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).

[2] A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

Content last modified 6/05/2009.

Confidential (FR) Class III FOMC

Part 2

June 20, 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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Economic activity has continued to expand in recent months, but at a much more moderate pace than in the first quarter. Personal consumption expenditures, outlays for residential construction, and government spending have posted relatively modest gains so far this quarter after large increases early in the year. Although outlays for nonresidential construction are still falling, the contraction in business spending for equipment and software appears to be ending. Meanwhile, employment is rising, but the gains, on net, have been quite small, and the rate of unemployment is up from its level in the first quarter. Core inflation still appears to be decelerating slightly.

Labor Market Developments

Employment reports of the past two months point to a bottoming out in the labor market, but not much more than that yet. For April and May, private nonfarm employment gains averaged 23,000, following thirteen months of decline. Even so, the unemployment rate in April and May was above its first-quarter average.

By industry, manufacturing employment fell only modestly in May for the second straight month. Moreover, employment in the help-supply industry rose strongly for the third consecutive month, and anecdotes from help-supply firms point to the manufacturing sector as the source of many of these new temporary hires. Taken together, the average monthly gains in employment in help supply, manufacturing, and wholesale trade (which is also dependent on manufacturing activity) have averaged 23,000 thus far in the second quarter, compared with average declines of 83,000 per month in the first quarter and 179,000 per month in 2001.

After having fallen by 250,000 over the second half of last year, employment in retail trade has changed little on net since December. In addition, employment in the services industry excluding help supply has been rising, but the average gains over the past two months are only on par with average gains in the first quarter and below last year's average increases. Elsewhere, although construction employment was essentially unchanged in May, it has declined by an average of 20,000 jobs per month so far this year.

In keeping with usual practice, the May labor market report included the BLS's comprehensive benchmark of the payroll survey to unemployment insurance records as well as other annual updates to the payroll employment estimates.[1] Although benchmark revisions to the March 2001 level of employment were relatively small, other revisions now show that employment fell more sharply in

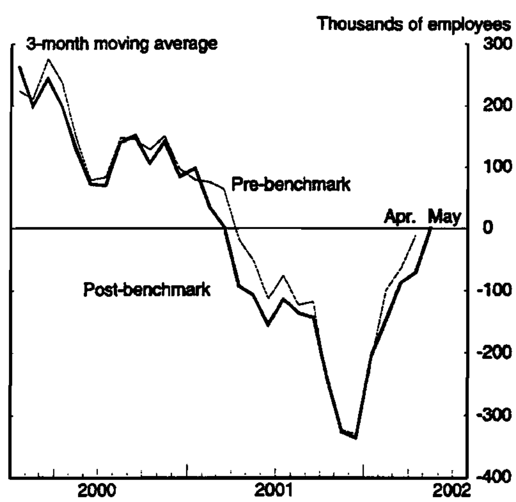
1. These changes include recalculation of seasonal factors, reweighting of sampled firms, updates to bias adjustment factors, reestimation of net birth/death models, and the introduction of a new sample design for the following industries: retail trade; finance, insurance, and real estate; and transportation and public utilities.

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

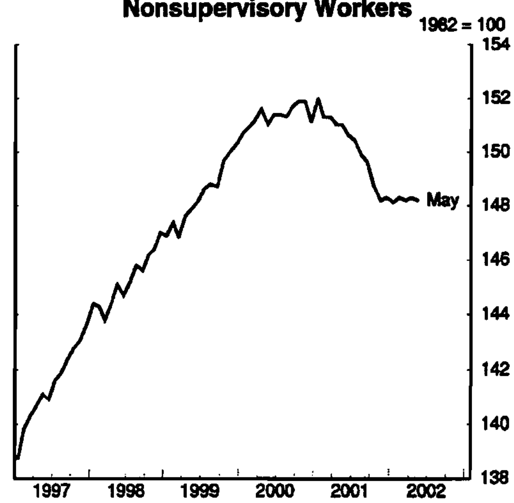
	2000	2001	2001 Q4	2002 Q1	2002 Mar.	2002 Apr.	2002 May
	--Average monthly change--						
Nonfarm payroll employment[1]	159	-119	-310	-63	-5	6	41
Previous	*167*	*-87*	*-303*	*-45*	*-21*	*43*	
Private	138	-158	-336	-88	-39	18	27
Mining	1	1	-2	-2	-4	3	-3
Manufacturing	-11	-109	-123	-80	-58	-22	-19
Construction	8	-3	-13	-14	-4	-53	-1
Transportation and utilities	17	-23	-63	-14	-23	-12	0
Retail trade	32	-15	-64	5	1	25	-17
Wholesale trade	-7	-16	-15	-7	-8	-2	-1
Finance, insurance, real estate	5	10	3	-3	-5	3	0
Services	92	-2	-60	27	62	76	68
Help supply services	-0	-54	-82	4	37	64	25
Total government	22	39	26	25	34	-12	14
Total employment (household survey)	115	-153	-316	-54	-425	82	441
Nonagricultural	119	-154	-338	-14	-305	55	497
Memo:							
Aggregate hours of private production workers (percent change)[1,2]	1.1	-2.1	-4.1	-0.5	-0.1	0.1	-0.1
Average workweek (hours)[1]	34.4	34.2	34.1	34.2	34.2	34.2	34.2
Manufacturing (hours)	41.6	40.7	40.5	40.8	41.0	40.9	40.9

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



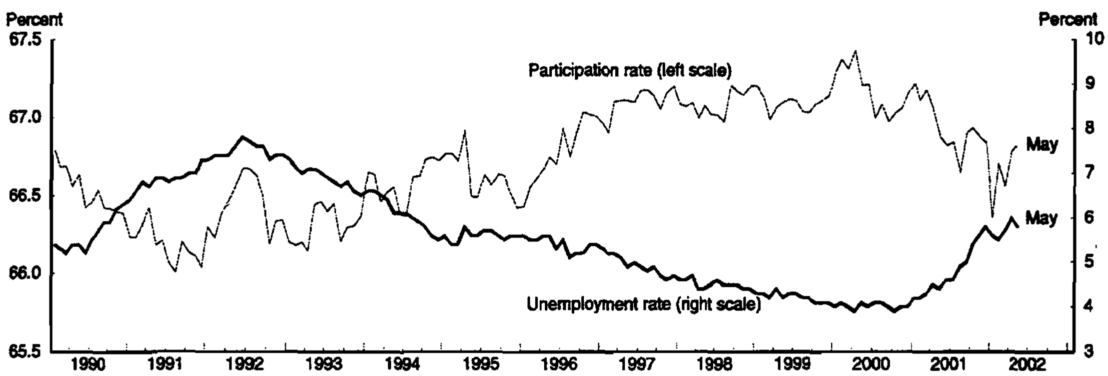
Aggregate Hours of Production or Nonsupervisory Workers



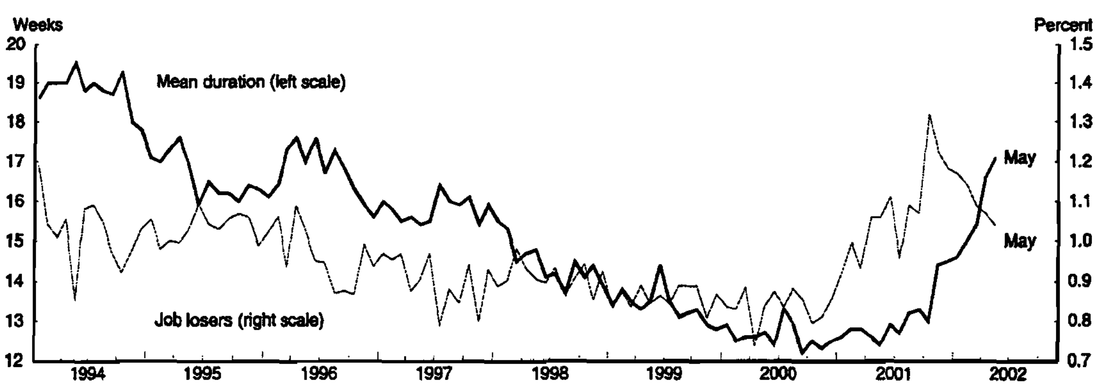
SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data, as published)

	2000	2001	2001 Q4	2002 Q1	2002 Mar.	2002 Apr.	2002 May
Civilian unemployment rate (16 years and older)	4.0	4.8	5.6	5.6	5.7	6.0	5.8
Teenagers	13.0	14.7	15.8	16.0	16.4	16.8	16.9
20-24 years old	7.1	8.3	9.5	9.8	10.3	10.0	8.9
Men, 25 years and older	2.8	3.6	4.4	4.5	4.5	4.8	4.8
Women, 25 years and older	3.2	3.7	4.4	4.4	4.4	5.0	4.8
Labor force participation rate	67.2	66.9	66.9	66.5	66.6	66.8	66.8
Teenagers	52.2	49.9	49.1	48.2	48.9	47.7	47.7
20-24 years old	77.9	77.2	76.9	76.3	76.4	76.2	77.5
Men, 25 years and older	76.0	75.9	75.9	75.6	75.6	75.9	76.1
Women, 25 years and older	59.7	59.7	59.6	59.6	59.5	59.9	59.6

Labor Force Participation Rate and Unemployment Rate



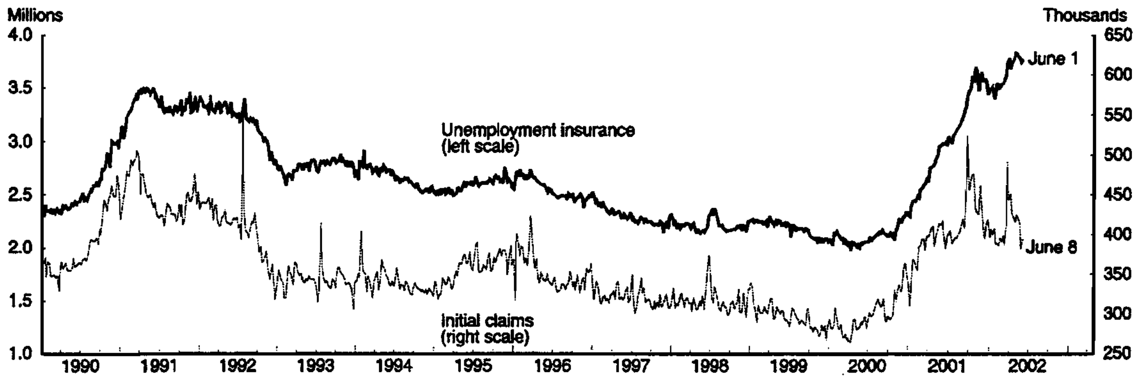
Job Losers Unemployed for Less Than 5 Weeks and Duration of Unemployment



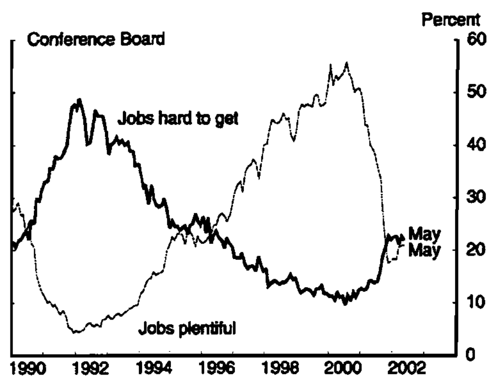
Note. Job losers unemployed for less that five weeks measured as a percentage of household employment.

Labor Market Indicators

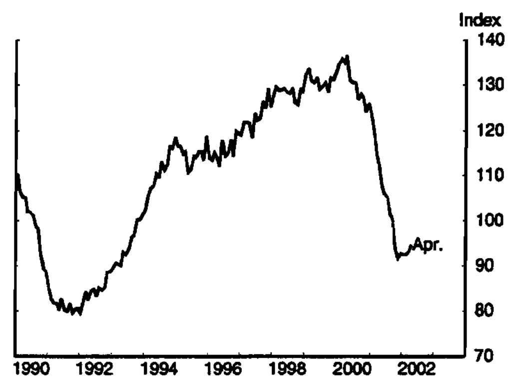
Initial Claims for Unemployment Insurance



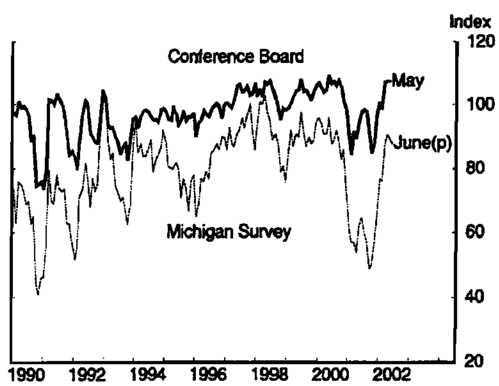
Current Employment Conditions



Help Wanted Index

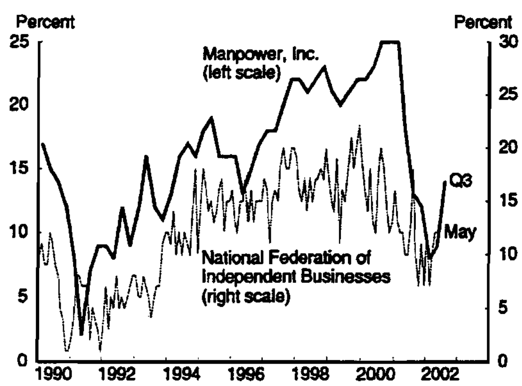


Expected Employment Conditions



Note. Expected conditions index is the proportion of households expecting unemployment to fall, minus the proportion expecting unemployment to rise, plus 100.

Net Hiring Strength



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

the spring of last year than had previously been reported and that large employment declines continued into February of this year. Overall, the level of employment in April 2002 was revised down 523,000 on a seasonally adjusted basis; revisions to both employment and production worker hours suggest a downward revision to the first-quarter level of nonfarm business employee hours of 0.4 percent.

Aggregate hours of production or nonsupervisory workers on private nonfarm payrolls ticked down 0.1 percent in May and have maintained a virtually flat profile since November. After having moved up between October and February, the workweek has held steady at 34.2 hours. However, manufacturing overtime hours rose another 0.1 hour in May and are now one-half hour above the level at the end of last year.

The unemployment rate in May partly reversed its increase in April, but at 5.8 percent, it was still 0.2 percentage point above its average level in the first and fourth quarters. Job losers unemployed for fewer than five weeks as a percentage of household employment fell in May for the seventh consecutive month. Although still above levels prevailing in the extremely tight labor market of the late 1990s and 2000, this proxy for the layoff rate has now fallen to near its average in the mid-1990s following the recovery of employment from the downturn of the early 1990s. In contrast, the number of individuals unemployed longer than twenty-seven weeks increased more than 140,000 in May following the typical cyclical pattern in which the average duration of ongoing unemployment spells continues to rise well after job losses begin to moderate; the Temporary Extended Unemployment Compensation (TEUC) program may also have contributed to the increase in long-term unemployment.

Both the run-up in initial claims at the end of March and the decline since then were likely caused by the onset of the TEUC program, which required some individuals ineligible for state unemployment insurance benefits to establish their eligibility for federal benefits by filing state unemployment insurance claims.[2] For the week ended June 8, when the TEUC effect was likely small, initial claims totaled 390,000, a little below the level of claims before the start of the TEUC program. By assuring recipients of state unemployment benefits access to federal benefits following the exhaustion of their state entitlements, the TEUC program probably prolonged the job search of those already on state benefit rolls as well, thereby boosting the level of insured unemployment; after

2. Using monthly data from the Employment and Training Administration (ETA) on the number of initial claimants who began receiving state benefits, we estimate that TEUC-related claims numbered approximately 32,000 per week in late March and April. Data from the ETA on states that report TEUC-related claims indicate that the level of these claims likely had fallen below 5,000 per week by the end of May.

having climbed abruptly at the end of March and beginning of April, the level of insured unemployment appears to have leveled off.

Other labor market indicators bolster the view that the labor market has touched bottom and offer some hints of stronger hiring in coming months. The Conference Board reported that individuals' assessments of current labor market conditions in recent months have remained at a marginally improved level relative to the fourth quarter of last year. Similarly, after having reached its low point in November, the index of help wanted advertising has edged up slightly. Households' expectations of future labor market conditions, as reported by the Conference Board and the Michigan SRC survey, have flattened since March but remain above levels in the first two months of the year. At the same time, the hiring plans of firms reporting to the National Federation of Independent Business and Manpower, Inc., are up from the first quarter.

The BLS now reports that output per hour of all persons working in the nonfarm business sector increased at an annual rate of 8.4 percent in the first quarter of 2002.[3] For the four quarters ended in the first quarter of 2002, productivity rose

Labor Output per Hour

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

Sector	2000[1]	2001[1]	2001		2002
			Q3	Q4	Q1
Nonfarm businesses					
All persons[2]	2.6	2.1	1.1	5.5	8.4
All employees	2.2	2.2	1.0	5.8	7.2
Nonfinancial corporations[3]	2.9	3.9	0.9	11.2	6.7

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. 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.

3. This estimate does not include the benchmark and other revisions to employment and hours from the May employment report, which, along with the annual revisions to the NIPAs, will be incorporated into the productivity and cost estimates released in August. Factoring in the employment and hours revisions together with data on spending published since the most recent GDP release, we estimate that productivity will be revised to show a 8.6 percent rise in the first quarter.

4.2 percent, an unusually strong performance for a four-quarter period when economic activity was weak. The BLS also reports that productivity in the nonfinancial corporate sector rose at an annual rate of 6.7 percent in the first quarter and 5.5 percent over the four quarters ended in the first quarter of 2002.

Industrial Production

Output in the industrial sector increased 0.2 percent in May, extending the upturn that began in January. Production of motor vehicles and electricity generation in May declined, but output in manufacturing industries excluding motor vehicles increased 0.3 percent, the average monthly pace for the year. Compared with the typical postwar cyclical experience, the downturn in industrial production (measured from its own peak to its own trough) appears to have been a bit less than average, while the pace of recovery thus far, which is averaging monthly gains of 0.4 percent, is considerably sub-par.[4] The factory operating rate in May, at 73.9 percent, was 1 percentage point above its recent low in December 2001 but remains 7 percentage points beneath its 1967 to 2001 average.

Output in the high-tech sector increased 1.2 percent in May. Semiconductor output rose 2.2 percent, a bit faster than in April but below the average rate of increase during the first quarter. Intel and AMD (the first and second largest producers of microprocessors, respectively) recently cautioned that demand for microprocessors is running below expectations. Intel cited weak European demand and AMD cited weak demand in North America and Europe. Furthermore, Intel stated that demand appears to be shifting toward low-end chips.[5] Nonetheless, if, as our industry contacts suggest, customers' inventories of semiconductors have been worked down to very low levels, increases in final demand should quickly translate into increases in chip production.[6] Orders for equipment used by semiconductor manufacturers have risen nearly 70 percent over the past four months, but they remain at a fairly subdued level.

Downstream, the production of computers rose 0.6 percent in May after an increase of 1.5 percent in April. These gains mark a deceleration from the rapid pace of production in the first quarter, when the output of computers for business use, which had lagged the earlier recovery in the production of computers for consumer use, picked up sharply. A moderation in demand may

4. The cumulative decline in total industrial production during the recent contraction was 7.1 percent, whereas the average during the nine downturns in IP since 1953 is 9.1 percent. The average pace of increase for the first five months after the trough in IP is 0.9 percent per month.

5. The large price cuts recently announced by Intel and AMD—up to 53 percent on some chips—are not unusual at this time of year. Intel has used this tactic in the past to clear out inventories that will be supplanted by newer-generation processors.

6. The low level of customer inventories is corroborated by the staff's flow-of-goods system, which also indicates a low days' supply measure for electronic components.

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

Component	Proportion 2001	2001[1]	2001[2] Q4	2002[2] Q1	2002[3] Mar.	2002[3] Apr.	2002[3] May
Total	**100.0**	**-5.9**	**-6.7**	**2.8**	**.4**	**.3**	**.2**
Previous	100.0	-5.9	-6.7	2.6	.4	.4	
Manufacturing	86.7	-6.1	-6.3	3.2	.5	.2	.2
Ex. motor veh. and parts	80.4	-6.6	-6.0	1.7	.5	.0	.3
Ex. high-tech industries	73.8	-5.5	-6.6	-.1	.4	-.1	.3
Mining	6.2	-2.4	-11.8	-9.0	-1.3	1.0	.7
Utilities	7.1	-6.1	-7.2	8.4	1.4	.9	-.9
Selected industries							
High technology	6.6	-15.6	1.3	24.5	1.6	.8	1.2
Computers	1.5	-8.2	3.6	35.5	2.3	1.5	.6
Communication equipment	1.5	-24.4	-25.9	-18.3	.4	-2.4	-1.0
Semiconductors[4]	3.5	-14.9	14.4	40.3	1.7	1.6	2.2
Motor vehicles and parts	6.3	-.4	-10.1	22.9	.4	2.3	-.9
Aircraft and parts	2.6	-11.6	-26.6	-30.5	-3.6	-3.3	-3.8
Market groups excluding energy and selected industries							
Consumer goods	24.0	-1.6	-3.0	1.5	.6	-.4	.1
Durables	3.5	-8.0	-10.5	7.0	1.3	.0	1.2
Nondurables	20.6	-.5	-1.7	.6	.5	-.4	-.1
Business equipment	7.9	-10.8	-8.3	-4.9	-.2	-.1	1.2
Defense and space equipment	2.0	.2	4.2	3.2	.4	1.3	-.1
Construction supplies	6.6	-3.8	-9.3	8.6	2.1	-.8	.4
Business supplies	7.1	-8.4	-5.1	-4.1	.9	.0	.5
Materials	23.9	-6.9	-9.3	.6	.2	.5	.3
Durables	16.3	-7.3	-12.3	-.3	.0	.6	.4
Nondurables	7.6	-6.1	-2.7	2.6	.7	.4	.2

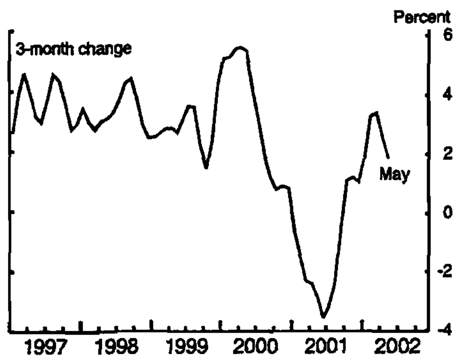
1. Fourth-quarter to fourth-quarter change.
2. Annual rate.
3. Monthly rate.
4. Includes related electronic components.

Capacity Utilization
(Percent of capacity)

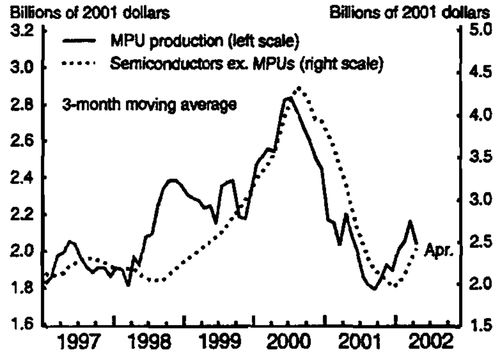
Sector	1967-2001 average	1982 low	1990-91 low	2001 Q3	2001 Q4	2002 Q1	2002 Apr.	2002 May
Total industry	**81.9**	**71.1**	**78.1**	**76.2**	**74.7**	**75.1**	**75.4**	**75.5**
Manufacturing	80.9	69.0	76.6	74.5	73.1	73.5	73.8	73.9
High-tech industries	80.0	77.3	72.4	61.3	60.7	63.0	64.0	64.2
Excluding high-tech industries	81.0	68.0	76.8	76.1	74.7	75.0	75.2	75.3
Mining	87.6	80.3	87.0	90.7	87.6	85.3	85.3	86.0
Utilities	87.6	75.9	83.4	86.3	83.6	84.3	86.4	85.3

Indicators of High-Tech Manufacturing Activity

Semiconductor IP

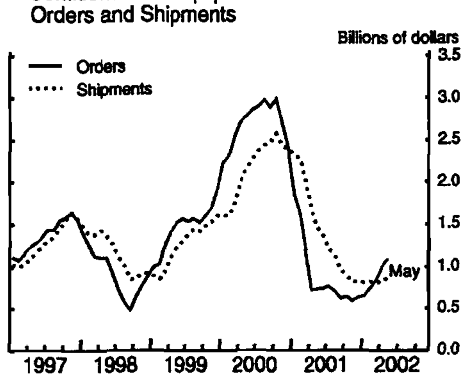


Semiconductor IP Components



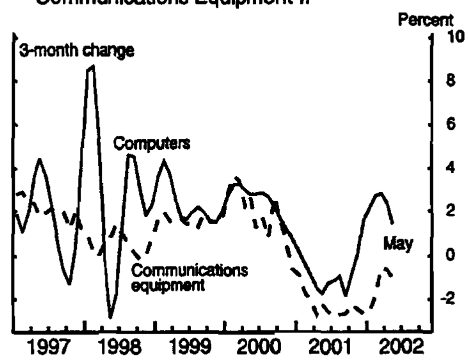
Source. Semiconductor Industry Association and FRB staff estimates.

Semiconductor Equipment Orders and Shipments

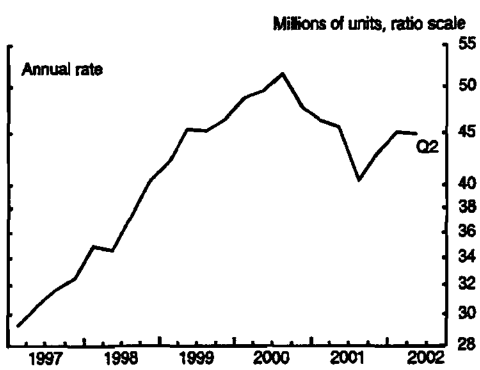


Source. Semiconductor Equipment and Materials International.

Computers and Communications Equipment IP



Personal Computer Sales



Note. FRB seasonals. Includes notebooks. Value for Q2 is a Dataquest forecast.
Source. Dataquest.

Networking Equipment Spending Plans

Note. The diffusion index equals 50 plus half the percentage of respondents planning to increase future spending, less the percentage of respondents planning to reduce future spending. The average number of respondents per month from February 2001 to May 2002 was 255.
Source. CIO Magazine.

underlie the slowing in computer production: After having jumped nearly 5 percent in the first quarter (not at an annual rate), industry analysts expect unit sales of personal computers to decline slightly in the second quarter.

The output of communications equipment, which decreased 1 percent in May, continues to be restrained by weak capital spending by telecom service providers. The output of network equipment (such as routers, switches, and hubs) used by general business, on the other hand, has been increasing since December. Moreover, the prospects for continued production gains in this segment of communications equipment may be improving; when surveyed about future spending on data networking equipment, the share of chief information officers planning to increase spending has risen, on balance, in recent months. Even so, prospects for the communications equipment sector overall remain problematic.

Total production of motor vehicles ran at an annual rate of 12.1 million units in May, putting production at the low end of the narrow range that has persisted since the beginning of the year. However, production of medium and heavy trucks edged up in the past two months in order to fill a rising backlog of orders for class 8 trucks to be delivered in advance of the October switch to environmentally friendly, but more costly, engines. Scheduled assemblies of all vehicles in the next four months point to a significant step-up in production,

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

Item	2001	2002		2002			
	Q4	Q1	Q2[1]	Mar.	Apr.	May	June[1]
U.S. production	11.6	12.2	12.4	12.1	12.3	12.1	12.7
Autos	4.8	5.2	5.1	5.2	5.2	5.0	5.2
Trucks	6.8	7.0	7.2	6.9	7.1	7.0	7.6
Days' supply[2]							
Autos	38.3	51.1	n.a.	47.9	47.8	54.4	n.a.
Light trucks[3]	52.1	61.1	n.a.	60.8	62.1	72.3	n.a.
Inventories[4]	2.27	2.41	n.a.	2.41	2.50	2.62	n.a.

Note. Components may not sum to totals because of rounding.
1. Production rates reflect Ward's Communications' latest estimates for Q2 and June.
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.

although output for all cars and trucks in the third quarter typically has fallen short of schedules by 3-1/2 percent; with inventories of automobiles and light trucks already at target levels, a similar shortfall looks likely to occur again this year. Stocks of medium and heavy trucks are comfortable.

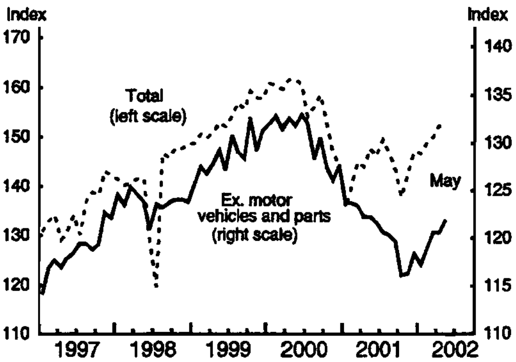
Apart from the high-tech and motor vehicle industries, increases in factory production by major market group were widespread in May. Excluding motor vehicles and computers, the production of durable consumer goods, which increased 1.2 percent, has been supported by the output of home appliances; the production of these goods has been spurred by the high levels of activity in the homebuilding and real estate markets. The output of construction supplies, which has been similarly buoyed by the strength in housing starts, also increased in May. Nonetheless, recent gains in these industries have been short of those in a typical cyclical rebound because production in these categories (in addition to motor vehicles) was relatively well maintained during the downturn.

As a result of restrained spending by businesses, the output of business supplies (particularly job printing) and the production of business equipment outside motor vehicles, high-tech, and aircraft have been slow to turn around; historically these two market groups have been among the last to show significant increases after a trough in industrial production. In May, however, both categories posted output gains. The output of aircraft and parts continues to be pulled down by declines in commercial aircraft production, which has fallen 37 percent since September 2001.

Available indicators of future industrial activity point to continued output gains, though again along a relatively tepid track. Data for early June suggest that the weekly physical product aggregate is likely to add about 0.3 percentage point to the change in IP; motor vehicle assemblies and electricity generation contribute the bulk of the increase. The staff's series on real adjusted durable goods orders rose 4.5 percent in April, more than offsetting the declines in the previous two months; the increases were widespread among industries. The Institute for Supply Management's new orders diffusion index increased in May, and the new orders index from the Federal Reserve Bank of Philadelphia's Business Outlook Survey remained positive. By contrast, the level of the staff's series of manufacturing layoff announcements through June 18 already exceeds its May total; recent layoffs are concentrated in high-tech industries.

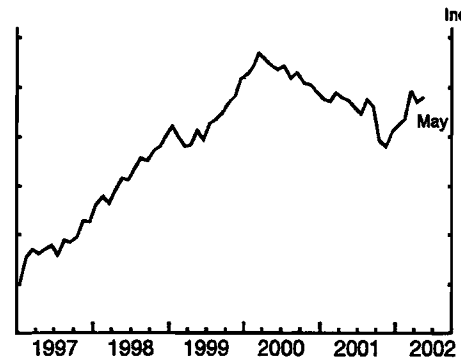
Indicators of Manufacturing Activity

Consumer Durables IP

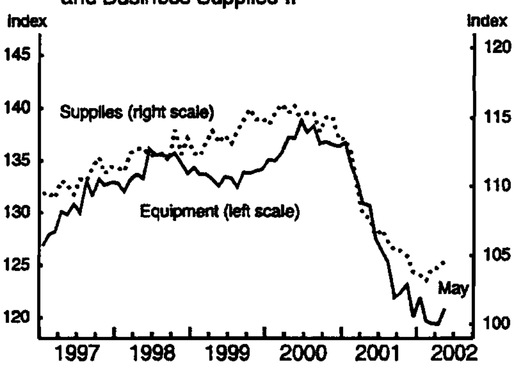


Note. Excludes high-tech and energy.

Construction Supplies IP

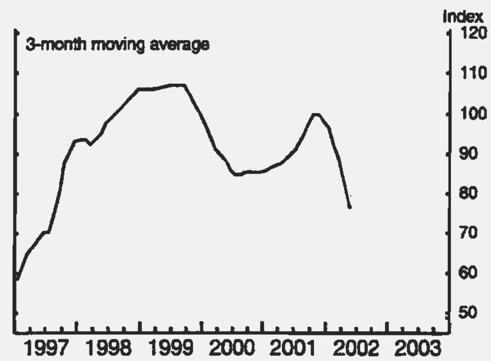


Business Equipment and Business Supplies IP



Note. Excluding high-tech, motor vehicles and parts, aircraft and parts, and energy.

