

Part 1

August 4, 2005

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

August 4, 2005

Summary and Outlook

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

Measure	2005:Q2		2005:Q3	
	June GB	Aug. GB	June GB	Aug. GB
Real GDP	3.0	3.3	3.8	4.3
Private domestic final purchases	4.2	4.4	4.0	4.7
Personal consumption expenditures	3.1	3.6	3.3	4.6
Residential investment	11.4	9.7	.5	3.2
Business fixed investment	7.6	6.7	10.9	5.9
Government outlays for consumption and investment	1.7	2.5	2.9	3.1
	Contribution to growth (percentage points)			
Inventory investment	-1.5	-2.3	-.1	-.2
Net exports	.6	1.4	-.1	-.1

manufacturers may have relatively little latitude for raising their production above the currently scheduled pace, particularly because several production lines are being changed over to new models. Nevertheless, General Motors and Ford have extended their employee-pricing programs at least through September 6 (Chrysler has not announced an expiration date for their program). All told, we anticipate that gross motor vehicle output will contribute about ½ percentage point to the growth of real GDP in the third quarter and a further ¼ percentage point in the fourth quarter, after having been a roughly neutral influence over the first half of the year.

Outside the motor vehicle sector, inventory investment last quarter was half as large as we anticipated in the previous forecast. We think that firms are generally comfortable with their holdings of inventories relative to sales. Accordingly, we anticipate that they will maintain—rather than further reduce—the pace of inventory accumulation at the observed second-quarter rate. On this assumption, inventories outside of motor vehicles have little net influence on GDP growth in the next two quarters.

Consumption spending in the current quarter is projected to increase at an annual rate of 4½ percent, a significant pickup from its second-quarter pace, before slowing to about 2 percent in the fourth quarter. Spending on motor vehicles is projected to accelerate this quarter as the extension of the employee-pricing schemes is projected to call forth an

Projections of Real GDP

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

Measure	2005		2006
	H1	H2	
Real GDP	3.6	4.1	3.1
Previous	3.4	3.7	3.4
Final sales	4.6	3.2	3.2
Previous	3.8	3.7	3.4
PCE	3.6	3.4	3.3
Previous	3.3	3.4	3.6
Residential investment	9.6	.4	-.4
Previous	10.8	-1.0	.2
BFI	6.2	6.0	7.9
Previous	6.0	10.4	8.1
Government purchases	2.2	2.7	2.1
Previous	.9	2.9	2.2
Exports	9.8	7.4	5.5
Previous	8.8	8.0	6.2
Imports	3.0	6.7	5.9
Previous	5.8	6.7	6.6
Contribution to growth (percentage points)			
Inventory change	-1.0	.9	-.1
Previous	-.3	.0	.0
Net exports	.5	-.3	-.4
Previous	-.0	-.3	-.4

Vacancy rates in the office and industrial sectors have fallen over the past year, and, while they remain at elevated levels relative to their most recent troughs in 2000, the projected pace of business activity and payroll gains should support moderate growth in outlays for nonresidential structures. Spending on drilling and mining structures has responded robustly to the elevated prices of oil and natural gas, and we expect this response to continue through the first quarter of next year. But, in line with our

Decomposition of Structural Labor Productivity

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

Measure	1974-95	1996-2001	2002	2003	2004	2005	2006
Structural labor productivity	1.5	2.7	3.1	3.4	3.2	2.8	2.9
Previous	1.5	2.7	3.3	3.7	3.5	3.0	3.1
<i>Contributions¹</i>							
Capital deepening	.7	1.4	.6	.5	.7	.8	.9
Previous	.7	1.3	.6	.7	.9	1.1	1.1
Multifactor productivity	.5	1.1	2.3	2.6	2.2	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	3.3	3.2	3.3	3.0	3.0	3.1
Previous	3.0	3.4	3.4	3.6	3.5	3.2	3.4

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.

The Outlook for the Labor Market

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

Measure	2003	2004	2005	2006
Output per hour, nonfarm business	5.0	2.6	2.9	2.1
Previous	5.4	2.8	2.5	2.6
Nonfarm private payroll employment	-.1	1.8	1.9	1.4
Previous	-.1	1.8	1.7	1.3
Household survey employment	1.2	1.3	1.7	1.1
Previous	1.2	1.3	1.4	1.2
Labor force participation rate ¹	66.1	66.0	66.0	66.0
Previous	66.1	66.0	66.0	66.0
Civilian unemployment rate ¹	5.9	5.4	5.0	5.0
Previous	5.9	5.4	5.1	5.1
MEMO				
GDP gap ²	1.6	.9	.1	.1
Previous	1.4	1.1	.7	.7

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.

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

Measure	2003	2004	2005	2006
PCE chain-weighted price index	1.7	3.1	2.6	2.1
Previous	1.7	2.6	2.5	1.7
Food and beverages	2.7	2.9	1.9	2.3
Previous	2.7	2.9	2.2	2.2
Energy	7.2	17.9	12.4	1.8
Previous	7.2	18.5	9.9	-1.4
Excluding food and energy	1.3	2.2	2.0	2.1
Previous	1.2	1.6	2.1	1.9
Consumer price index	1.9	3.4	3.0	2.2
Previous	1.9	3.4	2.9	2.0
Excluding food and energy	1.2	2.1	2.3	2.3
Previous	1.2	2.1	2.4	2.3
GDP chain-weighted price index	2.0	2.9	2.3	2.1
Previous	1.7	2.4	2.3	1.9
ECI for compensation of private industry workers ¹	4.0	3.8	3.1	4.0
Previous	4.0	3.8	4.0	4.8
NFB compensation per hour	5.0	5.9	4.6	5.2
Previous	5.3	5.9	4.0	5.0
Prices of core nonfuel imports	1.6	3.7	2.5	.7
Previous	1.6	3.7	2.6	.5

1. December to December.

torrid pace. All told, we expect nonfinancial corporate debt to rise about 5¾ percent this year and next.

We continue to predict that household debt growth will slow from its double-digit pace in 2004, to 8½ percent in 2005 and 6½ percent in 2006. This deceleration is driven mainly by a step-down in residential mortgage borrowing, to slightly less than 10 percent in 2005 and 7 percent in 2006, that reflects our forecast for slowing gains in house prices. We forecast consumer credit growth to be about 4¼ percent in 2005 and about 4½ percent in 2006, an acceleration roughly in line with that of expenditures on consumer durables.

We have trimmed our forecast of federal borrowing in response to higher-than-expected tax receipts. We now expect federal debt to increase 7¼ percent this year and 7½ percent

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

Measure and scenario	2005		2006
	H1	H2	
<i>Real GDP</i>			
Baseline	3.6	4.1	3.1
Stronger demand	3.6	5.2	4.5
With monetary policy response	3.6	5.1	4.1
Weak business demand	3.6	3.0	2.5
With monetary policy response	3.6	3.1	2.8
More room to grow	3.6	4.3	3.3
With monetary policy response	3.6	4.3	3.3
Less room to grow	3.6	3.7	3.0
With monetary policy response	3.6	3.7	3.0
<i>Civilian unemployment rate¹</i>			
Baseline	5.1	5.0	5.0
Stronger demand	5.1	4.8	4.2
With monetary policy response	5.1	4.8	4.4
Weak business demand	5.1	5.2	5.5
With monetary policy response	5.1	5.2	5.3
More room to grow	5.1	5.0	4.9
With monetary policy response	5.1	5.0	4.9
Less room to grow	5.1	5.1	5.2
With monetary policy response	5.1	5.1	5.2
<i>PCE prices</i>			
<i>excluding food and energy</i>			
Baseline	2.1	2.0	2.1
Stronger demand	2.1	2.0	2.2
With monetary policy response	2.1	2.0	2.1
Weak business demand	2.1	2.0	2.0
With monetary policy response	2.1	2.0	2.1
More room to grow	2.1	1.9	1.9
With monetary policy response	2.1	1.9	1.9
Less room to grow	2.1	2.2	2.5
With monetary policy response	2.1	2.2	2.5

1. Average for the final quarter of the period.

strategy, the increment to GDP growth next year would be somewhat smaller and the fall in the unemployment rate less pronounced, with the result that inflation would be close to baseline in 2007 (not shown).

**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	3.9	3.1
Confidence interval		
Greenbook forecast errors ¹	2.9–4.8	1.1–5.0
FRB/US stochastic simulations	2.9–4.8	1.5–4.9
<i>Civilian unemployment rate</i> (percent, Q4)		
Projection	5.0	5.0
Confidence interval		
Greenbook forecast errors ¹	4.7–5.3	4.2–5.8
FRB/US stochastic simulations	4.6–5.4	4.1–5.8
<i>PCE prices</i> excluding food and energy (percent change, Q4 to Q4)		
Projection	2.0	2.1
Confidence interval		
Greenbook forecast errors ²	1.7–2.3	1.4–2.8
FRB/US stochastic simulations	1.7–2.4	1.3–2.9

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

1. 1978–2004.

