Prefatory Note

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Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

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

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

Confidential (FR) Class III FOMC

Part 2

January 25, 2001

CURRENT ECONOMIC
AND FINANCIAL CONDITIONS

Recent Developments

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

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Domestic Nonfinancial Developments

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Overview

Economic activity looks to have risen slowly again in the fourth quarter. Consumer and business spending decelerated further, with outlays for motor vehicles and other household goods particularly weak. As a result of the slowing in final sales, inventory overhangs appear to have surfaced in a number of industries and have set in play sizable production adjustments in manufacturing that appear to have intensified at the turn of the year. Although the pace of hiring slackened at the end of 2000, labor markets remained quite tight, and labor costs were running above the pace of a year ago. At the same time, price inflation remained quiescent.

Production and Inventories

Industrial production. The contraction in the manufacturing sector, which first emerged in October, deepened and broadened during November and December. The December decline was nearly twice that in November, with factory production falling 1.1 percent last month. As the quarter began, the weakness in production was largely the result of cutbacks in the motor vehicle industry. However, in December, the diffusion index of three-month changes in industrial production fell to its lowest level since 1991, a decline indicating that weakness extended well beyond the effects of lower motor vehicle assemblies. The November and December declines in total IP were less steep than in manufacturing, as the unseasonably cold weather contributed to large gains in the output of utilities. The plunge in factory production during December does not appear to have been weather related: The anecdotal information that we have accumulated suggests that the stormy weather at mid-month had only a small effect on production, and given the overall weakening in the sector, we estimate that the weather-related losses that did occur were not made up later in the month. With cutbacks having occurred in many industries, the factory operating rate sank to just over 79 percent last month—the lowest level since the spring of 1992.[1]

Manufacturing production declined 1.9 percent (not an annual rate) between September and December. More than two-thirds of that contraction was directly or indirectly related to the slowing in the motor vehicles sector: The decline in

1. A preliminary estimate of capacity growth in 2001 will be issued with the release of the report on January industrial activity on February 16. Data from the NAPM Semiannual Survey of Capacity and other currently available indicators suggest that manufacturing capacity will increase 3-1/2 percent this year—about 1-1/2 percentage points less than in 2000. This would be the slowest rate of capacity expansion since 1993.

SELECTED COMPONENTS OF INDUSTRIAL PRODUCTION
(Percent change from preceding comparable period)

	Proportion 2000	2000 H1[1]	2000 Q3	2000 Q4	2000 Oct.	2000 Nov.	2000 Dec.
		----Annual rate-----			--Monthly rate---		
Total	100.0	7.3	3.5	-1.1	-.3	-.3	-.6
Previous		7.3	1.6		.0	-.2	
Manufacturing	87.8	7.6	3.7	-2.1	-.2	-.6	-1.1
Excluding:							
High technology industries	78.4	1.9	-1.4	-5.2	-.4	-.9	-1.4
Motor vehicles and parts	82.1	7.6	4.9	.1	.2	-.1	-.9
Mining	6.4	2.1	2.8	-.9	.0	-.1	.3
Utilities	5.9	8.1	1.0	14.3	-1.9	3.8	6.5
Selected industries:							
High technology	9.4	72.0	56.9	26.4	1.6	2.2	1.3
Computers	2.7	46.5	51.9	30.4	2.4	1.5	.4
Communication equipment	2.0	35.3	41.6	32.3	3.0	3.0	.2
Semiconductors[2]	4.7	109.8	66.4	21.7	.6	2.3	2.3
Motor vehicles and parts	5.7	6.4	-11.2	-30.2	-5.6	-6.7	-4.1
Aircraft and parts	2.2	-7.7	11.6	4.2	.4	1.6	-.5
Market groups, excluding energy and selected industries:							
Consumer goods	22.5	1.7	-.3	-1.9	-.1	-.2	-.1
Durables	3.5	-.7	-9.5	-6.0	-1.5	-.7	-.1
Nondurables	19.0	2.2	1.6	-1.1	.2	-.2	-.1
Business equipment	8.4	7.9	4.6	3.4	.7	-.5	-.5
Construction supplies	6.1	3.6	-1.1	-8.2	-.7	-1.1	-2.1
Materials	24.2	.8	-3.1	-7.0	-.3	-1.2	-2.2
Durables	15.9	2.6	-.6	-8.1	-.9	-.8	-2.5
Nondurables	8.3	-2.6	-7.6	-5.0	.8	-1.9	-1.6

1. From the final quarter of the previous period to the final quarter of the period indicated.
2. Includes related electronic components.

CAPACITY UTILIZATION
(Percent of capacity)

	1988-89 High	1959-2000 Avg.	2000 Q2	2000 Q3	2000 Q4	2000 Oct.	2000 Nov.	2000 Dec.
Manufacturing	85.7	81.6	81.9	81.7	80.2	81.2	80.4	79.1
Primary processing	88.3	82.6	86.4	85.4	82.3	84.3	82.5	80.1
Advanced processing	84.2	81.1	79.8	80.1	79.7	80.0	79.8	79.2

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

Item	2000		2001	2000		2001		
	Q3	Q4	Q1[1]	Nov.	Dec.	Jan.[1]	Feb.[1]	Mar.[1]
U.S. production	12.8	11.7	11.3	11.7	11.1	10.4	11.3	12.2
Autos	5.7	5.0	5.1	5.0	4.7	4.9	5.1	5.3
Trucks	7.1	6.7	6.2	6.6	6.4	5.5	6.2	7.0
Days' supply[2]								
Autos	55.9	60.6	n.a.	59.0	65.9	n.a.	n.a.	n.a.
Light trucks[3]	74.9	82.8	n.a.	81.0	88.3	n.a.	n.a.	n.a.

Note. Components may not sum to totals because of rounding.
1. Production rates reflect manufacturers' schedules for Q1.
2. Quarterly average calculated using end-of-period stocks and average reported sales.
3. Excludes medium and heavy (classes 3-8) trucks.
n.a. Not available.

motor vehicle assemblies over the period directly subtracted almost 1/2 percentage point from IP; the drop in motor vehicle parts and the estimated effects on upstream industries contributed an additional loss of nearly 3/4 percentage point.[2] Despite the fourth-quarter production cutbacks, dealer stocks of domestic light vehicles continued to edge up in December, and days' supply jumped to 78 days in December. The backup in inventories of light trucks was particularly sharp: Days' supply of light trucks shot up to 112 days at GM and 90 days at Ford last month. Information on automakers' assembly plans for the first quarter is incomplete, in part because Chrysler will not issue public reports until after the company's restructuring plans are announced on February 26. Factoring in the confidential reports that we have compiled from our industry sources, we estimate that scheduled assemblies for the first quarter are now around 11 million units (annual rate). However, the latest available weekly data for January suggest that assemblies were running at only about a 10.4 million unit rate for the first three weeks of the year. Elsewhere in the transportation equipment sector, aircraft and parts production has been an area of strength recently.[3]

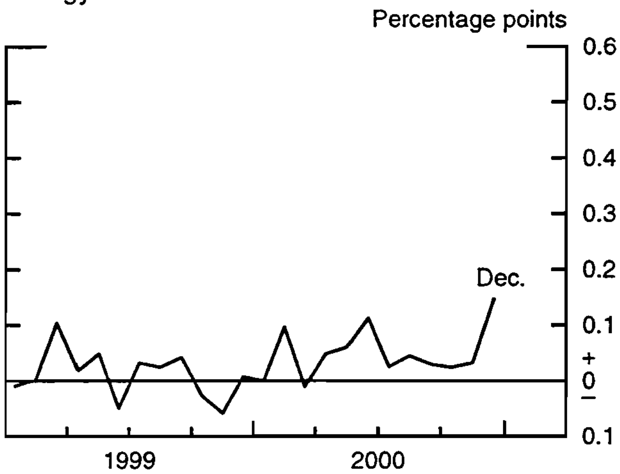
2. We estimate that the effects of lower motor vehicle assemblies on parts producers and upstream industries are 2-1/2 times the change in assemblies. However, the timing of these effects is uncertain and, in the recent period, muddied by the diffusion of production adjustments across industries. About three-fifths of the indirect effects implied by the reduction in assemblies between September and December appear to have been realized by mid-December.

3. Looking forward, we expect some near-term moderation in aircraft production because plane completions at Boeing are, on net, ahead of schedule.