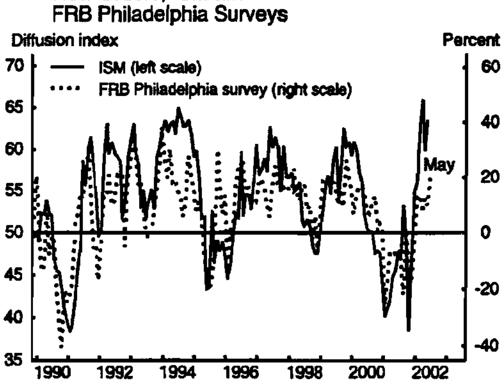
Boeing Commercial Aircraft Completions



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

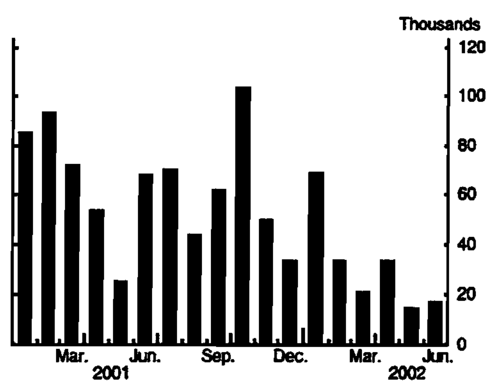
Content partially redacted.

New Orders, ISM and FRB Philadelphia Surveys



Note. The ISM index equals 50 plus half the difference between the percentage of respondents reporting greater levels versus lower levels of new orders. The FRB Business Outlook Survey is the difference between the percentage of respondents reporting greater levels versus lower levels of new orders.

Announced Manufacturing Layoffs



Note. Data are through June 18, 2002.
Source. Compiled by staff from news reports.

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

Component	Share, 2001: H1 (percent)	2001	2002			
		Q4	Q1	Feb.	Mar.	Apr.
Total orders	**100.0**	**1.1**	**.8**	**2.6**	**.3**	**1.5**
Adjusted orders[1]	71.0	-1.4	2.3	-1.0	-2.2	4.3
Computers	4.0	8.5	-2.0	-3.6	-7.5	-.3
Communication equipment	3.0	4.3	5.4	.9	-11.7	11.6
Other capital goods	23.0	-2.9	-.6	1.8	-1.4	3.8
Other[2]	37.0	-1.9	4.3	-2.5	-1.3	4.5
Memo:						
Real adjusted orders	...	-.7	2.7	-1.0	-2.2	4.5
Excluding high tech	...	-2.1	2.7	-1.1	-2.4	4.7

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.

The industrial production release for May included revisions to the staff estimates of industrial capacity for 2002. Downward revisions to capacity in high-tech industries were offset by revisions that, on balance, increased capacity

Industrial Capacity
(Percent change, fourth quarter to fourth quarter)

Category	1994-2000 average	2001	2002	
			Previous	Revised
Total	**5.2**	**1.7**	**1.0**	**1.0**
Mining	-.7	.6	.3	.4
Utilities	1.6	5.1	4.0	3.9
Manufacturing	5.9	1.6	1.0	1.0
High-tech[1]	40.0	12.7	12.9	10.1
Ex. high-tech	2.8	.3	-.1	.2

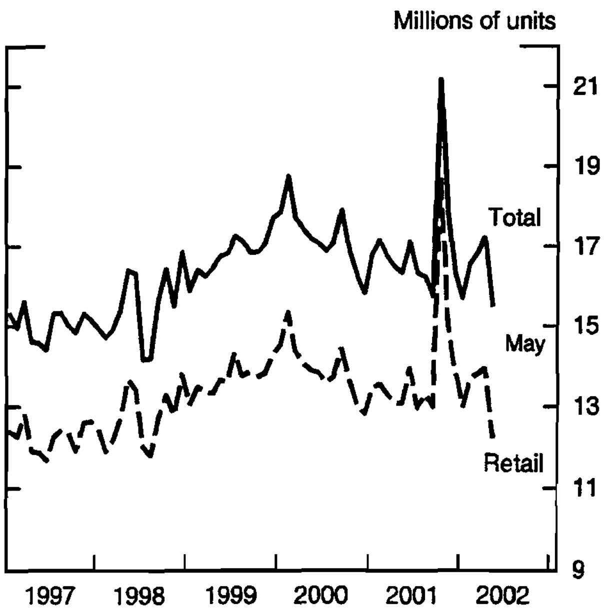
1. High-tech industry consists of computers and office equipment, communications equipment, and semiconductors and related electronic components.

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

			2001	2002		2002	
	2000	2001	Q4	Q1	Mar.	Apr.	May
Total	17.2	17.0	18.5	16.4	16.8	17.2	15.5
Autos	8.8	8.4	8.7	7.9	8.3	8.6	7.8
Light trucks	8.4	8.6	9.7	8.4	8.5	8.6	7.7
North American[1]	14.4	14.0	15.1	13.0	13.4	13.8	12.5
Autos	6.8	6.3	6.4	5.7	6.0	6.3	5.7
Light trucks	7.5	7.6	8.6	7.4	7.4	7.5	6.8
Foreign-produced	2.9	3.1	3.4	3.3	3.4	3.4	3.0
Autos	2.0	2.1	2.3	2.3	2.3	2.3	2.1
Light trucks	.8	1.0	1.1	1.1	1.1	1.1	.9

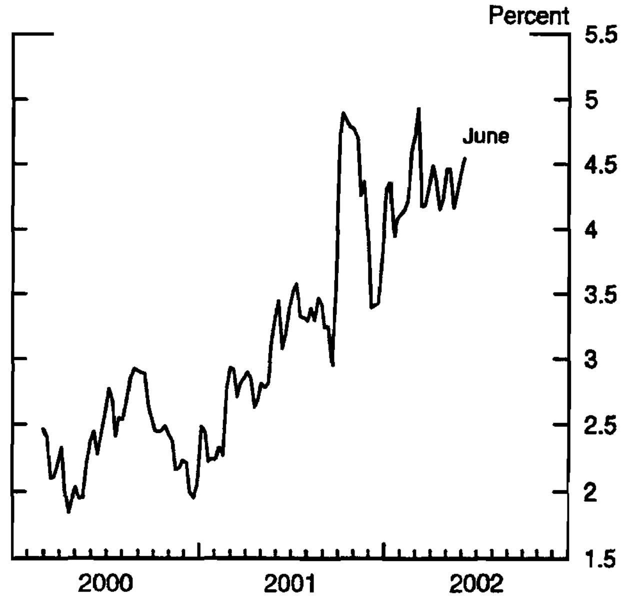
Note. Components may not sum to totals because of rounding. Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.
1. Excludes some vehicles produced in Canada that are classified as imports by the industry.

Sales of Light Vehicles
(Annual rate; FRB seasonals)



Note. Staff estimates based on confidential data.

Total Value of Incentives as a Share of Average Vehicle Price before Incentives



Source. J.D. Power and Associates.

elsewhere. The revisions were based on updated estimates of industry capital input, which in turn were derived from benchmark investment data from the Census Bureau's Annual Survey of Manufactures for 2000 and staff estimates of industry capital spending for 2001 and 2002. The 1 percent rate of increase estimated for manufacturing during 2002 is the slowest in the history of the series, which dates back to 1948.

Consumer Spending

The pace of consumer spending slowed appreciably, on balance, this spring from the rapid rate posted in the first quarter. Consumer spending on motor vehicles and other goods fell back in May, offsetting the advance the month before.

After having shot up to 17.2 million units in April, sales of light motor vehicles dropped to an annual rate of 15.5 million units in May.[7] Average sales for the two months about matched the first-quarter level. Confidential data from the Big Three indicate that fleet sales were flat in May; thus, last month's decrease in sales occurred entirely on the retail side. The decline was widespread; no automaker reported an increase in sales on a seasonally adjusted basis. Automakers appear to be interpreting the May dip in sales as an aberration, and our contacts in the industry currently expect sales to move back up in June.

Indeed, a payback from the sharp increase in April seems to be the only obvious explanation for the May slide in sales. Available data from J.D. Power indicate that rebates and interest rate subsidies continued at near record levels through the beginning of June. More recently, General Motors boosted incentives on certain auto and truck models, and the firm now estimates that the pricing environment will be even more competitive than it had expected earlier in the quarter. Consumers remain fairly upbeat about car-buying conditions; although the index of car-buying conditions in the Michigan SRC survey ticked down in early June, it has remained at a generally favorable level.

In May, nominal sales in the retail control group of stores, which excludes automotive dealers and building materials and supply stores, fell 0.4 percent following an upward-revised gain in April of 1 percent. Spending was off sharply at clothing stores and gasoline stations, but the decline at the latter was probably due mostly to falling gasoline prices last month. Sales by general merchandisers also fell back in May. Nevertheless, merchants of furniture and appliances posted advances in May, and sales by nonstore retailers, namely electronic and mail-order houses, rose smartly for the second consecutive month. Factoring in price changes, we estimate that sales of goods other than

7. Sales of *light* vehicles since September have been revised a little because of a correction by DaimlerChrysler to the mix of *light and medium* trucks sold.

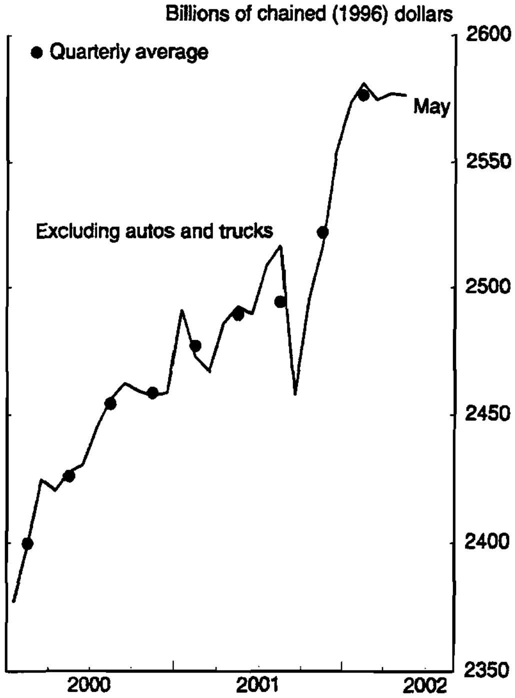
Total Retail Trade and Food Services Sales
(Percent change; seasonally adjusted)

Expenditure	2001 Q3	2001 Q4	2002 Q1	2002 Mar.	2002 Apr.	2002 May
Total sales	-.2	3.1	-.6	-.1	1.2	-.9
Previous estimate	...	...	-.6	.1	1.2	...
Retail control[1]	.1	.6	1.8	.1	1.0	-.4
Previous estimate	...	...	1.8	.1	.8	...
Furniture and home furnishings	.0	1.8	2.3	.7	.0	.9
Electronics and appliances	1.8	5.4	.6	.7	-.5	2.1
Clothing and accessories	-1.4	1.9	3.6	-.1	.5	-2.8
Food and beverage stores	.7	1.2	.5	-.1	-.3	.5
General merchandise	1.9	2.5	2.2	-.1	1.1	-.9
Gasoline stations	-4.9	-8.2	.9	3.5	4.4	-3.1
Health & personal care	2.1	2.0	2.7	-.3	2.2	.0
Nonstore retailers[2]	-2.1	.2	3.1	-.4	2.0	1.6
Other retailers[3]	1.3	1.3	-.1	-.6	.6	.2
Food services	.6	1.1	3.4	-.2	.2	-.3

1. Total retail trade and food services less sales at building material and supply stores and automobile and other motor vehicle dealers.
2. Includes electronic shopping and mail order houses.
3. Includes miscellaneous retailers and sporting goods, hobby, book, and music stores.
... Not applicable.

Real PCE Goods

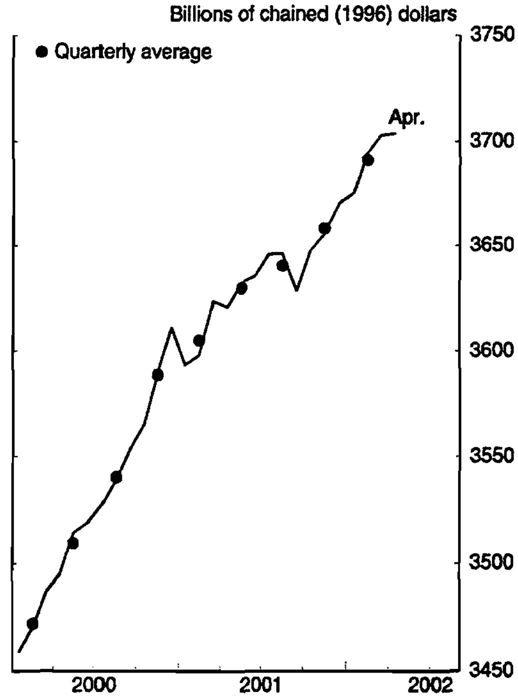
Billions of chained (1996) dollars



Note. March through May is a staff estimate.

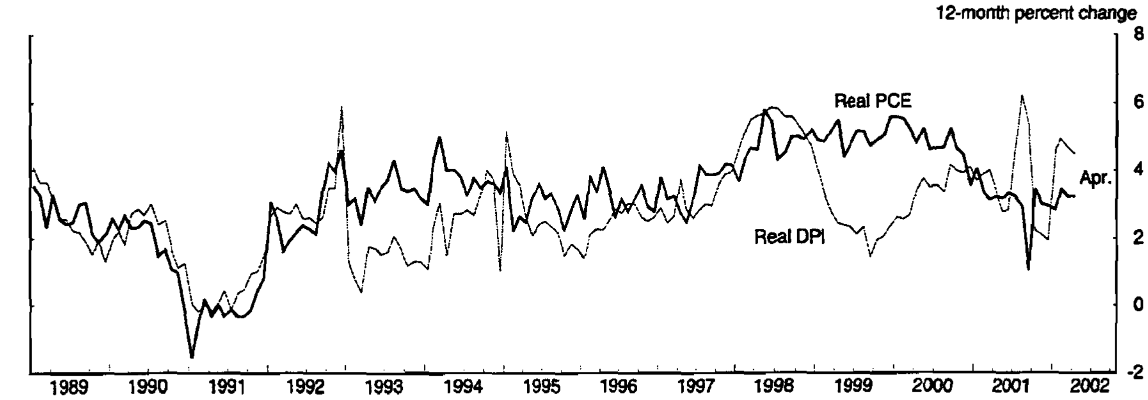
Real PCE Services

Billions of chained (1996) dollars

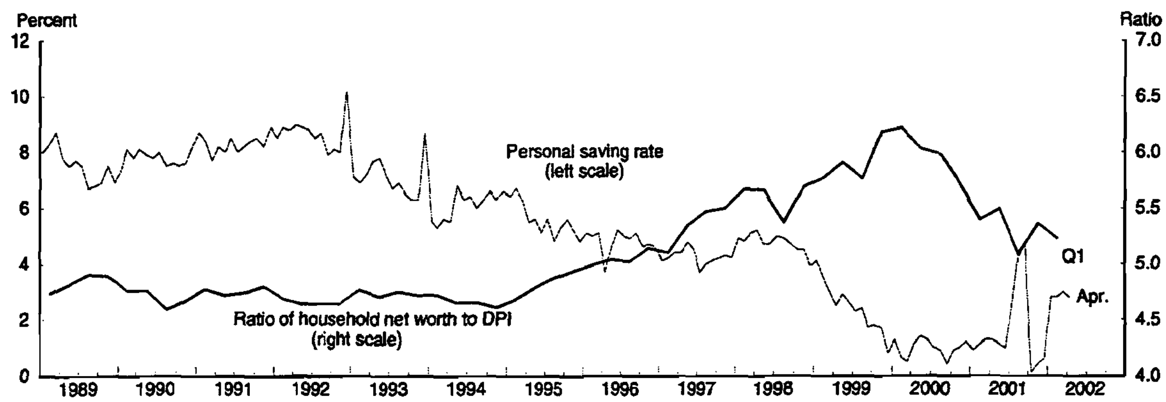


Household Indicators

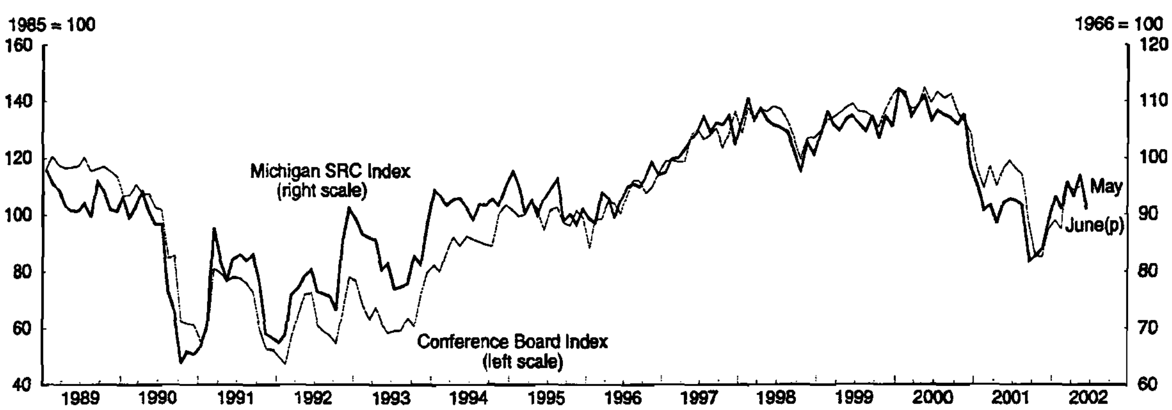
Real Consumer Spending and Income



Household Net Worth and Saving



Consumer Confidence



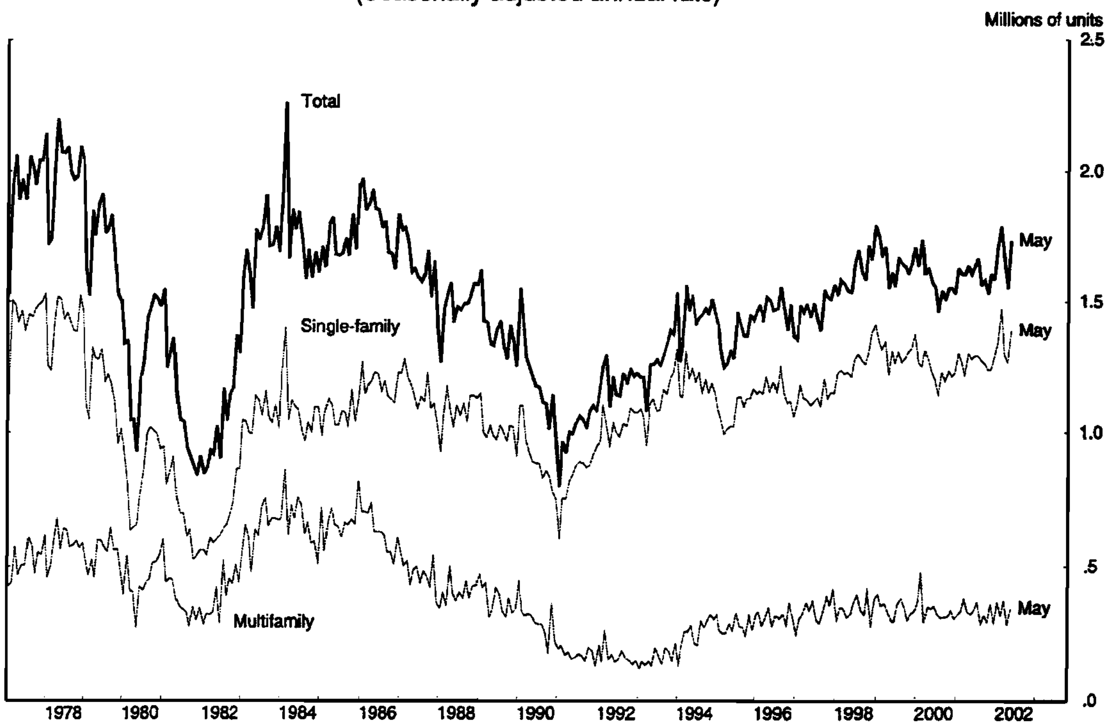
Private Housing Activity
(Millions of units; seasonally adjusted annual rate)

		2001		2002			
	2001	Q3	Q4	Q1r	Mar.r	Apr.r	May p
All units							
Starts	1.60	1.60	1.57	1.73	1.68	1.55	1.73
Permits	1.64	1.59	1.64	1.69	1.63	1.63	1.67
Single-family units							
Starts	1.27	1.28	1.26	1.37	1.30	1.27	1.39
Permits	1.24	1.22	1.23	1.31	1.25	1.26	1.27
Adjusted permits[1]	1.28	1.27	1.26	1.34	1.30	1.30	1.29
New home sales	.91	.87	.93	.90	.91	.92	n.a.
Existing home sales	5.30	5.27	5.24	5.78	5.41	5.79	n.a.
Multifamily units							
Starts	.33	.33	.32	.35	.38	.29	.34
Permits	.40	.37	.41	.39	.38	.37	.41
Mobile homes							
Shipments	.19	.20	.21	.18	.17	n.a.	n.a.

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)



motor vehicles were about unchanged in real terms in May following an increase of 0.1 percent in April.

Real outlays on services were unchanged in April, the most recent month for which data are available. Spending on energy services and on brokerage and investment counseling is estimated to have dropped back, but these declines were offset by increases in other services outlays, such as medical care. Meanwhile, the increase in stock market volumes points to a rebound in spending on brokerage services in May.

Despite fairly modest gains in the past few months, real consumer spending rose 3-1/4 percent over the twelve months ending in April: The increase in spending was supported by a 4-1/2 percent rise in real disposable income over the same period, which was buoyed by a decline in personal tax payments and an increase in transfer payments. The fallback in personal tax payments reflects both last year's tax legislation and the combination of extraordinarily weak final payments (relative to the BEA's estimate of personal income) and large income tax refunds this tax season. The increase in transfer payments was boosted by a cyclical expansion in social programs. More recently, the labor market report suggested only a modest rise in private wages and salaries last month.

With the increase in income outpacing gains in consumer spending over the twelve months ending in April, the level of the saving rate was nearly 1-1/2 percentage points above a year ago. Reductions in wealth during the past two years have put substantial downward pressure on spending, and the declines in the stock market so far this spring likely pushed the ratio of net worth to disposable personal income down further.

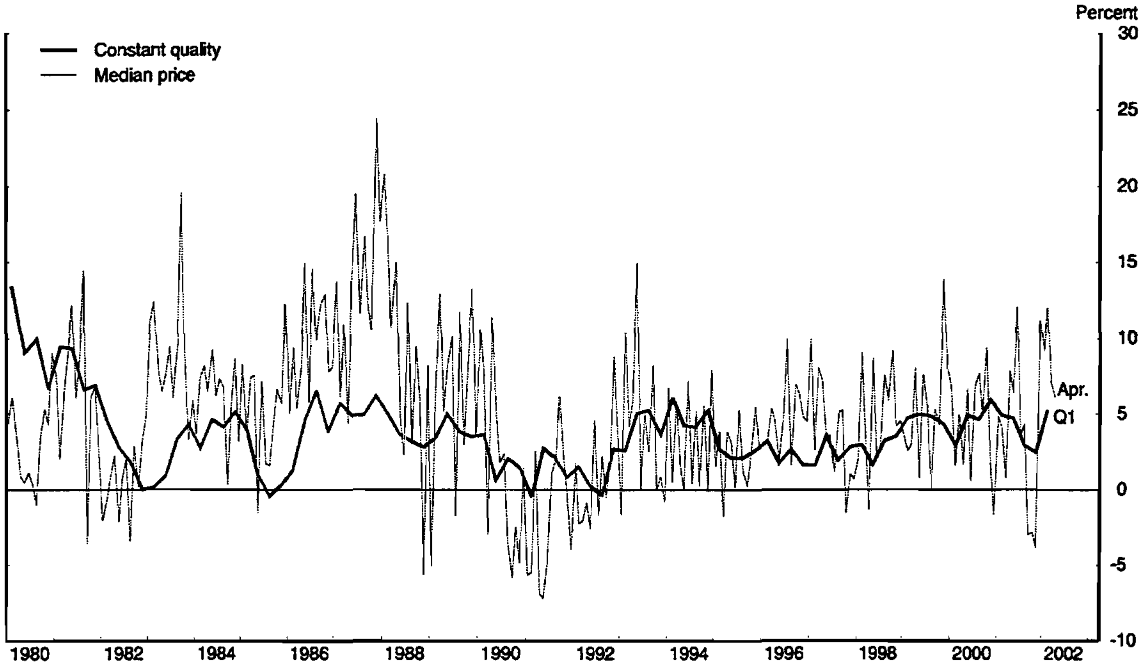
Consumer confidence, as measured by either the Michigan SRC index or the Conference Board index, continued to increase through May, but the preliminary, early-June reading of the Michigan survey dipped back to the low end of the range seen so far this year. Taking a longer perspective, consumer confidence measures stand close to their averages over the past decade, at levels consistent with moderate increases in overall consumer spending.

Housing Markets

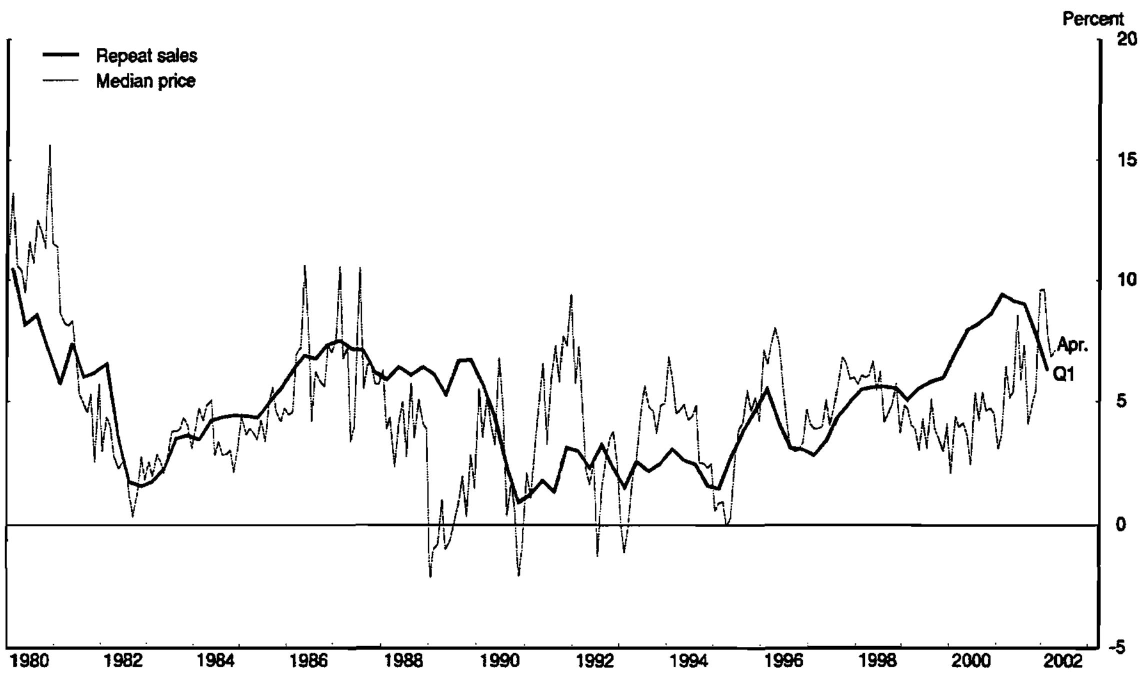
After having dipped in April, starts of single-family homes jumped 9.6 percent in May to an unexpectedly brisk annual rate of 1.39 million units. The May volume of starts slightly exceeded the average pace in the first quarter, which was the highest quarterly figure in twenty-three years. However, permits for single-family construction—adjusted to include construction in areas where permits are not required—were little changed at 1.29 million units, putting the ratio of starts to adjusted permits two standard deviations above the average. Because single-family starts typically adjust toward a better alignment with

House Prices
(Percent change from year earlier)

New Homes



Existing Homes



permits, the starts estimate for May appears unsustainably robust. Nevertheless, starts are expected to remain quite strong in coming months.

Most indicators of financial conditions continue to support strong housing demand. The contract rate on thirty-year fixed-rate conventional mortgages edged down in mid-June to 6-3/4 percent, the lowest level since last November, and initial rates on adjustable-rate mortgages slid to 4-3/4 percent. The share of mortgage originations financed with ARMs increased to 19 percent in April (most recent data), the highest percentage since fall 2000. And as of mid-June, the Mortgage Bankers Association index of mortgage applications for home purchase was near a record high. In contrast, homebuying attitudes, as measured by the preliminary Michigan survey, fell substantially in early June.[8]

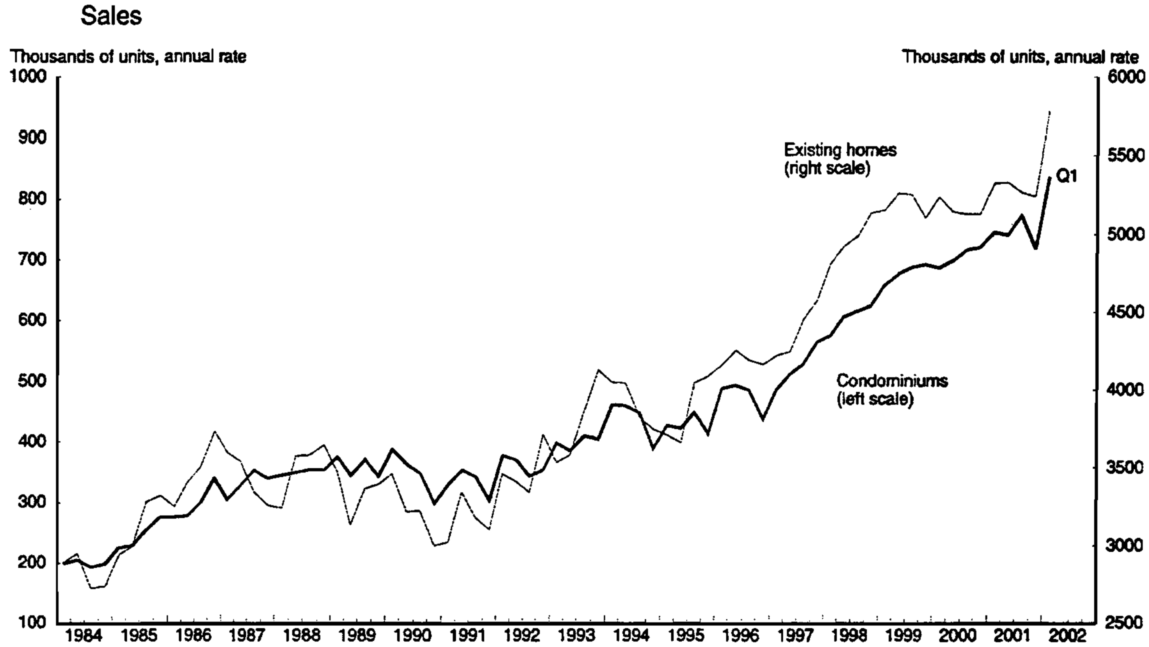
Sales of new homes increased 1 percent in April to an annual rate of 915,000 units. The pace of sales in both March and April closely matched the total for last year, which was the highest on record. The inventory of new homes for sale rose in April to 316,000 units, but the months' supply of homes for sale was unchanged at 4-1/4 months—a low ratio that provides no hint that production has been excessive. Sales of existing homes jumped 7 percent in April, to an annual rate of nearly 5.8 million units. The increase partly offset a drop in March, bringing these sales to their third highest level on record.

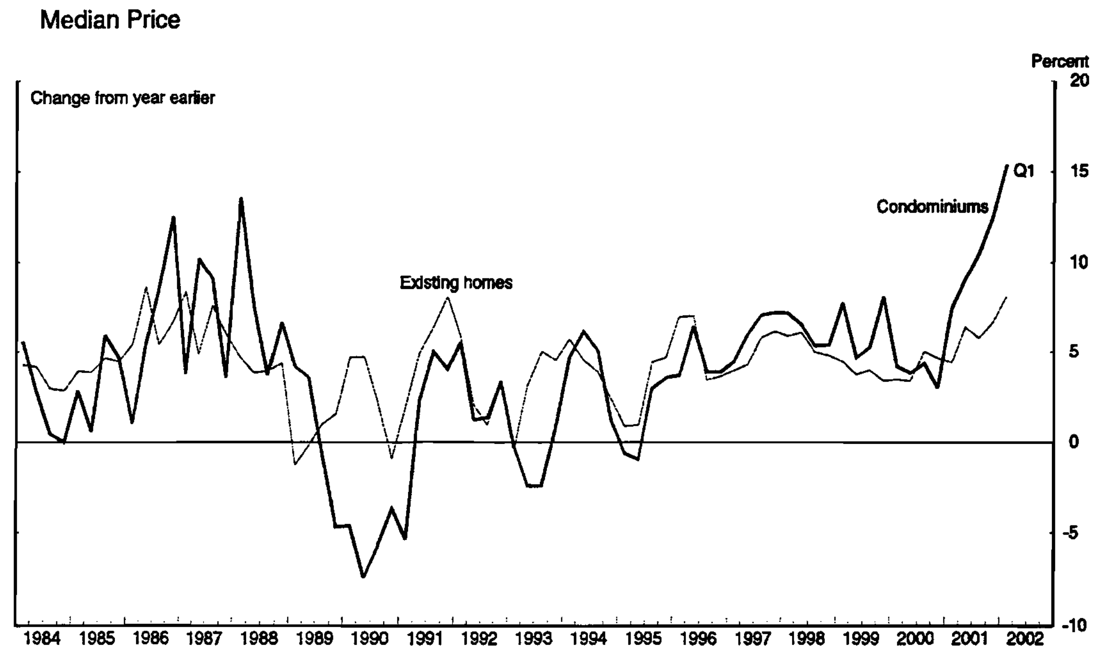
Median prices of new homes and existing homes increased in March and April at twelve-month rates of 6 percent to 7 percent—somewhat less rapidly than in earlier months, although still a brisk pace. The constant-quality price index for new homes, which adjusts for changes in geographic composition and in home size and other amenities, rose 5-1/4 percent in the first quarter from twelve months earlier, the largest increase since the fourth quarter of 2000. The repeat-sales price index for existing homes decelerated to 6-1/4 percent, year-over-year, in the first quarter. Although this was the slowest rise since late 1999, it still was noticeably elevated compared with price increases for existing homes during the 1990s.

