Prefatory Note

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Class II FOMC - Restricted (FR)

Part 1

March 10, 2010

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

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Domestic Developments

The incoming data on spending and production suggest that the economy is continuing to expand, albeit at a slightly slower pace than we anticipated at the time of the January Greenbook. On the positive side, the unemployment rate has moved down to a lower level than we were expecting, and we judge that private employment would have shown a modest increase in February in the absence of the temporary effects of the severe storms last month. In addition, business investment spending has been rising more briskly than anticipated, while the ongoing rebound in industrial production has remained on track. In contrast, the recovery in housing activity seems to have stalled, and consumer spending appears likely to increase a bit more slowly than previously anticipated. In addition, government expenditures have been noticeably lower than we projected in the last Greenbook. All told, we now estimate that real GDP will rise at an annual rate of 2¼ percent in the current quarter, about ½ percentage point less than in the January Greenbook. Real GDP growth is projected to then pick up to a 3½ percent pace in the second quarter, down ¼ percentage point from the last Greenbook.

The trajectory of our medium-term forecast is similar to those in recent Greenbooks. In particular, we continue to project that the accommodative stance of monetary policy, accompanied by a further diminution of the factors that have weighed on spending and production over the past two years, will lead to a moderate recovery in economic activity over the projection period. That said, we have marked down our projection in each year in response to recent unfavorable news on housing activity, a downward revision to data on the level of household income in the second half of last year, evidence that fiscal pressures are causing state and local governments to tighten their belts by a bit more than we had anticipated, and a slightly higher exchange value of the dollar. In all, we now project that real GDP will increase about 3¼ percent this year and 4½ percent in 2011, both about ¼ percentage point less than in the January Greenbook. These changes contribute to a somewhat slower reduction in resource slack over the course of the next two years, although given its lower starting point, the unemployment rate at the end of 2011—at 8¼ percent—is only a touch higher than in the previous forecast.

Recent data on consumer prices and unit labor costs have come in to the low side of our expectations. This news led us to nudge down our projection for core PCE price inflation this year and next. After rising 1.5 percent in 2009, core PCE prices are now expected to increase 1 percent in both 2010 and 2011, 0.2 and 0.1 percentage point less, respectively,

Note: A list of abbreviations is available at the end of Part 1.

in each year than our projection in the last Greenbook. Total PCE price inflation is projected to run a little above core inflation in 2010 as a result of a sizable increase in energy prices, but to be the same rate as core inflation in 2011 when the increase in energy prices slows.

Key Background Factors

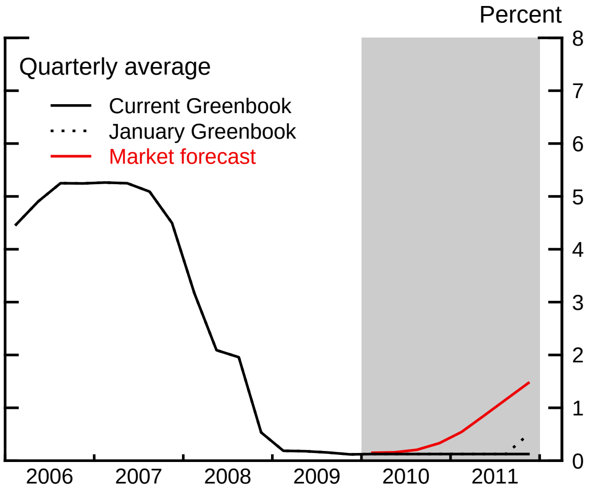
We now assume that the FOMC will hold the target federal funds rate in the current range of 0 to ¼ percent through the end of 2011, with liftoff occurring in early 2012. Our assumptions for nontraditional policy actions are unchanged from the January Greenbook: We expect that the Federal Reserve will have purchased a total of slightly more than $1.7 trillion of long-term securities by the end of the current quarter—$300 billion of Treasury debt, about $175 billion of agency debt, and $1.25 trillion of agency mortgage-backed securities (MBS). The System's holdings of these securities are assumed to run off gradually thereafter, declining to just under $1.4 trillion by the end of 2011.

The 10-year Treasury yield is about unchanged since we closed the January Greenbook, and we continue to assume this rate will increase ½ percentage point between now and the end of 2011. The projected rise in the Treasury yield over the next two years reflects the upward pressure on rates from the movement of the 10-year valuation window through the period of near-zero short-term rates; yields are also lifted by both the expectation of further large increases in Treasury debt in the coming years and the gradual decline in the share of outstanding government securities held by the Federal Reserve. These influences more than offset the downward pressure on long-term yields that we assume will result as market participants continue to revise down their expectations for the federal funds rate toward the path incorporated in our baseline forecast.

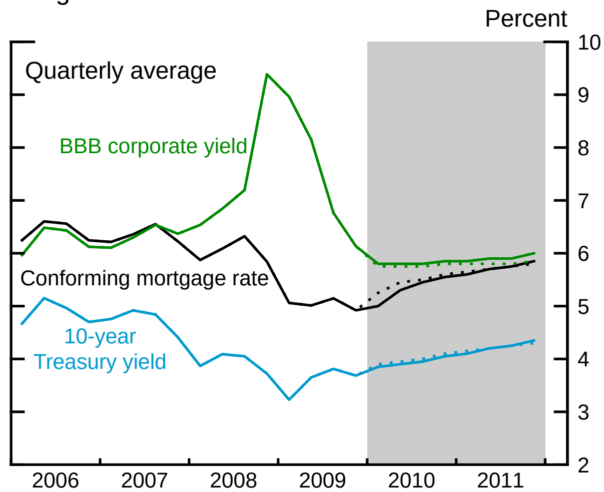
The average interest rate on conforming fixed-rate mortgages is essentially unchanged since the time of the January Greenbook at close to 5 percent. We expect mortgage rates to increase gradually in coming months, reflecting the pass-through of an anticipated increase in the spread between agency MBS yields and Treasury yields after the Federal Reserve winds down its purchases of agency MBS. Specifically, we assume that the spread between the conforming mortgage rate and the 10-year Treasury yield will increase 30 basis points by the end of this summer. Factoring in the projected rise in the 10-year Treasury yield, we expect the mortgage rate to be above 5¾ percent at the end of 2011. Meanwhile, the yield on BBB-rated corporate bonds and its spread to the 10-year

Key Background Factors Underlying the Baseline Staff Projection

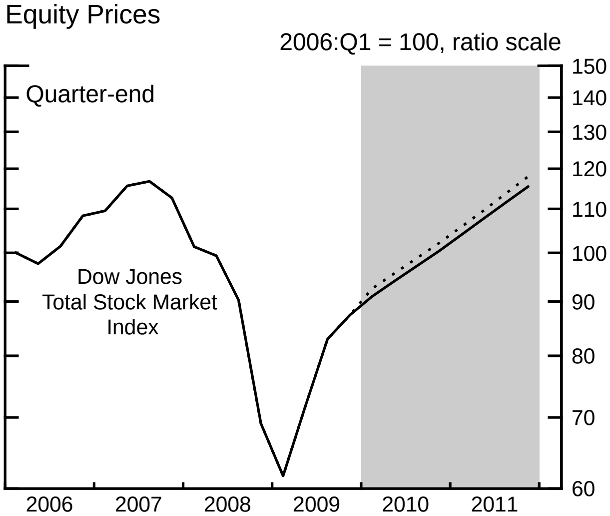
Federal Funds Rate



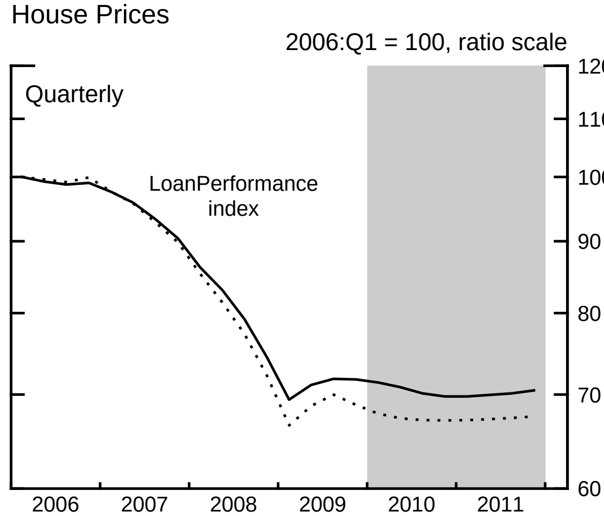
Long-Term Interest Rates



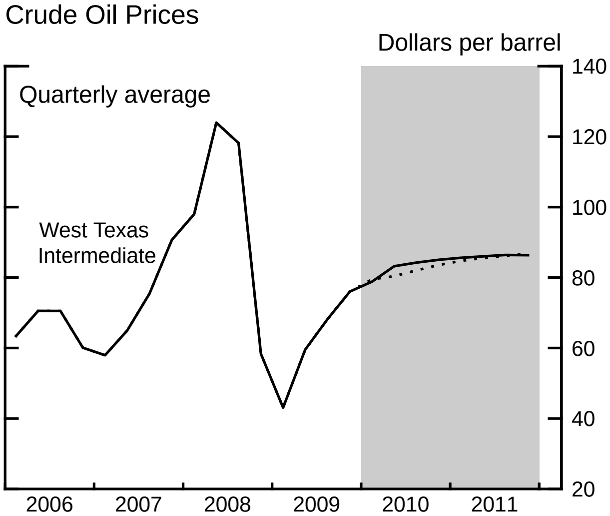
Equity Prices



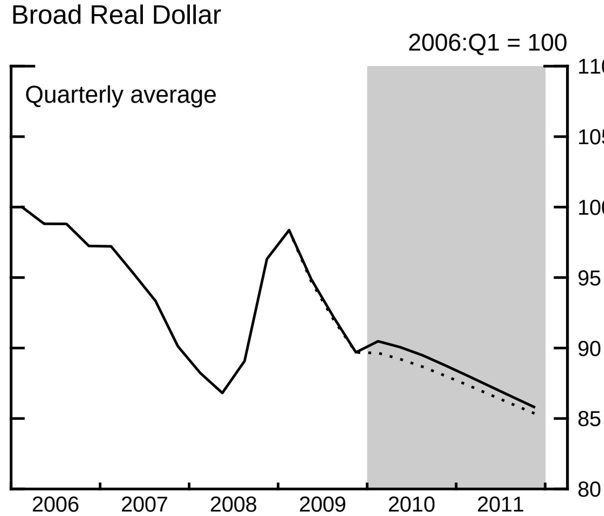
House Prices



Crude Oil Prices



Broad Real Dollar



Note: In each panel, shading represents the projection period, which begins in 2010:Q1.

Treasury yield are close to the levels assumed in the January Greenbook, and we continue to expect this spread to narrow over the projection period as economic activity expands.

Broad indexes of equity prices currently stand about 2 percent below the level assumed in the January Greenbook, and we have lowered the projected path for stock prices by a similar amount.[1] As before, the equity premium, which we estimate remains high compared with longer-run norms, is projected to decline over the forecast period. As a result, we have equity prices rising about 15 percent per year in 2010 and 2011.

As measured by the LoanPerformance index, home prices came in higher than we anticipated in the fourth quarter of last year, and there were upward revisions to the index in prior quarters. Nonetheless, the contour of our projection for home prices is similar to the January Greenbook: We expect tight credit and a rising volume of distressed sales to weigh on home prices in coming quarters, and we forecast that the LP index will decrease 2¾ percent in 2010. In 2011, we anticipate that home prices will edge up 1 percent, as the effects of a gradual strengthening in underlying housing demand show through to prices. All told, after factoring in the higher level of home prices in the fourth quarter, along with lower equity prices, our projection for household net worth is little changed in the near term; in the medium term, net worth is somewhat lower than in our last forecast.

As for fiscal policy, we continue to assume that the federal government will provide another $75 billion in grants-in-aid to state and local governments, which is roughly consistent with aid packages being considered by the Congress. Moreover, recently enacted extensions of expiring stimulus-related provisions, such as emergency unemployment benefits and health insurance subsidies for some unemployed individuals, are consistent with our assumption that these policies will be kept in place through next year. That said, we have made two small changes to our policy assumptions. First, we no longer expect that another round of one-time payments totaling $13 billion will be distributed this year to the recipients of Social Security and veterans benefits. Second, we now anticipate that $13 billion in tax credits will be provided this year for firms hiring and retaining some currently unemployed workers.[2] We estimate that these hiring and retention credits will boost the level of private employment by just 75,000 by the end of this year. We assume that these new jobs are pulled forward from hiring that would

[1] Equity prices dropped markedly in the few days after the close of the January Greenbook; as a result, equity prices currently are noticeably above their level at the time of the January FOMC meeting.

[2] In the legislation close to being enacted in the Congress, firms would receive a credit equal to the 6.2 percent employer share of the Social Security payroll tax on wages through the remainder of 2010 for newly hired workers that previously had been unemployed for at least 60 days. Also, firms could eventually receive an additional $1,000 credit for each new worker who was retained for at least a year.

otherwise have occurred in 2011; as a result, the projected level of private employment at the end of next year is unaffected by this temporary hiring incentive. All told, these policy changes do not significantly change our estimate that federal fiscal policy will provide an impetus to real GDP growth (on an annual-average basis) of about 1 percentage point in 2010 and essentially be neutral in 2011, largely because the boost to activity from stimulus policies begins to wane.

Our forecast for the unified budget is similar to our projection in the January Greenbook. We continue to expect the budget deficit to total about $1.4 trillion (9½ percent of GDP) in fiscal 2010. In fiscal 2011, we now project a deficit of $1.3 trillion (8½ percent of GDP), a bit wider than in the last Greenbook, in part because receipts have been revised down along with the staff's lower projected path for income. The slight narrowing of the budget deficit that we expect in 2011 primarily reflects the budgetary effects of the economic recovery along with the winding down of stimulus-related spending.

The foreign exchange value of the dollar has risen about 1 percent since the time of the January Greenbook. As a result, the starting point for our projected path of the dollar is a little higher than in the last Greenbook, but we have maintained our assumption that the dollar will depreciate at an average annual rate of roughly 3 percent over the next two years. Meanwhile, the recovery in economic activity abroad appears, on net, to be evolving mostly as we had anticipated. As a result, we continue to expect foreign real GDP to rise 3¾ percent in both 2010 and 2011.

The spot price of West Texas Intermediate (WTI) crude oil currently stands at about $82 per barrel, a bit higher than at the time of the last Greenbook. Based on the path for futures prices, we project that the spot price of WTI will rise to $86 per barrel by the end of 2011, a touch lower than in the January Greenbook.

Recent Developments and the Near-Term Outlook

After surging at an annual rate of 5½ percent in the fourth quarter of 2009, real GDP appears on track to post a gain of 2¼ percent in the first quarter of this year.[3] In an accounting sense, the large increase in real GDP last quarter reflected an outsized contribution from inventory investment, primarily the result of a marked slowing in the pace of inventory liquidation. We anticipate that the contribution to real GDP growth

[3] Our current estimate of real GDP growth in the fourth quarter is slightly lower than the BEA's currently published estimate of 5.9 percent, largely reflecting downward revisions to data on construction put-in-place and wholesale inventories that were released after publication of the GDP figures.

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

Measure	2010:Q1		2010:Q2	
	January Greenbook	March Greenbook	January Greenbook	March Greenbook
Real GDP	**2.8**	**2.2**	**3.8**	**3.6**
Private domestic final purchases	2.5	2.0	3.7	3.8
Personal consumption expenditures	2.7	2.4	2.7	2.4
Residential investment	1.3	-17.4	13.1	18.3
Nonresidential structures	-13.8	-8.6	-1.8	-4.6
Equipment and software	8.4	11.8	13.2	18.5
Government outlays for consumption and investment	4.4	.2	2.7	3.9
	Contribution to growth (percentage points)			
Inventory investment	.3	.6	.4	-.3
Net exports	-.5	-.1	-.2	.0

from inventory investment will diminish considerably this quarter. The slower pace of economic growth projected for the current quarter also reflects evidence of a weakening in the pace of activity in the housing sector. We project that real GDP growth will step up to an annual rate of 3½ percent in the second quarter as increases in business spending pick up, home sales jump in advance of the expiration of the extended homebuyer tax credit, and government spending rises rapidly.

Available indicators offer tentative signs that the labor market is bottoming out. Declines in private payrolls have slowed markedly in recent months, and we think that in the absence of the snowstorms, private employment probably would have risen 75,000 in February—though the range of uncertainty around this estimate is wide. In addition, the unemployment rate, which fell from 10 percent at the end of last year to 9.7 percent in January, held at that lower level last month. That said, recent readings on initial claims for unemployment insurance benefits suggest some caution in extrapolating the more favorable news, and as a result, we are projecting a more gradual upturn in employment in the near term. In particular, we expect private payrolls to increase about 175,000 in March—with that figure boosted noticeably by an expected rebound from the stormrelated disruptions—and about 175,000 per month, on average, in the second quarter.[4] These employment gains should be sufficient to lower the unemployment rate to 9½ percent by June.

The outlook for the manufacturing sector remains generally positive. Factory output other than for motor vehicles appears on track to rise at an annual rate of 5½ percent this quarter, as firms continue to boost production to meet rising domestic and foreign demand and to slow the pace of inventory liquidation. Production of light motor vehicles rose to an annual rate of 7.7 million units in January following sizable gains over the second half of last year as manufacturers continued to step up assemblies to satisfy rising demand and to restock dealers' lots. And, although production was damped in February by Toyota's temporary shutdown of some model lines, current schedules suggest that automakers plan to maintain about a 7½ million unit pace of assemblies in the next few months.

We project that real personal consumption expenditures will increase at a modest annual rate of about 2½ percent in the first half. Although real PCE posted a solid gain in January, our near-term forecast for consumer spending is a little lower than in the last Greenbook, primarily reflecting the removal of our assumption of one-time payments to the recipients of Social Security and veterans' benefits and the sharp downward revisions to the data for income in the second half of last year.[5]

The recovery in the housing sector appears to have stalled. Sales of both new and existing homes have turned down in recent months, while starts of single-family homes have continued to move sideways despite the substantial reduction in inventories of unsold new homes. Although some of the recent weakness in sales may be an offset to sales that were pulled forward in anticipation of the presumed expiration of the tax credit for first-time homebuyers last November, we have also taken it as a signal that the underlying pace of housing demand is somewhat weaker than we had anticipated. As a

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[4] Hiring for the 2010 decennial census will add significantly to total payroll employment in coming months. Based on information from the Department of Commerce, we currently expect the peak effect to occur in May, when the number of temporary census-related jobs included in the payroll figures balloons to about 500,000. Thereafter, the effect on the level of employment declines sharply and is largely gone by September.

[5] The BEA revised down nominal compensation at an annual rate of $90 billion in the third quarter of last year and $108 billion in the fourth quarter; most of these revisions are for wages and salaries based on newly available data on unemployment insurance tax records for the third quarter. The third-quarter data are more comprehensive than the monthly employment and earnings data that were used for the earlier estimates.

result, we have marked down our projection of single-family starts in the current quarter by about 40,000 units to an annual rate of 490,000 units. The homebuyer tax credit is anticipated to provide some impetus to sales in coming months, and we expect starts to edge up to a pace of 520,000 units in the second quarter. Consistent with our forecast for starts and sales, we now expect residential investment to fall sharply in the first quarter but then mostly reverse that drop in the second quarter; on average, this sector provides no impetus to real GDP growth in the first half of this year.

