

## **Part 1**

June 22, 2005

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# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

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

Measure	2005:Q1		2005:Q2	
	Apr. GB	June GB	Apr. GB	June GB
<b>Real GDP</b>	<b>3.1</b>	<b>3.9</b>	<b>3.6</b>	<b>3.0</b>
Private domestic final purchases	3.8	4.2	3.7	4.2
Personal consumption expenditures	3.5	3.6	3.2	3.1
Residential investment	5.7	10.2	3.6	11.4
Business fixed investment	4.7	4.5	7.2	7.6
Government outlays for consumption and investment	.6	.1	4.0	1.7
	Contribution to growth (percentage points)			
Inventory investment	1.0	.9	-.9	-1.5
Net exports	-1.3	-.6	.6	.6

slowed more sharply than we had expected. On the other hand, housing activity has been considerably stronger.

In the labor market, payroll employment has continued to expand at a moderate—albeit uneven—pace. Smoothing through the choppiness, private nonfarm payrolls rose about 150,000 over the three months ending in May, gains roughly comparable to the average ones over the preceding half-year. Given the recent readings on initial claims, we are looking for a similar increase in payrolls in June. We also expect the unemployment rate to remain at 5.1 percent.

Output in the manufacturing sector is estimated to have increased at an annual rate of about 2 percent in the second quarter, after having risen about 4 percent in the first quarter. The slowing was partly due to a decline in motor vehicle production as the manufacturers held down assemblies in April and May to help reduce inventory overhangs. Output outside the motor vehicle sector was also soft early in the quarter, although it picked up noticeably in May. With motor vehicle assemblies having moved up appreciably and the advance indicators pointing to modest increases elsewhere, we are anticipating a moderate gain in overall factory IP in June.

### Projections of Real GDP

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

Measure	2005		2006
	H1	H2	
<b>Real GDP</b>	<b>3.4</b>	<b>3.7</b>	<b>3.4</b>
Previous	3.4	3.7	3.5
Final sales	3.8	3.7	3.4
Previous	3.4	4.0	3.5
PCE	3.3	3.4	3.6
Previous	3.4	3.6	3.4
Residential investment	10.8	-1.0	.2
Previous	4.6	1.8	.4
BFI	6.0	10.4	8.1
Previous	6.0	10.1	8.7
Government purchases	.9	2.9	2.2
Previous	2.3	2.5	2.2
Exports	8.8	8.0	6.2
Previous	8.0	8.5	6.7
Imports	5.8	6.7	6.6
Previous	7.3	6.9	6.4
	Contribution to growth (percentage points)		
Inventory change	-.3	.0	.0
Previous	.0	-.2	.0
Net exports	-.0	-.3	-.4
Previous	-.3	-.2	-.3

**Household spending.** Although consumption has exhibited some softness lately, we expect spending to firm in the third quarter and to rise at an annual rate of 3½ percent over the next year and a half. Real income is expected to post solid gains over this period as the ongoing improvement in the job market bolsters wages and salaries, the hit to real income growth from rising energy prices wanes, and transfers get a boost in 2006 from the implementation of the Medicare prescription drug benefit. In light of the higher trajectory for household net worth in this Greenbook, we now expect wealth to add nearly

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

Measure	1974-95	1996-2001	2002	2003	2004	2005	2006
<b>Structural labor productivity</b>	<b>1.5</b>	<b>2.7</b>	<b>3.3</b>	<b>3.7</b>	<b>3.5</b>	<b>3.0</b>	<b>3.1</b>
Previous	1.5	2.7	3.3	3.7	3.4	2.9	3.1
<i>Contributions</i> <sup>1</sup>							
Capital deepening	.7	1.3	.6	.7	.9	1.1	1.1
Previous	.7	1.3	.6	.7	.8	1.0	1.1
Multifactor productivity	.5	1.1	2.4	2.8	2.4	1.7	1.7
Previous	.5	1.1	2.4	2.8	2.4	1.7	1.7
Labor composition	.3	.3	.3	.3	.3	.3	.2
MEMO							
Potential GDP	3.0	3.4	3.4	3.6	3.5	3.2	3.4
Previous	3.0	3.4	3.4	3.6	3.7	3.3	3.3

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.

else being equal, trim a tenth of a percentage point from the inflation forecast for 2005 and  $\frac{1}{4}$  percentage point from the forecast for 2006; assuming a  $5\frac{1}{2}$  percent NAIRU would have the opposite effect.

**Productivity and the labor market.** We expect payroll employment to rise about 170,000 per month, on average, in the second half of 2005 before slowing to an average pace of 140,000 per month as output growth moderates a bit in 2006. This pace of hiring should be sufficient to hold the unemployment rate at 5.1 percent through the end of 2006, 0.2 percentage point below the level in the April Greenbook. Labor force participation is also expected to hold steady after having moved up over the past couple of months. We continue to expect productivity in the nonfarm business sector to rise a bit more than  $2\frac{1}{2}$  percent per year; this rate of increase would be about  $\frac{1}{2}$  percentage point below its underlying structural pace and would essentially close the gap between actual and structural productivity by the end of 2006.

**Wages and prices.** The projection for core PCE price inflation is slightly above that in the April Greenbook. One reason is that, although the recent data for the CPI have come in a bit below our expectations, core PCE inflation seems to be running a little higher.

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

Measure	2003	2004	2005	2006
Output per hour, nonfarm business	5.4	2.8	2.5	2.6
Previous	5.5	2.8	2.2	2.7
Nonfarm private payroll employment	-.1	1.8	1.7	1.3
Previous	-.1	1.8	1.7	1.3
Household survey employment	1.2	1.3	1.4	1.2
Previous	1.2	1.3	1.1	1.2
Labor force participation rate <sup>1</sup>	66.1	66.0	66.0	66.0
Previous	66.1	66.0	65.9	65.9
Civilian unemployment rate <sup>1</sup>	5.9	5.4	5.1	5.1
Previous	5.9	5.4	5.3	5.3
MEMO				
GDP gap <sup>2</sup>	1.4	1.1	.7	.7
Previous	1.4	1.3	1.0	.9

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.

In addition, we have factored in the sharper upswing in energy prices and the lower unemployment rate. At the same time, the stronger dollar in this Greenbook and softer prices for core intermediate materials should put some restraint on prices increases.

We are assuming that the outsized increases in the P&C measure of hourly compensation over the past two quarters are not providing a strong signal about the underlying trend in compensation. These data are volatile and subject to revision, and a good deal of the increase in the fourth quarter of 2004 appears to reflect a bulge in stock option exercises that should not have a large effect on price inflation. Moreover, the employment cost index (ECI), which does not include realizations of stock options, decelerated noticeably during the same period.

Our forecast has the ECI rising 4 percent this year and 4¾ percent in 2006—the rise being supported by the tightening of the labor market, the pass-through of the productivity gains of recent years, and the lagged effects of the pickup in overall price inflation in 2004 and 2005. The P&C measure of hourly compensation is also expected to increase in the neighborhood of 4 percent in 2005 and 5 percent in 2006.

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

Measure	2003	2004	2005	2006
PCE chain-weighted price index	1.7	2.6	2.5	1.7
Previous	1.7	2.6	2.1	1.6
Food and beverages	2.7	2.9	2.2	2.2
Previous	2.7	2.9	1.9	2.1
Energy	7.2	18.5	9.9	-1.4
Previous	7.2	18.5	4.5	-1.3
Excluding food and energy	1.2	1.6	2.1	1.9
Previous	1.2	1.6	1.9	1.7
Consumer price index	1.9	3.4	2.9	2.0
Previous	1.9	3.4	2.5	1.8
Excluding food and energy	1.2	2.1	2.4	2.3
Previous	1.2	2.1	2.4	2.1
GDP chain-weighted price index	1.7	2.4	2.3	1.9
Previous	1.7	2.4	2.1	1.8
ECI for compensation of private industry workers <sup>1</sup>	4.0	3.8	4.0	4.8
Previous	4.0	3.8	4.5	4.6
NFB compensation per hour	5.3	5.9	4.0	5.0
Previous	5.3	4.3	4.4	4.7
Prices of core nonfuel imports	1.6	3.7	2.6	.5
Previous	1.6	3.7	3.1	.6

1. December to December.

All told, we now expect core PCE prices to rise 2.1 percent in 2005 and 1.9 percent in 2006, 0.2 percentage point more in each year than was projected in the April Greenbook. As before, the deceleration in 2006 largely reflects the tailing off of the indirect effects of the higher energy prices and the waning of increases in import prices. Overall PCE inflation is expected to total 2.5 percent in 2005 before easing to 1.7 percent in 2006.

### **Financial Flows and Conditions**

After having increased 8½ percent in 2004, domestic nonfinancial debt is projected to expand a bit less than 8 percent this year and 6½ percent in 2006. The projection calls for slower debt growth than last year for households, state and local governments, and the federal government, which more than offsets an uptick in business borrowing.

**Predicted Effect of a 10 Percent Decline in House Prices  
from Current Levels by Late 2006, Followed by a  
Further 5 Percent Decline in 2007**

(Percentage point difference from baseline in the fourth-quarter  
average except as noted)

Simulation assumption and measure	2005	2006	2007
<i>Standard spending response</i>			
No monetary accommodation			
Change in real GDP <sup>1</sup>	.0	-.2	-.4
Unemployment rate	.0	.1	.3
Core PCE inflation <sup>1</sup>	.0	.0	-.1
Personal saving rate	.0	.3	.7
Federal funds rate	.0	.0	.0
Taylor rule			
Change in real GDP <sup>1</sup>	.0	-.2	-.1
Unemployment rate	.0	.1	.2
Core PCE inflation <sup>1</sup>	.0	.0	.0
Personal saving rate	.0	.2	.5
Federal funds rate	.0	-.2	-.4
<i>Heightened spending response</i>			
No monetary accommodation			
Change in real GDP <sup>1</sup>	-.2	-1.1	-.7
Unemployment rate	.1	.6	1.2
Core PCE inflation <sup>1</sup>	.0	-.1	-.4
Personal saving rate	.2	1.3	1.9
Federal funds rate	.0	.0	.0
Taylor rule			
Change in real GDP <sup>1</sup>	-.2	-.8	.3
Unemployment rate	.1	.5	.5
Core PCE inflation <sup>1</sup>	.0	.0	-.1
Personal saving rate	.2	.9	.8
Federal funds rate	-.2	-1.1	-1.2

Note. In the staff baseline projection, the OFHEO repeat transactions price index increases 5 percent from its current level by the end of 2006; for illustrative purposes, we assume that an extension of the baseline would show a further 2 percent increase in 2007. Thus, in the simulations, the stated declines in house prices from *current* levels mean that the prices are 15 percent below *baseline* by the end of 2006 and 22 percent below baseline by the end of 2007. For definitions of spending responses, see text.

1. Percentage point difference from baseline; change in GDP and inflation measured from the fourth quarter of the previous year through the fourth quarter of the year indicated.

