Prefatory Note

The attached document represents the most complete and accurate version available based on original files from the FOMC Secretariat at the Board of Governors of the Federal Reserve System.

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

Content last modified 05/27/2010.

Confidential (FR) Class III FOMC

Part 2

December 8, 2004

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

Economic activity continues to expand at a moderate rate. Real consumer spending excluding motor vehicles has increased at a solid pace in recent months, and shipments of capital goods have remained on a steep uptrend. Taken together, the employment gains in October and November indicate that the labor market continues to improve gradually, and manufacturing production has—aside from hurricane-induced volatility—expanded at a modest pace in recent months. Core consumer price inflation remains subdued, but overall consumer price inflation has been boosted by higher energy price inflation.

Labor Market Developments

After posting a robust gain of 279,000 in October, private nonfarm payroll employment rose 104,000 last month. Smoothing through the recent swings, the three-month moving average of monthly employment changes has moved up since the middle of the year and currently stands at 160,000.

By industry, employment in retail trade turned down in November, as seasonal hiring was relatively weak. In contrast, construction employment rose again last month after an outsized increase in October, when hiring was boosted by hurricane-related repair work. Employment in professional and business services, nonbusiness services, and financial services also experienced solid gains in the past two months, while manufacturing jobs edged down.

Despite continued growth in employment, aggregate hours of production or nonsupervisory workers on private nonfarm payrolls fell 0.2 percent in November, as the workweek edged down 0.1 hour, to 33.7 hours. Aggregate hours last month stood 0.3 percent above their third-quarter average.

In the household survey, the unemployment rate ticked down to 5.4 percent last month, while the labor force participation rate moved up 0.2 percentage point, to 66.1 percent. The employment-population ratio, which combines these two series, rose 0.2 percentage point in November, to 62.5 percent, a level still well below its peak in 2000 and a bit below its average level in the mid-1990s. The number of persons working part-time for economic reasons as a share of total employment fell in November but remained close to the highs reached last year. Although these indicators improved last month, they still suggest that some measurable slack remains in the labor market.

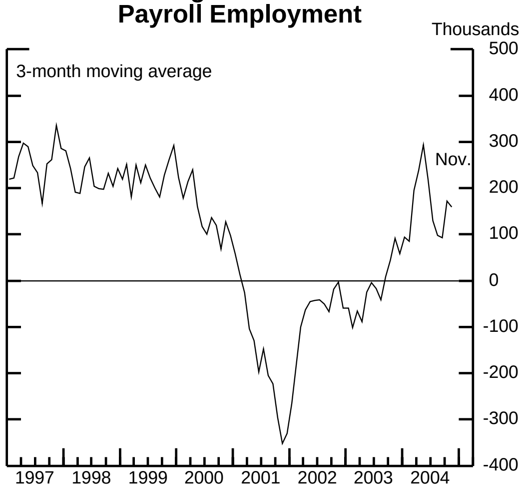
Changes in Employment

(Thousands of employees; seasonally adjusted)

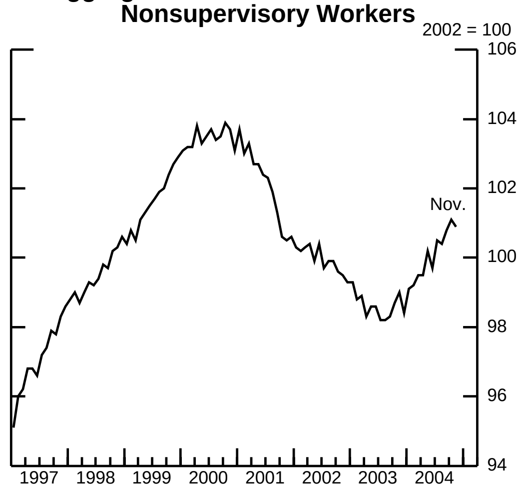
Measure and sector	2003	2004 Q1	2004 Q2	2004 Q3	2004 Sept.	2004 Oct.	2004 Nov.
	Average monthly change				Monthly change		
Nonfarm payroll employment (establishment survey)	-5	198	209	134	119	303	112
Private	-1	195	218	93	96	279	104
Previous	-1	195	218	92	95	296	...
Manufacturing	-48	7	16	5	-5	-2	-5
Construction	7	26	19	16	22	65	11
Wholesale trade	-3	8	5	8	10	6	5
Retail trade	-5	46	14	-8	-18	17	-16
Transportation and utilities	-5	14	8	9	14	8	2
Information	-10	-2	4	-8	-7	4	0
Financial activities	6	7	15	10	25	17	12
Professional and business services	23	26	73	30	30	100	28
Temporary help services	15	8	23	17	27	51	9
Nonbusiness services[1]	34	59	60	30	23	66	65
Total government	-4	3	-8	41	23	24	8
Total employment (household survey)	168	-60	244	150	-201	298	483
Memo:							
Aggregate hours of private production workers (percent change)[2]	-.8	2.3	2.2	3.1	.4	.3	-.2
Average workweek (hours)[3]	33.7	33.8	33.7	33.8	33.8	33.8	33.7
Manufacturing (hours)	40.4	41.0	40.9	40.8	40.8	40.6	40.5

1. Nonbusiness services comprises education and health, leisure and hospitality, and "other."
2. Establishment survey. 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.
3. Establishment survey.
... Not applicable.

Changes in Private Payroll Employment



Aggregate Hours of Production or Nonsupervisory Workers

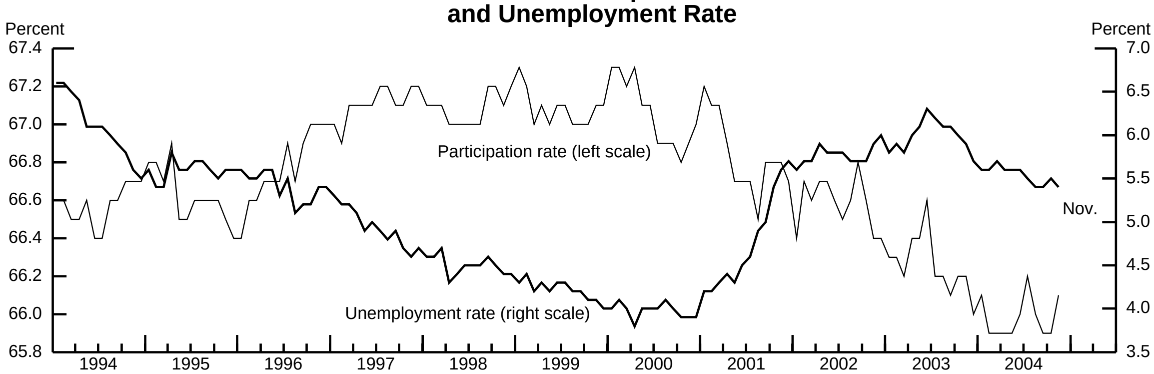


Selected Unemployment and Labor Force Participation Rates

(Percent; seasonally adjusted)

Rate and group	2003	2004 H1	2004 Q3	2004 Sept.	2004 Oct.	2004 Nov.
Civilian unemployment rate						
16 years and older	6.0	5.6	5.5	5.4	5.5	5.4
Teenagers	17.5	16.8	17.1	16.6	17.2	16.6
20-24 years old	10.0	9.6	9.3	9.5	9.8	9.2
Men, 25 years and older	5.1	4.5	4.4	4.3	4.3	4.3
Women, 25 years and older	4.6	4.5	4.3	4.3	4.2	4.3
Labor force participation rate						
Total	66.2	65.9	66.0	65.9	65.9	66.1
Teenagers	44.5	43.6	43.9	43.4	43.8	44.0
20-24 years old	75.4	74.9	74.9	74.5	75.8	75.2
Men, 25 years and older	75.5	75.3	75.4	75.2	75.2	75.4
Women, 25 years and older	59.6	59.2	59.3	59.3	59.1	59.3

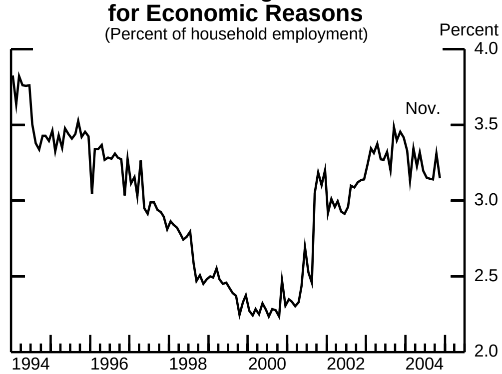
Labor Force Participation Rate and Unemployment Rate



Employment-Population Ratio

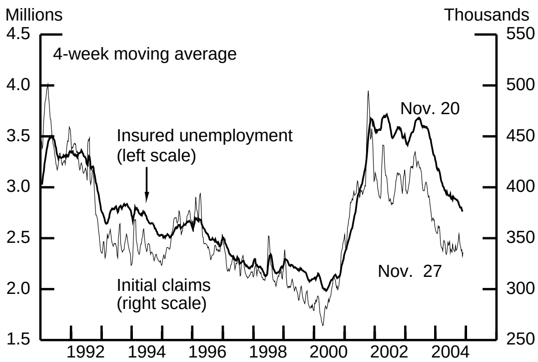
Persons Working Part-Time for Economic Reasons

(Percent of household employment)

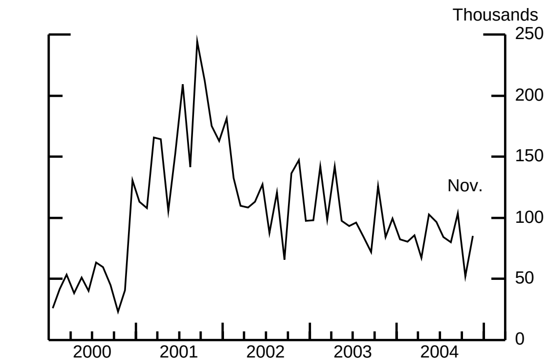


Labor Market Indicators

Unemployment Insurance

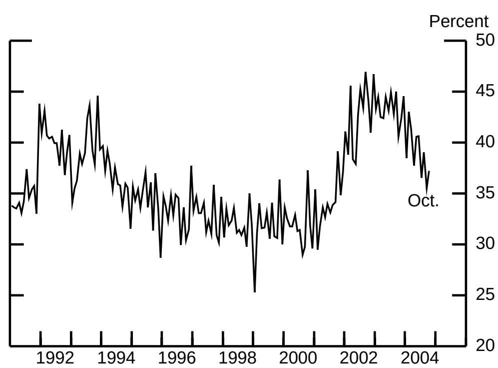


Layoff Announcements



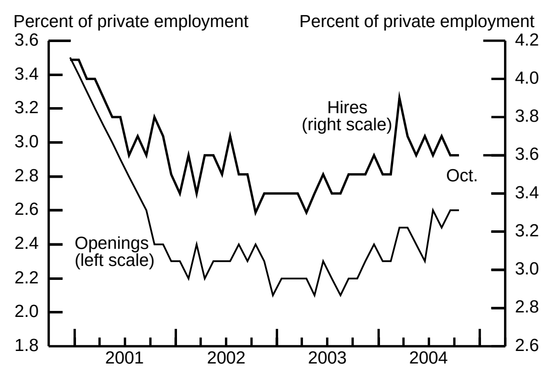
Note. Seasonally adjusted by FRB staff.
Source. Challenger, Gray, and Christmas, Inc.

Exhaustion Rate



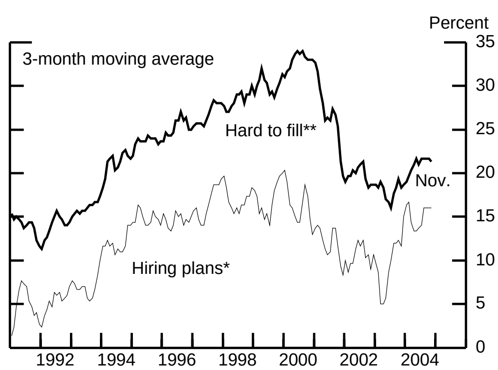
Note. Seasonally adjusted by FRB staff. Exhaustion rate is number of individuals who exhausted benefits without finding a job, expressed as a share of individuals who began receiving benefits six months earlier.

Job Openings and Hires



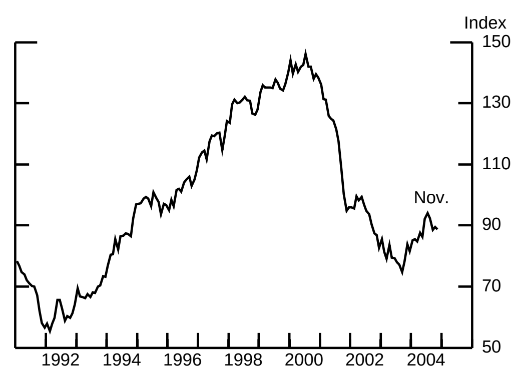
Source. Job Openings and Labor Turnover Survey.

NFIB Net Hiring Plans and Positions Hard to Fill



*Percent planning an increase in employment minus percent planning a reduction.
**Percent of firms surveyed with at least one "hard to fill" job opening.
Source. National Federation of Independent Businesses.

Current Labor Market Conditions



Note. The proportion of households believing jobs are plentiful, minus the proportion believing jobs are hard to get, plus 100.
Source. Conference Board.

Labor Output per Hour
(Percent change from preceding period at an annual rate;
seasonally adjusted)

Sector	2001	2002	2003	2004 Q1	2004 Q2	2004 Q3[e]	2003:Q3 to 2004:Q3[e]
Nonfarm business							
All persons	3.3	3.5	5.6	3.7	3.9	1.4	3.0
All employees[1]	3.4	3.7	6.1	2.9	3.3	2.4	3.0
Nonfinancial corporations[2]	2.0	5.1	6.6	0.1	3.3	4.2	3.1

Note. Annual changes are from fourth quarter of preceding year to fourth quarter of year shown.
1. Assumes that the growth rate of hours of non-employees equals the growth rate of hours of employees.
2. All corporations doing business in the United States except banks, stock and commodity brokers, and finance and insurance companies. The sector accounts for about two-thirds of business employment.
e. Staff estimates.

Layoffs appear to have changed little of late. The four-week moving average of initial claims for unemployment insurance remained near 340,000 in recent weeks, close to the narrow range that has prevailed since the spring. In addition, layoff announcements have been relatively flat, on balance, in recent months.

Hiring indicators have been mixed in recent months. The exhaustion rate—the share of individuals who exhaust their unemployment insurance benefits without finding a job—has been trending down this year, while the job openings rate published by the BLS has continued to move up, on net. In contrast, the BLS hires rate has moved sideways in the past few months after some improvement earlier in the year, and the National Federation of Independent Businesses (NFIB) reported that, after some tightening early this year, vacancies have not recently become appreciably harder to fill. Finally, the NFIB index of hiring plans and the Conference Board’s measure of individuals’ perceptions of jobs also have both been flat recently.

The staff estimates that output per hour in the nonfarm business sector rose at an annual rate of 1.4 percent in the third quarter, about 0.4 percentage point less than the published figure.[1] Over the four quarters ending last quarter, productivity advanced about 3 percent, a considerable step-down from its elevated, 5¼ percent pace over the comparable period four quarters earlier. In the nonfinancial corporate sector, output per

[1] Our estimate incorporates the slightly weaker spending data available since the release of the preliminary estimate of real GDP as well as the upward-revised data on hours paid reported in the November labor market report.

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

Component	Proportion 2003 (percent)	2004 Q1	2004 Q2	2004 Q3	2004 Aug.	2004 Sept.	2004 Oct.
		Annual rate			Monthly rate		
Total	**100.0**	**6.6**	**4.9**	**3.2**	**-.1**	**.1**	**.7**
Previous	100.0	6.6	4.9	2.9	-.1	.1	...
Manufacturing	82.3	6.3	7.2	4.8	.3	-.3	.7
Ex. motor veh. and parts	75.6	6.0	8.9	5.2	.0	-.2	.6
Ex. high-tech industries	70.7	4.6	7.8	4.6	.0	-.3	.6
Mining	7.6	-1.8	-2.3	-3.6	-1.3	-2.4	.7
Utilities	10.1	15.6	-7.0	-4.2	-2.0	5.3	.7
Selected industries							
High technology	4.9	27.3	24.2	12.7	.7	.9	.9
Computers	1.2	28.1	17.4	14.0	1.3	1.2	1.2
Communications equipment	1.3	1.2	1.8	23.6	1.1	-.4	.7
Semiconductors[1]	2.4	41.4	39.0	7.5	.2	1.3	1.0
Motor vehicles and parts	6.7	9.9	-10.3	.5	3.3	-1.3	2.3
Market groups excluding energy and selected industries							
Consumer goods	22.6	3.6	6.5	1.9	.3	-.1	.2
Durables	4.3	6.9	-.4	-4.5	-.3	-1.7	.5
Nondurables	18.3	2.8	8.2	3.5	.4	.2	.1
Business equipment	7.3	12.1	13.4	12.5	-1.8	.5	.6
Defense and space equipment	1.9	-.7	10.1	11.1	.1	1.2	-.2
Construction supplies	4.2	2.3	7.8	1.2	-.2	-1.4	1.0
Business supplies	8.5	5.6	10.3	4.7	.1	.0	.6
Materials	24.8	4.0	6.5	5.3	.2	-.3	.7
Durables	13.6	5.2	6.8	6.1	.3	-.5	1.0
Nondurables	11.2	2.4	6.2	4.3	.1	.0	.4

1. Includes related electronic components.
... Not applicable.

Capacity Utilization
(Percent of capacity)

Sector	1972-2003 average	1982 low	1990-1991 low	2004 Q1	2004 Q2	2004 Q3	2004 Sept.	2004 Oct.
Total industry	**81.1**	**70.9**	**78.6**	**76.5**	**77.1**	**77.3**	**77.3**	**77.7**
Manufacturing	80.0	68.7	77.2	75.1	76.1	76.6	76.4	76.8
High-tech industries	78.8	75.4	74.5	69.1	69.6	68.0	67.2	66.5
Excluding high-tech industries	80.1	68.2	77.3	76.1	77.2	78.0	77.9	78.4
Mining	86.9	78.6	83.4	84.9	84.4	83.6	81.9	82.5
Utilities	86.9	77.6	84.1	85.5	83.6	82.5	84.8	85.4

hour rose about 3 percent over the most recent four quarters, down noticeably from the 6¼ percent increase posted over the previous four-quarter period.

Industrial Production

After smoothing through the effects of weather-related disruptions, activity in the industrial sector has advanced at a moderate pace in recent months. From July to October, industrial production (IP) moved up, on average, 0.4 percent per month.[2] Production worker hours for November, coupled with the physical product data in hand, suggest that production expanded a little more slowly last month. Although many manufacturing industries are still operating below capacity, the overall factory operating rate continued to rebound; with the increase anticipated in November, it will have returned to about the level observed in early 2001.[3]

According to Ward's latest estimates, motor vehicle assemblies held steady in November at an annual rate of 12 million units. Schedules currently call for production to move up a bit further in December and again in the first quarter of next year. Given the current inventory situation, the scheduled production increase is a little puzzling, and an underbuild in the first quarter of next year would be neither surprising nor unusual.

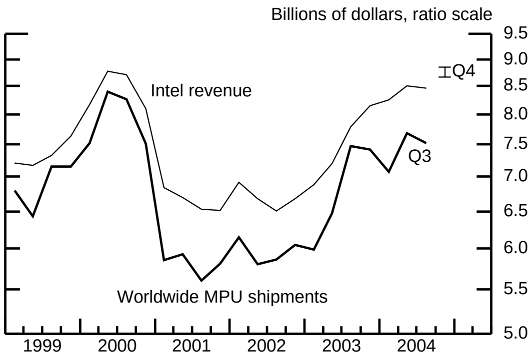
The production of high-tech goods advanced at a below-par pace in the third quarter, with semiconductor production having been particularly lackluster last quarter. Further, semiconductor output increased only 1 percent in October, a pace well below the average monthly increase of about 3 percent recorded over the past ten years. Accordingly, capacity utilization at semiconductor-making plants slipped further, to 74 percent in October, a level more than 20 percentage points below the recent peak in February. Much of the slowdown likely reflected efforts by Intel and others to work down an undesired buildup of inventories that began last spring. However, Intel has reported a noticeable acceleration in demand and a significant reduction in inventories this quarter, both of which bode well for production in coming months.

[2] Although the exact magnitude of hurricane-related effects is difficult to determine, we estimate that hurricanes held down the change in total IP by ½ percentage point in September and boosted it by ¼ percentage point in October.

[3] The IP annual revision, which will be released on December 22, is not expected to have a noticeable effect on the current utilization rates for manufacturing. However, updated source data for capacity at mines and utilities suggest that utilization rates will be revised up a bit for these categories.

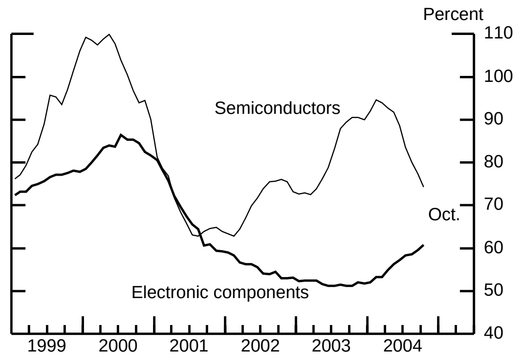
Indicators of High-Tech Manufacturing Activity

Microprocessor Unit (MPU) Shipments
and Intel Revenue

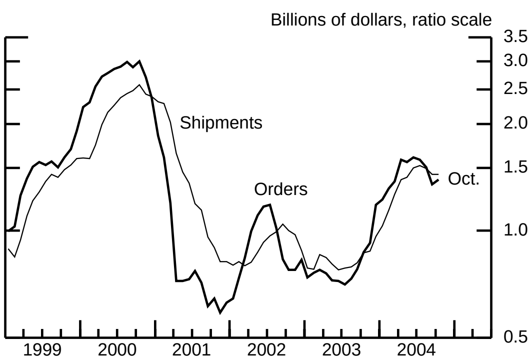


Note. Q4 is the range of Intel's guidance as of Dec. 2, 2004. FRB seasonals.
Source. Intel and Semiconductor Industry Association.

Capacity Utilization for Semiconductors
and Electronic Components

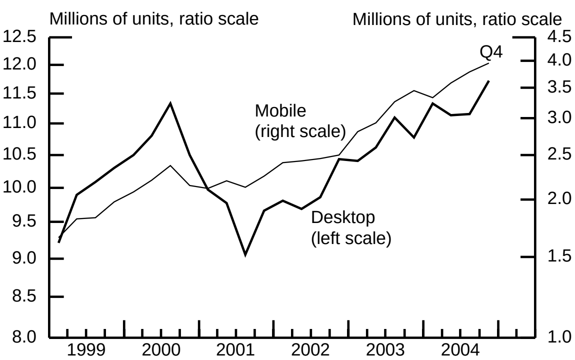


Semiconductor Manufacturing
Equipment Orders and Shipments



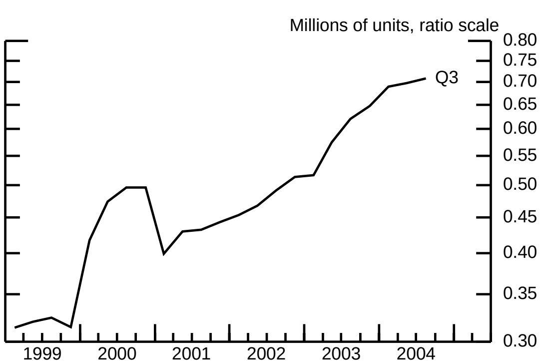
Source. Semiconductor Equipment and Materials International.

U.S. Personal Computer Sales



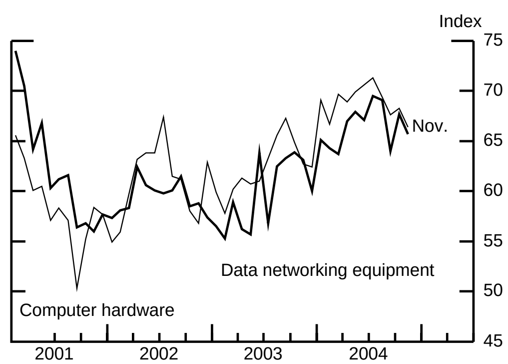
Note. FRB seasonals. Values for Q4 are Gartner forecasts.
Source. Gartner.

U.S. Server Sales



Note. FRB seasonals.
Source. Gartner.

CIO Magazine Future Spending
Diffusion Indexes



Note. The diffusion index equals the percentage of respondents planning to increase future spending plus one-half the percentage of respondents planning to leave future spending unchanged.
Source. CIO Magazine.

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

	2004			2005	2004		
Item	H1	Q3	Q4[1]	Q1[1]	Oct.	Nov.[1]	Dec.[1]
U.S. production	12.1	11.8	12.1	12.3	12.0	12.0	12.2
Autos	4.3	4.3	4.2	4.5	4.1	4.2	4.4
Trucks	7.8	7.6	7.9	7.8	8.0	7.8	7.8
Days' supply[2]	77	72	n.a.	n.a.	76	n.a.	n.a.
Autos	62	62	n.a.	n.a.	66	n.a.	n.a.
Trucks	88	79	n.a.	n.a.	83	n.a.	n.a.
Inventories[3]	3.33	3.26	n.a.	n.a.	3.27	n.a.	n.a.
Autos	1.09	1.08	n.a.	n.a.	1.09	n.a.	n.a.
Trucks	2.24	2.18	n.a.	n.a.	2.18	n.a.	n.a.

Note. Components may not sum to totals because of rounding.
1. Production rates for the fourth and first quarters and November and December reflect the latest schedules from Ward's Communications.
2. Quarterly and annual values are calculated with end-of-period stocks and average reported sales; excludes medium and heavy trucks.
3. End-of-period stocks; excludes medium and heavy trucks.
n.a. Not available.

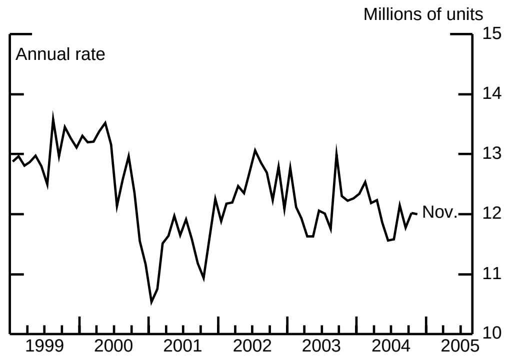
Apart from semiconductors, the rise in production of high-tech equipment has been uneven. The production of communications equipment posted a small gain in October after having jumped at an annual rate of 23½ percent in the third quarter. Moreover, available indicators suggest a guarded near-term outlook, with contacts at Cisco and elsewhere in the industry reporting that firms are not yet investing heavily in next-generation communications technologies. Meanwhile, the output of computer equipment has recorded only modest gains in recent months, although Gartner's latest forecast of unit PC sales suggests that production may now be accelerating a little.

In the energy sector, production at utilities increased 0.7 percent in October after a weather-related jump of 5.3 percent in September. However, weekly electricity generation data suggest that output at utilities fell in November. Mining activity—which was pulled down in September by hurricane-related shutdowns at oil rigs and refineries—rebounded somewhat in October. Available data suggest a further advance in November, though damage to pipelines in the Gulf of Mexico is expected to continue to restrain mining output for several more months.

The output of business equipment expanded at a solid pace in October, continuing the robust gains seen over the last three quarters. The October rise owed largely to gains in industrial and other machinery. In addition, materials output continued to advance in

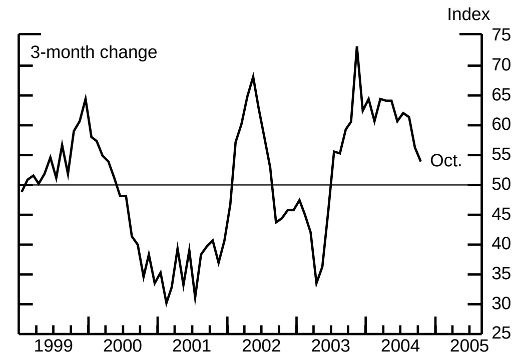
Indicators of Manufacturing Activity

Motor Vehicle Assemblies



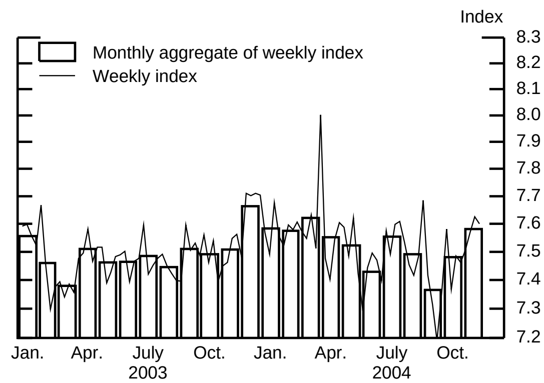
Note. November value is based on Ward's latest production estimate.

Industrial Production Diffusion Index



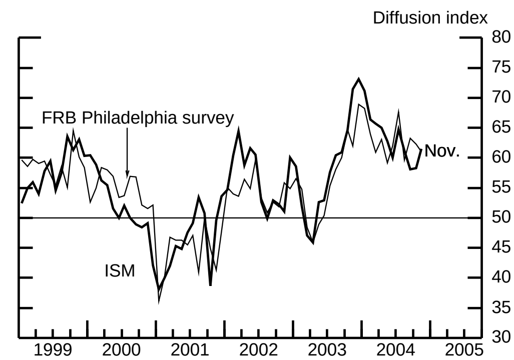
Note. The diffusion index equals the percentage of series that increased over 3 months plus one-half the percentage that were unchanged.

