Prefatory Note

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Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. 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 optimal 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.

Confidential (FR) Class III FOMC

Part 2

December 4, 2002

CURRENT ECONOMIC
AND FINANCIAL CONDITIONS

Recent Developments

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

Confidential (FR) Class III FOMC

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Domestic Nonfinancial Developments

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Overview

The pace of economic activity slowed in mid-summer and has remained sluggish, on balance, since then. Although housing demand has remained strong, business fixed investment has continued to languish and consumer spending on motor vehicles has been well below its summer level. Consumption outside motor vehicles also flagged in the late summer, though spending turned up in October and early readings on spending in November have been reasonably favorable. Payroll employment remained flat and industrial production continued to fall through October. Most major price series show declines in inflation over the past year.

Labor Markets

Labor demand remains tepid. Private nonfarm payroll employment edged down again in October and has changed little, on net, since July. Employment in manufacturing and related industries has remained especially weak. Aggregate hours of production or nonsupervisory workers also fell in October, nearly back to their July level. In the household survey, the unemployment rate edged up 0.1 percentage point in October to 5.7 percent, the same as its third-quarter average.

The movements in payroll employment and the unemployment rate since the spring appear to be sending different signals about labor market conditions. Payroll employment rose an average of only 0.03 percent per month between June and October. Such a small increase in payrolls normally would be associated with a slight increase in the unemployment rate, but the unemployment rate instead fell 0.2 percentage point over this period. Interestingly, similar departures from the average historical relationship occurred after each of the four previous recessions. Although we lack a good understanding of the reasons for this pattern, we continue to put a good deal more weight on the signal from payroll employment. That measure traditionally has been the more reliable indicator of cyclical developments in the labor market, and, in the current instance, the relative weakness of payroll employment has been more consistent with other information, which, on balance, has depicted stagnant demand for workers.

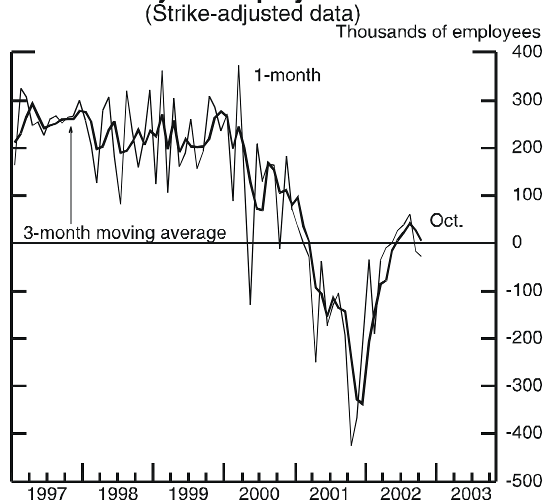
Recent indicators generally have pointed to continued sluggishness, although most appear a bit brighter than they did a month ago. Using seasonal adjustment factors calculated without data from the post-September 2001 period, initial claims for unemployment insurance averaged 401,000 per week over the four weeks ended

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

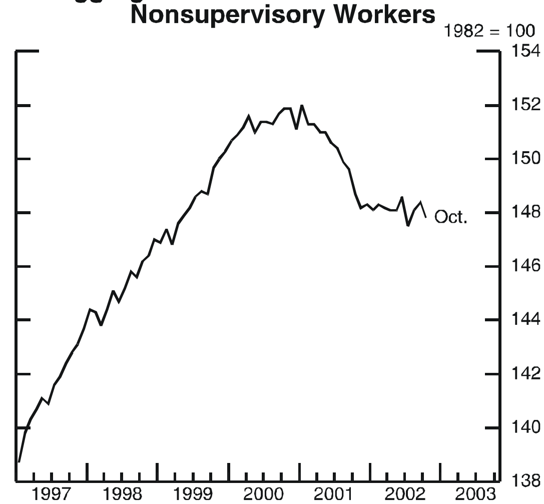
	2001	2002 Q1	2002 Q2	2002 Q3	2002 Aug.	2002 Sept.	2002 Oct.
	-Average monthly change-						
Nonfarm payroll employment[1]	-119	-63	12	55	123	-13	-5
Previous	*-119*	*-63*	*12*	*39*	*107*	*-43*	...
Private	-158	-88	7	27	62	-17	-29
Mining	1	-2	-2	-1	4	-3	1
Manufacturing	-109	-80	-22	-35	-52	-39	-49
Construction	-3	-14	-15	6	37	11	-27
Transportation and utilities	-23	-14	-8	-20	-15	-35	-4
Retail trade	-15	5	-8	-8	-44	-11	14
Wholesale trade	-16	-7	0	-4	-8	-3	-16
Finance, insurance, real estate	10	-3	-2	12	8	24	34
Services	-2	27	63	78	132	39	18
Help supply services	-54	4	36	8	50	1	-56
Total government	39	25	5	27	61	4	24
Total employment (household survey)	-153	-54	53	377	429	711	-271
Nonagricultural	-154	-14	58	315	523	601	-498
Memo:							
Aggregate hours of private production workers (percent change)[1,2]	-2.1	-0.5	0.2	-0.7	0.4	0.2	-0.4
Average workweek (hours)[1]	34.2	34.2	34.2	34.1	34.1	34.2	34.1
Manufacturing (hours)	40.7	40.8	41.0	40.8	40.9	40.9	40.7

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

Private Payroll Employment Growth
(Strike-adjusted data)



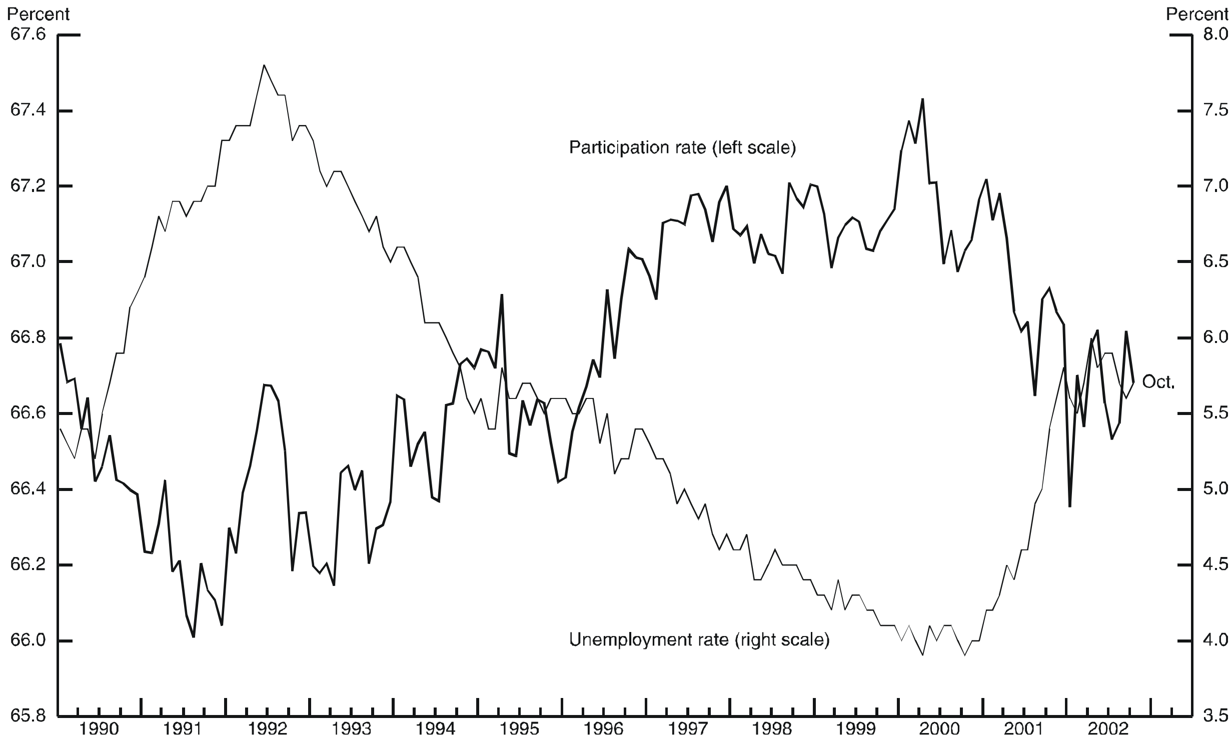
Aggregate Hours of Production or Nonsupervisory Workers



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

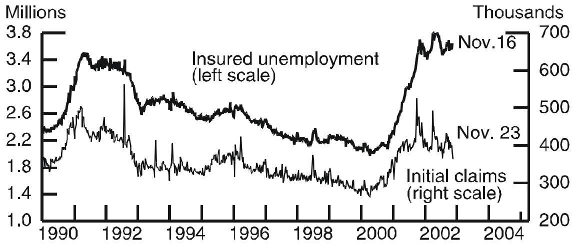
		2002			2002		
	2001	Q1	Q2	Q3	Aug.	Sept.	Oct.
Civilian unemployment rate (16 years and older)	4.8	5.6	5.9	5.7	5.7	5.6	5.7
Teenagers	14.7	16.0	17.1	16.9	17.2	15.7	14.6
20-24 years old	8.3	9.8	9.4	9.6	9.6	9.7	10.3
Men, 25 years and older	3.6	4.5	4.9	4.6	4.6	4.5	4.6
Women, 25 years and older	3.7	4.4	4.8	4.5	4.5	4.5	4.6
Labor force participation rate	66.9	66.5	66.7	66.6	66.6	66.8	66.7
Teenagers	49.9	48.2	47.7	47.6	47.1	48.6	47.7
20-24 years old	77.2	76.3	76.7	76.6	77.0	76.4	75.9
Men, 25 years and older	75.9	75.6	75.9	75.8	75.9	75.9	75.7
Women, 25 years and older	59.7	59.6	59.6	59.6	59.6	59.8	59.8

Labor Force Participation Rate and Unemployment Rate

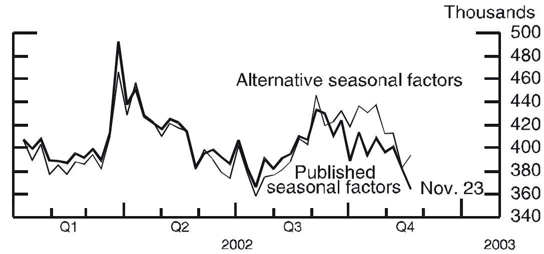


Labor Market Indicators

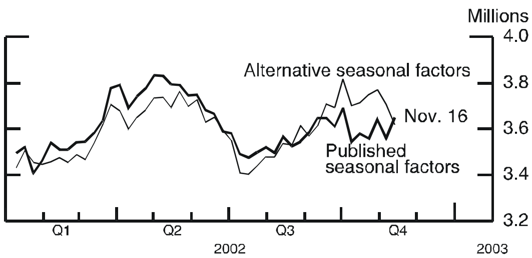
Unemployment Insurance



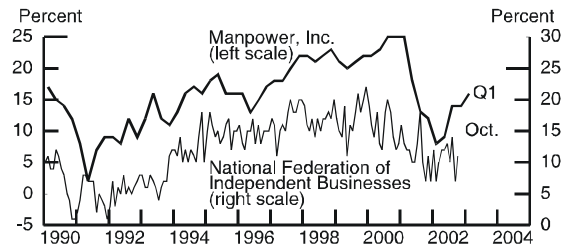
Initial Claims



Insured Unemployment

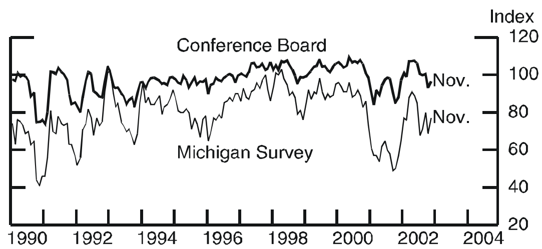


Net Hiring Strength



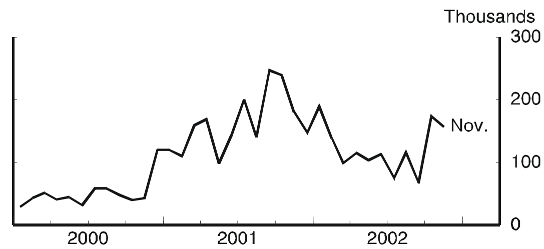
Note. Percent planning an increase in employment minus percent planning a reduction.

Expected Employment Conditions



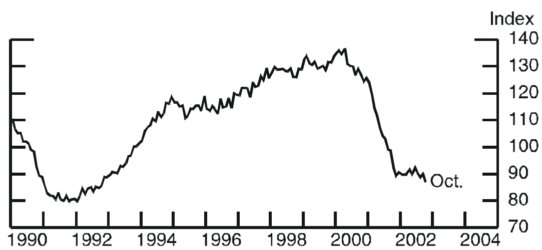
Note. The proportion of households expecting unemployment to fall, minus the proportion expecting it to rise, plus 100.

Layoff Announcements



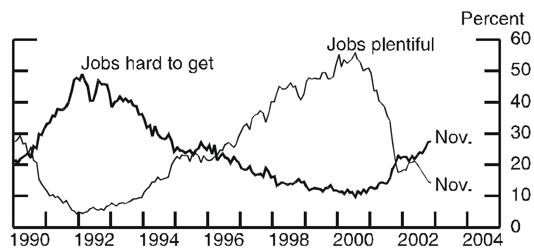
Note. Seasonally adjusted by FRB staff.
Source. Challenger, Gray and Christmas, Inc.

Help Wanted Index



Source. Conference Board.

Current Employment Conditions



Source. Conference Board.

November 23.[1] This was down 30,000 from late October but still 30,000 higher than the lows of the summer. At 3.62 million (for the week ended November 16), the level of insured unemployment adjusted using the alternative seasonal factors also stands above its summer lows but has been falling in recent weeks. Among recent survey evidence, a small increase in first-quarter hiring plans was reported both in Manpower's quarterly survey of employers and in the National Federation of Independent Businesses' poll of small businesses in October. Furthermore, households' expectations for future employment conditions improved slightly in both the Conference Board survey and the Michigan survey in November. On the negative side, layoff announcements as tracked by Challenger remained high in November. In addition, the Conference Board's index of help-wanted advertising edged down in October, and the organization's survey of job availability as perceived by households weakened in November.

According to the report on productivity and costs released December 4, productivity in the nonfarm business sector rose at an annual rate of 5.1 percent in the third quarter of 2002. Over the four quarters ended in 2002:Q3, productivity is now estimated to have advanced 5.6 percent, the largest four-quarter increase since 1973. The BLS report also included the first estimate of output per hour for

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

Sector	2000[1]	2001[1]	2001		2002		
			Q3	Q4	Q1	Q2	Q3
Nonfarm businesses							
All persons[2]	2.1	1.9	2.1	7.3	8.6	1.7	5.1
All employees	1.7	2.0	2.0	7.6	7.3	1.7	6.5
Nonfinancial corporations[3,4]	3.3	3.3	3.2	10.8	4.6	5.8	5.7

1. Change is from fourth quarter of the preceding year to fourth quarter of the year shown.
2. Includes non-employees (published definition).
3. The nonfinancial corporate sector consists of all corporations doing business in the United States with the exception of banks, stock and commodity brokers, and finance and insurance companies. The sector accounts for about two-thirds of business employment.
4. Historical data for nonfinancial corporations were revised back to 1999.

1. On a published basis, claims averaged 386,000. However, the seasonal adjustment of these data appears to have been distorted by the inclusion of the sharp increase in claims after the events of September 11, 2001, in the calculation of this year's seasonal factors. These alternative seasonal factors remove the influence of that period.

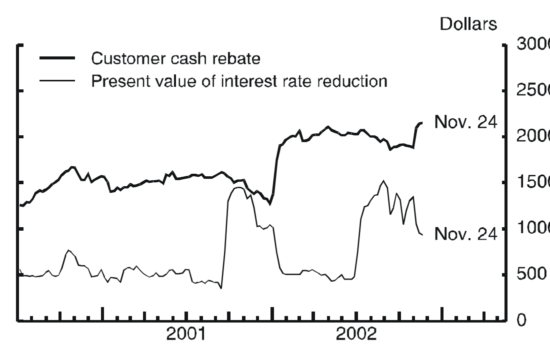
Sales of Automobiles and Light Trucks
(Millions of units at an annual rate, FRB seasonals)

		2002			2002		
	2001	Q1	Q2	Q3	Sept.	Oct.	Nov.
Total	17.0	16.3	16.3	17.6	16.2	15.3	15.9
Autos	8.4	7.9	8.1	8.5	7.9	7.3	7.9
Light trucks	8.6	8.4	8.3	9.1	8.3	8.0	8.0
North American[1]	14.0	13.0	13.1	14.3	12.8	12.4	12.6
Autos	6.3	5.7	5.9	6.2	5.5	5.3	5.6
Light trucks	7.6	7.4	7.2	8.1	7.3	7.1	7.0
Foreign-produced	3.1	3.3	3.2	3.4	3.4	2.9	3.4
Autos	2.1	2.2	2.2	2.3	2.4	2.0	2.3
Light trucks	1.0	1.1	1.0	1.1	1.0	1.0	1.1
Memo:							
Medium and heavy trucks	.44	.38	.39	.43	.43	.42	n.a.

Note. Components may not sum to totals because of rounding. Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.

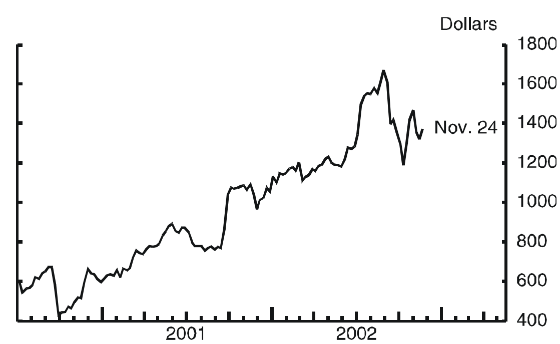
1. Excludes some vehicles produced in Canada that are classified as imports by the industry.

Cash and Financing Incentives



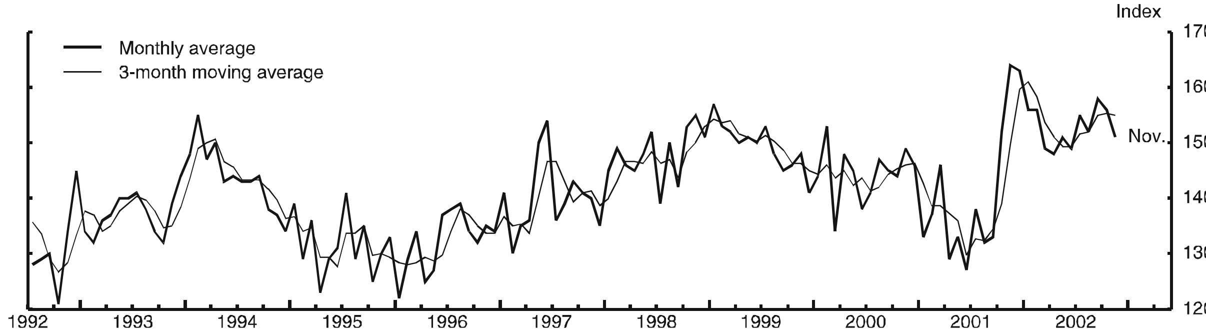
Note. Seasonally adjusted with FRB seasonals.
Source. J.D. Power and Associates.

Total Average Value of Customer Incentives



Note. Seasonally adjusted with FRB seasonals. Weighted average of customer cash rebate and interest rate reduction.
Source. J.D. Power and Associates.

Michigan Survey Index of Car-Buying Attitudes



nonfinancial corporations for the third quarter of 2002. Productivity in this sector rose at an annual rate of 5.7 percent last quarter and has advanced 6.7 percent over the four quarters ended 2002:Q3.

Motor Vehicles

Recent swings in motor vehicle sales and production have strongly influenced the incoming data on aggregate economic activity. Although sales of light vehicles moved up to an annual rate of 15.9 million units in November, this increase only partially retraced the large declines in September and October. Sales have averaged 15.6 million units through the first two months of this quarter, 2 million units lower than the exceptionally strong pace in the third quarter. The fall in demand reflects both higher effective prices and a payback from the surge in demand in the summer, when consumers likely brought forward their purchases to take advantage of unusually generous incentive deals that they viewed as temporary.

According to J.D. Power and Associates, the average value of customer incentives per vehicle in September and October was well below the record high posted last August. More of the vehicles sold were 2003 models, on which the incentives were less generous than on the 2002 leftovers. As a result, the consumer price index for new vehicles jumped 0.5 percent in September and 0.4 percent in October, reversing nearly all of its declines earlier this year.[2] In November, however, incentives appear to have edged up again. Although the decline in incentives in recent months has eroded consumers' positive attitudes toward car-buying a bit, sentiment remained very positive in November, with much of the optimism still attributed to low financing rates and good buys.

Responding to the recent softening in sales, automakers reduced assemblies in September and October. The available weekly data for November suggest that production for the month stepped up noticeably to a rate higher than automakers announced schedules at the beginning of the month. However, industry schedules for December show production dropping back to near October's rate. All told, production in the fourth quarter is currently scheduled to average 12.5 million units at an annual rate, down about ½ million units from the third-quarter pace. If realized, such a decline in output would directly reduce the change in total industrial production in the fourth quarter by more than 1 percentage point (annual rate); the indirect effect of this reduction on products such as tires and stampings

2. The CPI for new vehicles does not capture financing incentives. However, consumers typically are given the option to receive a cash rebate in lieu of the financing incentives, and in such cases, the BLS incorporates the effect of the cash rebate into the CPI regardless of which alternative the consumer chose.

might reduce fourth-quarter IP growth by a similar amount. After allowing for associated changes outside the industrial sector such as sales and transportation costs, and allowing for differences in seasonal adjustment, the scheduled reduction in motor vehicle production would reduce fourth-quarter GDP growth by nearly 1-1/4 percentage points.[3]

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]	Sept.	Oct.	Nov.[1]	Dec.[1]
U.S. production	12.4	13.0	12.5	12.8	12.1	13.0	12.3
Autos	5.2	5.1	5.0	4.9	4.8	5.2	5.0
Trucks	7.2	7.8	7.5	7.9	7.3	7.8	7.3
Total days' supply[2]	61.1	56.1	n.a.	62.5	69.2	n.a	n.a.
Inventories[3]	2.61	2.61	n.a.	2.61	2.79	n.a.	n.a.

Note. Components may not sum to totals because of rounding.
1. Production rates reflect Ward's Communications' latest estimates for Q4, November, and December.
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.

Even this reduced level of assemblies has been running well ahead of sales. Accordingly, inventories of light vehicles have moved up sharply in the last three months. Stocks increased more than 300,000 units in September and October (not at an annual rate), while days' supply jumped to 69 days, somewhat above the target level of about 65 days. Assuming that sales remain near their November pace, the automakers' production schedules imply that inventories will rise further through year-end. As a result, the automakers are faced with the choice of cutting production, lowering prices, or both. When faced with excess inventories at this time of the year, manufacturers have often reduced assemblies by extending the duration of regularly scheduled holiday shutdowns. Reports from industry contacts suggest that similar plans are under discussion this year. If such plans are implemented, the assembly rate would drop further in early 2003.

3. The BEA's seasonal factors for motor vehicle production do not appear to account for an additional holiday in this year's UAW contract. As a result, the fourth-quarter national income and product accounts are likely to overstate the extent of the slowdown in motor vehicle assemblies.

Industrial Production

Industrial production dropped 0.8 percent in October after having moved down 0.2 percent in each of the preceding two months.[4] Roughly half of the October decline was due to the reduction in motor vehicle assemblies and related parts production. Aside from the jump in motor vehicle assemblies in November, available physical product data retraced only a little of their October decline, and related indicators suggest that the industrial sector remains weak.

Conditions in the high-tech sector have been mixed. Computer production has risen 1-3/4 percent per month on average over the past four months, supported by ongoing strength in demand for notebook computers and a recent spurt in sales of mainframes. On the other hand, the recent increases in the output of desktop PCs have been modest, and Dataquest expects that unit sales will contract in the fourth quarter. Industry analysts report that businesses have slowed the rate at which they are replacing their PCs in light of their reluctance to commit new capital generally and the perception of many firms that there are no new software applications demanding an upgrade in hardware. The relative weakness in the personal computer subsector is also evident in the recent slide in shipments of microprocessor units (MPUs) and the weak outlook for Intel's revenue in the fourth quarter. The output of semiconductors other than MPUs has continued to increase but at a slower pace. Production earlier in the year was supported by strong demand from manufacturers of cell phones for digital signal processors and flash memory chips, but the outlook for worldwide sales of cell phones has recently been marked down. Although shipments have not yet turned down, orders for equipment to manufacture semiconductors have plummeted. Furthermore, the production of communications equipment fell 1.8 percent in October after having decreased 1 percent in September, and no indications of a pickup in demand are in the offing.

Outside of the motor vehicles and parts and high-tech industries, manufacturing production edged lower in August and contracted 0.4 percent in both September and October. Some of the recent pullback in this broad category (representing 85 percent of total manufacturing) reflects decreases in the production of motor vehicle supplies, such as engines, stampings, and original-equipment tires that are not counted as part of the motor vehicles and parts industry.[5] Even so, production declines were widespread and were especially pronounced among manufacturers of business equipment and, to a lesser extent, producers of materials.

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4. On December 5, revised and rebenchmarked production figures will be released. With that release, industries will be defined on a NAICS basis instead of the current SIC formulation.

5. One effect of the switch from SIC to NAICS is that significantly more of these suppliers to the motor vehicle industry will be assigned to the motor vehicles parts industry rather than to other scattered manufacturing industries.

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

Component	Proportion 2001 (percent)	2001[1]	2002[2] H1	2002[2] Q3	2002[3] Aug.	2002[3] Sept.	2002[3] Oct.
Total	**100.0**	**-5.9**	**3.4**	**3.5**	**-.2**	**-.2**	**-.8**
Previous	100.0	-5.9	3.4	3.6	-.3	-.1	...
Manufacturing	86.7	-6.1	3.3	3.2	-.1	-.4	-.7
Ex. motor veh. and parts	80.4	-6.6	2.0	1.5	-.1	-.3	-.3
Ex. high-tech industries	73.8	-5.5	.5	.8	-.1	-.4	-.4
Mining	6.2	-2.4	-6.3	2.2	.4	-.6	-1.0
Utilities	7.1	-6.1	12.6	8.6	-2.5	2.4	-1.6
Selected industries							
High technology	6.6	-15.6	21.1	9.7	.8	1.4	.5
Computers	1.5	-8.2	19.5	11.5	1.7	1.5	1.7
Communication equipment	1.5	-24.4	-12.4	-17.6	-.7	-1.0	-1.8
Semiconductors[4]	3.5	-14.9	36.7	19.3	1.0	2.0	.8
Motor vehicles and parts	6.3	-.4	20.4	23.6	.0	-1.3	-5.2
Aircraft and parts	2.6	-11.6	-31.2	-25.8	-2.0	-1.2	-2.1
Market groups excluding energy and selected industries							
Consumer goods	24.0	-1.6	-.2	-1.7	-1.1	-.2	-.1
Durables	3.5	-8.0	6.2	-7.8	-1.7	-.7	-.3
Nondurables	20.6	-.5	-1.2	-.7	-1.0	-.2	-.1
Business equipment	7.9	-10.8	-2.3	2.8	1.1	-1.9	-.9
Defense and space equipment	1.6	2.5	2.0	10.2	2.1	.7	.9
Construction supplies	6.6	-3.8	7.1	1.0	1.3	.2	-.6
Business supplies	7.1	-8.4	-1.9	5.4	.2	-.3	.1
Materials	23.1	-7.1	4.8	3.9	.1	-.4	-.4
Durables	15.4	-7.6	3.9	3.7	.3	-.7	-.4
Nondurables	7.6	-6.1	6.7	4.3	-.5	.4	-.6

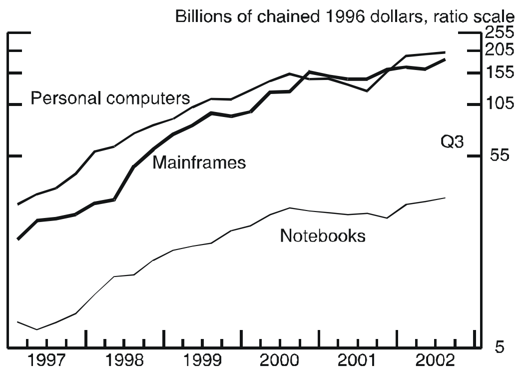
1. Fourth-quarter to fourth-quarter change.
2. Annual rate.
3. Monthly rate.
4. Includes related electronic components.
... Not applicable.

Capacity Utilization
(Percent of capacity)

Sector	1967-2001 average	1982 low	1990-91 low	2002 Q1	2002 Q2	2002 Q3	2002 Sept.	2002 Oct.
Total industry	**81.9**	**71.1**	**78.1**	**75.0**	**75.6**	**76.1**	**75.8**	**75.2**
Manufacturing	80.9	69.0	76.6	73.5	74.0	74.4	74.1	73.5
High-tech industries	80.0	77.3	72.4	62.9	64.2	63.9	64.0	63.8
Excluding high-tech industries	81.0	68.0	76.8	74.9	75.4	75.9	75.6	74.9
Mining	87.6	80.3	87.0	85.3	84.6	85.0	84.8	83.9
Utilities	87.6	75.9	83.4	84.3	86.8	87.8	88.2	86.6

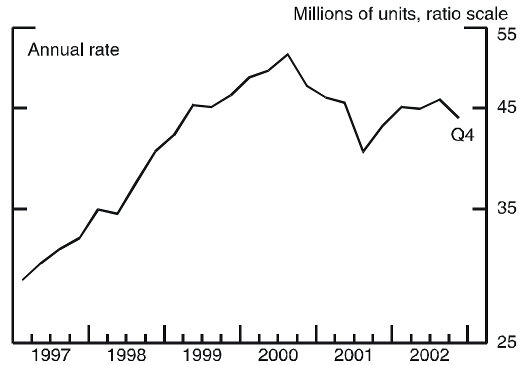
Indicators of High-Tech Manufacturing Activity

Real Computer Sales



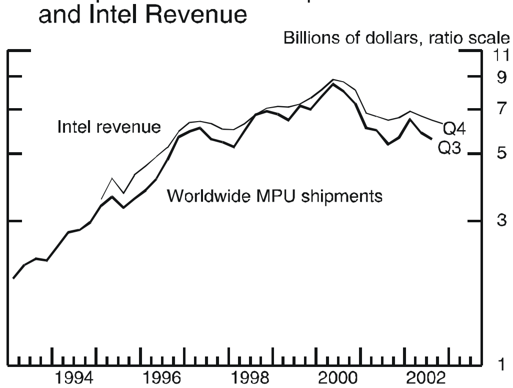
Source: Dataquest.

