

Part 1

December 8, 2004

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

December 8, 2004

Summary and Outlook

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

Measure	2004:Q3		2004:Q4	
	Nov. GB	Dec. GB	Nov. GB	Dec. GB
Real GDP	3.4	3.7	3.4	3.7
Private domestic final purchases	5.2	5.7	3.7	3.8
Personal consumption expenditures	4.6	5.1	2.9	3.3
Residential investment	2.1	1.5	.8	1.0
Business fixed investment	11.2	12.8	10.6	9.1
Government outlays for consumption and investment	1.0	0.7	1.1	1.6
	Contribution to growth (percentage points)			
Inventory investment	-.5	-1.0	.2	.3
Net exports	-.7	-.3	-.1	-.2

In October, sales of new homes remained high, and housing starts rebounded. Adjusted permits point to some slowdown in construction in November; nonetheless we expect single-family starts to average 1.61 million units at an annual rate in the fourth quarter, only slightly less than in the third quarter. Although the level of construction activity remains robust, the growth of spending has slowed sharply of late. Real residential investment soared in the first half of the year, reflecting the lagged effects of a large rise in starts in the second half of 2003, an increase in commissions from sales of existing homes, and a substantial increase in costs per start. However, because both starts and existing home sales have since flattened out, real residential investment rose at an annual rate of only 1½ percent in the third quarter and is on track for another small increase in the current quarter.

Real investment in equipment and software rose at an annual rate of 17¼ percent in the third quarter. Real high-tech spending grew at less than half its second-quarter pace, but outlays for other capital goods posted large increases, partly attributable, by our reckoning, to the partial-expensing tax incentive. But this quarter, spending on transportation equipment is expected to reverse some of its steep third-quarter rise, and outlays for capital goods outside the high-tech and transportation areas are likely to slow despite another anticipated boost from partial expensing. Although hard data remain

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

Measure	2004: H2	2005: H1	2005	2006
Real GDP	3.7	3.7	3.9	3.7
Previous	3.4	3.5	3.7	4.0
Final sales	4.1	4.0	4.0	3.7
Previous	3.6	3.9	4.0	3.9
PCE	4.2	3.9	4.0	3.9
Previous	3.8	3.5	3.7	4.0
Residential investment	1.2	2.6	2.5	1.4
Previous	1.5	2.4	2.3	3.9
BFI	10.9	3.6	6.4	8.3
Previous	10.9	5.5	8.1	9.0
Government purchases	1.2	2.9	2.6	2.5
Previous	1.1	3.4	2.9	2.5
Exports	8.2	7.5	8.3	7.6
Previous	7.4	6.7	7.6	7.0
Imports	6.8	3.8	5.9	8.1
Previous	7.7	3.6	5.8	8.3
	Contribution to growth (percentage points)			
Inventory change	-.4	-.3	-.1	.0
Previous	-.2	-.5	-.3	.1
Net exports	-.2	.2	-.1	-.5
Previous	-.4	.1	-.1	-.6

Investment in nonresidential construction has shown some signs of improvement. Commercial construction has risen sharply since last winter, and more recently spending on factories and communications structures has begun to move up. So long as business activity and hiring expand about as we are anticipating, building in these sectors should continue to increase. Office construction remains depressed. But we expect that as the economy continues to expand and hiring picks up, even this category of construction should begin to grow. Spending on drilling and mining structures—primarily for natural

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	3.2	3.7	3.0	2.7	2.7
Previous	1.5	2.7	3.2	3.7	3.0	2.7	2.8
<i>Contributions</i> ¹							
Capital deepening	.7	1.3	.6	.6	.8	.8	.9
Previous	.7	1.4	.6	.6	.8	.9	1.0
Multifactor productivity	.5	1.1	2.4	2.8	2.0	1.6	1.5
Previous	.5	1.1	2.4	2.8	2.0	1.6	1.5
Labor composition	.3	.3	.3	.3	.3	.3	.3
MEMO							
Potential GDP	3.0	3.4	3.4	3.8	3.4	3.1	3.2
Previous	3.0	3.4	3.4	3.8	3.4	3.2	3.3

NOTE. Components may not sum to totals because of rounding. For multiyear periods, the percent change is the annual average from Q4 of the year preceding the first year shown to Q4 of the last 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	5.6	2.8	1.7	2.2
Previous	5.6	2.5	1.9	2.5
Nonfarm private payroll employment	-.2	1.8	2.2	2.0
Previous	-.2	1.5	2.1	2.1
Household survey employment	1.2	1.3	1.7	1.5
Previous	1.2	1.2	1.8	1.5
Labor force participation rate ¹	66.1	66.0	66.3	66.4
Previous	66.1	66.1	66.4	66.5
Civilian unemployment rate ¹	5.9	5.4	5.3	5.1
Previous	5.9	5.5	5.4	5.1
MEMO				
GDP gap ²	1.7	1.3	.6	.1
Previous	1.7	1.4	.9	.2

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	2.5	1.2	1.3
Previous	1.7	2.5	1.2	1.3
Food and beverages	2.7	3.0	2.0	1.8
Previous	2.7	2.8	1.9	1.8
Energy	7.2	17.8	-6.4	-0.3
Previous	7.2	18.8	-5.5	-1.0
Excluding food and energy	1.2	1.5	1.6	1.4
Previous	1.2	1.5	1.5	1.4
Consumer price index	1.9	3.4	1.4	1.7
Previous	1.9	3.3	1.4	1.6
Excluding food and energy	1.2	2.2	2.0	1.8
Previous	1.2	2.1	1.9	1.8
GDP chain-weighted price index	1.7	2.3	1.5	1.6
Previous	1.7	2.2	1.4	1.6
ECI for compensation of private industry workers ¹	4.0	4.0	4.2	4.1
Previous	4.0	4.0	4.2	4.1
NFB compensation per hour	5.4	3.8	4.2	4.2
Previous	5.4	3.6	4.2	4.2
Prices of core nonfuel imports	1.6	3.7	1.0	.1
Previous	1.6	4.0	.5	.2

1. December to December.

200,000 per month. With continuing growth in sales fueling business confidence and with lingering concerns about the energy situation dissipating, job gains in the private sector should pick up further in the spring and summer of 2005—to about 225,000 per month—before easing back a bit in 2006.

Productivity in the nonfarm business sector appears to have risen at an annual rate of only 1½ percent in the third quarter—less than one-half the rate of increase in the first half of the year—and to be on track to grow at a rate of 2¼ percent in the current quarter. Despite this moderation, we estimate that by the end of this year actual productivity will be about 1½ percent above its structural level. We expect that gap to close as hours rise solidly throughout the next two years. In particular, we project productivity to grow 1¾ percent next year and 2¼ percent in 2006.

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

Measure and scenario	2004	2005		2006
	Q4	H1	H2	
<i>Real GDP</i>				
Baseline	3.7	3.7	4.1	3.7
Greater cost pass-through	3.7	3.7	4.1	3.8
With lower structural productivity	3.7	3.7	3.8	2.8
Declining markup	3.8	3.8	4.1	3.4
With higher structural productivity	3.9	4.3	4.8	4.2
Stronger demand	4.4	4.4	4.9	4.6
Real estate slump	3.7	3.6	3.9	3.3
With confidence loss	3.6	3.5	3.6	2.9
Market-based funds rate	3.7	3.7	3.9	3.5
<i>Civilian unemployment rate¹</i>				
Baseline	5.4	5.3	5.3	5.1
Greater cost pass-through	5.4	5.3	5.3	5.1
With lower structural productivity	5.4	5.3	5.3	5.1
Declining markup	5.4	5.3	5.2	5.1
With higher structural productivity	5.4	5.2	5.1	4.9
Stronger demand	5.3	5.1	4.9	4.3
Real estate slump	5.4	5.3	5.4	5.4
With confidence loss	5.4	5.3	5.5	5.7
Market-based funds rate	5.4	5.3	5.3	5.3
<i>PCE prices excluding food and energy</i>				
Baseline	1.5	1.6	1.5	1.4
Greater cost pass-through	1.7	1.8	1.8	1.8
With lower structural productivity	1.7	1.8	1.9	2.2
Declining markup	1.1	1.1	.9	1.0
With higher structural productivity	1.0	1.0	.7	.8
Stronger demand	1.5	1.6	1.6	1.6
Real estate slump	1.5	1.6	1.5	1.4
With confidence loss	1.5	1.6	1.5	1.3
Market-based funds rate	1.5	1.6	1.5	1.3

1. Average for the final quarter of the period.

through of the previous simulation, but assumes in addition that structural labor productivity growth moderates gradually to an annual rate of only 2 percent in 2006, $\frac{3}{4}$ percentage point slower than in the baseline and similar to long historical averages. Over the next two years, actual productivity falls relative to baseline by a similar amount, which passes through into prices to the same degree as it did in the previous scenario.

small effect on real activity and inflation throughout the projection period—real GDP increases 3½ percent in 2006, the unemployment rate is only two-tenths above baseline by the end of 2006, and inflation is down a touch.

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

Measure	2004	2005	2006
<i>Real GDP</i> (percent change, Q4 to Q4)			
Projection	3.8	3.9	3.7
Confidence interval			
Greenbook forecast errors ¹	3.3–4.4	2.1–5.7	1.8–5.6
FRB/US stochastic simulations	3.5–4.1	2.5–5.5	2.0–5.5
<i>Civilian unemployment rate</i> (percent, Q4)			
Projection	5.4	5.3	5.1
Confidence interval			
Greenbook forecast errors ¹	5.3–5.5	4.6–6.0	4.0–6.2
FRB/US stochastic simulations	5.3–5.5	4.6–5.9	3.9–6.0
<i>PCE prices</i> <i>excluding food and energy</i> (percent change, Q4 to Q4)			
Projection	1.5	1.6	1.4
Confidence interval			
Greenbook forecast errors ²	1.3–1.7	.9–2.3	.4–2.4
FRB/US stochastic simulations	1.4–1.6	1.0–2.2	.6–2.2

NOTE. Shocks underlying stochastic simulations are randomly drawn from the 1978–2003 set of model equation residuals.

1. 1978–2003.