Multifamily housing starts continued their recently erratic monthly pattern; they rose 20 percent in May to an annual rate of 344,000 units, partly offsetting a drop in April. However, the pace of multifamily starts so far in the second quarter is 11 percent below the average for the first quarter. Recent readings on market conditions for rental apartments have been downbeat. In the first quarter, the vacancy rate for apartments jumped to the highest level since the

8. The rise in negative homebuying opinions reflected increased concern in early June about high home prices and about current and expected economic conditions. Surprisingly, the decrease in positive homebuying opinions mainly reflected a drop in the proportion of respondents that mentioned low interest rates, even though rates for fixed-rate mortgages and adjustable-rate mortgages have declined, on balance, since March.

Condominiums and Existing Homes





Note. Data for condominiums also include cooperative apartments.
Source. National Association of Realtors.

late 1980s; rents decreased relative to four quarters earlier, as measured by the National Real Estate Index; and property values declined from a year earlier. Demand for rental apartments has softened, owing partly to cyclical declines in employment; in addition, home ownership has become more affordable, reflecting both low mortgage rates and reduced down-payments.

By contrast, conditions in the market for condominiums and cooperative apartments—together referred to here as "condos"—appear robust. Sales of existing condos jumped nearly 16-1/2 percent in the first quarter, to a record annual rate of 838,000 units.[9] The demand for condos has been stimulated by many of the same conditions that have contributed to the strong demand for single-family homes, including low mortgage rates, population growth, and substantial house-price appreciation. Moderately priced condos provide a relatively affordable entry into home ownership, particularly in areas with high house prices. Even though the median price of existing condos jumped 15-1/4 percent in the first quarter from a year earlier, almost twice as fast as the rise in the median price of existing single-family homes, the median condo price was still 11 percent below the median price of existing homes.[10]

Business Fixed Investment

Equipment and software. Real outlays on equipment and software declined at an annual rate of about 2 percent in the first quarter after having fallen at about a 5 percent rate in the fourth quarter.[11] Real spending for computer equipment rose 30 percent, but because of small declines in outlays for software and communications equipment, overall spending on high-tech equipment eked out only a small gain. Business spending on both motor vehicles and aircraft

9. Data are available for condominium and cooperative sales beginning in 1981.

10. Note that some of the more rapid rise in prices for existing condos likely reflects their considerably greater concentration, compared with existing single-family homes, in urban areas, where zoning and other controls on land use limit the supply of land available for construction.

11. Historical data on orders and shipments of capital goods have been revised for the period January 1992 through April 2002. The revisions mainly reflect the benchmarking to the 2000 Annual Survey of Manufactures. The revisions after 2000 incorporate late filers and updated seasonal adjustment factors. Census has not yet released all of the detailed data that we use in the equipment and software forecast.

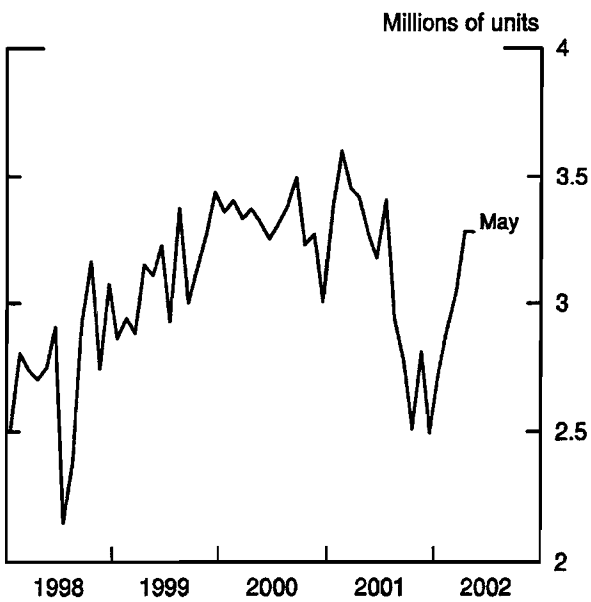
A preliminary reading of the data we have in hand indicates that there were large downward revisions in orders and shipments for some categories in 2000, notably computers and peripheral equipment. Revisions to growth rates since then appear small.

Our contacts at the BEA indicated that they plan to incorporate the revisions in the final GDP release for the first quarter and in the advance GDP release for the second quarter. At the time of the annual revision, the BEA intends to incorporate the revisions to earlier quarters.

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

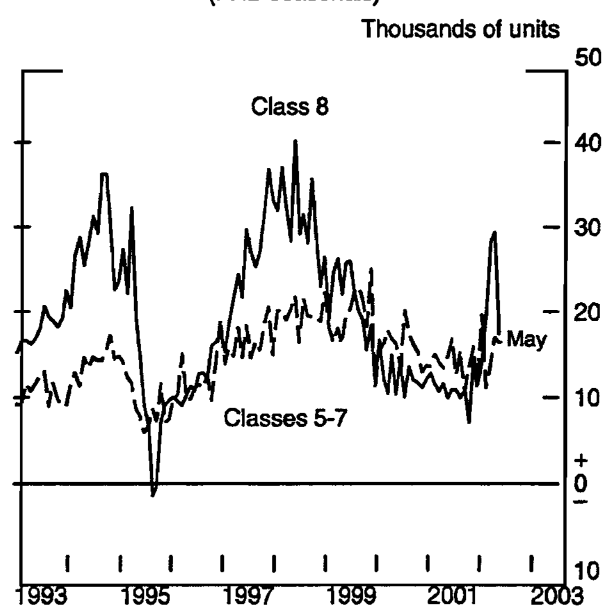
	2001		2002	2002		
	Q3	Q4	Q1	Feb.	Mar.	Apr.
	Annual Rate			Monthly Rate		
Shipments of nondefense capital goods	-24.2	-10.1	-1.6	-1.2	-.1	-.0
Excluding aircraft	-25.4	-12.8	1.0	-1.6	-.7	.8
Computers and peripherals	-48.8	6.7	-6.6	-4.7	-3.5	2.5
Communications equipment	-39.7	-31.1	-10.9	-.4	-2.3	2.7
All other categories	-17.1	-13.3	4.3	-1.1	.0	.2
Shipments of complete aircraft	39.9	-4.7	-27.9	6.9	14.3	-10.3
Medium & heavy truck sales (units)	-22.7	4.1	-43.2	-3.3	-.5	11.7
Orders for nondefense capital goods	-36.1	-7.2	2.9	4.6	-3.1	2.2
Excluding aircraft	-30.3	-2.7	-.9	.9	-3.4	4.0
Computers and peripherals	-57.7	38.7	-7.7	-3.6	-7.5	-.3
Communications equipment	-51.6	18.3	23.4	.9	-11.7	11.6
All other categories	-19.5	-11.3	-2.3	1.8	-1.4	3.8

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



Note. Staff estimates based on confidential data.

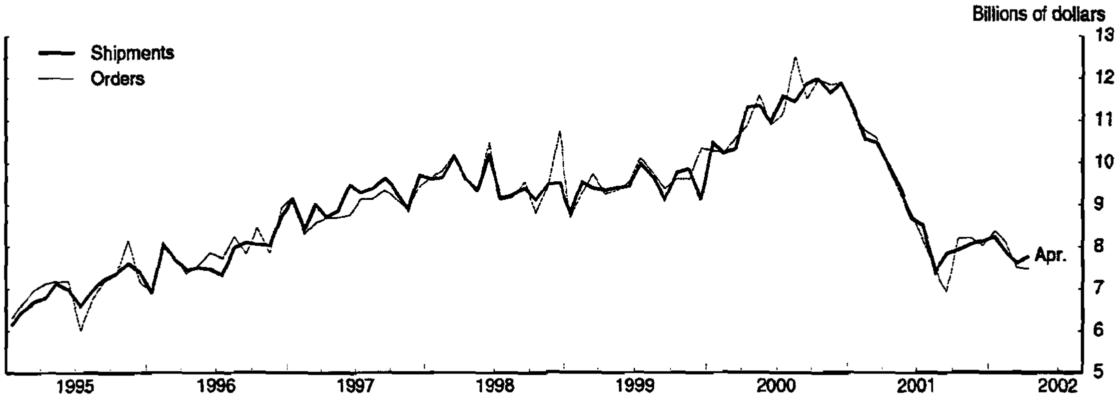
Net New Orders of Trucks
(FRB seasonals)



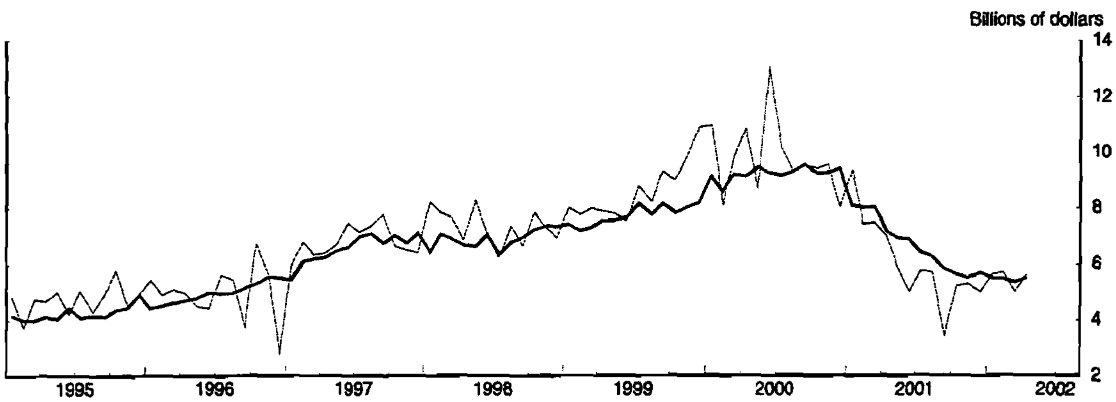
Note. Net orders are orders less cancellations.
Source. Act Research. May data are staff estimates based on preliminary orders.

Recent Data on Orders and Shipments

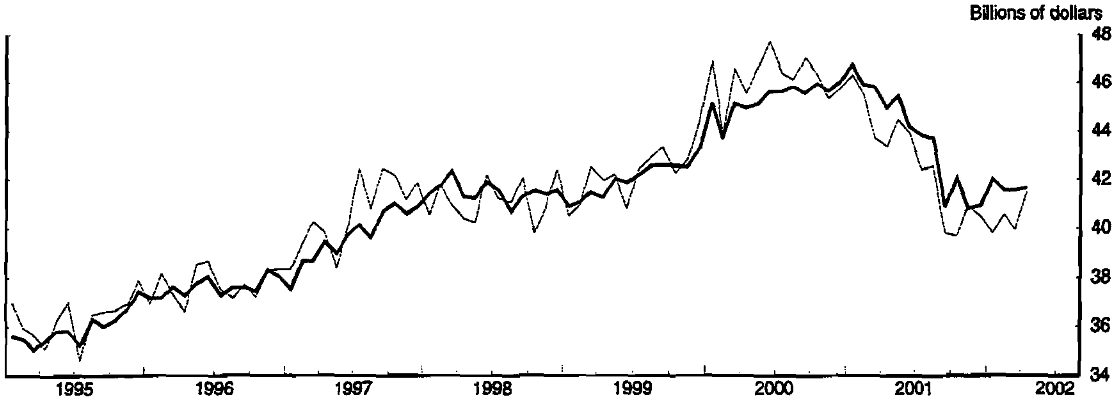
Computers and Peripherals



Communications Equipment

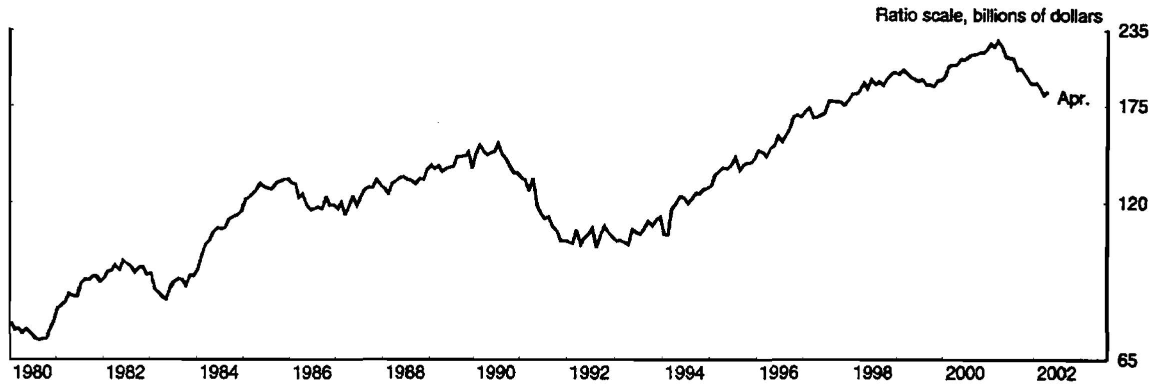


Other Equipment (Total Ex. Transportation, Computers, Communications)

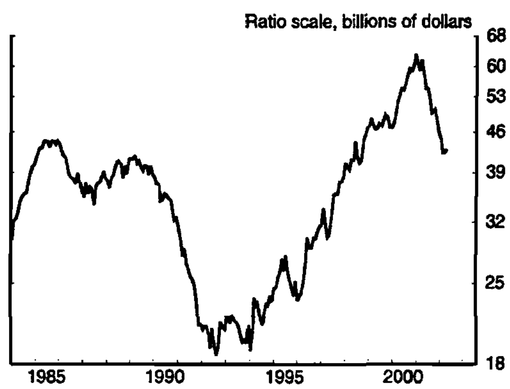


Nonresidential Construction
(Seasonally adjusted, annual rate)

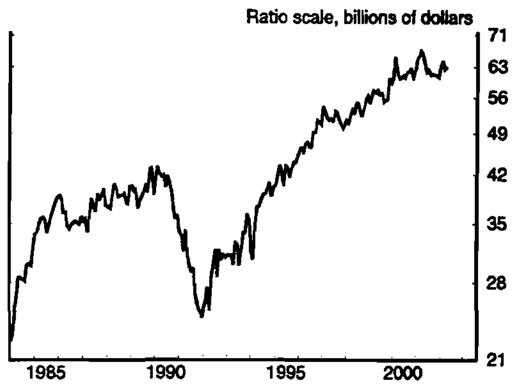
Total Building



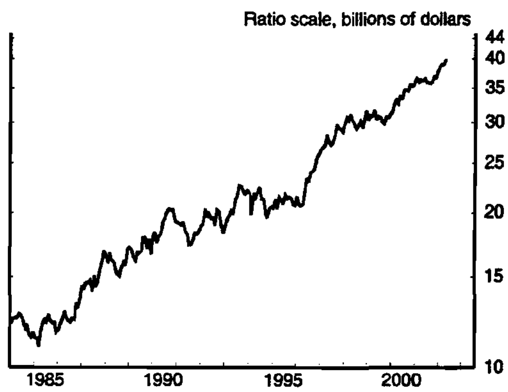
Office



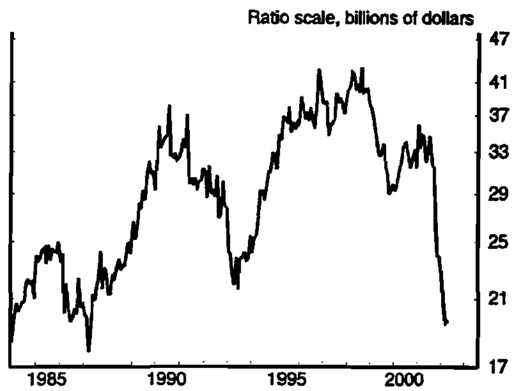
Other Commercial



Institutional



Industrial



decreased sharply. Excluding the high-tech and transportation categories, spending increased moderately.

For the current quarter, the incoming shipments data point to a small upturn in equipment spending, and the orders data through April (latest available) hint at further recovery in business spending in the second half of the year. While shipments outside the high-tech categories were about unchanged in April, shipments of high-tech equipment posted their first gain since the start of the year. At the same time, new orders for nondefense capital goods excluding aircraft jumped 4 percent in April after having posted a small decrease in the first quarter. In the high-tech categories, orders for computers were about unchanged, and orders for communications equipment increased about 12 percent, to a level above that of shipments. Outside the high-tech categories (excluding aircraft), new bookings rose 3.8 percent, on the strength of increases in orders for machinery, electrical equipment, and engines and turbines.

In the transportation equipment sector, recent developments have been mixed. Production data from Boeing and the most recent data on shipments and international trade suggest that business spending on aircraft is likely to be down in the second quarter. In contrast, business demand for motor vehicles has firmed. Fleet sales of light motor vehicles averaged 3-1/4 million units in April and May, 390,000 units above the level in the first quarter and just a little less than the average in the first half of 2001, before demand plunged in the wake of September 11. Sales of medium and heavy trucks edged up again in May, and orders for class 8 trucks have remained at a relatively high level before the October switch to lower-emissions engines.

Nonresidential construction. Real expenditures on nonresidential construction contracted further in the first quarter.[12] Outlays for office and industrial structures, lodging facilities, and public utilities declined substantially, and expenditures for drilling and mining continued to move lower. The overall decline of $15.4 billion in real terms resulted in the second largest percentage decrease recorded for this sector since the third quarter of 1991.[13]

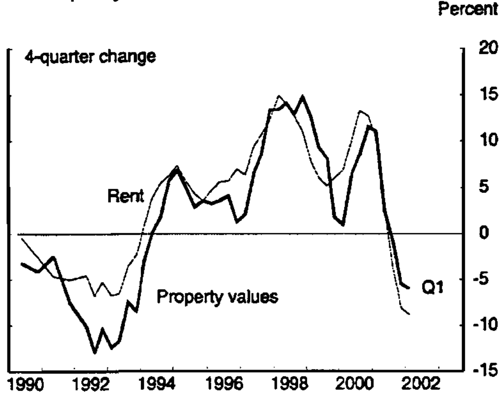
12. After taking into account the revisions included in the April construction put-in-place release, we estimate that real spending on nonresidential construction declined at an annual rate of 22-1/2 percent in the first quarter, compared with a 23-3/4 percent decrease included in the BEA's preliminary estimate of real GDP.

13. The huge $26.9 billion decline in the fourth quarter—the largest since 1991—was artificially magnified by the long-term lease in July 2001 of the World Trade Center by two private companies. The BEA treated this transaction as a purchase of property by private nonresidential business, which boosted investment in the third quarter. Excluding this special factor, private construction spending would have declined $16.2 billion in the fourth quarter.

Indicators of Nonresidential Construction

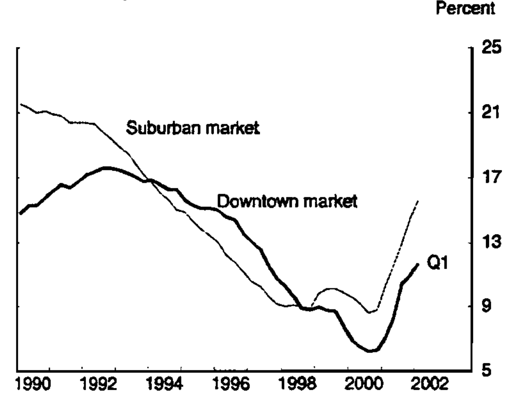
Office Buildings

Property Values and Rent



Source. National Real Estate Index.

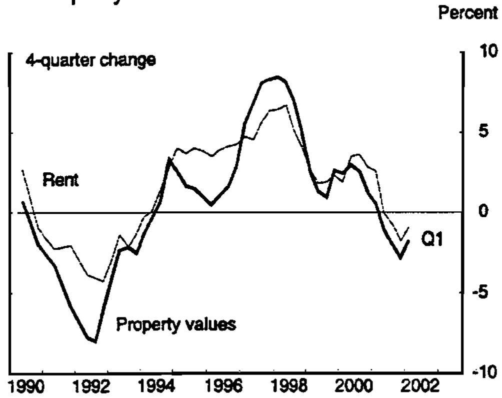
Vacancy Rate



Source. CB Richard Ellis.

Retail Space

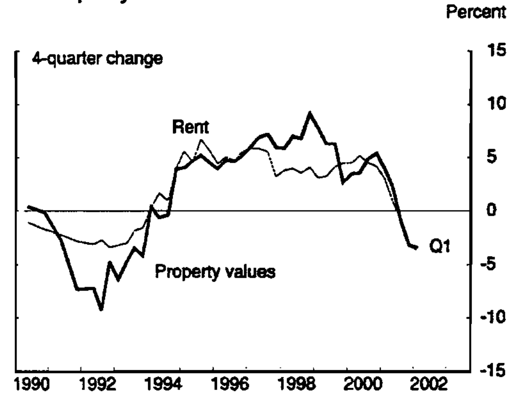
Property Values and Rent



Source. National Real Estate Index.

Warehouses

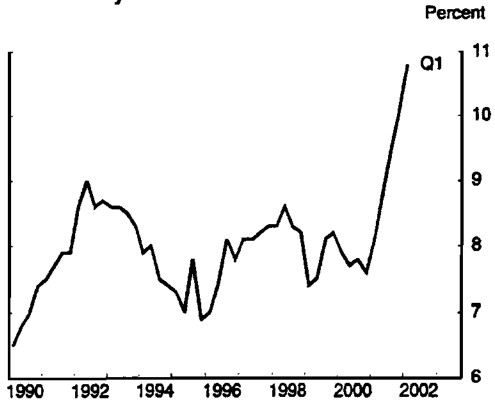
Property Values and Rent



Source. National Real Estate Index.

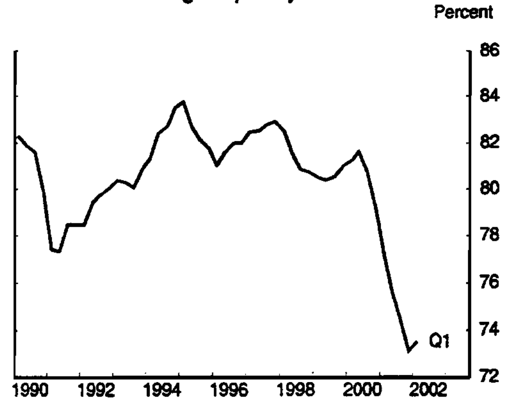
Industrial

Vacancy Rate



Source. CB Richard Ellis.

Manufacturing Capacity Utilization



In April, real outlays for the buildings component of nonresidential structures turned up slightly.[14] But the level still is 1-1/4 percent below the average for the first quarter, and it is down 18 percent from April of last year. Institutional construction, which comprises educational, religious, and hospital structures, is the only category of nonresidential buildings for which expenditures have risen from twelve months ago.

The vacancy rate for office buildings in downtown areas and in suburban locations rose in the first quarter to 11.7 percent and 15.6 percent respectively; although these rates are noticeably above the lows at the end of 2000, they are still well below the peaks in the late 1980s and early 1990s. Partly reflecting the drag from subleasing of unneeded space, office rents in the first quarter fell almost 9 percent from their year-earlier level, and the value of office property was down 6 percent. Real spending for construction of office buildings fell at an annual rate of 36 percent in the first quarter following a 22-1/2 percent decline in the preceding quarter.

Spending for other commercial structures (including retail space and warehouses) is estimated to have risen at an annual rate of 18-1/2 percent in the first quarter, marking the first increase in a year.[15] The ongoing declines in retail property values and rents appear to have moderated a bit in the first quarter; property values and rents for warehouse space decreased slightly more rapidly.

Real outlays for industrial buildings declined at an annual rate of 52 percent in the first quarter after having dropped at a 70 percent rate in the fourth quarter. The vacancy rate for industrial buildings jumped to 10.8 percent in the first quarter, which is the highest level on record, dating back to late 1982.

The rate of decline in outlays for lodging and other miscellaneous facilities doubled to an annual rate of 33 percent in the first quarter. Expenditures for drilling and mining fell at a 44 percent rate, reflecting sharp declines last year in the prices of petroleum and natural gas. Drilling activity for petroleum and natural gas typically responds to changes in oil and gas prices with a lag, and despite the upturn in energy prices this year, the number of oil drilling rigs in operation has been about flat. The number of gas drilling rigs in operation declined through early April but rose between then and early June. Construction outlays by public utilities turned down again in the first quarter and now stand 19-1/2 percent below the level of a year ago.

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14. The buildings component includes construction of office, industrial, retail, warehouse, lodging, and institutional facilities and excludes mining, drilling activity, and utility construction.

15. The preliminary GDP estimate indicated an increase of 5.9 percent, but the April report on construction put-in-place included fairly substantial upward revisions to the estimates for February and March.

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Billions of dollars; annual rate except as noted;
based on seasonally adjusted Census book value)

Category	2001 Q3	2001 Q4	2002 Q1	2002 Feb.	2002 Mar.	2002 Apr.
Manufacturing and trade	-60.5	-144.1	-29.7	-28.3	-49.5	-29.5
Less wholesale and retail motor vehicles	-65.6	-90.9	-48.1	-57.0	-46.4	-30.0
Manufacturing	-42.5	-51.8	-33.9	-27.6	-33.6	-11.6
Merchant wholesalers	-20.6	-31.4	-17.1	-29.8	-9.3	-23.6
Less motor vehicles	-20.3	-28.6	-13.3	-25.2	-6.2	-18.2
Retail trade	2.6	-60.9	21.3	29.1	-6.7	5.7
Automotive dealers	5.4	-50.3	22.1	33.3	.0	6.0
Less automotive dealers	-2.9	-10.6	-.8	-4.2	-6.7	-.3

SELECTED INVENTORY-SALES RATIOS IN MANUFACTURING AND TRADE
(Months' supply, based on seasonally adjusted Census book value)

Category	2001 Q3	2001 Q4	2002 Q1	2002 Feb.	2002 Mar.	2002 Apr.
Manufacturing and trade	1.42	1.38	1.38	1.39	1.38	1.35
Less wholesale and retail motor vehicles	1.38	1.37	1.34	1.36	1.34	1.32
Manufacturing	1.39	1.37	1.35	1.38	1.35	1.32
Primary metals	1.73	1.76	1.68	1.76	1.66	1.61
Steel	2.19	2.17	2.08	2.17	2.06	1.97
Machinery	2.09	2.12	2.05	2.04	2.08	2.06
Computers and electronics	1.64	1.53	1.50	1.53	1.51	1.48
Electrical equipment	1.46	1.48	1.51	1.54	1.51	1.46
Transportation equipment	1.42	1.39	1.33	1.38	1.35	1.26
Motor vehicles	.58	.55	.53	.53	.55	.50
Aircraft	3.77	3.80	3.65	3.78	3.55	3.59
Fabricated metals	1.67	1.62	1.61	1.63	1.62	1.57
Textiles	1.60	1.56	1.50	1.50	1.46	1.41
Paper	1.20	1.23	1.25	1.29	1.24	1.21
Chemicals	1.46	1.45	1.48	1.51	1.49	1.48
Petroleum	.70	.72	.73	.74	.70	.71
Rubber and plastics	1.18	1.16	1.15	1.16	1.16	1.12
Merchant wholesalers	1.31	1.30	1.27	1.27	1.26	1.23
Less motor vehicles	1.30	1.29	1.26	1.26	1.26	1.23
Durable goods	1.59	1.57	1.52	1.52	1.53	1.49
Nondurable goods	1.03	1.03	1.01	1.01	1.00	.98
Retail trade	1.57	1.46	1.50	1.50	1.50	1.48
Less automotive dealers	1.47	1.45	1.42	1.42	1.42	1.40
Automotive dealers	1.84	1.50	1.71	1.69	1.72	1.70
General merchandise	1.83	1.76	1.69	1.70	1.68	1.66
Apparel	2.49	2.33	2.25	2.26	2.25	2.25
Food	.85	.85	.83	.83	.83	.83
Memo: Manufacturing and trade shipments and sales (billions of dollars)	814.7	812.9	811.6	808.3	811.7	826.3

Business Inventories

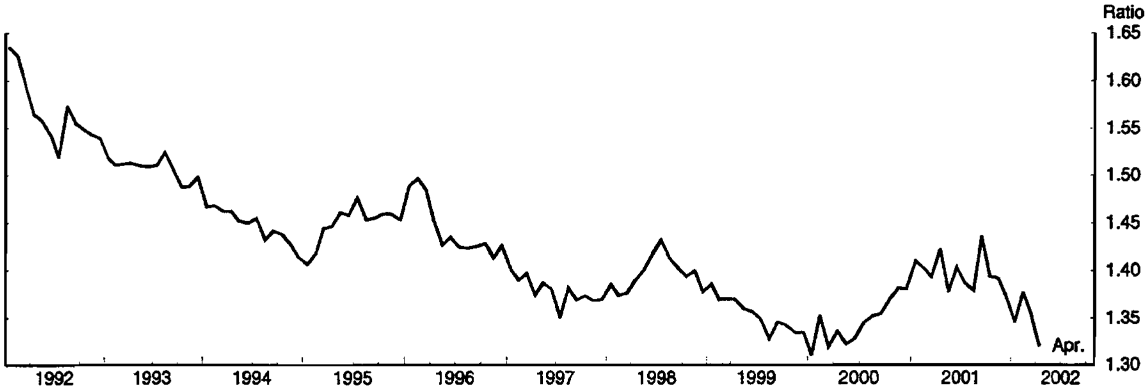
The slowdown in the pace of liquidation appears to be continuing: The book value of manufacturing and trade inventories excluding motor vehicles fell at an annual rate of $30 billion in April, the latest month for which data are available, following a $48 billion reduction in the first quarter. Virtually all the slowing in inventory liquidation in April occurred in the manufacturing sector. Stocks held by manufacturers of durable goods declined in almost every category. In most durable goods categories, inventory-shipments ratios decreased, and in a few categories, inventory-shipments ratios were nearing, or at, record lows. For most types of nondurable goods, inventory-shipments ratios also trended down, although they remain somewhat elevated at manufacturers of chemicals and of beverage and tobacco products. Wholesalers liquidated inventories at a somewhat faster pace in April than in the first quarter, while the small decline in stocks at retailers was about the same in April as during the first quarter. In general, wholesale and retail inventory-sales ratios do not appear elevated relative to trend in any of the major subcategories.

Data from the staff's flow-of-goods system identify only a few products for which days' supply ratios remain elevated—paper products, communications equipment, and electrical machinery excluding high-tech equipment.[16] Days' supply ratios are no longer excessive for any of the remaining categories, including those such as furniture and fixtures, printing and publishing, primary metals, and miscellaneous manufactures, that were listed as elevated in the May Greenbook. By market group, excessive stocks of consumer goods and intermediate products (particularly construction supplies) appear to have been eliminated. Although the days' supply ratio for materials remains slightly above levels reached before the downturn in industrial production, it has declined sharply during the past few months. In contrast, the ratio for business equipment is substantially below its peak in mid-2001, but it has come back up from its lows earlier this year.

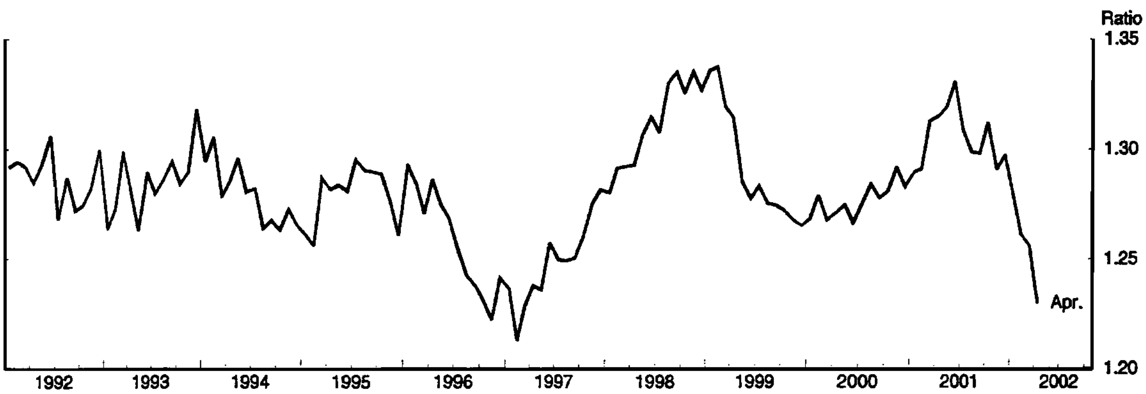
16. The FRB staff's flow-of-goods system measures changes in inventories by tracking the flow of goods in the economy. The system divides the output from the staff's industrial production indexes into more than 70 product categories. For each product category, the system estimates the supply of goods 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 that change in inventories. We find inventory accumulation if inflows exceed outflows and inventory liquidation if outflows exceed inflows.

