

Prefatory Note

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Part 2

March 22, 2006

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

March 22, 2006

Recent Developments

Domestic Nonfinancial Developments

Domestic Nonfinancial Developments

Economy activity appears to be expanding strongly in the first quarter. Private payrolls advanced solidly in January and February. Consumer spending is on track to rise at a robust pace this quarter, and business purchases of equipment and software have picked up appreciably. Warm weather boosted housing construction in January and February, although sales have dropped back and house prices have decelerated a bit. Headline consumer price inflation jumped in January but moderated last month as energy prices moved down. Core inflation remains well contained.

Labor Market Developments

Labor demand continued to increase smartly in February. Private nonfarm payroll employment moved up 205,000 last month following a similar-sized gain in January.¹ In particular, financial activities, business services, and nonbusiness services continued to add workers at a robust pace, and construction employment posted another sizable gain as weather conditions remained favorable. Although the average workweek edged down to 33.7 hours in February, the level of aggregate hours for production or nonsupervisory workers, which has moved up noticeably in recent months, is still 0.4 percent above the fourth-quarter average.

In the household survey, the unemployment rate averaged 4¾ percent over the first two months of this year, ¼ percentage point below its fourth-quarter average. This signal of further tightening in the labor market is echoed by several other labor market indicators. Both the number of persons working part time for economic reasons and the rate of insured unemployment—another measure of the prevalence of active job seekers—dropped slightly below their respective average levels set during the first half of 1997, a time when the labor market appeared to be roughly in equilibrium. Similarly, as reported by the National Federation of Independent Businesses survey, the share of small firms with hard-to-fill positions is now about where it was in 1997. The four-week moving average of initial claims for unemployment insurance was 297,000 for the week ending March 11, indicating that layoffs have been relatively low, although the exhaustion rate suggests that the pace at which claimants are finding jobs before their benefits run out is still somewhat above its 1997 level. In addition, the JOLTS job openings rate has been trending upward, on balance, over the past year, and Manpower's index of net hiring plans is at the high end of its recent range.

¹ The January employment report included the annual benchmark revision to the payroll survey, which lowered the level of total nonfarm payroll employment 158,000 in March 2005. The revised data have been incorporated in the BLS measures of hours worked in the nonfarm business sector, which are used in estimating productivity.

Changes in Employment

(Thousands of employees; seasonally adjusted)

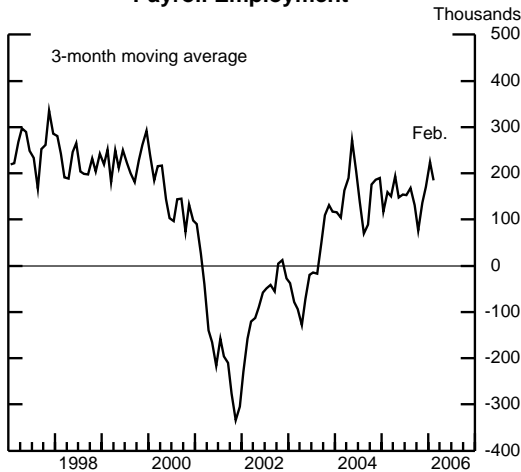
Measure and sector	2005	2005				2006	
		Q2	Q3	Q4	Dec.	Jan.	Feb.
	Average monthly change				Monthly change		
Nonfarm payroll employment (establishment survey)	165	167	155	179	145	170	243
Private	152	154	132	171	147	201	205
Manufacturing	-6	-12	-15	12	8	7	-1
Construction	25	28	16	30	7	55	41
Wholesale trade	7	7	5	7	1	15	3
Retail trade	13	15	4	11	7	-14	7
Transportation and utilities	6	6	3	6	1	11	5
Information	-1	-2	3	-2	2	1	7
Financial activities	12	6	19	17	6	21	22
Professional and business services	41	33	51	41	60	17	39
Temporary help services	14	6	21	18	12	-6	-7
Nonbusiness services ¹	51	69	43	44	52	84	77
Total government	14	13	23	8	-2	-31	38
Total employment (household survey)	221	383	228	115	168	295	183
Memo:							
Aggregate hours of private production workers (percent change) ²	2.3	3.1	2.2	2.1	.2	.2	-.1
Average workweek (hours) ³	33.8	33.7	33.8	33.8	33.8	33.8	33.7
Manufacturing (hours)	40.6	40.4	40.6	40.9	40.8	40.9	41.0

1. Nonbusiness services comprises education and health, leisure and hospitality, and "other."

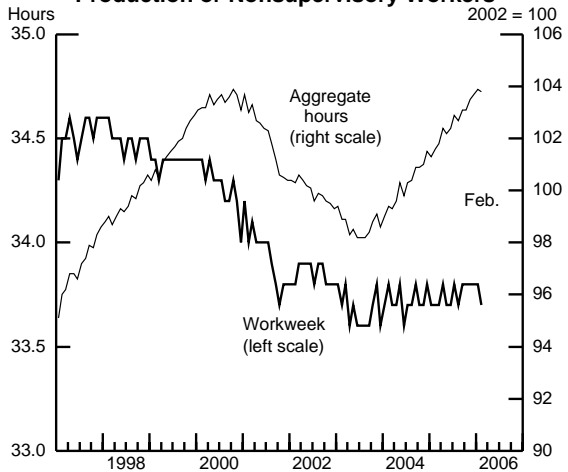
2. Establishment survey. Annual data are percent changes from Q4 to Q4. Quarterly data are percent changes from preceding quarter at an annual rate. Monthly data are percent changes from preceding month.

3. Establishment survey.

Changes in Private Payroll Employment



Aggregate Hours and Workweek of Production or Nonsupervisory Workers



Selected Unemployment and Labor Force Participation Rates

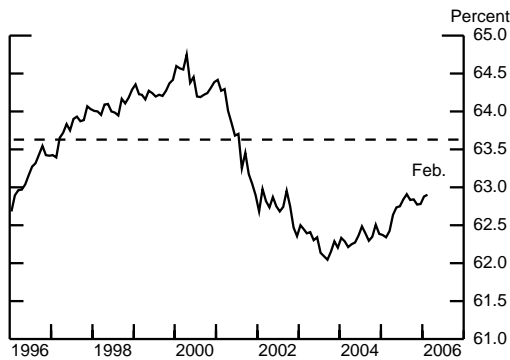
(Percent; seasonally adjusted)

Rate and group	2005	2005				2006	
		Q2	Q3	Q4	Dec.	Jan.	Feb.
<i>Civilian unemployment rate</i>							
Total	5.1	5.1	5.0	5.0	4.9	4.7	4.8
Teenagers	16.6	17.2	16.1	16.1	15.2	15.3	15.4
20-24 years old	8.8	8.8	8.6	8.5	8.5	8.2	8.5
Men, 25 years and older	3.8	3.8	3.8	3.7	3.8	3.5	3.7
Women, 25 years and older	4.2	4.2	4.2	4.2	4.1	4.0	3.9
<i>Labor force participation rate</i>							
Total	66.0	66.1	66.2	66.1	66.0	66.0	66.1
Teenagers	43.7	44.0	43.8	43.4	43.3	43.4	43.8
20-24 years old	74.6	74.4	74.6	74.8	74.5	73.8	74.5
Men, 25 years and older	75.4	75.5	75.6	75.3	75.3	75.4	75.4
Women, 25 years and older	59.4	59.3	59.5	59.6	59.6	59.5	59.4

Labor Force Participation Rate and Unemployment Rate



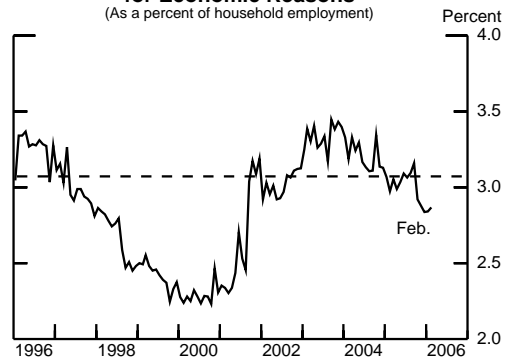
Employment-Population Ratio



Note. Dashed line indicates average of 1997:Q1 and 1997:Q2.

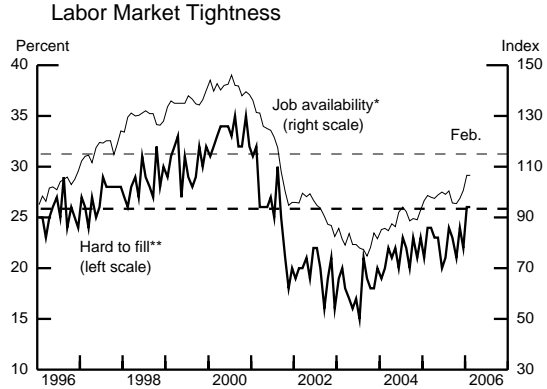
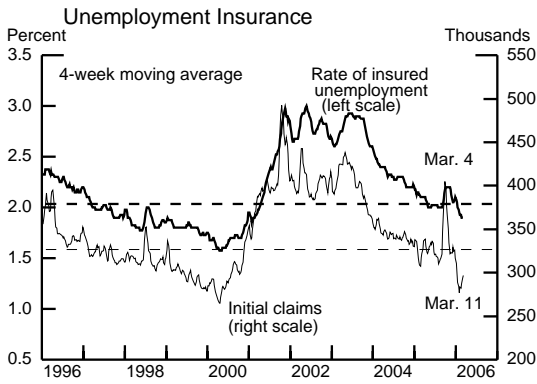
Persons Working Part-Time for Economic Reasons

(As a percent of household employment)

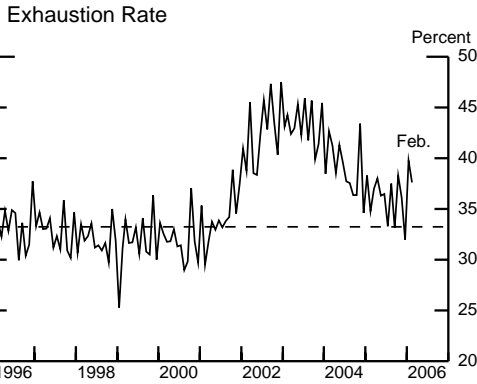


Note. Dashed line indicates average of 1997:Q1 and 1997:Q2.

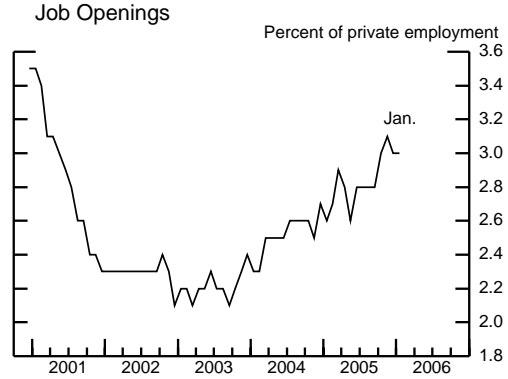
Labor Market Indicators (Dashed lines indicate average of 1997:Q1 and 1997:Q2)



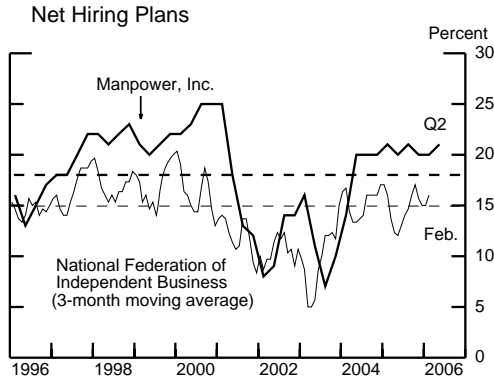
*Proportion of households believing jobs are plentiful, minus the proportion believing jobs are hard to get, plus 100.
 **Percent of small businesses surveyed with at least one "hard to fill" job opening.
 Source. For job availability, Conference Board; for hard to fill, National Federation of Independent Business.



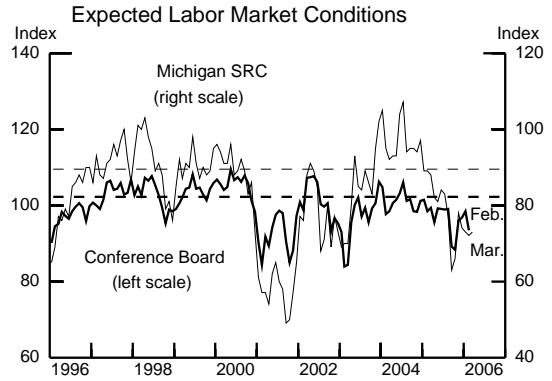
Note. The exhaustion rate is the number of individuals who were receiving unemployment insurance benefits but reached the end of their potential eligibility expressed as a percent of all individuals who began receiving such benefits 6 months earlier.



Source. Job Openings and Labor Turnover Survey.



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



Note. The proportion of households expecting labor market conditions to improve, minus the proportion expecting conditions to worsen, plus 100.

In contrast, the Conference Board’s measure of job availability indicates that households do not yet perceive the availability of jobs to be as great as it was in the first half of 1997. Moreover, household expectations of labor market conditions from the Michigan Survey indicate that households are currently somewhat less optimistic about the future than they were a decade ago.

The staff estimates that output per hour for all persons in the nonfarm business sector declined at an annual rate of 0.2 percent in the fourth quarter (a slightly smaller decrease than the most recently published figure from the Bureau of Labor Statistics). We also estimate that productivity rose 2½ percent over the four quarters of 2005, about the same as in 2004.

Labor Output per Hour

(Percent change from preceding period at an annual rate; seasonally adjusted)

Sector	2003:Q4 to 2004:Q4	2004:Q4 to 2005:Q4 ¹	2005			
			Q1	Q2	Q3	Q4 ¹
Nonfarm business						
All persons	2.6	2.5	3.8	2.4	4.2	-.2
All employees ²	2.5	2.1	3.8	2.3	3.1	-.9
Nonfinancial corporations ³	4.8	n.a.	2.8	4.6	4.1	n.a.

1. Staff estimates.

2. Assumes that the growth rate of hours of non-employees equals the growth rate of hours of employees.

3. 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.

n.a. Not available.

Industrial Production

Industrial production rebounded 0.7 percent in February after having declined 0.3 percent in January.² This contour largely reflected a January plunge and February rebound in utilities output as temperatures turned exceptionally warm in January and then moved back to near seasonal norms last month. Abstracting from these swings in utilities output, industrial production posted a sizable gain in January before flattening out in February, pointing to a solid rise for the first quarter. Manufacturing output was unchanged last month after a jump of 0.8 percent in January. The rate of capacity utilization in the

² We estimate that hurricane-related activity—including both the resumption of production at hurricane-idled facilities and the increase in output spurred by rebuilding efforts—added little to the growth of total industrial output in February, after having contributed a bit more than ¼ percentage point to the rate of change in January.

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

Component	Proportion 2005 (percent)	2005 ¹	2005		2005	2006	
			H2	Q4	Dec.	Jan.	Feb.
			Annual rate		Monthly rate		
Total	100.0	3.0	3.3	5.3	1.0	-3	.7
Previous	100.0	3.1	3.5	5.6	.9	-2	...
Manufacturing	80.8	4.2	5.5	9.2	.4	.8	.0
Ex. motor veh. and parts	73.7	4.4	5.6	10.4	.6	.6	.1
Ex. high-tech industries	68.9	2.9	4.1	9.2	.5	.7	.0
Mining	9.8	-6.8	-14.8	-14.8	2.8	2.3	-.5
Utilities	9.5	2.8	3.4	-6.1	3.9	-11.5	7.9
<i>Selected industries</i>							
High technology	4.8	25.7	27.0	27.0	1.6	.0	2.3
Computers	.8	12.0	11.6	14.5	1.4	.4	.3
Communications equipment	1.2	25.4	33.2	33.1	-.5	2.3	3.0
Semiconductors ²	2.8	29.9	29.0	28.0	2.6	-1.1	2.5
Motor vehicles and parts	7.1	2.3	5.3	-2.3	-1.3	2.4	-8
<i>Market groups excluding energy and selected industries</i>							
Consumer goods	21.0	2.3	2.4	4.9	.7	.4	-.1
Durables	4.1	2.6	5.6	8.2	-.1	-.1	.2
Nondurables	16.9	2.2	1.7	4.1	.9	.5	-.2
Business equipment	8.0	9.6	11.9	27.4	.6	.6	.0
Defense and space equipment	2.0	9.2	6.5	7.3	1.0	.1	.4
Construction supplies	4.4	6.5	10.8	17.5	-.2	.1	-.3
Business supplies	7.8	2.7	3.3	6.3	.7	.2	-.2
Materials	24.4	.6	2.6	7.0	.7	.9	.2
Durables	13.7	3.6	7.9	13.0	.5	.7	.2
Nondurables	10.7	-3.1	-3.8	-.4	.9	1.1	.3

1. From fourth quarter of preceding year to fourth quarter of year shown.

2. Includes related electronic components.

... Not applicable.

Capacity Utilization
(Percent of capacity)

Sector	1972- 2005 average	1994- 2005 high	2001- 02 low	2005			2006	
				Q2	Q3	Q4	Jan.	Feb.
Total industry	81.0	85.0	73.9	79.9	79.8	80.5	80.8	81.2
Manufacturing	79.8	84.5	72.0	78.5	78.5	79.8	80.5	80.4
High-tech industries	78.1	86.1	57.4	74.7	75.3	75.7	74.8	75.4
Excluding high-tech industries	79.9	84.4	73.1	78.9	78.9	80.3	81.2	81.0
Mining	87.3	89.0	85.6	89.6	86.1	82.8	87.5	87.1
Utilities	86.7	93.7	83.7	85.2	88.1	86.8	78.5	84.7

manufacturing sector stood at 80.4 percent in February, 0.6 percentage point above its 1972-2005 average. Mining output (which includes oil and gas extraction) slipped 0.5 percent in February, after averaging gains of 3 percent in the preceding three months.

Little further progress was made in February in the restarting of oil and gas platforms that were shut in by Hurricanes Katrina and Rita. As of March 22, domestic crude oil production was at about 93 percent of its pre-Katrina level, and natural gas extraction was at about 97 percent, both rates roughly unchanged from the end of January.³ Complete recoveries for both oil and gas are expected to be attained in the second half of 2006. Regarding domestic refineries affected by the hurricanes, one Gulf Coast refinery, representing about 0.7 percent of domestic capacity, remains out of service because of hurricane-related damage and is not expected to return to production until April, while another is still running at reduced rates.⁴ Overall, domestic crude oil production edged down in February. Refinery output also declined last month, possibly in response to the elevated stocks of gasoline and other refined products. The most recent weekly physical output data for March suggest that electricity generation is little changed from February, crude oil production is rebounding from February's decline, and production at refineries continues to taper off.

Motor vehicle production has stepped down recently. Assemblies averaged a moderate 11.6 million units at an annual rate in January and February—about 150,000 units below the fourth-quarter pace—and inventories of light vehicles edged down in January and February. Although the days' supply of light vehicles on dealer lots—at 68 days—is not far from its average in recent years, anecdotal reports suggest excess stocks at some automakers. The assembly rate is scheduled to remain at 11.6 million units in March and to average only 11.8 million units in the second quarter.

³ The Gulf Coast region accounts for nearly 30 percent of domestic crude oil extraction, about 20 percent of natural gas extraction, and just under one-half of refining capacity. After Hurricane Rita, all crude oil extraction and about 80 percent of natural gas extraction in the Gulf of Mexico were shut in, as were similar shares of onshore production and near-offshore production (that is, output within three miles of the coast) in Louisiana.

⁴ A third refinery (comprising about 2½ percent of capacity) that was idled as Rita came ashore remains out of service for a safety overhaul. In addition, some refineries that delayed maintenance in the aftermath of the hurricanes to take advantage of high margins are performing maintenance now, before ramping up gasoline production for the summer driving season. Unrelated to the hurricanes, two other refineries were pulled offline recently for unplanned maintenance that is expected to be completed relatively soon.

Production of Domestic Light Vehicles
(Millions of units at an annual rate except as noted)

Item	2005	2006						
		Q4	Q1	Q2	Jan.	Feb.	Mar.	Apr.
U.S. production ¹	11.5	11.3	11.1	11.5	11.3	11.0	11.2	11.5
Autos	4.3	4.4	4.5	4.4	4.6	4.4	4.5	4.5
Light trucks	7.2	7.0	6.6	7.1	6.6	6.6	6.6	7.0
Days' supply ²	69	74	n.a.	n.a.	64	68	n.a.	n.a.
Autos	52	53	n.a.	n.a.	43	53	n.a.	n.a.
Light trucks	81	90	n.a.	n.a.	82	78	n.a.	n.a.
Inventories ³	3.04	3.04	n.a.	n.a.	2.96	2.93	n.a.	n.a.
Autos	.93	.93	n.a.	n.a.	.91	.93	n.a.	n.a.
Light trucks	2.11	2.11	n.a.	n.a.	2.05	1.99	n.a.	n.a.
Memo: U.S. production, total motor vehicles ⁴	11.9	11.8	11.6	11.8	11.8	11.4	11.6	11.9

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

1. Production rates for March and April and for the first and second quarters reflect the latest schedules from Ward's Communications.

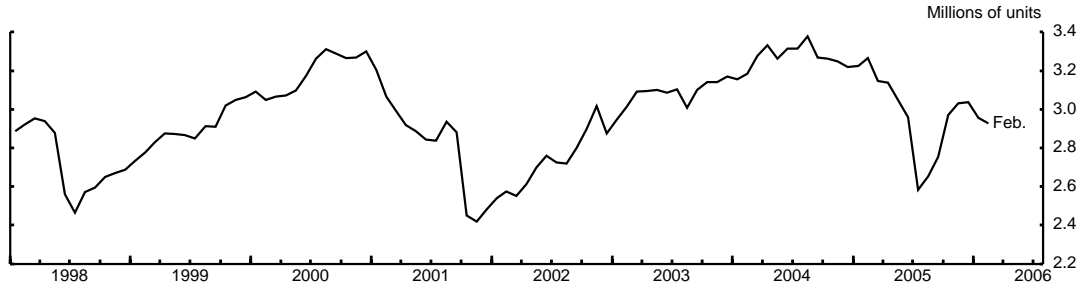
2. Quarterly values are calculated with end-of-period stocks and average reported sales.

3. End-of-period stocks.

4. Includes medium and heavy trucks.

n.a. Not available.

Inventories of Light Vehicles



Note. FRB seasonals. Monthly totals.

Days' Supply of Light Vehicles



Elsewhere in transportation, the rate of increase in monthly civilian aircraft production is likely to slow in the next few months from the elevated pace that followed the end of the strike at Boeing.

. After having increased at a rapid pace from the middle of 2000 to the end of 2005, military aircraft output declined in both January and February and will likely continue to decline in the coming months, as deliveries to the U.S. armed forces are slated to ease in 2006.

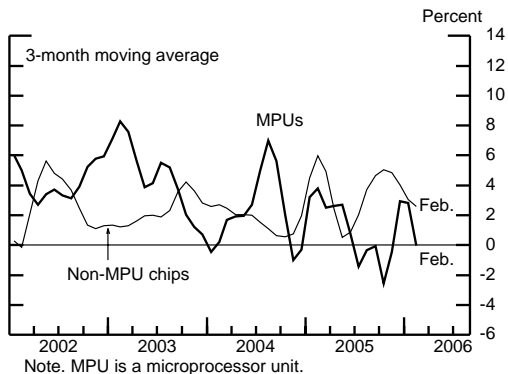
After two quarters of fairly rapid increases, high-tech output cooled, on balance, in January and February. The output of semiconductors fell 1.1 percent in January—in large part because of a decline of nearly 8 percent in the production of microprocessor units (MPU)—but it recovered somewhat in February. Recent reports from Intel indicate that MPU shipments were restrained in the fourth quarter by shortages of complementary semiconductors (chipsets), and the company is holding down MPU production in the first quarter to clear out the inventory accumulation that resulted from the problem. The production of chips other than MPUs, where gains have been solid for some time, also slowed in January but picked up a bit in February. The recent softness in chip production is likely temporary. Industry analysts at the Semiconductor Industry Association and Gartner recently upgraded their outlook for worldwide semiconductor sales in 2006, and bookings for equipment used to fabricate semiconductors have continued to climb.

The news regarding high-tech production downstream from semiconductors has been mixed. On the one hand, the output of communications equipment strengthened in the second half of 2005 and increased considerably in January and February. Accordingly, capacity utilization at communications equipment producers, which plummeted to a low of 41 percent in 2002, rose further and recently surpassed its historical average for the first time since April 2001. On the other hand, after having posted modest increases in most of 2005, the output of computers rose only a little in January and February.

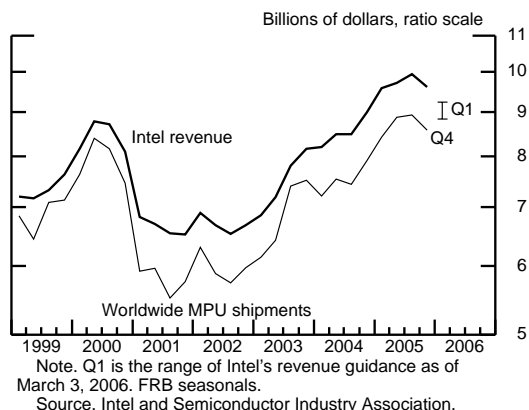
Excluding energy, motor vehicles and parts, and high-tech, production was little changed in February after strong gains in the preceding four months. The output of consumer goods, which had accelerated in the fourth quarter, rose moderately in January and then edged down in February. The production of business equipment slowed in December and January from the blistering pace set in the second half of 2005 and was unchanged in February. The production of construction supplies changed little in February for the third straight month after very large increases last autumn. The output of business supplies has grown steadily in recent months but dipped 0.2 percent in February. Materials

Indicators of High-Tech Manufacturing Activity

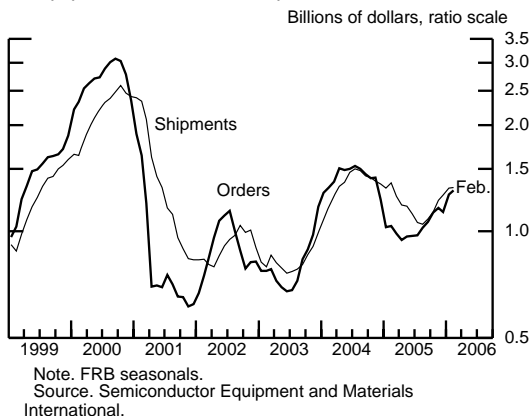
Rate of Change in Semiconductor Industrial Production



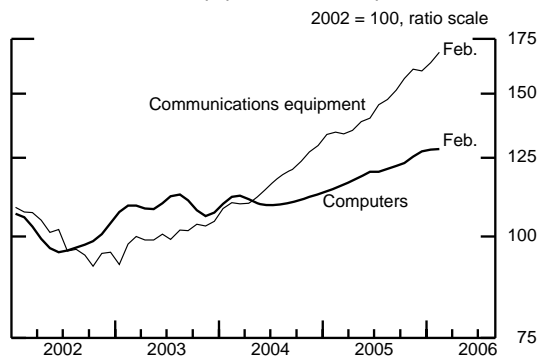
Microprocessor Unit (MPU) Shipments and Intel Revenue



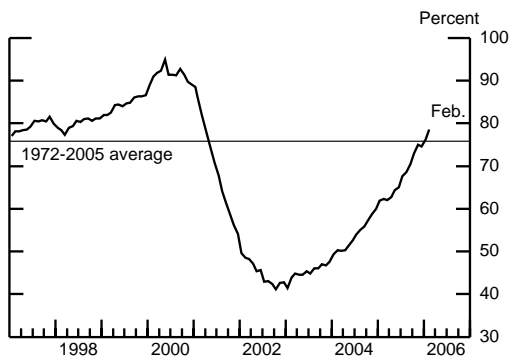
Semiconductor Manufacturing Equipment Orders and Shipments



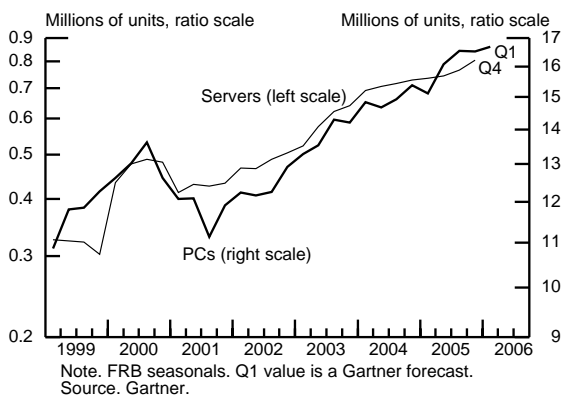
Communication Equipment and Computer IP



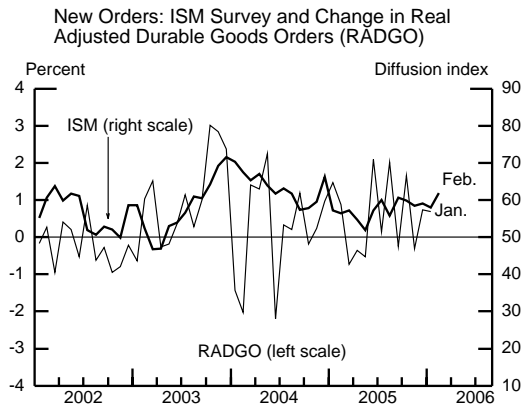
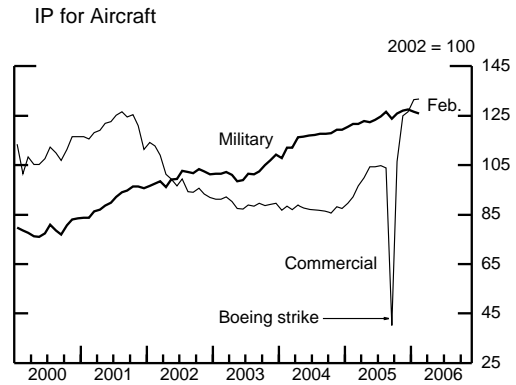
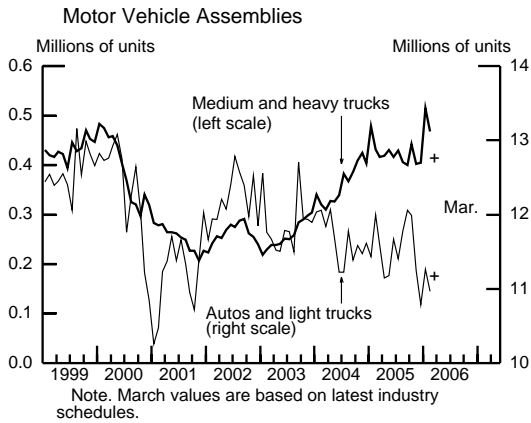
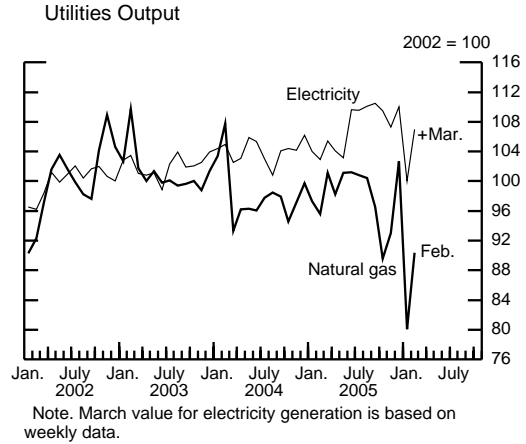
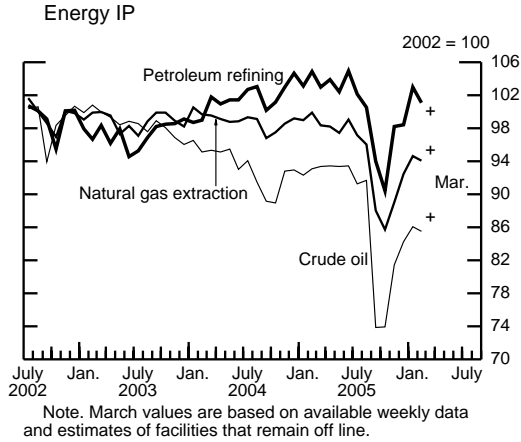
Communications Equipment Capacity Utilization



U.S. Personal Computer and Server Sales



Indicators of Manufacturing Activity



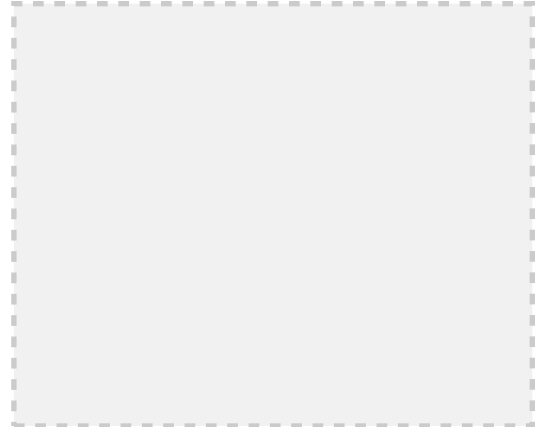
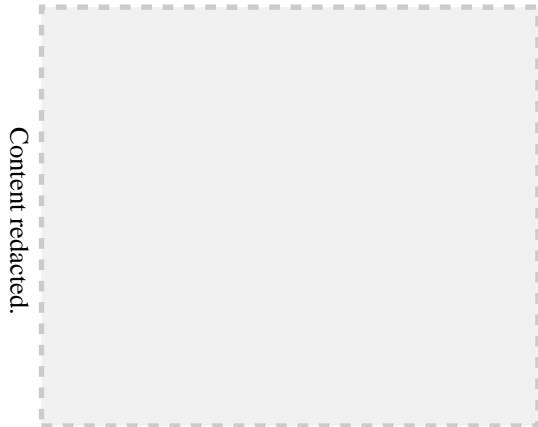
Note. The diffusion index equals the percentage of respondents reporting greater levels of new orders plus one-half the percentage of respondents reporting that new orders were unchanged. RADGO is a 3-month moving average.

