

Part 1

December 7, 2005

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

December 7, 2005

Summary and Outlook

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

Measure	2005:Q3		2005:Q4	
	Oct. GB	Dec. GB	Oct. GB	Dec. GB
Real GDP	3.2	4.3	3.5	3.4
Private domestic final purchases	3.6	5.0	1.6	1.8
Personal consumption expenditures	3.4	4.2	.6	.7
Residential investment	5.9	7.7	6.9	9.3
Business fixed investment	3.5	8.9	5.9	4.8
Government outlays for consumption and investment	3.3	3.2	3.5	1.6
	Contribution to growth (percentage points)			
Inventory investment	-.8	-.4	1.7	2.2
Net exports	.3	-.2	-.3	-.7

programs. In particular, the average pace of sales in October and November lagged the third-quarter pace by more than 2½ million units (annual rate), although we anticipate that the recent introduction of new incentives by automakers will boost demand somewhat in December. Excluding motor vehicles, PCE rebounded in October from its hurricane-depressed level in September, and spending in this category appears to be on track for a gain of roughly 3¼ percent, about ½ percentage point less than in the third quarter.

Although we see hints of a softening in the housing market in some of the indicators we follow, there is little hard evidence that a substantial retrenchment is under way. Single-family housing starts dropped back somewhat in October from September's very strong pace, but the level of permit issuance and the backlog of unused permits point to a pickup in starts over the remainder of the quarter. Similarly, existing home sales have eased off only a little from the high levels recorded this past summer, and new home sales reached a new high in October. With rebuilding from the hurricanes now adding to expenditures, we project that real residential investment will rise at an annual rate of about 9¼ percent this quarter, a somewhat faster pace than we had projected in the October Greenbook.

Real investment in equipment and software (E&S) rose at an annual rate of 11 percent in the third quarter, a larger gain than we had been expecting. In the fourth quarter, the

Projections of Real GDP (Percent change at annual rate from end of preceding period except as noted)				
Measure	2005: H2	2006: H1	2006	2007
Real GDP	3.9	3.6	3.5	3.0
Previous	3.4	3.8	3.3	2.8
Final sales	2.9	4.3	3.5	2.8
Previous	2.9	4.0	3.4	2.5
PCE	2.4	4.0	3.6	3.4
Previous	2.0	3.5	3.3	3.1
Residential investment	8.5	2.1	.7	.1
Previous	6.4	1.7	.3	-.7
BFI	6.9	9.6	8.3	5.5
Previous	4.7	11.4	9.2	4.5
Government purchases	2.4	2.7	2.1	1.5
Previous	3.4	2.6	2.1	1.5
Exports	6.1	4.3	4.9	4.8
Previous	7.0	4.5	5.1	5.3
Imports	6.8	3.7	5.0	6.0
Previous	4.4	4.6	5.3	5.8
	Contribution to growth (percentage points)			
Inventory change	.9	-.7	-.1	.2
Previous	.5	-.2	-.1	.3
Net exports	-.5	-.1	-.3	-.5
Previous	.0	-.3	-.3	-.4

to our assumptions about the stock market, housing prices, and growth in potential output.

Household spending. Real consumer spending is projected to rise about 3½ percent in both 2006 and 2007. By itself, our projection of strong real disposable income growth (4¼ percent per year, on average) would be consistent with even larger increases in spending. However, with the saving rate so low this year, we anticipate that households

Decomposition of Structural Labor Productivity
 (Percent change, Q4 to Q4, except as noted)

Measure	1974-95	1996-2000	2001-04	2005	2006	2007
Structural labor productivity	1.5	2.5	3.3	3.2	3.1	3.0
Previous	1.5	2.5	3.3	2.8	2.8	2.8
<i>Contributions</i> ¹						
Capital deepening	.7	1.4	.7	1.0	1.0	1.0
Previous	.7	1.4	.7	.9	.9	.9
Multifactor productivity	.5	.8	2.3	2.0	1.9	1.8
Previous	.5	.8	2.3	1.7	1.7	1.6
Labor composition	.3	.3	.2	.3	.2	.2
MEMO						
Potential GDP	3.0	3.4	3.2	3.1	3.2	3.2
Previous	3.0	3.4	3.2	3.1	3.1	3.0

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.

Productivity and the labor market. Our upward revision to structural productivity growth this year has reduced, but not eliminated, the extent to which the level of actual productivity currently exceeds estimated structural productivity. As a result, we continue to expect actual productivity to rise a little less rapidly than structural productivity next year. However, the smaller initial gap, coupled with the higher rates of structural productivity growth over the projection period, has led to a considerable upward revision to our forecast of actual productivity. In particular, we now project that productivity will rise 2¾ percent in both 2006 and 2007, a pace that is nearly ½ percentage point faster than in our previous forecast.

One implication of the faster productivity growth is that employment decelerates more sharply in this forecast than we had previously assumed. Indeed, we now expect the gains in private payrolls to slow from an average 180,000 per month in early 2006 to about 85,000 per month in the second half of the year and to roughly 50,000 per month in 2007. Nonetheless, with the labor force participation rate continuing to trend down, this pace of hiring is sufficient to keep the unemployment rate close to 5 percent throughout the forecast period.

The Outlook for the Labor Market
 (Percent change, Q4 to Q4, except as noted)

Measure	2004	2005	2006	2007
Output per hour, nonfarm business	2.6	3.2	2.7	2.8
Previous	2.6	2.8	2.2	2.5
Nonfarm private payroll employment	1.8	1.6	1.4	.6
Previous	1.8	1.7	1.5	.7
Household survey employment	1.3	1.8	1.1	.7
Previous	1.3	1.9	1.0	.6
Labor force participation rate ¹	66.0	66.1	66.0	65.8
Previous	66.0	66.2	66.0	65.8
Civilian unemployment rate ¹	5.4	5.0	5.0	5.0
Previous	5.4	5.0	5.0	5.1
MEMO				
GDP gap ²	.9	.3	.0	.3
Previous	.9	.5	.3	.4

1. Percent, average for the fourth quarter.

2. Percent difference between potential and actual GDP in the fourth quarter of the year indicated. A positive number indicates that the economy is operating below potential.

Prices and wages. Core PCE price inflation is projected to move a touch above 2 percent in 2006, as the indirect effects of the sharp rise in energy prices this year continue to show through to labor compensation and to prices for a variety of goods and services. Over time, however, these indirect effects are expected to diminish, which results in a deceleration in core prices in 2007. Moreover, because structural productivity is anticipated to restrain the underlying trend in unit labor costs to a greater degree than in our previous projection, and with inflation expectations having receded a bit, our forecast for core inflation in this Greenbook is 0.2 percentage point lower in 2006 and 0.1 percentage point lower in 2007. Overall PCE prices are projected to rise at about the same rate as the core index, as energy prices flatten out and food prices rise a bit faster than core prices.

Labor compensation is projected to accelerate next year because of the lagged effects of this year's rise in overall consumer prices and ongoing robust gains in structural productivity. In particular, we expect the rate of increase in the employment cost index to rise to 4½ percent in 2006 and growth in the P&C measure of hourly compensation to rise to 5¼ percent. Increases in both measures are projected to ease off a bit in 2007 after price inflation turns down.

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

Measure	2004	2005	2006	2007
PCE chain-weighted price index	3.1	2.8	2.1	1.7
Previous	3.1	3.2	1.9	1.7
Food and beverages	2.9	2.1	2.4	2.1
Previous	2.9	2.0	2.5	2.1
Energy	17.9	19.4	1.4	-.6
Previous	17.9	25.7	-4.2	-1.5
Excluding food and energy	2.2	1.8	2.1	1.8
Previous	2.2	1.9	2.3	1.9
Consumer price index	3.4	3.5	2.3	1.9
Previous	3.4	4.0	1.9	1.8
Excluding food and energy	2.1	2.1	2.4	2.1
Previous	2.1	2.1	2.6	2.2
GDP chain-weighted price index	2.9	2.7	2.3	1.9
Previous	2.9	2.8	2.1	1.9
ECI for compensation of private industry workers ¹	3.8	3.0	4.2	4.0
Previous	3.8	3.1	4.2	3.9
Compensation per hour, nonfinancial business sector	5.8	3.6	5.3	5.1
Previous	5.8	4.4	5.3	5.0
Prices of core nonfuel imports	3.7	2.3	1.7	.8
Previous	3.7	2.4	1.5	.8

1. December to December.

Financial Flows and Conditions

The growth of domestic nonfinancial debt is projected to step down from 9 percent this year to 7½ percent in 2006 and then to slow a bit further in 2007. Since the October Greenbook, we have revised up our outlook for debt growth, primarily in response to stronger-than-expected incoming data for house prices and for residential and commercial mortgages.

Despite the upward revisions, we continue to expect that the growth of mortgage debt will ease over the course of the forecast period as house price appreciation slows. This deceleration shows through to overall household debt, which is projected to expand at a 10¾ percent pace this year and then to post gains of 8 percent and 6½ percent in 2006

Measure and scenario	Alternative Scenarios				
	2005		2006		2007
	H1	H2	H1	H2	
<i>Real GDP</i>					
Baseline	3.6	3.9	3.6	3.3	3.0
Housing slump	3.6	3.9	3.5	3.0	2.5
With monetary policy response	3.6	3.9	3.5	3.1	2.7
Housing slump with greater fallout	3.6	3.9	3.2	2.2	2.2
With monetary policy response	3.6	3.9	3.2	2.4	2.9
Stronger aggregate demand	3.6	3.9	3.9	3.9	3.6
With monetary policy response	3.6	3.9	3.9	3.8	3.2
Faster productivity growth	3.6	3.9	3.8	3.8	3.7
With monetary policy response	3.6	3.9	3.9	3.8	3.7
Deteriorating inflation expectations	3.6	3.9	3.5	3.2	3.3
With monetary policy response	3.6	3.9	3.5	3.0	2.9
Less inflationary pressure	3.6	3.9	3.5	3.3	2.9
With monetary policy response	3.6	3.9	3.5	3.3	3.2
<i>Civilian unemployment rate¹</i>					
Baseline	5.1	5.0	5.0	5.0	5.0
Housing slump	5.1	5.0	5.0	5.1	5.3
With monetary policy response	5.1	5.0	5.0	5.0	5.2
Housing slump with greater fallout	5.1	5.0	5.1	5.3	5.7
With monetary policy response	5.1	5.0	5.1	5.2	5.4
Stronger aggregate demand	5.1	5.0	4.9	4.8	4.5
With monetary policy response	5.1	5.0	4.9	4.9	4.7
Faster productivity growth	5.1	5.0	5.0	5.0	4.9
With monetary policy response	5.1	5.0	5.0	5.0	4.9
Deteriorating inflation expectations	5.1	5.0	5.0	5.0	5.0
With monetary policy response	5.1	5.0	5.0	5.1	5.1
Less inflationary pressure	5.1	5.0	5.0	5.0	5.1
With monetary policy response	5.1	5.0	5.0	5.0	5.0
<i>PCE prices excluding food and energy</i>					
Baseline	2.1	1.6	2.2	2.1	1.8
Housing slump	2.1	1.6	2.2	2.1	1.8
With monetary policy response	2.1	1.6	2.2	2.1	1.8
Housing slump with greater fallout	2.1	1.6	2.2	2.1	1.6
With monetary policy response	2.1	1.6	2.2	2.1	1.8
Stronger aggregate demand	2.1	1.6	2.2	2.1	1.9
With monetary policy response	2.1	1.6	2.2	2.1	1.8
Faster productivity growth	2.1	1.6	2.1	2.0	1.6
With monetary policy response	2.1	1.6	2.2	2.0	1.6
Deteriorating inflation expectations	2.1	1.7	2.5	2.7	2.7
With monetary policy response	2.1	1.7	2.5	2.6	2.5
Less inflationary pressure	2.1	1.6	2.2	1.8	1.2
With monetary policy response	2.1	1.6	2.2	1.8	1.3

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

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

Measure	2005	2006	2007
<i>Real GDP</i> <i>(percent change, Q4 to Q4)</i>			
Projection	3.7	3.5	3.0
Confidence interval			
Greenbook forecast errors ¹	3.2–4.2	1.7–5.2	1.1–4.9
FRB/US stochastic simulations	3.4–4.1	2.0–5.2	1.2–5.1
<i>Civilian unemployment rate</i> <i>(percent, Q4)</i>			
Projection	5.0	5.0	5.0
Confidence interval			
Greenbook forecast errors ¹	4.9–5.1	4.3–5.7	3.9–6.1
FRB/US stochastic simulations	4.9–5.2	4.3–5.6	4.0–5.9
<i>PCE prices</i> <i>excluding food and energy</i> <i>(percent change, Q4 to Q4)</i>			
Projection	1.8	2.1	1.8
Confidence interval			
Greenbook forecast errors ²	1.6–2.1	1.4–2.8	0.9–2.7
FRB/US stochastic simulations	1.7–2.0	1.5–2.8	0.9–2.7

NOTE. Shocks underlying stochastic simulations are randomly drawn from the 1978–2004 set of model equation residuals.

