

Battle at Bond Bluff: Forecasters vs. Financial Markets

On June 30, 2004, when the FOMC upped its intended federal funds rate by 25 basis points to 1.25 percent, the data indicated that core CPI had risen by about 1.75 percent for that year (May 2003 to May 2004) and yields on 10-year Treasury securities had averaged about 4.75 percent that month. It worried policymakers somewhat that core inflation and long-term interest rates had moved noticeably higher over the previous few months and that the spot price of crude oil (West Texas Intermediate) was up a little less than 25 percent from a year earlier. Still, the latest Blue Chip Consensus forecast projected solid real GDP growth in 2005 (3.5 percent), with moderate CPI inflation (2.2 percent); the Blue Chip does not forecast the core CPI.

As it stands now, the federal funds rate has been raised to 3 percent and oil prices are up even more; however, as seen in the chart, the Blue Chip Consensus forecast for real GDP growth has been remarkably stable. Indeed, the forecast for real GDP growth in 2005 has remained within a fairly narrow range for most of the past year despite a rise in the spot price of oil to an average of \$54.31 per barrel by March 2005, an increase of more than 58 percent since January 2004. (The chart indexes oil prices to be 1 in January 2004.)

In a recent speech, Federal Reserve Bank of St. Louis President William Poole remarked that “the stability of the economy is reflected in the stability of the forecasts.” But while forecasts for real GDP growth in 2005 have been remarkably stable, forecasts for core CPI inflation in 2005 have been moving steadily higher. According to the private-sector forecasting firm Macroeconomic Advisers, the expected increase in the core CPI in 2005 has risen from 1.7 percent in January 2004 to 2.5 percent in May 2005. If realized, the 2005 increase would be the highest core inflation rate in four years.

The steady rise in core inflation forecasts is potentially worrisome in view of the role that expectations have come to play in the policymaking process. Over time, monetary policymakers have realized that they can potentially exert influence over economic activity by affecting expectations of *future* inflation. Hence, a key part of economic stability is the expectation of low inflation.

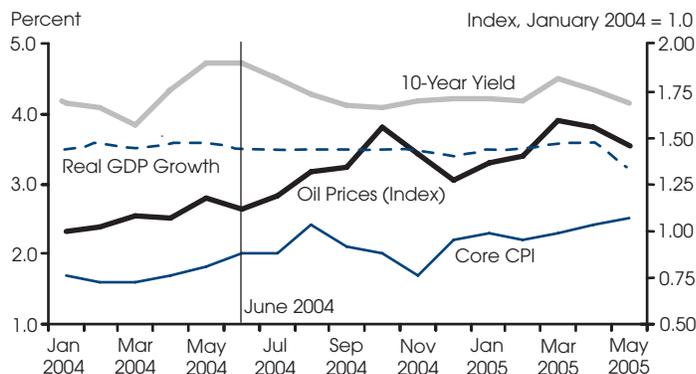
Yet, as the chart also shows, financial markets appear to have shrugged off the upcreep in expected core inflation. After peaking at an average of about 4.75 percent in

June 2004, the yield on the 10-year Treasury security has dropped to about 4 percent. The fall in long-term interest rates in the face of rising inflation, higher oil prices, and continued solid growth prospects is something of a puzzle. If anything, a decline in long-term yields in the face of stable economic growth prospects usually means the market is betting on lower future inflation—implying that the market views the recent rise in inflation as temporary.

But another view emerged in May, as forecasters trimmed their 2005 real GDP growth forecast to 3.2 percent. This revision, more or less, was consistent with the story that long-term interest rates were declining because of an expectation of weaker growth going forward (lower real yields). It is possible, though, that this downward revision in the 2005 forecast was a response to the weaker-than-expected advance estimate of first-quarter real GDP growth (3.1 percent). Since then, first-quarter growth has been revised upward to 3.5 percent and several indicators of economic conditions in April have come in much better than expected. If nominal interest rates continue to remain stable in the face of solid growth, then the interest rate puzzle may simply reflect a more sanguine inflation outlook from the bond market than from forecasters.

—Kevin L. Kliesen

Forecasts for 2005 (Q4/Q4) and Oil Prices and Long-Term Interest Rates



SOURCE: Federal Reserve Bank of St. Louis, Blue Chip Indicators (real GDP), and Macroeconomic Advisers (Core CPI).

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Conventions used in this publication:

1. Shaded areas indicate recessions, as determined by the National Bureau of Economic Research.
2. *Percent change* refers to simple percent changes. *Percent change from year ago* refers to the percent change from the same month or quarter during the previous year. *Compounded annual rate of change* shows what the growth rate would be over an entire year if the same simple percent change continued for four quarters or twelve months. The compounded annual rate of change of x between the previous quarter $t-1$ and the current quarter t is: $[(x_t/x_{t-1})^4 - 1] \times 100$. For monthly data replace 4 with 12.
3. All data with significant seasonal patterns are adjusted accordingly, unless labeled NSA.

We welcome your comments addressed to:

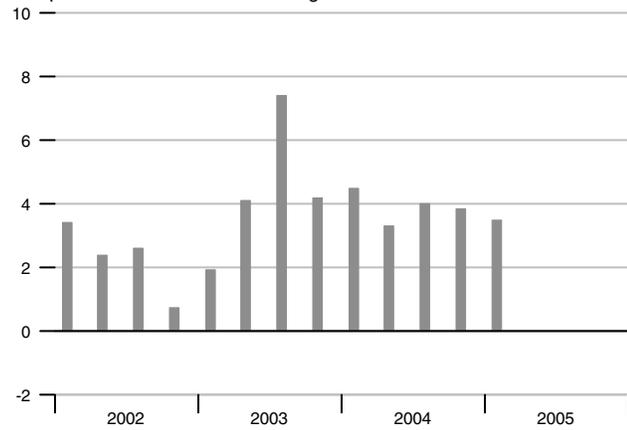
Editor, *National Economic Trends*
Research Division
Federal Reserve Bank of St. Louis
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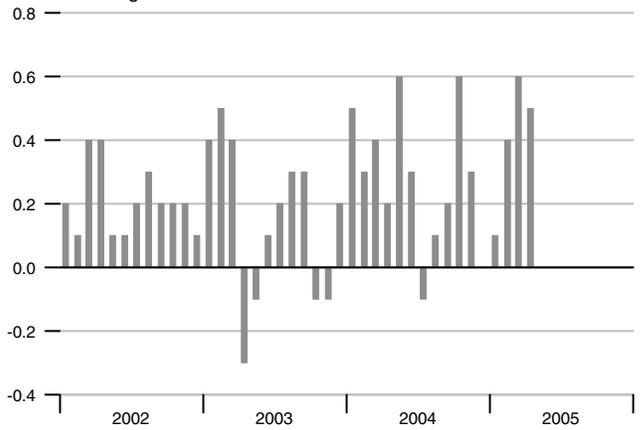
Real GDP Growth

Compounded annual rates of change



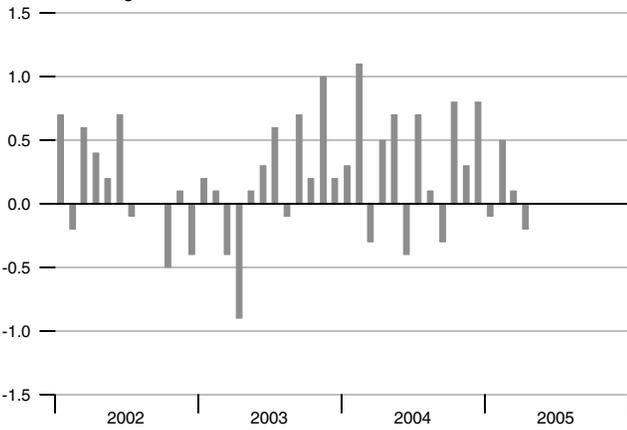
Consumer Price Index

Percent change



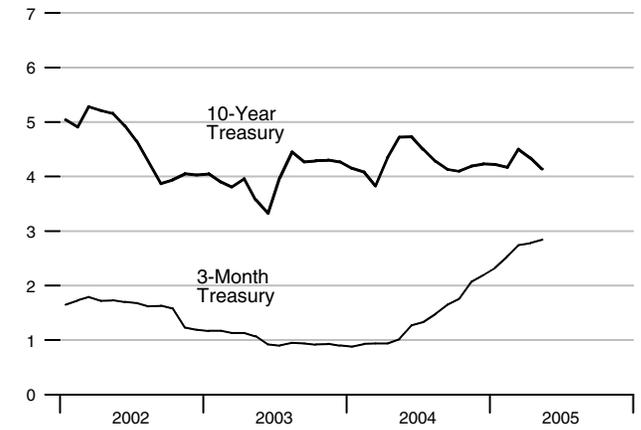
Industrial Production

Percent change



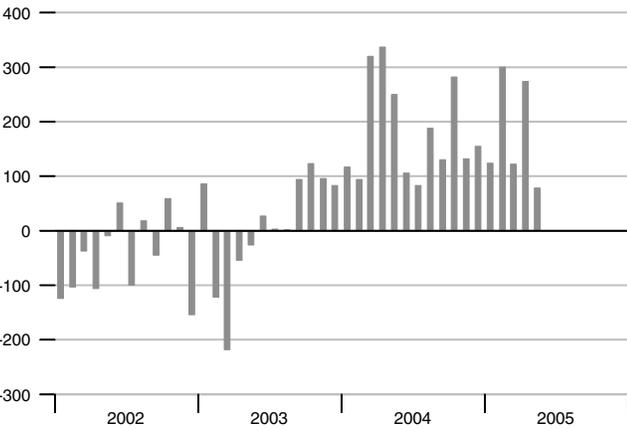
Interest Rates

Percent



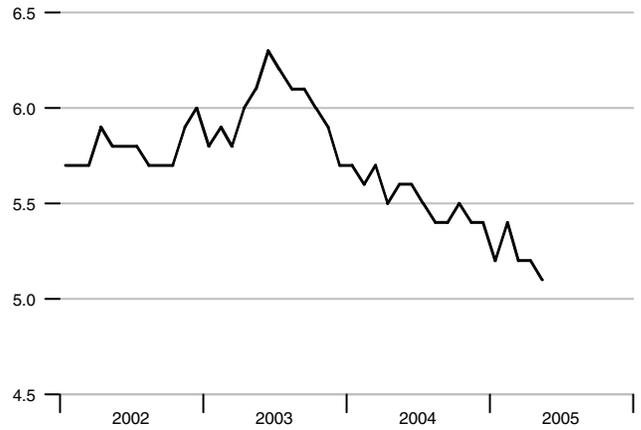
Change in Nonfarm Payrolls

Thousands



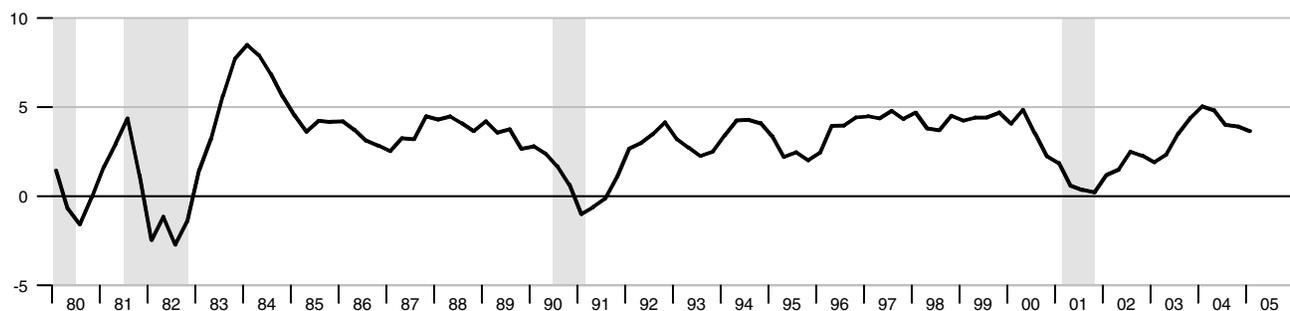
Unemployment Rate

Percent of labor force



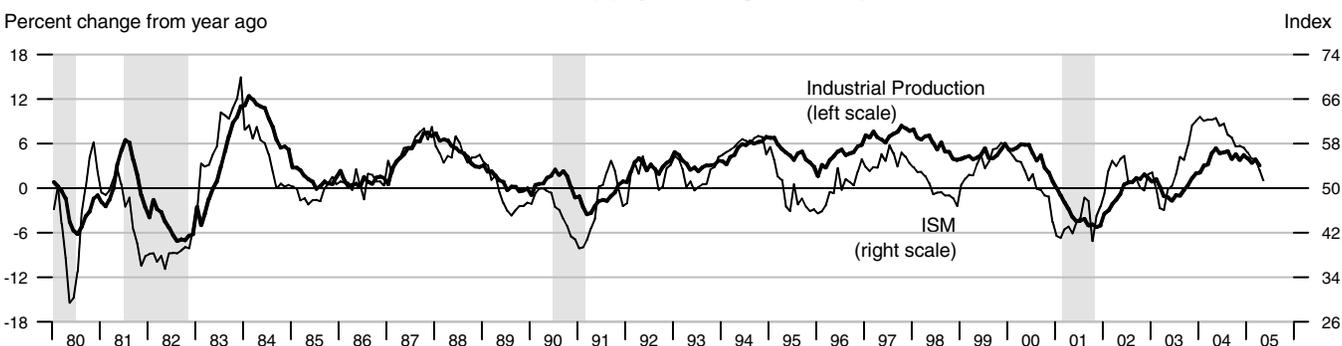
Real Gross Domestic Product

Percent change from year ago



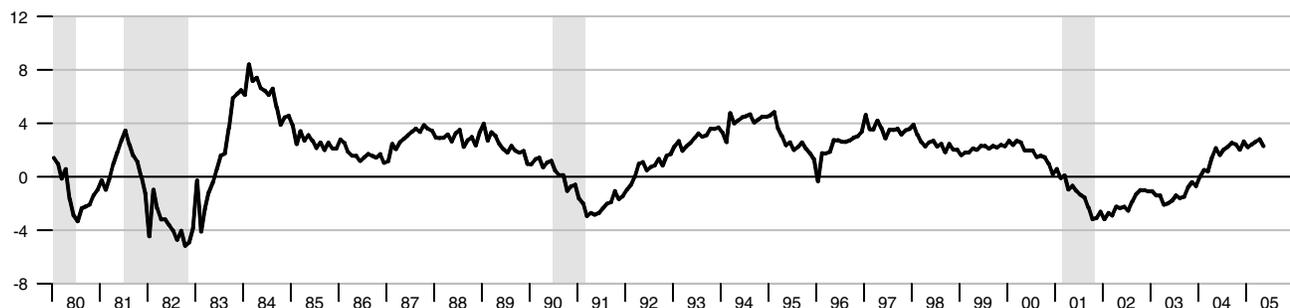
Industrial Production and Institute for Supply Management (ISM) Indexes

