

Part 1

September 14, 2005

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

September 14, 2005

Summary and Outlook

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

Measure and scenario	2005		2006		2007
	H1	H2	H1	H2	
<i>Real GDP</i>					
Baseline	3.5	3.4	3.9	3.0	2.9
Pessimistic	3.5	2.8	3.0	3.1	3.4
Optimistic	3.5	4.0	4.1	3.0	2.9
<i>Civilian unemployment rate¹</i>					
Baseline	5.1	5.0	5.0	5.0	5.0
Pessimistic	5.1	5.1	5.3	5.4	5.2
Optimistic	5.1	4.9	4.8	4.8	4.8
<i>PCE prices excluding food and energy</i>					
Baseline	2.0	1.9	2.4	2.2	2.0
Pessimistic	2.0	1.9	2.5	2.4	2.0
Optimistic	2.0	1.9	2.4	2.2	2.1

1. Average for the final quarter of the period.

potential to be far reaching, given the key role that the affected region plays in energy production and the distribution of goods and services—both at home and abroad. That said, the United States economy has proven to be remarkably resilient in recent years to a series of significant shocks, and signs of recovery and adjustment already are evident in parts of the affected areas and elsewhere. In addition, the massive federal response will inject considerable fiscal stimulus into the economy. Recognizing these crosscurrents, we attempt in this section to lay out a broad framework for the analysis of the macroeconomic effects of Hurricane Katrina.

In the first instance, even beyond the enormous human tragedy, Katrina made the nation economically worse off. Not only did output fall as the result of the storm, but households lost their homes and other possessions, businesses were damaged or destroyed, and key infrastructure was wiped out. We estimate that the loss of real net worth for the nation as a whole totaled \$76 billion: \$20 billion of business capital,

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

Measure	2005:Q3		2005:Q4	
	Aug. GB	Sept. GB	Aug. GB	Sept. GB
Real GDP	4.3	3.1	4.0	3.7
Private domestic final purchases	4.7	3.9	2.3	1.5
Personal consumption expenditures	4.6	4.1	2.1	1.1
Residential investment	3.2	3.6	-2.4	2.4
Business fixed investment	5.9	2.6	6.1	3.9
Government outlays for consumption and investment	3.1	2.1	2.4	4.6
	Contribution to growth (percentage points)			
Inventory investment	-.2	-.9	2.0	2.1
Net exports	-.1	.3	-.5	-.7

sector, the storm has restrained activity in a host of other industries, including basic chemicals, shipbuilding, and food processing. In total, we figure that Katrina knocked an estimated 2½ percentage points off the growth of industrial production in the third quarter. In addition, we have marked down third-quarter IP an additional 0.6 percentage point to account for the ongoing strike at Boeing. Finally, even aside from these special factors, IP appears to have been running a little softer than we had expected as of the August Greenbook. In the fourth quarter, industrial production is expected to increase at an annual rate of 4 percent, down about 1½ percentage points from the last Greenbook.

As noted, incoming data show that consumer spending before Katrina was well maintained. However, we expect Katrina to hold down consumption growth as those directly affected by dislocations and job losses lower their own consumption and as a deterioration in sentiment reduces consumption growth more broadly. Consumption will also be held down by the sizable increase in gasoline prices, attributable only in part to the effects of the hurricane. All told, we have lowered our forecast of real consumer expenditure growth about ¾ percentage point on average over the second half of this year, to annual rates of 4.1 percent in the third quarter and 1.1 percent in the fourth.³

³ As in the last Greenbook, a good part of the swing in consumption spending from the third quarter to the fourth quarter is attributable to the effects of the expiration of the “employee pricing” programs on the timing of motor vehicle purchases.

Measure	2005		2006	2007
	H1	H2		
Real GDP	3.5	3.4	3.4	2.9
Previous	3.6	4.1	3.1	...
Final sales	4.4	2.8	3.6	2.6
Previous	4.6	3.2	3.2	...
PCE	3.3	2.6	3.6	3.1
Previous	3.6	3.4	3.3	...
Residential investment	10.8	3.0	1.3	-1.0
Previous	9.6	.4	-.4	...
BFI	7.2	3.3	9.0	5.3
Previous	6.2	6.0	7.9	...
Government purchases	2.1	3.4	2.0	1.5
Previous	2.2	2.7	2.1	...
Exports	9.1	5.8	6.3	5.7
Previous	9.8	7.4	5.5	...
Imports	3.5	5.0	6.2	6.1
Previous	3.0	6.7	5.9	...
	Contribution to growth (percentage points)			
Inventory change	-.9	.6	-.1	.3
Previous	-1.0	.9	-.1	...
Net exports	.3	-.2	-.4	-.4
Previous	.5	-.3	-.4	...

... Not applicable.

The Longer-Run Outlook for the Economy

We now project real GDP growth of 3.4 percent in 2006—the same rate of growth we project for 2005 and about $\frac{1}{4}$ percentage point higher than in the last Greenbook forecast. For 2007, as the effects of Katrina on rebuilding wane, we expect growth to slow a bit to just under 3 percent.

Household spending. Our forecast calls for the growth of real consumer spending to pick up to a pace of about $3\frac{1}{2}$ percent in 2006. In 2007, the pace of consumer spending

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

Measure	1974-95	1996-2001	2002	2003	2004	2005	2006	2007
Structural labor productivity	1.5	2.7	3.1	3.4	3.2	2.7	2.9	2.8
Previous	1.5	2.7	3.1	3.4	3.2	2.8	2.9	...
<i>Contributions</i> ¹								
Capital deepening	.7	1.4	.6	.5	.7	.8	.9	1.0
Previous	.7	1.4	.6	.5	.7	.8	.9	...
Multifactor productivity	.5	1.1	2.3	2.6	2.2	1.7	1.7	1.6
Previous	.5	1.1	2.3	2.6	2.2	1.7	1.7	...
Labor composition	.3	.3	.3	.3	.3	.3	.2	.2
MEMO								
Potential GDP	3.0	3.3	3.2	3.3	3.0	2.9	3.1	3.0
Previous	3.0	3.3	3.2	3.3	3.0	3.0	3.1	...

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. . . . Not applicable.

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

Measure	2003	2004	2005	2006	2007
Output per hour, nonfarm business	5.0	2.6	2.8	2.2	2.5
Previous	5.0	2.6	2.9	2.1	...
Nonfarm private payroll employment	-.1	1.8	1.6	1.5	.7
Previous	-.1	1.8	1.9	1.4	...
Household survey employment	1.2	1.3	1.7	1.1	.8
Previous	1.2	1.3	1.7	1.1	...
Labor force participation rate ¹	66.1	66.0	66.1	66.0	65.9
Previous	66.1	66.0	66.0	66.0	...
Civilian unemployment rate ¹	5.9	5.4	5.0	5.0	5.0
Previous	5.9	5.4	5.0	5.0	...
MEMO					
GDP gap ²	1.6	.9	.4	.1	.2
Previous	1.6	.9	.1	.1	...

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.

... Not applicable.

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

Measure	2003	2004	2005	2006	2007
PCE chain-weighted price index	1.7	3.1	3.2	1.9	1.8
Previous	1.7	3.1	2.6	2.1	...
Food and beverages	2.7	2.9	2.0	2.5	2.2
Previous	2.7	2.9	1.9	2.3	...
Energy	7.2	17.9	26.6	-5.1	-1.3
Previous	7.2	17.9	12.4	1.8	...
Excluding food and energy	1.3	2.2	1.9	2.3	2.0
Previous	1.3	2.2	2.0	2.1	...
Consumer price index	1.9	3.4	4.2	1.9	1.9
Previous	1.9	3.4	3.0	2.2	...
Excluding food and energy	1.2	2.1	2.3	2.6	2.2
Previous	1.2	2.1	2.3	2.3	...
GDP chain-weighted price index	2.0	2.9	2.7	2.0	2.1
Previous	2.0	2.9	2.3	2.1	...
ECI for compensation of private industry workers ¹	4.0	3.8	3.1	4.2	4.0
Previous	4.0	3.8	3.1	4.0	...
NFB compensation per hour	5.0	5.8	4.7	5.4	5.1
Previous	5.0	5.9	4.6	5.2	...
Prices of core nonfuel imports	1.6	3.7	1.9	.8	.6
Previous	1.6	3.7	2.5	.7	...

1. December to December.

... Not applicable.

Productivity and the labor market. In this forecast, the labor market adds about 165,000 new jobs per month on average in 2006, roughly the same rate of growth as in 2005. In 2007, with the labor market roughly in equilibrium, hiring sets in at a more sustainable pace of just under 100,000 new jobs per month.

In line with previous Greenbook forecasts, we expect actual productivity to move back toward the level of structural productivity over time. We project that output per hour will increase 2.2 percent in 2006, about $\frac{3}{4}$ percentage point less than the increase in structural productivity. This difference should suffice to close the gap between the two measures. For 2007, we project that actual productivity will rise 2.5 percent, almost in line with

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

Measure and scenario	2005		2006		2007
	H1	H2	H1	H2	
<i>Real GDP</i>					
Baseline			3.5	3.4	3.9
Sentiment slump			3.5	3.1	3.0
With monetary policy response			3.5	3.1	3.2
Deteriorating inflation expectations			3.5	3.4	3.7
With monetary policy response			3.5	3.4	3.7
Buoyant households			3.5	3.4	4.3
With monetary policy response			3.5	3.4	4.3
Low inflation			3.5	3.4	4.1
With monetary policy response			3.5	3.4	4.1
<i>Civilian unemployment rate¹</i>					
Baseline			5.1	5.0	5.0
Sentiment slump			5.1	5.0	5.2
With monetary policy response			5.1	5.0	5.2
Deteriorating inflation expectations			5.1	5.0	5.0
With monetary policy response			5.1	5.0	5.0
Buoyant households			5.1	5.0	4.9
With monetary policy response			5.1	5.0	4.8
Low inflation			5.1	5.0	5.0
With monetary policy response			5.1	5.0	5.0
<i>PCE prices excluding food and energy</i>					
Baseline			2.0	1.9	2.4
Sentiment slump			2.0	1.9	2.4
With monetary policy response			2.0	1.9	2.4
Deteriorating inflation expectations			2.0	1.9	2.7
With monetary policy response			2.0	1.9	2.7
Buoyant households			2.0	1.9	2.4
With monetary policy response			2.0	1.9	2.4
Low inflation			2.0	1.9	2.1
With monetary policy response			2.0	1.9	2.2

1. Average for the final quarter of the period.

oil embargo and the 1990 invasion of Kuwait; sentiment recovers gradually thereafter. Under these conditions, real GDP advances at a pace of only 2½ percent on average over 2006 and 2007, and the unemployment rate rises to 5½ percent by the end of 2007, assuming no change from baseline in the funds rate. Were monetary policy to respond to

**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	3.5	3.4	2.9
Confidence interval			
Greenbook forecast errors ¹	2.6–4.4	1.5–5.4	1.1–4.6
FRB/US stochastic simulations	2.7–4.1	1.9–5.3	0.9–5.0
<i>Civilian unemployment rate</i> <i>(percent, Q4)</i>			
Projection	5.0	5.0	5.0
Confidence interval			
Greenbook forecast errors ¹	4.7–5.3	4.2–5.8	3.8–6.2
FRB/US stochastic simulations	4.7–5.4	4.1–5.7	3.9–5.9
<i>PCE prices</i> <i>excluding food and energy</i> <i>(percent change, Q4 to Q4)</i>			
Projection	1.9	2.3	2.0
Confidence interval			
Greenbook forecast errors ²	1.6–2.3	1.6–3.0	0.9–3.1
FRB/US stochastic simulations	1.7–2.2	1.5–3.1	1.1–3.0

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

1. 1978–2004.