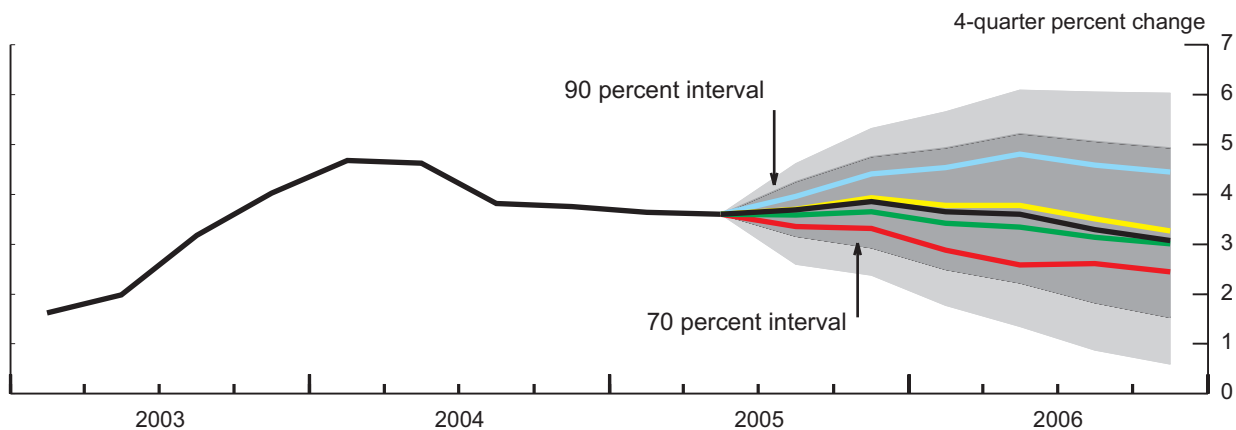
2. 1981–2004.

Forecast Confidence Intervals and Alternative Scenarios

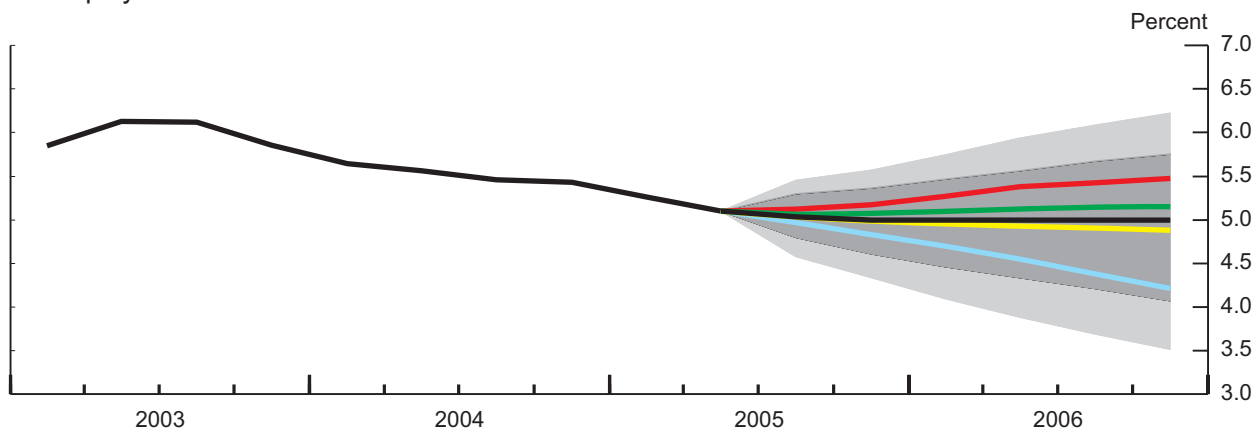
Confidence Intervals Based on FRB/US Stochastic Simulations;
Scenarios Assume Baseline Federal Funds Rate

- Greenbook baseline
- More room to grow
- Stronger demand
- Less room to grow
- Weak business demand

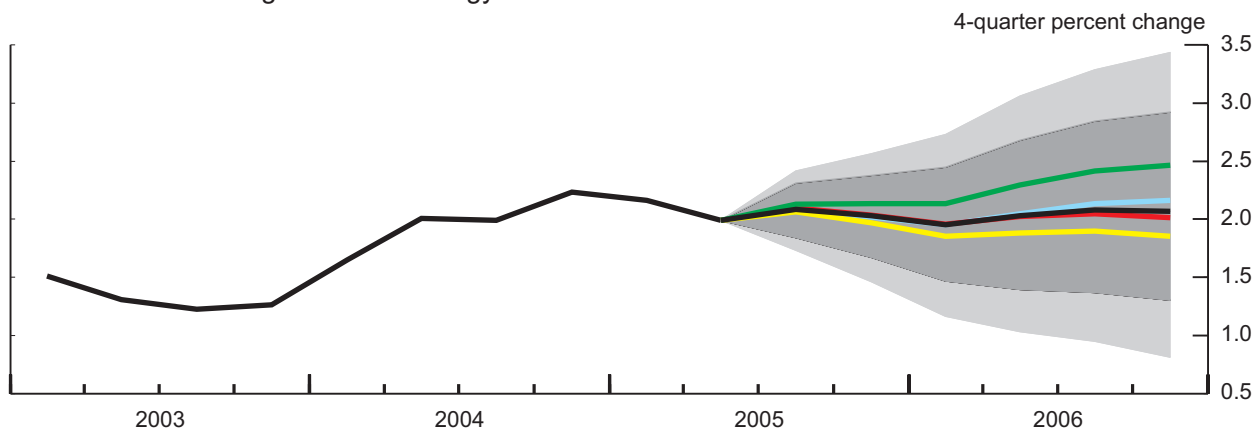
Real GDP



Unemployment Rate



PCE Prices excluding Food and Energy



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

		Nominal GDP		Real GDP		PCE price index		Core PCE price index		Unemployment rate ¹	
Interval		6/22/05	8/4/05	6/22/05	8/4/05	6/22/05	8/4/05	6/22/05	8/4/05	6/22/05	8/4/05
ANNUAL											
2002		3.5	3.4	1.9	1.6	1.4	1.4	1.8	1.8	5.8	5.8
2003		4.9	4.8	3.0	2.7	1.9	1.9	1.3	1.3	6.0	6.0
2004		6.6	7.0	4.4	4.2	2.2	2.6	1.5	2.0	5.5	5.5
2005		6.1	6.2	3.7	3.7	2.5	2.6	1.9	2.1	5.2	5.1
2006		5.5	5.6	3.5	3.4	2.0	2.3	1.9	2.0	5.1	5.0
QUARTERLY											
2003	Q1	4.9	4.8	1.9	1.7	3.2	3.0	1.5	1.1	5.8	5.8
	Q2	5.3	4.8	4.1	3.7	0.7	0.6	1.1	1.0	6.1	6.1
	Q3	8.8	9.3	7.4	7.2	1.6	2.0	0.9	1.5	6.1	6.1
	Q4	5.7	5.5	4.2	3.6	1.2	1.3	1.3	1.4	5.9	5.9
2004	Q1	7.4	8.1	4.5	4.3	3.3	3.9	2.1	2.7	5.6	5.6
	Q2	6.6	7.5	3.3	3.5	3.1	3.8	1.7	2.5	5.6	5.6
	Q3	5.5	5.3	4.0	4.0	1.3	1.5	0.9	1.5	5.5	5.5
	Q4	6.2	6.1	3.8	3.3	2.7	3.1	1.7	2.3	5.4	5.4
2005	Q1	7.1	7.0	3.9	3.8	2.1	2.3	2.2	2.4	5.3	5.3
	Q2	5.6	5.9	3.0	3.3	3.7	3.3	2.2	1.8	5.1	5.1
	Q3	5.4	5.9	3.8	4.3	2.4	2.2	2.1	1.9	5.1	5.0
	Q4	5.6	6.1	3.7	4.0	2.0	2.5	2.0	2.1	5.1	5.0
2006	Q1	5.8	5.5	3.5	3.0	1.8	2.3	1.9	2.1	5.1	5.0
	Q2	5.3	5.2	3.4	3.1	1.7	2.1	1.9	2.1	5.1	5.0
	Q3	5.3	5.2	3.4	3.1	1.7	2.0	1.8	2.1	5.1	5.0
	Q4	5.2	5.2	3.3	3.1	1.7	2.0	1.8	2.1	5.1	5.0
TWO-QUARTER ²											
2003	Q2	5.1	4.8	3.0	2.7	2.0	1.8	1.3	1.1	0.2	0.2
	Q4	7.2	7.3	5.8	5.4	1.4	1.6	1.1	1.5	-0.2	-0.2
2004	Q2	7.0	7.8	3.9	3.9	3.2	3.8	1.9	2.6	-0.3	-0.3
	Q4	5.9	5.7	3.9	3.6	2.0	2.3	1.3	1.9	-0.2	-0.2
2005	Q2	6.4	6.4	3.4	3.6	2.9	2.8	2.2	2.1	-0.3	-0.3
	Q4	5.5	6.0	3.7	4.1	2.2	2.3	2.0	2.0	0.0	-0.1
2006	Q2	5.5	5.4	3.5	3.1	1.8	2.2	1.9	2.1	0.0	0.0
	Q4	5.2	5.2	3.3	3.1	1.7	2.0	1.8	2.1	0.0	0.0
FOUR-QUARTER ³											
2002	Q4	3.8	3.6	2.3	1.9	1.8	1.8	1.5	1.6	0.4	0.4
2003	Q4	6.2	6.1	4.4	4.0	1.7	1.7	1.2	1.3	0.0	0.0
2004	Q4	6.4	6.8	3.9	3.8	2.6	3.1	1.6	2.2	-0.5	-0.5
2005	Q4	5.9	6.2	3.6	3.9	2.5	2.6	2.1	2.0	-0.3	-0.4
2006	Q4	5.4	5.3	3.4	3.1	1.7	2.1	1.9	2.1	-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.

