

Part 1

April 28, 2005

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

Class II FOMC - Restricted (FR)

April 28, 2005

Summary and Outlook

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

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

Measure	2005:Q1		2005:Q2	
	Mar. GB	Apr. GB	Mar. GB	Apr. GB
Real GDP	4.3	3.1	4.1	3.6
Private domestic final purchases	4.2	3.8	4.8	3.7
Personal consumption expenditures	3.9	3.5	3.9	3.2
Residential investment	6.3	5.7	5.8	3.6
Business fixed investment	4.8	4.7	10.4	7.2
Government outlays for consumption and investment	3.3	.6	2.6	4.0
	Contribution to growth (percentage points)			
Inventory investment	.7	1.0	-1.1	-.9
Net exports	-.6	-1.3	.6	.6

According to the advance estimate from the BEA, real consumer outlays rose at an annual rate of about 3½ percent in the first quarter, a considerably slower pace than in the preceding two quarters. Motor vehicle purchases dropped sharply last quarter, and increases in sales in the retail control category slowed from their heady pace around the turn of the year. Despite the first-quarter slowing, we continue to believe that the fundamentals are consistent with solid, though not spectacular, increases in consumer outlays. Although consumer confidence has slipped recently, real disposable income has increased 3 percent over the past four quarters. What little evidence we have for second-quarter spending is consistent with this projection: Carmakers report that they are on pace to record a robust sales figure in April.

Although residential investment spending rose at an annual rate of 5¾ percent in the first quarter, single-family housing starts dropped off sharply in March to an annual rate of 1.54 million units. However, both permit issuance and new home sales in March point to a rebound in starts in April. For the second quarter, we have penciled in starts at a rate of 1.64 million units. Although this figure is below the first-quarter pace, it still exceeds the robust 1.61 million units started last year. Real spending on residential investment is expected to increase about 3½ percent at an annual rate in the current quarter.

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

Measure	2005		2006
	H1	H2	
Real GDP	3.4	3.7	3.5
Previous	4.2	3.8	3.6
Final sales	3.4	4.0	3.5
Previous	4.4	4.0	3.7
PCE	3.4	3.6	3.4
Previous	3.9	3.8	3.6
Residential investment	4.6	1.8	.4
Previous	6.0	-.7	.2
BFI	6.0	10.1	8.7
Previous	7.6	10.4	8.9
Government purchases	2.3	2.5	2.2
Previous	3.0	2.5	2.3
Exports	8.0	8.5	6.7
Previous	8.3	9.1	7.5
Imports	7.3	6.9	6.4
Previous	5.5	6.9	6.8
	Contribution to growth (percentage points)		
Inventory change	.0	-.2	.0
Previous	-.2	-.2	-.0
Net exports	-.3	-.2	-.3
Previous	.0	-.2	-.3

than the breakneck pace of 2004. Next year, we expect single-family starts to moderate only a touch, to 1.59 million units.

Business investment. After a few years of circumspect capital spending, businesses rapidly expanded their investment in 2004. Supported by rising sales, robust profits, and a favorable financial environment, real business spending on equipment and software is projected to increase 9½ percent in 2005 and 10 percent in 2006. We also expect

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	3.3	3.7	3.4	2.9	3.1
Previous	1.5	2.7	3.3	3.7	3.4	2.9	3.0
<i>Contributions</i> ¹							
Capital deepening	.7	1.3	.6	.7	.8	1.0	1.1
Previous	.7	1.3	.6	.7	.8	1.0	1.1
Multifactor productivity	.5	1.1	2.4	2.8	2.4	1.7	1.7
Previous	.5	1.1	2.4	2.8	2.4	1.7	1.7
Labor composition	.3	.3	.3	.3	.3	.3	.2
MEMO							
Potential GDP	3.0	3.4	3.3	3.6	3.7	3.3	3.3
Previous	3.0	3.4	3.3	3.6	3.7	3.3	3.3

NOTE. Components may not sum to totals because of rounding. For multiyear periods, the percent change is the annual average from Q4 of the year preceding the first year shown to Q4 of the last year shown.

1. Percentage points.

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

Measure	2003	2004	2005	2006
Output per hour, nonfarm business	5.5	2.8	2.2	2.7
Previous	5.5	2.9	2.3	2.5
Nonfarm private payroll employment	-.1	1.8	1.7	1.3
Previous	-.1	1.8	2.1	1.6
Household survey employment	1.2	1.3	1.1	1.2
Previous	1.2	1.3	1.4	1.5
Labor force participation rate ¹	66.1	66.0	65.9	65.9
Previous	66.1	66.0	66.0	66.1
Civilian unemployment rate ¹	5.9	5.4	5.3	5.3
Previous	5.9	5.4	5.3	5.1
MEMO				
GDP gap ²	1.4	1.3	1.0	.9
Previous	1.5	1.2	.5	.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	2.6	2.1	1.6
Previous	1.7	2.6	1.9	1.4
Food and beverages	2.7	2.9	1.9	2.1
Previous	2.7	2.9	2.1	2.0
Energy	7.2	18.5	4.5	-1.3
Previous	7.2	18.5	2.1	-2.0
Excluding food and energy	1.2	1.6	1.9	1.7
Previous	1.2	1.6	1.8	1.6
Consumer price index	1.9	3.4	2.5	1.8
Previous	1.9	3.4	2.1	1.7
Excluding food and energy	1.2	2.1	2.4	2.1
Previous	1.2	2.1	2.2	2.0
GDP chain-weighted price index	1.7	2.4	2.1	1.8
Previous	1.7	2.4	1.8	1.7
ECI for compensation of private industry workers ¹	4.0	3.8	4.5	4.6
Previous	4.0	3.8	4.4	4.5
NFB compensation per hour	5.3	4.3	4.4	4.7
Previous	5.3	4.2	4.3	4.6
Prices of core nonfuel imports	1.6	3.7	3.1	.6
Previous	1.6	3.7	2.2	.5

1. December to December.

The upward revision to our forecast of headline price inflation has led us to raise the increase in labor compensation as well. We now project that the employment cost index will increase 4.5 percent this year and 4.6 percent next year, up 0.1 percentage point in each year compared with our previous projection.

Financial Flows and Conditions

After having increased 8½ percent in 2004, domestic nonfinancial debt is projected to expand 7½ percent this year and 6½ percent in 2006. The projection calls for slower debt growth than last year for households and state and local governments, which more than offsets an uptick in the rate of business borrowing.

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	3.8	3.4	3.7	3.5	
Sentiment slump	3.8	3.0	3.1	3.1	
With financial spillover	3.8	3.0	2.8	2.3	
Stronger underlying demand	3.8	3.9	4.7	4.2	
More pass-through	3.8	3.4	3.5	3.7	
Faster productivity growth	3.8	3.9	4.7	4.5	
<i>Civilian unemployment rate¹</i>					
Baseline	5.4	5.3	5.3	5.3	
Sentiment slump	5.4	5.4	5.7	5.8	
With financial spillover	5.4	5.4	5.8	6.2	
Stronger underlying demand	5.4	5.2	5.0	4.7	
More pass-through	5.4	5.3	5.4	5.3	
Faster productivity growth	5.4	5.4	5.4	5.3	
<i>PCE prices excluding food and energy</i>					
Baseline	1.7	2.1	1.8	1.7	
Sentiment slump	1.7	2.1	1.7	1.5	
With financial spillover	1.7	2.1	1.7	1.4	
Stronger underlying demand	1.7	2.1	1.8	1.8	
More pass-through	1.7	2.4	2.6	2.3	
Faster productivity growth	1.7	1.9	1.4	1.2	

1. Average for the final quarter of the period.

Stronger underlying demand. Although real activity now appears to be running a little weaker than previously expected, we may be underestimating the strength of final demand. In this scenario, the pace of real E&S investment—led by a return of high-tech spending gains similar to those seen during the second half of the 1990s—rebounds more sharply than in the baseline, so that average growth in 2005 and 2006 ends up matching last year's robust rate. Consumer spending later this year also snaps back more than anticipated in the baseline, fully reversing the downward surprises of the late winter. As a result, real GDP increases 4¼ percent both this year and next, pulling the unemployment rate down to 4¾ percent by late 2006. Despite tighter labor and product markets, core inflation is only a touch higher than in the baseline, in part because faster capital deepening boosts structural labor productivity.

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

Measure	2005	2006
<i>Real GDP</i> <i>(percent change, Q4 to Q4)</i>		
Projection	3.6	3.5
Confidence interval		
Greenbook forecast errors ¹	2.2–4.9	1.6–5.4
FRB/US stochastic simulations	2.4–4.8	1.9–5.2
<i>Civilian unemployment rate</i> <i>(percent, Q4)</i>		
Projection	5.3	5.3
Confidence interval		
Greenbook forecast errors ¹	4.9–5.8	4.5–6.1
FRB/US stochastic simulations	4.8–5.8	4.2–6.1
<i>PCE prices</i> <i>excluding food and energy</i> <i>(percent change, Q4 to Q4)</i>		
Projection	1.9	1.7
Confidence interval		
Greenbook forecast errors ²	1.5–2.4	.9–2.6
FRB/US stochastic simulations	1.5–2.4	.9–2.6

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

1. 1978–2003.