Personal Computer Sales



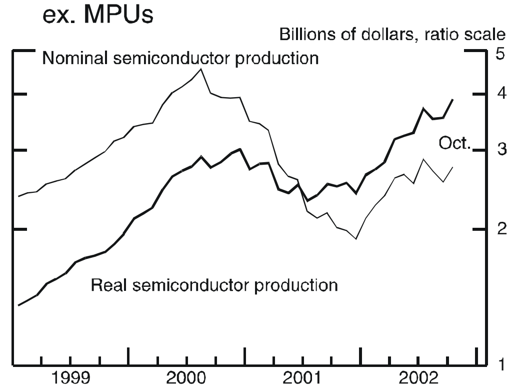
Note. FRB seasonals. Includes notebooks. Value for Q4 is a Dataquest forecast.
Source. Dataquest.

Microprocessor Unit Shipments and Intel Revenue



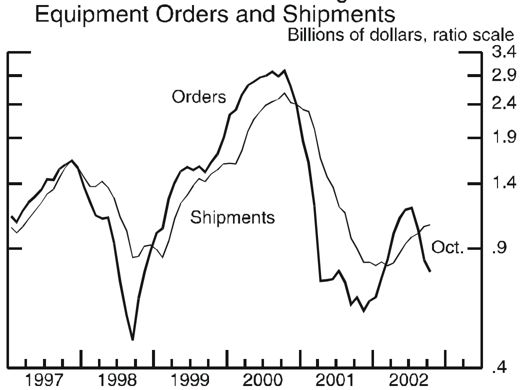
Note. Q4 is the midpoint of Intel's guidance as of October 15, 2002.
Source. Intel and Semiconductor Industry Association.

Semiconductor Production ex. MPUs



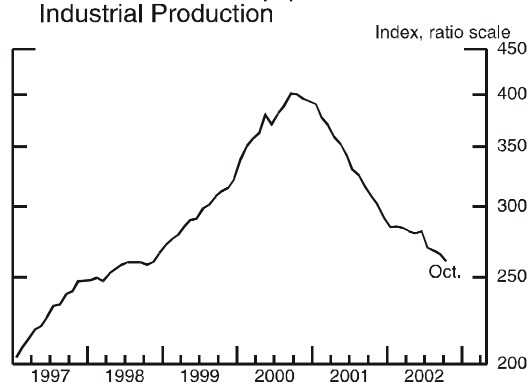
Source. Semiconductor Industry Association and FRB staff estimates.

Semiconductor Manufacturing Equipment Orders and Shipments



Source. Semiconductor Equipment and Materials International.

Communications Equipment Industrial Production

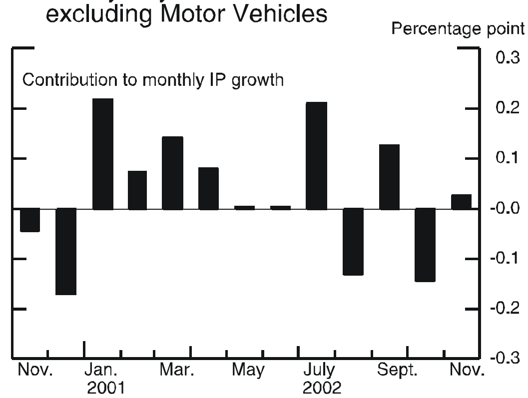


Indicators of Manufacturing Activity

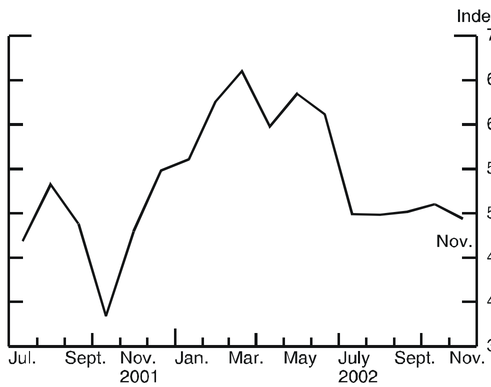
Motor Vehicle Assemblies

* Value is based on weekly data.

Weekly Physical Product Data excluding Motor Vehicles

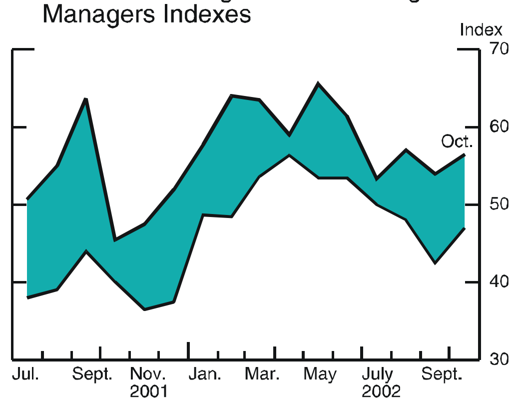


New Orders: ISM



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

New Orders: Regional Purchasing Managers Indexes

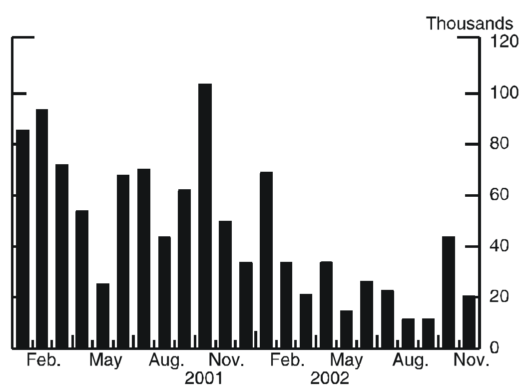


Note. Range of reports from Chicago, Kansas City, New York, Philadelphia, and Richmond.

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.

Announced Manufacturing Layoffs



Note. Data are through December 3, 2002.
Source. Compiled by staff from news reports.

Indicators of future activity in the industrial sector do not yet provide signs of recovery. In October, the staff's series on real adjusted durable goods orders retraced part of its steep declines during the previous two months. This series is volatile, however, and the three-month moving average of real orders fell. The diffusion index of new orders from the Institute of Supply Management ratcheted down in July and has hovered around 50 since then, a level roughly consistent with a flat path of orders; this same pattern is evident in the regional purchasing managers indexes. In addition, the staff's series on announced manufacturing layoffs fell in November, though it remained above its levels of the summer.

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

Component	Share, 2001: H1 (percent)	2002				
		Q2	Q3	Aug.	Sept.	Oct.
Total orders	**100.0**	**-.4**	**2.9**	**-1.1**	**-4.6**	**2.4**
Adjusted orders[1]	76.2	.7	1.4	-4.6	-3.6	5.0
Computers	4.5	-5.0	9.9	-.1	9.2	-1.3
Communication equipment	4.1	-3.3	-21.2	-8.7	-42.3	71.3
Other capital goods	24.5	2.4	1.1	-.7	-2.1	2.2
Other[2]	43.1	.5	2.4	-6.7	-3.1	4.6
MEMO						
Real adjusted orders	. . .	1.0	1.7	-4.7	-3.9	4.8
Excluding high tech	. . .	1.0	1.4	-5.0	-4.3	4.0

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

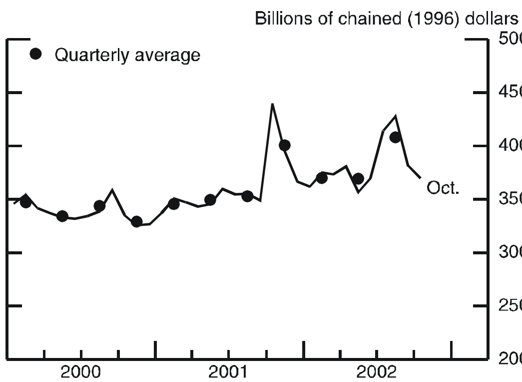
The pace of consumer spending has been quite sluggish in recent months after brisk gains earlier in the third quarter. Much of the earlier strength and current weakness is attributable to large swings in spending on motor vehicles. Apart from motor vehicles, PCE softened in August and September following noticeable increases in June and July, but it rose a solid 0.3 percent in October.

The October gain in real outlays excluding motor vehicles was supported by a pickup in spending on nondurable goods, which reversed its decline of the preceding two months. More recently, the volatile data on weekly chain store sales have been consistent with modest increases in retail spending in November

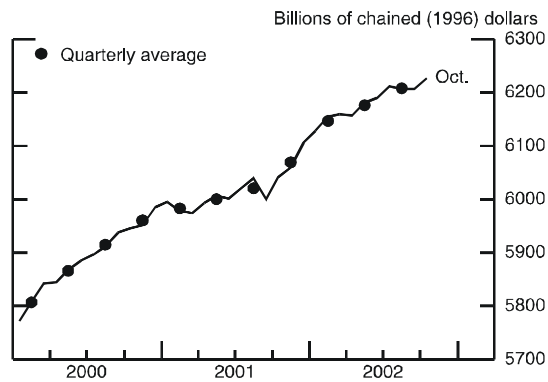
Real Personal Consumption Expenditures
(Percent change from the preceding period)

Expenditure	2002 Q2	2002 Q3	2002 Aug.	2002 Sept.	2002 Oct.
	Annual rate		Monthly rate		
Total real PCE	1.8	4.1	.1	-.6	.2
Durable goods	2.0	23.1	2.1	-5.1	-.9
Motor vehicles	-1.0	49.0	3.2	-10.9	-3.0
Excluding motor vehicles	4.2	6.3	1.1	-.3	.7
Nondurable goods	-.1	.9	-.3	-.3	.5
Energy	-1.9	2.8	1.2	-.3	.0
Other	.1	.8	-.4	-.3	.6
Services	2.7	2.2	-.1	.2	.2
Energy	.5	5.9	-.5	3.2	-.9
Housing	2.1	1.7	.1	.0	.2
Other	3.0	2.2	-.2	.1	.2

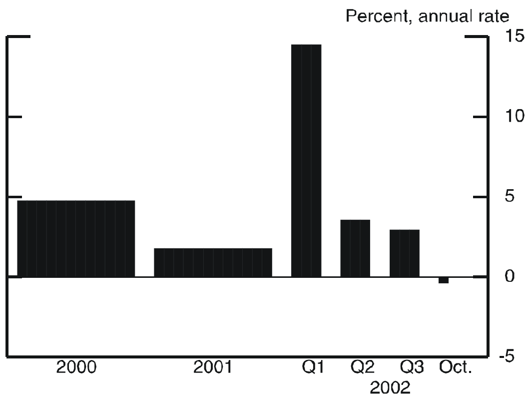
PCE Motor Vehicles



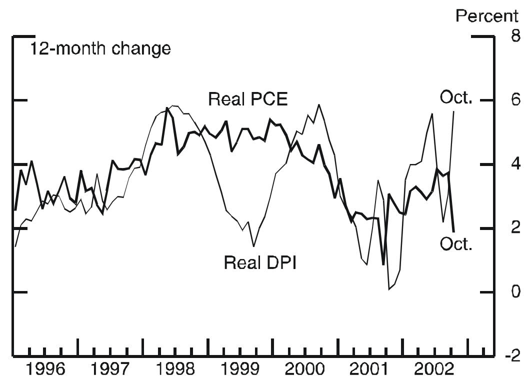
PCE Ex. Motor Vehicles



Change in Real DPI

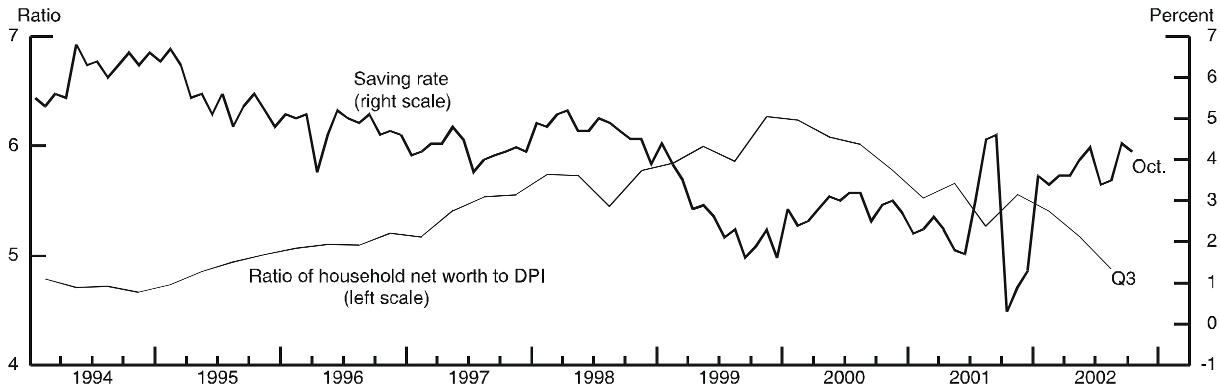


Real Consumer Spending and Income

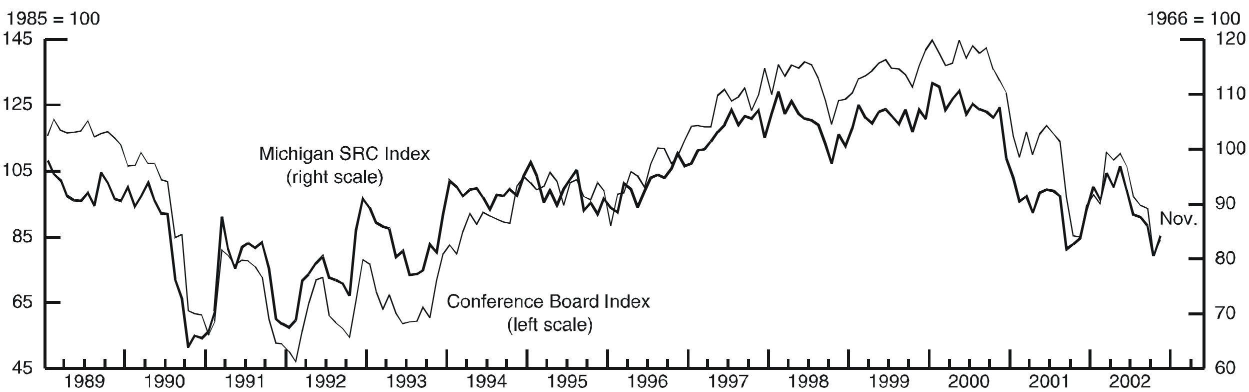


Household Indicators

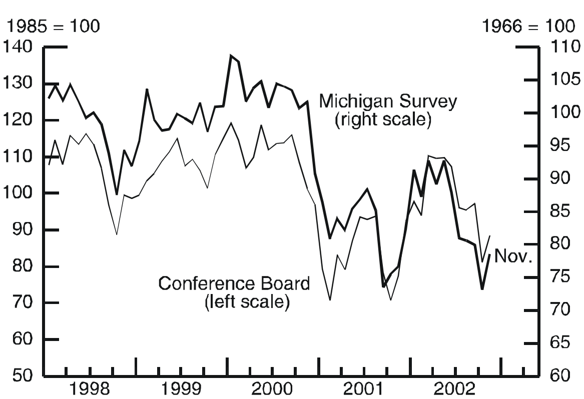
Household Net Worth and Personal Saving Rate



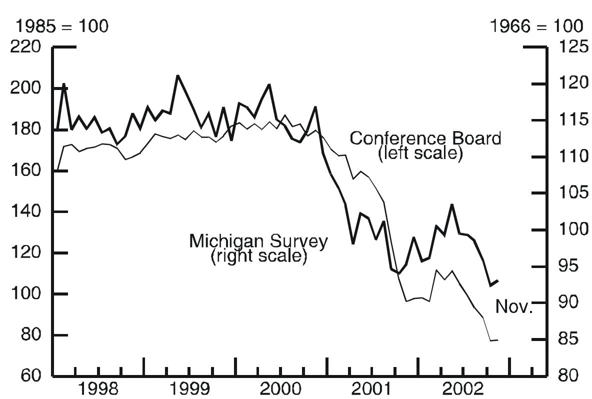
Consumer Confidence



Expected Conditions



Current Conditions



and suggest a reasonably upbeat beginning to the holiday shopping season over the Thanksgiving weekend. Spending on services has been comparatively steady and advanced a modest 0.2 percent in both September and October, about equal to the average rate of increase so far this year.

Advances in real disposable personal income have slowed substantially since the first quarter, when tax cuts provided a sizable boost to households' income. Abstracting from tax cuts, gains in income have been moderate for most of this year. In October, real DPI was flat, reflecting that month's decline in payroll hours. The saving rate this year has remained well above its average over the preceding several years, consistent with the erosion in household wealth since early 2000.

According to both the Michigan and Conference Board indexes, consumer confidence turned up in November after having reached its lowest level since 1993 in the previous month. An improved outlook for business conditions accounted for most of the gain; households' expectations for labor market conditions over the coming year also improved noticeably. By contrast, the current conditions portions of the indexes remained quite low in November.

Housing

On the whole, residential investment has held up well this year. Although the multifamily sector weakened somewhat at the beginning of the fourth quarter, activity in the single-family sector remained strong.

Even though single-family housing starts were down 7 percent from their extraordinary level in September, the October pace of 1.35 million units matched the average rate seen during the first three quarters of the year. Furthermore, unusually wet weather across much of the country probably restrained starts a bit in October. Permit issuance for single-family construction—adjusted for activity in areas where permits are not required—was above starts in October, suggesting that homebuilding will continue at a vigorous pace through the end of the year.

New and existing home sales continued to be buoyant in October. Sales of existing homes increased about 1 percent to an annual rate of 5.63 million units (using staff seasonal factors).[6] New home sales in October came off their September high, but the 1.01 million unit annual pace of sales was still very strong.

6. On a published basis, sales of existing homes moved up about 6 percent in October to an annual rate of 5.77 million units. Unlike the published seasonal factors, the staff's procedure accounts for trading-day variation

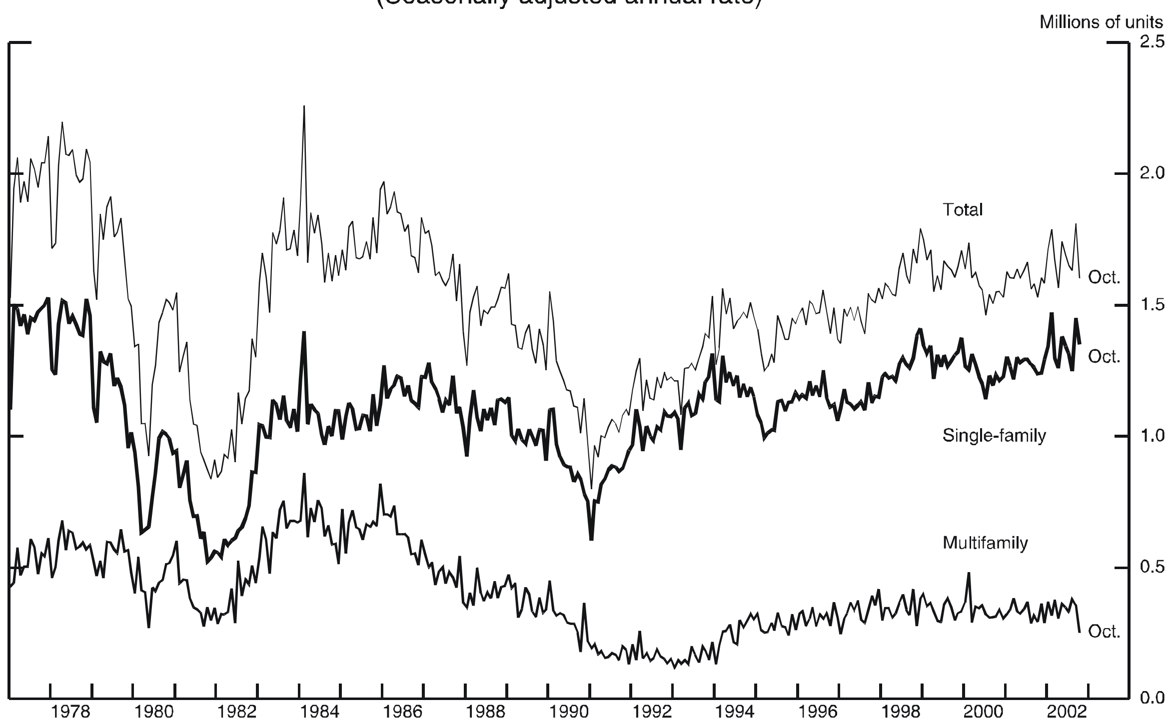
Private Housing Activity
(Millions of units; seasonally adjusted annual rate)

	2001	2002 Q1	Q2	Q3[r]	Aug.[r]	Sept.[r]	Oct.[p]
All units							
Starts	1.60	1.73	1.67	1.70	1.63	1.81	1.60
Permits	1.64	1.69	1.67	1.70	1.67	1.73	1.76
Single-family units							
Starts	1.27	1.37	1.33	1.34	1.25	1.45	1.35
Permits	1.24	1.31	1.27	1.31	1.30	1.34	1.37
Adjusted permits[1]	1.28	1.34	1.31	1.35	1.32	1.41	1.38
New home sales	0.91	0.91	0.95	1.02	1.04	1.05	1.01
Existing home sales	5.30	5.78	5.54	5.37	5.30	5.44	5.77
Multifamily units							
Starts	0.33	0.35	0.34	0.36	0.38	0.36	0.25
Permits	0.40	0.39	0.40	0.40	0.37	0.39	0.40
Mobile homes							
Shipments	0.19	0.18	0.18	0.17	0.17	0.16	n.a.

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

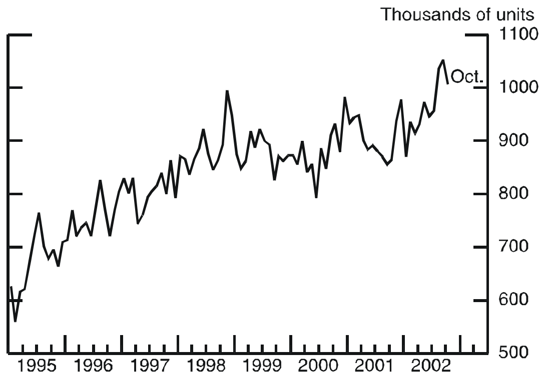
p Preliminary. r Revised. n.a. Not available.

Private Housing Starts
(Seasonally adjusted annual rate)



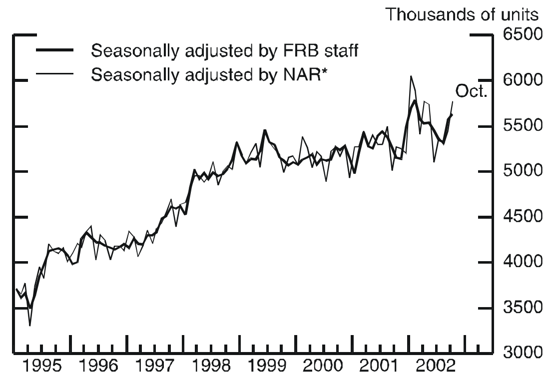
Housing Indicators

New Home Sales



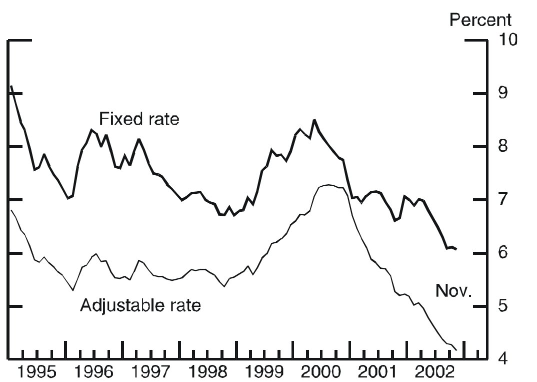
Source. Census Bureau.

Existing Home Sales



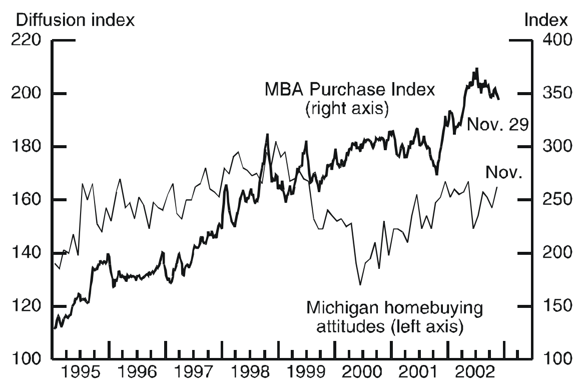
*National Association of Realtors.

Mortgage Rates



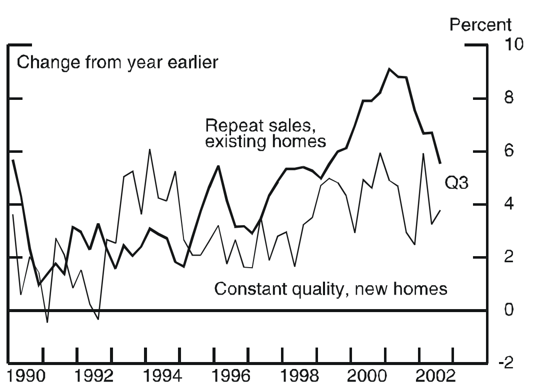
Note. Nov. figures are based on data through Nov. 29.
Source. Freddie Mac.

Homebuying Indicators



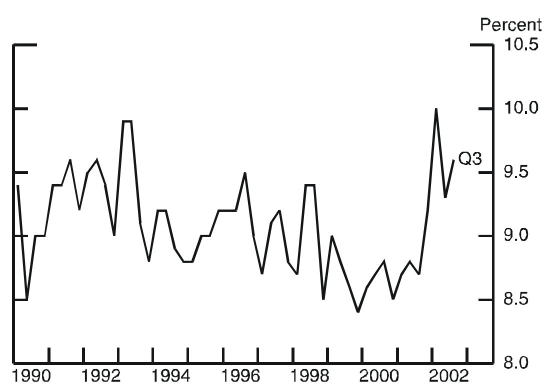
Note. MBA index is a 4-week moving average.
Michigan Survey data are not seasonally adjusted.
Source. Michigan Survey and Mortgage Bankers Association.

House Prices



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

Multifamily Vacancy Rate



Source. Census Bureau.

We believe that the robust pace of construction is roughly consistent with prevailing fundamentals. Most important, mortgage rates have remained near their lowest levels in more than thirty years. The average rate on a thirty-year fixed-rate mortgage stood at 6.1 percent in late November, and the average initial rate on a thirty-year adjustable-rate mortgage was 4.2 percent. Households' assessments of homebuying conditions stayed quite favorable in November, and the Mortgage Bankers' Association's index of mortgage applications for the purchase of a home remained solid.

The continued strong demand for housing has helped produce large gains in house prices, although the various price measures have sent different signals as to whether the pace of increase has moderated. Prices for existing homes, as measured by the repeat-sales price index, have decelerated significantly during the past year. This measure of house prices rose 5-1/2 percent over the four quarters ended in 2002:Q3, down from 8-3/4 percent over the comparable period four quarters earlier.[7] By contrast, no underlying trend is discernible from the volatile pattern of quality-adjusted prices for new homes.

In the multifamily sector, starts fell 30 percent in October to an annual rate of 250,000 units, the slowest pace in almost six years. Apartment vacancy rates have increased significantly, on balance, during the past year, and anecdotes suggest that the demand for apartment space has been hurt by the booming performance of the single-family market. However, the ratio of new multifamily permits to starts in October was well above the historical average, suggesting that starts in this sector may rebound in November.

Equipment and Software

Real outlays for equipment and software advanced moderately in the third quarter; increases were posted for all major spending categories except aircraft, where expenditures fell sharply. However, the last few months' data on orders and shipments of capital goods have been somewhat weaker, on balance. In particular, new orders and shipments of nondefense capital goods excluding aircraft dropped in August and September, and despite an upturn in October, new orders and shipments remained below their July levels. The weaker trajectory for equipment and software in recent months is consistent with the rather downbeat anecdotal reports from businesses themselves. Indeed, investment spending appears to be somewhat worse than would be predicted by the fundamental determinants of business investment, such as the growth of business output and real corporate cash flow.

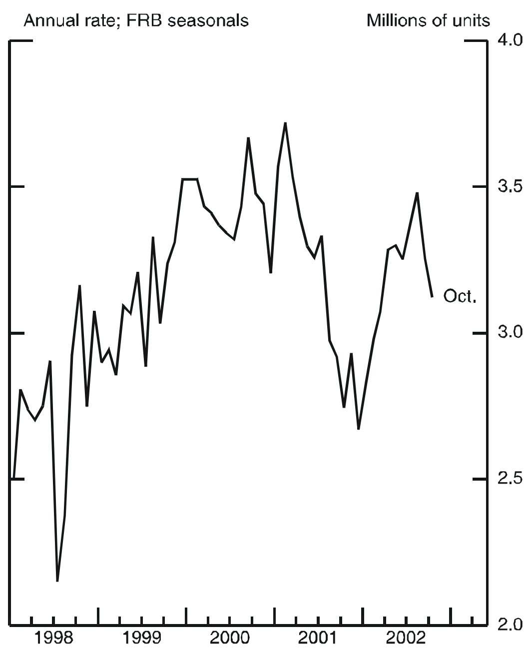
7. The simple average price of existing homes sold in October was up 11-1/2 percent from a year earlier and has not decelerated at all.

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

	2002 Q2	2002 Q3	2002 Aug.	2002 Sept.	2002 Oct.
	-Annual rate-		- - -Monthly rate - - -		
Shipments of nondefense capital goods	-1.9	0.9	-2.5	-0.8	1.4
Excluding aircraft	3.2	1.5	-1.2	-2.0	1.6
Computers and peripherals	-8.8	26.1	-3.2	-1.5	7.6
Communications equipment	-14.8	-25.9	0.4	-1.6	-6.1
All other categories	8.0	2.1	-1.0	-2.1	1.6
Shipments of complete aircraft	-46.5	-19.6	-25.9	6.5	n.a.
Medium & heavy truck sales (units)	16.3	34.9	10.5	0.3	-4.0
Orders for nondefense capital goods	-6.3	21.0	4.0	-10.7	4.5
Excluding aircraft	3.3	-0.6	-1.4	-4.3	5.5
Computers and peripherals	-18.5	45.9	-0.1	9.2	-1.3
Communications equipment	-12.4	-61.5	-8.7	-42.3	71.3
All other categories	9.9	4.5	-0.7	-2.1	2.2

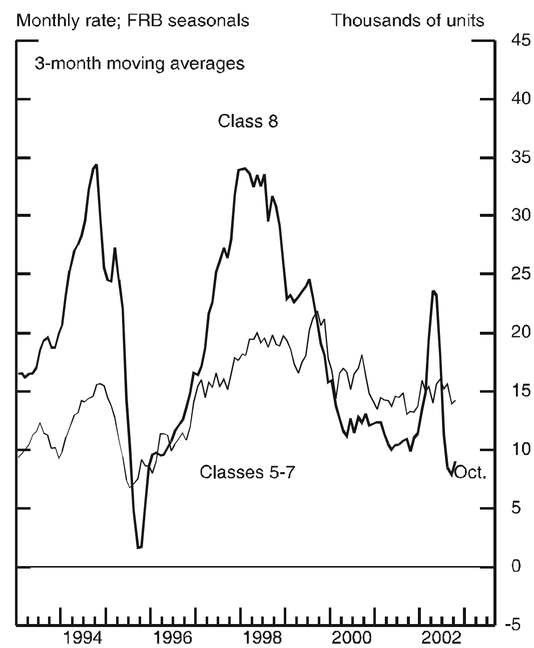
n.a. Not available.

