

Prefatory Note

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Part 2

December 5, 2007

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

December 5, 2007

Recent Developments

Domestic Nonfinancial Developments

Domestic Nonfinancial Developments

The latest data suggest that economic activity has decelerated sharply in the current quarter after the robust gains of the summer. The effects of the turmoil in financial markets appear to be spreading beyond real estate, as gains in consumer outlays slowed to a crawl in the autumn and survey measures of sentiment dropped further. Many of the readings from the business sector have also softened: In particular, industrial production fell in October, as did orders and shipments for capital goods. Private payrolls increased at a moderate pace during the summer and early fall, but initial claims for unemployment insurance have increased, on average, in recent weeks. Headline inflation has moved higher over the past several months, reflecting larger increases in energy prices. Core inflation, however, has remained modest.

Labor Market Developments

Employment gains have slowed somewhat in recent months. Private payrolls increased at an average monthly rate of 78,000 over the past three months, about 45,000 per month less than during the preceding three months. Employment in manufacturing, residential construction, and other housing-related sectors such as real estate financing and building materials and garden-supply retailers continued to decline in October. Elsewhere, however, employment in most service-producing industries has continued to move up.

Indicators from the household survey have pointed to slightly weaker labor market conditions than indicated by the payroll survey. In particular, the unemployment rate remained at 4.7 percent in October after moving up 0.2 percentage point over the third quarter. The participation rate edged down 0.1 percentage point in October, to 65.9 percent; it has moved down about ½ percentage point since its recent peak at the turn of the year.

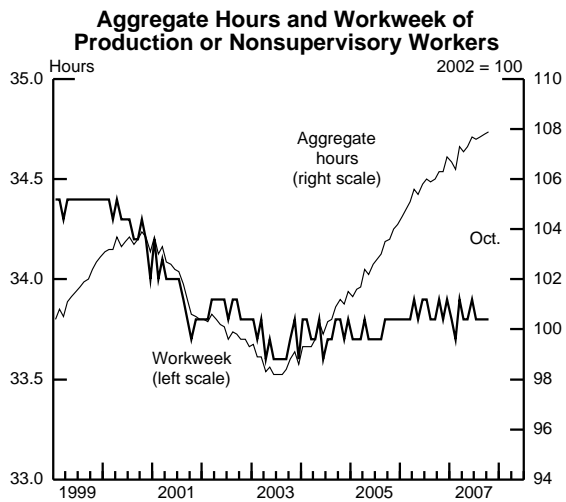
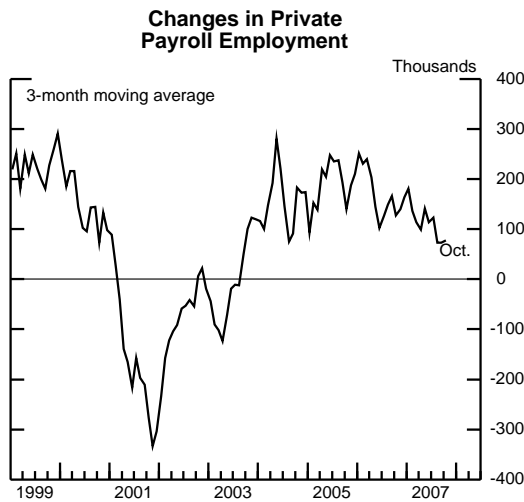
Although other indicators of labor demand have weakened somewhat, they remain consistent with modest employment growth. The pace of layoffs has turned up since August, according to such indicators as initial claims for unemployment insurance, layoffs reported in the JOLT survey, and the short-term job-losers rate in the household survey. Indicators of hiring—hires measured in the JOLT survey and hiring plans reported by Manpower and the National Federation of Independent Business (NFIB)—have edged down over the past six months, though they remain at healthy levels. Measures of labor market tightness, including the share of firms reporting that they had a hard-to-fill position and households' assessments of job availability, suggest that little has changed in the balance between supply and demand since the beginning of 2007.

Changes in Employment

(Thousands of employees; seasonally adjusted)

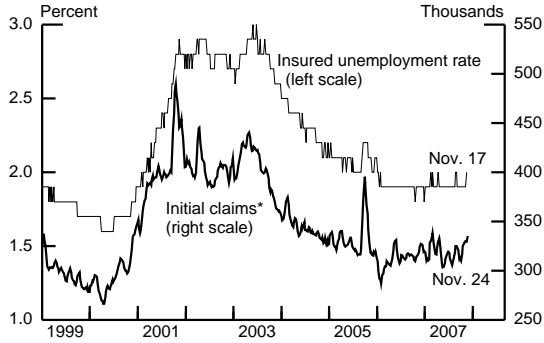
Measure and sector	2006	2007					
		Q1	Q2	Q3	Aug.	Sept.	Oct.
		Average monthly change			Monthly change		
Nonfarm payroll employment (establishment survey)	189	142	126	94	93	96	166
Private	169	115	114	73	30	73	130
Natural resources and mining	5	3	2	2	2	0	2
Manufacturing	-7	-14	-13	-22	-45	-17	-21
Construction	11	3	-9	-20	-29	-14	-5
Wholesale trade	11	2	15	8	6	10	10
Retail trade	-3	27	-7	-3	-4	-12	-22
Transportation and utilities	9	2	1	8	3	13	2
Information	2	4	2	1	-4	8	-3
Financial activities	16	2	5	-3	-13	-13	2
Professional and business services	42	14	17	26	31	23	65
Temporary help services	-1	-7	-11	-10	1	-19	20
Nonbusiness services ¹	83	71	100	76	83	75	100
Total government	20	28	12	21	63	23	36
Total employment (household survey)	262	109	-38	39	-316	463	-250
Memo:							
Aggregate hours of private production workers (percent change) ²	2.5	1.1	2.1	1.2	.1	.1	.1
Average workweek (hours) ³	33.8	33.8	33.8	33.8	33.8	33.8	33.8
Manufacturing (hours)	41.1	41.0	41.2	41.3	41.4	41.3	41.2

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.



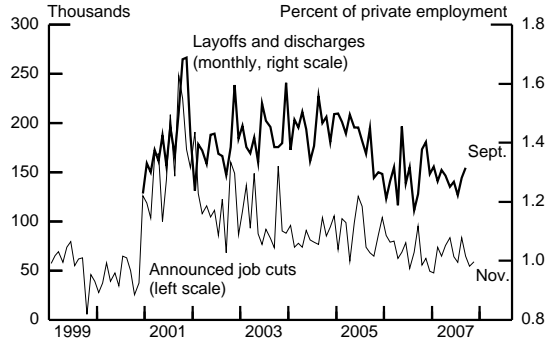
Labor Market Indicators

Unemployment Insurance



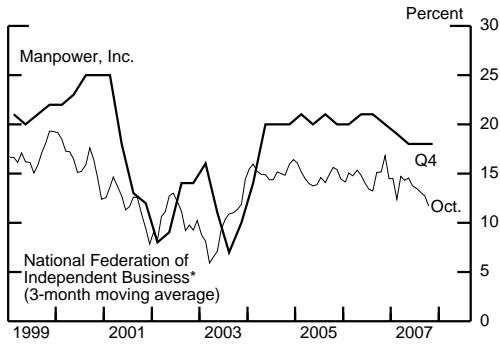
*4-week moving average.

Layoffs and Job Cuts



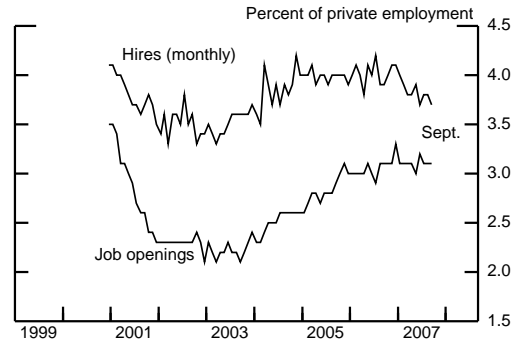
Note. Both series are seasonally adjusted by FRB staff. Source. For layoffs and discharges, Job Openings and Labor Turnover Survey; for job cuts, Challenger, Gray, and Christmas, Inc.

Net Hiring Plans



Note. Percent planning an increase in employment minus percent planning a reduction. * Seasonally adjusted by FRB staff.

Job Openings and Hires



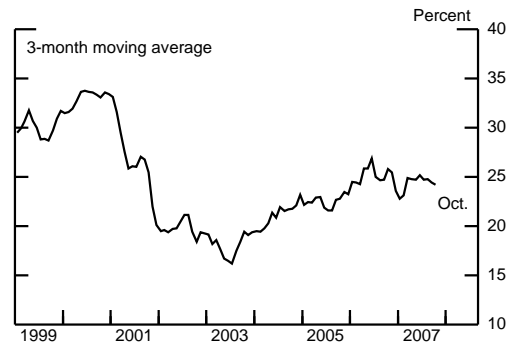
Source. Job Openings and Labor Turnover Survey.

Job Availability



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

Hard-To-Fill Positions



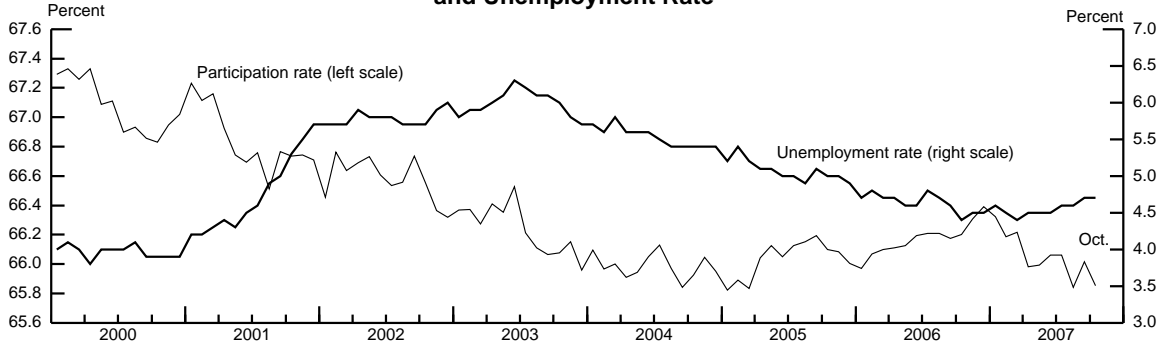
Note. Percent of small businesses surveyed with at least one "hard-to-fill" job opening. Seasonally adjusted by FRB staff. Source. National Federation of Independent Business.

Selected Unemployment and Labor Force Participation Rates

(Percent; seasonally adjusted)

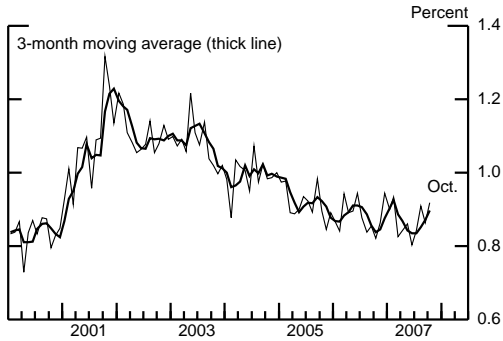
Rate and group	2006	2007					
		Q1	Q2	Q3	Aug.	Sept.	Oct.
<i>Civilian unemployment rate</i>							
Total	4.6	4.5	4.5	4.7	4.6	4.7	4.7
Teenagers	15.4	14.8	15.6	15.7	16.1	16.0	15.6
20-24 years old	8.2	7.7	7.7	8.5	8.3	8.9	8.5
Men, 25 years and older	3.5	3.6	3.5	3.6	3.6	3.6	3.7
Women, 25 years and older	3.7	3.5	3.5	3.7	3.7	3.6	3.7
<i>Labor force participation rate</i>							
Total	66.2	66.2	66.0	66.0	65.8	66.0	65.9
Teenagers	43.6	42.2	41.5	40.7	39.7	41.2	41.1
20-24 years old	74.6	75.1	74.2	74.5	74.0	75.0	74.0
Men, 25 years and older	75.5	75.7	75.6	75.5	75.5	75.5	75.3
Women, 25 years and older	59.6	59.6	59.6	59.8	59.8	59.8	59.6

Labor Force Participation Rate and Unemployment Rate



Job Losers Unemployed Less Than 5 Weeks

(as a percent of household employment)



Unemployed Due to Job Loss

(as a percent of the labor force)



Productivity in the nonfarm business sector is estimated to have risen at an annual rate of 6.3 percent in the third quarter, after a 2.2 percent rate of increase in the second quarter. The recent jump in output per hour brings the rate of increase over the past four quarters up to 2.7 percent, following four quarters over which productivity was about unchanged.

Output per Hour

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

Sector	2005:Q3 to 2006:Q3	2006:Q3 to 2007:Q3	2006	2007		
			Q4	Q1	Q2	Q3
Nonfarm business						
All persons	.1	2.7	1.8	.7	2.2	6.3
All employees ¹	.1	2.5	1.5	.2	2.6	5.5
Nonfinancial corporations ²	1.7	2.0	1.3	.7	2.1	4.2

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

2. All corporations doing business in the United States except banks, stock and commodity brokers, and finance and insurance companies. The sector accounts for about two-thirds of business employment. Nonfinancial corporate output is calculated as an income-side measure.

Industrial Production

Industrial production (IP) fell 0.5 percent in October after small gains in August and September. Although a weather-related drop in utilities output accounted for about a third of the October decline, production decreases elsewhere were fairly widespread: The three-month diffusion index of IP moved below fifty for the first time since January, indicating that more industries registered falling output than rising output. Nonetheless, most forward-looking indicators remain modestly in positive territory. In manufacturing sectors for which we have weekly physical product data, the available data suggest that, excluding motor vehicles, output edged up in November. Moreover, there appear to be few inventory imbalances, and strong export demand is tempering the ongoing drag on IP from the weak construction and motor vehicle sectors.

The IP index for motor vehicles and parts fell in October for the third consecutive month. Although light vehicle assemblies were essentially unchanged in October, a shift in the mix of production away from higher-value light trucks and toward autos contributed to the decline. Ward's Communications currently estimates that assemblies will decline 500,000 units in the fourth quarter. At the scheduled rate, motor vehicle production would subtract about $\frac{3}{4}$ percentage point (annual rate) from the rate of change in total IP this quarter. The recent cuts to production, coupled with steady demand (see next section), have brought inventories of domestic manufacturers down to more-comfortable levels. Elsewhere in transportation, commercial aircraft production registered another

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

Component	Proportion 2006 (percent)	2006 ¹	2007		2007		
			Q2	Q3	Aug.	Sept.	Oct.
			Annual rate		Monthly rate		
Total	100.0	3.5	3.5	4.4	.1	.2	-5
Previous	100.0	3.5	3.5	4.0	.0	.1	...
Manufacturing	81.9	3.4	4.3	4.1	-4	.2	-4
Ex. motor veh. and parts	76.3	3.9	3.7	4.3	-4	.4	-3
Ex. high-tech industries	71.5	2.5	2.9	2.8	-5	.3	-4
Mining	8.6	8.0	.1	5.5	.0	.6	-6
Utilities	9.6	.3	-1.0	5.9	5.2	-1	-1.6
<i>Selected industries</i>							
Energy	20.5	4.0	-1.4	6.5	2.6	.1	-9
High technology	4.8	24.6	16.6	28.5	.9	1.1	.5
Computers	1.2	12.1	39.4	14.6	.5	.3	.0
Communications equipment	1.1	14.8	8.3	13.8	1.7	1.1	-2.1
Semiconductors ²	2.6	34.8	9.5	44.6	.7	1.5	1.9
Motor vehicles and parts	5.5	-3.8	13.3	1.3	-1.3	-3.0	-1.0
<i>Total ex. selected industries</i>	69.1	2.4	3.2	2.5	-5	.4	-4
Consumer goods	20.9	1.8	1.8	1.0	-6	.2	-6
Durables	4.0	-1.9	4.1	.8	-5	-4	-8
Nondurables	16.9	2.7	1.2	1.1	-7	.4	-5
Business equipment	7.8	10.2	4.4	7.0	-6	1.2	.1
Defense and space equipment	1.7	2.0	-2.4	3.5	-6	.1	.5
Construction supplies	4.5	-2.2	5.6	.8	-3	-6	-4
Business supplies	7.9	1.0	1.2	.1	-4	.7	-9
Materials	26.1	2.3	4.6	3.4	-4	.4	-4
Durables	14.5	2.0	6.1	5.2	-3	.2	-2
Nondurables	11.6	2.6	2.7	1.1	-5	.5	-6

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- 2006 average	1994- 95 high	2001- 02 low	2007				
				Q1	Q2	Q3	Sept.	Oct.
Total industry	81.0	85.1	73.6	81.3	81.7	82.2	82.2	81.7
Manufacturing	79.8	84.6	71.6	79.8	80.3	80.7	80.5	80.1
Ex. motor veh. and parts	79.9	84.3	71.4	80.3	80.5	80.9	80.8	80.4
Mining	87.4	88.9	84.8	90.0	89.9	91.1	91.5	90.9
Utilities	86.7	93.7	83.8	86.4	85.8	86.8	88.1	86.7
<i>Stage-of-process groups</i>								
Crude	86.5	89.5	82.0	88.7	89.2	90.4	91.0	90.2
Primary and semifinished	82.2	88.2	74.6	82.2	82.2	82.8	82.8	82.2
Finished	77.8	80.5	70.0	78.0	78.6	78.9	78.7	78.3

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

Item	2007							
	Q1	Q2	Q3	Q4	Sept.	Oct.	Nov.	Dec.
U.S. production ¹	10.2	10.8	10.7	10.0	10.1	10.1	10.0	9.8
Autos	4.0	3.9	3.9	3.6	3.6	3.9	3.4	3.5
Light trucks	6.3	6.9	6.7	6.4	6.5	6.2	6.6	6.4
Days' supply ²	65	67	69	n.a.	68	69	n.a.	n.a.
Autos	60	55	59	n.a.	58	59	n.a.	n.a.
Light trucks	69	76	75	n.a.	74	76	n.a.	n.a.
Inventories ³	2.67	2.67	2.75	n.a.	2.75	2.74	n.a.	n.a.
Autos	1.01	.95	.99	n.a.	.99	.99	n.a.	n.a.
Light trucks	1.67	1.72	1.76	n.a.	1.76	1.75	n.a.	n.a.
Memo: U.S. production, total motor vehicles ⁴	10.6	11.1	10.9	10.2	10.4	10.4	10.3	10.1

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

1. Production rates for November and December reflect the latest industry schedules.
 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

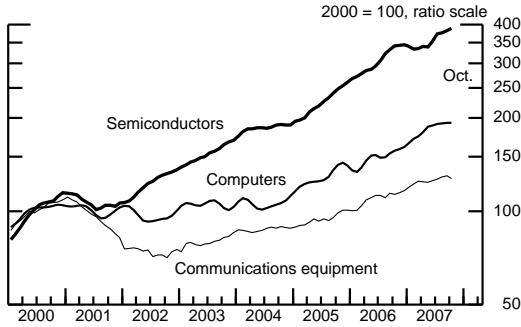


Days' Supply of Light Vehicles

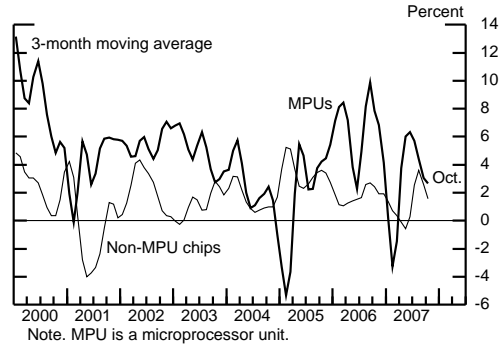


Indicators of High-Tech Manufacturing Activity

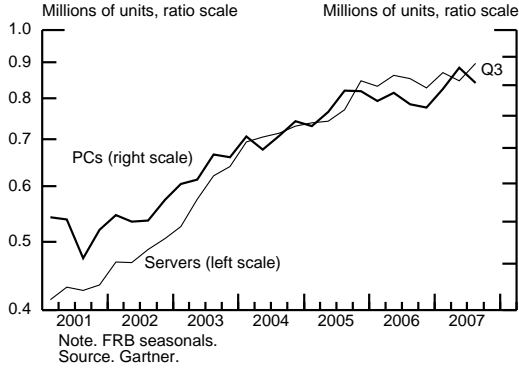
Industrial Production in the High-Tech Sector



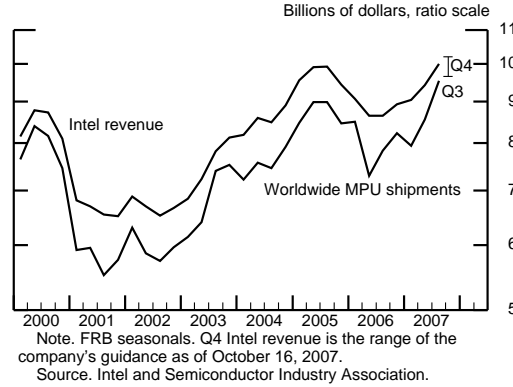
Rate of Change in Semiconductor Industrial Production



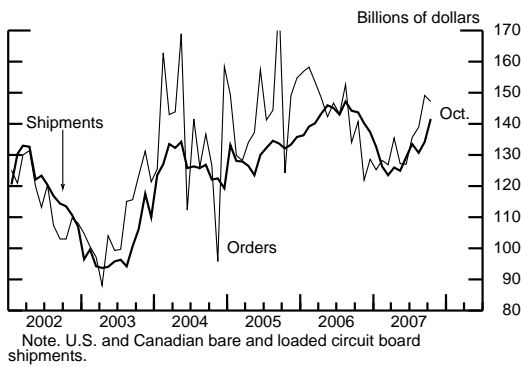
U.S. Personal Computer and Server Sales



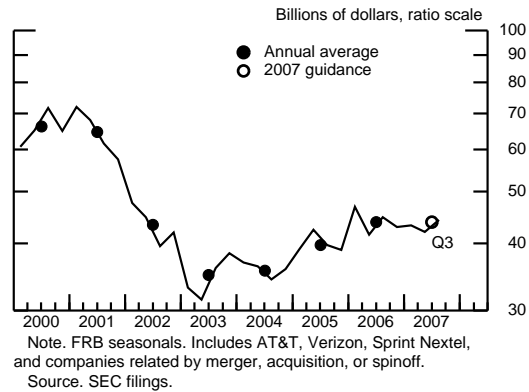
MPU Shipments and Intel Revenue



IPC Circuit Board Orders and Shipments



Capital Expenditures by Selected Telecommunications Service Providers



solid gain in October. However, Boeing's decision to push back initial deliveries of its 787 Dreamliner from mid-2008 to late 2008 will likely damp production early next year.

IP in high-tech industries increased a modest 0.5 percent in October. High-tech output was restrained in October by the wildfires in San Diego County, where several manufacturing plants were closed during the week of the fires.¹ The effects were primarily concentrated in computer IP, which was flat in October, and in the production of communications equipment, which decreased after four consecutive months of outsized gains. Semiconductor IP posted a solid gain, as healthy MPU production in other parts of the country more than outweighed the production disruption associated with the wildfires.

The available indicators point to moderate gains, on balance, in the output of high-tech industries during the next few months. Intel's revenue guidance for the fourth quarter is little changed from its level in the third-quarter and is consistent with a slight slowing of real MPU production. By contrast, domestic orders for circuit boards have climbed notably in recent months, and the book-to-bill ratio remained above one in October, suggesting further production gains in coming months. For communications equipment, Cisco reported that the recent financial market turmoil contributed to a slowing in orders from financial service providers in October. However, a third-quarter uptick in capital spending by telecommunications service providers (TSPs) suggests that equipment spending—and therefore production—will rise modestly over the remainder of the year.²

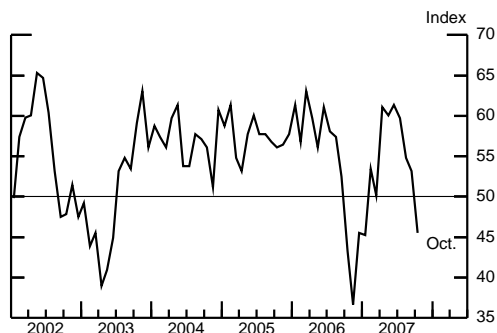
Outside of energy, high-technology, and motor vehicles and parts, production for most of the major market groups moved down in October. Consumer goods output fell 0.6 percent, the result of widespread weakness in both durable and nondurable goods categories. Output of business equipment edged up, as the gains in commercial aircraft more than offset declines among other kinds of business equipment. The index for construction supplies moved down in October for the fourth consecutive month. Materials output also declined in October, with production likely curbed by the weak demand from the construction and motor vehicle sectors.

¹ Affected companies include Sony, Sun Microsystems, Hewlett-Packard, and Nokia. Other industries affected by the wildfires include shipbuilding, bakeries and tortilla manufacturing, electrical components, and aerospace parts. However, the overall effect of the wildfires on total IP in October was minimal, amounting to a drag of less than 0.05 percentage point.

² A recent conversation with our contact at a major communications equipment manufacturer indicated that orders from TSPs were currently healthy.

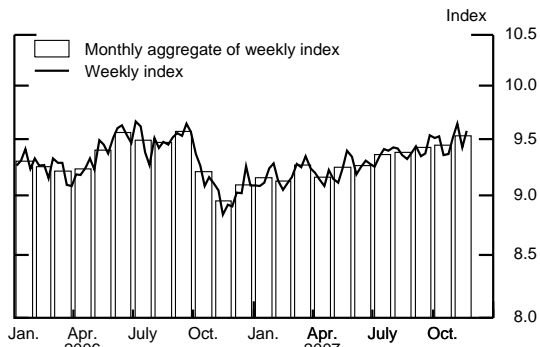
Indicators of Industrial Activity

Industrial Production Diffusion Index



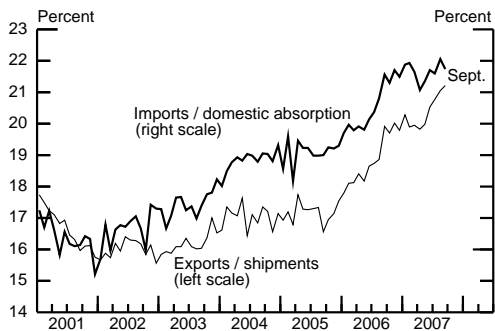
Note. The diffusion index equals the percentage of series that increased over 3 months plus one-half the percentage that were unchanged.

Weekly Production Index excluding Motor Vehicles and Electricity Generation

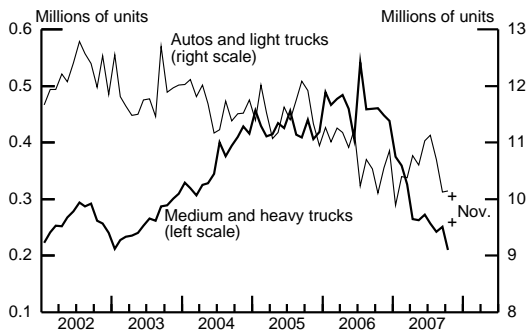


Note. One index point equals 1 percent of 2002 total industrial output.

Trade Shares

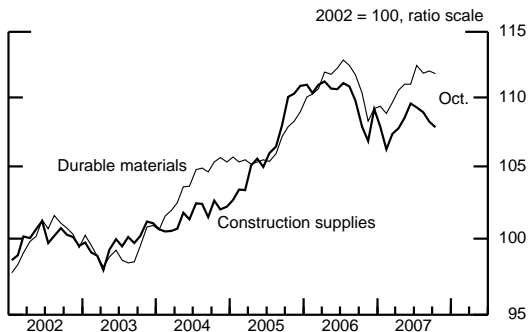


Motor Vehicle Assemblies



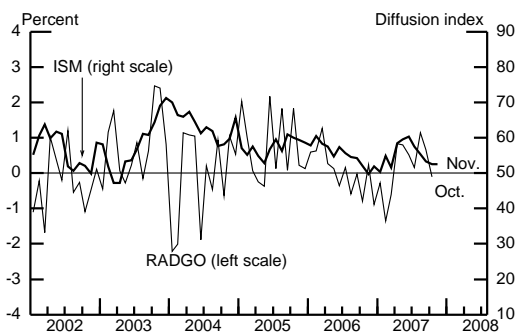
Note. November values are based on latest industry schedules.

IP: Construction Supplies and Durable Materials



Note. Data exclude motor vehicle parts, high-tech, and aircraft parts industries.

New Orders: ISM Survey and Change in Real Adjusted Durable Goods Orders (RADGO)



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.

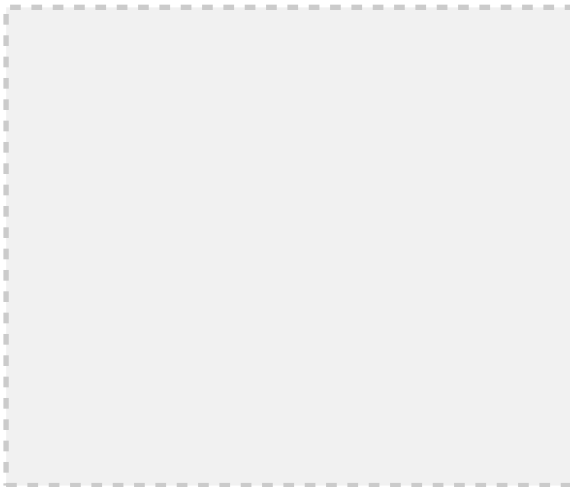
Sales of Light Vehicles
(Millions of units at an annual rate; FRB seasonals)

Category	2006	2007					
		Q1	Q2	Q3	Sept.	Oct.	Nov.
Total	16.5	16.4	16.0	15.9	16.2	16.0	16.2
Autos	7.8	7.6	7.7	7.4	7.5	7.5	8.0
Light trucks	8.7	8.8	8.3	8.5	8.7	8.5	8.1
North American ¹	12.8	12.6	12.3	12.3	12.5	12.2	12.4
Autos	5.5	5.2	5.3	5.1	5.2	5.2	5.7
Light trucks	7.3	7.4	7.0	7.2	7.2	7.0	6.7
Foreign-produced	3.7	3.9	3.8	3.6	3.7	3.8	3.8
Autos	2.3	2.4	2.4	2.3	2.3	2.3	2.4
Light trucks	1.3	1.4	1.4	1.3	1.4	1.5	1.4
Memo: Detroit Three domestic market share (percent) ²	53.7	52.1	51.8	50.4	50.8	50.8	50.3

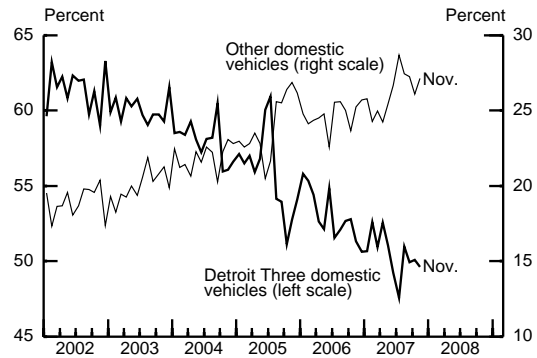
Note. Components may not sum to totals because of rounding.

1. Excludes some vehicles produced in Canada that are classified as imports by the industry.
2. Domestic market share excludes sales of foreign brands affiliated with the Detroit Three.

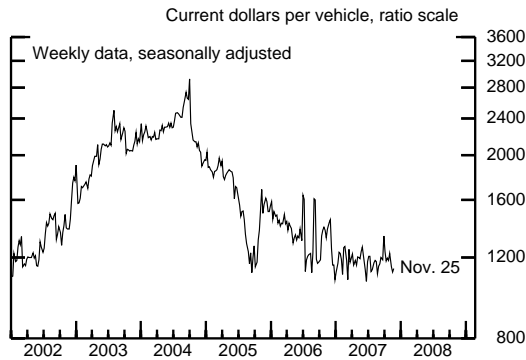
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Market Share

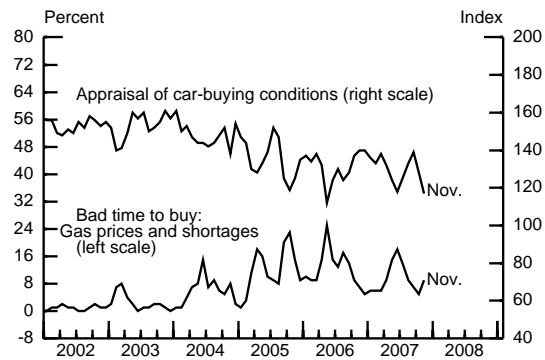


Average Value of Incentives on Light Vehicles



Note. Weighted average of customer cash rebate and the present value of interest rate reduction.
Source. J.D. Power and Associates.

Car-Buying Attitudes

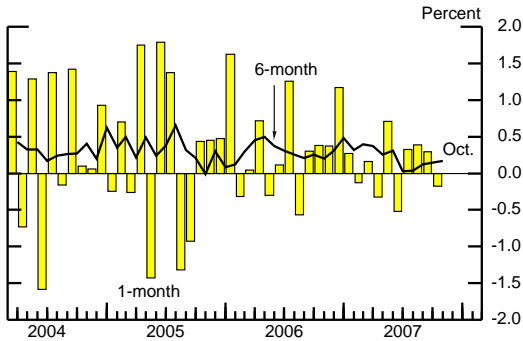


Source. Reuters/University of Michigan Survey.

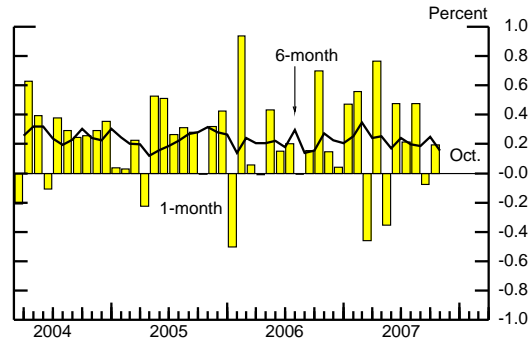
Real Personal Consumption Expenditures
(Percent change from the preceding period)

Category	2006	2007					
		Q1	Q2	Q3	Aug.	Sept.	Oct.
		Annual rate			Monthly rate		
Total real PCE	3.1	3.7	1.4	2.7	.4	.1	.0
Durable goods	3.8	8.8	1.7	4.0	2.5	.7	-.6
Motor vehicles	-3.1	11.3	-2.9	-5.0	4.8	1.4	-.9
Excluding motor vehicles	9.1	7.1	5.1	10.6	1.0	.2	-.3
Nondurable goods	3.6	3.0	-.5	1.9	-.4	.3	-.1
Energy	-.3	2.4	-4.5	-.9	-2.0	2.8	-1.8
Other	4.2	3.1	.1	2.3	-.1	-.1	.1
Services	2.7	3.1	2.3	2.8	.4	-.2	.1
Energy	-3.1	1.6	1.2	11.0	5.9	-1.5	-4.1
Other	2.9	3.2	2.3	2.5	.2	-.1	.3
Memo: Real PCE goods ex. motor vehicles	4.5	4.0	.3	3.7	-.1	.3	-.2

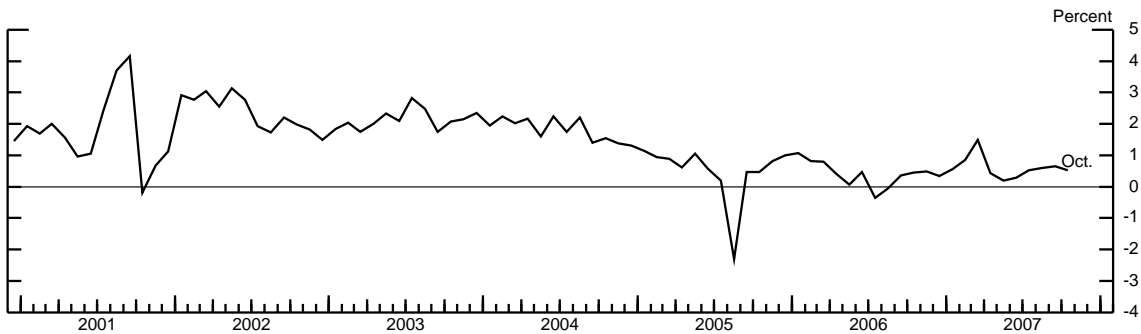
Change in Real PCE Goods



Change in Real PCE Services



Personal Saving Rate



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

Although the slower pace of motor vehicle assemblies and the ongoing contraction in residential construction will likely restrain IP in the coming months, near-term indicators of manufacturing activity continue to point, on balance, to small gains. The Institute for Supply Management's diffusion index for new orders remained above fifty in November, and the new orders indexes from the various regional surveys suggest little change in manufacturing output in the coming months. Finally, the three-month moving average of the staff's measure of real adjusted durable goods orders was about flat in October.

Motor Vehicles

Sales of automobiles and light trucks were at an annual rate of 16.2 million units in November, close to the pace that has prevailed since the second quarter. Sales have been relatively stable despite deterioration in consumer attitudes toward vehicle purchases. The Reuters/University of Michigan survey's index of car-buying conditions fell again in November, reaching its lowest level of the year. Respondents expressed dissatisfaction with vehicle prices and interest rates. In addition, the percentage reporting concern over gasoline prices popped up last month, although it was well below the recent highs of last summer.

Consumer Spending

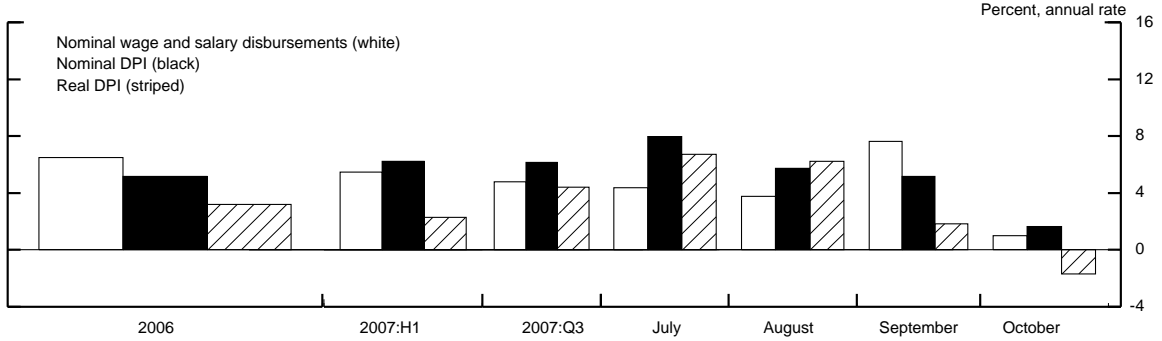
After posting notable gains this summer, consumer spending has decelerated recently. Real spending was nearly flat in September and October. Spending on goods excluding motor vehicles declined in October and was flat, on net, from August through October. Spending on services edged down a touch, on balance, in September and October, owing in part to an extraordinarily large drop in securities commissions in September. The latest readings on weekly chain store sales as well as industry reports and surveys suggest subdued gains in November and an uneven start to the holiday shopping season.

Consumer sentiment, as measured by the Reuters/University of Michigan and the Conference Board surveys, fell further in November; the Reuters/Michigan index now stands at its lowest level since Hurricane Katrina. The sentiment readings since late summer have been consistently below the level implied by predictive variables such as inflation, stock prices, and employment conditions.

