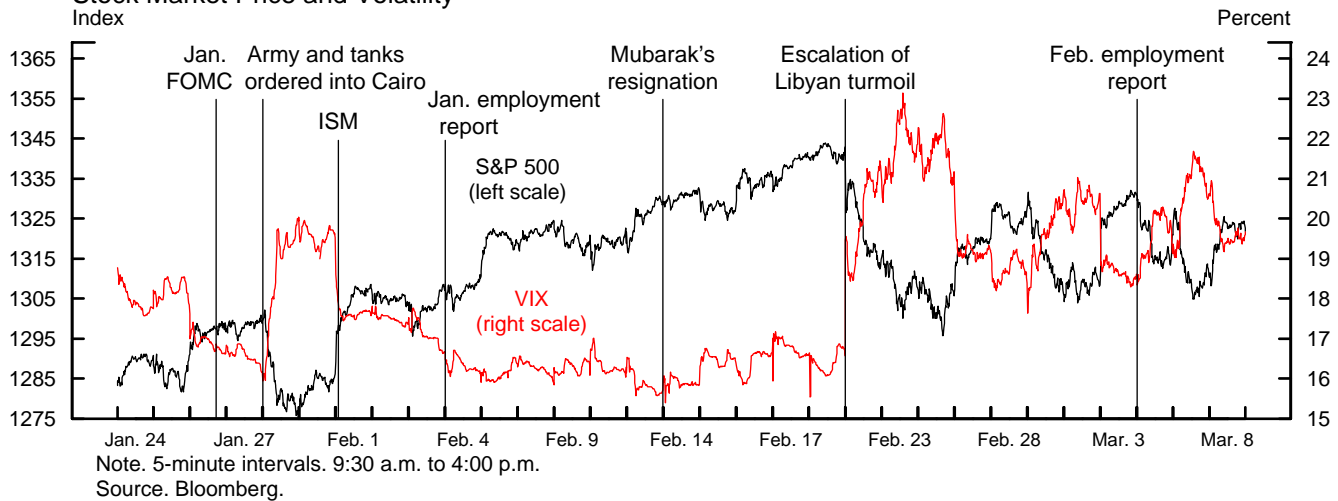
Note: Estimates based on smoothed nominal and inflation-indexed Treasury yield curves.

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

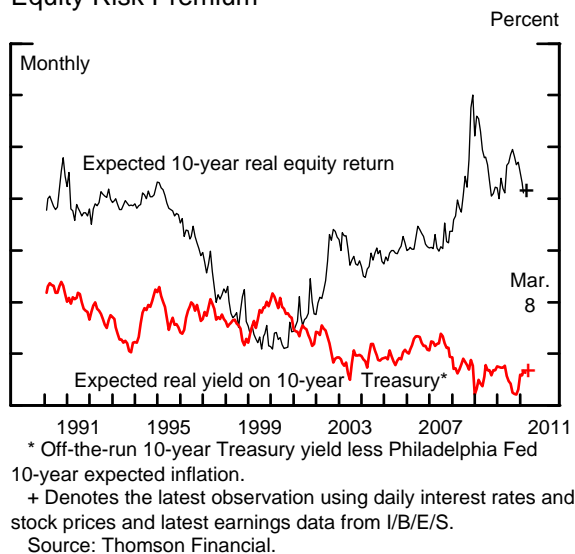
Source: Barclays PLC and staff estimates.

Asset Market Developments

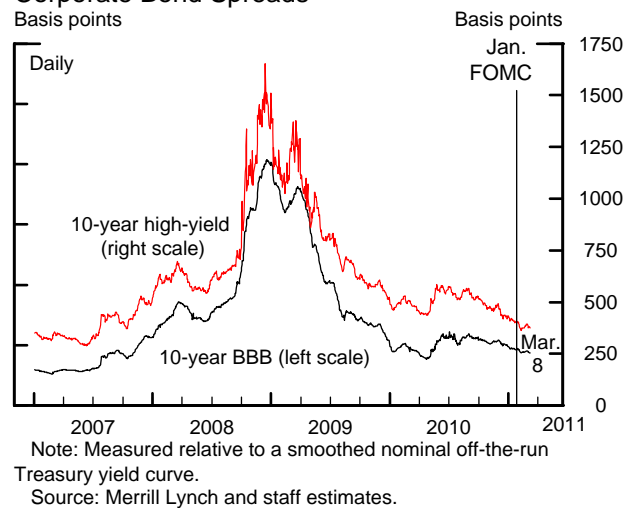
Stock Market Price and Volatility Index



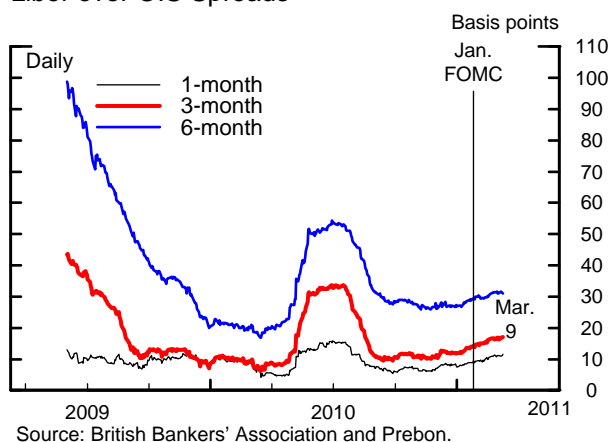
Equity Risk Premium



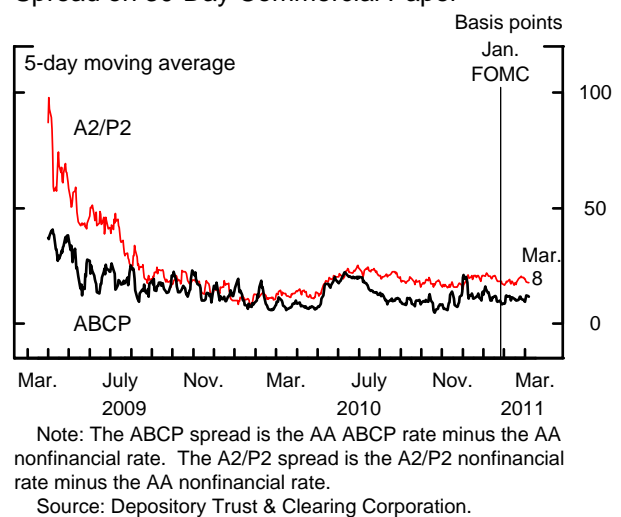
Corporate Bond Spreads



Libor over OIS Spreads

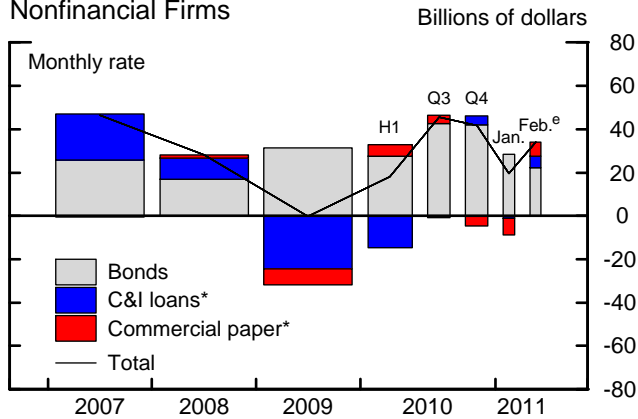


Spread on 30-Day Commercial Paper



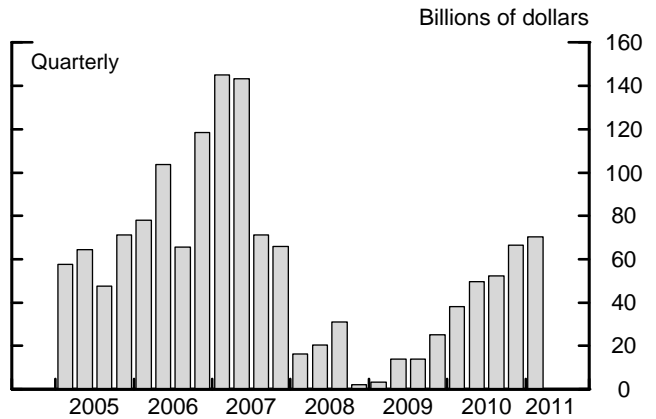
Business Finance

Selected Components of Net Debt Financing,
Nonfinancial Firms



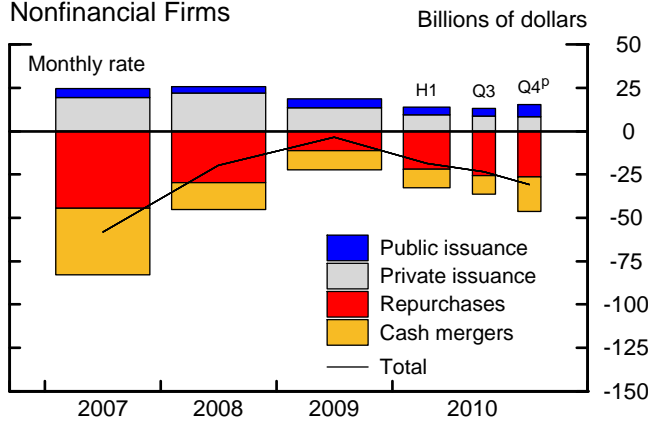
* Period-end basis, seasonally adjusted.
e Estimate.
Source: Depository Trust & Clearing Corporation; Thomson Financial; Federal Reserve Board.

Institutional Loan Issuance



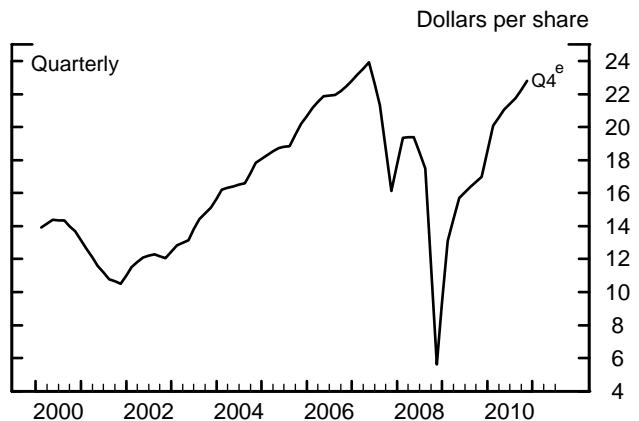
Note: Data through March 2, 2011.
Source: Reuters Loan Pricing Corporation.

Selected Components of Net Equity Issuance,
Nonfinancial Firms



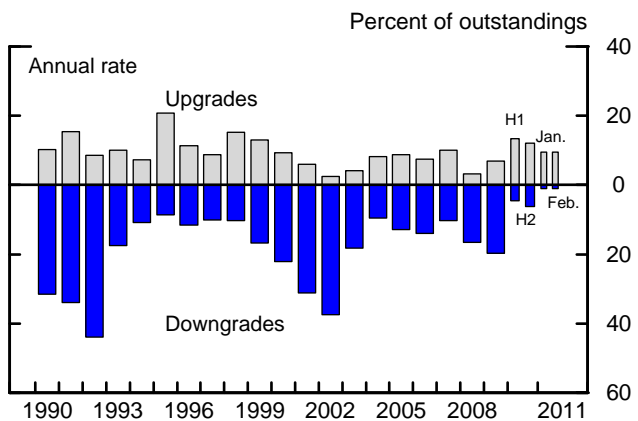
p Preliminary.
Source: Thomson Financial, Investment Benchmark Report; Money Tree Report by PricewaterhouseCoopers, National Venture Capital Association, and Venture Economics.

S&P 500 Earnings Per Share



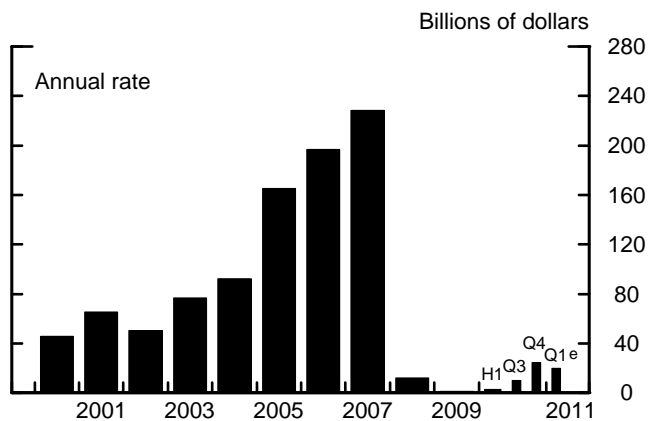
Note: Data are seasonally adjusted by staff.
e Staff estimate.
Source: Thomson Financial.

Bond Ratings Changes of Nonfinancial Firms



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

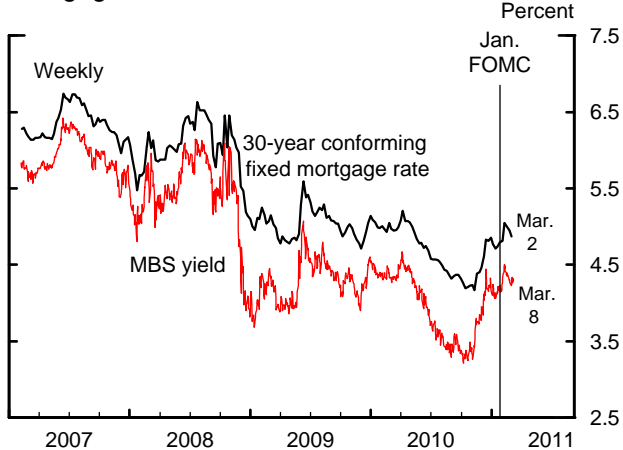
CMBS Issuance



e Estimate from deals in 2011:Q1 pipeline.
Source: Commercial Mortgage Alert.

