

## **Part 1**

March 16, 2005

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

March 16, 2005

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

Measure	2005:Q1		2005:Q2	
	Jan. GB	Mar. GB	Jan. GB	Mar. GB
<b>Real GDP</b>	<b>3.8</b>	<b>4.3</b>	<b>4.0</b>	<b>4.1</b>
Private domestic final purchases	2.8	4.2	4.7	4.8
Personal consumption expenditures	3.7	3.9	4.0	3.9
Residential investment	3.1	6.3	4.2	5.8
Business fixed investment	-3.2	4.8	10.0	10.4
Government outlays for consumption and investment	3.9	3.3	2.9	2.6
	Contribution to growth (percentage points)			
Inventory investment	.3	.7	-1.1	-1.1
Net exports	.4	-.6	.4	.6

excluding motor vehicles rose solidly in January and February, with widespread gains across expenditure categories.

Activity in housing markets has remained very strong, and we expect residential construction to post solid increases in the first half of this year. The pace of starts in the single-family sector surged at an annual rate of almost 1.78 million units, on average, in January and February; we expect starts to move back down to a pace of 1.62 million units in the second quarter—a rate that still exceeds the already robust 1.6 million units started last year. Multifamily starts also moved up somewhat in the first two months of the year.

The available indicators suggest that the growth of business investment in equipment and software slowed in the current quarter but not nearly so much as we had been expecting in light of the expiration of the partial-expensing tax provisions. We estimate that real outlays for E&S will increase at an annual rate of 5¼ percent this quarter—down from last year's 14¼ percent increase but well above the 5 percent rate of decline that we had anticipated in the January Greenbook. A good part of the slowing from last year's pace reflects a drop-back in motor vehicle expenditures following a sharp fourth-quarter increase. We estimate that, outside the transportation area, real spending will increase in the first quarter at an annual rate only a little less than last year's impressive increases.

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

Measure	2005		2006
	H1	H2	
<b>Real GDP</b>	<b>4.2</b>	<b>3.8</b>	<b>3.6</b>
Previous	3.9	3.8	3.6
Final sales	4.4	4.0	3.7
Previous	4.3	3.8	3.6
PCE	3.9	3.8	3.6
Previous	3.8	3.8	3.7
Residential investment	6.0	-.7	0.2
Previous	3.7	1.7	1.0
BFI	7.6	10.4	8.9
Previous	3.2	8.7	8.3
Government purchases	3.0	2.5	2.3
Previous	3.4	2.7	2.5
Exports	8.3	9.1	7.5
Previous	8.3	9.0	7.2
Imports	5.5	6.9	6.8
Previous	2.6	7.9	7.6
	Contribution to growth (percentage points)		
Inventory change	-.2	-.2	.0
Previous	-.4	.0	.1
Net exports	.0	-.2	-.3
Previous	.4	-.3	-.4

to lessen noticeably and, by the latter part of the year, the drag from energy prices should diminish considerably. In 2006, the further withdrawal of monetary policy accommodation, the waning effect of the wealth increases in 2003 and 2004, and a greater drain from further rapid increases in imports contribute to a projected slowing of GDP growth to about 3¾ percent.

**Decomposition of Potential GDP**  
(Percent change, Q4 to Q4, except as noted)

Measure	1974-95	1996-2001	2002	2003	2004	2005	2006
<b>Potential GDP</b>	<b>3.0</b>	<b>3.4</b>	<b>3.3</b>	<b>3.6</b>	<b>3.7</b>	<b>3.3</b>	<b>3.3</b>
Previous	3.0	3.4	3.4	3.8	3.4	3.2	3.2
<i>Contributions</i> <sup>1</sup>							
Structural labor productivity	1.5	2.7	3.3	3.7	3.4	2.9	3.0
Previous	1.5	2.7	3.2	3.7	3.0	2.7	2.7
Capital deepening	.7	1.3	.6	.7	.8	1.0	1.1
Previous	.7	1.3	.6	.6	.8	.9	.9
Multifactor productivity	.5	1.1	2.4	2.8	2.4	1.7	1.7
Previous	.5	1.1	2.4	2.8	2.0	1.6	1.5
Labor composition	.3	.3	.3	.3	.3	.3	.2
Potential labor input	1.7	1.0	1.0	.9	1.0	.8	.7
Previous	1.7	1.0	1.1	1.1	1.0	.9	.9
Technical factors	-.1	-.3	-.9	-1.0	-.6	-.4	-.4

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

1. Percentage points.

Besides making these changes to structural productivity, however, we have also reduced our estimates of the trend in potential labor input. We have reassessed the influence of past and prospective demographic trends on labor-force participation, and although we continue to believe that participation has been depressed to an unusual extent by cyclical factors, we now believe that a larger share of the recent weakness will prove to be persistent. In addition, we now judge the trend workweek to be a tad lower than previously assumed. In all, our new, lower estimate of potential labor input offsets most of the upward revision to structural productivity, leaving the level of potential GDP little changed at the end of 2004. Over the forecast period, our estimate of the growth of potential output still rounds to 3¼ percent per year.

With GDP rising faster than potential, we project that the output gap will be almost closed by the end of 2006. Likewise, the unemployment rate is projected to fall gradually, ending the forecast period just above our 5 percent estimate of the NAIRU. We have marked up our projection for core inflation a little, and higher energy prices hold up headline price inflation this year.

**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	2.9	2.3	2.5
Previous	5.6	2.8	1.7	2.2
Nonfarm private payroll employment	-.1	1.8	2.1	1.6
Previous	-.2	1.8	2.2	1.9
Household survey employment	1.2	1.3	1.4	1.5
Previous	1.2	1.3	1.8	1.5
Labor force participation rate <sup>1</sup>	66.1	66.0	66.0	66.1
Previous	66.1	66.0	66.3	66.4
Civilian unemployment rate <sup>1</sup>	5.9	5.4	5.3	5.1
Previous	5.9	5.4	5.3	5.1
MEMO				
GDP gap <sup>2</sup>	1.5	1.2	.5	.2
Previous	1.7	1.3	.6	.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.

**Productivity and the labor market.** As noted above, we expect private payrolls to expand about 200,000 to 225,000 per month in the second quarter, and we project this pace of net job gains to persist through the second half of the year. Job creation is then assumed to slow in 2006 as increases in production and sales moderate. This pace of job gains should be sufficient to bring the unemployment rate down to 5¼ percent at the end of this year and to just above 5 percent—our estimate of the NAIRU—at the end of 2006. We expect labor force participation to rise from its current level but to a notably lesser extent than in earlier Greenbooks in light of our downward revision to the trend in participation. Thus, we now project the participation rate to firm from 65.8 percent in February to 66 percent by June but only to edge higher to 66.1 percent next year.

We have raised our projection for actual productivity growth along with our estimates of structural productivity, but the basic contour of the forecast has not changed. We still believe that labor productivity stands somewhat above its structural level at present—we now put the gap at 1¼ percent at the end of 2004, ½ percentage point less than in the January Greenbook—and that the gap will close further as labor demand continues to strengthen. Thus, we project that productivity will increase less than its structural rate over the forecast period. Specifically, we look for increases in actual productivity of

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

Measure	2003	2004	2005	2006
PCE chain-weighted price index	1.7	2.6	1.9	1.4
Previous	1.7	2.5	1.3	1.3
Food and beverages	2.7	2.9	2.1	2.0
Previous	2.7	2.9	2.0	1.8
Energy	7.2	18.5	2.1	-2.0
Previous	7.2	17.8	-3.4	-1.2
Excluding food and energy	1.2	1.6	1.8	1.6
Previous	1.2	1.5	1.6	1.4
Consumer price index	1.9	3.4	2.1	1.7
Previous	1.9	3.4	1.5	1.6
Excluding food and energy	1.2	2.1	2.2	2.0
Previous	1.2	2.1	2.0	1.8
GDP chain-weighted price index	1.7	2.4	1.8	1.7
Previous	1.7	2.3	1.5	1.6
ECI for compensation of private industry workers <sup>1</sup>	4.0	3.8	4.4	4.5
Previous	4.0	4.0	4.3	4.2
NFB compensation per hour	5.3	4.2	4.3	4.6
Previous	5.4	4.0	4.2	4.2
Prices of core nonfuel imports	1.6	3.7	2.2	.5
Previous	1.6	3.8	1.2	.2

1. December to December.

2¼ percent this year and 2½ percent in 2006, compared with a structural rate of 3 percent over those two years.

**Prices and labor costs.** As described above, we have nudged up the forecast for core consumer price inflation in light of somewhat disappointing incoming data on core PCE inflation and the expected effects of higher energy costs and larger increases in import prices. These influences are only partly offset by the brighter outlook for structural productivity growth. The overall contour of the projection is similar to that of previous Greenbooks. Slack in labor and product markets should continue to hold down inflation, albeit to a smaller degree than in previous years; the influence of energy and import prices on business costs should wane given our assumptions about oil prices and the

**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>				
<b>Baseline</b>	<b>4.3</b>	<b>4.2</b>	<b>3.8</b>	<b>3.6</b>
Spending boom	4.3	4.5	4.6	4.6
With rising inflation expectations	4.3	4.5	4.6	4.9
Faster productivity growth	4.3	4.6	4.7	4.5
No room to grow	4.3	4.2	3.7	3.5
More room to grow	4.3	4.3	3.9	3.7
Higher bond premiums	4.3	4.1	3.0	2.6
<i>Civilian unemployment rate<sup>1</sup></i>				
<b>Baseline</b>	<b>5.4</b>	<b>5.3</b>	<b>5.3</b>	<b>5.1</b>
Spending boom	5.4	5.3	5.1	4.3
With rising inflation expectations	5.4	5.3	5.1	4.2
Faster productivity growth	5.4	5.4	5.4	5.1
No room to grow	5.4	5.1	4.9	4.5
More room to grow	5.4	5.5	5.6	5.3
Higher bond premiums	5.4	5.3	5.5	5.8
<i>PCE prices excluding food and energy</i>				
<b>Baseline</b>	<b>1.6</b>	<b>1.9</b>	<b>1.7</b>	<b>1.6</b>
Spending boom	1.6	1.9	1.7	1.7
With rising inflation expectations	1.6	1.9	1.9	2.4
Faster productivity growth	1.6	1.8	1.3	1.1
No room to grow	1.6	1.9	1.9	1.9
More room to grow	1.6	1.9	1.5	1.3
Higher bond premiums	1.6	1.8	1.6	1.4

1. Average for the final quarter of the period.

However, because inflation expectations are assumed to remain well anchored, actual inflation is only a touch higher than the baseline projection.