Percent change from year ago



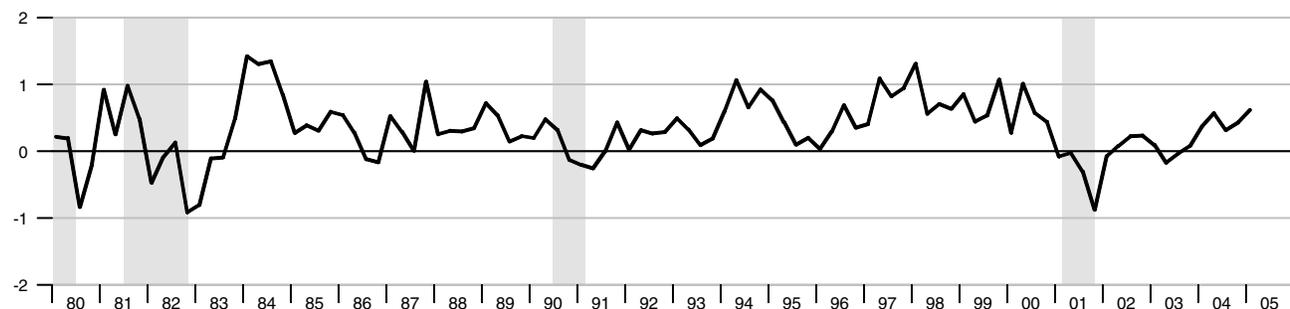
Aggregate Private Nonfarm Hours

Percent change from year ago

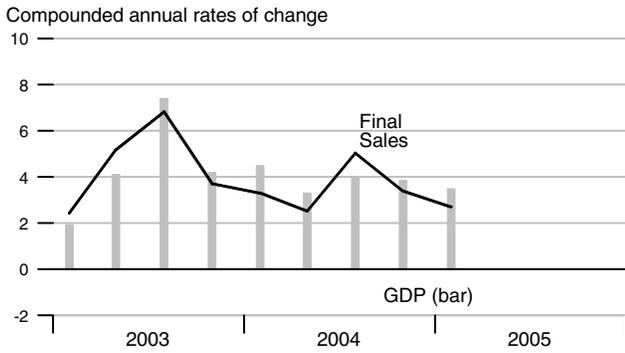


Real Change in Private Inventories

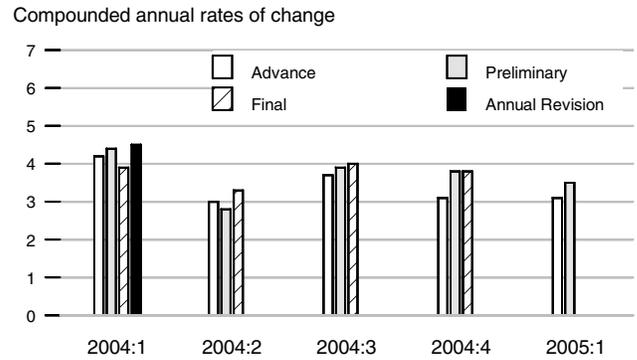
Percent of GDP



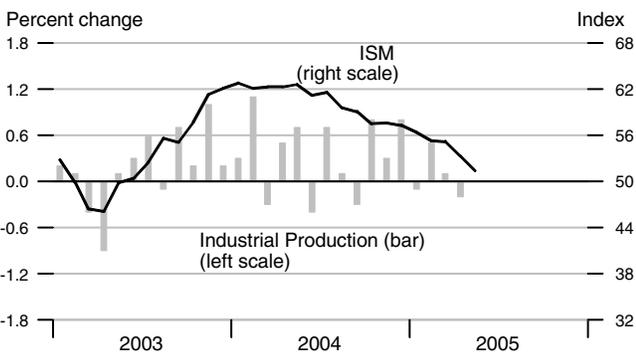
Real Final Sales and GDP



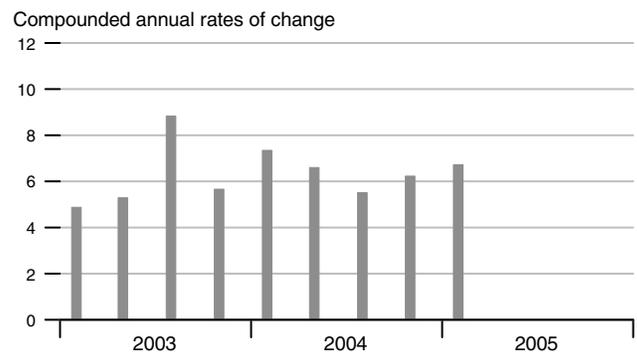
Real GDP Revisions



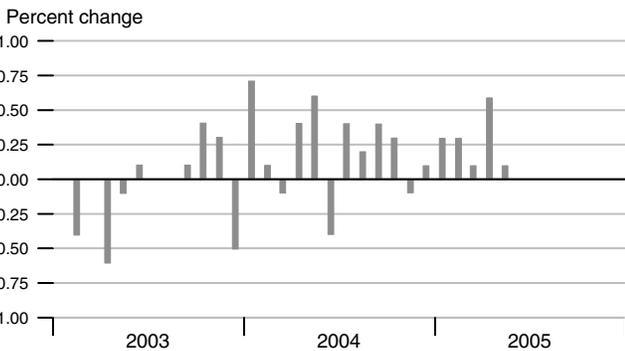
Industrial Production and ISM Index



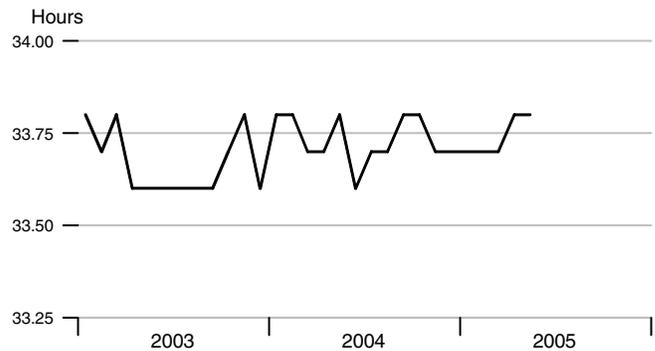
Nominal Gross Domestic Product



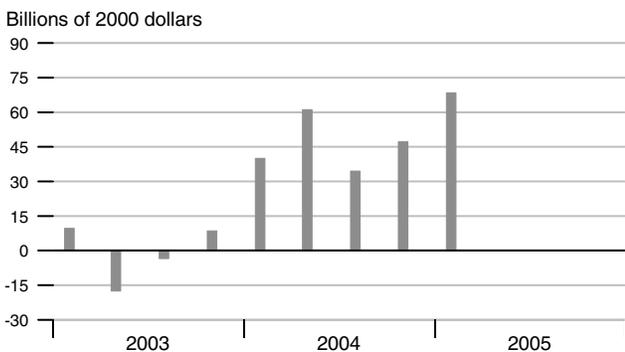
Aggregate Private Nonfarm Hours



Average Weekly Private Nonfarm Hours



Real Change in Private Inventories

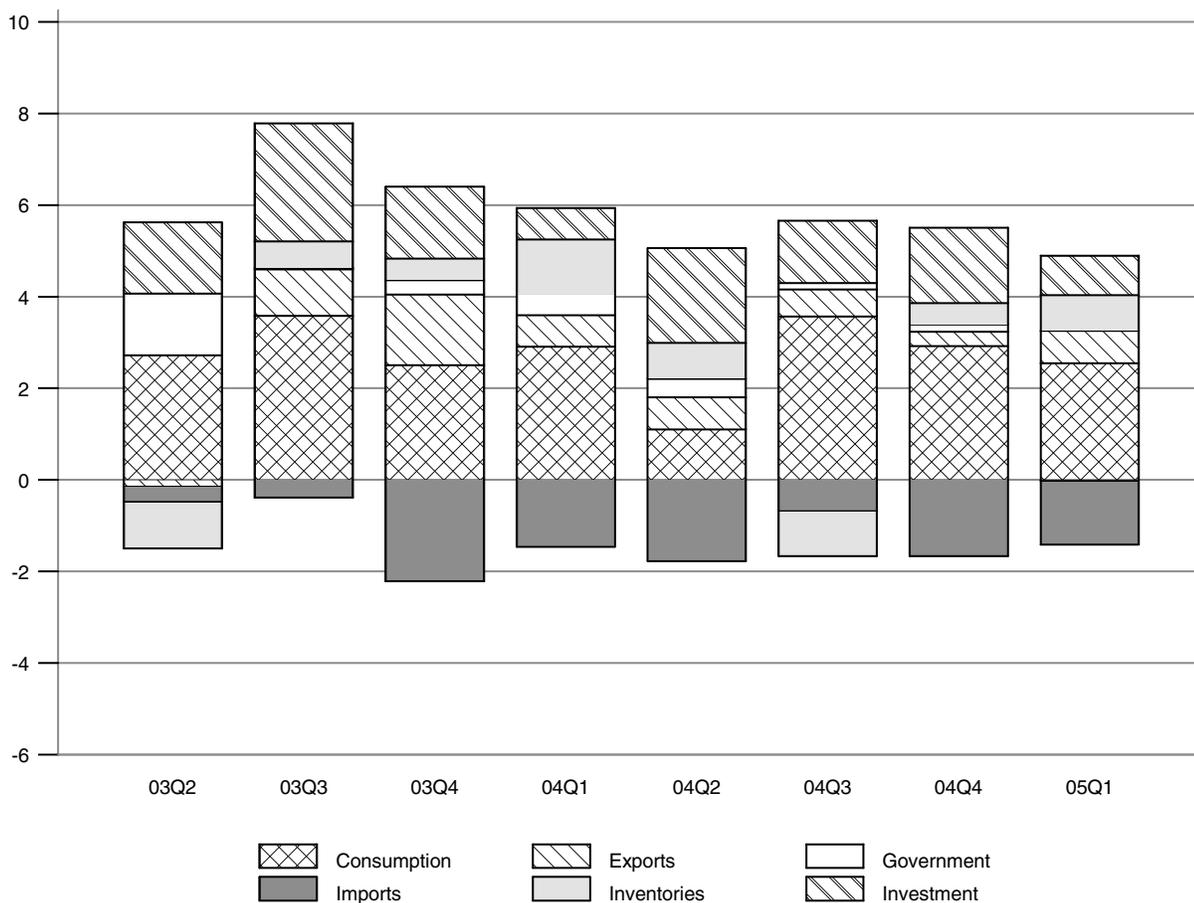


Inventory-Sales Ratio



Contribution of Components to Real GDP Growth

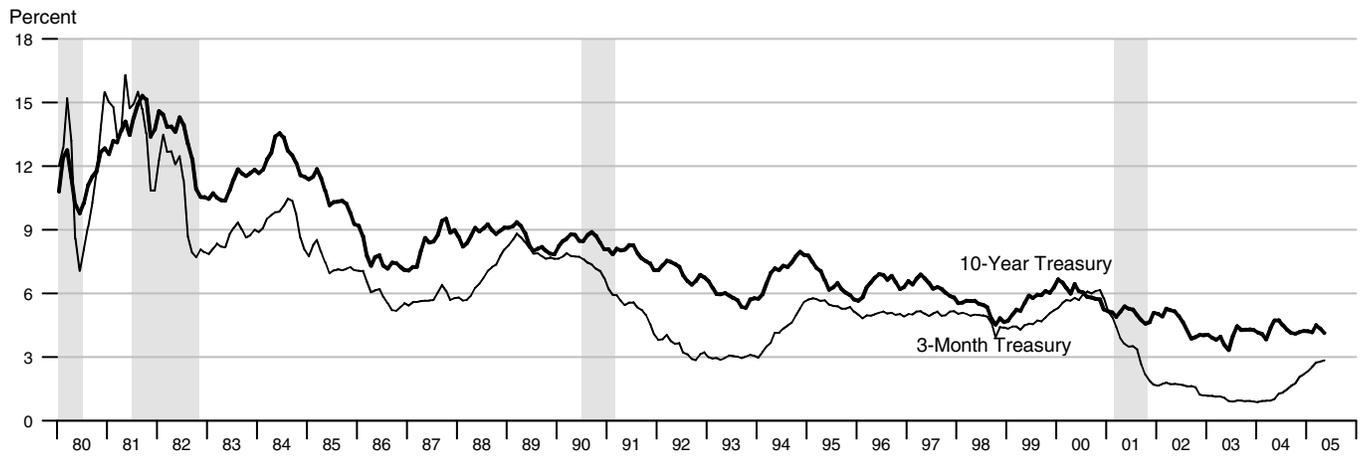
Percentage points at compounded annual rates



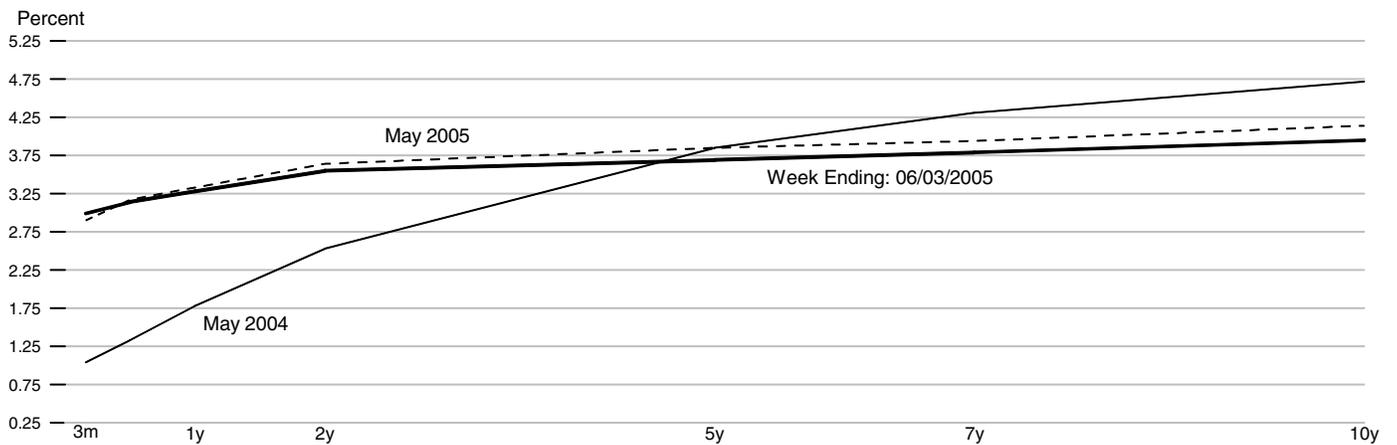
Contributions to Real GDP Growth Rate

	2003			2004				2005
	2nd	3rd	4th	1st	2nd	3rd	4th	1st
Final Sales	5.12	6.84	3.72	3.32	2.52	4.97	3.39	2.70
Consumption	2.72	3.58	2.50	2.90	1.10	3.57	2.92	2.54
Fixed Investment	1.55	2.59	1.57	0.69	2.07	1.37	1.65	0.87
Nonresidential	1.10	1.50	1.07	0.42	1.21	1.27	1.46	0.38
Residential	0.44	1.09	0.50	0.27	0.86	0.09	0.19	0.49
Federal	1.40	-0.23	0.33	0.48	0.18	0.33	0.09	0.03
Government	1.35	0.03	0.31	0.48	0.41	0.13	0.16	-0.03
State and Local	-0.05	0.26	-0.02	0.00	0.23	-0.20	0.07	-0.06
Imports	-0.34	-0.39	-2.22	-1.46	-1.77	-0.69	-1.67	-1.38
Change in Inventory	-1.01	0.57	0.47	1.17	0.78	-0.97	0.46	0.78
Exports	-0.15	1.02	1.55	0.70	0.70	0.59	0.32	0.71
Net Exports	-0.50	0.64	-0.66	-0.76	-1.06	-0.10	-1.35	-0.67
Residual	0.05	-0.10	0.02	0.02	0.01	-0.10	-0.09	0.00
Real GDP Growth	4.11	7.41	4.19	4.49	3.30	4.00	3.85	3.48