Household Finance

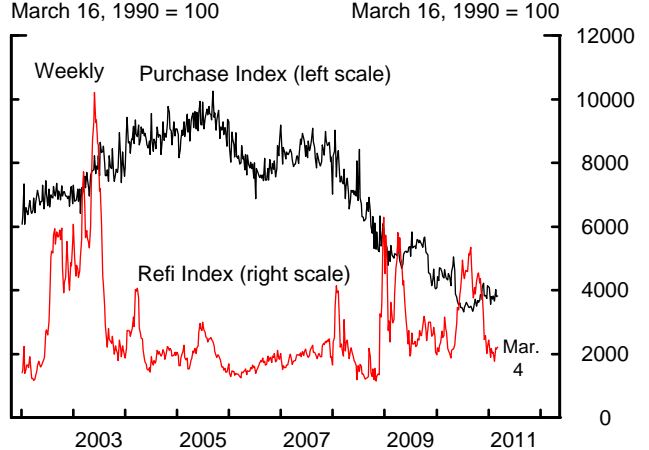
Mortgage Rate and MBS Yield



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

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

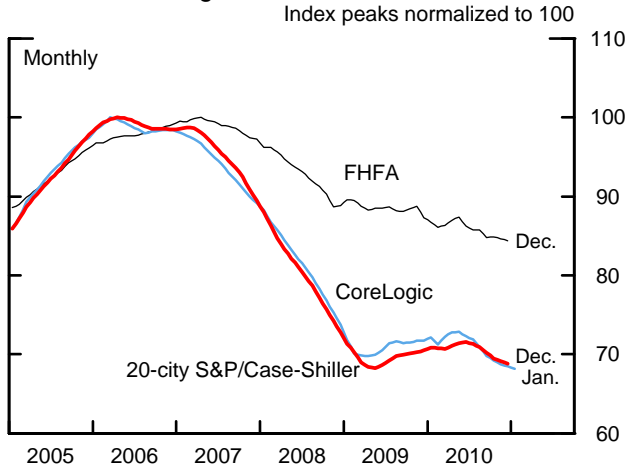
Purchase and Refinance Activity



Note: Seasonally adjusted by FRB staff.

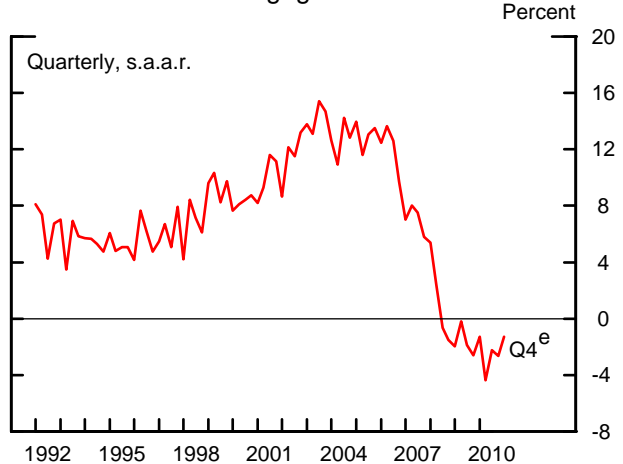
Source: Mortgage Bankers Association.

Prices of Existing Homes



Source: For FHFA, Federal Housing Finance Agency; for CoreLogic, CoreLogic; for S&P/Case-Shiller, Standard & Poor's.

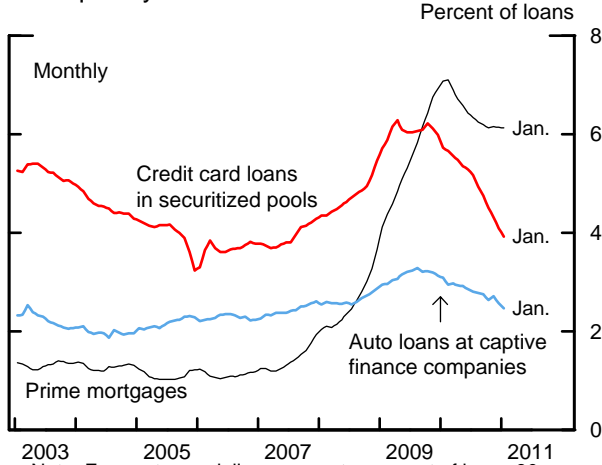
Growth of Home Mortgage Debt



^e Estimate.

Source: Federal Reserve Board.

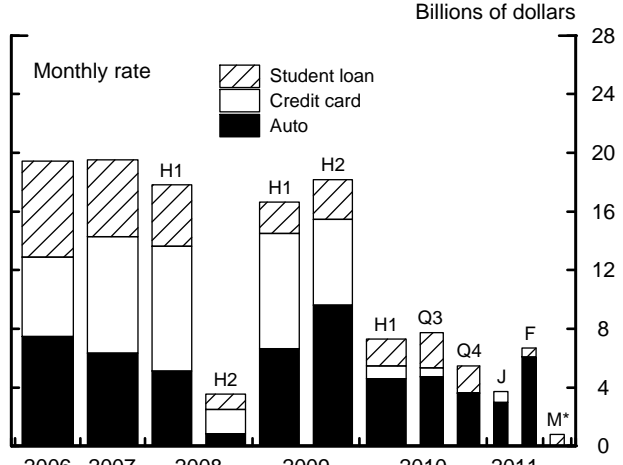
Delinquency Rates



Note: For mortgage delinquency rate, percent of loans 90 or more days past due or in foreclosure.

Source: For mortgage rate, LPS Applied Analytics; for credit card, Moody's; for auto loans, Federal Reserve Board.

Gross Consumer ABS Issuance



* Through March 4, 2011.

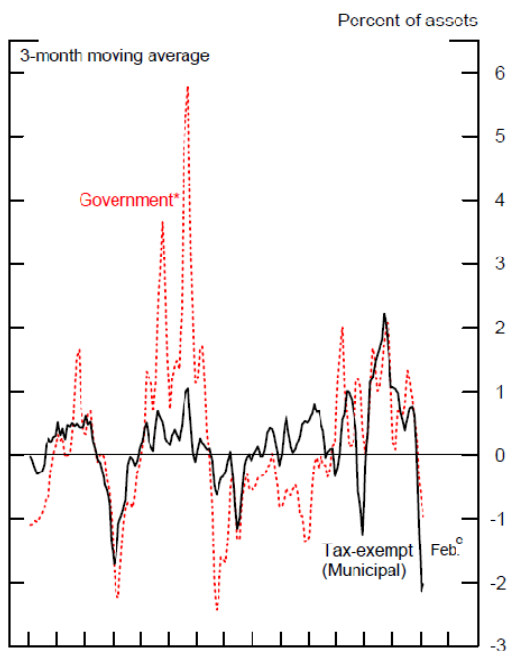
Source: Inside MBS & ABS; Merrill Lynch; Bloomberg; Federal Reserve Board.

The Municipal Bond Market

The municipal bond market is used by state and local governments and their authorities to raise money for schools, highways, utilities, hospitals, and other public infrastructure. About \$3 trillion of municipal bonds are outstanding, with over 50,000 borrowers; and the median deal size at issuance over the past decade was only \$6 million.¹ This vastly diverse composition creates a rather illiquid market, where disclosure is limited and trading is decentralized. Moreover, relatively unsophisticated retail investors hold a dominate share of outstanding securities in this market, either through direct holdings or ownership of shares in tax-exempt mutual funds.²

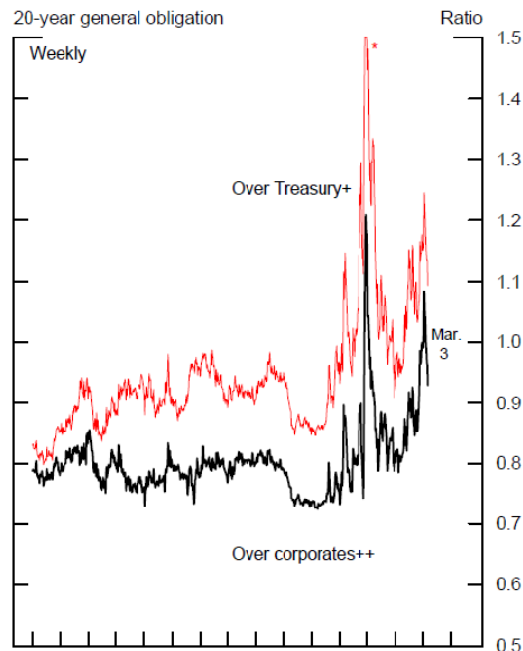
Over the past few months, tax-exempt mutual funds have experienced unusually large net outflows, on balance, as persistent concerns about the credit risk of municipal bonds were exacerbated by negative publicity. However, some of the outflows probably were induced by rising interest rates, which drove down returns in such funds. Indeed, net outflows from federal government bond mutual funds, returns in which tend to move inversely with interest rates, have also been heavy.

Net Flows of Mutual Funds



*Includes funds investing in federal agency and mortgage-backed securities.
e Staff estimate.
Source: Investment Company Institute.

Municipal Bond Yield Ratio



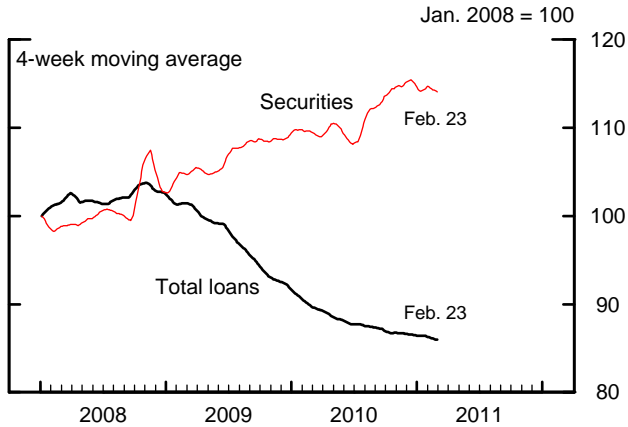
1 Bond Buyer GO 20-year index over 20-year Treasury.
++ Bond Buyer GO 20-year index over estimated AAA 20-year yield.
* Yield ratio peak is at 1.87 on December 15, 2008.

¹ Of the roughly \$3 trillion in outstanding municipal securities, about \$2.5 trillion represents debt of state and local governments. The remainder represents industrial revenue bonds and the debt of some nonprofits.

² About one-third of municipal securities are held directly by households and one-sixth by mutual funds. The secondary market of municipal bonds is also opaque due to its over-the-counter nature, despite significant improvements in trading transparency in recent years. In addition, tax and contract laws governing municipal bonds vary significantly across states, contributing to the market inefficiency.

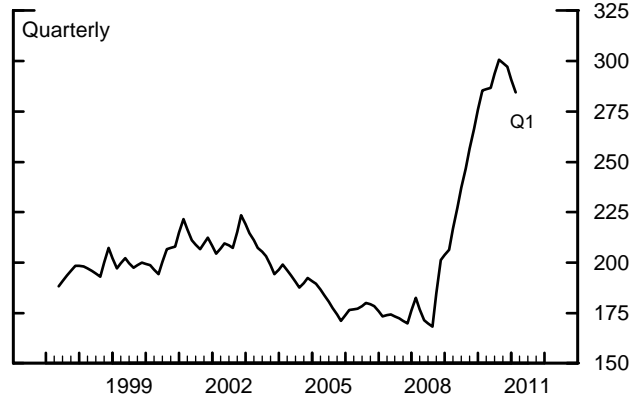
Commercial Banking and Money

Bank Credit



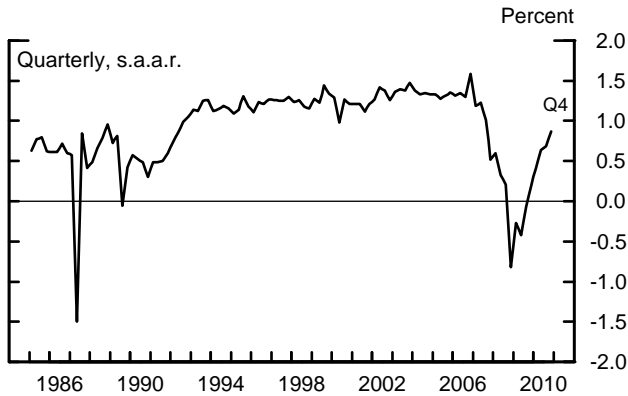
Note: The data have been adjusted to remove the estimated effects of marking certain securities to market (FAS 115); the initial consolidations of assets under FIN 46, FAS 166, and FAS 167; and nonbank structure activity of \$5 billion or more.
Source: Federal Reserve Board.

Weighted-Average C&I Loan Rate Spread, Domestic Banks



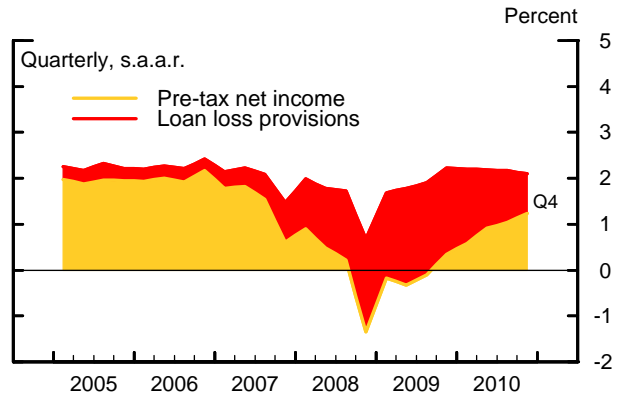
Note: The rate on C&I loans of less than \$25 million over a market interest rate on an instrument of comparable maturity, adjusted for changes in nonprice loan characteristics.
Source: Survey of Terms of Business Lending.

Return on Assets



Source: Call Report.

Pre-Tax Net Income and Loan Loss Provisions



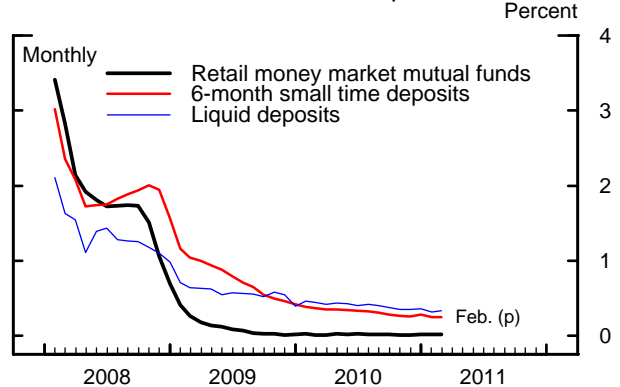
Source: Call Report.

Growth of M2 and Its Components

Percent, s.a.a.r.	M2	Liquid deposits	Small time deposits	RMMMF	Currency
2008	8.5	6.9	12.3	13.6	5.8
2009	5.0	17.1	-15.7	-22.0	6.9
2010					
H1	1.3	9.6	-22.4	-22.9	4.5
Q3	4.5	10.6	-21.3	-7.5	5.9
Q4	5.6	12.9	-26.0	-13.0	8.0
2011					
Jan.	2.9	6.7	-22.3	-1.5	5.8
Feb. (p)	7.1	12.5	-16.9	-16.0	11.2

RMMMF Retail money market mutual funds.
p Preliminary.
Source: Federal Reserve Board.