1. 1978–2004.

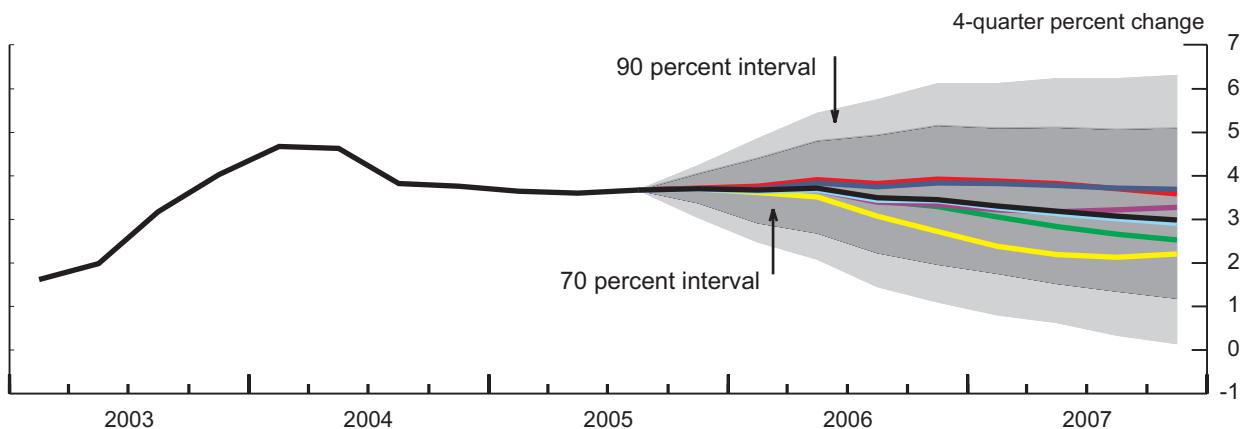
2. 1981–2004.

Forecast Confidence Intervals and Alternative Scenarios

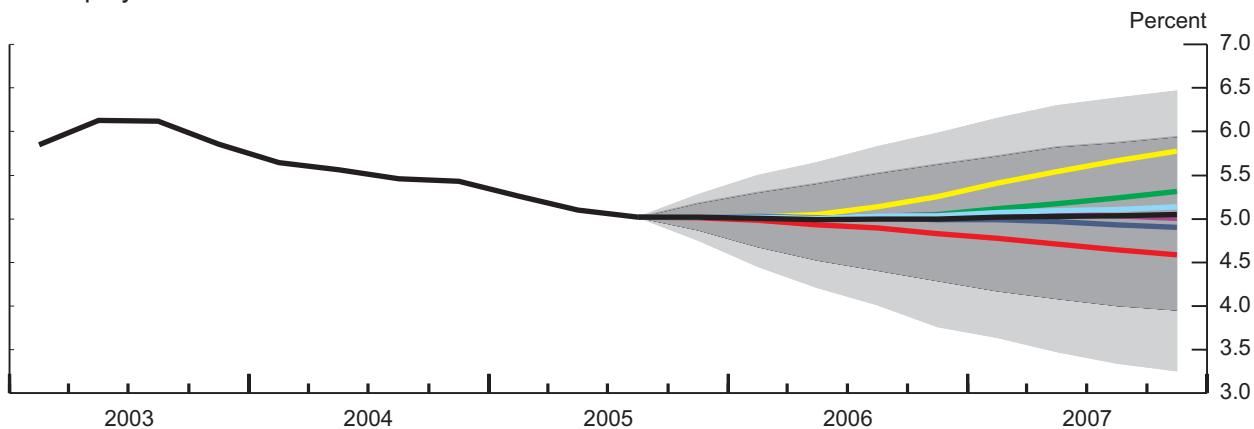
Confidence Intervals Based on FRB/US Stochastic Simulations
 Scenarios Assume Baseline Federal Funds Rate

- █ Greenbook baseline
- █ Housing slump
- █ Housing slump with greater fallout
- █ Stronger aggregate demand
- █ Faster productivity growth
- █ Deteriorating inflation expectations
- █ Less inflationary pressure

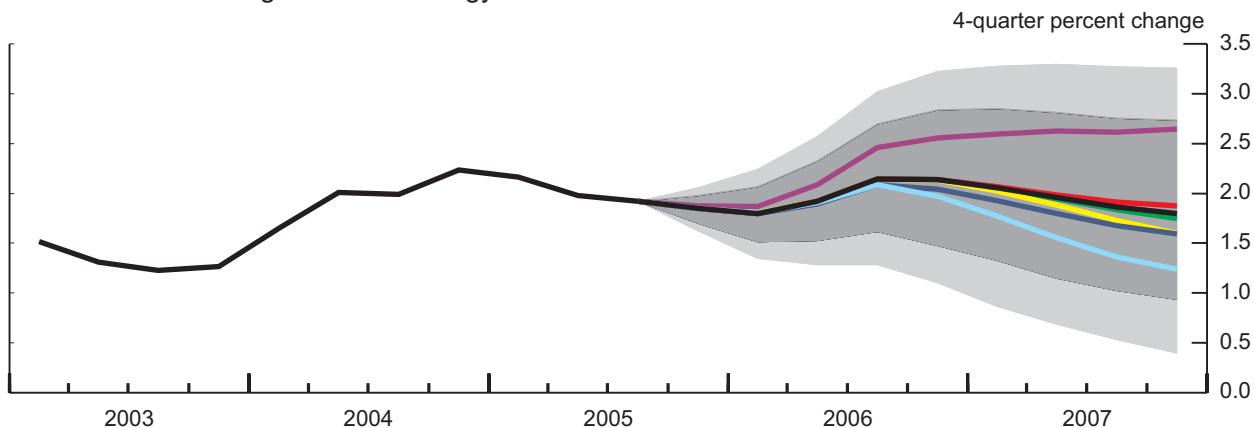
Real GDP



Unemployment Rate



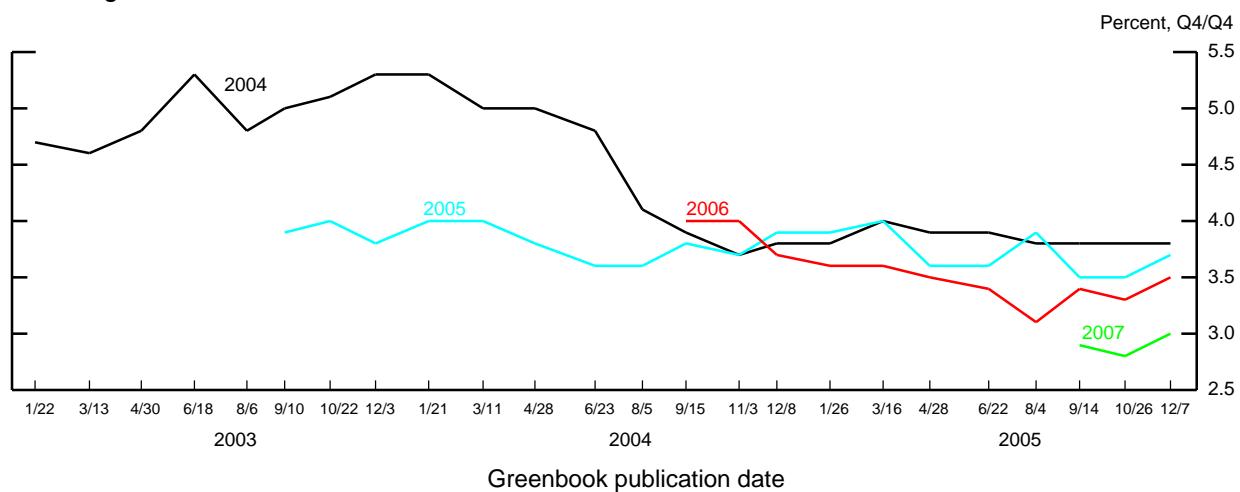
PCE Prices excluding Food and Energy



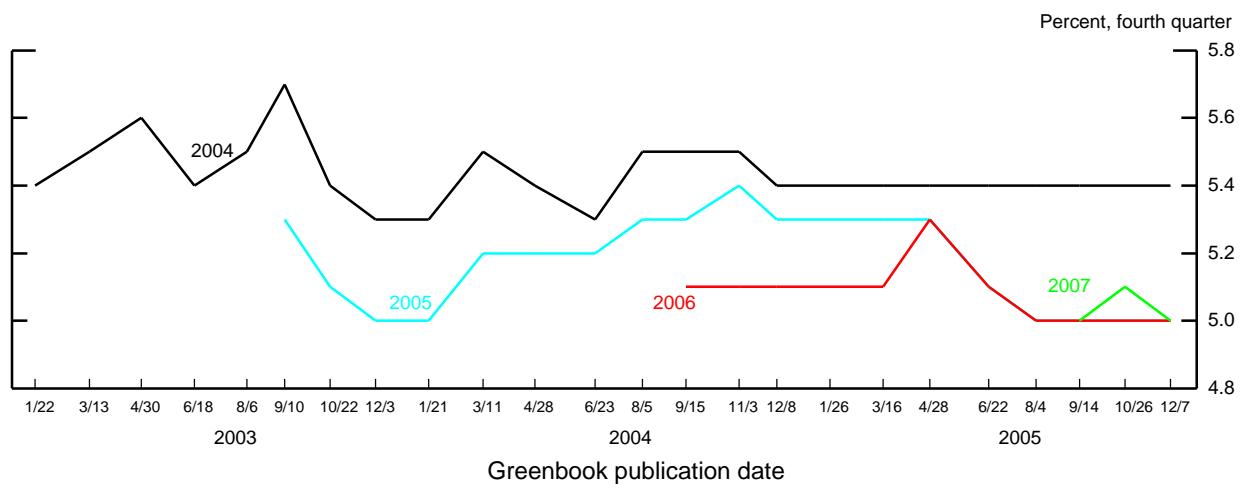
Class II FOMC - Restricted (FR)

