

## **Prefatory Note**

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March 16, 2007

# CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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## **Supplemental Notes**

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

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## Supplemental Notes

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### The Domestic Nonfinancial Economy

#### Industrial Production and Capacity Utilization

Total industrial production (IP) rose 1 percent in February. IP was revised down in November but revised up in December and in January, leaving the overall change during those three months higher by 0.2 percentage point. A surge in energy output and a partial rebound in motor vehicle assemblies accounted for the bulk of the increase last month. The swing in temperatures from a mild January to a cold February resulted in a jump of 6.7 percent in the index for utilities, which contributed  $\frac{2}{3}$  percentage point to the increase in IP; much of the gain will likely be reversed this month. Mining output was little changed in February, as declines in oil and gas extraction and coal production were offset by increases in metal mining, nonmetallic mineral mining, and oil and gas well-drilling. Manufacturing output rose 0.4 percent in February, and the rates of change for the previous two months were revised up in response to stronger output data for steel, drugs, and cigarettes. The capacity utilization rate in manufacturing rose 0.2 percentage point in February to 80.1 percent, a level that is 0.2 percentage point above its year-earlier level and 0.3 percentage point above its 1972-2006 average.

Light vehicle assemblies were 10.4 million units (annual rate) in February; the increase of 500,000 units (annual rate) relative to January only reversed about half of the plunge in January. Assemblies of medium and heavy trucks fell in February for the fourth consecutive month; the level of assemblies was 30 percent below its peak last year. Overall, motor vehicles and parts production in February boosted the rate of change in total IP by about 0.2 percentage point.

Production in the high-tech industries rose more than 3 percent in February, with solid output gains for each major high-tech category. Computer production jumped 5 percent; it was boosted by a surge in the production of PCs for consumer use that was likely related to the release of the new Microsoft Vista operating system. The output of communications equipment was up more than 2 percent for a second consecutive month after having slowed in the second half of last year. Semiconductor production increases were broad-based; output increased significantly for chip categories related to computing, such as microprocessors.

Excluding energy, motor vehicles and parts, and high-tech products, output gains in the major market groups were mixed in February. The production of consumer goods was

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

Component	Proportion 2006 (percent)	2006 <sup>1</sup>	2006		2006	2007	
			Q3	Q4	Dec.	Jan.	Feb.
			Annual rate		Monthly rate		
<b>Total</b>	<b>100.0</b>	<b>3.5</b>	<b>4.0</b>	<b>-1.2</b>	<b>.8</b>	<b>-.3</b>	<b>1.0</b>
Previous	100.0	3.7	4.0	-8	.5	-.5	...
Manufacturing	81.8	3.4	4.4	-1.7	1.0	-.5	.4
Ex. motor veh. and parts	76.3	3.9	5.5	-1.5	1.0	-.1	.2
Ex. high-tech industries	71.5	2.5	4.0	-3.3	1.0	-.3	.0
Mining	8.6	8.1	.6	3.3	2.1	-1.3	.1
Utilities	9.6	.9	4.6	-1.5	-2.5	2.2	6.7
<i>Selected industries</i>							
High technology	4.8	24.6	27.3	24.8	1.2	2.1	3.2
Computers	1.2	12.1	2.3	24.4	1.8	2.8	5.1
Communications equipment	1.1	14.8	6.6	9.6	1.8	2.2	2.4
Semiconductors <sup>2</sup>	2.6	34.9	51.3	31.5	.7	1.7	2.7
Motor vehicles and parts	5.5	-3.8	-9.8	-4.0	1.7	-5.8	3.1
<i>Market groups excluding energy and selected industries</i>							
Consumer goods	20.9	1.8	2.7	1.8	.8	-.4	.0
Durables	4.0	-1.9	1.5	-7.7	1.2	-.7	-1.1
Nondurables	16.9	2.7	3.0	4.2	.7	-.3	.3
Business equipment	7.8	10.3	13.0	4.4	2.4	-2.3	.0
Defense and space equipment	1.7	2.1	5.5	-3.5	.4	.6	.1
Construction supplies	4.5	-2.3	-1.0	-9.3	2.0	-.9	-.6
Business supplies	7.9	1.0	-.3	-1.9	.6	-.5	-.1
Materials	26.1	2.3	2.3	-7.1	1.0	-.1	.3
Durables	14.5	2.0	2.3	-9.4	.7	.9	.3
Nondurables	11.6	2.6	2.3	-4.1	1.3	-1.4	.4

1. From fourth quarter of preceding year to fourth quarter of year shown.

2. Includes related electronic components.

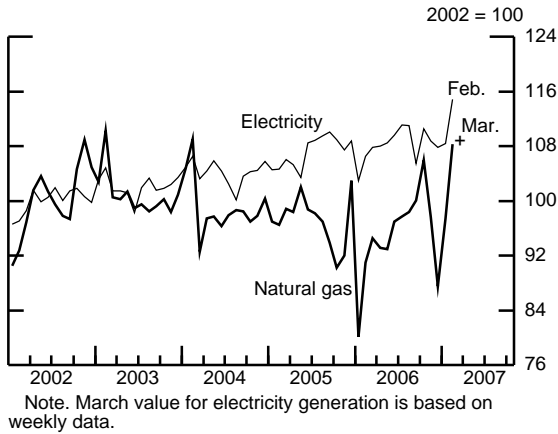
... Not applicable.