Fleet Sales of Light Vehicles



Note. Staff estimates based on confidential data.

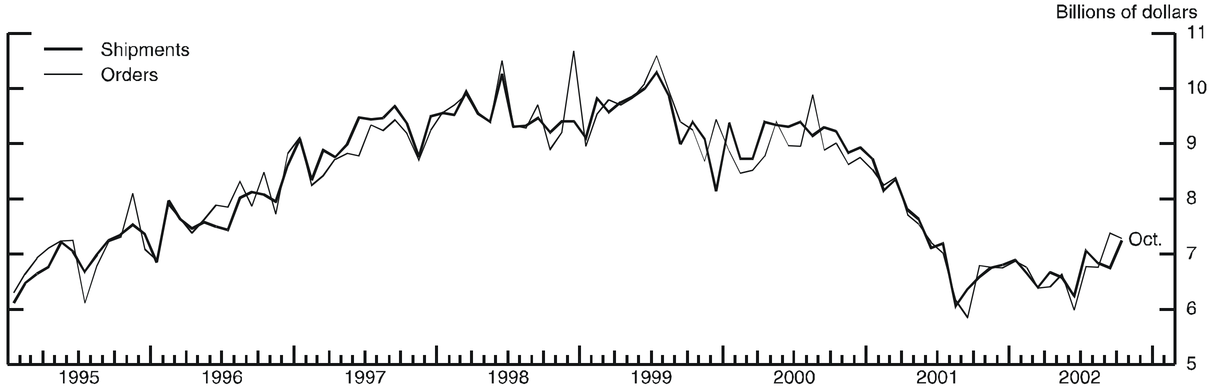
Net New Orders of Trucks



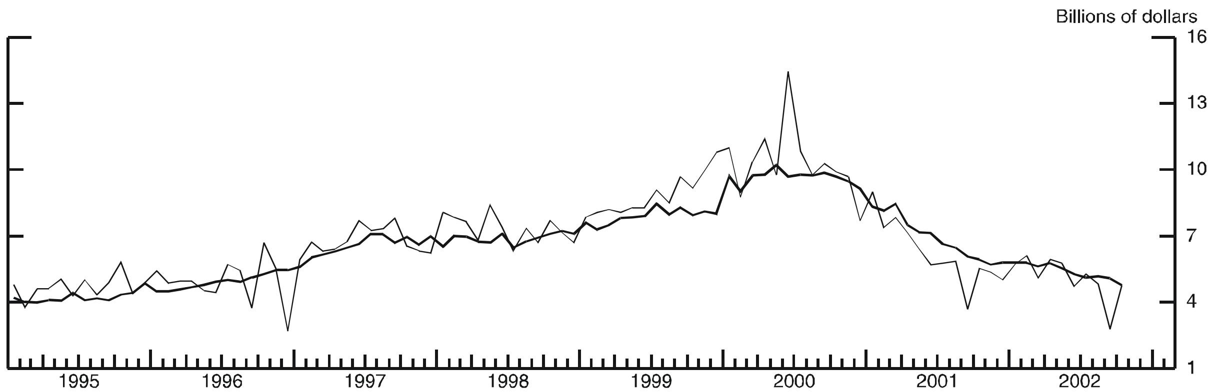
Note. Net orders are less cancellations.
Source. ACT Research Co.

Recent Data on Orders and Shipments

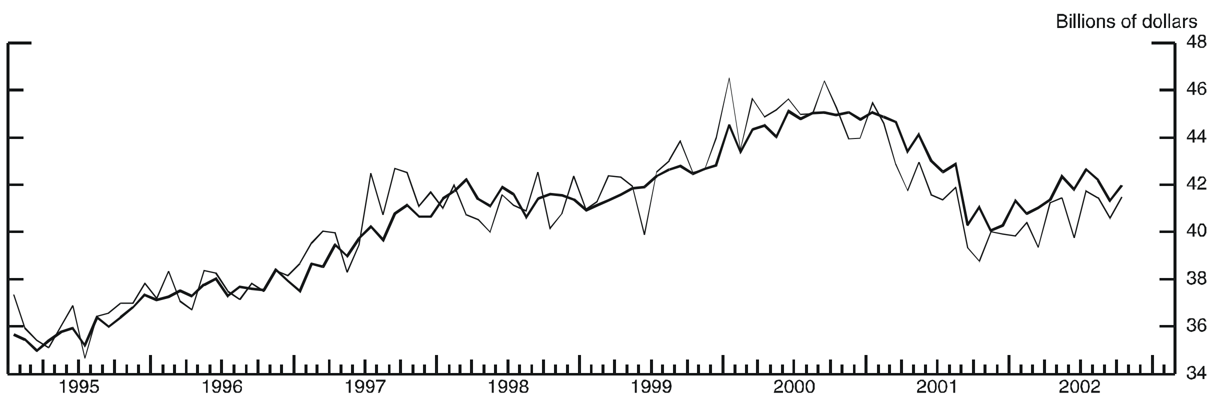
Computers and Peripherals



Communications Equipment

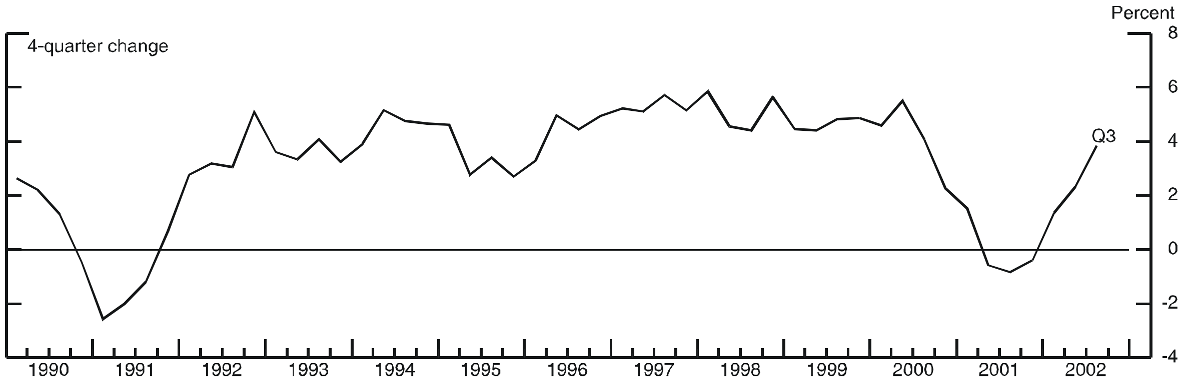


Other Equipment (Total Ex. Transportation, Computers, Communications)

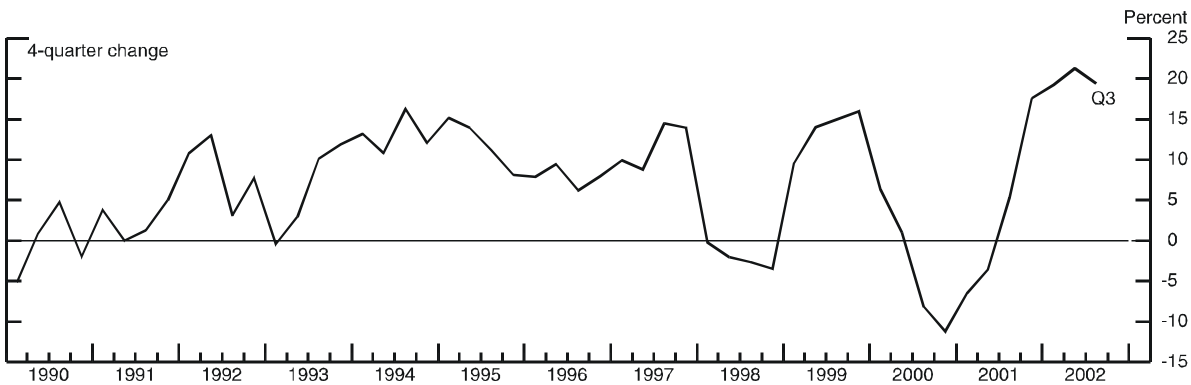


Equipment Investment Fundamentals

Business Output

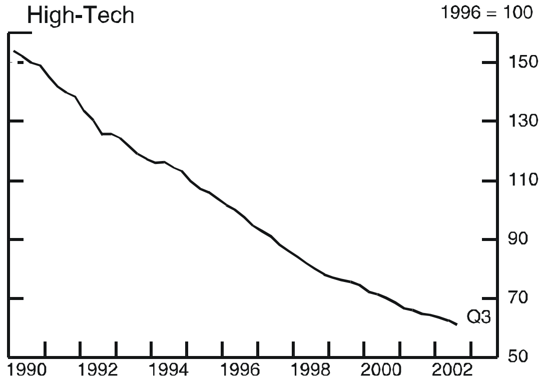


Real Corporate Cash Flow

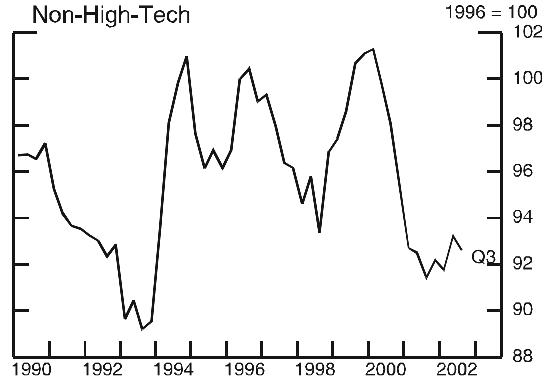


User Cost of Capital*

High-Tech



Non-High-Tech



*Excludes the effects of the partial expensing tax incentive.

In the high-tech sector, nominal shipments of computing equipment jumped markedly in October, but shipments of communications equipment dropped again. Even though domestic shipments of communications equipment have continued to trend down this year, real spending on communications equipment edged up in the first three quarters of this year, a move reflecting surprisingly robust imports and, to a lesser extent, falling prices.[8] Outside of the high-tech sector, shipments rose at a modest pace in October, with generally small increases in most subcategories. New orders in this broad-based sector also moved up, led by double-digit gains in construction equipment and industrial machinery. Nevertheless, new orders have continued to run substantially below shipments, indicating that producers continued to draw down their backlog of unfilled orders.

Business demand for motor vehicles has cooled, on balance, since the summer. Fleet sales of light vehicles edged down in September and October (based on confidential data), and some of the decline in retail sales likely reflects softer demand from business customers. However, sales of medium and heavy trucks have held up thus far. Demand for heavy (class 8) trucks has been supported for several months by a desire to purchase vehicles with engines produced under old EPA emissions regulations. New rules that took effect October 1 set tighter emissions standards and are anticipated to result in higher operating costs. However, the new rules allow engines produced before October 1 to be installed even after that date, and industry analysts indicate that most trucks assembled in November and early December will be fitted with old-rule engines. As a result, while we continue to anticipate a payback for the surge in purchases preceding October 1, we now expect that payback to occur mainly in the first quarter. After having plunged in September, net new orders for medium trucks (classes 5 to 7), which are not subject to the new EPA regulations, rebounded in October, and the three-month moving average of new orders moved up slightly.

Nonresidential Construction

Nominal nonresidential construction spending increased about 1 percent in October after having fallen sharply during the third quarter.[9] The increase—the first since April—was concentrated in the retail, wholesale and institutional sectors, though spending on hotels and other buildings also edged up. Investment in office and industrial buildings continued to fall in October, but the declines were less severe than they were in the third quarter.

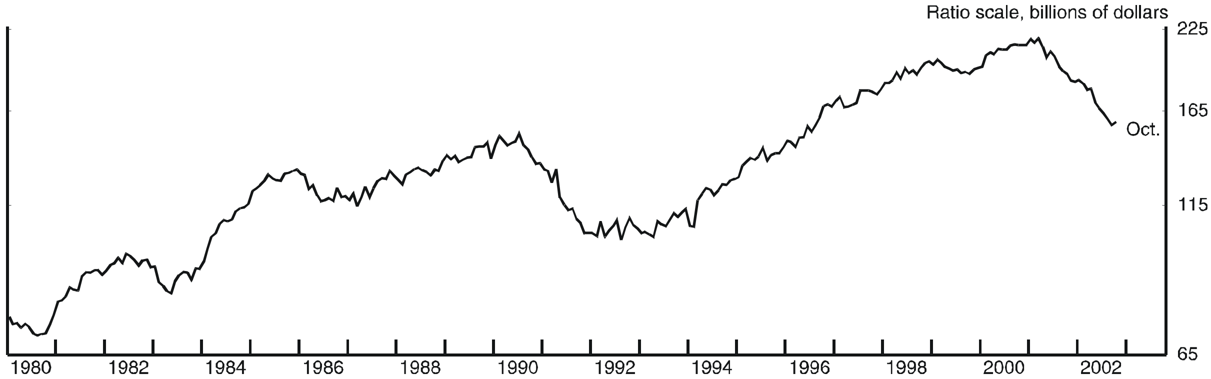
---

8. Orders for communications equipment at domestic producers have also trended lower this year, but they have fluctuated widely, apparently because of unstable seasonal patterns in the orders series.

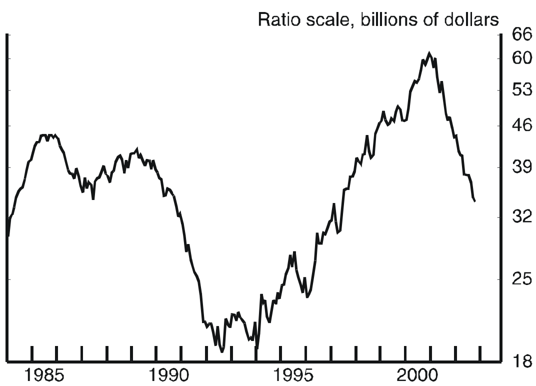
9. The recent enactment of a federal terrorism insurance bill is not expected to have much effect on construction expenditures.

Nonresidential Construction
(Seasonally adjusted, annual rate)

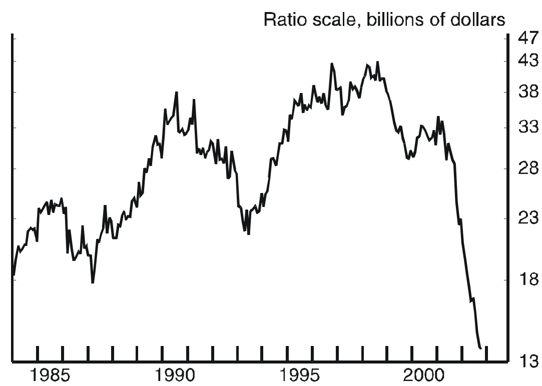
Total Building



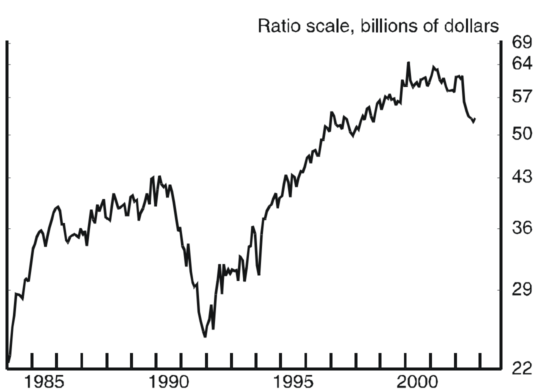
Office



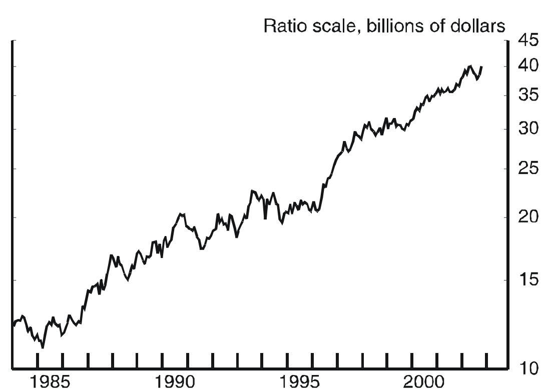
Industrial



Other Commercial



Institutional



Some other recent indicators, though remaining quite weak overall, may also be hinting at a moderation in the rates of decline in nonresidential construction. In the office sector, vacancy rates moved up again in the third quarter, but the increase was considerably smaller than in the previous two years. In addition, although office property values and rents continued to decrease last quarter on a year-over-year basis, losses in office-building values have moderated significantly since the beginning of the year. Property values for retail space were actually higher last quarter than they were a year earlier, though rents continued to fall. But the warehouse market showed little sign of improvement last quarter. In the industrial sector, vacancy rates moved up again in the third quarter, but, as in the office sector, the increase was quite small compared with those seen during the previous two years.

Outside the buildings component of construction, a small increase in the number of petroleum drilling rigs in operation in October and November partially offset a decline in natural gas rigs in operation. These data suggest that spending for drilling structures used with the rigs has been little changed so far in the fourth quarter.

Business Inventories

Real nonfarm inventories excluding motor vehicles increased at an annual rate of $9.3 billion in the third quarter after having declined $15.4 billion in the second quarter. This positive swing in inventory investment added about 1 percentage point to the growth of GDP in the third quarter. In October, manufacturing inventories were little changed, as continued drawdowns for many types of durable goods offset modest stockbuilding of nondurable goods. The book value data provide no evidence of substantial inventory overhangs outside of motor vehicles and parts. In addition, the West Coast dock disruptions do not appear to have been large enough to affect the level of aggregate inventories.

Using the staff's flow-of-goods system, which measures stocks wherever held and values them at factory-gate prices, inventories jumped by 2-1/2 days' worth of consumption during September and October. Most of this increase was due to a sharp run-up in stocks of motor vehicles and parts. Excluding motor vehicles and parts, the ratio of inventories to consumption remained near its average of the past few years, with only scattered imbalances evident across industries.

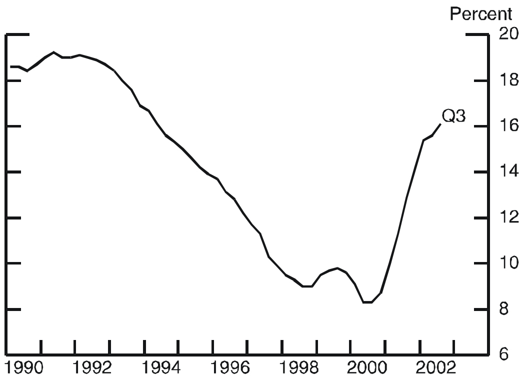
Federal Government

The federal budget situation has continued to deteriorate. The federal government recorded a $54 billion unified deficit in October; this compares with a $31 billion deficit a year earlier (after adjusting for timing shifts). October receipts dropped $9 billion, or 7 percent, from last October on an adjusted

Indicators of Nonresidential Construction

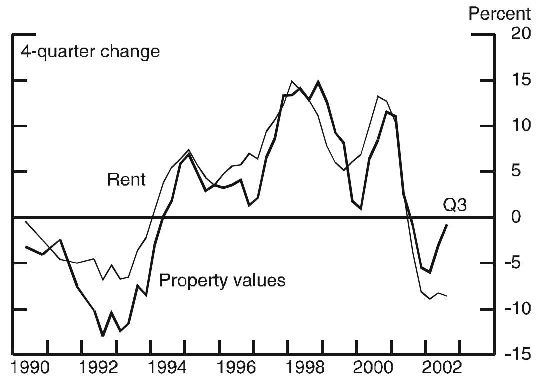
Office Buildings

Vacancy Rate



Source. Torto Wheaton Research.

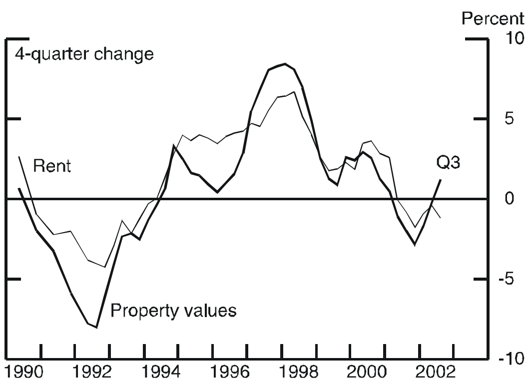
Property Values and Rent



Source. National Real Estate Index.

Retail Space

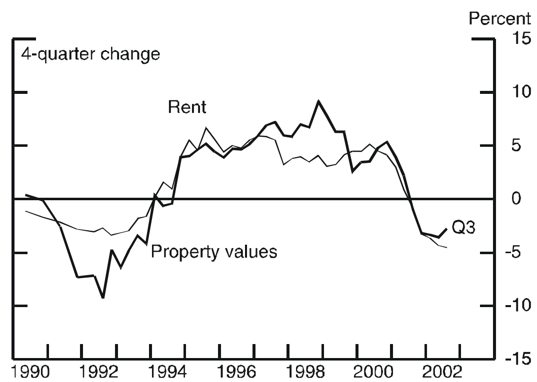
Property Values and Rent



Source. National Real Estate Index.

Warehouses

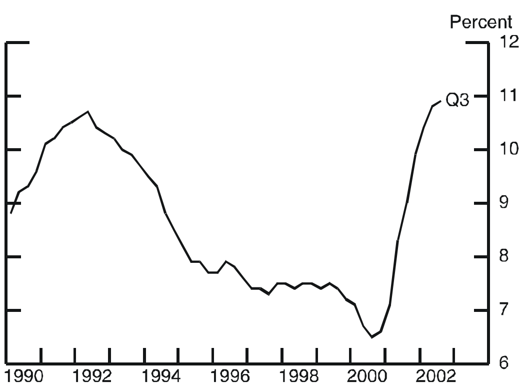
Property Values and Rent



Source. National Real Estate Index.

Industrial

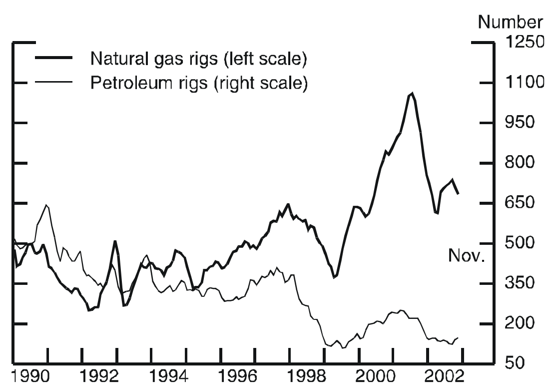
Vacancy Rate



Source. Torto Wheaton Research.

Drilling Structures

Rigs in Operation

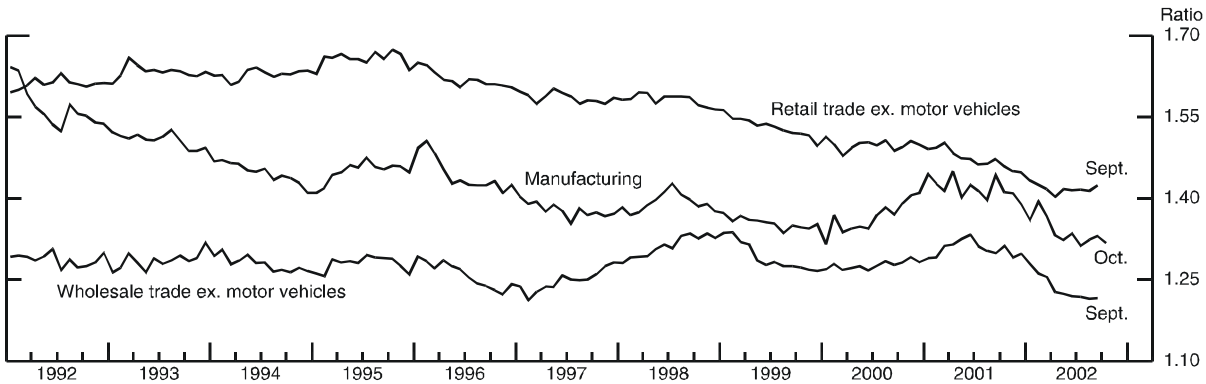


Note. November values are averages through November 27.
Source. DOE/Baker Hughes.

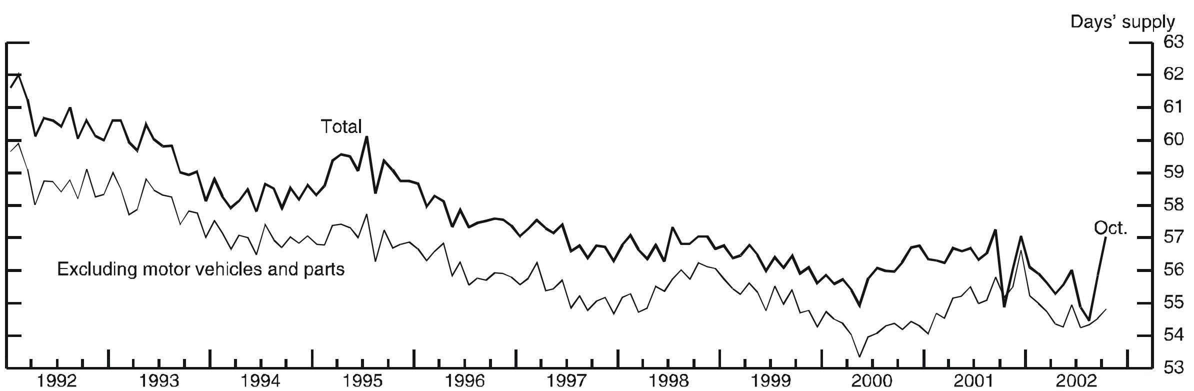
Changes in Manufacturing and Trade Inventories
(Billions of dollars, seasonally adjusted book value, annual rate)

Category	2002 Q1	2002 Q2	2002 Q3	2002 Aug.	2002 Sept.	2002 Oct.
Manufacturing and trade	-26.7	12.6	48.3	8.5	78.1	n.a.
Less wholesale and retail motor vehicles	-45.1	-11.5	28.9	19.3	39.4	n.a.
Manufacturing	-30.9	-12.8	4.6	6.9	9.7	0.3
Less aircraft	-25.4	-10.7	10.2	9.7	16.7	2.6
Merchant wholesalers	-17.1	-5.6	13.5	3.2	16.4	n.a.
Less motor vehicles	-13.3	-7.7	11.8	10.0	8.8	n.a.
Retail trade	21.3	31.0	30.2	-1.6	51.9	n.a.
Automotive dealers	22.1	22.0	17.7	-4.0	31.1	n.a.
Less automotive dealers	-0.8	9.0	12.5	2.3	20.9	n.a.

Book Value Inventories Relative to Shipments and Sales: Manufacturing and Trade



Inventory-Consumption Ratios, Flow-of-Goods System



Federal Government Outlays and Receipts

(Unified basis; billions of dollars)

Function or source	October 2001	October 2002	October Percent change	12 months ending in October 2001	12 months ending in October 2002	12 months ending in October Percent change
Outlays	164.8	178.9	8.6	1,881.4	2,025.9	7.7
Financial transactions[1]	-0.1	-0.3	...	-2.5	-1.2	...
Payment timing[2]	0.0	0.0	...	-0.0	-0.6	...
Adjusted outlays	164.9	179.2	8.6	1,884.0	2,027.7	7.6
Receipts	157.2	124.9	-20.5	2,012.4	1,821.1	-9.5
Payment timing[3]	23.0	0.0	...	0.0	0.0	...
Adjusted receipts	134.2	124.9	-6.9	2,012.4	1,821.1	-9.5
Surplus/deficit(-)	-7.7	-54.0	...	130.9	-204.9	...
	Selected components of adjusted outlays and receipts					
Adjusted outlays	164.9	179.2	8.6	1,884.0	2,027.7	7.6
Net interest	16.2	14.5	-10.2	203.8	169.6	-16.8
Non-interest	148.8	164.7	10.7	1,680.1	1,858.1	10.6
National defense	26.4	30.4	15.2	309.7	351.7	13.6
Social security	36.3	38.2	5.4	434.7	458.4	5.4
Medicare	17.2	21.7	26.3	217.4	235.6	8.4
Medicaid	13.4	14.4	6.8	131.4	148.4	12.9
Income security	21.7	25.9	19.4	268.5	313.7	16.9
Agriculture	5.3	4.4	-15.9	28.6	23.5	-17.8
Other	28.6	29.7	3.9	289.9	326.8	12.7
Adjusted receipts	134.2	124.9	-6.9	2,012.4	1,821.1	-9.5
Individual income and payroll taxes	124.2	115.7	-6.9	1,653.5	1,513.2	-8.5
Withheld + FICA	116.2	109.2	-6.0	1,416.1	1,370.1	-3.2
Nonwithheld + SECA	10.1	8.5	-16.1	420.5	322.5	-23.3
Refunds (-)	2.0	2.0	-2.2	183.2	179.3	-2.1
Corporate	-3.3	-4.1	26.4	169.1	124.2	-26.6
Gross	7.1	7.1	-0.9	209.8	188.4	-10.2
Refunds (-)	10.4	11.2	7.6	40.6	64.2	57.9
Other	13.2	13.4	1.5	189.8	183.6	-3.2
Adjusted surplus/deficit(-)	-30.8	-54.3	...	128.4	-206.6	...

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.

basis.[10] The decline was concentrated in individual income and payroll tax receipts and reflects the reductions in income tax rates implemented this year. Meanwhile, outlays in October rose $14 billion, or 9 percent, from last October. Contributing to this jump were large increases in outlays for defense, Medicare, and unemployment benefits. The increase in total outlays was held down by a reduction in interest payments that was induced by lower interest rates.

Ongoing disputes over nondefense spending continued to impede progress on fiscal 2003 appropriations during the lame duck session, and the Congress passed a continuing resolution that provides funding for nondefense agencies through January 11, 2002. Subsequently, the Republican Congressional leaders appear to have reached agreement with the Administration on the level of total discretionary spending, although the details of the plan will need to be worked out in January. Congress has not yet extended the temporary extended unemployment compensation (TEUC) program, which is scheduled to expire on December 31, 2002; however, most analysts expect this program to be renewed after the turn of the year. The recent creation of a Department of Homeland Security is largely a reorganization of existing agencies and will have little immediate impact on the budget.