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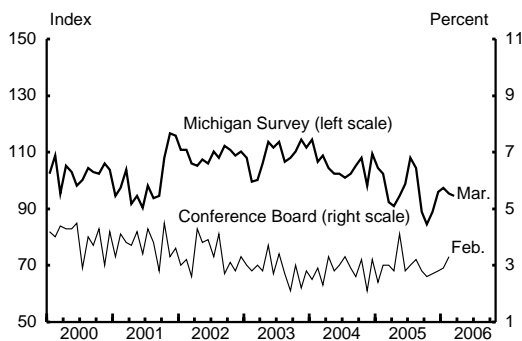
Sales of Light Vehicles
(Millions of units at an annual rate; FRB seasonals)

Category	2005	2005				2006	
		H1	Q3	Q4	Dec.	Jan.	Feb.
Total	16.9	16.9	17.9	15.8	17.1	17.6	16.6
Autos	7.7	7.6	8.0	7.5	7.7	8.6	7.4
Light trucks	9.2	9.3	10.0	8.3	9.5	9.0	9.1
North American ¹	13.5	13.4	14.5	12.6	13.8	14.2	13.2
Autos	5.5	5.4	5.7	5.4	5.5	6.5	5.4
Light trucks	8.0	8.0	8.8	7.2	8.3	7.7	7.8
Foreign-produced	3.4	3.4	3.5	3.3	3.3	3.4	3.3
Autos	2.2	2.2	2.3	2.1	2.1	2.1	2.0
Light trucks	1.2	1.2	1.2	1.2	1.2	1.3	1.3
Memo: Average incentive per vehicle (current dollars)	1618	1841	1309	1489	1587	1499	1421

Note. Components may not sum to totals because of rounding.
1. Excludes some vehicles produced in Canada that are classified as imports by the industry.

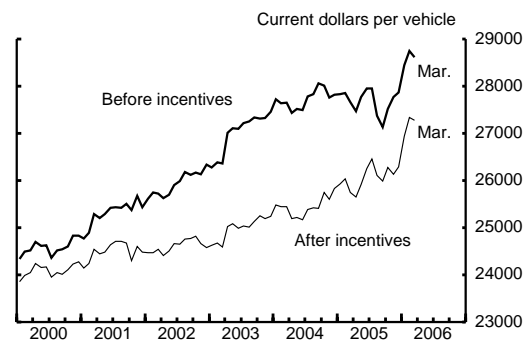


Buying Attitudes for New Vehicles



Note. Conference Board index is the percentage of respondents who plan to buy a new vehicle within the next 6 months.

Average Price Before and After Incentives



Note. Seasonally adjusted data. Based on data through March 12.
Source. J.D. Power and Associates.

production increased sharply late last year, boosted by the hurricane-related recovery in chemical materials, but the rate of increase slowed in February.

The indicators of near-term manufacturing activity are generally positive. As reported by the Institute for Supply Management (ISM), the diffusion index for new orders stood at a high level in February and thus pointed to sizable output gains in the coming months. In addition, indexes for new orders from surveys by FRB New York and FRB Philadelphia moved up in March and remain at a level consistent with substantial near-term increases in manufacturing production. In contrast, the three-month moving average of the staff's measure of real adjusted durable goods orders, which is available only through January, suggests more-moderate production increases.

Motor Vehicles

Sales of light vehicles in the first two months of the year averaged 17.1 million units at an annual rate, which is even with December's pace. This relatively steady level—which stands a bit above the rate of 16.9 million units recorded last year—follows a period in which sales fluctuated widely with the introduction, and end, of last summer's employee pricing programs.

For March, Japanese automakers report that sales maintained a solid pace in the first twenty days, while industry analyst J.D. Power and Associates expects total sales this month to record a modest rate of 16.4 million units, a touch below the February pace.

Near-term indicators of vehicle demand are consistent with a moderate pace of activity in the sector. Recent gains in income have been appreciable. The Michigan SRC index of car-buying attitudes, while edging down in March, remained well within the range of values recorded over the past year, and the percentage of Conference Board Survey respondents planning to buy a new vehicle in the next six months moved up to an elevated level in February. Although the average level of incentives has been edging down, and the automakers maintain that they intend to move further away from the generous programs observed in recent years, the Big Three firms have recently introduced several new programs in an effort to boost demand.

Retail and Food Services Sales

(Percent change from preceding period; seasonally adjusted current dollars)

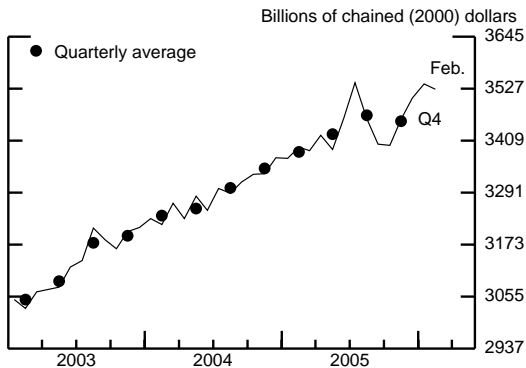
Category	2005					2006
	Q2	Q3	Q4	Dec.	Jan.	Feb.
	Annual rate			Monthly rate		
Total sales	11.1	6.9	1.9	.3	2.9	-1.3
Retail control ¹	9.5	10.5	6.7	.2	2.0	-.7
Memo:						
Real PCE control ²	4.5	4.0	5.9	.3	1.4	-.5
Real PCE ex. motor vehicles	3.2	3.6	4.2	.3	.4	n.a.

1. Total sales less outlays at building material and supply stores and automobile and other motor vehicle dealers.

2. Total goods spending excluding autos and trucks. Values for December, January, and Q4 are staff estimates; value for February is a staff forecast.

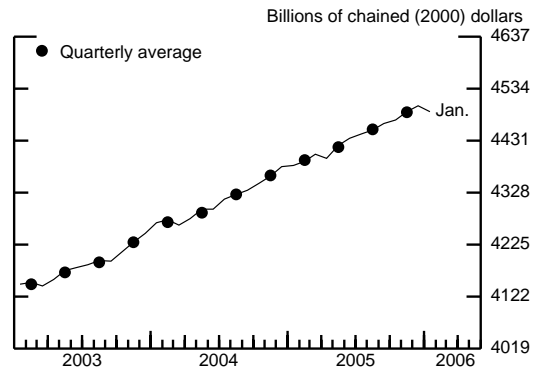
n.a. Not available.

Real PCE Goods



Note. Values for December 2005, January 2006, and 2005:Q4 are staff estimates; value for February 2006 is a staff forecast.

Real PCE Services



Personal Saving Rate



Note. Value for December 2004 excludes the effect on income of the special Microsoft dividend in that month.

Consumer Spending

Consumer spending appears to be rebounding strongly in the first quarter because of the bounceback in motor vehicle purchases and sizable gains in spending on other goods. The personal saving rate, which declined further in recent months, stood at negative 0.7 percent in January.

After having soared 2 percent in January, nominal spending in the retail control category of goods, which excludes sales by auto dealers and building material and supply stores, dropped back 0.7 percent last month. Factoring in our translation of the February CPI data, we estimate that increases in real spending in the PCE control category of goods averaged a robust 0.5 percent pace per month in January and February on top of a large gain in the fourth quarter. Real outlays for consumer services declined 0.3 percent in January, reflecting a plunge in expenditures for energy services induced by unusually warm temperatures. But given a return to near-normal temperatures in February, real spending on consumer services is likely to have rebounded last month.

The fundamental determinants of consumer spending remain, on balance, supportive of sustained increases in outlays. Continuing improvements in the labor market have been generating considerable gains in wage and salary income, and a number of special factors boosted the level of disposable personal income in January.⁵ Although a sharp rise in food and energy prices held down real disposable personal income in January, the subsequent moderation in prices suggests a stronger increase in real income in February. Ongoing increases in home prices and gains in the stock market have kept the ratio of household wealth to disposable income at an elevated level. In addition, consumer confidence, as measured by both the Michigan survey and the Conference Board survey, remains at a level consistent with moderate increases in consumer spending. In contrast, higher interest rates are likely to be exerting some restraint on consumer spending growth.

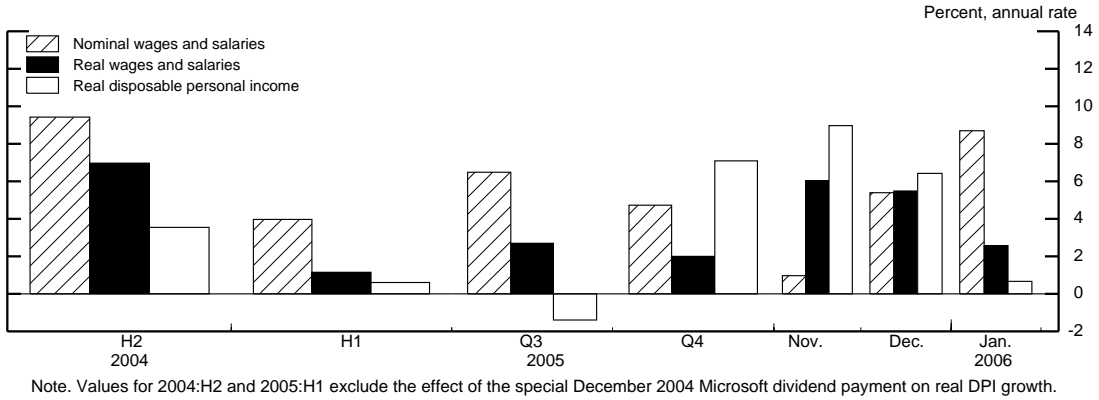
Housing Markets

Housing activity has moderated somewhat from the robust pace of last summer. Although the level of single-family housing starts was unusually high in January and February, much of this strength was likely the result of the mild winter weather. Indeed,

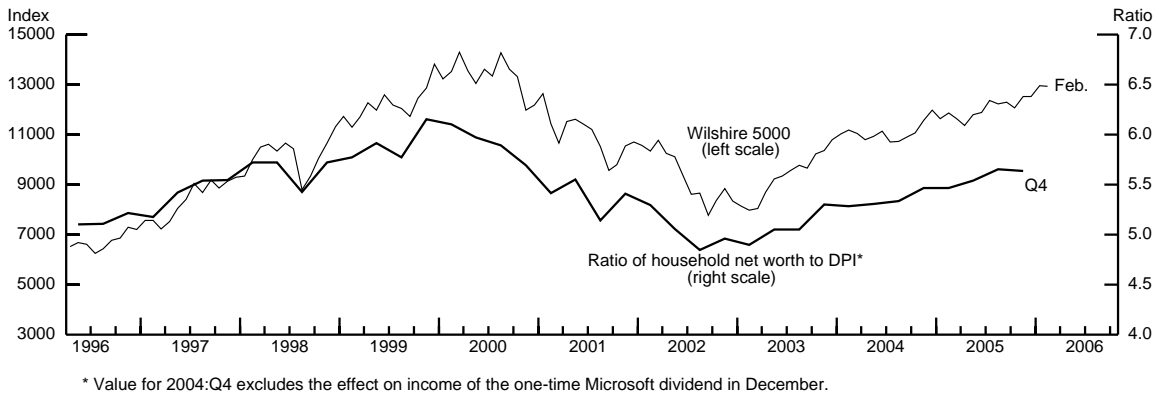
⁵ These special factors include the annual pay raise to federal civilian and military personnel, cost-of-living adjustments to Social Security benefits and other transfer programs, and the initiation of the Medicare Prescription Drug Plan. Excluding these special factors, disposable personal income would have posted only a modest gain in January.

Household Indicators

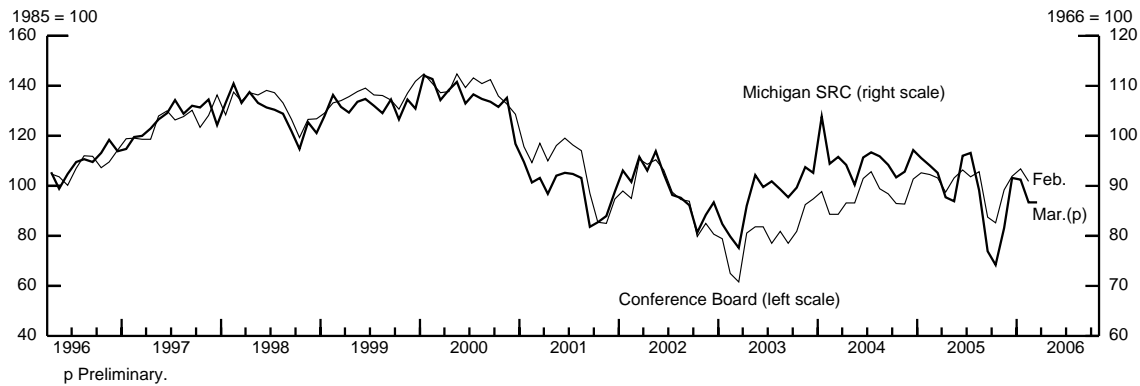
Changes in DPI and Wages and Salaries



Household Net Worth and Wilshire 5000



Consumer Confidence



Private Housing Activity

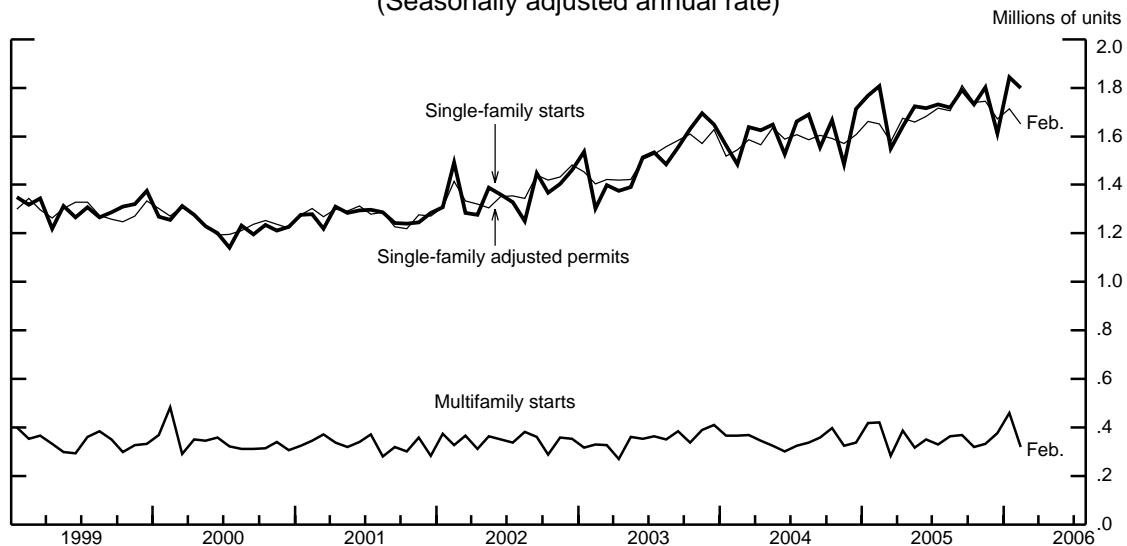
(Millions of units, seasonally adjusted; annual rate except as noted)

Sector	2005	2005				2006	
		Q2	Q3	Q4	Dec.	Jan.	Feb.
<i>All units</i>							
Starts	2.07	2.04	2.10	2.06	1.99	2.30	2.12
Permits	2.15	2.11	2.18	2.11	2.08	2.22	2.15
<i>Single-family units</i>							
Starts	1.72	1.69	1.75	1.72	1.61	1.84	1.80
Permits	1.68	1.64	1.71	1.69	1.65	1.69	1.64
Adjusted permits ¹	1.69	1.67	1.74	1.72	1.67	1.71	1.65
Permit backlog ²	.17	.16	.17	.17	.17	.17	.16
<i>New homes</i>							
Sales	1.29	1.29	1.30	1.30	1.30	1.23	n.a.
Months' supply ³	4.45	4.30	4.50	4.70	4.80	5.20	n.a.
<i>Existing homes</i>							
Sales	6.18	6.28	6.26	6.06	5.86	5.77	n.a.
Months' supply ³	4.40	4.30	4.60	4.90	4.90	5.20	n.a.
<i>Multifamily units</i>							
Starts	.35	.35	.35	.34	.38	.46	.32
Permits	.47	.47	.47	.42	.43	.53	.51
Permit backlog ²	.06	.06	.06	.06	.06	.06	.06
<i>Mobile homes</i>							
Shipments	.15	.13	.13	.19	.18	.17	n.a.
<i>Condos and co-ops</i>							
Existing home sales	.90	.92	.92	.88	.89	.79	n.a.

1. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.
 2. Number outstanding at end of period. Excludes permits that have expired or have been canceled, abandoned, or revoked. Not at an annual rate.
 3. At current sales rate. The ratio of n.s.a. inventories to n.s.a. sales is seasonally adjusted by the Census Bureau; as a result, the s.a. ratio may not be the same as the ratio of s.a. inventories to s.a. sales. Quarterly and annual figures are averages of monthly figures.
- n.a. Not available.

Private Housing Starts and Permits

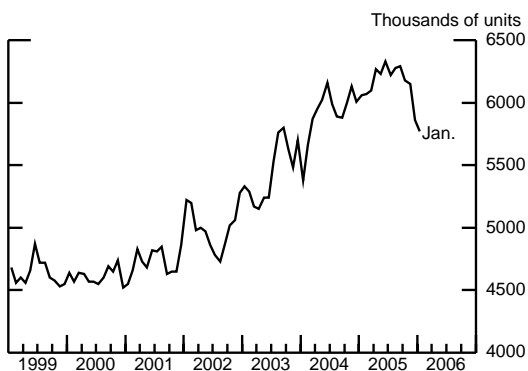
(Seasonally adjusted annual rate)



Note. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.

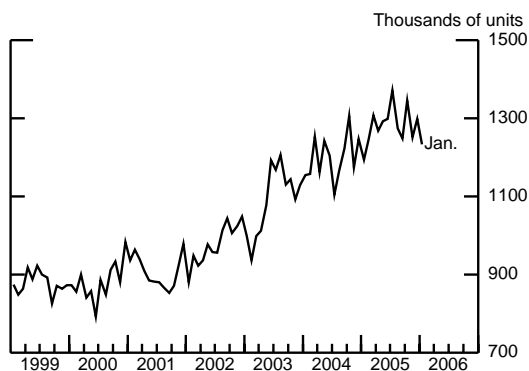
Indicators of Single-Family Housing

Existing Home Sales



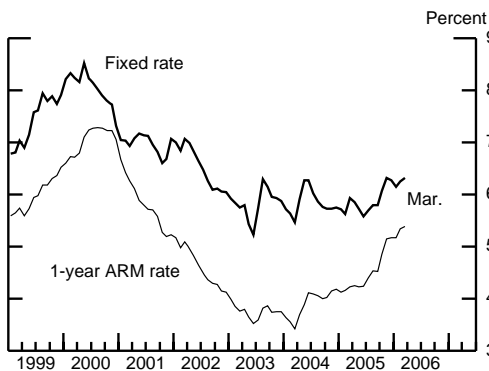
Source. National Association of Realtors.

New Home Sales



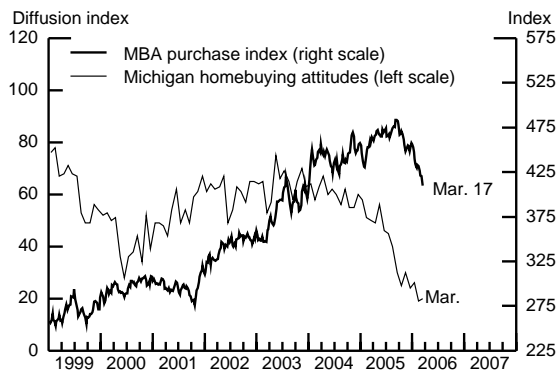
Source. Census Bureau.

Mortgage Rates



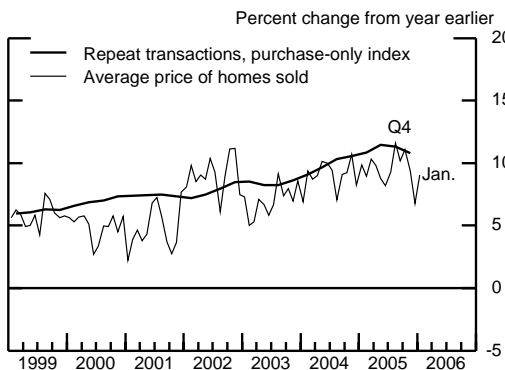
Note. The March readings are based on data through March 15, 2006.
Source. Freddie Mac.

Homebuying Indicators



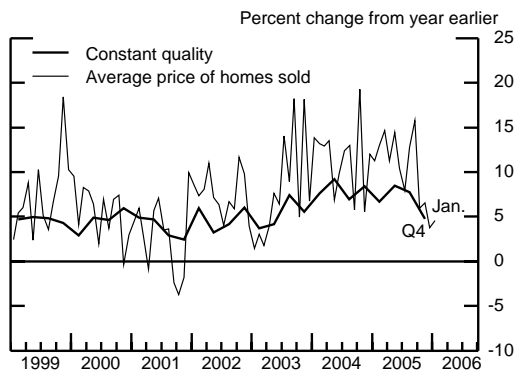
Note. MBA index is a 4-week moving average.
Source. Mortgage Bankers Association and Michigan Survey.

Prices of Existing Homes



Source. For repeat transactions, OFHEO; for average price, National Association of Realtors.

Prices of New Homes



Note. Starting in 2005, average price values are adjusted by Board staff to take into account new sampling procedures.
Source. Census Bureau.

new permit issuance in this sector—adjusted for activity in areas where permits are not required—declined in February, continuing a downward trajectory that began in October. The number of permits issued in February suggests that single-family starts will likely move noticeably lower in coming months. After an unusual spike in January, multifamily housing starts dropped back last month to a rate within the range observed since 1997.

Home sales have receded in recent months. Sales of existing single-family homes fell 1½ percent in January after having dropped 4¾ percent in December, and are nearly 9 percent below their peak of last summer. Sales of new homes retreated 5 percent in January and are down 10 percent from their recent peak.

Recent indicators point to some further moderation in housing demand in coming months: The stock of homes for sale has increased recently, and months' supply of both new and existing homes are now at their highest levels since 1998; the Mortgage Bankers Association's index of mortgage applications for home purchases continued to decline through mid-March; and the Michigan Survey index of home buying attitudes has also continued to trend lower. Housing demand is likely being damped by rising mortgage rates, which have moved up further in recent months. The average rate on thirty-year fixed-rate mortgages now stands about 70 basis points higher than in the middle of last year, and the average rate on one-year adjustable-rate mortgages has risen about 1 percentage point over that period.

House price appreciation appears to have slowed some from the rapid pace of last summer, but price increases for both new and existing homes remain well within the elevated range that has prevailed in recent years. The purchase-only version of the OFHEO price index for existing homes, which controls for differences in quality by tracking repeat sales of the same houses over time, was 11 percent higher in the fourth quarter than it was a year earlier.⁶ This rate of increase was smaller than the four-quarter changes of last summer and autumn but about the same as the four-quarter change in 2004. In January, the average price of existing homes sold was 9 percent higher than a year earlier, a slightly smaller increase than during the comparable period twelve months earlier. A deceleration in new home prices is more evident. The constant-quality price index for new homes—which controls for changes in the geographic composition of

⁶ The overall OFHEO house price index, which includes house price changes based on refinance transactions, was 13 percent higher in the fourth quarter than it was a year earlier. This increase was a bit below the four-quarter changes posted around the middle of last year.

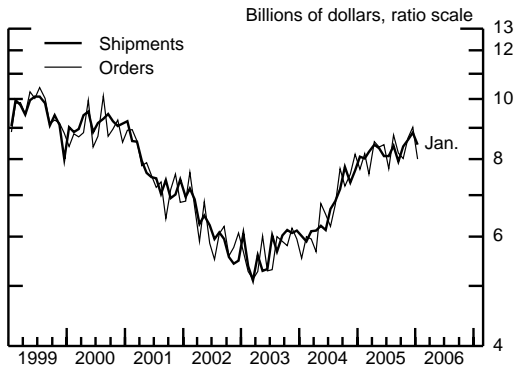
Orders and Shipments of Nondefense Capital Goods

(Percent change; seasonally adjusted current dollars)

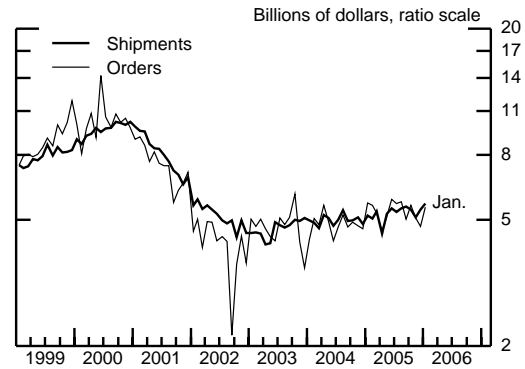
Category	2005				2006
	Q3	Q4	Nov.	Dec.	Jan.
	Annual rate		Monthly rate		
Shipments	1.8	35.1	3.4	5.2	-2.6
Excluding aircraft	3.2	15.6	.5	3.8	.4
Computers and peripherals	-6.6	24.2	2.5	2.7	-4.4
Communications equipment	30.8	-9.2	-5.5	5.8	4.4
All other categories	2.3	17.3	.9	3.8	.8
Orders	-15.6	89.9	22.1	1.9	-19.6
Excluding aircraft	4.0	11.9	.1	4.9	.1
Computers and peripherals	-10.7	17.7	7.8	4.3	-11.1
Communications equipment	23.2	-21.3	-8.9	-5.8	14.6
All other categories	4.8	15.2	-.2	6.1	.8
Memo: Shipments of complete aircraft ¹	26.2	27.6	26.4	27.5	31.7

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

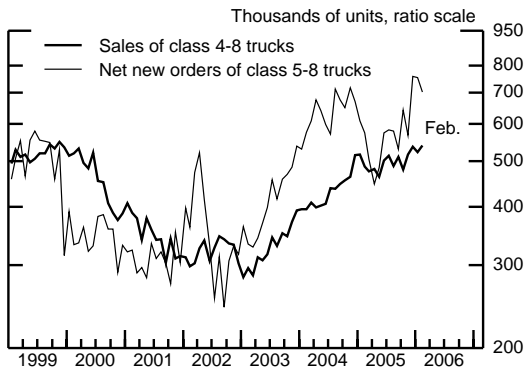
Computers and Peripherals



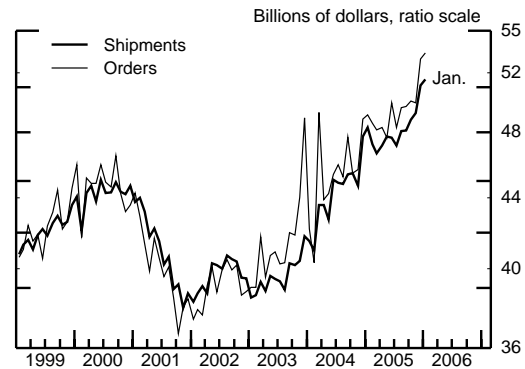
Communications Equipment



Medium and Heavy Trucks



Non-high-tech, Non-trans. Equipment



Note. Annual rate, FRB seasonals.
Source. For class 4-8 trucks, Ward's Communications;
for class 5-8 trucks, ACT Research.

sales, home size, and other readily measurable attributes—was 5 percent higher in the fourth quarter than it was a year earlier, down from roughly an 8 percent gain over the four quarters of 2004; increases in the average price of new homes have also moderated.⁷

Equipment and Software

Real outlays for equipment and software (E&S) decelerated to a 6 percent annual rate of growth in the fourth quarter, following an average increase of 10 percent in the first three quarters of 2005. However, available data for January and February suggest appreciably greater strength in the current quarter. This pattern reflects sizable swings in outlays for transportation equipment. Excluding such outlays, E&S spending increased at an average annual rate of 9¾ percent over the second half of 2005 and looks poised to post another sizable increase in the current quarter.

The fundamentals underlying capital spending continue to be supportive: Business output has been expanding briskly, firms are flush with cash, and the user cost of capital continues to decline as the relative price of high-tech equipment remains on a steep downtrend. Industry surveys also point to ongoing strength in E&S spending.

Business spending on transportation equipment, which declined at an 11½ percent rate in the fourth quarter because of a sharp drop in aircraft purchases, appears to be rebounding sharply this quarter. Shipments of civilian aircraft moved up in January, and Boeing reported that aircraft deliveries were strong in February. Although aircraft bookings retreated sharply in January from their extraordinarily high levels at the end of last year, orders for aircraft are placed with long lead times, and the sizable backlog of orders already in hand bodes well for deliveries in the near term.⁸

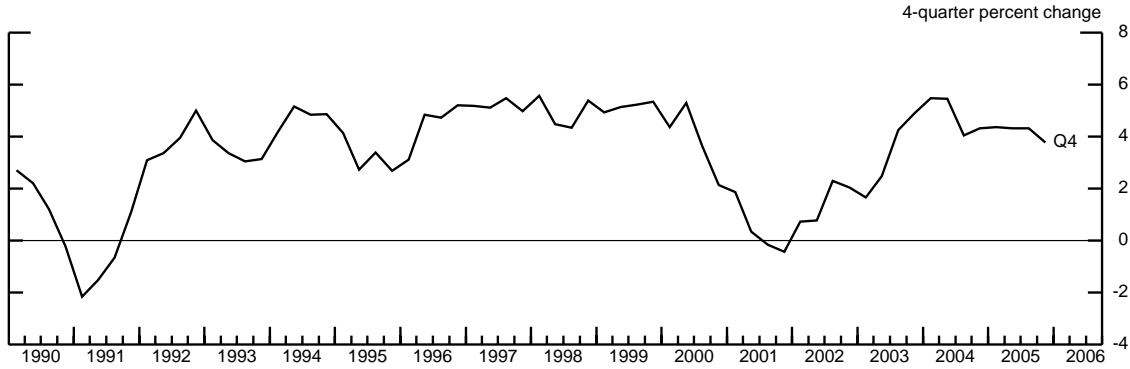
Business spending on motor vehicles has remained quite robust.

⁷ In January 2005, the Census Bureau began phasing in a new sampling frame for new home sales, and the sales prices of homes in the current sample are not comparable to those in the previous sample. The sample of homes sold in 2005 contained a mixture of homes drawn from both the old and new sampling frames, making the year-to-year changes in the reported average price of new homes difficult to interpret. The twelve-month percent change in average prices shown on the chart has been adjusted by the Board's staff to account for the change in the sampling frame.