**Capacity Utilization**  
(Percent of capacity)

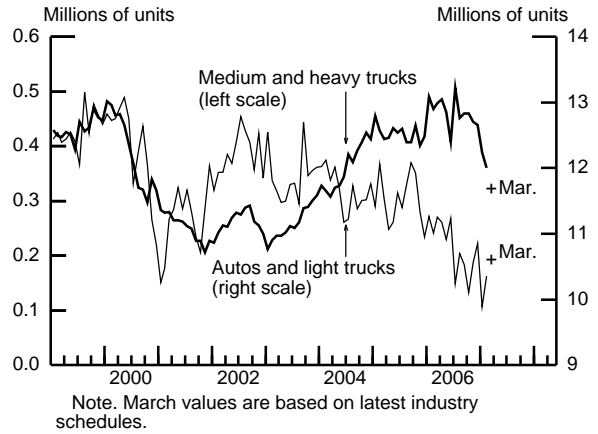
Sector	1972- 2006 average	1994- 95 high	2001- 02 low	2006			2007	
				Q2	Q3	Q4	Jan.	Feb.
<b>Total industry</b>	<b>81.0</b>	<b>85.1</b>	<b>73.6</b>	<b>82.0</b>	<b>82.3</b>	<b>81.6</b>	<b>81.4</b>	<b>82.0</b>
Manufacturing	79.8	84.6	71.6	80.6	80.9	80.1	79.9	80.1
Ex. motor veh. and parts	79.9	84.3	71.4	80.8	81.4	80.5	80.5	80.5
Mining	87.4	88.9	84.8	91.0	90.9	91.4	91.2	91.2
Utilities	86.7	93.7	83.8	85.9	86.4	85.5	84.8	90.4
<i>Stage-of-process groups</i>								
Crude	86.5	89.5	82.0	88.8	89.4	89.2	88.5	88.3
Primary and semifinished	82.2	88.2	74.6	83.9	84.1	82.4	82.4	83.4
Finished	77.8	80.5	70.0	77.6	77.9	78.2	77.9	78.3

## Indicators of Industrial Activity

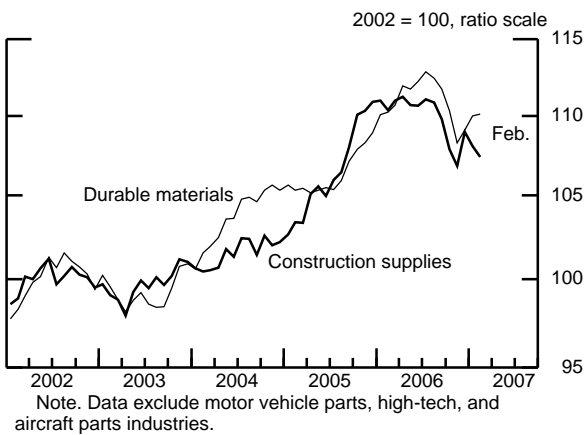
Utilities Output



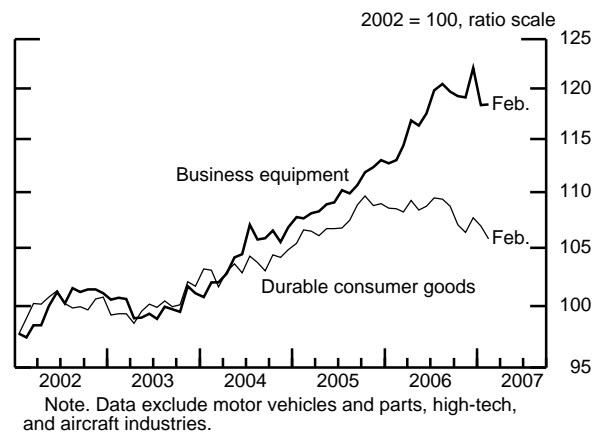
Motor Vehicle Assemblies



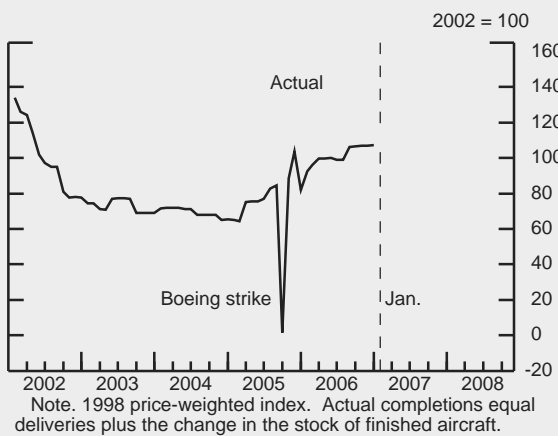
IP: Construction Supplies and Durable Materials



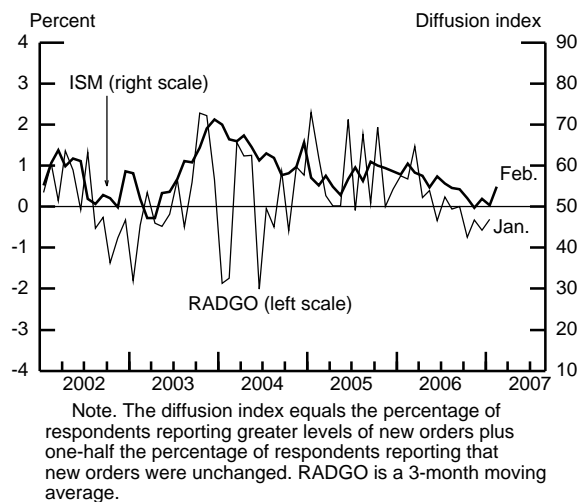
IP: Equipment and Consumer Goods



Boeing Commercial Aircraft Completions: Actual



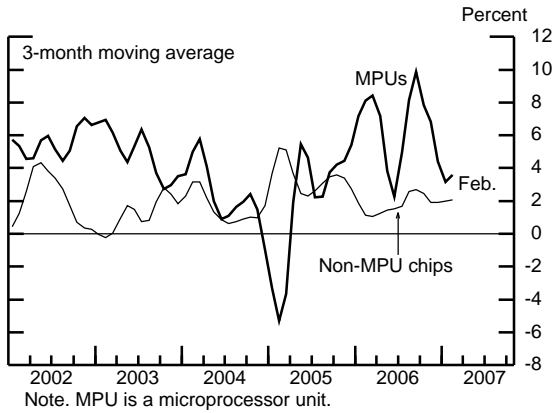
New Orders: ISM Survey and Change in Real Adjusted Durable Goods Orders (RADGO)



