

Prefatory Note

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September 14, 2007

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

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

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Supplemental Notes

The Domestic Nonfinancial Economy

Retail Sales and Consumer Sentiment

Total nominal retail sales rose 0.3 percent in August; sales in the retail control group of stores fell 0.3 percent in August after posting a robust gain of 0.7 percent in July that was larger than previously estimated. A drop in gasoline prices contributed to the decline in nominal retail control spending in August. In addition, sales fell back at nonstore retailers and were little changed at clothing outlets and at food and food services establishments. Among outlets excluded from the retail control category, sales at building material and supply stores fell, but sales at motor vehicles and parts dealers perked up in August.

The Reuters/University of Michigan index of consumer sentiment in early September remained close to the low level reached in August. This month's preliminary figure reflected a small increase in the "expected conditions" component of the overall index and essentially no change in the "current conditions" component. Among those items not included in the overall sentiment index, consumers' expectations about the change in unemployment over the next twelve months improved slightly in early September. Households' appraisals of buying conditions for cars strengthened but their views on buying conditions for houses remained low. Inflation expectations were little changed: The median of expected inflation over the next twelve months edged down to 3.1 percent in September, and the median of expected inflation over the next five to ten years ticked up to 3.0 percent.

Industrial Production

Total industrial production (IP) rose 0.2 percent in August, after averaging gains of 0.5 percent in June and July. A surge in electricity generation last month, as temperatures swung from a mild July to a very warm August, boosted the output of electric utilities and contributed about 0.5 percentage point to the rate of change in total IP last month. Following large gains in both June and July, manufacturing output decreased 0.3 percent in August; the annualized rate of change for the most recent three months was nearly 5 percent. Mining output fell 0.6 percent because of decreases in the extraction of crude oil and natural gas.

The utilization rate for total industry was unchanged in August, at 82.2 percent. The factory operating rate decreased 0.3 percent, to 80.7 percent, a rate that is about 1 percentage point above its 1972-2006 average but 0.4 percentage point below its recent

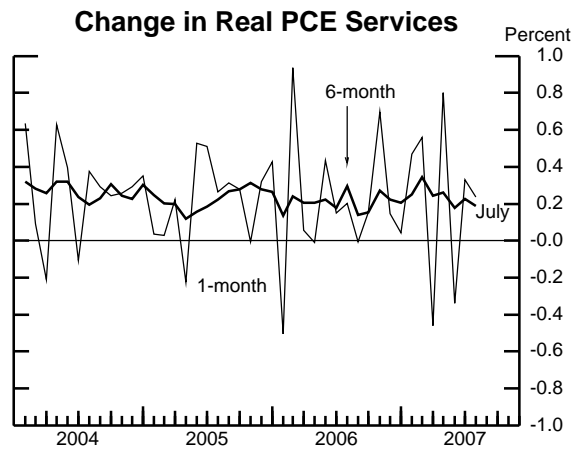
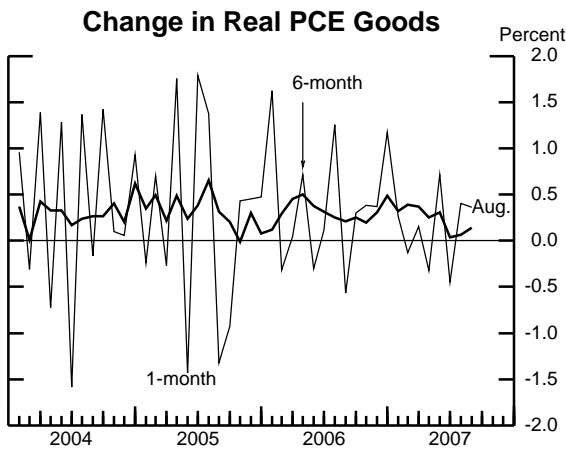
Retail and Food Services Sales

(Percent change from preceding period; seasonally adjusted current dollars)

Category	2007					
	Q1	Q2	May	June	July	Aug.
	Annual rate		Monthly rate			
Total sales	6.3	5.4	1.6	-.8	.5	.3
Retail control ¹	7.7	8.0	1.4	.0	.7	-.3
Ex. sales at gasoline stations	5.5	5.4	1.0	.3	.8	.1
Memo:						
Real PCE control ²	4.0	.3	.6	-.1	.6	.0

1. Total sales less outlays at building material and supply stores and automobile and other motor vehicle dealers.

2. Total goods spending excluding autos and trucks. The values for June, July, and Q2 are staff estimates. The value for August is a staff forecast.



Personal Saving Rate



Reuters/University of Michigan Survey of Consumers
Indexes of consumer sentiment
 (Not seasonally adjusted)

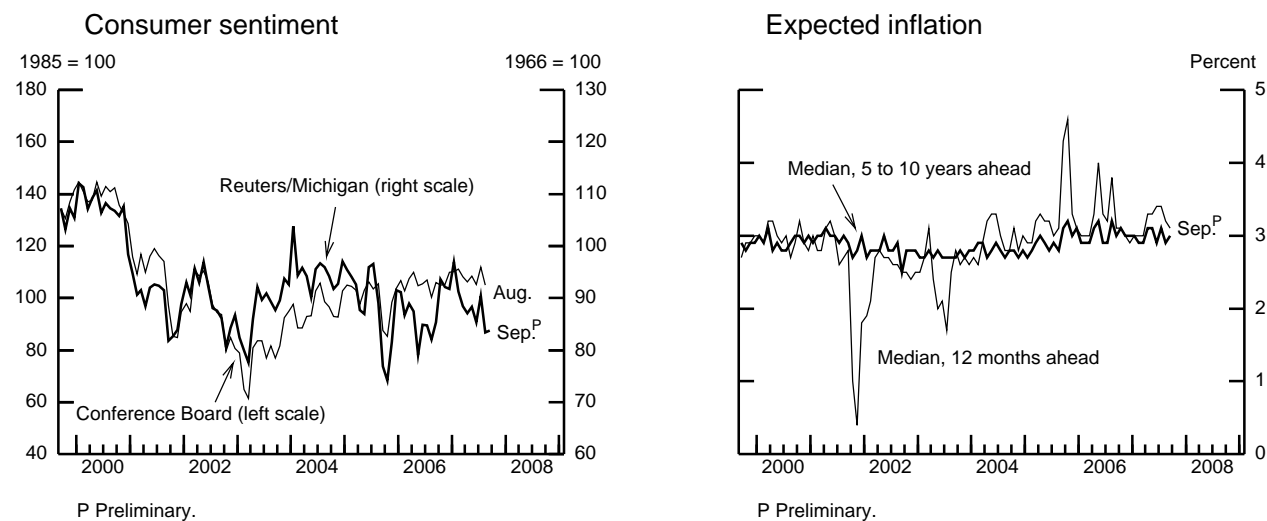
Category	2007							
	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept. ^P
Composite of current and expected conditions ¹	91.3	88.4	87.1	88.3	85.3	90.4	83.4	83.8
Current conditions ¹	106.7	103.5	104.6	105.1	101.9	104.5	98.4	98.3
Expected conditions ¹	81.5	78.7	75.9	77.6	74.7	81.5	73.7	74.4
Personal financial situation								
Now compared with 12 months ago ²	119	111	119	113	110	115	103	105
Expected in 12 months ²	122	126	127	125	117	125	120	118
Expected business conditions								
Next 12 months ²	106	95	87	97	94	105	87	85
Next 5 years ²	98	94	90	89	88	96	88	95
Appraisal of buying conditions								
Cars	133	138	132	124	118	125	133	144
Large household appliances ²	158	157	152	160	154	156	152	150
Houses	133	137	138	135	131	129	118	120
Expected unemployment change - next 12 months	125	123	129	120	125	123	131	129
Prob. household will lose a job - next 5 years	19	22	18	19	23	21	24	21
Expected inflation - next 12 months								
Mean	3.6	3.6	4.0	4.3	4.2	4.2	4.0	4.0
Median	3.0	3.0	3.3	3.3	3.4	3.4	3.2	3.1
Expected inflation - next 5 to 10 years								
Mean	3.3	3.3	3.6	3.7	3.3	3.6	3.4	3.5
Median	2.9	2.9	3.1	3.1	2.9	3.1	2.9	3.0