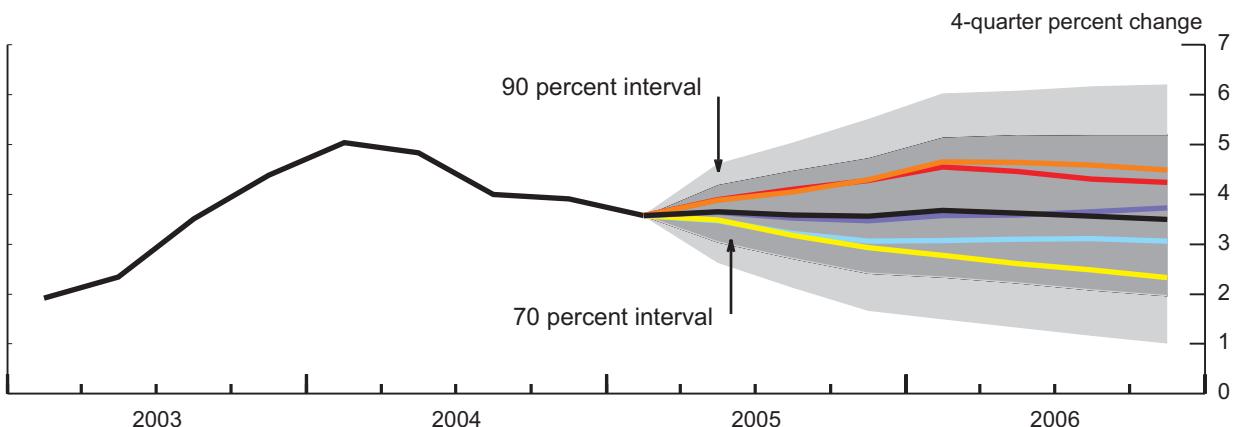
2. 1981–2003.

Forecast Confidence Intervals and Alternative Scenarios

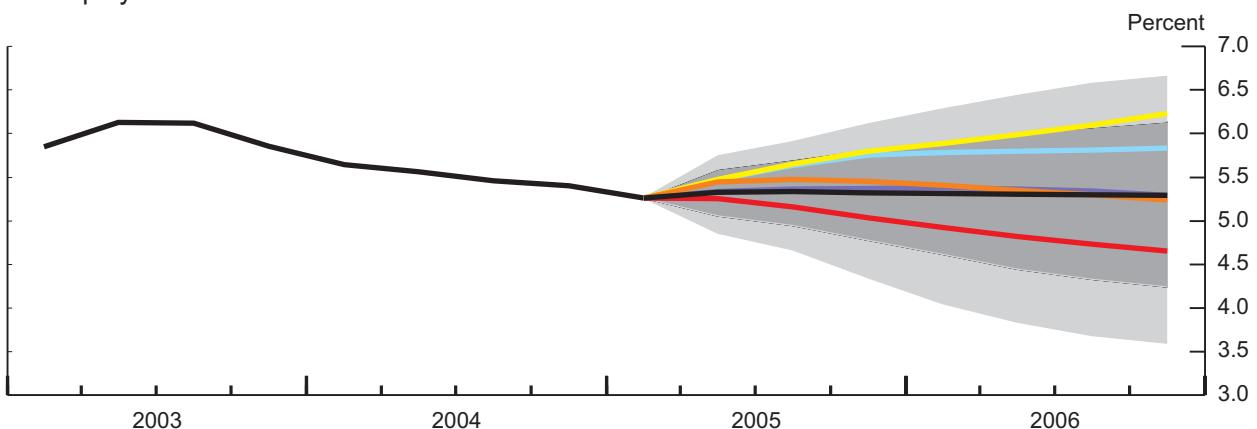
Confidence Intervals Based on FRB/US Stochastic Simulations

- | | |
|---|--|
| <ul style="list-style-type: none"> █ Greenbook baseline █ Sentiment slump █ Sentiment slump with financial spillover | <ul style="list-style-type: none"> █ Stronger underlying demand █ More pass-through █ Faster productivity growth |
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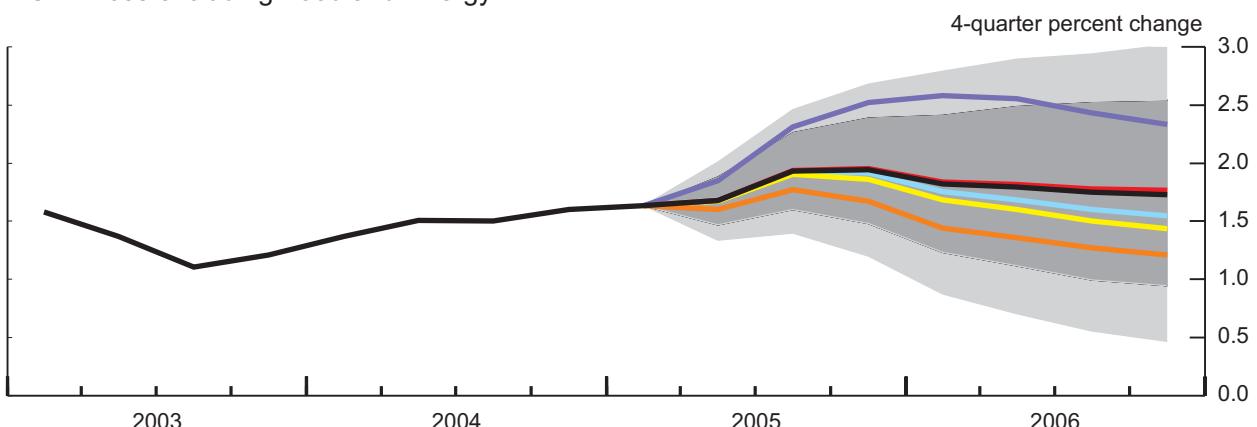
Real GDP



Unemployment Rate



PCE Prices excluding Food and Energy



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

Interval	Nominal GDP		Real GDP		PCE price index		Core PCE price index		Unemployment rate ¹		
	3/16/05	4/28/05	3/16/05	4/28/05	3/16/05	4/28/05	3/16/05	4/28/05	3/16/05	4/28/05	
ANNUAL											
2002		3.5	3.5	1.9	1.9	1.4	1.4	1.8	1.8	5.8	5.8
2003		4.9	4.9	3.0	3.0	1.9	1.9	1.3	1.3	6.0	6.0
2004		6.7	6.6	4.5	4.4	2.2	2.2	1.5	1.5	5.5	5.5
2005		6.2	6.0	4.1	3.6	2.1	2.3	1.7	1.8	5.3	5.3
2006		5.4	5.4	3.7	3.6	1.5	1.7	1.6	1.8	5.2	5.3
QUARTERLY											
2003	Q1	4.9	4.9	1.9	1.9	3.2	3.2	1.5	1.5	5.8	5.8
	Q2	5.3	5.3	4.1	4.1	0.7	0.7	1.1	1.1	6.1	6.1
	Q3	8.8	8.8	7.4	7.4	1.6	1.6	0.9	0.9	6.1	6.1
	Q4	5.7	5.7	4.2	4.2	1.2	1.2	1.3	1.3	5.9	5.9
2004	Q1	7.4	7.4	4.5	4.5	3.3	3.3	2.1	2.1	5.6	5.6
	Q2	6.6	6.6	3.3	3.3	3.1	3.1	1.7	1.7	5.6	5.6
	Q3	5.5	5.5	4.0	4.0	1.3	1.3	0.9	0.9	5.5	5.5
	Q4	6.6	6.2	4.3	3.8	2.6	2.7	1.6	1.7	5.4	5.4
2005	Q1	7.2	6.5	4.3	3.1	2.1	2.1	2.1	2.2	5.3	5.3
	Q2	6.0	6.3	4.1	3.6	2.8	3.2	1.8	1.9	5.3	5.3
	Q3	5.2	5.0	3.9	3.7	1.2	1.4	1.7	1.9	5.3	5.3
	Q4	5.2	5.3	3.8	3.7	1.3	1.6	1.7	1.8	5.3	5.3
2006	Q1	5.6	5.7	3.7	3.6	1.4	1.6	1.6	1.8	5.2	5.3
	Q2	5.3	5.3	3.6	3.5	1.4	1.6	1.6	1.7	5.2	5.3
	Q3	5.3	5.3	3.6	3.5	1.4	1.6	1.6	1.7	5.2	5.3
	Q4	5.2	5.3	3.6	3.5	1.5	1.6	1.5	1.7	5.1	5.3
TWO-QUARTER²											
2003	Q2	5.1	5.1	3.0	3.0	2.0	2.0	1.3	1.3	0.2	0.2
	Q4	7.2	7.2	5.8	5.8	1.4	1.4	1.1	1.1	-0.2	-0.2
2004	Q2	7.0	7.0	3.9	3.9	3.2	3.2	1.9	1.9	-0.3	-0.3
	Q4	6.0	5.9	4.1	3.9	1.9	2.0	1.2	1.3	-0.2	-0.2
2005	Q2	6.6	6.4	4.2	3.4	2.4	2.6	1.9	2.1	-0.1	-0.1
	Q4	5.2	5.1	3.8	3.7	1.3	1.5	1.7	1.8	0.0	0.0
2006	Q2	5.5	5.5	3.6	3.5	1.4	1.6	1.6	1.8	-0.1	0.0
	Q4	5.3	5.3	3.6	3.5	1.5	1.6	1.5	1.7	-0.1	0.0
FOUR-QUARTER³											
2002	Q4	3.8	3.8	2.3	2.3	1.8	1.8	1.5	1.5	0.4	0.4
2003	Q4	6.2	6.2	4.4	4.4	1.7	1.7	1.2	1.2	0.0	0.0
2004	Q4	6.5	6.4	4.0	3.9	2.6	2.6	1.6	1.6	-0.5	-0.5
2005	Q4	5.9	5.8	4.0	3.6	1.9	2.1	1.8	1.9	-0.2	-0.1
2006	Q4	5.4	5.4	3.6	3.5	1.4	1.6	1.6	1.7	-0.1	-0.0