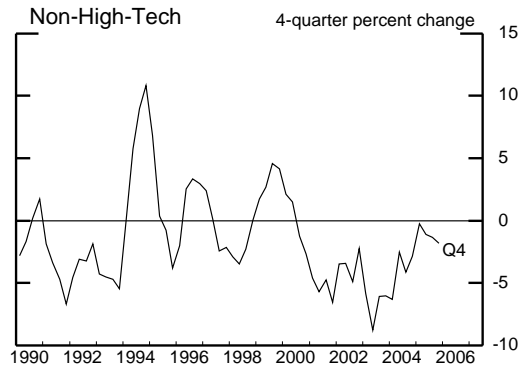
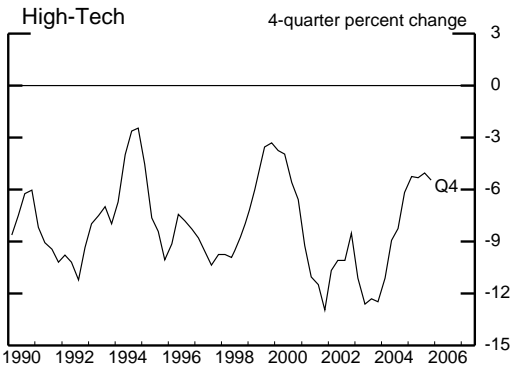
⁸ Shipments of finished aircraft can differ significantly from the current production of aircraft, as the production measure reflects work in progress for delivery up to nearly one year ahead.

Fundamentals of Equipment and Software Investment

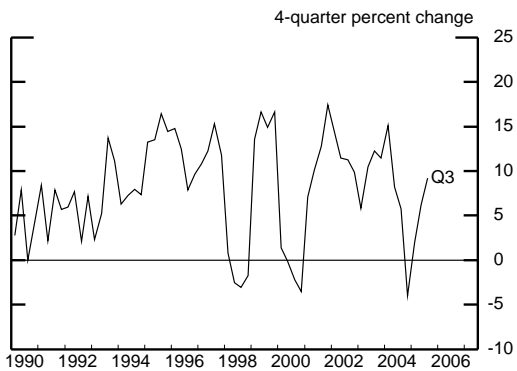
Real Business Output



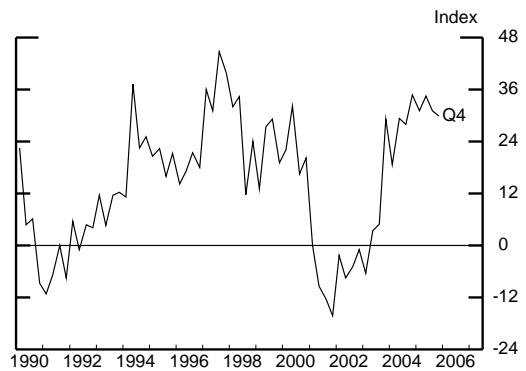
User Cost of Capital



Real Corporate Cash Flow



NABE Capital Spending Diffusion Index



Note. The diffusion index equals the percentage of respondents planning to increase spending minus the percentage of respondents planning to reduce spending.
Source. NABE Industry Survey.

. Sales of medium and heavy trucks averaged an annual rate of 530,000 units in January and February, a bit above the already-elevated pace in the previous quarter. Looking ahead, both orders and backlogs for new trucks suggest that demand will remain strong in the near term. Much of the recent strength likely reflects purchases of heavy trucks in advance of the new regulations on engine emissions that are scheduled to take effect in 2007.

Real expenditures on high-tech E&S rose at a moderate annual rate of 11 $\frac{3}{4}$ percent in the fourth quarter, and monthly indicators point to a stronger gain in the first quarter. Nominal shipments of communications equipment leapt 4 $\frac{1}{2}$ percent in January on top of a large increase in December, and January orders also rose considerably. Thus, real outlays on communications equipment are likely to rebound significantly this quarter, a move that would be consistent with expenditure plans reported by telecom service providers and anecdotes from communications equipment producers. Nominal shipments of computers and peripherals declined 4 $\frac{1}{2}$ percent in January after a notable increase in the fourth quarter, and nominal orders dropped 11 percent. However, because prices have continued to decline, real expenditures are likely to post a moderate gain in the current quarter.

Real outlays for non-high-tech, nontransportation equipment surged late last year, expanding at an annual rate of 8 percent in the fourth quarter. In January, nominal shipments increased $\frac{3}{4}$ percent—the sixth straight month of solid gains, and orders also rose $\frac{3}{4}$ percent. These monthly data suggest this category of spending will remain strong in the near-term.

Nonresidential Construction

Although vacancy rates for nonresidential properties have declined on balance in the past two years (especially for office buildings), real spending on new construction has yet to gain traction. The vacancy rate for office buildings was about 12 percent in the first two months of the year, around 2 percentage points below its peak in the first quarter of 2004. In the retail sector (which accounts for a major portion of spending on commercial buildings), vacancy rates also remain low. Nevertheless, real expenditures on both office and retail buildings are still sluggish, and real outlays for structures in the manufacturing sector have been flat for the past year after increasing a bit in late 2004.

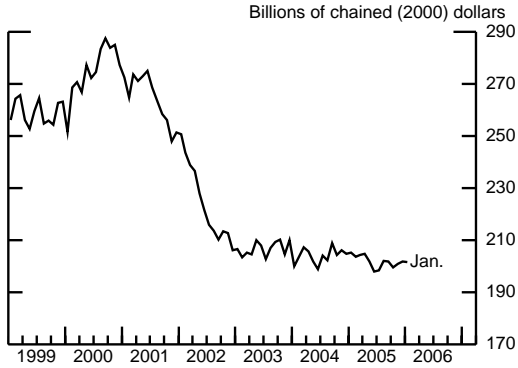
In contrast to the building categories of nonresidential investment, outlays for drilling and mining structures continued to rise rapidly, at an annual rate of 16 $\frac{1}{2}$ percent in the fourth

Nonresidential Construction and Indicators

Real Construction

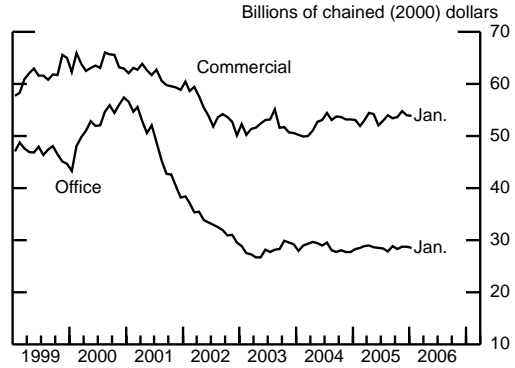
(Seasonally adjusted, annual rate; nominal CPIP deflated by BEA prices through Q3 and by staff projection thereafter)

Total Structures

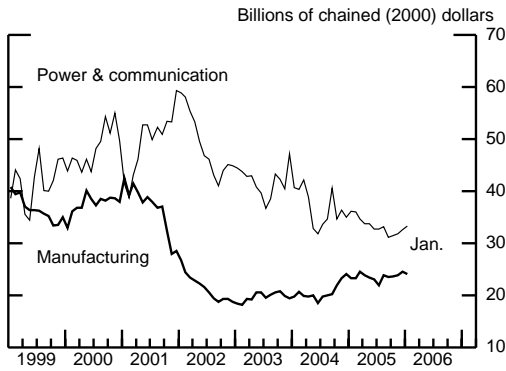


Note. Data revised to incorporate a more accurate price deflator.

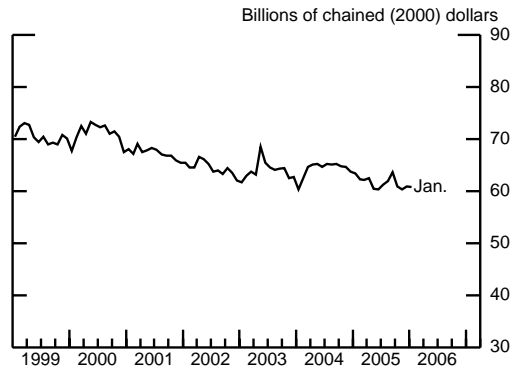
Office and Commercial



Manufacturing and Power & Communication



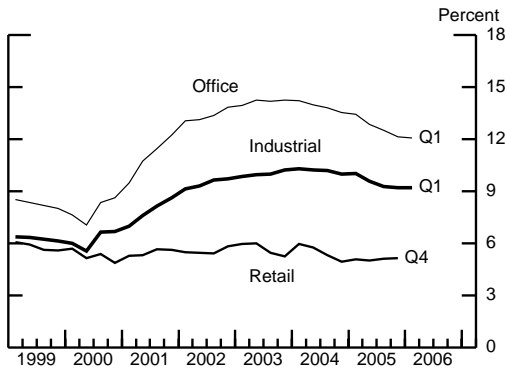
Other



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

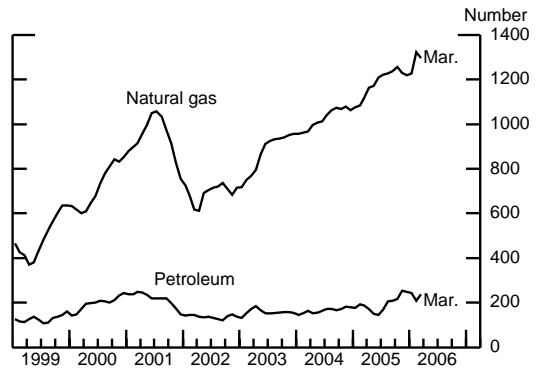
Indicators

Vacancy Rates



Note. The Q1 readings are based on data through February. Source. For office and industrial, CoStar Property Professional; for retail, National Council of Real Estate Investment Fiduciaries.

Drilling Rigs in Operation



Note. March values are averages through March 17, 2006. Source. DOE/Baker Hughes.

quarter. The number of gas rigs in operation has risen further since the turn of the year, suggesting that real expenditures on drilling and mining structures will continue to increase in the near term.

Business Inventories

The book value of manufacturing and trade inventories excluding motor vehicles rose at a moderate pace in the fourth quarter, though much of the increase reflected rising prices for goods held in this sector. In real terms, inventories ran off in October and were unchanged in November as supply interruptions following the hurricanes held down stockbuilding. Indeed, ISM purchasing managers considered customer inventory levels in September and October to have been too low. However, real stocks rebounded in December, and customer inventories since then have been viewed as being in a comfortable range. On a book-value basis, inventories in January rose at an annual rate of \$55 billion. However, prices appear to have risen again, suggesting that real accumulation in January was subdued. The inventory-sales ratio declined slightly in January, consistent with the downward long-run trend in this measure.

Information from the Board staff's flow-of-goods inventory system, which measures inventories wherever held, suggests that—excluding motor vehicles and parts—days' supply of inventories was flat in February after falling for four consecutive months. Apart from paper products, where stocks remain excessive, inventories appear to be well aligned with consumption.

Federal Government

The federal budget deficit was smaller over the past two months than over the same period last year. According to the Monthly Treasury Statement, the federal government recorded a cumulative deficit of \$98 billion in January and February, compared with the \$105 billion deficit posted for the same months in 2005. Over the twelve months ending in February, the deficit of \$313 billion was lower than the \$408 billion deficit recorded over the comparable period twelve months earlier.

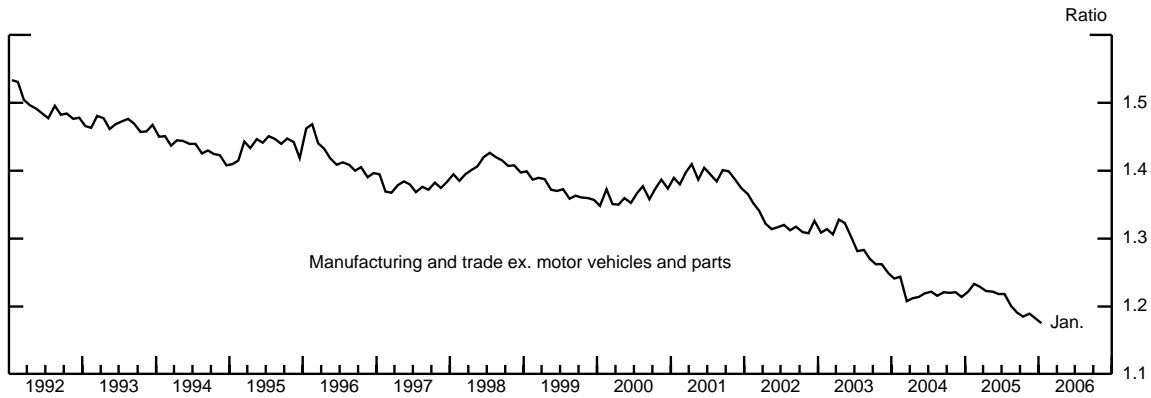
Federal tax receipts have continued to rise faster than nominal income. Total receipts in January and February increased 13 percent from year-earlier levels, with sizable gains in corporate and individual income and payroll taxes. Moreover, data from the Daily Treasury Statements indicate that final corporate tax payments due March 15 were \$8 billion, or 29 percent, above payments made a year ago. Individual income tax refunds through mid-March are less than 4 percent greater than last year. However, it is

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

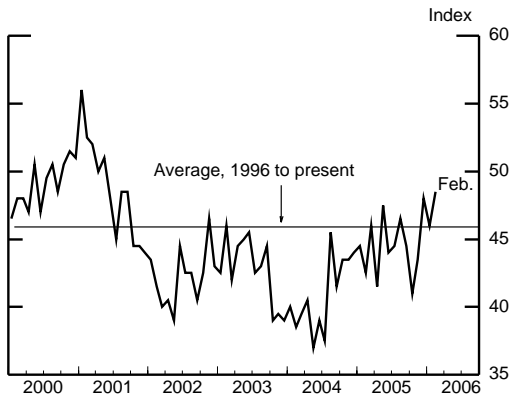
Sector	2005					2006
	Q3	Q4	Oct.	Nov.	Dec.	Jan.
Manufacturing and trade Ex. wholesale and retail motor vehicles and parts	21.7	90.9	60.3	90.6	121.9	62.1
Manufacturing Ex. aircraft	8.3	27.5	33.9	14.4	34.1	27.9
Wholesale trade Motor vehicles and parts Ex. motor vehicles and parts	16.1	24.2	10.3	21.9	40.4	4.9
Retail trade Motor vehicles and parts Ex. motor vehicles and parts	-2.7	39.2	16.1	54.2	47.4	29.3
Memo: Manufacturing and trade Ex. motor vehicles and parts ¹ (Chained 2000 dollars)	10.7	14.4	-18.7	-.1	62.1	15.8

1. The value for January 2006 is a staff estimate.

Book-Value Inventories Relative to Shipments and Sales

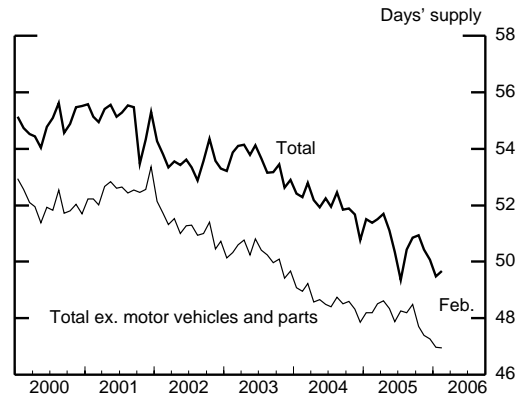


ISM Customer Inventories: Manufacturing



Note. A number above 50 indicates inventories are "too high."

Inventory-Consumption Ratios, Flow-of-Goods System



Federal Government Outlays and Receipts

(Unified basis; billions of dollars except as noted)

Function or source	January-February			12 months ending in February		
	2005	2006	Percent change	2005	2006	Percent change
Outlays	408.5	441.1	8.0	2359.9	2548.7	8.0
Financial transactions ¹	-.1	-.4	...	-1.5	-1.3	...
Payment timing ²	-11.7	-12.4	...	1.2	-.4	...
Adjusted outlays	420.2	453.8	8.0	2360.2	2550.4	8.1
Receipts	303.1	342.9	13.1	1952.1	2236.1	14.5
Payment timing	.0	.0	...	.0	.0	...
Adjusted receipts	303.1	342.9	13.1	1952.1	2236.1	14.5
Surplus or deficit (-)	-105.4	-98.2	...	-407.8	-312.6	...
<i>Selected components of adjusted outlays and receipts</i>						
Adjusted outlays	420.2	453.8	8.0	2360.2	2550.4	8.1
Net interest	28.1	32.9	17.2	166.1	201.1	21.1
Non-interest	392.1	420.9	7.3	2194.1	2349.3	7.1
National defense	76.5	82.3	7.6	469.6	502.3	7.0
Social Security	86.5	92.1	6.4	506.4	535.3	5.7
Medicare	45.0	57.4	27.6	278.7	308.8	10.8
Medicaid	27.6	27.2	-1.2	178.1	183.0	2.7
Income security	80.4	82.2	2.3	338.2	348.0	2.9
Agriculture	6.1	5.8	-5.2	23.9	30.7	28.4
Other	70.2	73.9	5.3	399.1	441.2	10.6
Adjusted receipts	303.1	342.9	13.1	1952.1	2236.1	14.5
Individual income and payroll taxes	265.5	297.5	12.1	1543.5	1727.0	11.9
Withheld + FICA	260.7	283.2	8.6	1437.9	1533.0	6.6
Nonwithheld + SECA	52.4	62.8	19.8	292.5	375.2	28.3
Less: Refunds	47.6	48.5	1.8	189.1	181.3	-4.1
Corporate	8.4	13.6	62.0	213.7	299.8	40.3
Gross	12.5	19.3	54.0	248.9	329.0	32.2
Less: Refunds	4.1	5.7	37.9	35.2	29.2	-17.0
Other	29.2	31.8	8.8	194.9	209.3	7.4
Adjusted surplus or deficit (-)	-117.2	-111.0	...	-408.1	-314.3	...

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 3 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. In addition, defense outlays have been adjusted to treat the timing of accruals for retiree health consistently.

... Not applicable.

Source. Monthly Treasury Statement.

OMB and CBO Budget Projections and Economic Assumptions

Item	2006	2007	2008	2009	2010	2011
Budget projections¹	Billions of dollars, fiscal years					
Receipts						
OMB	2285	2416	2590	2714	2878	3035
CBO	2304	2431	2585	2712	2852	2964
Outlays						
OMB	2709	2770	2814	2922	3061	3240
CBO	2675	2766	2820	2906	3017	3167
Surplus						
OMB	-423	-354	-223	-208	-183	-205
CBO	-371	-335	-236	-194	-165	-204
	Percent of GDP, fiscal years					
Receipts						
OMB	17.5	17.6	17.8	17.7	17.9	17.9
CBO	17.6	17.6	17.8	17.8	17.8	17.7
Outlays						
OMB	20.8	20.1	19.4	19.1	19.0	19.1
CBO	20.4	20.1	19.4	19.0	18.8	18.9
Surplus						
OMB	-3.2	-2.6	-1.5	-1.4	-1.1	-1.2
CBO	-2.8	-2.4	-1.6	-1.3	-1.0	-1.2
Economic assumptions	Percent change, year over year, calendar years					
Real GDP						
OMB	3.4	3.3	3.3	3.1	3.1	3.1
CBO	3.6	3.4	3.4	3.3	3.0	2.8
GDP price index						
OMB	2.4	2.2	2.1	2.1	2.1	2.1
CBO	2.4	1.8	1.8	1.8	1.8	1.8
CPI-U						
OMB	3.0	2.4	2.4	2.4	2.4	2.5
CBO	2.8	2.2	2.2	2.2	2.2	2.2
	Percent, annual average, calendar years					
Unemployment rate						
OMB	5.0	5.0	5.0	5.0	5.0	5.0
CBO	5.0	5.0	5.1	5.2	5.2	5.2
Three-month Treasury yield						
OMB	4.2	4.2	4.3	4.3	4.3	4.3
CBO	4.5	4.5	4.4	4.4	4.4	4.4
Ten-year Treasury yield						
OMB	5.0	5.3	5.5	5.6	5.6	5.6
CBO	5.1	5.2	5.2	5.2	5.2	5.2

1. The OMB's and CBO's projections assume that the policies proposed in the Administration's budget are enacted.

Source: Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2007* (February 2006); and Congressional Budget Office, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2007* (March 2006).

still early in the tax refund season; as of mid-March, refunds have cumulated to only about half of the total projected for the season.

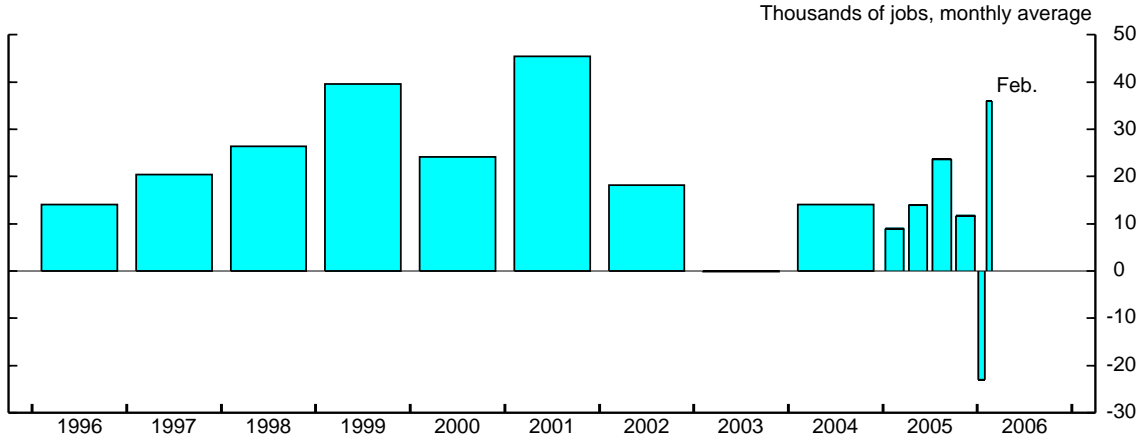
Federal outlays in January and February increased more slowly than receipts but still are 8 percent above year-earlier levels. Defense spending rose 7½ percent, an increase consistent with a hefty first-quarter rebound in the NIPA measure of real federal defense purchases. Outlays for Social Security, which were about 6½ percent higher than a year earlier, were boosted in part by a 4.1 percent cost-of-living adjustment for benefits this year; this adjustment is almost 1½ percentage points higher than last year and the largest since 1990. Spending for Medicare soared more than 27 percent in January and February, largely because of the new Part D payments for prescription drugs. The Part D payments that previously were covered under Medicaid are also contributing to the decrease in Medicaid outlays compared with last year. Net interest payments were 17 percent greater than a year ago because of the higher level of federal debt and the rise in interest rates.

The Congressional Budget Office (CBO) published its annual budget outlook, and the Administration submitted its budget for fiscal year 2007 to the Congress. The Office of Management and Budget (OMB) estimates that, if the Administration's policy proposals are enacted, the unified deficit for fiscal 2006 would be \$423 billion, or 3.2 percent of nominal GDP. However, using the same assumptions about policy, the CBO puts the deficit at \$371 billion, or 2.8 percent of GDP, with the difference attributable to economic and technical assumptions. The Administration's budget proposals would increase spending this year, primarily for military activities in Iraq and Afghanistan, and would reduce taxes. The tax reduction would mostly come from extending expired tax provisions related to relief from the alternative minimum tax for individuals and to the business tax credit for research and experimentation.

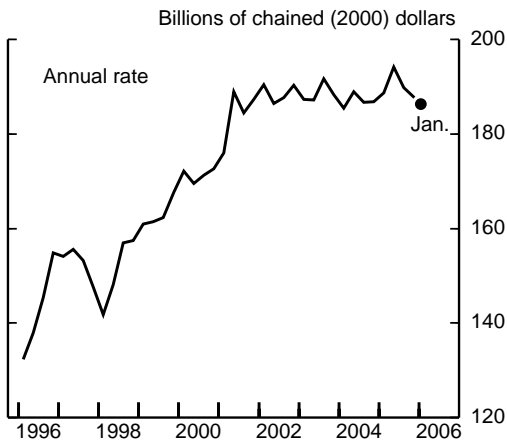
The House passed a supplemental appropriations bill that included \$72 billion in funding for the war on terrorism and \$19 billion for hurricane disaster relief; the Senate has not yet voted on a supplemental bill. These levels of supplemental appropriations are very similar to requests in the President's budget. The funding for the war on terrorism would help maintain current levels of spending for military activities in Iraq and Afghanistan for this year. The spending resulting from the additional appropriations for hurricane relief probably will not be noticeable until next fiscal year and thereafter. In a separate action, the Congress recently sent legislation to the President to increase the borrowing authority of the federal flood insurance program by more than \$2 billion dollars; and because the

State and Local Indicators

Net Change in Employment

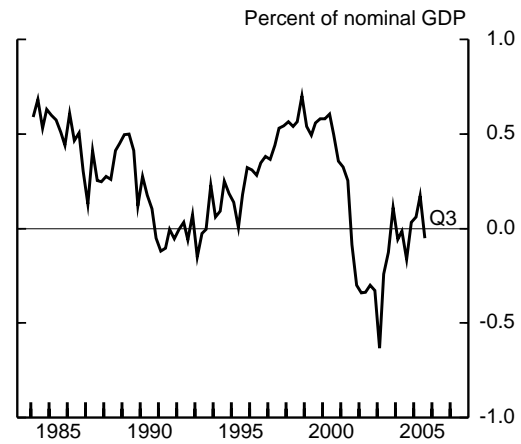


Real Construction

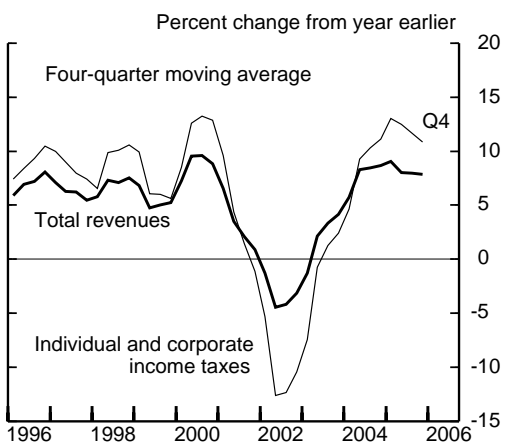


Note. Nominal CIPPI deflated by BEA prices through Q4 and by staff projection thereafter.

Net Saving

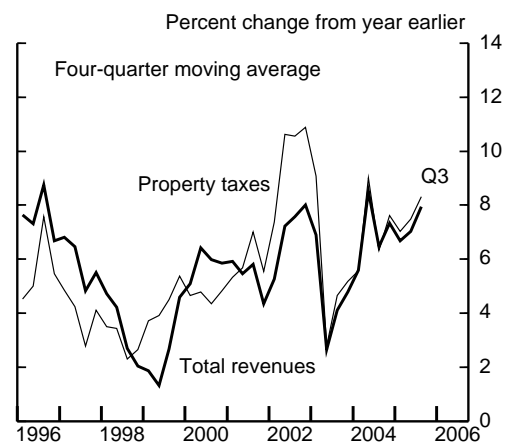


State Revenues



Source. Census Bureau through Q3. The value for Q4 is a staff estimate based on data from the Rockefeller Institute of Government.

Local Revenues



Source. Census Bureau.

program is expected to run out of money to pay claims in April, an additional \$4 billion is being considered.

State and Local Government

Real purchases by state and local governments appear to have gotten off to a slow start in the current quarter. Expenditures for construction fell sharply in real terms in both the third and fourth quarters of 2005 after having moved up in the first half of the year. Construction spending decreased 0.2 percent in nominal terms in January and is likely down considerably in real terms given the large increases lately in prices of construction-related materials. Employment by state and local governments declined in January, in part because many workers at educational establishments were still on holiday layoffs during the reference week for the payroll survey, which occurred relatively early in the month. Hiring rebounded in February, but the average job gain over the two months was just 7,000—only about half the average pace in 2005.

Strong growth in income and in retail sales have continued to bolster state revenues, which are estimated to have risen about 8 percent between the fourth quarter of 2004 and the fourth quarter of 2005. With revenues holding up well, many states apparently are contemplating at least moderate increases in spending (especially for education) in fiscal 2007, which will start on July 1 in all but four states. The governor of California has proposed a rise of 8½ percent in general-fund spending for fiscal 2007, while the governors of several other states have requested increases in the vicinity of 5 percent. In Michigan, the governor wants to keep a tight rein on spending to address the state's ongoing budget difficulties.

Prices

The overall CPI edged up in February after a large increase in January. Energy prices dropped back last month, while prices of food and core items posted modest increases. Given these CPI data, we estimate that overall PCE prices also inched up last month, leaving the twelve-month change in February at 2.9 percent, a pickup of 0.3 percentage point from the increase in the preceding year. Core PCE prices appear to be up 1.8 percent in February from a year earlier, a deceleration of 0.4 percentage point from the preceding year.

We estimate that PCE prices for energy fell 1.1 percent in February after a jump of 5 percent in January. Since the January Greenbook, the spot price of West Texas intermediate has fallen more than 9 percent, largely because of an increase in oil

Measures of Inflation
(Percent)

Measures	12-month change		3-month change		1-month change	
	Feb. 2005	Feb. 2006	Annual rate		Monthly rate	
			Nov. 2005	Feb. 2006	Jan. 2006	Feb. 2006
<i>CPI</i>						
Total	3.0	3.6	3.3	2.7	.7	.1
Food	2.6	2.8	3.0	2.7	.5	.1
Energy	10.4	20.1	11.4	6.3	5.0	-1.2
Ex. food and energy	2.4	2.1	2.6	2.0	.2	.1
Core goods	.7	.0	.0	.3	.2	-.1
Core services	3.0	2.9	3.4	3.0	.2	.3
Chained CPI (n.s.a.) ¹	2.7	3.0	...	...	...	...
Ex. food and energy ¹	2.1	1.8	...	...	...	...
<i>PCE prices</i> ²						
Total	2.6	2.9	2.8	2.1	.5	.1
Food	2.4	2.5	3.0	2.5	.5	.1
Energy	10.8	20.6	10.1	6.7	5.0	-1.1
Ex. food and energy	2.2	1.8	2.3	1.8	.2	.1
Core goods	.3	-.4	.7	-.4	.1	-.2
Core services	3.0	2.7	2.9	2.7	.2	.3
Core market-based	1.8	1.5	1.9	1.5	.1	.1
Core non-market-based	4.0	n.a.	4.1	n.a.	.4	n.a.
<i>PPI</i>						
Total finished goods	4.7	3.7	7.4	-2.0	.2	-1.4
Food	4.7	-1.3	6.9	-6.7	.2	-2.7
Energy	12.2	17.0	31.2	-10.8	.0	-4.7
Ex. food and energy	2.6	1.7	.3	3.1	.4	.3
Core consumer goods	2.7	1.8	.2	3.2	.4	.2
Capital equipment	2.6	1.6	.0	2.5	.3	.1
Intermediate materials	8.4	8.2	16.8	4.1	1.2	-.3
Ex. food and energy	8.0	4.8	11.1	7.6	1.0	.5
Crude materials	8.3	12.9	73.2	-39.3	-.5	-9.2
Ex. food and energy	5.4	11.9	34.1	15.5	-.1	3.3

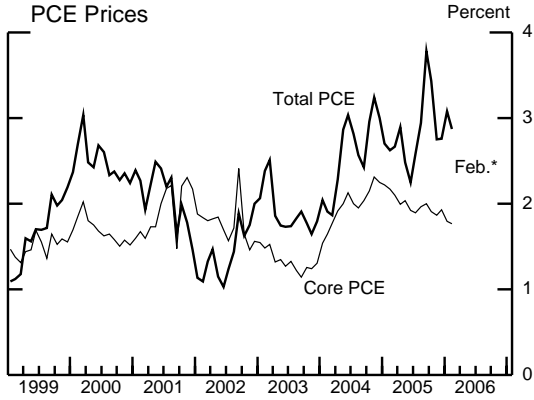
1. Higher-frequency figures are not applicable for data that are not seasonally adjusted.

2. PCE prices in February are staff estimates.

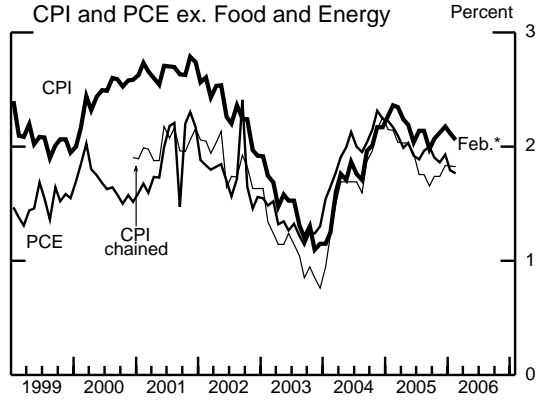
... Not applicable.

n.a. Not available.