Measure and scenario	2005		2006
	H1	H2	
<i>Real GDP</i>			
<b>Baseline</b>	<b>3.4</b>	<b>3.7</b>	<b>3.4</b>
Stronger demand	3.4	4.6	4.4
Stronger compensation pressures	3.4	3.8	3.4
Faster productivity growth	3.4	4.1	4.3
Higher bond premiums	3.4	3.4	2.2
Faster tightening	3.4	3.7	3.1
<i>Civilian unemployment rate<sup>1</sup></i>			
<b>Baseline</b>	<b>5.1</b>	<b>5.1</b>	<b>5.1</b>
Stronger demand	5.1	4.9	4.4
Stronger compensation pressures	5.1	5.1	5.1
Faster productivity growth	5.1	5.2	5.2
Higher bond premiums	5.1	5.1	5.7
Faster tightening	5.1	5.1	5.2
<i>PCE prices excluding food and energy</i>			
<b>Baseline</b>	<b>2.2</b>	<b>2.0</b>	<b>1.9</b>
Stronger demand	2.2	2.0	2.0
Stronger compensation pressures	2.2	2.7	3.1
Faster productivity growth	2.2	1.9	1.5
Higher bond premiums	2.2	1.9	1.7
Faster tightening	2.2	2.0	1.8

1. Average for the final quarter of the period.

remainder of this year and next, pulling the unemployment rate below 4½ percent by late 2006. Inflation ticks up relative to baseline in 2006 and would rise further in 2007 in the absence of a monetary offset.

**Stronger compensation pressures.** In the baseline projection, we heavily discounted the large increase in compensation per hour in late 2004. In this scenario, we assume that hourly compensation continues to grow at last year's 6 percent pace in the second half of 2005 and in 2006—roughly a percentage point faster than in the baseline. Importantly, we also assume that firms have sufficient pricing power to protect their profit margins despite the faster rise in labor costs and thus are able to return the markup to baseline by late next year. Under these conditions, core PCE inflation rises to 3 percent in 2006. Because the pickup in inflation leads market participants to expect that monetary policy

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

Measure	2005	2006
<i>Real GDP</i> (percent change, Q4 to Q4)		
Projection	3.6	3.4
Confidence interval		
Greenbook forecast errors <sup>1</sup>	2.2–5.0	1.5–5.3
FRB/US stochastic simulations	2.9–4.2	2.0–5.1
<i>Civilian unemployment rate</i> (percent, Q4)		
Projection	5.1	5.1
Confidence interval		
Greenbook forecast errors <sup>1</sup>	4.7–5.6	4.3–5.9
FRB/US stochastic simulations	4.8–5.4	4.2–5.9
<i>PCE prices</i> <i>excluding food and energy</i> (percent change, Q4 to Q4)		
Projection	2.1	1.9
Confidence interval		
Greenbook forecast errors <sup>2</sup>	1.7–2.6	1.1–2.6
FRB/US stochastic simulations	1.9–2.3	1.2–2.6

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

1. 1978–2004.

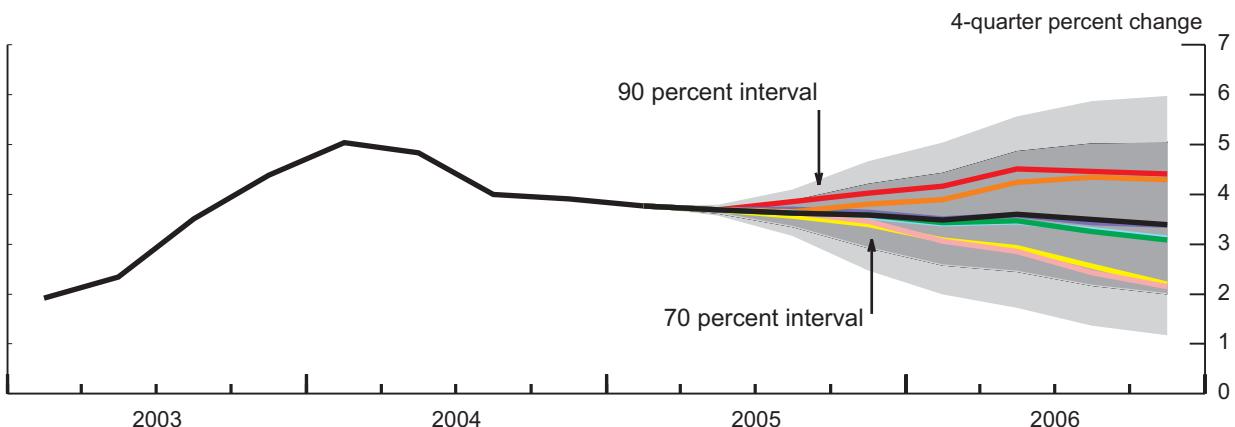
2. 1981–2004.

## Forecast Confidence Intervals and Alternative Scenarios

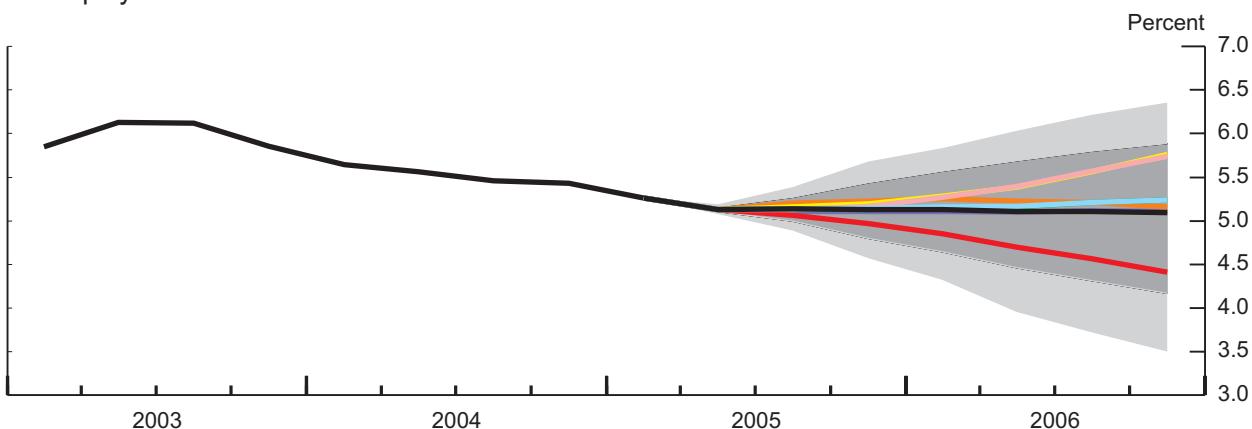
### Confidence Intervals Based on FRB/US Stochastic Simulations

- █ Greenbook baseline
- █ Stronger demand
- █ Stronger compensation pressures
- █ Faster productivity
- █ Higher bond premiums
- █ Faster tightening
- █ Falling house prices, standard spending response (no monetary accommodation)
- █ Falling house prices, heightened spending response (no monetary accommodation)

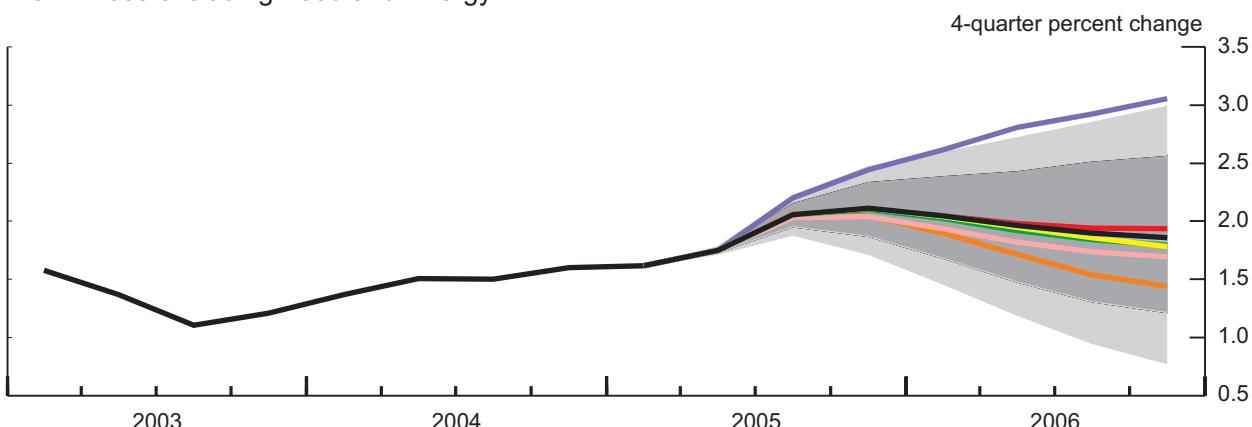
Real GDP



Unemployment Rate



PCE Prices excluding Food and Energy



STAFF PROJECTIONS OF CHANGES IN GDP, PRICES, AND UNEMPLOYMENT  
(Percent, annual rate)

Interval	Nominal GDP		Real GDP		PCE price index		Core PCE price index		Unemployment rate <sup>1</sup>		
	4/28/05	6/22/05	4/28/05	6/22/05	4/28/05	6/22/05	4/28/05	6/22/05	4/28/05	6/22/05	
<b>ANNUAL</b>											
2002		3.5	3.5	1.9	1.9	1.4	1.4	1.8	1.8	5.8	5.8
2003		4.9	4.9	3.0	3.0	1.9	1.9	1.3	1.3	6.0	6.0
2004		6.6	6.6	4.4	4.4	2.2	2.2	1.5	1.5	5.5	5.5
2005		6.0	6.1	3.6	3.7	2.3	2.5	1.8	1.9	5.3	5.2
2006		5.4	5.5	3.6	3.5	1.7	2.0	1.8	1.9	5.3	5.1
<b>QUARTERLY</b>											
2003	Q1	4.9	4.9	1.9	1.9	3.2	3.2	1.5	1.5	5.8	5.8
	Q2	5.3	5.3	4.1	4.1	0.7	0.7	1.1	1.1	6.1	6.1
	Q3	8.8	8.8	7.4	7.4	1.6	1.6	0.9	0.9	6.1	6.1
	Q4	5.7	5.7	4.2	4.2	1.2	1.2	1.3	1.3	5.9	5.9
2004	Q1	7.4	7.4	4.5	4.5	3.3	3.3	2.1	2.1	5.6	5.6
	Q2	6.6	6.6	3.3	3.3	3.1	3.1	1.7	1.7	5.6	5.6
	Q3	5.5	5.5	4.0	4.0	1.3	1.3	0.9	0.9	5.5	5.5
	Q4	6.2	6.2	3.8	3.8	2.7	2.7	1.7	1.7	5.4	5.4
2005	Q1	6.5	7.1	3.1	3.9	2.1	2.1	2.2	2.2	5.3	5.3
	Q2	6.3	5.6	3.6	3.0	3.2	3.7	1.9	2.2	5.3	5.1
	Q3	5.0	5.4	3.7	3.8	1.4	2.4	1.9	2.1	5.3	5.1
	Q4	5.3	5.6	3.7	3.7	1.6	2.0	1.8	2.0	5.3	5.1
2006	Q1	5.7	5.8	3.6	3.5	1.6	1.8	1.8	1.9	5.3	5.1
	Q2	5.3	5.3	3.5	3.4	1.6	1.7	1.7	1.9	5.3	5.1
	Q3	5.3	5.3	3.5	3.4	1.6	1.7	1.7	1.8	5.3	5.1
	Q4	5.3	5.2	3.5	3.3	1.6	1.7	1.7	1.8	5.3	5.1
<b>TWO-QUARTER<sup>2</sup></b>											
2003	Q2	5.1	5.1	3.0	3.0	2.0	2.0	1.3	1.3	0.2	0.2
	Q4	7.2	7.2	5.8	5.8	1.4	1.4	1.1	1.1	-0.2	-0.2
2004	Q2	7.0	7.0	3.9	3.9	3.2	3.2	1.9	1.9	-0.3	-0.3
	Q4	5.9	5.9	3.9	3.9	2.0	2.0	1.3	1.3	-0.2	-0.2
2005	Q2	6.4	6.4	3.4	3.4	2.6	2.9	2.1	2.2	-0.1	-0.3
	Q4	5.1	5.5	3.7	3.7	1.5	2.2	1.8	2.0	0.0	0.0
2006	Q2	5.5	5.5	3.5	3.5	1.6	1.8	1.8	1.9	0.0	0.0
	Q4	5.3	5.2	3.5	3.3	1.6	1.7	1.7	1.8	0.0	0.0
<b>FOUR-QUARTER<sup>3</sup></b>											
2002	Q4	3.8	3.8	2.3	2.3	1.8	1.8	1.5	1.5	0.4	0.4
2003	Q4	6.2	6.2	4.4	4.4	1.7	1.7	1.2	1.2	0.0	0.0
2004	Q4	6.4	6.4	3.9	3.9	2.6	2.6	1.6	1.6	-0.5	-0.5
2005	Q4	5.8	5.9	3.6	3.6	2.1	2.5	1.9	2.1	-0.1	-0.3
2006	Q4	5.4	5.4	3.5	3.4	1.6	1.7	1.7	1.9	-0.0	-0.0

