Prefatory Note

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[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

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Content last modified 6/05/2009.

Confidential (FR) Class III FOMC

Part 2

March 13, 2002

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

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

Confidential (FR) Class III FOMC

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Domestic Nonfinancial Developments

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Overview
We currently estimate that real GDP increased at an annual rate of 1.4 percent in the fourth quarter of last year, and available indicators suggest that output is expanding at a considerably more rapid rate in the first quarter. Private employment was up modestly in February, and initial claims for unemployment insurance are down from their highs in the fourth quarter. Although sales of motor vehicles moderated, on average, in January and February, consumer spending on other goods was strong. Housing starts turned back up in January, in part because of low mortgage rates. Industrial production increased last month amid indicators that most industries have worked through their inventory overhangs. After a significant contraction throughout last year, business purchases of equipment and software are beginning to recover, with both orders and shipments up in January; however, nonresidential construction continues to decline. Meanwhile, inflation remains low, although energy prices appear to be firming.

Labor Market Developments
The data from the January and February employment reports suggest that the labor market has bottomed out and may be improving. Following a decline in January, private payroll employment rose 46,000 in February, its first increase since last May; some of the gains may have been due to unusual seasonal patterns that boosted employment in retail trade and construction. The one-month diffusion index of employment rose to 48.2—indicating that nearly as many industries were adding jobs as were losing them.

Retail trade added 58,000 jobs in February after a similar gain in January. Below-average hiring for the holidays likely led to a large decline in employment on a seasonally adjusted basis in December and then a strong rebound in January and February, when fewer workers had to be laid off. However, on net, retail trade added jobs over these three months. A rise of 25,000 in construction employment was led by gains in concrete work (20,000) and heavy construction (12,000). These two weather-sensitive segments of the industry benefited from the unusually warm and dry conditions in early February. Service industries added 40,000 jobs last month, the third straight monthly increase. Notably, employment in help supply services rose for the first time since September 2000. In contrast, manufacturing shed another 50,000 jobs in February, although the decline was less than in the preceding few months. Employment in the related wholesale trade industry also declined again in February.

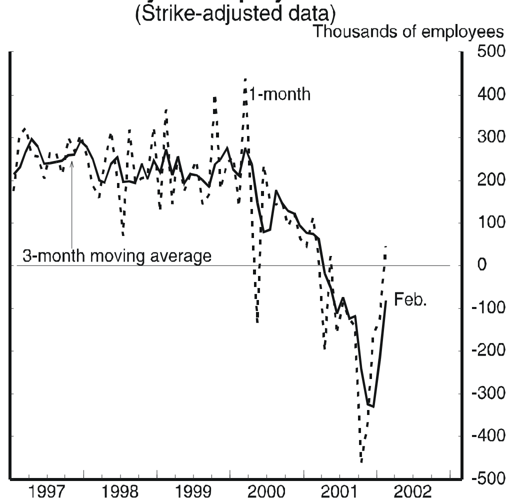
Aggregate weekly hours of production or nonsupervisory workers on nonfarm private payrolls rose 0.1 percent in February after a 0.3 percent decline in January. Average weekly hours held steady at 34.1 hours in February, the level

CHANGES IN EMPLOYMENT
(Thousands of employees; based on seasonally adjusted data)

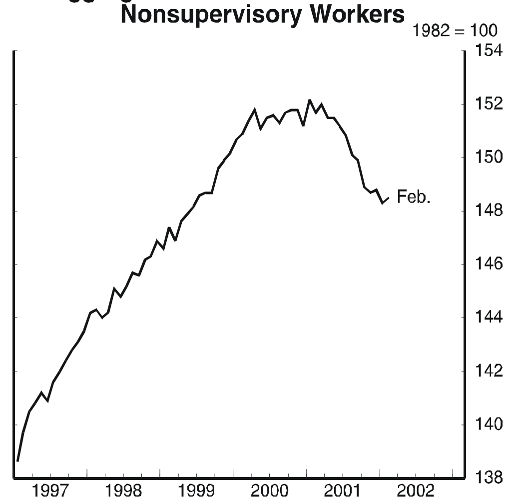
	2000	2001	2001 Q3	2001 Q4	2001 Dec.	2002 Jan.	2002 Feb.
	--Average monthly change--						
Nonfarm payroll employment[1]	167	-87	-67	-303	-106	-126	66
Previous	*167*	*-89*	*-67*	*-311*	*-130*	*-89*	
Private	149	-124	-118	-330	-161	-128	46
Mining	1	1	1	-2	-3	-2	-6
Manufacturing	-12	-109	-103	-136	-120	-110	-50
Construction	18	5	2	-7	-1	-63	25
Transportation and utilities	14	-16	-16	-52	-37	-18	4
Retail trade	26	-3	-8	-57	-59	41	58
Wholesale trade	8	-11	-11	-17	-3	-4	-15
Finance, insurance, real estate	0	4	1	-0	-6	4	-10
Services	93	5	16	-59	68	24	40
Help supply services	-2	-43	-18	-71	-19	-16	14
Total government	18	37	51	27	55	2	20
Total employment (household survey)	115	-153	0	-316	-198	-587	851
Nonagricultural	119	-154	-45	-338	-290	-614	878
Memo:							
Aggregate hours of private production workers (percent change)[1,2]	1.1	-1.8	-3.0	-3.8	0.1	-0.3	0.1
Average workweek (hours)[1]	34.4	34.2	34.1	34.1	34.1	34.1	34.1
Manufacturing (hours)	41.6	40.7	40.7	40.5	40.6	40.6	40.7

Note. Average change from final month of preceding period to final month of period indicated.
1. Survey of establishments.
2. Annual data are percent changes from Q4 to Q4. Quarterly data are percent changes from preceding quarter at an annual rate. Monthly data are percent changes from preceding month.

Private Payroll Employment Growth
(Strike-adjusted data)

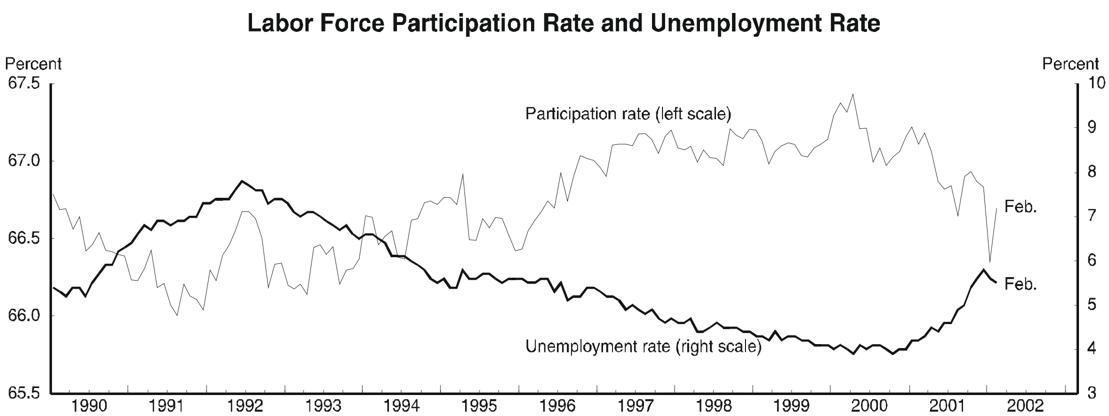


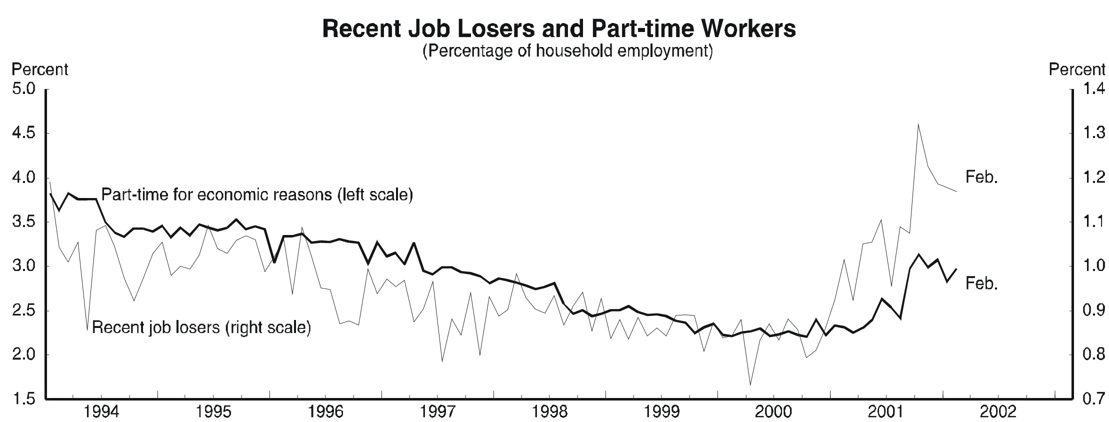
Aggregate Hours of Production or Nonsupervisory Workers



SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data, as published)

			2001		2001	2002	
	2000	2001	Q3	Q4	Dec.	Jan.	Feb.
Civilian unemployment rate (16 years and older)	4.0	4.8	4.8	5.6	5.8	5.6	5.5
Teenagers	13.0	14.7	15.2	15.8	16.2	16.1	15.6
20-24 years old	7.1	8.3	8.4	9.5	9.6	9.7	9.5
Men, 25 years and older	2.8	3.6	3.7	4.4	4.5	4.5	4.4
Women, 25 years and older	3.2	3.7	3.7	4.4	4.6	4.3	4.6
Labor force participation rate	67.2	66.9	66.8	66.9	66.8	66.4	66.7
Teenagers	52.2	49.9	49.1	49.1	48.2	47.8	47.8
20-24 years old	77.9	77.2	77.0	76.9	76.7	76.0	76.6
Men, 25 years and older	76.0	75.9	75.8	75.9	75.9	75.5	75.7
Women, 25 years and older	59.7	59.7	59.6	59.6	59.6	59.4	59.8

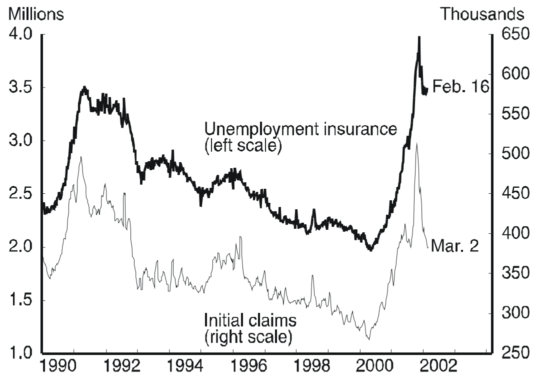




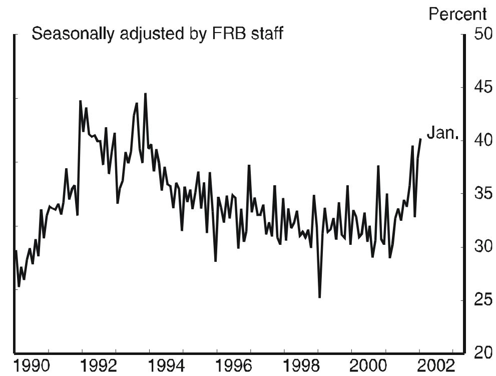
Note. Recent job losers are job losers unemployed for less than 5 weeks.

Labor Market Indicators

Initial Claims for Unemployment Insurance

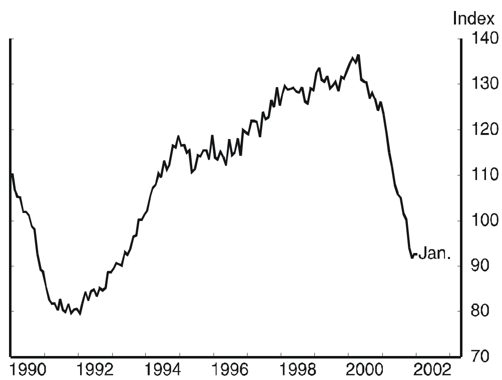


Exhaustion Rate

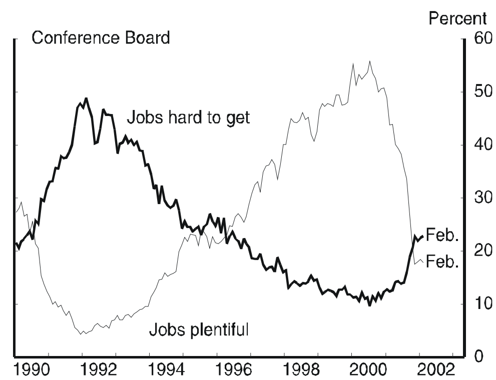


Note. Exhaustion rate is the ratio of exhaustions to first payments lagged six months.

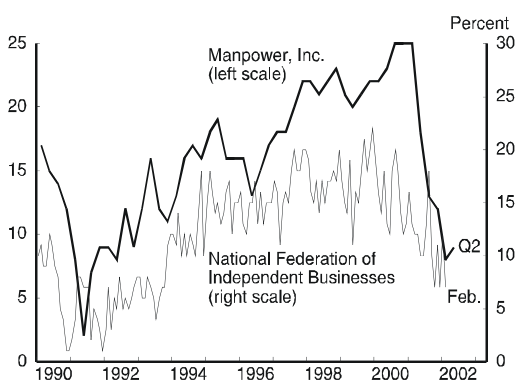
Help Wanted Index



Current Employment Conditions

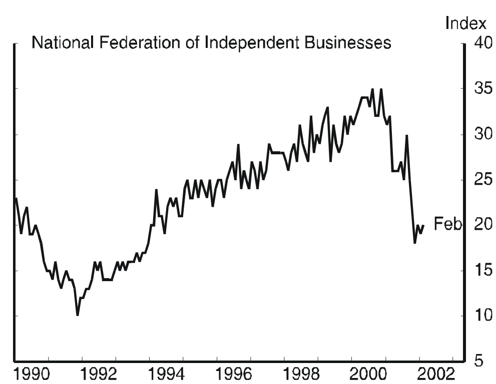


Net Hiring Strength



Note. Percent planning an increase in employment minus percent planning a reduction.

Reporting Positions Hard to Fill



they have maintained since November. Meanwhile, the manufacturing workweek ticked up 0.1 hour, to 40.7 hours.

The data from the household survey have been more difficult to interpret, although they also suggest that the labor market has bottomed out. The unemployment rate edged down 0.1 percentage point in February, to 5.5 percent, after a 0.2 percentage point decline in January. At the same time, the labor force participation rate fell sharply, to 66.4 percent, in January and then bounced back up, to 66.7 percent, in February. The movements in the unemployment rate and the labor force participation rate over the past two months seem to have been distorted by recent difficulties in seasonally adjusting the data at this time of year. Using seasonal factors from 1997, before these seasonal adjustment problems began to appear, the labor force participation rate would have averaged 66.9 percent in January and February, and the unemployment rate would have been 5.7 percent in both months. Thus, after having risen from 5.0 percent in September to 5.6 percent in November, the unemployment rate probably leveled out at about 5.7 percent. Similarly, for adults age 25 and over, whose employment is less sensitive to the seasonal hiring around the turn of the year, the unemployment rate rose from 3.8 percent in September to 4.4 percent in November and has since held steady near 4.5 percent.

Elsewhere in the household survey, recent job losers as a proportion of household employment edged down in January and February. However, the number of those unemployed for more than 27 weeks increased 60,000, and the proportion of those working part-time for economic reasons remained unchanged over the two months.

The four-week moving average of unemployment insurance claims adjusted using FRB seasonal factors stood at 383,000 in the week ended March 2. Since the end of January, the level of initial claims has declined 10,000 and is now at its lowest level since last March. The four-week moving average of insured unemployment has also fallen since the end of January, to 3.46 million in the week ended February 23. Part of the decline in insured unemployment over the past several months comes from the rise in the number of individuals exhausting their unemployment insurance (UI) benefits. The exhaustion rate for UI benefits, defined as the ratio of the number of individuals exhausting their benefits in a given month to the number who first began receiving UI benefits six months earlier, has risen nearly 10 percentage points since last spring on a seasonally adjusted basis, reaching 40 percent in January. Since March 2001, 2.7 million individuals have exhausted their unemployment insurance benefits. Nonetheless, even after having accounted for individuals who have exhausted their benefits, insured unemployment would have fallen in December and January.

Other indicators also suggest that the labor market has stopped deteriorating—but offer few significant signs of improvement. The Conference Board's help wanted index remained depressed in January, and the gap in consumer attitudes between those reporting jobs plentiful and those reporting jobs hard to get was virtually unchanged in February, with slightly more individuals still reporting jobs hard to get. The news on planned hiring is mixed: In the Manpower survey, the proportion of respondents that expected to hire workers in the near-future edged up, while the proportion in the National Federation of Independent Business (NFIB) February survey fell. The proportion of respondents to the NFIB survey reporting positions hard to fill has held steady over the past few months.

The BLS now reports that productivity in the nonfarm business sector increased at an annual rate of 5.2 percent in the fourth quarter of 2001, an upward revision of 1.7 percentage points from the preliminary release; the revision primarily reflects the upward revision to the change in output from -0.4 percent to 1.2 percent.[1] Over the four quarters ended in 2001:Q4, productivity is estimated to have advanced 2.0 percent. Although this is 0.6 percentage point below the increase registered in the four quarters ended in 2000:Q4 and a full percentage point less than the gains in 1998 and 1999, it is nonetheless quite strong given the deceleration in output last year.

Labor Output per Hour

(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

Sector	2000[1]	2001[1]	2001 Q2	2001 Q3	2001 Q4
Nonfarm businesses					
All persons[2]	2.6	2.0	2.1	1.1	5.2
All employees[3]	2.3	2.0	1.3	1.2	5.5
Nonfinancial corporations[4]	2.9	2.1	3.3	.9	3.9

1. Changes are from the fourth quarter of the preceding year to the fourth quarter of the year shown.
2. Includes non-employees (published definition).
3. Assumes that the growth rate of hours of all persons equals the growth rate of hours of all employees.
4. The nonfinancial corporate sector consists of all corporations doing business in the United States with the exception of banks, stock and commodity brokers, and finance and insurance companies; the sector accounts for about two-thirds of business employment.

1. On the basis of on our interpretation of recent data, we now estimate that productivity increased 5.1 percent in the fourth quarter.

Industrial Production

The available data suggest that industrial production (IP) rose in February. The weekly and monthly physical product data that we have in hand are, on the whole, a noticeable plus for the change in IP. In addition, available indicators suggest that the production of high-tech items firmed again in February. In other manufacturing industries, aggregate hours worked edged down in February.

The weekly production data should contribute more than 0.1 percentage point to the change in overall IP in February, with sizable contributions from the appliance, steel, and lumber and plywood industries. Output at utilities appears to have bounced back in February after the unusually warm weather that held down production in previous months. In contrast, mining output likely posted its fifth consecutive monthly decline in February, in large part because of decreases in oil and gas extraction.

Total production of motor vehicles ran at an annual rate of 12.3 million units in February—a shade higher than in January and up about 700,000 units from the fourth-quarter average. Current schedules call for assemblies to step down to an

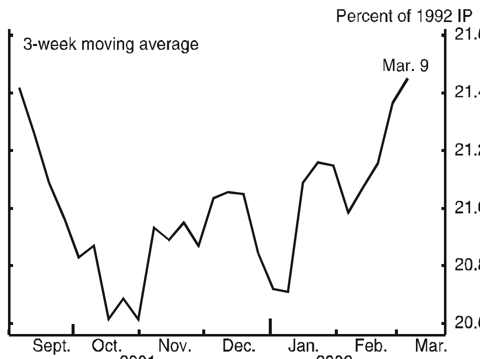
Production of Domestic Autos and Trucks
(Millions of units at an annual rate except as noted; FRB seasonal basis)

Item	2001		2002	2001	2002		
	Q3	Q4	Q1[1]	Dec.	Jan.	Feb.	Mar.[1]
U.S. production	11.6	11.6	12.1	12.3	12.2	12.3	11.7
Autos	4.7	4.8	5.3	5.1	5.1	5.5	5.2
Trucks	6.9	6.8	6.8	7.2	7.1	6.8	6.5
Days' supply[2]							
Autos	49.1	38.3	n.a.	47.1	49.4	51.3	n.a.
Light trucks[3]	74.0	52.3	n.a.	57.6	65.6	59.2	n.a.
Inventories[4]	2.69	2.27	n.a.	2.27	2.34	2.40	n.a.

Note. Components may not sum to totals because of rounding.
1. Production rates reflect Ward's Communications' latest estimates for March and the first quarter.
2. Quarterly average calculated using end-of-period stocks and average reported sales.
3. Excludes medium and heavy (classes 3-8) trucks.
4. End-of-period stocks; excludes medium and heavy (class 3-8) trucks.
n.a. Not available.

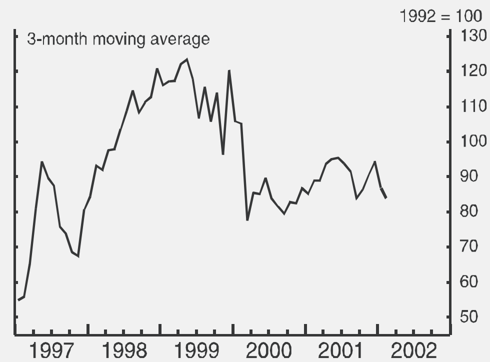
Indicators of Manufacturing Activity

Weekly Production Index



Note. The weekly production index aggregates available weekly physical product data using IP weights.

Boeing Commercial Aircraft Completions



Note. 1998 price-weighted index. Actual completions equal deliveries plus the change in the stock of finished aircraft. Data through January are actual completions; the remainder are estimates of future assembly rates.

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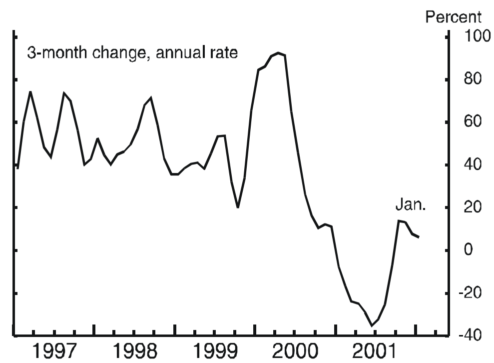
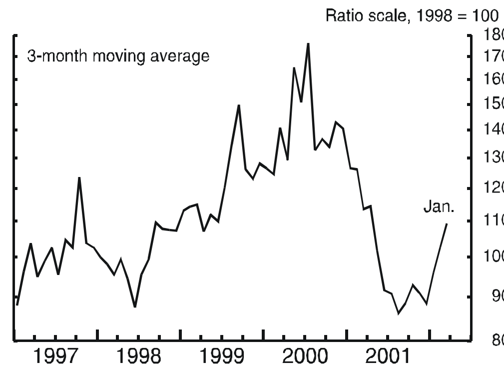
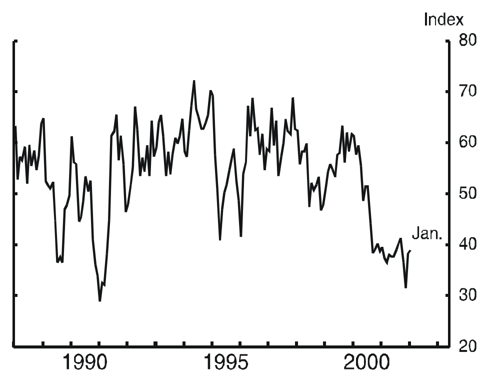
Semiconductor and Related Components IP



M3 New Orders of Semiconductors

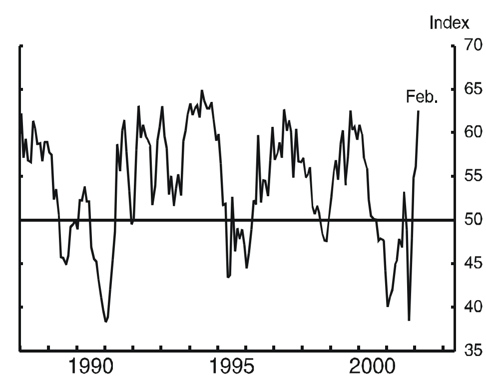


IP Diffusion Index



Note. The IP diffusion index equals the percentage of IP series that increased over three months plus one-half the percentage that were unchanged.

ISM New Orders Diffusion Index



Note. The diffusion index equals fifty plus half the quantity of the percentage of respondents reporting greater levels of new orders, less the percentage of respondents reporting lower levels of new orders.

annual rate of 11-3/4 million units and to hold at that pace through the end of the second quarter. With sales having remained at a relatively high level so far this year, dealer stocks of new vehicles have been running on the lean side of historical targets.[2] Accordingly, our industry contacts report that inventories are a tad on the lean side but that they consider them to be in reasonably good shape.

In the high-tech sector, the latest data from the Semiconductor Industry Association on world chip shipments, which we use to estimate the semiconductor IP index, suggest that the output of semiconductors is gaining momentum. Industry analysts have reported that chip inventories are at manageable levels and that manufacturers are poised to raise production should a step-up in demand materialize. Indeed, several indicators suggest that a recovery of the semiconductor industry is already under way: New orders for

New Orders for Durable Goods
(Percent change from preceding period except as noted; seasonally adjusted)

Component	Share, 2001: H1 (percent)	2001				2002
		Q3	Q4	Nov.	Dec.	Jan.
Total orders	**100.0**	**-5.1**	**1.1**	**-6.1**	**.9**	**2.0**
Adjusted orders[1]	71.0	-5.7	-1.3	.5	1.0	4.4
Computers	4.0	-19.4	8.5	-.1	-2.2	3.9
Communication equipment	3.0	-16.6	4.3	1.4	-4.8	7.7
Semiconductors and related electronic components	3.0	-3.4	-.1	-3.7	15.2	14.2
Other capital goods	23.0	-5.3	-2.9	3.1	-1.1	.3
Other[2]	37.0	-3.4	-1.9	-.7	2.0	5.7
Memo:						
Real adjusted orders	. . .	-4.8	-.3	.6	1.2	4.2
Excluding high tech	. . .	-14.1	-9.0	.5	.9	3.9

1. Orders excluding defense capital goods, nondefense aircraft, and motor vehicle parts.
2. Includes primary metals, most fabricated metals, most stone, clay, and glass products, household appliances, scientific instruments, and miscellaneous durable goods.
. . . Not applicable.

2. Domestic light vehicle stocks, which include domestically produced and imported autos and light trucks from Canada and Mexico, edged higher in February, but days' supply dropped back a bit, remaining below dealers' target of 65 days.

semiconductors increased more than 14 percent (in nominal terms) in both December and January, and Dataquest reports that spot prices for memory chips have been rising steadily since early November. By contrast, anecdotal reports from our industry contacts indicate that the communications equipment industry is still in a slump.

Some of the most recent forward-looking indicators of activity in the manufacturing sector have been encouraging. In particular, after having increased 1.2 percent in December, real adjusted durable goods orders jumped another 4.2 percent in January, with increases in a wide variety of industries. The Institute for Supply Management's diffusion index of new orders shot up in February to its highest level since 1994, and the diffusion index of order backlogs moved into the region associated with an expansion in manufacturing activity for the first time in almost two years.

Inventories

Inventories have been drawn down substantially in recent months. Indeed, the Census M3 data indicate that the aggregate inventory-shipments ratio for manufacturing has fallen from its peak of 1.43 months last September to 1.33 months in January. Similarly, inventory-shipments ratios for wholesale and retail trade are both down significantly from the elevated levels that prevailed throughout much of 2001.[3]

In spite of this improvement, several industries still appear to be burdened by excess inventories. In particular, data from the flow-of-goods inventory measurement system, which is useful for tracking inventories by type of product wherever held in the distribution channel (rather than by which industry holds the inventories, as in the M3 data), indicate sizable remaining inventory overhangs of several products, including communications equipment, paper products, and electrical machinery.[4] For these goods, days' supply ratios have not changed much, if at all, from their uncomfortably high peak levels. For some other products, including apparel, furniture, primary metals, and industrial machinery, inventory-consumption ratios that were previously high have improved, though they still appear to be well above normal levels. The rebound

3. A complete report on business inventories in current-cost terms for January will be included in the Greenbook Supplement.

4. The FRB staff's flow-of-goods system measures changes in inventories by tracking the flow of goods in the economy. The system divides the output from the staff's industrial production indexes into more than 70 different product categories. For each product category, the system estimates the supply of goods flowing into the economy—that is, domestic production plus imports. The system then estimates how much of the supply flows out, whether as final demand, including exports, or as inputs for other goods. The difference between the amount flowing in and the amount flowing out represents the change in inventories: We find inventory accumulation if inflows exceed outflows and inventory liquidation if outflows exceed inflows.

in industrial production may be restrained somewhat while these sectors continue to work through problems of oversupply.

Status of Inventory Overhangs

Inventory overhang	Products
None evident	Chemicals and products; petroleum products; stone, clay, and glass; fabricated metals; transportation equipment; instruments
Largely eliminated	Electronic components (including semiconductors); computer and office equipment; textiles; lumber and wood products; rubber and plastics; miscellaneous manufactures.
Evident but some improvement	Apparel; furniture and fixtures; printing and publishing; primary metals; industrial machinery.
Evident and little improvement	Communications equipment; paper and products; electrical machinery.

Source. FRB staff flow-of-goods inventory system.

Consumer Spending

Available data indicate that the pace of consumer spending has been well-maintained since the end of last year. Real purchases of goods excluding cars and trucks, which rose at a rapid pace from November through January, likely increased moderately further in February while sales of new motor vehicles turned back up.

In February, retail sales in the control category of stores, which excludes sales at motor vehicle dealers and building supply outlets, increased 0.3 percent, after having climbed 1.0 percent in each of the previous two months. Spending was up noticeably last month at furniture and home furnishing stores, electronics and appliance outlets, and food services establishments. However, spending did not change significantly in the other categories of the control group. We estimate that real PCE for the control items also advanced 0.3 percent in February, following much large gains in January and December.

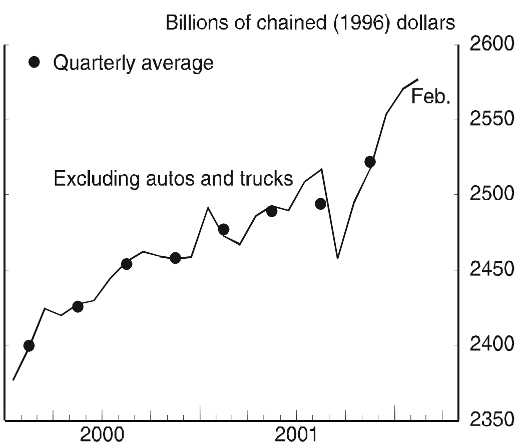
After a record pace in the fourth quarter, sales of light vehicles fell in January but moved sharply higher in February to an annual rate of 16.5 million units.