Note. Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall, plus 100.

P Preliminary.

1. Feb. 1966 = 100.

2. Indicates the question is one of the five equally-weighted components of the index of sentiment.



peak registered in August of last year. By stage of processing, utilization rates moved down in both the crude and the finished stages, while utilization in the primary and semifinished stage rose. The utilization rate for the crude stage—which includes oil and gas extraction—was 89.6 percent in August, and the July reading of 89.9 was the highest level since early 1998. Utilization rates for the other stages of processing were about 1 percentage point above their long-run averages.

Light motor vehicle assemblies declined more than 400,000 units (annual rate) in August, to 10.7 million units. The decrease in assemblies and the associated pullback in the production of motor vehicle parts subtracted more than 0.1 percentage point from the change in total IP. Current assembly schedules suggest that about one-half of the August decline will be made up in September. Medium and heavy truck assemblies fell in August to their lowest level in more than four years, and the IP index for medium and heavy trucks was nearly 60 percent below its recent peak in July 2006.

High-tech output rose a relatively modest 0.8 percent in August, but production gains in June and July were revised up considerably, and the annualized rate of increase in the most recent three months was a very solid 30 percent. Although semiconductors decelerated in August, production had surged in the preceding two months, with gains widespread across chip types. Downstream from semiconductors, the production of computers and peripherals rose tepidly in August, which continued a series of modest gains that followed robust increases in PC output in the first part of the year; the earlier strength resulted from consumer PC sales spurred by the release of Microsoft Vista. Conversely, communications equipment production has averaged increases of 1½ percent in the last three months, after a weak second quarter.

Excluding energy, motor vehicles and parts, and high-tech products, IP declined 0.2 percent in August. Among final products, both durable consumer goods and nondurable consumer goods fell 0.3 percent; production of durables was restrained by decreases in furniture and carpeting while declines among nondurables were widespread. Business equipment also declined 0.3 percent, as an increase in civilian aircraft was more than offset by broadly based decreases in industrial and other equipment, where output had popped up in July.

Both construction supplies and business supplies were little changed in August for a second consecutive month. Within construction supplies, continued increases in products associated with nonresidential construction offset declines in supplies more likely used in residential construction. Materials output was also flat in August, after a sizable increase

Selected Components of Industrial Production
(Percent change from preceding comparable period)

Component	Proportion 2006 (percent)	2006 ¹	2007		2007		
			Q1	Q2	June	July	Aug.
			Annual rate		Monthly rate		
Total	100.0	3.5	1.1	3.5	.6	.5	.2
Previous	100.0	3.5	1.1	3.3	.6	.3	...
Manufacturing	81.9	3.4	.8	4.4	.7	.7	-.3
Ex. motor veh. and parts	76.3	3.9	1.4	3.8	.6	.7	-.1
Ex. high-tech industries	71.5	2.5	.9	3.0	.4	.6	-.2
Mining	8.6	8.0	-4.8	-.1	.4	.8	-.6
Utilities	9.6	.3	8.7	-.8	-.6	-1.7	5.3
<i>Selected industries</i>							
Energy	20.5	4.0	4.8	-1.4	-.1	-.3	2.3
High technology	4.8	24.6	9.2	16.5	2.5	3.3	.8
Computers	1.2	12.1	32.8	39.4	1.0	.3	.6
Communications equipment	1.1	14.8	27.7	8.3	1.5	.8	2.1
Semiconductors ²	2.6	34.8	-6.9	9.4	3.9	6.3	.3
Motor vehicles and parts	5.5	-3.8	-7.5	13.4	2.6	.7	-2.6
<i>Total ex. selected industries</i>	69.1	2.4	.1	3.4	.4	.5	-.2
Consumer goods	20.9	1.8	1.0	2.1	.6	.3	-.3
Durables	4.0	-1.9	-3.6	4.2	1.0	.3	-.3
Nondurables	16.9	2.7	2.1	1.6	.4	.3	-.3
Business equipment	7.8	10.2	-3.3	4.3	.5	1.3	-.3
Defense and space equipment	1.7	2.0	-2.2	-2.4	1.7	.6	-.7
Construction supplies	4.5	-2.2	-3.0	5.7	1.1	.0	.0
Business supplies	7.9	1.0	.0	1.3	.3	.1	.0
Materials	26.1	2.3	1.1	4.7	.2	.7	.0
Durables	14.5	2.0	1.3	6.3	.2	1.0	.0
Nondurables	11.6	2.6	1.0	2.6	.1	.3	-.1

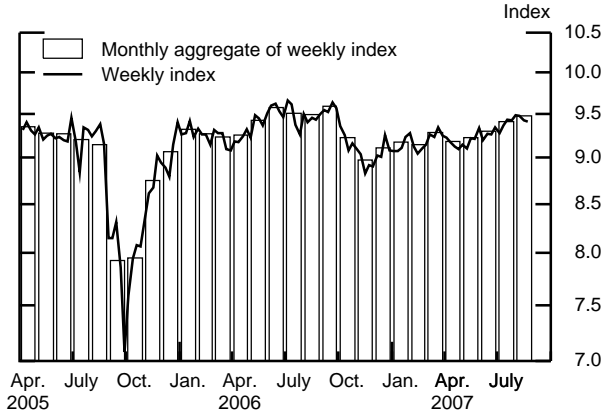
1. From fourth quarter of preceding year to fourth quarter of year shown.
2. Includes related electronic components.
... Not applicable.