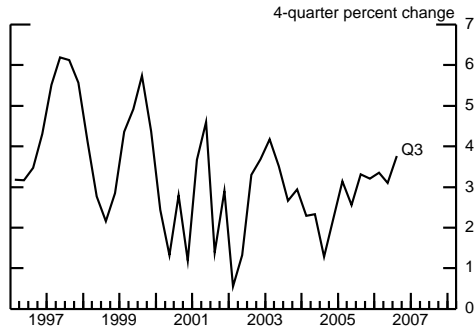
Real DPI edged down in October following a small gain in September. With real income falling a bit and spending flat, the personal saving rate edged down to 0.5 percent in October. Looking ahead, the recent increases in gasoline prices will likely damp real DPI growth and put downward pressure on the saving rate, at least for a time, as households attempt to smooth consumption. Meanwhile, the wealth-to-income ratio ticked down last

Fundamentals of Household Spending

Changes in Nominal Wages and Salaries, Nominal DPI, and Real DPI

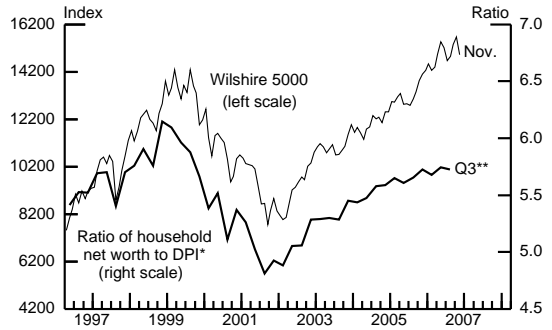


Change in Real DPI



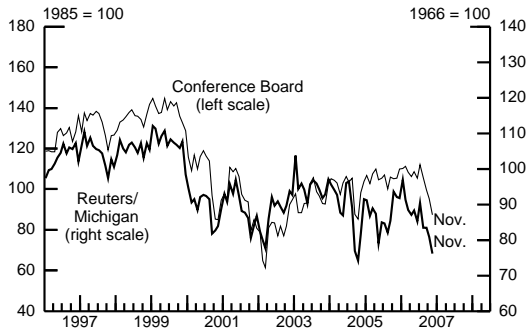
Note. Values for 2004:Q4 and 2005:Q4 exclude the effect on income of the one-time Microsoft dividend in December 2004.

Household Net Worth and Wilshire 5000

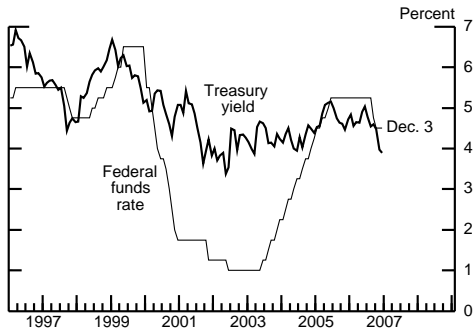


* The value for 2004:Q4 excludes the effect on income of the one-time Microsoft dividend in December 2004.
 ** Value for 2007:Q3 is a staff estimate.

Consumer Confidence



Federal Funds Rate and 10-Year Treasury Yield



quarter as house prices fell a touch, and equity values were little changed on net. Equity prices had moved down about 4 percent so far in the current quarter as of yesterday's close.

Housing

Conditions in the housing market have deteriorated further in recent months. Sales of existing homes were flat in October following sharp declines in August and September; new home sales in October were below their third-quarter pace. These declines were likely exacerbated by the deterioration in nonprime mortgage markets and the higher rates and tighter lending conditions for jumbo loans. In response to weak demand and high inventories, homebuilders have continued to cut production.

Tightening financing conditions in mortgage markets have continued to sap housing demand in recent months. Nonprime mortgage originations (which include the subprime and alt-A categories) have slowed to a trickle since mid-summer, and data from the Federal Housing Finance Board's Monthly Interest Rate Survey suggest that the share of jumbo loans in total mortgage originations fell to 5 percent in October, about half its average share since early 2006. In November, spreads between rates for jumbo and conforming thirty-year fixed-rate mortgages were 55 basis points wider than the 25 basis point spread that has prevailed on average since 2001.

After having held production roughly steady over the first half of this year, homebuilders are once again making significant cuts. Single-family housing starts moved down another 7 percent in October, to an annual rate of 884,000 units, following a 17 percent decline in the June-to-September period. Meanwhile, adjusted single-family permit issuance—generally a useful indicator of future starts—continued along the steep downward trajectory that began about two years ago. Yet, because of sagging sales, builders are making only limited progress at paring down their bloated inventories. In October, the months' supply of unsold new homes remained above eight months, nearly twice as high as the upper end of the fairly tight range that it had occupied between 1997 and the summer of 2005.³ Meanwhile, multifamily starts rebounded in October from an unusually low reading in September, and the level of multifamily starts in October was near the midpoint of the range in which this series has fluctuated over the past ten years.

3

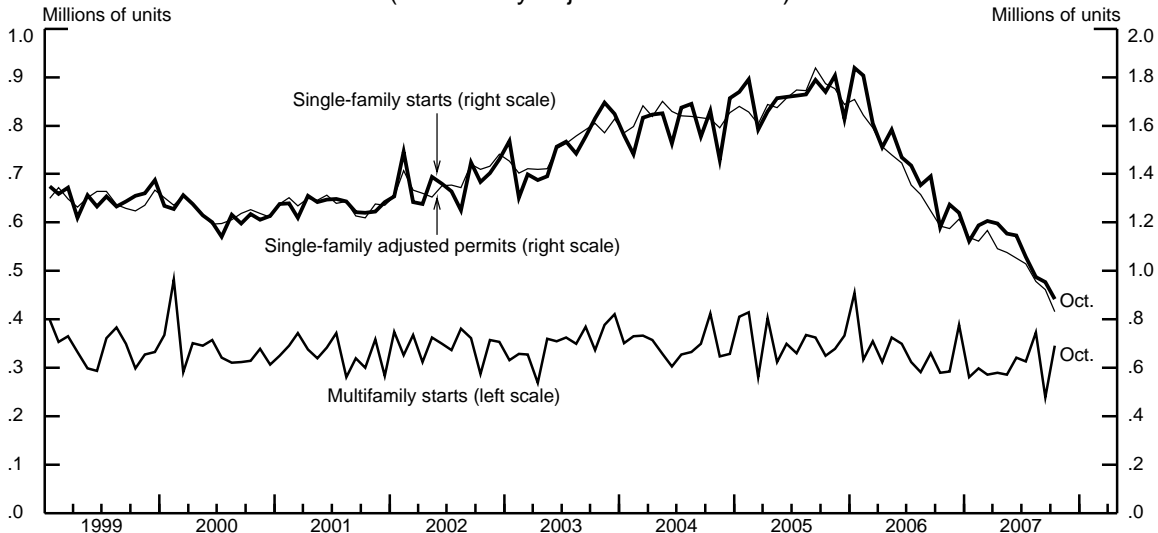
Private Housing Activity

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

Sector	2006	2007					
		Q1	Q2	Q3	Aug.	Sept.	Oct.
<i>All units</i>							
Starts	1.80	1.46	1.46	1.30	1.35	1.19	1.23
Permits	1.84	1.56	1.46	1.32	1.32	1.26	1.17
<i>Single-family units</i>							
Starts	1.47	1.17	1.17	1.00	.97	.95	.88
Permits	1.38	1.12	1.05	.94	.93	.88	.81
Adjusted permits ¹	1.41	1.14	1.07	.97	.96	.92	.83
Permit backlog ²	.133	.133	.116	.112	.115	.112	.110
<i>New homes</i>							
Sales	1.05	.85	.86	.74	.72	.72	.73
Months' supply ³	6.36	7.64	7.65	8.63	8.92	8.85	8.51
<i>Existing homes</i>							
Sales	5.68	5.63	5.15	4.72	4.79	4.37	4.37
Months' supply ³	6.35	7.11	8.34	9.27	8.96	10.10	10.16
<i>Multifamily units</i>							
Starts	.336	.288	.298	.309	.373	.239	.345
Permits	.461	.440	.411	.384	.388	.384	.361
Permit backlog ²	.062	.076	.081	.077	.077	.077	.077
<i>Mobile homes</i>							
Shipments	.117	.094	.099	.096	.096	.093	.094
<i>Condos and co-ops</i>							
Existing home sales	.801	.790	.767	.700	.690	.660	.600

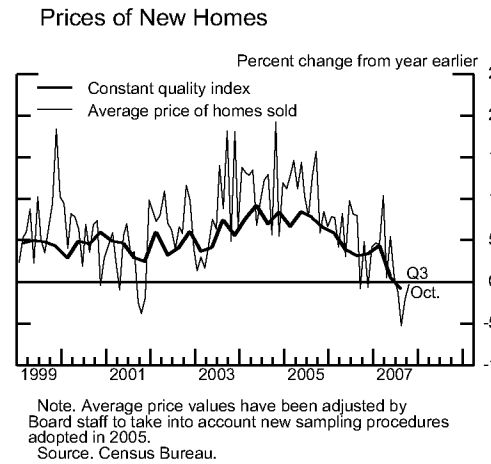
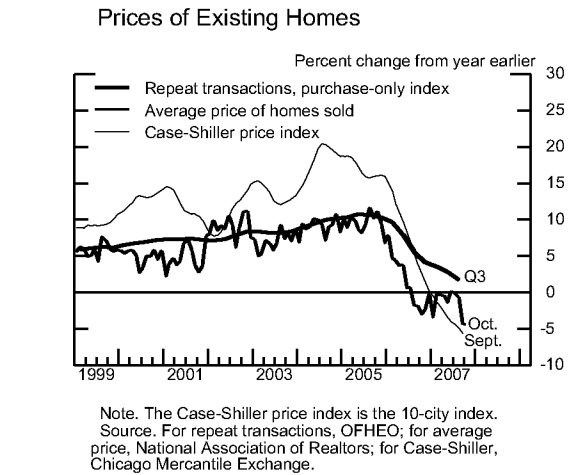
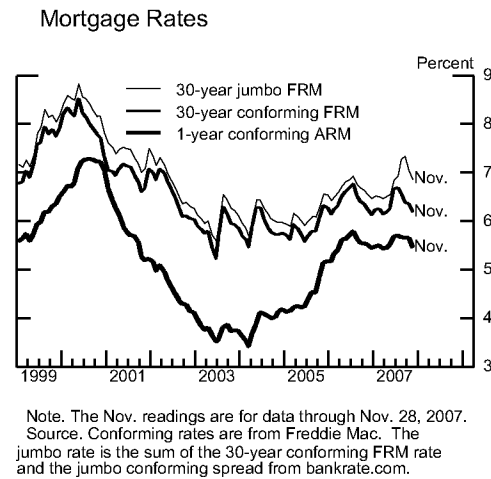
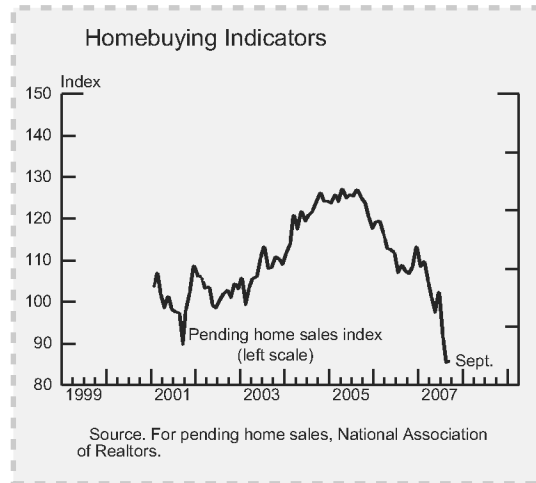
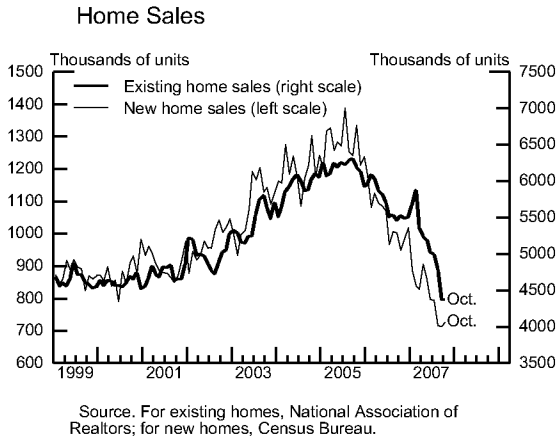
1. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.
2. Number outstanding at end of period. Excludes permits that have expired or have been canceled, abandoned, or revoked. Not at an annual rate.
3. At current sales rate; expressed as the ratio of seasonally adjusted inventories to seasonally adjusted sales. Quarterly and annual figures are averages of monthly figures.

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



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Content partially redacted.

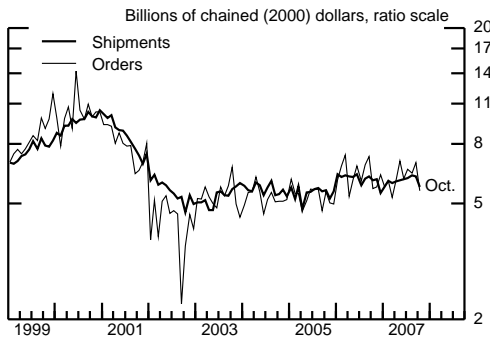
Orders and Shipments of Nondefense Capital Goods

(Percent change; seasonally adjusted current dollars)

Category	2007				
	Q2	Q3	Aug.	Sept.	Oct.
	Annual rate		Monthly rate		
Shipments	9.7	9.4	1.6	.9	-.3
Excluding aircraft	9.6	6.1	1.9	1.8	-.9
Computers and peripherals	11.9	-15.2	16.0	10.4	-4.1
Communications equipment	12.6	13.1	2.4	-1.0	-8.2
All other categories	9.0	8.0	.5	1.2	.2
Orders	34.2	-1.5	-12.0	4.9	-2.8
Excluding aircraft	13.0	3.4	.1	1.4	-2.0
Computers and peripherals	7.5	.7	14.1	7.6	-15.3
Communications equipment	64.2	17.3	-2.7	8.7	-20.2
All other categories	9.6	2.4	-.9	-.1	1.6
Memo: Shipments of complete aircraft ¹	40.1	44.9	50.2	42.0	n.a.

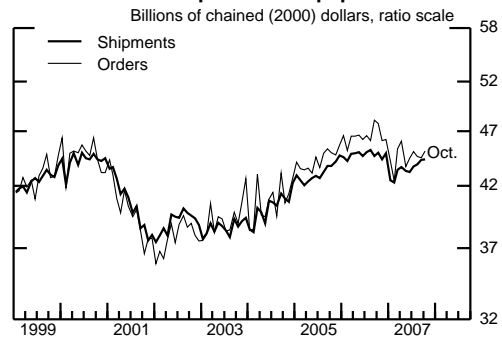
1. From Census Bureau, Current Industrial Reports; billions of dollars, annual rate.
n.a. Not available.

Communications Equipment



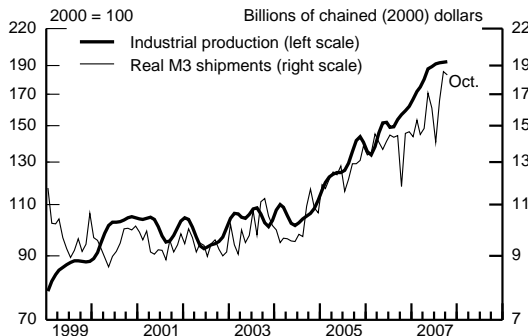
Note. Shipments and orders are deflated by a price index that is derived from the BEA's quality-adjusted price indexes and uses the PPI for communications equipment for monthly interpolation.

Non-High-Tech, Nontransportation Equipment



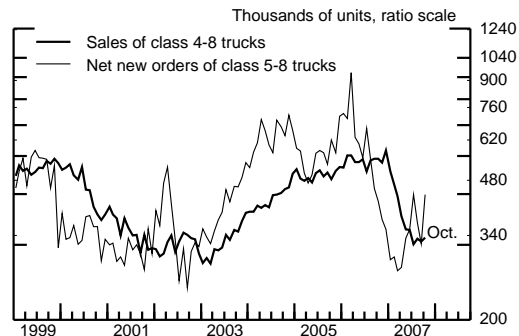
Note. Shipments and orders are deflated by the staff price indexes for the individual equipment types included in this category. Indexes are derived from the BEA's quality-adjusted price indexes.

Computers and Peripherals



Note. Ratio scales. Shipments are deflated by the staff price index for computers and peripheral equipment, which is derived from the BEA's quality-adjusted price indexes.

Medium and Heavy Trucks



Note. Annual rate, FRB seasonals.
Source. For sales, Ward's Communications; for orders, ACT Research.

Home prices have continued to decelerate in the second half of the year. The purchase-only version of the repeat-sales price index calculated by the Office of Federal Housing Enterprise Oversight (OFHEO) decreased at a 1 percent annual rate in the third quarter, the first nominal decline since 1993. Through the four quarters ending in the third quarter, this index increased 1.8 percent. The ten-city version of the Case-Shiller repeat-sales price index—which is more heavily concentrated in urban areas that had seen greater appreciation in earlier years—showed a decline of 5½ percent over the twelve-month period ending in September. The average price of existing homes sold—which is available on a more timely basis than other measures but reflects shifts in the mix of homes sold—fell 4½ percent in October relative to year-earlier readings. In the market for new homes, the constant-quality index of new home prices fell at a 3 percent annual rate in the third quarter, bringing the index below its year-earlier level for the first time since 1992. This decline is consistent with mounting anecdotal evidence that many large homebuilders are resorting to price discounts, in addition to nonprice incentives, to bolster sales and unload inventory.

Equipment and Software

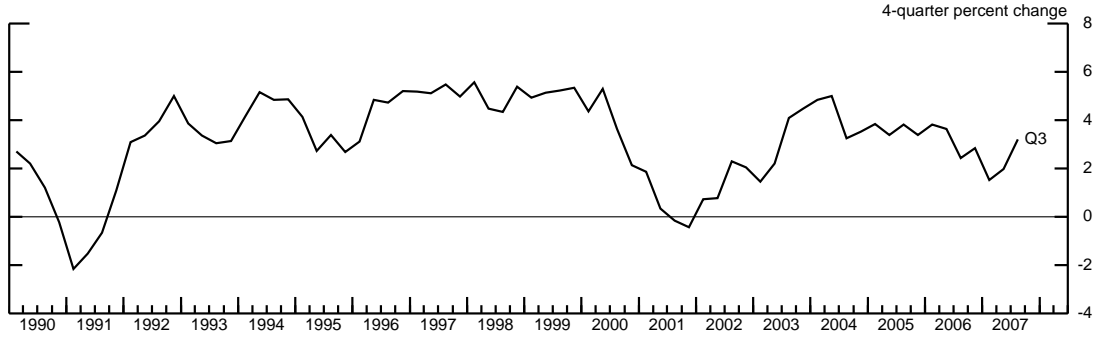
Real equipment and software spending posted a solid increase at an annual rate of 7¼ percent in the third quarter. However, orders and shipments of nondefense capital goods excluding aircraft declined in October, suggesting some deceleration in spending is under way this quarter. Financial market developments have also been unfavorable, as financing costs have risen for lower-rated borrowers, and increasing financial market stress may make firms more reticent to invest.

The decline in orders and shipments in October was led by weakness in the high-technology sector. Shipments of computers and peripheral equipment declined while IP for computers—a less volatile indicator—was flat in October. Orders and shipments of communications equipment plunged in October. Temporary production disruptions stemming from the recent wildfires in southern California likely contributed to the October weakness in shipments, although spending cutbacks by large financial institutions affected by recent market turmoil may have contributed as well.

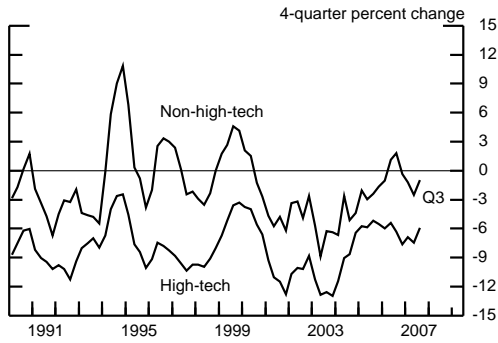
For transportation equipment, purchases of medium and heavy trucks have changed little in recent months, and demand for these vehicles appears to have stabilized at a modest level. Orders for trucks moved back up in October, after dropping sharply in August and September, suggesting that sales will remain near their current levels in coming months.

Fundamentals of Equipment and Software Investment

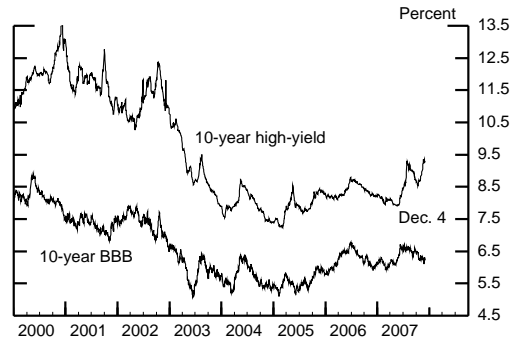
Real Business Output



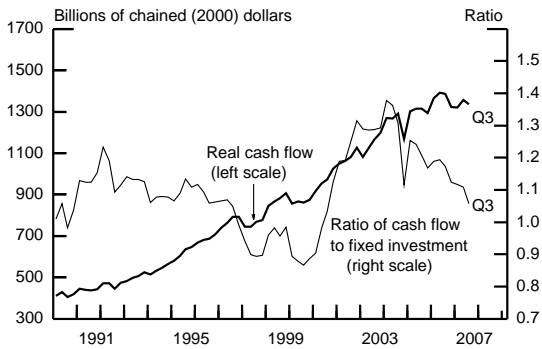
User Cost of Capital



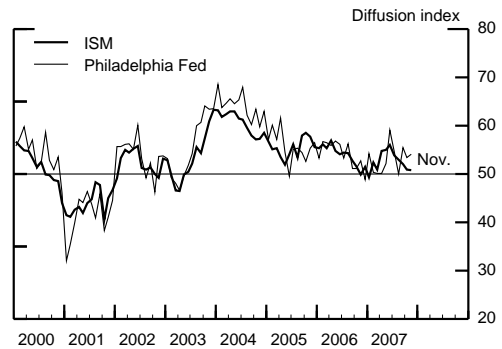
Corporate Bond Yields



Corporate Cash Flow



Surveys of Business Conditions



Business spending on equipment outside of high-tech and transportation posted a second consecutive quarter of brisk growth over the summer. More recently, while orders in this broad category rose in October, shipments were about flat, pointing toward weaker growth in the current quarter.

Prominent surveys of current business conditions, such as the ISM and Philadelphia Fed manufacturing diffusion indexes, remain consistent with modest gains in equipment and software spending this quarter. Other surveys, however, are less sanguine. The diffusion indexes of six-month-ahead capital spending plans from the Philadelphia Fed and Empire State manufacturing surveys (not shown) posted notable declines in November. And, in the latest Duke University/CFO magazine Business Outlook survey, CFO optimism about their firms and the economy declined from already-low levels.

Financial market developments since the time of the last FOMC meeting have not been favorable to business spending on equipment and software. While the cost of capital was little changed for borrowers in the investment grade corporate bond market, financing costs for borrowers in the high-yield corporate bond market are up significantly. Spreads over Treasury yields were up across the board, reflecting heightened uncertainty and turbulence in financial markets, which may act as a restraint on spending. In addition, recently released data indicate that corporate cash flow dropped off in the third quarter, leaving firms with diminished internally generated funds for financing investment.

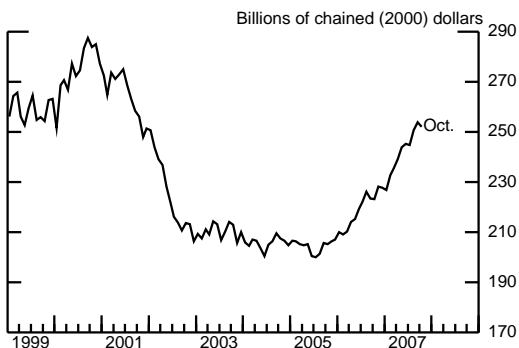
Nonresidential Construction

Available data through October suggest that nonresidential building activity remained vigorous early this quarter following an average annualized gain of 13 percent in the first three quarters of the year. However, the three-month moving average of the architectural billings diffusion index—which is reasonably well correlated with construction spending six months hence—has moved down in recent months, suggesting some deceleration of spending. In addition, there are some indications that financial turmoil may be affecting activity in this sector. Although commercial mortgage-backed securities (CMBS) are not an important source of new-construction financing, the sharp contraction in CMBS issuance may signal a more general deterioration in financing conditions. Along these lines, nonresidential construction contractors indicate that funding has become more difficult to obtain in some cases, especially for speculative projects. In addition, signs of decelerating commercial property values may reduce the pace of new construction going forward.

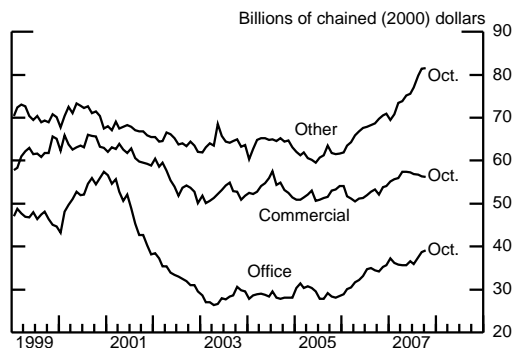
Nonresidential Construction and Indicators

(All spending series are seasonally adjusted at an annual rate; nominal CPIP deflated by BEA prices through Q2 and by staff projection thereafter)

Total Structures

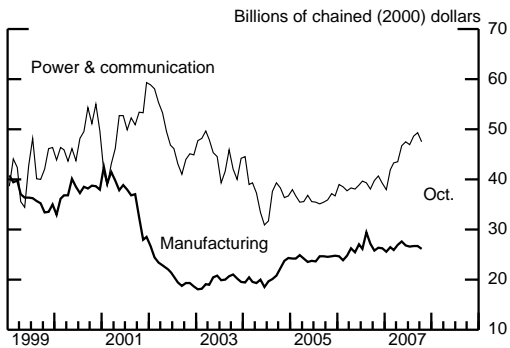


Office, Commercial, and Other

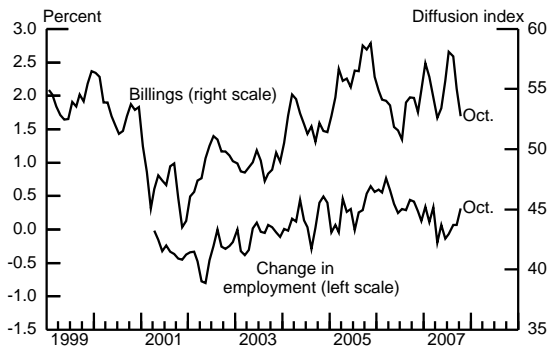


Note. Other includes religious, educational, lodging, amusement and recreation, transportation, and health-care facilities.

Manufacturing and Power & Communication

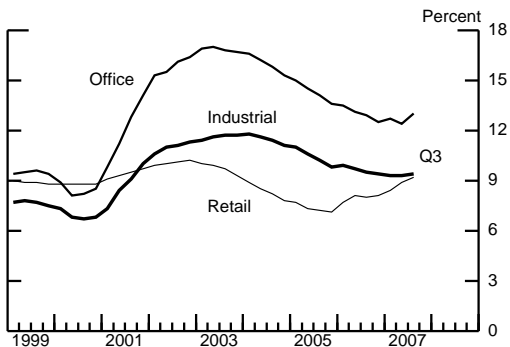


Architectural Billings and Nonresidential Construction Employment



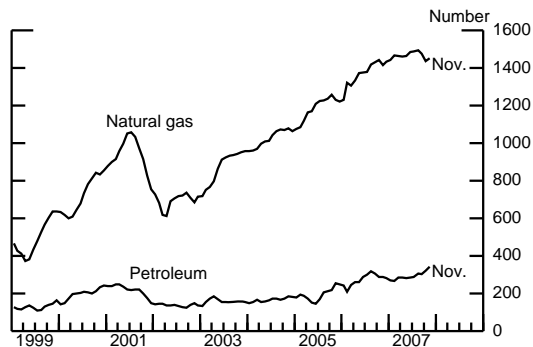
Note. Both series are 3-month moving averages. Employment includes industrial, commercial, and specialty trade construction. Source. For billings, American Institute of Architects; for employment, Bureau of Labor Statistics.

Vacancy Rates



Note. Industrial space includes both manufacturing structures and warehouses. Source. Torto Wheaton Research.

Drilling Rigs in Operation



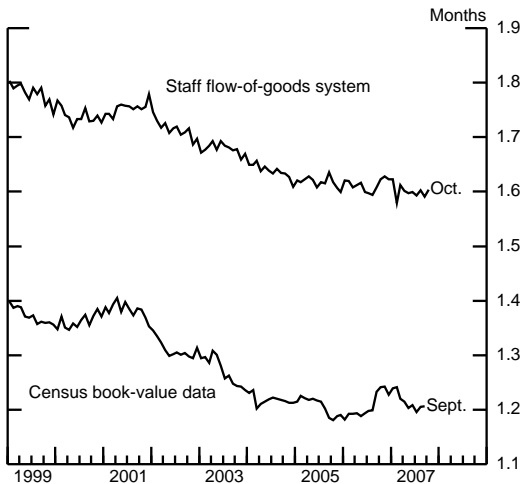
Note. The November readings are based on data through November 30, 2007. Source. DOE/Baker Hughes.

Nonfarm Inventory Investment
(Billions of dollars; seasonally adjusted annual rate)

Measure and sector	2007					
	Q1	Q2	Q3	Aug.	Sept.	Oct.
<i>Real inventory investment (chained 2000 dollars)</i>						
Total nonfarm business	-5.8	1.3	29.8^e	n.a.	n.a.	n.a.
Motor vehicles	-14.7	-9.6	16.0 ^e	n.a.	n.a.	n.a.
Nonfarm ex. motor vehicles	8.9	10.9	13.8	n.a.	n.a.	n.a.
Manufacturing and trade ex. wholesale and retail motor vehicles and parts						
Manufacturing	-5.0	-4.2	3.1	-11.1	23.1 ^e	5.9
Wholesale trade ex. motor vehicles & parts	4.3	6.5	14.7	6.4	22.0	n.a.
Retail trade ex. motor vehicles & parts	1.8	8.5	1.2	-2.0	3.7	n.a.
<i>Book-value inventory investment (current dollars)</i>						
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	33.9	60.7	39.5	15.6	77.0	n.a.
Manufacturing	4.8	21.6	12.6	-5.7	36.4	4.1
Wholesale trade ex. motor vehicles & parts	22.0	20.6	23.2	22.0	33.8	n.a.
Retail trade ex. motor vehicles & parts	7.2	18.4	3.7	-8	6.8	n.a.

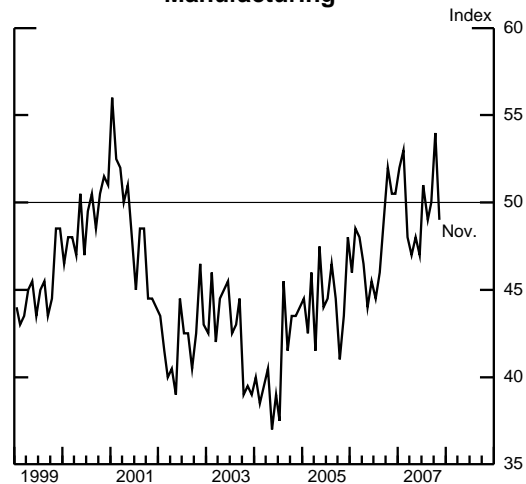
e Staff estimate of real inventory investment based on revised book-value data.
n.a. Not available.
Source. For real inventory investment, BEA; for book-value data, Census Bureau.

Inventory Ratios ex. Motor Vehicles



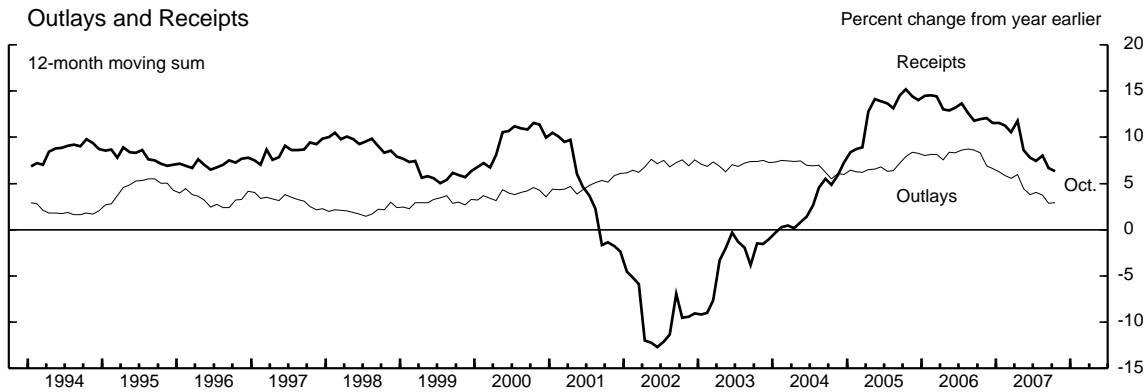
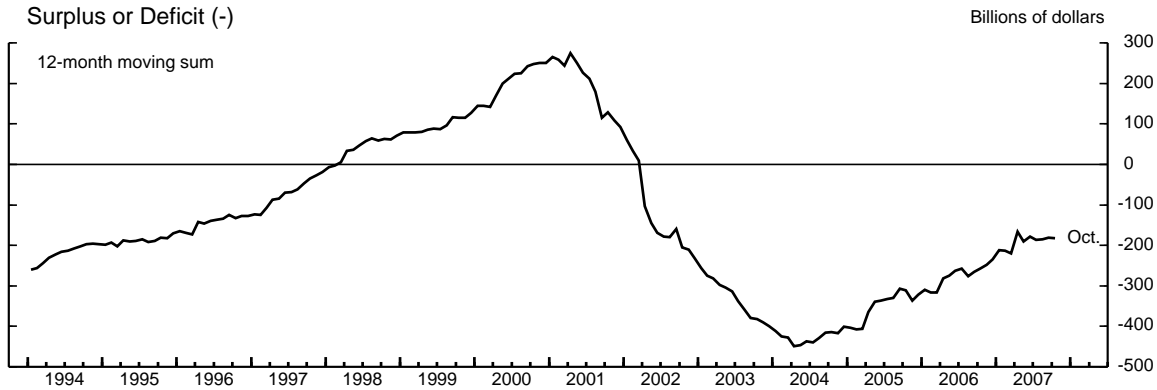
Note. Flow-of-goods system covers total industry ex. motor vehicles and parts, and inventories are relative to consumption. Census data cover manufacturing and trade ex. motor vehicles and parts, and inventories are relative to sales.

ISM Customer Inventories: Manufacturing



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

Federal Government Budget
(Unified basis; adjusted for payment-timing shifts and financial transactions; data from Monthly Treasury Statement)



Recent Federal Outlays and Receipts
(Billions of dollars except as noted)

Function or source	October			12 months ending in October		
	2006	2007	Percent change	2006	2007	Percent change
Outlays	221.1	232.8	5.3	2,682.6	2,760.8	2.9
Net interest	18.9	18.2	-4.0	227.9	237.2	4.1
National defense	43.7	47.9	9.5	528.8	567.0	7.2
Major transfers ¹	117.6	126.9	7.9	1,436.7	1,526.9	6.3
Other	31.8	32.8	3.1	459.0	412.0	-10.2
Receipts	167.7	178.2	6.3	2,424.9	2,578.2	6.3
Individual income and payroll taxes	143.0	155.1	8.5	1,850.5	1,999.6	8.1
Corporate income taxes	9.4	6.0	-36.3	357.2	366.8	2.7
Other	15.4	17.1	11.4	217.2	211.7	-2.6
Surplus or deficit (-)	-53.4	-54.6	...	-257.7	-182.6	...
Memo:						
Unadjusted surplus or deficit (-)	-49.3	-55.6	...	-250.2	-169.1	...

1. Includes Social Security, Medicare, Medicaid, and income security programs.

... Not applicable.

The BEA reported that real expenditures on drilling and mining structures jumped 26 percent at an annual rate in the third quarter following an even larger increase in the second quarter. The magnitude of these reported increases is somewhat surprising given other indicators of activity in this sector, and the latest available information points to a much more modest increase this quarter.⁴

Business Inventories

Real nonfarm inventory investment excluding motor vehicles increased at an annual rate of about \$14 billion in the third quarter, slightly faster than in the second quarter. The only available Census data for the current quarter are book-value estimates of the inventory investment of manufacturers in October, which were up at a similar pace to that of the third quarter.

We do not see much evidence of inventory imbalances. The ratio of non-motor-vehicle book-value inventories to sales ticked up slightly in September but remained near the low end of the narrow range this ratio has occupied since 2004. Similarly, information from the staff's flow-of-goods system suggests that overall months' supply of inventories excluding motor vehicles increased a little in October but remained in the range that it has occupied over the past year. At a more detailed level, the flow-of-goods estimates provide few indications of any serious inventory imbalances in the manufacturing sector. One area where months' supply has moved up appreciably in recent months is construction supplies; months' supply for this category has increased steadily since the middle of this year. Elevated months supply in industries such as primary metals and, to a lesser extent, wood products, fabricated metal products, and plastic and rubber products, are all likely tied to the ongoing weakness in construction and motor vehicles.

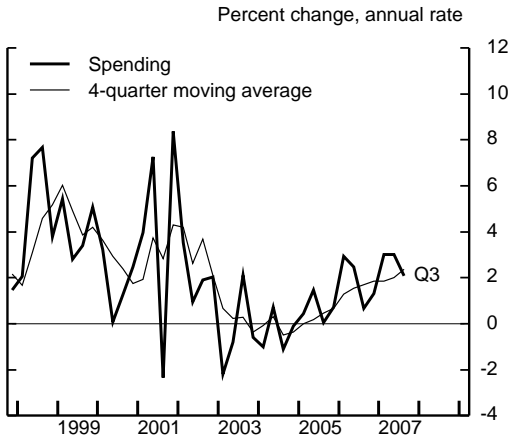
Federal Government Sector

The federal unified budget deficit has leveled off since the spring, as the rate of growth of receipts has slowed markedly. October receipts were 6 percent above their year-earlier level, but about half of this gain reflected additional working days in October 2007. Much of the slowing in the rate of increase in receipts in recent months has reflected lower corporate income tax collections, which posted year-over-year declines in most months from May through October; daily data indicate that corporate collections remained sluggish in November. By contrast, increases in withheld payroll and income

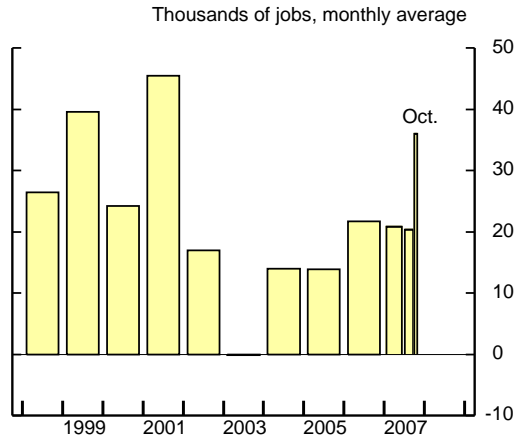
⁴ The BEA's estimates reflect proprietary information that is not available to the staff. Nonetheless, the number of drilling rigs in operation and measures of footage drilled from the Department of Energy (not shown), moved up little, on balance, during the first two quarters and has remained flat thus far in the current quarter.