Evolution of the Staff Forecast

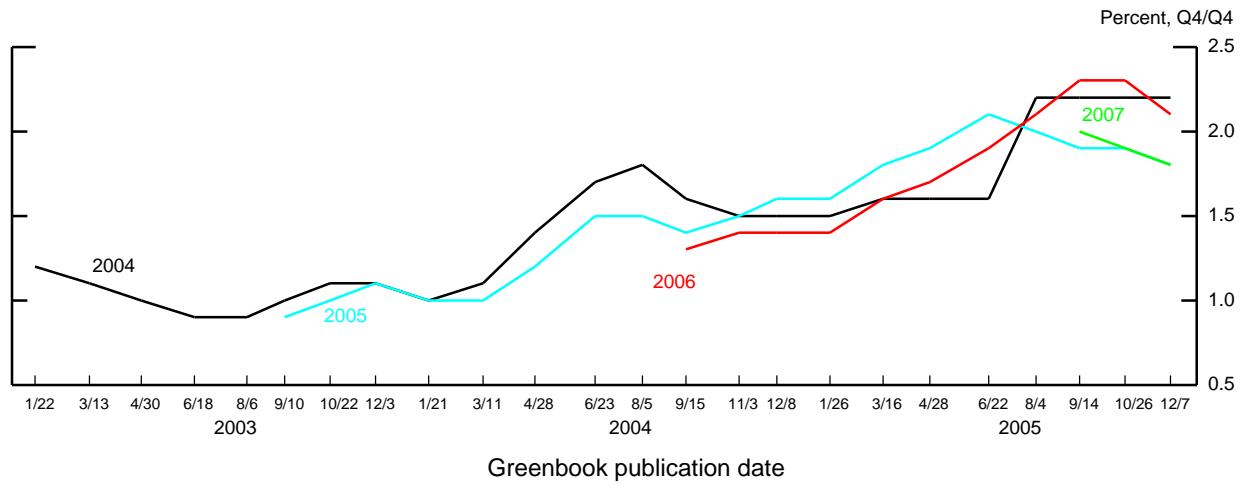
Change in Real GDP



Unemployment Rate



Change in PCE Prices excluding Food and Energy



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

	Nominal GDP			Real GDP			PCE price index			Core PCE price index			Unemployment rate ¹	
Interval	10/26/05	12/7/05	10/26/05	12/7/05	10/26/05	12/7/05	10/26/05	12/7/05	10/26/05	12/7/05	10/26/05	12/7/05	12/7/05	
<i>Quarterly</i>														
2005:Q1	7.0	7.0	3.8	3.8	2.3	2.3	2.4	2.4	2.4	2.4	2.4	2.4	5.3	5.3
Q2	6.0	6.0	3.3	3.3	3.3	3.3	1.7	1.7	1.7	1.7	1.7	1.7	5.1	5.1
Q3	5.9	7.6	3.2	4.3	3.7	3.6	1.3	1.2	1.3	1.2	1.2	1.2	5.0	5.0
Q4	6.6	5.6	3.5	3.4	3.5	2.1	2.2	2.1	2.2	2.1	2.1	2.1	5.0	5.0
2006:Q1	5.9	6.5	4.0	3.7	1.3	1.9	2.4	2.4	2.2	2.2	2.2	2.2	5.0	5.0
Q2	5.9	6.0	3.6	3.5	2.2	2.5	2.4	2.4	2.2	2.2	2.2	2.2	5.0	5.0
Q3	5.1	5.7	2.9	3.4	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	5.0	5.0
Q4	4.8	5.3	2.7	3.2	2.0	2.0	2.2	2.2	2.0	2.0	2.0	2.0	5.0	5.0
2007:Q1	5.0	5.3	2.8	3.1	1.8	1.8	2.0	2.0	1.9	1.9	1.9	1.9	5.0	5.0
Q2	4.7	4.9	2.8	3.0	1.7	1.7	1.7	1.7	1.9	1.9	1.9	1.9	5.0	5.0
Q3	4.8	4.8	2.9	2.9	1.7	1.7	1.6	1.6	1.8	1.8	1.8	1.8	5.0	5.0
Q4	4.8	4.8	2.9	2.9	1.7	1.7	1.6	1.6	1.8	1.8	1.8	1.8	5.0	5.0
<i>Two-quarter²</i>														
2005:Q2	6.5	6.5	3.6	3.6	2.8	2.8	2.1	2.1	2.1	2.1	2.1	2.1	-3	-3
Q4	6.3	6.6	3.4	3.9	3.6	2.9	1.8	1.8	1.8	1.8	1.8	1.8	-1	-1
2006:Q2	5.9	6.3	3.8	3.6	1.8	2.2	2.4	2.4	2.2	2.2	2.2	2.2	0	0
Q4	4.9	5.5	2.8	3.3	2.0	2.1	2.2	2.2	2.1	2.1	2.1	2.1	0	0
2007:Q2	4.9	5.1	2.8	3.0	1.8	1.8	1.9	1.9	1.9	1.9	1.9	1.9	0	0
Q4	4.8	4.8	2.9	2.9	1.7	1.7	1.6	1.6	1.9	1.9	1.9	1.9	0	0
<i>Four-quarter³</i>														
2004:Q4	6.8	6.8	3.8	3.8	3.1	3.1	2.2	2.2	2.2	2.2	2.2	2.2	-5	-5
2005:Q4	6.4	6.5	3.5	3.7	3.2	2.8	1.9	1.9	2.3	2.3	2.1	2.1	-4	-4
2006:Q4	5.4	5.9	3.3	3.5	1.9	2.1	1.7	1.7	1.9	1.9	1.8	1.8	0	0
2007:Q4	4.8	5.0	2.8	3.0	1.7	1.7	1.7	1.7	1.9	1.9	1.9	1.9	1	0
<i>Annual</i>														
2004	7.0	7.0	4.2	4.2	2.6	2.6	2.0	2.0	2.0	2.0	2.0	2.0	5.5	5.5
2005	6.3	6.4	3.5	3.7	2.9	2.8	2.0	2.0	2.0	2.0	2.0	2.0	5.1	5.1
2006	5.9	6.2	3.5	3.6	2.4	2.4	2.2	2.2	2.2	2.2	2.2	2.2	5.0	5.0
2007	4.9	5.2	2.9	3.1	1.9	1.9	2.0	2.0	1.9	1.9	1.9	1.9	5.1	5.0

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	2005				2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP <i>Previous</i>	3.8	3.3	4.3	3.4	3.7	3.5	3.4	3.2	3.1	3.0	2.9	2.9
Final sales <i>Previous</i>	3.5	5.6	4.7	1.1	4.8	3.9	3.1	2.5	2.5	3.3	2.6	3.7
Priv. dom. final purch. <i>Previous</i>	4.1	4.5	5.0	1.8	5.2	3.9	3.5	3.3	3.0	2.7	2.3	3.7
Personal cons. expend. <i>Previous</i>	3.5	3.4	4.2	.7	4.8	3.2	3.2	3.2	3.5	3.4	3.4	3.4
Durables	2.6	7.9	10.5	-16.4	19.1	5.0	5.8	5.1	5.7	5.9	5.6	.6
Nondurables	5.3	3.6	4.3	3.7	3.7	3.7	3.7	3.7	4.0	3.9	4.2	3.7
Services	2.8	2.3	3.3	2.6	2.8	2.6	2.5	2.5	2.8	2.7	2.8	2.6
Residential investment <i>Previous</i>	9.5	10.8	7.7	9.3	2.7	1.4	-1.1	-3	-4	.6	-2	.7
Business fixed invest. <i>Previous</i>	5.7	8.8	8.9	4.8	9.1	10.1	7.8	6.3	6.2	5.5	5.3	7.0
Equipment & software <i>Previous</i>	8.3	10.9	10.9	2.2	7.7	10.4	7.7	6.4	4.4	4.5	4.6	6.0
Nonres. structures <i>Previous</i>	-2.0	2.7	3.1	12.8	12.8	9.1	7.9	5.0	3.0	2.2	2.5	4.0
Net exports ² <i>Previous</i> ²	-645	-614	-621	-639	-651	-647	-653	-673	-698	-699	-708	-728
Exports	7.5	10.7	.8	11.5	3.6	5.0	4.6	4.4	2.7	4.9	5.0	6.8
Imports	7.4	-.3	2.1	11.8	4.9	2.4	4.4	8.5	7.1	3.3	5.1	8.5
Govt. cons. & invest. <i>Previous</i>	1.9	2.5	3.2	1.6	3.7	1.7	1.4	1.7	1.5	1.5	1.5	1.5
Federal	2.4	2.4	8.1	.0	5.0	.8	.3	.6	.0	.0	.0	.0
Defense	3.0	3.7	10.3	-5.8	9.3	2.1	1.1	.7	.0	.0	.0	.0
Nondefense	1.1	-.2	3.6	12.9	-3.0	-1.8	-1.3	.4	.0	.0	.0	.0
State & local	1.6	2.6	.4	2.5	2.9	2.3	2.1	2.3	2.4	2.4	2.4	2.4
Change in bus. inventories ² <i>Previous</i> ²	58	-2	-13	50	21	10	21	43	62	52	63	23
Nonfarm ²	62	3	-8	51	21	9	20	42	36	41	57	16
Farm ²	-2	-4	-4	-1	0	1	1	1	51	52	63	27

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

2. Billions of chained (2000) dollars.

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

Item	1999 ¹	2000 ¹	2001 ¹	2002 ¹	2003 ¹	2004 ¹	2005 ¹	2006 ¹	2007 ¹
Real GDP <i>Previous</i>	4.7	2.2	.2	1.9	4.0	3.8	3.7	3.5	3.0
Final sales <i>Previous</i>	4.2	2.9	1.5	.8	4.0	3.6	3.7	3.5	2.8
Priv. dom. final purch. <i>Previous</i>	5.3	4.3	1.0	1.1	4.4	4.8	3.9	4.0	3.5
Personal cons. expend. <i>Previous</i>	4.9	4.1	2.8	1.9	3.8	3.8	2.9	3.6	3.4
Durables	4.9	4.1	2.8	1.9	3.8	3.8	2.7	3.3	3.1
Nondurables	7.3	4.7	10.8	1.2	9.2	5.2	.6	8.6	5.8
Services	4.4	4.5	1.6	1.9	2.5	3.1	2.8	2.6	2.8
Residential investment <i>Previous</i>	3.6	-1.9	1.4	7.0	11.8	6.6	9.3	.7	.1
Business fixed invest. <i>Previous</i>	7.7	7.8	-9.6	-6.5	5.6	10.9	7.0	8.3	5.5
Equipment & software <i>Previous</i>	10.8	7.5	-9.0	-3.4	7.2	13.8	8.0	8.2	6.7
Nonres. structures <i>Previous</i>	10.8	7.5	-9.0	-3.4	7.2	13.8	6.6	9.2	5.9
Nonres. structures <i>Previous</i>	-.9	8.8	-11.1	-14.9	1.2	2.7	4.0	8.7	2.5
Net exports ² <i>Previous</i> ²	-296	-379	-399	-471	-521	-601	-630	-656	-708
Exports	5.6	6.5	-11.9	3.8	6.0	6.1	7.6	4.9	-674
Imports	12.1	11.2	-7.6	9.7	5.1	10.6	5.2	5.0	6.0
Govt. cons. & invest. <i>Previous</i>	4.2	.4	5.0	4.0	1.9	2.1	2.3	2.1	1.5
Federal	4.2	.4	5.0	4.0	1.9	2.1	2.8	2.1	1.5
Defense	4.2	-2.2	6.4	7.8	5.5	4.2	3.2	1.7	0
Nondefense	4.3	-3.5	6.5	8.4	7.5	4.9	2.7	3.2	0
State & local	4.1	.3	6.3	6.8	1.6	2.8	4.2	-1.4	2.4
Change in bus. inventories ² <i>Previous</i> ²	69	56	-32	12	15	52	23	24	57
Nonfarm ²	72	58	-32	15	15	50	27	18	44
Farm ²	-3	-1	0	-2	0	2	-3	23	57

1. Change from fourth quarter of previous year to fourth quarter of year indicated.
 2. Billions of chained (2000) dollars.