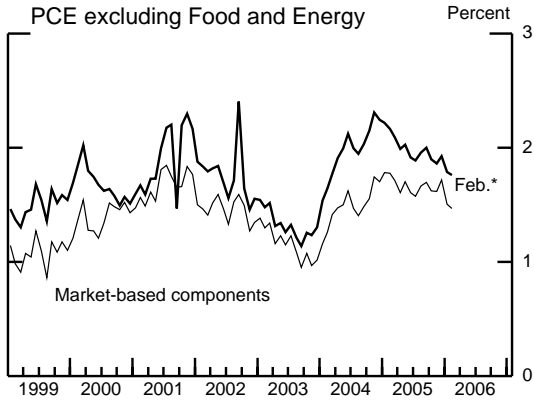
Consumer Price Inflation (12-month change except as noted)



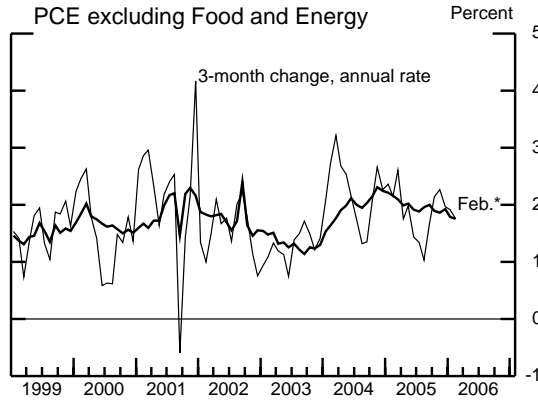
* Staff estimate.



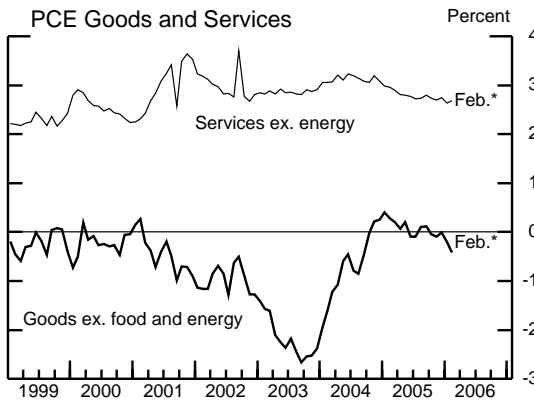
* PCE for February is a staff estimate.



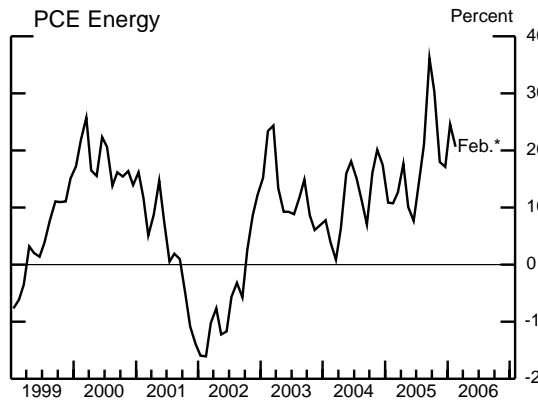
* Staff estimate.



* Staff estimate.



* Staff estimate.

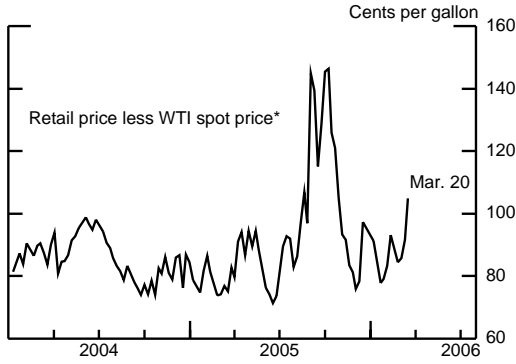


* Staff estimate.

Energy Prices and Inventories

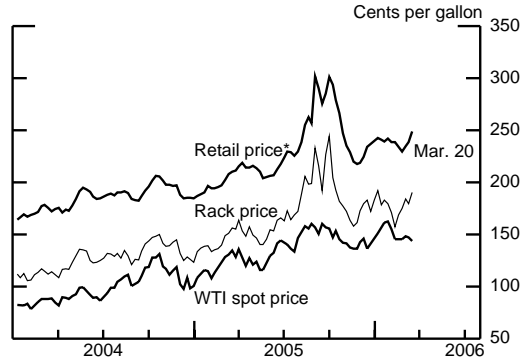
(Data from Energy Information Administration except as noted)

Total Gasoline Margin



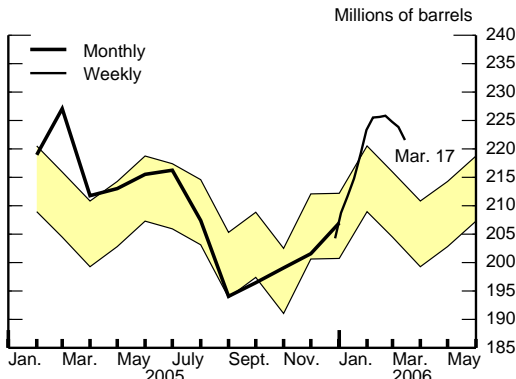
* Regular grade seasonally adjusted by FRB staff, less West Texas intermediate spot price.

Gasoline Price Decomposition



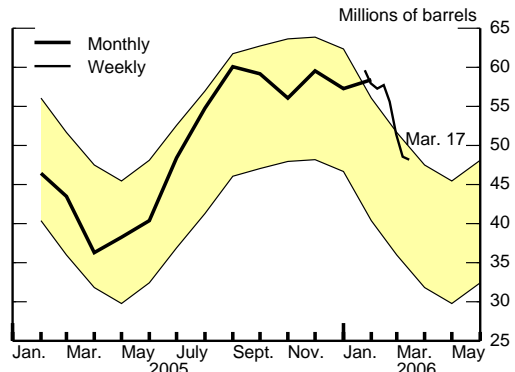
* Regular grade seasonally adjusted by FRB staff.

Gasoline Inventories



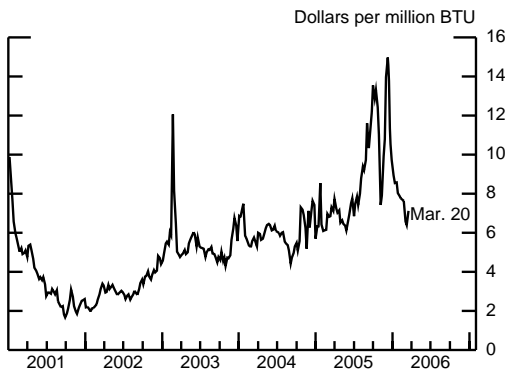
Note. Shaded region is average historical range as calculated by Energy Information Administration.

Heating Oil Inventories



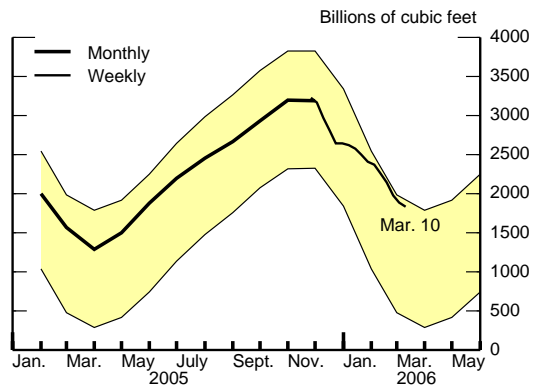
Note. Shaded region is average historical range as calculated by FRB staff.

Natural Gas Prices



Note. National average spot price. Source. Bloomberg.

Natural Gas Inventories



Note. Shaded region is historical range for 2000 to 2004 as calculated by FRB staff.

inventories. In addition, unseasonably mild temperatures since the latter part of December have significantly slowed the normal winter decline in natural gas inventories, helping to push down natural gas prices roughly 17 percent since the January Greenbook. Mild temperatures have also contributed to an abundance of inventories of heating fuel, which, in turn, has encouraged petroleum refiners to adjust their output mix toward gasoline and away from heating oil, thereby lifting stocks of gasoline as well. Although these higher inventories pushed down gasoline prices through late February, weekly data for March indicate a sharp rise in gasoline prices that largely reflects the shut down of two refineries for unplanned maintenance. Finally, prices of residential electricity, which rose sharply around the turn of the year as utilities passed along higher costs for coal and other fuels, moved up further in February.

We estimate that the PCE price index for food rose 0.1 percent in February after a jump of 0.5 percent in the preceding month that largely reflected temporary spikes in prices for some vegetables. More broadly, ample domestic supplies of crops, livestock, and poultry have been helping to keep consumer food price inflation in check.

Excluding food and energy, both the January and February readings on consumer price inflation were favorable. We estimate that core PCE prices rose 1.8 percent over the twelve months ending in February, 0.4 percentage point less than in the preceding year. Core goods prices—which account for a little less than a third of the index—decelerated 0.7 percentage point over this period, while prices for core services decelerated 0.3 percentage point.

Broader measures of inflation moved slightly higher last year, but their core components were roughly unchanged. GDP prices excluding food and energy rose 2.8 percent over the four quarters of 2005—identical to the rate of increase in 2004—as a deceleration in core consumer prices was offset by a pickup in nonresidential construction prices.

The Michigan SRC measure of median one-year inflation expectations rose, on a preliminary reading, to 3.2 percent in March. However, median five- to ten-year inflation expectations in early March stayed below 3 percent for the third month in a row. In comparison, inflation compensation implied by rate spreads on CPI-indexed Treasury bonds was around 2½ percent for both five- and ten-year maturities, little changed from the inflation compensation indicated at the time of the January Greenbook.

Broad Measures of Inflation
(Percent change, Q4 to Q4)

Measure	2002	2003	2004	2005
<i>Product prices</i>				
GDP price index	1.7	2.0	2.9	3.1
Less food and energy	1.9	1.7	2.8	2.8
Nonfarm business chain price index	1.1	1.1	2.7	3.1
<i>Expenditure prices</i>				
Gross domestic purchases price index	1.9	2.0	3.4	3.5
Less food and energy	1.7	1.7	2.7	2.6
PCE price index	1.8	1.7	3.1	3.0
Less food and energy	1.6	1.3	2.2	1.9
PCE price index, market-based components	1.7	1.6	2.8	3.0
Less food and energy	1.4	1.0	1.7	1.7
CPI	2.2	1.9	3.3	3.7
Less food and energy	2.1	1.2	2.1	2.1
Chained CPI	1.8	1.7	3.1	3.1
Less food and energy	1.7	.8	2.1	1.8
Median CPI	3.0	2.1	2.2	2.4
Trimmed mean CPI	2.1	1.7	2.2	2.5

Surveys of Inflation Expectations
(Percent)

Period	Actual CPI inflation ¹	University of Michigan				Professional forecasters (10-year) ⁴
		1 year ²		5 to 10 years ³		
		Mean	Median	Mean	Median	
2004: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	3.3	3.4	3.0	3.1	2.8	2.5
2005:Q1	3.0	3.6	3.0	3.2	2.8	2.5
Q2	2.9	3.9	3.2	3.3	2.9	2.5
Q3	3.8	4.3	3.5	3.5	2.9	2.5
Q4	3.7	4.6	3.7	3.5	3.1	2.5
2006:Q1	n.a.	3.7	3.1	3.4	2.9	2.5
Nov.	3.5	4.1	3.3	3.3	3.0	...
Dec.	3.4	4.1	3.1	3.5	3.1	2.5
2006:Jan.	4.0	3.8	3.0	3.4	2.9	...
Feb.	3.6	3.6	3.0	3.3	2.9	...
Mar.	n.a.	3.8	3.2	3.4	2.9	2.5

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.

... Not applicable.

n.a. Not available.

Regarding producer prices, the PPI for capital equipment rose 0.1 percent in February after an advance of 0.3 percent in January. Despite these recent increases, prices of capital equipment have decelerated 1 percentage point over the past twelve months.

At earlier stages of processing, higher energy prices still seem to be passing through to a number of core intermediate materials, although increases in this price measure have moderated from those observed in the immediate aftermath of the hurricanes last autumn. Indeed, prices for energy-intensive intermediate products such as chemicals, plastics, and nitrogenous fertilizers moved down, on balance, in January and February, after particularly sharp increases in the fourth quarter. The PPI for core intermediate materials moved up 0.5 percent in February, less than the average monthly gains seen late last year but above the gains seen last summer.

Prices for core crude materials rose 3.3 percent in February, bringing the twelve-month change in these prices to almost 12 percent, more than twice the rate of increase posted in the preceding year. The Journal of Commerce (JOC) metals index stands 3.7 percent higher than at the time of the January Greenbook. Among the other commodity price indexes that exclude energy, the Commodity Research Bureau (CRB) spot industrials index has risen 1.5 percent since the last Greenbook, while the CRB spot foodstuffs index has fallen 1.8 percent. The JOC industrial index and the CRB futures index, both of which contain a substantial energy component, have declined 1.9 percent and 1.3 percent respectively.

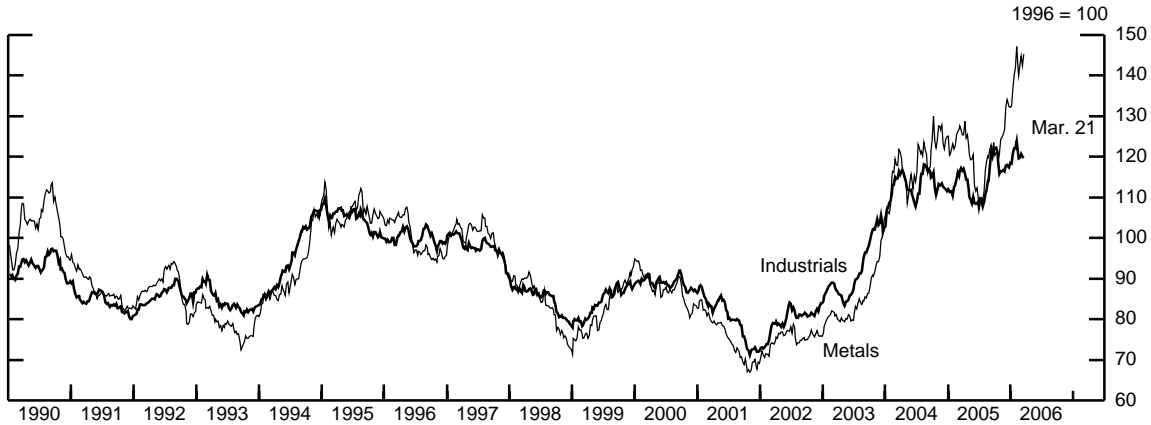
Labor Costs

Over the three months ending in December, the employment cost index (ECI) for hourly compensation of private industry workers rose at an annual rate of 3.2 percent, unchanged from the preceding three-month interval. On a twelve-month-change basis, the ECI increased just 3.0 percent in 2005, 0.8 percentage point less than the increase in the preceding year.

The wages and salaries component of the ECI rose 2.5 percent in 2005, about the same as the increase during the previous year. In contrast, benefit costs rose 4.1 percent in 2005, well below the 6.9 percent increase registered in the previous year. Much of the slowdown in benefit costs reflects substantially smaller increases in firms' contributions to defined-benefit pension plans, a likely consequence of the improved performance of equity markets in the past few years. In addition, although bonus payments picked up

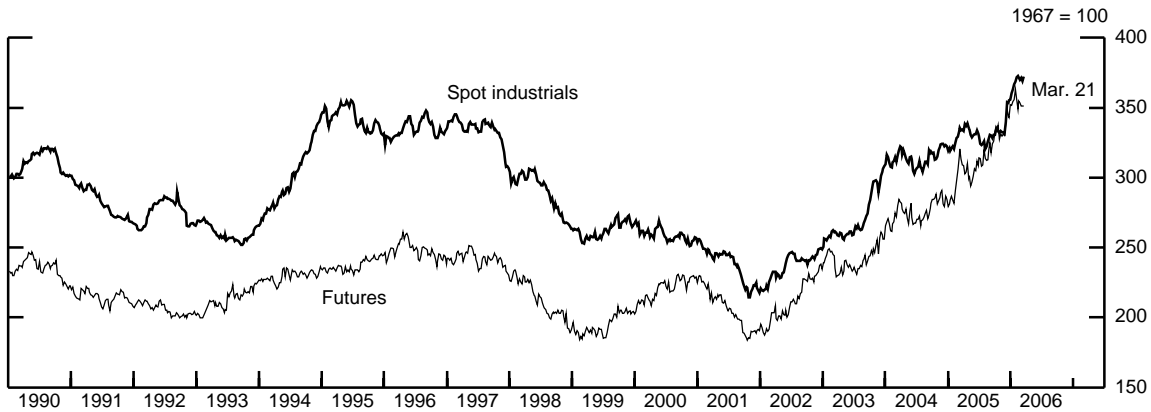
Commodity Price Indexes

Journal of Commerce



Note. The Journal of Commerce (JOC) industrial price index is based almost entirely on industrial commodities, with a small weight given to energy commodities. Copyright for Journal of Commerce data is held by CIBCR, 1994.

Commodity Research Bureau



Note. The Commodity Research Bureau (CRB) spot industrials 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.

Selected Commodity Price Indexes (Percent change)

Index	2005 ¹	12/27/05 to 1/24/06 ²	1/24/06 ² to 3/21/06	52-week change to 3/21/06
JOC industrials	5.3	4.0	-1.9	2.2
JOC metals	5.8	5.9	3.7	14.6
CRB spot industrials	10.1	3.2	1.5	11.4
CRB spot foodstuffs	-6.1	.6	-1.8	-5.8
CRB futures	20.6	3.8	-1.3	12.2

1. From the last week of the preceding year to the last week of the year indicated.

2. January 24, 2006, is the Tuesday preceding publication of the January Greenbook.

last year, employer payments for health insurance and workers' compensation slowed considerably.

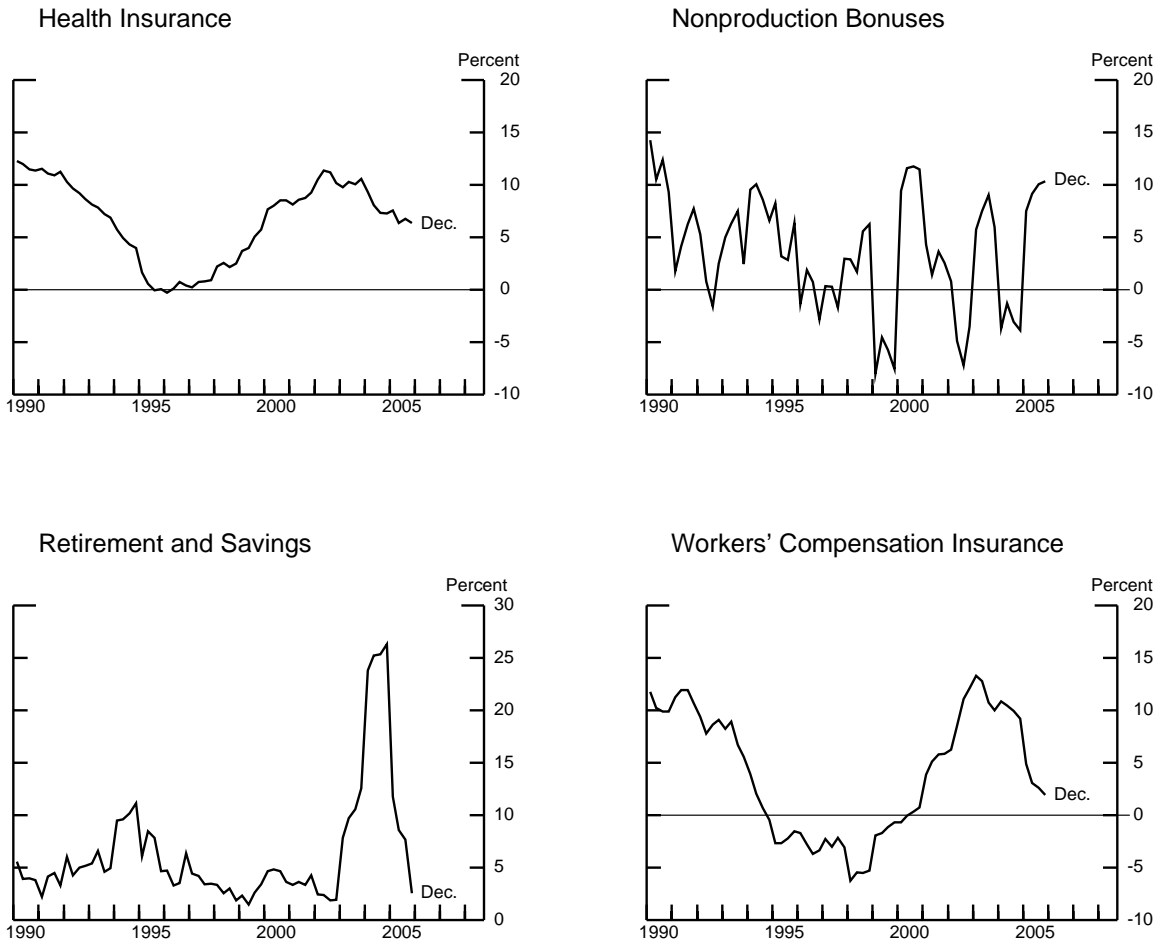
In contrast to the relatively modest gains in the ECI, compensation per hour in the nonfarm business sector is estimated to have risen at an annual rate of 5.5 percent in the third quarter of last year and at a 2.8 percent pace in the fourth quarter. The third-quarter reading now incorporates data from state unemployment insurance tax records, which added almost 1½ percentage points to the initial estimate; the fourth-quarter reading is based on much sparser information. Notwithstanding the upward revision to compensation, the markup of prices over unit labor costs remained higher than the historical average for both the nonfarm business sector (through the fourth quarter) and the nonfinancial corporate sector (through the third quarter, the latest quarter for which data are available).

**Change in Employment Cost Index of Hourly Compensation
for Private-Industry Workers**

Measure	2004	2005			
	Dec.	Mar.	June	Sept.	Dec.
	Quarterly change (compound annual rate) ¹				
Total hourly compensation	3.2	2.5	2.5	3.2	3.2
Wages and salaries	1.7	2.4	2.4	2.4	2.6
Benefits	6.7	4.3	3.2	5.2	3.7
	12-month change				
Total hourly compensation	3.8	3.4	3.2	3.0	3.0
Wages and salaries	2.4	2.4	2.4	2.2	2.5
Benefits	6.9	5.8	4.9	4.8	4.1

1. Seasonally adjusted by the BLS.

ECI Benefits (confidential)
(Private-industry workers; 12-month change)



Hourly Compensation and Unit Labor Costs

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

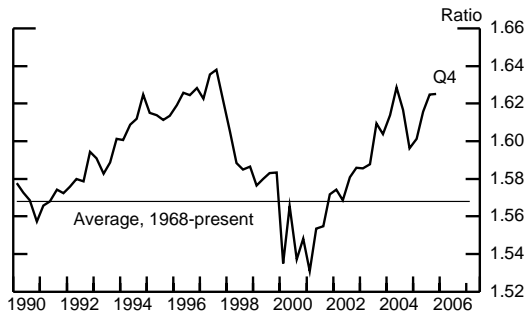
Category	2003:Q4 to 2004:Q4	2004:Q4 to 2005:Q4	2005			
			Q1	Q2	Q3	Q4
<i>Compensation per hour</i>						
Nonfarm business	5.9	3.8	5.6	1.3	5.5	2.8
Nonfinancial corporations ¹	5.5	n.a.	6.0	1.1	6.3	n.a.
<i>Unit labor costs</i>						
Nonfarm business	3.2	1.3	1.8	-1.0	1.2	3.3
Nonfinancial corporations ¹	.6	n.a.	3.1	-3.4	2.1	n.a.

Note. Figures that include the most recent quarter are based on published data rather than the staff forecast.

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.

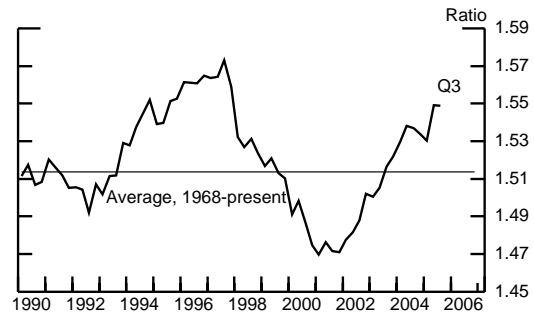
n.a. Not available.

Markup, Nonfarm Business



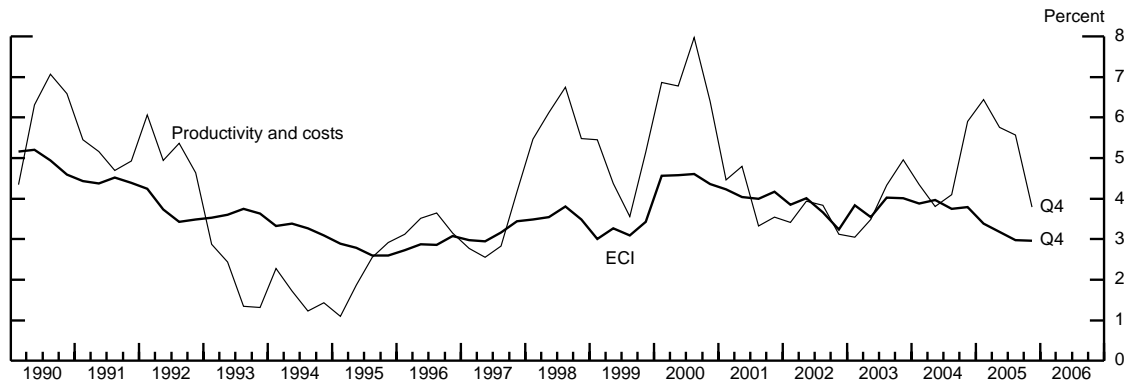
Note. The markup is the ratio of output price to unit labor costs.

Markup, Nonfinancial Corporations



Note. The markup is the ratio of output price to unit labor costs.

Compensation per Hour
(Percent change from year-earlier period)



Domestic Financial Developments

III-T-1
Selected Financial Market Quotations
(One-day quotes in percent except as noted)

Instrument	2004	2005	2006		Change to Mar. 21 from selected dates (percentage points)		
	June 28	Dec. 30	Jan. 30	Mar. 21	2004 June 28	2005 Dec. 30	2006 Jan. 30
<i>Short-term</i>							
FOMC intended federal funds rate	1.00	4.25	4.25	4.50	3.50	.25	.25
Treasury bills ¹							
3-month	1.36	3.99	4.38	4.57	3.21	.58	.19
6-month	1.74	4.22	4.45	4.64	2.90	.42	.19
Commercial paper (A1/P1 rates) ²							
1-month	1.28	4.23	4.47	4.73	3.45	.50	.26
3-month	1.45	4.37	4.55	4.79	3.34	.42	.24
Large negotiable CDs ¹							
3-month	1.53	4.49	4.64	4.90	3.37	.41	.26
6-month	1.82	4.65	4.77	5.01	3.19	.36	.24
Eurodollar deposits ³							
1-month	1.29	4.36	4.56	4.79	3.50	.43	.23
3-month	1.51	4.52	4.67	4.92	3.41	.40	.25
Bank prime rate	4.00	7.25	7.25	7.50	3.50	.25	.25
<i>Intermediate- and long-term</i>							
U.S. Treasury ⁴							
2-year	2.88	4.43	4.54	4.75	1.87	.32	.21
5-year	3.97	4.35	4.49	4.69	.72	.34	.20
10-year	4.90	4.47	4.63	4.81	-.09	.34	.18
U.S. Treasury indexed notes							
5-year	1.56	2.03	1.93	2.12	.56	.09	.19
10-year	2.25	2.10	2.05	2.25	.00	.15	.20
Municipal general obligations (Bond Buyer) ⁵	5.01	4.38	4.42	4.40	-.61	.02	-.02
Private instruments							
10-year swap	5.21	4.92	5.06	5.25	.04	.33	.19
10-year FNMA ⁶	5.30	4.82	4.88	5.06	-.24	.24	.18
10-year AA ⁷	5.59	5.25	5.39	5.58	-.01	.33	.19
10-year BBB ⁷	6.18	5.84	5.96	6.11	-.07	.27	.15
5-year high yield ⁷	8.30	8.28	8.17	8.17	-.13	-.11	.00
Home mortgages (FHLMC survey rate) ⁸							
30-year fixed	6.21	6.21	6.23	6.34	.13	.13	.11
1-year adjustable	4.19	5.16	5.33	5.37	1.18	.21	.04

Stock exchange index	Record high		2005	2006		Change to Mar. 21 from selected dates (percent)		
	Level	Date	Dec. 30	Jan. 30	Mar. 21	Record high	2005 Dec. 30	2006 Jan. 30
Dow Jones Industrial	11,723	1-14-00	10,718	10,900	11,235	-4.16	4.83	3.08
S&P 500 Composite	1,527	3-24-00	1,248	1,285	1,297	-15.07	3.92	.94
Nasdaq	5,049	3-10-00	2,205	2,307	2,294	-54.56	4.03	-.54
Russell 2000	746	3-17-06	673	731	736	-1.34	9.34	.72
Wilshire 5000	14,752	3-24-00	12,518	12,979	13,074	-11.37	4.44	.73

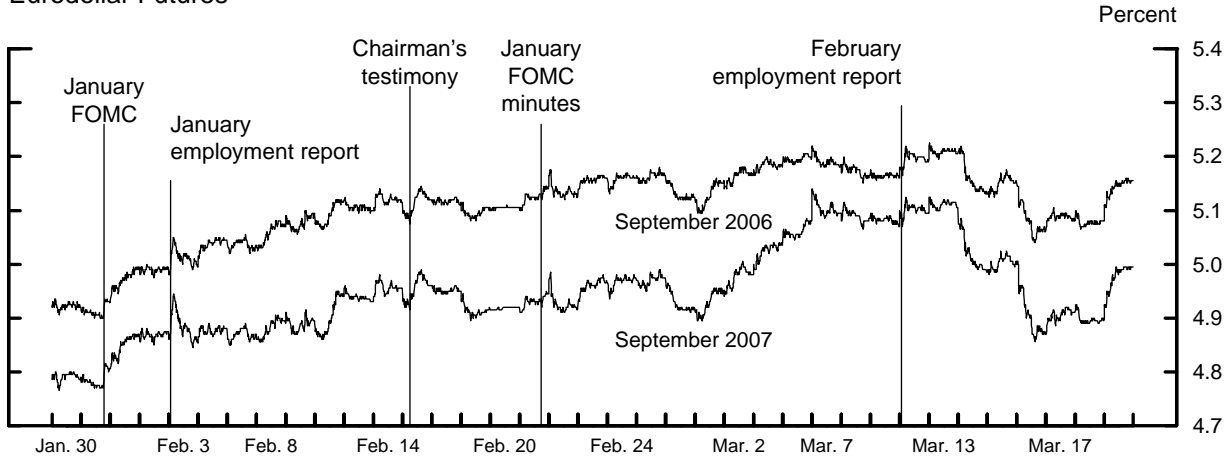
1. Secondary market.
2. Financial commercial paper.
3. Bid rates for Eurodollar deposits collected around 9:30 a.m. eastern time.
4. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
5. Most recent Thursday quote.
6. Constant-maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
7. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.
8. Home-mortgage data for March 21, 2006, is from March 16, 2006.

NOTES:

June 28, 2004, is the day before the most recent policy tightening began.
January 30, 2006, is the day before the most recent FOMC meeting.

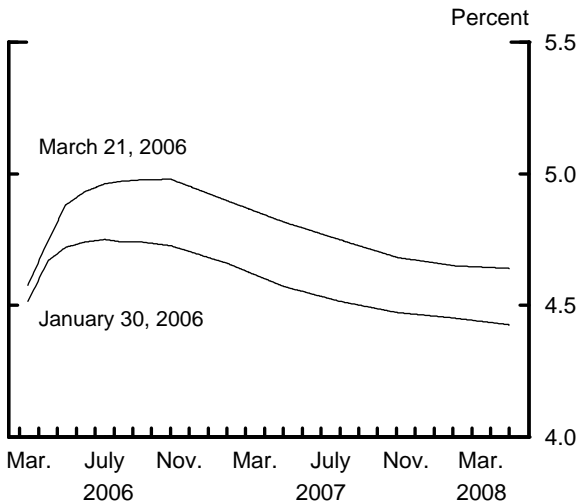
Policy Expectations and Treasury Yields

Eurodollar Futures



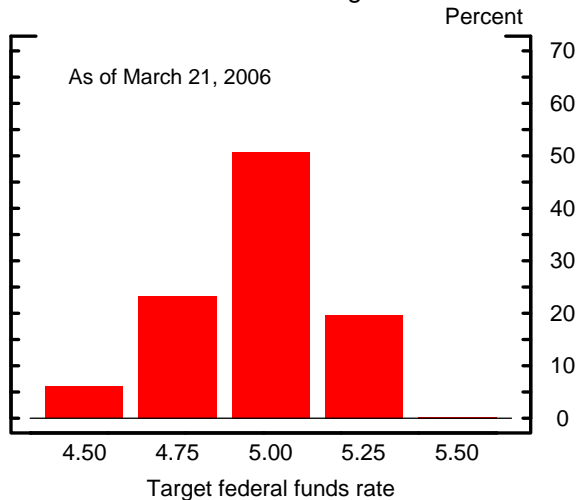
Note. 5-minute intervals.