State and Local Indicators

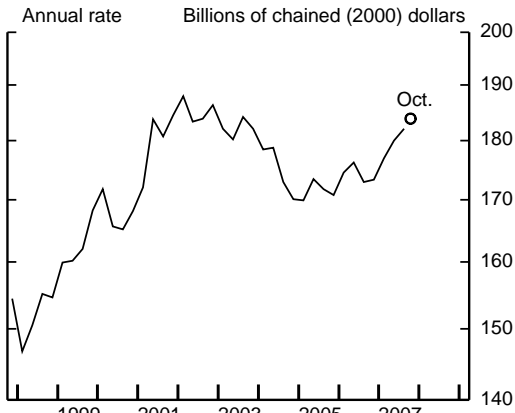
Real Spending on Consumption & Investment



Net Change in Employment

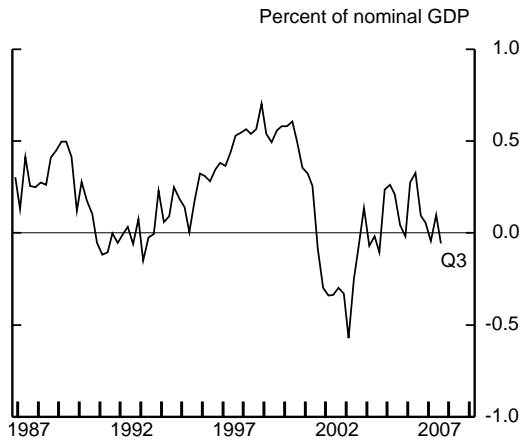


Real Construction

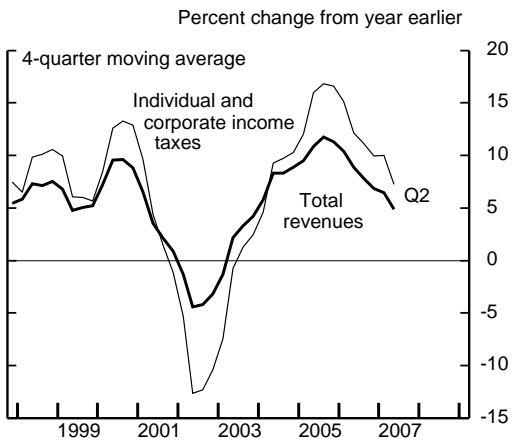


Note. Nominal CIPPI deflated by BEA prices through Q3 and by a staff projection thereafter.

Net Saving

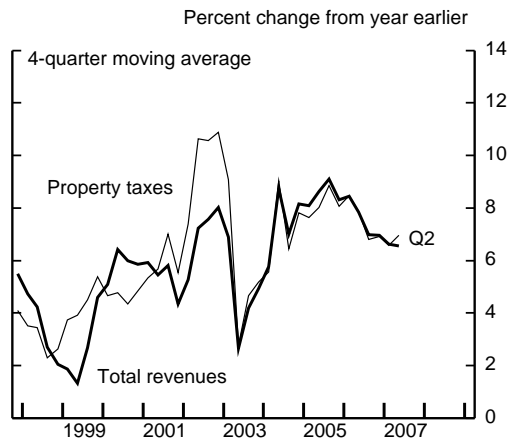


State Revenues



Source. Census Bureau.

Local Revenues



Source. Census Bureau.

tax payments have been well maintained this fall. Outlays (adjusted for payment timing shifts and financial transactions) rose 5 percent in October compared with their year-earlier level, a pace above that recorded earlier this year. Notably, nominal defense spending in October rose 9½ percent from its year-earlier levels, signaling moderate growth in NIPA real defense purchases in the current quarter, relative to the third quarter.

In mid-November, the fiscal 2008 defense appropriations bill was enacted, providing a 6½ percent increase over fiscal 2007 for regular appropriations. The \$196 billion in supplemental appropriations to fund operations in Iraq and Afghanistan that was requested by the Administration remains in limbo. Meanwhile, little progress was made on resolving differences between the President and the Congress on the level of funding for domestic programs, and another continuing resolution was passed to fund those programs through December 14. Alternative minimum tax relief for tax year 2007 is still under discussion.

State and Local Government Sector

Real state and local purchases are off to a solid start in the current quarter after having risen at an annual rate of 2 percent in the third quarter. State and local employment increased sharply for the third month in a row in October after some sluggishness in late spring and early summer. In addition, real construction spending seems to have retained considerable vigor in October after rising appreciably over the first three quarters of the year.

Based on information from 43 states, the Rockefeller Institute of Government estimates that state tax collections increased 4½ percent on a year-over-year basis in the third quarter of 2007, an increase similar to that recorded over the preceding year but well below the hefty gains recorded in 2004 and 2005. Personal income taxes rose 6 percent on a year-over-year basis in the third quarter of 2007 while sales taxes rose 2¾ percent and corporate income taxes fell 2½ percent. The incoming information from the individual states has been mixed. For example, revenues in states such as Alaska and Louisiana continue to perform well owing to the boost from high energy prices. Revenues in some other states, however, are being crimped by the downturn in real estate markets and the softness in retail sales. In California, the Legislative Analyst's Office recently shaved 3 percentage points from its forecast of revenue growth in fiscal 2008 (which ends on June 30) and now expects the state to end the fiscal year with a negative balance in its general fund budget. Similarly, Florida recently lowered its revenue projection another notch and now expects revenues to decline for a second year in fiscal 2008.

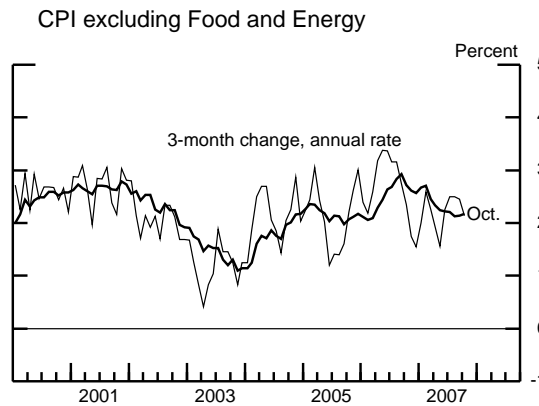
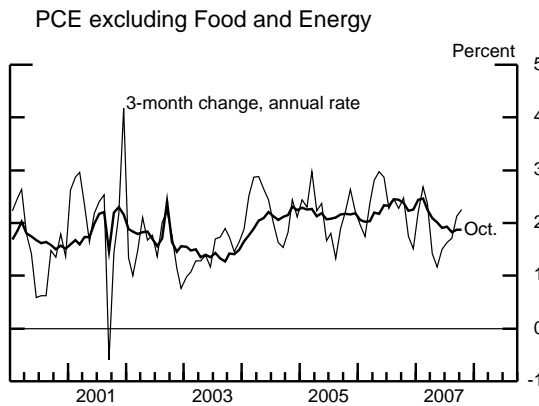
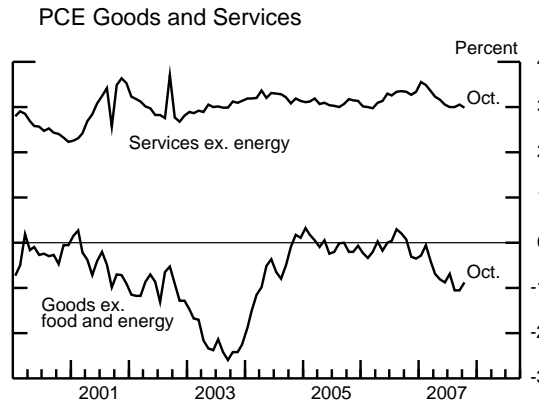
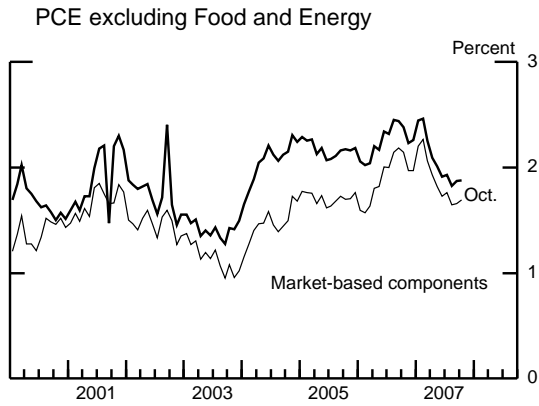
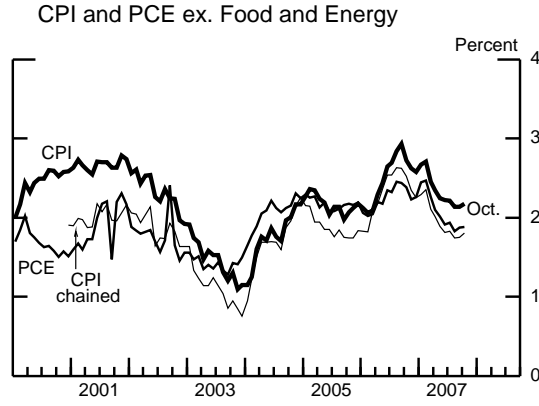
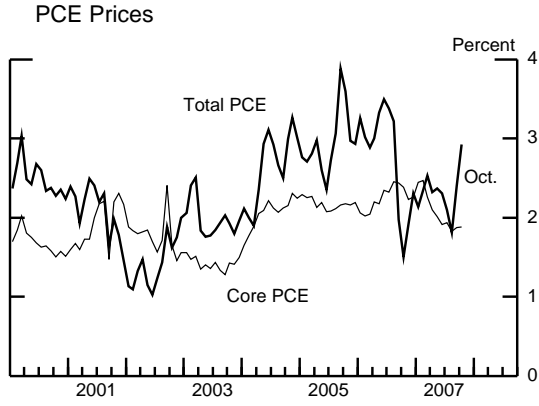
Price Measures
(Percent change)

Measures	12-month change		3-month change		1-month change	
	Oct. 2006	Oct. 2007	Annual rate		Monthly rate	
			July 2007	Oct. 2007	Sept. 2007	Oct. 2007
<i>CPI</i>						
Total	1.3	3.5	4.0	1.7	.3	.3
Food	2.6	4.4	4.4	4.9	.5	.3
Energy	-11.3	14.5	16.0	-6.1	.3	1.4
Ex. food and energy	2.7	2.2	2.5	2.1	.2	.2
Core goods	.1	-.5	-.1	-.3	.0	.0
Core services	3.8	3.2	3.5	3.1	.3	.2
Shelter	4.1	3.3	3.9	2.3	.3	.1
Other services	3.5	3.1	3.4	3.9	.3	.4
Chained CPI (n.s.a.) ¹	1.3	3.0	...	...	...	...
Ex. food and energy ¹	2.5	1.8	...	...	...	...
<i>PCE prices</i>						
Total	1.5	2.9	2.9	2.1	.3	.3
Food and beverages	2.5	4.2	4.7	4.5	.4	.3
Energy	-11.5	15.3	16.7	-5.8	.3	1.5
Ex. food and energy	2.4	1.9	1.6	2.3	.2	.2
Core goods	.1	-.9	-.9	-.7	.0	.1
Core services	3.3	3.0	2.6	3.4	.3	.2
Shelter	4.2	3.2	2.9	2.8	.3	.2
Other services	3.0	2.9	2.6	3.7	.4	.2
Core market-based	2.1	1.7	1.4	1.9	.2	.2
Core non-market-based	3.4	2.7	2.6	3.8	.4	.2
<i>PPI</i>						
Total finished goods	-1.2	6.1	4.9	-7	1.1	.1
Food	1.7	7.1	-4.5	9.0	1.5	1.0
Energy	-10.2	16.6	23.5	-13.6	4.1	-.8
Ex. food and energy	1.0	2.5	2.5	1.0	.1	.0
Core consumer goods	.9	2.8	2.9	1.9	.2	.1
Capital equipment	1.1	2.0	1.9	-.3	-.1	-.1
Intermediate materials	.2	5.6	9.3	-2.8	.4	.1
Ex. food and energy	5.7	1.9	4.9	-.9	.1	.1
Crude materials	-21.1	25.7	13.1	-2.3	.1	2.4
Ex. food and energy	20.1	18.6	-4.8	18.9	1.6	1.4

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

... Not applicable.

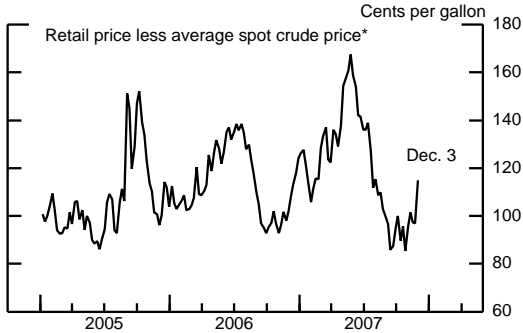
Consumer Prices (12-month change except as noted)



Energy and Food Price Indicators

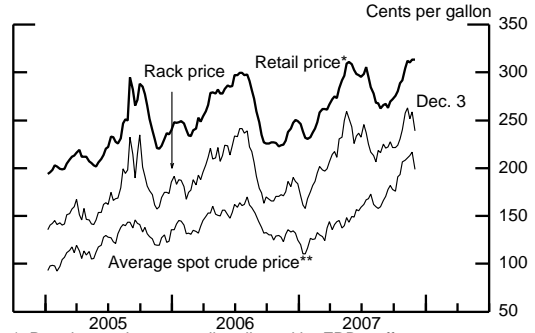
(Data from Energy Information Administration except as noted)

Total Gasoline Margin



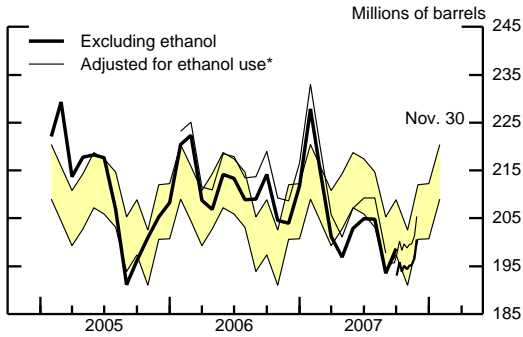
* Regular grade seasonally adjusted by FRB staff, less average spot crude price: 60% WTI, 40% Maya heavy crude.

Gasoline Price Decomposition



* Regular grade seasonally adjusted by FRB staff.
** 60% WTI, 40% Maya heavy crude.

Gasoline Inventories



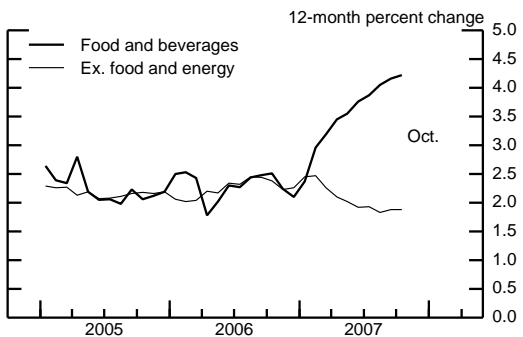
Note. Shaded region is average historical range as calculated by DOE. Monthly data through September 2007, weekly data thereafter, as indicated by line weights.
* Adjustment for approximate amount of fuel ethanol to be blended with RBOB component of inventories; estimated by FRB staff.

Ethanol Prices



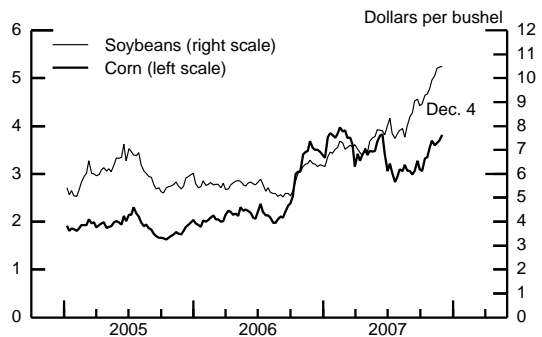
Source. Chicago Board of Trade.

PCE Food Prices



Source. Bureau of Economic Analysis.

Spot Agricultural Commodity Prices



Source. Commodity Research Bureau.

Prices

Top-line inflation has stepped up somewhat from its low rates this summer. After almost no change in August, total PCE prices increased 0.3 percent both in September and October as the surge in crude oil prices has started to push up energy prices at the retail level. Excluding food and energy, PCE price inflation has been moderate in recent months, although it has moved up from its very low rates this spring. Still, on a twelve-month change basis, core consumer price inflation is down noticeably from a year earlier. Despite the increase in energy prices, longer-term inflation expectations remain moderate.

Core PCE prices rose 0.2 percent in both September and October. The increase in core PCE prices over the past three months—2.3 percent at an annual rate—is up from a low of 1.2 percent over the three months ending in May. The pickup in core PCE price inflation over this period reflects acceleration in the prices of items that were unusually soft last spring—including apparel, prescription drugs, medical services, and nonmarket prices.⁵ On balance, core PCE prices rose 1.9 percent over the twelve months ending in October, down from a 2.4 percent increase a year earlier; both the nonmarket and market-based components of these prices registered decelerations over this period. Core goods prices have fallen noticeably over the past year following little change a year earlier. Within the services component, owners' equivalent rent (OER) has decelerated sharply over the past year, though increases in tenants' rent have remained about the same.⁶

Consumer energy prices increased 1.5 percent in October after edging up in September. Natural gas rates moved up after falling for six consecutive months, electricity rates jumped, and gasoline prices increased 1.6 percent. Based on recent survey data, gasoline prices appear to have increased considerably further in November. Still, those increases have not matched the rise in crude oil costs, and gasoline margins have fallen to relatively low levels. The return to more normal margins is likely to put further upward pressure on retail gasoline prices through the end of this year.

Consumer food prices rose 0.3 percent in October, down slightly from the 0.4 percent increases in both August and September but still above the increase in core prices. After

⁵ After an upward revision to the nonmarket component of core PCE prices, the unusually large gap that had emerged between core CPI and core PCE inflation is now much narrower. As expected, the gap was a transitory phenomenon. For the six months ending in October, core CPI prices increased 2.3 percent at an annual rate, compared with a 1.9 percent increase in core PCE prices; such a gap is typical.

⁶ The divergence of tenants' rent and OER inflation over the past twelve months does not appear to be the result of the utilities adjustment that the BLS makes to OER; rather, it appears to imply that rents increased more rapidly in regions with a large proportion of renters.

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

Measure	2004	2005	2006	2007
<i>Product prices</i>				
GDP price index	3.0	3.3	3.2	2.4
Less food and energy	2.9	3.2	3.2	2.2
Nonfarm business chain price index	2.5	3.5	3.0	1.5
<i>Expenditure prices</i>				
Gross domestic purchases price index	3.3	3.8	3.3	2.3
Less food and energy	2.9	3.0	3.0	2.1
PCE price index	2.7	3.2	2.9	2.1
Less food and energy	2.1	2.1	2.4	1.9
PCE price index, market-based components	2.3	3.1	2.7	2.0
Less food and energy	1.4	1.7	2.1	1.7
CPI	2.7	3.8	3.4	2.4
Less food and energy	1.8	2.1	2.8	2.1
Chained CPI	2.5	3.4	2.8	2.1
Less food and energy	1.7	1.8	2.6	1.8
Median CPI	2.3	2.4	3.2	2.8
Trimmed mean CPI	2.1	2.3	2.9	2.4
Trimmed mean PCE	2.4	2.4	2.8	2.2

Surveys of Inflation Expectations
(Percent)

Period	Actual CPI inflation ¹	Reuters/Michigan Survey				Professional forecasters (10 years) ⁴	
		1 year ²		5 to 10 years ³		CPI	PCE
		Mean	Median	Mean	Median		
2006:Q1	3.6	3.7	3.0	3.3	2.9	2.5	...
Q2	4.0	4.5	3.5	3.6	3.1	2.5	...
Q3	3.3	4.0	3.4	3.3	3.0	2.5	...
Q4	1.9	3.5	3.0	3.5	3.0	2.5	...
2007:Q1	2.4	3.6	3.0	3.4	2.9	2.4	2.0
Q2	2.7	4.2	3.3	3.5	3.0	2.4	2.0
Q3	2.4	4.1	3.2	3.5	3.0	2.4	2.1
Q4	n.a.	n.a.	n.a.	n.a.	n.a.	2.4	2.1
2007:July	2.4	4.2	3.4	3.6	3.1	...	...
Aug.	2.0	4.0	3.2	3.4	2.9	2.4	2.1
Sept.	2.8	4.0	3.1	3.4	2.9	...	...
Oct.	3.5	3.7	3.1	3.1	2.8	...	...
Nov.	n.a.	4.3	3.4	3.4	2.9	2.4	2.1

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. Median CPI and PCE price projections compiled by the Federal Reserve Bank of Philadelphia.

... Not applicable.

n.a. Not available.

months of substantial price increases related to the high cost of feeds, the indexes for beef, poultry, and eggs fell in October, and the price of milk remained unchanged. Over the twelve months ending in October, the PCE price index for food and beverages rose more than 4 percent, a sizable step-up from the 2.5 percent increase over the previous twelve-month period. In commodity markets, grain prices have moved higher since the October Greenbook, reflecting strong export demand and tight world supply; in particular, corn and wheat prices have rebounded to their highs of earlier this year, and soybean prices have shot up as well.

Broader measures of inflation have stepped down from the levels observed over the past few years. In the third quarter, the four-quarter change in the GDP price index was 2.4 percent, down nearly $\frac{3}{4}$ percentage point from the increase over the preceding four quarters. GDP prices excluding food and energy have also decelerated over this period, reflecting the notable drop in core PCE inflation as well as a significant step-down in the price increases for nonresidential structures and residential investment.⁷

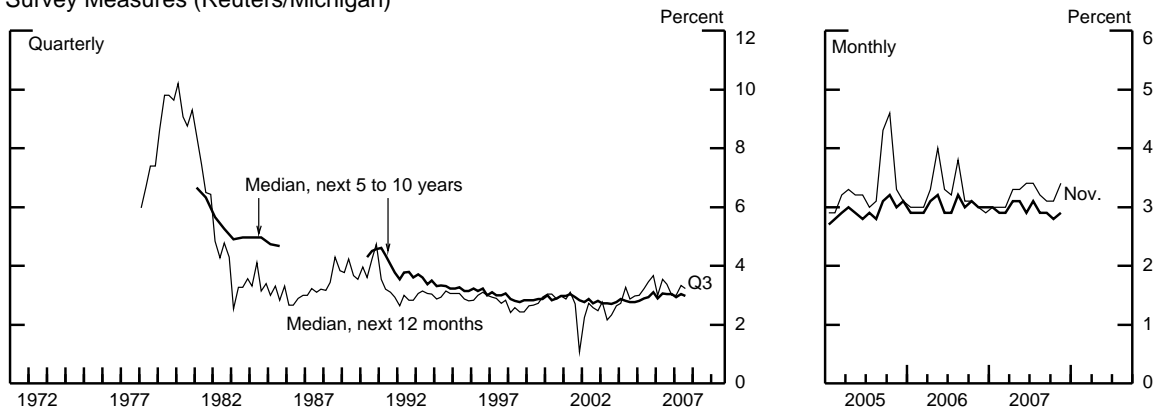
In response to rising energy prices, the median expectation for year-ahead inflation, as measured by the Reuters/University of Michigan Survey, increased 0.3 percentage point to 3.4 percent in November. However, the survey's measure of the median inflation expectation over the next five to ten years remains in the narrow range of the past few years. Readings on inflation expectations over the next ten years in the Survey of Professional Forecasters also have been about unchanged. Five-year inflation compensation derived from TIPs has changed little over the intermeeting period; inflation compensation five to ten years ahead has also changed little over this period after having drifted up earlier this year.

Outside the energy sector, price pressures at earlier stages of processing remain modest. The producer price index (PPI) for core intermediate materials rose 0.1 percent in October for a second month, and the twelve-month change in prices of core intermediate materials was only 1.9 percent, down from the 5.7 percent increase posted over the year-earlier period. This pattern reflects, in part, a deceleration in the prices of a wide variety of construction materials, such as cement and gypsum, as well as some metal products. Since the October Greenbook, spot industrial materials prices have moved down, led by a

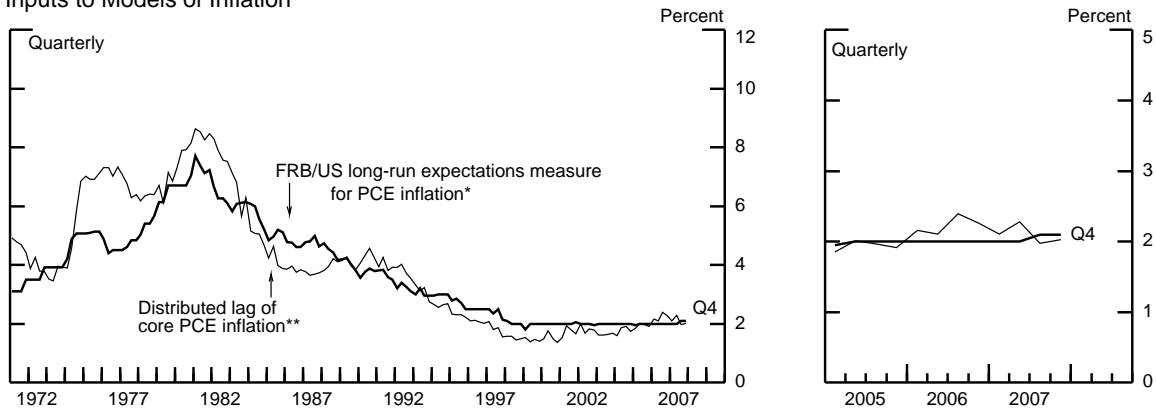
⁷ The deceleration in the construction deflators may be somewhat overstated. These deflators are derived from new home price indexes. New home prices include land values as well as structures costs, and the statistical agencies' attempts to strip out the land component are probably not adequate, because they assume that the average construction cost is a fixed fraction of the average sales price. That said, the PPI for construction materials decelerated significantly over the last four quarters.

Measures of Expected Inflation

Survey Measures (Reuters/Michigan)



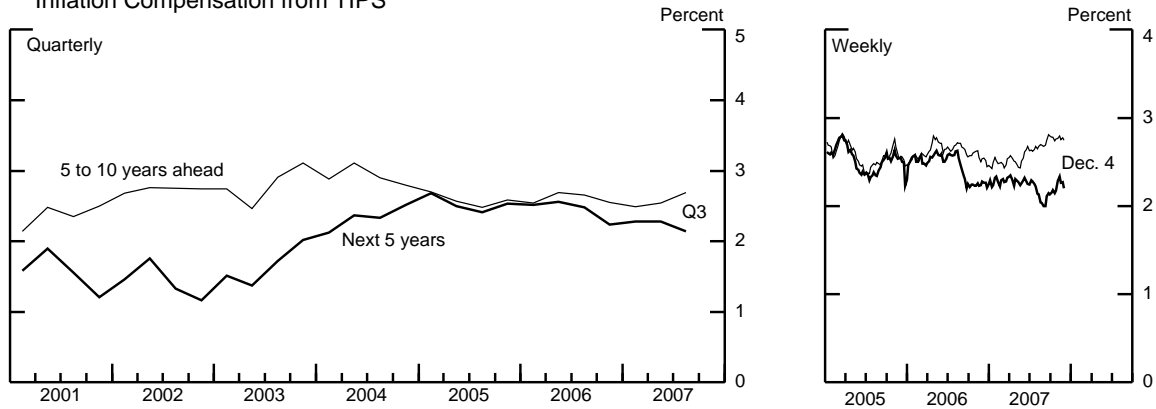
Inputs to Models of Inflation



*For 2007 forward, the median projection for PCE inflation over the next 10 years from the Survey of Professional Forecasters (SPF); for 1991 to 2006, the equivalent SPF projection for the CPI; for 1981 to 1991, a related survey for the CPI conducted by Richard Hoey; and for the period preceding 1981, a model-based estimate constructed by Board staff. The survey data before 2007 are adjusted down 0.5 percentage point to put the CPI projections approximately on a PCE basis.

**Derived from one of the reduced-form Phillips curves used by Board staff.

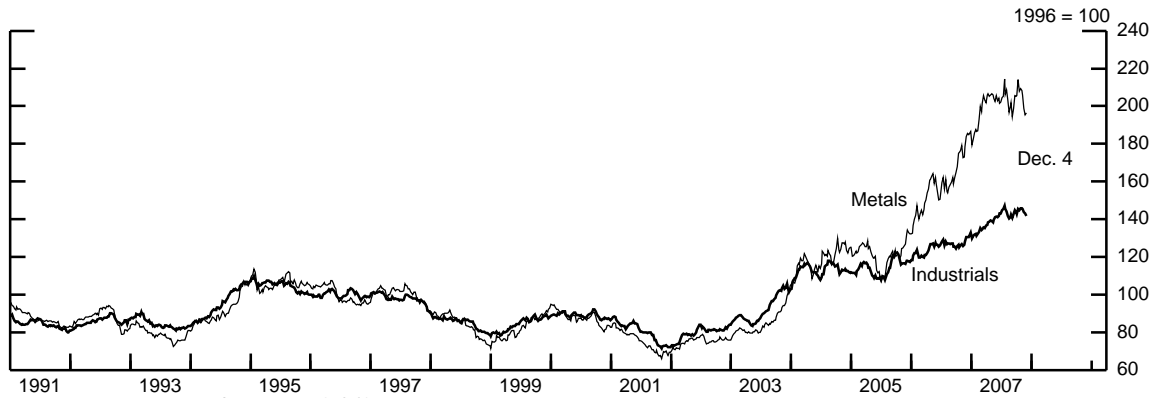
Inflation Compensation from TIPS



Note. Based on a comparison of an estimated TIPS yield curve with an estimated nominal off-the-run Treasury yield curve, with an adjustment for the indexation-lag effect.

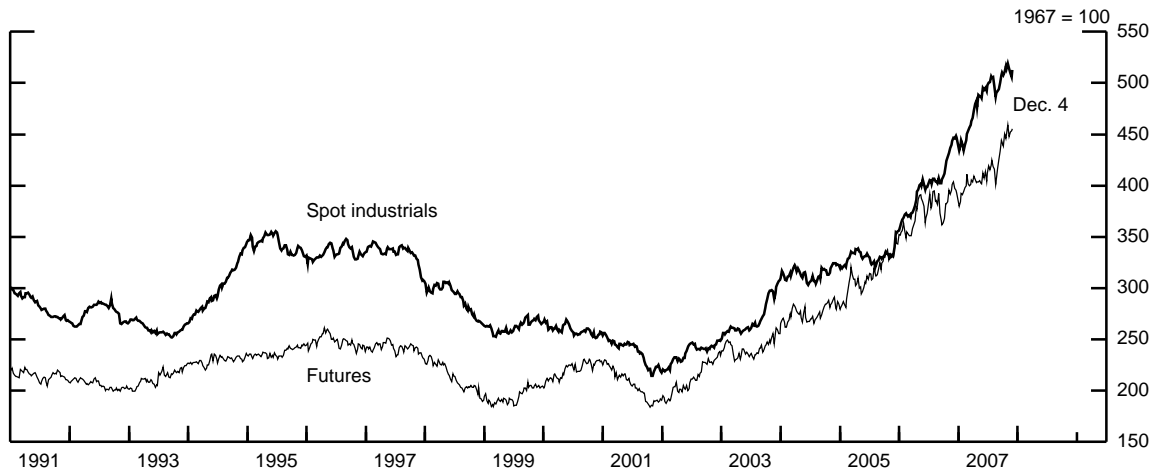
Commodity Price Indexes

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	2006 ¹	12/19/06 to 10/23/07 ²	10/23/07 ² to 12/4/07	52-week change to 12/4/07
JOC industrials	11.0	10.9	-2.1	8.8
JOC metals	38.9	12.6	-5.6	6.8
CRB spot industrials	26.9	15.2	-.6	14.8
CRB spot foodstuffs	13.0	18.7	1.7	19.0
CRB futures	15.0	12.8	2.1	12.9

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

2. October 23, 2007, is the Tuesday preceding publication of the October Greenbook.

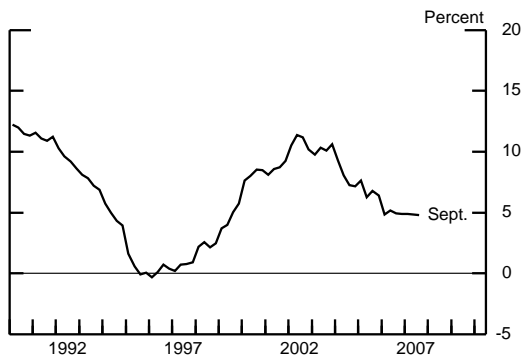
**Change in Employment Cost Index of Hourly Compensation
for Private-Industry Workers**

Measure	2006		2007		
	Sept.	Dec.	Mar.	June	Sept.
	Quarterly change (compound annual rate) ¹				
Total hourly compensation	3.6	3.2	2.3	3.5	3.1
Wages and salaries	3.2	3.2	4.3	3.1	3.1
Benefits	4.0	3.6	-1.2	4.3	3.1
	12-month change				
Total hourly compensation	3.0	3.2	3.2	3.1	3.1
Wages and salaries	3.0	3.2	3.6	3.3	3.4
Benefits	2.8	3.1	2.2	2.6	2.4

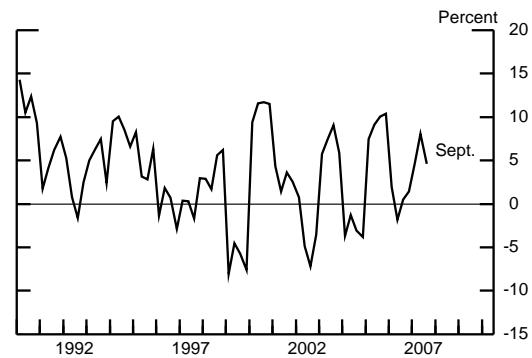
1. Seasonally adjusted by the Bureau of Labor Statistics.

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

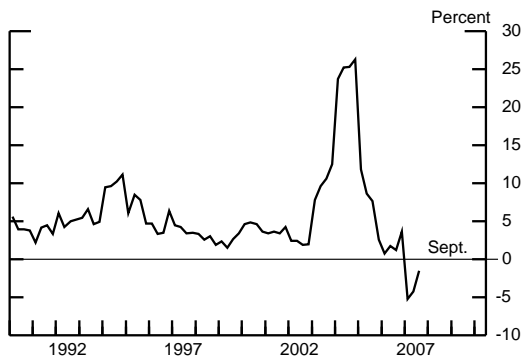
Health Insurance



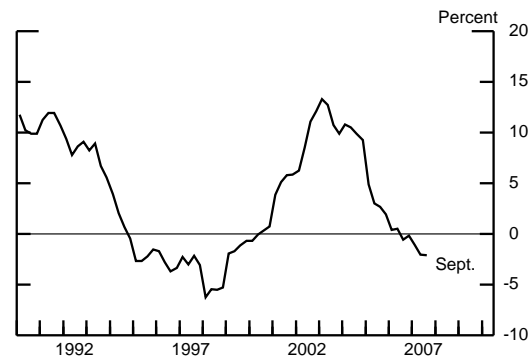
Nonproduction Bonuses



Retirement and Savings



Workers' Compensation Insurance



drop in a wide range of metals prices. The Journal of Commerce index of industrial materials has declined about 2 percent since the October Greenbook, while the Commodity Research Bureau spot index is down about ½ percent.

Labor Costs

As is often the case, the recent readings on labor costs have been mixed. The employment cost index (ECI) for hourly compensation of private industry workers rose at an annual rate of 3.1 percent over the three months ending in September. The twelve-month change in the ECI was also 3.1 percent, up only slightly from the increases observed in the past few years. This stability in overall compensation inflation reflects a modest acceleration in the ECI for private wages and salaries that has been largely offset by a deceleration in the ECI for benefits. The deceleration in benefits costs reflects declines in employer contributions to retirement and savings plans and workers' compensation, while costs of health insurance increased at about the same rate as a year earlier.

After incorporating information from unemployment insurance records, compensation per hour in the nonfarm business sector is now estimated to have increased at an annual rate of only 1 percent in the second quarter, compared with the 4.4 percent estimate reported in the previous BLS release. Compensation per hour is estimated to have risen at an annual rate of 4¼ percent in the third quarter and is up 5¾ percent over the past year.⁸ This four-quarter change is considerably above both the gain of 2¾ percent in the preceding four quarters and the increase in the ECI over the past year. The biggest increases in compensation per hour were posted in the fourth quarter of last year and the first quarter of this year, and sizable end-of-year bonuses were reportedly a significant part of that surge. Recent anecdotes from the financial sector suggest that bonuses will be much smaller this year.

The increases in compensation per hour in the second and third quarters of this year were less than the rise in productivity, and unit labor costs in the nonfarm business sector declined following notable increases in the previous three quarters. In all, unit labor costs are estimated to have moved up 3 percent from the previous year as of the third quarter.

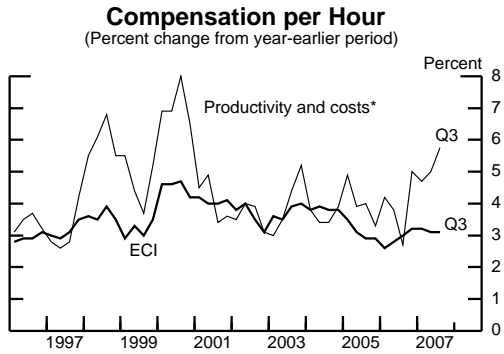
⁸ The 5¾ percent increase is overstated by about 0.4 percentage point as a result of the BEA's estimates of wage accruals that are not yet fully incorporated in the published data. After receiving final compensation data for the first quarter of this year, the BEA revised downward its estimate of bonuses that accrued in the fourth quarter of last year. However, because the BEA will not revise its fourth-quarter NIPA estimates until the next annual revision, the published levels of compensation per hour and unit labor costs for the fourth quarter of 2006 and onward will be overstated. As a result, the current four-quarter changes in these series are overstated by 0.4 percentage point.

Hourly Compensation and Unit Labor Costs

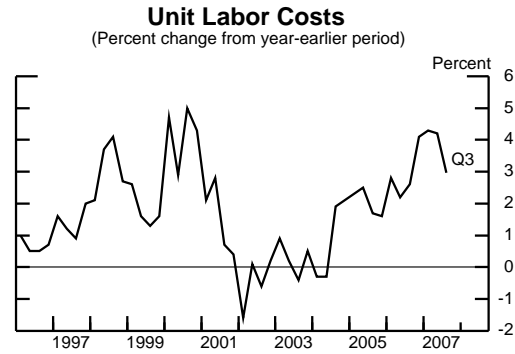
(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

Category	2005:Q3 to 2006:Q3	2006:Q3 to 2007:Q3 ^e	2006	2007		
			Q4	Q1	Q2	Q3 ^e
<i>Compensation per hour</i> Nonfarm business	2.7	5.8	12.2	5.9	1.0	4.2
<i>Unit labor costs</i> Nonfarm business	2.6	3.0	10.3	5.2	-1.1	-2.0

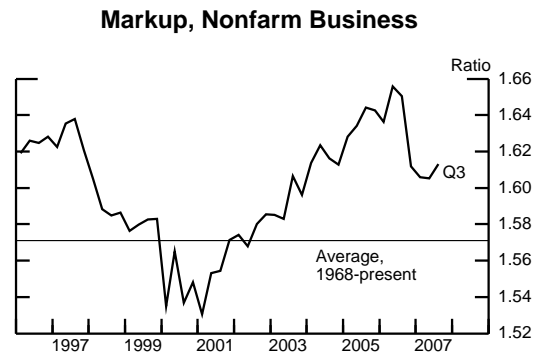
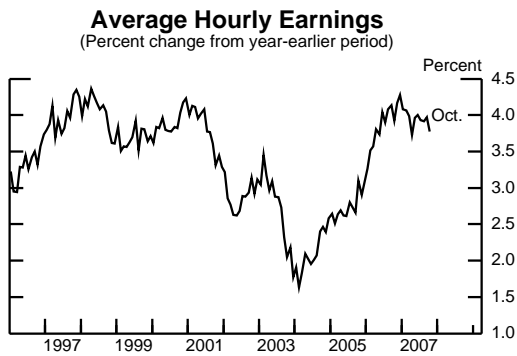
e Staff estimate.



* Value for 2007:Q3 is a staff estimate.



Note. Value for 2007:Q3 is a staff estimate.



Note. The markup is the ratio of output price to unit labor costs. Value for 2007:Q3 is a staff estimate.