1. Level, except as noted.

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

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

Item	Units ¹	- - - Projected - - -									
		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	11735.0	12441.9	13117.3	
Real GDP	Bill. Ch. \$	9066.9	9470.3	9817.0	9890.7	10074.8	10381.3	10841.9	11231.8	11634.8	
Real GDP	% change	4.5	4.7	2.2	0.2	2.3	4.4	3.9	3.6	3.5	
Gross domestic purchases		5.5	5.5	3.0	0.4	3.1	4.3	4.5	3.6	3.6	
Final sales		4.8	4.2	2.9	1.5	1.2	4.5	3.6	3.7	3.5	
Priv. dom. final purchases		6.4	5.3	4.3	1.0	1.7	4.9	4.8	4.0	3.9	
Personal cons. expenditures		5.4	4.9	4.1	2.8	2.5	3.8	3.8	3.5	3.4	
Durables		14.4	7.3	4.7	10.8	1.5	9.9	5.5	4.9	5.9	
Nondurables		4.7	4.9	3.0	1.9	2.3	4.6	4.3	4.2	4.1	
Services		3.8	4.4	4.5	1.6	2.9	2.2	3.1	2.8	2.6	
Business fixed investment		10.9	7.7	7.8	-9.6	-6.0	9.4	11.0	8.0	8.7	
Equipment & Software		13.5	10.8	7.5	-9.0	-2.2	12.1	14.5	9.4	9.9	
Nonres. structures		4.0	-0.9	8.8	-11.1	-16.1	1.5	-0.1	3.4	4.7	
Residential structures		10.3	3.6	-1.9	1.4	6.9	12.0	6.5	3.2	0.4	
Exports		2.6	5.6	6.5	-11.9	3.5	6.1	5.9	8.3	6.7	
Imports		11.0	12.1	11.2	-7.6	9.7	4.9	9.8	7.1	6.4	
Gov't. cons. & investment		3.3	4.2	0.4	5.0	3.8	2.2	1.6	2.4	2.2	
Federal		0.1	4.2	-2.2	6.4	8.2	5.5	3.9	3.6	1.9	
Defense		-1.2	4.3	-3.5	6.5	8.5	8.5	5.4	5.0	2.3	
State & local		5.1	4.2	1.7	4.2	1.6	0.4	0.2	1.6	2.4	
Change in bus. inventories	Bill. Ch. \$	72.6	68.9	56.5	-31.7	11.7	-0.8	45.7	46.5	33.3	
Nonfarm		71.2	71.5	57.8	-31.8	13.5	-1.1	42.4	45.5	31.4	
Net exports		-203.7	-296.2	-379.5	-399.1	-472.1	-518.5	-583.7	-647.1	-671.3	
Nominal GDP	% change	5.7	6.3	4.6	2.7	3.8	6.2	6.4	5.8	5.4	
GDP Gap ²	%	-1.5	-2.3	-2.5	0.1	1.5	2.0	1.3	1.2	0.9	
Employment and Production											
Nonfarm payroll employment	Millions	125.9	129.0	131.8	131.8	130.3	130.0	131.5	133.6	135.4	
Unemployment rate	%	4.5	4.2	4.0	4.7	5.8	6.0	5.5	5.3	5.3	
Industrial prod. index	% change	4.2	5.2	1.9	-5.1	1.5	1.2	4.3	4.4	3.8	
Capacity util. rate - mfg.	%	81.8	81.1	80.6	74.5	73.5	73.7	76.7	78.7	80.7	
Housing starts	Millions	1.62	1.64	1.57	1.60	1.70	1.85	1.96	2.01	1.94	
Light motor vehicle sales		15.56	16.91	17.35	17.13	16.76	16.64	16.83	16.91	17.24	
North Amer. produced		13.52	14.41	14.48	14.05	13.47	13.33	13.44	13.45	13.75	
Other		2.04	2.50	2.87	3.08	3.28	3.31	3.39	3.46	3.50	
Income and Saving											
Nominal GNP	Bill. \$	8768.3	9302.2	9855.9	10171.6	10514.1	11059.2	11778.9	12464.4	13104.8	
Nominal GNP	% change	5.5	6.5	4.7	2.9	3.5	6.5	5.9	5.6	5.1	
Nominal personal income		7.0	5.5	7.1	2.2	1.9	4.6	6.7	5.4	6.5	
Real disposable income		5.6	2.8	4.4	1.2	2.9	3.9	4.1	2.8	4.7	
Personal saving rate	%	4.3	2.4	2.3	1.8	2.0	1.4	1.2	0.6	1.9	
Corp. profits, IVA & CCAdj.	% change	-10.0	9.6	-8.6	-0.2	15.4	23.4	12.4	4.2	0.3	
Profit share of GNP	%	9.1	9.2	8.3	7.5	8.3	9.2	10.0	10.6	10.1	
Excluding FR Banks		8.9	8.9	8.0	7.3	8.1	9.1	9.9	10.4	10.0	
Federal surpl./deficit	Bill. \$	38.8	103.6	189.5	46.7	-254.5	-364.5	-375.6	-292.2	-352.1	
State & local surpl./def.		52.0	50.4	50.0	4.8	-25.0	-3.2	17.6	17.4	24.7	
Ex. social ins. funds		50.3	48.7	47.9	2.2	-26.6	-4.3	16.2	16.4	23.7	
Gross natl. saving rate	%	18.2	18.0	18.0	16.3	14.1	13.5	13.8	13.8	14.0	
Net natl. saving rate		7.4	6.9	6.7	4.2	2.0	1.4	2.1	2.5	2.8	
Prices and Costs											
GDP chn.-wt. price index	% change	1.1	1.6	2.2	2.4	1.6	1.7	2.4	2.1	1.8	
Gross Domestic Purchases chn.-wt. price index		0.7	2.0	2.4	1.6	1.8	1.8	2.9	2.3	1.6	
PCE chn.-wt. price index		0.9	2.1	2.3	1.7	1.8	1.7	2.6	2.1	1.6	
Ex. food and energy		1.4	1.6	1.5	2.2	1.5	1.2	1.6	1.9	1.7	
CPI		1.5	2.6	3.4	1.8	2.2	1.9	3.4	2.5	1.8	
Ex. food and energy		2.3	2.0	2.6	2.7	2.1	1.2	2.1	2.4	2.1	
ECI, hourly compensation ³		3.5	3.4	4.4	4.2	3.2	4.0	3.8	4.5	4.6	
Nonfarm business sector Output per hour		2.7	3.4	2.1	3.3	3.5	5.5	2.8	2.2	2.7	
Compensation per Hour		5.5	5.2	6.4	3.6	2.9	5.3	4.3	4.4	4.7	
Unit labor cost		2.7	1.7	4.3	0.3	-0.6	-0.2	1.4	2.1	1.9	

1. Changes are from fourth quarter to fourth quarter.

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

3. Private-industry workers.

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

Item	Units	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2
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	-2.0	2.5	2.8	17.1	10.6	12.6
Gov't. cons. & investment		4.7	4.4	2.1	4.0	0.2	7.2	0.1	1.6	2.5	2.2
Federal		8.2	12.8	2.9	9.1	0.3	22.1	-3.3	4.8	7.1	2.7
Defense		5.8	11.5	3.4	13.5	-2.7	38.4	-7.7	11.6	10.6	1.9
State & local		2.9	0.3	1.7	1.4	0.1	-0.4	2.2	-0.1	-0.0	1.9
Change in bus. inventories	Bill. Ch. \$	-7.4	7.9	22.7	23.8	9.6	-17.6	-3.5	8.6	40.0	61.1
Nonfarm		-11.9	16.1	24.6	25.3	9.6	-15.7	-2.7	4.6	34.5	58.8
Net exports		-444.9	-458.1	-469.8	-515.4	-511.7	-525.2	-508.7	-528.3	-550.1	-580.3
Nominal GDP	% change	4.5	4.2	3.9	2.7	4.9	5.3	8.8	5.7	7.4	6.6
GDP Gap ¹	%	1.1	1.3	1.5	2.1	2.5	2.4	1.6	1.4	1.2	1.3
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	1.88	2.04	1.94	1.92
Light motor vehicle sales		16.57	16.50	17.37	16.57	16.09	16.39	17.24	16.82	16.51	16.54
North Amer. produced		13.26	13.29	14.06	13.28	12.72	13.11	13.90	13.58	13.26	13.15
Other		3.31	3.22	3.32	3.29	3.37	3.28	3.34	3.24	3.26	3.39
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	9.0	7.0	6.8	5.2
Nominal personal income		2.2	4.3	-0.1	1.1	3.8	4.7	4.6	5.3	5.0	6.4
Real disposable income		10.8	2.7	-1.7	0.2	1.8	4.3	8.2	1.4	2.4	2.8
Personal saving rate	%	2.7	2.7	1.6	1.2	1.0	1.1	1.9	1.3	1.0	1.3
Corp. profits, IVA & CCAdj.	% change	24.9	15.2	3.6	19.1	-1.4	36.7	32.0	30.2	13.6	2.9
Profit share of GNP	%	8.1	8.3	8.3	8.6	8.5	9.0	9.5	9.9	10.1	10.0
Excluding FR Banks		7.9	8.1	8.1	8.4	8.3	8.8	9.3	9.8	9.9	9.9
Federal surpl./deficit	Bill. \$	-208.5	-251.6	-255.1	-302.7	-281.6	-364.4	-433.0	-379.2	-391.0	-380.0
State & local surpl./def.		-28.8	-23.6	-21.3	-26.3	-49.0	-5.7	6.5	35.3	11.8	18.3
Ex. social ins. funds		-30.8	-25.3	-22.8	-27.6	-50.1	-6.7	5.4	34.1	10.6	16.9
Gross natl. saving rate	%	15.0	14.6	13.7	13.2	12.8	13.1	13.6	14.3	13.6	13.8
Net natl. saving rate	%	2.9	2.5	1.5	0.9	0.4	0.9	1.6	2.5	2.1	2.3
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 chn.-wt. price index		1.2	2.5	1.8	1.9	3.7	0.4	1.7	1.4	3.4	3.5
PCE chn.-wt. price index		0.9	2.9	2.0	1.4	3.2	0.7	1.6	1.2	3.3	3.1
Ex. food and energy		1.2	2.0	2.0	0.9	1.5	1.1	0.9	1.3	2.1	1.7
CPI		1.6	3.2	2.0	2.2	4.0	0.4	2.2	0.9	4.0	4.4
Ex. food and energy		2.4	2.1	2.1	1.7	1.3	0.8	1.7	1.0	1.9	2.5
ECI, hourly compensation ²		3.6	4.4	2.5	3.3	5.5	3.4	4.4	3.1	4.3	4.0
Nonfarm business sector		6.9	1.3	4.3	1.5	4.0	6.7	8.7	2.8	3.8	3.9
Output per hour		5.4	3.7	1.2	1.2	5.6	5.7	4.1	2.1	5.9	
Compensation per hour		-1.4	2.3	-2.9	-0.3	1.6	-1.0	-2.7	1.2	-1.6	1.9
Unit labor cost											