We expect that real investment in equipment and software (E&S) will rise at an annual rate of 12 percent in the current quarter following an increase of more than 18 percent in the fourth quarter. Business purchases of motor vehicles have remained on a solid uptrend, and indicators of high-tech spending suggest that firms have stepped up their efforts to replace aging equipment and to expand server and storage capacity. In addition, the incoming data on orders and shipments of nondefense capital goods suggest that investment in other types of equipment is finally turning up. Given these recent trends, together with continued upbeat reports from the high-tech sector, improved financial conditions, and the positive tone of business sentiment indicators, we expect real investment in E&S to post another large gain in the second quarter.

We estimate that real outlays on nonresidential structures fell at an annual rate of 18 percent in the fourth quarter, and we anticipate a further decline over the first half of this year. Investment in drilling and mining structures soared in the fourth quarter, and we expect this spending to continue to expand in the first half of the year in response to the recent increases in energy prices. For most other types of structures, however, conditions remain dismal, with elevated vacancy rates, declining commercial real estate prices, and tight credit conditions all expected to contribute to a further sharp contraction in outlays for construction in the first and second quarters.

In the government sector, real federal expenditures for consumption and gross investment were about flat in the fourth quarter, as a decrease in defense spending offset a large gain in nondefense purchases. We expect real expenditures to rise at an annual rate of 2¾ percent in the first quarter: Data for defense spending so far in the current quarter point to roughly flat real defense purchases, but nondefense expenditures should be bolstered by ongoing stimulus-related spending and by hiring for the decennial census. We expect growth in federal outlays to pick up further in the second quarter, as defense spending bounces back to a trend more consistent with appropriations and nondefense spending continues to be boosted by stimulus funds and census hiring.

Meanwhile, fiscal pressures appear to be restraining expenditures by state and local governments to a greater extent than we assumed in the January Greenbook. Real state and local purchases declined at an annual rate of more than 2 percent in the fourth quarter, and the available information on employment and construction spending point to another decrease in expenditures in the current quarter; in the last Greenbook, we expected state and local purchases to be about flat in both quarters. In the second quarter, we expect expenditures for construction by state and local governments to pick back up, reflecting the continued availability of federal stimulus funds and still favorable conditions in municipal bond markets. However, the ongoing budget pressures faced by state and local governments are expected to keep their overall real expenditures about flat in the second quarter.

Net exports appear to have made a small positive contribution to the increase in real GDP in the fourth quarter of last year as a sizable increase in real imports was accompanied by an even larger increase in real exports. Although both exports and imports are expected to post solid gains in the current quarter as foreign and domestic demand expand further, the projected rise in imports exceeds that of exports, and the external sector's contribution to real GDP growth turns slightly negative. In the second quarter, the contribution of net exports to real GDP growth is roughly neutral.

Core PCE prices rose at an annual rate of 1½ percent in the fourth quarter, pushed up by higher-than-average readings for the erratic nonmarket price categories. However, the data for January on core inflation—both market and nonmarket—were lower than we were expecting, with core PCE prices about flat. As a result, we now expect core PCE inflation to drop back to an annual rate of about ¾ percent in the current quarter, roughly ½ percentage point less than our previous forecast, before edging up to a little over 1 percent in the second quarter. Sizable increases in energy prices lifted headline inflation to 2¼ percent in the fourth quarter and are projected to push total PCE price inflation up to an annual rate of 1½ percent in the first quarter. With crude oil prices essentially unchanged since the last Greenbook, energy prices are expected to decelerate in coming months, and headline inflation is anticipated to step down to 1¼ percent in the second quarter.

The Medium-Term Outlook

The basic contour of our medium-term forecast is similar to that in the January Greenbook. We expect the pace of economic activity to firm over the next two years as a result of the continued accommodative stance of monetary policy, expanding credit

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

Measure	2009: H2	2010: H1	2010: H2	2011
Real GDP	**3.9**	**2.9**	**3.7**	**4.4**
Previous Greenbook	3.8	3.3	3.9	4.7
Final sales	1.6	2.8	3.0	4.0
Previous Greenbook	1.5	2.9	3.4	4.4
Personal consumption expenditures	2.2	2.4	2.8	3.5
Previous Greenbook	2.4	2.7	2.9	3.7
Residential investment	10.8	-1.1	3.9	20.4
Previous Greenbook	11.2	7.1	3.8	24.8
Nonresidential structures	-18.3	-6.6	1.3	.1
Previous Greenbook	-20.4	-8.0	2.1	1.1
Equipment and software	9.7	15.1	12.8	13.7
Previous Greenbook	6.8	10.7	15.0	14.4
Government purchases	.6	2.0	1.1	.9
Previous Greenbook	.7	3.5	1.5	1.3
Exports	20.1	9.2	9.0	8.7
Previous Greenbook	17.6	9.3	9.7	9.3
Imports	18.2	7.5	8.5	7.7
Previous Greenbook	16.5	9.6	8.0	8.3
	Contribution to growth (percentage points)			
Inventory change	2.3	.1	.7	.4
Previous Greenbook	2.2	.4	.5	.4
Net exports	-.3	-.0	-.2	-.1
Previous Greenbook	-.3	-.3	-.1	-.1

availability, a lessening drag from the earlier declines in wealth, and improving household and business confidence. However, we anticipate that the pace of economic recovery will be modest by historical standards. Accordingly, economic slack diminishes only gradually over the forecast period, and the level of real GDP remains almost 5 percent below the level of potential output at the end of 2011.

Household sector. We project the growth of real consumer spending to pick up slowly from an annual rate of 2½ percent in the first half of 2010 to 2¾ percent in the second half of the year and then to step up to 3½ percent in 2011. The acceleration in PCE is driven primarily by the projected improvement in incomes and job prospects, and by waning negative wealth effects. Restraints on consumer credit will likely continue to hold down spending to some extent in coming quarters, but those restraints should also diminish gradually over the forecast period. Our projection for real consumer spending this year and next is a touch lower than in the last Greenbook, in large part because the recent downward revision to disposable income suggests that households have somewhat less wherewithal to spend than we had thought previously. With real disposable income rising at around the same rate as consumption over the forecast period, the personal saving rate is expected to be relatively flat and to average 3¾ percent this year and next.

As noted, we now expect a more modest pickup in housing activity over the projection period than we assumed in the last Greenbook. That said, we anticipate that an improving labor market, low mortgage rates, and a bottoming out of home prices will eventually show through to a firming in housing demand. And, given the current low level of new home inventories, we also expect that an increase in new home sales will translate into a noticeable upturn in starts. As a result, our forecast calls for single-family starts to pick up from an annual rate of about 500,000 units in the first half of this year to a rate of more than 600,000 units by the end of 2010 and to about 900,000 units by the end of 2011; the projected pace of starts at the end of next year is roughly 80,000 units less than in our January forecast. We anticipate that multifamily construction will continue to be crimped in 2010 by the limited availability of credit for such projects and the downward pressure on rents from high vacancy rates, but these negatives should lessen in 2011. Given our projected path for total housing starts, we expect real residential investment to rise 1½ percent in 2010 and 20 percent in 2011; both figures are about 4 percentage points lower than in the last Greenbook.

Business investment. Real E&S spending has picked up of late, and we expect it to strengthen further in coming quarters as access to credit improves, the cost of capital remains low, and prospects for business sales brighten. In addition, because the recent low level of gross investment has not been sufficient to prevent the aggregate stock of equipment from shrinking, firms will likely need to boost their capital outlays appreciably over time to achieve even the modest expansion of their productive capacity that we are projecting to occur as economic activity recovers. In all, we expect real outlays on E&S to increase about 14 percent in 2010 and in 2011, after declining about 9 percent, on average, in each of the previous two years.

We expect real outlays for nonresidential structures to decline further this year—although at a much less rapid pace than in 2009—and then to flatten out in 2011. Given our path for energy prices, investment in drilling and mining structures is expected to increase further from its current low level. In contrast, spending on nonresidential buildings is projected to continue to contract through 2011, in response to the high vacancy rates and tight credit conditions facing this sector.

We anticipate that firms will trim inventories a bit more in the first half of this year, but stockbuilding should resume in the second half and rise steadily over the course of 2011 as final sales strengthen. In all, inventory investment is expected to contribute about ½ percentage point to real GDP growth in both 2010 and 2011.

Government spending. Real federal purchases are projected to rise about 3½ percent in 2010, reflecting solid increases in both defense and nondefense spending. In 2011 we expect the pace of federal purchases to decelerate as defense spending slows. Meanwhile, with state and local governments now perceived to be facing somewhat greater underlying budget pressures, we expect real purchases in that sector to edge up only ¼ percent in 2010 and then rise at a modest 1 percent rate in 2011—about ¾ percentage point less, on average, than in our last projection.

Net exports. Real exports are expected to rise about 9 percent both this year and next, reflecting the ongoing recovery in global activity and the effects of past and projected dollar depreciation. Imports are also expected to rebound, rising around 8 percent per year over the forecast period. Given these projected paths for imports and exports, net exports have little effect on the change in real GDP in either 2010 or 2011. *(The "International Developments" section provides more detail on the outlook for the external sector.)*

Aggregate Supply, the Labor Market, and Inflation

We have made no material changes in this forecast to our estimates of aggregate supply. In particular, we assume that potential GDP will increase about 2¼ percent this year and 2½ percent in 2011; the step-up next year reflects the projected rebound in capital spending, which boosts the contribution of capital deepening to potential output growth. Because actual GDP is expected to increase faster than potential output over the next two

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

Measure	1974-95	1996-2000	2001-07	2008	2009	2010	2011
Structural labor productivity	**1.5**	**2.5**	**2.7**	**2.3**	**2.6**	**1.8**	**2.1**
Previous Greenbook	1.5	2.5	2.7	2.3	2.6	1.7	2.0
Contributions[1]							
Capital deepening	.7	1.5	.7	.5	.0	.2	.6
Previous Greenbook	.7	1.4	.7	.5	-.0	.1	.6
Multifactor productivity	.5	.7	1.7	1.6	2.4	1.5	1.4
Previous Greenbook	.5	.7	1.7	1.6	2.4	1.5	1.4
Labor composition	.3	.3	.3	.2	.2	.1	.1
MEMO							
Potential GDP	3.0	3.4	2.7	2.7	2.7	2.3	2.5
Previous Greenbook	3.0	3.4	2.7	2.7	2.7	2.2	2.5

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	2008	2009	2010	2011
Output per hour, nonfarm business	1.4	5.7	.8	1.2
Previous Greenbook	.9	5.1	.8	1.1
Nonfarm private payroll employment	-2.7	-4.7	2.1	3.3
Previous Greenbook	-2.1	-4.2	2.3	3.6
Household survey employment	-1.5	-4.0	1.4	2.1
Previous Greenbook	-1.5	-4.0	1.6	2.3
Labor force participation rate[1]	65.9	64.9	64.7	64.6
Previous Greenbook	65.9	64.9	64.8	64.7
Civilian unemployment rate[1]	6.9	10.0	9.4	8.3
Previous Greenbook	6.9	10.0	9.5	8.2
MEMO				
GDP gap[2]	-4.9	-7.3	-6.4	-4.7
Previous Greenbook	-4.8	-7.3	-6.0	-3.9

1. Percent, average for the fourth quarter.
2. Actual less potential GDP in the fourth quarter of the year indicated as a percent of potential GDP. A negative number thus indicates that the economy is operating below potential.

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

Measure	2008	2009	2010	2011
PCE chain-weighted price index	1.7	1.2	1.3	1.0
Previous Greenbook	1.7	1.3	1.4	1.1
Food and beverages	6.8	-1.7	1.5	.7
Previous Greenbook	6.8	-1.6	1.6	.7
Energy	-9.1	1.1	6.6	1.5
Previous Greenbook	-9.1	3.3	5.6	2.8
Excluding food and energy	2.0	1.5	1.0	1.0
Previous Greenbook	2.0	1.5	1.2	1.1
Consumer price index	1.6	1.5	1.5	1.1
Previous Greenbook	1.5	1.5	1.7	1.3
Excluding food and energy	2.0	1.7	.9	1.0
Previous Greenbook	2.0	1.7	1.3	1.2
GDP chain-weighted price index	1.9	.7	1.2	.9
Previous Greenbook	1.9	.8	1.3	1.1
ECI for compensation of private industry workers[1]	2.4	1.2	2.1	2.1
Previous Greenbook	2.4	1.3	2.1	2.0
Compensation per hour, nonfarm business sector	3.1	.8	2.2	2.5
Previous Greenbook	2.6	2.4	2.4	2.2
Prices of core goods imports[2]	3.8	-1.6	2.4	1.1
Previous Greenbook	3.8	-1.3	2.4	1.0

1. December to December.
2. Core goods imports exclude computers, semiconductors, oil, and natural gas.

years, the output gap is projected to shrink from 7¼ percent at the end of 2009 to 4¾ percent at the end of 2011; the gap at the end of next year is about ¾ percentage point wider than in our last forecast, reflecting the slower pace of recovery in the current projection. We continue to assume that the NAIRU will remain at 5¼ percent through 2011.[6]

Productivity and the labor market. With the large increase in output in the fourth quarter of 2009, productivity in the nonfarm business sector posted a third outsized quarterly increase in a row, pushing it even further above our estimate of its structural level. It appears that part of the sharp rise in productivity last year reflected a decision by businesses to reduce their payrolls and push workers harder during a period of considerable uncertainty. Thus we expect productivity gains to slow appreciably in coming quarters as the sustained recovery causes businesses to become more confident about their prospects for sales, and hence to become more willing to hire new workers. Indeed, we anticipate that net hiring will gain speed, with average monthly employment gains in the private sector stepping up from about 175,000 in the second quarter to an average of around 300,000 in 2011. The unemployment rate is expected to edge down from its current level of 9¾ percent to less than 9½ percent by the end of 2010 and then decline to 8¼ percent by the end of 2011.

Prices and labor costs. We expect core PCE prices to rise 1 percent in both 2010 and 2011 after increasing 1½ percent in 2009. This path for core prices is a little lower than in the January Greenbook, primarily reflecting the recent lower-than-expected readings on prices and labor costs. But the basic story is the same as in previous forecasts: The downward pressure on inflation associated with the substantial slack in resource utilization is projected to be muted by the continuing stability of long-run inflation expectations. Given the projected path for energy prices, total PCE inflation is expected to be somewhat above core inflation in 2010 and in line with core in 2011.

[6] The 5¼ percent figure for the NAIRU does not include the effects of extended and emergency unemployment benefits (EEB). EEB programs add to the unemployment rate by inducing individuals who would otherwise have dropped out of the labor force to report themselves as looking for work in order to receive these benefits, and by enabling job seekers to be more deliberate in their search. We estimate that these programs are currently boosting the unemployment rate by close to 1 percentage point, and we anticipate that this effect will only diminish a bit through next year. As a result, the amount of unemployment not representative of slack in resource utilization—which could be thought of as an "effective" NAIRU—is currently around 6¼ percent and will only edge down to a little below 6 percent by the end of next year.

In light of the aforementioned downward revisions to wages and salaries in the third and fourth quarters, hourly compensation in the nonfarm business (NFB) sector appears to have decelerated much more sharply last year than we had previously thought. While we do not expect a further deceleration in coming quarters, the continued high rates of unemployment and low rates of price inflation in our forecast seem likely to keep compensation growth muted over the projection period. As a result, our projection calls for NFB compensation per hour to increase only about 2¼ percent per year, on average, in 2010 and 2011. Likewise, the employment cost index is expected to rise about 2 percent in each of those years after increasing 1¼ percent in 2009.

Financial Flows and Conditions

We project that total domestic nonfinancial debt will expand at an annual rate of about 5 percent this quarter, reflecting another large increase in government borrowing and essentially no change in private-sector debt. Over the projection period, we anticipate that total nonfinancial debt will advance at an annual rate of 5½ percent, with rapid growth in federal government debt, a moderate pace of borrowing by state and local governments, and sluggish borrowing by the household and business sectors.

Household debt is expected to be about flat this quarter, after having contracted about 1¾ percent last year. We anticipate household debt to expand slowly through 2011 because of roughly flat home prices, continued deleveraging by households, relatively tight lending standards, and loan charge-offs that will remain elevated for some time.

Nonfinancial business debt is projected to tick down this quarter, as robust bond issuance is offset by a further contraction in other forms of debt—particularly commercial mortgages and C&I loans. Commercial mortgage debt is expected to decline through 2011, while C&I loans are projected to begin expanding late this year. On balance, we anticipate only a modest rise in business debt over the forecast period, as large cash balances and high profits keep the demand for external funds soft and as the availability of bank-intermediated credit improves only gradually.

Federal government debt is expected to continue skyrocketing over the forecast period. We project federal borrowing of roughly $1.6 trillion in 2010 and $1.2 trillion in 2011. In the state and local government sector, we anticipate the recent moderate pace of borrowing to persist over the projection period.

M2 is expected to be about flat in the current quarter, as a reallocation of household wealth toward higher-yielding non-M2 assets continues to damp money growth. As that process wanes, we expect M2 to increase at a pace closer to that of nominal GDP.

The Long-Term Outlook

We have extended the staff forecast through 2014 using the FRB/US model and staff assessments of long-run supply-side conditions, fiscal policy, and other factors. The contour of the long-run outlook depends on the following key assumptions:

- Monetary policy aims to stabilize PCE inflation at 2 percent in the long run, consistent with the majority of longer-term inflation projections provided by FOMC participants at the January meeting.

- The Federal Reserve makes no further large-scale asset purchases after completion of the current MBS and agency debt programs. In addition, it does not engage in active asset sales but instead allows its balance sheet to shrink gradually as these securities mature or are prepaid.

- Risk premiums on corporate bonds and equity, which are expected to be near historically normal levels at the end of 2011, remain about flat thereafter. Banks ease their lending terms and standards somewhat further beyond 2011.

- Fiscal stimulus policies continue to boost the level of government purchases through 2012. The federal government budget deficit narrows from more than 8 percent of GDP in 2011 to under 5 percent of GDP by the end of 2014. This improvement comes about as the economic expansion boosts receipts and lowers transfer payments and as policy actions are assumed to be taken after 2011 to reduce the deficit.

- From 2012 to 2014, the foreign exchange value of the dollar is assumed to depreciate about 1¾ percent per year in real terms. The price of WTI crude oil rises gradually to about $90 per barrel by the end of 2014, consistent with futures prices. Under these assumptions, movements in the prices of energy and imports have only minor implications for domestic inflation. Foreign real GDP expands about 3¼ percent per year, on average, as foreign output gaps continue to narrow.

- With emergency and extended unemployment benefit programs assumed to wind down over 2012, the “effective” NAIRU falls from a little below 6 percent at the end of 2011 to 5¼ percent by the end of 2012 and then remains there through 2014. Potential GDP is projected to expand about 2½ percent per year, on average, from 2012 to 2014.

The Long-Term Outlook

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

Measure	2009	2010	2011	2012	2013	2014
Real GDP	.1	3.3	4.4	4.7	4.4	3.4
Civilian unemployment rate[1]	10.0	9.4	8.3	6.6	5.5	5.3
PCE prices, total	1.2	1.3	1.0	1.1	1.4	1.6
Core PCE prices	1.5	1.0	1.0	1.1	1.3	1.5
Federal funds rate[1]	.1	.1	.1	1.6	3.0	3.6

1. Percent, average for the final quarter of the period.

The unemployment rate enters 2012 still at a very high level, and inflation is well below the assumed long-run target. Under the assumptions used to construct the baseline extension, the federal funds rate climbs steadily after 2011, reaching 1½ percent by the end of 2012 and 3½ percent in 2014.[7] Real GDP continues to rise faster than potential, though it decelerates gradually as pent-up demand dissipates and interest rates rise. The unemployment rate falls to near the NAIRU by the end of 2014. Core PCE inflation moves up modestly after 2011 as economic activity recovers and long-run inflation expectations are assumed to remain well anchored.