Expected Federal Funds Rate



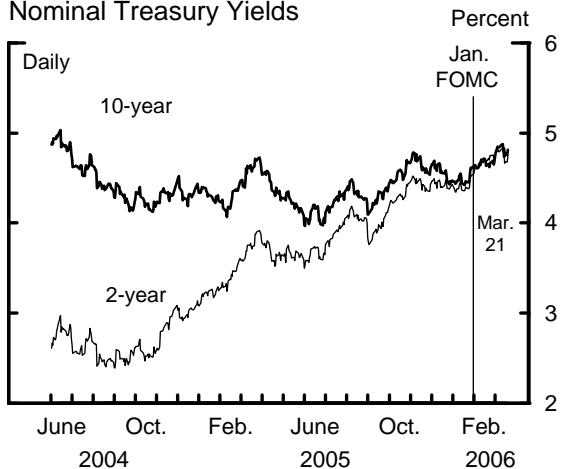
Note. Estimates from federal funds and Eurodollar futures, with an allowance for term premia and other adjustments.

Probability Density for Target Federal Funds Rate after June 2006 Meeting



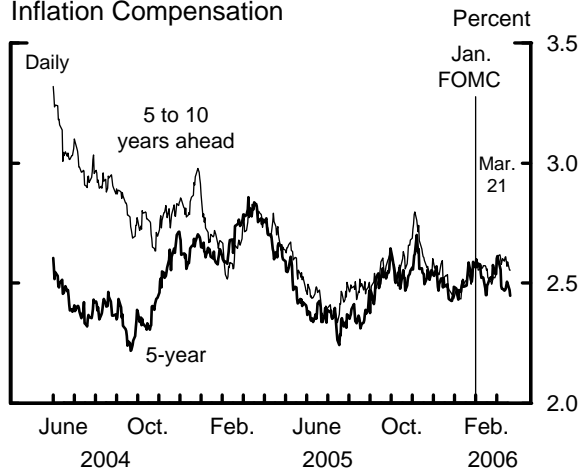
Note. Derived from options on federal funds futures expiring on July 31, 2006.

Nominal 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 and adjusted for the indexation-lag effect.

Domestic Financial Developments

Overview

Over the intermeeting period, policy expectations firmed, on balance, against the backdrop of policy tightening abroad, comments by Federal Reserve officials, and incoming data pointing to solid economic growth. Longer-term yields also moved up, and the ten-year yield approached the level prevailing before the start of the tightening cycle in June 2004. Most stock price indexes edged up, on net, over the intermeeting period, as gains from lower oil prices were offset by the effects of higher interest rates. Robust corporate profits continued to support business credit quality, and corporate bond spreads stayed low. Although household mortgage borrowing remained robust in the fourth quarter of last year, measures of household credit quality continue to show few signs of stress.

Policy Expectations and Interest Rates

Both the decision at the January FOMC meeting to increase the target federal funds rate 25 basis points, to 4½ percent, and the text of the accompanying statement largely accorded with market expectations and evoked only limited reaction in financial markets. Subsequently, policy expectations firmed, on net, as comments by Federal Reserve officials were interpreted as suggesting that the end to the tightening cycle was not imminent, and incoming data indicated robust economic growth both in the United States and abroad. Investors are now virtually certain of a quarter-point increase in the funds rate at the upcoming FOMC meeting and place significant odds on another tightening at the May meeting. Implied rates on longer-dated Eurodollar futures contracts rose about 20 to 25 basis points on net over the intermeeting period.

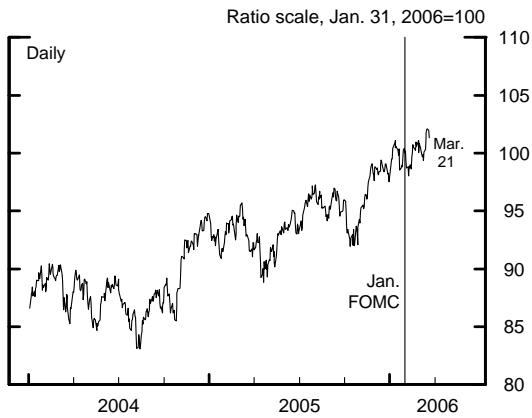
Nominal Treasury yields moved up over the intermeeting period, with the two- and ten-year yields rising about 20 basis points. In addition to the upward revision to domestic policy expectations, less accommodative policy abroad seemed to boost longer-term Treasury yields over the period. Amid firming policy expectations and falling oil prices, inflation compensation over the next five years, measured by Treasury inflation-protected securities adjusted for the effect of indexation-lag, declined modestly over the intermeeting period. Inflation compensation for the subsequent five years was little changed on balance.

Stock Prices and Corporate Interest Rates

Although held back by rising interest rates, broad stock market indexes ended the period a touch higher on lower oil prices and favorable macroeconomic news. Shares of telecom firms, which were supported by positive earnings news and merger

Corporate Yields, Risk Spreads, and Stock Prices

S&P 500

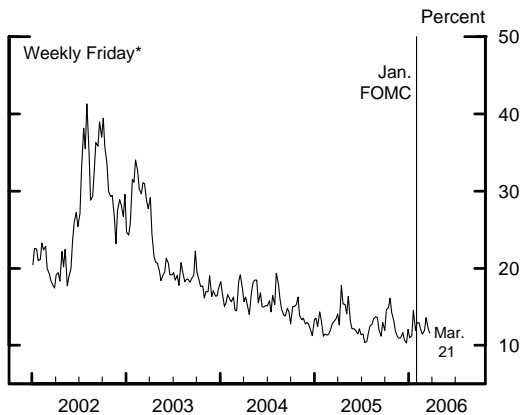


Trend Earnings-Price Ratio for S&P 500 and Long-Run Treasury Yield



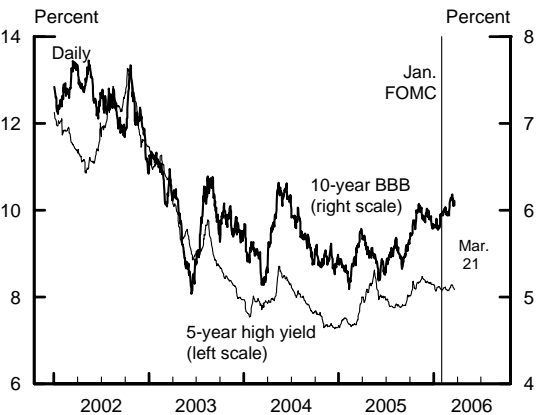
* Yield on synthetic Treasury perpetuity minus Philadelphia Fed 10-year expected inflation.
+ Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.

Implied Volatility on S&P 500 (VIX)



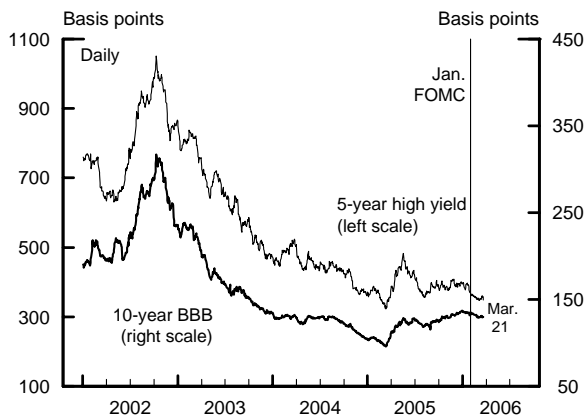
* Latest observation is for most recent business day.

Yields for BBB and High-Yield Corporate Bonds



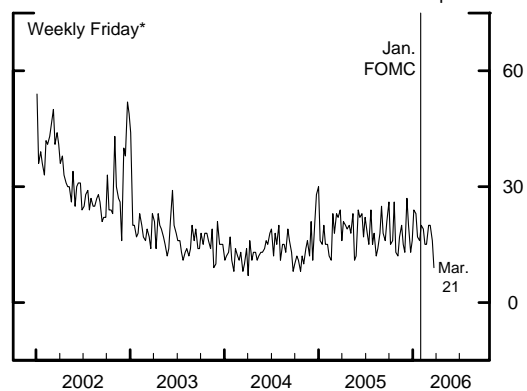
Note. Yields from smoothed yield curves based on Merrill Lynch bond data.

Corporate Bond Spreads



Note. Measured relative to comparable-maturity Treasuries.

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



* Latest observation is for most recent business day.

announcements, outperformed the market, while lower oil prices weighed on the share prices of energy firms. The ratio of trend earnings to price for the S&P 500, a measure of expected long-run real equity returns, remained near 5½ percent, where it has been hovering for the past couple of years. Although the recent increase in the long-term real Treasury yield narrowed the real equity premium a bit, the premium stayed a shade above its average over the past two decades. The implied volatility on the S&P 500 remained near historically low levels.

Over the intermeeting period, yields on investment-grade corporate bonds moved up roughly in line with those on comparable-maturity Treasury securities, and risk spreads on those bonds were about unchanged. Risk spreads on high-yield corporate bonds narrowed about 20 basis points. The low level of high-yield bond spreads likely reflects the sanguine view of corporate credit quality over the next couple of years. In the commercial paper market, the thirty-day quality spread remained low.

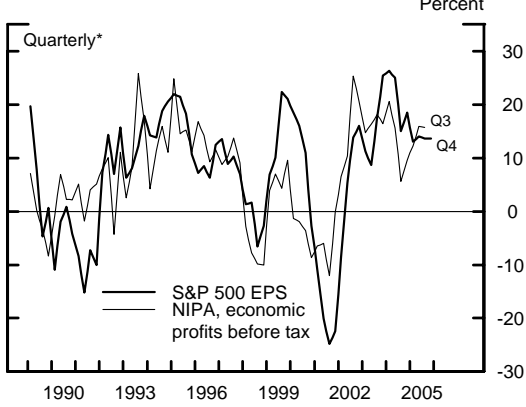
Corporate Earnings and Credit Quality

The end of the fourth-quarter earnings season brought relatively few surprises, as firms continued to post solid gains in profitability. With reports available from nearly all companies in the S&P 500, earnings per share in the fourth quarter are estimated to have increased 14 percent from a year earlier. There were few announcements of note, and analysts' forecasts of year-ahead earnings for S&P 500 firms were about unchanged in February and early March.

Bolstered by robust earnings and strong balance sheets, measures of aggregate business credit quality continued to show few signs of stress. The ratio of corporate debt to assets is estimated to have slipped further in the fourth quarter, and firms' liquid assets maintained their recent lofty levels. Bond rating downgrades by Moody's increased in the first quarter, but downgrades of securities issued by Ford and General Motors represented more than half of the total. After spiking in December because of the bankruptcy of Calpine, a large power company, the six-month trailing bond default rate flattened out, as few bonds defaulted in January and February. Broader measures also indicate business credit remained solid. The delinquency rate on C&I loans stayed low in the fourth quarter, and a measure of aggregate expected defaults over the next year based on Moody's KMV data remained at a low level in January and February.

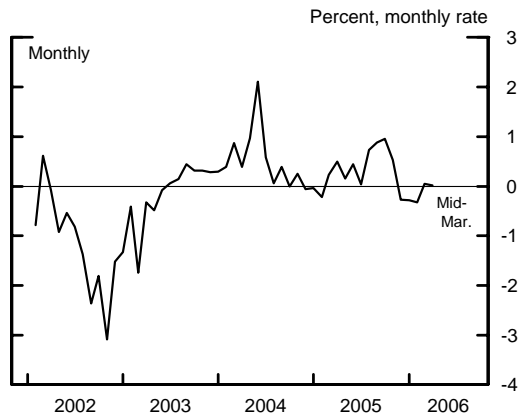
Corporate Earnings and Credit Quality

Corporate Earnings Growth



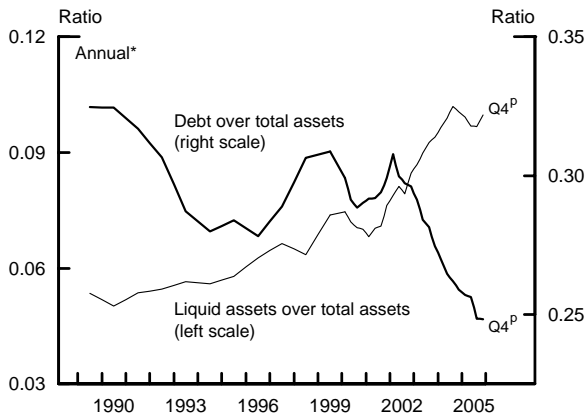
* Change from four quarters earlier.
Source: I/B/E/S for S&P 500 EPS.

S&P 500 EPS Revisions Index



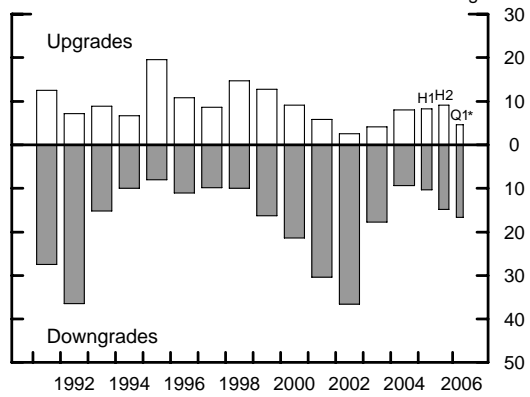
Note. Index is a weighted average of the percent change in the I/B/E/S consensus forecasts of current-year and following-year EPS.

Financial Ratios for Nonfinancial Corporations



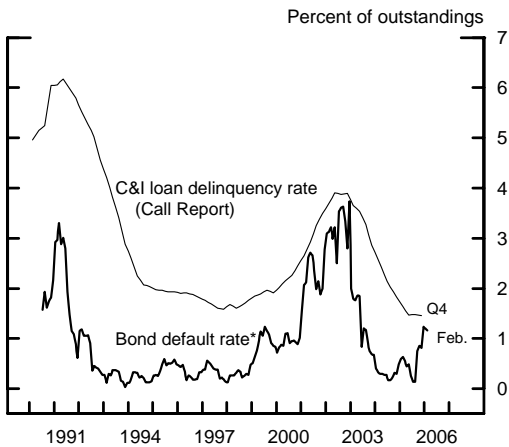
Note. Compustat data.
* Data are quarterly starting in 2000:Q1.
p Preliminary.

Bond Ratings Changes of Nonfinancial Companies



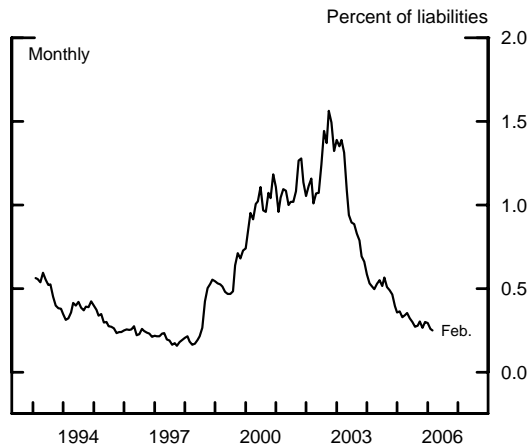
Note. Moody's Investors Service data at an annual rate.
* Data for 2006:Q1 are through February.

Bond Default 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: Moody's KMV.

Business Finance

Gross Issuance of Securities by U.S. Corporations

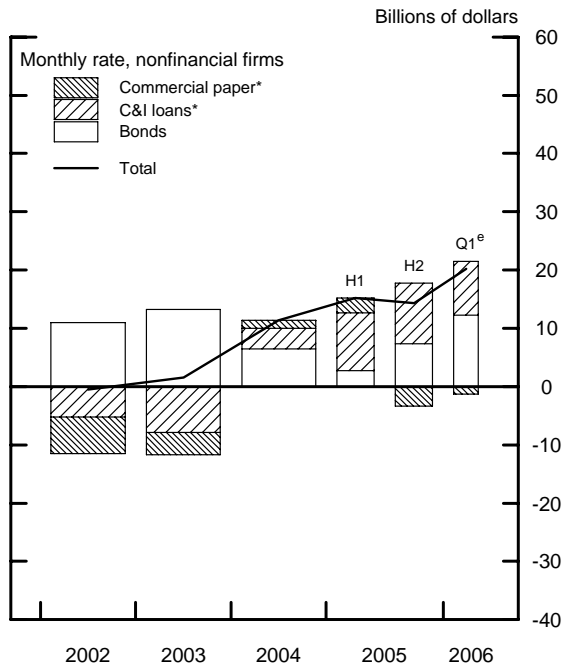
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	2002	2003	2004	2005		2006		
				H1	H2	Jan.	Feb.	Mar. ^e
<i>Nonfinancial corporations</i>								
Stocks ¹	5.2	3.7	5.4	3.8	5.3	5.6	4.2	3.0
Initial public offerings	.7	.4	1.6	1.6	1.8	2.0	2.6	.5
Seasoned offerings	4.4	3.3	3.8	2.1	3.5	3.6	1.6	2.5
Bonds ²	24.8	31.6	22.8	18.1	20.3	31.9	24.2	20.5
Investment grade	15.7	16.0	8.3	7.9	9.0	11.8	20.1	13.0
Speculative grade	4.8	11.3	9.5	6.2	6.5	10.0	3.7	6.5
Other (sold abroad/unrated)	4.2	4.3	4.9	4.0	4.8	10.2	.4	1.0
<i>Memo</i>								
Net issuance of commercial paper ³	-6.3	-3.8	1.4	2.6	-3.4	9.7	-2.3	-8.7
Change in C&I loans at commercial banks ^{3,4}	-5.2	-7.8	3.5	9.9	10.3	22.4	4.3	1.0
<i>Financial corporations</i>								
Stocks ¹	4.0	6.6	6.9	5.3	4.8	2.3	1.8	1.5
Bonds ²	87.0	111.1	139.4	167.3	185.7	147.9	125.6	105.0

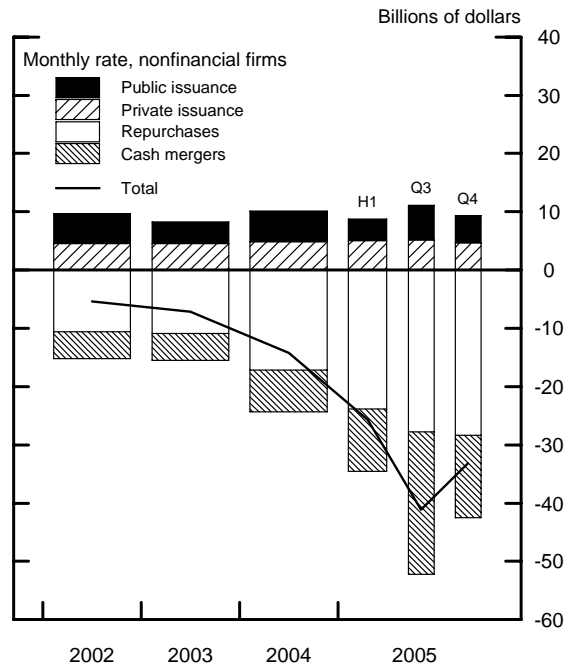
Note. Components may not sum to totals because of rounding.

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.
- e Staff estimate.

Selected Components of Net Debt Financing



Components of Net Equity Issuance

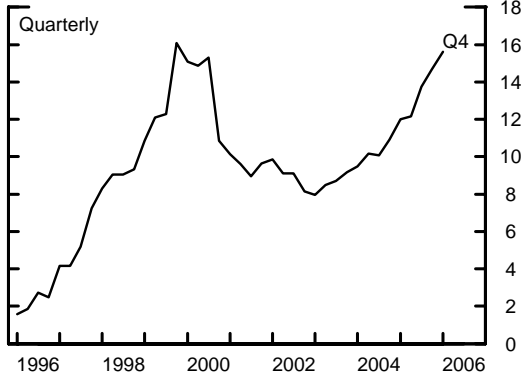


* Seasonally adjusted, period-end basis.

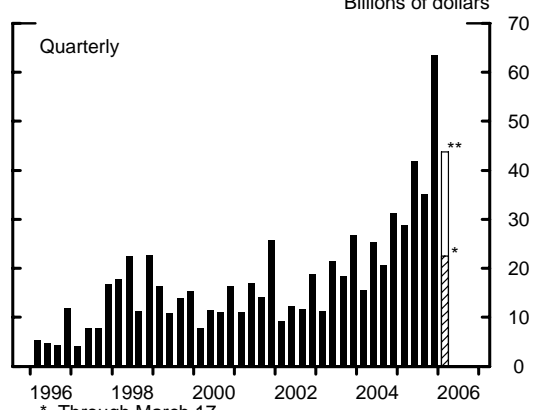
e Staff estimate.

Commercial Real Estate

Growth of Commercial Mortgage Debt
Percent change from year earlier

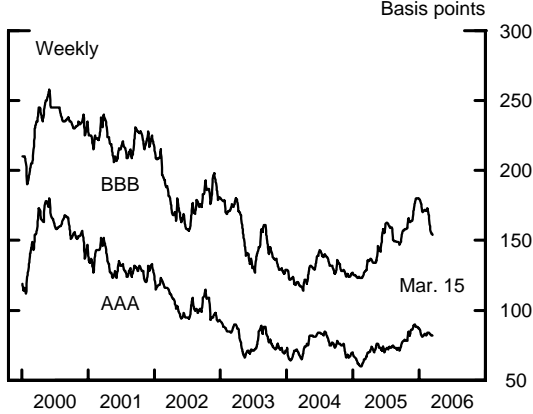


Gross Issuance of CMBS



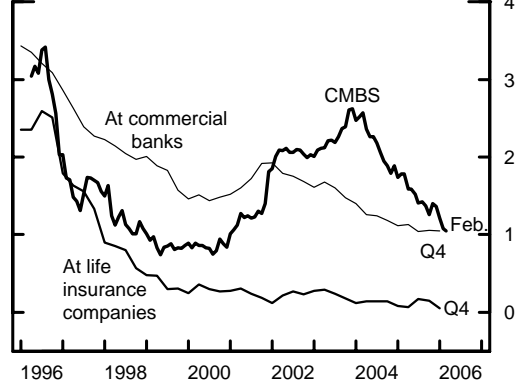
* Through March 17.
** Staff estimate for Q1.
Source. Commercial Mortgage Alert.

Investment-Grade CMBS Spreads



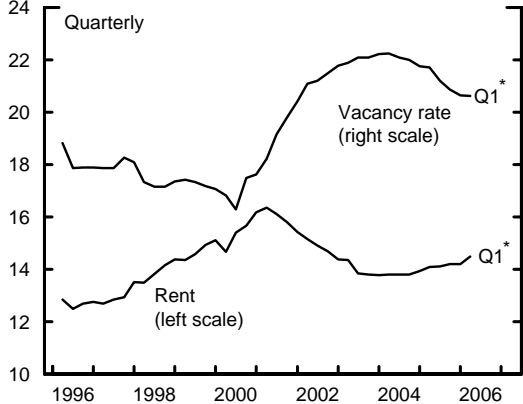
Note. Measured relative to the 10-year Treasury yield.
Source. Morgan Stanley.

Delinquency Rates on Commercial Mortgages and CMBS



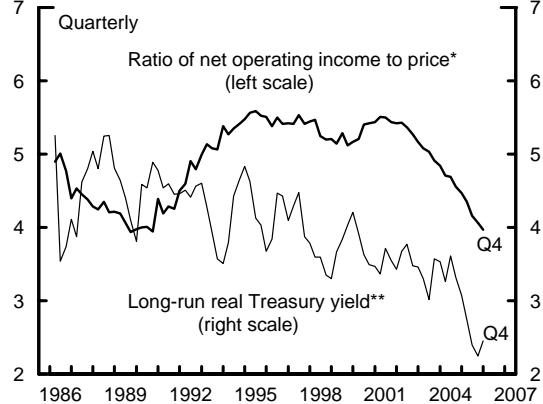
Source. Call Report, ACLI, Morgan Stanley.

Average Rent and Vacancy Rate
Dollars per sq. ft. / Percent



Note. Average of office and industrial.
* Data for 2006:Q1 are through February.
Source. CoStar.

Commercial Real Estate Valuation
1990:Q1=4



* Staff calculation from NCREIF data.
** Yield on synthetic Treasury perpetuity minus Philadelphia Fed 10-year expected inflation.

Business Finance

Gross bond issuance by nonfinancial firms has slowed in February and early March after outsized issuance in January, when several energy firms tapped the market. Acquisition financing continued to account for a significant part of total issuance. Similarly, following a sizable increase in January, C&I loans outstanding expanded modestly in February and March, and commercial paper outstanding is expected to end the quarter at about where it started. In total, net debt financing by nonfinancial corporations fell back from its rapid January rate to a moderate pace similar to that for 2005.

Gross public equity issuance remained near its modest pace of the past several years. Equity retired in cash mergers, which has been boosted by a surge in leveraged buyout activity, finished 2005 quite strong and has remained high thus far in 2006. Equity retired through share repurchases is estimated to have reached a historic peak in the fourth quarter, and a record level of announced repurchase plans suggests that share repurchases will continue at a very high pace this year. In total, hefty corporate profits and liquid balance sheets continued to buttress the significant level of net equity retirements.

Commercial Real Estate

Fueled by continued rapid price increases for commercial real estate, commercial mortgage debt expanded robustly in the fourth quarter and reached a level almost 16 percent above that of a year earlier. The issuance calendar for commercial-mortgage-backed securities (CMBS) suggests sustained strength in the current quarter. Spreads of BBB-rated CMBS over comparable Treasuries have declined in recent weeks to reverse a run-up around year-end.

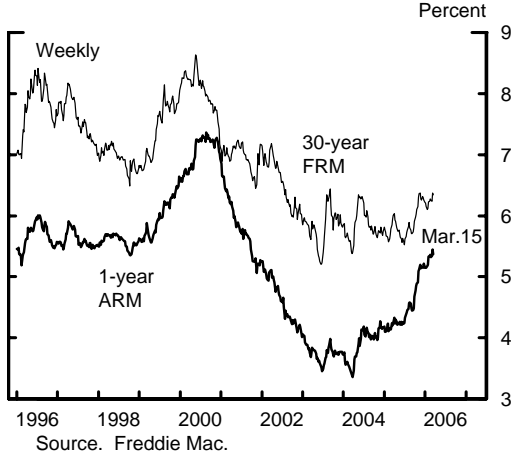
Delinquency rates on commercial mortgages have remained low by historical standards, and a slip in vacancy rates and firming of rents in the current quarter reflect further improvement in market fundamentals. The ratio of net operating income to property prices, an indicator of the yield on commercial real estate, declined further in the fourth quarter to a level last seen in 1990. However, the spread of this ratio over the real perpetuity Treasury yield, a rough measure of the risk premium on commercial real estate assets, remained in the middle of the range observed over the past decade.

Household Finance

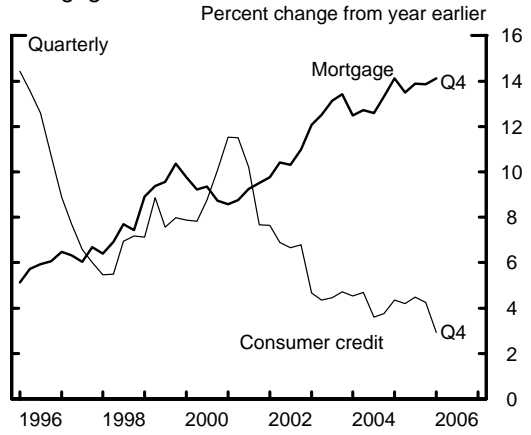
Average interest rates on both thirty-year fixed-rate and one-year adjustable-rate mortgages rose a bit over the intermeeting period. The growth of household mortgage

Household Liabilities

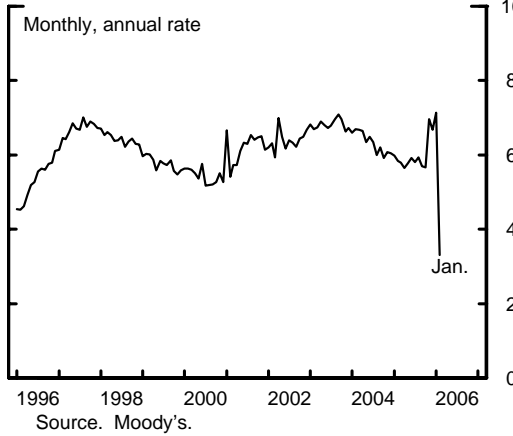
Mortgage Rates



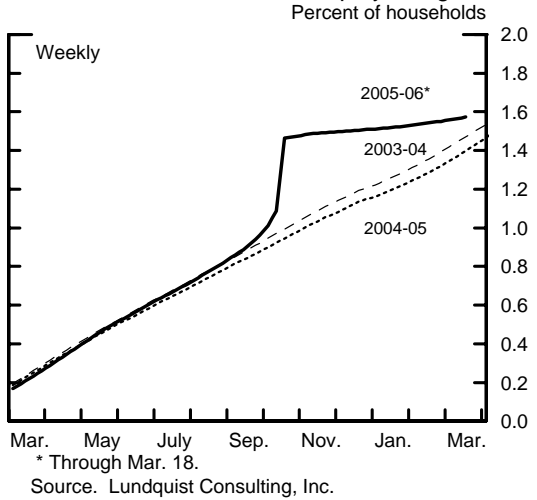
Mortgage and Consumer Debt Growth



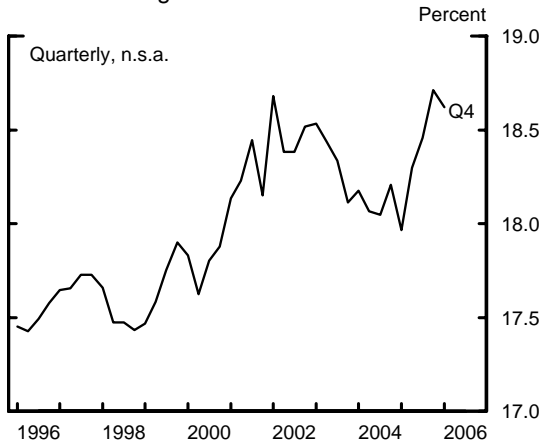
Charge-off Rate on Credit Card Debt in Securitized Pools



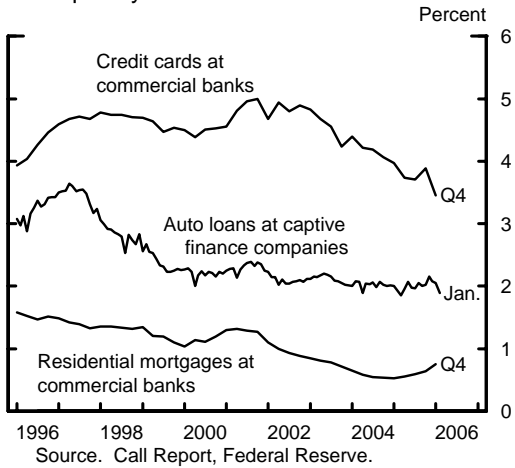
Cumulative Household Bankruptcy Filings



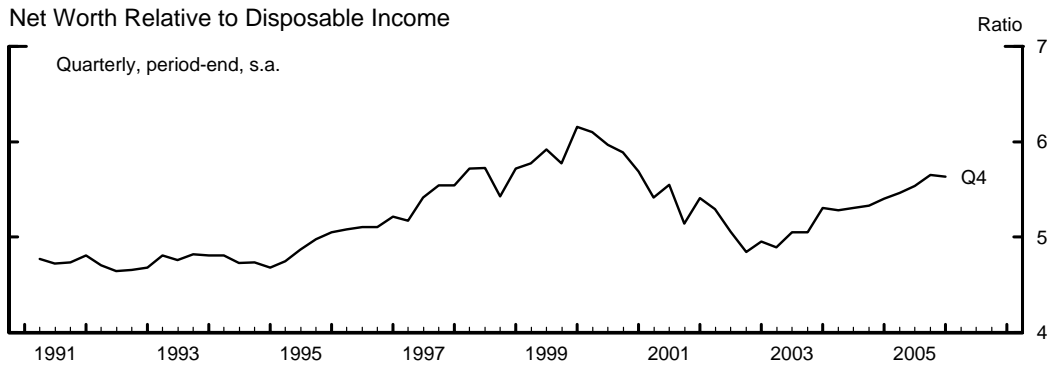
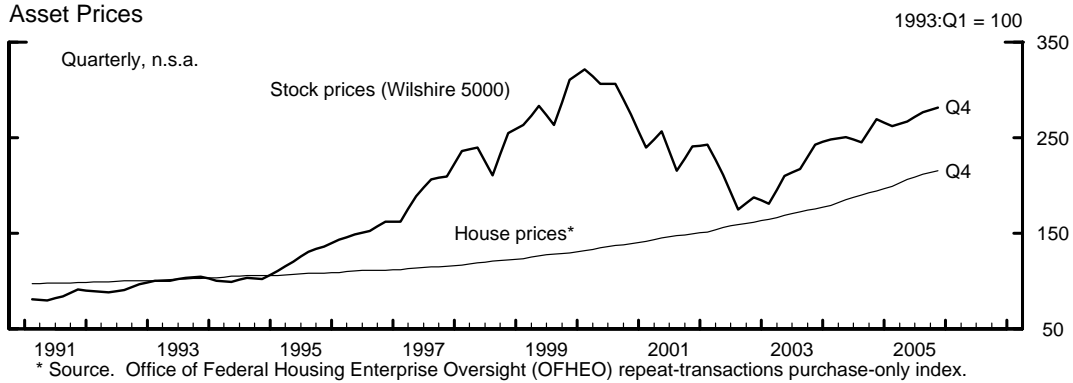
Financial Obligations Ratio



Delinquency Rates



Household Assets



Net Flows into Long-Term Mutual Funds

(Billions of dollars, monthly rate)

Fund type	2004		2005			2006		Assets Jan.
	H1	H2	H1	Q3	Q4	Jan.	Feb. ^e	
Total long-term funds	20.0	15.0	18.1	15.7	11.7	39.8	38.8	7,152
Equity funds	19.7	10.0	12.2	8.1	12.4	31.8	27.6	5,196
Domestic	13.7	4.9	4.1	0.7	1.3	8.2	8.4	4,193
International	6.0	5.1	8.1	7.3	11.2	23.5	19.2	1,003
Hybrid funds	4.1	3.0	3.4	1.5	0.2	-0.1	0.1	581
Bond funds	-3.8	2.0	2.5	6.1	-1.0	8.1	11.1	1,375
High-yield	-2.1	0.5	-1.6	-1.0	-1.0	-0.5	0.3	145
Other taxable	0.1	1.9	3.7	5.7	0.6	6.6	7.6	888
Municipals	-1.9	-0.4	0.4	1.4	-0.6	2.1	3.2	341

Note. Excludes reinvested dividends.