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

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

Item	Units	Projected											
		2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2006 Q4	2006 Q4
EXPENDITURES													
Nominal GDP	Bill. \$	11814.9	11994.8	12184.1	12372.7	12524.2	12686.6	12863.1	13031.5	13201.7	13372.7		
Real GDP	Bill. Ch. \$	10891.0	10994.3	11079.6	11179.2	11282.2	11386.3	11486.3	11584.3	11683.9	11784.8		
Real GDP	% change	4.0	3.8	3.1	3.6	3.7	3.7	3.6	3.5	3.5	3.5		
Gross domestic purchases		3.9	5.0	4.2	2.8	3.6	3.9	3.9	3.1	3.6	3.9		
Final sales		5.0	3.4	2.1	4.6	4.2	3.7	3.3	4.0	3.5	3.1		
Priv. dom. final purchases		5.8	5.4	3.8	3.7	4.4	4.2	4.0	3.9	3.9	3.8		
Personal cons. expenditures		5.1	4.2	3.5	3.2	3.6	3.5	3.5	3.4	3.4	3.4		
Durables		17.2	3.9	0.0	5.9	6.8	7.0	5.7	5.5	6.4	5.8		
Nondurables		4.7	5.9	4.9	2.9	4.6	4.5	4.2	4.2	4.1	4.1		
Services		3.0	3.4	3.6	2.8	2.6	2.4	2.7	2.7	2.5	2.5		
Business fixed investment		13.0	14.5	4.7	7.2	10.5	9.7	9.3	8.7	9.0	7.9		
Equipment & Software		17.5	18.4	6.9	8.4	11.9	10.5	10.3	9.6	10.6	9.2		
Nonres. structures		-1.1	2.1	-2.6	3.2	6.0	7.3	6.1	5.6	3.8	3.3		
Residential structures		1.6	3.4	5.7	3.6	2.3	1.3	-0.6	0.3	0.8	1.0		
Exports		6.0	3.2	7.9	8.2	8.0	9.1	5.7	6.8	6.6	7.7		
Imports		4.6	11.4	13.7	1.2	5.6	8.1	7.1	3.0	6.5	9.0		
Gov't. cons. & investment		0.7	0.9	0.6	4.0	2.7	2.3	2.1	2.3	2.2	2.3		
Federal		4.8	1.2	0.6	7.9	3.9	2.4	1.7	1.9	1.8	2.0		
Defense		10.1	-0.6	0.2	11.4	5.3	3.4	2.0	2.3	2.3	2.7		
State & local		-1.7	0.6	0.5	1.7	2.0	2.2	2.4	2.5	2.5	2.5		
Change in bus. inventories	Bill. Ch. \$	34.5	47.2	75.3	45.1	31.8	33.9	41.9	26.1	26.2	38.8		
Nonfarm		30.4	45.9	77.6	42.3	30.0	32.1	40.1	24.3	24.3	37.0		
Net exports		-583.2	-621.1	-656.6	-639.2	-641.4	-651.3	-666.5	-660.2	-670.0	-688.6		
Nominal GDP	% change	5.5	6.2	6.5	6.3	5.0	5.3	5.7	5.3	5.3	5.3		
GDP Gap ¹	%	1.3	1.3	1.3	1.2	1.1	1.0	1.0	0.9	0.9	0.9		
EMPLOYMENT AND PRODUCTION													
Nonfarm payroll employment	Millions	131.7	132.3	132.8	133.3	133.8	134.3	134.8	135.2	135.7	136.1		
Unemployment rate	%	5.5	5.4	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3		
Industrial prod. index	% change	2.7	4.5	3.6	2.5	6.3	5.3	4.3	3.7	3.7	3.7		
Capacity util. rate - mfg.	%	77.0	77.6	78.1	78.2	79.0	79.7	80.2	80.5	80.8	81.1		
Housing starts	Millions	1.97	1.98	2.09	2.02	1.97	1.97	1.95	1.94	1.94	1.93		
Light motor vehicle sales		17.07	17.20	16.41	16.95	17.11	17.16	17.22	17.23	17.25	17.26		
North Amer. produced		13.81	13.56	13.10	13.38	13.65	13.68	13.73	13.74	13.75	13.76		
Other		3.27	3.65	3.31	3.57	3.46	3.48	3.49	3.49	3.50	3.50		
INCOME AND SAVING													
Nominal GNP	Bill. \$	11853.0	12022.8	12217.9	12397.2	12542.9	12699.6	12865.5	13023.8	13186.3	13343.6		
Nominal GNP	% change	5.6	5.9	6.7	6.0	4.8	5.1	5.3	5.0	5.1	4.9		
Nominal personal income		4.6	10.9	2.4	6.7	6.4	6.3	7.6	6.2	6.1	5.9		
Real disposable income		2.9	8.3	-1.3	3.4	4.6	4.6	6.1	4.5	4.3	4.1		
Personal saving rate	%	0.7	1.6	0.3	0.4	0.7	0.9	1.5	1.8	2.0	2.2		
Corp. profits, IVA & CCAdj.	% change	-17.7	65.9	10.8	7.2	-1.1	0.1	2.8	-0.6	0.8	-1.8		
Profit share of GNP	%	9.4	10.6	10.7	10.7	10.5	10.4	10.3	10.2	10.1	9.9		
Excluding FR Banks		9.3	10.4	10.5	10.5	10.4	10.3	10.2	10.1	10.0	9.8		
Federal surpl./deficit	Bill. \$	-375.0	-356.2	-297.1	-287.5	-290.5	-293.9	-360.2	-351.0	-353.3	-343.8		
State & local surpl./def.		4.5	35.6	20.9	16.2	15.4	17.1	25.2	22.9	24.7	26.1		
Ex. social ins. funds		3.0	34.2	20.0	15.2	14.4	16.1	24.2	21.9	23.7	25.1		
Gross natl. saving rate	%	13.8	13.8	13.7	13.8	13.8	13.8	13.8	14.0	14.0	14.1		
Net natl. saving rate		1.3	2.5	2.4	2.5	2.6	2.6	2.6	2.7	2.8	2.9		
PRICES AND COSTS													
GDP chn.-wt. price index	% change	1.4	2.3	3.3	2.6	1.2	1.5	2.1	1.8	1.8	1.7		
Gross Domestic Purchases chn.-wt. price index		1.9	2.9	3.0	3.0	1.6	1.7	1.9	1.6	1.6	1.5		
PCE chn.-wt. price index		1.3	2.7	2.1	3.2	1.4	1.6	1.6	1.6	1.6	1.6		
Ex. food and energy		0.9	1.7	2.2	1.9	1.9	1.8	1.8	1.7	1.7	1.7		
CPI		1.7	3.4	2.5	4.2	1.5	1.9	1.8	1.8	1.8	1.8		
Ex. food and energy		1.8	2.3	2.6	2.5	2.3	2.2	2.2	2.1	2.0	2.0		
ECI, hourly compensation ²		3.5	3.0	4.4	4.5	4.5	4.5	4.5	4.5	4.6	4.6		
Nonfarm business sector		1.3	2.3	1.8	2.1	2.4	2.5	2.6	2.7	2.8	2.9		
Output per hour		5.4	3.8	4.1	4.3	4.5	4.6	4.6	4.7	4.7	4.7		
Compensation per hour		4.0	1.5	2.2	2.1	2.1	2.1	2.0	1.9	1.8	1.8		
Unit labor cost													