State and Local Governments
Available information indicates that growth in state and local spending for consumption and investment remained subdued in the early part of the fourth quarter. Payroll employment in this sector increased only 11,000 in October, down from the 18,000 monthly average rise during the first three quarters of the year and well below the 38,000 average monthly gain during 2001. Much of the weakness in employment in recent months has been at state governments and appears to reflect widespread fiscal difficulties. Real construction put in place fell back in October. But state and local construction has been on an upward trend since early summer, and the October level stood a bit above the third-quarter average. In October, highway construction dropped substantially, but real outlays for education facilities rose to a new record.

The fiscal pressure on state and local governments is intense. Since the November elections, some state governors and governors-elect have announced proposals to deal with worsening imbalances in their general-fund budgets, which, except in Vermont, are all under various types of balanced-budget requirements. Program cuts so far appear to remain the predominant ingredient in most of these proposals, but tax hikes have begun to garner more attention.

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10. On an unadjusted basis, the decline in receipts was more pronounced. Adjustments remove the effect of the Economic Growth and Tax Relief Reconciliation Act of 2001, which allowed corporations to shift about $23 billion in payments from September to October, 2001. Corporate payments returned to their normal schedule in 2002.

RECENT PRICE INDICATORS
(Percent)

	From 12 months earlier		From 3 months earlier		2002	
	Oct. 2001	Oct. 2002	July 2002	Oct. 2002	Sept.	Oct.
			-Annual rate-		-Monthly rate-	
CPI						
Total	2.1	2.0	0.9	3.1	0.2	0.3
Food	3.4	0.9	-0.2	0.9	0.2	0.1
Energy	-5.6	3.0	-1.3	13.4	0.7	1.9
Ex. food and energy	2.6	2.2	1.5	2.3	0.1	0.2
Ex. tobacco	2.5	2.2	1.4	2.3	0.1	0.2
Core commodities	0.0	-1.2	-2.2	0.3	0.0	-0.1
Core services	3.7	3.7	3.0	3.5	0.1	0.3
Current-methods total	2.1	2.0	0.9	3.1	0.2	0.3
Ex. food and energy	2.6	2.2	1.5	2.3	0.1	0.2
Ex. tobacco	2.5	2.2	1.4	2.3	0.1	0.2
Chained CPI (NSA)	1.5	1.7	--	--	--	--
Ex. food and energy	1.7	1.7	--	--	--	--
PCE Prices						
Total	1.7	1.7	0.9	2.6	0.2	0.2
Food	3.3	1.2	0.2	1.3	0.2	0.1
Energy	-6.0	3.0	-1.9	14.6	0.8	2.1
Ex. food and energy	1.9	1.8	1.2	2.3	0.2	0.1
Ex. tobacco	1.8	1.7	1.2	2.2	0.1	0.2
Core commodities	-0.8	-1.2	-2.8	0.0	0.1	-0.2
Core services	3.0	3.1	3.0	3.2	0.2	0.3
Core market-based	1.7	1.3	0.4	2.0	0.1	0.1
Core nonmarket-based	2.5	3.3	4.2	3.1	0.2	0.2
PPI						
Total finished goods	-0.3	0.6	-1.7	4.7	0.1	1.1
Food	3.0	-2.2	-0.6	-1.1	-0.6	0.7
Energy	-9.6	4.9	-6.5	27.3	0.9	4.2
Ex. food and energy	0.9	0.5	-0.5	1.6	0.1	0.5
Ex. tobacco	0.3	0.2	-0.6	1.7	0.1	0.5
Core consumer goods	1.3	1.0	-0.5	2.3	0.1	0.6
Capital equipment	0.1	-0.2	-0.9	0.9	0.0	0.4
Intermediate materials	-2.4	1.6	0.9	6.4	0.5	0.7
Ex. food and energy	-1.2	1.0	2.1	2.1	0.1	0.1
Crude materials	-25.1	14.3	-6.5	25.0	0.6	3.4
Ex. food and energy	-10.8	10.8	28.6	2.9	-0.6	0.9

Because budget stabilization funds are depleted in some states, less funding is expected to come from such rainy-day funds this year compared to last year. Rather, many governments are expected to transfer funds from other types of reserve accounts into their general funds to help cover prospective shortfalls. Meanwhile, revenue inflows for the state and local sector as a whole have begun to strengthen a bit. Own-source revenue—that is, the sum of personal, corporate, and indirect business tax and nontax receipts—rose 2.7 percent over the four quarters ending in 2002:Q3, the largest advance since the end of 2000; however, the increase is still well below rates seen in the mid-to-late 1990s.

Prices

Inflation for consumer goods and services other than food and energy has continued to edge lower. The core CPI rose a moderate 0.2 percent in October, bringing its twelve-month change to 2.2 percent, 0.4 percentage point lower than its increase in the comparable period twelve months earlier. The 1.8 percent rise in the core PCE price index over the twelve months ending in October was marginally less than the rise over the previous year; this deceleration would have been more pronounced if not for an acceleration in the erratic nonmarket component of these prices.

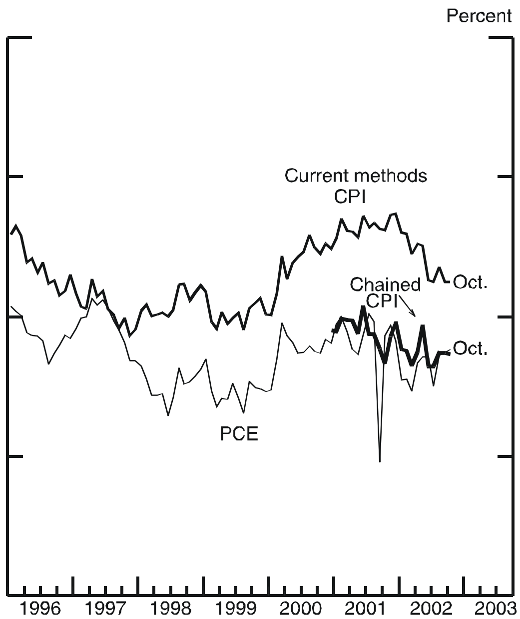
The CPI for services excluding energy increased 0.3 percent in October and is up 3.7 percent over the past twelve months—the same rate of increase as over the preceding year but down from the twelve-month changes of 4 percent that prevailed last winter. The price index for commodities excluding food and energy edged down 0.1 percent in October, as sharp drops in tobacco and used motor vehicle prices more than offset a 0.4 percent rise in new motor vehicle prices. As noted earlier, these motor vehicle price increases reflected smaller incentives on 2003 model-year vehicles.[11]

The chained CPI excluding food and energy—which takes better account than the official CPI of consumer substitution among different items—shows inflation running at 1.7 percent over the past twelve months, unchanged from a year earlier. However, month-to-month changes in the chained CPI have been more erratic than in the official CPI, and smoothing through this monthly volatility, inflation as measured by the chained CPI also appears to have edged lower over the past year. Some deceleration in inflation appears as well in the core market-based PCE price index which, like the chained CPI, uses a superlative aggregation formula that takes consumer substitution into account. Core market-based PCE prices rose 1.3 percent over the twelve months ending in October, 0.4 percentage point less than a year earlier. More rapid increases for prices of nonmarket

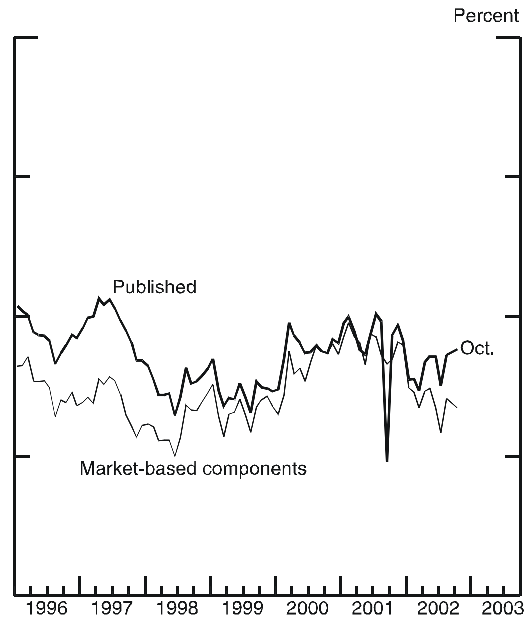
11. Vehicle prices in October rose much more in the PPI than in the CPI because the 2003 model-year vehicles were brought into the PPI all at once in October; they are included in the CPI only gradually as the composition of purchased vehicles changes.

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

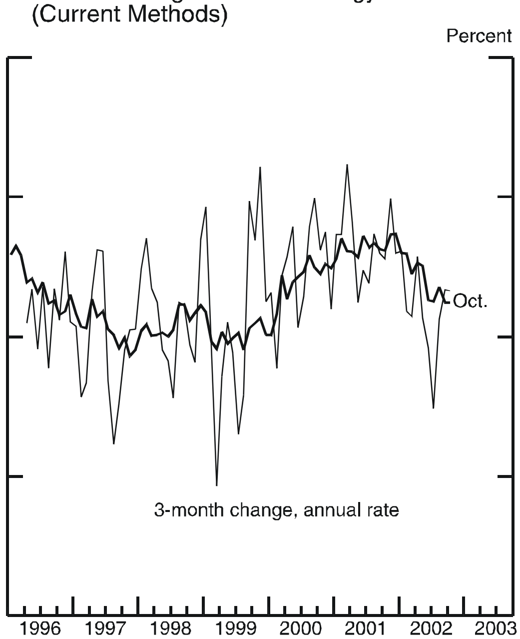
CPI and PCE excluding Food and Energy



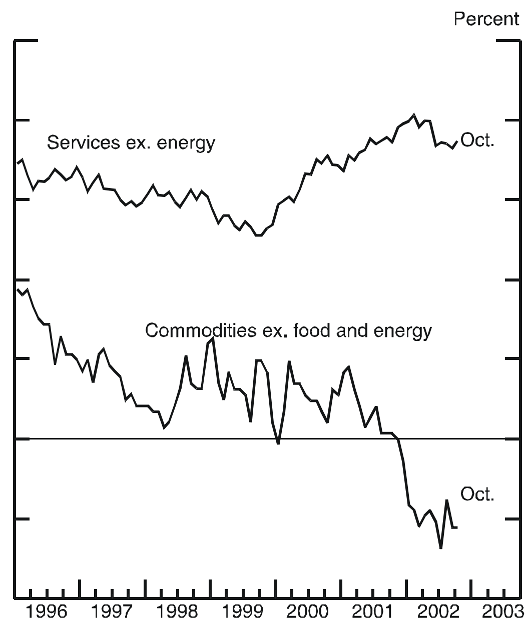
PCE excluding Food and Energy



CPI excluding Food and Energy
(Current Methods)



CPI Services and Commodities



services—items for which accurate prices are difficult to estimate—accounted for the smaller deceleration in the overall core PCE price index noted above.

Consumer energy prices rose notably in October. In particular, the CPI for gasoline jumped 3.4 percent, reflecting temporary interruptions of oil refinery operations caused by Tropical Storm Isidore and Hurricane Lili. But wholesale inventories are gradually returning to normal levels, and survey data suggest that gasoline prices declined in November. Meanwhile, food prices edged up 0.1 percent last month. Over the past twelve months, overall food prices have increased less than 1 percent after rising nearly 3-1/2 percent over the preceding year. Much of this deceleration reflected declines in prices of livestock products following large supply-related increases during the earlier period.

Broader price indexes have decelerated more than consumption prices over the past year. After abstracting from the adjustments that the BEA made to the data for 2001:Q3 to account for insurance payments associated with the terrorist attacks, the price index for GDP has increased 1 percent over the past four quarters, its smallest increase since 1963 and down from a 2.4 percent increase over the preceding year.[12] About half of this deceleration reflects movements in food and energy prices. In addition, there has been an especially sharp deceleration over the past year in prices for construction of residential and nonresidential structures. Some of that slowing reflects erratic movements in the prices of structures in the drilling and mining sector, but price increases for the construction of buildings have slowed sharply as well.

Near-term inflation expectations from the Michigan survey have moved somewhat lower in the past two months. The median expectation for inflation over the coming year edged down to 2.4 percent in November, continuing a gradual downward slide from 2.8 percent in April. Mean one-year expectations also fell for a second month in a row after a substantial uptick in September. Expectations of inflation over the next five to ten years were little changed in November and, at 2-3/4 percent, remain within the range observed during the past year.

Prices at earlier stages of processing have increased. The PPI for intermediate goods other than food and energy inched up 0.1 percent in October and was 1.0 percent above its year-earlier level. The PPI for core crude materials rose 0.9 percent in October. Since the last Greenbook, broad-based spot commodity price indexes have moved higher; the Journal of Commerce industrial price index and the Commodity Research Bureau index of spot industrial prices are each up about 1 percent.

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12. Because a large share of insurance services are purchased from abroad, the BEA's insurance adjustments boosted GDP prices in 2001:Q3 even as they reduced consumption prices.

BROAD MEASURES OF INFLATION
(4-quarter percent change)

	1999 Q3	2000 Q3	2001 Q3	2002 Q3
Product prices				
GDP chain price index	1.4	2.2	2.6	0.8
Less food and energy	1.4	2.0	2.3	1.0
Nonfarm business chain price index[1]	1.2	1.8	2.1	0.0
Expenditure prices				
Gross domestic purchases chain price index	1.6	2.6	1.7	1.3
Less food and energy	1.3	2.0	1.6	1.5
PCE chain price index	1.8	2.5	1.8	1.6
Less food and energy	1.4	1.8	1.6	2.0
PCE chain price index, market-based components	1.7	2.7	1.9	1.0
Less food and energy	1.3	1.7	1.7	1.3
CPI	2.3	3.5	2.7	1.6
Less food and energy	2.0	2.6	2.7	2.3
Current-methods CPI	2.3	3.4	2.7	1.6
Less food and energy	2.0	2.5	2.6	2.3
Median CPI	2.5	2.8	3.9	3.4
Trimmed mean CPI	1.7	2.7	2.7	2.1

1. Excluding housing.

SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

	Actual inflation[1]	University of Michigan: 1 year Mean[2]	University of Michigan: 1 year Median[2]	University of Michigan: 5 to 10 years Mean[3]	University of Michigan: 5 to 10 years Median[3]	Professional forecasters (10-year)[4]
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
Q4						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.	2.0	2.9	2.5	3.3	2.8	
Nov.		2.5	2.4	3.3	2.8	
Dec.						2.5

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

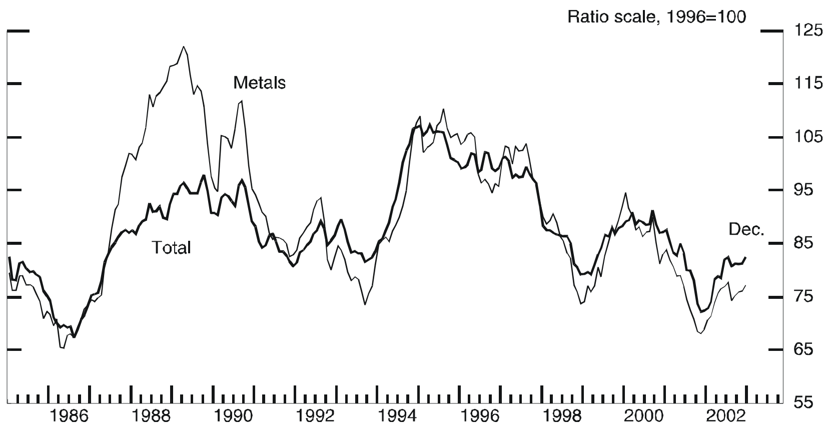
SPOT PRICES OF SELECTED COMMODITIES

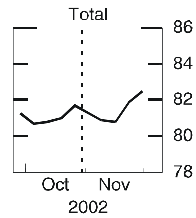
	Current price (dollars)	Percent change[1] 2000	2001	Dec. 25 to Oct. 29[2]	Oct. 29[2] to Dec. 03	Memo: Year earlier to date
Metals						
Copper (lb.)	0.770	5.7	-22.0	5.6	2.7	4.1
Steel scrap (ton)	97.000	-32.7	-17.7	58.5	-5.8	49.2
Aluminum, London (lb.)	0.621	1.9	-14.3	0.0	2.5	-0.2
Precious metals						
Gold (oz.)	319.700	-4.7	1.2	14.3	0.8	15.6
Silver (oz.)	4.540	-11.2	-3.5	0.3	0.4	8.4
Forest products[3]						
Lumber (m. bdft.)	181.000	-41.5	25.0	-10.2	-10.4	-15.0
Plywood (m. sqft.)	294.000	-4.9	3.2	3.1	-1.3	-0.3
Petroleum						
Crude oil (barrel)	25.850	-1.1	-16.3	38.7	0.2	34.8
Gasoline (gal.)	0.737	7.6	-28.0	51.0	-7.6	41.3
Fuel oil (gal.)	0.776	24.6	-42.6	29.4	10.0	49.8
Livestock						
Steers (cwt.)	72.430	9.9	-19.7	8.3	8.1	10.0
Hogs (cwt.)	31.500	10.2	-9.9	-23.5	21.2	-3.1
Broilers (lb.)	0.509	-13.9	3.7	-3.9	2.7	-0.9
U.S. farm crops						
Corn (bu.)	2.320	11.4	-4.1	20.6	-3.3	16.0
Wheat (bu.)	4.485	31.4	-8.9	57.2	-10.1	36.9
Soybeans (bu.)	5.545	13.1	-13.4	28.1	1.7	27.5
Cotton (lb.)	0.439	31.4	-45.7	32.7	3.8	35.0
Other foodstuffs						
Coffee (lb.)	0.538	-47.8	-35.3	5.7	15.6	32.7
Memo:						
JOC Industrials	82.500	-0.1	-17.1	13.5	1.0	12.9
JOC Metals	77.200	-9.3	-17.0	11.8	-0.3	10.1
CRB Futures	231.250	12.0	-16.3	18.7	1.7	21.4
CRB Spot Industrials	245.040	-2.7	-14.6	10.5	1.1	9.9

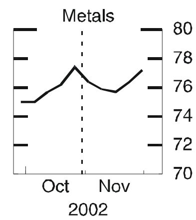
1. Changes, if not specified, are from the last week of the preceding year to the last week of the period indicated.
2. Week of the October Greenbook.
3. Reflects prices on the Friday before the date indicated.

Commodity Price Measures

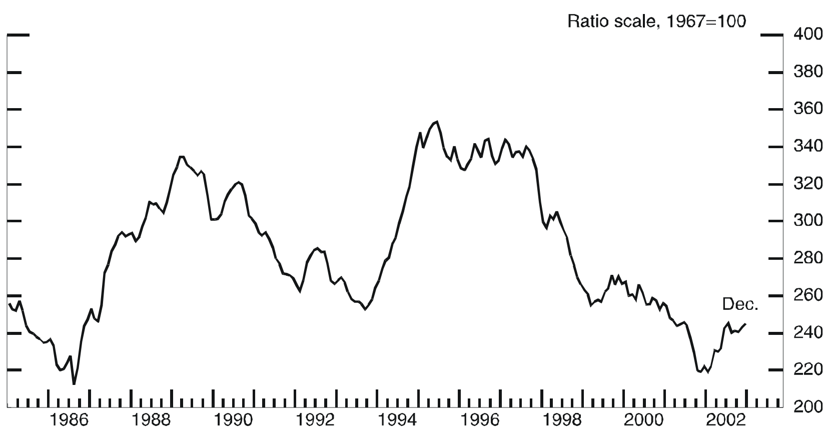
Journal of Commerce Index

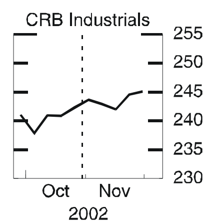




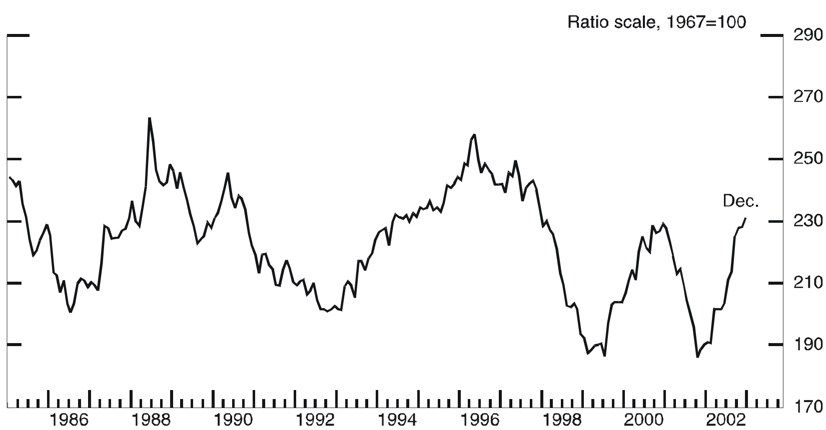


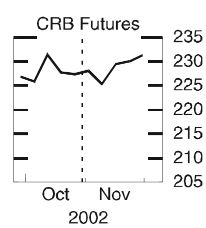
CRB Spot Industrials





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.

We have received little new information on labor costs since the last Greenbook. Compensation per hour in the nonfarm business sector increased at an annual rate of 4.9 percent in the third quarter, bringing the four-quarter change in this series to 3.3 percent. These figures are only slightly different from the estimates reported in the last Greenbook supplement.

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

	2000[1]	2001[1]	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2001:Q3 to 2002:Q3
Compensation per hour							
Total business	7.3	1.5	1.4	3.0	4.2	5.3	3.5
Nonfarm business	7.2	1.4	1.5	2.9	3.9	4.9	3.3
Nonfinancial corporations[2]	7.3	1.4	2.7	3.4	4.4	5.7	4.0
Unit labor costs							
Total business	4.9	-0.4	-5.8	-4.9	2.4	-0.1	-2.2
Nonfarm business	4.9	-0.5	-5.4	-5.3	2.2	-0.2	-2.2
Nonfinancial corporations[2]	3.9	-1.8	-7.3	-1.2	-1.3	0.0	-2.5

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

Measures of Compensation per Hour
(4-quarter change)

Domestic Financial Developments

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

Instrument	2000 June 26	2001 Sept. 10	2002 Nov. 5	2002 Dec. 3	Change to Dec. 3 from selected dates (percentage points): 2000 June 26	2001 Sept. 10	2002 Nov. 5
Short-term							
FOMC intended federal funds rate	6.50	3.50	1.75	1.25	-5.25	-2.25	-.50
Treasury bills [1]							
3-month	5.66	3.19	1.40	1.21	-4.45	-1.98	-.19
6-month	5.94	3.13	1.38	1.29	-4.65	-1.84	-.09
Commercial paper (A1/P1 rates)							
1-month	6.56	3.42	1.54	1.28	-5.28	-2.14	-.26
3-month	6.56	3.24	1.49	1.30	-5.26	-1.94	-.19
Large negotiable CDs [1]							
1-month	6.64	3.46	1.57	1.37	-5.27	-2.09	-.20
3-month	6.73	3.26	1.55	1.37	-5.36	-1.89	-.18
6-month	6.89	3.24	1.52	1.38	-5.51	-1.86	-.14
Eurodollar deposits [2]							
1-month	6.63	3.41	1.55	1.38	-5.25	-2.03	-.17
3-month	6.69	3.26	1.55	1.37	-5.32	-1.89	-.18
Bank prime rate	9.50	6.50	4.75	4.25	-5.25	-2.25	-.50
Intermediate- and long-term							
U.S. Treasury [3]							
2-year	6.54	3.59	1.83	2.10	-4.44	-1.49	.27
10-year	6.35	5.14	4.38	4.54	-1.81	-.60	.16
30-year	6.22	5.55	5.25	5.27	-.95	-.28	.02
U.S. Treasury 10-year indexed note	4.09	3.26	2.46	2.56	-1.53	-.70	.10
Municipal revenue (Bond Buyer) [4]	5.99	5.25	5.20	5.28	-.71	.03	.08
Private instruments							
10-year swap	7.38	5.62	4.62	4.67	-2.71	-.95	.05
10-year FNMA	7.15	5.64	4.71	4.75	-2.40	-.89	.04
10-year AA [5]	7.64	6.30	5.65	5.59	-2.05	-.71	-.06
10-year BBB [5]	8.40	7.11	7.30	7.08	-1.32	-.03	-.22
High yield [6]	12.30	12.72	13.49	12.27	-.03	-.45	-1.22
Home mortgages (FHLMC survey rate) [7]							
30-year fixed	8.14	6.89	6.13	6.13	-2.01	-.76	.00
1-year adjustable	7.22	5.64	4.25	4.19	-3.03	-1.45	-.06

Stock exchange index	Record high: Level	Record high: Date	2001 Sept. 10	2002 Nov. 5	2002 Dec. 3	Change to Dec. 3 from selected dates (percent): Record high	2001 Sept. 10	2002 Nov. 5
Dow-Jones Industrial	11,723	1-14-00	9,606	8,678	8,743	-25.42	-8.98	.75
S&P 500 Composite	1,527	3-24-00	1,093	915	921	-39.72	-15.72	.59
Nasdaq (OTC)	5,049	3-10-00	1,695	1,401	1,449	-71.30	-14.53	3.41
Russell 2000	606	3-9-00	441	386	401	-33.87	-9.05	3.82
Wilshire 5000	14,752	3-24-00	10,104	8,624	8,706	-40.98	-13.84	.95

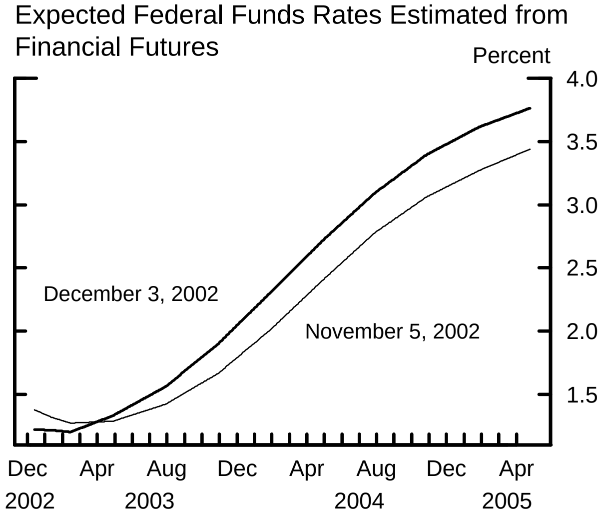
1. Secondary market.
2. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.
3. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
4. Most recent Thursday quote.
5. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.
6. Merrill Lynch Master II high-yield bond.
7. For week ending Friday previous to date shown.

NOTES:

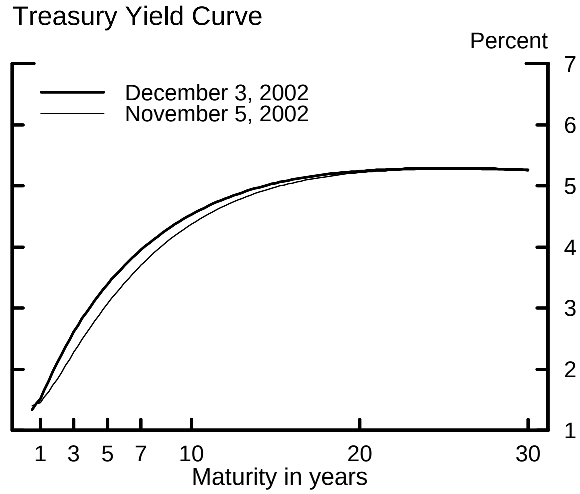
June 26, 2000, is the day before the FOMC meeting that ended the most recent period of policy tightening.
September 10, 2001, is the day before the terrorist attacks.
November 5, 2002, is the day before the most recent FOMC meeting.

BA:DAM

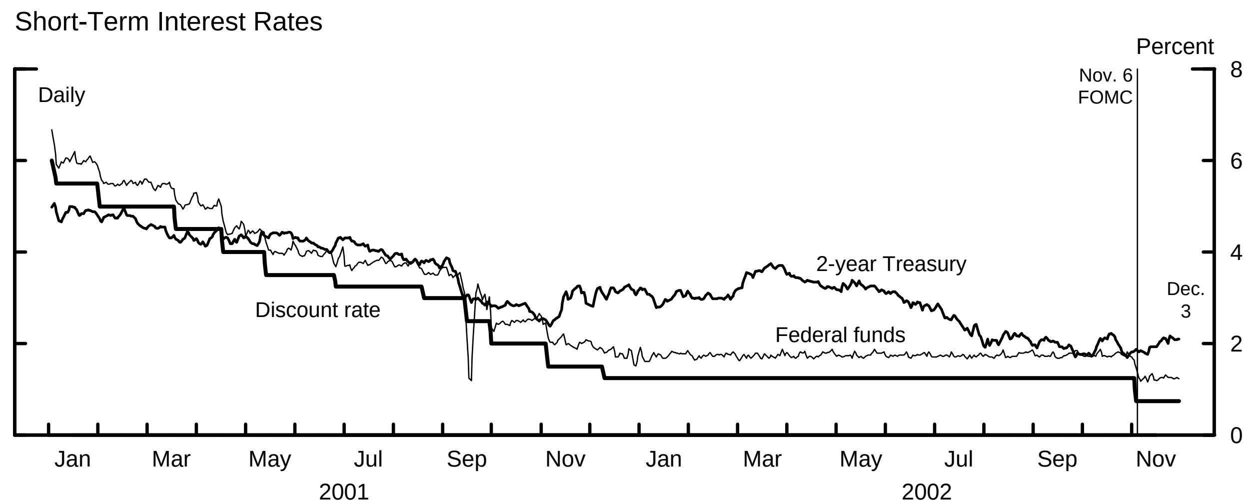
Selected Interest Rates

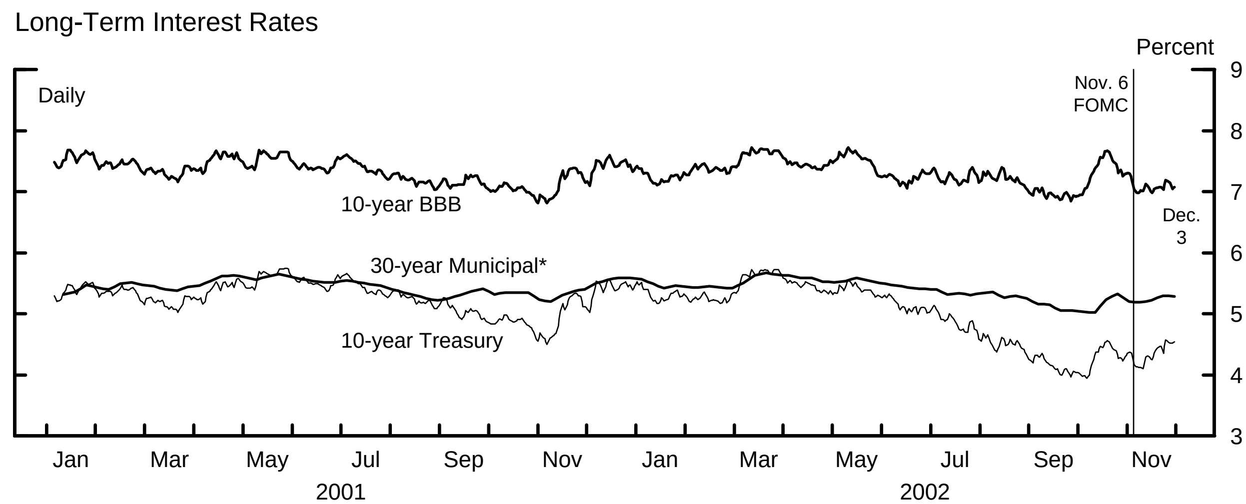


Note. Estimates from federal funds and eurodollar futures rates with an allowance for term premia and other adjustments.