Weekly Production Index excluding Motor Vehicles and Electricity Generation



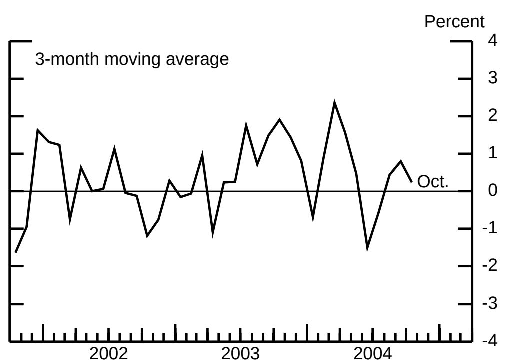
Note. One index point equals 1 percent of 1997 total industrial output.

New Orders: ISM and FRB Philadelphia Surveys

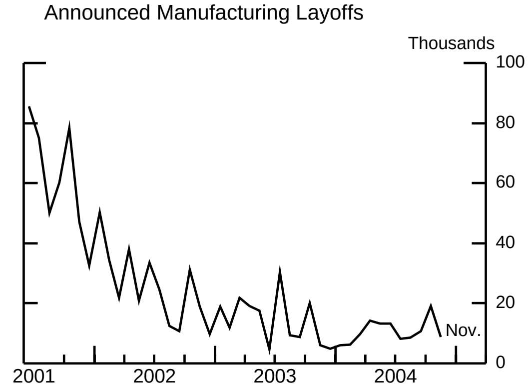


Note. The diffusion index equals the percentage of respondents reporting greater levels of new orders plus one-half the percentage of respondents reporting that new orders were unchanged.

Change in Real Adjusted Durable Goods Orders



Announced Manufacturing Layoffs



Note. Data are through November 30, 2004. Staff seasonals.
Source. Compiled by staff from news reports.

October. The production of construction and business supplies also rose briskly, and the available data for November suggest that output in these categories was well maintained last month.

On balance, forward-looking indicators suggest that manufacturing activity will continue to expand at a moderate pace in the near term. The Institute for Supply Management's diffusion index of new orders rose to 61.5 in November, a level consistent with ongoing gains in manufacturing output. The diffusion indexes of new orders published by the Federal Reserve Banks also remain elevated. Moreover, announced layoffs within the manufacturing sector returned to the low end of the range that has prevailed since the beginning of the year. In contrast, the three-month moving-average of the staff's series on real adjusted durable goods orders, which rose only 0.2 percent in October, points to smaller increases in production in coming months than would be suggested by the other indicators.

Motor Vehicles

Sales of new motor vehicles dropped to an annual rate of 16.3 million units in November, down from 16.9 million units in October and 17.5 million units in September. Automakers had boosted incentives significantly in late September to help clear out 2004-model vehicles. Since then, however, as more 2005-model vehicles have entered the sales mix, the average incentive per light vehicle sold has fallen by about $550. This decline in average incentives, combined with high gasoline prices, caused consumers' perceptions of motor vehicle buying conditions to deteriorate sharply in November, according to the Michigan Survey Research Center.

Looking ahead, some industry analysts have speculated that elevated inventories of light vehicles will prompt the automakers to launch a new round of incentives in December rather than cut back on production. If this were to occur, sales could surge near the close of the year.

Consumer Spending

Real PCE grew at a robust annual rate of 5 percent in the third quarter, pushed up by a surge in motor vehicles purchases and solid gains in other categories. Excluding motor vehicles, real PCE appears to be growing at a decent pace in the current quarter as well, with this component of consumption up 0.4 percent in October. Real spending for durable goods excluding motor vehicles inched up in October, while real expenditures for nondurable goods rose at a moderate rate. At the same time, expenditures on services

Sales of Light Vehicles
(Millions of units at an annual rate, FRB seasonals)

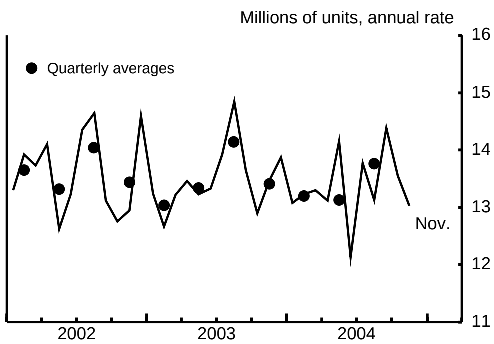
Category	2003	2004 Q1	2004 Q2	2004 Q3	2004 Sept.	2004 Oct.	2004 Nov.
Total	16.6	16.5	16.5	17.1	17.5	16.9	16.3
Autos	7.6	7.4	7.5	7.3	7.3	7.5	7.3
Light trucks	9.0	9.1	9.1	9.7	10.1	9.4	9.0
North American[1]	13.3	13.3	13.1	13.8	14.2	13.1	12.9
Autos	5.5	5.4	5.3	5.3	5.3	5.1	5.1
Light trucks	7.8	7.8	7.9	8.5	8.9	8.1	7.8
Foreign-produced	3.3	3.3	3.4	3.3	3.3	3.8	3.5
Autos	2.1	2.0	2.2	2.0	2.1	2.5	2.2
Light trucks	1.2	1.2	1.2	1.2	1.2	1.3	1.2
Memo: Medium and heavy trucks	.33	.40	.40	.44	.45	.45	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.

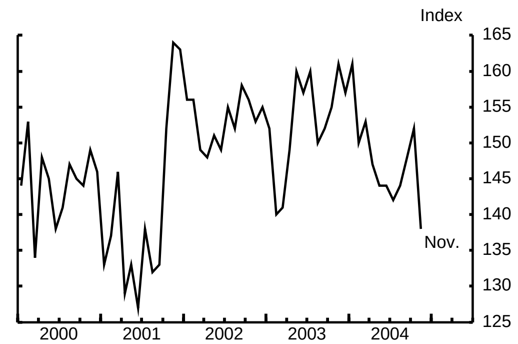
n.a. Not available.

Retail Sales of Light Vehicles

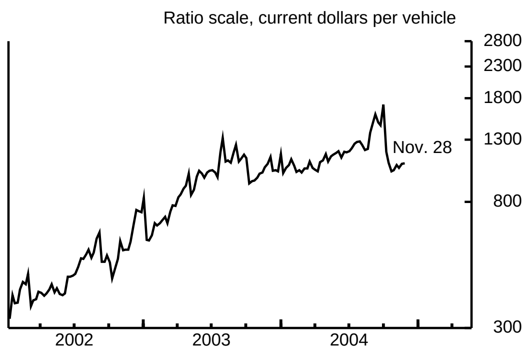


Note. FRB seasonals. Adjusted for shifts in reporting periods.

Michigan Survey Index of Car-Buying Attitudes

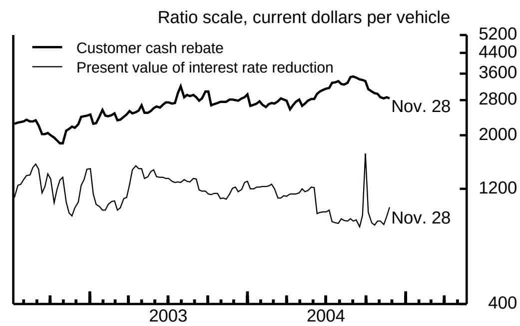


Average Value of Incentives on Light Vehicles



Note. Weighted average of customer cash rebate and interest rate reduction. Data are seasonally adjusted.
Source. J.D. Power and Associates.

Average Value of Cash and Financing Incentives for Vehicles with Incentives

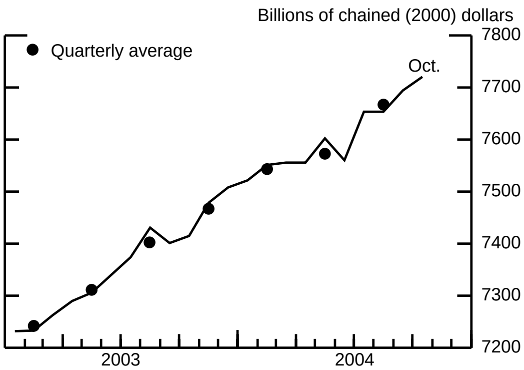


Source. J.D. Power and Associates.

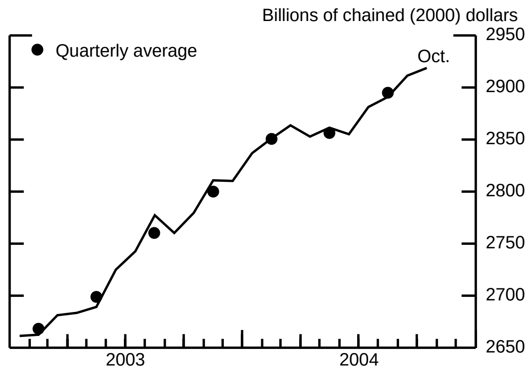
Real Personal Consumption Expenditures
(Percent change from the preceding period)

Expenditure	2003 H2	2004 H1	2004 Q3	2004 Aug.	2004 Sept.	2004 Oct.
	Annual rate			Monthly rate		
Total real PCE	4.3	2.8	5.1	.0	.5	.3
Durable goods	10.0	.9	17.2	-1.4	1.1	.1
Motor vehicles	5.5	-5.9	28.6	-3.1	1.5	-.1
Excluding motor vehicles	14.0	6.9	8.7	.1	.7	.2
Nondurable goods	6.0	3.4	4.8	.4	.7	.3
Energy	12.0	-7.9	3.5	.4	.2	-.2
Other	5.4	4.7	4.9	.4	.7	.4
Services	2.3	3.0	2.9	.1	.4	.4
Energy	8.7	-2.4	-3.0	-1.7	4.8	1.4
Other	2.3	3.3	3.3	.1	.2	.4
Memo:						
Real disposable personal income	4.7	2.6	2.0	.4	.1	.2

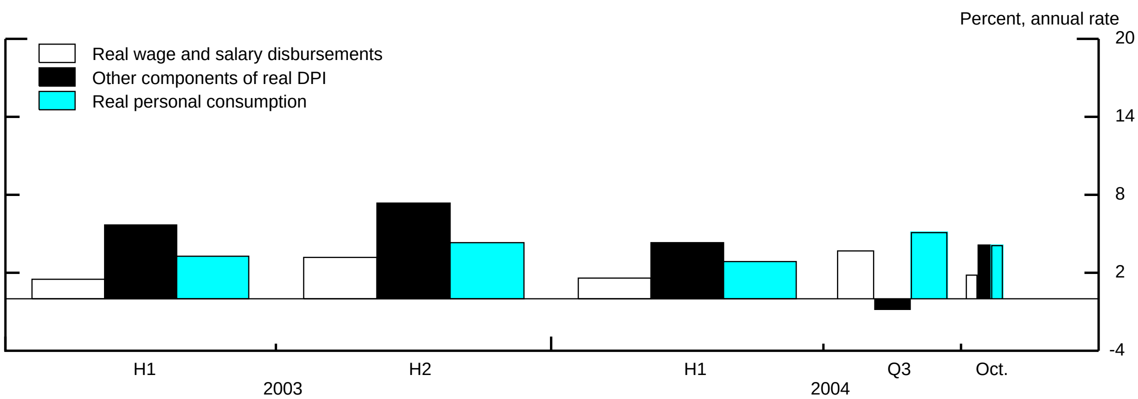
Real PCE



Real PCE Goods Excl. Motor Vehicles

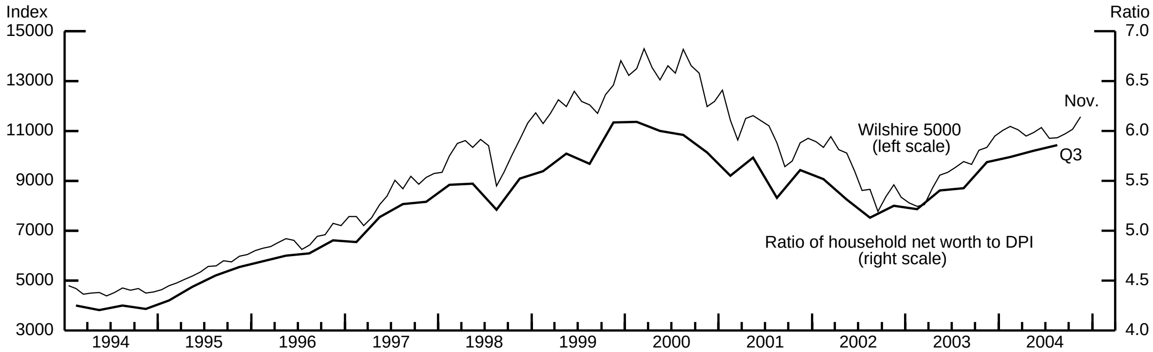


Change in Real Wages and Salaries, Other Real DPI, and Real Personal Consumption

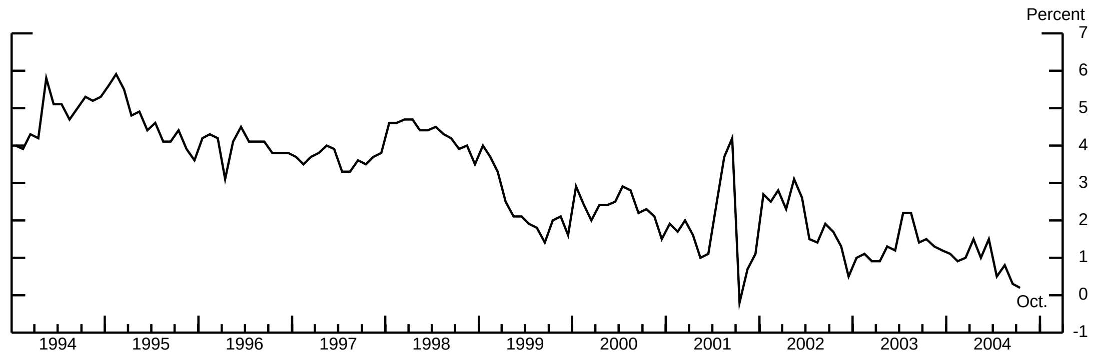


Household Indicators

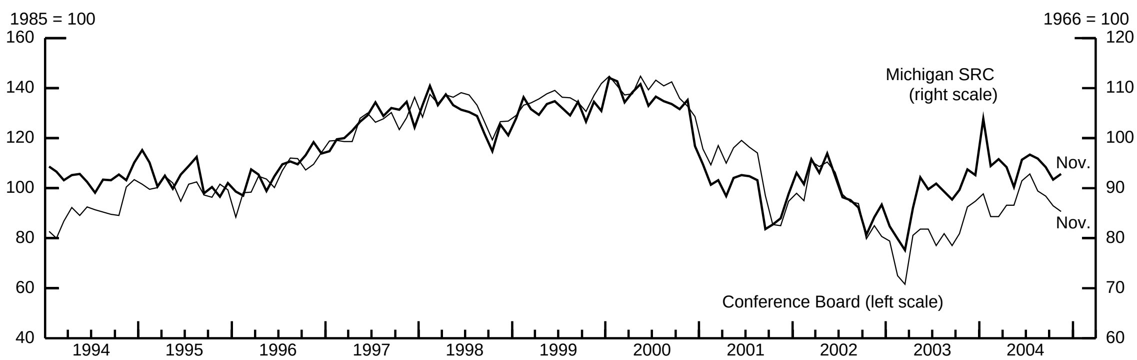
Household Net Worth and Wilshire 5000



Personal Saving Rate



Consumer Confidence



continued to increase briskly. More recently, anecdotal evidence and weekly data on chain store sales suggest that the holiday shopping season got off to a somewhat disappointing start.

Real disposable income advanced just 0.2 percent in October. Although nominal wages and salaries posted another sizable increase, real earnings were held back by a jump in energy prices. Rent and proprietors' income, which had been restrained in the third quarter by uninsured losses from the hurricanes, rebounded strongly in October. Nevertheless, the personal saving rate fell to 0.2 percent in October, down from its meager 0.5 percent level in the third quarter.[4] The drop in the saving rate probably reflects, at least in part, the rise in the ratio of household wealth to income since the beginning of the year. And recent increases in stock prices and ongoing gains in house prices have likely provided continuing support to consumption spending this quarter.

The Michigan SRC's index of consumer sentiment edged up in November, lifted by a slightly more favorable outlook for current and expected conditions. Although the Conference Board's index of consumer confidence has drifted downward recently, both sentiment measures remain roughly consistent with solid spending gains.

Housing Markets

Starts of single-family homes rebounded to an annual rate of 1.65 million units in October, a bit above the third-quarter average. However, the signal about housing activity from the October data on permits was not as strong: The number of permits issued—after adjusting for activity in areas where they are not required—slipped in October and was noticeably below the level of starts. Multifamily starts climbed to an annual rate of 382,000 units in October, also above the third-quarter average.

Home sales remained near record levels in October, and recent indicators suggest that demand will remain at an elevated level in the near term. Mortgage rates remain quite low by historical standards. In addition, although the four-week moving average of the Mortgage Bankers Association index of mortgage applications for home purchase—which trended up from July to early November—has edged down recently, it remains at a very high level. In contrast, the Michigan Survey's index of homebuying sentiment has drifted lower, on balance, in recent months.

[4] Later this month, Microsoft will make a one-time dividend payment of $11 billion, which will provide a substantial boost to personal income; however, the resulting decrease in the value of Microsoft equity should have a largely offsetting effect on consumer spending.

Private Housing Activity

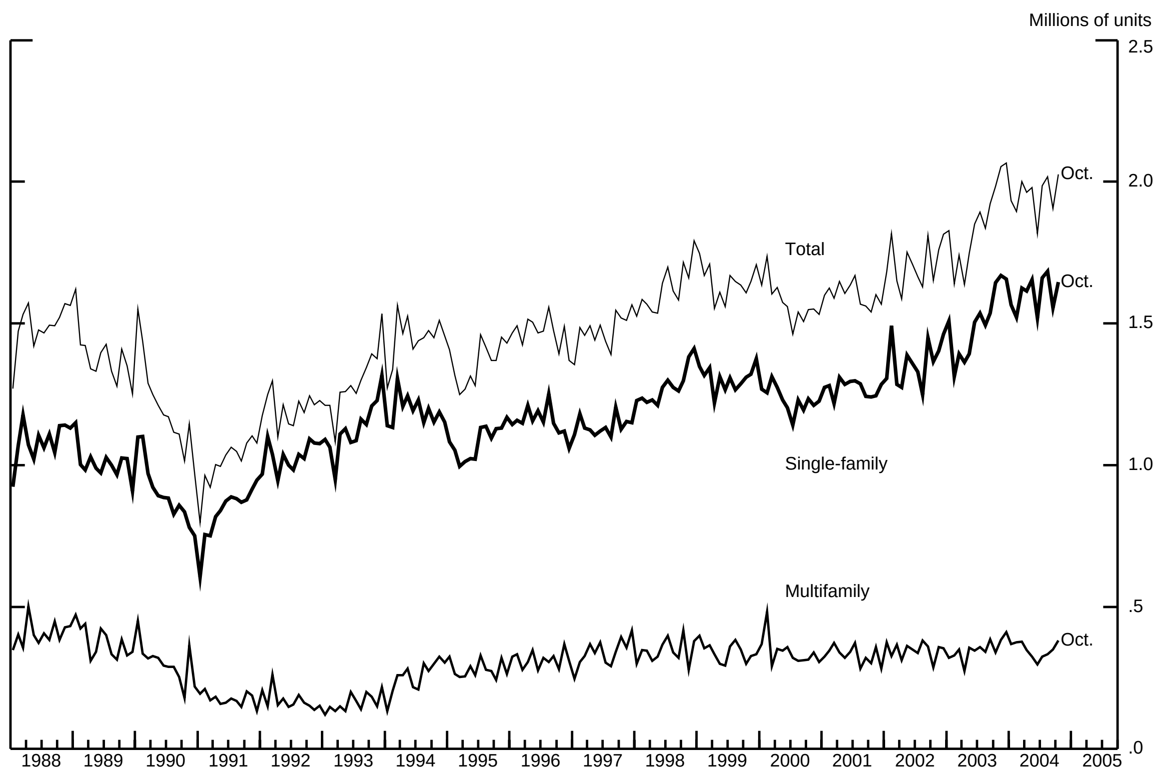
(Millions of units; seasonally adjusted annual rate, except where noted)

Sector	2003	2004 Q1	2004 Q2	2004 Q3	2004 Aug.	2004 Sept.	2004 Oct.
All units							
Starts	1.85	1.94	1.92	1.97	2.02	1.91	2.03
Permits	1.89	1.93	2.02	2.01	1.97	2.00	1.98
Single-family units							
Starts	1.50	1.57	1.60	1.63	1.69	1.56	1.65
Permits	1.46	1.52	1.57	1.57	1.56	1.56	1.53
Adjusted permits[1]	1.50	1.55	1.60	1.60	1.59	1.60	1.56
Permit backlog[2]	.115	.123	.136	.142	.126	.142	.134
New home sales	1.09	1.20	1.21	1.15	1.14	1.22	1.23
Existing home sales	6.10	6.20	6.79	6.68	6.55	6.76	6.75
Multifamily units							
Starts	.35	.37	.32	.34	.33	.35	.38
Permits	.43	.42	.45	.44	.41	.44	.46
Permit backlog[2]	.060	.054	.058	.067	.065	.067	.065
Mobile homes							
Shipments	.131	.126	.127	.128	.125	.135	.141

1. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.
2. Number outstanding at end of period. Seasonally adjusted by Board staff. Excludes permits that have been cancelled, abandoned, expired, or revoked. Not at an annual rate.

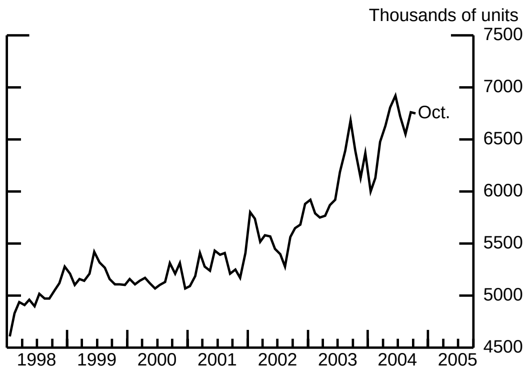
Private Housing Starts

(Seasonally adjusted annual rate)



Indicators of Single-Family Housing

Existing Home Sales

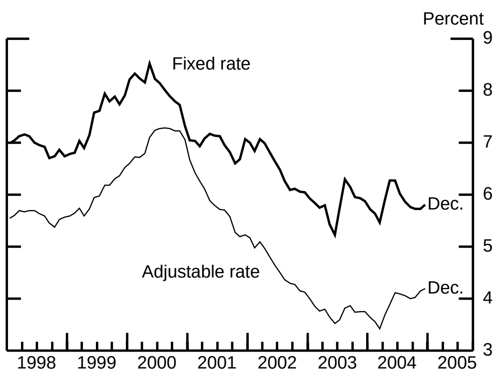


Source. National Association of Realtors.

New Home Sales

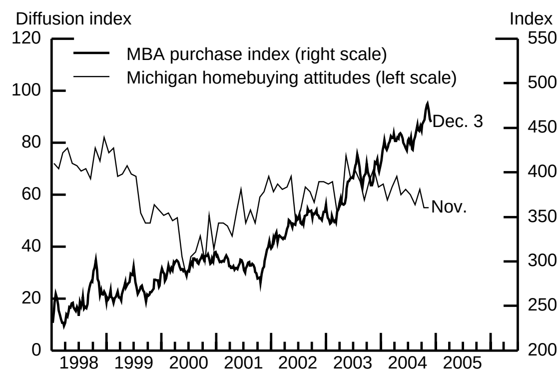
Source. Census Bureau.

Mortgage Rates



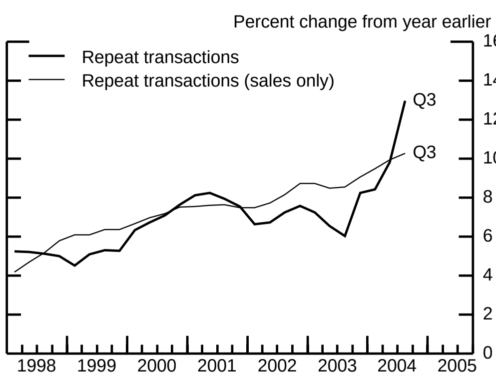
Note. The December readings are based on data through Dec. 1.
Source. Freddie Mac.

Homebuying Indicators



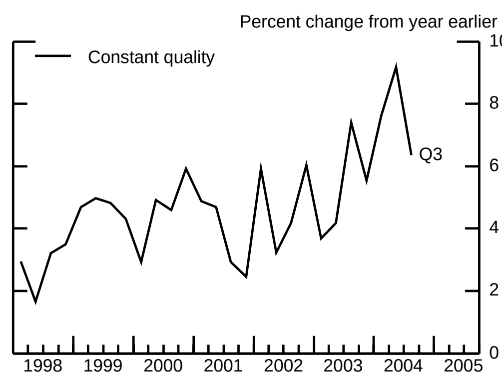
Note. MBA index is a 4-week moving average. Michigan Survey data are not seasonally adjusted.
Source. Mortgage Bankers Association and Michigan Survey.

Prices of Existing Homes



Source. Office of Federal Housing Enterprise Oversight.

Prices of New Homes



Source. Census Bureau.

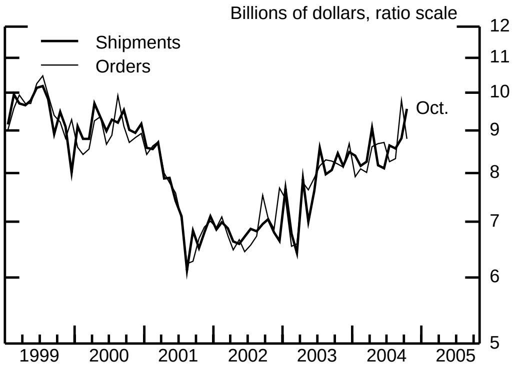
Orders and Shipments of Nondefense Capital Goods

(Percent change; seasonally adjusted current dollars)

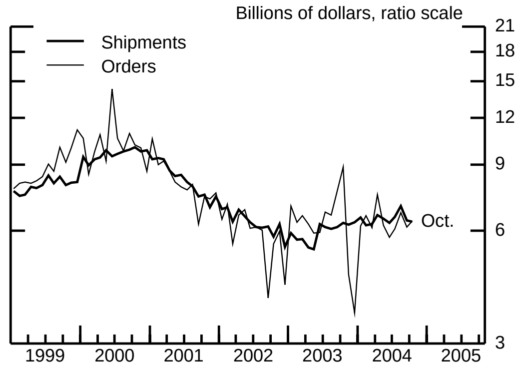
Indicators	2004 Q2	2004 Q3	2004 Aug.	2004 Sept.	2004 Oct.
	Annual rate		Monthly rate		
Shipments	9.0	14.1	1.8	-.3	1.9
Excluding aircraft	9.2	15.0	.9	-.3	2.0
Computers and peripherals	8.9	10.9	-.8	2.8	8.4
Communications equipment	8.7	11.8	7.1	-8.4	-.7
All other categories	9.4	16.2	.3	.3	1.2
Orders	15.1	25.5	-7.0	3.2	-3.9
Excluding aircraft	7.8	14.1	.7	5.4	-4.2
Computers and peripherals	36.9	5.6	.8	17.4	-10.0
Communications equipment	13.5	-10.9	10.5	-8.2	3.6
All other categories	2.4	19.7	-.6	5.2	-4.1
Memo:					
Shipments of complete aircraft[1]	25.7	27.8	29.3	27.2	30.3

1. From Census Bureau, Current Industrial Reports; billions of dollars, annual rate.

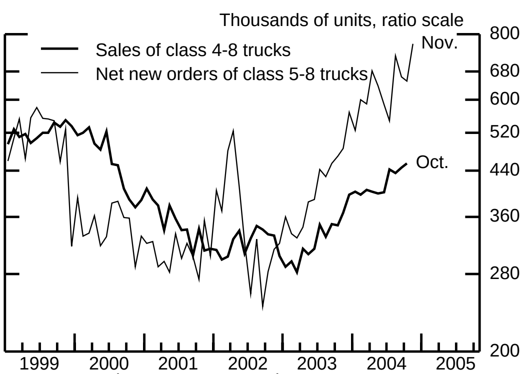
Computers and Peripherals



Communications Equipment

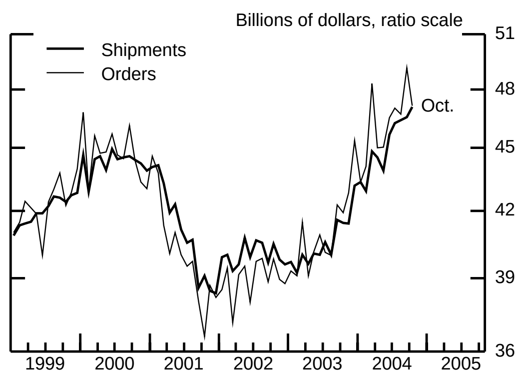


Medium and Heavy Trucks



Note. Annual rate, FRB seasonals.
Source. Ward's Communications and ACT Research.

Other Equipment



Home prices continue to rise rapidly and by one prominent measure have accelerated sharply of late. The repeat-transactions price index for existing homes, which partly controls for the composition of homes sold, soared 13 percent in the third quarter from a year earlier, more than twice as much as the comparable reading from last year. The repeat-transactions price index is based both on actual prices of existing homes that are sold and on the appraised values of homes for which the primary mortgage is refinanced.[5] A version of the index that excludes the appraised values from refinancings—which are not sales prices—was up 10¼ percent in the third quarter from a year earlier and shows a smoother acceleration in recent years. Nevertheless, both indexes indicate that home prices have increased significantly in recent years, with the cumulative increases since the early 1990s being broadly similar. For new homes, the constant-quality price index—which controls for changes in the geographic composition of sales, home size, and a few other readily measurable attributes—moved up 6¼ percent in the third quarter from a year earlier.