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

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

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	Projected								Projected	
	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2006 Q4
Real GDP										
Gross dom. purchases	3.8	3.1	3.6	3.7	3.7	3.6	3.5	3.5	3.9	3.6
Final sales	5.2	4.4	3.0	3.8	4.1	4.1	3.3	3.8	4.7	3.8
Priv. dom. final purchases	3.4	2.1	4.6	4.2	3.7	3.3	4.0	3.5	3.6	3.5
Personal cons. expenditures	4.6	3.3	3.2	3.8	3.6	3.4	3.4	3.3	4.1	3.5
Durables	2.9	2.5	2.3	2.6	2.5	2.5	2.4	2.4	2.6	2.4
Nondurables	0.3	0.0	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Services	1.2	1.0	0.6	0.9	0.9	0.8	0.8	0.8	0.9	0.8
Business fixed investment	1.5	0.5	0.8	1.1	1.0	1.1	1.1	1.0	1.0	1.1
Equipment & Software	1.4	0.6	0.7	1.0	1.0	1.0	0.9	1.0	1.1	0.9
Nonres. structures	0.1	-0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Residential structures	0.2	0.3	0.2	0.1	0.1	-0.0	0.0	0.0	0.1	0.2
Net exports	-1.4	-1.3	0.6	-0.1	-0.4	-0.5	0.2	-0.3	-0.6	-0.3
Exports	0.3	0.8	0.8	0.8	0.9	0.6	0.7	0.7	0.8	0.7
Imports	-1.7	-2.1	-0.2	-0.9	-1.3	-1.1	-0.5	-1.0	-1.4	-1.0
Government cons. & invest.	0.2	0.1	0.7	0.5	0.4	0.4	0.4	0.4	0.3	0.4
Federal	0.1	0.0	0.5	0.3	0.2	0.2	0.1	0.1	0.3	0.3
Defense	-0.0	0.0	0.5	0.2	0.2	0.1	0.1	0.1	0.2	0.1
Nondefense	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
State and local	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.2	0.3
Change in bus. inventories	0.5	1.0	-0.9	-0.5	0.1	0.3	-0.5	0.0	0.4	-0.1
NonFarm	0.5	1.1	-1.3	-0.4	0.1	0.3	-0.5	0.0	0.4	-0.1
Farm	-0.1	-0.1	0.3	-0.0	0.0	0.0	-0.0	0.0	0.0	0.0

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

04Q4/
03Q4

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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	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget																
Receipts ¹	1782	1880	2085	2217	410	550	479	487	452	629	518	523	470	672	551	538
Outlays ¹	2159	2293	2456	2589	581	576	565	605	628	609	613	635	668	647	638	662
Surplus/deficit ¹	-377	-413	-370	-372	-171	-26	-86	-118	-177	20	-96	-112	-198	24	-87	-125
On-budget	-538	-568	-536	-552	-194	-99	-96	-171	-202	-56	-107	-155	-236	-60	-101	-171
Off-budget	161	155	166	179	23	73	10	53	25	76	12	43	38	84	14	47
Means of financing																
Borrowing	374	378	363	382	136	41	83	102	165	-17	113	99	182	5	95	115
Cash decrease	26	-1	4	-3	12	-23	8	12	2	-14	4	7	15	-25	0	10
Other ²	-22	36	4	-7	23	8	-6	4	10	11	-22	5	0	-4	-8	-0
Cash operating balance, end of period	35	36	32	35	21	45	36	25	22	37	32	25	10	35	35	25
NIPA federal sector																
Receipts	1863	1933	2148	2288	1915	1949	1966	2032	2157	2187	2214	2243	2275	2302	2331	2359
Expenditures	2209	2314	2456	2627	2306	2329	2341	2389	2454	2475	2505	2537	2636	2653	2684	2703
Consumption expenditures	646	694	740	785	691	700	713	714	737	751	761	767	785	791	797	804
Defense	425	469	506	542	465	474	487	484	501	515	523	529	541	546	552	558
Nondefense	221	225	235	243	226	227	226	230	235	236	237	238	243	244	245	246
Other spending	1563	1620	1715	1842	1615	1629	1628	1675	1718	1723	1744	1769	1851	1862	1887	1899
Current account surplus	-345	-381	-308	-340	-391	-380	-375	-356	-297	-287	-290	-294	-360	-351	-353	-344
Gross investment	92	102	111	118	102	104	104	111	105	112	115	116	117	118	120	121
Gross saving less gross investment ³	-347	-391	-322	-356	-402	-391	-386	-373	-306	-302	-306	-310	-376	-367	-369	-360
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-275	-346	-283	-324	-360	-350	-345	-332	-265	-263	-270	-276	-345	-336	-339	-330
Change in HEB, percent of potential GDP	1.2	0.5	-0.7	0.2	0.2	-0.1	-0.1	-0.1	-0.6	-0.0	0.0	0.0	0.5	-0.1	-0.0	-0.1
Fiscal impetus (FI) Percent of GDP	0.9	0.8	0.4	0.3	0.2	0.1	0.1	0.1	0.0	0.2	0.1	0.0	0.1	0.1	0.1	0.0

1. CBO's March 2005 baseline surplus estimates are -\$412 billion in FY 2004, -\$365 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)**

April 28, 2005

Period ¹	Total	Federal government	Nonfederal				State and local governments	Memo: Nominal GDP
			Total	Households	Home mortgages	Consumer credit		
<i>Year</i>								
1999	6.4	-1.9	8.9	9.2	9.3	7.8	10.7	3.4
2000	4.8	-8.0	8.3	8.7	8.3	10.7	9.4	1.3
2001	6.2	-0.2	7.6	8.8	9.6	8.0	6.1	4.6
2002	6.8	7.6	6.7	9.6	11.8	4.4	2.7	2.7
2003	8.1	10.9	7.5	10.0	12.4	4.5	4.3	3.8
2004	8.6	9.0	8.5	11.0	13.3	4.9	5.7	6.2
2005	7.4	8.2	7.2	8.1	9.3	4.9	6.4	6.4
2006	6.6	8.4	6.2	6.9	7.5	5.2	5.2	5.8
						6.0	3.0	5.4
<i>Quarter</i>								
2004:1	9.3	12.0	8.7	11.8	13.8	6.3	4.6	10.3
2	7.4	10.7	6.7	9.7	11.5	2.0	3.7	3.5
3	8.3	4.8	9.1	11.5	14.4	6.3	5.9	6.6
4	8.3	7.2	8.5	9.4	11.2	4.8	8.0	5.5
2005:1	9.4	13.6	8.4	8.8	10.3	3.9	6.9	9.4
2	6.3	4.7	6.7	8.3	9.4	5.3	5.8	13.2
3	6.7	7.1	6.6	7.6	8.5	5.1	5.8	6.5
4	6.3	6.4	6.3	7.0	7.7	5.1	6.0	6.2
2006:1	7.6	14.1	6.1	6.8	7.5	5.1	5.8	3.1
2	6.1	6.1	6.1	6.7	7.3	5.1	5.8	5.3
3	5.9	5.1	6.1	6.6	7.2	5.1	6.0	2.8
4	6.2	7.2	6.0	6.5	7.1	5.1	5.9	5.3

Note. Quarterly data are at seasonally adjusted annual rates.

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

2.6.3 FOF

**Strictly Confidential (FR)
Class II FOMC**
**Flow of Funds Projections: Highlights
(Billions of dollars at seasonally adjusted annual rates except as noted)**

April 28, 2005

Category	2003	2004	2005	2006	2004				2005				2006				
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<i>Net funds raised by domestic nonfinancial sectors</i>																	
1 Total	1604.0	1705.7	1575.7	1600.9	1721.2	1570.4	2036.5	1337.3	1479.9	1449.0	1816.6	1499.7	1487.3	1600.1	-111.0	-95.0	-95.0
2 Net equity issuance	-57.8	-2100	-206.0	-113.0	-203.2	-395.2	-226.0	-228.0	-197.0	-173.0	-151.0	-111.0	-95.0	-95.0	1582.3	1610.7	1695.1
3 Net debt issuance	1661.7	1915.7	1781.7	1713.9	1924.4	1965.6	2262.5	1565.3	1676.9	1622.0	1967.6	1487.3	1487.3	1600.1	-95.0	-95.0	-95.0
<i>Borrowing sectors</i>																	
Nonfinancial business																	
4 Financing gap ¹	-14.3	30.5	-1.9	121.6	-28.6	145.1	87.4	-50.9	-36.1	-8.1	16.8	130.1	150.3	189.0			
5 Net equity issuance	-57.8	-2100	-206.0	-113.0	-203.2	-395.2	-226.0	-228.0	-197.0	-173.0	-151.0	-111.0	-95.0	-95.0			
6 Credit market borrowing	308.6	420.5	498.6	502.0	445.6	618.2	543.8	466.8	480.1	503.9	482.2	494.7	513.5	517.7			
Households																	
7 Net borrowing ²	839.4	1017.9	836.4	761.8	1120.3	943.4	898.7	869.6	814.1	763.3	760.1	760.5	763.0	763.5			
8 Home mortgages	733.6	884.9	699.7	616.8	1017.2	820.1	780.4	724.3	672.9	621.5	616.8	616.8	616.8	616.8			
9 Consumer credit	88.4	101.3	106.4	117.8	132.7	101.3	84.6	114.8	112.4	113.8	116.1	116.6	119.0	119.5			
10 Debt/DPI (percent) ³	107.8	112.9	117.2	118.2	114.2	114.2	116.6	117.1	117.7	118.1	117.9	118.1	118.3	118.6			
State and local governments																	
11 Net borrowing	117.8	115.4	86.8	52.8	151.8	92.0	220.8	14.8	57.8	53.8	54.8	54.8	50.8	50.8			
12 Current surplus ⁴	176.2	196.0	181.9	195.6	198.4	193.8	183.0	179.8	180.7	184.0	193.6	192.9	196.4	199.4			
Federal government																	
13 Net borrowing	396.0	361.9	359.8	397.3	206.7	312.1	599.2	214.1	324.8	301.0	670.5	300.7	255.0	363.2			
14 Net borrowing (n.s.a.)	396.0	361.9	359.8	397.3	83.3	102.1	164.7	-17.0	112.8	99.3	182.5	4.6	95.4	114.8			
15 Unified deficit (n.s.a.)	399.1	400.7	363.8	385.3	85.7	118.1	176.6	-20.1	95.7	111.7	197.9	-24.3	87.0	124.8			
<i>Depository institutions</i>																	
16 Funds supplied	476.4	824.0	631.8	585.5	424.1	1003.2	1199.2	291.7	514.5	521.8	668.0	515.0	614.2	545.0			
Memo (percentage of GDP)																	
17 Domestic nonfinancial debt ⁵	194.4	197.8	201.5	204.5	198.4	199.5	200.8	201.6	202.4	203.0	203.7	204.5	204.9	205.4			
18 Domestic nonfinancial borrowing	15.1	16.3	14.3	13.1	16.3	16.4	18.6	12.7	13.4	12.8	15.3	12.4	12.0	12.7			
19 Federal government ⁶	3.6	3.1	2.9	3.0	1.7	2.6	4.9	1.7	2.6	2.4	5.2	2.3	1.9	2.7			
20 Nonfederal	11.5	13.2	11.4	10.0	14.5	13.8	13.7	10.9	10.8	10.4	10.1	10.1	10.1	10.0			