1. Level, except as noted.

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

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

Item	Units <sup>1</sup>	- - - Projected - - -									
		1998	1999	2000	2001	2002	2003	2004	2005	2006	
<b>Expenditures</b>											
Nominal GDP	Bill. \$	8747.0	9268.4	9817.0	10128.0	10487.0	11004.0	11735.0	12454.1	13139.2	
Real GDP	Bill. Ch. \$	9066.9	9470.3	9817.0	9890.7	10074.8	10381.3	10841.9	11239.7	11632.4	
Real GDP	% change	4.5	4.7	2.2	0.2	2.3	4.4	3.9	3.6	3.4	
Gross domestic purchases		5.5	5.5	3.0	0.4	3.1	4.3	4.5	3.6	3.6	
Final sales		4.8	4.2	2.9	1.5	1.2	4.5	3.6	3.7	3.4	
Priv. dom. final purchases		6.4	5.3	4.3	1.0	1.7	4.9	4.8	4.0	3.9	
Personal cons. expenditures		5.4	4.9	4.1	2.8	2.5	3.8	3.8	3.4	3.6	
Durables		14.4	7.3	4.7	10.8	1.5	9.9	5.5	4.9	6.1	
Nondurables		4.7	4.9	3.0	1.9	2.3	4.6	4.3	3.7	4.2	
Services		3.8	4.4	4.5	1.6	2.9	2.2	3.1	2.9	2.7	
Business fixed investment		10.9	7.7	7.8	-9.6	-6.0	9.4	11.0	8.2	8.1	
Equipment & Software		13.5	10.8	7.5	-9.0	-2.2	12.1	14.5	9.5	9.2	
Nonres. structures		4.0	-0.9	8.8	-11.1	-16.1	1.5	-0.1	3.8	4.7	
Residential structures		10.3	3.6	-1.9	1.4	6.9	12.0	6.5	4.7	0.2	
Exports		2.6	5.6	6.5	-11.9	3.5	6.1	5.9	8.4	6.2	
Imports		11.0	12.1	11.2	-7.6	9.7	4.9	9.8	6.2	6.6	
Gov't. cons. & investment		3.3	4.2	0.4	5.0	3.8	2.2	1.6	1.9	2.2	
Federal		0.1	4.2	-2.2	6.4	8.2	5.5	3.9	2.8	1.9	
Defense		-1.2	4.3	-3.5	6.5	8.5	8.5	5.4	3.6	2.3	
State & local		5.1	4.2	1.7	4.2	1.6	0.4	0.2	1.4	2.5	
Change in bus. inventories	Bill. Ch. \$	72.6	68.9	56.5	-31.7	11.7	-0.8	45.7	40.2	33.2	
Nonfarm		71.2	71.5	57.8	-31.8	13.5	-1.1	42.4	38.8	31.3	
Net exports		-203.7	-296.2	-379.5	-399.1	-472.1	-518.5	-583.7	-630.5	-663.4	
Nominal GDP	% change	5.7	6.3	4.6	2.7	3.8	6.2	6.4	5.9	5.4	
GDP Gap <sup>2</sup>	%	-1.5	-2.3	-2.4	0.1	1.5	2.0	1.2	0.8	0.7	
<b>Employment and Production</b>											
Nonfarm payroll employment	Millions	125.9	129.0	131.8	131.8	130.3	130.0	131.5	133.6	135.5	
Unemployment rate	%	4.5	4.2	4.0	4.7	5.8	6.0	5.5	5.2	5.1	
Industrial prod. index	% change	4.2	5.2	1.9	-5.1	1.5	1.2	4.3	4.4	3.7	
Capacity util. rate - mfg.	%	81.8	81.1	80.6	74.5	73.5	73.7	76.7	78.8	80.6	
Housing starts	Millions	1.62	1.64	1.57	1.60	1.70	1.85	1.96	2.01	1.94	
Light motor vehicle sales		15.56	16.91	17.35	17.13	16.76	16.64	16.83	16.93	17.24	
North Amer. produced		13.52	14.41	14.48	14.05	13.47	13.33	13.44	13.50	13.75	
Other		2.04	2.50	2.87	3.08	3.28	3.31	3.39	3.44	3.50	
<b>Income and Saving</b>											
Nominal GNP	Bill. \$	8768.3	9302.2	9855.9	10171.6	10514.1	11059.2	11778.9	12476.2	13114.3	
Nominal GNP	% change	5.5	6.5	4.7	2.9	3.5	6.5	5.9	5.8	4.9	
Nominal personal income		7.0	5.5	7.1	2.2	1.9	4.6	7.4	5.0	6.8	
Real disposable income		5.6	2.8	4.4	1.2	2.9	3.9	4.7	1.5	4.9	
Personal saving rate	%	4.3	2.4	2.3	1.8	2.0	1.4	1.2	0.4	1.4	
Corp. profits, IVA & CCAdj.	% change	-10.0	9.6	-8.6	-0.2	15.4	23.4	12.4	5.6	-1.1	
Profit share of GNP	%	9.1	9.2	8.3	7.5	8.3	9.2	10.0	10.7	10.2	
Excluding FR Banks		8.9	8.9	8.0	7.3	8.1	9.1	9.9	10.5	10.0	
Federal surpl./deficit	Bill. \$	38.8	103.6	189.5	46.7	-254.5	-364.5	-369.4	-263.5	-309.8	
State & local surpl./def.		52.0	50.4	50.0	4.8	-25.0	-3.2	17.6	23.4	24.8	
Ex. social ins. funds		50.3	48.7	47.9	2.2	-26.6	-4.3	16.2	22.4	23.8	
Gross natl. saving rate	%	18.2	18.0	18.0	16.3	14.1	13.5	13.9	14.2	14.0	
Net natl. saving rate		7.4	6.9	6.7	4.2	2.0	1.4	2.2	3.1	2.9	
<b>Prices and Costs</b>											
GDP chn.-wt. price index	% change	1.1	1.6	2.2	2.4	1.6	1.7	2.4	2.3	1.9	
Gross Domestic Purchases chn.-wt. price index		0.7	2.0	2.4	1.6	1.8	1.8	2.9	2.7	1.7	
PCE chn.-wt. price index		0.9	2.1	2.3	1.7	1.8	1.7	2.6	2.5	1.7	
Ex. food and energy		1.4	1.6	1.5	2.2	1.5	1.2	1.6	2.1	1.9	
CPI		1.5	2.6	3.4	1.8	2.2	1.9	3.4	2.9	2.0	
Ex. food and energy		2.3	2.0	2.6	2.7	2.1	1.2	2.1	2.4	2.3	
ECI, hourly compensation <sup>3</sup>		3.5	3.4	4.4	4.2	3.2	4.0	3.8	4.0	4.8	
Nonfarm business sector		2.7	3.5	2.0	3.2	3.5	5.4	2.8	2.5	2.6	
Output per hour		5.5	5.2	6.3	3.6	2.8	5.3	5.9	4.0	5.0	
Compensation per Hour		2.7	1.6	4.2	0.3	-0.6	-0.1	3.0	1.5	2.3	
Unit labor cost											

1. Changes are from fourth quarter to fourth quarter.

2. Percent difference between potential and actual. A positive number indicates that the economy is operating below potential.

3. Private-industry workers.

REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES  
(Seasonally adjusted, annual rate except as noted)