2. 1981–2004.

trend in inflation. In this scenario, we assume that the trend in inflation expectations has, in fact, been stable since 2003, implying that actual inflation will moderate appreciably once the direct pass-through of higher energy costs into prices is completed. Under the baseline monetary policy, this assumption causes core PCE inflation to fall back to 1½ percent by 2007. With the nominal funds rate held unchanged at baseline, lower inflation implies higher real interest rates; these shave almost ¼ percentage point off real GDP growth in 2007 and cause the unemployment rate to tick up. Under the Taylor rule, by contrast, the funds rate adjusts down in line with the revision in inflation; this adjustment removes the restraint on real activity.

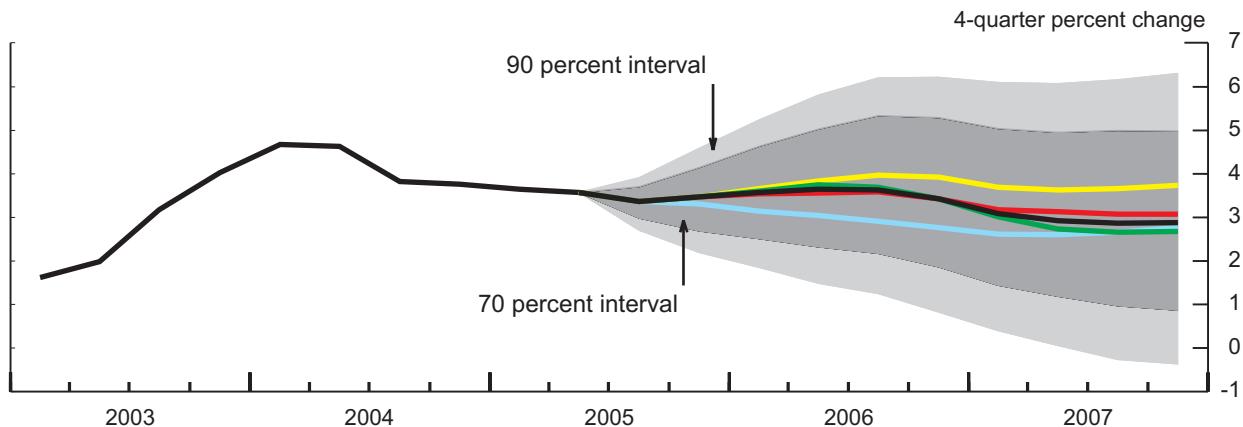
Class II FOMC - Restricted (FR)

Forecast Confidence Intervals and Alternative Scenarios

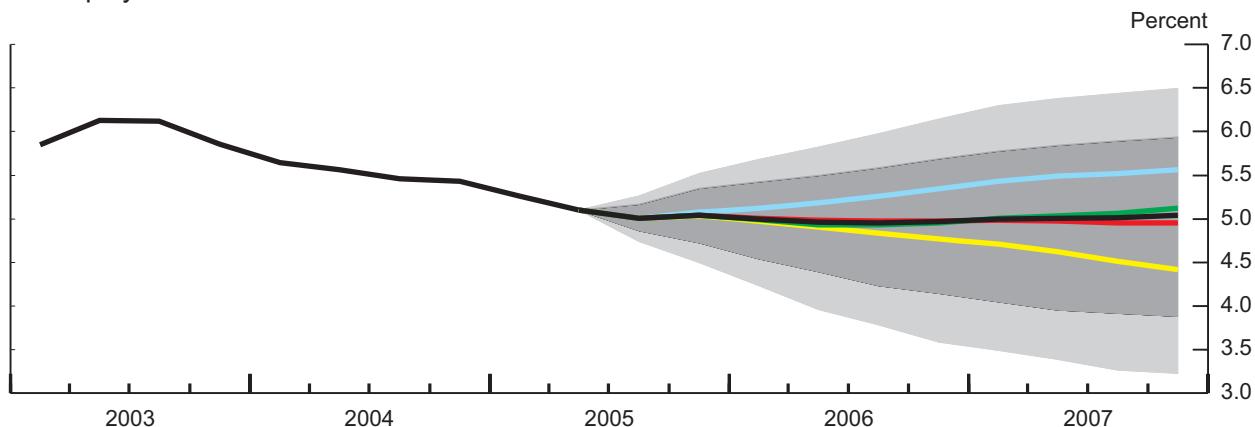
Confidence Intervals Based on FRB/US Stochastic Simulations;
Scenarios Assume Baseline Federal Funds Rate

- Greenbook baseline
- Buoyant households
- Sentiment slump
- Low inflation
- Deteriorating inflation expectations

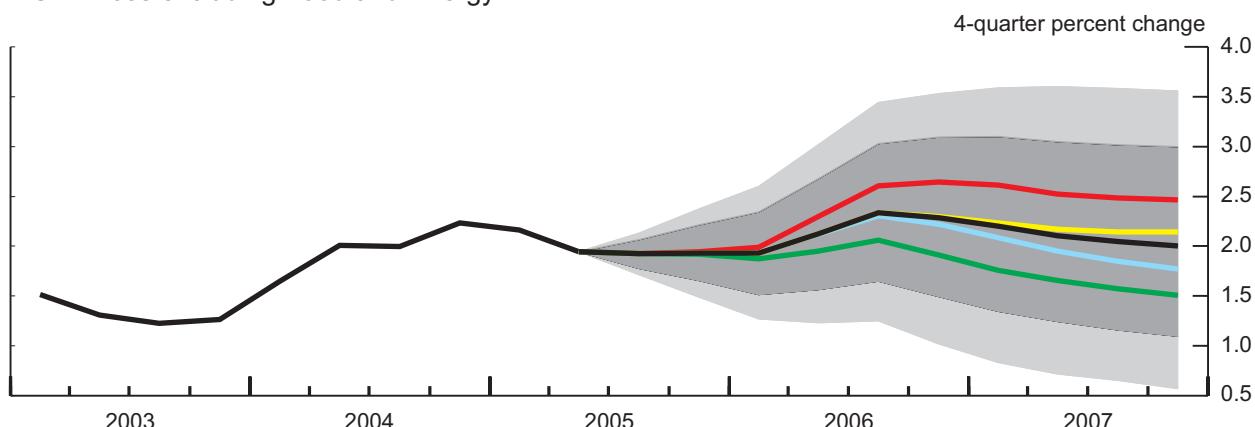
Real GDP



Unemployment Rate



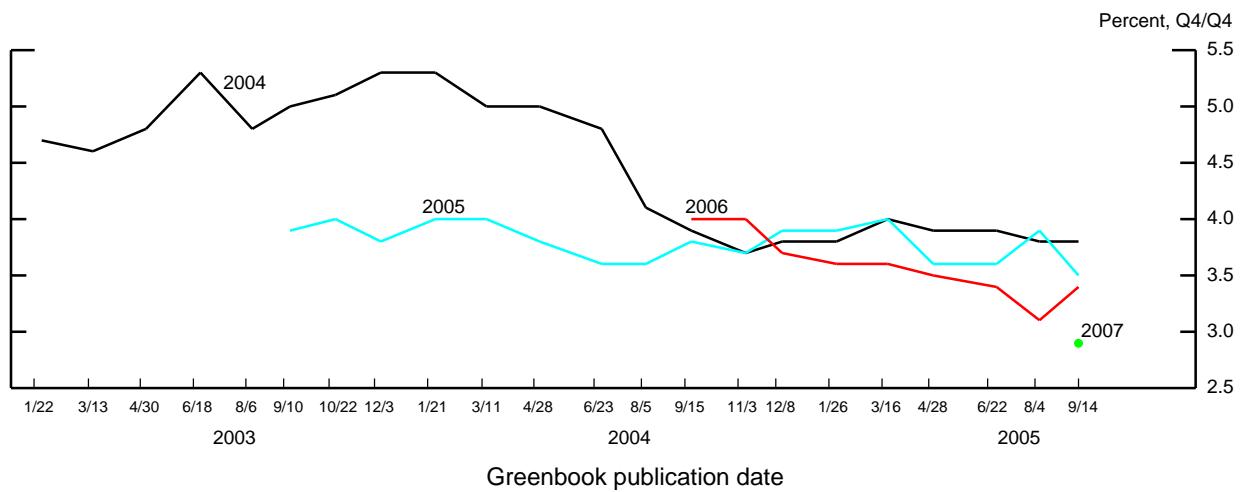
PCE Prices excluding Food and Energy



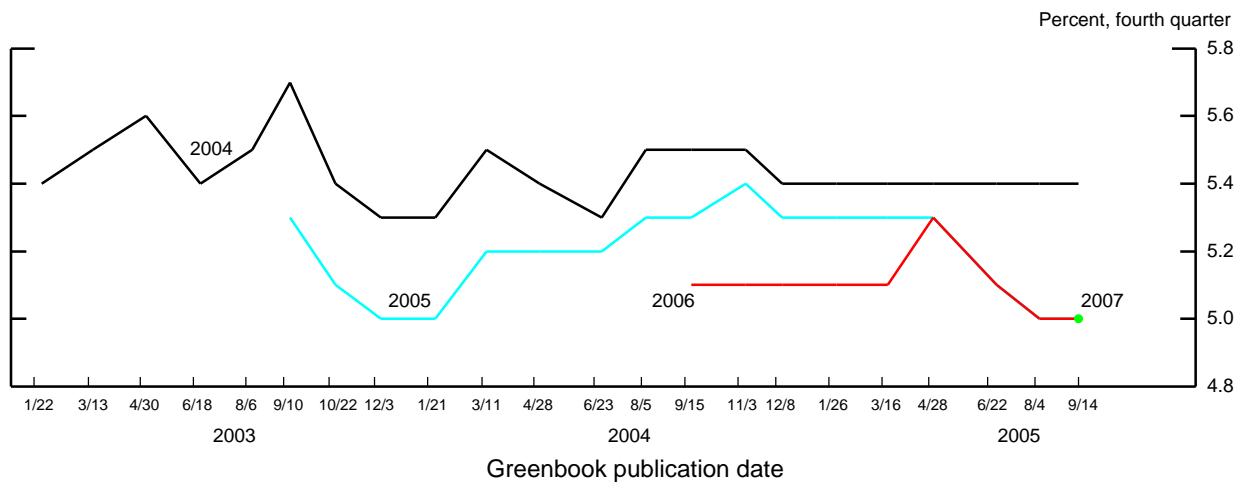
Class II FOMC - Restricted (FR)