The markup of prices over unit labor costs has increased recently, although it is down from its peak in the middle of last year.

According to the ECI, employer contributions for health insurance rose about 5 percent over the twelve months ending in September, similar to the increase over the preceding year. Taken together, the available indicators provide no evidence that any major change in the rate of increase in health insurance costs is in the offing. Private surveys suggest that overall premiums (that is, the shares paid by both employers and employees) are rising in the neighborhood of 5 to 6 percent this year and will likely continue to go up at about this rate in 2008. Among the major plans for public employees, premiums in the Federal Employees Health Benefits Program are expected to rise 2 percent in 2008 after a slightly smaller increase in 2007. The premiums for the California Public Employees' Retirement System are expected to move up 7 percent in 2008 after a 12 percent increase in 2007.

Domestic Financial Developments

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

Instrument	2006	2007			Change to Dec. 4 from selected dates (percentage points)		
	June 29	Sept. 17	Oct. 30	Dec. 4	2006 June 29	2007 Sept. 17	2007 Oct. 30
<i>Short-term</i>							
FOMC intended federal funds rate	5.25	5.25	4.75	4.50	-.75	-.75	-.25
Treasury bills ¹							
3-month	4.88	4.05	3.86	3.00	-1.88	-1.05	-.86
6-month	5.06	4.15	3.92	3.12	-1.94	-1.03	-.80
Commercial paper (A1/P1 rates) ²							
1-month	5.27	5.23	4.56	4.97	-.30	-.26	.41
3-month	5.37	5.25	4.65	4.71	-.66	-.54	.06
Large negotiable CDs ¹							
3-month	5.47	5.52	4.78	5.23	-.24	-.29	.45
6-month	5.59	5.36	4.73	4.97	-.62	-.39	.24
Eurodollar deposits ³							
1-month	5.33	5.55	4.75	5.50	.17	-.05	.75
3-month	5.49	5.60	4.85	5.25	-.24	-.35	.40
Bank prime rate	8.25	8.25	7.75	7.50	-.75	-.75	-.25
<i>Intermediate- and long-term</i>							
U.S. Treasury ⁴							
2-year	5.26	4.12	3.84	2.90	-2.36	-1.22	-.94
5-year	5.15	4.18	4.02	3.30	-1.85	-.88	-.72
10-year	5.28	4.58	4.51	4.08	-1.20	-.50	-.43
U.S. Treasury indexed notes ⁵							
5-year	2.51	2.04	1.83	1.14	-1.37	-.90	-.69
10-year	2.61	2.15	2.05	1.68	-.93	-.47	-.37
Municipal general obligations (Bond Buyer) ⁶	4.71	4.46	4.33	4.39	-.32	-.07	.06
Private instruments							
10-year swap	5.81	5.17	5.03	4.54	-1.27	-.63	-.49
10-year FNMA ⁷	5.59	5.01	4.90	4.53	-1.06	-.48	-.37
10-year AA ⁸	6.20	6.05	5.86	5.85	-.35	-.20	-.01
10-year BBB ⁸	6.74	6.46	6.26	6.23	-.51	-.23	-.03
10-year high yield ⁸	8.74	8.95	8.67	9.30	.56	.35	.63
Home mortgages (FHLMC survey rate) ⁹							
30-year fixed	6.78	6.34	6.26	6.10	-.68	-.24	-.16
1-year adjustable	5.82	5.65	5.57	5.43	-.39	-.22	-.14

Stock exchange index	Record high		2007			Change to Dec. 4 from selected dates (percent)		
	Level	Date	Sept. 17	Oct. 30	Dec. 4	Record high	2007 Sept. 17	2007 Oct. 30
Dow Jones Industrial	14,165	10-9-07	13,403	13,792	13,249	-6.47	-1.15	-3.94
S&P 500 Composite	1,565	10-9-07	1,477	1,531	1,463	-6.54	-.94	-4.46
Nasdaq	5,049	3-10-00	2,582	2,817	2,620	-48.11	1.48	-6.99
Russell 2000	856	7-13-07	776	816	752	-12.12	-3.06	-7.85
Wilshire 5000	15,807	10-9-07	14,839	15,482	14,752	-6.67	-.59	-4.71

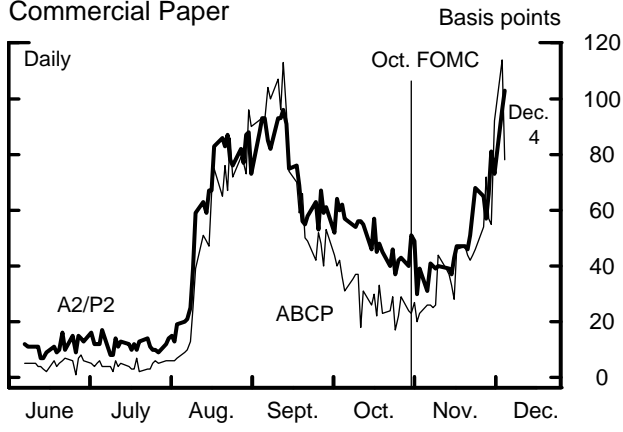
1. Secondary market.
2. Financial commercial paper.
3. Bid rates for Eurodollar deposits collected around 9:30 a.m. eastern time.
4. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
5. Derived from a smoothed Treasury yield curve estimated using all outstanding securities and adjusted for the carry effect.
6. Most recent Thursday quote.
7. Constant-maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
8. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.
9. Home mortgage rates for December 4, 2007, are for the week ending November 29, 2007.

NOTES:

June 29, 2006, is the day the most recent policy tightening ended.
September 17, 2007, is the day before the most recent policy easing began.
October 30, 2007, is the day before the most recent FOMC announcement.

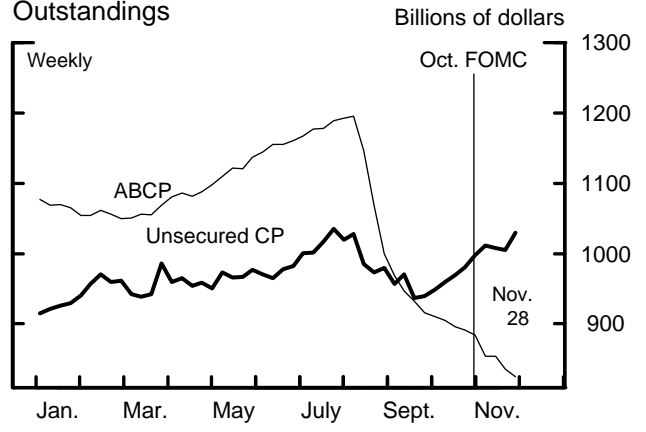
III-C-1
Short-Term Funding and Interbank Markets

Spreads on 30-Day Commercial Paper



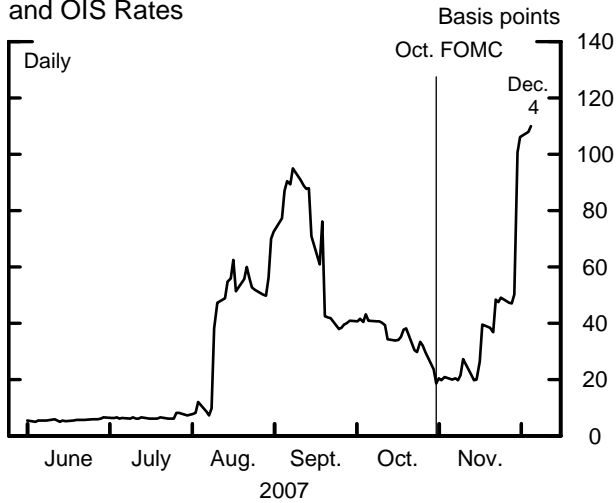
Note. The ABCP spread is the AA ABCP rate minus the AA financial rate. The A2/P2 spread is the A2/P2 nonfinancial rate minus the AA nonfinancial rate.

Commercial Paper Outstandings

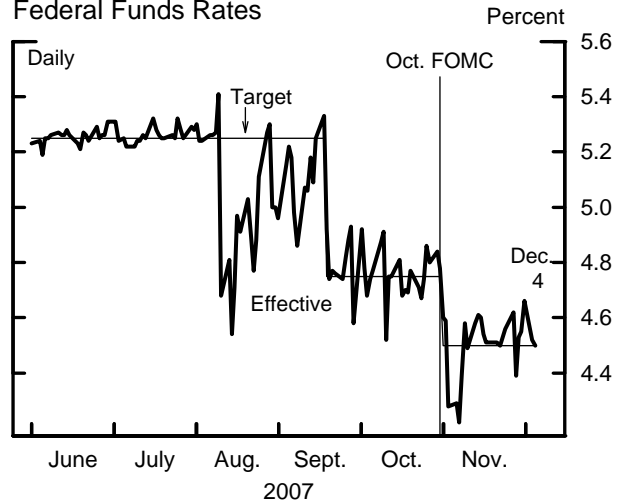


Note. Seasonally adjusted; weeks ending Wednesdays.

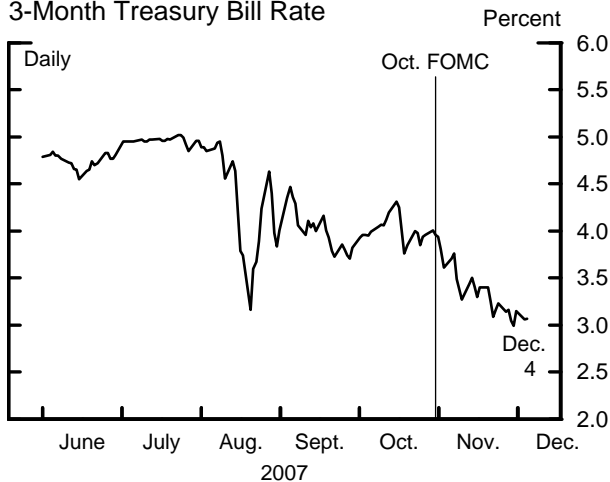
Spreads between 30-Day Libor and OIS Rates



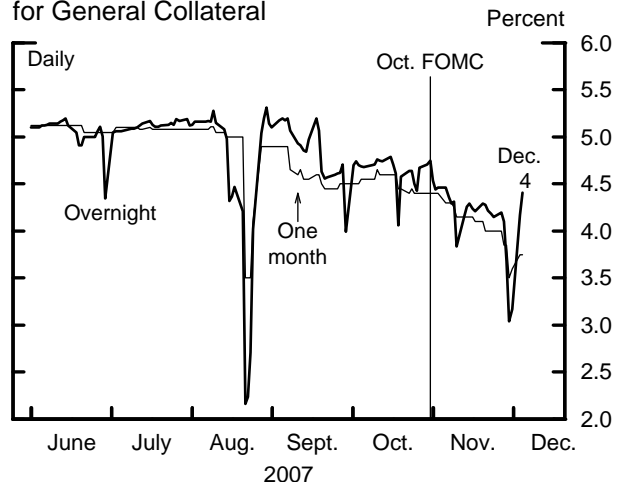
Federal Funds Rates



3-Month Treasury Bill Rate



Treasury Repo Rates for General Collateral



Domestic Financial Developments

Overview

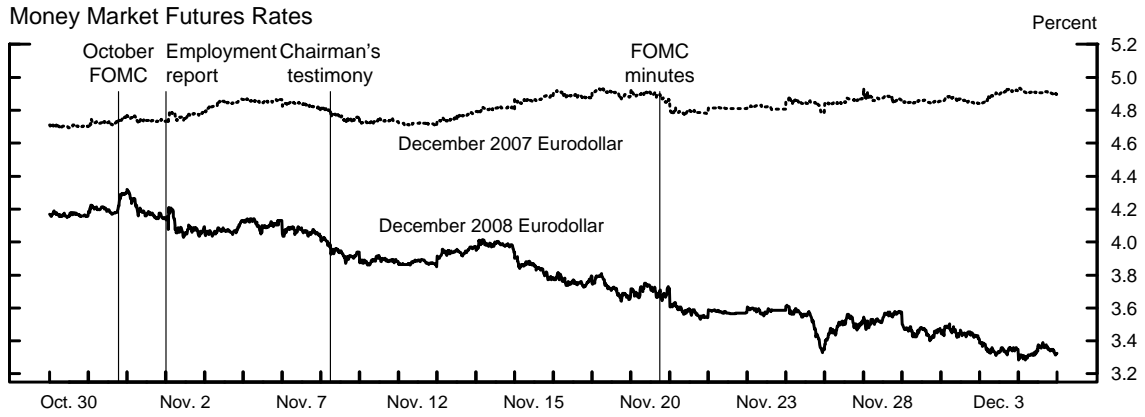
Financial market conditions deteriorated over the intermeeting period amid concerns about mounting write-downs by financial institutions on mortgage-related securities and other exposures as well as slowing economic growth. Concerns about the availability of funding over the year-end both contributed to and were reinforced by growing strains in short-term funding markets. Market participants place high odds on a rate cut at the December meeting, although options quotes suggest that participants are uncertain whether it will be a 25 or 50 basis point reduction. Further ahead, the expected path of policy bottoms out just below 3 percent by the end of 2008, about 90 basis points lower than at the time of the October FOMC meeting. Nominal Treasury yields dropped sharply, reflecting a lower expected policy path and likely safe-haven demands for Treasury securities.

Equity prices were volatile and declined on net, with financial stocks underperforming. Corporate bond spreads surged to their highest levels since 2003. Nonetheless, bond issuance was solid. Banks reportedly continued to take loans onto their balance sheets that had been intended for syndication. Yield ratios in the municipal bond market spiked on investor concerns about the financial health of bond insurers and possibly the fiscal outlooks for state and local governments. Delinquency rates on subprime mortgages climbed further, and those on prime mortgages and other non-mortgage consumer loans also worsened a touch. Issuance of securities backed by nonconforming residential mortgages continued to shrink, and spreads on jumbo mortgages over their conforming counterparts climbed a bit higher.

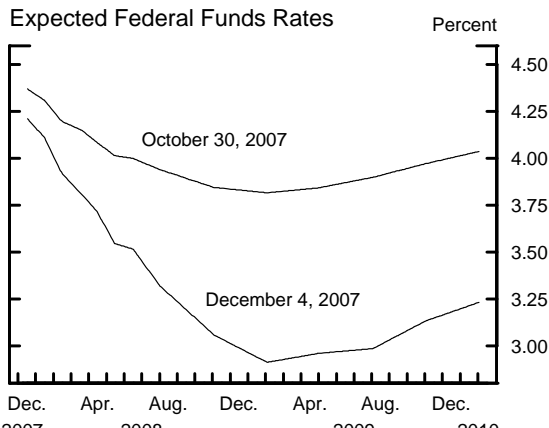
Money Market Functioning

Conditions in short-term funding markets deteriorated in recent weeks. Spreads of rates on term federal funds and on libor over those on comparable-maturity overnight index swaps widened appreciably, in some cases exceeding their early-September levels. Spreads on thirty-day interbank loans rose particularly sharply after their maturities crossed year-end. These developments were reportedly driven, in part, by the desire of financial institutions to hold safer assets on their balance sheets over year-end, as well as increased precautionary demand by banks to secure year-end funding related to uncertainties about bank balance sheets and counterparty credit risk. Spreads on asset-backed commercial paper, as well as those on lower-rated nonfinancial unsecured paper, also rose from already-elevated levels. Staff estimates indicate that issuers of asset-backed commercial paper and A2/P2-rated unsecured nonfinancial paper are paying a premium of roughly 55 to 80 basis points to obtain funding over year-end. Asset-backed

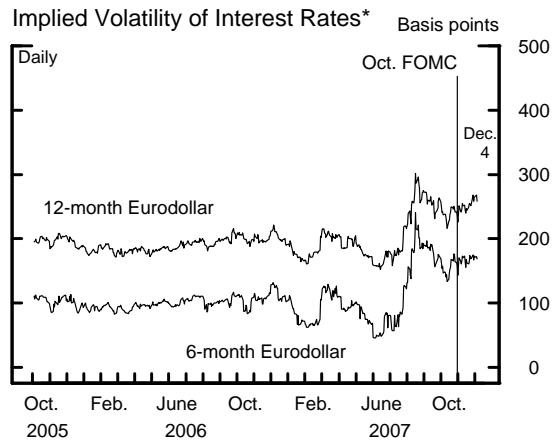
Policy Expectations and Treasury Yields



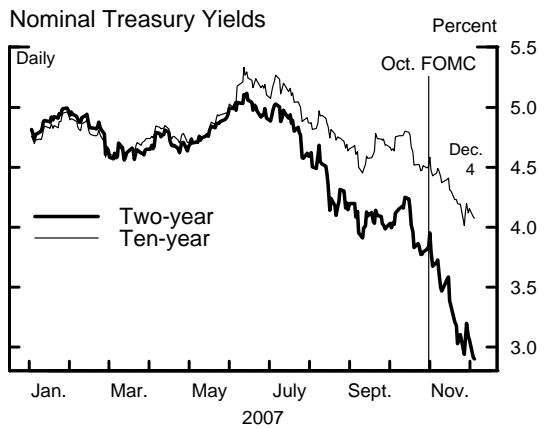
Note. 5-minute intervals. 8:00 a.m. to 4:00 p.m. No adjustments for term premiums.



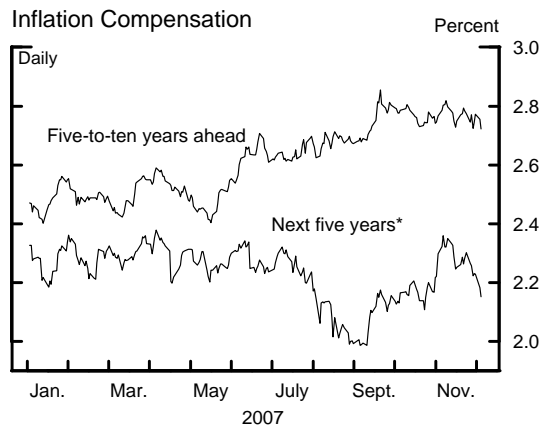
Note. Estimates from federal funds and Eurodollar futures.



*Width of a 90 percent confidence interval computed from the term structures for the expected federal funds rate and implied volatility.



Note. Smoothed yield curve estimated from off-the-run Treasury coupon securities. Yields shown are those on notional par Treasury securities with semi-annual coupons.



Note. Estimates based on smoothed nominal and inflation-indexed Treasury yields.
*Adjusted for lagged indexing of TIPS.

commercial paper outstanding continued to decline, while the outstanding amount of unsecured paper increased.

Treasury bill yields declined 30 to 90 basis points over the intermeeting period, likely because of lower policy expectations as well as safe-haven demands that were related, in part, to the year-end statement date. Inflows into money market mutual funds that hold only Treasury securities have been heavy in recent weeks. Liquidity in the bill market remained poor, with bid-asked spreads quoted at several times their normal levels. General collateral repo rates traded well below the overnight funds rate for much of the period, reflecting heightened demand for Treasury securities, especially over the turn of the year.

Policy Expectations and Treasury Yields

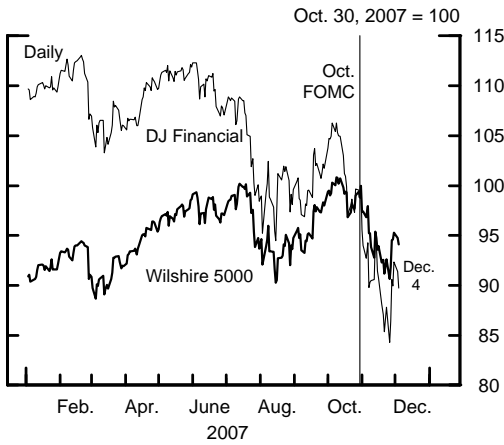
Investor expectations regarding the path of monetary policy shifted considerably lower over the intermeeting period, largely in response to events in credit markets and concerns about economic growth. Economic data released during the period were generally a little weaker than expected, but the releases themselves appeared to have only a modest effect on the expected path for policy.

Monetary policy communications also had limited effects on interest rates. The Committee's decision to lower the target funds rate 25 basis points at the October meeting was largely anticipated by investors. However, the expected path of monetary policy shifted up a bit in response to the Committee's assessment that the upside risks to inflation roughly balanced the downside risks to growth. The expected policy path moved down somewhat in response to the Chairman's testimony to the Joint Economic Committee in early November, as analysts focused on his remarks that economic activity was expected to slow in the fourth quarter. The release of the minutes of the October FOMC meeting, including the Summary of Economic Projections, sparked considerable discussion among analysts but elicited little market reaction.

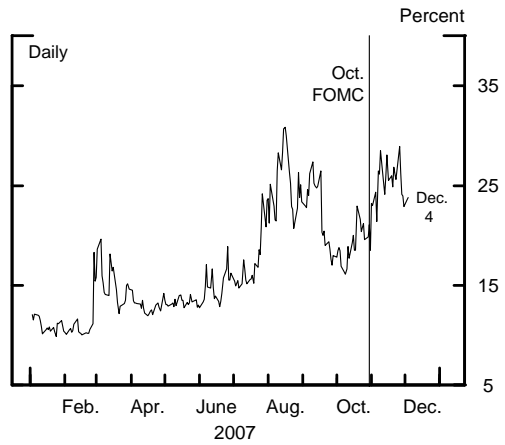
Quotes on binary options now indicate that market participants place about 35 percent odds on a 50 basis point rate cut, 60 percent odds on a 25 basis point reduction, and 5 percent odds on no change in the target at the upcoming meeting. A comparison of binary options with federal funds futures indicates that investors expect the effective funds rate to trade 150 basis points below the target on December 31. Options quotes indicate that investors place about 70 percent odds on the target federal funds rate being at or below 4 percent after the January meeting. Market participants also expect the

Corporate Yields, Risk Spreads, and Stock Prices

Selected Stock Price Indexes



Implied Volatility on S&P 500 (VIX)

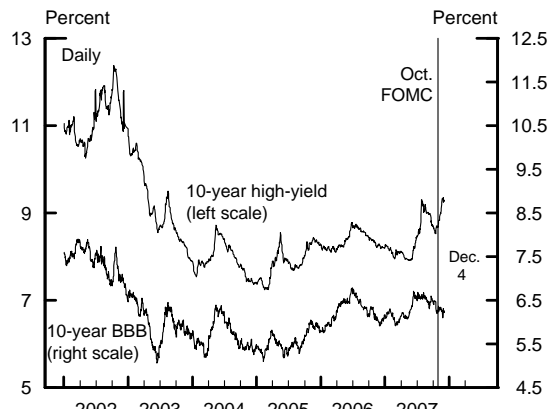


Ratio of Trend Earnings to Price for S&P 500 and Long-Run Treasury Yield



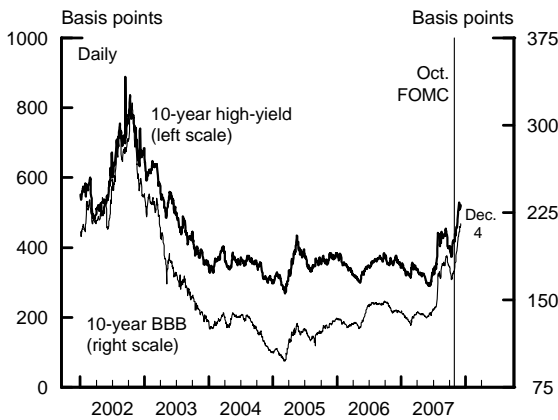
1986 1989 1992 1995 1998 2001 2004 2007
 * Trend earnings are estimated using analysts' forecasts of year-ahead earnings from I/B/E/S.
 + Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.

Corporate Bond Yields



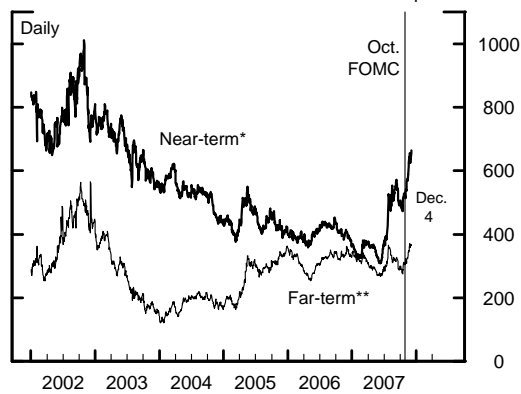
Note. Yields from smoothed yield curves based on Merrill Lynch bond data.

Corporate Bond Spreads



Note. Measured relative to comparable-maturity Treasuries.

Far-Term and Near-Term Forward High-Yield Corporate Bond Spreads



* Forward spread between years 2 and 3.
 ** Forward spread between years 9 and 10.
 Source. Staff estimates.

federal funds rate to decline to just below 3 percent by the end of 2008. Uncertainty about the future course of monetary policy rose, on net, over the intermeeting period, and the implied distribution of expected rates continued to be skewed to the downside.

Yields on nominal Treasury coupon securities also declined notably over the intermeeting period and the yield curve steepened; the two-year yield dropped about 95 basis points, and the ten-year yield fell about 45 basis points. Yields on inflation-indexed securities generally moved in line with their nominal counterparts, and both medium- and longer-term inflation compensation were little changed. However, survey measures of inflation expectations edged higher. Staff models of the term structure suggest that the decline in real yields over the intermeeting period was due to declines in expected real short rates and term premiums, broadly consistent with investors' apparently more pessimistic economic outlook as well as some special demand for Treasury securities.

Stock Prices, Corporate Yields, and Risk Spreads

Broad stock price indexes dropped about 5 percent over the intermeeting period on mounting concerns about the health of financial institutions and slowing economic growth. The decline was broad-based, but financial stocks continued to underperform. Option-implied volatility on the S&P 500 rose to the upper end of its range over the past several months. The spread between the twelve-month forward trend-earnings-price ratio for S&P 500 firms and a real long-run Treasury yield—a rough gauge of the equity premium—widened.

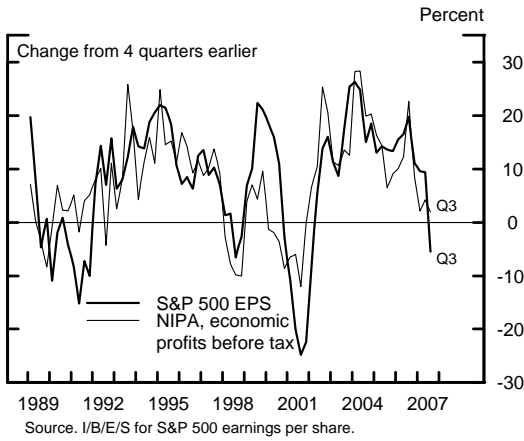
Yields on investment-grade corporate bonds were little changed over the intermeeting period, while those on speculative-grade bonds increased. With Treasury yields falling, spreads on investment- and speculative-grade corporate bonds shot up to their highest levels since 2003. The run-up in spreads reflects increases in both near- and far-term forward spreads, suggesting greater concerns about near-term credit quality and heightened aversion to risk.

Corporate Earnings and Credit Quality

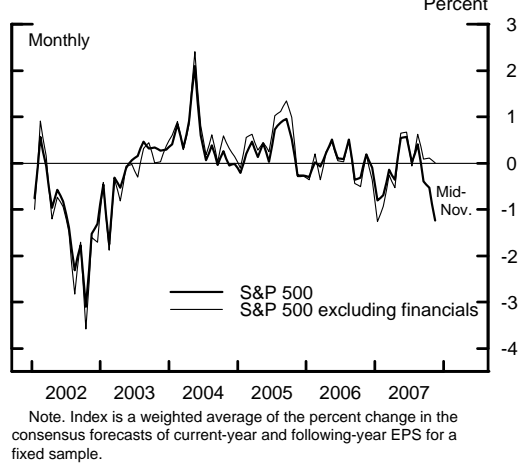
Operating earnings per share for S&P 500 firms in the third quarter came in about 4 percent below year-ago levels and, on a seasonally adjusted basis, about 10 percent below levels in the prior quarter. Profit declines were concentrated in the financial sector, where earnings plummeted almost 30 percent from year-ago levels. In contrast, nonfinancial firms posted four-quarter gains of about 4 percent. The deceleration in NIPA profits in the third quarter was less pronounced, reflecting the fact that write-offs

Corporate Earnings and Credit Quality

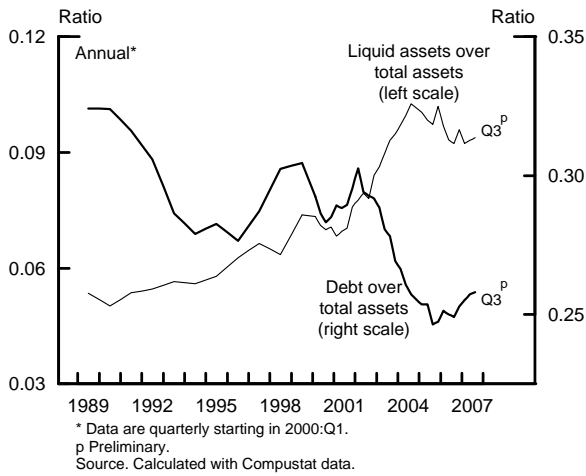
Corporate Earnings Growth



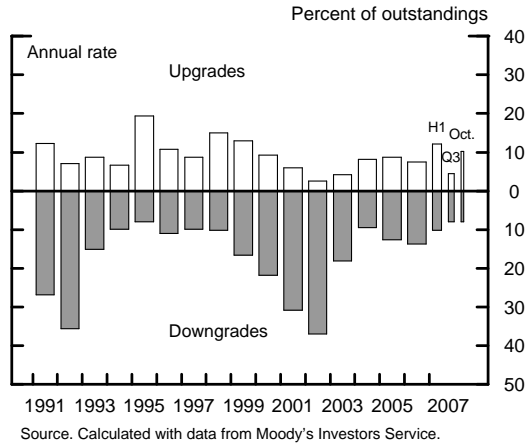
Revisions to Expected S&P 500 Earnings



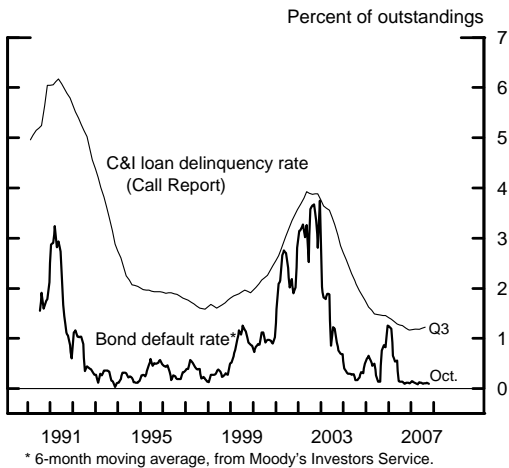
Financial Ratios for Nonfinancial Corporations



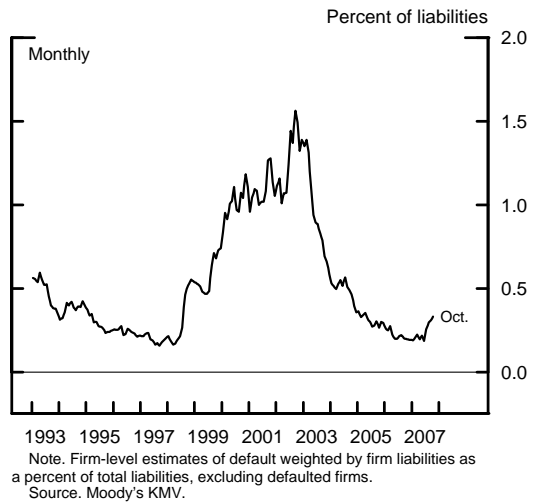
Bond Ratings Changes of Nonfinancial Companies



Selected Default and Delinquency Rates



Expected Year-Ahead Defaults



have no effect on this measure of profits. Looking ahead, analysts' revisions to year-ahead earnings for the S&P 500 as a whole were negative through mid-November, although when excluding financial firms, earnings projections were about unchanged.

The credit quality of nonfinancial firms appeared solid through October. Preliminary data for large corporations in the third quarter indicate that aggregate leverage stayed low and that balance sheet liquidity remained high by historical standards. Rating downgrades on corporate bonds were modest again in October, and the realized six-month trailing bond default rate remained near zero. Third-quarter Call Reports showed that the delinquency rate on C&I loans also remained low. The KMV-based aggregate year-ahead expected default rate bumped up again in October but was still low by historical standards.

Business Finance

Gross bond issuance by investment- and speculative-grade nonfinancial corporations was solid in November but below its brisk October pace. Meanwhile, outstanding nonfinancial commercial paper rebounded after three consecutive months of decline. C&I loans rose, on net, especially late in the period, when banks reportedly resumed bringing onto their balance sheets previously committed loans that were intended for syndication. Overall, net debt financing picked up a bit in November from its already torrid rate in October.

The pace of initial equity offerings by nonfinancial corporations increased in November from moderate levels, while seasoned offerings surged in a range of industries. Equity retirements likely continued to dwarf issuance in the third quarter, as repurchases are estimated to have ebbed only slightly from their record second-quarter rate, and retirements from cash-financed mergers and acquisition set a new record. So far in the fourth quarter, mergers and acquisitions are on track to set another record, boosted by a few large LBOs. In addition, the pipeline of pending deals is large, and the pace of announcements of small- and middle-market M&A deals has been robust. Announcements of new share repurchase programs have slowed somewhat in the fourth quarter but remain sizable.

Commercial Real Estate

Spreads of yields on commercial-mortgage-backed securities (CMBS) rated AAA and BBB over those on comparable-maturity Treasuries jumped to about 200 and 700 basis points, respectively, reportedly reflecting mounting concerns about high levels of

Business Finance

Gross Issuance of Securities by U.S. Corporations

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

Type of security	2003	2004	2005	2006	2007			
					H1	Q3	Oct.	Nov. ^P
<i>Nonfinancial corporations</i>								
Stocks ¹	3.7	5.4	4.6	4.7	5.5	4.3	5.0	11.5
Initial public offerings	.4	1.6	1.7	1.8	1.7	1.2	1.7	3.4
Seasoned offerings	3.3	3.8	2.8	2.9	3.9	3.1	3.2	8.1
Bonds ²	31.6	22.7	19.1	29.8	37.9	26.6	48.5	36.4
Investment grade	15.9	8.2	8.4	13.0	14.2	19.8	19.4	22.0
Speculative grade	11.3	9.7	6.4	8.0	15.4	3.4	9.6	5.8
Other (sold abroad/unrated)	4.3	4.9	4.3	8.8	8.3	3.3	19.4	8.6
<i>Memo</i>								
Net issuance of commercial paper ³	-3.4	1.5	-.4	3.9	1.2	-4.1	-4.7	7.6
Change in C&I loans at commercial banks ^{3,4}	-7.7	3.1	9.9	13.0	12.2	36.7	19.8	31.2
<i>Financial corporations</i>								
Stocks ¹	6.6	6.9	5.0	5.3	9.3	3.5	5.8	12.4
Bonds ²	111.1	139.3	176.3	187.7	207.0	126.9	101.4	80.0

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

1. Excludes private placements and equity-for-equity swaps that occur in restructurings.

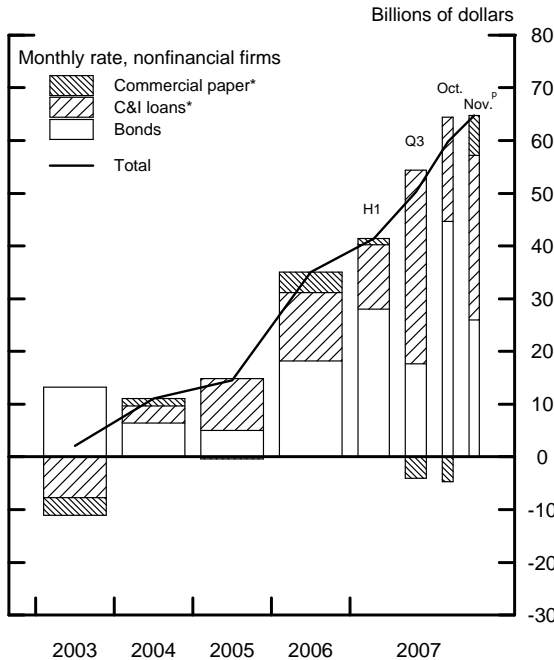
2. Data include regular and 144a private placements. Bond totals reflect gross proceeds rather than par value of original discount bonds. Bonds are categorized according to Moody's bond ratings or to Standard & Poor's if unrated by Moody's.

3. End-of-period basis, seasonally adjusted.

4. Adjusted commercial bank credit data.

p Preliminary.

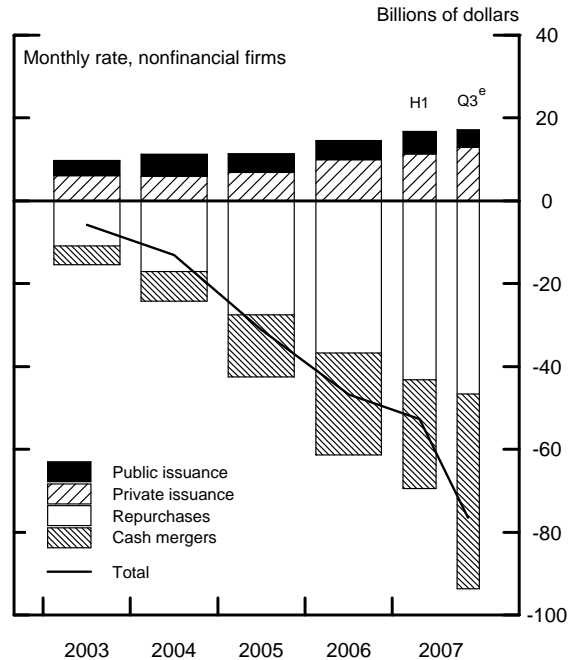
Selected Components of Net Debt Financing



* Seasonally adjusted, period-end basis.

p Preliminary.

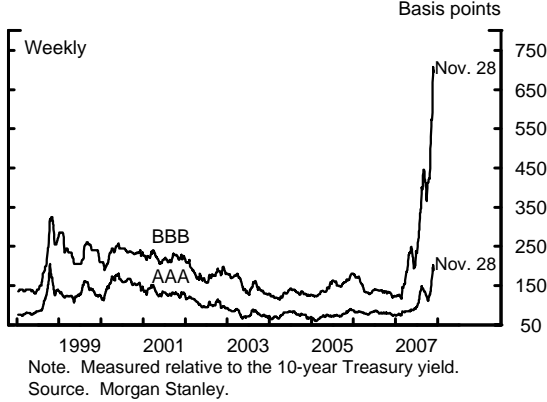
Components of Net Equity Issuance



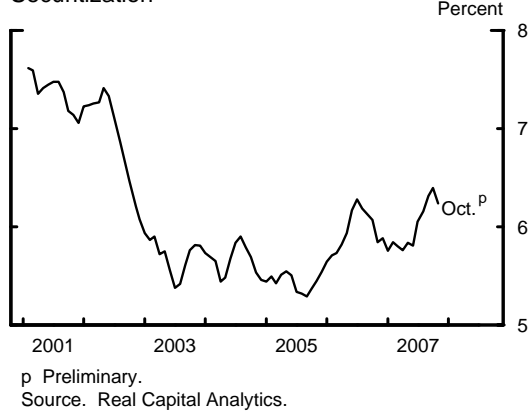
^e Staff estimate.