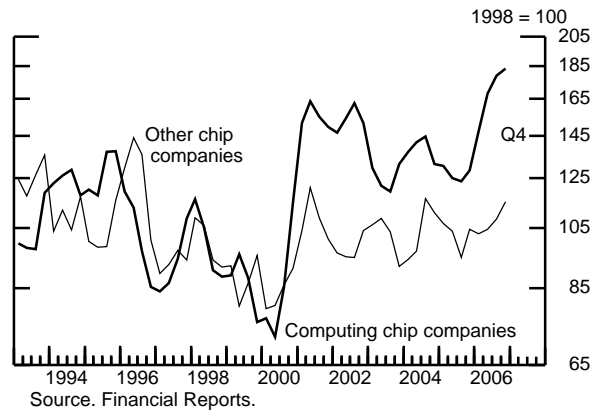
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## Indicators of High-Tech Manufacturing Activity

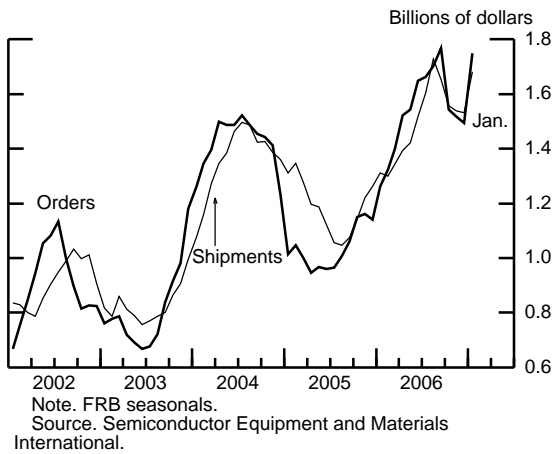
Rate of Change in Semiconductor Industrial Production



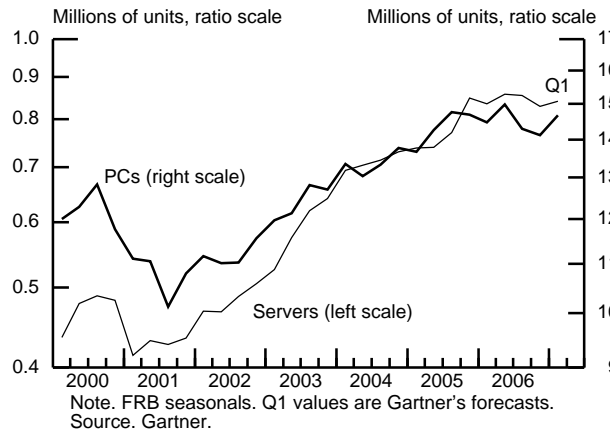
Day's Supply at Major Semiconductor Companies



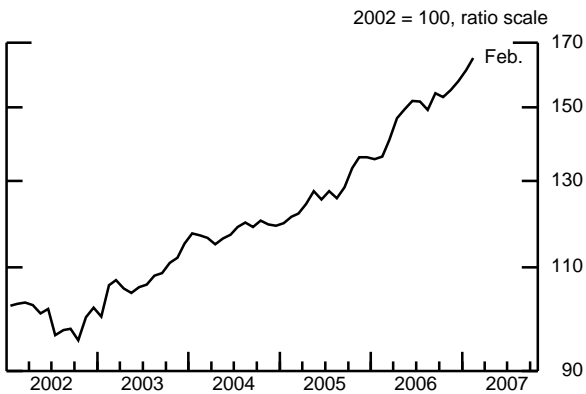
Bookings and Billings for Semiconductor Equipment



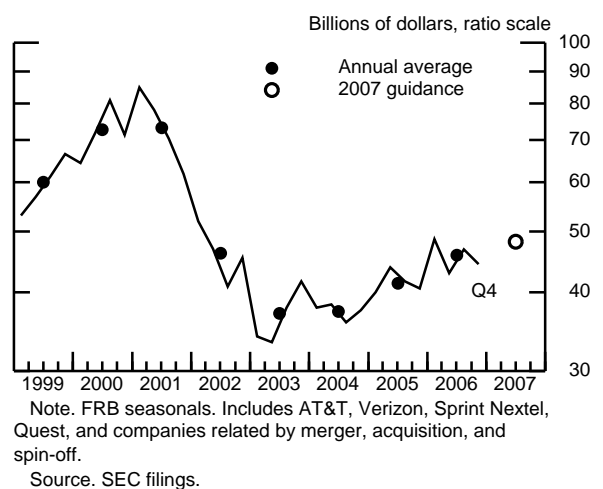
U.S. Personal Computer and Server Sales



IP: Communications Equipment



Capital Expenditures by Selected Telecommunications Service Providers



little changed relative to January, as gains in the output of nondurable consumer goods—such as food and paper products—offset continuing declines in the production of durable consumer goods. The output of business equipment was also little changed in February; excluding commercial aircraft, business equipment output has decreased at an annual rate of nearly 2½ percent in the past three months. In February, production declines included metalworking machinery, commercial and service industry machinery, and transit equipment other than motor vehicles. The output of defense and space equipment edged up, as a decrease in the production of military aircraft was more than offset by output increases elsewhere. The production of construction supplies declined 0.6 percent in February; among its components, output for a variety of wood products, cement, concrete, and gypsum all fell. In contrast, the output of materials rose, with increases in both durable and nondurable materials.

### **Consumer Sentiment**

According to the preliminary report, the Reuters/University of Michigan index of consumer sentiment edged down in early March, with declines in both the “expected conditions” and the “current conditions” components of the overall index. Among those items not included in the overall sentiment index, consumers’ expectations about the change in unemployment over the next twelve months improved a little. In addition, consumers’ appraisals of buying conditions for both cars and homes strengthened. The median of expected inflation over the next twelve months held at 3 percent in March, and the median of expected inflation over the next five- to-ten years held at 2.9 percent.