Evolution of the Staff Forecast

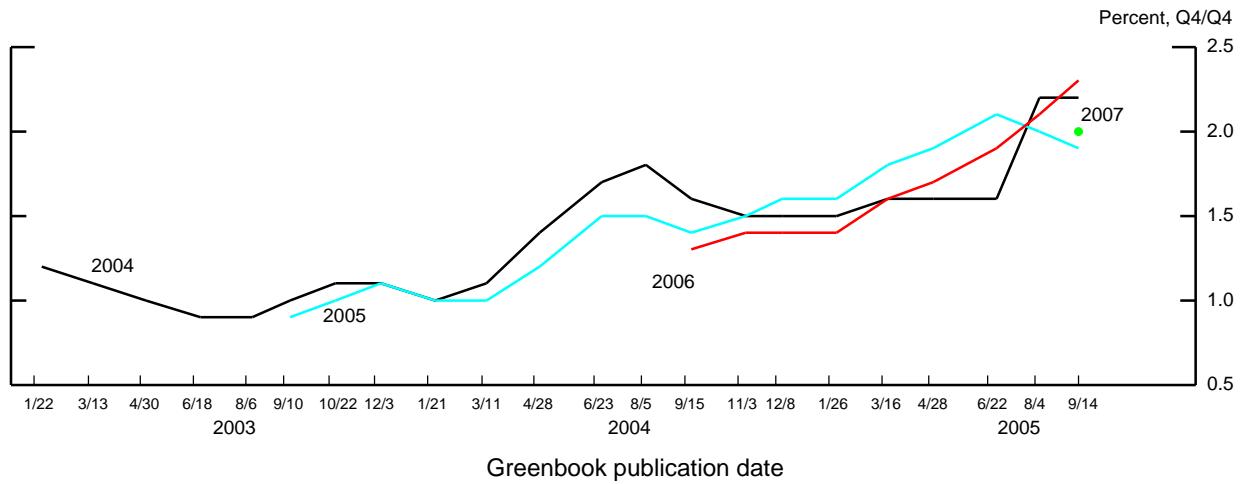
Change in Real GDP



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	8/4/05	9/14/05	8/4/05	9/14/05	8/4/05	9/14/05	8/4/05	9/14/05	8/4/05	9/14/05	
<i>Quarterly</i>											
2005:Q1	7.0	7.0	3.8	3.8	2.3	2.3	2.4	2.4	5.3	5.3	
Q2	5.9	5.8	3.3	3.2	3.3	3.2	1.8	1.6	5.1	5.1	
Q3	5.9	5.8	4.3	3.1	2.2	3.7	1.9	1.4	5.0	5.0	
Q4	6.1	6.6	4.0	3.7	2.5	3.8	2.1	2.4	5.0	5.0	
2006:Q1	5.5	6.1	3.0	4.2	2.3	1.4	2.1	2.4	5.0	5.0	
Q2	5.2	5.7	3.1	3.5	2.1	2.1	2.4	5.0	5.0	5.0	
Q3	5.2	5.3	3.1	3.1	2.0	2.0	2.1	2.2	5.0	5.0	
Q4	5.2	5.0	3.1	2.9	2.0	2.0	2.1	2.2	5.0	5.0	
2007:Q1	...	5.3	...	2.9	...	1.9	...	2.0	...	5.0	
Q2	...	4.9	...	2.9	...	1.8	...	2.0	...	5.0	
Q3	...	4.9	...	2.9	...	1.8	...	2.0	...	5.0	
Q4	...	4.9	...	2.9	...	1.8	...	2.0	...	5.0	
<i>Two-quarter²</i>											
2005:Q2	6.4	6.4	3.6	3.5	2.8	2.7	2.1	2.0	-3	-3	
Q4	6.0	6.2	4.1	3.4	2.4	3.7	2.0	1.9	-1	-1	
2006:Q2	5.4	5.9	3.1	3.9	2.2	1.7	2.1	2.4	0	0	
Q4	5.2	5.2	3.1	3.0	2.0	2.0	2.1	2.2	0	0	
2007:Q2	...	5.1	...	2.9	...	1.8	...	2.0	...	0	
Q4	...	4.9	...	2.9	...	1.8	...	2.0	...	0	
<i>Four-quarter³</i>											
2004:Q4	6.8	6.8	3.8	3.8	3.1	3.1	2.2	2.2	-5	-5	
2005:Q4	6.2	6.3	3.9	3.5	2.6	3.2	2.0	1.9	-4	-4	
2006:Q4	5.3	5.5	3.1	3.4	2.1	1.9	2.1	2.3	0	0	
2007:Q4	...	5.0	...	2.9	...	1.8	...	2.0	...	0	
<i>Annual</i>											
2004	7.0	7.0	4.2	4.2	2.6	2.6	2.0	2.0	5.5	5.5	
2005	6.2	6.2	3.7	3.5	2.6	2.9	2.1	2.0	5.1	5.1	
2006	5.6	5.9	3.4	3.6	2.3	2.5	2.0	2.2	5.0	5.0	
2007	...	5.1	...	2.9	...	1.9	...	2.1	...	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	3.2	3.1	3.7	4.2	3.5	3.1	2.9	2.9	2.8	2.4	2.9
Final sales <i>Previous</i>	3.5	5.4	4.1	1.5	4.7	3.9	3.1	2.6	2.2	3.0	2.8	2.4
Pri. v. dom. final purch. <i>Previous</i>	3.5	5.8	4.5	1.9	3.3	3.5	3.2	2.6	3.1	3.1	3.1	2.6
Personal cons. expend. <i>Previous</i>	3.5	3.1	4.1	1.1	4.3	3.5	3.4	3.3	3.1	3.1	3.1	3.1
Durables	2.6	7.8	14.4	-7.2	14.4	7.1	7.7	7.1	6.0	6.1	6.0	6.1
Nondurables	5.3	3.7	3.6	2.8	3.9	4.0	3.7	3.7	3.7	3.6	3.6	3.6
Services	2.8	1.9	2.4	2.0	2.5	2.4	2.3	2.3	2.3	2.3	2.3	2.3
Residential investment <i>Previous</i>	9.5	12.1	3.6	2.4	2.1	5.7	-1.3	-1.2	-1.3	-1.0	-1.4	-1.0
Business fixed invest. <i>Previous</i>	5.7	8.7	2.6	3.9	13.7	8.5	7.7	6.5	5.5	5.3	5.2	5.3
Equipment & software <i>Previous</i>	8.3	10.5	2.4	2.4	10.8	7.7	7.1	6.1	6.3	6.5	6.4	6.4
Nonres. structures <i>Previous</i>	-2.0	3.3	3.2	8.4	9.3	8.1	6.7	4.7	3.2	2.0	1.9	2.3
Net exports ² <i>Previous</i>	-645	-614	-607	-625	-637	-640	-646	-663	-687	-686	-709	-694
Exports	7.5	10.7	4.1	7.5	7.8	5.3	5.2	7.1	3.7	5.9	7.5	7.4
Imports	7.4	-2	1.0	9.1	7.8	4.1	4.9	8.3	7.6	3.6	5.1	8.3
Govt. cons. & invest. <i>Previous</i>	1.9	2.3	2.1	4.6	3.4	1.9	1.3	1.5	1.6	1.5	1.4	2.7
Federal	2.4	1.6	4.2	6.4	4.1	2.2	2.0	1.9	1.5	3	0	2.1
Defense	3.0	2.4	5.5	5.4	3.2	1.1	1.5	1.2	.7	.5	.0	1.5
Nondefense	1.1	-1	1.6	8.3	6.1	-7	-8	-7	.8	.0	.0	1.8
State & local	1.6	2.7	.9	3.5	2.9	2.4	1.8	2.2	2.4	2.4	2.2	2.4
Change in bus. inventories ² <i>Previous</i>	58	1	-23	38	26	15	15	23	44	40	44	46
Nonfarm ²	62	6	-12	46	39	28	26	39
Farm ²	-2	-4	-3	-2	1	2	2	2	42	38	56	45