Class II FOMC
Restricted (FR)REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted annual rate)

August 4, 2005

		- - - Projected - - -								
Item	Units ¹	1998	1999	2000	2001	2002	2003	2004	2005	2006
Expenditures										
Nominal GDP	Bill. \$	8747.0	9268.4	9817.0	10128.0	10469.6	10971.2	11734.3	12467.4	13161.8
Real GDP	Bill. Ch. \$	9066.9	9470.3	9817.0	9890.7	10048.8	10320.6	10755.7	11153.6	11533.4
Real GDP	% change	4.5	4.7	2.2	0.2	1.9	4.0	3.8	3.9	3.1
Gross domestic purchases		5.5	5.5	3.0	0.4	2.7	4.0	4.5	3.6	3.3
Final sales		4.8	4.2	2.9	1.5	0.8	4.0	3.6	3.9	3.2
Priv. dom. final purchases		6.4	5.3	4.3	1.0	1.1	4.4	4.8	3.9	3.6
Personal cons. expenditures		5.4	4.9	4.1	2.8	1.9	3.8	3.8	3.5	3.3
Durables		14.4	7.3	4.7	10.8	1.2	9.2	5.2	5.7	6.9
Nondurables		4.7	4.9	3.0	1.9	2.1	4.1	4.6	4.3	3.8
Services		3.8	4.4	4.5	1.6	1.9	2.5	3.1	2.6	2.3
Business fixed investment		10.9	7.7	7.8	-9.6	-6.5	5.6	10.9	6.1	7.9
Equipment & Software		13.5	10.8	7.5	-9.0	-3.4	7.2	13.8	7.2	9.0
Nonres. structures		4.0	-0.9	8.8	-11.1	-14.9	1.2	2.7	2.7	4.8
Residential structures		10.3	3.6	-1.9	1.4	7.0	11.8	6.6	4.9	-0.4
Exports		2.6	5.6	6.5	-11.9	3.8	6.0	6.1	8.6	5.5
Imports		11.0	12.1	11.2	-7.6	9.7	5.1	10.6	4.9	5.9
Gov't. cons. & investment		3.3	4.2	0.4	5.0	4.0	1.9	2.1	2.5	2.1
Federal		0.1	4.2	-2.2	6.4	7.8	5.5	4.2	3.2	1.6
Defense		-1.2	4.3	-3.5	6.5	8.4	7.5	4.9	3.7	1.9
State & local		5.1	4.2	1.7	4.2	2.1	0.0	0.9	2.0	2.4
Change in bus. inventories	Bill. Ch. \$	72.6	68.9	56.5	-31.7	12.5	15.5	52.0	21.8	33.1
Nonfarm		71.2	71.5	57.8	-31.8	15.2	15.5	49.9	25.8	31.5
Net exports		-203.7	-296.2	-379.5	-399.1	-471.3	-521.4	-601.3	-620.2	-645.8
Nominal ₂ GDP	% change	5.7	6.3	4.6	2.7	3.6	6.1	6.8	6.2	5.3
GDP Gap ²	%	-1.5	-2.4	-2.5	0.1	1.6	2.1	1.1	0.4	0.1
Employment and Production										
Nonfarm payroll employment	Millions	125.9	129.0	131.8	131.8	130.3	130.0	131.5	133.7	135.7
Unemployment rate	%	4.5	4.2	4.0	4.7	5.8	6.0	5.5	5.1	5.0
Industrial prod. index	% change	4.2	5.2	1.9	-5.1	1.5	1.2	4.3	4.4	3.4
Capacity util. rate - mfg.	%	81.8	81.1	80.6	74.5	73.5	73.7	76.7	78.7	80.4
Housing starts	Millions	1.62	1.64	1.57	1.60	1.70	1.85	1.96	2.02	1.93
Light motor vehicle sales		15.56	16.91	17.35	17.13	16.75	16.63	16.81	16.97	17.21
North Amer. produced		13.52	14.41	14.48	14.05	13.46	13.32	13.43	13.54	13.71
Other		2.04	2.50	2.87	3.08	3.28	3.31	3.38	3.44	3.50
Income and Saving										
Nominal GNP	Bill. \$	8768.3	9302.2	9855.9	10171.6	10500.2	11039.3	11788.0	12491.9	13140.2
Nominal GNP	% change	5.5	6.5	4.7	2.9	3.3	6.5	6.2	5.9	4.9
Nominal personal income		7.0	5.5	7.1	2.2	1.9	4.5	7.5	5.0	7.0
Real disposable income		5.6	2.8	4.4	1.2	2.9	3.8	4.1	1.3	4.7
Personal saving rate	%	4.3	2.4	2.3	1.8	2.4	2.1	1.8	0.2	1.0
Corp. profits, IVA & CCAdj.	% change	-10.0	9.6	-8.6	-0.2	20.6	16.4	9.6	11.5	-3.0
Profit share of GNP	%	9.1	9.2	8.3	7.5	8.4	9.3	9.9	10.6	10.1
Excluding FR Banks	%	8.9	8.9	8.0	7.3	8.2	9.2	9.7	10.5	10.0
Federal surpl./deficit	Bill. \$	38.8	103.6	189.5	46.7	-247.9	-382.7	-406.5	-303.2	-355.2
State & local surpl./def.		52.0	50.4	50.0	4.8	-34.2	-23.8	-5.9	11.2	20.8
Ex. social ins. funds		50.3	48.7	47.9	2.2	-35.9	-25.1	-7.7	10.4	19.8
Gross natl. saving rate	%	18.2	18.0	18.0	16.3	14.2	13.4	13.3	13.1	12.9
Net natl. saving rate		7.4	6.9	6.7	4.2	2.1	1.5	1.3	1.8	1.7
Prices and Costs										
GDP chn.-wt. price index	% change	1.1	1.6	2.2	2.4	1.7	2.0	2.9	2.3	2.1
Gross Domestic Purchases										
chn.-wt. price index		0.7	2.0	2.4	1.6	1.9	2.0	3.4	2.7	2.0
PCE chn.-wt. price index		0.9	2.1	2.3	1.7	1.8	1.7	3.1	2.6	2.1
Ex. food and energy		1.4	1.6	1.5	2.2	1.6	1.3	2.2	2.0	2.1
CPI		1.5	2.6	3.4	1.8	2.2	1.9	3.4	3.0	2.2
Ex. food and energy		2.3	2.0	2.6	2.7	2.1	1.2	2.1	2.3	2.3
ECI, hourly compensation ³		3.5	3.4	4.4	4.2	3.2	4.0	3.8	3.1	4.0
Nonfarm business sector										
Output per hour		2.7	3.5	2.0	3.2	2.8	5.0	2.6	2.9	2.1
Compensation per Hour		5.5	5.2	6.3	3.6	3.1	5.0	5.9	4.6	5.2
Unit labor cost		2.7	1.6	4.2	0.3	0.2	0.0	3.2	1.6	3.1

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.

Class II FOMC
Restricted (FR)REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
(Seasonally adjusted, annual rate except as noted)

August 4, 2005

Item	Units	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2
Expenditures											
Nominal GDP	Bill. \$	10333.3	10426.6	10527.4	10591.1	10717.0	10844.6	11087.4	11236.0	11457.1	11666.1
Real GDP	Bill. Ch. \$	9977.3	10031.6	10090.7	10095.8	10138.6	10230.4	10410.9	10502.6	10612.5	10704.1
Real GDP	% change	2.7	2.2	2.4	0.2	1.7	3.7	7.2	3.6	4.3	3.5
Gross domestic purchases		3.6	2.7	2.8	1.7	1.5	4.2	6.5	3.9	5.2	4.7
Final sales		-0.2	1.7	1.4	0.1	1.9	4.6	6.9	2.8	3.8	2.6
Priv. dom. final purchases		-0.0	1.7	1.7	0.9	2.2	4.5	7.4	3.7	5.1	4.2
Personal cons. expenditures		1.4	2.4	2.3	1.4	2.5	3.6	5.8	3.1	4.7	1.9
Durables		-4.2	3.6	11.5	-5.2	3.6	15.1	19.8	-0.3	4.4	0.4
Nondurables		3.3	1.3	0.3	3.6	3.2	1.9	8.3	3.1	6.6	2.6
Services		1.8	2.6	1.3	1.8	1.9	2.3	2.0	3.8	3.8	1.8
Business fixed investment		-12.8	-6.1	-2.0	-5.0	-1.1	8.4	11.2	4.4	7.9	13.5
Equipment & Software		-10.4	-0.9	3.3	-4.9	1.6	6.7	15.4	5.5	12.0	15.2
Nonres. structures		-19.0	-19.0	-15.5	-5.3	-8.4	13.3	-0.1	1.3	-3.5	8.8
Residential structures		10.4	9.5	2.0	6.4	4.7	9.6	21.9	11.5	5.2	17.8
Exports		5.2	10.6	2.9	-3.1	-2.9	-2.1	11.5	19.1	5.0	6.9
Imports		11.7	12.5	5.7	9.0	-2.5	3.3	4.1	16.5	12.0	14.5
Gov't. cons. & investment		4.3	4.8	2.3	4.8	-0.3	7.2	0.5	0.5	3.3	2.3
Federal		5.9	12.5	3.0	10.2	0.3	22.1	-2.0	3.1	10.7	3.2
Defense		3.7	11.5	4.1	14.8	-3.6	37.4	-6.5	7.9	13.8	0.8
State & local		3.5	1.0	1.9	2.0	-0.6	-0.3	2.0	-0.9	-0.7	1.8
Change in bus. inventories	Bill. Ch. \$	-10.2	2.6	28.0	29.5	24.0	-0.4	9.3	29.0	41.9	65.6
Nonfarm		-11.1	12.4	29.3	29.9	19.7	1.0	13.0	28.1	46.8	58.5
Net exports		-441.3	-458.9	-472.2	-513.0	-510.7	-528.4	-516.2	-530.2	-563.0	-601.7
Nominal GDP	% change	4.3	3.7	3.9	2.4	4.8	4.8	9.3	5.5	8.1	7.5
GDP Gap ¹	%	1.2	1.4	1.6	2.3	2.7	2.6	1.7	1.6	1.3	1.2
Employment and Production											
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		16.60	16.53	17.35	16.51	16.13	16.43	17.22	16.74	16.58	16.57
North Amer. produced		13.28	13.32	14.00	13.26	12.75	13.15	13.84	13.55	13.31	13.19
Other		3.33	3.21	3.35	3.25	3.38	3.28	3.37	3.19	3.28	3.38
Income and Saving											
Nominal GNP	Bill. \$	10359.5	10443.3	10557.0	10641.1	10761.9	10911.4	11154.8	11329.2	11540.1	11712.8
Nominal GNP	% change	2.3	3.3	4.4	3.2	4.6	5.7	9.2	6.4	7.7	6.1
Nominal personal income		2.8	3.6	0.2	1.4	4.0	4.7	4.3	5.0	6.9	5.6
Real disposable income		11.6	1.9	-1.6	0.2	2.5	4.5	7.2	1.0	3.6	1.2
Personal saving rate	%	2.9	2.8	2.0	1.8	1.9	2.1	2.5	2.0	1.8	1.6
Corp. profits, IVA & CCAdj.	% change	19.7	17.9	15.2	30.0	-1.9	24.5	22.6	22.8	12.9	5.2
Profit share of GNP	%	8.0	8.3	8.5	9.0	8.8	9.2	9.5	9.8	9.9	9.9
Excluding FR Banks		7.8	8.0	8.3	8.8	8.6	9.0	9.3	9.7	9.8	9.8
Federal surpl./deficit	Bill. \$	-208.5	-241.4	-247.3	-294.6	-296.0	-373.8	-456.2	-405.0	-429.3	-413.4
State & local surpl./def.		-35.3	-35.1	-31.4	-34.9	-67.8	-26.1	-13.8	12.5	-6.5	-1.6
Ex. social ins. funds		-37.4	-36.9	-33.0	-36.2	-69.0	-27.3	-15.0	11.0	-8.3	-3.6
Gross natl. saving rate	%	14.8	14.5	13.8	13.6	13.1	13.4	13.2	13.7	13.3	13.2
Net natl. saving rate		2.8	2.5	1.8	1.5	1.1	1.4	1.4	2.0	1.6	1.5
Prices and Costs											
GDP chn.-wt. price index	% change	1.7	1.5	1.6	2.2	3.1	1.1	1.8	1.9	3.6	3.9
Gross Domestic Purchases											
chn.-wt. price index		1.5	2.5	1.7	2.2	4.1	0.4	2.0	1.7	4.2	4.1
PCE chn.-wt. price index		0.9	2.8	1.8	1.7	3.0	0.6	2.0	1.3	3.9	3.8
Ex. food and energy		1.3	1.8	1.9	1.2	1.1	1.0	1.5	1.4	2.7	2.5
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 ²		3.3	4.4	2.5	3.3	5.5	3.4	4.4	3.4	4.6	3.8
Nonfarm business sector											
Output per hour		6.5	0.8	4.0	0.2	3.1	6.6	9.6	0.8	2.2	4.6
Compensation per hour		6.1	4.2	1.7	0.4	5.7	6.4	5.2	2.8	3.6	3.8
Unit labor cost		-0.4	3.4	-2.2	0.3	2.5	-0.2	-4.1	1.9	1.3	-0.8