Note. Data after 2004:Q4 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

Despite some diversity of performance across our trading partners, recent data suggest that foreign economic growth averaged 3 percent at an annual rate in the first quarter, about the same as in the fourth quarter. We expect foreign growth to strengthen to nearly 3½ percent in the current quarter and to roughly maintain that rate for the rest of the year. Our outlook for aggregate foreign output is little changed from the March Greenbook projection. However, we have nudged down projected growth in the foreign industrial countries in response to some weakness in recent indicators, an upwardly revised path for oil prices, and the somewhat softer outlook for U.S. GDP. Offsetting this is a more buoyant outlook for the emerging economies this year, driven chiefly by surprisingly strong growth in China. After dipping in the first quarter, foreign CPI inflation is expected to rise to 2½ percent in the current quarter, in part because of increases in the prices of oil and other commodities, and remain at about that rate thereafter.

Summary of Staff Projections

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

Indicator	2004		Projection			2006	
	H1	H2	2005				
			Q1	Q2	H2		
Foreign output	4.2	2.9	3.0	3.4	3.5	3.3	
<i>March GB</i>	4.1	2.9	3.0	3.3	3.4	3.4	
Foreign CPI	2.8	2.7	1.2	2.6	2.6	2.4	
<i>March GB</i>	2.9	2.6	1.1	2.5	2.3	2.3	

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

The spot price of West Texas intermediate (WTI) crude oil reached a new high in early April but, in volatile trading, has since fallen below \$52 per barrel. Over the intermeeting period, the spot price of WTI declined more than \$2 per barrel on balance, but prices of futures contracts for delivery next year and beyond moved noticeably higher. In addition, futures quotes indicate that the price of WTI will move up somewhat from its current level before retracing a bit next year. Prices of non-fuel primary commodities have firmed in recent weeks, led mainly by higher prices for some industrial metals. Based on spot and futures markets, non-fuel commodity prices are projected to increase a bit further in the current quarter and to remain flat over the rest of the forecast period.

The dollar appreciated against the major foreign currencies over the intermeeting period, and much of the move came soon after the March FOMC meeting. We have revised

goods, with the exception of automotive products, registered substantial price gains. The rise was a bit larger than we anticipated in the March Greenbook and was somewhat stronger than movements in the dollar, foreign prices, and commodity prices would suggest. In the fourth quarter, however, core import prices rose less than these factors would predict. Smoothing through these fluctuations, recent changes in core import prices appear to be in line with the historical relationships that underpin our projections.

Staff Projections of Selected Trade Prices

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

Indicator	2004		Projection			2006	
	H1	H2	2005				
			Q1	Q2	H2		
Exports							
Core goods	6.9	3.4	6.0	4.5	2.7	2.7	
<i>March GB</i>	6.9	3.4	5.4	3.8	2.1	2.2	
Imports							
Non-oil core goods	5.2	3.3	4.7	3.0	2.3	.7	
<i>March GB</i>	5.2	3.2	4.4	2.2	2.2	.6	
Oil (dollars per barrel)	34.55	40.91	39.87	43.20	46.90	46.86	
<i>March GB</i>	34.55	40.91	40.28	45.59	45.99	44.97	

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

The price of imported oil for multiquarter periods is the price for the final quarter of the period.

We project that core import price inflation will moderate to 3 percent in the current quarter. The step-down from the first quarter is largely a reflection of the recent appreciation of the dollar. Nevertheless, we have marked up our projection for core import price inflation in the current quarter $\frac{3}{4}$ percentage point from the March Greenbook to reflect a noticeable rise in primary commodity prices. In the second half of the year, core import price inflation should remain near $2\frac{1}{4}$ percent as the effects of recent increases in commodity prices persist. In 2006, with futures quotes calling for flat commodity prices and with only modest changes projected for the dollar, core import price inflation drops below 1 percent.

We have maintained our assumption that the expiration of the multifiber arrangement at the end of last year will have only a small effect on core import prices over the forecast period. Uncertainty about protectionist measures, including the possibilities of U.S. trade

eases. Compared with the March Greenbook, our projection for overall real import growth (excluding the first quarter) is a bit weaker on average; notwithstanding the stronger dollar, we have marked down the projected path of imported core goods in response to lower U.S. GDP growth and somewhat higher core import prices.

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

Indicator	2004		Projection			2006	
	H1	H2	2005				
			Q1	Q2	H2		
Real exports	7.3	4.6	7.9	8.2	8.5	6.7	
<i>March GB</i>	7.3	4.6	7.9	8.8	9.1	7.5	
Real imports	11.6	7.9	13.7	1.2	6.9	6.4	
<i>March GB</i>	11.6	7.7	9.3	1.9	6.9	6.8	

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

In February, nominal exports were unchanged for the second consecutive month. Exports of services, computers, and semiconductors came in below our expectations, whereas exports of core goods were somewhat stronger. We estimate that real exports of goods and services rose at an annual rate of 8 percent in the first quarter, the same as projected in the March Greenbook. Real exports of services increased only marginally in the first quarter, much less than movements in foreign income and relative prices would have suggested. Moreover, real exports of semiconductors appear to have decreased for the fourth consecutive quarter. In contrast, real exports of core goods look to have been a good bit stronger than previously projected; we now estimate that exports of core goods rose 11½ percent in the first quarter, up sharply from the fourth quarter's anemic pace. In the current quarter, we expect overall exports to rise 8½ percent as services exports recover, exports of semiconductors resume growth, and sales of core goods decelerate. This projection is ½ percentage point weaker than in the March Greenbook and reflects the effects of the recent strengthening of the dollar on core goods and services.

In the second half of 2005, export growth is projected to maintain a solid pace, as exports of core goods and services continue to be supported by ongoing foreign growth and the stimulus from previous dollar depreciation. In 2006, we expect real export growth to slow to 6¾ percent as the positive effect of previous dollar depreciation on core goods

demand is offset by higher oil prices. Core PCE inflation is slightly higher than in the first scenario by the end of the forecast period. Beyond our projection period, however, the combined shocks put noticeably more upward pressure on core PCE prices; with the nominal federal funds rate unchanged, the higher energy prices slowly feed through to inflation expectations and wages. The shocks induce the trade balance to deteriorate relative to baseline over the remainder of the forecast period, as the effects of higher oil prices show through more quickly than the pickup in foreign demand; over somewhat longer periods, the latter effect dominates, and the trade balance shows a slight improvement relative to baseline.

**Alternative Simulations:
Stronger Foreign Aggregate Demand
and Higher Oil Demand**

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

Indicator and simulation	2005		2006	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	3.4	3.7	3.5	3.5
Stronger foreign aggregate demand	3.5	4.0	3.9	3.9
With additional shock to oil demand	3.5	3.9	3.9	3.8
<i>U.S. PCE prices excluding food and energy</i>				
Baseline	2.1	1.8	1.8	1.7
Stronger foreign aggregate demand	2.1	1.9	2.0	2.0
With additional shock to oil demand	2.1	1.9	2.0	2.1
<i>U.S. trade balance (percent share of GDP)</i>				
Baseline	-5.8	-5.9	-5.9	-5.8
Stronger foreign aggregate demand	-5.8	-5.9	-5.9	-5.7
With additional shock to oil demand	-5.9	-6.1	-6.1	-5.9

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	1.5	5.0	4.2	0.3	3.0	2.8	3.6	3.3	3.3
Industrial Countries of which:	2.7	4.4	3.5	0.8	2.6	1.7	2.3	2.3	2.5
Canada	4.4	5.9	4.1	-1.4	3.8	1.7	3.0	2.9	3.2
Japan	-1.1	0.2	3.2	-2.0	1.4	2.1	1.0	1.4	1.7
United Kingdom	-2.8	3.3	3.0	2.2	1.9	2.7	2.9	2.5	2.4
Euro Area (2)	1.9	3.9	2.8	0.8	0.5	0.8	1.6	1.5	1.7
Germany	0.7	3.3	1.9	0.5	0.5	0.0	0.6	1.0	1.4
Developing Countries	-0.3	6.0	5.3	-0.5	3.6	4.5	5.5	4.9	4.5
Asia	-1.9	8.5	5.8	-1.0	5.9	6.5	5.9	5.7	5.1
Korea	-5.4	11.4	4.5	4.7	7.7	4.1	3.0	4.0	4.0
China	9.8	7.0	7.6	6.9	8.3	10.0	9.5	10.4	7.5
Latin America	1.2	4.4	4.5	-1.3	1.5	2.4	5.1	4.0	4.0
Mexico	2.9	5.5	4.8	-1.3	2.0	2.1	4.9	4.1	4.1
Brazil	-1.7	3.5	3.9	-0.9	4.2	0.8	4.8	2.5	2.7
CONSUMER PRICES (3)									
Industrial Countries of which:	0.9	1.1	1.7	0.9	2.1	1.3	1.8	1.1	1.5
Canada	1.1	2.4	3.1	1.1	3.8	1.7	2.3	1.7	2.0
Japan	0.7	-1.2	-1.2	-1.3	-0.5	-0.5	0.4	-0.6	0.2
United Kingdom (4)	1.4	1.2	1.0	-1.0	1.6	1.3	1.4	2.1	2.0
Euro Area (2)	0.9	1.5	2.5	2.1	2.3	2.1	2.3	1.6	1.6
Germany	0.3	1.1	1.7	1.5	1.2	1.2	2.1	1.0	1.4
Developing Countries	9.0	4.6	4.1	2.8	2.9	3.1	3.9	3.6	3.5
Asia	4.9	0.1	1.9	1.2	0.8	2.1	3.2	3.2	3.1
Korea	5.8	1.2	2.6	3.4	3.4	3.5	3.4	3.8	4.2
China	-1.2	-1.0	1.0	-0.1	-0.5	2.7	3.3	2.8	3.0
Latin America	15.4	12.5	8.4	5.3	6.4	5.0	5.6	4.2	4.4
Mexico	17.3	13.5	8.7	5.1	5.3	3.9	5.3	3.6	4.0
Brazil	2.0	8.4	6.4	7.5	10.7	11.5	7.2	6.7	5.0

1. Foreign GDP aggregates calculated using shares of U.S. exports.

2. Harmonized data for euro area from Eurostat.

3. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.