Equipment and Software

Real outlays for equipment and software are estimated to have advanced at a brisk annual rate of 17¼ percent in the third quarter. The growth of investment spending appears to have slowed in the current quarter, but the gains in most categories remain quite robust; shipments of nondefense capital goods excluding aircraft rose considerably in October. In addition, the underlying fundamentals remain sound. Growth of business output has been solid, the user cost of capital has remained low—held down by low interest rates and, through year-end, by the partial-expensing tax provision—and the corporate sector retains an ample stock of liquid assets. Anecdotal reports are also consistent with ongoing expansion in business spending.

Spending on high-tech gear appears poised to post a solid rise in the current quarter, after a more modest gain in the third quarter. Although nominal shipments of domestically produced communications equipment have been relatively flat, on net, in recent months, shipments of computers jumped at a monthly rate of more than 8 percent in October on top of a nearly 3 percent increase in September.[6]

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[5] The repeat-transactions price index is based on a sample of mortgages and therefore excludes home purchases not financed by a mortgage. The sample also excludes subprime, jumbo, adjustable-rate, and FHA- or VA-guaranteed mortgages.

[6] Real business spending on communications equipment edged lower in the third quarter, while industrial production of communications equipment increased sharply. For computers, real business investment rose more rapidly than did industrial production. In both cases, demand for imported equipment

Business investment in transportation equipment—which rose smartly in the previous two quarters—is likely to be held down this quarter by a retreat in spending for light vehicles. In contrast, medium and heavy truck sales rose in October to an annual rate of more than 450,000 units, and orders continue to run well ahead of sales; sales have moved up notably since the beginning of this year as demand for freight services has remained elevated. Although real business spending on aircraft remains well below its peak of a few years ago, October data on nominal shipments of aircraft by domestic producers suggest continued firming in this component of investment.

Outside of the high-tech and transportation sectors, spending appears to have continued to expand at a robust pace, with real investment in this category having jumped 19½ percent in the third quarter after a sizable gain in the first half of the year. In addition, nominal shipments moved up a good bit further in October. Some portion of the recent strength appears likely to reflect the incentive to invest before the partial-expensing tax provision expires at the end of this year. As noted in the November Greenbook, investment in the types of equipment in this category benefits especially from the tax incentive because the associated equipment tends to depreciate slowly.

Nonresidential Construction

Real outlays on nonresidential structures were about flat, on net, during the first three quarters of the year, and nominal spending slipped a bit in October.[7] Nevertheless, other indicators of market conditions show, on balance, some signs of improvement. For retail buildings, property values and rents have been rising, and vacancy rates have remained low; for warehouses, property values also have been appreciating, and rents recently turned up. In contrast, office rents have generally been declining for four years, and the vacancy rate, although down a bit recently, remains high. The vacancy rate for industrial structures also remains high by historical standards. Investment in drilling and mining structures has ramped up in recent quarters in response to elevated prices for natural gas. The number of rigs drilling for natural gas moved up further in the past few months, suggesting that investment continued to increase at the end of the year.

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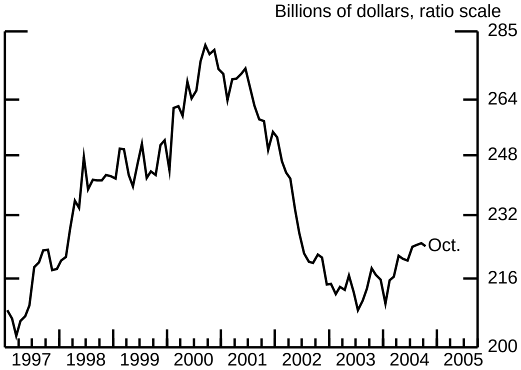
was an important factor: Imports of communications equipment dropped sharply in the third quarter, while imports of computers and peripherals continued to rise briskly.

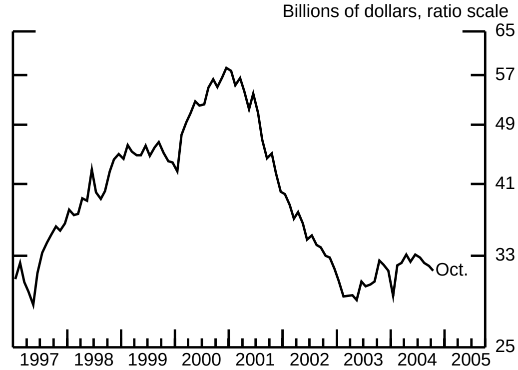
[7] Nominal outlays have risen considerably faster than real spending this year, reflecting sizable price increases in this sector.

Nonresidential Construction
(Seasonally adjusted, annual rate)

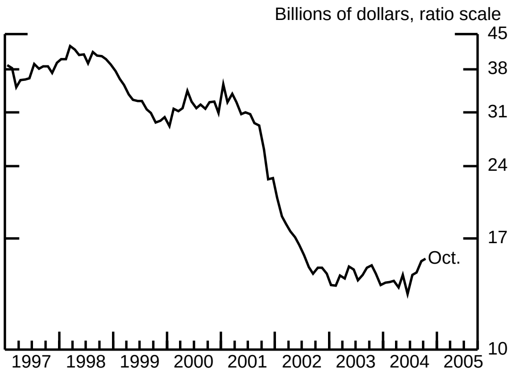
Total Structures



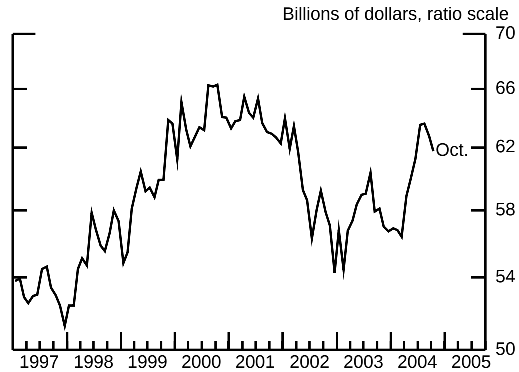
Office



Manufacturing

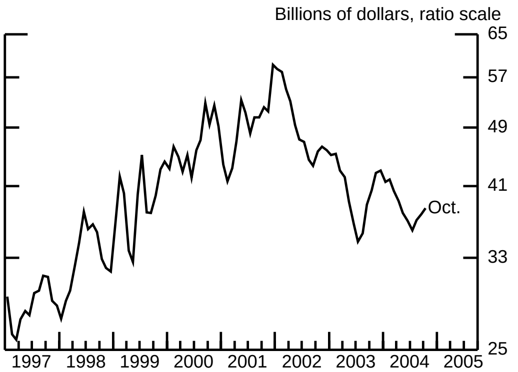


Commercial

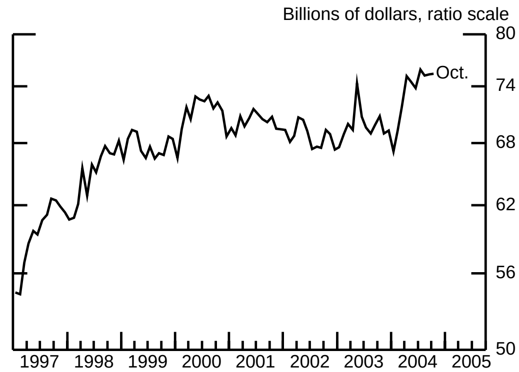


Note. Includes retail, wholesale, and "other" establishments.

Power and Communication



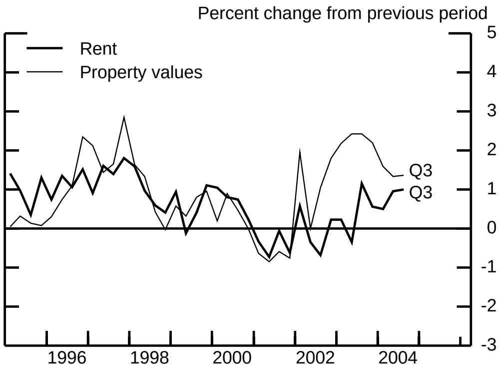
Other



Note. Includes religious, educational, lodging, amusement and recreation, transportation, and health-care facilities.

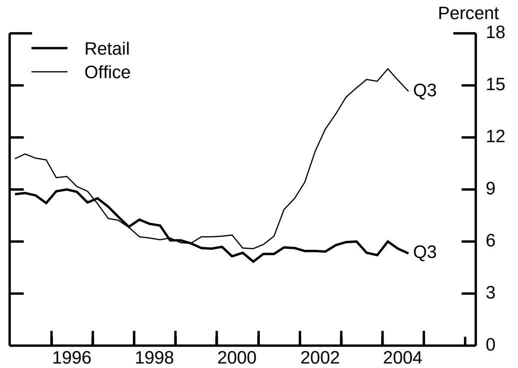
Indicators of Nonresidential Construction

Retail Rent and Property Values



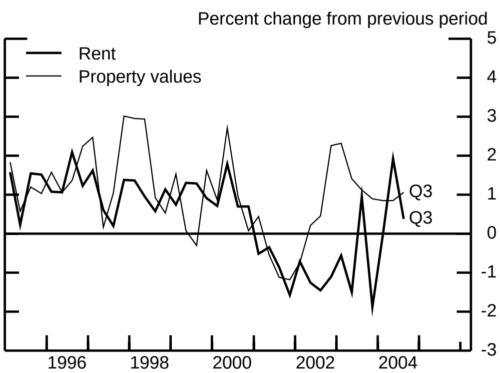
Source. National Real Estate Index.

Retail and Office Vacancy Rates



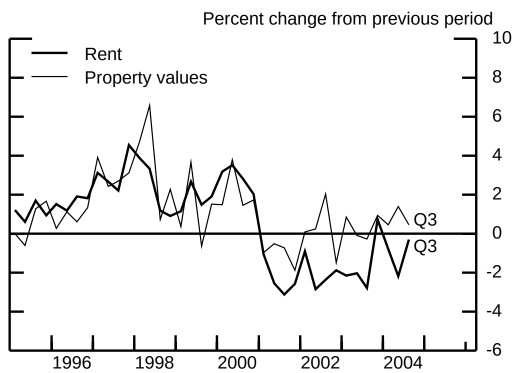
Source. National Council of Real Estate Investment Fiduciaries.

Warehouse Rent and Property Values



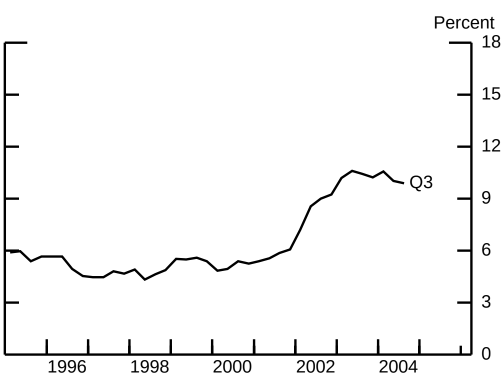
Source. National Real Estate Index.

Office Rent and Property Values



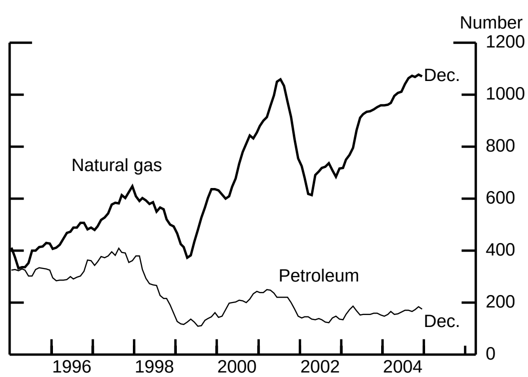
Source. National Real Estate Index.

Industrial Vacancy Rate



Source. National Council of Real Estate Investment Fiduciaries.

Drilling Rigs in Operation



Note. Dec. values are averages through Dec. 3.
Source. DOE/Baker Hughes.

Business Inventories

Real nonfarm inventories excluding finished motor vehicles expanded at an annual rate of about $52 billion in the third quarter. The scant data we have for October are largely confined to the manufacturing sector and suggest that inventories were accumulating at a moderate pace early this quarter. In particular, the book value of manufacturers' inventories rose at an annual rate of about $26 billion in October, led by another sizable rise in inventories at primary metals producers and a resumption of stockbuilding by computer manufacturers. However, manufacturers' shipments also rose, and the inventory-shipments ratio held steady.

Data from the staff's flow-of-goods inventory system indicate that inventories increased in October after having declined in September and that overall days' supply of inventories edged down further. Nonetheless, inventories are estimated to have remained elevated relative to consumption for a few products, including motor vehicles, semiconductors, paper, and chemicals excluding pharmaceuticals.

Federal Government Sector

After a series of continuing resolutions, the Congress recently completed its work on regular budget appropriations for fiscal 2005, passing an omnibus spending bill covering most discretionary outlays. The omnibus package excluded appropriations for defense and homeland security, which had been enacted earlier. Budget authority for the areas covered by the omnibus bill is slated to increase about 1 percent from the level in fiscal 2004, which would keep funding for all discretionary categories at the level proposed by the President early this year.

After adjusting for shifts in the timing of payments, the federal government posted a deficit of $63 billion in October, about the same as the deficit a year earlier. On an adjusted basis, both outlays and receipts were close to their year-earlier levels. Daily data through November point to a lull in the pace of military spending in the fourth quarter after a year of rapid growth.

State and Local Governments

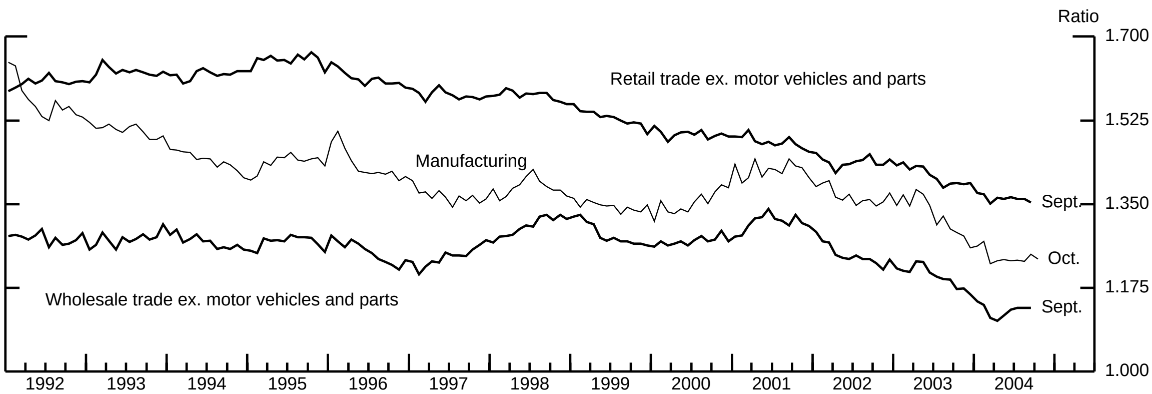
Recent indicators are consistent with a moderate strengthening of spending by state and local governments. Employment rose 5,000 in November after even larger gains in the preceding two months. Nominal outlays for construction projects rose at a solid monthly rate of 1½ percent in October, pushing the level of outlays back into the elevated range seen earlier in the year. The level of activity had dipped in August and September,

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

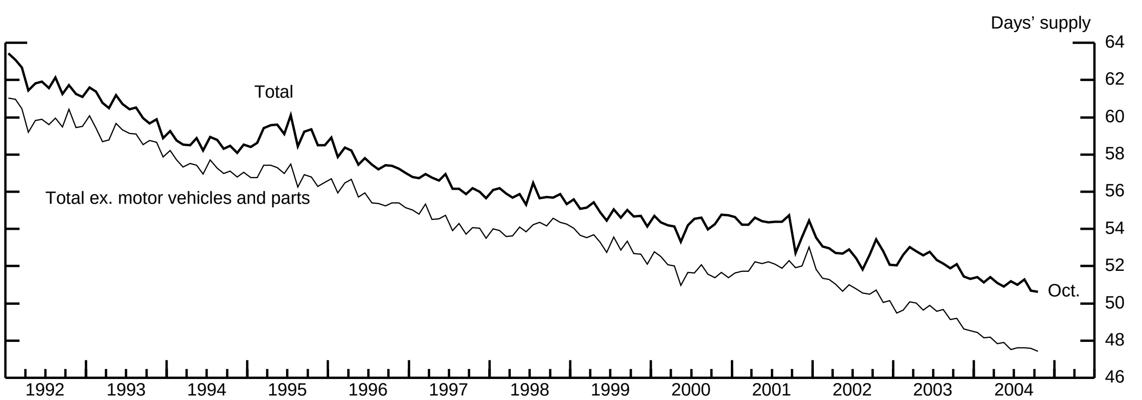
Sector	2004 Q1	2004 Q2	2004 Q3	2004 Aug.	2004 Sept.	2004 Oct.
Manufacturing and trade	82.0	120.4	85.5	106.3	3.9	n.a.
Ex. wholesale and retail motor vehicles and parts	55.6	94.1	75.2	90.5	33.1	n.a.
Manufacturing	24.0	38.9	32.3	39.5	4.8	26.3
Ex. aircraft	25.6	39.0	33.9	43.8	15.1	26.1
Wholesale trade	23.5	33.7	38.2	39.9	19.4	n.a.
Motor vehicles and parts	3.2	1.3	3.7	5.2	-2.2	n.a.
Ex. motor vehicles and parts	20.3	32.4	34.5	34.7	21.6	n.a.
Retail trade	34.5	47.7	15.0	26.9	-20.4	n.a.
Motor vehicles and parts	23.1	25.0	6.6	10.6	-27.1	n.a.
Ex. motor vehicles and parts	11.4	22.7	8.4	16.2	6.7	n.a.

n.a. Not available.

Book-Value Inventories Relative to Shipments and Sales



Inventory-Consumption Ratios, Flow-of-Goods System



Federal Government Outlays and Receipts

(Unified basis; billions of dollars except as noted)

Function or source	October 2003	October 2004	October Percent change	12 months ending in October 2003	12 months ending in October 2004	12 months ending in October Percent change
Outlays	205.4	194.2	-5.4	2186.0	2280.9	4.3
Financial transactions[1]	-.2	-.1	...	-1.3	-1.9	...
Payment timing[2]	12.0	.0	...	11.4	-12.1	...
Adjusted outlays	193.5	194.3	.4	2175.9	2294.9	5.5
Receipts	135.8	136.9	.8	1793.4	1880.9	4.9
Payment timing	6.0	6.0	...	.0	.0	...
Adjusted receipts	129.8	130.9	.8	1793.4	1880.9	4.9
Surplus or deficit (-)	-69.5	-57.3	...	-392.6	-400.0	...
Selected components of adjusted outlays and receipts						
Adjusted outlays	193.5	194.3	.4	2175.9	2294.9	5.5
Net interest	13.9	15.6	12.5	154.1	162.2	5.3
Non-interest	179.6	178.7	-.5	2021.8	2132.7	5.5
National defense	35.3	36.3	2.6	409.5	456.6	11.5
Social Security	39.8	41.7	5.0	476.2	497.5	4.5
Medicare	22.1	22.5	1.9	249.9	269.8	7.9
Medicaid	15.4	15.1	-2.2	161.8	175.9	8.7
Income security	25.5	23.9	-6.4	334.7	333.1	-.5
Agriculture	7.1	7.6	6.8	27.2	17.8	-34.7
Other	34.3	31.6	-8.1	362.5	382.0	5.4
Adjusted receipts	129.8	130.9	.8	1793.4	1880.9	4.9
Individual income and payroll taxes	116.8	116.0	-.7	1465.4	1493.1	1.9
Withheld + FICA	111.2	109.2	-1.8	1370.7	1395.0	1.8
Nonwithheld + SECA	8.3	9.4	13.6	288.8	285.6	-1.1
Less: Refunds	2.7	2.6	-2.7	194.1	187.6	-3.4
Corporate	-2.3	1.7	...	139.9	193.4	38.2
Gross	6.7	7.9	19.0	200.5	231.9	15.7
Less: Refunds	9.0	6.2	-30.7	60.5	38.5	-36.4
Other	15.4	13.3	-13.8	188.0	194.4	3.4
Adjusted surplus or deficit (-)	-63.7	-63.4	...	-382.5	-414.1	...

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.

... Not applicable.

Measures of Inflation
(Percent)

Measures	12-month change		3-month change		1-month change	
			Annual rate		Monthly rate	
	Oct. 2003	Oct. 2004	July 2004	Oct. 2004	Sept. 2004	Oct. 2004
CPI						
Total	**2.0**	**3.2**	**3.7**	**3.4**	**.2**	**.6**
Food	2.9	3.4	5.5	2.6	.0	.6
Energy	8.8	15.2	22.9	14.8	-.4	4.2
Ex. food and energy	**1.3**	**2.0**	**1.6**	**2.3**	**.3**	**.2**
Ex. tobacco	1.3	2.0	1.6	2.3	.3	.2
Core commodities	-2.4	.1	-.9	1.7	.2	.4
Core services	2.9	2.8	2.5	2.6	.3	.2
Chained CPI (n.s.a.)[1]	1.7	2.7	...	...	...	...
Ex. food and energy[1]	.8	1.7	...	...	...	...
PCE prices						
Total	**1.8**	**2.4**	**2.3**	**2.0**	**.1**	**.4**
Food	2.5	3.1	4.1	2.5	.0	.4
Energy	8.8	16.2	22.7	17.0	-.2	4.5
Ex. food and energy	**1.3**	**1.5**	**.9**	**1.0**	**.1**	**.1**
Ex. tobacco	1.3	1.4	.8	1.0	.1	.1
Core commodities	-2.5	-.2	-1.4	.3	.1	.2
Core services	2.9	2.2	1.8	1.3	.1	.1
Core market-based	1.1	1.5	1.3	1.1	.1	.2
Core non-market-based	2.5	1.5	-1.0	.2	.2	-.1
PPI						
Total finished goods	**3.4**	**4.4**	**2.2**	**6.9**	**.1**	**1.7**
Food	8.5	2.5	-3.4	6.2	.1	1.6
Energy	9.2	17.2	8.2	26.3	-.9	6.8
Ex. food and energy	**.5**	**1.8**	**2.7**	**2.1**	**.3**	**.3**
Ex. tobacco	.9	1.9	2.8	2.2	.3	.3
Core consumer goods	.3	1.7	2.0	1.8	.4	.2
Capital equipment	.6	1.9	3.5	2.9	.4	.4
Intermediate materials	3.4	9.0	9.1	8.3	.1	.9
Ex. food and energy	1.8	7.8	7.4	7.8	.7	.3
Crude materials	22.6	15.7	13.7	-3.2	-4.2	4.3
Ex. food and energy	14.5	28.3	11.4	33.4	-2.5	5.4

1. Higher-frequency figures are not applicable for data that are not seasonally adjusted.
... Not applicable.

particularly for highway construction; it was likely held down, in part, by the hurricanes that hit the southeastern states in those months.

The fiscal stance of state governments continues to show signs of improvement. A recent survey by the National Conference of State Legislatures on budget conditions through the first four months of the fiscal year indicates that revenue inflows are continuing to strengthen, a reading consistent with other reports.[8] In particular, almost all the states reported that revenues for fiscal 2005 are coming in at or above target, and only a handful of states are reporting shortfalls in their general fund budgets. However, the states continue to face pressures from Medicaid, the expiration of temporary tax increases, and the need to restore depleted reserve funds, and consequently many state governments are concerned that fiscal difficulties could reemerge in fiscal 2006.

Prices

Overall consumer prices jumped 0.6 percent in October, as hurricane damage contributed to higher prices of food and energy. October's increase boosted the twelve-month change in the CPI to 3¼ percent, up from 2 percent in the year-earlier period. In contrast, core consumer prices continued to increase at a more modest rate; the core CPI rose 0.2 percent in October, leaving the twelve-month change at 2 percent, about ¾ percentage point more than in the preceding year.[9] The core PCE price index increased 1½ percent during the twelve months ending in October, only ¼ percentage point more than in the preceding year. In part, the smaller acceleration in core PCE prices reflects differences in measured medical services inflation and a deceleration in nonmarket prices that are included in the PCE index but not in the CPI.[10]

Consumer energy prices moved up 4.2 percent in October, more than reversing the declines of the previous three months. The October increase was driven in large part by refinery outages and a surge in the prices of petroleum and petroleum products associated with production losses in the wake of Hurricane Ivan. Gasoline inventories, which were plentiful before the storm, fell to normal levels, and wholesale markups jumped in

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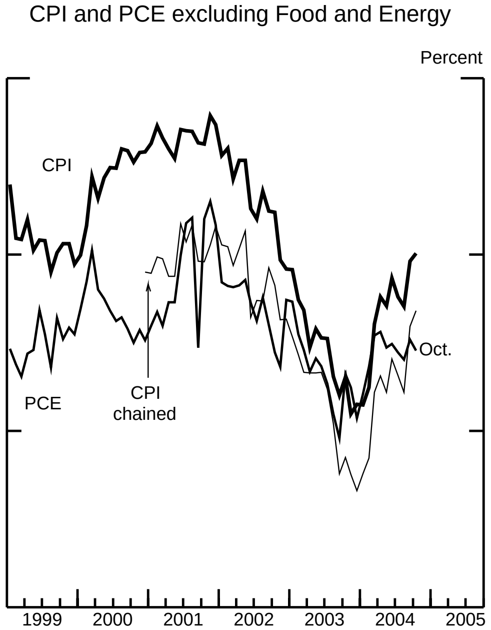
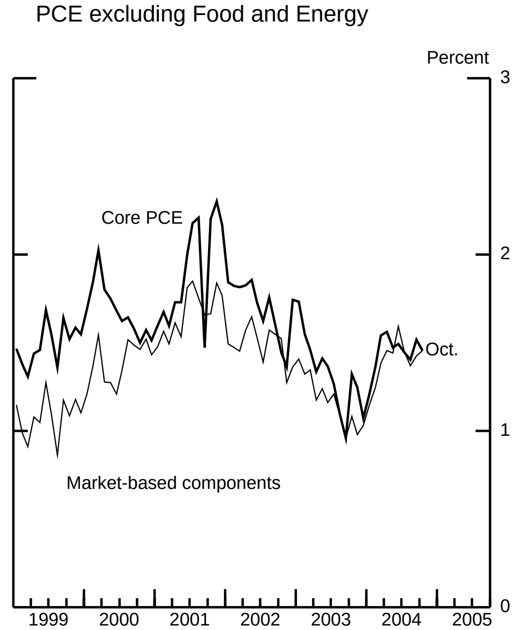
[8] The survey is scheduled to be released on December 9, 2004. It is confidential until its release.

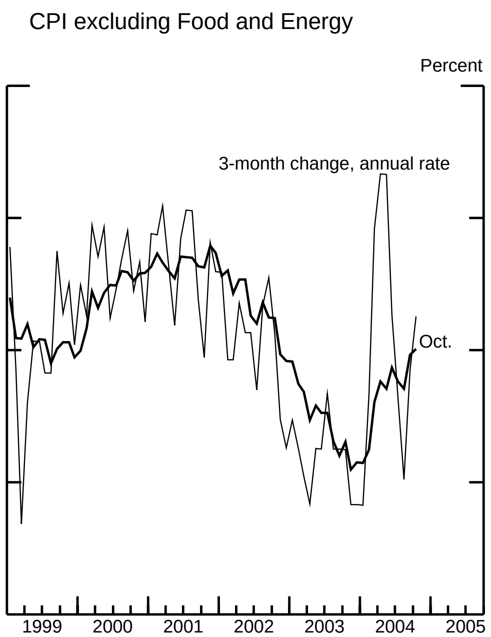
[9] Even if core inflation in November and December increases at the same average monthly rate as over the past twelve months, the twelve-month change in the core CPI would rise ¼ percentage point from its October level, as the unusually low inflation readings from the end of 2003 drop out of the most recent twelve-month window.

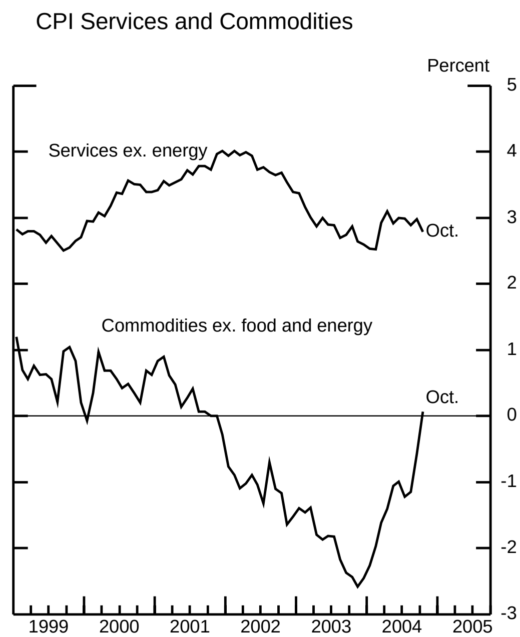
[10] Over the past year, PCE medical services prices have decelerated, while the CPI for medical services has accelerated. PCE medical services prices are based on PPIs rather than CPIs, and medical services have a much larger weight in PCE than in the CPI.

Core Consumer Price Inflation
(12-month change except where noted)



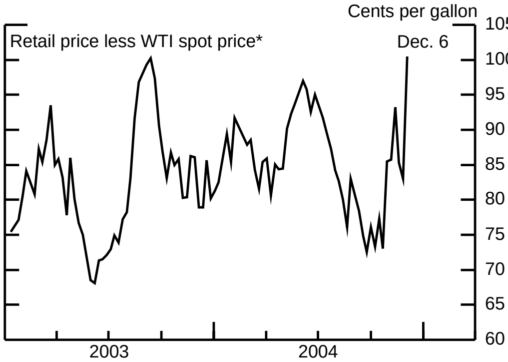






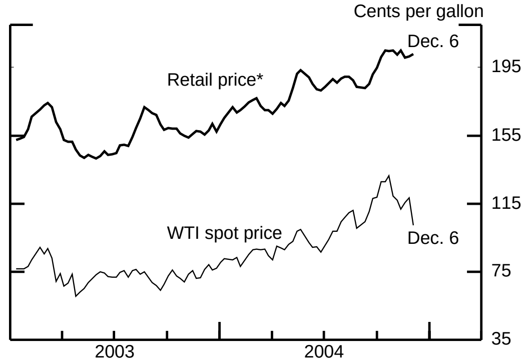
Energy Prices and Inventories
Data from Energy Information Administration except as noted

Total Gasoline Margin



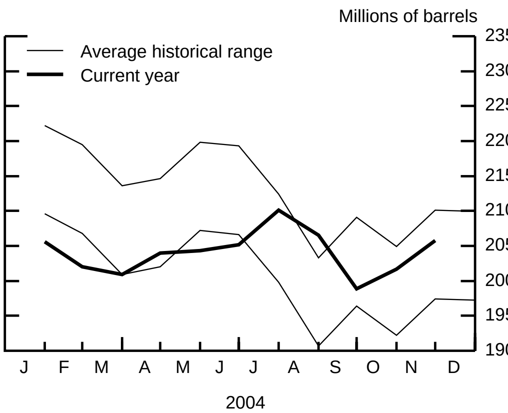
* Average of all grades (DOE) seasonally adjusted, less West Texas intermediate spot price.