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

Class II FOMC
Restricted (FR)REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
(Seasonally adjusted, annual rate except as noted)

August 4, 2005

		- - - - - Projected - - - - -									
Item	Units	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	11818.8	11995.2	12198.8	12374.8	12554.6	12741.4	12912.7	13078.0	13244.3	13412.2
Real GDP	Bill. Ch. \$	10808.9	10897.1	10999.3	11090.0	11207.8	11317.3	11401.5	11489.2	11577.3	11665.5
Real GDP	% change	4.0	3.3	3.8	3.3	4.3	4.0	3.0	3.1	3.1	3.1
Gross domestic purchases		3.9	4.1	4.0	1.9	4.3	4.3	3.4	2.9	3.1	3.6
Final sales		4.6	3.3	3.5	5.8	4.5	1.9	3.3	3.5	3.2	2.6
Priv. dom. final purchases		5.1	4.9	4.1	4.4	4.7	2.3	4.0	3.6	3.5	3.4
Personal cons. expenditures		4.4	4.3	3.5	3.6	4.6	2.1	3.7	3.2	3.2	3.2
Durables		10.8	5.5	2.6	11.3	13.6	-3.9	9.9	5.7	5.9	6.2
Nondurables		3.9	5.5	5.3	3.3	4.4	4.1	3.9	3.8	3.8	3.8
Services		3.4	3.6	2.8	2.3	2.9	2.4	2.4	2.4	2.3	2.3
Business fixed investment		11.8	10.4	5.7	6.7	5.9	6.1	10.8	7.7	7.1	6.1
Equipment & Software		15.5	12.4	8.3	8.0	6.3	6.2	12.4	8.1	8.4	7.3
Nonres. structures		1.4	4.7	-2.0	2.6	4.5	5.8	6.1	6.7	3.6	2.9
Residential structures		2.6	1.6	9.5	9.7	3.2	-2.4	-3.8	0.8	0.6	0.9
Exports		5.5	7.1	7.5	12.3	6.9	7.9	4.7	5.6	5.4	6.4
Imports		4.7	11.3	7.4	-1.2	5.0	8.6	6.8	3.6	4.7	8.4
Gov't. cons. & investment		1.8	0.9	1.9	2.5	3.1	2.4	2.4	2.2	2.0	1.9
Federal		3.6	-0.6	2.4	1.3	6.3	2.8	2.5	1.8	1.2	1.1
Defense		9.0	-3.3	3.0	2.0	6.4	3.4	2.8	2.2	1.4	1.1
State & local		0.8	1.8	1.6	3.2	1.2	2.2	2.3	2.4	2.4	2.4
Change in bus. inventories	Bill. Ch. \$	50.4	50.1	58.2	-5.6	-11.7	46.5	39.1	28.2	25.8	39.5
Nonfarm		43.7	50.8	61.8	-1.3	-6.3	49.2	38.1	26.2	23.8	37.7
Net exports		-606.5	-634.1	-645.4	-605.7	-607.6	-622.1	-638.7	-638.2	-643.3	-662.8
Nominal GDP	% change	5.3	6.1	7.0	5.9	5.9	6.1	5.5	5.2	5.2	5.2
GDP Gap ¹	%	1.0	0.9	0.7	0.6	0.3	0.1	0.1	0.1	0.1	0.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	131.7	132.3	132.8	133.4	133.9	134.5	135.0	135.5	135.9	136.3
Unemployment rate	%	5.5	5.4	5.3	5.1	5.0	5.0	5.0	5.0	5.0	5.0
Industrial prod. index	% change	2.7	4.5	3.6	2.1	6.3	5.6	3.3	3.4	3.6	3.3
Capacity util. rate - mfg.	%	77.0	77.6	78.1	78.2	78.9	79.7	80.0	80.2	80.5	80.7
Housing starts	Millions	1.97	1.97	2.08	2.01	2.01	1.98	1.95	1.94	1.93	1.91
Light motor vehicle sales		17.01	17.09	16.50	17.21	17.67	16.51	17.19	17.20	17.22	17.24
North Amer. produced		13.71	13.51	13.16	13.72	14.18	13.08	13.69	13.70	13.72	13.74
Other		3.30	3.58	3.34	3.49	3.48	3.43	3.50	3.50	3.50	3.50
INCOME AND SAVING											
Nominal GNP	Bill. \$	11867.3	12032.0	12238.2	12406.8	12576.8	12745.9	12909.1	13064.2	13217.1	13370.5
Nominal GNP	% change	5.4	5.7	7.0	5.6	5.6	5.5	5.2	4.9	4.8	4.7
Nominal personal income		4.9	12.7	2.6	5.8	5.3	6.5	8.0	7.4	6.3	6.3
Real disposable income		2.8	9.1	-2.9	1.4	3.0	3.7	5.2	5.1	4.1	4.3
Personal saving rate	%	1.2	2.3	0.7	0.1	-0.2	0.2	0.5	1.0	1.2	1.5
Corp. profits, IVA & CCAdj.	% change	-14.6	42.0	24.5	8.7	12.7	1.4	-3.1	-4.2	-2.7	-1.9
Profit share of GNP	%	9.4	10.1	10.5	10.6	10.8	10.7	10.5	10.2	10.0	9.9
Excluding FR Banks		9.2	10.0	10.3	10.5	10.6	10.5	10.3	10.1	9.9	9.7
Federal surpl./deficit	Bill. \$	-411.6	-371.6	-293.4	-295.8	-306.8	-316.8	-355.9	-358.1	-357.6	-349.0
State & local surpl./def.		-19.3	4.0	7.4	6.6	11.5	19.4	18.8	19.0	23.4	22.1
Ex. social ins. funds		-21.2	2.3	6.5	6.2	10.5	18.4	17.8	18.0	22.4	21.1
Gross natl. saving rate	%	13.4	13.4	13.5	13.2	12.8	13.0	12.8	12.9	13.0	13.1
Net natl. saving rate		0.5	1.7	1.9	1.8	1.6	1.8	1.5	1.7	1.7	1.8
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.5	2.7	3.1	2.5	1.6	2.0	2.4	2.0	2.0	2.0
Gross Domestic Purchases											
chn.-wt. price index		2.0	3.2	2.9	3.2	2.3	2.4	2.5	1.9	1.8	1.8
PCE chn.-wt. price index		1.5	3.1	2.3	3.3	2.2	2.5	2.3	2.1	2.0	2.0
Ex. food and energy		1.5	2.3	2.4	1.8	1.9	2.1	2.1	2.1	2.1	2.1
CPI		1.7	3.4	2.5	4.0	2.5	2.9	2.6	2.2	2.1	2.1
Ex. food and energy		1.8	2.3	2.6	2.0	2.1	2.4	2.3	2.3	2.3	2.3
ECI, hourly compensation ²		4.0	3.2	2.5	2.5	3.6	4.0	4.0	4.0	4.1	4.1
Nonfarm business sector											
Output per hour		1.3	2.4	3.3	1.9	3.7	2.8	1.6	1.9	2.3	2.5
Compensation per hour		6.2	10.1	7.0	3.4	3.2	4.8	5.2	5.2	5.2	5.2
Unit labor cost		4.8	7.5	3.6	1.4	-0.4	1.9	3.5	3.3	2.9	2.6