Inventory-Sales Ratios
(Seasonally adjusted book value)

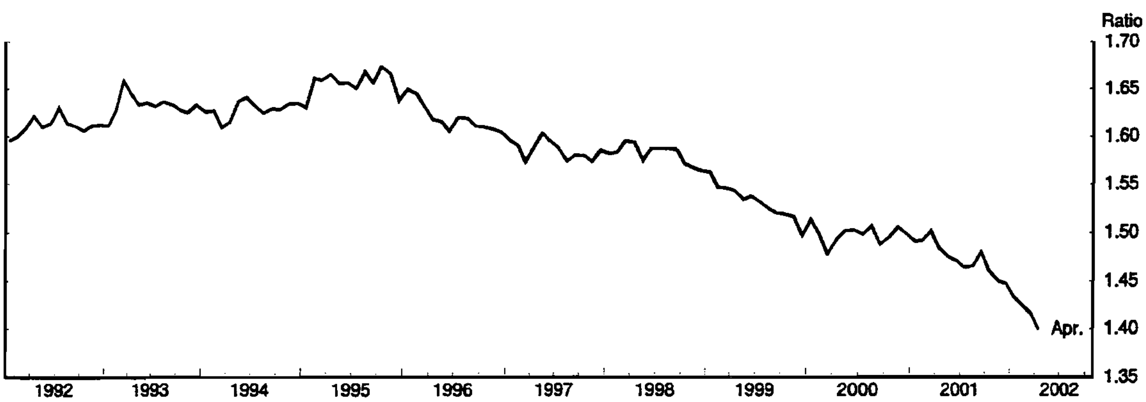
Manufacturing



Wholesale Trade Excluding Motor Vehicles



Retail Trade Excluding Motor Vehicles



Status of Inventory Overhangs

Overhang	Product
None evident	Chemicals and products Petroleum products Stone, clay, and glass products Transportation equipment Miscellaneous manufactures
Largely eliminated	Textile mill products Lumber and wood products Furniture and fixtures Printing and publishing Rubber and plastics Leather and products Primary metals Fabricated metals Computer and office equipment Electronic components (incl. semiconductors) Industrial machinery excl. computing equipment Instruments
Evident but some improvement	Apparel products
Evident and little improvement	Paper and products Electrical machinery excl. high-tech equipment Communications equipment

SOURCE. FRB staff, flow-of-goods inventory system.

Government Sector

Federal. The federal government recorded a $67 billion surplus in April, far below the $190 billion surplus recorded last year. Most of this deterioration owes to a sharp falloff in receipts. Nonwithheld individual income and self-employment taxes, which are mostly final payments on 2001 tax liability, were $66 billion lower this April than last. According to Daily Treasury Statements, the decline continued into May, leaving nonwithheld payments for the filing season as a whole about 35 percent lower than last year. In addition, individual income tax refunds were up about 20 percent for the filing season as a whole.

Corporate receipts have also been well below last year's levels, likely because of weak corporate profits and the business tax provisions enacted in March. In April, corporate receipts were about 60 percent lower than a year earlier, in

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

Function or source	April 2001	April 2002	April Percent change	12 months ending in Apr. 2001	12 months ending in Apr. 2002	12 months ending in Apr. Percent change
Outlays	142.0	170.3	19.9	1,828.4	1,958.3	7.1
Deposit insurance	0.2	-0.0	...	-2.0	-0.0	...
Spectrum auctions	0.0	0.0	...	-1.2	0.0	...
Sale of major assets	0.0	0.0	...	0.0	0.0	...
Other	141.8	170.3	20.0	1,831.6	1,958.3	6.9
Receipts	331.8	237.4	-28.4	2,106.1	1,853.9	-12.0
Surplus	189.8	67.2	...	277.7	-104.4	-137.6
	Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts[1]					
Outlays	151.9	170.3	12.1	1,831.4	1,955.8	6.8
National defense	24.8	28.3	14.2	298.3	328.2	10.0
Net interest	17.8	14.9	-16.4	217.1	182.8	-15.8
Social security	36.1	38.0	5.0	424.7	447.3	5.3
Medicare	17.9	20.8	16.3	204.9	224.8	9.7
Medicaid	11.4	12.7	11.8	125.1	139.9	11.9
Other health	3.5	4.2	21.0	39.0	47.3	21.3
Income security	22.4	27.5	22.7	254.8	290.0	13.8
Agriculture	1.3	0.6	-55.8	32.5	29.0	-10.7
Other	16.8	23.4	39.4	235.0	266.5	13.4
Receipts	331.8	237.4	-28.4	2,106.1	1,853.9	-12.0
Individual income and payroll taxes	288.7	208.1	-27.9	1,704.5	1,533.7	-10.0
Withheld + FICA	117.6	110.3	-6.2	1,413.7	1,387.0	-1.9
Nonwithheld + SECA	202.3	135.9	-32.8	432.0	349.6	-19.1
Refunds (-)	31.1	38.1	22.5	141.3	202.9	43.7
Corporate	23.4	9.8	-58.0	202.8	135.9	-33.0
Gross	26.7	20.8	-22.1	238.2	188.5	-20.9
Refunds (-)	3.3	11.0	231.2	35.4	52.6	48.5
Other	19.7	19.5	-0.8	198.8	184.3	-7.3
Surplus	179.9	67.2	...	274.7	-101.9	-137.1

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.

large part because of a surge in refunds. Treasury data indicate that corporate estimated tax payments, which were due June 17, were just slightly below last year's level.

After adjustment for routine payment timing shifts, outlays in April were up 12 percent from a year earlier, as robust increases in most spending categories were only partially offset by a decline in net interest payments. Defense spending continued to be strong, up almost 14 percent over last April. Spending on income security in April was substantially above last year's level, reflecting higher unemployment insurance payments and a jump in outlays for child tax credits (which are claimed on year-end tax returns and are deemed outlays to the extent that they bring a taxpayer's liability below zero).

The Senate and the House have passed slightly different versions of a supplemental appropriations bill that boosts spending about $10 billion in both fiscal 2002 and fiscal 2003. About half of the additional spending is for defense, and most of the rest is for homeland security.

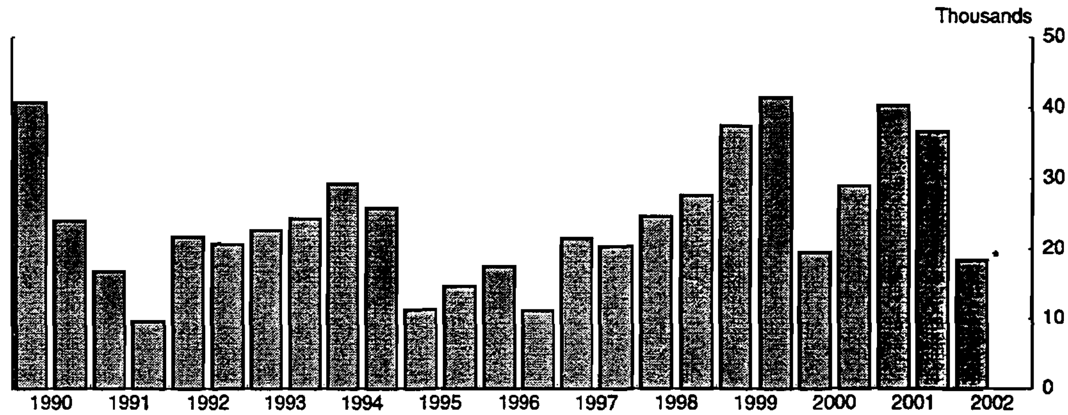
State and local governments. Indicators of state and local spending have been relatively weak so far in the second quarter. Employment gains averaged 4,500 per month in April and May, down from 26,000 per month, on average, during the first quarter. In response to recent budgetary difficulties, some states have taken steps to restrain employee-related spending, primarily through hiring freezes, furloughs, and travel restrictions; a number of states have also instituted layoffs. These actions have mainly affected state employees other than those working for educational institutions. Local education employment (largely public elementary and secondary schools) has held up rather well.[17] Meanwhile, construction spending edged down in April from an exceptionally high level in the first quarter.

According to a May report by the National Association of State Budget Officers, in the absence of budget remedies, aggregate state budget gaps—the extent to which general fund expenditures would have surpassed general fund receipts—would have reached $40 billion during fiscal 2002, which ends June 30 for most states. To prevent these gaps, governments cut spending $15 billion and instituted almost $12 billion in fund transfers, drawing down both general fund balances and budget-stabilization (rainy-day) funds. The remaining shortfall was to be covered through a variety of other measures, including increases in taxes and fees. States also appear to be working hard to deal with budget difficulties now projected for fiscal 2003. In addition to

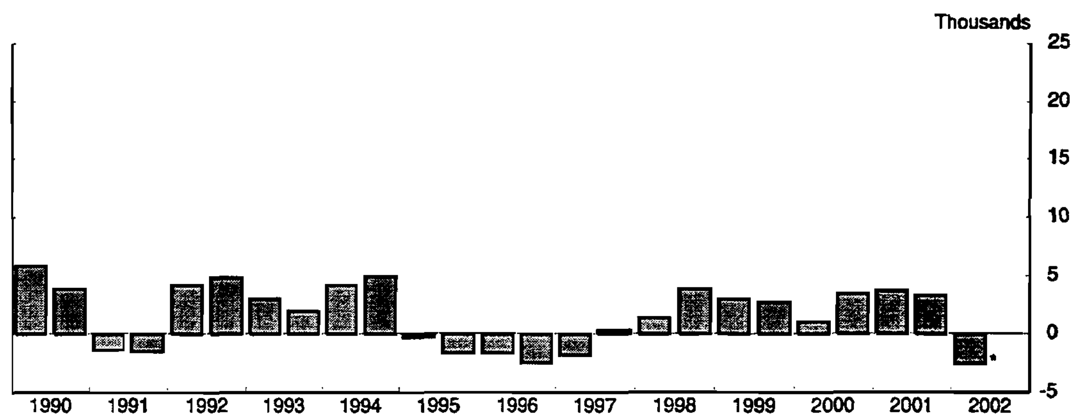
17. Much of K-12 spending cannot be cut during a current budget year because of contracts with teachers and others. Moreover, because K-12 education is a high priority for most state governments, the potential for sizable future cuts may be limited as well.

State and Local Employment
(Semiannual average of monthly change)

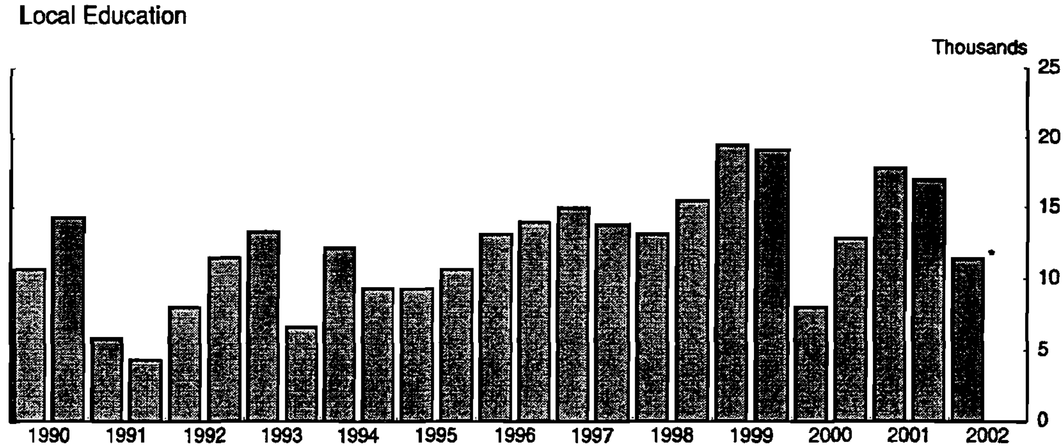
Total



State Non-Education



Local Education



* 2002:H1 is the average for January through May.

another round of spending cuts and fund transfers, significantly more tax and fee hikes have been proposed. While only eleven states raised taxes, tuition, and other fees in 2002, the count is now up to around thirty states that are planning these kinds of revenue actions for fiscal 2003.

Prices and Labor Costs
The March and April increases in energy prices briefly pushed up overall inflation, but a drop in energy prices in May left the CPI unchanged last month. All told, the CPI has increased at an annual rate of 3 percent so far this year. Excluding food and energy, consumer prices still appear to be decelerating slightly. The core CPI rose at an annual rate of 2.3 percent in the first five months of this year, compared with 2.7 percent over the whole of 2001; incorporating our estimate for May, core PCE price inflation has edged down from a 1.6 percent increase in 2001 to a 1.5 percent rise (annual rate) over the first five months of this year.

Consumer energy prices rose sharply in March and April, reflecting a rise in crude oil prices and a widening of retail gasoline markups. However, these markups fell back in May. More recently, spot prices of crude oil have eased a bit, and survey data suggest that gasoline prices have been falling so far in June. Inventories of natural gas remain plentiful, and spot prices of natural gas have fallen about 15 percent over the past month. However, futures quotes on natural gas prices through the December 2002 contract imply a larger-than-average seasonal increase in prices this fall and early winter.

Over the past couple of months, supplies of many fresh vegetables have increased and prices have fallen steeply, holding down the rise in retail food prices. In addition, consumer prices for meats and poultry, which began to weaken late last year, have remained subdued this spring. All told, retail prices for food have risen about 2 percent over the past twelve months.

Consumer prices other than for food and energy appear to have slowed a bit in recent months. Tobacco prices surged in April, but this increase was partially retraced in May. Outside of tobacco, the core CPI increased only 0.2 percent per month in April and May. Core PCE prices excluding tobacco have increased more slowly—about 0.1 percent in each of the past two months. Consumer prices of non-energy goods, which declined about 0.2 percent in May, continue to be very soft. In contrast, inflation in non-energy services picked up last month, as an acceleration in airfares and the price of medical services more than offset a relatively small increase in the cost of shelter, which increased at an annual rate of 4-1/4 percent during the first four months of the year. Between May 2001 and May 2002, core services prices rose 3.9 percent, 0.3 percentage point more rapidly than in the previous twelve months.

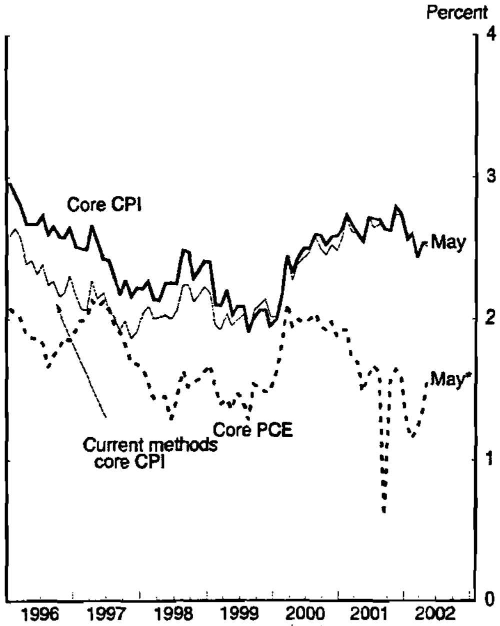
RECENT PRICE INDICATORS
(Percent)

	From 12 months earlier		From 3 months earlier		2002	
	May 2001	May 2002[1]	Feb. 2002	May 2002[1]	Apr.	May[1]
			-Annual rate-		-Monthly rate-	
CPI						
Total	3.6	1.2	1.1	3.4	0.5	0.0
Food	3.1	1.9	2.3	0.0	0.1	-0.2
Energy	15.8	-12.3	-11.2	34.4	4.5	-0.7
Ex. food and energy	2.5	2.5	2.1	2.1	0.3	0.2
Ex. tobacco	2.5	2.5	2.2	2.2	0.2	0.2
Core commodities	0.1	-0.9	-3.0	-1.4	0.1	-0.3
Ex. tobacco	-0.2	-1.3	-2.9	-1.4	-0.2	-0.2
Core services	3.6	3.9	4.4	3.4	0.4	0.3
Current-methods total	3.6	1.2	1.2	3.4	0.5	0.0
Ex. food and energy	2.6	2.5	2.2	2.1	0.3	0.2
Ex. tobacco	2.5	2.4	2.3	2.2	0.2	0.2
PCE Prices						
Total	2.3	1.0	0.4	2.7	0.4	0.0
Food	2.9	2.2	2.6	-0.0	0.1	-0.2
Energy	15.2	-12.2	-11.8	35.5	4.7	-0.9
Ex. food and energy	1.5	1.6	0.7	1.7	0.2	0.1
Ex. tobacco	1.4	1.5	0.7	1.7	0.1	0.1
Core commodities	-0.8	-1.0	-2.8	-0.8	0.2	-0.2
Ex. tobacco	-1.2	-1.4	-3.1	-0.8	-0.1	-0.1
Core services	2.5	2.7	2.3	2.8	0.2	0.2
Core market-based	1.5	1.6	0.7	1.7	0.3	0.1
Core nonmarket-based	1.4	1.4	0.8	1.5	-0.0	0.1
PPI						
Total finished goods	3.9	-2.7	-0.6	1.5	-0.2	-0.4
Food	3.0	-2.0	6.7	-10.7	-3.2	-0.2
Energy	15.1	-15.0	-10.7	24.5	2.5	-2.3
Ex. food and energy	1.6	0.1	-0.3	0.8	0.1	0.0
Ex. tobacco	0.9	-0.1	0.1	0.0	-0.1	-0.0
Core consumer goods	2.2	0.4	-0.8	2.1	0.3	0.0
Ex. tobacco	1.1	0.0	-0.2	0.7	-0.0	-0.0
Capital equipment	0.6	-0.2	0.0	-0.6	-0.1	-0.1
Intermediate materials	2.3	-3.1	-3.4	5.5	0.9	-0.5
Ex. food and energy	0.5	-1.4	-0.9	2.1	0.2	0.0
Crude materials	13.3	-15.8	-17.1	54.6	5.5	1.7
Ex. food and energy	-11.6	3.4	1.9	28.4	3.6	3.4

1. PCE prices in May are staff estimates.

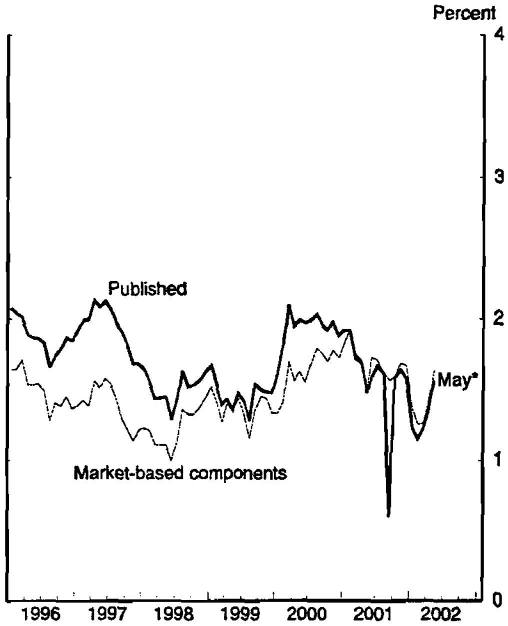
Measures of Core Consumer Price Inflation
(12-month change)

CPI and PCE excluding Food and Energy



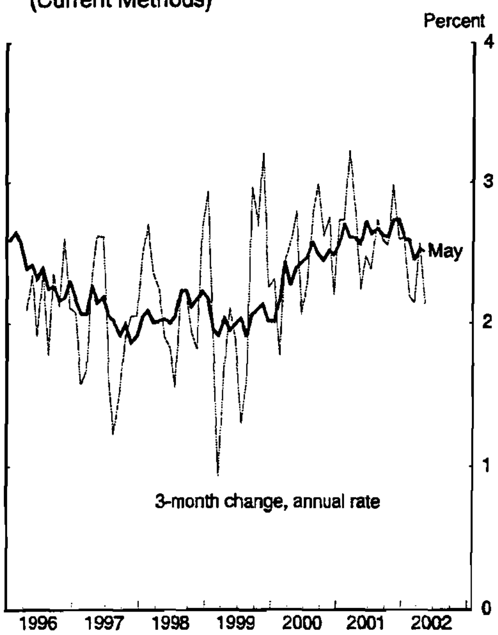
* Staff estimate

PCE excluding Food and Energy

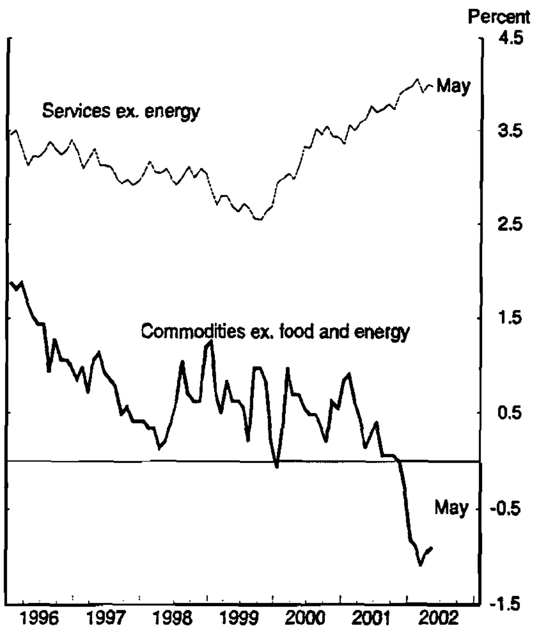


* Staff estimate

CPI excluding Food and Energy
(Current Methods)



CPI Services and Commodities



BROAD MEASURES OF INFLATION
(4-quarter percent change)

	1999 Q1	2000 Q1	2001 Q1	2002 Q1
Product prices				
GDP chain price index	1.3	2.1	2.3	1.3
Less food and energy	1.4	2.1	1.9	1.4
Nonfarm business chain price index[1]	0.9	1.8	1.9	0.4
Expenditure prices				
Gross domestic purchases chain price index	1.1	2.6	2.2	0.6
Less food and energy	1.3	1.9	1.7	1.1
PCE chain price index	1.3	2.7	2.4	0.7
Less food and energy	1.5	1.8	1.9	1.2
PCE chain price index, market-based components	1.1	2.6	2.5	0.6
Less food and energy	1.4	1.5	1.8	1.3
CPI	1.7	3.2	3.4	1.2
Less food and energy	2.2	2.2	2.7	2.5
Current-methods CPI	1.6	3.2	3.4	1.2
Less food and energy	2.0	2.2	2.6	2.5
Median CPI	2.9	2.4	3.3	3.9
Trimmed mean CPI	1.8	2.2	2.9	2.3

1. Excluding housing.

SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

	Actual inflation[1]	University of Michigan: 1 year Mean[2]	University of Michigan: 1 year Median[2]	University of Michigan: 5 to 10 years Mean[3]	University of Michigan: 5 to 10 years Median[3]	Professional forecasters (10-year)[4]
2000-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	1.3	2.6	2.2	3.1	2.8	2.5
Q2		3.2	2.8	3.4	2.9	2.5
2002-Jan.	1.1	2.2	1.9	3.0	2.7	
Feb.	1.1	2.4	2.1	3.1	2.8	
Mar.	1.5	3.1	2.7	3.3	2.8	2.5
Apr.	1.6	3.1	2.8	3.2	2.8	
May	1.2	3.1	2.7	3.6	3.0	
June		3.4	3.0	3.5	2.9	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.

Broader measures of price inflation have slowed in recent quarters. The chain-weighted price index for GDP increased 1.3 percent in the four quarters ending in the first quarter, compared with 2.3 percent the previous year. Much of this slowdown owed to falling energy prices, but a deceleration in business software prices also contributed, as did the slowdown in core PCE inflation since the beginning of the year.

While inflation appears to have come down over the past year, survey measures of inflation expectations have not. The preliminary Michigan survey for June showed median one-year-ahead inflation expectations at 3 percent, a little higher than the levels recorded last year prior to September. However, longer-term inflation expectations have remained more stable; the median five- to ten-year-ahead inflation expectation was 2.9 percent in early June, virtually the same as the 3 percent figure reported last summer.

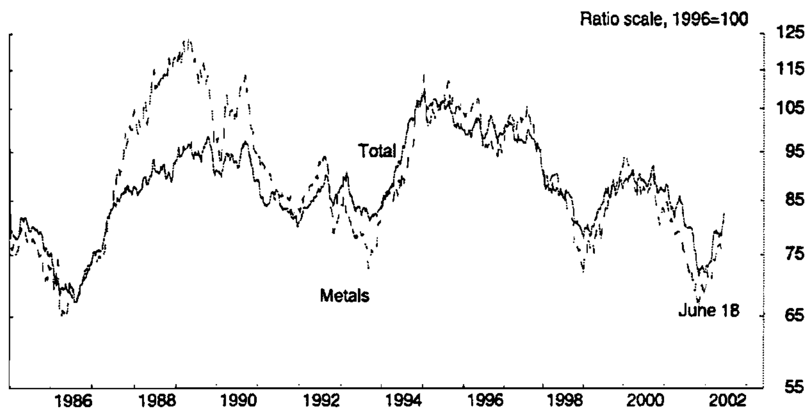
At earlier stages of processing, prices have firmed in recent months. Although the PPI for intermediate materials excluding food and energy was unchanged in May, it has risen 1/2 percent (not at an annual rate) over the past three months. The PPI for crude materials excluding food and energy rose sharply in May, following a large April increase. Both increases were due in part to a surge in prices of steel scrap, but more broadly, prices at the earlier stages of processing are likely responding to the upturn in industrial activity.[18] The latest increases in core crude materials prices have pushed up that index 6.5 percent since February, a sharp contrast with the 6.9 percent decline in the preceding twelve months. Since the May PPI pricing date, commodity prices appear to have picked up further; in particular, the Journal of Commerce index has risen 4.7 percent since May 14.

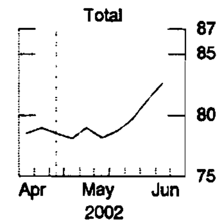
We have received very little new information regarding labor costs. Compensation per hour (CPH) in the nonfarm business sector increased at an annual rate of 2.8 percent in the first quarter of this year, down from the nearly 4 percent rise during 2001. Average hourly earnings (AHE) of production or nonsupervisory workers, the main indicator used to construct CPH, shows a similar pattern. Recent benchmark revisions to this AHE series put its rise over the course of 2001 at 4 percent, but AHE rose much more slowly between December 2001 and May of this year—only 2.3 percent at an annual rate.

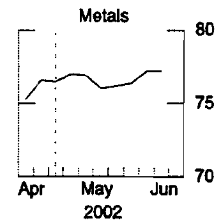
18. The price of steel was boosted partly by trade restraints and partly by an increase in demand.

Commodity Price Measures

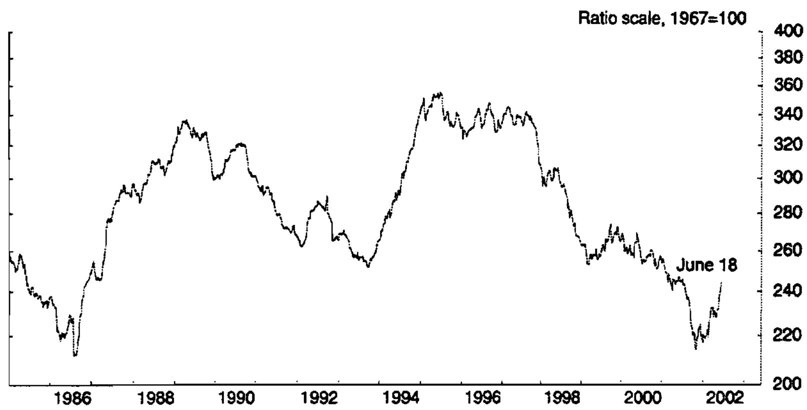
Journal of Commerce Index

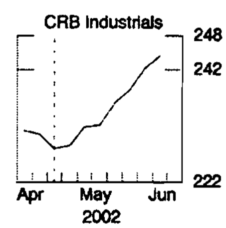




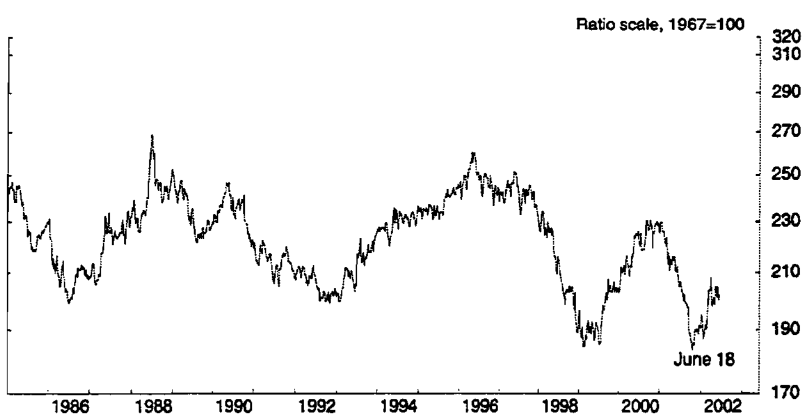


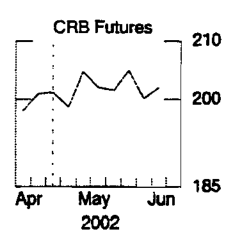
CRB Spot Industrials





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 Commodity Research Board (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 Apr. 30[2]	Apr. 30[2] to June 18	Memo: Year earlier to date
Metals						
Copper (lb.)	0.800	5.7	-22.0	8.5	3.9	3.9
Steel scrap (ton)	101.667	-32.7	-17.7	42.8	9.5	29.2
Aluminum, London (lb.)	0.610	1.9	-14.3	3.0	-2.3	-8.4
Precious metals						
Gold (oz.)	318.350	-4.7	1.2	11.1	3.3	16.4
Silver (oz.)	4.865	-11.2	-3.5	0.7	7.3	9.6
Forest products[3]						
Lumber (m. bdft.)	240.000	-41.5	25.0	16.9	-8.7	-22.6
Plywood (m. sqft.)	318.000	-4.9	3.2	14.2	-3.6	-7.8
Petroleum						
Crude oil (barrel)	24.610	-1.1	-16.3	44.8	-8.7	-7.1
Gasoline (gal.)	0.728	7.6	-28.0	42.3	-3.2	-3.1
Fuel oil (gal.)	0.651	24.6	-42.6	25.9	-5.1	-15.5
Livestock						
Steers (cwt.)	64.000	9.9	-19.7	2.8	0.6	-12.1
Hogs (cwt.)	36.500	10.2	-9.9	-13.2	23.7	-31.5
Broilers (lb.)	0.600	-13.9	3.7	-3.9	21.1	0.9
U.S. farm crops						
Corn (bu.)	2.000	11.4	-4.1	-6.8	7.8	13.6
Wheat (bu.)	3.583	31.4	-8.9	-1.6	14.6	9.3
Soybeans (bu.)	4.875	13.1	-13.4	6.7	7.4	5.2
Cotton (lb.)	0.357	31.4	-45.7	-7.1	20.5	-1.1
Other foodstuffs						
Coffee (lb.)	0.410	-47.8	-35.3	1.1	-7.9	-26.5
Memo:						
JOC Industrials	82.700	-0.1	-17.1	9.2	5.2	0.5
JOC Metals	77.200	-9.3	-17.0	10.5	0.9	1.0
CRB Futures	202.040	12.0	-16.3	5.0	0.4	-3.1
CRB Spot Industrials	244.480	-2.7	-14.6	3.9	7.3	-0.0

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 April Greenbook.
3. Reflects prices on the Friday before the date indicated.

AVERAGE HOURLY EARNINGS
(Percent change; based on seasonally adjusted data)

	12-month percent change			Percent change to May 2002 from month indicated		Percent change	
	May 2000	May 2001	May 2002	Nov. 2001	Feb. 2002	Apr. 2002	May 2002
	- - - - - - - - Annual rate- - - -				- - - - -	-Monthly rate-	
Total private nonfarm	3.6	4.2	3.2	2.5	2.2	0.1	0.2
Manufacturing	3.1	3.5	3.3	3.2	2.7	0.0	0.5
Construction	3.7	2.7	2.8	3.1	1.5	0.4	-0.3
Transportation and public utilities	3.2	3.5	3.6	3.3	3.5	0.0	0.3
Finance, insurance, and real estate	3.1	4.3	3.1	2.4	2.8	0.2	0.1
Retail trade	4.1	2.9	3.0	1.6	2.4	0.3	0.0
Wholesale trade	3.9	4.4	2.4	1.9	-1.5	-0.9	0.2
Services	3.8	5.3	4.2	3.1	3.5	0.3	0.3

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

	2000[1]	2001[1]	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2001:Q1 to 2002:Q1
Compensation per hour							
Total business	7.9	4.0	5.2	3.3	2.2	2.9	3.4
Nonfarm business	7.8	3.9	4.7	3.7	2.3	2.8	3.4
Nonfinancial corporations[1]	7.8	5.0	6.1	4.7	3.6	3.6	4.5
Unit labor costs							
Total business	4.9	1.9	3.0	2.6	-3.0	-5.0	-0.7
Nonfarm business	5.0	1.7	2.6	2.6	-3.1	-5.2	-0.8
Nonfinancial corporations[2]	4.7	1.1	2.7	3.8	-6.8	-2.9	-0.9

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.