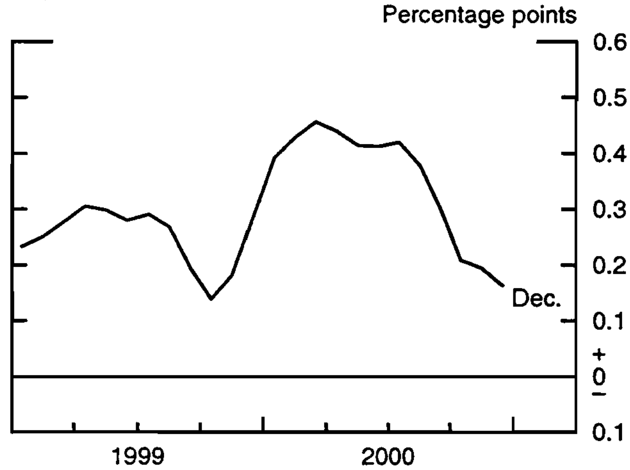
Contributions to Industrial Production

(Change from three months earlier)

Energy

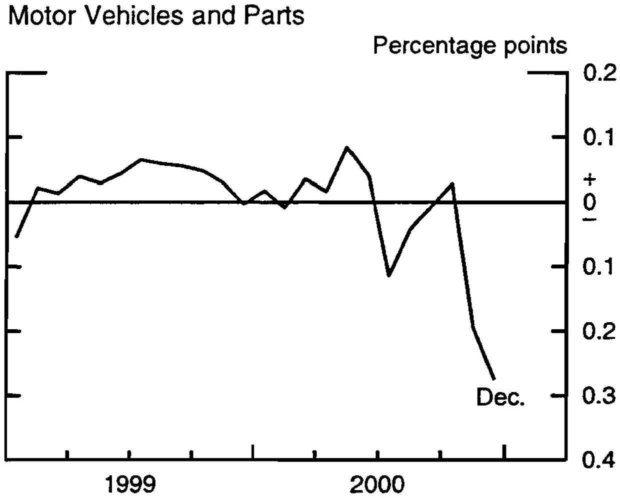


High-Tech Industries

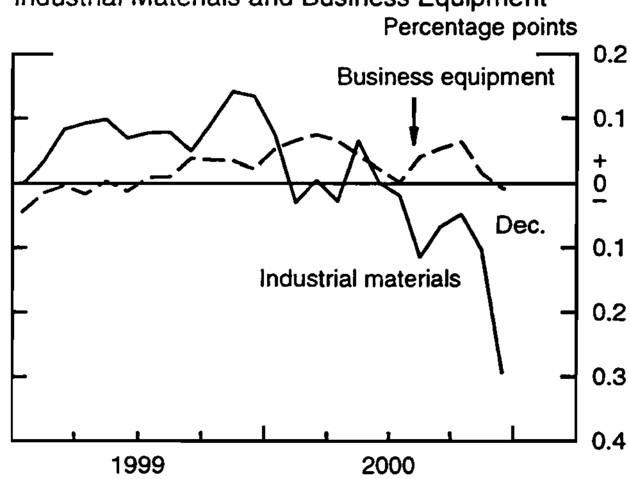


Note. Computers, semiconductors, and communications equipment.

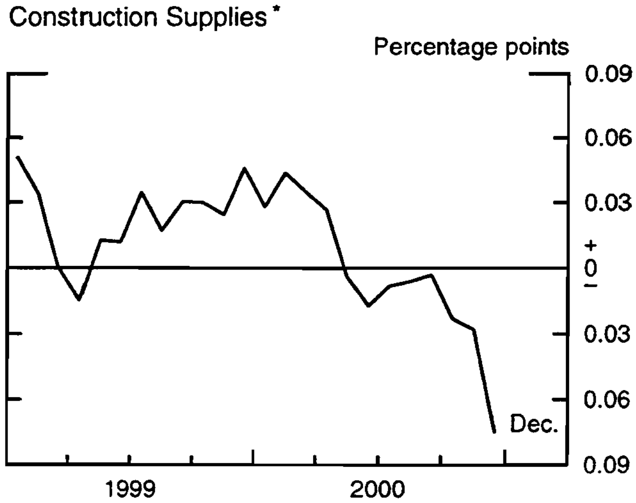
Motor Vehicles and Parts



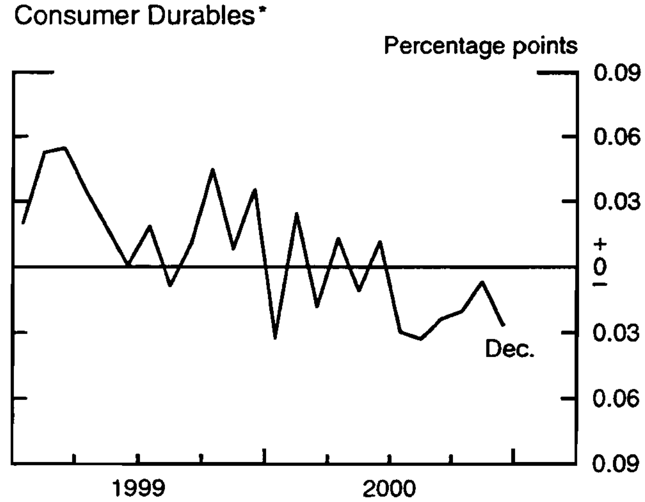
Industrial Materials and Business Equipment *