Capacity Utilization
(Percent of capacity)

Sector	1972- 2006 average	1994- 95 high	2001- 02 low	2006	2007			
				Q4	Q1	Q2	July	Aug.
Total industry	81.0	85.1	73.6	81.5	81.3	81.7	82.2	82.2
Manufacturing	79.8	84.6	71.6	80.1	79.8	80.3	81.0	80.7
Ex. motor veh. and parts	79.9	84.3	71.4	80.5	80.3	80.6	81.2	80.9
Mining	87.4	88.9	84.8	91.3	90.0	89.9	90.8	90.2
Utilities	86.7	93.7	83.8	85.0	86.4	85.9	83.6	87.9
<i>Stage-of-process groups</i>								
Crude	86.5	89.5	82.0	89.1	88.7	89.2	89.9	89.6
Primary and semifinished	82.2	88.2	74.6	82.3	82.2	82.3	82.5	83.1
Finished	77.8	80.5	70.0	78.2	78.0	78.6	79.2	78.8

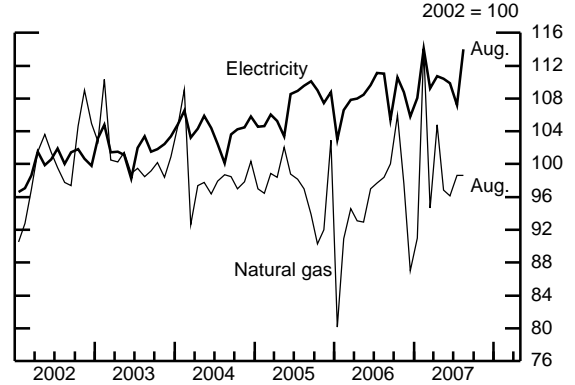
Indicators of Industrial Activity

Weekly Production Index excluding Motor Vehicles and Electricity Generation

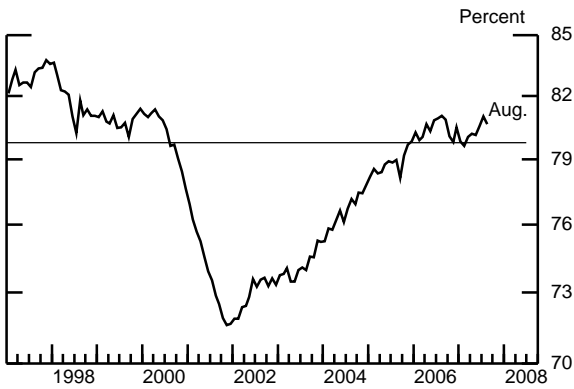


Note. One index point equals 1 percent of 2002 total industrial output.

Utilities Output

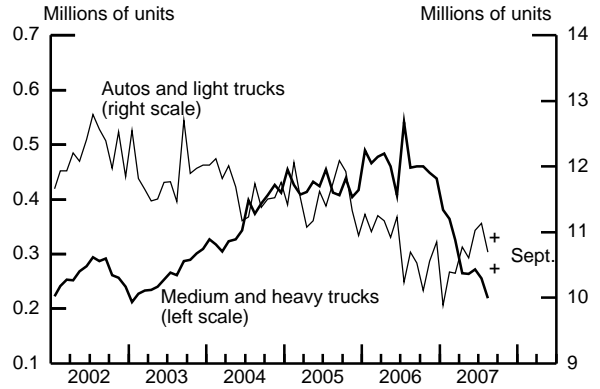


Manufacturing Capacity Utilization



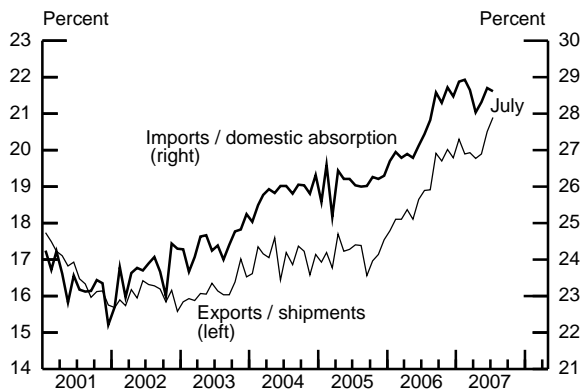
Note. Horizontal line is 1972-2006 average.

Motor Vehicle Assemblies

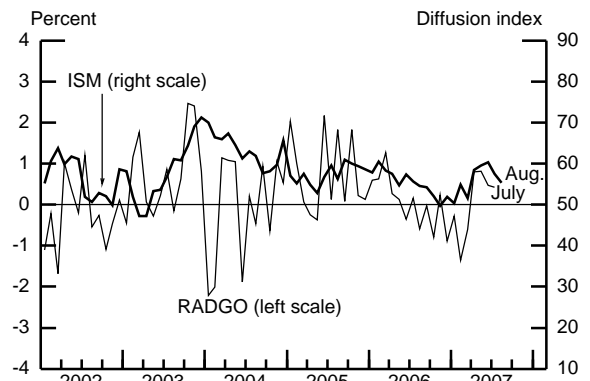


Note. September values are based on latest industry schedules.

Trade Shares



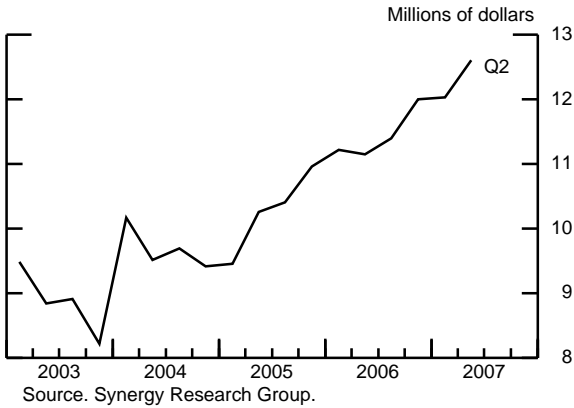
New Orders: ISM Survey and Change in Real Adjusted Durable Goods Orders (RADGO)



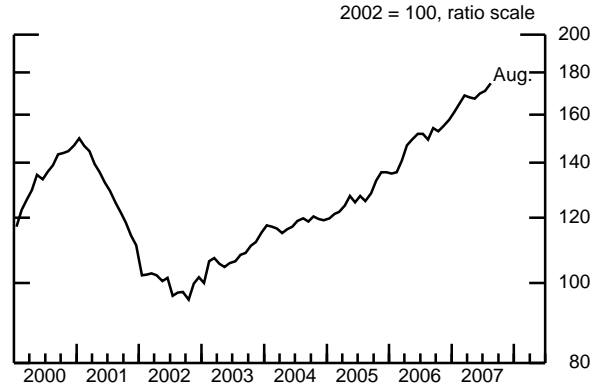
Note. The diffusion index equals the percentage of respondents reporting greater levels of new orders plus one-half the percentage of respondents reporting that new orders were unchanged. RADGO is a 3-month moving average.