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

Class II FOMC
Restricted (FR)

August 4, 2005

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/ 01Q4	2004/ 02Q4	2004/ 03Q4/ 04Q4
Real GDP	2.4	0.2	1.7	3.7	7.2	3.6	4.3	3.5	4.0	1.9	4.0	3.8
Gross dom. purchases	2.9	1.7	1.6	4.3	6.8	4.0	5.4	4.9	4.1	2.8	4.2	4.7
Final sales	1.4	0.1	1.9	4.5	6.9	2.8	3.8	2.6	4.5	0.8	4.0	3.6
Priv. dom. final purchases	1.5	0.8	1.9	3.8	6.3	3.2	4.3	3.6	4.3	0.9	3.8	4.1
Personal cons. expenditures	1.6	1.0	1.7	2.6	4.1	2.2	3.3	1.3	3.1	1.3	2.6	2.7
Durables	1.0	-0.5	0.3	1.2	1.6	-0.0	0.4	0.0	0.9	0.1	0.8	0.4
Nondurables	0.1	0.7	0.6	0.4	1.7	0.6	1.3	0.5	0.8	0.4	0.8	0.9
Services	0.5	0.7	0.8	0.9	0.8	1.6	1.6	0.8	1.4	0.8	1.0	1.3
Business fixed investment	-0.2	-0.5	-0.1	0.8	1.1	0.4	0.8	1.3	1.2	-0.7	0.6	1.1
Equipment & Software	0.2	-0.4	0.1	0.5	1.1	0.4	0.9	1.1	1.1	-0.3	0.5	1.0
Nonres. structures	-0.4	-0.1	-0.2	0.3	0.0	0.0	-0.1	0.2	0.0	-0.5	0.0	0.1
Residential structures	0.1	0.3	0.2	0.5	1.1	0.6	0.3	0.9	0.2	0.3	0.6	0.4
Net exports	-0.5	-1.5	0.1	-0.7	0.5	-0.5	-1.2	-1.4	-0.2	-0.9	-0.1	-0.9
Exports	0.3	-0.3	-0.3	-0.2	1.0	1.7	0.5	0.7	0.5	0.4	0.6	0.6
Imports	-0.8	-1.2	0.4	-0.5	-0.6	-2.2	-1.7	-2.0	-0.7	-1.3	-0.7	-1.5
Government cons. & invest.	0.4	0.9	-0.1	1.4	0.1	0.1	0.6	0.4	0.4	0.7	0.4	0.4
Federal	0.2	0.6	0.0	1.4	-0.1	0.2	0.7	0.2	0.3	0.5	0.4	0.3
Defense	0.2	0.6	-0.2	1.5	-0.3	0.4	0.6	0.0	0.4	0.3	0.3	0.2
Nondefense	0.0	0.1	0.2	-0.1	0.2	-0.1	0.1	0.2	-0.2	0.1	0.0	0.1
State and local	0.2	0.3	-0.1	-0.0	0.3	-0.1	-0.1	0.2	0.1	0.3	0.0	0.1
Change in bus. inventories	1.0	0.1	-0.2	-0.8	0.4	0.8	0.5	0.9	-0.6	1.1	0.0	0.2
Nonfarm	0.7	0.0	-0.3	-0.6	0.5	0.6	0.7	0.4	-0.6	1.1	-0.0	0.2
Farm	0.3	0.0	0.2	-0.2	-0.1	0.2	-0.2	0.5	-0.0	0.0	0.0	-0.0

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

Class II FOMC
Restricted (FR)

August 4, 2005

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	Projected 2006 Q1	2006 Q2	2006 Q3	2006 Q4	04Q4/ 03Q4	Projected 05Q4/ 04Q4	Projected 06Q4/ 05Q4
Real GDP	3.3	3.8	3.3	4.3	4.0	3.0	3.1	3.1	3.1	3.8	3.9	3.1
Gross dom. purchases	4.3	4.2	2.0	4.5	4.5	3.6	3.1	3.3	3.8	4.7	3.8	3.5
Final sales	3.3	3.5	5.7	4.5	1.9	3.3	3.5	3.2	2.6	3.6	3.9	3.1
Priv. dom. final purchases	4.1	3.6	3.8	4.0	2.0	3.5	3.1	3.0	2.9	4.1	3.3	3.1
Personal cons. expenditures	3.0	2.4	2.5	3.2	1.5	2.6	2.2	2.2	2.2	2.7	2.4	2.3
Durables	0.5	0.2	0.9	1.1	-0.3	0.8	0.5	0.5	0.5	0.4	0.5	0.6
Nondurables	1.1	1.1	0.7	0.9	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.8
Services	1.5	1.2	1.0	1.2	1.0	1.0	1.0	1.0	0.9	1.3	1.1	1.0
Business fixed investment	1.0	0.6	0.7	0.6	0.6	1.1	0.8	0.8	0.7	1.1	0.6	0.8
Equipment & Software	0.9	0.6	0.6	0.5	0.5	0.9	0.6	0.7	0.6	1.0	0.6	0.7
Nonres. structures	0.1	-0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Residential structures	0.1	0.5	0.6	0.2	-0.1	-0.2	0.0	0.0	0.1	0.4	0.3	-0.0
Net exports	-1.0	-0.4	1.4	-0.1	-0.5	-0.6	-0.0	-0.2	-0.7	-0.9	0.1	-0.4
Exports	0.7	0.7	1.2	0.7	0.8	0.5	0.6	0.6	0.7	0.6	0.9	0.6
Imports	-1.7	-1.1	0.2	-0.8	-1.4	-1.1	-0.6	-0.8	-1.4	-1.5	-0.8	-1.0
Government cons. & invest.	0.2	0.4	0.5	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.5	0.4
Federal	-0.0	0.2	0.1	0.4	0.2	0.2	0.1	0.1	0.1	0.3	0.2	0.1
Defense	-0.2	0.1	0.1	0.3	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.1
Nondefense	0.1	0.0	-0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
State and local	0.2	0.2	0.4	0.1	0.3	0.3	0.3	0.3	0.3	0.1	0.2	0.3
Change in bus. inventories	-0.0	0.3	-2.3	-0.2	2.0	-0.3	-0.4	-0.1	0.5	0.2	-0.0	-0.1
Nonfarm	0.3	0.4	-2.2	-0.2	2.0	-0.4	-0.4	-0.1	0.5	0.2	-0.0	-0.1
Farm	-0.3	-0.1	-0.1	-0.0	0.1	0.1	0.0	0.0	0.0	-0.0	-0.0	0.0

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

Class II FOMC
Restricted (FR)

August 4, 2005

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

Item	Fiscal year				2004				2005				2006			
	2003 ^a	2004 ^a	2005	2006	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1 ^a	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts ¹	1782	1880	2133	2275	410	550	479	487	452	665	529	524	484	709	559	546
Outlays ¹	2159	2293	2466	2605	581	576	565	605	628	620	612	643	671	653	639	675
Surplus/deficit ¹	-377	-413	-334	-330	-171	-26	-86	-118	-177	45	-84	-119	-187	56	-80	-129
On-budget	-538	-568	-507	-512	-194	-99	-96	-171	-202	-38	-97	-178	-210	-29	-94	-192
Off-budget	161	155	174	182	23	73	10	53	25	83	13	60	22	85	14	63
Means of financing																
Borrowing	374	378	305	351	136	41	83	102	165	-43	81	118	172	-27	88	119
Cash decrease	26	-1	6	-5	12	-23	8	12	2	-11	3	5	15	-25	0	10
Other ²	-22	36	22	-16	23	8	-6	4	10	9	-1	-4	0	-4	-8	-0
Cash operating balance, end of period	35	36	30	35	21	45	36	25	22	33	30	25	10	35	35	25
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1861	1933	2187	2345	1918	1951	1975	2055	2202	2231	2261	2288	2336	2365	2392	2422
Expenditures	2216	2348	2504	2693	2347	2365	2387	2426	2495	2527	2567	2605	2692	2723	2750	2771
Consumption expenditures	647	711	758	802	711	721	736	735	760	763	775	784	802	808	813	818
Defense	425	474	508	540	473	480	495	490	509	512	521	527	539	544	548	552
Nondefense	222	237	250	262	238	241	241	245	251	251	255	257	262	264	265	266
Other spending	1569	1637	1745	1891	1637	1644	1651	1691	1735	1764	1792	1821	1891	1915	1937	1953
Current account surplus	-355	-415	-317	-347	-429	-413	-412	-372	-293	-296	-307	-317	-356	-358	-358	-349
Gross investment	92	99	105	113	98	104	101	106	101	105	109	111	112	113	114	115
Gross saving less gross investment ³	-357	-421	-325	-359	-435	-424	-418	-381	-297	-303	-318	-329	-368	-371	-370	-361
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-282	-377	-305	-360	-391	-385	-385	-351	-274	-284	-310	-328	-368	-372	-371	-362
Change in HEB, percent of potential GDP	1.3	0.7	-0.8	0.3	0.3	-0.1	-0.0	-0.3	-0.7	0.1	0.2	0.1	0.3	-0.0	-0.0	-0.1
Fiscal impetus (FI) percent of GDP	1.0	0.8	0.3	0.3	0.3	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.0	-0.0

1. In July, OMB projected deficits of \$333 billion and \$341 billion for FY 2005 and FY 2006. In its July Monthly Budget Review, CBO stated that the FY 2005 deficit would be significantly less than \$350 billion, and perhaps below \$325 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 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)** **August 4, 2005**