^e Staff estimates based on confidential ICI weekly data.

Source. Investment Company Institute.

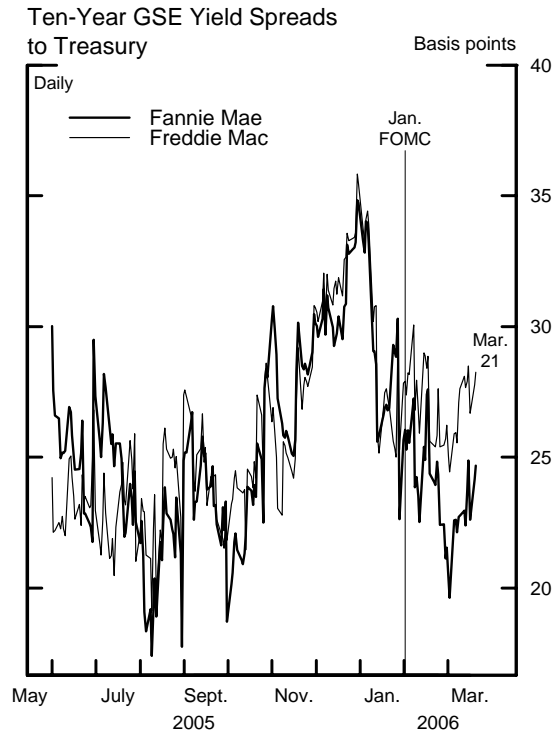
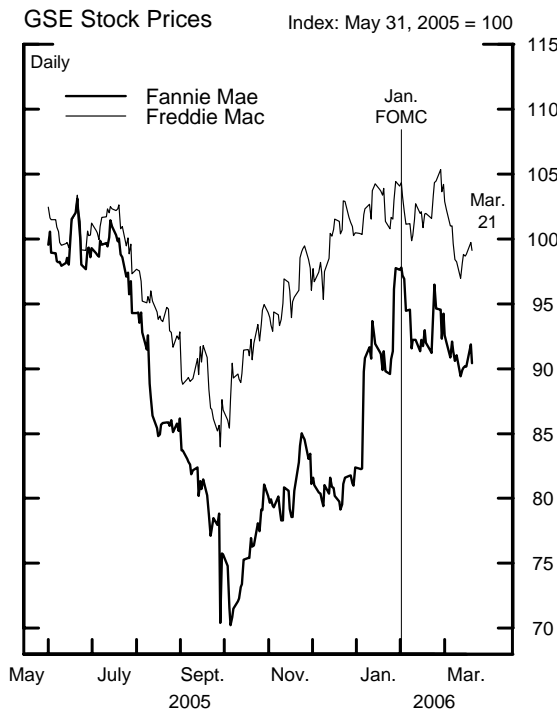
Treasury Financing
(Billions of dollars)

Item	2004	2005				2006	
	Q4	Q1	Q2	Q3	Q4	Jan.	Feb.
Total surplus, deficit (-)	-118.1	-176.6	45.2	-69.0	-119.3	21.0	-119.2
Means of financing deficit							
Net borrowing	102.1	164.7	-42.8	72.8	112.2	9.8	85.8
Nonmarketable	2.4	20.8	35.9	20.6	21.2	-3.6	1.2
Marketable	99.7	143.9	-78.7	52.1	91.0	13.4	84.6
Bills	43.6	55.7	-135.8	-9.3	48.8	-7.6	43.2
Coupons	56.0	88.2	57.1	61.4	42.3	21.1	41.3
Decrease in cash balance	11.7	2.2	-10.7	-2.5	-0.9	-32.2	50.7
Other ¹	4.3	9.7	8.3	-1.2	8.0	1.4	-17.3
Memo:							
Cash balance, end of period	24.7	22.4	33.2	35.7	36.6	68.9	18.1

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



Note. GSE yields based on senior unsecured debt.

debt remained rapid through the end of 2005. By contrast, consumer credit growth was held down in the fourth quarter by the bulge in credit card charge-offs triggered by the spike in bankruptcy filings last fall. Data for January show a modest pick-up in consumer credit growth and a sharp decline in charge-offs. Consistent with the view that many of the bankruptcy filings that preceded the implementation of the new rules were pulled forward from future months, bankruptcy filings in recent weeks have continued to run at low levels.

The financial obligations ratio edged down in the fourth quarter but, at more than 18½ percent of disposable income, remained near the top of its historical range. Even so, most measures of consumer loan delinquency rates held steady at low levels. Delinquency rates on mortgages increased somewhat, but at least some of the updrift appears related to last year's hurricanes. On the whole, most households met their obligations without significant strain.

House prices, as measured by the repeat-transactions purchase-only index from OFHEO, increased at an annual rate of 9½ percent in the fourth quarter. Although still quite robust, the modest slowing in the rate of appreciation is consistent with anecdotal reports. Rising home prices and stock prices contributed to an increase in household net worth during the fourth quarter, but with income up strongly as well, the ratio of net worth to disposable income was little changed. Net purchases of long-term mutual funds were very strong in January and February, and a disproportionate share of the inflows to equity funds was allocated to international funds.

Treasury and Agency Finance

During the intermeeting period, federal debt subject to the statutory limit reached the previous ceiling of about \$8⅞ trillion, and the Treasury had to employ accounting maneuvers to avoid breaching the limit. On March 14, the Congress increased the federal debt ceiling to nearly \$9 trillion. Given that market participants expected the increase in the limit, there was little effect on asset prices.

The Treasury conducted auctions of coupon securities of various maturities over the intermeeting period, all of which were generally well received. The first thirty-year bond auction since 2001 generated especially strong interest from investment funds, such as pension funds, perhaps because those institutions are seeking to extend the duration of their portfolios. Foreign investors were awarded only a small fraction of the total for that issue.

State and Local Government Finance

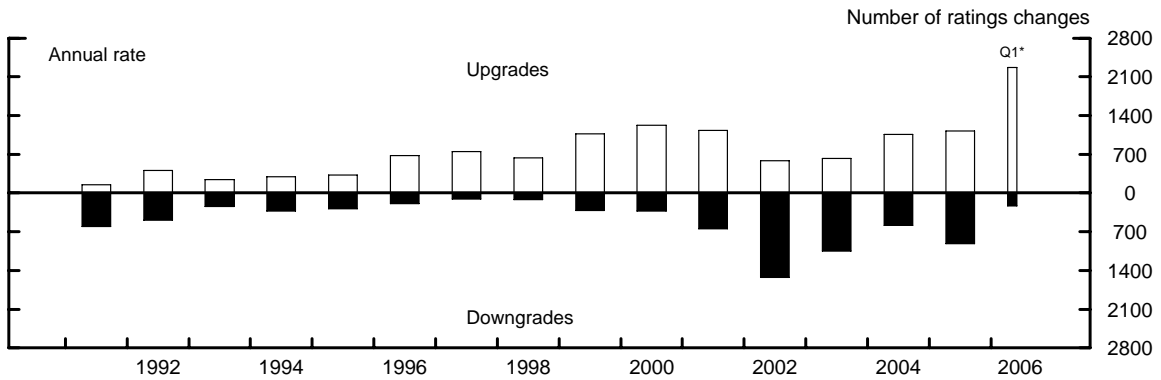
Gross Offerings of Municipal Securities

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

Type of security	2003	2004	2005		2006		
			H1	H2	Jan.	Feb.	Mar. ^e
Total	37.9	34.7	38.1	38.6	22.2	26.4	28.0
Long-term ¹	32.0	29.8	35.0	33.2	19.6	24.9	26.0
Refundings ²	10.0	10.8	17.1	13.7	6.4	8.0	4.0
New capital	22.1	19.0	17.9	19.5	13.2	16.9	22.0
Short-term	5.8	4.9	3.1	5.3	2.6	1.6	1.0
Memo: Long-term taxable	3.5	2.0	2.0	2.2	.4	.8	3.0

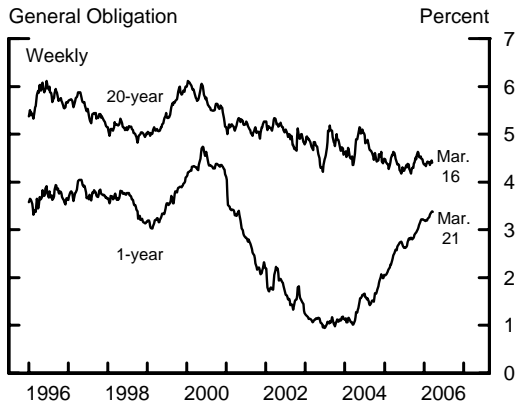
- 1. Includes issues for public and private purposes.
- 2. All issues that include any refunding bonds.
- e. Staff estimate based on preliminary data through March 16.

Ratings Changes



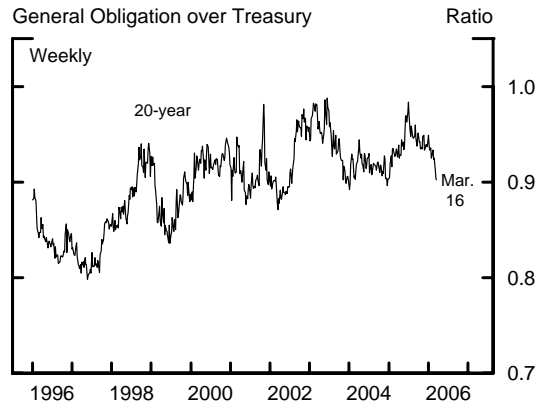
* Data through March 15 at an annual rate.
Source. S&P's Credit Week Municipal and Ratings Direct.

Municipal Bond Yields



Source. Bloomberg and Bond Buyer.

Municipal Bond Yield Ratio



Source. Bond Buyer.

Share prices of Fannie Mae and Freddie Mac declined moderately over the intermeeting period amid statements by Treasury Department officials reaffirming their support for significant GSE portfolio reductions and an announcement that both agencies would again delay the release of their financial statements. The GSEs' debt spreads were about unchanged.

State and Local Government Finance

Gross issuance of long-term municipal bonds has slowed thus far in 2006 as advance refundings have dropped below their pace in 2005. The decline in refunding activity is consistent with a dwindling pool of eligible bonds and the increase in interest rates from their 2005 lows. The volume of short-term issuance was also comparatively light in the first part of the year, a development that likely reflects healthier budget conditions in many states.

The credit quality of state and local governments continued to improve, as first-quarter rating upgrades far exceeded downgrades on the strength of upgrades for New York State and Chicago. Consistent with better credit quality, yields on long-dated municipal bonds edged down, and the ratio of the municipal bond yield to a comparable-maturity Treasury yield declined over the intermeeting period.

Money and Bank Credit

On average over the first two months of the year, M2 growth picked up further, with especially strong advances in currency, small time deposits, and retail money funds. The acceleration in small time deposits and retail money funds was probably a response to further increases in offering rates.

Bank credit expanded rapidly in February, as several large domestic commercial banks purchased sizable amounts of agency and private mortgage-backed securities. Loans also continued to increase briskly in February, with the growth reflecting both an accommodative lending environment and strong demand for bank-intermediated credit. The growth of business loans stepped down after an outsized gain in January but remained quite robust. Loan price data from the February Survey of Terms of Business Lending indicate that the average spread on C&I loans at domestic commercial banks, adjusted for changes in non-price terms, remained low in the first quarter. Although further increases in short-term market interest rates restrained borrowing through home equity lines of credit, real estate loans expanded smartly on strong growth in both its other residential and commercial components.

M2 Monetary Aggregate
(Based on seasonally adjusted data)

Aggregate and components	Percent change (annual rate) ¹						Level (billions of dollars), Feb. (e)
	2004	2005	2005		2006		
			Q3	Q4	Jan.	Feb. (e)	
M2	5.2	3.9	4.4	5.1	11.0	3.8	6,758
Components ²							
Currency	5.5	3.5	4.0	4.2	10.0	5.9	733
Liquid deposits ³	10.0	2.0	2.1	3.0	9.3	-.2	4,292
Small time deposits	-.3	18.7	19.8	15.4	15.8	19.7	1,003
Retail money market funds	-11.7	-.9	-1.1	4.7	16.2	4.7	723
Memo:							
Institutional money market funds	-5.7	5.0	11.7	12.1	14.8	-2.9	1,148
Monetary base	5.6	3.4	3.3	4.3	8.5	6.1	796

Note. M2 is the sum of currency, liquid deposits, small time deposits, retail money market funds, and nonbank traveler's checks. As announced on November 10, 2005, the Board of Governors will cease publishing the M3 monetary aggregate on March 23, 2006.

1. For years, Q4 to Q4; for quarters and months, calculated from corresponding averages.
 2. Nonbank traveler's checks are not listed.
 3. Sum of demand deposits, other checkable deposits, and savings deposits.
- e Estimated.

Commercial Bank Credit

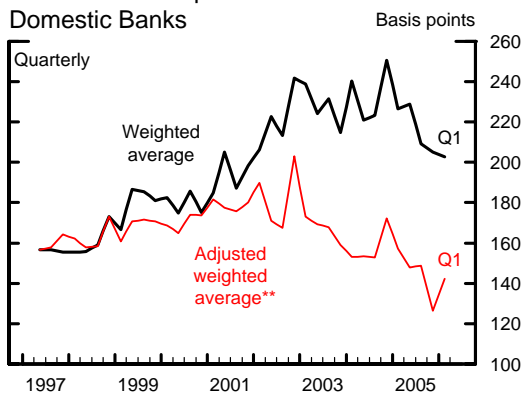
(Percent change, annual rate, except as noted; seasonally adjusted)

Type of credit	2004	2005	2005: Q3	2005: Q4	Jan. 2006	Feb. 2006	Level (billions of dollars), Feb. 2006
Total							
Adjusted¹	8.9	10.4	9.6	5.8	9.3	15.9	7,359
Reported	8.4	9.6	9.7	5.2	9.7	15.5	7,494
<i>Securities</i>							
Adjusted ¹	6.6	7.5	.5	-.5	4.4	31.5	1,905
Reported	5.2	5.0	1.7	-2.4	6.2	28.7	2,040
Treasury and agency	4.9	-.3	-5.3	-10.0	11.7	34.4	1,176
Other ²	5.6	13.1	12.0	8.3	-1.0	20.9	864
<i>Loans³</i>							
Total	9.8	11.5	12.9	8.1	11.0	10.6	5,454
Business	1.3	13.4	11.7	9.2	25.9	10.9	1,047
Real estate	14.0	14.0	17.0	8.3	11.0	9.2	2,947
Home equity	43.8	11.1	10.8	-1.9	-3.9	-5.2	433
Other	9.8	14.5	18.2	10.2	13.6	11.8	2,514
Consumer	8.8	2.9	4.8	-4.5	6.5	2.4	692
Adjusted ⁴	5.7	.6	3.6	-4.5	7.3	6.9	1,064
Other ⁵	7.8	8.2	6.6	17.8	-4.3	22.7	769

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.

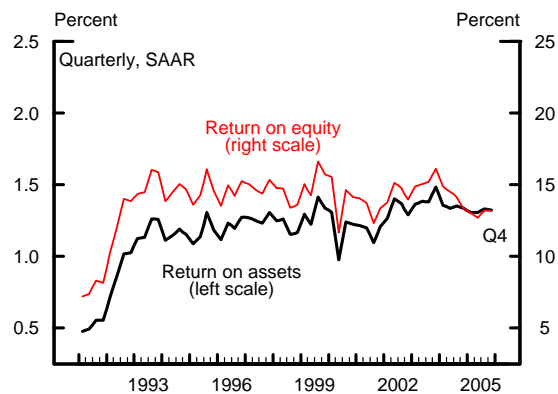
- Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FAS 115).
- Includes private mortgage-backed securities, securities of corporations, state and local governments, foreign governments, and any trading account assets that are not Treasury or agency securities, including revaluation gains on derivative contracts.
- Excludes interbank loans.
- Includes an estimate of outstanding loans securitized by commercial banks.
- Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

C&I Loan Rate Spreads*



* Spread over banks' estimated cost of funds.
 ** Adjusted for changes in nonprice loan characteristics.
 Source. Survey of Terms of Business Lending.

Bank Profitability



Source. Call Report.

Call Report data for the fourth quarter of 2005 indicate that the profitability of the commercial banking sector remained strong. Although depressed by lower net interest margins and a sharp decline in trading revenues, bank profits were buoyed last quarter by significant reductions in non-interest expense and lower loan-loss provisions. While the surge in personal bankruptcy filings last fall led to a sharp increase in net charge-offs on credit card loans, overall asset quality remained strong.

Last Page of Financial Developments

International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

The U.S. international trade deficit widened to \$789.5 billion in the fourth quarter, as a 9.2 percent (annual rate) gain in exports of goods and services was outweighed by a 19.7 percent rise in imports. The rise in exports was concentrated in capital goods, automotive products, and, to a lesser extent, consumer goods. In contrast, exports of agricultural products and industrial supplies moved down in the quarter, likely depressed by hurricane-related disruptions to shipping and production. The gain in imports was widespread across major categories of trade. In real terms (as reported in the preliminary NIPA release), exports of goods and services rose at an annual rate of 5.7 percent in the fourth quarter, and imports of goods and services surged 12.8 percent.

Trade in Goods and Services (Seasonally adjusted)

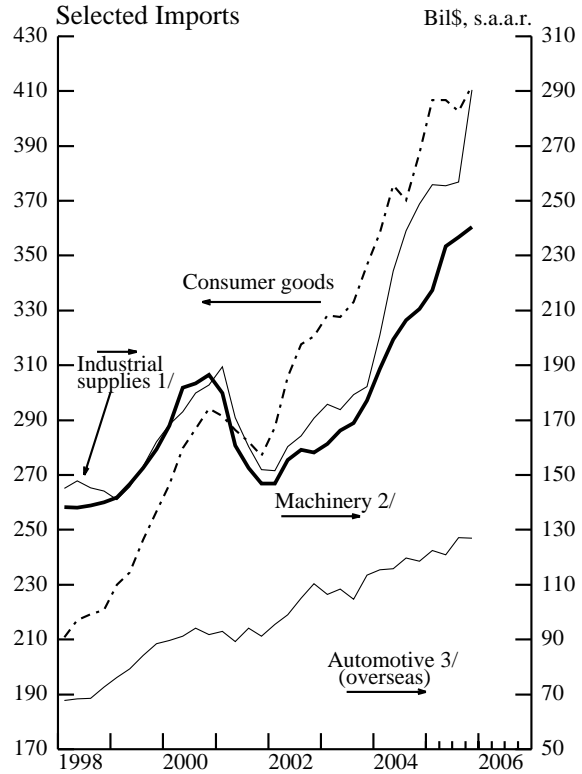
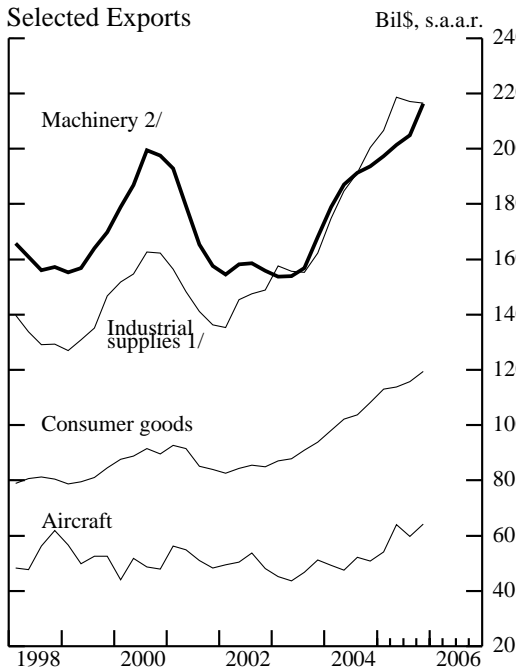
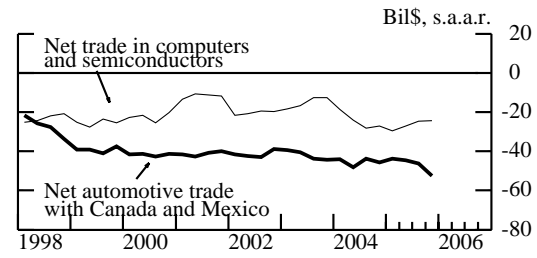
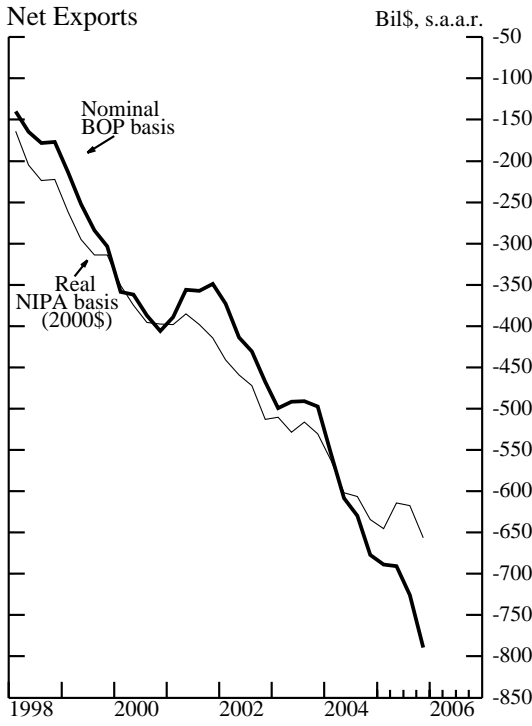
	2005	Annual rate			Monthly rate		
		2005			2005	2006	
		Q2	Q3	Q4	Nov.	Dec.	Jan.
Percent change							
<i>Nominal BOP</i>							
Exports	10.8	14.9	5.2	9.2	1.7	2.2	2.5
Imports	18.7	9.9	10.8	19.7	-0.9	1.7	3.5
<i>Real NIPA</i>							
Exports	6.1	10.7	2.5	5.7	...	...	...
Imports	10.6	-0.3	2.4	12.8	...	...	...
Billions of dollars							
<i>Nominal BOP</i>							
Net exports	-723.6	-690.9	-725.6	-789.5	-64.5	-65.1	-68.5
Goods, net	-781.6	-745.1	-789.1	-849.7	-69.4	-70.1	-73.4
Services, net	58.0	54.2	63.5	60.2	4.9	5.1	4.9

Source. U.S. Department of Commerce, Bureaus of Economic Analysis and Census.
n.a. Not available. ... Not applicable.

In January, the trade deficit hit a new monthly high of \$68.5 billion, up from \$65.1 billion in December. The widening of the deficit reflected a sharp increase in imports, which more than offset a sizable gain in exports.

In January, the value of exports of goods and services rose 2.5 percent, following a similarly sized increase in December. Exports of industrial supplies, capital goods, and agricultural products all increased robustly, more than offsetting a small decline in exports of consumers goods. Exports of automotive products were flat, following a

U.S. International Trade in Goods and Services



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

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			
	2005		2005	2006	2005		2005	2006
	Q3	Q4	Dec.	Jan.	Q3	Q4	Dec.	Jan.
Exports of G&S	1284.0	1312.5	1338.7	1372.5	16.3	28.4	28.5	33.7
Goods exports	899.2	925.3	949.3	980.6	6.7	26.1	23.6	31.3
Gold	5.4	5.8	5.5	7.6	-0.1	0.5	-0.3	2.1
Other goods	893.8	919.4	943.8	973.0	6.9	25.6	23.8	29.2
Aircraft & parts	59.7	64.2	59.8	71.0	-4.3	4.5	-10.7	11.2
Computers & accessories	46.7	45.4	46.2	47.8	0.9	-1.3	1.4	1.6
Semiconductors	48.8	50.7	52.7	50.6	2.9	2.0	2.9	-2.1
Other capital goods	208.2	220.8	228.9	229.2	3.1	12.6	9.0	0.4
Automotive	98.3	104.6	108.5	109.4	4.7	6.3	4.9	0.8
to Canada	53.4	55.2	56.7	58.2	2.1	1.8	4.0	1.4
to Mexico	15.5	18.6	17.6	17.3	0.1	3.1	-1.7	-0.3
to ROW	29.4	30.8	34.2	33.9	2.4	1.4	2.6	-0.3
Agricultural	66.3	64.2	63.2	71.5	-1.3	-2.1	-0.6	8.3
Ind supplies (ex. ag, gold)	217.0	216.6	224.0	232.9	-1.6	-0.5	8.5	8.8
Consumer goods	115.8	119.4	126.8	125.2	1.9	3.6	7.5	-1.6
All other goods	33.0	33.5	33.6	35.3	0.5	0.6	8.4	1.7
Services exports	384.9	387.2	389.4	391.9	9.6	2.3	5.0	2.4
Imports of G&S	2009.7	2102.0	2119.6	2194.6	51.0	92.3	35.9	75.0
Goods imports	1688.2	1775.0	1791.0	1861.2	50.7	86.7	33.0	70.2
Petroleum	270.2	294.8	283.4	295.5	40.5	24.7	-13.2	12.1
Gold	4.4	5.4	5.8	6.0	0.4	1.0	0.5	0.2
Other goods	1413.7	1474.7	1501.7	1559.7	9.9	61.0	45.8	58.0
Aircraft & parts	24.4	25.5	28.6	28.7	-3.8	1.1	6.3	0.1
Computers & accessories	94.0	93.8	95.5	97.6	0.5	-0.2	1.5	2.1
Semiconductors	26.1	26.7	27.1	27.2	0.7	0.7	0.7	0.1
Other capital goods	239.2	242.8	243.7	256.3	3.4	3.6	-0.3	12.6
Automotive	242.2	253.1	257.7	272.2	10.1	11.0	5.9	14.5
from Canada	72.1	77.6	78.2	82.4	6.4	5.5	1.4	4.3
from Mexico	43.0	48.6	44.7	49.3	-2.6	5.6	-4.4	4.6
from ROW	127.1	127.0	134.8	140.5	6.3	-0.1	8.9	5.7
Ind supplies (ex. oil, gold)	256.8	290.4	297.7	301.9	1.4	33.6	13.4	4.2
Consumer goods	402.6	412.0	421.7	433.8	-4.1	9.5	20.2	12.1
Foods, feeds, bev.	68.9	70.3	72.0	76.4	1.9	1.5	1.7	4.4
All other goods	59.6	59.9	57.7	65.6	-0.1	0.4	-3.6	7.9
Services imports	321.4	327.0	328.6	333.4	0.3	5.6	2.8	4.7
<i>Memo:</i>								
Oil quantity (mb/d)	13.33	14.56	14.91	14.71	-0.19	1.23	0.06	-0.20
Oil import price (\$/bbl)	55.52	55.55	52.03	54.99	9.06	0.02	-2.63	2.96

1. Change from previous quarter or month.

Source. U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

strong gain in December. Within industrial supplies, exports of chemicals and petroleum products exhibited strong growth, in line with a continued recovery of domestic production from earlier hurricane-induced weakness. Exports of capital goods were boosted by a jump in exports of aircraft and computers, which more than offset a decline in exports of semiconductors. Agricultural exports were supported by a large increase in exports of soybeans. Services exports also expanded moderately.

The value of imported goods and services surged 3.5 percent in January after a strong gain of 1.7 percent in December. The increase in imports was widespread across most product categories. Imports of capital goods grew briskly, with computers and other capital equipment recording large gains. Imports of consumer goods, particularly electronics, and automotive products also surged. Imports of non-oil industrial supplies moved up despite a decline in imports of chemicals. The value of imported oil increased strongly, entirely as a result of higher oil prices. Imports of services and foods also strengthened a bit.

Prices of Internationally Traded Goods

Non-oil imports. In February, import prices of non-oil goods fell 0.5 percent, while prices of imported core goods increased 0.1 percent. A 19.2 percent decline in the price for imported natural gas, a category that we now exclude from core imports, was the main reason for the difference. After increasing 1.5 percent in January, prices for nonfuel industrial supplies rose another 1.4 percent in February, reflecting higher prices for metals. Food prices fell 1.7 percent in February, partially undoing the increases of the previous two months. For the second consecutive month, prices of imported finished goods were generally higher, particularly for capital goods (excluding computers and semiconductors) which rose 0.4 percent. Prices for consumer goods were unchanged.

The average level of core import prices in January and February was 2½ percent at an annual rate above the fourth-quarter average, as prices in all sub-categories posted increases with the exception of automotive products. The main contributor to the overall price increase was nonfuel industrial supplies, which increased 10½ percent. Average prices for food also recorded a large increase, rising 6¼ percent. Prices for capital goods (excluding computers and semiconductors) rose 1¾ percent.

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

	Annual rate			Monthly rate		
	2005	2006	2006 Q1 ^e	2005	2006	
	Q3	Q4		Dec.	Jan.	Feb.
	----- BLS prices -----					
Merchandise imports	14.3	2.5	2.0	0.0	1.4	-0.5
Oil	110.9	-11.1	11.9	-0.1	6.9	-0.7
Non-oil	-0.1	6.3	0.1	0.0	0.3	-0.5
Core goods*	-0.5	2.6	2.5	0.2	0.5	0.1
Cap. goods ex comp & semi	-0.4	0.0	1.7	-0.1	0.3	0.4
Automotive products	0.6	0.6	-0.4	-0.1	-0.1	0.1
Consumer goods	-0.9	-0.4	0.7	0.0	0.2	0.0
Foods, feeds, beverages	-3.7	7.3	6.2	1.6	1.2	-1.7
Industrial supplies ex fuels	-1.3	8.0	10.5	0.5	1.5	1.4
Computers	-11.1	-7.5	-8.3	-0.3	-1.7	-0.2
Semiconductors	-4.9	-3.1	3.4	1.2	0.0	0.1
Natural Gas	67.7	370.8	-44.7	-4.8	-1.8	-19.2
Merchandise exports	0.8	3.4	2.4	0.1	0.7	0.0
Core goods**	2.2	4.7	3.3	0.1	0.9	0.1
Cap. goods ex comp & semi	0.5	2.4	2.9	0.2	0.4	0.3
Automotive products	0.9	1.4	1.1	-0.1	0.3	0.1
Consumer goods	-0.1	1.2	2.3	-0.1	0.5	0.3
Agricultural products	1.9	-4.6	-1.6	-0.7	0.7	-1.1
Industrial supplies ex ag	6.1	13.0	6.8	0.5	1.9	0.3
Computers	-8.4	-8.3	-2.2	-0.5	0.4	-0.5
Semiconductors	-12.4	-6.4	-8.4	-0.1	-0.8	-2.2
	----- NIPA prices -----					
Chain price index						
Imports of goods & services	9.4	4.4	n.a	...	...	...
Non-oil merchandise	-0.0	5.9	n.a	...	...	...
Core goods*	-0.2	2.6	n.a	...	...	...
Exports of goods & services	2.9	2.6	n.a	...	...	...
Total merchandise	1.3	2.2	n.a	...	...	...
Core goods**	1.9	4.1	n.a	...	...	...