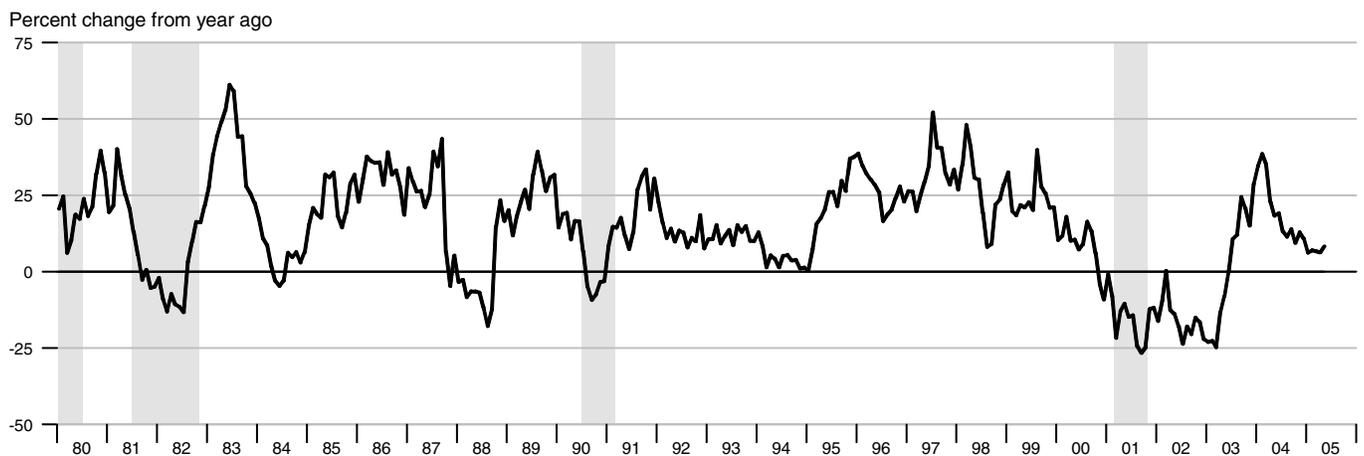
Interest Rates



Treasury Yield Curve

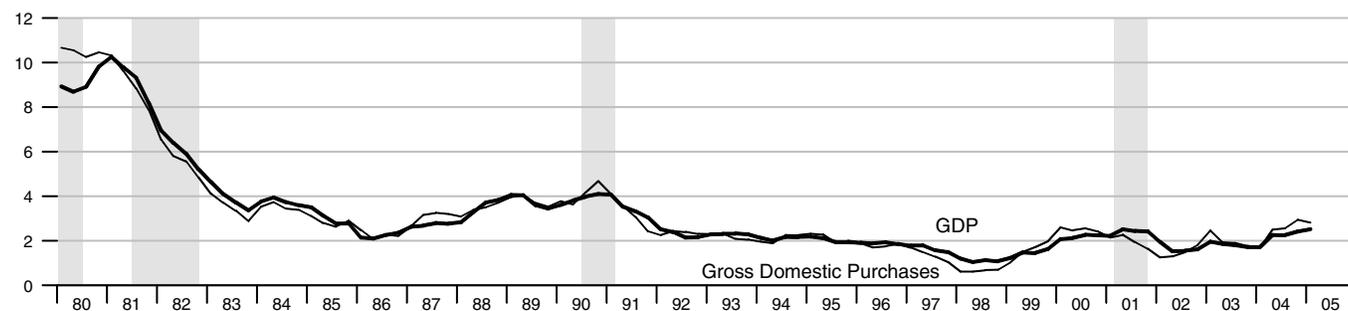


Standard and Poor's 500 Index with Reinvested Dividends



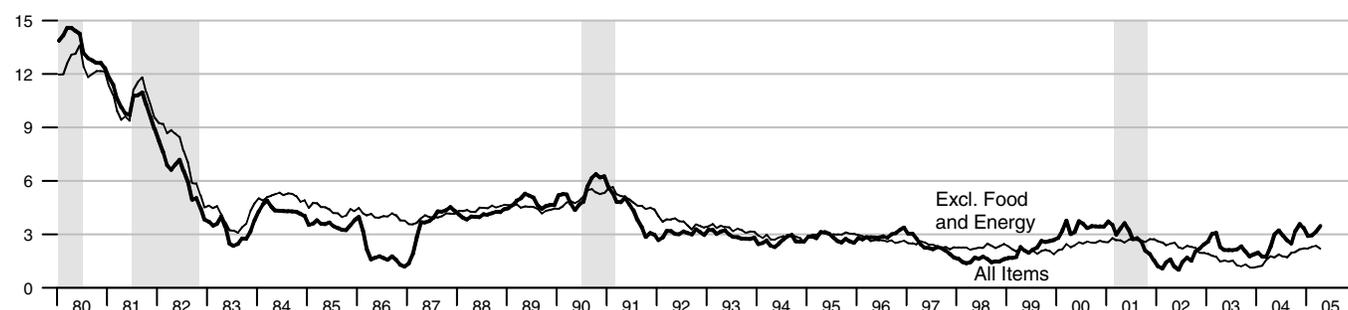
NIPA Chain Price Indexes

Percent change from year ago



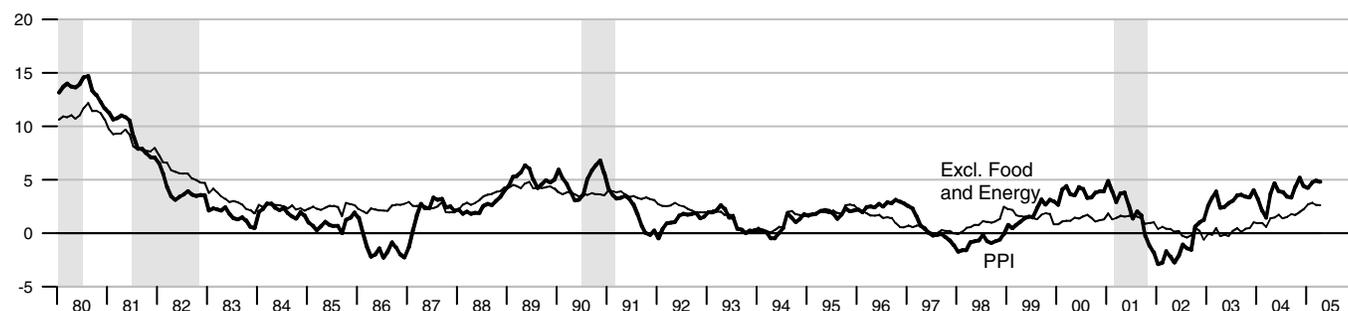
Consumer Price Index

Percent change from year ago



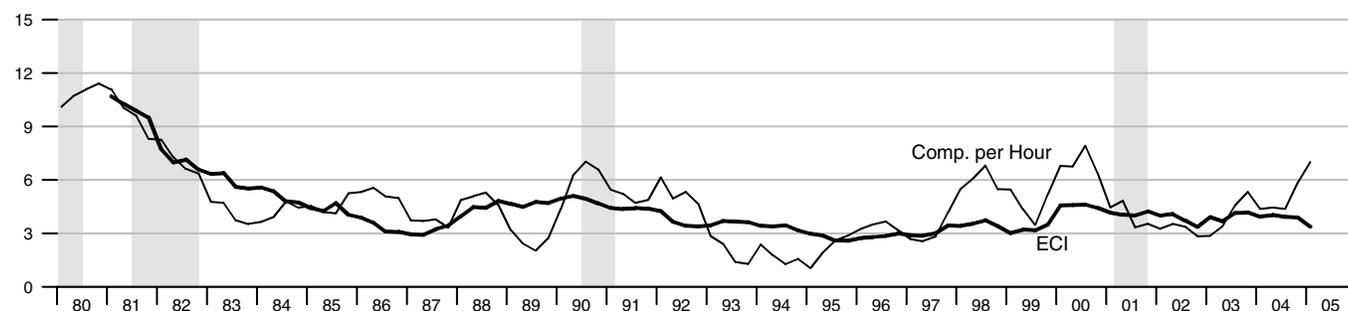
Producer Price Index, Finished Goods

Percent change from year ago

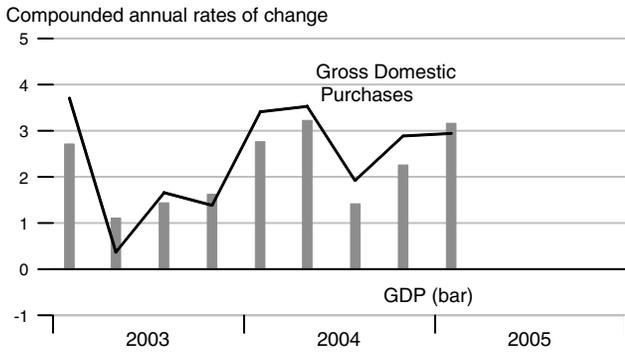


Employment Cost Index and Compensation per Hour

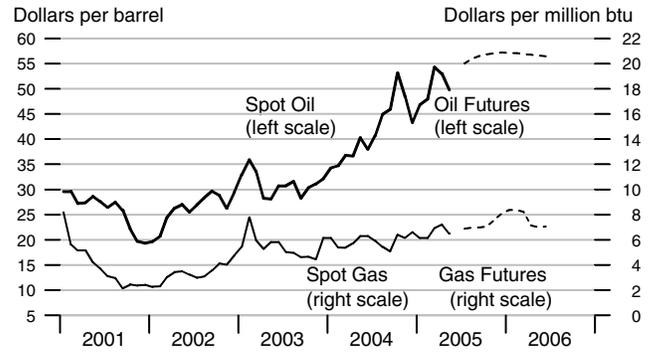
Percent change from year ago



NIPA Chain Price Indexes

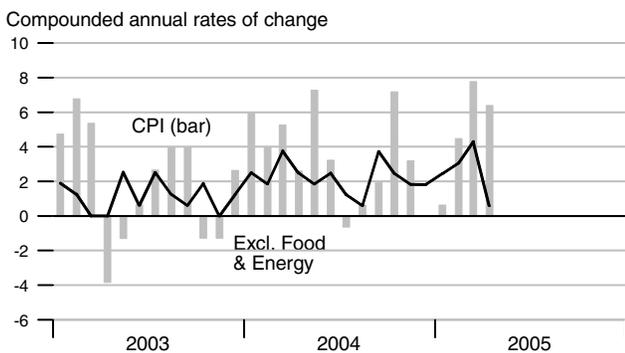


Oil & Natural Gas Prices: Spot & Futures

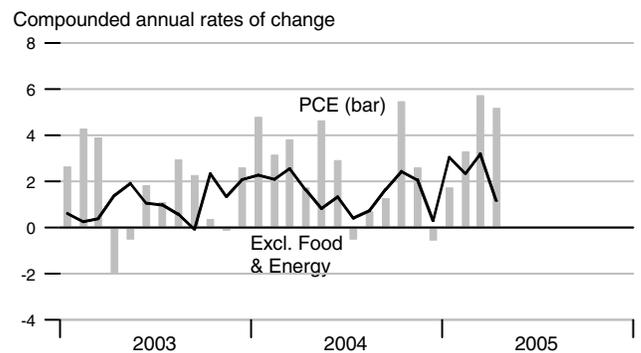


Note: Futures prices as of 05/03/2005.

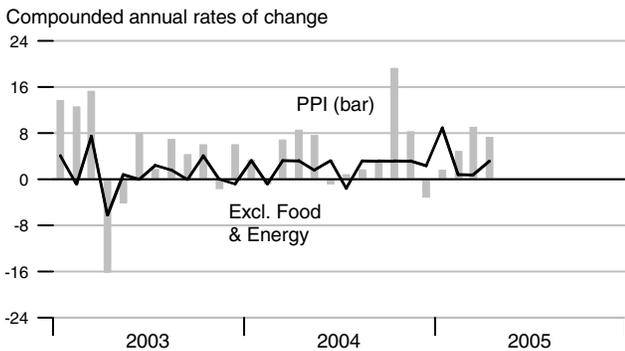
Consumer Price Index



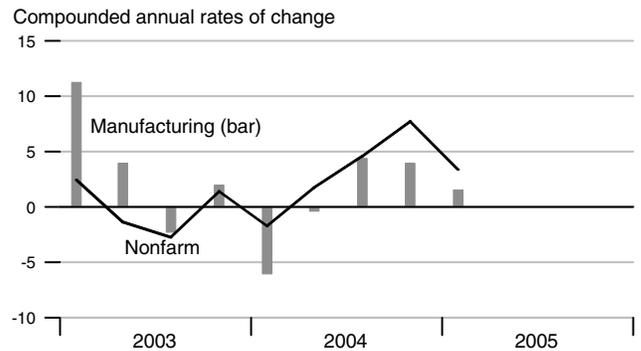
Consumption Chain Price Index



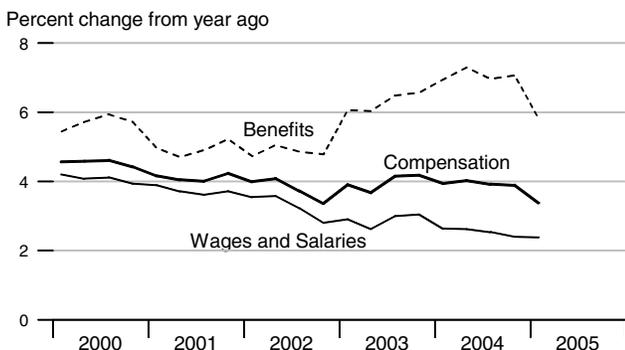
Producer Price Index, Finished Goods



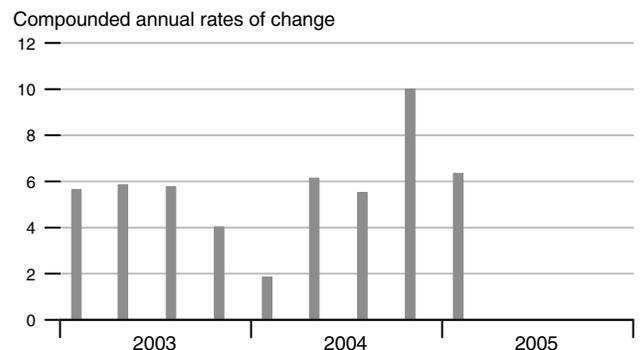
Unit Labor Cost



Employment Cost Index

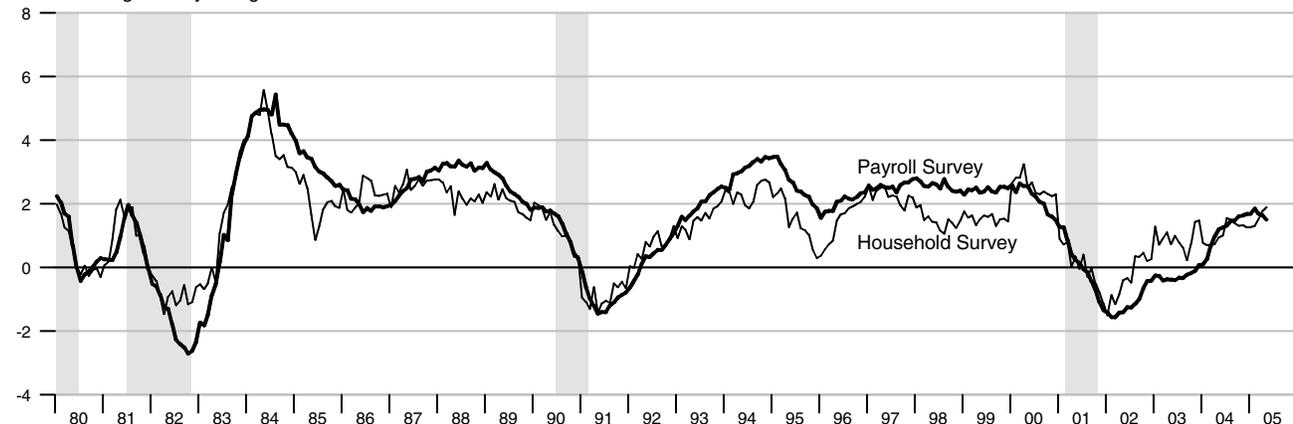


Compensation per Hour



Employment

Percent change from year ago

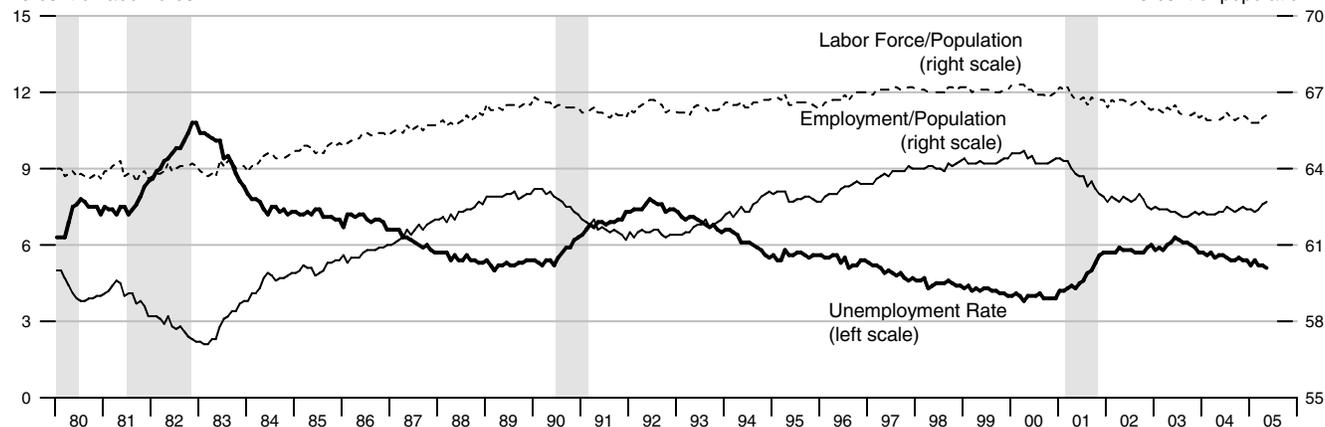


See the Notes section at the end of this publication for the Feb. 7, 2003, revisions to the Household Survey, and the June 6, 2003, revisions to the Establishment Survey.