Period ¹	Total	Federal government	Nonfederal					Memo: Nominal GDP	
			Total	Households			Business		State and local governments
				Total	Home mortgages	Consumer credit			
<i>Year</i>									
1999	6.4	-1.9	8.9	8.3	9.2	7.9	10.7	3.4	6.3
2000	4.8	-8.0	8.3	8.7	8.3	10.8	9.4	1.3	4.6
2001	6.2	-0.2	7.6	8.8	9.6	8.1	6.1	8.9	2.7
2002	6.9	7.6	6.7	9.6	11.9	4.5	2.7	11.1	3.6
2003	8.1	10.9	7.5	10.1	12.5	4.7	4.3	8.2	6.1
2004	8.6	9.0	8.6	11.2	13.6	4.6	5.5	7.4	6.8
2005	7.6	7.3	7.6	8.4	9.7	4.2	6.6	7.9	6.2
2006	6.3	7.5	6.0	6.5	7.1	4.6	5.9	4.0	5.3
<i>Quarter</i>									
2004:1	9.3	12.0	8.7	11.8	13.9	5.6	4.6	10.3	8.1
2	7.7	10.7	7.0	10.3	12.1	2.8	3.7	3.4	7.5
3	8.2	4.8	8.9	11.4	14.3	5.8	5.7	9.4	5.3
4	8.2	7.2	8.4	9.4	11.4	3.8	7.7	5.6	6.1
2005:1	10.0	13.8	9.1	9.3	10.6	4.6	7.4	16.2	7.0
2	6.3	2.1	7.3	8.3	9.9	3.1	5.9	7.0	5.9
3	6.5	4.2	7.1	7.8	8.8	4.7	6.6	4.7	5.9
4	6.7	8.4	6.3	7.1	8.0	4.2	5.9	2.8	6.1
2006:1	7.4	13.5	6.1	6.6	7.3	4.6	5.7	4.1	5.5
2	5.4	3.3	5.9	6.3	6.9	4.5	5.8	4.1	5.2
3	5.6	4.4	5.9	6.2	6.8	4.5	5.9	3.8	5.2
4	6.2	8.0	5.7	6.1	6.6	4.5	5.7	3.8	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

Class II FOMC Restricted (FR) **Flow of Funds Projections: Highlights** **August 4, 2005**
(Billions of dollars at seasonally adjusted annual rates except as noted)

Category	2004				2005				2006					
	2003	2004	2005	2006	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net funds raised by domestic nonfinancial sectors														
1 Total	1609.8	1761.4	1575.2	1502.2	1697.0	1759.7	2183.9	1272.4	1364.1	1480.3	1745.9	1311.5	1391.4	1560.1
2 Net equity issuance	-57.8	-157.0	-257.3	-135.0	-203.2	-183.2	-226.0	-294.4	-284.0	-225.0	-179.0	-131.0	-115.0	-115.0
3 Net debt issuance	1667.5	1918.4	1832.5	1637.2	1900.2	1942.9	2409.9	1566.8	1648.1	1705.3	1924.9	1442.5	1506.4	1675.1
Borrowing sectors														
Nonfinancial business														
4 Financing gap ¹	20.0	72.9	-35.5	112.6	6.4	181.6	81.4	17.6	-153.8	-87.0	-61.2	142.3	165.7	203.6
5 Net equity issuance	-57.8	-157.0	-257.3	-135.0	-203.2	-183.2	-226.0	-294.4	-284.0	-225.0	-179.0	-131.0	-115.0	-115.0
6 Credit market borrowing	307.3	411.2	518.7	492.2	433.1	594.2	577.0	473.7	536.2	487.7	475.3	492.7	503.4	497.5
Households														
7 Net borrowing ²	846.5	1030.2	861.2	719.8	1108.5	943.4	954.8	873.0	839.2	777.9	739.5	714.0	714.6	711.1
8 Home mortgages	736.4	904.2	731.7	588.5	1017.0	838.2	801.7	770.7	700.6	653.9	607.2	583.9	583.9	579.2
9 Consumer credit	92.7	94.1	89.8	101.6	121.6	81.6	97.4	66.3	103.6	91.7	101.5	100.5	101.6	102.8
10 Debt/DPI (percent) ³	107.7	112.6	117.8	118.7	114.1	113.8	116.6	117.8	118.6	119.0	118.8	118.7	118.7	118.7
State and local governments														
11 Net borrowing	117.8	115.1	131.8	72.8	151.9	93.2	271.9	122.6	82.9	49.8	74.8	74.8	70.8	70.8
12 Current surplus ⁴	155.9	181.3	172.7	188.2	173.8	193.2	168.2	166.7	173.2	182.8	183.8	185.6	191.5	191.8
Federal government														
13 Net borrowing	396.0	361.9	320.8	352.4	206.7	312.1	606.2	97.5	189.7	389.9	635.4	161.0	217.6	395.8
14 Net borrowing (n.s.a.)	396.0	361.9	320.8	352.4	83.3	102.1	164.7	-42.8	81.3	117.7	172.0	-26.9	88.3	119.1
15 Unified deficit (n.s.a.)	399.1	400.7	334.1	340.5	85.7	118.1	176.6	-44.8	83.8	118.6	187.5	-55.9	79.9	129.1
Depository institutions														
16 Funds supplied	476.4	825.6	667.7	585.8	423.3	1010.4	1092.6	471.6	595.1	511.4	673.5	527.3	645.0	497.4
Memo (percentage of GDP)														
17 Domestic nonfinancial debt ⁵	194.9	197.7	201.2	203.8	198.3	199.5	200.6	201.8	202.1	202.4	203.2	203.9	204.1	204.5
18 Domestic nonfinancial borrowing	15.2	16.3	14.7	12.4	16.1	16.2	19.8	12.7	13.1	13.4	14.9	11.0	11.4	12.5
19 Federal government ⁶	3.6	3.1	2.6	2.7	1.7	2.6	5.0	0.8	1.5	3.1	4.9	1.2	1.6	3.0
20 Nonfederal	11.6	13.3	12.1	9.8	14.3	13.6	14.8	11.9	11.6	10.3	10.0	9.8	9.7	9.5

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

Oil prices have scaled new heights as global economic activity has continued to gain momentum. The spot price of West Texas intermediate (WTI) crude oil is currently around \$61 per barrel, up since the time of the June Greenbook, and futures prices have also increased substantially. To date, the foreign economies have proved resilient to high oil prices, and we continue to project some pick-up in foreign growth, though it amounts to slightly less than we predicted in June. Higher oil prices have boosted consumer prices in recent months and are projected to continue to do so in coming months. However, with inflation expectations generally well-anchored and with slack persisting in some economies, we expect inflation rates to remain contained and move down a bit sometime next year.

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

Indicator	2004	2005: Q1	Projection		
			2005		2006
			Q2	H2	
Foreign output	3.6	2.7	3.1	3.4	3.3
June GB	3.6	2.7	3.2	3.5	3.3
Foreign CPI	2.8	1.3	2.2	2.7	2.5
June GB	2.8	1.3	2.3	2.6	2.4

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

Prominent among intermeeting developments was the announcement on July 21 of a change in China's exchange rate system. In addition to an immediate 2.1 percent revaluation of the renminbi against the dollar, the authorities also announced that the renminbi would no longer be pegged to the dollar but would instead be managed with reference to an as-yet unspecified basket of currencies. In the wake of these changes, other Asian currencies also appreciated against the dollar.

Despite recent statements by China's authorities that additional movements in the exchange rate are not imminent, we think there is now more scope for exchange rate adjustment in China. Accordingly, we have incorporated some further moderate appreciation of the renminbi into our forecast, congruent with the 2 percent pace of appreciation we project for the major foreign currencies. We now project that several

prices during the forecast period. Compared with the previous Greenbook, our outlook for core import price inflation is just a touch higher as the effects of the slightly lower path of the dollar are largely offset by a downward revision to the projected path of nonfuel commodity prices.

Staff Projections of Selected Trade Prices

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

Trade category	2004	2005: Q1	Projection		
			2005		2006
			Q2	H2	
<i>Exports</i>					
Core goods	5.1	6.1	4.0	2.8	2.2
June GB	5.1	6.0	5.1	2.8	2.0
<i>Imports</i>					
Non-oil core goods	4.3	4.6	2.1	2.0	0.8
June GB	4.2	4.8	2.6	1.9	0.6
Oil (dollars per barrel)	40.91	39.89	46.27	55.74	58.31
June GB	40.91	39.89	46.90	54.97	54.29

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 multi-quarter periods is the price for the final quarter of the period.

In the second quarter, core export prices rose at an annual rate of 4 percent, down from a 6 percent pace in the first quarter. The second-quarter rise occurred entirely in April, as core export prices were about flat in May and June, when lower prices for nonagricultural industrial supplies offset higher prices for agricultural products. We project core export price inflation to average $2\frac{3}{4}$ percent in the second half of this year and to drift down to $2\frac{1}{4}$ percent in 2006 as prices for agricultural exports decelerate.

Trade in Goods and Services

During the intermeeting period, we received nominal trade data for May, which showed a decline in the value of imports from April's record high, a drop led by steep declines in imports of oil and of industrial supplies. In line with these data, we now estimate that real imports fell $1\frac{1}{4}$ percent at an annual rate in the second quarter, in part because of a steep drop in the volume of oil imports, which in turn mainly reflects quirky seasonal adjustment factors. In addition, core imports, which for two quarters grew considerably

faster than the rate predicted by the paths of relative prices and U.S. GDP, are estimated to have expanded in the second quarter somewhat more slowly than suggested by these fundamentals. Imported services, on the other hand, appear to have registered unusually strong growth in the second quarter, as the appreciation of the dollar earlier this year damped inflation of import prices for services. Imports of computers and semiconductors accelerated slightly. Overall, real imports grew considerably more slowly than projected in the June Greenbook; the revision reflects not only May trade data, which were somewhat weaker than expected, but also adjustments to the factors BEA uses to translate balance of payments data into the national income accounts.