**Spending boom with rising inflation expectations.** Of course, inflation expectations might not remain so well contained in the event of a spending boom, especially in the absence of a monetary policy response to that boom. This scenario incorporates the assumptions of the previous one and assumes further that the unchecked surge in real activity causes long-run inflation expectations to climb a full percentage point. The rise in expectations causes actual price increases to pick up markedly, and by 2006 core PCE



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

Measure	2005	2006
<i>Real GDP</i> (percent change, Q4 to Q4)		
Projection	4.0	3.6
Confidence interval		
Greenbook forecast errors <sup>1</sup>	2.4–5.6	1.9–5.3
FRB/US stochastic simulations	2.8–5.2	2.0–5.4
<i>Civilian unemployment rate</i> (percent, Q4)		
Projection	5.3	5.1
Confidence interval		
Greenbook forecast errors <sup>1</sup>	4.7–5.8	4.2–6.0
FRB/US stochastic simulations	4.7–5.8	4.1–6.0
<i>PCE prices</i> <i>excluding food and energy</i> (percent change, Q4 to Q4)		
Projection	1.8	1.6
Confidence interval		
Greenbook forecast errors <sup>2</sup>	1.3–2.4	0.6–2.5
FRB/US stochastic simulations	1.3–2.3	0.8–2.4

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

1. 1978–2003.

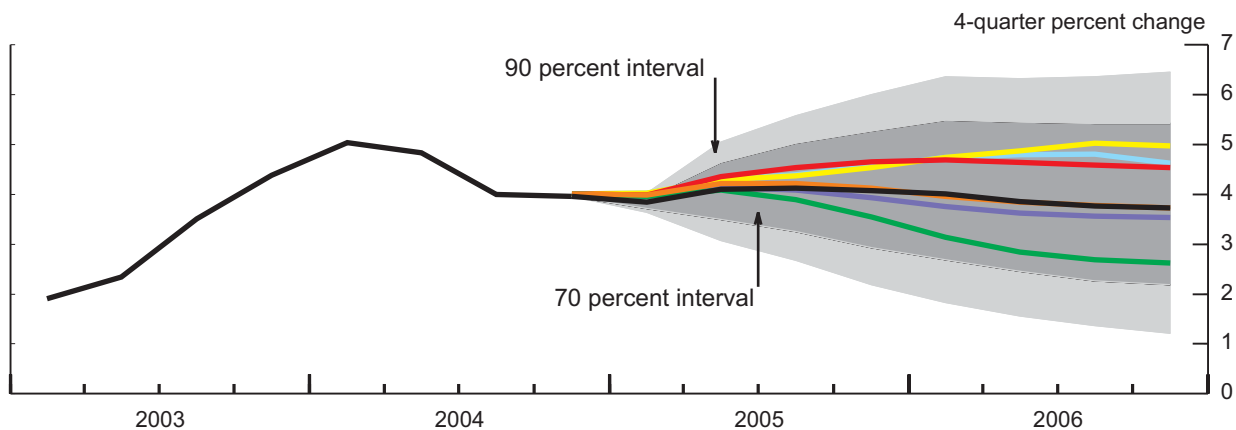
2. 1981–2003.

## Forecast Confidence Intervals and Alternative Scenarios

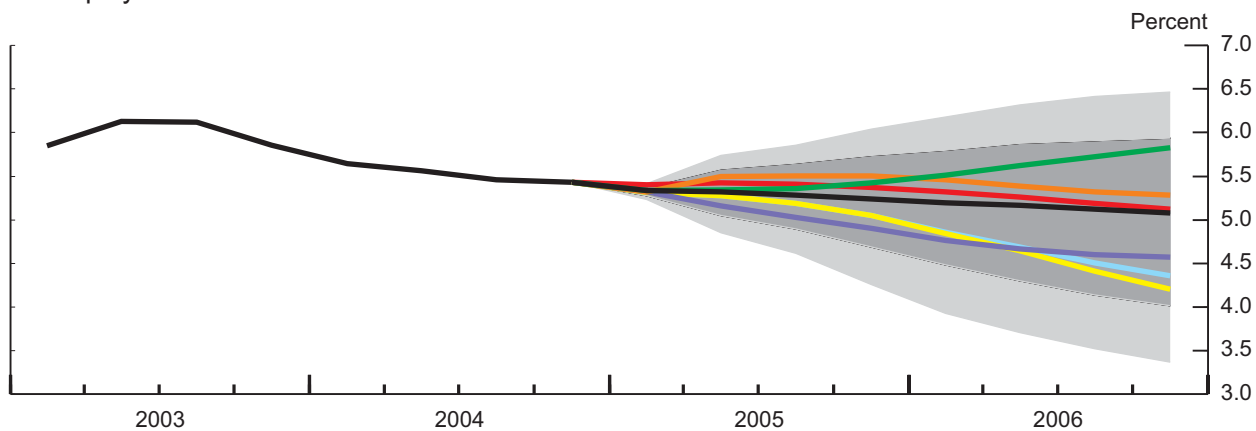
Confidence Intervals Based on FRB/US Stochastic Simulations

- |                                      |                      |
|--------------------------------------|----------------------|
| Greenbook baseline                   | No room to grow      |
| Spending boom                        | More room to grow    |
| - with rising inflation expectations | Higher bond premiums |
| Faster productivity growth           |                      |