Unemployment, Labor Force Participation, and Employment Rates

Percent of labor force

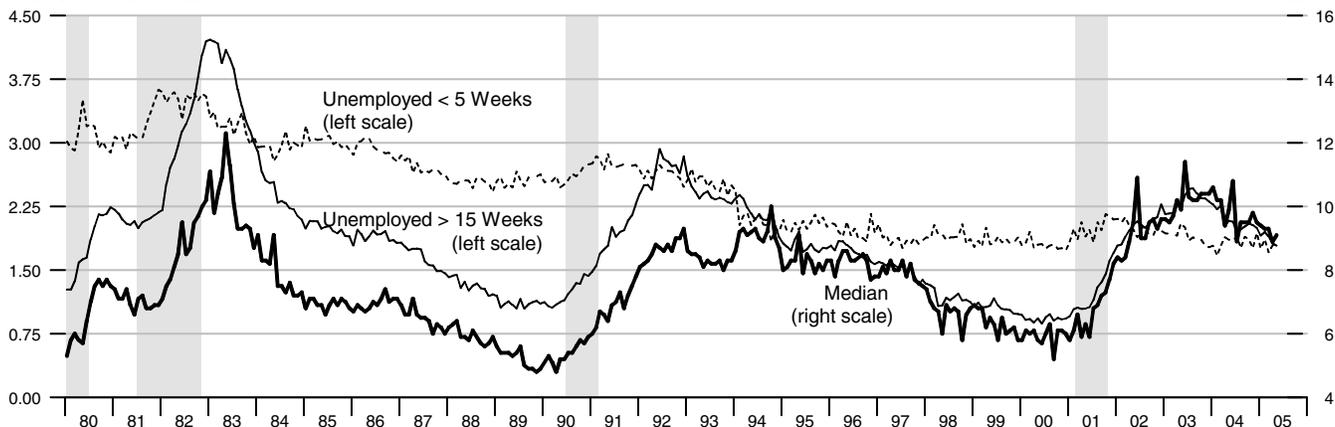
Percent of population



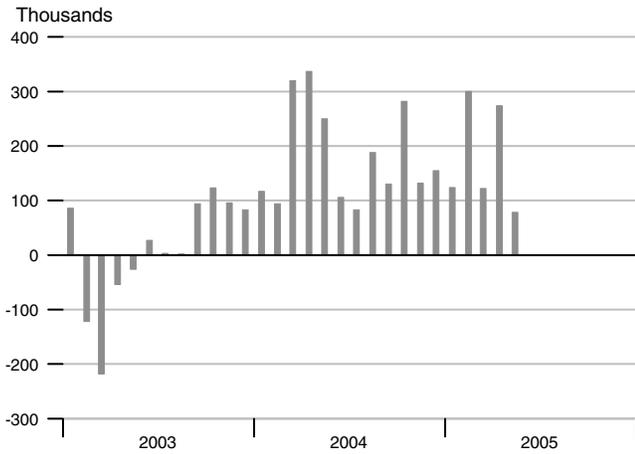
Duration of Unemployment

Percent of labor force

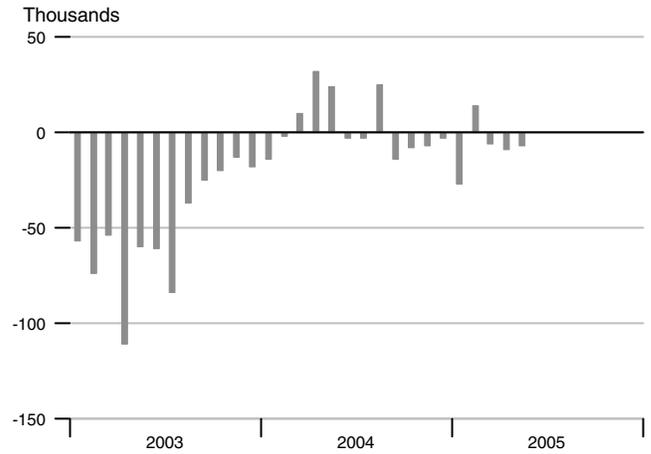
Weeks



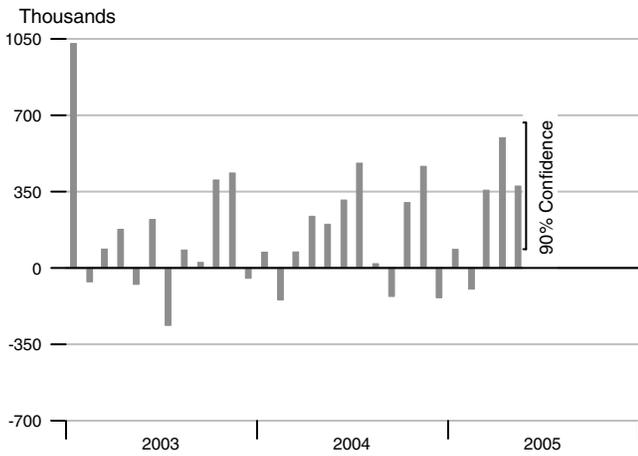
Change in Nonfarm Payrolls



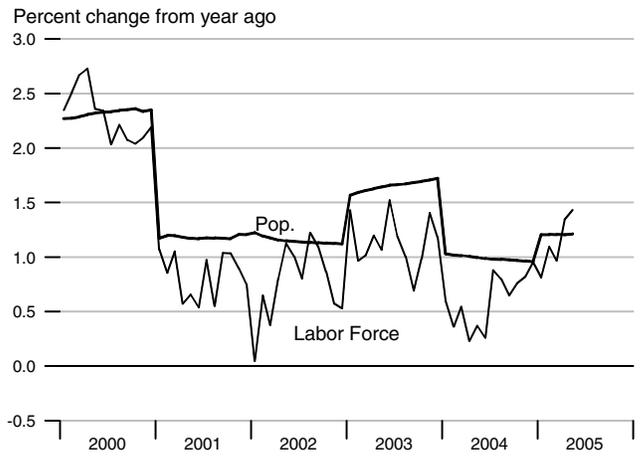
Change in Manufacturing Payrolls



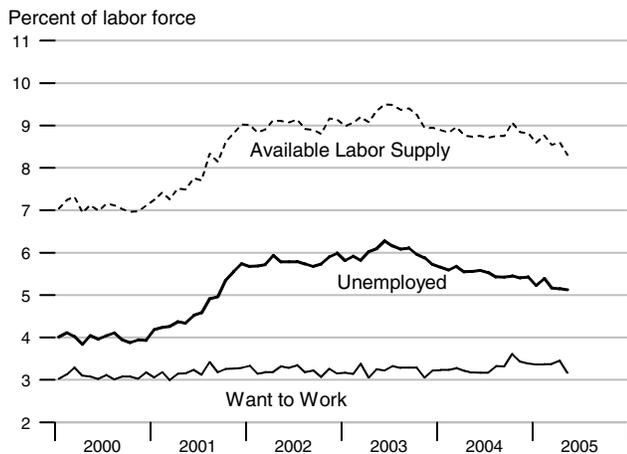
Change in Household Employment



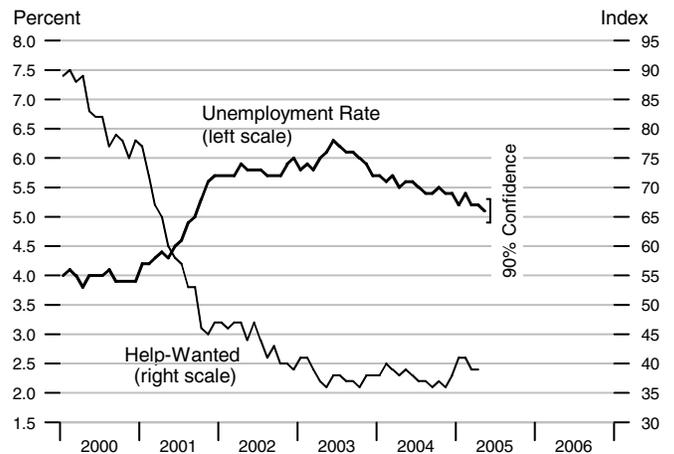
Labor Force and Population



Available Labor Supply and Components

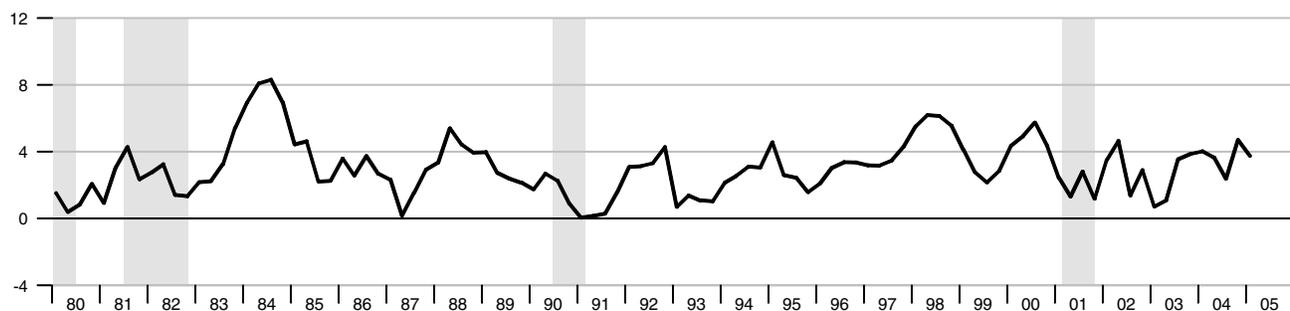


Unemployment Rate & Help-Wanted Index



Real Disposable Personal Income

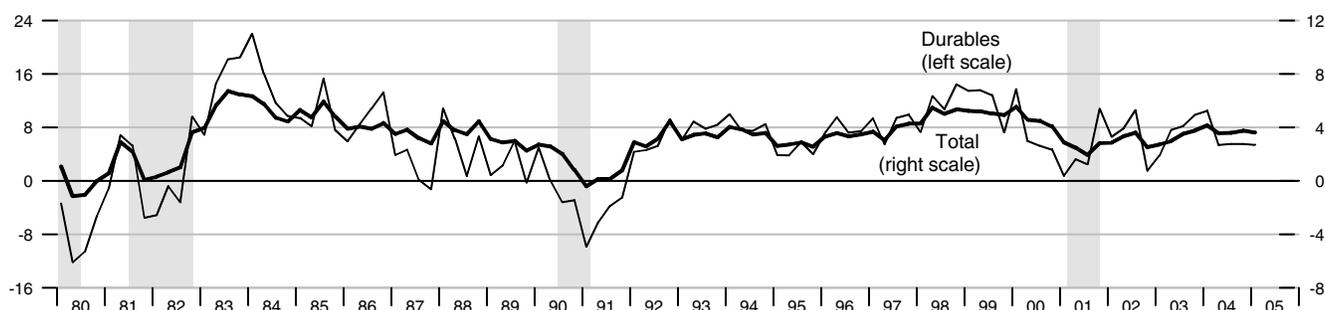
Percent change from year ago, quarterly data



Real Consumption

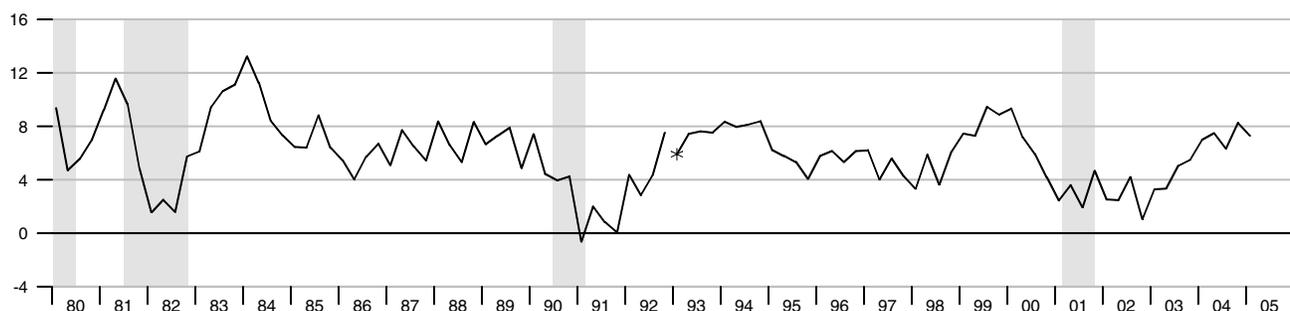
Percent change from year ago, quarterly data

Percent change from year ago, quarterly data



Retail and Food Services Sales

Percent change from year ago, quarterly average

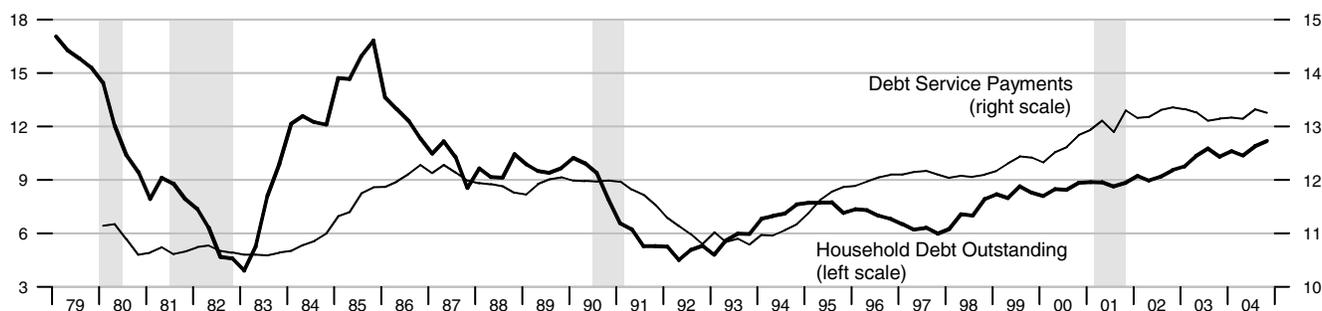


*Data from Jan. 1992 to the present are on a NAICS basis; data prior to Jan. 1992 are on an SIC basis and are not strictly comparable (see End Note).

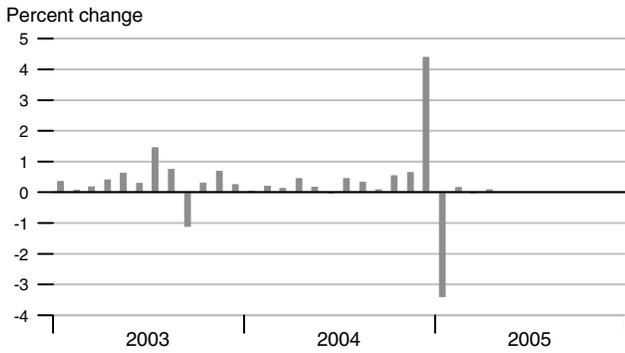
Debt Service Payments and Household Debt Outstanding

Percent change from year ago, quarterly data

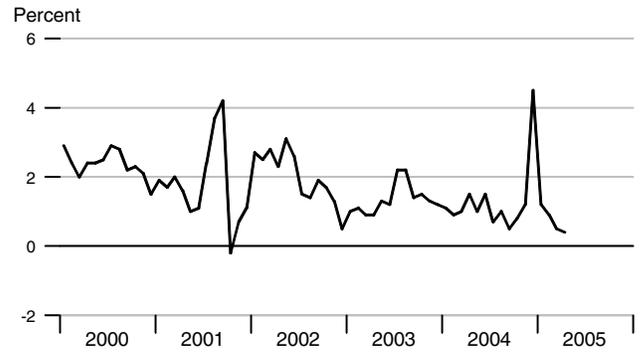
Percent of disposable personal income



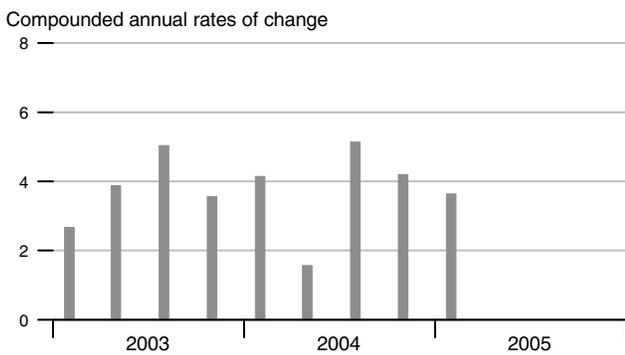
Real Disposable Personal Income



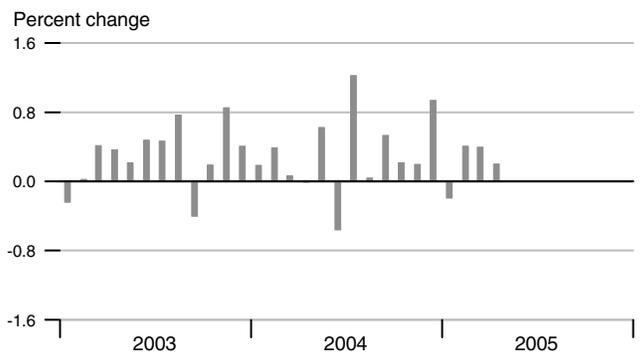
Personal Saving Rate



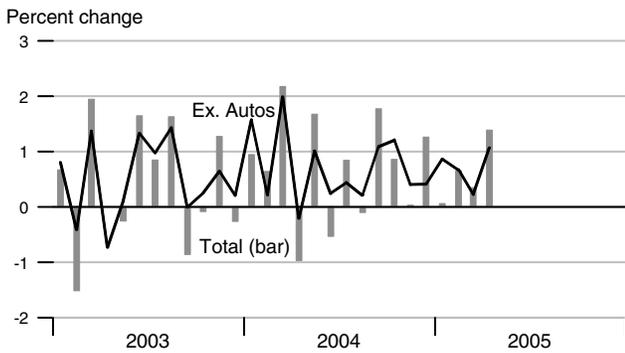
Real Consumption



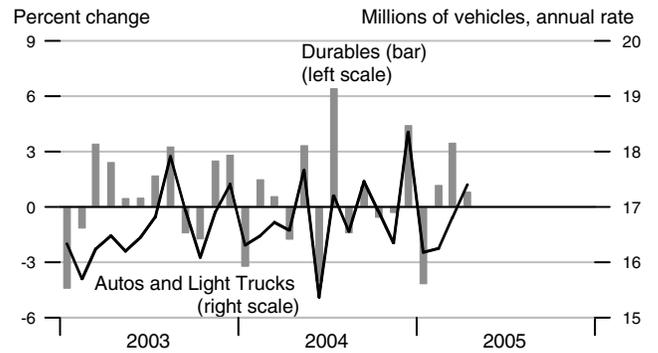
Real Consumption



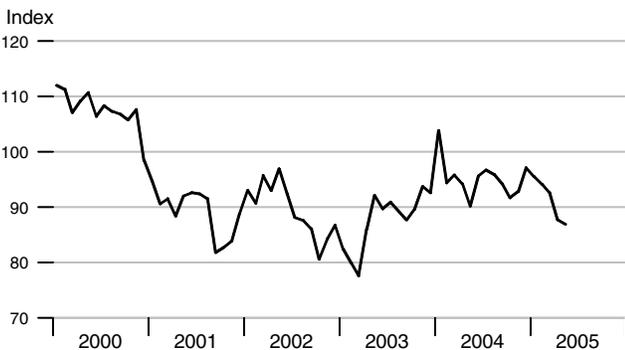
Retail & Food Services



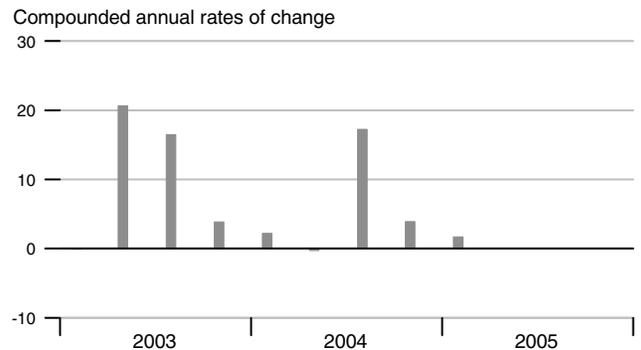
Real Durables Consumption & Vehicle Sales



Consumer Sentiment (U. of Michigan)

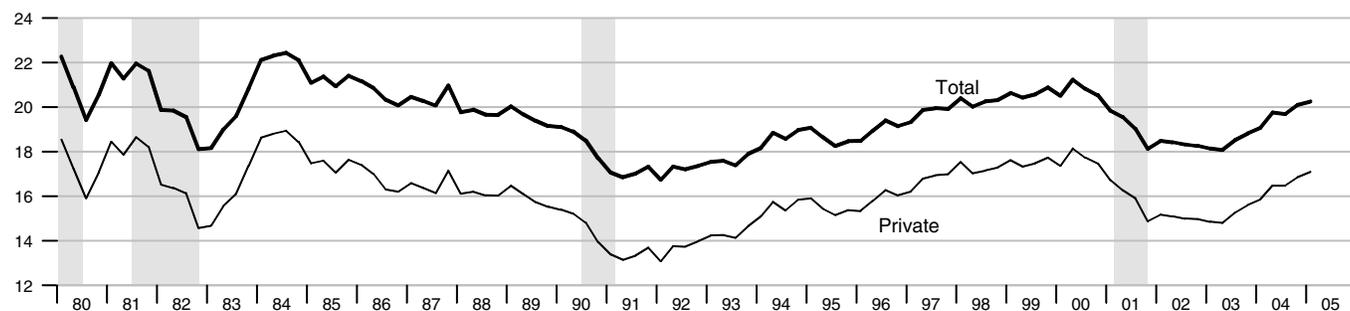


Real Durables Consumption



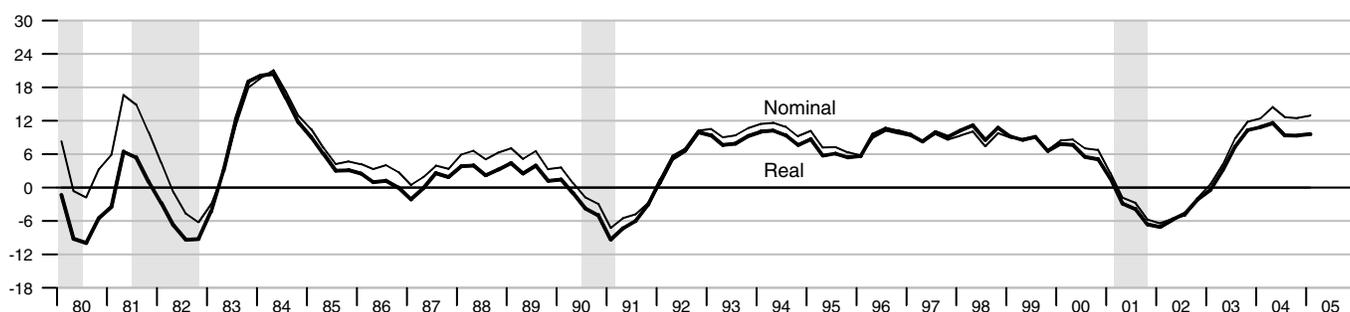
Investment

Percent of nominal GDP



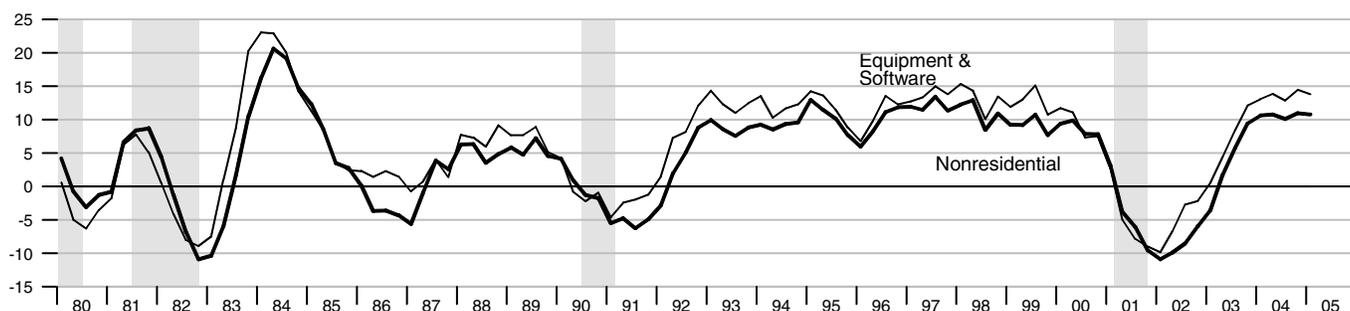
Private Fixed Investment

Percent change from year ago



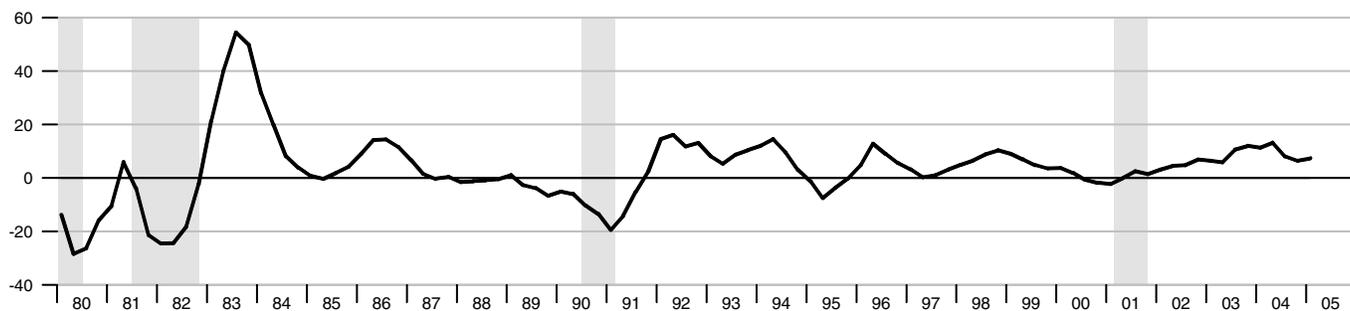
Real Nonresidential Fixed and Equipment & Software Investment