Total Retail Trade and Food Services Sales
(Percent change; seasonally adjusted)

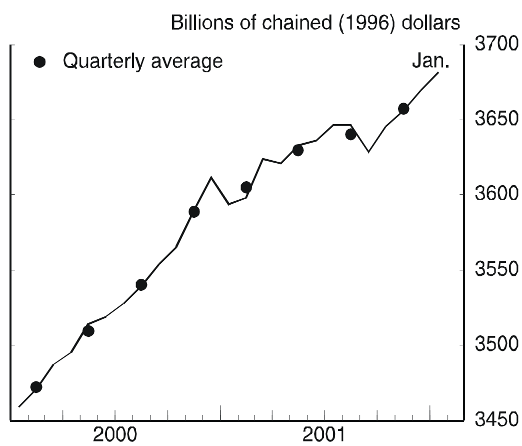
Expenditure	2001 Q3	2001 Q4	2001 Nov.	2001 Dec.	2002 Jan.	2002 Feb.
Total sales	-.3	2.9	-2.9	.2	-.3	.3
Previous estimate	...	2.7	...	.2	-.2	...
Retail control[1]	-.2	.1	-.1	1.0	1.0	.3
Previous estimate	...	-.2	...	.9	1.0	...
GAF[2]	.2	2.2	1.3	1.4	1.1	.3
Gasoline stations	-4.5	-10.7	-6.4	-3.1	4.2	.0
Food services	.5	2.2	1.0	5.0	-2.5	1.1
Other retailers[3]	.4	.4	-.1	.1	1.4	.1

1. Total retail trade and food services less sales at building material and supply stores and automobile and other motor vehicle dealers.
2. Furniture and home furnishing stores, electronics and home appliance stores, sporting goods and hobby stores, and general merchandise stores.
3. Health and personal care stores, food and beverage stores, electronic shopping and mail order houses, and miscellaneous other retailers.
... Not applicable.

Real PCE Goods

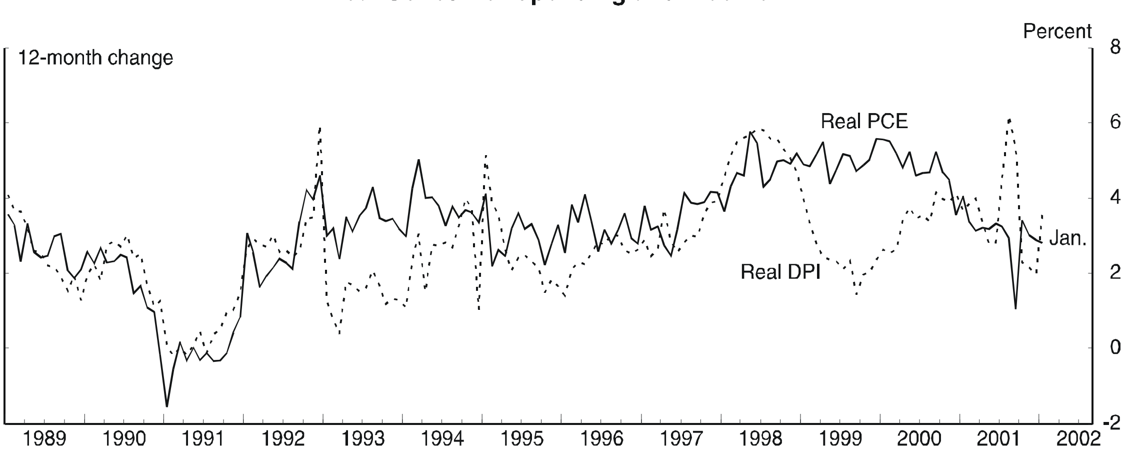


Real PCE Services



Note. February is a staff estimate.

Real Consumer Spending and Income



Although manufacturers shifted the composition of price incentives from reduced-rate financing to cash rebates over the first two months of the year, they have kept the overall level of incentives high, and consumers have responded enthusiastically.[5] Confidential data on fleet sales indicate that most of the February gain in purchases of light vehicles was in sales to consumers. As a result, real PCE for motor vehicles is estimated to have increased in February. Looking ahead to March, motor vehicle manufacturers have indicated that they expect sales to move lower this month, returning to a more moderate pace.

According to the most recent data, outlays on services rose 0.3 percent in January, with increases across most categories. Spending on hotels and motels posted another sizable gain, returning to its pre-September level. In addition, medical care expenditures moved up somewhat, as did spending on educational and charitable activities. Personal business expenditures rose only modestly in January, although an increase in stock market trading volumes points to a further pickup in February. Also, although temperatures remained unseasonably warm in February, they were down on average from January and likely led to higher spending on energy services.

Real disposable personal income rose 1.5 percent in January after moderate gains in the preceding two months. January's outsized increase was in part the result of annual cost-of-living adjustments to the level of transfer payments and, to a lesser extent, federal pay. These step-ups more than offset over-the-month declines in both private wages and salaries and in interest income. In addition, because of last year's tax legislation, personal tax and nontax payments fell sharply. Viewed over a longer period, real income gains remain sizable; the year-over-year change in real DPI in January was 3.6 percent—about the same as the increase a year earlier.

Both the Michigan Survey Research Center's overall index of consumer sentiment and the Conference Board's index of consumer expectations edged down in February, mainly because of declines in consumers' expectations of future personal and business conditions. Nevertheless, each index remained close to its historical average, and their declines were not reflected in

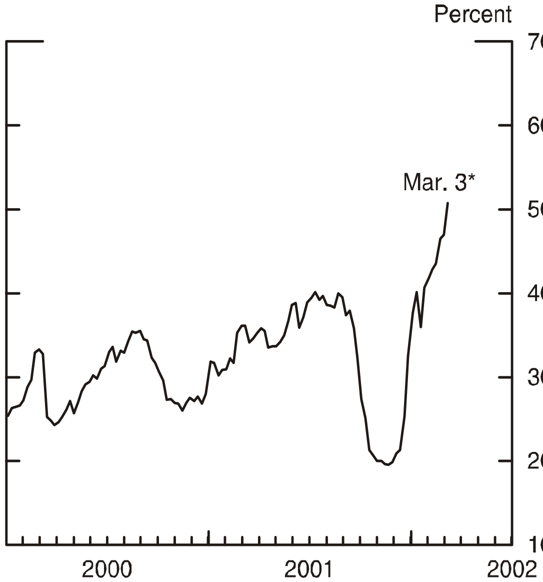
5. Weekly data from J. D. Power and Associates indicate that the percent of sales receiving a cash rebate surged in February as did the average cash rebate received in those sales. These data also suggest that the average interest rate paid for automobile financing rose in the latter half of January from extremely low levels in the fourth quarter but that rates in February were little changed from those levels. General Motors announced a new incentive package beginning on March 1, which allows zero-percent financing on 36-month car loans or a cash rebate of up to $2,002. (GM ended its most recent zero-percent financing program in early January.) Reduced rates on longer-term loans also are available. Ford and Chrysler will continue to offer a choice of zero-percent financing on 36-month loans, reduced rates on longer-term loans, or up to $2,500 cash back.

SALES OF AUTOMOBILES AND LIGHT TRUCKS
(Millions of units at an annual rate, FRB seasonals)

			2001		2001	2002	
	2000	2001	Q3	Q4	Dec.	Jan.	Feb.
Total[1]	17.2	17.0	16.1	18.4	16.3	15.6	16.5
Autos	8.8	8.4	7.9	8.7	7.4	7.6	7.9
Light trucks	8.4	8.6	8.2	9.7	8.8	8.0	8.6
North American[2]	14.4	13.9	13.1	15.0	13.0	12.3	13.2
Autos	6.8	6.3	5.9	6.4	5.2	5.3	5.6
Light trucks	7.5	7.6	7.3	8.6	7.8	7.0	7.6
Foreign-produced	2.9	3.1	3.0	3.4	3.2	3.3	3.3
Autos	2.0	2.1	2.0	2.3	2.2	2.2	2.3
Light trucks	.8	1.0	1.0	1.1	1.0	1.1	1.0
Memo:							
Total, as reported (confidential)[3]	17.2	17.0	16.1	18.4	16.3	15.6	16.5

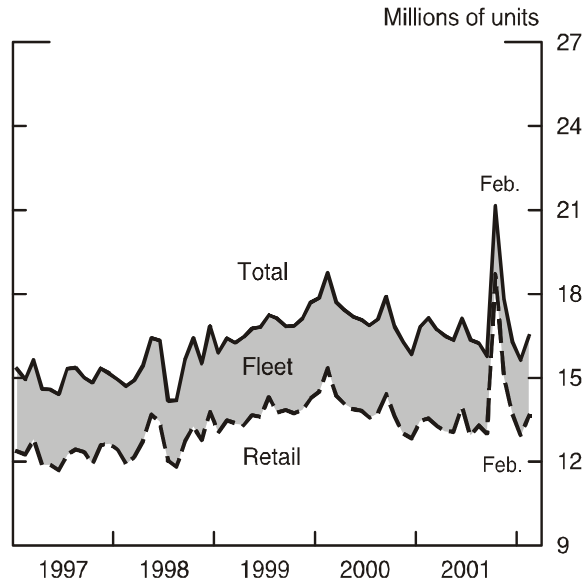
Note. Components may not sum to totals because of rounding. Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.
1. The automakers' changes in reporting periods have no effect on the figures shown.
2. Excludes some vehicles produced in Canada that are classified as imports by the industry.
3. Sales include consumer purchases and leases of light vehicles.

Percent of Sales with Cash Rebate



*Source: J.D. Power and Associates. Not seasonally adjusted.

Fleet and Retail Sales of Light Vehicles
(Annual rate; FRB seasonals)

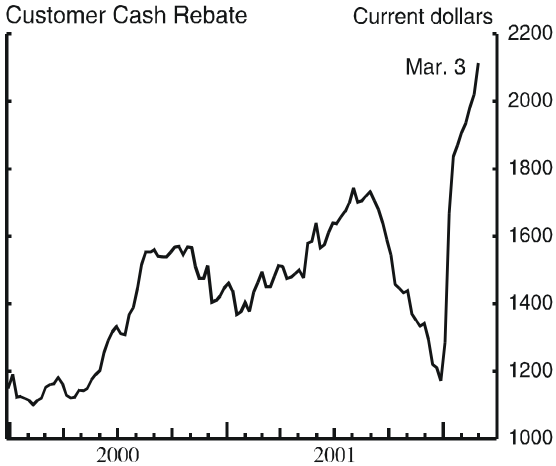


Note. Staff estimates based on confidential data.

Indicators of Retail Auto and Light Truck Demand

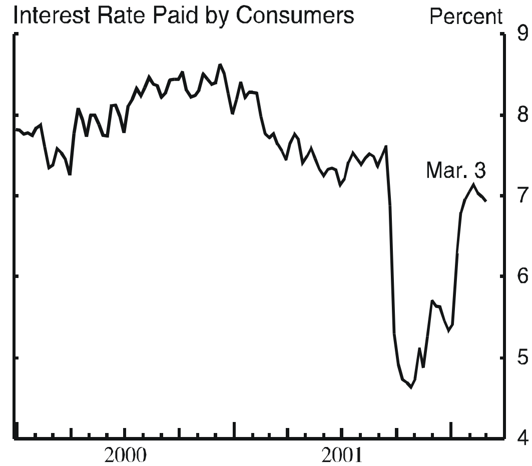
(Weekly data from J.D. Power and Associates; not seasonally adjusted.)

Customer Cash Rebate

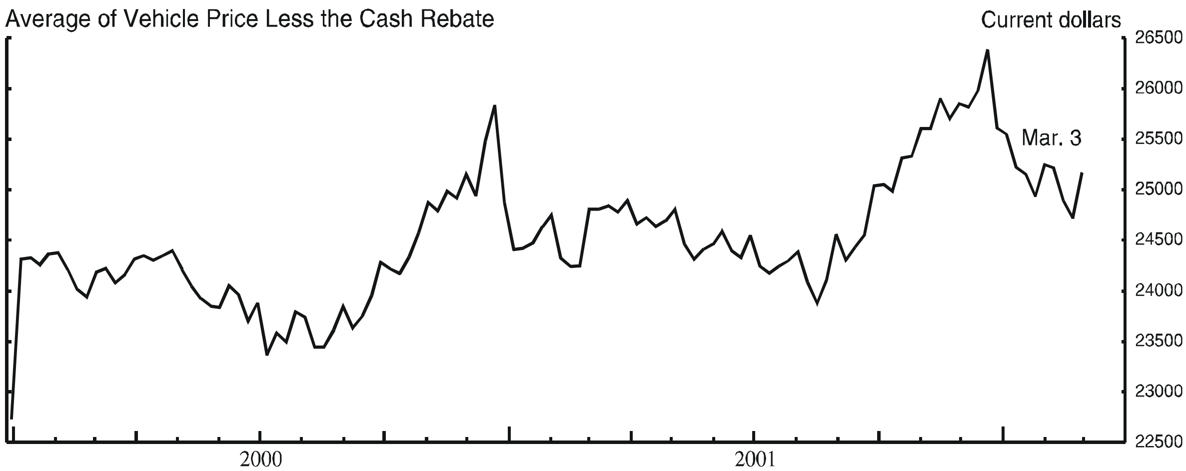


Note. Average for sales that involved a rebate.

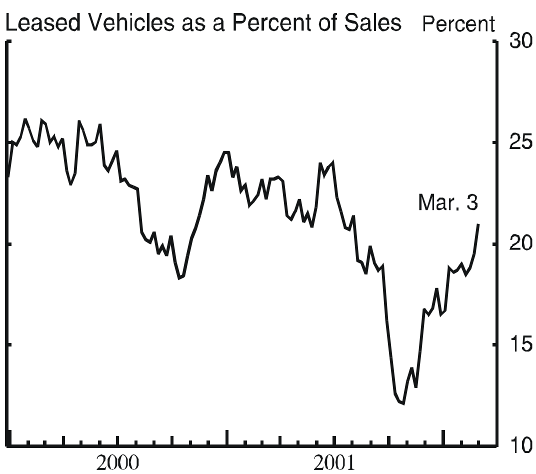
Interest Rate Paid by Consumers



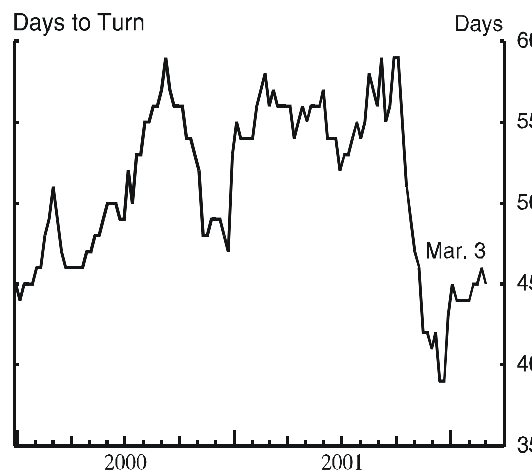
Average of Vehicle Price Less the Cash Rebate



Leased Vehicles as a Percent of Sales



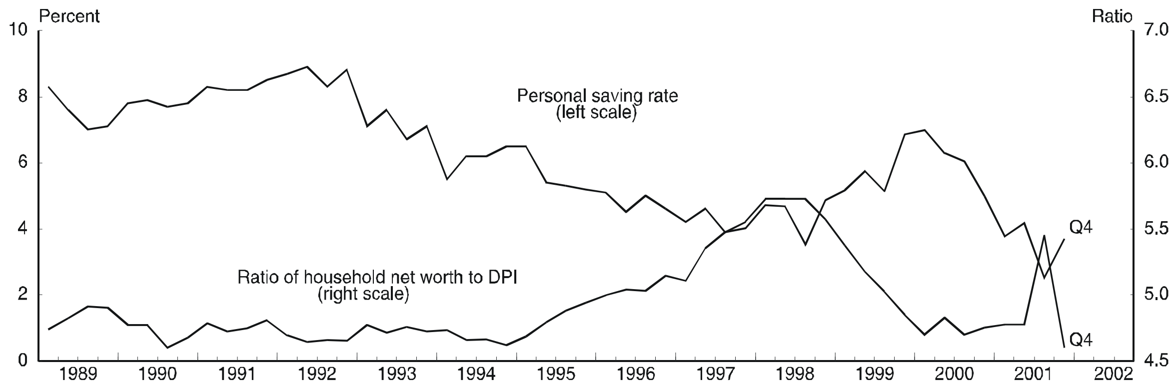
Days to Turn



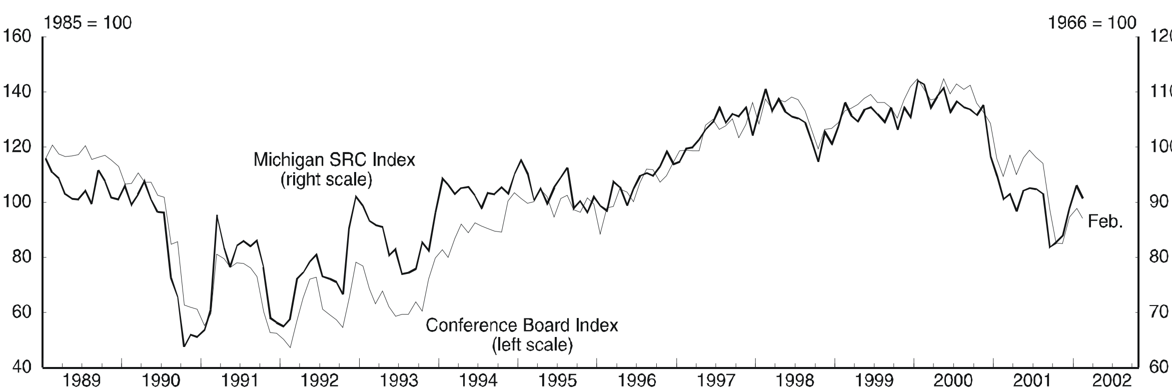
Note. Number of days a vehicle is on a dealer's lot.

Household Indicators

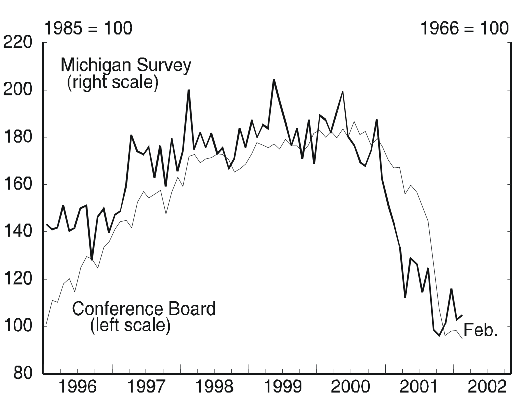
Household Net Worth and Saving



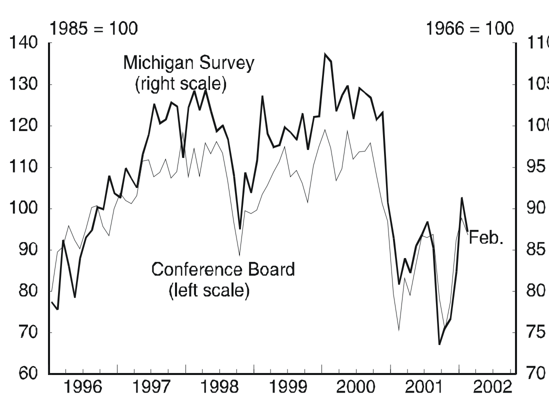
Consumer Confidence



Consumer Current Conditions



Consumer Expectations



households' assessments of buying conditions. Indeed, the proportion of households in the Michigan survey who believe February was a good time to purchase a household appliance was roughly unchanged, as was the proportion of households in the Conference Board survey planning to purchase a major appliance in the next six months. In part because of the increase in cash rebates last month, the Michigan Survey's index of car-buying attitudes in February remained at January's high level, as a large percentage of respondents continued to report favorable assessments of vehicle prices.

Housing Markets

The pace of homebuilding has been remarkably strong in the past several months. New homes were started at an annual rate of about 1.7 million units in January—their highest level in almost two years. Although the strength in January homebuilding resulted in part from unusually warm and dry weather, construction would likely have been relatively brisk even if the weather had been normal. Indeed, adjusted permits for single-family construction, which are less affected by weather than are starts and are generally a more reliable indicator of planned construction activity, were above starts in January. The high level of permits in January, and late last year, suggests that new construction remained robust in February.

The January readings on both existing and new home sales looked like statistical outliers. Existing home sales spiked in January to an annual rate of more than 6 million units. Although we have no specific reason to doubt this figure—other than its record-setting departure from recent readings—we suspect that January's pace of sales was not repeated last month. New home sales, in contrast, declined fairly sharply in January and stood near the low end of the range they have occupied for more than three years.[6] Initial estimates of new home sales are based on incomplete source data and are subject to substantial revision. A Census analyst speculated that because January's estimate for late reports was unusually low, he would not be surprised if total new sales were eventually revised up in the coming months to nearer the middle of their recent range.

Low mortgage rates have contributed substantially to the recent strength of the housing sector. The average rate on a 30-year fixed-rate mortgage contract has remained near 7 percent for more than a year, and the average rate on a one-year adjustable contract has declined fairly steadily during this period. These low

6. Recall that new home sales are recorded at signing and therefore tend to reflect contemporaneous economic conditions, while existing home sales are recorded at closing, and therefore tend to reflect economic conditions as of a month or two earlier.

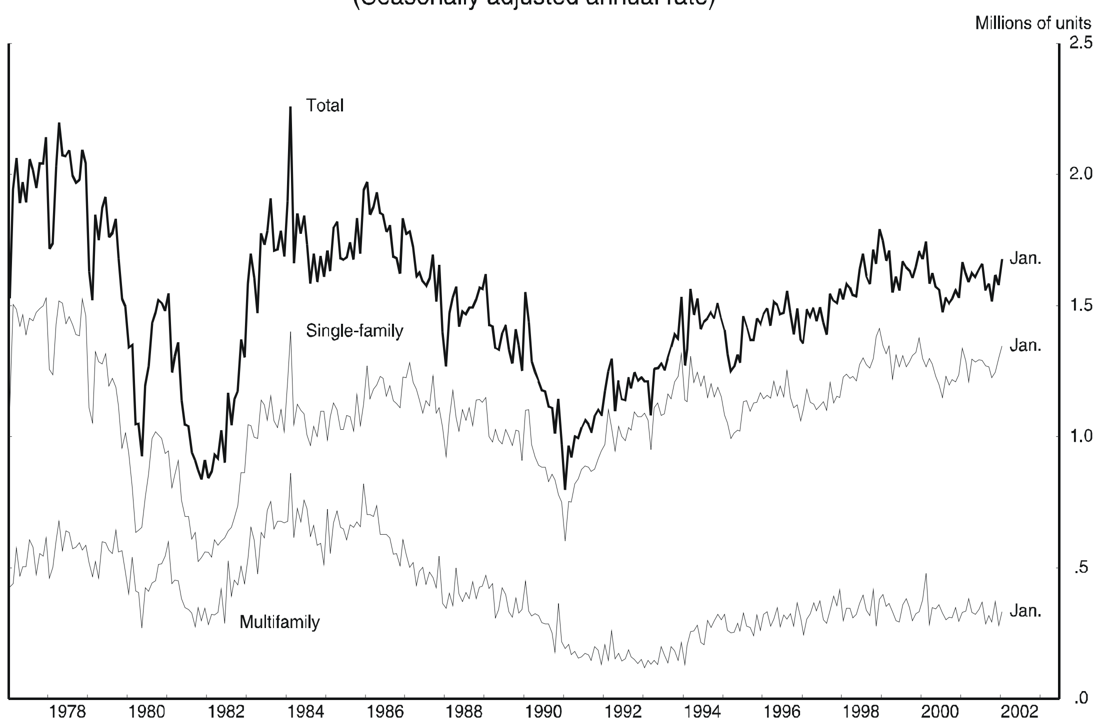
Private Housing Activity
(Millions of units; seasonally adjusted annual rate)

		2001					2002
	2001	Q2	Q3	Q4[r]	Nov.[r]	Dec.[r]	Jan.[p]
All units							
Starts	1.60	1.62	1.60	1.57	1.62	1.58	1.68
Permits	1.61	1.60	1.56	1.58	1.60	1.65	1.71
Single-family units							
Starts	1.27	1.29	1.28	1.26	1.24	1.30	1.35
Permits	1.22	1.22	1.20	1.20	1.21	1.25	1.33
Adjusted permits[1]	1.25	1.27	1.24	1.23	1.26	1.27	1.37
New home sales	.91	.89	.87	.92	.94	.97	.82
Existing home sales	5.30	5.33	5.27	5.24	5.25	5.20	6.04
Multifamily units							
Starts	.33	.33	.33	.32	.37	.28	.33
Permits	.39	.38	.36	.38	.38	.41	.38
Mobile homes							
Shipments	.19	.19	.20	.21	.20	.21	.20

1. Adjusted permits equals permit issuance plus total starts outside of permit-issuing areas.

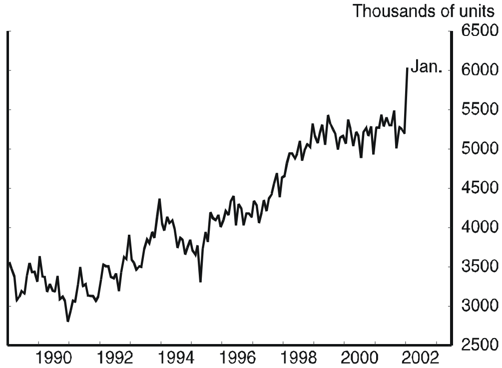
p Preliminary. r Revised. n.a. Not available.

Private Housing Starts
(Seasonally adjusted annual rate)



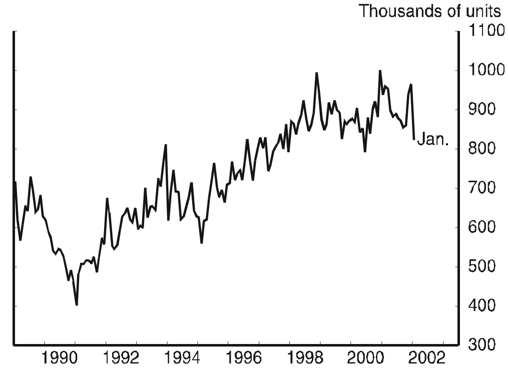
Indicators of Single-Family Housing

Existing Home Sales



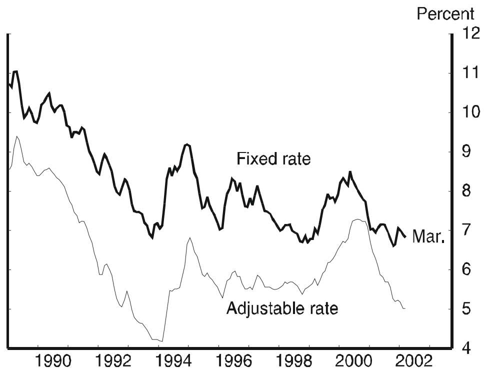
Source. National Association of Realtors.

New Home Sales



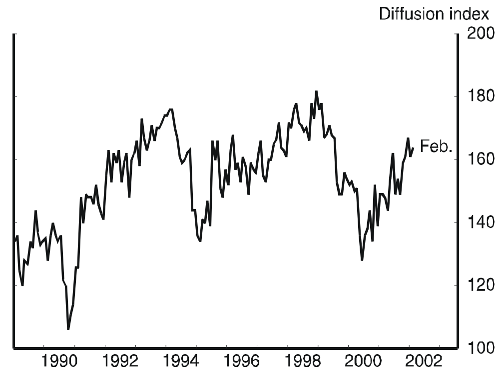
Source. Census Bureau.

Mortgage Rates



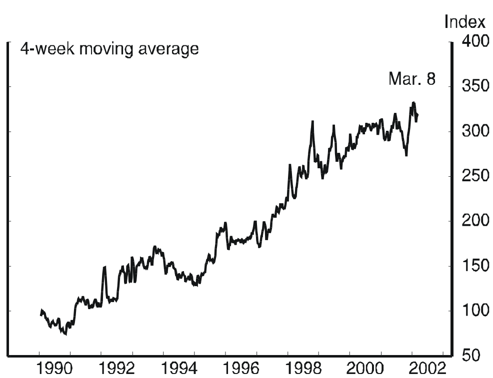
Note. The March reading is based on data through the 8th.
Source. Freddie Mac.

Perceived Homebuying Conditions



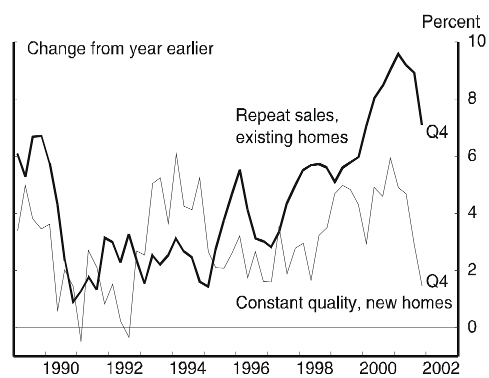
Source. Michigan Survey, not seasonally adjusted.

MBA Index of Purchase Applications



Note. The NSA index for March 16, 1990 is equal to 100. The series shown here is the 4-week moving average of the seasonally adjusted data.

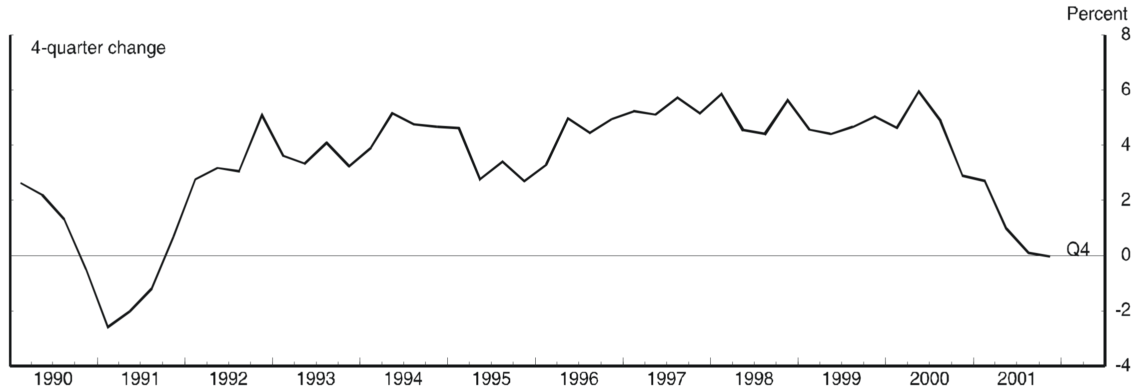
House Prices



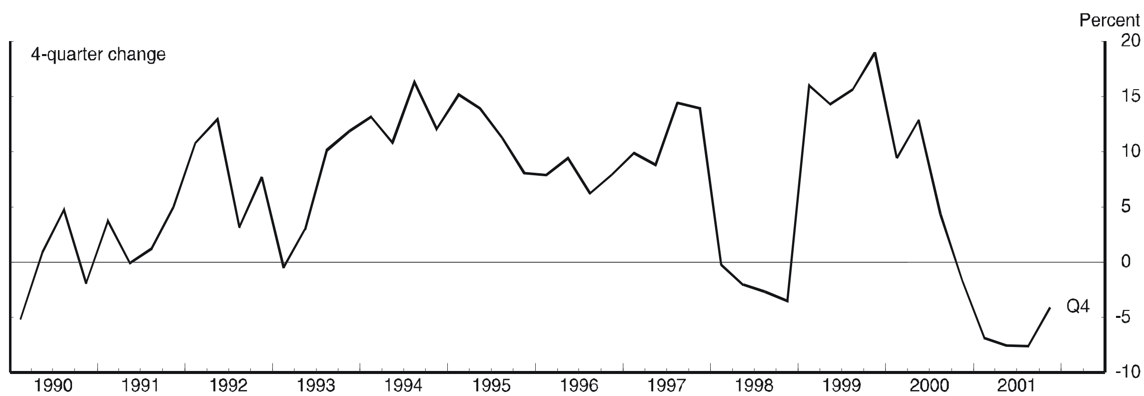
Source. Census Bureau (new); Fannie Mae and Freddie Mac (existing).