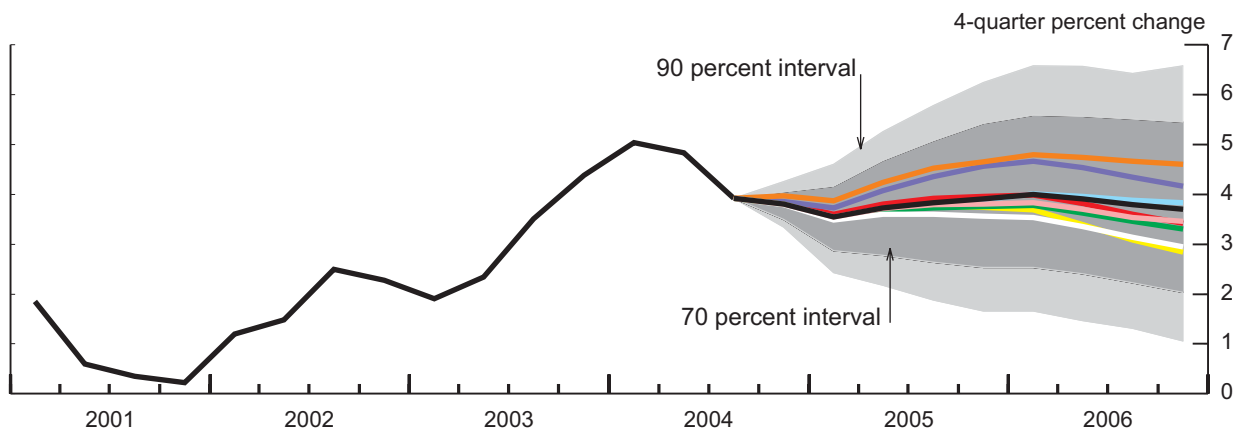
2. 1981–2003.

Forecast Confidence Intervals and Alternative Scenarios

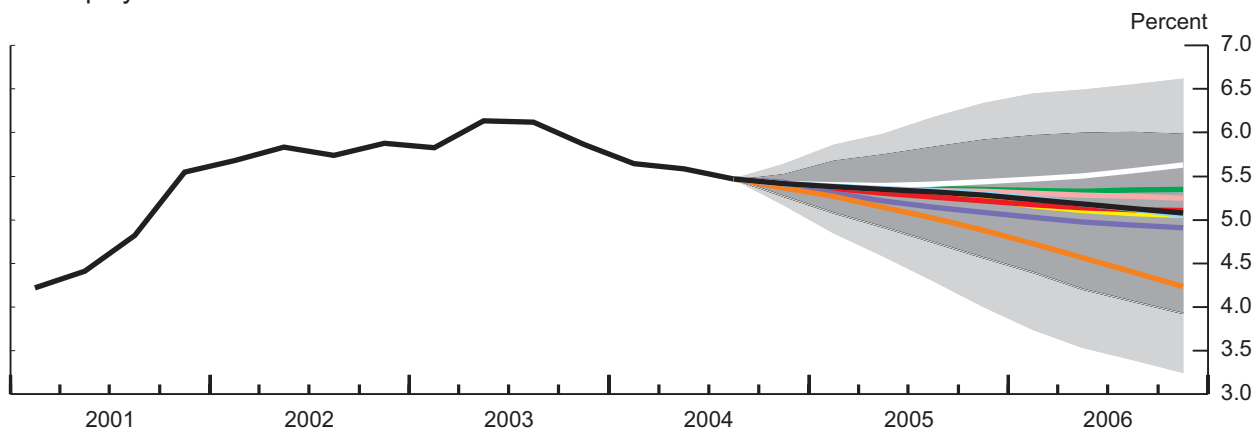
Confidence Intervals Based on FRB/US Stochastic Simulations

- | | | |
|----------------------------------|-----------------------------------|-------------------------|
| Greenbook baseline | Declining markup | Real estate slump |
| Greater cost pass-through | w/ higher structural productivity | w/ confidence loss |
| w/ lower structural productivity | Stronger demand | Market-based funds rate |

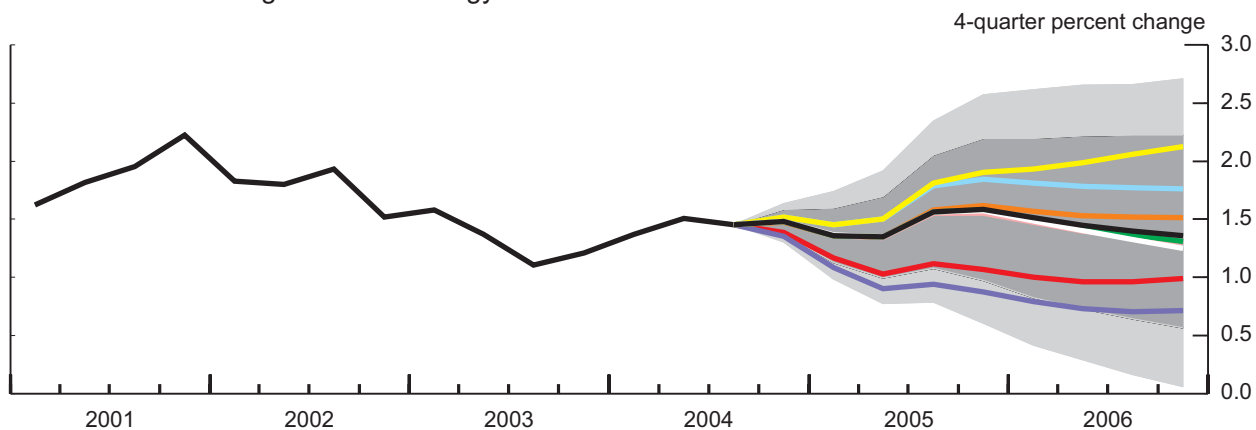
Real GDP



Unemployment Rate



PCE Prices excluding Food and Energy



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

		Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
Interval		11/03/04	12/08/04	11/03/04	12/08/04	11/03/04	12/08/04	11/03/04	12/08/04	11/03/04	12/08/04
ANNUAL											
2002		3.5	3.5	1.9	1.9	1.7	1.7	1.6	1.6	5.8	5.8
2003		4.9	4.9	3.0	3.0	1.8	1.8	2.3	2.3	6.0	6.0
2004		6.5	6.6	4.3	4.4	2.1	2.1	2.7	2.7	5.5	5.5
2005		5.2	5.5	3.5	3.8	1.6	1.6	2.0	1.9	5.4	5.3
2006		5.6	5.5	3.9	3.9	1.6	1.6	1.5	1.7	5.3	5.2
QUARTERLY											
2003	Q1	4.9	4.9	1.9	1.9	2.7	2.7	3.8	3.8	5.8	5.8
	Q2	5.3	5.3	4.1	4.1	1.1	1.1	0.7	0.7	6.1	6.1
	Q3	8.8	8.8	7.4	7.4	1.4	1.4	2.4	2.4	6.1	6.1
	Q4	5.7	5.7	4.2	4.2	1.6	1.6	0.7	0.7	5.9	5.9
2004	Q1	7.4	7.4	4.5	4.5	2.8	2.8	3.5	3.5	5.6	5.6
	Q2	6.6	6.6	3.3	3.3	3.2	3.2	4.8	4.8	5.6	5.6
	Q3	4.8	5.1	3.4	3.7	1.3	1.3	1.9	1.9	5.5	5.5
	Q4	5.2	5.6	3.4	3.7	1.7	1.9	3.2	3.6	5.5	5.4
2005	Q1	4.8	5.1	3.1	3.4	1.6	1.6	1.6	0.6	5.5	5.4
	Q2	5.2	5.4	3.8	4.0	1.3	1.3	1.1	1.4	5.4	5.3
	Q3	5.4	5.7	3.9	4.1	1.4	1.5	1.3	1.7	5.4	5.3
	Q4	5.5	5.7	3.9	4.0	1.5	1.6	1.5	1.7	5.4	5.3
2006	Q1	5.8	5.8	3.9	3.8	1.8	1.9	1.5	1.7	5.4	5.2
	Q2	5.6	5.3	4.0	3.7	1.5	1.5	1.6	1.6	5.3	5.2
	Q3	5.5	5.2	4.0	3.7	1.5	1.5	1.5	1.7	5.2	5.1
	Q4	5.4	5.2	4.0	3.7	1.4	1.5	1.6	1.7	5.1	5.1
TWO-QUARTER ³											
2003	Q2	5.1	5.1	3.0	3.0	1.9	1.9	2.2	2.2	0.2	0.2
	Q4	7.2	7.2	5.8	5.8	1.5	1.5	1.5	1.5	-0.2	-0.2
2004	Q2	7.0	7.0	3.9	3.9	3.0	3.0	4.2	4.2	-0.3	-0.3
	Q4	5.0	5.4	3.4	3.7	1.5	1.6	2.5	2.7	-0.1	-0.2
2005	Q2	5.0	5.3	3.5	3.7	1.4	1.5	1.3	1.0	-0.1	-0.1
	Q4	5.4	5.7	3.9	4.1	1.4	1.6	1.4	1.7	0.0	0.0
2006	Q2	5.7	5.5	4.0	3.7	1.7	1.7	1.5	1.7	-0.1	-0.1
	Q4	5.5	5.2	4.0	3.7	1.5	1.5	1.6	1.7	-0.2	-0.1
FOUR-QUARTER ⁴											
2002	Q4	3.8	3.8	2.3	2.3	1.6	1.6	2.2	2.2	0.3	0.3
2003	Q4	6.2	6.2	4.4	4.4	1.7	1.7	1.9	1.9	0.0	0.0
2004	Q4	6.0	6.2	3.7	3.8	2.2	2.3	3.3	3.4	-0.4	-0.5
2005	Q4	5.2	5.5	3.7	3.9	1.4	1.5	1.4	1.4	-0.1	-0.1
2006	Q4	5.6	5.4	4.0	3.7	1.6	1.6	1.6	1.7	-0.2	-0.2

1. For all urban consumers.

2. Level, except as noted.

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

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

Strictly Confidential <FR>
Class II FOMC

REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted annual rate)