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	3.5	3.4	2.9
Final sales <i>Previous</i>	4.2	2.9	1.5	.8	4.0	3.6	3.6	3.6	2.6
Priv. dom. final purch. <i>Previous</i>	5.3	4.3	1.0	1.1	4.4	4.8	3.5	3.2	...
Personal cons. expend. <i>Previous</i>	4.9	4.1	2.8	1.9	3.8	3.8	3.0	3.6	3.1
Durables	4.9	4.1	2.8	1.9	3.8	3.8	3.5	3.3	...
Nondurables	7.3	4.7	10.8	1.2	9.2	5.2	4.1	9.0	6.1
Services	4.4	4.5	1.6	1.9	2.5	4.1	4.6	3.8	3.6
Residential investment <i>Previous</i>	3.6	-1.9	1.4	7.0	11.8	6.6	6.8	1.3	-1.0
Business fixed invest. <i>Previous</i>	7.7	7.8	-9.6	-6.5	5.6	10.9	5.2	9.0	5.3
Equipment & software <i>Previous</i>	10.8	7.5	-9.0	-3.4	7.2	13.8	5.9	9.7	6.4
Nonres. structures <i>Previous</i>	10.8	7.5	-9.0	-3.4	7.2	13.8	7.2	9.0	...
Net exports ² <i>Previous</i> ²	-296	-379	-399	-471	-521	-601	-623	-646	-694
Exports	5.6	6.5	-11.9	-7.6	3.8	6.0	7.4	6.3	5.7
Imports	12.1	11.2	-7.6	9.7	5.1	10.6	4.3	6.2	6.1
Govt. cons. & invest. <i>Previous</i>	4.2	.4	5.0	4.0	1.9	2.1	2.7	2.0	1.5
Federal	4.2	.4	5.0	4.0	1.9	2.1	2.5	2.1	...
Defense	4.2	-2.2	6.4	7.8	5.5	4.2	3.6	1.5	.1
Nondefense	4.1	-3.5	6.5	8.4	7.5	4.9	4.1	1.8	.1
State & local	4.2	.3	6.3	6.8	1.6	2.8	2.7	.9	.0
Change in bus. inventories ² <i>Previous</i> ²	69	56	-32	12	15	52	19	20	46
Nonfarm ²	72	58	-32	15	15	50	22	33	...
Farm ²	-3	-1	0	-2	0	2	-3	18	45

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	3.2	3.1	3.7	4.2	3.5	3.1	2.9	2.9	2.9	2.9	2.9
Final sales <i>Previous</i>	3.5	5.3	4.0	1.6	4.7	3.9	3.1	2.6	2.2	3.0	2.7	2.4
Priv. dom. final purch. <i>Previous</i>	3.6	3.7	3.4	1.4	4.5	3.6	3.1	2.9	2.7	2.7	2.7	2.7
Personal cons. expend. <i>Previous</i>	2.4	2.2	2.9	.8	3.0	2.4	2.4	2.3	2.2	2.2	2.2	2.2
Durables	.2	.6	1.1	-.6	1.1	.6	.6	.5	.5	.5	.5	.5
Nondurables	1.1	.8	.7	.6	.8	.8	.8	.7	.7	.7	.8	.7
Services	1.2	.8	1.0	.9	1.0	1.0	.9	1.0	1.0	1.0	.9	1.0
Residential investment <i>Previous</i>	.5	.7	.2	.1	.1	.3	-.1	-.1	-.1	-.1	0	.1
Business fixed invest. <i>Previous</i>	.6	.9	.3	.4	1.4	.9	.8	.7	.6	.6	.6	.6
Equipment & software <i>Previous</i>	.6	.8	.2	.2	1.1	.7	.6	.6	.5	.5	.5	.5
Nonres. structures <i>Previous</i>	-.1	.1	.1	.2	.2	.2	.1	.1	.1	.1	.1	.1
Net exports <i>Previous</i>	-.4	1.1	.3	-.7	-.5	-.1	-.3	-.6	-.8	.0	-.2	-.6
Exports	.7	1.1	.4	.8	.8	.6	.5	.7	.4	.6	.6	.7
Imports	-1.1	.0	-.2	-1.4	-1.3	-.7	-.8	-1.3	-1.2	-.6	-.8	-1.4
Govt. cons. & invest. <i>Previous</i>	.4	.4	.4	.9	.6	.4	.3	.3	.3	.3	.3	.3
Federal	.4	.5	.6	.5	.5	.4	.4	.4	.4	.4	.4	.4
Defense	.2	.1	.3	.4	.3	.1	.0	.0	.0	.0	.0	.0
Nondefense	.1	.1	.3	.2	.2	.1	.0	.0	.0	.0	.0	.0
State & local	.2	.3	.1	.4	.3	.2	.3	.3	.3	.3	.3	.3
Change in bus. inventories <i>Previous</i>	.3	-2.1	-.9	2.1	-4	-.4	.0	.3	.7	-.1	.1	.5
Nonfarm	.3	-2.3	-.2	2.0	-3	-.4	-.1	.5	-.1	.1	.5	-.1
Farm	.4	-2.0	-.9	2.1	-5	-.4	0	.3	.7	-.1	.0	.0

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

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

Item	2005				2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP chain-wt. price index	3.1	2.5	2.6	2.8	1.7	2.1	2.1	2.1	2.3	2.0	2.0	2.0
<i>Previous</i>	3.1	2.5	1.6	2.0	2.4	2.0	2.0	2.0	... ¹	... ¹	2.3	2.1
PCE chain.-wt. price index	2.3	3.2	3.7	3.8	1.4	2.1	2.0	2.0	1.9	1.8	1.8	1.8
<i>Previous</i>	2.3	3.3	2.2	2.5	2.3	2.1	2.0	2.0	... ¹	... ¹	2.6	2.1
Energy	3.6	28.6	49.0	29.2	-13.3	-3.1	-1.8	-1.5	-1.4	-1.2	-1.2	26.6
<i>Previous</i>	3.6	28.5	10.1	8.7	6.0	1.5	.1	-.2	... ¹	... ¹	12.4	1.8
Food	1.0	3.5	1.3	2.1	2.6	2.6	2.5	2.4	2.3	2.2	2.2	2.0
<i>Previous</i>	1.0	3.5	1.2	2.1	2.3	2.3	2.3	2.3	... ¹	... ¹	1.9	2.3
Ex. food & energy	2.4	1.6	1.4	2.4	2.4	2.4	2.2	2.2	2.0	2.0	2.0	1.9
<i>Previous</i>	2.4	1.8	1.9	2.1	2.1	2.1	2.1	2.1	... ¹	... ¹	2.0	2.1
CPI	2.5	4.0	5.3	4.9	1.1	2.1	2.1	2.0	1.9	1.9	1.9	4.2
<i>Previous</i>	2.5	4.0	2.5	2.9	2.6	2.2	2.1	2.1	... ¹	... ¹	3.0	2.2
Ex. food & energy	2.6	2.0	1.9	2.7	2.6	2.6	2.5	2.4	2.3	2.2	2.2	2.3
<i>Previous</i>	2.6	2.0	2.1	2.4	2.3	2.3	2.3	2.3	... ¹	... ¹	2.3	2.3
ECI, hourly compensation ²	2.5	2.5	3.6	4.0	4.2	4.3	4.2	4.1	4.0	4.0	4.0	3.1
<i>Previous</i>	2.5	2.5	3.6	4.0	4.0	4.0	4.1	4.1	... ¹	... ¹	3.1	4.0
Nonfarm business sector												...
Output per hour	3.2	1.7	3.6	2.8	2.6	2.0	2.0	2.1	2.5	2.5	2.5	2.8
<i>Previous</i>	3.3	1.9	3.7	2.8	1.6	1.9	2.3	2.5	... ¹	... ¹	2.9	2.1
Compensation per hour	5.5	4.4	4.4	4.3	5.3	5.4	5.4	5.3	5.2	5.1	5.0	4.7
<i>Previous</i>	7.0	3.4	3.2	4.8	5.2	5.2	5.2	5.2	... ¹	... ¹	4.6	5.2
Unit labor costs	2.2	2.6	.8	1.5	2.7	3.3	3.3	3.2	2.6	2.4	2.4	1.8
<i>Previous</i>	3.6	1.4	-.4	1.9	3.5	3.3	2.9	2.6	... ¹	... ¹	1.6	3.1

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	.4	.4	.6	.5	.5	.4	.3	.3	.3	.3	2.0	2.0	1.1
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	... ⁴	... ⁴	... ⁴	... ⁴	5.0	5.0	... ⁴
GDP gap ⁴	.7	.6	.6	.4	.1	.1	.0	.1	.1	.2	.2	.4	.1	.1	.2
Previous ⁴	.7	.6	.3	.1	.1	.1	.1	.1	... ⁴	... ⁴	... ⁴	... ⁴	.1	.1	... ⁴
Industrial production ⁵	3.6	1.5	1.8	4.0	6.7	4.7	3.4	3.4	3.1	2.9	3.0	3.0	2.7	4.6	3.0
Previous ⁵	3.6	2.1	6.3	5.6	3.3	3.4	3.6	3.3	3.5	3.3	3.3	3.3	4.4	3.4	3.4
Manufacturing industr. prod. ⁵	4.0	1.0	2.2	3.6	6.3	4.9	3.5	3.7	3.5	3.3	3.3	3.3	2.7	4.6	3.4
Previous ⁵	4.0	1.5	5.3	5.8	3.5	3.6	3.8	3.6	3.5	3.3	3.3	3.3	4.1	3.6	3.4
Capacity utilization rate - mfg. ³	78.1	78.1	78.2	78.6	79.4	79.9	80.1	80.3	80.5	80.7	80.9	81.0	78.6	80.3	81.0
Previous ³	78.1	78.2	78.9	79.7	80.0	80.2	80.5	80.7	... ⁴	... ⁴	... ⁴	... ⁴	79.7	80.7	... ⁴
Housing starts ⁶	2.1	2.0	2.0	2.0	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Light motor vehicle sales ⁶	16.5	17.2	17.8	16.4	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.0	17.1	17.1
<i>Income and saving</i>															
Nominal GDP ⁵	7.0	5.8	5.8	6.6	6.1	5.7	5.3	5.0	5.3	4.9	4.9	4.9	6.3	5.5	5.0
Real disposable pers. income ⁵	-3.4	2.1	-3.0	5.9	6.9	5.7	4.2	4.1	4.4	3.8	3.2	4.0	3	5.2	3.8
Previous ⁵	-2.9	1.4	3.0	3.7	5.2	5.1	4.1	4.3	... ⁴	... ⁴	... ⁴	... ⁴	1.3	4.7	... ⁴
Personal saving rate ³	.5	.3	-1.5	-.3	.3	.9	1.1	1.3	1.6	1.7	1.7	1.9	-.3	1.3	1.9
Previous ³	.7	.1	-.2	.2	.5	1.0	1.2	1.5	... ⁴	... ⁴	... ⁴	... ⁴	.2	1.5	... ⁴
Corporate profits ⁷	24.5	24.9	-27.8	75.7	-4.2	-4.1	-8.9	-5.8	-2.8	-1.1	-7.7	-1.0	18.5	-5.8	-1.4
Profit share of GNP ³	10.5	11.0	10.0	11.3	11.0	10.8	10.4	10.1	9.9	9.8	9.7	9.5	11.3	10.1	9.5
Excluding FR Banks ³	10.3	10.8	9.8	11.2	10.9	10.6	10.3	10.0	9.8	9.7	9.5	9.4	11.2	10.0	9.4
Federal surplus/deficit ⁸	-298	-286	-338	-335	-390	-401	-400	-391	-426	-416	-406	-407	-314	-396	-414
State & local surplus/deficit ⁸	7	20	-3	24	26	26	29	28	28	29	32	34	12	27	31
Gross national saving rate ³	13.4	13.7	13.2	13.2	13.1	13.2	13.1	13.1	12.9	13.0	13.0	13.1	13.2	13.1	13.1
Net national saving rate ³	1.7	2.3	-.5	1.8	1.7	1.8	1.7	1.7	1.5	1.6	1.6	1.6	1.8	1.7	1.6