Indicators of High-Tech Manufacturing Activity

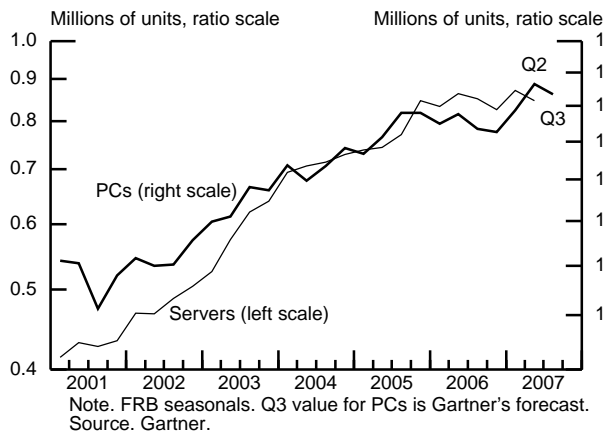
Enterprise Spending on Voice and Data Networking Equipment



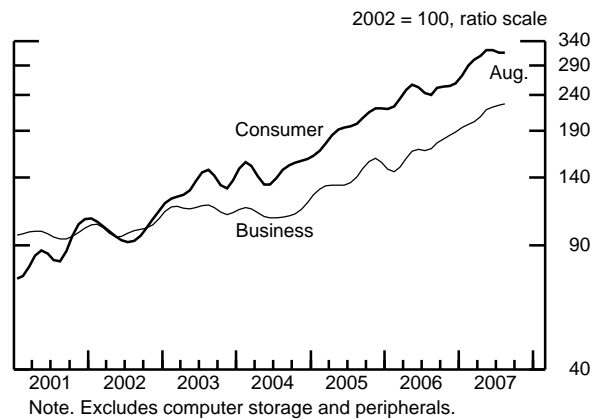
IP: Communications Equipment



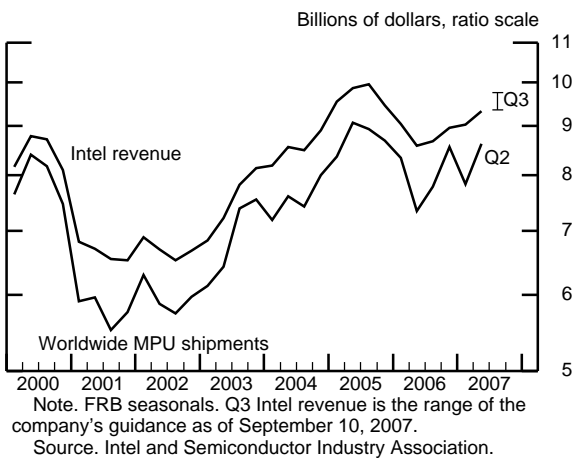
U.S. Personal Computer and Server Sales



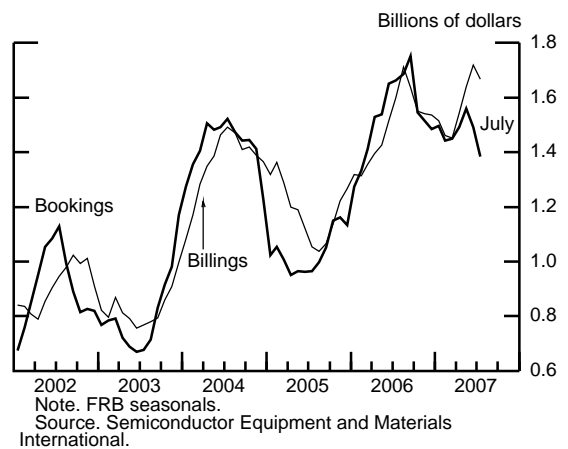
IP: Business and Consumer Computers



MPU Shipments and Intel Revenue



Bookings and Billings for Semiconductor Equipment



in July, with both durable and nondurable materials little changed from their month-earlier levels.

Business Inventories

The book value of retail inventories, excluding motor vehicles and parts, rose at a modest rate for a second month in July. Combined with the inventory figures for manufacturing and wholesale trade, book-value inventories in the entire manufacturing and trade sector, excluding motor vehicles and parts, rose at an annual rate of \$38 billion in July; this pace of inventory investment represents a sizable step-down from the second-quarter accumulation. The book-value inventory-sales ratio in this category edged down to 1.20 in July.

Federal Government

According to the Monthly Treasury Statement, the federal government recorded a deficit (adjusted for routine payment timing shifts and financial transactions) in August of \$70 billion—a little wider than in the same month last year and consistent with the staff's expectation. Although the deficit has leveled off over the past four months, the adjusted deficit for the twelve months ending in August was \$185 billion, about \$85 billion less than its level in the year-earlier period.

Receipts in August were 4 percent above their level a year earlier and continued to decelerate from the brisk pace seen in recent years. Individual income and payroll tax revenues, which made up the bulk of receipts in August, were 6½ percent above their year-earlier level. In contrast, the small amount of corporate tax payments typically made in August was lower than its level a year earlier.

Outlays in August were up 5 percent from their year-earlier level, consistent with the slower pace of spending over the past year. Defense spending in August was 2½ percent above its year-earlier level and was in line with the staff's expectation.

The Domestic Financial Economy

Nonfarm Inventory Investment
(Billions of dollars; seasonally adjusted annual rate)

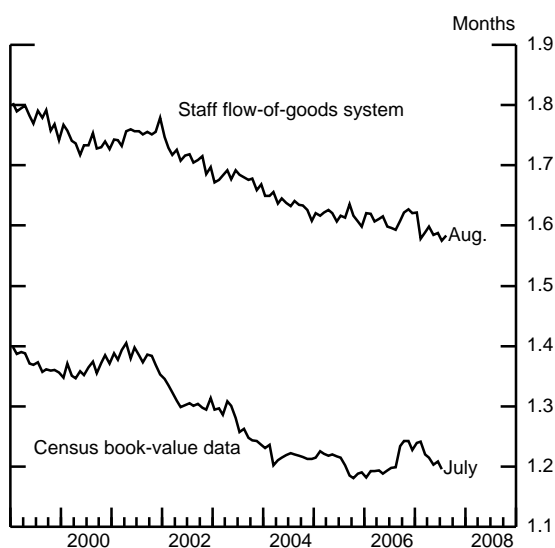
Measure and sector	2006	2007				
	Q4	Q1	Q2	May	June	July
<i>Real inventory investment (chained 2000 dollars)</i>						
Total nonfarm business	13.6	-5.8	-1.4^e	n.a.	n.a.	n.a.
Motor vehicles	-16.8	-14.7	-10.2	n.a.	n.a.	n.a.
Nonfarm ex. motor vehicles	30.4	8.9	8.9 ^e	n.a.	n.a.	n.a.
Manufacturing and trade ex. wholesale and retail motor vehicles and parts						
Manufacturing	14.8	1.1	11.2	14.8	1.1^e	n.a.
Manufacturing	-1.8	-5.0	-3.9	-3.8	-7.5 ^e	n.a.
Wholesale trade ex. motor vehicles & parts	5.3	4.3	6.4	-.8	1.9	n.a.
Retail trade ex. motor vehicles & parts	11.3	1.8	8.7	19.3	6.6	n.a.
<i>Book-value inventory investment (current dollars)</i>						
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	39.4	33.9	60.7	69.6	35.2	38.1
Manufacturing	7.3	4.8	21.6	24.7	13.7	10.0
Wholesale trade ex. motor vehicles & parts	17.5	22.0	20.6	16.6	10.3	19.3
Retail trade ex. motor vehicles & parts	14.6	7.2	18.4	28.3	11.2	8.7

e Staff estimate of real inventory investment based on revised book-value data.

n.a. Not available.