4. CPI excluding mortgage interest payments, which is the targeted inflation rate.

Measure and country	2004				2005				Projected				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)																
Total foreign	4.8	3.7	2.7	3.1	3.0	3.4	3.5	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Industrial Countries of which:	3.3	2.8	1.6	1.4	2.0	2.1	2.4	2.5	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Canada	2.8	4.5	2.9	1.7	2.5	2.6	3.2	3.2	3.4	3.2	3.2	3.1	3.0			
Japan	6.0	-1.0	-1.1	0.5	1.6	1.3	1.1	1.4	1.6	1.7	1.7	1.8				
United Kingdom	2.7	3.9	2.2	2.8	2.2	2.6	2.6	2.6	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Euro Area (2)	2.9	1.8	1.0	0.6	1.5	1.4	1.4	1.5	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Germany	2.0	1.4	0.1	-0.9	1.3	0.8	1.0	1.2	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Developing Countries	7.0	4.9	4.4	5.6	4.4	5.2	5.1	4.8	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Asia	7.8	4.6	5.7	5.6	4.8	6.4	6.1	5.5	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Korea	2.6	2.4	3.3	3.8	4.2	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
China	14.4	2.8	10.1	11.2	14.0	10.0	10.0	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Latin America	6.3	5.0	3.8	5.4	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Mexico	5.6	4.5	3.8	5.5	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Brazil	7.3	6.0	4.4	1.7	2.5	2.5	2.5	2.5	2.5	2.7	2.7	2.7	2.7	2.7	2.7	2.7
CONSUMER PRICES (3)																
Industrial Countries of which:	0.9	1.5	1.5	1.8	1.4	1.3	1.3	1.1	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Canada	0.9	2.2	2.0	2.3	2.1	1.7	1.9	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Japan	-0.3	-0.2	-0.1	0.4	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
United Kingdom (4)	1.2	1.4	1.3	1.4	1.7	2.0	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Euro Area (2)	1.7	2.3	2.3	2.3	2.0	1.8	1.6	1.6	1.6	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Germany	1.0	1.9	2.0	2.1	1.7	1.3	1.2	1.0	1.0	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Developing Countries	3.1	3.6	4.5	3.9	3.5	3.6	3.3	3.6	3.8	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Asia	2.4	3.3	4.2	3.2	2.9	2.6	3.2	3.2	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Korea	3.2	3.4	4.3	3.4	3.1	2.9	3.2	3.2	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
China	3.0	4.3	5.2	3.3	2.8	2.4	2.1	2.1	2.8	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Latin America	4.7	4.6	5.2	5.6	4.9	5.2	4.8	4.8	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Mexico	4.3	4.3	4.8	5.3	4.4	4.7	4.3	4.3	4.6	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Brazil	6.8	5.5	6.8	7.2	7.4	7.7	7.0	6.7	6.7	6.0	5.5	5.5	5.5	5.5	5.5	5.5

- 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.

	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	-0.3	-0.1	-0.8	-0.3
Exports of G&S	0.3	0.6	0.7	-1.3	1.1	-1.1	0.6	0.8	0.7
Imports of G&S	-1.4	-1.6	-1.6	1.1	1.1	-0.7	-1.4	-1.1	-1.0
Percentage change, Q4/Q4									
Exports of G&S	2.6	5.6	6.5	-11.9	3.5	6.1	5.9	8.3	6.7
Services	4.4	5.3	1.8	-8.9	9.8	3.8	4.4	5.2	5.8
Computers	7.3	13.4	22.7	-23.5	-1.0	11.0	5.9	16.6	14.4
Semiconductors	9.5	34.6	27.6	-34.6	9.9	38.8	5.8	19.3	29.1
Other Goods 1/	1.2	3.3	5.9	-10.2	0.4	5.0	7.5	8.7	5.7
Imports of G&S	11.0	12.1	11.2	-7.6	9.7	4.9	9.8	7.1	6.4
Services	10.4	6.6	10.6	-5.9	8.9	3.7	2.2	5.3	4.4
Oil	4.1	-3.4	13.3	3.7	4.3	1.7	10.3	-5.3	0.4
Computers	26.4	26.0	13.9	-13.6	13.4	16.9	22.3	13.4	17.5
Semiconductors	-7.7	34.2	22.8	-51.1	10.0	0.3	9.2	19.3	29.1
Other Goods 2/	11.2	12.9	10.5	-6.5	9.9	4.9	10.6	9.0	6.7
Billions of Chained 2000 Dollars									
Net Goods & Services	-203.7	-296.2	-379.5	-399.1	-472.1	-518.5	-583.7	-647.1	-671.3
Exports of G&S	966.5	1008.2	1096.3	1036.7	1012.3	1031.8	1120.3	1197.4	1283.8
Imports of G&S	1170.3	1304.4	1475.8	1435.8	1484.4	1550.2	1704.0	1844.6	1955.2
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-209.6	-296.8	-413.5	-385.7	-473.9	-530.7	-665.9	-812.0	-887.1
Current Acct as Percent of GDP	-2.4	-3.2	-4.2	-3.8	-4.5	-4.8	-5.7	-6.5	-6.8
Net Goods & Services (BOP)	-164.9	-263.3	-378.4	-362.7	-421.7	-496.5	-617.1	-725.7	-763.3
Investment Income, Net	8.3	18.4	25.3	28.7	12.6	38.8	29.8	8.8	-26.2
Direct Net	65.5	78.2	94.9	115.9	100.8	118.9	132.3	166.1	179.6
Portfolio, Net	-57.2	-59.8	-69.7	-87.2	-88.2	-80.1	-102.5	-157.3	-205.8
Other Income & Transfers, Net	-53.0	-52.0	-60.4	-51.7	-64.8	-72.9	-78.7	-95.1	-97.6