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	2006	2007	Q1 ^a	Q2 ^a	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Unified budget															
Receipts ¹	1880	2128	2274	2385	452	665	524	482	709	559	548	512	740	586	580
Outlays ¹	2293	2467	2654	2770	628	620	613	655	682	665	652	687	718	695	671
Surplus/deficit ¹	-413	-339	-380	-385	-177	45	-90	-131	-200	44	-93	-139	-206	45	-85
On-budget	-568	-514	-559	-580	-202	-38	-104	-191	-222	-40	-106	-201	-232	-45	-102
Off-budget	155	175	179	195	25	83	14	60	21	84	14	62	26	90	17
Means of financing															
Borrowing	378	302	414	397	165	43	78	144	184	15	-15	101	129	190	-16
Cash decrease	-1	20	-18	0	2	-11	16	-8	15	-25	0	10	15	-25	0
Other ²	36	18	-16	-12	10	9	-5	-4	1	-4	-8	0	0	-4	-8
Cash operating balance, end of period	36	17	35	35	22	33	17	25	10	35	35	25	10	35	35
NIPA federal sector															
Receipts	1933	2178	2359	2472	2197	2239	2222	2304	2379	2402	2429	2459	2482	2519	2536
Expenditures	2348	2501	2741	2882	2495	2525	2559	2639	2741	2780	2802	2820	2855	2888	2925
Consumption expenditures	711	757	807	837	760	762	773	788	808	814	819	823	838	841	845
Defense	474	508	543	565	509	511	521	530	543	548	552	555	565	570	573
Nondefense	237	250	264	272	251	251	252	257	265	266	267	268	273	274	275
Other spending	1637	1744	1934	2045	1735	1763	1787	1851	1934	1966	1983	1997	2048	2057	2080
Current account surplus	-415	-323	-381	-410	-298	-286	-338	-335	-390	-401	-400	-391	-426	-416	-406
Gross investment	99	106	115	116	101	106	109	113	116	115	116	116	116	116	117
Gross saving less gross investment ³	-421	-332	-396	-422	-302	-294	-349	-406	-416	-414	-404	-439	-428	-417	-417
Fiscal indicators⁴															
High-employment (HEB) surplus/deficit	-377	-310	-394	-421	-279	-276	-334	-339	-404	-418	-416	-406	-438	-426	-414
Change in HEB, percent of potential GDP	0.7	-0.7	0.5	0.0	-0.6	-0.1	0.4	-0.0	0.5	0.1	-0.1	0.2	-0.1	-0.1	-0.1
Fiscal impetus (FI) percent of GDP	0.8	0.3	0.5	0.0	0.0	0.1	0.1	0.2	0.2	0.1	0.0	-0.0	0.0	0.0	-0.0

1. In July, OMB projected deficits of \$333 billion and \$341 billion for FY 2005 and FY 2006. In August, CBO projected deficits of \$331 billion and \$314 billion for FY 2005 and FY 2006. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OA&SDI 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)

September 14, 2005

Period ¹	Total	Federal government	Nonfederal				State and local governments	Memo: Nominal GDP
			Total	Households	Home mortgages	Consumer credit		
<i>Year</i>								
2000	4.8	-8.0	8.3	8.7	8.2	10.8	9.3	1.3
2001	6.1	-0.2	7.6	8.8	9.6	7.7	6.0	4.6
2002	6.9	7.6	6.8	9.8	12.0	4.7	2.7	2.7
2003	8.1	10.9	7.6	10.1	12.5	4.6	4.4	3.6
2004	8.6	9.0	8.5	10.9	13.2	4.7	5.7	6.1
2005	8.5	7.8	8.7	9.4	11.1	4.1	7.7	6.8
2006	7.0	8.4	6.7	7.3	8.2	4.4	6.2	6.3
2007	6.3	8.0	5.9	6.4	6.9	4.8	5.7	5.5
							3.3	5.0
<i>Quarter</i>								
2005:1	9.9	14.4	8.9	9.6	11.3	4.1	7.2	12.0
2	7.3	0.1	8.9	9.9	11.5	3.7	8.4	5.6
3	8.0	5.6	8.6	9.1	10.3	5.1	7.6	5.8
4	7.9	10.5	7.3	8.0	9.4	3.3	6.7	6.0
2006:1	8.5	15.0	7.0	7.8	8.9	4.2	6.2	6.1
2	5.9	2.4	6.7	7.2	8.2	4.0	6.1	5.7
3	6.4	7.0	6.3	6.8	7.6	4.4	6.0	4.4
4	6.5	8.4	6.1	6.7	7.3	4.6	5.7	5.0
2007:1	7.4	14.3	5.9	6.6	7.2	4.6	5.6	5.3
2	5.1	2.1	5.8	6.3	6.8	4.7	5.7	4.9
3	5.7	5.9	5.7	6.2	6.7	4.7	5.6	4.9
4	6.1	8.7	5.6	5.9	6.4	4.7	5.5	4.9

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2005:Q2 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

**Class II FOMC
Restricted (FR)**

Flow of Funds Projections: Highlights
(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
<i>Net funds raised by domestic nonfinancial sectors</i>																
1 Total	1746.2	1773.4	1660.1	1634.2	1676.7	1739.3	1991.9	1397.7	1588.0	1662.9	1968.7	1342.5	1543.9	1681.8		
2 Net equity issuance	-157.0	-175.0	-120.0	-348.0	-284.0	-228.0	-176.0	-158.0	-138.0	-120.0	-120.0	-120.0	-120.0	-120.0	-120.0	-120.0
3 Net debt issuance	1903.3	2061.5	1835.1	1754.2	2024.7	2023.3	2219.9	1573.7	1746.0	1800.9	2088.7	1462.5	1663.9	1801.8		
<i>Borrowing sectors</i>																
Nonfinancial business																
4 Financing gap ¹	45.4	-110.7	25.1	205.1	-284.8	-186.0	-161.4	42.5	88.2	131.2	175.8	189.2	210.9	244.5		
5 Net equity issuance	-157.0	-288.1	-175.0	-120.0	-348.0	-284.0	-228.0	-176.0	-158.0	-138.0	-120.0	-120.0	-120.0	-120.0	-120.0	
6 Credit market borrowing	419.2	604.7	519.8	512.7	620.7	558.9	526.7	522.9	524.7	504.8	501.1	516.9	514.5	518.1		
Households																
7 Net borrowing ²	1007.0	969.3	819.5	770.1	975.9	878.2	873.6	822.1	793.9	788.5	790.9	768.9	771.4	749.2		
8 Home mortgages	878.6	834.7	691.0	630.3	826.3	770.3	747.0	700.3	662.9	653.6	653.6	630.3	630.3	606.9		
9 Consumer credit	96.7	88.2	97.9	111.0	111.1	73.5	94.4	91.0	101.2	105.1	108.1	109.9	112.4	113.6		
10 Debt/DPI (percent) ³	112.5	118.7	120.2	121.1	120.5	120.2	120.2	120.1	120.3	120.6	120.7	121.0	121.3	121.4		
State and local governments																
11 Net borrowing	115.1	143.9	96.8	62.8	174.7	101.8	110.8	110.8	82.8	82.8	62.8	62.8	62.8	62.8	62.8	
12 Current surplus ⁴	181.3	174.9	194.2	204.4	158.8	187.0	190.3	192.1	197.2	197.3	199.1	202.1	206.0	210.2		
Federal government																
13 Net borrowing	361.9	343.6	399.1	408.7	253.4	484.4	708.7	118.0	344.7	424.9	733.9	114.0	315.1	471.7		
14 Net borrowing (n.s.a.)	361.9	343.6	399.1	408.7	78.2	143.6	184.2	-14.8	101.0	128.7	190.5	-15.8	93.6	140.4		
15 Unified deficit (n.s.a.)	400.7	352.7	387.3	396.7	89.5	131.4	200.2	-44.2	92.6	138.7	205.9	-44.7	85.2	150.3		
<i>Depository institutions</i>																
16 Funds supplied	825.6	859.5	602.7	478.6	939.0	556.6	706.5	547.6	657.2	499.7	563.0	426.3	486.6	438.6		
Memo (percentage of GDP)																
17 Domestic nonfinancial debt ⁵	197.8	202.1	205.6	208.5	203.0	203.7	204.8	205.6	206.1	206.9	207.8	208.6	208.9	209.4		
18 Domestic nonfinancial borrowing	16.2	16.5	13.9	12.6	16.1	15.9	17.2	12.0	13.1	13.4	15.3	10.6	11.9	12.8		
19 Federal government ⁶	3.1	2.8	3.0	2.9	2.0	3.8	5.5	0.9	2.6	3.2	5.4	0.8	2.3	3.3		
20 Nonfederal	13.1	13.8	10.9	9.7	14.1	12.1	11.7	11.1	10.5	10.2	9.9	9.8	9.7	9.4		

Note. Data after 2005: Q2 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

Amid concerns about oil supply and continued strong global demand, oil prices were extremely volatile during the intermeeting period. The spot price of West Texas intermediate (WTI) crude oil hit a record of nearly \$70 per barrel immediately following Hurricane Katrina but has since fallen back to around \$63 per barrel, about \$2 per barrel higher than in early August. The projected path of WTI prices is now a bit higher than in the August Greenbook. We have revised up the path of the average price of imported oil (which includes refined products) by somewhat more, reflecting both increases in product prices and shifts in the mix of oil imports. We believe that lower U.S. activity and higher energy prices will pull down foreign growth this quarter and next from what it otherwise would have been, although the uncertainties around this outlook are considerable. For the remainder of the forecast period, which we have now extended to 2007, we anticipate that the underlying strength of foreign demand will keep growth abroad at a solid pace.