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





*Bond Buyer Revenue, weekly Thursday frequency.

Domestic Financial Developments

Overview

Investors apparently have become more optimistic about economic prospects since the last FOMC meeting, as evidenced by rising equity prices, narrowing credit spreads, and increasing Treasury yields. The FOMC's policy easing on November 6 was larger than expected, and the shift to a balanced assessment of risks also surprised market participants. Those actions, in concert with economic data that were somewhat stronger than expected, seemed to reassure investors that economic activity will accelerate after coasting through the current "soft spot." Consequently, futures rates imply little probability of a policy move at the upcoming meeting, and market participants have marked up their expected path for the funds rate beyond the middle of next year.

Business borrowing has strengthened slightly in recent weeks, as firms have tapped the bond market in greater volume. In the household sector, mortgage borrowing has continued to be brisk, maintained by near-record low mortgage rates. Debt issuance by state and local governments has continued to be supported by low interest rates and weak tax revenues, and federal borrowing has remained substantial.

Interest Rates, Stock Prices, and Corporate Risk Spreads

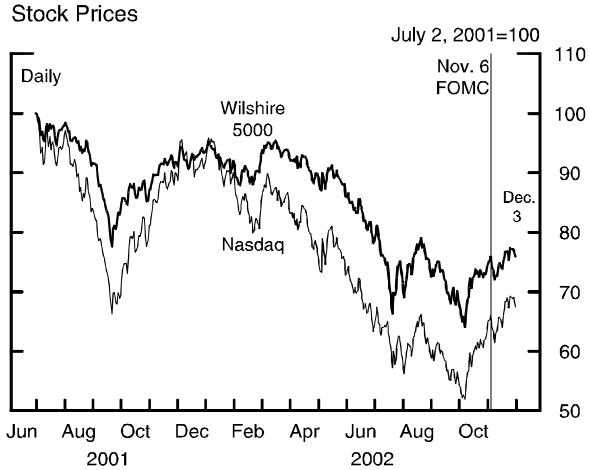
The FOMC's announcement prompted a notable drop in money market yields that afternoon but only small changes in longer-term yields and equity prices. Over subsequent weeks, economic news was apparently read as generally positive, bolstering investors' confidence that the economic recovery was not likely to stall and prompting both equity prices and Treasury yields to rise on balance over the intermeeting period. Judging from options prices, uncertainty about the near-term path for both short- and long-term interest rates appears to have declined, on net, since the last FOMC meeting.

Two- to ten-year Treasury coupon yields finished the period up about 15 to 25 basis points. The increase was greatest in two- to five-year rates, as investors marked up the expected path of policy beyond the next few months. Both survey- and market-based measures of inflation expectations were little changed over the period, implying that the bulk of the increase in Treasury yields represented a rise in real interest rates.

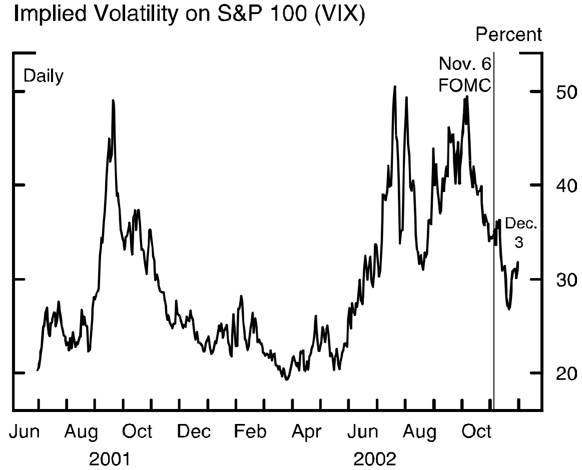
Share prices fell early in the intermeeting period on concerns about earnings in the tech sector and at banks and securities firms but later rallied on the perceived positive tone to economic data and favorable reports from the retail sector, although this positive glow may have diminished somewhat in recent days. Since the last FOMC meeting, broad equity indexes are up 1/2 percent to 1 percent and have risen substantially from the lows of early October. Greater investor confidence in the economic outlook also helped to reduce uncertainty

Stock Prices and Corporate Risk Spreads

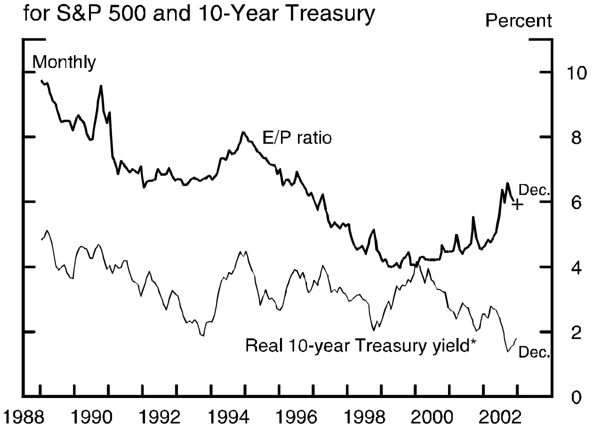
Stock Prices



Implied Volatility on S&P 100 (VIX)



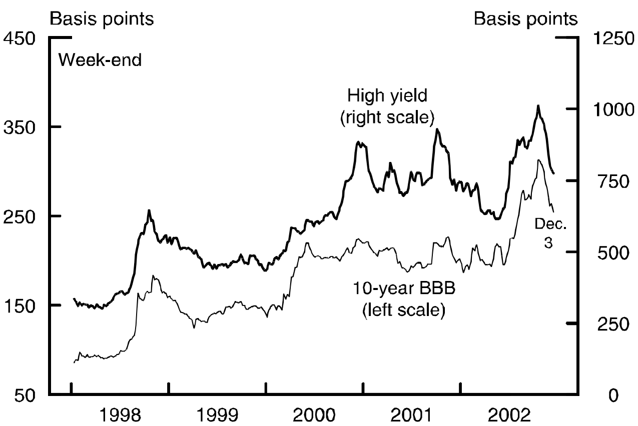
12-Month Forward Earnings-Price Ratio for S&P 500 and 10-Year Treasury



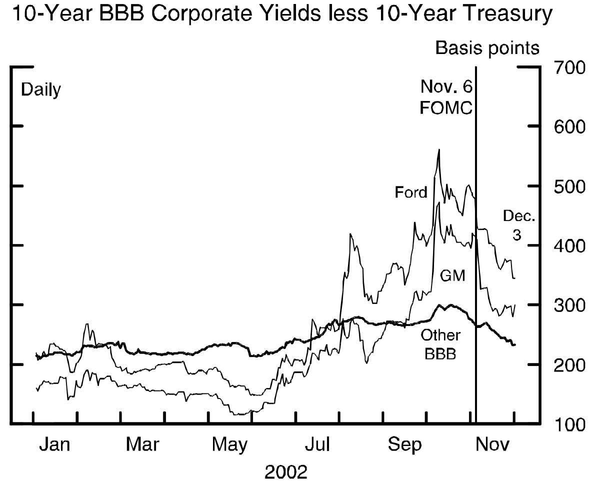
* 10-year Treasury yield minus Philadelphia Fed 10-year expected inflation.

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

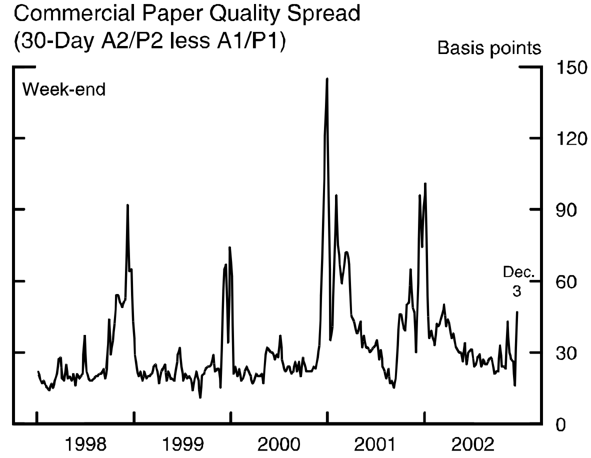
Lower-Tier Risk Spreads to 10-Year Treasury



10-Year BBB Corporate Yields less 10-Year Treasury



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



about near-term share prices, with implied volatility on the S&P 100 declining on balance over recent weeks to its lowest levels since June. Rising share prices, coupled with a small downward revision to year-ahead earnings, nudged the forward earnings-price ratio for the S&P 500 lower in December, but its spread over the real Treasury yield—a crude measure of the equity premium—remains wide in comparison with recent years.

Liquidity in the corporate bond market has reportedly improved from the relatively poor level seen in October, and risk spreads on higher-quality investment-grade corporate bonds narrowed somewhat over the intermeeting period. The risk spreads on BBB-rated corporate bonds—the lowest-rated investment-grade issues—declined more. Part of this decline is the result of spreads on Ford and GM bonds retracing their steep ascent of early October. Risk spreads on speculative-grade bonds, particularly those in the telecom, energy, and utility sectors, fell more than those on investment-grade issues but remain quite elevated by historical standards.

In the commercial paper market, year-end premia are smaller thus far than they have been in the past few years, owing at least in part to the exit of many of the riskiest issuers from the market. The improved tone in corporate debt markets is also reflected in an appreciable narrowing of credit default swap spreads (not shown) for many large commercial banks, investment banks, and finance companies.

Business Finance, Corporate Credit Quality, and Earnings

Equity issuance by nonfinancial firms picked up a bit in November, mainly because of seasoned offerings from utilities attempting to reduce leverage. In contrast, activity in the IPO market remained quite weak despite the recent rise in share prices, reduced volatility, and some brightening in investor sentiment. Based on firms' announcements, share repurchases likely have continued at a moderate pace; the equity retirements from share buybacks and mergers still appear to be outpacing gross issuance, though by a smaller margin than earlier this year.

Gross bond issuance rose to $21 billion in November after an average monthly pace of less than $14 billion from July to October, with speculative-grade firms accounting for most of the pickup mainly because of two large deals to finance the purchase of subsidiaries of telecom firms. Total borrowing by nonfinancial firms turned positive in November after several months of negative readings, partly reflecting the recent tapering off of declines in commercial paper and C&I loans.

Most third-quarter earnings reports were in hand by the time of the November FOMC meeting, with the exception of those of most retailers, which typically

Business Finance

Gross Issuance of Securities by U.S. Corporations

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

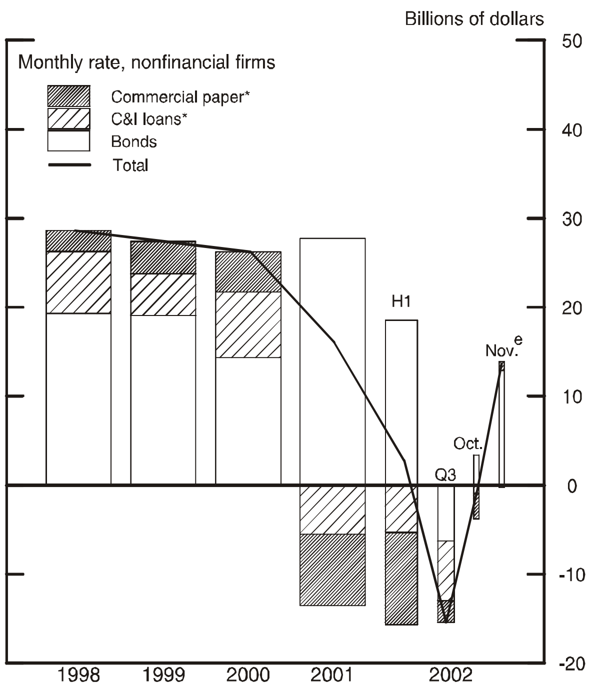
Type of security	1999	2000	2001 H1	2001 H2	2002 H1	2002 Q3	2002 Oct.	2002 Nov.
Nonfinancial corporations								
Stocks [1]	9.2	9.9	7.5	5.5	7.4	1.7	3.7	4.4
Initial public offerings	4.2	4.4	3.2	1.0	1.2	0.1	0.9	0.2
Seasoned offerings	5.0	5.5	4.2	4.5	6.3	1.6	2.7	4.2
Bonds [2]	24.5	20.2	43.1	31.2	28.9	13.0	14.6	21.4
Investment grade [3]	13.9	11.9	28.9	24.0	18.3	10.1	11.2	12.7
Speculative grade [3]	7.5	4.5	11.9	5.8	6.4	1.6	2.2	6.7
Other (sold abroad/unrated)	3.1	3.7	2.4	1.4	4.2	1.4	1.1	2.0
Memo								
Net issuance of commercial paper [4]	3.6	4.5	-14.5	-1.5	-10.4	-2.4	-2.9	1.0
Change in C&I loans at commercial banks [4]	4.7	7.3	-2.9	-7.9	-5.3	-6.7	-0.9	-0.3
Financial corporations								
Stocks [1]	1.8	1.4	3.0	5.5	4.2	3.6	3.8	5.2
Bonds	53.9	47.1	69.9	64.7	76.1	70.2	62.0	78.5

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.

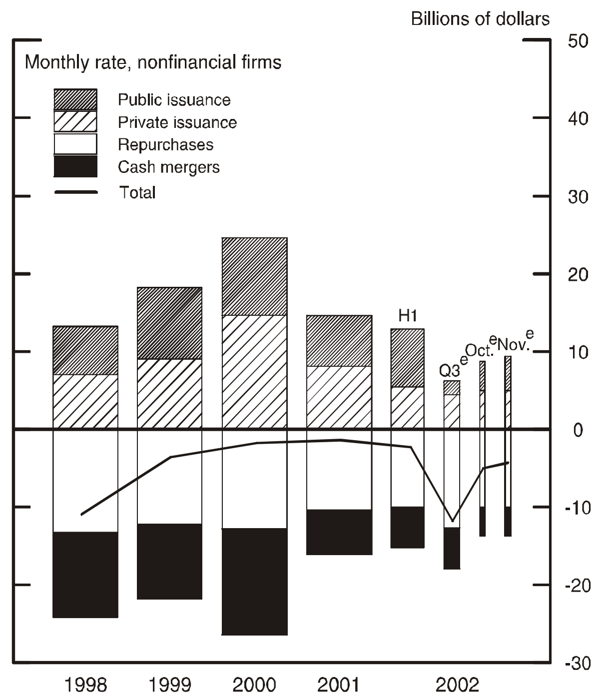
e Staff estimate.

Components of Net Debt Financing



* Seasonally adjusted.
e Staff estimate.

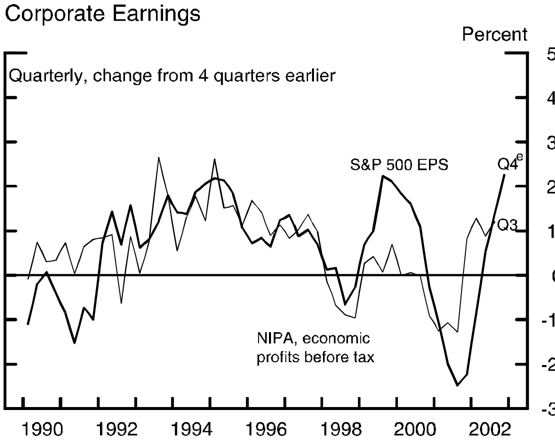
Components of Net Equity Issuance



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

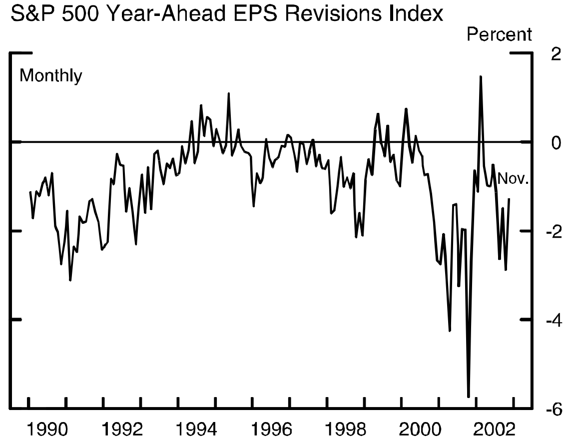
Corporate Credit Quality and Earnings

Corporate Earnings



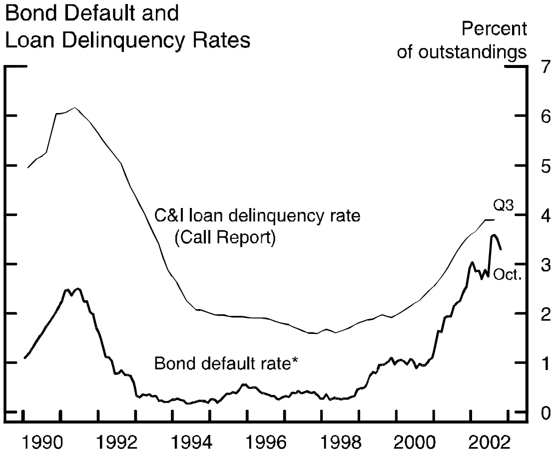
e Analysts' estimate as of Nov. 22.
Source. I/B/E/S for S&P 500 EPS.

S&P 500 Year-Ahead EPS Revisions Index



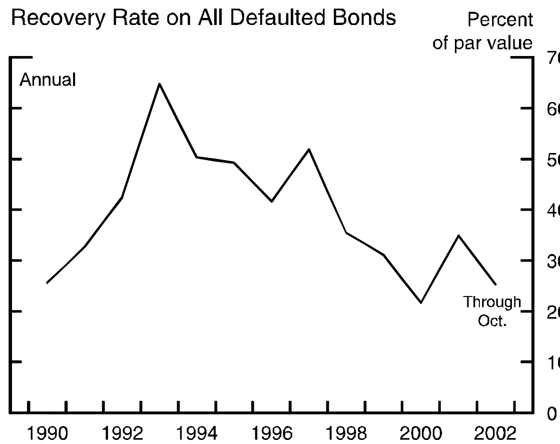
Source. I/B/E/S.

Bond Default and Loan Delinquency Rates



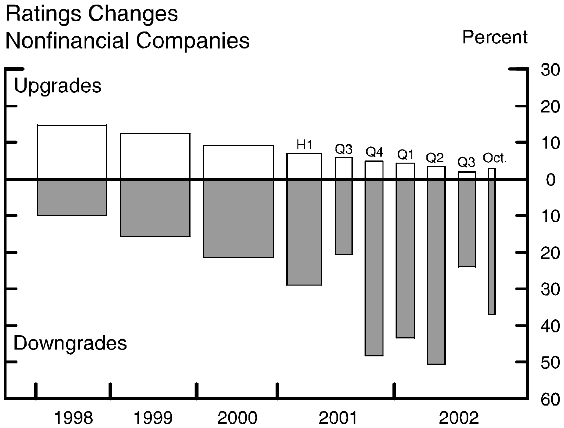
*12-month moving average, from Moody's Investors Service.

Recovery Rate on All Defaulted Bonds



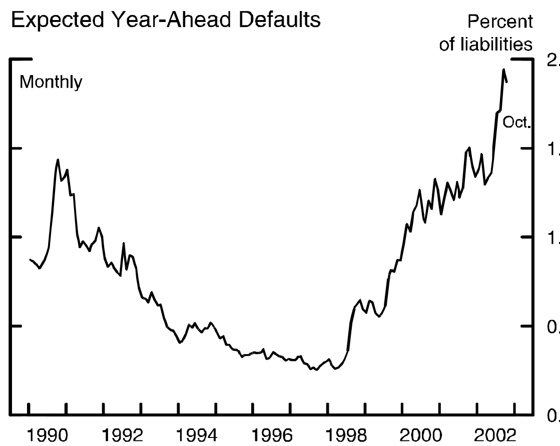
Note. Weighted-average market price at default.
Source. Moody's Investors Service.

Ratings Changes Nonfinancial Companies



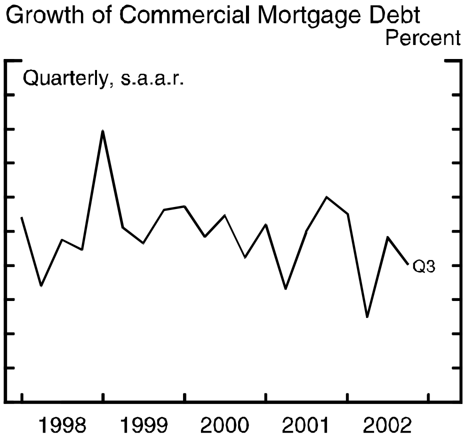
Note. Data are at an annual rate. Debt upgrades (downgrades) as a percentage of par value of all bonds outstanding.
Source. Moody's Investors Service.

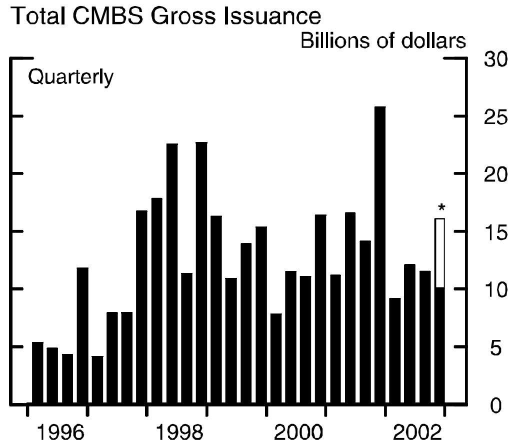
Expected Year-Ahead Defaults



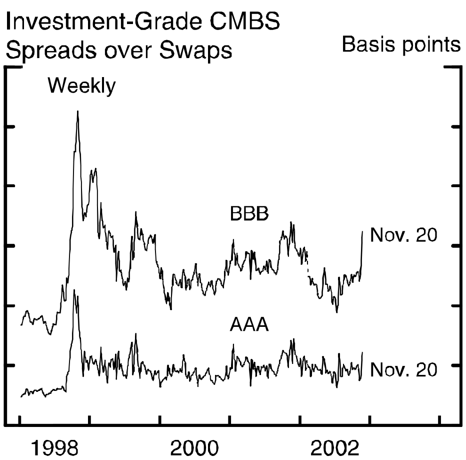
Note. Firm-level estimates of default weighted by firm liabilities as a percent of total liabilities.
Source. KMV Corporation.

Commercial Real Estate

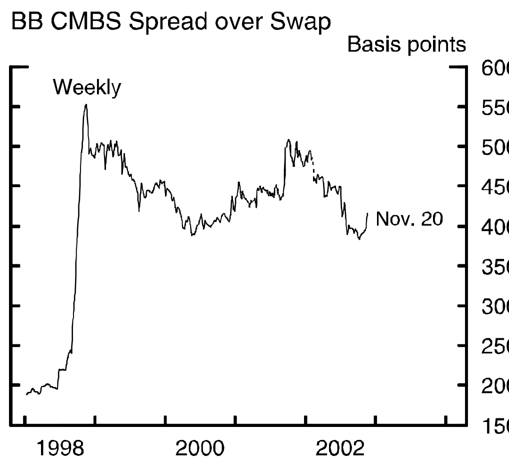




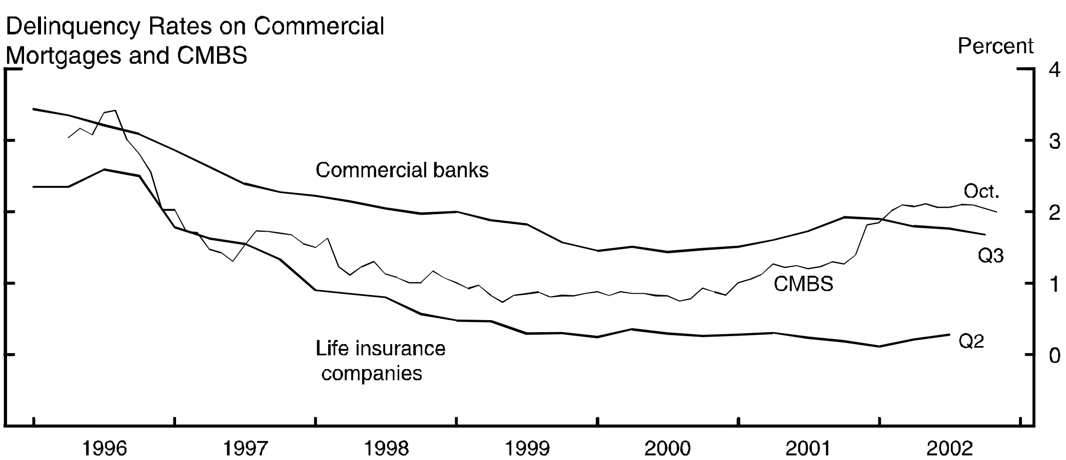
* December (shown as unshaded bar) estimated from reports of upcoming deals.
Source. Commercial Mortgage Alert.



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



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



Source. Call Report, ACLI, Morgan Stanley.

lag. Their earnings have since come in and mostly exceeded analysts' forecasts, and as a result the estimate of S&P 500 earnings per share for the third quarter rose slightly, putting year-over-year growth at about 14 percent—a growth rate that appears large only because last year's earnings were near a cyclical low. Downward revisions to the year-ahead outlook have slowed a bit recently, and analysts are still looking for sizable gains in the coming year.

Despite the rise in earnings, corporate credit quality shows only faint signs of an improvement. Recent measures of defaults and delinquencies continue to suggest that severe financial stress persists for some firms. The twelve-month average default rate on corporate bonds has declined from the July peak, but it remains high. The observed prices on defaulted bonds imply low recovery rates, with current estimates for the year just under 25 percent, near the low end of recovery rates over the past ten years. Ratings downgrades of nonfinancial firms were again significantly higher than upgrades in October, and while a forward measure of expected defaults inched down, it too remained quite elevated.

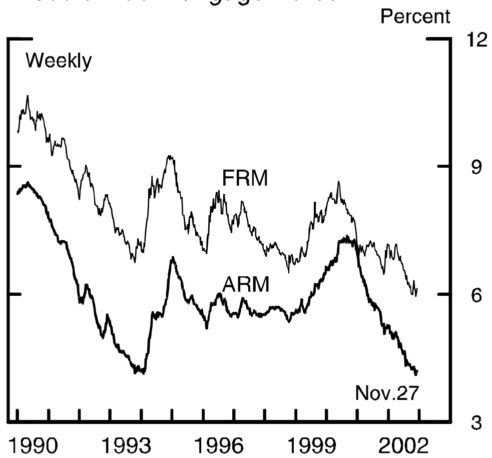
Commercial Real Estate Finance

Despite the ongoing decline in nonresidential construction spending, commercial mortgage debt grew a brisk 8 percent at an annual rate in the third quarter. Some of this growth reflects the extraction of equity from existing properties. Although most fixed-rate commercial mortgages are difficult to refinance because of prepayment penalties, variable-rate mortgages and mortgages coming due within a short time can be refinanced, and recent deals have often involved the extraction of equity. Yield spreads on commercial-mortgage-backed securities over swap rates widened during the intermeeting period, mainly in anticipation of an upsurge in CMBS supply before year-end. Potential credit-quality problems do not seem to have played a major role in these widening spreads, although some market participants have voiced concerns. To date, commercial mortgage delinquency rates have remained stable.

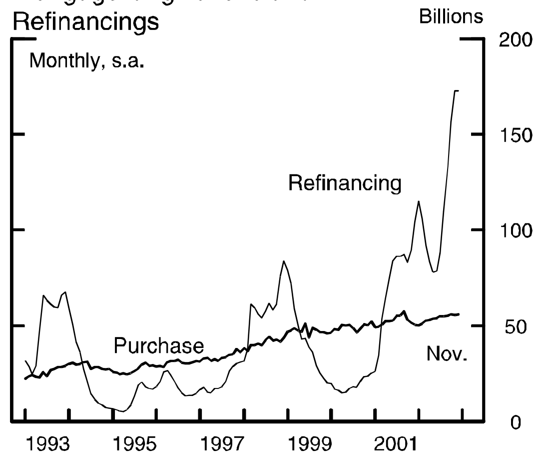
In late November, the President signed legislation that limits the exposure of commercial property and casualty insurers in the event of future terrorist attacks. As a result, Moody's and Fitch may reverse their September downgrades of securities backed by only one or a small number of large properties, which could cause spreads on these large-loan deals to narrow. However, these deals do not account for a major share of market transactions, and the staff does not expect the new law to boost commercial mortgage demand substantially.

Household Liabilities

Freddie Mac Mortgage Rates

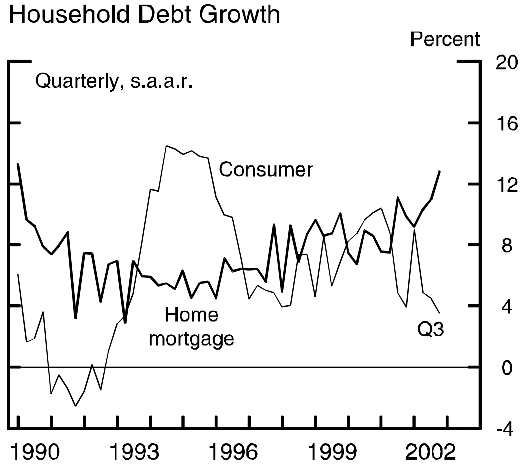


Mortgage Originations and Refinancings

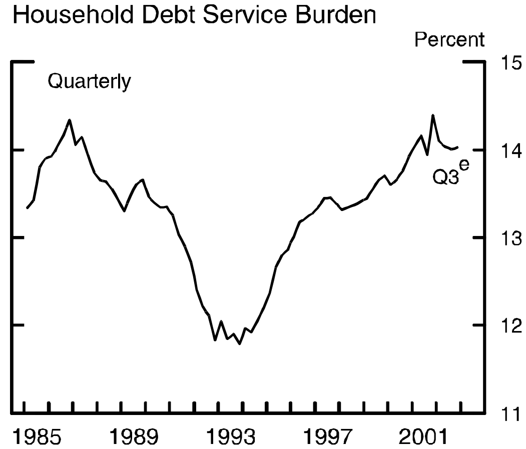


Source. Home Mortgage Disclosure Act records (1993-2001); staff estimates from the MBA applications index (2002).