### **Prices**

The producer price index for finished goods rose 1.3 percent in February, reflecting large increases in food and energy prices. Increases in the PPI for finished energy were widespread across components, with gasoline and fuel oil posting the sizable increases. The PPI for finished food rose 1.9 percent in February, as cold weather in western states boosted prices for fruits and vegetables. Excluding food and energy, the PPI for finished goods rose 0.4 percent, following increases of 0.2 percent in each of the previous two months. One contributor to the step-up in core PPI inflation was a second steep monthly rise in tobacco prices.<sup>1</sup> Among the PPIs for services, which are not included in the headline index, the price index for doctors’ services jumped 3 percent last month, while the index for hospital services edged down 0.2 percent (both not seasonally adjusted). These indexes, along with other indicators, are used by the BEA to construct the PCE price index for medical services.

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<sup>1</sup> An analyst at the BLS commented that cigarette manufacturers appear to have boosted prices in anticipation of an increase in payouts associated with the tobacco settlement.



March 16, 2007

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

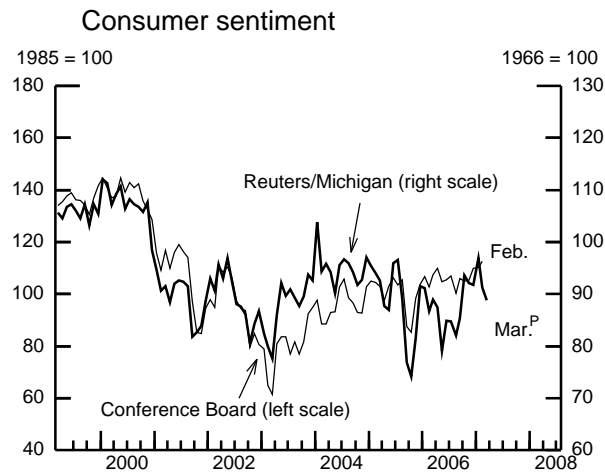
Category	2006					2007		
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar. <sup>P</sup>
Composite of current and expected conditions <sup>1</sup>	82.0	85.4	93.6	92.1	91.7	96.9	91.3	88.8
Current conditions <sup>1</sup>	103.8	96.6	107.3	106.0	108.1	111.3	106.7	103.6
Expected conditions <sup>1</sup>	68.0	78.2	84.8	83.2	81.2	87.6	81.5	79.3
Personal financial situation								
Now compared with 12 months ago <sup>2</sup>	109	99	118	119	119	123	119	111
Expected in 12 months <sup>2</sup>	112	122	131	125	124	127	122	124
Expected business conditions								
Next 12 months <sup>2</sup>	75	99	113	112	105	118	106	97
Next 5 years <sup>2</sup>	84	92	97	97	97	107	98	97
Appraisal of buying conditions								
Cars	124	128	137	140	140	136	133	140
Large household appliances <sup>2</sup>	160	151	160	156	161	166	158	157
Houses	117	116	129	134	132	141	133	142
Expected unemployment change - next 12 months	130	125	122	121	121	115	125	123
Prob. household will lose a job - next 5 years	19	23	22	23	22	20	19	22
Expected inflation - next 12 months								
Mean	4.6	3.6	3.7	3.3	3.5	3.6	3.6	3.7
Median	3.8	3.1	3.1	3.0	2.9	3.0	3.0	3.0
Expected inflation - next 5 to 10 years								
Mean	3.5	3.2	3.5	3.5	3.4	3.5	3.3	3.4
Median	3.2	3.0	3.1	3.0	3.0	3.0	2.9	2.9

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.

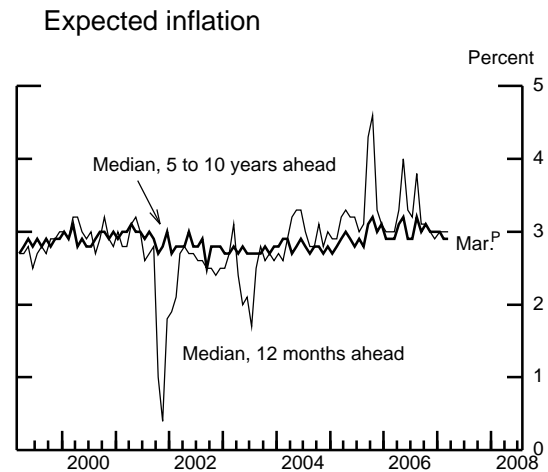
P Preliminary.

1. Feb. 1966 = 100.

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



P Preliminary.



P Preliminary.

At earlier stages of processing, prices for core intermediate materials rose 0.2 percent last month. The increase brought the twelve-month change in this index to 3.7, 1 percentage point less than the year-earlier increase. Part of this slowdown has reflected a deceleration in the prices for a number of energy-intensive goods, including chemicals and plastics.

The consumer price index rose 0.4 percent in February, led by increases of 0.8 percent in food prices and 0.9 percent in consumer energy prices. Excluding food and energy, the CPI rose 0.2 percent last month after having risen 0.3 percent in January. Based on our translation of the February CPI and PPI data, we estimate that core PCE prices rose 0.3 percent last month.

Recent increases in the core CPI have pushed up the three-month change in the index from the relatively low rates seen at the end of 2006; a swing in core goods price inflation—which had been coming in unusually low late last year—accounts for the recent pickup. Over the twelve months ending in February, the core CPI rose 2.7 percent, 0.6 percentage point higher than a year earlier; a sharp acceleration in shelter rents over this period more than accounted for the acceleration in the core index.