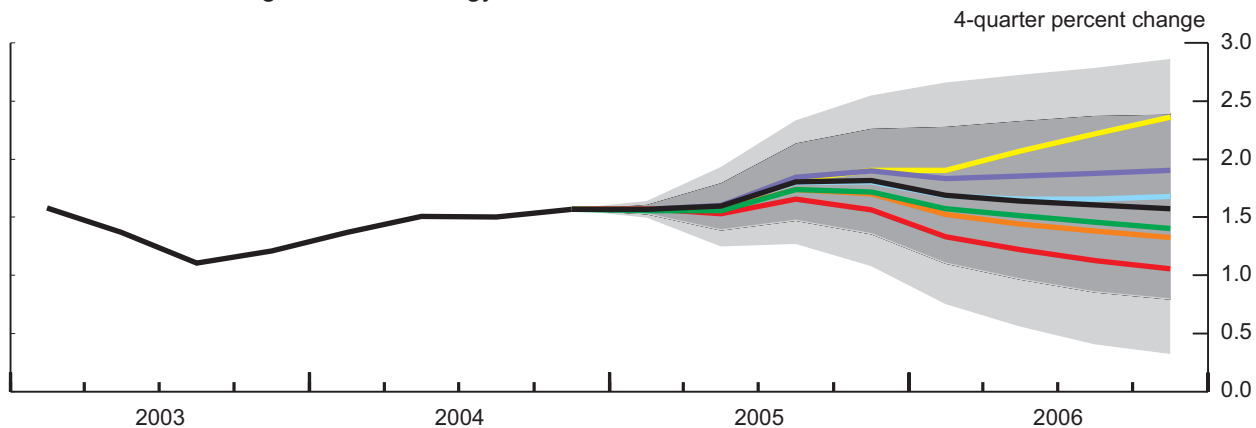
Real GDP



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 <sup>1</sup>		Unemployment rate <sup>2</sup>	
Interval		01/26/05	03/16/05	01/26/05	03/16/05	01/26/05	03/16/05	01/26/05	03/16/05	01/26/05	03/16/05
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		6.6	6.7	4.4	4.5	2.1	2.2	2.7	2.7	5.5	5.5
2005		5.5	6.2	3.8	4.1	1.6	2.1	2.1	2.6	5.3	5.3
2006		5.4	5.4	3.7	3.7	1.6	1.6	1.6	1.7	5.2	5.2
QUARTERLY											
2003	Q1	4.9	4.9	1.9	1.9	2.7	2.7	3.8	4.0	5.8	5.8
	Q2	5.3	5.3	4.1	4.1	1.1	1.1	0.7	0.4	6.1	6.1
	Q3	8.8	8.8	7.4	7.4	1.4	1.4	2.4	2.2	6.1	6.1
	Q4	5.7	5.7	4.2	4.2	1.6	1.6	0.7	0.9	5.9	5.9
2004	Q1	7.4	7.4	4.5	4.5	2.8	2.8	3.5	4.0	5.6	5.6
	Q2	6.6	6.6	3.3	3.3	3.2	3.2	4.8	4.4	5.6	5.6
	Q3	5.5	5.5	4.0	4.0	1.4	1.4	1.9	1.7	5.5	5.5
	Q4	5.4	6.6	3.5	4.3	1.9	2.2	3.4	3.4	5.4	5.4
2005	Q1	5.1	7.2	3.8	4.3	1.3	2.8	1.0	2.2	5.4	5.3
	Q2	5.6	6.0	4.0	4.1	1.6	1.8	1.8	3.4	5.3	5.3
	Q3	5.6	5.2	3.9	3.9	1.6	1.2	1.7	1.4	5.3	5.3
	Q4	5.4	5.2	3.8	3.8	1.5	1.4	1.6	1.5	5.3	5.3
2006	Q1	5.7	5.6	3.7	3.7	1.9	1.9	1.6	1.6	5.3	5.2
	Q2	5.2	5.3	3.6	3.6	1.6	1.6	1.6	1.7	5.2	5.2
	Q3	5.1	5.3	3.6	3.6	1.5	1.6	1.6	1.7	5.2	5.2
	Q4	5.1	5.2	3.6	3.6	1.4	1.5	1.6	1.7	5.1	5.1
TWO-QUARTER <sup>3</sup>											
2003	Q2	5.1	5.1	3.0	3.0	1.9	1.9	2.2	2.3	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	5.4	6.0	3.7	4.1	1.6	1.8	2.6	2.6	-0.2	-0.2
2005	Q2	5.3	6.6	3.9	4.2	1.4	2.3	1.4	2.8	-0.1	-0.1
	Q4	5.5	5.2	3.8	3.8	1.6	1.3	1.6	1.4	0.0	0.0
2006	Q2	5.4	5.5	3.6	3.6	1.7	1.8	1.6	1.6	-0.1	-0.1
	Q4	5.1	5.3	3.6	3.6	1.5	1.6	1.6	1.7	-0.1	-0.1
FOUR-QUARTER <sup>4</sup>											
2002	Q4	3.8	3.8	2.3	2.3	1.6	1.6	2.2	2.2	0.4	0.4
2003	Q4	6.2	6.2	4.4	4.4	1.7	1.7	1.9	1.9	0.0	0.0
2004	Q4	6.2	6.5	3.8	4.0	2.3	2.4	3.4	3.4	-0.5	-0.5
2005	Q4	5.4	5.9	3.9	4.0	1.5	1.8	1.5	2.1	-0.1	-0.2
2006	Q4	5.3	5.4	3.6	3.6	1.6	1.7	1.6	1.7	-0.1	-0.1

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.

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Class II FOMC

March 16, 2005

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

		- - - - - Projected - - - - -								
Item	Units <sup>1</sup>	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Expenditures</b>										
Nominal GDP	Bill. \$	8747.0	9268.4	9817.0	10128.0	10487.0	11004.0	11737.3	12467.6	13137.5
Real GDP	Bill. Ch. \$	9066.9	9470.3	9817.0	9890.7	10074.8	10381.3	10844.5	11285.0	11704.9
Real GDP	% change	4.5	4.7	2.2	0.2	2.3	4.4	4.0	4.0	3.6
Gross domestic purchases		5.5	5.5	3.0	0.4	3.1	4.3	4.6	3.9	3.7
Final sales		4.8	4.2	2.9	1.5	1.2	4.5	3.6	4.2	3.7
Priv. dom. final purchases		6.4	5.3	4.3	1.0	1.7	4.9	4.7	4.4	4.1
Personal cons. expenditures		5.4	4.9	4.1	2.8	2.5	3.8	3.7	3.8	3.6
Durables		14.4	7.3	4.7	10.8	1.5	9.9	5.4	4.9	6.0
Nondurables		4.7	4.9	3.0	1.9	2.3	4.6	4.4	5.1	4.3
Services		3.8	4.4	4.5	1.6	2.9	2.2	3.1	3.0	2.8
Business fixed investment		10.9	7.7	7.8	-9.6	-6.0	9.4	10.8	9.0	8.9
Equipment & Software		13.5	10.8	7.5	-9.0	-2.2	12.1	14.3	10.1	10.4
Nonres. structures		4.0	-0.9	8.8	-11.1	-16.1	1.5	-0.3	5.3	4.1
Residential structures		10.3	3.6	-1.9	1.4	6.9	12.0	6.5	2.6	0.2
Exports		2.6	5.6	6.5	-11.9	3.5	6.1	6.0	8.7	7.5
Imports		11.0	12.1	11.2	-7.6	9.7	4.9	9.6	6.2	6.8
Gov't. cons. & investment		3.3	4.2	0.4	5.0	3.8	2.2	1.7	2.7	2.3
Federal		0.1	4.2	-2.2	6.4	8.2	5.5	4.1	3.6	1.9
Defense		-1.2	4.3	-3.5	6.5	8.5	8.5	5.5	5.0	2.4
State & local		5.1	4.2	1.7	4.2	1.6	0.4	0.3	2.2	2.5
Change in bus. inventories	Bill. Ch. \$	72.6	68.9	56.5	-31.7	11.7	-0.7	48.0	47.0	32.3
Nonfarm		71.2	71.5	57.8	-31.8	13.5	-1.1	44.7	44.7	30.3
Net exports		-203.8	-296.2	-379.5	-399.1	-472.1	-518.5	-583.2	-626.6	-647.7
Nominal GDP	% change	5.7	6.3	4.6	2.7	3.8	6.2	6.5	5.9	5.4
GDP Gap <sup>2</sup>	%	-1.5	-2.3	-2.4	0.2	1.6	2.0	1.3	0.7	0.3
<b>Employment and Production</b>										
Nonfarm payroll employment	Millions	125.9	129.0	131.8	131.8	130.3	130.0	131.5	133.9	136.3
Unemployment rate	%	4.5	4.2	4.0	4.7	5.8	6.0	5.5	5.3	5.2
Industrial prod. index	% change	4.2	5.2	1.9	-5.1	1.5	1.2	4.3	5.0	4.2
Capacity util. rate - mfg.	%	81.8	81.1	80.6	74.5	73.5	73.7	76.7	79.2	81.2
Housing starts	Millions	1.62	1.64	1.57	1.60	1.70	1.85	1.95	2.01	1.93
Light motor vehicle sales		15.56	16.91	17.35	17.13	16.76	16.64	16.83	16.88	17.41
North Amer. produced		13.52	14.41	14.48	14.05	13.47	13.33	13.44	13.42	13.94
Other		2.04	2.50	2.87	3.08	3.29	3.31	3.39	3.46	3.47
<b>Income and Saving</b>										
Nominal GNP	Bill. \$	8768.3	9302.2	9855.9	10171.6	10514.1	11059.2	11777.1	12474.1	13104.0
Nominal GNP	% change	5.5	6.5	4.7	2.9	3.5	6.5	5.8	5.7	5.0
Nominal personal income		7.0	5.5	7.1	2.2	1.9	4.6	6.6	5.6	6.5
Real disposable income		5.6	2.8	4.4	1.2	2.9	3.9	4.0	3.3	4.8
Personal saving rate	%	4.3	2.4	2.3	1.8	2.0	1.4	1.2	0.7	1.9
Corp. profits, IVA & CCAAdj.	% change	-10.0	9.6	-8.6	-0.2	15.4	23.3	8.5	5.1	-0.2
Profit share of GNP	%	9.1	9.2	8.3	7.5	8.3	9.2	9.9	10.4	9.8
Excluding FR Banks		8.9	8.9	8.0	7.3	8.1	9.1	9.8	10.2	9.6
Federal surpl./deficit	Bill. \$	38.8	103.6	189.5	46.7	-254.5	-364.5	-380.2	-315.0	-362.2
State & local surpl./def.		52.0	50.4	50.0	4.8	-25.0	-3.2	14.3	13.4	19.3
Ex. social ins. funds		50.3	48.7	47.9	2.2	-26.6	-4.3	12.9	11.9	17.8
Gross natl. saving rate	%	18.2	18.0	18.0	16.3	14.1	13.5	13.6	13.6	13.9
Net natl. saving rate		7.4	6.9	6.7	4.2	2.0	1.4	1.9	2.4	2.6
<b>Prices and Costs</b>										
GDP chn.-wt. price index	% change	1.1	1.6	2.2	2.4	1.6	1.7	2.4	1.8	1.7
Gross Domestic Purchases		0.7	2.0	2.4	1.6	1.8	1.8	2.9	2.0	1.5
chn.-wt. price index		0.9	2.1	2.3	1.7	1.8	1.7	2.6	1.9	1.4
PCE chn.-wt. price index		1.4	1.6	1.5	2.2	1.5	1.2	1.6	1.8	1.6
Ex. food and energy										
CPI		1.5	2.6	3.4	1.8	2.2	1.9	3.4	2.1	1.7
Ex. food and energy		2.3	2.0	2.6	2.7	2.1	1.2	2.1	2.2	2.0
ECI, hourly compensation <sup>3</sup>		3.5	3.4	4.4	4.2	3.2	4.0	3.8	4.4	4.5
Nonfarm business sector										
Output per hour		2.7	3.4	2.1	3.3	3.5	5.5	2.9	2.3	2.5
Compensation per Hour		5.5	5.2	6.4	3.6	2.9	5.3	4.2	4.3	4.6
Unit labor cost		2.7	1.7	4.3	0.3	-0.6	-0.2	1.1	1.9	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.