December 8, 2004

		- - - - - 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	10487.0	11004.0	11725.1	12366.1	13049.1
Real GDP	Bill. Ch. \$	9066.9	9470.3	9817.0	9890.7	10074.8	10381.3	10837.4	11244.1	11677.1
Real GDP	% change	4.5	4.7	2.2	0.2	2.3	4.4	3.8	3.9	3.7
Gross domestic purchases		5.5	5.5	3.0	0.4	3.1	4.3	4.2	3.8	4.0
Final sales		4.8	4.2	2.9	1.5	1.2	4.5	3.5	4.0	3.7
Priv. dom. final purchases		6.4	5.3	4.3	1.0	1.7	4.9	4.4	4.2	4.2
Personal cons. expenditures		5.4	4.9	4.1	2.8	2.5	3.8	3.5	4.0	3.9
Durables		14.4	7.3	4.7	10.8	1.5	9.9	4.4	6.6	6.6
Nondurables		4.7	4.9	3.0	1.9	2.3	4.6	4.0	4.4	4.4
Services		3.8	4.4	4.5	1.6	2.9	2.2	3.1	3.2	3.1
Business fixed investment		10.9	7.7	7.8	-9.6	-6.0	9.4	9.6	6.4	8.3
Equipment & Software		13.5	10.8	7.5	-9.0	-2.2	12.1	12.6	6.8	9.8
Nonres. structures		4.0	-0.9	8.8	-11.1	-16.1	1.5	-0.1	5.0	3.4
Residential structures		10.3	3.6	-1.9	1.4	6.9	12.0	5.8	2.5	1.4
Exports		2.6	5.6	6.5	-11.9	3.5	6.1	7.8	8.3	7.6
Imports		11.0	12.1	11.2	-7.6	9.7	4.9	9.2	5.9	8.1
Gov't. cons. & investment		3.3	4.2	0.4	5.0	3.8	2.2	1.8	2.6	2.5
Federal		0.1	4.2	-2.2	6.4	8.2	5.5	3.9	2.7	1.9
Defense		-1.2	4.3	-3.5	6.5	8.5	8.5	5.6	3.5	2.4
State & local		5.1	4.2	1.7	4.2	1.6	0.4	0.5	2.5	2.8
Change in bus. inventories	Bill. Ch. \$	72.6	68.9	56.5	-31.7	11.7	-0.8	43.6	30.6	32.2
Nonfarm		71.2	71.5	57.8	-31.8	13.5	-1.1	39.9	28.1	30.0
Net exports		-203.8	-296.2	-379.5	-399.1	-472.1	-518.5	-577.7	-590.5	-633.2
Nominal GDP	% change	5.7	6.3	4.6	2.7	3.8	6.2	6.2	5.5	5.4
GDP Gap ²	%	-1.6	-2.4	-2.5	0.1	1.6	2.2	1.4	0.9	0.2
Employment and Production										
Nonfarm payroll employment	Millions	125.9	129.0	131.8	131.8	130.3	129.9	131.3	133.7	136.4
Unemployment rate	%	4.5	4.2	4.0	4.7	5.8	6.0	5.5	5.3	5.2
Industrial prod. index	% change	4.4	4.9	2.3	-5.2	1.3	1.5	4.8	4.8	4.3
Capacity util. rate - mfg.	%	82.0	81.4	81.1	75.4	73.9	73.4	76.2	78.3	80.3
Housing starts	Millions	1.62	1.64	1.57	1.60	1.70	1.85	1.95	1.95	1.94
Light motor vehicle sales		15.52	16.90	17.35	17.12	16.79	16.62	16.72	17.31	17.86
North Amer. produced		13.48	14.41	14.48	14.04	13.49	13.32	13.34	13.79	14.28
Other		2.03	2.49	2.87	3.08	3.30	3.31	3.37	3.52	3.58
Income and Saving										
Nominal GNP	Bill. \$	8768.3	9302.2	9855.9	10171.6	10514.1	11059.2	11767.7	12372.9	13014.4
Nominal GNP	% change	5.5	6.5	4.7	2.9	3.5	6.5	5.5	5.3	5.0
Nominal personal income		7.0	5.5	7.1	2.2	1.9	4.6	6.2	5.3	6.4
Real disposable income		5.6	2.8	4.4	1.2	2.9	3.9	3.7	3.4	4.8
Personal saving rate	%	4.3	2.4	2.3	1.8	2.0	1.4	1.1	0.8	1.8
Corp. profits, IVA & CCAdj.	% change	-10.0	9.6	-8.6	-0.2	15.4	23.3	8.1	1.5	-3.0
Profit share of GNP	%	9.1	9.2	8.3	7.5	8.3	9.2	10.0	10.0	9.4
Excluding FR Banks		8.9	8.9	8.0	7.3	8.1	9.1	9.8	9.8	9.2
Federal surpl./deficit	Bill. \$	38.8	103.6	189.5	46.7	-254.5	-364.5	-369.9	-247.6	-300.7
State & local surpl./def.		52.0	50.4	50.0	4.8	-25.0	-3.2	11.3	9.8	14.1
Ex. social ins. funds		50.3	48.7	47.9	2.2	-26.6	-4.3	9.9	8.2	12.5
Gross natl. saving rate	%	18.2	18.0	18.0	16.3	14.1	13.5	13.6	13.7	13.8
Net natl. saving rate		7.4	6.9	6.7	4.2	2.0	1.4	1.9	2.3	2.4
Prices and Costs										
GDP chn.-wt. price index	% change	1.1	1.6	2.2	2.4	1.6	1.7	2.3	1.5	1.6
Gross Domestic Purchases		0.7	2.0	2.4	1.6	1.8	1.8	2.8	1.3	1.4
chn.-wt. price index		0.9	2.1	2.3	1.7	1.8	1.7	2.5	1.2	1.3
PCE chn.-wt. price index		1.4	1.6	1.5	2.2	1.5	1.2	1.5	1.6	1.4
Ex. food and energy										
CPI		1.5	2.6	3.4	1.8	2.2	1.9	3.4	1.4	1.7
Ex. food and energy		2.3	2.0	2.6	2.7	2.0	1.2	2.2	2.0	1.8
ECI, hourly compensation ³		3.5	3.4	4.4	4.2	3.2	4.0	4.0	4.2	4.1
Nonfarm business sector										
Output per hour		2.7	3.4	2.1	3.3	3.5	5.6	2.8	1.7	2.2
Compensation per Hour		5.5	5.2	6.4	3.5	2.9	5.4	3.8	4.2	4.2
Unit labor cost		2.7	1.7	4.3	0.3	-0.6	-0.2	0.9	2.4	2.0

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.

Strictly Confidential <FR>
Class II FOMC

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

December 8, 2004

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. \$	10338.2	10445.7	10546.5	10617.5	10744.6	10884.0	11116.7	11270.9	11472.6	11657.5
Real GDP	Bill. Ch. \$	9993.5	10052.6	10117.3	10135.9	10184.4	10287.4	10472.8	10580.7	10697.5	10784.7
Real GDP	% change	3.4	2.4	2.6	0.7	1.9	4.1	7.4	4.2	4.5	3.3
Gross domestic purchases		4.4	2.8	2.9	2.4	1.7	4.4	6.4	4.7	5.0	4.2
Final sales		0.3	1.8	2.0	0.7	2.4	5.2	6.8	3.7	3.3	2.5
Priv. dom. final purchases		0.7	1.7	2.4	1.9	2.6	5.1	7.2	4.8	4.2	3.7
Personal cons. expenditures		1.8	2.8	2.9	2.5	2.7	3.9	5.0	3.6	4.1	1.6
Durables		-8.5	4.4	14.0	-2.4	-0.1	20.6	16.5	3.9	2.2	-0.3
Nondurables		3.8	0.8	-0.6	5.3	5.0	1.6	6.9	5.1	6.7	0.1
Services		3.3	3.5	2.4	2.2	2.1	1.8	1.9	2.8	3.3	2.7
Business fixed investment		-9.7	-9.6	-1.1	-3.2	-0.1	11.8	15.7	11.0	4.2	12.5
Equipment & Software		-6.3	-4.5	4.6	-2.0	4.5	11.0	21.7	12.0	8.0	14.2
Nonres. structures		-18.5	-22.6	-16.0	-6.6	-13.0	14.5	-1.3	7.9	-7.6	6.9
Residential structures		9.3	11.3	2.8	4.2	7.5	9.1	22.4	9.6	5.0	16.5
Exports		4.7	11.0	3.1	-4.2	-1.5	-1.6	11.3	17.5	7.3	7.3
Imports		12.5	11.4	5.4	9.6	-1.9	2.5	2.9	17.1	10.6	12.6
Gov't. cons. & investment		4.7	4.4	2.1	4.0	0.2	7.2	0.1	1.6	2.5	2.2
Federal		8.2	12.8	2.9	9.2	0.3	22.1	-3.3	4.8	7.1	2.7
Defense		5.9	11.4	3.4	13.5	-2.8	38.4	-7.7	11.6	10.6	1.9
State & local		2.9	0.3	1.7	1.4	0.1	-0.5	2.2	-0.1	-0.0	1.9
Change in bus. inventories	Bill. Ch. \$	-7.4	7.9	22.7	23.8	9.6	-17.6	-3.5	8.6	40.0	61.1
Nonfarm		-11.9	16.1	24.6	25.3	9.6	-15.7	-2.7	4.6	34.5	58.8
Net exports		-444.9	-458.1	-469.8	-515.4	-511.7	-525.2	-508.7	-528.3	-550.1	-580.3
Nominal GDP	% change	4.4	4.2	3.9	2.7	4.9	5.3	8.8	5.7	7.4	6.6
GDP Gap ¹	%	1.2	1.4	1.6	2.3	2.7	2.6	1.8	1.7	1.4	1.5
Employment and Production											
Nonfarm payroll employment	Millions	130.4	130.4	130.3	130.2	130.0	129.9	129.8	130.0	130.4	131.1
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	1.9	4.2	1.2	-1.9	0.9	-4.0	3.8	5.6	6.6	4.9
Capacity util. rate - mfg.	%	73.7	74.1	74.2	73.5	73.5	72.7	73.2	74.1	75.1	76.1
Housing starts	Millions	1.72	1.68	1.70	1.74	1.74	1.75	1.88	2.04	1.94	1.92
Light motor vehicle sales		16.60	16.54	17.41	16.60	16.09	16.38	17.23	16.80	16.51	16.54
North Amer. produced		13.29	13.29	14.08	13.31	12.71	13.10	13.89	13.57	13.25	13.14
Other		3.32	3.25	3.32	3.29	3.38	3.28	3.34	3.23	3.26	3.40
Income and Saving											
Nominal GNP	Bill. \$	10361.7	10461.6	10571.7	10661.2	10781.3	10929.0	11168.3	11358.1	11546.1	11693.6
Nominal GNP	% change	2.4	3.9	4.3	3.4	4.6	5.6	9.1	7.0	6.8	5.2
Nominal personal income		2.2	4.3	-0.1	1.1	3.8	4.7	4.6	5.3	5.0	6.4
Real disposable income		10.8	2.7	-1.7	0.2	1.8	4.3	8.2	1.4	2.4	2.8
Personal saving rate	%	2.7	2.7	1.6	1.2	1.0	1.1	1.9	1.3	1.0	1.3
Corp. profits, IVA & CCA ²	% change	24.8	15.2	3.6	19.1	-1.5	36.7	32.0	30.2	13.6	2.9
Profit share of GNP	%	8.1	8.3	8.3	8.6	8.5	9.0	9.5	9.9	10.1	10.0
Excluding FR Banks		7.9	8.1	8.1	8.4	8.3	8.8	9.3	9.8	9.9	9.9
Federal surpl./deficit	Bill. \$	-208.5	-251.6	-255.1	-302.7	-281.6	-364.4	-433.0	-379.2	-391.0	-380.0
State & local surpl./def.		-28.8	-23.6	-21.3	-26.3	-49.0	-5.7	6.5	35.3	11.8	18.3
Ex. social ins. funds		-30.8	-25.3	-22.8	-27.6	-50.1	-6.7	5.4	34.1	10.6	16.9
Gross natl. saving rate	%	15.0	14.6	13.7	13.2	12.8	13.1	13.6	14.3	13.6	13.8
Net natl. saving rate		2.9	2.5	1.5	0.9	0.4	0.9	1.6	2.5	2.1	2.3
Prices and Costs											
GDP chn.-wt. price index	% change	1.4	1.5	1.7	2.0	2.7	1.1	1.4	1.6	2.8	3.2
Gross Domestic Purchases		1.2	2.5	1.8	1.9	3.7	0.4	1.7	1.4	3.4	3.5
chn.-wt. price index		0.9	2.9	2.0	1.4	3.2	0.7	1.6	1.2	3.3	3.1
PCE chn.-wt. price index		1.2	2.0	2.0	0.9	1.5	1.1	0.9	1.3	2.1	1.7
Ex. food and energy		1.4	3.4	2.2	2.0	3.8	0.7	2.4	0.7	3.5	4.8
CPI		2.1	2.3	2.1	1.7	1.3	1.0	1.5	0.8	1.9	2.9
Ex. food and energy		3.6	4.4	2.5	3.3	5.5	3.4	4.4	3.1	4.3	4.0
ECI, hourly compensation ²		6.9	1.1	4.5	1.6	3.7	6.7	9.0	3.1	3.7	3.9
Nonfarm business sector		5.5	3.4	1.5	1.2	5.3	5.7	6.1	4.4	2.0	5.9
Output per hour		-1.4	2.3	-2.9	-0.3	1.6	-1.0	-2.7	1.2	-1.6	1.9
Compensation per hour											
Unit labor cost											