Last month's increase in the CPI for energy was boosted by a jump of 5 percent in prices for natural gas; by contrast, prices for motor fuel rose only 0.3 percent, and electricity prices were unchanged.<sup>2</sup> Nevertheless, energy prices have actually declined slightly over the twelve months ending in February, down from an increase of 20 percent over the year-earlier period.

The effects of cold weather on prices of fruits and vegetables showed through to the March rise in the CPI as well as the PPI. However, the twelve-month change ending in February in retail food prices was up only slightly from a year earlier.

The pickup in core goods prices in recent months has been broad-based, with especially large accelerations in prices for tobacco, apparel, and motor vehicles. Smoothing through these higher-frequency movements, core goods prices have been flat over the past year after remaining unchanged over the preceding year as well. As of February, rent of shelter had accelerated 1¾ percentage points over the preceding twelve months; by contrast, prices for core services excluding shelter had decelerated ¼ percentage point.

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<sup>2</sup> Available survey data point to a large increase in gasoline prices in March.

**Price Measures**  
(Percent change)

Measures	12-month change		3-month change		1-month change	
	Feb. 2006	Feb. 2007	Annual rate		Monthly rate	
			Nov. 2006	Feb. 2007	Jan. 2007	Feb. 2007
<i>CPI</i>						
<b>Total</b>	<b>3.6</b>	<b>2.4</b>	<b>-3.7</b>	<b>4.0</b>	<b>.2</b>	<b>.4</b>
Food	2.8	3.1	2.1	6.1	.7	.8
Energy	20.1	-1.0	-44.5	14.9	-1.5	.9
<b>Ex. food and energy</b>	<b>2.1</b>	<b>2.7</b>	<b>1.8</b>	<b>2.6</b>	<b>.3</b>	<b>.2</b>
Core goods	.0	.0	-2.5	.7	.1	.1
Core services	2.9	3.8	3.5	3.5	.3	.3
Shelter	2.6	4.3	4.2	3.8	.3	.3
Other services	3.3	3.0	2.3	3.1	.3	.3
Chained CPI (n.s.a.) <sup>1</sup>	3.2	2.2	...	...	...	...
Ex. food and energy <sup>1</sup>	1.8	2.4	...	...	...	...
<i>PCE prices</i> <sup>2</sup>						
<b>Total</b>	<b>3.0</b>	<b>2.3</b>	<b>-2.0</b>	<b>3.8</b>	<b>.2</b>	<b>.4</b>
Food and beverages	2.5	3.0	1.9	5.4	.7	.7
Energy	19.8	-1.0	-45.9	15.0	-1.6	.8
<b>Ex. food and energy</b>	<b>2.0</b>	<b>2.4</b>	<b>1.7</b>	<b>2.9</b>	<b>.3</b>	<b>.3</b>
Core goods	-.5	.1	-1.7	.7	.2	.1
Core services	3.0	3.4	3.1	3.7	.3	.4
Shelter	2.7	4.4	4.2	3.7	.3	.3
Other services	3.2	3.1	2.7	3.8	.3	.5
Core market-based	1.6	2.2	1.4	2.5	.2	.3
Core non-market-based	3.9	n.a.	3.0	n.a.	.4	n.a.
<i>PPI</i>						
<b>Total finished goods</b>	<b>3.9</b>	<b>2.5</b>	<b>-4.1</b>	<b>6.4</b>	<b>-.6</b>	<b>1.3</b>
Food	-1.0	6.8	-.5	19.0	1.1	1.9
Energy	17.3	.0	-23.3	3.7	-4.6	3.5
<b>Ex. food and energy</b>	<b>1.7</b>	<b>1.8</b>	<b>2.5</b>	<b>3.0</b>	<b>.2</b>	<b>.4</b>
Core consumer goods	1.7	1.6	2.2	3.4	.2	.5
Capital equipment	1.6	2.2	3.3	2.7	.2	.3
Intermediate materials	8.0	2.5	-6.5	4.0	-.7	1.1
Ex. food and energy	4.7	3.7	-1.0	.7	.0	.2
Crude materials	12.6	9.3	-1.2	21.5	-6.3	8.9
Ex. food and energy	11.9	17.9	-3.8	21.4	1.6	2.7

1. Higher-frequency figures are not applicable for data that are not seasonally adjusted.

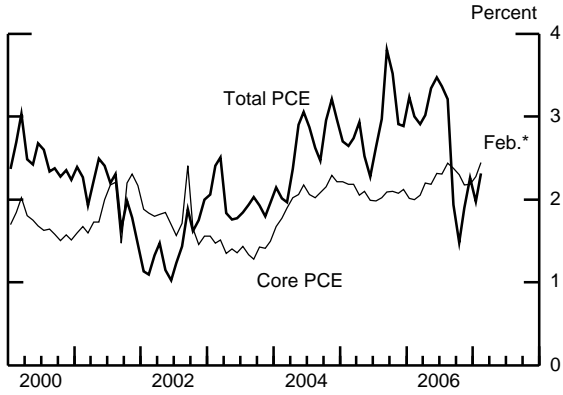
2. PCE prices in February 2007 are staff estimates.

... Not applicable.

n.a. Not available.

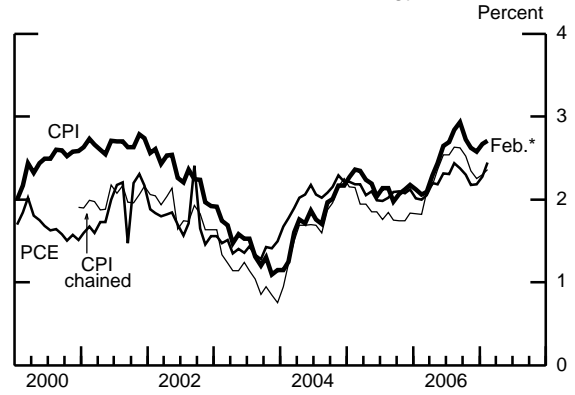
### Consumer Prices (12-month change except as noted)

PCE Prices



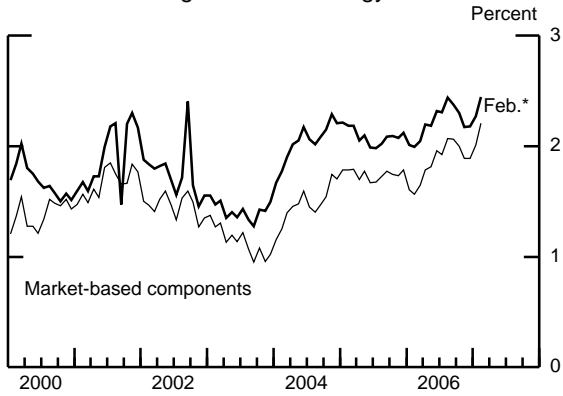
\* Staff estimate.