Construction Supplies*

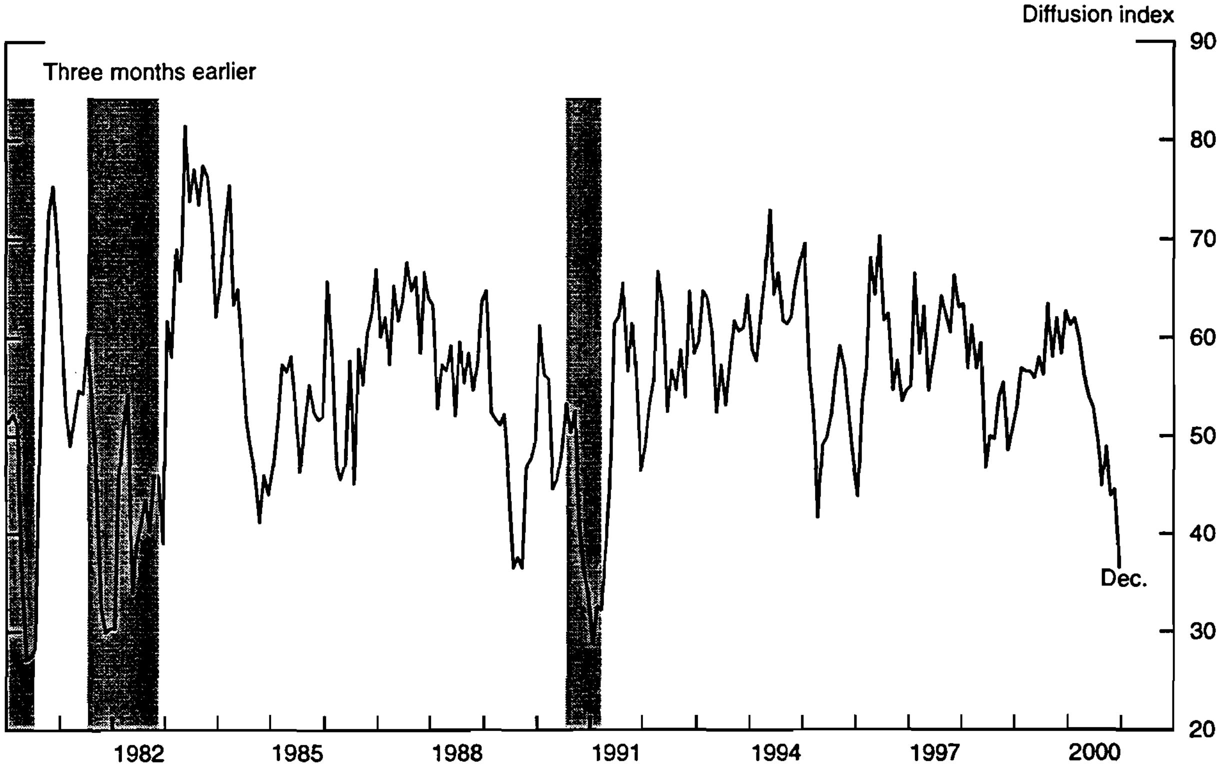


Consumer Durables*



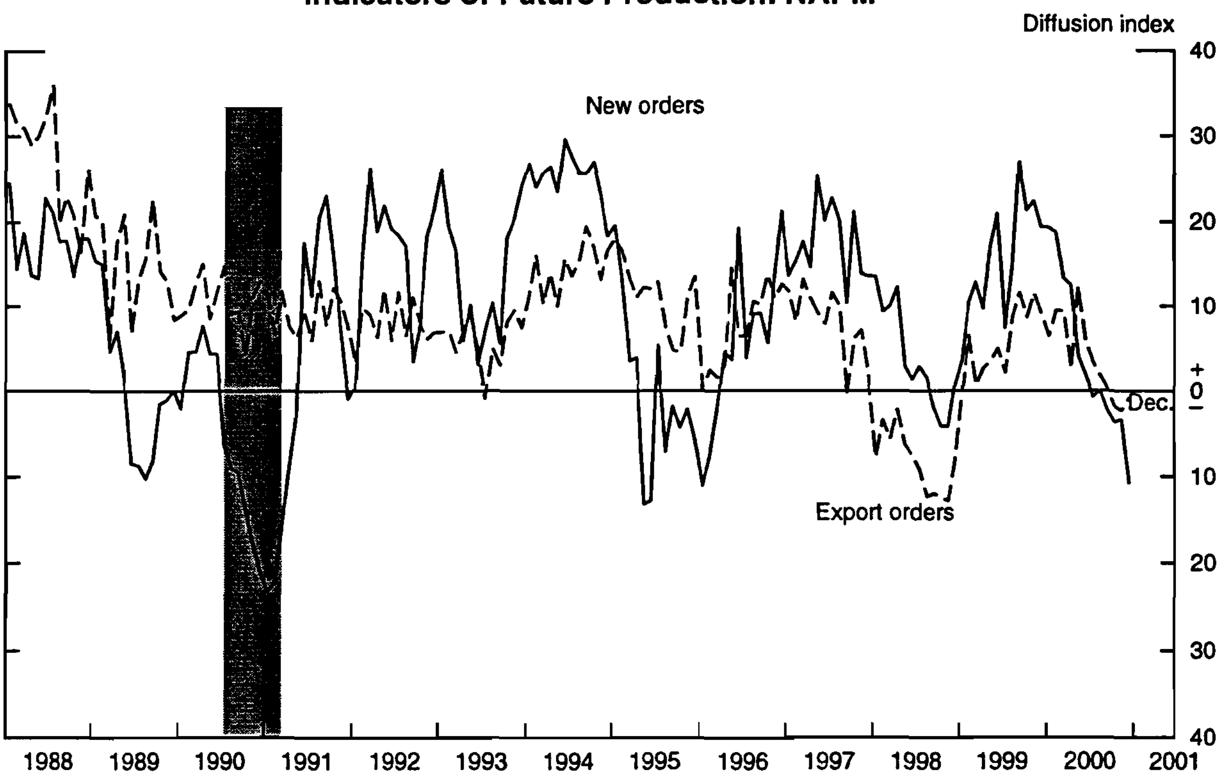
* Excluding energy, high-tech industries, motor vehicles and parts, and aircraft and parts.

Diffusion Index of Industrial Production



Note. The diffusion index is calculated as the percentage of the number of series that increased from three months earlier plus one-half the percentage that were unchanged.

Indicators of Future Production: NAPM



Note. The NAPM diffusion indexes are calculated as the difference between the percentage of respondents reporting an increase and those reporting a decrease in orders, seasonally adjusted.

Production gains in the high-tech sector slowed at the end of last year, and current indicators suggest near-term weakness. Although gains in semiconductor production remained fairly steady through December, the pace was more moderate than earlier in the year. Similarly, this week's Dataquest survey of semiconductor purchasers suggested that activity levels were little changed between November and December.[4] However, both Dataquest and the Semiconductor Industry Association project that the rise in chip-industry output will be restrained in the first half of this year as downstream producers of computers and communications equipment work off inventories of parts that have accumulated in the wake of slower demand for their products. Indeed, the three-month moving average of orders for these goods moved down in November.

Elsewhere in manufacturing, weakness was widespread at year-end. Excluding motor vehicles and parts, aircraft and parts, and high-tech goods, production fell off sharply in each of the major market groups, with particularly steep plunges in the production of construction supplies and industrial materials. Moreover, indicators that we have found to be useful predictors of near-term manufacturing activity outside of motor vehicles and parts production point to further declines in coming months. Adjusted orders for durable goods, which are only available through November, were down on a three-month moving-average basis. Both the NAPM new orders and export orders indexes fell during the fourth quarter, with the December index for new orders, based on data collected in the middle of the month, dropping relatively steeply to its lowest level in five years. And, as previously mentioned, the IP diffusion index, which has predictive value for the one-month-ahead forecast, fell to its lowest level in 10 years. Finally, based on reports running through the first week of January, the diffusion index for new orders in the Philadelphia FRB's Survey of Business plunged; this series, which was first collected in 1989, is also a statistically significant indicator of manufacturing activity.

Inventory adjustments. Manufacturers that accumulated outsized inventories in recent months also slashed production in December and, to a lesser extent, November. The rapid rise in inventories at producers of construction supplies is mirrored by the fall-off in production; industry contacts attributed the weakness to the large inventory overhang. The drop in the output of industrial materials last quarter was also likely a response to soaring inventory-shipments ratios in the primary and fabricated metals, rubber and plastics, chemicals, and textiles and apparel industries; many of these products are inputs to the auto industry. Inventory accumulation for producers of business equipment other than

4. Target inventories, after some swings in recent months, are now at August levels; new orders, after rising steeply earlier last year, were flat in November and December, and lead times continued to fall.

computers has also picked up over the past few quarters, and production has dipped recently in that sector as well.

In some sectors, such as textiles, chemicals, and industrial machinery, inventory imbalances as of November were apparent only in manufacturing. However, in other sectors, the production adjustments under way in manufacturing also likely represent a response to a bloating of stocks at other distributors. Notably, inventory-sales ratios at wholesalers of lumber and at retail building material and hardware supply stores had been trending up sharply since early last year. And, overhangs were becoming increasingly apparent at wholesale distributors of electrical machinery, primary and fabricated metals, and paper products. Stock-sales ratios for wholesalers of professional equipment (which includes computers) and at manufacturers of computing equipment (which tend to have just-in-time inventory adjustments) also had edged up as of November, although they were still low by historical standards.

Aggregate business inventory investment. Overall, the book value of manufacturing and trade inventories (excluding motor vehicles) rose at an annual rate of $53 billion in November, following an $80 billion buildup in October; the average for the two months was $13 billion higher than the pace of stockbuilding during the third quarter. Relative to the third quarter, inventory accumulation picked up in manufacturing—where stocks rose at a relatively hefty $34 billion average annual rate in October and November—and in non-auto retailing, where stockbuilding averaged a $19 billion rate. Accumulations were more moderate in the wholesale sector, where book value inventories (excluding motor vehicles) rose at an annual rate of about $14 billion in October and November, $2.5 billion lower than during the third quarter.

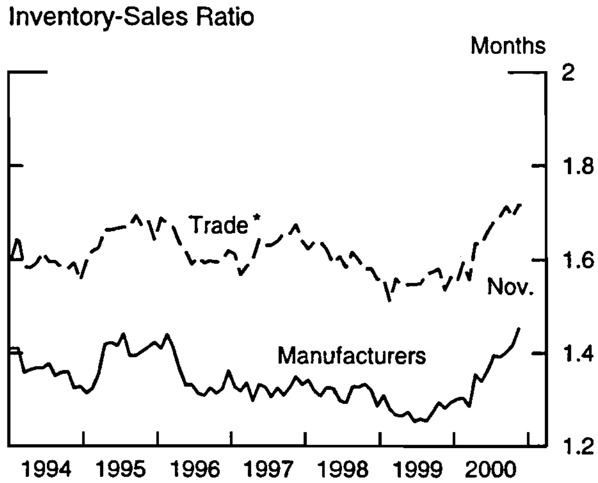
The aggregate inventory-sales ratio for manufacturing and trade (excluding motor vehicles) was 1.32 months in November, up from the 1.29-month level seen in August and September. More generally, the downtrends in the manufacturing, wholesale, and retail inventory-sales ratios outside of motor vehicles that had been evident during the latter part of the 1990s clearly had stalled out by last spring. Since then, aggregate stock-sales ratios in the manufacturing and wholesale sectors have been on a gradual updrift. The overall inventory-sales ratio at non-auto retailers has been fairly flat for some time—in November, the ratio was at the top end of the narrow range that has prevailed since late in 1999.

