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.

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

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

Content last modified 6/05/2009.

Confidential (FR) Class III FOMC

Part 2

October 30, 2002

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

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

Confidential (FR) Class III FOMC

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Domestic Nonfinancial Developments

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Overview
We now estimate that real GDP advanced at an annual rate of about 3 percent in the third quarter, but the expansion seems to have slowed going into the fall. Although housing activity remains a bright spot, consumer spending has softened and business investment remains sluggish, on balance. The number of jobs on private payrolls has been unchanged, on net, since July, while industrial production has edged down over the past several months. Meanwhile, core consumer price inflation continues to trend down.

Labor Market Developments
Available evidence points to little change in labor demand in recent months. Private nonfarm payroll employment fell in September, erasing most of August's gain, and aggregate hours rose only enough in September to return them to their June level. In contrast, household employment rose 711,000 in September, and the unemployment rate edged down another 0.1 percentage point, to 5.6 percent. In the past, we have found the payroll data to be a more reliable indicator of the state of the job market, and the other available information on labor market activity seems more consistent with their weak tone.

All major sectors shared in the weakness in payroll employment in September. Employment in manufacturing and related industries (wholesale trade and help supply services) fell for a third straight month after signaling last spring that it might be turning around. At the same time, services (outside of help supply) and retail trade combined to add only 10,000 jobs, far fewer than the 38,000 per month average over the first eight months of the year.

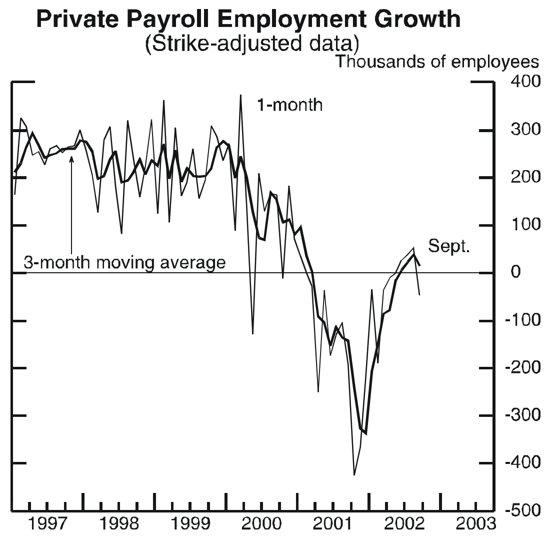
Initial claims for unemployment insurance also point to soft labor demand. On a published basis, initial claims have averaged 397,000 per week so far in October. However, the seasonal adjustment of these data appears to have been distorted by the sharp increase in claims that followed the events of September 11, 2001. Using seasonal factors calculated with data through 2000 (which are therefore not influenced by September 11), initial claims have averaged 426,000 in recent weeks—considerably above the levels from early in the summer.

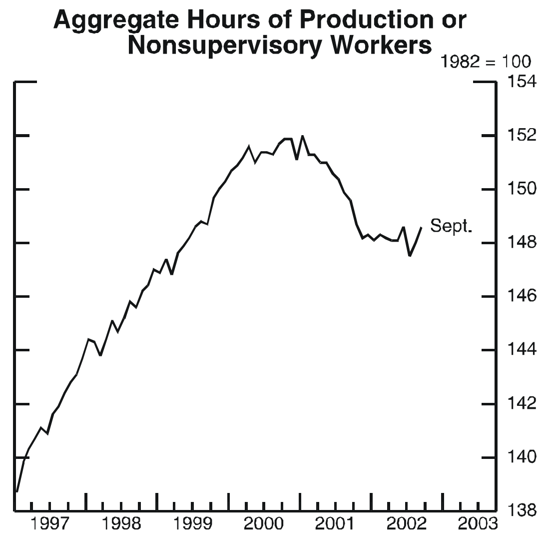
Layoff announcements tracked by Challenger, which are available through September, continued at about the same pace that had prevailed earlier in the year. However, the layoff announcement series constructed by Board staff, which goes back only to 2001 but generally tracks the movements in the Challenger series, turned up in October. The NFIB's index of hiring plans among small businesses, which had improved over the summer, fell markedly in September, and the Conference Board's measure of current job availability as perceived by households weakened significantly in both September and October. Expectations

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

	2001	2002 Q1	2002 Q2	2002 Q3	2002 July	2002 Aug.	2002 Sept.
	-Average monthly change-						
Nonfarm payroll employment[1]	-119	-63	12	39	54	107	-43
Previous	*-119*	*-63*	*12*	...	*67*	*39*	...
Private	-158	-88	7	15	37	54	-47
Mining	1	-2	-2	-1	-4	4	-2
Manufacturing	-109	-80	-22	-38	-15	-63	-35
Construction	-3	-14	-15	1	-30	34	-1
Transportation and utilities	-23	-14	-8	-20	-10	-17	-32
Retail trade	-15	5	-8	-10	31	-44	-16
Wholesale trade	-16	-7	0	-5	-2	-7	-5
Finance, insurance, real estate	10	-3	-2	10	4	10	16
Services	-2	27	63	76	63	137	28
Help supply services	-54	4	36	9	-27	51	2
Total government	39	25	5	25	17	53	4
Total employment (household survey)	-153	-54	53	377	-8	429	711
Nonagricultural	-154	-14	58	315	-179	523	601
Memo:							
Aggregate hours of private production workers (percent change)[1,2]	-2.1	-0.5	0.2	-0.6	-0.7	0.3	0.4
Average workweek (hours)[1]	34.2	34.2	34.2	34.1	34.0	34.1	34.3
Manufacturing (hours)	40.7	40.8	41.0	40.8	40.7	40.9	40.9

Note. Average change from final month of preceding period to final month of period indicated.
1. Survey of establishments.
2. Annual data are percent changes from Q4 to Q4. Quarterly data are percent changes from preceding quarter at an annual rate. Monthly data are percent changes from preceding month.
... Not applicable.

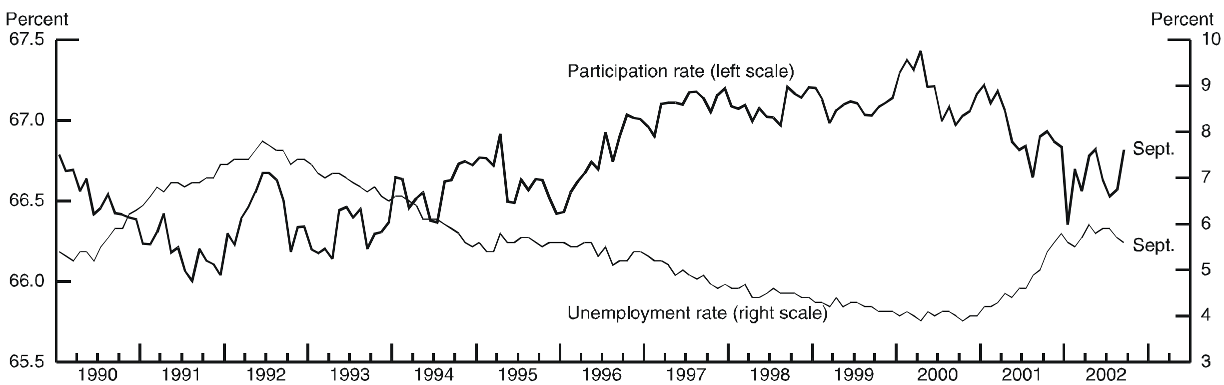




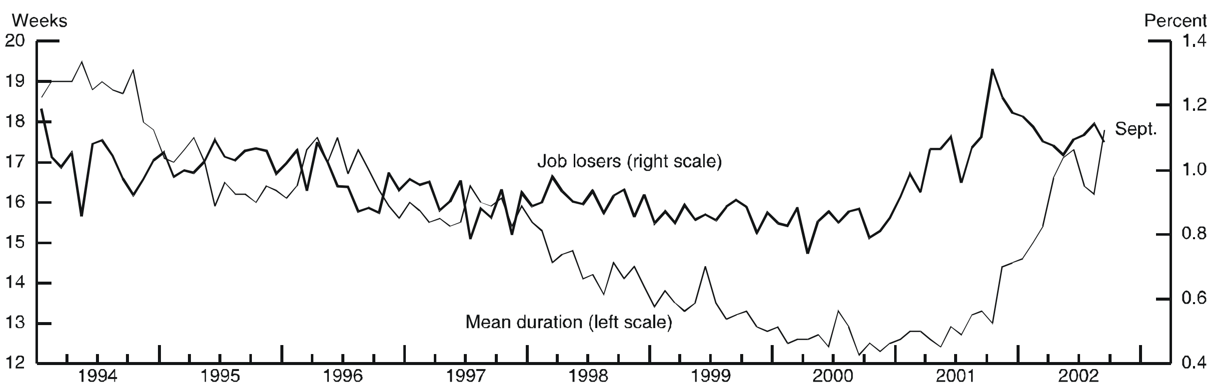
SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data)

	2001	2002 Q1	2002 Q2	2002 Q3	2002 July	2002 Aug.	2002 Sept.
Civilian unemployment rate (16 years and older)	4.8	5.6	5.9	5.7	5.9	5.7	5.6
Teenagers	14.7	16.0	17.1	16.9	17.7	17.2	15.7
20-24 years old	8.3	9.8	9.4	9.6	9.5	9.6	9.7
Men, 25 years and older	3.6	4.5	4.9	4.6	4.7	4.6	4.5
Women, 25 years and older	3.7	4.4	4.8	4.5	4.6	4.5	4.5
Labor force participation rate	66.9	66.5	66.7	66.6	66.5	66.6	66.8
Teenagers	49.9	48.2	47.7	47.6	47.1	47.1	48.6
20-24 years old	77.2	76.3	76.7	76.6	76.4	77.0	76.4
Men, 25 years and older	75.9	75.6	75.9	75.8	75.7	75.9	75.9
Women, 25 years and older	59.7	59.6	59.6	59.6	59.4	59.6	59.8

Labor Force Participation Rate and Unemployment Rate



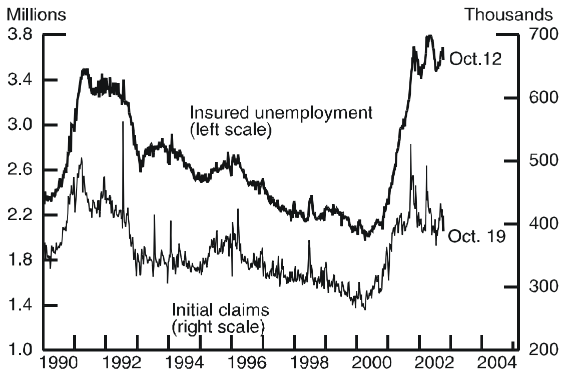
Job Losers Unemployed for Less Than 5 Weeks and Duration of Unemployment



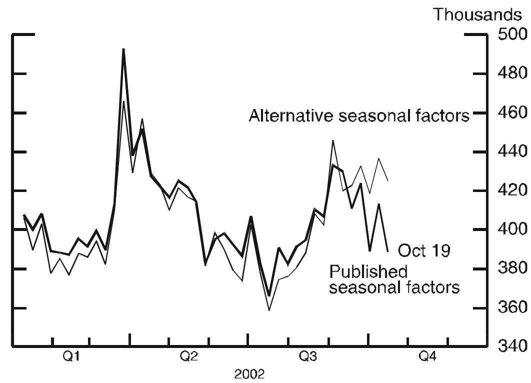
Note. Job losers unemployed for less than 5 weeks measured as a percentage of household employment.

Labor Market Indicators

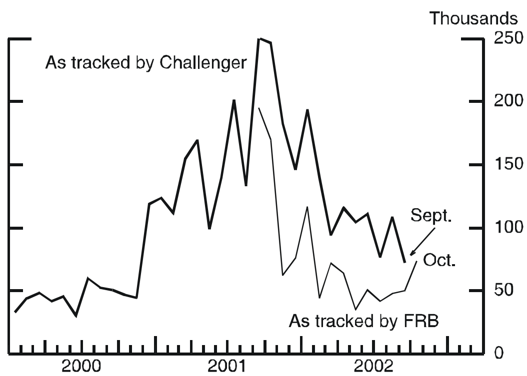
Unemployment Insurance



Initial Claims

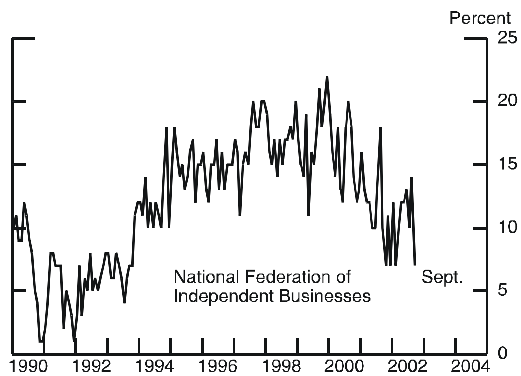


Layoff Announcements



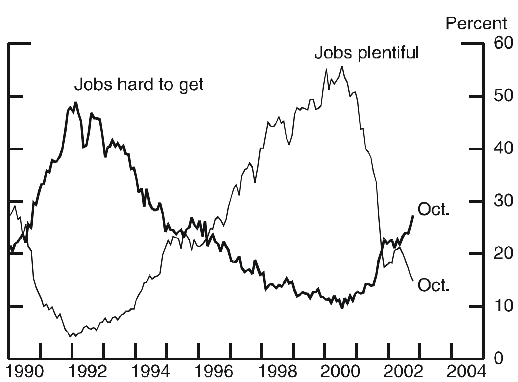
Note. Seasonally adjusted by FRB staff. October value is FRB estimate.
Source. Challenger, Gray and Christmas, Inc.

Net Hiring Strength



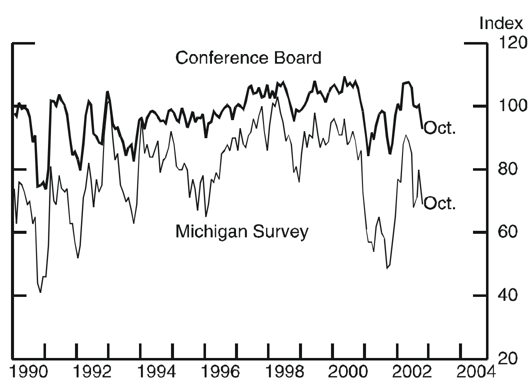
Note. Percent planning an increase in employment minus percent planning a reduction.

Current Employment Conditions



Source. Conference Board.

Expected Employment Conditions



Note. The proportion of households expecting unemployment to fall, minus the proportion expecting it to rise, plus 100.

about employment conditions also have deteriorated substantially, according to both the Conference Board and Michigan surveys.

Industrial Production

Activity in the industrial sector has faltered in recent months after having firmed in the first half of the year. Total IP fell 0.3 percent in August and dipped an additional 0.1 percent in September; the output of manufacturers was down in both months. Moreover, the available weekly indicators point to another decrease in output in October: A drop in motor vehicle assemblies is expected to shave 0.2 percentage point from the change in overall IP, while available physical product data apart from those for motor vehicles are expected to subtract another 0.2 percentage point.[1]

The softness in the industrial sector since midyear has been widespread. In the high-tech area, output has continued to rise in recent months, but much less rapidly than it did earlier in the year. The diminution of gains in semiconductor production has been noticeable and has reflected decelerations in both the output of microprocessor units (MPUs) and the production of other types of chips. Moreover, Intel's revenue outlook implies continued tepid demand for MPUs, and Motorola recently lowered its forecast for worldwide sales of cell phones in 2002 from 400 million to 390 million; cell phones are large users of digital signal processors and flash memory chips. Consistent with the recent slowdown in the demand for semiconductors, orders for semiconductor manufacturing equipment have fallen back in recent months, retracing much of their spurt in the first half of the year.

Elsewhere in the high-tech sector, output of communications equipment has continued to plummet. Although demand for some types of communication equipment has apparently been buoyed by a stabilization in the market for computer network equipment, demand for types of equipment used by telecom service providers has continued to contract sharply. Moreover, with inventories of communications equipment remaining very high relative to the recent pace of sales, and orders remaining very weak, production is unlikely to rebound soon. Meanwhile, the production of computers has been on a steady uptrend in recent months. However, the increases have been relatively subdued by historical standards, and the near-term sales outlook remains anemic. For example, on a seasonally adjusted basis, Dataquest is currently forecasting that PC unit sales will fall about 7 percent (quarterly rate) in the fourth quarter after having edged up 2 percent in the third.

According to the latest estimates from Ward's Communications, motor vehicle assemblies are running at an annual rate of 12.1 million units in October and are

1. The physical product data outside of motor vehicles account for 14 percent of IP.

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

Component	Proportion 2001 (percent)	2001[1]	2002[2]		2002[3]		
			H1	Q3	July	Aug.	Sept.
Total	**100.0**	**-5.9**	**3.4**	**3.6**	**.5**	**-.3**	**-.1**
Previous	100.0	-5.9	3.4	...	.4	-.3	...
Manufacturing	86.7	-6.1	3.3	3.3	.4	-.2	-.3
Ex. motor veh. and parts	80.4	-6.6	2.0	1.7	.1	-.1	-.1
Ex. high-tech industries	73.8	-5.5	.5	1.2	.2	-.2	-.2
Mining	6.2	-2.4	-6.3	1.3	-.3	.6	-1.1
Utilities	7.1	-6.1	12.6	8.6	2.3	-2.5	2.4
Selected industries							
High technology	6.6	-15.6	21.1	7.7	-.1	.6	1.1
Computers	1.5	-8.2	19.5	5.7	1.0	1.1	1.1
Communication equipment	1.5	-24.4	-12.4	-19.0	-4.2	-1.5	-.7
Semiconductors[4]	3.5	-14.9	36.7	18.6	.8	1.0	1.7
Motor vehicles and parts	6.3	-.4	20.4	21.8	3.5	-.4	-1.6
Aircraft and parts	2.6	-11.6	-31.2	-27.1	-1.9	-3.6	-2.0
Market groups excluding energy and selected industries							
Consumer goods	24.0	-1.6	-.2	-1.3	.1	-1.1	-.1
Durables	3.5	-8.0	6.2	-8.4	-.5	-1.8	-1.0
Nondurables	20.6	-.5	-1.2	.0	.2	-.9	.0
Business equipment	7.9	-10.8	-2.3	4.4	.0	1.4	-1.4
Defense and space equipment	2.0	.2	3.6	12.3	.7	1.7	1.6
Construction supplies	6.6	-3.8	7.1	-.4	-1.5	.9	.3
Business supplies	7.1	-8.4	-1.9	3.2	.8	-.3	.0
Materials	23.9	-6.9	3.4	4.2	.4	.1	-.1
Durables	16.3	-7.3	1.9	2.9	.2	.1	-.3
Nondurables	7.6	-6.1	6.7	6.9	.8	.2	.2

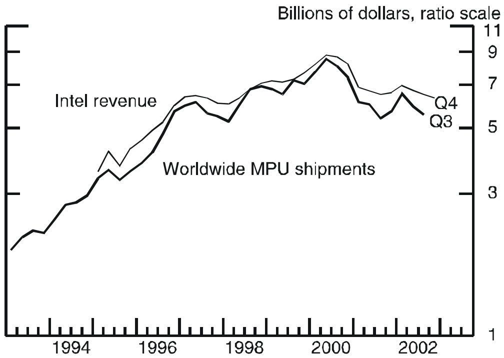
1. Fourth-quarter to fourth-quarter change.
2. Annual rate.
3. Monthly rate.
4. Includes related electronic components.
... Not applicable.

Capacity Utilization
(Percent of capacity)

Sector	1967-2001 average	1982 low	1990-91 low	2002				
				Q1	Q2	Q3	Aug.	Sept.
Total industry	**81.9**	**71.1**	**78.1**	**75.0**	**75.6**	**76.1**	**76.0**	**75.9**
Manufacturing	80.9	69.0	76.6	73.5	74.0	74.4	74.4	74.2
High-tech industries	80.0	77.3	72.4	62.9	64.2	63.6	63.5	63.6
Excluding high-tech industries	81.0	68.0	76.8	74.9	75.4	75.9	75.9	75.7
Mining	87.6	80.3	87.0	85.3	84.6	84.8	85.3	84.4
Utilities	87.6	75.9	83.4	84.3	86.8	87.8	86.4	88.2

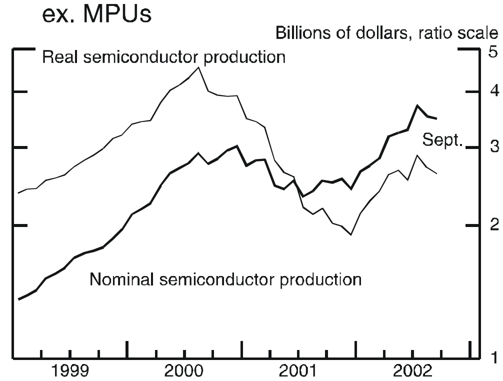
Indicators of High-Tech Manufacturing Activity

Microprocessor Unit Shipments and Intel Revenue



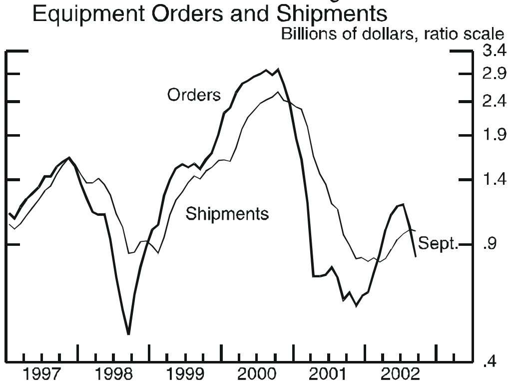
Note. Q4 is the midpoint of Intel's guidance as of October 15, 2002.
Source. Intel and Semiconductor Industry Association.

Semiconductor Production ex. MPUs



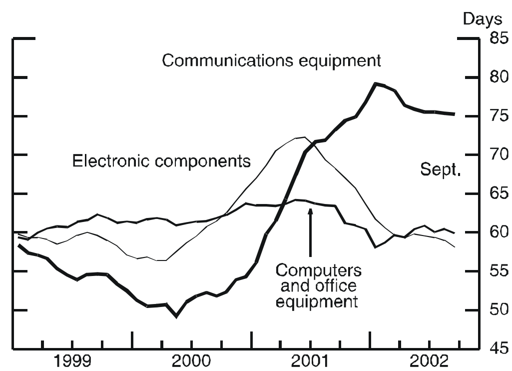
Source. Semiconductor Industry Association and FRB staff estimates.

Semiconductor Manufacturing Equipment Orders and Shipments



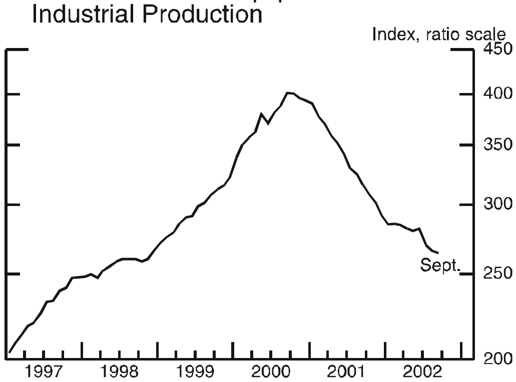
Source. Semiconductor Equipment and Materials International.

Days' Supply

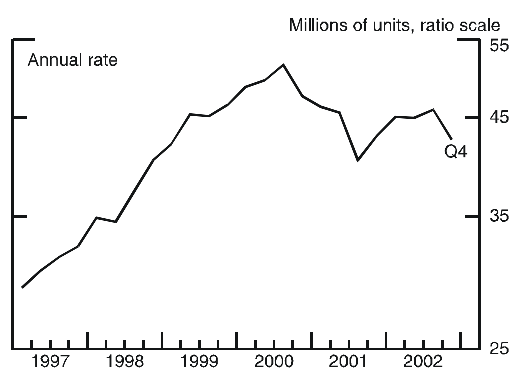


Source. FRB staff's flow-of-goods system.

Communications Equipment Industrial Production



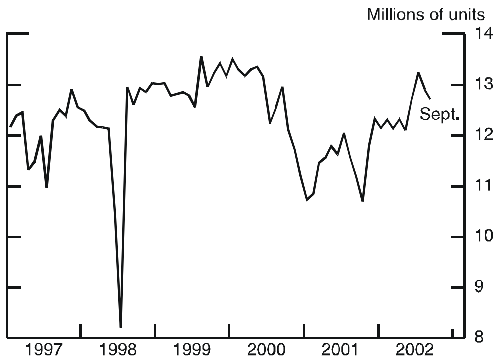
Personal Computer Sales



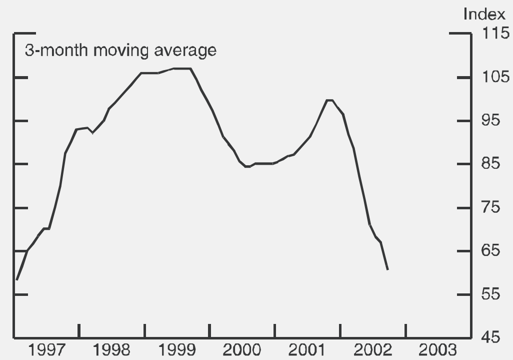
Note. FRB seasonals. Includes notebooks. Value for Q4 is a Dataquest forecast.
Source. Dataquest.

Indicators of Manufacturing Activity

Motor Vehicle Assemblies



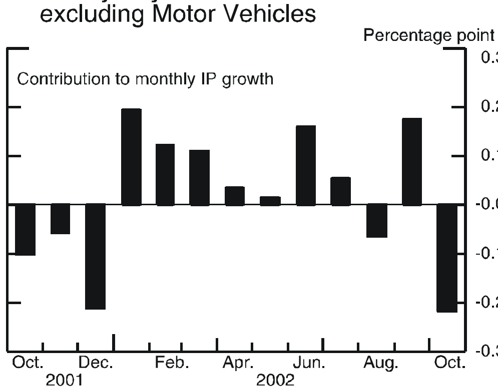
Boeing Commercial Aircraft Completions



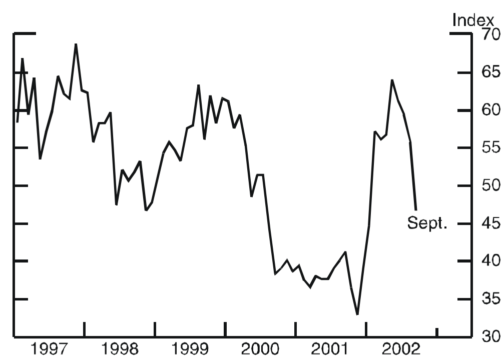
Note. 1998 price-weighted index. Actual completions equal deliveries plus the change in the stock of finished aircraft. Data through September are actual completions; the remainder are estimates of assembly rates that are confidential.

Content partially redacted.

Weekly Physical Product Data excluding Motor Vehicles

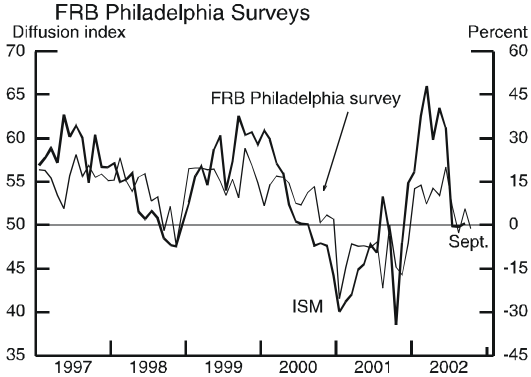


IP Diffusion Index



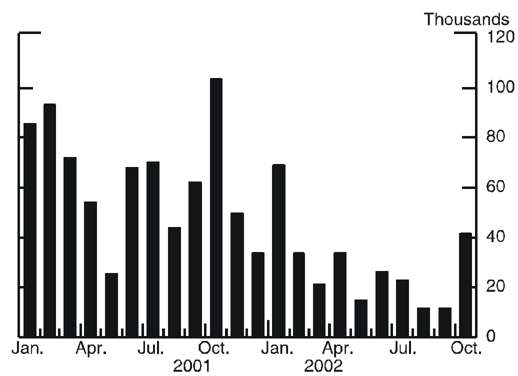
Note. The IP diffusion index equals the percentage of IP series that increased over three months plus one-half the percentage that were unchanged.

New Orders: ISM and FRB Philadelphia Surveys



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

Announced Manufacturing Layoffs



Note. Data are through October 30, 2002.
Source. Compiled by staff from news reports.

scheduled to average 12.5 million units for the fourth quarter as a whole, 0.5 million units below the very robust third-quarter pace. Inventories of light vehicles remain on the lean side, with days' supply at 62-1/2 at the end of September. However, light vehicle sales have tumbled in recent months, and the automakers apparently expect sales to remain soft through the fall. In addition, parts shortages related to the West Coast port lockout forced several domestic assembly plants to reduce output or to shut down during the first two weeks of October, which, according to Ward's estimates, reduced assemblies roughly 200,000 units (annual rate).[2] All of the affected plants resumed normal production by October 14, but automakers have not yet decided whether to make up the lost output. Motor vehicle production this quarter is also being restrained by a reduction in the output of heavy trucks, which had been boosted earlier this year by a surge in demand in advance of the new EPA regulations on diesel truck engines. The new regulations went into effect October 1.

Production of Domestic Autos and Trucks

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

Item	2002			2002			
	Q2	Q3	Q4[1]	July	Aug.	Sept.	Oct.[1]
U.S. production	12.4	13.0	12.5	13.2	12.9	12.7	12.1
Autos	5.2	5.1	5.0	5.4	5.1	4.9	4.8
Trucks	7.2	7.8	7.5	7.8	7.8	7.8	7.3
Total days' supply[2]	61.1	56.1	n.a.	53.9	49.3	62.5	n.a.
Inventories[3]	2.61	2.61	n.a.	2.57	2.47	2.61	n.a.

Note. Components may not sum to totals because of rounding.
1. Production rates reflect Ward's Communications' latest estimates for Q4 and October.
2. Quarterly average calculated using end-of-period stocks and average reported sales.
3. End-of-period stocks; excludes medium and heavy trucks (classes 3-8).
n.a. Not available.

Elsewhere in manufacturing, production has declined, on balance, in the past two months, pulled down by cutbacks in a large number of categories, including commercial aircraft, non-auto consumer goods, and several types of business equipment. Indeed, the three-month diffusion index of industrial production,

2. Other scattered reports suggest that the West Coast lockout has adversely affected production in a variety of other industries, including aircraft, food, and furniture. However, we do not believe these effects materially reduced overall production outside of motor vehicles in late September and October.

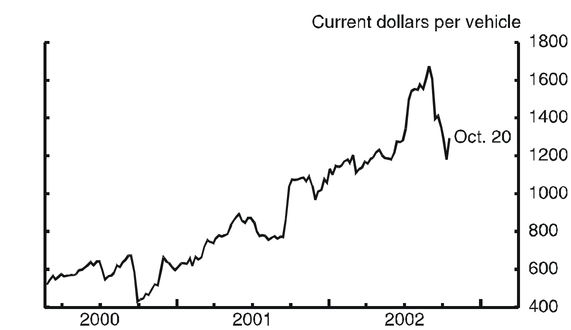
Sales of Automobiles and Light Trucks
(Millions of units at an annual rate, FRB seasonals)

	2001	2002 Q1	2002 Q2	2002 Q3	2002 July	2002 Aug.	2002 Sept.
Total	17.0	16.3	16.3	17.6	18.1	18.6	16.2
Autos	8.4	7.9	8.1	8.5	8.8	8.7	7.9
Light trucks	8.6	8.4	8.3	9.1	9.3	9.9	8.3
North American[1]	14.0	13.0	13.1	14.3	14.6	15.4	12.8
Autos	6.3	5.7	5.9	6.2	6.5	6.6	5.5
Light trucks	7.6	7.4	7.2	8.1	8.1	8.8	7.3
Foreign-produced	3.1	3.3	3.2	3.4	3.4	3.2	3.4
Autos	2.1	2.2	2.2	2.3	2.3	2.2	2.4
Light trucks	1.0	1.1	1.0	1.1	1.2	1.0	1.0
Memo: Medium and heavy trucks	.4	.4	.4	.4	.4	.4	.4

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.

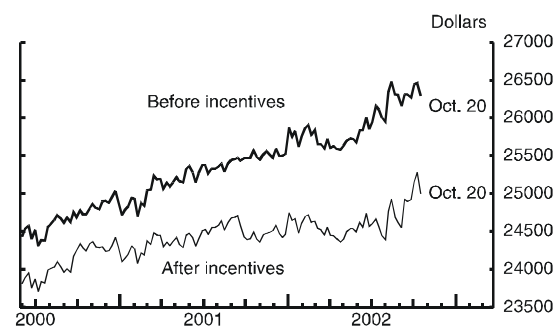
1. Excludes some vehicles produced in Canada that are classified as imports by the industry.