Household Debt Growth

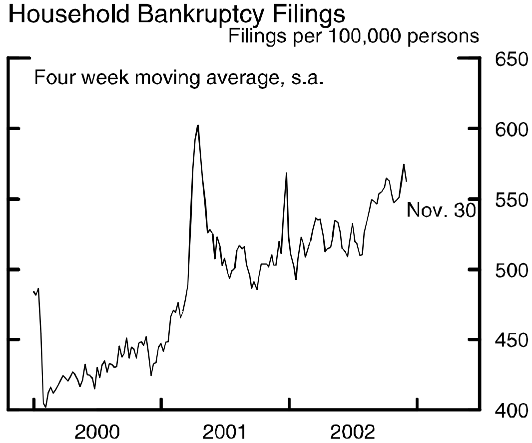


Household Debt Service Burden



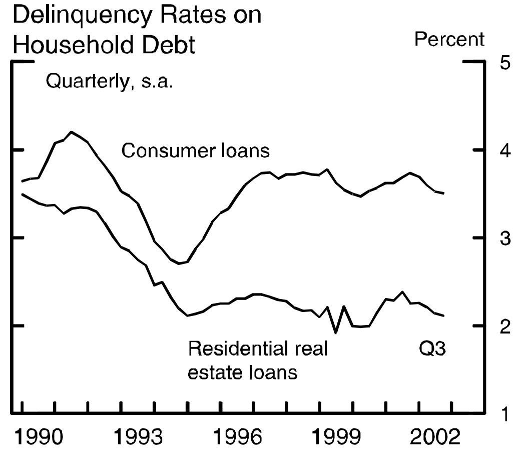
Note. Required debt payments relative to disposable personal income.
e Estimate.

Household Bankruptcy Filings



Source. Visa Bankruptcy Notification Service Statistics.

Delinquency Rates on Household Debt



Source. Call report.

Household Finance
Mortgage rates briefly dipped again to record lows during the intermeeting period, sustaining the wave of mortgage origination and refinancing. Residential mortgage debt surged in the third quarter, and borrowing likely has remained strong in the current quarter. The amount of mortgage debt refinanced in November maintained its torrid pace from October, and the elevated MBA index (not shown) suggests robust refinancing activity at least through year-end. The surge in refinancing may help explain the tepid growth in consumer credit if households have been using equity withdrawn from their homes to pay down some of their higher-interest debt.

In the third quarter, the household debt-service burden was essentially unchanged at its recent high level, and delinquency rates on consumer and residential real estate loans edged lower. The rate of personal bankruptcy filings was little changed, on balance, in November, but it remains at an elevated level.

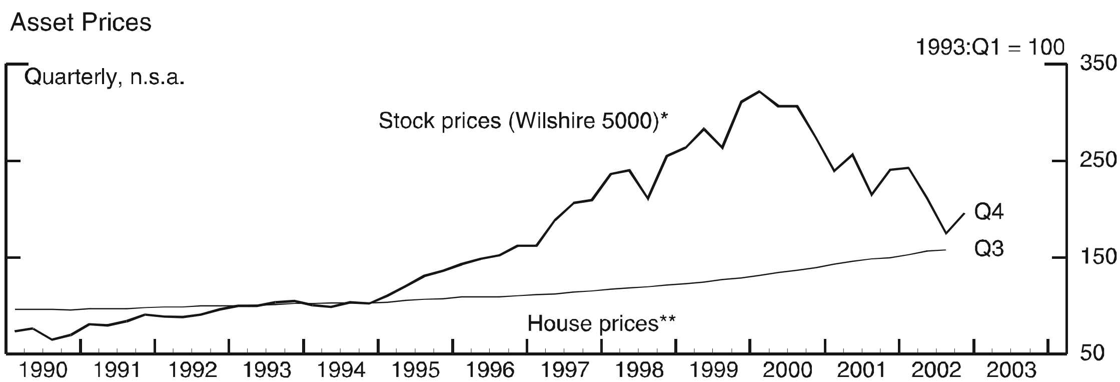
The increase in stock prices since early October, if maintained, would imply a rise in the ratio of household assets to disposable income in the fourth quarter. The rebound in stock prices also appears to have induced net inflows into equity mutual funds in November after five consecutive months of outflows. At the same time, investors have continued to make substantial net contributions into bond mutual funds, extending the pattern seen throughout this year.

Treasury and Agency Finance
The deficits in October and November reflected the trend of deterioration in the federal budget. While seasonal patterns in tax receipts usually result in a deficit in October, this year's reading was significantly larger than that of a year ago, and current estimates suggest the increased borrowing continued in November as the deficit deepened.

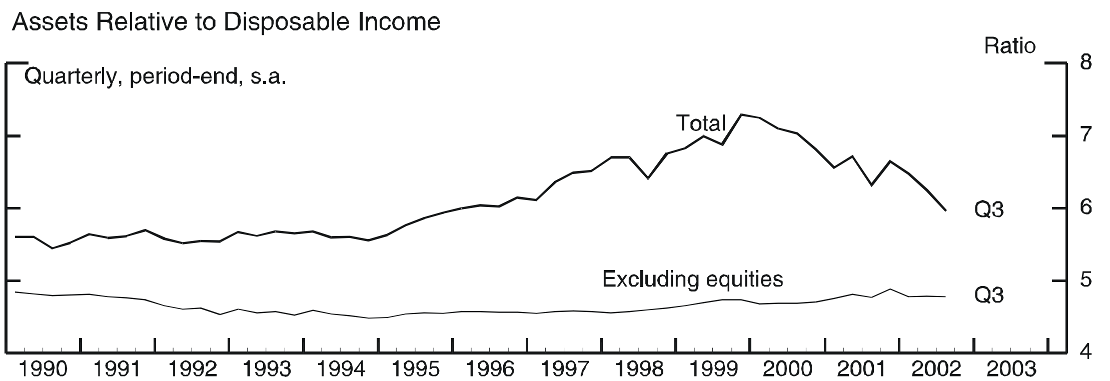
The duration mismatch on the books of the mortgage GSEs continued to attract market attention over the intermeeting period. The use of derivatives and the addition of new mortgages to their books trimmed the duration gap somewhat, prompting the yield spreads on agency debt over Treasuries to decrease further over the intermeeting period. These spreads are now at the low end of the year's range.

State and Local Government Finance
In November, the issuance of short-term state and local government debt fell back substantially after the spike in October that reflected fiscal difficulties in California. However, gross issuance of long-term municipal bonds remained strong; most of these bonds were issued to finance capital spending, but some also represented advance refunding to take advantage of low interest rates.

Household Assets



* At quarter-end. 2002:Q4 as of Dec. 3, 2002. ** 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	Oct.	Nov. e	Oct.
Total long-term funds	**18.5**	**15.1**	**6.5**	**21.0**	**-5.2**	**-2.4**	**18.4**	**4,060**
Equity funds	**25.2**	**8.2**	**-2.7**	**9.1**	**-23.9**	**-7.7**	**7.5**	**2,660**
Domestic	21.3	9.1	-0.0	7.9	-21.3	-7.5	6.1	2,304
Capital appreciation	25.5	5.2	-2.2	2.8	-15.1	-4.8	2.9	1,348
Total return	-4.3	3.9	2.2	5.1	-6.2	-2.6	3.1	957
International	3.9	-0.9	-2.7	1.2	-2.6	-0.2	1.4	356
Hybrid funds	**-2.6**	**1.0**	**0.5**	**2.2**	**-1.6**	**-1.0**	**1.1**	**317**
Bond funds	**-4.0**	**5.9**	**8.7**	**9.7**	**20.3**	**6.3**	**9.8**	**1,083**
High-yield	-1.0	0.9	0.3	0.9	-0.4	1.9	3.7	91
Other taxable	-1.8	4.2	7.3	7.6	17.4	5.9	5.6	669
Municipals	-1.2	0.8	1.1	1.3	3.3	-1.5	0.4	323

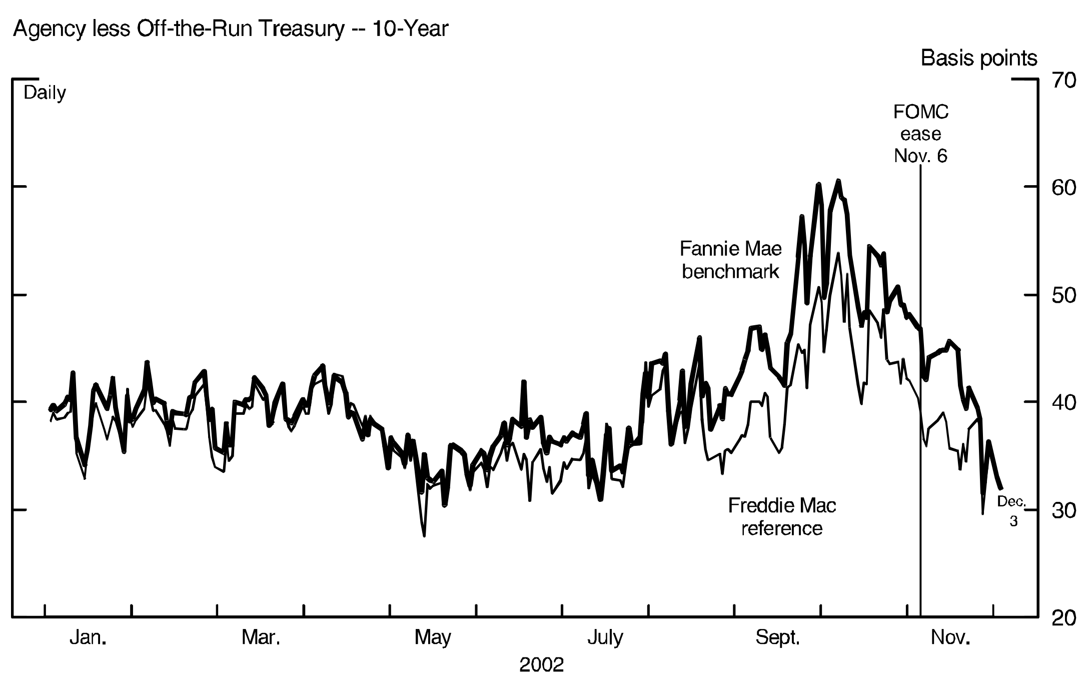
Note. Excludes reinvested dividends.
Source. Investment Company Institute.
e Staff estimates based on confidential ICI weekly data.

Treasury Financing
(Billions of dollars)

Item	2002					
	Q1	Q2	Q3	Sep.	Oct.	Nov. e
Total surplus, deficit (−)	**-96.6**	**15.6**	**-42.2**	**41.7**	**-54.0**	**-59.7**
Means of financing deficit						
Net borrowing	50.8	21.1	85.9	-4.1	33.4	61.0
Nonmarketable	-.7	6.0	3.1	6.2	7.0	4.3
Marketable	51.5	15.1	82.8	-10.3	26.4	56.7
Bills	23.1	-12.0	44.4	-23.8	13.6	19.5
Coupons[1]	28.4	31.1	38.4	13.4	12.8	37.2
Debt buybacks	.0	-4.0	.0	.0	.0	.0
Decrease in cash balance	38.3	-25.5	-21.3	-34.4	17.2	12.8
Other[2]	7.5	-11.2	-26.0	-3.2	3.4	14.2
MEMO						
Cash balance, end of period	14.1	39.6	60.9	60.9	43.7	30.9

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

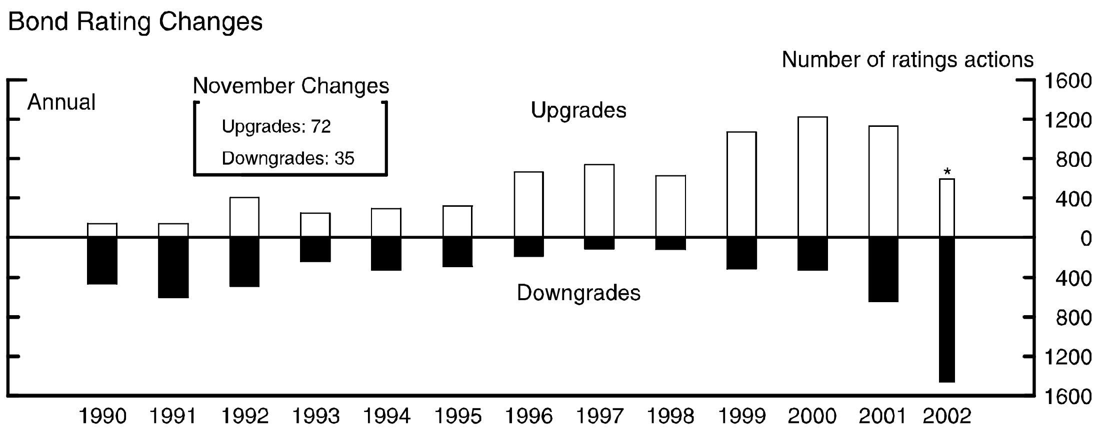


State and Local Government Finance

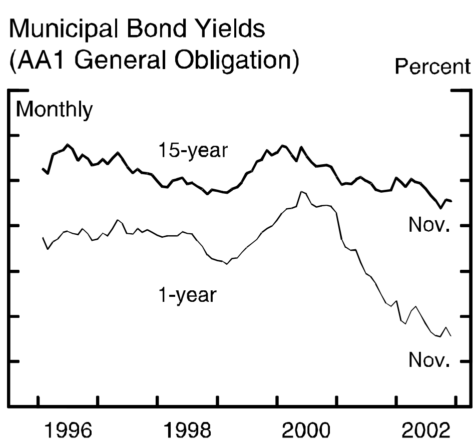
Gross Offerings of Municipal Securities
(Billions of dollars; monthly rate, not seasonally adjusted)

	1999	2000	2001	2002 H1	2002 Q3	2002 Oct.	2002 Nov.[e]
Long-term[1]	18.0	15.0	22.5	26.2	27.3	40.1	34.8
Refundings[2]	4.5	2.2	6.5	8.5	9.5	12.4	8.8
New capital	13.5	12.9	16.0	17.7	17.9	27.7	25.9
Short-term	2.7	2.8	4.3	4.7	5.7	13.9	1.4
Total tax-exempt	20.6	17.9	26.9	30.9	33.0	54.1	36.1
Total taxable	1.1	0.7	1.1	1.1	1.5	1.8	1.8

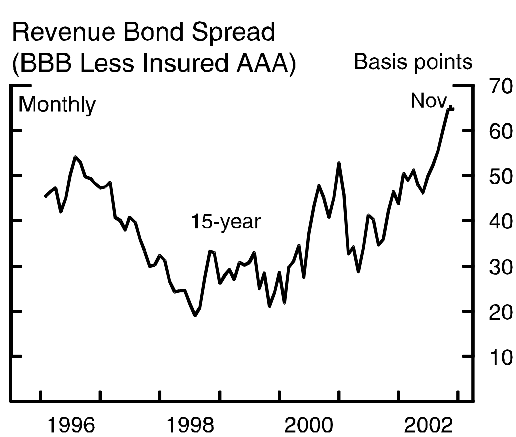
1. Includes issues for public and private purposes.
2. All issues that include any refunding bonds.
e Staff estimate based on preliminary data through November 27.



* Data through November 20 at an annual rate.
Source. S&P's Credit Week Municipal and Ratings Direct.



Note. Average of weekly data.
Source. Bloomberg.



Note. Average of weekly data.
Source. Bloomberg.

Although more municipalities have been downgraded than upgraded this year, the situation may have stabilized recently; in November, twice as many bonds were upgraded as downgraded. However, the yield spread of insured BBB-rated over AAA-rated municipal bonds was little changed at about 65 basis points, a somewhat elevated level compared with that of recent years.

Money and Bank Credit

After a sharp slowing at the end of the third quarter, M2 expanded rapidly over the first two months of this quarter. The growth of M2 was likely supported by the low opportunity cost of holding M2, as well as the continued wave of mortgage refinancings, the proceeds of which are placed temporarily in liquid deposits before disbursement to holders of mortgage-backed securities. The low level of interest rates also seems to have caused households to shift funds from retail time deposits into liquid deposits.

Bank credit continued to grow briskly in November. Low mortgage rates encouraged strong growth in real estate loans, much of which were swapped for mortgage-backed securities. Consumer loans originated at banks have risen at a moderate pace in recent months, while bank loans to businesses continued to fall in October and November, albeit at a slower pace than in the third quarter.

Commercial banks' returns on assets and on equity slipped a bit in the third quarter but remained high by historical standards. Third-quarter profitability was hindered by small declines in both net interest margins and noninterest income as well as by an uptick in loss provisioning. Loan delinquency rates, however, edged down in the third quarter, in response to better performance of real estate loans and consumer loans combined with a stable delinquency rate on commercial and industrial loans.

Commercial Bank Credit

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

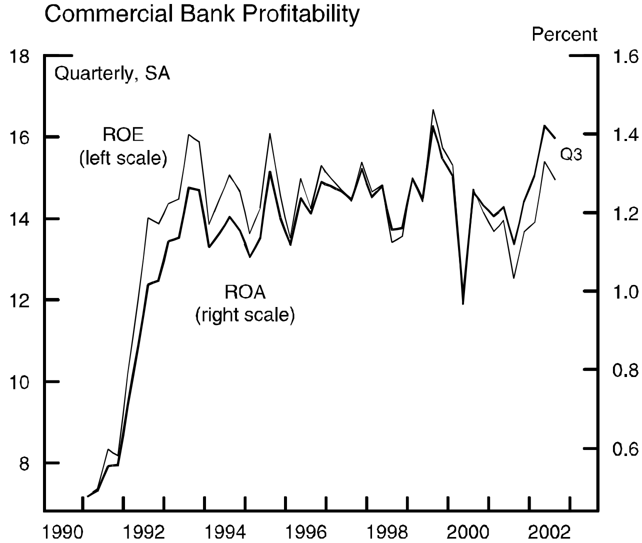
Type of credit	2001	Q2 2002	Q3 2002	Sept. 2002	Oct. 2002	Nov.p 2002	Level, Nov. 2002p ($ billions)
Total							
1. Adjusted[1]	**4.1**	**5.1**	**8.7**	**10.5**	**8.3**	**14.5**	**5,644**
2. Reported	5.0	5.1	12.5	12.0	5.8	16.4	5,848
Securities							
3. Adjusted[1]	8.8	13.7	10.7	1.2	6.1	33.8	1,493
4. Reported	12.0	12.9	24.0	7.6	-2.0	38.3	1,696
5. Treasury & Agency	6.0	25.5	24.5	21.2	9.9	34.4	1,004
6. Other[2]	20.8	-3.3	23.1	-11.4	-19.1	44.0	693
Loans[3]							
7. Total	2.6	2.1	8.0	13.8	9.0	7.7	4,151
8. Business	-3.7	-9.0	-8.8	-8.2	-6.0	-3.1	970
9. Real estate	7.2	6.9	18.8	21.3	20.3	15.8	1,996
10. Home equity	19.9	40.8	40.4	19.4	24.5	15.2	208
11. Other	6.2	3.5	16.5	21.6	19.6	15.9	1,788
12. Consumer	3.8	5.1	4.7	16.8	4.1	.8	588
13. Adjusted[4]	7.4	3.6	1.0	2.5	5.3	5.3	930
14. Other[5]	-.1	4.1	6.6	23.3	1.8	5.4	598

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.

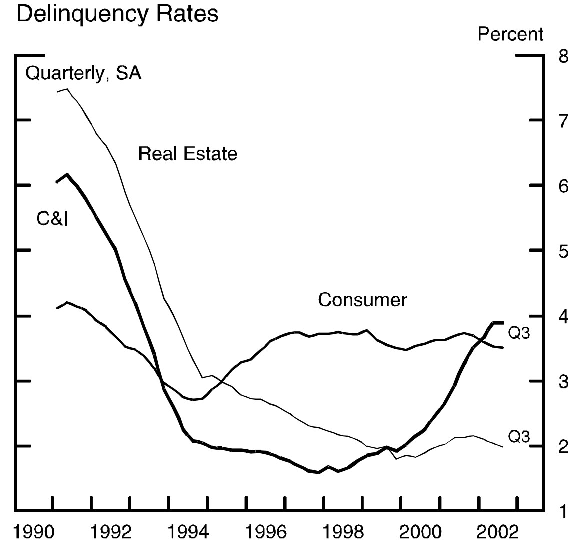
1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FIN 115).
2. Includes private mortgage-backed securities, securities of corporations, state and local governments, and foreign governments and any trading account assets that are not Treasury or Agency securities, including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

Commercial Bank Profitability



Delinquency Rates



Monetary Aggregates

(Based on seasonally adjusted data)

Aggregate or component	2001	2002 Q2	2002 Q3	2002 Sept.	2002 Oct.	2002 Nov. (e)	Level ($ billions) Nov. 02 (e)
	Percent change (annual rate)[1]						
Aggregate							
1. M2[2]	10.3	3.3	10.3	5.3	10.2	8.8	5,795.8
2. M3[3]	12.8	3.1	8.1	4.2	2.6	19.4	8,465.2
Components of M2[4]							
3. Currency	9.0	9.7	7.7	1.4	3.7	4.1	622.0
4. Liquid deposits[5]	17.9	10.3	16.7	18.3	21.1	15.2	3,324.0
5. Small time deposits	-4.9	-8.5	-8.1	-12.9	-11.3	-7.8	886.1
6. Retail money market funds	8.4	-10.5	8.9	-17.2	-1.6	5.4	956.1
Components of M3							
7. M3 minus M2[6]	18.5	2.8	3.5	1.8	-13.9	43.1	2,669.4
8. Large time deposits, net[7]	-2.8	9.3	3.8	1.6	10.5	-8.3	821.8
9. Institutional money market funds	51.1	2.9	.2	-14.3	-36.2	80.8	1,217.9
10. RPs	1.5	-5.9	25.8	59.1	-5.2	52.8	434.2
11. Eurodollars	7.9	-6.6	-18.4	-14.8	-1.9	20.0	195.5
Memo							
12. Monetary base	8.5	8.1	7.2	.8	3.7	4.5	676.2
	Average monthly change (billions of dollars)[8]						
Selected managed liabilities at commercial banks							
13. Large time deposits, gross	3.3	8.3	-2.4	-5.3	-5.6	-5.5	1,004.4
14. Net due to related foreign institutions	-6.5	-5.9	-.7	8.8	22.9	14.4	136.9
15. U.S. government deposits at commercial banks	1.5	-8.5	6.8	-18.0	-9.6	-11.0	11.0

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.

e Estimated.

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 $38.0 billion in September, slightly lower than in August (revised). For the third quarter, the deficit was $446 billion at an annual rate, little changed 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	July	Aug.	Sept.
Real NIPA[1]							
Net exports of G&S	-415.9	-446.6	-487.4	-487.5	...	...	...
Nominal BOP							
Net exports of G&S	-358.3	-382.0	-441.8	-445.5	-35.1	-38.3	-38.0
Goods, net	-427.2	-425.7	-489.9	-492.7	-39.0	-42.3	-41.8
Services, net	68.9	43.7	48.1	47.2	4.0	4.1	3.8

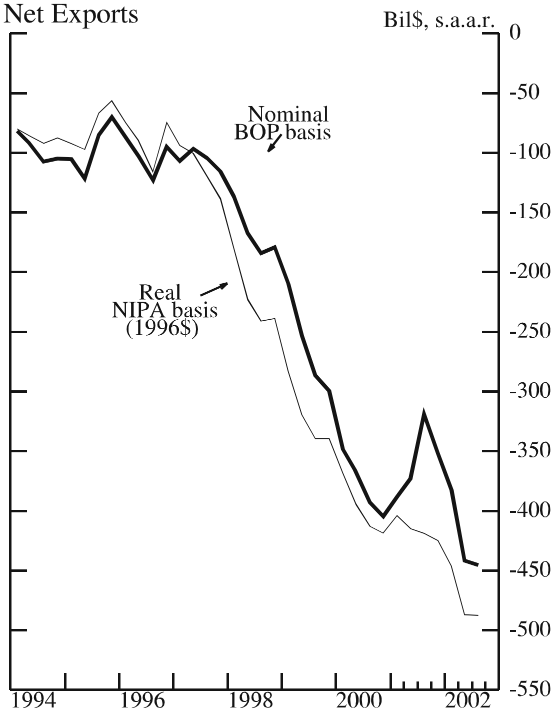
1. Billions of chained (1996) dollars.
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.
n.a. Not available. ... Not applicable.

Exports of goods and services edged down in September for the second consecutive month, reflecting a decline in exports of services. Exports of goods were little changed for the month, as increases in machinery and telecommunications equipment offset declines in automotive products, industrial supplies, and semiconductors. For the third quarter, the value of exported goods and services increased $16 billion (s.a.a.r.), a gain of 6.8 percent at an annual rate from the second-quarter level. Exports in nearly all major categories of trade rose in the third quarter, with aircraft showing the largest gain. Real NIPA exports, which grew at 14.2 percent (s.a.a.r) in the second quarter, expanded just 3.3 percent in the third quarter.

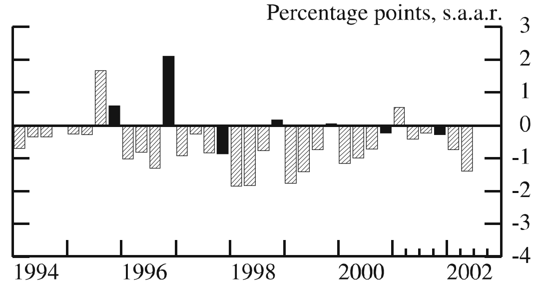
Imports of goods and services eased somewhat in September, with both goods and services moving lower. Within goods, increased imports of automotive products partially offset lower imports of oil, computers, semiconductors, and consumer goods. For the third quarter, imports of goods and services rose $20 billion (s.a.a.r.), or 5.8 percent at an annual rate from the second-quarter level. Imports of goods accounted for most of the increase in the third quarter, with higher imports of consumer goods, industrial supplies, and automotive products more than offsetting lower imports of aircraft, computers, and semiconductors. Real NIPA imports, which surged 22.2 percent (s.a.a.r) in the second quarter, also slowed to just 2.3 percent in the third quarter.

