Prefatory Note

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Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

[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

August 7, 2002

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

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

Confidential (FR) Class III FOMC

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Domestic Nonfinancial Developments

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Overview

The expansion in economic activity is continuing, but at a relatively subdued pace. In the second quarter, final sales were stagnant, and inventory investment provided a smaller lift to production than in the first quarter. The few shreds of evidence we have in hand suggest that domestic demand probably is moving up early this quarter. Despite recent declines in the stock market and consumer sentiment, motor vehicle sales were extraordinarily strong in July, and a contraction in household spending on other consumer items is not apparent thus far. New orders for nondefense capital goods, a leading indicator of business investment spending, fell in June, but they have crept up on balance since early this year. In broad terms, labor demand has been weak in recent months, and industrial activity appears to have leveled off in July. Core price inflation remains quiescent.

Real GDP

According to the advance estimate prepared by the Bureau of Economic Analysis (BEA), real GDP increased at an annual rate of 1.1 percent in the second quarter. Based on new data on inventory investment, construction expenditures, and shipments of capital goods, we now estimate that real GDP rose at an annual rate of 1.2 percent last quarter.

Labor Market Developments

The labor market has not improved appreciably in recent months. Although private nonfarm payrolls rose in June and July, aggregate hours of production or nonsupervisory workers recorded a steep drop in July. The unemployment rate was unchanged in July, after having edged up in June. The four-week moving average of initial claims has moved down a bit in recent weeks and now stands at a level consistent with modest employment growth.

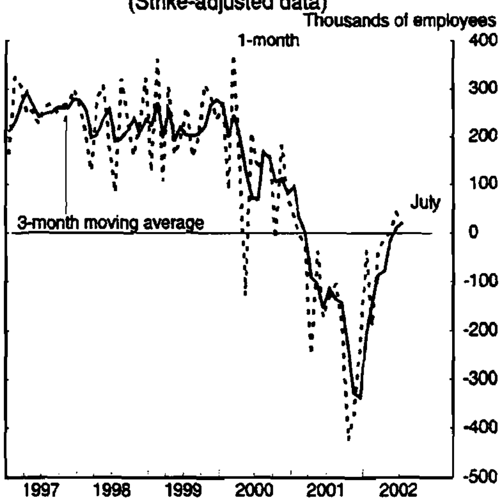
In the payroll survey, manufacturing employment declined 7,000 in July, its smallest loss in two years. However, the manufacturing workweek fell 0.4 hour in July, to 40.7 hours, reversing all of its gain since February. In addition, the help-supply industry, which provides many employees to manufacturers, shed nearly as many jobs in July as were added, on average, in each month of the second quarter. Another dark spot was the construction industry, which lost 30,000 jobs in July, more than reversing June's rise. Moreover, the transportation, communications, and utilities industries and the finance, insurance, and real estate industries have not yet seen a turnaround. On a more positive note, the service industry excluding help-supply services added

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

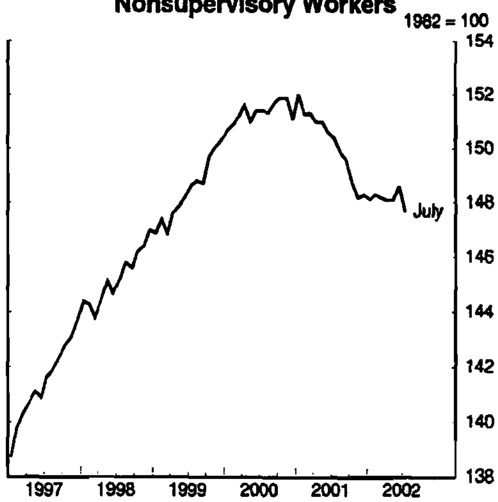
	2000	2001	2002 Q1	2002 Q2	2002 May	2002 June	2002 July
	--Average monthly change--						
Nonfarm payroll employment[1]	159	-119	-63	22	22	66	6
Previous	*159*	*-119*	*-63*	*13*	*24*	*36*	
Private	138	-158	-88	12	1	45	22
Mining	1	1	-2	-2	-6	-3	-3
Manufacturing	-11	-109	-80	-21	-29	-13	-7
Construction	8	-3	-14	-13	0	14	-30
Transportation and utilities	17	-23	-14	-8	-6	-2	-3
Retail trade	32	-15	5	-7	-18	-16	12
Wholesale trade	-7	-16	-7	0	3	0	1
Finance, insurance, real estate	5	10	-3	-2	-11	3	2
Services	92	-2	27	64	68	62	50
Help supply services	-0	-54	4	36	31	15	-35
Total government	22	39	25	10	21	21	-16
Total employment (household survey)	115	-153	-54	53	441	-364	-8
Nonagricultural	119	-154	-14	58	497	-378	-179
Memo:							
Aggregate hours of private production workers (percent change)[1,2]	1.1	-2.1	-0.5	0.2	0.0	0.3	-0.6
Average workweek (hours)[1]	34.4	34.2	34.2	34.2	34.2	34.3	34.0
Manufacturing (hours)	41.6	40.7	40.8	41.0	40.9	41.1	40.7

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

Private Payroll Employment Growth
(Strike-adjusted data)



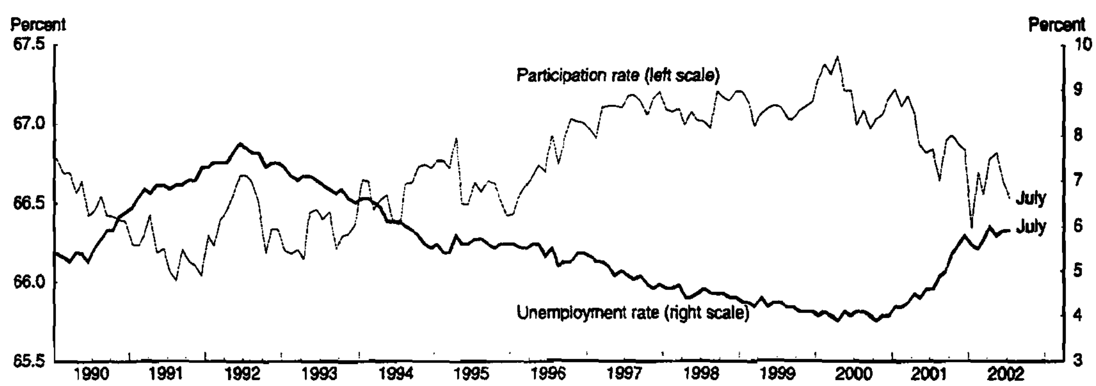
Aggregate Hours of Production or Nonsupervisory Workers



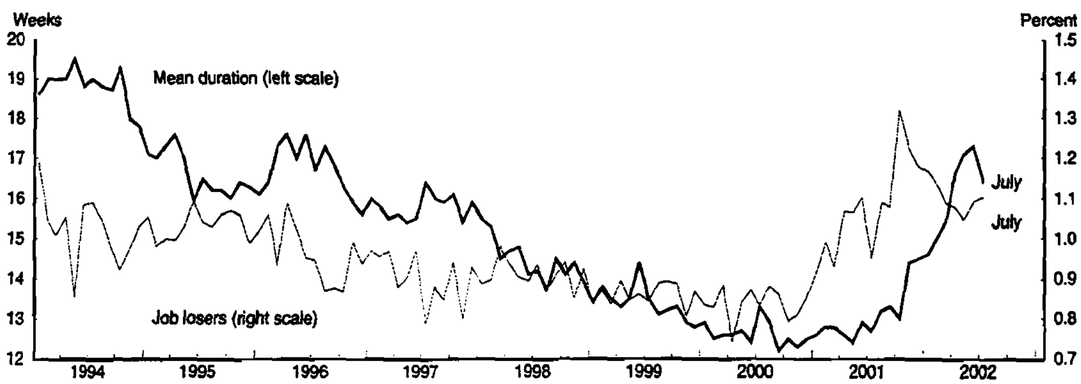
SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data, as published)

	2000	2001	2002 Q1	2002 Q2	2002 May	2002 June	2002 July
Civilian unemployment rate (16 years and older)	4.0	4.8	5.6	5.9	5.8	5.9	5.9
Teenagers	13.0	14.7	16.0	17.1	16.9	17.6	17.7
20-24 years old	7.1	8.3	9.8	9.4	8.9	9.3	9.5
Men, 25 years and older	2.8	3.6	4.5	4.9	4.8	4.9	4.7
Women, 25 years and older	3.2	3.7	4.4	4.8	4.8	4.6	4.6
Labor force participation rate	67.2	66.9	66.5	66.7	66.8	66.6	66.5
Teenagers	52.2	49.9	48.2	47.7	47.7	47.6	47.1
20-24 years old	77.9	77.2	76.3	76.7	77.5	76.5	76.4
Men, 25 years and older	76.0	75.9	75.6	75.9	76.1	75.9	75.7
Women, 25 years and older	59.7	59.7	59.6	59.6	59.6	59.4	59.4

Labor Force Participation Rate and Unemployment Rate



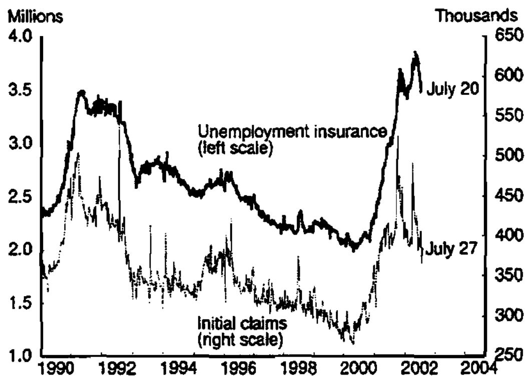
Job Losers Unemployed for Less Than 5 Weeks and Duration of Unemployment



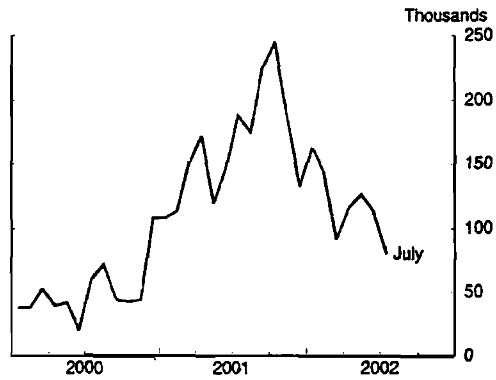
Note. Job losers unemployed for less than five weeks measured as a percentage of household employment.

Labor Market Indicators

Initial Claims for Unemployment Insurance

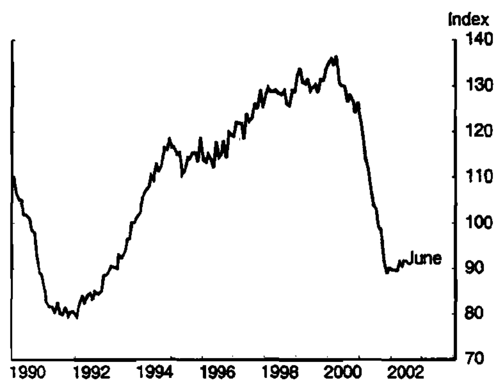


Layoff Announcements



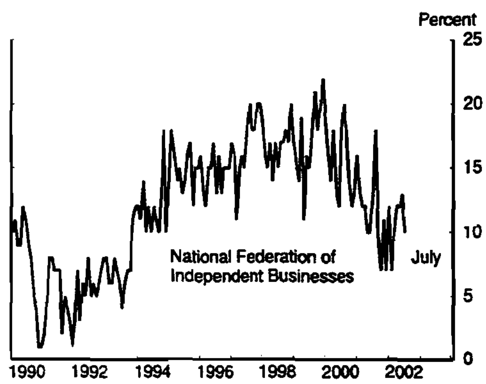
Source. Challenger, Gray and Christmas, Inc.
Note. Seasonally adjusted by FRB staff. Last value is FRB estimate of layoffs.

Help Wanted Index



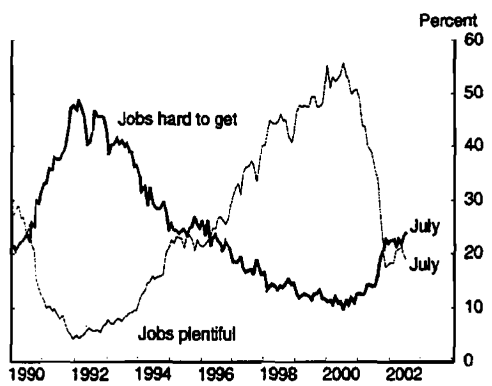
Source. Conference Board.

Net Hiring Strength



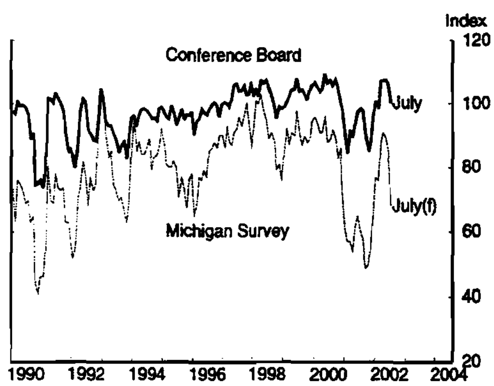
Note. Percent planning an increase in employment minus percent planning a reduction.

Current Employment Conditions



Source. Conference Board.

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.

85,000 jobs last month, triple the second-quarter average, and retail trade added 12,000 jobs after having shed workers in May and June.[1]

After rising slightly to 34.3 hours in June, average weekly hours of production or nonsupervisory workers dropped to 34.0 hours in July, the lowest level since last October. The decline in the workweek was widespread across industries. Although some of this dip may reflect temporary factors, such as abnormal seasonal patterns, most is probably attributable to continued sluggishness in the demand for labor.[2] The meager increase in private employment in combination with the large decline in the workweek led to a fall in aggregate weekly hours of 0.6 percent in July.

In the household survey, the unemployment rate edged up to 5.9 percent in June and stayed at that level in July. Other indicators from this survey also showed little, if any, signs of improvement. The mean duration of unemployment edged down in July but remains higher than in the first quarter. In addition, the labor force participation rate ticked down in July to a level below that of the fourth quarter of last year.

The unemployment insurance claims data have been somewhat volatile over the past month, a condition reflecting difficulties in seasonal adjustment during July, when the timing and number of temporary plant closings in the motor vehicle and textile industries can vary from year to year.[3] However, the four-week moving average of initial claims, which smooths through the seasonal volatility, has fallen about 10,000 over the month, to 386,000. Meanwhile, the four-week moving average of insured unemployment has declined nearly 170,000 during the past month and currently stands at 3.54 million. Although this drop partly reflects a slower inflow into insured unemployment, the number of recipients exhausting their regular benefits has been high as well in recent months, reflecting the expiration of the benefit period for individuals who were added to the UI rolls in the wake of the sizable layoffs of late 2001 and early 2002. Outside insured unemployment, the number of individuals receiving

1. Two potential labor disputes pose the risk of disruptions to economic activity in coming months. One is a possible strike by the International Longshore and Warehouse Union (ILWU). Its contract expired on July 1, and since then workers have been operating under successive 24-hour contract extensions. Although a strike is not deemed likely, the groups last met on July 25, at which time the ILWU said that it did not intend to return to the bargaining table until at least August 13. Another uncertainty is the fate of the Canadian Auto Workers' negotiations with the Big Three auto makers, which began in mid-July. A failure to agree on a contract could result in layoffs and production disruptions in the U.S. plants that depend on parts from Canada.

2. A fraction of the drop may be the result of a greater-than-normal incidence of extended July 4th holidays.

3. The Employment Training Administration's introduction of new seasonal factors has significantly reduced the volatility of the data, but the new factors do not completely eliminate the problem.

Temporary Extended Unemployment Compensation (TEUC) benefits decreased 200,000 in mid-July from the peak in early June as benefits began to expire for the first round of recipients.[4]

Other indicators are consistent with a relatively torpid labor market. The help-wanted index ticked up in June but remains near its recent low point. Although the number of layoffs announced by firms has declined on balance since the beginning of the year, consumer expectations for employment conditions deteriorated significantly in July, according to both the Michigan SRC and Conference Board surveys. In addition, the latter indicated that the fraction of households reporting that jobs were plentiful fell and the fraction reporting that jobs were hard to get rose in July for the second month in a row. Nonetheless, the proportion of individuals reporting that jobs are hard to get is still well below the level reached in the period following the 1990-91 recession (the so-called "jobless recovery"). Looking ahead, fewer respondents to the National Federation of Independent Businesses July survey expect to expand employment in the coming months than had in the June survey.

We now estimate that productivity in the nonfarm business sector increased at an annual rate of 1.3 percent in the second quarter of 2002, following unusually

Labor Output per Hour[1]
(Percent change from preceding period at compound annual rate;
based on seasonally adjusted data)

Sector	1999[2]	2000[2]	2001[2]	2001		2002	
				Q3	Q4	Q1	Q2
Nonfarm businesses							
All persons[3]	2.9	2.1	1.9	2.1	7.0	8.3	1.3
All employees	2.4	1.7	2.0	2.1	7.3	7.2	1.0

1. Staff estimates.
2. Changes are from the fourth quarter of the preceding year to the fourth quarter of the year shown.
3. Includes non-employees (published definition).

4. Indirectly, the level of insured unemployment continues to be elevated by the TEUC program. Individuals close to exhausting their regular benefits likely anticipate receiving additional benefits through TEUC; therefore, they may search less intensively for jobs and thus remain on state benefit rolls longer than they otherwise would have.

large increases in the previous two quarters.[5] Over the four quarters ended in the second quarter of 2002, productivity rose 4.7 percent, after having shown almost no growth over the previous four-quarter period. And, while the contour of the revised data now shows a more typical cyclical pattern, the strong rebound in productivity in 2001:Q4 and 2002:Q1 still leaves the level of output per hour well above our estimated level of structural productivity.

Industrial Production

Initial indicators suggest that industrial production was flat in July, slowing sharply from the 0.8 percent gain posted in June. Aggregate hours of production workers in manufacturing dropped steeply in July, more than offsetting June's outsized increase. However, the physical product data in hand show a rise in the production of motor vehicles and parts and a jump in the generation of electricity owing to warmer-than-average temperatures.

We estimate that total motor vehicle assemblies increased to an annual rate of about 12.7 million units in July, a bit higher than the 12.6 million unit pace in June. For the third quarter as a whole, automakers report that production is scheduled at 12.8 million units, a noticeable step-up from the 12.4 million average pace of the second quarter. Auto companies expect that strong sales

Production of Domestic Autos and Trucks

(Millions of units at an annual rate except as noted; FRB seasonal basis)

Item	2002			2002			
	Q1	Q2	Q3[1]	Apr.	May	June	July[1]
U.S. production	12.2	12.4	12.8	12.3	12.1	12.6	12.7
Autos	5.2	5.2	5.4	5.2	5.0	5.3	5.6
Trucks	7.0	7.2	7.5	7.1	7.0	7.4	6.9
Total days' supply[2]	57.5	62.7	n.a.	55.5	64.2	63.1	56.1
Inventories[3]	2.44	2.68	n.a.	2.50	2.61	2.68	2.67

Note. Components may not sum to totals because of rounding.

1. Production rates reflect Ward's Communications' latest estimates for Q3. July production value is a staff estimate based on weekly data.

2. Quarterly average calculated using end-of-period stocks and average reported sales.

3. End-of-period stocks; excludes medium and heavy (classes 3-8) trucks.

n.a. Not available.

5. These figures represent our best estimate of the productivity data to be reported in the Bureau of Labor Statistics' Productivity and Cost release due on August 9. At that time the BLS will release productivity estimates for 1996:Q1 to 2002:Q1 that reflect both the annual revisions to the NIPAs and the benchmark revisions to the Current Employment Statistics that were released on June 7.

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

Component	Proportion 2001	2001[1]	2002[2]		2002[3]		
			Q1	Q2	Apr.	May	June
Total	**100.0**	**-5.9**	**2.6**	**4.6**	**.2**	**.4**	**.8**
Previous	100.0	-5.9	2.8		.3	.2	
Manufacturing	86.7	-6.1	3.0	4.2	.1	.5	.7
Ex. motor veh. and parts	80.4	-6.6	1.6	3.3	-.1	.7	.6
Ex. high-tech industries	73.8	-5.5	-.2	1.5	-.3	.5	.5
Mining	6.2	-2.4	-9.1	1.1	.8	.1	1.1
Utilities	7.1	-6.1	8.3	12.2	.8	-.9	1.6
Selected industries							
High technology	6.6	-15.6	23.7	26.5	1.8	2.6	1.7
Computers	1.5	-8.2	36.1	20.4	1.2	.6	.8
Communication equipment	1.5	-24.4	-19.1	-5.5	-1.0	-.6	.6
Semiconductors[4]	3.5	-14.9	39.0	42.3	3.1	4.4	2.4
Motor vehicles and parts	6.3	-.4	22.7	14.9	2.6	-.9	2.5
Aircraft and parts	2.6	-11.6	-30.7	-33.0	-3.4	-3.3	-2.0
Market groups excluding energy and selected industries							
Consumer goods	24.0	-1.6	1.3	-.8	-.8	.2	.6
Durables	3.5	-8.0	6.8	6.9	-.7	1.9	-.6
Nondurables	20.6	-.5	.5	-2.0	-.9	-.1	.8
Business equipment	7.9	-10.8	-4.6	1.3	-.2	1.5	.5
Defense and space equipment	2.0	.2	2.8	5.2	.7	.5	.6
Construction supplies	6.6	-3.8	8.7	4.9	-.5	.1	.3
Business supplies	7.1	-8.4	-4.9	1.8	-.2	.4	1.1
Materials	23.9	-6.9	.7	6.3	.5	1.0	.6
Durables	16.3	-7.3	-.3	4.9	.4	.8	.8
Nondurables	7.6	-6.1	2.6	9.1	.8	1.3	.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	2002			
				Q4	Q1	Q2	May	June
Total industry	**81.9**	**71.1**	**78.1**	**74.7**	**75.0**	**75.7**	**75.6**	**76.1**
Manufacturing	80.9	69.0	76.6	73.1	73.5	74.1	74.0	74.5
High-tech industries	80.0	77.3	72.4	60.7	62.9	65.2	65.4	65.9
Excluding high-tech industries	81.0	68.0	76.8	74.7	74.9	75.4	75.3	75.8
Mining	87.6	80.3	87.0	87.6	85.3	85.5	85.3	86.2
Utilities	87.6	75.9	83.4	83.6	84.3	85.8	85.1	86.2

will keep inventories at desired levels in the current quarter. Elsewhere in the transportation sector, the production of aircraft and parts continues to decline. During the second quarter, the output of commercial aircraft fell at an annual rate of 54 percent, leaving the level of production about 48 percent below its peak in November 2000. However, confidential industry reports suggest that commercial aircraft production will decline less rapidly in the third quarter.

In the high-tech sector, the most recent semiconductor data suggest that output increases in July were significantly slower than in the second quarter, when production increased at an annual rate of more than 40 percent. In the second quarter, the production of chips other than microprocessors increased sharply, more than offsetting a significant deceleration in the real output of microprocessors (MPUs). Looking ahead, Intel's revenue outlook indicates that the contribution of MPUs to real semiconductor output may continue to shrink in the third quarter.[6] In reports consistent with the outlook at Intel, semiconductor equipment makers say that orders remain at a low level, although their book-to-bill ratio edged up again in June.

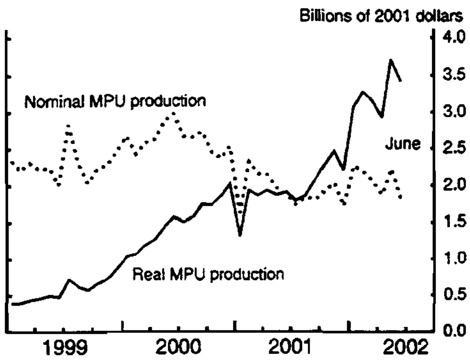
The recent performance of high-tech industries downstream from semiconductors has been mixed. The production of computers increased at an annual rate of 20 percent during the second quarter, significantly slower than in the first quarter. A Dataquest forecast of a decline in unit sales of computers in the third quarter suggests that the real production of PCs (that is, adjusted for quality change) may remain sluggish. The production of communications equipment fell again during the second quarter, albeit much less steeply than during the first quarter. Announced reductions in capital spending plans by telecommunications service providers continue to suggest that demand from this sector will remain a drag on communications equipment output for some time. By contrast, the production of local-area-network equipment (a segment of communications equipment used by general business) has increased about 1 percent per month since December. Surveys of chief information officers and of business economists suggest that the share of companies planning to increase spending on high-tech equipment in the near term is greater than it was in the first quarter. Although spending plans on networking equipment in July were slightly less enthusiastic than in recent months, plans for spending on computers moved up.

Factory output outside high-tech, motor vehicles, and aircraft increased among nearly all major market groups in the second quarter. The output of construction supplies and durable consumer goods excluding motor vehicles and high-tech continues to be supported by the high level of activity in the housing market.

6. In 2001, Intel accounted for about 80 percent of worldwide MPU revenue, and more than 80 percent of Intel revenue was derived from MPUs.

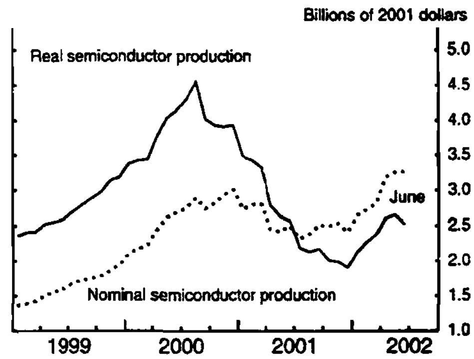
Indicators of High-Tech Manufacturing Activity

Microprocessor (MPU) Production



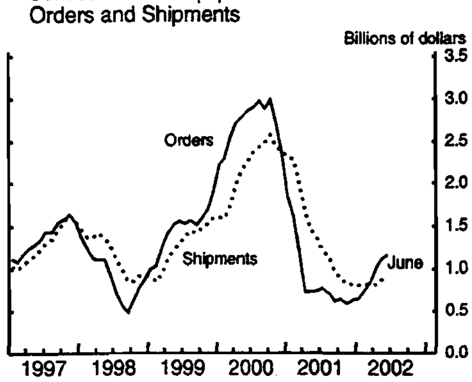
Source. Semiconductor Industry Association and FRB staff estimates.

Semiconductor Production ex. MPUs



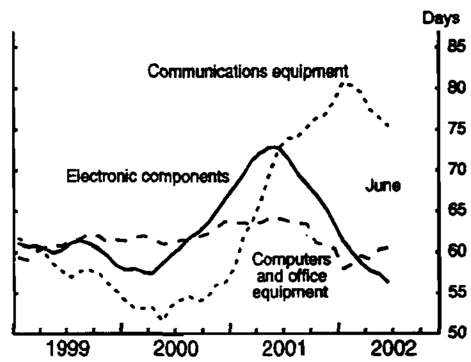
Source. Semiconductor Industry Association and FRB staff estimates.

Semiconductor Equipment Orders and Shipments



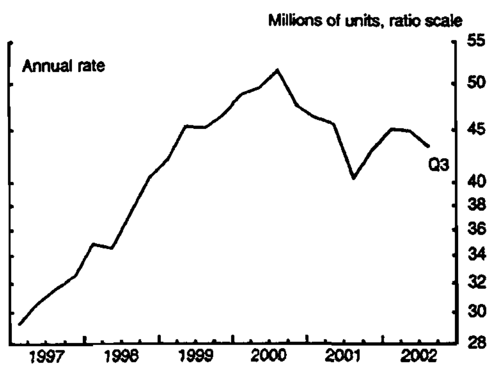
Source. Semiconductor Equipment and Materials International.

Days' Supply



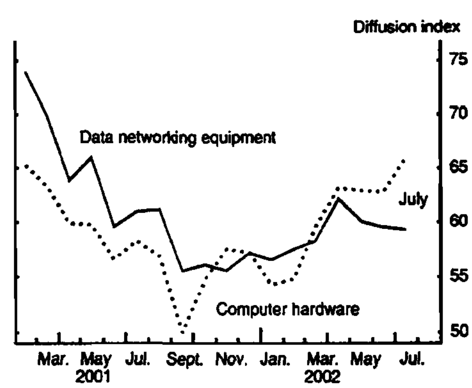
Source. FRB staff's flow-of-goods system.

Personal Computer Sales



Note. FRB seasonals. Includes notebooks. Value for Q3 is a Dataquest forecast.
Source. Dataquest.

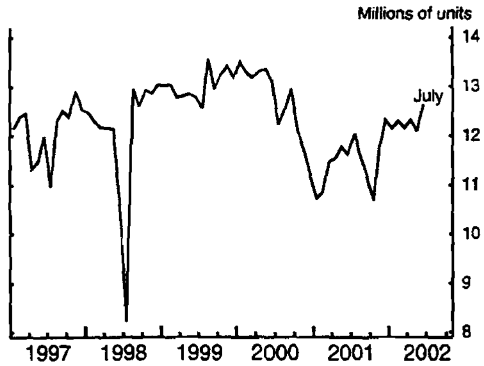
High-Tech Spending Plans



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 July 2002 was 258.
Source. CIO Magazine.

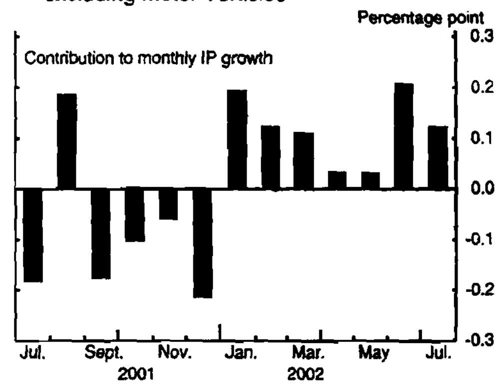
Indicators of Manufacturing Activity

Motor Vehicle Assemblies

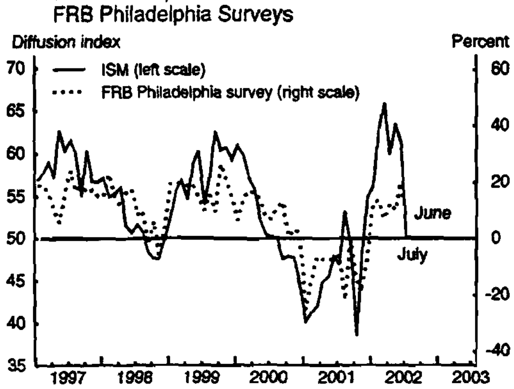


Note. July is a staff estimate.

Weekly Physical Product Data excluding Motor Vehicles

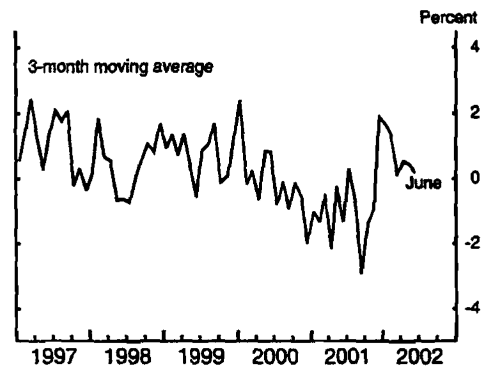


New Orders, ISM and FRB Philadelphia Surveys



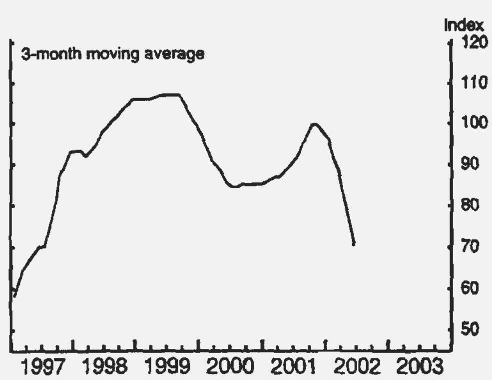
Note. The ISM index equals 50 plus half the difference between the percentage of respondents reporting greater levels versus lower levels of new orders. The FRB Business Outlook Survey is the difference between the percentage of respondents reporting greater levels versus lower levels of new orders.

Real Adjusted Durable Goods Orders



Note. Excludes semiconductors.

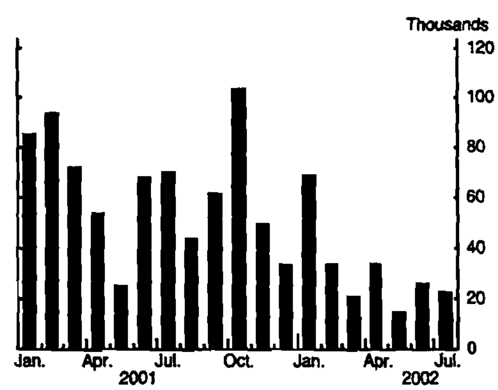
Boeing Commercial Aircraft Completions



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

Content partially redacted.

Announced Manufacturing Layoffs



Note. Data are through August 1, 2002.
Source. Compiled by staff from news reports.

Weekly physical output data for appliances suggest that the production of durable consumer goods increased again in July. The output of business supplies and business equipment outside high-tech, motor vehicles, and aircraft, which had been lagging the turnaround in other market groups, increased in June and for the second quarter as a whole.

Recent indicators of future activity in the industrial sector have softened notably. After having risen in April, the staff's series on real adjusted durable goods orders was flat in May and fell in June. The new-orders diffusion index from the Institute of Supply Management fell sharply in July, to a level indicating that about the same number of respondents reported a decline in new orders as reported an increase. The number of manufacturing layoffs announced in July was a bit less than in June, and in both months layoffs were concentrated among high-tech industries.

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

Component	Share, 2001: H1 (percent)	2002				
		Q1	Q2	Apr.	May	June
Total orders	**100.0**	**1.5**	**-.2**	**.5**	**.4**	**-4.1**
Adjusted orders[1]	71.0	2.6	.7	5.0	-.2	-4.6
Computers	4.0	-1.4	-4.1	.3	3.5	-7.1
Communication equipment	3.0	6.3	-3.4	15.8	-2.8	-18.5
Other capital goods	23.0	.8	2.5	4.8	.5	-3.8
Other[2]	37.0	3.9	.4	4.7	-.8	-3.6
Memo:						
Real adjusted orders	...	3.0	.9	5.1	-.2	-4.5
Excluding high tech	...	2.9	.9	5.8	-.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.

During the first six months of 2002, production gains averaged nearly 1/2 percent per month, about 0.3 percentage point less than the increases recorded, on average, during the first six months of the previous recoveries in IP. Whereas the recovery in the output of materials has been only a little more sluggish than usual, the recovery in the production of intermediate and final products has been distinctly subpar. An important factor behind this atypical pattern is that the production of construction supplies (buoyed by homebuilding) and motor vehicles (held up by aggressive financing incentives) were relatively well maintained during the downturn.

Consumer Spending

The pace of consumer spending quickened early this summer after having fallen off in May. However, this rebound in spending came largely from substantial advances in motor vehicle expenditures in June and July. Thus far, deteriorating fundamentals—such as the erosion in share prices and the slide in consumer confidence—do not appear to be causing a retrenchment in spending.

Sales of light vehicles jumped to an annual rate of 18.1 million units in July—up from a 16.3 million unit average pace over the first half of the year. Confidential data indicate that almost all of the increase in July came in retail sales; fleet sales were reported to be up only a bit last month. According to the automakers, the reintroduction of zero percent financing initiatives in early July accounted for the surge, even though the level of overall price incentives (including financing and rebates) was increased less than $100 per vehicle.[7]

Expenditures on non-motor-vehicle goods and services increased at an annual rate of about 2 percent in the second quarter. Within this category, spending gains on goods were notably smaller than in the first quarter, while outlay gains on services continued apace. Meanwhile, real household incomes increased at an annual rate of close to 4 percent in the second quarter.

Among other recent indicators, chain store sales through the end of July, while not particularly robust, are consistent with a small rise in spending on goods apart from motor vehicles. Similarly, mixed anecdotal reports from the Reserve Banks suggest that spending gains in July were small, while record-breaking stock market trading volumes and unusually hot weather likely increased service outlays last month.

The personal saving rate rose to 4.0 percent in the second quarter, 2 percentage points above its year-ago level. The wealth declines of the past two years continue to put substantial downward pressure on spending growth, and in the second quarter the ratio of household net worth to disposable personal income fell to its lowest level since early 1996. The stock market's drop in July likely pushed this ratio down further.

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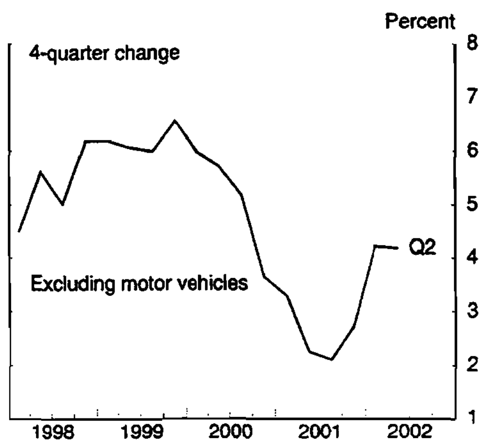
7. General Motors and Ford have released some information on pricing of 2003 model-year cars and light trucks. Although price increases on many GM models reportedly will be small, base prices may increase as much as 4 percent on some popular models. In addition, equipment that is now standard will become optional on the 2003 vehicles, a move that effectively raises the price. Ford has announced that average prices for its 2003 comparably equipped vehicles will rise 0.4 percent.