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

Strictly Confidential <FR>
Class II FOMC

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

December 8, 2004

		----- 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. \$	11803.5	11966.8	12115.8	12277.0	12449.5	12622.1	12799.8	12966.1	13132.0	13298.5
Real GDP	Bill. Ch. \$	10883.9	10983.6	11076.7	11186.6	11300.4	11412.7	11519.5	11624.4	11729.3	11835.0
Real GDP	% change	3.7	3.7	3.4	4.0	4.1	4.0	3.8	3.7	3.7	3.7
Gross domestic purchases		3.9	3.8	3.3	3.5	4.1	4.3	4.3	3.6	3.8	4.1
Final sales		4.8	3.5	3.3	4.8	4.2	3.8	3.5	4.1	3.7	3.4
Priv. dom. final purchases		5.7	3.8	3.0	4.6	4.6	4.4	4.4	4.2	4.2	4.2
Personal cons. expenditures		5.1	3.3	3.7	4.1	4.1	3.9	4.0	3.8	3.8	3.8
Durables		17.2	-0.5	6.9	6.6	6.5	6.5	6.6	6.6	6.5	6.6
Nondurables		4.8	4.6	4.2	4.4	4.5	4.4	4.5	4.4	4.4	4.4
Services		2.9	3.5	2.8	3.5	3.4	3.2	3.2	3.0	3.0	3.0
Business fixed investment		12.8	9.1	-1.3	8.8	9.4	9.0	8.5	8.4	8.4	8.1
Equipment & Software		17.3	11.3	-2.9	10.2	10.7	9.9	9.7	9.8	10.0	9.8
Nonres. structures		-1.3	2.1	4.4	4.2	5.3	6.0	4.3	3.7	3.1	2.6
Residential structures		1.5	1.0	2.6	2.6	2.5	2.2	2.0	1.4	1.2	1.0
Exports		6.3	10.2	6.5	8.5	8.6	9.8	6.5	7.7	7.4	8.6
Imports		6.0	7.6	4.4	3.1	6.7	9.6	9.3	5.4	7.6	10.0
Gov't. cons. & investment		0.7	1.6	3.7	2.1	2.3	2.3	2.4	2.5	2.4	2.6
Federal		4.7	1.4	6.2	1.7	1.7	1.4	1.8	1.9	1.9	2.2
Defense		9.9	0.5	8.3	1.9	2.1	1.9	2.0	2.3	2.3	2.8
State & local		-1.5	1.8	2.2	2.4	2.6	2.8	2.8	2.8	2.8	2.8
Change in bus. inventories	Bill. Ch. \$	33.3	40.1	44.8	25.5	22.3	29.9	39.0	28.4	27.3	33.9
Nonfarm		29.1	37.1	41.8	22.5	20.3	27.8	36.8	26.3	25.2	31.8
Net exports		-588.1	-592.3	-593.1	-582.5	-586.7	-599.7	-621.4	-622.8	-634.6	-654.1
Nominal GDP	% change	5.1	5.6	5.1	5.4	5.7	5.7	5.8	5.3	5.2	5.2
GDP Gap ¹	%	1.4	1.3	1.2	1.0	0.8	0.6	0.4	0.3	0.2	0.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	131.5	132.1	132.7	133.4	134.1	134.8	135.4	136.1	136.7	137.3
Unemployment rate	%	5.5	5.4	5.4	5.3	5.3	5.3	5.2	5.2	5.1	5.1
Industrial prod. index	% change	3.2	4.3	4.6	4.7	5.0	5.0	4.6	4.3	4.1	4.2
Capacity util. rate - mfg.	%	76.6	76.9	77.4	77.9	78.5	79.2	79.7	80.2	80.5	81.0
Housing starts	Millions	1.97	1.98	1.95	1.95	1.95	1.95	1.95	1.94	1.94	1.94
Light motor vehicle sales		17.07	16.75	17.10	17.24	17.38	17.51	17.65	17.79	17.93	18.08
North Amer. produced		13.81	13.18	13.60	13.73	13.86	13.97	14.11	14.23	14.33	14.46
Other		3.27	3.57	3.50	3.51	3.52	3.54	3.54	3.56	3.60	3.62
INCOME AND SAVING											
Nominal GNP	Bill. \$	11847.0	11984.0	12138.4	12285.5	12451.6	12616.1	12779.7	12938.7	13094.0	13245.0
Nominal GNP	% change	5.4	4.7	5.3	4.9	5.5	5.4	5.3	5.1	4.9	4.7
Nominal personal income		3.4	10.1	2.2	6.2	6.4	6.3	7.6	6.2	5.9	5.9
Real disposable income		2.0	7.7	-0.4	4.6	4.6	4.7	6.0	4.6	4.3	4.3
Personal saving rate	%	0.5	1.5	0.5	0.7	0.8	1.1	1.5	1.7	1.9	2.0
Corp. profits, IVA & CCA ²	% change	-10.5	30.8	3.7	-0.2	2.9	-0.4	-1.5	-1.6	-3.4	-5.4
Profit share of GNP	%	9.6	10.2	10.2	10.0	10.0	9.8	9.7	9.5	9.3	9.1
Excluding FR Banks	%	9.5	10.0	10.0	9.9	9.8	9.7	9.5	9.4	9.2	8.9
Federal surpl./deficit	Bill. \$	-376.1	-332.6	-276.0	-251.6	-230.4	-232.5	-294.5	-298.9	-303.0	-306.6
State & local surpl./def.		8.8	6.4	9.3	8.7	10.0	11.0	14.5	13.4	13.6	14.9
Ex. social ins. funds		7.3	4.8	7.7	7.1	8.4	9.4	12.9	11.8	12.0	13.3
Gross natl. saving rate	%	13.8	13.3	13.5	13.6	13.8	13.8	13.7	13.8	13.8	13.7
Net natl. saving rate		1.4	1.9	2.0	2.2	2.4	2.4	2.3	2.4	2.4	2.3
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.3	1.9	1.6	1.3	1.5	1.6	1.9	1.5	1.5	1.5
Gross Domestic Purchases		1.8	2.4	1.3	1.3	1.4	1.4	1.6	1.3	1.3	1.3
chn.-wt. price index		1.1	2.4	0.7	1.3	1.4	1.4	1.3	1.3	1.4	1.4
PCE chn.-wt. price index		0.7	1.5	1.6	1.6	1.5	1.5	1.4	1.4	1.4	1.4
Ex. food and energy											
CPI		1.9	3.6	0.6	1.4	1.7	1.7	1.7	1.6	1.7	1.7
Ex. food and energy		1.6	2.4	2.1	2.0	2.0	1.9	1.9	1.8	1.8	1.8
ECI, hourly compensation ²		3.5	4.1	4.2	4.2	4.2	4.1	4.1	4.1	4.1	4.1
Nonfarm business sector											
Output per hour		1.4	2.3	0.8	1.9	2.1	2.1	2.1	2.1	2.2	2.2
Compensation per hour		3.6	3.6	3.8	4.2	4.3	4.3	4.2	4.2	4.2	4.2
Unit labor cost		2.2	1.3	3.0	2.3	2.2	2.1	2.1	2.0	2.0	2.0

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	Projected										Projected			
	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	02Q4/ 01Q4	03Q4/ 02Q4	04Q4/ 03Q4	
Real GDP	2.6	0.7	1.9	4.1	7.4	4.2	4.5	3.3	3.7	2.3	2.3	4.4	3.8	
Gross dom. purchases	3.0	2.4	1.8	4.6	6.8	4.9	5.3	4.4	4.0	3.2	3.2	4.5	4.4	
Final sales	2.0	0.7	2.4	5.1	6.8	3.7	3.3	2.5	4.7	1.2	1.2	4.5	3.5	
Priv. dom. final purchases	2.1	1.6	2.2	4.3	6.2	4.1	3.6	3.2	4.9	1.4	1.4	4.2	3.8	
Personal cons. expenditures	2.0	1.7	1.8	2.7	3.6	2.5	2.9	1.1	3.5	1.8	1.8	2.7	2.5	
Durables	1.2	-0.2	-0.0	1.6	1.4	0.3	0.2	-0.0	1.4	0.1	0.1	0.8	0.4	
Nondurables	-0.1	1.0	1.0	0.3	1.4	1.0	1.3	0.0	1.0	0.5	0.5	0.9	0.8	
Services	1.0	0.9	0.9	0.8	0.8	1.2	1.4	1.1	1.2	1.2	1.2	0.9	1.3	
Business fixed investment	-0.1	-0.3	-0.0	1.1	1.5	1.1	0.4	1.2	1.3	-0.6	-0.6	0.9	1.0	
Equipment & Software	0.3	-0.2	0.3	0.8	1.5	0.9	0.6	1.1	1.3	-0.2	-0.2	0.9	1.0	
Nonres. structures	-0.5	-0.2	-0.3	0.3	-0.0	0.2	-0.2	0.2	-0.0	-0.5	-0.5	0.0	-0.0	
Residential structures	0.1	0.2	0.4	0.4	1.1	0.5	0.3	0.9	0.1	0.3	0.3	0.6	0.3	
Net exports	-0.4	-1.7	0.1	-0.5	0.6	-0.7	-0.8	-1.1	-0.3	-0.9	-0.9	-0.1	-0.6	
Exports	0.3	-0.4	-0.2	-0.2	1.0	1.6	0.7	0.7	0.6	0.3	0.3	0.6	0.8	
Imports	-0.7	-1.3	0.3	-0.3	-0.4	-2.2	-1.5	-1.8	-0.9	-1.3	-1.3	-0.7	-1.3	
Government cons. & invest.	0.4	0.8	0.1	1.4	0.0	0.3	0.5	0.4	0.1	0.7	0.7	0.4	0.3	
Federal	0.2	0.6	0.0	1.4	-0.2	0.3	0.5	0.2	0.3	0.5	0.5	0.4	0.3	
Defense	0.1	0.5	-0.1	1.5	-0.4	0.5	0.5	0.1	0.4	0.3	0.3	0.4	0.3	
Nondefense	0.1	0.0	0.2	-0.1	0.1	-0.2	0.0	0.1	-0.1	0.2	0.2	-0.0	0.0	
State and local	0.2	0.2	0.0	-0.1	0.3	-0.0	0.0	0.2	-0.2	0.2	0.2	0.1	0.1	
Change in bus. inventories	0.6	0.1	-0.5	-1.0	0.6	0.5	1.2	0.8	-1.0	1.1	1.1	-0.1	0.3	
Nonfarm	0.4	0.1	-0.5	-0.9	0.5	0.3	1.1	0.9	-1.1	1.0	1.0	-0.2	0.3	
Farm	0.2	0.0	0.1	-0.1	0.1	0.2	0.1	-0.1	0.1	0.0	0.0	0.1	-0.0	