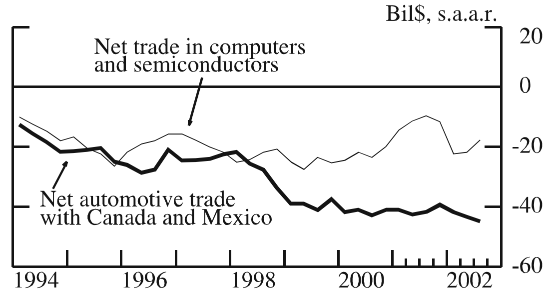
U.S. International Trade in Goods and Services

Net Exports

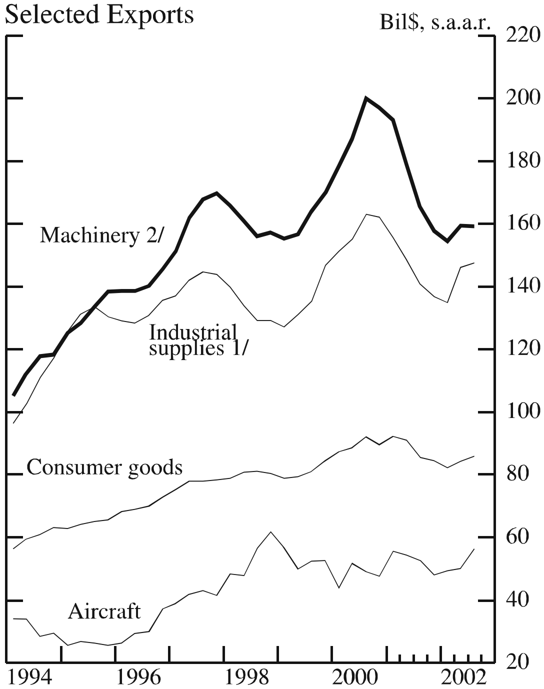


Contribution of Net Exports to Real GDP Growth



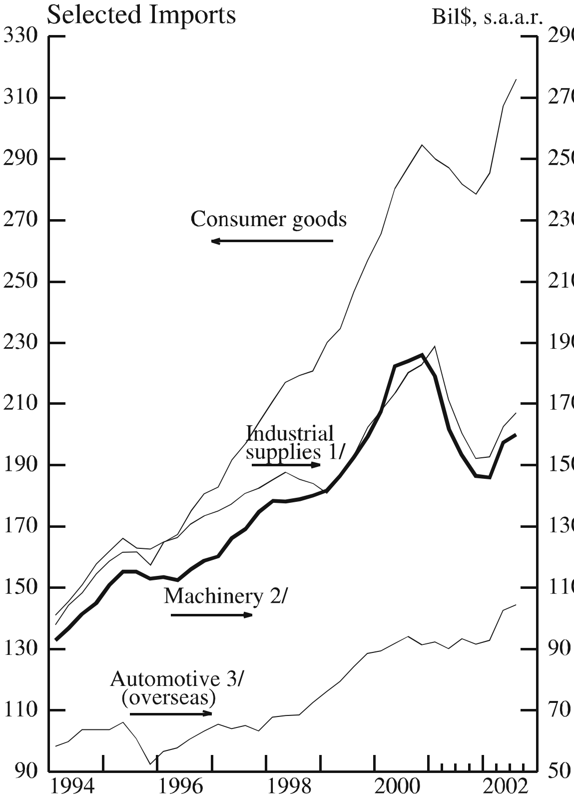


Selected Exports



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

Selected Imports



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

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

	Levels				Amount Change[1]			
	2002		2002		2002		2002	
	Q2	Q3	Aug.	Sept.	Q2	Q3	Aug.	Sept.
Exports of G&S	**974.0**	**990.3**	**989.9**	**985.9**	**41.0**	**16.2**	**-5.0**	**-4.0**
Goods exports	689.7	702.9	699.3	700.1	31.1	13.2	-9.9	0.8
Gold	3.5	3.6	3.4	3.5	0.9	0.1	-0.6	0.1
Other goods	686.2	699.3	696.0	696.6	30.2	13.1	-9.4	0.7
Aircraft & parts	50.2	56.3	54.2	53.7	0.8	6.2	-6.9	-0.6
Computers	38.6	37.8	37.9	38.5	-0.4	-0.8	0.9	0.7
Semiconductors	43.9	45.9	46.6	44.9	4.4	2.0	0.4	-1.7
Other capital goods	161.5	161.7	161.0	165.1	5.0	0.1	2.2	4.1
Automotive	80.4	82.5	82.0	80.5	6.6	2.1	-3.1	-1.5
to Canada	44.1	47.0	47.3	45.6	2.7	2.9	-0.8	-1.7
to Mexico	17.1	14.7	15.8	15.2	2.7	-2.5	2.7	-0.6
to ROW	19.2	20.9	18.9	19.7	1.2	1.7	-5.1	0.7
Agricultural	54.1	53.6	52.0	52.9	-1.0	-0.5	-4.0	0.9
Ind supplies (ex. ag)	146.1	147.6	148.8	148.1	11.2	1.5	2.9	-0.7
Consumer goods	84.2	86.0	85.6	85.2	2.0	1.7	-1.4	-0.4
All other goods	27.2	27.9	27.8	27.7	1.7	0.7	2.1	-0.1
Services exports	284.3	287.3	290.6	285.8	9.9	3.0	4.9	-4.8
Imports of G&S	**1415.8**	**1435.8**	**1449.3**	**1442.2**	**100.8**	**20.0**	**33.5**	**-7.0**
Goods imports	1179.6	1195.6	1207.4	1201.7	95.3	16.0	29.7	-5.6
Petroleum	108.1	110.7	114.3	109.7	31.5	2.6	6.2	-4.6
Gold	3.5	3.0	3.1	2.8	1.4	-0.4	0.1	-0.3
Other goods	1068.0	1081.9	1089.9	1089.2	62.4	13.9	23.4	-0.7
Aircraft & parts	24.9	22.6	20.3	24.2	-4.1	-2.2	-3.1	3.8
Computers	76.6	74.7	74.2	73.1	1.0	-1.9	-2.6	-1.1
Semiconductors	27.7	26.8	27.7	25.7	2.4	-0.9	0.6	-2.0
Other capital goods	159.3	161.7	163.2	161.4	11.8	2.4	2.8	-1.8
Automotive	207.5	210.9	211.0	214.9	17.1	3.4	4.2	3.8
from Canada	61.2	64.3	65.4	63.0	3.0	3.1	1.0	-2.5
from Mexico	43.6	42.2	44.9	43.3	4.2	-1.3	6.4	-1.6
from ROW	102.7	104.4	100.7	108.6	9.9	1.6	-3.2	7.9
Ind supplies	162.5	167.0	168.5	169.3	9.8	4.4	5.4	0.9
Consumer goods	307.1	315.8	322.6	318.0	21.8	8.8	15.8	-4.6
Foods, feeds, bev.	49.4	50.3	50.5	49.6	1.9	0.9	-0.4	-0.8
All other goods	53.0	52.0	51.9	53.0	0.8	-1.0	0.7	1.2
Services imports	236.2	240.1	241.9	240.5	5.5	4.0	3.9	-1.4
Memo:								
Oil quantity (mb/d)	12.32	11.89	12.27	11.39	0.87	-0.43	0.27	-0.88
Oil import price ($/bbl)	24.05	25.51	25.51	26.38	5.62	1.47	0.83	0.87

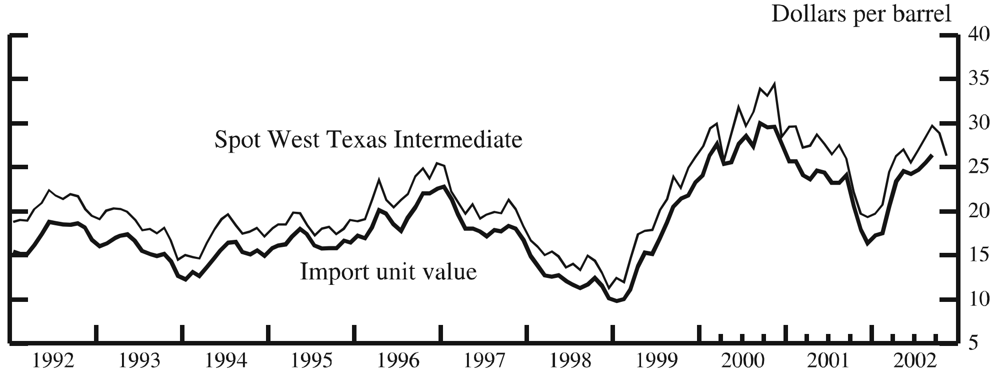
1. Change from previous quarter or month.
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

	Annual rates 2002 Q1	Annual rates 2002 Q2	Annual rates 2002 Q3	Monthly rates 2002 Aug.	Monthly rates 2002 Sept.	Monthly rates 2002 Oct.
	------------- BLS prices (2000 weights)-------------					
Merchandise imports	-2.0	10.2	3.1	0.4	0.7	0.1
Oil	18.4	157.3	30.3	4.1	6.0	1.1
Non-oil	-2.7	1.5	0.4	0.1	0.2	-0.1
Core goods*	-2.4	1.7	1.4	0.2	0.2	0.1
Cap. goods ex comp & semi	-5.3	-1.9	1.5	0.4	-0.1	-0.1
Automotive products	-0.4	0.4	0.8	0.0	0.1	0.3
Consumer goods	-1.5	-1.2	0.0	0.0	-0.2	0.1
Foods, feeds, beverages	0.3	7.1	6.8	0.4	2.8	-0.3
Industrial supplies ex oil	-4.7	13.0	2.8	-0.1	0.9	0.5
Computers	-2.7	-1.5	-5.8	-0.5	-0.2	-1.9
Semiconductors	-2.7	1.8	-6.5	0.0	0.0	-0.8
Merchandise exports	-1.8	2.2	2.1	0.2	0.2	0.0
Core goods*	-1.3	3.4	3.9	0.3	0.3	0.1
Cap. goods ex comp & semi	0.9	0.7	0.3	0.1	0.1	0.0
Automotive products	1.3	0.1	0.9	0.2	0.1	0.1
Consumer goods	-2.3	-0.9	0.8	0.2	-0.1	0.0
Agricultural products	-2.6	2.3	25.6	1.7	3.4	-1.8
Industrial supples ex ag	-3.6	10.8	7.1	-0.2	0.5	0.5
Computers	-4.5	-5.9	-9.3	-0.1	-1.7	-0.2
Semiconductors	-8.1	-1.3	-9.0	0.0	0.1	-0.8
Chain price index	---Prices in the NIPA accounts (1996 weights)---					
Imports of goods & services	-1.6	11.1	4.5	...	...	...
Non-oil merchandise	-2.2	2.0	0.6	...	...	...
Core goods*	-2.2	2.1	1.3	...	...	...
Exports of goods & services	-0.8	3.0	3.5	...	...	...
Total merchandise	-1.1	2.3	3.4	...	...	...
Core goods*	-1.1	3.5	4.5	...	...	...

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

Oil Prices



Prices of Internationally Traded Goods

The price of imported non-oil goods ticked down 0.1 percent in October following four consecutive months of modest increases. The price of core goods edged up 0.1 percent in October, while the prices of computers and semiconductors continued to drop. For core goods, the largest increase was in the price index for non-oil industrial supplies, which rose 0.5 percent. In October, the price index for the food sector dipped 0.3 percent after having risen every month in the third quarter.

The BLS price of imported oil rose 1.1 percent in October after climbing 6.0 percent in September. 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 the second half of October, the spot price fell from above $29 per barrel to near $26 per barrel, reflecting higher production from OPEC and the acceptance by Iraq of a new U.N. resolution allowing unfettered weapons inspections. More recently, spot WTI has edged back up with indications of renewed OPEC production restraint, the possibility of military action in Iraq, political turmoil in Venezuela, and tight oil inventories in the United States.

The price of total U.S. exported goods remained unchanged in October, and the price of exports of core goods moved up 0.1 percent. Within core goods, the largest price movement in October was a 1.8 percent decline in the price of agricultural products, an about-face after four consecutive months of increases. Prices in other major categories were generally little changed.

U.S. International Financial Transactions

Foreign official inflows were again modest in September, bringing the total for the third quarter to $8 billion (line 1 of the Summary of U.S. International Transactions table). While this is in line with the typical quarterly amount over the past year, it is sharply lower than the $47 billion recorded in the second quarter. The large official inflows in the second quarter were associated with attempts by some countries—notably Japan, China, Taiwan, and Korea—to prevent appreciation of their currencies against the dollar; for Japan, this accumulation of dollar assets took the form of official intervention. Russia's official holdings also increased sharply in the quarter as revenues from oil exports surged. These countries continued to acquire dollar assets in the third quarter, but to a much lesser extent.

The decline in official inflows between the second and third quarters coincided with a nearly offsetting increase in net private inflows through securities transactions, which increased from $89 billion in the second quarter to $120 billion in the third quarter (line 4 plus line 5). A small portion ($15 billion) of the net private inflows in the third quarter owed to U.S. investors' *sales* of foreign securities (line 5). U.S. investors' reduced appetite for foreign securities extends back to late last year; after averaging over $100 billion annually through the middle of last year, in the past five quarters U.S. investors have on net purchased only $10 billion in foreign securities.

The bulk of the net private inflows, however, were due to continued sizeable ($105 billion) private foreign purchases of U.S. securities (line 4). If maintained, the pace of private inflows into U.S. securities of the past two quarters would represent a return to the high level of inflows of the first half of 2001. There was also a noticeable shift in the composition of private inflows from corporate securities to Treasury and agency securities. Prior to the third quarter, the bulk of private inflows had been through purchases of U.S. corporate securities, primarily bonds. In the third quarter, however, private foreign purchases of corporate bonds (line 4c) fell sharply despite strong issuance and foreigners' on net sold U.S. equities (line 4d). More than offsetting the decline in foreign purchases of corporate securities were robust inflows into agency bonds (line 4b) and strong purchases of Treasury securities (line 4a). The inflows into Treasury securities ($55 billion) were the highest quarterly amount since 1996.

Banking flows (line 3) continue to be volatile. For the third quarter, banking inflows amounted to $53 billion, more than offsetting the $25 billion in outflows in the first half of the year.

Summary of U.S. International Transactions

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

	2000	2001	2001	2002				
			Q4	Q1	Q2	Q3	Aug	Sept
Official financial flows	**39.3**	**2.0**	**5.3**	**8.8**	**45.5**	**6.7**	**.1**	**2.2**
1. Change in foreign official assets in the U.S. (increase, +)	39.6	6.9	5.5	8.4	47.4	8.2	.3	3.2
a. G-10 countries	12.3	-7.9	9.1	5.0	17.6	2.2	-8.5	4.5
b. OPEC countries	10.7	-1.9	4.2	-6.5	1.1	-1.5	.6	-2.0
c. All other countries	16.6	16.8	-7.8	9.9	28.6	7.5	8.2	.7
2. Change in U.S. official reserve assets (decrease, +)	-.3	-4.9	-.2	.4	-1.8	-1.4	-.3	-.9
Private financial flows	**370.3**	**379.8**	**145.4**	**78.8**	**34.9**	**n.a.**	**...**	**...**
Banks								
3. Change in net foreign positions of banking offices in the U.S.[1]	-6.7	7.3	38.7	-3.9	-21.4	53.4	21.2	.7
Securities[2]								
4. Foreign net purchases of U.S. securities (+)	381.0	404.4	128.2	67.6	99.9	104.5	26.3	36.8
a. Treasury securities	-76.4	-5.6	28.3	-1.6	-5.0	55.0	.9	28.0
b. Agency bonds	96.5	86.4	28.1	2.4	32.4	24.2	8.2	12.7
c. Corporate and municipal bonds	165.7	201.7	38.3	43.3	60.6	17.4	12.5	2.5
d. Corporate stocks[3]	195.1	121.9	33.5	23.4	12.0	8.0	4.7	-6.3
5. U.S. net acquisitions (-) of foreign securities	-126.6	-95.1	-26.2	1.9	-10.8	15.1	-.9	-2.6
a. Bonds	-23.3	12.3	-7.4	.6	9.5	3.3	-2.8	-.4
b. Stock purchases	-22.9	-62.7	-12.4	3.1	-20.3	13.5	1.9	-.5
c. Stock swaps[3]	-80.4	-44.7	-6.4	-1.8	.0	-1.7	.0	-1.7
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-178.3	-127.8	-27.5	-29.3	-29.4	n.a.	...	...
7. Foreign direct investment in U.S.	307.7	130.8	21.9	16.2	1.0	n.a.	...	...
8. Foreign holdings of U.S. currency	1.1	23.8	10.5	4.5	7.2	n.a.	...	...
9. Other (inflow, +)[4]	-7.9	36.4	-.1	21.7	-11.6	n.a.	...	...
U.S. current account (s.a.)	**-410.3**	**-393.4**	**-95.1**	**-112.5**	**-130.0**	**n.a.**	**...**	**...**
Capital account balance (s.a.)[5]	**.8**	**.8**	**.2**	**.2**	**.2**	**n.a.**	**...**	**...**
Statistical discrepancy (s.a.)	**.0**	**10.7**	**-55.8**	**24.7**	**49.4**	**n.a.**	**...**	**...**

NOTE: The sum of official and private financial flows, the current account balance, the capital account balance, and the statistical discrepancy is zero. Details may not sum to totals because of rounding.

1. Changes in dollar-denominated positions of all depository institutions and bank holding companies plus certain transactions between broker-dealers and unaffiliated foreigners (particularly borrowing and lending under repurchase agreements). Includes changes in custody liabilities other than U.S. Treasury bills.

2. Includes adjustments BEA makes to account for incomplete coverage, but excludes adjustments for commissions and therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.

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

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

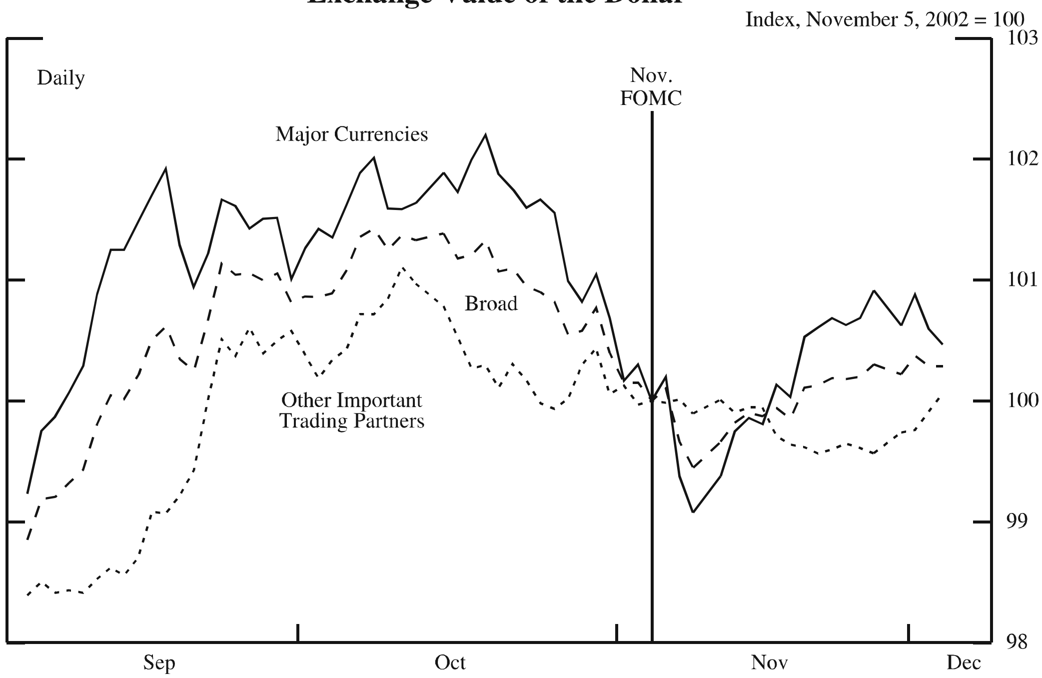
5. Consists of transactions in nonproduced nonfinancial assets and capital transfers.

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

Foreign Exchange Markets

On balance, the broad nominal value of the dollar has appreciated slightly on a trade-weighted basis over the period since the last FOMC meeting, led largely by a gain of about ½ percent against major foreign currencies. Against the currencies of our other important trading partners, the dollar is little changed.

Exchange Value of the Dollar



The dollar depreciated modestly against most major currencies in the week following the Committee's decision to cut rates but later retraced some of its losses as stronger-than-expected U.S. data fostered limited market optimism about economic conditions in the United States vis-à-vis those in foreign industrial economies. On balance, the dollar gained 2½ percent against the yen and was little changed against the euro and Canadian dollar. The dollar depreciated ¾ percent on net against sterling.

Much of the dollar's gains against the yen came late in the period following official commentary which market participants interpreted as reflecting the government's preference for a much weaker yen. Over the period, stock prices in Japan fluctuated near multi-decade lows as uncertainty about the extent and impact of expected government reforms to the banking sector and supplementary budget plans swayed market sentiment. Equity prices in the banking sector fell dramatically following a media report that a major bank would be nationalized. Although the report was subsequently denied by the government, share prices at two of Japan's four largest banks fell over 30 percent on balance. Broad

Japanese equity markets fell 1 percent on net. The yield on the ten-year Japanese government bond ended the period a few basis points higher after the government confirmed its plans for a supplementary budget and the resulting need for new issuance.

Financial Indicators in Major Industrial Countries

Country	Three-month rate Dec. 4 (Percent)	Three-month rate Percentage Point Change	Ten-year yield Dec. 4 (Percent)	Ten-year yield Percentage Point Change	Equities Percent Change
Canada	2.87	-.01	5.07	-.08	2.99
Japan	.08	.03	1.01	.03	-1.21
Euro area	2.99	-.22	4.48	-.12	-.63
United Kingdom	3.94	.12	4.67	.01	-2.47
Switzerland	.66	.01	2.75	-.07	-.76
Australia	4.84	-.02	5.60	.02	-.48
United States	1.37	-.18	4.17	.07	-.30
Memo: Weighted-average foreign	2.18	-.05	4.16	-.07	n.a.

NOTE. Change is from November 5 to December 4 (10 a.m. EDT).
n.a. Not available.

The Bank of Japan left its target range for reserves held at the central bank unchanged in meetings this period but said it would now aim at the upper end of the range. Reserves at the BoJ, which had been averaging near the center of the current range of 15-20 trillion yen, increased to levels above 19 trillion yen after the announcement.

Short-term interest rates in the euro area declined over 20 basis points. Data from the euro area, and Germany in particular, showed further economic weakness, helping to firm market expectations that the European Central Bank would lower interest rates at least 25 basis points by year end. Consistent with a relatively weaker euro-area growth and inflation outlook, yields on long-term euro-area government debt fell modestly, whereas comparable Treasury yields increased modestly.

Short-term U.K. interest rates rose on balance as continued strength in housing prices and stronger-than-expected retail sales prompted markets to adjust upward the expected future path of the Bank of England's policy rate. Headline equity indexes fell in the United Kingdom and registered mixed performance in the euro area. European markets made substantial gains in response to a number of stronger than-expected U.S. data releases but were generally weighed down by weaker corporate outlooks.

Reversing course after having increased rates twice earlier this year, Sweden's Riksbank lowered its policy rate 25 basis points to 4 percent. The dollar nonetheless depreciated modestly against the krona on balance following stronger-than-expected Swedish confidence data.

Financial Indicators in Latin America, Asia, and Russia

	Currency/ US dollar		Short-term Interest rates[1]		Dollar-denominated bond spread[2]		Equity prices
Economy	Dec. 4	Percent Change	Dec.3/4 (Percent)	Percentage Point Change	Dec.3/4 (Percent)	Percentage Point Change	Percent Change
Mexico	10.23	.13	6.58	-.92	3.20	-.35	2.76
Brazil	3.70	4.14	22.90	1.05	16.17	-1.33	6.96
Argentina	3.52	-.28	10.00	-60.00	63.35	2.57	22.99
Chile	710.80	-1.32	2.92	-.12	1.88	-.30	-.08
China	8.28	.00	n.a.	n.a.	.93	.17	-9.23
Korea	1216.40	-1.11	4.50	.00	...	...	7.46
Taiwan	34.73	.43	1.95	-.18	...	...	3.53
Singapore	1.77	.71	.81	-.19	...	...	-4.64
Hong Kong	7.80	-.01	1.55	-.32	...	...	3.53
Malaysia	3.80	-.01	3.00	.11	1.30	.12	-5.44
Thailand	43.68	1.02	1.88	-.13	1.13	-.02	2.58
Indonesia	8985.00	-2.34	13.48	-.13	3.46	.10	5.91
Philippines	53.50	1.42	6.13	.31	4.90	.13	-.58
Russia	31.85	.12	n.a.	n.a.	4.29	-.46	-1.72

NOTE. Change is from November 5 to December 3/4.
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.

In Latin America, market sentiment toward Brazilian assets remained relatively stable despite ongoing uncertainty about the likely composition and policies of the incoming Lula administration. The Brazilian EMBI+ spread over U.S. Treasuries narrowed to 1,600 basis points from a recent peak of 2,400 basis points in late September and the Brazilian stock market rose 7 percent. Pro-market statements by senior members of Lula's transition team and of the Workers' Party (PT), as well as comments by IMF officials in support of Lula's economic plans, helped to support Brazilian asset prices. After having appreciated substantially in the immediate aftermath of the second-round elections in late October, over the intermeeting period the Brazilian *real* depreciated a relatively modest 4 percent against the dollar on net.

Argentina's EMBI+ yield spread over Treasuries increased 250 basis points over the period, largely in reaction to the Argentine government's failure to repay the principal due on its World Bank debt.

In emerging Asia, sovereign bond spreads were little changed and equity market performance was mixed. The Korean stock market outperformed amid news of strong export growth in that country, and the won appreciated 1 percent against the dollar. Equity markets also rose, although more modestly, in Taiwan and Hong Kong, while markets fell about 5 percent in Singapore and Malaysia.

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

Developments in Foreign Industrial Countries

Real GDP growth in most foreign industrial countries slowed or remained weak in the third quarter. Growth in Japan moderated from a strong second-quarter rate as net exports made a negative contribution to growth. Canadian growth subsided as well, but stayed relatively robust on the back of strong investment growth. The United Kingdom continued to grow at a moderate pace with support coming from the service sector. In the euro area, growth remained sluggish despite a rebound in final domestic demand.

More recent indicators have also been soft. In most major foreign industrial countries, September industrial production fell, and business confidence declined or remained low in recent months. In Canada and the United Kingdom, a robust housing sector has offset weakness in other sectors.

Twelve-month consumer-price inflation rates rose in most major foreign industrial countries. In Canada and the euro area, higher energy prices were partially responsible for the upturn. In the United Kingdom, rapid increases in housing prices also added significantly to the rise in inflation. Japanese prices continued to fall, though at a slightly slower pace.

In **Japan**, real GDP rose 3 percent (s.a.a.r.) during the third quarter. The rise was led by a slowing pace of inventory decumulation, which contributed 1.9 percentage points to growth. Private consumption remained strong, marking the fourth consecutive quarter of positive growth. In contrast, business fixed, residential, and public investment all declined. Net exports, an engine of growth during the first half of the year, subtracted 0.4 percentage point from growth. Real export growth slowed markedly from roughly 26 percent in the second quarter to 2 percent in the third quarter, in part reflecting a slowdown in exports of high-tech goods to emerging Asia. GDP growth during the second quarter was revised upward to 4.2 percent from 2.6 percent, while first-quarter growth was revised to 0.8 percent from zero.

Recent indicators are generally consistent with a slowing in the pace of growth. Industrial production slipped in October, marking the second consecutive monthly decline. Private consumption appears to be moderating, with household expenditures in October only slightly above the third-quarter average. New car registrations declined in November. The unemployment rate rose to 5.5 percent in October, matching the record high set last December. The job-offers-to-applicants ratio, a key leading indicator of employment conditions, edged up to 0.56 in October, but remains at low levels. Business spending remains weak, with core machinery orders, a leading indicator of business fixed investment, falling nearly 2 percent on average during the third quarter. Residential building starts rose sharply in October, but this followed several months of steep declines. Exports remain relatively sluggish, with real exports for October up about 1 percent from the third-quarter average. October imports fell roughly 2 percent.

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

Component	2000[1]	2001[1]	2001 Q4	2002 Q1	2002 Q2	2002 Q3
GDP	2.3	-2.3	-1.9	.8	4.2	3.0
Total domestic demand	2.2	-1.9	-2.0	-1.2	2.9	3.5
Consumption	.3	1.3	1.4	2.0	2.2	3.2
Private investment	11.0	-8.8	-11.2	-6.3	-.1	-3.0
Public investment	-11.3	-4.4	.6	-2.2	-5.9	-6.1
Government consumption	4.1	2.6	2.9	2.1	2.3	3.7
Inventories[2]	.1	-.9	-.9	-1.2	1.6	1.9
Exports	9.7	-10.9	-6.6	20.7	25.6	2.0
Imports	10.7	-9.0	-8.4	-.3	14.4	7.4
Net exports[2]	.1	-.4	.0	2.0	1.4	-.4

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

Core consumer goods prices in the Tokyo area (which exclude fresh food but include energy) were unchanged in November from the previous month and were down 0.7 percent from a year earlier. Wholesale prices for domestic goods have been roughly flat on a month-to-month basis since February; as a result, twelve-month deflation at the wholesale level eased to 0.5 percent in October from 1.4 percent earlier this year

Details on the supplementary budget were announced on November 22. We estimate that the net “real water” content of the package is about ¥2 trillion (0.4 percent of GDP), including ¥1.5 trillion for additional spending on traditional public works as well as some funds for labor market programs. Additional financing for small- and medium-sized enterprises will also be available. The government will issue an additional ¥3 trillion in bonds to cover an expected tax-revenue shortfall. This added financing will bring the total new debt issuance to ¥35 trillion for FY2002, violating Prime Minister Koizumi’s pledge not to exceed ¥30 trillion. Legislation for the supplementary budget is expected to be submitted to the Diet in January. Even with the addition of this supplementary spending, fiscal policy will be somewhat contractionary next year. On November 29, Financial Services Agency Minister Heizo Takenaka provided more information about his proposals to resolve problems in the Japanese banking sector, but important details remain unspecified as Takenaka continues to seek political support for significant reform.

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

Indicator	2002						
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Industrial production[1]	.6	3.8	2.2	1.4	-.1	-.3	n.a.
All-industries index	.6	.3	.7	.3	.0	n.a.	n.a.
Housing starts	.8	-.8	-3.9	-1.0	-.9	6.8	n.a.
Machinery orders[2]	-7.4	7.1	-1.7	-13.6	12.7	n.a.	n.a.
Machinery shipments[3]	3.6	6.6	1.6	5.7	-3.9	1.9	n.a.
New car registrations	2.0	4.3	3.4	8.0	-2.2	1.3	-1.5
Unemployment rate[4]	5.3	5.3	5.4	5.4	5.4	5.5	n.a.
Job offers ratio[5]	.51	.53	.54	.54	.55	.56	n.a.
Business sentiment[6]	-41	-32	-30	...	...	...	...
CPI (Core, Tokyo area)[7]	-.9	-1.1	-.9	-.9	-.9	-.8	-.7
Wholesale prices[7]	-1.4	-1.1	-1.0	-1.0	-.9	-.5	n.a.

1. Mining and manufacturing.
2. Private sector, excluding ships and electric power.
3. Excluding ships and railway vehicles.
4. Percent.
5. Level of indicator.
6. Tankan survey, diffusion index.
7. Percent change from year earlier, n.s.a.
n.a. Not available. ... Not applicable.

GDP data confirm that **euro-area** economic growth remained sluggish in the third quarter. Consumption growth picked up, and investment spending was flat after six quarterly declines, but net exports provided less of a boost than in the first half and inventory destocking was a drag on GDP growth. The French growth rate slowed to just below those of Germany and Italy, after exceeding them in the first half, with declining business fixed investment and a negative contribution from inventories largely accounting for the French slowdown.

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

Component	2000[2]	2001[2]	2001	2002		
			Q4	Q1	Q2	Q3
GDP	2.7	.4	-1.0	1.7	1.2	1.3
Total domestic demand	2.2	-.2	-1.0	.3	.7	1.1
Consumption	1.8	1.6	-.0	-.6	1.0	1.9
Investment	3.4	-2.5	-3.5	-3.9	-4.7	.1
Government consumption	2.1	1.5	1.7	3.8	3.0	1.1
Inventories[3]	-.0	-.8	-.6	.7	.5	-.2
Exports	12.6	-2.8	-5.0	.2	6.4	9.1
Imports	11.7	-4.6	-5.3	-3.7	5.5	9.2
Net exports[3]	.5	.6	-.0	1.4	.5	.2
Memo:						
France	3.8	.3	-1.6	2.4	1.7	.9
Germany	1.9	.1	-1.2	1.1	.6	1.1
Italy	2.6	.6	-.7	.5	.9	1.1

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

Euro-area industrial production and German manufacturing orders finished the third quarter on a sour note with declines in September, and business sentiment indicators suggest that euro-area growth is slowing further in the fourth quarter. November’s euro-area purchasing managers index (PMI) for manufacturing, though up slightly, remained just below the 50 level (the threshold for positive growth), and German IFO business sentiment continued to deteriorate in November.

Consumer confidence slipped further in November and is relatively pessimistic on balance. Both consumers’ expectations of their own financial situation and their expectations of the general economy over the next twelve months declined. The volume of retail sales dropped considerably in September but still posted a notable rise during the third quarter.

The twelve-month rate of euro-area consumer price inflation remained just above the European Central Bank's (ECB) target ceiling of 2 percent in November. Excluding food, energy, and alcohol and tobacco, the twelve-month inflation rate edged down to 2.3 percent in October, just below the six-year peak of 2.5 percent reached in May. Producer prices are only slightly higher than year-earlier levels.

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

Indicator	2002						
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Industrial production[1]	.5	.5	-.1	.2	-.2	n.a.	n.a.
Retail sales volume	.1	-.3	.7	1.0	-2.1	n.a.	n.a.
Unemployment rate[2]	8.1	8.2	8.3	8.3	8.3	8.4	n.a.
Consumer confidence[3]	-10.0	-8.3	-10.0	-11.0	-9.0	-12.0	-14.0
Industrial confidence[4]	-13.7	-10.7	-11.7	-12.0	-12.0	-11.0	-10.0
Mfg. orders, Germany	1.3	2.1	-1.2	1.4	-1.0	n.a.	n.a.
CPI[5]	2.6	2.1	2.0	2.1	2.1	2.3	2.2
Producer prices[5]	-.8	-.8	-.1	-.1	.1	.9	n.a.
M3[5]	7.7	7.3	7.2	7.0	7.3	7.0	n.a.

1. Excludes construction.
2. Percent. Euro area standardized to ILO definition. Includes Eurostat estimates in some cases.
3. Diffusion index based on European Commission surveys in individual countries.
4. Diffusion index based on European Commission surveys in individual countries.
5. Eurostat harmonized definition. Percent change from year earlier.
n.a. Not available.