Domestic Financial Developments

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

Instrument	2000 June 26	2001 Sept. 10	2002 May 6	2002 June 18	Change to June 18 from selected dates (percentage points): 2000 June 26	2001 Sept. 10	2002 May 6
Short-term							
FOMC intended federal funds rate	6.50	3.50	1.75	1.75	-4.75	-1.75	.00
Treasury bills [1]							
3-month	5.66	3.19	1.75	1.70	-3.96	-1.49	-.05
6-month	5.94	3.13	1.86	1.78	-4.16	-1.35	-.08
Commercial paper (A1/P1 rates)							
1-month	6.56	3.42	1.73	1.74	-4.82	-1.68	.01
3-month	6.56	3.24	1.77	1.75	-4.81	-1.49	-.02
Large negotiable CDs [1]							
1-month	6.64	3.46	1.79	1.80	-4.84	-1.66	.01
3-month	6.73	3.26	1.81	1.80	-4.93	-1.46	-.01
6-month	6.89	3.24	1.97	1.89	-5.00	-1.35	-.08
Eurodollar deposits [2]							
1-month	6.63	3.41	1.78	1.77	-4.86	-1.64	-.01
3-month	6.69	3.26	1.82	1.81	-4.88	-1.45	-.01
Bank prime rate	9.50	6.50	4.75	4.75	-4.75	-1.75	.00
Intermediate- and long-term							
U.S. Treasury[3]							
2-year	6.54	3.59	3.18	2.91	-3.63	-.68	-.27
10-year	6.35	5.14	5.34	5.11	-1.24	-.03	-.23
30-year	6.22	5.55	5.72	5.66	-.56	.11	-.06
U.S. Treasury 10-year indexed note	4.09	3.26	3.08	3.07	-1.02	-.19	-.01
Municipal revenue (Bond Buyer) [4]	5.99	5.25	5.52	5.45	-.54	.20	-.07
Private instruments							
10-year swap	7.38	5.62	5.64	5.41	-1.97	-.21	-.23
10-year FNMA	7.15	5.64	5.66	5.42	-1.73	-.22	-.24
10-year AA [5]	7.64	6.30	6.41	6.11	-1.53	-.19	-.30
10-year BBB [5]	8.40	7.11	7.51	7.14	-1.26	.03	-.37
High yield [6]	12.30	12.72	11.51	12.07	-.23	-.65	.56
Home mortgages (FHLMC survey rate) [7]							
30-year fixed	8.14	6.89	6.78	6.71	-1.43	-.18	-.07
1-year adjustable	7.22	5.64	4.75	4.67	-2.55	-.97	-.08

Stock exchange index	Record high: Level	Record high: Date	2001 Sept. 10	2002 May 6	2002 June 18	Change to June 18 from selected dates (percent): Record high	2001 Sept. 10	2002 May 6
Dow-Jones Industrial	11,723	1-14-00	9,606	9,808	9,706	-17.20	1.05	-1.04
S&P 500 Composite	1,527	3-24-00	1,093	1,053	1,037	-32.10	-5.07	-1.48
Nasdaq (OTC)	5,049	3-10-00	1,695	1,578	1,543	-69.44	-8.99	-2.25
Russell 2000	606	3-9-00	441	503	470	-22.51	6.58	-6.60
Wilshire 5000	14,752	3-24-00	10,104	10,016	9,815	-33.47	-2.87	-2.01

1. Secondary market.
2. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.
3. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
4. Most recent Thursday quote.
5. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data. The 10-year BBB index fell 8 basis points on May 31 owing to a rebalancing of bonds in the index.
6. Merrill Lynch Master II high-yield bond. Index rose 15 basis points on May 31 owing to a rebalancing of bonds in the index.
7. For week ending Friday previous to date shown.

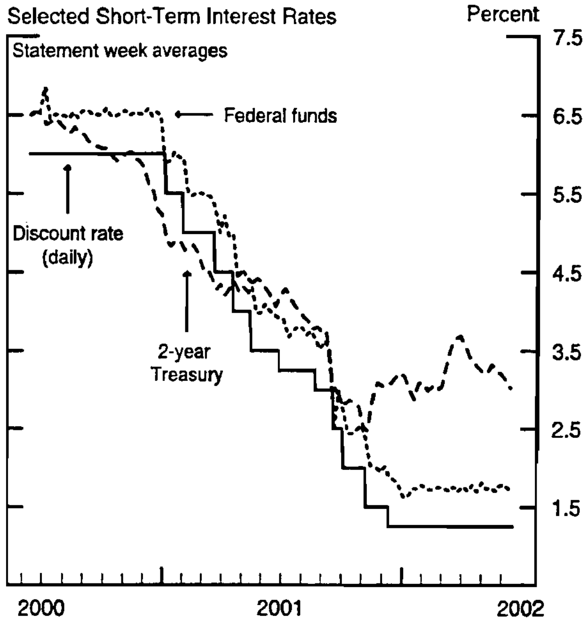
NOTES:

June 26, 2000, is the day before the FOMC meeting that ended the most recent period of policy tightening.
September 10, 2001, is the day before the terrorist attacks.
May 6, 2002, is the day before the most recent FOMC meeting.

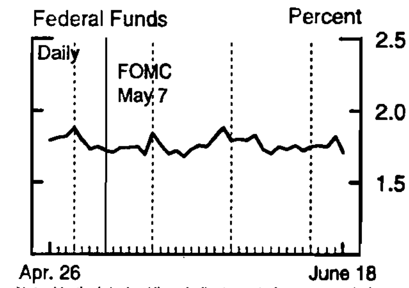
BA:DAM

Selected Interest Rates

Selected Short-Term Interest Rates

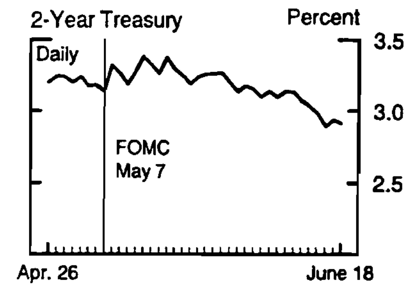


Federal Funds

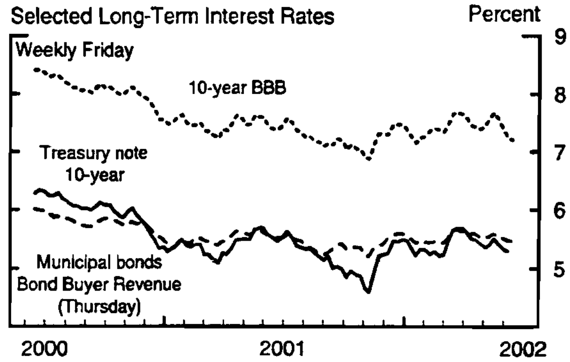


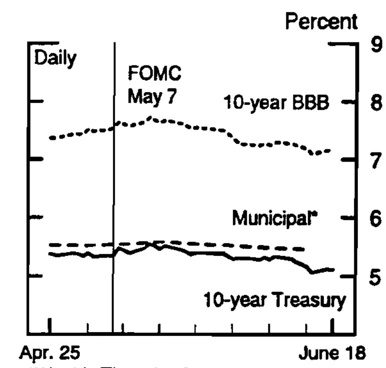
Note. Vertical dashed lines indicate end of reserve period.

2-Year Treasury



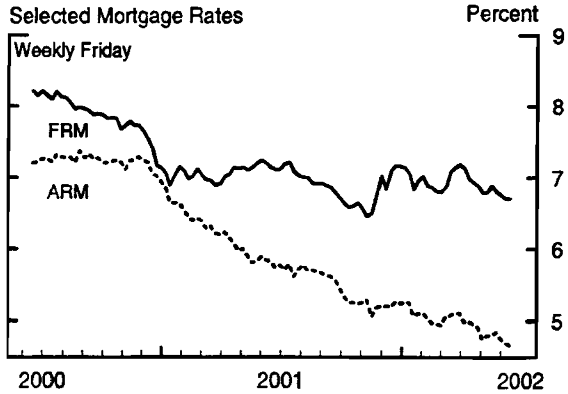
Selected Long-Term Interest Rates

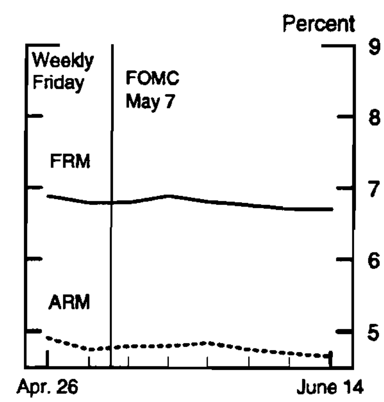




*Weekly Thursday frequency.

Selected Mortgage Rates





Domestic Financial Developments

Over the intermeeting period, the news about the economy was somewhat less upbeat, on balance, than investors had expected. In addition, further reports of deficiencies in corporate governance and transparency intensified doubts about the quality of some firms' balance sheets, and tensions flared in a few key trouble spots around the world. These developments, in concert, prompted a retrenchment in risk-taking.

Broad equity price indexes posted moderate decreases, leaving some below levels prevailing just before the terrorist attacks last fall, and risk spreads on speculative-grade bonds widened significantly. The somewhat weaker tone of economic data and investor demand for safe assets, along with the declines in equity prices, pushed down yields on longer-dated Treasury securities and investment-grade corporate bonds. Corporate borrowers have been trying to pare their risks as well, by curbing overall borrowing and continuing to pay down commercial paper to minimize rollover risk. In contrast, the household sector apparently continued to borrow at a brisk pace, especially against home equity.

Against the backdrop of weak tax receipts and increased outlays, federal debt expanded over the second quarter to levels that have bumped up against the federal debt ceiling. The Treasury has resorted to emergency measures to avoid breaching the ceiling, but current estimates suggest that the debt ceiling will need to be raised by late this month.

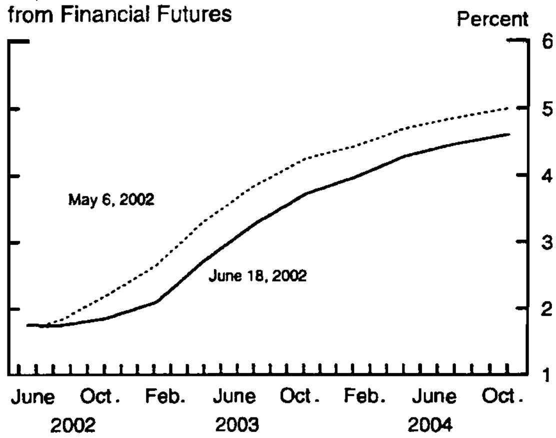
Policy Expectations, Stock Prices, and Interest Rates

Market participants had largely anticipated the FOMC's decision at its May meeting to leave the target federal funds rate unchanged and to maintain a balanced assessment of risks. However, investors interpreted the accompanying statement as suggesting that the FOMC was in no hurry to tighten policy absent clear signs of a sustained economic expansion, and eurodollar futures rates dropped a few basis points that afternoon. Futures rates dropped further over the intermeeting period, and policy uncertainty implied by options prices edged up, on net, from already elevated levels.

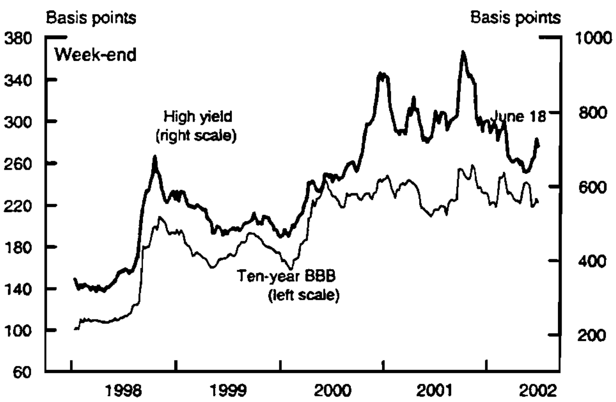
Both current futures quotes and market surveys suggest that investors have essentially ruled out a hike in the target federal funds rate at the upcoming FOMC meeting. In addition, investors now view an increase in the target rate at the August meeting as very unlikely and place less than even odds on a policy tightening by the September meeting. Recent surveys suggest that most market participants expect the FOMC to retain a statement of balanced risks through the September meeting.

Policy Expectations, Stock Prices, and Corporate Risk Spreads

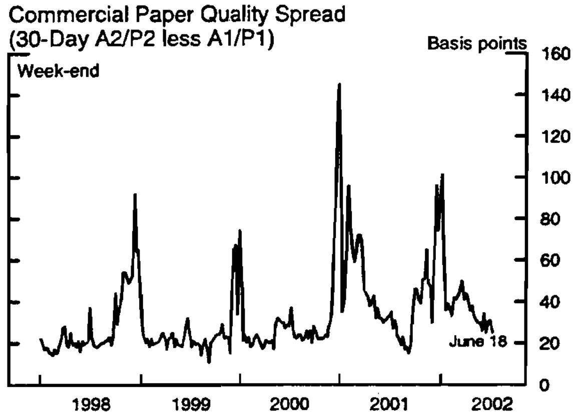
Expected Federal Funds Rate Estimated
from Financial Futures



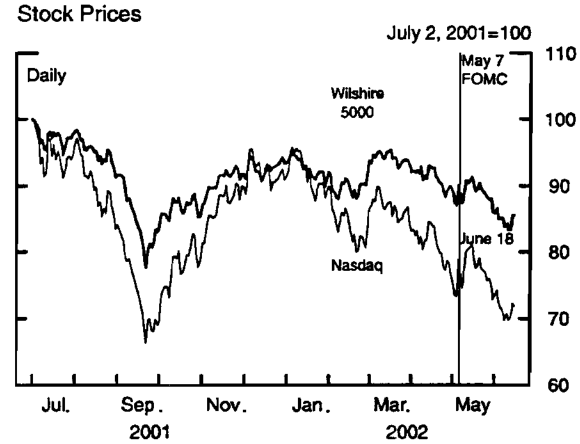
Lower-Tier Risk Spreads to 10-Year Treasury



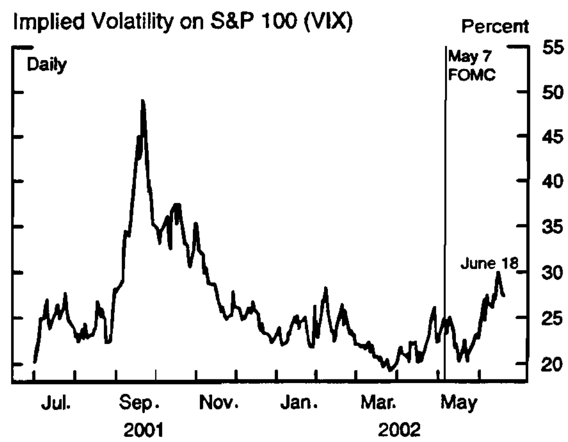
Commercial Paper Quality Spread
(30-Day A2/P2 less A1/P1)



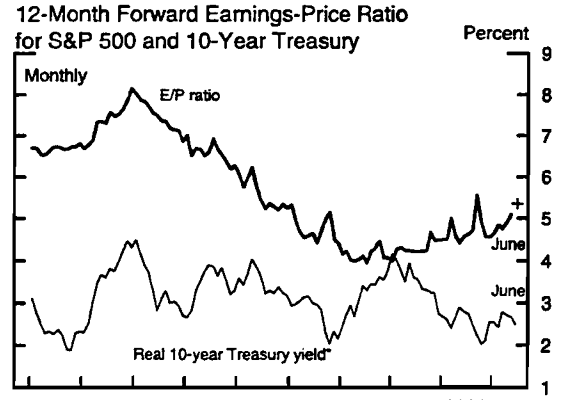
Stock Prices



Implied Volatility on S&P 100 (VIX)



12-Month Forward Earnings-Price Ratio
for S&P 500 and 10-Year Treasury



* 10-year Treasury yield minus Philadelphia Fed 10-year expected inflation.
\+ Denotes the latest observation using daily prices and latest earnings data from I/B/E/S.

Yields on Treasury coupon securities were somewhat volatile during the intermeeting period. In the weeks immediately after the May 7 FOMC meeting, generally stronger-than-expected data releases and firming equity prices pushed up yields across the maturity spectrum. However, Treasury yields declined in subsequent weeks as incoming data painted a somewhat less upbeat picture of the economy, equity prices sagged, and global tensions rose. On balance over the period, Treasury coupon yields out to ten years declined about 25 basis points. Yields on Treasury indexed debt were about unchanged, which, combined with the decrease in nominal Treasury yields, implied a drop in inflation compensation.

Favorable first-quarter earnings reports from major retailers and a few high-tech manufacturers bolstered equity prices early in the intermeeting period. However, the gains were more than offset over the next several weeks on several new revelations of shoddy corporate governance and various disappointing sales forecasts from bellwether technology and telecom firms. On balance, most major stock indexes fell between 1 and 2-1/2 percent, and stock market volatility climbed substantially. The decline in stock prices boosted the ratio of expected year-ahead earnings to price for the S&P500 to nearly 5-1/2 percent. The gap between this earnings-price ratio and the real ten-year Treasury yield, a crude measure of the required equity return premium, rose to levels more in line with those before 1997.

While spreads on investment-grade corporate bonds edged a bit lower over the intermeeting period, spreads on high-yield bonds widened considerably across many sectors. Consistent with some pullback from risk-taking on the part of investors, inflows to equity and junk bond mutual funds have slowed to a trickle in recent weeks, with flows being redirected toward government and investment-grade corporate bond funds.

Business Finance

With gross bond issuance by nonfinancial firms falling off markedly in May and bond retirements picking up, net bond issuance cooled substantially. Investment-grade issuance fell, even as yields eased over the month, and these offerings remained fairly light in the first half of June. Issuance of below-investment-grade bonds in May and the first half of June was only a bit below its average pace of the past several months, but investors continued to strongly favor firms at the upper end of the speculative-grade spectrum.

Interest rates and risk spreads were little changed in the commercial paper market. However, outstanding commercial paper of nonfinancial corporations posted its fifth straight monthly decline in May and contracted further in early June. Thus far this year, nonfinancial commercial paper outstanding has shrunk about 25 percent, after dropping by a third last year. The most recent declines appear to have been fairly broad-based and can probably be attributed, in part, to

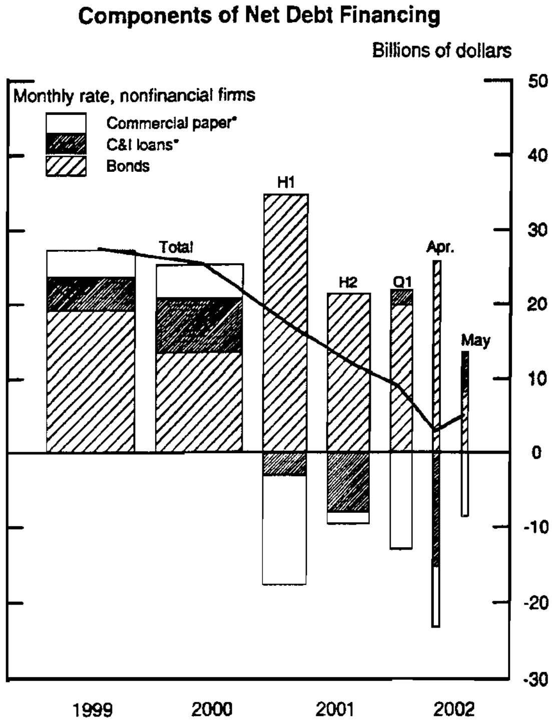
Gross Issuance of Securities by U.S. Corporations

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

Type of security	1999	2000	2001 H1	2001 H2	2002 Q1	2002 Apr.	2002 May
Nonfinancial corporations							
Stocks [1]	9.2	9.9	7.5	5.5	6.2	7.6	6.4
Initial public offerings	4.2	4.4	3.2	1.0	1.0	1.1	1.7
Seasoned offerings	5.0	5.5	4.2	4.5	5.2	6.6	4.7
Bonds [2]	24.5	20.2	43.1	31.2	31.0	34.8	19.5
Investment grade [3]	13.9	11.9	28.9	24.0	18.3	24.3	11.4
Speculative grade [3]	7.5	4.5	11.9	5.8	6.6	6.8	5.0
Other (sold abroad/unrated)	3.1	3.7	2.4	1.4	6.1	3.7	3.1
Memo							
Net issuance of commercial paper [4]	3.6	4.5	-14.5	-1.5	-13.0	-8.0	-8.6
Change in C&I loans at commercial banks [4]	4.7	7.4	-2.8	-8.1	1.0	-16.5	5.3
Financial corporations							
Stocks [1]	1.8	1.4	3.0	5.5	5.1	2.6	2.1
Bonds	53.9	47.1	69.9	64.7	73.6	57.0	88.4

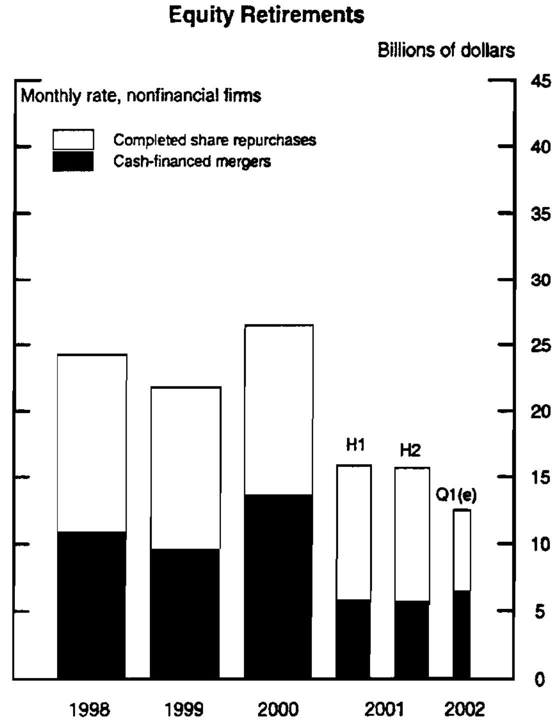
Note. Components may not sum to totals because of rounding. These data include speculative-grade bonds issued privately under Rule 144A. All other private placements are excluded. Total reflects gross proceeds rather than par value of original discount bonds.
1. Excludes equity issues associated with 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.

Equity Retirements



e Based on staff estimate for share repurchases.

increased pressure by bond rating agencies for firms to reduce rollover risk. The decline in C&I loans at commercial banks has appeared to flatten out of late, but total net debt financing remained sluggish.

In contrast, seasoned equity offerings continued at the relatively strong pace that has prevailed since October, boosted in part by some firms' raising equity to deleverage and improve access to credit markets. Seasoned offerings averaged over $5-1/2 billion per month in April and May, and a large issue by AT&T in early June helped push issuance to almost that amount by midmonth. Initial public offerings rose somewhat in May from the anemic pace earlier this year, and the flow of new filings suggests that IPOs could pick up a bit further in June and July.

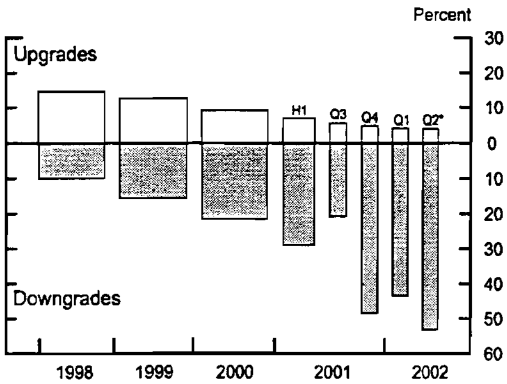
At the same time, merger activity has remained nearly moribund, and equity repurchases have been light. So far in the second quarter, announcements of cash-financed merger deals are on track to total only $18 billion, about a third of the quarterly pace in 2000. Announcements of new equity repurchase programs look to about match the $10 billion posted in the first quarter, the lowest quarterly pace since 1994, as firms continued to conserve their cash balances.

Corporate credit quality continued to be weak. Moody's downgrades remained large during April and May, reflecting revelations of aggressive accounting and further weakness in the telecommunications sector. Bond defaults also stayed high in April and May, leaving the three-month moving average at more than 2-1/2 percent, roughly in line with last year's average pace. The delinquency rate on business loans at commercial banks edged up again in the first quarter of 2002, bringing the cumulative rise since the end of 1998 to nearly 2 percentage points. The charge-off rate on these loans declined a bit relative to last year's final quarter but remained quite high. A forward-looking measure of aggregate credit quality based on KMV's year-ahead firm-level expected default frequencies has continued to hover at the high end of its range over the past decade.

Corporate earnings have shown signs of improvement. Although first-quarter earnings came in 8 percent below year-earlier levels for the S&P500 as a whole, those results were more than 10 percent higher than fourth-quarter earnings (at a seasonally adjusted quarterly rate). The preliminary estimate of first-quarter NIPA profits, a broader gauge of U.S. corporate sector performance, came in 5 percent above year-earlier results. Overall, corporate guidance regarding prospective second-quarter results has been reasonably balanced between positive and negative pre-announcements; however, the early warnings from technology and telecom companies continue to be less encouraging than those from other sectors. Equity analysts currently expect second-quarter S&P500 earnings per share to top year-earlier results by roughly 6 percent, the first such gain since the third quarter of 2000.

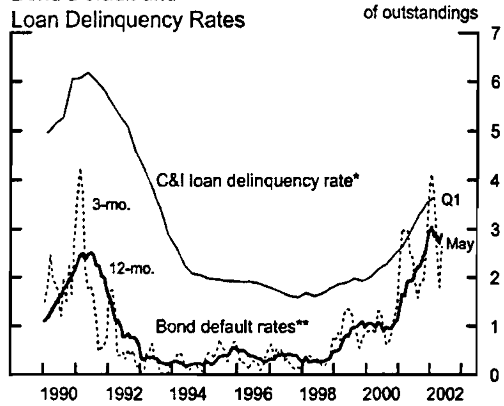
Corporate Credit Quality and Earnings

Ratings Changes



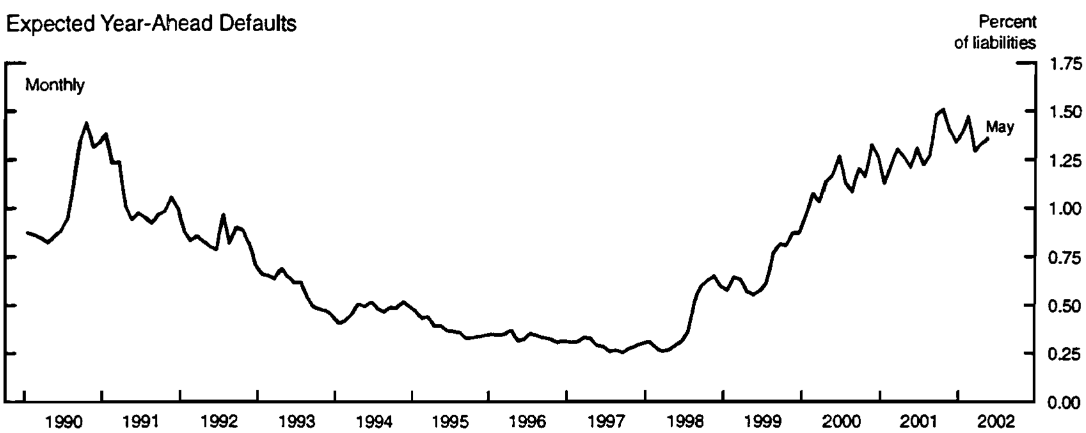
Note. Nonfinancial debt upgrades (downgrades) as a percentage of par value of all bonds outstanding.
*Based on April and May data.
Source. Moody's Investors Service.

Bond Default and Loan Delinquency Rates



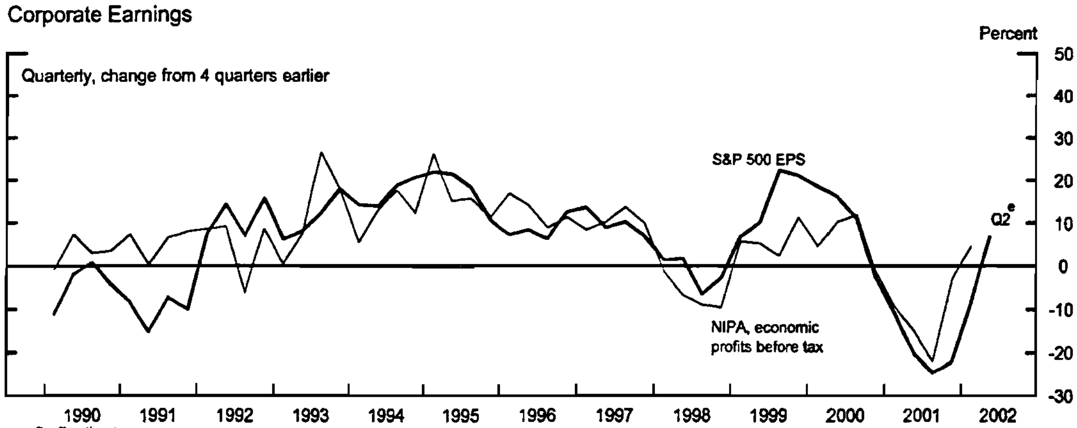
*Source. Call Report.
**Moving averages, from Moody's Investors Service.

Expected Year-Ahead Defaults



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

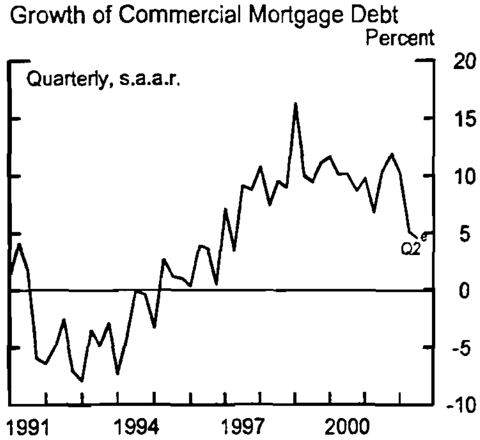
Corporate Earnings



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

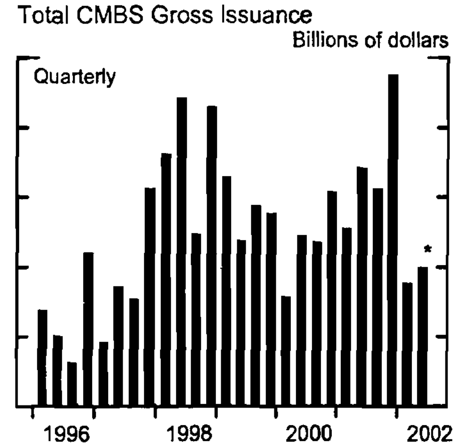
Commercial Real Estate

Growth of Commercial Mortgage Debt



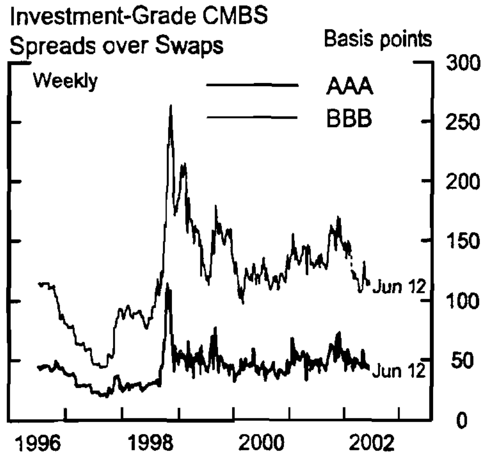
e Staff estimate.

Total CMBS Gross Issuance



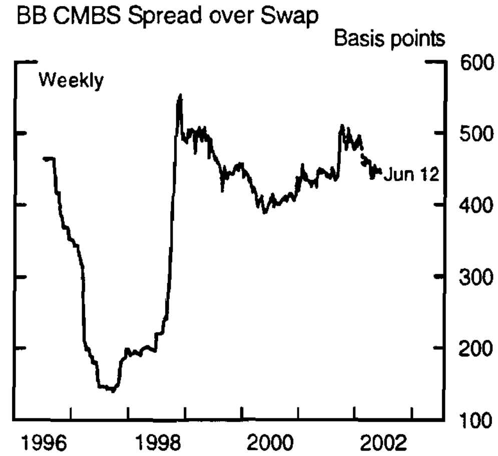
* Period to date.
Source. Commercial Mortgage Alert.