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	Projected												Projected			
	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4	04Q4/ 03Q4	05Q4/ 04Q4	06Q4/ 05Q4	04Q4/ 03Q4	05Q4/ 04Q4	06Q4/ 05Q4	
Real GDP	3.7	3.4	4.0	4.1	4.0	3.8	3.7	3.7	3.7	3.8	3.9	3.7	3.8	3.9	3.7	
Gross dom. purchases	4.0	3.5	3.7	4.3	4.5	4.5	3.7	4.0	4.3	4.4	4.0	4.1	4.4	4.0	4.1	
Final sales	3.5	3.3	4.7	4.2	3.8	3.5	4.0	3.7	3.4	3.5	4.0	3.7	3.5	4.0	3.7	
Priv. dom. final purchases	3.3	2.6	3.9	4.0	3.8	3.8	3.6	3.6	3.6	3.8	3.6	3.7	3.8	3.6	3.7	
Personal cons. expenditures	2.3	2.6	2.9	2.9	2.7	2.8	2.7	2.7	2.7	2.5	2.8	2.7	2.5	2.8	2.7	
Durables	-0.0	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.5	0.5	0.4	0.5	0.5	
Nondurables	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.9	0.9	0.8	0.9	0.9	
Services	1.4	1.2	1.5	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	
Business fixed investment	0.9	-0.1	0.9	1.0	0.9	0.9	0.9	0.9	0.8	1.0	0.7	0.9	1.0	0.7	0.9	
Equipment & Software	0.9	-0.2	0.8	0.8	0.8	0.8	0.8	0.8	0.8	1.0	0.5	0.8	1.0	0.5	0.8	
Nonres. structures	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.0	0.1	0.1	-0.0	0.1	0.1	
Residential structures	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.1	0.1	0.3	0.1	0.1	
Net exports	-0.2	-0.0	0.4	-0.1	-0.4	-0.7	-0.0	-0.4	-0.6	-0.6	-0.1	-0.5	-0.6	-0.1	-0.5	
Exports	1.0	0.7	0.9	0.9	1.0	0.7	0.8	0.8	0.9	0.8	0.9	0.8	0.8	0.9	0.8	
Imports	-1.1	-0.7	-0.5	-1.0	-1.4	-1.4	-0.8	-1.2	-1.5	-1.3	-0.9	-1.2	-1.3	-0.9	-1.2	
Government cons. & invest.	0.3	0.7	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.3	0.5	0.5	0.3	0.5	0.5	
Federal	0.1	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.2	0.1	0.3	0.2	0.1	
Defense	0.0	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.2	0.1	0.3	0.2	0.1	
Nondefense	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
State and local	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.1	0.3	0.3	0.1	0.3	0.3	
Change in bus. inventories	0.3	0.2	-0.7	-0.1	0.3	0.3	-0.4	-0.0	0.2	0.3	-0.1	0.0	0.3	-0.1	0.0	
Nonfarm	0.3	0.2	-0.7	-0.1	0.3	0.3	-0.4	-0.0	0.2	0.3	-0.1	0.0	0.3	-0.1	0.0	
Farm	-0.0	0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	-0.0	-0.0	0.0	-0.0	-0.0	0.0	

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

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

December 8, 2004

Item	Fiscal year				2004				2005				2006			
	2003 ^a	2004 ^a	2005	2006	Q1 ^a	Q2 ^a	Q3 ^a	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget	Not seasonally adjusted															
Receipts ¹	1782	1880	2042	2215	410	550	479	454	444	632	513	518	479	674	543	531
Outlays ¹	2159	2292	2430	2572	580	576	565	602	617	604	607	629	664	645	635	667
Surplus/deficit ¹	-377	-413	-388	-358	-171	-26	-86	-149	-173	27	-94	-110	-185	30	-92	-135
On-budget	-538	-568	-558	-545	-193	-99	-96	-192	-208	-50	-108	-155	-226	-56	-109	-184
Off-budget	161	155	170	187	23	73	10	43	35	78	14	44	40	86	16	48
Means of financing																
Borrowing	374	379	384	365	136	41	83	132	134	11	107	95	170	-1	101	126
Cash decrease	26	-1	1	0	12	-23	8	11	15	-29	5	10	15	-25	0	10
Other ²	-22	35	3	-7	23	8	-6	6	23	-9	-17	5	0	-4	-8	-0
Cash operating balance, end of period	35	36	35	35	21	45	36	26	11	40	35	25	10	35	35	25
NIPA federal sector	Seasonally adjusted annual rates															
Receipts	1863	1932	2161	2313	1915	1949	1964	2034	2161	2200	2249	2275	2309	2323	2344	2367
Expenditures	2209	2314	2434	2595	2306	2329	2340	2367	2437	2452	2479	2507	2604	2622	2647	2673
Consumption expenditures	646	694	738	771	691	700	713	717	739	744	749	754	771	777	782	789
Defense	425	469	504	530	465	474	487	489	505	509	513	518	529	534	539	544
Nondefense	221	225	233	241	226	227	226	229	234	235	236	236	242	243	244	244
Other spending	1563	1620	1696	1824	1615	1629	1627	1649	1698	1708	1730	1753	1833	1846	1864	1885
Current account surplus	-345	-382	-273	-282	-391	-380	-376	-333	-276	-252	-230	-232	-294	-299	-303	-307
Gross investment	92	102	110	114	102	104	104	107	110	111	112	113	114	115	116	117
Gross saving less gross investment ³	-347	-391	-286	-296	-402	-391	-387	-345	-290	-266	-245	-247	-309	-313	-317	-321
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-271	-341	-250	-285	-354	-346	-342	-303	-250	-232	-218	-227	-295	-304	-313	-321
Change in HEB, percent of potential GDP	1.2	0.5	-0.9	0.2	0.2	-0.1	-0.1	-0.4	-0.5	-0.2	-0.1	0.1	0.5	0.0	0.0	0.0
Fiscal impetus (FI) percent of GDP	1.0	0.9	0.0	0.2	0.2	0.1	0.1	0.1	-0.2	0.0	0.0	0.0	0.1	0.1	0.1	0.0

1. OMB's July 2004 baseline surplus estimates are -\$444 billion in FY 2004, -\$292 billion in FY 2005, and -\$234 billion in FY 2006, and surplus estimates under enactment of its proposed policies are -\$445 billion, -\$331 billion, and -\$261 billion respectively. CBO's September 2004 baseline surplus estimates are -\$422 billion in FY 2004, -\$348 billion in FY 2005 and -\$298 billion in FY 2006. 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

Strictly Confidential (FR) Class II FOMC		Change in Debt of the Domestic Nonfinancial Sectors (Percent)					December 8, 2004			
Period ¹	Total	Federal government	Nonfederal					Business	State and local governments	Memo: Nominal GDP
			Total	Households		Consumer credit				
				Total	Home mortgages					
<i>Year</i>										
1999	6.4	-1.9	8.9	8.3	9.2	7.8	10.6	3.4	6.3	
2000	4.8	-8.0	8.3	8.7	8.3	10.7	9.4	1.3	4.6	
2001	6.2	-0.2	7.6	8.9	9.7	8.0	6.1	8.9	2.7	
2002	6.8	7.6	6.7	9.6	11.9	4.4	2.6	11.1	3.8	
2003	8.1	10.9	7.5	10.0	12.4	4.5	4.3	8.2	6.2	
2004	8.1	9.7	7.7	9.8	11.5	5.1	5.0	8.2	6.2	
2005	7.1	7.9	6.9	7.9	8.7	5.8	6.2	4.6	5.5	
2006	6.7	8.3	6.3	6.7	7.3	5.4	6.2	4.0	5.4	
<i>Quarter</i>										
2004:1	9.1	12.0	8.5	11.4	13.2	6.2	4.6	9.5	7.4	
2	7.0	10.7	6.2	8.5	9.8	2.3	3.6	4.0	6.6	
3	7.4	4.9	8.0	9.1	11.3	5.9	5.1	14.2	5.1	
4	7.9	10.0	7.4	8.8	9.9	5.8	6.3	4.4	5.6	
2005:1	7.8	10.8	7.1	8.6	9.6	5.9	5.8	4.7	5.1	
2	6.9	7.2	6.9	7.7	8.6	5.6	6.2	4.6	5.4	
3	6.6	6.5	6.6	7.3	8.0	5.7	6.1	4.6	5.7	
4	6.3	6.1	6.4	7.0	7.7	5.6	6.0	4.3	5.7	
2006:1	7.5	13.0	6.3	6.8	7.4	5.6	6.1	4.0	5.8	
2	6.1	5.7	6.2	6.6	7.1	5.4	6.0	4.0	5.3	
3	6.0	5.5	6.1	6.5	7.0	5.2	6.0	3.9	5.2	
4	6.4	8.0	6.0	6.3	6.8	5.1	6.1	3.7	5.2	

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2004:Q3 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