Item	Units	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2
<b>Expenditures</b>											
Nominal GDP	Bill. \$	10338.2	10445.7	10546.5	10617.5	10744.6	10884.0	11116.7	11270.9	11472.6	11657.5
Real GDP	Bill. Ch. \$	9993.5	10052.6	10117.3	10135.9	10184.4	10287.4	10472.8	10580.7	10697.5	10784.7
Real GDP	% change	3.4	2.4	2.6	0.7	1.9	4.1	7.4	4.2	4.5	3.3
Gross domestic purchases		4.4	2.8	2.9	2.4	1.7	4.4	6.4	4.7	5.0	4.2
Final sales		0.3	1.8	2.0	0.7	2.4	5.2	6.8	3.7	3.3	2.5
Priv. dom. final purchases		0.7	1.7	2.4	1.9	2.6	5.1	7.2	4.8	4.2	3.7
Personal cons. expenditures		1.8	2.8	2.9	2.5	2.7	3.9	5.0	3.6	4.1	1.6
Durables		-8.5	4.4	14.0	-2.4	-0.1	20.6	16.5	3.9	2.2	-0.3
Nondurables		3.8	0.8	-0.6	5.3	5.0	1.6	6.9	5.1	6.7	0.1
Services		3.3	3.5	2.4	2.2	2.1	1.8	1.9	2.8	3.3	2.7
Business fixed investment		-9.7	-9.6	-1.1	-3.2	-0.1	11.8	15.7	11.0	4.2	12.5
Equipment & Software		-6.3	-4.5	4.6	-2.0	4.5	11.0	21.7	12.0	8.0	14.2
Nonres. structures		-18.5	-22.6	-16.0	-6.6	-13.0	14.5	-1.3	7.9	-7.6	6.9
Residential structures		9.3	11.3	2.8	4.2	7.5	9.1	22.4	9.6	5.0	16.5
Exports		4.7	11.0	3.1	-4.2	-1.5	-1.6	11.3	17.5	7.3	7.3
Imports		12.5	11.4	5.4	9.6	-2.0	2.5	2.8	17.1	10.6	12.6
Gov't. cons. & investment		4.7	4.4	2.1	4.0	0.2	7.2	0.1	1.6	2.5	2.2
Federal		8.2	12.8	2.9	9.1	0.3	22.1	-3.3	4.8	7.1	2.7
Defense		5.8	11.5	3.4	13.5	-2.7	38.4	-7.7	11.6	10.6	1.9
State & local		2.9	0.3	1.7	1.4	0.1	-0.4	2.2	-0.1	-0.0	1.9
Change in bus. inventories	Bill. Ch. \$	-7.4	7.9	22.7	23.8	9.6	-17.6	-3.5	8.6	40.0	61.1
Nonfarm		-11.9	16.1	24.6	25.3	9.6	-15.7	-2.7	4.6	34.5	58.8
Net exports		-444.9	-458.1	-469.8	-515.4	-511.7	-525.2	-508.7	-528.3	-550.1	-580.3
Nominal GDP	% change	4.5	4.2	3.9	2.7	4.9	5.3	8.8	5.7	7.4	6.6
GDP Gap <sup>1</sup>	%	1.1	1.4	1.5	2.2	2.6	2.5	1.6	1.4	1.2	1.3
<b>Employment and Production</b>											
Nonfarm payroll employment	Millions	130.5	130.3	130.3	130.3	130.1	129.8	129.9	130.2	130.5	131.3
Unemployment rate	%	5.7	5.8	5.7	5.9	5.8	6.1	6.1	5.9	5.6	5.6
Industrial prod. index	% change	2.3	4.4	1.7	-2.3	-0.7	-4.0	4.1	5.7	5.6	4.3
Capacity util. rate - mfg.	%	73.0	73.6	74.0	73.5	73.5	73.0	73.7	74.8	75.6	76.5
Housing starts	Millions	1.72	1.68	1.70	1.74	1.74	1.75	1.89	2.04	1.93	1.92
Light motor vehicle sales		16.57	16.50	17.37	16.57	16.09	16.39	17.24	16.82	16.51	16.54
North Amer. produced		13.26	13.29	14.06	13.28	12.72	13.11	13.90	13.58	13.26	13.15
Other		3.31	3.22	3.32	3.29	3.37	3.28	3.34	3.24	3.26	3.39
<b>Income and Saving</b>											
Nominal GNP	Bill. \$	10361.7	10461.6	10571.7	10661.2	10781.3	10929.0	11168.3	11358.1	11546.1	11693.6
Nominal GNP	% change	2.4	3.9	4.3	3.4	4.6	5.6	9.0	7.0	6.8	5.2
Nominal personal income		2.2	4.3	-0.1	1.1	3.8	4.7	4.6	5.3	5.0	6.4
Real disposable income		10.8	2.7	-1.7	0.2	1.8	4.3	8.2	1.4	2.4	2.8
Personal saving rate	%	2.7	2.7	1.6	1.2	1.0	1.1	1.9	1.3	1.0	1.3
Corp. profits, IVA & CCAdj.	% change	24.9	15.2	3.6	19.1	-1.4	36.7	32.0	30.2	13.6	2.9
Profit share of GNP	%	8.1	8.3	8.3	8.6	8.5	9.0	9.5	9.9	10.1	10.0
Excluding FR Banks		7.9	8.1	8.1	8.4	8.3	8.8	9.3	9.8	9.9	9.9
Federal surpl./deficit	Bill. \$	-208.5	-251.6	-255.1	-302.7	-281.6	-364.4	-433.0	-379.2	-391.0	-380.0
State & local surpl./def.		-28.8	-23.6	-21.3	-26.3	-49.0	-5.7	6.5	35.3	11.8	18.3
Ex. social ins. funds		-30.8	-25.3	-22.8	-27.6	-50.1	-6.7	5.4	34.1	10.6	16.9
Gross natl. saving rate	%	15.0	14.6	13.7	13.2	12.8	13.1	13.6	14.3	13.6	13.8
Net natl. saving rate	%	2.9	2.5	1.5	0.9	0.4	0.9	1.6	2.5	2.1	2.3
<b>Prices and Costs</b>											
GDP chn.-wt. price index	% change	1.4	1.5	1.7	2.0	2.7	1.1	1.4	1.6	2.8	3.2
Gross Domestic Purchases chn.-wt. price index		1.2	2.5	1.8	1.9	3.7	0.4	1.7	1.4	3.4	3.5
PCE chn.-wt. price index		0.9	2.9	2.0	1.4	3.2	0.7	1.6	1.2	3.3	3.1
Ex. food and energy		1.2	2.0	2.0	0.9	1.5	1.1	0.9	1.3	2.1	1.7
CPI		1.6	3.2	2.0	2.2	4.0	0.4	2.2	0.9	4.0	4.4
Ex. food and energy		2.4	2.1	2.1	1.7	1.3	0.8	1.7	1.0	1.9	2.5
ECI, hourly compensation <sup>2</sup>		3.3	4.4	2.5	3.3	5.5	3.4	4.4	3.4	4.6	3.8
Nonfarm business sector		7.0	1.1	4.5	1.4	3.4	7.2	8.6	2.7	3.8	4.1
Output per hour		5.5	3.6	1.2	1.1	5.7	5.7	4.0	2.1	6.0	
Compensation per hour		-1.5	2.5	-3.1	-0.3	2.2	-1.3	-2.6	1.3	-1.6	1.8
Unit labor cost											

1. Percent difference between potential and actual. A positive number indicates that the economy is operating below potential.

2. Private-industry workers.

REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES  
(Seasonally adjusted, annual rate except as noted)

Item	Units	Projected											
		2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2006 Q4	2006 Q4
<b>EXPENDITURES</b>													
Nominal GDP	Bill. \$	11814.9	11994.8	12203.1	12371.0	12534.7	12707.4	12886.3	13055.1	13223.6	13391.7		
Real GDP	Bill. Ch. \$	10891.0	10994.3	11100.6	11182.4	11286.5	11389.2	11487.8	11584.8	11681.0	11776.0		
Real GDP	% change	4.0	3.8	3.9	3.0	3.8	3.7	3.5	3.4	3.4	3.3		
Gross domestic purchases		3.9	5.0	4.3	2.4	3.7	3.8	3.9	3.3	3.5	3.7		
Final sales		5.0	3.4	3.0	4.5	3.9	3.5	3.2	3.7	3.5	3.1		
Priv. dom. final purchases		5.8	5.4	4.2	4.2	4.0	3.8	3.9	3.8	4.0	3.8		
Personal cons. expenditures		5.1	4.2	3.6	3.1	3.3	3.5	3.6	3.6	3.6	3.5		
Durables		17.2	3.9	1.8	8.6	2.0	7.1	5.8	5.6	6.8	6.2		
Nondurables		4.7	5.9	5.4	1.2	3.9	4.3	4.2	4.3	4.2	4.2		
Services		3.0	3.4	3.2	2.9	3.3	2.3	2.9	2.8	2.6	2.6		
Business fixed investment		13.0	14.5	4.5	7.6	10.9	9.8	9.4	7.7	8.5	6.9		
Equipment & Software		17.5	18.4	6.7	8.3	12.5	10.5	10.3	8.3	10.0	8.1		
Nonres. structures		-1.1	2.1	-2.8	5.0	5.8	7.5	6.2	5.7	3.7	3.1		
Residential structures		1.6	3.4	10.2	11.4	0.5	-2.4	-1.7	0.1	1.2	1.4		
Exports		6.0	3.2	9.1	8.5	7.5	8.5	5.3	6.3	6.2	7.2		
Imports		4.6	11.4	9.9	1.8	5.7	7.7	7.3	4.4	6.4	8.4		
Gov't. cons. & investment		0.7	0.9	0.1	1.7	2.9	2.8	2.3	2.2	2.2	2.3		
Federal		4.8	1.2	0.4	2.4	4.5	3.7	2.2	1.7	1.6	2.0		
Defense		10.1	-0.6	0.3	3.0	6.3	5.1	2.8	2.1	2.0	2.4		
State & local		-1.7	0.6	-0.1	1.3	2.0	2.2	2.4	2.5	2.5	2.5		
Change in bus. inventories	Bill. Ch. \$	34.5	47.2	71.9	30.4	26.3	32.1	39.6	32.5	27.9	32.9		
Nonfarm		30.4	45.9	73.3	27.4	24.4	30.2	37.8	30.6	25.9	31.0		
Net exports		-583.2	-621.1	-638.2	-622.4	-625.9	-635.4	-652.5	-654.0	-664.8	-682.1		
Nominal GDP	% change	5.5	6.2	7.1	5.6	5.4	5.6	5.8	5.3	5.3	5.2		
GDP Gap <sup>1</sup>	%	1.1	1.1	0.9	1.0	0.8	0.7	0.7	0.7	0.7	0.7		
<b>EMPLOYMENT AND PRODUCTION</b>													
Nonfarm payroll employment	Millions	131.7	132.3	132.8	133.4	133.9	134.4	134.9	135.4	135.8	136.1		
Unemployment rate	%	5.5	5.4	5.3	5.1	5.1	5.1	5.1	5.1	5.1	5.1		
Industrial prod. index	% change	2.7	4.5	3.5	2.1	5.7	6.3	4.4	3.6	3.5	3.3		
Capacity util. rate - mfg.	%	77.0	77.6	78.1	78.2	78.9	79.8	80.2	80.5	80.8	81.0		
Housing starts	Millions	1.97	1.97	2.08	2.00	1.97	1.97	1.95	1.94	1.94	1.93		
Light motor vehicle sales		17.07	17.20	16.41	17.05	17.11	17.16	17.22	17.23	17.25	17.26		
North Amer. produced		13.81	13.56	13.10	13.55	13.66	13.68	13.73	13.74	13.75	13.76		
Other		3.27	3.65	3.31	3.50	3.45	3.48	3.49	3.49	3.50	3.50		
<b>INCOME AND SAVING</b>													
Nominal GNP	Bill. \$	11853.0	12022.8	12233.9	12399.0	12556.4	12715.7	12883.7	13038.2	13191.9	13343.6		
Nominal GNP	% change	5.6	5.9	7.2	5.5	5.2	5.2	5.4	4.9	4.8	4.7		
Nominal personal income		4.6	13.9	3.2	5.8	4.4	6.6	8.2	6.6	6.4	6.1		
Real disposable income		2.9	10.8	-1.9	1.7	2.1	4.5	6.5	4.7	4.4	4.0		
Personal saving rate	%	0.7	2.2	0.7	0.4	0.1	0.4	1.1	1.4	1.6	1.7		
Corp. profits, IVA & CCAdj.	% change	-17.7	65.9	13.5	6.6	5.8	-2.7	1.1	-2.5	-1.2	-1.6		
Profit share of GNP	%	9.4	10.6	10.7	10.7	10.5	10.4	10.2	10.1	9.9			
Excluding FR Banks		9.3	10.4	10.5	10.6	10.4	10.3	10.1	10.0	9.8			
Federal surpl./deficit	Bill. \$	-375.0	-331.7	-270.9	-253.8	-256.6	-272.6	-321.5	-309.7	-310.0	-297.9		
State & local surpl./def.		4.5	35.6	30.8	26.5	14.1	22.0	24.3	22.4	24.4	28.2		
Ex. social ins. funds		3.0	34.2	29.9	25.5	13.1	21.0	23.3	21.4	23.4	27.2		
Gross natl. saving rate	%	13.8	14.5	14.4	14.3	14.0	13.9	13.9	14.0	14.0	14.1		
Net natl. saving rate		1.3	3.2	3.4	3.3	2.9	2.8	2.8	2.9	2.9	2.9		
<b>PRICES AND COSTS</b>													
GDP chn.-wt. price index	% change	1.4	2.3	3.1	2.5	1.6	1.9	2.2	1.9	1.8	1.8		
Gross Domestic Purchases chn.-wt. price index		1.9	2.9	2.9	3.3	2.5	2.0	2.0	1.6	1.6	1.6		
PCE chn.-wt. price index		1.3	2.7	2.1	3.7	2.4	2.0	1.8	1.7	1.7	1.7		
Ex. food and energy		0.9	1.7	2.2	2.2	2.1	2.0	1.9	1.9	1.8	1.8		
CPI		1.7	3.4	2.5	4.2	2.8	2.3	2.1	2.0	1.9	1.9		
Ex. food and energy		1.8	2.3	2.6	2.1	2.4	2.4	2.3	2.2	2.2	2.2		
ECI, hourly compensation <sup>2</sup>		4.0	3.2	2.5	4.3	4.5	4.6	4.7	4.7	4.8	4.8		
Nonfarm business sector		0.9	2.3	3.5	0.6	3.3	2.5	2.5	2.5	2.6	2.7		
Output per hour		5.5	10.2	6.3	2.3	2.8	4.8	4.9	5.0	5.0	5.0		
Compensation per hour		4.5	7.7	2.7	1.7	-0.5	2.3	2.4	2.5	2.3	2.3		
Unit labor cost													