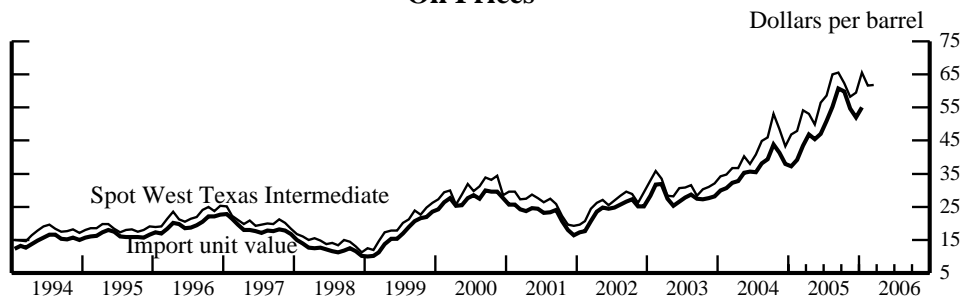
* / Excludes computers, semiconductors, and natural gas.

** / Excludes computers and semiconductors.

e / Average of two months.

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

Oil Prices



Oil. The BLS price index of imported oil fell 0.7 percent in February, after a 6.9 percent rise in January. The average spot price of West Texas Intermediate (WTI) crude oil fell 5.9 percent in February to \$61.60 per barrel, as warm weather in the United States contributed to decreased oil demand and rising crude oil inventories. The spot price of WTI has been volatile thus far in March in reaction to increasing inventories, supply disruptions in Nigeria and Ecuador, an attack against Saudi oil infrastructure, and heightened concerns about future supplies from Iran and Iraq. The spot price closed on March 21 at \$60.58 per barrel.

Exports. Following sizeable increases in January, in February, prices of U.S. exports of total goods were unchanged and prices of core goods increased only 0.1 percent. After increasing 0.7 percent in January, agricultural prices fell 1.1 percent, reflecting lower prices for soybeans and vegetables. Other categories of core exports saw increases in prices in February. Prices for nonagricultural industrial supplies increased 0.3 percent, with falling oil prices partially offsetting higher prices for metals. As in January, finished goods generally saw sizable price increases. Prices for both consumer goods and capital goods (excluding computers and semiconductors) rose 0.3 percent, and prices of automotive products edged up. In contrast, prices of exported computers and semiconductors fell 0.5 and 2.2 percent, respectively.

The average level of core export prices in January and February was 3¼ percent at an annual rate above the fourth-quarter average, as prices increased in all sub-categories with the exception of agricultural products. The 6¾ percent increase in prices for nonagricultural industrial supplies was the main contributor to the overall price increase. Prices of capital goods (excluding computers and semiconductors) and consumer goods increased 3 percent and 2¼ percent, respectively.

U.S. Current Account

The U.S. current account deficit was \$900 billion (a.r.) in the fourth quarter of 2005, an increase of \$158 billion relative to the third quarter (revised). The trade deficit widened \$64 billion, as increases in goods and services exports were more than offset by higher imports. The traditionally positive balance on investment income was negative \$4 billion in the fourth quarter. Net outflows from unilateral transfers also increased by \$64 billion, as claims on foreign insurance companies due to Hurricanes Katrina and Rita, which had substantially reduced net outflows in the third quarter, decreased.

U.S. Current Account				
(Billions of dollars, seasonally adjusted annual rate)				
Period	Goods and services, net	Investment income, net	Other income and transfers, net	Current account balance
<i>Annual</i>				
2004	-617.6	36.2	-86.7	-668.1
2005	-723.6	7.4	-88.7	-804.9
<i>Quarterly</i>				
2005:Q1	-688.5	8.2	-110.6	-791.0
Q2	-690.9	-0.5	-96.2	-787.6
Q3	-725.6	25.7	-41.8	-741.7
Q4	-789.5	-3.8	-106.2	-899.5
<i>Change</i>				
Q1-Q4	-11.6	-10.6	-15.3	-37.5
Q2-Q1	-2.4	-8.7	14.4	3.4
Q3-Q2	-34.7	26.2	54.4	45.9
Q4-Q3	-63.9	-29.5	-64.4	-157.8

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

U.S. International Financial Transactions

Along with data on current account transactions in the fourth quarter, BEA released data on the associated financial flows. These data are summarized in the Summary of U.S. International Transactions table. Net private financial inflows eased to \$155 billion after recording unusually large inflows of \$214 billion in the third quarter. Official financial inflows were stronger than in the previous quarter, however, and total financial inflows, official and private, were \$235 billion, only \$19 billion less than in the third quarter. As the current account deficit widened in the fourth quarter, the statistical discrepancy narrowed to a negative \$10 billion.

The fourth-quarter slowdown in private financial inflows owed primarily to U.S. direct investment abroad (line 6), which recorded an atypical inflow for the second consecutive quarter, reflecting ongoing effects of the partial tax holiday established in the 2004 American Jobs Creation Act (also known as the Homeland Investment Act). Under this one-fiscal-year tax holiday, multinational corporations that repatriate previously retained earnings from foreign affiliates and reinvest them in the United States are subject to a reduced effective tax rate on those earnings. Sizeable repatriation of earnings began in the third quarter of 2005, after the Treasury Department issued a series of guidelines. By our estimate, foreign affiliates remitted nearly \$70 billion of previously retained earnings in the fourth quarter, which more than offset the usual \$40 billion in outflows associated with newly reinvested earnings and roughly \$28 billion in new equity capital and

intercompany debt. Flows of foreign direct investment into the United States (line 7) moved down slightly in the fourth quarter, returning to trend level.

For 2005 as a whole, private inflows recorded a remarkable step-up from \$187 billion in the previous year to nearly \$570 billion. Foreign private securities inflows (line 4) surged to a new record \$670 billion, more than offsetting a pickup in the pace of U.S. investors' acquisitions of foreign securities (line 5). Together, the increase in net inflows through private securities and the temporary swing from outflows to inflows from net direct investment (U.S. investment abroad net of foreign investment in the United States) allowed for a weaker pace of foreign official inflows (line 1). After registering a record \$395 billion increase in 2004, when foreign official flows were boosted by Japanese intervention and associated reserves management, official inflows slowed in 2005 to \$217 billion. The statistical discrepancy for 2005 was a relatively small positive \$10 billion.

Although total official inflows in 2005 were considerably weaker than in 2004, inflows from China were notably higher and on net accounted for almost all of official inflows in the first three quarters of the year.

It is often reported in the press that the financial transactions data may understate inflows from official sources because they erroneously attribute some foreign official flows to the foreign private sector. It is true that there is some misattribution in these data if official agencies use a foreign intermediary to acquire U.S. assets. To the extent possible, BEA corrects for this misattribution in its quarterly balance of payments statistics using data from FRBNY and elsewhere, and these corrections are carried through to the monthly data shown in the table. Nonetheless, there may be some remaining misattribution. In particular, neither the monthly transactions data nor the FRBNY data can identify official acquisitions of U.S. securities that are acquired through foreign intermediaries and held with foreign custodians.

Turning to more recent monthly developments, foreign official flows into the United States eased a bit in December but picked up smartly in January. A swing to inflows from OPEC countries (line 1b) and a moderation in outflows by the G-10 countries and the ECB (line 1a) accounted for the increase in January. On net, inflows from other

countries (line 1c) were strong in both December and January, but the country composition of flows varied across the two months. In recent months, official flows for Russia, Norway, Brazil, Mexico, and Korea have been large and volatile, with sizable inflows one month in many cases matched by sizable outflows the next. These flows appear primarily to reflect active portfolio management of oil earnings as well as shifts in the composition of reserves.

After registering a near-record monthly inflow in November, foreign private purchases of U.S. securities eased in December and picked up only modestly in January. For the two months on average, private foreigners on net sold Treasury securities (line 4a) and made small net purchases of agency bonds (line 4b). Foreign private demand for corporate bonds (line 4c) remained strong, however, and net purchases of equities (line 4d) picked up sharply in January. As is typically the case, most of the monthly inflows were recorded against the United Kingdom, providing little information about the residence of the ultimate purchaser. However, the net sales of Treasuries for December and January on average were more than accounted for by counterparties located in Caribbean banking centers, and may reflect an unwinding of positions built up earlier in the year by investment funds located in this region.

U.S. residents' acquisitions of foreign securities (line 5) continued at a robust pace in December and January, as U.S. investor appetite for foreign equity (line 5b), primarily from Asia, remained strong. A merger-related stock swap is estimated to have further boosted U.S. holdings of foreign equity in January. Net purchases of foreign bonds were modest for the two months on average.

Net flows through the volatile banking sector (line 3) swung to a sizable inflow in December. For the year as a whole, the banking sector recorded a moderate net inflow of \$18 billion, well within the range of recent experience. In January, the banking sector recorded a small net outflow.

Summary of U.S. International Transactions
(Billions of dollars, not seasonally adjusted except as noted)

	2004	2005	2005				2006	
			Q1	Q2	Q3	Q4	Dec	Jan
Official financial flows	398.1	231.1	31.2	80.4	39.9	79.6	21.7	35.8
1. Change in foreign official assets in the U.S. (increase, +)	395.3	217.0	25.9	81.2	35.1	74.8	17.6	35.4
a. G-10 countries + ECB	161.7	-22.6	5.5	-18.2	-5.1	-4.8	-12.0	-3.6
b. OPEC	12.1	6.7	-3.9	4.4	-4.1	10.4	-3.4	8.5
c. All other countries	221.5	232.9	24.3	95.0	44.3	69.2	33.1	30.5
2. Change in U.S. official reserve assets (decrease, +)	2.8	14.1	5.3	-0.8	4.8	4.8	4.1	0.4
Private financial flows	186.5	569.8	130.3	70.3	214.0	155.3	...	...
Banks								
3. Change in net foreign positions of banking offices in the U.S. ¹	-3.8	18.3	9.8	-61.6	6.0	64.0	46.6	-5.2
Securities²								
4. Foreign net purchases of U.S. securities (+)	506.0	669.6	152.3	122.7	193.5	201.2	41.2	46.3
a. Treasury securities	122.6	198.1	76.0	11.0	40.6	70.5	2.9	-6.0
b. Agency bonds	66.0	69.1	0.7	19.8	33.6	14.9	-0.8	11.6
c. Corporate and municipal bonds	255.0	312.0	55.2	77.8	87.7	91.3	29.5	20.5
d. Corporate stocks ³	62.4	90.5	20.4	14.0	31.5	24.5	9.6	20.3
5. U.S. net acquisitions (-) of foreign securities	-146.2	-181.8	-50.2	-47.9	-38.2	-45.5	-22.5	-19.5
a. Bonds	-60.9	-38.3	-9.6	-23.0	-3.4	-2.4	-4.7	0.1
b. Stock purchases	-97.6	-139.5	-38.6	-23.0	-34.8	-43.1	-17.8	-13.8
c. Stock swaps ³	12.2	-4.0	-2.1	-1.9	0.0	0.0	0.0	-5.8
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-252.0	-21.5	-27.3	-21.6	25.3	2.1	...	...
7. Foreign direct investment in the U.S.	106.8	128.6	34.9	14.7	48.4	30.6	...	...
8. Foreign acquisitions of U.S. currency	14.8	19.4	1.1	4.5	4.7	9.2	...	...
9. Other (inflow, +) ⁴	-39.2	-62.8	9.7	59.5	-25.7	-106.3	...	...
U.S. current account balance (s.a.)	-668.1	-804.9	-197.7	-196.9	-185.4	-224.9	...	...
Capital account balance (s.a.)⁵	-1.6	-5.6	-4.5	-0.3	-0.4	-0.4	...	...
Statistical discrepancy (s.a.)	85.1	9.6	40.7	46.6	-68.0	-9.7	...	...

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 non-market means such as mergers and reincorporations.

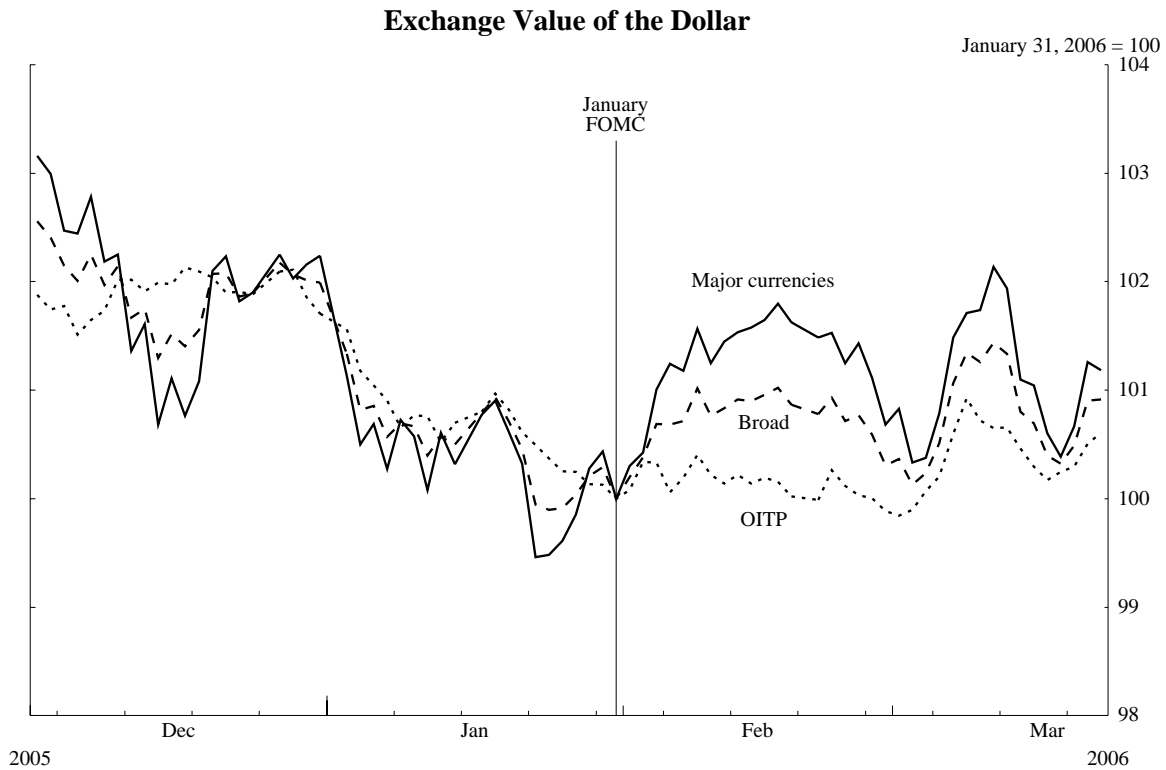
4. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business.

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

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

Foreign Financial Markets

The major currencies index of the dollar moved up 1¼ percent on balance over the intermeeting period. The index twice rose 2 percent over its value at the beginning of the period, fell back both times, and rose again toward the end of the intermeeting period. On a bilateral basis, the dollar appreciated about 2 percent against the Canadian dollar and sterling, but is on balance little changed vis-à-vis the euro and the yen. Early in the intermeeting period, upward pressure on the dollar was prompted by stronger-than-expected U.S. January retail sales, and was accompanied by an increase in market expectations for the future path of U.S. short-term interest rates. The dollar depreciated in late February and early March following statements by Bank of Japan Governor Fukui, which were seen as a strong signal that the Bank of Japan would soon announce an end of its quantitative easing policy, and following press conference statements by ECB President Trichet, which were interpreted as unexpectedly hawkish on the ECB's outlook for inflation. Weaker-than-expected consumer confidence, Chicago



PMI, and existing home sales data also contributed to the dollar's depreciation in late February. The dollar reversed course briefly after the release of stronger-than-expected nonfarm payrolls data for February, but these gains were unwound after the release of a higher-than-expected U.S. Q4 current account deficit and lower-than-expected rise in

February of advance retail sales and the core CPI. The dollar's renewed appreciation late in the intermeeting period was accompanied by a widening of interest rate differentials in favour of the dollar.

Financial Indicators in Major Industrial Countries

Country	Three-month rate		Ten-year yield		Equities
	Mar.21/22 (Percent)	Percentage point change	Mar.21/22 (Percent)	Percentage point change	percent change
Canada	3.92	.24	4.20	.03	-.21
Japan	.18	.10	1.73	.18	-1.43
Euro area	2.74	.19	3.64	.18	5.44
United Kingdom	4.53	-.01	4.33	.18	4.47
Switzerland	1.20	.19	2.36	.18	3.79
Australia	5.61	.05	5.35	-.01	1.94
United States	4.90	.26	4.71	.17	1.26
Memo: Weighted-average foreign	2.55	.16	3.76	.14	n.a.

NOTE. Change is from January 30/31 to March 21/22.
n.a. Not available.

In early March, the European Central Bank raised its policy rate by 25 basis points, to 2.5%, the Bank of Canada raised its policy rate by 25 basis points, to 3.75%, and the Central Bank of Brazil cut its overnight policy interest rate 75 basis points, to 16.5%. On March 9, the Bank of Japan announced the end of its policy of quantitative easing, which had been in place since March 2001, and issued a new directive stating that it would “encourage the uncollateralized call rate to remain at effectively zero percent.” The Bank also issued a document describing a new framework for the conduct of monetary policy. The document stated that an “approximate range of zero to two percent” in the year-on-year change in the headline CPI will be viewed as consistent with medium- to long-term price stability, but Bank of Japan officials stressed that the release of this range should not be interpreted as the adoption of an inflation targeting system. On the day of the announcement, the dollar was little changed against the yen; yields implied by yen eurocurrency futures contracts, and two- and five-year JGB yields declined slightly, while the Nikkei index rose 2.6 percent. On March 16, Norway's central bank raised its

policy rate from 2.25 to 2.5 percent and the Swiss National Bank raised its policy rate from 1.0 to 1.25 percent.

Ten-year government bond yields increased from 15 to 20 basis points in most foreign industrial economies, but are little changed in Canada. Over the intermeeting period, headline equity indexes rose 4 to 6 percent in the euro area. Headline equity indexes rose also in the United Kingdom and the United States, but were little changed in Canada. Japanese equity prices continued to be volatile, with the Topix index down almost 1½ percent.

The dollar depreciated 0.4 percent on net against the Chinese renminbi over the intermeeting period, with the bulk of that change occurring after Premier Wen reaffirmed on March 15 his government's pledge to make the renminbi's exchange rate "more flexible," while ruling out the possibility of any further discrete revaluation steps. The dollar's cumulative depreciation against the renminbi since the July 21, 2005, revaluation amounts to slightly less than 1 percent. Hence, about one half of the total move in the renminbi/dollar exchange rate since July 21 has occurred during this intermeeting period.

The dollar has depreciated 2½ percent on net against the Brazilian *real*, but it has appreciated 3½ percent against the Mexican peso. In February, the *real* appreciated sharply against the dollar and the Brazilian EMBI+ spread over U.S. Treasuries narrowed to an all-time low. Market participants attributed these movements to the announcement of tax breaks for foreign investors trading government securities on the domestic market and the Brazilian government buying back dollar-denominated international bonds in an

Financial Indicators in Latin America, Asia, and Russia

Economy	Currency/ US dollar		Short-term interest rates ¹		Dollar-denominated bond spread ²		Equity prices
	Mar. 22	Percent change	Mar.21/22 (Percent)	Percentage point change	Mar.21/22 (Percent)	Percentage point change	Percent change
Mexico	10.82	3.64	7.35	-.45	1.24	.09	3.28
Brazil	2.16	-2.37	16.36	-.84	2.31	-.35	-2.54
Argentina	3.07	.23	9.38	.81	3.43	-.97	1.84
Chile	531.60	1.25	4.91	.25	.72	-.01	3.77
China	8.03	-.40	n.a.	n.a.	.66	.00	3.07
Korea	973.10	1.48	4.05	.24	...	...	-6.43
Taiwan	32.55	1.82	1.64	.00	...	...	-2.16
Singapore	1.62	-.40	3.38	.06	...	...	3.04
Hong Kong	7.76	.05	4.21	.48	...	...	-.70
Malaysia	3.69	-1.63	3.40	.25	.81	.00	.87
Thailand	38.90	.03	4.75	.35	.46	-.10	-5.01
Indonesia	9084.00	-2.95	13.03	-.17	2.18	-.24	5.68
Philippines	51.03	-1.99	6.63	-.19	2.44	-.37	1.83
Russia	27.75	-1.27	n.a.	n.a.	1.10	-.02	4.76

NOTE. Change is from January 30/31 to March 21/22.

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. Spreads over similar maturity U.S. Treasuries. Mexico, Brazil, Argentina, Chile, Korea, China, Malaysia, Thailand, Indonesia, the Philippines and Russia: EMBI+/EMBI Global. Taiwan, Singapore, and Hong Kong do not have outstanding sovereign bonds denominated in dollars.

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

attempt to improve the country's debt profile. Since late February, the Brazilian EMBI+ spread has increased 16 basis points, but it is currently still 35 basis points lower than at the time of the last FOMC meeting. Mexico's EMBI+ spread remained at a very low level throughout the period, and Argentina's spread declined almost 100 basis points on balance.

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

Developments in Foreign Industrial Countries

Real GDP growth in foreign industrial economies was mixed in the fourth quarter. While economic activity slowed in the euro area and Canada, the Japanese economy expanded briskly and growth in the United Kingdom firmed. Monthly indicators, however, suggest that economic activity in foreign industrial countries should be robust in the first quarter, thus supporting the recovery in Japan and implying that the recent slowing in the euro area and Canada should be short-lived.

Overall, inflationary pressures continue to be contained. Core inflation edged down in the euro area in January and remained stable in Canada. In Japan, core consumer price inflation has now been slightly positive for the last three months. Policymakers in the euro area and Canada reacted to these developments by tightening monetary policy somewhat, while the Bank of Japan decided to abandon its policy of “quantitative easing.”

In **Japan**, real GDP rose 5.4 percent (s.a.a.r.) during the fourth quarter, reaccelerating after 1 percent growth in the third quarter. Domestic demand continued to support the recovery: private consumption rose at an annual rate of 3.5 percent and gross fixed private investment rose 2.7 percent. Net exports contributed 2.4 percentage points to growth, as exports continued to exhibit strength while, surprisingly, imports fell from the previous quarter.

Monthly indicators for the first quarter are generally positive. Industrial production rose 0.4 percent in January from its already historically high level, and the manufacturing purchasing managers’ index (PMI) for February remained at its record high of 57. Although real spending by worker’s households fell in January, retail sales posted a very strong 3.1 percent increase, and auto registrations through February were 2.8 percent above their average level in the fourth quarter. Housing starts rebounded in January, posting a 7.7 percent increase.

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

Component	2004 ¹	2005 ¹	2005			
			Q1	Q2	Q3	Q4
GDP	.5	4.3	5.5	5.7	.8	5.4
Total domestic demand	.3	3.6	5.9	5.0	.6	3.0
Consumption	.8	3.5	5.5	3.3	1.7	3.5
Private investment	.9	6.3	10.2	6.2	6.2	2.7
Public investment	-9.5	-1.9	-2.1	4.1	1.2	-10.2
Government consumption	1.4	1.7	3.1	1.1	1.6	1.0
Inventories ²	-.1	.2	.3	1.5	-1.8	.8
Exports	10.2	10.1	-1.1	14.7	12.8	14.9
Imports	9.7	4.6	-.0	9.0	13.6	-3.4
Net exports ²	.3	.9	-.1	.9	.3	2.4

1. Q4/Q4.

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

Overall, the labor market continues to improve, with employment rising 0.4 percent in January. Despite the rise in the unemployment rate by one-tenth to 4.5 percent in January, the offers-to-applicants ratio (the number of officially posted job openings relative to the number of officially registered job seekers) remained at a thirteen-year high.

Core consumer goods prices (which exclude fresh food but include energy) in the Tokyo area were flat in February, up 0.2 percent from a year earlier. Core consumer goods prices for the country as a whole (which are released with a one-month lag) were up 0.5 percent from a year earlier in January, marking the third consecutive month of positive inflation. Much of the improvement was due to energy prices, however, and consumer prices excluding both fresh food and energy were up only 0.1 percent from a year ago. Twelve-month wholesale price inflation was 2.9 percent in February. On the other hand, in the fourth quarter, the GDP deflator fell 1.6 percent below its year-ago level, the largest decline since the second quarter of 2004.

On March 9, the Bank of Japan announced that it was ending its five-year-old policy of quantitative easing and that it will henceforth use the uncollateralized overnight call rate as its key instrument for conducting monetary policy. Governor Fukui said that the BOJ will keep the overnight call rate at or close to zero for several months, as the outstanding balance of reserve accounts held at the central bank is gradually drained. Subsequently, rates will be raised according to economic conditions, which may imply that the policy rate would be kept at zero for some period thereafter. The Bank also stated that it would

now move policy to control inflation over the medium- to long-run, which it defined as one to two years ahead. It stated that most Board members had definitions of price stability that fell within a range of 0 to 2 percent inflation in the consumer price index, but was careful to note that this did not define a target and that this range would be reviewed annually.

Japanese Economic Indicators

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

Indicator	2005					2006	
	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Industrial production ¹	-.4	-.2	2.6	1.5	1.3	.4	n.a.
All-industries index	.3	.2	1.1	.0	.4	n.a.	n.a.
Housing starts	-1.2	6.5	-.2	1.6	-10.3	7.7	n.a.
Machinery orders ²	.8	2.1	4.1	2.3	6.8	-6.2	n.a.
Machinery shipments ³	2.4	1.2	4.9	1.5	2.9	-1.0	n.a.
New car registrations	2.0	-2.8	-4.7	1.3	-3.4	5.0	-.6
Unemployment rate ⁴	4.3	4.3	4.5	4.5	4.4	4.5	n.a.
Job offers ratio ⁵	.95	.97	1.00	.99	1.03	1.03	n.a.
Business sentiment ⁶	1.0	2.0	5.0	...	...	...	...
CPI (core, Tokyo area) ⁷	-.4	-.4	-.3	-.3	-.2	.1	.2
Wholesale prices ⁷	1.7	1.6	2.0	1.9	2.2	2.6	2.9

1. Mining and manufacturing.
 2. Private sector, excluding ships and electric power.
 3. Excluding orders for ships and from electric power companies.
 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.

In the **euro area**, real GDP growth slowed to 1 percent (s.a.a.r.) in the fourth quarter from 2.7 percent in the previous quarter. Private consumption spending declined 0.9 percent, following strong growth in the previous quarter. Net exports subtracted 0.7 percentage points from GDP in the fourth quarter, as export growth slowed more sharply than import growth. Fixed investment spending continued to be a relative bright spot, posting strong growth for the third consecutive quarter.

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

Component	2004 ¹	2005 ¹	2005			
			Q1	Q2	Q3	Q4
GDP	1.6	1.7	1.1	1.8	2.7	1.0
Total domestic demand	2.0	1.6	.2	2.3	2.1	1.8
Consumption	1.9	.8	.4	1.3	2.2	-.9
Investment	1.6	3.2	1.0	4.0	4.3	3.4
Government consumption	.7	1.7	.1	3.1	3.4	.1
Inventories ²	.4	.2	.2	.1	-.1	.7
Exports	5.8	5.1	-3.5	8.2	14.5	1.9
Imports	7.1	5.0	-5.8	9.7	13.2	3.8
Net exports ²	-.4	.1	.9	-.5	.6	-.7
Memo:						
<i>GDP of selected countries</i>						
France	2.0	1.2	1.0	.2	2.8	.9
Germany	.5	1.6	2.4	1.2	2.5	.0
Italy	.8	n.a.	-2.2	3.0	1.1	n.a.

1. Q4/Q4.

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

n.a. Not available.

Recent indicators suggest, however, that euro-area economic activity is strengthening in the current quarter. The PMI for manufacturing rose to an average of about 54 in January and February from 53 in the fourth quarter and 51 in the third quarter (where 50 is the threshold for positive growth). The PMI for the services sector advanced even more robustly in January and February, indicating that euro-area growth is spreading beyond manufacturing.

German GDP stagnated in the fourth quarter, even as industrial production and survey measures of activity showed substantial strength. Indicators for the current quarter point to continued strength in German industry. German manufacturing output posted a strong gain in January. The volume of German industrial orders rose 1.4 percent in January, boosted by foreign orders, and the December figure was revised up sharply. Germany's IFO business climate index rose in February to its highest level since 1991.

There are some signs that consumer spending is rebounding in the current quarter. German retail sales, including automobiles, rose 1.3 percent in January, and German consumer confidence in January reached its highest level in three years and remained near that level in February. Euro-area retail sales rose 0.8 percent in January, and French

consumption of manufactured products rose by a similar amount. Euro-area consumer confidence moved up further in February, with households' perceptions of employment prospects particularly improved relative to a year ago.

The twelve-month rate of euro-area consumer price inflation edged down to 2.3 percent in February, from 2.4 percent in January. Core inflation, excluding energy and unprocessed food, has been very well-behaved, edging down to 1.3 percent on a twelve-month basis in January. Nonetheless, on March 2, the ECB's Governing Council raised its main refinancing rate 25 basis points to 2.5 percent, as expected. In the post-meeting statement, President Trichet emphasized the upside risks to price stability from the indirect effects of past oil price rises, planned increases in administered prices and indirect taxes, and, in the medium to longer term, from "strong monetary and credit growth in an environment of ample liquidity." Analysts interpreted the relatively hawkish post-meeting statement and an upward revision to the ECB staff's inflation forecast as implying that further rate hikes are likely this year, though not at the next meeting.

Euro-Area Economic Indicators

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

Indicator	2005					2006	
	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Industrial production ¹	.7	.9	.5	1.4	.2	-.0	n.a.
Retail sales volume ²	-.3	.3	.1	-.0	-.0	.8	n.a.
Unemployment rate ³	8.6	8.4	8.3	8.4	8.3	8.3	n.a.
Consumer confidence ⁴	-14.3	-14.7	-12.3	-13.0	-11.0	-11.0	-10.0
Industrial confidence ⁴	-10.3	-7.7	-6.0	-7.0	-5.0	-4.0	-2.0
Manufacturing orders, Germany	1.5	4.2	3.4	1.3	-.3	1.4	n.a.
CPI ⁵	2.0	2.3	2.3	2.3	2.2	2.4	2.3
Producer prices ⁵	3.9	4.2	4.4	4.2	4.7	5.3	n.a.
M3 ⁵	7.6	8.4	7.3	7.6	7.3	7.6	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, s.a.

n.a. Not available.

GDP for the **United Kingdom** rose 2.3 percent in the fourth quarter, down slightly from the preliminary estimate. Private consumption grew 3.0 percent. The growth rate of private consumption was also revised down significantly over the previous two years. Fixed investment was surprisingly weak in the fourth quarter, falling 3.1 percent. Net exports contributed almost 1 percent to growth.

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

Component	2004 ¹	2005 ¹	2005			
			Q1	Q2	Q3	Q4
GDP	2.7	1.8	1.0	1.8	2.1	2.3
Total domestic demand	3.3	1.3	-1.2	1.2	3.9	1.4
Consumption	3.8	1.7	.0	1.1	2.5	3.0
Investment	4.2	3.0	3.2	.6	11.9	-3.1
Government consumption	1.2	2.8	1.7	2.7	3.3	3.3
Inventories ²	-.1	-.7	-1.9	-.4	.2	-.8
Exports	6.2	5.7	1.6	14.2	2.6	4.7
Imports	7.9	3.6	-5.3	10.5	8.7	1.3
Net exports ²	-.7	.4	2.1	.5	-1.9	.9

1. Q4/Q4.

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

Indicators for the first quarter point to a continued recovery. The PMI for manufacturing remains solidly above the 50 threshold, and the PMI for services has increased sharply since the beginning of the year, reaching 59 in February.

The housing sector is also continuing its recovery. House price increases over the past year were between 4 and 7 percent depending on the index consulted. New construction orders for housing rose 22 percent over the twelve months ending in January. Mortgage lending in January (£9.1 billion) is approaching the previous high of £10 billion achieved in late 2003.