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

Item	2005				2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP <i>Previous</i>	3.8	3.3	4.3	3.4	3.7	3.5	3.4	3.2	3.1	3.0	2.9	2.9
Final sales <i>Previous</i>	3.5	5.5	4.7	1.2	4.7	3.8	3.1	2.5	2.5	3.3	2.6	2.6
Priv. dom. final purch. <i>Previous</i>	3.6	3.9	4.4	1.6	4.4	3.4	3.0	2.9	3.0	3.0	2.9	2.9
Services	3.6	3.9	3.1	1.5	4.3	3.2	2.9	2.8	2.6	2.6	2.7	2.7
Personal cons. expend. <i>Previous</i>	2.4	2.4	3.0	.5	3.3	2.2	2.3	2.2	2.4	2.4	2.4	2.4
Durables	.2	.6	.8	-1.5	1.4	.4	.5	.4	.5	.5	.4	.5
Nondurables	1.1	.7	.7	.9	.8	.8	.8	.8	.8	.8	.8	.8
Services	1.2	1.0	1.4	1.1	1.2	1.1	1.0	1.0	1.1	1.1	1.1	1.1
Residential investment <i>Previous</i>	.5	.6	.5	.6	.2	.1	-.1	.0	.0	.0	.0	.0
Business fixed invest. <i>Previous</i>	.6	.9	.9	.4	.6	1.4	.9	.8	.7	.6	.6	.6
Equipment & software <i>Previous</i>	.6	.8	.8	.2	.3	1.1	.7	.6	.5	.5	.5	.5
Nonres. structures <i>Previous</i>	-.1	.1	.1	.3	.3	.3	.3	.2	.1	.1	.1	.1
Net exports <i>Previous</i>	-.4	1.1	-.2	.3	-.7	-.4	.1	-.2	-.7	.0	-.3	-.5
Exports	.7	1.1	.1	1.2	-.8	-.4	-.5	-.5	-.7	.1	-.2	-.4
Imports	-1.1	0	-.3	-1.8	-1.8	-1.4	-1.4	-1.4	-1.2	-.5	-.8	-.8
Govt. cons. & invest. <i>Previous</i>	.4	.5	.6	.3	.7	.3	.3	.3	.3	.3	.3	.3
Federal	.4	.5	.6	.7	.6	.4	.3	.3	.3	.3	.3	.3
Defense	.2	.2	.6	.0	.3	.1	.0	.0	.0	.0	.0	.0
Nondefense	.1	.0	.2	.5	-.3	.4	.1	.0	.0	.0	.0	.0
State & local	.2	.3	.1	.3	.4	.3	.3	.3	.3	.3	.2	.3
Change in bus. inventories <i>Previous</i>	.3	-2.1	-.4	2.2	-1.0	-.4	.4	.7	.6	-.3	.0	.4
Nonfarm	.3	-2.1	-.8	1.7	-.4	.0	-.1	.2	.7	-.2	.5	-.2
Farm	.4	-2.1	-.4	2.1	-1.0	-.4	.4	.7	.6	-.3	.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	2005				2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP chain-wt. price index	3.1	2.6	3.1	2.2	2.7	2.4	2.2	2.0	2.2	1.9	1.8	1.8
<i>Previous</i>	3.1	2.6	2.6	3.0	1.8	2.2	2.1	2.1	2.2	1.9	1.9	2.3
PCE chain.-wt. price index	2.3	3.3	3.6	2.1	1.9	2.5	2.1	2.0	1.8	1.7	1.6	2.8
<i>Previous</i>	2.3	3.3	3.7	3.5	1.3	2.2	2.1	2.0	1.8	1.7	1.7	2.1
Energy	3.6	28.6	49.8	2.0	-2.8	6.1	1.7	.8	-.2	-4	-8	-1.3
<i>Previous</i>	3.6	28.6	50.2	24.7	-13.3	-1.2	-.6	-.9	-1.4	-1.4	-1.4	-1.5
Food	1.0	3.5	1.3	2.6	2.5	2.5	2.4	2.3	2.2	2.1	2.1	2.1
<i>Previous</i>	1.0	3.5	1.3	2.3	2.5	2.5	2.4	2.3	2.2	2.1	2.0	2.1
Ex. food & energy	2.4	1.7	1.2	2.1	2.2	2.2	2.1	2.0	1.9	1.9	1.8	1.8
<i>Previous</i>	2.4	1.7	1.3	2.2	2.4	2.4	2.2	2.2	2.0	1.9	1.9	1.9
CPI	2.5	4.0	5.3	2.5	2.0	2.8	2.3	2.1	2.0	1.9	1.8	3.5
<i>Previous</i>	2.5	4.0	5.3	4.4	1.2	2.3	2.2	2.1	1.9	1.9	1.8	3.5
Ex. food & energy	2.6	2.0	1.4	2.2	2.4	2.4	2.4	2.3	2.2	2.1	2.1	2.1
<i>Previous</i>	2.6	2.0	1.4	2.2	2.7	2.6	2.5	2.4	2.3	2.2	2.1	2.1
ECI, hourly compensation ²	2.5	2.5	3.2	3.7	4.1	4.2	4.2	4.1	4.1	4.0	4.0	4.0
<i>Previous</i>	2.5	2.5	3.4	3.9	4.2	4.3	4.2	4.1	4.0	3.9	3.9	3.9
Nonfarm business sector												
Output per hour	3.2	2.1	4.6	2.8	2.4	3.0	2.9	3.0	2.8	2.8	2.7	3.2
<i>Previous</i>	3.2	2.1	3.3	2.7	3.1	2.3	1.9	1.7	2.5	2.4	2.6	2.8
Compensation per hour	5.5	.9	3.7	4.4	4.6	5.3	5.5	5.3	5.1	5.1	5.0	3.6
<i>Previous</i>	5.5	3.9	4.1	3.9	5.0	5.3	5.4	5.3	5.2	4.9	4.9	4.4
Unit labor costs	2.2	-1.2	-.9	1.5	2.2	2.9	2.5	2.6	2.3	2.3	2.3	2.5
<i>Previous</i>	2.2	1.8	.8	1.2	1.8	3.0	3.5	3.5	2.6	2.3	2.3	1.5

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

2. Private-industry workers.

Other Macroeconomic Indicators

Item	2005				2006				2007				2005 ¹	2006 ¹	2007 ¹
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Employment and production</i>															
Nonfarm payroll employment ²	.5	.6	.5	.3	.7	.5	.4	.3	.2	.3	.2	.2	2.0	1.9	1.0
Unemployment rate ³	5.3	5.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Previous ³	5.3	5.1	5.0	5.0	5.0	5.0	5.0	5.0	5.1	5.1	5.1	5.1	5.0	5.0	5.1
GDP gap ⁴	.7	.6	.4	.3	.2	.1	.0	.0	.1	.2	.3	.3	.0	.0	.3
Previous ⁴	.7	.6	.6	.5	.3	.1	.2	.3	.3	.4	.4	.4	.5	.3	.4
Industrial production ⁵	3.8	1.6	.9	3.1	8.3	6.4	5.0	3.7	2.9	2.7	2.8	2.9	2.4	5.9	2.8
Previous ⁵	3.6	1.4	1.3	4.0	6.7	5.5	3.7	3.3	2.9	2.9	3.1	3.1	2.6	4.8	3.0
Manufacturing industr. prod. ⁵	4.5	1.3	1.9	6.1	5.5	6.0	4.7	3.8	3.1	3.0	3.2	3.4	3.4	5.0	3.2
Previous ⁵	4.0	1.0	2.3	4.8	5.2	4.8	3.7	3.5	3.3	3.2	3.4	3.4	3.0	4.3	3.3
Capacity utilization rate - mfg. ³	78.7	78.5	78.5	79.2	79.8	80.4	80.8	81.0	81.1	81.1	81.3	81.3	79.2	81.0	81.3
Previous ³	78.1	78.1	78.2	78.9	79.5	80.0	80.2	80.4	80.6	80.7	80.9	81.1	78.9	80.4	81.1
Housing starts ⁶	2.1	2.0	2.1	2.0	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.1	2.0
Light motor vehicle sales ⁶	16.5	17.2	17.9	15.8	17.0	17.0	17.1	17.0	17.0	17.1	17.1	17.1	16.9	17.0	17.1
<i>Income and saving</i>															
Nominal GDP ⁵	7.0	6.0	7.6	5.6	6.5	6.0	5.7	5.3	5.3	4.9	4.8	4.8	6.5	5.9	5.0
Real disposable pers. income ⁵	-3.4	.2	-.7	6.7	5.1	4.4	4.3	4.2	4.6	4.0	4.0	4.0	.6	4.5	4.2
Previous ⁵	-3.4	1.5	1.7	1.8	6.5	4.9	3.8	3.8	4.5	3.7	3.2	4.1	.4	4.7	3.9
Personal saving rate ³	.5	-.2	-1.5	.0	.1	.4	.6	.9	1.2	1.3	1.4	1.6	.0	.9	1.6
Previous ³	.5	.1	-.3	.0	.6	1.0	1.2	1.4	1.7	1.9	1.9	2.1	.0	1.4	2.1
Corporate profits ⁷	24.5	19.7	-18.1	58.6	15.0	3.8	1.9	-4.1	-3.1	-3.5	-3.9	-4.5	18.0	3.9	-3.7
Profit share of GNP ³	10.5	10.9	10.1	11.2	11.5	11.4	11.3	11.1	10.9	10.6	10.4	10.2	11.2	11.1	10.2
Excluding FR Banks ³	10.3	10.6	9.9	11.0	11.3	11.2	11.1	10.9	10.7	10.4	10.2	10.0	11.0	10.9	10.0
Net federal saving ⁸	-298	-297	-408	-310	-354	-348	-345	-336	-369	-360	-364	-360	-328	-346	-363
Net state & local saving ⁸	7	21	-4	16	24	28	31	34	33	32	31	32	10	-29	32
Gross national saving rate ³	13.4	13.1	13.1	13.6	13.3	13.5	13.6	13.7	13.5	13.5	13.4	13.4	13.6	13.7	13.4
Net national saving rate ³	1.7	1.6	-1.2	1.9	2.0	2.2	2.3	2.4	2.1	2.1	2.0	2.0	1.9	2.4	2.0

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 potential and actual GDP; a positive 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.