CPI and PCE ex. Food and Energy



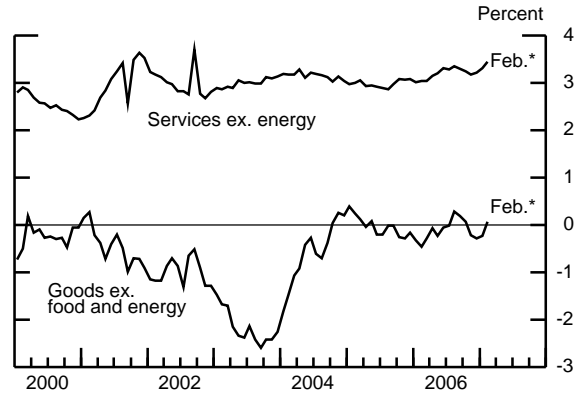
\* PCE for February is a staff estimate.

PCE excluding Food and Energy



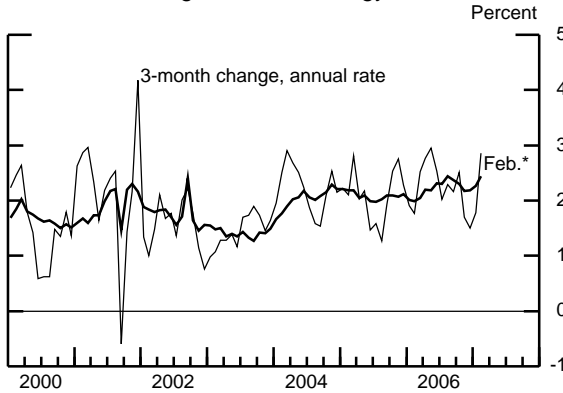
\* Staff estimate.

PCE Goods and Services



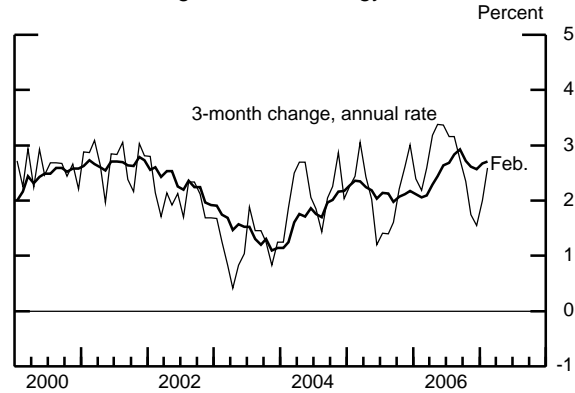
\* Staff estimate.

PCE excluding Food and Energy



\* Staff estimate.

CPI excluding Food and Energy



**Commercial Bank Credit**

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

Type of credit	2005	H1 2006	Q3 2006	Q4 2006*	Jan. 2007	Feb. 2007	Level, <sup>1</sup> Feb. 2007*
Total <sup>2</sup>	10.5	11.9	9.1	3.0	5.9	10.0	7,979
<i>Loans</i> <sup>3</sup>							
Total	11.6	11.6	10.8	6.3	6.9	9.4	5,994
To businesses							
Commercial and industrial	13.1	16.3	20.2	9.7	3.5	6.5	1,177
Commercial real estate	17.1	15.6	13.6	7.1	7.8	13.6	1,459
To households							
Residential real estate	12.0	7.7	7.3	2.2	5.0	5.7	1,765
Revolving home equity	13.3	.1	3.9	1.3	4.0	-6.3	453
Consumer	3.1	6.7	6.5	.3	12.1	-.5	742
Originated <sup>4</sup>	.7	7.4	5.1	4.8	10.5	1.7	1,138
Other <sup>5</sup>	8.6	12.0	4.5	14.5	9.3	23.2	850
<i>Securities</i>							
Adjusted <sup>2</sup>	7.6	12.7	4.4	-6.5	2.8	11.8	1,985
Reported	5.4	13.3	4.0	-4.0	-5.2	9.9	2,147
Treasury and agency	.0	8.3	6.1	-3.5	2.3	3.4	1,200
Other <sup>6</sup>	13.5	20.0	1.7	7.1	-14.2	17.7	976

Note. Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. Data are adjusted to remove estimated effects of consolidation related to FIN 46 and for breaks caused by reclassifications.

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

2. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FAS 115).

3. Excludes interbank loans.

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

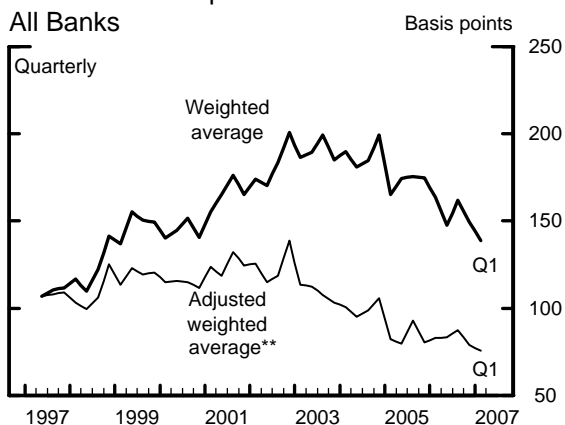
5. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified.