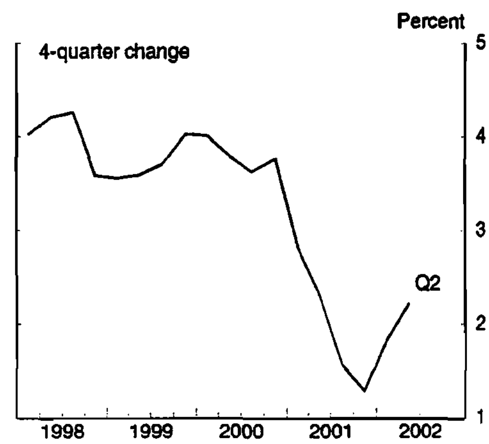
Real Personal Consumption Expenditures
(Percent change from the preceding period)

Expenditure	2001	2002 Q1	2002 Q2	2002 May	2002 June
		Annual rate		Monthly rate	
Total real PCE	2.8	3.1	1.9	.0	.4
Pre-NIPA revision	3.1	3.3	...	.0	...
Durable goods	13.2	-6.3	2.4	-2.6	1.9
Motor vehicles	21.6	-27.1	-1.5	-6.3	3.5
Excluding motor vehicles	7.1	13.9	5.4	.2	.8
Nondurable goods	1.7	7.9	-.6	.1	.3
Energy	1.7	10.5	-7.9	-1.3	1.7
Other	1.7	7.7	.0	.2	.2
Services	1.3	2.9	3.0	.5	.2
Energy	-10.7	10.4	.5	4.4	-3.0
Housing	1.4	2.1	2.0	.1	.2
Other	1.9	2.8	3.5	.5	.3

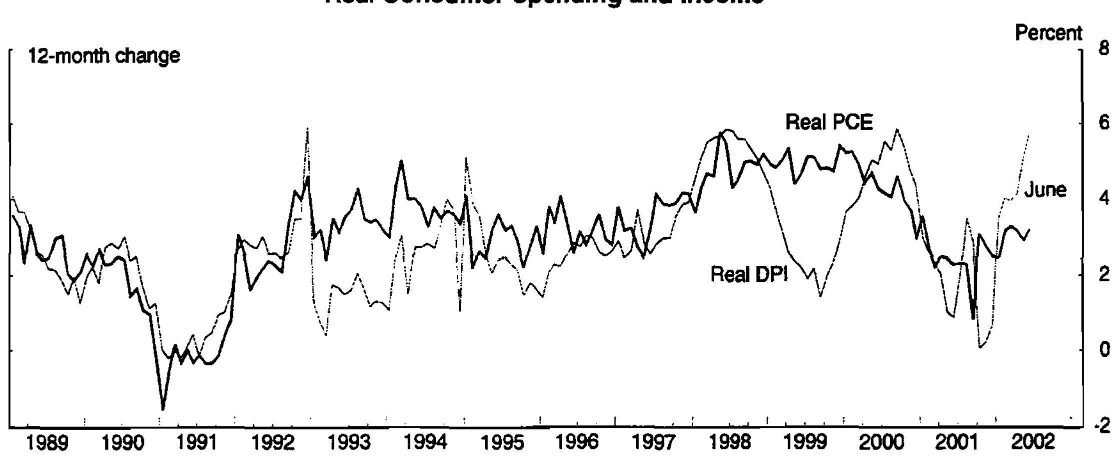
Real PCE Goods



Real PCE Services



Real Consumer Spending and Income



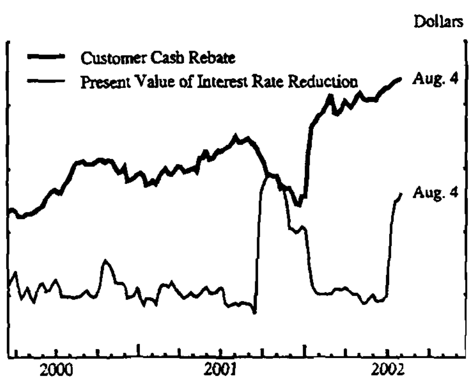
Sales of Automobiles and Light Trucks
(Millions of units at an annual rate, FRB seasonals)

	2000	2001	2002 Q1	2002 Q2	2002 May	2002 June	2002 July
Total	17.2	17.0	16.3	16.3	15.6	16.3	18.1
Autos	8.8	8.4	7.9	8.1	7.8	8.0	8.8
Light trucks	8.4	8.6	8.4	8.3	7.8	8.3	9.3
North American[1]	14.4	14.0	13.0	13.1	12.5	13.0	14.6
Autos	6.8	6.3	5.7	5.9	5.7	5.8	6.5
Light trucks	7.5	7.6	7.4	7.2	6.8	7.2	8.1
Foreign-produced	2.9	3.1	3.3	3.2	3.1	3.2	3.4
Autos	2.0	2.1	2.2	2.2	2.1	2.2	2.3
Light trucks	.8	1.0	1.1	1.0	1.0	1.1	1.2

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.

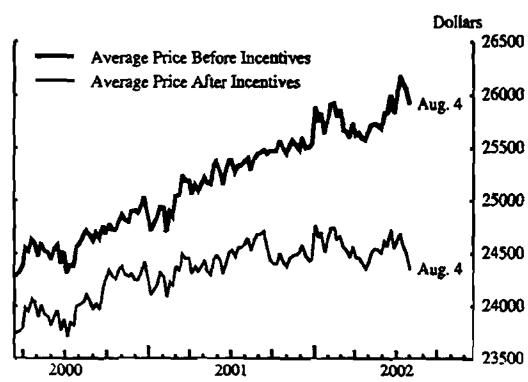
1. Excludes some vehicles produced in Canada that are classified as imports by the industry.

Cash and Financing Incentives



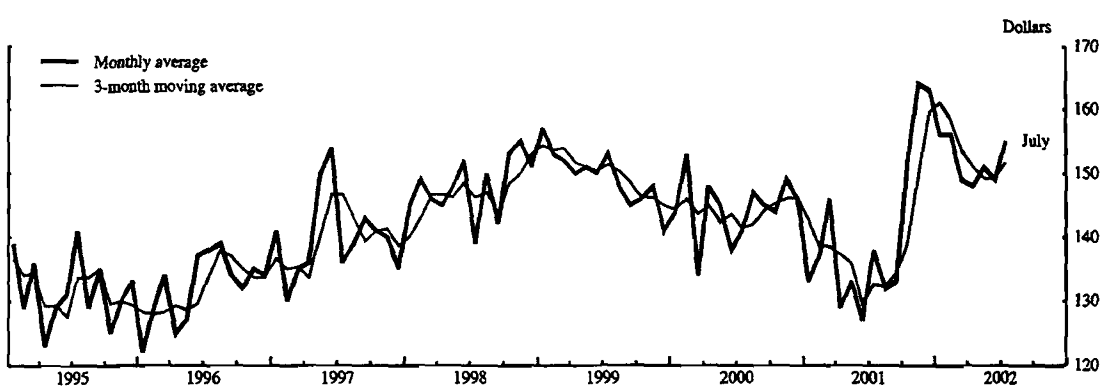
Source. J.D. Power and Associates.

Average Price Before and After Incentives



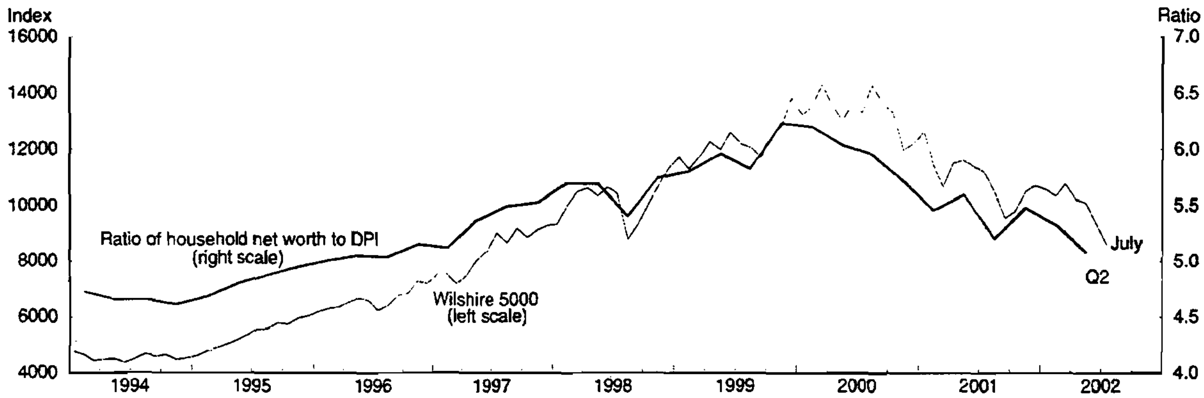
Source. J.D. Power and Associates. Seasonally adjusted data.

Michigan Survey Index of Car-Buying Attitudes

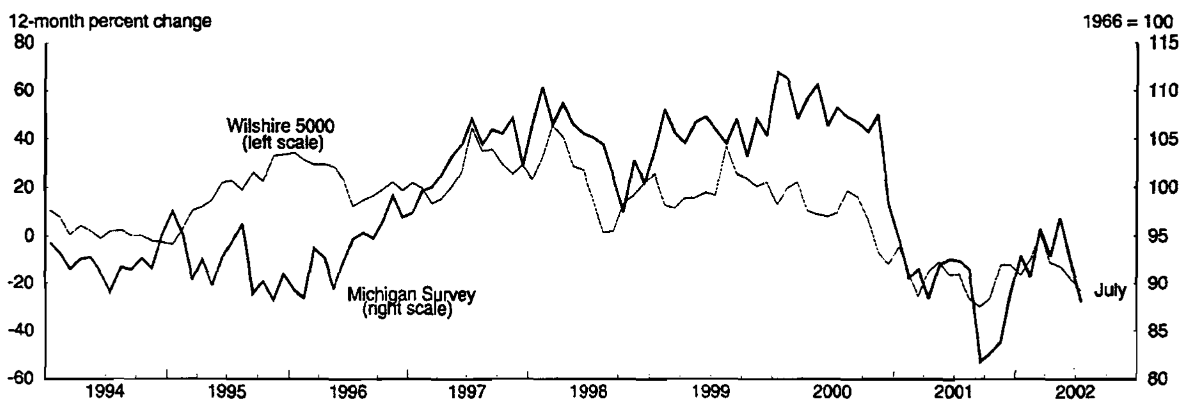


Household Indicators

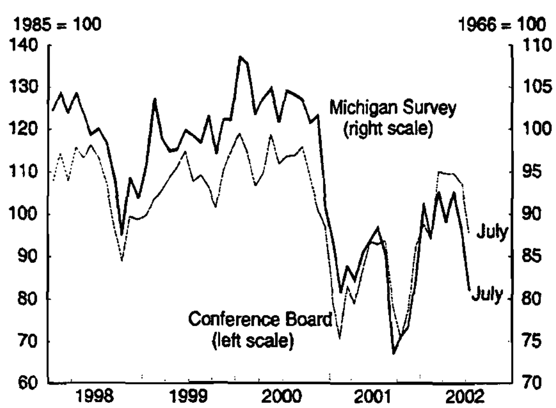
Household Net Worth and Wilshire 5000



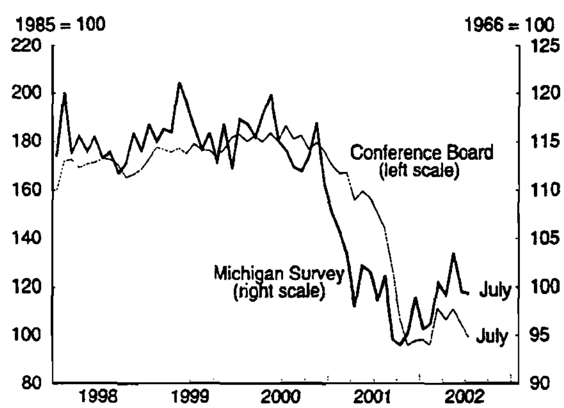
Consumer Sentiment and Wilshire 5000



Expected Conditions



Current Conditions



Consumer sentiment dropped markedly in July. Both the Conference Board and Michigan surveys of consumer sentiment declined to their lowest levels since the start of the year. According to the Michigan survey, almost all the households reported hearing of unfavorable changes in business conditions, a response likely driven by news of declining share prices. Indeed, the proportion of households reporting unfavorable news about the stock market rose to its highest level since the October 1987 stock market crash. Accordingly, households' outlook for future business conditions took the brunt of the decline in confidence in July, falling 22 points in the Michigan survey and 5 points in the Conference Board survey. These responses do not appear to indicate an overall rollback in consumer attitudes: The remaining subindexes of consumer sentiment declined less sharply than future business conditions, and appraisals of buying conditions for houses and cars improved.

Housing Markets

The housing sector continues to be strong, buoyed by a favorable financing environment. We estimate that real spending in the residential sector increased at an annual rate of about 4 percent in the second quarter, and the pace of housing starts and permit issuance indicate that the level of activity likely remained strong going into the third quarter. Although starts of single-family homes dropped back to an annual rate of 1.35 million units in June from an elevated pace in May, the pace of homebuilding in the second quarter as a whole remained well above that seen during the preceding few years. Issuance of permits to build new single-family homes—adjusted for starts that occurred in areas where permits are not required—was also robust in June, albeit less so than were starts themselves. Because the level of starts usually reverts to the level of permits, the pace of single-family starts appears on track to slow a bit more in the coming months while remaining at a high level by historical standards.

Low and falling mortgage rates continued to support housing activity: The average contract rate on a thirty-year fixed-rate mortgage moved down to 6.4 percent in early August, and the initial rate on a thirty-year adjustable-rate mortgage declined to 4.5 percent. Low mortgage rates have helped keep consumers' rating of homebuying conditions—as measured by the Michigan Survey—at a high level despite a weak labor market and a steep decline in the stock market. Indeed, the volume of mortgage applications has remained at near-record levels, according to the Mortgage Bankers Association.

Sales of new homes edged up 1/2 percent in June to a record annual rate of 1.0 million units. The stock of new homes for sale was about unchanged in June at a level equal to about four months of sales at the current sales pace. This low level of inventory suggests that the robust pace of production noted above has not been unwarranted. In contrast, sales of existing homes fell sharply in June to an annual rate of about 5.1 million units, putting the level of sales near

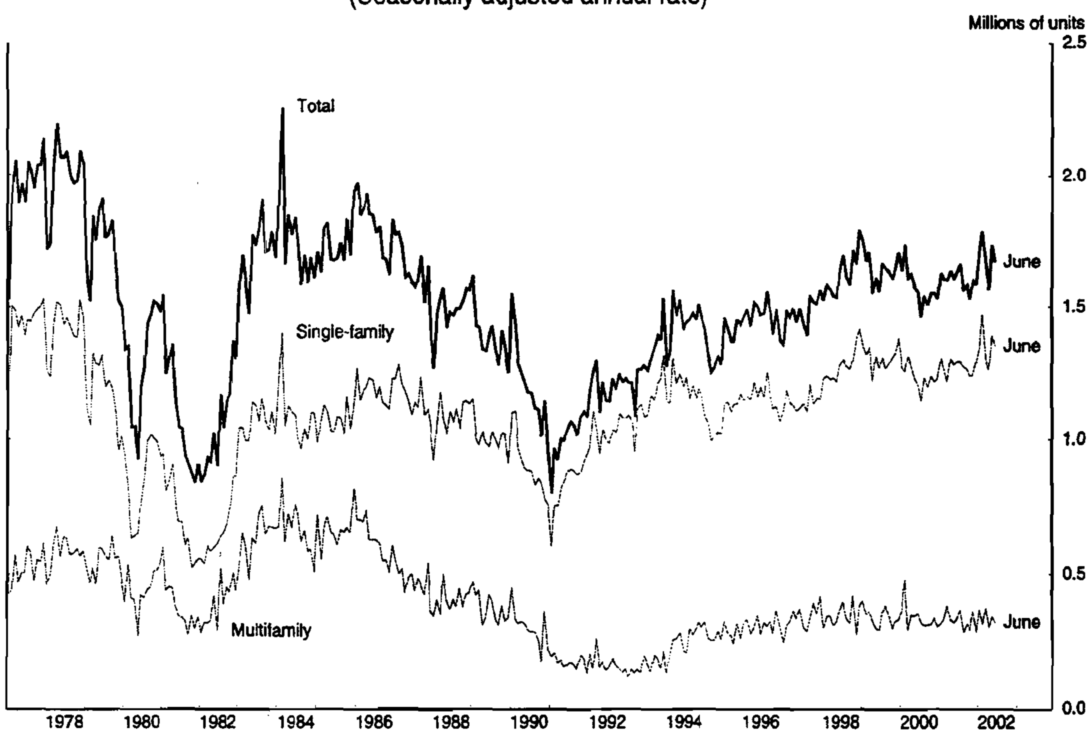
Private Housing Activity
(Millions of units; seasonally adjusted annual rate)

		2001	2002				
	2001	Q4	Q1	Q2p	Apr.r	May r	June p
All units							
Starts	1.60	1.57	1.73	1.66	1.57	1.74	1.67
Permits	1.64	1.64	1.69	1.67	1.63	1.68	1.70
Single-family units							
Starts	1.27	1.26	1.37	1.33	1.26	1.39	1.35
Permits	1.24	1.23	1.31	1.27	1.26	1.27	1.29
Adjusted permits[1]	1.28	1.26	1.34	1.31	1.30	1.30	1.34
New home sales	0.91	0.93	0.91	0.98	0.93	1.00	1.00
Existing home sales	5.30	5.24	5.78	5.53	5.77	5.74	5.07
Multifamily units							
Starts	0.33	0.32	0.35	0.32	0.31	0.35	0.32
Permits	0.40	0.41	0.39	0.40	0.37	0.41	0.41
Mobile homes							
Shipments	0.19	0.20	0.18	n.a.	0.18	0.18	n.a.

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

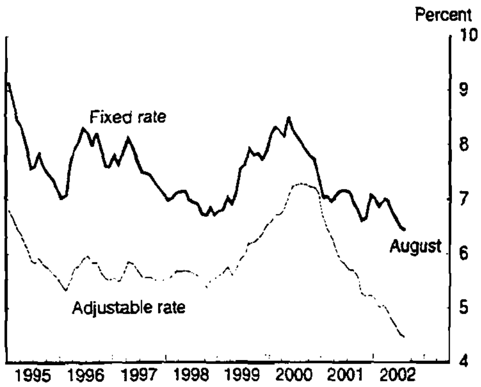
p Preliminary. r Revised. n.a. Not available.

Private Housing Starts
(Seasonally adjusted annual rate)



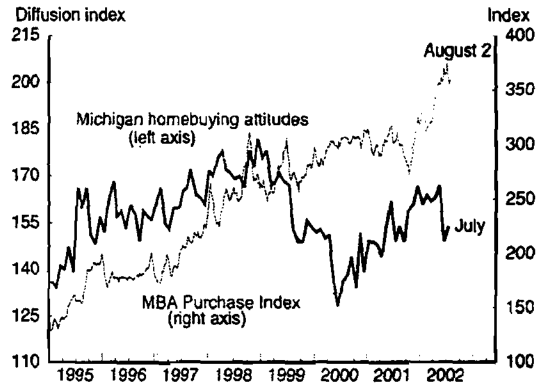
Indicators of Single-Family Housing

Mortgage Rates



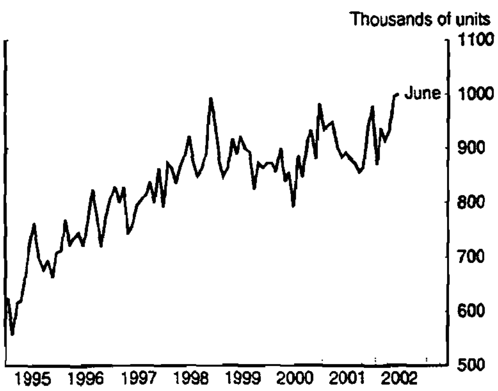
Note. August figure is based on data through August 2.
Source. Freddie Mac.

Homebuying Indicators



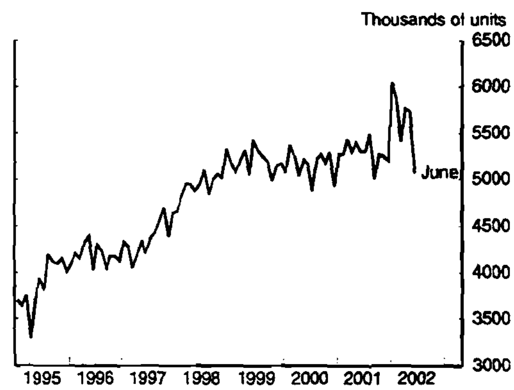
Note. MBA index is a 4-week moving average.
Michigan Survey data are not seasonally adjusted.
Source. Michigan Survey and Mortgage Bankers Association.

New Home Sales



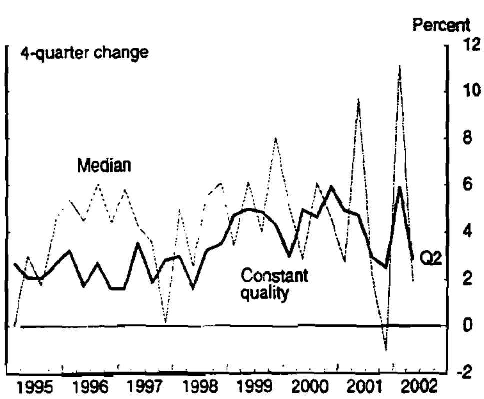
Source. Census Bureau.

Existing Home Sales



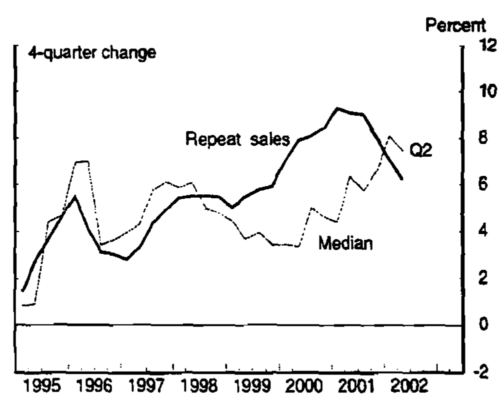
Source. National Association of Realtors.

Prices of New Homes



Source. Census Bureau.

Prices of Existing Homes



Source. National Association of Realtors, Fannie Mae, and Freddie Mac.

the bottom of the range seen during the last few years. However, the reported decline appears to have been exaggerated by the procedures used by the National Association of Realtors (NAR) to seasonally adjust the data. In particular, NAR does not correctly account for the number of business days in a month.[8]

Although house prices continued to rise through the second quarter, they may be decelerating. For example, the increase in the quality-adjusted median price of new homes was 2-3/4 percent during the year that ended last quarter, compared with a 4-3/4 percent gain during the previous year. And, while the median purchase price of existing homes has shown no sign of deceleration, the repeat-sales index—which controls for some of the changes in the composition of homes sold that can affect the median price—slowed sharply in the first half of this year. Anecdotal evidence suggests that the weakening is concentrated at the high end of the market.

In the multifamily sector, June starts were at an annual rate of 320,000 units, a bit below the average pace since the mid-1990s. Vacancy rates in the rental segment of this sector have moved up rapidly during the past year to levels last seen in the mid-1990s. In addition, rents have decelerated and, by some measures, even fallen in recent months. On the other hand, conditions in the market for condominiums and cooperative apartments appear robust. These factors appear to be offsetting, and the strong permits figure for June suggests that the pace of multifamily starts will be little changed in the near term.

Business Fixed Investment

Equipment and software. We estimate that real business spending on equipment and software increased at an annual rate of 2-1/2 percent in the second quarter after having fallen in the first quarter. Excluding the volatile transportation sector, real outlays increased 6-1/2 percent in the second quarter. However, despite improving fundamentals—such as rising output and profits, new tax incentives, and a low cost of capital—firms remain cautious. We have no direct evidence on investment in the current quarter, but the recent data on orders and shipments of capital goods and numerous anecdotal reports point to another lackluster gain in spending on business equipment and software.

In the high-tech sector, real outlays increased 10 percent in the second quarter. Nominal new bookings for high-tech equipment fell more than 12 percent (not at an annual rate) in June, more than offsetting the increases in April and May;

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8. June had five weekends instead of the usual four. With fewer business days, fewer house-purchase closings occurred. Using staff seasonal adjustment factors that allow for such trading-day effects, existing home sales declined only 2-1/4 percent in June to a level well above that seen in 2001 as a whole.

with prices continuing to decline in the sector, this pattern of nominal orders is consistent with only a moderate increase in real spending in the current quarter. Furthermore, recent anecdotal evidence, such as the expectations of analysts who cover high-tech companies, our own informal surveys, and the Beige Book, suggests muted gains.

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

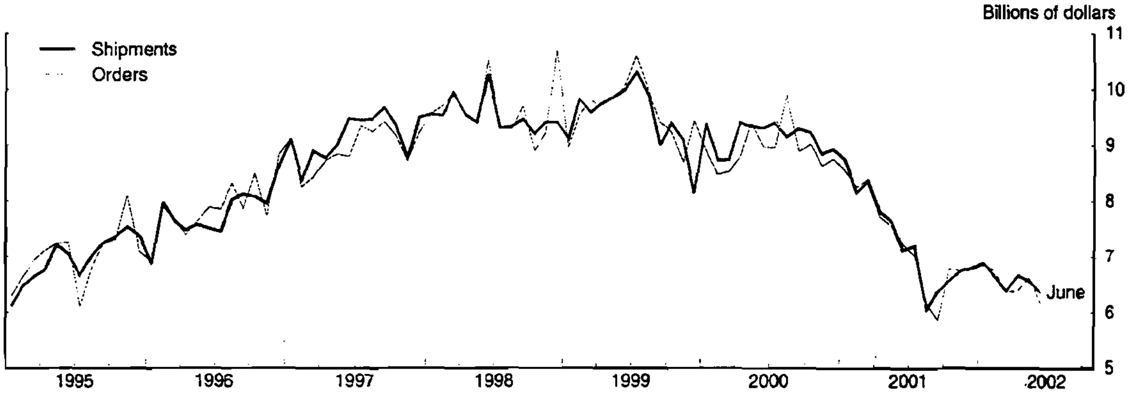
	2002		2002		
	Q1	Q2	Apr.	May	June
	-Annual rate-		--Monthly rate--		
Shipments of nondefense capital goods	.3	-1.9	.1	.7	-2.2
Excluding aircraft	3.3	3.3	1.4	1.2	-2.0
Computers and peripherals	-4.0	-6.6	4.2	-1.4	-3.2
Communications equipment	-5.0	-14.1	2.2	-4.0	-3.9
All other categories	5.8	7.6	.9	2.4	-1.6
Shipments of complete aircraft	-27.9	n.a.	-10.5	-25.5	n.a.
Medium & heavy truck sales (units)	-43.2	38.4	11.7	2.4	-9.1
Orders for nondefense capital goods	9.9	-5.7	1.1	3.6	-9.1
Excluding aircraft	4.3	4.1	5.3	.5	-5.8
Computers and peripherals	-5.5	-15.5	.3	3.5	-7.1
Communications equipment	27.9	-12.8	15.8	-2.8	-18.5
All other categories	3.1	10.3	4.8	.5	-3.8

A sharp decline in aircraft expenditures caused business spending on transportation-related items to fall in the second quarter to a level not seen in four years. Because of long production lags, the steep falloff in air traffic last fall is only now being fully played out in aircraft expenditures. Consequently, we expect aircraft spending to fall further in the current quarter. In contrast, business demand for motor vehicles continues to improve, although some of the recent strength may prove to be temporary. After steep declines over the second half of last year, fleet sales of light vehicles have risen on balance since the beginning of the year. Sales of medium and heavy trucks rose in the second quarter owing to an especially large jump in sales of heavy trucks in advance of new EPA regulations that go into effect in October.[9] After the spring-time rush to place orders to assure delivery by the end of September, new orders for heavy

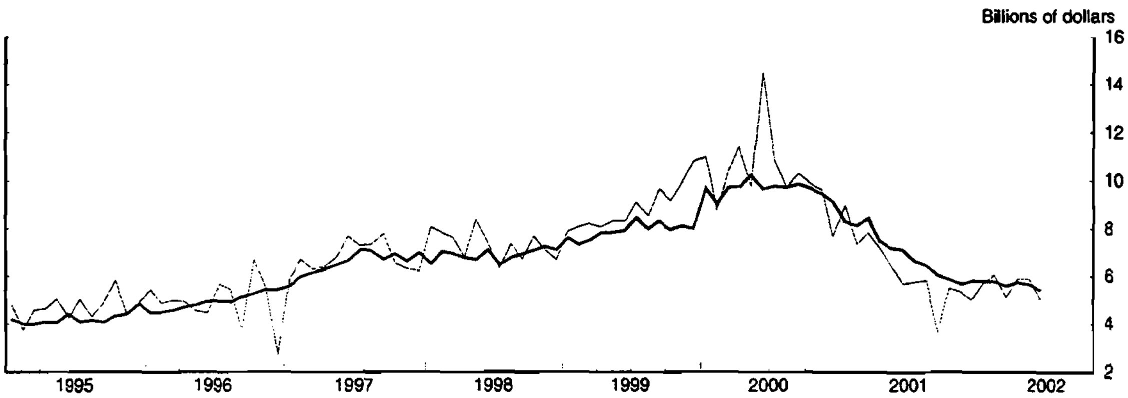
9. Trucking firms are concerned that the new engines will be more costly to maintain and perform worse than engines built under current specifications.

Recent Data on Orders and Shipments

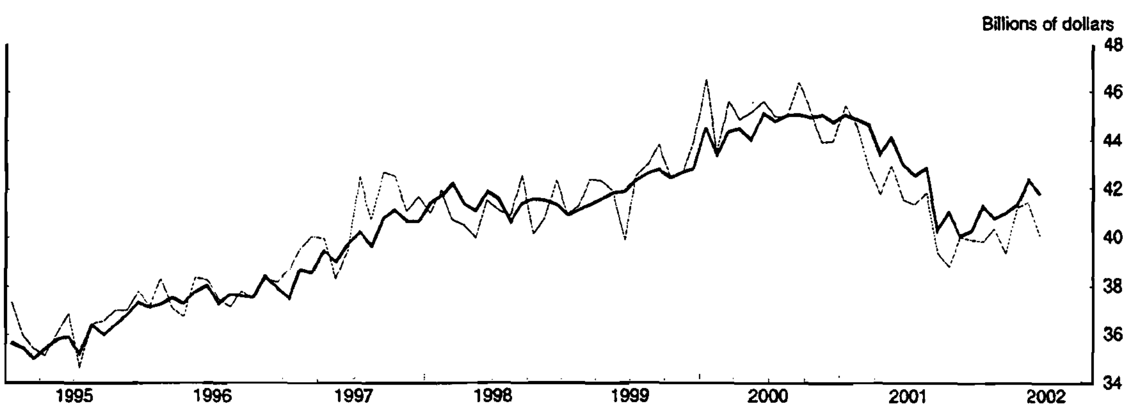
Computers and Peripherals



Communications Equipment

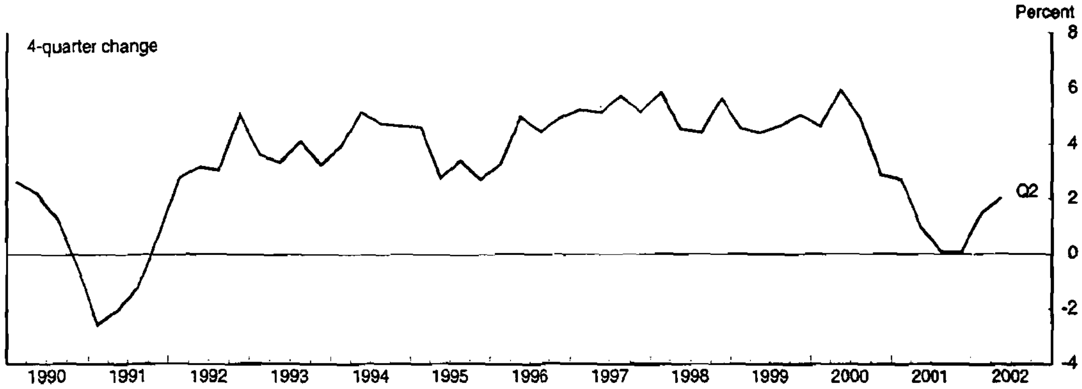


Other Equipment (Total Ex. Transportation, Computers, Communications)

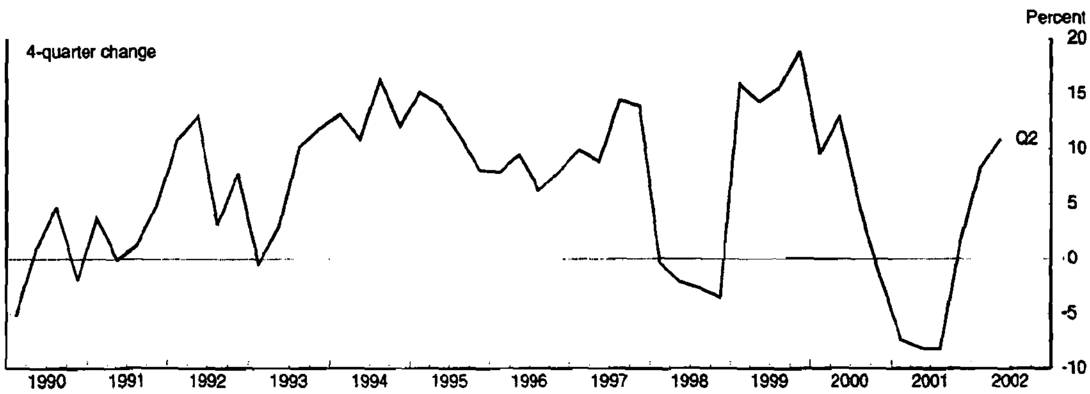


Equipment Investment Fundamentals

Business Output

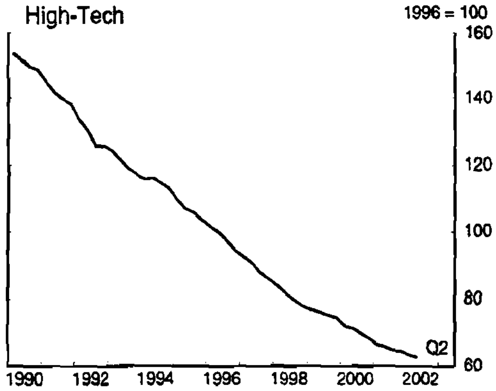


Real Cash Flow

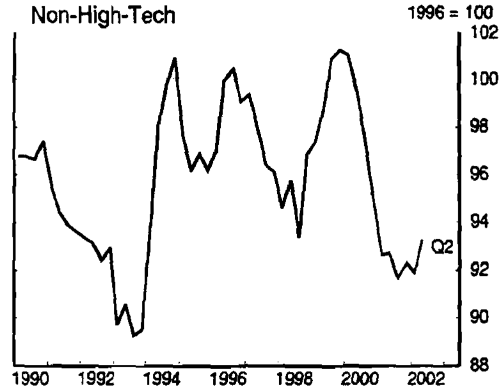


User Cost of Capital*

High-Tech



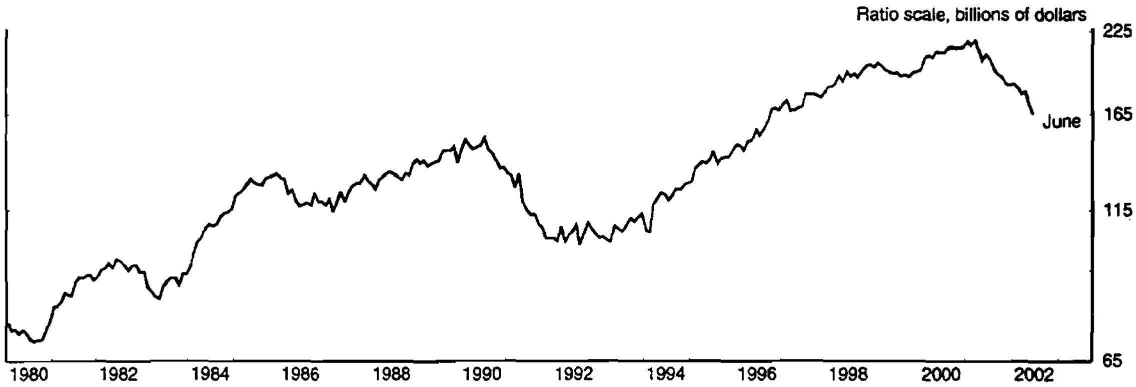
Non-High-Tech



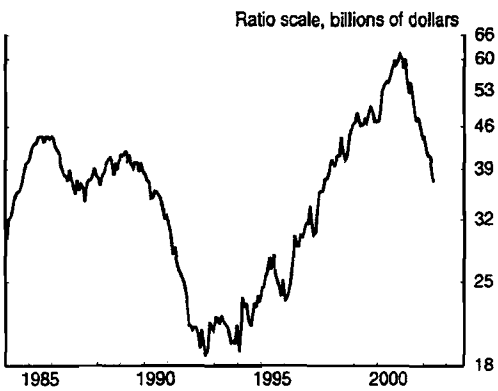
*Excludes the effects of the partial expensing tax incentive.