Gasoline Price Decomposition



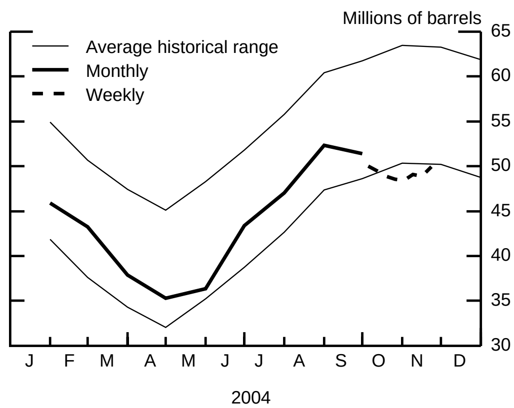
* Average of all grades (DOE) seasonally adjusted.

Gasoline Inventories



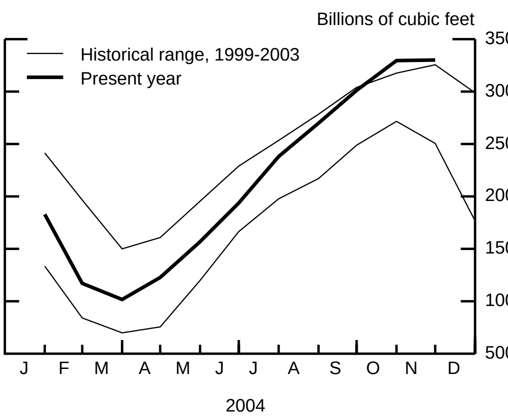
Note. Average historical range calculated by Energy Information Administration.

Heating Oil Inventories



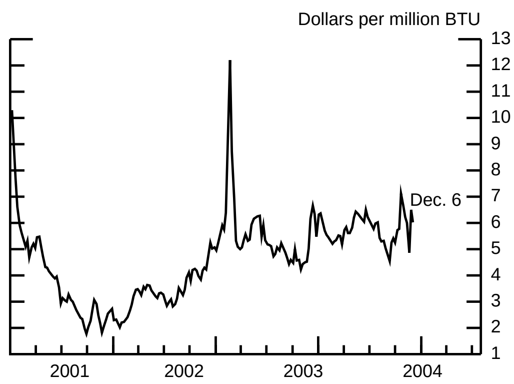
Note. Historical range calculated by FRB staff.

Natural Gas Inventories



Note. Historical range calculated by FRB staff.

Natural Gas Prices



Note. Spot price, Henry Hub.

Broad Measures of Inflation
(Percent change, Q3 to Q3)

Measure	2001	2002	2003	2004
Product prices				
GDP price index	2.4	1.5	1.8	2.2
Less food and energy	2.1	1.9	1.5	2.0
Nonfarm business chain price index	1.9	1.0	1.1	1.7
Expenditure prices				
Gross domestic purchases price index	1.9	1.5	1.9	2.5
Less food and energy	1.9	1.8	1.5	2.0
PCE price index	2.0	1.6	1.7	2.2
Less food and energy	2.0	1.9	1.1	1.5
PCE price index, market-based components	1.9	1.2	1.8	2.3
Less food and energy	1.8	1.5	1.1	1.4
CPI	2.7	1.6	2.2	2.7
Less food and energy	2.7	2.2	1.3	1.8
Chained CPI	2.1	1.3	1.9	2.2
Less food and energy	2.1	1.8	1.0	1.4
Median CPI	3.7	3.3	2.0	2.5
Trimmed mean CPI	2.7	2.1	1.8	2.1

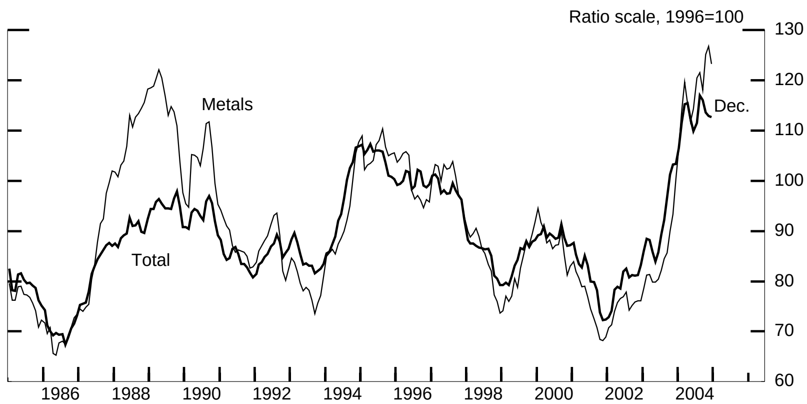
Surveys of Inflation Expectations
(Percent)

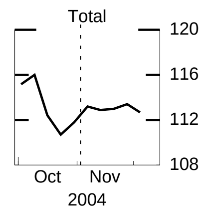
Period	Actual CPI inflation [1]	University of Michigan: 1 year [2]		University of Michigan: 5 to 10 years [3]		Professional forecasters (10-year) [4]
		Mean	Median	Mean	Median	
2003:Q1	2.9	3.2	2.8	3.0	2.7	2.5
Q2	2.1	2.6	2.2	3.1	2.7	2.5
Q3	2.2	2.8	2.3	3.1	2.7	2.5
Q4	1.9	3.0	2.6	3.1	2.8	2.5
2004:Q1	1.8	3.1	2.7	3.4	2.9	2.5
Q2	2.9	4.0	3.3	3.3	2.8	2.5
Q3	2.7	3.3	2.9	3.1	2.8	2.5
Q4	n.a.	n.a.	n.a.	n.a.	n.a.	2.5
2004:July	3.0	3.5	3.0	3.1	2.8	...
Aug.	2.7	3.1	2.8	3.1	2.7	...
Sept.	2.5	3.2	2.8	3.1	2.8	2.5
Oct.	3.2	3.6	3.1	3.2	2.8	...
Nov.	n.a.	3.3	2.8	3.1	2.7	...

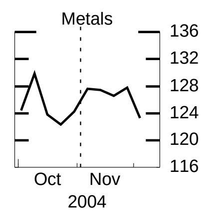
1. Percent change from the same period in the preceding year.
2. Responses to the question: By about what percent do you expect prices to go up, on average, during the next 12 months?
3. Responses to the question: By about what percent per year do you expect prices to go up, on average, during the next 5 to 10 years?
4. Quarterly CPI projections compiled by the Federal Reserve Bank of Philadelphia.
n.a. Not available.
... Not applicable.

Commodity Price Measures

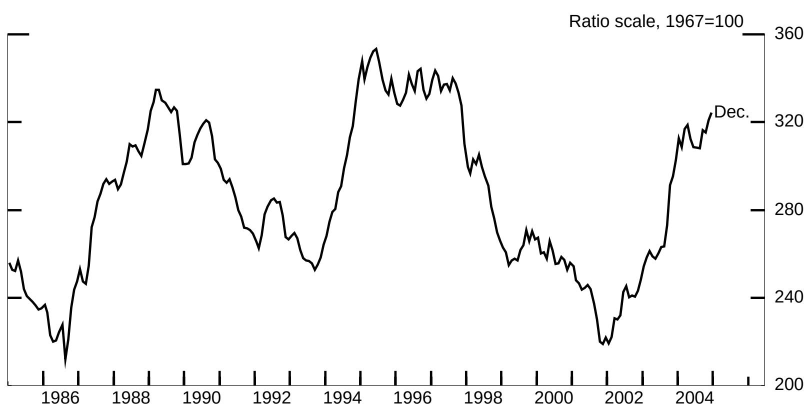
Journal of Commerce Index

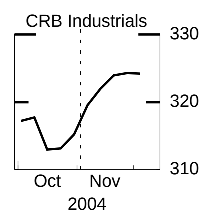




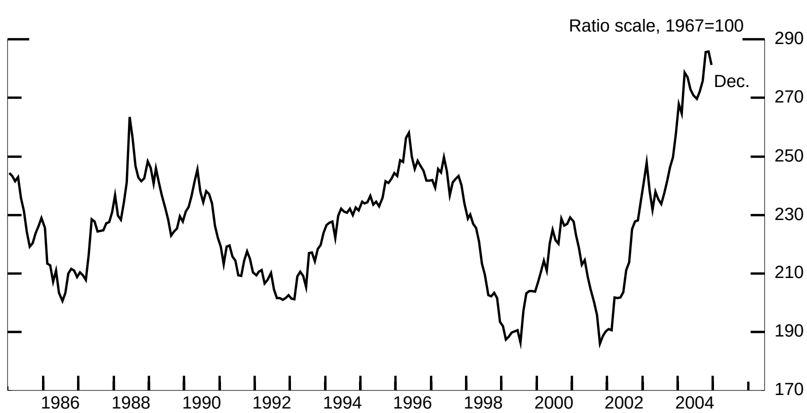


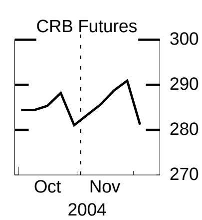
CRB Spot Industrials





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.

Spot Prices of Selected Commodities
(Percent change except as noted)

Commodity	Current price (dollars)	2002 [1]	2003 [1]	12/30/03 to 11/2/04 [2]	11/2/04 [2] to 12/7/04	Memo: 52-week change to 12/7/04
Metals						
Copper (lb.)	1.510	5.6	47.9	27.8	9.4	51.0
Steel scrap (ton)	217.000	49.2	66.8	52.2	-11.9	34.8
Aluminum, London (lb.)	.831	2.8	16.7	17.0	-.1	18.7
Precious metals						
Gold (oz.)	451.800	24.3	20.7	1.9	6.5	10.8
Silver (oz.)	7.890	3.8	24.6	17.2	12.8	40.8
Forest products [3]						
Lumber (m. bdft.)	342.000	-8.9	44.5	6.2	11.4	12.1
Plywood (m. sqft.)	410.000	.7	36.7	-15.7	23.1	-24.8
Petroleum						
Crude oil (barrel)	37.410	66.9	-7.4	55.0	-18.5	23.3
Gasoline (gal.)	1.017	69.2	12.5	34.0	-20.3	18.9
Fuel oil (gal.)	1.193	63.8	6.3	49.7	-13.3	35.5
Livestock						
Steers (cwt.)	88.510	16.5	4.1	13.9	3.6	-9.4
Hogs (cwt.)	55.000	-13.2	18.3	51.4	2.3	54.9
Broilers (lb.)	.677	6.5	10.9	-6.2	8.8	4.1
Farm crops						
Corn (bu.)	1.850	18.1	1.7	-26.3	7.6	-22.3
Wheat (bu.)	4.200	37.7	-2.1	-2.8	6.2	-3.4
Soybeans (bu.)	5.155	32.2	37.1	-33.7	1.2	-33.7
Cotton (lb.)	.416	52.1	42.5	-36.3	-4.0	-34.9
Other foodstuffs						
Coffee (lb.)	.875	1.1	23.1	28.3	24.5	48.9
Memo:						
JOC Industrials	112.700	16.8	22.3	9.0	.8	6.7
JOC Metals	123.300	9.7	38.1	18.6	-.7	24.0
CRB Futures	281.210	24.4	9.1	9.9	.1	7.7
CRB Spot Industrials	324.260	13.7	24.0	2.3	2.9	7.6

1. Changes are from the last week of the preceding year to the last week of the year indicated.
2. November 2, 2004, is the Tuesday preceding publication of the November Greenbook.
3. Prices shown apply to the Friday before the date indicated.

October. Survey data suggest that retail gasoline prices declined in November, likely in response to the \$5 to \$6 per barrel fall in spot prices of crude oil between late October and mid-November. In the past week, gasoline margins have spiked again as a further large fall in crude oil prices has not yet been passed through to retail prices. Retail prices of heating oil, which account for only a small part of energy costs, were more severely affected than were gasoline prices by the hurricane-related outages because heating oil inventories were thinner than gasoline inventories before the storm.

Consumer prices for natural gas increased 0.6 percent in October, likely because of increased demand owing to substitution away from high-priced fuel oil. However, in early to mid-November, with gas storage caverns near capacity, spot prices for natural gas fell, reversing the previous month's rise. Although these prices have moved up again recently, the ample supplies suggest that prices of residential natural gas this winter are unlikely to spike as they did in February 2003.

Consumer food prices increased 0.6 percent in October, as damage to fruit and vegetable crops from the four hurricanes that hit Florida in August and September boosted prices for these items. The effects of the hurricanes were most pronounced for tomatoes and citrus, for which prices jumped 25 percent and 11 percent, respectively. These prices should drop during the next few months as California citrus and Florida tomato crops become available. Over the twelve months ending in October, food prices rose 3½ percent, an acceleration of ½ percentage point from a year earlier.

As indicated previously, the twelve-month change in the core CPI has picked up about ¾ percentage point over the past year. This acceleration reflects a flattening of core goods prices after a decline of 2½ percent in the year-earlier period. In contrast, the rate of increase in core services prices was little changed from a year ago.

According to the Michigan Survey, median expectations for inflation over the coming year returned to 2.8 percent in November, reversing the October uptick. Median expectations for inflation over the next five to ten years edged down a tenth, to 2.7 percent, and remained within the narrow range reported over the past several years.

Price inflation for capital equipment has continued to trend upward since hitting a bottom in 2002. In October, the PPI for capital equipment moved up 0.4 percent for the second consecutive month. Over the past twelve months, capital equipment prices have risen

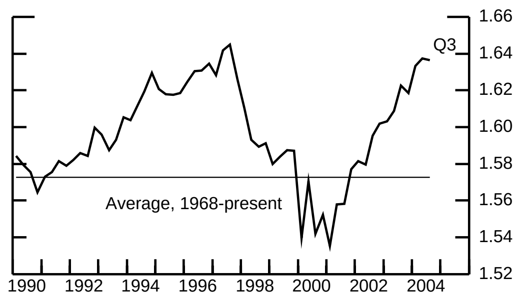
Hourly Compensation and Unit Labor Costs

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

Category	2001	2002	2003	2004 Q1	2004 Q2	2004 Q3[e]	2003:Q3 to 2004:Q3[e]
Compensation per hour							
Nonfarm business	3.5	2.9	5.4	2.0	5.9	3.6	4.0
Nonfinancial corporations[1]	3.7	2.5	5.0	2.3	5.5	4.0	4.0
Unit labor costs							
Nonfarm business	.3	-.6	-.2	-1.6	1.9	2.2	1.0
Nonfinancial corporations[1]	1.7	-2.4	-1.5	2.1	2.2	-.3	.8

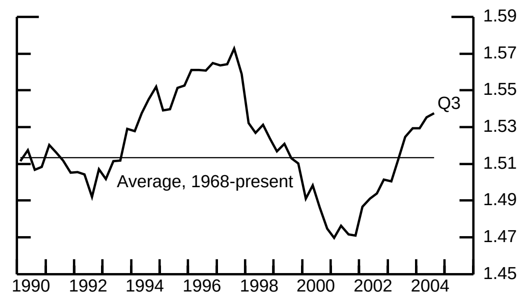
Note. Annual changes are from fourth quarter of preceding year to fourth quarter of year shown.
1. All corporations doing business in the United States except banks, stock and commodity brokers, and finance and insurance companies. The sector accounts for about two-thirds of business employment.
e. Staff estimates.

Markup, Nonfarm Businesses



Note. Markup defined as ratio of output price to unit labor costs.

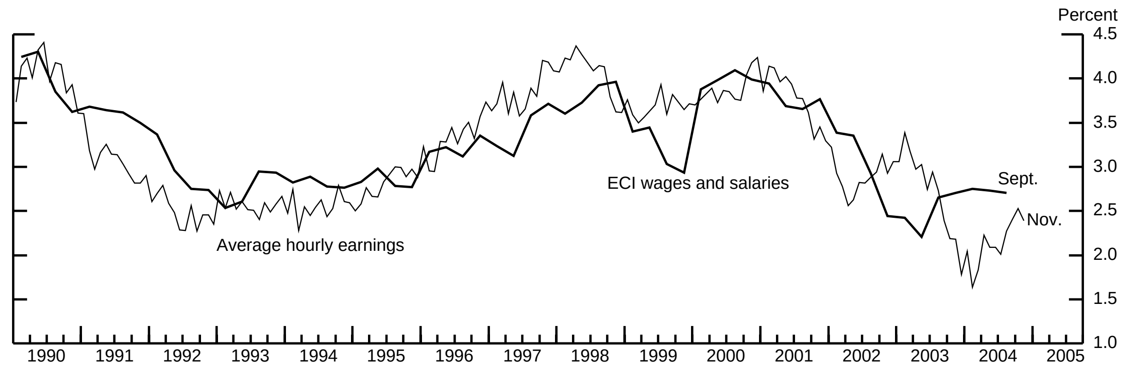
Markup, Nonfinancial Corporations



Note. Markup defined as ratio of output price to unit labor costs.

Labor Costs for Production or Nonsupervisory Workers

(12-month change)



about 2 percent, compared with an increase of only ½ percent during the year-earlier period. The pickup has been widespread across most types of capital equipment.

Prices continue to rise rapidly at earlier stages of processing. Over the twelve months ending in October, the PPI for intermediate materials excluding food and energy rose 7¾ percent. Nevertheless, the most recent reading, a 0.3 percent increase in October, was a step down from jumps of 0.7 percent in September and 1 percent in August. The recent increases in prices at this stage of processing seem broadly consistent with movements in energy costs, capacity utilization, and prices of imported materials and supplies. Meanwhile, the index for core crude materials climbed 5½ percent in October, boosted by a run-up in metals prices. Since the November Greenbook, the Journal of Commerce metals index has fallen 0.7 percent. The CRB spot industrials index (which excludes energy) has risen 2.9 percent over this period.

Labor Costs

Average hourly earnings growth rose 0.1 percent in November and about 2½ percent over the past twelve months, a pickup of ¼ percentage point from the year-earlier period. Measures of overall compensation showed moderate increases over the year ending in the third quarter of 2004; compensation per hour—as reported in the BLS Productivity and Costs release—was up 4 percent, and the employment cost index was up 3¾ percent.[11] The markup of prices over unit labor costs remained somewhat elevated for both the nonfarm business sector and the nonfinancial corporate sector.

The incoming information on benefits pertains mainly to health insurance costs, which appear to be decelerating after the outsized increases of the past few years. As noted in the November Greenbook, the twelve-month change in the health insurance component of the ECI, which was running about 10 percent in 2002 and 2003, dropped to 7¼ percent in September. The results of the major surveys of employer-sponsored health plans spanned a wide range in 2004: The latest survey from Mercer Human Resources Consulting showed premiums rising only 7½ percent this year, while other prominent surveys reported advances of more than 10 percent. In general, however, the surveys confirmed that increases in health insurance costs in 2004 were smaller than those in 2003, and they point to a further moderation in 2005.

[11] The latest Productivity and Costs release incorporated state unemployment insurance data for the second quarter, which indicated that compensation per hour in the nonfarm business sector increased about 1 percentage point faster in that quarter than had been previously reported.

Domestic Financial Developments

III-T-1

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

Instrument	2003	2004			Change to Dec. 7 from selected dates (percentage points)		
	Dec. 31	June 28	Nov. 9	Dec. 7	2003 Dec. 31	2004 June 28	2004 Nov. 9
Short-term							
FOMC intended federal funds rate	1.00	1.00	1.75	2.00	1.00	1.00	.25
Treasury bills [1]							
3-month	.93	1.36	2.04	2.21	1.28	.85	.17
6-month	1.00	1.74	2.24	2.37	1.37	.63	.13
Commercial paper (A1/P1 rates)[2]							
1-month	1.00	1.28	2.01	2.20	1.20	.92	.19
3-month	1.05	1.45	2.16	2.35	1.30	.90	.19
Large negotiable CDs [1]							
1-month	1.06	1.30	2.05	2.31	1.25	1.01	.26
3-month	1.09	1.53	2.23	2.40	1.31	.87	.17
6-month	1.16	1.82	2.42	2.60	1.44	.78	.18
Eurodollar deposits [3]							
1-month	1.04	1.29	2.03	2.27	1.23	.98	.24
3-month	1.07	1.51	2.20	2.38	1.31	.87	.18
Bank prime rate	4.00	4.00	4.75	5.00	1.00	1.00	.25
Intermediate- and long-term							
U.S. Treasury[4]							
2-year	1.83	2.88	2.81	2.96	1.13	.08	.15
10-year	4.40	4.90	4.35	4.35	-.05	-.55	.00
30-year	5.22	5.55	5.01	4.97	-.25	-.58	-.04
U.S. Treasury 10-year indexed note	2.00	2.23	1.75	1.70	-.30	-.53	-.05
Municipal 20-year G.O.[5]	4.61	4.94	4.56	4.64	.03	-.30	.08
Private instruments							
10-year swap	4.66	5.21	4.65	4.64	-.02	-.57	-.01
10-year FNMA[6]	4.72	5.30	4.69	4.63	-.09	-.67	-.06
10-year AA [7]	5.05	5.59	4.99	4.96	-.09	-.63	-.03
10-year BBB [7]	5.74	6.18	5.51	5.44	-.30	-.74	-.07
5-year high yield [7]	7.94	8.30	7.32	7.33	-.61	-.97	.01
Home mortgages (FHLMC survey rate) [8]							
30-year fixed	5.85	6.21	5.76	5.81	-.04	-.40	.05
1-year adjustable	3.72	4.19	4.16	4.19	.47	.00	.03

Stock exchange index	Record high		2004			Change to Dec. 7 from selected dates (percent)		
	Level	Date	June 28	Nov. 9	Dec. 7	Record high	2004 June 28	2004 Nov. 9
Dow Jones Industrial	11,723	1-14-00	10,357	10,386	10,441	-10.94	.81	.52
S&P 500 Composite	1,527	3-24-00	1,133	1,164	1,177	-22.94	3.86	1.12
Nasdaq	5,049	3-10-00	2,020	2,043	2,115	-58.11	4.70	3.49
Russell 2000	644	12-1-04	584	607	626	-2.83	7.09	3.11
Wilshire 5000	14,752	3-24-00	11,056	11,397	11,582	-21.49	4.76	1.62

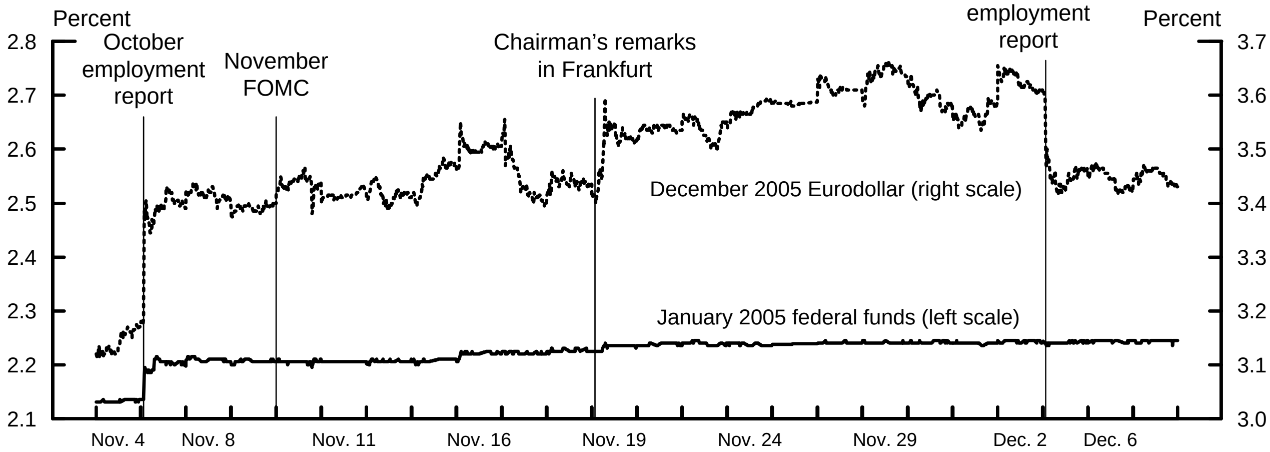
1. Secondary market.
2. Financial commercial paper.
3. Bid rates for Eurodollar deposits collected around 9:30 a.m. eastern time.
4. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
5. AA1 rated. Source. Bloomberg.
6. Constant maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
7. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.
8. Home mortgage data for Dec. 7, 2004, is from Dec. 2, 2004.

NOTES:

June 28, 2004, is the day before the beginning of the current tightening period.
November 9, 2004, is the day before the most recent FOMC meeting.

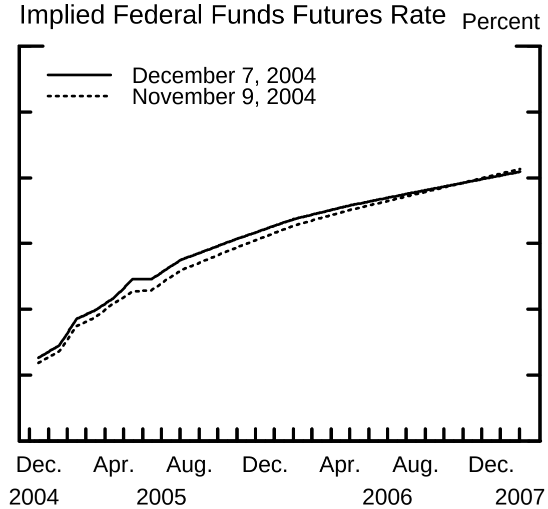
Policy Expectations and Treasury Yields

Futures Contract Rates



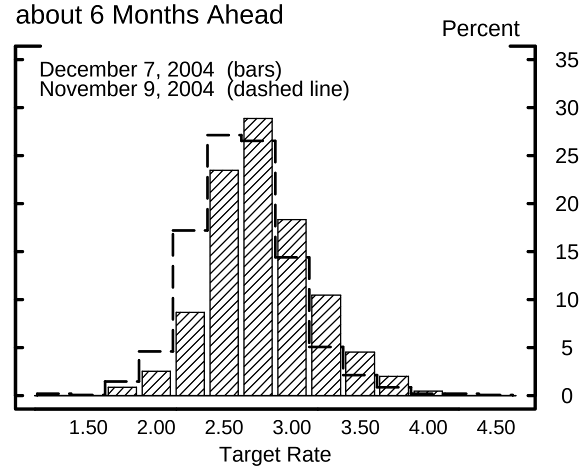
Note. 5-minute intervals.

Implied Federal Funds Futures Rate



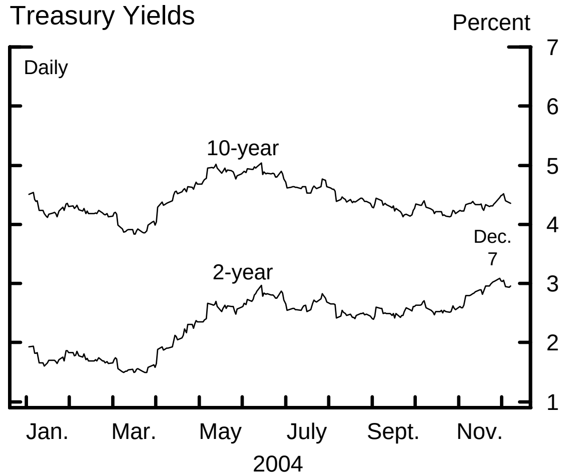
Note. Estimates from federal funds and Eurodollar futures, with an allowance for term premia and other adjustments.

Implied Distribution of Federal Funds Rate about 6 Months Ahead



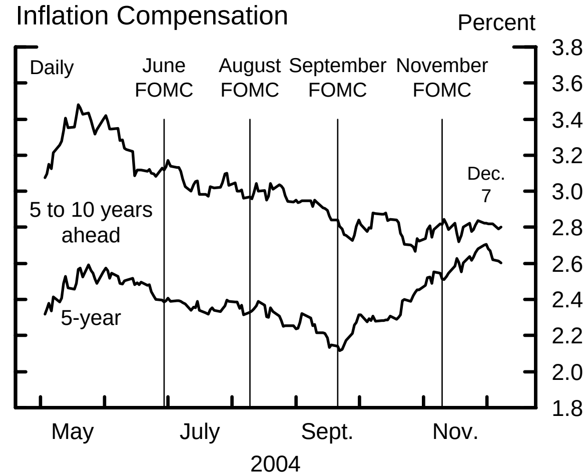
Note. Based on the distribution of the three-month Eurodollar rate five months ahead (adjusted for a risk premium), implied by options on Eurodollar futures contracts.

Treasury Yields



Note. Estimates from smoothed Treasury yield curve based on off-the-run securities.

Inflation Compensation



Note. Estimates based on smoothed nominal and inflation-indexed Treasury yield curves.

Domestic Financial Developments

Overview[1]

Expectations for the path of monetary policy over the next several quarters edged a bit higher over the intermeeting period in response to comments by Fed officials that pointed to higher rates and to some worries about greater near-term inflationary pressure. Short-term Treasury yields rose somewhat, but ten-year Treasury yields were unchanged on net. Corporate bond spreads narrowed a bit further, and stock prices posted a moderate gain. Total net business borrowing has picked up in recent months, and household debt growth remained brisk last quarter.