Also includes lease financing receivables.

6. 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.

\* Adjusted to remove the effects of a consolidation of a sizable volume of thrift assets onto a commercial bank's books in October 2006.

**C&I Loan Rate Spreads\***

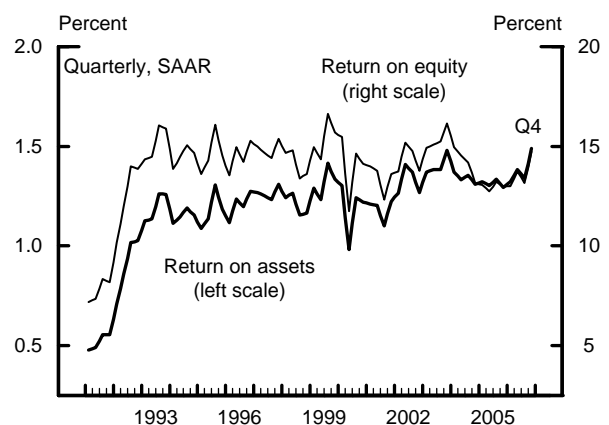


\* Spread over banks' estimated cost of funds.

\*\* Adjusted for changes in nonprice loan characteristics.

Source. Survey of Terms of Business Lending.

**Bank Profitability**



Source. Call Report.

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

Instrument	2004	2006	2007		Change to Mar. 15 from selected dates (percentage points)		
	June 28	June 29	Jan. 30	Mar. 15	2004 June 28	2006 June 29	2007 Jan. 30
<i>Short-term</i>							
FOMC intended federal funds rate	1.00	5.25	5.25	5.25	4.25	.00	.00
Treasury bills <sup>1</sup>							
3-month	1.36	4.88	5.00	4.91	3.55	.03	-.09
6-month	1.74	5.06	4.98	4.91	3.17	-.15	-.07
Commercial paper (A1/P1 rates) <sup>2</sup>							
1-month	1.28	5.27	5.25	5.25	3.97	-.02	.00
3-month	1.45	5.37	5.24	5.24	3.79	-.13	.00
Large negotiable CDs <sup>1</sup>							
3-month	1.53	5.47	5.32	5.30	3.77	-.17	-.02
6-month	1.82	5.59	5.35	5.29	3.47	-.30	-.06
Eurodollar deposits <sup>3</sup>							
1-month	1.29	5.33	5.32	5.32	4.03	-.01	.00
3-month	1.51	5.49	5.36	5.34	3.83	-.15	-.02
Bank prime rate	4.00	8.25	8.25	8.25	4.25	.00	.00
<i>Intermediate- and long-term</i>							
U.S. Treasury <sup>4</sup>							
2-year	2.88	5.26	4.98	4.61	1.73	-.65	-.37
5-year	3.97	5.15	4.85	4.43	.46	-.72	-.42
10-year	4.90	5.28	4.95	4.62	-.28	-.66	-.33
U.S. Treasury indexed notes							
5-year	1.56	2.49	2.46	2.04	.48	-.45	-.42
10-year	2.25	2.61	2.48	2.19	-.06	-.42	-.29
Municipal general obligations (Bond Buyer) <sup>5</sup>	5.01	4.71	4.32	4.13	-.88	-.58	-.19
Private instruments							
10-year swap	5.21	5.81	5.40	5.08	-.13	-.73	-.32
10-year FNMA <sup>6</sup>	5.38	5.59	5.20	4.93	-.45	-.66	-.27
10-year AA <sup>7</sup>	5.60	6.20	5.76	5.53	-.07	-.67	-.23
10-year BBB <sup>7</sup>	6.25	6.74	6.29	5.99	-.26	-.75	-.30
10-year high yield <sup>7</sup>	8.41	8.74	8.19	8.11	-.30	-.63	-.08
Home mortgages (FHLMC survey rate)							
30-year fixed	6.21	6.78	6.34	6.14	-.07	-.64	-.20
1-year adjustable	4.19	5.82	5.54	5.42	1.23	-.40	-.12

Stock exchange index	Record high		2006	2007		Change to Mar. 15 from selected dates (percent)		
	Level	Date	June 29	Jan. 30	Mar. 15	Record high	2006 June 29	2007 Jan. 30
Dow Jones Industrial	12,787	2-20-07	11,191	12,523	12,160	-4.90	8.66	-2.90
S&P 500 Composite	1,527	3-24-00	1,273	1,429	1,392	-8.85	9.38	-2.56
Nasdaq	5,049	3-10-00	2,174	2,449	2,379	-52.88	9.40	-2.86
Russell 2000	829	2-22-07	714	798	784	-5.53	9.70	-1.80
Wilshire 5000	14,797	2-20-07	12,846	14,439	14,112	-4.63	9.86	-2.26

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. Most recent Thursday quote.
6. Constant-maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
7. 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.  
January 30, 2007, is the day before the most recent FOMC announcement.

**U.S. Current Account**

As reported in the Balance of Payments data, released March 14, the U.S. current account deficit was \$783 billion (a.r.) in the fourth quarter of 2006, \$134 narrower than in the third quarter of 2006 (revised). The trade deficit narrowed by \$91 billion, as goods imports decreased and goods exports increased. The decrease in goods imports was more than accounted for by a drop in imports of petroleum and petroleum products. The increase in goods exports was largely accounted for by increased exports of capital goods, particularly civilian aircraft. The surplus on services increased slightly, as the increases in services receipts, primarily from “other” private services, travel, and royalties and license fees, were greater than the increases on services payments, primarily for “other” private services. Net unilateral transfers to foreigners declined slightly, driven by decreases in private remittances and other transfers, and in U.S. Government grants.