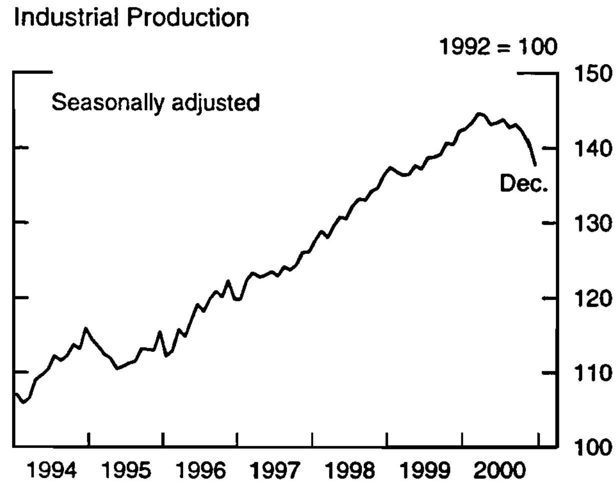
Labor Market Developments

Labor demand continued to soften in December, as private nonfarm payroll employment increased only slowly and average workweeks declined. Despite

Inventory-Sales Ratios and Industrial Production in Selected Industries

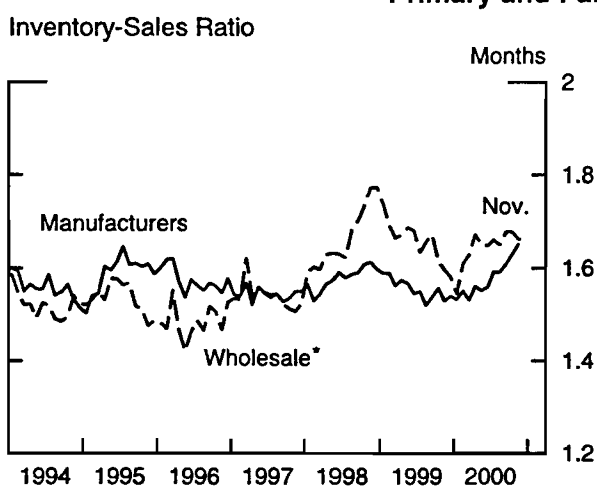
Construction Supplies

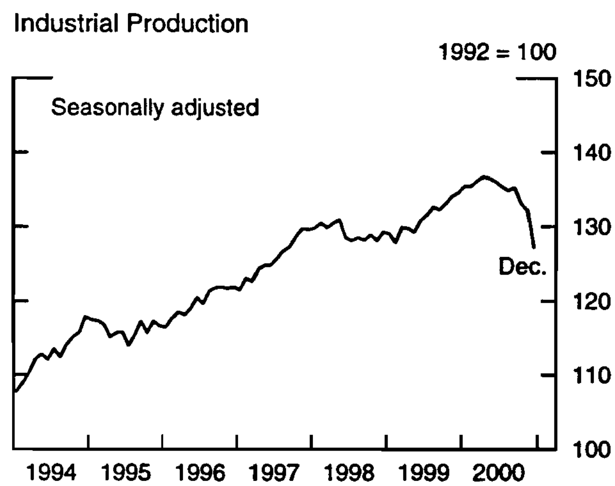




* Retail building materials group of stores and wholesale lumber.

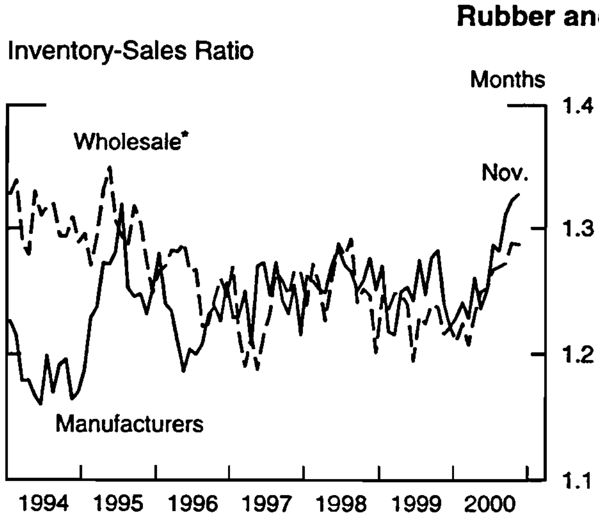
Primary and Fabricated Metals

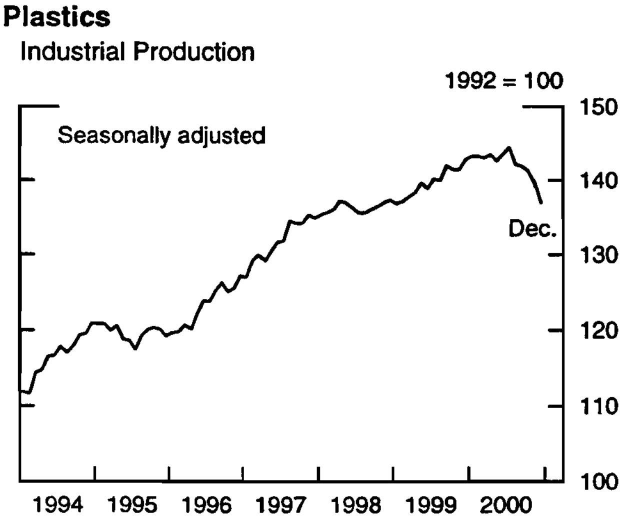




* Wholesale metals and minerals.

Rubber and Plastics





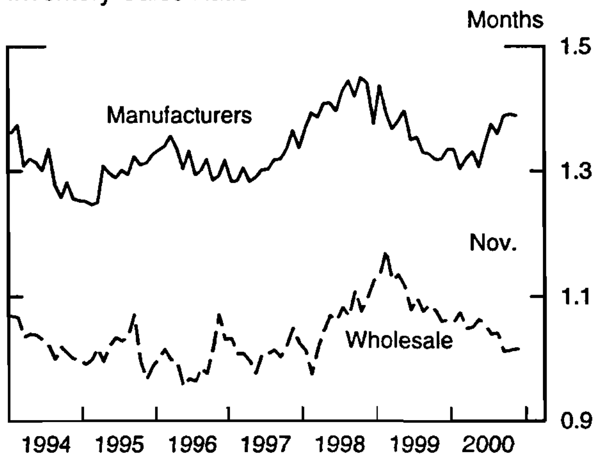
* Wholesale nondurables excluding groceries, farm products, chemicals, petroleum, paper, and apparel.

Note. Inventory-sales ratios calculated at book value.

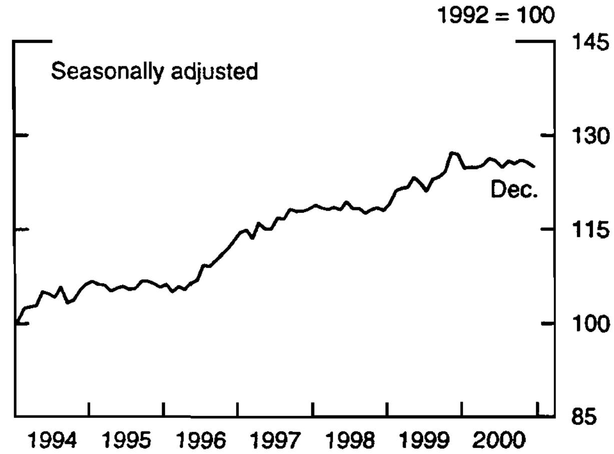
Inventory-Sales Ratios and Industrial Production in Selected Industries

Chemicals and Products

Inventory-Sales Ratio

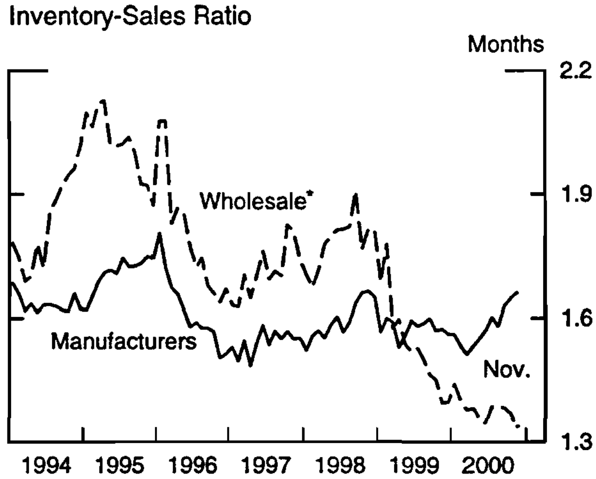


Industrial Production



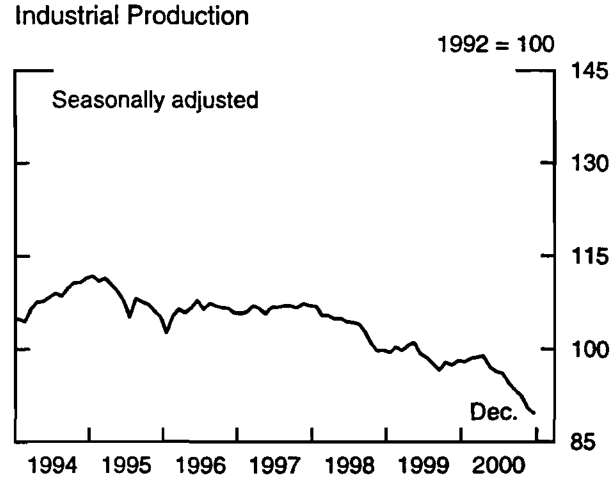
Textiles and Apparel

Inventory-Sales Ratio



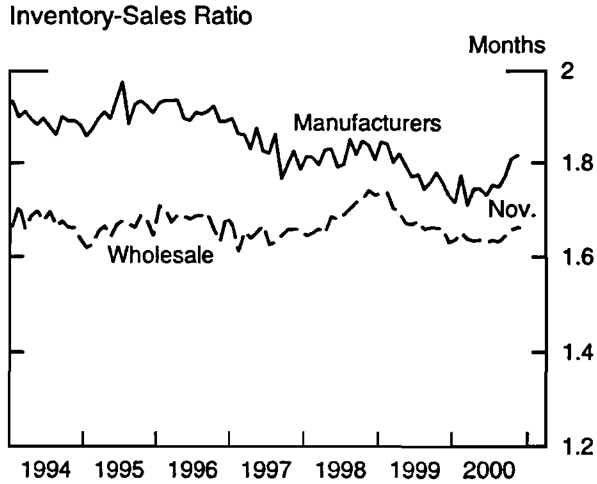
* Wholesale apparel.