Commercial Real Estate

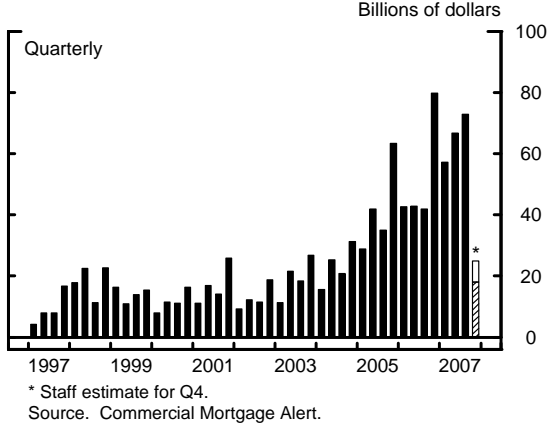
Investment-Grade CMBS Spreads



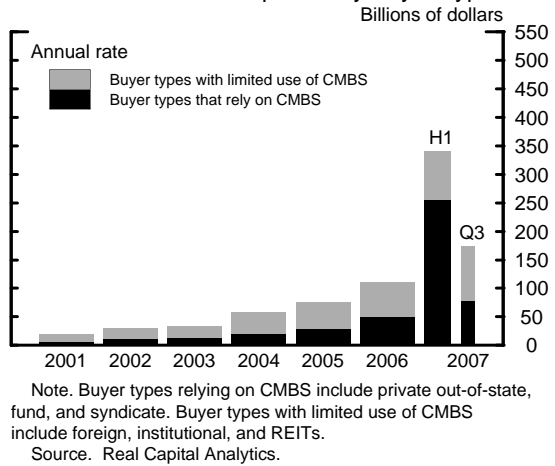
Interest Rate on Mortgages Originated for Securitization



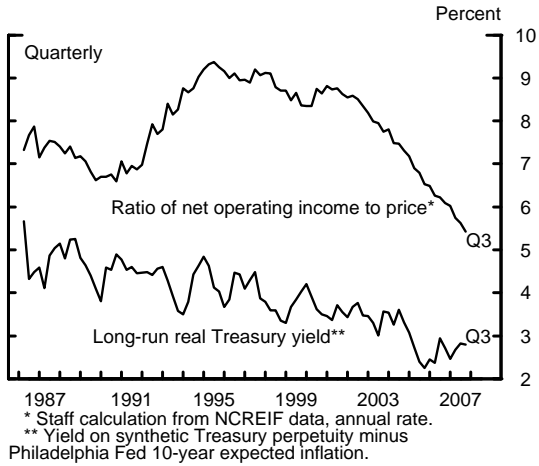
Gross Issuance of CMBS



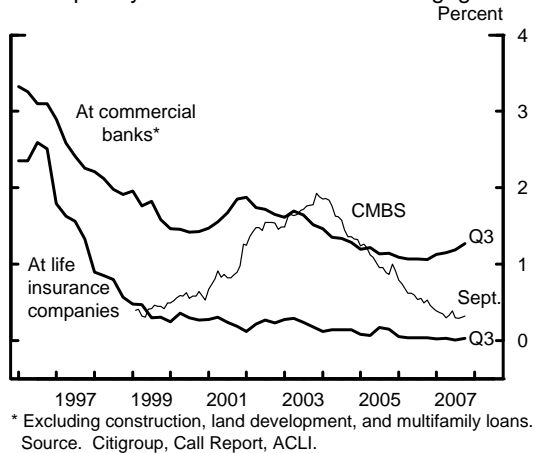
Purchases of Office Properties by Buyer Type



Commercial Real Estate Valuation

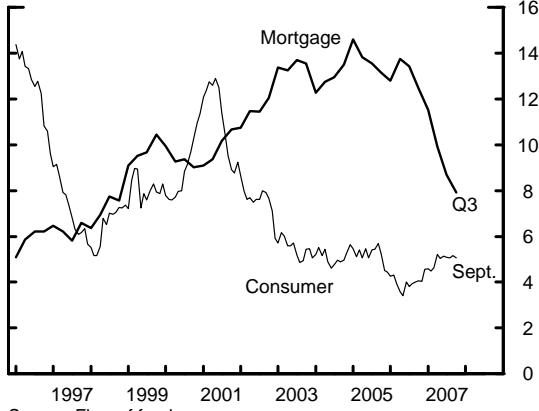


Delinquency Rates on Commercial Mortgages



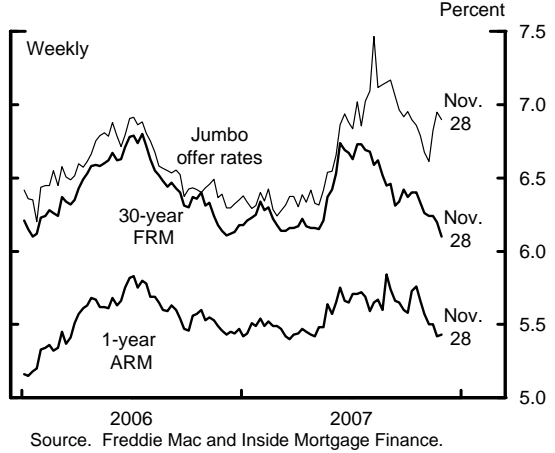
Household Liabilities

Mortgage Debt and Consumer Credit
Percent change from year earlier



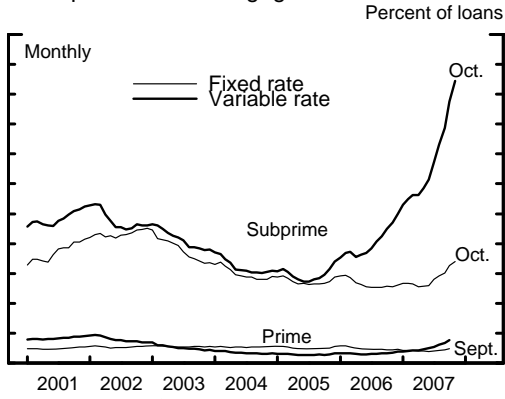
Source. Flow of funds.

Mortgage Rates for Prime Borrowers



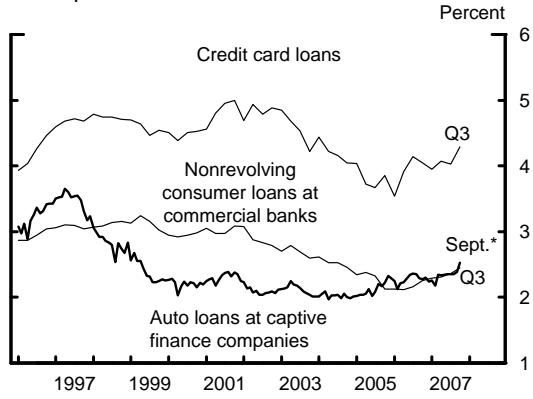
Source. Freddie Mac and Inside Mortgage Finance.

Delinquencies on Mortgages



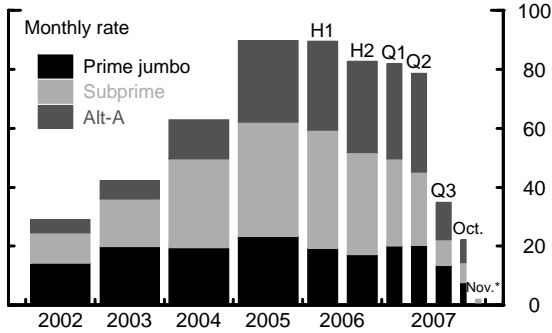
Note. Percent of loans 90 or more days past due or in foreclosure. Prime includes near-prime mortgages.
Source. First American LoanPerformance.

Delinquencies on Consumer Loans



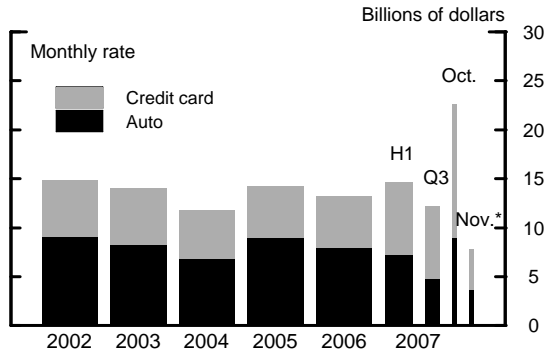
*Break in series.
Source. For credit cards and nonrevolving, Call Report; for auto loans, Federal Reserve.

Gross Issuance of Non-Agency MBS by Type
Billions of dollars



*Month to date at a monthly rate; Alt-A and prime jumbo not yet available.
Source. Inside Mortgage Finance, MBS database, and Merrill Lynch.

Gross Issuance of ABS



Note. Auto includes car loans and leases and financing for buyers of motorcycles, trucks, and other vehicles.
*Through Nov. 23.
Source. Inside MBS & ABS and Merrill Lynch.

leverage on recently securitized commercial mortgages, as well as persistent worries about structured financial products in general. Through October, interest rates on commercial mortgages originated for securitization remained at the high end of their range over the past several years.

Originations data and the issuance calendar point to a marked slowing of CMBS offerings in the fourth quarter, likely reflecting both the higher cost of capital in recent months and tighter underwriting standards. Originators of commercial mortgages for CMBS pools have gradually responded to concerns of investors and rating agencies by reducing leverage on newly originated mortgages, although such loans do not yet constitute a substantial share of new CMBS pools.

The volume of commercial real estate transactions typically funded from sources other than CMBS remained solid in the third quarter. In contrast, the pace of transactions typically funded by CMBS was substantially below the outsized pace in the first half of this year.

The ratio of net operating income to commercial property prices declined further in the third quarter, narrowing the spread of this ratio over the real perpetuity Treasury yield, a rough measure of the risk premium on commercial real estate assets. However, commercial real estate price appreciation has reportedly slowed more recently. Delinquency rates on CMBS and commercial real estate loans at banks and life insurance companies ticked up in the third quarter but remained at the low end of their historical ranges.

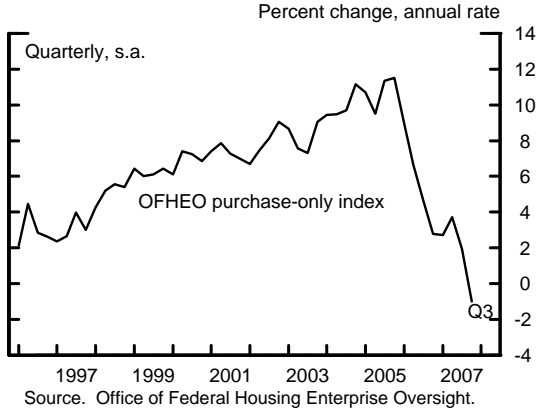
Household Finance

Growth of residential mortgage debt continued to slow in the third quarter amid further weakening in the housing market. Meanwhile, nonmortgage consumer credit grew at about its average pace of the past few years. Mortgage interest rates for both thirty-year fixed-rate mortgages and one-year adjustable-rate conforming loans edged down, whereas spreads to Treasuries rose. Indicative quotes on thirty-year jumbo-mortgage rates rose over the intermeeting period to a bit above their September highs.

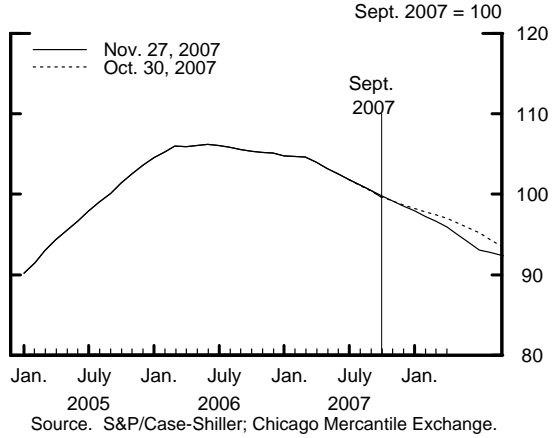
Delinquency rates on subprime mortgages continued to increase. In October, those on variable-rate and fixed-rate subprime mortgages reached about 19 percent and 7 percent, respectively, about 310 and 75 basis points above their August levels. Delinquency rates on variable-rate prime mortgages ticked up in September, whereas those on fixed-rate

Household Assets

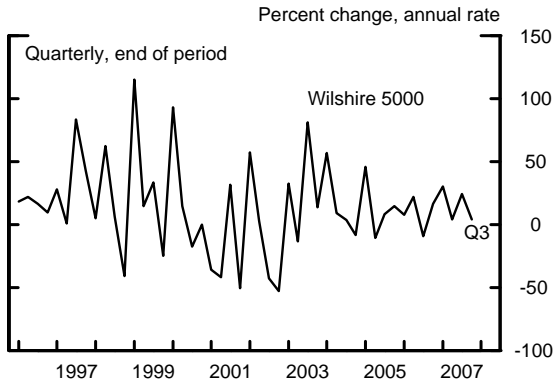
House Prices



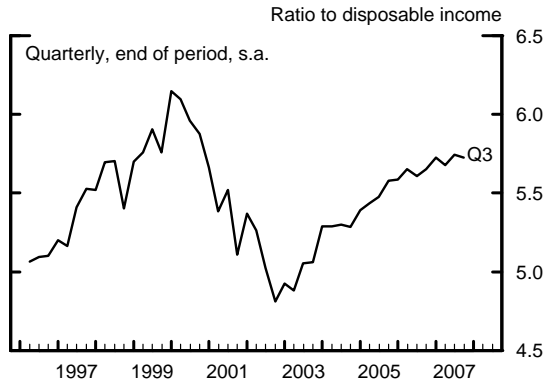
S&P/Case-Shiller House Price Futures



Stock Prices



Net Worth



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

Fund type	2006	2007			2007		Assets Oct.
		Q1	Q2	Q3	Oct.	Nov. ^e	
Total long-term funds	18.9	39.5	24.2	4.6	24.8	-4.7	9,388
Equity funds	13.3	21.2	8.1	1.2	11.3	-10.2	6,993
Domestic	0.9	6.5	-3.9	-8.3	-3.7	-13.1	5,226
International	12.4	14.7	12.0	9.5	15.0	3.0	1,767
Hybrid funds	0.6	3.3	1.9	1.0	1.8	1.0	728
Bond funds	5.0	15.0	14.1	2.5	11.7	4.5	1,667
High-yield	-0.2	0.7	-0.2	-0.8	0.6	-0.9	162
Other taxable	4.0	11.4	12.5	3.1	10.4	6.1	1,125
Municipals	1.3	2.9	1.8	0.2	0.7	-0.8	379
Money market funds	27.4	18.2	39.1	103.6	76.5	135.7	2,946

Note. Excludes reinvested dividends.

^e Staff estimate based on confidential weekly data.

Source. Investment Company Institute.

prime mortgages were about flat at low levels. Delinquency rates on nonmortgage consumer credit generally edged up further during the third quarter to about their average levels over the past several years. Finally, household bankruptcy filings (not shown) continued their slow upward trend following the bankruptcy reforms of 2005.

The available evidence suggests that the issuance of nonconforming residential-mortgage-backed securities was paltry in November. In contrast, issuance of conforming residential MBS has been robust. Consumer auto and credit card asset-backed issuance also remained solid despite elevated spreads.

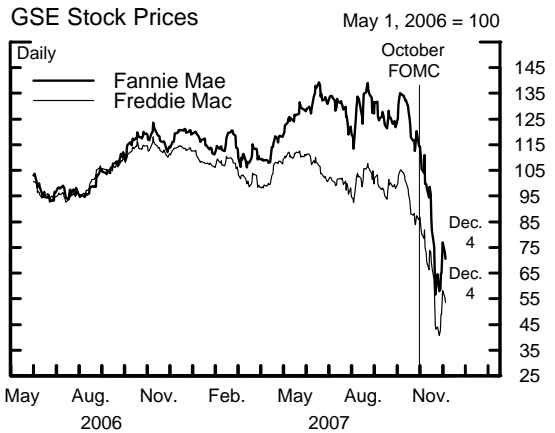
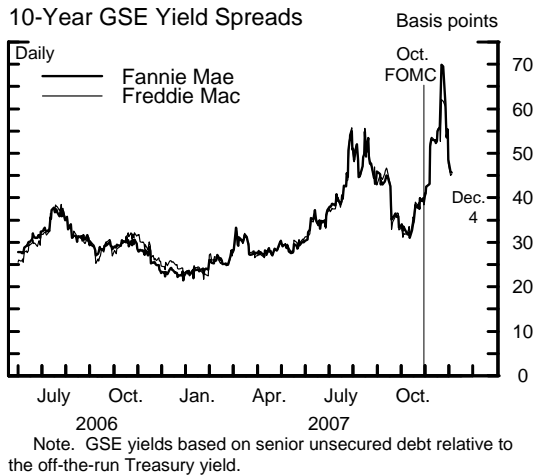
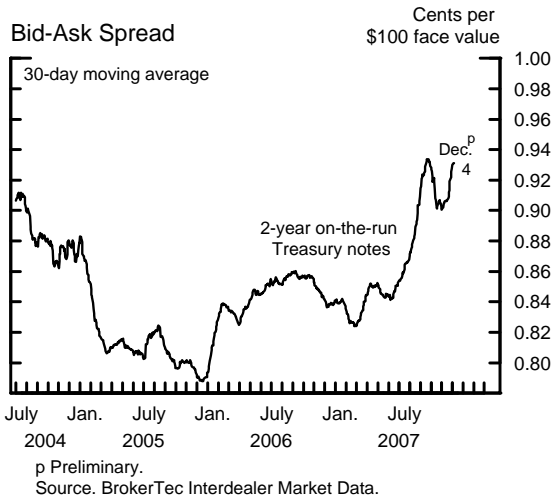
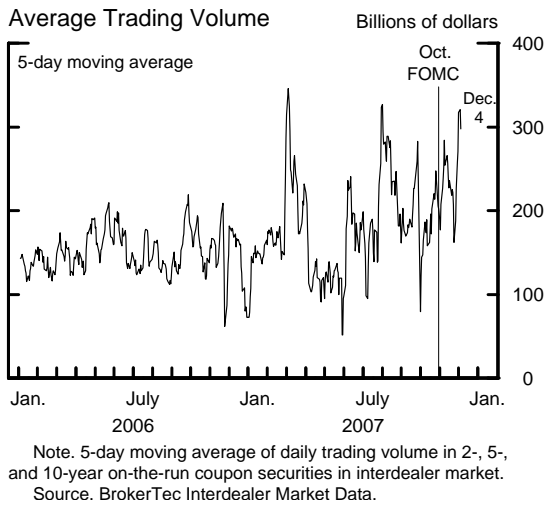
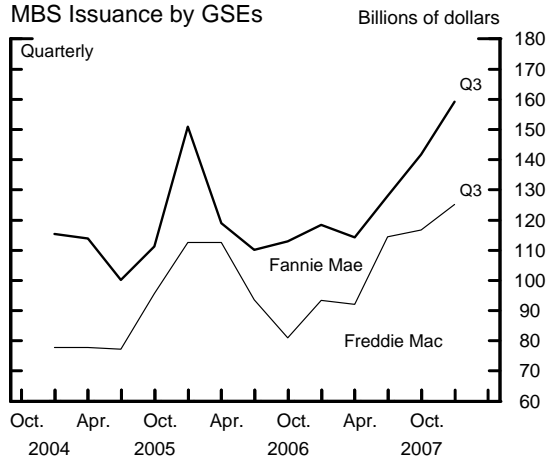
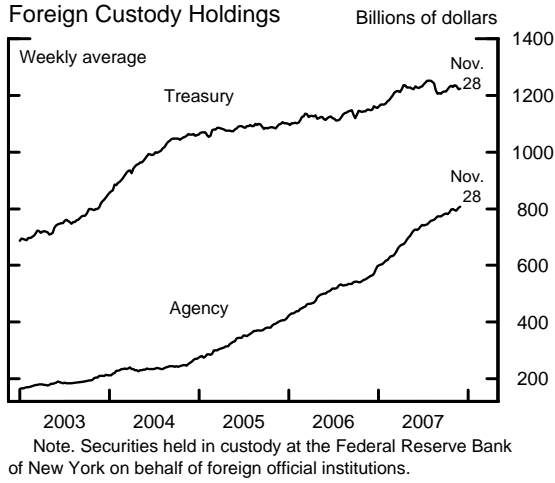
In the third quarter, OFHEO's purchase-only house price index posted its first decline in more than a decade. Futures markets on house prices, although not very liquid, suggest that investors expect declines through the middle of 2008 in each of the ten large cities in the Case-Shiller index. Falling house prices, along with essentially flat stock prices in the third quarter, held down the ratio of household net worth to disposable personal income. Net withdrawals from domestic equity mutual funds continued in November, whereas international equity funds and domestic and international bond funds saw further net inflows.

Treasury and Agency Finance

Treasury auctions of two-, five-, ten-, and thirty-year nominal bonds this intermeeting period were well received, and demand at three- and six-month bill auctions was on the high end of ranges seen over the past several years. Foreign custody holdings at the Federal Reserve Bank of New York were about flat. The spread between the on-the-run and a smoothed off-the-run ten-year Treasury yields rose noticeably to levels last seen in 2003, but the two-year premium remained low. Liquidity of on-the-run Treasury issues generally remained strong. Bid-asked spreads increased, but only to modestly higher levels.

Yield spreads of agency debt over comparable-maturity Treasuries increased sharply through mid-November but are up only a bit on balance over the intermeeting period. Agency share prices plummeted about 40 percent. Both Fannie Mae and Freddie Mac posted large losses for the third quarter as a result of rising defaults on mortgages that they guarantee as well as losses on their portfolios of agency and private-label mortgage-backed securities. Over the intermeeting period, Fannie Mae and Freddie Mac raised their guarantee fees and tightened their underwriting standards slightly. In addition,

Treasury and Agency Finance



State and Local Government Finance

Gross Offerings of Municipal Securities

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

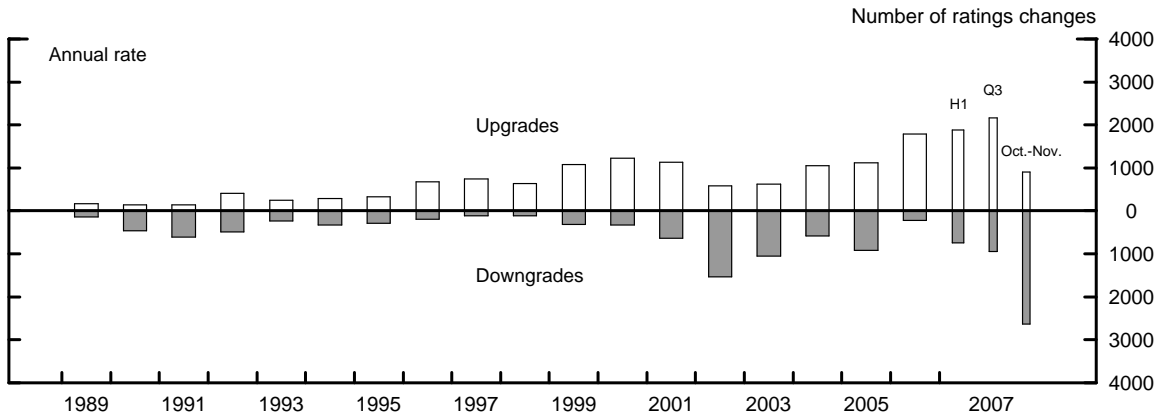
Type of security	2003	2004	2005	2006	2007			
					H1	Q3	Oct.	Nov. ^p
Total	37.9	34.7	38.4	36.1	41.8	36.2	54.2	35.0
Long-term ¹	32.0	29.8	34.1	32.5	38.4	30.6	44.4	28.0
Refundings ²	10.0	10.8	15.6	10.6	16.3	7.6	13.7	7.0
New capital	22.1	19.0	18.6	21.9	22.1	22.9	30.7	21.0
Short-term	5.8	4.9	4.2	3.7	3.4	5.7	9.8	7.0
Memo: Long-term taxable	3.5	2.0	2.1	2.5	2.2	3.0	2.4	4.0

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

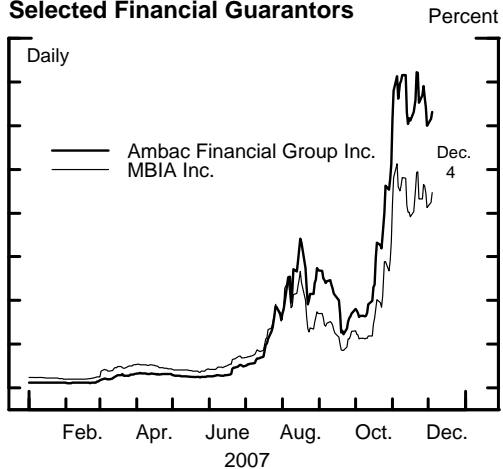
p Based on preliminary data through November 29, 2007.

Ratings Changes



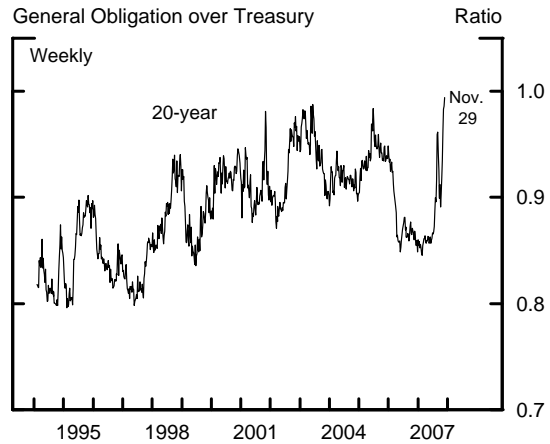
Source: S&P's Credit Week Municipal and Ratings Direct.

Five-year Credit Default Swap Premiums for Selected Financial Guarantors



Source: Markit.

Municipal Bond Yield Ratio



Source: Bond Buyer.

M2 Monetary Aggregate
(Based on seasonally adjusted data)

Aggregate and components	Percent change (annual rate) ¹							Level (billions of dollars), Nov. (e)
	2005	2006	2007					
			H1	Q2	Q3	Oct.	Nov. (e)	
M2	4.2	4.9	7.0	6.5	5.1	4.0	5.1	7,427
Components ²								
Currency	3.5	3.6	1.9	2.1	2.4	6.0	-.6	764
Liquid deposits ³	2.0	.7	6.9	7.1	2.7	.2	2.2	4,481
Small time deposits	19.4	18.5	4.1	2.6	.4	8.1	5.3	1,209
Retail money market funds	.0	12.9	16.3	13.1	26.7	15.5	23.3	967
Memo:								
Institutional money market funds	4.8	15.9	20.4	28.6	40.0	61.4	41.0	1,845
Monetary base	3.5	3.2	1.9	2.3	2.5	6.4	1.3	828

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

Freddie Mac raised \$6 billion in cash through a preferred stock offering to help maintain capital levels above required levels.

State and Local Government Finance

Issuance of long-term municipal bonds for new capital and advance refundings slowed in November, albeit to a still solid rate, amid rising yield ratios to Treasuries. In recent weeks, several municipal bond deals were pulled from the market, reportedly because of price volatility that was associated with mounting investor concerns about the soundness of financial guarantors. Short-term issuance also slowed in November.

Municipal-bond credit quality showed some signs of weakening in recent months. The number of rating downgrades substantially outpaced the number of upgrades in October and November combined. Downgrades were mainly on revenue bonds for projects insured by a subsidiary of Merrill Lynch, which was itself recently downgraded. Meanwhile, the ratio of municipal bond yields to those on comparable-maturity Treasuries spiked to the top end of its historical range. The ratio increased more for insured municipal bonds but also rose for similarly rated uninsured bonds, suggesting that investors may have become concerned about both financial guarantors and the fiscal outlooks for state and local governments. Premiums on credit default swaps for the major bond insurers widened dramatically to distressed levels in early November and remained high.

Money and Bank Credit

M2 expanded moderately in November. Although liquid deposits continued to grow slowly, M2 growth was supported by a surge in retail money funds that likely reflected safe-haven flows. The growth of small time deposits was solid in November, as some depository institutions apparently continued to offer higher rates on retail deposits to raise funds. An ongoing shift in demand overseas away from U.S. dollar banknotes toward the euro and other currencies likely continued to limit the growth in this component of M2.

Growth of commercial bank credit slowed over the intermeeting period from its torrid pace in September and early October. C&I loans decelerated considerably from the soaring pace seen earlier in the fall, but growth remained strong, as some previously committed large syndicated loan deals reportedly continued to make their way onto banks' balance sheets. While the pipeline of such deals has diminished somewhat, the level remains substantial. Spreads on syndicated loans have increased notably since late summer. The November Survey of Terms of Business Lending suggests that spreads of

Commercial Bank Credit

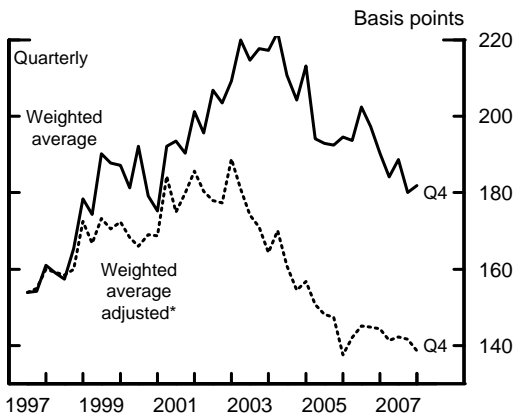
(Percent change, annual rate, except as noted; seasonally adjusted)

Type of credit	2005	2006	H1 2007	Q3 2007	Sept. 2007	Oct. 2007	Nov. 2007 ^p	Level ¹ Nov. 2007 ^p
Total	10.4	9.7	9.3	12.4	15.8	7.2	3.3	8,688
<i>Loans²</i>								
Total	11.6	10.9	10.3	12.6	18.2	7.6	7.1	6,583
To businesses								
Commercial and industrial	13.4	16.5	10.1	24.4	44.0	31.7	13.3	1,390
Commercial real estate	16.9	13.8	11.2	6.2	7.2	3.8	5.9	1,563
To households								
Residential real estate	11.9	6.9	9.2	7.6	9.8	2.8	-6.8	1,872
Revolving home equity	13.3	1.4	1.9	6.5	10.9	13.6	10.9	476
Other	11.4	9.0	11.8	8.0	9.4	-8	-12.8	1,396
Consumer	3.1	5.9	6.5	10.5	11.5	-4.4	15.4	790
Originated ³	.7	6.9	5.2	10.3	9.2	.3	9.4	1,185
Other ⁴	8.4	11.8	14.3	19.3	22.8	-8	20.7	969
<i>Securities</i>								
Total	7.1	6.5	6.4	12.1	8.6	6.0	-8.3	2,105
Treasury and agency	1.8	2.6	-5.0	6.5	-23.1	-38.7	-19.0	1,110
Other ⁵	17.5	13.1	23.9	19.3	50.2	61.2	3.9	995

Note. Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. Data have been adjusted to remove the effects of mark-to-market accounting rules (FIN 39 and FAS 115), the consolidation of certain variable interest entities (FIN 46), the adoption of fair value accounting (FAS 159), and the effects of sizable thrift-to-bank and bank-to-thrift structure activity in October 2006, March 2007, and October 2007. Data also account for breaks caused by reclassifications.

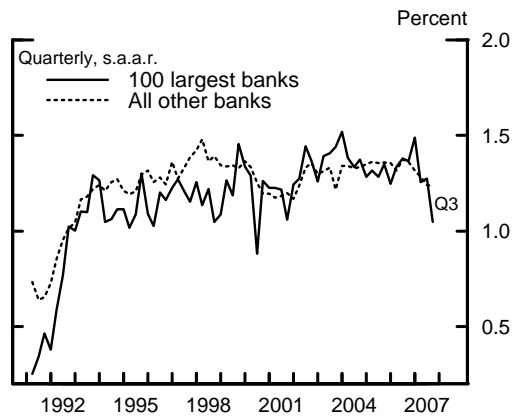
1. Billions of dollars. Pro rata averages of weekly (Wednesday) levels.
 2. Excludes interbank loans.
 3. Includes an estimate of outstanding loans securitized by commercial banks.
 4. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.
 5. 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.
- p Preliminary.

C&I Loan Rate Spreads



Note. Spreads over market interest rate on an instrument of comparable maturity on loans less than \$25 million (2006\$).
*Adjusted for changes in nonprice loan characteristics.
Source. Survey of Terms of Business Lending.

Return on Assets for Commercial Banks



Source. Call Report.

rates on a broad sample of bank loans to businesses over Eurodollar and swap rates of comparable maturity were about unchanged on average from the previous survey, which was conducted in early August. Growth of residential mortgages on banks' books dropped in recent weeks, likely reflecting, in part, ongoing tightening of lending standards in that sector and weaker demand. Nonrevolving consumer loans were about flat over the past two months. By contrast, sources of revolving credit for consumers—both home equity loans and credit cards—grew briskly during November.

According to the third-quarter Call Reports, profits declined significantly at the largest banks, driven by a precipitous drop in noninterest income and the highest rate of loss provisioning since 2003. The decrease in profits along with balance sheet growth contributed to declines in regulatory leverage ratios at several of the largest commercial banks. Profits of smaller banks were about unchanged from the second quarter. Loan delinquency rates rose in the third quarter, in large part reflecting deterioration in the performance of residential mortgages and construction and land development loans, which include loans to residential developers.

Last Page of Domestic Financial Developments

International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

The U.S. international trade deficit narrowed slightly to \$56.5 billion in September from \$56.8 billion in August. An increase in exports more than offset higher imports.

Trade in Goods and Services

	2006	Annual rate			Monthly rate		
		2007			2007		
		Q1	Q2	Q3	July	Aug.	Sept.
Percent change							
<i>Nominal BOP</i>							
Exports	13.3	4.9	14.9	22.8	2.7	.7	1.1
Imports	4.7	3.8	10.1	11.2	1.7	-.7	.6
<i>Real NIPA</i>							
Exports	9.3	1.1	7.5	18.9	...	...	...
Imports	3.7	3.9	-2.7	4.3	...	...	...
Billions of dollars							
<i>Nominal BOP</i>							
Net exports	-758.5	-710.3	-710.7	-689.0	-59.0	-56.8	-56.5
Goods, net	-838.3	-803.5	-816.9	-798.4	-67.8	-66.1	-65.8
Services, net	79.7	93.1	106.1	109.4	8.8	9.3	9.3

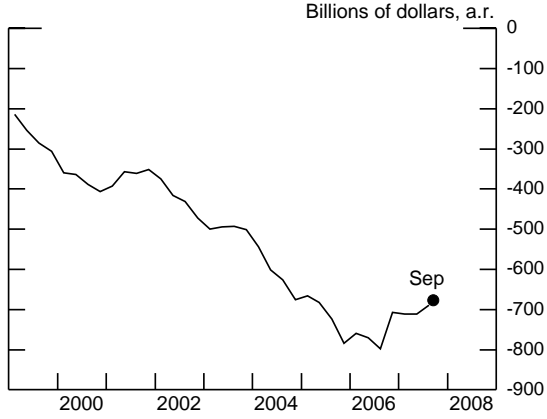
Source. U.S. Department of Commerce, Bureaus of Economic Analysis and Census.
n.a. Not available. ... Not applicable.

In September, the value of exports of goods and services increased 1.1 percent following a 0.7 percent increase in August. The September gain primarily reflected higher exports of goods, with exports of agricultural products exhibiting particularly robust growth on both higher prices and greater volumes. Exports of industrial supplies and consumer goods also moved up smartly in September, while exports of automotive products were flat. In contrast, exports of capital goods fell, led by a decline in aircraft. Services exports recorded moderate growth.

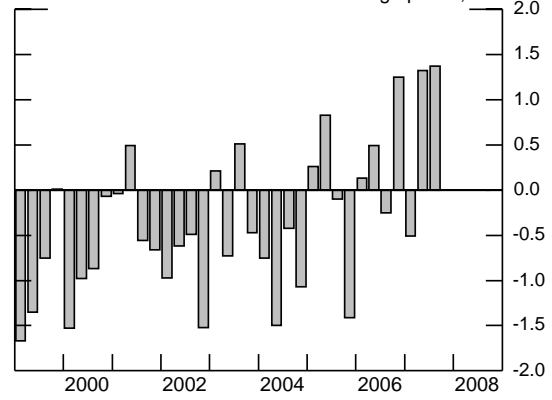
For the third quarter as a whole, the value of exports increased 22.8 percent at an annual rate. The strength of exports was widely distributed across categories, with exports of agricultural goods, aircraft, and industrial supplies recording particularly strong growth. Exports of other capital goods, automotive products, consumer goods, and services also climbed robustly. In contrast, exports of semiconductors fell.

U.S. International Trade in Goods and Services (Quarterly)

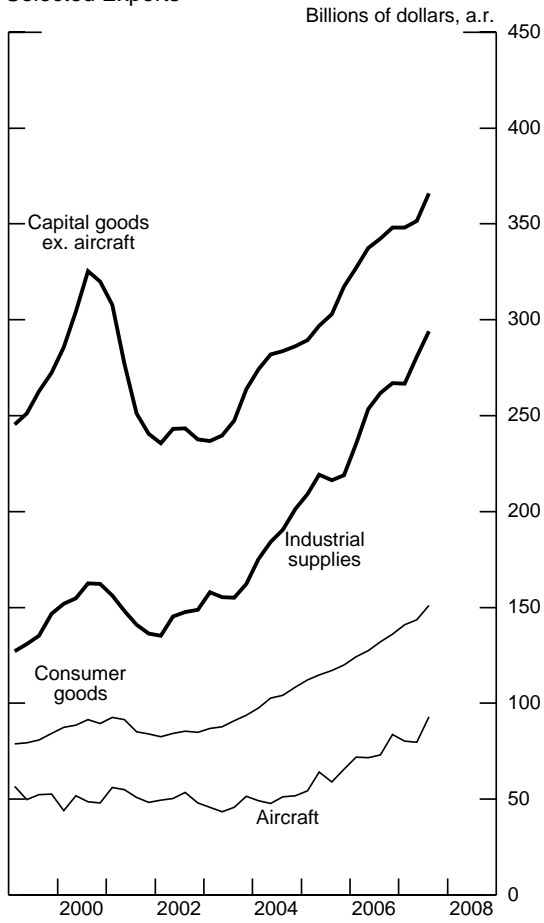
Trade Balance



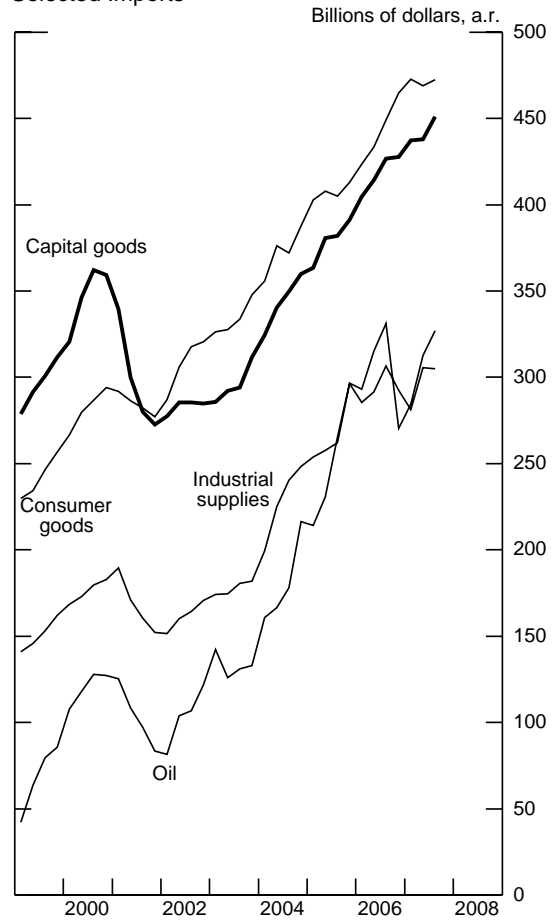
Contribution of Net Exports to Real GDP Growth



Selected Exports



Selected Imports



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

	Levels				Change ¹			
	2007		2007		2007		2007	
	Q2	Q3	Aug.	Sept.	Q2	Q3	Aug.	Sept.
Exports of G&S	1582.8	1666.1	1663.8	1681.8	54.1	83.4	10.9	18.0
Goods exports	1117.4	1191.2	1187.7	1202.6	36.9	73.9	4.4	14.9
Gold	16.5	14.3	17.3	13.6	5.9	-2.2	5.3	-3.7
Other goods	1100.9	1177.0	1170.4	1189.0	31.0	76.1	-9	18.6
Capital goods	431.2	458.9	459.6	454.8	3.1	27.7	-2.7	-4.8
Aircraft & parts	79.5	93.0	92.8	88.6	-.8	13.5	-4.9	-4.1
Computers & accessories	41.9	43.4	43.8	43.1	-3.4	1.5	.5	-.7
Semiconductors	49.8	48.5	46.8	50.5	-.4	-1.3	-1.4	3.8
Other capital goods	260.0	274.0	276.3	272.6	7.8	14.0	3.2	-3.7
Automotive	118.0	128.7	124.6	125.5	6.5	10.7	-11.4	.9
Ind. supplies (ex. ag., gold)	280.7	294.0	291.6	298.2	14.0	13.3	-.6	6.5
Consumer goods	143.5	151.1	150.4	154.4	2.6	7.6	2.0	3.9
Agricultural	87.1	102.5	101.2	115.3	7.8	15.3	10.4	14.1
All other goods	40.3	41.8	42.9	40.9	-3.1	1.5	5.2	-2.1
Services exports	465.4	474.9	476.0	479.1	17.2	9.5	6.5	3.1
Imports of G&S	2293.5	2355.2	2345.4	2359.2	54.6	61.6	-15.5	13.8
Goods imports	1934.2	1989.6	1980.7	1991.6	50.3	55.4	-15.9	10.9
Oil	312.6	327.1	327.4	326.9	29.2	14.6	.3	-.5
Gold	9.8	10.6	9.2	10.4	1.9	.8	-2.9	1.2
Other goods	1611.9	1651.9	1644.1	1654.3	19.2	40.0	-13.3	10.3
Capital goods	437.9	451.1	449.1	458.2	.4	13.2	3.2	9.0
Aircraft & parts	34.3	35.1	34.5	36.3	1.5	.8	.1	1.8
Computers & accessories	102.8	101.7	101.9	106.4	-5.7	-1.1	5.1	4.5
Semiconductors	26.0	26.6	27.7	26.8	-1.0	.5	2.4	-.9
Other capital goods	274.8	287.8	285.1	288.7	5.6	13.0	-4.4	3.7
Automotive	252.3	268.7	265.6	269.4	-1.1	16.4	-5.5	3.7
Ind. supplies (ex. oil, gold)	305.5	304.8	302.9	298.0	24.2	-.7	-10.5	-4.9
Consumer goods	468.8	472.4	470.7	473.1	-4.2	3.6	-2.8	2.4
Foods, feeds, bev.	80.3	83.6	84.0	83.6	.2	3.3	.7	-.4
All other goods	67.1	71.3	71.8	72.0	-.4	4.2	1.6	.3
Services imports	359.3	365.5	364.7	367.6	4.3	6.2	.4	2.9
<i>Memo:</i>								
Oil quantity (mb/d)	13.41	12.74	12.69	12.61	-.91	-.68	-.21	-.08
Oil import price (\$/bbl)	63.82	70.33	70.63	70.96	9.48	6.51	1.22	.33

1. Change from previous quarter or month.

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

The value of imported goods and services rose 0.6 percent in September after decreasing 0.7 percent in August. The increase in imports primarily reflected higher imports of capital goods, with imports of computers showing particularly robust growth. Higher imports of automotive products, consumer goods, and services also contributed to the increase. However, imports of petroleum were flat, and imports of industrial supplies fell.