Alternative Scenarios

In this section, we consider alternatives to the baseline projection using simulations of the FRB/US model. We begin with two scenarios featuring opposing risks to aggregate demand. In the first scenario, households and firms are more pessimistic about the persistence of the fallout from the financial crisis and recession than in the baseline forecast, and thus are more cautious about spending. In the second scenario, by contrast, a stronger rebound in outlays on household and business durable goods causes real activity to recover more rapidly than in the baseline. The third and fourth scenarios consider the implications of stronger gains in structural productivity in the next few years under two different aggregate demand responses. The fifth and sixth scenarios consider the risk that we may be currently overestimating the amount of slack in the economy.

[7] In the long-run outlook, the federal funds rate (R) follows a simple policy rule of the form $R = 2.5 + \pi - 1.1(u-u^*) + 0.5(\pi - 2)$, subject to the zero lower bound constraint. In this expression, π denotes the four-quarter rate of core PCE inflation, u is the civilian unemployment rate, and u^* is the staff estimate of the effective NAIRU. We use the same policy rule to set the federal funds rate in the alternative scenarios discussed later.

Alternative Scenarios

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

Measure and scenario	2010 H1	2010 H2	2011	2012	2013-14
Real GDP					
Extended Greenbook baseline	2.9	3.7	4.4	4.7	3.9
Persistent caution	1.5	1.9	3.9	5.2	4.5
Stronger recovery	3.9	6.1	6.0	4.5	3.1
Stronger productivity	3.3	5.5	5.6	5.9	4.7
Weaker consumption	2.9	3.7	4.3	5.2	5.7
Lower potential output	2.8	3.1	3.5	3.5	3.0
Impaired credibility	2.8	3.2	3.5	3.1	2.8
Greater disinflation	2.9	3.8	4.4	5.0	4.7
Unemployment rate[1]					
Extended Greenbook baseline	9.6	9.4	8.3	6.6	5.3
Persistent caution	9.7	9.9	9.0	7.0	5.2
Stronger recovery	9.5	8.9	7.2	5.7	5.2
Stronger productivity	9.7	9.8	9.2	7.1	4.9
Weaker consumption	9.8	10.2	10.1	8.2	5.3
Lower potential output	9.6	9.4	8.4	7.0	6.2
Impaired credibility	9.6	9.4	8.3	7.1	6.5
Greater disinflation	9.6	9.4	8.3	6.5	4.6
Core PCE inflation					
Extended Greenbook baseline	.9	1.1	1.0	1.1	1.4
Persistent caution	.9	1.1	1.0	1.1	1.3
Stronger recovery	.9	1.1	1.0	1.1	1.5
Stronger productivity	.9	.9	.4	.5	1.0
Weaker consumption	.9	.8	.2	-.1	.5
Lower potential output	1.0	1.4	1.4	1.6	1.8
Impaired credibility	.9	1.6	2.1	2.4	2.5
Greater disinflation	.8	.7	.3	-.1	.0
Federal funds rate[1]					
Extended Greenbook baseline	.1	.1	.1	1.6	3.6
Persistent caution	.1	.1	.1	1.1	3.5
Stronger recovery	.1	.1	1.3	2.5	4.0
Stronger productivity	.1	.1	.1	.1	3.5
Weaker consumption	.1	.1	.1	.1	2.3
Lower potential output	.1	.1	1.0	2.4	4.3
Impaired credibility	.1	.1	2.1	3.3	4.8
Greater disinflation	.1	.1	.1	.1	2.3

1. Percent, average for the final quarter of the period.

The final scenario investigates the possibility that we have substantially underestimated disinflationary pressures. In each of these scenarios, the federal funds rate is assumed to follow the prescriptions of the simple policy rule detailed in the long-run outlook section, subject to an effective lower bound of 12½ basis points, and nontraditional policy is assumed to follow the baseline path.

Persistent caution. In the Greenbook projection, we anticipate that rising confidence in the durability of the recovery will provide an important stimulus to aggregate spending over the medium term. However, we may have underestimated the extent to which the events of the last two years continue to weigh on the expectations of households and firms. In this scenario, consumers and firms are initially more pessimistic about the prospects for household income and corporate earnings than in the baseline; as a result, consumption and investment are quite restrained this year. However, as underlying economic fundamentals actually improve along the lines of the baseline projection, the heightened pessimism gradually abates to a degree sufficient to allow a recovery to emerge next year. Nonetheless, unemployment at the end of 2011 is 9 percent, ¾ percentage point above the baseline. Thereafter, fears of prolonged weakness having been allayed, the level of real GDP gradually moves back in line with the staff forecast, which implies several years of above-baseline growth; by 2014, unemployment is back to the NAIRU. The intervening period of greater slack eventually leads to slightly lower inflation, and the delayed recovery pushes off the first increase in the federal funds rate until mid-2012.

Stronger recovery. In the baseline, stocks of business capital, houses, and consumer durable goods increase quite slowly. In this scenario, firms and households instead boost spending in these areas by enough to achieve increases in these stocks more in line with historical norms. Specifically, both private fixed investment and outlays on consumer durable goods are up 10 percent relative to the baseline by the end of this year. As a result, real GDP expands much more rapidly this year and next. The stronger pace of aggregate demand leads to a faster recovery in employment, with the result that the unemployment rate remains below the baseline throughout the projection period. Although the rebound in capital spending initially restrains price pressure through higher labor productivity, over time, less labor market slack leads to slightly higher inflation. Under these conditions, the federal funds rate begins to rise in early 2011 and remains above the baseline thereafter.

Stronger productivity. As the economic recovery continues this year, the baseline forecast assumes that firms will begin to boost payrolls and that output per hour will decelerate, moving back toward its currently estimated trend level over the next couple of years. In this scenario, we assume that actual labor productivity increases about 3¼ percent at an annual rate through 2011 because of larger gains in structural multifactor productivity than are incorporated in the baseline projection. Beginning in 2012, labor productivity growth returns to the baseline. Households and businesses respond to the more-favorable longer-run prospects associated with higher productivity by gradually increasing their spending. However, aggregate demand does not immediately shift up by the full extent of the improvement in aggregate supply and thus labor demand is initially more subdued than in the baseline. All told, these developments cause real GDP to expand 4½ percent in 2010 and 5½ percent in 2011. The unemployment rate stays near current levels through the end of this year, but over the longer run, the continued adjustment of demand to supply reduces unemployment. Inflation drops to ½ percent in 2011 and 2012 and remains persistently below the baseline thereafter, both because higher productivity lowers unit labor costs directly and because resource utilization on average is lower than in the baseline. In these circumstances, the federal funds rate remains near zero through 2012.

Stronger productivity and weaker consumption. This alternative retains the assumption in the previous scenario that structural productivity increases more rapidly this year and next than in the baseline. But here we assume that the favorable effect of stronger productivity on labor income is offset for a while by other influences—perhaps because the prolonged weakness in the labor market reduces workers' bargaining power. We also assume that the more-unfavorable labor-market conditions weigh on consumer sentiment and lead to additional restraint on consumer spending of sufficient magnitude to hold real GDP close to its baseline path through 2011. With aggregate demand weaker than in the previous scenario, the unemployment rate holds above 10 percent through 2011 and runs higher than in the baseline until 2014. Inflation briefly dips below zero in 2012 and remains very low thereafter. Under these conditions, the federal funds rate remains near zero until 2013.

Lower potential output. Potential output is difficult to measure, and we could be misjudging resource utilization—particularly in the current environment, where the impairment to the financial system and its repercussions for the broader economy have been both larger in magnitude and different in nature from what has typically occurred in previous downturns. In this scenario, we assume that the current level of potential output is lower than the staff estimates due to both a higher NAIRU and a lower level of structural productivity, so that output is currently 3¾ percent below potential instead of 7¼ percent as in the baseline. We also assume that monetary policymakers are slow to recognize the full extent of this error, with the result that their perception of slack does not converge to the true value until the end of 2013. Because of the misperceived output gap, the federal funds rate remains near zero for longer than would otherwise be called for under the simple policy rule, exacerbating the upward pressure on prices that comes from less-favorable supply-side conditions. But long-run inflation expectations remain well anchored because the public expects that the FOMC will eventually correct its error, and so inflation is only about ½ percentage point higher than the baseline from 2012 to 2014.

Impaired credibility. In the preceding scenario, the stability of long-run inflation expectations mutes the increase in inflation. However, one risk is that the public, correctly assessing the output gap, could interpret the FOMC's failure to tighten more promptly under these circumstances as implying that its inflation objective is higher than previously thought. Accordingly, in this scenario, we take the previous simulation as our starting point and further assume that long-run inflation expectations increase to 3 percent by the beginning of 2011, thereby boosting actual inflation. Core PCE inflation climbs steadily, averaging more than 2 percent in 2011 and reaching 2½ percent in 2014, about ¾ percentage point higher than in the previous scenario. The higher inflation elicits a more aggressive monetary policy response, and as a consequence, real activity is weaker than in the preceding scenario. This tightening also begins to reassure the public about the FOMC's commitment to price stability and thereby limits the extent of the longer-run rise in expected and actual inflation.

Greater disinflation. The subdued rate of inflation projected in the baseline reflects our assessment that inflation expectations are well anchored, which attenuates the influence that the slowdown in actual inflation has on long-run inflation expectations. In this scenario, we assume that both inflation expectations and actual inflation fall more significantly in response to economic slack, by magnitudes that are roughly in line with the predictions of many reduced-form forecasting equations. Inflation runs substantially below the baseline—with inflation around zero from 2012 to 2014—and the federal funds rate remains near zero until 2013. Relative to the baseline, this more accommodative monetary policy stimulates aggregate demand, and real GDP expands noticeably faster than the baseline after 2011.

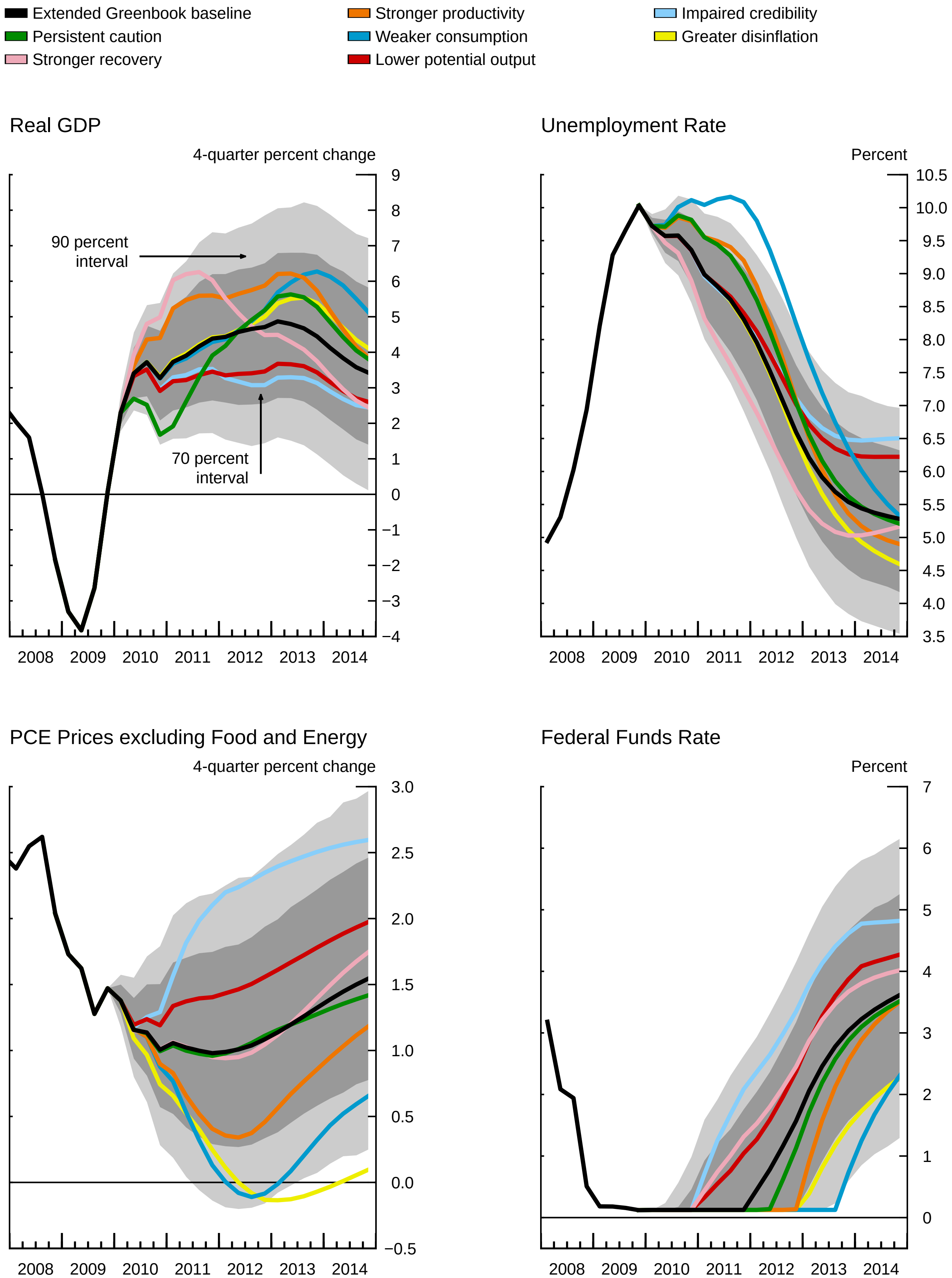
Selected Greenbook Projections and 70 Percent Confidence Intervals Derived from Historical Greenbook Forecast Errors and FRB/US Simulations

Measure	2010	2011	2012	2013	2014
Real GDP					
(percent change, Q4 to Q4)					
Projection	3.3	4.4	4.7	4.4	3.4
Confidence interval					
Greenbook forecast errors	1.7–4.9	2.7–6.1	. . .	. . .	. . .
FRB/US stochastic simulations	2.1–4.6	2.6–6.2	2.6–6.5	2.4–6.7	1.4–5.8
Civilian unemployment rate					
(percent, Q4)					
Projection	9.4	8.3	6.6	5.5	5.3
Confidence interval					
Greenbook forecast errors	8.8–10.0	7.4–9.2	. . .	. . .	. . .
FRB/US stochastic simulations	8.8–9.8	7.5–9.1	5.7–7.6	4.5–6.6	4.2–6.3
PCE prices, total					
(percent change, Q4 to Q4)					
Projection	1.3	1.0	1.1	1.4	1.6
Confidence interval					
Greenbook forecast errors	.3–2.3	-.2–2.2	. . .	. . .	. . .
FRB/US stochastic simulations	.6–2.2	.1–2.0	.1–2.2	.3–2.5	.6–2.7
PCE prices excluding food and energy					
(percent change, Q4 to Q4)					
Projection	1.0	1.0	1.1	1.3	1.5
Confidence interval					
Greenbook forecast errors	.4–1.6	.1–1.8	. . .	. . .	. . .
FRB/US stochastic simulations	.6–1.5	.3–1.7	.3–1.9	.6–2.2	.8–2.5
Federal funds rate					
(percent, Q4)					
Projection	.1	.1	1.6	3.0	3.6
Confidence interval					
FRB/US stochastic simulations	.1–.5	.1–1.8	.1–3.2	1.6–4.7	2.2–5.3

Notes: Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1969-2008 set of model equation residuals.
Intervals derived from Greenbook forecast errors are based on projections made from 1979-2008, except for PCE prices excluding food and energy, where the sample is 1981-2008.
. . . Not applicable. The Greenbook forecast horizon has typically extended about two years.

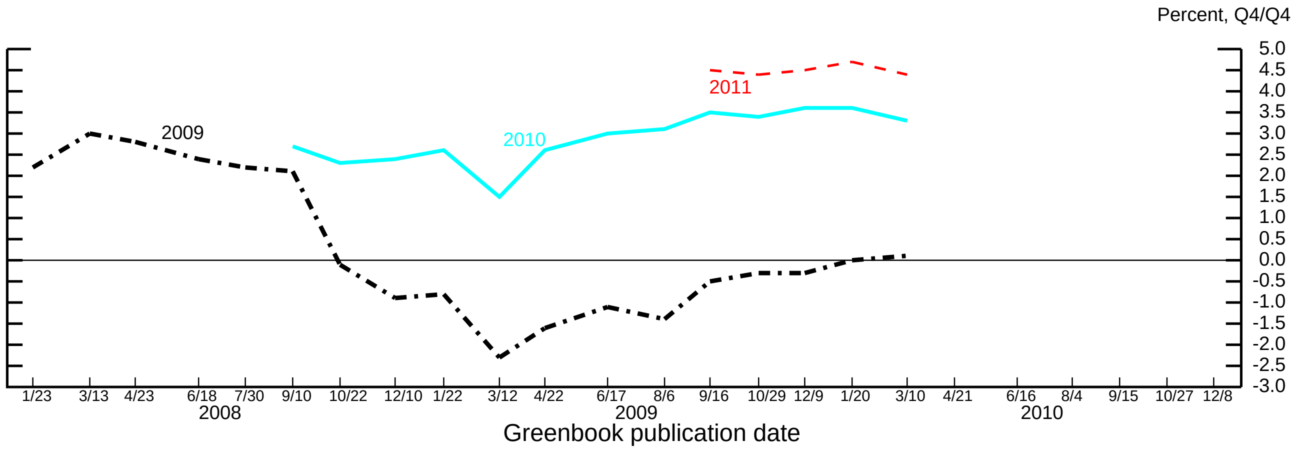
Forecast Confidence Intervals and Alternative Scenarios

Confidence Intervals Based on FRB/US Stochastic Simulations

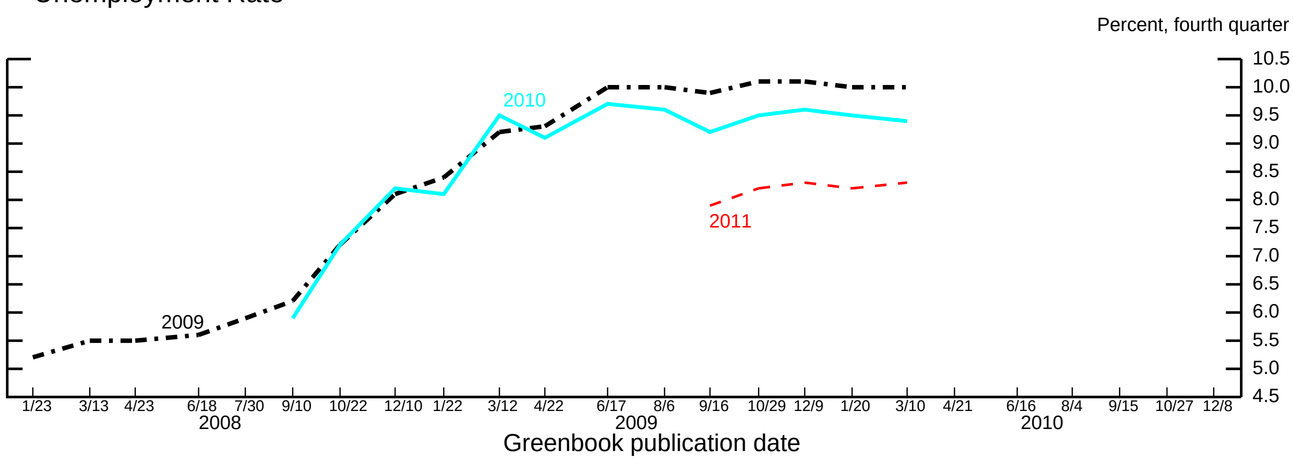


Evolution of the Staff Forecast

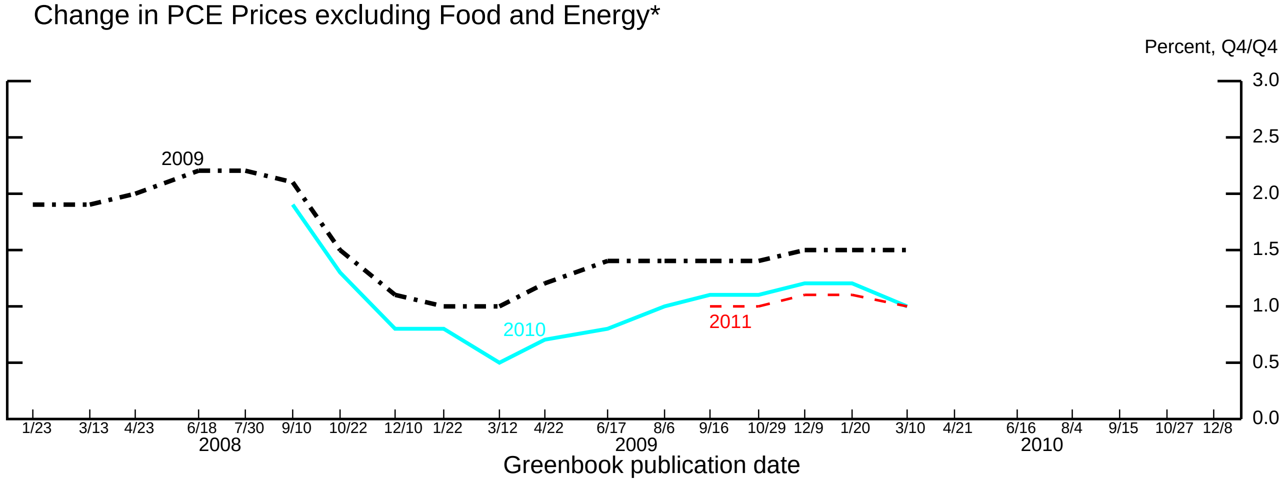
Change in Real GDP



Unemployment Rate



Change in PCE Prices excluding Food and Energy*



*Because the core PCE price index was redefined as part of the comprehensive revisions to the NIPA, projections prior to the August 2009 Greenbook are not strictly comparable with more recent projections.