Interest Rates on Selected Components of M2



Note: Interest rates on small time deposits and liquid deposits reflect the deposit-weighted average interest rate paid at banks and thrifts for each component.
p Preliminary.
Source: Federal Reserve Board.

Alternative Scenarios

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

Measure and scenario	2011		2012	2013	2014-15
	H1	H2			
<i>Real GDP</i>					
Extended Tealbook baseline	3.5	4.0	4.4	4.4	3.7
Greater commodity price increases	3.2	3.5	3.9	4.2	3.6
Persistent rise in inflation	3.0	3.3	3.8	3.8	3.2
Further disinflation	3.5	4.0	4.1	4.3	4.2
Weaker recovery	2.5	2.1	2.8	4.1	5.0
Stronger expansion	4.0	4.8	5.4	4.5	2.8
Greater geopolitical risk	3.0	2.4	2.9	4.2	3.9
<i>Unemployment rate¹</i>					
Extended Tealbook baseline	8.9	8.6	7.5	6.7	5.3
Greater commodity price increases	8.9	8.7	7.9	7.3	5.9
Persistent rise in inflation	9.1	9.0	8.4	8.1	7.4
Further disinflation	8.9	8.6	7.6	6.9	5.0
Weaker recovery	9.0	9.1	8.8	8.4	5.9
Stronger expansion	8.8	8.4	6.7	5.7	5.1
Greater geopolitical risk	9.0	8.9	8.4	7.8	6.2
<i>Core PCE inflation</i>					
Extended Tealbook baseline	1.2	1.2	1.2	1.3	1.6
Greater commodity price increases	1.3	1.4	1.6	1.6	1.7
Persistent rise in inflation	1.5	1.8	2.7	3.7	3.6
Further disinflation	1.3	.9	.6	.4	.4
Weaker recovery	1.2	1.1	1.0	.8	.9
Stronger expansion	1.2	1.2	1.2	1.5	2.0
Greater geopolitical risk	1.1	.8	.8	1.0	1.4
<i>Federal funds rate¹</i>					
Extended Tealbook baseline	.1	.1	.5	2.1	4.2
Greater commodity price increases	.1	.1	.3	1.9	3.5
Persistent rise in inflation	.1	.1	1.1	4.0	5.3
Further disinflation	.1	.1	.1	.7	2.8
Weaker recovery	.1	.1	.1	.1	3.1
Stronger expansion	.3	.6	1.9	3.5	4.2
Greater geopolitical risk	.1	.1	.1	1.2	3.3

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

Measures of PCE Inflation in Selected Alternative Scenarios

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

Measure and scenario	2011	2012	2013	2014–15
<i>Total PCE Inflation</i>				
Extended Tealbook baseline	1.9	1.1	1.4	1.6
Greater commodity price increases	2.8	2.3	1.8	1.7
Persistent rise in inflation	3.1	3.4	3.7	3.5
<i>Core PCE Inflation</i>				
Extended Tealbook baseline	1.2	1.2	1.3	1.6
Greater commodity price increases	1.4	1.6	1.6	1.7
Persistent rise in inflation	1.6	2.7	3.7	3.6

than expected, and in this scenario oil prices unexpectedly continue climbing and are about \$50 per barrel above baseline by the end of 2012 and only thereafter level out. In addition, other commodity prices continue rising and are 20 percent above baseline by the end of this year and 40 percent higher by late 2012.² Mostly because of the rapid rise in oil prices, total PCE prices rise 2¾ percent this year and 2¼ percent next year, about 1 percentage point each year, on average, above baseline. Nonetheless, the effects of these substantial increases in commodity prices on core consumer prices and nominal wages are relatively modest because we assume that inflation expectations remain well-anchored and because (following the usual predictions of our models) pass-through effects are limited (see text table “Measures of PCE Inflation in Selected Alternative Scenarios”). Core PCE inflation is only about ¼ percentage point higher than in the baseline, on average, over the next two years. Real activity is somewhat weaker over the period of 2011 through 2013 than in the staff forecast, in part because higher prices for commodities that we import, on net, reduce real household incomes. Monetary policy is little changed from baseline over this period as the additional slack is mostly offset by higher inflation. This outcome is reminiscent of the 2007-08 period when some noticeable, but transitory, increases in total inflation coincided with only a modest step-up in core inflation.

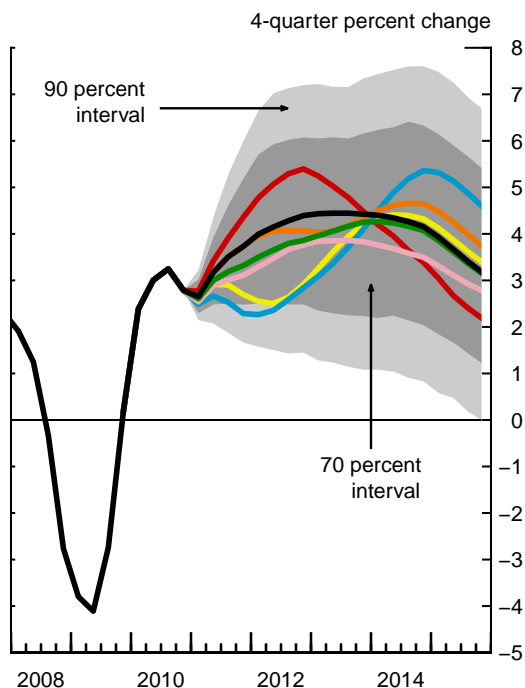
² As a result of the increase in non-energy commodity prices, nonoil import prices are almost 4 percent above baseline by early 2013.

Forecast Confidence Intervals and Alternative Scenarios

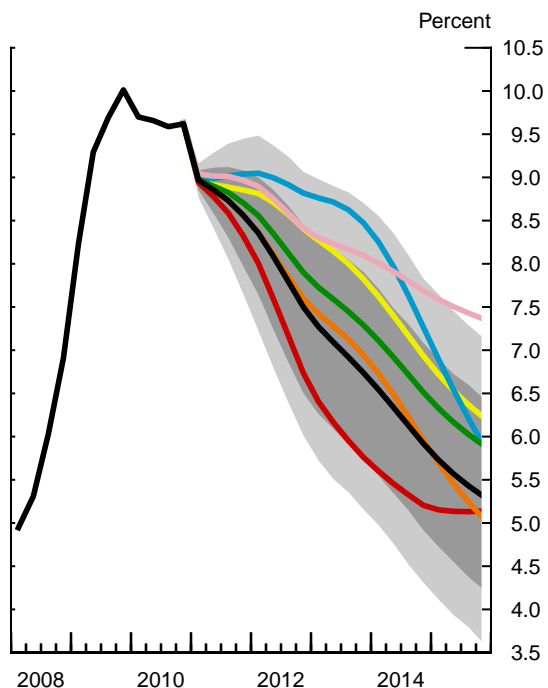
Confidence Intervals Based on FRB/US Stochastic Simulations

- Extended Tealbook baseline
- Further disinflation
- Stronger expansion
- Greater commodity price increases
- Weaker recovery
- Greater geopolitical risk
- Persistent rise in inflation

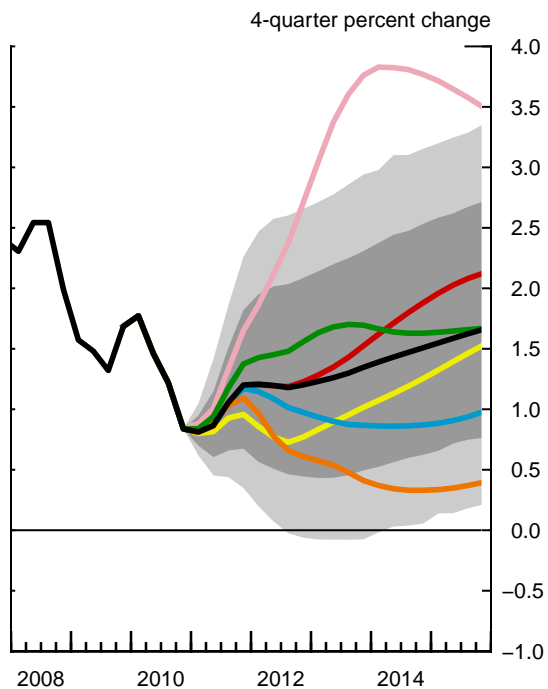
Real GDP



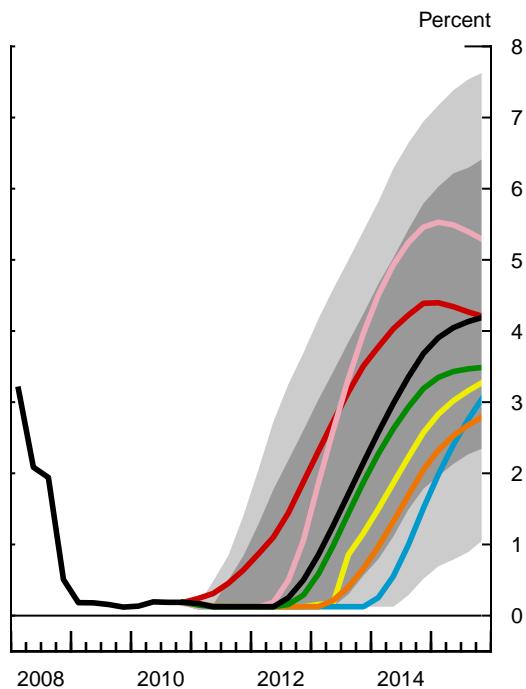
Unemployment Rate



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
<i>Real GDP</i> (percent change, Q4 to Q4)					
Projection	3.7	4.4	4.4	4.2	3.2
Confidence interval					
Tealbook forecast errors	2.1–5.3	2.7–6.1	...	...	...
FRB/US stochastic simulations	2.5–5.2	2.5–6.1	2.2–6.2	2.0–6.3	1.2–5.4
<i>Civilian unemployment rate</i> (percent, Q4)					
Projection	8.6	7.5	6.7	5.9	5.3
Confidence interval					
Tealbook forecast errors	8.0–9.2	6.5–8.5	...	...	...
FRB/US stochastic simulations	8.0–9.1	6.5–8.5	5.7–7.9	4.9–7.1	4.2–6.4
<i>PCE prices, total</i> (percent change, Q4 to Q4)					
Projection	1.9	1.1	1.4	1.5	1.7
Confidence interval					
Tealbook forecast errors	.9–2.9	-.1–2.2	...	...	...
FRB/US stochastic simulations	1.0–3.0	.0–2.3	.2–2.8	.3–2.9	.5–3.1
<i>PCE prices excluding food and energy</i> (percent change, Q4 to Q4)					
Projection	1.2	1.2	1.3	1.5	1.7
Confidence interval					
Tealbook forecast errors	.6–1.8	.4–2.0	...	...	...
FRB/US stochastic simulations	.7–1.8	.4–2.1	.5–2.3	.6–2.5	.8–2.7
<i>Federal funds rate</i> (percent, Q4)					
Projection	.1	.5	2.1	3.7	4.2
Confidence interval					
FRB/US stochastic simulations	.1–.8	.1–2.6	.6–4.2	1.8–5.8	2.4–6.4

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.

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	
	01/19/11	03/09/11	01/19/11	03/09/11	01/19/11	03/09/11	01/19/11	03/09/11	01/19/11	03/09/11
<i>Quarterly</i>										
2010:Q1	4.8	4.8	3.7	3.7	2.1	2.1	1.2	1.2	9.7	9.7
Q2	3.7	3.7	1.7	1.7	.0	.0	1.0	1.0	9.6	9.6
Q3	4.6	4.6	2.6	2.6	.8	.8	.5	.5	9.6	9.6
Q4	3.8	3.6	3.8	3.2	1.9	1.8	.6	.5	9.6	9.6
2011:Q1	5.7	4.8	3.6	3.2	2.0	3.3	.9	1.1	9.5	9.0
Q2	4.7	6.2	3.7	3.8	1.1	2.3	1.0	1.2	9.3	8.9
Q3	4.9	4.9	3.8	3.9	1.2	1.2	1.0	1.3	9.1	8.7
Q4	5.1	5.0	4.2	4.0	1.0	1.0	.9	1.1	8.9	8.6
2012:Q1	5.5	5.6	4.3	4.2	1.0	1.0	1.0	1.2	8.7	8.4
Q2	5.6	5.8	4.4	4.4	1.0	1.0	1.0	1.2	8.4	8.1
Q3	5.6	5.8	4.5	4.4	1.0	1.1	1.0	1.2	8.1	7.8
Q4	5.7	5.8	4.6	4.5	1.0	1.1	1.0	1.2	7.8	7.5
<i>Two-quarter²</i>										
2010:Q2	4.3	4.3	2.7	2.7	1.0	1.0	1.1	1.1	-4	-4
Q4	4.2	4.1	3.2	2.9	1.3	1.3	.5	.5	.0	.0
2011:Q2	5.2	5.5	3.7	3.5	1.6	2.8	1.0	1.2	-3	-7
Q4	5.0	5.0	4.0	4.0	1.1	1.1	1.0	1.2	-4	-3
2012:Q2	5.6	5.7	4.4	4.3	1.0	1.0	1.0	1.2	-5	-5
Q4	5.7	5.8	4.5	4.5	1.0	1.1	1.0	1.2	-6	-6
<i>Four-quarter³</i>										
2009:Q4	.6	.6	.2	.2	1.5	1.5	1.7	1.7	3.1	3.1
2010:Q4	4.3	4.2	2.9	2.8	1.2	1.2	.8	.8	-4	-4
2011:Q4	5.1	5.2	3.8	3.7	1.3	1.9	1.0	1.2	-7	-1.0
2012:Q4	5.6	5.8	4.4	4.4	1.0	1.1	1.0	1.2	-1.1	-1.1
<i>Annual</i>										
2009	-1.7	-1.7	-2.6	-2.6	.2	.2	1.5	1.5	9.3	9.3
2010	3.9	3.8	2.9	2.9	1.7	1.7	1.3	1.3	9.6	9.6
2011	4.8	4.8	3.5	3.3	1.4	1.9	.8	1.0	9.2	8.8
2012	5.4	5.5	4.3	4.2	1.0	1.1	1.0	1.2	8.3	7.9