Percent change from year ago

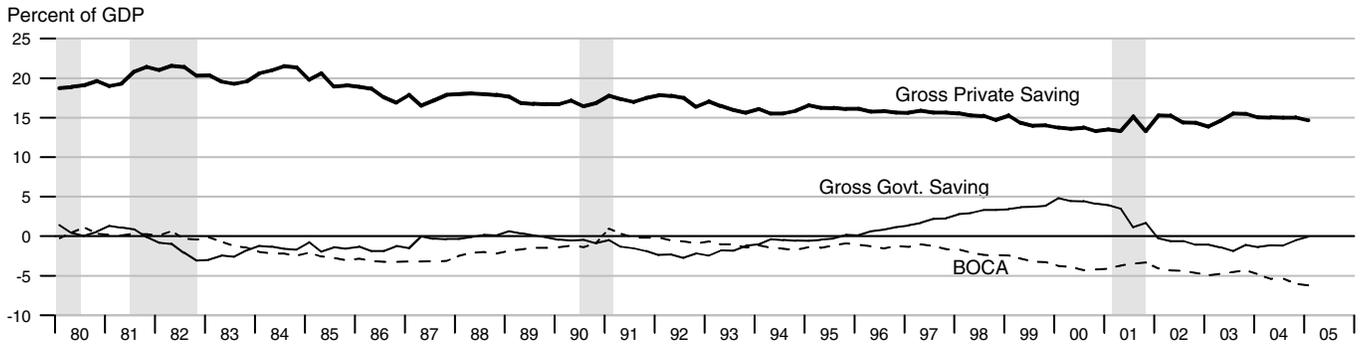


Real Residential Fixed Investment

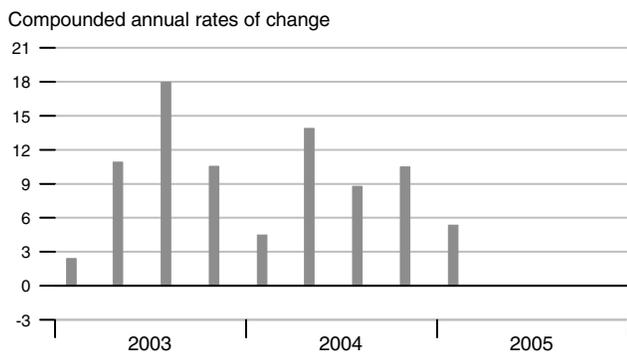
Percent change from year ago



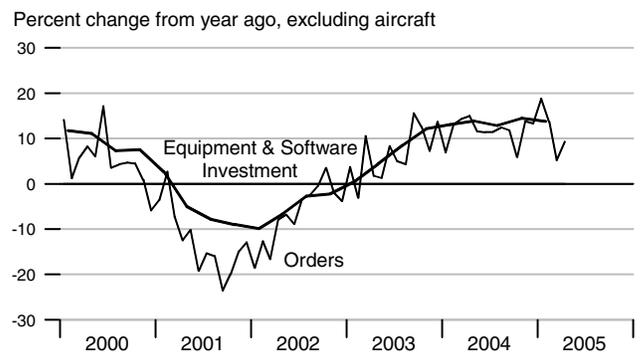
Gross Saving Rates and Balance on Current Account (NIPA)



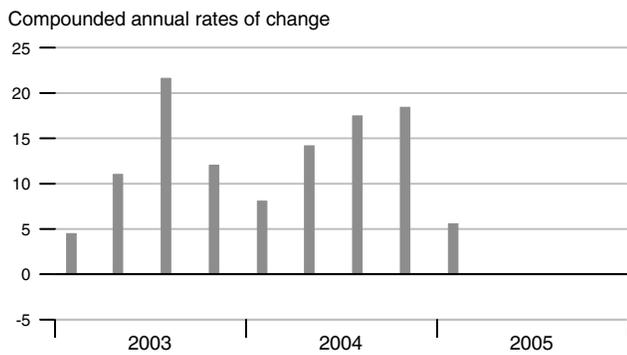
Real Private Fixed Investment



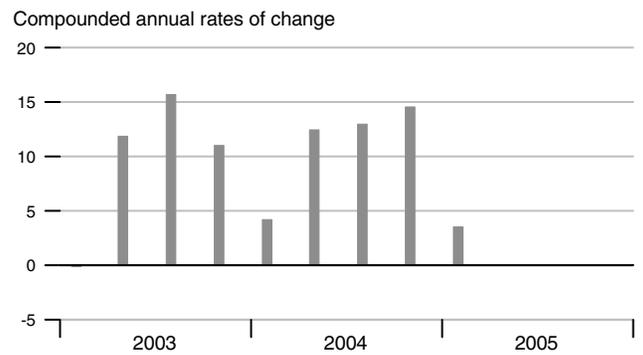
Nondefense Capital Goods Orders



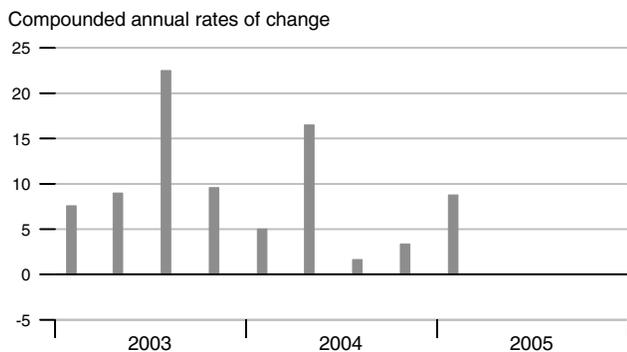
Real Equipment & Software Investment



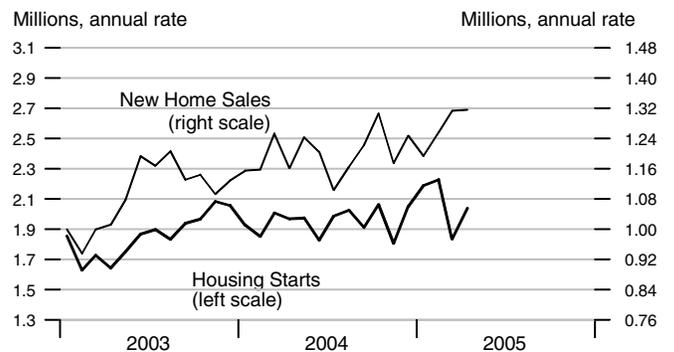
Real Nonresidential Fixed Investment



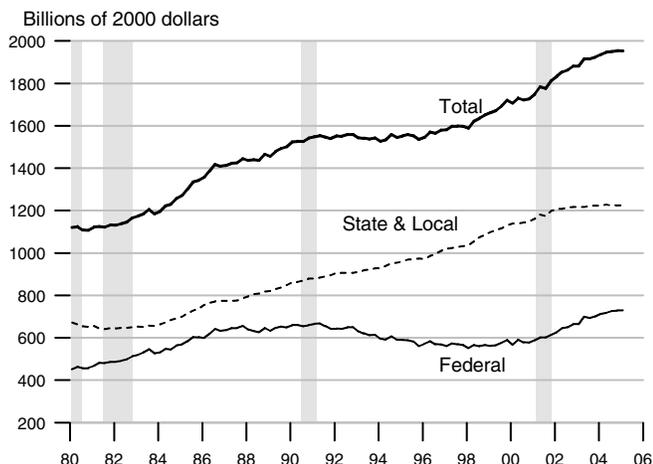
Real Residential Fixed Investment



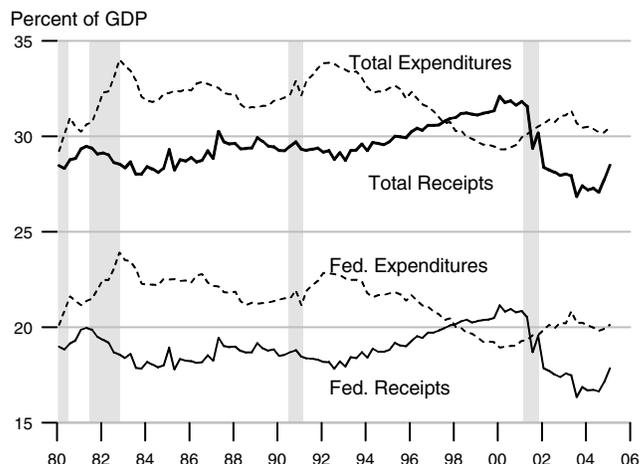
Housing Starts and New Home Sales



Govt. Consumption and Investment



Govt. Current Receipts and Expenditures



Government Budgets

Billions of dollars

National Income Accounts

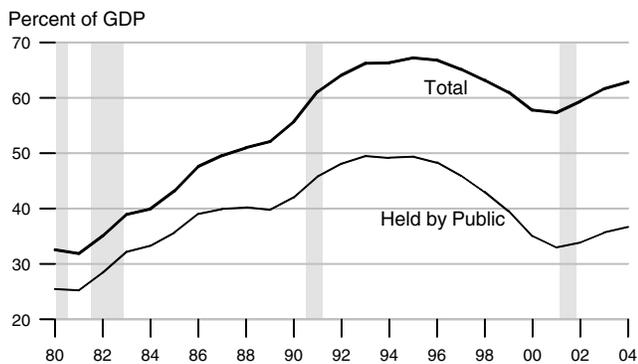
Calendar Years

Unified Budget

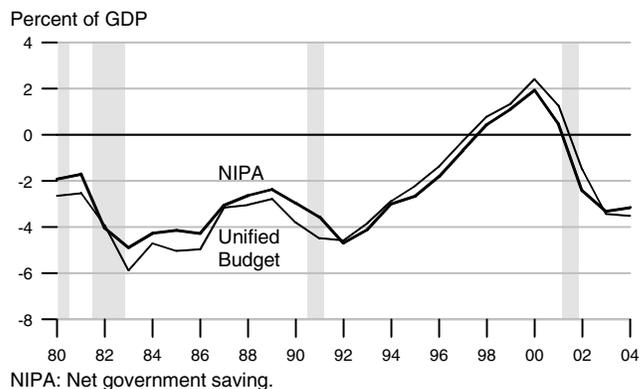
Fiscal Years

	State and Local			Federal			Federal		
	Receipts	Expenditures	Surplus or Deficit (-)	Receipts	Expenditures	Surplus or Deficit (-)	Receipts	Outlays	Surplus or Deficit (-)
1991	789.2	793.3	-4.1	1101.3	1315.0	-213.7	1055.0	1324.3	-269.3
1992	845.7	845.0	0.7	1147.2	1444.6	-297.4	1091.3	1381.6	-290.3
1993	886.9	886.0	0.9	1222.5	1496.0	-273.5	1154.4	1409.5	-255.1
1994	942.9	932.4	10.5	1320.8	1533.1	-212.3	1258.6	1461.9	-203.2
1995	990.2	978.2	12.0	1406.5	1603.5	-197.0	1351.8	1515.8	-164.0
1996	1043.3	1017.5	25.8	1524.0	1665.8	-141.8	1453.1	1560.5	-107.5
1997	1097.4	1058.3	39.1	1653.1	1708.9	-55.8	1579.3	1601.2	-21.9
1998	1163.2	1111.2	52.0	1773.8	1734.9	38.9	1721.8	1652.6	69.2
1999	1236.7	1186.3	50.4	1891.2	1787.6	103.6	1827.5	1701.9	125.5
2000	1319.5	1269.5	50.0	2053.8	1864.4	189.4	2025.2	1789.1	236.2
2001	1373.0	1368.2	4.8	2016.2	1969.5	46.7	1991.2	1863.0	128.2
2002	1411.9	1436.9	-25.0	1847.3	2101.8	-254.5	1853.2	2011.0	-157.8
2003	1494.9	1498.1	-3.2	1877.0	2241.6	-364.6	1782.3	2159.9	-377.6
2004	1585.3	1567.8	17.5	1971.8	2341.2	-369.4	1880.1	2292.2	-412.1
2003Q1	1437.7	1486.6	-48.9	1888.6	2170.2	-281.6	397.8	541.7	-143.9
2003Q2	1484.6	1490.2	-5.6	1902.5	2266.9	-364.4	527.7	545.9	-18.3
2003Q3	1511.4	1504.9	6.5	1816.4	2249.4	-433.0	429.5	533.8	-104.3
2003Q4	1545.8	1510.5	35.3	1900.6	2279.8	-379.2	440.8	569.4	-128.7
2004Q1	1550.6	1538.8	11.8	1915.3	2306.3	-391.0	409.6	580.4	-170.8
2004Q2	1583.9	1565.7	18.2	1949.1	2329.1	-380.0	549.9	575.6	-25.7
2004Q3	1574.7	1570.2	4.5	1965.8	2340.8	-375.0	479.5	565.4	-85.9
2004Q4	1632.0	1596.4	35.6	2057.0	2388.7	-331.7	487.2	605.8	-118.6
2005Q1	1657.8	1625.8	32.0	2175.4	2454.1	-278.7	451.8	628.3	-176.5

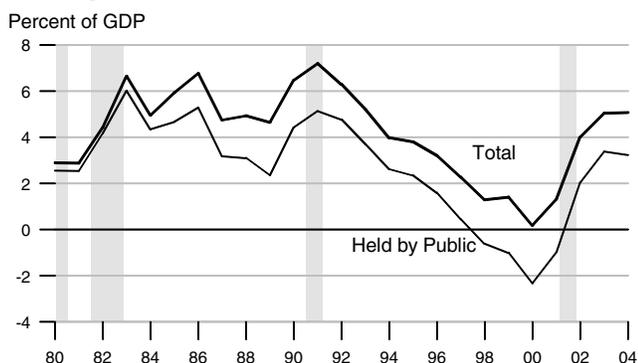
Federal Debt



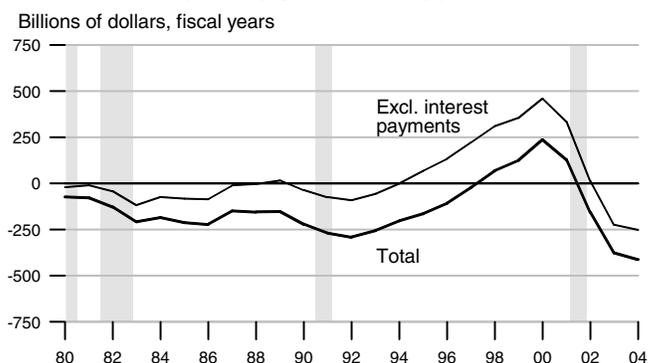
Federal Surplus (+) / Deficit (-)