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

Interval	Nominal GDP		Real GDP		PCE price index		Core PCE price index		Unemployment rate[1]	
	01/20/10	03/10/10	01/20/10	03/10/10	01/20/10	03/10/10	01/20/10	03/10/10	01/20/10	03/10/10
Quarterly										
2009:Q1	-4.6	-4.6	-6.4	-6.4	-1.5	-1.5	1.1	1.1	8.2	8.2
Q2	-.8	-.8	-.7	-.7	1.4	1.4	2.0	2.0	9.3	9.3
Q3	2.6	2.6	2.2	2.2	2.6	2.6	1.2	1.2	9.7	9.7
Q4	6.2	6.0	5.3	5.6	2.9	2.3	1.6	1.6	10.0	10.0
2010:Q1	4.7	4.2	2.8	2.2	2.0	1.5	1.2	.8	10.1	9.7
Q2	5.0	4.5	3.8	3.6	1.2	1.3	1.2	1.1	9.9	9.6
Q3	5.1	4.7	3.9	3.5	1.3	1.4	1.1	1.1	9.7	9.6
Q4	5.1	4.7	4.0	3.8	1.3	1.1	1.1	1.0	9.5	9.4
2011:Q1	5.6	5.0	4.3	4.0	1.2	1.0	1.1	1.0	9.1	9.0
Q2	5.9	5.3	4.7	4.3	1.1	1.0	1.1	1.0	8.9	8.8
Q3	5.9	5.5	4.9	4.6	1.1	1.0	1.1	1.0	8.6	8.6
Q4	6.0	5.6	5.0	4.7	1.1	.9	1.0	1.0	8.2	8.3
Two-quarter[2]										
2009:Q2	-2.7	-2.7	-3.6	-3.6	-.1	-.1	1.6	1.6	2.4	2.4
Q4	4.4	4.3	3.8	3.9	2.7	2.5	1.4	1.4	.7	.7
2010:Q2	4.8	4.3	3.3	2.9	1.6	1.4	1.2	.9	-.1	-.4
Q4	5.1	4.7	3.9	3.7	1.3	1.3	1.1	1.1	-.4	-.2
2011:Q2	5.7	5.2	4.5	4.2	1.2	1.0	1.1	1.0	-.6	-.6
Q4	6.0	5.5	4.9	4.6	1.1	1.0	1.0	1.0	-.7	-.5
Four-quarter[3]										
2008:Q4	.1	.1	-1.9	-1.9	1.7	1.7	2.0	2.0	2.1	2.1
2009:Q4	.8	.7	.0	.1	1.3	1.2	1.5	1.5	3.1	3.1
2010:Q4	5.0	4.5	3.6	3.3	1.4	1.3	1.2	1.0	-.5	-.6
2011:Q4	5.8	5.3	4.7	4.4	1.1	1.0	1.1	1.0	-1.3	-1.1
Annual										
2008	2.6	2.6	.4	.4	3.3	3.3	2.4	2.4	5.8	5.8
2009	-1.3	-1.3	-2.5	-2.4	.2	.2	1.5	1.5	9.3	9.3
2010	4.5	4.2	3.4	3.2	1.9	1.7	1.3	1.2	9.8	9.6
2011	5.5	5.0	4.4	4.0	1.2	1.1	1.1	1.0	8.7	8.7

1. Level, except for two-quarter and four-quarter intervals.
2. Percent change from two quarters earlier; for unemployment rate, change is in percentage points.
3. Percent change from four quarters earlier; for unemployment rate, change is in percentage points.

Changes in Real Gross Domestic Product and Related Items
(Percent, annual rate except as noted)

Item	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2009[1]	2010[1]	2011[1]
Real GDP	-6.4	-.7	2.2	5.6	2.2	3.6	3.5	3.8	4.0	4.3	4.6	4.7	.1	3.3	4.4
Previous Greenbook	-6.4	-.7	2.2	5.3	2.8	3.8	3.9	4.0	4.3	4.7	4.9	5.0	.0	3.6	4.7
Final sales	-4.1	.7	1.5	1.7	1.6	3.9	2.5	3.4	3.5	4.1	4.0	4.4	-.1	2.9	4.0
Previous Greenbook	-4.1	.7	1.5	1.5	2.5	3.4	3.1	3.7	3.9	4.4	4.4	4.8	-.1	3.2	4.4
Priv. dom. final purch.	-7.2	-2.7	2.2	2.1	2.0	3.8	3.2	4.0	4.2	4.7	4.9	5.1	-1.5	3.2	4.7
Previous Greenbook	-7.2	-2.7	2.2	1.9	2.5	3.7	3.6	4.0	4.7	5.1	5.4	5.4	-1.6	3.4	5.1
Personal cons. expend.	.6	-.9	2.8	1.7	2.4	2.4	2.7	2.9	3.1	3.5	3.6	3.8	1.0	2.6	3.5
Previous Greenbook	.6	-.9	2.8	2.1	2.7	2.7	2.9	2.9	3.3	3.6	3.9	4.0	1.1	2.8	3.7
Durables	3.9	-5.6	20.4	.2	7.9	9.6	8.5	9.7	9.6	11.9	11.7	12.6	4.3	8.9	11.4
Nondurables	1.9	-1.9	1.5	4.1	2.3	3.4	2.7	2.8	3.0	3.3	3.5	3.6	1.4	2.8	3.4
Services	-.3	.2	.8	1.2	1.6	.9	1.9	2.0	2.2	2.2	2.3	2.5	.5	1.6	2.3
Residential investment	-38.2	-23.3	18.9	3.3	-17.4	18.3	-2.7	11.0	13.4	21.5	23.4	23.5	-12.6	1.4	20.4
Previous Greenbook	-38.2	-23.3	18.9	4.0	1.3	13.1	-4.0	12.3	19.2	28.5	27.8	24.1	-12.5	5.4	24.8
Business fixed invest.	-39.2	-9.6	-5.9	5.0	4.9	11.0	8.2	10.4	10.2	9.8	9.7	9.3	-14.1	8.6	9.7
Previous Greenbook	-39.2	-9.6	-5.9	-.5	.9	8.4	11.5	10.7	11.5	10.4	10.3	10.0	-15.3	7.8	10.6
Equipment & software	-36.4	-4.9	1.5	18.6	11.8	18.5	11.4	14.3	14.1	14.0	13.6	12.9	-7.6	14.0	13.7
Previous Greenbook	-36.4	-4.9	1.5	12.4	8.4	13.2	15.7	14.4	15.3	14.4	14.3	13.7	-8.8	12.9	14.4
Nonres. structures	-43.6	-17.3	-18.4	-18.1	-8.6	-4.6	1.0	1.5	1.1	-.3	-.1	-.1	-25.3	-2.8	.1
Previous Greenbook	-43.6	-17.3	-18.4	-22.4	-13.8	-1.8	2.0	2.2	2.6	.9	.5	.3	-26.3	-3.1	1.1
Net exports[2]	-386	-330	-357	-347	-349	-347	-357	-358	-362	-362	-370	-368	-355	-353	-365
Previous Greenbook[2]	-386	-330	-357	-349	-363	-368	-374	-369	-375	-378	-385	-381	-356	-368	-380
Exports	-29.9	-4.1	17.8	22.4	9.9	8.4	8.8	9.3	9.0	8.7	8.7	8.5	-.8	9.1	8.7
Imports	-36.4	-14.7	21.3	15.3	8.6	6.5	9.3	7.8	8.1	7.1	8.7	6.7	-6.7	8.0	7.7
Gov't. cons. & invest.	-2.6	6.7	2.6	-1.3	.2	3.9	1.2	.9	.9	.9	1.0	.9	1.3	1.5	.9
Previous Greenbook	-2.6	6.7	2.6	-1.2	4.4	2.7	1.7	1.2	1.3	1.3	1.2	1.2	1.3	2.5	1.3
Federal	-4.3	11.4	8.0	.1	2.7	9.5	1.8	.7	.9	1.0	1.1	1.0	3.6	3.6	1.0
Defense	-5.1	14.0	8.4	-3.5	.4	10.2	3.6	1.9	.2	.3	.4	.2	3.1	3.9	.3
Nondefense	-2.5	6.1	7.0	8.3	7.8	7.9	-1.9	-1.7	2.6	2.6	2.6	2.6	4.6	2.9	2.6
State & local	-1.5	3.9	-.6	-2.3	-1.5	.3	.8	1.1	.8	.9	.9	.9	-.2	.2	.9
Change in bus. inventories[2]	-114	-160	-139	-19	-2	-12	18	30	44	52	71	80	-108	9	62
Previous Greenbook[2]	-114	-160	-139	-24	-16	-2	22	32	45	56	71	79	-109	9	63
Nonfarm[2]	-115	-163	-141	-14	-7	-16	15	26	41	49	69	78	-108	4	59
Farm[2]	0	2	2	-6	4	3	3	3	3	3	3	3	-0	3	3

1. Change from fourth quarter of previous year to fourth quarter of year indicated.
2. Billions of chained (2005) dollars.

Changes in Real Gross Domestic Product and Related Items
(Change from fourth quarter of previous year to fourth quarter of year indicated, unless otherwise noted)

Item	2003	2004	2005	2006	2007	2008	2009	2010	2011
Real GDP	3.8	3.1	2.7	2.4	2.5	-1.9	.1	3.3	4.4
Previous Greenbook	3.8	3.1	2.7	2.4	2.5	-1.9	.0	3.6	4.7
Final sales	3.8	2.8	2.7	2.8	2.7	-1.4	-.1	2.9	4.0
Previous Greenbook	3.8	2.8	2.7	2.8	2.7	-1.4	-.1	3.2	4.4
Priv. dom. final purch.	4.2	4.2	3.1	2.5	1.4	-3.2	-1.5	3.2	4.7
Previous Greenbook	4.2	4.2	3.1	2.5	1.4	-3.2	-1.6	3.4	5.1
Personal cons. expend.	3.4	3.5	2.7	3.3	2.0	-1.8	1.0	2.6	3.5
Previous Greenbook	3.4	3.5	2.7	3.3	2.0	-1.8	1.1	2.8	3.7
Durables	8.9	5.5	2.1	6.3	4.6	-11.8	4.3	8.9	11.4
Nondurables	3.9	3.0	3.3	3.2	1.5	-2.9	1.4	2.8	3.4
Services	2.2	3.4	2.6	2.8	1.7	.3	.5	1.6	2.3
Residential investment	11.5	6.6	5.3	-15.7	-20.5	-21.0	-12.6	1.4	20.4
Previous Greenbook	11.5	6.6	5.3	-15.7	-20.5	-21.0	-12.5	5.4	24.8
Business fixed invest.	5.9	7.0	4.4	7.8	7.9	-6.0	-14.1	8.6	9.7
Previous Greenbook	5.9	7.0	4.4	7.8	7.9	-6.0	-15.3	7.8	10.6
Equipment & software	7.5	8.8	6.1	6.0	3.2	-10.7	-7.6	14.0	13.7
Previous Greenbook	7.5	8.8	6.1	6.0	3.2	-10.7	-8.8	12.9	14.4
Nonres. structures	1.3	1.7	-.1	13.0	18.9	3.2	-25.3	-2.8	.1
Previous Greenbook	1.3	1.7	-.1	13.0	18.9	3.2	-26.3	-3.1	1.1
Net exports[1]	-604	-688	-723	-729	-648	-494	-355	-353	-365
Previous Greenbook[1]	-604	-688	-723	-729	-648	-494	-356	-368	-380
Exports	6.2	7.1	6.7	10.2	10.2	-3.4	-.8	9.1	8.7
Imports	5.1	10.9	5.2	4.1	.9	-6.8	-6.7	8.0	7.7
Gov't. cons. & invest.	1.6	.6	.7	1.5	2.5	3.0	1.3	1.5	.9
Previous Greenbook	1.6	.6	.7	1.5	2.5	3.0	1.3	2.5	1.3
Federal	5.7	2.3	1.2	2.2	3.4	8.9	3.6	3.6	1.0
Defense	8.4	2.4	.4	4.4	2.6	9.5	3.1	3.9	.3
Nondefense	.7	2.3	2.6	-2.3	5.2	7.5	4.6	2.9	2.6
State & local	-.5	-.4	.4	1.2	1.9	-.3	-.2	.2	.9
Change in bus. inventories[1]	17	66	50	59	19	-26	-108	9	62
Previous Greenbook[1]	17	66	50	59	19	-26	-109	9	63
Nonfarm[1]	17	58	50	63	20	-20	-108	4	59
Farm[1]	0	8	0	-4	-1	-5	0	3	3

1. Billions of chained (2005) dollars.

Contributions to Changes in Real Gross Domestic Product
(Percentage points, annual rate except as noted)

Item	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2009[1]	2010[1]	2011[1]
Real GDP	-6.4	-.7	2.2	5.6	2.2	3.6	3.5	3.8	4.0	4.3	4.6	4.7	.1	3.3	4.4
Previous Greenbook	-6.4	-.7	2.2	5.3	2.8	3.8	3.9	4.0	4.3	4.7	4.9	5.0	.0	3.6	4.7
Final sales	-4.1	.7	1.5	1.8	1.6	3.9	2.6	3.4	3.5	4.1	4.0	4.4	-.1	2.9	4.0
Previous Greenbook	-4.1	.7	1.5	1.6	2.5	3.4	3.1	3.7	3.9	4.4	4.4	4.8	-.1	3.2	4.4
Priv. dom. final purch.	-6.1	-2.3	1.8	1.8	1.7	3.1	2.6	3.3	3.5	3.9	4.0	4.2	-1.3	2.7	3.9
Previous Greenbook	-6.1	-2.3	1.8	1.6	2.1	3.0	3.0	3.3	3.8	4.2	4.4	4.4	-1.3	2.8	4.2
Personal cons. expend.	.4	-.6	2.0	1.3	1.7	1.7	1.9	2.1	2.2	2.5	2.5	2.7	.7	1.8	2.5
Previous Greenbook	.4	-.6	2.0	1.6	1.9	2.0	2.1	2.0	2.3	2.6	2.8	2.8	.8	2.0	2.6
Durables	.3	-.4	1.4	.0	.6	.7	.6	.7	.7	.9	.9	.9	.3	.6	.8
Nondurables	.3	-.3	.2	.6	.4	.5	.4	.4	.5	.5	.6	.6	.2	.4	.5
Services	-.1	.1	.4	.6	.8	.5	.9	.9	1.0	1.1	1.1	1.2	.2	.8	1.1
Residential investment	-1.3	-.7	.4	.1	-.5	.4	-.1	.3	.3	.5	.6	.6	-.4	.0	.5
Previous Greenbook	-1.3	-.7	.4	.1	.0	.3	-.1	.3	.5	.7	.7	.6	-.4	.1	.6
Business fixed invest.	-5.3	-1.0	-.6	.5	.5	1.0	.8	1.0	1.0	.9	.9	.9	-1.6	.8	.9
Previous Greenbook	-5.3	-1.0	-.6	.0	.1	.8	1.0	1.0	1.1	1.0	1.0	1.0	-1.7	.7	1.0
Equipment & software	-3.0	-.3	.1	1.1	.7	1.1	.7	.9	.9	.9	.9	.9	-.5	.9	.9
Previous Greenbook	-3.0	-.3	.1	.8	.5	.8	1.0	.9	1.0	1.0	1.0	.9	-.6	.8	1.0
Nonres. structures	-2.3	-.7	-.7	-.6	-.3	-.1	.0	.0	.0	.0	.0	.0	-1.1	-.1	.0
Previous Greenbook	-2.3	-.7	-.7	-.8	-.4	.0	.1	.1	.1	.0	.0	.0	-1.1	-.1	.0
Net exports	2.6	1.7	-.8	.2	-.1	.0	-.3	-.1	-.1	.0	-.3	.0	1.0	-.1	-.1
Previous Greenbook	2.6	1.7	-.8	.2	-.5	-.2	-.2	.1	-.2	-.1	-.3	.1	1.0	-.2	-.1
Exports	-4.0	-.5	1.8	2.3	1.1	1.0	1.0	1.1	1.1	1.1	1.1	1.1	-.1	1.1	1.1
Imports	6.6	2.1	-2.6	-2.1	-1.2	-1.0	-1.4	-1.2	-1.2	-1.1	-1.3	-1.1	1.1	-1.2	-1.2
Gov't. cons. & invest.	-.5	1.3	.6	-.3	.0	.8	.3	.2	.2	.2	.2	.2	.3	.3	.2
Previous Greenbook	-.5	1.3	.6	-.2	.9	.6	.4	.3	.3	.3	.3	.3	.3	.5	.3
Federal	-.3	.9	.6	.0	.2	.8	.1	.1	.1	.1	.1	.1	.3	.3	.1
Defense	-.3	.7	.5	-.2	.0	.5	.2	.1	.0	.0	.0	.0	.2	.2	.0
Nondefense	-.1	.2	.2	.2	.2	.2	-.1	.0	.1	.1	.1	.1	.1	.1	.1
State & local	-.2	.5	-.1	-.3	-.2	.0	.1	.1	.1	.1	.1	.1	.0	.0	.1
Change in bus. inventories	-2.4	-1.4	.7	3.8	.6	-.3	.9	.4	.5	.2	.6	.3	.1	.4	.4
Previous Greenbook	-2.4	-1.4	.7	3.7	.3	.4	.8	.3	.4	.4	.5	.2	.1	.4	.4
Nonfarm	-2.4	-1.5	.7	4.1	.2	-.3	.9	.4	.5	.2	.6	.3	.2	.3	.4
Farm	.1	.1	.0	-.3	.4	.0	.0	.0	.0	.0	.0	.0	.0	.1	.0