Strictly Confidential (FR)
Class II FOMIC

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

December 8, 2004

Category	2004						2005				2006			
	2003	2004	2005	2006	2004		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Q3	Q4								
Net funds raised by domestic nonfinancial sectors														
1 Total	1602.1	1599.3	1524.8	1639.5	1501.1	1521.7	1648.7	1508.4	1476.3	1466.1	1855.3	1524.7	1521.9	1656.4
2 Net equity issuance	-57.8	-197.2	-183.0	-75.0	-208.8	-338.0	-228.0	-190.0	-169.0	-145.0	-87.0	-71.0	-71.0	-71.0
3 Net debt issuance	1659.9	1796.6	1707.8	1714.5	1709.9	1859.7	1876.7	1698.4	1645.3	1611.1	1942.3	1595.7	1592.9	1727.4
Borrowing sectors														
Nonfinancial business														
4 Financing gap ¹	-21.1	23.9	-21.0	154.5	-52.5	156.4	-39.7	-35.5	-15.9	7.2	140.3	136.8	155.6	185.3
5 Net equity issuance	-57.8	-197.2	-183.0	-75.0	-208.8	-338.0	-228.0	-190.0	-169.0	-145.0	-87.0	-71.0	-71.0	-71.0
6 Credit market borrowing	305.6	370.3	480.2	511.0	386.5	482.8	449.1	489.6	490.0	491.9	500.9	506.0	513.6	523.6
Households														
7 Net borrowing ²	840.6	905.9	802.2	738.8	887.9	872.2	871.0	804.0	774.7	759.0	750.9	740.2	732.9	730.9
8 Home mortgages	734.9	767.9	649.5	588.7	796.9	719.6	714.9	654.2	621.5	607.4	598.1	588.7	584.1	584.1
9 Consumer credit	88.4	105.3	125.9	123.9	123.4	123.5	128.1	122.9	127.0	125.6	126.9	125.4	122.7	120.5
10 Debt/DPI (percent) ³	108.0	112.6	116.8	117.8	113.9	113.8	116.1	116.8	117.2	117.6	117.5	117.7	118.0	118.2
State and local governments														
11 Net borrowing	117.8	128.6	77.8	69.8	228.5	73.7	78.8	78.8	78.8	74.8	70.8	70.8	70.8	66.8
12 Current surplus ⁴	176.2	182.0	171.6	181.5	171.0	164.9	169.1	169.7	172.5	174.9	179.8	180.1	181.7	184.4
Federal government														
13 Net borrowing	396.0	391.7	347.7	395.0	207.0	431.1	477.8	325.9	301.8	285.5	619.6	278.7	275.5	406.1
14 Net borrowing (n.s.a.)	396.0	391.7	347.7	395.0	83.4	131.8	134.3	10.9	107.1	95.4	169.8	-0.9	100.5	125.6
15 Unified deficit (n.s.a.)	399.1	430.7	349.7	383.0	85.7	148.6	172.7	-27.4	94.1	110.3	185.2	-29.8	92.1	135.5
Depository institutions														
16 Funds supplied	476.4	711.5	565.7	588.3	424.2	553.0	637.6	507.5	596.1	521.5	670.7	536.9	624.9	520.7
Memo (percentage of GDP)														
17 Domestic nonfinancial debt ⁵	194.5	197.6	201.6	204.1	198.1	199.2	200.6	201.6	202.2	202.7	203.3	204.1	204.6	205.1
18 Domestic nonfinancial borrowing	15.1	15.3	13.8	13.1	14.5	15.5	15.5	13.8	13.2	12.8	15.2	12.3	12.1	13.0
19 Federal government ⁶	3.6	3.3	2.8	3.0	1.8	3.6	3.9	2.7	2.4	2.3	4.8	2.1	2.1	3.1
20 Nonfederal	11.5	12.0	11.0	10.1	12.7	11.9	11.5	11.2	10.8	10.5	10.3	10.2	10.0	9.9

Note. Data after 2004:Q3 are staff projections.

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

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

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

2.6.4 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

The dollar has depreciated further on balance since the November FOMC meeting. The dollar declined during most of the period, even when the news for the U.S. outlook was generally more positive than that from abroad, as well as following the weaker-than-expected November employment report. Market commentary suggested that these declines were related to an increased focus on the burgeoning U.S. current account deficit. However, late in the period, the dollar rallied, reversing much of the prior drop. We have maintained our assumption that the broad real value of the dollar will depreciate about 3 percent between the fourth quarter of 2004 and the fourth quarter of 2006.

Since the November FOMC meeting, the spot price of West Texas intermediate (WTI) oil has dropped about \$7.50 per barrel, closing around \$41.50 on December 7. Futures prices have also dropped significantly. The average price of imported oil is estimated to have declined as well, although by a smaller amount as the unusually wide October spread between the WTI price and that of other, more sulphurous, types of crude has narrowed. Our current forecast for the price of imported oil for the next two years has been revised down \$2 to \$3 per barrel compared with the November path.

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

Indicator	2004		Projection				
	H1	Q3	2004: Q4	2005			2006
				Q1	Q2	H2	
Foreign output	4.1	2.7	3.1	3.0	3.2	3.2	3.2
<i>November GB</i>	4.2	3.2	3.4	3.2	3.3	3.3	3.2
Foreign CPI	2.8	2.8	2.6	2.0	2.2	2.2	2.2
<i>November GB</i>	2.8	2.9	3.1	2.5	2.3	2.2	2.2

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

Export-weighted foreign real GDP growth is estimated to have dipped to an annual rate of about 2¾ percent in the third quarter, somewhat below our expectations. The deceleration in activity was widespread across regions. Softness in exports was a factor in a number of industrial countries where exchange rates have appreciated. Among emerging markets, output in Mexico decelerated sharply relative to the first half of the year along with slower growth in U.S. manufacturing industrial production; high oil prices restrained activity in a number of emerging Asian economies. Foreign GDP growth is projected to rise to an annual rate of about 3 percent in the current quarter and

the expiration of the multifiber arrangement (MFA) at the end of this year is expected to lead to a substantial fall in imported apparel prices over time, with China likely to increase its market share. The assumed decline in apparel prices will reduce core import price inflation more than ½ percentage point in both 2005 and 2006.

Staff Projections of Selected Trade Prices

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

Indicator	2004		Projection				
	H1	Q3	2004: Q4	2005			2006
				Q1	Q2	H2	
<i>Exports</i>							
Core goods	6.9	1.8	4.7	0.7	1.8	1.8	2.2
<i>Imports</i>							
Non-oil core goods	5.2	2.1	3.6	2.8	0.9	0.6	0.1
Oil (dollars per barrel)	34.55	37.55	40.51	37.68	37.90	37.29	36.57

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.

Largely as a result of falling prices for agricultural goods, the increase in the price of exported core goods dropped to an annual rate of just 1¾ percent in the third quarter, following an increase of almost 7 percent in the first half of 2004. In the fourth quarter, higher prices for intermediate goods and a rebound in prices for agricultural goods should push core export price inflation back up to nearly 5 percent, about 2 percentage points higher than in the November Greenbook. In 2005 and 2006, core export price inflation is projected to move in line with U.S. price inflation.

Trade in Goods and Services

Nominal imports of goods and services dropped in September, as the value of imports of both oil and services retreated from August's elevated levels. Real imports of goods and services increased 6 percent in the third quarter, almost 2 percentage points less than projected in the November Greenbook, with the weakness primarily in core goods. In the fourth quarter, growth of real imports should pick up to around 7½ percent, as a jump in imports of oil and a more modest rise in imports of core goods overshadow a projected decline in imports of services. This projection is slightly higher than the one in the

November Greenbook, as an upward revision to projected U.S. GDP growth more than offsets the negative effect of the lower dollar.

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

Indicator	2004		Projection				
	H1	Q3	2004: Q4	2005			2006
				Q1	Q2	H2	
Real exports	7.3	6.3	10.2	6.5	8.5	9.2	7.6
<i>November GB</i>	7.3	4.5	10.4	5.6	7.8	8.5	7.0
Real imports	11.6	6.0	7.6	4.4	3.1	8.1	8.1
<i>November GB</i>	11.6	7.9	7.4	3.6	3.6	8.1	8.3

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

Real import growth is expected to weaken in the first half of 2005, as capital goods imports dip in response to the expiration of partial-expensing provisions. The lagged response to the dollar's depreciation also continues to restrain imports of core goods and services. Import growth should pick up again by the second half of the year as the effect of the dollar depreciation lessens. The projection for real imports in both 2005 and 2006 is little changed from the November Greenbook.

Nominal exports of goods and services expanded briskly in September following upwardly revised growth in August. A small decline in services exports was more than offset by unexpectedly robust growth of goods exports. Real exports of goods and services climbed 6¼ percent in the third quarter, considerably faster than the 4½ percent pace projected in the November Greenbook. Growth is expected to increase to 10¼ percent in the fourth quarter, as services exports rebound.

We expect real export growth to move up from 7¾ percent in 2004 to 8¼ percent in 2005 as growth in exports of both services and high-tech goods is projected to recover following some weakness earlier this year. Growth of exports of core goods is expected to average 7½ percent next year and then to drop back to 6¾ percent in 2006 as the effect of dollar depreciation wanes while foreign GDP growth is little changed. Real export growth in 2005 and 2006 is roughly ½ percentage point higher than in the November Greenbook as a result of our assumption of a weaker exchange rate.

Alternative Simulation

The broad real dollar has depreciated about 16 percent on average from its peak in early 2002, but the decline has been much more pronounced against the currencies of the foreign G-7 countries, especially the euro. In our alternative simulation, we used the FRB/Global model to consider the effects of a further slide of the dollar that is again heavily concentrated against the euro. This risk premium shock occurs in 2005:Q1 and is scaled so that the dollar would depreciate 20 percent against the euro and around 7 percent against all other major currencies in the absence of endogenous adjustment in long-term interest rates. The shock induces an initial decline in the broad real dollar of roughly 10 percent. The depreciation causes substitution away from foreign, and especially euro-area, products into U.S. goods and services, stimulating U.S. net exports. Accordingly, U.S. GDP growth rises ½ percentage point above baseline in 2005 and a bit more in 2006. Higher import prices push core PCE inflation about ¼ percentage point above baseline in 2005, and cost pressures arising from increased resource utilization keep inflation somewhat elevated in 2006. Although U.S. export-weighted foreign GDP growth (not shown) declines only about ¼ percentage point below baseline in 2005, the shock has a sizable contractionary effect on the euro area, reducing GDP growth more than 1½ percentage points relative to baseline in both 2005 and 2006.

Alternative Simulation:
The Effect of Dollar Depreciation Concentrated Against the Euro
 (Percent change from previous period, annual rate)

Indicator and simulation	2004		2005		2006	
	H1	H2	H1	H2	H1	H2
<i>U.S. real GDP</i>						
Baseline	3.9	3.7	3.7	4.1	3.7	3.7
Dollar Depreciation	3.9	3.7	4.2	4.9	4.6	4.3
<i>U.S. PCE prices excluding food and energy</i>						
Baseline	1.9	1.1	1.6	1.5	1.4	1.4
Dollar Depreciation	1.9	1.1	1.9	1.7	1.7	1.7

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.