Nonresidential Construction
(Seasonally adjusted, annual rate)

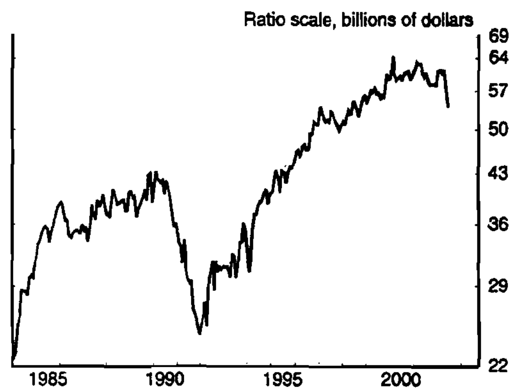
Total Building



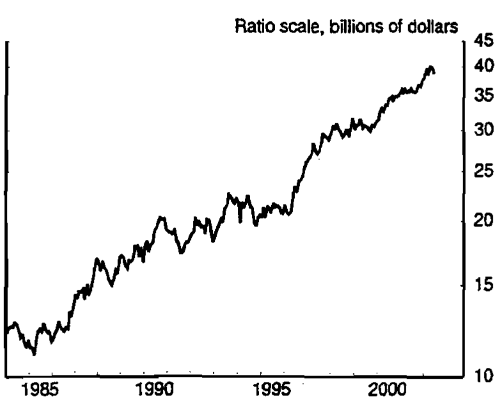
Office



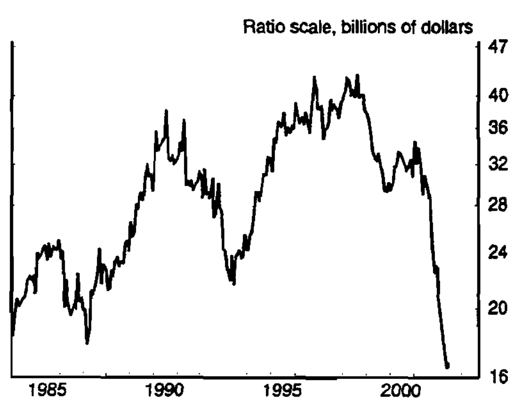
Other Commercial



Institutional



Industrial



trucks (class 8) dropped back in May and June. Orders for medium trucks (classes 5 to 7) have been volatile but continued to trend upward through June.

Real spending on equipment apart from of the high-tech and transportation categories is estimated to have increased at an annual rate of 7 percent last quarter, the second consecutive quarter of robust demand for this broad category of capital goods. However, new orders for equipment and machinery (excluding transportation and high-tech) dropped 3-3/4 percent in June (not at an annual rate), a break from the upward trend since early this year. Thus, spending on this grouping of equipment appears likely to slow some in coming months.

Nonresidential construction. Real spending on the construction of nonresidential structures continued to fall in the second quarter.[10] Expenditures were lower in most major components; the industrial, office, and other commercial sectors saw particularly large declines. Incorporating the most recent figures on the value of construction put-in-place, we now estimate that real spending on industrial construction declined at an annual rate of 45 percent in the second quarter to a level less than half that recorded in 1999. Spending in the other commercial sector—which includes retail and wholesale buildings—fell at an annual rate of about 25 percent last quarter, more than reversing the first quarter's large increase. By contrast, spending in the institutional sector, a recent bright spot, was up again in the second quarter.

Although construction spending on office buildings was down again in the second quarter, the amount of occupied office space increased last quarter for the first time since the end of 2000. Vacancy rates did edge up again last quarter, from 15.4 percent to 15.6 percent, but the increase was the smallest in almost two years. In contrast, the weakening in the industrial sector has shown few signs of abating: The amount of occupied industrial space decreased, albeit more slowly than it did during the previous year. The vacancy rate continued its sharp ascent, reaching 10.9 percent, the highest reading since 1988, the first year for which comparable data are available.

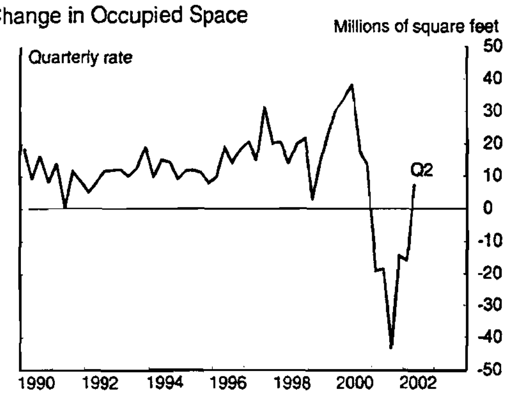
Real outlays for drilling and mining structures increased 2.8 percent in the second quarter. The number of oil and natural gas drilling rigs in operation—which is used by the BEA to estimate spending in this sector—edged up in July, suggesting that spending was rising slightly.

10. New data on the value of construction put-in-place in June, along with revisions to the April and May figures, were released after the advance GDP report. On the basis of these data, we now estimate that real spending on nonresidential construction fell at an annual rate of 19.3 percent in the second quarter, compared with a published decrease of 14 percent.

Indicators of Nonresidential Construction

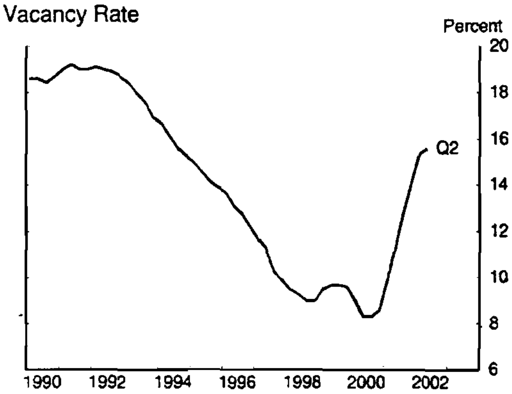
Office

Change in Occupied Space



Source. Torto Wheaton Research.

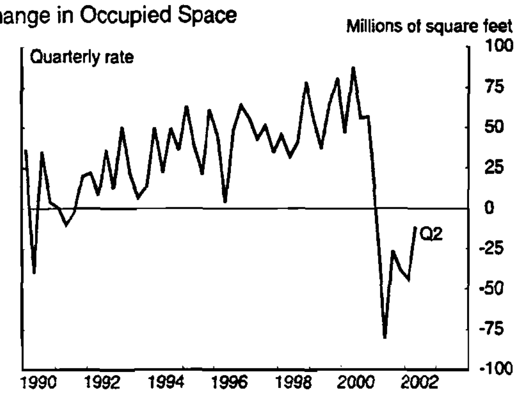
Vacancy Rate



Source. Torto Wheaton Research.

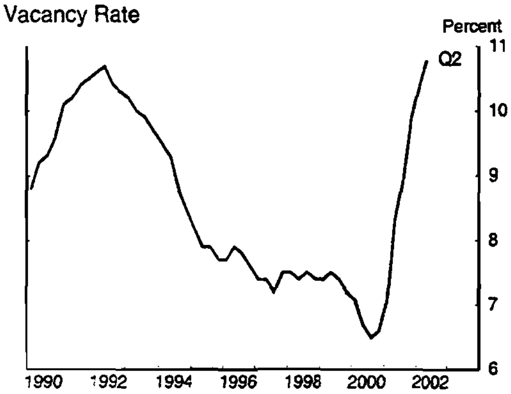
Industrial

Change in Occupied Space



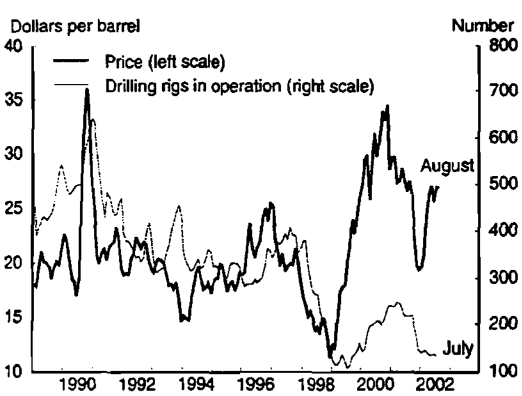
Source. Torto Wheaton Research.

Vacancy Rate



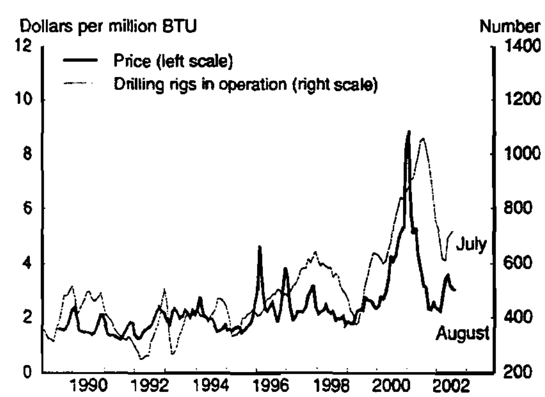
Source. Torto Wheaton Research.

Petroleum Prices and Drilling



Source. WTI spot price and DOE/Baker Hughes.

Natural Gas Prices and Drilling



Source. Henry Hub spot price and DOE/Baker Hughes.

Business Inventories

Taking on board the latest data for inventory investment in manufacturing and wholesale trade in June, we now estimate that real nonfarm inventories increased at an annual rate of $4.9 billion in the second quarter, after a $35.1 billion drop in the last quarter. As a result, the change in r m inventory investment is estimated to have increased real GDP gr 1-1/2 percentage points in the second quarter after having added 2-1/2 percentage points to first-quarter growth.

We estimate that manufacturers liquidated real inventories at a $13.9 billion annual rate in the second quarter, after a $31.2 billion reduction in the first quarter. Most of the liquidation in the second quarter occurred at manufacturers of machinery and of computers and electronic products. Real wholesale inventories (excluding motor vehicles) fell at a $11.4 billion annual rate last quarter after a similar liquidation in the first quarter. A good part of the drawdown in the second quarter was at wholesalers of machinery and electrical goods. Real retail inventories (excluding motor vehicles) are estimated to have risen at a $5.2 billion annual rate last quarter after a moderate accumulation in the first quarter.

Status of Inventory Overhangs Through 2002:Q2

Inventory overhang	Products
None evident	Chemicals and products; petroleum products; stone, clay, and glass; transportation equipment; miscellaneous manufactures
Largely eliminated	Textiles; lumber and wood products; furniture and fixtures; printing and publishing; rubber and plastics; leather and products; fabricated metals; computer and office equipment; electronic components (including semiconductors); industrial machinery excluding computing equipment; instruments
Evident but some improvement	Apparel; primary metals
Evident and little or no improvement	Paper and products; electrical machinery excluding high-tech equipment; communications equipment

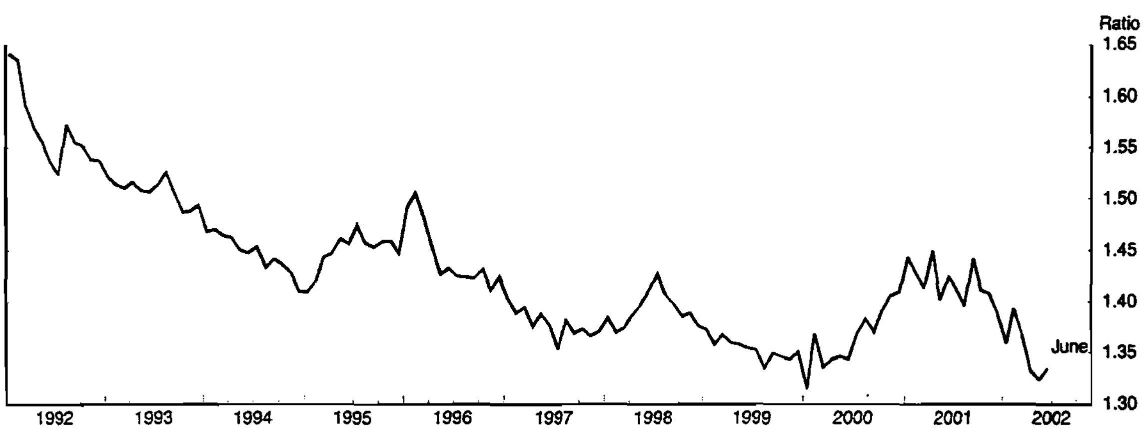
Source. FRB staff flow-of-goods inventory system.

Changes in Nonfarm Inventories
(Billions of chained (1996) dollars, annual rate)

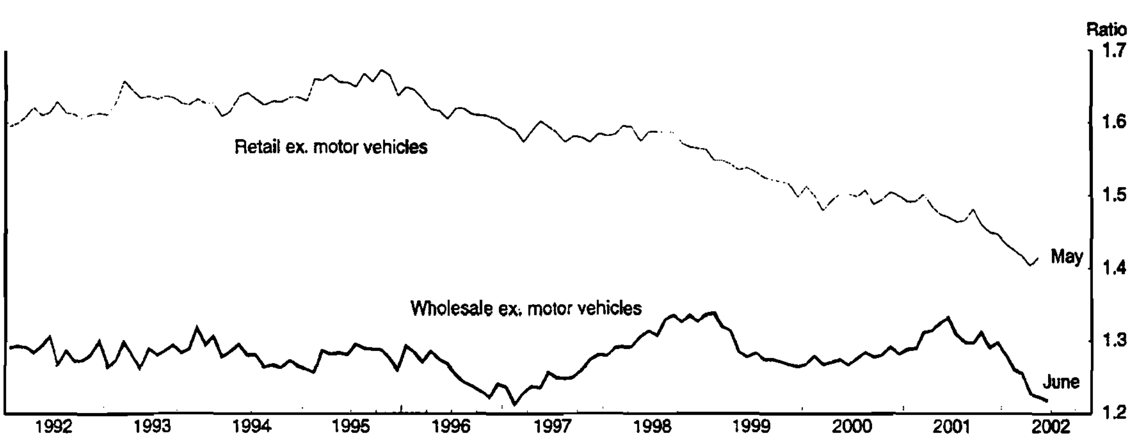
Category	2001 Q3	2001 Q4	2002 Q1	2002 Q2*
Nonfarm inventory investment	-63.6	-101.5	-35.1	4.9
Excluding motor vehicles	-63.5	-70.0	-45.7	-15.1
Manufacturing	-43.7	-40.5	-31.2	-13.9
Merchant wholesalers ex. motor vehicles	-17.6	-20.9	-13.0	-11.4
Retail trade ex. motor vehicles	-2.1	-5.9	-0.2	5.2

* Staff estimate.

Book-Value Inventories Relative to Shipments: Manufacturing



Book-Value Inventories Relative to Sales: Trade



Data from the staff's flow-of-goods system identify only a few areas in which days' supply ratios remained significantly elevated at the end of the second quarter—paper products, communications equipment, and electrical machinery excluding high-tech equipment.[11] In recent months, the overhangs of paper products and communications equipment declined a bit, but days' supply for electrical equipment excluding high-tech jumped in June to its highest level since 1993. Excessive days' supply ratios have been eliminated in nearly all other categories.

Government Sector

Federal. The federal government recorded a $29 billion surplus in June, about the same as a year earlier. However, adjusted for payment timing, the budget actually deteriorated, with the surplus falling from $42 billion in June 2001 to $18 billion in June 2002. Over the twelve months ending in June, the adjusted budget recorded a deficit of $167 billion compared with a $227 billion surplus during the preceding twelve months, a deterioration of almost $400 billion.

Receipts in June 2002 were 10 percent below last year's level, reflecting the continued effects of tax law changes, the weak economy, and falling stock prices. Withheld and FICA tax payments fell 7 percent, owing to the effects of the new withholding schedules and the weak economy. Nonwithheld income taxes and social insurance contributions dropped 17 percent, a drop consistent with a sharp reduction in capital gains realizations. A 12 percent decline in corporate income tax payments reflects the tax cuts enacted in March. Over the twelve months ending in June, receipts fell $263 billion relative to the previous twelve-month period, with sizable declines in both individual and corporate taxes.

Outlays fell 10 percent in June, but after adjusting for shifts in payments when the first of the month falls on a nonworking day, outlays were 2 percent above a year earlier, well below the increases seen earlier this year. Over the twelve months ending in June, adjusted outlays increased $131 billion, fueled by sharp increases for, among other things, defense, income security, and Medicaid.

11. 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 seventy product categories. For each product category, the system estimates the supply of goods flowing into the economy—that is, domestic production plus imports. The system then estimates how much of the supply flows out, whether as final demand, including exports, or as inputs for other goods. The difference between the amount flowing in and the amount flowing out represents the change in inventories. There is inventory accumulation if inflows exceed outflows and inventory liquidation if outflows exceed inflows.

Federal Government Outlays and Receipts

(Unified basis; billions of dollars)

Function or source	June 2001	June 2002	June Percent change	12 months ending in June 2001	12 months ending in June 2002	12 months ending in June Percent change
Outlays	171.0	153.6	-10.2	1,844.4	1,970.5	6.8
Deposit insurance	-0.1	0.0	...	-1.9	0.1	...
Spectrum auctions	0.0	0.0	...	-1.2	0.0	...
Sale of major assets	0.0	0.0	...	0.0	0.0	...
Other	171.1	153.5	-10.3	1,847.4	1,970.4	6.7
Receipts	202.9	182.6	-10.0	2,073.7	1,810.5	-12.7
Surplus	31.9	29.1	...	229.3	-159.9	-169.7
	Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts[1]					
Outlays	161.1	164.4	2.1	1,846.7	1,977.7	7.1
National defense	26.8	29.4	9.6	300.4	335.7	11.8
Net interest	15.9	14.2	-10.5	212.5	178.4	-16.0
Social security	39.5	41.7	5.5	426.9	451.1	5.7
Other health	3.9	4.3	11.4	41.3	47.3	14.4
Income security	19.2	19.6	2.2	260.1	296.5	14.0
Agriculture	0.9	0.3	-68.1	31.8	28.2	-11.4
Other	24.5	23.0	-6.3	237.8	271.4	14.1
Receipts	202.9	182.6	-10.0	2,073.7	1,810.5	-12.7
Individual income and payroll taxes	159.4	142.6	-10.5	1,690.8	1,497.0	-11.5
Withheld + FICA	113.3	104.8	-7.5	1,413.5	1,378.0	-2.5
Nonwithheld + SECA	49.3	41.0	-16.8	422.2	332.0	-21.4
Refunds (-)	3.3	3.2	-0.6	144.9	212.9	47.0
Corporate	29.9	26.5	-11.6	190.9	129.2	-32.3
Gross	31.6	29.4	-6.9	226.9	185.2	-18.4
Other	13.6	13.6	0.1	192.0	184.3	-4.0
Surplus	41.8	18.2	...	227.0	-167.2	-173.7

Note. Components may not sum to totals because of rounding.

1. A shift in payment timing occurs when the first of the month falls on a weekend or holiday, or when the first three days of a month are nonworking days. Outlays for defense, social security, Medicare, income security, and "other" have been adjusted to account for these shifts.

... Not applicable.

The surplus projections released in mid-July in the Office of Management and Budget (OMB) Midsession Review of the Budget reflect the budget deterioration. Assuming enactment of the President's proposals, OMB now expects the budget to show a deficit of $165 billion in fiscal 2002, $59 billion larger than they had projected last February. However, the Administration believes that the factors responsible for the downward revision are largely transitory, and thus its budget projections for subsequent years are only slightly worse than those it issued in February. The Administration projects that the deficit will narrow appreciably in 2003 and 2004 and return to surplus in fiscal 2005.

The Congress recently passed a supplemental appropriations bill that boosts outlays about $7 billion in fiscal 2002 and $11 billion in fiscal 2003. About one-half of the additional spending is for defense, while most of the rest is for homeland security and aid to New York City.

State and local governments. After having incorporated the construction data for June, we estimate that real spending by state and local governments fell at an annual rate of 1-1/2 percent in the second quarter, after a 4.6 percent increase in the first quarter. Real consumption expenditures, which had already slowed appreciably in the first quarter, rose at an annual rate of only 1.6 percent in the second quarter. The slowdown reflects the effects of the various spending adjustments that many states and some localities have made as they address projected budget gaps.

Real outlays for construction, which currently make up about three-fourths of the sector's investment, fell sharply in the second quarter, but the level of construction spending remains quite high in historical terms; gains in construction were unusually strong at the end of 2001 and early this year as much of the winter turned out to be unusually warm or dry.

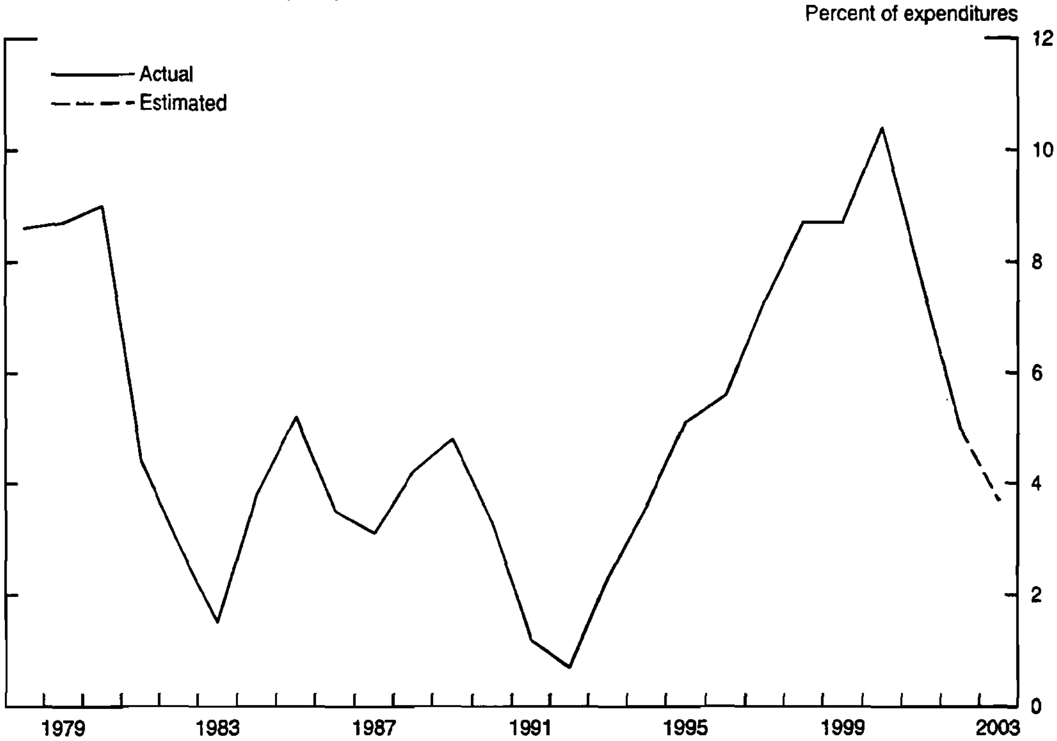
State and local government employment fell 13,000 in July after a 21,000 increase in June. The large decline in local noneducation employment reversed most of the increase in June. Also, state noneducation employment fell 3,000, its third consecutive monthly decline, likely reflecting hiring freezes and layoffs by some governments.

According to the revised NIPA data, the state and local sector has recorded growing budget deficits since the end of 2000, in sharp contrast to the substantial surpluses estimated over this period prior to the annual GDP revision. Moreover, estimates by the National Conference of State Legislatures regarding the balance-sheet position of the states at the end of fiscal 2002 (June 30 for most states) confirm the reports of a deterioration in their budget positions: Combined general and rainy-day funds fell more than 40 percent last year, the second consecutive drop, after having risen steadily from 1993 to

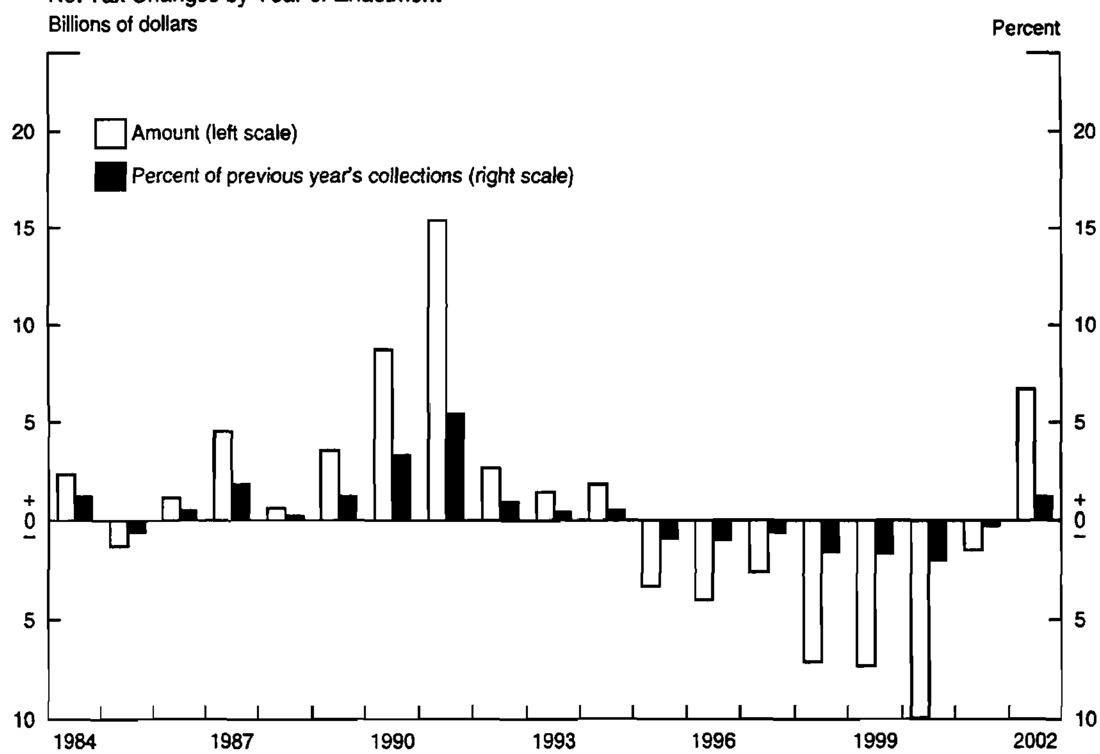
State Governments

(Fiscal Years)

Combined General and Rainy-Day Fund Balances



Net Tax Changes by Year of Enactment



Source. National Conference of State Legislatures.

2000. Even so, balances in these funds appear to have been equal to about 5 percent of general fund expenditures at the end of fiscal 2002. Although down from unusually high levels in the late 1990s and 2000, when they topped out at more than 10 percent of expenditures, the condition of the funds is still adequate, just matching the benchmark most market analysts use to assign a favorable fiscal assessment and a strong bond rating. Nevertheless, states are responding to budgetary pressures by cutting spending plans and raising taxes. Indeed, a net increase in taxes enacted in fiscal 2002 was the first in nearly a decade.

Prices and Labor Costs

Inflation remained on a downtrend through midyear. Both the total CPI and the PCE price indexes decelerated sharply over the past year; although some of this slowdown in inflation reflected developments in the food and energy sectors that seem unlikely to persist, core inflation eased a bit as well.

Consumer energy prices held steady, on balance, in June, after a sharp decline in May. Energy prices have swung widely from month to month this year, but over the twelve months ending in June, energy prices were down more than 11 percent, compared with an 8-1/2 percent increase during the previous twelve-month period. Prices for natural gas have been particularly weak the past few months; and unusually rapid buildups of inventories are reducing the risk of price increases later this year.

With ample supplies of livestock and fruits and vegetables, changes in prices for consumer foods have been muted in recent months. Over the twelve months ending in June, consumer food prices rose 1.6 percent compared with an increase of 3.4 percent over the preceding twelve-month period. Poor growing conditions this past winter set back the wheat crop, and wet planting conditions that gave way to hot, dry weather have imperiled the corn and soybean crops. Widespread rain and cooler temperatures toward the last week of July benefited corn and soybeans, but the condition of those two crops nevertheless remains considerably worse than in the past several years. As a result of the concerns about harvests, prices for corn, soybeans, and wheat have run up substantially in recent weeks, although secondary food processors tend to damp the ultimate impact of changes in crop prices on consumer food prices.

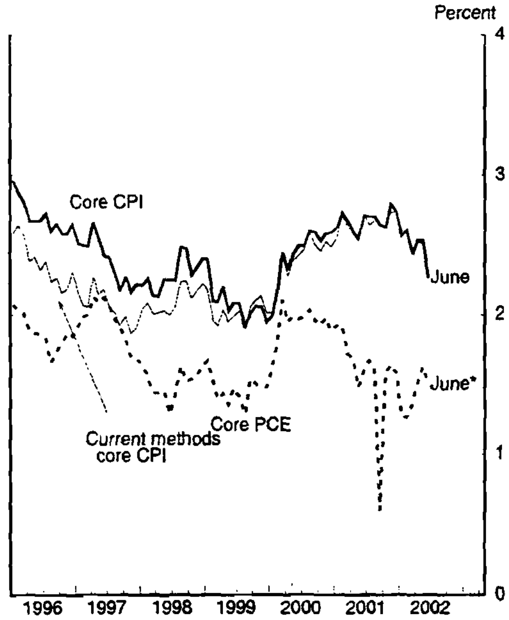
Consumer prices other than food and energy rose 0.1 percent in June, and on a twelve-month basis, core consumer prices were up 2.3 percent, compared with a 2.7 percent increase in the preceding twelve months. The deceleration in the core CPI has been especially pronounced for goods prices, which fell 1 percent in the twelve months ended in June, compared with a year-earlier increase of 0.3 percent. By contrast, prices of non-energy services, which rose 3.7 percent in the twelve months ended in June, were unchanged relative to the year-earlier reading.

RECENT PRICE INDICATORS
(Percent)

	From 12 months earlier		From 3 months earlier		2002	
	June 2001	June 2002	Mar. 2002	June 2002	May	June
			-Annual rate-		-Monthly rate-	
CPI						
Total	3.2	1.1	3.0	2.5	0.0	0.1
Food	3.4	1.6	3.0	-0.7	-0.2	0.0
Energy	8.4	-11.1	16.5	15.8	-0.7	0.0
Ex. food and energy	2.7	2.3	2.1	1.9	0.2	0.1
Ex. tobacco	2.6	2.2	2.1	1.6	0.2	0.0
Core commodities	0.3	-1.0	-1.9	-1.4	-0.3	-0.1
Ex. tobacco	-0.2	-1.6	-2.1	-2.7	-0.2	-0.3
Core services	3.7	3.7	3.8	3.4	0.3	0.1
Current-methods total	3.3	1.0	3.0	2.5	0.0	0.1
Ex. food and energy	2.7	2.3	2.1	1.9	0.2	0.1
Ex. tobacco	2.6	2.1	2.1	1.6	0.2	0.0
PCE Prices						
Total	2.3	1.0	2.4	1.8	-0.1	0.1
Food	3.1	1.9	3.1	-0.1	-0.2	0.1
Energy	7.7	-11.7	17.8	16.3	-1.0	0.1
Ex. food and energy	1.9	1.6	1.6	1.5	0.0	0.1
Ex. tobacco	1.8	1.5	1.6	1.1	0.1	0.0
Core commodities	-0.5	-1.2	-1.9	-1.1	-0.3	-0.1
Ex. tobacco	-1.0	-1.8	-2.0	-2.7	-0.2	-0.3
Core services	2.9	2.9	3.1	2.6	0.2	0.2
Core market-based	1.9	1.3	0.8	1.1	-0.1	0.1
Core nonmarket-based	1.8	2.8	4.3	2.9	0.3	0.2
PPI						
Total finished goods	2.6	-2.1	5.0	-2.0	-0.4	0.1
Food	3.2	-1.7	10.0	-12.4	-0.2	0.1
Energy	5.5	-12.4	25.1	0.5	-2.3	0.0
Ex. food and energy	1.6	0.3	-0.5	1.1	0.0	0.2
Ex. tobacco	0.9	0.1	-0.2	0.3	-0.0	0.2
Core consumer goods	2.1	0.6	-1.0	2.3	0.0	0.3
Ex. tobacco	1.0	0.3	-0.6	1.0	-0.0	0.3
Capital equipment	0.6	-0.2	-0.3	-0.3	-0.1	0.1
Intermediate materials	1.2	-2.7	3.2	2.2	-0.5	0.2
Ex. food and energy	0.1	-1.0	1.2	1.8	0.0	0.2
Crude materials	-4.0	-11.8	30.6	14.4	1.7	-3.6
Ex. food and energy	-11.3	6.2	1.0	40.5	3.4	1.6

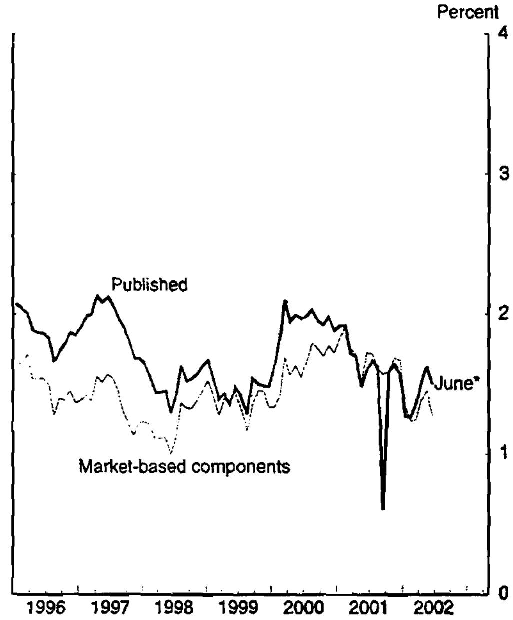
Measures of Core Consumer Price Inflation
(12-month change)

CPI and PCE excluding Food and Energy



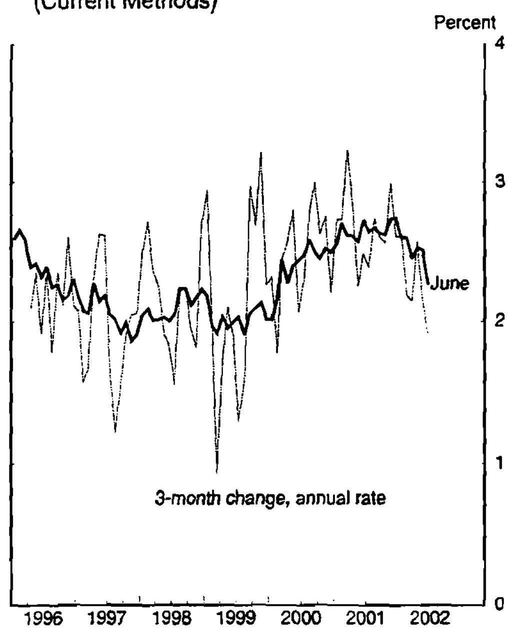
* Staff estimate

PCE excluding Food and Energy

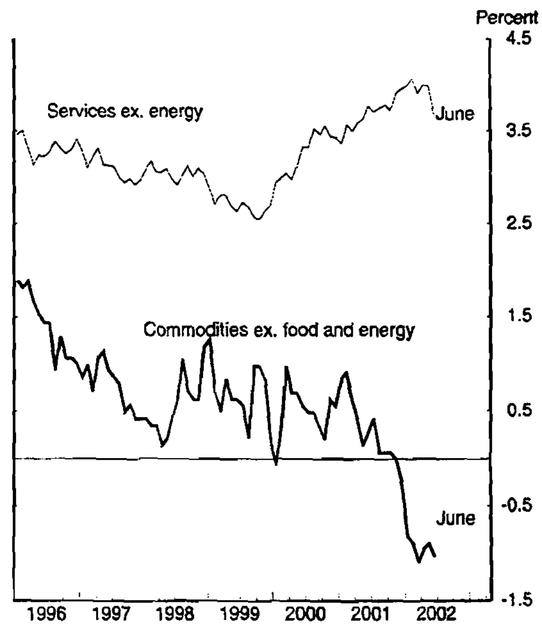


* Staff estimate

CPI excluding Food and Energy (Current Methods)



CPI Services and Commodities



BROAD MEASURES OF INFLATION
(4-quarter percent change)

	1999 Q2	2000 Q2	2001 Q2	2002 Q2
Product prices				
GDP chain price index	1.5	2.1	2.5	1.0
Less food and energy	1.5	2.0	2.0	1.4
Nonfarm business chain price index[1]	1.1	1.8	2.0	0.4
Expenditure prices				
Gross domestic purchases chain price index	1.4	2.5	2.3	0.9
Less food and energy	1.3	1.9	1.9	1.3
PCE chain price index	1.6	2.6	2.4	1.1
Less food and energy	1.4	1.8	1.8	1.6
PCE chain price index, market-based components	1.5	2.6	2.5	0.8
Less food and energy	1.3	1.6	1.8	1.4
CPI	2.1	3.3	3.4	1.3
Less food and energy	2.1	2.4	2.6	2.5
Current-methods CPI	2.0	3.3	3.4	1.3
Less food and energy	2.0	2.3	2.7	2.4
Median CPI	2.7	2.5	3.7	3.6
Trimmed mean CPI	1.7	2.4	2.9	2.2

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	1.3	3.1	2.7	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	1.1	3.0	2.7	3.3	2.8	2.5
July		2.7	2.6	3.2	2.8	

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.