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

Item	Units	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2
<b>Expenditures</b>											
Nominal GDP	Bill. \$	10338.2	10445.7	10546.5	10617.5	10744.6	10884.0	11116.7	11270.9	11472.6	11657.5
Real GDP	Bill. Ch. \$	9993.5	10052.6	10117.3	10135.9	10184.4	10287.4	10472.8	10580.7	10697.5	10784.7
Real GDP	% change	3.4	2.4	2.6	0.7	1.9	4.1	7.4	4.2	4.5	3.3
Gross domestic purchases		4.4	2.8	2.9	2.4	1.7	4.4	6.4	4.7	5.0	4.2
Final sales		0.3	1.8	2.0	0.7	2.4	5.2	6.8	3.7	3.3	2.5
Priv. dom. final purchases		0.7	1.7	2.4	1.9	2.6	5.1	7.2	4.8	4.2	3.7
Personal cons. expenditures		1.8	2.8	2.9	2.5	2.7	3.9	5.0	3.6	4.1	1.6
Durables		-8.5	4.4	14.0	-2.4	-0.1	20.6	16.5	3.9	2.2	-0.3
Nondurables		3.8	0.8	-0.6	5.3	5.0	1.6	6.9	5.1	6.7	0.1
Services		3.3	3.5	2.4	2.2	2.1	1.8	1.9	2.8	3.3	2.7
Business fixed investment		-9.7	-9.6	-1.1	-3.2	-0.1	11.8	15.7	11.0	4.2	12.5
Equipment & Software		-6.3	-4.5	4.6	-2.0	4.5	11.0	21.7	12.0	8.0	14.2
Nonres. structures		-18.5	-22.6	-16.0	-6.6	-13.0	14.5	-1.3	7.9	-7.6	6.9
Residential structures		9.3	11.3	2.8	4.2	7.5	9.1	22.4	9.6	5.0	16.5
Exports		4.7	11.0	3.1	-4.2	-1.5	-1.6	11.3	17.5	7.3	7.3
Imports		12.5	11.4	5.4	9.6	-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 <sup>1</sup>	%	1.1	1.4	1.6	2.2	2.6	2.5	1.6	1.5	1.3	1.4
<b>Employment and Production</b>											
Nonfarm payroll employment	Millions	130.5	130.3	130.3	130.3	130.1	129.8	129.9	130.2	130.5	131.3
Unemployment rate	%	5.7	5.8	5.7	5.9	5.8	6.1	6.1	5.9	5.6	5.6
Industrial prod. index	% change	2.3	4.4	1.7	-2.3	-0.7	-4.0	4.1	5.7	5.6	4.3
Capacity util. rate - mfg.	%	73.0	73.6	74.0	73.5	73.5	73.0	73.7	74.8	75.6	76.5
Housing starts	Millions	1.72	1.68	1.70	1.74	1.74	1.75	1.88	2.04	1.94	1.92
Light motor vehicle sales		16.58	16.51	17.38	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		3.32	3.22	3.32	3.29	3.37	3.28	3.34	3.24	3.26	3.39
<b>Income and Saving</b>											
Nominal GNP	Bill. \$	10361.7	10461.6	10571.7	10661.2	10781.3	10929.0	11168.3	11358.1	11546.1	11693.6
Nominal GNP	% change	2.4	3.9	4.3	3.4	4.6	5.6	9.1	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 & CCAAdj.	% 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
<b>Prices and Costs</b>											
GDP chn.-wt. price index	% change	1.4	1.5	1.7	2.0	2.7	1.1	1.4	1.6	2.8	3.2
Gross Domestic Purchases		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		1.6	3.2	2.0	2.2	4.0	0.4	2.2	0.9	4.0	4.4
CPI		2.4	2.1	2.1	1.7	1.3	0.8	1.7	1.0	1.9	2.5
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 <sup>2</sup>		6.9	1.3	4.3	1.5	4.0	6.7	8.7	2.8	3.8	3.9
Nonfarm business sector		5.4	3.7	1.2	1.2	5.6	5.7	5.7	4.1	2.1	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.

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Class II FOMC

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

		- - - - - 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. \$	11814.9	12004.1	12215.7	12393.8	12550.7	12710.3	12884.4	13052.6	13221.5	13391.4
Real GDP	Bill. Ch. \$	10891.0	11005.0	11121.4	11233.0	11340.0	11445.7	11549.0	11652.0	11756.5	11862.1
Real GDP	% change	4.0	4.3	4.3	4.1	3.9	3.8	3.7	3.6	3.6	3.6
Gross domestic purchases		3.9	5.3	4.8	3.3	3.6	3.9	4.0	3.2	3.7	4.0
Final sales		5.0	3.4	3.6	5.3	4.4	3.6	3.4	4.2	3.7	3.4
Priv. dom. final purchases		5.8	5.3	4.2	4.8	4.5	4.1	4.1	4.0	4.1	4.0
Personal cons. expenditures		5.1	4.2	3.9	3.9	3.9	3.7	3.7	3.6	3.6	3.6
Durables		17.2	3.2	-1.0	6.6	8.6	5.7	6.9	5.6	5.8	5.8
Nondurables		4.7	6.2	7.6	3.7	4.6	4.6	4.4	4.2	4.2	4.3
Services		3.0	3.4	3.1	3.5	2.6	2.8	2.7	2.9	2.8	2.8
Business fixed investment		13.0	13.8	4.8	10.4	11.3	9.6	9.7	9.0	9.1	8.0
Equipment & Software		17.5	17.8	5.2	12.4	12.7	10.2	11.2	10.4	10.6	9.2
Nonres. structures		-1.1	1.2	3.4	3.9	6.5	7.4	4.6	4.4	3.9	3.6
Residential structures		1.6	3.6	6.3	5.8	-0.3	-1.1	-0.9	-0.0	0.5	1.4
Exports		6.0	3.3	7.9	8.8	8.5	9.8	6.5	7.6	7.4	8.5
Imports		4.6	10.9	9.3	1.9	5.3	8.5	7.7	3.5	6.8	9.3
Gov't. cons. & investment		0.7	1.2	3.3	2.6	2.6	2.4	2.2	2.3	2.2	2.4
Federal		4.8	1.7	5.6	3.3	3.1	2.4	1.7	1.9	1.8	2.1
Defense		10.1	-0.3	8.0	4.3	4.1	3.6	2.1	2.4	2.3	2.8
State & local		-1.7	0.8	2.0	2.2	2.2	2.4	2.5	2.5	2.5	2.6
Change in bus. inventories	Bill. Ch. \$	34.5	56.4	75.7	45.1	31.4	35.9	42.1	26.6	26.0	34.5
Nonfarm		30.4	55.2	73.2	42.1	29.5	34.0	40.2	24.5	23.9	32.5
Net exports		-583.2	-619.0	-636.8	-620.5	-619.9	-629.1	-644.4	-637.4	-646.1	-662.8
Nominal GDP	% change	5.5	6.6	7.2	6.0	5.2	5.2	5.6	5.3	5.3	5.2
GDP Gap <sup>1</sup>	%	1.3	1.2	1.0	0.8	0.6	0.5	0.4	0.4	0.3	0.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	131.7	132.3	132.8	133.5	134.2	134.9	135.5	136.1	136.6	137.0
Unemployment rate	%	5.5	5.4	5.3	5.3	5.3	5.3	5.2	5.2	5.2	5.1
Industrial prod. index	% change	2.7	4.4	4.5	4.4	6.1	5.1	4.5	4.3	4.1	3.9
Capacity util. rate - mfg.	%	77.0	77.6	78.4	78.7	79.5	80.2	80.7	81.0	81.4	81.6
Housing starts	Millions	1.97	1.98	2.15	1.99	1.96	1.95	1.94	1.93	1.93	1.93
Light motor vehicle sales		17.07	17.20	16.31	16.83	17.19	17.20	17.36	17.38	17.43	17.47
North Amer. produced		13.81	13.56	12.96	13.27	13.73	13.73	13.89	13.91	13.96	14.00
Other		3.27	3.65	3.35	3.56	3.46	3.47	3.47	3.47	3.47	3.47
INCOME AND SAVING											
Nominal GNP	Bill. \$	11853.0	12015.7	12233.0	12404.3	12554.8	12704.5	12864.5	13024.1	13185.3	13342.1
Nominal GNP	% change	5.6	5.6	7.4	5.7	4.9	4.9	5.1	5.1	5.0	4.8
Nominal personal income		4.6	10.5	3.3	6.2	6.5	6.4	7.7	6.2	6.1	5.9
Real disposable income		2.9	8.0	0.3	3.1	4.8	4.9	6.0	4.5	4.5	4.2
Personal saving rate	%	0.7	1.5	0.6	0.5	0.7	1.0	1.6	1.8	2.0	2.2
Corp. profits, IVA & CCA <sup>2</sup>	% change	-17.7	44.2	20.9	8.3	-2.6	-4.5	-1.9	-0.3	1.7	-0.3
Profit share of GNP	%	9.4	10.2	10.5	10.6	10.4	10.1	10.0	9.8	9.7	9.6
Excluding FR Banks		9.3	10.0	10.3	10.4	10.2	10.0	9.8	9.7	9.6	9.5
Federal surpl./deficit	Bill. \$	-375.0	-374.8	-318.7	-310.9	-313.0	-317.6	-370.8	-360.3	-360.4	-357.3
State & local surpl./def.		4.5	22.4	6.9	14.9	15.4	16.2	18.3	18.4	18.9	21.6
Ex. social ins. funds		3.0	21.0	5.4	13.4	13.9	14.7	16.8	16.9	17.4	20.1
Gross natl. saving rate	%	13.8	13.3	13.5	13.6	13.7	13.7	13.7	13.8	13.9	14.0
Net natl. saving rate		1.3	2.0	2.2	2.3	2.4	2.5	2.4	2.6	2.7	2.8
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.4	2.2	2.8	1.8	1.2	1.4	1.9	1.6	1.6	1.5
Gross Domestic Purchases		1.9	2.8	2.5	2.6	1.3	1.4	1.7	1.4	1.4	1.4
chn.-wt. price index		1.3	2.6	2.1	2.8	1.2	1.3	1.4	1.4	1.4	1.5
PCE chn.-wt. price index		0.9	1.6	2.1	1.8	1.7	1.7	1.6	1.6	1.6	1.5
Ex. food and energy		1.7	3.4	2.2	3.4	1.4	1.5	1.6	1.7	1.7	1.7
CPI		1.8	2.3	2.2	2.2	2.1	2.1	2.0	2.0	2.0	1.9
Ex. food and energy		3.5	3.0	4.3	4.3	4.4	4.4	4.4	4.5	4.5	4.5
ECI, hourly compensation <sup>2</sup>		1.3	2.8	3.5	2.1	1.8	1.8	2.0	2.5	2.7	2.7
Nonfarm business sector		5.4	3.4	4.2	4.2	4.3	4.4	4.5	4.5	4.6	4.6
Output per hour		4.0	0.6	0.7	2.0	2.5	2.6	2.4	2.0	1.9	1.8
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.