Marketing Incentives for Light Vehicles



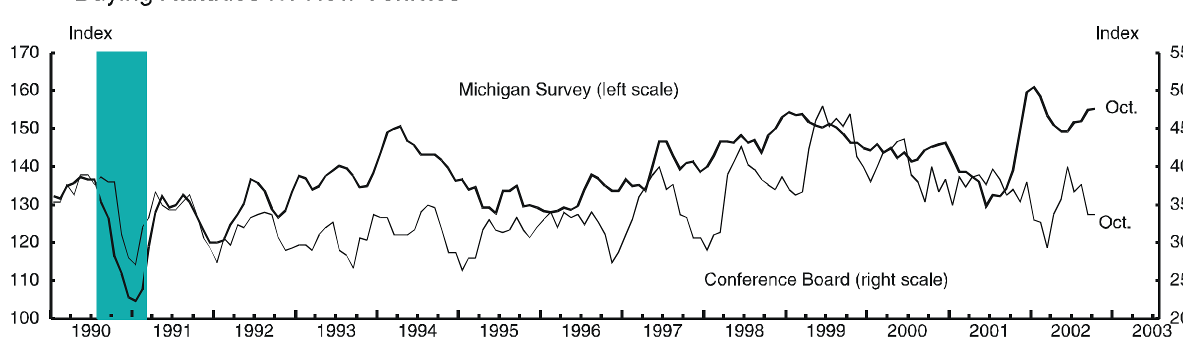
Note. Seasonally adjusted data.
Source. J.D. Power and Associates.

Average Price Before and After Incentives



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

Buying Attitudes for New Vehicles



Note. 3-month moving average.

which had soared in the first half of the year as IP gathered steam, has since retraced about half of that increase and is now below 50.

Recently released indicators of future activity in the industrial sector remain downbeat. The staff's series on real adjusted durable goods orders, which is derived from the Census data on new orders, declined in September for a second month; most other measures of new orders reported by businesses, such as diffusion indexes from the Institute for Supply Management and FRB Philadelphia, point to little change in new bookings since July. After having hovered at the relatively low level of 11,000 in August and September, the series on announced manufacturing layoffs compiled by the Board staff jumped in October to the highest level since last January.

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

Component	Share, 2001: H1 (percent)	2002				
		Q2	Q3	July	Aug.	Sept.
Total orders	**100.0**	**-.4**	**2.8**	**8.5**	**-.6**	**-5.9**
Adjusted orders[1]	76.2	.7	1.4	9.3	-4.1	-4.5
Computers	4.5	-5.0	10.0	13.0	0.0	9.3
Communication equipment	4.1	-3.3	-22.7	12.3	-3.0	-56.4
Other capital goods	24.5	2.4	.9	5.0	-.5	-3.0
Other[2]	43.1	.5	2.7	11.1	-6.3	-3.1
MEMO						
Real adjusted orders	. . .	1.0	2.0	9.8	-3.9	-4.4
Excluding high tech	. . .	.9	1.2	10.4	-4.6	-5.7

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

Consumer Spending

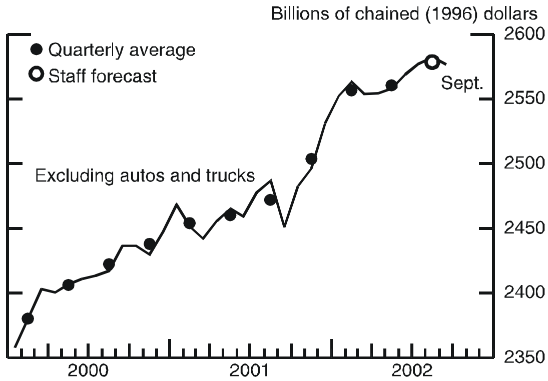
We estimate that consumer spending rose at an annual rate of about 4 percent in the third quarter, boosted by robust purchases of motor vehicles. However, recent spending data have been soft across the board, and with the fundamentals—if anything—weakening, consumption appears to be entering the fourth quarter with little momentum.

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

Expenditure	2002				
	Q2	Q3	July	Aug.	Sept.
Total sales	1.1	1.8	1.2	.6	-1.2
Previous estimate	1.1	...	1.1	.8	...
Retail control[1]	.9	.5	.2	.2	-.2
Previous estimate	.9	...	.2	.3	...
GAF[2]	.3	.2	-.5	.6	-.2
Other retailers[3]	1.3	.6	.6	.1	-.2

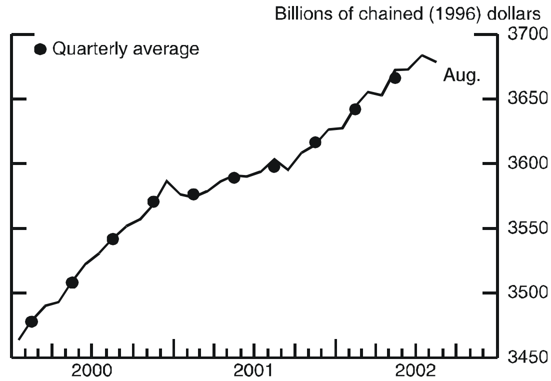
1. Total retail trade and food services less sales at building material and supply stores and automobile and other motor vehicle dealers.
2. Furniture and home furnishing stores; electronics and home appliance stores; clothing and accessories stores; sporting goods, hobby, book and music stores; and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

Real PCE Goods

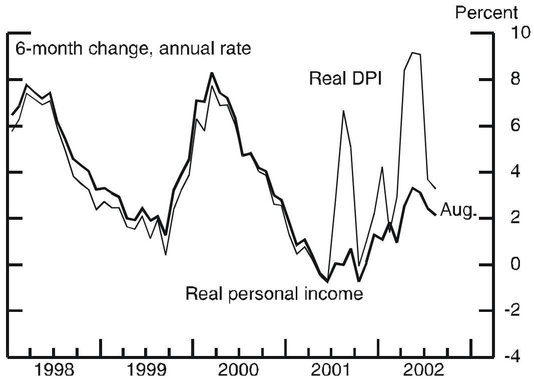


Note. July to September are staff estimates.

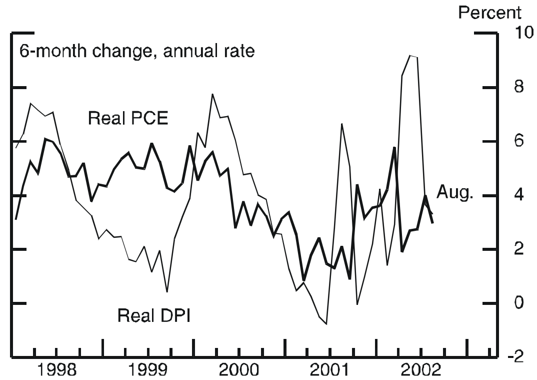
Real PCE Services



Real Household Income



Real PCE and Real DPI



After having exceeded 18 million units at an annual rate in July and August, sales of light motor vehicles dropped to 16.2 million units in September, and confidential reports from the manufacturers indicate some further slippage in October. The earlier surge in sales was attributable largely to the exceptionally heavy discounts offered on the 2002 models; essentially all of these models have now been sold.[3] In September, the incentives on the 2003 models were considerably less rich. In October, General Motors sweetened the incentives on many of its 2003 models, but early indications have been that the response has remained tepid. Consumer assessments of car-buying conditions in the Michigan survey remained quite favorable in October, but the share of Conference Board survey respondents who plan to purchase a new vehicle has fallen noticeably from its recent peak in August.

Real consumer spending on non-auto goods also seems to have lost some of its steam in recent months. In September, nominal sales at stores in the control category of retail sales, which excludes spending at motor vehicle and parts dealers and at building material and supply stores, fell 0.2 percent after having risen just 0.2 percent per month in July and August. Sales declined across most types of retailers in September. Moreover, outlays at chain stores remained sluggish in October.

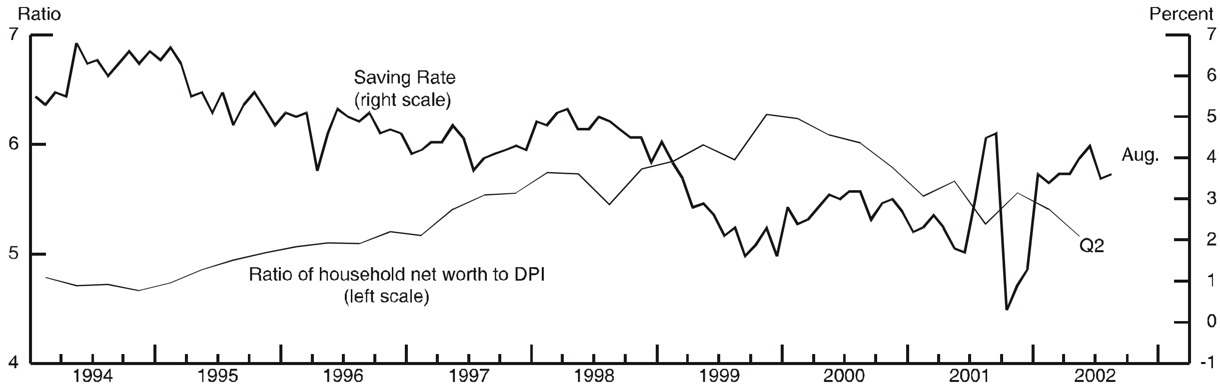
Outlays on services, too, have been on a weaker path of late, increasing only 0.1 percent per month, on average, in July and August (the most recent data available). In September, a decline in stock market trading volumes suggests that brokerage spending fell, while weather data indicate a likely pick-up in electricity demand.

Gains in real household incomes have tapered off in recent months. After a spectacular increase in the first quarter of this year (in part attributable to the reduction in tax payments related to last year’s tax legislation) and gains of about 0.4 percent per month, on average, in the second quarter, growth of real DPI fell to a monthly rate of 0.1 percent, on average, in July and August. The BEA’s current estimate for the personal saving rate in August is 3.6 percent, in the upper part of the range seen in the past few years. The updrift in the saving rate over this period is consistent with the considerable drop in household wealth relative to DPI since early 2000, coupled with a delayed response of spending to the 2001 tax act.

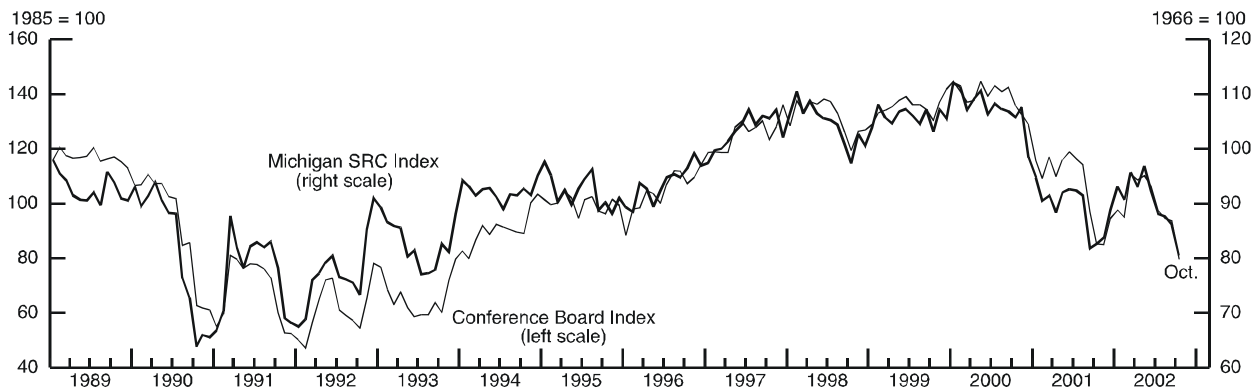
3. According to J.D. Power and Associates, the average incentive per vehicle was about $1,300 in late October—about the same as was offered in June, but about $250 less than in July and August. The decline in the average incentive since the summer largely reflects the shift in the composition of sales from 2002 models, which were offered with unusually high discounts, to 2003 models, which come with smaller discounts.

Household Indicators

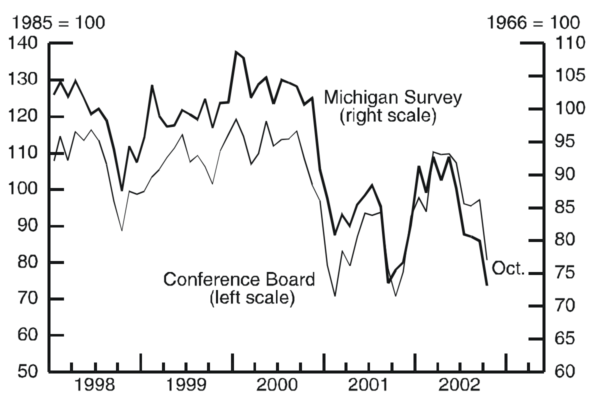
Household Net Worth and Personal Saving Rate



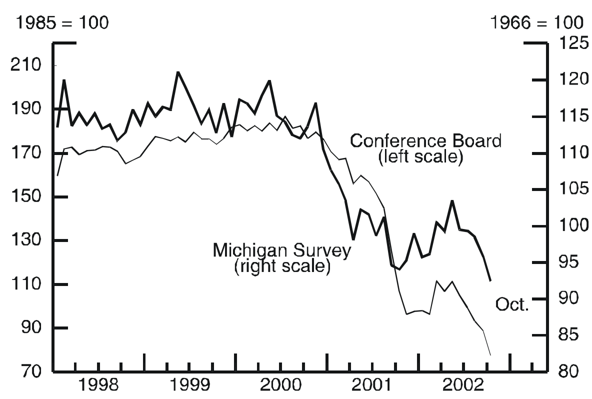
Consumer Confidence



Expected Conditions



Current Conditions



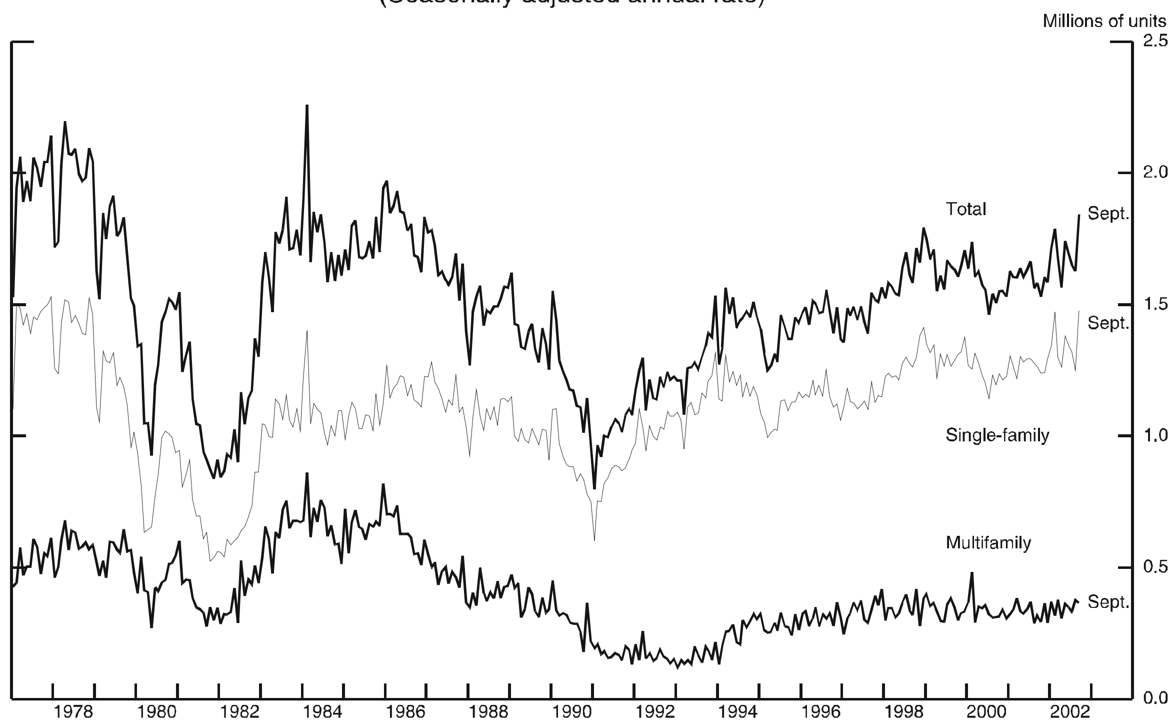
Private Housing Activity
(Millions of units; seasonally adjusted annual rate)

		2002					
	2001	Q1	Q2	Q3^p	July^r	Aug.^{r}	Sept.^{p}
All units							
Starts	1.60	1.73	1.67	1.71	1.65	1.63	1.84
Permits	1.64	1.69	1.67	1.70	1.71	1.67	1.73
Single-family units							
Starts	1.27	1.37	1.33	1.35	1.32	1.25	1.48
Permits	1.24	1.31	1.27	1.31	1.28	1.30	1.34
Adjusted permits[1]	1.28	1.34	1.31	1.35	1.32	1.32	1.42
New home sales	0.91	0.91	0.95	1.00	0.95	1.02	1.02
Existing home sales	5.30	5.78	5.54	5.36	5.37	5.30	5.40
Multifamily units							
Starts	0.33	0.35	0.34	0.36	0.33	0.38	0.37
Permits	0.40	0.39	0.40	0.40	0.43	0.37	0.39
Mobile homes							
Shipments	0.19	0.18	0.18	n.a.	0.17	0.17	n.a.

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

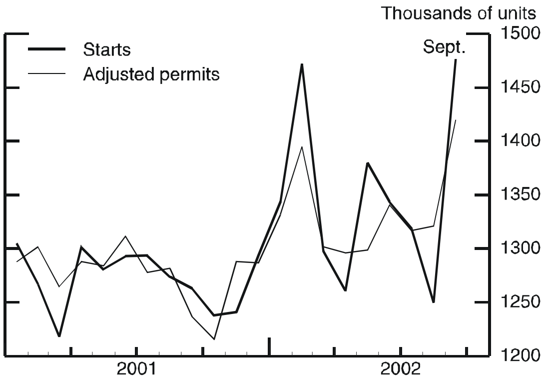
p Preliminary. r Revised. n.a. Not available.

Private Housing Starts
(Seasonally adjusted annual rate)



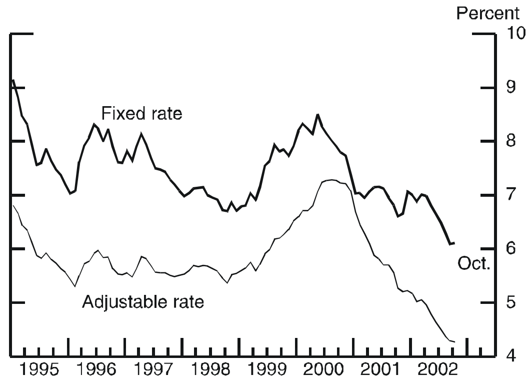
Indicators of Single-Family Housing

Starts and Adjusted Permits



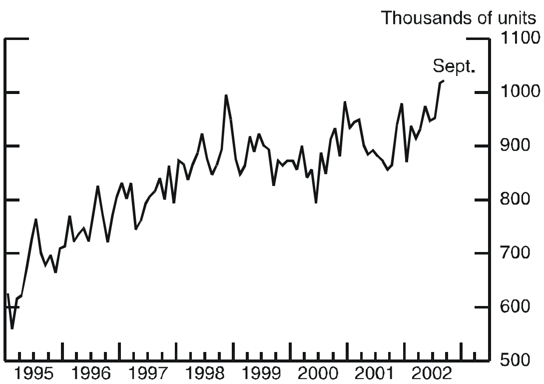
Note. Adjusted permits calculated by Board staff.
Source. Census Bureau.

Mortgage Rates



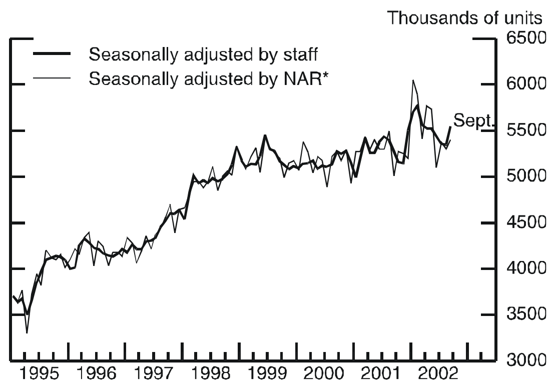
Note. The Oct. reading is based on data through Oct. 25.
Source. Freddie Mac.

New Home Sales



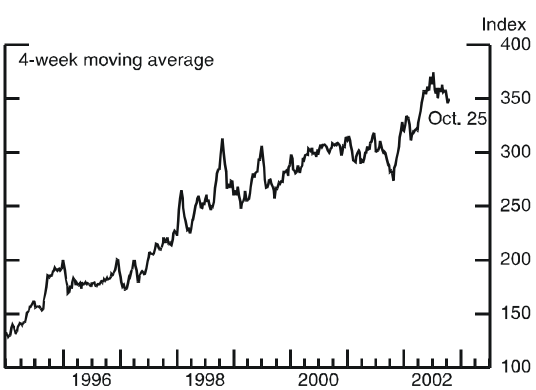
Source. Census Bureau.

Existing Home Sales

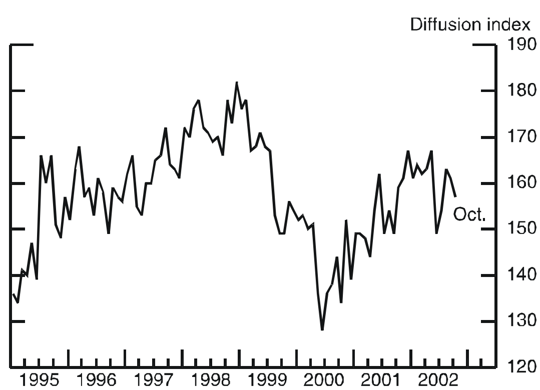


*National Association of Realtors.

MBA Index of Purchase Applications



Perceived Homebuying Conditions



Source. Michigan Survey, not seasonally adjusted.

Consumer confidence has deteriorated recently. After several months of small declines, the Michigan Survey Research Center's index of consumer sentiment fell nearly 6 points in October, while the Conference Board's measure slumped more than 14 points.[4] These indexes are currently at their lowest levels since 1993. While households became more pessimistic about most aspects of the economy in October, the slump in sentiment in large part reflected a loss of confidence about the business outlook in the near term.

Housing Markets

Recent readings on housing activity have been strong. Starts of single-family homes shot up to a twenty-three-year high of 1.48 million units in September. Permit issuance for single-family construction—adjusted to account for activity in areas where permits are not required—also jumped last month; although the increase was less than for starts, it, too, was consistent with a vigorous pace of building. In the multifamily sector, new homes were started at an annual rate of 366,000 units in September. This level is somewhat above the average since January, but it is unlikely to be sustained, as the vacancy rate for multifamily rental units stands at one of its highest levels since the late 1980s.

New home sales remained brisk in September, edging up to a record level of 1.02 million units at an annual rate. Sales of existing homes also moved up, to an annual rate of 5.4 million units. An alternative seasonally adjusted series constructed by the staff, which accounts for trading-day variation, shows existing home sales of 5.54 million units in September, a rate only a touch below the exceptional average pace of the first half of the year.

Mortgage rates have backed up recently but still are among the lowest in at least thirty years. The average rate on a thirty-year fixed-rate mortgage now stands a bit above 6-1/4 percent, and the average initial rate on a thirty-year adjustable rate mortgage is just a touch above 4-1/4 percent. Households' assessments of homebuying conditions in the Michigan survey, the rating of new home sales by home builders, and the Mortgage Bankers' Association index of purchase applications for home mortgages all remained quite favorable in October, suggesting that low mortgage rates are still offsetting the drag on housing demand from weak labor demand and falling household wealth.

Most measures of home prices have continued to record solid gains of late, likely reflecting the strength of demand. The constant-quality price index for new homes—which adjusts for changes in geographic composition, home size, and other amenities—rose 3.8 percent over the four quarters ending in the third

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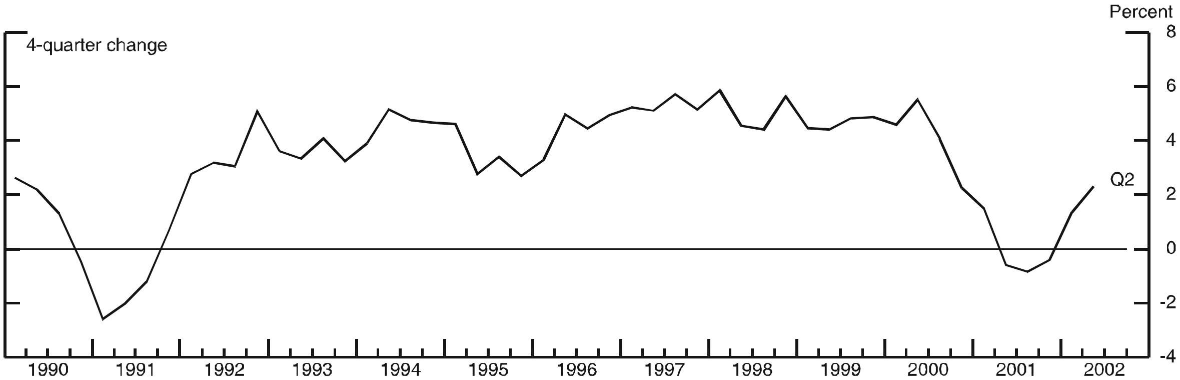
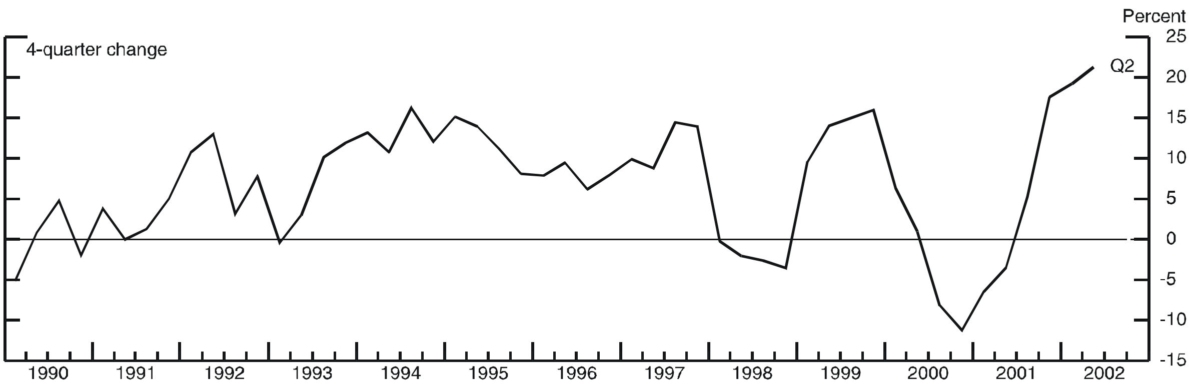
4. The two indexes are scaled differently, but adjusting for that fact, their declines in October were comparable, and their general contours over the last several months have been consistent with one another.

Equipment Investment Fundamentals

Business Output

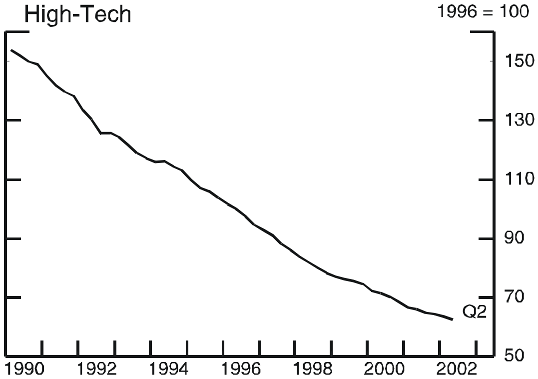


Real Corporate Cash Flow

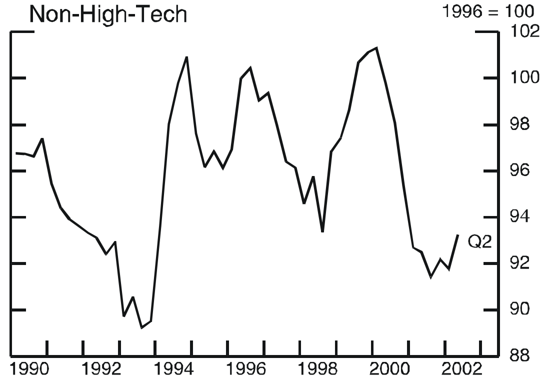


User Cost of Capital*

High-Tech



Non-High-Tech



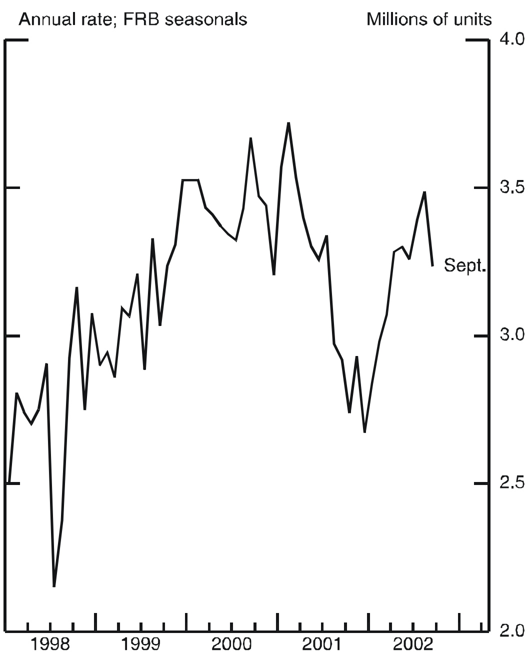
*Excludes the effects of the partial expensing tax incentive.

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

	2002 Q2	2002 Q3	2002 July	2002 Aug.	2002 Sept.
	-Annual rate-		- - -Monthly rate - - -		
Shipments of nondefense capital goods	-1.9	1.6	3.5	-2.3	-0.6
Excluding aircraft	3.2	2.3	2.9	-1.0	-1.8
Computers and peripherals	-8.8	27.5	13.1	-3.1	-0.9
Communications equipment	-14.8	-24.8	-2.6	0.6	-1.0
All other categories	8.0	2.7	2.0	-0.8	-2.1
Shipments of complete aircraft	-46.5	n.a.	10.1	-26.2	n.a.
Medium & heavy truck sales (units)	16.3	34.9	6.2	10.5	0.3
Orders for nondefense capital goods	-6.3	19.7	12.1	4.7	-12.6
Excluding aircraft	3.3	-1.8	6.7	-0.7	-6.6
Computers and peripherals	-18.5	46.7	13.0	0.0	9.3
Communications equipment	-12.4	-64.4	12.3	-3.0	-56.4
All other categories	9.9	3.7	5.0	-0.5	-3.0

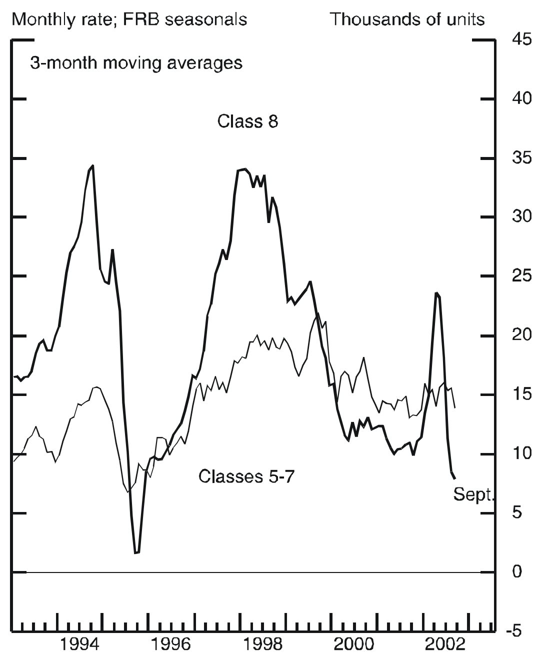
n.a. Not available.

Fleet Sales of Light Vehicles



Note. Staff estimates based on confidential data.

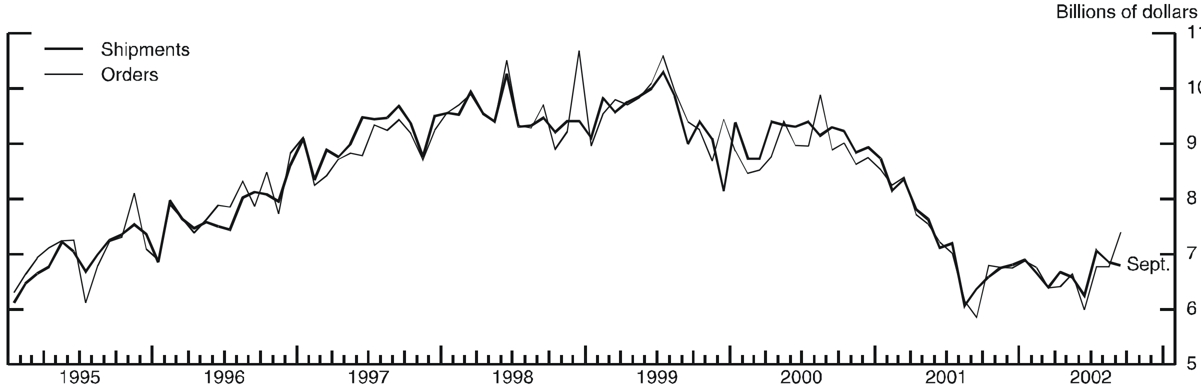
Net New Orders of Trucks



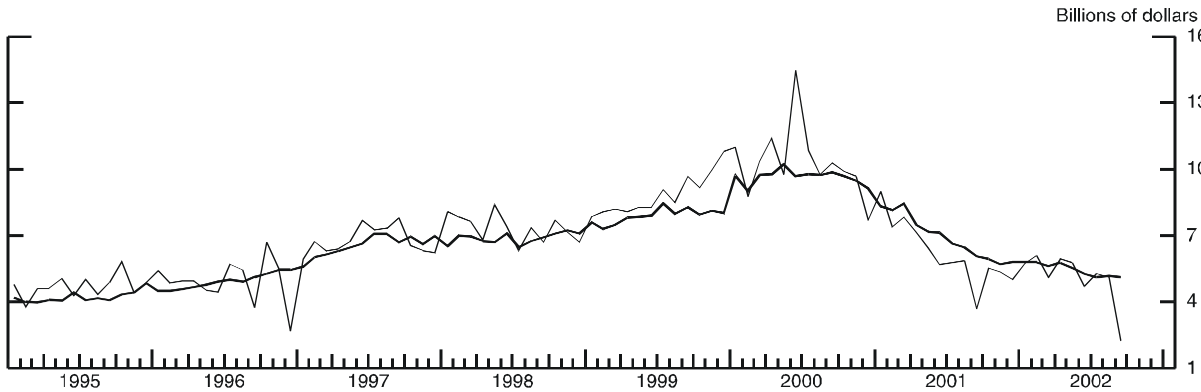
Note. Net orders are less cancellations.
Source. ACT Research Co.