Investment-Grade CMBS Spreads over Swaps



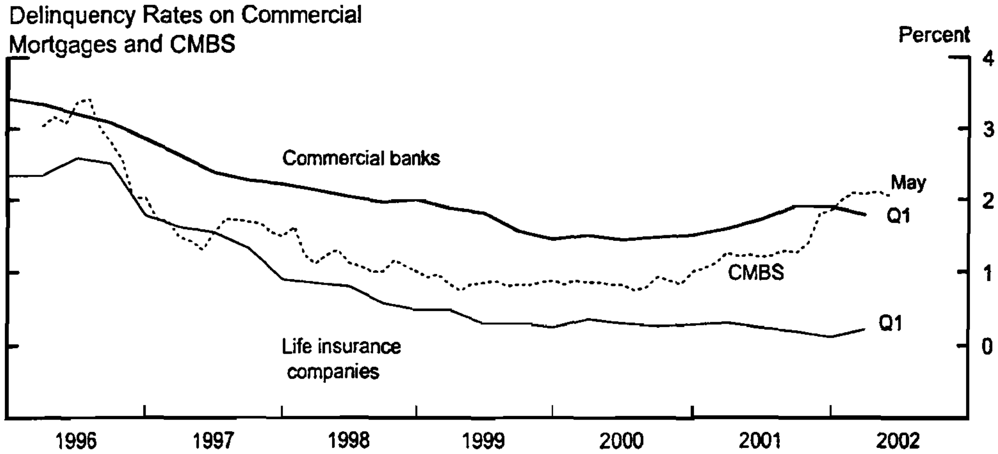
Note. Yield indexes were rebalanced on Feb. 1, 2002.
Source. Morgan Stanley.

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.

Commercial Real Estate Finance

Growth in commercial mortgage debt slowed sharply in the first quarter, to an annual rate of 5 percent, and is expected to edge down further in the second quarter. Issuance of commercial-mortgage-backed securities (CMBS), a key source of commercial real estate financing over the past several years, remained weak in April and May but was a bit more active than in the first quarter. Despite the currently weak fundamentals in commercial property markets, CMBS risk spreads have remained relatively stable, and delinquency rates on CMBS and commercial real estate loans at commercial banks have leveled off recently.

Two rating agencies (Moody's and Fitch) recently placed certain CMBS on watch for possible downgrade because of insufficient terrorism insurance. However, the affected securities are backed by high-profile properties and represent only a small share of total CMBS outstanding. Although the effects of difficulties in the market for terrorism insurance apparently have been limited, Congress continues to consider providing coverage against large terrorism losses for insurers. The Senate put aside a House bill passed last winter that would provide long-term loans to insurers after they had paid $1 billion in claims as a result of terrorist attack and passed a bill that would provide substantial direct federal assistance to insurers based on the overall cost of the attack and the insurers' market shares.

Household Finance

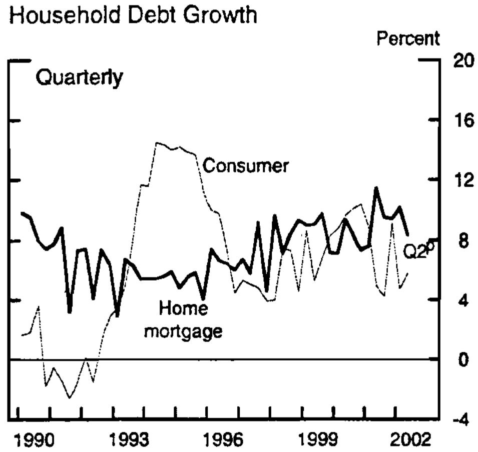
The limited data now in hand for the second quarter suggest that household borrowing has continued at a brisk pace. Consumer debt grew 6-1/4 percent in April, a pickup from the first quarter but below the auto-related spurt in the fourth quarter of last year. Long-term mortgage rates have remained relatively low, supporting new purchases of homes and mortgage refinancing activity. Judging from preliminary data on MBS issuance in April and May, and from data on mortgage lending at banks, mortgage debt growth continues to be quite strong.

The household debt-service burden is expected to edge up in the second quarter, after a first-quarter decrease that mainly reflected a boost to disposable personal income when additional provisions of last year's federal tax cut took effect. Household credit quality, however, has remained reasonably strong, on balance, though there are some pockets of stress. Most measures of delinquency rates on standard consumer and mortgage debt were little changed early this year (latest data available), but delinquencies on pools of nonprime automobile loans rose sharply in March from an already high level and the delinquency rate on subprime mortgages remained very elevated in the first quarter. On the asset side, the decline in equity values has pulled the ratio of household assets to disposable income lower in the second quarter.

Household Liabilities

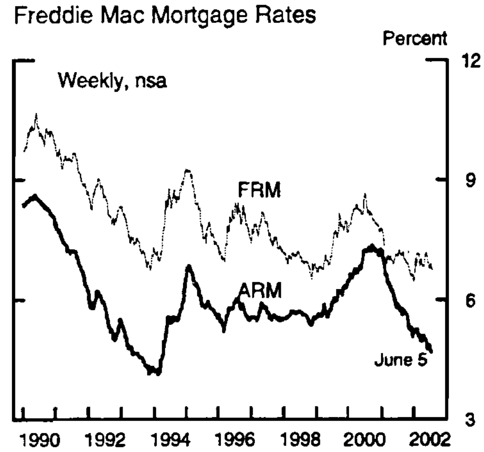
(All series seasonally adjusted, unless noted otherwise)

Household Debt Growth

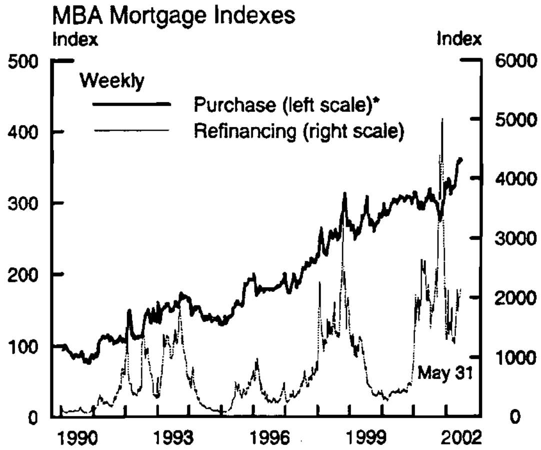


p Projection.

Freddie Mac Mortgage Rates



MBA Mortgage Indexes

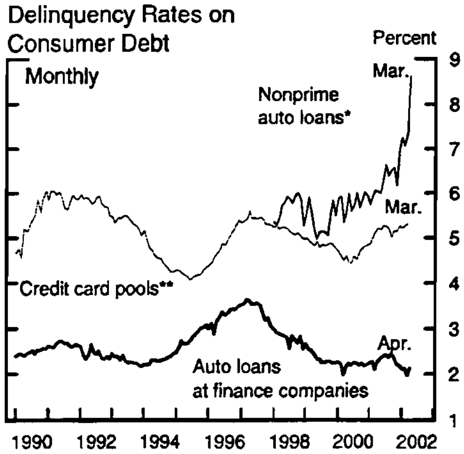


Note. March 16, 1990 = 100 before seasonal adj.
* 4-week moving average.

Household Debt Service Burden

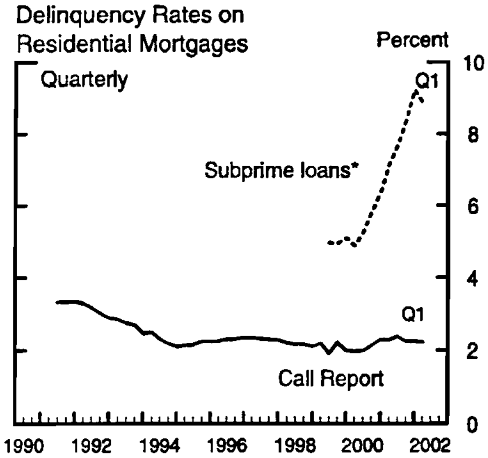
Note. Required debt payments relative to disposable personal income.

Delinquency Rates on Consumer Debt



* Staff calculations using Moody's data.
** Securitized receivables (Moody's).

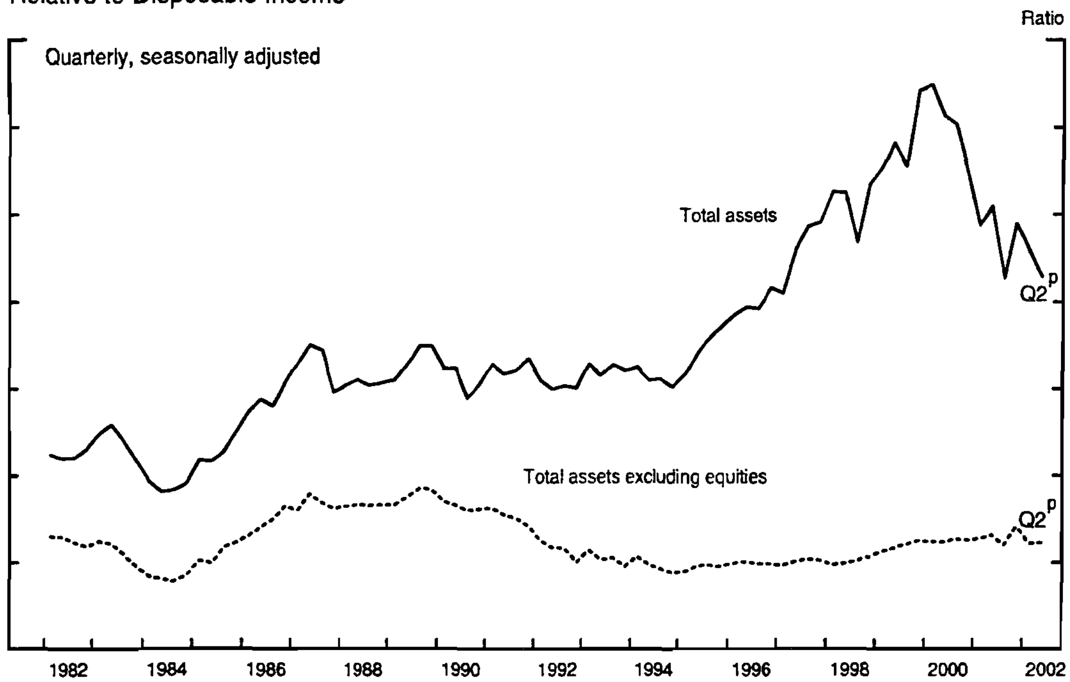
Delinquency Rates on Residential Mortgages



* Loan Performance Corporation, nsa.

Household Assets

Relative to Disposable Income



p Staff projection.

Net Flows into Long-Term Mutual Funds
(Billions of dollars, monthly rate)

	2000		2001		2002			Assets
	H1	H2	H1	H2	Q1	Apr.	May e	Apr.
Total long-term funds	**24.0**	**13.0**	**15.1**	**6.5**	**30.3**	**22.7**	**13.3**	**4,704**
Equity funds	**34.5**	**15.8**	**8.2**	**-2.7**	**18.4**	**11.8**	**-0.0**	**3,369**
Domestic	26.8	15.7	9.1	-0.0	17.1	11.1	0.3	2,929
Capital appreciation	34.4	16.6	5.2	-2.2	9.4	3.9	-1.5	1,739
Total return	-7.6	-0.9	3.9	2.2	7.7	7.2	1.8	1,190
International	7.7	0.1	-0.9	-2.7	1.3	0.7	-0.3	440
Hybrid funds	**-4.0**	**-1.3**	**1.0**	**0.5**	**2.6**	**3.2**	**1.0**	**354**
Bond funds	**-6.6**	**-1.5**	**5.9**	**8.7**	**9.3**	**7.8**	**12.4**	**980**
International	-0.2	-0.2	0.0	-0.2	-0.0	0.0	0.0	19
High-yield	-1.1	-0.9	0.9	0.3	1.8	1.5	-0.0	103
Other taxable	-2.8	-0.3	4.2	7.4	6.3	5.5	10.3	554
Municipals	-2.5	-0.0	0.8	1.1	1.2	0.8	2.1	304

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

Government and Agency Finance

The Secretary of the Treasury declared a debt ceiling emergency on May 16 and identified about $80 billion worth of accounting devices that could be employed to create financing room within the existing $5.95 trillion debt limit. Since then, the Treasury has been using one of these devices—disinvesting securities from government funds (as it had in April).[1] After factoring in corporate and individual non-withheld tax payments through mid-June, current projections indicate that further disinvestments from the trust funds will allow the Treasury to operate until late June. On June 28, however, it appears very likely that either an increase in the debt ceiling or additional accounting measures beyond the ones that the Treasury has already identified will be required in order for it to meet its interest payments to the trust funds

The Secretary's announcement and subsequent actions generally have had little effect on Treasury yields, as market participants still seem confident that the debt ceiling will be raised in time to avoid a default. The Treasury substantially reduced the size of its weekly four-week bill offering on June 18 and issued a press release stating that it was postponing its announcement for the June two-year note auction until "...Treasury is assured that it has sufficient borrowing authority." The Treasury could still conduct the auction on the regular schedule (June 26) with an abbreviated advance notice period if the debt ceiling is raised. However, at this point, the status of the debt ceiling legislation in Congress is uncertain. On June 11, the Senate passed a standalone bill to increase the debt ceiling, but House Republican leadership would still prefer to attach the measure to another bill. Congressional sources predict that the ceiling will be increased on June 27, the day before the ceiling becomes unavoidably binding and Congress begins its July 4 holiday recess.

Gross offerings of long-term debt by state and local governments jumped in May from the already strong April pace. Both new capital and refunding issuance were robust, boosted in part by the decline in municipal bond yields over the past few weeks in May. Refundings were also lifted by the first tranche ($3 billion) of a $14 billion program by the New York Metro Transit Authority, with special permission from Congress to advance-refund for a second time its municipal bonds, to help defray costs of reconstruction. So far this year, municipal credit quality has held about steady, on balance, with upgrades no longer outnumbering downgrades.

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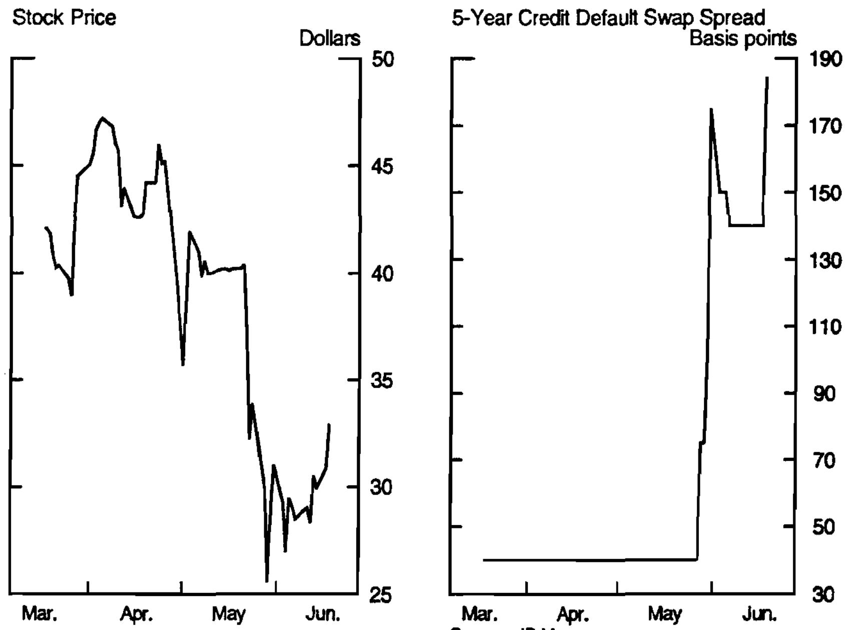
1. The Treasury has the authority to disinvest from some government trust funds to meet emergency funding needs. In effect, the disinvestment involves substituting Treasury "IOUs" for Treasury securities that are held as assets by the trust funds. Such IOUs are not counted as part of the debt subject to the ceiling, and hence the operation opens up some leeway for the Treasury to increase debt that is subject to the ceiling.

Treasury Financing
(Billions of dollars)

Item	2001		2002			
	Q3	Q4	Q1	Apr.	May e	June e
Total surplus, deficit (-)	**-41.9**	**-37.1**	**-96.6**	**67.2**	**n.a.**	**n.a.**
Means of financing deficit						
Net borrowing	68.6	59.5	50.8	-41.5	57.3	-15.0
Nonmarketable	6.2	10.5	-.7	1.3	5.7	-3.9
Marketable	74.4	49.0	51.5	-42.8	51.6	-11.1
Bills	114.8	73.3	23.1	-40.9	22.6	-11.1
Coupons[1]	-32.6	-15.8	28.4	2.1	28.9	.0
Debt buybacks	-7.7	-8.5	.0	-4.0	.0	.0
Decrease in cash balance	-.5	-8.1	38.3	-24.7	30.5	-16.9
Other[2]	-26.2	-14.3	7.5	-1.0	n.a.	n.a.
MEMO						
Cash balance, end of period	44.2	52.4	14.1	38.8	8.3	25.2

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.

Farmer Mac



Source: JP Morgan

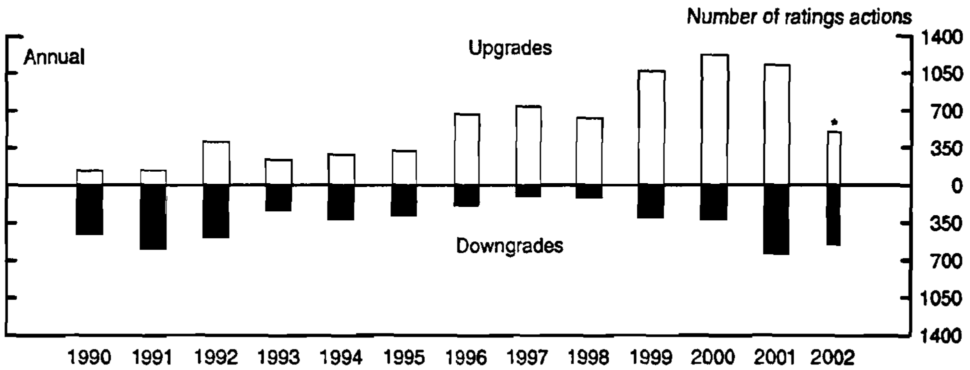
State and Local Government Finance

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

	1999	2000	2001 H1	2001 H2	2002 Q1	2002 Apr.	2002 May
Long-term [1]	18.0	15.0	21.4	23.7	21.5	23.3	32.9
Refundings [2]	4.5	2.2	6.4	6.7	6.6	6.1	12.2
New capital	13.5	12.9	15.0	17.1	14.9	17.1	20.7
Short-term	2.7	2.8	3.7	5.0	1.9	2.6	2.7
Total tax-exempt	20.6	17.9	25.0	28.7	23.4	25.8	35.5
Total taxable	1.1	0.7	1.2	1.0	1.0	1.2	1.1

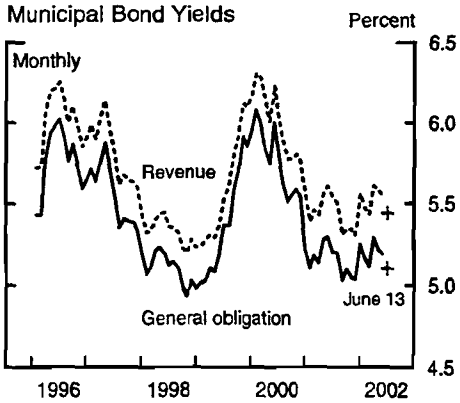
1. Includes issues for public and private purposes.
2. All issues that include any refunding bonds.

Bond Rating Changes



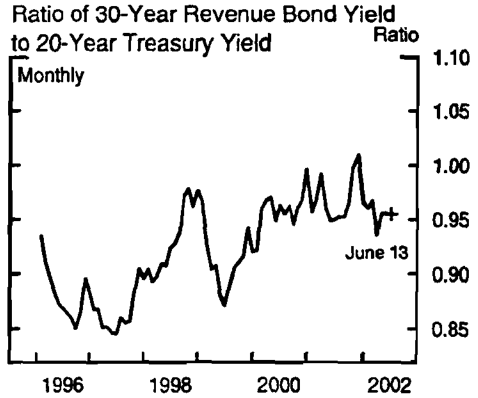
* Data through June 12 at an annual rate.
Source. S&P's Credit Week Municipal and Ratings Direct.

Municipal Bond Yields



Note. Average of weekly data through May 31.
+ Last observation is through June 13.

Ratio of 30-Year Revenue Bond Yield to 20-Year Treasury Yield



Note. Average of weekly data through May 31.
+ Last observation is through June 13.

Monetary Aggregates

(Based on seasonally adjusted data)

Aggregate or component	2001	2001 Q4	2002 Q1	2002 Mar.	2002 Apr.	2002 May.	Level (bil. $) May. 02
Aggregate	Percent change (annual rate)[1]						
1. M2[2]	10.5	9.7	5.3	-1.4	-4.1	13.9	5,544.0
2. M3	12.8	12.4	4.5	-1.0	-2.7	10.8	8,113.7
Selected components							
3. Currency	9.0	9.9	10.8	7.5	8.9	11.4	605.2
4. Liquid deposits[3]	17.9	17.9	17.4	8.4	1.4	18.2	3,051.6
5. Small time deposits	-4.9	-11.8	-15.3	-10.6	-8.6	-3.2	930.4
6. Retail money market funds	9.3	9.4	-11.9	-27.6	-24.9	18.2	948.9
7. M3 minus M2[4]	18.3	18.2	2.7	.0	.4	4.1	2,569.8
8. Large time deposits, net[5]	-2.8	-7.6	4.1	.9	15.3	-1.2	801.7
9. Institution-only money market mutual funds	50.7	49.2	-.5	-.2	-2.0	10.1	1,185.1
10. RPs	.6	-1.4	8.0	-8.0	-22.2	-3.3	364.9
11. Eurodollars	8.5	-3.8	6.3	11.7	-1.7	2.2	218.0
Memo							
12. M1	6.8	2.1	5.8	2.9	-11.4	6.2	1,182.1
13. Sweep-adjusted M1[6]	7.9	6.2	7.7	6.3	4.3	8.3	1,678.8
14. Demand deposits	3.9	-5.4	-3.4	-2.6	-54.1	-14.0	305.8
15. Other checkable deposits	6.3	-4.3	6.7	.5	-5.1	18.0	263.3
16. Savings deposits	21.8	24.2	21.6	10.8	9.5	22.4	2,482.5
17. Monetary base	8.5	6.4	9.1	6.4	7.9	6.7	657.5
	Average monthly change (billions of dollars)[7]						
Selected managed liabilities at commercial banks							
18. Large time deposits, gross	3.3	8.0	9.6	4.1	18.2	6.0	1,030.8
19. Net due to related foreign institutions	-6.5	-9.0	-16.6	2.3	-6.4	-12.5	87.9
20. U.S. government deposits at commercial banks	1.5	.1	1.1	-5.2	-29.9	-1.5	6.9

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.

Net borrowing by Fannie Mae and Freddie Mac has moderated significantly in recent months, in concert with slower growth in their mortgage portfolios. Market participants attribute the slower expansion of their balance sheets to the reduced profitability of MBS investments relative to agency funding costs.

Farmer Mac (the Federal Agricultural Mortgage Corporation) has come under increased market scrutiny since late April, when an article in a major newspaper raised questions about the overall soundness of the institution and pointed out that a large share of its assets were not related to agricultural mortgages.[2] Since then, Farmer Mac's stock price has declined by about a fourth and credit default swap spreads for the institution's debt have soared from about 40 basis points to 184 basis points. However, market participants report that the difficulties encountered by Farmer Mac do not seem to have affected the funding costs for other agencies.

Monetary Aggregates and Bank Credit

Money growth picked up in May, largely because of tax-related effects. Households typically build up M2 balances in April in anticipation of making tax payments; the balances then fall off in May as tax payments clear. This year, non-withheld tax collections were well below the normal seasonal patterns, and as a result, seasonally adjusted M2 was weak in April and strong in May. However, even abstracting from the effects of tax-related flows, money growth appears to have accelerated somewhat in May relative to recent months. As stock prices fell during the latter part of the month, households may have favored the safety of M2 assets over stock market investments, as indicated by the near cessation of net inflows to equity mutual funds.

Bank credit grew briskly in May, but the strength was caused almost entirely by a large thrift institution's conversion to a bank charter, which mainly boosted real estate loans and securities holdings. Excluding the effects of that conversion, bank credit growth fell back last month, and total loan growth remained anemic. One exception was revolving home equity loans, which continued to advance at a rapid clip, likely fueled in part by the combination of relatively low interest rates and recent strong gains in home values.

Data from the May Survey of Terms of Business Lending showed a narrowing of the spread charged on new loans compared with the February survey. Spreads on loans not made under previous commitment, however, rose. More

2. Farmer Mac is a government-sponsored enterprise charged with enhancing the availability of farm mortgage credit. Farmer Mac has only about $6 billion in total assets compared with total assets of Fannie Mae and Freddie Mac of $800 billion and $650 billion respectively.

Commercial Bank Credit

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

Type of credit	2001	Q1 2002	Q2 2002	Mar. 2002	Apr. 2002	May 2002	Level, May 2002 ($ billions)
Total							
1. **Adjusted**[1]	**4.2**	**1.4**	**5.5**	**2.2**	**5.3**	**9.5**	**5,372**
2. Reported	5.1	-1.1	5.4	-1.0	4.8	12.8	5,511
Securities							
3. Adjusted[1]	9.4	9.0	14.4	11.5	19.5	16.1	1,395
4. Reported	12.4	-1.0	13.1	-1.1	16.5	27.5	1,533
5. Treasury & Agency	3.5	1.0	25.9	24.3	32.6	31.3	870
6. Other[2]	25.5	-3.5	-2.7	-31.7	-3.9	22.5	663
Loans[3]							
7. Total	2.6	-1.1	2.4	-1.0	.4	7.2	3,978
8. Business	-3.6	-5.7	-4.6	-3.5	-15.5	-2.0	1,015
9. Real estate	7.2	3.6	5.0	-.1	1.7	12.6	1,812
10. Home equity	20.0	25.8	37.0	39.9	30.7	48.8	179
11. Other	6.1	1.5	1.7	-4.2	-1.3	8.7	1,632
12. Consumer	3.9	4.2	3.6	-4.7	9.0	5.7	567
13. Adjusted[4]	7.4	4.4	3.4	-1.6	2.8	12.3	918
14. Other[5]	-.1	-11.8	6.2	4.6	16.1	8.3	585

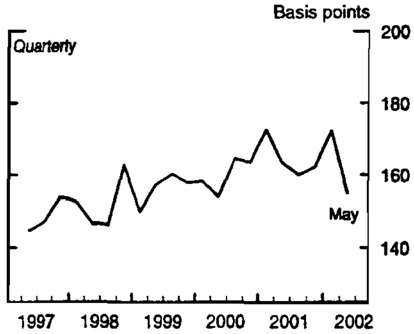
Note. All data are adjusted for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates are percentage changes in consecutive levels, annualized but not compounded. The conversion from a thrift to a commercial bank charter added approximately $37 billion to the assets and liabilities of domestically chartered commercial banks in the week ending May 8, 2002.

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.

Survey of Terms of Business Lending

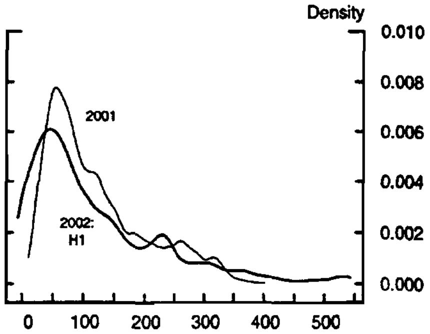
(Domestic Banking Institutions)

Weighted Average C&I Loan Rate Spread



Note. The spread is over the market interest rate on an instrument of comparable maturity and is adjusted for changes in nonprice loan characteristics of originations.

Distribution of C&I Loan Spreads



broadly, the distribution of loan spreads has shifted down, but it widened in the first half of 2002 relative to last year. This move suggests that lenders remain concerned about lower-quality borrowers, consistent with the selectivity evident in the bond and syndicated loan markets.

International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

The U.S. international trade deficit in goods and services was $31.6 billion in March, down very slightly from February (revised), as both exports and imports increased a small amount. For the first quarter on average, the trade deficit was $366 billion at an annual rate, $35 billion larger than in the fourth quarter of 2001.[1]

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

	2001	Annual rate 2001 Q3	Annual rate 2001 Q4	Annual rate 2002 Q1	Monthly rate 2002 Jan.	Monthly rate 2002 Feb.	Monthly rate 2002 Mar.
Real NIPA[1]							
Net exports of G&S	-408.7	-411.0	-412.7	-443.7	...	...	...
Nominal BOP							
Net exports of G&S	-347.5	-313.8	-331.4	-366.5	-28.2	-31.8	-31.6
Goods, net	-426.3	-422.2	-401.3	-431.2	-33.8	-36.9	-37.1
Services, net	78.8	108.4	69.9	64.7	5.5	5.2	5.5

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

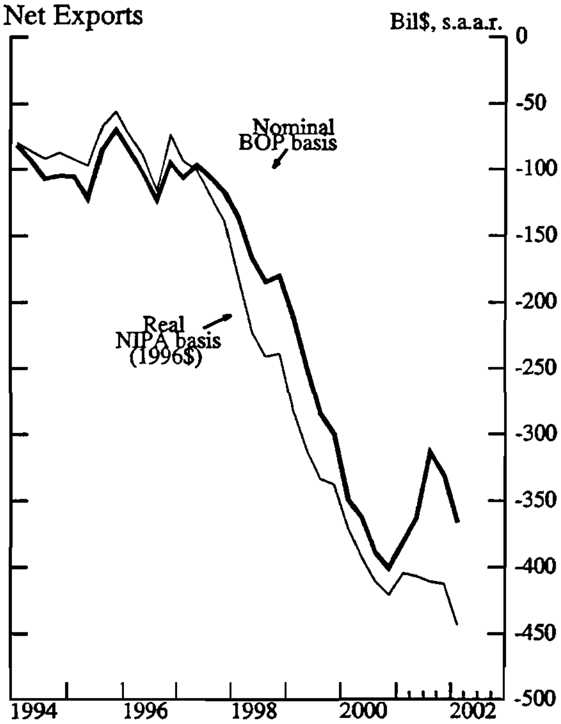
The value of exported goods and services rose 0.6 percent in March, with small increases in both the goods and services categories. For goods, a decline in agricultural exports was offset mainly by gains in aircraft and automotive products. The increase in service exports was in travel and passenger fares, more than offsetting a drop in other private services related to funding provided in February by the International Olympic Committee for the 2002 Winter Olympic Games. For the first quarter as a whole, total exports were up 3.6 percent at an annual rate, the first increase since the third quarter of 2000. BEA estimates that total *real* exports of goods and services were up 5.3 percent at an annual rate in the first quarter.

The value of imported goods and services rose 0.3 percent in March following sizable gains in the two preceding months. Most of the March increase was in the value of imported oil, which was up sharply as a result of higher prices. Imports of goods excluding oil and gold fell 0.7 percent in March. Declines

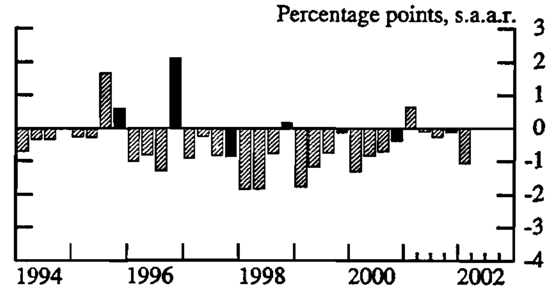
1. Trade data for April will be released on June 20 and will be discussed in the Greenbook supplement.