Item	Fiscal year			2005				2006				2007				
	2004 ^a	2005 ^a	2006	2007	Q1 ^a	Q2 ^a	Q3 ^a	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget																
Receipts ¹	1880	2153	2296	2411	452	665	549	522	482	724	567	555	514	749	594	587
Outlays ¹	2293	2472	2641	2763	628	620	618	646	679	664	652	686	716	693	669	728
Surplus/deficit ¹	-413	-318	-346	-352	-177	45	-69	-123	-197	60	-85	-131	-201	56	-75	-141
Previous	-413	-319	-354	-359	-177	45	-69	-125	-196	54	-87	-131	-202	53	-79	-144
On-budget	-568	-494	-518	-537	-202	-37	-84	-182	-216	-23	-97	-191	-225	-31	-90	-203
Off-budget	155	175	172	186	25	83	15	58	19	83	12	60	24	87	15	62
Means of financing																
Borrowing	378	297	354	364	165	-43	73	112	180	-32	94	121	186	-27	84	131
Cash decrease	-1	1	0	-12	2	-11	-2	10	15	-24	-0	10	15	-25	0	10
Other ²	36	21	-9		10	8	-1	1	2	-4	-8	-0	0	-4	-8	-0
Cash operating balance, end of period	36	36	35	35	22	33	36	26	10	35	35	25	10	35	35	25
NIPA federal sector																
Receipts	1933	2159	2372	2496	2197	2228	2158	2313	2357	2392	2425	2455	2486	2509	2532	2556
Expenditures	2348	2503	2711	2853	2495	2525	2566	2623	2711	2740	2770	2791	2855	2869	2896	2915
Consumption expenditures	711	760	808	839	760	763	784	788	809	815	821	826	840	844	848	852
Defense	474	510	542	566	509	512	529	524	543	549	553	557	566	569	572	575
Nondefense	237	250	266	273	251	251	255	265	266	267	268	269	274	275	276	277
Other spending	1637	1743	1903	2013	1735	1762	1782	1835	1902	1924	1949	1965	2014	2025	2048	2063
Current account surplus	-415	-344	-339	-357	-298	-297	-408	-310	-354	-348	-345	-336	-369	-360	-364	-360
Gross investment	99	106	113	115	101	107	109	109	114	114	114	114	115	115	115	115
Gross saving less gross investment ³	-421	-352	-350	-365	-302	-307	-419	-318	-366	-359	-355	-346	-377	-367	-370	-364
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-378	-332	-348	-365	-280	-288	-409	-312	-363	-360	-357	-349	-378	-367	-366	-358
Change in HEB, percent of potential GDP	0.7	-0.5	-0.0	-0.0	-0.6	0.0	0.9	-0.8	0.4	-0.1	-0.1	-0.1	0.2	-0.1	-0.0	-0.1
Fiscal impetus (FI) percent of GDP	0.8	0.3	0.4	0.0	0.0	0.1	0.1	0.2	0.1	0.1	0.0	0.0	-0.0	0.0	0.0	-0.0
Previous	0.8	0.3	0.5	0.0	0.0	0.1	0.1	0.2	0.1	0.0	-0.0	0.0	0.0	0.0	0.0	-0.0

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

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

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

4. HEB is gross saving less gross investment (NIPA) of the federal government in current dollars, with cyclically sensitive receipts and outlays adjusted to the staff's measure of potential output and the NAIRU. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (2000) dollars, scaled by real GDP. The annual FI estimates are on a calendar year basis. Also, for FI and the change in HEB, positive values indicate aggregate demand stimulus.

a-Actual

Class II FOMC Restricted (FR)

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

December 7, 2005

Period ¹	Total	Federal government	Nonfederal				State and local governments	Business	Consumer credit	Home mortgages	Households	Nonfederal	Memo: Nominal GDP
			Total	Federal government	Households	Nonfederal							
<i>Year</i>													
2000	4.8	-8.0	8.3	8.6	8.2	10.8	9.3	1.3	4.6				
2001	6.1	-0.2	7.5	8.6	9.5	7.6	6.0	8.9	2.7				
2002	6.9	7.6	6.7	9.7	11.9	4.7	2.6	11.1	3.6				
2003	8.1	10.9	7.5	9.9	12.3	4.5	4.4	8.2	6.1				
2004	8.7	9.0	8.6	11.1	13.5	4.5	5.9	7.6	6.8				
2005	9.0	7.0	9.5	10.7	13.1	3.7	7.9	9.3	6.5				
2006	7.3	7.7	7.2	8.0	9.2	4.0	6.8	4.1	5.9				
2007	6.5	7.4	6.3	6.5	7.2	4.2	6.9	2.5	5.0				
<i>Quarter</i>													
2005:1	9.6	14.4	8.5	9.1	11.3	2.7	7.0	12.0	7.0				
2	8.1	0.1	9.9	11.1	13.3	4.0	9.1	6.1	6.0				
3	9.1	5.1	10.0	11.6	14.0	5.4	7.4	12.6	7.6				
4	8.1	7.8	8.2	9.4	11.5	2.6	7.1	5.2	5.6				
2006:1	8.8	14.7	7.5	8.5	9.8	4.1	6.8	4.7	6.5				
2	6.1	1.0	7.2	7.9	9.2	3.8	6.7	4.7	6.0				
3	6.7	6.5	6.8	7.5	8.6	4.0	6.5	3.3	5.7				
4	6.7	7.9	6.5	7.0	7.9	4.0	6.4	3.3	5.3				
2007:1	7.7	14.1	6.3	6.6	7.3	4.0	6.6	2.7	5.3				
2	5.4	1.3	6.2	6.4	7.0	4.1	6.8	2.6	4.9				
3	6.0	5.2	6.1	6.3	6.9	4.2	6.8	2.2	4.8				
4	6.5	8.1	6.1	6.2	6.7	4.3	6.8	2.2	4.8				

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2005:Q3 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

**Class II FOMC
Restricted (FR)**

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

Category	2004	2005	2006	2007	2005				2006				2007				
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<i>Net funds raised by domestic nonfinancial sectors</i>																	
1 Total	1769.1	1821.7	1675.4	1672.8	1850.3	1729.2	2019.6	1397.7	1613.8	1670.5	1999.8	1372.4	1573.4	1745.8			
2 Net equity issuance	-157.0	-235.0	-164.0	-446.2	-356.0	-296.0	-228.0	-218.0	-198.0	-164.0	-164.0	-164.0	-164.0	-164.0	-164.0	-164.0	-164.0
3 Net debt issuance	1926.1	2172.9	1910.4	1836.8	2296.5	2085.2	2315.6	1625.7	1831.8	1868.5	2163.8	1536.4	1737.4	1909.8			
<i>Borrowing sectors</i>																	
Nonfinancial business																	
4 Financing gap ¹	47.0	-93.5	20.1	198.8	-214.7	-154.7	-131.3	28.2	62.2	121.2	166.6	180.9	204.9	242.7			
5 Net equity issuance	-157.0	-351.2	-235.0	-164.0	-446.2	-356.0	-296.0	-228.0	-218.0	-198.0	-164.0	-164.0	-164.0	-164.0	-164.0	-164.0	-164.0
6 Credit market borrowing	434.3	619.5	575.6	626.4	608.0	592.4	579.7	575.4	573.3	573.9	599.1	628.2	634.2	644.0			
Households																	
7 Net borrowing ²	1011.7	1090.6	897.0	790.0	1235.9	1038.8	957.9	913.3	879.1	837.6	798.3	787.4	785.6	788.9			
8 Home mortgages	887.3	978.4	774.8	660.9	1106.6	943.2	831.7	794.5	757.3	715.5	673.7	659.8	655.1	655.1			
9 Consumer credit	91.0	79.0	89.0	96.8	117.0	56.2	89.7	85.2	90.2	91.0	93.0	95.5	97.9	100.7			
10 Debt/DPI (percent) ³	111.4	118.5	121.6	122.7	119.9	120.5	121.1	121.5	121.9	122.2	122.4	122.6	122.8	123.0			
State and local governments																	
11 Net borrowing	118.2	155.7	74.8	46.8	220.7	94.0	86.8	86.8	62.8	62.8	50.8	50.8	42.8	42.8			
12 Current surplus ⁴	181.3	191.0	197.4	205.9	161.9	180.3	190.2	195.7	199.4	204.3	204.3	205.5	205.5	208.3			
Federal government																	
13 Net borrowing	361.9	307.1	363.1	373.6	231.9	359.9	691.2	50.2	316.7	394.2	715.6	70.1	274.9	434.1			
14 Net borrowing (n.s.a.)	361.9	307.1	363.1	373.6	72.8	112.5	179.8	-31.7	94.0	121.0	185.9	-26.7	83.5	131.0			
15 Unified deficit (n.s.a.)	400.7	323.8	353.3	361.6	69.1	123.4	197.0	-59.9	85.2	131.0	201.3	-55.7	75.1	140.9			
<i>Depository institutions</i>																	
16 Funds supplied	796.9	817.2	565.0	573.4	884.7	467.9	618.4	518.8	602.2	520.7	657.9	518.7	592.8	524.2			
Memo (percentage of GDP)																	
17 Domestic nonfinancial debt ⁵	197.0	201.6	205.2	208.4	201.9	203.5	204.5	205.3	205.7	206.5	207.5	208.3	208.8	209.6			
18 Domestic nonfinancial borrowing	16.4	17.4	14.4	13.2	18.2	16.3	17.8	12.3	13.7	13.8	15.8	11.1	12.4	13.4			
19 Federal government ⁶	3.1	2.5	2.7	2.7	1.8	2.8	5.3	0.4	2.4	2.9	5.2	0.5	2.0	3.1			
20 Nonfederal	13.3	14.9	11.7	10.5	16.4	13.5	12.5	12.0	11.3	10.9	10.6	10.6	10.6	10.4	10.4		

Note. Data after 2005:Q3 are staff projections.

1. For corporations: Excess of capital expenditures over U.S. internal funds.

2. Includes change in liabilities not shown in lines 8 and 9.

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

2.64 FOF

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

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

6. Excludes government-insured mortgage pool securities.

n.s.a. Not seasonally adjusted.

I-30

International Developments

Economic growth abroad was considerably more vigorous in the third quarter than had been expected, especially in emerging market economies. Some of the strength reflected temporary factors, but some appears to be more persistent, and forward-looking indicators also suggest an improved outlook. Despite the stronger pace of activity, partial data for the fourth quarter indicate that foreign inflation will be somewhat lower than had been expected. We expect foreign inflation to remain around its current pace over the forecast period.

The spot price of West Texas intermediate crude oil is little changed on net since the November FOMC meeting and remains about \$10 per barrel below its hurricane-related peak. Prices of near-term oil futures contracts are down a little since the time of the October Greenbook, resulting in a path for oil prices that rises in the near term and is approximately flat thereafter. Our projected path for the price of oil is a little lower in 2006 and a little higher in 2007 than in the October forecast.

Summary of Staff Projections

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

Indicator	2005		Projection					2007	
	H1	Q3	2005: Q4	2006					
				Q1	Q2	H2			
Foreign output	3.0	4.5	3.3	3.4	3.5	3.4	3.3		
October GB	2.8	3.1	3.1	3.2	3.3	3.3	3.3		
Foreign CPI	1.9	3.4	2.4	2.5	2.5	2.5	2.4		
October GB	1.8	3.3	2.8	2.3	2.4	2.4	2.4		

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

The average foreign exchange value of the dollar ticked up on balance over the intermeeting period, as the dollar appreciated against most of the major foreign currencies but depreciated against some of the currencies of our other important trading partners. We continue to expect the dollar to decline over the forecast period in response to the need to finance the large and growing U.S. current account deficit. The projected broad real dollar index moves down at an average annual rate of 1½ percent over the next two years.

prices for exports of materials and commodities. Core export price inflation is expected to moderate to 2½ percent in 2006 before declining even further to 1 percent in 2007, a pattern consistent with a projected deceleration of prices of intermediate goods and nonagricultural commodities.