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	2010				2011				2012				2010 ¹	2011 ¹	2012 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous Tealbook</i>	3.7 3.7	1.7 1.7	2.6 2.6	3.2 3.8	3.2 3.6	3.8 3.7	3.9 3.8	4.0 4.2	4.2 4.3	4.4 4.4	4.4 4.5	4.5 4.6	2.8 2.9	3.7 3.8	4.4 4.4
Final sales <i>Previous Tealbook</i>	1.1 1.1	.9 .9	.9 .9	6.8 7.0	2.0 3.1	3.7 3.4	3.6 3.7	5.0 5.1	4.0 4.0	4.1 4.1	4.0 4.0	4.3 4.6	2.4 2.4	3.6 3.8	4.1 4.1
Priv. dom. final purch. <i>Previous Tealbook</i>	2.1 2.1	4.4 4.4	2.3 2.3	4.4 4.0	3.0 3.9	4.2 4.3	4.4 4.7	4.5 4.7	4.3 4.2	4.5 4.5	4.7 4.7	4.8 5.0	3.3 3.2	4.0 4.4	4.6 4.6
Personal cons. expend. <i>Previous Tealbook</i>	1.9 1.9	2.2 2.2	2.4 2.4	4.1 4.1	2.5 3.1	3.5 3.5	3.5 3.6	3.5 3.7	3.7 3.5	3.8 3.7	4.0 3.9	4.1 4.2	2.6 2.6	3.2 3.5	3.9 3.8
Durables	8.8	6.8	7.6	21.0	6.8	3.6	7.4	7.0	9.2	10.0	9.7	8.1	10.9	6.2	9.3
Nondurables	4.2	1.9	2.5	4.8	3.1	4.7	3.2	2.7	2.9	2.8	3.0	3.2	3.4	3.4	3.0
Services	.1	1.6	1.6	1.4	1.6	3.0	2.9	3.1	3.2	3.2	3.4	3.7	1.2	2.7	3.4
Residential investment <i>Previous Tealbook</i>	-12.3 -12.3	25.7 25.7	-27.3 -27.3	2.8 .7	3.7 3.2	7.3 9.2	10.9 12.5	12.0 11.9	13.1 13.0	13.2 13.9	13.4 13.5	13.8 13.5	-4.7 -5.2	8.4 9.1	13.4 13.5
Business fixed invest. <i>Previous Tealbook</i>	7.8 7.8	17.2 17.2	10.0 10.0	6.7 3.7	6.2 9.4	8.9 9.5	9.5 10.4	10.2 10.1	6.1 6.8	7.5 7.9	7.4 8.1	7.8 8.9	10.3 9.6	8.7 9.8	7.2 7.9
Equipment & software	20.4	24.8	15.4	6.6	12.7	12.5	13.2	13.6	8.5	10.0	9.7	10.1	16.6	13.0	9.6
<i>Previous Tealbook</i>	20.4	24.8	15.4	3.7	13.3	13.0	14.3	13.8	9.2	10.5	10.8	11.8	15.8	13.6	10.6
Nonres. structures	-17.8	-5	-3.5	6.7	-10.4	-9	-9	.4	-1.1	.0	.3	.3	-4.2	-3.0	-1
<i>Previous Tealbook</i>	-17.8	-5	-3.5	3.7	-8	.0	-3	-4	-3	.0	.0	.2	-4.9	-4	.0
Net exports ²	-338	-449	-505	-395	-386	-387	-390	-348	-331	-318	-313	-301	-422	-378	-316
<i>Previous Tealbook</i> ²	-338	-449	-505	-389	-395	-402	-408	-373	-360	-353	-355	-346	-420	-394	-354
Exports	11.4	9.1	6.8	9.6	12.3	9.5	9.0	9.1	9.3	9.0	8.8	8.9	9.2	10.0	9.0
Imports	11.2	33.5	16.8	-12.4	8.1	7.9	7.9	-.1	4.6	5.2	6.8	5.3	11.0	5.9	5.5
Gov't. cons. & invest. <i>Previous Tealbook</i>	-1.6 -1.6	3.9 3.9	3.9 3.9	-1.7 -.1	-3.1 .8	1.4 .5	.7 .5	-.1 .6	-.1 .5	.0 .6	.1 .7	-.1 .9	1.1 1.5	-.3 .6	.0 .7
Federal	1.8	9.1	8.8	-.2	-4.7	4.6	2.0	-.4	-.7	-.7	-.7	-1.1	4.8	.3	-.8
Defense	.4	7.4	8.5	-2.1	-8.8	6.0	3.1	.0	.0	.0	.0	.0	3.4	-.1	.0
Nondefense	5.0	12.8	9.5	3.7	4.0	1.8	-.2	-1.2	-2.2	-2.2	-2.2	-3.3	7.7	1.1	-2.5
State & local	-3.8	.6	.7	-2.6	-2.1	-.7	-.2	.1	.3	.5	.6	.6	-1.3	-.7	.5
Change in bus. inventories ²	44	69	121	15	51	55	63	34	41	50	65	71	62	51	57
<i>Previous Tealbook</i> ²	44	69	121	26	42	53	57	28	41	54	70	69	65	45	59
Nonfarm ²	37	61	117	14	47	51	60	31	38	47	62	68	57	47	54
Farm ²	8	8	5	1	4	4	4	4	4	4	4	4	5	4	4

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

2. Billions of chained (2005) dollars.

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

Item	2004	2005	2006	2007	2008	2009	2010	2011	2012
Real GDP <i>Previous Tealbook</i>	3.1 3.1	2.7 2.7	2.4 2.4	2.3 2.3	-2.8 -2.8	.2 .2	2.8 2.9	3.7 3.8	4.4 4.4
Final sales <i>Previous Tealbook</i>	2.8 2.8	2.7 2.7	2.8 2.8	2.5 2.5	-1.9 -1.9	-.3 -.3	2.4 2.4	3.6 3.8	4.1 4.1
Priv. dom. final purch. <i>Previous Tealbook</i>	4.2 4.2	3.1 3.1	2.5 2.5	1.3 1.3	-3.8 -3.8	-2.0 -2.0	3.3 3.2	4.0 4.4	4.6 4.6
Personal cons. expend. <i>Previous Tealbook</i>	3.5 3.5	2.7 2.7	3.3 3.3	1.7 1.7	-1.9 -1.9	.2 .2	2.6 2.6	3.2 3.5	3.9 3.8
Durables	5.5	2.1	6.3	3.9	-12.3	4.8	10.9	6.2	9.3
Nondurables	3.0	3.3	3.2	.8	-2.9	1.1	3.4	3.4	3.0
Services	3.4	2.6	2.8	1.7	.3	-.8	1.2	2.7	3.4
Residential investment <i>Previous Tealbook</i>	6.6 6.6	5.3 5.3	-15.7 -15.7	-20.7 -20.7	-24.6 -24.6	-13.4 -13.4	-4.7 -5.2	8.4 9.1	13.4 13.5
Business fixed invest. <i>Previous Tealbook</i>	7.0 7.0	4.4 4.4	7.8 7.8	8.2 8.2	-8.3 -8.3	-12.7 -12.7	10.3 9.6	8.7 9.8	7.2 7.9
Equipment & software <i>Previous Tealbook</i>	8.8 8.8	6.1 6.1	6.0 6.0	4.3 4.3	-11.8 -11.8	-4.9 -4.9	16.6 15.8	13.0 13.6	9.6 10.6
Nonres. structures <i>Previous Tealbook</i>	1.7 1.7	-1 -1	13.0 13.0	17.3 17.3	-1.5 -1.5	-26.5 -26.5	-4.2 -4.9	-3.0 -4	-1 .0
Net exports ¹ <i>Previous Tealbook</i> ¹	-688 -688	-723 -723	-729 -729	-655 -655	-504 -504	-363 -363	-422 -420	-378 -394	-316 -354
Exports	7.1	6.7	10.2	10.1	-2.9	-.1	9.2	10.0	9.0
Imports	10.9	5.2	4.1	.7	-6.0	-7.2	11.0	5.9	5.5
Gov't. cons. & invest. <i>Previous Tealbook</i>	.6 .6	.7 .7	1.5 1.5	1.9 1.9	3.1 3.1	.8 .8	1.1 1.5	-.3 .6	.0 .7
Federal	2.3	1.2	2.2	3.1	9.2	3.6	4.8	.3	-.8
Defense	2.4	.4	4.4	2.6	9.5	3.3	3.4	-1	.0
Nondefense	2.3	2.6	-2.3	4.2	8.5	4.5	7.7	1.1	-2.5
State & local	-.4	.4	1.2	1.2	-.4	-1.0	-1.3	-.7	.5
Change in bus. inventories ¹ <i>Previous Tealbook</i> ¹	66 66	50 50	59 59	28 28	-38 -38	-113 -113	62 65	51 45	57 59
Nonfarm ¹	58	50	63	29	-39	-117	57	47	54
Farm ¹	8	0	-4	-1	1	3	5	4	4

1. Billions of chained (2005) dollars.

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

Item	2010				2011				2012				2010 ¹	2011 ¹	2012 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real GDP <i>Previous Tealbook</i>	3.7 3.7	1.7 1.7	2.6 2.6	3.2 3.8	3.2 3.6	3.8 3.7	3.9 3.8	4.0 4.2	4.2 4.3	4.4 4.4	4.4 4.5	4.5 4.6	2.8 2.9	3.7 3.8	4.4 4.4
Final sales <i>Previous Tealbook</i>	1.1 1.1	.9 .9	.9 .9	6.6 6.8	2.1 3.2	3.7 3.4	3.6 3.7	4.9 5.0	4.0 4.0	4.1 4.1	4.0 4.0	4.3 4.6	2.4 2.4	3.6 3.8	4.1 4.1
Priv. dom. final purch. <i>Previous Tealbook</i>	1.7 1.7	3.6 3.6	1.9 1.9	3.6 3.3	2.5 3.2	3.5 3.6	3.6 3.8	3.7 3.9	3.6 3.5	3.8 3.7	3.9 3.9	4.0 4.2	2.7 2.6	3.3 3.6	3.8 3.8
Personal cons. expend. <i>Previous Tealbook</i>	1.3 1.3	1.5 1.5	1.7 1.7	2.9 2.9	1.8 2.2	2.5 2.5	2.5 2.6	2.5 2.6	2.7 2.5	2.7 2.6	2.8 2.8	2.9 2.9	1.9 1.9	2.3 2.5	2.8 2.7
Durables	.6	.5	.5	1.4	.5	.3	.5	.5	.7	.7	.7	.6	.8	.5	.7
Nondurables	.7	.3	.4	.8	.5	.8	.5	.5	.5	.5	.5	.5	.5	.6	.5
Services	.0	.8	.7	.7	.8	1.4	1.4	1.5	1.5	1.5	1.6	1.7	.6	1.2	1.6
Residential investment <i>Previous Tealbook</i>	-3 -3	.6 .6	-8 -8	.1 .0	.1 .1	.2 .2	.2 .3	.3 .3	.3 .3	.3 .3	.3 .3	.3 .3	-1 -1	.2 .2	.3 .3
Business fixed invest. <i>Previous Tealbook</i>	.7 .7	1.5 1.5	.9 .9	.6 .4	.6 .9	.9 .9	.9 1.0	1.0 1.0	.6 .7	.8 .8	.8 .8	.8 .9	1.0 .9	.9 1.0	.7 .8
Equipment & software <i>Previous Tealbook</i>	1.2 1.2	1.5 1.5	1.0 1.0	.5 .3	.9 .9	.9 .9	.9 1.0	1.0 1.0	.6 .7	.8 .8	.7 .8	.8 .9	1.1 1.0	.9 1.0	.7 .8
Nonres. structures <i>Previous Tealbook</i>	-5 -5	.0 .0	-1 -1	.2 .1	-3 .0	.0 .0	.0 .0	.0 .0	.0 .0	.0 .0	.0 .0	.0 .0	-1 -1	-1 .0	.0 .0
Net exports <i>Previous Tealbook</i>	-3 -3	-3.5 -3.5	-1.7 -1.7	3.3 3.5	.2 -2	-1 -3	-1 -2	1.3 1.0	.5 .4	.4 .2	.1 -1	.3 .2	-5 -5	.3 .1	.3 .2
Exports	1.3	1.1	.8	1.2	1.5	1.2	1.2	1.2	1.3	1.2	1.2	1.2	1.1	1.3	1.3
Imports	-1.6	-4.6	-2.5	2.1	-1.3	-1.3	-1.3	.0	-8	-9	-1.2	-9	-1.6	-1.0	-9
Gov't. cons. & invest. <i>Previous Tealbook</i>	-3 -3	.8 .8	.8 .8	-3 .0	-6 .2	.3 .1	.1 .1	.0 .1	.0 .1	.0 .1	.0 .2	.0 .2	.2 .3	-1 .1	.0 .1
Federal	.2	.7	.7	.0	-4	.4	.2	.0	-1	-1	-1	-1	.4	.0	-1
Defense	.0	.4	.5	-1	-5	.3	.2	.0	.0	.0	.0	.0	.2	.0	.0
Nondefense	.1	.3	.3	.1	.1	.0	.0	.0	-1	-1	-1	-1	.2	.0	-1
State & local	-5	.1	.1	-3	-2	-1	.0	.0	.0	.1	.1	.1	-2	-1	.1
Change in bus. inventories <i>Previous Tealbook</i>	2.6 2.6	.8 .8	1.6 1.6	-3.5 -3.0	1.1 .5	.1 .3	.3 .1	-9 -9	.2 .4	.3 .4	.5 .5	.2 .0	.4 .5	.2 .0	.3 .3
Nonfarm	2.6	.8	1.7	-3.2	1.1	.1	.3	-9	.2	.3	.4	.2	.5	.1	.3
Farm	.1	.0	-1	-2	.1	.0	.0	.0	.0	.0	.0	.0	-1	.0	.0