Change in Federal Debt



Federal Surplus (+) / Deficit (-), Unified Basis

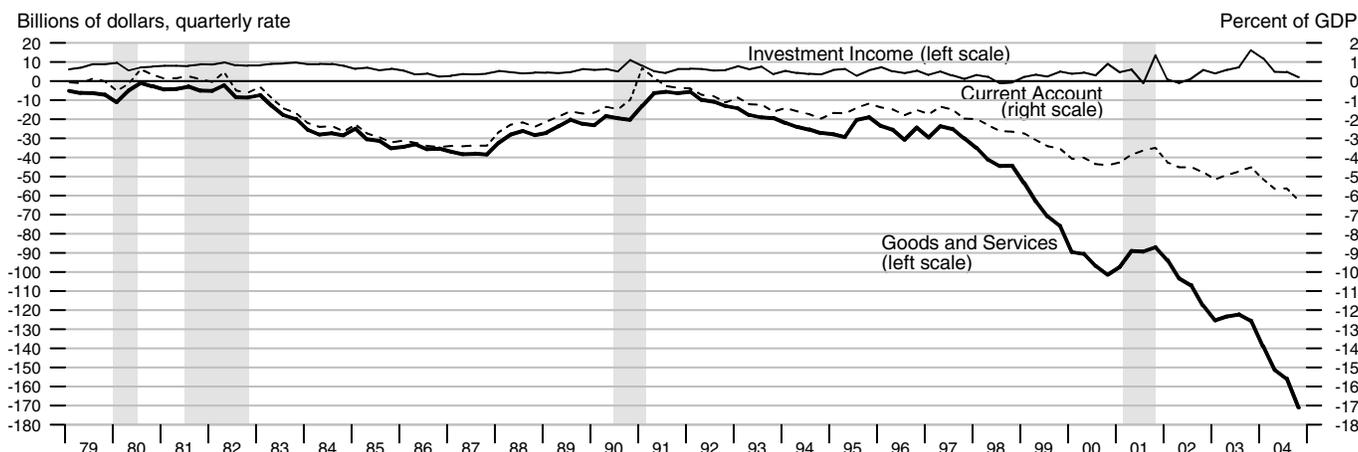


Federal Government Debt

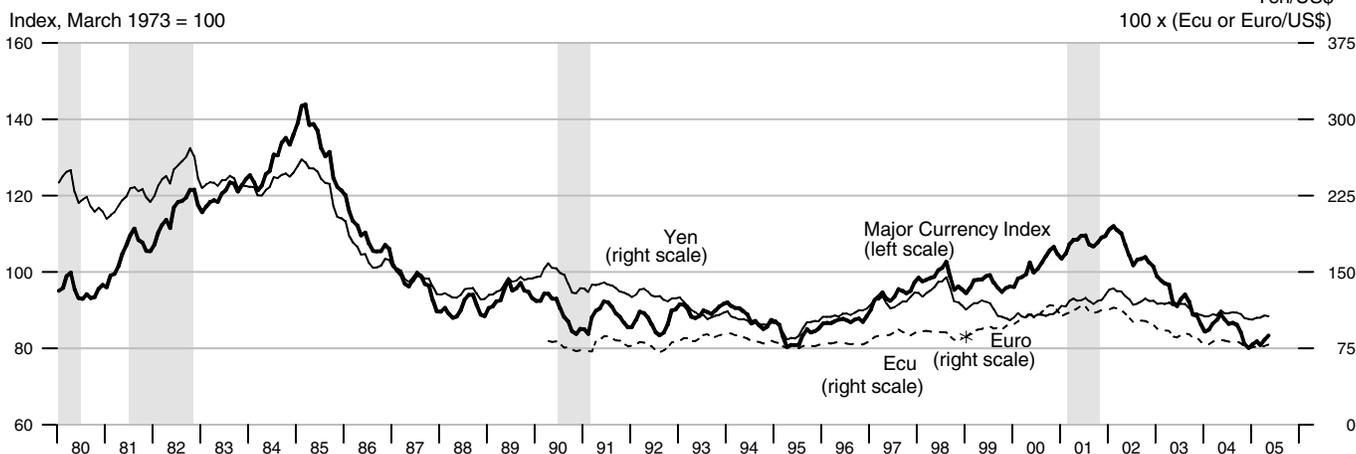
Billions of dollars, end of month or fiscal year
Excludes Agency-issued debt

		Total Public Debt	Held by Agencies and Trusts	Held by Public		Held by Private Investors	
				Total	Federal Reserve Banks	Total	Foreign and International
2002		6228.2	2675.7	3552.6	604.2	2924.8	1200.8
2003		6783.2	2859.3	3923.9	656.1	3268.0	1455.8
2004		7379.1	3075.7	4303.4	700.3	3607.0	1886.2
2001	March	5773.7	2339.4	3434.4	523.9	2892.8	1029.9
	June	5726.8	2452.6	3274.2	535.1	2722.6	1000.5
	September	5807.5	2468.8	3338.7	534.1	2779.7	1005.5
	December	5943.4	2549.7	3393.8	551.7	2819.5	1051.2
2002	March	6006.0	2562.4	3443.7	575.4	2849.2	1067.1
	June	6126.5	2662.9	3463.5	590.7	2849.8	1135.4
	September	6228.2	2675.7	3552.6	604.2	2924.8	1200.8
	December	6405.7	2758.3	3647.4	629.4	3018.5	1246.8
2003	March	6460.8	2750.0	3710.8	641.5	3069.9	1285.9
	June	6670.1	2853.8	3816.3	652.1	3164.7	1388.8
	September	6783.2	2859.3	3923.9	656.1	3268.0	1455.8
	December	6998.0	2954.5	4044.1	666.7	3377.9	1535.6
2004	March	7131.1	2954.4	4176.7	674.1	3502.8	1680.8
	June	7274.3	3055.6	4218.7	687.4	3531.5	1828.3
	September	7379.1	3075.7	4303.4	700.3	3607.0	1886.2
	December	7596.1	3189.1	4407.1	717.8	3667.1	1942.0

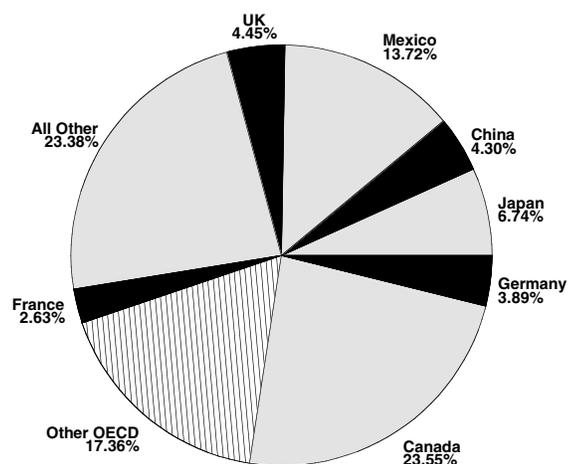
Current Account, Trade and Investment Income Balances



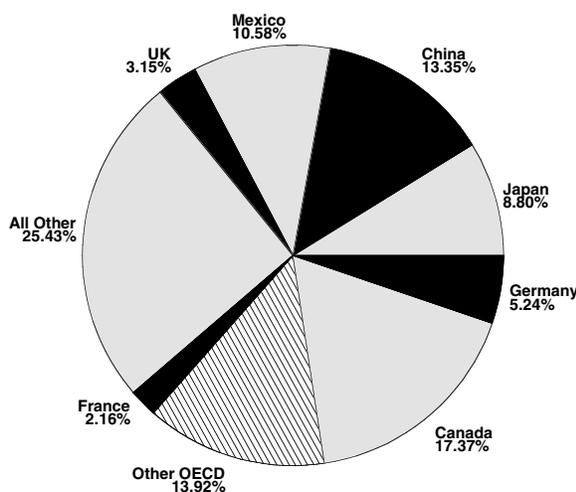
Exchange Rates



Goods Export Shares, 2004



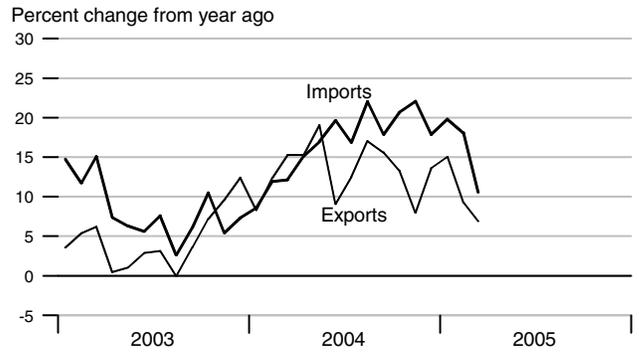
Goods Import Shares, 2004



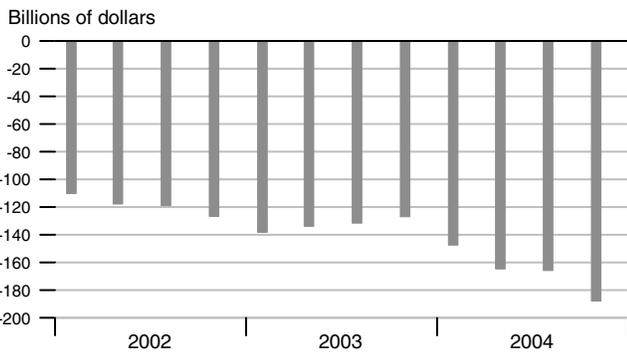
Trade Balance



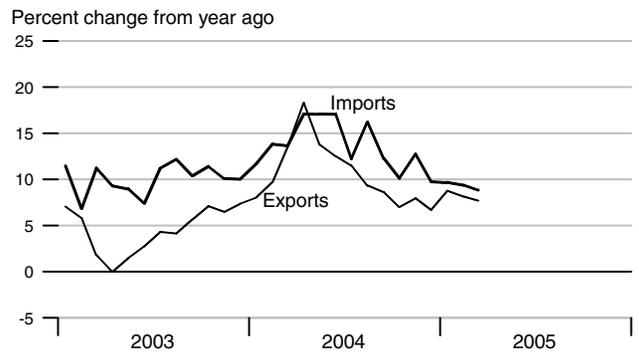
Goods Trade



Current Account Balance

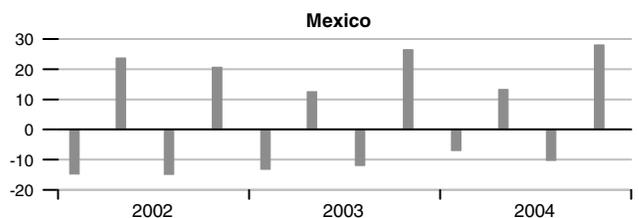
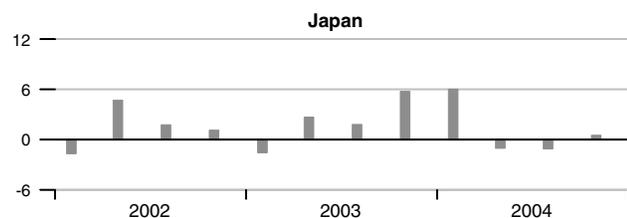
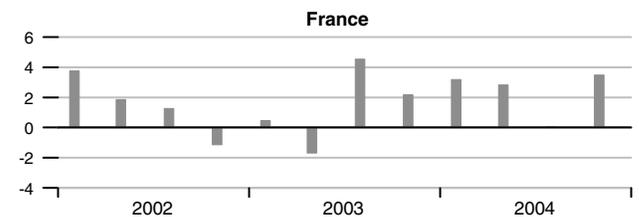
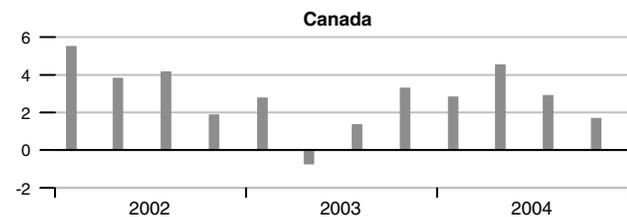
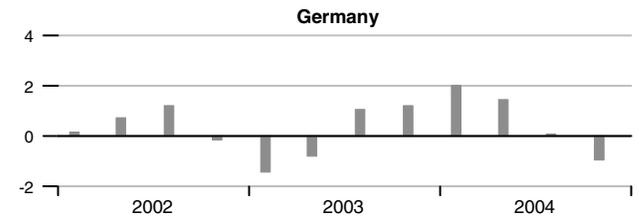
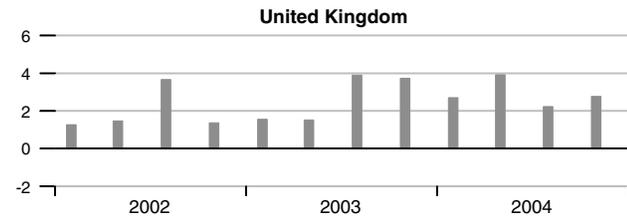


Services Trade

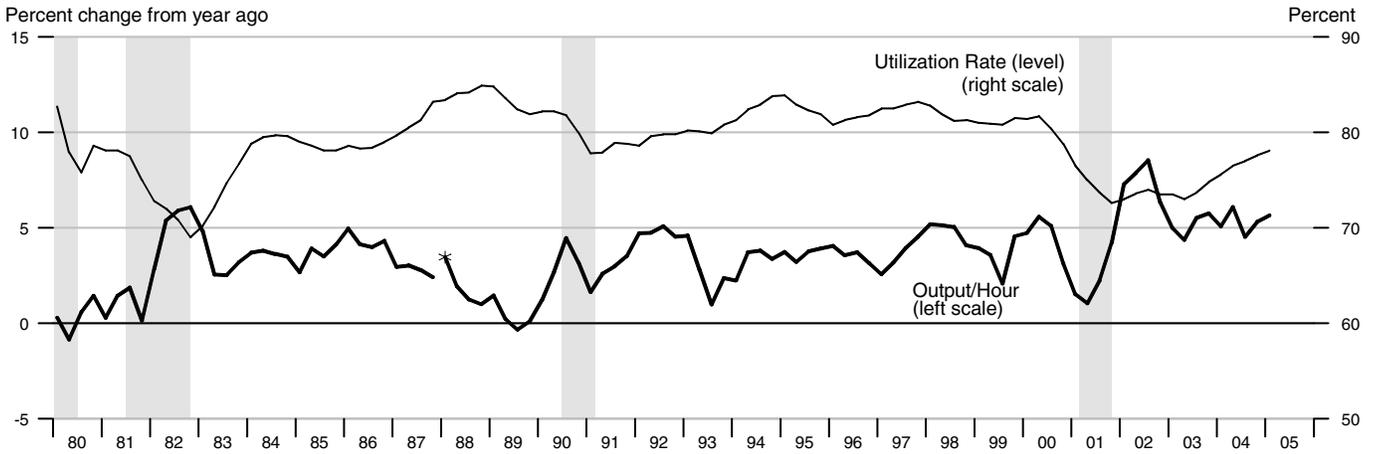


Real GDP Growth of Major Trading Partners

Compounded annual rates of change

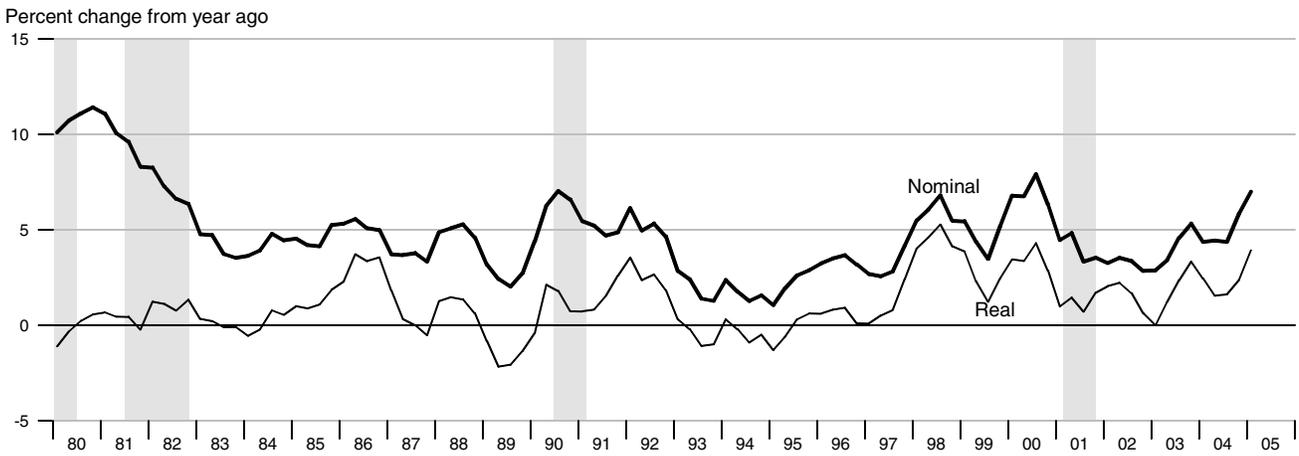


Output per Hour and Capacity Utilization, Manufacturing

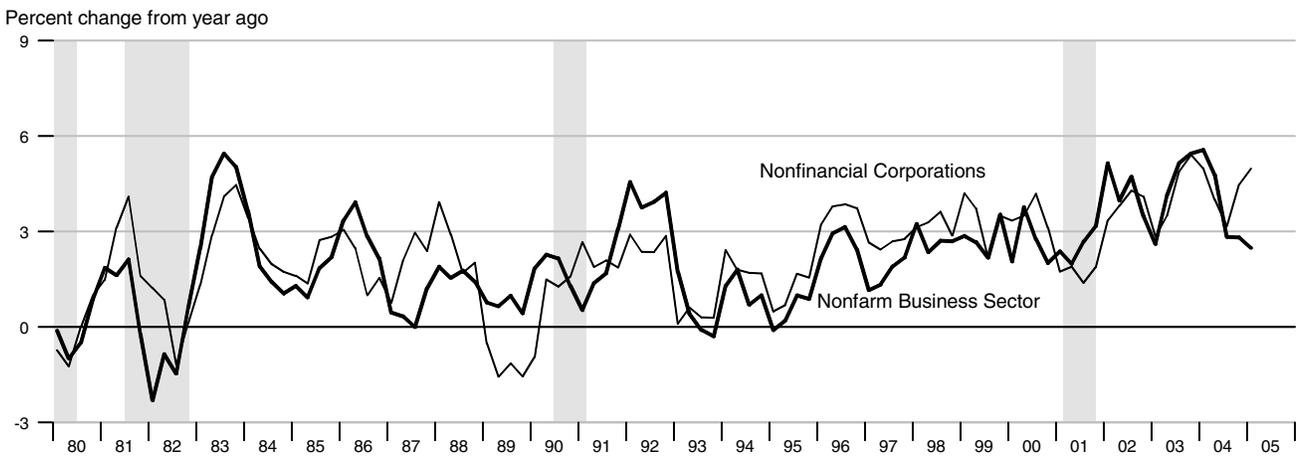


*Data from 1987 to the present are on a NAICS basis; data prior to 1987 are on an SIC basis and are not strictly comparable (see End Note).