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Class II FOMC

March 16, 2005

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004/ 01Q4	2004/ 02Q4	2004/ 03Q4	2004/ 04Q4
Real GDP	2.6	0.7	1.9	4.1	7.4	4.2	4.5	3.3	4.0	2.3	4.4	4.4	4.0
Gross dom. purchases	3.0	2.4	1.8	4.6	6.8	4.9	5.3	4.4	4.1	3.2	4.5	4.5	4.8
Final sales	2.0	0.7	2.4	5.1	6.8	3.7	3.3	2.5	5.0	1.2	4.5	4.5	3.6
Priv. dom. final purchases	2.1	1.6	2.2	4.3	6.2	4.1	3.6	3.2	4.9	1.4	4.2	4.2	4.1
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	2.7	2.6
Durables	1.2	-0.2	-0.0	1.6	1.4	0.3	0.2	-0.0	1.4	0.1	0.8	0.8	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	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	0.9	0.9	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	0.9	1.1
Nonres. structures	-0.5	-0.2	-0.3	0.3	-0.0	0.2	-0.2	0.2	-0.0	-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	0.6	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	-0.1	-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	-0.7	-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	0.4	0.3
Federal	0.2	0.6	0.0	1.4	-0.2	0.3	0.5	0.2	0.3	0.5	0.4	0.4	0.3
Defense	0.1	0.5	-0.1	1.5	-0.4	0.5	0.5	0.1	0.5	0.3	0.3	0.3	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	0.1	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	-0.1	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	-0.2	0.5
Farm	0.2	0.0	0.1	-0.1	0.1	0.2	0.1	-0.1	0.1	0.0	0.1	0.1	-0.0

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

Strictly Confidential <FR>  
Class II FOMC

March 16, 2005

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	04Q4/ 03Q4	05Q4/ 04Q4	06Q4/ 05Q4			
Real GDP	4.3	4.3	4.1	3.9	3.8	3.7	3.6	3.6	3.6	3.6	4.0	4.0	3.6			
Gross dom. purchases	5.6	5.1	3.5	3.9	4.1	4.2	3.4	3.9	4.2	4.2	4.8	4.1	3.9			
Final sales	3.5	3.6	5.2	4.3	3.6	3.4	4.2	3.7	3.4	3.6	3.6	4.2	3.6			
Priv. dom. final purchases	4.5	3.6	4.1	3.9	3.5	3.6	3.5	3.5	3.5	3.5	4.1	3.8	3.5			
Personal cons. expenditures	2.9	2.7	2.7	2.7	2.6	2.6	2.5	2.5	2.5	2.5	2.6	2.7	2.5			
Durables	0.3	-0.1	0.5	0.7	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.5			
Nondurables	1.2	1.5	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	0.9			
Services	1.4	1.3	1.4	1.1	1.2	1.1	1.2	1.2	1.2	1.2	1.3	1.2	1.2			
Business fixed investment	1.4	0.5	1.1	1.2	1.0	1.0	1.0	1.0	0.9	1.1	1.1	1.0	1.0			
Equipment & Software	1.4	0.4	1.0	1.0	0.8	0.9	0.9	0.9	0.8	1.1	1.1	0.8	0.9			
Nonres. structures	0.0	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	-0.0	-0.0	0.1	0.1			
Residential structures	0.2	0.4	0.3	-0.0	-0.1	-0.0	0.0	0.0	0.1	0.4	0.4	0.2	0.0			
Net exports	-1.3	-0.6	0.6	0.0	-0.3	-0.5	0.2	-0.3	-0.6	-0.8	-0.8	-0.1	-0.3			
Exports	0.3	0.8	0.9	0.9	1.0	0.7	0.8	0.8	0.9	0.6	0.6	0.9	0.8			
Imports	-1.6	-1.4	-0.3	-0.8	-1.3	-1.2	-0.6	-1.1	-1.5	-1.4	-1.4	-1.0	-1.1			
Government cons. & invest.	0.2	0.6	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.5	0.4			
Federal	0.1	0.4	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.3	0.3	0.2	0.1			
Defense	-0.0	0.4	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.2	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			
State and local	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.0	0.0	0.3	0.3			
Change in bus. inventories	0.8	0.7	-1.1	-0.5	0.2	0.2	-0.5	-0.0	0.3	0.4	0.4	-0.2	-0.0			
Nonfarm	0.9	0.6	-1.1	-0.4	0.2	0.2	-0.5	-0.0	0.3	0.5	0.5	-0.2	-0.0			
Farm	-0.1	0.1	-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)

March 16, 2005

Item	Fiscal year				2004				2005				2006			
	2003 <sup>a</sup>	2004 <sup>a</sup>	2005	2006	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget</b>																
Receipts <sup>1</sup>	1782	1880	2075	2213	410	550	479	487	438	629	520	520	469	674	550	535
Outlays <sup>1</sup>	2159	2293	2453	2593	581	576	565	605	624	609	614	636	669	649	640	664
Surplus/deficit <sup>1</sup>	-377	-413	-378	-380	-171	-26	-86	-118	-186	20	-94	-115	-200	25	-90	-129
On-budget	-538	-568	-540	-561	-194	-99	-96	-171	-207	-56	-106	-158	-239	-59	-104	-176
Off-budget	161	155	163	181	23	73	10	53	21	76	12	43	39	84	15	47
Means of financing																
Borrowing	374	378	379	387	136	41	83	102	155	19	104	100	185	4	98	119
Cash decrease	26	-1	1	-0	12	-23	8	12	12	-32	9	10	15	-25	0	10
Other <sup>2</sup>	-22	36	-3	-7	23	8	-6	4	18	-7	-19	5	0	-4	-8	-0
Cash operating balance, end of period	35	36	35	35	21	45	36	25	12	44	35	25	10	35	35	25
<b>NIPA federal sector</b>																
Receipts	1863	1933	2131	2276	1915	1949	1966	2015	2139	2172	2199	2225	2264	2293	2323	2353
Expenditures	2209	2314	2461	2628	2306	2329	2341	2390	2458	2483	2512	2543	2635	2653	2683	2710
Consumption expenditures	646	694	739	780	691	700	713	714	739	748	756	763	780	786	792	798
Defense	425	469	505	538	465	474	487	484	504	512	519	526	537	542	547	553
Nondefense	221	225	234	242	226	227	226	230	235	236	237	237	243	243	244	245
Other spending	1563	1620	1721	1849	1615	1629	1628	1676	1718	1735	1756	1780	1855	1868	1891	1912
Current account surplus	-345	-381	-329	-352	-391	-380	-375	-375	-319	-311	-313	-318	-371	-360	-360	-357
Gross investment	92	102	113	119	102	104	104	111	112	114	116	118	119	120	121	122
Gross saving less gross investment <sup>3</sup>	-347	-391	-346	-370	-402	-391	-386	-392	-335	-328	-331	-336	-389	-378	-378	-375
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-274	-344	-317	-358	-359	-348	-343	-352	-303	-302	-310	-320	-376	-368	-370	-370
Change in HEB, percent of potential GDP	1.2	0.5	-0.4	0.2	0.2	-0.1	-0.1	0.0	-0.4	-0.0	0.0	0.0	0.4	-0.1	-0.0	-0.0
Fiscal impetus (FI) percent of GDP	0.9	0.8	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.1	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) March 16, 2005  
 Class II FOMC Change in Debt of the Domestic Nonfinancial Sectors  
(Percent)

Period <sup>1</sup>	Total	Federal government	Nonfederal					Memo: Nominal GDP
			Total	Households		Business	State and local governments	
				Total	Home mortgages			
<i>Year</i>								
1999	6.4	-1.9	8.9	8.3	9.2	10.7	3.4	6.3
2000	4.8	-8.0	8.3	8.7	8.3	9.4	1.3	4.6
2001	6.2	-0.2	7.6	8.8	9.6	6.1	8.9	2.7
2002	6.8	7.6	6.7	9.6	11.8	2.7	11.1	3.8
2003	8.1	10.9	7.5	10.0	12.4	4.3	8.2	6.2
2004	8.6	9.0	8.5	11.0	13.3	5.7	7.4	6.5
2005	7.6	8.6	7.4	8.3	9.2	6.8	4.4	5.9
2006	6.9	8.5	6.5	6.9	7.5	6.8	2.8	5.4
<i>Quarter</i>								
2004:1	9.3	12.0	8.7	11.8	13.8	4.6	10.3	7.4
2	7.4	10.7	6.7	9.7	11.5	3.7	3.5	6.6
3	8.3	4.8	9.1	11.5	14.4	5.9	9.4	5.5
4	8.3	7.2	8.5	9.4	11.2	8.0	5.6	6.6
2005:1	9.2	12.7	8.4	9.0	10.2	7.5	9.1	7.2
2	7.2	7.9	7.0	8.2	9.2	6.3	3.1	6.0
3	6.6	6.2	6.7	7.7	8.4	6.3	2.7	5.2
4	6.5	6.5	6.5	7.1	7.7	6.5	2.6	5.2
2006:1	7.9	14.2	6.5	6.9	7.5	6.7	2.9	5.6
2	6.3	6.0	6.4	6.8	7.4	6.6	2.9	5.3
3	6.1	5.3	6.3	6.7	7.2	6.6	2.6	5.3
4	6.5	7.5	6.2	6.5	7.1	6.6	2.6	5.2