Policy Expectations and Interest Rates

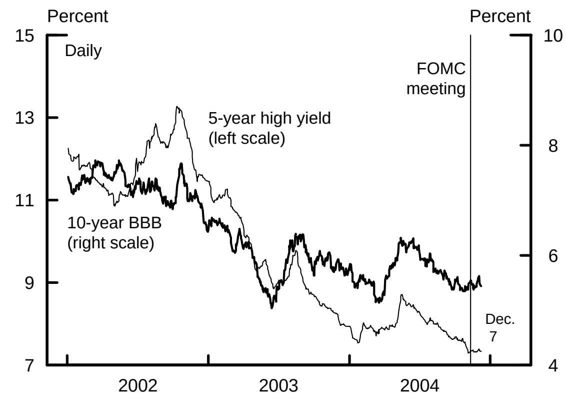
The decision by the FOMC to raise the target federal funds rate 25 basis points at the November meeting had been widely anticipated and the accompanying statement was in line with expectations. Despite the weaker-than-expected employment report released on December 3, investors still expect a firmer pace of tightening over coming months owing to higher-than-expected inflation data, remarks by the Chairman providing what was viewed to be an unusually stark warning of future rate increases, the ongoing depreciation of the dollar, and perhaps the beneficial effects of the drop in oil prices for economic growth. Current quotes on federal funds futures suggest that investors are nearly certain of a quarter-point tightening at the December meeting and expect tightening at two out of the first three meetings in 2005.

The upward revision in policy expectations showed through to short- and intermediate-term Treasury yields, with two- and five-year yields up about 15 and 10 basis points, respectively, over the period. Ten-year Treasury yields finished the period unchanged; yields had risen earlier in the period on speculation about official intervention in support of the dollar and reports that foreign official institutions were contemplating paring their holdings of Treasuries, but then had dropped sharply on the latest employment report. TIPS yields edged a bit lower, implying about a 10 basis point rise in inflation compensation over the next five years. Market participants pointed to higher-than-

[1] This review focuses on the period since the last FOMC meeting, as is standard practice for the Greenbook. Accordingly, the effects of the employment report for October, which was released on the Friday between the November Greenbook publication date and the November FOMC meeting, are omitted from the discussion that follows. Nonetheless, we would note that, on the release of that report, the market's expected path for the federal funds rate steepened, and intermediate- and longer-term yields increased about 10 to 15 basis points. In addition, broad stock price indexes increased about 3 percent between the Greenbook publication date and the FOMC meeting.

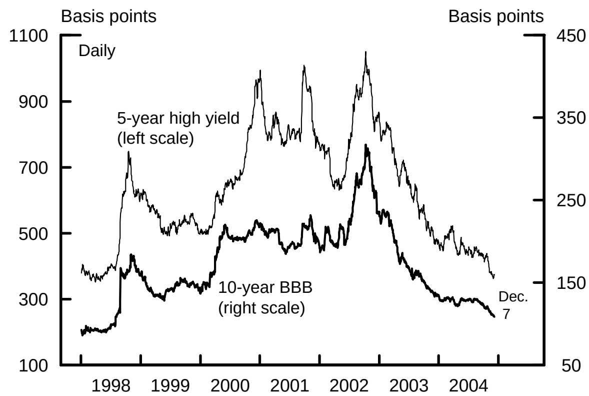
Corporate Yields, Risk Spreads, and Stock Prices

Yields for BBB and High-Yield Corporate Bonds

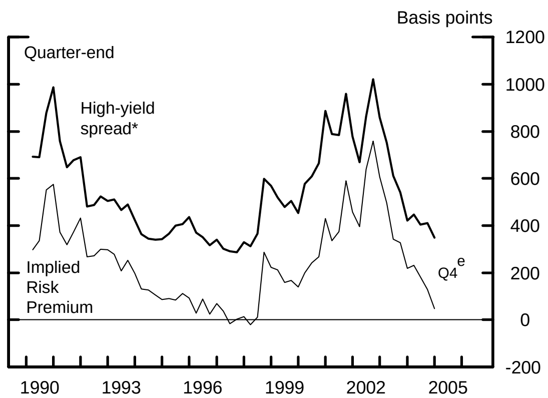


Note. Yields from smoothed yield curves based on Merrill Lynch bond data.

Corporate Bond Spreads to Similar Maturity Treasury

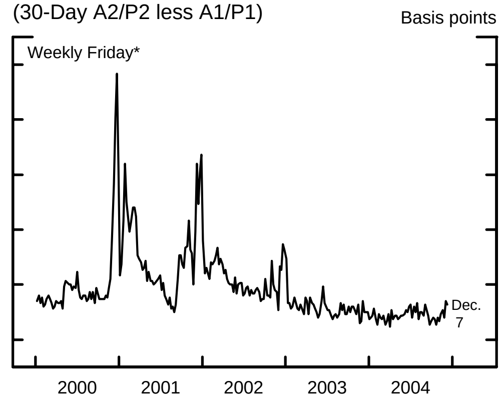


High-Yield Spread and Risk Premium



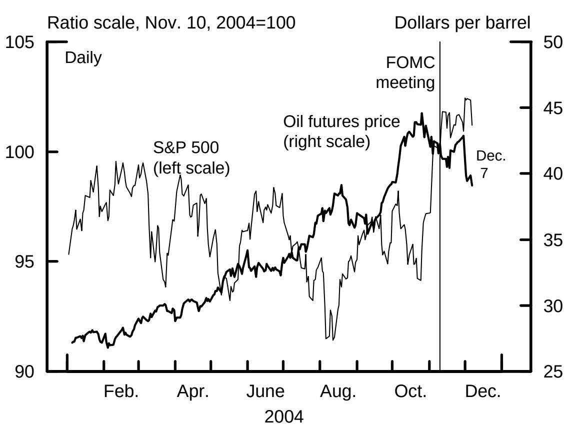
*Merrill Lynch Master II Index less 7-year Treasury yield.
e Staff estimate using most recent available data.

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

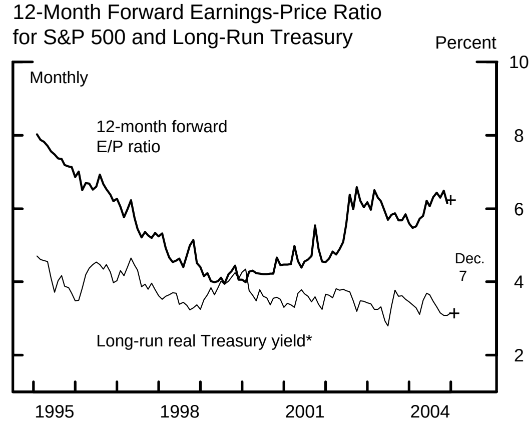


* Latest observation is for most recent business day.

S&P 500 and Oil Futures Priced 24 Months Ahead



12-Month Forward Earnings-Price Ratio
for S&P 500 and Long-Run Treasury



* Yield on synthetic Treasury perpetuity minus Philadelphia Fed 10-year expected inflation.
+ Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.

expected inflation releases and dollar depreciation as factors contributing to the rise. In contrast, inflation compensation five to ten years ahead was little changed.

Corporate Yields and Risk Spreads

Spreads on investment-grade and speculative-grade corporate bonds edged down about 5 to 10 basis points over the intermeeting period. A decomposition of the high-yield spread into the compensation for expected losses and the implied risk premium suggests that the compensation for risk has shrunk notably in the past couple of quarters and now has moved back down to the range of low values reached in the mid 1990s. The spread of lower-quality commercial paper over top-rated CP issues rose only slightly as the maturity date of thirty-day issues crossed year-end, indicating that expectations of year-end pressures remain muted.

Stock Prices, Corporate Earnings, and Credit Quality

Building on the sizable gains logged between the close of last month's Greenbook and the FOMC meeting, broad stock price indexes rose another 1 to 2 percent over the intermeeting period, in part from lower oil prices. Implied volatility on both the Nasdaq 100 and S&P 500 remained low. The gap between the twelve-month forward earnings-price ratio for S&P 500 firms and the synthetic long-run real Treasury yield, a rough measure of the equity premium, remained at a level close to its average over the past two decades.

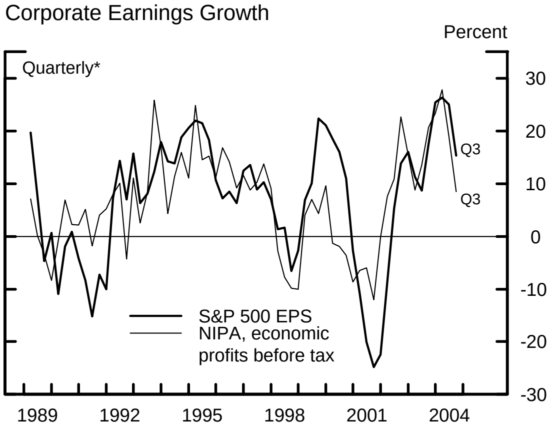
November's spate of third-quarter earnings reports from retailers essentially met investor expectations and brought the reporting season to a close. S&P 500 operating earnings per share came in about 15 percent above results from four quarters earlier, implying a slight quarter-to-quarter gain. Absent hurricane effects, the four-quarter rise would have been a couple of percentage points higher. Analysts continued to trim forecasts of year-ahead earnings for S&P 500 firms outside the energy sector, consistent with the typical pattern of downward adjustments during periods of moderate economic growth.

The preliminary estimate of third-quarter NIPA profits, a broader measure of profitability, showed an 8½ percent gain over the past year. Excluding the BEA's estimate of hurricane-related losses, NIPA profits increased 15 percent over the prior year, including a considerable rise between the second and third quarters.

Nonfinancial corporate bonds experienced a sizable net rating downgrade in October, but more than half of the debt downgraded resulted from one large merger—the debt-

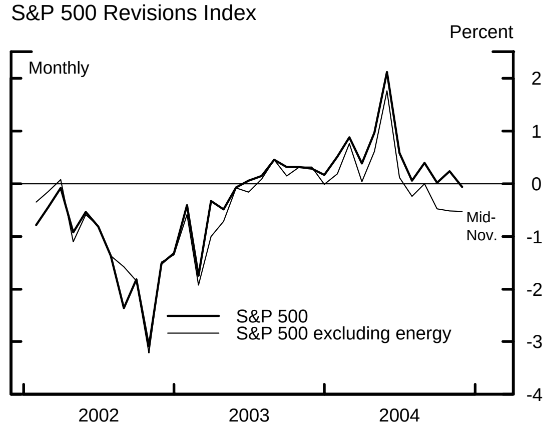
Corporate Earnings and Credit Quality

Corporate Earnings Growth



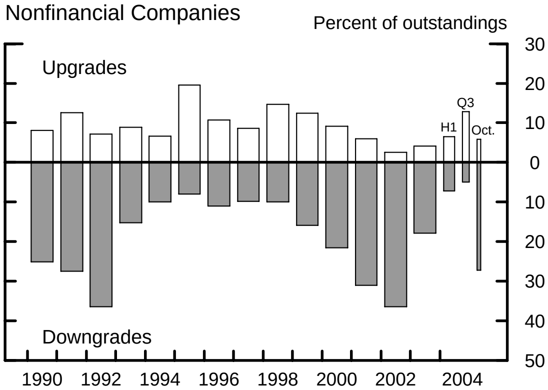
* Change from four quarters earlier.
Source. I/B/E/S for S&P 500 EPS.

S&P 500 Revisions Index



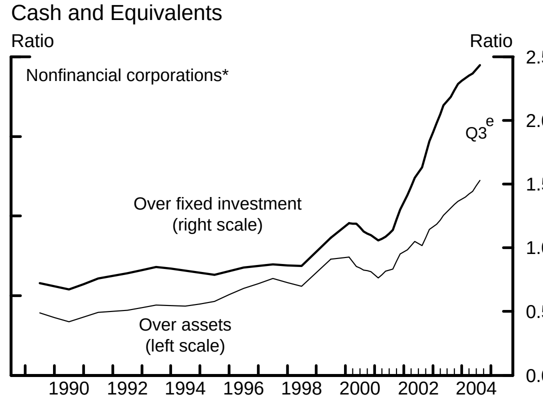
Note. Index is a weighted average of the percent change in the consensus forecasts of current-year and following-year EPS for constant sample.

Bond Ratings Changes of Nonfinancial Companies



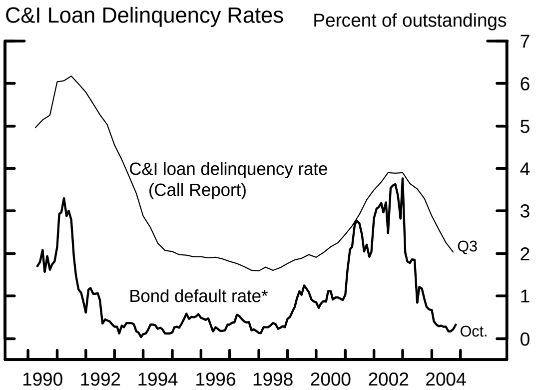
Note. Data are at an annual rate.
Source. Moody's Investors Service.

Cash and Equivalents



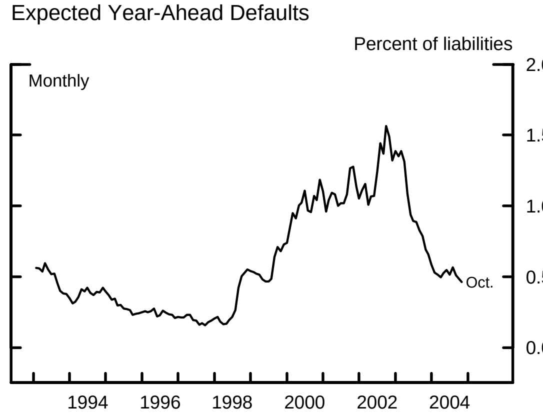
*Compustat data, annual through 1999 and quarterly thereafter; fixed investment is at an annual rate.
e Staff estimate.

Bond Defaults and C&I Loan Delinquency Rates



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

Expected Year-Ahead Defaults



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

Business Finance

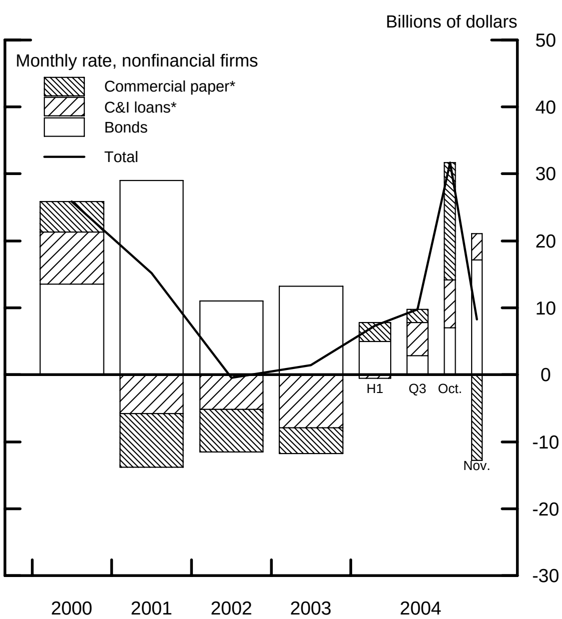
Gross Issuance of Securities by U.S. Corporations

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

Type of security	2001	2002	2003	2004 H1	2004 Q3	2004 Oct.	2004 Nov.
Nonfinancial corporations							
Stocks [1]	6.5	5.2	3.7	5.7	4.7	4.2	4.6
Initial public offerings	2.1	0.7	0.4	0.8	2.0	2.3	1.7
Seasoned offerings	4.4	4.4	3.2	4.9	2.6	1.9	2.9
Bonds [2]	39.8	24.8	31.6	22.7	18.9	17.5	34.3
Investment grade	27.5	15.7	16.0	8.2	9.2	8.8	10.2
Speculative grade	8.9	4.8	11.3	10.5	6.3	5.4	15.1
Other (sold abroad/unrated)	3.4	4.2	4.3	4.0	3.5	3.3	9.0
Memo							
Net issuance of commercial paper [3]	-8.0	-6.3	-3.8	2.8	1.9	17.5	-12.8
Change in C&I loans at commercial banks [3,4]	-5.8	-5.2	-7.9	-0.5	5.0	7.1	3.9
Financial corporations							
Stocks [1]	4.2	4.0	6.9	8.3	4.3	8.1	3.4
Bonds [2]	80.2	87.0	111.1	130.9	154.7	132.6	126.4

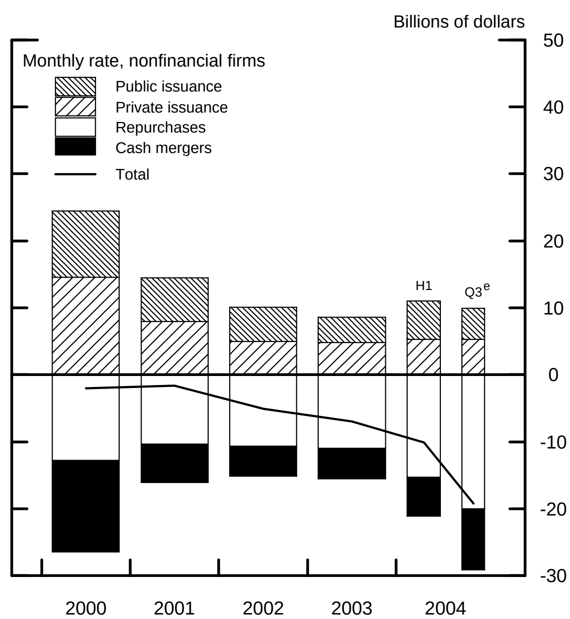
Note. Components may not sum to totals due to rounding.
1. Excludes private placements and equity-for-equity swaps that occur in restructurings.
2. Data include regular and 144a private placements. Bond totals reflect gross proceeds rather than par value of original discount bonds. Bonds are categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's.
3. End-of-period basis, seasonally adjusted.
4. Adjusted for FIN 46 effects.

Selected Components of Net Debt Financing



* Seasonally adjusted, period-end basis.

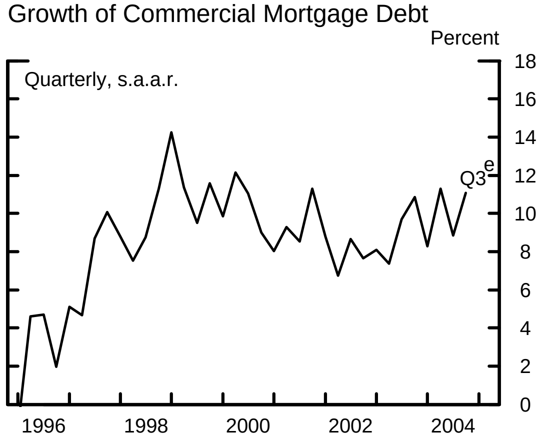
Components of Net Equity Issuance



e Staff estimate.

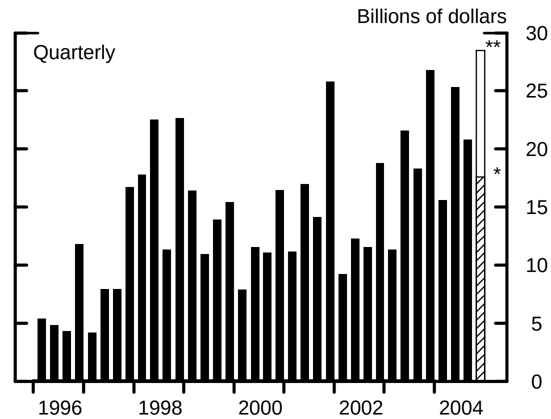
Commercial Real Estate

Growth of Commercial Mortgage Debt



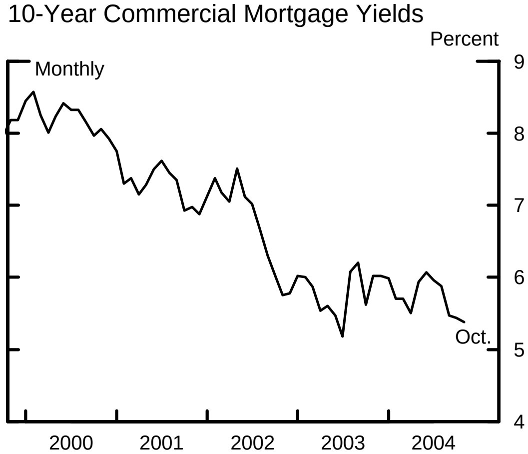
e Staff estimate.

Gross Issuance of CMBS



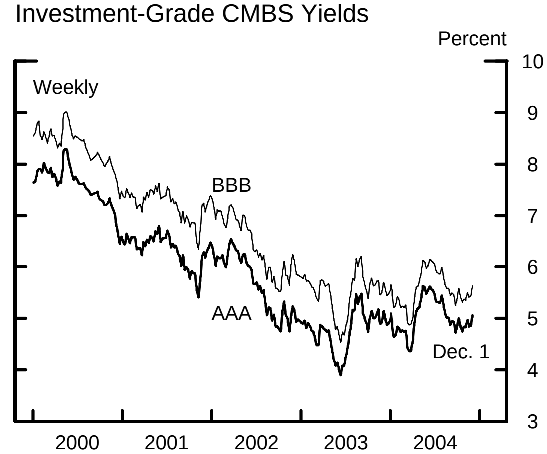
* Through December 3.
** Staff estimate for Q4.
Source. Commercial Mortgage Alert.

10-Year Commercial Mortgage Yields



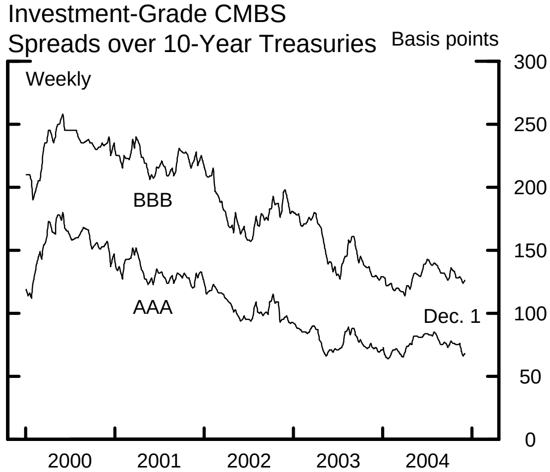
Source. Barron's/Levy.

Investment-Grade CMBS Yields



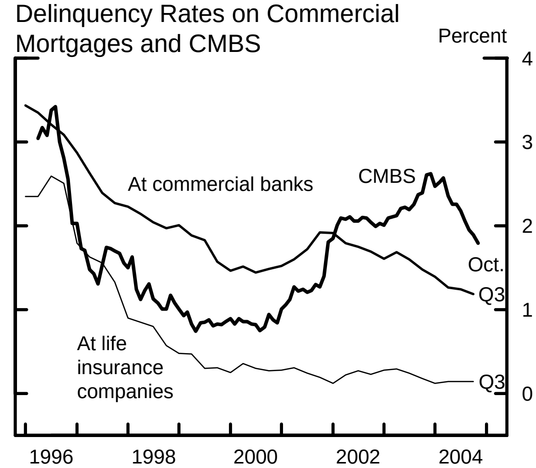
Source. Morgan Stanley.

Investment-Grade CMBS Spreads over 10-Year Treasuries



Source. Morgan Stanley.

Delinquency Rates on Commercial Mortgages and CMBS



Source. Call Report, ACLI, Morgan Stanley.

financed acquisition of AT&T Wireless by Cingular—and the pace of downgrades appears to have dropped back in November. Other indicators suggest that nonfinancial firms continue to be in solid financial condition. Nonfinancial corporations continued to build on their already hefty cash positions last quarter. In addition, Call Report data for the third quarter showed a further decline in the delinquency rate on C&I loans, and the six-month trailing default rate on corporate bonds remained extremely low in October. The expected year-ahead default rate derived from Moody's KMV Corporation ticked down in October and likely has declined further since then in response to the rise in equity prices over November and early December.

Business Finance

Bank C&I lending was positive again in November, and gross issuance of bonds by nonfinancial corporations firmed to its strongest monthly pace since March. Borrowing in the speculative-grade category was particularly robust. Low rates evidently continue to be a major factor, as the most popular use of proceeds reportedly was to pay down existing debt. In the commercial paper market, much of the merger-related bridge financing that had boosted October issuance was paid down in November, as we had anticipated. On balance, during October and November combined, net borrowing through bank loans, commercial paper, and bonds picked up from the third-quarter pace.

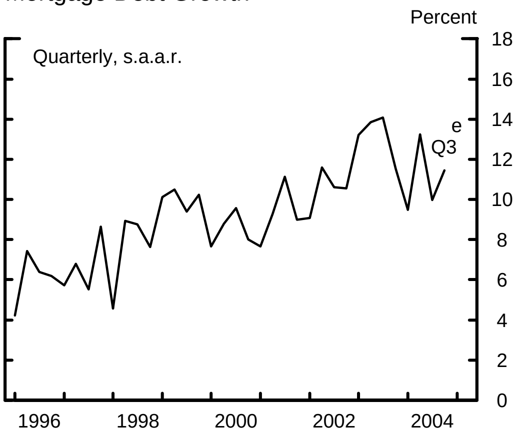
Gross public equity issuance continued at a moderate rate in November; initial public offerings have continued around the stronger pace since midyear, while seasoned offerings remain off the earlier elevated pace observed when some firms were issuing equity to improve their balance sheets. Equity retirements from both cash mergers and share repurchases accelerated markedly in the third quarter, placing net equity issuance even further in negative territory. Retirements likely will remain high in the current quarter, in part because of Cingular's acquisition of AT&T Wireless. Moreover, the anticipated repatriation of profits earned overseas in response to the corporate tax law passed in October could well provide firms with cash to keep equity retirements elevated over the next few quarters.

Commercial Real Estate

Commercial real estate debt expanded at an annual rate of 11 percent in the third quarter, and strong CMBS issuance in October and November points to rapid debt growth again this quarter. The spreads of investment-grade CMBS yields to comparable-maturity Treasuries have remained low. The various measures of commercial mortgage

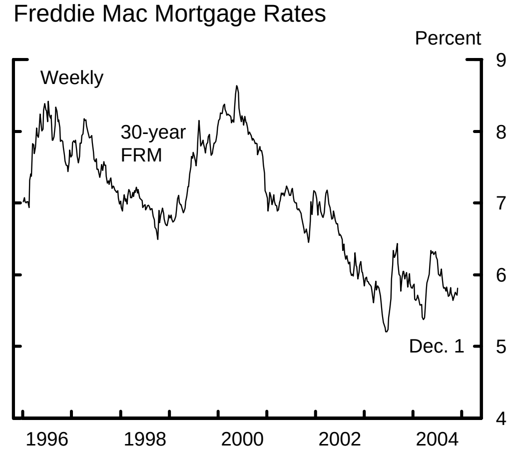
Household Liabilities

Mortgage Debt Growth

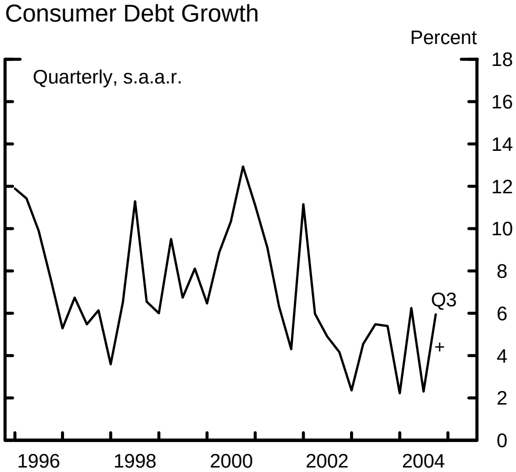


e Staff estimate.

Freddie Mac Mortgage Rates

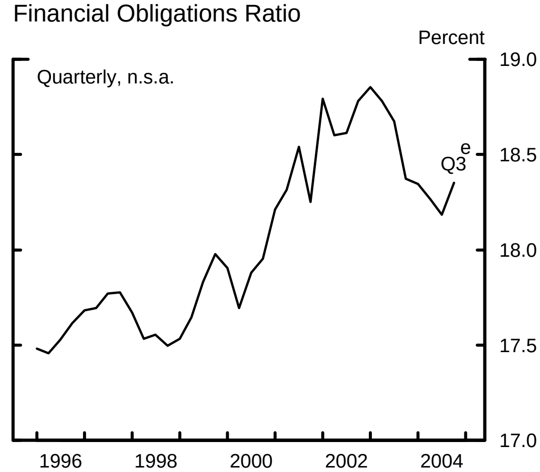


Consumer Debt Growth



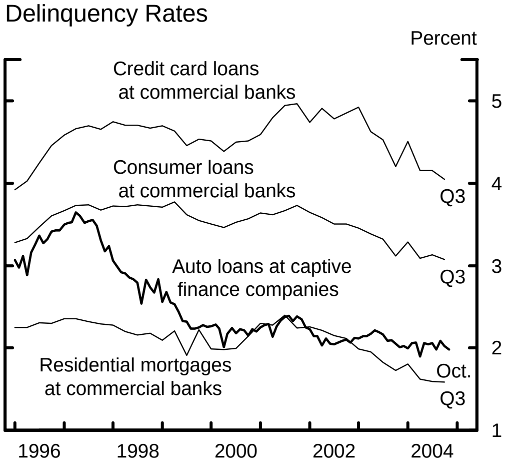
+ Value for October.

Financial Obligations Ratio



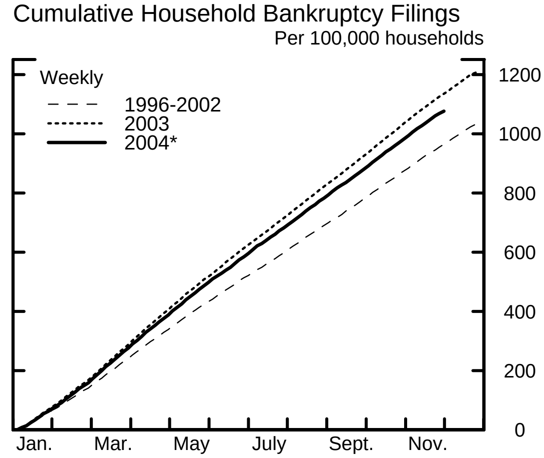
e Staff estimate.