Summary of Staff Projections

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

Indicator	2004	2005: H1	Projection			
			2005		2006	2007
			Q3	Q4		
Foreign output August GB	3.7 3.6	2.8 2.9	3.1 3.3	3.1 3.4	3.3 3.3	3.3 ...
Foreign CPI August GB	2.8 2.8	1.8 1.8	3.4 2.7	2.9 2.6	2.4 2.5	2.4 ...

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

... Not applicable.

Rising energy prices have boosted foreign headline inflation in recent months, and accordingly we have marked up our outlook for foreign inflation in the second half of this year. To date, core consumer prices have been little affected, and we expect that headline inflation will ease in coming quarters as energy prices decline somewhat and as excess economic capacity persists in many countries.

Over the intermeeting period, the nominal exchange value of the dollar has declined. However, because the staff's outlook for U.S. prices has been revised upward, the projected path of the broad real dollar is generally little changed from that in the August

Greenbook, reflecting a change in our forecasting procedure that places greater weight on commodity prices.

Staff Projections of Selected Trade Prices

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

Trade category	2004	2005: H1	Projection		
			2005		2006
			Q3	Q4	
<i>Exports</i>					
Core goods	5.1	5.0	1.4	1.4	1.7
August GB	5.1	5.0	3.0	2.5	2.2
<i>Imports</i>					
Non-oil core goods	4.3	3.3	0.0	2.8	.9
August GB	4.3	3.4	2.0	2.0	.8
Excluding natural gas	3.7	3.2	-0.8	1.9	.8
August GB	3.7	3.2	1.8	1.7	.7
Oil (dollars per barrel)	40.91	46.30	55.40	58.37	59.36
August GB	40.91	46.27	53.09	55.74	58.31
					57.88
					...

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.

... Not applicable.

Trade in Goods and Services

Our Greenbook forecast incorporates our admittedly highly uncertain estimate of how Hurricane Katrina will affect merchandise trade. Trade through the Gulf region's ports accounts for about 6 percent of U.S. merchandise exports and 5 percent of U.S. merchandise imports. Although many ports sustained damage, they are now in the process of resuming operations. Shipments have also been diverted to other ports, further limiting the overall effect on U.S. trade. We assume that the net reduction in exports in September will amount to about 25 percent of the shipments that normally flow through the affected region. These hurricane-related losses reflect the destruction of warehoused goods and obstructions to shipping and air freight. With non-oil imports being somewhat easier than exports to shift away from the most affected Gulf ports to other points of entry, we assume that the reduction in non-oil imports in September amounts to roughly

imports rebound from this sluggish pace as core imports respond to the step-up in U.S. GDP growth and oil imports surge. On balance, our forecast for import growth in the second half is 5.0 percent, about 1.7 percentage points lower than in the August Greenbook. This revision reflects the offsetting effects of the weak July data and the slower pace of U.S. growth on the one hand, and higher imports of oil products on the other.

In 2006 and 2007, real import growth is expected to remain firm at around 6¼ percent, as the effect on core imports of slowing U.S. growth is offset by a lessening drag from core import prices. Imports of computers and semiconductors are projected to rise steadily, whereas the growth of imported services eases, along with U.S. growth. Compared with the August Greenbook, our current projection for 2006 is little changed, in part because the path of the broad real dollar is about unchanged from the previous forecast.

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

Measure	2004	2005: H1	Projection		
			2005		2006
			Q3	Q4	
Real exports	6.1	9.1	4.1	7.5	6.3
August GB	6.1	9.8	6.9	7.9	5.5
Real imports	10.6	3.5	1.0	9.1	6.2
August GB	10.6	3.0	5.0	8.6	5.9

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

... Not applicable.

In June, nominal exports of goods and services grew a bit from a very robust level in May. We now estimate that real exports expanded 10¾ percent (annual rate) in the second quarter. This pace, while quite rapid, is a bit weaker than in the August Greenbook projection, reflecting a significant downward revision to data on exports of services.

Nominal export data for July came in a touch weaker than we had expected. We now project that real exports of goods and services will decelerate to about 4 percent in the third quarter before bouncing back in the fourth. This pattern largely reflects the contour

households have limited ability to substitute away from energy in the short run, the effects on the trade balance persist through the forecast period.

In our second scenario, the rise in oil prices is temporary, with oil prices reverting to baseline after about three years. Households and firms correctly ascertain the path of the oil shock after the initial spike. The shock depresses real activity mainly in the near term, with real GDP growth declining about 0.2 percentage point below baseline through the first half of 2006. In 2007, growth moves above baseline as the economy begins to recover. Given that firms understand that the upward pressure on marginal costs is less persistent than if the shock had been permanent, the rise in the core PCE inflation rate is much smaller.

Alternative Simulations: Higher Oil Prices

(Percent change from previous period, annual rate)

Indicator and simulation	2005		2006		2007	
	H1	H2	H1	H2	H1	H2
<i>U.S. real GDP</i>						
Baseline	3.5	3.4	3.9	3.0	2.9	2.9
Permanent Rise	3.5	3.1	3.5	2.7	2.8	2.9
Temporary Rise	3.5	3.2	3.7	3.0	3.0	3.0
<i>U.S. PCE prices excluding food and energy</i>						
Baseline	2.0	1.9	2.4	2.2	2.0	2.0
Permanent Rise	2.0	2.0	2.7	2.6	2.3	2.2
Temporary Rise	2.0	1.9	2.6	2.3	2.0	2.0
<i>U.S. Trade Balance (percent of GDP)</i>						
Baseline	-5.6	-5.9	-6.1	-6.0	-6.1	-6.0
Permanent Rise	-5.6	-6.7	-6.9	-6.8	-6.9	-6.7
Temporary Rise	-5.6	-6.7	-6.7	-6.4	-6.3	-6.1

Note. H1 is Q2/Q4; H2 is Q4/Q2. The federal funds rate is adjusted according to a Taylor rule.