The value of imports increased 11.2 percent (a.r.) in the third quarter. The increase in imports was widespread, with imports of automotive products, petroleum products, and capital goods showing the largest increases. Imports of consumer goods and services also rose, whereas imports of computers and industrial supplies declined in the quarter.

Prices of Internationally Traded Goods

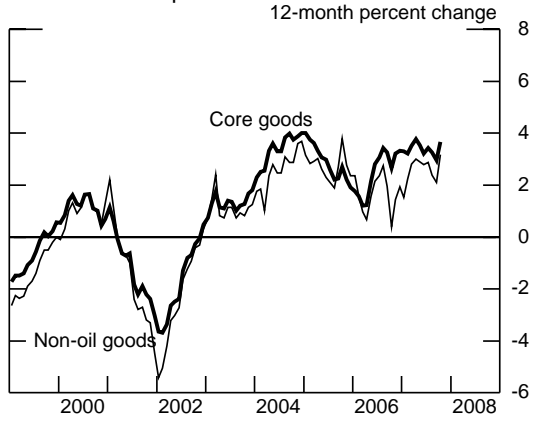
Non-oil imports. In October, prices for U.S. imports of core goods rose 0.5 percent after being unchanged in September. Prices for material-intensive goods jumped more than 1 percent after falling in the previous month. Food price increases continued at a very strong pace, with sharp increases in prices of imported fruit. Prices for nonfuel industrial supplies rebounded after a dip in September, with most of this pattern accounted for by metals. Prices for imported finished goods rose 0.2 percent, led by higher prices for imported autos. Outside of core goods, prices for imported computers and semiconductors both declined for the second consecutive month.

Oil. The BLS price index of imported oil rose 7 percent in October, after a 4.6 percent increase in September. Oil prices continued to rise in November, with the spot price of West Texas intermediate (WTI) crude oil reaching a record high of just under \$100 per barrel in mid-month. The rise in oil prices over this period appeared to reflect heightened supply concerns. By December 4, the spot price of WTI had fallen back to \$88 per barrel amid concerns about economic growth in the United States. Futures prices for delivery beyond the near term, however, have moved up appreciably; the price of the December 2015 contract has moved up about \$10 since the time of the October Greenbook, to \$87 per barrel.

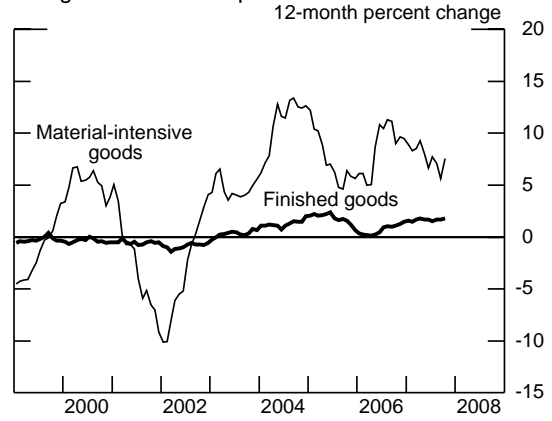
Exports. In October, prices for U.S. exports of core goods rose 1 percent after rising 0.4 percent in September. Prices for material-intensive goods surged for the second consecutive month. Sharply higher prices for exported grains boosted prices for exported agricultural products, which rose about 4 percent in each of the last two months. Prices for nonagricultural industrial supplies also increased, with prices for exported fuels

Prices of U.S. Imports and Exports

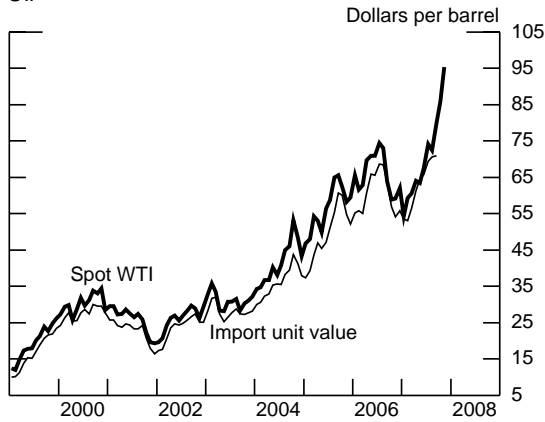
Merchandise Imports



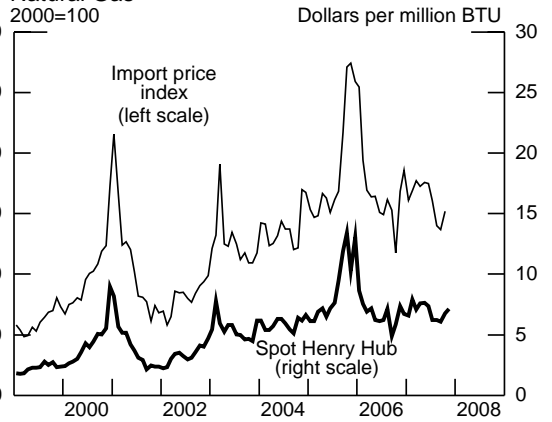
Categories of Core Imports



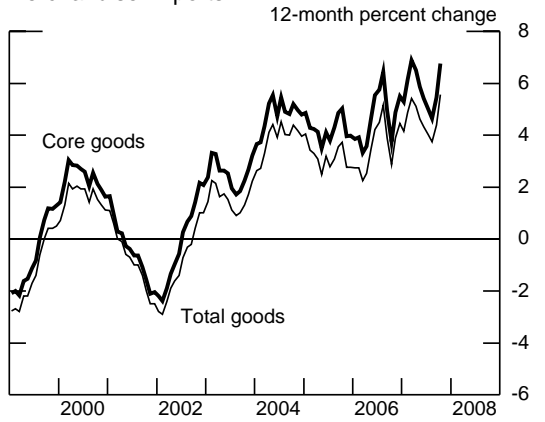
Oil



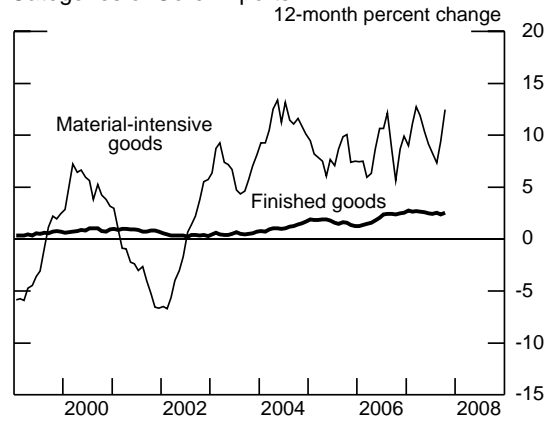
Natural Gas



Merchandise Exports



Categories of Core Exports



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

	Annual rate			Monthly rate		
	2007			2007		
	Q1	Q2	Q3	Aug.	Sept.	Oct.
	----- BLS prices -----					
Merchandise imports	1.8	15.2	9.8	-.4	.8	1.8
Oil	-3.2	89.0	50.4	-1.6	4.6	6.9
Non-oil	2.6	3.8	1.6	.0	-.2	.5
Core goods ¹	3.4	4.6	3.1	.2	-.0	.5
Finished goods	1.8	1.4	2.2	.2	.1	.2
Cap. goods ex. comp. & semi.	3.1	3.1	3.9	.2	.1	.2
Automotive products	.3	.9	1.5	.2	.2	.4
Consumer goods	1.9	.4	1.9	.1	.1	.1
Material-intensive goods	6.4	12.3	5.1	.3	-.4	1.1
Foods, feeds, beverages	9.8	8.4	10.6	.5	1.2	1.0
Industrial supplies ex. fuels	3.8	13.3	4.0	.3	-.9	1.1
Computers	-9.5	-7.7	-.9	.2	-.2	-.5
Semiconductors	-6.8	-16.2	3.5	.2	-.5	-1.7
Natural gas	33.6	13.0	-51.0	-12.8	-2.6	11.1
Merchandise exports	7.2	6.1	2.7	.2	.3	.9
Core goods ²	9.3	7.3	3.0	.3	.4	1.0
Finished goods	3.6	2.4	2.0	.2	.0	.3
Cap. goods ex. comp. & semi.	4.4	2.7	2.7	.3	.1	.3
Automotive products	1.7	.9	.6	.0	.0	.3
Consumer goods	3.4	3.2	2.0	.2	-.2	.4
Material-intensive goods	17.0	13.7	4.4	.4	.8	1.7
Agricultural products	27.8	7.0	23.9	1.0	4.1	3.9
Industrial supplies ex. ag.	14.1	16.4	-.5	.1	-.3	1.2
Computers	-12.8	-11.1	-4.6	-.4	-.1	-.3
Semiconductors	-.8	4.2	.6	-.1	.1	-.3
	----- NIPA prices -----					
Chain price index						
Imports of goods & services	1.0	11.9	7.2	...	...	...
Non-oil merchandise	2.1	2.7	1.1	...	...	...
Core goods ¹	2.7	3.6	2.8	...	...	...
Exports of goods & services	3.6	5.3	3.7	...	...	...
Total merchandise	3.5	5.1	3.3	...	...	...
Core goods ²	6.0	7.4	4.4	...	...	...

1. Excludes computers, semiconductors, and natural gas.

2. Excludes computers and semiconductors.

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

leading the way. Prices for exported finished goods were up 0.3 percent in October, with prices for all of the major subcategories rising at roughly the same pace. Prices for exported computers and semiconductors both fell modestly in October.

U.S. International Financial Transactions

The apparent impact of the recent financial market turmoil on U.S. financial flows continued in September, with net flows into U.S. securities by foreign private investors remaining extremely weak (line 4 of the Summary of U.S. International Transactions table). In October, however, net inflows strengthened appreciably, approaching a pace frequently seen in the months prior to the turmoil (top-left panel of the chart on Private Security Flows). The September weakness extended to all types of U.S. securities, while the higher October flows reflected a large increase in the demand for U.S. Treasuries and stocks. After surging in August, net foreign private purchases of U.S. Treasury securities (line 4a) fell to \$4 billion in September before bouncing back to an unprecedented level of \$47 billion in October, as foreign investors once again turned to relatively safe assets. Foreign demand for corporate and municipal bonds picked up a bit to small net inflows totaling \$4 billion (line 4c) in September and \$7 billion in October, after two unusual months in which there were net outflows. We note that this weak demand coincided with unusually low issuance of U.S. corporate bonds in recent months, about half the pace of issuance recorded in the first half of the year. Foreign net inflows into U.S. corporate stocks were modest in September, totaling \$3 billion (line 4d), but rose considerably in October to \$33 billion. Net outflows from agency bonds continued, totaling \$6 billion (line 4b) in September and \$3 billion in October.

After unusual outflows in August, flows from foreign official investors returned to a net inflow of \$10 billion (line 1) in September and \$41 billion in October, approaching the pace observed in the first half of 2007 (top-left panel of the chart on Foreign Official Financial Flows).

U.S. transactions in foreign securities appear to have been less affected by the turmoil. U.S. net acquisitions of foreign securities were strong in September, totaling \$47 billion (line 5), but fell to \$6 billion in October. Demand was particularly weak for foreign stocks in October, as U.S. investors sold foreign stocks, on net. However, such large

inter-month swings are not unusual (bottom-left panel of the chart on Private Security Flows).

Flows through the banking sector remained volatile with an extraordinarily large outflow totaling \$86 billion in August, followed by smaller, but sizable, outflows in September and October.

Combining all the monthly recorded flows, for both official and private transactions, yields a net outflow of \$93 billion for the third quarter, even as the current account deficit -- which requires capital inflows to finance it -- is estimated at about \$185 billion. Note that the monthly recorded capital flows do not include some transactions, which are recorded only quarterly. For example, it is likely that in the third quarter many foreign parents provided additional financial support to their U.S. affiliates to replace funding which until recently had been raised in the commercial paper market. These types of inflows, which are estimated with the quarterly direct investment data (and included in line 10), would help close the apparent gap between the current account and the flows that finance it. The additional flows needed to close this gap would, however, be unprecedented; thus, a sizable third-quarter statistical discrepancy may be required to reconcile the international transactions accounts.

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

	2005	2006	2006	2007				
			Q4	Q1	Q2	Q3	Sept.	Oct.
Official financial flows	272.0	445.2	87.4	149.5	71.8	37.3	10.3	41.0
1. Change in foreign official assets in the U.S. (increase, +)	257.9	442.8	85.9	149.6	71.7	37.4	10.4	41.1
a. G-10 countries + ECB	12.8	21.4	10.0	9.1	6.2	10.3	6.3	11.2
b. OPEC	14.0	44.2	-7.8	11.2	0.4	2.8	1.0	9.1
c. All other countries	231.1	377.2	83.7	125.3	69.1	24.3	3.0	20.8
2. Change in U.S. official reserve assets (decrease, +)	14.1	2.4	1.4	-0.1	0.0	-0.1	-0.1	-0.1
Private financial flows	505.3	388.0	137.9	32.4	79.2	n.a.	...	...
Banks								
3. Change in net foreign positions of banking offices in the U.S. ¹	15.4	128.1	25.0	-14.8	17.4	-31.4	-9.5	-31.7
Securities ²								
4. Foreign net purchases (+) of U.S. securities	573.9	562.7	170.1	172.3	245.2	-8.5	4.8	83.8
a. Treasury securities	133.7	-24.8	32.8	46.3	0.7	50.8	4.4	46.7
b. Agency bonds	37.0	22.5	-6.1	-32.0	29.0	-24.3	-6.4	-2.7
c. Corporate and municipal bonds	311.2	416.1	114.6	114.2	110.2	-16.8	4.3	6.8
d. Corporate stocks ³	92.0	148.8	28.8	43.7	105.4	-18.2	2.5	33.0
5. U.S. net acquisitions (-) of foreign securities	-197.0	-291.2	-119.3	-86.1	-81.9	-90.7	-47.2	-5.8
a. Bonds	-53.1	-152.1	-53.4	-41.6	-41.1	-42.5	-20.4	-9.7
b. Stock purchases	-139.9	-120.3	-53.5	-40.3	-40.8	-43.7	-22.3	4.0
c. Stock swaps ³	-4.0	-18.8	-12.4	-4.2	0.0	-4.5	-4.5	0.0
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	7.7	-235.4	-66.1	-81.4	-71.5	n.a.	...	...
7. Foreign direct investment in the U.S.	109.0	180.6	45.6	11.9	73.6	n.a.	...	...
8. Net derivatives (inflow, +)	n.a.	28.8	-1.1	14.8	-1.0	n.a.	...	...
9. Foreign acquisitions of U.S. currency	19.0	12.6	8.4	-1.6	3.3	n.a.	...	...
10. Other (inflow, +) ⁴	-22.6	2.0	75.4	17.4	-106.0	n.a.	...	...
U.S. current account balance (s.a.)	-754.8	-811.5	-187.9	-197.1	-190.8	n.a.	...	...
Capital account balance (s.a.) ⁵	-4.1	-3.9	-0.6	-0.6	-0.6	n.a.	...	...
Statistical discrepancy (s.a.)	-18.5	-17.8	-36.6	15.7	40.4	n.a.	...	...

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

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

2. Includes commissions on securities transactions and therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.

3. Includes (4d) or represents (5c) stocks acquired through non-market means such as mergers and reincorporations.

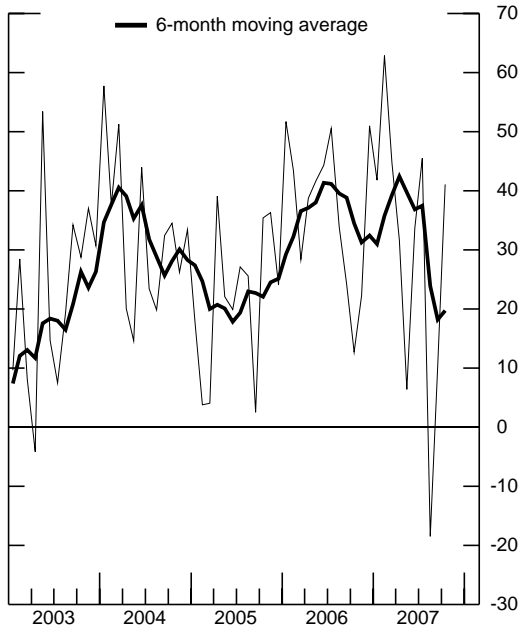
4. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business.

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

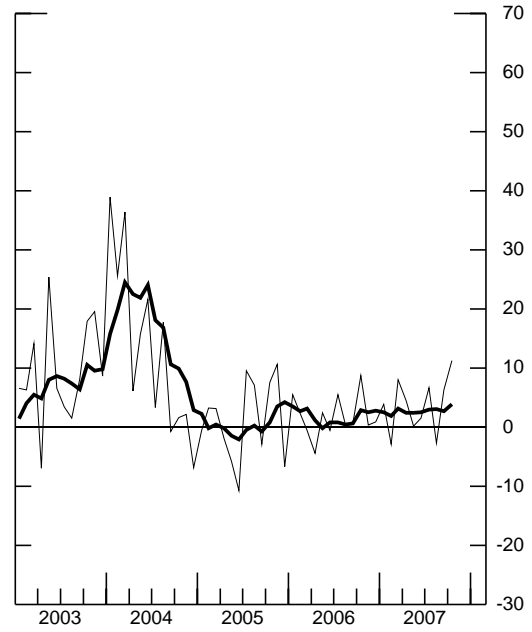
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Foreign Official Financial Flows Through October 2007 (increase, +)
 (\$ Billions, monthly, not seasonally adjusted)

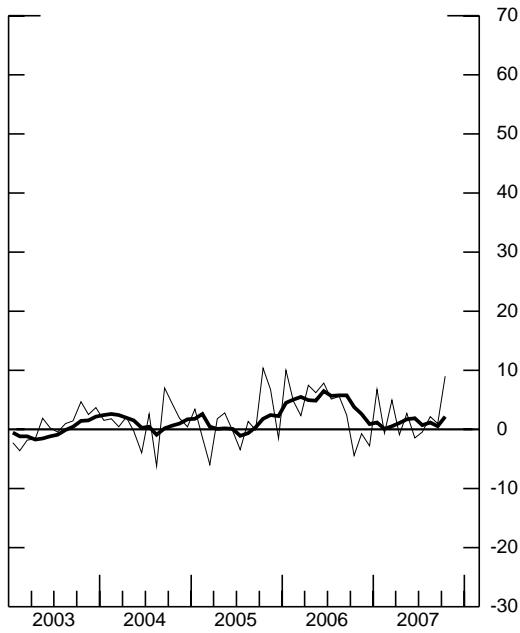
Total



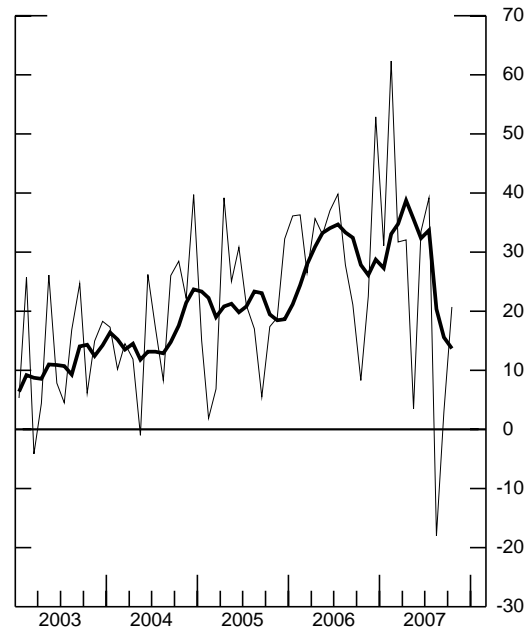
G-10 + ECB



OPEC



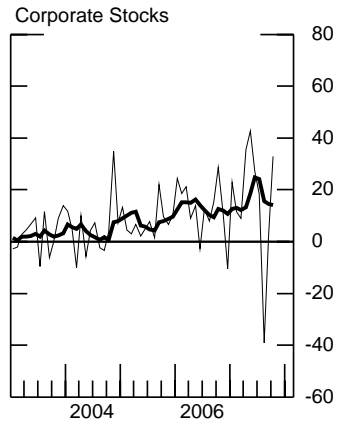
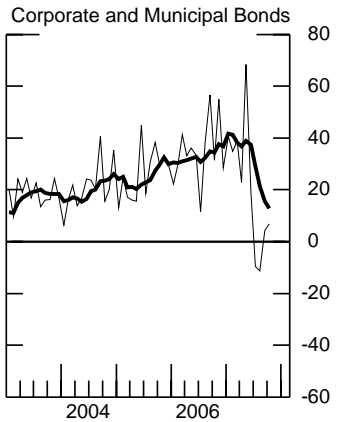
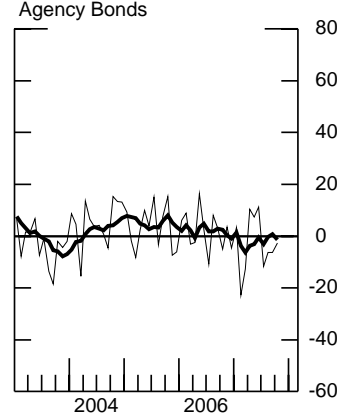
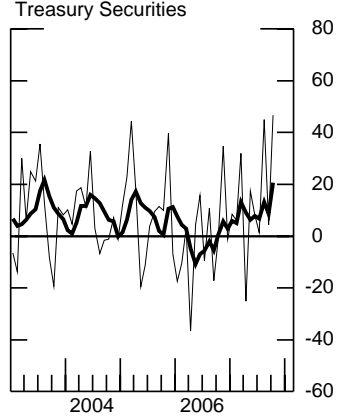
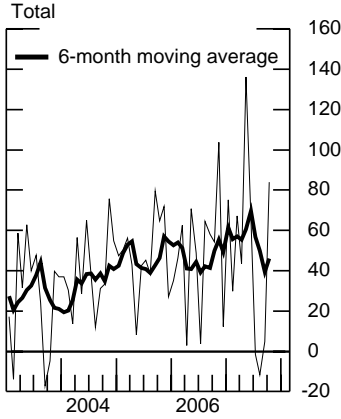
All other countries



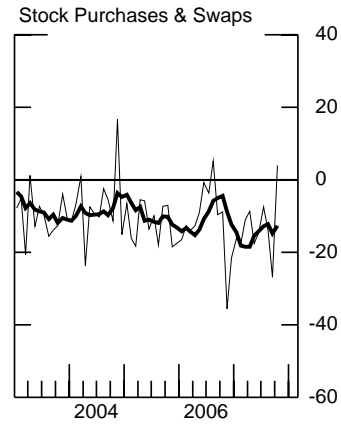
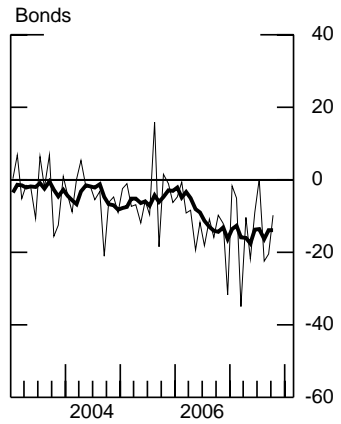
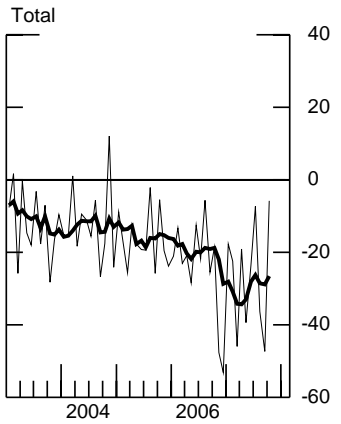
Private Securities Flows Through October 2007

(\$ Billions, monthly, not seasonally adjusted)

Foreign Net Purchases (+) of U.S. Securities



U.S. Net Acquisitions (-) of Foreign Securities



Foreign Financial Markets

Renewed concerns about weak earnings and potential asset write-downs at banks weighed on sentiment in global financial markets over the intermeeting period and prompted a widespread pull-back from risky positions. Equity prices fell substantially across the globe, and risk spreads and implied volatilities on a wide range of assets increased. Conditions in European interbank money markets, which had shown some evidence of improvement in late October and early November, deteriorated in recent weeks. Market liquidity remained strained at all but the shortest maturities. Spreads between 3-month interbank offer rates and overnight index swaps (OIS), an indicator of credit concerns in the term-money market, rose more than 50 and 30 basis points respectively in sterling and euro over the intermeeting period. Spreads between 1-month interbank offer rates and OIS jumped as the maturity of those contracts passed year end, signaling notable funding pressures as banks seek to secure funding through the new year. Commensurate with the strains in term money markets, the bid-ask spread in the FX swap market widened and the average size of trades diminished. The European Central Bank and the Bank of England, like the Federal Reserve, pledged to provide additional money market liquidity to counter rising funding costs around the end of the year.

The trade-weighted exchange value of the dollar, which dropped sharply in the days leading up to the October FOMC meeting, has increased about $\frac{3}{4}$ percent over the intermeeting period. The dollar depreciated about $1\frac{1}{2}$ percent against the euro and 4 percent against the yen. The dollar also depreciated against the Canadian dollar early in the intermeeting period, but has more than reversed its course amid concerns about slowing economic growth in Canada. On net, the dollar appreciated 7 percent against the Canadian dollar over the period. On December 4, the Bank of Canada announced a 25 basis point cut in its target for the overnight rate to $4\frac{1}{4}$ percent, citing lower inflation projections, competitive pressures related to the stronger Canadian dollar, and concerns that effects on Canada from the U.S. sub-prime crisis will last longer than previously anticipated.

Global equity markets have fallen sharply on net since late October. Major indexes in Europe, Japan, and North America dropped 5 to 8 percent. Financial stocks have been particularly hard hit, except in Japan, which is believed to have only limited exposure to the U.S. subprime-mortgage sector. However, in recent days stock indexes have reversed some of their declines. Markets were buoyed by news that Citigroup will receive a

capital infusion of \$7.5 billion from Abu Dhabi Investment Authority, the world's largest sovereign wealth fund, as well as by several Federal Reserve speeches interpreted as signaling a possible rate cut by the FOMC in December. Implied volatilities on the major equity indexes continued to rise in November amid renewed concerns about credit market conditions. Ten-year European, Canadian, and Japanese nominal sovereign bond yields fell 10 to 45 basis points on net, as investors scaled back riskier positions.

Consistent with the general movement toward less risky positions, the dollar appreciated 1½ percent against the Brazilian *real* and 3 percent against the Mexican peso. Most Latin American equity indexes dropped 3 to 7 percent. EMBI+ spreads jumped 57 basis points for Mexico and 61 basis points for Brazil. Asian equity indexes also declined substantially, including a 15 percent drop for the Shanghai composite index and a 6 percent drop in Korea. The dollar depreciated almost 1 percent against the Chinese renminbi. The People's Bank of China raised the reserve requirement for banks 50 basis points to 13.5 percent on November 13; the following day it was announced that China's twelve-month rate of consumer price inflation had risen to 6.7 percent.

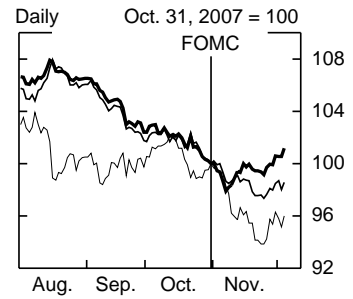
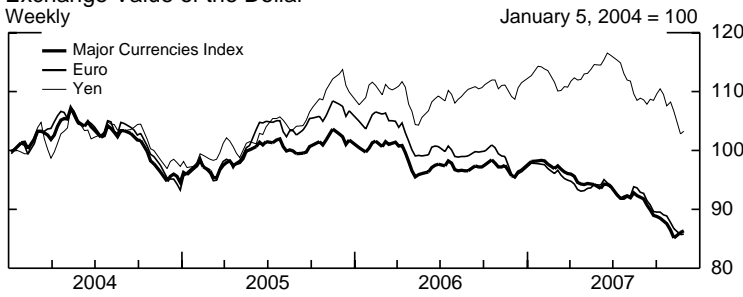
. The Desk did not intervene during the period for the accounts of the System or the Treasury.

Exchange Value of the Dollar and Stock Market Indexes

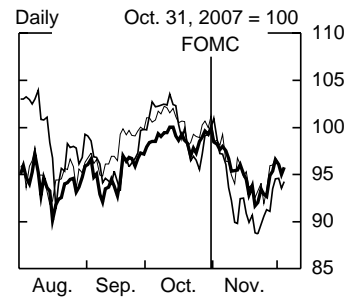
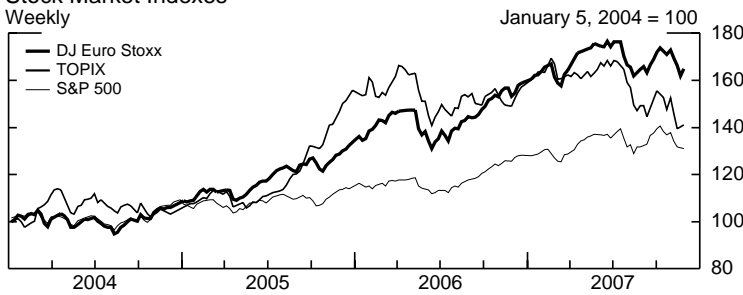
	Latest	Percent change since October FOMC
<i>Exchange rates*</i>		
Euro (\$/euro)	1.4676	-1.4
Yen (¥/\$)	110.7	-4.0
Sterling (\$/£)	2.0328	2.2
Canadian dollar (C\$/\\$)	1.0156	7.0
<i>Nominal dollar indexes*</i>		
Broad index	99.2	0.7
Major currencies index	73.5	1.2
OITP index	127.2	0.2
<i>Stock market indexes</i>		
DJ Euro Stoxx	413.9	-4.2
TOPIX	1526.6	-5.8
FTSE 100	6397.2	-4.8
S&P 500	1462.8	-4.5

* Positive percent change denotes appreciation of U.S. dollar.

Exchange Value of the Dollar
Weekly



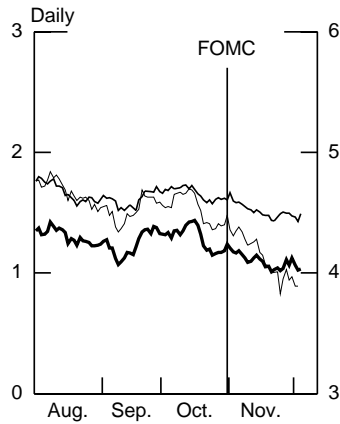
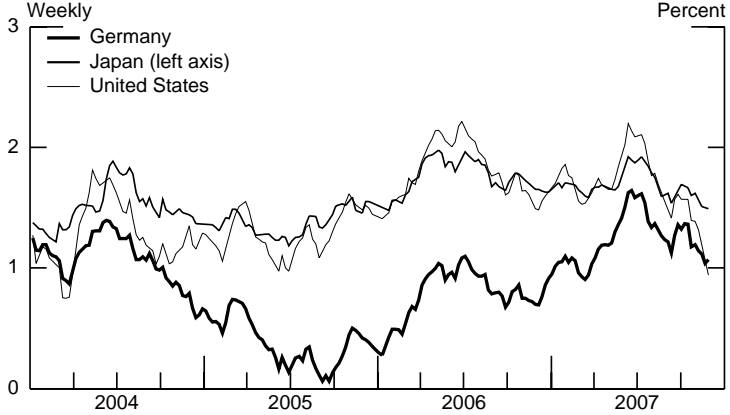
Stock Market Indexes
Weekly



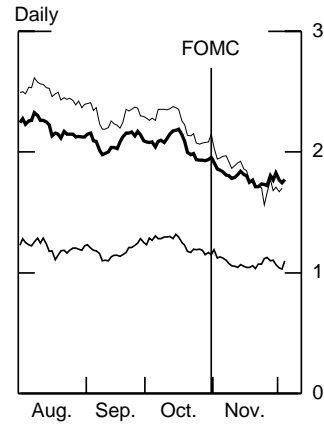
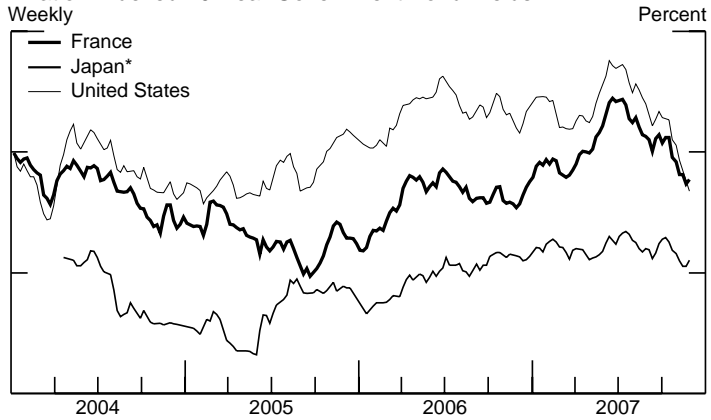
Industrial Countries: Nominal and Real Interest Rates

	3-month LIBOR		10-year nominal		10-year indexed		Percent
	Latest	Change since October FOMC	Latest	Change since October FOMC	Latest	Change since October FOMC	
Germany	4.87	0.27	4.04	-0.20	1.82	-0.19	
Japan	1.01	0.11	1.49	-0.12	1.10	-0.05	
United Kingdom	6.65	0.37	4.49	-0.43	1.33	-0.40	
Canada	4.94	0.08	3.92	-0.35	...	...
United States	5.15	0.24	3.89	-0.51	1.70	-0.39	

Nominal 10-Year Government Bond Yields



Inflation-Indexed 10-Year Government Bond Yields



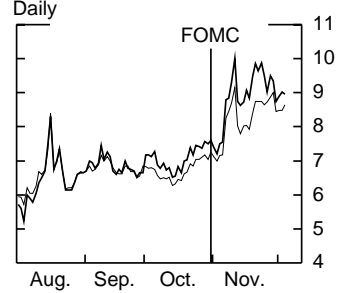
*Japan first issued inflation-indexed debt in March 2004.

Measures of Market Volatility

Dollar-Euro Options-Implied Volatility*
Weekly



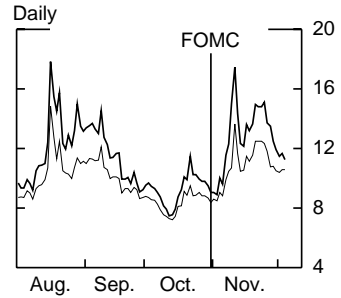
*Derived from at-the-money options.



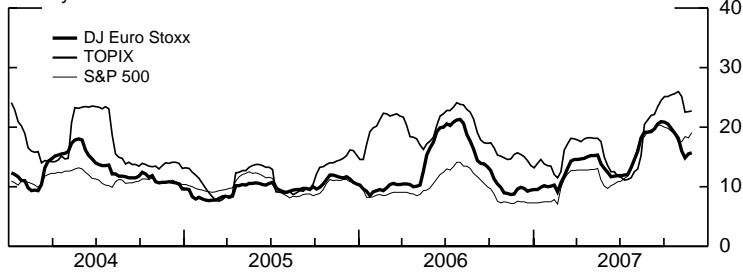
Yen-Dollar Options-Implied Volatility*
Weekly



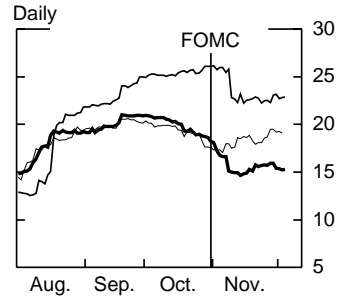
*Derived from at-the-money options.



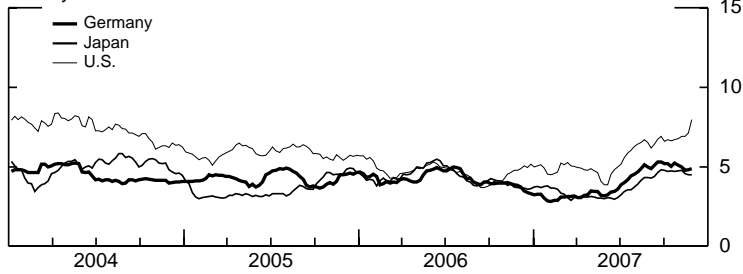
Realized Stock Market Volatility*
Weekly



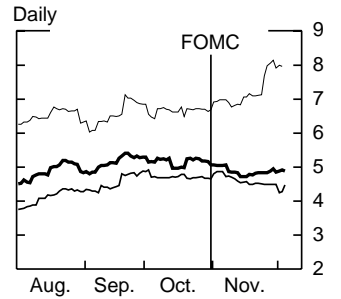
*Annualized standard deviation of 60-day window of daily returns.