Delinquency Rates



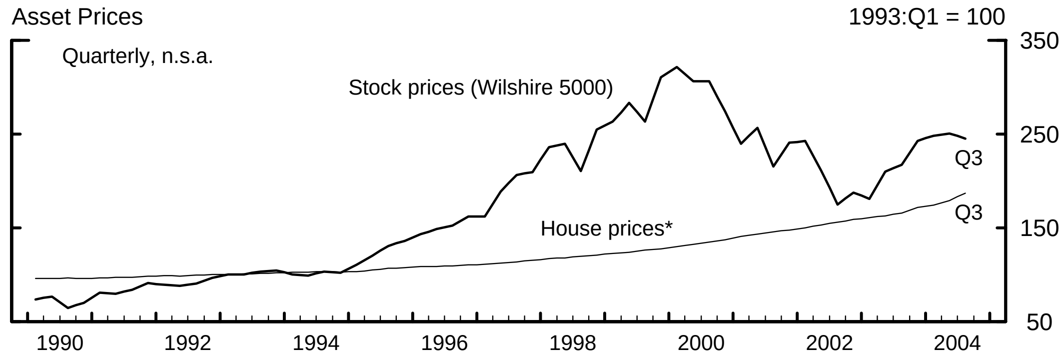
Source. Call Reports, Federal Reserve.

Cumulative Household Bankruptcy Filings

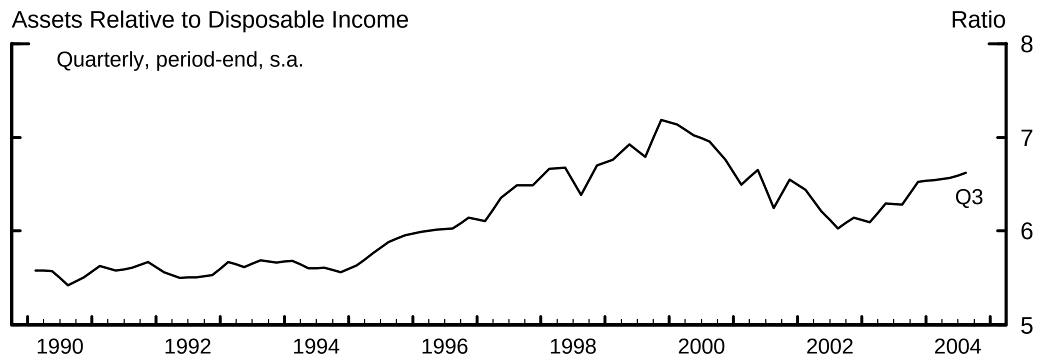


* Through November 27.
Source. Visa Bankruptcy Notification Service Statistics.

Household Assets



* Source. Office of Federal Housing Enterprise Oversight (OFHEO).



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

Fund Type	2002	2003	2004 Q1	2004 Q2	2004 Q3	2004 Oct.	2004 Nov.[e]	Assets Oct.
Total long-term funds	**10.1**	**18.0**	**36.5**	**3.8**	**11.7**	**14.1**	**24.5**	**5,759**
Equity funds	**-2.3**	**12.7**	**28.4**	**11.3**	**6.9**	**7.2**	**17.6**	**3,994**
Domestic	-2.1	10.7	19.9	7.6	3.8	2.4	9.1	3,388
International	-0.2	2.0	8.5	3.7	3.1	4.8	8.5	606
Hybrid funds	**0.7**	**2.7**	**5.1**	**3.1**	**2.8**	**3.4**	**3.2**	**487**
Bond funds	**11.7**	**2.6**	**3.0**	**-10.5**	**2.0**	**3.5**	**3.8**	**1,278**
High-yield	0.9	2.2	-1.4	-2.7	0.5	0.6	1.5	151
Other taxable	9.4	1.0	4.2	-4.0	2.0	2.9	2.0	798
Municipals	1.4	-0.6	0.2	-3.9	-0.5	-0.0	0.3	328

Note. Excludes reinvested dividends.

e Staff estimates based on confidential ICI weekly data.

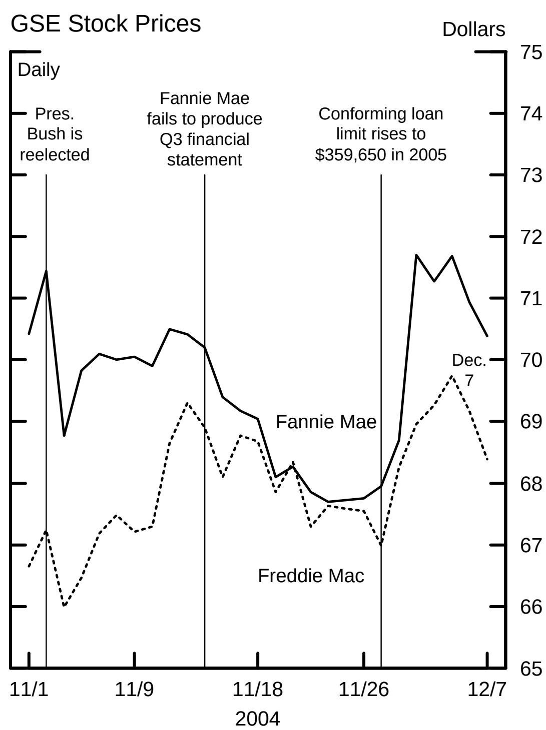
Source. Investment Company Institute.

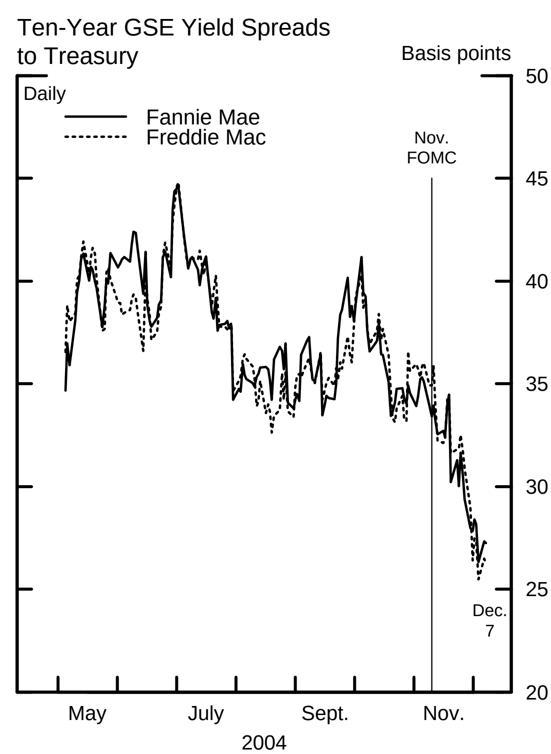
Treasury Financing
(Billions of dollars)

Item	2003	2004				
	Q4	Q1	Q2	Q3	Sept.	Oct.
Total surplus, deficit (–)	**-130.2**	**-170.8**	**-25.7**	**-85.9**	**24.6**	**-57.3**
Means of financing deficit						
Net borrowing	118.6	135.9	40.7	83.4	5.4	13.2
Nonmarketable	6.6	-10.1	6.2	-5.2	-.2	-43.5
Marketable	112.0	146.0	34.5	88.6	5.6	56.7
Bills	9.2	56.1	-34.9	14.3	-15.4	20.7
Coupons	102.8	89.9	69.4	74.3	21.0	36.0
Decrease in cash balance	1.8	11.9	-23.3	8.3	-33.8	-11.7
Other[1]	9.8	23.0	8.3	-5.7	3.8	55.8
Memo:						
Cash balance, end of period	33.2	21.3	44.6	36.3	36.3	48.1

Note. Components may not sum to totals because of rounding.
1. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.

GSE Market Developments





delinquency rates have either fallen this year or held at a low level, indicating that credit quality in this sector continues to be sound.

Household Finance

In the third quarter, household mortgage debt expanded at an annual rate of 11 percent. With interest rates on thirty-year fixed-rate mortgages remaining low, mortgage debt growth is expected to stay strong in the current quarter. Consumer credit increased at an annual rate of 6 percent in the third quarter but slowed a bit to a 4 percent pace in October.

Although household debt has continued to expand more rapidly than disposable income, a downdrift in other household obligations has kept the financial obligations ratio about unchanged on net this year. The ratio remains 1/2 percentage point below the peak reached two years ago. Meanwhile, measures of household credit quality have continued to improve. Delinquencies on credit card loans, consumer loans, and residential mortgages at commercial banks all declined in the third quarter, and those on auto loans at captive finance companies edged down in October. Household bankruptcy filings over the year to date are 5 percent below the comparable period from last year, although this year's filing rate remains high compared with earlier years.

A rapid rise in existing home prices in the third quarter more than offset a dip in the Wilshire 5000 stock price index, contributing to an uptick in the ratio of household assets to disposable income. The gains in stock prices registered so far this quarter portend another increase in this ratio. Mutual fund flows picked up in November, a move roughly consistent with their historical relationship to asset returns.

Treasury and Agency Finance

The statutory debt ceiling was raised in mid-November. Market participants had anticipated this outcome, and the Treasury's financing maneuvers during the preceding four weeks to fund government operations had little effect on yields. November's auction of ten-year notes was met with strong demand, and indirect bidders took up 40 percent of the issues, suggesting continued strong interest from foreign official institutions.

With regard to the GSEs, Fannie Mae's stock price moved down in the wake of the presidential election—suggesting continued close scrutiny of its operations—and fell again after the company failed to produce a third-quarter accounting statement.

State and Local Government Finance

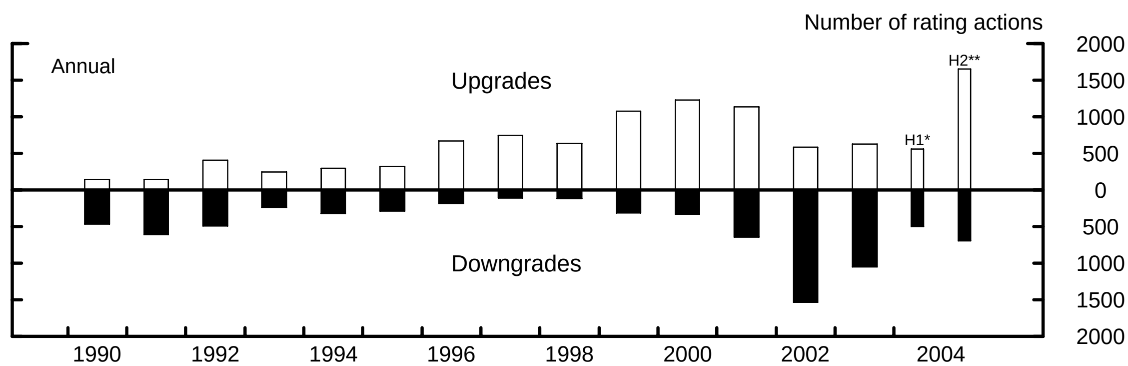
Gross Offerings of Municipal Securities

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

Type of security	2001	2002	2003	2004 H1	2004 Q3	2004 Oct.	2004 Nov.
Total	29.0	36.3	37.9	35.5	33.9	33.8	27.5
Long-term [1]	24.3	30.3	32.0	31.7	25.6	31.4	24.2
Refundings [2]	7.6	10.1	10.0	11.3	9.7	12.5	8.6
New capital	16.7	20.2	22.1	20.4	15.9	18.9	15.6
Short-term	4.7	6.0	5.8	3.8	8.3	2.3	3.2
Memo: Long-term taxable	1.4	1.7	3.5	2.5	1.1	1.5	2.1

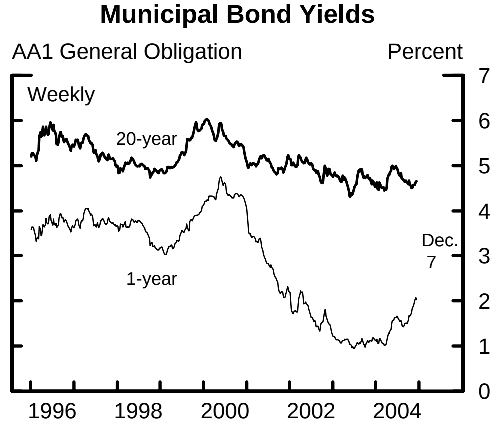
1. Includes issues for public and private purposes.
2. All issues that include any refunding bonds.

Bond Rating Changes



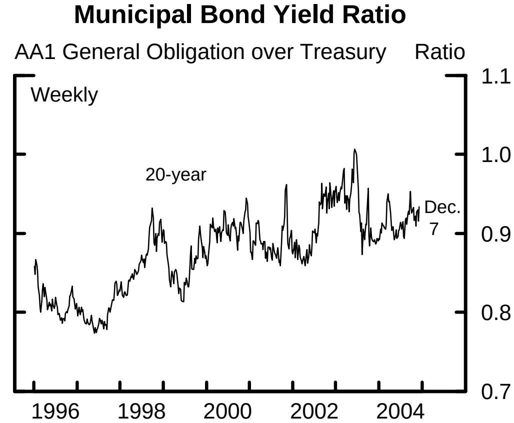
* At an annual rate.
** Data through December 1 at an annual rate.
Source. S&P's Credit Week Municipal and Ratings Direct.

Municipal Bond Yields



Source. Bloomberg.

Municipal Bond Yield Ratio



Source. Bloomberg.

Monetary Aggregates

(Based on seasonally adjusted data)

Aggregate or component	2003	2004 Q1	Q2	Q3	Oct.	Nov. (e)	Level (billions of dollars), Nov. (e)
Aggregate	Percent change (annual rate)[1]						
1. M2[2]	5.3	3.5	9.7	2.7	2.5	6.3	6,382
2. M3[3]	4.6	5.9	10.8	2.9	-3.0	2.9	9,341
Components of M2[4]							
3. Currency	5.9	2.8	4.0	9.3	4.2	9.9	700
4. Liquid deposits[5]	13.8	10.4	17.1	4.5	6.1	8.0	4,150
5. Small time deposits	-9.3	-4.4	-4.6	1.8	3.3	5.1	809
6. Retail money market funds	-11.6	-19.4	-7.2	-11.3	-20.2	-5.7	715
Components of M3							
7. M3 minus M2[6]	3.3	11.1	13.2	3.4	-14.8	-4.4	2,959
8. Large time deposits, net[7]	4.0	26.7	26.1	15.9	11.9	16.6	1,054
9. Institutional money market funds	-5.8	-7.4	4.1	-6.6	-29.9	-13.0	1,062
10. RPs	14.1	13.7	6.1	4.9	-55.6	-16.2	520
11. Eurodollars	27.5	32.8	19.4	-2.0	21.8	-23.9	324
Memo							
12. Monetary base	6.0	3.1	4.9	8.8	4.0	5.3	759
	Average monthly change (billions of dollars)[8]						
Selected managed liabilities at commercial banks							
13. Large time deposits, gross	-1.2	14.1	19.8	15.9	7.3	10.8	1,174
14. Net due to related foreign institutions	3.1	-16.6	-11.6	-9.8	-5.0	-13.6	23
15. U.S. government deposits at commercial banks	-0.4	2.4	0.0	-3.8	7.4	-5.1	15

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 nonbank traveler's 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. Nonbank traveler's checks not listed.
5. Sum of demand deposits, other checkable deposits, and savings deposits.
6. Sum of large time deposits, institutional money market funds, RP liabilities of depository institutions, and Eurodollars held by U.S. addressees.
7. Net of holdings of depository institutions, money market 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.

Commercial Bank Credit

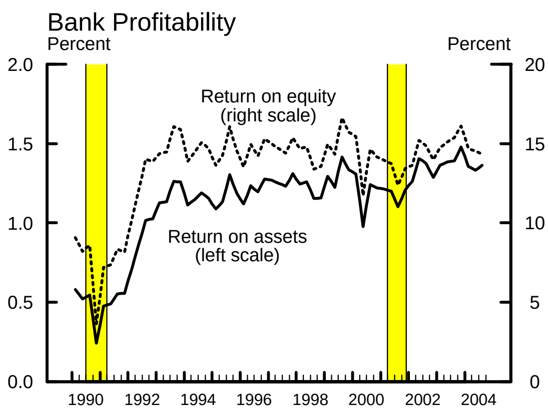
(Percent change, annual rate, except as noted; seasonally adjusted)

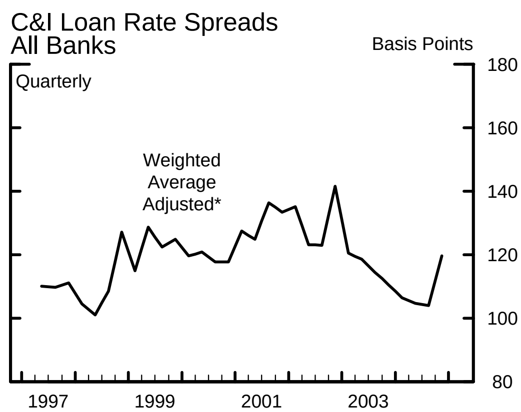
Type of credit	2003	Q1 2004	Q2 2004	Q3 2004	Oct. 2004	Nov.[e] 2004	Level, Nov. 2004[e] ($ billions)
Total							
1. Adjusted[1]	**5.9**	**11.3**	**11.8**	**4.8**	**1.8**	**10.3**	**6,495**
2. Reported	5.6	11.9	8.7	5.3	2.0	8.5	6,660
Securities							
3. Adjusted[1]	8.7	17.9	14.3	-8.0	-6.5	10.0	1,730
4. Reported	7.3	19.5	3.6	-5.1	-5.1	3.7	1,895
5. Treasury and agency	8.8	24.2	11.1	-4.1	-29.3	1.9	1,151
6. Other[2]	5.0	12.2	-8.2	-6.8	34.8	6.2	744
Loans[3]							
7. Total	4.9	8.8	10.8	9.7	4.9	10.4	4,765
8. Business	-9.4	-5.2	-2.8	5.9	1.6	11.5	885
9. Real estate	11.1	10.1	21.1	7.9	15.9	10.7	2,512
10. Home equity	30.8	37.8	38.5	37.2	45.1	27.5	392
11. Other	8.8	6.2	18.5	3.2	10.7	7.6	2,120
12. Consumer	5.4	11.4	4.2	19.6	-7.1	-7.9	665
13. Adjusted[4]	5.8	10.4	-2.2	12.4	3.7	-.3	1,040
14. Other[5]	6.7	20.7	-.4	11.7	-18.2	25.8	703

Note. Data are adjusted to remove estimated effects of consolidation related to FIN 46 and for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates are percentage changes in consecutive levels, annualized but not compounded.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FAS 115).
2. Includes private mortgage-backed securities, securities of corporations, state and local governments, 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.

e Estimated.





* Spread over estimated cost of funds adjusted for changes in non-price loan characteristics.

However, the price rebounded sharply on news of an increase in the conforming loan limit to $359,650 in 2005. Spreads on agency senior debt have declined as GSE debt issuance has slowed in response to more limited growth of their mortgage portfolios.

State and Local Government Finance

Gross issuance of long-term municipal bonds slowed some in November from its robust pace in October to a rate below the average for the year to date. A decline in refunding issues can be traced—at least in part—to the Treasury's decision in mid-October to halt its SLGS program to avoid violating the debt ceiling. The SLGSs window reopened in November, which could spur refundings in the near term. Short-term municipal debt offerings were relatively low last month, as is consistent with a broader trend of reduced reliance on short-term borrowing due to the improved budget situations in many states. The credit quality of municipal bonds continued to improve, with bond upgrades far outpacing downgrades in recent months.

Money and Bank Credit

M2 accelerated in November, but the average pace of M2 growth in recent months has been relatively slow. In the quarter to date, M2 has grown at around a 4½ percent annual rate—about as one would expect in light of the moderate growth in nominal income, higher stock prices, and increases in M2 opportunity cost associated with the recent monetary policy tightenings.

The growth of bank credit rebounded in November, with both securities and loans registering notable gains. Banks posted strong profits again in the third quarter, and asset quality continued to improve. Preliminary data from the November Survey of Terms of Business Lending suggest that spreads on C&I loans rose from recent lows, partly because of wide spreads on a few large loans, some to finance acquisitions.

International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

The U.S. international trade deficit narrowed to $51.6 billion in September from $53.5 billion in August (revised).

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

	2003	Annual rate 2004			Monthly rate 2004		
		Q1	Q2	Q3	July	Aug.	Sept.
Real NIPA[1]							
Net exports of G&S	-518.5	-550.1	-580.3	-588.0	...	...	...
Nominal BOP							
Net exports of G&S	-496.5	-554.4	-601.1	-622.6	-50.5	-53.5	-51.6
Goods, net	-547.6	-603.1	-654.3	-669.3	-54.8	-57.0	-55.6
Services, net	51.0	48.7	53.2	46.6	4.2	3.4	4.0

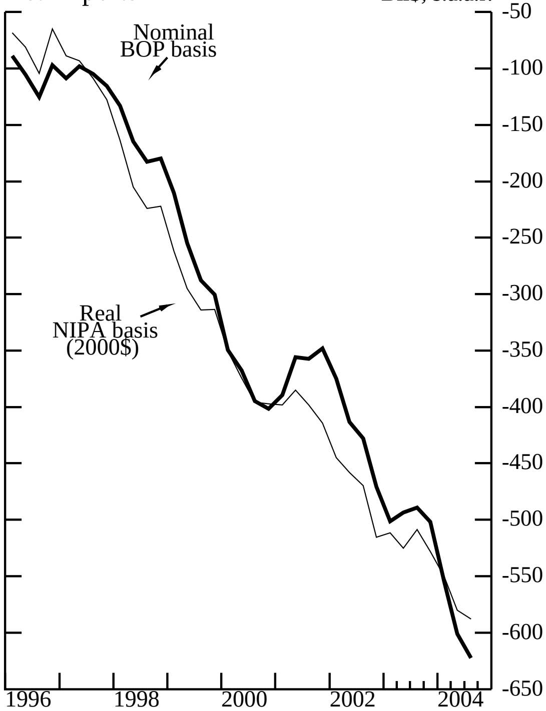
1. Billions of chained (2000) dollars.
Source. U.S. Department of Commerce, Bureaus of Economic Analysis and Census.
n.a. Not available. ... Not applicable.

In September, the value of exports of goods and services increased 0.8 percent, matching August's upwardly revised pace. Exports of goods increased 1.4 percent, with a particularly strong contribution from agricultural goods. Exports of capital goods moved up as well, as both computers and semiconductors recovered from a weak August. Services exports declined slightly, largely on account of a drop in travel-related services. Exports of goods and services in the third quarter climbed 8.4 percent at an annual rate. The increase was widespread, except for agricultural products, semiconductors, and telecommunications equipment, all of which fell, on average, in the third quarter from the second quarter.

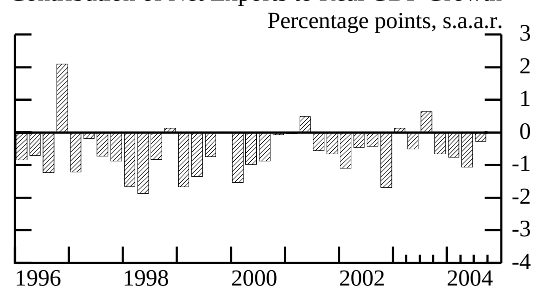
The value of imported goods fell 0.8 percent in September, retracing some of August's 2.6 percent gain. Imports of goods declined 0.4 percent, due to a fall in the value of imported oil; non-oil imports were little changed. Imports of capital goods rose as increases in aircraft and other capital goods offset declines in high-tech goods. Imports of consumer goods fell for the fifth month in a row, led by a marked decline in pharmaceuticals. Services imports receded nearly 3 percent, as royalty and license fees retreated from their elevated August level. For the third quarter as a whole, imports of goods and services expanded 10.7 percent at an annual rate. Gains were widespread, with a few exceptions, notably consumer goods.

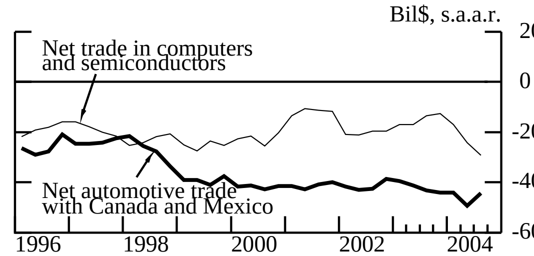
U.S. International Trade in Goods and Services

Net Exports

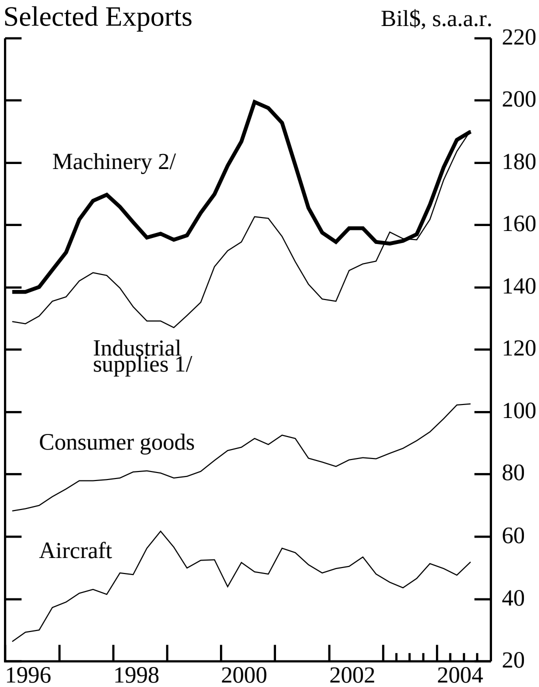


Contribution of Net Exports to Real GDP Growth



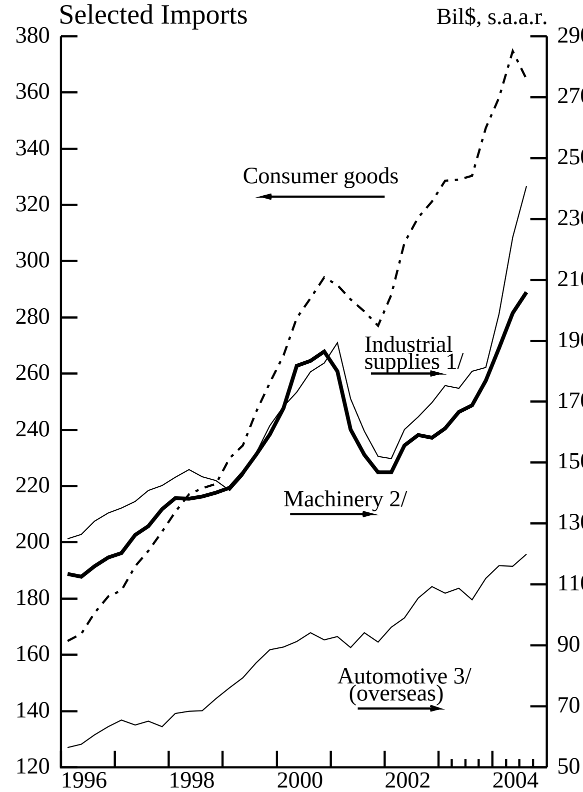


Selected Exports



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				Change[1]			
	2004		2004		2004		2004	
	Q2	Q3	Aug.	Sept.	Q2	Q3	Aug.	Sept.
Exports of G&S	**1137.2**	**1160.4**	**1160.4**	**1169.8**	**32.9**	**23.2**	**9.4**	**9.5**
Goods exports	797.3	817.7	816.1	827.3	21.6	20.4	6.6	11.2
Gold	3.5	5.0	3.9	6.3	-0.9	1.5	-0.8	2.4
Other goods	793.8	812.7	812.2	821.0	22.5	18.9	7.3	8.8
Aircraft & parts	47.7	51.9	53.4	51.8	-2.2	4.2	2.8	-1.6
Computers & accessories	41.8	43.2	42.1	43.6	-0.2	1.4	-1.8	1.5
Semiconductors	49.0	46.3	45.1	47.5	-1.1	-2.8	-1.2	2.4
Other capital goods	190.4	192.8	192.4	193.4	9.0	2.4	-0.2	1.0
Automotive	85.5	92.4	93.7	92.8	2.0	6.9	2.9	-0.9
to Canada	47.1	52.3	52.9	52.0	0.7	5.2	0.9	-0.9
to Mexico	16.0	14.6	15.9	16.2	0.7	-1.4	4.0	0.4
to ROW	22.4	25.5	25.0	24.5	0.5	3.1	-1.9	-0.4
Agricultural	62.8	60.5	56.1	63.4	-0.8	-2.3	-5.8	7.3
Ind supplies (ex. ag, gold)	183.6	190.4	189.4	193.2	9.1	6.8	0.8	3.8
Consumer goods	102.2	102.7	103.0	106.1	4.3	0.5	4.1	3.0
All other goods	30.8	32.6	37.0	29.3	2.4	1.8	2.6	-7.7
Services exports	339.9	342.7	344.3	342.5	11.3	2.8	2.8	-1.7
Imports of G&S	**1738.3**	**1783.0**	**1803.0**	**1788.5**	**79.6**	**44.7**	**45.4**	**-14.4**
Goods imports	1451.6	1486.9	1499.9	1494.1	72.8	35.3	33.2	-5.8
Petroleum	164.2	181.0	192.0	183.7	1.8	16.9	24.5	-8.2
Gold	3.3	4.0	3.4	4.3	-0.8	0.7	-0.9	0.9
Other goods	1284.1	1301.9	1304.6	1306.1	71.8	17.8	9.6	1.6
Aircraft & parts	24.4	24.0	20.3	25.8	2.8	-0.4	-5.6	5.6
Computers & accessories	87.7	91.3	91.8	90.3	5.1	3.5	0.1	-1.5
Semiconductors	27.3	27.5	27.7	27.1	0.8	0.2	0.0	-0.6
Other capital goods	201.2	208.0	208.8	210.4	11.0	6.8	4.0	1.6
Automotive	228.4	231.2	230.7	233.4	6.3	2.8	1.2	2.7
from Canada	67.7	69.1	72.1	67.9	3.7	1.4	4.6	-4.3
from Mexico	44.7	42.1	43.8	46.1	2.8	-2.7	7.4	2.4
from ROW	116.0	120.0	114.9	119.4	-0.2	4.1	-10.9	4.6
Ind supplies (ex. oil, gold)	224.0	240.8	243.8	243.3	25.2	16.9	8.5	-0.5
Consumer goods	374.6	364.8	364.5	363.9	16.6	-9.9	-1.4	-0.5
Foods, feeds, bev.	62.5	60.8	61.2	59.6	2.3	-1.6	-0.5	-1.6
All other goods	54.0	53.5	55.7	52.3	1.8	-0.5	3.3	-3.5
Services imports	286.7	296.1	303.0	294.4	6.8	9.4	12.2	-8.7
Memo:								
Oil quantity (mb/d)	13.01	13.19	13.80	12.78	-1.38	0.19	0.82	-1.02
Oil import price ($/bbl)	34.53	37.56	38.08	39.35	3.64	3.04	2.77	1.27