Equipment Investment Fundamentals

Business Output

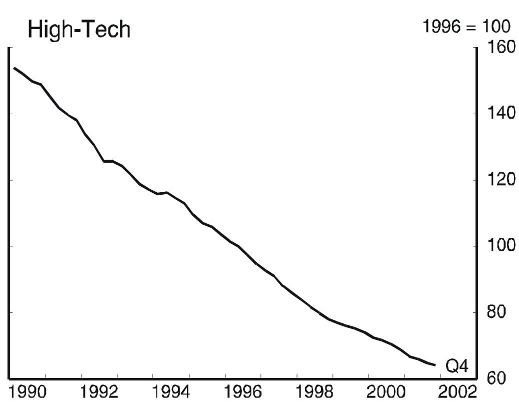


Real Cash Flow

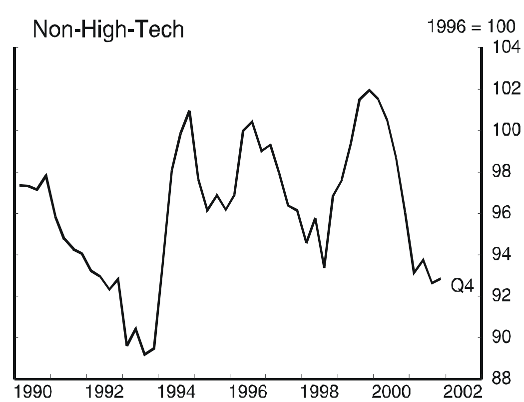


User Cost of Capital

High-Tech



Non-High-Tech



rates have helped keep mortgage payments low despite rising home prices and have supported home sales and homebuilding even as employment has declined.

Forward-looking indicators of homebuilding activity have remained favorable: Homebuying attitudes—as reported in the Michigan Survey—and loan applications for the purchase of a home—as reported by the Mortgage Bankers Association—remained at high levels in February. One cautionary note is the recent deceleration in housing prices, which could suggest a softening in the housing sector. In particular, the average price of new homes, adjusted for their location, size, and amenities, decelerated fairly sharply in the latter half of 2001. This pattern was also evident, if less pronounced, for existing home sales.[7]

Business Fixed Investment

Equipment and software. Real outlays for equipment and software fell at an annual rate of 4.8 percent in the fourth quarter but appear headed for a modest increase this quarter. The data indicate that shipments and orders of durable goods in January were surprisingly strong, and tentative signs of recovery from the high-tech sector continue to accumulate.

Shipments of nondefense capital goods excluding aircraft moved up 2.5 percent in January. Shipments of computers and peripherals rose for the fifth straight month, solidifying the view that the sector is recovering. On the other hand, shipments of communications equipment turned down again. Outside of the high-tech sector, shipments of machinery and of engines and turbines were especially robust, and most other sectors recorded increases.[8] Meanwhile, new orders for nondefense capital goods excluding aircraft increased 1.5 percent in January, reversing the decline posted in December. Although the high-tech sectors led the rebound, orders in other sectors edged up in the aggregate.[9]

7. The repeat-sales price index for existing homes is based on the sales prices of only those properties for which more than one transaction is recorded. It therefore abstracts from some of the compositional shifts that can affect median and average price measures; it does not, however, account for improvements to or depreciation of these homes and is, therefore, not a true "constant quality" measure.

8. Shipments of machinery were up 5.8 percent in total; industrial machinery rose 4.3 percent, but those shipments accounted for just one-tenth of the net increase. Detailed data that would further identify the source of the large gain are unreported.

9. New orders for nondefense capital goods excluding aircraft and high-tech goods were revised down considerably in December, mostly because of revisions in railroad equipment and electrical equipment. In both sectors, the revisions appear to reflect lower orders for items with long lead times and have little implication for shipments in coming months. Excluding these categories, new orders excluding aircraft and high-tech goods increased 1.0 percent in December and 0.4 percent in January, to the highest level since last August.

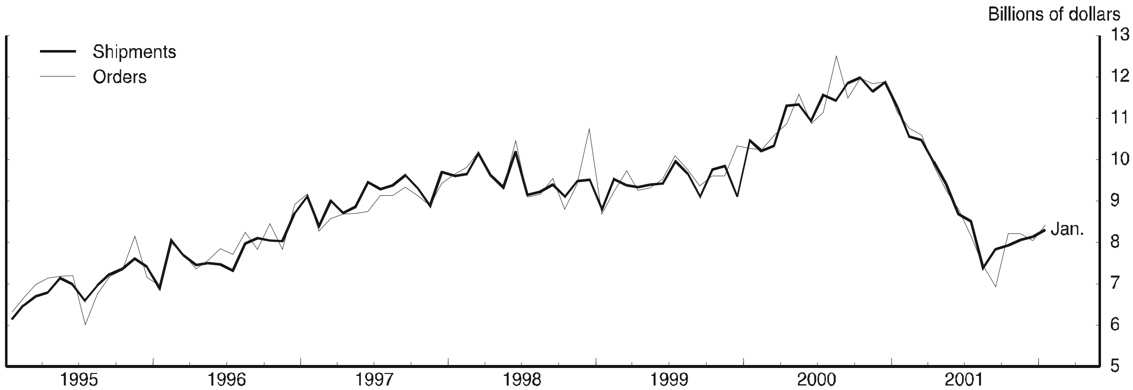
BUSINESS CAPITAL SPENDING INDICATORS
(Percent change from preceding comparable period;
based on seasonally adjusted data, in current dollars)

	2001		2001		2002
	Q3	Q4	Nov.	Dec.	Jan.
Equipment and software					
Shipments of nondefense capital goods	-6.7	-2.6	-1.4	.8	1.2
Excluding aircraft	-7.1	-3.4	-2.3	.7	2.5
Computers and peripherals	-15.4	1.6	1.8	.9	1.7
Communications equipment	-11.9	-8.9	-2.4	3.1	-2.3
All other categories	-4.6	-3.5	-3.1	.4	3.4
Shipments of complete aircraft	8.8	-1.2	9.5	-25.0	2.6
Medium & heavy truck sales (units)	-6.2	9.6	-7.8	7.0	-4.4
Orders for nondefense capital goods	-10.6	-1.9	4.0	-1.1	-.6
Excluding aircraft	-8.6	-.7	2.4	-1.7	1.5
Computers and peripherals	-19.4	8.5	-.1	-2.2	3.9
Communications equipment	-16.6	4.3	1.4	-4.8	7.7
All other categories	-5.3	-2.9	3.1	-1.1	.3
Nonresidential structures					
Construction put in place, buildings	-4.4	-5.8	-2.5	-2.9	2.2
Office	-9.3	-5.3	-5.0	-4.2	-1.3
Other commercial	-3.5	-1.9	-.3	-3.5	4.4
Institutional	-1.0	2.8	-.5	.9	4.2
Industrial	-1.8	-25.1	-8.5	-3.4	2.4
Lodging and miscellaneous	-3.9	-3.3	.5	-4.2	.2
Rotary drilling rigs in use[1]	-4.6	-20.6	-9.7	-8.5	-1.3

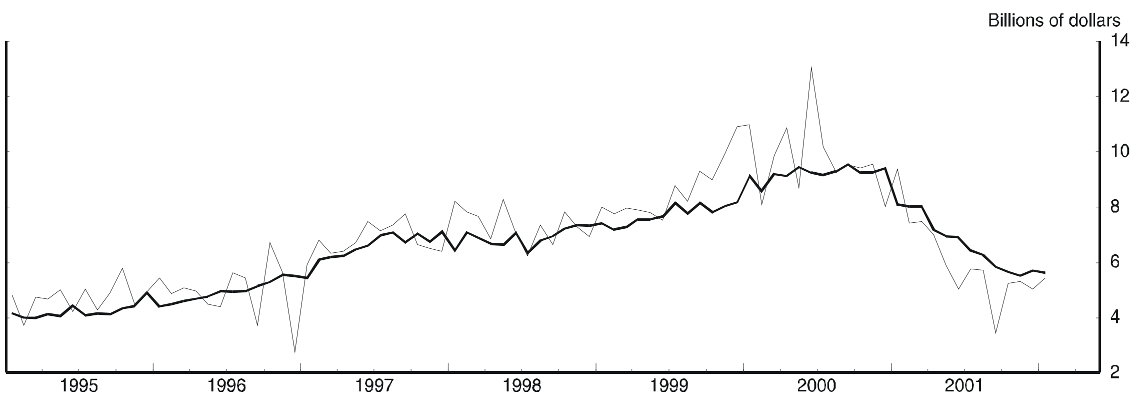
1. Percent change of number of rigs in use, seasonally adjusted.
n.a. Not available.

Recent Data on Orders and Shipments

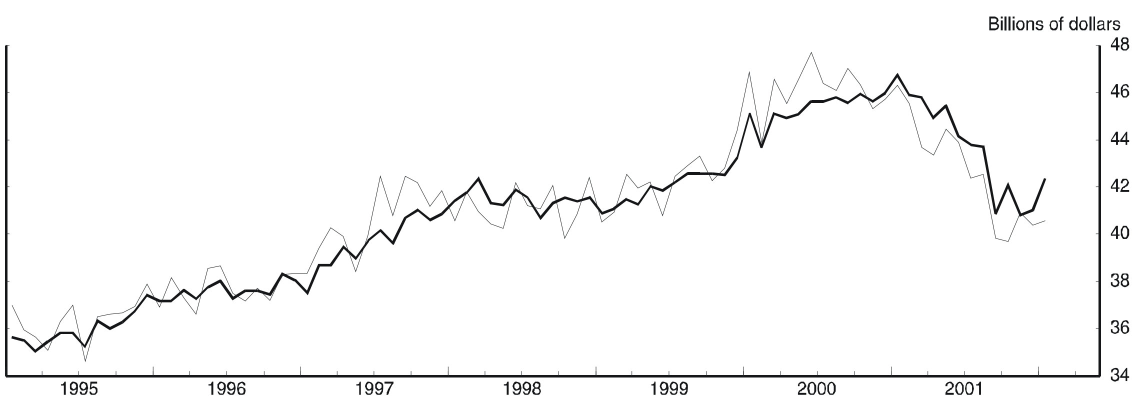
Computers and Peripherals



Communications Equipment



Other Equipment (Total Ex. Transportation, Computers, Communications)



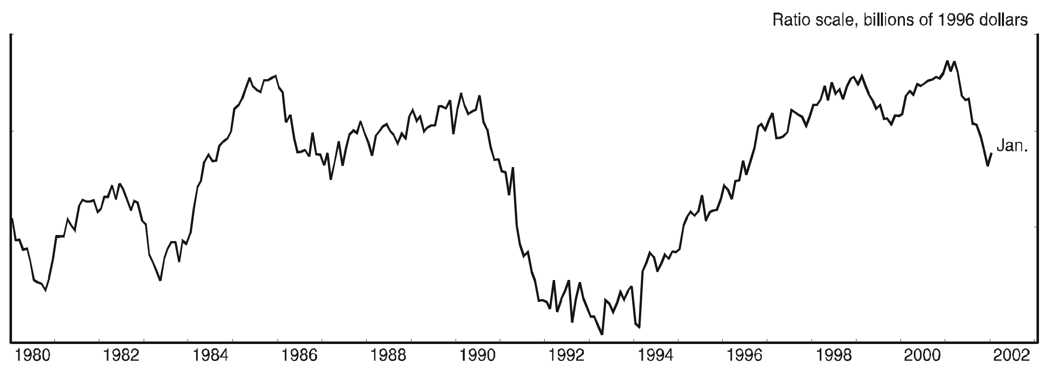
Investment in Nonresidential Structures

Investment in Nonresidential Buildings
(Billions of dollars, annual rate)

	2001				2002
	Q3	Q4	Nov.	Dec.	Jan.
Current dollars					
Private construction put in place, buildings	205.0	193.1	193.3	187.7	191.9
Office	51.1	48.3	48.2	46.2	45.6
Other commercial	61.6	60.5	61.1	59.0	61.6
Lodging and miscellaneous	23.8	23.0	23.4	22.4	22.5
Industrial	32.6	24.4	24.0	23.1	23.7
Fixed-weight 1996 dollars[1]					
Private construction put in place, buildings	170.0	159.3	159.5	154.7	158.4
Office	42.3	39.9	39.7	38.1	37.6
Other commercial	51.1	49.9	50.4	48.6	50.8
Lodging and miscellaneous	19.8	19.0	19.3	18.5	18.6
Industrial	27.0	20.1	19.8	19.1	19.6

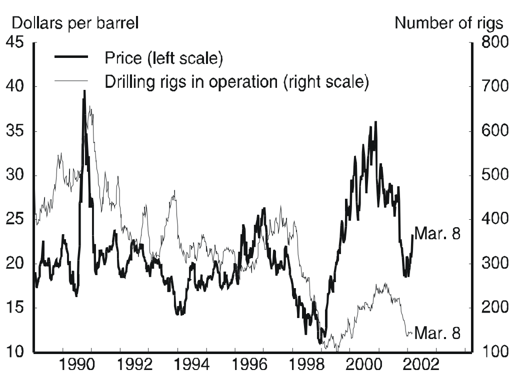
1. Census does not report chain-weighted data for construction put in place.
Source. Census Bureau.

Real Investment in Nonresidential Buildings



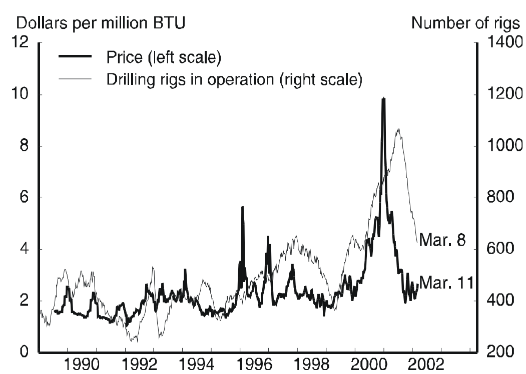
Petroleum and Natural Gas Drilling

Petroleum



Note. Data are weekly averages.
Source. WTI spot price and DOE/Baker Hughes.

Natural Gas



Note. Data are weekly averages.
Source. Henry Hub spot price and DOE/Baker Hughes.

Recent revenue announcements from the largest software companies, which the BEA uses to estimate software spending, have taken on a more encouraging tone. While Microsoft had an especially strong fourth quarter and expects good results in the current quarter, most other software companies that have made pronouncements expect that revenues will closely track the modest rebound in technology spending that appears to be in progress.

Business demand for motor vehicles remains sluggish, albeit with hints that the worst may be over. Fleet sales of light vehicles moved higher in February for the second consecutive month. In the commercial truck sector, sales of medium and heavy trucks declined in January but did not completely reverse the fourth-quarter increase. Measured as a three-month moving average, net new orders for medium and heavy trucks (classes 5 through 8) edged higher in January, and order cancellations ticked down after having risen in December.

Nonresidential construction. Excluding the effect of the change in the lease of the World Trade Center, real spending for the construction of nonresidential structures declined at an annual rate of 23 percent in the fourth quarter. According to monthly data, real outlays for private nonresidential buildings in January were up more than 2 percent from a month earlier but were still below the average level for the fourth quarter as a whole.[10]

Vacancy rates have risen, and in consequence, spending for new office buildings has fallen sharply. Although spending for industrial buildings edged up in January, it was still below the fourth-quarter reading, and well below the level recorded earlier last year, as low capacity utilization continued to damp interest in new industrial space. In contrast, spending on other commercial construction has been relatively well maintained, with real spending in January above the fourth-quarter pace.

Real spending on new drilling and mining structures declined at an annual rate of more than 50 percent in the fourth quarter. Given the further drop in the combined number of oil and gas drilling rigs in operation during January and February, the decline appears to have continued into this quarter.

Government Sector

Federal. The recent pattern of less favorable budget performance has continued: The $44 billion federal unified surplus for January fell short of last year's $76 billion surplus. Outlays in January rose 11 percent from a year

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10. The real monthly spending data are based on fixed weights from 1996. The Census does not publish chain-weighted figures for the monthly data on construction put in place.

Federal Government Outlays and Receipts
(Unified basis; billions of dollars)

Function or source	January 2001	January 2002	January Percent change	12 months ending in Jan. 2001	12 months ending in Jan. 2002	12 months ending in Jan. Percent change
Outlays	142.8	159.7	11.8	1,804.1	1,919.9	6.4
Deposit insurance	-0.0	1.2	...	-3.1	0.5	...
Spectrum auctions	0.0	0.0	...	-0.2	-1.0	...
Sale of major assets	0.0	0.0	...	0.0	0.0	...
Other	142.9	158.5	11.0	1,807.4	1,920.5	6.3
Receipts	219.2	203.5	-7.2	2,073.2	1,979.6	-4.5
Surplus	76.4	43.7	...	269.1	59.7	-77.8
	Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts[1]					
Outlays	153.2	169.3	10.6	1,807.3	1,917.7	6.1
National defense	24.4	27.4	12.5	295.0	317.0	7.5
Net interest	19.6	15.1	-22.9	220.4	193.0	-12.4
Social security	35.9	37.4	4.2	417.6	440.5	5.5
Medicare	18.0	19.8	10.3	202.2	219.4	8.5
Medicaid	10.8	12.6	17.0	122.0	136.7	12.1
Other health	3.3	4.1	24.3	37.8	45.7	21.0
Income security	21.0	25.8	22.9	249.2	276.0	10.8
Agriculture	3.9	2.7	-29.5	31.8	29.6	-6.8
Other	16.4	24.3	48.5	231.4	259.7	12.2
Receipts	219.2	203.5	-7.2	2,073.2	1,979.6	-4.5
Individual income and payroll taxes	197.5	176.1	-10.8	1,663.3	1,636.9	-1.6
Withheld + FICA	140.0	122.0	-12.8	1,396.2	1,403.6	0.5
Nonwithheld + SECA	58.8	55.5	-5.6	401.3	418.2	4.2
Refunds (-)	1.3	1.4	8.4	134.3	184.8	37.7
Corporate	5.7	9.3	61.9	213.9	155.2	-27.4
Gross	7.8	12.3	58.4	243.8	198.5	-18.6
Refunds (-)	2.1	3.1	48.6	29.8	43.2	44.9
Other	16.0	18.1	13.0	195.9	187.4	-4.3
Surplus	66.1	34.1	...	265.8	61.9	-76.7

Note. Components may not sum to totals because of rounding.
1. A shift in payment timing occurs when the first of the month falls on a weekend or holiday, or when the first three days of a month are nonworking days. Outlays for defense, social security, Medicare, income security, and "other" have been adjusted to account for these shifts.
... Not applicable.

earlier owing to a release of payments resulting from the late completion of the fiscal 2002 appropriations bills, increased spending on defense and homeland security, and a boost in cyclically sensitive transfer payments. A 7 percent drop in receipts in January reflected the reduction in withholding associated with the new 10 percent bracket, shifts in receipts from December 2000 into January 2001, and the weaker economy. Refunds certified through March 8, which represent almost one-half of the total expected this filing season, were 17 percent higher than in the comparable period last year. The increase in refunds is consistent with the tax reductions enacted last year and with last year's over-withholding, which is typical in a weak economy.

Administration's Estimates of Unified Budget Stance
(Fiscal years, billions of dollars)

Item	2002	2003	2004	2005	2006	2007	Total, 2003-07
Baseline surplus or deficit (-)[1]	-9	51	109	169	196	240	764
LESS							
Budget effects of policy initiatives							
Defense and homeland security	0	31	38	45	52	58	224
Miscellaneous	7	23	27	43	63	85	241
Stimulus placeholder	90	77	57	20	-6	-7	141
EQUALS							
Total surplus or deficit	**-106**	**-80**	**-14**	**61**	**86**	**104**	**157**

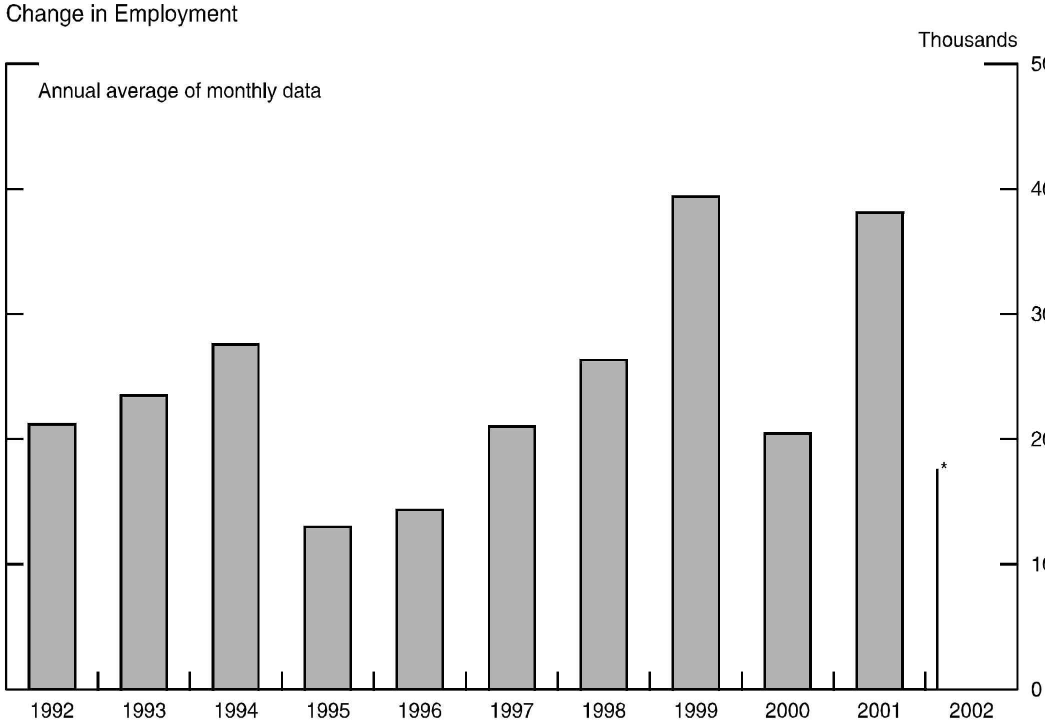
1. Reflects OMB's preferred definition, which excludes emergency supplemental appropriations from current services.
SOURCE. *Budget of the U.S. Government, Fiscal Year 2003* (February 2002); and FRB staff calculations to allocate the change in debt service costs between the stimulus placeholder and other policies in 2006 and 2007.

In early February, the Administration released its fiscal 2003 budget. Its projection of the budget—under the policies then in place and the Administration's economic assumptions—showed a $9 billion unified deficit in fiscal 2002 and moderate surpluses thereafter. The projected baseline surplus totaled $2.2 trillion for the 2002-11 period, down from $5.6 trillion in last April's budget. Key factors in this downward revision include the tax cuts enacted last year, federal spending in response to the September 11 attacks, and less favorable economic assumptions.[11] Policy initiatives included in the Administration's budget would reduce the surplus by about $600 billion

11. As part of its analysis of the Administration's budget, the Congressional Budget Office has also released updated baseline surplus projections. Incorporating the economic data released since its January projection, which forecasted small deficits over the next two years, the CBO now expects small baseline surpluses in both fiscal 2002 and 2003.

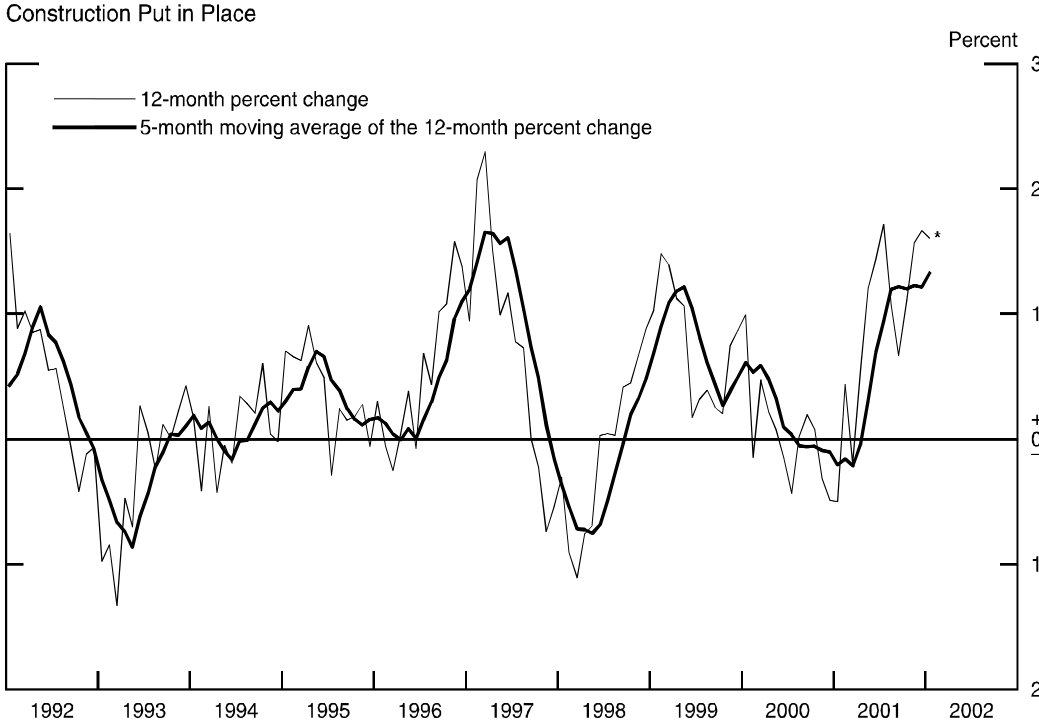
State and Local Employment and Construction

Change in Employment



* January - February average.

Construction Put in Place



*January 2002.

between fiscal 2003 and 2007. Major initiatives included increases in discretionary outlays, which are earmarked for defense and homeland security, and a placeholder for an economic stimulus package.

A stimulus package that was enacted last week is less costly than the Administration's placeholder; it is estimated to reduce the surplus by $51 billion in fiscal 2002 and $43 billion in fiscal 2003. A three-year partial expensing provision, retroactive to September 11, 2001, allows corporations to immediately deduct 30 percent of new capital acquisitions with a tax life of 20 years or less—including equipment and software but not structures. The bill also provides an extension of unemployment insurance benefits, which are typically exhausted after 26 weeks.[12]

State and local governments. State and local government employment rose 17,500 on average during the first two months of the year—well below the rapid 37,000 monthly pace in 2001 but not particularly weak relative to historical averages. Despite scattered reports of hiring freezes at governments that are struggling with fiscal difficulties, these cutbacks are not apparent in the aggregate data. The surge in construction that began late last year and continued in January and late last year was buoyed in part by the unusually warm and dry weather.

In a January survey of states by the National Conference of State Legislatures, 45 states and Washington DC reported that revenues during the first half of fiscal 2002 failed to meet expectations. Moreover, the number of states whose expenditures were running ahead of plans rose to 30 from the 22 reported in November; many of the spending overruns were in Medicaid. Legislatures are currently in the throes of deciding what combination of remedies to use to balance their budgets. Initially, spending reductions and use of rainy-day funds were cited most frequently. More recently, several governments, such as Virginia's, have been considering tax hikes as a complementary option. A combination of these and other strategies should work to help states avert budgetary deficits this spring. Moreover, fiscal 2002 does not end until June 30 for most states, and the outlook for economic activity has brightened since many states last reviewed their revenue forecasts, a development suggesting that budget outcomes may not be as negative as previously projected.

12. The bill provides up to 13 weeks of temporary extended unemployment benefits for workers residing in states with an insured unemployment rate below 4 percent. For workers in states with a higher unemployment rate, up to 26 weeks of benefits are provided. Benefits are 100 percent federally funded and are available through December 31, 2002.

RECENT PRICE INDICATORS
(Percent)

	From 12 months earlier		From 3 months earlier		2002	
	Jan. 2001	Jan. 2002	Oct. 2001	Jan. 2002	Dec.	Jan.
			-Annual rate-		-Monthly rate-	
CPI						
Total	3.7	1.1	0.7	0.0	-0.1	0.2
Food	2.9	2.9	3.0	1.1	0.0	0.3
Energy	17.8	-15.7	-19.4	-25.0	-3.0	0.9
Ex. food and energy	2.6	2.6	2.4	2.6	0.1	0.2
Ex. tobacco	2.5	2.5	2.6	2.6	0.2	0.2
Core commodities	0.8	-0.8	-0.8	-2.2	-0.4	-0.3
Ex. tobacco	0.4	-1.2	-0.2	-2.4	-0.2	-0.4
Core services	3.4	3.9	3.5	4.6	0.3	0.4
Current-methods total	3.7	1.1	0.7	0.0	-0.1	0.2
Ex. food and energy	2.6	2.6	2.4	2.6	0.1	0.2
Ex. tobacco	2.5	2.5	2.6	2.6	0.2	0.2
PCE Prices						
Total	2.7	0.6	0.5	-0.5	-0.2	0.1
Food	2.8	2.9	3.5	1.5	-0.0	0.4
Energy	16.7	-15.8	-18.2	-27.4	-3.2	0.8
Ex. food and energy	1.9	1.2	1.2	0.8	-0.0	0.1
Ex. tobacco	1.8	1.1	1.4	0.8	0.0	0.0
Core commodities	0.1	-1.3	-1.3	-2.0	-0.4	-0.3
Ex. tobacco	-0.3	-1.8	-0.9	-2.3	-0.2	-0.3
Core services	2.7	2.3	2.3	2.0	0.1	0.2
Core market-based	1.9	1.5	1.4	1.4	0.0	0.1
Core nonmarket-based	1.9	-0.2	0.5	-2.3	-0.2	-0.2
PPI						
Total finished goods	4.8	-2.6	-2.5	-3.7	-0.6	0.1
Food	2.7	1.8	1.7	0.6	0.0	0.8
Energy	22.0	-20.1	-14.6	-25.3	-3.9	0.1
Ex. food and energy	1.9	0.3	-1.3	0.3	0.0	-0.1
Ex. tobacco	1.3	0.0	-1.4	0.2	0.0	0.0
Core consumer goods	2.4	0.7	-0.5	0.3	0.0	-0.1
Ex. tobacco	1.4	0.2	-0.6	0.2	0.0	0.1
Capital equipment	1.2	-0.3	-2.0	0.0	0.0	-0.1
Intermediate materials	4.6	-4.6	-6.0	-5.5	-0.8	-0.1
Ex. food and energy	1.5	-1.8	-3.2	-1.8	-0.2	0.0
Crude materials	55.7	-40.4	-43.6	3.3	-9.6	3.7
Ex. food and energy	-7.6	-9.4	-11.7	-5.3	-0.3	-0.5

Prices

Overall inflation picked up a bit in January, as consumer energy prices posted their first increase since September. Nevertheless, the twelve-month increases in both the CPI and the PCE price index were sharply lower than their readings a year earlier, held down by earlier energy price declines. Excluding food and energy, the two price measures have given mixed signals; the twelve-month percent change in the core CPI has leveled off over the past year, while the twelve-month change in core PCE prices has moved down noticeably.