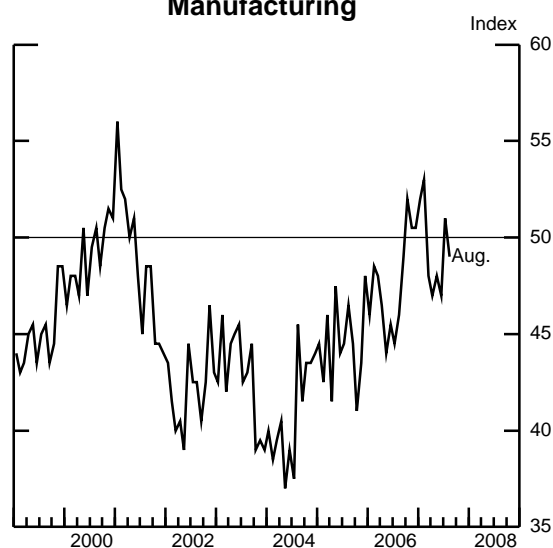
Source. For real inventory investment, BEA; for book-value data, Census Bureau.

Inventory Ratios ex. Motor Vehicles



Note. Flow-of-goods system covers total industry ex. motor vehicles and parts, and inventories are relative to consumption. Census data cover manufacturing and trade ex. motor vehicles and parts, and inventories are relative to sales.

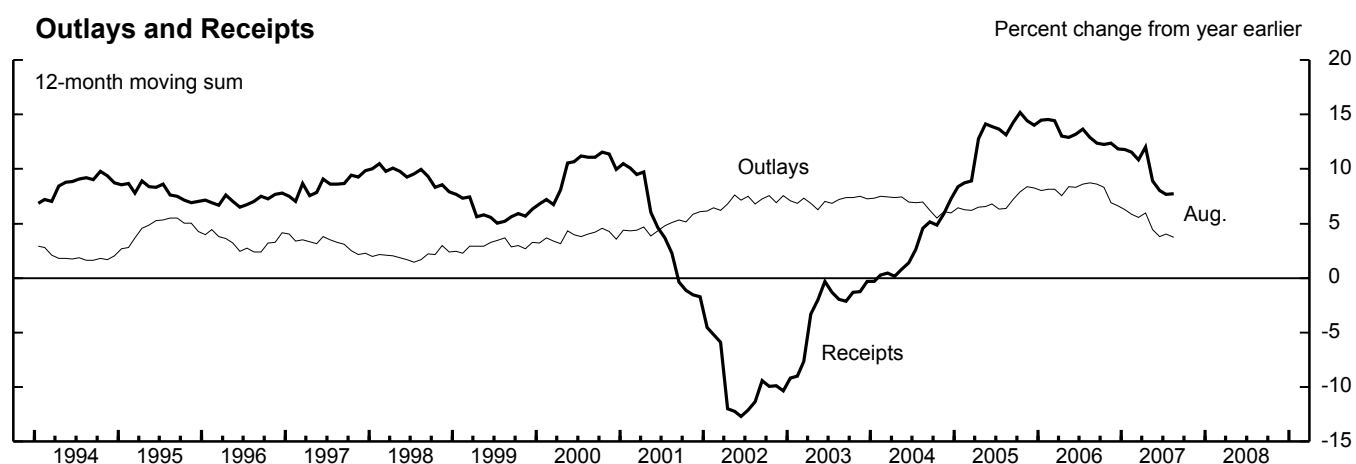
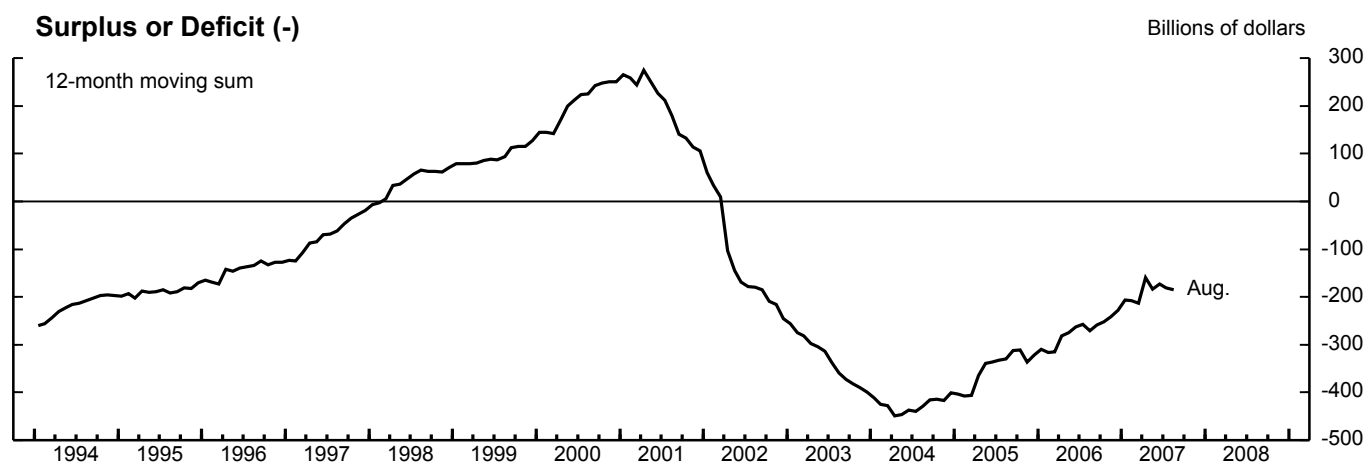
ISM Customer Inventories: Manufacturing



Note. A number above 50 indicates inventories are "too high."

Federal Government Budget

(Unified basis; adjusted for payment-timing shifts and financial transactions; data from Monthly Treasury Statement)



Recent Federal Outlays and Receipts

(Billions of dollars except as noted)

Function or source	August			12 months ending in August		
	2006	2007	Percent change	2006	2007	Percent change
Outlays	225.1	236.2	4.9	2,651.6	2,750.4	3.7
Net interest	21.2	22.8	7.6	222.6	238.0	6.9
National defense	47.6	48.8	2.5	524.6	557.8	6.3
Major transfers ¹	115.3	126.0	9.3	1,416.9	1,510.2	6.6
Other	34.3	39.8	16.0	450.4	425.7	-5.5
Receipts	159.9	166.5	4.2	2,381.0	2,565.6	7.8
Individual income and payroll taxes	132.4	141.1	6.6	1,821.3	1,975.6	8.5
Corporate	6.8	4.3	-36.3	338.6	379.4	12.1
Other	20.6	21.1	2.2	221.1	210.7	-4.7
Surplus or deficit (-)	-65.2	-69.6	...	-270.6	-184.8	...

1. Includes Social Security, Medicare, Medicaid, and income security programs.

... Not applicable.