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

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

Item	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2009[1]	2010[1]	2011[1]
GDP chain-wt. price index	1.9	.0	.4	.4	2.0	.8	1.2	.9	1.0	.9	.9	.9	.7	1.2	.9
Previous Greenbook	1.9	.0	.4	.8	1.9	1.1	1.2	1.1	1.2	1.1	1.0	1.0	.8	1.3	1.1
PCE chain-wt. price index	-1.5	1.4	2.6	2.3	1.5	1.3	1.4	1.1	1.0	1.0	1.0	.9	1.2	1.3	1.0
Previous Greenbook	-1.5	1.4	2.6	2.9	2.0	1.2	1.3	1.3	1.2	1.1	1.1	1.1	1.3	1.4	1.1
Energy	-36.7	-2.0	40.6	19.9	14.0	4.1	5.8	2.7	2.0	1.8	1.5	.8	1.1	6.6	1.5
Previous Greenbook	-36.7	-2.0	40.6	30.5	13.1	.4	4.8	4.4	3.8	2.8	2.3	2.3	3.3	5.6	2.8
Food	-1.1	-3.6	-2.1	-.1	1.8	1.4	1.7	1.1	.8	.7	.7	.7	-1.7	1.5	.7
Previous Greenbook	-1.1	-3.6	-2.1	.3	2.8	1.1	1.4	1.0	.7	.7	.7	.7	-1.6	1.6	.7
Ex. food & energy	1.1	2.0	1.2	1.6	.8	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.5	1.0	1.0
Previous Greenbook	1.1	2.0	1.2	1.6	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.0	1.5	1.2	1.1
CPI	-2.2	1.9	3.7	2.6	1.6	1.4	1.6	1.2	1.1	1.1	1.1	1.0	1.5	1.5	1.1
Previous Greenbook	-2.4	1.3	3.6	3.4	2.4	1.3	1.5	1.5	1.4	1.3	1.3	1.3	1.5	1.7	1.3
Ex. food & energy	1.6	2.3	1.5	1.5	.2	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.7	.9	1.0
Previous Greenbook	1.5	2.4	1.5	1.5	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.7	1.3	1.2
ECI, hourly compensation[2]	.7	.7	1.8	1.5	2.2	2.1	2.1	2.1	2.2	2.1	2.1	2.1	1.2	2.1	2.1
Previous Greenbook[2]	.7	.7	1.8	1.7	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0	1.3	2.1	2.0
Nonfarm business sector															
Output per hour	.9	7.6	7.8	6.5	1.7	.9	.3	.5	.6	1.1	1.4	1.6	5.7	.8	1.2
Previous Greenbook	.3	6.9	7.1	6.0	1.1	1.1	.6	.3	.5	1.1	1.2	1.4	5.1	.8	1.1
Compensation per hour	-4.2	7.7	-.4	.4	2.1	1.8	2.4	2.4	3.3	2.4	2.2	2.2	.8	2.2	2.5
Previous Greenbook	-4.7	6.9	5.4	2.5	3.0	2.2	2.2	2.2	2.8	2.2	2.0	2.0	2.4	2.4	2.2
Unit labor costs	-5.0	.1	-7.6	-5.7	.4	.9	2.1	1.9	2.7	1.3	.8	.6	-4.6	1.3	1.3
Previous Greenbook	-5.0	.0	-1.6	-3.3	1.9	1.0	1.6	1.9	2.3	1.1	.7	.5	-2.5	1.6	1.2
Core goods imports chain-wt. price index[3]	-9.4	-2.3	1.3	4.7	4.2	2.2	1.7	1.3	1.1	1.1	1.1	1.1	-1.6	2.4	1.1
Previous Greenbook[3]	-9.4	-2.3	1.3	5.7	4.5	2.3	1.5	1.2	1.0	1.0	1.0	1.0	-1.3	2.4	1.0

1. Change from fourth quarter of previous year to fourth quarter of year indicated.
2. Private-industry workers.
3. Core goods imports exclude computers, semiconductors, oil, and natural gas.

Changes in Prices and Costs
(Change from fourth quarter of previous year to fourth quarter of year indicated, unless otherwise noted)

Item	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP chain-wt. price index	2.1	3.2	3.5	2.9	2.7	1.9	.7	1.2	.9
Previous Greenbook	2.1	3.2	3.5	2.9	2.7	1.9	.8	1.3	1.1
PCE chain-wt. price index	1.9	3.0	3.3	1.9	3.6	1.7	1.2	1.3	1.0
Previous Greenbook	1.9	3.0	3.3	1.9	3.6	1.7	1.3	1.4	1.1
Energy	8.6	18.6	21.5	-3.7	19.7	-9.1	1.1	6.6	1.5
Previous Greenbook	8.6	18.6	21.5	-3.7	19.7	-9.1	3.3	5.6	2.8
Food	3.2	2.7	1.5	1.7	4.7	6.8	-1.7	1.5	.7
Previous Greenbook	3.2	2.7	1.5	1.7	4.7	6.8	-1.6	1.6	.7
Ex. food & energy	1.5	2.2	2.3	2.3	2.5	2.0	1.5	1.0	1.0
Previous Greenbook	1.5	2.2	2.3	2.3	2.5	2.0	1.5	1.2	1.1
CPI	2.0	3.4	3.7	1.9	4.0	1.6	1.5	1.5	1.1
Previous Greenbook	2.0	3.4	3.8	1.9	4.0	1.5	1.5	1.7	1.3
Ex. food & energy	1.2	2.2	2.1	2.7	2.3	2.0	1.7	.9	1.0
Previous Greenbook	1.2	2.2	2.1	2.7	2.3	2.0	1.7	1.3	1.2
ECI, hourly compensation[1]	4.0	3.8	2.9	3.2	3.0	2.4	1.2	2.1	2.1
Previous Greenbook[1]	4.0	3.7	3.0	3.2	3.0	2.4	1.3	2.1	2.0
Nonfarm business sector									
Output per hour	5.0	1.5	1.5	1.0	2.9	1.4	5.7	.8	1.2
Previous Greenbook	5.0	1.5	1.4	.9	2.8	.9	5.1	.8	1.1
Compensation per hour	5.7	3.4	3.6	4.5	3.6	3.1	.8	2.2	2.5
Previous Greenbook	5.7	3.4	3.5	4.5	3.6	2.6	2.4	2.4	2.2
Unit labor costs	.6	1.9	2.0	3.5	.7	1.7	-4.6	1.3	1.3
Previous Greenbook	.6	1.9	2.0	3.5	.7	1.6	-2.5	1.6	1.2
Core goods imports chain-wt. price index[2]	1.6	3.6	2.2	2.5	3.5	3.8	-1.6	2.4	1.1
Previous Greenbook[2]	1.6	3.6	2.2	2.5	3.5	3.8	-1.3	2.4	1.0

1. Private-industry workers.
2. Core goods imports exclude computers, semiconductors, oil and natural gas.

Other Macroeconomic Indicators

Item	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2009[1]	2010[1]	2011[1]
Employment and production															
Nonfarm payroll employment[2]	-2.2	-1.7	-1.0	-.4	.0	.7	.7	.8	.9	.9	.9	.9	-5.4	2.2	3.7
Unemployment rate[3]	8.2	9.3	9.7	10.0	9.7	9.6	9.6	9.4	9.0	8.8	8.6	8.3	10.0	9.4	8.3
Previous Greenbook[3]	8.2	9.3	9.7	10.0	10.1	9.9	9.7	9.5	9.1	8.9	8.6	8.2	10.0	9.5	8.2
GDP gap[4]	-7.1	-7.8	-8.0	-7.3	-7.3	-7.0	-6.8	-6.4	-6.1	-5.7	-5.2	-4.7	-7.3	-6.4	-4.7
Previous Greenbook[4]	-7.0	-7.8	-7.9	-7.3	-7.2	-6.8	-6.4	-6.0	-5.6	-5.1	-4.5	-3.9	-7.3	-6.0	-3.9
Industrial production[5]	-19.0	-10.4	6.4	6.6	7.4	3.2	4.2	5.9	6.0	5.2	6.0	6.1	-4.7	5.1	5.8
Previous Greenbook[5]	-19.0	-10.4	6.9	7.0	5.6	4.5	5.3	5.6	6.3	6.1	6.2	6.1	-4.5	5.2	6.2
Manufacturing industr. prod.[5]	-22.0	-8.8	8.4	5.5	5.9	4.1	4.6	6.7	6.9	6.0	6.9	6.8	-5.0	5.3	6.7
Previous Greenbook[5]	-22.0	-8.8	9.0	5.7	5.2	5.5	5.7	6.2	7.0	6.9	7.0	6.9	-4.8	5.6	7.0
Capacity utilization rate - mfg.[3]	66.7	65.4	67.0	68.2	69.4	70.3	71.2	72.5	73.7	74.8	76.1	77.3	68.2	72.5	77.3
Previous Greenbook[3]	66.7	65.4	67.1	68.3	69.3	70.5	71.7	72.9	74.3	75.6	77.0	78.4	68.3	72.9	78.4
Housing starts[6]	.5	.5	.6	.6	.6	.6	.7	.8	.9	.9	1.0	1.2	.6	.7	1.0
Light motor vehicle sales[6]	9.5	9.6	11.5	10.8	10.7	11.5	12.1	12.9	13.5	14.1	14.6	15.1	10.3	11.8	14.3
Income and saving															
Nominal GDP[5]	-4.6	-.8	2.6	6.0	4.2	4.5	4.7	4.7	5.0	5.3	5.5	5.6	.7	4.5	5.3
Real disposable pers. income[5]	.2	6.2	-3.6	1.8	-.4	2.7	3.4	3.4	.9	3.9	4.4	4.6	1.1	2.3	3.4
Previous Greenbook[5]	.2	6.2	-1.4	.7	2.6	.2	3.2	3.3	2.2	3.6	4.3	4.3	1.4	2.3	3.6
Personal saving rate[3]	3.7	5.4	3.9	4.1	3.5	3.6	3.8	4.0	3.5	3.6	3.8	4.0	4.1	4.0	4.0
Previous Greenbook[3]	3.7	5.4	4.5	4.3	4.3	3.7	3.8	4.0	3.8	3.8	3.9	4.0	4.3	4.0	4.0
Corporate profits[7]	22.8	15.6	50.7	33.5	20.5	4.0	3.3	2.5	7.0	3.7	4.2	6.2	30.0	7.4	5.3
Profit share of GNP[3]	8.3	8.6	9.5	10.0	10.4	10.4	10.3	10.3	10.3	10.3	10.3	10.3	10.0	10.3	10.3
Net federal saving[8]	-969	-1,269	-1,354	-1,313	-1,308	-1,356	-1,391	-1,404	-1,287	-1,256	-1,218	-1,203	-1,226	-1,365	-1,241
Net state & local saving[8]	-37	-25	-15	-13	12	26	47	56	50	43	4	-3	-22	35	23
Gross national saving rate[3]	11.2	10.7	9.8	10.2	10.1	10.2	10.3	10.6	11.0	11.4	11.7	12.0	10.2	10.6	12.0
Net national saving rate[3]	-2.5	-2.7	-3.6	-2.7	-2.6	-2.6	-2.4	-2.1	-1.6	-1.2	-.9	-.6	-2.7	-2.1	-.6

1. Change from fourth quarter of previous year to fourth quarter of year indicated, unless otherwise indicated.
2. Change, millions.
3. Percent, annual values are for the fourth quarter of the year indicated.
4. Percent difference between actual and potential GDP; a negative number indicates that the economy is operating below potential. Annual values are for the fourth quarter of the year indicated.
5. Percent change, annual rate.
6. Level, millions, annual values are annual averages.
7. Percent change, annual rate, with inventory valuation and capital consumption adjustments.
8. Billions of dollars, annual values are annual averages.

Other Macroeconomic Indicators

(Change from fourth quarter of previous year to fourth quarter of year indicated, unless otherwise noted)

Item	2003	2004	2005	2006	2007	2008	2009	2010	2011
Employment and production									
Nonfarm payroll employment[1]	-.1	2.0	2.4	2.1	1.2	-2.8	-5.4	2.2	3.7
Unemployment rate[2]	5.8	5.4	5.0	4.5	4.8	6.9	10.0	9.4	8.3
Previous Greenbook[2]	5.8	5.4	5.0	4.5	4.8	6.9	10.0	9.5	8.2
GDP gap[3]	-1.7	-.8	-.4	-.4	-.4	-4.9	-7.3	-6.4	-4.7
Previous Greenbook[3]	-1.6	-.8	-.3	-.3	-.4	-4.8	-7.3	-6.0	-3.9
Industrial production[4]	1.6	3.0	2.6	1.8	1.8	-6.7	-4.7	5.1	5.8
Previous Greenbook[4]	1.6	3.0	2.6	1.8	1.8	-6.7	-4.5	5.2	6.2
Manufacturing industr. prod.[4]	1.8	3.6	3.8	1.2	1.9	-8.7	-5.0	5.3	6.7
Previous Greenbook[4]	1.8	3.6	3.8	1.2	1.9	-8.7	-4.8	5.6	7.0
Capacity utilization rate - mfg.[2]	74.6	77.3	79.2	79.0	78.7	70.9	68.2	72.5	77.3
Previous Greenbook[2]	74.6	77.3	79.2	79.0	78.7	70.9	68.3	72.9	78.4
Housing starts[5]	1.8	2.0	2.1	1.8	1.4	.9	.6	.7	1.0
Light motor vehicle sales[5]	16.6	16.8	16.9	16.5	16.1	13.1	10.3	11.8	14.3
Income and saving									
Nominal GDP[4]	6.0	6.4	6.3	5.4	5.3	.1	.7	4.5	5.3
Real disposable pers. income[4]	3.9	3.5	.6	4.6	1.0	.3	1.1	2.3	3.4
Previous Greenbook[4]	3.9	3.5	.6	4.6	1.0	.3	1.4	2.3	3.6
Personal saving rate[2]	3.6	3.6	1.5	2.5	1.5	3.8	4.1	4.0	4.0
Previous Greenbook[2]	3.6	3.6	1.5	2.5	1.5	3.8	4.3	4.0	4.0
Corporate profits[6]	12.2	21.9	19.6	3.7	-5.7	-25.1	30.0	7.4	5.3
Profit share of GNP[2]	9.1	10.5	11.8	11.6	10.3	7.8	10.0	10.3	10.3
Net federal saving[7]	-376	-379	-283	-204	-236	-643	-1226	-1365	-1241
Net state & local saving[7]	-39	-8	26	51	22	-40	-22	35	23
Gross national saving rate[2]	14.3	14.3	15.5	16.3	13.8	12.2	10.2	10.6	12.0
Net national saving rate[2]	2.5	2.7	3.5	4.2	1.6	-.7	-2.7	-2.1	-.6

1. Change, millions.
2. Percent, values are for the fourth quarter of the year indicated.
3. Percent difference between actual and potential GDP; a negative number indicates that the economy is operating below potential. Values are for the fourth quarter of the year indicated.
4. Percent change.
5. Level, millions, values are annual averages.
6. Percent change, with inventory valuation and capital consumption adjustments.
7. Billions of dollars,values are annual averages.

Class II FOMC
Restricted (FR)

March 10, 2010

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

Item	Fiscal year				2009				2010				2011			
	2008[a]	2009[a]	2010	2011	Q1[a]	Q2[a]	Q3[a]	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Not seasonally adjusted											
Unified budget																
Receipts[1]	2524	2105	2113	2432	442	599	516	488	434	645	546	529	523	752	628	600
Outlays[1]	2983	3520	3509	3727	891	904	845	876	908	916	810	939	950	922	915	931
Surplus/deficit[1]	-459	-1415	-1395	-1295	-449	-305	-329	-388	-474	-271	-263	-411	-427	-170	-287	-331
Previous Greenbook	*-459*	*-1416*	*-1434*	*-1209*	*-449*	*-305*	*-329*	*-389*	*-459*	*-254*	*-332*	*-411*	*-397*	*-123*	*-279*	*-329*
On-budget	-642	-1552	-1499	-1410	-468	-382	-318	-394	-510	-341	-253	-457	-429	-244	-281	-382
Off-budget	183	137	103	115	19	77	-11	6	36	71	-10	46	2	73	-6	51
Means of financing																
Borrowing	768	1743	1491	1280	465	338	379	261	495	328	407	366	417	195	302	321
Cash decrease	-296	96	-9	35	98	-49	43	82	-22	-65	-4	50	15	-20	-10	15
Other[2]	-13	-424	-86	-20	-114	16	-92	45	1	7	-139	-5	-5	-5	-5	-5
Cash operating balance, end of period	372	275	285	250	269	318	275	194	215	280	285	235	220	240	250	235
					Seasonally adjusted annual rates											
NIPA federal sector																
Receipts	2534	2281	2333	2542	2251	2237	2189	2242	2349	2356	2386	2409	2549	2585	2625	2669
Expenditures	3074	3348	3675	3833	3220	3506	3542	3555	3658	3712	3777	3813	3835	3841	3843	3872
Consumption expenditures	914	972	1044	1089	954	979	1001	1011	1037	1061	1068	1073	1088	1095	1102	1109
Defense	620	658	700	731	643	663	679	682	693	710	717	723	731	734	737	739
Nondefense	294	314	344	359	311	316	322	329	345	351	350	350	357	361	366	370
Other spending	2160	2375	2631	2744	2266	2527	2541	2544	2620	2651	2709	2740	2747	2746	2741	2763
Current account surplus	-540	-1066	-1342	-1291	-969	-1269	-1354	-1313	-1308	-1356	-1391	-1404	-1287	-1256	-1218	-1203
Gross investment	141	158	162	166	152	159	163	160	159	164	166	167	166	166	166	166
Gross saving less gross investment[3]	-563	-1101	-1371	-1314	-999	-1304	-1391	-1343	-1335	-1385	-1420	-1431	-1311	-1278	-1237	-1220
Fiscal indicators[4]																
High-employment (HEB) surplus/deficit	-496	-761	-946	-951	-681	-911	-967	-905	-902	-967	-1012	-1035	-936	-925	-909	-919
Change in HEB, percent of potential GDP	1.9	1.6	1.0	-0.2	1.2	1.5	0.3	-0.4	-0.1	0.4	0.2	0.1	-0.7	-0.1	-0.1	0.0
Fiscal impetus (FI), percent of GDP	0.8	1.0	0.9	-0.0	0.0	0.7	0.3	0.1	0.2	0.3	0.2	0.1	-0.2	-0.0	-0.1	-0.1
Previous Greenbook	*0.8*	*1.0*	*1.1*	*-0.1*	*0.0*	*0.7*	*0.3*	*0.1*	*0.4*	*0.2*	*0.2*	*0.0*	*-0.2*	*-0.0*	*-0.1*	*-0.1*

1. 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 (2005) 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

Change in Debt of the Domestic Nonfinancial Sectors

(Percent)