Recent Data on Orders and Shipments

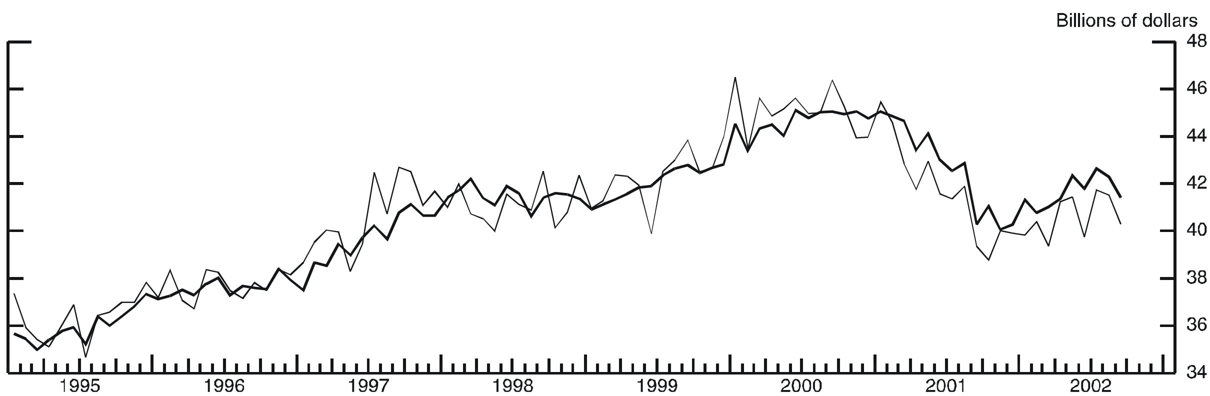
Computers and Peripherals



Communications Equipment



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



quarter, a bit less than the average increase in the first half of the year but still in the middle of the range of price increases over the past three years. In addition, the year-over-year rate of increase in the median price of existing homes was 7.2 percent in the third quarter, only a shade below the rapid first-half pace.

Business Fixed Investment

Equipment and Software. On balance, real outlays on equipment and software appear to have posted a modest advance in the third quarter, with considerable unevenness among the major components. Real outlays for computers and software moved up at a fairly rapid clip, as did outlays for motor vehicles; but investment in communications gear and aircraft continued to sink, and spending on equipment outside of high tech and transportation was lackluster. The fundamentals of investment seem to have improved, as business output and corporate cash flow have continued to rise.[5] However, pessimism and uncertainty about the strength or durability of the economic recovery and concerns about geopolitical developments are still restraining capital investment.

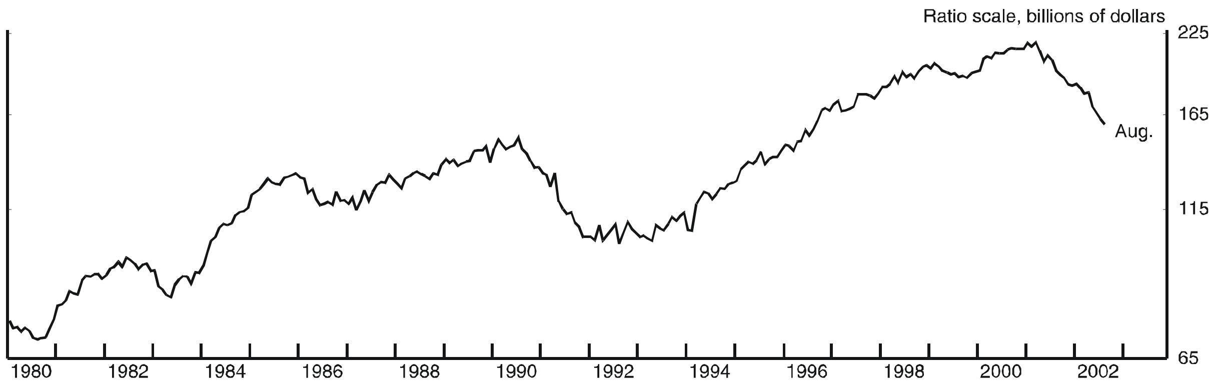
In the high-tech sector, nominal shipments of computing equipment dropped back in August and September after having surged in July. Even so, they increased at an annual rate of more than 25 percent in the third quarter as a whole. And with computer prices falling roughly 20 percent per year, this nominal rise implies a gain in real computer expenditures in excess of 40 percent at an annual rate—more than twice the advance recorded in the second quarter. Real spending on software likely increased in the third quarter as well, given the strong increase in revenue reported by Microsoft and the acceleration in spending on hardware. In contrast, prospects for communications equipment remain bleak, with nominal shipments falling at an annual rate of 25 percent in the third quarter and orders (net of cancellations) down more than 50 percent (not at an annual rate) in September. We believe that at least some of this steep decline in orders may reflect the cancellation of orders that had been on the books for some time and were unlikely to translate into shipments.

Apart from the high-tech and transportation sectors, nominal shipments fell 2 percent in September but rose at an annual rate of 2-3/4 percent in the third quarter as a whole, consistent with a small increase in real spending. Bookings in this broad-based category, which had jumped in July and were about flat in August, fell 3 percent in September, a pattern consistent with little change in real spending in the fourth quarter.

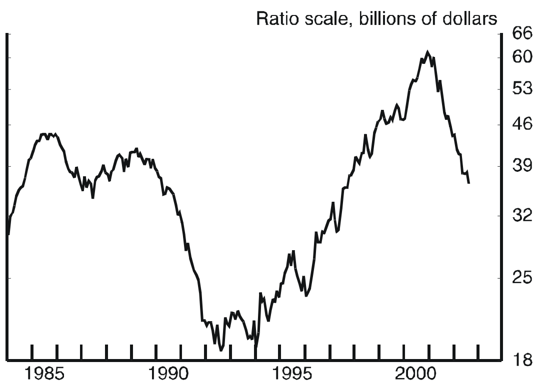
5. In addition, according to business contacts, the partial expensing tax provision enacted last March has encouraged some additional capital expenditures.

Nonresidential Construction
(Seasonally adjusted, annual rate)

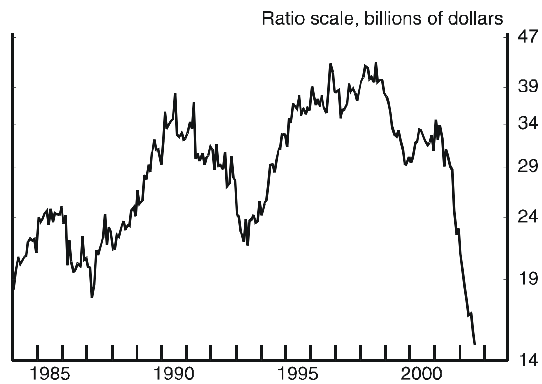
Total Building



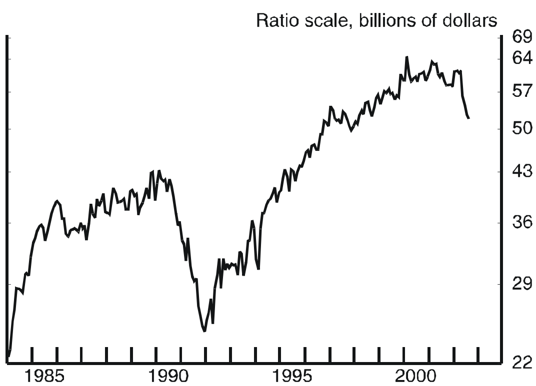
Office



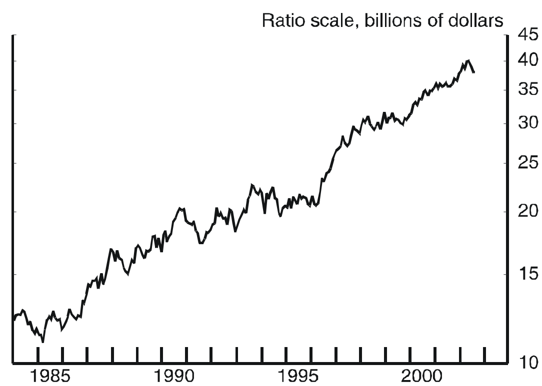
Industrial



Other Commercial



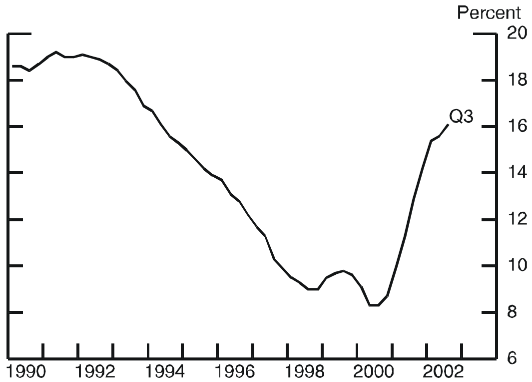
Institutional



Indicators of Nonresidential Construction

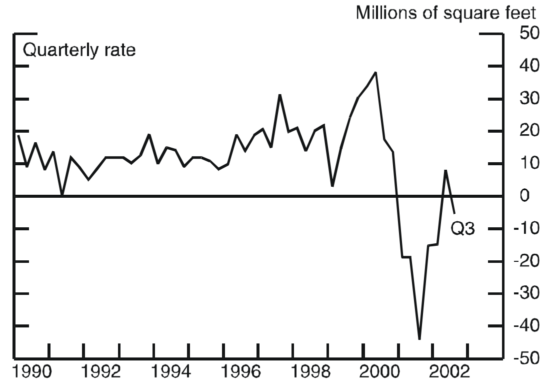
Office Buildings

Vacancy Rate



Source. Torto Wheaton Research.

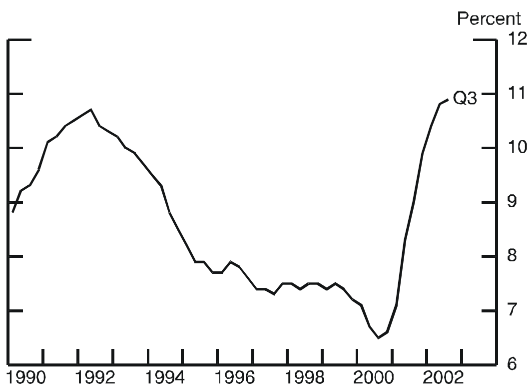
Change in Occupied Space



Source. Torto Wheaton Research.

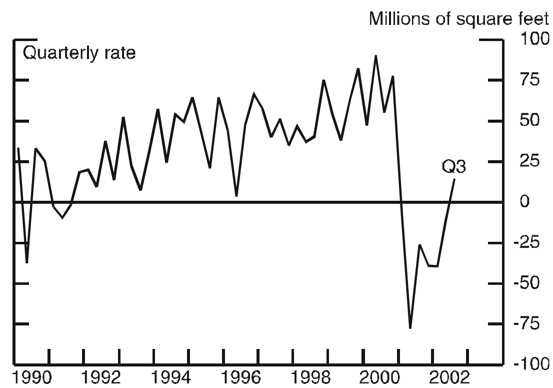
Industrial

Vacancy Rate



Source. Torto Wheaton Research.

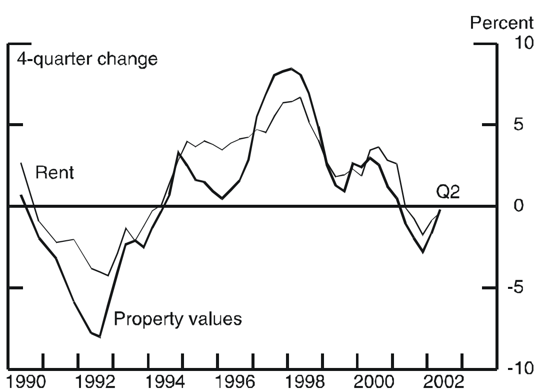
Change in Occupied Space



Source. Torto Wheaton Research.

Retail Space

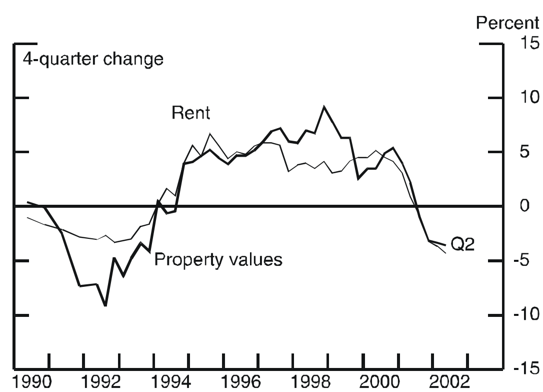
Property Values and Rent



Source. National Real Estate Index.

Warehouses

Property Values and Rent

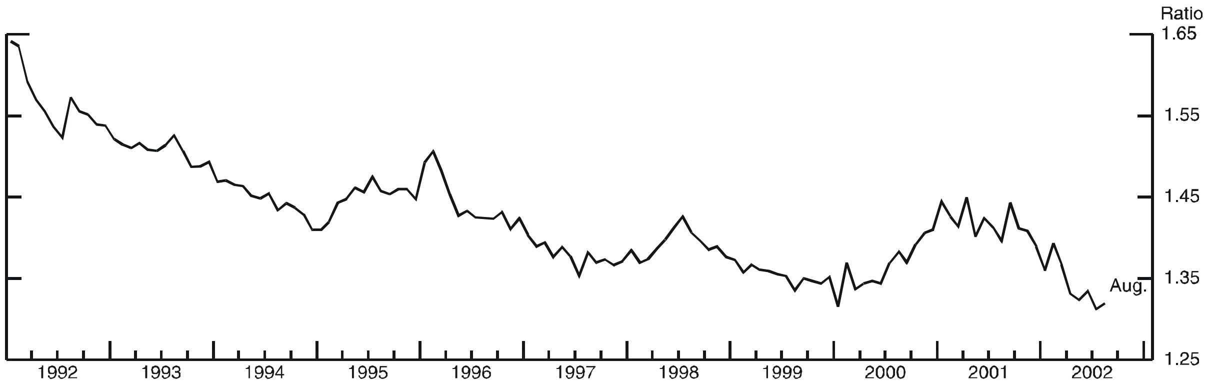


Source. National Real Estate Index.

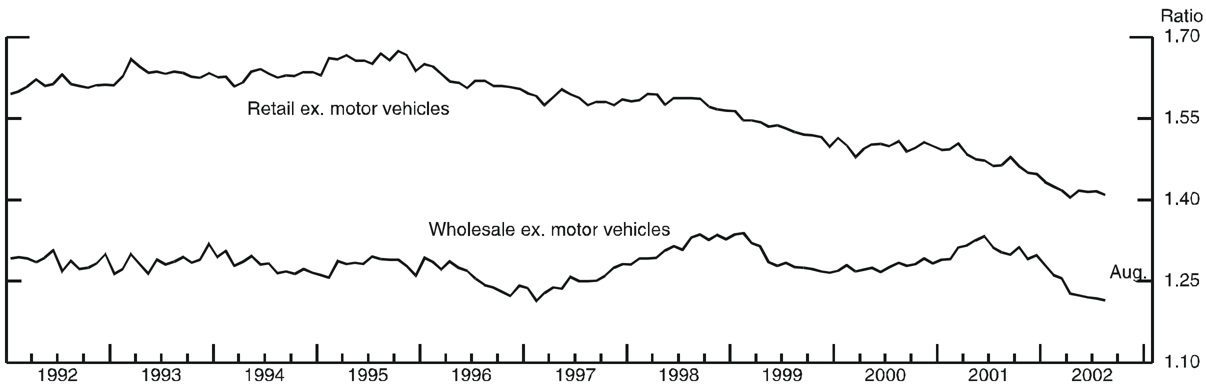
Changes in Manufacturing and Trade Inventories
(Billions of dollars, seasonally adjusted book value, annual rate)

Category	2001 Q4	2002 Q1	2002 Q2	2002 June	2002 July	2002 Aug.
Manufacturing and trade	-143.8	-26.7	12.6	35.1	58.4	-8.5
Less wholesale and retail motor vehicles	-90.6	-45.1	-11.5	15.8	28.2	6.3
Manufacturing	-51.5	-30.9	-12.8	-4.3	-2.8	-0.9
Less aircraft	-48.0	-25.4	-10.7	-4.6	4.0	1.9
Merchant wholesalers	-31.4	-17.1	-5.6	15.1	20.9	5.4
Less motor vehicles	-28.6	-13.3	-7.7	11.4	16.6	12.0
Retail trade	-60.9	21.3	31.0	24.3	40.2	-13.0
Automotive dealers	-50.3	22.1	22.0	15.6	25.8	-8.2
Less automotive dealers	-10.6	-0.8	9.0	8.8	14.4	-4.8

Book Value Inventories Relative to Shipments: Manufacturing



Book Value Inventories Relative to Sales: Trade



Recent developments in the transportation equipment sector have been mixed. Spending on aircraft apparently fell sharply again in the third quarter, while business spending for motor vehicles seems to have posted a hefty increase owing in part to the automakers' attractive incentives on light vehicles. On a quarterly-average basis, fleet sales of light vehicles were the highest in more than a year, and sales of medium and heavy trucks were nearly 8 percent (quarterly rate) above their second-quarter level. However, with the new EPA regulations for heavy truck engines now in place, the three-month moving average of orders for medium and heavy trucks (class 5 to 8) has fallen sharply after a surge earlier this year, and it now stands at its lowest level in several years.

Nonresidential construction. Data on construction put in place in July and August imply another big decline in spending on nonresidential construction in the third quarter; spending dropped considerably for office, industrial, institutional, and other commercial structures. Moreover, advance indicators do not suggest much improvement going forward. In particular, according to estimates from Torto Wheaton, vacancy rates of office and industrial buildings continued to rise in the third quarter, while the amount of space demanded in office and industrial buildings was little changed. Conditions in the non-office commercial sector also remained bleak through mid-year: property values and rents for retail space were unchanged in the second quarter, and those for warehouses posted another decline.

Business Inventories

The incoming data provide a further indication that the inventory liquidation that began in early 2001 is ending. Indeed, the book value of manufacturing and trade inventories excluding motor vehicles, which had fallen at an annual rate of $12 billion in the second quarter, increased at a $6 billion annual rate in August after having risen nearly $30 billion in July. Manufacturing stocks were little changed for a second month in August. Non-auto wholesalers continued to build stocks, paced by accumulations at distributors of electrical goods and of professional and commercial equipment. Following a sharp increase in July, non-auto retail inventories contracted in August for the first time since March, reflecting liquidations at stores carrying general merchandise and clothing. Data for September are limited to stocks at durable goods manufacturers, which declined $6 billion at an annual rate, about the same as in August.

Overall, businesses appear to have remained very attentive in their inventory management. Imbalances have been worked off in all but a few industries; aggregate inventory-sales ratios are at, or near, historic lows.

Government Sector

Federal sector. Monthly data indicate that the deterioration in the federal government's unified budget has slowed as a result of some stabilization on the

Federal Government Outlays and Receipts

(Unified basis; billions of dollars)

Function or source	September 2001	September 2002	September Percent change	12 months ending in September 2001	12 months ending in September 2002	12 months ending in September Percent change
Outlays	123.1	151.1	22.7	1,863.8	2,011.8	7.9
Financial transactions[1]	12.3	-0.4	...	-2.5	-1.0	...
Payment timing[2]	-37.5	-11.0	...	-6.7	-0.4	...
Adjusted outlays	148.3	162.5	9.5	1,873.0	2,013.2	7.5
Receipts	158.6	192.8	21.5	1,991.0	1,853.3	-6.9
Payment timing[3]	-23.0	0.0	...	-23.0	23.0	...
Adjusted receipts	181.6	192.8	6.1	2,014.0	1,830.3	-9.1
Surplus/deficit(-)	35.5	41.7	...	127.3	-158.5	...
	Selected components of adjusted outlays and receipts					
Adjusted outlays	148.3	162.5	9.5	1,873.0	2,013.2	7.5
Net interest	9.1	5.6	-38.1	206.1	171.2	-16.9
Non-interest	139.2	156.8	12.6	1,666.9	1,842.0	10.5
National defense	26.6	31.4	17.7	307.2	347.7	13.2
Social security	36.8	38.4	4.3	433.0	456.4	5.4
Medicare	19.8	19.5	-1.4	217.4	230.9	6.2
Medicaid	10.5	12.9	23.4	129.4	147.5	14.0
Income security	18.2	23.1	26.9	265.7	309.5	16.5
Agriculture	-1.1	0.7	-164.7	28.3	24.3	-14.1
Other	28.5	30.8	8.3	285.8	325.7	13.9
Adjusted receipts	181.6	192.8	6.1	2,014.0	1,830.3	-9.1
Individual income and payroll taxes	136.4	148.2	8.7	1,650.0	1,521.8	-7.8
Withheld + FICA	98.7	106.5	7.9	1,412.8	1,377.1	-2.5
Nonwithheld + SECA	51.8	45.9	-11.3	419.5	324.1	-22.7
Refunds (-)	14.1	4.2	-70.0	182.3	179.4	-1.6
Corporate	30.5	30.8	1.1	174.1	125.0	-28.2
Gross	32.5	35.3	8.6	209.7	188.4	-10.2
Refunds (-)	2.1	4.5	120.0	35.7	63.4	77.8
Other	14.7	13.7	-6.9	189.9	183.4	-3.4
Adjusted surplus/deficit(-)	33.3	30.3	...	141.1	-182.9	...

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

1. Financial transactions consist of deposit insurance, spectrum auctions, and sales of major assets.

2. 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.

3. Corporate income tax estimated payment deadline shifted from September 2001 to October 2001 by the 2001 tax act.

... Not applicable.

receipts side of the ledger. Legislative actions on the budget for fiscal 2003 are deadlocked over spending levels for nondefense discretionary programs.

The federal government recorded a $42 billion unified surplus in September, compared with a $36 billion surplus last year. After accounting for payment timing shifts and certain other transitory factors, the surplus was essentially the same as it had been in September 2001. Adjusted receipts were 6 percent above the year-earlier level as a hefty increase in withheld taxes and a pickup in gross corporate payments more than offset the continued weakness in nonwithheld personal income tax payments. Spending remained on a strong uptrend in September, with many major categories—notably, defense, Medicaid, and income security—posting double-digit increases relative to the previous year. For fiscal year 2002 as a whole, the unified budget recorded a deficit of $159 billion, the first deficit after four years of surpluses.

The Congress has recessed for mid-term elections after having passed the fiscal 2003 defense and military construction appropriations bills and a continuing resolution that provides temporary funding for nondefense discretionary spending through November 22. The House and Senate leadership remain about $12 billion apart on the overall level of nondefense budget authority, relative to a base of roughly $400 billion. (The Senate is working with the higher figure.) The Congress will return for a lame-duck session after the election, but how and when the budgetary differences will be resolved is not clear. In the House, the appropriations committee has been unable to pass nondefense spending bills that are consistent with the stringent requirements of that chamber's budget resolution; that resolution, approved earlier this year, capped total discretionary spending at about the level proposed by the Administration. In contrast, the Senate could not pass a budget resolution, but its appropriations committee has passed all thirteen regular appropriations bills. Meanwhile, the current continuing resolution funds many programs at levels below both the House and Senate proposals.

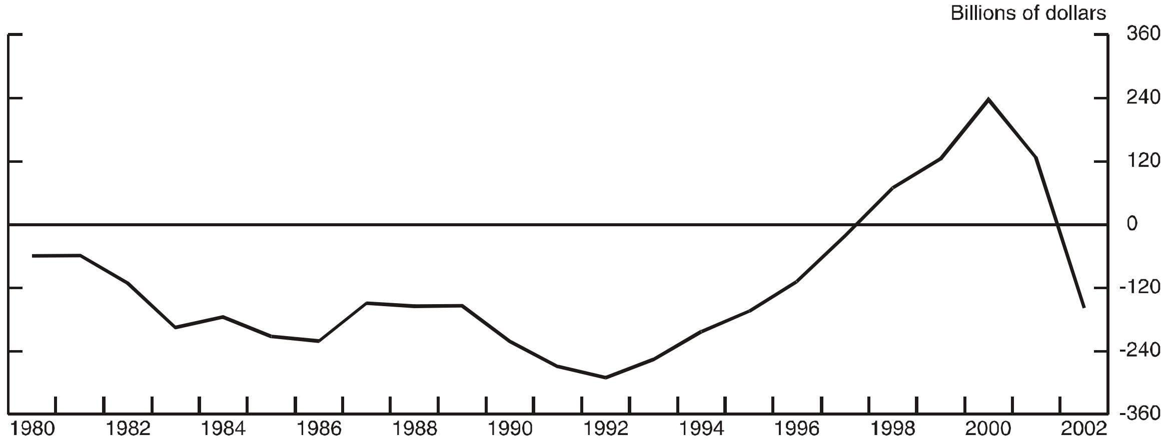
The framework of discretionary spending caps and pay-as-you-go (PAYGO) rules that was established by the Budget Enforcement Act of 1990 expired at the end of September. The Senate has extended through April 15, 2003, the PAYGO rules that govern its consideration of legislation affecting mandatory spending and taxes. By taking this action, the Senate keeps in place the sixty-vote hurdles for considering mandatory spending and tax provisions that do not pay for themselves with offsetting changes or are not covered by a budget resolution, including pending legislation on Medicare provider relief and drug benefits and a further continuation of extended unemployment benefits.

State and local governments. Real state and local spending on consumption and investment appears to have risen only modestly in the third quarter after having declined a bit in the second quarter. On average, employment increased just

Federal Sector Developments

(Unified budget, fiscal years)

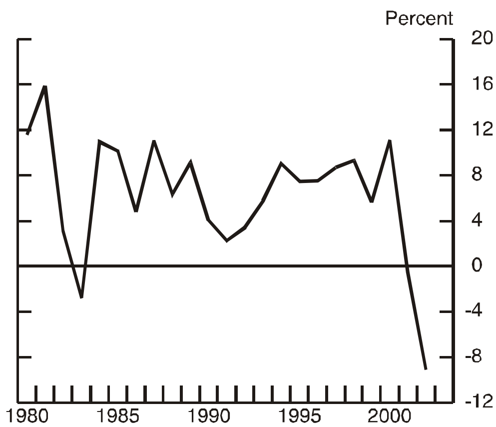
Surplus



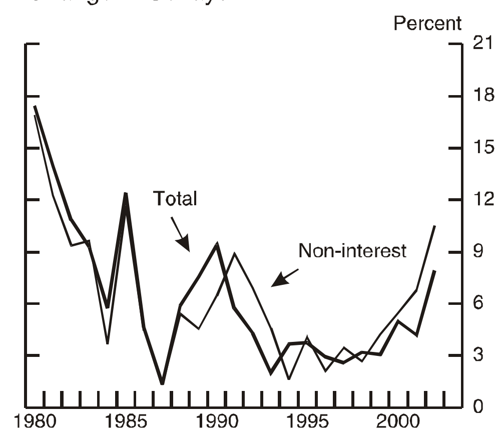
Selected Components of Receipts and Outlays

(Adjusted for payment timing shifts)

Change in Receipts

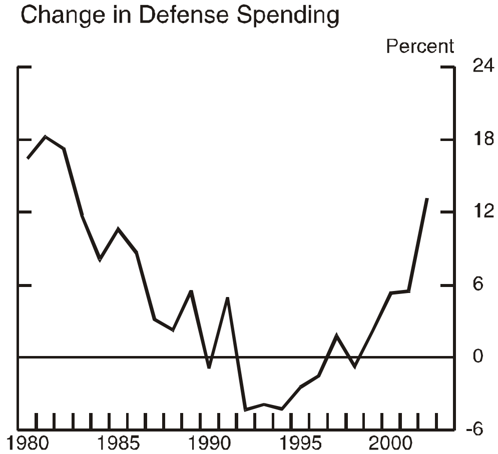


Change in Outlays

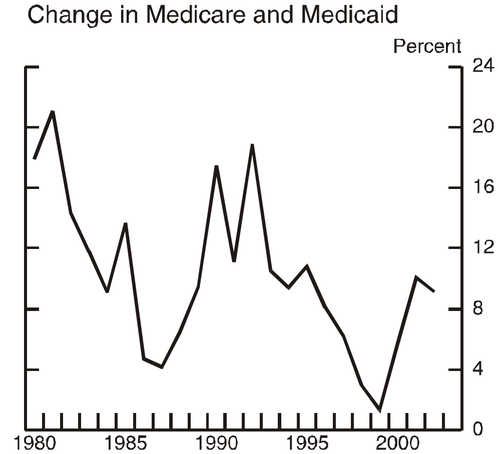


Note. Excludes deposit insurance, spectrum auctions, asset sales, and DCA.

Change in Defense Spending



Change in Medicare and Medicaid



16,000 per month between June and September, about as fast as during the first half of the year but well below the rapid 39,000 monthly average recorded in 2001. In addition, real construction moved up only a little in July and August after having fallen in the second quarter.

State budget positions have worsened significantly over the past couple of years, and Medicaid has been a contributing factor.[6] Notably, state outlays on Medicaid (net of federal grants) rose about 12 percent per year in fiscal 2001 and 2002, after having risen an average of only about 5 percent per year during the preceding four years. Several factors have contributed to the acceleration, including an increase in enrollments as a result of higher unemployment and expanded outreach programs initiated several years ago, strong demand for new prescription drugs, and higher prices of medical care services. In response, states have taken a variety of measures to curb spending, including limits on services, controls on pharmaceuticals, adjustments to provider payments and increases in patient co-payments. After building in these cuts, states expect the rise in Medicaid outlays to slow to 7 percent in fiscal 2003, a target that may be difficult to achieve at a time when private health insurance costs are expected to rise at double-digit rates.

Prices

Core consumer price inflation continues to trend down. The CPI excluding food and energy rose only 2.2 percent over the twelve months ending in September, 0.4 percentage point less than in the preceding twelve-month period. The total CPI was up only 1.5 percent from a year earlier, held down by declines in energy prices last fall. In recent months, consumer energy prices have been moving up again.

The rise in consumer prices for energy in recent months primarily reflected a further step-up in the cost of crude oil. Survey data point to another increase in consumer energy prices in October, stemming mainly from an upturn in refiners' markups, which have jumped as inventories of gasoline and heating oil have dwindled from the top end to the bottom end of their normal range.[7] In natural gas markets, spot prices increased in late September and early October as production and stockbuilding were disrupted by storms in the Gulf of Mexico. Even so, the level of natural gas inventories is still quite high, and futures prices for this winter do not appear to have been pushed up. Thus, the higher spot prices do not necessarily imply significantly higher consumer prices this winter.

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6. Because Medicaid is a transfer program, it is not included in state and local consumption spending. However, it makes up more than 12 percent of state general fund spending.

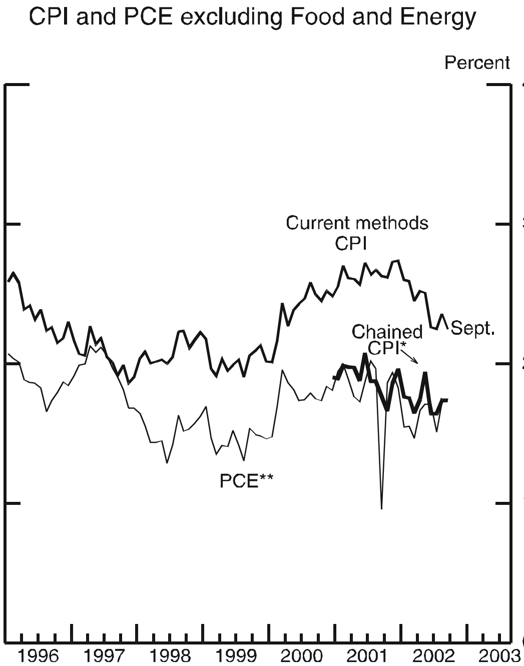
7. Inventories declined in part owing to disruptions in refining and pipeline activity caused by Hurricane Lili.