Commercial Bank Credit

(Percent change, annual rate, except as noted; seasonally adjusted)

Type of credit	2005	2006	Q1 2007	Q2 2007	July 2007	Aug. 2007 ^e	Level ¹ Aug. 2007 ^e
Total	10.5	9.5	8.9	9.4	9.7	16.3	8,451
<i>Loans</i> ²							
Total	11.6	10.7	9.7	9.4	9.5	19.0	6,350
To businesses							
Commercial and industrial	13.5	16.4	7.9	11.0	18.8	31.8	1,288
Commercial real estate	17.0	13.6	10.3	11.5	2.2	8.1	1,530
To households							
Residential real estate	11.9	7.2	9.5	6.4	5.1	1.1	1,838
Revolving home equity	13.3	1.5	3.5	.1	5.8	9.2	462
Other	11.4	9.4	11.7	8.6	4.9	-1.6	1,375
Consumer	3.1	5.2	7.5	5.2	12.0	4.1	770
Originated ³	.7	6.4	8.0	2.2	15.6	9.1	1,161
Other ⁴	8.3	11.1	13.2	13.3	16.2	70.5	925
<i>Securities</i>							
Total	7.5	5.9	6.6	9.4	10.1	8.2	2,101
Treasury and agency	2.4	1.2	2.1	-6.8	8.5	-1.4	1,186
Other ⁵	17.5	13.7	13.3	33.3	12.1	20.7	915

Note. Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. Data have been adjusted to remove the effects of mark-to-market accounting rules (FIN 39 and FAS 115), the consolidation of certain variable interest entities (FIN 46), the adoption of fair value accounting (FAS 159), and the effects of sizable thrift-to-bank and bank-to-thrift structure activity in October 2006 and March 2007 respectively. Data also account for breaks caused by reclassifications.

1. Billions of dollars. Pro rata averages of weekly (Wednesday) levels.

2. Excludes interbank loans.

3. Includes an estimate of outstanding loans securitized by commercial banks.

4. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

5. Includes private mortgage-backed securities, securities of corporations, state and local governments, foreign governments, and any trading account assets that are not Treasury or agency securities, including revaluation gains on derivative contracts.

e Estimated.

III-T-1
Selected Financial Market Quotations
(One-day quotes in percent except as noted)

Instrument	2004	2006	2007		Change to Sept. 13 from selected dates (percentage points)		
	June 28	June 29	Aug. 6	Sept. 13	2004 June 28	2006 June 29	2007 Aug. 6
<i>Short-term</i>							
FOMC intended federal funds rate	1.00	5.25	5.25	5.25	4.25	.00	.00
Treasury bills ¹							
3-month	1.36	4.88	4.74	3.97	2.61	-.91	-.77
6-month	1.74	5.06	4.72	4.11	2.37	-.95	-.61
Commercial paper (A1/P1 rates) ²							
1-month	1.28	5.27	5.26	5.24	3.96	-.03	-.02
3-month	1.45	5.37	5.29	5.38	3.93	.01	.09
Large negotiable CDs ¹							
3-month	1.53	5.47	5.34	5.68	4.15	.21	.34
6-month	1.82	5.59	5.27	5.50	3.68	-.09	.23
Eurodollar deposits ³							
1-month	1.29	5.33	5.33	5.76	4.47	.43	.43
3-month	1.51	5.49	5.35	5.75	4.24	.26	.40
Bank prime rate	4.00	8.25	8.25	8.25	4.25	.00	.00
<i>Intermediate- and long-term</i>							
U.S. Treasury ⁴							
2-year	2.88	5.26	4.49	4.13	1.25	-1.13	-.36
5-year	3.97	5.15	4.52	4.19	.22	-.96	-.33
10-year	4.90	5.28	4.82	4.59	-.31	-.69	-.23
U.S. Treasury indexed notes ⁵							
5-year	1.60	2.51	2.43	2.06	.46	-.45	-.37
10-year	2.26	2.61	2.48	2.19	-.07	-.42	-.29
Municipal general obligations (Bond Buyer) ⁶	5.01	4.71	4.51	4.46	-.55	-.25	-.05
Private instruments							
10-year swap	5.21	5.81	5.44	5.13	-.08	-.68	-.31
10-year FNMA ⁷	5.38	5.59	5.34	5.04	-.34	-.55	-.30
10-year AA ⁸	5.60	6.20	6.12	6.09	.49	-.11	-.03
10-year BBB ⁸	6.25	6.74	6.57	6.47	.22	-.27	-.10
10-year high yield ⁸	8.41	8.74	9.21	8.98	.57	.24	-.23
Home mortgages (FHLMC survey rate)							
30-year fixed	6.21	6.78	6.59	6.31	.10	-.47	-.28
1-year adjustable	4.19	5.82	5.65	5.66	1.47	-.16	.01

Stock exchange index	Record high		2006	2007		Change to Sept. 13 from selected dates (percent)		
	Level	Date	June 29	Aug. 6	Sept. 13	Record high	2006 June 29	2007 Aug. 6
Dow Jones Industrial	14,000	7-19-07	11,191	13,469	13,425	-4.11	19.96	-.33
S&P 500 Composite	1,553	7-19-07	1,273	1,468	1,484	-4.45	16.58	1.11
Nasdaq	5,049	3-10-00	2,174	2,547	2,601	-48.48	19.62	2.11
Russell 2000	856	7-13-07	714	766	780	-8.81	9.24	1.82
Wilshire 5000	15,701	7-13-07	12,846	14,723	14,909	-5.04	16.06	1.26

1. Secondary market.
2. Financial commercial paper.
3. Bid rates for Eurodollar deposits collected around 9:30 a.m. eastern time.
4. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
5. Derived from a smoothed Treasury yield curve estimated using all outstanding securities and adjusted for the carry effect.
6. Most recent Thursday quote.
7. Constant-maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
8. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.

NOTES:
June 28, 2004, is the day before the most recent policy tightening began.
June 29, 2006, is the day the most recent policy tightening ended.
August 6, 2007, is the day before the most recent FOMC announcement.

Supplemental Notes

The International Economy

Prices of Internationally Trade Goods

Non-oil imports. In August, prices of U.S. imports of core goods rose 0.2 percent, the same rate recorded in July. Higher prices for material-intensive goods led the way. Prices for imported foods jumped, albeit not as much as in July, and a decline in prices for building materials offset increases in other categories of nonfuel industrial supplies. Prices for imported finished goods rose 0.2 percent for the second straight month, with prices for all of the major categories of finished goods rising by approximately the same amount. Prices for imported computers and semiconductors were both up for the month, while prices for imported natural gas plunged.

The average level of core import prices in July and August was 3 percent at an annual rate above the second-quarter average. Prices for material-intensive goods were up 5½ percent, lifted by higher prices for foods, whereas prices for finished goods increased 2 percent. Prices for semiconductors were up after a steep second-quarter decline, and prices for imported natural gas fell more than 40 percent at an annual rate from the second-quarter average.

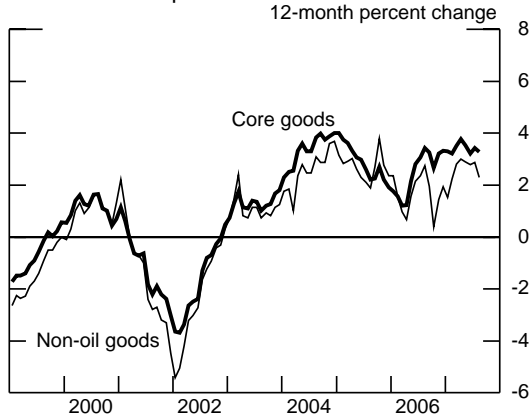
Oil. The BLS price index of imported oil fell 1¼ percent in August, following a 6½ percent increase in July. The spot price of West Texas Intermediate (WTI) crude oil closed at a new record nominal high of \$80.09 per barrel on September 13. In recent days, the spot price of WTI has moved higher on reports of a third straight week of larger-than-expected U.S. inventory draws, a pipeline bombing in Mexico, and Hurricane activity that materialized late in the week and led to disruptions in Gulf refining activity.