The CPI for energy turned up 0.9 percent in January. After many months of decline, the spot price of natural gas increased sharply from mid-December through early January of this year—though it was still far below the peak of January 2001. As a result, the CPI for natural gas posted its first sizable gain since May of last year. Although spot price movements reversed some of that upturn in February, colder weather in recent weeks has eroded the very high level of gas inventories, once again boosting spot gas prices; futures quotes point to a further modest rise in wholesale and retail natural gas prices in coming months.

The CPI for electricity has fallen for the past six months, a trend reflecting in part the pass-through from electric utilities to consumers of low natural gas input costs. In addition, about half of the January decline in the electricity CPI reflected deregulation of residential electricity prices in Texas. However, fuel input costs for electricity have stopped their precipitous decline and in fact have recovered somewhat over the past month or so.

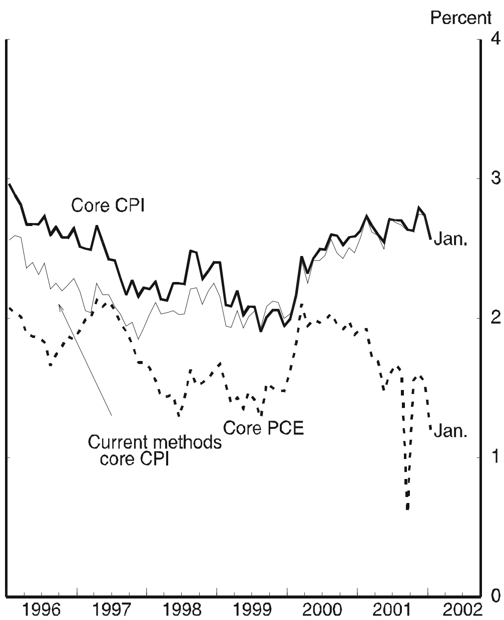
Finally, the CPI for gasoline increased 2.7 percent in January on a seasonally adjusted basis, after sharp declines in previous months. Contributing to this increase was a jump in retail markups in early January from low levels to their historical average of about 17 cents per gallon; by March, these markups had fallen back to about 10 cents. Survey data point to a slight downturn in the February CPI for gasoline but to a significant increase in March as the jump in the cost of crude oil more than offset the drop in retail margins.

Consumer food prices increased 0.3 percent in January—driven mainly by increases in the volatile fruits and vegetables categories—after having posted little change in the previous two months. Food prices rose 2.9 percent over the twelve months ending in January, the same as in the preceding period and just a little larger than the increase in the core CPI.

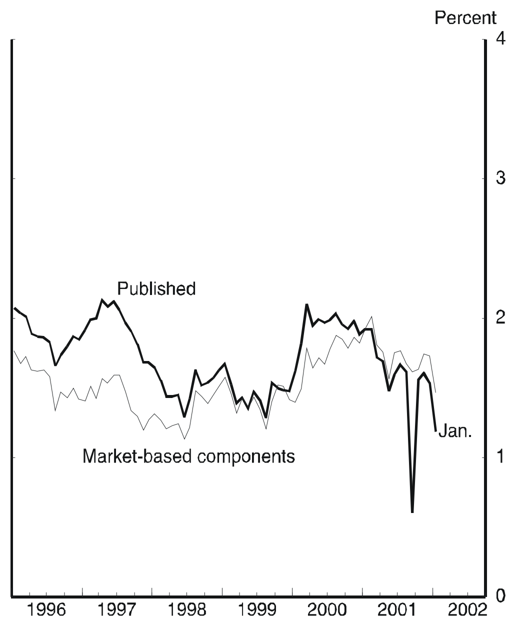
The CPI for commodities other than food and energy fell 0.3 percent in January. The decline reflected heavy discounting of clothing and a fall in motor vehicle prices as cash rebates were increased in size and extended to more models. Prices for core commodities declined 0.8 percent over the year ended January,

Measures of Core Consumer Price Inflation
(12-month change except as noted)

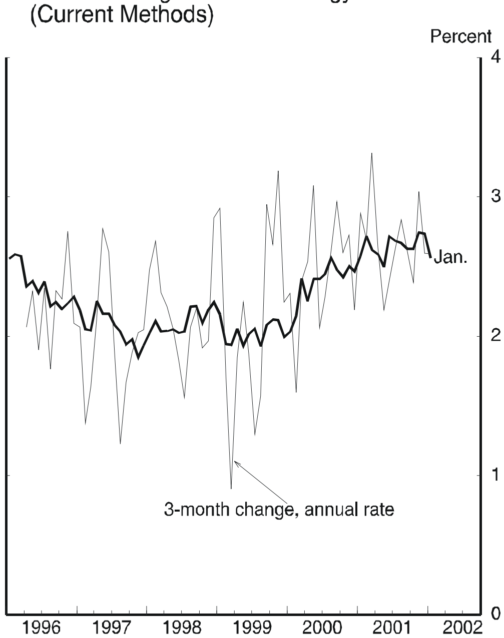
CPI and PCE Excluding Food and Energy



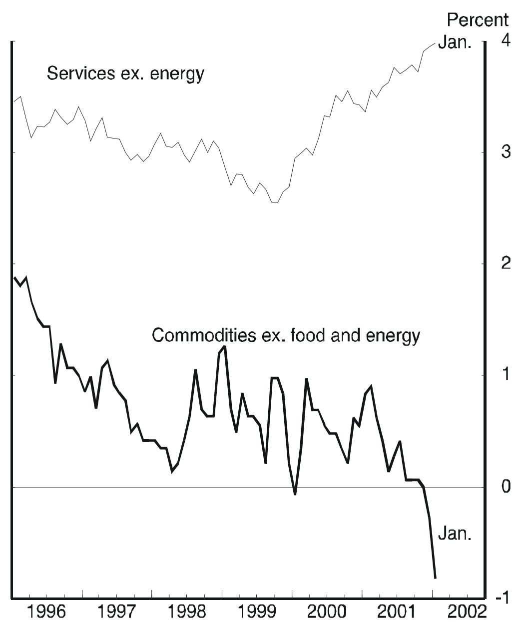
PCE Excluding Food and Energy



CPI Excluding Food and Energy
(Current Methods)



CPI Services and Commodities



down from an 0.8 percent increase the previous year. By contrast, the CPI for non-energy services rose 0.4 percent in January, a continuation of the pattern of sizable increases in this category over the past year. The increase of 3.9 percent for the twelve months ending January was 0.5 percentage point higher than the rate during the previous twelve months. Owners' equivalent rent and tenants' rent both posted slightly smaller increases in January than in the preceding few months; nevertheless, these categories were responsible for much of the step-up in service price inflation over the past year.

Core PCE prices rose 0.1 percent in January and increased 1.2 percent over the past twelve months—down about 3/4 percentage point from the previous twelve-month period. As with the CPI, PCE prices for apparel, motor vehicles, and several other commodity categories have decelerated markedly over the past year. Unlike the CPI, however, the PCE measure of inflation for core services has not accelerated over the past twelve months. Part of this difference results from the PCE price measure's inclusion of nonmarket transactions.[13] Estimated price inflation on these transactions has slowed markedly over the past year. Much of the remaining difference reflects differences in weights—particularly for housing, which is more heavily weighted in the CPI and for which prices have accelerated notably. In addition, PCE prices for medical services, which are based on producer price indexes, have not moved up as quickly as the CPI for medical services.

One-year-ahead inflation expectations from the Michigan Survey edged higher for the third consecutive month in February, after huge declines in October and November. Nevertheless, median expected inflation over the next twelve months of 2.1 percent was still nearly 1 percentage point below the levels that had prevailed through last summer. The median of five- to ten-year inflation expectations, at 2.8 percent in February, stood just a little below last summer's levels.

The producer price index for capital equipment fell 0.1 percent in January and was down 0.3 percent from a year earlier. Computer prices were reported to have risen in January following several months of large declines, but smoothing through these movements, the PPI for computers fell 26 percent

13. Nonmarket prices are those that are not readily observable in the marketplace and therefore are not measured by CPIs or PPIs; they are instead imputed by the BEA using indirect methods. For example, expenditures by nonprofit institutions such as churches and private foundations are included in PCE, and prices for these categories are constructed from prices of inputs, including labor costs. Another important category is financial services provided without explicit charge—for example, the services that depositors receive for unpriced services such as free checking—whose price is assumed to vary with banks' net interest earnings. This latter category accounts for 1/4 percentage point of the deceleration in core PCE prices over the past year. In total, our aggregate of nonmarket prices accounts for about 20 percent of core PCE.

BROAD MEASURES OF INFLATION
(4-quarter percent change)

	1998 Q4	1999 Q4	2000 Q4	2001 Q4
Product prices				
GDP chain price index	1.1	1.6	2.4	1.8
Less food and energy	1.3	1.6	2.2	1.6
Nonfarm business chain price index[1]	0.6	1.3	2.1	1.2
Expenditure prices				
Gross domestic purchases chain price index	0.8	1.9	2.5	1.1
Less food and energy	1.1	1.5	2.0	1.4
PCE chain price index	1.1	2.0	2.6	1.3
Less food and energy	1.6	1.5	1.9	1.6
PCE chain price index, market-based components	0.9	2.1	2.6	1.3
Less food and energy	1.4	1.5	1.8	1.7
CPI	1.5	2.6	3.4	1.9
Less food and energy	2.3	2.1	2.5	2.7
Current-methods CPI	1.3	2.6	3.4	1.8
Less food and energy	2.2	2.1	2.4	2.7
Median CPI	3.0	2.3	3.1	4.0
Trimmed mean CPI	1.9	1.8	2.8	2.6

1. Excluding housing.

SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

	Actual inflation[1]	University of Michigan: 1 year		University of Michigan: 5 to 10 years		Professional forecasters (10-year)[4]
		Mean[2]	Median[2]	Mean[3]	Median[3]	
2000-Q2	3.3	3.5	3.0	3.3	2.8	2.5
Q3	3.5	3.6	2.9	3.4	2.9	2.5
Q4	3.4	3.8	3.0	3.7	3.0	2.5
2001-Q1	3.4	3.4	2.9	3.6	3.0	2.5
Q2	3.4	3.9	3.1	3.6	3.0	2.5
Q3	2.7	3.1	2.7	3.5	2.9	2.5
Q4	1.9	1.5	1.1	3.1	2.8	2.6
2002-Q1						2.5
July	2.7	3.0	2.6	3.4	2.9	
Aug.	2.7	3.1	2.7	3.6	3.0	
Sept.	2.6	3.2	2.8	3.4	2.9	2.5
Oct.	2.1	1.6	1.0	2.8	2.7	
Nov.	1.9	1.0	0.4	3.2	2.8	
Dec.	1.6	1.9	1.8	3.4	3.0	2.6
2002-Jan.	1.1	2.2	1.9	3.0	2.7	
Feb.		2.4	2.1	3.1	2.8	
Mar.						2.5

1. CPI; percent change from the same period in the preceding year.
2. Responses to the question: By about what percent do you expect prices to go up, on the average, during the next 12 months?
3. Responses to the question: By about what percent per year do you expect prices to go up, on the average, during the next 5 to 10 years?
4. Compiled by the Federal Reserve Bank of Philadelphia.

over the twelve months ending January, compared with a 16 percent decline over the previous twelve-month period.

At earlier stages of processing, the producer price index for intermediate materials excluding food and energy was unchanged in January and was 1.8 percent below its level a year ago. The PPI for core crude materials fell 1/2 percent in January and was 9 percent below a year earlier. Since last Greenbook, broad-based commodity price indexes have turned up. The Journal of Commerce index of industrial commodity prices has risen 8 percent. A sharp rise in lumber and plywood prices over the past month reflects robust construction activity, and a jump in steel scrap prices may reflect in part strong demand in advance of the increase in tariff rates on steel.

Labor Costs

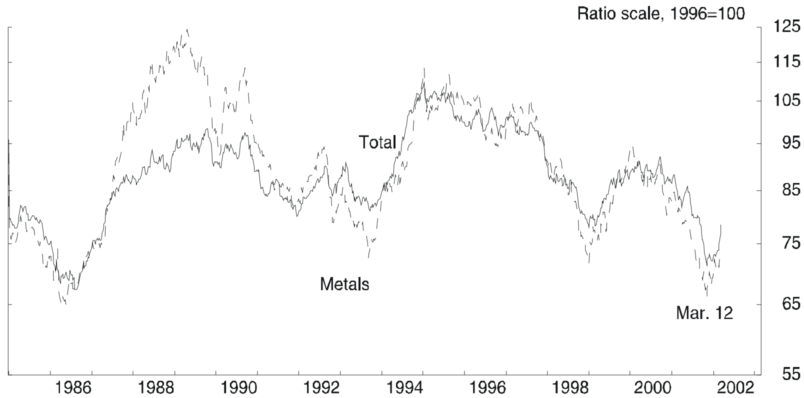
Labor costs appear to have decelerated recently, though different compensation measures provide different pictures of the magnitude of that deceleration. The employment cost index for hourly compensation in private industry increased at an annual rate of 4.2 percent over the September-to-December period and was also up 4.2 percent for 2001 as a whole; the 2001 increase was 0.2 percentage point less than the increase during 2000. Both the wages and salaries component and the benefits component recorded slightly smaller increases last year. Last year's deceleration in wages and salaries was concentrated in the goods-producing sectors of the economy. Within the benefits component, nonproduction bonuses and paid leave rose less rapidly; in contrast, employer costs for health insurance and workers' compensation accelerated last year.[14]

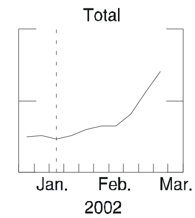
A second measure of labor costs—compensation per hour in the nonfarm business sector—is derived from data on the value of employee compensation from the national accounts. The four-quarter increase in this measure fell from 7.8 percent in 2000 to 3.9 percent in 2001. This sharp deceleration contrasts starkly with the small decline in ECI inflation over the same period. The two compensation series differ in many ways, but over the past year one difference seems especially relevant. Compensation per hour includes the exercise of stock options, while the ECI does not. The deceleration in compensation per hour

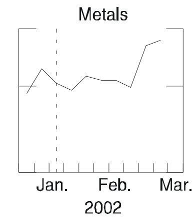
14. With the exception of health insurance, the benefits detail is unpublished and is provided to us by the BLS on a confidential basis.

Commodity Price Measures

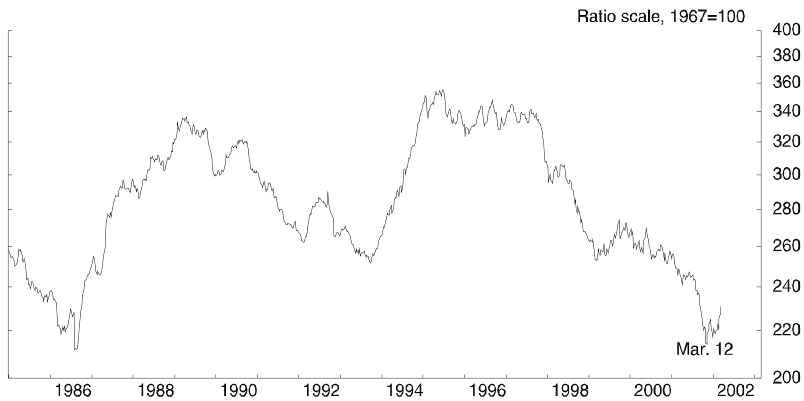
Journal of Commerce Index

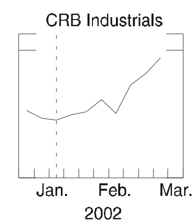




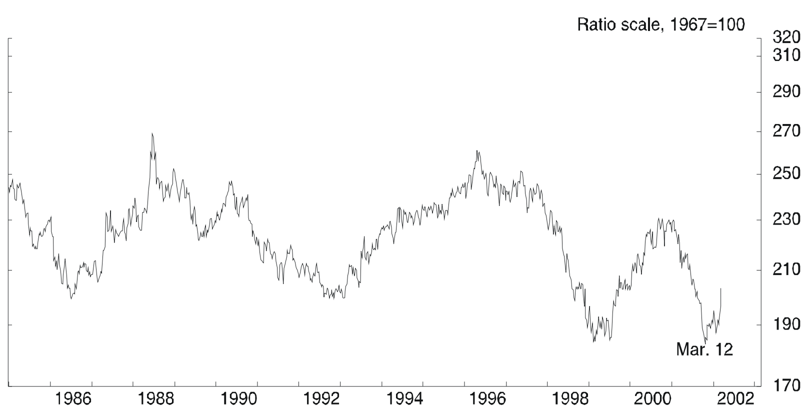


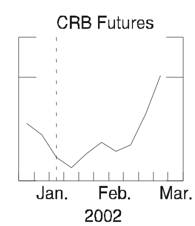
CRB Spot Industrials





CRB Futures





Note. Weekly data, Tuesdays. Vertical lines on small panels indicate week of last Greenbook. The Journal of Commerce index is based almost entirely on industrial commodities, with a small weight given to energy commodities, and the CRB spot price index consists entirely of industrial commodities, excluding energy. The CRB futures index gives about a 60 percent weight to food commodities and splits the remaining weight roughly equally among energy commodities, industrial commodities, and precious metals. Copyright for Journal of Commerce data is held by CIBCR, 1994.

SPOT PRICES OF SELECTED COMMODITIES

	Current price (dollars)	Percent change[1] 2000	2001	Dec. 25 to Jan. 22[2]	Jan. 22[2] to Mar. 12	Memo: Year earlier to date
Metals						
Copper (lb.)	0.780	5.7	-22.0	4.2	5.4	-9.3
Steel scrap (ton)	82.333	-32.7	-17.7	9.7	15.4	6.9
Aluminum, London (lb.)	0.640	1.9	-14.3	1.9	3.7	-6.2
Precious metals						
Gold (oz.)	293.600	-4.7	1.2	1.6	4.1	9.0
Silver (oz.)	4.535	-11.2	-3.5	-4.1	5.0	1.8
Forest products[3]						
Lumber (m. bdft.)	295.000	-41.5	25.0	2.2	28.3	43.9
Plywood (m. sqft.)	353.000	-4.9	3.2	2.8	18.9	30.7
Petroleum						
Crude oil (barrel)	23.120	-1.1	-16.3	0.4	23.8	-6.3
Gasoline (gal.)	0.703	7.6	-28.0	-2.4	36.2	-10.3
Fuel oil (gal.)	0.631	24.6	-42.6	-5.8	23.0	-14.6
Livestock						
Steers (cwt.)	72.980	9.9	-19.7	9.9	7.4	-8.8
Hogs (cwt.)	36.000	10.2	-9.9	23.5	-14.3	-22.2
Broilers (lb.)	0.518	-13.9	3.7	8.5	-7.4	-12.6
U.S. farm crops						
Corn (bu.)	1.950	11.4	-4.1	-2.8	0.8	-1.8
Wheat (bu.)	3.175	31.4	-8.9	2.4	-2.3	-11.4
Soybeans (bu.)	4.495	13.1	-13.4	-0.1	5.8	1.4
Cotton (lb.)	0.327	31.4	-45.7	0.3	2.2	-33.0
Other foodstuffs						
Coffee (lb.)	0.500	-47.8	-35.3	-1.7	15.6	-28.1
Memo:						
JOC Industrials	78.500	-0.1	-17.1	1.1	7.8	-6.3
JOC Metals	74.200	-9.3	-17.0	2.9	4.2	-8.7
CRB Futures	203.290	12.0	-16.3	-1.3	7.5	-7.9
CRB Spot Industrials	230.550	-2.7	-14.6	-0.2	5.3	-7.0

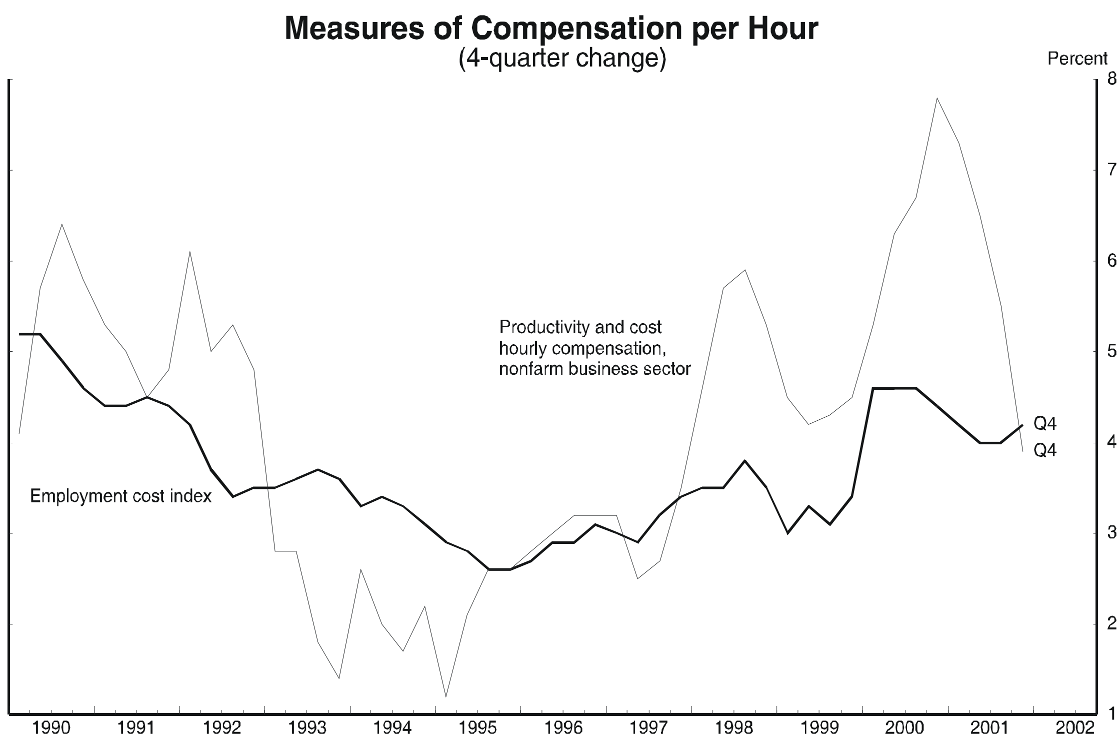
1. Changes, if not specified, are from the last week of the preceding year to the last week of the period indicated.
2. Week of the January Greenbook.
3. Reflects prices on the Friday before the date indicated.

LABOR COSTS

(Percent change; annual rate; based on seasonally adjusted data)

			2001			
	2000[1]	2001[1]	Q1	Q2	Q3	Q4
Compensation per hour						
Total business	7.9	4.0	5.1	5.2	3.3	2.2
Nonfarm business	7.8	3.9	4.9	4.7	3.7	2.3
Nonfinancial corporations[2]	7.8	n.a.	5.5	6.1	4.7	n.a.
Unit labor costs						
Total business	4.9	2.0	5.3	3.0	2.6	-2.7
Nonfarm business	5.0	1.8	5.0	2.6	2.6	-2.7
Nonfinancial corporations[2]	4.7	n.a.	5.0	2.7	3.8	n.a.

1. Changes are from fourth quarter of preceding year to fourth quarter of year shown.
2. The nonfinancial corporate sector includes all corporations doing business in the United States with the exception of banks, stock and commodity brokers, finance and insurance companies; the sector accounts for about two-thirds of business employment.



may indicate that stock option exercises leveled off or declined in 2001 in response to the decline in equity values since mid-2000.[15]

For the current quarter, compensation data are limited to average hourly earnings for production and nonsupervisory workers. This series increased 0.1 percent in February after a 0.2 percent rise in January. Over the twelve months ending in February, average hourly earnings increased 3.7 percent—down from a 4.1 percent increase over the preceding twelve months.

15. The 2001 data on wage and salary compensation incorporate payroll reports filed with state unemployment insurance offices through the third quarter of 2001. These wage and salary data, which reflect among other things any taxable distributions from stock option exercises, increased more slowly in the second and third quarter of 2001 than data on average hourly earnings might have suggested.

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Domestic Financial Developments

Domestic Financial Developments

Overview

The economic data released during the intermeeting period were much stronger than market participants had expected. Reflecting this news, equity prices rallied and interest rates on Treasuries and high-grade corporate bonds rose considerably, while junk-bond yields actually declined. Futures quotes suggest that market participants now anticipate considerably more tightening than they did just six weeks ago.

On the whole, credit markets and financial institutions appear to be accommodating private-sector demands for credit. Although strains persist in the commercial paper market, overall net borrowing by nonfinancial corporations has rebounded from the lull in December and January. On the household side, the limited available data suggest that debt growth remains relatively strong.

Interest Rates, Policy Expectations, and Stock Prices

Treasury interest rates seesawed early in the intermeeting period, but by the end of the period market participants were convinced that the economy was firmly on an upward trend, leaving nominal Treasury yields up about 30 to 50 basis points, with the largest increases at shorter maturities.

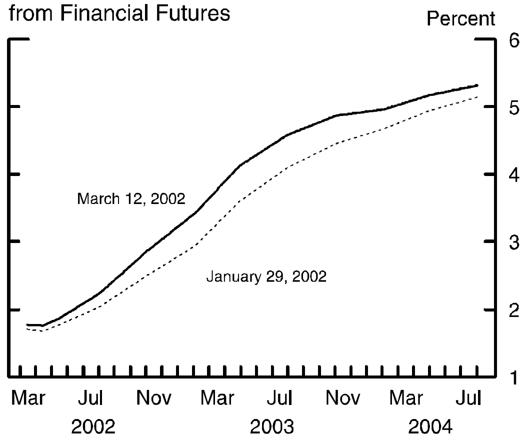
Market participants are almost certain that no policy action will be taken at the upcoming meeting. However, a majority of primary dealers believe that the FOMC will move to a balanced assessment of the risks facing the economy. Futures quotes suggest that market participants place some odds on the FOMC tightening policy as early as the May meeting and see the funds rate climbing to nearly 3 percent by year-end.

Broad indexes of stock prices advanced nearly 6 percent over the intermeeting period, as the good economic news outweighed accounting worries and a poorer earnings outlook at several telecommunications firms. The gains were tilted toward “old economy” firms, with the Dow rising 10-1/2 percent, while the tech-heavy Nasdaq was about flat. The gap between the S&P 500 forward earnings-price ratio and the real yield on high-grade corporate debt, a simple measure of the equity premium, has widened a bit this year but is still at the lower end of its historical range.

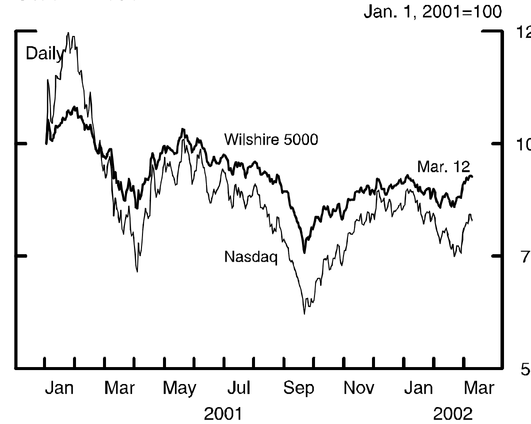
In the corporate bond market, spreads over the corporate AAA yield rose for BBB investment-grade issuers, reflecting the high proportion of telecom issuers in this sector. Yields edged down, however, on net for most of the investment-grade market and actually fell to the lowest level since late 2000 for a broad index of speculative-grade firms. Risk spreads in the commercial paper market remained at elevated levels, as investors continued to worry about ratings downgrades triggered by weak earnings, new revelations of accounting

Policy Expectations, Stock Prices, and Corporate Risk Spreads

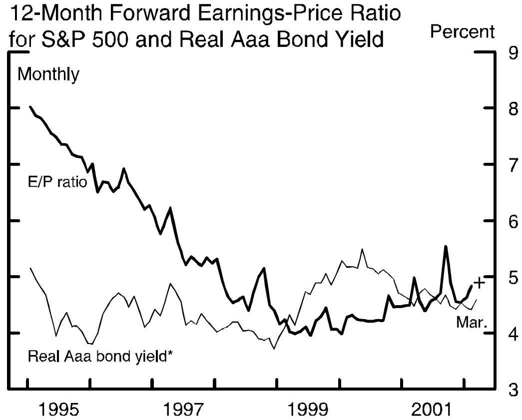
Expected Federal Funds Rate Estimated from Financial Futures



Stock Prices

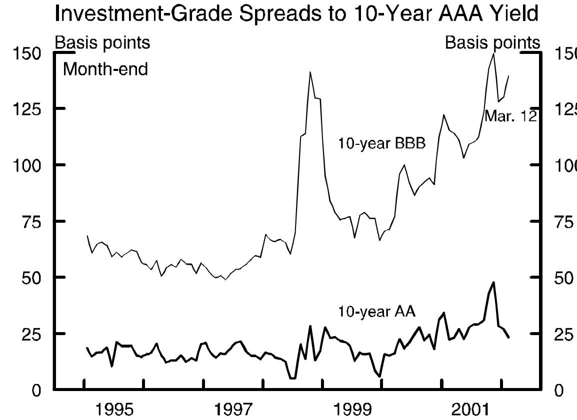


12-Month Forward Earnings-Price Ratio for S&P 500 and Real Aaa Bond Yield



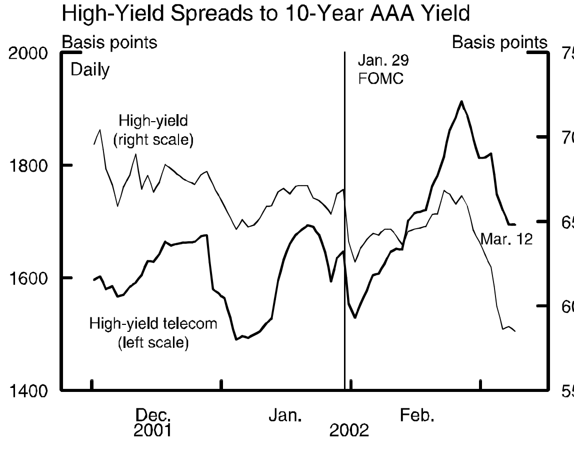
*Moody's Aaa yield, adjusted for a break in Dec. 2001, minus Philadelphia Fed 10-year expected inflation. Note. + denotes the latest observation using daily prices and latest earnings data from I/B/E/S.