RECENT PRICE INDICATORS
(Percent)

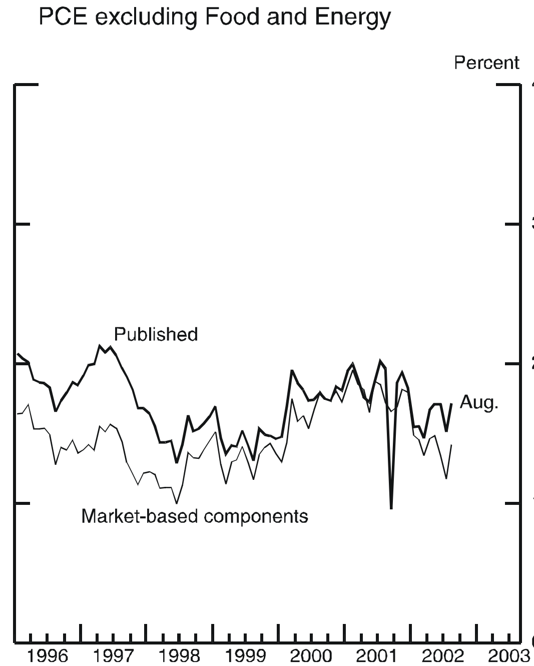
	From 12 months earlier		From 3 months earlier		2002	
	Sept. 2001	Sept. 2002[1]	June 2002	Sept. 2002[1]	Aug.	Sept.[1]
			-Annual rate-		-Monthly rate-	
CPI						
Total	2.6	1.5	2.5	2.5	0.3	0.2
Food	3.1	1.3	-0.7	1.4	-0.1	0.2
Energy	1.5	-4.8	15.8	7.1	0.6	0.7
Ex. food and energy	2.6	2.2	1.9	2.3	0.3	0.1
Ex. tobacco	2.5	2.2	1.6	2.2	0.3	0.1
Core commodities	0.1	-1.1	-1.4	0.3	0.2	0.0
Core services	3.8	3.6	3.4	3.4	0.4	0.1
Current-methods total	2.6	1.5	2.5	2.5	0.3	0.2
Ex. food and energy	2.6	2.2	1.9	2.3	0.3	0.1
Ex. tobacco	2.5	2.2	1.6	2.2	0.3	0.1
Chained CPI (NSA)	1.8	1.2	--	--	--	--
Ex. food and energy	1.8	1.7	--	--	--	--
PCE Prices						
Total	1.2[2]	2.1[2]	2.2	2.0	0.2	0.1
Food	3.0	1.6	-0.1	1.8	-0.0	0.3
Energy	0.9	-5.5	16.4	7.4	0.6	0.7
Ex. food and energy	1.0[2]	2.6[2]	1.9	1.8	0.3	0.1
Ex. tobacco	0.9[2]	2.5[2]	1.5	1.6	0.2	0.1
Core commodities	-0.9	-1.2	-1.1	-0.6	0.1	-0.0
Core services	1.8[2]	4.3[2]	3.1	2.9	0.3	0.1
Core market-based	1.7	1.4	1.2	1.6	0.3	0.1
Core nonmarket-based	-1.5[2]	7.1[2]	4.2	2.5	0.2	0.1
PPI						
Total finished goods	1.6	-1.9	-1.4	-0.6	0.0	0.1
Food	4.0	-3.1	-11.7	-4.2	-0.4	-0.6
Energy	-1.4	-6.5	2.8	8.4	1.0	0.9
Ex. food and energy	1.4	-0.4	1.1	-1.6	-0.1	0.1
Ex. tobacco	0.9	-0.7	0.3	-1.7	-0.1	0.1
Core consumer goods	1.9	0.0	2.3	-1.5	-0.1	0.1
Capital equipment	0.6	-1.0	-0.3	-2.0	-0.1	0.0
Intermediate materials	-0.8	-0.5	3.5	4.1	0.4	0.5
Ex. food and energy	-0.9	0.6	2.1	2.7	0.4	0.1
Crude materials	-14.6	0.8	7.9	11.9	1.6	0.6
Ex. food and energy	-9.8	8.3	30.7	6.0	0.4	-0.6

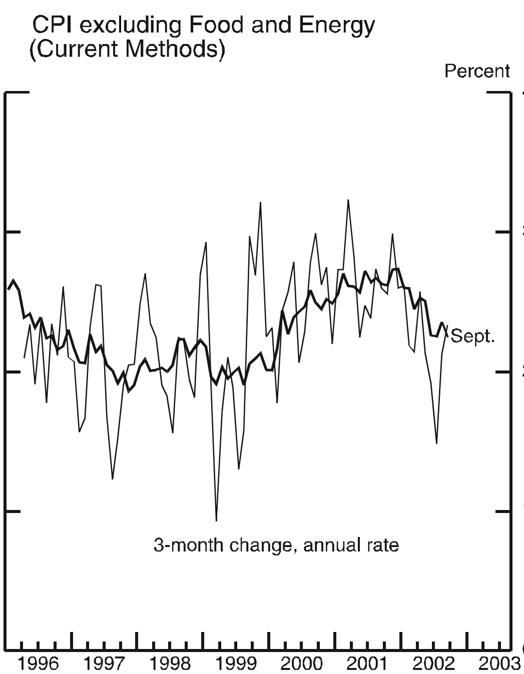
1. PCE prices in September are staff estimates.
2. The BEA's treatment of insurance payouts associated with last year's terrorist attacks pushes down PCE inflation as measured over the twelve months ended in Sept. 2001 and raises PCE inflation by a corresponding amount for the twelve months ended in Sept. 2002. Excluding the BEA's adjustments, the twelve-month change in core PCE prices would have been 1.9 percent in Sept. 2001 and is projected to be 1.6 percent in Sept. 2002.

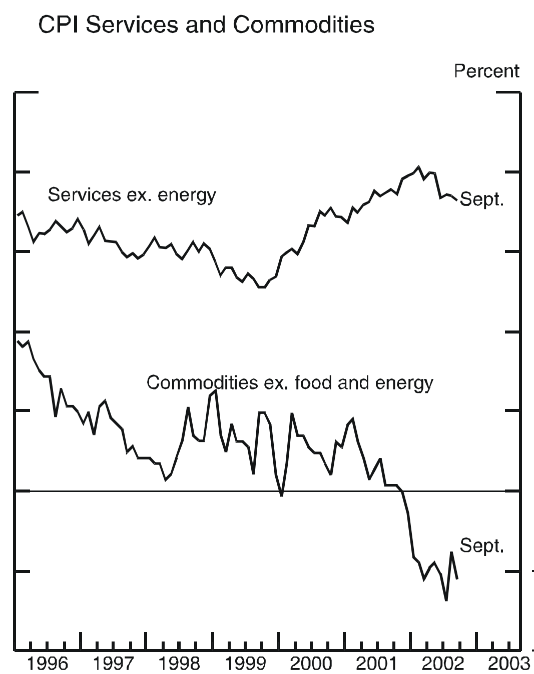
Measures of Core Consumer Price Inflation
(12-month change)



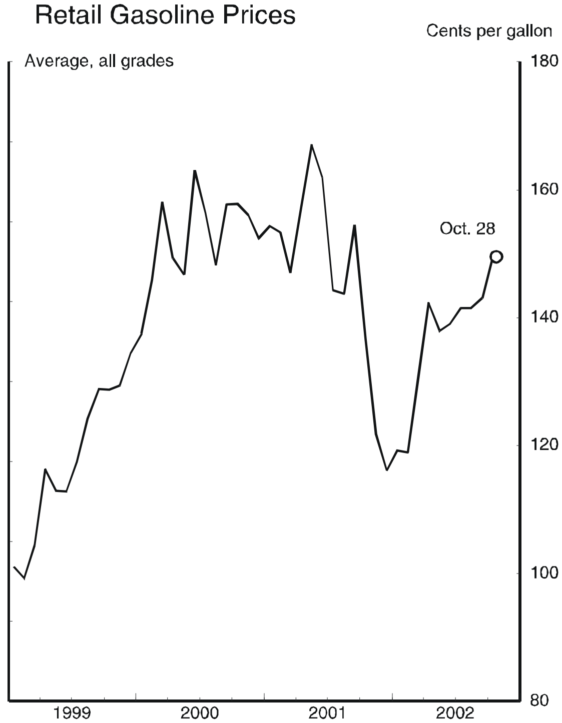
* Data for the Chained CPI begin in 2000 and are shown through Sept. 2002.
** Through Aug. 2002.



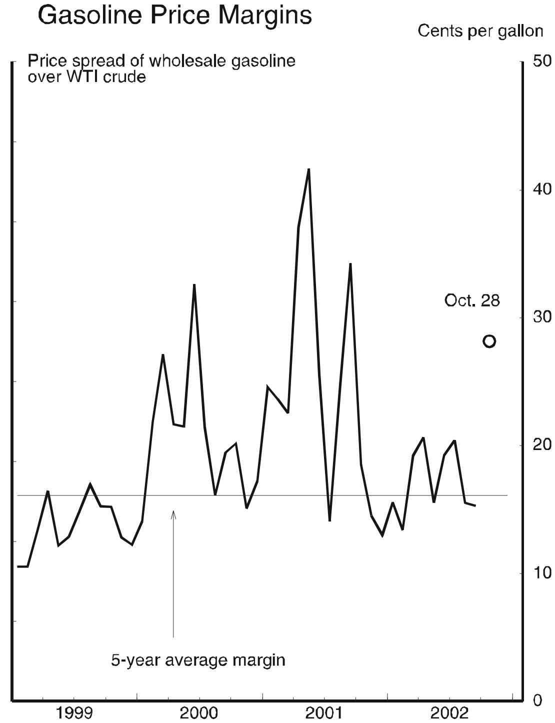


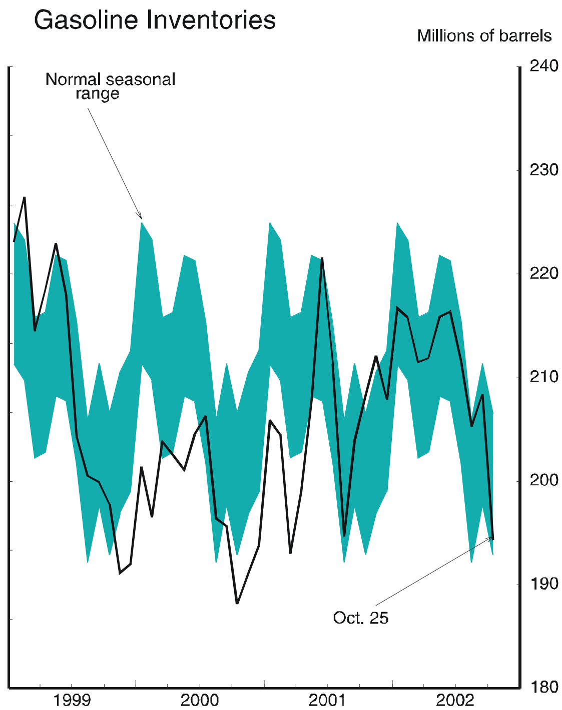


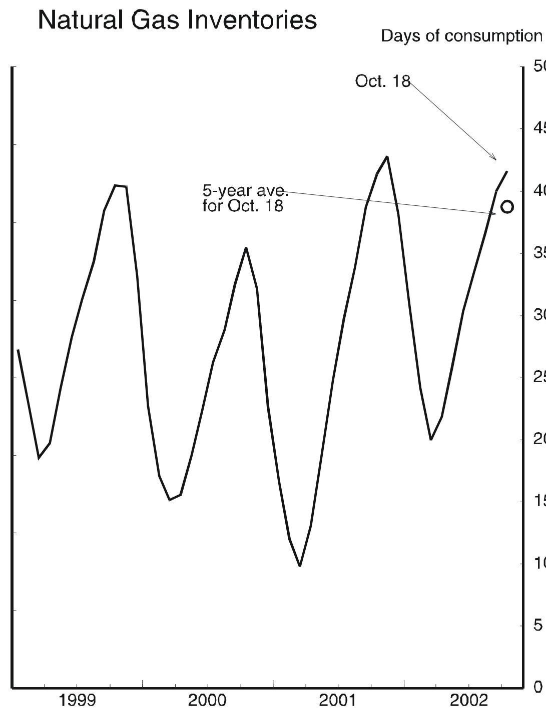
Gasoline and Natural Gas Developments



Note. Prices adjusted with CPI seasonal factors.







Note. Working gas in storage divided by U.S. D.O.E. projection of 2002/2003 average daily winter consumption.

Although prices for consumer foods edged up in September, the total increase over the twelve months ending in September was only 1.3 percent, compared with an increase of 3.1 percent in the previous twelve-month period. In particular, the drought during this growing season in many agricultural regions contributed to a selloff of livestock that helped to restrain retail prices of meat and poultry for much of the summer, even as it lifted crop prices.

Consumer prices excluding food and energy rose just 0.1 percent in September after a 0.3 percent increase in August. Prices for core commodities were flat on balance in September, and for the year as a whole, they fell 1.1 percent after having shown little change during the previous year. Core service prices, which also rose only 0.1 percent in September, were held down by relatively small increases in tenants' rent and owners' equivalent rent and outright declines in airfares and in the price of lodging away from home. However, the twelve-month change in core service prices was 3.6 percent, down only 0.2 percentage point from the previous twelve months.

Data for the core PCE chain price index are available only through August, when the twelve-month change slowed to 1.7 percent, compared with 2.0 percent over the previous twelve months.[8] The market-based component of core PCE prices has shown a similar deceleration, with the twelve-month change dropping from 1.7 percent in August 2001 to 1.4 percent in August 2002. The chained CPI excluding food and energy has decelerated somewhat less—from 1.8 percent over the twelve months ending in September 2001 to 1.7 percent in September 2002. Like the PCE price measure, the chained CPI uses an aggregation formula that takes substitution into account, but it uses weights that appear to be less accurate than those in the PCE measure; it also appears to be more volatile.

With the slowing in core inflation over the past year, consumer expectations of near-term inflation have eased a little. The most recent reading from the Michigan survey indicates that median year-ahead inflation expectations remained at 2.5 percent in October—a touch below the readings over the spring and summer. However, the median expectation for inflation five to ten years ahead rebounded to 2.8 percent in October after having dipped in September; the October reading was similar to levels seen from January through August.

Since the September Greenbook, commodity prices have changed little, on balance. The *Journal of Commerce* index edged up 0.5 percent in the four weeks ending October 29; over the same period, the Commodity Research Bureau's index of industrial material prices rose 0.6 percent. The PPI for intermediate

8. Looking ahead to September, the core PCE price index will show a very large increase from the September 2001 level, which was held down by adjustments to insurance prices associated with the September 11 terrorist attacks.

SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

	Actual inflation[1]	University of Michigan: 1 year, Mean[2]	1 year, Median[2]	5 to 10 years, Mean[3]	5 to 10 years, Median[3]	Professional forecasters (10-year)[4]
2000-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
Q3	1.6	2.8	2.6	3.2	2.7	2.5
July	1.5	2.7	2.6	3.2	2.8	
Aug.	1.8	2.6	2.6	3.5	2.9	
Sept.	1.5	3.1	2.5	3.0	2.5	2.5
Oct.		2.9	2.5	3.3	2.8	

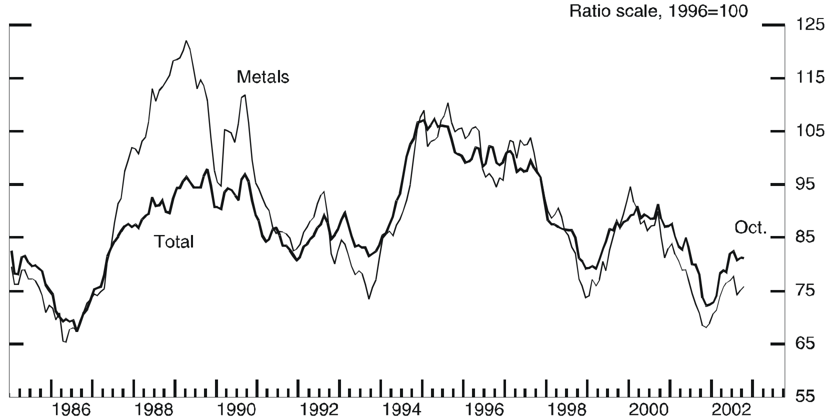
1. CPI; percent change from the same period in the preceding year.
2. Responses to the question: By about what percent do you expect prices to go up, on the average, during the next 12 months?
3. Responses to the question: By about what percent per year do you expect prices to go up, on the average,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

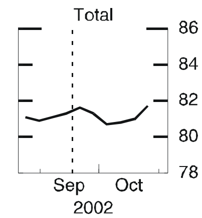
AVERAGE HOURLY EARNINGS
(Percent change; based on seasonally adjusted data)

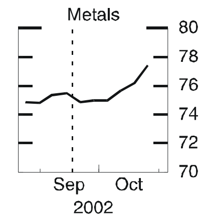
	12-month percent change: Sept. 2000	Sept. 2001	Sept. 2002	Percent change to Sept. 2002 from month indicated: Mar. 2002	June 2002	Percent change: Aug. 2002	Sept. 2002
	- - - - - - - - Annual rate- - - -					-Monthly rate-	
Total private nonfarm	3.8	4.1	3.0	3.0	3.3	0.3	0.3
Manufacturing	2.9	3.5	2.7	2.3	1.3	0.3	0.2
Construction	4.0	2.2	3.0	2.1	2.8	0.1	0.3
Transportation and public utilities	3.5	3.2	3.4	2.1	1.6	0.1	0.6
Finance, insurance, and real estate	3.9	4.3	3.7	4.8	6.3	0.3	0.5
Retail trade	4.1	2.8	3.0	3.0	1.6	0.4	0.1
Wholesale trade	4.4	4.1	2.0	1.0	4.0	0.8	0.2
Services	4.1	5.7	3.5	3.6	4.3	0.2	0.4

Commodity Price Measures

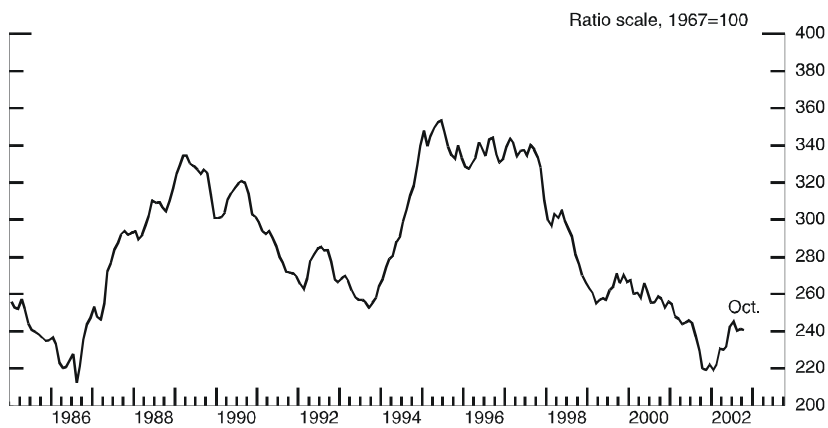
Journal of Commerce Index

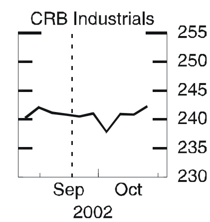




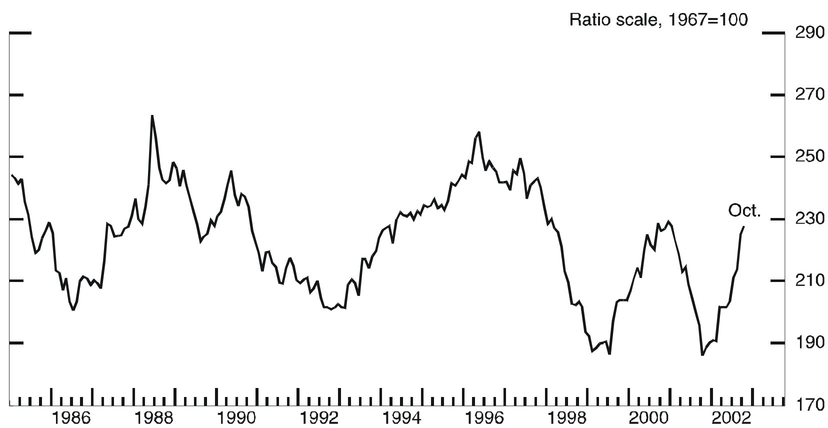


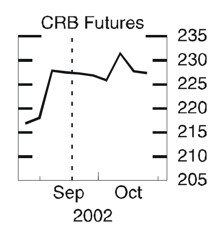
CRB Spot Industrials





CRB Futures





Note. Larger panels show monthly average of weekly data through last available week. Smaller panels show 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 Sept. 17[2]	Sept. 17[2] to Oct. 29	Memo: Year earlier to date
Metals						
Copper (lb.)	0.750	5.7	-22.0	1.4	4.2	11.9
Steel scrap (ton)	103.000	-32.7	-17.7	59.5	-0.6	41.1
Aluminum, London (lb.)	0.606	1.9	-14.3	-1.9	1.9	5.2
Precious metals						
Gold (oz.)	317.150	-4.7	1.2	13.8	0.4	13.1
Silver (oz.)	4.520	-11.2	-3.5	1.9	-1.5	6.0
Forest products[3]						
Lumber (m. bdft.)	202.000	-41.5	25.0	-9.3	-1.0	-1.5
Plywood (m. sqft.)	298.000	-4.9	3.2	3.1	0.0	6.4
Petroleum						
Crude oil (barrel)	25.810	-1.1	-16.3	48.8	-6.8	26.9
Gasoline (gal.)	0.798	7.6	-28.0	42.9	5.6	45.1
Fuel oil (gal.)	0.705	24.6	-42.6	39.3	-7.1	14.8
Livestock						
Steers (cwt.)	67.000	9.9	-19.7	5.4	2.7	3.3
Hogs (cwt.)	26.000	10.2	-9.9	-16.2	-8.8	-29.7
Broilers (lb.)	0.495	-13.9	3.7	5.0	-8.5	-10.6
U.S. farm crops						
Corn (bu.)	2.400	11.4	-4.1	31.4	-8.2	30.8
Wheat (bu.)	4.990	31.4	-8.9	58.3	-0.7	45.5
Soybeans (bu.)	5.450	13.1	-13.4	33.3	-3.9	32.3
Cotton (lb.)	0.423	31.4	-45.7	17.0	13.4	60.6
Other foodstuffs						
Coffee (lb.)	0.465	-47.8	-35.3	11.9	-5.6	26.5
Memo:						
JOC Industrials	81.700	-0.1	-17.1	12.9	0.5	12.8
JOC Metals	77.400	-9.3	-17.0	9.1	2.5	14.5
CRB Futures	227.360	12.0	-16.3	18.8	-0.1	22.4
CRB Spot Industrials	242.340	-2.7	-14.6	9.9	0.6	13.0

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

materials excluding food and energy was flat in September, and has risen only 0.6 percent over the past year.

Very little information on labor costs has been released since the September Greenbook. Average hourly earnings of production or nonsupervisory workers on private nonfarm payrolls rose 0.3 percent in September after a similar increase in August. Over the twelve months ended in September, average hourly earnings rose 3 percent, 1 percentage point less than over the previous twelve-month period.

Domestic Financial Developments

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

Instrument	2000 June 26	2001 Sept. 10	2002 Sept. 23	2002 Oct. 29	Change to Oct. 29 from selected dates (percentage points): 2000 June 26	2001 Sept. 10	2002 Sept. 23
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	1.62	1.48	-4.18	-1.71	-.14
6-month	5.94	3.13	1.59	1.43	-4.51	-1.70	-.16
Commercial paper (A1/P1 rates)							
1-month	6.56	3.42	1.72	1.74	-4.82	-1.68	.02
3-month	6.56	3.24	1.70	1.68	-4.88	-1.56	-.02
Large negotiable CDs [1]							
1-month	6.64	3.46	1.77	1.76	-4.88	-1.70	-.01
3-month	6.73	3.26	1.76	1.69	-5.04	-1.57	-.07
6-month	6.89	3.24	1.73	1.62	-5.27	-1.62	-.11
Eurodollar deposits [2]							
1-month	6.63	3.41	1.75	1.74	-4.89	-1.67	-.01
3-month	6.69	3.26	1.74	1.71	-4.98	-1.55	-.03
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	1.90	1.80	-4.74	-1.79	-.10
10-year	6.35	5.14	4.00	4.27	-2.08	-.87	.27
30-year	6.22	5.55	4.87	5.19	-1.03	-.36	.32
U.S. Treasury 10-year indexed note	4.09	3.26	2.17	2.42	-1.67	-.84	.25
Municipal revenue (Bond Buyer) [4]	5.99	5.25	5.05	5.33	-.66	.08	.28
Private instruments							
10-year swap	7.38	5.62	4.31	4.46	-2.92	-1.16	.15
10-year FNMA	7.15	5.64	4.43	4.61	-2.54	-1.03	.18
10-year AA [5]	7.64	6.30	5.37	5.53	-2.11	-.77	.16
10-year BBB [5]	8.40	7.11	6.92	7.36	-1.04	.25	.44
High yield [6]	12.30	12.72	13.35	13.92	1.62	1.20	.57
Home mortgages (FHLMC survey rate) [7]							
30-year fixed	8.14	6.89	6.05	6.31	-1.83	-.58	.26
1-year adjustable	7.22	5.64	4.28	4.30	-2.92	-1.34	.02

Stock exchange index	Record high: Level	Record high: Date	2001 Sept. 10	2002 Sept. 23	2002 Oct. 29	Change to Oct. 29 from selected dates (percent): Record high	2001 Sept. 10	2002 Sept. 23
Dow-Jones Industrial	11,723	1-14-00	9,606	7,872	8,369	-28.61	-12.87	6.31
S&P 500 Composite	1,527	3-24-00	1,093	834	882	-42.25	-19.26	5.81
Nasdaq (OTC)	5,049	3-10-00	1,695	1,185	1,301	-74.24	-23.29	9.76
Russell 2000	606	3-9-00	441	359	369	-39.18	-16.36	2.77
Wilshire 5000	14,752	3-24-00	10,104	7,908	8,308	-43.68	-17.78	5.05

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.

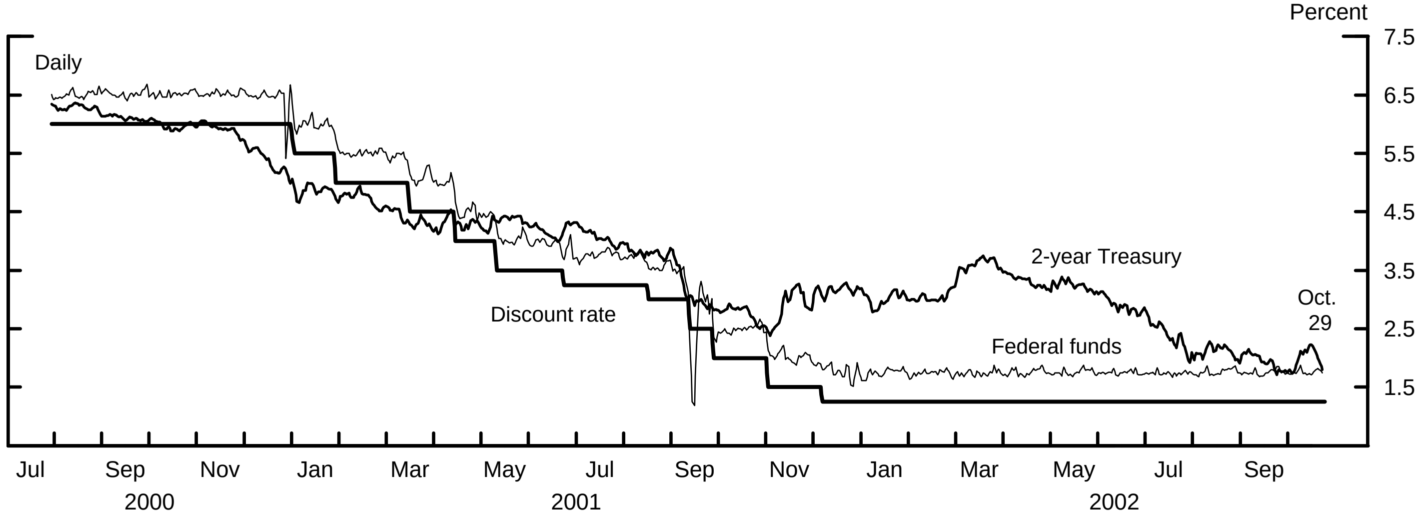
NOTES:

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.
September 23, 2002, is the day before the most recent FOMC meeting.

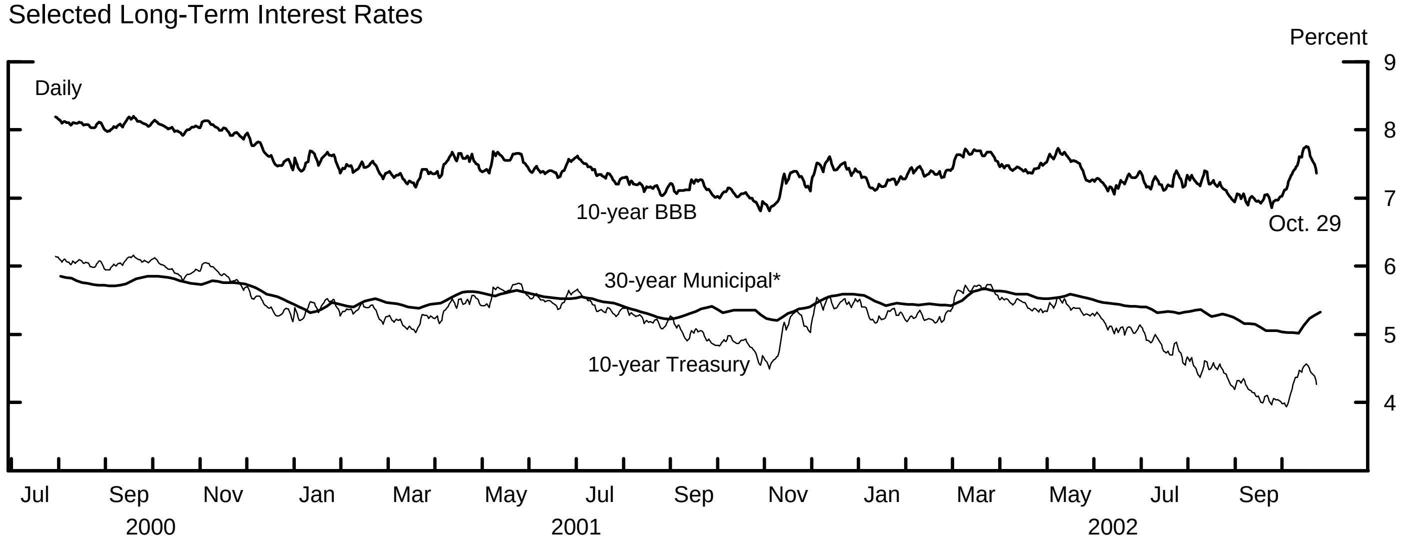
BA:DAM

Selected Interest Rates

Selected Short-Term Interest Rates

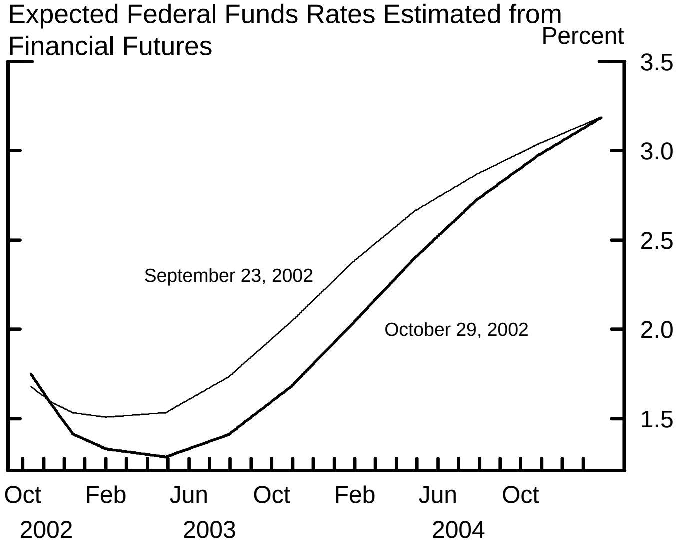


Selected Long-Term Interest Rates



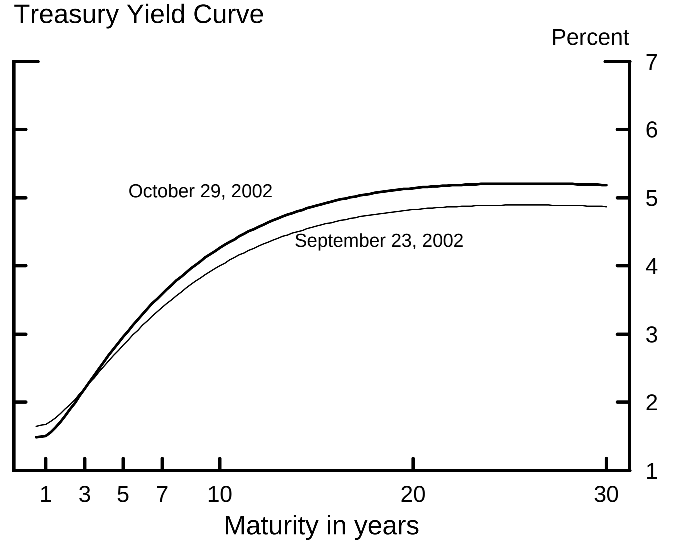
*Bond Buyer Revenue, weekly Thursday frequency.

Expected Federal Funds Rates Estimated from Financial Futures



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

Treasury Yield Curve



Note. 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
Market participants now expect an easier path for Federal Reserve policy going forward than at the time of the last FOMC meeting, with substantial downward revisions occurring in recent days on negative news about the economy and press reports of the FOMC's intention to ease policy before year-end. At the same time, stock prices have increased over the intermeeting period, as investors took third-quarter earnings announcements as evidence that worries about corporate profits had been overdone. Longer-term bond yields generally rose as equity prices recovered, leaving yields significantly higher on net. Bond spreads for lower-rated firms have widened since the last meeting, evidently on heightened concerns about corporate defaults.