Strictly Confidential (FR)
 Class II FOMC
 OUTLOOK FOR FOREIGN REAL GDP AND CONSUMER PRICES: SELECTED COUNTRIES
 (Percent, Q4 to Q4)
 December 8, 2004

Measure and country	1998	1999	2000	2001	2002	2003	2004	2005	2006
REAL GDP (1)									

Total foreign	1.5	5.0	4.2	0.3	3.0	2.7	3.5	3.2	3.2
Industrial Countries	2.7	4.3	3.5	0.7	2.6	1.7	2.5	2.5	2.5
of which:									
Canada	4.4	5.9	4.1	1.4	3.8	1.7	3.2	3.2	3.1
Japan	-1.2	0.1	3.2	-2.0	1.4	2.0	1.7	1.5	1.8
United Kingdom	2.8	3.3	3.0	2.2	1.9	2.9	2.6	2.4	2.2
Euro Area (2)	2.0	3.9	2.7	0.8	1.1	0.8	1.8	1.6	1.7
Germany	0.7	3.3	1.9	0.5	0.5	0.0	1.2	1.0	1.3
Developing Countries	-0.3	6.1	5.3	-0.3	3.5	4.2	5.0	4.2	4.3
Asia	-2.2	8.6	5.9	0.9	5.8	6.0	5.5	4.5	4.5
Korea	-5.4	11.4	4.5	4.7	7.7	4.1	2.8	3.9	4.2
China	9.8	7.0	7.6	6.9	8.3	10.0	8.6	7.1	7.5
Latin America	1.2	4.2	4.5	-1.3	1.4	2.3	4.5	3.9	4.1
Mexico	2.9	5.4	4.8	-1.2	1.9	2.0	4.1	3.9	4.3
Brazil	-1.7	3.5	3.9	-0.9	4.2	0.8	5.3	3.0	3.0
CONSUMER PRICES (3)									

Industrial Countries	0.9	1.1	1.7	0.9	2.1	1.3	1.6	1.2	1.4
of which:									
Canada	1.1	2.4	3.1	1.1	3.9	1.7	1.9	1.7	2.0
Japan	0.7	-1.1	-1.2	-1.3	-0.5	-0.4	0.3	-0.5	0.2
United Kingdom (4)	1.4	1.2	1.0	1.0	1.6	1.3	1.2	1.5	1.9
Euro Area (2)	0.9	1.5	2.5	2.1	2.3	2.1	2.3	1.8	1.7
Germany	0.3	1.1	1.7	1.5	1.2	1.2	2.2	1.1	0.7
Developing Countries	9.0	4.6	4.1	2.8	2.9	3.0	4.2	3.4	3.1
Asia	4.4	0.1	1.8	1.1	0.7	2.1	3.4	2.7	2.4
Korea	5.8	1.2	2.6	3.4	3.4	3.5	3.5	4.1	3.3
China	-1.2	-1.0	0.9	-0.1	-0.6	2.6	4.0	2.2	1.9
Latin America	15.4	12.5	8.4	5.3	6.4	4.9	5.5	4.4	4.2
Mexico	17.3	13.5	8.7	5.1	5.3	3.9	5.3	4.0	3.8
Brazil	2.0	8.4	6.4	7.5	10.7	11.5	7.0	5.7	5.3

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

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

Measure and country	2004				Projected 2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	4.7	3.6	2.7	3.1	3.0	3.2	3.2	3.3	3.2	3.2	3.2	3.2
Industrial Countries	3.3	2.6	2.0	2.1	2.3	2.5	2.5	2.5	2.5	2.5	2.4	2.4
of which:												
Canada	2.7	3.9	3.2	2.9	3.0	3.2	3.3	3.3	3.2	3.1	3.0	3.0
Japan	6.8	-0.6	0.2	0.7	1.3	1.5	1.5	1.6	1.7	1.8	1.8	1.8
United Kingdom	2.7	3.6	1.8	2.2	2.3	2.5	2.4	2.4	2.2	2.2	2.2	2.2
Euro Area (2)	2.6	1.9	1.2	1.5	1.5	1.6	1.7	1.7	1.7	1.7	1.7	1.7
Germany	1.7	1.7	0.4	0.8	0.8	1.0	1.1	1.2	1.2	1.2	1.3	1.3
Developing Countries	6.8	5.0	3.6	4.5	4.1	4.1	4.2	4.3	4.3	4.3	4.3	4.2
Asia	7.7	5.1	4.4	4.9	4.4	4.5	4.4	4.4	4.5	4.5	4.5	4.5
Korea	3.0	2.6	2.6	3.0	3.5	4.0	4.0	4.2	4.2	4.2	4.2	4.2
China	14.4	2.8	10.1	7.5	7.1	7.1	7.1	7.1	7.5	7.5	7.5	7.5
Latin America	6.4	4.9	2.8	4.0	3.7	3.7	4.0	4.2	4.2	4.2	4.2	4.1
Mexico	5.5	4.5	2.6	4.0	3.7	3.7	4.1	4.3	4.3	4.3	4.3	4.2
Brazil	7.5	5.5	4.2	4.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
CONSUMER PRICES (3)	Four-quarter changes											
Industrial Countries	0.8	1.5	1.5	1.6	1.5	1.2	1.3	1.2	1.4	1.4	1.4	1.4
of which:												
Canada	0.8	2.2	2.0	1.9	1.9	1.4	1.6	1.7	1.8	1.9	2.0	2.0
Japan	-0.3	-0.2	-0.2	0.3	-0.3	-0.3	-0.1	-0.5	-0.0	0.1	0.2	0.2
United Kingdom (4)	1.2	1.4	1.2	1.2	1.1	1.4	1.5	1.5	1.7	1.8	1.8	1.9
Euro Area (2)	1.7	2.3	2.3	2.3	2.4	2.1	2.0	1.8	1.8	1.8	1.7	1.7
Germany	1.0	1.9	2.0	2.2	2.2	1.8	1.5	1.1	1.1	0.9	0.8	0.7
Developing Countries	3.0	3.6	4.4	4.2	4.1	3.8	3.4	3.4	3.3	3.2	3.2	3.1
Asia	2.2	3.3	4.2	3.4	3.5	2.9	2.4	2.7	2.5	2.4	2.4	2.4
Korea	3.3	3.4	4.3	3.5	3.7	4.3	3.7	4.1	3.9	3.7	3.6	3.3
China	2.8	4.4	5.3	4.0	4.0	2.7	1.9	2.2	2.0	1.9	1.9	1.9
Latin America	4.7	4.5	5.1	5.3	5.2	5.4	4.9	4.4	4.4	4.4	4.3	4.2
Mexico	4.3	4.3	4.8	5.3	4.9	5.0	4.6	4.0	4.0	4.0	4.0	3.8
Brazil	6.8	5.5	6.8	7.0	6.8	6.6	5.9	5.7	5.4	5.3	5.3	5.3

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1998	1999	2000	2001	2002	2003	----- 2004	Projected 2005	----- 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	-0.6	-0.1	-0.5
Exports of G&S	0.3	0.6	0.7	-1.3	0.3	0.6	0.8	0.9	0.8
Imports of G&S	-1.4	-1.6	-1.6	1.1	-1.3	-0.7	-1.3	-0.9	-1.2
	Percentage change, Q4/Q4								
Exports of G&S	2.6	5.6	6.5	-11.9	3.5	6.1	7.8	8.3	7.6
Services	4.4	5.3	1.8	-8.9	9.8	3.8	5.4	7.2	6.1
Computers	7.3	13.4	22.7	-23.5	-1.0	11.2	7.4	13.5	14.4
Semiconductors	9.5	34.6	27.6	-34.6	9.9	38.8	-1.0	27.3	29.1
Other Goods 1/	1.2	3.3	5.9	-10.2	0.4	5.0	9.6	7.5	6.8
Imports of G&S	11.0	12.1	11.2	-7.6	9.7	4.9	9.2	5.9	8.1
Services	10.4	6.5	10.7	-5.9	8.9	3.7	3.8	3.1	4.6
Oil	4.2	-3.4	13.3	3.7	4.2	1.8	4.1	-3.4	3.1
Computers	26.4	26.0	13.9	-13.6	13.4	16.9	24.5	14.8	17.5
Semiconductors	-7.7	34.2	22.8	-51.1	10.0	0.3	21.8	26.1	29.1
Other Goods 2/	11.2	12.9	10.5	-6.5	9.9	4.9	10.0	7.0	8.5
	Billions of Chained 2000 Dollars								
Net Goods & Services	-203.8	-296.2	-379.5	-399.1	-472.1	-518.5	-577.7	-590.5	-633.2
Exports of G&S	966.5	1008.2	1096.3	1036.7	1012.4	1031.8	1125.5	1216.1	1313.0
Imports of G&S	1170.3	1304.5	1475.8	1435.8	1484.4	1550.2	1703.2	1806.6	1946.2
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-209.6	-296.8	-413.5	-385.7	-473.9	-530.7	-664.0	-739.5	-808.4
Current Acct as Percent of GDP	-2.4	-3.2	-4.2	-3.8	-4.5	-4.8	-5.7	-6.0	-6.2
Net Goods & Services (BOP)	-164.9	-263.3	-378.4	-362.7	-421.7	-496.5	-607.5	-640.0	-667.3
Investment Income, Net	8.3	18.4	25.3	28.7	12.6	38.8	22.4	-14.3	-55.8
Direct, Net	65.5	78.2	94.9	115.9	100.8	118.9	125.5	138.8	141.9
Portfolio, Net	-57.2	-59.8	-69.7	-87.2	-88.2	-80.1	-103.2	-153.1	-197.8
Other Income & Transfers, Net	-53.0	-52.0	-60.4	-51.7	-64.8	-72.9	-78.9	-85.3	-85.3