Investment-Grade Spreads to 10-Year AAA Yield



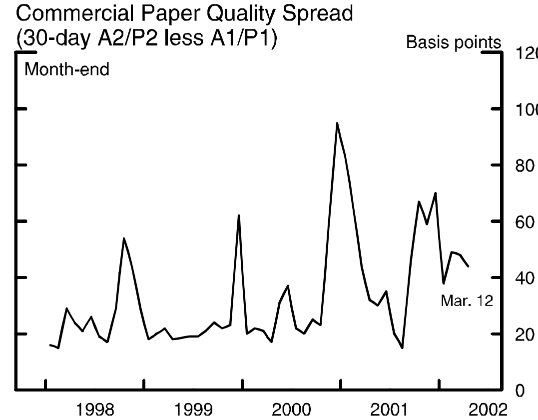
Source. Estimated from Merrill Lynch bond data.

High-Yield Spreads to 10-Year AAA Yield



Source. Merrill Lynch.

Commercial Paper Quality Spread (30-day A2/P2 less A1/P1)



chicanery, and press reports that some commercial banks were paring their backup lines of credit.

Business Finance

Although some companies were shut out of the commercial paper market, nonfinancial corporations on the whole tapped bond markets and banks heavily for financing over the intermeeting period.

Gross issuance of corporate bonds by nonfinancial corporations—especially by investment-grade firms—rebounded in February and strengthened further in early March. In contrast, issuance of speculative-grade bonds fell from January's level, as the two largest industries in this market, telecom and energy, continued to be troubled by overcapacity and excess leverage. In early March, the calendar for new junk-bond issuance perked up.

Outstanding nonfinancial commercial paper plummeted 10 percent in February (not at an annual rate) and continued to fall in early March. Several companies that investors perceived as having dodgy accounting practices were shut out of the CP market, forcing them to tap backup credit lines at banks. Bank C&I loans rose briskly over this period, a move reflecting in part some of these CP drawdowns. But the fact that C&I lending also accelerated at small banks, which are less likely to offer commercial paper backup lines, suggests that underlying demand for business loans may be firming. On balance, net debt financing of nonfinancial corporations rose considerably in February from January's anemic pace.

Equity issuance, through both IPOs and seasoned offerings, was very weak in February, although the schedule for coming weeks shows some signs of a pickup. Announcements of share repurchases continued to decline, falling to about half of last quarter's pace, as firms sought to preserve their cash holdings.

Analysts estimate that earnings of S&P 500 firms will decline in the first quarter from year-earlier levels, but the magnitude of the fall is expected to be the smallest since the fourth quarter of 2000. At the same time, backward-looking measures of corporate credit quality continued to be weak. In January, credit rating downgrades outpaced upgrades by a very wide margin, a pace similar to that of the previous quarter. The twelve-month moving average of the rate of bond defaults remained extremely high in February, while the delinquency rate on C&I loans at banks worsened further in the fourth quarter of 2001. A private-sector estimate of future bond default rates based on equity prices stayed at an elevated level.

Commercial Real Estate Finance

Commercial mortgage debt grew at a 12 percent annual rate in the fourth quarter of last year, boosted by record CMBS issuance; so far this year, issuance is

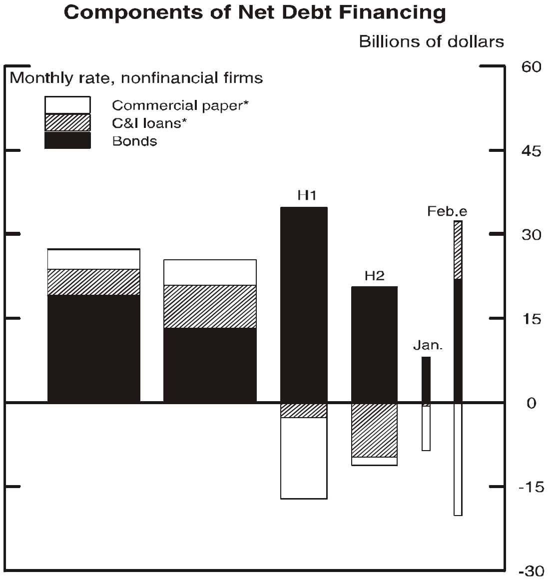
Gross Issuance of Securities by U.S. Corporations

(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1999	2000	2001 H1	2001 H2	2002 Jan.	2002 Feb.[e]
Nonfinancial corporations						
Stocks [1]	9.2	9.9	7.5	5.5	9.5	2.2
Initial public offerings	4.2	4.4	3.2	1.0	1.3	1.1
Seasoned offerings	5.0	5.5	4.2	4.5	8.2	1.1
Bonds [2]	24.5	20.2	43.1	31.2	18.9	29.9
Investment grade [3]	13.9	11.9	28.9	24.0	9.7	24.4
Speculative grade [3]	7.5	4.5	11.9	5.8	7.9	4.9
Other (Sold Abroad/Unrated)	3.1	3.7	2.4	1.4	1.2	0.6
Memo:						
Net issuance of commercial paper [4]	3.6	4.5	-14.5	-1.5	-8.0	-20.2
Change in C&I loans at commercial banks [4]	4.7	7.6	-2.8	-10.1	-0.6	10.4
Financial corporations						
Stocks [1]	1.8	1.4	3.0	5.5	4.8	1.1
Bonds	53.9	47.1	69.9	64.7	71.3	34.7

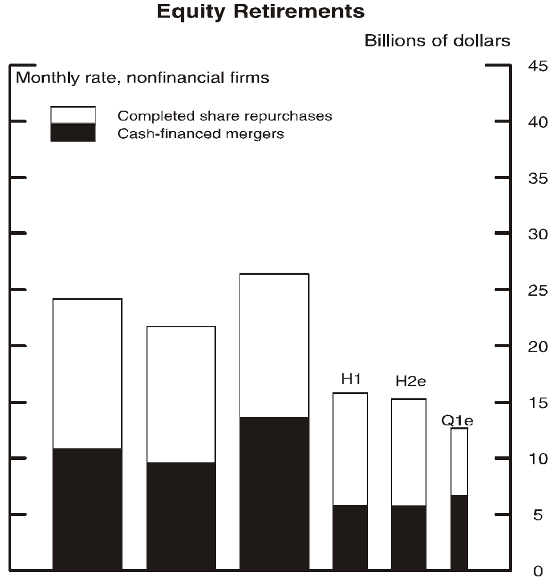
Note. Components may not sum to totals because of rounding. These data include speculative-grade bonds issued privately under Rule 144A. All other private placements are excluded. Total reflects gross proceeds rather than par value of original discount bonds.
1. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.
2. Excludes mortgage-backed and asset-backed bonds.
3. Bonds sold in U.S. categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's.
4. End-of-period basis, seasonally adjusted.
e Staff estimate.

Components of Net Debt Financing



* Seasonally adjusted.
e Staff estimate.

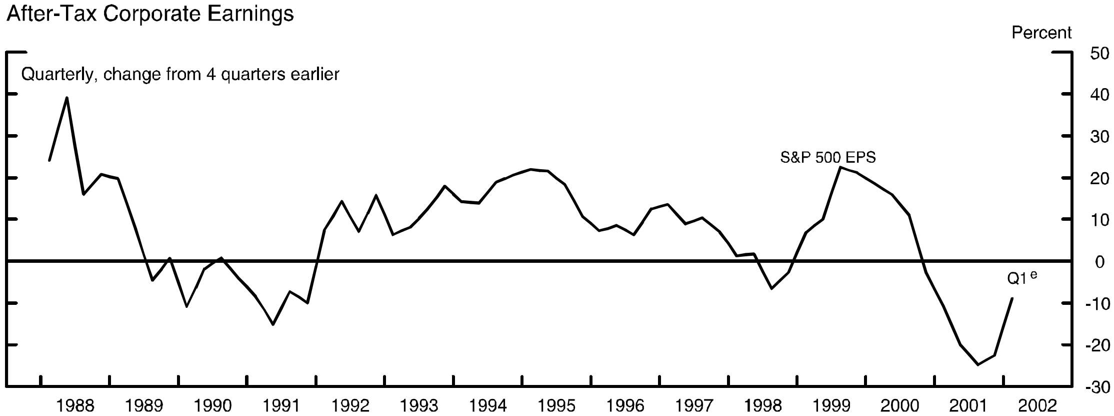
Equity Retirements



e Staff estimate.

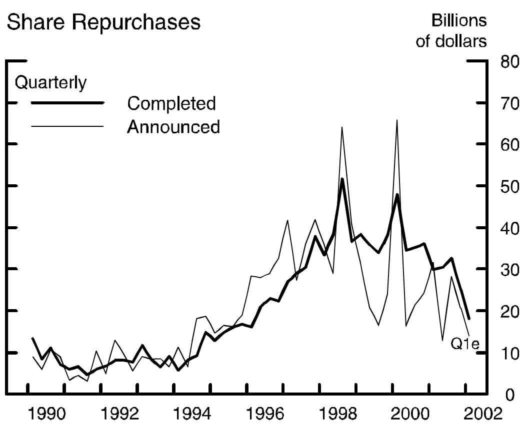
Corporate Earnings and Credit Quality

After-Tax Corporate Earnings



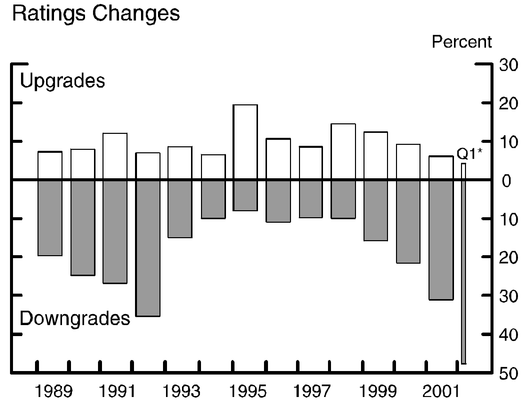
e Staff estimate.
Source. I/B/E/S.

Share Repurchases



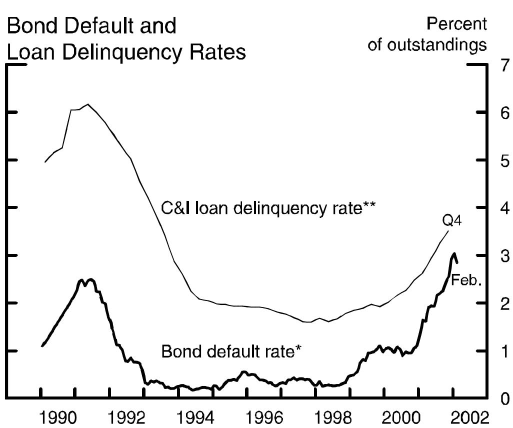
e Staff estimate.

Ratings Changes



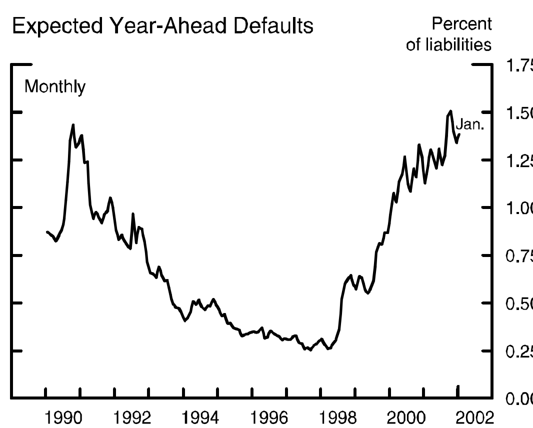
Note. Nonfinancial debt upgrades (downgrades) as a percentage of par value of all bonds outstanding.
*Quarter-to-date, at an annual rate
Source. Moody's Investors Service.

Bond Default and Loan Delinquency Rates



*12-month moving average, from Moody's Investors Service.
**Quarterly rate, from the Call Report.

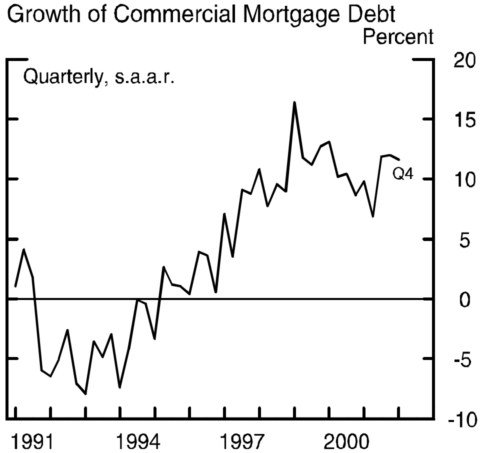
Expected Year-Ahead Defaults



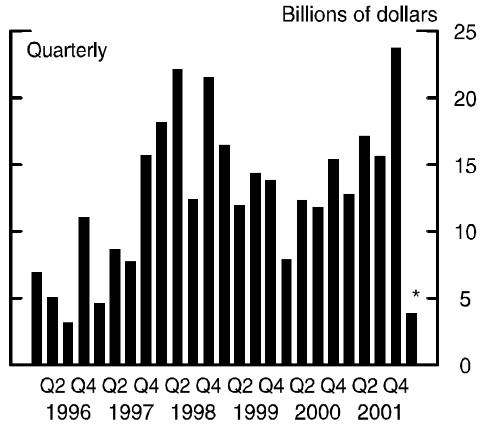
Note. Firm-level estimates of default weighted by firm liabilities as a percent of total liabilities.
Source. KMV Corp.

Commercial Real Estate

Growth of Commercial Mortgage Debt

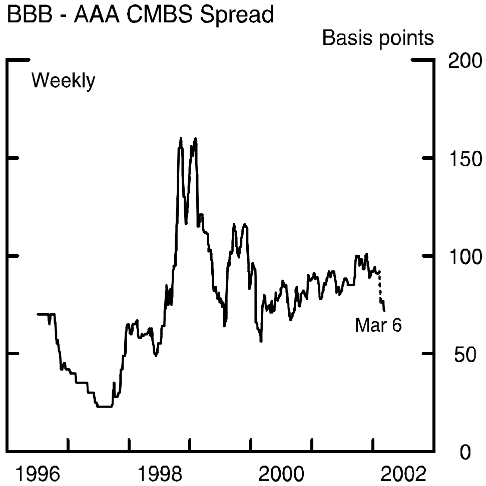


Total CMBS Gross Issuance



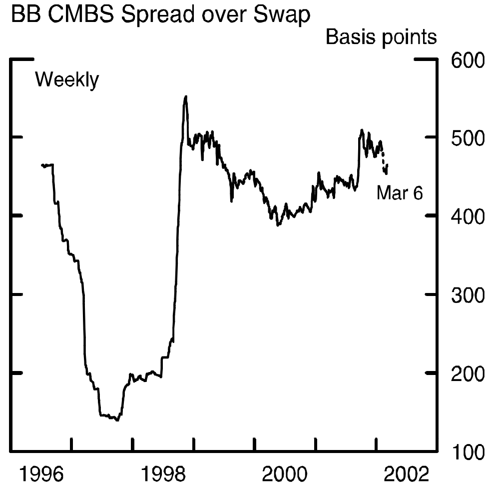
* Period to Date
Source. Commercial Mortgage Alert.

BBB - AAA CMBS Spread



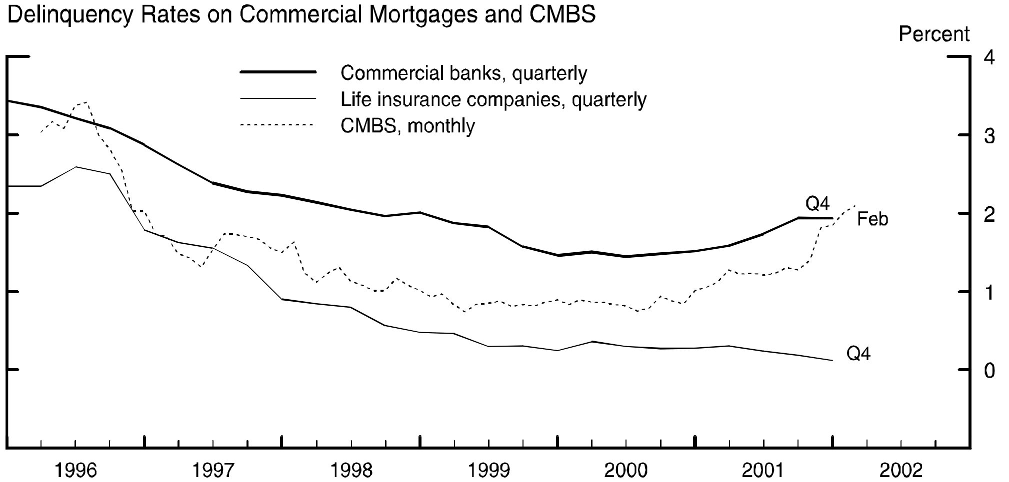
Note. Yield indexes were rebalanced on Feb. 1, 2002.
Source. Morgan Stanley.

BB CMBS Spread over Swap



Note. Yield indexes were rebalanced on Feb. 1, 2002.
Source. Morgan Stanley.

Delinquency Rates on Commercial Mortgages and CMBS



Source. Call Report, ACLI, Morgan Stanley.

slightly weaker than at the same time last year. Sustained investor appetite for CMBS has kept spreads within their range of the past few years.[1]

Data on commercial mortgage quality indicate some pockets of problems within a generally favorable overall picture. Delinquency rates on CMBS pools have continued to rise, reaching a four-year high of about 2 percent in February. By contrast, the delinquency rates on commercial mortgages at banks remained steady in the fourth quarter of last year and those on mortgages held by insurance companies continued to trend lower. The latest delinquency rates from both sets of institutions, which together account for about 70 percent of commercial mortgage debt, are very low by historical standards.

The concerns about terrorism insurance seem to have left only a limited imprint on the CMBS market. As noted, risk spreads in this market have not moved higher, probably because the vast majority of commercial properties in the United States are located either in the suburbs, in strip developments, or in less-frequented parts of cities and are thus viewed by CMBS investors as unlikely targets for terrorism. Further, most CMBS deals are backed by a geographically diversified portfolio of properties. Even CMBS deals backed by relatively large (but not "trophy") properties in New York City have gone forward since September 11, albeit at slightly wider spreads. The market disruption appears limited to CMBS issues backed by a single, high-profile property; none of these single-asset deals have come to market since last fall, and existing deals are trading at significantly higher spreads or are not trading at all.

Household Finance

Mortgage interest rates have remained more or less flat since the last FOMC, thereby helping to maintain strong levels of house purchase activity.[2] Refinancing activity, by contrast, is down from its recent peaks but remains high by historical standards.

Households continued to borrow at a strong pace in the fourth quarter of last year. Mortgage debt growth slowed only slightly from its recent highs, to about a 9 percent annual pace, while consumer debt growth rebounded sharply, to an 8-1/4 percent annual pace, a move driven in part by strong growth in automobile financing. We expect total household borrowing to moderate somewhat in the first quarter of this year but to remain relatively brisk.

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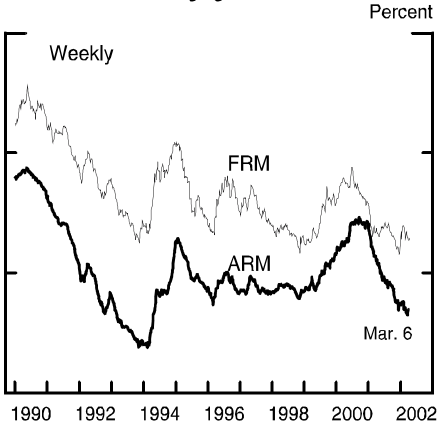
1. The CMBS yield indexes were rebalanced on February 1, 2002, resulting on net, in reported yields dropping as much as 20 basis points. The dotted line in the chart panels indicates this rebalancing effect.

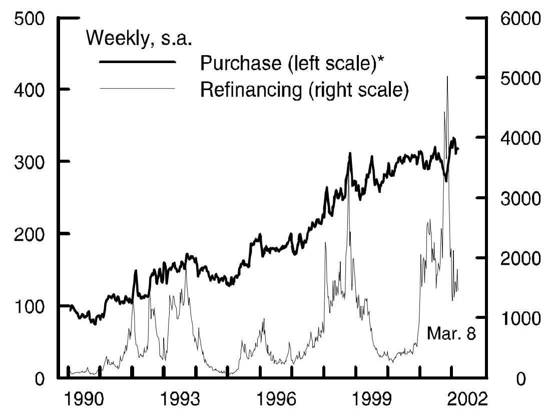
2. However, with the recent increases in market rates, it is likely the mortgage rate this week (released after the close of Greenbook) will be noticeably higher. Yields on mortgage-backed securities rose about 20 basis points in the past week.

Household Liabilities

Freddie Mac Mortgage Rates

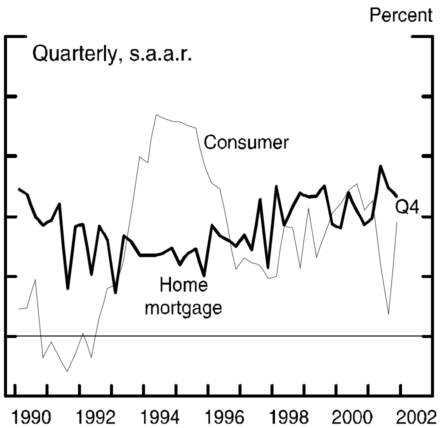


MBA Mortgage Indexes

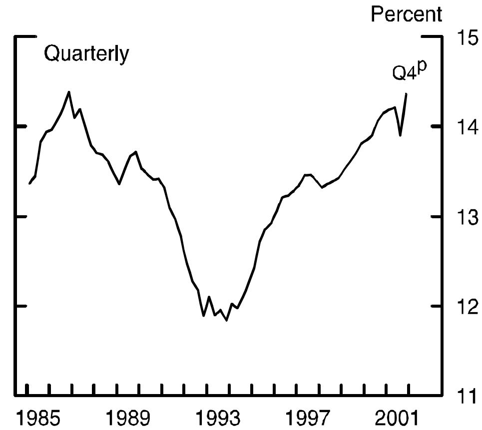


* 4-week moving average.
Note. March 16, 1990 = 100 before seasonal adj.

Household Debt Growth

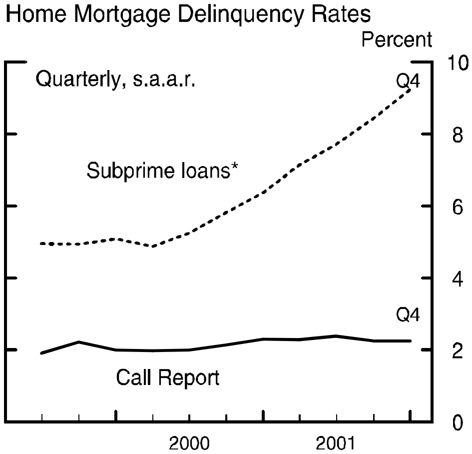


Household Debt Service Burden



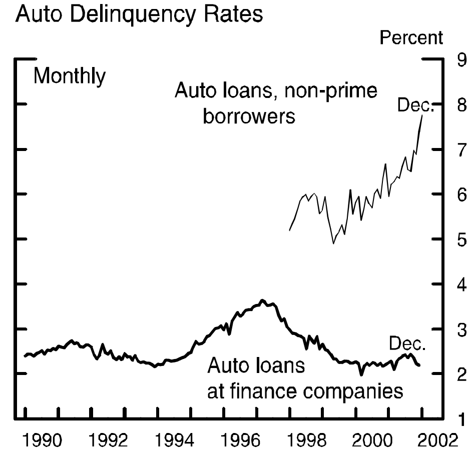
Note. Required debt payments relative to disposable personal income.

Home Mortgage Delinquency Rates



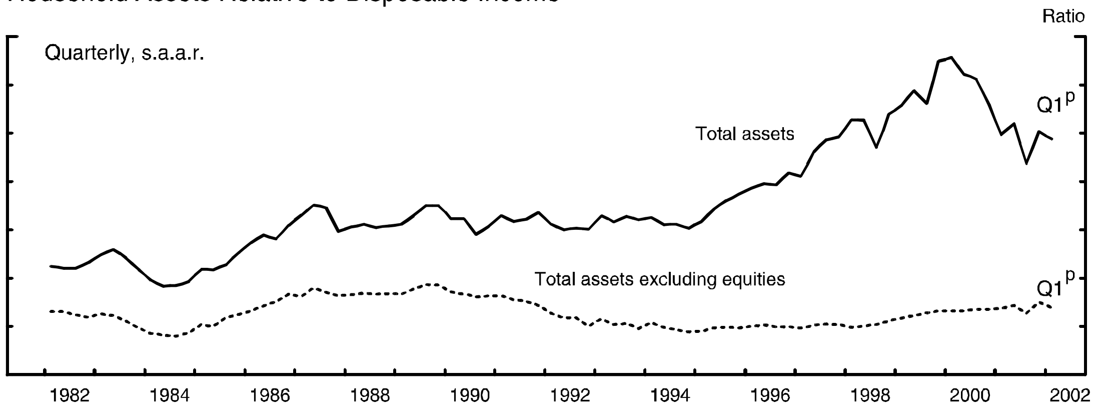
* Data from the Mortgage Information Corporation.

Auto Delinquency Rates



Household Assets

Household Assets Relative to Disposable Income



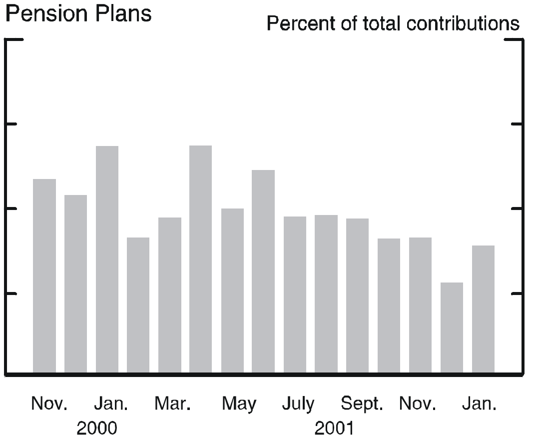
p. Staff projection.

Net Flows into Long-Term Mutual Funds
(Excluding reinvested dividends; billions of dollars, monthly rates)

		2001			2002		Assets
	2000	H1	Q3	Q4	Jan.	Feb. e	Jan.
Total long-term funds	**18.4**	**15.2**	**-0.6**	**13.6**	**32.4**	**26.0**	**4,666**
Equity funds	**25.1**	**8.3**	**-11.6**	**6.3**	**19.6**	**12.5**	**3,372**
Domestic	21.2	9.2	-8.3	8.5	16.2	9.8	2,953
Capital appreciation	25.5	5.3	-8.3	4.0	10.1	4.5	1,770
Total return	-4.3	3.9	-0.0	4.5	6.1	5.3	1,183
International	3.9	-0.8	-3.3	-2.2	3.4	2.6	420
Hybrid funds	**-2.6**	**1.0**	**-0.2**	**1.2**	**2.2**	**2.0**	**347**
Bond funds	**-4.0**	**5.9**	**11.3**	**6.2**	**10.6**	**11.6**	**947**
International	-0.2	0.0	-0.1	-0.3	0.0	0.1	19
High-yield	-1.0	0.9	-0.3	0.9	1.9	0.1	97
Other taxable	-1.6	4.2	10.0	4.9	7.2	8.7	531
Municipals	-1.2	0.8	1.7	0.6	1.5	2.7	300

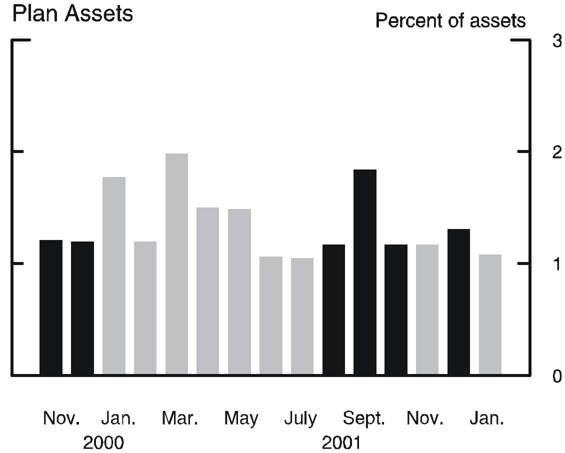
e. Staff estimates based on confidential ICI weekly data. Source. Investment Company Institute (ICI).

Equity Allocation of New Contributions to 401(k) Pension Plans



Note. Consists of equity mutual funds and company stock.
Source. Hewitt Associates.

Transfers Among Existing 401(k) Pension Plan Assets

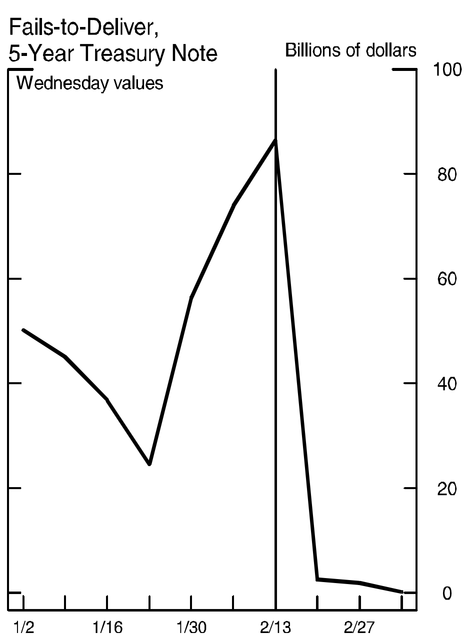


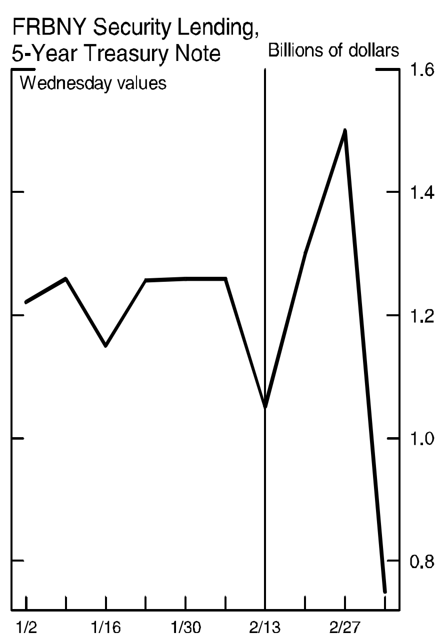
Note. Shading indicates predominant direction of transfers: dark bars indicate transfers toward fixed income investments, light bars indicate transfers toward equity.
Source. Hewitt Associates.