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)	CONSUMER PRICES (3)
Total foreign	5.0	4.2	0.3	3.0	2.9	3.7	2.9	3.3	3.3	3.3	3.3
Industrial Countries of which:	4.4	3.5	0.8	2.5	1.8	2.4	2.4	2.6	2.6	2.5	2.5
Canada	5.9	4.1	1.3	3.6	1.7	3.3	2.9	3.3	3.3	3.1	3.1
Japan	0.2	3.2	-1.9	1.5	2.2	0.9	2.9	1.6	1.6	1.6	1.6
United Kingdom	3.4	3.2	-2.0	2.1	3.1	2.7	1.8	2.3	2.3	2.6	2.6
Euro Area (2)	4.0	3.0	0.9	1.1	0.9	1.5	1.4	1.6	1.6	1.7	1.7
Germany	3.5	2.3	1.1	0.2	0.2	0.5	1.3	1.2	1.2	1.5	1.5
Developing Countries	6.0	5.2	-0.4	3.6	4.6	5.5	3.7	4.4	4.4	4.5	4.5
Asia	8.6	5.7	1.1	6.0	6.5	5.9	5.3	5.0	5.0	5.1	5.1
Korea	11.5	4.5	4.6	7.8	4.2	3.0	3.6	3.9	3.9	3.9	3.9
China	7.1	7.7	7.0	8.4	10.0	9.5	8.1	7.3	7.3	7.3	7.3
Latin America	4.3	4.5	-1.3	1.5	2.4	5.1	2.0	3.8	3.8	3.8	3.8
Mexico	5.5	4.8	-1.3	2.0	2.1	4.8	1.3	3.8	3.8	3.8	3.8
Brazil	3.4	3.9	-0.9	4.2	0.9	4.7	3.2	3.2	3.2	3.2	3.2
CONSUMER PRICES (3)											
Industrial Countries of which:	1.1	1.7	0.9	2.1	1.3	1.8	1.6	1.3	1.3	1.6	1.6
Canada	2.4	3.1	1.1	3.8	1.7	2.3	2.5	1.8	1.8	2.0	2.0
Japan	-1.1	-1.2	-1.3	-0.5	-0.5	0.4	-0.6	0.2	0.2	0.4	0.4
United Kingdom (4)	-1.2	-1.0	-1.0	-1.5	-1.3	1.4	-2.3	1.8	1.8	1.9	1.9
Euro Area (2)	1.5	2.5	2.1	2.3	2.0	2.3	2.2	1.5	1.5	1.8	1.8
Germany	1.1	1.7	1.5	1.2	1.2	2.1	1.6	1.3	1.3	1.4	1.4
Developing Countries	4.6	4.1	2.8	2.8	3.1	3.9	3.5	3.7	3.7	3.4	3.4
Asia	0.1	1.9	1.2	0.7	2.2	3.2	3.3	4.2	4.2	3.2	3.2
Korea	1.2	2.5	3.3	3.4	3.5	3.4	3.1	3.7	3.7	3.7	3.7
China	-1.0	1.0	-0.1	-0.5	2.7	3.3	2.7	3.4	3.4	3.4	3.4
Latin America	12.5	8.4	5.3	6.4	4.9	5.6	3.9	4.2	4.2	4.1	4.1
Mexico	13.4	8.7	5.1	5.2	3.9	5.3	3.4	3.8	3.8	4.1	4.1
Brazil	8.4	6.4	7.5	10.7	11.5	7.2	5.7	5.0	5.0	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				Projected				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)												
Total foreign	2.5	3.0	3.1	3.1	3.4	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Industrial Countries of which:	2.0	2.7	2.3	2.4	2.7	2.4	2.5	2.5	2.5	2.5	2.5	2.5
Canada	2.1	3.2	3.2	3.1	3.7	3.1	3.3	3.2	3.1	3.1	3.1	3.1
Japan	5.8	3.3	1.3	1.4	1.5	1.6	1.7	1.7	1.6	1.6	1.6	1.5
United Kingdom	1.5	1.9	1.8	1.8	2.2	2.4	2.5	2.5	2.6	2.6	2.6	2.6
Euro Area (2)	1.5	1.2	1.4	1.4	1.5	1.5	1.6	1.6	1.7	1.7	1.8	1.8
Germany	3.0	0.0	1.0	1.0	1.1	1.2	1.3	1.4	1.5	1.5	1.5	1.6
Developing Countries	3.1	3.5	4.2	4.2	4.5	4.4	4.4	4.4	4.5	4.5	4.5	4.5
Asia	4.5	6.8	5.3	4.8	5.1	5.0	5.0	5.0	5.1	5.1	5.1	5.1
Korea	1.2	5.0	3.9	3.0	3.8	3.6	3.6	3.6	3.9	3.9	3.9	3.9
China	1.2	7.6	7.6	7.2	7.4	7.3	7.3	7.3	7.3	7.3	7.3	7.3
Latin America	1.3	-0.0	3.2	3.4	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Mexico	0.7	-1.7	3.0	3.3	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Brazil	1.5	5.8	2.7	2.8	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
CONSUMER PRICES (3)												
Industrial Countries of which:	1.4	1.4	1.7	1.6	1.8	1.6	1.4	1.3	1.5	1.5	1.5	1.6
Canada	2.1	1.9	2.6	2.5	2.6	2.3	1.9	1.8	1.9	2.1	2.0	2.0
Japan	-0.4	-0.4	-0.3	-0.6	-0.6	-0.2	0.2	0.2	0.3	0.3	0.4	0.4
United Kingdom (4)	1.7	1.9	2.3	2.3	2.3	2.1	1.9	1.8	1.8	1.9	1.9	1.9
Euro Area (2)	2.0	2.0	2.2	2.2	2.2	1.9	1.6	1.5	1.8	1.8	1.8	1.8
Germany	1.7	1.6	1.7	1.6	1.9	1.6	1.4	1.3	1.4	1.4	1.4	1.4
Developing Countries	3.5	3.3	3.2	3.5	3.9	4.1	3.9	3.7	3.6	3.6	3.5	3.4
Asia	2.9	2.4	2.5	3.3	3.6	4.1	3.8	3.5	3.4	3.3	3.2	3.2
Korea	3.1	3.0	2.4	3.1	3.5	3.9	4.2	4.2	4.0	3.7	3.5	3.2
China	2.8	1.7	1.5	2.7	3.0	3.9	3.4	3.4	3.3	3.1	3.0	2.9
Latin America	4.9	5.0	4.5	3.9	4.2	4.0	4.1	4.2	4.1	4.1	4.1	4.1
Mexico	4.4	4.5	4.0	3.4	3.8	3.6	3.7	3.8	3.8	3.8	3.8	3.8
Brazil	7.4	7.7	6.2	5.7	5.2	5.7	5.1	5.0	4.7	4.4	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									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-1.0	-0.9	-0.2	-0.9	-0.1	-0.9	-0.6	0.1	-0.4
Exports of G&S	0.6	0.7	-1.3	0.4	0.6	0.6	0.8	0.7	0.6
Imports of G&S	-1.6	-1.7	1.1	-1.3	-0.7	-1.5	-0.7	-1.0	-1.0
Percentage change, Q4/Q4									
Exports of G&S	5.6	6.5	-11.9	3.8	6.0	6.1	7.4	6.3	5.7
Services	5.3	1.8	-8.9	10.2	4.5	4.6	4.7	4.9	5.8
Computers	13.4	22.7	-23.5	-1.1	11.0	6.3	17.0	14.4	14.4
Semiconductors	34.6	27.6	-34.6	10.1	38.8	-6.1	12.0	17.0	17.0
Other Goods 1/	3.3	5.9	-10.2	0.7	4.5	7.8	8.0	6.0	4.6
Imports of G&S	12.1	11.2	-7.6	9.7	5.1	10.6	4.3	6.2	6.1
Services	6.6	10.6	-5.9	8.8	4.2	7.7	4.2	4.4	3.6
Oil	-3.4	13.3	3.7	3.8	1.5	9.7	-5.1	-1.2	2.0
Computers	26.0	13.9	-13.6	13.2	16.8	22.2	15.3	17.5	17.5
Semiconductors	34.2	22.8	-51.1	11.0	-0.2	9.4	8.1	17.0	17.0
Other Goods 2/	12.9	10.5	-6.5	10.1	5.1	10.5	5.1	7.4	6.7
Billions of Chained 2000 Dollars									
Net Goods & Services	-296.2	-379.5	-399.1	-471.3	-521.4	-601.3	-623.0	-646.4	-693.7
Exports of G&S	1008.2	1096.3	1036.7	1013.3	1031.2	1117.9	1199.2	1278.3	1349.2
Imports of G&S	1304.4	1475.8	1435.8	1484.6	1552.6	1719.2	1822.2	1924.7	2042.9
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-300.1	-416.0	-389.5	-475.2	-519.7	-668.1	-799.9	-925.0	-1013.7
Current Acct as Percent of GDP	-3.2	-4.2	-3.8	-4.5	-4.7	-5.7	-6.4	-7.0	-7.3
Net Goods & Services (BOP)	-263.4	-378.3	-362.7	-421.2	-494.8	-617.6	-720.5	-798.7	-843.3
Investment Income, Net	19.1	25.7	30.3	15.5	51.8	36.2	16.3	-20.4	-62.6
Direct Net	78.2	94.9	115.9	99.8	121.8	127.9	138.5	153.9	171.8
Portfolio, Net	-59.1	-69.2	-85.5	-84.3	-70.0	-91.7	-122.2	-174.3	-234.4
Other Income & Transfers, Net	-55.8	-63.5	-57.1	-69.5	-76.7	-86.7	-95.7	-105.9	-107.8

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				Q1		Q2		Q3		Q4																	
	Q1		Q2		Q3		Q4		Q1		Q2		Q3		Q4																	
NIPA REAL EXPORTS and IMPORTS																																
Net Goods & Services																																
Exports of G&S	-1.0	-0.6	-0.5	-1.5	0.1	-0.7	0.5	-0.5	-1.2	-1.4	-0.2	-0.5	-1.4	-0.2	-1.0	-1.0																
Services	0.5	1.0	0.3	-0.3	-0.3	-0.2	1.0	-1.0	0.5	0.7	0.5	0.5	0.7	0.5	0.7	0.7																
Imports of G&S	-1.4	-1.6	-0.8	-1.2	0.4	-0.5	-0.6	-2.2	-1.6	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-1.7																
Percentage point contribution to GDP growth																																
Exports of G&S	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	7.1	5.5	7.1																
Services	22.9	2.7	4.6	11.7	-11.9	-6.6	17.2	23.7	-0.4	4.8	-0.6	15.5	15.5	15.5	15.5	15.5																
Computers	-21.1	14.7	-6.0	12.6	-5.7	0.2	35.9	18.7	-7.4	1.6	21.7	11.5	11.5	11.5	11.5	11.5																
Semiconductors	-22.3	42.1	12.6	-25.0	34.8	33.9	43.7	43.2	7.0	-4.8	-19.4	-5.5	-5.5	-5.5	-5.5	-5.5																
Other Goods 1/	-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	3.8	3.8	3.8																
Percentage change from previous period, s.a.a.r.																																
Imports of G&S	11.7	12.5	5.7	9.0	-2.5	3.3	4.1	16.5	12.0	14.5	4.7	11.3	4.7	11.3	4.7	11.3																
Services	24.7	-3.0	1.7	14.0	-2.2	-10.2	21.4	10.5	10.0	13.5	4.6	3.1	4.6	3.1	4.6	3.1																
Oil	-9.8	-10.3	-12.7	64.3	-9.0	7.8	-1.3	9.5	35.7	-26.0	-0.5	45.0	45.0	45.0	45.0	45.0																
Computers	52.2	5.3	2.8	-0.2	11.5	12.4	8.7	36.4	21.2	34.3	25.3	9.5	9.5	9.5	9.5	9.5																
Semiconductors	39.8	34.8	-6.2	-14.0	-6.7	1.5	-3.7	8.9	42.6	20.2	4.7	-20.3	-20.3	-20.3	-20.3	-20.3																
Other Goods 2/	7.6	19.4	9.5	4.3	-2.6	5.8	0.7	17.7	8.4	20.4	4.0	9.7	9.7	9.7	9.7	9.7																
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	-634.1	-634.1	-634.1																
Exports of G&S	992.8	1018.0	1025.2	1017.2	1009.7	1004.5	1032.2	1078.4	1078.4	1091.8	1110.2	1125.0	1144.5	1144.5	1144.5	1144.5																
Imports of G&S	1434.0	1476.9	1497.4	1530.2	1520.4	1532.9	1548.4	1608.4	1608.6	1654.8	1711.9	1731.5	1778.6	1778.6	1778.6	1778.6																
Billions of dollars, s.a.a.r.																																
US CURRENT ACCOUNT BALANCE	-440.4	-477.1	-480.3	-503.0	-546.6	-515.2	-501.0	-584.4	-584.4	-666.5	-667.9	-753.4	-753.4	-753.4	-753.4	-753.4																
Current Account as % of GDP	-4.3	-4.6	-4.6	-4.7	-5.1	-4.8	-4.7	-4.5	-4.5	-5.1	-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	-497.7	-555.4	-608.2	-629.9	-676.9	-676.9	-676.9	-676.9																
Investment Income, Net	11.4	1.8	14.1	34.5	29.3	50.6	50.9	76.5	76.5	29.6	30.8	18.8	18.8	18.8	18.8	18.8																
Direct, Net	100.5	91.4	95.0	112.2	102.3	117.4	119.9	147.8	147.8	140.3	116.3	121.4	133.7	133.7	133.7	133.7																
Portfolio, Net	-89.2	-89.6	-80.9	-77.7	-72.9	-66.8	-69.0	-71.3	-71.3	-74.6	-86.7	-90.6	-90.6	-90.6	-90.6	-90.6																
Other Inc. & Transfers, Net	-79.0	-65.1	-64.2	-69.6	-76.6	-74.4	-76.0	-79.7	-79.7	-88.0	-68.8	-68.8	-95.3	-95.3	-95.3	-95.3																