In the second half of 2005 and in 2006, real import growth is projected to rise to about 6¼ percent (annual rate) on average as imports of oil stabilize and imports of core goods resume steady expansion. Core goods imports are supported during the second half of this year by a pick-up in U.S. growth. In 2006, U.S. growth moderates somewhat, but the effects of this are largely offset by the diminishing restraint 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 June Greenbook, our current projection is about unchanged for the second half of 2005 but a bit lower next year, mainly reflecting the effects of slower U.S. GDP growth on imports of core goods and services as well as a bit more drag from the downward revision of the dollar.

Staff Projections for Trade in Goods and Services

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

Measure	2004	2005: Q1	Projection		
			2005		2006
			Q2	H2	
Real exports	6.1	7.5	12.3	7.4	5.5
June GB	5.9	9.1	8.5	8.0	6.2
Real imports	10.6	7.4	-1.2	6.7	5.9
June GB	9.8	9.9	1.8	6.7	6.6

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

In May, nominal exports of goods and services grew a bit, defying our expectations of a step-down from a very robust April. The growth was fairly widespread across categories,

Alternative Scenarios

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

Indicator and simulation	2005: H2	2006	
		H1	H2
<i>U.S. real GDP</i>			
Baseline	4.1	3.1	3.1
Appreciations of RMB and other East Asian currencies vs. dollar	4.1	3.2	3.3
Appreciations of RMB and most foreign currencies vs. dollar	4.2	3.6	3.9
<i>U.S. PCE prices excluding food and energy</i>			
Baseline	2.0	2.1	2.1
Appreciations of RMB and other East Asian currencies vs. dollar	2.1	2.2	2.2
Appreciations of RMB and most foreign currencies vs. dollar	2.2	2.3	2.2
<i>U.S. trade balance (percent of GDP)</i>			
Baseline	-5.8	-6.0	-5.9
Appreciations of RMB and other East Asian currencies vs. dollar	-5.9	-6.2	-6.0
Appreciations of RMB and most foreign currencies vs. dollar	-5.9	-6.1	-5.7

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
REAL GDP (1)									

Total foreign	1.6	5.0	4.2	0.3	3.0	2.9	3.6	3.1	3.3
Industrial Countries	2.8	4.4	3.6	0.8	2.5	1.8	2.4	2.3	2.5
of which:									
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	2.2	1.6
United Kingdom	3.3	3.4	3.2	2.0	2.1	3.1	2.7	1.7	2.0
Euro Area (2)	1.8	4.0	3.1	1.0	1.2	0.9	1.5	1.5	1.6
Germany	0.7	3.5	2.3	1.0	0.4	0.3	0.5	1.7	1.3
Developing Countries	-0.3	6.0	5.3	-0.5	3.6	4.5	5.5	4.3	4.5
Asia	-1.9	8.5	5.8	1.1	5.8	6.5	5.9	5.2	5.1
Korea	-5.5	11.5	4.5	4.6	7.8	4.2	3.0	3.3	3.5
China	9.8	7.1	7.7	7.0	8.4	10.0	9.5	8.2	7.3
Latin America	1.2	4.4	4.5	-1.3	1.5	2.4	5.1	3.4	4.0
Mexico	2.9	5.5	4.8	-1.3	2.0	2.1	4.8	3.3	4.1
Brazil	-1.7	3.4	3.9	-0.9	4.2	0.8	4.6	2.2	2.5
CONSUMER PRICES (3)									

Industrial Countries	0.9	1.1	1.7	0.9	2.1	1.3	1.8	1.3	1.5
of which:									
Canada	1.1	2.4	3.1	1.1	3.8	1.7	2.3	1.9	2.1
Japan	0.7	-1.1	-1.2	-1.3	-0.5	-0.5	0.4	-0.7	0.2
United Kingdom (4)	1.4	1.2	1.0	1.0	1.5	1.3	1.4	2.2	1.9
Euro Area (2)	0.9	1.5	2.5	2.1	2.3	2.0	2.3	2.1	1.7
Germany	0.3	1.1	1.7	1.5	1.2	1.2	2.1	1.5	1.5
Developing Countries	9.0	4.6	4.1	2.8	2.8	3.1	3.9	3.2	3.6
Asia	4.9	0.1	1.9	1.2	0.7	2.2	3.2	3.0	3.3
Korea	5.8	1.2	2.5	3.3	3.4	3.5	3.4	3.5	4.2
China	-1.2	-1.0	1.0	-0.5	-0.5	2.7	3.3	2.1	3.2
Latin America	15.4	12.5	8.4	5.1	6.4	5.0	5.6	3.7	4.2
Mexico	17.3	13.5	8.7	5.1	5.3	3.9	5.3	3.1	3.8
Brazil	2.0	8.4	6.4	7.5	10.7	11.5	7.2	6.3	5.1

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.

Class II FOMC
Restricted (FR)

August 4, 2005

OUTLOOK FOR FOREIGN REAL GDP AND CONSUMER PRICES: SELECTED COUNTRIES
(Percent changes)

Measure and country	2004				2005				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	4.8	3.7	2.8	3.3	2.7	3.1	3.3	3.4	3.4	3.3	3.3	3.3
Industrial Countries	3.1	3.1	1.9	1.5	2.2	1.9	2.5	2.6	2.6	2.4	2.5	2.5
of which:												
Canada	2.6	5.0	3.5	2.1	2.3	2.7	3.4	3.6	3.6	3.1	3.3	3.2
Japan	5.2	-0.6	-1.0	0.2	4.9	1.2	1.3	1.5	1.5	1.6	1.7	1.7
United Kingdom	3.8	3.4	1.4	2.2	1.5	1.5	1.8	1.8	1.8	1.9	2.0	2.1
Euro Area (2)	2.6	1.8	1.1	0.6	1.9	1.0	1.5	1.6	1.6	1.6	1.7	1.7
Germany	1.7	0.8	-0.2	-0.5	4.2	0.3	1.1	1.2	1.2	1.2	1.3	1.4
Developing Countries	7.3	4.6	4.1	5.8	3.5	4.7	4.6	4.6	4.5	4.5	4.5	4.5
Asia	8.1	4.6	5.1	6.0	4.5	5.8	5.2	5.1	5.1	5.1	5.1	5.1
Korea	2.6	2.4	3.3	3.8	1.5	5.0	3.2	3.5	3.5	3.5	3.5	3.5
China	13.8	3.7	9.1	11.8	12.7	5.0	7.9	7.4	7.3	7.3	7.3	7.3
Latin America	6.7	4.5	4.0	5.3	2.2	3.6	3.8	3.9	4.0	4.0	4.0	4.0
Mexico	5.8	4.2	4.0	5.4	1.7	3.6	3.8	4.0	4.1	4.1	4.1	4.1
Brazil	7.5	4.3	5.1	1.7	1.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5
CONSUMER PRICES (3)	Four-quarter changes											
Industrial Countries	0.9	1.5	1.5	1.8	1.4	1.4	1.5	1.3	1.6	1.5	1.5	1.5
of which:												
Canada	0.9	2.2	2.0	2.3	2.1	1.9	2.1	1.9	2.1	2.0	2.1	2.1
Japan	-0.3	-0.2	-0.1	0.4	-0.4	-0.4	-0.3	-0.7	-0.1	0.1	0.2	0.2
United Kingdom (4)	1.2	1.5	1.3	1.4	1.7	1.9	2.2	2.2	2.1	2.0	1.9	1.9
Euro Area (2)	1.7	2.3	2.3	2.3	2.0	2.0	2.2	2.1	2.2	1.9	1.7	1.7
Germany	1.0	1.9	2.0	2.1	1.7	1.6	1.6	1.5	1.9	1.6	1.5	1.5
Developing Countries	3.1	3.6	4.5	3.9	3.5	3.3	3.0	3.2	3.5	3.8	3.7	3.6
Asia	2.4	3.3	4.2	3.2	2.9	2.4	2.3	3.0	3.2	3.6	3.4	3.3
Korea	3.2	3.4	4.3	3.4	3.1	3.0	2.6	3.5	4.0	4.5	4.5	4.2
China	3.0	4.3	5.2	3.3	2.8	1.7	1.4	2.1	2.3	3.2	3.2	3.2
Latin America	4.7	4.6	5.2	5.6	4.9	5.0	4.4	3.7	4.1	4.1	4.2	4.2
Mexico	4.3	4.3	4.8	5.3	4.4	4.5	3.9	3.1	3.7	3.7	3.8	3.8
Brazil	6.8	5.5	6.8	7.2	7.4	7.7	6.6	6.3	5.7	5.1	5.3	5.1

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.