The investment income balance was positive \$19 billion (a.r.) in the fourth quarter, returning to a net inflow after several negative quarters. Interest, dividend and direct investment income receipts each increased in the fourth quarter, while total income payments were unchanged, as increases in interest and dividend payments were almost exactly offset by a sharp decline in direct investment payments.

**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	-716.7	17.6	-92.4	-791.5
2006	-765.3	-0.8	-90.6	-856.7
<i>Quarterly</i>				
2006:Q1	-766.6	-3.9	-84.7	-855.1
Q2	-774.5	-2.4	-93.9	-870.9
Q3	-805.6	-15.5	-96.4	-917.5
Q4	-714.4	18.6	-87.4	-783.2
<i>Change</i>				
Q1-Q4	12.4	-1.5	26.4	37.3
Q2-Q1	-7.9	1.5	-9.3	-15.7
Q3-Q2	-31.1	-13.1	-2.5	-46.7
Q4-Q3	91.2	34.1	9.0	134.3

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

### **U.S. International Financial Transactions**

The financial flows associated with the current account are presented in the Summary of U.S. International Transactions table. Foreign official flows into the United States continued robustly in the fourth quarter, but net private financial inflows moderated. Strong foreign net purchases of U.S. securities were partially offset by a surge in U.S. net acquisitions of foreign securities and a decline in net direct investment inflows. The decline in net direct investment inflows is associated with a noticeable drop in direct investment inflows. Although the total value of foreign acquisitions of U.S. firms hit a five-year high in the fourth quarter, reinvested earnings fell substantially. The fall in reinvested earnings owes in part to lower earnings by direct investors in the United States (reflected in smaller direct investment payments in the current account) and a significant drop in the retention rate. With respect to other flows, foreign acquisitions of U.S. currency moved up in line with typical seasonal demand. Other inflows, which largely reflect quarterly reported banking and nonbanking positions, moved to a moderate inflow in the quarter.

To balance the international transactions accounts, the statistical discrepancy measured \$32 billion for the quarter, remaining positive for the fourth consecutive quarter. This positive statistical discrepancy indicates some combination of under-recorded net financial inflows or over-recorded net imports of goods and services and other transactions measured in the current account balance.



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

	2005	2006	2006					2007
			Q1	Q2	Q3	Q4	Dec	Jan
<b>Official financial flows</b>	<b>214.7</b>	<b>304.0</b>	<b>75.1</b>	<b>77.8</b>	<b>80.2</b>	<b>70.9</b>	<b>50.6</b>	<b>38.8</b>
1. Change in foreign official assets in the U.S. (increase, +)	200.6	301.6	74.6	78.3	79.2	69.5	50.4	38.8
a. G-10 countries + ECB	-21.3	-36.5	-8.4	-18.7	-6.0	-3.4	-4.4	1.3
b. OPEC	7.5	30.4	12.0	13.9	11.4	-6.9	-1.9	7.5
c. All other countries	214.5	307.7	71.1	83.1	73.7	79.8	56.8	30.0
2. Change in U.S. official reserve assets (decrease, +)	14.1	2.4	.5	-6	1.0	1.4	.2	.0
<b>Private financial flows</b>	<b>570.7</b>	<b>415.2</b>	<b>96.1</b>	<b>75.8</b>	<b>149.5</b>	<b>93.7</b>	<b>...</b>	<b>...</b>
<b>Banks</b>								
3. Change in net foreign positions of banking offices in the U.S. <sup>1</sup>	15.4	103.1	.9	58.3	39.3	4.5	-28.7	-22.7
<b>Securities<sup>2</sup></b>								
4. Foreign net purchases (+) of U.S. securities	611.3	707.7	198.2	176.2	156.5	176.7	9.4	73.3
a. Treasury securities	178.1	39.0	-2.5	19.3	-7.4	29.5	-2.1	9.8
b. Agency bonds	66.9	103.7	39.6	33.0	28.1	3.0	-4.0	8.8
c. Corporate and municipal bonds	274.3	416.7	97.1	104.0	99.9	115.7	26.7	33.7
d. Corporate stocks <sup>3</sup>	92.0	148.3	63.9	19.9	35.9	28.6	-11.1	21.1
5. U.S. net acquisitions (-) of foreign securities	-197.0	-286.1	-57.5	-57.9	-52.6	-118.0	-50.2	-19.3
a. Bonds	-53.1	-150.3	-14.7	-34.7	-43.5	-57.4	-30.3	-5.5
b. Stock purchases	-139.9	-118.9	-38.8	-20.8	-9.2	-50.2	-20.0	-13.8
c. Stock swaps <sup>3</sup>	-4.0	-16.8	-4.0	-2.4	.0	-10.4	.0	.0
<b>Other flows (quarterly data, s.a.)</b>								
6. U.S. direct investment (-) abroad	-9.1	-248.9	-61.9	-47.4	-65.4	-74.2	...	...
7. Foreign direct investment in the U.S.	109.8	183.6	45.7	46.8	61.6	29.4	...	...
8. Foreign acquisitions of U.S. currency	19.4	12.6	1.9	1.1	1.1	8.4	...	...
9. Other (inflow, +) <sup>4</sup>	20.9	-56.9	-31.2	-101.3	8.9	66.7	...	...
<b>U.S. current account balance (s.a.)</b>	<b>-791.5</b>	<b>-856.7</b>	<b>-213.8</b>	<b>-217.7</b>	<b>-229.4</b>	<b>-195.8</b>	<b>...</b>	<b>...</b>
<b>Capital account balance (s.a.)<sup>5</sup></b>	<b>-4.4</b>	<b>-3.9</b>	<b>-1.8</b>	<b>-1.0</b>	<b>-6</b>	<b>-6</b>	<b>...</b>	<b>...</b>
<b>Statistical discrepancy (s.a.)</b>	<b>10.4</b>	<b>141.4</b>	<b>44.3</b>	<b>65.1</b>	<b>.2</b>	<b>31.8</b>	<b>...</b>	<b>...</b>

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.