Treasury Financing
(Billions of dollars)

Item	2001				2002	
	Q2	Q3	Q4	Dec.	Jan.	Feb.(e)
Total surplus, deficit (−)	**193.7**	**-41.9**	**-37.1**	**26.6**	**43.7**	**n.a.**
Means of financing deficit						
Net borrowing	-157.4	68.6	59.5	-8.8	-15.2	63.5
Nonmarketable	6.2	-5.7	10.5	2.1	-0.6	-1.4
Marketable	-163.6	74.4	49.0	-10.9	-14.6	64.9
Bills	-92.1	114.8	73.3	-5.1	-18.6	40.5
Coupons[1]	-62.3	-32.6	-15.8	-1.5	3.9	24.4
Debt buybacks	-9.2	-7.7	-8.5	-4.2	0.0	0.0
Decrease in cash balance	-15.4	-.5	-8.1	-21.8	-23.0	30.7
Other[2]	-20.9	-26.2	-14.3	4.1	-5.5	n.a.
MEMO						
Cash balance, end of period	43.7	44.2	52.4	52.4	75.4	44.6

NOTE. Components may not sum to totals because of rounding.
1. Does not include Treasury debt buybacks.
2. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.
e. Estimated.
n.a. Not available.





Note. Vertical lines indicate settlement of the 5-year note auctioned February 5, 2002.

Despite last year's drop in interest rates on loans to households, rapid debt growth caused the debt-service burden to hit about 14-1/2 percent in the fourth quarter, near its mid-1980s peak. Delinquency rates for prime borrowers appear to have risen only slightly, but those for subprime borrowers have remained on a steep uptrend. Although the precise size of the subprime market is unknown, we estimate that subprime loans are a small part of total household debt—perhaps 10 percent or so.

The ratio of household assets to disposable income is projected to have dipped slightly in the first quarter, as disposable income growth outpaced that of household assets. In allocating these assets, households have regained their taste for corporate equities in recent months. Net flows into equity mutual funds averaged about $15 billion per month in January and February, well above the monthly average for all of 2001. Further, 401(k) plan participants directed more of their new contributions toward equity funds, and transfers among existing accounts favored equity funds in January.

Government Finance

The Treasury's budget position swung to deficit in the intermeeting period, largely because of normal seasonal variations in expenditures and receipts. Although such predictions are highly uncertain, we believe that total Treasury debt will come close to, but not breach, its legal ceiling in late March, before the annual flood of revenue arrives in April. Although market participants were surprised that a fiscal stimulus package was enacted, there was reportedly little net effect on yields.

The Treasury's mid-quarter refunding operation included a re-opening of the five-year on-the-run note, which had been in short supply in the repo market. The Federal Reserve had helped to satisfy demand for this security by lending from its portfolio, and the supply crunch vanished quickly after the note was re-opened.[3]

In municipal bond markets, state and local governments borrowed significantly less money for new capital expenditures in January and February than they did at the end of last year. Refunding activity, in contrast, remained elevated in February as issuers took advantage of continuing low yields. Although ratings upgrades outpaced downgrades in 2001, the worsening budgetary positions of many state and local governments indicate that credit ratings may deteriorate in coming months.

3. The Treasury reported in late February that it had discovered a series of fraudulent noncompetitive bids at several auctions; according to market participants, these bids did not have a lasting effect on the broader markets.

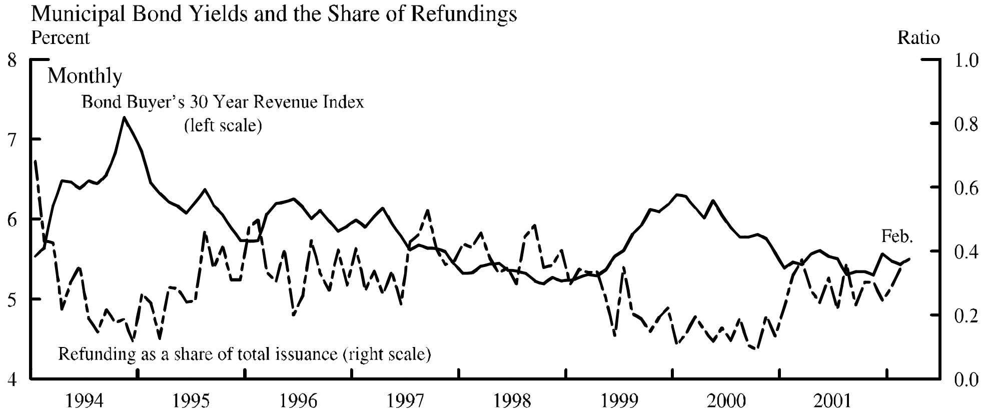
State and Local Government Finance

Gross Offerings of Municipal Securities
(Billions of dollars; monthly rates, not seasonally adjusted)

	2000	2001	2001 H1	2001 H2	2001 Dec.	2002 Jan.	2002 Feb.
Long-term [1]	15.0	22.5	21.4	23.7	28.4	20.5	20.2
Refundings [2]	2.2	6.5	6.4	6.7	7.0	5.9	6.9
New capital	12.9	16.0	15.0	17.1	21.4	14.6	13.2
Short-term	2.8	4.3	3.7	5.0	2.4	2.1	1.5
Total tax-exempt	17.9	26.9	25.0	28.7	30.8	22.6	21.7
Total taxable	0.7	1.1	1.2	1.0	0.6	1.2	0.7

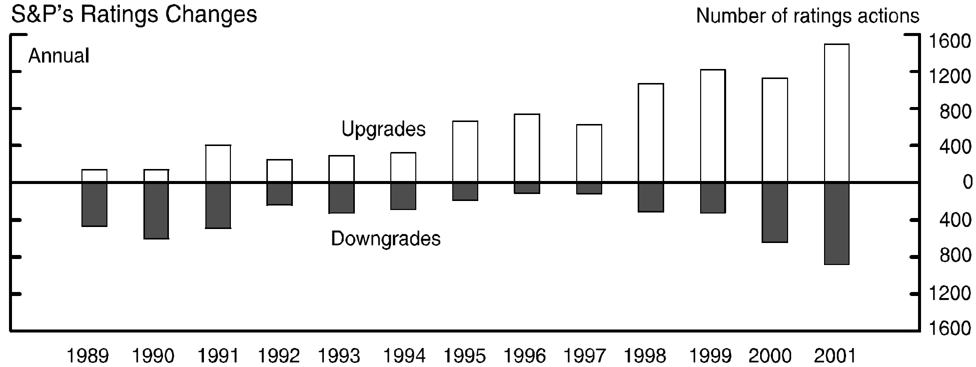
1. Includes issues for public and private purposes.
2. All issues that include any refunding bonds.

Municipal Bond Yields and the Share of Refundings



Note. Average of weekly data.

S&P's Ratings Changes



Source. S&P's Credit Week Municipal.

Commercial Bank Credit

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

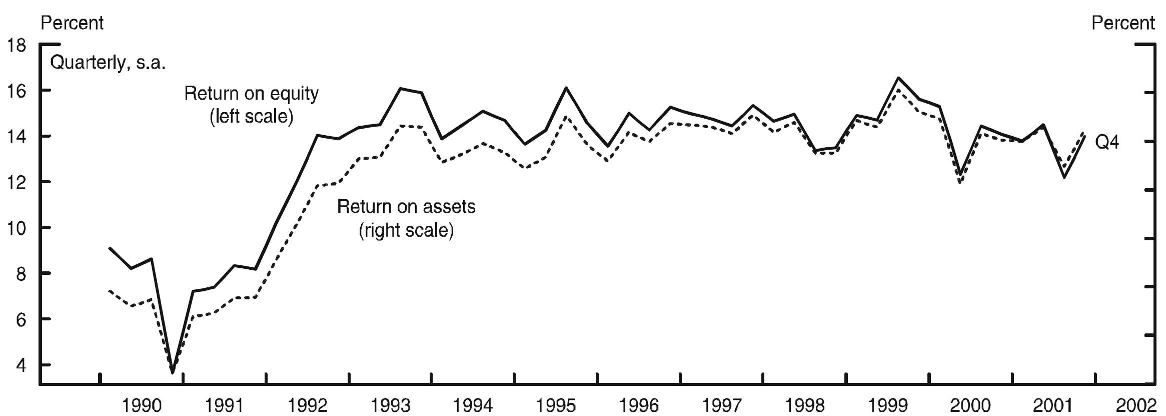
Type of credit	2001	Q3 2001	Q4 2001	Dec. 2001	Jan. 2002	Feb.p 2002	Level, Feb. 2002p ($ billions)
Total							
1. Adjusted[1]	**3.8**	**2.8**	**2.3**	**2.5**	**-2.6**	**3.9**	**5,269**
2. Reported	4.5	3.0	3.1	-4.7	-2.3	3.5	5,411
Securities							
3. Adjusted[1]	8.9	13.1	13.7	24.1	-2.2	1.0	1,329
4. Reported	11.3	12.9	15.5	-4.7	-1.1	-.1	1,470
5. Treasury & Agency	2.3	3.6	21.6	23.6	-19.4	-2.7	808
6. Other[2]	24.8	24.5	8.3	-39.0	22.4	3.1	663
Loans[3]							
7. Total	2.2	-.4	-1.3	-4.7	-2.8	4.9	3,941
8. Business	-4.5	-9.1	-11.9	-16.7	-10.4	11.2	1,024
9. Real estate	6.1	3.9	7.3	6.9	-1.1	6.2	1,771
10. Home equity	17.7	13.3	29.2	27.3	33.7	29.0	161
11. Other	5.1	3.1	5.4	5.0	-4.4	3.9	1,610
12. Consumer	3.9	-1.7	5.8	.9	6.0	2.1	564
13. Adjusted[4]	6.5	1.5	8.9	3.3	7.7	-1.9	904
14. Other[5]	1.6	4.5	-13.3	-23.0	-2.9	-7.6	582

Note. All data are adjusted for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates are percentage changes in consecutive levels, annualized but not compounded.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FIN 115).
2. Includes private mortgage-backed securities, securities of corporations, state and local governments, and foreign governments and any trading account assets that are not Treasury or Agency securities, including revaluation gains on derivative contracts.
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.

p Preliminary.

Measures of Commercial Bank Profitability



Banking Sector

Bank credit expanded at a 4 percent rate in February after posting a slight decline in January. Much of the growth in February came from C&I loans, which advanced at about an 11-1/4 percent rate after a year of considerable weakness.

The asset quality of commercial banks continued to deteriorate in the fourth quarter of 2001. In particular, the delinquency rate for C&I loans increased to 3.5 percent, the highest level since the third quarter of 1993, and charge-offs surged to the highest level over the past decade. Although worries about loan losses led banks to sharply increase their loss provisions, bank profits still rose in the fourth quarter.

Monetary Aggregates

M2 growth in January and February was well below last year's rapid pace. Returns on liquid deposits and money market mutual funds have fallen in a typical lagged response to last year's drop in short-term interest rates, reducing demand for M2 assets. Households evidently perceive as well that M2 holdings have become less attractive relative to riskier assets, as flows to bond and stock mutual funds have picked up at the expense of money market funds. In addition, the reduced level of mortgage refinancings in recent months has contributed to the deceleration of M2. M3 growth has also slowed this year, reflecting the behavior of M2 as well as a runoff of institutional money funds as their yields sagged. The drop in M3 growth was tempered, however, by a pickup in issuance of large time deposits by banks.

Monetary Aggregates

(Based on seasonally adjusted data)

Aggregate or component	2001	2001 Q3	2001 Q4	2001 Dec.	2002 Jan.	2002 Feb (p)	Level (bil. $) Feb. 02 (p)
Aggregate	Percent change (annual rate) [1]						
1. M2[2]	10.3	11.3	9.5	9.3	2.3	6.6	5499.2
2. M3	12.8	10.3	12.4	10.4	0.0	6.4	8072.2
Selected components							
3. Currency	9.0	11.4	10.0	10.4	11.8	10.4	590.9
4. Liquid deposits[3]	17.9	21.1	17.6	20.6	14.8	20.0	2982.5
5. Small time deposits	-5.0	-8.6	-12.0	-16.8	-18.1	-14.2	946.5
6. Retail money market funds	8.5	6.2	9.1	2.2	-19.9	-15.2	971.6
7. M3 minus M2[4]	18.4	8.1	18.8	12.8	-4.7	5.8	2573.0
8. Large time deposits, net[5]	-2.7	-5.0	-6.3	5.1	31.0	5.2	810.5
9. Institution-only money market mutual funds	50.7	27.2	49.2	26.2	-30.2	-0.8	1166.3
10. RPs	1.0	-8.1	-0.8	2.9	2.6	10.6	377.6
11. Eurodollars	9.8	-1.1	-1.7	-14.5	-6.2	36.8	218.7
Memo							
12. M1	6.8	16.5	1.5	15.0	3.1	0.9	1182.2
13. Sweep-adjusted M1[6]	7.9	14.1	5.8	13.7	5.3	3.4	1647.6
14. Demand deposits	3.9	28.2	-7.3	11.8	-10.6	-11.8	323.3
15. Other checkable deposits	6.3	12.7	-4.2	30.2	0.0	-4.1	260.2
16. Savings deposits	21.8	21.0	24.2	20.8	20.1	27.1	2399.0
17. Monetary base	8.5	14.4	6.6	9.8	13.8	8.7	646.5
	Average monthly change (billions of dollars)[7]						
Selected managed liabilities at commercial banks							
18. Large time deposits, gross	3.3	-4.5	8.5	8.7	13.7	3.9	1002.3
19. Net due to related foreign institutions	-6.6	-3.2	-7.5	-13.6	-18.8	-17.5	111.3
20. U.S. government deposits at commercial banks	1.5	5.3	0.1	-0.3	-5.3	15.0	43.5

1. For the years shown, Q4 to Q4 precent change. For the quarters shown, based on quarterly averages.
2. Sum of M1, retail money market funds, saving deposits, and small time deposits.
3. Sum of demand deposits, other checkable deposits, and saving deposits.
4. Sum of large time deposits, institutional money funds, RP liabilities of depository institutions, and Eurodollars held by U.S. addressees.
5. Net of holdings of depository institutions, money market mutual funds, U.S. government and foreign banks and official institutions.
6. Sweep figures used to adjust these series are the estimated national total of transaction account balances initially swept into MMDAs owing to the introduction of new sweep programs on the basis of monthly averages of daily data.
7. For the years shown, "average monthly change" is the Q4 to Q4 dollar change divided by 12. For the quarters shown, it is the quarter-to-quarter dollar change, divided by 3.

p--Preliminary

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International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

In December, the U.S. trade deficit in goods and services was $25.3 billion, much smaller than in the previous two months. In the fourth quarter, the nominal deficit was $333 billion at an annual rate, about $20 billion smaller than would have been recorded in the third quarter in the absence of a one-time large estimated insurance payment by foreign insurers related to the events of September 11. The Bureau of Economic Analysis (BEA) estimates that NIPA real net exports of goods and services weakened a bit in the fourth quarter as real exports fell more than real imports declined.

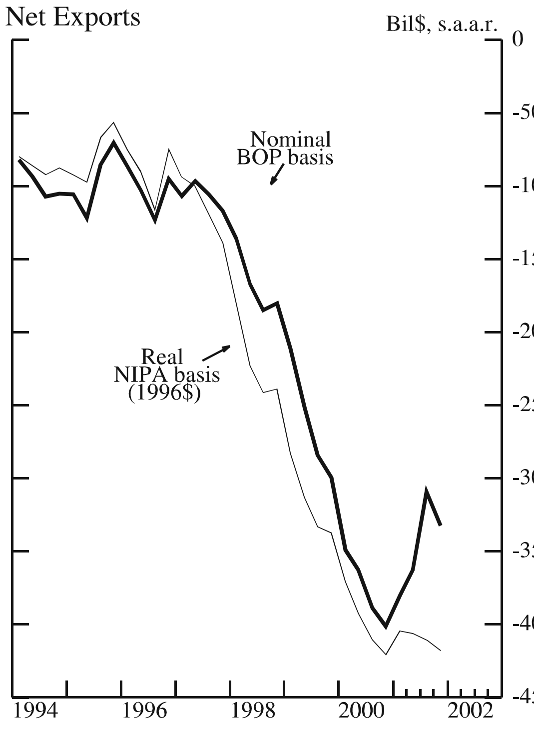
Net Trade in Goods and Services
(Billions of dollars, seasonally adjusted)

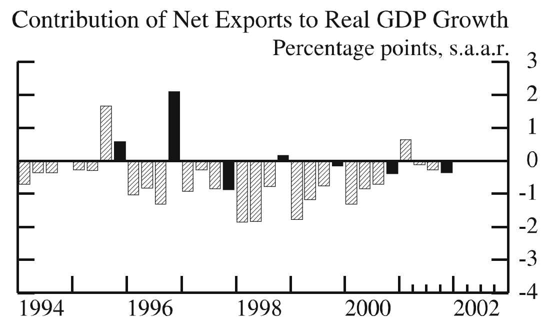
	2001	Annual rate 2001			Monthly rate 2001		
		Q2	Q3	Q4	Oct.	Nov.	Dec.
Real NIPA[1]							
Net exports of G&S	-410.2	-406.7	-411.0	-418.5	...	...	...
Nominal BOP							
Net exports of G&S	-346.3	-362.6	-309.2	-332.8	-29.4	-28.5	-25.3
Goods, net	-426.6	-431.0	-422.2	-402.8	-35.1	-34.3	-31.3
Services, net	80.3	68.5	113.0	70.0	5.7	5.7	6.1

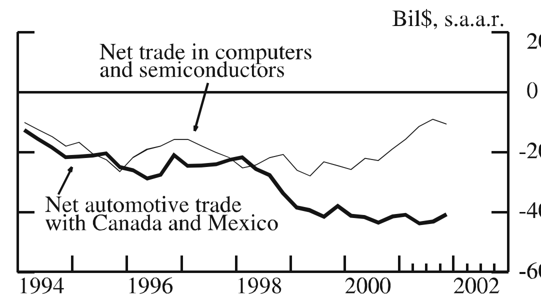
1. Billions of chained (1996) dollars.
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.
n.a. Not available. ... Not applicable.

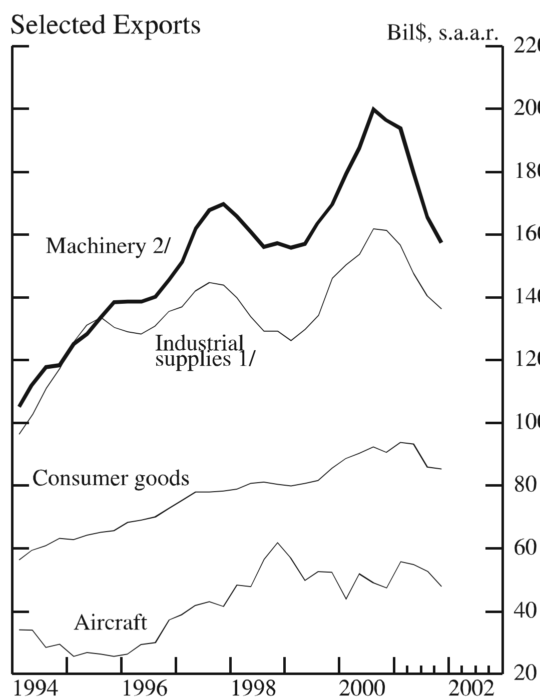
The value of exported goods and services rose a marginal 0.2 percent in December. Even though this was the third month of increase from the September low, the level in December was still 6 percent less than the average for July-August. Goods exports declined in December (primarily aircraft and automotive products) while exports of services rose strongly for the second consecutive month (primarily travel and passenger fares). For the fourth quarter, the value of exports dropped 15 percent at an annual rate, with declines recorded in all major trade categories (except agricultural products) and regions. BEA estimates that NIPA real exports of goods and services fell 12 percent at an annual rate in Q4. Services declined at a slightly faster rate than goods. Exports of core goods fell 10 percent at an annual rate. For the year, real exports of goods and services declined 10 percent (Q4/Q4).

U.S. International Trade in Goods and Services

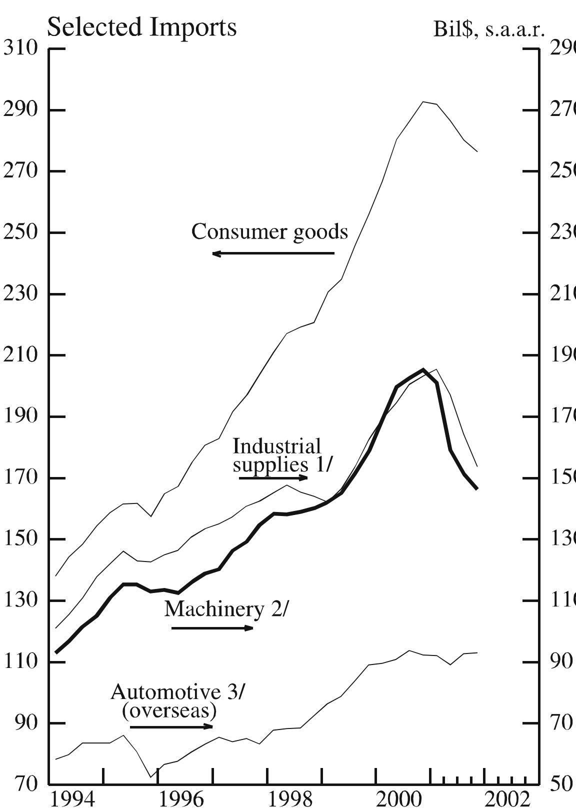








1. Excludes agriculture and gold.
2. Excludes computers and semiconductors.



1. Excludes oil and gold.
2. Excludes computers and semiconductors.
3. Excludes Canada and Mexico.

U.S. Exports and Imports of Goods and Services

(Billions of dollars, s.a.a.r., BOP basis)

	Levels				Amount Change[1]			
	2001		2001		2001		2001	
	Q3	Q4	Nov.	Dec.	Q3	Q4	Nov.	Dec.
Exports of G&S	**972.1**	**932.4**	**932.8**	**934.3**	**-63.5**	**-39.7**	**2.7**	**1.5**
Goods exports	693.7	669.6	672.2	659.2	-48.2	-24.1	-5.3	-13.0
Gold	2.4	2.9	3.0	3.1	-5.2	0.5	0.5	0.1
Other goods	691.3	666.8	669.2	656.1	-43.0	-24.5	-5.8	-13.1
Aircraft & parts	52.8	47.8	50.5	39.1	-2.0	-5.1	-3.2	-11.4
Computers	44.4	41.9	40.8	42.8	-4.1	-2.4	-1.3	2.0
Semiconductors	38.6	37.9	38.3	37.1	-7.5	-0.7	-0.2	-1.2
Other capital gds	167.8	160.3	161.3	163.6	-14.2	-7.5	5.3	2.3
Automotive	77.4	73.0	74.7	68.9	1.1	-4.3	-0.7	-5.9
to Canada	40.3	38.5	39.6	37.5	-2.0	-1.8	1.0	-2.1
to Mexico	15.6	16.6	17.5	13.2	-0.3	1.0	-1.7	-4.2
to ROW	21.4	17.9	17.7	18.2	3.3	-3.5	-0.0	0.5
Agricultural	55.0	56.5	57.4	54.5	1.0	1.5	-0.2	-2.9
Ind supplies (ex. ag)	140.3	136.3	134.4	136.3	-7.2	-4.0	-3.8	2.0
Consumer goods	85.8	85.4	83.9	87.0	-7.6	-0.5	-1.3	3.1
All other goods	29.2	27.7	27.9	26.8	-2.5	-1.6	-4.3	-1.1
Services exports	278.5	262.8	260.7	275.1	-15.3	-15.7	8.1	14.5
Imports of G&S	**1281.3**	**1265.2**	**1275.4**	**1237.9**	**-116.9**	**-16.1**	**-7.0**	**-37.5**
Goods imports	1115.8	1072.4	1083.4	1035.4	-57.0	-43.4	-15.0	-48.1
Petroleum	102.6	81.1	78.3	70.0	-11.6	-21.5	-16.6	-8.3
Gold	2.2	2.5	2.9	1.5	-4.3	0.3	0.0	-1.4
Other goods	1011.1	988.9	1002.2	963.8	-41.2	-22.2	1.5	-38.4
Aircraft & parts	30.7	32.0	32.1	32.5	-0.3	1.3	0.6	0.4
Computers	67.6	67.6	67.7	65.9	-7.9	-0.0	-1.3	-1.8
Semiconductors	24.4	22.9	23.5	22.3	-6.1	-1.5	0.6	-1.2
Other capital gds	153.7	148.6	150.0	145.4	-8.0	-5.2	-0.3	-4.6
Automotive	191.9	188.9	192.2	186.0	0.8	-3.0	3.6	-6.2
from Canada	58.9	55.6	56.6	56.2	-2.0	-3.3	2.4	-0.3
from Mexico	40.2	40.2	40.9	35.8	-0.9	-0.1	-2.8	-5.1
from ROW	92.8	93.1	94.7	94.0	3.7	0.4	4.0	-0.8
Ind supplies	164.4	153.7	154.7	149.4	-12.7	-10.7	-2.3	-5.3
Consumer goods	280.0	276.3	282.3	264.7	-6.4	-3.6	0.4	-17.6
Foods, feeds, bev.	47.9	47.2	48.1	45.7	2.2	-0.7	0.2	-2.4
All other goods	50.4	51.7	51.7	51.9	-2.6	1.3	0.2	0.2
Services imports	165.5	192.8	192.0	202.5	-59.8	27.3	8.0	10.5
Memo:								
Oil quantity (mb/d)	11.95	12.06	11.96	11.64	-0.96	0.11	-0.63	-0.32
Oil import price ($/bbl)	23.50	18.34	17.92	16.47	-0.71	-5.15	-2.71	-1.45

1. Change from previous quarter or month.

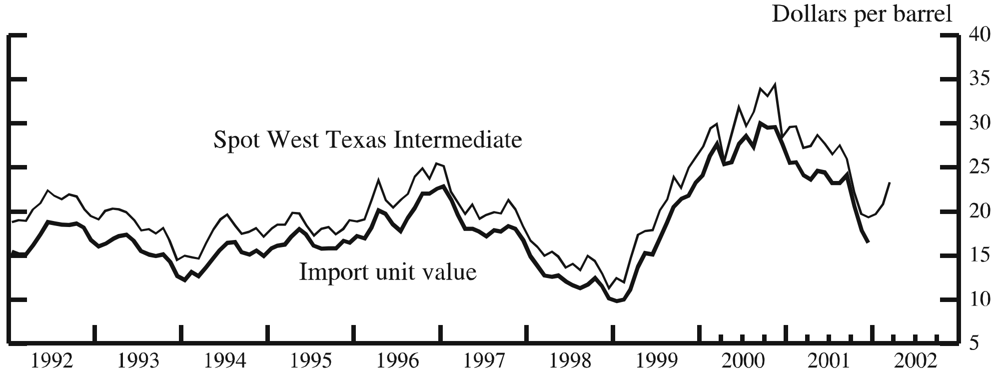
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

	Annual rates 2001 Q2	Annual rates 2001 Q3	Annual rates 2001 Q4	Monthly rates 2001 Nov.	Monthly rates 2001 Dec.	Monthly rates 2002 Jan.
	------------- BLS prices (2000 weights)-------------					
Merchandise imports	375.4	-7.2	-13.8	-1.5	-0.9	0.4
Oil	-10.8	-12.2	-65.3	-12.9	-5.8	6.0
Non-oil	367.4	-6.6	-4.0	-0.2	-0.4	0.1
Core goods*	-5.9	-6.3	-3.7	-0.2	-0.3	0.1
Cap. goods ex comp & semi	-1.5	-1.1	-0.4	-0.2	-0.3	-0.1
Automotive products	399.5	-0.5	1.3	-0.1	0.1	-0.2
Consumer goods	-1.2	-1.1	-1.3	-0.1	0.0	0.0
Foods, feeds, beverages	-9.1	-6.9	0.6	0.7	-0.6	1.4
Industrial supplies ex oil	270.6	-20.9	-15.3	-0.9	-1.1	0.0
Computers	-12.7	-13.4	-12.5	-0.1	-0.2	0.0
Semiconductors	-6.2	-1.2	-2.1	-0.1	-1.2	-0.1
Merchandise exports	393.9	-2.8	-4.0	-0.4	-0.3	-0.1
Core goods*	-1.7	-2.1	-3.4	-0.4	-0.3	0.1
Cap. goods ex comp & semi	402.9	-0.8	-1.2	0.1	-0.1	0.2
Automotive products	407.6	0.0	0.0	-0.1	0.1	0.0
Consumer goods	-1.1	0.5	0.9	0.1	0.1	-0.5
Agricultural products	376.0	6.2	-8.8	-1.5	1.0	0.7
Industrial supples ex ag	-6.4	-10.7	-10.8	-1.3	-1.2	0.4
Computers	-5.2	-8.0	-5.6	-0.6	-1.9	-0.3
Semiconductors	-7.0	-7.0	-15.2	0.0	0.3	-2.3
Chain price index	---Prices in the NIPA accounts (1996 weights)---					
Imports of goods & services	-6.0	-17.1	2.5	...	...	...
Non-oil merchandise	-5.6	-6.7	-4.1	...	...	...
Core goods*	-5.0	-6.2	-3.4	...	...	...
Exports of goods & services	-1.0	-1.7	-3.1	...	...	...
Total merchandise	-1.5	-2.2	-3.5	...	...	...
Core goods*	-1.0	-1.5	-3.4	...	...	...

*/ Excludes computers and semiconductors.
n.a. Not available. ... Not applicable.

Oil Prices



The value of imported goods and services declined 2.9 percent in December to a level that was 8 percent below the average for July-August. Goods imports fell over 4 percent in the month, with decreases recorded in all major trade categories, especially consumer goods. In contrast, service imports jumped over 5 percent in December, a second consecutive month of strong increases (almost entirely travel and passenger fares). The levels of imports of goods and of services in December were each 8 percent lower than their average for July-August. For the fourth quarter, the value of imported goods and services (excluding the effects of the one-time insurance payment in the third quarter) dropped sharply with notable declines in all major categories of trade–especially oil (primarily price), other industrial supplies, and machinery. BEA estimates that NIPA real imports of goods and services fell 7 percent at an annual rate in Q4 as services payments plunged at a 26 percent pace and goods imports declined moderately. Real core goods imports fell 5 percent at an annual rate, and prices of core goods declined at a 3½ percent pace. For the year, real imports of goods and services declined 8 percent (Q4/Q4).

Prices of Internationally Traded Goods

Oil. The BLS price of imported oil rose 6 percent in January following three months of steep declines. The spot price of West Texas Intermediate also rose moderately in January, and has risen more than $4 per barrel since the end of January to over $24 per barrel–a level not seen since September. Factors generating the price increase include stronger signs of world economic recovery, production restraint by OPEC, and heightened tensions in the Middle East.

Non-oil imports. The price of imported non-oil (and core) goods rose slightly in January, following eleven consecutive monthly declines. The January increase resulted from a rise in prices of food imports, particularly vegetables. Prices in other major categories generally showed little change. In particular, prices for industrial supplies and materials excluding petroleum were unchanged in January after falling for most of the previous year. Prices of both automotive and capital goods were down slightly in January, while the index for consumer goods was unchanged. In January, the price index for imported core goods was slightly below the fourth-quarter average level, which was down about 3½ percent at an annual rate from the third quarter. The fourth quarter decline was concentrated in prices of industrial supplies.