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 FOMIC**  
**Flow of Funds Projections: Highlights**  
**(Billions of dollars at seasonally adjusted annual rates except as noted)**  
**March 16, 2005**

Category	2003				2004				2005				2006			
	2003	2004	2005	2006	2004		2005		2006		2007		2008			
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Net funds raised by domestic nonfinancial sectors																
1 Total	1604.0	1705.6	1649.6	1709.9	1721.0	1570.4	2029.5	1576.2	1490.4	1502.3	1956.9	1599.6	1583.5	1699.6		
2 Net equity issuance	-57.8	-210.0	-183.0	-81.0	-203.2	-395.2	-192.0	-202.0	-181.0	-157.0	-103.0	-79.0	-71.0	-71.0		
3 Net debt issuance	1661.7	1915.6	1832.6	1790.9	1924.2	1965.6	2221.5	1778.2	1671.4	1659.3	2059.9	1678.6	1654.5	1770.6		
Borrowing sectors																
Nonfinancial business																
4 Financing gap <sup>1</sup>	-14.3	31.6	-7.3	119.5	-28.5	149.4	80.5	-56.3	-43.8	-9.7	21.7	132.6	147.9	176.0		
5 Net equity issuance	-57.8	-210.0	-183.0	-81.0	-203.2	-395.2	-192.0	-202.0	-181.0	-157.0	-103.0	-79.0	-71.0	-71.0		
6 Credit market borrowing	308.6	420.4	533.9	569.3	445.4	618.2	585.3	503.9	511.7	534.7	558.0	562.1	575.6	581.4		
Households																
7 Net borrowing <sup>2</sup>	839.4	1017.9	847.0	767.4	1120.3	943.4	925.4	862.8	826.1	773.5	772.2	768.2	766.5	762.7		
8 Home mortgages	733.6	884.9	692.7	616.8	1017.2	820.1	766.3	714.9	668.2	621.5	616.8	616.8	616.8	616.8		
9 Consumer credit	88.4	101.3	125.0	123.7	132.7	101.3	128.2	118.4	129.3	123.9	127.8	124.7	123.0	119.2		
10 Debt/DPI (percent) <sup>3</sup>	107.8	112.9	117.0	118.3	114.2	114.3	116.2	117.0	117.6	117.9	117.9	118.2	118.4	118.7		
State and local governments																
11 Net borrowing	117.8	115.4	74.2	48.8	151.8	92.0	151.6	53.8	45.8	45.8	50.8	50.8	46.8	46.8		
12 Current surplus <sup>4</sup>	176.2	192.7	176.3	188.1	198.4	180.4	167.7	177.1	179.1	181.4	184.9	186.5	188.5	192.6		
Federal government																
13 Net borrowing	396.0	361.9	377.5	405.4	206.7	312.1	559.2	357.7	287.8	305.3	678.8	297.5	265.6	379.7		
14 Net borrowing (n.s.a.)	396.0	361.9	377.5	405.4	83.3	102.1	154.7	18.9	103.6	100.4	184.6	3.8	98.0	119.0		
15 Unified deficit (n.s.a.)	399.1	400.7	374.8	393.4	85.7	118.1	185.5	-20.0	94.0	115.2	200.0	-25.1	89.6	128.9		
Depository institutions																
16 Funds supplied	476.4	824.0	612.0	582.9	424.1	1003.2	1130.5	386.9	460.1	470.3	677.7	515.2	609.1	529.5		
Memo (percentage of GDP)																
17 Domestic nonfinancial debt <sup>5</sup>	194.4	197.8	201.3	204.8	198.4	199.4	200.2	201.4	202.3	203.0	203.9	204.8	205.4	206.0		
18 Domestic nonfinancial borrowing	15.1	16.3	14.7	13.6	16.3	16.4	18.2	14.3	13.3	13.1	16.0	12.9	12.5	13.2		
19 Federal government <sup>6</sup>	3.6	3.1	3.0	3.1	1.7	2.6	4.6	2.9	2.3	2.4	5.3	2.3	2.0	2.8		
20 Nonfederal	11.5	13.2	11.7	10.5	14.5	13.8	13.6	11.5	11.0	10.7	10.7	10.6	10.5	10.4		

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

Incoming data on fourth-quarter foreign economic activity suggest that growth continued at a moderate pace, with somewhat-slower-than-expected growth in the industrial countries and surprisingly strong performance in emerging markets. Going forward, indicators for the industrial economies are more positive, and we expect foreign growth to step up slightly over the remainder of the forecast period. Prices of oil and other commodities rose markedly over the intermeeting period, and they are projected to remain well above levels projected in the previous forecast. Foreign CPI inflation is estimated to have moved down in the current quarter because of transitory factors, but it is projected to average close to 2½ percent over the forecast period, mainly because of the higher paths for prices of energy and other commodities. Long-term interest rates rose on balance in both the United States and in the foreign industrial economies during the intermeeting period.

**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	3.3	3.4	3.4
<i>January GB</i>	<i>4.1</i>	<i>2.6</i>	<i>3.1</i>	<i>3.0</i>	<i>3.3</i>	<i>3.4</i>	<i>3.3</i>
Foreign CPI	2.9	3.0	2.1	1.1	2.5	2.3	2.3
<i>January GB</i>	<i>2.9</i>	<i>2.9</i>	<i>2.3</i>	<i>1.7</i>	<i>2.2</i>	<i>2.2</i>	<i>2.2</i>

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 rose about \$8 per barrel over the intermeeting period, and the price of the NYMEX far-dated futures contract rose about \$7 per barrel. Oil demand was boosted during the period by colder-than-average weather in key oil-consuming regions, and market participants have reportedly revised up their outlook for medium-term global oil demand. Prices of important non-energy commodities also rose sharply over the intermeeting period.

The dollar depreciated on balance over the intermeeting period on heightened market speculation that several major East Asian monetary authorities may further diversify their holdings of reserve assets and on ongoing investor concerns about the financing burden of the large and growing U.S. current account deficit. The projected value of the broad real dollar in the second quarter is ½ percent lower than in the previous Greenbook.

**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	5.0	5.4	3.8	2.1	2.2
<i>Imports</i>							
Non-oil core goods	5.2	2.3	4.2	4.4	2.2	2.2	.6
Oil (dollars per barrel)	34.55	37.54	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.

In the first quarter of 2005, core export prices are projected to increase 5½ percent at an annual rate, following a 5 percent rise in the fourth quarter. The fourth-quarter price increase was a result mainly of higher prices for exported industrial supplies, particularly chemicals and fuels. The unexpectedly sharp increase in the BLS price data for January was also driven by the industrial supplies category, and for the first quarter, we have marked up our projection ¾ percentage points relative to the January Greenbook. This upward revision is also supported by the higher domestic producer prices for intermediate goods. For the rest of 2005 and 2006, core export price inflation is projected to decline, as the high rates of inflation for intermediate goods and finished petroleum products abate.

**Trade in Goods and Services**

Nominal imports decreased less than expected in December, as a substantial decline in the value of oil imports was largely offset by a sharp increase in imports of non-oil goods. As a result, we now estimate that real imports increased a robust 11 percent in the fourth quarter, about 1½ percentage points above our estimate in the January Greenbook. The rise was concentrated in core goods and oil, whereas imports of services declined substantially.

In January, nominal imports jumped sharply on record purchases of consumer goods as well as strong imports of capital goods. For the current quarter we are projecting growth of overall real imports to edge down to a still-high rate of 9¼ percent. Imports of core

goods grew more rapidly in the fourth quarter than was implied by U.S. GDP growth and relative prices and are poised to do so again in the current quarter. We expect services imports to rebound this quarter from their abnormally weak fourth quarter. In contrast, following a surge in the fourth quarter, real imports of oil are projected to flatten out as domestic oil production recovers from last year's hurricanes and domestic oil stocks are replenished more slowly.

**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	6.0	3.3	7.9	8.8	9.1	7.5
<i>January GB</i>	7.3	6.3	-.8	7.8	8.9	9.0	7.2
Real imports	11.6	4.6	10.9	9.3	1.9	6.9	6.8
<i>January GB</i>	11.6	4.6	9.4	2.4	2.9	7.9	7.6

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

Our projection for first-quarter growth in real imports of goods and services is revised up considerably from the previous Greenbook, partly reflecting the effect of higher projected U.S. GDP growth on imports of core goods and services as well as the stronger-than-anticipated January data. Additionally, in previous Greenbooks we had assumed that the expiration of partial expensing tax provisions this year would lead to a temporary dip in imports of capital goods. However, a strong increase in capital goods imports in January has led us to reassess this assumption and to substantially moderate the projected dip in these imports.