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

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

Item	2010				2011				2012				2010 ¹	2011 ¹	2012 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP chain-wt. price index <i>Previous Tealbook</i>	1.0	1.9	2.1	.4	1.6	2.4	1.0	1.0	1.3	1.3	1.3	1.3	1.4	1.5	1.3
PCE chain-wt. price index <i>Previous Tealbook</i>	1.0	1.9	2.1	.0	2.0	1.0	1.0	.9	1.1	1.1	1.1	1.1	1.3	1.2	1.1
Energy <i>Previous Tealbook</i>	2.1	.0	.8	1.8	3.3	2.3	1.2	1.0	1.0	1.0	1.1	1.1	1.2	1.9	1.1
Food <i>Previous Tealbook</i>	2.1	.0	.8	1.9	2.0	1.1	1.2	1.0	1.0	1.0	1.0	1.0	1.2	1.3	1.0
Ex. food & energy <i>Previous Tealbook</i>	16.4	-17.5	5.4	24.3	37.9	14.7	-2.2	-1.7	-1.4	-1.6	-1.4	-8	5.9	11.0	-1.3
Ex. food & energy, market based <i>Previous Tealbook</i>	16.4	-17.5	5.4	25.9	20.5	1.7	2.8	1.0	.4	.0	-1	-1	6.3	6.2	.1
CPI <i>Previous Tealbook</i>	1.8	1.6	.3	1.4	4.9	4.5	2.5	1.5	1.3	1.3	1.4	1.4	1.3	3.4	1.3
Ex. food & energy <i>Previous Tealbook</i>	1.8	1.6	.3	1.5	2.1	2.1	1.6	1.1	1.0	1.1	1.2	1.2	1.3	1.7	1.1
Ex. food & energy, market based <i>Previous Tealbook</i>	1.2	1.0	.5	.5	1.1	1.2	1.3	1.1	1.2	1.2	1.2	1.2	.8	1.2	1.2
CPI <i>Previous Tealbook</i>	1.2	1.0	.5	.6	.9	1.0	1.0	.9	1.0	1.0	1.0	1.0	.8	1.0	1.0
Ex. food & energy <i>Previous Tealbook</i>	.7	1.0	1.1	.4	.9	1.2	1.2	.9	1.0	1.1	1.1	1.1	.8	1.0	1.1
Ex. food & energy, market based <i>Previous Tealbook</i>	.7	1.0	1.1	.3	.8	.9	.9	.7	.9	.9	.9	.9	.8	.8	.9
ECL, hourly compensation ² <i>Previous Tealbook</i>	1.3	-.5	1.4	2.6	4.6	2.8	.9	.9	.9	.9	1.0	1.1	1.2	2.3	1.0
ECL, hourly compensation ² <i>Previous Tealbook</i>	1.5	-.7	1.5	2.6	2.7	1.1	1.2	1.0	.9	.9	1.0	1.0	1.2	1.5	.9
Nonfarm business sector Output per hour <i>Previous Tealbook</i>	.0	.8	1.1	.6	1.5	1.3	1.0	1.0	1.1	1.2	1.2	1.3	.6	1.2	1.2
Compensation per hour <i>Previous Tealbook</i>	.0	.9	1.2	.4	1.0	1.0	1.0	.9	1.0	1.0	1.1	1.1	.6	1.0	1.0
Unit labor costs <i>Previous Tealbook</i>	2.6	1.8	1.8	1.8	2.5	2.2	2.2	2.2	2.8	2.5	2.5	2.5	2.1	2.3	2.6
Core goods imports chain-wt. price index ³ <i>Previous Tealbook</i>	2.6	1.8	1.8	2.0	2.3	2.1	2.1	2.1	2.6	2.4	2.4	2.4	2.0	2.1	2.4
Output per hour <i>Previous Tealbook</i>	4.6	-1.7	2.3	3.0	2.7	.4	1.2	1.4	1.4	1.8	1.8	2.0	2.0	1.4	1.7
Compensation per hour <i>Previous Tealbook</i>	3.9	-1.8	2.3	2.6	1.8	1.4	1.3	1.6	1.8	2.0	1.9	2.0	1.7	1.5	1.9
Unit labor costs <i>Previous Tealbook</i>	-2	3.1	2.5	2.0	3.0	1.7	1.8	1.9	2.6	2.4	2.4	2.5	1.8	2.1	2.5
Core goods imports chain-wt. price index ³ <i>Previous Tealbook</i>	-9	2.9	2.1	2.1	2.4	1.8	1.8	1.8	2.5	2.2	2.2	2.3	1.5	1.9	2.3
Unit labor costs <i>Previous Tealbook</i>	-4.6	4.9	.1	-1.0	.2	1.2	.6	.4	1.2	.5	.6	.5	-.2	.6	.7
Core goods imports chain-wt. price index ³ <i>Previous Tealbook</i>	-4.6	4.9	-2	-.4	.6	.4	.5	.1	.7	.2	.3	.3	-.2	.4	.4
Output per hour <i>Previous Tealbook</i>	4.2	3.1	-.8	4.3	7.5	5.5	3.3	2.0	1.4	1.4	1.4	1.4	2.7	4.6	1.4
Compensation per hour <i>Previous Tealbook</i>	4.2	3.1	-.8	6.2	5.5	3.6	2.2	1.5	1.3	1.4	1.4	1.4	3.1	3.2	1.4

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	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP chain-wt. price index <i>Previous Tealbook</i>	3.2 3.2	3.5 3.5	2.9 2.9	2.6 2.6	2.1 2.1	.5 .5	1.4 1.3	1.5 1.2	1.3 1.1
PCE chain-wt. price index <i>Previous Tealbook</i>	3.0 3.0	3.3 3.3	1.9 1.9	3.5 3.5	1.7 1.7	1.5 1.5	1.2 1.2	1.9 1.3	1.1 1.0
Energy <i>Previous Tealbook</i>	18.6 18.6	21.5 21.5	-3.7 -3.7	19.4 19.4	-9.0 -9.0	2.7 2.7	5.9 6.3	11.0 6.2	-1.3 .1
Food <i>Previous Tealbook</i>	2.7 2.7	1.5 1.5	1.7 1.7	4.8 4.8	6.9 6.9	-1.6 -1.6	1.3 1.3	3.4 1.7	1.3 1.1
Ex. food & energy <i>Previous Tealbook</i>	2.2 2.2	2.3 2.3	2.3 2.3	2.4 2.4	2.0 2.0	1.7 1.7	.8 .8	1.2 1.0	1.2 1.0
Ex. food & energy, market based <i>Previous Tealbook</i>	1.9 1.9	2.1 2.1	2.2 2.2	2.2 2.2	2.2 2.2	1.7 1.7	.8 .8	1.0 .8	1.1 .9
CPI <i>Previous Tealbook</i>	3.4 3.4	3.7 3.7	2.0 1.9	4.0 4.0	1.6 1.6	1.5 1.5	1.2 1.2	2.3 1.5	1.0 .9
Ex. food & energy <i>Previous Tealbook</i>	2.2 2.2	2.1 2.1	2.7 2.7	2.3 2.3	2.0 2.0	1.7 1.7	.6 .6	1.2 1.0	1.2 1.0
ECL, hourly compensation ¹ <i>Previous Tealbook</i> ¹	3.8 3.8	2.9 2.9	3.2 3.2	3.0 3.0	2.4 2.4	1.2 1.2	2.1 2.0	2.3 2.1	2.6 2.4
Nonfarm business sector Output per hour <i>Previous Tealbook</i>	1.5 1.5	1.4 1.4	.9 .9	2.6 2.6	-.4 -.4	6.5 6.2	2.0 1.7	1.4 1.5	1.7 1.9
Compensation per hour <i>Previous Tealbook</i>	3.3 3.3	3.5 3.5	4.5 4.5	3.6 3.6	2.3 2.3	2.8 2.5	1.8 1.5	2.1 1.9	2.5 2.3
Unit labor costs <i>Previous Tealbook</i>	1.9 1.9	2.0 2.0	3.5 3.5	.9 .9	2.7 2.7	-3.5 -3.5	-.2 -.2	.6 .4	.7 .4
Core goods imports chain-wt. price index ² <i>Previous Tealbook</i> ²	3.6 3.6	2.2 2.2	2.5 2.5	2.9 2.9	3.5 3.5	-1.9 -1.9	2.7 3.1	4.6 3.2	1.4 1.4

1. Private-industry workers.

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

Other Macroeconomic Indicators

Item	2010				2011				2012				2010 ¹	2011 ¹	2012 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Employment and production</i>															
Nonfarm payroll employment ²	-1	.6	-1	.2	.4	.6	.7	.8	.9	.9	.9	.9	.7	2.5	3.6
Unemployment rate ³	9.7	9.6	9.6	9.6	9.0	8.9	8.7	8.6	8.4	8.1	7.8	7.5	9.6	8.6	7.5
<i>Previous Tealbook³</i>	9.7	9.6	9.6	9.6	9.5	9.3	9.1	8.9	8.7	8.4	8.1	7.8	9.6	8.9	7.8
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	6.0	6.0	6.0	6.0	6.0
GDP gap ⁴	-6.2	-6.3	-6.2	-5.9	-5.8	-5.5	-5.1	-4.7	-4.4	-3.9	-3.5	-3.0	-5.9	-4.7	-3.0
<i>Previous Tealbook⁴</i>	-6.4	-6.6	-6.6	-6.3	-6.0	-5.8	-5.4	-5.1	-4.7	-4.2	-3.8	-3.3	-6.3	-5.1	-3.3
Industrial production ⁵	7.1	7.2	6.2	3.2	4.7	7.2	4.4	3.3	3.6	4.6	4.7	3.9	5.9	4.9	4.2
<i>Previous Tealbook⁵</i>	7.1	7.2	6.5	2.4	6.7	3.2	4.3	3.6	4.1	5.3	5.2	4.3	5.8	4.4	4.7
Manufacturing industr. prod. ⁵	6.2	9.4	4.3	4.0	6.8	7.5	4.7	3.8	4.6	5.6	5.0	4.5	6.0	5.7	4.9
<i>Previous Tealbook⁵</i>	6.2	9.4	4.5	3.3	6.9	4.7	4.8	4.3	5.0	6.2	5.9	5.1	5.8	5.2	5.5
Capacity utilization rate - mfg. ³	70.0	71.6	72.4	73.0	74.1	75.4	76.1	76.7	77.2	78.0	78.7	79.2	73.0	76.7	79.2
<i>Previous Tealbook³</i>	70.0	71.6	72.4	73.0	74.0	74.7	75.4	76.1	76.7	77.5	78.4	79.0	73.0	76.1	79.0
Housing starts ⁶	.6	.6	.6	.5	.6	.6	.7	.7	.8	.8	.9	1.0	.6	.6	.9
Light motor vehicle sales ⁶	11.0	11.3	11.6	12.3	12.9	13.0	13.2	13.4	13.9	14.6	15.2	15.6	11.5	13.1	14.8
<i>Income and saving</i>															
Nominal GDP ⁵	4.8	3.7	4.6	3.6	4.8	6.2	4.9	5.0	5.6	5.8	5.8	5.8	4.2	5.2	5.8
Real disposable pers. income ⁵	1.3	5.6	1.0	1.2	3.7	3.0	3.5	4.4	.8	4.3	4.0	4.1	2.3	3.7	3.3
<i>Previous Tealbook⁵</i>	1.3	5.6	.9	1.3	5.3	3.4	3.6	4.1	.1	3.9	4.1	4.3	2.3	4.1	3.1
Personal saving rate ³	5.5	6.2	6.0	5.4	5.7	5.6	5.6	5.8	5.1	5.2	5.2	5.2	5.4	5.8	5.2
<i>Previous Tealbook³</i>	5.5	6.2	5.9	5.4	5.9	5.9	5.9	6.0	5.2	5.2	5.2	5.2	5.4	6.0	5.2
Corporate profits ⁷	48.9	12.7	6.6	3.9	11.1	14.1	11.5	5.7	4.0	4.7	5.4	5.4	16.8	10.5	4.9
Profit share of GNP ³	10.7	10.9	11.0	11.0	11.2	11.4	11.5	11.6	11.5	11.5	11.5	11.5	11.0	11.6	11.5
Net federal saving ⁸	-1,314	-1,337	-1,343	-1,362	-1,399	-1,380	-1,345	-1,323	-1,160	-1,111	-1,085	-1,055	-1,339	-1,362	-1,103
Net state & local saving ⁸	29	16	48	37	49	29	25	21	30	41	54	60	32	31	46
Gross national saving rate ³	11.1	11.7	11.6	11.3	11.4	11.6	12.1	12.5	12.8	13.2	13.5	13.7	11.3	12.5	13.7
Net national saving rate ³	-1.8	-1.1	-1.1	-1.3	-1.1	-7	-2	.2	.6	1.1	1.4	1.7	-1.3	.2	1.7

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	2004	2005	2006	2007	2008	2009	2010	2011	2012
<i>Employment and production</i>									
Nonfarm payroll employment ¹	2.0	2.4	2.1	1.2	-2.8	-5.6	.7	2.5	3.6
Unemployment rate ²	5.4	5.0	4.5	4.8	6.9	10.0	9.6	8.6	7.5
<i>Previous Tealbook²</i>	5.4	5.0	4.5	4.8	6.9	10.0	9.6	8.9	7.8
NAIRU ²	5.0	5.0	5.0	5.0	5.3	6.0	6.0	6.0	6.0
<i>Previous Tealbook²</i>	5.0	5.0	5.0	5.0	5.3	6.0	6.0	6.0	6.0
GDP gap ³	-5	.0	.0	-1	-4.9	-6.6	-5.9	-4.7	-3.0
<i>Previous Tealbook³</i>	-4	.0	.0	.0	-4.9	-6.7	-6.3	-5.1	-3.3
Industrial production ⁴	2.9	2.3	2.5	2.3	-7.6	-3.8	5.9	4.9	4.2
<i>Previous Tealbook⁴</i>	2.9	2.3	2.5	2.3	-7.6	-3.8	5.8	4.4	4.7
Manufacturing industr. prod. ⁴	3.5	3.5	2.0	2.6	-10.0	-4.1	6.0	5.7	4.9
<i>Previous Tealbook⁴</i>	3.5	3.5	2.0	2.6	-10.0	-4.1	5.8	5.2	5.5
Capacity utilization rate - mfg. ²	77.4	78.8	79.0	79.1	70.9	68.8	73.0	76.7	79.2
<i>Previous Tealbook²</i>	77.4	78.8	79.0	79.1	70.9	68.8	73.0	76.1	79.0
Housing starts ⁵	2.0	2.1	1.8	1.4	.9	.6	.6	.6	.9
Light motor vehicle sales ⁵	16.8	16.9	16.5	16.1	13.1	10.3	11.5	13.1	14.8
<i>Income and saving</i>									
Nominal GDP ⁴	6.4	6.3	5.4	5.0	-.7	.6	4.2	5.2	5.8
Real disposable pers. income ⁴	3.5	.6	4.6	1.5	1.0	.4	2.3	3.7	3.3
<i>Previous Tealbook⁴</i>	3.5	.6	4.6	1.5	1.0	.4	2.3	4.1	3.1
Personal saving rate ²	3.6	1.5	2.5	2.1	5.2	5.5	5.4	5.8	5.2
<i>Previous Tealbook²</i>	3.6	1.5	2.5	2.1	5.2	5.5	5.4	6.0	5.2
Corporate profits ⁶	21.9	19.6	3.7	-8.1	-31.9	42.5	16.8	10.5	4.9
Profit share of GNP ²	10.5	11.8	11.6	10.1	6.9	9.8	11.0	11.6	11.5
Net federal saving ⁷	-379	-283	-204	-245	-616	-1252	-1339	-1362	-1103
Net state & local saving ⁷	-8	26	51	12	-47	-20	32	31	46
Gross national saving rate ²	14.3	15.5	16.3	13.6	11.8	10.8	11.3	12.5	13.7
Net national saving rate ²	2.7	3.5	4.2	1.3	-1.4	-2.3	-1.3	.2	1.7