The PCE price index for items other than food and energy was up 1.6 percent over the twelve months ended in June, compared with a 1.9 percent increase in the preceding twelve months. The slowing in core PCE inflation came from the market-based components of the index, which increased 1.3 percent in the twelve months ended in June, compared with 1.9 percent for the preceding year. By contrast, the part of core PCE for which market-based prices are not available is estimated to have risen 2.8 percent in the twelve months ended in June, up a full percentage point from a year earlier.

Broader measures of inflation have slowed markedly in recent quarters. The chain-weighted price index for GDP increased 1 percent in the four quarters ended at midyear, compared with an increase of 2.5 percent in the preceding four-quarter period. Although much of the slowdown reflected weaker food and energy prices, the core index increased 1.4 percent in the four quarters ended in the second quarter, a deceleration of 0.6 percentage point from the previous year.

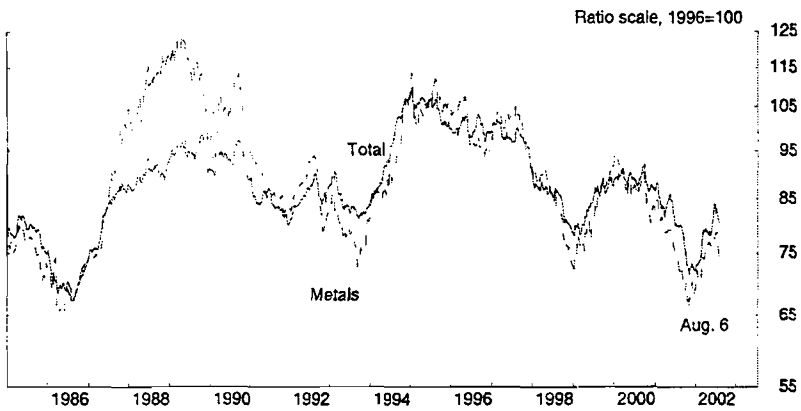
Despite the slowing that is apparent in most gauges of inflation, survey measures of inflation expectations have not shown much deceleration in recent months. According to the Michigan survey, median one-year-ahead inflation expectations were 2.6 percent in July, about the same as the readings from last summer and considerably above the responses from late last year. Longer-term inflation expectations also have changed little, with the median five-year to ten-year-ahead expectation of 2.8 percent in July well within the 2-3/4 percent to 3 percent range that has prevailed for the past several years.

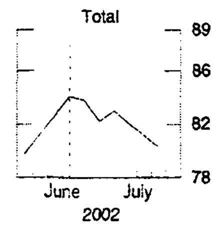
Although commodity prices generally have rebounded from a nosedive that occurred around the turn of the year, few inflationary pressures seem to be coming yet from earlier stages of processing. The PPI for intermediate materials other than food and energy rose 0.2 percent in June but was still 1 percent below the previous year's level. Prices for core crude materials rose substantially in May and June to a level 6.2 percent greater than one year earlier, a stark contrast to the 11 percent decline posted in the preceding twelve months. However, price increases for most nonagricultural commodities have turned down or changed little in June and July. The *Journal of Commerce* industrial price index fell about 4.4 percent during this period, and the *Commodity Research Bureau* index of industrial prices fell 2.2 percent. Prices for steel scrap, which earlier in the year had been boosted by trade restrictions and firmer demand, have been flat for more than a month, and copper prices have fallen more than 9 percent. In contrast, the CRB futures index has risen almost 1.2 percent since mid-June, boosted by the aforementioned jump in crop prices.

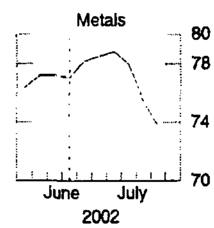
The employment cost index for hourly compensation of private industry workers rose at an annual rate of 4.4 percent over the three months ended in

Commodity Price Measures

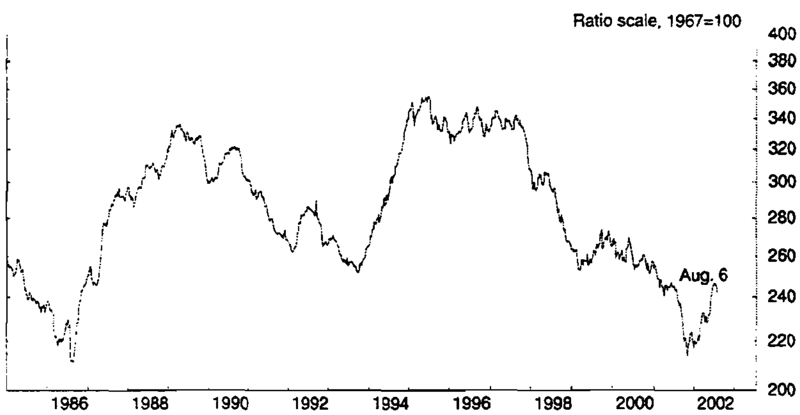
Journal of Commerce Index

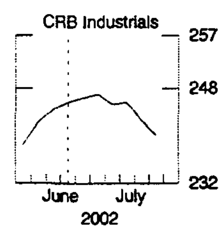




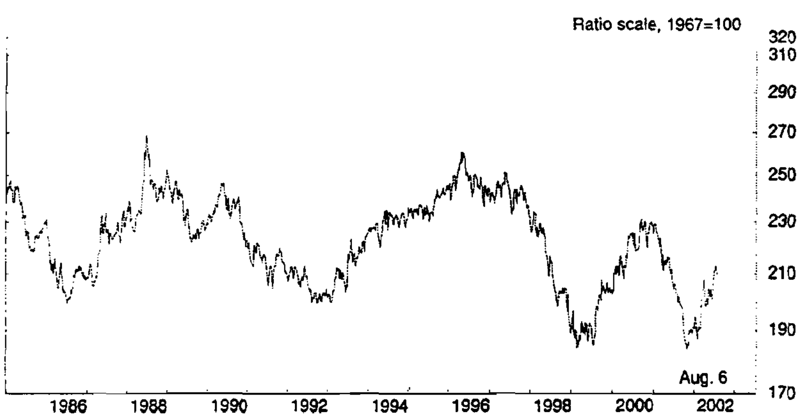


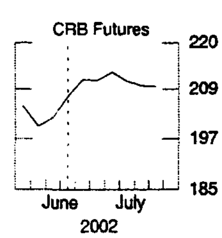
CRB Spot Industrials





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

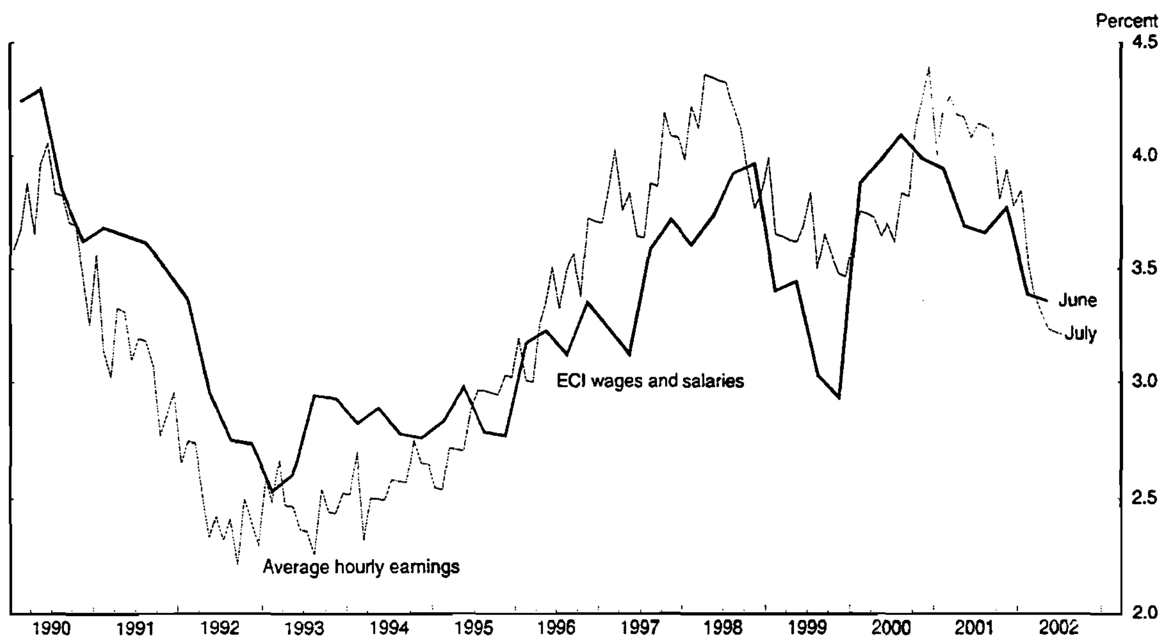
	Current price (dollars)	Percent change[1]: 2000	2001	Dec. 25 to June 25[2]	June 25[2] to Aug. 06	Memo: Year earlier to date
Metals						
Copper (lb.)	0.710	5.7	-22.0	9.9	-9.0	0.0
Steel scrap (ton)	101.667	-32.7	-17.7	56.4	0.0	27.1
Aluminum, London (lb.)	0.582	1.9	-14.3	-0.8	-3.2	-5.4
Precious metals						
Gold (oz.)	305.750	-4.7	1.2	15.9	-5.0	14.7
Silver (oz.)	4.645	-11.2	-3.5	7.1	-3.7	10.9
Forest products[3]						
Lumber (m. bdft.)	236.000	-41.5	25.0	8.4	-3.3	-20.0
Plywood (m. sqft.)	307.000	-4.9	3.2	7.3	-1.0	-9.2
Petroleum						
Crude oil (barrel)	25.690	-1.1	-16.3	37.5	0.4	-1.3
Gasoline (gal.)	0.781	7.6	-28.0	37.1	7.7	4.4
Fuel oil (gal.)	0.659	24.6	-42.6	20.2	0.6	-9.5
Livestock						
Steers (cwt.)	62.280	9.9	-19.7	5.0	-4.2	-9.5
Hogs (cwt.)	35.000	10.2	-9.9	29.4	-20.5	-32.7
Broilers (lb.)	0.522	-13.9	3.7	14.4	-11.5	-10.8
U.S. farm crops						
Corn (bu.)	2.395	11.4	-4.1	6.3	13.2	20.7
Wheat (bu.)	4.168	31.4	-8.9	11.0	18.2	37.4
Soybeans (bu.)	5.525	13.1	-13.4	17.0	10.9	10.8
Cotton (lb.)	0.391	31.4	-45.7	23.3	-0.6	3.1
Other foodstuffs						
Coffee (lb.)	0.410	-47.8	-35.3	0.6	-7.3	-9.9
Memo:						
JOC Industrials	80.400	-0.1	-17.1	16.8	-4.4	0.8
JOC Metals	73.800	-9.3	-17.0	11.4	-4.3	2.1
CRB Futures	209.690	12.0	-16.3	8.1	1.2	4.8
CRB Spot Industrials	240.200	-2.7	-14.6	12.1	-2.2	0.8

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 June 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 July 2002 from month indicated		Percent change	
	July 2000	July 2001	July 2002	Jan. 2002	Apr. 2002	June 2002	July 2002
	- - - - - - - - Annual rate- - - -					-Monthly rate-	
Total private nonfarm	3.6	4.1	3.2	2.8	3.0	0.3	0.3
Manufacturing	2.9	3.4	3.0	2.4	3.2	0.3	0.0
Construction	3.8	2.2	3.4	2.9	1.9	0.2	0.6
Transportation and public utilities	2.9	4.0	3.5	3.2	3.3	0.5	0.0
Finance, insurance, and real estate	3.2	4.8	3.3	4.0	5.0	0.6	0.7
Retail trade	4.0	3.2	2.7	2.6	2.4	0.6	-0.2
Wholesale trade	4.2	4.1	1.9	0.9	1.5	0.1	0.2
Services	4.0	5.2	4.0	3.5	3.8	0.3	0.5

Average Hourly Earnings for Production or Nonsupervisory Workers
(12-month change)



June, a pick-up of 0.8 percentage point from the previous three-month interval. This acceleration, when most indicators of labor costs had been trending down for more than a year, largely reflected a surge in benefit costs last quarter. The wages and salaries component of the index rose at an annual rate of 3.9 percent in the three months ended in June, only a touch higher than in the previous three-month period. Taking a somewhat longer view, over the twelve months ended in June, the ECI for compensation rose 4 percent—the same rate of increase as in the previous twelve-month period, with a slowdown in wages and salaries offsetting the acceleration in benefits. Among the major components of benefits, employer costs for health insurance and workers' compensation picked up considerably over the past year, while nonproduction bonuses decelerated sharply.

Compensation per hour in the nonfarm business sector (CPH) through midyear continued the sharp deceleration that had begun in early 2001. In the second quarter, CPH likely increased 2.9 percent, bringing the four-quarter change to 3.0 percent, considerably less than the increases in the ECI. In constructing its current-quarter CPH estimate, the BEA supplements the monthly series on average hourly earnings of production or nonsupervisory workers, which has been rising at roughly a 3.0 percent pace, with judgment based on information from much more comprehensive but less timely unemployment insurance (UI) tax records.[12] Indeed, the rise in the CPH was well below that in the ECI last year, a difference that probably reflected a sharp reduction in stock option exercises (which are included in the UI tax records but not in the ECI).

12. With this annual revision, the BEA implemented a new procedure to estimate private wages and salaries. Henceforth, the series will remain open to revision for one quarter longer than the rest of the NIPA accounts so that the BEA can incorporate preliminary data from the UI tax system. For example, when the final release for 2002:Q2 is published in September, the BEA will revise its estimate of private wages and salaries in 2002:Q1. It also will revise all aggregates that depend on private wages and salaries.

EMPLOYMENT COST INDEX OF HOURLY COMPENSATION
FOR PRIVATE INDUSTRY WORKERS

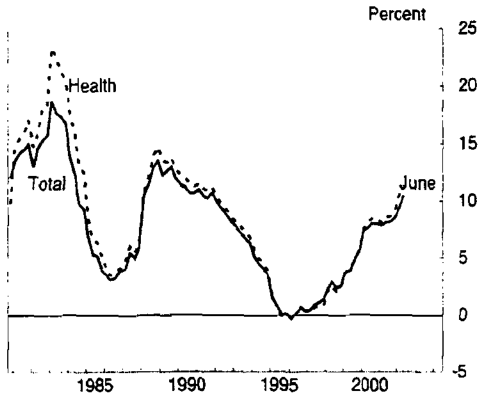
	2001			2002	
	June	Sept.	Dec.	Mar.	June
	-----Quarterly percent change------- (Compound annual rate)				
Total hourly compensation[1]	4.0	3.7	4.2	3.6	4.4
Wages and salaries	4.1	2.9	3.7	3.7	3.9
Benefit costs	4.3	5.5	5.2	4.4	5.6
By industry					
Construction	4.4	4.1	4.8	2.6	1.6
Manufacturing	3.5	2.4	4.0	4.2	3.6
Trans., comm., and public utilities	4.9	2.7	6.7	3.9	3.9
Wholesale trade	5.5	3.1	1.8	7.2	9.7
Retail trade	2.4	3.2	8.5	-1.0	5.3
FIRE	4.1	3.6	1.0	10.0	5.2
Services	3.4	5.2	3.6	3.5	2.7
By occupation					
White collar	4.2	3.6	4.9	3.3	4.5
Blue collar	2.7	4.4	3.8	3.7	3.7
Service occupations	3.2	4.0	5.6	4.7	2.3
Memo:					
State and local governments	4.3	5.6	2.6	2.9	3.4
	-----Twelve-month percent change----				
Total hourly compensation	4.0	4.0	4.2	3.9	4.0
Excluding sales workers	4.2	4.1	4.2	3.9	4.0
Wages and salaries	3.8	3.6	3.8	3.5	3.6
Excluding sales workers	3.9	3.9	3.9	3.6	3.5
Benefit costs	4.8	4.9	5.1	4.8	5.1
By industry					
Construction	5.0	4.5	4.3	4.0	3.3
Manufacturing	3.5	3.1	3.5	3.5	3.6
Trans., comm., and public utilities	4.6	4.1	4.9	4.5	4.3
Wholesale trade	4.0	4.3	3.3	4.4	5.4
Retail trade	3.4	3.2	4.5	3.2	3.9
FIRE	4.2	3.7	3.6	4.6	4.9
Services	4.4	4.6	4.5	3.9	3.7
By occupation					
White collar	4.2	4.0	4.2	4.0	4.1
Sales	2.8	2.5	3.5	3.5	4.6
Nonsales	4.5	4.4	4.4	4.0	3.9
Blue collar	3.6	3.8	3.8	3.6	3.9
Service occupations	4.1	4.1	4.5	4.3	4.0
Memo:					
State and local governments	3.6	4.4	4.2	3.9	3.6

1. Seasonally adjusted by the BLS.

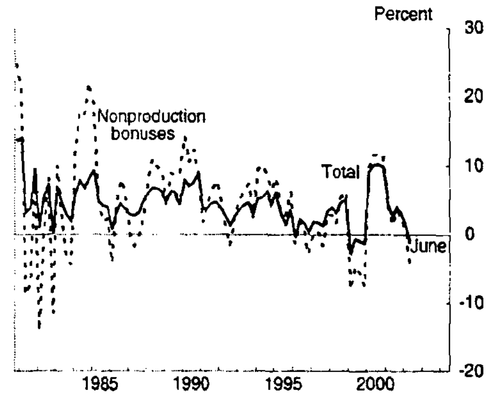
Components of ECI Benefits Costs (CONFIDENTIAL)

(Private industry workers; 12-month change)

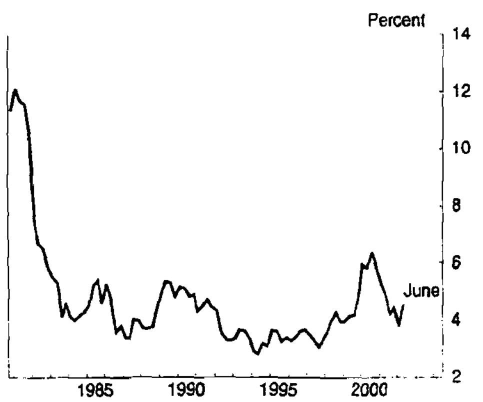
Insurance Costs



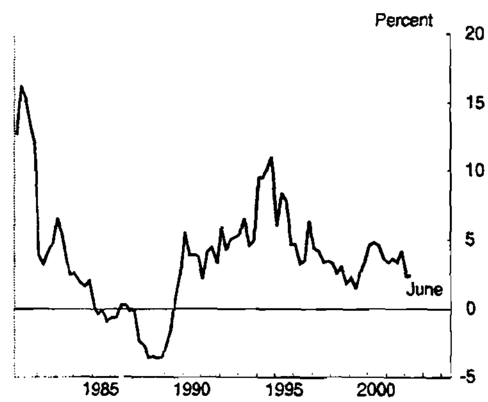
Supplemental Pay



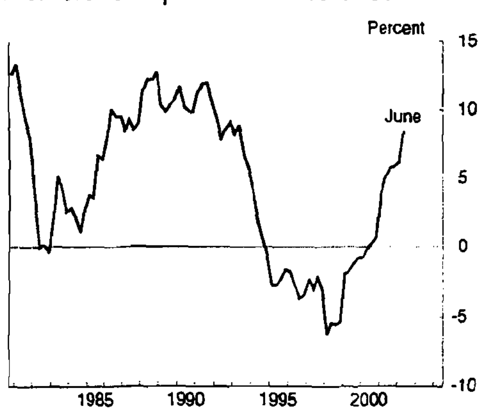
Paid Leave



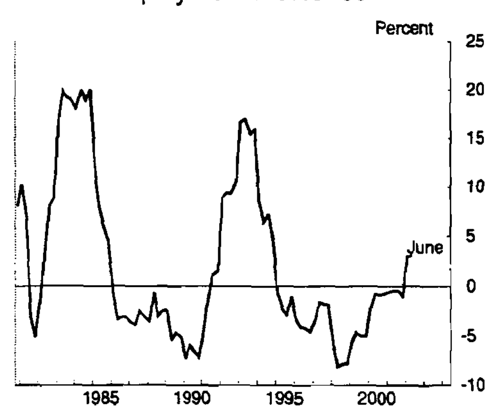
Retirement and Savings



Workers' Compensation Insurance



State Unemployment Insurance



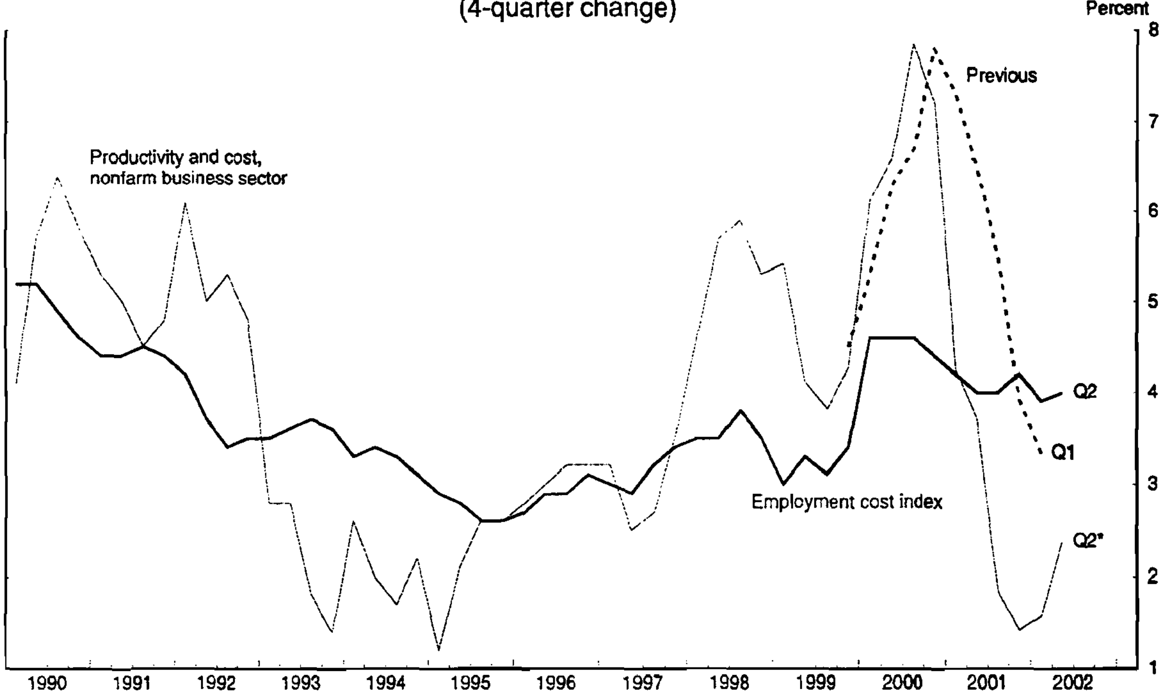
Note. Unpublished and confidential ECI benefits detail.

LABOR COSTS [1]
(Percent change, annual rate; based on seasonally adjusted data)

	2000 [2]	2001 [2]	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2001:Q2 to 2002:Q2
Compensation per hour							
Nonfarm business	7.2	1.4	1.1	1.5	3.6	3.3	2.4
Unit labor costs							
Nonfarm business	4.9	-0.7	-1.1	-5.7	-4.8	1.9	-2.5

1. Staff estimates.
2. Changes are from fourth quarter of preceding year to fourth quarter of year shown.

Measures of Compensation per Hour
(4-quarter change)



* NFB Comp. per hour is staff estimate beginning in 1999:Q1.

Appendix

Annual Revision of the National Income and Product Accounts

The annual revision of the national income and product accounts that was released on July 31 affected data back to 1999. The revision allows the Bureau of Economic Analysis (BEA) to incorporate more comprehensive source data, including data from tax records and various annual surveys. Measured in terms of four-quarter percent changes, the BEA revised down the rate of change of real GDP for each of the three years: for 1999 by 0.1 percentage point, to 4.3 percent; for 2000 by 0.5 percentage point, to 2.3 percent; and for 2001 by 0.4 percentage point, to 0.1 percent. On a quarterly basis, the revised data continue to show a sizable deceleration in real GDP in 2000. However, they also now show that the downturn during 2001 was a bit deeper and more protracted than in the previous estimates: The cumulative decline in real GDP during the first three quarters of the year is now 0.6 percent. Even with the revision, that downturn remains quite mild compared with the average drop of 2.3 percent recorded during other post-1955 recessions. On balance, the NIPA measures of inflation were revised little.

Among the components of real GDP, the largest downward adjustments were to personal consumption expenditures (PCE) and to spending on business equipment and software (E&S). PCE expenditures for brokerage services and for banking services were both revised down substantially; the revision to brokerage services resulted from the introduction of a new deflator based on a producer price index, and the revision to banking services largely reflected updated source data showing individuals holding a smaller fraction of total bank deposits. Purchases of consumer durable goods, especially light trucks, were also revised down substantially. That revision as well as those to the estimates of outlays for E&S were in large part the result of new information on shipments from the 2000 *Annual Survey of Manufactures*. The largest downward revision within E&S was to spending on computers and peripheral products. Regarding other categories, the BEA revised up its estimates of spending by state and local governments. Real net exports of goods and services were revised down: Real exports were revised down, and real imports were revised up.

The downward revisions to real GDP also imply that labor productivity rose less rapidly in recent years than previously thought. After having incorporated both the new output estimates and the revised figures on hours released last month by the Bureau of Labor Statistics, we estimate that the revised data to be released on Friday will show that the cumulative increase in output per hour in the nonfarm business sector over the 1999-2001 period was 0.7 percentage point smaller. The largest revision to the four-quarter change in productivity, 0.5 percentage point, will be in 2000. Overall, labor productivity will continue to show an acceleration from 1.5 percent per year during the 1973-95 period to just under 3 percent in 1999-2000. Last year's cyclical slowdown in labor productivity will appear more pronounced, but the revised estimates will continue to show a sharp acceleration in the fourth quarter of 2001 and the first quarter of this year.

Gross domestic income was also revised down. Downward revisions to employee compensation and to corporate profits swamped upward revisions to net interest income. With income revised down more than product, the statistical discrepancy was narrowed somewhat. Data from state unemployment insurance wage records led the BEA to lower by nearly $150 billion its estimate of nominal wages and salaries of private employees in 2001. But the BEA also boosted personal interest income significantly in both 2000 and 2001. Taken together, the updated estimates of personal income and PCE boosted the personal saving rate 1.8 percentage points in 2000 and 0.7 percentage point in 2001.

In a significant change in methodology, the BEA will now use the quarterly unemployment insurance data, rather than the information from the payroll employment survey, to estimate the quarterly pattern of wages and salaries.[1] To accommodate the timely use of these data, the BEA will now publish revised estimates of wages and salaries one quarter back when it publishes its final GDP report. The BEA hopes that the change will help to avoid the large annual revisions to wages and salaries that have occurred in the past several years.

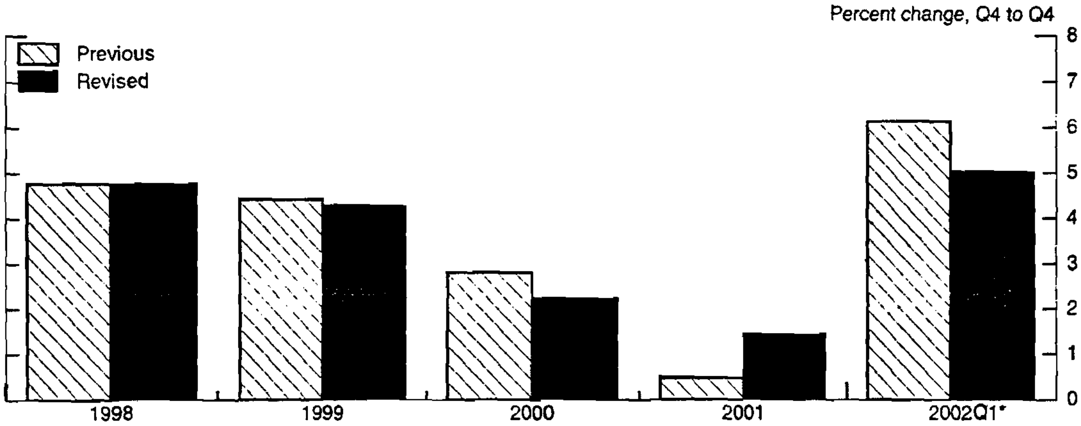
With this release, the estimate of corporate profits for 1999 is now based on complete tabulations of corporate tax returns, and the 2000 figure is based on a preliminary tabulation. Estimates for 2001 continue to reflect the trajectory implied by financial reports, with some adjustments. Corporate economic profits were revised down in all three years affected by the revision: $19.4 billion in 1999, $88.3 billion in 2000, and $35.5 billion in 2001. The figures now show profits to have peaked at the end of 1999 rather than three quarters later. The downward revisions for 2000 and 2001 were centered in the nonfinancial corporate sector; for 1999, both financial and nonfinancial corporate profits were revised down. By industry, the largest downward revisions were in the communications and business services industries. As a result, the profit share as a percent of GNP (excluding Federal Reserve Banks) was revised down in all three years as well.

Apparently, a key factor in the profits revisions was the cycle in stock-option expenses. Because employee gains on stock-option exercises are treated as an expense by the Internal Revenue Service (IRS) but not in company financial reports, NIPA profits do not accurately reflect large swings in exercises until after the IRS data are rolled in. In 2000, skyrocketing option exercises drove down NIPA profits. In last year's benchmark, the BEA had anticipated some, though apparently not all, of this jump in option exercises. For 2001, the staff believes that option exercises plummeted, and the BEA has acknowledged having built into the new estimates an ad hoc adjustment that boosted its estimates of profits last year. However, if the past is any guide, the adjustment will probably fall short of the full effect of the decline in option exercises, which suggests that 2001 NIPA profits could be revised up in next year's benchmark.

1. Because the UI data can be quite volatile from quarter to quarter, the revised changes in wages and salaries now show larger quarterly fluctuations than do the previous estimates. For example, the surge in wages and salaries now reported for the first quarter of 2000 likely reflects a burst of stock-option exercises that quarter, which are measured in the UI data but not in the average hourly earnings data used previously to interpolate the annual UI estimates. However, because the BEA does not have a similar indicator series with which to interpolate its quarterly estimates of profits, the statistical discrepancy has also become more volatile from quarter to quarter.

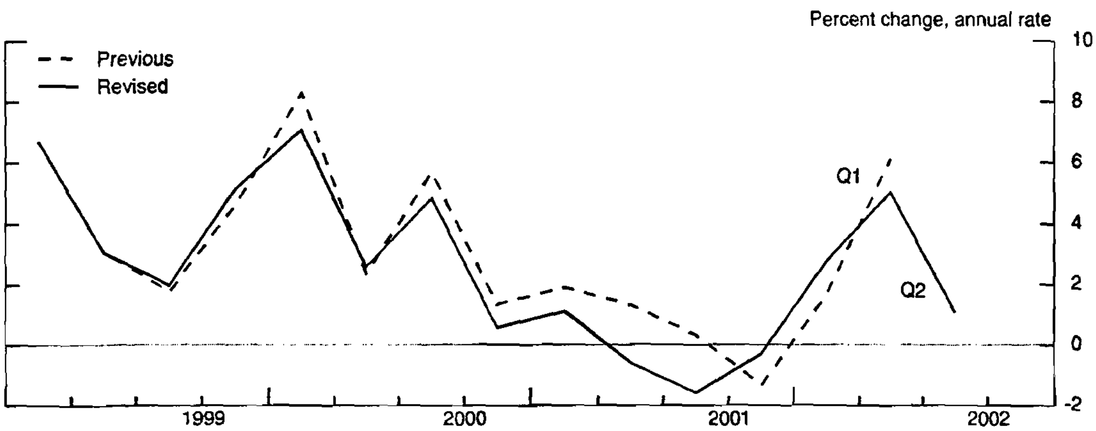
2002 Annual Revisions to National Income and Product Accounts

Real GDP



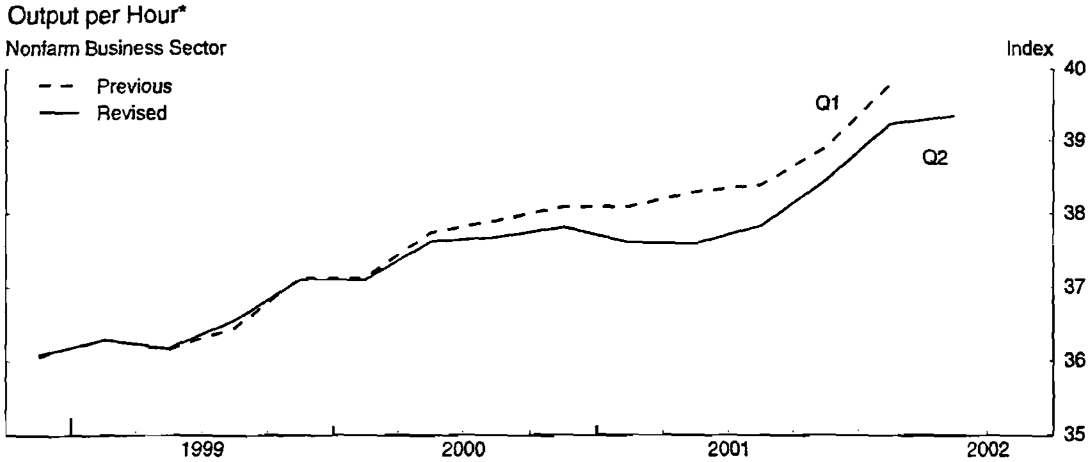
*2002:Q1 given as quarterly percent change at an annual rate.

Real GDP



Output per Hour*

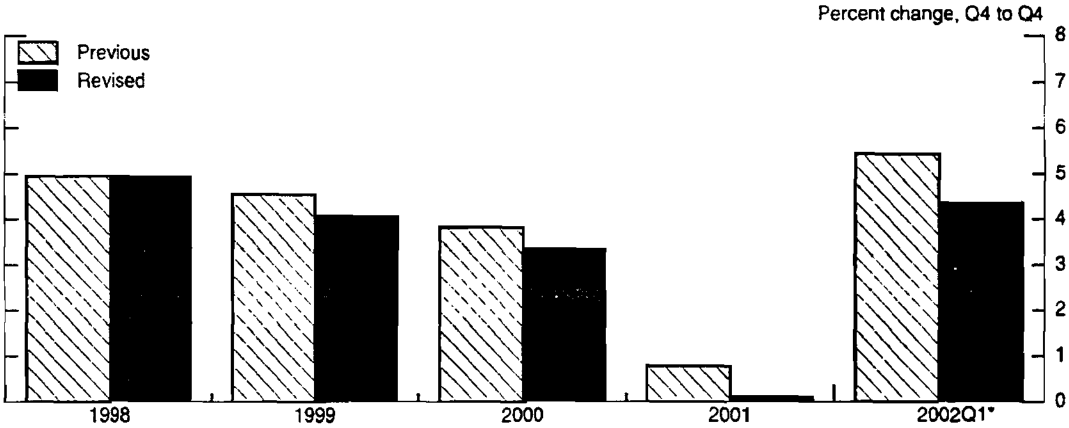
Nonfarm Business Sector



*Staff estimates.

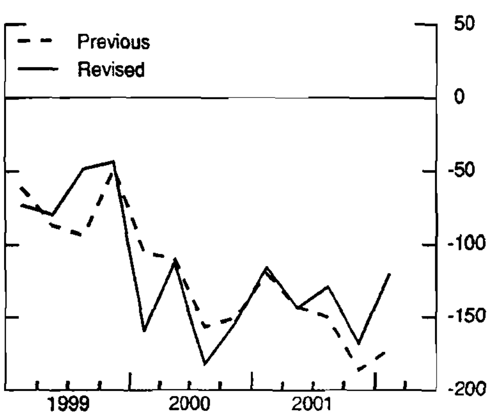
Annual Revision to National Income and Product Accounts

Real GDI

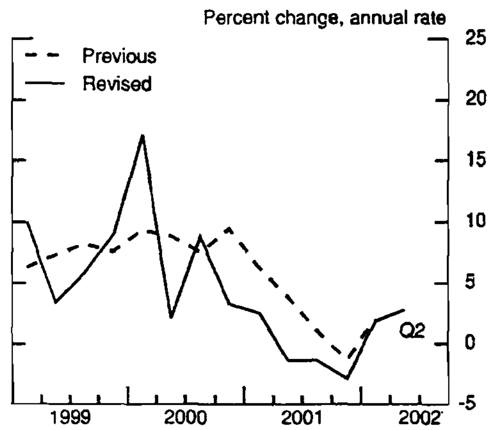


*2002:Q1 given as quarterly percent change at an annual rate.