For all of 2005, growth of imported real goods and services is expected to move down to 6¼ percent following growth of 9½ percent in 2004. This decline reflects primarily a moderation of core import growth from recent elevated levels to a pace that is more in line with U.S. income growth and relative prices, as well as the unwinding of the late-2004 surge in oil imports mentioned above. Conversely, the growth of imported services is projected to pick up this year, while the rate of expansion of imported high-tech products should be little changed. We expect growth of real imports to edge up to 6¾ percent in 2006, as the factors holding back oil imports in 2005 fade and the

exports and because import substitution away from Chinese products is limited by low pass-through of exchange rates to import prices. Accordingly, there is also a negligible impact of the renminbi's revaluation on the nominal trade balance.

**Alternative Simulations:  
The effects of a revaluation of the renminbi and  
other Asian currencies against the dollar**  
(Percent change from previous period, annual rate,  
unless stated otherwise)

Indicator and simulation	2005		2006	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	4.2	3.8	3.6	3.6
I. RMB revaluation vs. dollar	4.2	4.0	3.7	3.7
II. Broad revaluation of East Asian currencies vs. dollar	4.2	4.2	4.1	4.0
<i>U.S. PCE prices excluding food and energy</i>				
Baseline	1.9	1.7	1.6	1.5
I. RMB revaluation vs. dollar	2.0	1.7	1.6	1.5
II. Broad revaluation of East Asian currencies vs. dollar	2.1	1.9	1.8	1.7
<i>U.S. trade balance (Percent share of GDP)</i>				
Baseline	-5.7	-5.7	-5.7	-5.6
I. RMB revaluation vs. dollar	-5.8	-5.7	-5.7	-5.6
II. Broad revaluation of East Asian currencies vs. dollar	-6.0	-5.9	-5.7	-5.5

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.

In the second scenario, we assume that the Chinese revaluation is accompanied by an immediate 20 percent appreciation of other developing Asian currencies and the Japanese yen against the dollar, which we model as a risk premium shock. In this case, U.S. real GDP growth rises  $\frac{1}{2}$  percentage point above baseline in 2005:H2 and in 2006. Core PCE inflation increases 0.2 percentage point above baseline in 2005:H1, largely because of higher import prices, and remains above baseline in 2006 because of cost pressures arising from increased resource utilization. The ratio of the trade balance to GDP deteriorates initially due to J-curve effects, as higher import prices boost nominal

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OUTLOOK FOR FOREIGN REAL GDP AND CONSUMER PRICES: SELECTED COUNTRIES  
 (Percent, Q4 to Q4)

Measure and country	1998	1999	2000	2001	2002	2003	2004	2005	2006
-----Projected-----									
REAL GDP (1)									
-----									
Total foreign	1.5	5.0	4.2	0.3	3.0	2.8	3.5	3.3	3.4
Industrial Countries	2.7	4.4	3.5	0.8	2.6	1.7	2.2	2.3	2.6
of which:									
Canada	4.4	5.9	4.1	1.4	3.8	1.7	3.0	3.0	3.3
Japan	-1.1	0.2	3.2	-2.0	1.4	2.1	1.0	1.5	1.7
United Kingdom	2.8	3.3	3.0	2.2	1.9	2.7	2.9	2.6	2.5
Euro Area (2)	1.9	3.9	2.8	0.8	1.2	0.8	1.6	1.5	1.7
Germany	0.7	3.3	1.9	0.5	0.5	0.0	0.6	0.9	1.4
Developing Countries	-0.3	6.1	5.3	-0.4	3.7	4.5	5.5	4.7	4.7
Asia	-2.2	8.6	5.8	0.9	6.1	6.3	5.9	5.2	5.2
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	9.5	7.9	8.0
Latin America	1.2	4.3	4.5	-1.3	1.5	2.4	5.0	4.1	4.2
Mexico	2.9	5.5	4.8	-1.3	2.0	2.1	4.9	4.2	4.3
Brazil	-1.7	3.5	3.9	-0.9	4.2	0.8	4.8	2.8	2.9
CONSUMER PRICES (3)									
-----									
Industrial Countries	0.9	1.1	1.7	0.9	2.1	1.3	1.8	1.2	1.5
Of which:									
Canada	1.1	2.4	3.1	1.1	3.8	1.7	2.3	1.7	2.0
Japan	0.7	-1.1	-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	1.5	1.3	1.4	1.9	2.0
Euro Area (2)	0.9	1.5	2.5	2.1	2.3	2.0	2.3	1.7	1.8
Germany	0.3	1.1	1.7	1.5	1.2	1.2	2.1	1.1	1.4
Developing Countries	9.0	4.6	4.1	2.8	2.9	3.0	3.9	3.2	3.3
Asia	4.4	0.1	1.8	1.1	0.6	2.1	3.0	2.6	2.8
Korea	5.8	1.2	2.6	3.4	3.4	3.5	3.4	3.8	3.3
China	-1.2	-1.0	0.9	-0.1	-0.6	2.6	3.2	2.1	2.9
Latin America	15.4	12.5	8.4	5.3	6.4	5.0	5.6	3.9	4.2
Mexico	17.3	13.5	8.7	5.1	5.3	3.9	5.3	3.2	3.8
Brazil	2.0	8.4	6.4	7.5	10.7	11.5	7.2	6.3	5.1

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



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

Measure and country	2004				2005				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	4.6	3.6	2.7	3.1	3.0	3.3	3.4	3.5	3.5	3.4	3.4	3.4
Industrial Countries	3.2	2.8	1.5	1.4	2.0	2.3	2.5	2.6	2.7	2.6	2.5	2.5
of which:												
Canada	2.8	4.5	2.9	1.7	2.4	2.7	3.3	3.4	3.5	3.3	3.2	3.1
Japan	6.0	-1.0	-1.1	0.5	1.8	1.4	1.2	1.5	1.6	1.7	1.7	1.8
United Kingdom	2.4	4.2	2.1	2.9	2.1	2.8	2.8	2.8	2.5	2.5	2.5	2.5
Euro Area (2)	3.0	1.9	1.0	0.6	1.4	1.5	1.5	1.6	1.7	1.7	1.7	1.7
Germany	2.0	1.4	0.1	-0.9	0.6	0.9	1.0	1.2	1.3	1.4	1.4	1.4
Developing Countries	6.9	4.9	4.5	5.7	4.6	4.8	4.7	4.7	4.7	4.7	4.7	4.7
Asia	7.8	4.6	5.2	5.9	5.0	5.4	5.2	5.3	5.2	5.2	5.2	5.2
Korea	3.0	2.6	2.6	3.0	3.5	4.0	4.0	4.2	4.3	4.2	4.2	4.2
China	14.4	2.8	10.1	11.2	7.9	7.9	7.9	7.9	8.0	8.0	8.0	8.0
Latin America	6.2	4.9	3.9	5.2	4.1	4.1	4.1	4.1	4.2	4.2	4.2	4.2
Mexico	5.6	4.5	3.8	5.5	4.2	4.2	4.2	4.2	4.3	4.3	4.3	4.3
Brazil	7.3	6.0	4.4	1.7	2.8	2.8	2.8	2.8	2.9	2.9	2.9	2.9
CONSUMER PRICES (3)	Four-quarter changes											
Industrial Countries	0.9	1.5	1.5	1.8	1.5	1.3	1.4	1.2	1.5	1.5	1.5	1.5
of which:												
Canada	0.9	2.2	2.0	2.3	2.2	1.8	1.9	1.7	1.8	1.9	2.0	2.0
Japan	-0.3	-0.2	-0.1	0.4	-0.4	-0.3	-0.2	-0.6	-0.0	0.1	0.2	0.2
United Kingdom (4)	1.2	1.4	1.3	1.4	1.6	1.8	2.0	1.9	1.9	1.9	1.9	2.0
Euro Area (2)	1.7	2.3	2.3	2.3	2.0	1.8	1.8	1.7	2.0	1.9	1.9	1.8
Germany	1.0	1.9	2.0	2.1	1.7	1.4	1.3	1.1	1.5	1.4	1.4	1.4
Developing Countries	3.0	3.7	4.5	3.9	3.4	3.2	2.8	3.2	3.5	3.4	3.4	3.3
Asia	2.3	3.4	4.3	3.0	2.7	2.2	1.8	2.6	3.0	2.9	2.9	2.8
Korea	3.2	3.4	4.3	3.4	3.3	3.8	3.2	3.8	3.9	3.7	3.6	3.3
China	2.8	4.4	5.3	3.2	2.5	1.5	0.8	2.1	2.8	2.8	2.9	2.9
Latin America	4.7	4.6	5.2	5.6	4.8	4.9	4.4	3.9	4.4	4.4	4.3	4.2
Mexico	4.3	4.3	4.8	5.3	4.3	4.3	3.9	3.2	3.9	4.0	3.9	3.8
Brazil	6.8	5.5	6.8	7.2	7.3	7.4	6.6	6.3	5.6	5.3	5.2	5.1