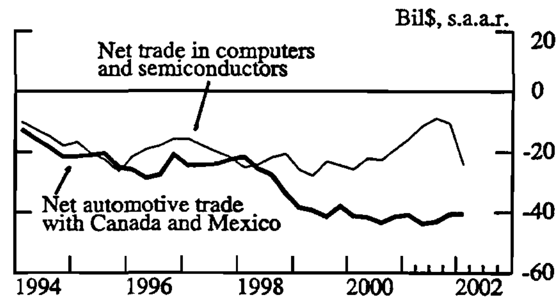
U.S. International Trade in Goods and Services

Net Exports

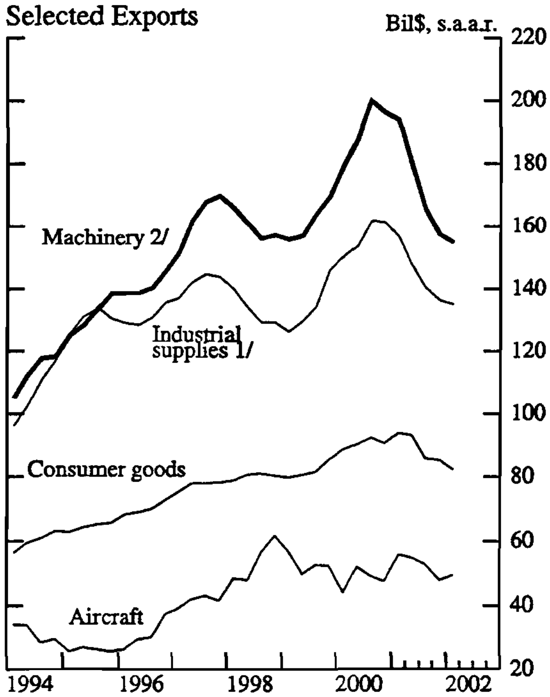


Contribution of Net Exports to Real GDP Growth



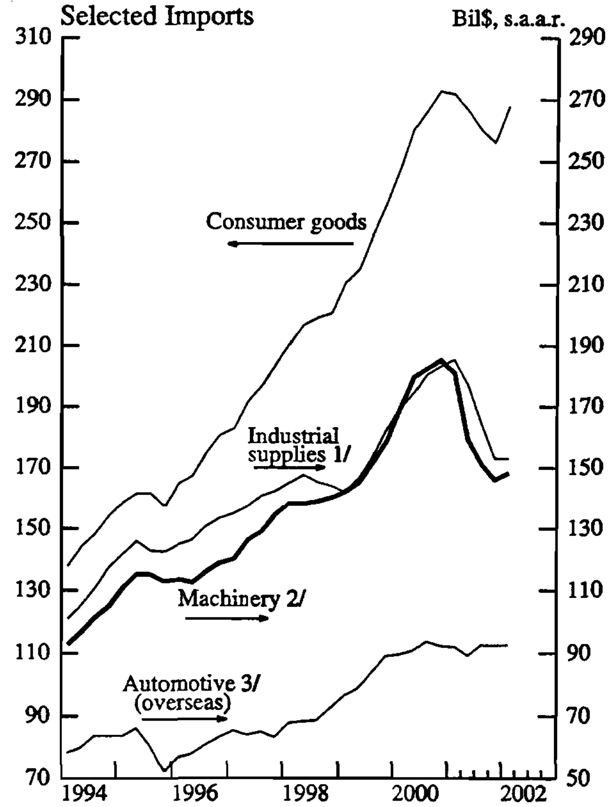


Selected Exports



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

Selected Imports



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	2002	2002		2001	2002	2002	
	Q4	Q1	Feb.	Mar.	Q4	Q1	Feb.	Mar.
Exports of G&S	**936.1**	**944.6**	**944.6**	**950.2**	**-36.5**	**8.5**	**5.8**	**5.6**
Goods exports	669.7	659.8	658.8	660.7	-24.0	-9.9	-1.2	1.9
Gold	2.9	2.5	2.4	2.7	0.5	-0.3	-0.0	0.3
Other goods	666.8	657.3	656.4	658.0	-24.4	-9.5	-1.2	1.6
Aircraft & parts	47.8	49.5	46.0	53.3	-5.0	1.7	-3.3	7.4
Computers	41.9	38.9	38.8	39.9	-2.4	-3.1	0.9	1.1
Semiconductors	37.9	41.2	40.3	40.6	-0.7	3.3	-2.5	0.3
Other capital gds	160.4	156.9	157.8	156.0	-7.4	-3.5	1.1	-1.8
Automotive	73.0	73.0	73.1	74.9	-4.3	-0.1	2.1	1.8
to Canada	38.5	41.1	41.9	42.2	-1.8	2.5	2.9	0.3
to Mexico	16.6	14.4	13.8	15.6	1.0	-2.2	-0.1	1.7
to ROW	17.9	17.4	17.3	17.1	-3.5	-0.4	-0.7	-0.2
Agricultural	56.4	54.9	56.5	52.0	1.4	-1.5	0.3	-4.5
Ind supplies (ex. ag)	136.4	135.1	134.8	135.1	-3.9	-1.2	-0.6	0.3
Consumer goods	85.3	82.4	82.6	82.1	-0.5	-3.0	0.2	-0.6
All other goods	27.7	25.5	26.4	24.0	-1.6	-2.2	0.5	-2.4
Services exports	266.4	284.7	285.8	289.5	-12.5	18.4	7.0	3.7
Imports of G&S	**1267.5**	**1311.1**	**1325.7**	**1329.8**	**-18.9**	**43.6**	**47.8**	**4.2**
Goods imports	1071.0	1091.1	1101.9	1105.8	-44.8	20.0	36.6	3.9
Petroleum	80.9	76.5	70.9	82.1	-21.6	-4.4	-5.6	11.1
Gold	2.4	2.0	2.0	2.4	0.2	-0.4	0.4	0.3
Other goods	987.7	1012.5	1029.0	1021.4	-23.4	24.8	41.8	-7.6
Aircraft & parts	32.3	29.0	27.3	29.9	1.6	-3.4	-2.4	2.6
Computers	67.6	77.8	77.0	75.6	-0.0	10.3	-4.0	-1.4
Semiconductors	22.9	26.5	27.8	28.7	-1.5	3.6	4.8	0.9
Other capital gds	148.4	150.0	152.4	151.5	-5.3	1.5	6.4	-0.9
Automotive	188.4	188.8	197.2	189.5	-3.5	0.3	17.6	-7.6
from Canada	55.6	56.6	61.0	57.2	-3.3	0.9	9.5	-3.8
from Mexico	40.2	39.4	38.6	42.4	-0.1	-0.8	1.6	3.8
from ROW	92.6	92.8	97.5	89.9	-0.1	0.2	6.5	-7.6
Ind supplies	153.2	153.2	156.3	153.8	-11.3	-0.0	6.9	-2.4
Consumer goods	276.0	287.9	292.6	290.6	-4.0	11.8	12.2	-2.0
Foods, feeds, bev.	47.2	47.4	48.3	47.4	-0.8	0.2	1.8	-1.0
All other goods	51.7	52.1	50.1	54.4	1.3	0.4	-1.6	4.3
Services imports	196.5	220.0	223.7	224.0	25.9	23.6	11.3	0.3
Memo:								
Oil quantity (mb/d)	12.06	11.44	11.10	11.00	0.10	-0.61	-1.09	-0.10
Oil import price ($/bbl)	18.33	18.40	17.49	20.42	-5.16	0.06	0.30	2.93

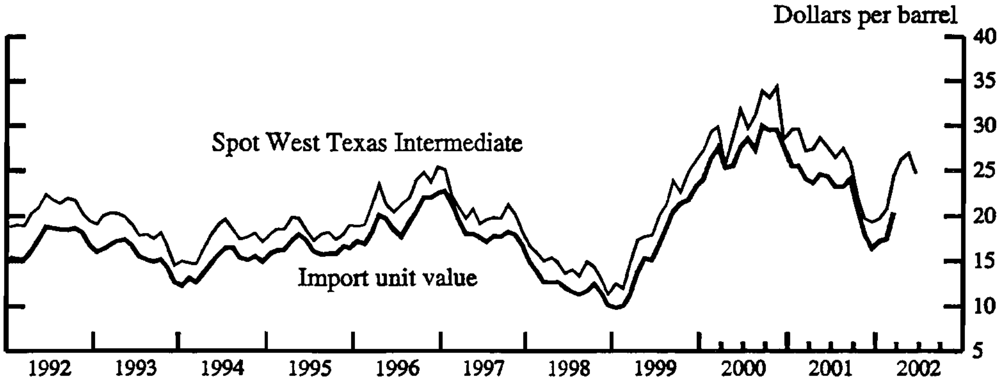
1. Change from previous quarter or month.
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

	Annual rates			Monthly rates		
	2001	2002		2002		
	Q4	Q1	Q2[e]	Mar.	Apr.	May
	------------ BLS prices (2000 weights)------------					
Merchandise imports	-13.9	-2.0	10.4	1.3	1.6	0.0
Oil	-65.6	18.4	160.9	17.0	12.7	0.9
Non-oil	-4.0	-2.9	1.8	0.0	0.6	-0.1
Core goods*	-3.7	-2.6	1.7	0.0	0.6	-0.1
Cap. goods ex comp & semi	-0.4	-5.4	-1.8	-0.4	0.0	-0.1
Automotive products	1.2	-0.4	0.1	-0.2	0.2	-0.3
Consumer goods	-1.5	-1.5	-1.3	-0.2	-0.1	0.0
Foods, feeds, beverages	0.6	0.1	6.9	1.2	0.9	1.3
Industrial supplies ex oil	-15.6	-4.7	13.0	1.1	2.8	-0.1
Computers	-12.5	-2.9	-1.3	-0.2	0.2	-0.6
Semiconductors	-2.1	-2.7	3.1	0.1	0.3	0.6
Merchandise exports	-4.1	-1.8	2.0	0.3	0.4	-0.1
Core goods*	-3.4	-1.3	2.5	0.3	0.5	0.0
Cap. goods ex comp & semi	-1.2	0.9	0.5	0.2	0.0	0.0
Automotive products	0.0	1.3	0.2	0.1	-0.1	0.1
Consumer goods	0.9	-2.3	-2.1	0.0	-0.4	0.0
Agricultural products	-8.8	-2.8	0.7	0.5	0.9	-0.4
Industrial supples ex ag	-10.6	-3.6	9.3	0.5	1.9	0.2
Computers	-5.6	-4.5	-2.7	0.4	-0.6	-1.1
Semiconductors	-15.2	-8.1	1.4	0.3	0.2	-0.2
Chain price index	---Prices in the NIPA accounts (1996 weights)---					
Imports of goods & services	2.4	-1.3	n.a.	...	...	...
Non-oil merchandise	-4.1	-2.3	n.a.	...	...	...
Core goods*	-3.4	-2.3	n.a.	...	...	...
Exports of goods & services	-3.0	-0.6	n.a.	...	...	...
Total merchandise	-3.5	-1.0	n.a.	...	...	...
Core goods*	-3.4	-1.2	n.a.	...	...	...

*/ Excludes computers and semiconductors.
e/ Average of two months.
n.a. Not available. ... Not applicable.

Oil Prices



were widespread across categories, with the notable exception of aircraft. Service imports were little changed in March, as an increase in travel and passenger fares was offset by a large decrease in royalties and license fees, which had been boosted in February by payments for Winter Olympic broadcast rights. For the first quarter as a whole, total imports of goods and services were up 14½ percent at an annual rate. Total *real* imports of goods and services are estimated by BEA to have risen almost 13 percent at an annual rate in the first quarter.

Prices of Internationally Traded Goods

Oil. The BLS price of imported oil rose about 1 percent in May, following double-digit increases in the two preceding months. The spot price of West Texas intermediate (WTI) crude oil has also risen on average since the beginning of the year, and has recently traded around $25.50 per barrel, up from its average value near $19 per barrel in December. After rising to about $29 per barrel in mid-May, the price eased in response to comfortable stock levels, recent indications that Venezuela is producing above its OPEC quota, and Russia's publicly stated intention to increase oil exports. The market also appears to have discounted the possibility of U.S. military intervention in Iraq in the near future. Nevertheless, the expectation of world economic recovery and tensions in the Middle East continue to put some upward pressure on prices.

Non-oil imports. The price of imported non-oil (and core) goods was down 0.1 percent in May following an upwardly-revised increase of 0.6 percent in April. Food prices were up a little, while prices in all other major categories were unchanged or down slightly. For April and May on average the core goods price index was 1.7 percent at an annual rate above the first-quarter average, following a decline of 2.6 percent in the first quarter. If sustained, this would be the first quarterly increase in this index since the first quarter of 2001. The turnaround is most noticeable in the price of industrial supplies, which was up 13 percent at an annual rate on average in April and May relative to the first quarter following three quarters of double-digit declines.

Exports. Prices of total U.S. goods exports fell slightly in May and the price of core goods was unchanged following an increase of 0.5 percent in April. A small increase in the price of industrial supplies in May was largely offset by declines in prices of agricultural products and capital goods. On average, the price of core goods was 2.5 percent at an annual rate above the first-quarter average, following a 1.3 percent decline in the first quarter.

U.S. International Financial Transactions
Net purchases of U.S. securities by private foreigners (line 4 of the Summary table of U.S. International Transactions) rebounded strongly in March from the low levels recorded for the first two months of the year. Despite this pickup in March, foreign purchases were relatively weak for the first quarter as a whole, continuing a trend toward slower purchases that started in the second half of last year. Purchases in April were roughly in line with the first-quarter average. March's pickup was concentrated in foreign purchases of U.S. debt. For corporate debt (line 4c), the strong March figure coincided with a surge in new corporate debt issuance, including an uptick in new eurobond issuance. For Treasuries (line 4a), purchases in March just balanced sales earlier in the year and were followed by significant sales in April. Agency bonds (line 4b) also bounced back in March but rose further in April to offset the Treasury sales. Net private foreign purchases of U.S. equities (line 4d) have remained relatively steady this year through April, but are running somewhat below the pace of last year.

U.S. residents made substantial net sales of foreign securities in March (line 5) that offset small net purchases in the first two months. Net sales in the first quarter outpaced those in the second half of last year and were in sharp contrast to large purchases in the first half. In April, U.S. investors bought on net $3 billion of foreign securities. These net purchases were entirely in foreign stocks (line 5b).

Foreign official reserves held in the United States rose $4 billion in April following a small decrease in March and an increase of $10 billion for the first quarter (line 1). For April, declines in reserves of G-10 countries (line 1a) were more than offset by increases in the reserves of developing countries in Asia. These data do not reflect Japanese intervention activity undertaken in early May. Partial data from the Federal Reserve Bank of New York indicate that total foreign official reserves increased by $23 billion in May, a large portion of which is attributable to Japan.

In the U.S. banking sector, net outflows of $12 billion were recorded in April. These outflows are primarily due to inter-office funding transactions of banks in the United States with related offices in the Caribbean, Europe and Asia.

Balance of payments data for 2002:Q1, including direct investment capital flows, will be released on June 20 and will be discussed in the Greenbook supplement.

Summary of U.S. International Transactions

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

	2000	2001	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Mar.	2002 Apr.
Official financial flows	**39.3**	**2.0**	**-21.3**	**13.4**	**5.4**	**10.2**	**-1.0**	**4.7**
1. Change in foreign official assets in the U.S. (increase, +)	39.6	6.9	-20.0	16.9	5.6	9.8	-1.1	3.6
a. G-10 countries	12.3	-7.9	-6.1	-5.6	9.2	5.7	.4	-7.8
b. OPEC countries	10.7	-1.9	-2.1	-4.8	4.2	-6.4	-.9	.4
c. All other countries	16.6	16.8	-11.8	27.3	-7.8	10.5	-.7	11.0
2. Change in U.S. official reserve assets (decrease, +)	-.3	-4.9	-1.3	-3.6	-.2	.4	.1	1.1
Private financial flows	**404.0**	**453.9**	**175.9**	**26.9**	**152.0**	**n.a.**	**...**	**...**
Banks								
3. Change in net foreign positions of banking offices in the U.S.[1]	-6.7	-19.0	23.7	-3.0	34.8	23.2	8.6	-12.3
Securities[2]								
4. Foreign net purchases of U.S. securities (+)	435.7	500.4	125.0	73.9	152.3	93.7	63.1	36.9
a. Treasury securities	-52.4	16.5	-8.5	-9.3	33.5	.9	13.2	-11.4
b. Agency bonds	111.9	144.2	29.4	33.2	42.8	22.8	16.2	23.3
c. Corporate and municipal bonds	182.1	218.1	69.6	37.2	42.4	46.6	24.5	16.6
d. Corporate stocks[3]	194.0	121.6	34.5	12.9	33.5	23.4	9.3	8.3
5. U.S. net acquisitions (-) of foreign securities	-101.1	-62.9	-44.1	20.4	-18.6	8.9	12.9	-2.8
a. Bonds	-4.1	30.4	8.8	26.5	-2.9	4.0	7.3	.6
b. Stock purchases	-13.1	-50.1	-18.7	-6.1	-9.3	6.7	5.6	-3.4
c. Stock swaps[3]	-84.0	-43.2	-34.2	.0	-6.4	-1.8	.0	.0
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-152.4	-156.0	-41.2	-43.2	-30.4	n.a.	...	...
7. Foreign direct investment in U.S.	287.7	157.9	65.6	22.6	17.0	n.a.	...	...
8. Foreign holdings of U.S. currency	1.1	23.8	2.8	8.2	10.5	n.a.	...	...
9. Other (inflow, +)[4]	-60.2	9.7	44.2	-51.9	-13.5	n.a.	...	...
U.S. current account balance (s.a.)	**-444.7**	**-417.4**	**-107.9**	**-98.5**	**-98.8**	**n.a.**	**...**	**...**
Capital account balance (s.a.)[5]	**.7**	**.7**	**.2**	**.2**	**.2**	**n.a.**	**...**	**...**
Statistical discrepancy (s.a.)	**.7**	**-39.2**	**-46.8**	**58.1**	**-58.7**	**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.

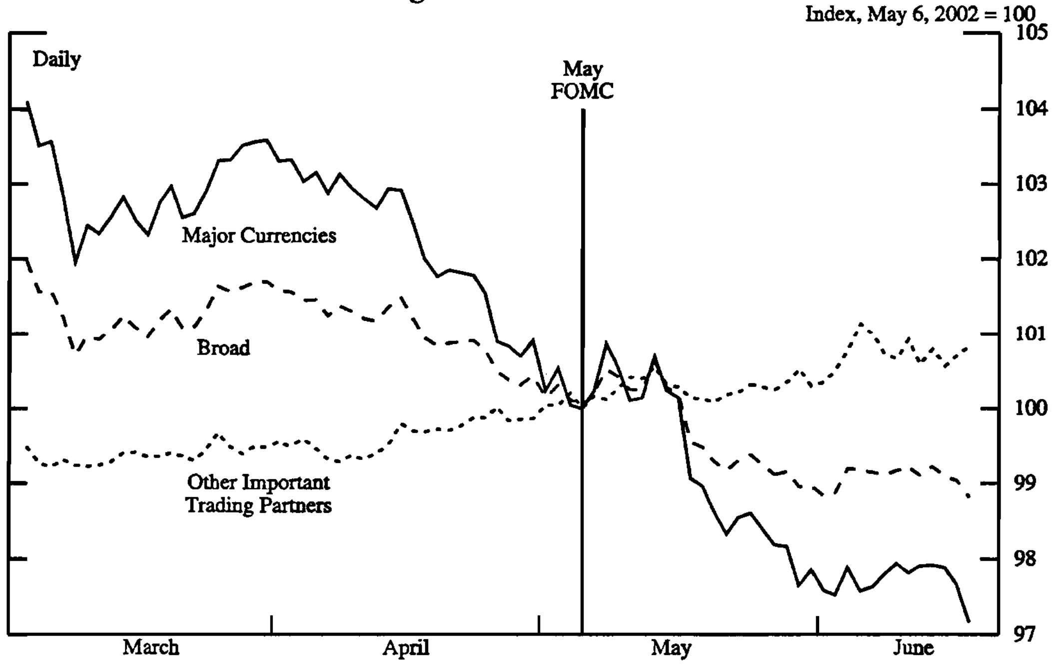
n.a. Not available. ... Not applicable.

Foreign Exchange Markets

On balance, the trade-weighted value of the dollar against the major foreign currencies has declined 2¾ percent since the last FOMC meeting. The dollar's move lower was broad-based, led by a 4 percent decline against the euro. The U.S. dollar depreciated 1¾ percent against the Canadian dollar and 2¾ percent against the yen.

Sentiment toward the dollar generally deteriorated over the period. Market participants tempered their outlook for near-term U.S. economic growth and further pushed back expectations of monetary tightening. Expectations for monetary tightening in the euro area were also scaled back, but to a lesser extent than in the United States. A number of other factors may have weighed on the dollar. Market commentary focused increasingly on the size of the U.S. current account deficit, suggesting that the dollar may be poised for a large adjustment. In addition, recent legislation allowing for farm subsidies, following earlier impositions of steel and lumber tariffs, was interpreted by some investors as a further signal that the Administration may be dissatisfied with the competitive position of the dollar.

Exchange Value of the Dollar



Early in the period, the yen appreciated sharply, prompting official intervention to stem its rise. Japanese monetary authorities publicly confirmed that they intervened in foreign exchange markets on four separate occasions, purchasing dollars and selling yen.

Monetary policy tightening and indications of strong domestic demand in Canada, Australia, and New Zealand appeared to support their respective currencies, which appreciated 1¾, 4¾, and 8½ percent against the U.S. dollar, respectively. In Canada, stronger-than-expected first quarter GDP and employment data showed a faster pace of economic recovery, prompting the Bank of Canada to raise its target for the overnight rate 25 basis points on June 4 and to signal the potential for further monetary tightening. The Reserve Bank of Australia and the Reserve Bank of New Zealand tightened 50 and 25 basis points, respectively, over the intermeeting period. In contrast, the Swiss National Bank lowered its target range for 3-month Swiss franc LIBOR 50 basis points to between 0.75 and 1.75 percent to counter strength in its currency. The Swiss franc appreciated 3 percent against the dollar.

Financial Indicators in Major Industrial Countries

Country	Three-month rate: Jun. 19 (Percent)	Three-month rate: Percentage Point Change	Ten-year yield: Jun. 19 (Percent)	Ten-year yield: Percentage Point Change	Equities: Percent Change
Canada	2.85	.32	5.35	-.19	-3.69
Japan	.02	-.02	1.38	.01	-6.84
Euro area	3.47	.05	4.96	-.16	-9.88
United Kingdom	4.09	.06	4.99	-.22	-10.61
Switzerland	1.19	-.02	3.36	-.12	-8.58
Australia	5.10	.38	5.93	-.17	-1.91
United States	1.80	-.01	4.79	-.31	-2.03
Memo: Weighted-average foreign	2.33	.12	4.58	-.13	n.a.

NOTE. Change is from May 6 to June 19 (10 a.m. EDT).
n.a. Not available.

Foreign equity indices declined substantially during the intermeeting period, as concerns about profits and corporate governance weighed on world share prices. Euro-area equities fell nearly 10 percent, underperforming U.S. shares over the intermeeting period. Declines in Asian stock indexes also outpaced declines in U.S. stock indexes, with shares in Singapore and Hong Kong falling 8 and 9 percent, respectively. Japanese equities fell 6¾ percent. Sovereign bond yields of foreign industrialized countries declined, but to a lesser extent than U.S. Treasury yields. Against the backdrop of broad dollar weakness and heightened global political tensions, the dollar price of gold rose to its highest level in about 2½ years before moderating somewhat toward the end of the period.

Financial Indicators in Latin America, Asia, and Russia

	Currency/ US dollar		Short-term Interest rates[1]		Dollar-denominated bond spread[2]		Equity prices
Economy	Jun. 19	Percent Change	Jun.18/19 (Percent)	Percentage Point Change	Jun.18/19 (Percent)	Percentage Point Change	Percent Change
Mexico	9.70	3.11	6.94	.46	2.91	.23	-10.53
Brazil	2.71	11.37	18.65	.35	13.07	3.98	-5.44
Argentina	3.51	12.14	80.00	n.a.	59.95	10.13	-29.22
Chile	672.50	2.39	4.16	-.50	2.66	.36	-2.04
China	8.28	.00	n.a.	n.a.	1.71	.12	-9.60
Korea	1225.30	-4.36	4.60	.45	.94	.01	-6.11
Taiwan	34.02	-1.59	2.44	-.02	...	...	-4.31
Singapore	1.79	-.84	.81	.06	...	...	-8.07
Hong Kong	7.80	.01	1.71	-.11	...	...	-9.06
Malaysia	3.80	.01	2.86	-.02	1.93	-.07	-6.44
Thailand	42.10	-2.07	2.13	.00	–	–	8.67
Indonesia	8620.00	-7.09	15.79	-1.03	4.04	.61	-.98
Philippines	50.13	.87	4.00	-1.69	4.10	.26	-10.11
Russia	31.45	.68	n.a.	n.a.	4.94	-.10	-4.85

NOTE. Change is from May 6 to June 18/19.
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.

The dollar's value against the currencies of our other important trading partners rose about ¾ percent, largely reflecting the depreciation of the Mexican peso and the Brazilian *real*. In Mexico, the peso declined 3 percent against the dollar, and share prices fell 10½ percent. Scaled-back market expectations for U.S. growth contributed to the peso's decline. In Brazil, ongoing concerns about the upcoming presidential election, given the strong lead of the Workers' Party candidate, placed further downward pressure on the *real* and prompted an increase of about 400 basis points in the spread of sovereign bond yields over comparable Treasuries. The Argentine peso depreciated more than 10 percent against the dollar, as progress on measures to stabilize the Argentine economy remain stalled.

In contrast, in emerging Asian economies, the currencies of Indonesia, South Korea, and Taiwan appreciated 7, 4½, and 1½ percent, respectively, against the dollar, amid signs that recovery is continuing. On May 7, the Bank of Korea raised its target overnight rate 25 basis points to 4.25 percent. The rise in the yen also helped to support regional Asian currencies relative to the dollar.

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

Developments in Foreign Industrial Countries

Estimates of first-quarter real GDP for major foreign industrial countries indicate that activity has picked up, but the pace and sources of growth varied across countries. Domestic demand contributed significantly to growth in Canada and the United Kingdom, while net exports provided a major boost to growth in the euro area and Japan. Data for the second quarter suggest that the foreign industrial economies are continuing to recover, with the United Kingdom bouncing up to a growth rate above potential, Canada slowing somewhat from the rapid growth seen in the first quarter, the euro area showing a modest increase in growth, and Japan firming slightly.

Higher food and energy prices boosted rates of twelve-month headline consumer price inflation in Europe and Canada earlier this year. Data for May, however, indicate that these rates of inflation came down. Consumer price inflation fell to 1 percent in Canada, and in the euro-area, inflation fell to the European Central Bank's (ECB's) 2 percent target ceiling. Core rates of inflation, however, continued to rise in Canada and the euro area. In Japan, deflation continued, at about a 1 percent rate.

Robust recovery and concerns about emerging price pressures led several foreign central banks, notably those of Australia, New Zealand and Canada, to raise official interest rates since the last FOMC meeting.

In **Japan**, real GDP rose 5.7 percent (s.a.a.r.) during the first quarter, marking the first quarter of positive growth in a year. Growth was likely exaggerated, however, by statistical quirks that overstated the strength of private consumption and will most likely be revised down. Private consumption was reported to have risen 6.6 percent, a much stronger increase than suggested by other indicators of consumption. External demand added 2.7 percentage points to growth, with exports surging about 28 percent after five consecutive quarterly declines and with imports roughly flat. Residential investment declined about 9 percent. Business fixed investment fell steeply for the second consecutive quarter, plunging 12 percent. Public investment expanded roughly 17 percent, as spending from last fiscal year's second supplementary budget kicked in, contributing about 1 percentage point to growth. Inventories made a slight negative contribution to growth.

Indicators suggest that a mild cyclical recovery continues in the second quarter. Industrial production edged up 0.2 percent in April, the third consecutive monthly gain. Household expenditures were flat in April compared with their average first-quarter level, while new passenger car registrations expanded briskly in April and May. Core machinery orders rose 8.4 percent in April and were up about 6 percent from their average first-quarter level. Residential and nonresidential building starts rose in April, although they were still down from their average first-quarter pace. The trade surplus narrowed in April, with rising imports outpacing a small gain in exports.

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

Component	2000[1]	2001[1]	2001 Q2	2001 Q3	2001 Q4	2002 Q1
GDP	2.3	-2.0	-4.9	-2.2	-4.9	5.7
Total domestic demand	2.2	-1.5	-3.7	-2.5	-4.6	3.1
Consumption	.3	.9	-4.3	-6.7	7.9	6.6
Private investment	11.0	-10.5	3.8	6.3	-34.5	-11.6
Public investment	-11.3	-2.3	-36.3	11.8	-9.2	17.2
Government consumption	4.1	2.8	6.4	-1.1	1.5	4.7
Inventories[2]	.1	-.1	-.0	-.5	.1	-.2
Exports	9.7	-11.7	-18.4	-11.3	-9.8	28.3
Imports	10.7	-9.0	-10.0	-15.9	-7.9	-.0
Net exports[2]	.1	-.5	-1.2	.2	-.4	2.7

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

Labor market conditions generally remain unfavorable, although recent data show some improvement. The unemployment rate remained at 5.2 percent in April, down from a record-high 5.5 percent in December. The job-offers-to-applicants ratio, considered a key leading indicator of employment conditions, edged up in April to 0.52, still well below its recent peak of 0.66 in December 2000. Core consumer goods prices in the Tokyo area (which exclude fresh food but include energy) were down 1.1 percent from a year earlier in May. Wholesale prices for domestic goods were roughly flat on a month-to-month basis between February and May, but continued to be down on a twelve-month basis. The GDP deflator in the first quarter was roughly 0.9 percent (n.s.a.) below its year-earlier level.

In late May, Moody's downgraded Japan's domestic sovereign bond rating two notches to A2, citing government indebtedness approaching "levels unprecedented in the postwar era in the developed world." The gross debt-to-

GDP ratio is expected to reach 140 percent this year. The rating had been under review for possible downgrade since February. Moody's also raised the rating outlook for Japan to Stable, noting that the A2 rating incorporates an expectation of further fiscal deterioration over the next few years.

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

Indicator	2001		2002				
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Industrial production[1]	-4.4	-3.4	.6	1.2	.8	.2	n.a.
All-industry index	-1.8	-.9	.6	.4	1.2	n.a.	n.a.
Housing starts	4.4	-2.5	.8	-4.9	-6.1	2.5	n.a.
Machinery orders[2]	-6.4	-7.5	-7.4	6.3	-6.2	8.4	n.a.
Machinery shipments	-5.9	-4.7	3.6	1.9	2.0	-.1	n.a.
New car registrations	1.6	-5.5	1.9	-2.4	-5.3	10.8	4.9
Unemployment rate[3]	5.1	5.4	5.3	5.3	5.2	5.2	n.a.
Job offers ratio[4]	.58	.52	.51	.50	.51	.52	n.a.
Business sentiment[5]	-36	-40	-41	...	...	...	...
CPI (Core, Tokyo area)[6]	-1.2	-1.0	-.9	-.9	-.7	-1.1	-1.1
Wholesale prices[6]	-1.1	-1.4	-1.4	-1.4	-1.3	-1.2	-1.2

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 June 17, the ruling coalition agreed on a package of tax cuts, including tax incentives to promote spending on R&D and lower taxes on inheritances and gifts to encourage parents to transfer property to their children. The cuts are due to take effect in January 2003. Other tax reform measures, such as lowering the corporate tax rate and broadening the tax base, are reportedly under consideration. The government has said that tax changes should be "revenue neutral" or offset by reductions in government spending.

Euro-area real GDP data confirm that a modest recovery in exports helped the economy grow 0.9 percent (s.a.a.r.) in the first quarter, but domestic demand continued to decline. Consumption spending fell 0.7 percent, the second consecutive quarterly fall, and investment spending fell 2.6 percent, the fifth consecutive decline. A further draw-down in inventories also subtracted from growth. Among the three largest euro-area countries, French growth was the strongest at 1.4 percent, and only France registered an increase in final domestic demand.

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

Component	2000[2]	2001[2]	2001 Q2	2001 Q3	2001 Q4	2002 Q1
GDP	2.9	.3	.1	.4	-1.2	.9
Total domestic demand	2.4	1.6	.9	-1.0	-1.1	-2.0
Consumption	1.8	1.5	1.7	.5	-.3	-.7
Investment	3.5	-2.2	-2.8	-2.5	-1.9	-2.6
Government consumption	1.8	1.9	1.8	.7	2.0	1.0
Inventories[3]	.2	-1.1	.2	-.8	-.9	-1.2
Exports	11.6	-2.8	-3.0	-1.9	-5.2	3.7
Imports	10.6	-4.8	-1.0	-5.7	-5.3	-4.2
Net exports[3]	.5	.7	-.8	1.4	-.1	2.9
Memo:						
France	3.8	.3	-.3	1.9	-1.8	1.4
Germany	2.5	.0	.2	-.7	-1.0	.7
Italy	2.6	.6	.4	.1	-.9	.8

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

Incoming data suggest that while growth is likely picking up a bit in the second quarter, the recovery remains somewhat tentative and mixed across countries. Euro-area industrial production declined 0.5 percent in April; gains in France and Germany were offset by a sizable fall in Italy that in part reflected the one-day general strike. The euro-area purchasing managers' index (PMI) for manufacturing moved up again in May to reach its highest level in over a year. However, the services PMI edged down in May after showing little improvement in April, suggesting that although activity continued to expand in the sector, it likely stopped accelerating. After improving notably in the first quarter, euro-area business sentiment also was little changed in April and May. Survey indicators including PMIs and business sentiment have improved less for Germany than for Italy and especially France. However, German industrial orders surged in April to a level 1.8 percent above the average level in the first quarter. Domestic orders were especially strong and reversed much of their decline over the three previous months. Euro-area consumer sentiment has picked up less than business sentiment; consumer sentiment in Italy has moved lower in recent months and German consumer sentiment has been about flat.

Labor market data for the euro area as a whole show limited deterioration, as the harmonized unemployment rate has edged up from a low of 8.0 percent last fall to 8.3 percent in April, still well below the average rates of over 10 percent in the late 1990s. The twelve-month rate of euro-area consumer price inflation moved down to 2 percent in May, meeting the ECB's 2 percent target ceiling for the first time in two years, but core inflation rose. Excluding food and energy prices, the twelve-month inflation rate was 2.6 percent in May. Producer prices remain below year-earlier levels.

In the second round of French parliamentary elections on June 16, the center-right coalition headed by interim Prime Minister Jean-Francois Raffarin won an absolute majority capturing 354 of the 577 seats in the National Assembly. Raffarin was appointed Prime Minister after Lionel Jospin resigned from politics following a poor showing by the left in the first round of the French presidential election last month.