Class II FOMC
Restricted (FR)

August 4, 2005

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1998	1999	2000	2001	2002	2003	2004	2005	Projected 2006
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-1.1	-1.0	-0.9	-0.2	-0.9	-0.1	-0.9	0.1	-0.4
Exports of G&S	0.3	0.6	0.7	-1.3	0.4	0.6	0.6	0.9	0.6
Imports of G&S	-1.4	-1.6	-1.6	1.1	-1.3	-0.7	-1.5	-0.8	-1.0
	Percentage change, Q4/Q4								
Exports of G&S	2.6	5.6	6.5	-11.9	3.8	6.0	6.1	8.6	5.5
Services	4.4	5.3	1.8	-8.9	10.2	4.5	4.6	7.4	4.9
Computers	7.3	13.4	22.7	-23.5	-1.1	11.0	6.3	18.1	14.4
Semiconductors	9.5	34.6	27.6	-34.6	10.1	38.8	-6.1	12.1	17.0
Other Goods 1/	1.2	3.3	5.9	-10.2	0.7	4.5	7.8	8.5	4.8
Imports of G&S	11.0	12.1	11.2	-7.6	9.7	5.1	10.6	4.9	5.9
Services	10.4	6.6	10.6	-5.9	8.8	4.2	7.7	5.6	4.0
Oil	4.1	-3.4	13.3	3.7	3.8	1.5	9.7	-7.7	0.7
Computers	26.4	26.0	13.9	-13.6	13.2	16.8	22.2	14.0	17.5
Semiconductors	-7.7	34.2	22.8	-51.1	11.0	-0.2	9.4	7.9	17.0
Other Goods 2/	11.2	12.9	10.5	-6.5	10.1	5.1	10.5	6.3	6.5
	Billions of Chained 2000 Dollars								
Net Goods & Services	-203.7	-296.2	-379.5	-399.1	-471.3	-521.4	-601.3	-620.2	-645.8
Exports of G&S	966.5	1008.2	1096.3	1036.7	1013.3	1031.2	1117.9	1206.8	1283.8
Imports of G&S	1170.3	1304.4	1475.8	1435.8	1484.6	1552.6	1719.2	1827.0	1929.6
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-214.1	-300.1	-416.0	-389.5	-475.2	-519.7	-668.1	-807.2	-928.8
Current Acct as Percent of GDP	-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	-709.0	-781.9
Investment Income, Net	8.8	19.1	25.7	30.3	15.5	51.8	36.2	5.9	-40.1
Direct, Net	65.5	78.2	94.9	115.9	99.8	121.8	127.9	134.8	145.8
Portfolio, Net	-56.7	-59.1	-69.2	-85.5	-84.3	-70.0	-91.7	-128.9	-185.9
Other Income & Transfers, Net	-57.9	-55.8	-63.5	-57.1	-69.5	-76.7	-86.7	-104.2	-106.8

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	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	-0.0	0.5	-0.6	-0.7	-1.0	-0.6	-0.5	-1.5	0.1	-0.7	0.5	-0.5
Exports of G&S	-0.6	-1.4	-2.0	-1.1	0.5	1.0	0.3	-0.3	-0.3	-0.2	1.0	1.7
Imports of G&S	0.6	1.9	1.5	0.5	-1.4	-1.6	-0.8	-1.2	0.4	-0.5	-0.6	-2.2
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	-5.3	-12.7	-18.2	-10.8	5.2	10.6	2.9	-3.1	-2.9	-2.1	11.5	19.1
Services	-5.0	-0.7	-13.7	-15.3	22.9	2.7	4.6	11.7	-11.9	-6.6	17.2	23.7
Computers	-9.8	-35.7	-24.9	-21.3	-21.1	14.7	-6.0	12.6	-5.7	0.2	35.9	18.2
Semiconductors	-30.0	-54.0	-45.3	3.7	22.3	42.1	12.6	-25.0	34.8	33.9	43.7	43.2
Other Goods 1/	-2.5	-11.5	-17.6	-8.6	-1.6	12.5	2.0	-9.1	0.0	-2.0	5.5	15.4
Imports of G&S	-3.7	-12.6	-10.3	-3.4	11.7	12.5	5.7	9.0	-2.5	3.3	4.1	16.5
Services	-5.0	12.8	-18.3	-10.4	24.7	-3.0	1.7	14.0	-2.2	-10.2	21.4	10.7
Oil	63.6	-33.8	-28.2	48.9	-9.8	-10.3	-12.7	64.3	-9.0	7.8	-1.3	9.5
Computers	-22.6	-23.3	-13.4	8.4	52.2	5.3	2.8	-0.2	11.5	12.4	8.7	36.4
Semiconductors	-43.9	-70.1	-55.4	-23.7	39.8	34.8	-6.2	-14.0	-6.7	1.5	-3.7	8.9
Other Goods 2/	-5.5	-10.6	-3.7	-5.9	7.6	19.4	9.5	4.3	-2.6	5.8	0.7	17.7
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-398.2	-385.2	-398.4	-414.5	-441.3	-458.9	-472.2	-513.0	-510.7	-528.4	-516.2	-530.2
Exports of G&S	1097.2	1060.6	1008.7	980.3	992.8	1018.0	1025.2	1017.2	1009.7	1004.5	1032.2	1078.4
Imports of G&S	1495.4	1445.8	1407.1	1394.9	1434.0	1476.9	1497.4	1530.2	1520.4	1532.9	1548.4	1608.6
Billions of dollars, s.a.a.r.												
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	-4.8	-4.7	-4.5
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			
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	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	-1.2	-1.4	-0.2	-1.0	-0.4	1.4	-0.1	-0.5	-0.6	-0.0	-0.2	-0.7
Exports of G&S	0.5	0.7	0.5	0.7	0.7	1.2	0.7	0.8	0.5	0.6	0.6	0.7
Imports of G&S	-1.7	-2.0	-0.7	-1.7	-1.1	0.2	-0.8	-1.4	-1.1	-0.6	-0.8	-1.4
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	5.0	6.9	5.5	7.1	7.5	12.3	6.9	7.9	4.7	5.6	5.4	6.4
Services	-0.4	4.8	-0.6	15.5	12.5	8.4	4.4	4.6	4.6	4.8	5.0	5.2
Computers	-7.4	1.6	21.7	11.5	12.6	32.0	14.3	14.3	14.4	14.4	14.4	14.4
Semiconductors	7.0	-4.8	-19.4	-5.5	-12.9	32.4	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 1/	8.6	9.2	9.5	3.8	6.1	12.1	7.1	8.7	3.6	4.9	4.5	6.0
Imports of G&S	12.0	14.5	4.7	11.3	7.4	-1.2	5.0	8.6	6.8	3.6	4.7	8.4
Services	10.0	13.7	4.6	3.1	3.7	7.1	5.9	5.5	4.1	4.0	3.9	3.9
Oil	35.7	-26.0	-0.5	45.0	3.4	-28.7	-13.2	13.7	6.9	-13.8	-7.8	21.1
Computers	21.2	34.3	25.3	9.5	11.3	10.1	17.3	17.3	17.5	17.5	17.5	17.5
Semiconductors	42.6	20.2	4.7	-20.3	-7.9	7.5	17.0	17.0	17.0	17.0	17.0	17.0
Other Goods 2/	8.4	20.4	4.0	9.7	9.1	1.3	7.3	7.6	6.6	6.2	6.5	6.5
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-563.0	-601.7	-606.5	-634.1	-645.4	-605.7	-607.6	-622.1	-638.7	-638.2	-643.3	-662.8
Exports of G&S	1091.8	1110.2	1125.0	1144.5	1165.3	1199.5	1219.5	1243.0	1257.4	1274.6	1291.6	1311.7
Imports of G&S	1654.8	1711.9	1731.5	1778.6	1810.7	1805.2	1827.1	1865.1	1896.0	1912.8	1934.9	1974.6
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-584.4	-666.5	-667.9	-753.4	-780.2	-766.2	-815.0	-867.6	-911.8	-911.9	-931.8	-959.7
Current Account as % of GDP	-5.1	-5.7	-5.7	-6.3	-6.4	-6.2	-6.5	-6.8	-7.1	-7.0	-7.0	-7.2
Net Goods & Services (BOP)	-555.4	-608.2	-629.9	-676.9	-687.0	-682.6	-717.5	-748.8	-774.8	-774.5	-779.0	-799.3
Investment Income, Net	65.8	29.6	30.8	18.8	20.7	13.4	3.6	-14.1	-22.1	-32.4	-45.8	-60.2
Direct, Net	140.3	116.3	121.4	133.7	125.2	134.3	140.2	139.7	143.8	143.1	146.4	149.9
Portfolio, Net	-74.6	-86.7	-90.6	-114.9	-104.4	-120.8	-136.6	-153.8	-165.9	-175.6	-192.2	-210.1
Other Inc. & Transfers, Net	-94.7	-88.0	-68.8	-95.3	-113.9	-97.0	-101.0	-104.7	-114.8	-104.9	-107.0	-100.2

1. Merchandise exports excluding computers and semiconductors.

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

Part 2

August 4, 2005

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

August 4, 2005

Recent Developments

subsequent years and expects the deficit to fall below \$200 billion by 2008. One reason for the downward revision to the longer-run deficit projection is that the Administration assumes that much of the surprising strength in tax collections this spring will be permanent; in addition, it has revised up the projected path for the tax base. In contrast, changes to policy assumptions—in particular, the inclusion of a defense supplemental for fiscal 2006 and the phase-in of Social Security personal accounts starting in 2009—tend to boost the deficit. Similarly, the Congressional Budget Office has reduced its projection for the 2005 deficit to the neighborhood of \$325 billion; it will release updated budget projections in mid-August.

Changes to the Administration's Budget Outlook Since February

(Billions of dollars, fiscal years)

Item	2005	2006	2007	2008	2009	2010
February deficit projection	427	390	312	251	233	207
Policy revisions						
Social Security personal accounts	0	0	0	0	22	54
Global war on terrorism	0	37	10	2	1	0
Associated interest and other policy	1	1	1	2	3	5
Technical and economic revisions						
Receipts (–, higher)	-87	-95	-84	-81	-77	-73
Non-interest outlays	-13	14	13	15	12	13
Interest outlays	5	-7	-19	-27	-32	-37
<i>Mid-Session Review</i> deficit	333	341	233	162	162	170

Before leaving on August recess, Congress passed several pieces of legislation. These include an energy bill that provides tax incentives to the energy sector over the next decade. In addition, after ten temporary extensions of the surface transportation law that had expired two years ago, Congress approved a six-year highway and mass transit reauthorization bill. The fiscal effects of these two bills are quite similar to what had been assumed in the President's budget.