Staff Projections of Selected Trade Prices

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

Indicator	2005		Projection			2007	
	H1	Q3	2005: Q4	2006			
				Q1	Q2		
<i>Exports</i>							
Core goods	4.9	2.0	5.6	3.2	3.0	2.0	1.0
October GB	4.9	2.4	4.4	1.8	2.1	1.6	.9
<i>Imports</i>							
Non-oil core goods	3.4	.9	5.7	2.1	1.2	1.5	.7
October GB	3.4	1.0	5.4	2.1	1.1	1.2	.6
Excluding natural gas	3.3	-.3	3.1	1.5	1.9	1.7	.8
October GB	3.3	-.1	3.1	1.4	1.7	1.4	.8
Oil (dollars per barrel)	46.30	55.15	56.17	54.74	56.22	57.22	56.88
October GB	46.30	55.32	56.94	56.89	57.21	57.59	56.19

Note. Prices for core exports and non-oil core imports, which exclude computers and semiconductors, are on a NIPA chain-weighted basis.

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

Trade in Goods and Services

Real net exports are projected to make a negative arithmetic contribution to real GDP growth of ¾ percentage point in the fourth quarter following a negative contribution of ¼ percentage point in the third quarter, as a sharp rebound in imports outweighs rapid growth of exports. After making a neutral contribution to growth for 2005 as a whole, net exports are projected to subtract about ½ percentage point from growth in 2006 and about ½ percentage point in 2007. Our projection of the contribution of real net exports has been significantly revised down from the October Greenbook for the second half of this year, mainly because of higher import growth, but it is little changed thereafter.

restraining effect on trade of Hurricanes Katrina and Rita. Real exports of services contracted in the third quarter.

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

Indicator	2005		Projection				2007	
	H1	Q3	2005: Q4	2006				
				Q1	Q2	H2		
Real exports	9.1	0.8	11.5	3.6	5.0	5.5	4.8	
October GB	9.1	1.8	12.5	4.2	4.9	5.6	5.3	
Real imports	3.5	2.1	11.8	4.9	2.4	6.4	6.0	
October GB	3.5	-.5	9.5	6.1	3.0	6.0	5.8	

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

In the fourth quarter, we expect growth in real exports to pick up smartly, to 11½ percent. Real exports of core goods should rebound given the end of the Boeing strike and the dwindling effects from the hurricanes. Expansion of real exports of services is projected to recover to a pace more in line with growth of foreign GDP and relative prices. Growth in exports of computers and semiconductors is expected to remain firm. Our current-quarter forecast for real export growth, which is a little lower than in the October Greenbook, partly reflects the damping effect of a slightly stronger dollar on real exports of services. In addition, it now appears that Boeing is not currently expanding production to make up for deliveries missed during the strike.

Real exports of goods and services are projected to rise a little less than 5 percent in 2006 and 2007, significantly more slowly than the average 7½ percent rate expected for 2005. The slower pace of growth reflects a marked deceleration of core goods exports as the boost from dollar depreciation in 2003-04 wanes. The growth of services exports, which slumped this year, picks up a bit going forward to a pace more in line with growth of foreign GDP and relative prices. Exports of computers and semiconductors are expected to continue to grow briskly. For both years, small downward revisions to the forecast for total real exports reflect the negative effect of the upwardly revised path of the dollar.

Alternative Scenarios:
10 Percent Real Dollar Appreciation

(Percent change from previous period, annual rate, except as noted)

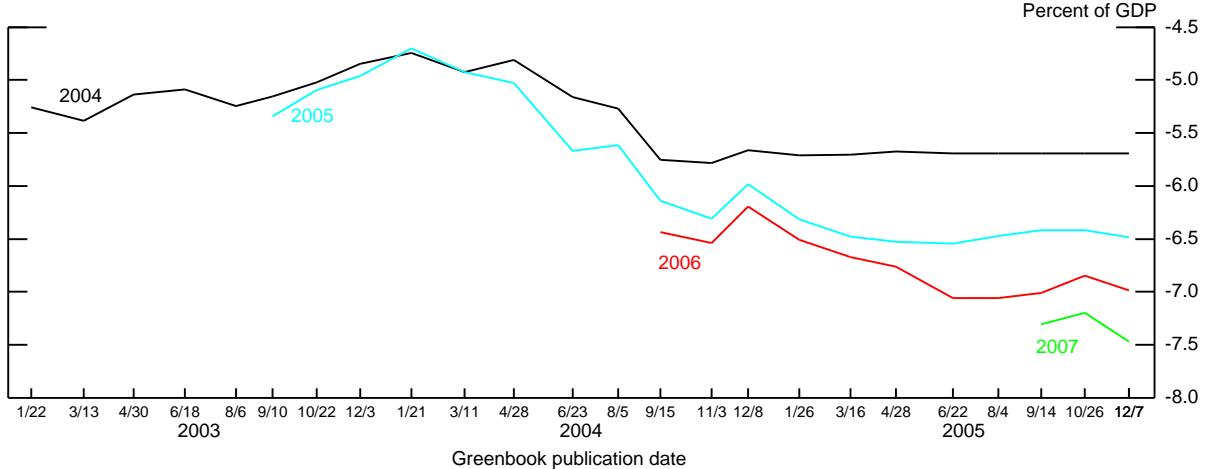
Indicator and simulation	2006		2007	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	3.6	3.3	3.0	2.9
Unchanged federal funds rate	3.3	2.7	2.5	2.6
Taylor rule	3.3	2.9	2.9	3.1
<i>U.S. PCE prices excluding food and energy</i>				
Baseline	2.2	2.1	1.8	1.8
Unchanged federal funds rate	2.0	2.0	1.7	1.7
Taylor rule	2.0	2.1	1.7	1.8
<i>U.S. trade balance (percent share of GDP)</i>				
Baseline	-5.9	-5.9	-6.1	-6.1
Unchanged federal funds rate	-5.8	-6.0	-6.4	-6.4
Taylor rule	-5.8	-6.1	-6.5	-6.5

Note. H1 is Q2/Q4; H2 is Q4/Q2. In these simulations, the monetary authorities in major foreign economies adjust their policy rates according to a Taylor rule.

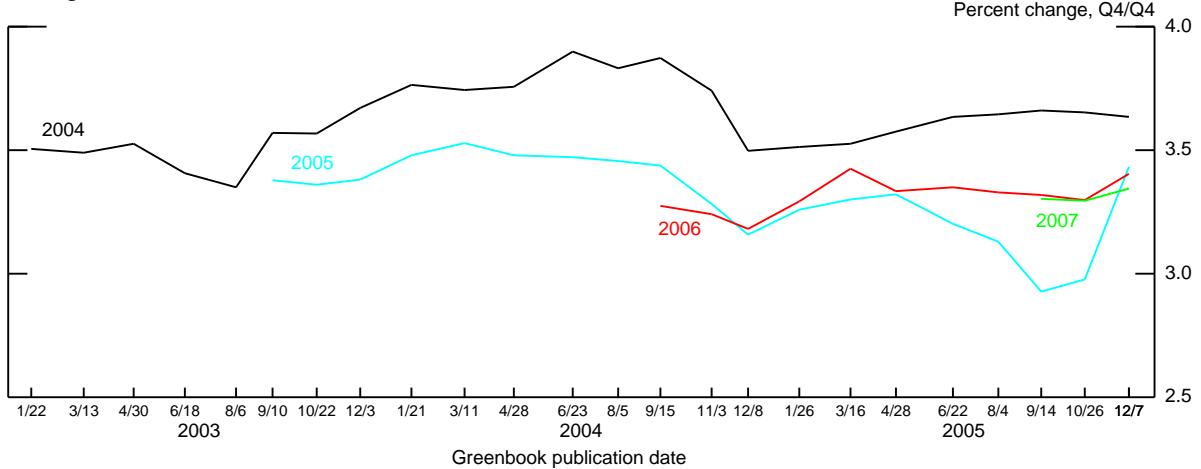
Class II FOMC -- Restricted (FR)

Evolution of the Staff Forecast

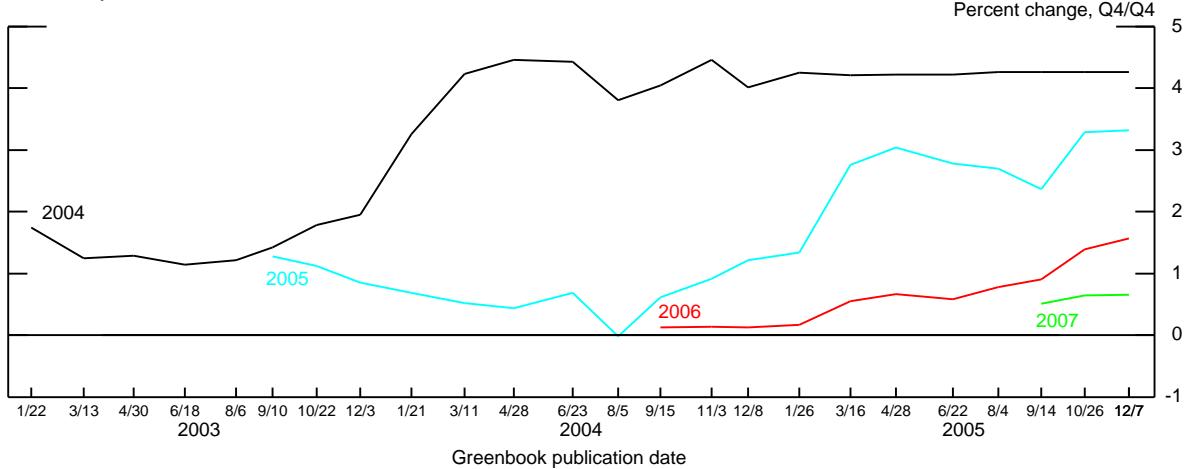
Current Account Balance



Foreign Real GDP



Core Import Prices



Class II FOMC
Restricted (FR) OUTLOOK FOR FOREIGN REAL GDP AND CONSUMER PRICES: SELECTED COUNTRIES
(Percent, Q4 to Q4)