1. Percent difference between potential and actual. A positive number indicates that the economy is operating below potential.  
 2. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	02Q4/ 01Q4	03Q4/ 02Q4	04Q4/ 03Q4
<b>Real GDP Gross dom. purchases</b>	2.6	0.7	1.9	4.1	7.4	4.2	4.5	3.3	4.0	2.3	4.4	4.5	3.9
<b>Final sales Priv. dom. final purchases</b>	2.0	0.7	2.4	5.1	6.8	3.7	3.3	2.5	5.0	1.2	4.5	4.2	3.6
<b>Personal cons. expenditures</b>	2.0	1.7	1.8	2.7	3.6	2.5	2.9	1.1	3.6	1.8	2.7	2.6	2.6
<b>Durables</b>	-1.2	-0.2	-0.0	1.6	1.4	0.5	0.2	-0.0	1.4	0.1	0.8	0.1	0.5
<b>Nondurables</b>	-0.1	1.0	1.0	0.3	1.4	1.0	1.3	0.0	0.9	0.5	0.9	0.9	0.9
<b>Services</b>	1.0	0.9	0.9	0.8	0.8	1.2	1.4	1.1	1.3	1.2	0.9	1.3	1.3
<b>Business fixed investment</b>	-0.1	-0.3	-0.0	1.1	1.5	1.1	0.4	1.2	1.3	-0.6	0.9	1.1	1.1
<b>Equipment &amp; Software</b>	0.3	-0.2	0.3	0.8	1.5	0.9	0.6	1.1	1.3	-0.2	0.9	1.1	1.1
<b>Nonresidential structures</b>	-0.5	-0.2	-0.3	0.3	-0.3	0.0	0.2	-0.2	0.2	-0.5	0.0	-0.0	-0.0
<b>Residential structures</b>	0.1	0.2	0.4	0.4	1.1	0.5	0.3	0.9	0.1	0.3	0.6	0.4	0.4
<b>Net exports</b>	-0.4	-1.7	0.1	-0.5	0.6	-0.7	-0.8	-1.1	-0.1	-0.9	-0.1	-0.8	-0.8
<b>Exports</b>	0.3	-0.4	-0.2	-0.2	1.0	1.6	0.7	0.7	0.6	0.3	0.6	0.6	0.6
<b>Imports</b>	-0.7	-1.3	0.3	-0.3	-0.4	-2.2	-1.5	-1.8	-0.7	-1.3	-0.7	-1.4	-1.4
<b>Government cons. &amp; invest.</b>	0.4	0.8	0.1	1.4	0.0	0.3	0.5	0.4	0.1	0.7	0.4	0.3	0.3
<b>Federal</b>	0.2	0.6	0.0	1.4	-0.2	0.3	0.5	0.2	0.3	0.5	0.4	0.4	0.3
<b>Defense</b>	0.1	0.5	-0.1	1.5	-0.4	0.5	0.5	0.1	0.5	0.3	0.4	0.2	0.2
<b>Nondefense</b>	0.1	0.0	0.2	-0.1	0.1	-0.2	0.0	0.1	-0.1	0.2	-0.0	0.0	0.0
<b>State and local</b>	0.2	0.2	0.0	-0.1	0.3	-0.0	0.0	0.2	-0.2	0.2	0.1	0.0	0.0
<b>Change in bus. inventories</b>	0.6	0.1	-0.5	-1.0	0.6	0.5	1.2	0.8	-1.0	1.1	-0.1	0.4	0.4
<b>Nonfarm</b>	0.4	0.1	-0.5	-0.9	0.5	0.3	1.1	0.9	-1.0	1.0	-0.2	0.4	0.4
<b>Farm</b>	0.2	0.0	0.1	-0.1	0.1	0.2	0.1	-0.1	0.1	0.0	0.1	-0.0	-0.0

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	Projected								Projected	
	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2006 Q4/03Q4
Real GDP Gross dom. purchases	3.8 5.2	3.9 4.5	3.0 2.6	3.8 3.9	3.7 4.1	3.5 4.1	3.4 3.5	3.3 3.8	3.9 3.9	3.6 4.7
Final sales Priv. dom. final purchases	3.4 4.6	3.0 3.6	4.4 3.6	3.9 3.5	3.5 3.3	3.2 3.4	3.7 3.5	3.1 3.3	3.6 4.1	3.7 4.1
Personal cons. expenditures	2.9	2.6	2.1	2.3	2.4	2.5	2.5	2.5	2.5	2.6 2.4
Durables	0.3	0.2	0.7	0.2	0.6	0.5	0.5	0.5	0.5	0.5 0.4
Nondurables	1.2	1.1	0.2	0.8	0.9	0.9	0.9	0.8	0.9	0.8 0.9
Services	1.4	1.3	1.2	1.4	1.0	1.2	1.2	1.1	1.1	1.2 1.1
Business fixed investment	1.5	0.5	0.8	1.1	1.0	1.0	0.8	0.9	0.8	1.1 0.9
Equipment & Software	1.4	0.6	0.7	1.0	0.9	0.8	0.7	0.8	0.7	1.1 0.8
Nonresidential structures	0.1	-0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.0 0.1
Residential structures	0.2	0.6	0.6	0.0	-0.1	0.0	0.0	0.1	0.1	0.4 0.3
Net exports	-1.4	-0.6	0.6	-0.1	-0.4	-0.6	-0.1	-0.4	-0.6	-0.8 -0.4
Exports	0.3	0.9	0.8	0.8	0.9	0.6	0.7	0.6	0.8	0.6 0.7
Imports	-1.7	-1.5	-0.3	-0.9	-1.2	-1.2	-0.7	-1.0	-1.4	-1.0 -1.1
Government cons. & invest.	0.2	0.0	0.3	0.5	0.5	0.4	0.4	0.4	0.4	0.3 0.4
Federal	0.1	0.0	0.2	0.3	0.3	0.2	0.1	0.1	0.1	0.3 0.2
Defense	-0.0	0.0	0.1	0.3	0.2	0.1	0.1	0.1	0.1	0.2 0.1
Nondefense	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0 0.0
State and local	0.1	-0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.0	0.2 0.3
Change in bus. inventories	0.5	0.9	-1.5	-0.1	0.2	0.3	-0.2	-0.2	0.2	0.4 -0.1
NonFarm	0.5	1.0	-1.6	-0.1	0.2	0.3	-0.2	-0.2	0.2	-0.1 0.0
Farm	-0.1	-0.1	0.2	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0 0.0

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

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

Item	Fiscal year			2004				2005				2006				
	2003 <sup>a</sup>	2004 <sup>a</sup>	2005	2006	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4 <sup>a</sup>	Q1 <sup>a</sup>	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget</b>																
Receipts <sup>1</sup>	1782	1880	2128	2262	410	550	479	487	452	664	525	522	478	706	556	544
Outlays <sup>1</sup>	2159	2293	2457	2600	581	576	565	605	628	611	612	637	673	650	640	672
Surplus/deficit <sup>1</sup>	-377	-413	-329	-338	-171	-26	-86	-118	-177	53	-87	-115	-195	56	-84	-128
On-budget	-538	-568	-496	-514	-194	-99	-96	-171	-202	-24	-99	-158	-232	-27	-97	-173
Off-budget	161	155	167	176	23	73	10	53	25	77	12	43	37	83	13	45
Means of financing																
Borrowing	374	378	318	361	136	41	83	102	165	-44	95	124	171	-27	92	118
Cash decrease	26	-1	8	-7	12	-23	8	12	2	-10	5	-5	23	-25	0	10
Other <sup>2</sup>	-22	36	3	-16	23	8	-6	4	10	2	-13	4	0	-4	-8	-0
Cash operating balance, end of period	35	36	28	35	21	45	36	25	22	33	28	33	10	35	35	25
<b>NIPA federal sector</b>																
Receipts	1863	1933	2175	2329	1915	1949	1966	2057	2183	2218	2240	2266	2319	2349	2380	2411
Expenditures	2209	2314	2453	2632	2306	2329	2341	2389	2454	2471	2497	2539	2640	2659	2690	2709
Consumption expenditures	646	694	737	782	691	700	713	714	737	744	755	765	782	788	794	801
Defense	425	469	502	538	465	474	487	484	501	506	516	525	537	542	547	553
Nondefense	221	225	235	245	226	227	226	230	236	238	239	240	245	246	247	249
Other spending	1563	1620	1715	1850	1615	1629	1628	1675	1717	1727	1742	1774	1859	1871	1895	1908
Current account surplus	-345	-381	-278	-303	-391	-380	-375	-332	-271	-254	-257	-273	-322	-310	-310	-298
Gross investment	92	102	109	116	102	104	104	111	105	109	112	114	115	116	118	119
Gross saving less gross investment <sup>3</sup>	-347	-391	-291	-318	-402	-391	-386	-348	-280	-266	-270	-287	-336	-324	-324	-312
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-274	-347	-262	-297	-360	-352	-349	-313	-252	-237	-245	-265	-315	-304	-304	-291
Change in HEB, percent of potential GDP	1.2	0.5	-0.9	0.2	0.2	-0.1	-0.1	-0.3	-0.5	-0.1	0.0	0.1	0.4	-0.1	-0.0	-0.1
Fiscal impetus (FI) percent of GDP	0.9	0.8	0.3	0.3	0.2	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0

1. In February 2005, CBO projected a FY 2005 surplus of -\$398 billion (including spending on Iraq) while OMB projected a surplus of -\$427 billion. In its May Monthly Budget Review, CBO revised its projection of the FY 2005 surplus to be in the vicinity of -\$350 billion. 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 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