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				2010				2011				2012			
	2009 ^a	2010 ^a	2011	2012	Q1 ^a	Q2 ^a	Q3 ^a	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget	Not seasonally adjusted															
	2105	2163	2273	2558	466	643	565	532	479	671	592	560	554	774	671	641
	3518	3456	3698	3672	795	930	855	901	927	939	931	919	967	916	869	965
	-1413	-1293	-1424	-1113	-329	-287	-290	-369	-448	-268	-339	-360	-413	-142	-198	-324
	-1416	-1294	-1394	-1105	-329	-287	-290	-371	-459	-249	-315	-370	-408	-129	-197	-325
	-1550	-1370	-1441	-1187	-359	-351	-267	-390	-436	-309	-307	-385	-409	-209	-184	-375
	137	77	17	74	30	64	-23	21	-13	41	-33	25	4	67	-14	51
	1743	1474	1414	1193	478	344	390	368	241	291	514	365	418	182	228	329
	96	-35	60	0	-25	-71	-20	-33	278	-31	-155	15	15	-20	-10	15
	-427	-146	-50	-80	-124	14	-80	34	-71	7	-20	-20	-20	-20	-20	-20
Cash operating balance, end of period	275	310	250	250	219	290	310	343	65	95	250	235	220	240	250	235
NIPA federal sector	Seasonally adjusted annual rates															
	2261	2334	2437	2710	2323	2365	2417	2415	2406	2443	2482	2522	2726	2771	2820	2867
	3355	3660	3808	3879	3637	3701	3761	3777	3805	3824	3827	3845	3886	3883	3905	3922
	977	1030	1070	1096	1017	1038	1062	1057	1060	1076	1085	1088	1096	1098	1100	1101
	659	691	708	729	684	695	711	703	699	711	719	722	729	732	734	737
	318	339	362	367	333	343	350	354	361	365	366	367	368	367	366	364
	2378	2630	2739	2784	2620	2663	2699	2720	2745	2747	2742	2756	2789	2785	2805	2821
	-1094	-1326	-1372	-1170	-1314	-1337	-1343	-1362	-1399	-1380	-1345	-1323	-1160	-1111	-1085	-1055
	151	165	181	183	161	168	172	182	177	181	183	183	183	183	183	183
	Gross saving less gross investment ³	-1122	-1363	-1417	-1211	-1348	-1376	-1385	-1411	-1442	-1426	-1391	-1366	-1201	-1151	-1123	-1092
Fiscal indicators ⁴																
	-838	-1029	-1122	-975	-1019	-1044	-1056	-1087	-1142	-1139	-1119	-1110	-949	-922	-919	-914
	2.2	1.1	.3	-1.1	.1	.1	.0	.2	.3	-.1	-.2	-.1	-1.0	-.2	-.1	-.1
	1.2	0.6	0.0	-1.1	1.0	1.0	0.6	-0.2	-0.0	0.4	0.1	-0.3	-1.6	-1.0	-0.9	-0.8
	1.2	0.7	0.1	-1.0	1.0	1.0	0.6	-0.1	0.5	0.1	0.1	-0.2	-1.4	-0.8	-0.8	-0.7

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>								
2005	9.5	11.1	13.3	4.5	8.6	10.2	7.0	6.3
2006	9.0	10.1	11.2	4.1	10.5	8.3	3.9	5.4
2007	8.6	6.8	6.8	5.8	13.0	9.5	4.9	5.0
2008	6.0	-1	-5	1.5	5.8	2.3	24.2	-7
2009	3.0	-1.7	-1.5	-4.4	-2.7	4.8	22.7	.6
2010	4.6	-1.8	-2.6	-1.8	1.5	4.4	20.2	4.2
2011	5.2	.5	-1.2	3.8	2.8	3.4	15.0	5.2
2012	5.5	2.2	.0	7.8	4.6	4.9	10.7	5.8
<i>Quarter</i>								
2009:1	4.6	-8	-2	-3.7	-2	5.6	24.4	-3.9
2	4.5	-1.9	-1.9	-4.8	-2.2	4.2	28.9	-4
3	2.1	-2.2	-2.6	-3.9	-4.4	5.7	19.0	2.3
4	.8	-1.9	-1.3	-5.6	-4.0	3.6	11.9	4.7
2010:1	4.3	-2.0	-4.4	-4.0	.3	5.7	20.5	4.8
2	4.6	-2.5	-2.2	-3.4	-1	-1.4	24.4	3.7
3	4.2	-2.0	-2.6	-1.8	2.2	5.4	16.0	4.6
4	5.1	-6	-1.3	2.0	3.6	7.9	14.6	3.6
2011:1	2.5	-0	-1.5	2.5	2.3	.6	7.0	4.8
2	6.1	.3	-1.3	3.1	2.6	4.1	18.7	6.2
3	6.5	.7	-1.1	4.4	2.9	4.2	18.9	4.9
4	5.1	.9	-1.0	5.2	3.5	4.5	12.5	5.0
2012:1	5.7	1.7	-.3	6.4	4.1	4.9	12.6	5.6
2	5.9	2.1	-.1	7.3	4.4	4.9	12.2	5.8
3	4.5	2.5	.2	8.2	4.7	4.8	6.5	5.8
4	5.6	2.7	.3	8.6	4.9	4.8	10.0	5.8

Note: Quarterly data are at seasonally adjusted annual rates.

1. Data after 2010:Q4 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	2009	2010	2011	2012	2010				2011				2012			
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<i>Domestic nonfinancial sectors</i>																
Net funds raised																
Total	953.7	1336.1	1609.4	1852.9	1163.3	1486.4	682.9	1975.8	2127.4	1651.3	1926.5	2011.8	1504.9	1968.5	1968.5	1968.5
Net equity issuance	-64.6	-274.0	-264.0	-256.0	-337.6	-344.0	-240.0	-240.0	-288.0	-288.0	-256.0	-256.0	-256.0	-256.0	-256.0	-256.0
Net debt issuance	1018.3	1610.1	1873.4	2108.9	1500.9	1830.4	922.9	2215.8	2415.4	1939.3	2182.5	2267.8	1760.9	2224.5	2224.5	2224.5
Borrowing indicators																
Debt (percent of GDP) ¹	241.6	241.9	242.3	242.0	241.8	242.5	241.9	240.8	241.7	242.3	242.2	242.3	242.0	241.6	241.6	241.6
Borrowing (percent of GDP)	7.2	11.0	12.2	13.0	10.2	12.3	6.1	14.5	15.6	12.4	13.8	14.1	10.8	13.4	13.4	13.4
Households																
Net borrowing ²	-234.5	-239.0	63.0	301.5	-269.2	-78.2	-1.7	37.0	91.3	125.5	229.4	277.5	336.5	362.4	362.4	362.4
Home mortgages	-155.7	-269.1	-122.8	2.5	-268.3	-128.7	-151.1	-130.4	-110.0	-99.7	-29.8	-9.9	19.9	29.8	29.8	29.8
Consumer credit	-115.3	-44.2	93.4	198.1	-44.2	48.5	60.4	76.1	108.0	129.2	161.3	187.2	214.4	229.6	229.6	229.6
Debt/DPI (percent) ³	124.0	118.3	112.2	109.0	117.5	116.2	114.1	112.7	111.5	110.3	110.2	109.2	108.5	107.8	107.8	107.8
Business																
Financing gap ⁴	-44.7	48.9	32.8	136.3	156.4	-24.7	47.5	31.4	32.8	19.6	78.7	118.1	158.3	190.0	190.0	190.0
Net equity issuance	-64.6	-274.0	-264.0	-256.0	-337.6	-344.0	-240.0	-240.0	-288.0	-288.0	-256.0	-256.0	-256.0	-256.0	-256.0	-256.0
Credit market borrowing	-300.3	164.1	315.6	524.2	245.2	397.5	254.9	287.2	326.9	393.6	463.4	510.7	550.6	572.0	572.0	572.0
State and local governments																
Net borrowing	109.1	104.8	83.8	125.8	129.0	190.9	13.8	101.8	105.8	113.8	125.8	125.8	125.8	125.8	125.8	125.8
Current surplus ⁵	248.2	291.7	261.2	283.8	327.4	270.0	277.2	258.0	255.7	253.8	264.3	277.5	292.3	300.9	300.9	300.9
Federal government																
Net borrowing	1443.9	1580.2	1410.9	1157.5	1395.9	1320.2	656.0	1789.9	1891.5	1306.4	1363.9	1353.8	748.0	1164.3	1164.3	1164.3
Net borrowing (n.s.a.)	1443.9	1580.2	1410.9	1157.5	390.1	367.9	241.0	291.5	513.9	364.6	418.0	182.5	228.0	329.1	329.1	329.1
Unified deficit (n.s.a.)	1471.3	1275.1	1414.9	1077.5	290.2	369.0	448.1	267.9	339.3	359.6	413.0	142.5	198.0	324.1	324.1	324.1
<i>Depository institutions</i>																
Funds supplied	-639.6	-199.1	129.6	336.8	729.2	-522.2	-254.2	191.8	273.2	307.5	332.6	342.8	366.7	305.1	305.1	305.1

Note: Data after 2010:Q4 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	2010				2011				Projected			
	2010				2011				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP ¹												
Total foreign	5.3	5.7	2.3	3.3	3.6	3.3	3.3	3.3	3.4	3.5	3.5	3.6
<i>Previous Tealbook</i>	5.4	5.5	2.1	3.1	3.2	3.4	3.4	3.5	3.5	3.6	3.6	3.7
Advanced foreign economies	3.8	3.1	1.9	1.7	2.3	2.0	2.0	2.0	2.2	2.3	2.4	2.5
Canada	5.5	2.2	1.8	3.3	2.6	2.6	2.6	2.5	2.5	2.5	2.5	2.5
Japan	6.0	2.1	3.3	-1.1	1.8	1.6	1.6	1.7	1.9	2.0	2.1	2.2
United Kingdom	1.3	4.2	2.8	-2.3	2.7	2.0	2.2	2.3	2.5	2.4	2.5	2.5
Euro area	1.6	4.0	1.4	1.1	2.0	1.3	1.2	1.2	1.6	1.9	2.2	2.5
Germany	2.6	9.2	2.8	1.5	2.8	2.0	1.8	1.8	2.1	2.3	2.6	2.8
Emerging market economies	7.1	9.0	2.8	5.4	5.2	4.9	5.0	4.9	4.9	4.9	4.9	5.0
Asia	13.7	9.2	2.5	5.7	6.1	5.7	5.8	5.8	5.9	5.9	5.9	5.9
Korea	8.8	5.8	3.0	2.2	3.5	4.0	4.1	4.0	4.3	4.3	4.4	4.5
China	9.3	8.9	10.1	10.7	8.9	8.5	8.4	8.4	8.4	8.4	8.4	8.4
Latin America	1.3	9.4	2.9	4.3	4.4	4.2	4.2	4.1	4.0	4.0	4.0	4.0
Mexico	-3	9.9	3.2	5.1	4.5	4.2	4.2	4.1	4.1	4.1	4.1	4.1
Brazil	9.0	6.5	1.6	3.0	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Consumer prices ²												
Total foreign	3.3	1.6	2.3	5.3	4.3	3.1	2.5	2.4	2.4	2.3	2.3	2.4
<i>Previous Tealbook</i>	3.4	1.3	2.2	4.9	3.7	2.6	2.3	2.2	2.3	2.3	2.3	2.4
Advanced foreign economies	2.1	.5	1.1	3.6	2.8	2.0	1.5	1.4	1.4	1.3	1.4	1.6
Canada	2.2	-1	2.4	4.4	2.8	2.4	2.0	1.9	2.2	1.9	2.0	2.0
Japan	.7	-1.2	-1.3	2.3	-0	-4	-6	-6	-6	-5	-5	-4
United Kingdom	5.1	2.7	1.4	4.5	7.6	3.3	2.0	1.8	1.7	1.7	1.9	3.3
Euro Area	2.0	1.7	1.1	3.3	3.5	2.7	2.0	1.8	1.6	1.6	1.7	1.8
Germany	1.6	.8	1.0	3.1	3.2	2.3	1.9	1.7	1.5	1.5	1.7	1.7
Emerging market economies	4.5	2.6	3.4	6.9	5.7	4.0	3.5	3.3	3.2	3.2	3.2	3.2
Asia	3.6	2.2	3.6	7.6	5.7	3.5	3.1	2.9	2.8	2.8	2.8	2.8
Korea	3.3	1.9	3.4	6.0	6.7	3.9	3.1	2.9	2.8	2.8	2.8	2.7
China	3.0	2.6	4.3	9.0	4.9	3.5	3.0	2.8	2.7	2.7	2.7	2.7
Latin America	7.0	3.4	2.9	5.1	5.4	5.4	4.4	4.3	4.2	4.1	4.1	4.1
Mexico	6.9	2.5	2.9	4.8	4.6	4.9	3.9	3.9	3.7	3.7	3.7	3.7
Brazil	7.4	5.9	1.1	7.4	9.3	6.9	5.3	4.9	4.9	4.9	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	-----Projected-----									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	
Real GDP ¹										
Total foreign	3.9	4.0	4.1	4.3	-8	.5	4.1	3.4	3.5	
<i>Previous Tealbook</i>	3.9	4.0	4.0	4.2	-8	.5	4.0	3.4	3.6	
Advanced foreign economies	2.6	2.8	2.6	2.4	-1.8	-1.5	2.6	2.1	2.3	
Canada	3.7	3.1	1.9	2.5	-9	-1.1	3.2	2.6	2.5	
Japan	1.1	2.9	2.1	1.8	-4.6	-1.8	2.6	1.7	2.0	
United Kingdom	2.4	2.4	2.7	2.4	-2.7	-2.8	1.5	2.3	2.5	
Euro area	1.7	2.1	3.6	2.2	-2.1	-2.0	2.0	1.4	2.1	
Germany	.2	1.6	4.5	1.8	-2.0	-2.0	4.0	2.1	2.4	
Emerging market economies	5.6	5.8	6.2	6.7	.4	3.0	6.0	5.0	4.9	
Asia	6.0	7.7	7.8	8.8	.8	7.4	7.7	5.8	5.9	
Korea	2.7	5.2	4.6	5.7	-3.2	6.1	4.9	3.9	4.4	
China	9.9	10.3	12.8	13.7	7.7	11.4	9.7	8.5	8.4	
Latin America	5.2	3.9	4.8	4.5	-2	-8	4.4	4.2	4.0	
Mexico	4.6	3.6	4.1	3.7	-9	-2.2	4.4	4.2	4.1	
Brazil	6.1	2.1	4.9	6.6	.8	5.0	5.0	3.8	3.8	
Consumer prices ²										
Total foreign	2.8	2.3	2.2	3.7	3.3	1.2	3.1	3.1	2.3	
<i>Previous Tealbook</i>	2.8	2.3	2.1	3.7	3.3	1.2	2.9	2.7	2.3	
Advanced foreign economies	1.8	1.6	1.4	2.2	2.0	.2	1.8	1.9	1.4	
Canada	2.3	2.3	1.4	2.5	1.8	.8	2.2	2.3	2.0	
Japan	.5	-1.0	.3	.5	1.0	-1.9	.1	-.4	-.5	
United Kingdom	1.4	2.1	2.7	2.1	3.9	2.1	3.4	3.7	2.2	
Euro Area	2.3	2.3	1.8	2.9	2.3	.4	2.0	2.5	1.7	
Germany	2.1	2.2	1.3	3.1	1.7	.3	1.6	2.3	1.6	
Emerging market economies	3.9	3.0	2.9	5.1	4.6	2.2	4.3	4.1	3.2	
Asia	3.1	2.6	2.4	5.5	3.7	1.3	4.2	3.8	2.8	
Korea	3.4	2.5	2.1	3.4	4.5	2.4	3.6	4.1	2.8	
China	3.2	1.4	2.1	6.6	2.6	.6	4.7	3.6	2.7	
Latin America	5.6	3.8	4.2	4.2	6.7	4.0	4.6	4.9	4.1	
Mexico	5.3	3.1	4.1	3.8	6.2	4.0	4.3	4.3	3.7	
Brazil	7.2	6.1	3.2	4.3	6.2	4.2	5.4	6.6	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.