Industrial Production

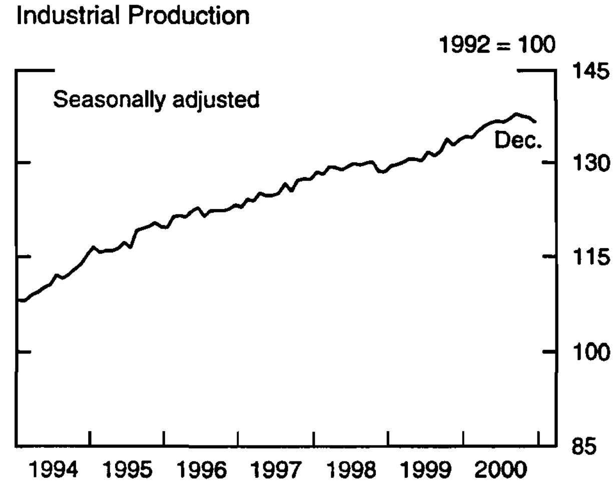


Machinery, Equipment, and Instruments Excluding High-Tech

Inventory-Sales Ratio



Industrial Production



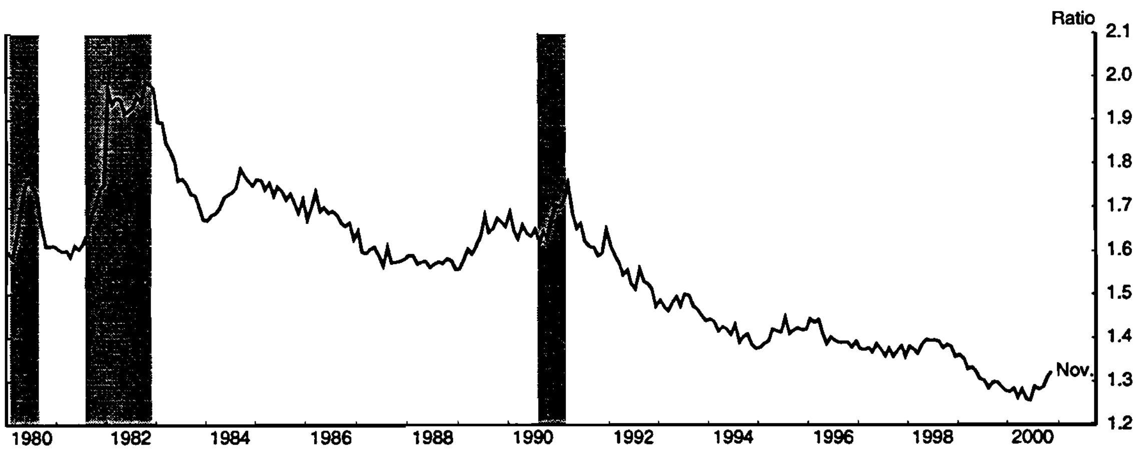
Note. Inventory-sales ratios calculated at book value.

Change in Manufacturing and Trade Inventories

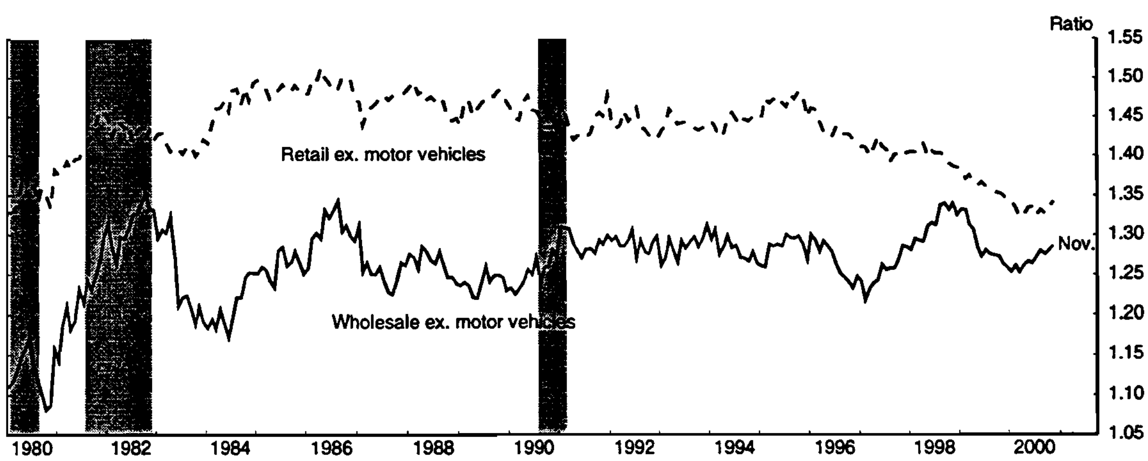
(Billions of dollars, seasonally adjusted book value, annual rate)

Category	2000 Q1	2000 Q2	2000 Q3	2000 Sept.	2000 Oct.	2000 Nov.
Manufacturing and trade	60.8	105.9	61.9	24.6	96.8	67.9
Less wholesale and retail motor vehicles	50.9	72.3	53.5	28.7	80.1	52.9
Manufacturing	22.0	24.6	27.4	14.9	40.8	26.9
Less aircraft	18.6	30.0	29.4	14.7	39.9	16.1
Merchant wholesalers	25.1	36.2	12.4	1.9	15.6	15.3
Less motor vehicles	21.6	33.1	16.3	6.4	14.2	13.3
Retail trade	13.6	45.1	22.1	7.9	40.4	25.7
Automotive dealers	6.4	30.5	12.2	0.4	15.2	12.9
Less automotive dealers	7.2	14.6	9.9	7.4	25.2	12.8

Inventories Relative to Shipments: Manufacturing



Inventories Relative to Sales: Trade



weaker demand overall, the labor market remained very tight, with the unemployment rate holding at 4.0 percent in December.

Private nonfarm payrolls rose 49,000 in December to finish a quarter in which employment gains averaged just 84,000 per month, a substantial deceleration from earlier last year and the weakest quarter since 1992. Much of the recent slowdown in aggregate job creation reflects contracting labor demand in manufacturing. In December, factory payrolls dropped 62,000, bringing the fourth-quarter average decline to 26,000 per month. Employment in the help supply industry, which provides many workers to manufacturing but is classified as part of the services industry, fell an average of 33,000 per month last quarter, compared with an average monthly increase of 12,000 during the first nine months of the year. Elsewhere, construction employment in December declined for a second month; however, analysts at the BLS believe that unusually cold and stormy weather during the midmonth reference periods for November and December may have more than accounted for these recent job losses.

In the private service-producing sector, employment gains slowed to an average of 109,000 per month in the fourth quarter from a third-quarter pace of 149,000. However, excluding the declines registered in the help supply component noted above, the average monthly increase in service-producing jobs was essentially the same in the third and fourth quarters.

Although private employment, as published, clearly decelerated during the latter half of 2000, the use of "bias-adjustment factors" to account for increases in jobs at very young firms could mean that the payroll estimates understate the degree to which labor demand weakened. In advance of the annual benchmark, the BLS gets a relatively accurate count of jobs at established firms from the responses to the payroll survey; however, little contemporaneous information is available on employment growth at very young firms. Estimates for these firms—the bias-adjustment factors—are added to the survey-based employment estimates to produce the published figures. Because these factors are based predominantly on information from the previous benchmark—which provides employment counts at essentially all firms—they may not incorporate shifts in labor market trends in a timely fashion. Indeed, although the recent slowdown in hiring at established firms likely implies a similar slowdown at very young firms, the current bias-adjustment factors assumed that hiring at those firms accelerated in the fourth quarter.