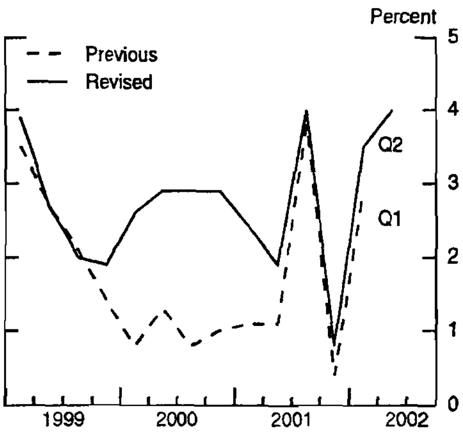
Statistical Discrepancy



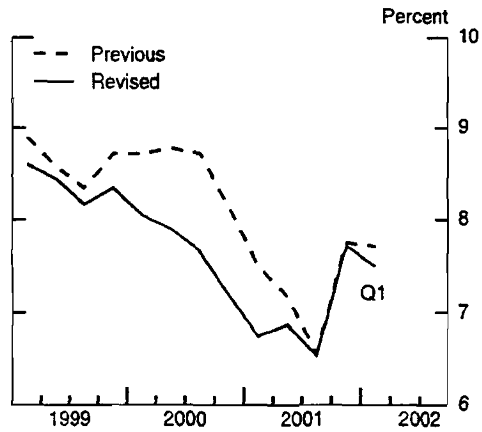
Private Wages and Salaries



Personal Saving Rate



Profits as a Share of GNP*



*Excluding FR Banks

Domestic Financial Developments

III-T-1

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

Instrument	2000	2001	2002	2002	Change to Aug. 6 from selected dates (percentage points)		
	June 26	Sept. 10	June 25	Aug. 6	2000 June 26	2001 Sept. 10	2002 June 25
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	1.70	1.62	-4.04	-1.57	-.08
6-month	5.94	3.13	1.77	1.57	-4.37	-1.56	-.20
Commercial paper (A1/P1 rates)							
1-month	6.56	3.42	1.75	1.71	-4.85	-1.71	-.04
3-month	6.56	3.24	1.74	1.68	-4.88	-1.56	-.06
Large negotiable CDs [1]							
1-month	6 64	3 46	1 80	1.74	-4.90	-1 72	-.06
3-month	6.73	3.26	1.81	1.70	-5.03	-1.56	-.11
6-month	6.89	3.24	1.89	1.69	-5.20	-1.55	-.20
Eurodollar deposits [2]							
1-month	6.63	3.41	1.78	1.73	-4.90	-1.68	-.05
3-month	6.69	3.26	1.81	1.70	-4.99	-1.56	-.11
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	2.89	2.10	-4.44	-1 49	-.79
10-year	6.35	5.14	5.11	4.67	-1.68	-.47	-.44
30-year	6.22	5.55	5.68	5.42	-.80	-.13	-.26
U.S. Treasury 10-year indexed note	4.09	3.26	3.12	2.66	-1.43	-.60	-.46
Municipal revenue (Bond Buyer) [4]	5.99	5.25	5.42	5.34	-.65	.09	-.08
Private instruments							
10-year swap	7.38	5.62	5.40	4 95	-2.43	-.67	-.45
10-year FNMA	7.15	5.64	5.39	4.99	-2.16	-.65	-.40
10-year AA [5]	7.64	6.30	6.15	5.99	-1.65	-.31	-.16
10-year BBB [5]	8.40	7.11	7.23	7.33	-1.07	.22	.10
High yield [6]	12.30	12.72	12.46	13.44	1.14	.72	.98
Home mortgages (FHLMC survey rate) [7]							
30-year fixed	8.14	6.89	6.63	6.43	-1.71	-.46	-.20
1-year adjustable	7 22	5 64	4 60	4.45	-2.77	-1.19	-.15

Stock exchange index	Record high		2001	2002		Change to Aug. 6 from selected dates (percent)		
	Level	Date	Sept. 10	June 25	Aug. 6	Record high	2001 Sept. 10	2002 June 25
Dow-Jones Industrial	11,723	1-14-00	9,606	9,127	8,274	-29.42	-13.86	-9.34
S&P 500 Composite	1,527	3-24-00	1,093	976	860	-43.73	-21.32	-11.94
Nasdaq (OTC)	5,049	3-10-00	1,695	1,424	1,260	-75.05	-25.71	-11.55
Russell 2000	606	3-9-00	441	452	381	-37.18	-13.60	-15.84
Wilshire 5000	14,752	3-24-00	10,104	9,252	8,153	-44.73	-19.31	-11.87

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.
6. Merrill Lynch Master II high-yield bond.
7. For week ending Friday previous to date shown.

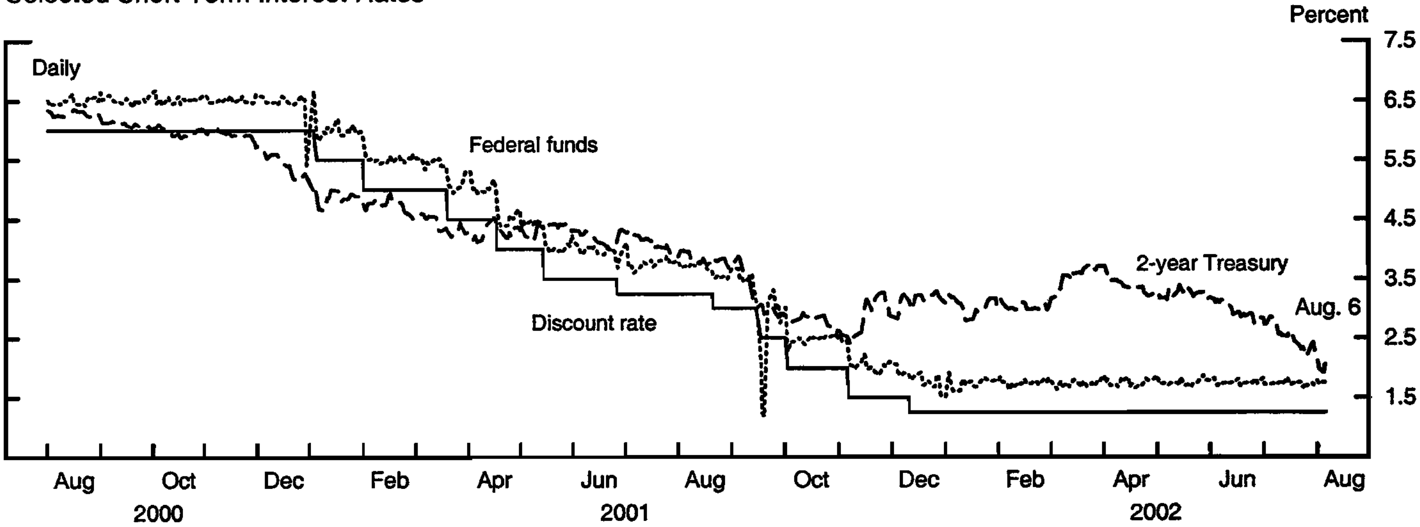
NOTES·

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.
June 25, 2002, is the day before the announcement after the most recent FOMC meeting

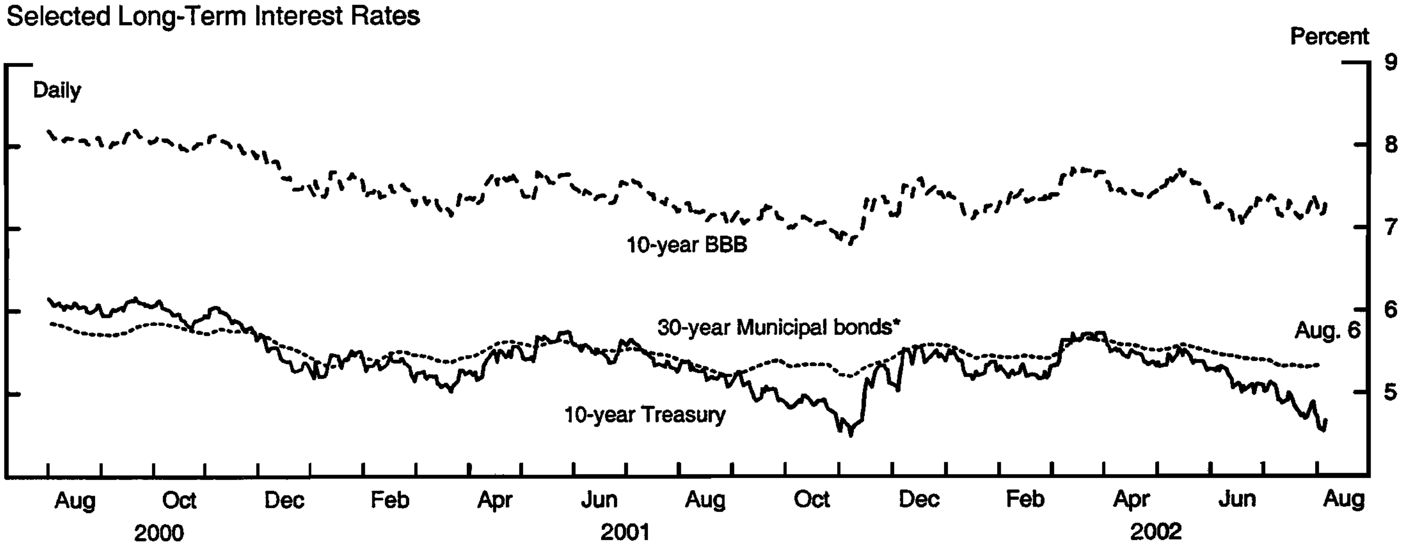
BA DAM

Selected Interest Rates

Selected Short-Term Interest Rates

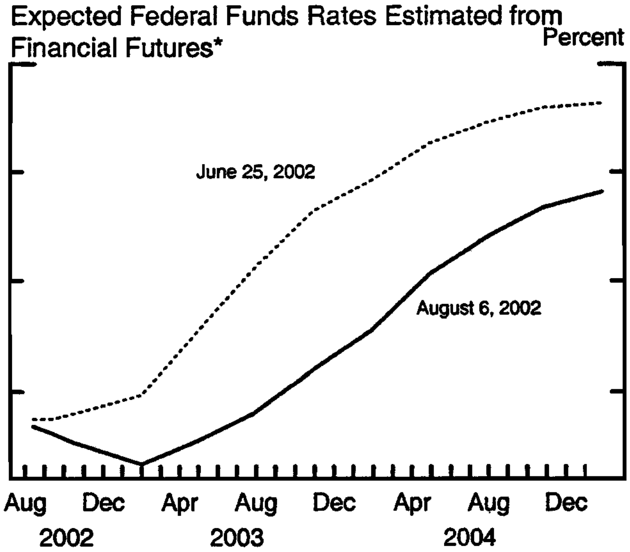


Selected Long-Term Interest Rates



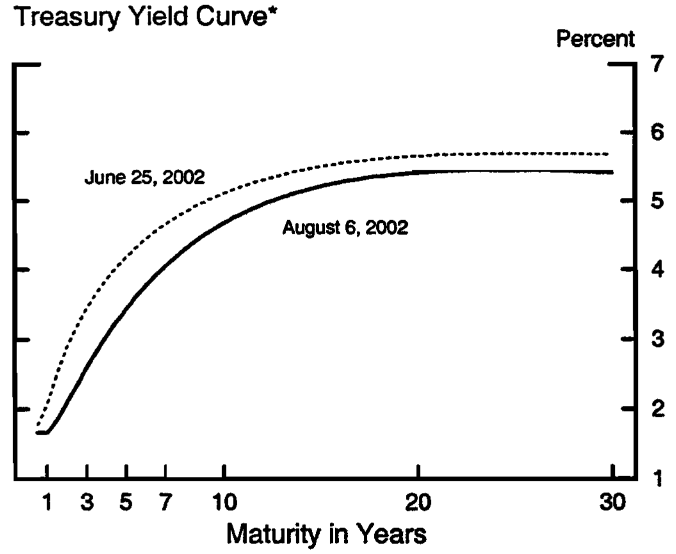
*Bond Buyer Revenue, weekly Thursday frequency.

Expected Federal Funds Rates Estimated from Financial Futures*



*Estimates from federal funds and eurodollar futures rates with an allowance for term premia and other adjustments

Treasury Yield Curve*



*Smoothed yield curve estimated using off-the-run Treasury coupon securities. Yields shown are those on notional par Treasury securities with semi-annual payments.

Domestic Financial Developments

Overview
Sharp net declines in stock prices and heightened volatility dominated financial market developments during the intermeeting period. Share values across all sectors plunged in mid-July amid mounting evidence of accounting scandals and company warnings about near-term profits. Though equity prices recovered some in late July, they have fallen again more recently on earnings warnings and data suggesting that the economic recovery is losing momentum. On balance, broad stock price indexes are down about 12 percent since the last FOMC meeting.

The decline in share prices and the weak incoming data led market participants to mark down their expectations for economic growth and, consequently, their anticipated path for monetary policy. At the same time, investors have pulled back from risk-taking in fixed-income markets, with risk spreads for corporate bonds widening substantially, especially for lower-rated issuers. Although dealers suggest that the Treasury market functioned well in the intermeeting period, liquidity in the corporate bond market has reportedly eroded.

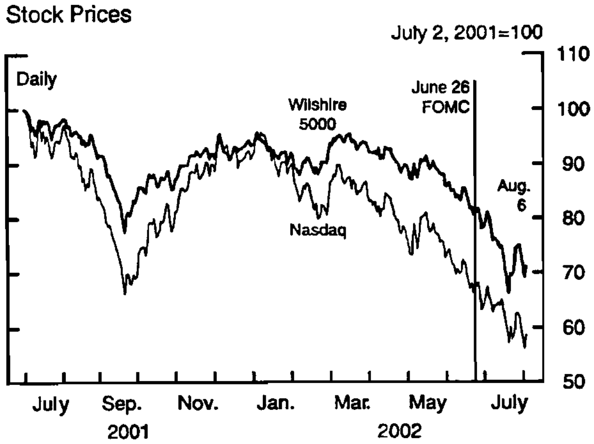
Net debt financing by firms was extremely weak in June and July because of poor market conditions and sluggish demand. In contrast, household borrowing remains strong and continues to be spurred by low mortgage rates. Treasury borrowing for the third quarter was revised upward.

Policy Expectations, Stock Prices, and Interest Rates
Neither the FOMC's decision announced after the June 25-26 meeting to leave the target federal funds rate unchanged and to maintain a balanced assessment of risks nor the Chairman's monetary policy testimony to the Congress on July 16 and 17 caused much market reaction. In light of lower equity prices and, more recently, weaker-than-expected economic data, market participants have dramatically marked down their anticipated path for interest rates. Near-term federal funds futures contracts suggest that market participants are now fully pricing in a 25 basis point reduction in the target federal funds rate by the end of the year and see some possibility of a move as soon as the August 13 meeting. The path of the expected funds rate beyond year-end has come down even more, with implied rates on longer-dated eurodollar futures contracts as much as 130 basis points lower over the intermeeting period.

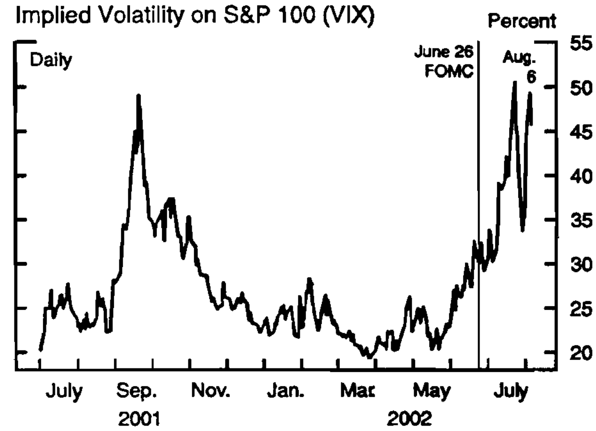
Taking their cue from stock prices, Treasury yields were volatile and down markedly on balance over the intermeeting period. Two- and ten-year coupon yields declined 79 and 44 basis points, respectively, with the yield on the two-year note touching a historical low. Yields on longer-term Treasury inflation-indexed securities moved down nearly as much as similarly dated nominal securities, leaving implied inflation compensation little changed. Dealers report

Stock Prices and Corporate Risk Spreads

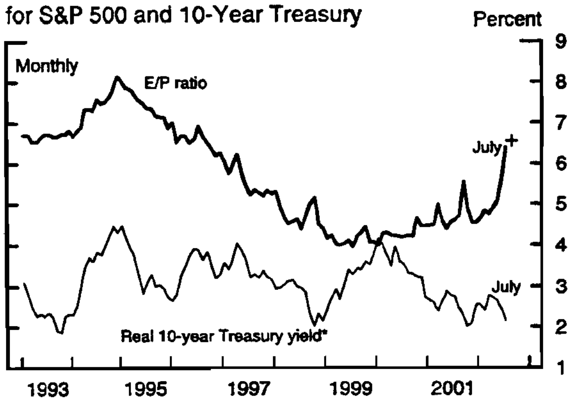
Stock Prices



Implied Volatility on S&P 100 (VIX)

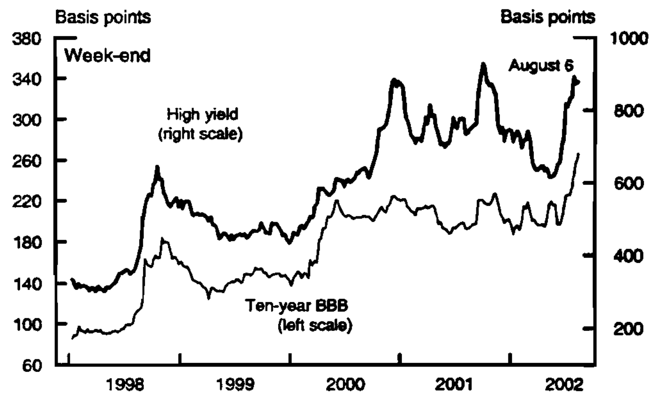


12-Month Forward Earnings-Price Ratio for S&P 500 and 10-Year Treasury

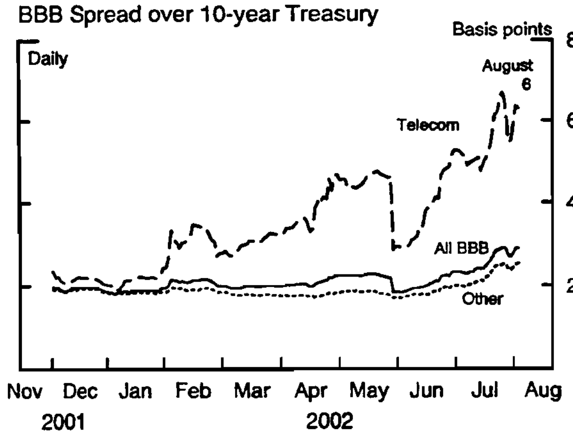


* 10-year Treasury yield minus Philadelphia Fed 10-year expected inflation.
+ Denotes the latest observation using daily prices and latest earnings data from I/B/E/S.

Lower-Tier Risk Spreads to 10-Year Treasury

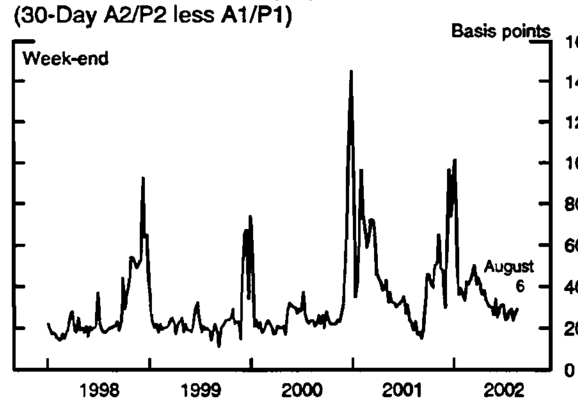


BBB Spread over 10-year Treasury



Note: Indexes constructed from Merrill Lynch database using bonds with remaining maturities of between 5 and 15 years. Rebalanced on the last day of each month, which can lead to outsized changes at month-end.

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



that trading in the Treasury market remained orderly, although bid-asked spreads at times widened moderately.

Major equity indexes were at one point down as much as 20 percent during the intermeeting period, and some touched their lowest levels since the spring of 1997. Stock price volatility surged to its highest reading since the 1987 stock market crash. While prices have since recouped some of those losses, the twelve-month forward earnings-price ratio for the S&P 500 and its spread relative to real ten-year Treasury yields stand at levels not seen since the mid-1990s.

Yields on investment-grade corporate bonds fell less than those on comparable Treasuries over the intermeeting period, thereby boosting spreads 25 to 55 basis points. Soaring yields on junk-rated corporate bonds pushed spreads about 140 basis points wider as concerns about corporate credit quality mounted. Spreads for telecom and energy firms widened especially, but those for many other sectors were up as well. Moreover, liquidity in the corporate bond market appears to have eroded, with bid-asked spreads widening for all credits.

Commercial paper spreads were largely unaffected by the difficulties in the corporate bond market. Investors in the commercial paper market appeared unperturbed by the equity and bond market volatility, perhaps because many firms last year and earlier this year had strengthened their cash positions and reduced rollover risk by substituting long-term debt for short-term debt; accordingly, the pace of short-term ratings downgrades has slowed recently.

Business Finance

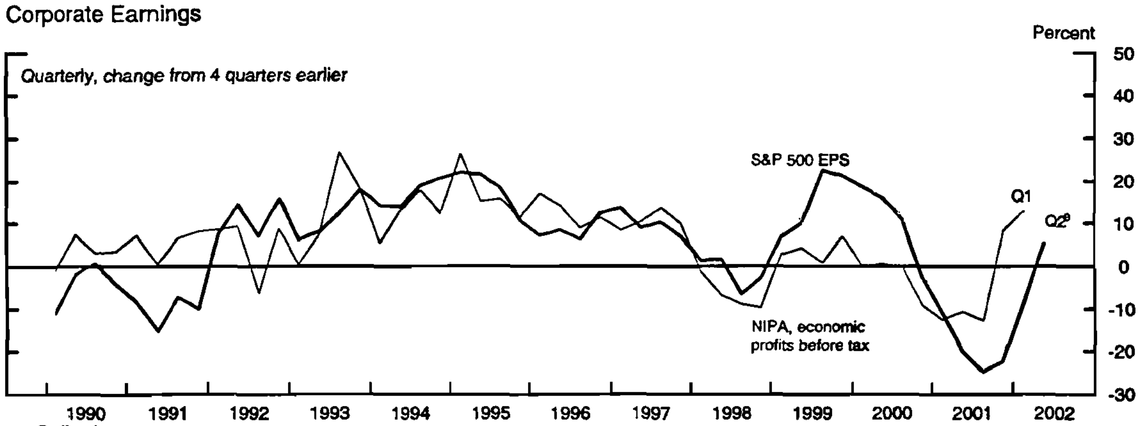
Most corporate earnings reports for the second quarter met or slightly surpassed expectations, and S&P 500 earnings are estimated to have exceeded first-quarter results by 6 percent at a quarterly rate.[1] However, those second-quarter earnings reports that fell short of expectations missed by wide margins, and a number of firms warned about poorer prospects for the second half of the year. Even though analysts revised down their forecasts for the third quarter, their projections remain optimistic and imply that S&P 500 earnings in the third quarter will exceed second-quarter earnings by 7 percent.

Measures of corporate credit quality continue to show signs of distress. Moody's downgraded $120 billion of nonfinancial bonds in June and upgraded

1. Four-quarter growth rates in 2002 have been boosted more than 5 percentage points by the December 2001 change in GAAP that largely eliminated amortization of acquired goodwill. Second-quarter earnings would have been slightly below year-earlier results without this change. However, this accounting adjustment barely affects inferences regarding the acceleration in earnings from the first quarter to the second quarter.

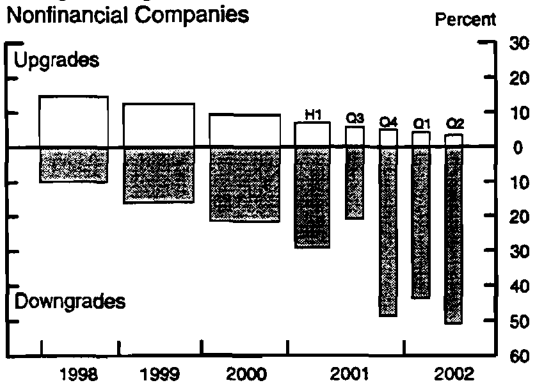
Corporate Credit Quality and Earnings

Corporate Earnings



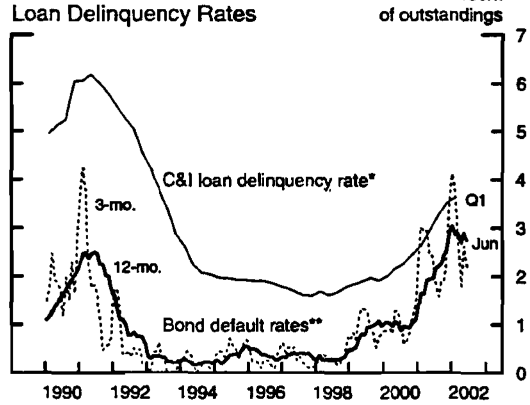
e Staff estimate.
Source. I/B/E/S for S&P 500 EPS.

Ratings Changes
Nonfinancial Companies



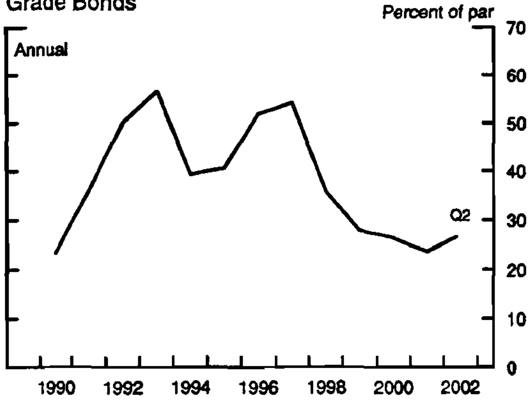
Note. Data are at an annual rate. Debt upgrades (downgrades) as a percentage of par value of all bonds outstanding.
Source. Moody's Investors Service.

Bond Default and
Loan Delinquency Rates



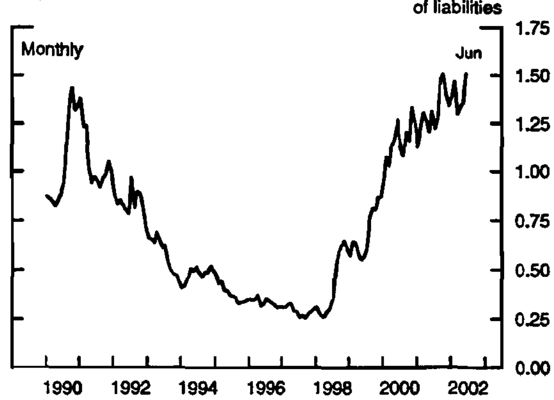
*Source. Call Report.
**Moving averages, from Moody's Investors Service.

Recovery Rate on Defaulted Speculative-Grade Bonds



Source. Moody's Investors Service and Ed Altman. Average market price at default for bonds rated speculative-grade at issuance.

Expected Year-Ahead Defaults



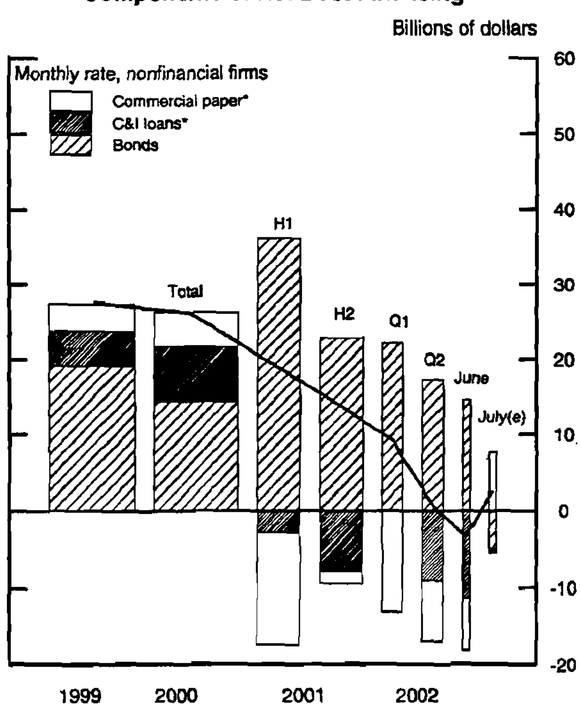
Note. Firm-level estimates of default weighted by firm liabilities as a percent of total liabilities.
Source. KMV Corp.

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 Q2	2002 June	2002 July[e]
Nonfinancial corporations								
Stocks[1]	9.2	9.9	7.5	5.5	6.2	8.8	12.0	1.7
Initial public offerings	4.2	4.4	3.2	1.0	1.0	1.4	1.2	0.4
Seasoned offerings	5.0	5.5	4.2	4.5	5.2	7.5	10.7	1.3
Bonds[2]	24.5	20.2	43.1	31.2	31.0	27.0	26.9	7.6
Investment grade[3]	13.9	11.9	28.9	24.0	18.3	18.5	19.4	4.8
Speculative grade[3]	7.5	4.5	11.9	5.8	6.6	6.1	6.4	1.6
Other (sold abroad/unrated)	3.1	3.7	2.4	1.4	6.1	2.4	1.2	1.2
Memo								
Net issuance of commercial paper[4]	3.6	4.5	-14.5	-1.5	-13.0	-7.7	-6.7	7.7
Change in C&I loans at commercial banks[4]	4.7	7.4	-2.9	-8.0	-0.1	-9.1	-11.3	-0.6
Financial corporations								
Stocks[1]	1.8	1.4	3.0	5.5	5.1	3.3	4.9	6.9
Bonds	53.9	47.1	69.9	64.7	73.6	80.0	90.6	44.6

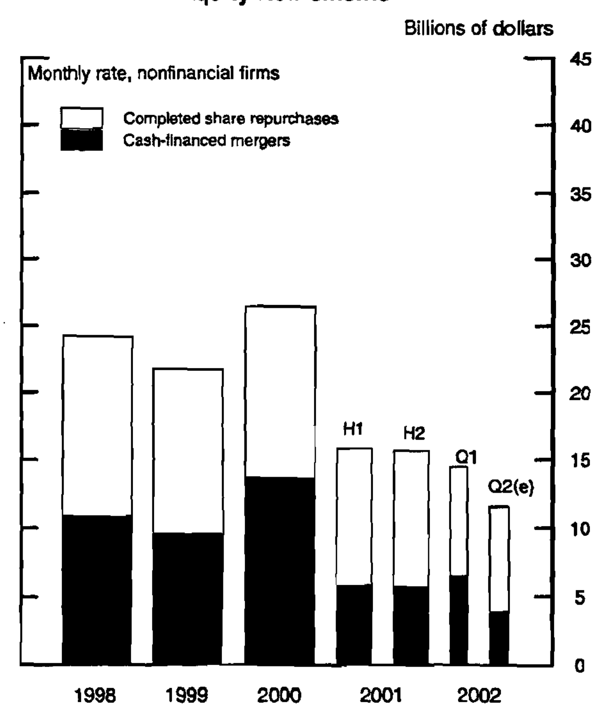
Note. Components may not sum to totals because of rounding. These data include speculative-grade bonds issued privately under Rule 144A. All other private placements are excluded. Total reflects gross proceeds rather than par value of original discount bonds.
1. Excludes equity issues associated with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

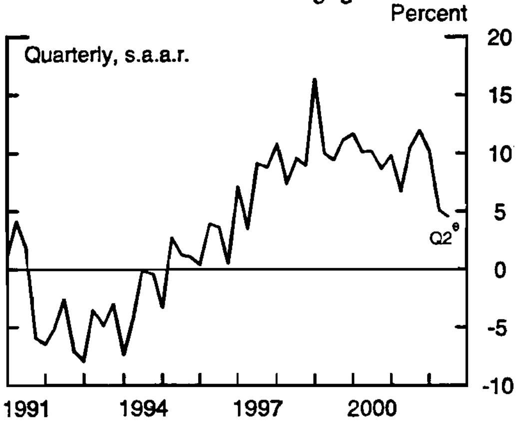
Equity Retirements



e Based on staff estimate for share repurchases.

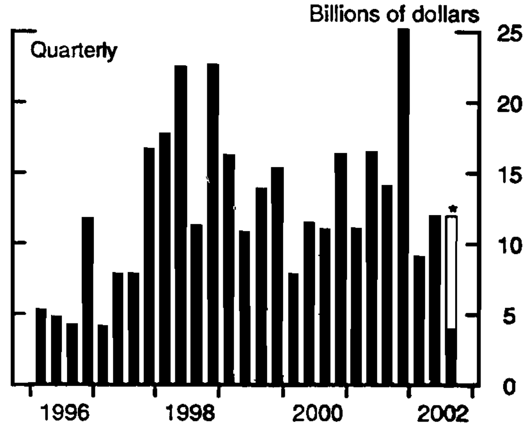
Commercial Real Estate

Growth of Commercial Mortgage Debt



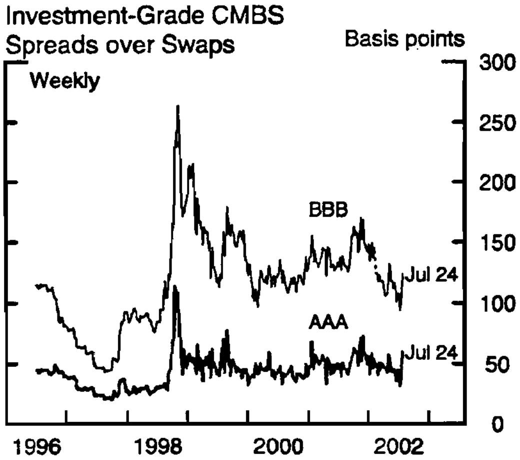
e Staff estimate.

Total CMBS Gross Issuance



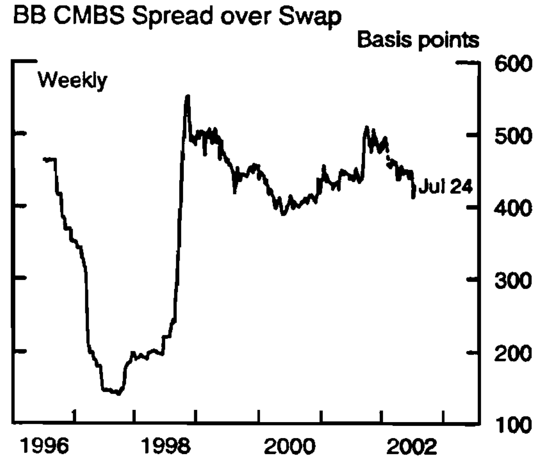
* Estimate assumes actual July pace (shown in black) continues for the remainder of the quarter.
Source. Commercial Mortgage Alert.

Investment-Grade CMBS Spreads over Swaps



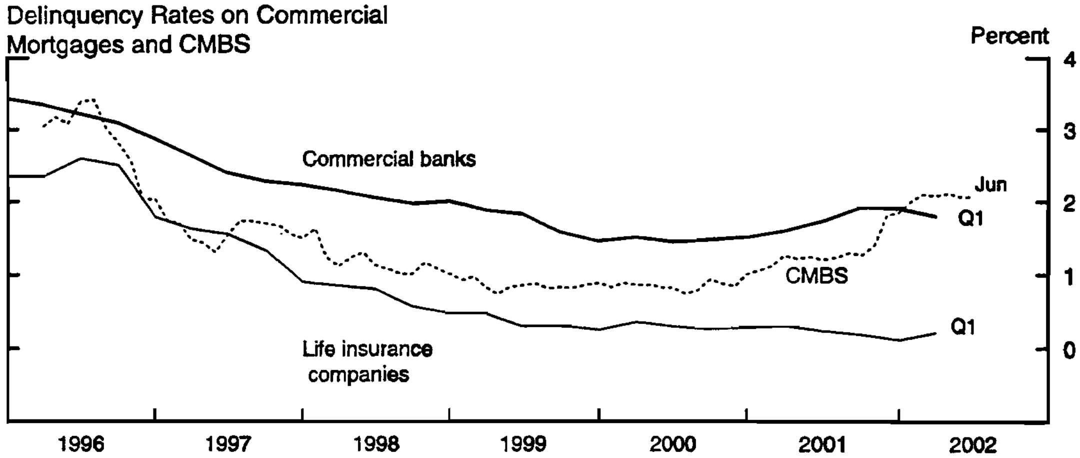
Note. Yield indexes were rebalanced on Feb. 1, 2002.
Source. Morgan Stanley.