U.S. Current Account

Quarterly Data

	2010				2011				Projected-----2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----Projected-----											
	<i>Billions of dollars, s.a.a.r.</i>											
U.S. current account balance	-434.9	-491.2	-507.2	-462.5	-510.1	-509.6	-528.2	-483.8	-480.9	-451.4	-449.0	-430.5
<i>Previous Tealbook</i>	-436.6	-492.9	-508.9	-461.6	-503.6	-508.2	-525.6	-486.0	-483.6	-461.6	-465.9	-448.2
Current account as percent of GDP	-3.0	-3.4	-3.4	-3.1	-3.4	-3.3	-3.4	-3.1	-3.0	-2.8	-2.8	-2.6
<i>Previous Tealbook</i>	-3.0	-3.4	-3.5	-3.1	-3.3	-3.3	-3.4	-3.1	-3.1	-2.9	-2.9	-2.7
Net goods & services	-456.1	-530.6	-535.9	-468.7	-541.4	-550.3	-564.4	-520.1	-500.5	-483.0	-478.5	-465.1
Investment income, net	168.8	180.4	172.6	150.9	168.5	163.9	163.0	159.7	157.0	154.8	156.2	158.0
Direct, net	275.9	286.6	276.0	267.2	287.6	290.8	292.9	295.1	297.3	303.9	309.4	316.8
Portfolio, net	-107.1	-106.2	-103.4	-116.3	-119.0	-126.9	-129.9	-135.4	-140.4	-149.1	-153.2	-158.8
Other income and transfers, net	-147.6	-141.0	-143.9	-144.7	-137.3	-123.2	-126.8	-123.4	-137.3	-123.2	-126.8	-123.4

Annual Data

	-----Projected-----									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	
	Billions of dollars									
U.S. current account balance	-630.5	-747.6	-802.6	-718.1	-668.9	-378.4	-473.9	-507.9	-453.0	
Previous Tealbook	-630.5	-747.6	-802.6	-718.1	-668.9	-378.4	-475.0	-505.8	-464.8	
Current account as percent of GDP	-5.3	-5.9	-6.0	-5.1	-4.7	-2.7	-3.2	-3.3	-2.8	
Previous Tealbook	-5.3	-5.9	-6.0	-5.1	-4.7	-2.7	-3.2	-3.3	-2.9	
Net goods & services	-609.3	-714.2	-759.2	-702.1	-698.8	-374.9	-497.8	-544.1	-481.8	
Investment income, net	73.4	78.8	54.7	106.6	159.3	129.2	168.2	163.8	156.5	
Direct, net	150.9	173.2	174.0	241.6	287.7	252.1	276.4	291.6	306.9	
Portfolio, net	-77.5	-94.4	-119.4	-134.9	-128.4	-122.8	-108.2	-127.8	-150.4	
Other income and transfers, net	-94.5	-112.2	-98.1	-122.6	-129.3	-132.8	-144.3	-127.7	-127.7	

Class I FOMC – Restricted Controlled (FR)

Report to the FOMC on Economic Conditions and Monetary Policy



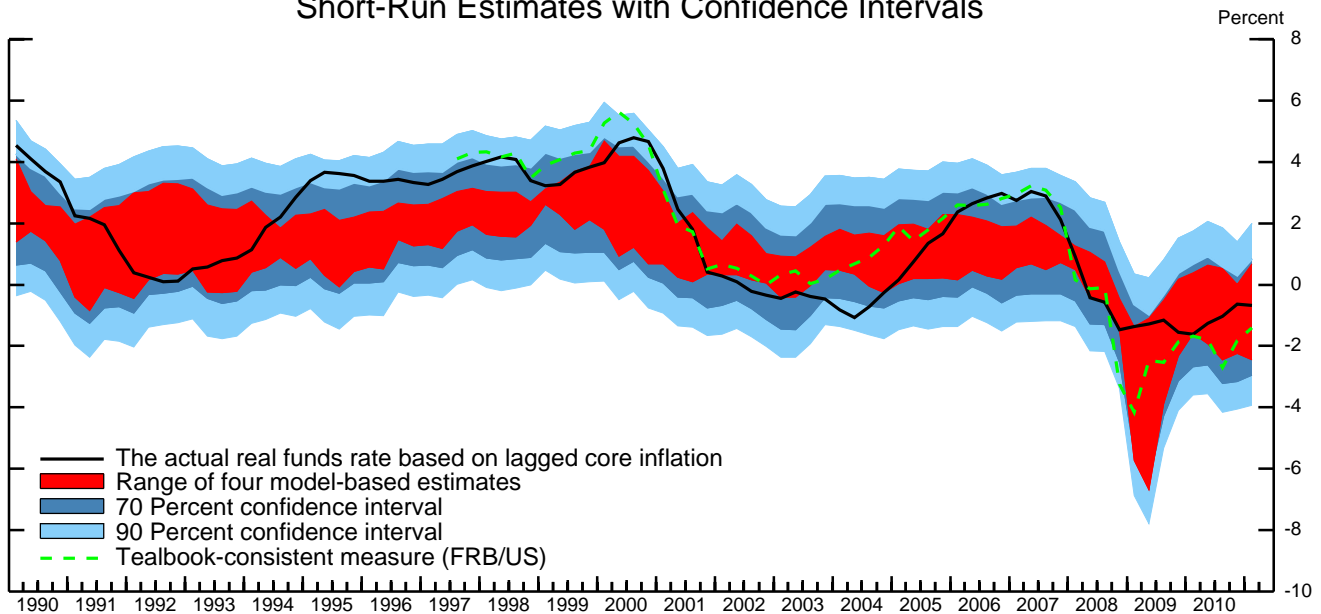
Book B Monetary Policy: Strategies and Alternatives

March 10, 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



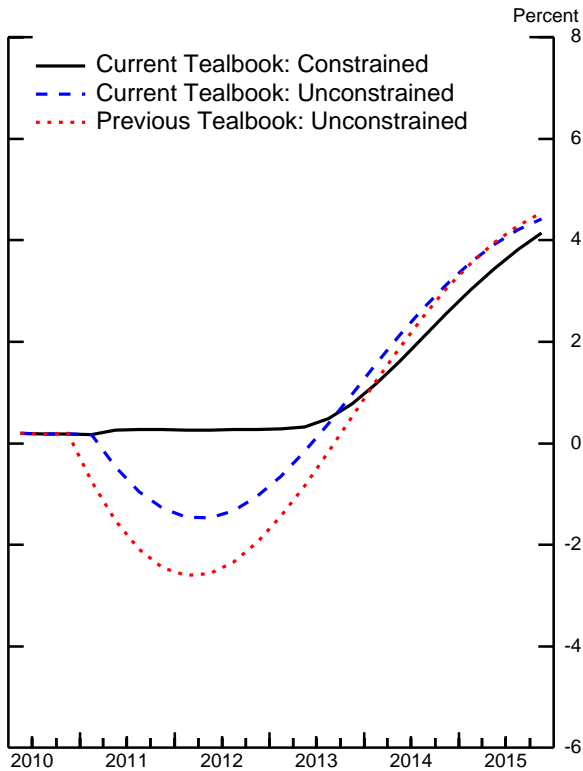
Short-Run and Medium-Run Measures

	Current Tealbook	Previous Tealbook
Short-Run Measures		
Single-equation model	-1.4	-1.6
Small structural model	-1.2	-1.5
EDO model	0.7	0.4
FRB/US model	-2.4	-2.1
Confidence intervals for four model-based estimates		
70 percent confidence interval	-3.0 to 0.8	
90 percent confidence interval	-3.9 to 2.0	
Tealbook-consistent measures		
EDO model	-0.3	-0.8
FRB/US model	-1.4	-1.5
Medium-Run Measures		
Single-equation model	1.1	1.1
Small structural model	1.2	1.4
Confidence intervals for two model-based estimates		
70 percent confidence interval	0.2 to 2.0	
90 percent confidence interval	-0.4 to 2.7	
TIPS-based factor model	2.0	2.0
Memo		
Actual real federal funds rate	-0.7	-0.7

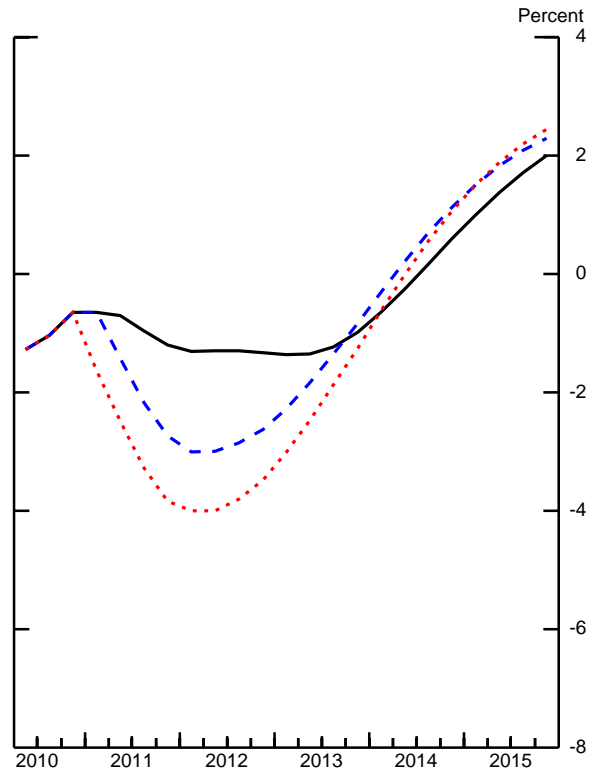
Note: Explanatory Note A provides background information regarding the construction of these measures and confidence intervals. The actual real federal funds rate shown is based on lagged core inflation as a proxy for inflation expectations. For information regarding alternative measures, see Explanatory Note A. Since January, the EDO model has been re-specified and re-estimated. EDO estimates for the "Previous Tealbook" have been computed from the revised model, using the data available at the time of the January Tealbook.