Measure and country	1999	2000	2001	2002	2003	2004	2005	2006	2007	-----Projected-----
REAL GDP (1)										
Total foreign	5.1	4.2	0.3	3.0	2.9	3.6	3.4	3.4	3.3	
Industrial Countries of which:	4.4	3.5	0.8	2.5	1.8	2.4	2.6	2.5	2.4	
Canada	5.9	4.1	-1.3	3.6	1.7	3.3	3.0	3.2	3.1	
Japan	0.2	3.2	-2.0	1.5	2.2	0.9	3.1	1.6	1.5	
United Kingdom	3.4	3.2	1.1	1.2	3.1	2.5	1.8	2.3	2.5	
Euro Area (2)	4.1	3.1	1.1	0.2	1.0	1.6	1.8	1.7	1.7	
Germany	3.5	2.3			0.2	0.5	1.8	1.5	1.4	
Developing Countries Asia	6.1	5.2	-0.4	3.7	4.6	5.5	4.7	4.7	4.7	
Korea	8.7	5.7	-1.1	6.0	6.5	5.9	6.4	5.5	5.6	
China	11.5	4.5	4.6	7.8	4.2	3.0	4.6	4.1	4.1	
Latin America	7.1	7.7	7.0	8.4	10.0	9.5	8.5	6.9	7.4	
Mexico	4.4	4.4	-1.3	1.5	2.4	5.1	2.9	3.8	3.7	
Brazil	5.5	4.8	-1.3	2.0	2.1	4.9	2.8	3.8	3.7	
3.4	3.8	-0.9	4.1	0.9	4.8	0.9	0.9	3.2	3.2	
CONSUMER PRICES (3)										
Industrial Countries of which:	1.2	1.8	0.9	2.1	1.3	1.8	1.7	1.4	1.5	
Canada	2.4	3.1	1.1	3.8	1.7	2.3	2.6	1.8	2.0	
Japan	-0.9	-0.9	-1.0	-0.6	-0.3	0.6	-0.7	0.2	0.4	
United Kingdom (4)	-1.2	-1.0	-1.0	-1.5	-1.3	1.4	2.4	1.7	1.9	
Euro Area (2)	1.5	2.5	2.1	2.3	2.0	2.3	2.3	1.7	1.7	
Germany	1.1	1.7	1.5	1.2	1.2	2.1	2.2	1.4	1.5	
Developing Countries Asia	4.6	4.1	2.8	2.8	3.1	3.9	3.2	3.8	3.4	
Korea	0.1	1.9	1.2	0.7	2.2	3.2	2.9	3.6	3.1	
China	1.2	2.5	3.3	3.4	3.5	3.4	2.5	4.1	4.1	
Latin America	-1.0	1.0	-0.1	-0.5	2.7	3.3	1.6	3.4	2.9	
Mexico	12.5	8.4	5.3	6.4	4.9	5.6	3.6	4.0	4.0	
Brazil	13.4	8.7	5.1	5.2	3.9	5.3	3.0	3.6	3.7	
8.4	6.4	7.5	10.7	11.5	7.2	6.0	4.5	4.1	4.1	

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

Measure and country	2005				2006				Projected				2007
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
REAL GDP (1)													
Total foreign	2.5	3.5	4.5	3.3	3.4	3.5	3.4	3.3	3.4	3.3	3.3	3.3	3.3
Industrial Countries of which:	2.0	2.9	2.8	2.4	2.7	2.5	2.4	2.5	2.5	2.4	2.4	2.4	2.4
Canada	2.0	3.4	3.6	3.0	3.6	3.5	3.0	2.9	3.1	3.1	3.1	3.1	3.1
Japan	6.3	3.3	1.7	1.4	1.5	1.6	1.6	1.6	1.5	1.5	1.5	1.4	1.4
United Kingdom	1.0	2.0	1.6	2.6	2.3	2.3	2.4	2.4	2.5	2.5	2.5	2.6	2.6
Euro Area (2)	1.3	1.6	2.6	1.6	1.7	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.7
Germany	2.4	0.9	2.5	1.3	1.4	1.4	1.6	1.4	1.4	1.4	1.4	1.4	1.4
Developing Countries	3.1	4.2	6.9	4.6	4.5	4.7	4.7	4.7	4.7	4.7	4.7	4.6	4.6
Asia	4.8	7.7	7.5	5.7	5.2	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Korea	1.5	5.0	8.0	4.0	4.0	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
China	12.7	5.0	8.2	8.2	5.6	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Latin America	1.2	0.5	6.8	3.3	3.8	3.9	3.9	3.9	3.7	3.7	3.7	3.7	3.7
Mexico	0.7	-1.3	8.9	3.1	3.7	3.8	3.8	3.8	3.7	3.7	3.7	3.7	3.7
Brazil	0.8	4.6	-4.7	3.1	3.2	3.3	3.3	3.3	3.3	3.2	3.2	3.2	3.2
CONSUMER PRICES (3)													
Industrial Countries of which:	1.5	1.4	1.8	1.7	1.9	1.8	1.5	1.4	1.4	1.5	1.5	1.5	1.5
Canada	2.1	1.9	2.6	2.6	2.7	2.4	1.9	1.8	1.9	2.0	1.9	2.0	2.0
Japan	-0.2	-0.1	-0.3	-0.7	-0.2	-0.1	0.7	0.2	0.2	0.3	0.4	0.4	0.4
United Kingdom (4)	1.7	1.9	2.4	2.4	2.2	2.1	1.7	1.7	1.7	1.7	1.8	1.9	1.9
Euro Area (2)	2.0	2.0	2.3	2.3	2.5	2.2	1.9	1.7	1.7	1.7	1.8	1.7	1.7
Germany	1.7	1.6	2.1	2.1	2.5	2.2	1.6	1.4	1.4	1.4	1.4	1.5	1.5
Developing Countries	3.6	3.3	3.1	3.2	3.5	3.8	3.6	3.8	3.7	3.5	3.5	3.5	3.4
Asia	2.9	2.4	2.4	2.9	3.2	3.7	3.5	3.6	3.5	3.3	3.2	3.1	3.1
Korea	3.1	3.0	2.4	2.5	2.8	3.3	3.5	4.1	4.0	3.8	3.4	3.4	3.4
China	2.8	1.7	1.3	1.6	1.9	2.8	2.9	3.4	3.3	3.2	3.0	2.9	2.9
Latin America	4.9	5.0	4.4	3.6	3.9	3.7	3.8	4.0	4.0	4.0	4.0	4.0	4.0
Mexico	4.4	4.5	4.0	3.0	3.4	3.2	3.6	4.5	4.5	3.6	3.7	3.7	3.7
Brazil	7.4	7.7	6.2	6.0	5.2	4.5	4.9	4.4	4.3	4.3	4.2	4.2	4.2

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

	1999	2000	2001	2002	2003	2004	2005	2006	Projected 2007
NIPA REAL EXPORTS and IMPORTS									
Net Goods & Services	-1.0	-0.9	-0.2	-0.9	-0.1	-0.9	-0.1	-0.1	-0.5
Exports of G&S	0.6	0.7	-1.3	0.4	0.6	0.6	0.6	0.8	0.5
Imports of G&S	-1.6	-1.1	-1.1	-1.3	-0.7	-1.5	-0.8	-0.8	-1.0
					Percentage change, Q4/Q4				
Exports of G&S	5.6	6.5	-11.9	3.8	6.0	6.1	7.6	4.9	4.8
Services	5.3	1.8	-8.9	10.2	4.5	4.6	2.6	4.0	5.6
Computers	13.4	22.7	-23.5	-1.1	11.0	6.3	18.0	14.4	14.4
Semiconductors	34.6	27.6	-34.6	10.1	38.8	-6.1	12.6	17.0	17.0
Other Goods 1/	3.3	5.9	-10.2	0.7	4.5	7.8	9.1	4.2	3.3
Imports of G&S	12.1	11.2	-7.6	9.7	5.1	10.6	5.2	5.0	6.0
Services	6.6	10.6	-5.9	8.8	4.2	7.7	2.4	4.8	3.7
Oil	-3.4	13.3	3.7	3.8	1.5	9.7	2.2	-6.4	2.2
Computers	26.0	13.9	-13.6	13.2	16.8	22.2	14.1	17.5	17.5
Semiconductors	34.2	22.8	-51.1	11.0	-0.2	9.4	8.3	17.0	17.0
Other Goods 2/	12.9	10.5	-6.5	10.1	5.1	10.5	5.4	6.5	6.3
					Billions of Chained 2000 Dollars				
Net Goods & Services	-296.2	-379.5	-399.1	-471.3	-521.4	-601.4	-630.1	-656.1	-708.2
Exports of G&S	1008.2	1096.3	1036.7	1013.3	1031.2	1117.9	1197.4	1265.4	1325.3
Imports of G&S	1304.4	1475.8	1435.8	1484.6	1552.6	1719.2	1827.4	1921.5	2033.5
					Billions of dollars				
US CURRENT ACCOUNT BALANCE	-300.1	-416.0	-389.5	-475.2	-519.7	-668.1	-809.6	-926.0	-1042.8
Current Acct as Percent of GDP	-3.2	-4.2	-3.8	-4.5	-4.7	-5.7	-6.5	-7.0	-7.5
Net Goods & Services (BOP)	-263.4	-378.3	-362.7	-421.2	-494.8	-617.6	-721.4	-784.9	-850.7
Investment Income, Net	19.1	25.7	30.3	15.5	51.8	36.2	2.1	-37.2	-86.2
Direct Net	78.2	94.9	115.9	99.8	121.8	127.9	121.9	128.5	148.1
Portfolio, Net	-59.1	-69.2	-85.5	-84.3	-70.0	-91.7	-119.9	-165.6	-234.2
Other Income & Transfers, Net	-55.8	-63.5	-57.1	-69.5	-76.7	-86.7	-90.3	-104.0	-105.9

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2002								2003				2004				
	Q1		Q2		Q3		Q4		Q1		Q2		Q3		Q4		
	NIPA REAL EXPORTS and IMPORTS								Percentage point contribution to GDP growth								
Net Goods & Services	-1.0	-0.6	-0.5	-1.5	0.1	-0.7	0.5	-0.5	-1.2	-1.4	-0.2	-0.5	-1.0	-0.2	-0.5	-1.0	
Exports of G&S	0.5	1.0	0.3	-0.3	-0.2	-0.2	-0.4	-0.5	1.0	0.5	0.7	0.7	0.7	0.5	0.5	0.7	
Imports of G&S	-1.4	-1.6	-0.8	-1.2	-1.2	-1.2	-1.2	-0.6	-2.2	-1.6	-2.0	-1.7	-1.7	-2.0	-2.0	-1.7	
Percentage change from previous period, s.a.a.r.																	
Exports of G&S Services	5.2	10.6	2.9	-3.1	-2.9	-2.1	11.5	19.1	5.0	6.9	5.5	7.1	5.5	4.8	4.8	15.5	
Computers	22.9	2.7	4.6	11.7	-11.9	-6.6	17.2	23.7	-0.4	1.6	21.7	11.5	15.5	-7.4	-7.4	11.5	
Semiconductors	-21.1	14.7	-6.0	12.6	-5.7	0.2	35.9	18.2	-7.4	-4.8	-19.4	-5.5	-5.5	1.6	1.6	11.5	
Other Goods 1/	-22.3	42.1	12.6	-25.0	34.8	33.9	43.7	43.2	7.0	8.6	9.2	3.8	3.8	0.0	5.5	9.5	3.8
Imports of G&S Services	-1.6	12.5	2.0	-9.1	0.0	-2.0	5.5	15.4	8.6	9.2	9.5	3.8	3.8	-2.0	-2.0	3.8	
Oil	11.7	12.5	5.7	9.0	-2.5	3.3	4.1	16.5	12.0	14.5	4.7	11.3	11.3	10.0	10.0	4.7	
Computers	24.7	-3.0	1.7	14.0	-2.2	-10.2	21.4	10.5	13.7	4.6	3.1	3.1	3.1	35.7	35.7	45.0	
Semiconductors	-9.8	-10.3	-12.7	64.3	-9.0	7.8	-1.3	9.5	-26.0	-0.5	-25.3	9.5	9.5	12.4	12.4	25.3	
Other Goods 2/	52.2	5.3	2.8	-0.2	11.5	12.4	8.7	36.4	21.2	34.3	20.2	20.2	20.2	0.7	0.7	-20.3	
39.8	34.8	-6.2	-14.0	4.3	-6.7	1.5	-3.7	8.9	42.6	20.4	4.7	4.7	4.7	8.4	8.4	9.7	
7.6	19.4	9.5	4.3	-2.6	5.8	0.7	17.7	17.7	20.4	20.4	20.4	20.4	20.4	-9.7	-9.7	20.4	
Billions of Chained 2000 Dollars, s.a.a.r.																	
Net Goods & Services	-441.3	-458.9	-472.2	-513.0	-510.7	-528.4	-516.2	-530.2	-530.2	-563.0	-601.7	-606.5	-634.1	-601.7	-601.7	-634.1	
Exports of G&S	992.8	1018.0	1025.2	1017.2	1009.7	1004.5	1032.2	1032.2	1078.4	1091.8	1110.2	1125.0	1144.5	1078.4	1078.4	1144.5	
Imports of G&S	1434.0	1476.9	1497.4	1530.2	1520.4	1532.9	1548.4	1548.4	1608.6	1654.8	1711.9	1731.5	178.6	1711.9	1711.9	178.6	
Billions of dollars, s.a.a.r.																	
US CURRENT ACCOUNT BALANCE	-440.4	-477.1	-480.3	-503.0	-546.6	-515.9	-501.0	-584.4	-666.5	-667.9	-753.4	-753.4	-753.4	-5.7	-5.7	-6.3	
Current Account as % of GDP	-4.3	-4.6	-4.6	-4.7	-5.1	-4.8	-4.7	-4.5	-5.1	-5.7	-5.7	-5.7	-5.7	-5.7	-5.7	-6.3	
Net Goods & Services (BOP)	-372.7	-413.8	-430.3	-467.9	-499.3	-491.4	-490.8	-497.7	-555.4	-608.2	-629.9	-676.9	-676.9	-608.2	-608.2	-676.9	
Investment Income, Net	11.4	1.8	14.1	34.5	29.3	50.6	50.9	76.5	65.8	29.6	30.8	18.8	18.8	140.3	140.3	133.7	
Direct, Net	100.5	91.4	95.0	112.2	102.3	117.4	119.9	147.8	140.3	116.3	121.4	121.4	121.4	-74.6	-74.6	-114.9	
Portfolio, Net	-89.2	-89.6	-80.9	-77.7	-72.9	-66.8	-69.0	-71.3	-74.6	-86.7	-90.6	-90.6	-90.6	-86.7	-86.7	-114.9	
Other Inc. & Transfers, Net	-79.0	-65.1	-64.2	-69.6	-76.6	-74.4	-76.0	-79.7	-94.7	-88.0	-68.8	-68.8	-68.8	-95.3	-95.3	-68.8	