Period [1]	Total	Households			Business	State and local governments	Federal government	Memo: Nominal GDP
		Total	Home mortgages	Consumer credit				
Year								
2004	8.9	11.0	13.4	5.6	6.3	7.3	9.0	6.4
2005	9.5	11.1	13.2	4.5	8.8	10.2	7.0	6.3
2006	9.0	10.0	11.0	4.1	10.5	8.3	3.9	5.4
2007	8.7	6.7	6.7	5.8	13.4	9.5	4.9	5.3
2008	5.9	.1	-.6	1.5	5.2	2.5	24.2	.1
2009	3.3	-1.7	-1.6	-4.3	-1.8	4.8	22.7	.7
2010	5.4	.4	-.1	.7	1.1	4.3	20.4	4.5
2011	5.4	2.1	.7	7.0	3.1	3.6	13.1	5.3
Quarter								
2008:1	5.5	3.1	2.6	4.6	7.8	3.9	8.1	1.0
2	3.2	-.0	-.6	3.5	6.4	1.8	5.9	3.5
3	8.1	-.6	-2.5	.7	5.0	3.9	39.2	1.4
4	6.1	-1.9	-1.9	-2.7	1.2	.2	37.0	-5.4
2009:1	4.2	-1.3	-.2	-3.9	.4	4.7	22.6	-4.6
2	4.5	-1.7	-1.7	-4.8	-2.1	4.1	28.2	-.8
3	2.9	-2.7	-3.6	-3.1	-2.3	5.5	20.6	2.6
4	1.6	-1.2	-.8	-5.8	-3.2	4.7	12.6	6.0
2010:1	4.7	.3	.5	-2.0	-.4	4.0	19.9	4.2
2	6.1	.5	.2	.2	.9	4.4	22.6	4.5
3	5.3	.2	-.5	1.5	1.6	4.2	18.5	4.7
4	5.0	.5	-.5	3.3	2.3	4.2	15.2	4.7
2011:1	5.0	1.2	.0	4.9	2.8	3.6	13.2	5.0
2	5.5	2.1	.8	6.3	3.0	3.6	13.6	5.3
3	5.2	2.4	.8	7.6	3.3	3.6	11.7	5.5
4	5.4	2.7	1.0	8.6	3.3	3.5	11.6	5.6

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2009: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

Flow of Funds Projections: Highlights

(Billions of dollars at seasonally adjusted annual rates except as noted)

Category	2008	2009	2010	2011	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4
Domestic nonfinancial sectors														
Net funds raised														
Total	1526.7	1050.7	1760.8	1864.1	1052.7	225.9	1546.2	2027.6	1779.3	1690.0	1714.0	1938.7	1864.6	1939.0
Net equity issuance	-336.0	-65.1	-110.0	-100.0	65.5	-319.3	-100.0	-100.0	-120.0	-120.0	-100.0	-100.0	-100.0	-100.0
Net debt issuance	1862.7	1115.8	1870.8	1964.1	987.2	545.1	1646.2	2127.6	1899.3	1810.0	1814.0	2038.7	1964.6	2039.0
Borrowing indicators														
Debt (percent of GDP) [1]	226.1	239.5	240.0	240.8	241.8	239.7	239.1	239.7	240.3	240.6	240.6	240.7	240.7	240.6
Borrowing (percent of GDP)	12.9	7.8	12.6	12.6	6.9	3.8	11.3	14.4	12.7	12.0	11.9	13.2	12.5	12.8
Households														
Net borrowing [2]	20.2	-237.0	50.9	290.3	-366.1	-168.4	38.8	64.7	26.5	73.5	167.9	288.9	326.6	378.0
Home mortgages	-62.2	-164.6	-7.7	66.8	-376.8	-86.1	51.3	20.5	-51.4	-51.3	0.0	82.0	82.2	102.9
Consumer credit	38.8	-112.7	18.5	175.1	-79.5	-145.3	-48.9	4.9	36.7	81.2	121.8	158.8	194.9	225.0
Debt/DPI (percent) [3]	127.3	124.9	120.5	117.1	124.6	122.7	122.3	121.2	119.8	118.6	118.3	117.4	116.5	115.6
Business														
Financing gap [4]	232.4	-135.8	-89.1	-2.0	-204.6	-147.7	-105.1	-116.3	-76.4	-58.7	-35.0	-16.5	14.7	28.6
Net equity issuance	-336.0	-65.1	-110.0	-100.0	65.5	-319.3	-100.0	-100.0	-120.0	-120.0	-100.0	-100.0	-100.0	-100.0
Credit market borrowing	549.0	-199.7	123.6	348.6	-259.3	-351.0	-40.6	103.7	172.8	258.4	311.3	338.2	369.9	375.1
State and local governments														
Net borrowing	54.3	108.6	100.7	89.7	127.7	108.7	93.7	105.7	101.7	101.7	89.7	89.7	89.7	89.7
Current surplus [5]	212.7	229.2	254.6	245.8	258.0	203.2	230.4	244.5	267.0	276.6	270.5	265.0	226.6	221.1
Federal government														
Net borrowing	1239.2	1443.9	1595.6	1235.4	1484.9	955.8	1554.4	1853.5	1598.3	1376.4	1245.1	1321.9	1178.3	1196.2
Net borrowing (n.s.a.)	1239.2	1443.9	1595.6	1235.4	378.7	261.4	494.6	328.4	406.6	366.1	417.3	195.5	301.6	321.0
Unified deficit (n.s.a.)	680.5	1471.3	1418.1	1215.4	329.4	388.1	473.7	270.5	263.2	410.7	427.3	170.5	286.6	331.0
Depository institutions														
Funds supplied	407.6	-643.4	-14.3	96.9	-1001.3	-444.4	-580.0	126.3	-755.7	1152.3	53.4	-83.9	247.1	171.1

Note. Data after 2009:Q4 are staff projections.
1. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.
2. Includes change in liabilities not shown in home mortgages and consumer credit.
3. Average debt levels in the period (computed as the average of period-end debt positions) divided by disposable personal income.
4. For corporations, excess of capital expenditures over U.S. internal funds.
5. NIPA state and local government saving plus consumption of fixed capital and net capital transfers.
n.s.a. Not seasonally adjusted.

2.6.4 FOF

International Developments

Average foreign growth was noticeably stronger in the fourth quarter than we had anticipated, reflecting upbeat readings in Canada, Latin America, and much of Asia. However, growth in Europe was disappointing. As much of the fourth-quarter strength appears to reflect transitory factors, including swings in inventories, we have made only modest upward revisions to our near-term outlook. Further out, we have nudged down the foreign growth projection in response to the somewhat weaker U.S. outlook. Sovereign risk concerns and the apparent fragility of the economic recovery in Europe represent notable downside risks to the outlook.

Our projection for foreign inflation has been marked up in the near term, as food and energy prices boosted consumer prices by more than we had expected. Even so, we continue to project that inflation abroad will ease to a 2 percent rate by the second half of this year, as energy and food price increases moderate. Oil prices are up a touch since the January Greenbook, while nonfuel commodity prices are little changed.

Summary of Staff Projections
(Percent change from end of previous period, annual rate, except as noted)

Indicator	2009		Projection				
	H1	Q3	2009: Q4	2010 Q1	2010 Q2	2010 H2	2011
Foreign output	-3.6	4.1	4.8	3.6	3.7	3.7	3.9
Previous Greenbook	-3.6	4.4	2.9	3.4	3.5	3.8	4.1
Foreign consumer prices	.1	1.4	3.0	3.4	2.5	2.0	2.1
Previous Greenbook	.0	1.4	3.1	2.6	2.2	2.0	2.0
	Contribution to growth (percentage points)						
U.S. net exports	2.1	-.8	.2	-.1	.0	-.2	-.1
Previous Greenbook	2.1	-.8	.2	-.5	-.2	-.1	-.1

Note: Change for year measured as Q4/Q4; half-years are Q2/Q4 or Q4/Q2.

The contribution of net exports to U.S. real GDP growth is expected to be just slightly negative in the first quarter and throughout the forecast period, as imports and exports expand robustly, but with imports growing off of a larger base. The contribution in the first half of this year is less negative than our previous forecast on account of lower real oil imports and the downward revision to U.S. growth. Thereafter, the contribution is little changed as the negative effect of the higher dollar, which has risen about 1 percent since the January Greenbook, is balanced by the weaker outlook for U.S. growth.

International Financial Markets

International financial market developments were dominated by sovereign risk concerns focused on Greece and, to a lesser extent, several other euro-area countries, leading to elevated spreads on their sovereign bond yields relative to German sovereign yields. Media reports that European countries are discussing a possible aid package for Greece and further promises of deficit reduction measures by the Greek government have led to some reduction in fears. Greece was able to publically issue a further €5 billion in debt in early March. Although Greek spreads narrowed on these developments, they remain 50 basis points higher than at the time of the January Greenbook.

Yields on benchmark sovereign German bonds have declined about 15 basis points, as investors shifted out of vulnerable European countries on concerns about sovereign risk. Additionally, weak incoming data have pushed back market expectations for policy tightening by the European Central Bank (ECB) by about two quarters, to late 2011. Disappointing data have also pushed out expectations for tightening by the Bank of England (BOE) by two quarters, to early 2011. Even so, U.K. sovereign yields were little changed, as markets continue to focus concerns about Britain’s fiscal prospects.

Foreign equity prices are generally down between 1 and 5 percent. Much of the decline took place early in the period, reflecting in part reports that Chinese authorities were acting to restrain bank lending.

The major currencies index of the dollar increased about 2¼ percent, as the British pound fell 9 percent against the dollar and the euro fell 5 percent. These startling declines reflected weak incoming data and market anxieties about fiscal sustainability. The dollar was little changed, on net, against most emerging market currencies; it appreciated against many of these currencies early in the period, but this appreciation was largely reversed as data in emerging market economies came in stronger than the market had expected. All told, the broad real dollar index is now about 1 percent higher than in the January Greenbook. Going forward, we continue to project that the broad real dollar will depreciate at a 3 percent pace.

In recent months, the possibility that foreign investors were diversifying away from dollars again generated much attention. As discussed in Greenbook Part II, these concerns appear overstated, but foreign demand for U.S. corporate debt indeed has been weak. The box on the next page explores this further.

Advanced Foreign Economies

Economic performance in the advanced foreign economies (AFEs) improved notably in the last quarter of 2009. GDP growth picked up from 1 percent in the third quarter to 3 percent in the fourth quarter, ¾ percentage point above the January Greenbook estimate. This acceleration, though, masks important differences. Economic activity accelerated and surpassed our expectations in Canada and Japan, whereas Europe again disappointed.

For the first quarter, we project output in the AFEs to rise at an annual pace of 2½ percent. In Canada, household spending appears to be expanding at a solid pace, supported by improving labor market conditions. The near-term outlook for domestic demand is also encouraging for Japan, as industrial production continues to recover and the job market appears to have turned around, although the expiration of some fiscal stimulus measures may curb consumer spending going forward. In the euro area and the United Kingdom, January's declines in retail sales, in combination with anemic fourth-quarter GDP growth, point to further weakness in domestic demand. Furthermore, increasing fiscal stress in Greece and other vulnerable countries has hurt confidence. All told, we project AFE growth to rise to 3 percent by mid-2011, a bit below the January Greenbook projection.

After jumping up in the fourth quarter on the back of rising energy prices, quarterly consumer price inflation is expected to remain near 2 percent this quarter. This figure is about ¾ percentage point higher than in the last Greenbook, partly because incoming data for January show retail energy prices surprising on the upside. In the United Kingdom, as expected, the expiration of the temporary cut in the value added tax helped push twelve month inflation above the 3 percent target, requiring BOE Governor Mervyn King to write an open letter of explanation to the chancellor of the exchequer. Core consumer prices also rose notably in Canada but remained subdued elsewhere. Going forward, with energy prices flattening out, we anticipate that consumer prices will decelerate to 1¼ percent in 2010 and 2011, a forecast only slightly higher than in the previous Greenbook.

Recent Weak Foreign Demand for U.S. Corporate Debt Securities

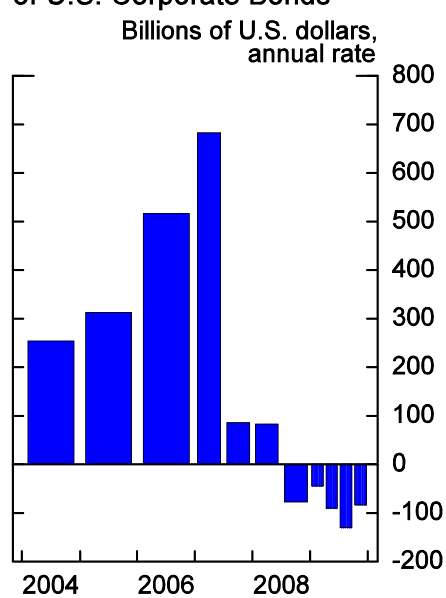
Prior to the onset of the financial crisis, foreign private investors were acquiring increasing amounts of U.S. corporate debt securities, accounting for the bulk of private financial flows into the United States from 2004 through the first half of 2007. Purchases of corporate debt slowed markedly in the second half of 2007 and turned to net sales during the intensification of the crisis in the fall of 2008 (see figure). But despite the improvement in global financial markets in 2009 and the associated pickup in U.S. corporate bond issuance, foreign private investors have yet to return to purchasing U.S. corporate bonds. In fact, sizable further net sales of U.S. corporate debt by foreigners occurred in January 2010.

In part, weak foreign demand for U.S. corporate debt can be explained by understanding the types of debt that were acquired by foreign investors in recent years. About three-fourths of the increase in foreign holdings of U.S. corporate debt in the two years prior to the crisis took the form of asset-backed securities, structured products, and floating-rate notes issued by financial corporations, rather than investment-grade nonfinancial corporate bonds. Although U.S. corporate bond issuance picked up in 2009, this issuance has largely been limited to investment-grade corporate debt, which has accounted for a relatively small share of the foreign portfolio in recent years.

A second factor limiting foreign demand for U.S. corporate debt has been an apparent increase, at least temporarily, in "home bias" (that is, the preference for domestic over external assets). In the years leading up to the crisis, in both the euro area and the United Kingdom, the share of external bonds (that is, bonds issued by non-euro-area or non-U.K. entities) in private investors' bond portfolios had increased slowly but steadily, indicating a decrease in home bias. Over this period, these investors' portfolio shares in U.S. bonds also increased, and at roughly the same pace as their overall shares in external bonds. Together, investors in the euro area and the United Kingdom accounted for almost two-thirds of the increase in foreign holdings of U.S. corporate debt between 2005 and mid-2007.

However, from the onset of the financial crisis through mid-2009, external bonds have declined as a share of foreign private investors' bond portfolios. Initially, these declines reflected flight-to-safety flows as foreign investors sold external securities in favor of their own sovereign debt. More recently, foreign investors have shown renewed interest in their own countries' domestic corporate debt securities, issuance of which doubled in 2009. As a result, by mid-2009, measures of home bias in both the euro area and the United Kingdom had increased to roughly where they were in 2004. Notably, the decline in the share of U.S. bonds in foreigners' bond portfolios is roughly comparable to the declines in the shares of all external bonds. Thus, although European investors recently have shown little apparent appetite for U.S. corporate debt, the weak demand in part reflects limited appetite for external debt more generally.

Foreign Private Net Purchases of U.S. Corporate Bonds



We assume that all major foreign central banks except the Bank of Japan (BOJ) will begin tightening monetary policy over this year and next. The Bank of Canada is assumed to tighten late this year. In light of the weaker outlook, we now expect the BOE to start raising its policy rate at the beginning of 2011 and then raise it only gradually to 1¾ percent by year-end, a full percentage point below what we had assumed previously. Similarly, we have pushed back the first hike by the ECB of its main refinancing rate to the third quarter of 2011, and we expect only 50 basis points of tightening by the end of that year. As for the BOJ, its policy rate target is assumed to remain near zero throughout the forecast period.

We assume that governments in the AFEs, especially in Europe, will gradually implement fiscal consolidation plans over the forecast period. Thus, we project that, after having provided important support to demand in 2009, fiscal measures (including automatic stabilizers) will add only about ½ percentage point to AFE GDP growth in 2010 and then subtract 1¼ percentage points in 2011.

Staff Projections for Foreign GDP Growth by Region
(Percent change from end of previous period, annual rate)

Indicator	2009		Projection				
	H1	Q3	2009: Q4	2010 Q1	2010 Q2	2010 H2	2011
Advanced foreign economies	-4.8	.9	3.1	2.4	2.5	2.8	3.0
Previous Greenbook	-4.6	.8	2.2	2.3	2.6	2.9	3.2
Emerging market economies	-2.0	8.3	7.1	5.3	5.1	5.0	5.0
Previous Greenbook	-2.2	9.1	3.9	4.7	4.7	5.0	5.2

Note: Change for year measured as Q4/Q4; half-years are Q2/Q4 or Q4/Q2.

Emerging Market Economies

With most of the fourth-quarter GDP releases in hand, we now estimate that economic growth in the emerging market economies (EMEs) was 7 percent, 3¼ percentage points higher than projected in the January Greenbook.

In several emerging Asian countries, substantial upside surprises largely reflect two factors—a stronger boost from inventory accumulation, which is likely to prove temporary, and greater underlying momentum in consumption, which we expect will carry through into the next couple of quarters. Export growth, fueled in part by demand from rapidly growing China, also appears to have boosted activity. Although fourth-quarter growth stalled in Korea and India, this appears attributable to transitory factors. Incoming data on exports and PMIs support our projection of a 7 percent rise in real GDP for emerging Asia in the current quarter. We look for growth to ease to about 6 percent thereafter, as Chinese authorities and other governments in the region gradually withdraw policy support.

In Latin America, Mexican real GDP grew at a surprisingly high 8½ percent pace in the fourth quarter, largely reflecting a surge in manufacturing output and exports to the United States. Going forward, we expect Mexican growth to step down, in line with the contour of the forecast for U.S. industrial production. In Chile, the recent earthquake is expected to restrain economic activity in the first quarter, dragging down South American growth to an annual rate of 2½ percent before grwoth bounces back later this year. The Brazilian economy continues to expand at a robust clip.

All told, we now project EME growth to slow to a still-robust 5 percent pace for the remainder of the forecast period. The near-term outlook is only ½ percentage point higher than our previous forecast, as greater momentum is tempered by the weaker forecast for the United States. Further out, EME growth has been revised down slightly on the weaker outlook for U.S. activity.

Headline inflation remains elevated in emerging market economies, with food price increases still being the main driver; although there are signs of moderation in some countries, inflation has moved up in India, Mexico, and Brazil. Relative to the last Greenbook, our projection for inflation in emerging Asia is roughly unchanged, with inflation stepping down to about 2½ percent by the end of this year. In Latin America, we expect inflation to rise more in the near term than we were projecting in the January Greenbook. In particular, weather-related food disruptions and increases in taxes and administered prices have temporarily boosted Mexican inflation.

Commodity Prices

Oil prices are up a touch since the time of the January Greenbook, with the spot price of West Texas Intermediate (WTI) crude oil closing on March 9 at about $82 per barrel. In contrast, futures prices have fallen. The price of the December 2018 contract is nearly $6 lower than at the time of the previous Greenbook, closing most recently at about

$97 per barrel. The flatter futures curve likely reflects improved supply prospects as market participants appear to place greater weight on the possibility of increased production from Iraq in coming years. Consistent with futures prices, we project that the spot price of WTI will rise to $86 per barrel by the end of 2011, a bit lower than in the January Greenbook.