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

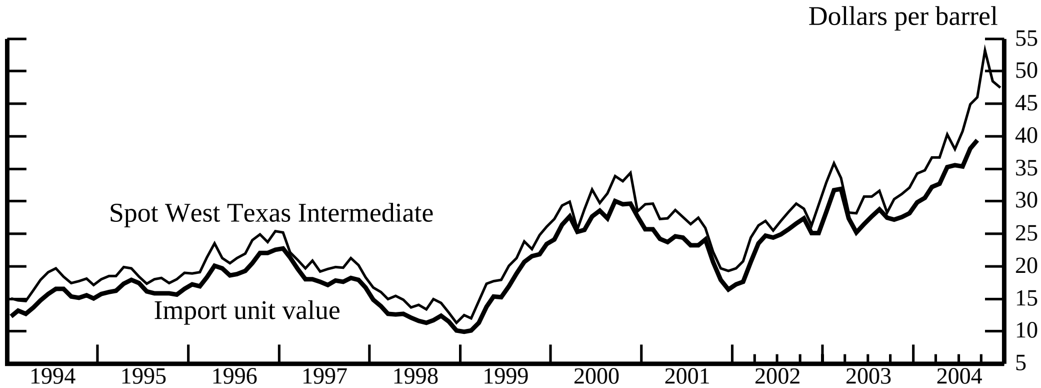
Prices of U.S. Imports and Exports

(Percentage change from previous period)

	Annual rate 2004			Monthly rate 2004		
	Q1	Q2	Q3	Aug.	Sept.	Oct.
	BLS prices					
Merchandise imports	11.5	7.4	7.6	1.4	0.5	1.5
Oil	68.1	43.2	55.4	8.7	2.8	11.7
Non-oil	5.9	3.0	1.3	0.3	0.0	-0.2
Core goods*	7.1	4.3	2.2	0.4	0.0	-0.1
Cap. goods ex comp & semi	2.6	0.0	1.6	0.2	0.0	0.1
Automotive products	1.7	1.4	1.6	0.2	0.1	0.4
Consumer goods	2.6	-0.5	-0.4	-0.1	0.0	0.0
Foods, feeds, beverages	10.0	7.8	3.3	-0.2	1.3	-0.6
Industrial supplies ex oil	25.3	18.7	7.9	1.7	-0.1	-1.1
Computers	-1.7	-8.6	-8.8	-0.7	-0.6	-1.0
Semiconductors	-8.2	-7.0	-4.4	0.0	-0.2	0.2
Merchandise exports	7.4	6.0	-0.1	-0.5	0.4	0.7
Core goods*	8.4	6.6	0.6	-0.5	0.5	0.7
Cap. goods ex comp & semi	2.2	0.8	1.3	0.1	0.1	0.4
Automotive products	0.3	1.3	1.0	0.2	0.0	0.2
Consumer goods	1.1	1.1	2.3	0.2	-0.1	-0.1
Agricultural products	19.0	17.5	-31.1	-8.4	1.7	-1.3
Industrial supples ex ag	21.3	14.4	14.3	1.1	0.6	2.5
Computers	1.2	0.3	-7.3	-0.2	-0.2	-0.2
Semiconductors	-1.7	2.1	-3.9	-0.3	0.0	1.3
Chain price index	NIPA prices					
Imports of goods & services	9.6	6.4	5.0	...	...	...
Non-oil merchandise	5.6	2.8	1.1	...	...	...
Core goods*	6.4	4.0	2.1	...	...	...
Exports of goods & services	5.7	4.6	1.5	...	...	...
Total merchandise	6.4	5.3	1.2	...	...	...
Core goods*	7.9	5.8	1.8	...	...	...

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

Oil Prices



Prices of Internationally Traded Goods

Non-oil imports. In October, the prices of U.S. imports of non-oil goods and of core goods fell 0.2 and 0.1 percent, respectively. Prices for industrial supplies declined 1.1 percent, mostly from lower prices for building materials. For foods, feeds and beverages, prices declined 0.6 percent. With the start of the new model year, prices for automotive products rose 0.4 percent. Prices for capital goods (excluding computers and semi-conductors) edged up 0.1 percent. Prices for imported consumer goods, which have not increased since February 2004, were unchanged in October. Import prices of computers continued to decline, whereas prices for semiconductors edged up.

For the third quarter, on a NIPA basis, the prices of imported core goods increased 2.1 percent at an annual rate, in part due to a rise in prices of non-oil industrial supplies.

Oil. Oil prices have been extremely volatile recently. The BLS price of imported oil rose 11.7 percent in October. The spot price of West Texas Intermediate (WTI), a light, low-sulfur crude oil, averaged about $53 per barrel for the month, a nominal record, and $7 per barrel more than in September. The rise in the spot price was largely due to hurricane damage to U.S. oil production and pipeline infrastructure in the Gulf of Mexico, which disproportionately affected the supply of low-sulfur crude. Since October, the spot price of WTI has fallen sharply, due in part to rising oil inventories and the return of some Gulf of Mexico production. The spot price closed at $41.47 per barrel on December 7. The prices of more sulfurous grades of crude oil, which did not increase as rapidly as WTI in October, have not fallen as much recently. The price of imported oil tends to move more closely with the prices of higher sulfur crude oils than with WTI.

Exports. In October, the prices of U.S. exports of total goods and of core goods both increased 0.7 percent. Much of October’s increase was due to a 2.5 percent rise in industrial supplies that reflected higher prices for chemicals and fuels. The prices of agricultural exports fell 1.3 percent and, since peaking in May, have declined 13 percent. In October, export prices of capital goods (excluding computers and semiconductors) and automotive products increased 0.4 and 0.2 percent, respectively. Prices for consumer goods fell 0.1 percent. As with imports, export prices of computers continued to decline, and prices for semiconductors rose.

In the third quarter, on a NIPA basis, the prices of exported core goods increased 1¾ percent at an annual rate. A sharp decline in prices of exported agricultural products offset much of the moderate increase in prices of industrial supplies and smaller increases in some other categories.

U.S. International Financial Transactions

Private foreign purchases of U.S. securities (line 4 of the Summary of U.S. International Transactions table) continued strong at $35 billion in October. For the first ten months of the year, private inflows into U.S. securities amounted to $395 billion, above the $373 inflows recorded for all of 2003.

Private foreign investors' purchases of bonds continued at their robust level in October, with purchases of agency bonds (line 4b) near $16 billion and corporate debt (line 4c) at about $15 billion. After two months of consecutive net sales, private foreign investors purchased almost $5 billion in U.S. equities (line 4d). For Treasuries (line 4a), the strength in private foreign purchases of the past few years that accelerated in the first half of this year has evaporated; following $96 billion in net purchases in the first half of the year, net inflows totaled only $6 billion in the July-October period.

Net foreign official inflows (line 1) moderated to about $17 billion in October, with a small outflow from China and sizable inflows from Norway and Russia. For the first ten months of the year, foreign official inflows were $282 billion, exceeding the $245 billion recorded for the year 2003. Partial data from the Federal Reserve Bank of New York (FRBNY) report a large increase in official reserve assets in November, .

U.S. investors made large net purchases of foreign securities (line 5) in October, following small net sales in September. U.S. investors primarily acquired foreign stocks (line 5a), but also made modest purchases of foreign bonds (line 5a). A series break in reported net purchases of foreign bonds makes it difficult to compare current transactions in foreign bonds with the reported sales recorded in previous quarters.

The volatile banking sector (line 3) recorded an outflow of $22 billion in October, bringing the cumulative outflow for 2004 to $57 billion.

Summary of U.S. International Transactions

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

	2002	2003	2003	2004				
			Q4	Q1	Q2	Q3	Sept.	Oct.
Official financial flows	**113.0**	**246.5**	**85.1**	**129.4**	**81.3**	**56.7**	**20.9**	**16.9**
1. Change in foreign official assets in the U.S. (increase, +)	116.7	245.0	82.9	128.8	80.1	56.3	20.4	16.9
a. G-10 countries	30.7	114.7	46.6	96.5	45.6	20.7	-2.4	1.8
b. OPEC countries	-7.5	6.1	10.5	3.7	-2.6	.1	.8	4.0
c. All other countries	93.5	124.2	25.8	28.6	37.1	35.5	22.0	11.1
2. Change in U.S. official reserve assets (decrease, +)	-3.7	1.5	2.2	.6	1.1	.4	.5	.0
Private financial flows	**457.2**	**299.3**	**83.5**	**9.3**	**65.5**	**n.a.**	**…**	**…**
Banks								
3. Change in net foreign positions of banking offices in the U.S.[1]	116.8	64.3	100.7	-42.2	31.8	-24.7	-28.6	-22.3
Securities[2]								
4. Foreign net purchases of U.S. securities (+)	390.1	372.8	92.3	128.9	113.2	114.2	35.4	35.2
a. Treasury securities	101.5	121.2	8.8	65.8	23.4	9.1	.5	.1
b. Agency bonds	84.2	-14.8	2.2	6.7	36.0	17.0	-.9	15.8
c. Corporate and municipal bonds	145.7	226.1	57.6	51.4	51.2	82.7	38.9	14.7
d. Corporate stocks[3]	58.8	40.3	23.6	5.1	2.7	5.4	-3.1	4.5
5. U.S. net acquisitions (-) of foreign securities	15.5	-76.9	-26.3	-18.3	-27.1	-12.3	1.7	-16.2
a. Bonds	33.5	24.2	-7.0	3.1	13.5	-.6	1.4	-3.2
b. Stock purchases	-14.8	-83.6	-16.5	-21.4	-27.9	-10.3	.2	-13.0
c. Stock swaps[3]	-3.2	-17.4	-2.8	.0	-12.7	-1.5	.0	.0
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-134.8	-173.8	-53.7	-47.6	-60.7	n.a.	…	…
7. Foreign direct investment in U.S.	72.4	39.9	10.7	10.2	32.7	n.a.	…	…
8. Foreign holdings of U.S. currency	21.5	16.6	7.5	-1.8	8.8	n.a.	…	…
9. Other (inflow, +)[4]	-24.4	56.3	-47.6	-20.0	-33.0	n.a.	…	…
U.S. current account balance (s.a.)	**-473.9**	**-530.7**	**-127.0**	**-147.2**	**-166.2**	**n.a.**	**…**	**…**
Capital account balance (s.a.)[5]	**-1.3**	**-3.1**	**-.3**	**-.4**	**-.3**	**n.a.**	**…**	**…**
Statistical discrepancy (s.a.)	**-95.0**	**-12.0**	**-41.4**	**8.9**	**19.7**	**n.a.**	**…**	**…**

NOTE. Data in lines 1 through 5 differ in timing and coverage from the balance of payments data published by the Department of Commerce. Details may not sum to totals because of rounding.

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

2. Includes commissions on securities transactions and 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

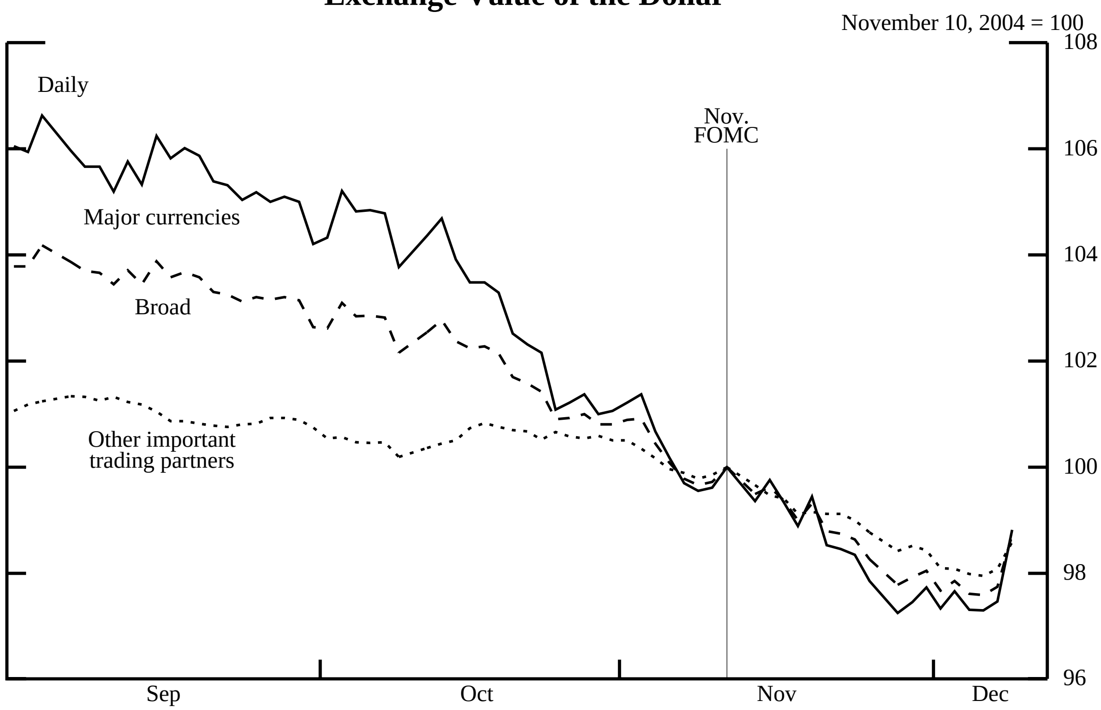
5. Consists of transactions in nonproduced nonfinancial assets and capital transfers.

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

Foreign Financial Markets

The trade-weighted index of the nominal exchange value of the dollar against the major currencies declined 1¼ percent on net since the November FOMC meeting. The index would have fallen 2½ percent but for a large jump very late in the period. This decline came despite generally stronger-than-expected U.S. economic data and weaker-than-expected economic data in Europe and Japan. Market participants attributed the dollar's decline to concern over the financing of the U.S. current account deficit. Remarks made in the middle of November by Treasury Secretary Snow and Chairman Greenspan were generally interpreted as indicating official tolerance for a decline in the dollar. News reports suggested that the central banks of Russia and China may replace (or may have already replaced) some of their dollar-denominated assets with euros. The dollar depreciated 4 percent on net against sterling and 2½ percent against the yen and the euro. In contrast, the dollar appreciated about 2¼ percent against the Canadian dollar, in part on the release of the weaker-than-expected Canadian employment report for November.

Exchange Value of the Dollar



Recent differences in economic performance between the United States and other industrial countries were clearly evident in interest rate developments. Whereas long-term Treasury yields were down 5 basis points over the intermeeting period, comparable yields on other countries' government bonds generally declined 15 to 30 basis points. Changes in short-term interest rates also reflected the differences in economic performance, with the yield on the U.S. three-month Treasury bill rising 16 basis points versus declines or little change on net in yields of comparable European and Canadian sovereign debts. As had been widely expected, the European Central Bank, the Bank of Japan, and the Bank of Canada left their respective monetary policy stances unchanged during the intermeeting period.

Financial Indicators in Major Industrial Countries

Country	Three-month rate		Ten-year yield		Equities
	Dec. 8 (Percent)	Percentage point change	Dec. 8 (Percent)	Percentage point change	percent change
Canada	2.56	-.15	4.30	-.28	1.51
Japan	.08	.00	1.43	-.04	-.10
Euro area	2.17	.00	3.69	-.16	1.51
United Kingdom	4.78	.02	4.59	-.15	-.34
Switzerland	.70	.00	2.23	-.22	-.73
Australia	5.39	-.05	5.18	-.33	1.35
United States	2.40	.16	4.20	-.05	1.29
Memo: Weighted-average foreign	1.95	-.04	3.76	-.20	n.a.

NOTE. Change is from November 10 to December 8 (10 a.m. EDT).
n.a. Not available.

Since the November FOMC meeting, broad share price indexes in most major industrial economies have changed little on net, as lower oil prices offset the effects of disappointing economic news and currency appreciations.

The dollar declined 1½ percent on a trade-weighted basis against the currencies of our other important trading partners over the intermeeting period, led by a 4¾ percent depreciation against the Korean won. The Bank of Korea cut its key policy interest rate 25 basis points, to 3.25 percent, in a move that market participants interpreted as, in part, aiming at limiting the won's appreciation against the dollar. In addition, Korean monetary authorities were active in currency markets in an attempt to slow the won's appreciation. The Bank of Korea reported that its foreign exchange reserves increased $14 billion in November to a total of $193 billion. Speculation about how and when China may abandon the renminbi's peg to the dollar was a focus of market participants' discussions during the period. The one-year-ahead exchange rate implied by renminbi non-deliverable forward contracts appreciated slightly against the dollar over the intermeeting period to a level of 5 percent above the spot value, reflecting the growing probability assigned by the market to a change in the exchange rate regime within a year.

Financial Indicators in Latin America, Asia, and Russia

Economy	Currency/ US dollar		Short-term interest rates[1]		Dollar-denominated bond spread[2]		Equity prices
	Dec. 8	Percent change	Dec.7/8 (Percent)	Percentage point change	Dec.7/8 (Percent)	Percentage point change	Percent change
Mexico	11.27	-1.37	8.40	.20	1.71	.03	2.85
Brazil	2.76	-1.95	17.40	.33	4.14	-.42	5.35
Argentina	2.98	.20	n.a.	n.a.	53.63	1.78	-7.14
Chile	583.40	-3.03	2.43	.00	.59	-.04	2.25
China	8.28	.00	n.a.	n.a.	.42	-.05	-2.06
Korea	1058.50	-4.73	3.35	-.25	...	...	1.30
Taiwan	32.12	-3.34	1.34	-.01	...	...	-.94
Singapore	1.65	-.57	1.31	.00	...	...	-.37
Hong Kong	7.77	-.14	.76	.61	...	...	2.56
Malaysia	3.80	-.01	2.81	-.01	.51	.00	2.20
Thailand	39.47	-3.00	1.90	.00	.54	.02	3.14
Indonesia	9015.00	-.28	7.42	.02	.81	-.15	6.59
Philippines	56.05	-.50	6.25	.25	4.60	-.20	1.24
Russia	27.99	-2.40	n.a.	n.a.	2.16	-.21	-7.93

NOTE. Change is from November 10 to December 7/8.

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, the Brazilian *real* appreciated almost 2 percent against the dollar, Brazil's EMBI+ spread over Treasuries declined about 40 basis points, and Brazilian equity prices rose 5¼ percent. These developments reflected indications of continued robust economic growth and an improving fiscal outlook in Brazil. The central bank of Brazil raised its key policy rate 50 basis points, to 17.25 percent, citing inflationary pressures. The Bank of Mexico tightened its monetary policy stance by raising the *corto* from 57 million pesos to 63 million pesos, also citing inflationary pressures. The Mexican *peso* appreciated about 1¼ percent against the dollar and the Mexican equity index rose 3 percent.

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

Developments in Foreign Industrial Countries

Growth in most of the major foreign industrial countries slowed in the third quarter, with a downturn in external demand an important contributor. Japanese GDP posted a small increase, as business investment moderated. In the euro area, GDP decelerated despite a strong advance in domestic demand (including inventories). Third-quarter GDP growth in the United Kingdom was half that of the second quarter, with business investment and inventory accumulation making negative contributions. Canadian GDP growth also slowed, as a steep decline in net exports offset solid underlying domestic demand. Data for the fourth quarter suggest further slowing of activity in the major foreign industrial countries, except in the United Kingdom, where survey evidence points to an improvement in business activity. Early indicators suggest that the fourth quarter got off to a weak start in Japan and the euro area. Labor markets in the foreign industrial economies have been mixed on balance during the past few months. Unemployment rates have held steady in the euro area and the United Kingdom, but have recently turned up in Japan and Canada.

Headline rates of consumer price inflation eased in the third quarter before edging up slightly in October in the United Kingdom and Canada. Inflation remains above the ECB ceiling rate in the euro area, while core consumer prices continue to fall moderately in Japan.

In **Japan**, newly published chain-weighted national accounts data show that Japanese real GDP edged up 0.2 percent at an annual rate in the third quarter. Growth in personal consumption slowed a bit to 0.9 percent. Business fixed investment rose 4.3 percent, while government investment dropped about 8 percent. Export growth slowed markedly and imports jumped. As a result, net exports subtracted 0.4 percentage point from growth, marking the first negative contribution from external demand in two years. The GDP deflator fell 1.2 percent below its year-earlier level. The new data also show a 0.6 percent contraction in real GDP in the second quarter, resulting from a plunge in government investment, which subtracted 3.7 percentage points from growth.

Indicators suggest continued anemic activity at the start of the fourth quarter. Industrial production dropped 1.6 percent in October, depressed by ongoing weakness in electronics-related sectors. Household expenditures in October were 0.6 percent below their third-quarter average. Real exports rose 2.5 percent in October, about the same pace as the rise in imports. Core machinery orders, a leading indicator of business investment, fell 1.9 percent in September, leaving orders for the third quarter down 8.4 percent from the second quarter.

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

Component	2002[1]	2003[1]	2003: Q4	2004: Q1	2004: Q2	2004: Q3
GDP	**1.4**	**2.0**	**3.8**	**6.8**	**-.6**	**.2**
Total domestic demand	.8	1.9	6.0	1.6	-.2	1.2
Consumption	.4	.9	2.4	3.8	1.2	.9
Private investment	-1.0	8.4	15.6	-7.0	15.5	4.0
Public investment	-3.8	-12.6	-13.6	39.1	-52.0	-8.4
Government consumption	1.9	.9	.6	4.8	3.0	1.5
Inventories[2]	.7	.4	2.3	-1.8	-.4	.0
Exports	16.0	10.6	23.1	19.8	14.3	2.5
Imports	8.5	3.3	11.1	13.7	7.1	7.4
Net exports[2]	.8	.9	1.5	1.0	1.0	-.4

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

Labor market conditions were mixed. The unemployment rate ticked up to 4.7 percent in October, as employment fell. However, the job-offers-to-applicants ratio, a leading indicator of employment, rose to an eleven-year high. Nominal wages continued to fall through October.

Core consumer goods prices in the Tokyo area (which exclude fresh food but include energy) ticked down in November from the previous month and were down 0.3 percent from a year earlier. In contrast, the headline rate of inflation was boosted to 0.7 percent by spikes in food prices following a series of typhoons and an earthquake in October. Higher commodity prices helped to push wholesale prices up in October to a level 1.9 percent above a year ago, the largest twelve-month increase since 1990.

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

Indicator	2004						
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Industrial production[1]	.5	2.7	-.7	.1	-.4	-1.6	n.a.
All-industries index	-.1	1.8	-.3	.2	-.1	n.a.	n.a.
Housing starts	2.8	-4.4	6.1	-5.5	7.3	-5.3	n.a.
Machinery orders[2]	-5.6	10.3	-8.4	3.1	-1.9	n.a.	n.a.
Machinery shipments[3]	-.4	4.3	-1.6	-1.1	.2	-.6	n.a.
New car registrations	12.1	-10.1	10.3	1.0	2.2	-4.5	5.5
Unemployment rate[4]	4.9	4.6	4.8	4.8	4.6	4.7	n.a.
Job offers ratio[5]	.77	.80	.83	.83	.84	.88	n.a.
Business sentiment[6]	-5.0	.0	2.0	. . .	. . .	. . .	. . .
CPI (core, Tokyo area)[7]	-.2	-.1	-.1	-.2	-.1	-.3	-.3
Wholesale prices[7]	.1	1.0	1.7	1.7	1.8	1.9	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.

Euro-area GDP grew 1.2 percent in the third quarter, down from an average rate of 2.3 percent in the first half of the year. Final domestic demand contributed 1.6 percentage points to growth, as private consumption and especially investment continued to rise. The negative contribution from net exports was a sizable 2.6 percentage points, as imports outpaced exports. The decline in net exports was roughly offset by a surge in inventories.

The economic slowdown was concentrated in the two largest member countries, France and Germany. French GDP rose only 0.3 percent in the third quarter, its weakest performance since the second quarter of 2003. Final domestic demand fell as both private consumption and investment declined. Without a sizable build in inventories, French GDP would have contracted 2.4 percent. German GDP growth was also primarily attributable to inventory accumulation. Final domestic demand grew 1.6 percent, while net exports made a sizable negative contribution.

The few available indicators for the fourth quarter suggest continued weakness. Survey data have generally been downbeat. According to the European Commission (EC), euro-

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

Component	2002[1]	2003[1]	2003: Q4	2004		
				Q1	Q2	Q3
GDP	**1.1**	**.8**	**1.6**	**2.6**	**1.9**	**1.2**
Total domestic demand	1.1	1.5	4.2	1.0	1.2	4.4
Consumption	1.1	.5	.1	2.6	.7	.8
Investment	-1.2	.3	4.1	-1.0	1.0	2.3
Government consumption	2.9	1.5	2.2	.5	1.7	3.4
Inventories[2]	.1	.8	2.7	-.4	.2	2.6
Exports	3.9	.3	1.0	6.2	12.8	4.7
Imports	3.9	2.1	8.1	2.0	11.5	13.6
Net exports[2]	.1	-.7	-2.5	1.7	.7	-3.0
Memo:						
GDP of selected countries						
France	1.4	1.3	2.4	2.6	2.5	.3
Germany	.5	.0	1.2	1.7	1.7	.4
Italy	.9	.1	.0	2.1	1.5	1.7

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

area economic sentiment fell in November to a four-month low. Among the components of the sentiment index, confidence in the services sector dropped. In contrast, confidence in both the consumer and construction sectors edged up. After moving up modestly in October, the German IFO survey resumed its downward trend in November.

Labor market conditions remained weak in the euro area, with the unemployment rate unchanged at 8.9 percent in October. The German unemployment rate edged up in November for the second consecutive month. The EC survey indicates that neither firms nor consumers expect the labor market to improve over the next twelve months.

Twelve-month consumer price inflation in the euro area receded to 2.2 percent in November, after surging to 2.4 percent in October. The ECB measure of twelve-month core inflation, excluding energy and unprocessed foods, dipped to 2.0 percent in October, its lowest reading since January.

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

Indicator	2004						
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Industrial production[1]	.1	1.0	.2	-.6	.5	n.a.	n.a.
Retail sales volume[2]	.5	-.1	-.2	-.8	-.1	.7	n.a.
Unemployment rate[3]	8.9	8.9	8.9	8.9	8.9	8.9	n.a.
Consumer confidence[4]	-14.3	-14.7	-13.7	-14.0	-13.0	-14.0	-13.0
Industrial confidence[4]	-6.7	-4.7	-3.7	-4.0	-3.0	-3.0	-3.0
Manufacturing orders, Germany	.6	1.8	-.0	-1.7	.8	1.1	n.a.
CPI[5]	1.7	2.3	2.2	2.3	2.1	2.4	2.2
Producer prices[5]	.2	2.0	3.1	3.1	3.3	4.0	n.a.
M3[5]	6.2	5.3	6.0	5.6	6.0	5.8	n.a.

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

Real GDP in the **United Kingdom** rose 1.8 percent in the third quarter, up slightly from the preliminary estimate but down from growth rates earlier this year. Private consumption continued to expand at a moderate pace, and government spending rose strongly. These increases were partially offset by the first dip in fixed investment since the first quarter of 2003 and a negative contribution to growth from inventories.

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

Component	2002[1]	2003[1]	2003: Q4	2004		
				Q1	Q2	Q3
GDP	**1.9**	**2.9**	**4.2**	**2.7**	**3.6**	**1.8**
Total domestic demand	3.4	2.7	6.1	4.0	3.3	1.6
Consumption	3.1	2.2	2.5	4.6	2.4	2.3
Investment	6.8	1.7	7.9	6.5	10.2	-.4
Government consumption	2.4	5.6	8.6	3.1	1.8	5.6
Inventories[2]	-.0	-.0	1.6	-.8	.1	-.8
Exports	-1.4	4.3	6.7	-4.0	6.3	7.8
Imports	4.2	3.5	13.1	1.3	4.7	6.5
Net exports[2]	-1.6	.0	-2.1	-1.5	.2	.0

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

On balance, indicators for the fourth quarter hint at a pick-up in activity. Industrial production in October continued to slide, but November's manufacturing PMI continued to improve. Although business confidence dipped in November after a relatively strong reading in October, it has been especially volatile of late. Both consumer confidence and the services PMI edged up further in November. Retail sales slipped in October, and the two leading surveys of retail sales for November were mixed, with the two surveys pointing in opposite directions.

Over the four months ending in November, housing price growth has been muted, according to an average of the two leading private indexes. Household net mortgage borrowing eased in October, after several months of steeper declines, remaining near levels seen during the first half of 2003.