**Strictly Confidential (FR)  
Class II FOMC**

**Change in Debt of the Domestic Nonfinancial Sectors  
(Percent)**

June 22, 2005

Period <sup>1</sup>	Total	Federal government	Nonfederal				State and local governments	Memo: Nominal GDP
			Total	Households	Home mortgages	Consumer credit		
<i>Year</i>								
1999	6.4	-1.9	8.9	9.2	9.3	7.9	10.7	3.4
2000	4.8	-8.0	8.3	8.7	8.3	10.8	9.4	1.3
2001	6.2	-0.2	7.6	8.8	9.6	8.1	6.1	4.6
2002	6.9	7.6	6.7	9.6	11.9	4.5	2.7	2.7
2003	8.1	10.9	7.5	10.1	12.5	4.7	4.3	3.8
2004	8.6	9.0	8.5	11.2	13.6	4.6	5.5	6.2
2005	7.8	7.7	7.8	8.6	9.8	4.7	6.7	6.4
2006	6.5	7.5	6.3	6.7	7.3	4.9	6.1	5.9
							4.3	5.4
<i>Quarter</i>								
2004:1	9.3	12.0	8.7	11.8	13.9	5.6	4.6	10.3
2	7.7	10.7	7.0	10.3	12.1	2.8	3.7	3.4
3	8.2	4.8	8.9	11.4	14.3	5.8	5.7	6.6
4	8.2	7.2	8.4	9.4	11.4	3.9	7.7	5.5
2005:1	10.0	13.8	9.1	9.3	10.6	4.6	7.4	6.2
2	6.3	2.0	7.2	8.5	9.9	4.0	6.1	7.1
3	6.8	5.4	7.1	8.1	9.1	5.1	6.3	5.6
4	7.2	9.0	6.8	7.4	8.3	4.7	6.4	4.7
2006:1	7.6	13.3	6.3	6.9	7.6	4.8	6.0	5.8
2	5.6	3.3	6.2	6.6	7.2	4.8	6.0	5.3
3	5.8	4.7	6.1	6.3	6.8	4.9	6.1	5.3
4	6.3	7.8	5.9	6.2	6.7	4.9	5.9	5.2

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2005:Q1 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

**Strictly Confidential (FR)  
Class II FOMC**

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

June 22, 2005

Category	2003	2004	2005	2006	2004				2005				2006				
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<i>Net funds raised by domestic nonfinancial sectors</i>																	
1 Total	1609.8	1760.9	1632.8	1552.6	1696.3	1760.0	2185.4	1287.1	1452.5	1606.2	1799.0	1365.9	1449.8	1449.8	1595.6	1595.6	1595.6
2 Net equity issuance	-57.8	-241.0	-135.0	-203.2	-183.2	-226.0	-264.0	-249.0	-225.0	-225.0	-179.0	-131.0	-115.0	-115.0	-115.0	-115.0	-115.0
3 Net debt issuance	1667.5	1918.0	1873.8	1687.6	1899.5	1943.2	2411.4	1551.1	1701.5	1831.2	1978.0	1496.9	1564.8	1564.8	1710.6	1710.6	1710.6
<i>Borrowing sectors</i>																	
Nonfinancial business																	
4 Financing gap <sup>1</sup>	-14.1	27.8	-1.5	116.9	-27.7	131.8	122.4	41.4	-99.4	-70.5	-24.2	140.2	161.0	161.0	190.8	190.8	190.8
5 Net equity issuance	-57.8	-241.0	-135.0	-203.2	-183.2	-226.0	-264.0	-249.0	-225.0	-225.0	-179.0	-131.0	-115.0	-115.0	-115.0	-115.0	-115.0
6 Credit market borrowing	307.3	411.2	524.4	512.7	433.1	594.2	577.0	488.4	505.9	526.4	498.8	511.7	525.7	525.7	514.5	514.5	514.5
Households																	
7 Net borrowing <sup>2</sup>	846.5	1029.8	881.6	743.7	1107.8	943.8	956.3	890.2	868.3	811.4	768.9	745.2	730.3	730.3	730.5	730.5	730.5
8 Home mortgages	736.4	904.2	743.4	603.7	1017.0	838.2	801.7	770.7	724.0	677.3	630.6	607.2	588.5	588.5	588.5	588.5	588.5
9 Consumer credit	92.7	93.7	100.3	110.9	121.0	81.9	98.9	85.6	112.0	104.5	108.7	108.7	112.6	113.3	113.3	113.3	113.3
10 Debt/DPI (percent) <sup>3</sup>	107.8	112.8	117.6	118.7	114.4	113.7	116.3	117.3	118.4	118.8	118.6	118.7	118.8	118.9	118.9	118.9	118.9
State and local governments																	
11 Net borrowing	117.8	115.1	128.3	76.8	151.9	93.2	271.9	81.6	81.8	77.8	78.8	78.8	74.8	74.8	74.8	74.8	74.8
12 Current surplus <sup>4</sup>	176.2	204.2	188.4	196.5	198.4	226.4	192.9	190.6	180.1	189.8	193.7	193.7	196.8	196.8	196.8	196.8	196.8
Federal government																	
13 Net borrowing	396.0	361.9	339.5	354.4	206.7	312.1	606.2	91.0	245.4	415.6	631.4	161.3	234.0	234.0	390.8	390.8	390.8
14 Net borrowing (n.s.a.)	396.0	361.9	339.5	354.4	83.3	102.1	164.7	-44.4	95.2	124.1	171.0	-26.8	92.4	92.4	117.9	117.9	117.9
15 Unified deficit (n.s.a.)	399.1	400.7	325.6	350.7	85.7	118.1	176.6	-52.8	86.9	115.0	194.7	-55.8	84.0	84.0	127.8	127.8	127.8
<i>Depository institutions</i>																	
16 Funds supplied	476.4	825.6	630.7	588.7	423.3	1010.4	1092.6	432.4	454.3	543.5	664.9	527.4	620.1	542.4	542.4	542.4	542.4
Memo (percentage of GDP)																	
17 Domestic nonfinancial debt <sup>5</sup>	194.4	197.7	201.6	204.6	198.4	199.5	200.5	201.8	202.4	203.1	204.0	204.7	205.0	205.0	205.5	205.5	205.5
18 Domestic nonfinancial borrowing	15.2	16.3	15.0	12.8	16.1	16.2	19.8	12.5	13.6	14.4	15.3	11.5	11.8	11.8	12.8	12.8	12.8
19 Federal government <sup>6</sup>	3.6	3.1	2.7	2.7	1.7	2.6	5.0	0.7	2.0	3.3	4.9	1.2	1.8	1.8	2.9	2.9	2.9
20 Nonfederal	11.6	13.3	12.3	10.1	14.3	13.6	14.8	11.8	11.6	11.1	10.4	10.2	10.1	10.1	9.9	9.9	9.9

Note. Data after 2005:Q1 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.

2.6.4 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.

## International Developments

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The dollar appreciated substantially against most major foreign currencies over the intermeeting period; it was little changed on average against the currencies of our other important trading partners. Accordingly, our projected path of the broad real dollar starts out in the third quarter about 2 percent higher than anticipated in the April Greenbook. Thereafter, the dollar depreciates in real terms at an annual rate of roughly 1¼ percent, a touch less than in the previous Greenbook.

Notwithstanding the appreciation of the dollar, the spot price of West Texas intermediate (WTI) crude oil has increased \$7 per barrel since the April Greenbook to around \$59 per barrel. Moreover, later-dated futures contracts have also risen sharply, as market participants expect today's tight market conditions to persist. After dipping in May, prices of nonfuel primary commodities have moved back up in recent weeks, but in line with futures markets we expect them to trend down moderately over the forecast period.

### Summary of Staff Projections

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

Indicator	2004		2005	Projection		
	H1	H2		2005		2006
			Q1	Q2	H2	
Foreign output	4.2	3.1	2.7	3.2	3.5	3.3
April GB	4.2	2.9	3.0	3.4	3.5	3.3
Foreign CPI	2.8	2.7	1.3	2.3	2.6	2.4
April GB	2.8	2.7	1.2	2.6	2.6	2.4

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

Average foreign economic growth, which slowed in the first quarter to 2¾ percent at an annual rate, is estimated to have rebounded to a 3¼ percent pace in the second quarter. The softness in the first quarter largely reflects disappointing performance in the emerging market economies, but recent indicators for these economies have been more positive. Going forward, foreign economic growth is projected to pick up a bit, averaging nearly 3½ percent for the remainder of the forecast period. This pace is little changed from the April Greenbook, as the stimulus to foreign economies provided by the stronger dollar and more supportive financial conditions is offset by restraint from higher oil prices. After dipping in the first quarter, foreign CPI inflation is estimated to have increased to 2¼ percent in the second quarter, and we expect it to remain at about that

next year, down a little from the April Greenbook, with domestic demand remaining weak.

### Prices of Internationally Traded Goods

After a 4¾ percent (annual rate) increase in the first quarter of 2005, core import prices are projected to rise 2½ percent in the second quarter, a touch lower than in the April Greenbook and in line with the April and May BLS import price data. So far in the second quarter, material-intensive goods have continued to see steady price increases, driven largely by the run-up in commodity prices early this year; prices of finished goods have decelerated after advancing rapidly in the fourth quarter of 2004 and the first quarter of 2005.

### Staff Projections of Selected Trade Prices

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

Trade category	2004		2005	Projection		2006	
	H1	H2	Q1	2005			
				Q2	H2		
<i>Exports</i>							
Core goods	6.9	3.4	6.0	5.1	2.8	2.0	
April GB	6.9	3.4	6.0	4.5	2.7	2.7	
<i>Imports</i>							
Non-oil core goods	5.2	3.3	4.8	2.6	1.9	.6	
April GB	5.2	3.3	4.7	3.0	2.3	.7	
Oil (dollars per barrel)	34.55	40.91	39.89	46.90	54.97	54.29	
April GB	34.55	40.91	39.87	43.20	46.90	46.86	

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.

We project that core import price inflation will moderate further, to 2 percent, in the second half of 2005. The stepdown from earlier this year reflects the recent appreciation of the dollar, the effects of which offset continued upward pressures from previous run-ups in nonfuel commodity prices. In 2006, the impetus from the prior runup in commodity prices vanishes, and with only modest changes projected in the dollar, core import price inflation drops below 1 percent. Compared with the previous Greenbook, projected core import price inflation is down a bit this year, because of the downward

projected to slow after a strong first quarter, despite the stronger dollar, but imports of computers and semiconductors, in aggregate, accelerate slightly.

In the second half of 2005 and in 2006, real import growth is projected to pick up to about 6½ percent (annual rate) on average as imports of oil bounce back. Imports of core goods accelerate through the forecast period as price inflation in this category slows, restrained by the stronger path of the dollar and lower commodity prices. Imports of computers and semiconductors are projected to rise steadily, whereas growth of imported services eases, restrained by higher prices for services imports. Compared with the April Greenbook, our current projection of overall real import growth (excluding the first quarter) is marginally stronger, on average. We have marked up the projected growth of imported core goods and services, on average, in response to a lower path of prices for these categories, consistent with the stronger dollar.