Exports. Prices of U.S. exports of core goods rose 0.2 percent in August; prices for July were revised down significantly and are now reported to have fallen slightly. Prices for agricultural exports jumped for the third consecutive month, although prices for exported grains, which had been surging in recent months, fell. Meat prices continued to soar. Prices for nonagricultural industrial supplies inched up after a steep decline in July; prices for exported metals fell, but this was largely offset by higher prices for chemical exports. Prices for exported finished goods decelerated in August and rose only slightly. Prices for exported computers and semiconductors moved down slightly.

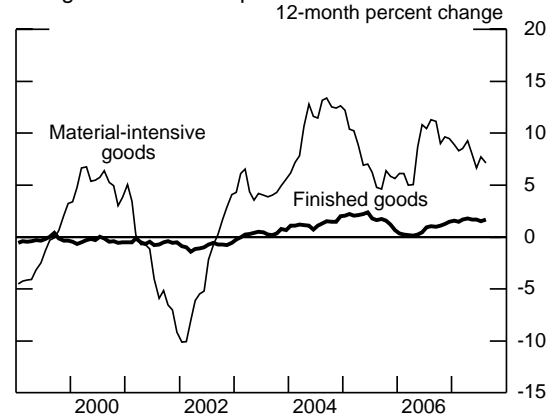
The average level of core export prices in July and August was 2 percent at an annual rate above the second-quarter average. Prices for agricultural products were up more than

Prices of U.S. Imports and Exports

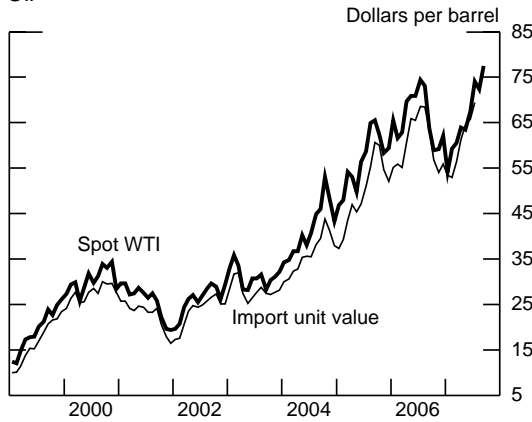
Merchandise Imports



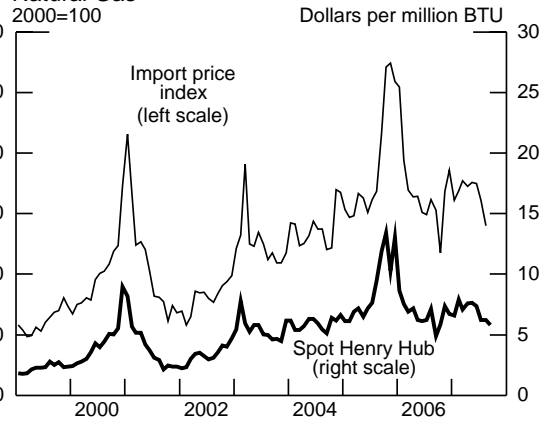
Categories of Core Imports



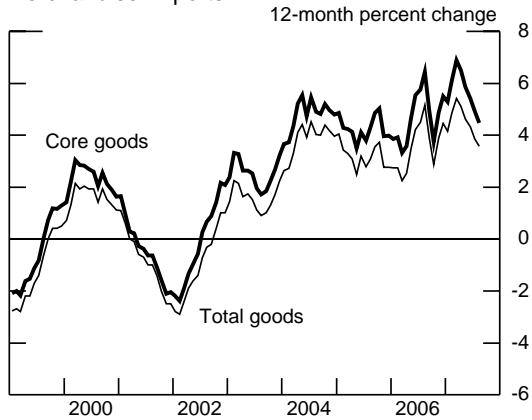
Oil



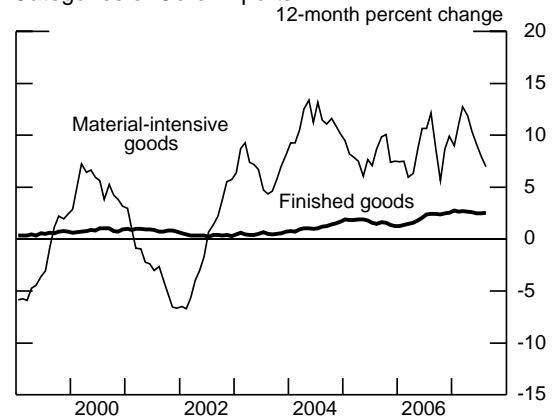
Natural Gas



Merchandise Exports



Categories of Core Exports



Prices of U.S. Imports and Exports
(Percentage change from previous period)

	Annual rate			Monthly rate		
	2007			2007		
	Q1	Q2	Q3 ^e	June	July	Aug.
	----- BLS prices -----					
Merchandise imports	1.8	15.1	9.2	1.1	1.3	-.3
Oil	-3.2	88.6	45.9	4.7	6.4	-1.3
Non-oil	2.6	3.8	1.7	.3	.1	-1.1
Core goods ¹	3.4	4.6	3.0	.3	.2	.2
Finished goods	1.8	1.4	1.9	.2	.2	.2
Cap. goods ex. comp. & semi.	3.1	3.0	3.3	.4	.4	.2
Automotive products	.3	.9	1.2	.1	.1	.2
Consumer goods	1.9	.4	1.5	.1	.2	.2
Material-intensive goods	6.4	12.3	5.6	.5	.3	.4
Foods, feeds, beverages	9.8	8.4	8.7	.3	1.3	.7
Industrial supplies ex. fuels	3.8	12.2	n.a	-.1	.4	n.a
Computers	-9.5	-7.7	-.8	-.5	.2	.2
Semiconductors	-6.8	-16.2	2.8	.5	.1	.4
Natural gas	33.6	13.0	-44.5	-.6	-7.9	-12.9
Merchandise exports	7.2	6.1	1.5	.4	-.1	.2
Core goods ²	9.3	7.3	1.9	.4	-.0	.2
Finished goods	3.6	2.4	1.9	.1	.3	.1
Cap. goods ex. comp. & semi.	4.4	2.6	2.3	.1	.4	.2
Automotive products	1.7	.9	.8	.1	.1	.1
Consumer goods	3.4	3.2	2.0	.1	.3	.1
Material-intensive goods	17.0	13.7	1.8	.8	-.4	.3
Agricultural products	27.8	6.9	15.7	2.7	1.4	1.0
Industrial supplies ex. ag.	14.1	16.4	-1.6	.4	-1.0	.1
Computers	-12.8	-10.8	-3.4	-.1	-.7	-.1
Semiconductors	-.8	4.0	.1	.1	.0	-.1
	----- NIPA prices -----					
Chain price index						
Imports of goods & services	1.0	11.8	n.a	...	...	...
Non-oil merchandise	2.1	2.5	n.a	...	...	...
Core goods ¹	2.7	3.4	n.a	...	...	...
Exports of goods & services	3.6	5.2	n.a	...	...	...
Total merchandise	3.5	4.8	n.a	...	...	...
Core goods ²	6.0	7.1	n.a	...	...	...