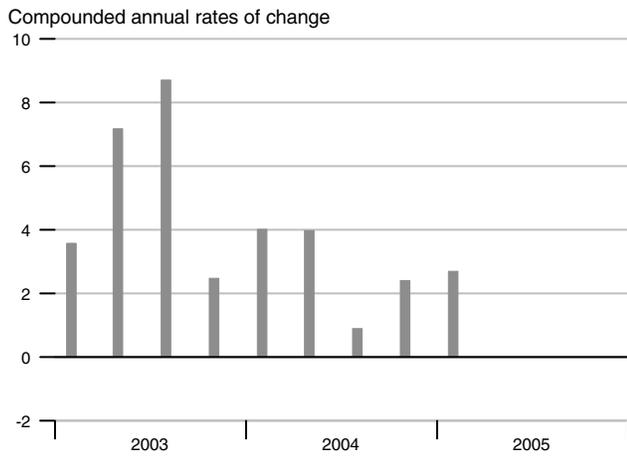
Nonfarm Compensation per Hour



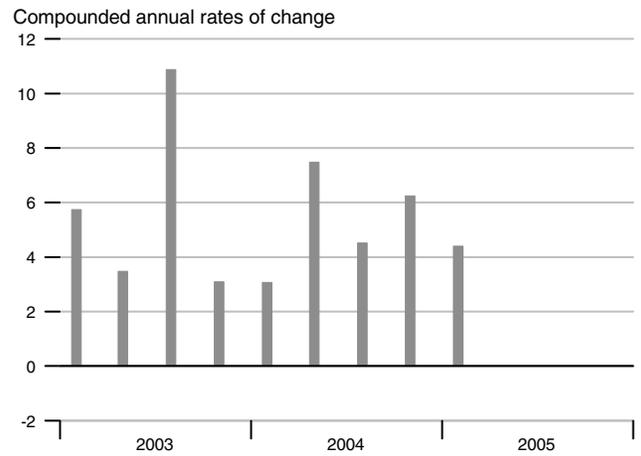
Output per Hour, Nonfarm Business and Nonfinancial Corporations



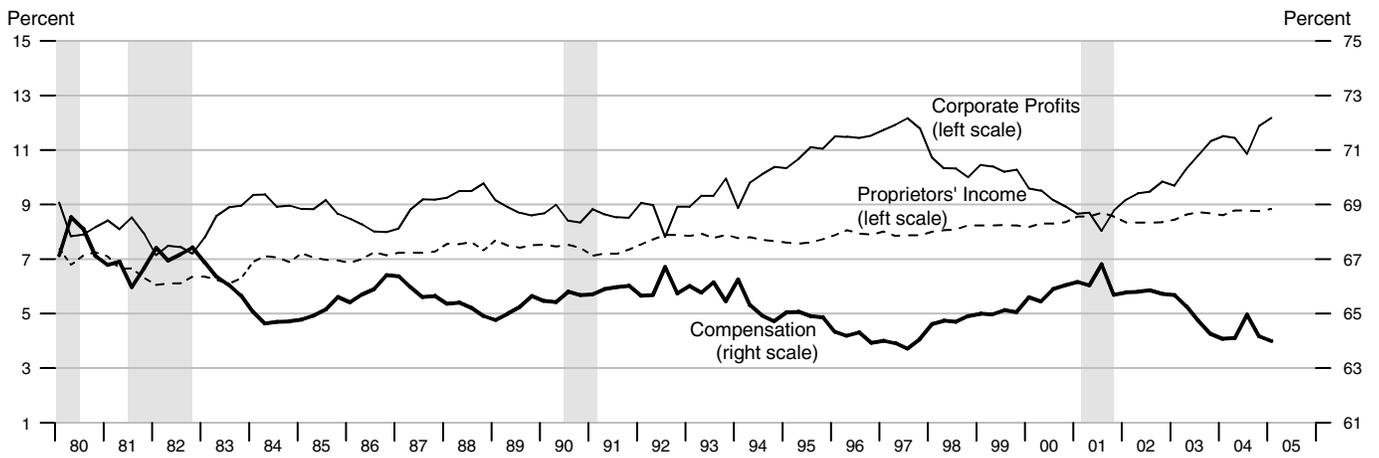
Nonfarm Output per Hour



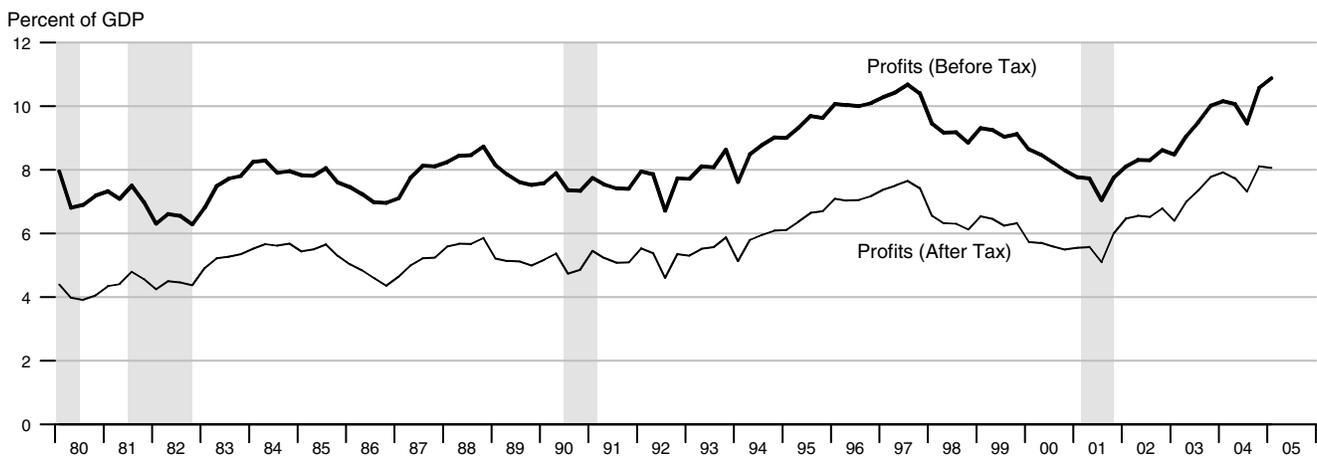
Manufacturing Output per Hour



Selected Component Shares of National Income



Corporate Profits



	Nominal GDP			Real GDP			Final Sales			Change in Private Inventories		
	Billions of \$	Percent change		Billions of 2000 \$	Percent change		Billions of 2000 \$	Percent change		Billions of 2000 \$		
		Annual rate	Year ago		Annual rate	Year ago		Annual rate	Year ago	Last qtr	Year/Year ago	
2001	10128.0		3.2	9890.694		0.8	9920.940		1.6		-31.720	
2002	10487.0		3.5	10074.763		1.9	10063.248		1.4		11.736	
2003	11004.0		4.9	10381.347		3.0	10379.878		3.1		-0.753	
2004	11735.0		6.6	10841.885		4.4	10794.576		4.0		45.686	
2002 1	10338.2	4.4	3.2	9993.478	3.4	1.2	10000.391	0.3	1.2	-7.403	-31.630	
2	10445.7	4.2	3.1	10052.576	2.4	1.5	10044.898	1.8	1.4	7.893	-29.042	
3	10546.5	3.9	4.1	10117.270	2.6	2.5	10095.165	2.0	2.0	22.687	-15.886	
4	10617.5	2.7	3.8	10135.922	0.7	2.3	10112.538	0.7	1.2	23.765	11.736	
2003 1	10744.6	4.9	3.9	10184.418	1.9	1.9	10173.346	2.4	1.7	9.585	15.983	
2	10884.0	5.3	4.2	10287.398	4.1	2.3	10302.477	5.2	2.6	-17.629	9.602	
3	11116.7	8.8	5.4	10472.841	7.4	3.5	10473.871	6.8	3.8	-3.524	3.049	
4	11270.9	5.7	6.2	10580.729	4.2	4.4	10569.622	3.7	4.5	8.556	-0.753	
2004 1	11472.6	7.4	6.8	10697.453	4.5	5.0	10655.807	3.3	4.7	40.020	6.856	
2	11657.5	6.6	7.1	10784.726	3.3	4.8	10722.276	2.5	4.1	61.073	26.531	
3	11814.9	5.5	6.3	10891.044	4.0	4.0	10854.725	5.0	3.6	34.502	36.038	
4	11994.8	6.2	6.4	10994.318	3.8	3.9	10945.498	3.4	3.6	47.150	45.686	
2005 1	12191.7	6.7	6.3	11088.757	3.5	3.7	11018.799	2.7	3.4	68.439	52.791	
	Consumption			Durables Consumption			Private Fixed Investment			Nonresidential Fixed Investment		
	Billions of 2000 \$	Percent change		Billions of 2000 \$	Percent change		Billions of 2000 \$	Percent change		Billions of 2000 \$	Percent change	
		Annual rate	Year ago		Annual rate	Year ago		Annual rate	Year ago		Annual rate	Year ago
2001	6910.356		2.5	900.682		4.3	1629.396		-3.0	1180.536		-4.2
2002	7123.388		3.1	959.587		6.5	1548.906		-4.9	1075.625		-8.9
2003	7355.559		3.3	1030.621		7.4	1627.331		5.1	1110.801		3.3
2004	7632.548		3.8	1099.340		6.7	1794.443		10.3	1228.624		10.6
2002 1	7049.659	1.8	2.9	937.779	-8.5	6.6	1559.618	-4.3	-7.1	1099.786	-9.7	-10.9
2	7099.193	2.8	3.3	947.837	4.4	7.8	1545.867	-3.5	-5.8	1072.360	-9.6	-9.9
3	7149.941	2.9	3.6	979.297	14.0	10.6	1546.622	0.2	-4.6	1069.502	-1.1	-8.5
4	7194.623	2.5	2.5	973.443	-2.4	1.5	1543.516	-0.8	-2.1	1060.853	-3.2	-6.0
2003 1	7242.203	2.7	2.7	973.236	-0.1	3.8	1552.700	2.4	-0.4	1060.508	-0.1	-3.6
2	7311.416	3.9	3.0	1019.985	20.6	7.6	1593.382	10.9	3.1	1090.607	11.8	1.7
3	7401.724	5.0	3.5	1059.586	16.5	8.2	1660.574	18.0	7.4	1131.069	15.7	5.8
4	7466.826	3.6	3.8	1069.678	3.9	9.9	1702.683	10.5	10.3	1161.045	11.0	9.4
2004 1	7543.049	4.1	4.2	1075.462	2.2	10.5	1721.437	4.5	10.9	1172.984	4.2	10.6
2	7572.365	1.6	3.6	1074.685	-0.3	5.4	1778.254	13.9	11.6	1207.938	12.5	10.8
3	7667.795	5.1	3.6	1118.258	17.2	5.5	1816.148	8.8	9.4	1245.319	13.0	10.1
4	7746.982	4.2	3.8	1128.954	3.9	5.5	1861.934	10.5	9.4	1288.257	14.5	11.0
2005 1	7816.533	3.6	3.6	1133.806	1.7	5.4	1886.313	5.3	9.6	1299.493	3.5	10.8

	GDP Chain Price Index			Employment Cost Index			ECI: Wages			ECI: Benefits		
	Index	Percent change		Index	Percent change		Index	Percent change		Index	Percent change	
		Annual rate	Year ago		Annual rate	Year ago		Annual rate	Year ago		Annual rate	Year ago
2001	102.402		2.4	155.0		4.1	151.4		3.7	163.8		5.0
2002	104.097		1.7	160.9		3.8	156.4		3.3	171.7		4.9
2003	106.003		1.8	167.3		4.0	160.9		2.9	182.5		6.3
2004	108.298		2.2	173.9		3.9	165.0		2.5	195.4		7.1
2002 1	103.470	1.4	1.9	158.8	3.3	4.0	154.8	3.7	3.5	168.3	2.7	4.7
2	103.853	1.5	1.5	160.5	4.4	4.1	156.2	3.7	3.6	170.6	5.6	5.0
3	104.280	1.7	1.5	161.5	2.5	3.7	156.9	1.8	3.2	172.7	5.0	4.9
4	104.786	2.0	1.6	162.8	3.3	3.4	157.7	2.1	2.8	175.2	5.9	4.8
2003 1	105.490	2.7	2.0	165.0	5.5	3.9	159.3	4.1	2.9	178.5	7.7	6.1
2	105.780	1.1	1.9	166.4	3.4	3.7	160.3	2.5	2.6	180.9	5.5	6.0
3	106.158	1.4	1.8	168.2	4.4	4.1	161.6	3.3	3.0	183.9	6.8	6.5
4	106.586	1.6	1.7	169.6	3.4	4.2	162.5	2.2	3.0	186.7	6.2	6.6
2004 1	107.314	2.8	1.7	171.5	4.6	3.9	163.5	2.5	2.6	190.9	9.3	6.9
2	108.169	3.2	2.3	173.1	3.8	4.0	164.5	2.5	2.6	194.1	6.9	7.3
3	108.551	1.4	2.3	174.8	4.0	3.9	165.7	3.0	2.5	196.7	5.5	7.0
4	109.159	2.3	2.4	176.2	3.2	3.9	166.4	1.7	2.4	199.9	6.7	7.1
2005 1	110.012	3.2	2.5	177.3	2.5	3.4	167.4	2.4	2.4	202.0	4.3	5.8
	Exports			Imports			Nonfarm Output per Hour			Nonfarm Compensation per Hour		
	Billions of 2000 \$	Percent change		Billions of 2000 \$	Percent change		Index	Percent change		Index	Percent change	
		Annual rate	Year ago		Annual rate	Year ago		Annual rate	Year ago		Annual rate	Year ago
2001	1036.699		-5.4	1435.782		-2.7	118.5		2.5	139.3		4.0
2002	1012.340		-2.3	1484.393		3.4	123.6		4.3	143.8		3.2
2003	1031.777		1.9	1550.256		4.4	129.0		4.4	149.6		4.0
2004	1120.348		8.6	1704.034		9.9	134.2		4.0	156.8		4.8
2002 1	991.576	4.7	-9.6	1436.505	12.5	-3.9	122.6	7.2	5.1	142.5	5.5	3.3
2	1017.799	11.0	-4.0	1475.922	11.4	2.1	122.9	1.0	4.0	143.8	3.7	3.5
3	1025.517	3.1	1.7	1495.314	5.4	6.3	124.3	4.6	4.7	144.2	1.1	3.4
4	1014.456	-4.2	3.5	1529.847	9.6	9.7	124.7	1.3	3.5	144.6	1.1	2.8
2003 1	1010.575	-1.5	1.9	1522.261	-2.0	6.0	125.8	3.6	2.6	146.6	5.6	2.9
2	1006.529	-1.6	-1.1	1531.721	2.5	3.8	128.0	7.2	4.1	148.7	5.9	3.4
3	1033.794	11.3	0.8	1542.494	2.8	3.2	130.7	8.7	5.1	150.8	5.8	4.6
4	1076.220	17.5	6.1	1604.520	17.1	4.9	131.5	2.5	5.5	152.3	4.0	5.3
2004 1	1095.449	7.3	8.4	1645.531	10.6	8.1	132.8	4.0	5.6	153.0	1.9	4.4
2	1114.809	7.3	10.8	1695.087	12.6	10.7	134.1	4.0	4.8	155.3	6.2	4.4
3	1131.100	6.0	9.4	1714.346	4.6	11.1	134.4	0.9	2.8	157.4	5.5	4.4
4	1140.035	3.2	5.9	1761.172	11.4	9.8	135.2	2.4	2.8	161.2	10.0	5.8
2005 1	1159.888	7.1	5.9	1799.881	9.1	9.4	136.1	2.7	2.5	163.7	6.3	7.0

		Household Survey Employment				Nonfarm Payroll Employment				Nonfarm Aggregate Hours			
		Thousands	Change	Percent change		Thousands	Change	Percent change		Index	Percent change		
				Annual rate	Year ago			Annual rate	Year ago		Monthly rate	Annual rate	Year ago
2000		136901	3400		2.5	131792	2800		2.2	103.5			1.8
2001		136940	40		0.0	131833	41		0.0	102.1			-1.4
2002		136483	-458		-0.3	130345	-1487		-1.1	100.0			-2.0
2003		137734	1252		0.9	129999	-347		-0.3	98.6			-1.4
2004		139248	1513		1.1	131475	1476		1.1	100.3			1.7
2003	1	137415	773	2.3	1.0	130093	-169	-0.5	-0.3	99.0	-0.4	-1.7	-1.3
	2	137652	237	0.7	0.9	129845	-248	-0.8	-0.4	98.3	-0.8	-3.1	-2.0
	3	137574	-77	-0.2	0.5	129890	45	0.1	-0.3	98.3	0.1	0.3	-1.5
	4	138296	722	2.1	1.2	130168	278	0.9	-0.1	98.8	0.5	2.0	-0.6
2004	1	138408	112	0.3	0.7	130541	374	1.2	0.3	99.3	0.5	2.0	0.3
	2	138883	475	1.4	0.9	131325	784	2.4	1.1	100.0	0.6	2.6	1.7
	3	139608	725	2.1	1.5	131731	406	1.2	1.4	100.6	0.6	2.4	2.3
	4	140092	484	1.4	1.3	132302	571	1.7	1.6	101.2	0.6	2.4	2.4
2005	1	140295	203	0.6	1.4	132814	512	1.6	1.7	101.7	0.6	2.3	2.4
2003	May	137552	-76	-0.7	0.7	129827	-26	-0.2	-0.4	98.2	-0.1	-1.2	-2.0
	Jun	137775	223	2.0	1.0	129854	27	0.2	-0.4	98.3	0.1	1.2	-1.8
	Jul	137511	-264	-2.3	0.8	129857	3	0.0	-0.3	98.3	0.0	0.0	-1.4
	Aug	137593	82	0.7	0.6	129859	2	0.0	-0.3	98.3	0.0	0.0	-1.6
	Sep	137619	26	0.2	0.2	129953	94	0.9	-0.2	98.4	0.1	1.2	-1.5
	Oct	138022	403	3.6	0.7	130076	123	1.1	-0.2	98.8	0.4	5.0	-0.8
	Nov	138457	435	3.8	1.4	130172	96	0.9	-0.1	99.1	0.3	3.7	-0.4
	Dec	138409	-48	-0.4	1.5	130255	83	0.8	0.1	98.6	-0.5	-5.9	-0.7
2004	Jan	138481	72	0.6	0.8	130372	117	1.1	0.1	99.3	0.7	8.9	0.0
	Feb	138334	-147	-1.3	0.7	130466	94	0.9	0.3	99.4	0.1	1.2	0.5
	Mar	138408	74	0.6	0.7	130786	320	3.0	0.7	99.3	-0.1	-1.2	0.4
	Apr	138645	237	2.1	0.7	131123	337	3.1	1.0	99.7	0.4	4.9	1.4
	May	138846	201	1.8	0.9	131373	250	2.3	1.2	100.3	0.6	7.5	2.1
	Jun	139158	312	2.7	1.0	131479	106	1.0	1.3	99.9	-0.4	-4.7	1.6
	Jul	139639	481	4.2	1.5	131562	83	0.8	1.3	100.3	0.4	4.9	2.0
	Aug	139658	19	0.2	1.5	131750	188	1.7	1.5	100.5	0.2	2.4	2.2
	Sep	139527	-131	-1.1	1.4	131880	130	1.2	1.5	100.9	0.4	4.9	2.5
	Oct	139827	300	2.6	1.3	132162	282	2.6	1.6	101.2	0.3	3.6	2.4
	Nov	140293	466	4.1	1.3	132294	132	1.2	1.6	101.1	-0.1	-1.2	2.0
	Dec	140156	-137	-1.2	1.3	132449	155	1.4	1.7	101.2	0.1	1.2	2.6
2005	Jan	140241	85	0.7	1.3	132573	124	1.1	1.7	101.5	0.3	3.6	2.2
	Feb	140144	-97	-0.8	1.3	132873	300	2.7	1.8	101.8	0.3	3.6	2.4
	Mar	140501	357	3.1	1.5	132995	122	1.1	1.7	101.9	0.1	1.2	2.6
	Apr	141099	598	5.2	1.8	133269	274	2.5	1.6	102.5	0.6	7.3	2.8
	May	141475	376	3.2	1.9	133347	78	0.7	1.5	102.6	0.1	1.2	2.3