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.

only $4 billion, and net downgrades continued in July. Bond default rates edged down in June from record highs but surged again in July with the WorldCom bankruptcy filing, and recovery rates on defaulted speculative-grade bonds remain at historically low levels. Looking forward, KMV's year-ahead expected default frequency predicts that default rates will stay elevated for a while.

Net debt financing remained weak in July, as the pace of nonfinancial investment-grade and high-yield bond issuance slowed dramatically. Investors have been reluctant to buy bonds because of ongoing concerns about the reliability of financial statements, perceptions of deteriorating credit quality in some sectors, and the possibility of additional earnings restatements ahead of the August 14 deadline for executives to certify their financial statements. Some nonfinancial firms turned to the commercial paper market to obtain financing, and the volume of outstanding paper rose in July, its first monthly advance in 2002. However, C&I loans edged down in July on a month-end basis. According to the August Senior Loan Officer Opinion Survey, the net fraction of banks that tightened lending standards for business loans over the past three months was little changed from the April survey, but more banks tightened loan terms than in the last survey. In addition, a larger net fraction of banks reported weaker demand for business loans than in the April survey.

Equity issuance in June surged to its highest monthly total in more than a year on the strength of seasoned equity offerings by telecom and energy firms seeking to reduce leverage. In July, however, as share prices fell and stock market volatility soared, equity issuance nearly stalled. IPOs have been especially weak, and few deals are scheduled for completion in August. Equity retirements resulting from either cash-financed mergers or share repurchases fell again in the second quarter. However, retirements are likely to pick up a bit, as announcements of new share repurchase programs surged in July, spurred by falling stock prices at firms with excess cash flows.

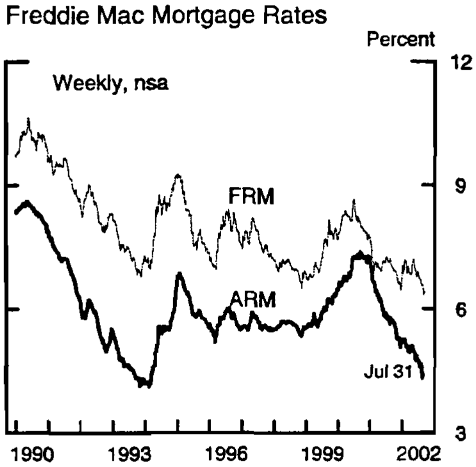
Commercial Real Estate Finance

The growth of commercial mortgage debt in the second quarter—at roughly a 5 percent annual rate—was down sharply from the pace last year, a decline reflecting the slowdown in nonresidential construction. Issuance of commercial-mortgage-backed securities (CMBS), though somewhat slower than last year's pace, has been well-maintained in recent months. Delinquency rates on CMBS have remained stable, after a steep rise in late 2001. CMBS risk spreads traded within a narrow range.

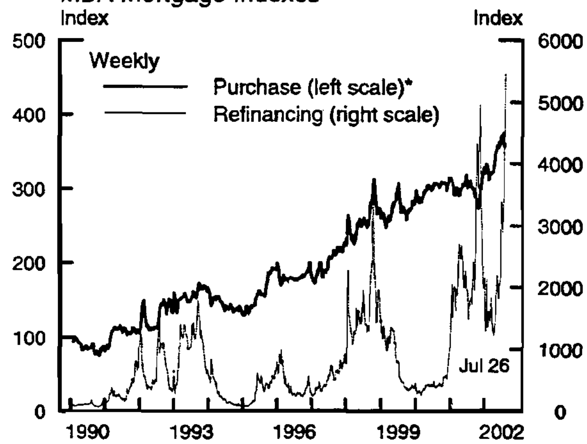
Household Liabilities

(All series seasonally adjusted, unless noted otherwise)

Freddie Mac Mortgage Rates

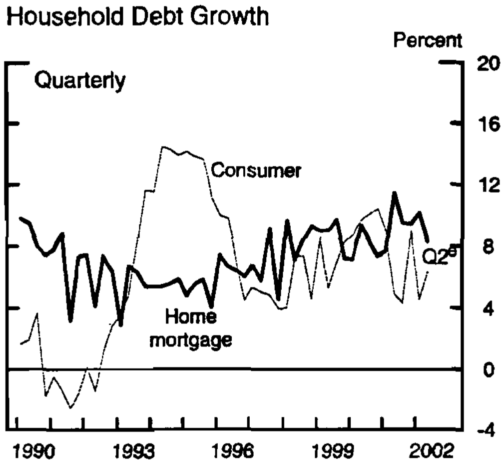


MBA Mortgage Indexes



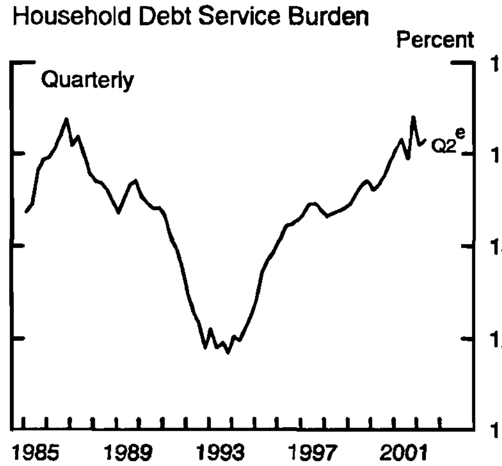
Note. March 16, 1990 = 100 before seasonal adj.
* 4-week moving average.

Household Debt Growth



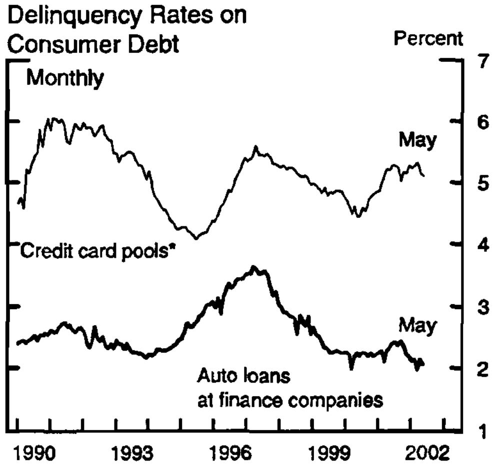
e Estimate.

Household Debt Service Burden



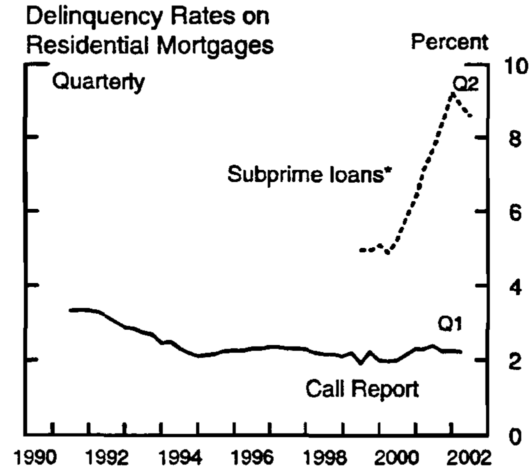
Note. Required debt payments relative to disposable personal income.

Delinquency Rates on Consumer Debt



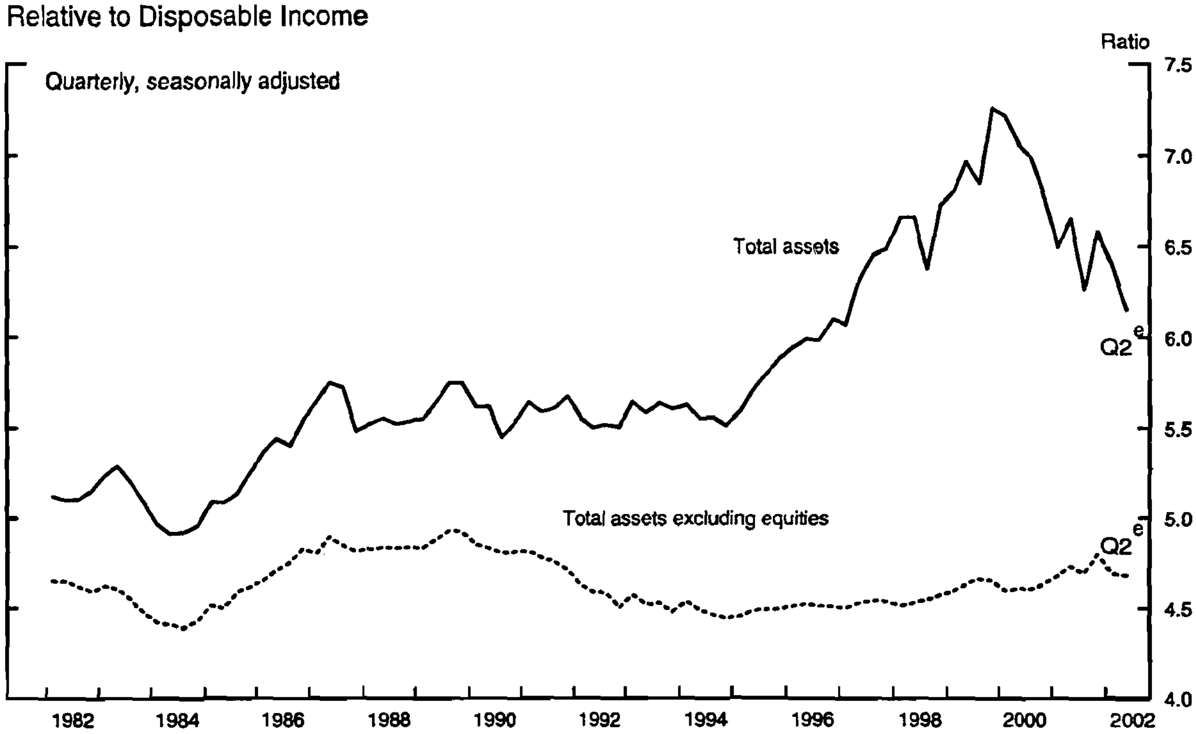
* Securitized receivables (Moody's).

Delinquency Rates on Residential Mortgages



* Loan Performance Corporation, nsa.

Household Assets



e Staff estimate.

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

	2000		2001		2002			Assets
	H1	H2	H1	H2	Q1	June	July e	June
Total long-term funds	**24.0**	**13.0**	**15.1**	**6.5**	**30.3**	**-5.4**	**-28.9**	**4,434**
Equity funds	**34.5**	**15.8**	**8.2**	**-2.7**	**18.4**	**-18.0**	**-54.0**	**3,089**
Domestic	26.8	15.7	9.1	-0.0	17.1	-18.7	-51.7	2,667
Capital appreciation	34.4	16.6	5.2	-2.2	9.4	-15.7	-35.0	1,562
Total return	-7.6	-0.9	3.9	2.2	7.7	-3.0	-16.7	1,105
International	7.7	0.1	-0.9	-2.7	1.3	0.7	-2.3	423
Hybrid funds	**-4.0**	**-1.3**	**1.0**	**0.5**	**2.6**	**0.4**	**-4.8**	**341**
Bond funds	**-6.6**	**-1.5**	**5.9**	**8.7**	**9.3**	**12.2**	**29.9**	**1,004**
International	-0.2	-0.2	0.0	-0.2	-0.0	0.2	0.4	20
High-yield	-1.1	-0.9	0.9	0.3	1.8	-1.4	-1.7	94
Other taxable	-2.8	-0.3	4.2	7.4	6.3	11.7	27.2	579
Municipals	-2.5	-0.0	0.8	1.1	1.2	1.8	4.0	311

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

Treasury and Agency Financing

Treasury Financing
(Billions of dollars)

Item	2001	2002				
	Q4	Q1	Q2	May.	Jun.	Jul.
Total surplus, deficit (−)	**-37.1**	**-96.6**	**15.6**	**-80.6**	**29.1**	**-24.6**
Means of financing deficit						
Net borrowing	59.5	50.8	21.1	31.0	31.6	35.2
Nonmarketable	10.5	-.7	6.0	-20.6	25.3	-8.3
Marketable	49.0	51.5	15.1	51.6	6.3	43.5
Bills	73.3	23.1	-12.0	22.6	6.3	39.8
Coupons[1]	-15.8	28.4	31.1	28.9	.0	3.7
Debt buybacks	-8.5	.0	-4.0	.0	.0	.0
Decrease in cash balance	-8.1	38.3	-25.5	30.5	-31.3	-.2
Other[2]	-14.3	7.5	-11.2	19.1	-29.3	-10.4
MEMO						
Cash balance, end of period	52.4	14.1	39.6	8.3	39.6	39.8

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.

n.a. Not available.

Net Borrowing of Government-Sponsored Enterprises
(Billions of dollars)

Agency	2001	2002				
	Q4	Q1	Q2	May.	Jun.	Jul
FHLBs	9.4	2.1	17.3	2.3	2.9	n.a.
Freddie Mac	30.6	38.4	-2.1	4.2	.3	n.a.
Fannie Mae	36.5	6.3	19.2	-1.1	7.0	n.a.
Farm Credit Banks	.3	2.3	1.9	1.1	.7	n.a.
Sallie Mae	-1.1	-.2	-44.4	.1	.0	n.a.
MEMO						
Outstanding noncallable reference and benchmark securities						
Notes and bonds	449.9	483.9	498.3	491.9	498.3	515.5
Bills	292.0	285.8	257.3	264.3	257.3	276.8
Total	741.9	769.7	755.5	756.1	755.5	792.3

NOTE. Excludes mortgage pass-through securities issued by Fannie Mae and Freddie Mac.

n.a. Not available.

Household Finance
Home mortgage rates have dipped to levels below those reached last autumn, and mortgage refinancing activity has surged to yet another record level. Mortgage borrowing to finance home purchases remains brisk.

Overall, household debt is estimated to have decelerated but still to have grown fairly rapidly in the second quarter, paced by another sizable increase in residential mortgage debt and a pickup in the growth of consumer credit. Although the debt-service burden reversed part of its first-quarter decline, household delinquency rates have generally changed little on net in recent months. Signs of stress are mainly confined to subprime borrowers, but lately these delinquency rates have declined somewhat. On net, the August Senior Loan Officer Opinion Survey reported that demand for consumer loans has been somewhat weaker than in the April survey.

In the second quarter, steep losses in the equity market showed through to a sharp drop in the ratio of household assets to disposable income. Households made record dollar withdrawals from equity mutual funds in July, by more than would be expected based on historical price declines, and boosted their holdings of bond and retail money market funds.

Treasury and Agency Finance
The June auction of Treasury two-year notes—originally scheduled for June 26 but postponed to June 28 while the Treasury waited for legislative action to raise the statutory ceiling on its debt—proceeded without technical problems.[2] Issuance of two-year notes remained elevated, and bill issuance has also stayed strong.

The Treasury borrowed $35.2 billion in July, about 10 percent more than in June, and announced on July 29 that it expects to borrow $76 billion in marketable debt during the third quarter, $21 billion more than had been projected in April. As largely expected, the Treasury indicated in its quarterly refunding announcement that it will discontinue its practice of re-opening ten-year notes at every other auction and instead will auction a new ten-year note each quarter, with the aim of smoothing the maturity distribution of outstanding bonds.

2. The Congress approved legislation on June 27 to raise the statutory borrowing limit to $6.4 trillion. The details of the June two-year note offering were originally scheduled to be released on June 19 for a June 26 auction. Instead, the Treasury both announced and conducted the auction on June 28. Apparently partly as a result of such short notice, the bid-to-cover ratio was unusually low, an outcome that evidently boosted the yield on these notes.

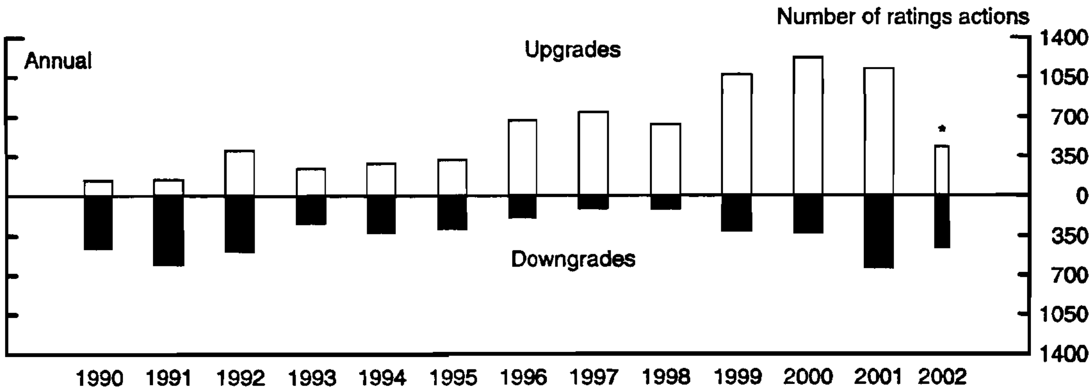
State and Local Government Finance

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

	1999	2000	2001	2002 Q1	2002 Q2	2002 June	2002 July[e]
Long-term[1]	18.0	15.0	22.5	21.5	30.8	36.3	27.4
Refundings[2]	4.5	2.2	6.5	6.6	10.3	12.6	8.0
New capital	13.5	12.9	16.0	14.9	20.5	23.7	19.4
Short-term	2.7	2.8	4.3	1.9	7.6	17.6	6.4
Total tax-exempt	20.6	17.9	26.9	23.4	38.4	54.0	33.8
Total taxable	1.1	0.7	1.1	1.0	1.2	1.4	1.1

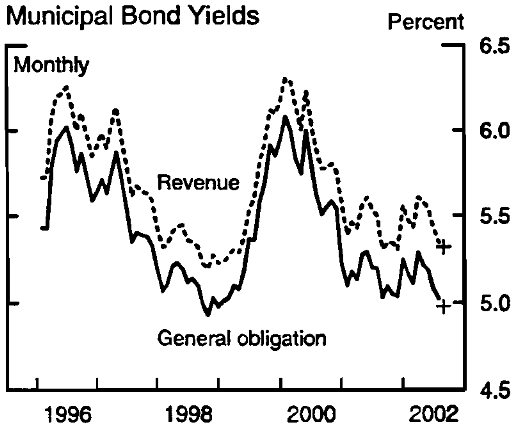
1. Includes issues for public and private purposes.
2. All issues that include any refunding bonds.
e Staff estimate based on preliminary data through July 31.

Bond Rating Changes



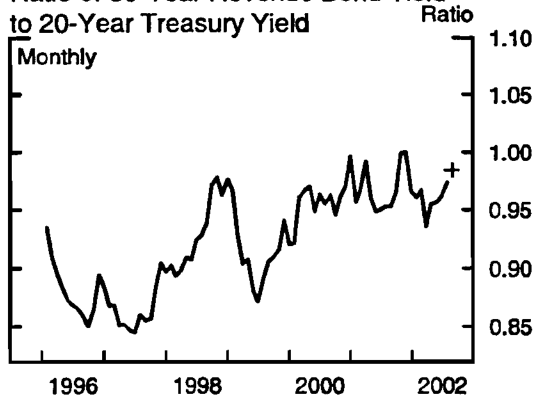
* Data through July 31 at an annual rate.
Source. S&P's Credit Week Municipal and Ratings Direct.

Municipal Bond Yields



Note. Average of weekly data.
+ Last observation is for week of Aug. 1.

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



Note. Average of weekly data.
+ Last observation is for week of Aug. 1.

Spreads of agency bellwether debt over comparable Treasuries have been little changed over the intermeeting period despite somewhat intensified political debate on the government-sponsored status of Fannie Mae and Freddie Mac. On July 12, Fannie and Freddie announced a voluntary agreement to start registering their common stock with the Securities and Exchange Commission (SEC), which also commits them to filing financial reports with the commission. Under the agreement, the agencies' debt and MBS issues will continue to be exempt from registration, but that exemption is currently being studied jointly by the Office of Federal Housing Enterprise Oversight, the SEC, and the Treasury.

State and Local Government Finance

Gross issuance of long-term municipal debt remained strong in July, though it slowed from the very swift pace set in June. A fall in yields on net over the intermeeting period helped fuel both new capital and advance-refunding bonds. Short-term issuance was also hefty in June and July and suggests that some states facing fiscal difficulties may have turned to short-term borrowing while they attempt to fashion long-term solutions to their budget problems. Credit-rating changes suggest that municipal credit quality has held about steady this year, after the pace of improvement slowed last year, and yield ratios only edged up.

Money and Bank Credit

M2 growth was strong in June and picked up to about an 11-1/2 percent annual pace in July. The strength of M2 growth is attributable to substantial inflows into retail money market mutual funds that were likely driven, in part, by the record amount of household transfers from domestic equity mutual funds last month. In addition, liquid deposit growth likely benefited from the resumption of mortgage refinancing and from the continued historically low level of the opportunity cost of holding M2.

Bank credit grew at about a 6-3/4 percent rate in July, up from about 6 percent in June, reflecting a pickup in securities lending. Loan growth has slowed, as business loans continued to run off. Home equity lending continued to surge, and banks' consumer loans grew moderately, abstracting from a large transfer of credit card loans out of the banking system.

Net income for a sample of large bank holding companies increased substantially in the second quarter relative to the same period last year. Net interest income advanced as banks continued to benefit from the relatively less expensive funding offered by inflows of core deposits, and non-interest income was boosted by fees associated with credit card and mortgage lending. Loss provisioning and nonperforming loans increased overall, but several banks reported that loan quality improved in the second quarter.

Monetary Aggregates

(Based on seasonally adjusted data)

Aggregate or component	2001	2002 Q1	2002 Q2	2002 May	2002 Jun.	2002 Jul. (e)	Level (bil. $) Jul. 02 (e)
	Percent change (annual rate)[1]						
Aggregate							
1. M2[2]	10.3	5.8	3.4	14.1	7.4	11.5	5,632.6
2. M3[3]	12.7	4.9	3.2	11.8	6.2	6.8	8,214.4
Components of M2[4]							
3. Currency	9.0	10.8	9.8	11.6	12.3	7.7	615.4
4. Liquid deposits[5]	17.9	17.4	10.0	18.4	11.3	14.1	3,117.5
5. Small time deposits	-4.9	-15.3	-7.4	-2.6	-2.4	-6.6	924.3
6. Retail money market funds	8.4	-9.4	-10.1	18.4	.9	22.8	966.9
Components of M3							
7. M3 minus M2[6]	18.3	3.1	2.8	6.8	3.8	-3.2	2,581.8
8. Large time deposits, net[7]	-2.8	4.1	6.3	7.9	-4.9	.6	805.1
9. Institutional money market funds	50.7	-.5	2.4	10.1	10.0	-3.9	1,191.1
10. RPs	.6	7.7	-8.3	-3.6	3.3	-9.2	362.7
11. Eurodollars	8.2	12.0	11.6	2.2	2.7	-2.1	223.0
Memo							
12. Monetary base	8.5	9.1	8.1	7.3	11.2	9.1	669.1
	Average monthly change (billions of dollars)[8]						
Selected managed liabilities at commercial banks							
13. Large time deposits, gross	3.3	9.6	8.0	6.7	-8.8	.1	1,023.0
14. Net due to related foreign institutions	-6.5	-18.5	-3.2	-11.5	-.6	2.7	94.0
15. U.S. government deposits at commercial banks	1.5	1.1	-8.5	-1.5	12.0	-9.8	9.1

1. For the years shown, Q4 to Q4 percent change. For the quarters shown, based on quarterly averages.
2. Sum of currency, liquid deposits (demand, other checkable, savings), small time deposits, retail money market funds, and non-bank travelers checks.
3. Sum of M2, net large time deposits, institutional money market funds, RP liabilities of depository institutions, and eurodollars held by U.S. addressees.
4. Non-bank travelers checks not listed.
5. Sum of demand deposits, other checkable deposits, and savings deposits.
6. Sum of large time deposits, institutional money funds, RP liabilities of depository institutions, and eurodollars held by U.S. addressees.
7. Net of holdings of depository institutions, money market mutual funds, U.S. government and foreign banks and official institutions.
8. 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 dollar change divided by 3.

e Estimated.

While their second-quarter earnings announcements were generally positive, banks' stock prices did not outperform the broader S&P 500 over the intermeeting period. In particular, the share prices of JP Morgan Chase and Citibank fell sharply and hit a low on July 23, reportedly in response to questions raised about the propriety of the business transacted between those two large financial institutions and Enron.

Commercial Bank Credit

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

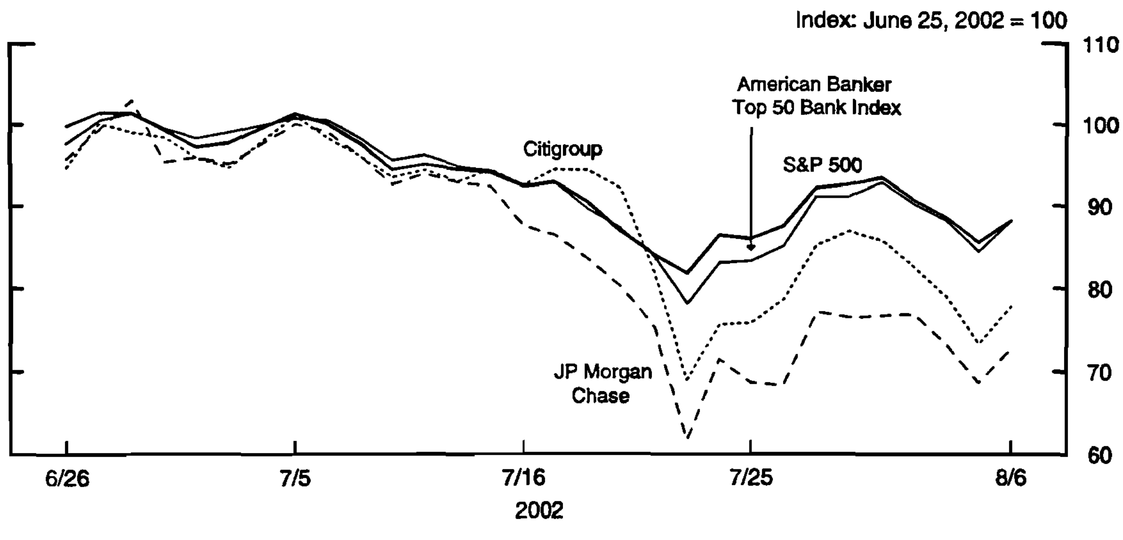
Type of credit	2001	Q1 2002	Q2 2002	May 2002	June 2002	July[p] 2002	Level, July 2002[p] ($ billions)
Total							
1. Adjusted[1]	**4.2**	**1.1**	**5.3**	**9.4**	**5.9**	**6.7**	**5,421**
2. Reported	5.1	-1.4	5.5	12.6	10.2	11.8	5,606
Securities							
3. Adjusted[1]	9.4	8.0	13.8	16.1	6.2	10.4	1,413
4. Reported	12.5	-1.9	13.8	27.4	21.8	28.5	1,598
5. Treasury & Agency	5.2	1.3	24.3	30.9	17.6	8.0	904
6. Other[2]	23.4	-6.0	.2	22.7	27.6	56.2	693
Loans[3]							
7. Total	2.5	-1.2	2.4	7.0	5.8	5.3	4,008
8. Business	-3.6	-6.1	-8.0	-5.7	-7.2	-12.3	991
9. Real estate	7.1	3.9	6.7	15.0	14.9	17.0	1,866
10. Home equity	19.9	25.6	39.6	50.2	41.5	40.1	192
11. Other	6.1	1.9	3.4	11.2	11.9	14.4	1,675
12. Consumer	3.8	4.9	4.6	5.7	-1.7	-4.2	566
13. Adjusted[4]	7.4	4.8	4.1	11.6	3.3	-2.5	919
14. Other[5]	-.1	-13.4	5.3	5.6	7.1	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.

p Preliminary.

Bank Stock Prices



Appendix

August 2002 Senior Loan Officer Opinion Survey

The August 2002 Senior Loan Officer Opinion Survey on Bank Lending Practices focused on changes in the supply of and demand for bank loans to businesses and households over the past three months. In addition, the survey contained three sets of supplementary questions. The first set addressed banks' exposure to companies that had released inaccurate or misleading financial information and the banks' response to these scandals. The second set focused on loans to commercial and industrial firms that are secured by real estate but used for purposes other than the purchase or improvement of that property. Finally, the survey asked whether automakers' incentives were having an effect on demand for automobile loans at banks. Loan officers representing fifty-seven large domestic banks and twenty-one U.S. branches and agencies of foreign banks participated in the August survey.

The results indicate some further tightening of standards and terms for loans both to businesses and to households. The fraction of domestic banks that reported tightening standards on commercial and industrial (C&I) loans over the past three months slid a bit more in August, after having declined substantially in April, but the net fractions of domestic banks that tightened loan terms jumped again in the latest survey. Significant fractions of branches and agencies of foreign banks also continued to tighten both standards and terms in August. In addition, somewhat larger net fractions of domestic and foreign institutions reported weaker demand for C&I loans in August than had done so in April. Both domestic banks and foreign institutions tightened standards on commercial real estate loans over the past three months, and they also reported weaker demand, on net, for these loans.

In the August survey, most banks reported that they had very little exposure to firms that have been the target of investigations into their accounting practices. Apart from the already highly publicized cases, a moderate net fraction of banks indicated that they had seen an increase in the frequency with which firms had submitted questionable financial statements during the loan approval process over the past year. In response to the scandals, most banks reported that they had begun requesting additional financial detail during the approval process, had increased the frequency or intensity of monitoring, and were enforcing loan covenants more strictly.

According to the domestic respondents, standards for residential mortgage loans were largely unchanged over the past three months, and the demand for these loans was stronger on net. As in April, only a modest portion of domestic banks, on net, reported tightening standards for consumer loans. Demand for consumer loans was slightly weaker, on net, over the past three months as banks reported that they lost some business to automobile finance companies.

Lending to Businesses

The percentage of domestic banks that reported having tightened standards on C&I loans to large and middle-market firms over the past three months edged down to 23 percent from 25 percent in the previous survey, and one bank eased its standards—the first reported easing since 1999. The percentage tightening standards on business loans to small firms fell to 9 percent from about 15 percent in April, and two banks eased standards on these loans.

Conversely, for several of the surveyed terms on loans to large and middle-market firms, larger fractions of domestic banks reported tightening in August than had done so in April. The net fraction of domestic banks that had increased costs of credit lines and raised spreads of loan rates over their cost of funds rose to about 40 percent in August from about 20 percent in the April survey. Somewhat larger net percentages of domestic banks also reported that they had tightened loan covenants for these customers over the past three months than had done so in April. Moreover, almost 50 percent of domestic banks increased premiums charged on riskier loans to large and middle-market firms, about the same as in the previous two surveys. The net fraction of domestic banks that increased the costs of credit lines for small firms rose to 22 percent in August from only 8 percent in April. The net fractions of banks that tightened covenants, increased spreads, and charged higher risk premiums for small firms also rose somewhat in August relative to the last survey.

The fraction of U.S. branches and agencies of foreign banks that tightened standards and terms on C&I loans remained in an elevated range. The fraction of foreign institutions that had tightened standards for customers seeking C&I loans or credit lines rose to 63 percent in August from about 40 percent in the April survey. From April to August, the percentage of foreign institutions that increased spreads of loan rates over their cost of funds rose from about 60 percent to almost 80 percent, and the percentage that raised premiums on riskier loans also rose, from about 50 percent to almost 80 percent. The fraction of foreign banks that strengthened loan covenants and increased the cost of credit lines also increased in August.

More than 80 percent of the banking institutions that tightened standards or terms on C&I loans over the past three months voiced concerns about the economic outlook, up from 70 percent in the previous survey. Many banks also cited industry-specific problems and an increase in corporate bond defaults as very important reasons for tightening lending policies. The fraction of domestic and foreign respondents that cited reduced tolerance for risk as a reason for tightening their lending policies also remained high. About 60 percent of domestic banks and nearly all of the foreign branches and agencies pointed to concern about further revelations of accounting inaccuracies as at least a somewhat important reason for tightening.

About 45 percent of domestic banks, on net, reported weaker demand for C&I loans from large and middle-market firms in August, up from about one-third in April. The net fraction of banks that reported weaker demand from small firms also rose slightly in August, to 36 percent. The net percentage of foreign branches and agencies reporting weaker demand for C&I loans over the past three months increased to more than one-third in the current survey from about 15 percent in April.

All but one domestic bank that experienced weaker demand reported that a decline in customers' need for bank loans to finance capital expenditures was at least a somewhat important reason for the weakness in demand, and more than one-third of respondents chose this reason as "very important." As in the past several surveys, substantial fractions of banks also reported weaker demand for loans to finance mergers and acquisitions, inventories, and accounts receivable. Out of five domestic banks that reported an increase in demand for C&I loans over the past three months, four of them indicated that the increase was due to a shift in borrowing from other credit sources that became less attractive. The most frequently cited reasons for weaker demand at foreign institutions were a decline in requests for merger and acquisition financing and reduced customer investment in plant and equipment.

Issues related to corporate accounting practices. A series of special questions were aimed at banks' experience with, and response to, the most recent revelations of improper corporate accounting practices. Most domestic banks, and about half of foreign branches and agencies, reported that fewer than 1 percent of their outstanding C&I loans had been made to companies that had materially changed their prior-period financial statements during the past year or are the subject of investigations relating to their accounting practices. However, three large domestic banks and one foreign bank reported that more than 5 percent of their outstanding C&I loans were to such companies.

A moderate net fraction of domestic and foreign institutions indicated that they have seen some increase in the number of companies that submitted misleading financial information during the past year, and a few domestic banks characterized the increase as notable. In response, the majority of the banking institutions in the survey have begun requesting additional financial detail and increasing the frequency or intensity with which they monitor loans. Many banks also reported that loan covenants have been enforced more strictly and that loan terms had been tightened. Very few domestic banks resorted to calling loans or refusing credits that would have previously been approved, but significant fractions of foreign institutions reported taking such actions.

Banks that had a higher exposure to firms that have been identified as having released false or misleading financial statements were not significantly more likely to have instituted remedies (such as requesting additional financial detail) than banks that had less exposure to those firms. However, banks that indicated that they had seen an increase in the frequency with which firms submitted questionable financial statements (apart from the highly publicized incidents) were more likely to have stepped up their monitoring of loan customers and enforced loan covenants more stringently.

Domestic and foreign institutions reported that regular financial statements received the highest relative weight when they assessed credit risk. By a wide margin, domestic banks reported that credit ratings by independent ratings agencies were the second most important piece of information, on average. In general, domestic banks attached significantly less weight to market measures such as interest rate spreads on company debt and equity prices than did foreign banks. About two-thirds of the domestic and foreign banks surveyed reported that they typically verified that their material business customers were in compliance with the terms and conditions specified in their loan contracts on a quarterly basis, and about one-fourth did so monthly.

Commercial real estate lending. The net fraction of domestic banks that reported tighter standards on commercial real estate loans over the past three months declined further in August, to 25 percent. At branches and agencies of foreign banks, the net percentage reporting tighter standards on such loans increased slightly, to 30 percent. In the current survey, more than 30 percent of domestic respondents and 20 percent of foreign institutions, on net, noted that demand for commercial real estate loans had weakened, about the same fractions as in April.

A set of special questions addressed banks' exposure to loans that were secured by real estate and thus were reported as commercial real estate lending but in fact were used for commercial and industrial purposes. Most foreign institutions and almost 50 percent of domestic banks reported fewer less than 10 percent of their commercial real estate loans fit this description. About one-fourth of domestic banks reported that 20 percent or more of their commercial real estate loans were used for purposes other than the acquisition or improvement of real estate. However, only a small net fraction of domestic respondents reported that such lending had increased over the past year.

Lending to Households

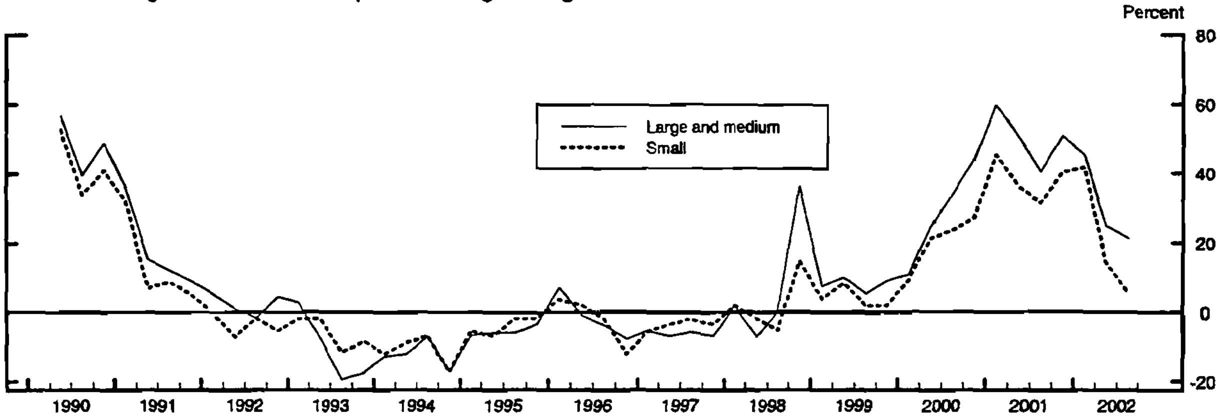
Only three domestic banks reported that they had tightened lending standards on residential mortgage loans, while one bank reported that it had eased them. On net, about 27 percent of domestic respondents reported increased demand for residential mortgages, up from 6 percent in the previous survey. However, the level of mortgage refinancing has recently been elevated, and the responses to this question are highly correlated with such activity despite our instructions to include only demand for the purchase of new or existing homes.