1. Merchandise exports excluding computers and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2005								Projected							
	2006				2007				2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS																
Net Goods & Services	-0.4	1.1	-0.2	-0.7	-0.4	0.1	0.5	-0.2	-0.7	-0.9	-0.3	-0.0	-0.3	-0.7	-0.3	-0.7
Exports of G&S	0.7	1.1	0.1	1.2	0.4	0.4	0.5	0.5	0.7	0.3	0.5	0.0	0.5	0.5	0.5	0.7
Imports of G&S	-1.1	0.0	-0.3	-1.8	-0.8	-0.8	-0.4	-0.7	-1.4	-1.2	-0.5	-0.5	-0.5	-0.5	-0.8	-1.4
Exports of G&S Services	7.5	10.7	0.8	11.5	3.6	5.0	4.6	6.4	2.7	4.9	5.0	5.9	5.0	5.9	6.4	6.8
Services	12.6	-0.4	-3.9	3.1	3.4	4.0	4.2	4.5	5.0	5.6	5.9	6.1	6.1	6.4	6.4	6.1
Computers	26.9	26.7	18.5	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4
Semiconductors	-12.9	26.7	24.4	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 1/	6.1	14.9	1.0	15.3	2.4	4.3	3.6	6.3	0.3	3.5	3.4	3.4	3.4	3.4	3.4	6.2
Imports of G&S Services	7.4	-0.3	2.1	11.8	4.9	2.4	4.4	8.5	7.1	3.3	5.1	8.5	8.5	8.5	8.5	8.5
Services	3.7	4.4	-3.9	5.5	7.7	2.7	4.6	4.5	3.9	3.9	3.6	3.5	3.5	3.5	3.5	3.5
Oil	3.4	-24.5	-3.9	44.4	-10.1	-21.3	-11.2	22.3	11.3	-16.4	-16.4	-15.2	-15.2	-15.2	-15.2	-15.2
Computers	11.3	13.7	13.5	17.9	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Semiconductors	-7.9	8.3	17.8	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 2/	9.1	2.3	3.6	6.9	6.6	6.6	6.5	6.3	6.2	6.3	6.3	6.4	6.4	6.4	6.4	6.4
Billions of Chained 2000 Dollars, s.a.a.r.																
Net Goods & Services	-645.4	-614.2	-621.3	-639.4	-651.0	-647.1	-653.4	-673.0	-698.2	-698.8	-707.9	-727.7	-727.7	-727.7	-727.7	-727.7
Exports of G&S	1165.3	1195.4	1197.9	1231.0	1241.9	1257.1	1271.3	1291.3	1315.7	1315.7	1331.7	1353.8	1353.8	1353.8	1353.8	1353.8
Imports of G&S	1810.7	1809.6	1819.1	1870.4	1892.9	1904.2	1924.7	1964.3	1998.2	1998.2	2014.5	2039.6	2039.6	2039.6	2039.6	2039.6
Billions of dollars, s.a.a.r.																
US CURRENT ACCOUNT BALANCE	-794.7	-782.6	-788.0	-873.0	-905.4	-905.3	-929.3	-964.1	-1024.4	-1024.7	-1047.4	-1074.5	-1074.5	-1074.5	-1074.5	-1074.5
Current Account as % of GDP	-6.5	-6.3	-6.3	-6.8	-7.0	-6.9	-7.0	-7.1	-7.5	-7.5	-7.5	-7.5	-7.5	-7.5	-7.5	-7.6
Net Goods & Services (BOP)	-692.2	-693.3	-733.7	-766.3	-772.9	-773.5	-783.5	-809.7	-841.0	-840.4	-849.5	-871.9	-871.9	-871.9	-871.9	-871.9
Investment Income, Net	8.3	3.9	7.2	-11.0	-20.4	-29.7	-41.5	-57.0	-69.5	-80.4	-91.7	-103.1	-103.1	-103.1	-103.1	-103.1
Direct, Net	113.5	116.3	134.3	123.7	123.1	126.3	131.1	133.4	139.0	145.6	151.4	156.3	156.3	156.3	156.3	156.3
Portfolio, Net	-105.2	-112.4	-127.1	-134.7	-143.5	-156.0	-172.6	-190.4	-208.5	-226.0	-243.1	-259.4	-259.4	-259.4	-259.4	-259.4
Other Inc. & Transfers, Net	-110.7	-93.2	-61.5	-95.7	-112.1	-102.2	-104.3	-97.4	-114.0	-104.0	-106.3	-99.4	-99.4	-99.4	-99.4	-99.4

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

Part 2

December 7, 2005

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

December 7, 2005

Recent Developments

Broad Measures of Inflation
(Percent change, Q3 to Q3)

Measure	2002	2003	2004	2005
<i>Product prices</i>				
GDP price index	1.6	2.1	2.7	2.8
Less food and energy	2.0	1.8	2.6	2.6
Nonfarm business chain price index	1.1	1.2	2.3	2.8
<i>Expenditure prices</i>				
Gross domestic purchases price index	1.6	2.1	3.0	3.3
Less food and energy	1.9	1.7	2.6	2.4
PCE price index	1.5	1.8	2.6	3.1
Less food and energy	1.9	1.2	2.0	1.9
PCE price index, market-based components	1.1	1.8	2.3	3.0
Less food and energy	1.5	1.1	1.5	1.6
CPI	1.6	2.2	2.7	3.8
Less food and energy	2.3	1.3	1.8	2.1
Chained CPI	1.3	2.0	2.3	3.0
Less food and energy	1.8	1.0	1.5	1.8
Median CPI	3.3	2.0	2.5	2.4
Trimmed mean CPI	2.1	1.8	2.1	2.3

Surveys of Inflation Expectations
(Percent)

Period	Actual CPI inflation ¹	University of Michigan				Professional forecasters (10-year) ⁴	
		1 year ²		5 to 10 years ³			
		Mean	Median	Mean	Median		
2004:Q1	1.8	3.1	2.7	3.4	2.9	2.5	
Q2	2.9	4.0	3.3	3.3	2.8	2.5	
Q3	2.7	3.3	2.9	3.1	2.8	2.5	
Q4	3.3	3.4	3.0	3.1	2.8	2.5	
2005:Q1	3.0	3.6	3.0	3.2	2.8	2.5	
Q2	2.9	3.9	3.2	3.3	2.9	2.5	
Q3	3.8	4.3	3.5	3.5	2.9	2.5	
Q4	n.a.	n.a.	n.a.	n.a.	n.a.	2.5	
2005:July	3.2	3.6	3.0	3.3	2.9	...	
Aug.	3.6	3.7	3.1	3.3	2.8	...	
Sept.	4.7	5.5	4.3	3.8	3.1	2.5	
Oct.	4.3	5.5	4.6	3.8	3.2	...	
Nov.	n.a.	4.1	3.3	3.3	3.0	...	

1. Percent change from the same period in the preceding year.

2. Responses to the question: By about what percent do you expect prices to go up, on average, during the next 12 months?

3. Responses to the question: By about what percent per year do you expect prices to go up, on average, during the next 5 to 10 years?

4. Quarterly CPI projections compiled by the Federal Reserve Bank of Philadelphia.

... Not applicable.

n.a. Not available.

December 9, 2005

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

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

December 9, 2005

University of Michigan Survey Research Center: Survey of Consumer Attitudes
 Indexes of consumer sentiment
 (Not seasonally adjusted)

Category	2005							
	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec. ^P
Composite of current and expected conditions ¹	86.9	96.0	96.5	89.1	76.9	74.2	81.6	88.7
Current conditions ¹	104.9	113.2	113.5	108.2	98.1	91.2	100.2	106.6
Expected conditions ¹	75.3	85.0	85.5	76.9	63.3	63.2	69.6	77.3
Personal financial situation								
Now compared with 12 months ago ²	109	122	122	117	103	96	103	116
Expected in 12 months ²	121	129	133	121	115	112	115	126
Expected business conditions								
Next 12 months ²	95	109	112	102	62	68	83	96
Next 5 years ²	85	103	99	85	76	72	80	88
Appraisal of buying conditions								
Cars	133	139	152	147	125	119	125	133
Large household appliances ²	163	172	172	164	151	139	157	160
Houses	156	146	145	140	130	125	130	117
Expected unemployment change - next 12 months	119	116	117	123	137	134	122	124
Prob. household will lose a job - next 5 years	24	23	22	23	23	22	22	19
Expected inflation - next 12 months								
Mean	3.8	4.0	3.6	3.7	5.5	5.5	4.1	4.2
Median	3.2	3.2	3.0	3.1	4.3	4.6	3.3	3.1
Expected inflation - next 5 to 10 years								
Mean	3.5	3.1	3.3	3.3	3.8	3.8	3.3	3.5
Median	2.9	2.8	2.9	2.8	3.1	3.2	3.0	3.0

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

P Preliminary.

1. Feb. 1966 = 100.

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