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

Indicator	2004		2005	Projection		2006	
	H1	H2	Q1	2005			
				Q2	H2		
Real exports	7.3	4.6	9.1	8.5	8.0	6.2	
April GB	7.3	4.6	7.9	8.2	8.5	6.7	
Real imports	11.6	7.9	9.9	1.8	6.7	6.6	
April GB	11.6	7.9	13.7	1.2	6.9	6.4	

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

In March, nominal exports rebounded, more than retracing February's decline. This gain was more than accounted for by strong exports of services and capital goods. We estimate that real exports of goods and services rose at an annual rate of 9 percent in the first quarter, 1 percentage point stronger than projected in the April Greenbook. Real exports of services were much stronger than we had expected, whereas core goods, semiconductors, and computers were weaker.

In April, nominal exports of goods and services were again strong, particularly industrial supplies and capital goods (especially aircraft). As some of this strength is judged to be transitory, for the current quarter as a whole, we expect growth of real exports to slow a touch, to 8½ percent. Restrained by the stronger dollar, the growth of services slows to a

### Alternative Scenarios

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

Indicator and simulation	2005		2006	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	3.4	3.7	3.5	3.3
Weaker foreign demand	3.4	3.6	3.3	2.9
With additional dollar appreciation	3.4	3.4	2.9	2.6
Dollar depreciation	3.4	4.0	4.2	3.9
<i>U.S. PCE prices excluding food and energy</i>				
Baseline	2.2	2.0	1.9	1.8
Weaker foreign demand	2.2	2.0	1.8	1.6
With additional dollar appreciation	2.2	1.9	1.7	1.5
Dollar depreciation	2.2	2.3	2.0	1.9
<i>U.S. trade balance (percent share of GDP)</i>				
Baseline	-5.7	-5.9	-6.0	-5.9
Weaker foreign demand	-5.7	-5.9	-6.0	-5.9
With additional dollar appreciation	-5.7	-5.7	-6.0	-6.1
Dollar depreciation	-5.7	-6.0	-5.9	-5.6

Note. H1 is Q2/Q4; H2 is Q4/Q2. In these simulations, the nominal federal funds rate remains unchanged from baseline, and the monetary authorities in major foreign economies adjust their policy rates according to a Taylor rule.

Measure and country	1998	1999	2000	2001	2002	2003	2004	Projected 2005	Projected 2006
<b>REAL GDP (1)</b>									
Total foreign	1.5	5.0	4.2	0.3	3.0	2.9	3.6	3.2	3.3
Industrial Countries of which:	2.7	4.4	3.5	0.8	2.5	1.7	2.4	2.4	2.5
Canada	4.4	5.9	4.1	1.3	3.6	1.7	3.3	3.0	3.3
Japan	-1.1	0.2	3.2	-2.0	1.5	2.2	0.9	2.3	1.7
United Kingdom	-2.8	3.3	3.0	-2.2	1.9	2.7	2.9	2.3	2.4
Euro Area (2)	1.8	4.0	3.0	0.9	0.9	0.7	1.5	1.6	1.7
Germany	0.7	3.5	2.3	1.0	0.4	0.3	0.5	1.8	1.3
Developing Countries	-0.3	6.0	5.3	-0.5	3.6	4.5	5.5	4.4	4.5
Asia	-2.0	8.5	5.8	-1.1	5.8	6.5	5.9	5.3	5.1
Korea	-5.5	11.5	4.5	4.6	7.8	4.2	3.0	2.9	3.9
China	9.7	7.1	7.7	7.0	8.3	10.0	9.5	9.1	7.5
Latin America	1.2	4.4	4.5	-1.3	1.5	2.4	5.1	3.3	4.0
Mexico	2.9	5.5	4.8	-1.3	2.0	2.1	4.8	3.4	4.1
Brazil	-1.7	3.4	3.9	-0.9	4.2	0.8	4.6	1.8	2.5
<b>CONSUMER PRICES (3)</b>									
Industrial Countries of which:	0.9	1.1	1.7	0.9	2.1	1.3	1.8	1.2	1.5
Canada	1.1	2.4	3.1	1.1	3.8	1.7	2.3	1.7	2.0
Japan	0.7	-1.2	-1.2	-1.3	-0.5	-0.5	0.4	-0.6	0.2
United Kingdom (4)	1.4	-1.2	-1.0	-1.0	1.6	1.3	1.4	2.2	1.8
Euro Area (2)	0.9	1.5	2.5	2.1	2.3	2.0	2.3	1.9	1.7
Germany	0.3	1.1	1.7	1.5	1.2	1.2	2.1	1.1	1.5
Developing Countries	9.0	4.6	4.1	2.8	2.9	3.1	3.9	3.3	3.6
Asia	4.9	0.1	1.9	1.2	0.8	2.1	3.2	2.9	3.2
Korea	5.8	1.2	2.5	3.3	3.4	3.5	3.4	3.6	4.2
China	-1.2	-1.0	1.0	-0.1	-0.5	2.7	3.3	2.1	3.0
Latin America	15.4	12.5	8.4	5.3	6.4	5.0	5.6	4.1	4.4
Mexico	17.3	13.5	8.7	5.1	5.3	3.9	5.3	3.5	4.0
Brazil	2.0	8.4	6.4	7.5	10.7	11.5	7.2	6.9	5.0

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	2004				2005				Projected				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP (1)</b>																
Total foreign	4.8	3.7	2.9	3.2	2.7	3.2	3.4	3.5	3.4	3.3	3.3	3.4	3.3	3.3	3.3	3.4
Industrial Countries of which:	3.0	3.0	1.9	1.6	2.3	2.1	2.5	2.6	2.6	2.5	2.5	2.6	2.5	2.5	2.5	2.6
Canada	2.6	5.0	3.5	2.1	2.3	2.7	3.4	3.6	3.6	3.1	3.3	3.3	3.1	3.3	3.3	3.3
Japan	5.2	-0.6	-1.0	0.2	4.9	1.4	1.4	1.4	1.5	1.6	1.7	1.8	1.6	1.7	1.7	1.8
United Kingdom	2.7	3.9	2.2	2.8	2.0	2.4	2.4	2.4	2.3	2.4	2.4	2.5	2.4	2.4	2.4	2.5
Euro Area (2)	2.6	1.7	2.1	0.6	2.0	1.3	1.6	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Germany	1.7	0.8	-0.2	-0.5	4.2	0.7	1.1	1.3	1.2	1.3	1.3	1.4	1.3	1.3	1.3	1.4
Developing Countries	7.3	4.5	4.3	5.7	3.3	4.7	4.8	4.7	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Asia	8.1	4.4	5.3	6.0	4.5	5.6	5.5	5.5	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Korea	2.6	2.4	3.3	3.8	1.4	2.9	3.5	3.8	3.8	4.0	4.0	4.0	4.0	4.0	4.0	4.0
China	13.9	2.8	10.1	11.7	13.0	8.0	8.0	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Latin America	6.6	4.6	4.0	5.3	12.0	3.6	3.9	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Mexico	5.8	4.2	4.0	5.4	1.7	3.7	4.0	4.0	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Brazil	7.5	4.3	5.1	1.7	1.3	2.0	2.0	2.0	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
<b>CONSUMER PRICES (3)</b>																
Industrial Countries of which:	0.9	1.5	1.5	1.8	1.4	1.3	1.4	1.2	1.5	1.4	1.5	1.5	1.4	1.5	1.5	1.5
Canada	0.9	2.2	2.0	2.3	2.1	1.7	1.9	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Japan	-0.3	-0.2	-0.1	0.4	-0.4	-0.4	-0.2	-0.6	-0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2
United Kingdom (4)	1.2	1.4	1.3	1.4	1.7	2.0	2.1	2.2	2.1	1.9	1.9	1.9	1.9	1.9	1.9	1.8
Euro Area (2)	1.7	2.3	2.3	2.3	2.0	2.0	2.0	2.0	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Germany	1.0	1.9	2.0	2.1	1.7	1.4	1.3	1.1	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.5
Developing Countries	3.1	3.6	4.5	3.9	3.4	3.1	3.3	3.6	3.6	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Asia	2.4	3.3	4.2	3.2	2.5	2.3	2.9	2.9	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Korea	3.2	3.4	4.3	3.4	3.1	2.7	3.6	4.2	4.2	4.5	4.5	4.5	4.5	4.5	4.5	4.5
China	3.0	4.3	5.2	3.3	2.8	1.7	2.1	2.1	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Latin America	4.7	4.6	5.2	5.6	4.9	5.1	4.7	4.1	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Mexico	4.3	4.3	4.8	5.3	4.4	4.6	4.2	3.5	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Brazil	6.8	5.5	6.8	7.2	7.4	7.9	7.1	6.9	7.1	6.2	5.4	5.4	5.4	5.4	5.4	5.4

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1998	1999	2000	2001	2002	2003	2004	2005	Projected 2006
<b>NIPA REAL EXPORTS and IMPORTS</b>									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-1.1	-1.0	-0.9	-0.2	-0.9	-0.3	-0.1	-0.8	-0.4
Exports of G&S	0.3	0.6	0.7	-1.3	1.1	-1.1	0.6	0.8	0.7
Imports of G&S	-1.4	-1.6	-1.6	1.1	1.1	-0.7	-1.3	-1.0	-1.1
Percentage change, Q4/Q4									
Exports of G&S	2.6	5.6	6.5	-11.9	3.5	6.1	5.9	8.4	6.2
Services	4.4	5.3	1.8	-8.9	9.8	3.8	4.4	7.4	5.2
Computers	7.3	13.4	22.7	-23.5	-1.0	11.0	5.9	18.0	14.4
Semiconductors	9.5	34.6	27.6	-34.6	9.9	38.8	-5.8	18.2	29.2
Other Goods 1/	1.2	3.3	5.9	-10.2	0.4	5.0	7.5	7.8	5.1
Imports of G&S	11.0	12.1	11.2	-7.6	9.7	4.9	9.8	6.2	6.6
Services	10.4	6.6	10.6	-5.9	8.9	3.7	2.2	6.5	5.0
Oil	4.1	-3.4	13.3	3.7	4.3	1.7	10.3	-5.4	1.4
Computers	26.4	26.0	13.9	-13.6	13.4	16.9	22.3	13.4	17.5
Semiconductors	-7.7	34.2	22.8	-51.1	10.0	0.3	9.2	17.5	29.2
Other Goods 2/	11.2	12.9	10.5	-6.5	9.9	4.9	10.6	7.6	7.0
Billions of Chained 2000 Dollars									
Net Goods & Services	-203.7	-296.2	-379.5	-399.1	-472.1	-518.5	-583.7	-630.5	-663.4
Exports of G&S	966.5	1008.2	1096.3	1036.7	1012.3	1031.8	1120.3	1200.0	1281.3
Imports of G&S	1170.3	1304.4	1475.8	1435.8	1484.4	1550.2	1704.0	1830.5	1944.6
Billions of dollars									
US CURRENT ACCOUNT BALANCE									
Current Acct as Percent of GDP	-214.1	-300.1	-416.0	-389.5	-475.2	-519.7	-668.1	-814.8	-927.2
	-2.4	-3.2	-4.2	-3.8	-4.5	-4.7	-5.7	-6.5	-7.1
Net Goods & Services (BOP)	-165.0	-263.4	-378.3	-362.7	-421.2	-494.8	-617.6	-720.7	-783.5
Investment Income, Net	8.8	19.1	25.7	30.3	15.5	51.8	36.2	12.2	-34.8
Direct Net	65.5	78.2	94.9	115.9	99.8	121.8	127.9	140.3	153.4
Portfolio, Net	-56.7	-59.1	-69.2	-85.5	-84.3	-70.0	-91.7	-128.2	-188.3
Other Income & Transfers, Net	-57.9	-55.8	-63.5	-57.1	-69.5	-76.7	-86.7	-106.3	-108.8