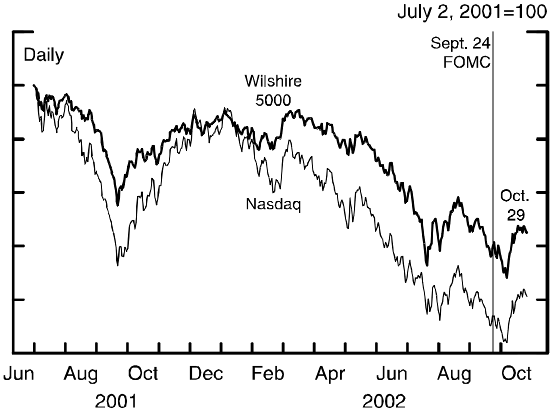
Borrowing by nonfinancial corporations remained anemic as demand for business credit apparently continued to be weak, banks further tightened lending standards, and corporate credit quality showed few signs of improvement. In contrast, mortgage debt continued its rapid ascent—spurred by record-low mortgage interest rates—and consumer debt climbed at a moderate pace. Debt issuance by state and local governments was strong, boosted by low yields and weaker tax revenues. Although the federal budget posted a small surplus in September, it is estimated to have returned to a deficit position in October, and the pace of federal borrowing has remained substantial.

Policy Expectations, Stock Prices, and Corporate Interest Rates
Market participants largely anticipated the FOMC's decision on September 24 to maintain both an intended federal funds rate of 1-3/4 percent and a balance of risks assessment weighted toward economic weakness. Nonetheless, investors took the reference in the accompanying statement to "the emergence of heightened geopolitical risks" and the dissent of two members who preferred a reduction in the target as implying monetary policy might be eased sometime soon. In the days following, falling stock prices led market participants to mark down their expected path for short-term interest rates. Policy expectations reversed course with the subsequent rebound in equity prices but have more than doubled back in recent days with negative news about the economy and newspaper articles characterizing the FOMC as inclined to ease. Current futures quotes indicate that investors place significant odds of a policy easing at this meeting. Anecdotal reports suggest that among investors that expect an easing, some are looking for a quarter-point cut while others think a half-point cut is more likely. Rates on eurodollar futures that settle in 2003 are down about 20 to 35 basis points since the previous meeting.

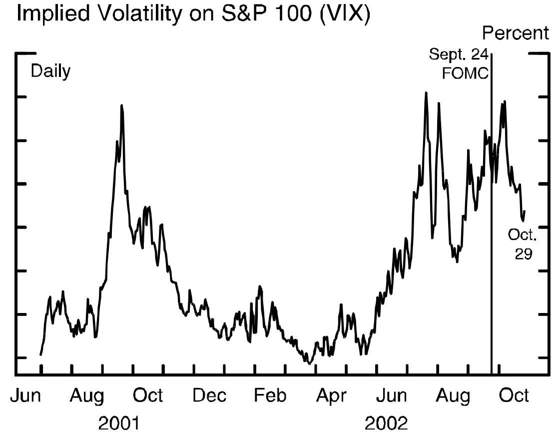
On net, major equity price indexes rose between 3 percent and 10 percent since the September meeting, after dropping to multiyear lows in early October on concerns over corporate earnings, the strike by the West Coast dock workers,

Stock Prices and Corporate Risk Spreads

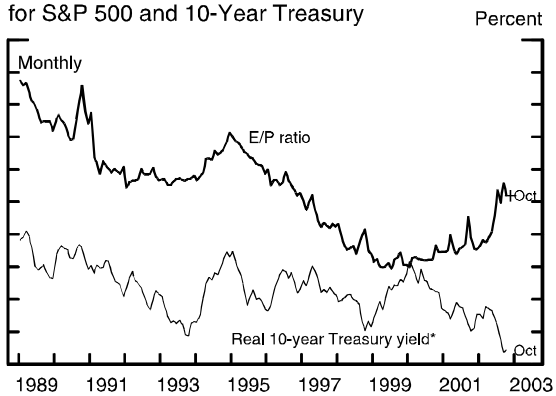
Stock Prices



Implied Volatility on S&P 100 (VIX)



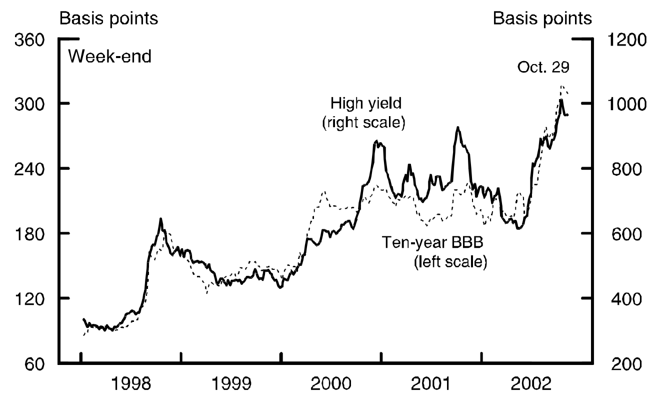
12-Month Forward Earnings-Price Ratio
for S&P 500 and 10-Year Treasury



* 10-year Treasury yield minus Philadelphia Fed 10-year expected inflation.

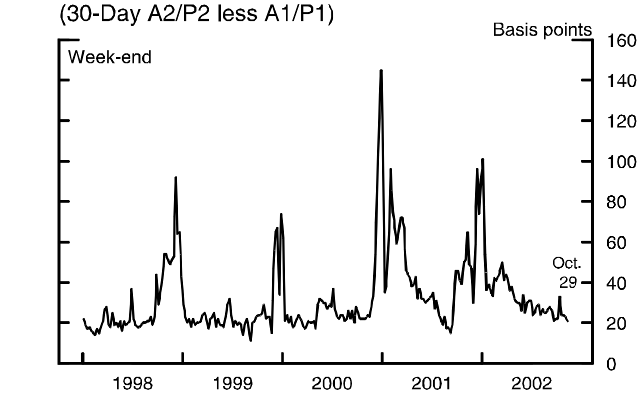
\+ Denotes the latest observation using daily prices and latest earnings data from I/B/E/S.

Lower-Tier Risk Spreads to Ten-Year Treasury



Ten-Year Corporate Yields less Ten-Year Treasury

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



and mounting odds of a war with Iraq. Stock prices more than retraced these losses, as the third-quarter earnings reports were not as weak as investors had feared. The resulting rise in prices, along with downward revisions to year-ahead earnings, pushed the forward earnings-price ratio for the S&P 500 down a bit, but its gap over the real Treasury yield—a measure of the equity premium—has remained high by the standards of recent years.

Short-term Treasury yields have been pulled down on net over the intermeeting period with the revisions to policy expectations. Longer-term yields on nominal Treasury coupon securities generally tracked movements in the stock market, and yields on ten-year notes and thirty-year bonds were up about 30 basis points. Market participants also attribute some of the rise to a reduction in hedging demand from mortgage-related investors.

Corporate bond yields also rose over the intermeeting period. Yields on higher-quality investment-grade bonds moved about in line with the ten-year Treasury note, but spreads on BBB-rated and speculative-grade bonds climbed to the highest levels in more than a decade before easing a bit. Wider spreads apparently reflected greater expected losses and a further pullback from risk-taking. Some of the widening in the BBB spread can be attributed specifically to the ballooning of spreads on Ford and GM bonds after analysts warned of declining auto sales and increased pension liabilities. Market participants reported that overall liquidity in the corporate bond market has been somewhat lower than usual, and auto-related bonds at times were particularly illiquid; trading conditions in the Treasury market, however, were said to be about normal. Risk spreads in the commercial paper market were about unchanged over the intermeeting period.

Business Finance

Gross bond issuance by nonfinancial firms totaled only $17 billion in September, a slight increase over the anemic August pace, and offerings have remained light in October. Most of the issuance over the past two months has been by investment-grade electric and gas utilities apparently seeking to reduce short-term debt. Shorter-term credit for nonfinancial firms from C&I loans and commercial paper ran off further in September and October. On net, the funds raised from the bond market, commercial paper market, and C&I lending were negative in September and appear to have remained negative, but less so, in October.

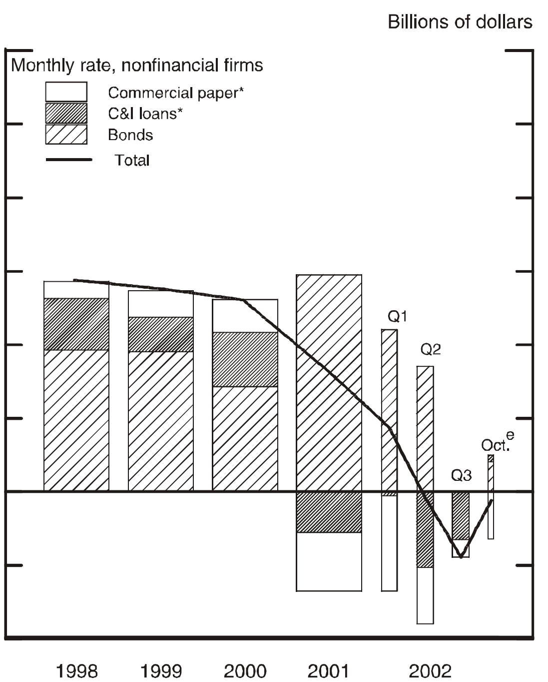
Responses from the October Senior Loan Officer Opinion Survey indicate that the net percentage of domestic banks reporting a decline in C&I loan demand moved up slightly to around 50 percent, suggesting that demand for loans continued to weaken. In addition, banks reported some additional net tightening

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 H1	2002 Q3	2002 Oct. e
Nonfinancial corporations							
Stocks [1]	9.2	9.9	7.5	5.5	7.4	1.7	3.7
Initial public offerings	4.2	4.4	3.2	1.0	1.2	0.1	1.0
Seasoned offerings	5.0	5.5	4.2	4.5	6.3	1.6	2.7
Bonds [2]	24.5	20.2	43.1	31.2	28.9	13.1	16.0
Investment grade [3]	13.9	11.9	28.9	24.0	18.3	10.2	13.0
Speculative grade [3]	7.5	4.5	11.9	5.8	6.4	1.6	2.0
Other (sold abroad/unrated)	3.1	3.7	2.4	1.4	4.2	1.4	1.0
Memo							
Net issuance of commercial paper [4]	3.6	4.5	-14.5	-1.5	-10.4	-2.4	-6.4
Change in C&I loans at commercial banks [4]	4.7	7.4	-2.9	-7.9	-5.4	-6.5	0.9
Financial corporations							
Stocks [1]	1.8	1.4	3.0	5.5	4.2	3.5	0.7
Bonds	53.9	47.1	69.9	64.7	76.1	70.9	43.8

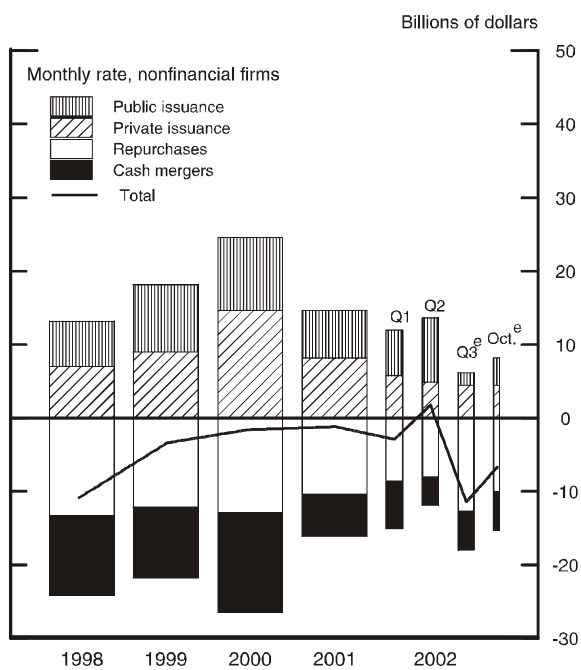
Note. Components may not sum to totals because of rounding. These data include speculative-grade bonds issued privately under Rule 144A. All other private placements are excluded. Total reflects gross proceeds rather than par value of original discount bonds.
1. Excludes equity issues associated with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

Components of Net Debt Financing



* Seasonally adjusted.
e Staff estimate.

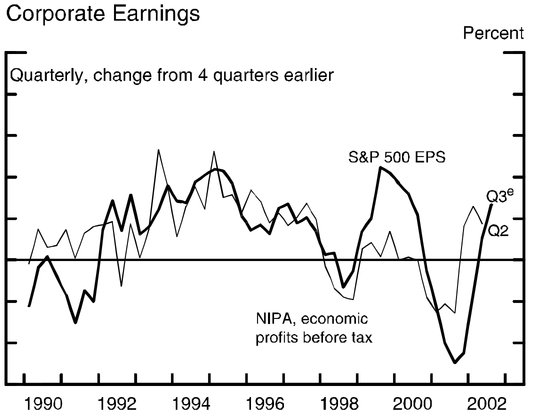
Net Equity Issuance



e October and Q3 values for private issuance and repurchases are staff estimates.

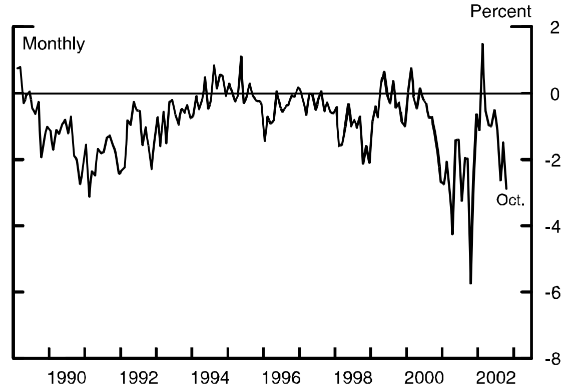
Corporate Credit Quality and Earnings

Corporate Earnings



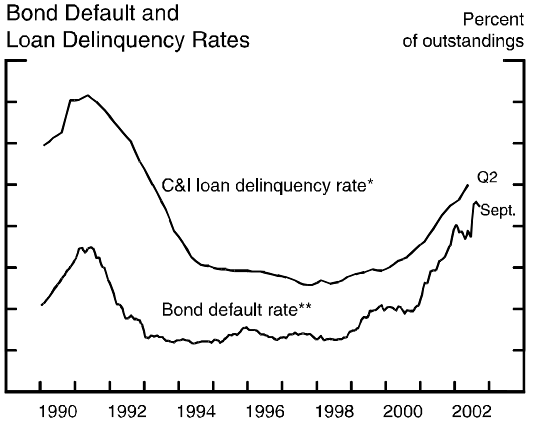
e Analysts' estimate as of Oct. 28.
Source. I/B/E/S for S&P 500 EPS.

S&P 500 EPS Revisions Index



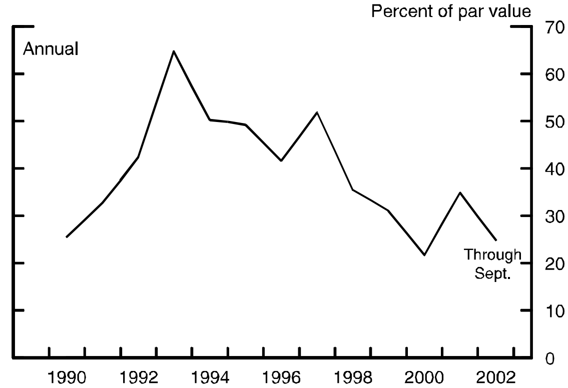
Source. I/B/E/S.

Bond Default and Loan Delinquency Rates



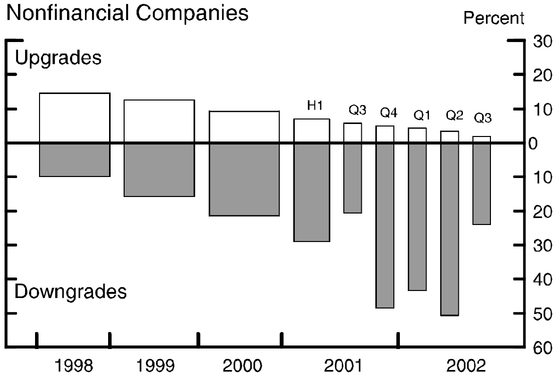
*Source. Call Report.
**Moving average (12-month), from Moody's Investors Service.

Recovery Rate on All Defaulted Bonds



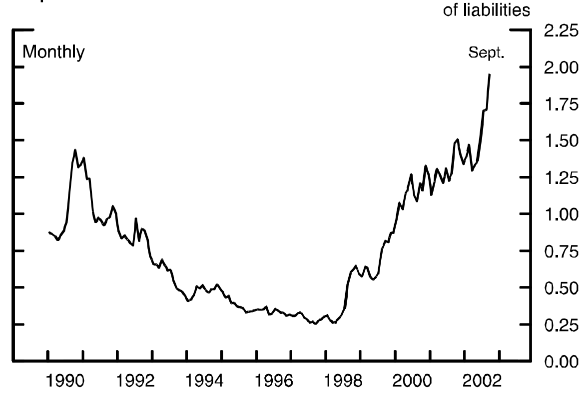
Source. Moody's Investors Service. Weighted-average market price at default for all bonds.

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.

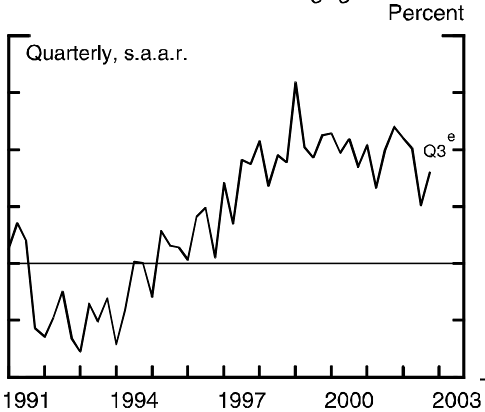
Expected Year-Ahead Defaults



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

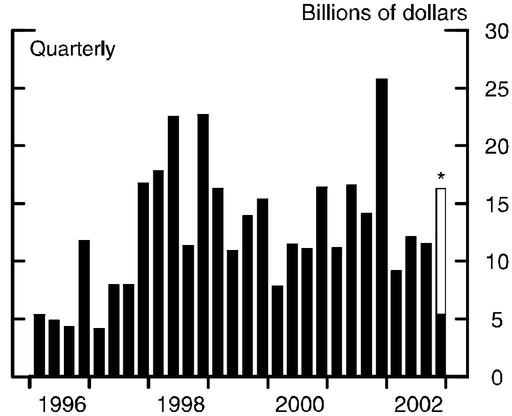
Commercial Real Estate

Growth of Commercial Mortgage Debt



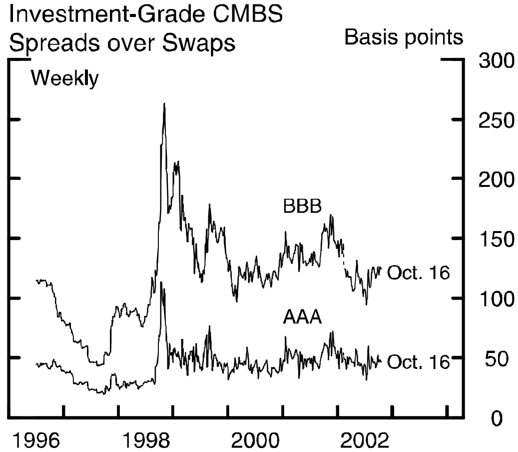
e Staff estimate.

Total CMBS Gross Issuance



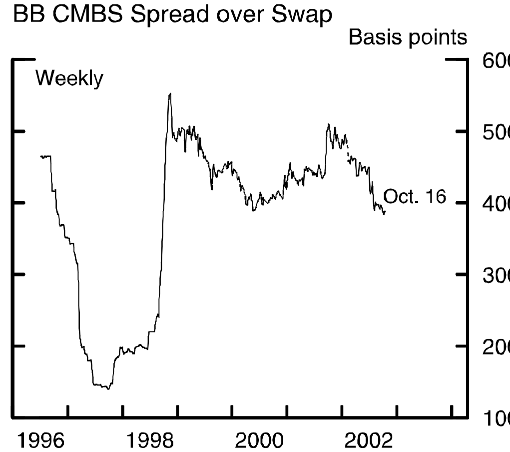
* Estimate assumes actual October pace (shown in black) continues for November and December.
Source. Commercial Mortgage Alert.

Investment-Grade CMBS Spreads over Swaps



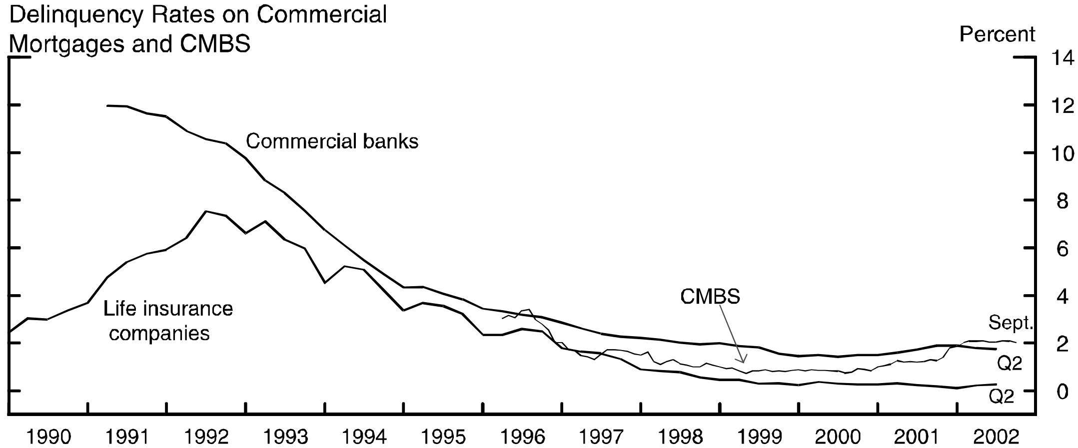
Note. Yield indexes were rebalanced on Feb. 1, 2002.
Source. Morgan Stanley.

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.

of terms and standards. The net percentage of banks reporting tighter lending standards to large and middle-market firms edged down, but the net percentage tightening standards on loans to small businesses rose.

Weak stock prices have continued to put a damper on funds raised in the equity markets. The little public equity issuance of late came mostly from energy companies apparently seeking to pay down debt. There were no IPOs by nonfinancial corporations in August and September—the first two-month drought since 1978. In October, a few start-ups ventured into the IPO market, and the number of firms registering to issue equity in the coming weeks has risen, but issuance remained light. Meanwhile, the pace of equity retirements appears to have weakened as the slump in cash-financed mergers has continued and share repurchases are estimated to have softened. As a result, net equity issuance is estimated to have been a little less negative in October than in the third quarter.

Corporate earnings continued their slow turnaround. With third-quarter reports in for nearly 400 S&P 500 companies, the current estimate of S&P 500 earnings per share shows 13.5 percent growth from the third quarter of last year, which implies only a small increase from the level in the second quarter. Analysts have continued to significantly mark down their expectations of year-ahead earnings growth but still appear to be looking for sizable gains.

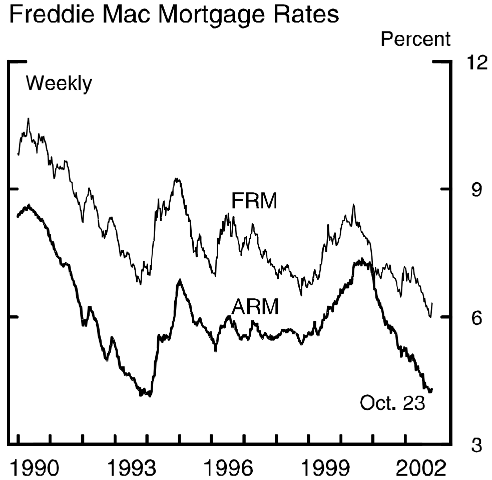
Lagging measures of the credit quality of nonfinancial companies have shown little or no improvement of late. The twelve-month average default rate in September was just a shade below August's record high. In addition, the recovery rate on all defaulted bonds in 2002, measured by the price of bonds at default, has averaged only 25 percent of par, down from 35 percent in 2001; the recent rate has been dragged down by especially low recovery rates for telecom bonds. With regard to bond ratings, net downgrades slowed in the third quarter but ballooned in October with the downgrades of Ford and GM. An aggregate expected default frequency (EDF) based on firm-level data from KMV soared to a record high at the end of September because of lower stock prices and higher volatility. Although this measure likely fell in October given the stock price gains in recent weeks, it remains at an extremely high level.

Commercial Real Estate Finance

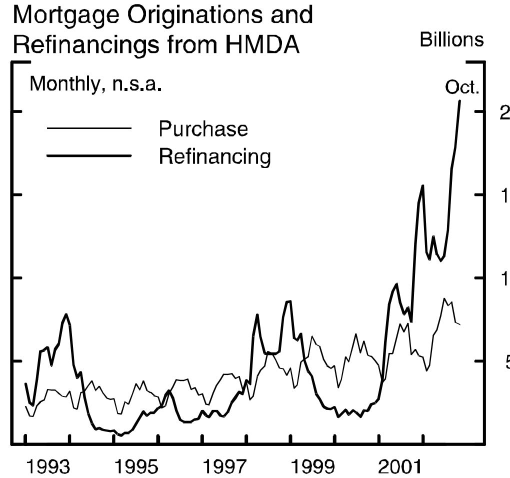
Commercial mortgage debt is estimated to have increased at a brisk 8 percent annual rate in the third quarter as firms took advantage of low mortgage interest rates to refinance properties. However, according to the October Senior Loan Officer Opinion Survey, the demand by firms for commercial real estate loans at banks appears to have weakened considerably since the August survey. Focusing on the CMBS market, delinquency rates on CMBS have been about

Household Liabilities

Freddie Mac Mortgage Rates

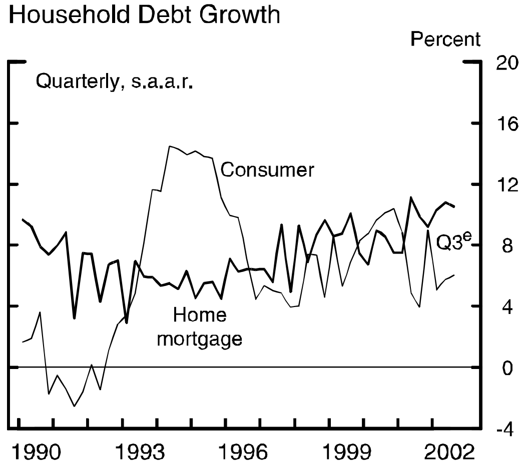


Mortgage Originations and Refinancings from HMDA



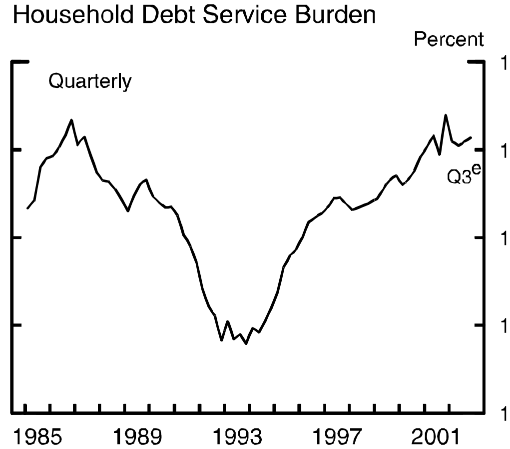
Source. Home Mortgage Disclosure Act records (1993-2001); staff estimates from the MBA applications index (2002).

Household Debt Growth



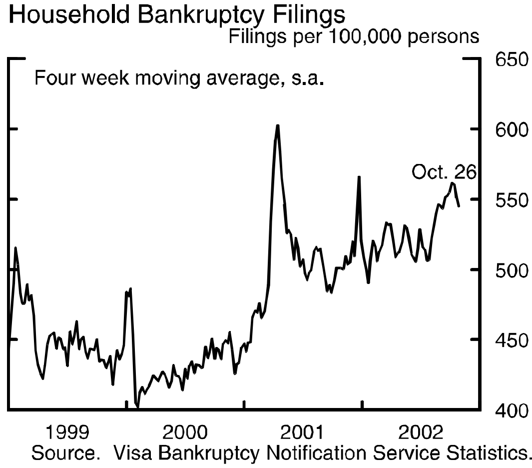
e Estimate.

Household Debt Service Burden



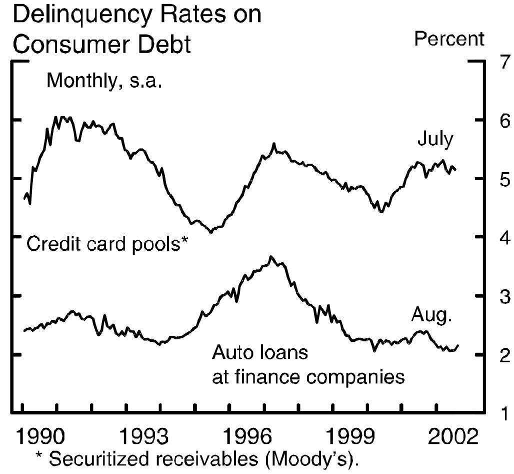
Note. Required debt payments relative to disposable personal income.
e Estimate.

Household Bankruptcy Filings



Source. Visa Bankruptcy Notification Service Statistics.

Delinquency Rates on Consumer Debt



* Securitized receivables (Moody's).

unchanged in recent months, and CMBS spreads remained at the lower end of the range observed since late 1998. As had been anticipated for some time, at the end of September both Fitch and Moody's downgraded CMBS backed by properties with inadequate terrorism insurance. The downgrades did not appear to significantly limit the ability of mortgage lenders to securitize loans, as CMBS issuance has remained strong.

Household Finance

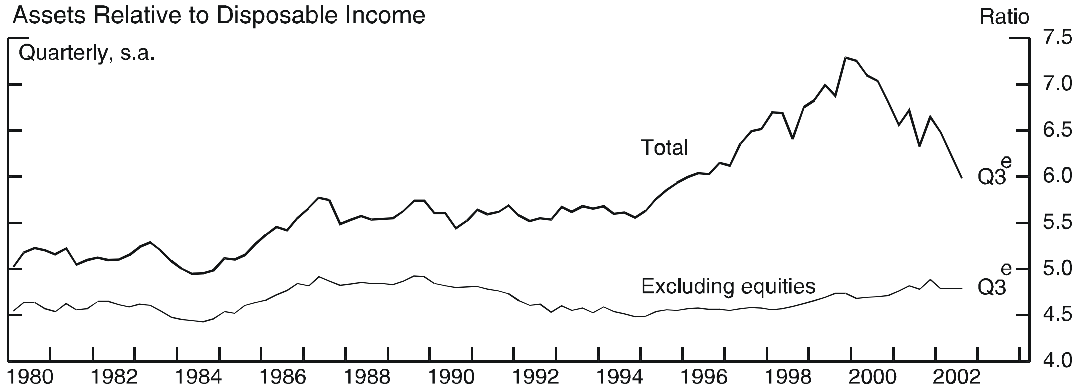
Mortgage rates reached new lows during the intermeeting period, boosting the already high rate of refinancings to a record $200 billion in October, as estimated from Home Mortgage Disclosure Act records.[1] In addition, according to the October Senior Loan Officer Opinion Survey, the frequency and size of cash-out refinancings have been substantially greater than reported in January of this year. Household mortgage debt is estimated to have grown at an annual rate of about 10-1/2 percent in the third quarter, the same rapid pace as in the first half of the year. Consumer credit grew at an annual rate of 6 percent, on par with its moderate pace in the first half of the year. Automobile companies continued to promote zero percent financing programs, raising concerns among some analysts that the auto finance companies were extending credit to more marginal borrowers. Recent Federal Reserve data provide some support for this view: The loan-to-value ratio for automobile loans rose sharply between May and August.

Indicators of household credit quality moved sideways in September and October. The rate of personal bankruptcy filings bumped up in early October to its highest level in 2002, but more recently the rate has declined. Delinquency rates on credit card pools and auto loans at finance companies were little changed during the summer. The household debt service burden remained high in the third quarter, at a level just below the peak level in early 2001.

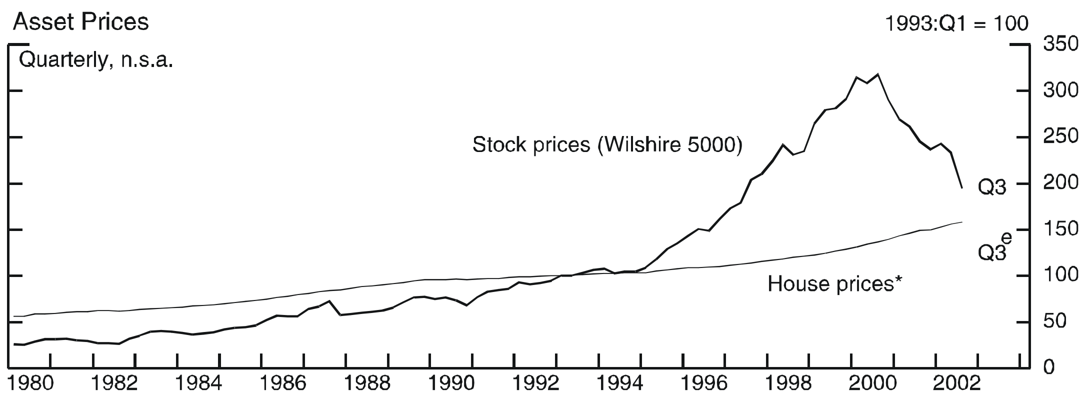
Household net worth fell last quarter for the third quarter in a row, as a steep drop in equity prices outweighed a moderate gain in house prices. The OFHEO repeat sales house price index is estimated to have increased at an annual rate of about 6-1/2 percent in the third quarter, down from an average annual rate of about 7-3/4 percent in the first half of the year. Outflows from equity mutual funds picked up in September but did not match July's record rate of withdrawals, and the pace of outflows has continued in October. Bond mutual funds, however, had outsized inflows in September for the third consecutive month, but they slowed considerably in October.