Nonfuel commodity prices have flattened out, on average, after having risen rapidly late last year. Consistent with quotes from futures markets, we project nonfuel commodity prices to show only modest growth of 1½ percent, on average, through the remainder of the forecast period. The box beginning on the next page explores the contour of our commodity price forecast in greater detail.

Prices of Internationally Traded Goods

Core import prices rose at an annual rate of 4¾ percent in the last quarter of 2009, boosted by both a weaker dollar and rising commodity prices. In the current quarter we project core import inflation to ease to 4¼ percent, in line with the recent appreciation of the dollar and smaller rises in commodity prices. Core import prices are projected to decelerate further to 1 percent by 2011, as commodity prices level out and the dollar depreciates only moderately.

Staff Projections of Selected Trade Prices
(Percent change from end of previous period, annual rate, except as noted)

Trade category	2009		Projection				
	H1	Q3	2009: Q4	2010: Q1	2010: Q2	2010: H2	2011
Imports							
Core goods	-5.9	1.3	4.7	4.2	2.2	1.5	1.1
Previous Greenbook	-5.9	1.3	5.7	4.5	2.3	1.3	1.0
Oil (dollars per barrel)	53.71	66.28	71.94	75.86	79.62	80.55	81.85
Previous Greenbook	53.71	66.28	72.12	76.55	76.71	79.07	82.38
Exports							
Core goods	-5.3	5.1	5.7	8.6	3.1	2.0	1.3
Previous Greenbook	-5.3	5.1	5.2	7.0	3.0	1.8	1.4

Note: Prices for core exports exclude computers and semiconductors. Prices for core imports exclude computers, semiconductors, oil, and natural gas. Both prices are on a national income and product account chain-weighted basis.

The price of imported oil for multiquarter periods is the price for the final quarter of the period. Imported oil includes both crude oil and refined.

Factors Affecting the Forecast for Commodity Prices

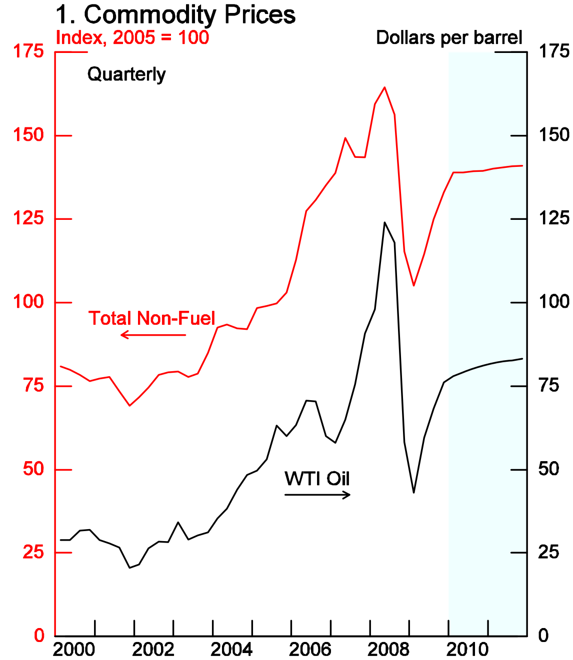
Based on futures prices, we forecast that oil and nonfuel commodity prices will flatten out this year and next following strong increases over the previous year (Panel 1). This subdued path for commodity prices may seem at odds with the projected rebound in global economic activity, particularly as rapid growth in emerging market economies is considered a chief cause of the run-up in commodity prices from 2004 through mid-2008. Although futures prices have a poor track record in forecasting commodity prices, they incorporate all information available to market participants. In this box, focusing on oil and metals, we explain how the relatively flat futures curves can be consistent with continued solid recovery in the global economy.

We point to two factors that rationalize the relatively flat price paths: the behavior of inventories and growth in supply. As commodity markets are forward looking, current prices reflect an expectation of increased future demand. Higher anticipated demand relative to current demand elicits an accumulation of inventories as well as reductions in current production, both of which push up current prices. To service rising demand over time, inventories can be drawn down and production can rise, thus containing upward price pressures in the future. The rise in production occurs both as existing capacity is utilized and as additions to capacity materialize.

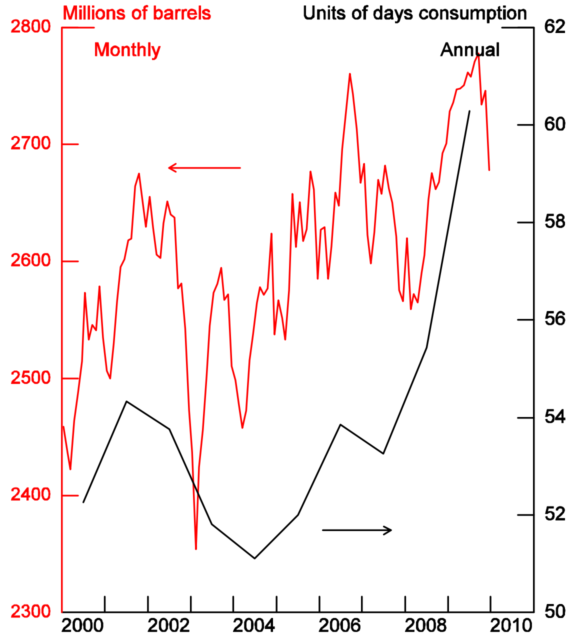
Available data suggest that commodity inventories and spare production capacity are indeed high. Oil stocks in the OECD are ample by historical standards (Panel 2), as are stocks of base metals held in London Metal Exchange (LME) warehouses (Panel 3). In addition, anecdotal evidence suggests that large stocks of oil and metals have been accumulated elsewhere, notably in China. OPEC spare capacity (Panel 4) is currently about 6 million barrels per day (about 7 percent of global demand). Likewise, reported spare capacity at copper mines and aluminum smelters has increased and remains high.

Industry forecasts show strong supply growth for base metals and oil over the next several years. The International Energy Agency (IEA) projects sufficient oil supply growth to meet demand over the next five years under assumptions similar to our own regarding the path of economic activity and oil prices. Moreover, the IEA's forecast includes a very cautious assessment of Iraqi production, which holds substantial upside potential and has likely weighed on futures prices at more distant horizons.

1. Commodity Prices

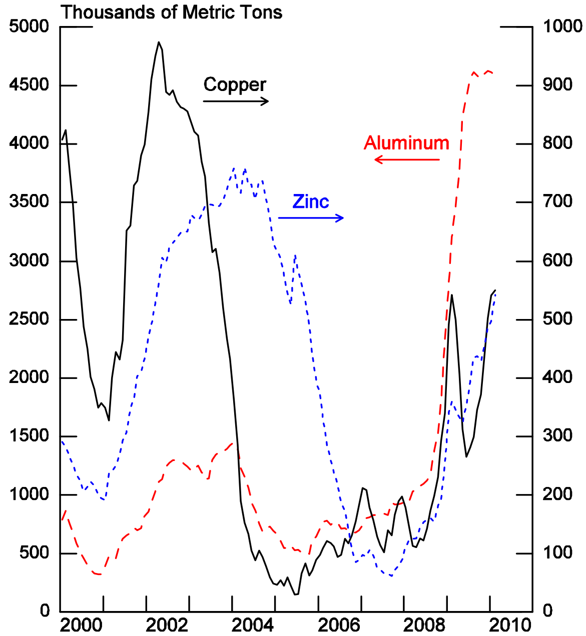


2. OECD Stocks



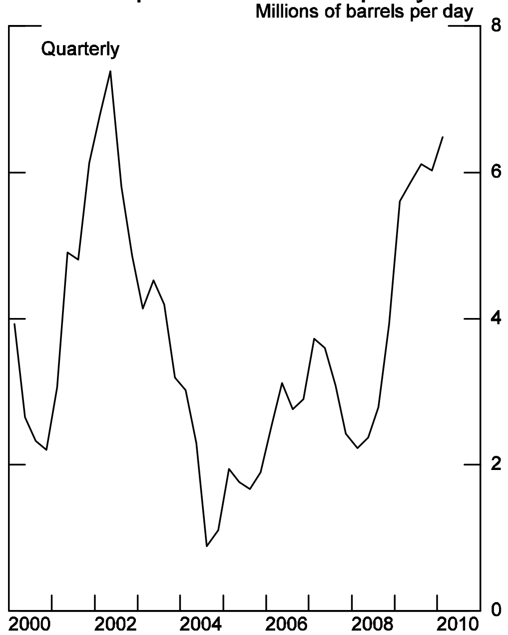
Source: Oil Market Report: Table 5 © OECD/IEA 2010.

3. LME Metal Stocks



Source: London Metal Exchange (LME).

4. OPEC Spare Production Capacity



Source: Oil Market Report © OECD/IEA 2010.

We expect past commodity price increases to boost core export prices 8½ percent in the current quarter. Thereafter, as commodity prices stabilize, we expect export price inflation to fall to 1¼ percent in 2011.

Trade in Goods and Services

In 2010, growth of both exports and imports is expected to remain robust but to step down from the exceptionally high rates seen in the second half of 2009 as the cyclical recovery in trade matures. Real exports are expected to grow at an annual rate of 10 percent in the first quarter and just under 9 percent in the remainder of 2010 and 2011. We have revised down our forecast for exports due to the stronger dollar and, in 2011, slightly weaker foreign growth.

Real imports are expected to grow at an annual rate of 8½ percent in the first quarter, as increased imports of non-oil goods and services more than offset declining oil imports. Import growth is expected to average about 7¾ percent for the remainder of the year and in 2011. As with exports, the assumed cyclical bounceback plays less of a role over time, and so projected import growth weakens in spite of strengthening U.S. activity. We have revised down our import forecast a little, as the weaker U.S. outlook more than offsets the stronger dollar.

Staff Projections for
Trade in Goods and Services
(Percent change from end of previous period, annual rate)

Measure	2009		Projection				
			2009:	2010			2011
	H1	Q3	Q4	Q1	Q2	H2	
Real exports	-18.1	17.8	22.4	9.9	8.4	9.0	8.7
Previous Greenbook	-18.1	17.8	17.3	9.8	8.8	9.7	9.3
Real imports	-26.3	21.3	15.3	8.6	6.5	8.5	7.7
Previous Greenbook	-26.3	21.3	11.8	11.0	8.2	8.0	8.3

Note: Change for year measured as Q4/Q4; half-years are Q2/Q4 or Q4/Q2.

Alternative Simulations

We used the SIGMA model to examine two scenarios in which fiscal stress in Greece and other vulnerable euro-area countries precipitates broader financial turmoil in Europe.[8] In the first scenario, European GDP growth falls 2 percentage points below baseline in 2010 and 2011, and the euro depreciates slightly against the dollar, as a result of shocks to aggregate demand and sharp increases in government and corporate financing spreads.[9] We also construct a second scenario in which European GDP falls by the same amount, but a risk premium shock causes the dollar to appreciate much more substantially against the euro. Taken together, the two scenarios highlight that the extent of spillovers to the U.S. economy from economic disruptions in Europe depends crucially on their implications for exchange rates.

In the first scenario, U.S. real GDP growth falls 0.2 percentage point below baseline in 2010:H2 and 0.1 percentage point in 2011, mainly as U.S. exports decline in response to weaker foreign activity and a modest appreciation of the dollar. The dollar appreciates because monetary authorities in Europe are expected to reduce policy interest rates relative to their baseline path once the zero bound constraint no longer binds. U.S. core PCE price inflation falls slightly, reflecting lower resource utilization and the lower import prices that result from dollar appreciation.

In the second scenario, the aggregate demand and financial shocks in Europe are coupled with a risk premium shock to the dollar that is heavily concentrated against the euro, as safe-haven flows to the dollar re-emerge. In response, the broad real dollar appreciates about 10 percent by the end of 2010 before gradually returning back to baseline. U.S. real GDP growth now falls a more substantial 1.5 percentage points below baseline in 2010:H2 and 0.8 percentage point in 2011, as the additional dollar appreciation induces consumers to switch away from U.S. to foreign products. Moreover, the effects of these combined shocks are amplified because they extend by three quarters the period that the federal funds rate remains at zero. With actual and expected inflation falling more substantially in this scenario, there is a larger increase in real interest rates and a larger decline in U.S. domestic demand. The nominal trade balance as a percent of GDP

[8] We used the SIGMA model with three country blocs: the United States, a European bloc, and a rest of the world bloc. The United States and the European bloc have zero lower bound constraints, but the rest of the world does not.

[9] Specifically, the term premium on European 10 year government bonds rises about 50 basis points relative to baseline, and the spread between European corporate bonds and government bonds rises about 100 basis points relative to baseline.

deteriorates almost 1.5 percentage points in 2011 in response to the stronger dollar and weaker European activity.

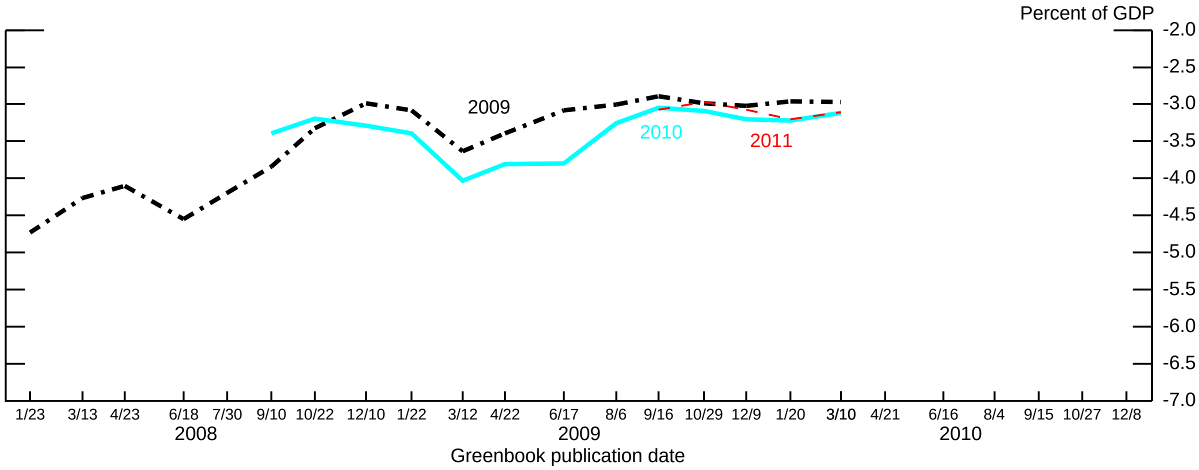
Alternative Scenarios:
Financial Crisis in Europe
(Percent change from previous period, annual rate, except as noted)

Indicator and simulation	2010		2011		2012	2013-14
	H1	H2	H1	H2		
U.S. real GDP						
Baseline	2.9	3.7	4.2	4.6	4.7	3.9
Weaker Demand and Higher Risk Premiums in Europe	2.8	3.5	4.1	4.6	4.7	3.9
With Additional Dollar Appreciation	2.6	2.2	2.9	4.2	4.9	4.1
U.S. PCE prices excluding food and energy						
Baseline	.9	1.1	1.0	1.0	1.1	1.4
Weaker Demand and Higher Risk Premiums in Europe	.8	1.0	.9	.9	1.0	1.3
With Additional Dollar Appreciation	.3	0	.4	.6	.8	1.2
U.S federal funds rate (percent)						
Baseline	.1	.1	.1	.1	1.6	3.6
Weaker Demand and Higher Risk Premiums in Europe	.1	.1	.1	.1	1.3	3.4
With Additional Dollar Appreciation	.1	.1	.1	.1	.4	2.8
U.S. trade balance (percent share of GDP)						
Baseline	-3.0	-3.1	-3.1	-3.1	-3.0	-2.9
Weaker Demand and Higher Risk Premiums in Europe	-3.1	-3.2	-3.2	-3.3	-3.2	-3.0
With Additional Dollar Appreciation	-3.6	-4.6	-4.6	-4.5	-4.1	-3.5

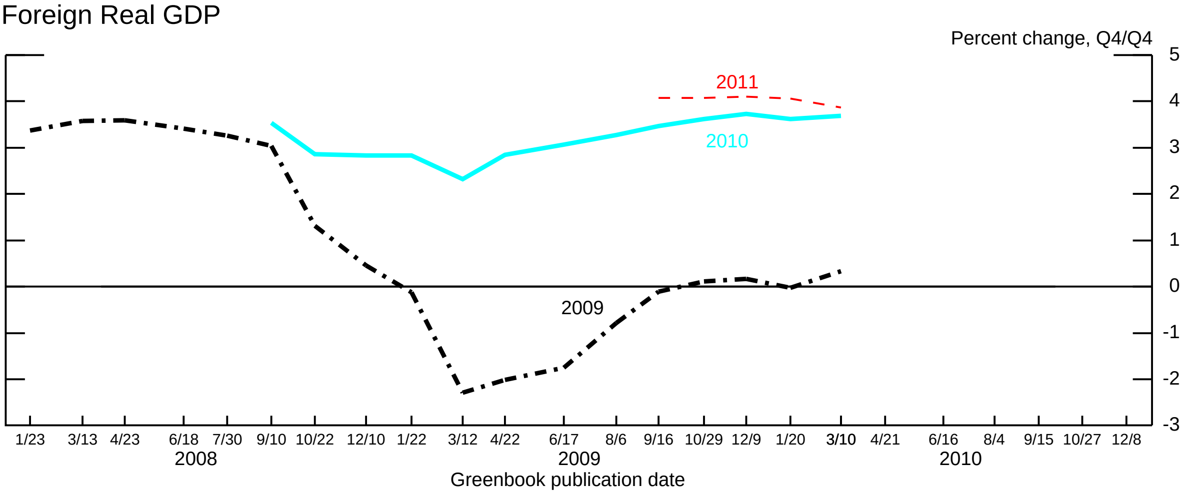
NOTE: H1 is Q2/Q4; H2 is Q4/Q2. U.S. real GDP and U.S. PCE prices are the average rates over the period. The federal funds rate and the trade balance are the values for the final quarter of the period.

Evolution of the Staff Forecast

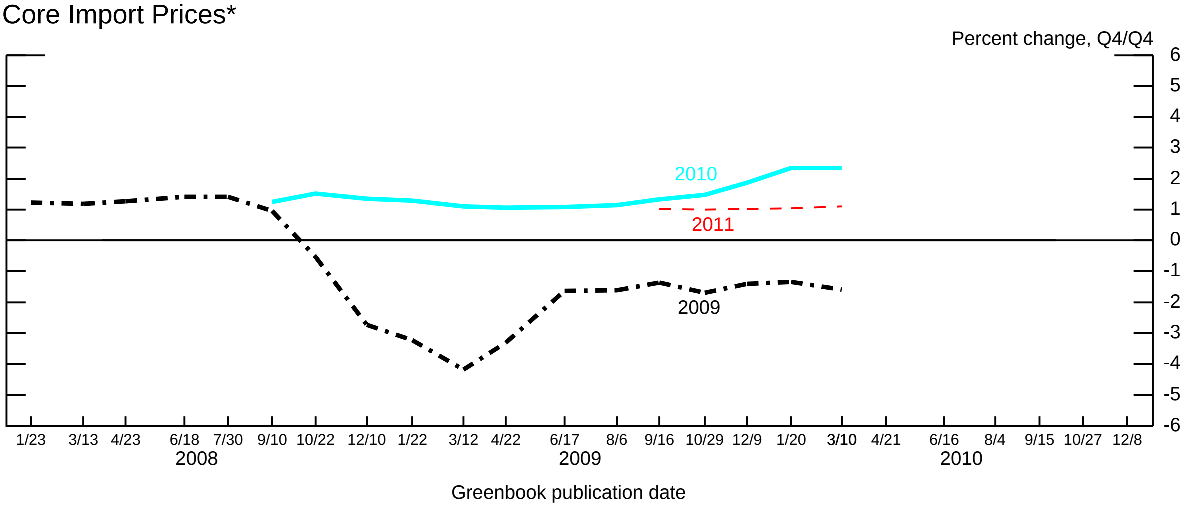
Current Account Balance



Foreign Real GDP



Core Import Prices*



*Prices for merchandise imports excluding computers, semiconductors, oil, and natural gas.