1. Excludes computers, semiconductors, and natural gas.

2. Excludes computers and semiconductors.

e/ Average of two months.

n.a. Not available. ... Not applicable.

15 percent over the second-quarter average, while prices for nonagricultural industrial supplies were down, and the rate of deflation for computer export prices slowed.

U.S. Current Account

The U.S. current account deficit was \$763 billion (a.r.) in the second quarter of 2007, \$25 billion narrower than in the first quarter (revised). About \$18 billion of the narrowing was due to decreased net unilateral transfers to foreigners, primarily those associated with military and other U.S. Government grants. The remaining \$8 billion of the narrowing was the result of increased net investment income. There were increases in all categories of income payments and receipts, including interest, dividend, and direct investment income, but receipts moved up more than payments. On net there was little movement in the trade balance on goods and services. While the surplus on services increased, this was offset by an increase in the deficit on goods.

U.S. Current Account				
(Billions of dollars, seasonally adjusted annual rate)				
Period	Goods and services, net	Investment income, net	Other income and transfers, net	Current account balance
<i>Annual</i>				
2005	-714.4	54.5	-94.9	-754.8
2006	-758.5	43.2	-96.1	-811.5
<i>Quarterly</i>				
2006:Q3	-797.2	30.0	-102.1	-869.3
Q4	-707.7	45.3	-89.4	-751.8
2007:Q1	-710.3	36.2	-114.3	-788.4
Q2	-710.8	44.2	-96.6	-763.2
<i>Change</i>				
Q3-Q2	-26.9	-19.2	-0.8	-47.0
Q4-Q3	89.5	15.3	12.7	117.6
Q1-Q4	-2.6	-9.1	-24.9	-36.6
Q2-Q1	-0.4	7.9	17.8	25.2

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

U.S. International Financial Transactions

The second-quarter balance of payments data include preliminary estimates for direct investment flows and the BEA's figures for foreign securities transactions. The new data report inflows through foreign acquisitions of U.S. securities to be \$229 billion in the second quarter (line 4 of the Summary of U.S. International Transactions Table), compared with \$206 billion estimated in the Greenbook. The difference reflects

adjustment factors applied by BEA that differ from their usual methodology. The largest adjustment is to agency bonds (line 4b), with net purchases of nearly \$29 billion, up \$14 billion from the Greenbook estimate. There are also upward adjustments to Treasury securities (line 4a), corporate bonds (line 4c), and corporate stocks (line 4d).

Preliminary data for U.S. direct investment abroad (line 6) indicate a slight decline in net outflows to \$72 billion in the second quarter. Inter-company debt investment and net equity capital investment abroad slowed, but were partially offset by a pickup in reinvested earnings. Direct investment into the United States (line 7) surged in the second quarter to \$74 billion. The increase was mostly accounted for by a shift from a decrease to an increase in net inter-company debt investment in the United States and a pickup in net equity capital investment in the United States. Reinvested earnings also increased.

The statistical discrepancy (the last line of the table) in the second quarter is positive \$40 billion, indicating some combination of over-reporting of the current account deficit or under-reporting of net financial inflows.

Summary of U.S. International Transactions
(Billions of dollars, not seasonally adjusted except as noted)

	2005	2006	2006		2007			
			Q3	Q4	Q1	Q2	Jun	Jul
Official financial flows	272.0	443.6	109.6	85.9	149.8	71.7	33.6	45.6
1. Change in foreign official assets in the U.S. (increase, +)	257.9	441.2	108.6	84.5	149.9	71.7	33.7	45.7
a. G-10 countries + ECB	12.8	21.4	6.6	10.0	9.1	6.2	1.6	6.7
b. OPEC	14.0	45.2	13.1	-6.8	12.0	0.4	-1.4	-0.4
c. All other countries	231.1	374.6	88.9	81.2	124.8	69.1	33.5	39.4
2. Change in U.S. official reserve assets (decrease, +)	14.1	2.4	1.0	1.4	-0.1	0.0	-0.2	-0.1
Private financial flows	505.3	389.6	145.4	139.3	32.2	79.2	...	...
Banks								
3. Change in net foreign positions of banking offices in the U.S. ¹	15.4	136.1	60.8	29.6	-23.7	6.8	-44.4	67.4
Securities²								
4. Foreign net purchases (+) of U.S. securities	573.9	533.3	117.6	149.4	159.7	229.2	62.9	-1.9
a. Treasury securities	133.7	-35.1	-15.9	22.5	45.5	-8.7	8.2	1.6
b. Agency bonds	37.0	17.1	0.3	-11.6	-35.9	29.0	11.2	-11.7
c. Corporate and municipal bonds	311.2	402.5	97.3	109.6	105.6	103.5	16.3	-10.2
d. Corporate stocks ³	92.0	148.8	35.9	28.8	44.4	105.4	27.2	18.4
5. U.S. net acquisitions (-) of foreign securities	-197.0	-290.4	-52.9	-118.4	-86.7	-81.9	-23.5	-7.2
a. Bonds	-53.1	-152.5	-44.8	-53.8	-42.9	-41.1	-8.9	0.2
b. Stock purchases	-139.9	-119.1	-8.0	-52.2	-39.6	-40.8	-14.6	-7.5
c. Stock swaps ³	-4.0	-18.8	0.0	-12.4	-4.2	0.0	0.0	0.0
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	7.7	-235.4	-49.0	-66.1	-81.4	-71.5	...	...
7. Foreign direct investment in the U.S.	109.0	180.6	43.0	45.6	11.9	73.6	...	...
8. Net derivatives (inflow, +)	n.a.	28.8	15.1	-1.2	14.8	n.a.	...	...
9. Foreign acquisitions of U.S. currency	19.0	12.6	1.1	8.4	-1.6	3.3	...	...
10. Other (inflow, +) ⁴	-22.6	24.0	9.6	92.0	39.2	-80.4	...	...
U.S. current account balance (s.a.)	-754.8	-811.5	-217.3	-187.9	-197.1	-190.8	...	...
Capital account balance (s.a.)⁵	-4.1	-3.9	-0.5	-0.6	-0.6	-0.6	...	...
Statistical discrepancy (s.a.)	-18.5	-17.8	-37.1	-36.6	15.7	40.4	...	...

Note. Data in lines 1 through 5 differ in timing and coverage from the balance of payments data published by the Department of Commerce. Details may not sum to totals because of rounding.

1. Changes in dollar-denominated positions of all depository institutions and bank holding companies plus certain transactions between broker-dealers and unaffiliated foreigners (particularly borrowing and lending under repurchase agreements). Includes changes in custody liabilities other than U.S. Treasury bills.

2. Includes commissions on securities transactions and therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.

3. Includes (4d) or represents (5c) stocks acquired through non-market means such as mergers and reincorporations.

4. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business.

5. Consists of transactions in nonproduced nonfinancial assets and capital transfers.

n.a. Not available. ... Not applicable.