1. Records collected by the Home Mortgage Disclosure Act (HMDA) are estimated to cover 80 percent of mortgage originations.

Household Assets



e Staff estimate.



e Staff estimate.
* From the Office of Federal Housing Enterprise Oversight.

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

	2000	2001		2002				Assets
		H1	H2	H1	Q3	Sept.	Oct. e	Sept.
Total long-term funds	**18.5**	**15.1**	**6.5**	**21.0**	**-5.0**	**-0.8**	**-12.4**	**3,902**
Equity funds	**25.2**	**8.2**	**-2.7**	**9.1**	**-23.9**	**-16.1**	**-16.2**	**2,507**
Domestic	21.3	9.1	-0.0	7.9	-21.3	-14.5	-14.0	2,168
Capital appreciation	25.5	5.2	-2.2	2.8	-15.1	-10.7	-9.2	1,269
Total return	-4.3	3.9	2.2	5.1	-6.3	-3.8	-4.8	899
International	3.9	-0.9	-2.7	1.2	-2.6	-1.6	-2.2	339
Hybrid funds	**-2.6**	**1.0**	**0.5**	**2.2**	**-1.6**	**-0.6**	**-1.4**	**305**
Bond funds	**-4.0**	**5.9**	**8.7**	**9.7**	**20.5**	**15.9**	**5.2**	**1,089**
High-yield	-1.0	0.9	0.3	0.9	-0.4	-1.0	1.1	89
Other taxable	-1.8	4.2	7.3	7.6	17.5	14.6	6.5	668
Municipals	-1.2	0.8	1.1	1.3	3.3	2.3	-2.4	332

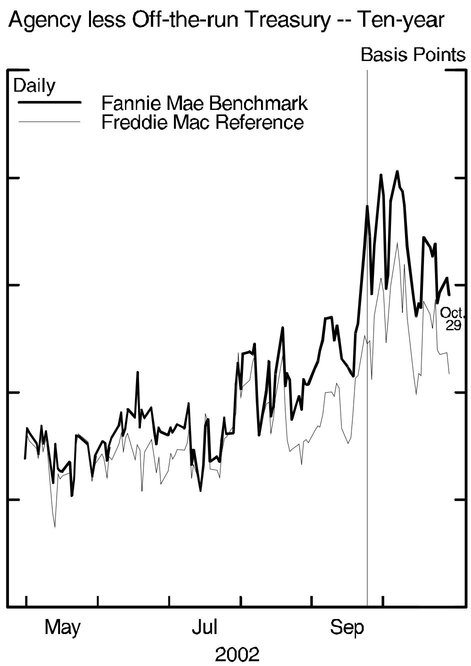
Note. Excludes reinvested dividends. Source. Investment Company Institute.
e Staff estimates based on confidential ICI weekly data.

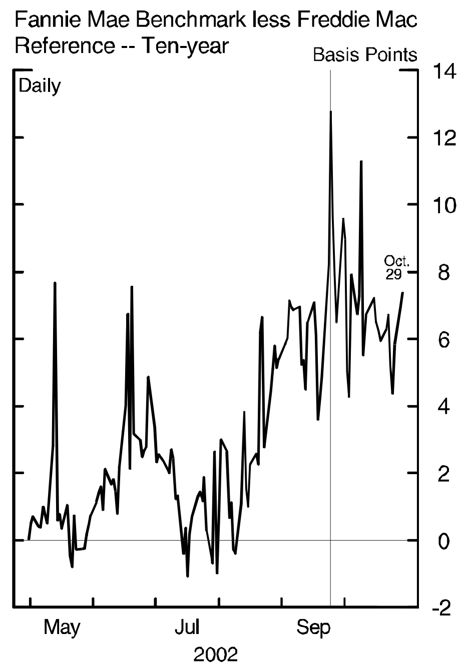
Treasury Financing
(Billions of dollars)

Item	2002					
	Q1	Q2	Q3	Aug.	Sep.	Oct. [e]
Total surplus, deficit (−)	**-96.6**	**15.6**	**-42.2**	**-54.7**	**41.7**	**n.a.**
Means of financing deficit Net borrowing	50.8	21.1	85.9	57.4	-4.1	32.0
Nonmarketable	-.7	6.0	3.1	7.9	6.2	5.6
Marketable	51.5	15.1	82.8	49.6	-10.3	26.4
Bills	23.1	-12.0	44.4	28.4	-23.8	13.6
Coupons[1]	28.4	31.1	38.4	21.2	13.4	12.8
Debt buybacks	.0	-4.0	.0	.0	.0	.0
Decrease in cash balance	38.3	-25.5	-21.3	13.3	-34.4	19.9
Other[2]	7.5	-11.2	-26.0	-16.0	-3.2	n.a.
MEMO Cash balance, end of period	14.1	39.6	60.9	26.5	60.9	40.9

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

Agency Spreads





Note. Vertical line drawn at September FOMC meeting.

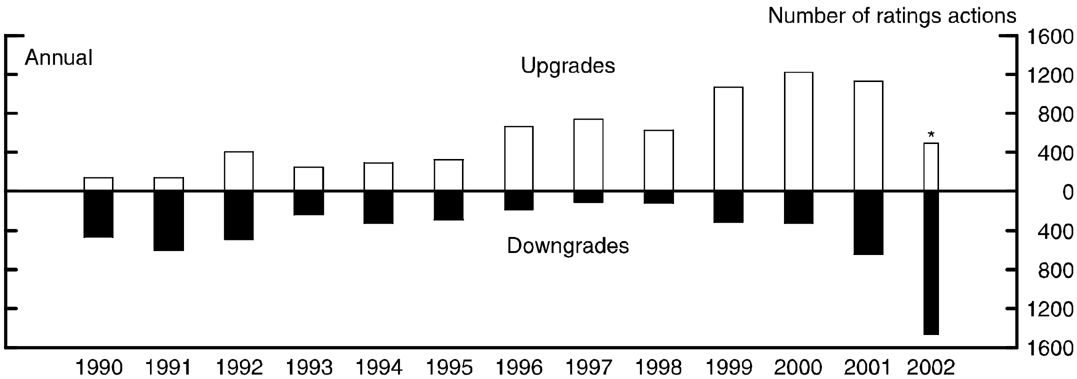
State and Local Government Finance

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

	1999	2000	2001	2002 H1	2002 Q3	2002 Sept.	2002 Oct. [e]
Long-term [1]	18.0	15.0	22.5	26.2	27.3	27.3	40.0
Refundings [2]	4.5	2.2	6.5	8.5	9.5	12.3	12.0
New capital	13.5	12.9	16.0	17.7	17.9	15.0	28.0
Short-term	2.7	2.8	4.3	4.7	5.7	2.5	16.0
Total tax-exempt	20.6	17.9	26.9	30.9	33.0	29.9	56.0
Total taxable	1.1	0.7	1.1	1.1	1.5	2.4	1.5

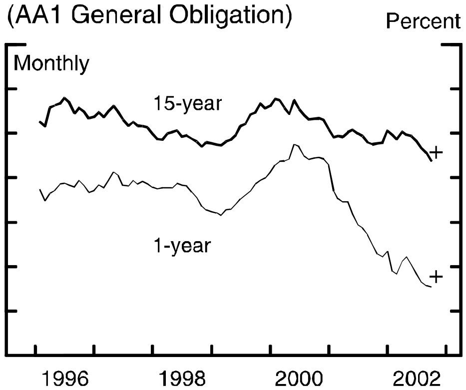
1. Includes issues for public and private purposes.
2. All issues that include any refunding bonds.
e Staff estimate based on preliminary data through October 24.

Bond Rating Changes



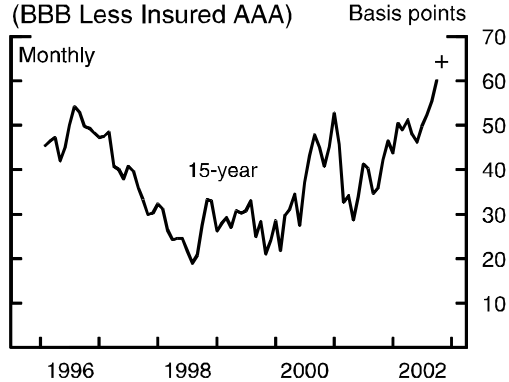
* Data through October 23 at an annual rate.
Source. S&P's Credit Week Municipal and Ratings Direct.

Municipal Bond Yields
(AA1 General Obligation)



Note. Average of weekly data.
+ Last observation is for week of October 24.
Source. Bloomberg.

Revenue Bond Spread
(BBB Less Insured AAA)



Note. Average of weekly data.
+ Last observation is for week of October 24.
Source. Bloomberg.

Treasury and Agency Finance

The federal budget position turned to a small surplus in September, allowing the Treasury to pay down marketable debt for the first time in five months, but current estimates point to a sizable deficit in October. The Treasury accumulated larger-than-expected cash balances at quarter-end. A portion of those cash balances were invested temporarily in TT&L deposits at commercial banks, but the Treasury also continued to utilize its Term Investment Option program, in which it auctions short-term deposits to banks. The market may have become more comfortable with this new instrument, as the bidding was apparently a little more aggressive than at auctions earlier this year. The Treasury's announcement that it plans to offer $40 billion in new securities at its mid-quarter refunding auctions next week was largely in line with market expectations.

With the surge in mortgage refinancing, investors closely followed the interest rate exposures of Fannie Mae and Freddie Mac. Investor concern ebbed somewhat in early October after Fannie Mae reported it had substantially narrowed its duration gap, but yields on Fannie Mae bonds have continued to run several basis points higher than on comparable Freddie Mac bonds. On balance, spreads of agency yields over comparable-maturity Treasuries remained elevated.

State and Local Government Finance

Following the trend of recent months, gross issuance of long-term debt for new capital and advance refunding was strong in both September and October, boosted recently by a portion of the $11 billion deal from the State of California. The bond proceeds are being used in part to repay debt raised to pay for electricity purchases during the state's electricity crisis two years ago. Municipal bond issuance, especially advance refunding, has been bolstered by low interest rates and possibly also by strong support among voters for public investment. In addition, erosion in tax revenues may have forced some state and local governments to rely more on bond financing; in particular, short-term debt issuance surged in October. Declining tax revenues also have contributed to a recent deterioration in municipal credit quality. Ratings downgrades of municipal debt spiked in October, but the bulk of the downgrades primarily reflect a one-notch cut from the top short-term rating for two large underwriters, who are obligated to buy back these securities at investors' discretion. Spreads of BBB-to-AAA-rated municipal bond yields have risen over the intermeeting period.

Money and Bank Credit

After fairly robust gains in the preceding four months, the growth of M2 decelerated in September to a 5 percent annual rate, but it has picked up in

Monetary Aggregates

(Based on seasonally adjusted data)

Aggregate or component	2001	2002 Q2	2002 Q3	2002 Jul.	2002 Aug.	2002 Sep.	Level (bil. $) Sep. 02
Aggregate	Percent change (annual rate) [1]						
1. M2[2]	10.3	3.3	10.4	13.0	9.4	5.1	5,706.8
2. M3[3]	12.8	3.3	8.4	8.4	10.7	3.9	8,330.2
Components of M2 [4]							
3. Currency	9.0	9.7	7.6	7.9	3.9	1.4	617.8
4. Liquid deposits[5]	17.9	10.3	16.6	16.4	19.0	17.9	3,223.7
5. Small time deposits	-4.9	-8.3	-6.6	-6.7	-8.2	-11.4	905.8
6. Retail money market funds	8.4	-10.6	8.7	23.9	-.7	-18.5	951.5
Components of M3							
7. M3 minus M2[6]	18.5	3.3	4.1	-1.3	13.5	1.3	2,623.5
8. Large time deposits, net[7]	-2.9	8.4	3.6	6.7	4.7	-.1	817.2
9. Institutional money market funds	51.1	2.8	.0	-4.8	-1.5	-13.8	1,176.4
10. RPs	1.5	-5.6	24.7	-3.5	80.2	57.4	416.5
11. Eurodollars	8.2	2.6	-7.2	-7.8	14.6	-13.3	213.4
Memo							
12. Monetary base	8.5	8.1	7.1	8.5	4.1	.6	671.4
	Average monthly change (billions of dollars)[8]						
Selected managed liabilities at commercial banks							
13. Large time deposits, gross	3.3	8.0	-2.9	-.3	-4.1	-5.8	1,012.7
14. Net due to related foreign institutions	-6.5	-5.9	-.6	-.1	.3	8.5	99.6
15. U.S. government deposits at commercial banks	1.5	-8.5	6.8	-4.3	35.0	-18.0	31.6

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 divided by 3.

October. The slowdown in M2 during the intermeeting period has reflected the waning effects of previous interest rate cuts and lower growth of nominal spending. M2 was supported by continued strong growth in liquid deposits that reflected some substitution out of retail money market funds and retail time deposits and a substantial boost from mortgage refinancings.

Bank credit growth decelerated in September, but to a still-brisk 10-3/4 percent rate, and appears to be slowing considerably further in October. Nonetheless, loan growth has remained robust, driven almost entirely by the continued strength of household borrowing. Residential real estate loans continue to surge, although home equity loan growth has slowed somewhat from its dramatic pace during the summer.

Earnings reports at the largest bank holding companies for the third quarter have been mixed but strong on balance. Profit gains were generally attributed to fee income from mortgage and credit card lending. However, losses on loans to energy and telecommunications firms significantly reduced profits at several holding companies, and others reportedly signaled concerns about the quality of loans to these sectors.

Commercial Bank Credit

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

Type of credit	2001	Q2 2002	Q3 2002	Aug. 2002	Sept. 2002	Oct.p 2002	Level, Oct. 2002p ($ billions)
Total							
1. Adjusted[1]	**4.1**	**5.3**	**8.7**	**15.6**	**10.6**	**3.2**	**5,554**
2. Reported	5.0	5.3	12.5	17.8	12.1	.5	5,743
Securities							
3. Adjusted[1]	8.8	14.8	10.7	22.4	1.4	-9.5	1,433
4. Reported	11.9	13.9	23.9	29.3	7.7	-17.3	1,623
5. Treasury & Agency	6.0	24.9	24.5	37.0	21.5	-13.8	955
6. Other[2]	20.8	-.4	23.1	18.8	-11.4	-22.4	668
Loans[3]							
7. Total	2.6	2.1	8.0	13.2	13.9	7.7	4,121
8. Business	-3.7	-9.0	-8.2	.4	-8.2	-5.6	974
9. Real estate	7.2	7.0	19.1	19.9	21.7	14.8	1,965
10. Home equity	19.9	40.8	39.9	29.2	17.0	9.6	202
11. Other	6.1	3.6	16.8	18.8	22.3	15.4	1,763
12. Consumer	3.8	5.4	4.7	21.6	16.8	4.1	587
13. Adjusted[4]	7.4	3.8	1.0	3.8	2.6	3.3	924
14. Other[5]	-.1	3.7	4.7	5.4	22.2	10.4	594

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.

Appendix

October 2002 Senior Loan Officer Opinion Survey

The October 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 was designed to clarify the relative effects of supply and demand forces on the observed runoff in C&I loans over the first nine months of 2002. The second set focused on the extent of cash-out refinancing during the recent boom in mortgage refinancing activity and the behavior of average home prices over the past twelve months. In light of recent declines in bank stock prices and increases in yields on outstanding subordinated debt at some large banks, the final set of special questions addressed changes in banks' cost of funds over the past six months. Responses were received from fifty-four domestic and twenty foreign banking institutions.

The results indicate some further tightening of standards and terms for commercial and industrial (C&I) loans over the past three months. A significant fraction of U.S. branches and agencies of foreign banks continued to tighten both standards and terms. Domestic and foreign institutions reported that the demand for C&I and commercial real estate loans weakened further between the August and October surveys. Domestic banks attribute much of the recent decline in C&I loans to reduced demand from creditworthy borrowers. By contrast, foreign institutions allowed that their own tighter lending standards played an important role.

On the household side, domestic banks reported largely unchanged standards on home mortgages and consumer loans over the past three months. A significant fraction of these banks reported an increase in the demand for home mortgages to purchase homes as well as continued demand for cash-out refinancing. A majority of banks surveyed expect the growth of housing prices in their market area to moderate over the next twelve months relative to the previous twelve month period. Demand for consumer loans was about unchanged.

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 19 percent from 23 percent in the August survey. By contrast, the percentage tightening standards on business loans to small firms rose from 9 percent in August to about 17 percent in the current survey, and one bank reported that it tightened standards considerably on these loans.

A similar pattern in lending policies for small and large firms is evident in the number of domestic banks that tightened the various terms listed in the survey. The percentage of banks that raised premiums charged on riskier loans to large and middle-market firms declined from about 50 percent in the August survey to 40 percent in October, while the fraction of banks that reported doing so on loans to small firms increased from one-fifth to more than one-third between the two surveys. In addition, almost 30 percent of respondents indicated that they imposed more stringent collateralization requirements on small firms over the past three months, up from 16 percent, on net, in the August survey. By contrast, the percentage of domestic banks that tightened collateralization requirements on C&I loans to large firms declined from about 30 percent in August to 23 percent in the current survey.

The fraction of U.S. branches and agencies of foreign banks that tightened standards and terms on C&I loans over the past three months retreated somewhat from the elevated range of the previous several surveys. The percentage of foreign institutions that had tightened standards for customers seeking C&I loans or credit lines declined from 60 percent in August to 50 percent in the current survey. In a similar vein, the fractions of foreign institutions that tightened the surveyed terms on business loans over the past three months generally edged down. Between the August and October surveys, the fraction of foreign institutions that raised premiums on loans to riskier customers declined from 80 percent to about 55 percent, and the percentage that reported increasing the cost of credit lines decreased from 65 percent to about 40 percent. By contrast, the fraction of foreign institutions that increased spreads of loan rates over their cost of funds remained at about 70 percent in the current survey.

More than 80 percent of the domestic and foreign banking institutions that tightened standards or terms on C&I loans over the past three months voiced concerns about the economic outlook. Domestic banks continued to cite reduced tolerance for risk and increases in corporate bond defaults as important reasons for tightening their lending policies. About 70 percent of domestic respondents indicated that reduced tolerance for risk was at least a somewhat important reason for tightening their credit standards and terms, down only slightly from the August survey, and more than one-half of respondents—about the same fraction as in the August survey—identified an increase in corporate bond defaults as a somewhat important reason.

At the same time, industry-specific concerns at domestic banks appear to have eased somewhat, as the percentage of respondents citing a worsening of industry-specific problems as a reason for changing their lending policies declined from 56 percent in August to about 39 percent in October. By contrast, 87 percent of foreign banking institutions cited a worsening of industry-specific conditions as a reason for tightening their lending policies over the past three months. This difference likely reflects foreign institutions' considerably greater concentration of C&I loans to troubled sectors such as telecommunications and high-tech, as evidenced by responses to the August 2001 survey.

On net, 53 percent of domestic banks reported weaker demand for C&I loans from large and middle-market firms in October, up slightly from about 45 percent in August. The net fraction of banks that reported weaker demand from small firms also moved up in the current survey, to about 48 percent. The net percentage of foreign branches and agencies reporting weaker demand for C&I loans over the past three months increased to 40 percent in October from 35 percent in the previous survey.

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 almost one-half 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. Of the four domestic banks that reported an increase in demand for C&I loans over the past three months, three indicated that the increase was due to a reduction in their customers' internal funds. The most frequently cited reasons for weaker demand at branches and agencies of foreign banks continued to be a decline in merger and acquisition financing and reduced customer investment in plant and equipment.

In an attempt to obtain greater insight into the reasons behind the striking decline in C&I loans during the first nine months of this year—as reported on the Federal Reserve's H.8 release, "Assets and Liabilities of Commercial Banks in the United States"—banks were asked to rank several possible demand and supply factors. According to domestic respondents, the most important reason for the runoff in C&I loans is the reduced funding needs of creditworthy borrowers; indeed, almost three-fourths of domestic banks identified this factor as being "most important." At the same time, domestic banks indicated that the deterioration in business credit quality has reduced the number of firms viewed as creditworthy, an effect compounded by the reported tightening of lending standards over the past nine months. At branches and agencies of foreign banks, by contrast, reduced demand from creditworthy borrowers was not deemed nearly as important. Almost all foreign institutions reported that the recent drop in C&I lending resulted from a reduction in the number of creditworthy borrowers, but the respondents were almost evenly split between those that attributed the reduction to a general deterioration in borrowers' credit quality and those that attributed it to the imposition of more stringent lending standards. In a follow-up question, 55 percent of domestic banks, on net, and 65 percent of foreign institutions indicated that the rejection rate on C&I loan applications was higher over the first nine months of 2002 than over the corresponding period in 2001.

Commercial real estate lending. The fractions of domestic and foreign banking institutions that reported tighter standards on commercial real estate loans over the past three months stayed at about 25 percent and 30 percent, respectively, in the October survey. Demand for commercial real estate loans continued to weaken on net. The net fraction of domestic banks reporting weaker demand for commercial real estate loans was about unchanged between August and October at about one-third. At foreign institutions, the net fraction of respondents experiencing weaker demand for commercial real estate loans over the past three months rose from 18 percent in August to 36 percent in the current survey.

Lending to Households

Ten percent of domestic banks reported that they had tightened lending standards on residential mortgage loans over the past three months, the highest share in the past decade. On net, more than 40 percent of respondents reported increased demand for residential mortgages, up from 27 percent in the previous survey, a result consistent with the elevated level of new home sales between the two surveys.

A set of supplementary questions addressed changes in home appraisal policies, the extent of cash-out mortgage refinancing, and trends in home prices. Almost all domestic banks indicated that their policies concerning the appraisal of home values for mortgage loans—for loans they intend to hold on their books—have remained essentially unchanged over the past six months; four of the five remaining respondents indicated that they had become somewhat more conservative when appraising home values.

This year has seen record levels of home mortgage refinancing. Reportedly, many households also increased their loan balances at the time of refinancing, an arrangement sometimes referred to as cash-out refinancing. Almost half of domestic respondents in the October survey indicated that between 20 percent and 40 percent of the customers that refinanced their mortgages over the last six months took advantage of cash-out refinancing; about one-fifth of banks reported that more than 40 percent of these customers engaged in cash-out refinancing. These percentages are appreciably higher than those reported in the January 2002 survey, which contained a similar question.

For customers who increased the outstanding balance of their mortgage when refinancing, about 70 percent of banks reported that the typical increase was between 5 percent and 15 percent of the original outstanding balance. More than 25 percent indicated that the typical increase, again as a percentage of the original outstanding balance, was greater than 15 percent. These numbers suggest some increase in the amount of cash-out refinancing when compared with the January 2002 survey, in which only 20 percent of banks indicated that the typical increase in the outstanding balance was greater than 15 percent. In the current survey, domestic banks also reported that their customers' most common use of funds from cash-out refinancing was to repay other debt and to pay for home improvements, essentially the same as in the January 2002 survey.

Domestic banks were also queried about the behavior of average home prices in their markets over the past twelve months. About 75 percent of these institutions reported that the average home price in their market has increased over the past twelve months; in fact, about 15 percent of respondents indicated that the increase was substantial. However, many banks expect these increases to moderate or partially reverse over the next twelve months. About 20 percent of banks anticipate a decrease in average home prices in their respective markets, while only 33 percent forecast a further increase, and no bank expects that increase to be substantial.

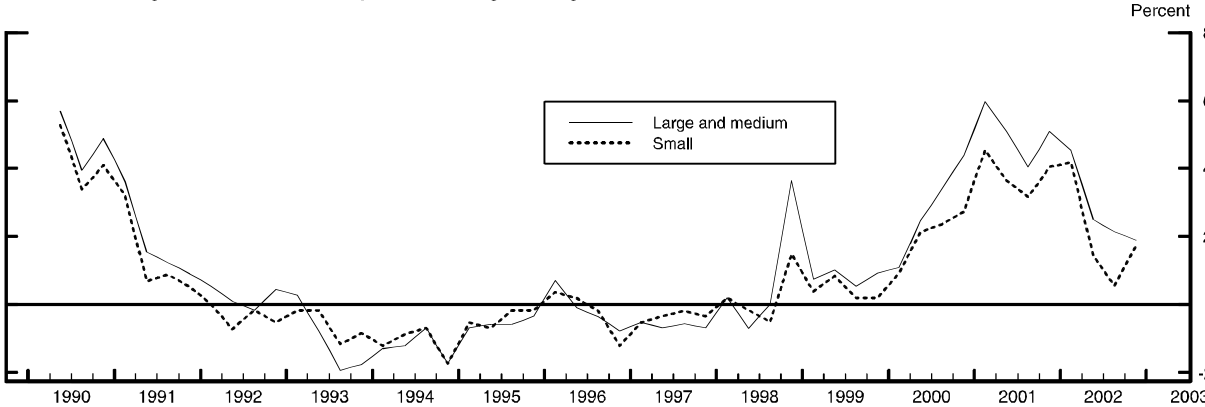
In the October survey, about 15 percent of domestic banks indicated that they had tightened standards on credit card loans and other consumer loans over the past three months, about the same as in the previous survey. Over the same period, almost one-quarter of respondents reported reducing the number of exceptions granted to customers not meeting credit-scoring thresholds on all consumer loans. For the second consecutive survey, a small net fraction of domestic banks reported that demand for consumer loans was somewhat weaker over the past three months.

Changes in Cost of Funds

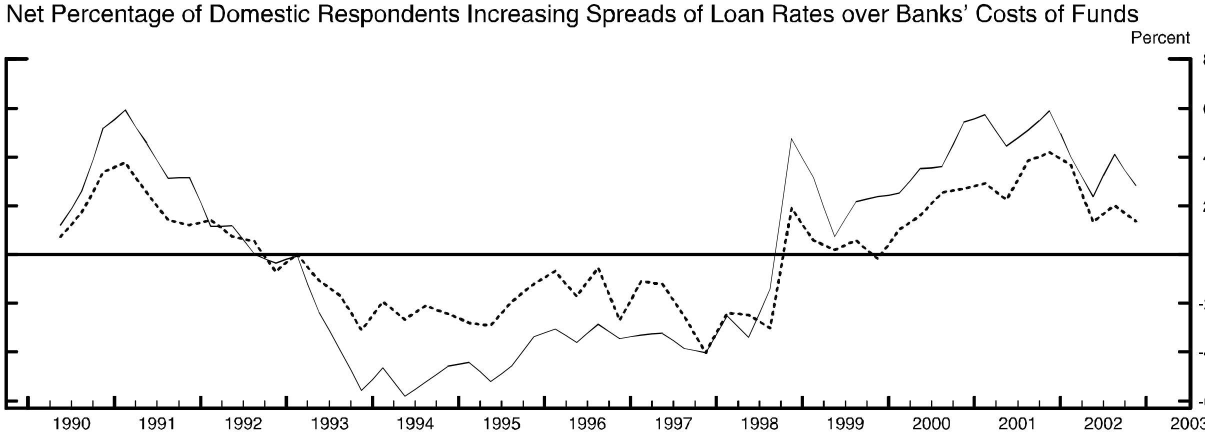
In light of recent declines in bank stock prices and increases in yields on subordinated debt at some banks, the last set of special questions focused on changes in banks' cost of funds over the past six months. About 30 percent of domestic banks reported that their weighted-average marginal cost of funds—relative to the marginal return on their assets—decreased slightly over the past six months, while 12 percent of respondents acknowledged a slight increase in their marginal cost of funds. Only two banks reported that their marginal cost of funds has increased significantly over the past six months. Domestic institutions that experienced an increase in their marginal cost of funds reported that, in response, they raised their loan pricing terms such as fees and spreads. Domestic institutions that reported a decrease in their marginal cost of funds, by contrast, were able to reduce fees and spreads.

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

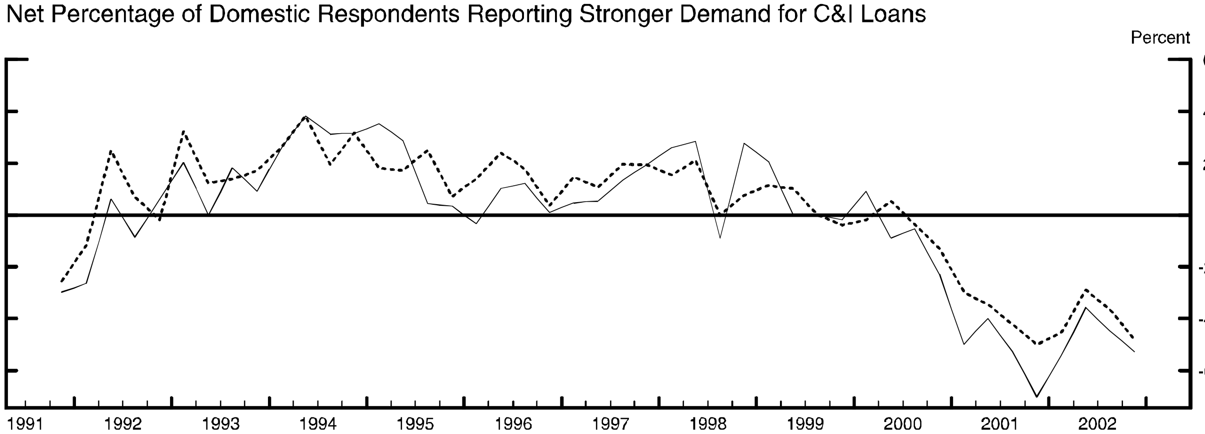
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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

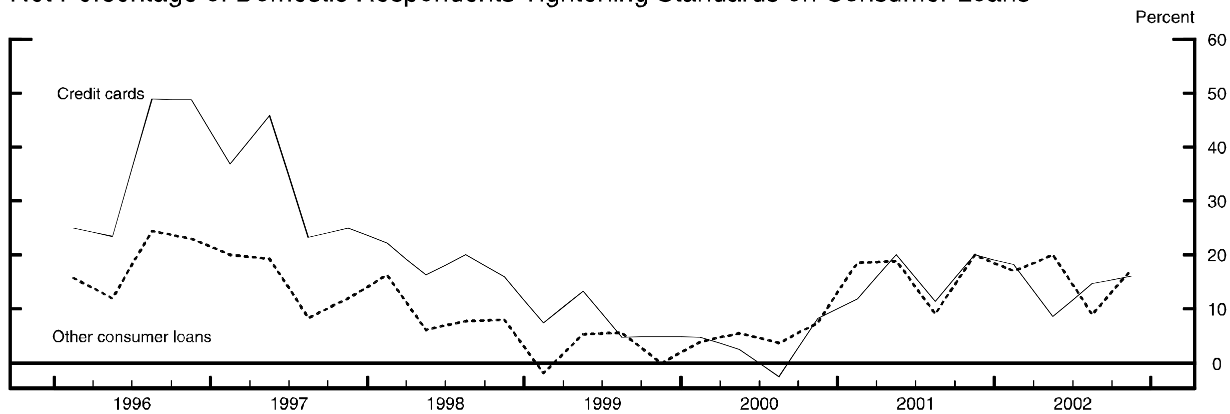


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

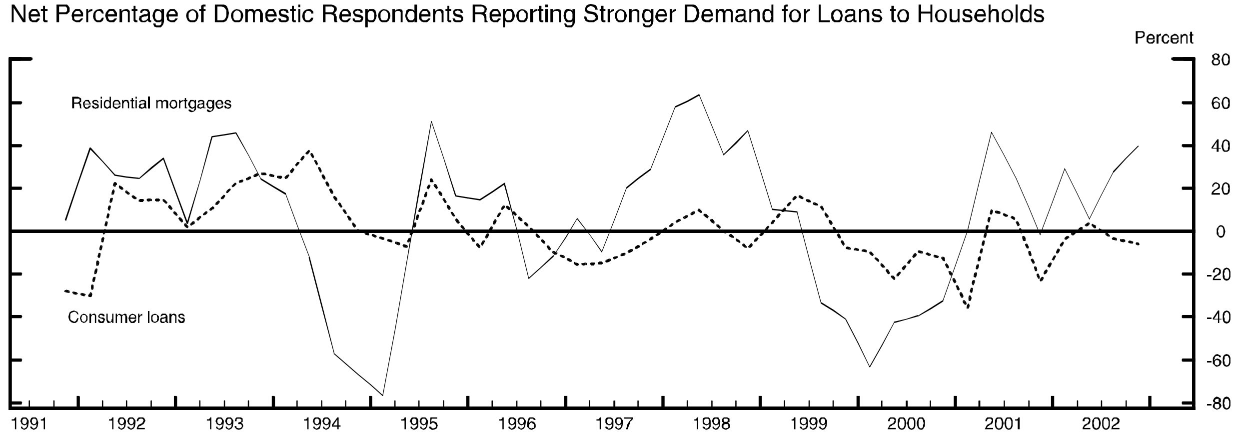


Measures of Supply and Demand for Loans to Households

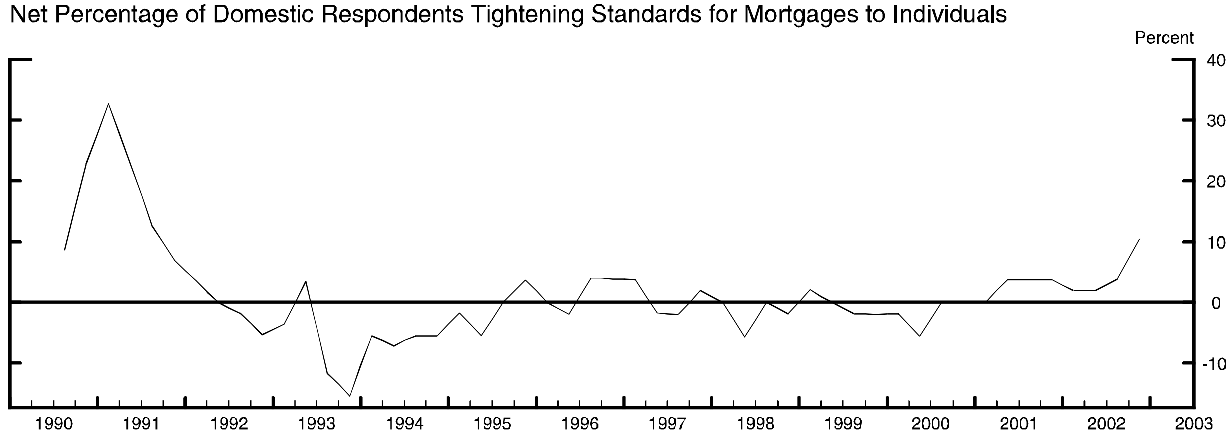
Net Percentage of Domestic Respondents Tightening Standards on Consumer Loans



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 $38.5 billion in August, $3.4 billion larger than in July (revised). For July and August on average the deficit was $441 billion at an annual rate, virtually unchanged from the second quarter.