The European Commission announced on November 13 that it will launch an "excessive deficit procedure" against Germany. The country's fiscal deficit is expected to come in at 3.8 percent of GDP in 2002 and to remain over the 3 percent limit specified in the Stability and Growth Pact in 2003. The German government has expressed its commitment to tighten fiscal policy in order to adhere to the 3 percent limit in 2003, announcing a package of spending cuts and tax increases equal to about 0.8 percentage point of GDP in 2003. The package includes a new capital gains tax on share sales and investment property and the postponement of approved reductions in personal income taxes. The Commission also announced that it will implement an early warning procedure against France, given the Commission's forecast that France's fiscal deficit will be 2.9 percent of GDP in 2003. The Commission has criticized France for the lack of clear improvement in its projected structural deficit next year and for its failure to put a plan in place that will allow the budget to be balanced by 2006.

In the **United Kingdom**, real GDP expanded 3.3 percent (s.a.a.r.) in the third quarter, up from 2.5 percent in the previous quarter. The third-quarter pickup in growth mainly reflected sharp turnarounds in government spending and inventory accumulation. The services sector also was strong. In contrast, growth of consumer spending moderated from a striking second-quarter rise and gross fixed capital formation tumbled. Net exports subtracted 1.2 percentage points from growth, as exports shrank and imports grew.

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

Component	2000[1]	2001[1]	2001	2002		
			Q4	Q1	Q2	Q3
GDP	2.2	1.6	.9	.5	2.5	3.3
Total domestic demand	3.4	2.2	3.4	2.7	-.6	3.6
Consumption	4.8	4.2	4.6	1.9	5.4	3.3
Investment	4.5	-6.9	-12.0	-6.1	-.3	-7.9
Government consumption	1.3	5.3	7.3	12.3	-10.4	5.3
Inventories[2]	-.8	-.2	1.4	.4	-2.3	1.9
Exports	8.7	-5.0	-6.1	-.5	14.6	-6.7
Imports	10.9	-2.5	1.2	5.6	2.3	-2.8
Net exports[2]	-1.2	-.7	-2.6	-2.4	3.7	-1.2

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

The limited indicators that are available for the fourth quarter are mixed, but on balance point to moderate growth, with a relatively weak manufacturing sector and a robust services sector. Business confidence fell in November, whereas the Confederation of British Industry (CBI) survey of manufacturing order books recovered notably. In recent months, the manufacturing PMI has been falling, with November's index indicating no growth in the sector. November's services PMI receded, but continued to indicate a notable expansion. Retail sales grew briskly in October, and the CBI survey of retail sales indicates further growth in

November. Consumer confidence has remained relatively flat over the past several months after rising during the summer, with consumers relatively optimistic about their own financial situation over the next twelve months, but less sure about the economy in general.

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

Indicator	2002						
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Industrial production	-1.2	.3	.4	-.4	-.3	n.a.	n.a.
Retail sales volume	1.2	1.7	.8	.9	.4	.8	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.	5.3	n.a.	n.a.	n.a.
Business confidence[3]	-3.3	8.0	10.7	16.0	7.0	8.0	2.0
Retail prices[4]	2.4	1.9	2.0	1.9	2.1	2.3	n.a.
Producer input prices[5]	-5.6	-5.9	-2.3	-2.0	-1.3	2.0	n.a.
Average earnings[5]	2.9	3.9	3.8	3.6	3.7	n.a.	n.a.

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

Despite some anecdotal evidence that the housing market is cooling, housing prices increased about 5½ percent (not annualized) in the three months ending in November according to one of the two leading surveys. The November Construction PMI rose to 56.2, with the housing sector index climbing to 62.3. Borrowing to finance the purchase of homes jumped in October, while unsecured borrowing subsided.

Labor market conditions have remained tight. The official claims-based unemployment rate held steady at 3.1 percent in October, near a record low. The twelve-month rate of retail price inflation (excluding mortgage interest payments) rose to 2.3 percent in October, slightly below the Bank of England's 2½ percent target. The increase in inflation partially reflects higher housing prices. The twelve-month growth rate of average earnings ticked up to 3.7 percent in September.

On November 27, the government presented to Parliament its Pre-Budget Report, which included no new major spending. Chancellor of the Exchequer, Gordon Brown, projected Public Sector Net Borrowing to be £20 billion for 2002-03 and £24 billion for 2003-04 -- both around 2 percent of GDP. This forecast is an upward revision from the March budget's projection of £11 billion for 2002-03 and £13 billion for 2003-04. The government lowered its real GDP growth forecasts to 1.6 percent for 2002, and 2½-3 percent for 2003. The foreast for 2004 is 3-3½ percent growth.

Brown announced on November 27 that Mervyn King will replace Edward George as Governor of the Bank of England. Mr. King currently serves as the bank's Deputy Governor, and his appointment as Governor will begin when George's term expires at the end of June 2003. His term of office will be for three years and is renewable.

Canadian Real GDP

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

Component	2000[1]	2001[1]	2001	2002		
			Q4	Q1	Q2	Q3
GDP	3.5	.8	2.9	5.7	4.4	3.1
Total domestic demand	2.6	-.3	-3.8	5.8	10.9	1.7
Consumption	3.4	2.2	4.1	2.9	4.2	.5
Investment	3.6	-1.6	-13.9	8.1	5.8	6.2
Government consumption	3.4	2.1	.9	1.7	3.3	2.8
Inventories[2]	-.8	-1.6	-3.4	1.9	5.8	-.3
Exports	4.7	-6.1	-.6	5.3	2.0	9.6
Imports	2.2	-9.2	-16.9	5.2	18.9	6.3
Net exports[2]	1.2	.9	6.6	.4	-5.5	1.6

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

In **Canada**, real GDP grew 3.1 percent (s.a.a.r) in the third quarter, led by strong growth in the export of motor vehicles and a residential housing boom. Investment in residential structures increased 15.9 percent, compared with an otherwise tepid 2.1 percent rise in investment in non-residential structures and equipment. Consumption expenditures were flat following strong growth in the previous quarter. Monthly GDP measured by industry reveals that third quarter growth was concentrated in the beginning of the quarter and had tapered off by September. However, indicators suggest that residential construction has remained strong in the fourth quarter. In October, housing starts jumped 6.6 percent above the third-quarter average, rising to their highest level since 1990.

Surveys suggest mixed business sentiment going into the fourth quarter. In October's business conditions survey, manufacturers expressed increased pessimism regarding production prospects for the fourth quarter, with those firms expecting to decrease production outweighing those expecting to increase production. However, October's PMI rose to 60.9 from 58.5 in September.

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

Indicator	2002						
	Q1	Q2	Q3	Jul.	Aug.	Sept.	Oct.
GDP by industry	1.3	1.0	.8	.4	.2	.1	n.a.
Industrial production	2.3	1.4	1.1	1.3	-.2	.5	n.a.
New mfg. orders	4.7	3.7	1.0	-.5	3.4	-1.2	n.a.
Retail sales	2.6	.8	.7	-.2	.4	-.5	n.a.
Employment	.7	.9	.9	.1	.4	.3	.2
Unemployment rate[1]	7.8	7.6	7.6	7.6	7.5	7.7	7.6
Consumer prices[2]	1.5	1.3	2.3	2.1	2.6	2.3	3.2
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.

The unemployment rate fell to 7.6 percent in October from 7.7 percent in September. Employment has increased 3 percent in 2002, the largest ten-month increase since 1994. However, recent data suggest that the labor market is cooling. Employment increases in September and October resulted from gains in part-time employment, while full-time employment actually fell in both months. Hours worked fell 1.4 percent in October from the third-quarter average. In October, the twelve-month rate of headline CPI inflation leapt to 3.2 percent from 2.3 percent in September, reflecting base effects and higher energy and tobacco prices, as well as higher automobile insurance premiums. Core inflation, excluding food and energy prices, rose to 3.3 percent in October from 3.0 percent the month before.

External Balances

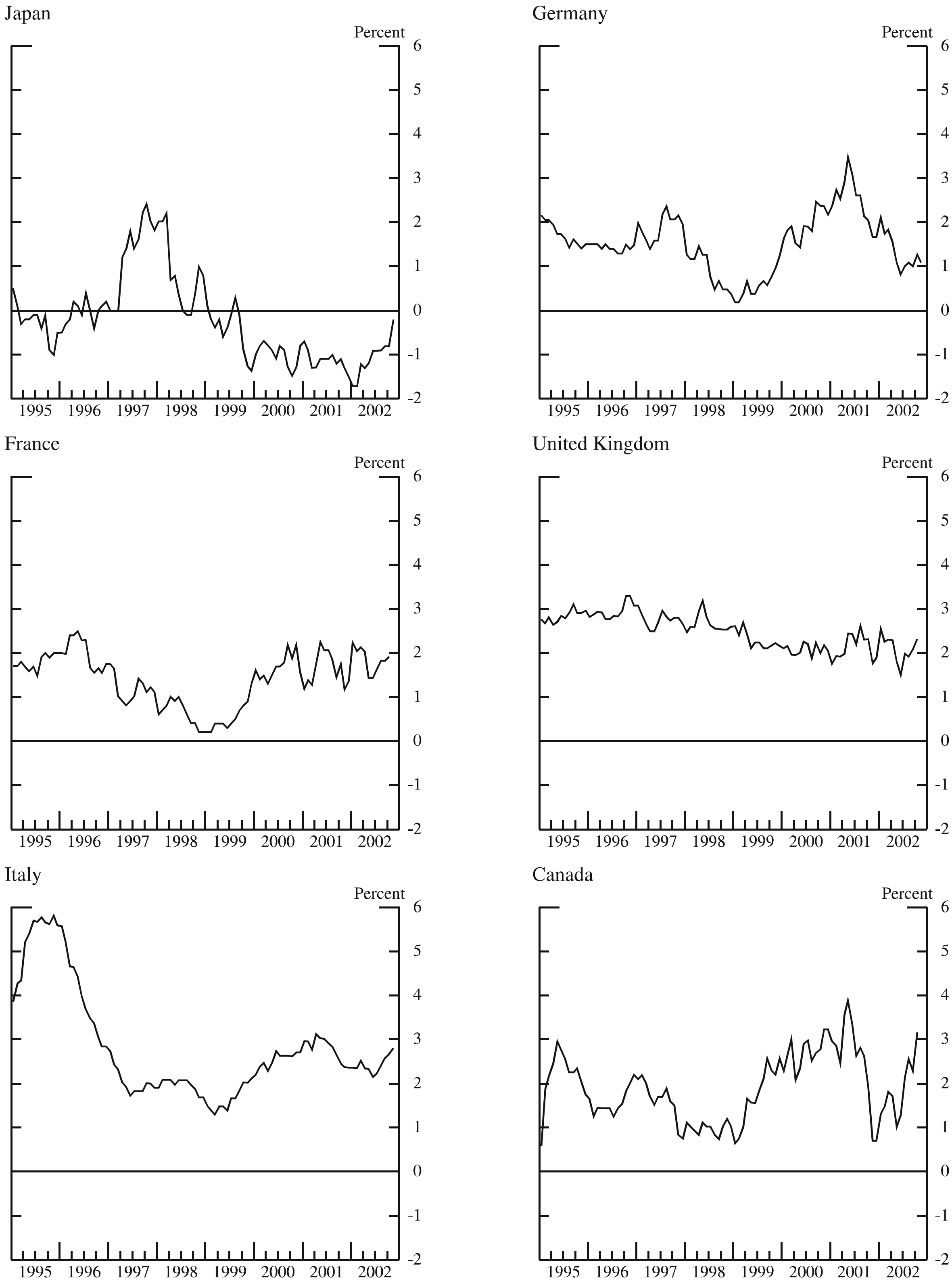
(Billions of U.S. dollars, s.a.a.r.)

Country and balance	2002					
	Q1	Q2	Q3	Aug.	Sept.	Oct.
Japan						
Trade	72.4	86.1	73.9	93.0	60.4	87.7
Current account	117.5	118.7	115.0	116.9	99.4	n.a.
Euro area						
Trade[1]	66.4	90.3	133.2	117.8	111.5	n.a.
Current account[1]	40.9	20.4	79.7	113.9	94.1	n.a.
Germany						
Trade	112.6	107.8	136.1	145.5	138.9	n.a.
Current account	36.9	43.7	44.4	48.7	82.4	n.a.
France						
Trade	1.0	1.6	2.4	2.7	.9	n.a.
Current account	3.6	4.5	4.1	6.1	2.9	n.a.
Italy						
Trade	5.5	11.1	11.0	9.2	18.9	n.a.
Current account[1]	-9.3	-16.0	16.8	15.9	-2.7	n.a.
United Kingdom						
Trade	-45.0	-38.2	-52.7	-62.6	-50.4	n.a.
Current Account	-21.7	-23.4	n.a.	...	...	...
Canada						
Trade	34.8	34.6	35.8	32.2	37.3	n.a.
Current Account	13.3	12.6	n.a.	...	...	...

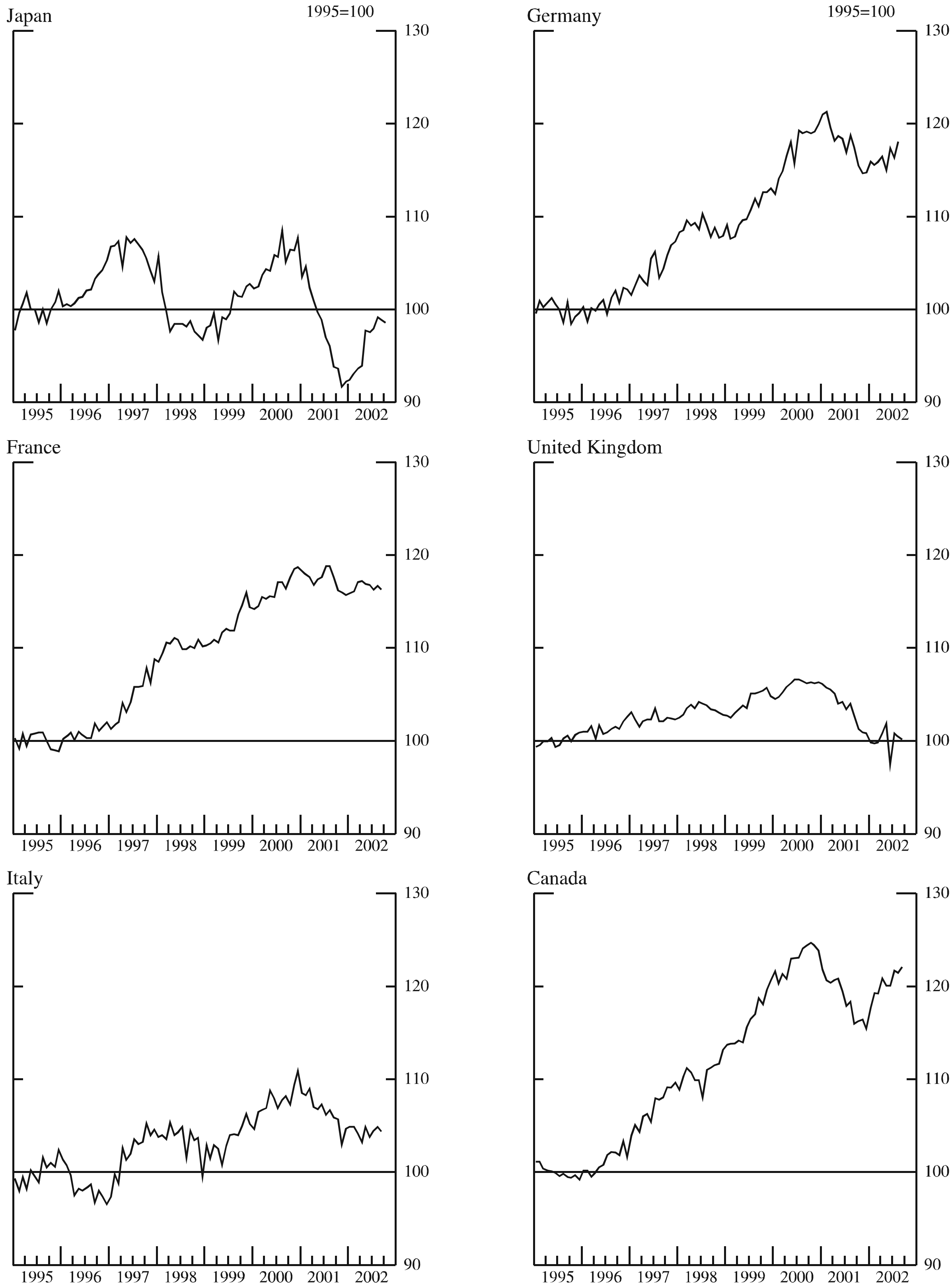
1. Not seasonally adjusted.

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

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



Industrial Production in Selected Industrial Countries



Economic Situation in Other Countries

The economic and political environment in South America remains unsettled. Brazil is coping with the transition to the Lula administration, and Argentina has defaulted on a World Bank loan. Despite some improvement in recent economic data, the Venezuelan political situation appears to have deteriorated. In Mexico, the recovery has continued, but recent indicators point to some softening in the pace of activity. Growth in emerging Asia moderated in the third quarter, but China is still the most notable exception, with indicators there showing no signs of a slowdown in economic activity.

In **Brazil**, indicators since the last Greenbook have been mixed. Real GDP rose 3.8 percent (s.a.a.r.) in the third quarter, boosted by strength in the industrial sector. This growth was higher than expected, given that other indicators had pointed to a slowdown. In particular, unemployment rose in the third quarter and continued to climb in October. The trade surplus has widened significantly in recent months, bringing the cumulative trade surplus through November to over $11 billion, versus $2 billion for the same period in 2001. The increase reflects both the weak economy and improved international competitiveness following the depreciation of the *real*.

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

Indicator	2000	2001	2002				
			Q2	Q3	Sept.	Oct.	Nov..
Real GDP[1]	4.2	-.8	3.5	3.8	...	...	...
Industrial production	6.6	1.5	1.5	-.4	.9	n.a.	n.a.
Unemployment rate[2]	7.1	6.2	7.9	8.1	8.4	8.5	n.a.
Consumer prices[3]	6.0	7.7	7.8	7.6	7.9	8.4	n.a.
Trade balance[4]	-.7	2.6	4.2	18.9	29.0	30.0	21.1
Current account[5]	-24.6	-23.2	-20.4	3.9	14.6	-4.1	n.a.

1. Annual rate. Annual figures are Q4/Q4.
2. Percent. “Open” unemployment rate.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec. Price index is IPC-A.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, n.s.a., annual rate.

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

Twelve-month consumer price inflation climbed to 8.5 percent in October, driven by pass-through from the sizeable net depreciation of the *real* in recent months. The rise in inflation has prompted the central bank to increase its overnight interest rate 300 basis points since mid-October. Reflecting concerns that President-elect Lula, who takes office in January, will enact expansionary policies, inflation expectations have climbed considerably in recent weeks. The delay in the announcement of a new economic team, which is now expected by December 8, has helped fuel these concerns.

Despite some recent improvement in exchange rates and risk premia, Brazilian borrowers' access to international and domestic capital markets remains highly restricted. Attention continues to focus on the rollover of significant amounts of domestic federal government debt maturing in coming weeks. The government rolled over most of the debt maturing in early December, but at yields that may prove unsustainable.

In **Argentina**, data releases since the last Greenbook were mixed. Although confidence indicators rose, other indicators pointed to a weakening in activity. In any case, the very depressed state of the economy, plus the suppression of utility rates, kept CPI inflation at only 0.2 percent (s.a.) in October. This brought the twelve-month increase to nearly 40 percent, versus an increase in the producer price index of about 125 percent over the same period. Consumer price inflation has been surprisingly low given the government's severe fiscal problems, fiscal and monetary pressures from the provincial governments, and the country's lack of access to international and domestic capital markets.

In mid-November, the Argentine government defaulted on a $800 million payment to the World Bank, after failing to reach agreement with the IMF on a new loan. The default makes Argentina ineligible for new loans from the World Bank. The Argentine government lifted withdrawal restrictions (the "corralito") on December 2, one year after the restrictions were imposed. The lifting of restrictions passed relatively calmly, with only modest deposit withdrawals reported. Capital controls on most transactions remain in place. Talks between President Duhalde and the nation's provincial governments aimed at building a political consensus for economic reforms culminated in a late-November agreement that the IMF considered a step forward, but insufficient for a program. The Fund also remains concerned about the lack of a clear monetary framework.

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

Indicator	2000	2001	2002				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP[1]	-1.9	-10.5	3.8	n.a.	...	...	...
Industrial production	-1.8	-5.0	-.4	-.2	.0	.9	-.2
Unemployment rate[2]	15.1	17.4	21.5	n.a.	...	...	...
Consumer prices[3]	-.7	-1.5	23.3	36.0	36.5	38.5	39.4
Trade balance[4]	2.6	7.5	n.a.	n.a.	16.1	19.6	18.9
Current account[5]	-8.9	-4.4	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**, real GDP grew 4 percent (s.a.a.r.) in the third quarter, in response to growth in U.S. output. Available fourth-quarter indicators are generally consistent with a deceleration in activity; exports were down modestly in October and, although the unemployment rate improved in the same month, other labor market indicators were weaker. However, business confidence turned back up in November after several months of decline. A fall in exports has led to a widening of the trade deficit. Twelve-month inflation came in at around 5 percent in October, unchanged from its September value and above the government's year-end target of 4½ percent. Price data from the first half of November suggest that inflation likely moved up some in November.

A draft 2003 budget presented to congress in early November is currently under debate. Although the opposition has endorsed the tight overall deficit target of ½ percent of GDP, it has proposed an alternative budget that would dramatically increase social spending, public investment spending, and transfers to states and municipalities. The higher spending in these categories would be financed by cutting other spending and increasing budgeted revenues, including raising the oil price assumption $1.50 per barrel.

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

Indicator	2000	2001	2002				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP[1]	4.9	-1.5	5.4	4.0	...	...	...
Overall economic activity	6.5	-.2	1.3	.2	-.2	-.2	n.a.
Industrial production	5.9	-3.3	1.3	-.7	.0	-1.3	n.a.
Unemployment rate[2]	2.2	2.5	2.7	2.9	2.8	3.0	2.6
Consumer prices[3]	9.0	4.4	4.8	5.2	5.3	4.9	5.0
Trade balance[4]	-8.0	-10.0	-8.2	-7.3	-6.6	-7.7	-11.1
Imports[4]	174.5	168.4	170.0	171.0	169.6	171.4	172.2
Exports[4]	166.5	158.4	161.8	163.7	163.0	163.7	161.0
Current account[5]	-18.1	-18.0	-11.4	-12.8	...	...	...

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.

Positive economic news out of **Venezuela** since the last Greenbook was at odds with a further ratcheting up of political tensions. Output rebounded sharply in the third quarter, retracing the second quarter's decline. Most of the gain was due to strength in the oil sector, which led the current account surplus to more than double to $15.3 billion (a.r.). Financial conditions also improved somewhat, as Venezuela exchanged about one-third of its domestic debt coming due in the next three years for longer-term instruments that are linked to the exchange rate. However, violent skirmishes between government and opposition groups continued, and OAS sponsored "peace talks" have made little progress. On December 2, opposition forces began a national strike in hopes of forcing a referendum on the rule of President Chavez.

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

Indicator	2000	2001	2002				
			Q2	Q3	Sept.	Oct.	Nov.
Real GDP[1]	5.7	.9	-20.9	21.8	...	...	...
Unemployment rate[2]	13.4	13.3	15.8	n.a.	n.a.	n.a.	n.a.
Consumer prices[3]	13.4	12.3	18.9	24.8	28.2	29.9	30.7
Non-oil trade balance[4]	-10.4	-12.2	n.a.	n.a.	n.a.	n.a.	n.a.
Trade balance[4]	17.5	9.3	n.a.	n.a.	n.a.	n.a.	n.a.
Current account[5]	13.4	3.9	6.4	15.3	...	...	...

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.

Recent indicators for **Korea** continue to point to healthy, albeit moderating, growth in the second half of the year. Output rose 5.1 percent (s.a.a.r.) in the third quarter, boosted by robust performance in the manufacturing and service sectors, which more than offset sizable declines in agriculture and construction. The latter sectors were hurt by poor weather conditions. More recently, industrial production for October jumped 2.4 percent, with particularly strong gains in the auto and computer chip industries. Exports also soared in October, leading to a sizable trade surplus and a significant jump in the current account balance. Twelve-month inflation rose to 3.5 percent in November, reflecting increases in fuel prices, while the unemployment rate for October held steady at 3 percent. There are signs that consumption and investment growth may be slower going forward, however. The most recent consumer and business confidence indicators fell, in part, on fears of weakening external conditions. Presidential elections are scheduled for December 19, and neither the ruling party nor the opposition candidate is expected to alter the current course of economic policy significantly.

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

Indicator	2000	2001	2002				
			Q2	Q3	Sept.	Oct.	Nov.
Real GDP[1]	5.1	4.4	5.8	5.1	...	...	...
Industrial production	16.9	1.7	2.0	1.7	.0	2.4	n.a.
Unemployment rate[2]	4.1	3.7	3.1	3.0	2.8	3.0	n.a.
Consumer prices[3]	2.8	3.2	2.7	2.5	3.0	2.8	3.5
Trade balance[4]	16.9	13.4	14.3	9.7	4.5	24.0	n.a.
Current account[5]	12.2	8.6	7.1	2.3	5.3	16.6	n.a.

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

Since the last Greenbook, economic conditions in the **ASEAN** region have weakened somewhat. Real GDP growth in Indonesia moderated to just over 3 percent (s.a.a.r.) in the third quarter, while the Philippine economy registered a small contraction. Real GDP in Singapore fell more than 10 percent, after a very strong second quarter, largely due to a precipitous decline in equipment investment. Malaysia, with only a modest slowing in growth in the third quarter to 6.8 percent, was the bright spot among these countries. Recent industrial production figures for the region have been mixed, but data on production of high-tech goods have been decidedly negative in recent months. Trade surpluses have generally widened since August, although Singapore's trade surplus shrank for the second straight month in October.

Inflation in the region was benign through October. Indonesia remained close to achieving single-digit inflation on a twelve-month basis. In Singapore, twelve-month inflation remains slightly negative, although prices have been stable over the past several months.

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

Indicator and country	2000	2001	2002				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP[1]							
Indonesia	6.9	1.6	6.3	3.1	...	...	...
Malaysia	6.2	-.6	7.4	6.8	...	...	...
Philippines	3.7	3.9	10.9	-.3	...	...	...
Singapore	11.4	-6.4	13.4	-10.1	...	...	...
Thailand	3.4	2.0	6.1	n.a.	...	...	...
Industrial production[2]							
Indonesia[3]	11.6	.7	-2.0	-1.2	-.8	1.0	n.a.
Malaysia	19.1	-4.1	2.4	3.2	-1.1	1.2	n.a.
Philippines	2.4	-5.7	5.3	-4.1	-4.2	.5	n.a.
Singapore	15.3	-11.6	9.8	-4.8	-4.7	-7.2	4.8
Thailand	3.2	1.3	3.3	3.2	2.0	-2.1	.9

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

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

Country	2000	2001	2002				
			Q2	Q3	Aug.	Sept.	Oct.
Indonesia	28.6	25.4	28.3	24.3	21.4	26.0	25.3
Malaysia	16.1	14.2	12.1	12.8	10.6	12.9	14.5
Philippines	6.7	2.6	.8	.2	-3.4	.1	n.a.
Singapore	3.3	5.8	5.8	12.0	11.9	10.8	3.7
Thailand	5.5	2.5	3.3	2.7	2.6	8.9	4.6

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	Sept.	Oct.	Nov.
Indonesia	9.3	12.5	12.6	10.4	10.5	10.3	10.5
Malaysia	1.3	1.2	1.9	2.1	2.1	2.1	n.a.
Philippines	6.7	4.1	3.4	2.8	2.9	2.7	n.a.
Singapore	2.1	-.6	-.4	-.4	-.4	-.2	n.a.
Thailand	1.4	.8	.2	.3	.4	1.4	1.2

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

The **Chinese** economy has shown no signs of slowing. Exports have continued to soar and are currently more than 30 percent above their year-ago levels. Foreign direct investment is on a pace to exceed $50 billion this year, which would likely make China the single largest recipient of FDI in the world this year. The Chinese government began the change to the next generation of political leadership in November, when the Communist party elected new leaders. As a result, early next year Hu Jintao will become China's new President and Wen Jiabao will become the new Prime Minister. These new leaders are expected to continue China's reform policies.

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

Indicator	2000	2001	2002				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP[1]	8.0	7.5	9.3	7.5	...	...	...
Industrial production[2]	11.4	8.9	12.5	13.1	12.7	13.8	14.2
Consumer prices[2]	1.5	-.3	-1.1	-.8	-.7	-.7	-.8
Trade balance[3]	24.1	23.1	29.9	10.2	3.9	14.0	26.6

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.

Third quarter real GDP in **Hong Kong** surprised on the upside, with growth of more than 10 percent (s.a.a.r.). The Hong Kong government reported considerable strength in exports to China and in tourism. Despite the good news, most recent indicators point to weakness in the fourth quarter. Data show little, if any, improvement in unemployment, consumer confidence, and manufacturers' expectations. The government did announce new measures designed to boost the ailing property market, but most analysts doubt that those measures will have much effect. Consumer prices continued to fall in October.

Hong Kong Economic Indicators

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

Indicator	2000	2001	2002				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP[1]	7.0	-1.4	2.8	10.4	...	...	...
Unemployment rate[2]	5.1	4.9	7.7	7.4	7.6	7.4	7.2
Consumer prices[3]	-2.1	-3.5	-3.2	-3.5	-3.3	-3.7	-3.6
Trade balance[4]	-11.0	-11.4	-7.8	-9.7	-12.7	-6.2	-10.5

1. Annual rate. Annual figures are Q4/Q4.
2. Percent. Monthly numbers are averages of the current and previous two months.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
4. Billions of U.S. dollars, annual rate. Imports are c.i.f.

... Not applicable.

Taiwanese real GDP grew just 0.4 percent (s.a.a.r.) in the third quarter. A large increase in government spending and small increases in personal consumption and investment spending were largely offset by a surge in imports. The high-tech manufacturing industry has not done well recently, and this has had repercussions throughout the economy, including the labor market, where unemployment is near decade highs. While overall industrial production rose in October, production of high-tech goods fell sharply. Deflation persisted in October, with prices down 1.6 percent from a year ago, although part of this decline is due to a base-year effect.

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

Indicator	2000	2001	2002				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP[1]	3.9	-1.6	.3	.4	...	...	...
Unemployment rate[2]	3.0	4.6	5.2	5.1	5.0	5.1	5.1
Industrial production	7.4	-7.3	6.0	-1.6	-1.0	-.9	1.5
Consumer prices[3]	1.7	-1.7	.0	-.2	-.3	-.7	-1.6
Trade balance[4]	8.3	15.6	16.3	12.9	18.3	9.2	15.3
Current account[5]	8.9	17.9	23.0	19.8	...	...	...

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.
... Not applicable.