In its staff economic projections released on June 13, the ECB indicated that euro-area real GDP growth is expected to pick up over the course of this year, and next year annual growth is expected to be between 2.1 and 3.1 percent. Domestic demand growth is also projected to gradually strengthen over the year. Compared with the ECB's last published projections from December, the outlook for GDP growth this year and next is little changed, but the ECB now projects a somewhat weaker contribution from domestic demand. The ECB's projections for inflation are about ¾ percentage point higher for 2002 and about ½ percentage point higher for 2003 than in December. Based on an assumption that bilateral euro exchange rates remain at their mid-May levels, annual consumer price inflation is now projected to be a bit above 2 percent this year, in large part reflecting the rise in oil prices earlier this year. In 2003, annual inflation is expected to be between 1.3 and 2.5 percent.

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

Indicator	2001		2002				
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Industrial production[1]	-.4	-1.8	.5	.0	.6	-.5	n.a.
Retail sales volume	.4	.2	.5	.7	.2	n.a.	n.a.
Unemployment rate[2]	8.0	8.1	8.2	8.2	8.2	8.3	n.a.
Consumer confidence[3]	-7.7	-10.7	-9.7	-9.0	-9.0	-10.0	-8.0
Industrial confidence[4]	-10.0	-17.0	-13.0	-14.0	-11.0	-11.0	-9.0
Mfg. orders, Germany	-2.4	-1.0	.8	-1.3	.0	2.2	n.a.
CPI[5]	2.4	2.1	2.6	2.5	2.5	2.4	2.0
Producer prices[5]	1.6	-.8	-.9	-1.1	-.8	-.8	n.a.
M3[5]	6.8	8.2	7.3	7.4	7.3	7.5	n.a.

1. Excludes construction.
2. Percent. 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, Percent change from year earlier.
n.a. Not available.

In the first quarter of 2002, real GDP in the **United Kingdom** remained essentially unchanged for the second consecutive quarter, although recent upward revisions to industrial production and trade data suggest that real GDP growth could be revised up to near 0.5 percent (s.a.a.r.). In the current estimate, service sector growth slowed, particularly in finance and business services, which contracted 0.2 percent, the first fall in ten years. The manufacturing sector continued to be very weak, with a decline of 6 percent. Total domestic demand grew 3.5 percent with slowing but firm consumption growth, strong government consumption, and a significant positive contribution from inventories more than offsetting a steep decline in investment. Net exports subtracted 3.6 percentage points from growth, with a surge in imports and continued decline in exports.

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

Component	2000[1]	2001[1]	2001 Q2	2001 Q3	2001 Q4	2002 Q1
GDP	2.6	1.6	2.0	1.7	-.0	.1
Total domestic demand	3.2	2.1	3.1	.9	2.0	3.5
Consumption	3.7	4.0	4.1	4.2	3.7	2.9
Investment	6.9	-4.0	1.8	-4.9	2.9	-5.1
Government consumption	2.7	3.0	-.5	-3.4	5.9	4.9
Inventories[2]	-.9	-.3	.3	-.3	-2.0	1.8
Exports	10.4	-4.9	-10.6	-9.3	-4.6	-2.5
Imports	11.0	-2.6	-5.8	-9.3	.9	7.1
Net exports[2]	-.7	-.6	-1.5	.6	-1.9	-3.6

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

Indicators for the second quarter suggest a pick-up in growth, although we note that indicators for the first quarter had suggested stronger growth than reported in the GDP release. Industrial production climbed 1.1 percent and manufacturing rose 0.8 percent in April, following months of sustained decline. The manufacturing sector's four-month-ahead output expectations fell somewhat in May, though they still remained well above fourth-quarter lows. The manufacturing PMI continued to indicate expansion, with the overall index, as well as the indexes for output and new orders, remaining above 50 in May. Both the total trade deficit and the trade deficit with the rest of the European Union narrowed in April.

Retail sales in April surged 1.7 percent, though May's retail sales survey suggested some slowing of growth for that month. The services PMI rose again in May, showing continued expansion. Consumer confidence ticked down only slightly in May, remaining around its pre-September level. Housing prices accelerated in May, bringing the twelve-month growth rate to around 18 percent, and household borrowing rose to record levels in May.

Notwithstanding the recent slow GDP growth, labor market conditions remain tight. The official claims-based unemployment rate fell to 3.1 percent in May, and the labor force survey measure of the unemployment rate edged up to 5.2

percent for the three months centered in March. Both unemployment rates are near record lows.

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

Indicator	2001		2002				
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Industrial production	-1.1	-2.2	-1.3	-.1	-.1	1.1	n.a.
Retail sales volume	1.6	1.3	1.0	1.2	.1	1.7	n.a.
Unemployment rate[1]							
Claims-based	3.2	3.2	3.1	3.1	3.1	3.2	3.1
Labor force survey[2]	5.1	5.1	5.1	5.1	5.2	n.a.	n.a.
Business confidence[3]	-6.0	-24.0	-3.3	1.0	2.0	14.0	4.0
Retail prices[4]	2.4	2.0	2.4	2.2	2.3	2.3	1.8
Producer input prices[5]	-2.7	-8.2	-5.6	-7.4	-3.3	-4.3	-6.2
Average earnings[5]	4.4	3.3	2.9	2.5	3.4	4.0	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.

The twelve-month rate of retail price inflation (excluding mortgage interest payments) dropped in May to 1.8 percent, the lowest inflation rate since the series began in 1975. Moderation in inflation partly reflected the oil price increases that led to a sharp rise in consumer prices in April and May of last year. The twelve-month growth rate of average earnings rose to 4 percent in April.

In **Canada**, real GDP increased 6 percent (s.a.a.r.) in the first quarter, following an upward revision of the fourth quarter to 2.9 percent. A decrease in the rate of inventory reduction provided a strong contribution to growth, and final domestic demand also increased briskly. Consumption growth was most prevalent in interest-sensitive sectors such as automobiles and home furnishings. Residential construction was at an all-time high in the first quarter. Non-residential investment continued to decrease, largely reflecting a decline in business construction. Business investment in machinery and equipment posted a small gain following the fourth quarter's 10 percent drop. Both imports and exports grew, after posting declines over the past year.

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

Component	2000[1]	2001[1]	2001 Q2	2001 Q3	2001 Q4	2002 Q1
GDP	3.5	.8	.3	-.5	2.9	6.0
Total domestic demand	2.6	-.3	2.8	-.7	-3.8	6.2
Consumption	3.4	2.2	1.6	-.3	4.1	2.5
Investment	3.6	-1.6	-.0	8.7	-13.9	8.8
Government consumption	3.4	2.1	5.7	1.9	.9	2.0
Inventories[2]	-.8	-1.6	.6	-2.4	-3.4	2.3
Exports	4.7	-6.1	-6.6	-7.0	-.6	5.9
Imports	2.2	-9.2	-1.0	-7.0	-16.9	5.2
Net exports[2]	1.2	.9	-2.5	-.3	6.6	.6

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

The overall capacity utilization rate increased in the first quarter for the first time in six quarters. The increase was led by a rebound in the manufacturing sector, with particularly strong contributions coming from the motor vehicle and automotive parts industries. Corporate profits grew 67.6 percent (s.a.a.r.) in the first quarter, reversing part of their steep drop over the previous three quarters. May's all-industry PMI ticked up to 56.6 (n.s.a.), up from 55.9 in April.

Indicators suggest that Canada's interest-sensitive spending continued into the second quarter. Housing starts fell in April, but then defied predictions of further decline in May by returning to near January's twelve-year-high level. Motor vehicle sales in April remained near December's record level, and preliminary readings suggest that strong sales continued through May.

The unemployment rate rose in May to 7.7 percent. An increase in employment was masked by strong labor force growth. Employment has expanded 1½ percent since the start of the year, the largest five-month gain since 1994.

The twelve-month rate of consumer price inflation in May fell to 1 percent from 1.7 percent in April. The dramatic drop in the inflation rate largely reflected a sharp energy-led increase in the level of the CPI index a year earlier. Twelve-month core inflation, excluding food and energy prices, increased to 2.4 percent from 2.3 percent in April.

The Bank of Canada increased its target for the overnight rate, its key policy rate, 25 basis points on June 4, following a similar 25 basis point increase on April 16. The Bank cited stronger-than-expected Canadian growth in motivating both rate hikes.

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

Indicator	2001		2002				
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
GDP at basic prices	-.3	.4	1.3	.5	.1	n.a.	n.a.
Industrial production	-2.1	-1.5	2.3	1.6	-.1	n.a.	n.a.
New mfg. orders	-3.6	-4.8	4.8	3.5	-.8	4.5	n.a.
Retail sales	-.7	2.6	2.6	-.1	-.2	n.a.	n.a.
Employment	-.1	.1	.7	.0	.6	.2	.2
Unemployment rate[1]	7.2	7.7	7.8	7.9	7.7	7.6	7.7
Consumer prices[2]	2.7	1.1	1.5	1.5	1.8	1.7	1.0
Consumer attitudes[3]	107.9	114.1	125.9	...	...	...	...
Business confidence[3]	93.0	117.6	141.5	...	...	...	...

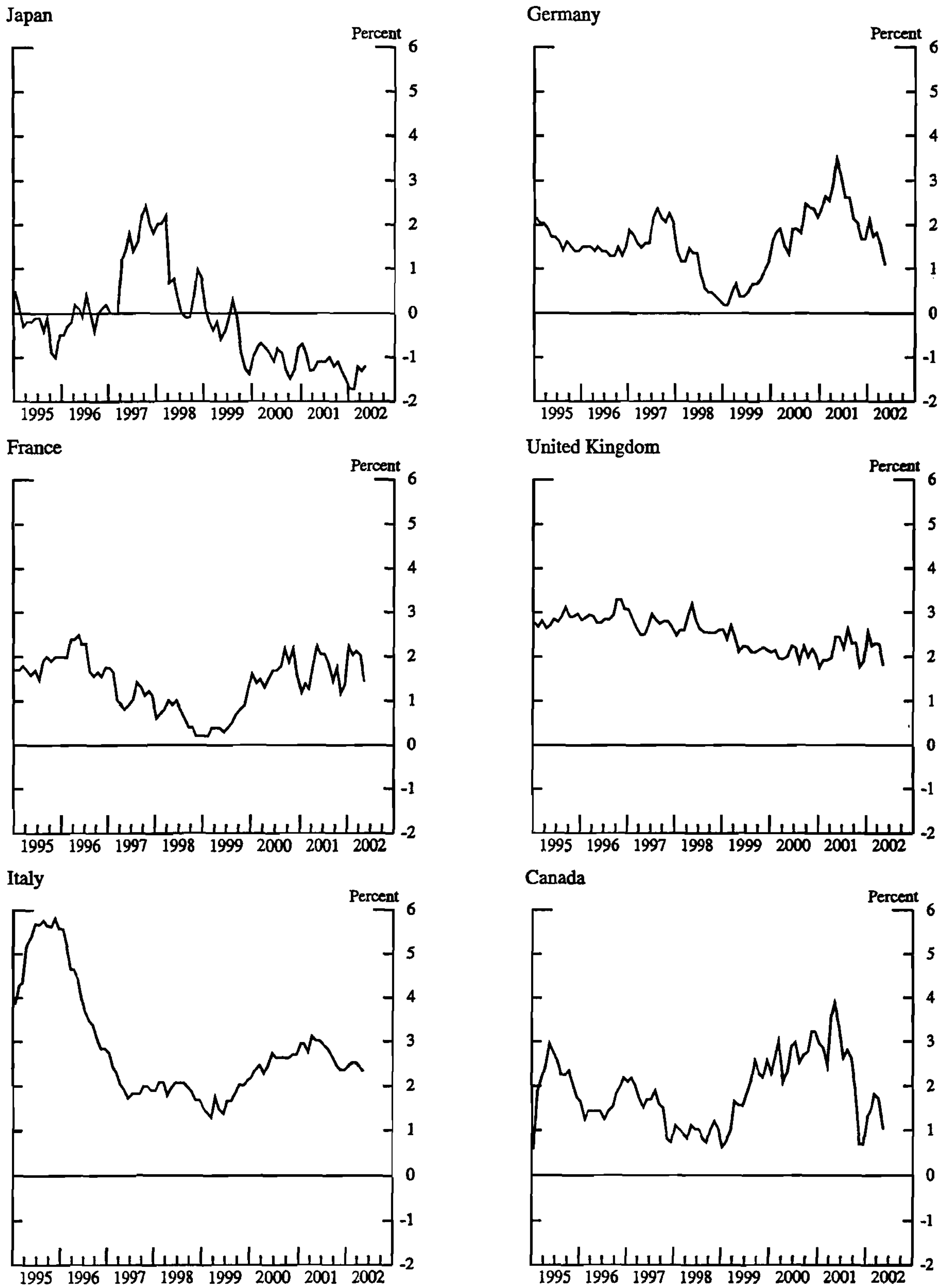
1. Percent.
2. Percent change from year earlier, n.s.a.
3. Level of index, 1991 = 100.
n.a. Not available. ... Not applicable.

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

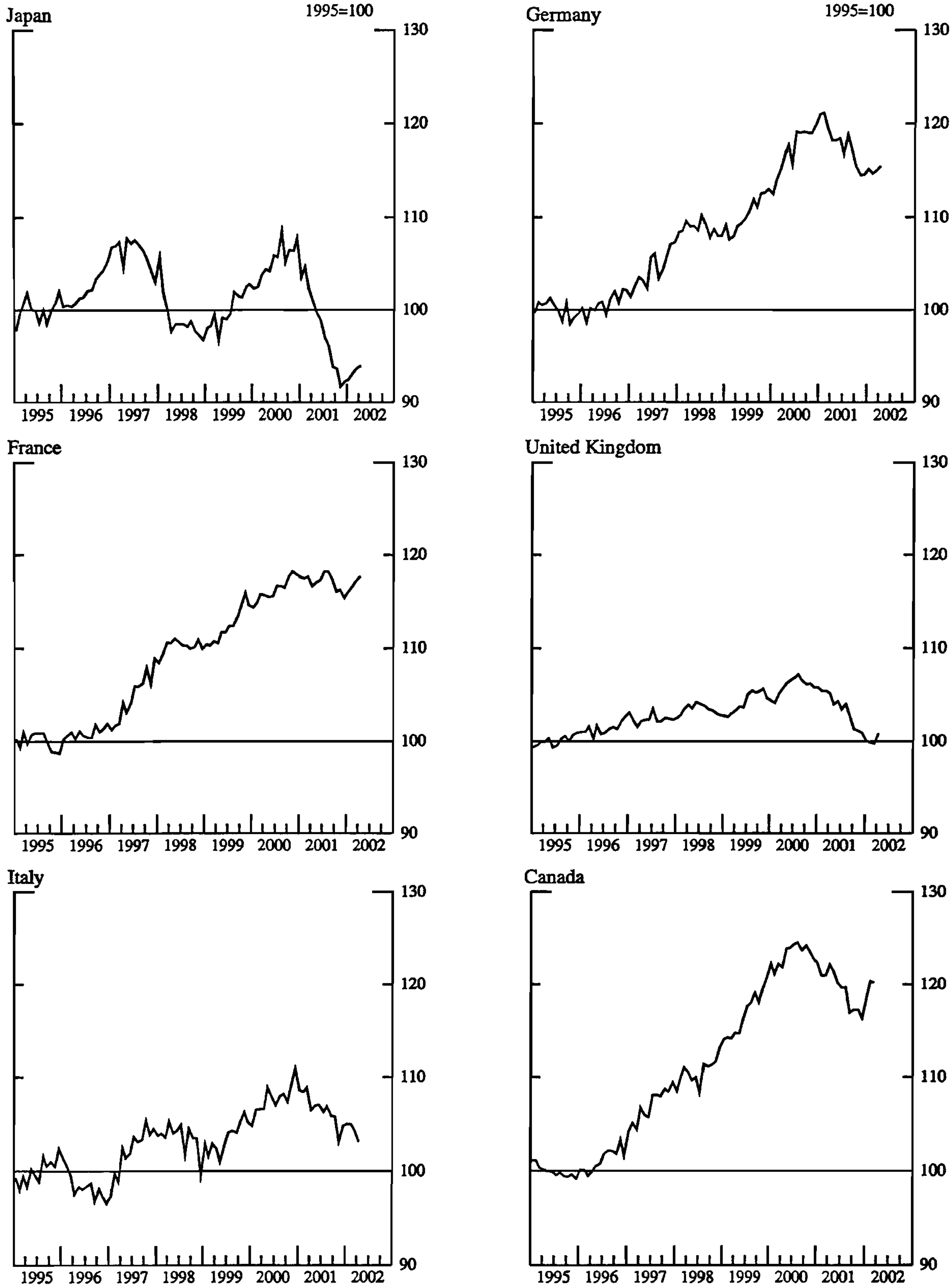
Country and balance	2001		2002				
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Japan							
Trade	54.7	45.9	72.4	59.8	60.6	96.8	71.2
Current account	89.7	98.5	118.1	113.0	101.2	141.7	106.3
Euro area							
Trade[1]	65.1	89.4	56.8	17.3	57.6	95.5	n.a.
Current account[1]	26.8	53.6	15.1	-15.5	21.9	38.9	n.a.
Germany							
Trade	94.9	91.3	113.0	121.9	99.3	117.8	n.a.
Current account	3.7	25.5	36.9	5.4	31.4	73.8	35.8
France							
Trade	1.4	1.3	.9	1.8	.4	.5	3.1
Current account	4.3	4.1	3.2	5.6	2.2	1.9	.3
Italy							
Trade	2.1	14.5	4.1	3.1	5.8	3.4	n.a.
Current account[1]	5.9	7.5	-7.6	-26.6	-.4	4.2	n.a.
United Kingdom							
Trade	-46.6	-48.5	-45.2	-45.0	-43.2	-47.2	-42.1
Current Account	-13.7	-43.7	n.a.	...	...	...	...
Canada							
Trade	31.1	32.0	35.1	36.1	35.9	33.2	n.a.
Current Account	11.4	11.2	14.8	...	...	...	...

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 has continued in emerging Asia, with all countries recording positive growth in the first quarter, and indicators for the second quarter signaling further expansion. In Latin America, Mexico's recession has shown further signs of bottoming out. In Brazil, while recent data releases have been mixed, the country's financial markets have experienced intense downward pressures in recent weeks. Argentina and Venezuela are still experiencing severe economic difficulties. Inflation has remained under control in most countries, with the most notable exception being Argentina.

Argentina continued to experience financial and economic turmoil over the intermeeting period. Deposits continued to decline, albeit at a much slower rate than in April. In early June, the government unveiled a plan to convert bank deposits into long-term peso- and dollar-denominated bonds on a voluntary basis. The plan would also allow deposits to be used to purchase newly-issued stocks and bonds, new cars, and real estate. However, critics of the plan, such as the central bank (BCRA), believe that the plan will fail to stem the outflow of deposits and could lead to more bank failures and to higher inflation.

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

Indicator	2000	2001	2001	2002			
			Q4	Q1	Mar.	Apr.	May
Real GDP[1]	-1.9	-9.9	-18.5	n.a.	...	...	...
Industrial production	-1.8	-5.3	-5.8	-4.1	-.8	-1.4	n.a.
Unemployment rate[2]	15.1	17.4	18.3	...	...	...	n.a.
Consumer prices[3]	-.7	-1.5	-1.6	4.2	7.9	18.3	23.0
Trade balance[4]	2.6	7.5	11.2	16.6	17.3	16.3	n.a.
Current account[5]	-8.9	-4.4	1.5	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.

Prospects for an IMF program in the near future remain uncertain. Although the Argentine Congress recently altered the bankruptcy law and the "Economic Subversion Law"–both pre-conditions for negotiations to advance–it is unclear whether these actions have fully satisfied Fund expectations. The federal government has also made some limited progress in restricting spending at the provincial level, which is another precondition for a Fund program. While relations between the IMF and the Argentine government remain strained, an advance team from the IMF arrived in Argentina in mid-June to begin the process of negotiations.

In response to the sustained depreciation of the peso, the BCRA tightened capital controls in early June by further limiting sales of dollars by banks and requiring exporters to sell their foreign exchange directly to the BCRA. The BCRA's international reserves stood at about $10 billion as of mid-June, down from $12 billion at the end of April. Twelve-month CPI inflation rose from 18 percent in April to 23 percent in May, driven by the sharp depreciation of the peso since January. The federal government's fiscal balance registered an improvement in May reflecting, in large part, temporary factors boosting tax revenues. The trade balance continued to improve, as imports slumped.

In **Mexico**, recent indicators suggest that an economic recovery is underway. Even though the decline in first-quarter real GDP of 1 percent (s.a.a.r.) marked the sixth consecutive quarter of decline, this weakness is partly attributable to difficulties in seasonally adjusting the data for this year's early Easter. Recent monthly indicators are consistent with a bounce back in activity: after falling in March, industrial production rebounded sharply in April. Furthermore, exports rose about 4 percent (s.a.) in April, and automobile production was up nearly 19 percent from a year earlier, after several months of decline. Consistent with a recovery in demand, imports have also increased in April. In May, the inflation rate remained only a little above the Bank of Mexico's year-end twelve-month target of 4½ percent. However, there are some concerns about inflation expectations, arising from pass-through effects due to the recent depreciation of the Mexican currency; since mid-April, when the Bank of Mexico eased policy a bit, the peso has depreciated by more than 6 percent, on net, against the dollar.

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

Indicator	2000	2001	2001	2002			
			Q4	Q1	Mar.	Apr.	May
Real GDP[1]	4.9	-1.5	-2.4	-1.0	...	...	...
Overall economic activity	6.5	-.1	-.4	.2	-.3	n.a.	n.a.
Industrial production	6.0	-3.4	-1.0	.7	-.8	3.3	n.a.
Unemployment rate[2]	2.2	2.5	2.8	2.7	2.7	2.7	n.a.
Consumer prices[3]	9.0	4.4	5.2	4.7	4.7	4.7	4.7
Trade balance[4]	-8.0	-10.0	-11.3	-9.0	-8.1	-7.8	n.a.
Imports[4]	174.5	168.4	163.1	164.4	166.0	172.1	n.a.
Exports[4]	166.5	158.4	151.9	155.4	157.9	164.3	n.a.
Current account[5]	-18.1	-17.8	-24.1	-15.7	...	...	....

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**, real GDP jumped 5.4 percent (s.a.a.r.) in the first quarter. However, there were sizeable differences in growth across sectors. Agriculture and services output rose briskly, while industrial output declined nearly 6 percent. Indicators for the second quarter paint a mixed picture. Industrial production rebounded more than 4 percent in April, but was boosted by residual seasonal effects related to Easter falling in March. Other recent indicators, such as rising unemployment, have pointed to a weakening in domestic demand. Twelve-month inflation in May edged down to 7.8 percent. The trade surplus narrowed in May, due in part to a sharp drop in shipments to Argentina.

Sharp declines in Brazilian asset prices in recent weeks have put the country back into the spotlight. Since the end of April, the EMBI+ spread over U.S. Treasuries has risen from 850 basis points to 1325 basis points, and the *real* has depreciated 15 percent against the dollar. These financial pressures have been attributed to increased market anxieties about the outcome of October's presidential election and the prospective policies of the next president. These developments have reinforced concerns about the economy's underlying vulnerabilities, particularly the heavy public sector debt burden. In early June, investors' increasing reluctance to hold debt that matures after early 2003 induced the Brazilian government to shorten the maturity profile of its debt. On

June 12, Brazil's government announced that it will draw on a $10 billion IMF credit available to it under its existing program and increase its 2002 target for the primary fiscal surplus from 3.5 percent to 3.75 percent of GDP.

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

Indicator	2000	2001	2001	2002			
			Q4	Q1	Mar.	Apr	May
Real GDP[1]	3.9	-.6	.4	5.4	...	...	...
Industrial production	6.6	1.5	-.4	3.0	-.5	4.1	n.a.
Unemployment rate[2]	7.1	6.2	7.5	7.3	7.0	7.7	n.a.
Consumer prices[3]	6.0	7.7	7.5	7.6	7.7	8.0	7.8
Trade balance[4]	-.7	2.6	9.2	4.6	7.8	2.8	.6
Current account[5]	-24.6	-23.2	-23.0	-12.9	-12.0	-23.8	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 news from **Venezuela** since the last Greenbook has been worrisome, and political tensions have remained high. Output plunged over 15½ percent (s.a.a.r.) in the first quarter following a decline of almost 4 percent in the final quarter of last year. Since being floated in mid-February, the bolivar has depreciated almost one-third. To date, however, weak demand conditions have muted the depreciation's pass-through into consumer prices, which rose 18.3 percent over the twelve months ending in May. The net decline in oil prices since mid-2001 has caused Venezuela's current account to move from a comfortable surplus in the first half of last year to balance in the first quarter of this year. Weak tax receipts and lower oil revenues have generated a growing fiscal deficit and, despite some increases in tax rates, a budget deficit of 3-to-4 percent of GDP is projected for this year. Continued political instability and rumors of another coup are helping to keep spreads elevated, making deficit financing through bond issuance extremely costly.

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

Indicator	2000	2001	2001	2002			
			Q4	Q1	Mar.	Apr.	May
Real GDP[1]	5.7	.9	-3.9	-15.6	...	...	...
Unemployment rate[2]	13.4	13.3	11.8	n.a.	n.a.	n.a.	n.a.
Consumer prices[3]	13.4	12.3	12.4	14.6	17.6	18.7	18.3
Non-oil trade balance[4]	-10.3	-12.2	-12.2	-11.1	n.a.	n.a.	n.a.
Trade balance[4]	17.5	9.4	3.6	7.3	n.a.	n.a.	n.a.
Current account[5]	13.4	4.1	-2.5	.5	...	...	...

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.

Korean economic indicators over the intermeeting period have shown further strong performance. GDP jumped 7.6 percent at an annual rate in the first quarter, reflecting solid consumer and construction demand, as well as large increases in exports and in machinery and equipment investment. Government spending also rose briskly, likely related to preparations for the World Cup soccer championship. Industrial production was up 1.8 percent in April. A sharp pickup in exports in the first quarter boosted the trade surplus and led to a sizable current account surplus. In April, a pickup in imports resulted in a more moderate trade surplus and a flat current account. The unemployment rate so far in the second quarter was about even with the first-quarter average. Consumer price inflation ticked up to 3 percent in May, but remains well within the central bank's 2 to 4 percent target range. On May 7, the central bank raised its target interest rate 25 basis points to 4.25 percent.

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

Indicator	2000	2001	2001	2002			
			Q4	Q1	Mar.	Apr.	May
Real GDP[1]	5.1	4.4	6.4	7.6	...	...	...
Industrial production	16.9	1.7	2.2	1.5	3.8	1.8	n.a.
Unemployment rate[2]	4.1	3.7	3.4	3.0	2.9	3.1	3.1
Consumer prices[3]	2.8	3.2	3.3	2.5	2.3	2.5	3.0
Trade balance[4]	16.9	13.4	7.8	19.2	22.5	13.4	n.a.
Current account[5]	12.2	8.6	4.2	7.0	12.5	.4	n.a.

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 data for the **ASEAN** region confirm that the strong recovery, which began in the fourth quarter, has continued. Thailand led the pack in the first quarter with real GDP growth of almost 10 percent (s.a.a.r.), and robust growth was also reported in Singapore (7.6 percent), Indonesia (5.1 percent), and to a lesser extent in Malaysia (3.7 percent). The Philippines, after growing almost 4 percent last year, posted growth of just 0.8 percent in the first quarter, largely due to weakness in the agricultural sector. The April industrial production figures that have been reported for the region have all shown faster growth than in the first quarter, with production in Singapore rising 11 percent in April, primarily due to growth in high-tech production.

Most countries in the region have continued to report strong trade surpluses since the last Greenbook, although the most recent numbers suggest variation across countries. Trade surpluses in Indonesia and Singapore have increased on average in the second quarter, reflecting strong export growth, while a surge in imports to Malaysia and Thailand caused the trade balances of those countries to drop sharply. In recent months, inflation in the region has decreased, and deflationary pressures in Singapore appear to have intensified.

ASEAN Economic Indicators: Growth

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

Indicator and country	2000	2001	2001	2002			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP[1]							
Indonesia	7.3	1.2	3.4	5.1	...	...	...
Malaysia	6.4	-.8	6.2	3.7	...	...	...
Philippines	3.7	3.9	3.7	.8	...	...	...
Singapore	11.4	-6.4	5.6	7.6	...	...	...
Thailand	3.5	2.0	8.5	9.8	...	...	...
Industrial production[2]							
Indonesia[3]	11.6	.7	.3	.1	7.3	-7.2	1.4
Malaysia	19.1	-4.1	-.5	2.5	4.1	-5.5	4.5
Philippines	2.4	-6.5	1.9	4.6	-1.1	-1.3	n.a.
Singapore	15.3	-11.6	4.5	7.3	-5.6	2.2	11.0
Thailand	3.3	1.3	3.3	.6	.4	4.0	.9

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	2002			
			Q4	Q1	Mar.	Apr.	May
Indonesia	28.6	25.4	26.3	26.6	24.6	28.2	n.a.
Malaysia	16.1	14.3	13.0	15.7	14.6	7.7	n.a.
Philippines	6.7	2.6	5.9	5.1	1.0	-1.0	n.a.
Singapore	3.3	5.8	6.5	6.3	1.6	8.6	5.1
Thailand	5.5	2.5	2.7	2.9	4.9	-1.4	n.a.

n.a. Not available.

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

Country	2000[1]	2001[1]	2001	2002			
			Q4	Q1	Mar.	Apr.	May
Indonesia	9.3	12.5	12.6	14.5	14.1	13.3	12.9
Malaysia	1.3	1.2	1.2	1.4	2.1	1.9	1.9
Philippines	6.7	4.1	4.7	3.6	3.6	3.6	3.6
Singapore	2.1	-.6	-.2	-.8	-.9	-1.1	n.a.
Thailand	1.4	.8	1.1	.6	.6	.4	.1

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

In **China**, signs point to a continuation of strong growth. Industrial production rose more than 12 percent in April and May on a twelve-month basis, well above the 8 percent first-quarter pace. Foreign direct investment and investment by state-owned enterprises are both significantly above their levels at this time last year. On the consumer side, retail sales are up 8 percent over a year ago. The trade surplus was smaller in April and May than in the first quarter, as imports have picked up considerably while exports have held steady. The rate of deflation in April increased to more than 1 percent. Many domestic firms are cutting prices to match declines in import prices, which have moved down as a result of tariff cuts that China is making as part of WTO accession.

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

Indicator	2000	2001	2001	2002			
			Q4	Q1	Mar.	Apr.	May
Real GDP[1]	8.0	7.5	7.1	8.5	...	...	...
Industrial production[2]	11.4	8.9	8.5	8.2	10.9	12.1	12.9
Consumer prices[2]	1.5	-.3	-.1	-.6	-.8	-1.3	n.a.
Trade balance[3]	24.1	23.1	34.2	40.3	22.9	22.9	21.4

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.
... Not applicable.

Hong Kong's real GDP rose 1.2 percent (s.a.a.r.) in the first quarter, as a large positive contribution from net exports offset a steep decline in private investment. The unemployment rate moved above 7 percent in April; the difficult conditions in the labor market, while not confined to any particular sector of the economy, have been especially acute in the construction industry. Recent indicators suggest that the property market may be bottoming out. Property price declines appeared to moderate in the first quarter, and the number of transactions has stabilized. Consumer prices declined 3 percent for the year ending in April, as the appreciated real exchange rate and sluggish domestic economy have continued to drag down prices. The trade deficit narrowed somewhat in April.

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

Indicator	2000	2001	2001	2002			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP[1]	6.9	-1.7	-.4	1.2	...	...	...
Unemployment rate[2]	5.1	4.9	6.1	7.0	6.8	7.0	7.1
Consumer prices[3]	-2.1	-3.5	-2.1	-2.6	-2.3	-2.1	-3.0
Trade balance[4]	-11.0	-11.4	-7.6	-4.5	5.4	-3.4	-2.1

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.

Taiwan grew more than 7 percent at an annual rate in the first quarter. Net exports were the driving force behind the growth, but fixed investment also expanded for the first time in over a year. A further sign of continued recovery is a decline in the unemployment rate to 5 percent in April. Industrial production has continued to rise, and the growth has been particularly strong for Taiwan's high-tech industries. Both exports and imports have moved up on average in April and May, although the increase in imports has been more rapid and has resulted in the trade surplus shrinking from its first-quarter level. Consumer prices have been roughly flat this year after falling most of last year.

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

Indicator	2000	2001	2001	2002			
			Q4	Q1	Mar.	Apr.	May
Real GDP[1]	3.9	-1.8	10.3	7.5	...	...	...
Unemployment rate[2]	3.0	4.6	5.3	5.1	5.2	5.0	n.a.
Industrial production	7.4	-7.3	1.4	3.8	2.9	3.1	n.a.
Consumer prices[3]	1.7	-1.7	-.6	-.1	.0	.2	-.3
Trade balance[4]	8.3	15.6	21.0	22.9	14.0	15.5	16.4
Current account[5]	8.9	18.9	28.0	28.6	...	...	...

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.