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

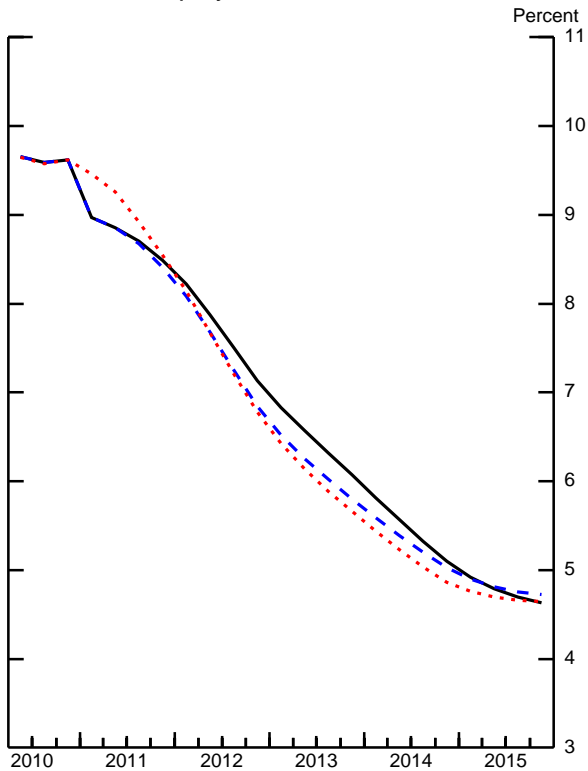
Nominal Federal Funds Rate



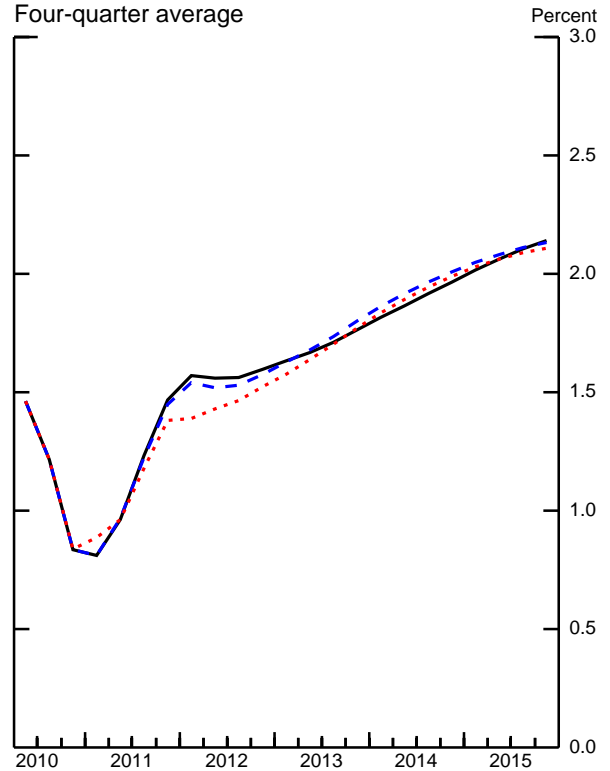
Real Federal Funds Rate



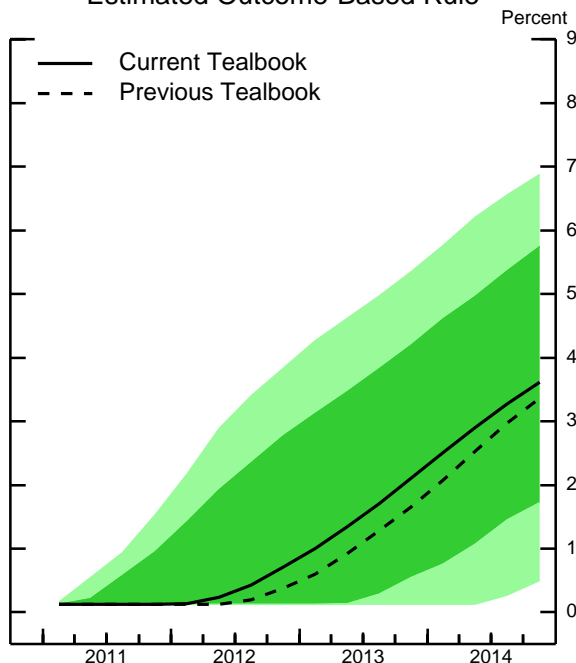
Civilian Unemployment Rate



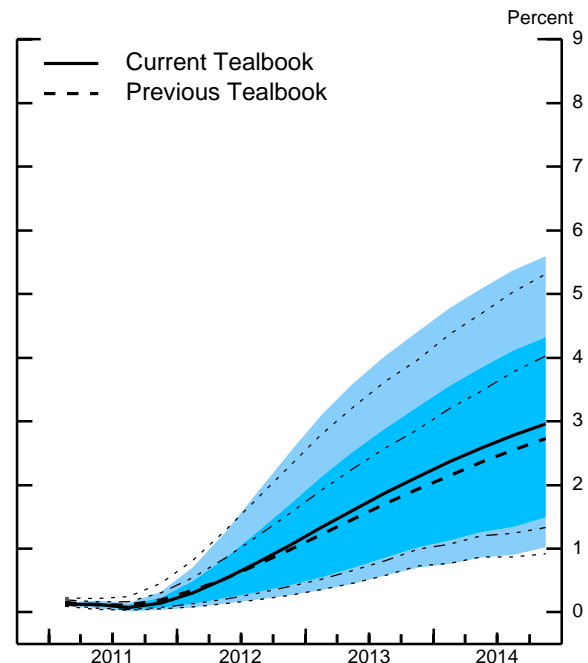
Core PCE Inflation
Four-quarter average



The Policy Outlook in an Uncertain Environment

FRB/US Model Simulations of
Estimated Outcome-Based Rule

Information from Financial Markets



Note: As in the January Tealbook, the staff baseline projection for the federal funds rate is based on the outcome-based policy rule. Accordingly, the top-left panel does not report a separate series for the staff's projected funds rate. In both panels, the dark and light shading represent the 70 and 90 percent confidence intervals respectively. Financial market quotes are as of March 9.

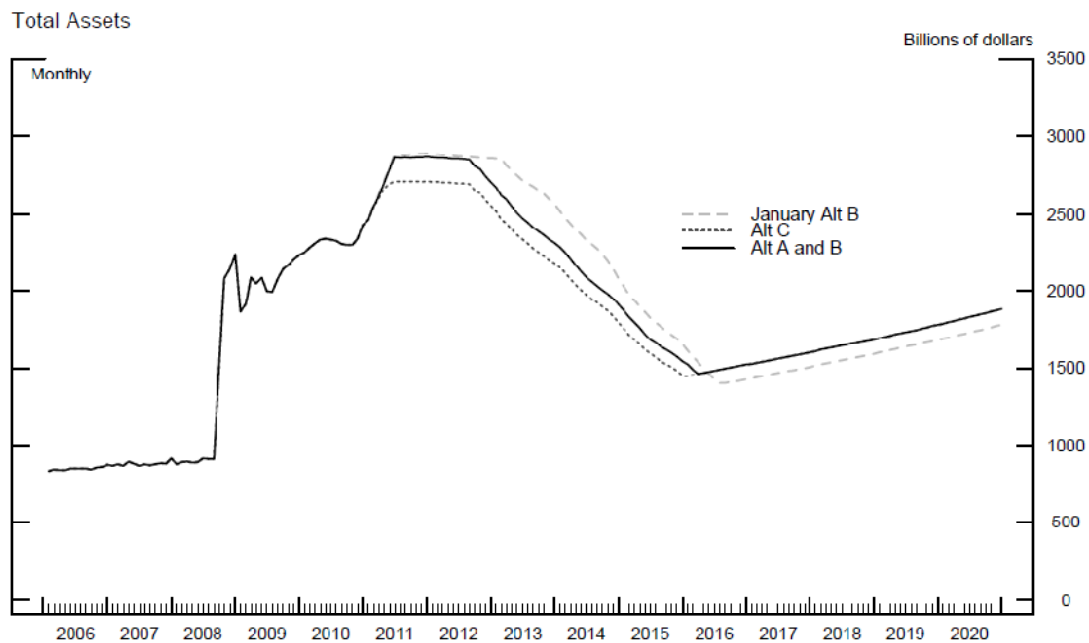
Near-Term Prescriptions of Simple Policy Rules

	Constrained Policy		Unconstrained Policy	
	<u>2011Q2</u>	<u>2011Q3</u>	<u>2011Q2</u>	<u>2011Q3</u>
Taylor (1993) rule	0.13	0.13	-0.44	0.02
<i>Previous Tealbook</i>	0.13	0.13	-0.77	-0.42
Taylor (1999) rule	0.13	0.13	-3.17	-2.53
<i>Previous Tealbook</i>	0.13	0.13	-3.64	-3.14
Estimated outcome-based rule	0.13	0.13	-0.18	-0.45
<i>Previous Tealbook Outlook</i>	0.13	0.13	-0.28	-0.71
Estimated forecast-based rule	0.13	0.13	-0.03	-0.16
<i>Previous Tealbook Outlook</i>	0.13	0.13	-0.18	-0.48
First-difference rule	0.48	0.84	0.48	0.84
<i>Previous Tealbook Outlook</i>	0.36	0.62	0.36	0.62
Memo		<u>2011Q2</u>	<u>2011Q3</u>	
Staff assumption		0.13	0.13	
Fed funds futures		0.11	0.11	
Median expectation of primary dealers		0.13	0.13	
Blue Chip forecast (March 1, 2011)		0.20	0.20	

Note: In calculating the near-term prescriptions of these simple policy rules, policymakers' long-run inflation objective is assumed to be 2 percent. Explanatory Note B provides further background information. 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 two scenarios for the Federal Reserve's balance sheet that correspond to the policy Alternatives A, B, and C (though the language in the statements differs, Alternatives A and B have the same balance sheet projection). Projections under each scenario are based on assumptions about various components of the balance sheet.³ Details of these assumptions, as well as projections for each major component of the balance sheet, can be found in Explanatory Note C.



Alternatives

For the scenario that corresponds to Alternatives A and B, we assume that the FOMC completes the intended expansion of its holdings of longer-term securities of \$600 billion by the end of the second quarter of 2011. The proceeds from principal repayments from Treasury securities and agency securities continue to be reinvested in longer-term Treasury securities after that time. Under these assumptions, the size of the balance sheet reaches about \$2.9 trillion by the end of the second quarter of this year and remains at about that level until the target federal funds rate increases in September of 2012. Immediately after liftoff, all maturing securities and prepayments of securities are allowed to roll off the portfolio, and the balance sheet begins to contract. Six months after the assumed rise in the target federal funds rate, the Committee begins to sell remaining holdings of agency MBS and agency debt securities at a pace that reduces the

³ All scenarios assume the same path for the federal funds rate.

balances are lower than in the previous Tealbook in the near term, largely reflecting the earlier date of rolling securities off the portfolio.

After expanding in 2011, on net, the monetary base is projected to contract through 2015 reflecting the decline in Federal Reserve assets and the associated downward trend in reserve balances.

Growth Rates for the Monetary Base			
Date	Alternatives A and B	Alternative C	<i>Memo:</i> January Tealbook
Percent, annual rate			
Monthly			
Apr-10	-28.6	-28.6	-28.6
May-10	-20.1	-20.1	-20.1
Jun-10	-3.9	-3.9	-3.9
Jul-10	-5.1	-5.1	-5.1
Aug-10	-2.4	-2.4	-2.4
Sep-10	-10.1	-10.1	-10.1
Oct-10	-9.8	-9.8	-9.8
Nov-10	3.2	3.2	3.2
Dec-10	16.8	16.8	16.8
Jan-11	23.3	23.3	28.6
Feb-11	57.6	57.6	98.9
Mar-11	103.4	99.8	123.2
Quarterly			
2010 Q2	-6.2	-6.2	-6.2
2010 Q3	-6.4	-6.4	-6.4
2010 Q4	-3.2	-3.2	-3.2
2011 Q1	37.5	37.0	52.2
2011 Q2	69.9	57.6	75.9
Annual - Q4 to Q4			
2009	52.5	52.5	52.5
2010	0.9	0.9	0.9
2011	27.3	19.4	33.6
2012	-4.1	-4.4	-0.9
2013	-17.5	-17.9	-10.0
2014	-20.2	-20.5	-19.3
2015	-21.6	-15.5	-25.4

Note: Not seasonally adjusted.

their portfolios away from safe and liquid M2 assets toward higher-yielding investments that are outside of M2 as the economic recovery gains strength through the course of this year. Thereafter, with the portfolio reallocation completed in early 2012, M2 is projected to grow at a modest rate in line with fundamentals: M2 growth is buoyed by the expansion of nominal GDP over 2012, but later in the year is damped somewhat by the projected rise in the opportunity cost of holding money. Within M2, liquid deposits are forecasted to grow at a more moderate pace than in 2009 and 2010. Small time deposits and retail money market mutual funds are projected to continue to contract, though at a diminished pace. Currency is anticipated to expand moderately, reflecting ongoing solid demand from both domestic and international sources.

M2 Growth Rates	
(Percent, seasonally adjusted annual rate)	
Monthly Growth Rates	Tealbook Forecast*
Jun 2010	4.3
Jul 2010	2.3
Aug 2010	6.3
Sep 2010	6.6
Oct 2010	5.5
Nov 2010	5.1
Dec 2010	4.2
Jan 2011	2.9
Feb 2011	7.1
Mar 2011	3.0
Apr 2011	3.0
May 2011	3.0
Jun 2011	2.5
Quarterly Growth Rates	
2010 Q3	4.5
2010 Q4	5.6
2011 Q1	4.4
2011 Q2	3.4
2011 Q3	2.2
Annual Growth Rates	
2009	5.0
2010	3.2
2011	3.0
2012	3.3
* This forecast is consistent with nominal GDP and interest rates in the Tealbook forecast. Actual data through February 2011; projections thereafter.	

Federal Reserve Balance Sheet
End-of-Year Projections -- Alternatives A and B

Billions of dollars

	<u>Feb 28, 2011</u>	<u>2012</u>	<u>2014</u>	<u>2016</u>	<u>2018</u>	<u>2020</u>
Total assets	2,540	2,706	1,908	1,522	1,686	1,879
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	20	9	1	0	0	0
Term Asset-Backed Securities Loan Facility (TALF)	20	9	1	0	0	0
Support for specific institutions	65	51	38	27	14	8
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	65	51	38	27	14	8
Securities held outright	2,320	2,512	1,759	1,402	1,589	1,792
U.S. Treasury securities	1,228	1,663	1,226	1,196	1,589	1,792
Agency debt securities	143	77	39	16	0	0
Agency mortgage-backed securities	949	773	494	190	0	0
Special drawing rights certificate account	5	7	7	7	7	7
Net portfolio holdings of TALF LLC	1	1	1	0	0	0
Total other assets	134	133	109	92	84	79
Total liabilities	2,487	2,636	1,815	1,399	1,524	1,664
Selected liabilities						
Federal Reserve notes in circulation	956	1,036	1,169	1,292	1,418	1,558
Reverse repurchase agreements	59	59	59	59	59	59
Deposits with Federal Reserve Banks	1,448	1,525	572	33	33	33
Reserve balances held by depository institutions	1,259	1,317	364	25	25	25
U.S. Treasury, general account	89	5	5	5	5	5
U.S. Treasury, supplementary financing account	100	200	200	0	0	0
Other balances	0	3	3	3	3	3
Interest on Federal Reserve Notes due to U.S. Treasury	0	0	0	0	0	0
Total capital	53	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>Feb 28, 2011</u>	<u>2012</u>	<u>2014</u>	<u>2016</u>	<u>2018</u>	<u>2020</u>
Total assets	2,540	2,552	1,794	1,522	1,686	1,879
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	20	9	1	0	0	0
Term Asset-Backed Securities Loan Facility (TALF)	20	9	1	0	0	0
Support for specific institutions	65	51	38	27	14	8
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	65	51	38	27	14	8
Securities held outright	2,320	2,362	1,648	1,402	1,588	1,791
U.S. Treasury securities	1,228	1,513	1,115	1,196	1,588	1,791
Agency debt securities	143	77	39	16	0	0
Agency mortgage-backed securities	949	773	494	190	0	0
Special drawing rights certificate account	5	7	7	7	7	7
Net portfolio holdings of TALF LLC	1	1	1	0	0	0
Total other assets	134	128	107	92	85	80
Total liabilities	2,487	2,482	1,702	1,399	1,524	1,664
Selected liabilities						
Federal Reserve notes in circulation	956	1,036	1,169	1,292	1,418	1,558
Reverse repurchase agreements	59	59	59	59	59	59
Deposits with Federal Reserve Banks	1,448	1,370	458	33	33	33
Reserve balances held by depository institutions	1,259	1,162	250	25	25	25
U.S. Treasury, general account	89	5	5	5	5	5
U.S. Treasury, supplementary financing account	100	200	200	0	0	0
Other balances	0	3	3	3	3	3
Interest on Federal Reserve Notes due to U.S. Treasury	0	0	0	0	0	0
Total capital	53	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.