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	-1.1	-0.5	-0.4	-1.7	0.1	-0.5	0.6	-0.7
Exports of G&S	-0.6	-1.4	-2.0	-1.1	0.4	1.0	0.3	-0.4	-0.2	-0.2	1.0	1.6
Imports of G&S	0.6	1.9	1.5	0.5	-1.5	-1.4	-0.7	-1.3	0.3	-0.3	-0.4	-2.2
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	-5.3	-12.7	-18.2	-10.8	4.7	11.0	3.1	-4.2	-1.5	-1.6	11.3	17.5
Services	-5.0	-0.6	-13.7	-15.3	21.7	4.5	3.5	10.5	-12.7	-3.5	14.1	20.6
Computers	-9.8	-35.7	-24.9	-21.3	-20.4	11.9	-3.8	12.3	-4.5	-3.4	38.2	19.8
Semiconductors	-30.0	-54.0	-45.3	3.7	24.9	38.8	11.4	-24.4	40.9	28.0	40.8	45.9
Other Goods 1/	-2.5	-11.5	-17.6	-8.6	-2.1	12.6	2.7	-10.3	2.4	-2.4	6.6	13.9
Imports of G&S	-3.7	-12.6	-10.3	-3.4	12.5	11.4	5.4	9.6	-1.9	2.5	2.9	17.1
Services	-5.1	12.9	-18.3	-10.4	24.6	-5.7	2.8	16.5	-2.4	-9.4	17.9	11.0
Oil	63.5	-33.8	-28.2	49.1	-5.6	-17.5	-10.8	69.9	-6.0	-2.8	0.6	16.6
Computers	-22.6	-23.3	-13.4	8.4	50.2	7.2	2.6	0.2	7.0	15.9	12.0	34.2
Semiconductors	-43.9	-70.1	-55.4	-23.7	42.3	33.9	-6.7	-17.6	-4.0	2.4	-1.5	4.4
Other Goods 2/	-5.5	-10.6	-3.7	-5.9	8.3	19.4	8.5	4.1	-1.8	5.5	-0.9	17.9
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-398.2	-385.2	-398.4	-414.6	-444.9	-458.1	-469.8	-515.4	-511.7	-525.2	-508.7	-528.3
Exports of G&S	1097.2	1060.6	1008.7	980.3	991.6	1017.8	1025.5	1014.5	1010.6	1006.5	1033.8	1076.2
Imports of G&S	1495.4	1445.8	1407.1	1394.9	1436.5	1475.9	1495.3	1529.8	1522.3	1531.7	1542.5	1604.5
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-426.8	-390.2	-367.6	-358.3	-440.8	-471.6	-476.0	-507.4	-552.8	-535.5	-526.5	-507.8
Current Account as % of GDP	-4.3	-3.9	-3.6	-3.5	-4.3	-4.5	-4.5	-4.8	-5.1	-4.9	-4.7	-4.5
Net Goods & Services (BOP)	-389.3	-356.1	-357.1	-348.3	-375.0	-413.5	-427.7	-470.7	-501.6	-493.5	-489.0	-502.0
Investment Income, Net	23.9	29.8	1.5	59.7	9.2	1.8	10.6	28.8	21.5	29.1	34.5	70.1
Direct, Net	106.2	116.1	95.0	146.2	100.6	95.1	94.9	112.8	101.3	105.4	114.6	154.2
Portfolio, Net	-82.3	-86.3	-93.5	-86.6	-91.4	-93.2	-84.3	-84.0	-79.8	-76.3	-80.1	-84.1
Other Inc. & Transfers, Net	-61.3	-63.9	-12.0	-69.7	-75.0	-59.9	-59.0	-65.4	-72.8	-71.0	-72.0	-76.0

1. Merchandise exports excluding computers and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2004				2005				2006			
	-----				-----				-----			
	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	-0.8	-1.1	-0.3	-0.2	-0.0	0.4	-0.1	-0.4	-0.7	-0.0	-0.4	-0.6
Exports of G&S	0.7	0.7	0.6	1.0	0.7	0.9	0.9	1.0	0.7	0.8	0.8	0.9
Imports of G&S	-1.5	-1.8	-0.9	-1.1	-0.7	-0.5	-1.0	-1.4	-1.4	-0.8	-1.2	-1.5
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	7.3	7.3	6.3	10.2	6.5	8.5	8.6	9.8	6.5	7.7	7.4	8.6
Services	3.4	10.2	0.1	8.2	7.7	7.4	7.2	6.7	6.4	6.3	6.0	5.7
Computers	-8.3	-1.8	22.9	20.2	11.2	14.1	14.3	14.3	14.4	14.4	14.4	14.4
Semiconductors	12.5	-10.1	-20.4	19.1	22.2	28.5	29.2	29.2	29.1	29.1	29.1	29.1
Other Goods 1/	10.1	7.7	10.6	10.0	4.7	7.6	7.8	10.0	5.0	6.8	6.6	8.7
Imports of G&S	10.6	12.6	6.0	7.6	4.4	3.1	6.7	9.6	9.3	5.4	7.6	10.0
Services	1.1	10.7	8.3	-4.2	0.9	2.6	4.0	5.1	4.8	4.6	4.5	4.5
Oil	39.0	-33.1	5.4	19.9	10.2	-28.3	-7.3	18.7	16.4	-22.1	-2.3	27.2
Computers	12.8	38.6	29.5	18.6	8.1	16.7	17.3	17.3	17.5	17.5	17.5	17.5
Semiconductors	42.2	21.2	7.7	18.4	18.5	28.2	28.8	29.2	29.1	29.1	29.1	29.1
Other Goods 2/	8.9	19.6	4.0	7.9	3.9	7.4	8.3	8.6	8.5	8.5	8.5	8.5
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-550.1	-580.3	-588.1	-592.3	-593.1	-582.5	-586.7	-599.7	-621.4	-622.8	-634.6	-654.1
Exports of G&S	1095.4	1114.8	1132.1	1159.8	1178.1	1202.3	1227.4	1256.4	1276.5	1300.3	1323.8	1351.5
Imports of G&S	1645.5	1695.1	1720.1	1752.0	1771.2	1784.9	1814.1	1856.1	1897.9	1923.0	1958.4	2005.6
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-588.7	-664.7	-664.2	-738.3	-735.8	-728.9	-737.2	-756.2	-797.2	-789.1	-807.3	-840.1
Current Account as % of GDP	-5.1	-5.7	-5.6	-6.2	-6.1	-5.9	-5.9	-6.0	-6.2	-6.1	-6.1	-6.3
Net Goods & Services (BOP)	-554.4	-601.1	-622.6	-651.7	-644.9	-633.8	-635.4	-645.8	-663.6	-658.2	-665.3	-682.1
Investment Income, Net	54.3	16.7	22.4	-3.9	1.5	-12.6	-18.9	-27.1	-41.2	-48.4	-59.1	-74.7
Direct, Net	139.1	116.2	122.5	124.3	137.7	138.7	139.2	139.5	136.5	140.7	145.3	145.1
Portfolio, Net	-84.8	-99.5	-100.1	-128.2	-136.3	-151.3	-158.2	-166.6	-177.7	-189.2	-204.4	-219.8
Other Inc. & Transfers, Net	-88.5	-80.3	-64.0	-82.7	-92.4	-82.5	-82.9	-83.3	-92.4	-82.5	-82.9	-83.3

1. Merchandise exports excluding computers and semiconductors.

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

Part 2

December 8, 2004

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

December 8, 2004

Recent Developments

Production of Domestic Autos and Trucks
(Millions of units at an annual rate except as noted; FRB seasonals)

	2004			2005	2004		
Item	H1	Q3	Q4 ¹	Q1 ¹	Oct.	Nov. ¹	Dec. ¹
U.S. production	12.1	11.8	12.1	12.3	12.0	12.0	12.2
Autos	4.3	4.3	4.2	4.5	4.1	4.2	4.4
Trucks	7.8	7.6	7.9	7.8	8.0	7.8	7.8
Days' supply ²	77	72	n.a.	n.a.	76	n.a.	n.a.
Autos	62	62	n.a.	n.a.	66	n.a.	n.a.
Trucks	88	79	n.a.	n.a.	83	n.a.	n.a.
Inventories ³	3.33	3.26	n.a.	n.a.	3.27	n.a.	n.a.
Autos	1.09	1.08	n.a.	n.a.	1.09	n.a.	n.a.
Trucks	2.24	2.18	n.a.	n.a.	2.18	n.a.	n.a.

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

1. Production rates for the fourth and first quarters and November and December reflect the latest schedules from Ward's Communications.

2. Quarterly and annual values are calculated with end-of-period stocks and average reported sales; excludes medium and heavy trucks.

3. End-of-period stocks; excludes medium and heavy trucks.

n.a. Not available.

Apart from semiconductors, the rise in production of high-tech equipment has been uneven. The production of communications equipment posted a small gain in October after having jumped at an annual rate of 23½ percent in the third quarter. Moreover, available indicators suggest a guarded near-term outlook, with contacts at Cisco and elsewhere in the industry reporting that firms are not yet investing heavily in next-generation communications technologies. Meanwhile, the output of computer equipment has recorded only modest gains in recent months, although Gartner's latest forecast of unit PC sales suggests that production may now be accelerating a little.

In the energy sector, production at utilities increased 0.7 percent in October after a weather-related jump of 5.3 percent in September. However, weekly electricity generation data suggest that output at utilities fell in November. Mining activity—which was pulled down in September by hurricane-related shutdowns at oil rigs and refineries—rebounded somewhat in October. Available data suggest a further advance in November, though damage to pipelines in the Gulf of Mexico is expected to continue to restrain mining output for several more months.

The output of business equipment expanded at a solid pace in October, continuing the robust gains seen over the last three quarters. The October rise owed largely to gains in industrial and other machinery. In addition, materials output continued to advance in

December 10, 2004

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

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

December 10, 2004

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

Category	2004							
	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec. ^P
Composite of current and expected conditions ¹	90.2	95.6	96.7	95.9	94.2	91.7	92.8	95.7
Current conditions ¹	103.6	106.7	105.2	107.9	103.7	104.0	104.7	106.3
Expected conditions ¹	81.6	88.5	91.1	88.2	88.0	83.8	85.2	88.8
Personal financial situation								
Now compared with 12 months ago ²	113	112	115	121	113	112	113	113
Expected in 12 months ²	125	130	134	133	128	127	124	125
Expected business conditions								
Next 12 months ²	105	117	124	114	116	113	115	120
Next 5 years ²	98	108	108	108	110	97	104	112
Appraisal of buying conditions								
Cars	144	144	142	144	148	152	138	150
Large household appliances ²	156	164	158	158	155	158	158	163
Houses	160	162	160	156	162	155	155	164
Expected unemployment change - next 12 months	107	96	93	106	105	105	106	104
Prob. household will lose a job - next 5 years	27	25	25	22	22	28	23	21
Expected inflation - next 12 months								
Mean	3.9	4.0	3.5	3.1	3.2	3.6	3.3	3.5
Median	3.3	3.3	3.0	2.8	2.8	3.1	2.8	3.0
Expected inflation - next 5 to 10 years								
Mean	3.3	3.4	3.1	3.1	3.1	3.2	3.1	3.0
Median	2.8	2.9	2.8	2.7	2.8	2.8	2.7	2.8

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.

Production of Domestic Autos and Trucks
(Millions of units at an annual rate except as noted; FRB seasonals)

	2004			2005	2004		
Item	H1	Q3	Q4 ¹	Q1 ¹	Oct.	Nov.	Dec. ¹
U.S. production	12.1	11.8	12.0	12.3	12.1	11.9	12.2
Autos	4.3	4.3	4.2	4.5	4.1	4.1	4.4
Trucks	7.8	7.6	7.9	7.8	8.0	7.8	7.8
Days' supply ²	77	72	n.a.	n.a.	76	78	n.a.
Autos	62	62	n.a.	n.a.	66	64	n.a.
Trucks	88	79	n.a.	n.a.	83	87	n.a.
Inventories ³	3.33	3.26	n.a.	n.a.	3.27	3.26	n.a.
Autos	1.09	1.08	n.a.	n.a.	1.09	1.06	n.a.
Trucks	2.24	2.18	n.a.	n.a.	2.18	2.20	n.a.

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

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

2. Quarterly and annual values are calculated with end-of-period stocks and average reported sales; excludes medium and heavy trucks.

3. End-of-period stocks; excludes medium and heavy trucks.

n.a. Not available.