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS								Projected			
	2005				2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Net Goods & Services	-0.4	1.1	0.3	-0.7	-0.5	-0.1	-0.3	-0.6	-0.8	0.0	-0.2	-0.6
Exports of G&S	0.7	1.1	0.4	0.8	0.6	0.5	0.5	0.7	0.4	0.6	0.6	0.8
Imports of G&S	-1.1	0.0	-0.2	-1.4	-1.3	-0.7	-0.8	-1.3	-1.2	-0.6	-0.6	-1.4
	Percentage point contribution to GDP growth											
Exports of G&S	7.5	10.7	4.1	7.5	7.8	5.3	5.2	7.1	3.7	5.9	5.8	7.5
Services	12.6	-0.6	3.1	4.2	4.7	4.8	5.0	5.1	5.5	5.8	5.9	5.9
Computers	26.9	26.9	14.3	14.8	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4
Semiconductors	-12.9	26.9	21.1	17.7	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 1/	6.1	14.8	3.1	8.2	8.4	4.4	4.2	7.2	1.6	4.9	4.7	7.4
Imports of G&S	7.4	-0.2	1.0	9.1	7.8	4.1	4.9	8.3	7.6	3.6	5.1	8.3
Services	3.7	4.9	3.1	4.9	5.7	4.5	3.7	3.7	3.7	3.6	3.6	3.6
Oil	3.4	-24.3	-12.8	18.8	3.4	-16.9	-7.9	20.4	13.8	-15.3	-6.4	19.8
Computers	11.3	13.5	18.8	17.7	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Semiconductors	-7.9	8.1	17.0	17.3	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 2/	9.1	2.1	1.8	7.6	8.4	7.8	6.9	6.4	6.6	6.6	6.7	6.8
	Percentage change from previous period, s.a.a.r.											
Net Goods & Services	-645.4	-614.4	-607.0	-625.1	-636.9	-639.5	-646.3	-662.9	-687.4	-686.2	-692.3	-709.0
Exports of G&S	1165.3	1195.2	1207.2	1229.2	1252.4	1268.7	1284.9	1307.3	1319.2	1338.2	1357.3	1382.1
Imports of G&S	1810.7	1809.6	1814.2	1854.3	1889.3	1908.2	1931.2	1970.1	2006.6	2024.4	2049.6	2091.1
	Billions of Chained 2000 Dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-785.4	-779.3	-771.8	-863.0	-906.9	-905.4	-932.1	-955.5	-1011.0	-1001.5	-1013.3	-1029.1
Current Account as % of GDP	-6.4	-6.3	-6.2	-6.8	-7.0	-6.9	-7.0	-7.1	-7.4	-7.3	-7.3	-7.3
Net Goods & Services (BOP)	-692.2	-693.3	-727.0	-769.4	-788.9	-792.6	-798.2	-815.1	-840.6	-836.3	-840.2	-856.2
Investment Income, Net	20.7	11.1	23.0	10.3	-4.1	-8.7	-27.8	-41.1	-54.5	-59.3	-65.0	-71.5
Direct, Net	125.2	127.1	150.6	151.0	152.5	151.1	153.9	157.9	163.7	169.3	174.7	179.7
Portfolio, Net	-104.4	-116.0	-127.6	-140.7	-156.6	-159.8	-181.8	-199.0	-218.2	-228.6	-239.6	-251.2
Other Inc. & Transfers	Net-113.9	-97.1	-67.8	-103.8	-113.9	-104.0	-106.1	-99.3	-115.8	-105.8	-108.1	-101.3

1. Merchandise exports excluding computers and semiconductors.

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

Part 2

September 14, 2005

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

September 14, 2005

Recent Developments

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

Item	2004	2005					
		H1	Q3	Q4	July	Aug.	Sept.
U.S. production ¹	11.7	11.5	11.7	11.7	11.4	11.8	11.9
Autos	4.3	4.3	4.3	4.1	4.3	4.3	4.2
Light trucks	7.4	7.2	7.4	7.7	7.0	7.5	7.7
Days' supply ²	74	68	n.a.	n.a.	47	61	n.a.
Autos	59	53	n.a.	n.a.	45	47	n.a.
Light trucks	83	77	n.a.	n.a.	47	72	n.a.
Inventories ³	3.22	2.96	n.a.	n.a.	2.58	2.65	n.a.
Autos	1.02	.93	n.a.	n.a.	.85	.85	n.a.
Light trucks	2.20	2.03	n.a.	n.a.	1.73	1.80	n.a.
Memo: U.S. production, total motor vehicles ⁴	12.0	11.9	12.1	12.1	11.8	12.2	12.3

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

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

2. Quarterly 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.

In the high-tech sector, the pace of production has picked up somewhat in recent months after having slowed in the second quarter. In August, high-tech output moved up 1.5 percent after an increase of 2.3 percent in July. The recent acceleration has been driven by communications equipment and semiconductors. Production gains for computers continue to average about 1 percent per month, well below the average pace in the latter half of the 1990s.

Industry reports paint a favorable picture of the near-term prospects for communications equipment and semiconductors. Our contact at Cisco was decidedly upbeat about business conditions in the near term, citing continued strong replacement demand. In addition, the *CIO Magazine* diffusion index of future spending for data networking equipment moved up again in August (although the index for future spending on computer hardware fell back after having spurted up in July). As for semiconductors, Intel's mid-quarter update to its revenue guidance for the third quarter is consistent with the accelerating production of microprocessors and flash memory. However, in the computer industry, the latest outlook from Gartner suggests that unit sales of personal computers have slowed in the third quarter.

Outside of transportation, high-tech, and energy, production was uneven in August. The output of defense and space equipment continued to trend upward. In contrast, the production of consumer goods decreased 0.4 percent in August, a decline driven by a

Changes in CBO's Baseline Projections since March 2005
 (Billions of dollars, fiscal years)

Item	2005	2006	2007	2008	2009	2010	Total, 2006-10	Total, 2006-15
March budget deficit	-365	-298	-268	-246	-219	-201	-1232	-980
Changes								
Legislative	-34	-80	-94	-103	-110	-118	-506	-1219
Revenues	0	0	-2	-2	-2	-2	-9	-18
Outlays ¹	34	80	93	101	108	116	497	1202
Economic	25	21	11	3	2	3	40	35
Revenues	28	21	11	8	10	13	62	132
Outlays ¹	3	0	0	5	8	10	23	97
Technical	42	43	27	12	5	0	87	54
Revenues	56	48	30	12	6	0	95	65
Outlays ¹	14	4	3	0	0	1	8	10
Total effect on deficit	33	-16	-56	-89	-103	-116	-379	-1130
August budget deficit	-331	-314	-324	-335	-321	-317	-1612	-2110

Note. Negative numbers indicate an increase in the deficit.

1. Includes net interest payments.

State and Local Government Sector

Indicators of state and local activity have been mixed in recent months. After having climbed for four months, nominal construction put-in-place fell in June and July to a level 1 percent below the second-quarter average. Much of the weakness was in the education and highway components, each of which accounts for almost 30 percent of the sector's construction. Meanwhile, state and local employment rose 16,000 in August after a 42,000 gain in July.

The National Conference of State Legislatures has released its annual report on the fiscal status of state governments.⁶ Roughly two-thirds of the states reported that their general fund balances plus rainy day funds at the end of fiscal 2005 were equal to more than 5 percent of general fund expenditures—the level that many analysts view as sufficient when evaluating a state's fiscal condition. These results are a good deal better than the states had anticipated a year earlier when they first formulated their 2005 budgets. Much of the improvement was the result of higher revenues than originally projected. Some states used the unanticipated revenues for supplemental appropriations, and some deposited them into their rainy day funds or left them in their general funds.

⁶ Data were collected from forty-six states for fiscal 2005, which ended on June 30 in most states.

Confidential (FR) Class III FOMC

September 16, 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

Broad Measures of Inflation
(Percent change, Q2 to Q2)

Measure	2002	2003	2004	2005
<i>Product prices</i>				
GDP price index	1.6	2.0	2.8	2.4
Less food and energy	2.1	1.8	2.5	2.4
Nonfarm business chain price index	1.0	1.2	2.2	2.4
<i>Expenditure prices</i>				
Gross domestic purchases price index	1.4	2.1	3.0	2.8
Less food and energy	1.9	1.7	2.5	2.3
PCE price index	1.2	1.8	2.7	2.5
Less food and energy	1.8	1.3	2.0	1.9
PCE price index, market-based components	.9	1.7	2.5	2.4
Less food and energy	1.5	1.2	1.5	1.6
CPI	1.3	2.2	2.8	2.9
Less food and energy	2.4	1.5	1.8	2.2
Chained CPI	1.0	1.9	2.5	2.5
Less food and energy	1.9	1.2	1.6	1.8
Median CPI	3.6	2.2	2.5	2.3
Trimmed mean CPI	2.2	1.9	2.1	2.2

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		
2003:Q4	1.9	3.0	2.6	3.1	2.8	2.5	
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	n.a.	4.3	3.6	3.5	2.9	2.5	
2005:Apr.	3.5	4.0	3.3	3.4	3.0	...	
May	2.8	3.8	3.2	3.5	2.9	...	
June	2.5	4.0	3.2	3.1	2.8	2.5	
July	3.2	3.6	3.0	3.3	2.9	...	
Aug.	3.6	3.7	3.1	3.3	2.8	...	
Sept.	n.a.	5.7	4.6	3.8	3.1	2.5	

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.

September 16, 2005

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

Category	2005							
	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept. ^P
Composite of current and expected conditions ¹	94.1	92.6	87.7	86.9	96.0	96.5	89.1	76.9
Current conditions ¹	109.2	108.0	104.4	104.9	113.2	113.5	108.2	97.7
Expected conditions ¹	84.4	82.8	77.0	75.3	85.0	85.5	76.9	63.6
Personal financial situation								
Now compared with 12 months ago ²	121	117	113	109	122	122	117	101
Expected in 12 months ²	127	130	121	121	129	133	121	112
Expected business conditions								
Next 12 months ²	114	104	96	95	109	112	102	65
Next 5 years ²	98	98	91	85	103	99	85	76
Appraisal of buying conditions								
Cars	144	130	128	133	139	152	147	127
Large household appliances ²	162	163	158	163	172	172	164	151
Houses	151	150	149	156	146	145	140	127
Expected unemployment change - next 12 months	111	112	118	119	116	117	123	136
Prob. household will lose a job - next 5 years	23	23	27	24	23	22	23	23
Expected inflation - next 12 months								
Mean	3.3	4.0	4.0	3.8	4.0	3.6	3.7	5.7
Median	2.9	3.2	3.3	3.2	3.2	3.0	3.1	4.6
Expected inflation - next 5 to 10 years								
Mean	3.1	3.3	3.4	3.5	3.1	3.3	3.3	3.8
Median	2.8	2.9	3.0	2.9	2.8	2.9	2.8	3.1

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.