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			
	NIPA REAL EXPORTS and IMPORTS								Percentage point contribution to GDP growth								s.a.a.r.											
Net Goods & Services	-0.0	0.5	-0.6	-0.7	-1.1	-0.5	-0.4	-0.7	-0.4	-0.3	-0.3	-0.4	-0.7	-0.4	-0.7	-0.5	-0.6	-0.5	-0.6	-0.2	-0.3	-0.3	-0.4	-0.7				
Exports of G&S	-0.6	-1.4	-2.0	-1.5	-1.5	-1.5	-1.4	-1.5	-1.4	-1.3	-1.3	-1.4	-1.3	-1.3	-1.3	-1.3	-1.4	-1.4	-1.4	-1.4	-1.3	-1.3	-1.4	-1.4	-2.2			
Imports of G&S	0.6	1.9	1.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	-0.4			
Exports of G&S Services	-5.3	-12.7	-18.2	-10.8	-4.7	11.0	3.1	-4.2	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	17.5			
Services	-5.0	-0.7	-13.7	-15.3	21.7	4.5	3.5	10.4	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7	20.6			
Computers	-9.8	-35.7	-24.9	-21.3	-20.4	11.9	-3.8	12.3	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	19.8			
Semiconductors	-3.0	-54.0	-45.3	3.7	24.9	38.8	11.4	-24.4	40.9	40.9	40.9	40.9	40.9	40.9	40.9	40.9	40.9	40.9	40.9	40.9	40.9	40.9	40.9	40.9	45.9			
Other Goods 1/	-2.5	-11.5	-17.6	-8.6	-2.1	12.6	2.8	-10.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	13.9			
Imports of G&S Services	-3.7	-12.6	-10.3	-3.4	12.5	11.4	5.4	9.6	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	17.1			
Services	-5.0	12.8	-18.3	-10.4	24.7	-5.8	2.8	16.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	11.1			
Oil	63.6	-33.8	-28.2	48.9	-5.6	-17.6	-10.7	70.0	-6.1	-6.1	-6.1	-6.1	-6.1	-6.1	-6.1	-6.1	-6.1	-6.1	-6.1	-6.1	-6.1	-6.1	-6.1	-6.1	16.5			
Computers	-22.6	-23.3	-13.4	8.4	50.2	7.2	2.6	0.2	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	34.2			
Semiconductors	-43.9	-70.1	-55.4	-23.7	42.3	33.9	-6.7	-17.6	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	4.4			
Other Goods 2/	-5.5	-10.6	-3.7	-5.9	8.3	19.4	8.5	4.2	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	17.9			
Billions of Chained 2000 Dollars, s.a.a.r.																												
Net Goods & Services	-398.2	-385.2	-398.4	-414.5	-444.9	-458.1	-469.8	-515.4	-511.7	-525.2	-508.7	-528.3	-506.5	-506.5	-506.5	-506.5	-506.5	-506.5	-506.5	-506.5	-506.5	-506.5	-506.5	-506.5	1076.2			
Exports of G&S	1097.2	1060.6	1008.7	980.3	991.6	1017.8	1025.5	1014.5	1010.6	1010.6	1010.6	1010.6	1010.6	1010.6	1010.6	1010.6	1010.6	1010.6	1010.6	1010.6	1010.6	1010.6	1010.6	1010.6	1010.6			
Imports of G&S	1495.4	1445.8	1407.1	1394.9	1436.5	1475.9	1495.3	1529.8	1522.3	1522.3	1522.3	1522.3	1522.3	1522.3	1522.3	1522.3	1522.3	1522.3	1522.3	1522.3	1522.3	1522.3	1522.3	1522.3	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	-507.4	-552.8	-535.5	-535.5	-526.5	-507.8	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.5			
Current Account as % of GDP	-4.3	-3.9	-3.6	-3.5	-4.3	-4.5	-4.5	-4.8	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1			
Net Goods & Services (BOP)	-389.3	-356.1	-357.1	-348.3	-375.0	-413.5	-427.7	-470.7	-501.5	-493.5	-493.5	-493.5	-493.5	-493.5	-493.5	-493.5	-493.5	-493.5	-493.5	-493.5	-493.5	-493.5	-493.5	-493.5	-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	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4	154.2		
Direct, Net	106.2	116.1	95.0	146.2	100.6	95.1	94.9	112.8	101.3	101.3	114.6	114.6	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4	154.2		
Portfolio, Net	-82.3	-86.3	-93.5	-86.6	-91.4	-93.2	-84.3	-84.0	-79.8	-79.8	-80.1	-80.1	-80.1	-80.1	-80.1	-80.1	-80.1	-80.1	-80.1	-80.1	-80.1	-80.1	-80.1	-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	-72.0	-72.0	-72.0	-72.0	-72.0	-72.0	-72.0	-72.0	-72.0	-72.0	-72.0	-72.0	-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								Projected								2006							
	2004				2005				2005				Projected				2006							
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS																								
Net Goods & Services	-0.8	-1.1	-0.1	-1.4	-1.3	-0.1	-0.6	-0.1	-0.4	-0.1	-0.8	-0.2	-0.9	-0.1	-0.4	-0.5	0.2	-0.3	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7
Exports of G&S	0.7	0.7	0.6	0.3	0.8	0.3	0.8	0.8	0.8	0.8	0.8	0.2	-0.9	-0.9	-0.9	-0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Imports of G&S	-1.5	-1.8	-0.7	-1.7	-1.7	-0.7	-1.7	-2.1	-2.1	-2.1	-2.1	-0.2	-0.9	-1.3	-1.3	-0.5	-0.5	-1.0	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Exports of G&S Services	7.3	7.3	6.0	3.2	7.9	8.2	8.0	9.1	5.7	6.8	6.6	6.4	6.1	5.9	5.9	6.6	6.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Computers	3.4	10.2	-1.8	6.2	1.8	6.6	6.4	6.1	14.3	14.3	14.3	14.3	14.3	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	
Semiconductors	-8.3	-11.8	-22.4	14.0	17.3	20.4	26.3	29.2	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1
Other Goods 1/	12.5	-10.1	-20.7	-11.1	1.5	11.2	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3
Imports of G&S Services	10.6	12.6	4.6	11.4	13.7	1.2	5.6	8.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1
Oil	3.1	10.6	2.8	5.2	7.5	4.0	4.7	5.6	3.8	-32.4	-3.3	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6
Computers	3.9	-33.1	2.0	56.1	3.8	14.8	14.8	14.8	14.8	14.8	14.8	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3
Semiconductors	12.8	38.6	29.9	10.1	4.7	-23.2	-3.8	26.3	28.9	28.9	28.9	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2
Other Goods 2/	42.2	21.2	7.4	-23.2	-10.6	18.1	5.9	6.2	6.2	6.2	6.2	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3
Net Goods & Services	-550.1	-580.3	-583.2	-621.1	-656.6	-639.2	-641.4	-651.3	-651.3	-651.3	-651.3	-651.3	-651.3	-651.3	-651.3	-651.3	-651.3	-651.3	-651.3	-651.3	-651.3	-651.3	-651.3	-651.3
Exports of G&S	1095.4	1114.8	1131.1	1140.0	1162.0	1185.0	1208.0	1234.6	1234.6	1234.6	1234.6	1234.6	1234.6	1234.6	1234.6	1234.6	1234.6	1234.6	1234.6	1234.6	1234.6	1234.6	1234.6	1234.6
Imports of G&S	1645.5	1695.1	1714.3	1761.2	1818.6	1824.2	1849.5	1886.0	1886.0	1886.0	1886.0	1886.0	1886.0	1886.0	1886.0	1886.0	1886.0	1886.0	1886.0	1886.0	1886.0	1886.0	1886.0	1886.0
Billions of Chained 2000 Dollars, s.a.a.r.																								
US CURRENT ACCOUNT BALANCE	-589.9	-658.8	-663.4	-751.6	-797.1	-815.1	-844.2	-881.4	-881.4	-881.4	-881.4	-881.4	-881.4	-881.4	-881.4	-881.4	-881.4	-881.4	-881.4	-881.4	-881.4	-881.4	-881.4	-881.4
Current Account as % of GDP	-5.1	-5.7	-5.6	-6.3	-6.5	-6.4	-6.5	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7
Net Goods & Services (BOP)	-555.3	-605.3	-623.5	-684.2	-714.6	-712.1	-728.2	-747.8	-747.8	-747.8	-747.8	-747.8	-747.8	-747.8	-747.8	-747.8	-747.8	-747.8	-747.8	-747.8	-747.8	-747.8	-747.8	-747.8
Investment Income, Net	53.9	25.9	25.3	14.2	20.2	10.8	5.0	-0.7	-11.4	-11.4	-11.4	-11.4	-11.4	-11.4	-11.4	-11.4	-11.4	-11.4	-11.4	-11.4	-11.4	-11.4	-11.4	
Direct, Net	138.7	124.7	125.5	140.4	154.9	164.7	170.5	174.3	174.3	174.3	174.3	174.3	174.3	174.3	174.3	174.3	174.3	174.3	174.3	174.3	174.3	174.3	174.3	174.3
Portfolio, Net	-84.8	-98.7	-100.2	-126.3	-134.7	-154.0	-165.5	-175.0	-175.0	-175.0	-175.0	-175.0	-175.0	-175.0	-175.0	-175.0	-175.0	-175.0	-175.0	-175.0	-175.0	-175.0	-175.0	-175.0
Other Inc. & Transfers, Net	-88.4	-79.5	-65.3	-81.6	-102.6	-90.1	-91.9	-95.6	-105.7	-105.7	-105.7	-105.7	-105.7	-105.7	-105.7	-105.7	-105.7	-105.7	-105.7	-105.7	-105.7	-105.7	-105.7	

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

April 29, 2005

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

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

Broad Measures of Inflation
(Percent change, Q1 to Q1)

Measure	2002	2003	2004	2005
<i>Product prices</i>				
GDP price index	1.9	2.0	1.7	2.5
Less food and energy	2.2	1.9	1.4	2.4
Nonfarm business chain price index	1.2	1.5	.8	2.5
<i>Expenditure prices</i>				
Gross domestic purchases price index	1.3	2.5	1.7	2.8
Less food and energy	1.9	1.8	1.5	2.3
PCE price index	1.1	2.4	1.7	2.3
Less food and energy	1.8	1.6	1.4	1.6
PCE price index, market-based components	.8	2.3	1.7	2.5
Less food and energy	1.5	1.4	1.3	1.7
CPI	1.2	2.9	1.8	3.0
Less food and energy	2.5	1.8	1.3	2.3
Chained CPI	.9	2.5	1.6	2.6
Less food and energy	2.0	1.4	1.1	1.9
Median CPI	3.8	2.7	1.9	2.5
Trimmed mean CPI	2.3	2.1	1.7	2.3

Surveys of Inflation Expectations
(Percent)

Period	Actual CPI inflation ¹	University of Michigan				Professional forecasters (10-year) ⁴	
		1 year ²		5 to 10 years ³			
		Mean	Median	Mean	Median		
2003:Q2	2.1	2.6	2.2	3.1	2.7	2.5	
Q3	2.2	2.8	2.3	3.1	2.7	2.5	
Q4	1.9	3.0	2.6	3.1	2.8	2.5	
2004:Q1	1.8	3.1	2.7	3.4	2.9	2.5	
Q2	2.9	4.0	3.3	3.3	2.8	2.5	
Q3	2.7	3.3	2.9	3.1	2.8	2.5	
Q4	3.3	3.4	3.0	3.1	2.8	2.5	
2005:Q1	3.0	3.6	3.0	3.2	2.8	2.5	
2004:Oct.	3.2	3.6	3.1	3.2	2.8	...	
Nov.	3.5	3.3	2.8	3.1	2.7	...	
Dec.	3.3	3.4	3.0	3.1	2.8	2.5	
2005:Jan.	3.0	3.5	2.9	3.2	2.7	...	
Feb.	3.0	3.3	2.9	3.1	2.8	...	
Mar.	3.1	4.0	3.2	3.3	2.9	2.5	
Apr.	n.a.	4.0	3.3	3.4	3.0	...	

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

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

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

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

... Not applicable.

n.a. Not available.