Exports. Prices of U.S. goods exports were little changed in January after falling for several months. The price of exported core goods was up slightly, reflecting increases in the export prices of agricultural products and industrial supplies. The price of capital equipment excluding computers and semiconductors was also up a bit in January while export prices of consumer goods fell. The January level of the price index for exported core goods was a little below the fourth-quarter level, which was down about 3½ percent at an annual rate from the third quarter.

U.S. International Financial Transactions

Incoming data for the fourth quarter have confirmed earlier evidence of a remarkable increase in foreign net purchases of U.S. securities in 2001. (See line 4 of the Summary table of U.S. International Transactions.) In fact, net inflows for the fourth quarter were at record levels and, for the year, net private purchases broke through the $500 billion barrier for the first time. Record inflows for the year were also registered for agency bonds (line 4b) and corporate and municipal bonds (line 4c). For Treasury securities (line 4a), large net purchases in the fourth quarter interrupted the sales that had persisted for most of the past two years; for the year, there were actually modest net purchases. This interest in Treasuries was brief, however, as January saw a return to net sales; sales by Japan, alone, totaled $7 billion. In January, net purchases of agency bonds also evaporated; however, net purchases of corporate and municipal bonds and corporate stocks continued strong (lines 4c and 4d).

It is of some interest to note that a part of line 4c is attributable to the purchase and sale of bonds issued by U.S. subsidiaries of foreign firms, some of which are denominated in foreign currencies and tailored to foreign investors. The total of such issuance was substantial in the last two years. To the extent that these bonds are ultimately claims on the foreign parent of the U.S. subsidiary, balance of payments data may overstate the degree to which foreign investors are changing their U.S. exposure; similarly, to the extent that U.S. residents purchase the same bonds, their foreign exposure can change without any balance of payments flow. For U.S. investors this observation is underlined by the fact that many of these bonds are denominated in foreign currencies.

The purchase of such bonds by U.S. residents may partially explain the net sale of foreign bonds reported for 2001 in line 5a. The sales reported in line 5a are in sharp contrast to the almost $90 billion of foreign equities acquired in 2001 (line 5b plus line 5c).

Capital inflows from foreign official sources slowed to less than $7 billion last year, compared with almost $40 billion in 2000 (line 1). The decline is attributable to a swing from inflows to outflows by OPEC countries and industrial countries in Europe.

Banking positions seesawed throughout the year, but overall netted only a modest inflow for the year (line 3). Direct investment inflows and outflows for the fourth quarter and year will be released the day after Greenbook and will be discussed in a Greenbook Supplement.

Summary of U.S. International Transactions

(Billions of dollars, not seasonally adjusted except as noted)

	2000	2001	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2001 Dec.	2002 Jan.
Official financial flows	**39.3**	**2.0**	**4.8**	**-21.3**	**13.2**	**5.4**	**-10.5**	**5.6**
1. Change in foreign official assets in the U.S. (increase, +)	39.6	6.9	4.6	-20.0	16.8	5.6	-9.7	5.6
a. G-10 countries	12.3	-7.9	-5.5	-6.1	-5.6	9.2	-4.8	2.9
b. OPEC countries	10.7	-1.9	.8	-2.1	-4.7	4.1	.5	-2.6
c. All other countries	16.6	16.8	9.2	-11.8	27.0	-7.7	-5.4	5.3
2. Change in U.S. official reserve assets (decrease, +)	-.3	-4.9	.2	-1.3	-3.6	-.2	-.7	.0
Private financial flows	**404.0**	**n.a.**	**98.8**	**175.7**	**23.5**	**n.a.**	**...**	**...**
Banks								
3. Change in net foreign positions of banking offices in the U.S.[1]	-6.7	13.9	-79.4	29.1	-12.2	76.4	-5.2	-22.8
Securities[2]								
4. Foreign net purchases of U.S. securities (+)	435.7	509.6	149.0	125.0	73.9	161.7	45.9	13.6
a. Treasury securities	-52.4	16.4	.7	-8.5	-9.3	33.4	10.2	-14.6
b. Agency bonds	111.9	144.2	38.8	29.4	33.1	42.9	6.7	1.6
c. Corporate and municipal bonds	182.1	224.9	68.9	69.6	37.2	49.2	13.1	15.3
d. Corporate stocks[3]	194.0	124.2	40.7	34.5	12.9	36.1	16.0	11.3
5. U.S. net acquisitions (-) of foreign securities	-101.1	-59.3	-21.0	-44.1	19.2	-13.4	-12.2	-1.8
a. Bonds	-4.1	30.3	-2.0	8.8	25.4	-1.9	-.9	-5.6
b. Stock purchases	-13.1	-50.5	-16.4	-18.7	-6.1	-9.2	-8.9	3.7
c. Stock swaps[3]	-84.0	-39.1	-2.6	-34.2	.0	-2.3	-2.3	.0
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-152.4	n.a.	-40.9	-41.1	-52.1	n.a.	...	...
7. Foreign direct investment in U.S.	287.7	n.a.	52.5	65.2	26.4	n.a.	...	...
8. Foreign holdings of U.S. currency	1.1	n.a.	2.3	2.8	8.2	n.a.	...	...
9. Other (inflow, +)[4]	-60.2	n.a.	36.3	38.8	-39.9	n.a.	...	...
U.S. current account balance (s.a.)	**-444.7**	**n.a.**	**-111.8**	**-107.6**	**-95.0**	**n.a.**	**...**	**...**
Capital account balance (s.a.)[5]	**.7**	**n.a.**	**.2**	**.2**	**.2**	**n.a.**	**...**	**...**
Statistical discrepancy (s.a.)	**.7**	**n.a.**	**8.1**	**-47.0**	**58.1**	**n.a.**	**...**	**...**

NOTE. The sum of official and private financial flows, the current account balance, the capital account balance, and the statistical discrepancy is zero. 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 excludes adjustments BEA makes to account for incomplete coverage; 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 mergers.

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.

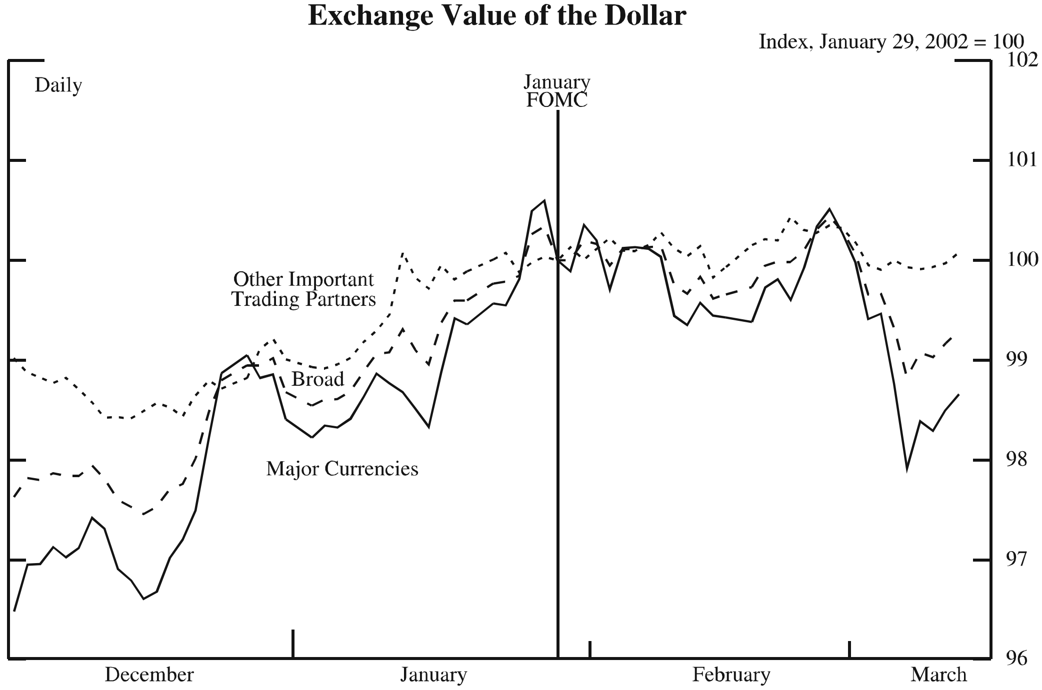
n.a. Not available. ... Not applicable.

Foreign Exchange Markets

The trade-weighted value of the dollar against the major foreign currencies has declined 1¼ percent on balance since the last FOMC meeting. Most of the decline in the major currencies index was due to a sharp appreciation of the yen in early March. The yen's rise late in the period coincided with a dramatic increase in Japanese equity prices and came amid some reduced uncertainty about the government's readiness to support financial market stability ahead of the Japanese fiscal-year end.

The dollar also depreciated against most other major currencies over the period, but these net depreciations were more modest. Economic data releases in the United States and abroad during the intermeeting period generally reinforced market expectations that the U.S. economy would lead a global recovery and supported the dollar at historically elevated levels for much of the period. Market participants' uncertainty about whether the President's decision to impose steel tariffs reflected official concerns about U.S. competitiveness, and a change in U.S. policy on the value of the dollar, may have contributed to the dollar's weakness late in the period.

Exchange Value of the Dollar



On balance during the intermeeting period, the dollar depreciated 3 percent against the yen despite further evidence that the Japanese economy continues to contract. For much of the period, the dollar saw little net change against the yen as movements in the currency pair fluctuated with market sentiment about potential policy actions to fight deflation and support financial markets ahead of

Japan's fiscal-year end. After disappointing markets earlier in the period by leaving policy unchanged, in late February the Bank of Japan announced an increase in the amount of its monthly government bond purchases and a relaxation of restrictions in its emergency lending facility. These announcements, as well as a promise to supply liquidity as demanded through the fiscal-year end, boosted market confidence that the government would prevent a rapid downturn in financial markets. Japanese equity prices also appeared to gain from new restrictions on the short selling of equity shares, enacted as part of the government's anti-deflation plan.

The dollar depreciated 1¼ percent on balance against the euro over the period. The Governing Council of the European Central Bank decided to leave its key policy rates unchanged in meetings this period. In its policy decision in early March, the Council pointed to further signs that the trough in economic activity may have been reached at the end of last year. Stronger-than-expected data releases on euro-area confidence and German orders and production data supported the euro early in the period, but subsequent euro-area releases were more mixed. The dollar declined slightly against the Canadian dollar, which rebounded from near record lows.

Financial Indicators in Major Industrial Countries

	Three-month rate		Ten-year yield		Equities
Country	Mar. 13 (Percent)	Percentage Point Change	Mar. 13 (Percent)	Percentage Point Change	Percent Change
Canada	2.29	.26	5.67	.26	3.78
Japan	.04	.00	1.45	-.02	9.91
Euro area	3.37	.00	5.17	.17	1.51
United Kingdom	4.03	.09	5.21	.17	2.77
Switzerland	1.55	-.10	3.69	.12	2.71
Australia	4.42	.07	6.40	.36	.10
United States	1.92	.12	5.28	.26	5.27
Memo: Weighted-average foreign	2.12	.09	4.80	.16	n.a.

NOTE. Change is from January 29 to March 13 (10 a.m. EDT).
n.a. Not available.

Long-term interest rates in most foreign industrial economies, as measured by yields on ten-year government bonds, increased modestly, on balance, over the period since the last FOMC meeting. After declining in the wake of global anxieties over corporate accounting practices early in the period, movements in long-term foreign government bond rates were generally positive and accompanied increases in equity markets. An exception to this pattern was the ten-year Japanese government bond yield, which declined slightly on balance.

Financial Indicators in Latin America, Asia, and Russia

	Currency/ US dollar		Short-term Interest rates[1]		Dollar-denominated bond spread[2]		Equity prices
Economy	Mar. 13	Percent Change	Mar.12/13 (Percent)	Percentage Point Change	Mar.12/13 (Percent)	Percentage Point Change	Percent Change
Mexico	9.12	-.52	6.75	-1.00	2.47	-.63	6.84
Brazil	2.34	-3.91	18.40	-.55	7.30	-1.26	14.26
Argentina	2.27	20.70	15.00	9.00	45.30	3.43	-5.62
Chile	659.70	-2.84	4.66	-1.38	2.01	-.35	2.76
China	8.28	.01	n.a.	n.a.	1.53	.00	16.56
Korea	1320.50	.53	4.15	.00	1.05	-.19	9.70
Taiwan	34.98	-.06	2.52	-.08	...	...	4.14
Singapore	1.82	-.51	.94	-.06	...	...	1.39
Hong Kong	7.80	.01	2.11	.17	...	...	1.85
Malaysia	3.80	.00	2.89	-.01	1.71	-.12	6.82
Thailand	43.31	-1.72	2.13	.00	1.07	-.07	11.46
Indonesia	9967.00	-3.09	17.17	-.28	3.12	-1.92	6.08
Philippines	51.15	.20	6.44	-1.00	3.93	-.75	6.00
Russia	31.08	1.35	n.a.	n.a.	5.15	-.99	7.69

NOTE. Change is from January 29 to March 12/13.

1. One month interbank interest rate, except Chile: 30-day deposit rate; Korea: 1-week call rate. No reliable short-term interest rates exist for China or Russia.

2. Spread over similar maturity U.S. Treasury security yield. Mexico, Brazil, Argentina, Korea, the Philippines and Russia: EMBI+ yield. Chile and China: Global bond yield. Malaysia: Eurobond yield. Thailand and Indonesia: Yankee bond yield. Taiwan, Singapore, and Hong Kong do not have outstanding sovereign bonds denominated in dollars.

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

Against the currencies of our other important trading partners, the index of the dollar's trade-weighted value was little changed on balance over the intermeeting period. After an extended government-imposed holiday, foreign exchange markets reopened in Argentina on February 11 under a single floating exchange rate system. Foreign exchange trading in Argentina remained very illiquid throughout the intermeeting period due largely to on-going government restrictions on bank withdrawals and tight capital controls. The peso depreciated about 20 percent on net against the dollar over the period despite reports that the Argentine central bank had intervened in foreign exchange markets several times to damp the peso’s decline.[1] Amid increasing political turbulence and capital flight, the Venezuelan government announced in mid-February that it was allowing the bolivar to float freely against the dollar, ending the country’s six-year crawling-peg exchange rate system. The bolivar depreciated about 15 percent against the dollar over the period. There was little perceptible spillover from either of these currency depreciations to other Latin American currencies. The Brazilian *real* and the Chilean and Mexican pesos appreciated about 4, 3, and ½ percent, respectively, against the dollar.

With the exception of Argentina, equity prices in most emerging market economies have increased on net since the last FOMC meeting, with gains often exceeding those of industrial economy equity markets. Share prices in a number of emerging Asian economies benefitted from data releases showing stronger-than-expected fourth-quarter growth. Shares prices in Latin America outside of Argentina also saw substantial gains, with the Mexican and Brazilian stock markets gaining 7 and 14 percent, respectively. The Argentine stock market fell sharply during the initial days of the full peso float and then continued to trade at lower levels within a wide range. On balance, the Argentine Merval index fell 6 percent over the period.

. The Desk did not intervene during the period for the accounts of the System or the Treasury.

1. The current value of the Argentine peso is 20 percent below the floating rate prevailing at the beginning of the period when there was a dual exchange rate system in Argentina. The peso has depreciated 38 percent versus the previous fixed rate of 1.4 pesos/dollar under the dual rate system.

Developments in Foreign Industrial Countries

In most foreign industrial countries, real GDP growth was weak in the fourth quarter, though more recent indicators suggest that output growth may be picking up. Fourth-quarter real GDP contracted sharply in Japan and declined moderately in the euro area. In the United Kingdom, fourth-quarter real GDP was roughly unchanged, after several quarters of steady growth. In contrast, Canadian real GDP rebounded from a decline in the third quarter. While first-quarter indicators in Japan suggest continued contraction, industrial sector surveys as well as business and consumer confidence point to signs of continued or renewed growth in the rest of the major foreign industrial economies.

Inflation picked up in the first two months of 2002 in many countries largely because of increases in food prices. The twelve-month rate of Canadian consumer price inflation rose to within the Bank of Canada's 1 to 3 percent target range in January, while retail price inflation in the United Kingdom rose to a rate just above the Bank of England's 2½ percent target. Euro-area inflation picked up to 2.5 percent in February, remaining above the European Central Bank's (ECB) target ceiling, partly because of tax hikes that took effect at the beginning of the year. Deflation continued in Japan.

Japanese real GDP dropped 4.5 percent (s.a.a.r.) in the fourth quarter, the third consecutive quarterly contraction, bringing 2001 Q4/Q4 growth to -1.9 percent. The fourth-quarter drop was led by an eye-popping 40 percent plunge in business fixed investment, as firms slashed capital spending amid a rapidly deteriorating outlook for corporate profits. Residential investment was roughly flat, while public investment fell sharply. Personal consumption rebounded 8 percent, to end the year only 0.9 percent above its level a year ago. Inventories continued to be drawn down apace, but made a slight positive contribution to growth. Both exports and imports continued to tumble, with net exports subtracting about ½ percentage point from growth.

Indicators suggest that the economy continued to deteriorate in the early part of this year. Industrial production fell 1 percent in January. Core machinery orders, a leading indicator of business fixed investment, tumbled 15.6 percent in January following a nearly 8 percent drop during the fourth quarter. This level of orders is 22 percent below a year ago, which bodes poorly for investment spending. Other data present a more mixed picture; shipments of machinery edged up in January, but remained well below the average fourth-quarter level. Firms continued to draw down inventories, with the inventory-to-sales ratio falling sharply in January to its lowest level since March 2001. Residential and nonresidential building starts rose sharply in January, albeit from depressed levels. Household expenditures also ticked up in January, and new passenger car registrations were up markedly in January and February on average from the fourth-quarter level.

Japanese Real GDP
(Percent change from previous period, except as noted, s.a.a.r.)

Component	2000[1]	2001[1]	2001 Q1	2001 Q2	2001 Q3	2001 Q4
GDP	2.3	-1.9	4.1	-4.8	-2.1	-4.5
Total domestic demand	2.2	-1.4	4.9	-3.6	-2.4	-4.2
Consumption	.3	.9	7.7	-4.3	-6.7	8.0
Private investment	11.0	-10.5	-11.3	3.8	6.2	-34.4
Public investment	-11.3	-1.3	40.5	-35.4	13.5	-7.8
Government consumption	4.1	3.1	4.5	6.4	-1.1	2.8
Inventories[2]	.1	-.1	.1	-.0	-.5	.1
Exports	9.7	-11.8	-6.9	-18.4	-11.3	-10.4
Imports	10.7	-9.0	-1.7	-10.0	-15.9	-7.9
Net exports[2]	.1	-.5	-.6	-1.2	.2	-.4

1. Q4/Q4.
2. Percentage point contribution to GDP growth, s.a.a.r.

Labor market indicators also came in mixed, with the unemployment rate declining to 5.3 percent in January, although the fall largely reflected a decrease in the labor force that outweighed a fall in employment. The job-offers-to-applicants ratio was unchanged at 0.51, its lowest level since March 2000. Core consumer goods prices in the Tokyo area (which exclude fresh food but include energy) were down 0.9 percent in February from a year earlier. Wholesale prices for domestic goods continue to decline at a significant rate, in part owing to lower energy prices. The merchandise trade surplus (customs-clearance basis) widened in January, as declining imports outpaced a drop in exports.

Japanese Economic Indicators
(Percent change from previous period, except as noted, s.a.)

Indicator	2001					2002	
	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Industrial production[1]	-4.1	-4.3	-2.5	-1.7	1.5	-1.0	n.a.
All-industry index	-2.0	-1.9	-.6	.3	1.0	n.a.	n.a.
Housing starts	-2.6	4.4	-2.5	3.0	-5.0	9.0	n.a.
Machinery orders[2]	1.1	-5.7	-7.8	14.9	-.5	-15.6	n.a.
Machinery shipments	-7.2	-5.3	-4.2	-2.1	2.1	.2	n.a.
New car registrations	2.6	1.6	-5.5	.2	3.5	3.0	-2.4
Unemployment rate[3]	4.9	5.1	5.4	5.4	5.5	5.3	n.a.
Job offers ratio[4]	.62	.58	.52	.52	.51	.51	n.a.
Business sentiment[5]	-27	-36	-40	...	...	...	...
CPI (Core, Tokyo area)[6]	-1.3	-1.2	-1.0	-1.0	-1.0	-1.2	-.9
Wholesale prices[6]	-.7	-1.0	-1.3	-1.4	-1.4	-1.4	-1.3

1. Mining and manufacturing.
2. Private sector, excluding ships and electric power.
3. Percent.
4. Level of indicator.
5. Tankan survey, diffusion index.
6. Percent change from year earlier, n.s.a.

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

On February 27, the government released its anti-deflation plan. Overall, the program contains little in the way of fresh policy initiatives. The plan calls for the Financial Services Agency to continue to conduct a stricter evaluation of banks' loan portfolios, to be completed by the end of March, with the results to be made public soon thereafter. Banks are also encouraged to aid troubled borrowers in restructuring loans. The program is noncommittal about injections of public funds, saying only that "all necessary steps, including capital reinforcement, will be taken when there is a threat of a financial crisis." The program advocates "effective use" of the Banks' Shareholding Acquisition Corporation (BSAC), which was recently established to purchase cross-held shares from banks and new restrictions on equity short-selling to boost Japanese stock prices. Measures are to be taken to increase credit to small- and medium-sized firms, including the use of loan guarantees and expanded lending by public financial institutions. The plan also calls on the Bank of Japan to take "bold" monetary policy steps to end deflation. The government has said that a second round of measures to boost the economy, including reform of the tax system, would be announced around June.

The day after the government released its anti-inflation plan, the Bank of Japan (BOJ) eased monetary policy, increasing the monthly amount of outright purchases of long-term Japanese government bonds from ¥800 billion to ¥1 trillion. The BOJ also decided to provide funds flexibly regardless of its ¥10 trillion to ¥15 trillion target range for the outstanding balance of financial institutions' accounts held at the central bank. BOJ Governor Hayami said that the balance could exceed ¥20 trillion if banks' demands for funds increase towards the fiscal year end on March 31. In addition, the BOJ said it would loosen rules concerning collateral in its market operations and suspend the five-day time limit on its emergency Lombard-type lending facility between March 1 and April 15. The Lombard-type facility allows banks to borrow funds at the official discount rate of 0.1 percent. In explaining its decision, the BOJ emphasized its role as lender of last resort in "providing ample liquidity to the market and preventing systemic risk from materializing."

In the **euro area**, economic activity contracted 0.7 percent (s.a.a.r.) in the fourth quarter of last year, following two quarters of weak growth. Consumption growth remained sluggish at 0.4 percent, and fixed investment declined 3.3 percent, having dropped in every quarter of 2001. Inventory adjustment was a drag on the economy for the second straight quarter, subtracting 0.8 percentage points from GDP growth. Net exports made a small positive contribution to growth, as imports declined slightly more than exports. Real GDP declined in all three of the largest euro-area economies; in Germany, real GDP declined for two consecutive quarters for the first time since 1993.

Incoming data point to a modest improvement in the euro-area economy beginning in December. The volume of German industry orders picked up in November and jumped over 4 percent in December on strength in both domestic and foreign orders, but gave up about half of December's gain in January. Although euro-area economic sentiment still remains at relatively depressed levels, it edged up from December to February after declining steadily for a year. In the industrial survey, production expectations have also moved up, most notably from November lows, while opinions about order books, recent production trends, and the levels of inventory stocks have improved somewhat less. The purchasing managers' indexes (PMIs) for the euro area have also improved in recent months. Although the manufacturing PMI still indicated a contraction in the sector in February, the index reached its highest level since last spring, while the service sector PMI recovered to indicate a mild expansion in activity in January and February. In the consumer survey, the outlook for the general economic situation showed the most improvement.

Euro-Area Real GDP[1]
(Percent change from previous period, except as noted, s.a.a.r.)

Component	2000[2]	2001[2]	2001 Q1	2001 Q2	2001 Q3	2001 Q4
GDP	2.8	.6	2.1	.3	.8	-.7
Total domestic demand	2.2	-.1	-.2	1.2	-.4	-.9
Consumption	1.8	1.6	4.1	1.8	.3	.4
Investment	3.3	-1.9	-.9	-2.5	-1.0	-3.3
Government consumption	1.7	1.8	2.5	1.6	1.1	2.2
Inventories[3]	.1	-.9	-2.8	.4	-.6	-.8
Exports	12.1	-1.8	-.1	-1.8	-1.7	-3.4
Imports	11.0	-3.7	-6.1	.3	-4.9	-4.1
Net exports[3]	.6	.7	2.3	-.8	1.2	.2
Memo:						
France	3.3	.9	1.6	.8	1.8	-.6
Germany	2.5	.0	1.6	.2	-.7	-1.0
Italy	2.4	.7	3.5	-.0	.5	-.8

1. Includes Greece as of 2001 Q1.
2. Q4/Q4.
3. Percentage point contribution to GDP growth, s.a.a.r.

Labor market data for the euro area as a whole continue to show only slight deterioration, as the harmonized unemployment rate edged up to 8.4 percent in November and remained at that rate through January. National statistics show more pronounced increases in the French and German unemployment rates, while the Italian unemployment rate moved a bit lower.

The twelve-month rate of euro-area consumer price inflation rose to 2.7 percent in January, but fell back to 2.5 percent in February, according to a preliminary estimate. The inflation rate remained above the ECB's 2 percent ceiling for the 21st consecutive month. The pickup in the rate of inflation early this year largely reflected higher food prices and increases in indirect taxes, and there is little evidence that the change-over to euro-denominated currency notes and coin had a major impact on consumer price inflation. Excluding food and energy prices, the twelve-month inflation rate was 2.5 percent in January. Producer prices continued to move lower.

Euro-Area Economic Indicators
(Percent change from previous period except as noted, s.a.)

Indicator	2001					2002	
	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Industrial production[1]	-1.1	-.5	-1.7	-.7	.8	n.a.	n.a.
Retail sales volume	.1	.3	-.1	1.2	-.6	n.a.	n.a.
Unemployment rate[2]	8.3	8.3	8.4	8.4	8.4	8.4	n.a.
Consumer confidence[3]	-1.7	-7.7	-10.7	-12.0	-10.0	-11.0	-9.0
Industrial confidence[4]	-5.3	-10.0	-17.0	-18.0	-17.0	-14.0	-14.0
Mfg. orders, Germany	-1.5	-2.6	-1.2	.7	3.7	-2.1	n.a.
CPI[5]	3.1	2.5	2.2	2.1	2.0	2.7	2.5
Producer prices[5]	3.9	1.7	-.8	-1.1	-.9	-.9	n.a.
M3[5]	5.5	6.8	8.0	8.0	8.0	7.9	n.a.

1. Excludes construction.
2. Euro-area standardized to ILO definition. Includes Eurostat estimates in some cases.
3. Diffusion index based on European Commission surveys in individual countries; Averages of responses to questions on financial situation, general economic situation, and purchasing attitudes.
4. Diffusion index based on European Commission surveys in individual countries; Averages of responses to questions on production expectations, orders, and stocks.
5. Eurostat harmonized definition, 12-month percent change.
n.a. Not available.

At midnight on February 28, the euro became the sole legal tender throughout the euro area. National central banks will continue to exchange their respective national banknotes and coins at face value and free of charge for several years (indefinitely in some countries such as Germany and Spain). The value of euro banknotes in circulation has risen to 85 percent of the total value of all banknotes in circulation, including the national banknotes issued but not yet redeemed by national central banks. The ECB noted that the figure will never reach 100 percent, "as some national banknotes have probably been lost or destroyed and others will be kept as souvenirs or collectors' items."

Real GDP in the **United Kingdom** rose 0.1 percent (s.a.a.r.) in the fourth quarter of 2001, after rising 1.9 percent in the previous quarter. The fourth quarter's growth rate is the lowest since the second quarter of 1992 when the U.K. economy was last in recession. Consumer spending continued to surge in the fourth quarter, rising 4.6 percent, but was offset by steep declines in investment spending and exports.

U.K. Real GDP
(Percent change from previous period, except as noted, s.a.a.r.)

Component	2000[1]	2001[1]	2001			
			Q1	Q2	Q3	Q4
GDP	2.7	1.7	3.0	1.8	1.9	.1
Total domestic demand	3.2	2.5	3.6	2.5	1.5	2.3
Consumption	3.7	4.4	4.3	4.6	4.2	4.6
Investment	7.7	-4.6	-12.2	7.6	-6.0	-6.7
Government consumption	1.1	2.8	7.7	1.4	1.2	.9
Inventories[2]	-.7	.0	2.1	-2.2	-.3	.5
Exports	10.1	-5.4	8.2	-10.7	-10.6	-7.1
Imports	10.6	-2.8	7.2	-7.3	-9.5	-.7
Net exports[2]	-.7	-.7	-.1	-.9	.2	-2.2

1. Q4/Q4.
2. Percentage point contribution to GDP growth, s.a.a.r.

Recent data for the first quarter are mixed. February data show that consumer confidence and service sector confidence have recovered strongly from recent lows, and service sector surveys of activity have improved. Housing prices have continued to rise briskly, as well. Retail sales, in contrast, have declined for the past two months, suggesting that British consumers may be in the process of moderating their spending. The manufacturing sector continues to contract; industrial production declined again in January, but manufacturing business confidence and activity surveys showed significant improvement in January and February.

Notwithstanding the recent slowing in activity, labor market conditions remain tight. The official claims-based unemployment rate remained at 3.2 percent in January, while the labor force survey measure of the unemployment rate rose slightly to 5.2 percent for the three months centered in November. Both unemployment rates are near record lows.

The twelve-month rate of retail price inflation (excluding mortgage interest payments) jumped to 2.6 percent in January, just above the Bank of England's official target of 2.5 percent. The pickup in twelve-month inflation reflects a rise in food prices and a more muted drop in energy prices than recorded a year ago. Growth in average earnings dropped to 1.9 percent in December, due to a fall in year-end bonuses. The growth in average earnings is well below the 4.5 percent rate (from a year earlier) that the Bank of England believes to be compatible with its inflation target.

U.K. Economic Indicators

(Percent change from previous period except as noted, s.a.)

Indicator	2001					2002	
	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Industrial production	-1.1	-1.0	-2.1	-.1	-.3	-.5	n.a.
Retail sales	1.5	1.5	1.3	1.1	-.5	-.3	n.a.
Unemployment rate[1]							
Claims-based	3.2	3.1	3.2	3.2	3.2	3.2	n.a.
Labor force survey[2]	5.0	5.1	n.a.	5.2	n.a.	n.a.	n.a.
Business confidence[3]	-.7	-6.0	-24.0	-21.0	-28.0	-13.0	1
Retail prices[4]	2.3	2.4	2.0	1.8	1.9	2.6	n.a.
Producer input prices[5]	5.2	-2.7	-8.2	-9.9	-6.3	-6.2	-7.3
Average earnings[5]	4.7	4.4	3.3	4.3	3.8	1.9	n.a.

1. Percent.
2. Three-month average centered on month shown.
3. Percentage of firms expecting output to increase in the next four months less percentage expecting output to decrease.
4. Excluding mortgage interest payments. Percent change from year earlier.
5. Percent change from year earlier.
n.a. Not available.