In the current survey, about 15 percent of domestic banks indicated that they had tightened standards on credit card loans over the past three months, a somewhat larger percentage than in April. Terms and conditions on credit card accounts were largely unchanged for the second consecutive survey. For other types of consumer loans, fewer than 10 percent of banks, on net, reported that they had tightened standards over the past three months, down from one-fifth of banks in the April survey. In addition, about 15 percent of domestic banks raised the minimum required credit score and reduced the number of exceptions granted to customers not meeting credit-scoring thresholds on these loans.

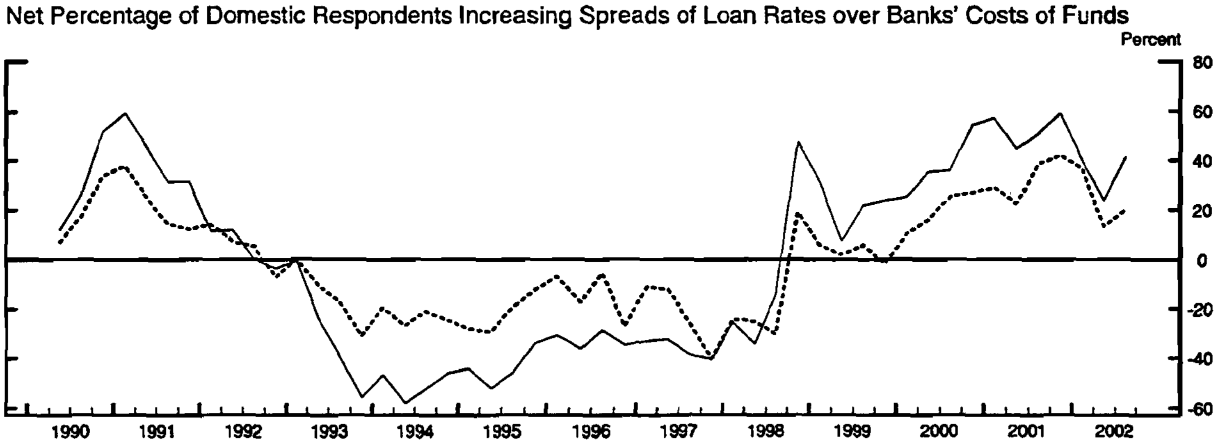
On net, domestic banks reported that demand for consumer loans was somewhat weaker over the past three months, perhaps in part because the incentives offered by major automobile manufacturers and their captive finance companies siphoned business away from these banks. Indeed, a substantial net fraction of banks reported that demand for auto loans had decreased somewhat since the automakers began their latest round of incentives.

Measures of Supply and Demand for C&I Loans, by Size of Firm Seeking Loan

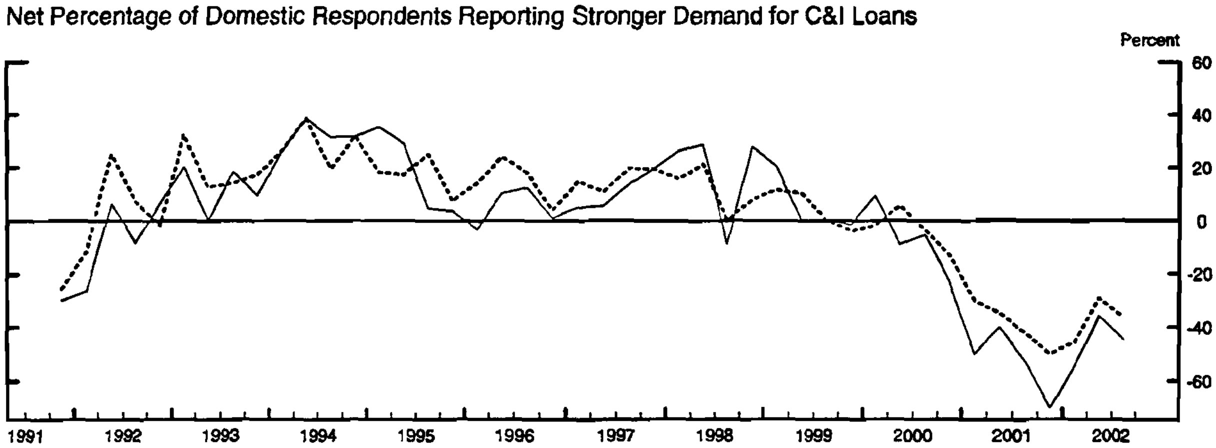
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



Net Percentage of Domestic Respondents Increasing Spreads of Loan Rates over Banks' Costs of Funds

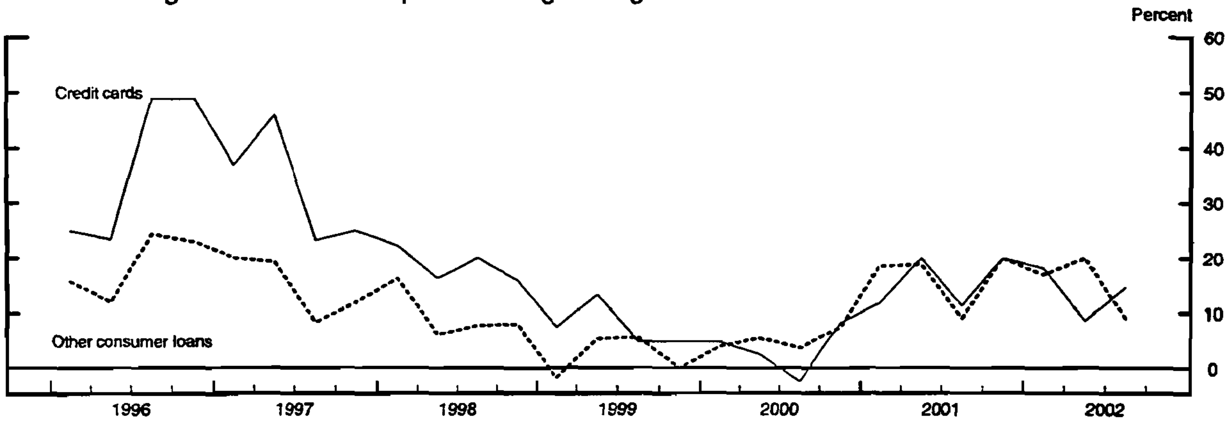


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

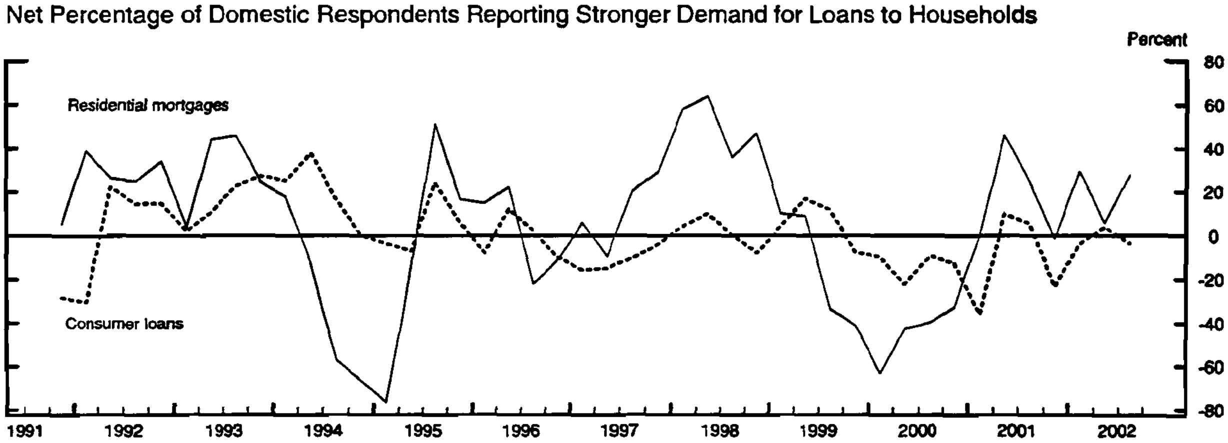


Measures of Supply and Demand for Loans to Households

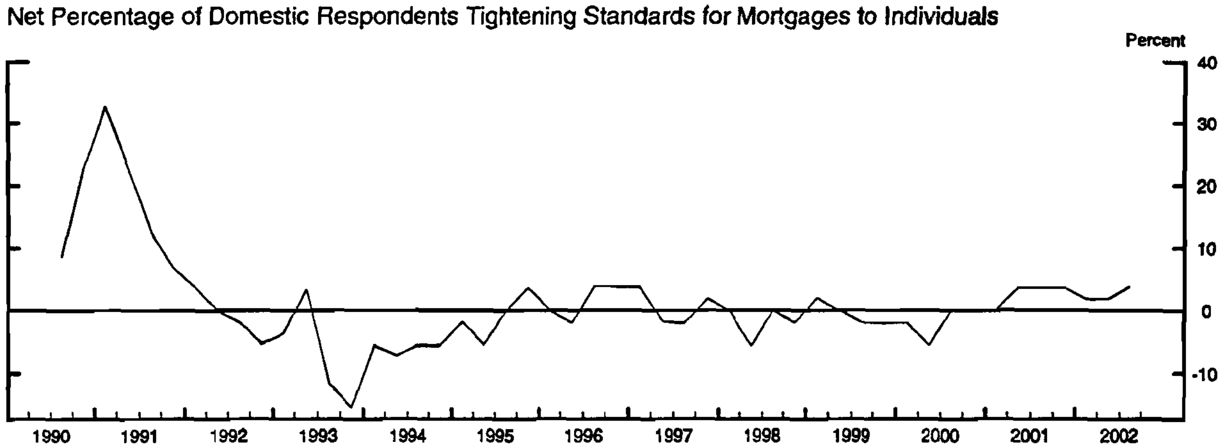
Net Percentage of Domestic Respondents Tightening Standards on Consumer Loans



Net Percentage of Domestic Respondents Reporting Stronger Demand for Loans to Households



Net Percentage of Domestic Respondents Tightening Standards for Mortgages to Individuals



International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

The deficit in U.S. international trade in goods and services was $37.6 billion in May, $1.5 billion larger than in April (revised). For the two months on average, the trade deficit was $443 billion at an annual rate, $63 billion larger than in the first quarter as a sharp rise in imports exceeded the jump in exports. NIPA real net exports weakened an estimated $51 billion in the second quarter.

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

	2001	Annual rate 2001 Q4	Annual rate 2002 Q1	Annual rate 2002 Q2[e]	Monthly rate 2002 Mar.	Monthly rate 2002 Apr.	Monthly rate 2002 May
Real NIPA[1]							
Net exports of G&S	-415.9	-425.3	-446.6	-497.5	...	...	...
Nominal BOP							
Net exports of G&S	-358.3	-352.1	-379.4	-442.7	-32.5	-36.1	-37.6
Goods, net	-427.2	-402.7	-425.7	-490.1	-36.6	-40.2	-41.5
Services, net	68.9	50.5	46.3	47.4	4.1	4.0	3.9

1. Billions of chained (1996) dollars.
e. BOP data are two months at an annual rate; NIPA data are BEA's advance estimate.
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 0.7 percent in May following a much larger rise in April. The increase in May was primarily in goods, with small increases recorded in agricultural products, chemicals, and computers. For April-May combined, the level of total exported goods and services was 3.2 percent (quarterly rate) higher than in the first quarter, led by increases in automotive parts (primarily to Canada and Mexico), industrial supplies (over one-third from chemicals, largely price), and capital equipment (items other than computers and telecommunications equipment, which declined). By area, the largest increases were to Canada and Mexico. NIPA real exports of goods and services grew an estimated 11.7 percent at an annual rate in the second quarter.

Imports of goods and services rose 1.8 percent in May following a sharp 4.8 percent increase in April. Most of the increase in May was in goods, particularly automotive products and consumer goods. The value of oil imports was little changed in May as a drop in quantity was about offset by a rise in price. For April-May combined, the level of total imported goods and services was 7.1 percent (quarterly rate) higher than in the first quarter. Increases were

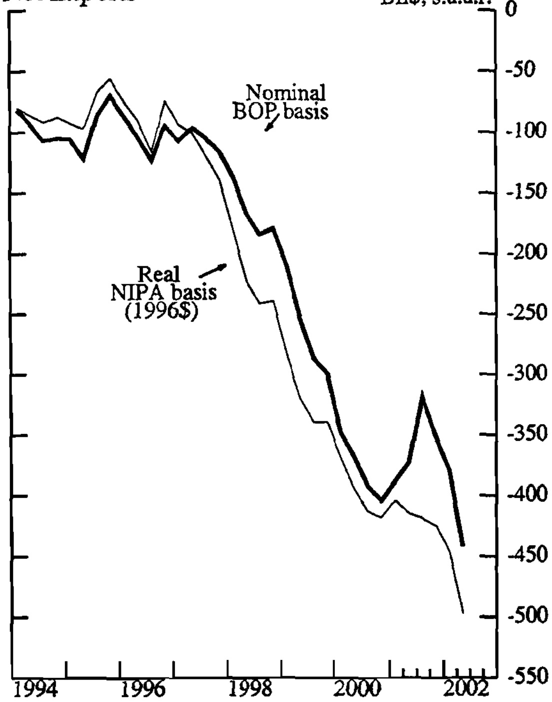
U.S. Exports and Imports of Goods and Services
(Billions of dollars, s.a.a.r., BOP basis)

	Levels				Amount Change[1]			
	2002		2002		2002		2002	
	Q1	Q2e	Apr.	May	Q1	Q2e	Apr.	May
Exports of G&S	**934.4**	**964.1**	**960.6**	**967.6**	**2.7**	**29.7**	**19.5**	**7.0**
Goods exports	658.6	684.6	682.2	687.1	-10.8	26.0	22.4	4.9
Gold	2.5	3.4	3.4	3.4	-0.3	0.9	0.7	-0.0
Other goods	656.1	681.2	678.8	683.7	-10.5	80.3	21.7	4.9
Aircraft & parts	49.4	48.5	48.9	48.1	1.3	-0.8	-3.8	-0.8
Computers	39.0	38.1	37.3	38.8	-2.8	-0.9	-2.5	1.5
Semiconductors	39.5	42.8	42.4	43.3	1.3	3.4	1.7	0.9
Other capital gds	156.6	160.9	160.8	161.0	-4.2	4.3	4.4	0.2
Automotive	73.8	80.7	80.3	81.2	-0.4	6.9	5.3	0.9
to Canada	41.4	44.0	43.9	44.0	1.4	2.6	1.7	0.1
to Mexico	14.4	17.5	16.8	18.1	-1.9	3.0	1.3	1.3
to ROW	18.0	19.3	19.5	19.0	0.1	1.3	2.3	-0.5
Agricultural	55.1	52.5	51.3	53.7	-0.7	-2.6	-0.9	2.3
Ind supplies (ex. ag)	134.9	145.6	145.0	146.2	-1.9	10.7	9.5	1.2
Consumer goods	82.2	83.6	85.0	82.2	-2.3	1.4	4.0	-2.7
All other goods	25.5	28.5	27.7	29.2	-0.9	3.0	13.0	1.5
Services exports	275.8	279.5	278.4	280.6	13.5	3.6	-2.9	2.1
Imports of G&S	**1313.9**	**1406.8**	**1394.3**	**1419.3**	**30.0**	**92.9**	**63.6**	**25.0**
Goods imports	1084.3	1174.7	1164.0	1185.5	12.2	90.4	65.0	21.5
Petroleum	76.7	109.2	109.2	109.2	-4.3	32.6	26.8	-0.1
Gold	2.0	3.4	3.1	3.7	-0.4	1.4	0.7	0.6
Other goods	1005.6	1062.1	1051.6	1072.6	16.9	56.5	37.5	21.0
Aircraft & parts	29.0	24.8	27.3	22.4	-3.5	-4.1	-2.4	-4.8
Computers	75.6	76.8	76.9	76.7	7.2	1.2	2.9	-0.3
Semiconductors	25.2	27.2	26.4	28.1	2.1	2.0	-1.2	1.7
Other capital gds	147.5	158.1	155.5	160.7	-0.6	10.6	5.7	5.3
Automotive	190.4	209.2	204.1	214.3	2.9	18.7	12.3	10.2
from Canada	58.2	61.7	61.6	61.8	2.5	3.5	2.7	0.2
from Mexico	39.4	43.9	43.8	44.0	-0.8	4.5	1.3	0.3
from ROW	92.9	103.5	98.7	108.4	1.2	10.7	8.2	9.7
Ind supplies	152.8	161.4	161.6	161.3	0.5	8.6	7.2	-0.3
Consumer goods	285.3	303.6	300.1	307.1	6.9	18.3	16.0	7.0
Foods, feeds, bev.	47.5	49.3	48.9	49.7	0.4	1.8	1.2	0.8
All other goods	52.2	51.6	50.9	52.3	1.1	-0.6	-4.3	1.4
Services imports	229.6	232.1	230.3	233.8	17.8	2.5	-1.4	3.5
Memo:								
Oil quantity (mb/d)	11.45	12.48	12.80	12.15	-0.62	1.04	1.78	-0.64
Oil import price ($/bbl)	18.43	23.99	23.37	24.60	0.11	5.59	2.86	1.23

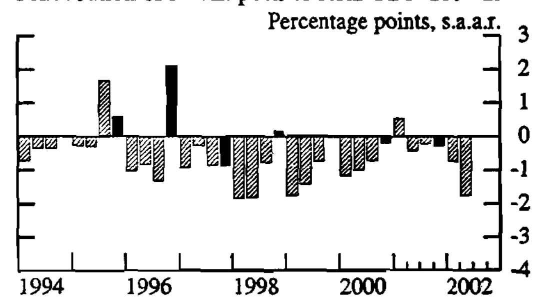
1. Change from previous quarter or month. e. Average of two months.
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

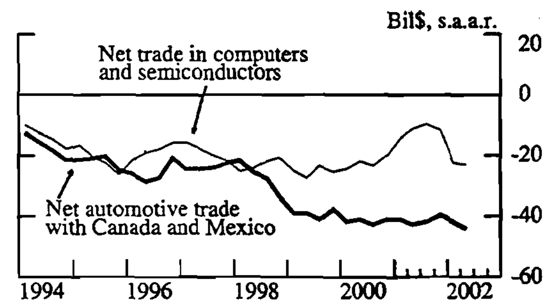
U.S. International Trade in Goods and Services

Net Exports

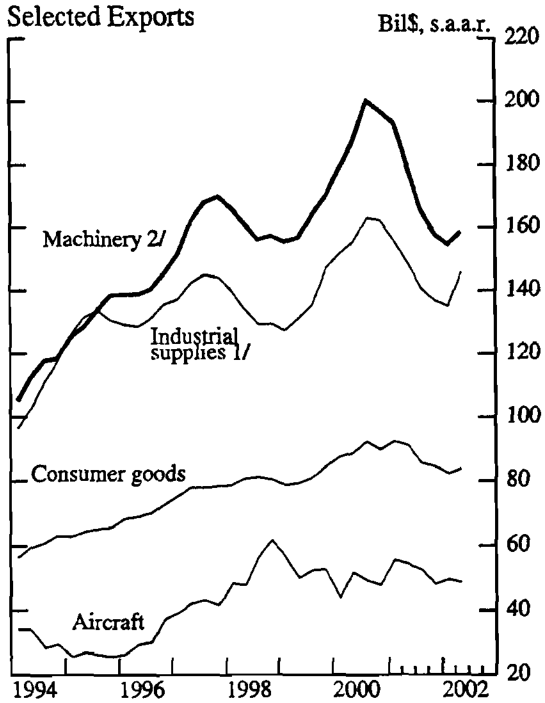


Contribution of Net Exports to Real GDP Growth



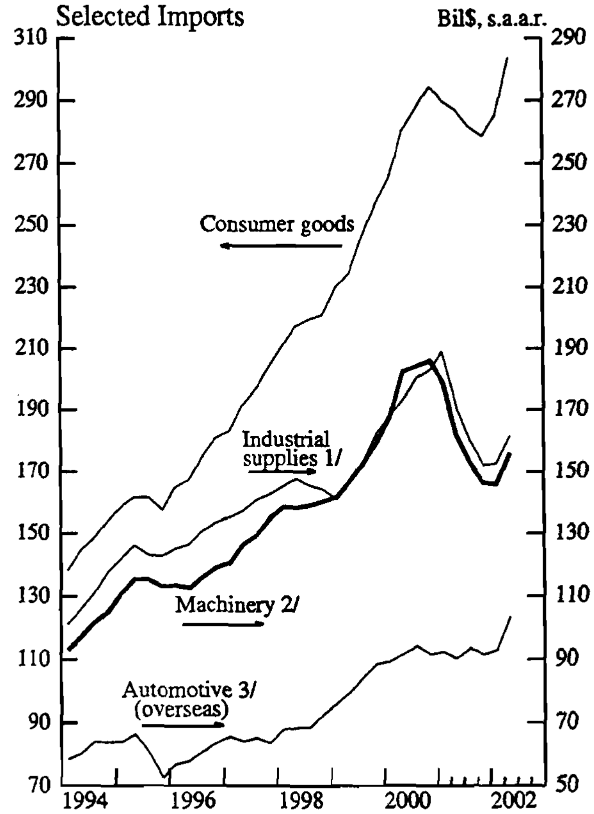


Selected Exports



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.

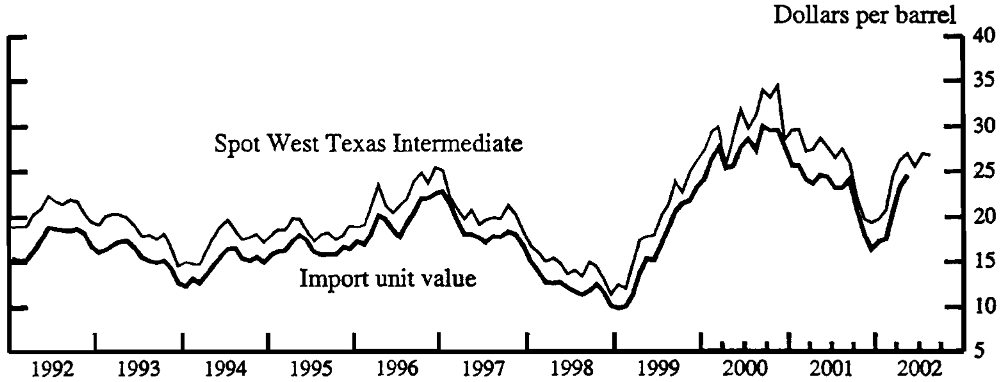
Prices of U.S. Imports and Exports

(Percentage change from previous period)

	Annual rates			Monthly rates		
	2001	2002		2002		
	Q4	Q1	Q2	May	June	July
	------------- BLS prices (2000 weights)-------------					
Merchandise imports	-13.9	-2.0	10.2	0.1	-0.3	0.4
Oil	-65.6	18.4	153.0	2.0	-4.8	4.9
Non-oil	-4.0	-2.7	1.7	-0.1	0.1	0.0
Core goods*	-3.7	-2.4	1.8	-0.1	0.2	0.1
Cap. goods ex comp & semi	-0.4	-5.3	-1.9	-0.2	0.3	0.1
Automotive products	1.2	-0.4	0.4	-0.2	0.2	0.0
Consumer goods	-1.5	-1.5	-1.3	0.1	-0.2	0.1
Foods, feeds, beverages	0.6	0.3	6.9	1.3	-1.1	0.9
Industrial supplies ex oil	-15.6	-4.7	13.9	-0.3	0.8	0.1
Computers	-12.5	-2.7	-1.4	-0.2	-0.4	-0.2
Semiconductors	-2.1	-2.7	2.0	0.0	-0.2	-2.4
Merchandise exports	-4.1	-1.8	2.2	0.0	0.0	0.3
Core goods*	-3.4	-1.3	3.4	0.2	0.3	0.4
Cap. goods ex comp & semi	-1.2	0.9	0.7	0.0	0.1	-0.1
Automotive products	0.0	1.3	0.1	0.2	0.0	-0.1
Consumer goods	0.9	-2.3	-1.2	0.0	0.1	0.1
Agricultural products	-8.8	-2.6	2.3	-0.1	1.2	2.7
Industrial supples ex ag	-10.6	-3.6	10.8	0.4	·0.7	0.8
Computers	-5.6	-4.5	-5.9	-1.2	-2.1	0.1
Semiconductors	-15.2	-8.1	-1.5	-0.4	-1.6	-0.8
Chain price index	---Prices in the NIPA accounts (1996 weights)---					
Imports of goods & services	4.7	-1.6	10.1	...	...	...
Non-oil merchandise	-4.0	-2.2	1.9	...	...	...
Core goods*	-3.3	-2.2	2.1	...	...	...
Exports of goods & services	-3.8	-0.8	2.6	...	...	...
Total merchandise	-3.7	-1.1	2.1	...	...	...
Core goods*	-3.5	-1.1	3.3	...	...	...

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

Oil Prices



recorded in all major trade categories other than aircraft. There were notable rises in imports of oil (largely price), automotive products (two-thirds vehicles), consumer goods, and machinery. About one-third of the increase in imported machinery was in high-tech goods. Imports of basic industrial and service machinery rose for the first time in over a year. NIPA real imports of goods and services jumped an estimated 23.5 percent at an annual rate in the second quarter.

Prices of Internationally Traded Goods

Oil. The BLS price of imported oil rose about 5 percent in July, reversing the June decline. The spot price of West Texas intermediate (WTI) crude oil has also risen on average since the beginning of the year and is currently trading around $27 per barrel, up from its average value near $19 per barrel in December. Factors putting upward pressure on oil prices are low exports from Iraq, the possibility of U.S. military intervention there, and tighter stock levels in the United States reflecting increased demand. However, these factors are somewhat mitigated by decreased compliance by OPEC members to their production quotas and increasing exports from non-OPEC members, particularly the countries of the former Soviet Union.

Non-oil imports. The price of imported non-oil goods was unchanged in July following a small increase in June. The price of core goods was up 0.1 percent, as prices of both computers and semiconductors fell. The largest increase in July was in the price index for foods, which reversed its June decline, whereas prices in other major categories were little changed. The July level of core goods prices was about ¾ percent at an annual rate above the second-quarter level, following an increase of about 1¾ percent in the second quarter. The second-quarter increase was the first quarterly rise in the core goods price index since the first quarter of 2001. The turnaround is most noticeable in the price of industrial supplies, which was up 14 percent at an annual rate in the second quarter following three quarters of double-digit declines.

Exports. Prices of total U.S. goods exports rose 0.3 percent in July and the price of core goods rose 0.4 percent. The largest increase in July was in the price of agricultural exports, which rose 2.7 percent following an increase of 1.2 percent in June. Prices of industrial supplies and materials also continued to trend upward in July, whereas prices in other major categories were generally little changed. The price of core goods in July was about 2¾ percent at an annual rate above the second-quarter level, which was up about 3½ percent from the first quarter.

U.S. International Financial Transactions

Net purchases of U.S. securities by private foreigners (line 4 of the Summary of U.S. International Transactions table) were again quite strong in May and June. For the first half of the year, notwithstanding tepid inflows in January and February, net private inflows into U.S. securities totaled $168 billion, on par with the amount in the second half of last year but somewhat below the $225 billion recorded in the first half of 2001.

Securities inflows picked up between the first and second quarters, as larger bond purchases more than offset smaller stock purchases. Net purchases of corporate bonds (line 4c) surged in the quarter, averaging about $20 billion per month, and net inflows into agency bonds (line 4b) were strong in April and May before slowing in June. Net inflows into Treasury debt (line 4a) increased sharply in June, following large net sales in April and balanced flows in May. After pausing in May, net foreign purchases of U.S. stocks (line 4d) resumed in June, but inflows for the second quarter were only about half those of the first quarter.

As noted in the June Greenbook supplement and in a July Board presentation, the BEA now adjusts financial flows data to account for the TIC system's probable overestimation of net private foreign purchases of U.S. debt securities and underestimation of net U.S. purchases of foreign securities. These adjustments–which reduce published inflows into U.S. bonds by about $25 billion per quarter and increase published outflows through U.S. purchases of foreign securities by about $7 billion per quarter–are incorporated in the Summary Table. For the most recent months, for which BOP data are not yet available, we use adjustments from previous quarters, in order to maintain comparability through time.

In the second quarter, U.S. residents' net purchases of foreign stocks (line 5b) totaled $20 billion. While this is not an exceptional amount, it is the highest since the second quarter of last year. However, U.S. residents continued to sell foreign bonds (line 5a), bringing total outflows through foreign securities (line 5) to only $11 billion for the quarter.

Foreign official reserves held in the United States rose $15 billion in May and another $29 billion in June (line 1). For the quarter, net foreign official inflows totaled $47 billion, the largest amount since the first quarter of 1996. Almost half of the increase in the quarter owed to Japanese accumulation of U.S. assets associated with its official intervention activity. Russia, Korea, Taiwan, Norway, and China also substantially increased their foreign official holdings in the United States in the quarter. Partial data from the Federal Reserve Bank of

New York indicate that total foreign official reserves increased by $12 billion in July.

Monthly net flows through the U.S. banking sector continued to be volatile, with substantial net outflows in June offsetting large net inflows in May.

Summary of U.S. International Transactions

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

	2000	2001	2001		2002			
			Q3	Q4	Q1	Q2	May	June
Official financial flows	**39.3**	**2.0**	**13.2**	**5.3**	**8.8**	**45.2**	**14.3**	**26.3**
1. Change in foreign official assets in the U.S. (increase, +)	39.6	6.9	16.8	5.5	8.4	47.1	14.4	29.1
a. G-10 countries	12.3	-7.9	-5.6	9.1	4.7	17.6	11.9	13.5
b. OPEC countries	10.7	-1.9	-4.8	4.2	-6.5	1.1	-.7	1.4
c. All other countries	16.6	16.8	27.2	-7.8	10.2	28.4	3.2	14.2
2. Change in U.S. official reserve assets (decrease, +)	-.3	-4.9	-3.6	-.2	.4	-1.8	-.2	-2.8
Private financial flows	**370.3**	**379.8**	**29.6**	**145.3**	**90.6**	**n.a.**	**...**	**...**
Banks								
3. Change in net foreign positions of banking offices in the U.S.[1]	-6.7	7.3	-1.7	38.7	-2.3	-22.6	24.4	-28.4
Securities[2]								
4. Foreign net purchases of U.S. securities (+)	381.0	404.4	51.2	128.2	62.4	106.0	35.7	39.2
a. Treasury securities	-76.4	5.6	-14.2	28.3	-7.1	1.6	-.4	12.6
b. Agency bonds	96.5	86.4	19.4	28.1	2.8	32.6	11.5	3.4
c. Corporate and municipal bonds	165.7	201.7	33.1	38.3	43.3	59.9	24.8	19.2
d. Corporate stocks[3]	195.1	121.9	12.9	33.5	23.4	12.0	-.2	4.0
5. U.S. net acquisitions (-) of foreign securities	-126.6	-95.1	10.0	-26.2	2.0	-10.7	-3.7	-1.6
a. Bonds	-23.3	12.3	21.0	-7.4	.6	9.6	5.7	4.5
b. Stock purchases	-22.9	-62.7	-9.3	-12.4	3.2	-20.3	-9.4	-6.1
c. Stock swaps[3]	-80.4	-44.7	1.8	-6.4	-1.8	.0	.0	.0
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-178.3	-127.8	-41.7	-27.5	-22.5	n.a	...	...
7. Foreign direct investment in U.S.	307.7	130.8	14.2	21.9	25.7	n.a	...	...
8. Foreign holdings of U.S. currency	1.1	23.8	8.2	10.5	4.5	n.a	...	...
9. Other (inflow, +)[4]	-7.9	36.4	- 10.5	-.1	19.7	n.a	...	...
U.S. current account (s.a.)	**-410.3**	**-393.4**	**-91.3**	**-95.1**	**-112.5**	**n.a**	**...**	**...**
Capital account balance (s.a.)[5]	**.8**	**.8**	**.2**	**.2**	**.2**	**n.a**	**...**	**...**
Statistical discrepancy (s.a.)	**.0**	**10.7**	**48.3**	**-55.8**	**12.9**	**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 adjustments BEA makes to account for incomplete coverage, but excludes adjustments for commissions and therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.

3. Includes (4d) or represents (5c) stocks acquired through mergers.

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

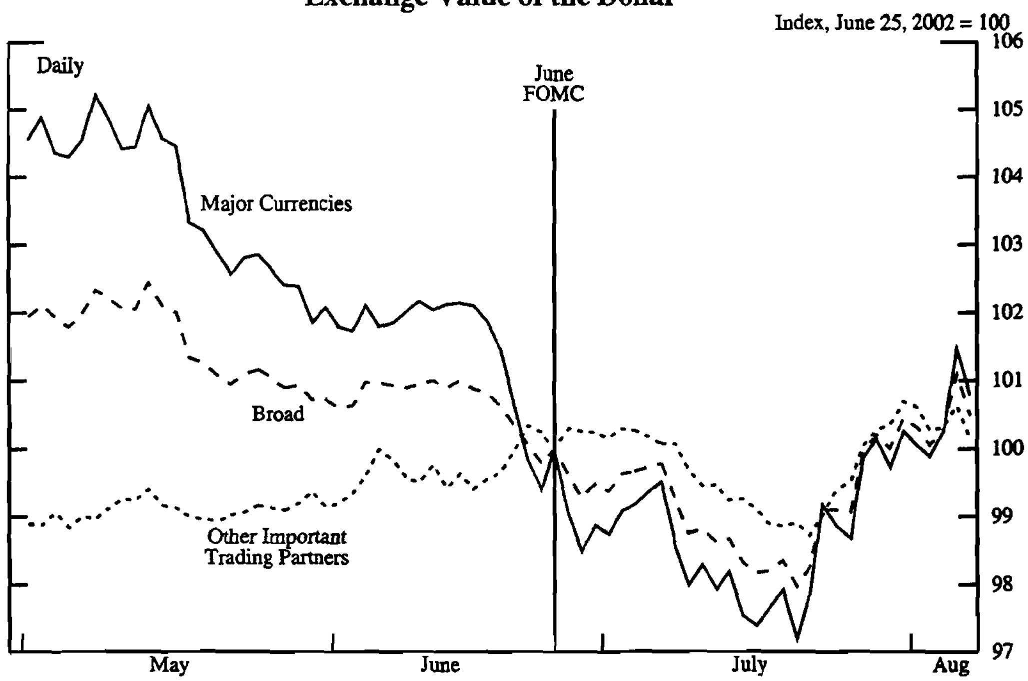
5. Consists of transactions in nonproduced nonfinancial assets and capital transfers.

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

Foreign Exchange Markets

The trade-weighted value of the dollar fluctuated widely over the period but ended ¾ percent higher on balance. The dollar rebounded from two-year lows against the euro and on net, was little changed against the single currency. The dollar rose 3¾ percent against the Canadian dollar. These gains were offset by declines against other currencies. The dollar depreciated 2¼ percent against the British pound and ½ percent against the yen.

Exchange Value of the Dollar



Early in the period, sentiment toward the dollar deteriorated as market participants questioned the strength of the U.S. economic recovery following signs of moderating activity and stock market declines. In addition, concerns about corporate governance and profitability following the bankruptcy of several U.S. telecommunications companies and further allegations of corporate fraud contributed to volatility in financial markets. These developments reinforced concerns about the relative attractiveness of U.S. assets and the ability to finance the large and growing external deficit, contributing to a sharp decline in the dollar. By mid-July the value of the dollar as measured by the major currencies index fell to its lowest level since June 2000. Volatility implied by dollar-yen and euro-dollar exchange rate options spiked to levels not reached since September 2001.

Later in the period, the dollar rebounded following some weaker-than-expected economic data releases abroad. In addition, disappointing European corporate earnings announcements, particularly from insurance companies, weighed on sentiment toward the euro. As the dollar retraced its initial losses, volatility implied by dollar-based exchange rate options moderated to more normal levels.

As the yen strengthened early in the period, Japanese officials publicly confirmed that they intervened on two separate occasions to stem the rise of the yen.