Realized 10-Year Bond Volatility*
Weekly



*Annualized standard deviation of 60-day window of daily returns.

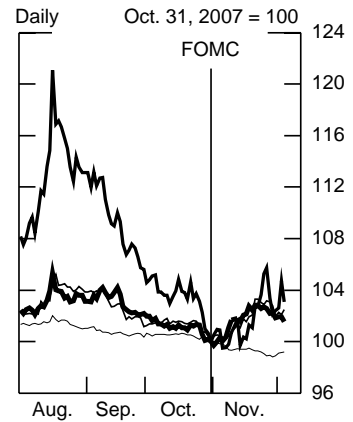
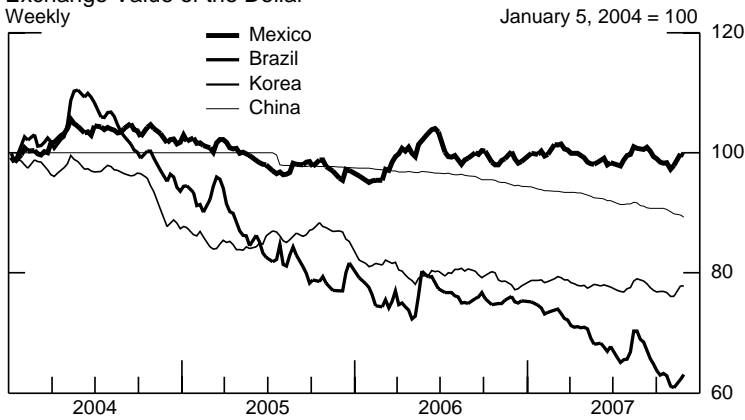


Emerging Markets: Exchange Rates and Stock Market Indexes

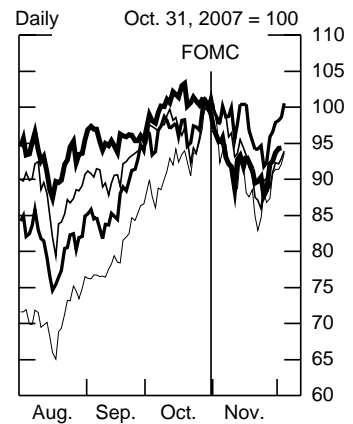
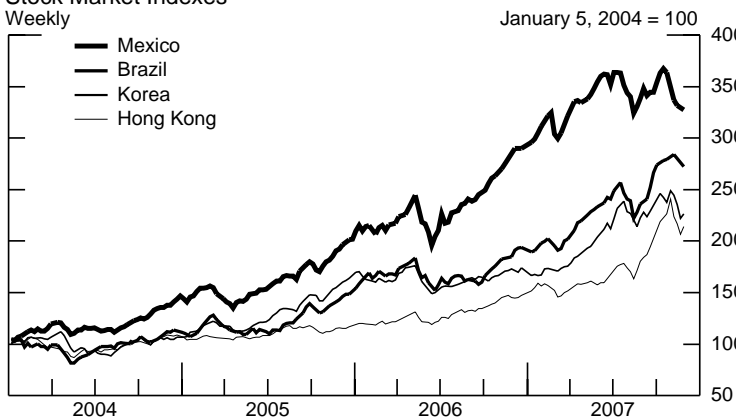
	Exchange value of the dollar		Stock market index	
	Latest	Percent change since October FOMC*	Latest	Percent change since October FOMC
Mexico	10.8632	1.5	29999	-5.6
Brazil	1.7920	3.1	64724	0.5
Venezuela	2145.80	0.1	39977	1.6
China	7.4070	-0.8	5043	-15.3
Hong Kong	7.7954	0.6	29345	-6.4
Korea	925.5	2.5	1938	-6.1
Taiwan	32.31	-0.2	8677	-10.7
Singapore	1.4454	-0.2	982	-5.9
Thailand	30.26	-3.8	833	-8.1

* Positive percent change denotes appreciation of U.S. dollar.

Exchange Value of the Dollar
Weekly



Stock Market Indexes
Weekly



Emerging Markets: Short-Term Interest Rates and Dollar-Denominated Bond Spreads

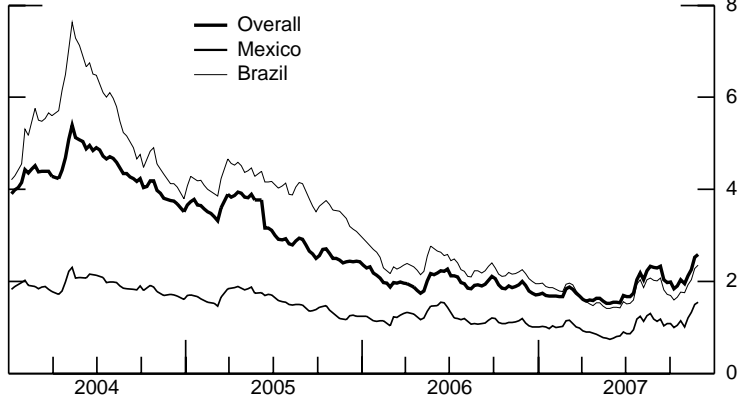
	Short-term interest rates*		Dollar-denominated bond spreads**	
	Latest	Change since October FOMC	Latest	Change since October FOMC
Mexico	7.45	0.13	1.54	0.48
Brazil	11.37	0.01	2.25	0.52
Argentina	13.69	1.50	3.99	0.59
China	...	...	1.07	0.13
Korea	5.15	0.00	...	...
Taiwan	2.48	-0.03	...	...
Singapore	3.50	0.00	...	...
Hong Kong	4.03	-0.66	...	...

*One month interest rate except 1-week rate for Korea. No reliable short-term interest rate exists for China.

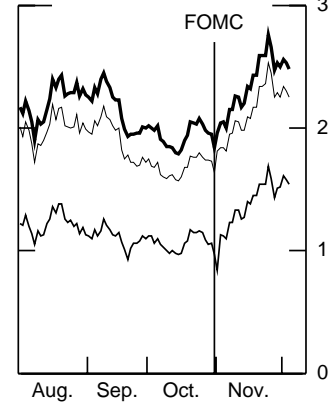
**EMBI+ or EMBI Global Spreads over similar-maturity U.S. Treasuries.

... Korea, Taiwan, Singapore, and Hong Kong have no outstanding dollar-denominated sovereign bonds.

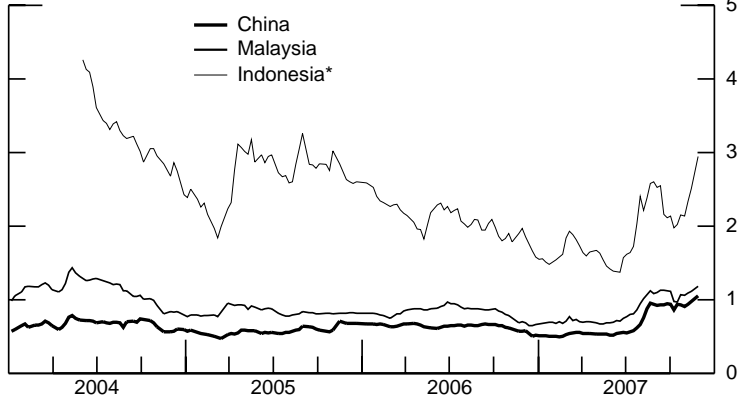
EMBI+ Spreads
Weekly



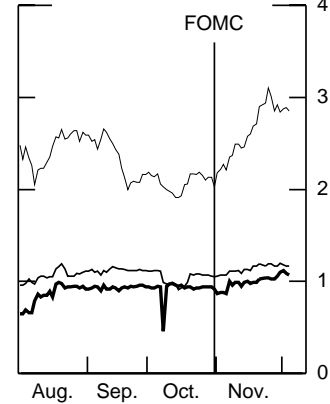
Daily



EMBI Global Spreads
Weekly



Daily



*Begins May 2004.

Developments in Advanced Foreign Economies

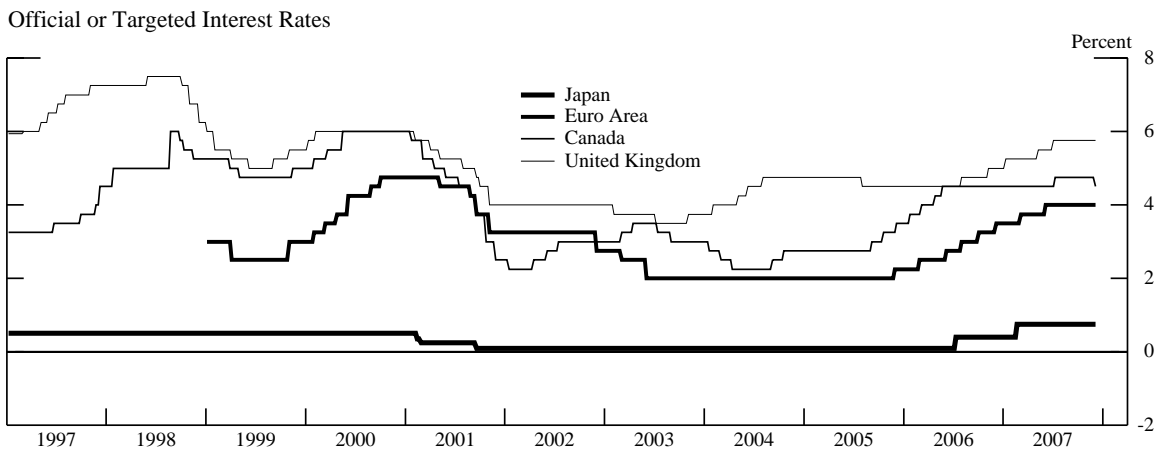
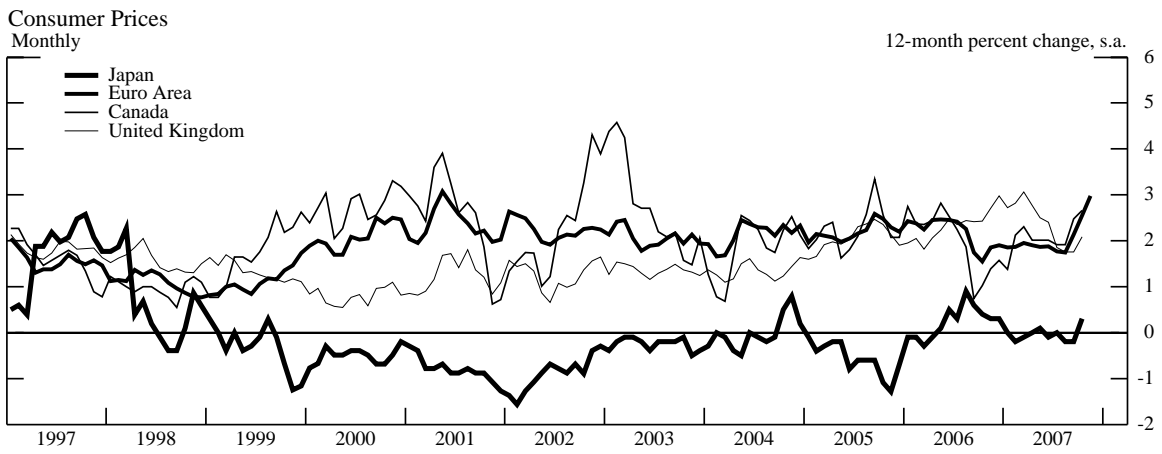
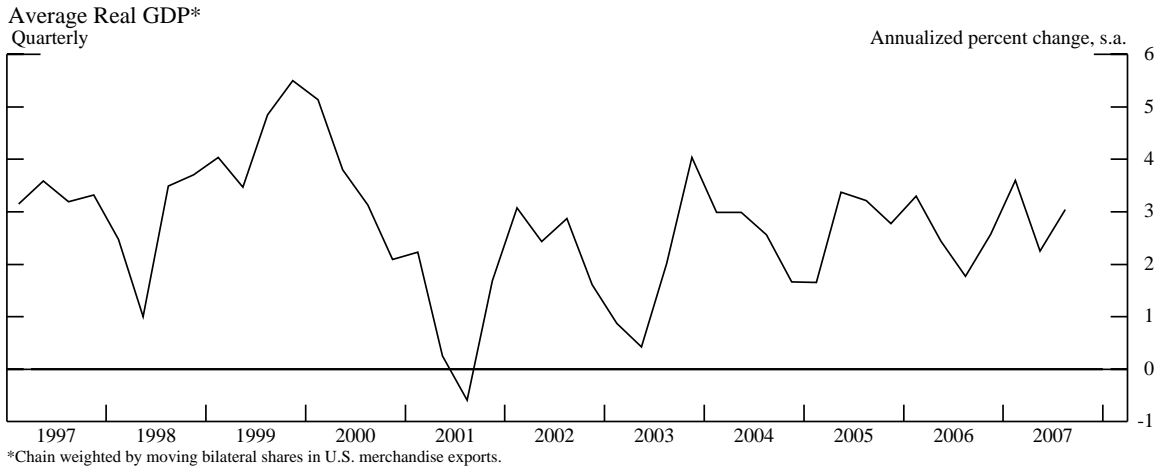
Output growth picked up in the advanced foreign economies in the third quarter but incoming data suggest that growth declined in the fourth quarter. In Japan, real output rebounded in the third quarter, led by a strong performance of exports. In the euro area, GDP growth returned to a solid pace in the third quarter on the back of a strong recovery in investment. In Canada and the United Kingdom, output growth stepped down to a still-robust 3 percent, as rapid growth in imports partly offset vigorous domestic demand.

Indicators of fourth-quarter activity are less robust on balance. Confidence indicators deteriorated in most major economies in the wake of the recent financial turmoil and have remained relatively weak. In November, the euro-area and U.K. purchasing managers indexes (PMI) for services were well below their level over the first half of the year but nevertheless continued to point to a moderate expansion. However, labor market conditions have remained relatively strong, although in Canada private-sector job creation has stalled in recent months.

Consumer price inflation picked up in most of the advanced foreign economies in recent months. In the euro area and the United Kingdom, the twelve-month rate of consumer price inflation rose markedly in October, pushed up by rapidly rising energy and food prices. In Canada, following a substantial rise in September due to energy prices, headline inflation edged down in October and core inflation declined for a fourth consecutive month. In Japan, headline inflation turned mildly positive in October.

In **Japan**, real GDP expanded 2.6 percent (a.r.) in the third quarter, following a sharp contraction in the second quarter. The increase in activity was mostly driven by the external sector, with net exports contributing 1.6 percentage points to growth. Domestic demand, however, remained weak. Private investment recovered somewhat from the steep decline in the second quarter, but investment growth was still well below its rate posted in recent years. Similarly, consumption growth remained sluggish as wages continued to fall.

Advanced Foreign Economies



Residential investment exerted a significant drag on growth in the third quarter due to a recent rule that increases inspections of buildings to ensure that they meet earthquake resistance requirements. Housing starts tumbled as insufficient resources devoted to inspection and a lack of clarity in the law resulted in bottlenecks in the review of building plans. The government recently announced its intention to relax the law to ease the negative impacts on the construction sector.

Japanese Real GDP

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

Component	2005 ¹	2006 ¹	2006	2007		
			Q4	Q1	Q2	Q3
GDP	2.8	2.4	5.5	2.6	-1.6	2.6
Total domestic demand	2.0	1.8	4.9	1.0	-1.8	0.9
Consumption	2.7	0.5	4.5	3.2	0.9	1.3
Private investment	3.3	8.9	9.4	-2.1	-9.4	0.5
Public investment	-0.1	-9.2	15.5	-4.5	-10.4	-10.0
Government consumption	0.7	1.4	0.2	-0.8	1.5	1.2
Inventories ²	-0.3	0.1	-0.2	-0.0	-0.2	0.3
Exports	10.1	6.3	4.0	14.2	3.6	12.2
Imports	4.2	2.7	-0.6	3.7	3.1	2.0
Net Exports ²	0.9	0.6	0.7	1.6	0.2	1.6

1. Q4/Q4

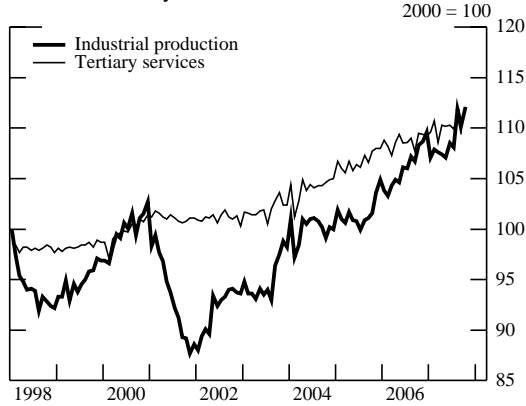
2. Percentage point contribution to GDP growth.

Although the unemployment rate remained at 4 percent in October, its level at the start of the year, the labor market shows some signs of weakening. The job offers-to-applicants ratio (the number of officially posted job openings relative to the number of officially registered job seekers) fell to 1.02 in October, from 1.05 in September. One reason behind this weakening is that small- and medium-sized companies, which experienced a deterioration in profitability recently, have cut back employment. Earnings growth moved further into negative territory, as total cash earnings (which include bonuses) fell 1.3 percent in September from a year earlier.

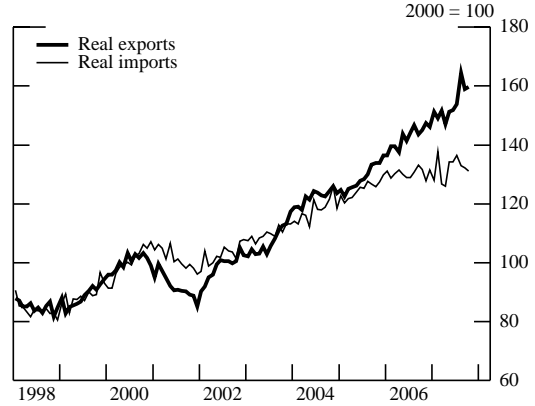
Pushed by higher oil prices, the nationwide core consumer price index, which excludes fresh food only, rose 0.1 percent in the year to October, the first such increase since last December, while the third-quarter GDP deflator fell 0.3 percent from a year earlier. Excluding fresh food and energy, consumer prices continued to fall in October.

Japan

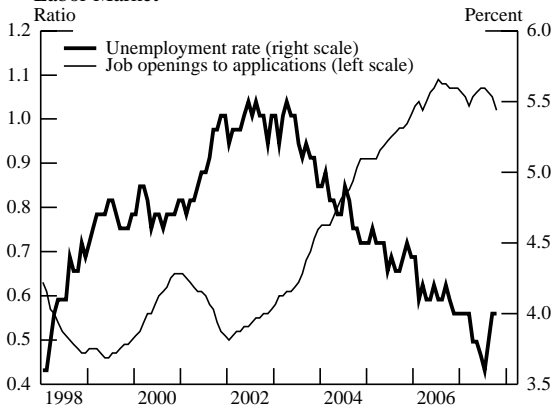
Economic Activity



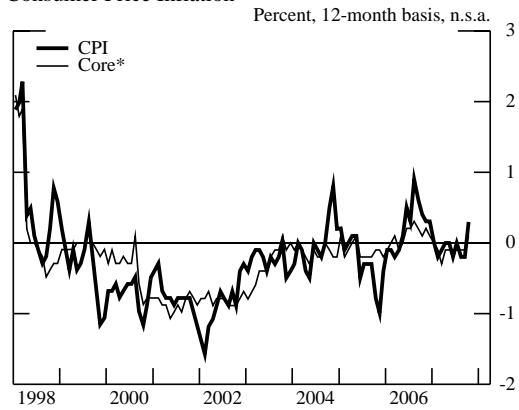
Real Trade



Labor Market



Consumer Price Inflation



*Excludes fresh food.

Economic Indicators

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

Indicator	2007			2007			
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Housing starts	-4.6	1.2	-36.9	-23.0	-1.2	18.1	n.a.
Machinery orders ¹	-0.7	-2.3	2.5	-7.7	-7.6	n.a.	n.a.
Household expenditures	1.0	-0.1	-0.9	0.4	0.7	0.1	n.a.
New car registrations	-1.1	-2.3	1.7	10.4	-4.2	8.1	0.6
Business sentiment ²	8.0	7.0	4.0	...	...	...	...
Wholesale prices ³	2.0	2.4	2.0	2.0	1.7	2.4	n.a.

1. Private sector, excluding ships and electric power.

2. Tankan survey, diffusion index. Level.

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

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

Euro-area real GDP grew 2.9 percent (a.r.) in the third quarter, a marked rebound from the second quarter, when poor weather depressed construction spending. The third-quarter recovery was supported by robust performances in France and Germany, and it was the result of a strong recovery in domestic demand, particularly in the rate of growth of investment. Net exports subtracted 0.3 percentage points from GDP growth in the third quarter, as a surge in imports more than offset an increase in exports.

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

Component	2005 ¹	2006 ¹	2006	2007		
			Q4	Q1	Q2	Q3
GDP	1.9	3.3	3.3	3.2	1.2	2.9
Total domestic demand	2.1	2.5	0.9	4.0	-0.0	3.3
Consumption	1.4	2.1	1.9	-0.0	2.5	2.0
Investment	4.1	5.8	6.4	7.5	0.0	3.7
Government consumption	1.6	2.1	1.6	3.7	0.6	2.4
Inventories ²	0.1	-0.4	-1.7	1.6	-1.4	0.8
Exports	5.3	8.9	12.6	3.6	3.4	10.2
Imports	5.9	6.9	6.8	5.5	0.5	11.4
Net Exports ²	-0.2	0.8	2.4	-0.7	1.3	-0.3
Memo: GDP of selected countries						
France	1.5	2.1	1.9	2.3	1.4	2.9
Germany	1.6	3.9	4.0	2.2	1.0	2.8
Italy	0.7	2.8	4.6	1.3	0.3	1.5

1. Q4/Q4

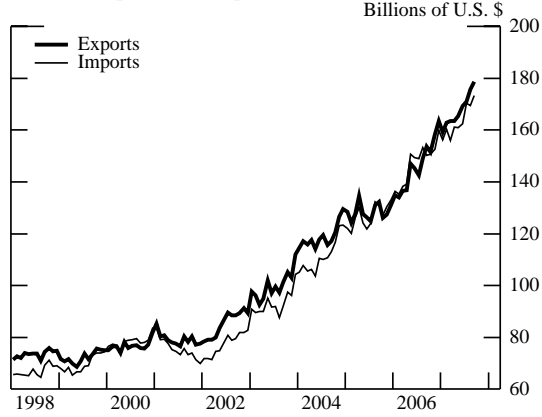
2. Percentage point contribution to GDP growth.

Some signs of weakening growth emerged towards the end of the third quarter. After growing 1.2 percent in August, industrial production fell 0.8 percent in September. Manufacturing new orders in Germany fell 2.5 percent in September from the previous month. Growth in the volume of retail sales in the euro area edged up in September but declined 0.8 percent in October.

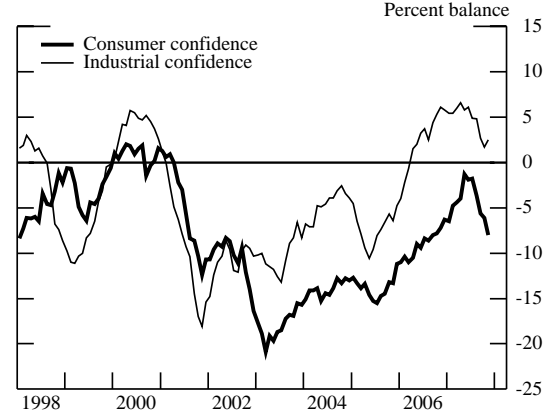
Recent survey indicators have been mixed but, on balance, are consistent with some slowing in the pace of economic activity going into the fourth quarter. Euro-area economic sentiment fell in November for the sixth consecutive month, although it remains well above its long-run average. Consumer confidence continued to decline and

Euro Area

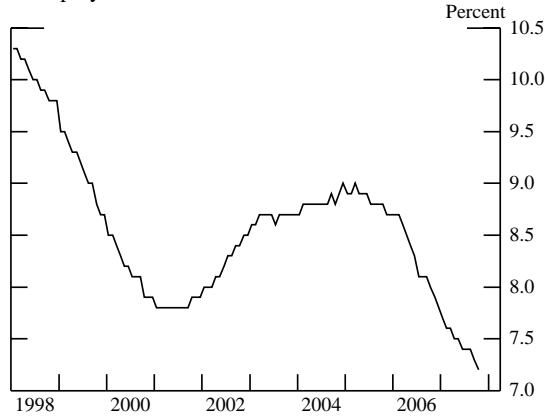
Nominal Exports and Imports



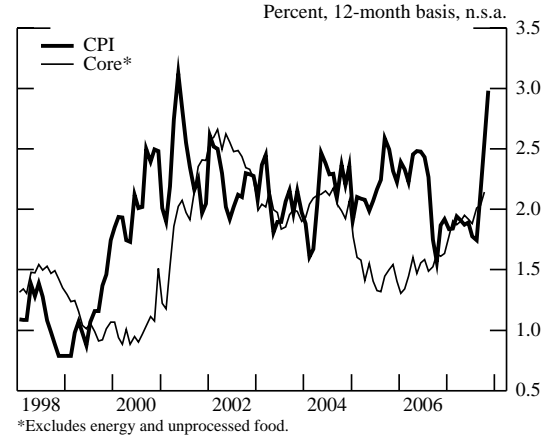
Economic Sentiment



Unemployment Rate



Consumer Price Inflation



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

Indicator	2007			2007			
	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
Industrial production ¹	1.0	0.5	1.5	0.6	1.2	-0.8	n.a.
Retail sales volume ²	-0.0	0.1	0.6	0.4	-0.0	0.2	-0.8
New car registrations	-2.1	0.4	0.6	-1.7	-0.1	0.5	0.1
Employment	0.6	0.5	n.a.	...	...	...	...
Producer prices ³	3.0	2.4	2.1	1.8	1.8	2.7	3.3
M3 ³	11.0	11.0	11.3	11.7	11.6	11.3	12.3

1. Excludes construction.

2. Excludes motor vehicles.

3. Eurostat harmonized definition. Percent change from year earlier, s.a.

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

service confidence fell markedly, outweighing some recovery in industrial confidence. Germany's IFO business climate index improved slightly in November, after six consecutive months of decline. The euro-area services PMI fell in November while the manufacturing PMI rebounded unexpectedly after four months of slippage. Both series are near their lowest levels in more than two years. In contrast to these indicators of softness, the euro-area unemployment rate edged down to 7.2 percent in November, the lowest rate since records began 15 years ago.

The twelve-month rate of euro-area consumer price inflation rose almost one percentage point over the course of October and November, reaching 3.0 percent, its highest level in six and a half years. Whereas core inflation (excluding energy and unprocessed food) edged up to 2.1 percent in October, energy price inflation jumped from 3.0 percent in September to 5.5 percent in October, and unprocessed food price inflation rose from 2.0 percent in September to 3.1 percent in October. Although details are not yet available for November, preliminary indications from individual countries suggest that the rise in euro-area headline inflation that month was the result of further increases in food and energy prices.

In the **United Kingdom**, real output grew 3.0 percent (a.r.) in the third quarter, stimulated by strong domestic demand. Consumption expanded 4.0 percent while business investment rebounded to 6.7 percent. Economic activity was particularly buoyant in the retail, financial intermediation, real estate renting, and business services sectors, but moderated in the manufacturing sector.

Recent data are consistent with a moderation in the pace of economic growth in the fourth quarter. Consumer and business confidence indicators both slipped in November. The PMI for services weakened to 51.9 in October (above 50 indicates expansion), its lowest level in over four years, as firms were increasingly worried about their ability to attract new business. The PMI for manufacturing firmed to 54.4 in November but the PMI for construction slid to 54.3. A slowdown in the housing sector is under way. Net mortgage lending fell 22.8 percent in October from the previous month while the number of mortgages approved for house purchases declined 30 percent in the three months to October. Most indicators of house prices have shown some decline in recent months.

U.K. Real GDP

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

Component	2005 ¹	2006 ¹	2006	2007		
			Q4	Q1	Q2	Q3
GDP	1.8	3.2	3.3	3.2	3.3	3.0
Total domestic demand	1.0	3.6	2.4	4.2	2.6	4.7
Consumption	1.3	2.8	4.4	2.7	3.1	4.0
Investment	4.0	10.3	13.7	4.4	-3.7	6.7
Government consumption	2.5	1.9	2.7	1.9	1.4	1.2
Inventories ²	-1.0	-0.3	-3.2	1.3	0.8	1.2
Exports	13.1	-2.4	0.9	0.9	0.6	11.5
Imports	9.1	-0.6	-1.8	4.6	-1.6	16.7
Net Exports ²	0.7	-0.5	0.8	-1.2	0.7	-1.8

1. Q4/Q4

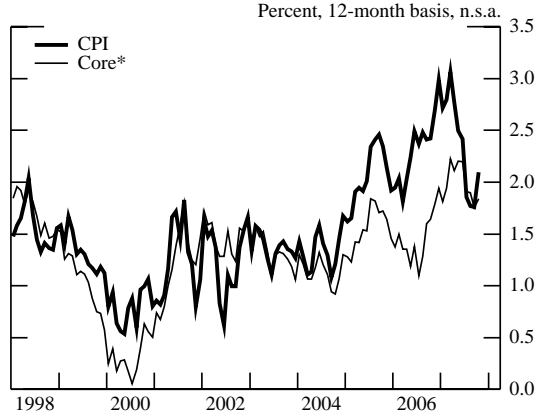
2. Percentage point contribution to GDP growth.

The labor market continued to be solid. The claims-based and Labor Force Survey measures of the unemployment rate were unchanged at 2.6 percent in October and 5.4 percent in August, respectively. Average earnings including bonuses rose 4.2 percent in the twelve months ending in August, while unit wage costs in the manufacturing sector were little changed over the same period.

Although wage pressure remains subdued, price pressure has increased in other sectors of the economy. Producer output prices rose 3.8 percent in the year to October, the fastest rate of increase in over a decade, as producers passed on higher prices of petroleum and food inputs. The twelve-month rate of headline consumer price inflation rose 0.3 percentage point to 2.1 percent in October, standing above the central bank's target of 2 percent for the first time since June. Headline inflation was pushed up by the imposition of new environmental duties on gasoline and by a rise in price of several food items.

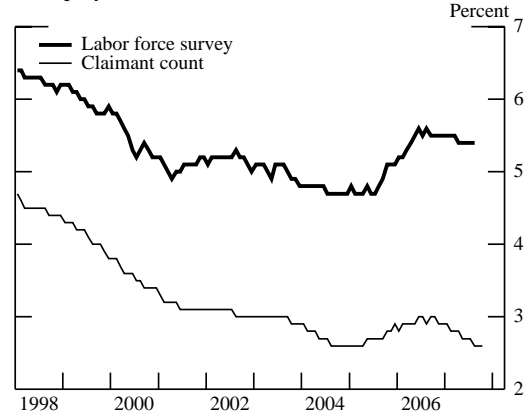
United Kingdom

Consumer Price Inflation

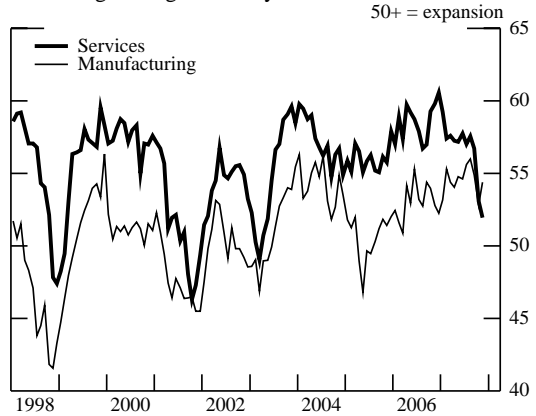


*Excludes energy and unprocessed food.

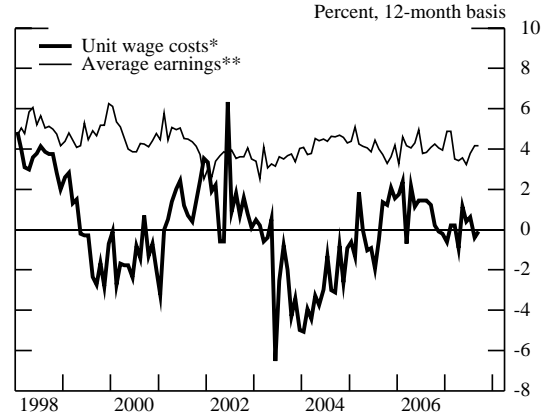
Unemployment Rates



Purchasing Managers Survey



Labor Costs



*Manufacturing industries.

**Whole economy, including bonuses.

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

Indicator	2007			2007			
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Producer input prices ¹	-0.9	1.0	2.5	0.7	6.5	8.6	n.a.
Industrial production	-0.1	0.7	-0.0	0.1	-0.5	n.a.	n.a.
Business confidence ²	20.3	20.3	13.3	13.0	17.0	10.0	9.0
Consumer confidence ²	-6.2	-4.2	-2.5	-2.1	-2.7	-2.3	-4.1
Trade balance ³	-24.2	-22.8	-28.4	-8.5	-10.2	n.a.	n.a.
Current account ³	-20.8	-18.0	n.a.	...	...	...	...

1. Percent change from year earlier.

2. Percent balance. 3. Level in billions of US Dollars.

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

In **Canada**, GDP grew 2.9 percent in the third quarter, down from the 3.8 percent increase of the previous quarter. Private consumption rose 3.0 percent, a slowdown from the rapid pace of the second quarter and well below its recent average growth rate of around 4 percent. Imports outpaced exports by a wide margin, and inventories rose, contributing 3.4 percentage points to growth. Fixed investment also expanded robustly, with machinery and equipment investment contributing almost a full percentage point to growth. Structures, both residential and business, also made positive a contribution.

Canadian Real GDP

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

Component	2005 ¹	2006 ¹	2006	2007		
			Q4	Q1	Q2	Q3
GDP	3.2	1.9	1.5	3.5	3.8	2.9
Total domestic demand	4.1	3.3	-0.2	3.5	5.6	7.9
Consumption	3.8	4.5	3.7	3.4	5.9	3.0
Investment	9.8	4.9	4.3	1.7	3.9	7.4
Government consumption	2.6	3.1	3.0	2.3	3.2	5.8
Inventories ²	-0.7	-1.0	-4.0	0.8	0.6	3.4
Exports	4.5	-0.9	2.7	0.8	3.1	2.3
Imports	7.1	3.0	-0.9	0.1	7.7	18.6
Net Exports ²	-1.1	-1.6	1.4	0.3	-2.0	-6.6

1. Q4/Q4

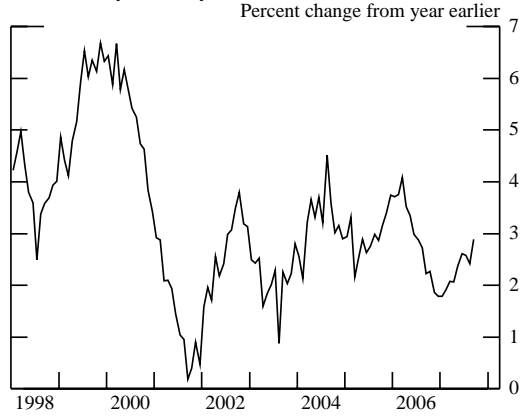
2. Percentage point contribution to GDP growth.

The housing market appears to have weakened slightly over the past couple of months. Single-unit housing starts declined in September and October. The twelve-month change in house prices has slowed from a peak of 12 percent in 2006 to 6 percent in September. However, multi-unit starts have remained solid. Total multi-unit starts from January through October are around 4 percent higher than they were in the comparable period in 2006.

October employment rose by a robust 63 thousand jobs, following a gain of 51 thousand jobs in September. However, gains in employment continued to be concentrated in the public sector. From January to October, private sector employment fell by 15 thousand jobs while public sector employment increased by 171 thousand jobs, compared with 281 thousand and 8 thousand jobs, respectively, over the same period in 2006.

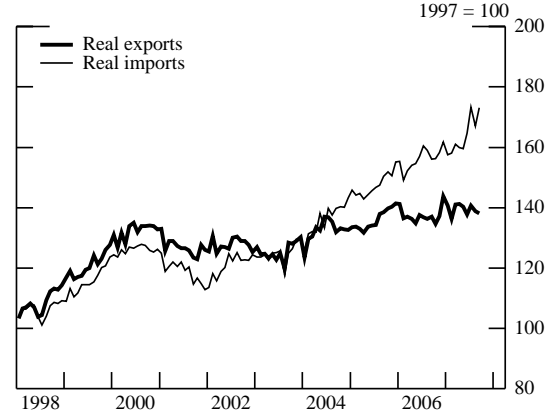
Canada

Real GDP by Industry*

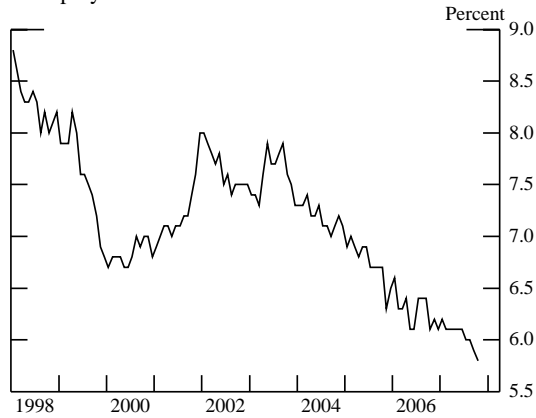


*Constructed from various Statistics Canada surveys and supplements the quarterly income and expenditure-based estimates.

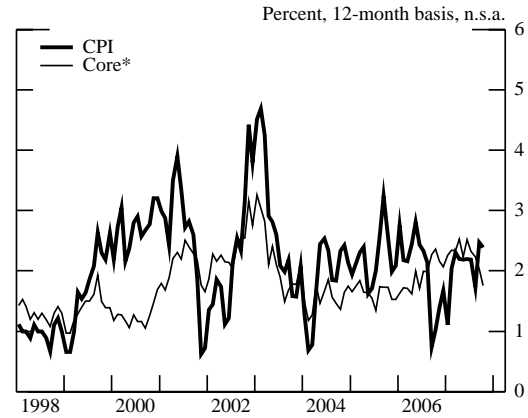
Real Trade



Unemployment Rate



Consumer Price Inflation



*Excludes 8 most volatile components and the effects of changes in indirect taxes.

Economic Indicators

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

Indicator	2007			2007			
	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
Industrial production	1.4	0.3	-0.4	-0.2	-0.1	-0.3	n.a.
New manufacturing orders	4.1	-0.8	-1.1	4.0	-5.3	-0.9	n.a.
Retail sales	1.1	2.5	0.2	-0.8	1.3	-0.5	n.a.
Employment	1.0	0.3	0.4	0.1	0.1	0.3	0.4
Consumer attitudes ¹	98.3	96.6	n.a.	...	...	...	...
Business confidence ¹	102.1	106.7	101.6	...	...	...	...

1. 2002=100.

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

In October, the twelve-month rate of consumer price inflation ticked down to 2.4 percent (n.s.a.), following a sharp rise in September. Core inflation, which excludes the eight most volatile components and the effects of changes in indirect taxes, slowed for the fourth month in a row, reaching 1.8 percent in October. Average hourly wages increased 4.1 percent over the twelve-month period ending in September.

On December 4, the Bank of Canada lowered its target for the overnight rate 25 basis points. In a statement accompanying the announcement, the Bank cited lower inflation risks related to the level of the Canadian dollar, and greater downside risks to growth, associated with a weaker outlook for the U.S. economy, as the main reasons for the interest rate cut.