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

Indicator	2004						
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Industrial production	-.4	1.1	-1.3	-1.1	-.3	-.1	n.a.
Retail sales volume[1]	2.0	1.8	1.1	.7	1.0	-.4	n.a
Unemployment rate[2]							
Claims-based	2.9	2.8	2.7	2.7	2.7	2.7	n.a.
Labor force survey[3]	4.8	4.8	n.a.	4.6	n.a.	n.a.	n.a.
Business confidence[4]	16.7	16.3	12.3	19.0	12.0	14.0	5.0
Consumer confidence[5]	-2.3	-4.3	-4.0	-5.0	-3.0	-2.0	.0
Consumer prices[6]	1.3	1.4	1.2	1.3	1.1	1.2	n.a.
Producer input prices[7]	-.4	3.8	5.3	4.7	7.4	8.4	n.a.
Average earnings[7]	5.3	4.2	3.7	4.1	3.8	n.a.	n.a.

* Preliminary estimate (s.a.a.r.)
1. Excludes motor vehicles.
2. Percent.
3. Three-month average centered on month shown.
4. Percentage of firms expecting output to increase in the next four months less percentage expecting output to decrease.
5. Average of the percentage balance from consumers' expectations of their financial situation, general economic situation, unemployment, and savings over the next 12 months.
6. Consumer prices index (CPI), percent change from year earlier.
7. Percent change from year earlier.
n.a. Not available. . . . Not applicable.

The labor market continued to be tight, as the official-claims-based measure of the unemployment rate remained near its lowest point since 1975, and the labor-force-survey measure hit an all-time low. The twelve-month rate of consumer price inflation edged up to 1.2 percent in October, still well below the Bank of England's 2 percent target.

On December 2, Chancellor of the Exchequer Gordon Brown presented the government's Pre-Budget Report to Parliament. While Brown reported that Public Sector Net Borrowing (PSNB) in the fiscal year 2003-2004 was £1.5 billion less than the £37.5 billion projected in March's budget, he raised the forecast for 2004-05 £1 billion to £34 billion (2.9 percent of GDP) and upped the 2005-06 forecast £2 billion to £33 billion (2.7 percent of GDP). The government kept its real GDP growth forecast for 2005 at 3-3.5 percent.

In **Canada**, real GDP growth moderated to 3.2 percent in the third quarter**.** Growth was bolstered by strong advances in the manufacturing, wholesale, and retail sectors. Final domestic demand growth firmed to 3.3 percent, led by consumption and business investment. In contrast, net exports declined sharply as imports surged for the second consecutive quarter and exports fell. The pullback in exports was widespread, with energy and automotive products the main sources of weakness. The negative contribution to GDP growth from net exports was largely offset by a surge in inventories, however.

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

Component	2002[1]	2003[1]	2003: Q4	2004		
				Q1	Q2	Q3
GDP	**3.8**	**1.7**	**3.3**	**2.7**	**3.9**	**3.2**
Total domestic demand	5.9	3.9	5.7	1.9	1.7	8.9
Consumption	3.6	2.8	.7	6.0	2.1	3.0
Investment	3.6	7.0	5.3	5.5	3.2	3.5
Government consumption	3.2	3.5	3.9	2.8	1.2	4.0
Inventories[2]	2.2	.1	3.2	-3.2	-.5	5.3
Exports	2.0	-.8	9.4	4.0	18.0	-2.0
Imports	7.1	5.0	17.8	3.0	11.8	13.0
Net exports[2]	-1.7	-2.1	-2.5	.5	2.6	-5.7

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

Indicators for the fourth quarter suggest continued moderation of production. The composite index of leading indicators rose again in October, its ninth monthly rise this year, but more gradually than the year-to-date average. The number of building permits issued in October increased for the first time in four months, due entirely to a gain in residential permits. Consistent with this, housing starts rose in November for the first time in four months, leaving housing starts so far in the fourth quarter moderately below their strong third-quarter average. The purchasing manager's index also rose in November.

In November, total employment was virtually unchanged, a disappointing outcome following two months of strong job gains. The labor market has been quite volatile so far in the second half of the year, following a solid second quarter. The unemployment rate moved up to 7.3 percent in November as the labor force continued to expand.

In October, the twelve-month rate of headline CPI inflation jumped to 2.3 percent, after registering just under 2 percent the previous two months, as gasoline prices spiked up following four months of decline. The twelve-month rate of core inflation, excluding food, energy, and indirect taxes, however, inched below 1 percent in October.

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

Indicator	2004						
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
GDP by industry	.7	.9	1.0	.4	-.0	n.a.	n.a.
Industrial production	.4	1.3	1.5	.9	-.3	n.a.	n.a.
New manufacturing orders	5.7	5.1	1.4	-.9	-.6	n.a.	n.a.
Retail sales	1.9	.6	1.5	1.1	.2	n.a.	n.a.
Employment	.3	.5	.3	.0	.3	.2	.0
Unemployment rate[1]	7.4	7.3	7.2	7.2	7.1	7.1	7.3
Consumer prices[2]	.9	2.2	2.0	1.9	1.8	2.3	n.a.
Core consumer prices[2,3]	1.2	1.3	1.2	1.1	1.1	.9	n.a.
Consumer attitudes (1991 = 100)	122.9	115.1	123.0	. . .	. . .	. . .	. . .
Business confidence (1991 = 100)	144.8	145.6	151.4	. . .	. . .	. . .	. . .

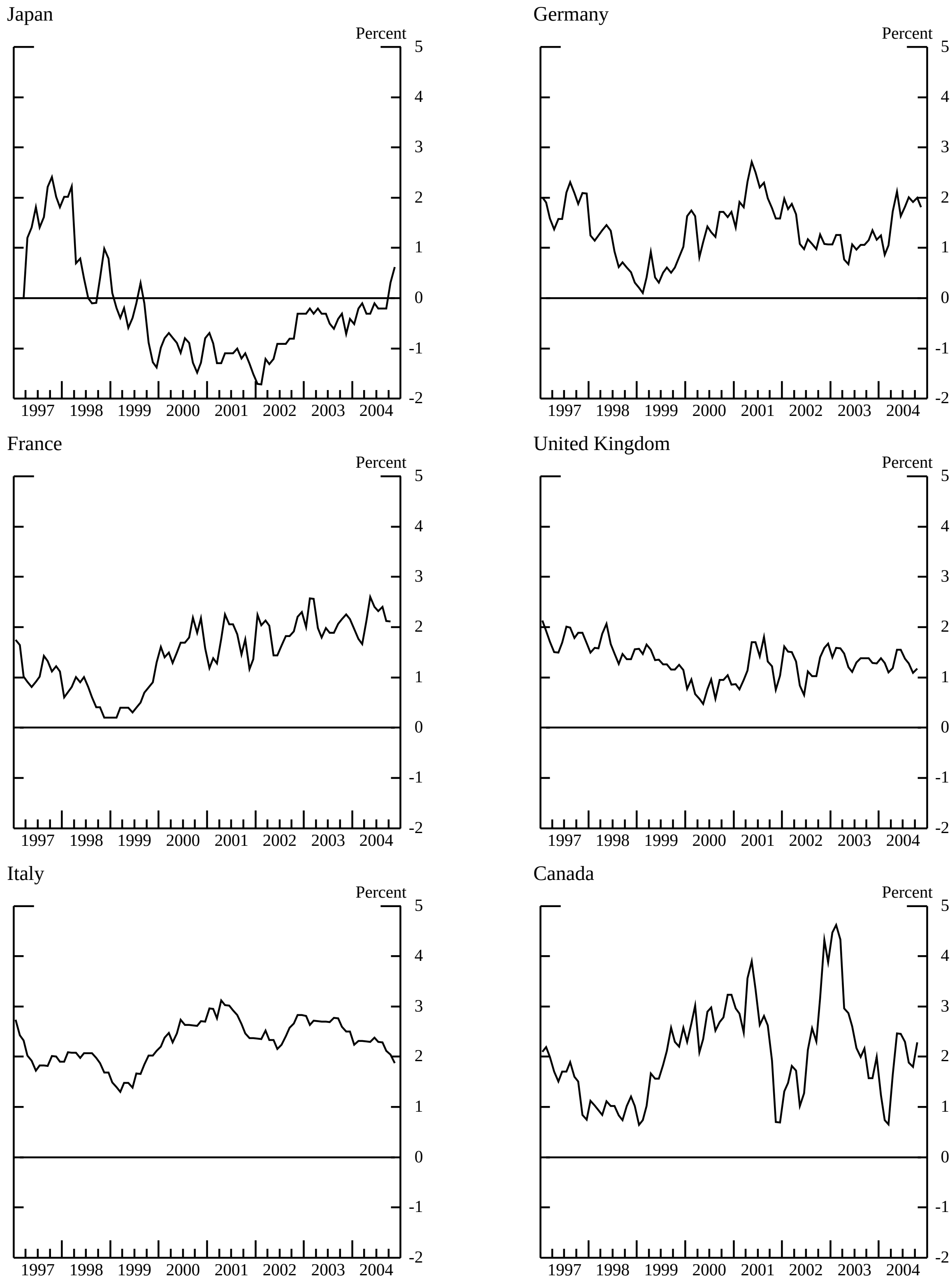
1. Percent.
2. Percent change from year earlier, n.s.a.
3. Excluding food, energy, and indirect taxes.
n.a. Not available. . . . Not applicable.

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

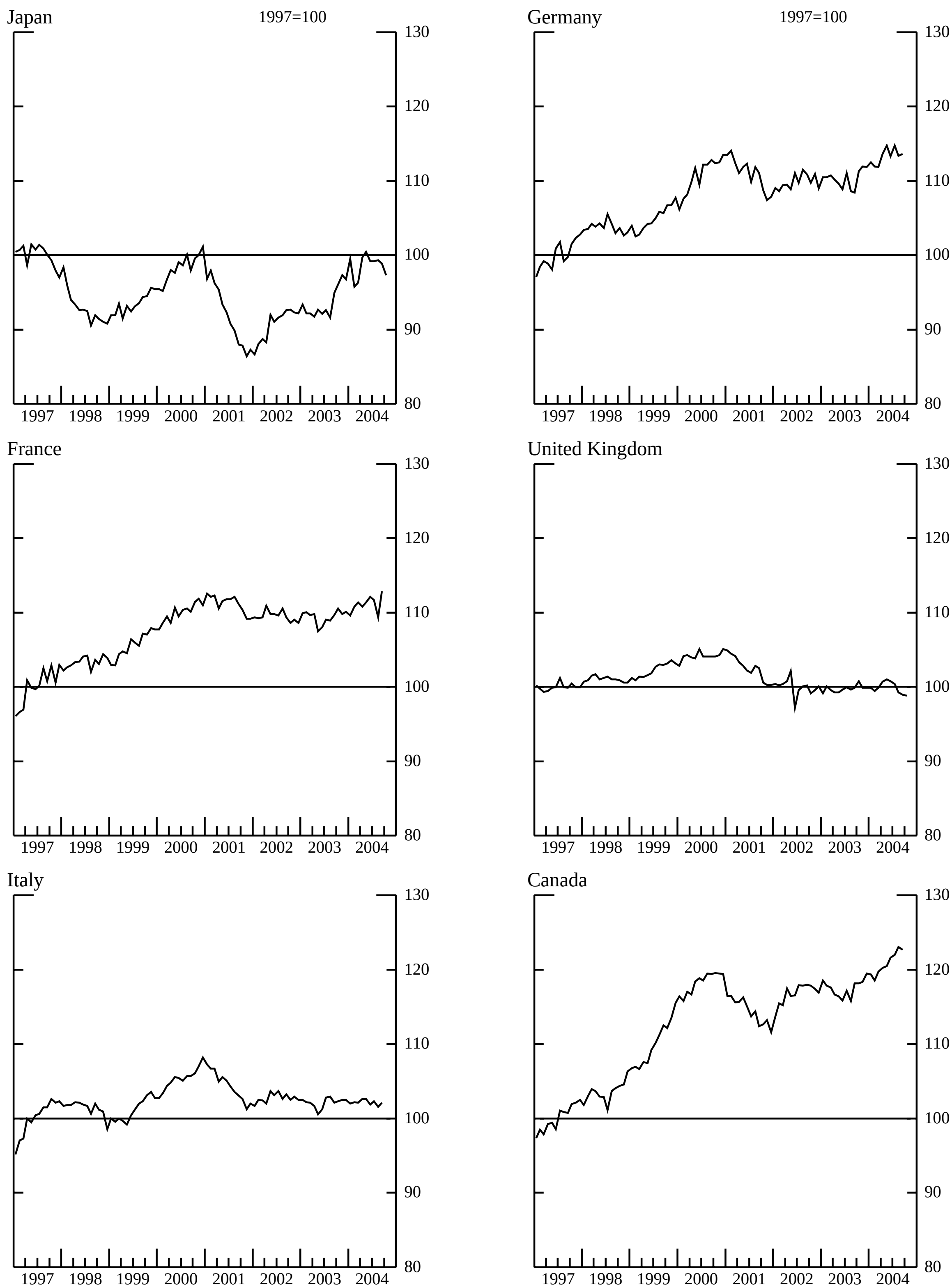
Country and balance	2004					
	Q1	Q2	Q3	Aug.	Sept.	Oct.
Japan						
Trade	120.4	116.5	102.7	113.4	88.4	94.0
Current account	184.1	171.7	168.1	188.8	163.3	n.a.
Euro area						
Trade	133.0	113.6	63.9	44.4	49.3	n.a.
Current account	81.9	76.5	-11.2	7.3	-46.9	n.a.
Germany						
Trade	200.2	201.9	179.5	177.3	175.9	n.a.
Current account	105.6	126.2	39.1	17.8	75.0	n.a.
France						
Trade	1.2	-1.1	-2.5	-3.9	-1.8	n.a.
Current account	-.3	-.4	-1.0	-4.3	-.4	n.a.
Italy						
Trade	-.6	.3	-1.8	-2.2	-1.2	n.a.
Current account[1]	-20.7	-30.0	22.0	18.6	-6.0	n.a.
United Kingdom						
Trade	-105.0	-105.0	-107.0	-113.0	-97.8	n.a.
Current account	-40.3	-46.5	n.a.	. . .	. . .	. . .
Canada						
Trade	48.8	56.4	52.9	58.8	47.1	n.a.
Current account	24.7	32.9	28.7	. . .	. . .	. . .

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

Real GDP growth moderated in the third quarter on average in Latin America and emerging Asia, despite a rebound in China. More recent data releases have been mixed. Consumer price inflation in many emerging market economies remains elevated relative to 2003 levels, partly due to higher oil prices.

The latest indicators for **China** have been mixed but are generally consistent with some deceleration in the Chinese economy in the fourth quarter. Staff estimates indicate that investment contracted slightly in October, the third monthly contraction since administrative measures aimed at slowing investment were put in place in April. Growth in industrial production and lending were up a touch in October, but remained well below growth recorded before April's tightening. Among the indicators, imports appear to be the outlier. After slowing for several months, imports of both final and intermediate goods rose sharply in October. The rise in imports swamped that of exports, shrinking the trade surplus, although it remains sizeable nonetheless. Twelve-month consumer price inflation slowed significantly in October to 4.3 percent, as the past year's food price increases have started to unwind. Non-food prices edged up further to 1 percent above their year-earlier levels.

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

Indicator	2002	2003	2004				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP[1]	8.3	10.0	2.8	10.1	…	…	…
Industrial production	14.2	18.6	4.8	2.9	.8	1.3	1.6
Consumer prices[2]	-.4	3.2	4.4	5.3	5.3	5.2	4.3
Trade balance[3]	30.4	25.5	10.5	43.9	50.0	61.0	26.1

1. Annual rate. Quarterly data estimated by staff from reported four-quarter growth rates. Annual data are Q4/Q4.
2. Billions of U.S. dollars, annual rate. Imports are c.i.f.
. . . Not applicable.

Real GDP in **Hong Kong** grew at a surprisingly strong rate of almost 8 percent in the third quarter. Services exports led the way, rising at an annual rate of more than 30 percent in the quarter. Personal consumption, which soared in the second quarter, contracted some in the third quarter, but remained well above its first-quarter level. The unemployment rate fell slightly in October. The merchandise trade deficit shrank in

October, as exports rose to a new record high. The twelve-month change in the CPI fell back in October, although the month-to-month change stayed positive.

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

Indicator	2002	2003	2004				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP[1]	4.7	4.7	10.8	7.8	…	…	…
Unemployment rate[2]	7.2	7.9	6.9	6.8	6.8	6.8	6.7
Consumer prices[3]	-1.5	-1.9	-.9	.8	.8	.7	.2
Trade balance[4]	-7.7	-8.5	-15.9	-13.4	-14.6	-14.6	-7.5

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

Real GDP in **Taiwan** grew 4.5 percent in the third quarter, and second-quarter growth was revised upward from a small decline to very modest growth. Personal consumption rebounded in the third quarter, as consumer confidence returned with the resolution of uncertainty surrounding the Taiwanese presidential election. Industrial production fell in October. Production of high-tech goods has now fallen for three consecutive months, but new orders for these goods, which have been sluggish, rose in October. Taiwan registered trade deficits in October and November, as exports slumped and imports continued to rise. Consumer prices rose 1.5 percent in November from a year earlier.

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

Indicator	2002	2003	2004				
			Q2	Q3	Sept.	Oct.	Nov.
Real GDP[1]	4.3	5.5	.8	4.5	…	…	…
Unemployment rate[2]	5.2	5.0	4.6	4.4	4.4	4.2	n.a.
Industrial production	7.9	7.1	2.5	-.2	.4	-.6	n.a.
Consumer prices[3]	.8	-.1	1.2	2.9	2.8	2.4	1.5
Trade balance[4]	18.1	16.9	10.5	11.5	8.9	-2.1	-2.6
Current account[5]	25.6	29.3	22.3	21.3	…	…	…

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

Data for **Korea** indicate that economic performance remains sluggish. Real GDP rose 2.6 percent in the third quarter, following an equally lackluster second quarter, with declines in both consumption and investment and only a small increase in exports. Industrial production dropped nearly 1 percent in October, with losses concentrated in industries servicing domestic consumption. The October trade surplus narrowed from its high September level, held down by rising imports of oil and travel-related services. Twelve-month consumer price inflation declined to 3.3 percent in November, reflecting declines in agricultural prices. Partly in response to the ongoing weakness, as well as to counter upward pressure on the currency, the Bank of Korea lowered its target interest rate for the second time since August. The government is also discussing further stimulus measures.

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

Indicator	2002	2003	2004				
			Q2	Q3	Sept.	Oct.	Nov.
Real GDP[1]	7.7	4.1	2.6	2.6	…	…	…
Industrial production	8.3	5.0	1.2	-.1	2.5	-.9	n.a.
Unemployment rate[2]	3.1	3.4	3.5	3.6	3.5	3.5	n.a.
Consumer prices[3]	3.8	3.4	3.4	4.3	3.8	3.8	3.3
Trade balance[4]	14.8	22.0	33.0	42.4	43.2	28.6	n.a.
Current account[5]	5.4	11.9	28.1	28.4	33.7	30.0	n.a.

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

In the **ASEAN** region, third-quarter real GDP growth declined in Indonesia and Malaysia, became negative in Singapore, but was surprisingly strong in Thailand and the Philippines. Monthly indicators and anecdotal evidence indicate that the adverse effects of high oil prices and less rapid expansion in global demand for high-tech products have weighed on activity in parts of the region. October industrial production declined 1.2 percent in Malaysia, and was flat in Thailand. In Singapore, however, the volatile industrial production index rose sharply in October after declines in the previous two months, and the October PMI was up. Indonesia, Malaysia, and Singapore continued to record sizeable trade surpluses.

Across the region, consumer price inflation continues to remain elevated relative to rates during 2003, likely due to the effects of the higher world and domestic prices of fuel. Although governments in Indonesia, Malaysia, and Thailand subsidize domestic energy prices to varying extents, the Malaysian and Thai governments have lately allowed some increases in domestic prices of fuels.

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

Indicator	2002	2003	2004				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP[1]							
Indonesia	4.9	4.2	6.1	5.2	…	…	…
Malaysia	5.5	6.6	8.0	2.5	…	…	…
Philippines	5.5	4.8	4.2	5.9	…	…	…
Singapore	2.8	4.9	11.9	-3.0	…	…	…
Thailand	6.0	7.7	3.9	6.9	…	…	…
Industrial production[2]							
Indonesia[3]	-7.1	3.9	-5.1	-2.4	1.0	-.7	n.a.
Malaysia	4.6	9.3	2.9	-.3	.1	.8	-1.2
Philippines	-6.1	.0	2.4	1.5	-5.0	7.2	n.a.
Singapore	8.4	3.0	5.2	-.9	-1.2	-.7	5.1
Thailand	8.5	12.3	-.4	.4	-4.4	4.7	.0

1. Annual rate. Annual data are Q4/Q4.
2. Annual data 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.)

Indicator	2002	2003	2004				
			Q2	Q3	Aug.	Sept.	Oct.
Indonesia	25.9	28.5	21.8	26.3	25.7	34.4	34.2
Malaysia	14.3	21.4	21.2	23.8	23.4	21.9	24.4
Philippines	-.2	-1.3	-.6	-.1	1.7	-.2	n.a.
Singapore	8.7	16.2	15.1	16.5	16.2	23.8	14.7
Thailand	2.7	3.8	-.3	1.2	-3.1	.5	n.a.

n.a. Not available.

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

Indicator	2002[1]	2003[1]	2004 Q2	2004 Q3	2004 Sept.	2004 Oct.	2004 Nov.
Indonesia	9.9	5.2	6.4	6.7	6.3	6.2	6.2
Malaysia	1.7	1.2	1.2	1.5	1.6	2.1	n.a.
Philippines	2.5	3.1	4.5	6.4	6.9	7.1	7.6
Singapore	.4	.8	1.8	1.7	2.0	2.0	n.a.
Thailand	1.6	1.8	2.6	3.3	3.6	3.5	3.0

1. Dec./Dec.
n.a. Not available.

In **Mexico**, GDP growth slowed to a 2.6 percent pace in the third quarter, about half that in the previous three quarters. The impetus for growth has shifted somewhat, with U.S. demand for Mexican products moderating and Mexican domestic demand remaining robust. Following rapid first-half growth, manufacturing exports stagnated in the third quarter and declined in October to their lowest level since January. In contrast, indicators of consumption and investment spending have remained strong. Retail sales rose at an 11 percent annual rate in the third quarter, and construction activity was robust. In addition, high oil revenues have financed increased government spending, providing a significant stimulus to the economy.

The Bank of Mexico tightened policy for the eighth time this year on November 26, saying that it aimed to prevent this year's rise in inflation from feeding into higher inflation expectations and wage increases. The 28-day CETES rate has risen 240 basis points on net since end-2003 to 8.3 percent. The Mexican Congress in mid-November approved a budget bill for 2005 with a deficit target of 0.2 percent of GDP, only slightly lower than the 2004 target, despite the higher oil price assumption built into the budget.

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

Indicator	2002	2003	2004				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP[1]	1.9	2.0	4.5	2.6	…	…	…
Overall economic activity	.7	1.4	1.8	.8	.6	-.1	n.a.
Industrial production	-.4	-.7	1.5	.5	.1	.3	n.a.
Unemployment rate[2]	2.7	3.3	3.7	3.8	4.0	3.9	3.5
Consumer prices[3]	5.7	4.0	4.3	4.8	4.8	5.0	5.4
Trade balance[4]	-7.9	-5.6	-6.0	-8.2	-11.4	-5.8	-6.4
Imports[4]	168.7	170.5	194.2	199.7	205.4	199.3	202.0
Exports[4]	160.8	164.9	188.1	191.5	194.0	193.4	195.5
Current account[5]	-13.8	-8.7	-1.6	-8.4	…	…	…

1. Annual rate. Annual data 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 data, which are Dec./Dec.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, n.s.a., annual rate.
n.a. Not available. . . . Not applicable.

In **Brazil**, real GDP growth slowed to 4.2 percent in the third quarter, while second quarter growth was revised down to 5.5 percent. Third-quarter growth was led by a 12 percent rise (annual rate) in industrial output. On the demand side, investment grew 30 percent, the most rapid rate in ten years, while private consumption continued to exhibit robust growth. In contrast to the previous two quarters, the external sector made a negative arithmetic contribution to growth, as real import growth rose sharply while real export growth declined. Monthly indicators have given hints that economic activity slowed further more recently. Industrial output growth paused in September, and vehicle production and sales declined in October. Brazil continued to post sizeable trade surpluses and is on track for a record trade surplus for the year.

Inflation rose in October, pressured by hikes in domestic prices of fuel, raising twelve-month inflation to nearly 7 percent. Concern over the effects of rises in fuel prices on inflation and inflation expectations prompted the central bank in mid-November to raise its policy rate another 50 basis points to 17.25 percent. The increase was the third in three months and brought the cumulative rate hike since September to 125 basis points. Given the overall good economic and fiscal performance over the past year, officials have indicated that Brazil will probably not renew its IMF program when it expires in March 2005.

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

Indicator	2002	2003	2004				
			Q2	Q3	Sept.	Oct.	Nov.
Real GDP[1]	4.2	.8	5.5	4.2	…	…	…
Industrial production	2.7	.0	3.4	2.6	.0	n.a.	n.a.
Unemployment rate[2]	12.5	12.4	11.7	11.2	11.3	10.9	n.a.
Consumer prices[3]	12.5	9.3	5.5	6.9	6.7	6.9	n.a.
Trade balance[4]	13.1	24.8	34.7	35.7	29.5	30.9	32.1
Current account[5]	-7.6	4.0	11.2	21.3	20.9	12.1	n.a.

1. Annual rate. Annual data are Q4/Q4.
2. Percent; break in October 2001 as a result of change in methodology.
3. Percent change from year-earlier period, except annual data, which are Dec./Dec. Price index is IPC-A.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, n.s.a., annual rate.
n.a. Not available. . . . Not applicable.

In **Argentina**, the economic recovery appears to have continued in the third quarter. Industrial production grew 2 percent in the third quarter, after contracting in the previous quarter. However, October industrial production was flat. The trade surplus was nearly $14 billion in October; nominal exports this year have been supported by higher commodities prices. Twelve-month consumer price inflation has risen in recent months and was 5.5 percent for November.

In late November, the bank managing the Argentine government’s proposed bond exchange in the United States withdrew from the deal, and Italian regulators delayed the launch of the debt exchange in Italy until at least mid-December. In light of these events, the Argentine government rescheduled the launch date from late November to mid-January. Also in late November, the Argentine Congress approved the government's budget for 2005. The budget aims for a federal primary surplus of 3.2 percent of GDP and a consolidated primary surplus of 3.6 percent, below the 4 percent that has been demanded by the IMF.

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

Indicator	2002	2003	2004				
			Q2	Q3	Sept.	Oct.	Nov.
Real GDP[1]	-3.3	12.1	2.0	n.a.	…	…	…
Industrial production	-10.7	16.2	-1.3	2.0	.8	-.1	n.a.
Unemployment rate[2]	22.5	17.3	14.8	n.a.	…	…	…
Consumer prices[3]	41.4	3.8	4.0	5.3	5.9	5.7	5.5
Trade balance[4]	16.7	15.7	15.6	11.7	12.1	13.9	n.a.
Current account[5]	9.1	7.5	6.7	n.a.	…	…	…

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

In **Venezuela**, real GDP declined nearly 1 percent in the third quarter according to staff estimates, after soaring in the previous two quarters. On December 3, Finance Minister Tobias Nobrega announced that the bolivar would be devalued nearly 11 percent effective January 1, but retracted that statement later in the day. Two days later, President Chavez replaced Nobrega with Nelson Merentes. Capital controls are expected to limit speculative behavior that would otherwise erode central bank international reserves, which stand at $23 billion. The bolivar was pegged to the dollar in early 2003 in a bid to reduce inflation. Inflation has since fallen, but remains high, nearly 20 percent for the twelve months through November. Oil production is still estimated to be below the level prevailing before the national strikes of 2002.

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

Indicator	2002	2003	2004				
			Q2	Q3	Sept.	Oct.	Nov.
Real GDP[1]	-15.8	7.0	15.4	-.8	…	…	…
Unemployment rate[2]	16.0	18.0	15.5	14.5	14.3	14.3	n.a.
Consumer prices[3]	31.2	27.1	22.4	21.5	20.9	19.7	19.5
Non-oil trade balance[4]	-8.1	-5.5	21.5	23.7	n.a.	n.a.	n.a.
Trade balance[4]	13.4	16.5	53.7	53.5	n.a.	n.a.	n.a.
Current account[5]	7.6	11.5	13.7	16.4	…	…	…

1. Annual rate. Annual data are Q4/Q4.
2. Percent.
3. Percent change from year-earlier period, except annual data, 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 **Russia**, data releases were mixed. In October, although industrial production and construction continued to contract, there were hints of improvement in business fixed investment. The trade surplus widened further in September. Consumer price inflation continued to rise in November, reflecting higher food prices.

The tax dispute between the Russian government and the Russian oil company Yukos intensified in recent weeks, as authorities raised their tax claims on Yukos to around $25 billion and set the auction of Yuganskneftegaz, Yukos' main production facility, for December 19, and as top company officials fled Russia. Gazprom, the natural gas monopoly in Russia with close ties to the government, is widely expected to bid for the facility. To forestall future government intervention in remaining Yukos assets, an extraordinary shareholders' meeting will be held on December 20 to consider whether Yukos should be put into formal bankruptcy proceedings and possibly even liquidated. Yukos currently produces 1.75 million b/d of oil (Yuganskneftegaz produces 1 million b/d), and analysts are concerned that production could decline in the near future due to a lack of funds for maintenance.

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

Indicator	2002	2003	2004				
			Q2	Q3	Sept.	Oct.	Nov.
Real GDP[1]	5.9	7.5	8.2	n.a.	…	…	…
Industrial production	3.8	6.7	2.2	.0	-1.4	-.4	n.a.
Unemployment rate[2]	8.0	8.5	8.3	7.7	7.7	n.a.	n.a.
Consumer prices[3]	15.3	12.1	10.1	11.0	11.4	11.5	11.7
Trade balance[4]	46.3	60.5	84.1	91.7	94.5	n.a.	n.a.
Current account[4]	28.9	36.0	42.6	n.a.	…	…	…

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