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Speculation about the potential impact of U.S. equity declines on global growth and, by extension, commodity prices appeared to weigh on the Canadian and Australian dollars. Over the intermeeting period, commodity-linked currencies depreciated broadly, despite indications of strong domestic demand and monetary policy tightening. On July 16, the Bank of Canada raised its key policy rate 25 basis points. The central banks of Norway and New Zealand also tightened, raising their policy rates 50 basis points and 25 basis points, respectively.

Financial Indicators in Major Industrial Countries

	Three-month rate		Ten-year yield		Equities
Country	Aug. 7 (Percent)	Percentage Point Change	Aug. 7 (Percent)	Percentage Point Change	Percent Change
Canada	2.87	-.01	5.13	-.27	-8.38
Japan	.04	.03	1.27	-.03	-5.33
Euro area	3.34	-.12	4.60	-.38	-13.67
United Kingdom	3.84	-.22	4.69	-.35	-12.05
Switzerland	.72	-.41	3.13	-.19	-11.73
Australia	4.90	-.20	5.71	-.31	-5.61
United States	1.74	-.07	4.36	-.52	-11.21
Memo: Weighted-average foreign	2.27	-.07	4.31	-.27	n.a.

NOTE. Change is from June 25 to August 7 (10 a.m. EDT).
n.a. Not available.

In contrast, expectations for monetary tightening in Europe have been delayed, following weaker-than-expected U.S. and European economic data, softer European inflation data and global stock market declines. In the United

Kingdom, December 2002 sterling interest rate futures contracts declined nearly 100 basis points. In the euro area, the comparable rate declined about 65 basis points, about the same as in the United States.

In addition, on July 26, the Swiss National Bank cut its target range for three-month Swiss franc LIBOR 50 basis points to 0.25 – 1.25 percent, citing slow growth and its "dissatisfaction" with the persistent strength of the franc, which may have benefitted from safe-haven inflows. However, gold did not appear to benefit from its traditional safe-haven status, as its price fell 4¼ percent to $307.80, coinciding with softness in other metals prices and some marking down of expectations for global economic activity.

Like U.S. markets, foreign equity markets declined amid damped expectations for global growth and disappointing company-specific news. European share price declines exceeded those in other major markets, led by plummeting

Financial Indicators in Latin America, Asia, and Russia

	Currency/ US dollar		Short-term Interest rates[1]		Dollar-denominated bond spread[2]		Equity prices
Economy	Aug. 7	Percent Change	Aug.6/7 (Percent)	Percentage Point Change	Aug.6/7 (Percent)	Percentage Point Change	Percent Change
Mexico	9.71	-1.10	6.68	-1.24	3.95	.78	-8.98
Brazil	3.08	9.29	19.15	-.15	20.38	4.20	-8.28
Argentina	3.63	-5.71	70.00	20.00	71.86	3.28	2.29
Chile	696.50	-.03	3.41	-.74	3.31	.67	-1.58
China	8.28	.00	n.a.	n.a.	1.85	.12	-2.26
Korea	1193.20	-1.28	4.60	.00	.00	-.93	-10.13
Taiwan	33.65	.03	2.15	-.14	...	...	-11.20
Singapore	1.77	-.30	.75	-.06	...	...	-4.11
Hong Kong	7.80	.00	1.69	-.02	...	...	-5.95
Malaysia	3.80	-.01	2.88	.01	1.96	.01	.62
Thailand	42.48	1.31	2.13	.00	n.a.	n.a.	-7.90
Indonesia	9050.00	4.62	15.16	-.59	4.49	.44	-13.52
Philippines	51.60	2.69	5.81	.50	4.82	.44	-8.91
Russia	31.57	.27	n.a.	n.a.	5.94	.58	-5.68

NOTE. Change is from June 25 to August 6/7.

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.

insurance company shares. The Dow Jones Euro Stoxx index and the U.K. FTSE fell between 12 percent and 14 percent, while the S&P 500 index declined 11 percent over the same time period. Asian indexes performed somewhat better, with the Japanese TOPIX and the Hong Kong Hang Seng falling about 5 percent and 6 percent, respectively.

The dollar's value against the currencies of our other important trading partners was little changed. Ongoing concerns stemming from the October presidential election and global financial market pressures weighed on Brazilian assets. Recent public opinion polls showing the government's candidate Serra falling further behind and uncertainty about additional IMF assistance pressured Brazilian assets lower. Despite ongoing official intervention to support the currency, the *real* reached its lowest level since its introduction in 1994. The dollar appreciated 9¼ percent against the *real*. The Brazilian sub-component of the EMBI+ index rose 420 basis points to slightly above 20 percent. In contrast, the Mexican peso appreciated about 1 percent against the dollar amid signs of economic recovery. Mexican sovereign debt spreads over comparable U.S. Treasuries rose almost 80 basis points to about 4 percent.

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

Developments in Foreign Industrial Countries

Indicators through May and June suggest that economic activity in major foreign industrial countries continued to firm during the second quarter. However, more recent surveys of businesses and consumers have shown a dip in sentiment, partly in response to recent equity price declines. The pace of growth was strongest in Canada and the United Kingdom, boosted by robust domestic demand, although activity softened notably late in the quarter. Growth remained sluggish in the euro area and Japan, constrained by continued weakness in final domestic demand.

Headline and core rates of consumer price inflation generally moved lower. Twelve-month consumer price inflation in the euro area slipped below the 2 percent target ceiling of the European Central Bank (ECB), while the United Kingdom registered its lowest inflation rate since 1975. In Japan, deflation continued, at about a 1 percent rate. Inflation in Canada, however, edged up.

Robust recovery and concerns about emerging price pressures led several foreign central banks, notably those of Canada, New Zealand, and Norway, to raise official interest rates since the last FOMC meeting. In contrast, the Swiss central bank cut official interest rates in response to the further appreciation of the Swiss franc.

In **Japan**, indicators suggest that recovery continued in the second quarter, with exports remaining the predominate source of growth. Industrial production rose 3.6 percent, boosted by a surge in export orders. The all-industries index was roughly unchanged in April and May on average from its first-quarter level, held back by weakness in the services sector. Household expenditures were down about 1 percent during the second quarter, while new car registrations rose sharply. Capital spending appears to be stabilizing, with core machinery orders registering gains in April and May. Nonresidential building starts turned up during the second quarter, following several quarters of steep declines. Residential building starts were about flat. The trade surplus widened significantly in May and June, as exports continued to register strong gains.

Labor market conditions remain unfavorable, with the unemployment rate stuck at 5.4 percent in June, only a touch below the record-high rate registered in December. The job-offers-to-applicants ratio, considered a key leading indicator of employment conditions, was unchanged in June at 0.53, 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 percent from a year earlier in July. Wholesale prices for domestic goods were roughly flat on a month-to-month basis between February and June, but continued to be down on a twelve-month basis.

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

Indicator	2001	2002					
	Q4	Q1	Q2	Apr.	May	Jun.	Jul.
Industrial production[1]	-3.4	.6	3.6	.2	4.1	-.7	n.a.
All-industry index	-.9	.6	n.a.	-1.3	1.1	n.a.	n.a.
Housing starts	-2.5	.8	-.8	2.5	11.3	-13.1	n.a.
Machinery orders[2]	-7.5	-7.4	n.a.	8.4	.2	n.a.	n.a.
Machinery shipments	-4.7	3.6	6.6	-.1	8.7	-3.0	n.a.
New car registrations	-5.5	1.9	5.3	10.8	4.9	-11.2	1.2
Unemployment rate[3]	5.4	5.3	5.3	5.2	5.4	5.4	n.a.
Job offers ratio[4]	.52	.51	.53	.52	.53	.53	n.a.
Business sentiment[5]	-40	-41	-32	...	...	...	...
CPI (Core, Tokyo area)[6]	-1.0	-.9	-1.1	-1.1	-1.1	-1.0	-1.0
Wholesale prices[6]	-1.4	-1.4	-1.1	-1.2	-1.2	-1.0	n.a.

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.

The Bank of Japan's Tankan index of business conditions improved in June, led by large manufacturers who are benefitting from a strengthening of foreign demand. This represents the first quarterly gain in business confidence since late 2000. Nonetheless, the level of the aggregate diffusion index for business sentiment among firms of all sizes and across all industries remains very low, at -32 in June versus -41 in March. Survey respondents project a further improvement in the index, to -29, for September. Sentiment among large manufacturers registered the largest quarterly improvement since 1976, while firms across other categories also reported some improvement in conditions. Survey expectations of profits and sales were generally revised up, although projections for investment spending remained weak.

Progress towards structural reform remains slow, largely because of bureaucratic and political opposition. In July, the Diet passed several bills establishing a public corporation to take over the services of the postal system in April 2003 and allowing entry by private firms into the mail delivery business. However, the bills were heavily watered down before being approved and have large loopholes that significantly weaken the impact they will have on opening up the postal services to greater competition. Financial system reform also remains slow, with press reports suggesting that the government may postpone the removal of the blanket guarantee for non-interest bearing bank deposits, which was expected to take place in April 2003.

Recent data suggest that economic recovery in the **euro area** remains somewhat tentative. Euro-area industrial production rose only marginally in May, and for April and May on average output remained slightly below the first-quarter average. Strikes in Germany and Italy in part accounted for the reduced output. German manufacturing orders surged in May but reversed that gain in June. For May and June on average foreign orders rose moderately, while domestic orders declined, consistent with domestic demand that is weak in Germany relative to the other euro-area countries. Euro-area business and consumer sentiment lost some ground in June and July, as confidence was hurt in part by recent equity price declines.

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 8.4 percent in June, still well below the average rates of above 10 percent in the late 1990s. The twelve-month rate of euro-area consumer price inflation moved below the ECB's target ceiling of 2 percent in June for the first time in two years, and the flash estimate of July inflation remained just below 2 percent. Excluding food and energy prices, the twelve-month inflation rate dipped to 2.4 percent in June from 2.5 percent in May. Producer prices remain below year-earlier levels.

On July 25, Portugal announced that its 2001 budget deficit was 4.1 percent of GDP, above the 3 percent limit that could trigger European Union sanctions. The European Commission said that it would start sanctions proceedings against Portugal by preparing a report and making a recommendation to the European Council on whether there is an excessive deficit, taking into account extenuating factors. The Council will vote on this finding and recommend actions that Portugal should take to bring its deficit back into line. Ultimately sanctions could be imposed, possibly including fines. Portugal would be the first country to be sanctioned for an excessive deficit.

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

Indicator	2001	2002					
	Q4	Q1	Q2	Apr.	May	Jun.	Jul.
Industrial production[1]	-1.8	.6	n.a.	-.6	.1	n.a.	n.a.
Retail sales volume	.5	.3	n.a.	-.9	.4	n.a.	n.a.
Unemployment rate[2]	8.1	8.2	8.3	8.3	8.3	8.4	n.a.
Consumer confidence[3]	-10.7	-9.7	-9.0	-10.0	-8.0	-9.0	-10.0
Industrial confidence[4]	-17.0	-13.0	-10.0	-11.0	-9.0	-10.0	-10.0
Mfg. orders, Germany	-.9	1.2	2.2	1.4	3.3	-3.2	n.a.
CPI[5]	2.1	2.6	2.1	2.4	2.0	1.8	1.9
Producer prices[5]	-.8	-.9	-.9	-.8	-1.0	-1.1	n.a.
M3[5]	8.2	7.2	7.1	7.3	7.7	7.1	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 **United Kingdom**, real GDP jumped 3.6 percent (s.a.a.r.) in the second quarter, according to the preliminary estimate. This figure is likely to be revised down significantly, however, when recently released industrial production data are incorporated. Industrial production dropped 4.3 percent in June, partly reflecting fewer working days during that month owing to Golden Jubilee celebrations. Growth in the services sector is estimated to have strengthened from less than 1 percent in the first quarter to about 2.4 percent in the second quarter.

Indicators for the third quarter suggest a possible slowdown in growth. The manufacturing PMI dropped notably in July, indicating contraction for the first time in five months, and the services PMI also declined. Surveys suggest retail

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

Indicator	2001 Q4	2002 Q1	2002 Q2	2002 Apr.	2002 May	2002 June	2002 July
Real GDP*	.4	.6	3.6	...	...	...	...
Industrial production	-2.4	-1.2	.2	1.1	1.0	-4.3	n.a.
Retail sales volume	1.3	1.0	1.7	1.7	-.5	-.7	n.a.
Unemployment rate[1]							
Claims-based	3.2	3.1	3.2	3.2	3.2	3.2	n.a.
Labor force survey[2]	5.1	5.1	n.a.	5.2	n.a.	n.a.	n.a.
Business confidence[3]	-24.0	-3.3	8.0	14.0	4.0	6.0	9.0
Retail prices[4]	2.0	2.4	1.9	2.3	1.8	1.5	n.a.
Producer input prices[5]	-8.2	-5.6	-5.9	-4.3	-6.2	-7.2	n.a.
Average earnings[5]	3.3	2.9	n.a.	4.0	4.0	n.a.	n.a.

* Preliminary. Seasonally adjusted at annual rates.
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.
... Not applicable.
n.a. Not available.

sales in July were flat, while consumer confidence was unchanged in July from the month before.

The twelve-month increase in housing prices hit a thirteen-year high at around 21 percent in July. However, there are signs that the housing market may be coming off the boil. Borrowing to finance the purchase of new homes fell almost 17 percent in June from May's record high and anecdotal evidence suggests that the purchase of homes for rental has slowed. Moreover, growth in consumer credit slowed further in June after hitting a record high in April.

Labor market conditions remain tight. The official claims-based unemployment rate remained at 3.2 percent in June, near a record low. Even so, the twelve-month rate of retail price inflation (excluding mortgage interest payments) dropped in June to 1.5 percent, the lowest inflation rate since the series began in 1975. The twelve-month growth rate of average earnings remained at 4 percent in May.

In its August *Inflation Report*, the Bank of England lowered its growth forecast for 2003 from 3 percent to 2.5 percent, and lowered its inflation forecast, now predicting that inflation will remain below the 2.5 percent target over the two-year forecast horizon. The report added that risks to growth are "to the downside."

In **Canada**, indicators for the second quarter have been strong, although most of the strength occurred early in the quarter. Real GDP by industry increased 10.5 percent (s.a.a.r.) in April, led by a sharp climb in the level of manufacturing. In May, however, growth was flat. On average, GDP by industry in April and May rose 4.5 percent compared with the first-quarter level.

Motor vehicle production exhibited particular strength in April, with shipments soaring 14.4 percent from the previous month. Forestry production also grew robustly, as Canadian producers rushed to take advantage of a temporary elimination of U.S. duties on Canadian softwood lumber exports. The duties, both countervailing and anti-dumping, were suspended from April 21 to May 22 for technical reasons relating to U.S. trade law. Output of both industries retreated from April's elevated levels in May, but average levels remain above first-quarter levels.

Retail sales increased at a brisk pace in April, but fell back in May with clothing sales recording the largest decline. Consumer confidence was roughly flat in the second quarter, after a large increase in the first quarter pushed the index to a level not seen since 1988. Business confidence moved up in the second quarter, again after recording a large jump in the first quarter.

The unemployment rate decreased to 7.5 percent in June. Employment has grown 2 percent over the first half of 2002, the largest six-month gain since 1988. The twelve-month rate of consumer price inflation in June rose to 1.3 percent from 1.0 percent in May, with most of the increase attributable to a rise in cigarette prices. The twelve-month rate of core price inflation, excluding food and energy prices, rose to 2.6 percent in June from 2.4 percent in May.

The Bank of Canada increased its target for the overnight rate, its key policy rate, 25 basis points to 2.75 percent on July 16, citing stronger-than-expected Canadian growth. Overall, the Bank of Canada has now taken back 75 basis points of the easing cycle that began in 2001 and encompassed a cumulative reduction of 375 basis points.

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

Indicator	2001	2002					
	Q4	Q1	Q2	Mar.	Apr.	May	Jun.
GDP by industry	.4	1.4	n.a.	.1	.8	.0	n.a.
Industrial production	-1.3	2.4	n.a.	-.0	1.9	-.8	n.a.
New mfg. orders	-4.8	4.8	n.a.	-.8	4.7	-1.1	n.a.
Retail sales	2.6	2.6	n.a	-.1	1.0	-1.3	n.a.
Employment	.1	.7	.9	.6	.2	.2	.4
Unemployment rate[1]	7.7	7.8	7.6	7.7	7.6	7.7	7.5
Consumer prices[2]	1.1	1.5	1.3	1.8	1.7	1.0	1.3
Consumer attitudes[3]	114.7	125.0	125.5	...	...	...	
Business confidence[3]	117.6	141.5	145.2	...	...	...	

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

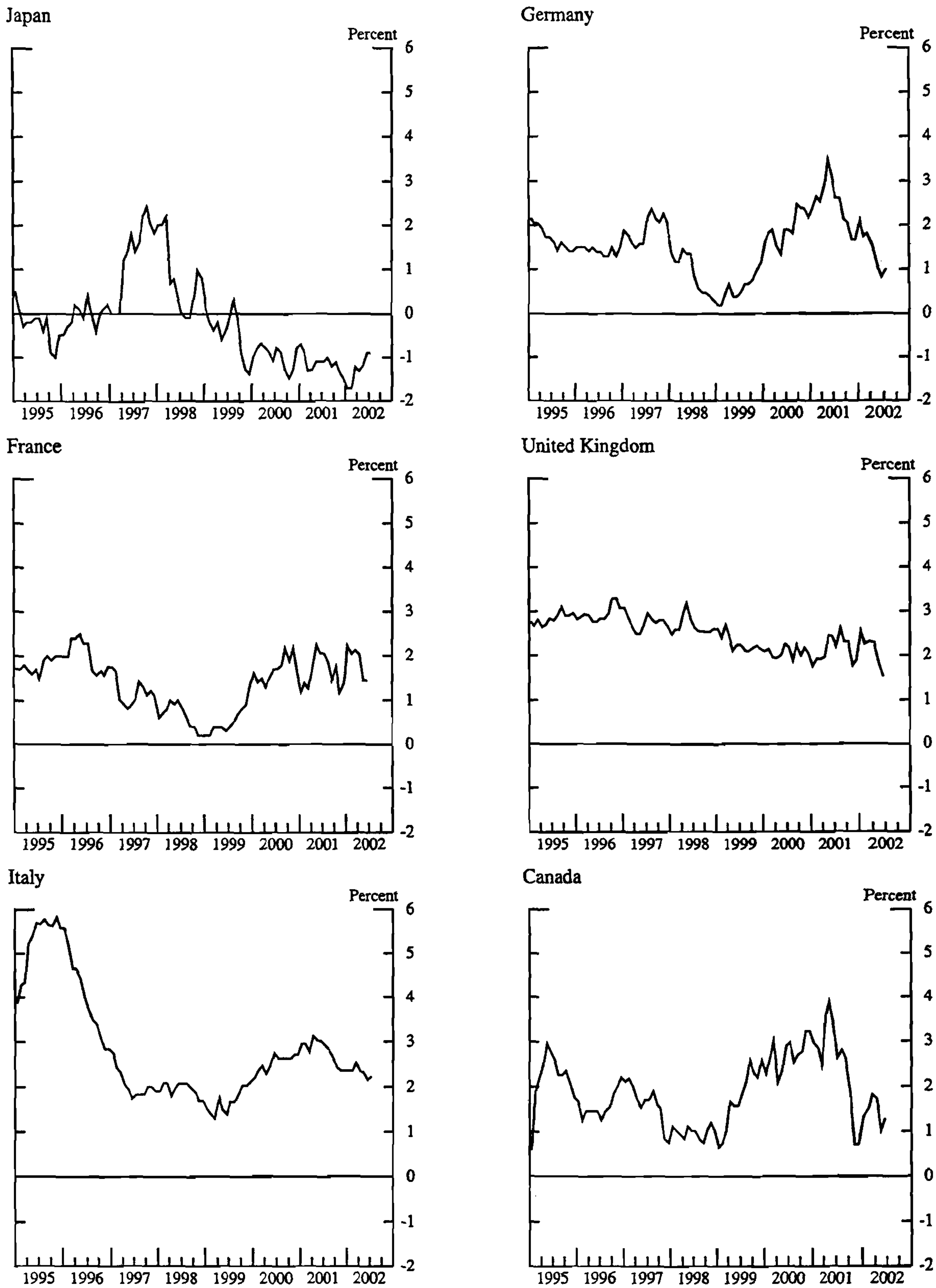
External Balances
(Billions of U.S. dollars, s.a.a.r.)

Country and balance	2001	2002					
	Q4	Q1	Q2	Mar.	Apr.	May	Jun.
Japan							
Trade	52.7	72.4	86.1	96.8	71.1	86.1	101.2
Current account	98.5	117.5	n.a.	139.8	106.3	121.5	n.a.
Euro area							
Trade[1]	91.7	69.0	n.a.	126.5	53.4	91.0	n.a.
Current account[1]	53.6	15.1	n.a.	39.0	-61.7	1.1	n.a.
Germany							
Trade	91.3	113.0	n.a.	117.8	97.8	111.1	n.a.
Current account	25.5	36.9	n.a.	73.8	42.1	47.0	n.a.
France							
Trade	1.0	1.1	n.a.	1.1	2.1	3.6	n.a.
Current account	4.1	3.6	n.a.	2.8	.3	5.0	n.a.
Italy							
Trade	15.2	6.2	n.a.	6.3	8.0	15.3	n.a.
Current account[1]	7.5	-9.3	n.a.	1.9	-15.1	-19.0	n.a.
United Kingdom							
Trade	-48.5	-45.2	n.a.	-47.2	-40.7	-30.1	n.a.
Current Account	-37.3	32.0	n.a.	...	...	...	...
Canada							
Trade	32.8	35.0	n.a.	31.8	41.9	35.2	n.a.
Current Account	11.2	14.8	n.a.	...	...	...	...

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

Consumer Price Inflation in Selected Industrial Countries

(12-month change)



Economic Situation in Other Countries

In South America, economic and financial conditions have deteriorated significantly over the intermeeting period. As the presidential election nears in Brazil, market concern over the policies of the future government has caused the value of the *real* to plunge and spreads to soar. In Uruguay, the situation has reached crisis levels; on August 5, the U.S. Treasury responded by providing a $1.5 billion loan from the Exchange Stabilization Fund as a bridge to forthcoming funds from the International Financial Institutions. The loans are intended to shore up Uruguay's weakened banking system. Prior to receiving the loan, the Central Bank had imposed a four-day bank holiday in response to sustained deposit outflows. Uruguay's level of international reserves has plunged over the past month, and the currency has depreciated substantially since being allowed to float in mid-June.

The economic environment is more positive in Mexico, where a recovery appears to be taking hold, and in developing Asia, where the recovery across most of the region has strengthened on the back of more robust export growth.

Elsewhere, economic data in Turkey have been positive, but financial conditions have weakened considerably. Concern over the prime minister's health has continued, leading elections to be advanced to November 3. Turkey is expected to receive its August IMF disbursement, but political uncertainty has led market participants to question the country's ability to meet its performance criteria and service its considerable debt.

Economic activity in **Brazil** has weakened since the last Greenbook as financial market sentiment toward the country worsened sharply. The *real* depreciated significantly over the intermeeting period and spreads on foreign-currency denominated sovereign debt continued to rise. Industrial production declined 5 percent in May, leaving it about unchanged from a year ago, and the unemployment rate was nearly 8 percent in June, up over 1 percentage point from its year-earlier level. Weak domestic demand has contributed to an improvement in the trade balance. Twelve-month inflation was 7.7 percent in June, exceeding the 5½ percent upper limit of the government's inflation target range for 2002. Acknowledging the likely effect of the depreciating *real* on prices, the Brazilian government shifted and widened its inflation target band for 2003 from 1¼ - 5¼ percent to 1½ - 6½ percent in late June.

Brazil's serious problems have been fueled by the presidential election on October 6 (with a runoff on October 29 likely) and fears that the new government, entering office in January 2003, may take unilateral action with respect to the domestic and foreign debt and reverse the current administration's economic policy reforms. Left-wing candidates Luiz Inacio "Lula" da Silva and Ciro Gomes are leading in the polls, while the government's candidate, Jose Serra, is running a distant third. The fallout from the electoral campaign is causing spreads in secondary markets to widen sharply and is undermining the government's ability to conduct its normal auctions of domestic debt. Since late June, the government has acted to shorten the maturity profile of the domestic debt, largely in order to support prices of bonds held by banks and mutual funds, which hold 80 percent of the government's debt.

In an effort to support markets, the central bank reduced the overnight interest rate from 18½ percent to 18 percent in late July. Recent attempts to bolster the currency through pre-announced sales of international reserves ($50 million per day) have not been successful. Brazil is currently holding talks with the IMF to enlarge and extend its program beyond the mid-December expiration date. The Cardoso government is also attempting to gain a degree of assurance from the presidential candidates that they would adhere to the IMF program if elected.

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

Indicator	2000	2001	2002				
			Q1	Q2	May	June	July
Real GDP[1]	3.9	-.6	5.4	n.a.	...	...	...
Industrial production	6.6	1.5	2.8	n.a.	-5.1	n.a.	n.a.
Unemployment rate[2]	7.1	6.2	7.3	7.9	8.0	7.9	n.a.
Consumer prices[3]	6.0	7.7	7.6	7.8	7.8	7.7	n.a.
Trade balance[4]	-.7	2.6	4.6	1.9	.6	2.4	12.4
Current account[5]	-24.6	-23.2	-12.9	-20.4	-22.0	-15.5	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.

In **Argentina**, data for June signaled some stabilization in economic activity. Industrial production and real retail sales rose 1 to 2 percent in June, although both remain about 10 percent below their year-earlier levels. Earlier, real GDP declined nearly 22 percent in the first quarter (s.a.a.r.), driven by plunging domestic demand. The unemployment rate stood at over 21 percent in May. Monthly consumer price inflation in July was about 3 percent, bringing the twelve-month increase to 33 percent. Driven by the collapse of the peso, producer prices rose nearly 90 percent over the same period.

Discussions between the IMF and the Argentine government on an economic adjustment program have continued, and a repayment of IMF funds due in July was postponed a year. The peso stabilized in July, supported in part by central bank intervention and a rise in short-term interest rates to over 100 percent. Disagreements over the course of monetary and banking policy between the economy ministry and the central bank (BCRA) led to the departure of BCRA President Mario Blejer in late June. His replacement, Aldo Pignanelli, soon clashed with the Economy Minister, Roberto Lavagna, in part over the voluntary nature of the ministry's plan for an exchange of frozen bank deposits for long-term government bonds. In the event, only a quarter of the trapped deposits were exchanged, leaving the banking system still vulnerable to deposit outflows as the deposit freeze continues to be challenged in the courts. As a result of the government's inability to tackle the country's economic problems, the next presidential election was moved up six months to March 2003. Former president Menem, several Peronist governors, and a few left-wing politicians have indicated intentions to run.

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

Indicator	2000	2001	2002				
			Q1	Q2	May	June	July
Real GDP[1]	-1.9	-10.5	-21.8	n.a.	...	...	...
Industrial production	-1.8	-5.2	-3.3	-1.0	-.5	1.3	n.a.
Unemployment rate[2]	15.1	17.4	...	21.3	21.3	...	...
Consumer prices[3]	-.7	-1.5	4.2	23.3	23.0	28.4	32.9
Trade balance[4]	2.6	7.5	16.6	n.a.	14.3	16.3	n.a.
Current account[5]	-8.9	-4.6	6.0	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 Q2 reflect data for May.
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.

Mexico's recent indicators are consistent with economic recovery. The April-May averages for overall economic activity (a monthly proxy for real GDP) and industrial production were both up roughly 1¾ percent from their first-quarter levels. Exports have rebounded, rising 3½ percent (s.a.) in the second quarter from the previous period. Imports have grown even more rapidly, consistent with a revival of domestic demand, and the trade deficit has widened accordingly.

The pass-through to prices of the substantial depreciation of the Mexican peso in recent months has been limited; twelve-month consumer price inflation increased about ¼ percentage point to nearly 5 percent in June, and even that was partly accounted for by a rise in domestic fruit and vegetable prices. In late July, the Bank of Mexico (BOM) made official its informal target of 3 percent for year-end, twelve-month inflation for 2003 and signaled its intention to keep price increases to 3 percent beyond 2003. The BOM also introduced a band of plus or minus 1 percentage point around its inflation target. June's inflation was within the target range for 2002 implied by the new band.

Mexican Economic Indicators

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

Indicator	2000	2001	2002				
			Q1	Q2	Apr.	May	June
Real GDP[1]	4.9	-1.5	-1.0	n.a.	...	...	...
Overall economic activity	6.5	-.2	.5	n.a.	2.0	-.4	n.a.
Industrial production	6.0	-3.4	.9	n.a.	1.7	-.4	n.a.
Unemployment rate[2]	2.2	2.5	2.6	2.6	2.6	2.7	2.5
Consumer prices[3]	9.0	4.4	4.7	4.8	4.7	4.7	4.9
Trade balance[4]	-8.0	-10.0	-8.4	-9.2	-9.3	-9.1	-9.1
Imports[4]	174.5	168.4	164.1	170.3	171.9	169.0	170.0
Exports[4]	166.5	158.4	155.7	161.1	162.6	159.9	160.9
Current account[5]	-18.1	-17.8	-15.7	n.a.	...	....	...

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 **Venezuela,** political uncertainty continued to punish an already weakened economy. The unemployment rate jumped to almost 16 percent in April. Anecdotal reports were of even higher unemployment figures later in the second quarter. The bolivar has depreciated 40 percent since floating in mid-February. Weak demand appears to be muting the pass-through of this devaluation into consumer prices: CPI inflation was 22 percent in the twelve months ended July. Poor tax receipts and reduced oil revenues–as oil production has declined in line with OPEC quotas–have led to a serious budget imbalance while political instability has virtually cut off government access to international and domestic capital markets.

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

Indicator	2000	2001	2002				
			Q1	Q2	May	June	July
Real GDP[1]	5.7	.9	-15.6	n.a.	...	...	...
Unemployment rate[2]	13.4	13.3	15.5	n.a.	n.a.	n.a.	n.a.
Consumer prices[3]	13.4	12.3	14.6	18.9	18.3	19.6	22.0
Non-oil trade balance[4]	-10.3	-12.2	-11.1	n.a.	n.a.	n.a.	n.a.
Trade balance[4]	17.5	9.4	7.3	n.a.	n.a.	n.a.	n.a.
Current account[5]	13.4	4.1	.5	n.a.	...	...	...

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

The **Korean** economy performed well over the intermeeting period. An election day holiday, strikes in the auto industry, and focus on the World Cup held down industrial production in June. For the second quarter as a whole, however, production was up over 2 percent from the previous quarter, with strong gains in the semiconductor industry. The trade balance recorded a $14.6 billion surplus in the second quarter, down a bit from the first quarter as export growth was tempered and import growth picked up. The unemployment rate has been roughly stable in recent months, and consumer price inflation in July remained on the low side of the central bank's 2 to 4 percent target range.

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

Indicator	2000	2001	2002				
			Q1	Q2	May	June	July
Real GDP[1]	5.1	4.4	7.6	n.a.	...	...	...
Industrial production	16.9	1.7	1.5	2.1	.5	-3.6	n.a.
Unemployment rate[2]	4.1	3.7	3.0	3.1	3.1	3.0	n.a.
Consumer prices[3]	2.8	3.2	2.5	2.7	3.0	2.6	2.1
Trade balance[4]	16.9	13.4	19.2	14.6	13.9	17.1	n.a.
Current account[5]	12.2	8.6	7.0	7.4	12.6	9.9	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 indicators from the **ASEAN** region point to a continuation of the strong recovery begun late last year. Industrial production is up, on average in the second quarter so far, in every country in the region. Production of high-tech goods has been the driving force behind the overall increase in most of the region. Because most high-tech goods are exported, exports in the region have also increased in recent months. Given the high import content of the region's exports, imports have risen as well, and the net effect on trade balances has been mixed.

Since the last Greenbook, inflation declined further in Indonesia, largely due to the rupiah's appreciation during the first half of the year. In Singapore, consumer prices in June were up on a twelve-month basis, the first positive inflation reading since late last year. In the rest of the region, inflation has remained stable, with twelve-month inflation below 3 percent in each case.

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

Indicator and country	2000	2001	2002				
			Q1	Q2	Apr.	May	June
Real GDP[1]							
Indonesia	7.3	1.2	5.1	n.a.	...	...	...
Malaysia	6.4	-.8	3.7	n.a.	...	...	...
Philippines	3.7	3.9	.8	n.a.	...	...	...
Singapore	11.4	-6.4	7.6	n.a.	...	...	...
Thailand	3.4	2.0	6.4	n.a.	...	...	...
Industrial production[2]							
Indonesia[3]	11.6	.7	.1	n.a.	1.4	.6	n.a.
Malaysia	19.1	-4.1	2.5	n.a.	4.8	-.2	n.a.
Philippines	2.4	-6.6	3.8	n.a.	10.9	-4.6	n.a.
Singapore	15.3	-11.6	6.5	12.0	11.9	4.5	-6.4
Thailand	3.3	1.3	.6	3.0	-.1	2.2	-3.5

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

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

Country	2000	2001	2002				
			Q1	Q2	Apr.	May	June
Indonesia	28.6	25.4	26.6	27.9	28.2	26.9	28.6
Malaysia	16.1	14.3	15.7	10.8	7.7	11.5	13.1
Philippines	6.7	2.6	5.1	n.a.	-1.0	2.1	n.a.
Singapore	3.3	5.8	6.3	5.5	8.6	5.1	2.8
Thailand	5.5	2.5	2.9	n.a.	-1.4	4.7	n.a.

n.a. Not available.

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

Country	2000[1]	2001[1]	2002				
			Q1	Q2	May	June	July
Indonesia	9.3	12.5	14.5	12.6	12.9	11.5	10.0
Malaysia	1.3	1.2	1.4	1.9	1.9	2.1	n.a.
Philippines	6.7	4.1	3.6	3.4	3.6	3.0	2.6
Singapore	2.1	-.6	-.8	-.4	-.4	.2	n.a.
Thailand	1.4	.8	.6	.2	.1	.2	.1

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

The **Chinese** economy continued to grow at a rapid pace in the second quarter, with real GDP rising more than 9 percent (s.a.a.r.). Chinese officials pointed to strong growth in exports and foreign direct investment as being primarily responsible. Foreign direct investment in the first half of the year was over 30 percent greater than its level the same period last year, while exports were almost 15 percent above last year's level. The overall trade surplus, which surged in the first quarter, remained well above last year's level in the second quarter. The rate of deflation has moderated somewhat since the last Greenbook, partly due to the acceleration of economic activity.

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

Indicator	2000	2001	2002				
			Q1	Q2	Apr.	May	June
Real GDP[1]	8.0	7.5	8.5	9.3	...	...	...
Industrial production[2]	11.4	8.9	8.2	12.5	12.1	12.9	12.4
Consumer prices[2]	1.5	-.3	-.6	-1.1	-1.3	-1.1	-.8
Trade balance[3]	24.1	23.1	40.3	29.9	22.9	21.5	45.4

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.

In **Hong Kong**, indicators since the last Greenbook point to further economic weakness. Unemployment rose again in the second quarter. The trade deficit widened in recent months, exceeding $10 billion in May and June, largely due to a significant increase in imports from China that are destined for re-export. However, the overall volume of trade that Hong Kong handles is well below earlier levels, as China's entry into WTO has led many traders to bypass Hong Kong and deal directly with China. In addition, twelve-month deflation worsened in May and June, reflecting a resumption of property price declines and the poor economic environment more generally.

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

Indicator	2000	2001	2002				
			Q1	Q2	Apr.	May	June
Real GDP[1]	6.9	-1.7	1.2	n.a.	...	...	...
Unemployment rate[2]	5.1	4.9	7.0	7.7	7.1	7.4	7.7
Consumer prices[3]	-2.1	-3.5	-2.6	-3.2	-3.0	-3.1	-3.4
Trade balance[4]	-11.0	-11.4	-4.5	-7.8	-2.1	-10.8	-10.6

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

Economic conditions in **Taiwan** strengthened further in the second quarter. Industrial production rose over 6 percent (s.a.) in the quarter but was down more than 5 percent in June, as electronics production fell off from an historical high. Prices have also stabilized, after falling much of last year. Exports continued to rise in recent months, led by exports of high-tech goods. Imports also increased, reflecting both the high-import content of exports and the recovery in the economy more broadly.

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

Indicator	2000	2001	2002 Q1	2002 Q2	2002 May	2002 June	2002 July
Real GDP[1]	3.9	-1.8	7.5	n.a.	...	...	...
Unemployment rate[2]	3.0	4.6	5.3	5.2	5.2	5.2	n.a.
Industrial production	7.4	-7.3	3.8	6.1	1.3	-5.2	n.a.
Consumer prices[3]	1.7	-1.7	-.1	.0	-.3	.1	.4
Trade balance[4]	8.3	15.6	22.9	16.5	16.4	17.6	11.5
Current account[5]	8.9	18.9	28.6	n.a.	...	...	...

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.