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2001				2002				2003			
	Q1		Q2		Q3		Q4		Q1		Q2	
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Net Goods & Services	-0.0	0.5	-0.6	-0.7	-1.1	-0.5	-0.4	-1.7	0.1	-0.5	0.6	-0.7
Exports of G&S	-0.6	-1.4	-2.0	-1.1	0.4	1.0	0.3	-0.4	-0.2	-0.2	1.0	1.6
Imports of G&S	0.6	1.9	1.5	0.5	-1.5	-1.4	-0.7	-1.3	-0.3	-0.3	-0.4	-2.2
Exports of G&S Services	-5.3	-12.7	-18.2	-10.8	4.7	11.0	3.1	-4.2	-1.5	-1.6	11.3	17.5
Services	-5.0	-0.7	-13.7	-15.3	21.7	4.5	3.5	10.4	-12.7	-3.4	14.1	20.6
Computers	-9.8	-35.7	-24.9	-21.3	-20.4	11.9	-3.8	12.3	-4.5	-3.4	38.2	19.8
Semiconductors	-3.0	-54.0	-45.3	3.7	24.9	38.8	11.4	-24.4	40.9	28.0	40.8	45.9
Other Goods 1/	-2.5	-11.5	-17.6	-8.6	-2.1	12.6	2.8	-10.3	2.4	-2.4	6.6	13.9
Imports of G&S Services	-3.7	-12.6	-10.3	-3.4	12.5	11.4	5.4	9.6	-2.0	2.5	2.8	17.1
Oil	-5.0	12.8	-18.3	-10.4	24.7	-5.8	2.8	16.6	-2.6	-9.4	17.9	11.1
Computers	63.6	-33.8	-28.2	48.9	-5.6	-17.6	-10.7	70.0	-6.1	-2.7	0.6	16.5
Semiconductors	-22.6	-23.3	-13.4	8.4	50.2	7.2	2.6	0.2	7.0	15.9	12.0	34.2
Other Goods 2/	-43.9	-70.1	-55.4	-23.7	42.3	33.9	-6.7	-17.6	-4.0	2.4	-1.5	4.4
Net Goods & Services	-5.5	-10.6	-3.7	-5.9	8.3	19.4	8.5	4.2	-1.8	5.5	-0.9	-17.9
Net Goods & Services	-398.2	-385.2	-398.4	-414.5	-444.9	-458.1	-469.8	-515.4	-511.7	-525.2	-508.7	-528.3
Exports of G&S	1097.2	1060.6	1008.7	980.3	991.6	1017.8	1025.5	1014.5	1010.6	1006.5	1033.8	1076.2
Imports of G&S	1495.4	1445.8	1407.1	1394.9	1436.5	1475.9	1495.3	1529.8	1522.3	1531.7	1542.5	1604.5
<b>Billions of Chained 2000 Dollars, s.a.a.r.</b>												
US CURRENT ACCOUNT BALANCE	-430.4	-393.6	-371.4	-362.4	-440.4	-477.1	-480.3	-503.0	-546.6	-515.2	-515.9	-501.0
Current Account as % of GDP	-4.3	-3.9	-3.7	-3.5	-4.3	-4.6	-4.6	-4.7	-5.1	-4.7	-4.6	-4.4
Net Goods & Services (BOP)	-389.0	-355.8	-357.1	-349.0	-372.7	-413.8	-430.3	-467.9	-499.3	-491.4	-490.8	-497.7
Investment Income, Net	24.7	31.3	3.3	62.1	11.4	1.8	14.1	34.5	29.3	50.6	50.9	76.5
Direct, Net	106.2	116.1	95.0	146.2	100.5	91.4	95.0	112.2	102.3	117.4	119.9	147.8
Portfolio, Net	-81.5	-84.7	-91.7	-84.2	-89.2	-89.6	-80.9	-77.7	-72.9	-66.8	-69.0	-71.3
Other Inc. & Transfers, Net	-66.0	-69.1	-17.6	-75.5	-79.0	-65.1	-64.2	-69.6	-76.6	-74.4	-76.0	-79.7

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2004				2005				Projected				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>																
Net Goods & Services	-0.8	-1.1	-0.1	-1.4	-0.6	-0.6	0.6	-0.1	-0.4	-0.6	-0.1	-0.4	-0.6	-0.6	-0.6	-0.6
Exports of G&S	0.7	0.7	0.6	0.3	0.9	0.8	0.8	-0.8	0.9	0.6	0.7	0.6	0.6	0.6	0.6	0.6
Imports of G&S	-1.5	-1.8	-0.7	-1.7	-1.5	-0.3	-0.3	-0.9	-1.2	-1.2	-0.7	-1.0	-1.0	-1.0	-1.0	-1.0
Percentage point contribution to GDP growth																
Exports of G&S	7.3	7.3	6.0	3.2	9.1	8.5	7.5	8.5	5.5	5.3	6.3	6.2	6.2	7.2	7.2	7.2
Services	3.4	10.2	-1.8	6.2	13.4	6.2	5.2	5.2	5.0	5.0	5.2	5.3	5.3	5.4	5.4	5.4
Computers	-8.3	-11.8	22.4	14.0	13.1	31.1	14.3	14.3	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4
Semiconductors	12.5	-10.1	-20.7	-11.7	-12.6	33.7	29.3	29.3	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2
Other Goods 1/	10.1	7.7	11.1	1.5	8.2	7.1	7.1	8.7	3.8	3.8	5.2	5.0	5.0	5.0	5.0	5.6
Imports of G&S	10.6	12.6	4.6	11.4	9.9	1.8	5.7	7.7	7.7	7.3	4.4	6.4	6.4	8.4	8.4	8.4
Services	3.1	10.6	2.8	5.2	7.8	5.0	6.6	6.6	5.8	5.8	5.0	4.7	4.7	4.5	4.5	4.5
Oil	3.9	-33.1	2.0	56.1	3.3	-26.1	-3.8	9.1	6.0	-13.8	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Computers	12.8	38.6	29.9	10.1	11.6	7.8	17.2	17.3	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Semiconductors	42.2	21.2	7.4	-23.2	-7.8	24.0	28.9	29.3	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2
Other Goods 2/	8.9	19.7	3.7	10.6	11.8	5.9	6.1	6.7	6.8	6.8	6.9	7.0	7.0	7.0	7.0	7.0
Billions of Chained 2000 Dollars, s.a.a.r.																
Net Goods & Services	-550.1	-580.3	-583.2	-621.1	-638.2	-622.4	-625.9	-635.4	-635.4	-652.5	-654.0	-664.8	-682.1			
Exports of G&S	1095.4	1114.8	1131.1	1140.0	1165.0	1188.9	1210.6	1235.6	1235.6	1251.7	1270.8	1290.0	1312.6			
Imports of G&S	1645.5	1695.1	1714.3	1761.2	1803.2	1811.4	1836.5	1871.0	1871.0	1904.1	1924.8	1954.8	1994.8			
Billions of dollars, s.a.a.r.																
US CURRENT ACCOUNT BALANCE	-584.4	-666.5	-667.9	-753.4	-780.2	-784.8	-829.0	-865.1	-905.7	-908.9	-934.1	-960.0				
Current Account as % of GDP	-5.1	-5.7	-5.7	-6.3	-6.4	-6.3	-6.6	-6.8	-7.0	-7.0	-7.1	-7.2				
Net Goods & Services (BOP)	-555.4	-608.2	-629.9	-676.9	-687.0	-701.5	-737.6	-756.6	-776.2	-774.9	-783.3	-799.7				
Investment Income, Net	65.8	29.6	30.8	18.8	20.7	18.0	11.7	-1.7	-12.6	-27.0	-41.7	-58.1				
Direct, Net	140.3	116.3	121.4	133.7	125.2	138.5	148.6	149.2	151.2	150.7	153.9	158.0				
Portfolio, Net	-74.6	-86.7	-90.6	-114.9	-104.4	-120.5	-136.9	-150.9	-163.7	-177.7	-195.6	-216.1				
Other Inc. & Transfers, Net	-94.7	-88.0	-68.8	-95.3	-113.9	-101.3	-103.1	-106.8	-116.9	-107.0	-109.1	-102.3				

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

## **Part 2**

June 22, 2005

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Recent Developments**

June 22, 2005

## **Recent Developments**

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**Production of Domestic Light Vehicles**  
(Millions of units at an annual rate except as noted; FRB seasonals)

Item	2004	2005			2005		
		Q1	Q2 <sup>1</sup>	Q3 <sup>1</sup>	Apr.	May	June <sup>1</sup>
U.S. production		11.7	11.6	11.2	11.4	11.1	11.0
Autos		4.3	4.4	4.1	4.1	4.1	4.1
Light trucks		7.4	7.2	7.1	7.3	6.9	7.3
Days' supply <sup>2</sup>		74	74	n.a.	n.a.	70	71
Autos		59	57	n.a.	n.a.	51	53
Light trucks		83	86	n.a.	n.a.	84	83
Inventories <sup>3</sup>		3.22	3.15	n.a.	n.a.	3.14	3.05
Autos		1.02	.99	n.a.	n.a.	.96	.92
Light trucks		2.20	2.15	n.a.	n.a.	2.18	2.12
Memo: U.S. production, total motor vehicles <sup>4</sup>		12.0	12.1	11.6	11.8	11.5	11.4
							11.9

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

1. Production rates for June and the second and third quarters reflect the latest schedules from Ward's Communications.

2. Quarterly and semiannual values are calculated with end-of-period stocks and average reported sales.

3. End-of-period stocks.

4. Includes medium and heavy trucks.

n.a. Not available.

Elsewhere in the transportation sector, production has been buoyant. The IP index for commercial aircraft jumped at an annual rate of 25 percent in the first quarter, and robust output gains in April and May have put the industry on track for another significant increase in the second quarter.

In the high-tech sector, recent news about semiconductor production has been mostly positive. Shipments of semiconductors in the first four months of the year exceeded industry expectations, and the Semiconductor Industry Association (SIA) raised its forecast of worldwide nominal shipments for 2005 from no change to an increase of 6 percent.<sup>3</sup> Nonetheless, this forecast, coming on the heels of the solid output gains early in the year, actually implies some decline in the rate of increase in the near-term. Similarly, although Intel upgraded its revenue guidance for the second quarter, that guidance still shows some slowing in the seasonally adjusted rate of increase relative to the first quarter. Orders for semiconductor manufacturing equipment, which are heavily influenced by the introduction of each new generation of semiconductor chips, have been

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<sup>3</sup> Other outside forecasts of semiconductor shipments have been revised up similarly in recent weeks.