		Unempl. Rate	Retail and Food Services Sales				Industrial Production				Treasury Yields	
			Billions of dollars	Percent change			Index	Percent change			(Percent)	
				Monthly/ quarterly	Annual rate	Year ago		Monthly/ quarterly	Annual rate	Year ago	3-mo	10-yr
2000		4.0	3284.226			6.6	115.380			4.3	5.82	6.03
2001		4.8	3388.094			3.2	111.266			-3.6	3.39	5.02
2002		5.8	3474.391			2.5	110.959			-0.3	1.60	4.61
2003		6.0	3623.849			4.3	110.932			-0.0	1.01	4.02
2004		5.5	3887.262			7.3	115.528			4.1	1.37	4.27
2003	1	5.8	884.854	0.9	3.8	3.3	110.825	-0.2	-0.7	0.8	1.16	3.92
	2	6.1	895.092	1.2	4.7	3.3	109.707	-1.0	-4.0	-1.3	1.04	3.62
	3	6.1	919.020	2.7	11.1	5.0	110.825	1.0	4.1	-0.7	0.93	4.23
	4	5.9	924.883	0.6	2.6	5.5	112.369	1.4	5.7	1.2	0.92	4.29
2004	1	5.7	946.761	2.4	9.8	7.0	113.920	1.4	5.6	2.8	0.92	4.02
	2	5.6	962.065	1.6	6.6	7.5	115.130	1.1	4.3	4.9	1.08	4.60
	3	5.4	977.181	1.6	6.4	6.3	115.893	0.7	2.7	4.6	1.49	4.30
	4	5.4	1001.255	2.5	10.2	8.3	117.168	1.1	4.5	4.3	2.01	4.17
2005	1	5.3	1015.955	1.5	6.0	7.3	118.197	0.9	3.6	3.8	2.54	4.30
2003	May	6.1	296.481	-0.3	-3.0	3.7	109.640	0.1	1.1	-1.2	1.07	3.57
	Jun	6.3	301.370	1.6	21.7	4.0	109.942	0.3	3.4	-1.7	0.92	3.33
	Jul	6.2	303.921	0.8	10.6	4.1	110.616	0.6	7.6	-1.0	0.90	3.98
	Aug	6.1	308.875	1.6	21.4	5.1	110.528	-0.1	-1.0	-1.0	0.95	4.45
	Sep	6.1	306.224	-0.9	-9.8	5.9	111.331	0.7	9.1	-0.3	0.94	4.27
	Oct	6.0	305.969	-0.1	-1.0	5.3	111.559	0.2	2.5	0.4	0.92	4.29
	Nov	5.9	309.864	1.3	16.4	6.2	112.657	1.0	12.5	1.3	0.93	4.30
	Dec	5.7	309.050	-0.3	-3.1	5.1	112.892	0.2	2.5	2.0	0.90	4.27
2004	Jan	5.7	311.973	0.9	12.0	5.4	113.223	0.3	3.6	2.1	0.88	4.15
	Feb	5.6	313.973	0.6	8.0	7.7	114.426	1.1	13.5	3.1	0.93	4.08
	Mar	5.7	320.815	2.2	29.5	7.9	114.110	-0.3	-3.3	3.2	0.94	3.83
	Apr	5.5	317.706	-1.0	-11.0	6.9	114.736	0.5	6.8	4.7	0.94	4.35
	May	5.6	323.040	1.7	22.1	9.0	115.534	0.7	8.7	5.4	1.02	4.72
	Jun	5.6	321.319	-0.5	-6.2	6.6	115.120	-0.4	-4.2	4.7	1.27	4.73
	Jul	5.5	324.034	0.8	10.6	6.6	115.930	0.7	8.8	4.8	1.33	4.50
	Aug	5.4	323.700	-0.1	-1.2	4.8	116.036	0.1	1.1	5.0	1.48	4.28
	Sep	5.4	329.447	1.8	23.5	7.6	115.714	-0.3	-3.3	3.9	1.65	4.13
	Oct	5.5	332.280	0.9	10.8	8.6	116.649	0.8	10.1	4.6	1.76	4.10
	Nov	5.4	332.392	0.0	0.4	7.3	116.948	0.3	3.1	3.8	2.07	4.19
	Dec	5.4	336.583	1.3	16.2	8.9	117.908	0.8	10.3	4.4	2.19	4.23
2005	Jan	5.2	336.785	0.1	0.7	8.0	117.753	-0.1	-1.6	4.0	2.33	4.22
	Feb	5.4	338.991	0.7	8.1	8.0	118.331	0.5	6.1	3.4	2.54	4.17
	Mar	5.2	340.179	0.4	4.3	6.0	118.507	0.1	1.8	3.9	2.74	4.50
	Apr	5.2	344.895	1.4	18.0	8.6	118.277	-0.2	-2.3	3.1	2.78	4.34
	May	5.1									2.84	4.14

		Consumer Price Index					Consumer Price Index less Food and Energy					Producer Price Index Finished Goods			
		Percent change					Percent change					Percent change			
	Index	Monthly/ quarterly	Annual rate	Year ago	Year to date	Index	Monthly/ quarterly	Annual rate	Year ago	Year to date	Index	Monthly/ quarterly	Annual rate	Year ago	
2000		172.2			3.4	181.3			2.4		138.0			3.8	
2001		177.1			2.8	186.1			2.7		140.7			1.9	
2002		179.8			1.6	190.4			2.3		138.9			-1.3	
2003		184.0			2.3	193.2			1.5		143.3			3.2	
2004		188.9			2.7	196.6			1.8		148.5			3.6	
2003	1	183.2	1.0	4.2	2.9	4.2	192.4	0.3	1.4	1.8	1.4	142.7	2.0	8.4	3.3
	2	183.4	0.1	0.4	2.2	2.3	192.8	0.2	0.8	1.5	1.1	142.2	-0.4	-1.5	2.5
	3	184.4	0.5	2.2	2.2	2.2	193.6	0.4	1.6	1.3	1.3	143.5	0.9	3.8	3.4
	4	184.8	0.2	0.9	1.9	1.9	194.1	0.3	1.0	1.2	1.2	144.9	1.0	4.0	3.6
2004	1	186.6	1.0	3.9	1.8	3.9	195.0	0.5	1.9	1.3	1.9	145.9	0.7	2.8	2.2
	2	188.6	1.1	4.4	2.8	4.2	196.2	0.6	2.6	1.8	2.2	148.0	1.4	5.8	4.1
	3	189.4	0.4	1.6	2.7	3.3	197.1	0.4	1.7	1.8	2.1	148.6	0.4	1.6	3.5
	4	191.0	0.9	3.6	3.4	3.4	198.2	0.6	2.3	2.1	2.1	151.6	2.1	8.5	4.6
2005	1	192.2	0.6	2.4	3.0	2.4	199.5	0.6	2.6	2.3	2.6	152.7	0.7	2.8	4.6
2003	Apr	183.5	-0.3	-3.8	2.3	3.2	192.5	0.0	0.0	1.5	0.8	142.2	-1.5	-16.1	2.4
	May	183.3	-0.1	-1.3	2.1	2.3	192.9	0.2	2.5	1.5	1.1	141.7	-0.4	-4.1	2.5
	Jun	183.4	0.1	0.7	2.1	2.0	193.0	0.1	0.6	1.5	1.0	142.6	0.6	7.9	2.8
	Jul	183.8	0.2	2.6	2.1	2.1	193.4	0.2	2.5	1.5	1.3	142.8	0.1	1.7	3.0
	Aug	184.4	0.3	4.0	2.2	2.3	193.6	0.1	1.2	1.3	1.3	143.6	0.6	6.9	3.5
	Sep	185.0	0.3	4.0	2.3	2.5	193.7	0.1	0.6	1.2	1.2	144.1	0.3	4.3	3.6
	Oct	184.8	-0.1	-1.3	2.0	2.1	194.0	0.2	1.9	1.3	1.3	144.8	0.5	6.0	3.4
	Nov	184.6	-0.1	-1.3	1.8	1.8	194.0	0.0	0.0	1.1	1.1	144.6	-0.1	-1.6	3.4
	Dec	185.0	0.2	2.6	1.9	1.9	194.2	0.1	1.2	1.1	1.1	145.3	0.5	6.0	4.0
2004	Jan	185.9	0.5	6.0	2.0	6.0	194.6	0.2	2.5	1.2	2.5	145.7	0.3	3.4	3.2
	Feb	186.5	0.3	3.9	1.7	5.0	194.9	0.2	1.9	1.2	2.2	145.6	-0.1	-0.8	2.1
	Mar	187.3	0.4	5.3	1.7	5.1	195.5	0.3	3.8	1.6	2.7	146.4	0.5	6.8	1.5
	Apr	187.7	0.2	2.6	2.3	4.4	195.9	0.2	2.5	1.8	2.6	147.4	0.7	8.5	3.7
	May	188.8	0.6	7.3	3.0	5.0	196.2	0.2	1.9	1.7	2.5	148.3	0.6	7.6	4.7
	Jun	189.3	0.3	3.2	3.2	4.7	196.6	0.2	2.5	1.9	2.5	148.2	-0.1	-0.8	3.9
	Jul	189.2	-0.1	-0.6	2.9	3.9	196.8	0.1	1.2	1.8	2.3	148.3	0.1	0.8	3.9
	Aug	189.3	0.1	0.6	2.7	3.5	196.9	0.1	0.6	1.7	2.1	148.5	0.1	1.6	3.4
	Sep	189.6	0.2	1.9	2.5	3.3	197.5	0.3	3.7	2.0	2.3	148.9	0.3	3.3	3.3
	Oct	190.7	0.6	7.2	3.2	3.7	197.9	0.2	2.5	2.0	2.3	151.1	1.5	19.2	4.4
	Nov	191.2	0.3	3.2	3.6	3.7	198.2	0.2	1.8	2.2	2.2	152.1	0.7	8.2	5.2
	Dec	191.2	0.0	0.0	3.4	3.4	198.5	0.2	1.8	2.2	2.2	151.7	-0.3	-3.1	4.4
2005	Jan	191.3	0.1	0.6	2.9	0.6	198.9	0.2	2.4	2.2	2.4	151.9	0.1	1.6	4.3
	Feb	192.0	0.4	4.5	2.9	2.5	199.4	0.3	3.1	2.3	2.8	152.5	0.4	4.8	4.7
	Mar	193.2	0.6	7.8	3.2	4.3	200.1	0.4	4.3	2.4	3.3	153.6	0.7	9.0	4.9
	Apr	194.2	0.5	6.4	3.5	4.8	200.2	0.0	0.6	2.2	2.6	154.5	0.6	7.3	4.8

Notes

Pages 4, 5: **Final Sales** is gross domestic product (GDP) minus change in private inventories. **Advance, Preliminary, and Final GDP Growth Rates** are released during the first, second, and third months of the following quarter. Changes result from incorporation of more complete information. Real GDP is measured in 2000 dollars. The **ISM** (formerly Purchasing Managers') **Index** is a weighted average of diffusion indexes for new orders, production, supplier deliveries, inventories, and employment. **Aggregate and Average Weekly Hours** are paid hours of production and nonsupervisory employees. The **Inventory-Sales Ratio** uses nominal (current-dollar) inventory and sales data.

Page 6: For information on how to calculate the **Contribution** of a component to the overall GDP growth rate, see the October 1999 issue of the Survey of Current Business, p. 16. The sign is changed for **Imports**.

Page 7: Ten-year **Treasury Yields** are adjusted to constant maturity; three-month yields are secondary market averages. All rates used in the yield curves are adjusted to constant maturity. The 30-year constant maturity series was discontinued by the Treasury Department as of Feb. 18, 2002. **Standard and Poor's 500 Index with Reinvested Dividends** shows the total return: capital gains plus dividends.

Pages 8, 9: **Oil** (West Texas intermediate) and **Natural Gas** (Henry Hub) spot and futures **prices** are listed in the *Wall Street Journal*. Spot prices are monthly averages of daily prices; futures prices are usually taken from the last trading day of the month. **Consumer Price Index** is for all urban consumers. The **Consumption Chain Price Index** is the index associated with the personal consumption expenditures component of GDP. The **Employment Cost Index (ECI)** covers private nonfarm employers. **ECI Compensation** refers to a fixed sample of jobs, while **Compensation per Hour** covers all workers in the nonfarm business sector in a given quarter. In both cases, compensation is wages and salaries plus benefits.

Pages 10, 11: Effective with the May 2003 **Employment Situation**, the establishment survey data for employment, hours, and earnings have been converted from the 1987 SIC system to the 2002 NAICS system. All published NAICS-based labor series have been revised back to at least 1990. For more information see <http://www.bls.gov/ces/>. **Nonfarm Payroll Employment** is counted in a survey of about 400,000 establishments (Current Employment Survey). It excludes self-employed individuals and workers in private households, but double-counts individuals with more than one job. The **Household Survey** (Current Population Survey) of about 60,000 households provides estimates of civilian employment, unemployment rate, labor force participation rate, and employment-population ratio. **Population** is civilian, noninstitutional, 16 years and over. The 90 percent confidence intervals for the unemployment rate (± 0.2 percentage points) and change in household survey employment ($\pm 290,000$) measure uncertainty due to sample size. Because the household survey was changed in January 1994, data prior to this date are not strictly comparable. The Bureau of Labor Statistics announced several revisions to the Household Survey on Feb. 7, 2003, with the release of the January 2003 data. For more information, see www.bls.gov/cps/.

Page 13: The **Michigan Consumer Sentiment Index** shows changes in a summary measure of consumers' answers to five questions about their current and expected financial situation, expectations about future economic conditions, and attitudes about making large purchases. The survey is based on a representative sample of U.S. households.

Page 15: **Gross Private Saving** is the sum of personal saving, undistributed corporate profits with IVA and CCAdj (see notes for pp. 18-19), and private wage accruals less disbursements. **Gross Government Saving** is net government saving (surplus/deficit) plus consumption of fixed capital. **Balance on Current Account (NIPA)** is net capital transfer payments to the rest of the world plus net lending or net borrowing (international trade and income flows).

Pages 16, 17: **Government Consumption and Investment** is current expenditures on goods and services, including capital consumption (depreciation) and gross investment, as reported in the NIPAs. The **Unified Federal Budget Surplus/Deficit** differs from **NIPA Basis** in four main ways: (1) NIPA excludes

transactions involving existing assets; (2) NIPA outlays exclude government investment and include consumption of government capital, while unified budget outlays do the reverse; (3) NIPA accounts exclude Puerto Rico and U.S. territories; and (4) various timing issues are handled differently. **Outlays and Receipts** are from the NIPAs, except as noted. Since 1977, the federal **Fiscal Year** starts on October 1. Excluded agency debt was 0.6 percent of federal debt at the end of fiscal 1997. **Federal Debt Held by the Public** includes holdings of the Federal Reserve System and excludes holdings of the social security and other federal trust funds. Federal grants in aid to state and local governments appear in both state and local receipts and federal outlays.

Pages 18, 19: The **Trade Balance** (shown on a balance of payments basis) is the difference between exports and imports of goods (merchandise) and services. It is nearly identical in concept to the **Net Exports** component of GDP, but differs slightly in accounting details. The **Investment Income Balance** equals income received from U.S.-owned assets in other countries minus income paid on foreign-owned assets in the U.S. The investment income balance is nearly identical in concept to the difference between gross national product and gross domestic product, but differs in accounting details. The **Current Account Balance** is the trade balance plus the balance on investment income plus net unilateral transfers to the U.S. from other countries.

Pages 20, 21: **Output per Hour (Y/H)**, **Unit Labor Cost (C/Y)**, and **Compensation per Hour (C/H)** are indexes which approximately obey the following relationship: $\%(Y/H) + \%(C/Y) = \%(C/H)$ with $\%()$ meaning percent changes. Unit labor cost is shown on page 9. **Real Compensation per Hour** uses the CPI to adjust for the effects of inflation. Nonfarm business accounted for about 76 percent of the value of GDP in 1996, while nonfinancial corporations accounted for about 54 percent. **Inventory Valuation Adjustments (IVA)** remove the effect of changes in the value of existing inventories from corporate profits and proprietors' income. (This change in value does not correspond to current production and therefore is not part of GDP). **Capital Consumption Adjustments (CCAdj)** increase profits and proprietors' income by the difference between estimates of economic depreciation and depreciation allowed by the tax code. Components of national income not shown are rental income of persons and net interest.

NOTE: Most measures of economic activity are now based on the 2002 North American Industry Classification System (NAICS), which replaces the 1987 Standard Industry Classification (SIC) system.

Sources

Bureau of Economic Analysis (BEA), U.S. Dept. of Commerce

National income and product accounts, international trade and investment data (except by country), auto and light truck sales.

Census Bureau, U.S. Dept. of Commerce

Inventory-sales ratios, retail sales, capital goods orders, housing starts, exports and imports by country.

Bureau of Labor Statistics (BLS), U.S. Dept. of Labor

All employment-related data, employment cost index, consumer and producer price indexes, unit labor cost, output per hour, compensation per hour, multifactor productivity.

United States Department of Treasury

Unified budget receipts, outlays, deficit, debt.

Federal Reserve Board

Index of industrial production, treasury yields, exchange rates, capacity utilization, household debt.

The Survey Research Center, The University of Michigan

Consumer sentiment index.

The Conference Board

Help-wanted advertising index.

Organization for Economic Cooperation and Development (OECD)

GDP for major trading partners (not available on FRED).