The twelve-month change in consumer prices rose from 1.9 percent in January to 2.1 percent in February, slightly above the Bank of England's target. Consumer prices, excluding energy, also rose slightly to 1.4 percent, still well below the high of 1.8 percent reached in the summer of 2005. The members of the monetary policy committee voted 8 to 1 to keep policy rates unchanged at their March meeting.

U.K. Economic Indicators

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

Indicator	2005					2006	
	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Industrial production	-.2	-.6	-.9	.7	.4	.4	n.a.
Retail sales volume ¹	.4	.4	1.6	.9	.6	-1.6	.5
Unemployment rate ²							
Claims-based	2.7	2.8	2.9	2.9	2.9	2.9	2.9
Labor force survey ³	4.7	4.8	5.0	5.1	5.0	n.a.	n.a.
Business confidence ⁴	-.3	5.0	-2.0	-4.0	-4.0	1.0	10.0
Consumer confidence ⁵	-2.0	-2.0	-4.0	-4.0	-4.0	-4.0	-2.0
Consumer prices ⁶	1.9	2.4	2.1	2.1	1.9	1.9	2.1
Producer input prices ⁷	9.8	12.5	13.5	13.6	18.1	15.8	15.0
Average earnings ⁷	4.1	4.1	3.5	3.4	4.1	3.1	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.

In **Canada**, real GDP grew 2.5 percent (s.a.a.r.) in the fourth quarter, somewhat slower than in the third quarter. Final domestic demand continued to be robust, but a growing share of this demand was satisfied through imports, which rose over 11.4 percent, keeping GDP growth in check. Imports of machinery and equipment by businesses continued their year-long strength, as business investment overall contributed 1.9 percentage points to growth. Private consumption, despite a sizable drop in spending on automobiles, accelerated a bit from the third quarter, contributing 1.7 percentage points to growth. Although exports reached their fastest growth rate in six quarters, net exports subtracted 0.7 percentage points from overall GDP growth.

Indicators suggest solid growth continued in the first quarter. Housing starts were surprisingly strong in both January and February, higher than their levels in the comparable periods of both 2004 and 2005, which were the two strongest years for housing starts in the past 18 years. Manufacturers' level of new orders remained stable in January, following a surge in December. Manufacturing shipments, however, which have been quite volatile over the past year, fell in January, although the decline was

concentrated in the automotive and a few other sectors. The PMI advanced in both January and February. Retail sales posted another solid increase in January, as all but one retail sector advanced. The composite index of leading indicators continued to rise in January and February.

Canadian Real GDP

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

Component	2004 ¹	2005 ¹	2005			
			Q1	Q2	Q3	Q4
GDP	3.3	2.9	2.1	3.6	3.5	2.5
Total domestic demand	5.1	3.5	3.6	2.1	4.7	3.4
Consumption	3.9	3.8	6.1	3.8	2.4	2.9
Investment	5.4	7.3	6.7	4.8	8.9	8.9
Government consumption	2.5	3.4	2.3	3.2	4.4	3.6
Inventories ²	1.2	-.9	-1.7	-1.7	.5	-.9
Exports	3.0	4.9	3.3	-.5	7.4	9.6
Imports	8.3	6.4	7.7	-3.2	10.2	11.4
Net exports ²	-1.9	-.6	-1.7	1.1	-1.0	-.7

1. Q4/Q4

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

Total employment continued to grow in January and February, maintaining its momentum of the fourth quarter. The unemployment rate dipped to 6.4 percent in February, matching a 30-year-low set in November.

In February, the twelve-month rate of consumer price inflation was 2.2 percent, down from 2.8 percent in January as gasoline prices retraced much of their January climb. The twelve-month rate of core inflation, which excludes the eight most volatile components, was unchanged in February at 1.7 percent.

On March 7, the Bank of Canada increased the targeted overnight rate 25 basis points to 3.75 percent, following 25-basis-point increases at each of its previous four meetings. This move was widely expected. In language virtually unchanged from the statement accompanying its previous policy decision in January, it said that "...some modest further increase in the policy interest rate may be required to keep aggregate supply and demand in balance and inflation on target over the medium term."

Canadian Economic Indicators

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

Indicator	2005					2006	
	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
GDP by industry	.8	1.0	.7	.2	.4	n.a.	n.a.
Industrial production	.1	1.3	.8	-.3	.6	n.a.	n.a.
New manufacturing orders	-1.3	1.2	.9	-2.1	1.6	-.0	n.a.
Retail sales	1.1	.2	.6	1.4	.3	.9	n.a.
Employment	.4	.4	.6	.2	-.1	.2	.2
Unemployment rate ¹	6.8	6.8	6.5	6.4	6.5	6.6	6.4
Consumer prices ²	1.9	2.6	2.3	2.0	2.2	2.8	2.2
Core consumer prices ^{2,3}	1.6	1.6	1.6	1.6	1.5	1.7	1.7
Consumer attitudes (1991 = 100)	122.0	107.6	118.4	...	...	...	...
Business confidence (1991 = 100)	139.2	127.1	147.2	...	...	...	...

1. Percent.

2. Percent change from year earlier, n.s.a.

3. Excluding the 8 most volatile components (fruits, vegetables, gasoline, fuel oil, natural gas, mortgage interest, intercity transportation, and tobacco).

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

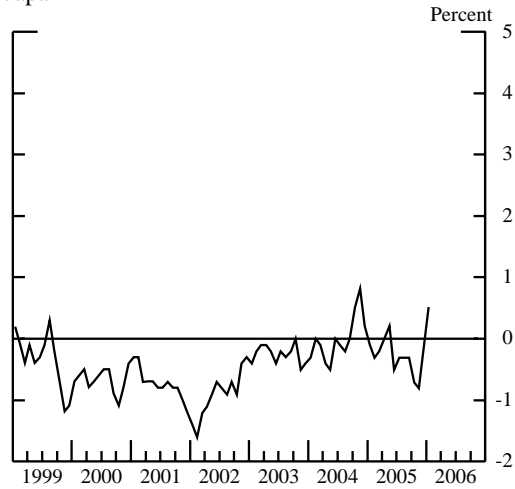
External Balances
(Billions of U.S. dollars, s.a.a.r.)

Country and balance	2005					2006
	Q2	Q3	Q4	Nov.	Dec.	Jan.
<i>Japan</i>						
Trade	79.2	66.3	66.7	69.3	59.6	59.5
Current account	163.0	157.9	172.8	157.1	200.1	155.2
<i>Euro area</i>						
Trade	52.9	9.4	-14.0	11.9	-34.2	n.a.
Current account	1.4	-56.7	-105.5	-134.4	-75.4	n.a.
<i>Germany</i>						
Trade	202.2	199.3	181.1	196.4	162.8	174.0
Current account	121.4	106.7	100.1	114.3	81.7	79.5
<i>France</i>						
Trade	-23.9	-27.6	-36.5	-38.5	-36.9	-34.4
Current account	-43.8	-35.4	-53.8	-67.3	-44.5	-76.9
<i>Italy</i>						
Trade	-8.2	-17.6	-17.7	-14.1	-19.5	-22.2
Current account	-25.8	-25.5	-20.3	-27.6	-4.9	-29.6
<i>United Kingdom</i>						
Trade	-115.5	-122.5	-120.6	-126.1	-127.8	-121.5
Current account	-10.1	-72.9	n.a.	...	...	...
<i>Canada</i>						
Trade	44.1	60.8	74.9	70.0	79.4	65.8
Current account	16.2	25.8	45.3	...	...	...

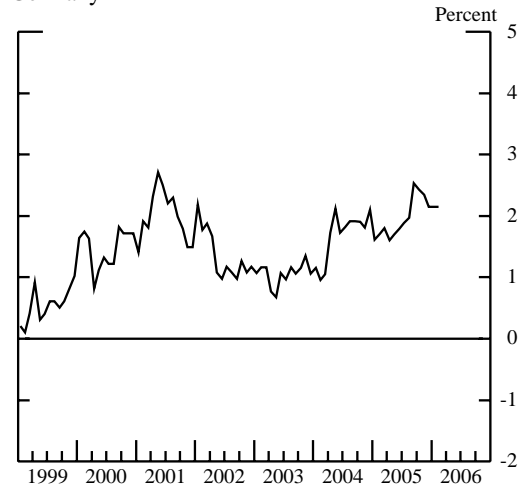
n.a. Not available. ... Not applicable.

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

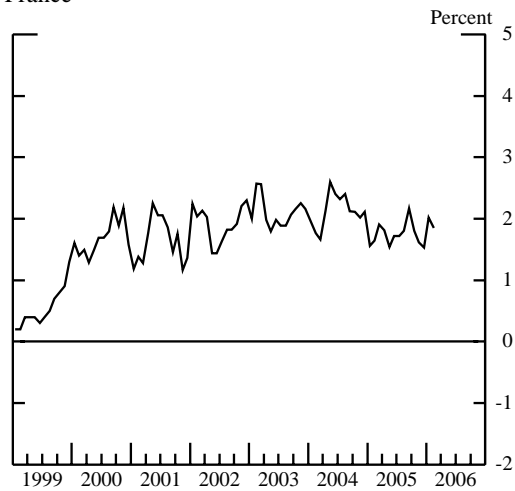
Japan



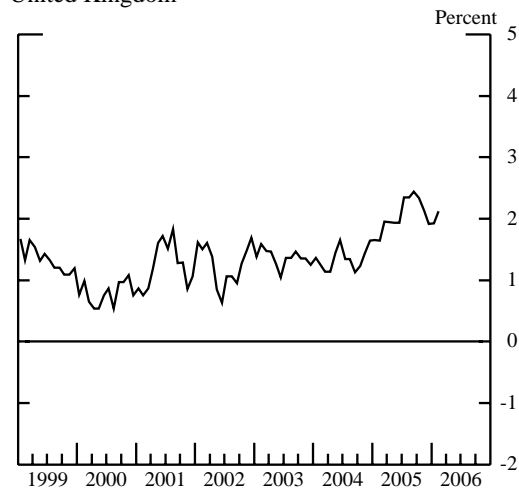
Germany



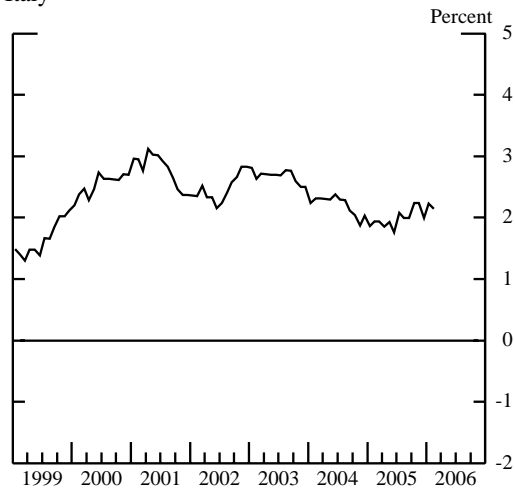
France



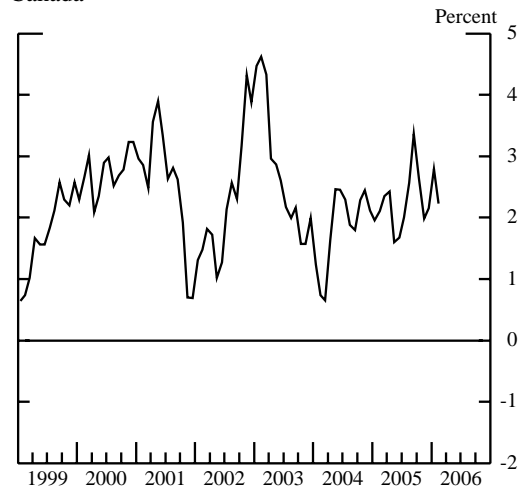
United Kingdom



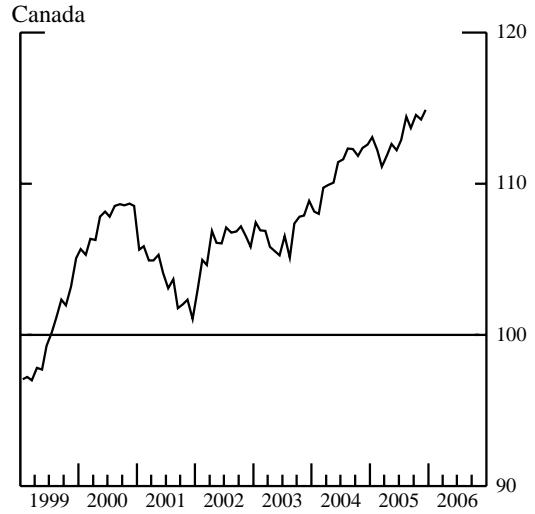
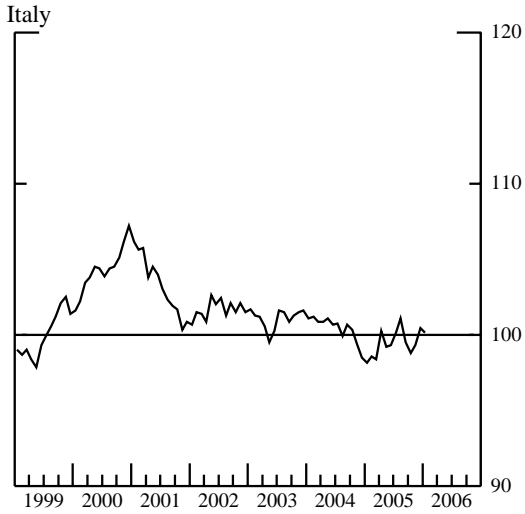
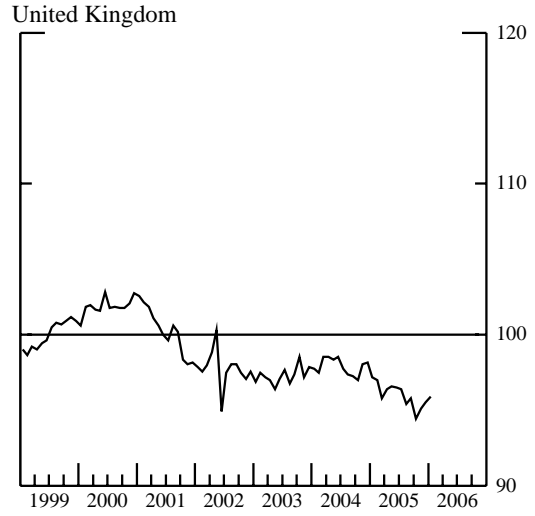
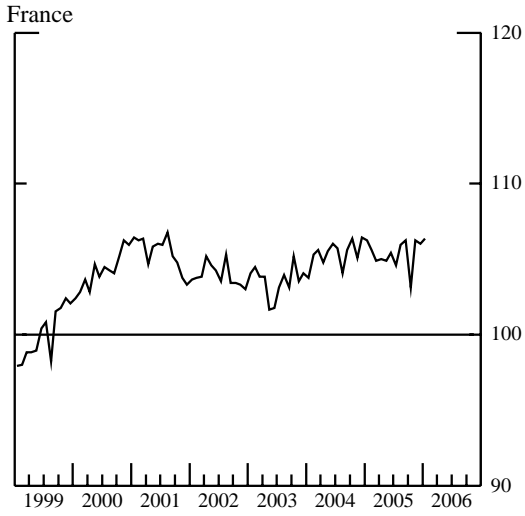
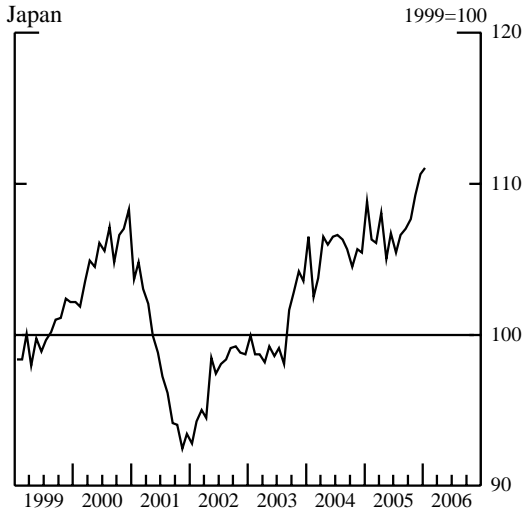
Italy



Canada



Industrial Production in Selected Industrial Countries



Economic Situation in Other Countries

Recent indicators of economic activity across the developing economies have been generally very positive. Fourth-quarter real GDP expanded at a strong pace in Asia, with China, Singapore, and the Philippines expanding at double-digit rates. In Latin America, however, activity moderated from the strong third-quarter pace due to a contraction in Mexico's agricultural sector. Inflation in the developing world has edged up of late, but generally remained contained.

Indicators from **China** point to a moderation in activity from its recent torrid pace. Both exports and investment, the engines of last year's growth, have decelerated in the first two months of this year. In early March, the authorities made several announcements aimed at further slowing investment growth. Investment in some sectors will be restricted, and government spending on infrastructure will be reduced considerably from last year's level. Real growth in retail sales also slowed in the early months of this year, but the government just announced plans aimed at stimulating rural consumption growth. Taxes on the agricultural sector have been reduced or eliminated and agricultural subsidies have been raised. In addition, the government plans to provide free education to all rural children and health insurance for the rural poor. Consumer price inflation dipped to 1 percent on a twelve-month basis in February, as food prices fell after the Lunar New Year holiday in January. Since the last Greenbook, the rate of appreciation of the renminbi against the dollar has picked up slightly.

Chinese Economic Indicators

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

Indicator	2004	2005	2005			2006	
			Q3	Q4	Dec.	Jan	Feb.
Real GDP ¹	10.1	9.9	8.9	11.5	...	...	...
Industrial production	14.4	17.1	3.2	4.0	2.3	1.9	1.9
Consumer prices ²	2.6	1.6	1.3	1.4	1.6	2.0	1.0
Trade balance ³	32.1	101.9	113.7	89.0	90.4	137.3	80.7

1. Annual rate. Quarterly data estimated by staff from reported four-quarter growth rates. Annual data are Q4/Q4.

2. Percent change from year-earlier period, except annual data, which are Dec./Dec.

3. Billions of U.S. dollars, annual rate. Imports are c.i.f.

... Not applicable.

In **Hong Kong**, activity in the fourth quarter slowed from the very rapid growth seen earlier in the year. The trade deficit widened a little in January, as import growth outpaced export growth for the month. January unemployment remained at its lowest level in over four years. Twelve-month consumer price inflation fell back to 1.8 percent in February after edging higher in January due to Lunar Year holiday activities.

Hong Kong Economic Indicators

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

Indicator	2004	2005	2005			2006	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	7.3	7.7	9.5	2.4	...	...	...
Unemployment rate ²	6.9	5.7	5.5	5.3	5.3	5.2	5.2
Consumer prices ³	.2	1.8	1.4	1.8	1.8	2.4	1.8
Trade balance ⁴	-12.0	-10.5	-12.4	-13.4	-20.2	-27.3	n.a.

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.

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

In **Taiwan**, fourth-quarter growth was almost 8 percent (s.a.a.r.), largely reflecting booming exports and a modest contribution from private consumption. In January, industrial production fell from the previous month, reflecting in part the Lunar New Year holiday season. However, new export orders for electronics continued to rise. In February, export growth outpaced import growth, contributing to a rebound in the trade balance from a weak January level. Consumer price inflation has inched down in recent months, reaching 1 percent in February on a twelve-month basis, partly owing to falling food prices.

In late February, President Chen Shui-bian abolished the National Unification Council that was established in 1990 to promote unification with mainland China. The Council had stopped operating since the beginning of Chen's administration in 2000. The decision is expected to further strain the country's relations with the mainland.

Taiwan Economic Indicators

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

Indicator	2004	2005	2005			2006	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	2.6	6.4	6.9	7.7	...	...	...
Unemployment rate ²	4.4	4.1	4.1	4.0	4.0	4.0	4.0
Industrial production	9.8	4.1	3.2	3.4	-0.6	-3.0	n.a.
Consumer prices ³	1.6	2.2	3.0	2.5	2.2	2.7	1.0
Trade balance ⁴	6.1	7.8	4.4	21.6	41.3	5.1	25.6
Current account ⁵	18.5	16.4	4.0	36.9	...	...	...

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.

Economic conditions in **Korea** remain strong in the first quarter. Industrial production rebounded sharply in January, driven by export-oriented sectors, and indicators of retail sales and consumer and business confidence have remained elevated so far in the first quarter. Korea's trade surplus fell sharply in January as exports declined but evidence points to a recovery in February. Consumer prices rose 2.3 percent over the 12 months ended February, held down by declining food prices. The Bank of Korea raised its target rate 25 basis points to 4 percent in February, citing latent inflationary pressures from the economic recovery and persistently high oil prices, but left rates unchanged in March.

Korean Economic Indicators

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

Indicator	2004	2005	2005			2006	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	2.9	5.3	6.6	6.7	...	...	...
Industrial production	10.0	5.9	3.1	5.5	-2.7	6.1	n.a.
Unemployment rate ²	3.5	3.7	3.8	3.6	3.5	3.4	3.5
Consumer prices ³	3.0	2.6	2.4	2.5	2.6	2.8	2.3
Trade balance ⁴	37.6	33.5	29.7	31.9	28.5	17.2	n.a.
Current account ⁵	28.2	16.6	10.6	21.7	6.5	1.6	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. Imports are c.i.f.

5. Billions of U.S. dollars, n.s.a., annual rate.

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

Data from the **ASEAN** countries indicate that economic activity continued to expand at a strong pace, but performance varied across the region. Fourth-quarter real GDP rose 12.5 percent in Singapore, and 11 percent in the Philippines where consumption accelerated ahead of the VAT increase implemented in early February. In Indonesia, Malaysia and Thailand, however, growth moderated from the strong third-quarter pace. The adverse effect of higher oil prices and higher domestic interest rates weighed on activity in Indonesia and Thailand. More recently, January industrial production was down in Singapore and in Thailand. Nevertheless, other data and anecdotes from the region point to a continued recovery in global demand for electronics products and to an expansion of the external sector going forward.

Consumer price inflation remained elevated in much of the region, reflecting higher food prices in some countries as well as the effect of higher energy prices. The increase in energy costs was partly the result of cuts in fuel subsidies, most notably in Indonesia. Citing inflationary pressures, official interest rates were increased by 25 basis points in Malaysia on February 22 and in Thailand in early March.

In recent weeks, the political situation has deteriorated in the Philippines and in Thailand. President Arroyo declared a state of emergency in the Philippines on February 24 following rumors of a coup. The state of emergency was lifted a week later as the threats appeared to have subsided. In Thailand, the Prime Minister dissolved parliament last month and announced a snap election for April 2 amid calls for his resignation in protests

against a controversial sale of his family's stake in the country's largest telecommunication company. Financial markets in both countries have remained relatively stable.

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

Indicator	2004	2005	2005				2006
			Q3	Q4	Nov.	Dec.	Jan.
<i>Real GDP¹</i>							
Indonesia	7.0	5.0	6.4	4.0	...	...	...
Malaysia	5.8	5.2	6.4	4.3	...	...	...
Philippines	5.4	6.2	3.7	11.1	...	...	...
Singapore	6.6	8.5	9.6	12.5	...	...	...
Thailand	5.5	4.7	9.5	3.6	...	...	...
<i>Industrial production²</i>							
Indonesia ³	3.3	3.9	.5	7.6	-10.4	-2.6	n.a.
Malaysia	11.3	4.0	1.1	3.1	4.0	-2.1	n.a.
Philippines	1.0	2.1	-4	7.6	3.5	-7.8	n.a.
Singapore	13.9	9.3	6.4	5.4	2.2	-.7	-8.9
Thailand	11.6	9.2	3.6	-1.5	-3	-2	-1.5

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	2004	2005	2005			2006	
			Q3	Q4	Dec.	Jan.	Feb.
Indonesia	25.1	28.0	25.2	35.5	39.4	40.1	n.a.
Malaysia	21.2	26.4	25.7	25.1	19.8	34.3	n.a.
Philippines	-4.4	-3.8	-4.8	-5.0	-6.4	n.a.	n.a.
Singapore	17.4	29.6	29.4	33.0	42.0	47.7	25.7
Thailand	1.5	-8.6	.3	-8.6	-15.9	3.3	n.a.

n.a. Not available.

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

Indicator	2004 ¹	2005 ¹	2005			2006	
			Q3	Q4	Dec.	Jan.	Feb.
Indonesia	6.6	17.0	8.4	17.8	17.0	17.1	18.0
Malaysia	2.1	3.3	3.5	3.3	3.3	3.2	3.2
Philippines	8.6	6.7	7.1	6.9	6.7	6.7	7.6
Singapore	1.3	1.3	.5	1.1	1.3	1.7	n.a.
Thailand	2.9	5.8	5.6	6.0	5.8	5.9	5.6

1. Dec./Dec.

n.a. Not available

Performance of the **Indian** economy has been strong. Output rose 8.4 percent in the fourth quarter, with sizable gains in the construction and services sectors. More recently, the government announced that it was expecting double-digit growth in the first quarter. After narrowing a bit around the turn of the year, India's trade deficit widened sharply in February as exports fell and non-oil imports surged. The closely watched wholesale price index rose 4.2 percent over the 12 months ended February—down slightly from late last year. Last month the government released its budget plan for fiscal year 2006/2007, which begins in April. The budget includes hefty spending increases on infrastructure, education, and health, but presumes that strong growth will boost revenues, allowing for a slight narrowing of the deficit to 3.8 percent of GDP.

Indian Economic Indicators

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

Indicator	2004	2005	2005			2006	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	7.0	7.6	7.1	8.4	...	...	...
Industrial production	8.5	7.9	.1	2.5	.8	2.4	n.a.
Consumer prices ²	3.8	5.6	3.7	5.0	5.6	4.4	n.a.
Wholesale prices ²	6.7	4.4	4.0	4.5	4.4	4.3	4.2
Trade balance ³	-21.7	-38.5	-45.1	-32.9	-32.1	-31.3	-49.1
Current account ⁴	1.4	n.a.	-30.6	n.a.	...	...	...

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

2. Percent change from year-earlier period, except annual data, which are Dec./Dec.

3. Billions of U.S. dollars, annual rate.

4. Billions of U.S. dollars, n.s.a., annual rate.

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

In **Mexico**, real GDP growth moderated to 2.4 percent in the fourth quarter, somewhat below expectations, but recent indicators point to expansion in activity going forward. A marked decline in the volatile agricultural sector, reflecting the impact of last year's hurricane season, weighed heavily on fourth-quarter activity. On the other hand, output in the services sector grew solidly during the fourth quarter, and industrial activity, which had been soft during most of 2005, grew about 2.2 percent on the back of an ongoing gradual pickup of U.S. demand for Mexican manufactures. In particular, auto production and exports have soared recently after months of weakness in U.S. demand. The surge in auto exports contributed to a solid performance in production in January and to a noticeable improvement in Mexico's trade balance.

Mexican Economic Indicators

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

Indicator	2004	2005	2005			2006	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	4.8	2.7	8.7	2.4	...	...	...
Overall economic activity	3.8	3.3	2.0	.3	.4	n.a.	n.a.
Industrial production	3.9	1.9	.6	2.3	1.3	1.2	n.a.
Unemployment rate ²	3.9	3.6	3.5	3.3	3.3	3.4	3.5
Consumer prices ³	5.2	3.3	4.0	3.1	3.3	3.9	3.8
Trade balance ⁴	-8.8	-7.6	-7.2	-5.6	-.6	5.7	n.a.
Imports ⁴	196.8	221.3	223.3	238.1	242.4	247.5	n.a.
Exports ⁴	188.0	213.7	216.1	232.5	241.8	253.1	n.a.
Current account ⁵	-7.1	-5.7	-1.2	-10.7	...	...	...

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.

Consumer price inflation edged up in recent months due mostly to higher food prices, but remained within the Bank of Mexico's 2-to-4 percent target range. Twelve-month headline inflation was 3.8 percent in February, while core inflation (not shown) was 2.9 percent. The benign inflation prospects led the Bank of Mexico (BOM) to continue easing policy in February for a seventh consecutive time since August. As a result, the rate on 28-day peso-denominated bills, a widely used measure of the monetary policy stance, has fallen from 9.6 percent in August to 7.3 percent in mid-March. However, the

BOM indicated in recent announcements that it now has "limited" room to continue easing policy.

In **Brazil**, real GDP rebounded 3.4 percent (a.r.) in the fourth quarter after a contraction in the third quarter, bringing the total output growth for 2005 to 1.5 percent. While the rebound was largely anticipated, it was not as strong as markets had expected due to lingering weaknesses in the agricultural and services sectors. More recently, January industrial production fell slightly. Monthly headline inflation declined in February, reflecting the waning effects of increases in food and fuel ethanol prices in January, bringing twelve-month inflation down to 5.5 percent. On March 8, the central bank reduced the policy rate 75 basis points to 16.5 percent as was expected. The policy rate is down 325 basis points since the current policy easing cycle began last September.

Over the month of February, the Brazilian government announced that it would retire \$20 billion in external debt by the end of the year. As part of that plan, it will exercise a call option on \$6.6 billion in Brady bond debt in mid-April, hence retiring the remaining Brady bond debt. Additionally, the government eliminated some taxes on foreign investment in *real*-denominated government debt sold domestically. Citing improving external indicators and the reduction in exposure to currency risks, S&P raised Brazil's credit risk rating one notch to BB in late February. Partly reflecting these recent developments, the Brazil EMBI+ spread has narrowed considerably over the inter-meeting period.

Brazilian Economic Indicators

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

Indicator	2004	2005	2005			2006	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	4.7	1.5	-3.4	3.4	...	...	...
Industrial production	8.3	3.1	-.7	.5	2.4	-1.3	n.a.
Unemployment rate ²	11.5	9.8	9.3	9.6	9.3	9.7	n.a.
Consumer prices ³	7.6	5.7	6.2	6.1	5.7	5.7	5.5
Trade balance ⁴	33.7	44.8	44.8	50.3	50.8	49.5	40.6
Current account ⁵	11.7	14.2	23.1	12.7	6.8	-5.4	8.7

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

2. Percent.

3. Percent change from year-earlier period, except annual data, which are Dec./Dec.

Price index is IPCA.

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**, fourth quarter output rose almost 9 percent (s.a.a.r.), reflecting strong growth in private consumption and investment. For 2005, the real investment to GDP ratio reached almost 20 percent, the highest since 1998. More recently, industrial production fell in January, reflecting the shutdown of automobile plants for retooling, which typically happens in slightly different months each year. Consumer price inflation edged down to 11.4 percent in February on a twelve-month basis, still above the central bank's 2006 inflation projection of 8-to-11 percent.

In early March, the government of Argentina announced a ban on beef exports for at least 180 days after failing to convince beef producers and distributors to voluntarily freeze beef prices. According to the government, the measure was necessary to prevent surging international demand from pushing local beef prices beyond the purchasing power of Argentine families. Even though beef accounts for only 4.5 percent of the consumption basket, it contributed almost 1 percentage point to last year's 12 percent inflation rate. The new policy is not expected to materially affect inflation going forward.

Argentine Economic Indicators

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

Indicator	2004	2005	2005			2006	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	9.1	9.1	10.7	8.8	...	...	...
Industrial production	10.7	7.7	2.0	2.4	.2	-1.7	n.a.
Unemployment rate ²	13.6	11.6	11.1	10.1	...	...	...
Consumer prices ³	5.9	12.2	9.9	11.6	12.2	12.0	11.4
Trade balance ⁴	12.1	11.3	13.6	9.8	13.5	12.4	n.a.
Current account ⁵	3.3	n.a.	8.4	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**, reliable data on activity are scarce, but anecdotal evidence suggests that economic activity continued to be strong in the first quarter, supported by the high price of oil and by very expansionary fiscal and monetary policies. February auto sales were up 40 percent from a year earlier. Inflation continued to decline and was 12.5 percent on a twelve-month basis in February due mostly to price controls on food. In late February, the Venezuelan government announced that it would buy back up to \$4 billion in Brady

bond external debt in an effort to reduce the country's external debt, following a similar announcement by the Brazilian government. On February 10, S&P upgraded Venezuela's credit rating on long-term foreign currency denominated sovereign debt to BB-, citing the country's improving external position as a result of high international oil prices.

Venezuelan Economic Indicators

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

Indicator	2004	2005	2005			2006	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	12.1	10.2	-3.2	14.4	...	...	...
Unemployment rate ²	15.1	12.2	11.9	11.8	10.9	11.2	n.a.
Consumer prices ³	19.2	14.4	15.4	15.2	14.3	13.1	12.5
Non-oil trade balance ⁴	-10.5	-16.5	-24.0	-25.6	n.a.	n.a.	n.a.
Trade balance ⁴	21.4	31.5	32.3	35.7	n.a.	n.a.	n.a.
Current account ⁵	13.8	25.4	32.3	25.6	...	...	...

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.