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

	2001	Annual rate 2002			Monthly rate 2002		
		Q1	Q2	Q3[e]	June	July	Aug.
Real NIPA[1]							
Net exports of G&S	-415.9	-446.6	-487.4	n.a.	...	...	...
Nominal BOP							
Net exports of G&S	-358.3	-382.0	-441.8	-441.2	-36.8	-35.1	-38.5
Goods, net	-427.2	-425.7	-489.9	-487.9	-40.6	-39.0	-42.3
Services, net	68.9	43.7	48.1	46.7	3.9	4.0	3.8

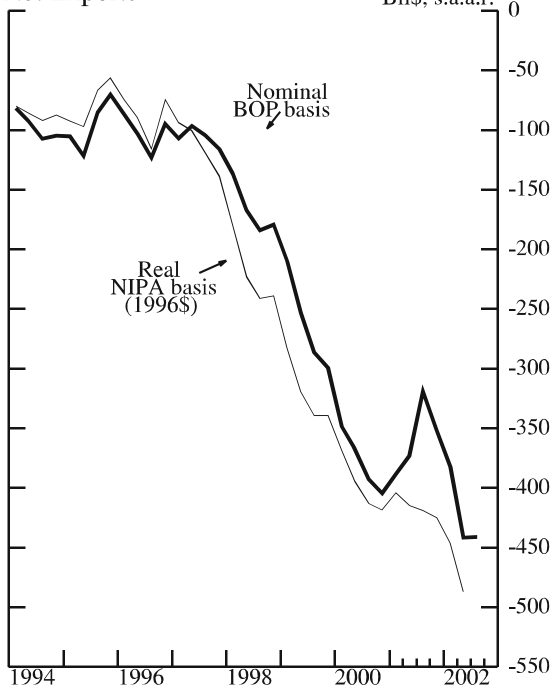
1. Billions of chained (1996) dollars.
e. BOP data are for two months at an annual rate.
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.
n.a. Not available. ... Not applicable.

Exports of goods and services reversed their July increase by falling $12.6 billion in August, a 1.3 percent decline. Exports of services edged up in August, but goods exports fell 1.9 percent, with declines spread across major categories. Despite the August decline, the level of goods exports in July and August on average rose about 7½ percent at an annual rate from the second-quarter level. By region, the increase in goods exports so far in the third quarter has been primarily to Western Europe and Japan. Exports to Canada continued at about the same strong level as in the second quarter. Exports to Latin America and developing Asia were down in July and August relative to the second quarter.

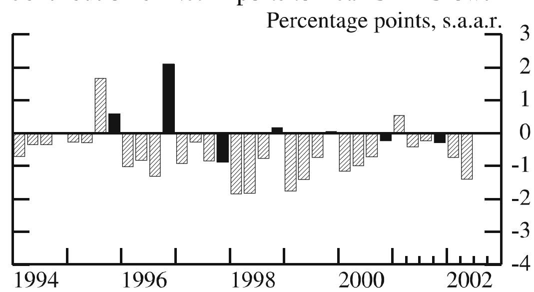
Imports of goods and services reversed their July decrease by jumping $28.1 billion in August, a 2.0 percent increase. Services imports rose 1.1 percent and goods imports were up 2.2 percent. The increase in goods imports was concentrated in industrial supplies and consumer goods, and may reflect an acceleration of shipments through West Coast ports in anticipation of a work stoppage that began to appear more likely in August. The level of goods imports in July and August on average was about 3¾ percent at an annual rate above the elevated second-quarter level. By region, the increase in July-August relative to the second quarter was shared across Europe, South America, and Asia, with little change in imports from Canada and Mexico.

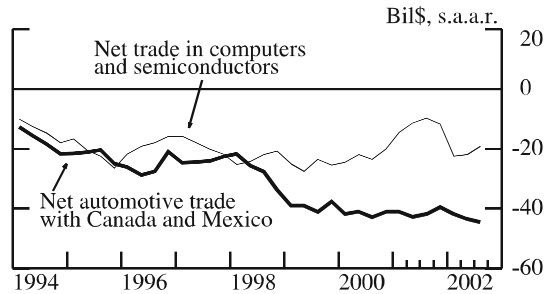
U.S. International Trade in Goods and Services

Net Exports

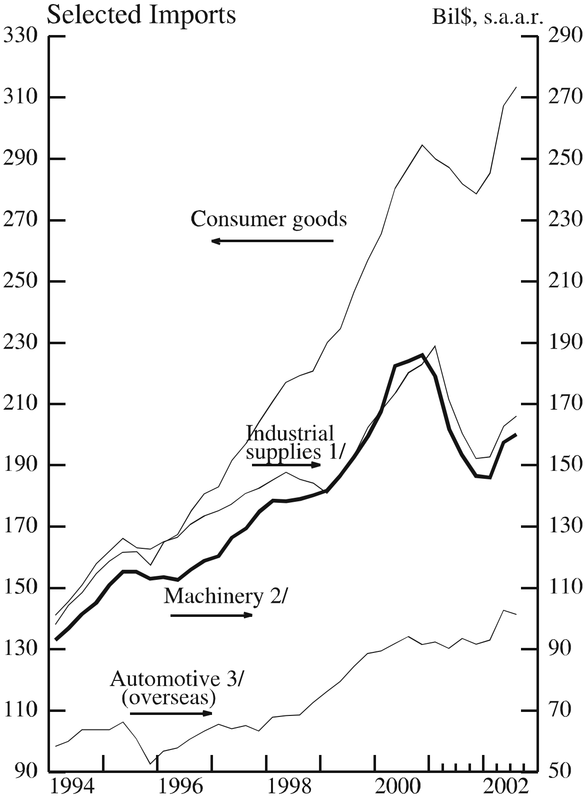


Contribution of Net Exports to Real GDP Growth



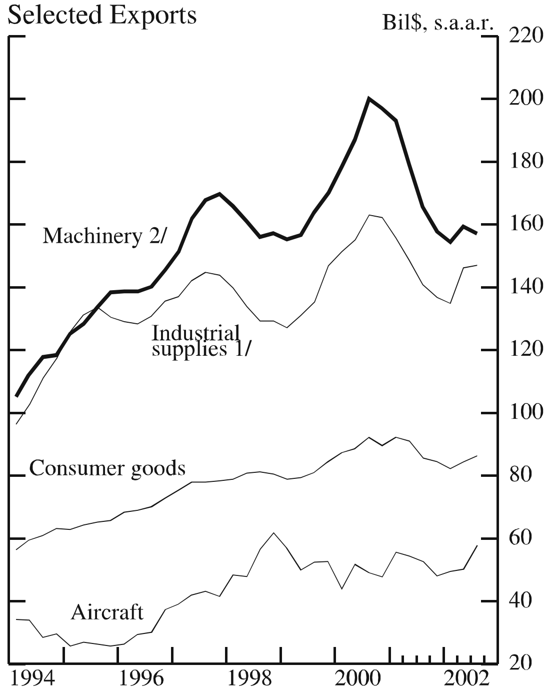


Selected Imports



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

Selected Exports



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

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	
	Q2	Q3[e]	July	Aug.	Q2	Q3[e]	July	Aug.
Exports of G&S	**974.0**	**988.6**	**994.9**	**982.3**	**41.0**	**14.6**	**8.9**	**-12.6**
Goods exports	689.7	702.5	709.3	695.8	31.1	12.8	10.3	-13.5
Gold	3.5	3.7	3.9	3.4	0.9	0.2	1.0	-0.6
Other goods	686.2	698.9	705.3	692.4	30.2	66.7	9.3	-12.9
Aircraft & parts	50.2	57.7	61.1	54.2	0.8	7.5	7.8	-7.0
Computers	38.6	37.4	37.0	37.8	-0.4	-1.2	-2.6	0.8
Semiconductors	43.9	46.4	46.2	46.6	4.4	2.5	0.3	0.4
Other capital goods	161.5	159.4	158.8	160.1	5.0	-2.1	-4.0	1.2
Automotive	80.4	83.4	85.1	81.7	6.6	3.0	5.2	-3.4
to Canada	44.1	47.7	48.1	47.3	2.7	3.6	3.6	-0.8
to Mexico	17.1	14.4	13.1	15.7	2.7	-2.8	-3.5	2.6
to ROW	19.2	21.4	24.0	18.7	1.2	2.2	5.0	-5.2
Agricultural	54.1	53.7	55.9	51.5	-1.0	-0.4	-1.3	-4.5
Ind supplies (ex. ag)	146.1	146.9	145.9	147.9	11.2	0.8	-1.1	2.0
Consumer goods	84.2	86.2	87.0	85.4	2.0	2.0	1.8	-1.7
All other goods	27.2	27.7	28.1	27.3	1.7	0.5	1.2	-0.7
Services exports	284.3	286.1	285.6	286.5	9.9	1.8	-1.3	0.8
Imports of G&S	**1415.8**	**1429.8**	**1415.7**	**1443.8**	**100.8**	**14.0**	**-11.2**	**28.1**
Goods imports	1179.6	1190.4	1177.7	1203.1	95.3	10.8	-8.7	25.4
Petroleum	108.1	111.6	108.1	115.1	31.5	3.5	4.4	7.0
Gold	3.5	3.1	3.1	3.1	1.4	-0.4	-0.4	0.1
Other goods	1068.0	1075.7	1066.5	1084.8	62.4	7.7	-12.7	18.3
Aircraft & parts	24.9	21.3	23.4	19.1	-4.1	-3.6	-1.5	-4.3
Computers	76.6	75.5	76.8	74.2	1.0	-1.1	0.7	-2.6
Semiconductors	27.7	27.4	27.1	27.7	2.4	-0.3	-1.5	0.7
Other capital goods	159.3	161.9	160.4	163.4	11.8	2.7	-0.1	3.0
Automotive	207.5	208.0	206.8	209.1	17.1	0.4	0.1	2.3
from Canada	61.2	64.9	64.4	65.4	3.0	3.7	4.2	1.0
from Mexico	43.6	41.7	38.5	44.9	4.2	-1.9	-4.3	6.4
from ROW	102.7	101.3	103.9	98.8	9.9	-1.4	0.2	-5.1
Ind supplies	162.5	166.0	163.0	168.9	9.8	3.4	-0.8	5.9
Consumer goods	307.1	313.4	306.8	319.9	21.8	6.3	-6.9	13.0
Foods, feeds, bev.	49.4	50.8	50.9	50.6	1.9	1.4	1.3	-0.3
All other goods	53.0	51.5	51.2	51.8	0.8	-1.5	-4.1	0.7
Services imports	236.2	239.4	238.0	240.7	5.5	3.2	-2.5	2.7
Memo:								
Oil quantity (mb/d)	12.32	12.17	12.00	12.35	0.87	-0.14	0.26	0.36
Oil import price ($/bbl)	24.05	25.10	24.68	25.52	5.62	1.06	0.48	0.84

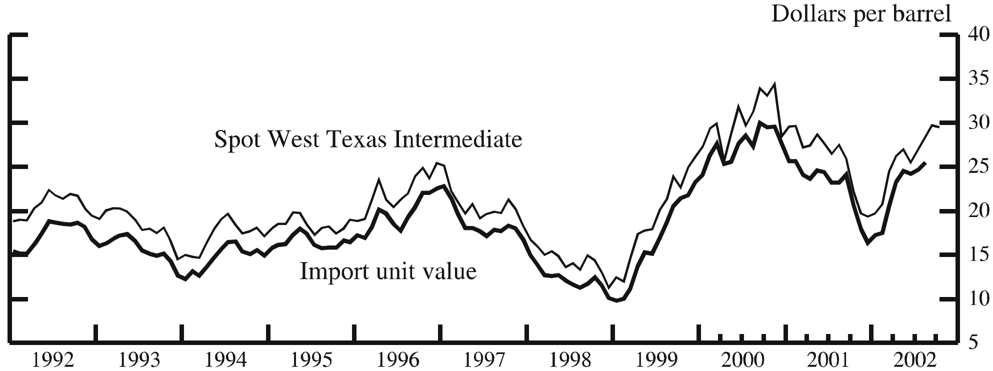
1. Change from previous quarter or month. e. Average of two months.
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

	Annual rates 2002 Q1	Annual rates 2002 Q2	Annual rates 2002 Q3	Monthly rates 2002 July	Monthly rates 2002 Aug.	Monthly rates 2002 Sept.
	------------- BLS prices (2000 weights)-------------					
Merchandise imports	-2.0	10.2	2.9	0.4	0.3	0.7
Oil	18.4	157.3	26.2	3.8	2.8	6.0
Non-oil	-2.7	1.5	0.6	0.1	0.0	0.2
Core goods*	-2.4	1.7	1.7	0.3	0.0	0.2
Cap. goods ex comp & semi	-5.3	-1.9	1.9	0.1	0.4	-0.1
Automotive products	-0.4	0.4	0.5	0.0	0.1	0.0
Consumer goods	-1.5	-1.2	0.1	0.1	0.0	-0.1
Foods, feeds, beverages	0.3	7.1	6.5	0.8	0.2	2.7
Industrial supplies ex oil	-4.7	13.0	2.6	0.3	0.0	0.5
Computers	-2.7	-1.5	-5.6	-0.7	-0.5	-0.1
Semiconductors	-2.7	1.8	-6.5	-1.5	0.0	0.0
Merchandise exports	-1.8	2.2	2.1	0.3	0.2	0.2
Core goods*	-1.3	3.4	3.9	0.4	0.3	0.3
Cap. goods ex comp & semi	0.9	0.7	0.1	0.0	0.1	0.0
Automotive products	1.3	0.1	0.9	0.0	0.2	0.1
Consumer goods	-2.3	-0.9	0.8	0.0	0.2	-0.1
Agricultural products	-2.6	2.3	25.8	2.6	1.8	3.6
Industrial supples ex ag	-3.6	10.8	6.7	1.1	-0.2	0.2
Computers	-4.5	-5.9	-9.4	0.0	-0.2	-1.6
Semiconductors	-8.1	-1.3	-9.0	-1.3	0.0	0.1
Chain price index	---Prices in the NIPA accounts (1996 weights)---					
Imports of goods & services	-1.6	11.1	n.a.	...	...	...
Non-oil merchandise	-2.2	2.0	n.a.	...	...	...
Core goods*	-2.2	2.2	n.a.	...	...	...
Exports of goods & services	-0.8	3.0	n.a.	...	...	...
Total merchandise	-1.1	2.3	n.a.	...	...	...
Core goods*	-1.0	3.4	n.a.	...	...	...

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

Oil Prices



Prices of Internationally Traded Goods

Oil. The BLS price of imported oil rose 6.0 percent in September after climbing 2.8 percent in August (revised). The price of imported oil has risen every month this year except June. The spot price of West Texas intermediate (WTI) crude oil has also risen on average since the beginning of the year and is currently around $27 per barrel, up from its average value near $19 per barrel last December. In October, the spot price fell from above $29 per barrel to its current level, reflecting higher production from OPEC and the market's reaction to reports that the Bush administration may be willing to accept a diplomatic solution in Iraq. However, low crude oil inventories in the United States and remaining uncertainty with regard to Iraq continue to keep upward pressure on oil prices.

Non-oil imports. The price of both imported non-oil goods and core goods rose 0.2 percent in September following no change in August. For core goods, the largest increase in September was in the price index for foods, which rose 2.7 percent following small increases in July and August. Prices in other major categories were little changed. For the third quarter on average, core import prices were up 1.7 percent at an annual rate, the same as in the second quarter.

Exports. The price of total U.S. goods exports rose 0.2 percent in September, and the price of core goods exports rose 0.3 percent. For core goods, the largest price movement in September was a 3.6 percent increase in the price of agricultural products, largely attributable to increases in the prices of corn and wheat. Prices in other major categories were generally little changed. For the third quarter on average, core export prices were up about 4 percent at an annual rate, slightly higher than the second quarter rate.

U.S. International Financial Transactions

Foreign official assets held in the United States were essentially unchanged in August (line 1 of the Summary of U.S. International Transactions table) as increases in holdings of agency bonds and, to a lesser extent, Treasury issues, were offset by declines in repo positions. Increases in official reserves for the month were largest for China ($3.8 billion) and Russia ($2.7 billion). The most significant declines were for France ($3.8 billion) and Germany ($3.1 billion). Partial data from the Federal Reserve Bank of New York indicate that foreign official reserves in custody there increased by $8 billion in September.

Net private foreign purchases of U.S. securities (line 4) slowed in August to $26 billion; however, the pace is roughly equivalent to the monthly average of $30 billion recorded since July of last year. The decline in August is due to the sharp drop in foreign net purchases of Treasuries, from July's $26 billion to less than $1 billion in August as Treasury yields reached new lows. Private purchases of both agency (line 4b) and corporate debt issues (line 4c) rebounded somewhat in August to $8 billion and $13 billion, respectively, and were concentrated in the European and Caribbean markets. The rise in foreign purchases of U.S. corporate debt in August may be attributed in part to a substantial increase in new bond issues by U.S. corporations in the month after an unusually low level of corporate issues in July. Net foreign acquisitions of U.S. equities (line 4d) fell by one-half in August to $5 billion.

U.S. residents were modest net purchasers of foreign securities (line 5) in August as small net purchases of foreign bonds (line 5a) were nearly offset by U.S. net sales of foreign equities (line 5b). Again in August, no acquisitions of foreign stock through stock swaps (line 5c) were recorded as merger activity continued to slow. While there are no new data on direct investment flows, the decline in mergers and acquisitions in recent months indicates that inflows were likely low again in the third quarter.

Net banking inflows of $21 billion (line 3) were recorded for August, down from $32 billion as revised for July. The net inflows primarily reflected inter-office funding activity with Caribbean branches and repo transactions with non-banking entities located in the Caribbean.

Summary of U.S. International Transactions

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

	2000	2001	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 July	2002 Aug
Official financial flows	**39.3**	**2.0**	**13.2**	**5.3**	**8.8**	**45.5**	**4.4**	**.1**
1. Change in foreign official assets in the U.S. (increase, +)	39.6	6.9	16.8	5.5	8.4	47.4	4.6	.3
a. G-10 countries	12.3	-7.9	-5.6	9.1	5.0	17.6	6.1	-8.5
b. OPEC countries	10.7	-1.9	-4.8	4.2	-6.5	1.1	-0.1	.6
c. All other countries	16.6	16.8	27.2	-7.8	9.9	28.6	-1.4	8.2
2. Change in U.S. official reserve assets (decrease, +)	-.3	-4.9	-3.6	-.2	.4	-1.8	-.2	-.3
Private financial flows	**370.3**	**379.8**	**29.6**	**145.4**	**78.8**	**34.9**	**...**	**...**
Banks								
3. Change in net foreign positions of banking offices in the U.S.[1]	-6.7	7.3	-1.7	38.7	-3.9	-21.4	31.8	20.8
Securities[2]								
4. Foreign net purchases of U.S. securities (+)	381.0	404.4	51.2	128.2	67.6	99.9	41.5	26.3
a. Treasury securities	-76.4	5.6	-14.5	28.3	-1.6	-5.0	26.1	.9
b. Agency bonds	96.5	86.4	19.4	28.1	2.4	32.4	3.4	8.2
c. Corporate and municipal bonds	165.7	201.7	33.1	38.3	43.3	60.6	2.4	12.5
d. Corporate stocks[3]	195.1	121.9	12.9	33.5	23.4	12.0	9.6	4.7
5. U.S. net acquisitions (-) of foreign securities	-126.6	-95.1	10.0	-26.2	1.9	-10.8	18.6	-.9
a. Bonds	-23.3	12.3	21.0	-7.4	.6	9.5	6.5	-2.8
b. Stock purchases	-22.9	-62.7	-9.3	-12.4	3.1	-20.3	12.1	1.9
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	-29.3	-29.4	...	...
7. Foreign direct investment in U.S.	307.7	130.8	14.2	21.9	16.2	1.0	...	...
8. Foreign holdings of U.S. currency	1.1	23.8	8.2	10.5	4.5	7.2	...	...
9. Other (inflow, +)[4]	-7.9	36.4	- 10.5	-.1	21.7	-11.6	...	...
U.S. current account (s.a.)	**-410.3**	**-393.4**	**-91.3**	**-95.1**	**-112.5**	**-130.0**	**...**	**...**
Capital account balance (s.a.)[5]	**.8**	**.8**	**.2**	**.2**	**.2**	**.2**	**...**	**...**
Statistical discrepancy (s.a.)	**.0**	**10.7**	**48.3**	**-55.8**	**24.7**	**49.4**	**...**	**...**

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.

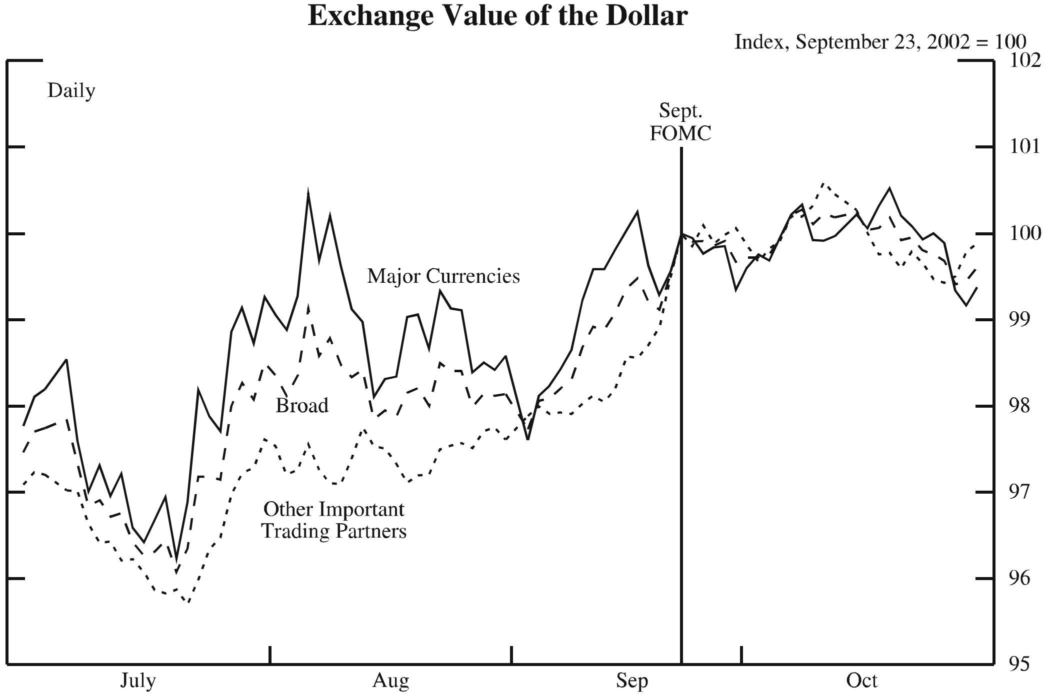
5. Consists of transactions in nonproduced nonfinancial assets and capital transfers.

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

Foreign Exchange Markets

The trade-weighted value of the dollar has weakened ½ percent, on balance, vis-à-vis the major foreign currencies since the September FOMC meeting. The dollar slipped 1¼ percent against the Canadian dollar, as forecasts project that the rate of growth of the Canadian economy will likely surpass that of the U.S. economy over the second half of this year. The dollar depreciated 3/4 percent against the yen, partially in response to a much weaker-than-expected U.S. consumer confidence data release on October 29. On the whole, the dollar stayed within a narrow range against the euro and yen over the intermeeting period. Amidst this relative tranquility, implied volatilities derived from options on the exchange rate of the dollar versus the euro and yen declined 20 percent over the period. This decline suggests that market participants expect the dollar to continue trading within a narrower-than-usual range.

Exchange Value of the Dollar



European stock indexes plunged to new multi-year lows early in the intermeeting period, but in mid-October they staged a sharp recovery along with share prices in the United States. The sectors that had been hardest hit this year – technology, insurance and telecommunications – led the rally, with the technology sector surging more than 30 percent over the period. In contrast, share prices in Japan plumbed new 19-year lows, with banking shares down more than 10 percent. Market participants seemed to be uneasy about measures for cleaning up the banking system that the Financial Services Agency might announce. A contentious debate among Japanese government officials about these measures, well in advance of the announcement, reportedly exacerbated the negative sentiment in the market. Market participants deemed the FSA's announcement of the plan on October 30 to be vague, with the outlined reforms relatively mild. The FSA stated that more details on the plan would be provided sometime in November.

In conjunction with the rally in the equity market, euro-area ten-year benchmark bond yields rose 22 basis points over the intermeeting period, reversing most of the decline during the previous period and suggesting an increase in risk appetite. Yields on two-year European government bonds were little changed, as economic data were mixed and pointed to further lackluster growth, particularly in Germany. Despite concerns that the EU has been lax in enforcing deficit limits spelled out in the Stability and Growth Pact, credit default spreads for the countries with the largest fiscal deficits widened only 2 to 5 basis points over the period. As was the case with equities, Japanese sovereign bond yields also went in the opposite direction to those in other major industrial countries, with the yield on the benchmark ten-year instrument falling 24 basis points. Japanese bond yields retraced an upward spike at the end of the previous period after the Bank of Japan announced it would begin purchasing corporate shares. Soon after that announcement, the monthly auction of ten-year Japanese government bonds was undersubscribed for the first time ever, exacerbating the upward pressure on yields.

Financial Indicators in Major Industrial Countries

	Three-month rate		Ten-year yield		Equities
Country	Oct. 30 (Percent)	Percentage Point Change	Oct. 30 (Percent)	Percentage Point Change	Percent Change
Canada	2.88	-.04	5.21	.42	4.02
Japan	.05	.01	1.03	-.24	-6.10
Euro area	3.25	-.05	4.54	.22	7.09
United Kingdom	3.88	-.01	4.61	.21	5.32
Switzerland	.67	.04	2.84	.05	4.73
Australia	4.89	-.17	5.65	.31	-1.37
United States	1.62	-.14	3.98	.28	5.96
Memo: Weighted-average foreign	2.25	-.03	4.24	.17	n.a.

NOTE. Change is from September 23 to October 30 (10 a.m. EDT).
n.a. Not available.

The European Central Bank and the Bank of England did not adjust their monetary policy stances during the period, and three-month interest rates were little changed. The Bank of Japan announced that it would boost its target range for balances of banking deposits held at the central bank by ¥5 trillion to ¥15-20 trillion. The Bank also announced it would step up purchases of Japanese government bonds to ¥1.2 trillion per month, a 20 percent increase from the current level.

In Latin America, the focus continued to be on Brazil and on the impact of the victory for the Worker's Party candidate, Lula, in the presidential election. Financial market pressures eased somewhat ahead of the second round of balloting after Lula's economic advisors announced that the government will make fiscal and monetary reforms a high priority. After Lula's victory, some of the financial gains ahead of the runoff election were reversed. Despite this setback, Brazil's EMBI+ spread over Treasuries narrowed 400 basis points over the intermeeting period and the Bovespa gained 6 percent. The *real* remained under pressure over the period, slipping 5 percent, which prompted the central

Financial Indicators in Latin America, Asia, and Russia

	Currency/ US dollar		Short-term Interest rates[1]		Dollar-denominated bond spread[2]		Equity prices
Economy	Oct. 30	Percent Change	Oct.29/30 (Percent)	Percentage Point Change	Oct.29/30 (Percent)	Percentage Point Change	Percent Change
Mexico	10.24	-1.06	7.51	-1.52	3.69	-.70	2.89
Brazil	3.75	5.07	22.00	3.15	18.09	-4.00	6.36
Argentina	3.55	-2.47	70.00	.00	61.86	-6.26	13.14
Chile	733.60	-2.15	2.92	-.12	2.22	-.09	-1.04
China	8.28	.00	n.a.	n.a.	.66	-.17	-5.80
Korea	34.71	-.20	2.20	.00	...	...	3.94
Taiwan	34.71	-.20	2.20	.00	...	...	3.94
Singapore	1.77	-.68	1.13	-.19	...	...	2.86
Hong Kong	7.80	-.01	1.95	.00	...	...	2.64
Malaysia	3.80	-.01	2.89	.02	1.38	.16	-.72
Thailand	43.38	-.14	2.00	-.06	1.15	.06	2.02
Indonesia	9222.00	1.68	13.61	-.42	3.33	-.17	-12.09
Philippines	53.05	1.53	5.75	.31	5.15	-.09	-7.91
Russia	31.75	.34	n.a.	n.a.	5.24	-.91	6.34

NOTE. Change is from September 23 to October 29/30.

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.

bank of Brazil to raise its key interest rate 300 basis points to 21 percent. The Mexican peso appreciated one percent against the dollar, while Mexico's EMBI+ spread narrowed 70 basis points. Share prices in Argentina gained 13 percent and Argentina's yield spread narrowed 625 basis points.

In emerging Asia, equity prices in the Philippines and Indonesia declined 8 and 12 percent, respectively, over the period, amid terrorist incidents in both nations. The dollar appreciated more than 1½ percent against the Philippine peso and the Indonesian rupiah. The rebound in technology share prices helped Taiwan's stock market gain four percent. Korean share prices also participated in the mid-October technology-driven recovery but slipped three percent for the period as a whole.

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

Developments in Foreign Industrial Countries

In the euro area and Japan, recent data have suggested that growth may be slipping, with industrial production slowing and surveys of business sentiment showing few signs of optimism. In contrast, Canada has shown signs of robust growth, with gains in manufacturing and the housing sector, while the United Kingdom has continued to grow at a moderate pace with support coming from services.

Twelve-month consumer-price inflation rates generally changed only slightly. In the euro area and the United Kingdom, they remained at around 2 percent. Japanese prices continued to fall at nearly a 1 percent pace. In Canada, the headline rate fell slightly to 2.3 percent.

In **Japan**, recent indicators are generally consistent with a slowing in the pace of growth. Industrial production fell 0.3 percent in September, putting the third-quarter average about two percent above the second-quarter average; this quarterly increase, while still robust, is a slowdown from the pace of expansion in the second quarter. The broader all-industries index edged up 0.5 percent in August; for July and August on average, the index was 0.7 percent above the second-quarter average. Real exports fell in the third quarter compared with the second quarter, while imports jumped, implying a negative contribution of net exports to GDP growth. Machinery orders fell sharply in August, although the series is very volatile, and the drop followed several monthly increases. In addition, non-residential building starts were weak in July and August. Residential building starts continued to fall, dropping about 3½ percent in July and August on average from their second-quarter average. On the other hand, third-quarter workers' household expenditures were about one percent above the second-quarter average.

Labor market conditions remain unfavorable; employment fell 0.7 percent in September from year-earlier levels. The unemployment rate was stuck at 5.4 percent in September, only a touch below the record-high rate registered last December. The job-offers-to-applicants ratio, a key leading indicator of employment conditions, was up slightly to 0.55 in September from the previous month. In the Tokyo area, core consumer goods prices (which exclude fresh food but include energy) were unchanged in October from the previous month, and were down 0.8 percent from a year earlier. Wholesale prices for domestic goods were roughly flat between February and September, but remained below year-earlier levels.

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

Indicator	2002						
	Q1	Q2	Q3	Jul.	Aug.	Sept.	Oct.
Industrial production[1]	.6	3.8	2.2	.1	1.4	-.3	n.a.
All-industries index	.6	.3	n.a.	.2	.5	n.a.	n.a.
Housing starts	.8	-.8	n.a.	3.1	-1.0	n.a.	n.a.
Machinery orders[2]	-7.4	7.1	n.a.	1.9	-13.6	n.a.	n.a.
Machinery shipments	3.6	6.6	1.6	-1.5	5.7	-3.9	n.a.
New car registrations	1.9	5.3	3.1	1.2	18.2	-8.6	n.a.
Unemployment rate[3]	5.3	5.3	5.4	5.4	5.4	5.4	n.a.
Job offers ratio[4]	.51	.53	.54	.54	.54	.55	n.a.
Business sentiment[5]	-41	-32	-30	...	...	...	...
CPI (Core, Tokyo area)[6]	-.9	-1.1	-.9	-1.0	-.9	-.9	-.8
Wholesale prices[6]	-1.4	-1.1	-1.0	-1.2	-1.0	-.9	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 slightly in September, with the level of the aggregate diffusion index for business sentiment among firms of all sizes and across all industries edging up to -30 from -32 in June. Employers’ perceptions indicate that employment at their firms remains excessive. Forecasts for profits and sales were generally revised down, and the outlook for investment spending remains weak.