In **Canada**, real GDP grew at a faster-than-expected 2 percent rate in the fourth quarter, following a small contraction in the third quarter. Consumption and net exports together provided much of the impetus behind the rise. Consumption increased largely as a result of auto sales motivated by "zero-percent financing." The strength of the market for new and resale housing also supported strong growth in purchases of furniture and household appliances. Net exports rose as a dramatic drop in imports, most apparent in the investment-related machinery and equipment sector, more than offset a moderate decline in exports. The rise in consumption and net exports was offset by a decline in private investment and a sizable rundown in inventories. Total investment declined considerably despite the strength of residential construction. The drop in both investment and imports was partially an artifact of an abnormally high third-quarter level resulting from the purchase of an offshore oil rig. Investment in computers and office equipment increased for the first time since the third quarter of 2000.

Canadian Real GDP
(Percent change from previous period, except as noted, s.a.a.r.)

Component	2000[1]	2001[1]	2001 Q1	2001 Q2	2001 Q3	2001 Q4
GDP	3.5	.9	1.1	.9	-.6	2.0
Total domestic demand	2.7	-.2	.1	3.5	-.3	-3.9
Consumption	3.3	2.3	3.9	1.7	-.7	4.2
Investment	3.7	-1.0	-1.7	3.8	8.0	-12.7
Government consumption	2.3	2.1	-.3	5.5	1.5	1.6
Inventories[2]	-.4	-1.7	-1.7	.6	-1.6	-3.9
Exports	4.3	-6.0	-6.2	-5.4	-9.2	-3.2
Imports	2.1	-8.4	-9.0	-.8	-7.4	-15.6
Net exports[2]	1.1	.6	.8	-2.1	-1.2	4.9

1. Q4/Q4.
2. Percentage point contribution to GDP growth, s.a.a.r.

Indicators for the first quarter suggest continued growth. The February PMI, which surveys both manufacturing and service sectors, surpassed 50 for the first time since August 2001, indicating that purchases were higher than in the previous month. Residential housing, an important component of growth in the fourth quarter, has continued to exhibit strength in 2002. Housing starts in January were at a level not seen since 1990, and while the number of starts fell in February, the level remained above that of any other month in the past ten years.

The unemployment rate remained unchanged in February at 7.9 percent. Labor market conditions had recovered somewhat in January, as the unemployment rate decreased to 7.9 percent from 8.0 percent in December. With the exception of December, employment has increased steadily, if slightly, in Canada from September onwards. The increase in the unemployment rate since the third quarter has been the product of strong labor force growth rather than representative of any reduction in the number of jobs.

The twelve-month rate of consumer price inflation rose to 1.3 percent in January, after remaining at 0.7 percent for November and December. Excluding energy, the twelve-month inflation rate was 2.2 percent, up from December's 2.0 percent largely on account of higher food prices. The overall rate, however, remained comfortably within the Bank of Canada's 1 to 3 percent target range.

Canadian Economic Indicators
(Percent change from previous period except as noted, s.a.)

Indicator	2001					2002	
	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
GDP at basic prices	.3	-.3	.2	.4	.2	n.a.	n.a.
Industrial production	-.1	-2.1	-1.8	-.2	-.9	n.a.	n.a.
New mfg. orders	1.2	-3.6	-4.9	2.5	-2.5	n.a.	n.a.
Retail sales	2.1	-.8	2.4	1.3	1.6	n.a.	n.a.
Employment	.2	-.1	.1	.1	-.1	.5	.0
Unemployment rate[1]	7.0	7.2	7.7	7.6	8.0	7.9	7.9
Consumer prices[2]	3.6	2.7	1.1	.7	.7	1.3	n.a
Consumer attitudes[3]	113.1	108.0	112.7	...	...	...	...
Business confidence[3]	131.6	93.0	117.6	...	...	...	...

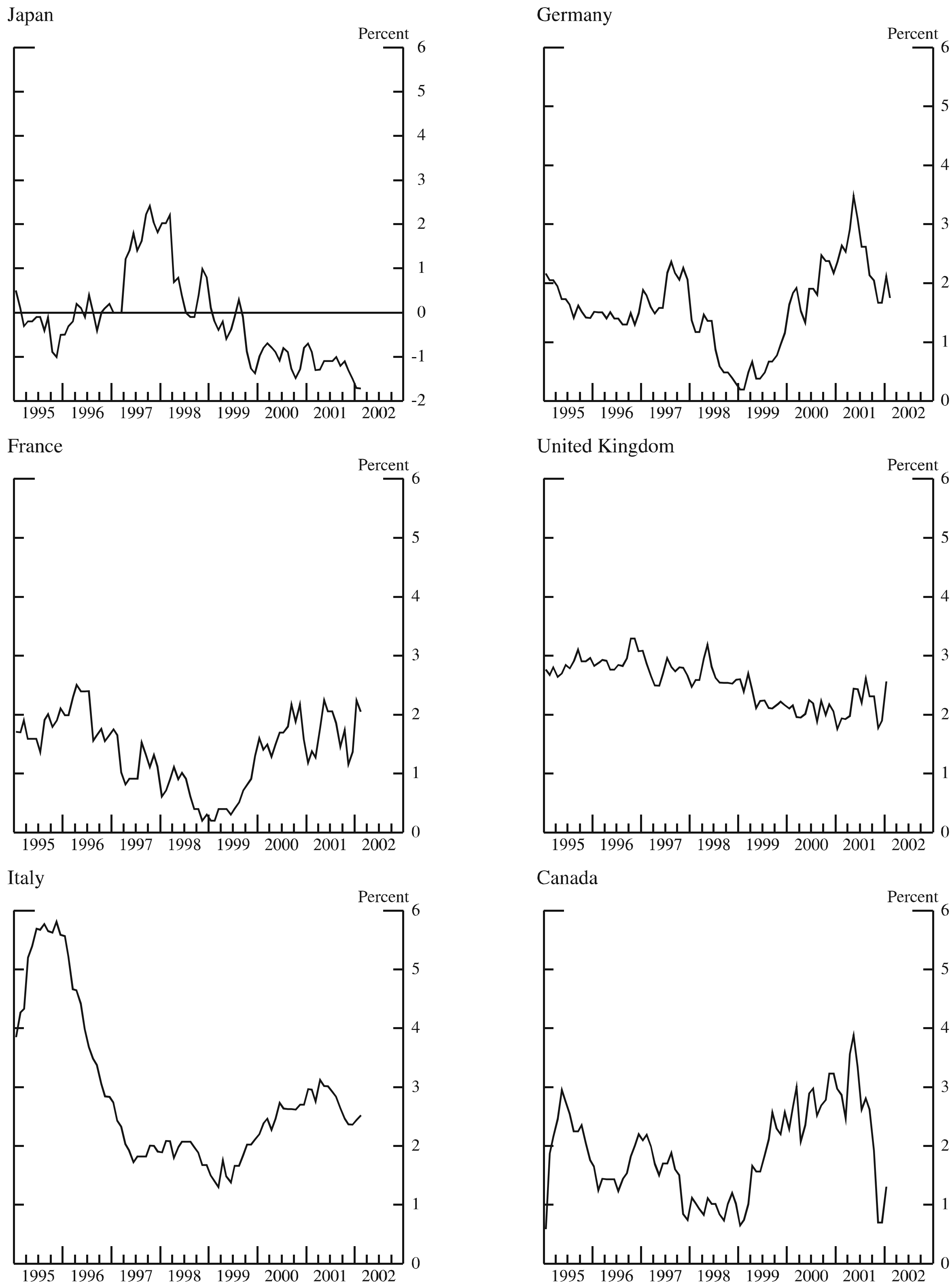
1. Percent.
2. Percent change from year earlier, n.s.a.
3. Level of index, 1991 = 100.
n.a. Not available. ... Not applicable.

External Balances
(Billions of U.S. dollars, s.a.a.r.)

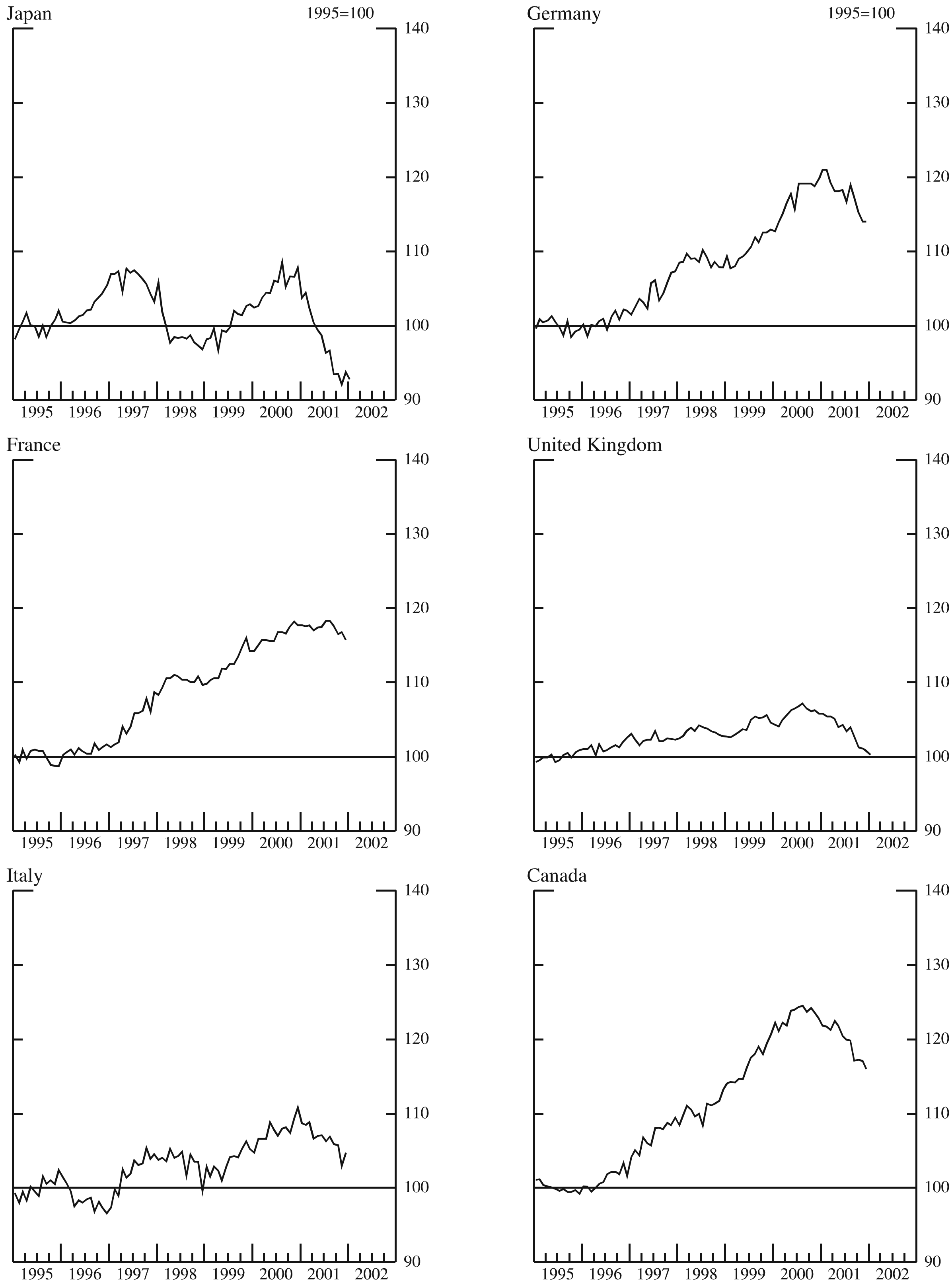
Country and balance	2001						2002
	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
Japan							
Trade	49.3	52.8	52.8	46.6	61.1	50.9	60.0
Current account	67.0	97.8	117.2	118.0	132.9	100.7	n.a.
Euro area							
Trade[1]	26.4	61.5	85.2	104.0	59.0	92.6	n.a.
Current account[1]	-35.0	18.9	20.6	1.1	29.8	31.0	n.a.
Germany							
Trade	72.7	94.1	91.4	95.5	64.3	114.3	n.a.
Current account	-1.3	6.3	31.0	57.6	20.9	14.4	n.a.
France							
Trade	-.6	.9	1.6	1.8	1.8	1.3	n.a.
Current account	1.8	5.5	4.6	3.6	4.8	5.6	n.a.
Italy							
Trade	5.7	2.0	15.2	11.9	17.6	16.1	n.a.
Current account[1]	-5.4	9.3	16.2	23.4	16.8	8.5	n.a.
United Kingdom							
Trade	-52.0	-46.6	-48.2	-40.7	-48.9	-55.0	n.a.
Current Account	-26.0	-11.7	n.a.	...	...	...	...
Canada							
Trade	43.5	31.1	32.0	28.2	33.3	34.5	n.a.
Current Account	22.2	10.2	8.2	...	...	...	...

1. Not seasonally adjusted.
n.a. Not available. ... Not applicable.

Consumer Price Inflation in Selected Industrial Countries
(12-month change)



Industrial Production in Selected Industrial Countries



Economic Situation in Other Countries

Since the last Greenbook, economic recovery in emerging Asia has continued to take hold. Much of the region, including Singapore, Malaysia, Taiwan, and Indonesia, posted unexpectedly strong real GDP growth in the fourth quarter; more recently, there have been reports of strong growth in industrial production in several Asian economies. In addition, recent data on exports generally point to increasing strength in the external sector. Economic conditions in Latin America, however, remain weak. The Argentine government has implemented a series of *ad hoc* measures to manage the crisis, but the overall policy stance remains in disarray and economic activity appears to be in free fall. Both Mexico and Brazil posted declines in fourth quarter real GDP, although recent monthly data give some cause for optimism.

Economic news out of **Argentina** continues to suggest profound weakness. Industrial output continued to decline in January, and February auto sales were almost 50 percent below their year ago levels. Confidence is at record lows. The January trade balance registered a large increase; exports fell 12 percent over the past year, while imports plunged 56 percent. Consumer prices rose just 4 percent over the twelve months ended February, notwithstanding the roughly 50 percent devaluation of the currency since January–another indication of the low level of activity. Wholesale prices rose 12 percent over the same period.

Argentine authorities have recently loosened controls on bank deposit withdrawals and announced an offer to swap deposits into more liquid long-term government bonds. (In early December, deposit withdrawals were severely restricted, and then in mid-January, most bank deposits were converted into longer-term CDs, with some not maturing until 2005.)

In early February, the government abandoned its month-old dual exchange rate system, announcing that it would move to a float, but it also tightened capital and exchange controls, in part by limiting sales of foreign exchange by banks. In early March, the central bank announced that it would loosen capital controls by allowing banks to sell dollars, although it remains unclear whether this has actually occurred. The peso continued to depreciate over the intermeeting period and reached P2.4/$ by mid-March.

In late February, the Argentine government signed a new revenue-sharing arrangement with the provinces. The deal removed the minimum floor on federal transfers to the provinces, allowing transfers to vary with revenue collection. As part of the deal, the federal government will assume and restructure a large part of the roughly $25 billion worth of provincial debt, adding to the federal debt burden. The interest savings from this refinancing implies that the required fiscal adjustment of the provinces will be relatively limited. Moreover, the provinces may still issue bonds that can circulate as a quasi-currency to finance their deficits.

Approval of the 2002 federal budget quickly followed the signing of the provincial agreement. The budget calls for relatively minor cuts in spending, once savings from nonpayment of debt-servicing costs are taken into account. The budget, however, is based on assumptions that market participants consider to be very optimistic. The government's fiscal position continues to weaken as revenues have declined an average of 20 percent over the first two months of this year. One positive recent development has been the resumption of discussions between the Argentine government and the IMF in early March.

Argentine Economic Indicators
(Percent change from previous period, s.a., except as noted)

Indicator	2000	2001	2001			2002	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP[1]	-1.9	n.a.	-14.1	n.a.	...	...	...
Industrial production	-1.8	-5.4	-4.4	-6.0	-2.8	-3.4	n.a.
Unemployment rate[2]	15.1	17.4	...	18.3	...	...	...
Consumer prices[3]	-.7	-1.5	-1.1	-1.6	-1.5	.6	4.0
Trade balance[4]	1.2	6.3	9.5	n.a.	12.7	15.8	n.a.
Current account[5]	-10.3	n.a.	-4.5	n.a.	...	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent, n.s.a. Data are released for May and October only. Figures for Q4 reflect data for October.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

In **Mexico**, output continued to contract in the fourth quarter, with real GDP declining nearly 1 percent (s.a.a.r.). However, the recent pattern of monthly indicators gives some cause for optimism: exports have stabilized, the twelve-month decline in auto production has become less severe, and business confidence has improved. Despite a nearly 5 percent decline in exports in 2001, the trade deficit widened only modestly last year (and the current account deficit actually narrowed slightly), as weakness in imports nearly matched that of exports. There was an uptick in consumer price inflation in January, which put twelve-month inflation a little above the government's year-end target of 4½ percent. This–together with the potential effect on inflation of recent rises in some excise taxes, an increase in subway and bus fares, and a substantial reduction in the subsidy for home electricity usage–prompted the Bank of Mexico (BOM) in early February to tighten monetary policy, despite the weak level of activity. However, in February lower prices for food led to a decline in the price level, and the twelve-month inflation rate remained unchanged.

In early February, apparently satisfied with the tax package passed by the Mexican congress, S&P raised its foreign currency bond rating for Mexico one notch to give the country investment-grade status. In justifying its rating, S&P cited prudent fiscal policy, improved tax administration, enhanced fiscal transparency, longer public debt maturities, and higher external reserves. Just prior to the S&P move, Moody's, which granted Mexico investment-grade status in March 2000, upgraded its ratings of Mexican bonds by one notch.

Mexican Economic Indicators
(Percent change from previous period, s.a., except as noted)

Indicator	2000	2001	2001			2002	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP[1]	4.9	-1.5	-1.8	-.9	...	...	...
Overall economic activity	6.5	-.2	-.5	-.7	-1.0	n.a.	n.a.
Industrial production	5.9	-3.4	-.7	-1.0	.0	n.a.	n.a.
Unemployment rate[2]	2.2	2.5	2.5	2.7	2.8	2.8	n.a.
Consumer prices[3]	9.0	4.4	6.0	5.2	4.4	4.8	4.8
Trade balance[4]	-8.0	-9.7	-9.4	-10.3	-9.1	-5.7	n.a.
Imports[4]	174.5	168.3	165.5	162.4	161.9	158.1	n.a.
Exports[4]	166.5	158.5	156.1	152.1	152.9	152.4	n.a.
Current account[5]	-18.0	-17.5	-13.2	-23.2	...	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent; counts as unemployed those working one hour a week or less.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

In **Brazil**, the preliminary estimate of fourth-quarter real GDP showed a decline of 6.5 percent (s.a.a.r.). Together with sharp downward revisions to second and third quarter GDP growth, this brought the contraction in GDP last year to over 2 percent (Q4/Q4). The fourth-quarter decline was very surprising in light of monthly data showing that industrial production rose in November and December, but the preliminary estimate should be viewed with caution, given a historical pattern of large revisions to Brazilian data. There have been signs of recovery in consumption spending during January and February. Retail sales rose 2 percent (s.a.) in January, and the consumer confidence indicator was up in February for the fourth consecutive month. Recent trade performance has been disappointing, with the monthly trade surplus shrinking in January and turning to deficit in February.

Inflation has continued to exceed 7 percent on a year-over-year basis, well over the 3½ percent midpoint of the inflation target range set for 2002. In late February, the central bank reduced its target for the overnight interest rate 25 basis points, to 18.75 percent. This is the first rate decrease in about a year. Fiscal performance has continued to be strong, with the government's primary (non-interest) surplus surpassing 3 percent of GDP in January 2001.

Brazilian Economic Indicators
(Percent change from previous period, s.a., except as noted)

Indicator	2000	2001	2001			2002	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP[1]	4.1	-2.3	-3.3	-6.5	...	...	...
Industrial production	6.6	1.4	-1.9	-.4	1.3	n.a.	n.a.
Unemployment rate[2]	7.1	6.2	6.1	6.9	6.9	6.9	n.a.
Consumer prices[3]	6.0	7.7	6.6	7.5	7.7	7.6	7.5
Trade balance[4]	-.7	2.6	6.3	9.2	9.8	7.7	-1.8
Current account[5]	-24.6	-23.2	-16.3	-23.0	-21.4	-13.7	n.a.

1. Annual rate. Annual figures are Q4/Q4.
2. Percent. "Open" unemployment rate.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec. Price index is IPC-A.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

The economic situation in **Venezuela** changed notably with a surprise announcement in mid-February that the country was abandoning its crawling peg exchange rate regime and allowing its currency to float. This announcement followed weeks of rapid capital outflow and increased pressure on the exchange rate, reflecting intense political turmoil and falling oil prices. Along with the new exchange rate regime, President Chavez also announced changes in this year's budget, including more realistic growth and oil price assumptions and a 7 percent cut in spending. Since being floated, the Venezuelan bolivar has lost roughly 15 percent of its value against the dollar. Markets have responded favorably to the government's policy moves, as reflected in the 350 basis point decline in spreads on Venezuela's foreign-currency debt since the announcement. The economic and political situation in Venezuela remains precarious, nevertheless. President Chavez is facing rising public opposition that has manifested itself in calls for his resignation by several military figures, large-scale protest marches, and a work slowdown at the state-owned oil company.

Venezuelan Economic Indicators

(Percent change from previous period, s.a., except as noted)

Indicator	2000	2001	2001			2002	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP[1]	5.7	n.a.	1.3	n.a.	...	...	...
Unemployment rate[2]	13.4	n.a.	13.4	n.a.	n.a.	n.a.	n.a.
Consumer prices[3]	13.4	12.3	12.7	12.4	12.3	12.3	13.7
Non-oil trade balance[4]	-10.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Trade balance[4]	18.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Current account[5]	13.4	n.a.	3.2	n.a.	...	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent, n.s.a.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, n.s.a., annual rate.

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

In **Korea**, recent indicators suggest that activity has continued to improve. An auto strike in December distorted the monthly pattern of industrial production in December and January, but averaging through the two months, production appears to be rising briskly. Overall production moved up in the December-January period despite a decline in semiconductor production. Machinery orders rose for the third consecutive month in January, and the inventory-to-sales ratio moved down substantially. Consumer sentiment rose in January, staying above the neutral reading for a second consecutive month. Consumer sentiment has been supported by the continued decline of the unemployment rate over the past year, despite the slowing of economic growth. In January, twelve-month consumer price inflation moved below the mid-point of the Bank of Korea's 2 to 4 percent target range for the first time in a year.

Korean Economic Indicators
(Percent change from previous period, s.a., except as noted)

Indicator	2000	2001	2001				2002
			Q3	Q4	Nov.	Dec.	Jan.
Real GDP[1]	5.2	n.a.	5.1	n.a.	...	...	...
Industrial production	16.9	1.7	1.0	2.2	2.1	-1.5	3.4
Unemployment rate[2]	4.1	3.7	3.6	3.4	3.5	3.3	3.2
Consumer prices[3]	2.8	3.2	4.2	3.3	3.4	3.2	2.6
Trade balance[4]	16.9	13.4	9.7	7.8	11.5	4.6	23.5
Current account[5]	12.2	8.6	4.1	4.2	8.9	.2	3.9

1. Annual rate. Annual figures are Q4/Q4.
2. Percent.
3. Percent change from year earlier, except annual changes, which are Dec./Dec.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

Recent reports from the **ASEAN** countries have shown unexpectedly strong fourth-quarter real GDP growth figures. Malaysia and Singapore, two of the countries hardest hit by last year's slowdown in global high-tech demand, led the way, with Malaysian real GDP up more than 7 percent (s.a.a.r.) and Singapore's GDP up 5.6 percent. Part of the strength in growth can be attributed to the effects of fiscal stimulus packages and monetary easing in much of the region last year, and personal consumption expenditure has held up in some of the region's economies despite rising unemployment. The industrial production numbers for the fourth quarter were also up, although, they were generally not as strong as the GDP figures. Singapore posted a staggering 19.1 percent (s.a.) increase in industrial production in January, and production also rebounded in Malaysia.

Monthly data indicate that trade surpluses have grown quite substantially in Indonesia, Malaysia, and Singapore since November. For the latter two countries, the growing trade surpluses reflected increased exports, but exports of electronics did not grow as quickly as exports of other goods. Outside of Indonesia, inflation is not an issue in the region. In fact, prices fell last year in Singapore, and registered only small increases in Malaysia and Thailand, reflecting weak demand. In the Philippines, which has now officially implemented an inflation targeting regime, February's inflation figure was the lowest in almost two years and was well below the 5 to 6 percent target range.

ASEAN Economic Indicators: Growth
(Percent change from previous period, s.a., except as noted)

Indicator and country	2000	2001	2001 Q3	2001 Q4	2001 Nov.	2001 Dec.	2002 Jan.
Real GDP[1]							
Indonesia	7.3	1.2	-1.4	3.4	...	...	...
Malaysia	6.4	-.9	1.5	7.1	...	...	...
Philippines	3.9	3.8	4.3	3.9	...	...	...
Singapore	11.4	-6.4	-10.5	5.6	...	...	...
Thailand	3.1	n.a.	.9	n.a.	...	...	...
Industrial production[2]							
Indonesia[3]	11.6	.7	-1.9	.3	1.6	-6.2	n.a.
Malaysia	19.1	-4.1	1.2	-.5	1.8	-3.6	2.2
Philippines	14.9	-.4	-.5	4.7	3.4	-.3	n.a.
Singapore	15.3	-11.5	-8.5	4.5	8.2	-12.4	19.1
Thailand	3.2	1.3	.3	3.3	1.1	-1.9	-.5

1. Annual rate. Annual figures are Q4/Q4.
2. Annual figures are annual averages.
3. Staff estimate.
n.a. Not available. ... Not applicable.

ASEAN Economic Indicators: Trade Balance
(Billions of U.S. dollars, s.a.a.r.)

Country	2000	2001	2001 Q3	2001 Q4	2001 Nov.	2001 Dec.	2002 Jan.
Indonesia	28.6	25.2	27.8	25.8	23.2	24.6	27.9
Malaysia	16.0	14.4	15.0	13.0	11.4	14.6	19.2
Philippines	6.7	2.6	-.1	5.9	6.2	5.4	n.a.
Singapore	3.3	5.8	4.7	6.5	8.4	9.0	16.4
Thailand	5.5	2.5	3.7	2.7	1.9	4.6	.1

n.a. Not available.

ASEAN Economic Indicators: CPI Inflation
(Percent change from year earlier, except as noted)

Country	2000[1]	2001[1]	2001			2002	
			Q3	Q4	Dec.	Jan.	Feb.
Indonesia	9.3	12.5	12.8	12.6	12.5	14.4	15.1
Malaysia	1.3	1.2	1.4	1.2	1.2	1.1	1.2
Philippines	6.7	4.1	6.4	4.7	4.1	3.8	3.4
Singapore	2.1	-.6	.8	-.2	-.6	-1.1	n.a.
Thailand	1.4	.8	1.7	1.1	.8	.8	.3

1. December/December.
n.a. Not available.

In **China**, recent indicators point to continued growth. Industrial production was up sharply in January, and retail sales increased nearly 10 percent from a year earlier. Consumer prices declined in January and were flat in February. Exports and imports in the first two months of the year were both well above fourth-quarter averages. In recent months, the government has begun to reduce the amount of fiscal stimulus; fixed asset investment by state-owned enterprises was up about 10 percent in November and December from a year earlier, well below the average of about 15 percent for 2001. Foreign direct investment has continued to support growth; inflows of foreign direct investment were up about one third in January over the same month last year, and contracts on future inflows of foreign direct investment were up nearly 50 percent.

Chinese Economic Indicators
(Percent change from previous period, s.a., except as noted)

Indicator	2000	2001	2001			2002	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP[1]	8.0	7.5	7.1	7.1	...	...	...
Industrial production[2]	11.4	8.9	8.5	8.5	8.7	18.6	n.a.
Consumer prices[2]	1.5	-.3	.8	-.1	-.3	-1.0	.0
Trade balance[3]	24.1	23.1	9.1	34.2	37.4	42.4	55.4

1. Annual rate. Quarterly data estimated by staff from reported four-quarter growth rates. Annual figures are Q4/Q4.
2. Percent change from year earlier. Annual figures are year over year.
3. Billions of U.S. dollars, annual rate. Imports are c.i.f.
n.a. Not available. ... Not applicable.

Data received since the last Greenbook suggest that economic conditions in **Hong Kong** remain weak. Real GDP contracted 0.8 percent (s.a.a.r.) during the fourth quarter, and the unemployment rate increased to 6.7 percent in the November-to-January period, the highest level on record. An index of retail sales volume was down slightly in December, following a small increase in November. Exports were down nearly 6 percent in January and imports were roughly flat, leading to a large decline in the trade balance. Consumer prices fell 3.4 percent over the twelve months ended January.

Hong Kong Economic Indicators
(Percent change from previous period, s.a., except as noted)

Indicator	2000	2001	2001				2002
			Q3	Q4	Nov.	Dec.	Jan.
Real GDP[1]	6.9	-1.8	1.2	-.8	...	...	...
Unemployment rate[2]	5.1	4.9	5.3	6.1	5.8	6.1	6.7
Consumer prices[3]	-2.1	-3.5	-1.0	-2.1	-1.4	-3.5	-3.4
Trade balance[4]	-11.0	-11.4	-13.0	-7.6	-9.8	-4.5	-15.5

1. Annual rate. Annual figures are Q4/Q4.
2. Percent. Monthly numbers are averages of the current and previous two months.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
4. Billions of U.S. dollars, annual rate. Imports are c.i.f.
... Not applicable.

Indicators released over the past month point to a rebound in economic activity in **Taiwan**. Real GDP surged 10.3 percent (s.a.a.r.) in the fourth quarter, reflecting a brighter global environment, a snapback from disruptions in September, and election-related spending. Industrial production was up 3.9 percent (s.a.) in January, after two months of declines. Consumer prices were up slightly in February from the previous month, as improved consumer sentiment and Chinese New Year both fueled consumer demand. An improvement in the external sector was also evident, as exports and imports both increased in February.

Taiwan Economic Indicators
(Percent change from previous period, s.a., except as noted)

Indicator	2000	2001	2001			2002	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP[1]	3.9	-1.8	-5.2	10.3	...	...	...
Unemployment rate[2]	3.0	4.6	4.9	5.3	5.4	5.4	n.a.
Industrial production	7.4	-7.3	-2.1	1.4	-1.5	3.9	n.a.
Consumer prices[3]	1.7	-1.7	.0	-.6	-1.7	-1.7	1.4
Trade balance[4]	8.3	15.7	14.2	21.1	21.7	26.6	28.1
Current account[5]	8.9	19.0	18.0	28.2	...	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
4. Billions of U.S. dollars, annual rate. Imports are c.i.f.
5. Billions of U.S. dollars, n.s.a., annual rate.
n.a. Not available. ... Not applicable.