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

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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	-0.8	-0.1	-0.3
Exports of G&S	0.3	0.6	0.7	-1.3	0.3	0.6	0.6	0.9	0.8
Imports of G&S	-1.4	-1.6	-1.6	1.1	-1.3	-0.7	-1.4	-1.0	-1.1
	Percentage change, Q4/Q4								
Exports of G&S	2.6	5.6	6.5	-11.9	3.5	6.1	6.0	8.7	7.5
Services	4.4	5.3	1.8	-8.9	9.8	3.8	4.4	7.1	6.2
Computers	7.3	13.4	22.7	-23.5	-1.0	11.2	5.7	17.3	14.4
Semiconductors	9.5	34.6	27.6	-34.6	9.9	38.8	-5.8	24.1	29.1
Other Goods 1/	1.2	3.3	5.9	-10.2	0.4	5.0	7.5	8.1	6.6
Imports of G&S	11.0	12.1	11.2	-7.6	9.7	4.9	9.6	6.2	6.8
Services	10.4	6.5	10.7	-5.9	8.9	3.7	2.1	4.0	4.5
Oil	4.2	-3.4	13.3	3.7	4.2	1.8	10.2	-5.5	1.0
Computers	26.4	26.0	13.9	-13.6	13.4	16.9	22.3	14.7	17.5
Semiconductors	-7.7	34.2	22.8	-51.1	10.0	0.3	9.1	22.6	29.1
Other Goods 2/	11.2	12.9	10.5	-6.5	9.9	4.9	10.5	8.1	7.2
	Billions of Chained 2000 Dollars								
Net Goods & Services	-203.8	-296.3	-379.5	-399.1	-472.0	-518.5	-583.2	-626.6	-647.7
Exports of G&S	966.5	1008.2	1096.3	1036.7	1012.4	1031.8	1120.4	1200.0	1295.1
Imports of G&S	1170.3	1304.5	1475.8	1435.8	1484.4	1550.2	1703.6	1826.5	1942.8
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-209.6	-296.8	-413.5	-385.7	-473.9	-530.7	-669.4	-808.0	-876.6
Current Acct as Percent of GDP	-2.4	-3.2	-4.2	-3.8	-4.5	-4.8	-5.7	-6.5	-6.7
Net Goods & Services (BOP)	-164.9	-263.3	-378.4	-362.7	-421.7	-496.5	-617.1	-715.9	-744.6
Investment Income, Net	8.3	18.4	25.3	28.7	12.6	38.8	26.6	-5.9	-45.9
Direct, Net	65.5	78.2	94.9	115.9	100.8	118.9	129.4	152.9	168.6
Portfolio, Net	-57.2	-59.8	-69.7	-87.2	-88.2	-80.1	-102.8	-158.8	-214.5
Other Income & Transfers, Net	-53.0	-52.0	-60.4	-51.7	-64.8	-72.9	-79.0	-86.1	-86.1

1. Merchandise exports excluding computers and semiconductors.

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

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## 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	-515.3	-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				Projected			
	-----				-----				-----			
	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	-0.1	-1.3	-0.6	0.6	0.0	-0.3	-0.5	0.2	-0.3	-0.6
Exports of G&S	0.7	0.7	0.6	0.3	0.8	0.9	0.9	1.0	0.7	0.8	0.8	0.9
Imports of G&S	-1.5	-1.8	-0.7	-1.6	-1.4	-0.3	-0.8	-1.3	-1.2	-0.6	-1.1	-1.5
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	7.3	7.3	6.0	3.3	7.9	8.8	8.5	9.8	6.5	7.6	7.4	8.5
Services	3.4	10.2	-1.9	6.4	7.7	7.2	7.0	6.7	6.5	6.4	6.1	5.9
Computers	-8.3	-1.8	22.4	13.1	25.1	15.9	14.3	14.3	14.4	14.4	14.4	14.4
Semiconductors	12.5	-10.1	-20.7	-1.9	2.3	38.7	29.2	29.2	29.1	29.1	29.1	29.1
Other Goods 1/	10.1	7.7	11.1	1.6	7.4	7.5	7.7	9.9	4.8	6.7	6.5	8.3
Imports of G&S	10.6	12.6	4.6	10.9	9.3	1.9	5.3	8.5	7.7	3.5	6.8	9.3
Services	1.1	10.7	2.8	-5.6	4.8	2.9	3.8	4.4	4.4	4.6	4.6	4.6
Oil	39.0	-33.1	2.2	55.4	4.1	-31.4	-7.9	21.1	12.7	-24.3	-1.1	23.3
Computers	12.8	38.6	29.9	10.0	8.2	16.3	17.3	17.4	17.5	17.5	17.5	17.5
Semiconductors	42.2	21.2	7.4	-23.6	13.7	19.4	28.9	29.2	29.1	29.1	29.1	29.1
Other Goods 2/	8.9	19.6	3.7	10.3	11.4	7.3	6.9	6.6	6.7	7.2	7.5	7.6
	Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-550.1	-580.3	-583.2	-619.0	-636.8	-620.5	-619.9	-629.1	-644.4	-637.4	-646.1	-662.8
Exports of G&S	1095.4	1114.8	1131.1	1140.3	1162.1	1186.8	1211.2	1239.7	1259.4	1282.7	1305.8	1332.7
Imports of G&S	1645.5	1695.1	1714.3	1759.3	1798.9	1807.4	1831.1	1868.8	1903.8	1920.1	1951.9	1995.5
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-589.6	-658.5	-660.9	-768.6	-790.1	-797.8	-809.7	-834.2	-873.3	-858.7	-872.2	-902.1
Current Account as % of GDP	-5.1	-5.6	-5.6	-6.4	-6.5	-6.4	-6.5	-6.6	-6.8	-6.6	-6.6	-6.7
Net Goods & Services (BOP)	-555.3	-605.3	-623.5	-684.2	-701.7	-712.6	-717.6	-731.8	-747.7	-734.5	-739.8	-756.2
Investment Income, Net	54.3	26.3	26.8	-0.8	4.9	-1.9	-8.3	-18.3	-32.3	-40.8	-48.6	-61.7
Direct, Net	139.1	125.1	125.6	128.0	140.1	152.7	158.0	160.7	160.2	165.2	173.0	176.1
Portfolio, Net	-84.8	-98.8	-98.8	-128.8	-135.2	-154.6	-166.3	-178.9	-192.5	-206.0	-221.6	-237.8
Other Inc. & Transfers, Net	-88.5	-79.5	-64.3	-83.6	-93.3	-83.4	-83.8	-84.2	-93.3	-83.4	-83.8	-84.2

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

## **Part 2**

March 16, 2005

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

March 16, 2005

## **Recent Developments**

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the automakers early this month suggest that they expect light vehicle sales to edge up slightly in March.

Consistent with the decline in incentives, consumers' perceptions of buying conditions have become more negative. The Michigan SRC index of car-buying attitudes fell for a second month in February, and an increased fraction of respondents cited high prices as the reason for their worsened perceptions. Those views appear to be well grounded: The CPI for new vehicles has accelerated sharply, with an average monthly increase of nearly 0.5 percent per month over the four months ending in January.

Despite the slowdown in sales, motor vehicle production picked up in January and February, and inventories rose sharply over this period. The increase in stocks was particularly large for light trucks, for which days' supply on dealer lots approached ninety days; days' supply for autos also moved up but only to about sixty days. Automakers' initial production schedules for the second quarter call for a sizable drop in total assemblies, to an annual rate of 11.8 million units. This drop, however, is concentrated in autos, while scheduled truck assemblies are a bit above the rate in the first quarter. This production schedule presents something of a puzzle because it implies that inventories of light trucks will remain high through the spring unless sales pick up noticeably. One possible explanation is that with an increasing variety of light truck models, automakers are willing to tolerate higher levels of overall stocks.

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

Item	2004	2004	2005		2005		
		Q4	Q1 <sup>1</sup>	Q2 <sup>1</sup>	Jan.	Feb.	Mar. <sup>1</sup>
U.S. production	12.0	12.0	12.2	11.8	11.9	12.6	12.2
Autos	4.3	4.1	4.5	3.9	4.4	4.6	4.4
Trucks	7.8	7.9	7.7	7.9	7.5	8.0	7.7
Days' supply <sup>2</sup>	73	73	n.a.	n.a.	76	78	n.a.
Autos	59	58	n.a.	n.a.	59	61	n.a.
Trucks	83	82	n.a.	n.a.	89	89	n.a.
Inventories <sup>3</sup>	3.21	3.21	n.a.	n.a.	3.23	3.27	n.a.
Autos	1.02	1.02	n.a.	n.a.	1.03	1.04	n.a.
Trucks	2.19	2.19	n.a.	n.a.	2.20	2.23	n.a.

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

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

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

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

n.a. Not available.

March 18, 2005

# CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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## **Supplemental Notes**

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



March 18, 2005

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

Category	2004					2005		
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar. <sup>P</sup>
Composite of current and expected conditions <sup>1</sup>	95.9	94.2	91.7	92.8	97.1	95.5	94.1	92.9
Current conditions <sup>1</sup>	107.9	103.7	104.0	104.7	106.7	110.9	109.2	107.3
Expected conditions <sup>1</sup>	88.2	88.0	83.8	85.2	90.9	85.7	84.4	83.6
Personal financial situation								
Now compared with 12 months ago <sup>2</sup>	121	113	112	113	112	123	121	116
Expected in 12 months <sup>2</sup>	133	128	127	124	130	133	127	131
Expected business conditions								
Next 12 months <sup>2</sup>	114	116	113	115	122	114	114	105
Next 5 years <sup>2</sup>	108	110	97	104	114	97	98	100
Appraisal of buying conditions								
Cars	144	148	152	138	154	147	144	135
Large household appliances <sup>2</sup>	158	155	158	158	165	165	162	162
Houses	156	162	155	155	160	158	151	146
Expected unemployment change - next 12 months	106	105	105	106	103	111	111	114
Prob. household will lose a job - next 5 years	22	22	28	23	22	23	23	22
Expected inflation - next 12 months								
Mean	3.1	3.2	3.6	3.3	3.4	3.5	3.3	4.0
Median	2.8	2.8	3.1	2.8	3.0	2.9	2.9	3.2
Expected inflation - next 5 to 10 years								
Mean	3.1	3.1	3.2	3.1	3.1	3.2	3.1	3.2
Median	2.7	2.8	2.8	2.7	2.8	2.7	2.8	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.