On September 30, as part of a cabinet reshuffle, Prime Minister Koizumi replaced Hakuo Yanagisawa with Heizo Takenaka as head of the Financial Services Agency. Takenaka also retains his position as Minister of Economic and Fiscal Policy. On October 30, the government announced a policy package containing a plan to resolve problems in the Japanese banking sector and accompanying measures to cushion the impact of banking reform on economic activity. The announcement was vague on details, but the banking reform plan appears to be relatively weak. The plan calls on major banks to halve bad loans within 2½ years, without defining "bad loans" and without specifying how the loans would be disposed of. Anti-deflation measures included tax cuts of around 1 trillion yen (0.2 percent of GDP), measures to enhance job security, additional support for small and medium-sized companies, and the creation of an organization that will assist in rehabilitating viable firms.

Also on October 30, the Bank of Japan (BOJ) voted to ease monetary policy, raising its target range for the outstanding balance of bank accounts held at the BOJ to ¥15 trillion to ¥20 trillion from ¥10 trillion to ¥15 trillion. As part of the effort to ease policy, the BOJ will increase the monthly amount of outright purchases of long-term JGBs from the current ¥1 trillion to ¥1.2 trillion. The BOJ cited uncertainties stemming from "global economic developments" and the "likely acceleration in the pace of dealing with the non-performing loan problem," as well as volatility in stock prices, in explaining its decision.

Recent data suggest that growth in the **euro** area remained sluggish in the third quarter, raising concerns that growth may be slipping rather than picking up. For July and August on average, industrial production was only 0.1 percent above the second-quarter average. Most measures of euro-area business sentiment have declined since May. Purchasing managers' indexes for both manufacturing and services have declined in each of the past three months, with a particularly sharp decline in September that took both measures to about 49, just below the level of 50 that is the threshold for indicating positive growth.

The twelve-month rate of euro-area consumer price inflation remained just above the ECB's target ceiling of two percent in September. Excluding food, energy, and alcohol and tobacco, the twelve-month inflation rate remained at 2.4 percent in September, just below the six-year peak of 2.5 percent reached in May. In contrast, producer prices have remained below year-earlier levels.

Slow economic growth has put pressure on euro-area fiscal balances. As a result, the European Commission postponed the date for achieving balanced budgets to 2006 from 2004. However, the Commission maintains its position that governments should achieve improvements in their structural (i.e. full employment) budget positions in 2003. Nevertheless, Francis Mer, the French minister of Finance, has indicated that France will not eliminate its budget deficit until 2007 and will not cut its structural deficit in 2003.

On October 16, Hans Eichel, the German finance minister, announced that the German budget deficit this year will exceed the 3 percent of GDP limit required by the Stability and Growth Pact. The "excessive" budget deficit could trigger a fine of up to 0.5 percent of GDP, but the European Commission is unlikely to

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

Indicator	2002						
	Q1	Q2	Q3	Jun.	Jul.	Aug.	Sept.
Industrial production[1]	.8	.3	n.a.	.9	-.8	.6	n.a.
Retail sales volume	.2	-.3	n.a.	-.3	.6	n.a.	n.a.
Unemployment rate[2]	8.1	8.2	n.a.	8.3	8.3	8.3	n.a.
Consumer confidence[3]	-10.0	-8.3	-10.0	-8.0	-10.0	-11.0	-9.0
Industrial confidence[4]	-13.7	-10.7	-11.7	-11.0	-11.0	-12.0	-12.0
Mfg. orders, Germany	1.2	2.1	n.a.	-3.3	-.4	1.2	n.a.
CPI[5]	2.6	2.1	2.0	1.8	1.9	2.1	2.1
Producer prices[5]	-.9	-.8	n.a.	-1.0	-.4	-.2	n.a.
M3[5]	7.2	7.1	7.4	7.1	7.1	7.0	7.4

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.
4. Diffusion index based on European Commission surveys in individual countries.
5. Eurostat harmonized definition. Percent change from year earlier.
n.a. Not available.

impose sanctions as the government has already begun to take actions to offset the budget slippage in the medium-term. A fine is particularly unlikely given the European Commission's decision not to fine Portugal for exceeding the 3 percent limit in 2001.

The European Commission has recommended ten accession countries for admission into the European Union. The ten countries are Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic, and Slovenia. Bulgaria and Romania will continue negotiations for accession, while Turkey is not yet viewed as meeting the political conditions required to begin negotiations. The objective is for the new members to begin joining the European Union in time for the election of the European Parliament scheduled for June 2004. On October 19, Ireland removed a major obstacle for EU expansion with 63 percent of voters in a national referendum casting ballots in favor of the Nice Treaty. The Nice Treaty changes the institutional structure of the EU in order to make enlargement possible. Irish voters had rejected the Nice Treaty during a previous referendum in 2001.

In the **United Kingdom**, preliminary third-quarter real GDP rose 2.8 percent (s.a.a.r.) after moderate second-quarter growth. Third-quarter growth in the service sector is estimated to have strengthened more than three percent from about 2½ percent in the second quarter. Industrial production is estimated to have grown during the quarter as well, although September data have yet to be released.

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

Indicator	2002						
	Q1	Q2	Q3	Jul.	Aug.	Sept.	Oct.
Real GDP*	.5	2.5	2.8	...	...	...	...
Industrial production	-1.2	.3	n.a.	3.2	-.3	n.a.	n.a.
Retail sales volume	1.0	1.7	.6	.4	.7	.4	n.a.
Unemployment rate[1]							
Claims-based	3.1	3.2	3.1	3.1	3.1	3.1	n.a.
Labor force survey[2]	5.1	5.2	n.a.	5.2	n.a.	n.a.	n.a.
Business confidence[3]	-3.3	8.0	10.7	9.0	16.0	7.0	8.0
Retail prices[4]	2.4	1.9	2.0	2.0	1.9	2.1	n.a.
Producer input prices[5]	-5.6	-5.9	-2.2	-3.8	-1.8	-.9	n.a.
Average earnings[5]	2.9	3.9	n.a.	4.1	3.6	n.a.	n.a.

* Preliminary, s.a.a.r.
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.

The limited indicators that are available for the fourth quarter suggest continued moderate growth, albeit at a slower pace, with relatively weak manufacturing and a relatively robust services sector. Business confidence ticked up in October, while the Confederation of British Industry survey of manufacturing order books slid further and is now at the same level as a year ago. In recent months, the manufacturing PMI has been falling, with September's index indicating tepid growth. September's services PMI increased, however, continuing to indicate expansion. Consumer confidence has improved somewhat in August and September after remaining relatively flat during the first half of the year.

Despite some anecdotal evidence that the housing market is cooling, the two leading surveys of housing prices registered twelve-month increases of around 23 percent in September. Borrowing to finance the purchase of homes climbed 1.2 percent in the same month, and increased a robust 12.4 percent in the twelve months ending in September. Mortgage approvals have edged up, but are still lower than April's high. Other consumer credit ticked down, but remained strong.

Labor market conditions have remained tight. The official claims-based unemployment rate held steady at 3.1 percent in September, near a record low. Even so, the twelve-month rate of retail price inflation (excluding mortgage interest payments) continued to be below the Bank of England’s 2½ percent target in September at 2.1 percent. The twelve-month growth rate of average earnings fell to 3.6 percent in August.

In **Canada**, indicators suggest further strong real GDP growth in the third quarter. August manufacturing shipments grew 7.1 percent after a 12.7 percent increase in July. Industries related to Canada’s booming housing market exhibited particular strength in the third quarter. Average investment in residential structures for the first half of 2002 rose 7.7 percent from the fourth quarter of 2001, while housing starts have remained at or near twelve-year highs since January. Low mortgage rates and high employment growth have continued to support activity, with August permits jumping 3.7 percent from July’s level. Commercial and industrial construction also rebounded in the third quarter, following large declines during the first half of the year.

Consumer confidence held steady in the third quarter while business confidence fell sharply in the same period. However, September's PMI moved to 58.5, up from around 50 in both July and August.

The unemployment rate rose to 7.7 percent in September from 7.5 percent in August, as the labor force increased at a greater rate than employment. Strong labor force growth has kept the unemployment rate from falling even as employment has shown impressive gains, increasing 2.8 percent over the first nine months of the year. In September, the twelve-month rate of CPI inflation fell to 2.3 percent from 2.6 percent in August. The twelve-month increase in the all-items index was muted by a fall in energy prices, while cigarette prices and automobile insurance premiums exerted upward pressure. Core inflation, excluding food and energy prices, remained at three percent.

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

Indicator	2002						
	Q1	Q2	Q3	Jun.	Jul.	Aug.	Sept.
GDP by industry	1.2	1.0	n.a.	.2	.4	n.a.	n.a.
Industrial production	2.4	1.4	n.a.	-.0	1.4	n.a.	n.a.
New mfg. orders	4.7	3.9	n.a.	.1	-1.3	3.0	n.a.
Retail sales	2.6	.9	n.a.	1.9	-.2	.2	n.a.
Employment	.7	.9	.9	.4	.1	.4	.3
Unemployment rate[1]	7.8	7.6	7.6	7.5	7.6	7.5	7.7
Consumer prices[2]	1.5	1.3	2.3	1.3	2.1	2.6	2.3
Consumer attitudes[3]	124.8	125.1	124.5	...	...	...	...
Business confidence[3]	141.5	145.2	129.7	...	...	...	...

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

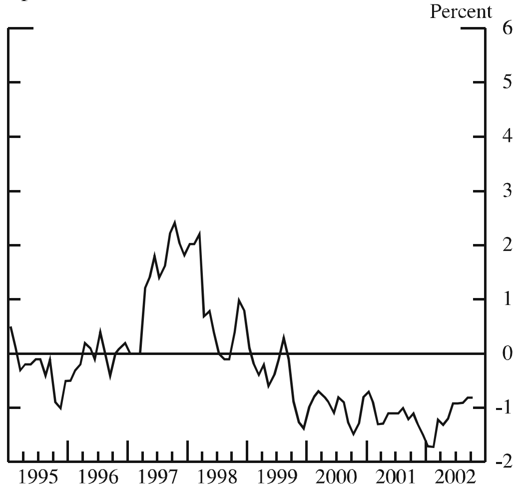
External Balances
(Billions of U.S. dollars, s.a.a.r.)

Country and balance	2002					
	Q1	Q2	Q3	Jul.	Aug.	Sept.
Japan						
Trade	72.4	86.1	73.9	68.4	93.1	60.4
Current account	117.5	118.7	n.a.	128.7	116.9	n.a.
Euro area						
Trade[1]	66.2	91.0	n.a.	165.5	112.9	n.a.
Current account[1]	40.9	20.4	n.a.	31.0	113.9	n.a.
Germany						
Trade	112.6	107.8	n.a.	124.0	145.5	n.a.
Current account	36.9	43.7	n.a.	1.9	52.9	n.a.
France						
Trade	1.0	1.7	n.a.	3.9	2.8	n.a.
Current account	3.6	4.5	n.a.	3.2	6.1	n.a.
Italy						
Trade	5.6	10.2	n.a.	2.4	5.6	n.a.
Current account[1]	-9.3	-16.0	n.a.	30.4	15.9	n.a.
United Kingdom						
Trade	-45.0	-38.2	n.a.	-44.9	-51.8	n.a.
Current Account	-21.7	-23.4	n.a.	...	...	...
Canada						
Trade	34.9	34.3	n.a.	39.1	31.2	n.a.
Current Account	13.3	12.6	n.a.	...	...	...

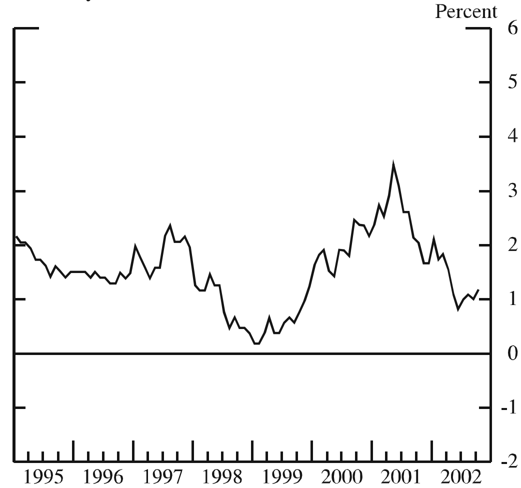
1. Not seasonally adjusted.
n.a. Not available. ... Not applicable.

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

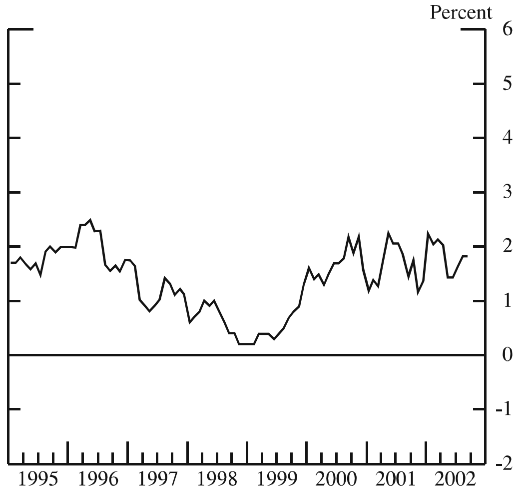
Japan



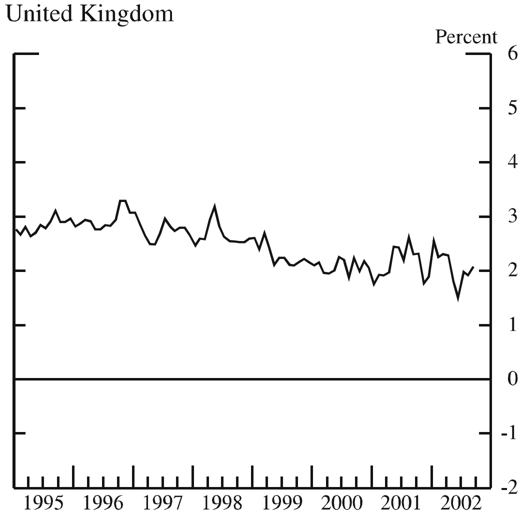
Germany



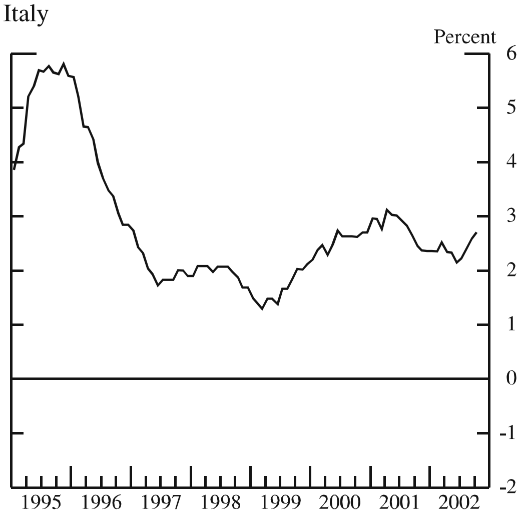
France



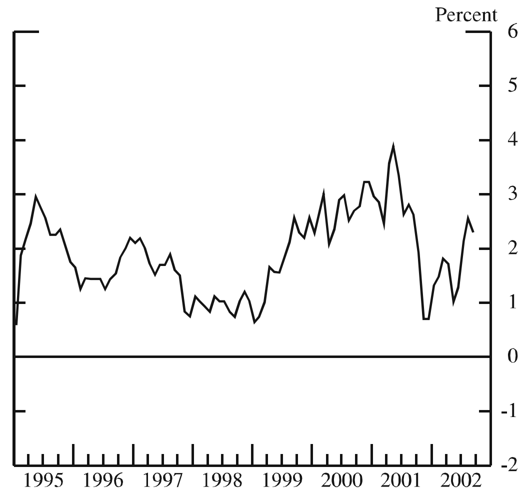
United Kingdom



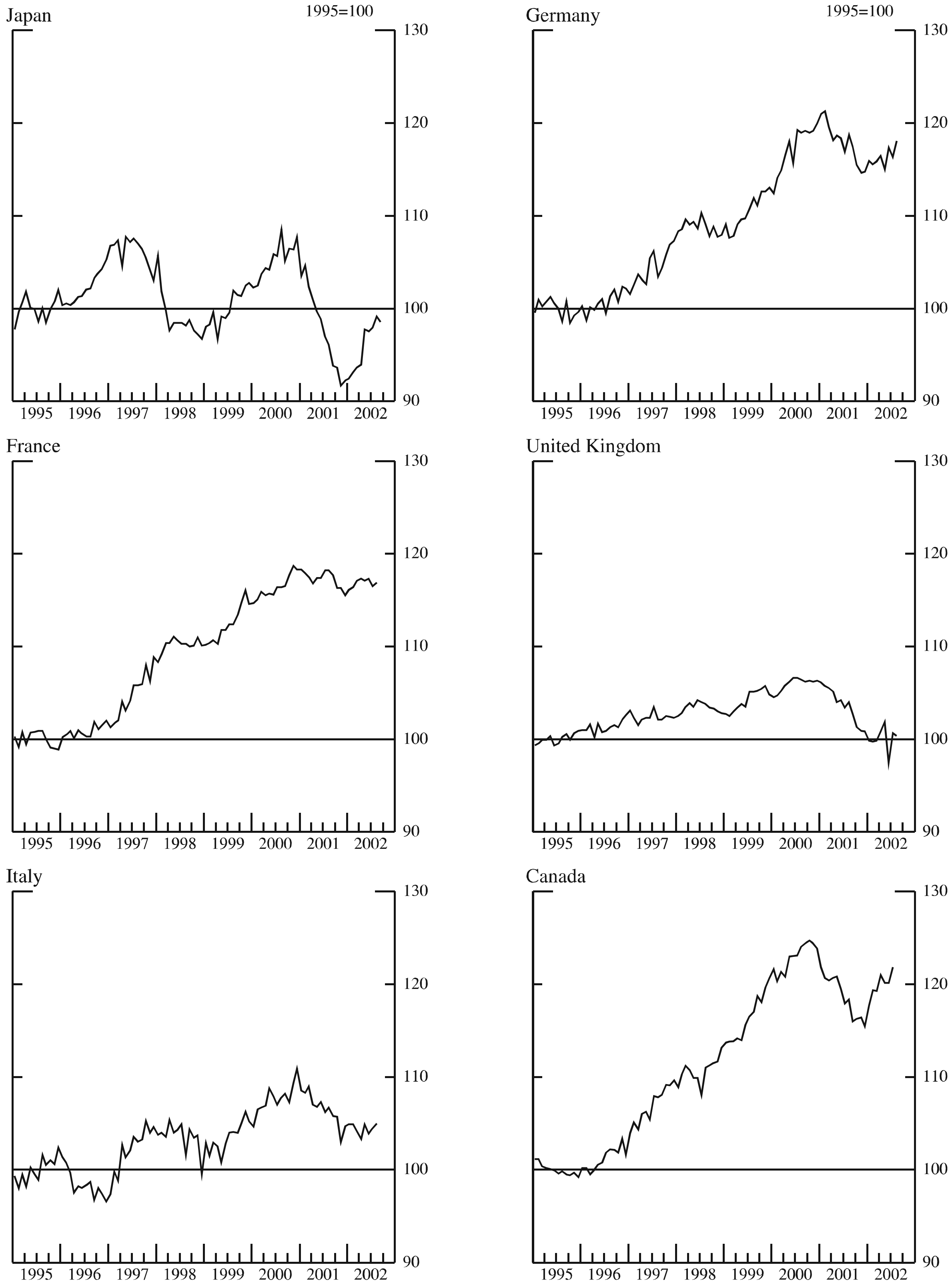
Italy



Canada



Industrial Production in Selected Industrial Countries



Economic Situation in Other Countries

Conditions in South America remain fragile. The Argentine economy may be bottoming out, but no significant signs of recovery have emerged, and the situation in Venezuela has worsened. The ongoing difficulties confronting Brazil largely reflect uncertainties surrounding the political transition to the new Lula administration. Mexico has been largely unaffected by the political and financial problems afflicting the major South American countries, but even there growth slowed in the third quarter. The pace of recovery also appears to have slowed in much of emerging Asia, although China still reports robust GDP growth.

In **Brazil**, data releases since the last Greenbook have suggested weakening domestic demand. Industrial production edged up in August, largely reflecting strong growth in the mining sector. Unemployment climbed during the third quarter, and consumer confidence weakened in early October. Twelve-month inflation increased in September to 8 percent, driven by the pass-through of the sizable depreciation of the *real* in recent months. Inflation is well above the upper limit of the 2002 inflation target range of 5.5 percent. The trade and current account balances improved markedly in the third quarter, driven largely by weak imports. Reflecting a heightened degree of uncertainty over the economy's prospects after the new government takes office, the central bank's survey of professional forecasters shows an increasing dispersion in forecasts of inflation and output for 2003.

On October 6, Lula of the Workers' Party (PT) garnered over 40 percent of the vote in the first round election, and on October 27 Lula won the run-off against Jose Serra by a wide margin. During October, the concern that a Lula government would embark on expansionary policies and possibly default on the domestic and foreign public debt made it difficult for the government to roll over maturing domestic debt, and the *real* depreciated sharply as well. In response, the central bank sold international reserves, raised reserve requirements, tightened other restrictions on banks, and boosted its overnight interest rate, the Selic, 300 basis points to 21 percent. The *real* stabilized only after senior PT party officials stated that Lula's new economic team would soon unveil proposals on fiscal reforms and a new central bank independence law. By end-October, the Brazilian EMBI+ spread over U.S. Treasuries stood at 1,800 basis points, down 600 basis points from its peak at the end of September, and unchanged on balance since the run-off election.

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

Indicator	2000	2001	2002				
			Q2	Q3	July	Aug.	Sept.
Real GDP[1]	3.8	-.6	2.4	n.a.	...	...	...
Industrial production	6.6	1.5	1.5	n.a.	.1	.3	n.a.
Unemployment rate[2]	7.1	6.2	7.9	8.1	8.1	7.9	8.4
Consumer prices[3]	6.0	7.7	7.8	7.6	7.5	7.5	7.9
Trade balance[4]	-.7	2.6	4.2	18.9	12.9	15.0	29.0
Current account[5]	-24.6	-23.2	-20.4	3.9	-6.6	3.8	14.6

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 releases since the last Greenbook have given tentative signs that the economy has bottomed out. Industrial production rose in September but remained 20 percent below its 1998 peak. Deposits in the banking system have risen slightly since mid-August as a result of capital and banking controls and very high interest rates. Nevertheless, the level of deposits is quite low. Consumer confidence remains near a record low. The weak economy and the suppression of utility rates continued to restrain inflation, despite the sizeable depreciation of the peso since last January; the CPI rose only 1.3 percent (s.a.) in September, bringing the twelve-month increase to about 39 percent. Economic weakness continued to boost the trade surplus.

The Argentine government and the IMF continued to negotiate a new program, but important areas of disagreement remain. The government is attempting to secure a Fund program before mid-November, which is the end of a 30-day grace period on a missed $800 million payment to the World Bank. Political maneuvering in advance of the March presidential election has distracted attention from the country’s pressing economic problems. A legal and political battle between President Duhalde and former president Menem is in progress over the rules that will determine who wins the Peronist party primary in mid-December; Duhalde is seeking to quash Menem’s re-election bid.

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

Indicator	2000	2001	2002				
			Q2	Q3	July	Aug.	Sept.
Real GDP[1]	-1.9	-10.5	3.8	n.a.	...	...	...
Industrial production	-1.8	-5.0	-.6	-.6	-1.5	-.2	.8
Unemployment rate[2]	15.1	17.4	21.5	...	...	...	...
Consumer prices[3]	-.7	-1.5	23.3	36.0	32.9	36.5	38.5
Trade balance[4]	2.6	7.5	15.6	n.a.	16.8	16.1	n.a.
Current account[5]	-8.9	-4.6	10.8	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.

In **Mexico**, economic indicators since the last Greenbook generally suggest that although the economy continued to grow, the pace of recovery slowed significantly in the third quarter. In July and August, the average level of overall economic activity (a monthly proxy for real GDP) was up from the second quarter, but only slightly. The unemployment rate rose in the third quarter, and business confidence has been falling in recent months, although its level remains relatively high. Exports continued to grow in the third quarter, narrowing the trade deficit a bit.

Monetary policy was tightened in late September, after the peso started to depreciate at a more accelerated pace and because twelve-month inflation through August had been about a percentage point higher than the government's year-end target of 4½ percent. The tightening of monetary policy helped stem the depreciation of the peso; on net the peso has depreciated about 10 percent against the dollar this year.

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

Indicator	2000	2001	2002				
			Q2	Q3	July	Aug.	Sept.
Real GDP[1]	4.9	-1.5	4.7	n.a.	...	...	...
Overall economic activity	6.5	-.2	1.3	n.a.	.1	-.2	n.a.
Industrial production	5.9	-3.4	1.4	n.a.	.0	.2	n.a.
Unemployment rate[2]	2.2	2.5	2.7	2.9	2.9	2.8	3.0
Consumer prices[3]	9.0	4.4	4.8	5.2	5.5	5.3	4.9
Trade balance[4]	-8.0	-10.0	-8.2	-7.3	-7.6	-6.6	-7.7
Imports[4]	174.5	168.4	170.0	171.0	171.9	169.6	171.4
Exports[4]	166.5	158.4	161.8	162.9	164.3	163.0	163.7
Current account[5]	-18.1	-17.9	-12.1	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.

Political tensions continue to plague the **Venezuelan** economy. Over the first three weeks of October, opponents of the government, including business interests and unions, staged a large protest and a general strike, calling for President Chavez to resign or hold elections. The unemployment rate edged up to 16.4 percent in July, and there have been no signs that economic conditions have improved since then. Twelve-month inflation rose to 28 percent in September, apparently reflecting increased pass-through from Venezuela's sizable depreciation. In response to downward pressure on the currency, the central bank has raised interest rates twice since mid-September, bringing the benchmark rate to 40 percent.

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

Indicator	2000	2001	2002				
			Q2	Q3	July	Aug.	Sept.
Real GDP[1]	5.7	.9	-22.1	n.a.	...	...	...
Unemployment rate[2]	13.4	13.3	15.8	n.a.	16.4	n.a.	n.a.
Consumer prices[3]	13.4	12.3	18.9	24.8	22.0	24.2	28.2
Non-oil trade balance[4]	-10.3	-12.2	n.a.	n.a.	n.a.	n.a.	n.a.
Trade balance[4]	17.5	9.4	n.a.	n.a.	n.a.	n.a.	n.a.
Current account[5]	13.4	4.1	6.7	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.

Data releases for **Korea** since the last Greenbook suggest that growth continued in the third quarter, albeit not at the very rapid pace seen earlier this year. Industrial production in the third quarter showed robust growth, boosted by gains in the auto sector. Export growth over the same period remained strong, but stronger imports led to a narrowing in the current account surplus. Both production and exports in the third quarter were boosted by solid performance in the high-tech sector, notwithstanding a general softening in these sectors throughout the region. Inflation remained moderate, as the CPI rose three percent over the twelve months ending in September, but a rapid run-up in property prices has raised concerns. Despite the increase in property prices, consumer and business confidence indicators continued their downward movements seen since April, apparently reflecting fears of a weakening global environment. Motivated by declines in stock market and confidence indicators, the Bank of Korea left its policy rate unchanged at 4¼ percent at its early October meeting.

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

Indicator	2000	2001	2002				
			Q2	Q3	July	Aug.	Sept.
Real GDP[1]	5.1	4.4	5.6	n.a.	...	...	...
Industrial production	16.9	1.7	2.0	1.7	1.9	3.3	.1
Unemployment rate[2]	4.1	3.7	3.1	3.0	3.0	3.1	2.8
Consumer prices[3]	2.8	3.2	2.7	2.5	2.1	2.4	3.0
Trade balance[4]	16.9	13.4	14.5	9.7	7.7	16.7	4.8
Current account[5]	12.2	8.6	7.3	2.4	-.2	1.8	5.5

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.

Since the last Greenbook, the overall pace of growth in the **ASEAN** countries appears to have moderated somewhat. Industrial production in Singapore, Malaysia, and the Philippines fell in recent months, with production of high-tech goods leading the decline. In contrast, production continued to rise in Thailand, buoyed by internal demand for consumer goods. The region’s trade surpluses have generally diminished in recent months. Much of this has been due to declines in exports of high-tech goods to the United States.

Inflation in the region has generally been subdued. Indonesian inflation, by far the highest among the ASEAN countries, has fallen nearly to single digits, reflecting the effects of the appreciation of the rupiah. Prices continued to fall in Singapore since the last Greenbook on a twelve-month basis, but on a month-to-month basis prices were roughly flat.

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

Indicator and country	2000	2001	2002 Q2	2002 Q3	2002 July	2002 Aug.	2002 Sept.
Real GDP[1]							
Indonesia	7.3	1.2	10.0	n.a.	...	...	...
Malaysia	6.2	-.6	7.0	n.a.	...	...	...
Philippines	3.7	3.9	9.7	n.a.	...	...	...
Singapore	11.4	-6.4	13.6	n.a.	...	...	...
Thailand	3.4	2.0	6.1	n.a.	...	...	...
Industrial production[2]							
Indonesia[3]	11.6	.7	-2.0	n.a.	-1.2	n.a.	n.a.
Malaysia	19.1	-4.1	2.4	n.a.	4.7	-1.2	n.a.
Philippines	2.4	-5.7	5.3	n.a.	.6	-3.9	n.a.
Singapore	15.3	-11.6	9.7	-4.9	1.0	-4.9	-7.2
Thailand	3.3	1.3	3.4	n.a.	2.7	2.2	n.a.

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 Q2	2002 Q3	2002 July	2002 Aug.	2002 Sept.
Indonesia	28.6	25.4	28.3	n.a.	26.2	21.4	n.a.
Malaysia	16.1	14.2	12.1	n.a.	14.9	10.6	n.a.
Philippines	6.7	2.6	.8	n.a.	3.7	-3.4	n.a.
Singapore	3.3	5.8	5.8	12.0	13.2	11.9	10.8
Thailand	5.5	2.5	3.3	n.a.	-3.5	2.6	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				
			Q2	Q3	July	Aug.	Sept.
Indonesia	9.3	12.5	12.6	10.4	10.0	10.6	10.5
Malaysia	1.3	1.2	1.9	2.1	2.1	2.1	2.1
Philippines	6.7	4.1	3.4	2.8	2.6	2.9	2.9
Singapore	2.1	-.6	-.4	-.4	-.4	-.5	-.4
Thailand	1.4	.8	.2	.3	.1	.3	.4

1. December/December.

The **Chinese** economy has continued to grow at a rapid pace, with real GDP increasing 7.5 percent (s.a.a.r.) in the third quarter. The strong performance of the economy this year appears to have resulted mainly from surging domestic investment (including government investment), a rise in foreign direct investment, and robust export growth. In the third quarter, nominal fixed investment rose 24 percent and exports rose 29 percent relative to the same period a year earlier. Consumption, as measured by retail sales data, also appears to be holding up well. China continues to experience deflation, with consumer prices down about 3/4 percent from year-ago levels.

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

Indicator	2000	2001	2002				
			Q2	Q3	July	Aug.	Sept.
Real GDP[1]	8.0	7.5	9.3	7.5	...	...	...
Industrial production[2]	11.4	8.9	12.5	13.1	12.8	12.7	13.8
Consumer prices[2]	1.5	-.3	-1.1	-.8	-.9	-.7	-.7
Trade balance[3]	24.1	23.1	29.9	10.2	12.6	3.9	14.0

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**, economic conditions generally remained unfavorable. Unemployment remained high, consumer confidence diminished, and property and consumer prices fell further. In recent months, Hong Kong's trade deficit has widened, owing mainly to increased imports. The Hong Kong economy remains highly dependent on the external sector, but its role as an entrepot is increasingly threatened by China's continuing integration into the world economy, and the consequent development of alternative ports on the mainland, for example, in Shanghai.

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

Indicator	2000	2001	2002				
			Q2	Q3	July	Aug.	Sept.
Real GDP[1]	7.0	-1.4	1.6	n.a.	...	...	...
Unemployment rate[2]	5.1	4.9	7.7	7.4	7.8	7.6	7.4
Consumer prices[3]	-2.1	-3.5	-3.2	-3.5	-3.5	-3.3	-3.7
Trade balance[4]	-11.0	-11.4	-7.8	-9.8	-10.3	-12.7	-6.3

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.

Real economic growth in **Taiwan** moderated during the first half of the year, on balance, and indicators for activity in the third quarter have been mixed. Industrial production edged down in August and September, owing primarily to a drop in the output of the information and electronics industry. In contrast, through September, consumer confidence held steady at a relatively strong level, even as the unemployment rate remained elevated. Exports and imports flattened out in July and August, but climbed higher in September. Consumer prices moved lower in September.

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

Indicator	2000	2001	2002				
			Q2	Q3	July	Aug.	Sept.
Real GDP[1]	3.9	-1.6	.3	n.a.	...	...	...
Unemployment rate[2]	3.0	4.6	5.2	5.1	5.0	5.0	5.1
Industrial production	7.4	-7.3	6.0	-1.3	2.7	-1.0	-.1
Consumer prices[3]	1.7	-1.7	.0	-.2	.4	-.3	-.7
Trade balance[4]	8.3	15.6	16.3	12.9	11.3	18.1	9.2
Current account[5]	8.9	18.9	24.3	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.