Economic Situation in Other Countries

Overall, growth in emerging Asia moderated somewhat in the third quarter from its double-digit pace in the second quarter, but remained strong. Economic growth was also solid in Latin America, largely reflecting stronger-than-expected activity in Mexico. The incoming data reinforce the view that the turmoil in financial markets has not had any significant negative impact on real economic activity in emerging market economies. Headline inflation rates have picked up in many developing countries, largely reflecting continued pressures from food and energy prices. In particular, vegetable prices have accelerated in a number of countries. In some cases, core inflation rates have also risen a bit.

In **China**, real GDP growth slowed to 8¼ percent in the third quarter, according to staff estimates. This reflected a narrowing of the trade surplus and a moderation in investment growth. Incoming data for this quarter are mixed. Exports, imports, and industrial production fell in October. However, imports fell more than exports, widening the trade surplus slightly from the previous month. The twelve-month growth of investment and retail sales picked up in October.

After moderating just a touch in September, consumer price inflation was back up to 6¾ percent for the twelve months ending in October. Food price increases again accounted for the acceleration in prices, with non-food price inflation remaining at a little over 1 percent. The recent acceleration in food prices is attributable to a sharp pickup in vegetable prices, likely caused by floods in parts of the country. Overturning its earlier announcement of a freeze in administered prices for the rest of the year, Chinese

authorities recently announced an increase in gasoline prices of about 10 percent in response to the sharp rise in world oil prices.

Amid concerns about the rate of headline inflation and the failure of money growth and credit growth to moderate, the government has issued fresh “window guidance” instructions to banks to freeze net lending for the rest of the year. Specifically, banks have been asked to restrict the value of outstanding loans at year-end to no greater than their level at the end of October. Although these requests are, strictly speaking, voluntary, most of the banks will likely make efforts to comply.

Chinese Economic Indicators

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

Indicator	2005	2006	2007				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP ¹	10.0	10.4	14.1	8.2	...	...	...
Industrial production	17.4	14.6	6.5	3.2	.9	1.4	-.3
Consumer prices ²	1.5	2.7	3.6	6.1	6.4	6.1	6.7
Merch. trade balance ³	102.0	177.5	280.2	264.0	250.4	280.6	284.1

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**, economic activity remains robust. Real GDP grew rapidly in the third quarter, albeit by less than the second quarter’s torrid pace. Activity was buoyed in large part by private consumption. Strong economic growth has put upward pressure on prices. Twelve-month consumer price inflation jumped to 3¼ percent in October, although part of the increase was a one-off expiration of a tax waiver. Also in October, the trade deficit narrowed as exports increased more than imports.

Hong Kong Economic Indicators

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

Indicator	2005	2006	2007				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP ¹	7.8	7.2	8.2	5.8	...	...	...
Unemployment rate ²	5.7	4.8	4.2	4.1	4.2	4.1	3.9
Consumer prices ³	1.4	2.3	1.3	1.6	1.7	1.7	3.2
Merch. trade balance ⁴	-10.5	-17.9	-18.8	-27.7	-36.5	-25.3	-21.4

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

2. Percent. Monthly data are averages of the current and previous two months.

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

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

... Not applicable.

In **Taiwan**, real GDP maintained its double-digit rate of growth in the third quarter, with both domestic demand and the external sector supporting economic activity. The unemployment rate has remained at around 3.9 percent since the beginning of last year. In addition, industrial production continued to grow robustly in October. Inflation has begun to pick up, however, with twelve-month consumer price inflation jumping to around 5 percent in October and November. Although the recent rise in consumer prices largely reflects the impact of typhoons on food prices, core inflation has also begun to edge up.

Taiwan Economic Indicators

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

Indicator	2005	2006	2007				
			Q2	Q3	Sept.	Oct.	Nov.
Real GDP ¹	6.8	4.0	11.6	12.9	...	...	...
Unemployment rate ²	4.1	3.9	3.9	3.9	3.9	3.9	n.a.
Industrial production	4.6	5.0	6.5	3.1	4.2	1.8	n.a.
Consumer prices ³	2.2	.7	.3	1.5	3.1	5.3	4.8
Merch. trade balance ⁴	7.8	11.6	11.5	18.2	23.9	26.0	n.a.
Current account ⁵	16.0	24.7	21.1	24.1	...	...	...

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

2. Percent.

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

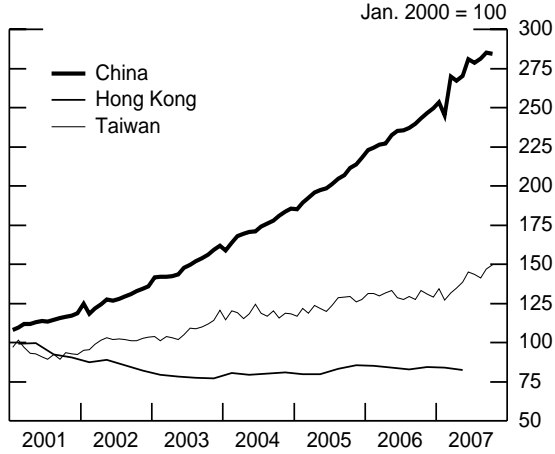
4. Billions of U.S. dollars, annual rate. Imports are c.i.f.

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

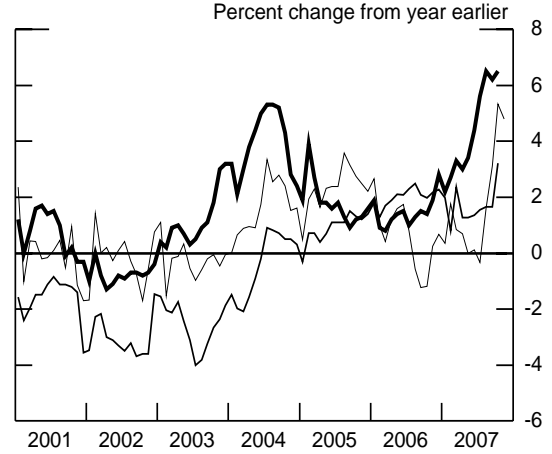
n.a. Not available. ... Not applicable.

China, Hong Kong, and Taiwan

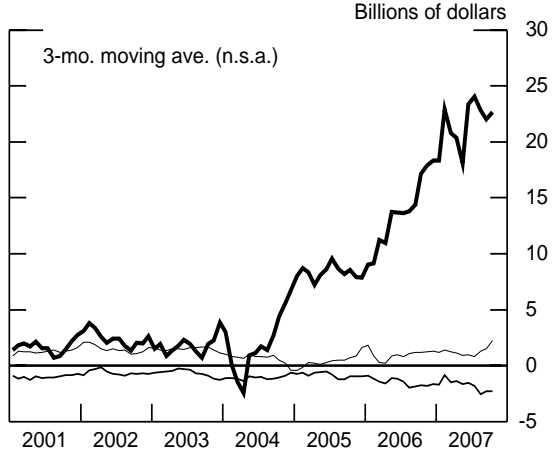
Industrial Production



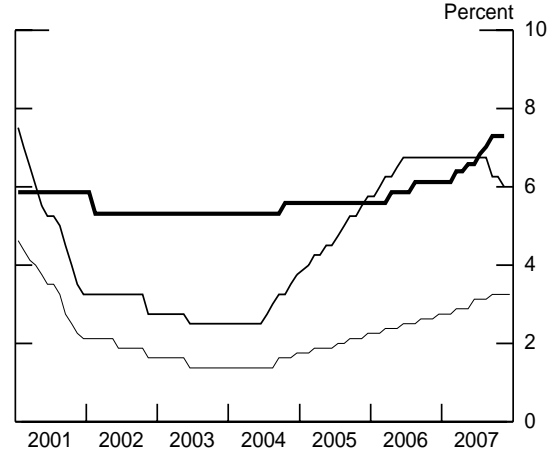
Consumer Prices



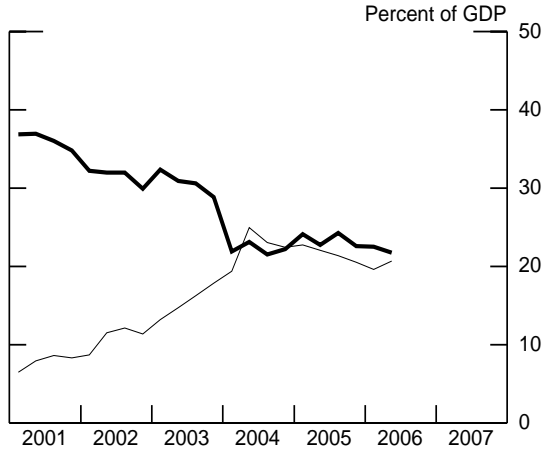
Merchandise Trade Balances



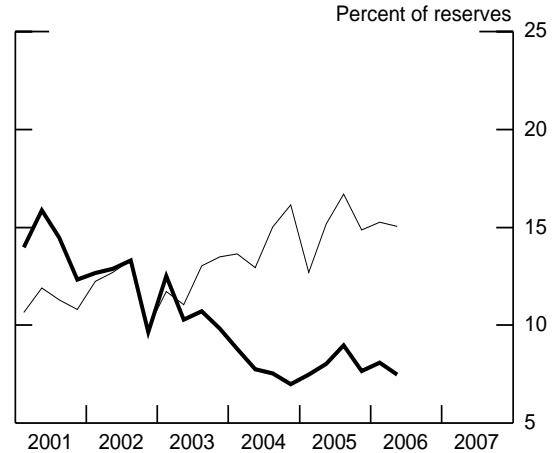
Benchmark Interest Rates



Gross External Debt



Short-Term External Debt



In **South Korea**, real GDP expanded a solid 5½ percent in the third quarter, supported mainly by strong private consumption and, to a lesser extent, net exports. Consumer sentiment has remained strong so far in the fourth quarter, and the unemployment rate has continued to decline. Industrial production rebounded in October from its decline in the previous month. Twelve-month consumer price inflation has picked up in recent months owing to a jump in vegetables prices resulting from adverse weather conditions for the harvest. The Bank of Korea left the policy rate unchanged at 5 percent at its November meeting following two consecutive ¼ percentage point increases in July and August, but has stated that it remains concerned about inflationary pressures and growth in lending.

Korean Economic Indicators

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

Indicator	2005	2006	2007				
			Q2	Q3	Sept.	Oct.	Nov.
Real GDP ¹	5.7	4.0	7.4	5.4	...	...	...
Industrial production	5.8	10.8	4.4	4.1	-2	3.0	n.a.
Unemployment rate ²	3.7	3.4	3.3	3.3	3.2	3.1	n.a.
Consumer prices ³	2.6	2.1	2.5	2.3	2.3	3.0	3.5
Merch. trade balance ⁴	32.7	29.2	25.2	39.9	38.4	37.2	n.a.
Current account ⁵	15.0	6.1	.1	17.7	27.7	30.7	n.a.

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

2. Percent.

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

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

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

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

In **Singapore**, third quarter real GDP growth fell to 4¼ percent after averaging 12 percent in the first half of the year. Domestic demand, notably private consumption and fixed investment, contracted. More recently, industrial production has continued to decline, and the trade balance has edged down. However, the most recent PMI readings suggest an expansion of activity going forward. After moderating a bit in September, twelve-month consumer price inflation rose to about 3½ percent in October due mostly to increases in energy prices.

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

Indicator	2005	2006	2007				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP ¹	8.2	6.5	14.5	4.3	...	...	...
Industrial production	9.5	11.9	4.9	6.5	-14.0	-6.1	-3.0
Unemployment rate ²	3.1	2.7	2.3	1.7	...	...	...
Consumer prices ³	1.3	.8	1.0	2.7	2.9	2.7	3.6
Merch. trade balance ⁴	29.6	33.1	36.9	41.4	40.2	36.7	35.4

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

2. Percent.

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

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

... Not applicable.

Indian real GDP growth moderated to 8 percent in the third quarter, as further strong gains in services output were offset to some degree by a decline in manufacturing output after two quarters of double-digit growth. Data from October point to a renewed widening of the trade deficit and a continued deceleration in twelve-month inflation, including for food prices. Nonetheless, inflation pressures remain; the government has not altered ceilings on fuel prices since February, fiscal spending is surging, and capital inflows have been strong. The Reserve Bank of India signaled that it remains concerned about inflation at its policy meeting in late October by increasing its cash reserve ratio ½ percentage point to 7½ percent and revising down its medium-term “guidance” rate of WPI inflation to 3 percent from a range of 4 to 4½ percent. The government also indicated that it would continue to intervene in exchange markets, if necessary, to stem the rapid appreciation of the rupee.

Indian Economic Indicators

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

Indicator	2005	2006	2007				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP ¹	9.3	8.7	9.9	8.0	...	...	...
Industrial production	7.9	10.5	2.3	-5	3.8	-2.1	n.a.
Consumer prices ²	5.6	6.5	6.0	5.8	6.3	5.5	4.6
Wholesale prices ²	4.4	5.7	5.4	4.1	4.1	3.5	3.0
Merch. trade balance ³	-43.9	-54.4	-77.5	-64.1	-82.7	-45.8	-81.6
Current account ⁴	-7.8	-9.4	-18.8	n.a.	...	...	...

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

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

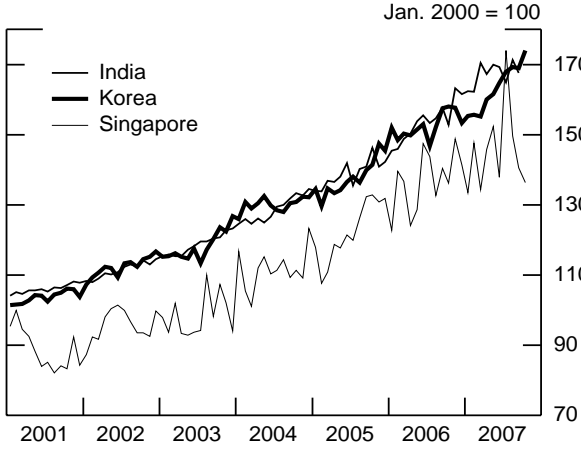
3. Billions of U.S. dollars, annual rate.

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

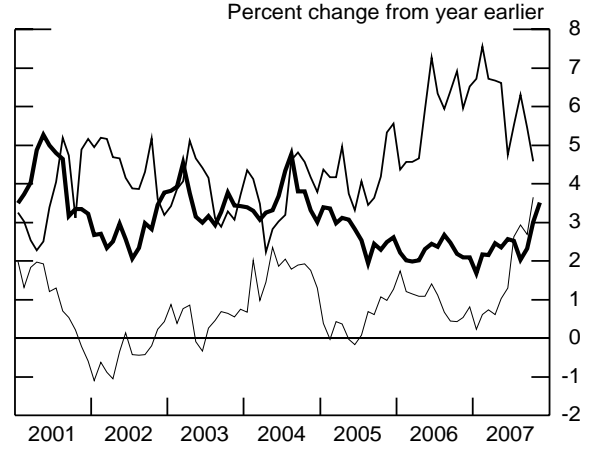
n.a. Not available. ... Not applicable.

India, Korea, and Singapore

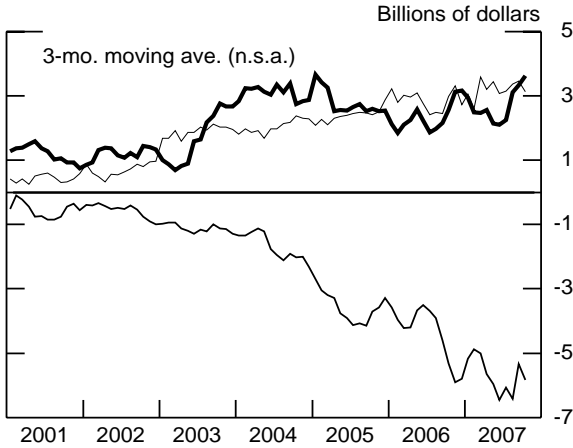
Industrial Production



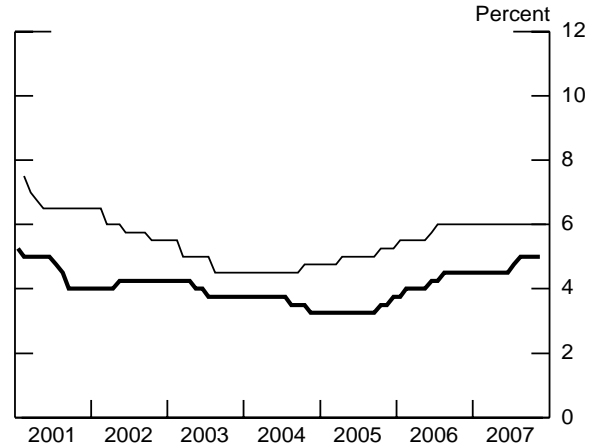
Consumer Prices



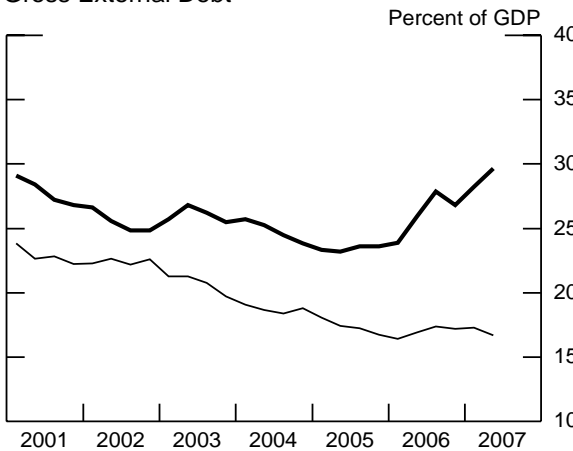
Merchandise Trade Balances



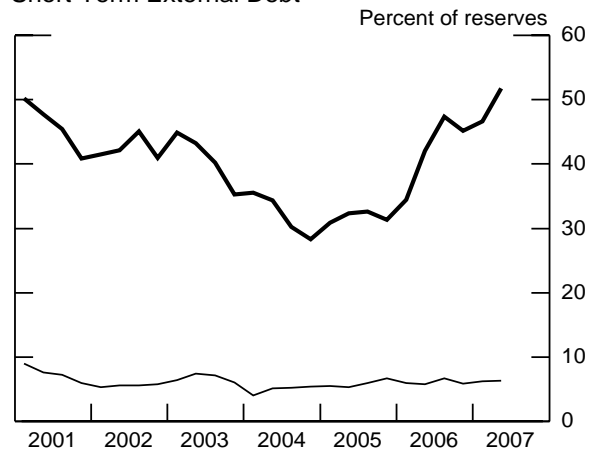
Benchmark Interest Rates



Gross External Debt



Short-Term External Debt



Data from the **ASEAN-4** indicate that economic growth generally picked up in the region in the third quarter. Real GDP increased by more than 9 percent in Indonesia and Malaysia and 6¼ percent in Thailand. However, real GDP growth in the Philippines slowed to just over 1 percent in the third quarter because of very weak exports of electronics, particularly to the United States. More recent data show that industrial production rose at a solid pace in Thailand in October. Incoming trade data are mixed. The trade deficit increased significantly in the Philippines in the third quarter and the trade surplus narrowed in Thailand, but the trade surplus in Malaysia (an oil exporter) widened a bit. In Indonesia, the trade surplus increased in October, after narrowing in the third quarter. Consumer price inflation has generally continued to increase in the region in recent months, in part owing to food and oil price pressures. The Bank of Indonesia, Bank Negara Malaysia, and the Bank of Thailand kept their policy rates unchanged in their latest policy meetings.

ASEAN-4 Economic Indicators: Growth
(Percent change from previous period, s.a., except as noted)

Indicator	2005	2006	2007				
			Q2	Q3	Aug.	Sept.	Oct.
<i>Real GDP¹</i>							
Indonesia	4.9	6.0	6.6	9.5	...	...	...
Malaysia	5.7	5.8	6.6	9.2	...	...	...
Philippines	5.6	5.5	7.4	1.1	...	...	...
Thailand	4.3	4.3	5.2	6.3	...	...	...
<i>Industrial production²</i>							
Indonesia ³	1.3	-1.6	2.7	n.a.	-4.3	n.a.	n.a.
Malaysia	4.0	4.9	3.1	1.0	-4	1.7	n.a.
Philippines	2.2	-9.9	3.8	2.0	-7	-3.0	n.a.
Thailand	9.1	7.4	1.4	4.7	3.4	-1.0	2.3

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

2. Annual data are annual averages.

3. Staff estimate.

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

ASEAN-4 Economic Indicators: Merchandise Trade Balance
(Billions of U.S. dollars, s.a.a.r.)

Indicator	2005	2006	2007				
			Q2	Q3	Aug.	Sept.	Oct.
Indonesia	28.0	39.7	40.8	36.9	34.5	32.1	38.1
Malaysia	26.4	29.5	28.5	31.9	23.6	40.1	29.2
Philippines	-6.2	-4.4	-1.1	-8.5	-9.1	-6.4	n.a.
Thailand	-8.5	1.0	13.0	7.9	10.7	10.3	9.3

n.a. Not available.

ASEAN-4 Economic Indicators: CPI Inflation
(Percent change from year earlier, except as noted)

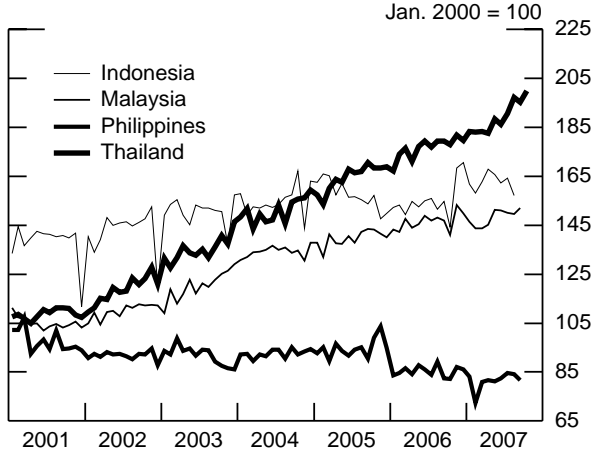
Indicator	2005 ¹	2006 ¹	2007				
			Q2	Q3	Sept.	Oct.	Nov.
Indonesia	17.0	6.7	6.0	6.4	6.7	7.2	6.7
Malaysia	3.3	3.1	1.5	1.8	1.8	1.9	n.a.
Philippines	6.7	4.3	2.4	2.5	2.7	2.7	3.2
Thailand	5.8	3.5	1.9	1.6	2.1	2.5	3.0

1. Dec./Dec.

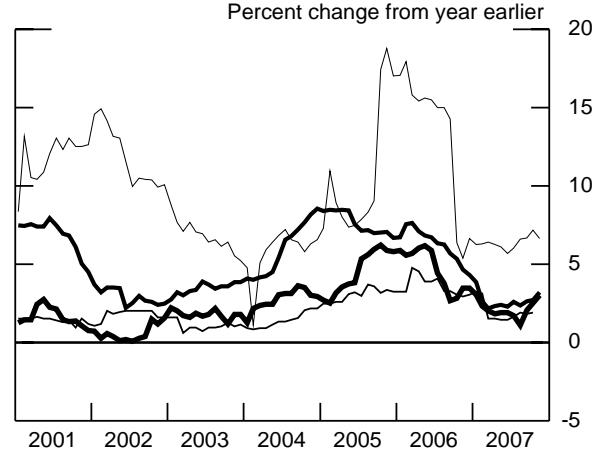
n.a. Not available.

ASEAN-4

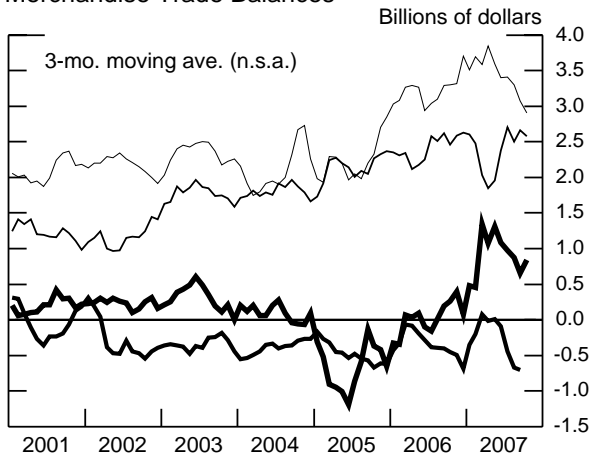
Industrial Production



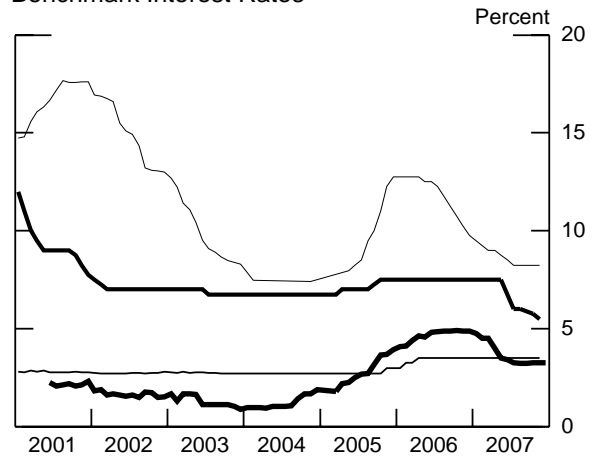
Consumer Prices



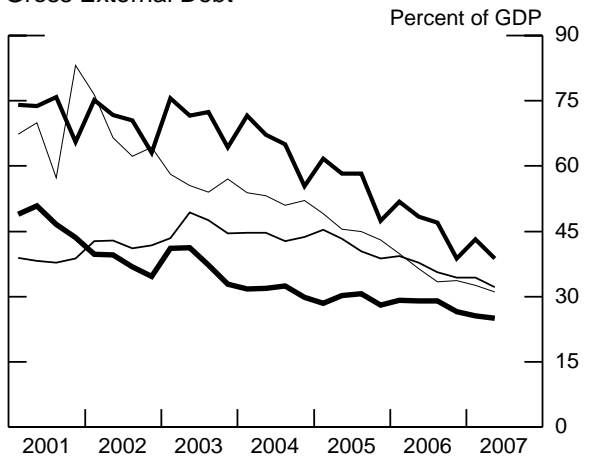
Merchandise Trade Balances



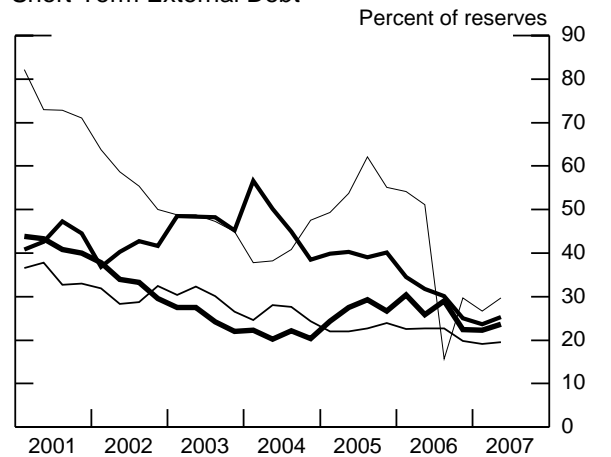
Benchmark Interest Rates



Gross External Debt



Short-Term External Debt



In **Mexico**, real GDP rose at a stronger-than-expected pace of nearly 6 percent in the third quarter. Although manufacturing activity showed some signs of softness, output in the services and construction sectors expanded vigorously. In October, exports fell relative to the previous month. The government announced plans for a massive \$250 billion increase in infrastructure spending over the remainder of President Calderon's term, with an initial 10 percent increase in real expenditures taking place in 2008.

Twelve-month headline inflation remained high at 3¾ percent in October. Despite some moderation in agricultural prices, core inflation readings turned out to be higher than anticipated because of increases in the prices of cigarettes and milk. In October, the Bank of Mexico (BOM) raised the benchmark overnight lending rate ¼ percentage point to 7½ percent. The BOM last tightened policy in April.

Mexican Economic Indicators

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

Indicator	2005	2006	2007				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP ¹	2.5	4.3	5.7	5.9	...	...	...
Overall economic activity	3.1	4.9	1.3	1.5	.4	.2	n.a.
Industrial production	2.1	5.0	1.3	1.3	.7	-.3	n.a.
Unemployment rate ²	3.6	3.6	3.7	3.6	3.6	3.6	3.7
Consumer prices ³	3.3	4.1	4.0	4.0	4.0	3.8	3.7
Merch. trade balance ⁴	-7.6	-6.1	-15.2	-11.6	-12.3	-10.9	-15.3
Merchandise imports ⁴	221.8	256.1	281.1	291.9	290.8	296.9	295.5
Merchandise exports ⁴	214.2	250.0	265.9	280.3	278.5	286.0	280.1
Current account ⁵	-5.1	-1.9	-5.8	-5.4	...	...	...

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

2. Percent; counts as unemployed those working one hour a week or less.

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

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

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

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

In **Brazil**, data indicate continued expansion. In October, industrial production jumped 2¾ percent, bringing twelve-month growth to nearly 10 percent. Retail sales grew strongly in September, up about 9½ percent on a twelve-month basis. Measures of capacity utilization have been high. The trade balance narrowed in November, in part reflecting higher imports resulting from strong domestic demand. On a year-over-year basis, imports rose 39 percent while exports increased 18 percent. Monthly inflation

inched up, bringing twelve-month inflation to 4¼ percent in October. Food price pressures abated, but twelve-month food price inflation was still about 10 percent.

In mid-November, the Brazilian government-controlled company, Petrobras, announced the discovery of a major oil field in the deep waters of the Santos Basin. The Tupi discovery is estimated to hold 5 to 8 billion barrels and represents a sharp increase in the country's current proven reserves of 14 billion barrels. However, it will take several years before the oil field becomes operational.

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

Indicator	2005	2006	2007				
			Q2	Q3	Sept.	Oct.	Nov.
Real GDP ¹	3.1	4.7	3.2	n.a.	...	...	...
Industrial production	3.1	2.8	2.6	1.8	-0.6	2.8	n.a.
Unemployment rate ²	9.8	10.0	9.6	9.2	9.0	8.8	n.a.
Consumer prices ³	5.7	3.3	3.4	4.2	4.3	4.2	n.a.
Merch. trade balance ⁴	44.8	46.1	48.5	32.4	37.5	47.9	31.9
Current account ⁵	14.0	13.6	11.3	4.1	5.7	-0.5	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.

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**, indications are that activity continues to be strong. The unemployment rate slid to 8.1 percent in the third quarter, reaching a new low over the current expansion. Industrial production grew more than 1 percent in October. Reported twelve-month consumer price inflation remained elevated at nearly 8½ percent. (Allegations continue that Argentine authorities are tampering with the consumer price data. Starting in December, INDEC will report a new updated basket for consumer prices.) In the October 28 presidential election, Cristina Fernández de Kirchner, President Kirchner's wife, was elected the next president.

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

Indicator	2005	2006	2007				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP ¹	8.8	8.7	8.8	n.a.	...	...	...
Industrial production	8.0	8.3	2.2	2.0	7.1	-2	1.1
Unemployment rate ²	11.6	10.2	8.5	8.1	...	...	...
Consumer prices ³	12.1	9.7	8.9	8.7	8.7	8.6	8.4
Merch. trade balance ⁴	11.7	12.3	13.7	7.1	6.1	11.4	16.0
Current account ⁵	5.7	8.1	8.9	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**, on December 2, in a surprise development, voters narrowly defeated President Hugo Chavez's proposed constitutional reform. The reform would have removed term limits, put the central bank under Chavez's control, and greatly expanded other executive powers. It was Chavez's first defeat since he took power in 1998. Although Chavez accepted the outcome, he indicated that his reform proposal was still on the table. The economic repercussions of the referendum result are unclear, but the outcome has boosted the morale of the opposition.

Twelve-month inflation crossed the 20 percent mark in November. Fueled by very loose economic policies, real GDP rose an estimated 11½ percent in the third quarter, reflecting a 15½ percent increase in non-petroleum output. In contrast, petroleum output contracted an estimated 9 percent for the second consecutive quarter. In November, in response to the steep drop in the value of the bolivar in the parallel market, the government issued dollar-denominated and dollar-linked bonds and announced that bond sales would continue until March 2008. The dollar-denominated bonds are attractive because the government allows investors to purchase them using bolivars at the official exchange rate, which is considerably stronger than the exchange rate in the parallel market.

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

Indicator	2005	2006	2007				
			Q2	Q3	Sept.	Oct.	Nov.
Real GDP ¹	11.1	11.4	5.0	11.6	...	...	...
Unemployment rate ²	12.2	10.0	8.2	8.5	8.1	7.5	n.a.
Consumer prices ³	14.4	17.0	19.5	16.1	15.3	17.2	20.7
Non-oil trade balance ⁴	-14.2	-22.7	n.a.	n.a.	...	...	...
Merch. trade balance ⁴	31.7	32.7	26.1	25.0	...	...	...
Current account ⁵	25.4	27.1	23.0	27.5	...	...	...

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

2. Percent.

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

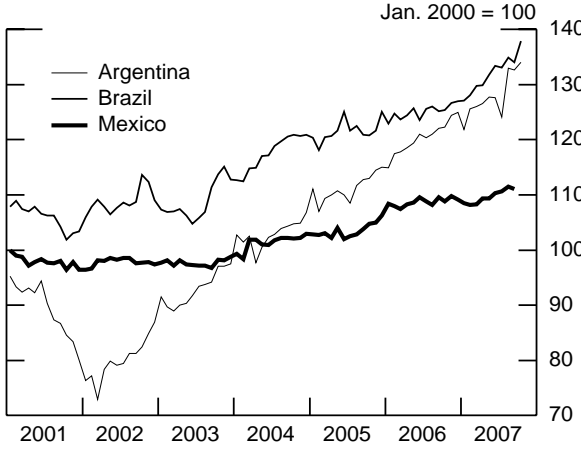
4. Billions of U.S. dollars, annual rate.

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

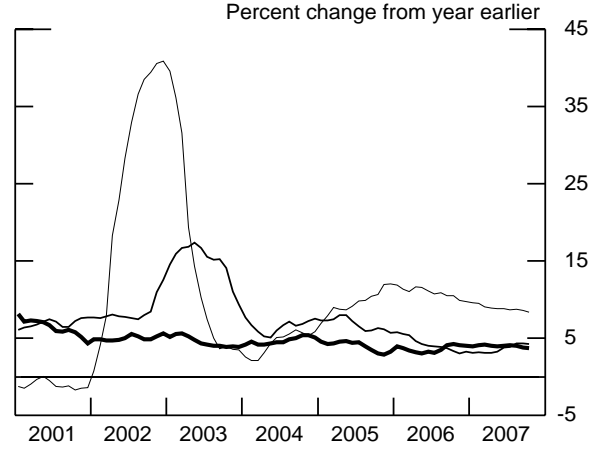
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Latin America

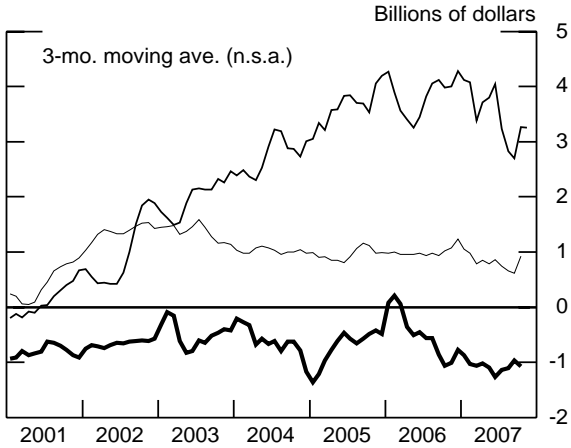
Industrial Production



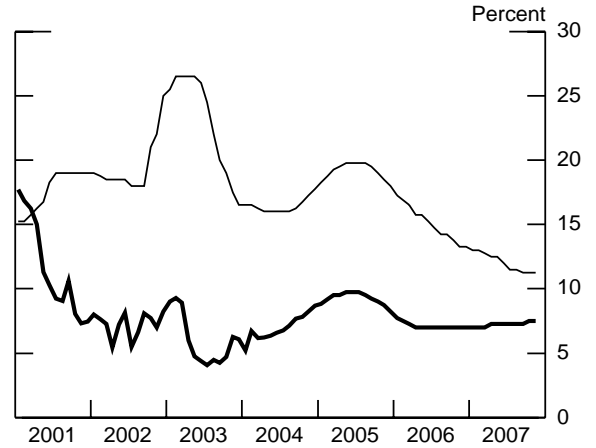
Consumer Prices



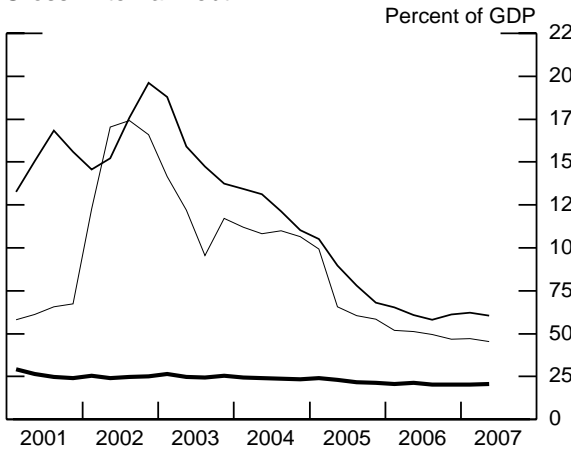
Merchandise Trade Balances



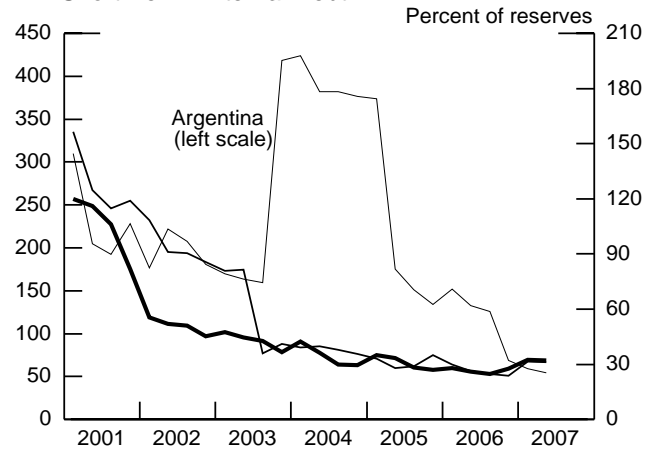
Benchmark Interest Rates



Gross External Debt



Short-Term External Debt



In **Turkey**, industrial production decreased nearly 3 percent in September because of a sharp decline in the food and metal manufacturing components. Twelve-month consumer price inflation increased to about 8½ percent in November, well above the central bank's year-end target range of 4 percent +/- 2 percent. Nevertheless, at its November meeting, the central bank cut its benchmark overnight borrowing and lending rates to 16¼ percent and 20¾ percent, respectively, while emphasizing that the current level of rates remains restrictive. The Monetary Policy Committee indicated that the lagged effects of previous monetary tightening coupled with weaker external demand should ease inflationary pressures.

Turkish Economic Indicators

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

Indicator	2005	2006	2007				
			Q2	Q3	Sept.	Oct.	Nov.
Real GDP ¹	7.4	6.1	3.9	n.a.	...	...	...
Industrial production	5.4	5.9	.1	.1	-2.9	n.a.	n.a.
Consumer prices ²	7.7	9.7	9.5	7.1	7.1	7.7	8.4
Merch. trade balance ³	-43.3	-53.8	-59.9	-65.4	-64.6	-81.6	n.a.
Current account ⁴	-22.6	-32.9	-40.3	-26.8	-22.2	n.a.	n.a.
Unemployment rate ⁵	10.2	9.8	9.9	10.0	...	...	...

1. Percent change from year-earlier period. Annual data are annual averages.

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.

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

5. Percent

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