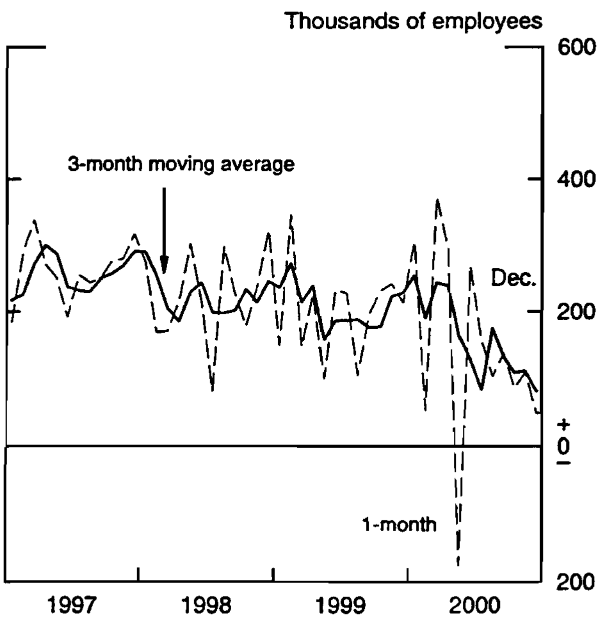
Aggregate hours of production or nonsupervisory workers on private nonfarm payrolls fell 0.7 percent in December, with the decline largely concentrated in the goods-producing sector. Aggregate production-worker hours were little changed, on balance, during the second half of 2000, edging down at an annual

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

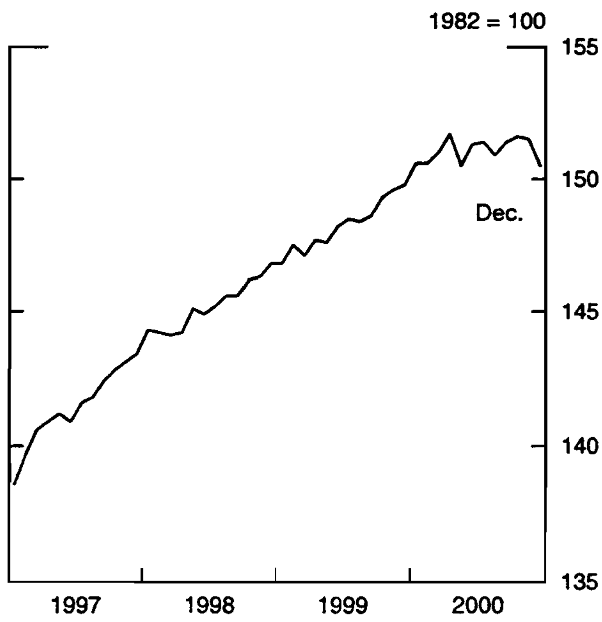
	2000	Q3	Q4	2000 Oct.	2000 Nov.	2000 Dec.
	--Average monthly change--					
Nonfarm payroll employment[1]	160	25	77	66	59	105
Previous		*25*		*77*	*94*	
Private	146	129	84	93	111	49
Mining	1	0	-0	3	-1	-3
Manufacturing	-15	-38	-26	-2	-15	-62
Construction	14	17	2	25	-7	-13
Transportation and utilities	14	17	15	9	14	23
Retail trade	25	19	20	14	37	8
Wholesale trade	7	7	7	17	8	-4
Finance, insurance, real estate	4	11	14	16	7	19
Services	95	95	53	11	68	81
Total government	13	-104	-8	-27	-52	56
Total employment (household survey)	112	42	175	154	14	358
Nonagricultural	116	28	203	269	79	260
Memo:						
Aggregate hours of private production workers (percent change)[1,2]	1.1	0.2	-0.1	0.1	-0.1	-0.7
Average workweek (hours)[1]	34.4	34.4	34.3	34.4	34.3	34.1
Manufacturing (hours)	41.5	41.5	41.0	41.4	41.2	40.4

Note. Average change from final month of preceding period to final month of period indicated.
1. Survey of establishments.
2. Annual data are percent changes from Q4 to Q4. Quarterly data are percent changes from preceding quarter at an annual rate. Monthly data are percent changes from preceding month.

Private Payroll Employment Growth
(Strike-adjusted data)



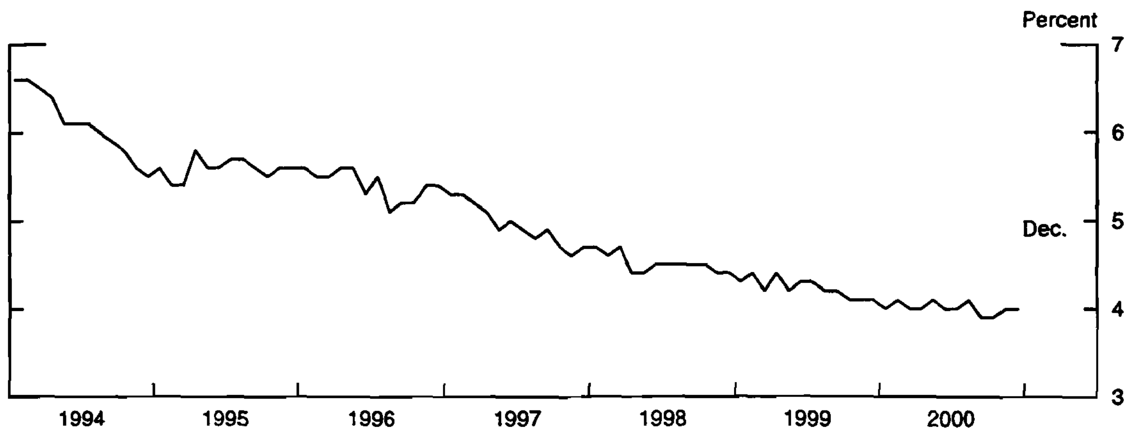
Aggregate Hours of Production or Nonsupervisory Workers



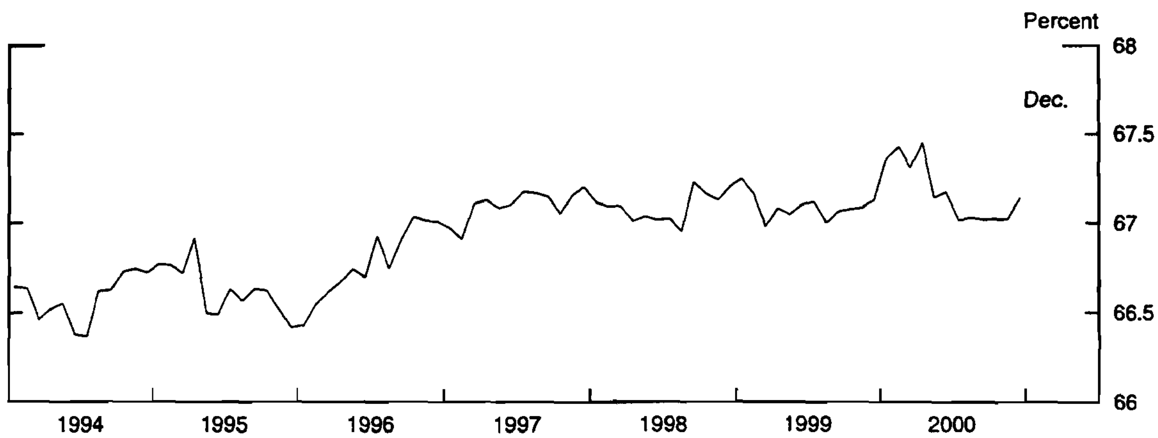
SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data, as published)

	1999	2000	2000 Oct.	2000 Nov.	2000 Dec.
Civilian unemployment rate (16 years and older)	4.2	4.0	3.9	4.0	4.0
Teenagers	13.9	13.1	12.6	13.0	13.1
20-24 years old	7.5	7.1	6.8	6.8	7.0
Men, 25 years and older	3.0	2.8	2.9	3.0	3.0
Women, 25 years and older	3.3	3.2	3.0	3.1	3.0
Labor force participation rate	67.1	67.2	67.0	67.0	67.1
Teenagers	52.0	52.2	52.1	52.4	52.3
20-24 years old	77.6	77.9	78.3	77.7	78.0
Men, 25 years and older	76.1	76.0	75.8	75.8	75.9
Women, 25 years and older	59.5	59.7	59.4	59.4	59.5
Memo:					
Potential worker rate	7.1	6.7	6.7	6.8	6.8