Class II FOMC
Restricted (FR)

March 10, 2010

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

					Projected							
	2009				2010				2011			
Measure and country	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total Foreign	-9.3	2.4	4.1	4.8	3.6	3.7	3.7	3.8	3.8	3.9	3.9	3.9
Advanced Foreign Economies	-8.2	-1.3	0.9	3.1	2.4	2.5	2.7	2.8	2.9	3.0	3.0	3.0
of which:												
Canada	-7.0	-3.5	0.9	5.0	3.6	3.4	3.4	3.4	3.6	3.7	3.7	3.7
Japan	-12.3	5.2	0.0	4.6	2.2	1.8	2.0	2.3	2.1	2.0	1.8	1.8
United Kingdom	-10.2	-2.5	-1.2	1.1	1.3	2.4	2.8	2.9	2.9	3.0	2.9	2.9
Euro Area (2)	-9.6	-0.5	1.7	0.5	1.0	1.6	1.9	2.1	2.2	2.2	2.3	2.3
Germany	-13.4	1.8	2.9	0.0	0.8	1.7	2.0	2.3	2.3	2.4	2.5	2.6
Emerging Market Economies	-10.6	7.3	8.3	7.1	5.3	5.1	5.0	5.0	5.0	5.0	5.1	5.1
Asia	-2.0	13.7	9.6	7.0	6.9	6.2	5.9	5.9	6.0	6.0	6.0	6.0
Korea	0.5	11.0	13.6	0.7	3.5	4.1	4.1	4.1	4.1	4.1	4.1	4.1
China	7.1	15.6	10.8	10.1	9.1	8.5	8.3	8.4	8.6	8.7	8.8	8.8
Latin America	-19.5	1.7	7.6	7.3	3.9	4.2	4.1	4.1	4.0	4.1	4.1	4.1
Mexico	-24.9	1.1	10.4	8.4	4.5	4.4	4.0	4.0	4.2	4.2	4.2	4.2
Brazil	-3.5	4.4	5.1	6.8	6.0	5.0	5.0	4.5	4.0	4.0	4.0	4.0
CONSUMER PRICES (3)	Four-quarter changes											
Total Foreign	1.8	0.9	0.2	1.2	2.2	2.6	2.7	2.5	2.1	2.0	2.0	2.1
Advanced Foreign Economies	1.0	0.0	-0.8	0.2	1.0	1.4	1.6	1.3	1.1	1.0	1.1	1.2
of which:												
Canada	1.2	0.1	-0.9	0.8	1.8	2.3	2.7	2.2	2.0	1.9	1.9	2.0
Japan	-0.1	-1.0	-2.2	-2.0	-1.5	-1.4	-1.1	-1.1	-1.1	-1.0	-1.0	-0.9
United Kingdom (4)	3.0	2.1	1.5	2.1	3.2	3.1	2.8	2.4	1.5	1.6	1.7	1.8
Euro Area (2)	1.0	0.2	-0.4	0.4	1.1	1.5	1.6	1.3	1.2	1.1	1.2	1.2
Germany	0.8	0.2	-0.4	0.3	0.8	1.2	1.3	1.1	1.1	1.1	1.1	1.2
Emerging Market Economies	2.7	1.7	1.3	2.1	3.3	3.8	3.9	3.7	3.2	3.0	2.9	2.9
Asia	1.1	-0.2	-0.4	1.2	2.8	3.4	3.5	3.1	2.7	2.6	2.5	2.5
Korea	3.9	2.8	2.0	2.4	2.8	2.7	2.8	2.6	2.3	2.3	2.3	2.3
China	-0.6	-1.5	-1.3	0.6	2.2	3.0	3.4	2.8	2.6	2.4	2.3	2.3
Latin America	6.3	5.9	4.9	3.9	4.6	4.7	4.9	5.3	4.4	4.0	4.0	4.0
Mexico	6.2	6.0	5.1	4.0	4.7	4.6	4.7	5.1	4.1	3.7	3.7	3.7
Brazil	5.9	5.3	4.3	4.2	4.7	4.7	5.0	5.2	4.6	4.5	4.5	4.5

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.

Class II FOMC
Restricted (FR)

March 10, 2010

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

Measure and country	2003	2004	2005	2006	2007	2008	-----Projected---- 2009	2010	2011
REAL GDP (1)									
Total Foreign	2.8	3.8	4.1	4.0	4.3	-0.9	0.3	3.7	3.9
Advanced Foreign Economies	1.7	2.6	2.8	2.5	2.5	-1.7	-1.5	2.6	3.0
of which:									
Canada	1.5	3.7	3.1	1.9	2.8	-1.0	-1.2	3.4	3.7
Japan	2.3	1.0	2.9	2.0	1.6	-4.4	-0.9	2.1	1.9
United Kingdom	3.2	2.4	2.4	2.8	2.4	-2.1	-3.3	2.4	2.9
Euro Area (2)	1.2	1.8	2.1	3.4	2.2	-1.8	-2.1	1.7	2.3
Germany	0.1	0.2	1.6	4.3	1.6	-1.8	-2.4	1.7	2.4
Emerging Market Economies	4.4	5.6	5.9	5.9	6.6	0.0	2.7	5.1	5.0
Asia	6.9	6.0	7.7	7.2	8.4	0.2	6.9	6.3	6.0
Korea	3.6	2.7	5.1	4.6	5.7	-3.4	6.3	3.9	4.1
China	10.3	9.9	10.3	10.9	12.4	7.0	10.8	8.6	8.7
Latin America	1.7	5.1	4.0	4.6	4.6	-0.5	-1.4	4.1	4.1
Mexico	1.2	4.6	3.5	3.8	3.8	-1.2	-2.4	4.2	4.2
Brazil	0.8	5.1	3.5	4.8	6.7	0.9	3.1	5.1	4.0
CONSUMER PRICES (3)									
Total Foreign	2.1	2.8	2.3	2.1	3.7	3.3	1.2	2.5	2.1
Advanced Foreign Economies	1.3	1.8	1.6	1.4	2.2	2.0	0.2	1.3	1.2
of which:									
Canada	1.7	2.3	2.3	1.4	2.5	1.9	0.8	2.2	2.0
Japan	-0.3	0.5	-1.0	0.3	0.6	1.0	-2.0	-1.1	-0.9
United Kingdom (4)	1.3	1.4	2.1	2.7	2.1	3.9	2.1	2.4	1.8
Euro Area (2)	2.0	2.3	2.3	1.8	2.9	2.3	0.4	1.3	1.2
Germany	1.1	2.1	2.2	1.3	3.1	1.7	0.3	1.1	1.2
Emerging Market Economies	3.1	3.9	3.0	2.9	5.1	4.6	2.1	3.7	2.9
Asia	2.3	3.1	2.6	2.3	5.5	3.7	1.2	3.1	2.5
Korea	3.5	3.4	2.5	2.1	3.4	4.5	2.4	2.6	2.3
China	2.7	3.2	1.4	2.1	6.6	2.6	0.6	2.8	2.3
Latin America	4.9	5.6	3.7	4.1	4.2	6.5	3.9	5.3	4.0
Mexico	3.9	5.3	3.1	4.1	3.8	6.2	4.0	5.1	3.7
Brazil	11.5	7.2	6.1	3.2	4.3	6.2	4.2	5.2	4.5

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.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2003	2004	2005	2006	2007	2008	2009 (Projected)	2010 (Projected)	2011 (Projected)
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.1	-0.9	-0.2	0.4	1.0	0.7	1.0	-0.1	-0.1
Exports of G&S	0.6	0.7	0.7	1.1	1.2	-0.4	-0.1	1.1	1.1
Imports of G&S	-0.7	-1.6	-0.8	-0.7	-0.2	1.2	1.1	-1.2	-1.2
Percentage change, Q4/Q4									
Exports of G&S	6.2	7.1	6.7	10.2	10.2	-3.4	-0.8	9.1	8.7
Services	4.3	9.1	3.6	12.0	13.0	-3.5	-1.9	5.7	6.7
Computers	11.3	5.8	14.2	8.4	1.3	-2.4	7.0	11.2	9.5
Semiconductors	38.3	-6.0	17.6	2.1	29.1	-12.7	21.9	11.7	11.0
Core Goods 1/	4.8	7.2	7.2	9.9	8.4	-3.1	-1.3	10.6	9.5
Imports of G&S	5.1	10.9	5.2	4.1	0.9	-6.8	-6.7	8.0	7.7
Services	3.3	8.8	2.3	7.1	2.0	0.2	-4.2	4.3	6.1
Oil	1.3	10.7	1.3	-8.2	0.0	0.3	-16.9	-1.8	0.1
Natural Gas	1.3	4.9	13.7	-10.1	13.4	-24.0	-7.6	13.7	0.4
Computers	17.1	23.2	12.5	14.3	8.8	-11.3	35.3	15.9	15.5
Semiconductors	-0.1	9.8	7.5	-0.8	3.6	-9.7	5.6	5.8	5.0
Core Goods 2/	5.3	10.9	5.8	5.8	0.2	-9.8	-7.8	10.8	9.3
Billions of Chained 2005 Dollars									
Net Goods & Services	-603.9	-688.0	-722.7	-729.2	-647.7	-494.3	-355.4	-353.0	-365.3
Exports of G&S	1116.8	1222.8	1305.1	1422.0	1546.1	1629.3	1472.1	1643.8	1789.1
Imports of G&S	1720.7	1910.8	2027.8	2151.2	2193.8	2123.5	1827.4	1996.8	2154.3
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-521.5	-631.1	-748.7	-803.5	-726.6	-706.1	-423.6	-463.0	-484.5
Current Acct as Percent of GDP	-4.7	-5.3	-5.9	-6.0	-5.2	-4.9	-3.0	-3.1	-3.1
Net Goods & Services (BOP)	-495.0	-610.0	-715.3	-760.4	-701.4	-695.9	-380.7	-452.1	-478.6
Investment Income, Net	51.0	73.4	78.8	54.7	97.9	125.5	93.0	120.2	121.2
Direct, Net	112.7	150.9	173.2	174.0	236.7	249.9	204.2	223.3	241.3
Portfolio, Net	-61.7	-77.5	-94.4	-119.4	-138.8	-124.3	-111.2	-103.1	-120.1
Other Income & Transfers,Net	-77.5	-94.5	-112.2	-97.9	-123.1	-135.7	-135.9	-131.1	-127.2

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2006				2007				2008			
	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	0.4	0.0	-0.7	1.9	-0.3	0.7	1.4	2.2	0.4	2.4	-0.1	0.5
Exports of G&S	1.6	0.7	0.1	1.8	0.4	0.6	2.0	1.6	-0.0	1.5	-0.5	-2.7
Imports of G&S	-1.2	-0.7	-0.8	0.1	-0.7	0.1	-0.6	0.6	0.4	0.9	0.4	3.1
Percentage change from previous period, s.a.a.r.												
Exports of G&S	16.5	6.9	0.6	17.8	3.5	5.2	18.5	14.5	-0.1	12.1	-3.6	-19.5
Services	13.6	5.6	1.5	29.1	4.7	2.8	27.2	19.2	-9.0	7.8	-7.7	-4.3
Computers	18.1	8.9	-9.6	19.0	11.6	-15.4	11.5	0.0	8.7	33.5	1.3	-38.3
Semiconductors	22.1	19.5	-14.2	-13.3	23.7	26.3	4.7	69.9	15.0	-3.8	6.5	-50.7
Core Goods 1/	17.6	6.7	1.6	14.5	1.5	6.4	15.4	10.8	3.5	14.3	-2.2	-23.7
Imports of G&S	7.8	4.5	4.9	-0.5	4.3	-0.5	3.7	-3.6	-2.5	-5.0	-2.2	-16.7
Services	16.1	1.8	1.3	10.0	0.4	2.1	8.6	-2.9	3.0	-7.1	6.1	-0.9
Oil	-20.8	5.0	22.1	-30.1	0.8	14.7	-3.4	-10.4	-1.5	-9.3	2.7	10.3
Natural Gas	-50.2	80.0	26.1	-42.2	52.8	54.0	36.5	-48.5	-5.0	-38.2	12.2	-49.5
Computers	24.8	13.0	17.3	3.1	39.0	-15.4	-2.2	21.6	12.7	8.6	-15.9	-39.9
Semiconductors	2.4	-2.8	17.4	-17.3	7.3	2.6	-0.4	4.9	5.6	8.9	-6.3	-38.2
Core Goods 2/	14.0	3.1	0.6	5.8	3.1	-3.6	4.1	-2.5	-5.1	-3.2	-5.1	-24.2
Billions of Chained 2005 Dollars, s.a.a.r.												
Net Goods & Services	-732.6	-732.8	-756.5	-694.9	-705.0	-683.4	-638.4	-564.0	-550.9	-476.0	-479.2	-470.9
Exports of G&S	1388.8	1412.1	1414.1	1473.2	1485.9	1504.8	1569.9	1624.0	1623.4	1670.4	1655.2	1568.0
Imports of G&S	2121.3	2144.9	2170.5	2168.1	2190.8	2188.1	2208.3	2188.0	2174.3	2146.5	2134.4	2038.9
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-794.6	-808.3	-859.2	-752.1	-796.4	-762.1	-686.5	-661.3	-717.2	-750.9	-736.7	-619.5
Current Account as % of GDP	-6.0	-6.1	-6.4	-5.5	-5.8	-5.4	-4.8	-4.6	-5.0	-5.2	-5.1	-4.3
Net Goods & Services (BOP)	-766.5	-764.7	-797.2	-713.1	-712.2	-710.2	-685.9	-697.4	-730.6	-731.4	-743.8	-578.0
Investment Income, Net	62.4	57.7	44.0	54.6	45.8	58.2	120.7	167.0	154.0	112.3	143.7	92.1
Direct, Net	173.9	175.2	163.1	183.9	186.7	204.4	252.7	303.0	284.6	241.9	268.0	205.1
Portfolio, Net	-111.5	-117.5	-119.1	-129.3	-140.9	-146.2	-132.0	-136.0	-130.6	-129.6	-124.2	-113.0
Other Inc. & Transfers, Net	-90.5	-101.3	-106.0	-93.6	-130.0	-110.1	-121.3	-130.9	-140.6	-131.8	-136.7	-133.6

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

Class II FOMC
Restricted (FR)

March 10, 2010

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2009				Projected 2010				Projected 2011			
	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	2.6	1.7	-0.8	0.2	-0.1	0.0	-0.3	-0.1	-0.1	-0.0	-0.3	0.0
Exports of G&S	-4.0	-0.5	1.8	2.3	1.1	1.0	1.0	1.1	1.1	1.1	1.1	1.1
Imports of G&S	6.6	2.1	-2.6	-2.1	-1.2	-1.0	-1.4	-1.2	-1.2	-1.1	-1.3	-1.1
Percentage change from previous period, s.a.a.r.												
Exports of G&S	-29.9	-4.1	17.8	22.4	9.9	8.4	8.8	9.3	9.0	8.7	8.7	8.5
Services	-13.6	0.1	5.6	1.4	4.7	5.2	6.2	6.8	6.8	6.5	6.6	6.9
Computers	-14.0	-10.8	26.5	34.8	16.2	9.5	9.5	9.5	9.5	9.5	9.5	9.5
Semiconductors	-17.1	27.7	45.8	43.3	13.6	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Core Goods 1/	-38.3	-7.2	23.8	33.8	12.2	9.9	10.0	10.4	9.9	9.6	9.5	9.2
Imports of G&S	-36.4	-14.7	21.3	15.3	8.6	6.5	9.3	7.8	8.1	7.1	8.7	6.7
Services	-11.5	-7.5	7.0	-3.9	6.2	0.8	4.9	5.6	5.5	6.0	6.3	6.5
Oil	-15.9	-21.9	5.3	-31.1	-2.4	-6.5	2.8	-1.0	2.7	-3.6	3.6	-2.1
Natural Gas	5.9	-2.4	-1.9	-28.0	82.0	-31.7	51.4	-11.4	11.1	-36.5	48.2	-2.8
Computers	-22.3	24.7	60.0	116.1	17.0	15.5	15.5	15.5	15.5	15.5	15.5	15.5
Semiconductors	-47.8	24.7	48.8	28.5	8.3	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Core Goods 2/	-46.7	-18.6	27.3	30.9	10.5	11.4	11.2	10.1	9.5	10.0	9.5	8.1
Billions of Chained 2005 Dollars, s.a.a.r.												
Net Goods & Services	-386.5	-330.4	-357.4	-347.1	-349.3	-347.5	-357.1	-358.1	-361.7	-361.8	-369.6	-367.9
Exports of G&S	1434.5	1419.5	1478.8	1555.5	1592.8	1625.3	1660.0	1697.1	1733.9	1770.3	1807.4	1844.7
Imports of G&S	1821.0	1749.8	1836.2	1902.7	1942.1	1972.8	2017.0	2055.2	2095.6	2132.1	2177.0	2212.6
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-417.7	-391.8	-432.0	-452.9	-461.9	-454.3	-468.6	-467.3	-488.0	-473.4	-488.3	-488.4
Current Account as % of GDP	-2.9	-2.8	-3.0	-3.1	-3.2	-3.1	-3.1	-3.1	-3.2	-3.1	-3.1	-3.1
Net Goods & Services (BOP)	-369.5	-324.8	-389.4	-439.0	-439.4	-446.7	-458.8	-463.5	-472.5	-473.4	-484.4	-484.0
Investment Income, Net	80.4	73.7	101.9	115.9	119.7	119.6	120.0	121.4	123.0	123.1	121.7	117.0
Direct, Net	204.8	190.9	205.6	215.6	218.5	222.4	224.0	228.3	232.4	237.8	244.2	250.6
Portfolio, Net	-124.4	-117.2	-103.7	-99.7	-98.8	-102.8	-104.0	-106.9	-109.5	-114.7	-122.4	-133.6
Other Inc. & Transfers, Net	-128.6	-140.7	-144.5	-129.8	-142.1	-127.2	-129.7	-125.2	-138.4	-123.1	-125.6	-121.4

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

Abbreviations

AFE	advanced foreign economy
BEA	Bureau of Economic Analysis
BOE	Bank of England
BOJ	Bank of Japan
C&I	commercial and industrial
CPI	consumer price index
DSGE	dynamic stochastic general equilibrium model
E&S	equipment and software
ECB	European Central Bank
EDO	Estimated, Dynamic, Optimization-based model
EEB	extended and emergency unemployment benefits
EME	emerging market economy
FOMC	Federal Open Market Committee; also, the Committee
GDP	gross domestic product
IEA	International Energy Agency
IP	industrial production
JGB	Japanese government bond
LME	London Metal Exchange
LP	LoanPerformance
MBS	mortgage-backed securities
NAIRU	non-accelerating inflation rate of unemployment
NFB	nonfarm business
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PCE	personal consumption expenditures
PMI	purchasing managers index
TIC	Treasury International Capital
VAT	value-added tax
WTI	West Texas Intermediate