Unemployment Rate

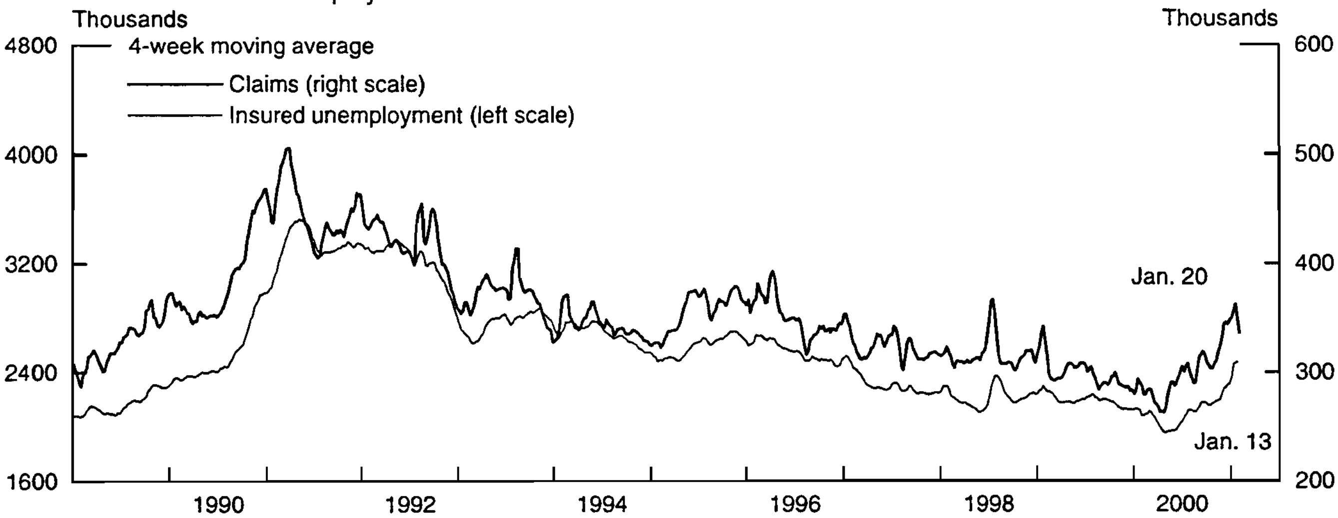


Labor Force Participation Rate

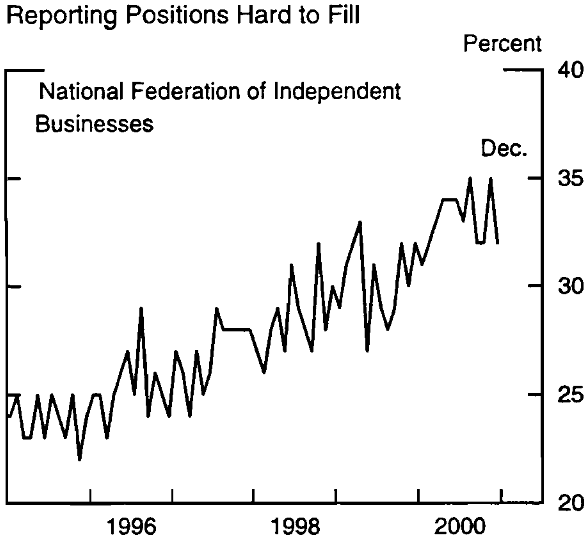


Labor Market Indicators

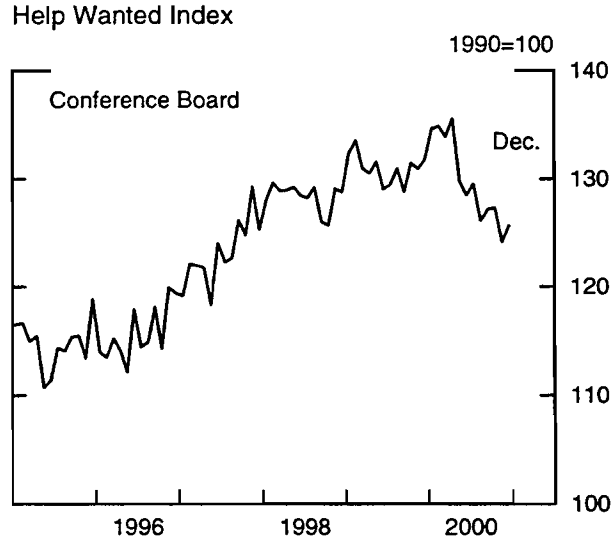
Initial Claims for Unemployment Insurance



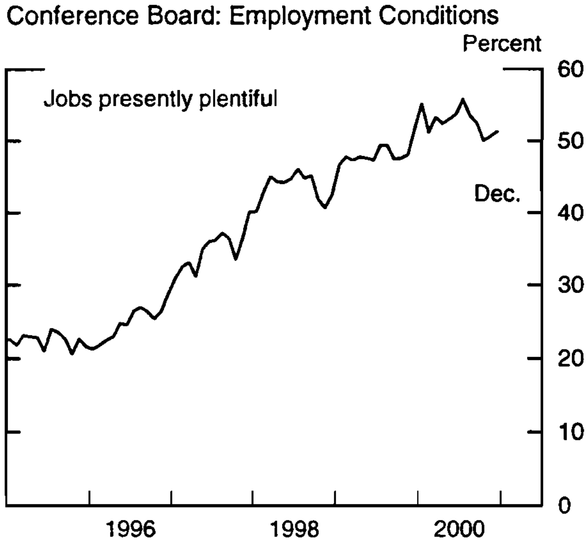
Reporting Positions Hard to Fill



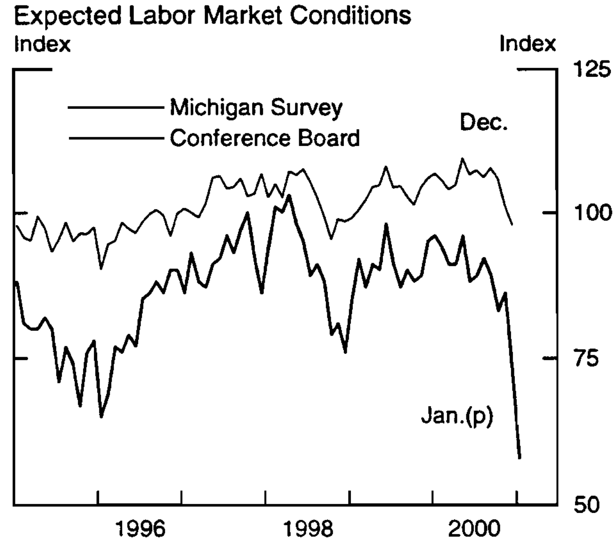
Help Wanted Index



Conference Board: Employment Conditions



Expected Labor Market Conditions



Note. Each expected conditions index is the proportion of households expecting employment to rise, minus the proportion expecting employment to fall, plus 100.

rate of 0.1 percent last quarter after a tepid 0.2 percent rise in the third quarter.[5] At least some of December's sharp drop in aggregate hours resulted from the severe winter storms in the Midwest during the reference period. These storms kept some workers home for part of the week, shortening the workweek to 34.1 hours in December, its lowest level since the blizzard of January 1996.[6] However, December's shorter workweek also reflected weaker labor demand in manufacturing, where the workweek had already fallen to 41.2 hours in November, 1/2 hour below its first-half average.

Other available indicators also suggest an easing of labor demand pressures at the end of last year, albeit in a still-tight labor market overall. The four-week moving average of unemployment insurance claims climbed steeply into early January and, although it has moved off its high, remained elevated at midmonth. Firms surveyed by the National Federation of Independent Businesses reported some leveling off in the number of positions that they consider hard to fill. The Conference Board reported that its help-wanted index remained near November's low level and that the percentage of households viewing jobs as plentiful fell during the second half of last year. Looking forward, households responding to both the Conference Board and Michigan consumer surveys expect that weaker economic activity will lead to rising unemployment in coming months.

Consumer Spending

Real consumer spending slowed in the fourth quarter as sales of motor vehicles retreated and outlays for other goods increased only slowly.

Motor vehicles. Sales of light vehicles plunged to an annual rate of 15.3 million units in December. In the fourth quarter, sales averaged 16.2 million units, a sharp deceleration from the 17.6 million-unit pace registered over the first three quarters of the year.[7] The sales slump was especially hard on the Big Three automakers, whose combined market share fell to a record low of 64 percent last quarter—about 5 percentage points lower than their overall share in 1999. About half of this decline can be attributed to a

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5. We now estimate that hours of all persons, as calculated for the Productivity and Cost figures, fell at an annual rate of 0.6 percent in the third quarter and 0.9 percent in the fourth quarter. This series incorporates estimates of hours worked by production and nonproduction workers, the self-employed, and unpaid family workers.

6. To avoid conflicting with households' holiday plans in December, the reference period for the household survey is shifted one week, to the week including the 5th, while the reference period for the payroll survey remains the pay period that includes the 12th. Therefore, the usual information on the number of individuals at work part-time due to bad weather collected in the household survey cannot be used to estimate the effect of bad weather on the December workweek derived from the payroll survey.

7. Most of the decline in the fourth quarter was due to a step-down in consumer demand, although fleet sales also fell off from unusually high third-quarter levels.

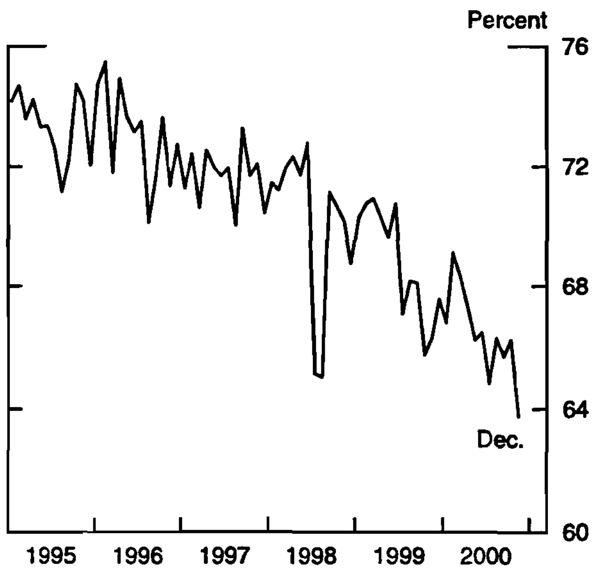
SALES OF AUTOMOBILES AND LIGHT TRUCKS
(Millions of units at an annual rate, FRB seasonals)

			2000			2000		
	1999	2000	Q2	Q3	Q4	Oct.	Nov.	Dec.
Total	16.8	17.2	17.2	17.4	16.2	16.8	16.4	15.3
Autos	8.7	8.8	8.9	8.8	8.3	8.6	8.5	7.9
Light trucks	8.1	8.4	8.3	8.6	7.9	8.2	8.0	7.5
North American[1]	14.3	14.4	14.4	14.5	13.3	14.0	13.6	12.4
Autos	7.0	6.8	6.9	6.8	6.3	6.6	6.5	5.8
Big Three	4.9	4.7	4.8	4.5	4.1	4.4	4.2	3.7
Transplants	2.1	2.2	2.1	2.3	2.1	2.1	2.2	2.1
Light trucks	7.3	7.5	7.4	7.7	7.0	7.4	7.1	6.6
Foreign produced	2.5	2.9	2.9	2.8	2.9	2.8	2.9	3.0
Autos	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.1
Light trucks	.8	.8	.9	.8	.8	.8	.9	.9

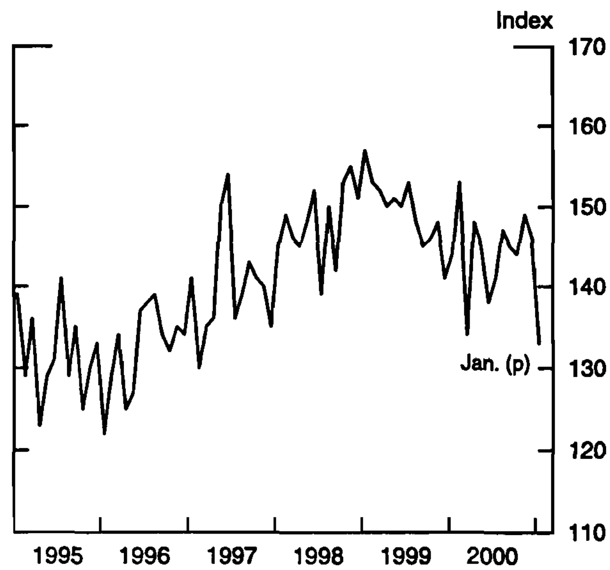
Note. Components may not sum to totals because of rounding. Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.

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

Combined Market Share for the Big Three



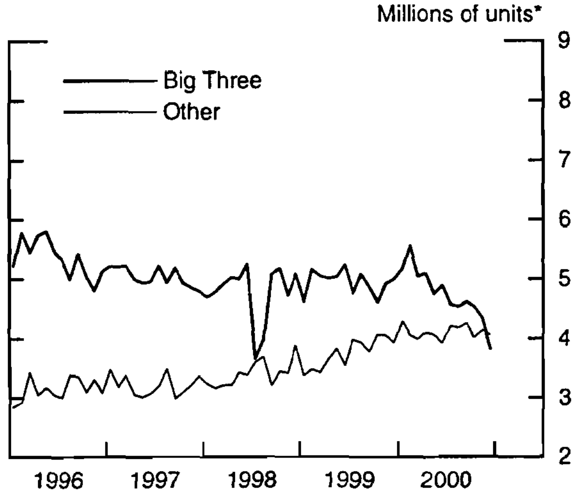
Michigan Survey Index of Car-Buying Attitudes



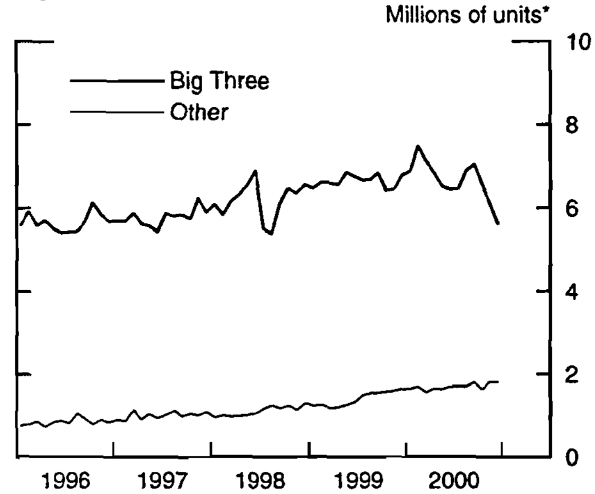
Sales and Inventories of Light Vehicles

(Seasonally adjusted; data through December)

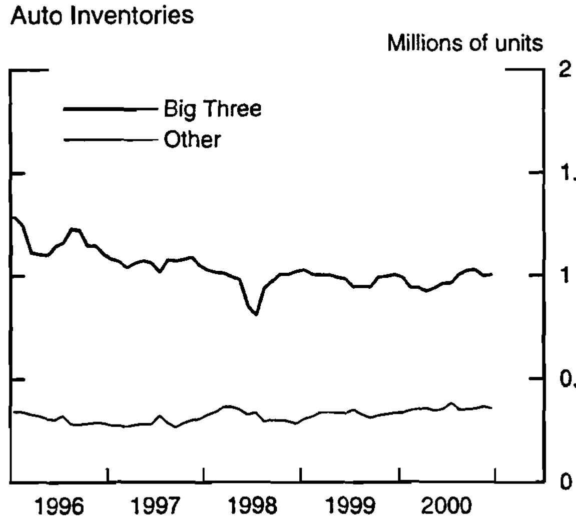
Auto Sales



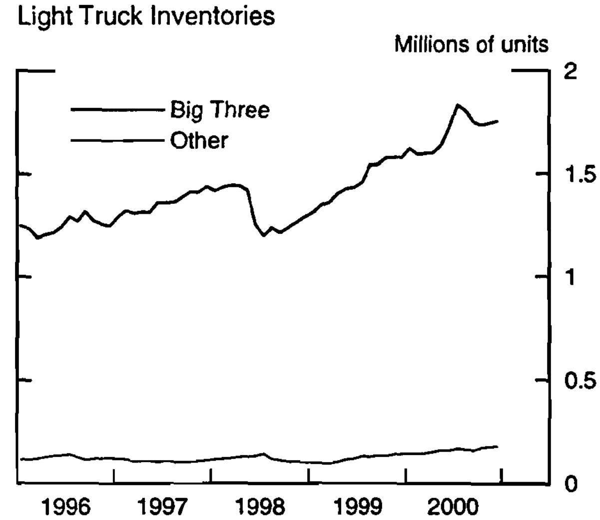
Light Truck Sales



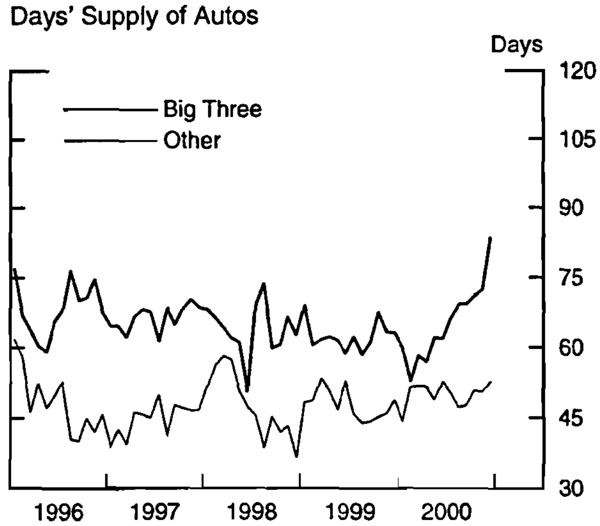
Auto Inventories



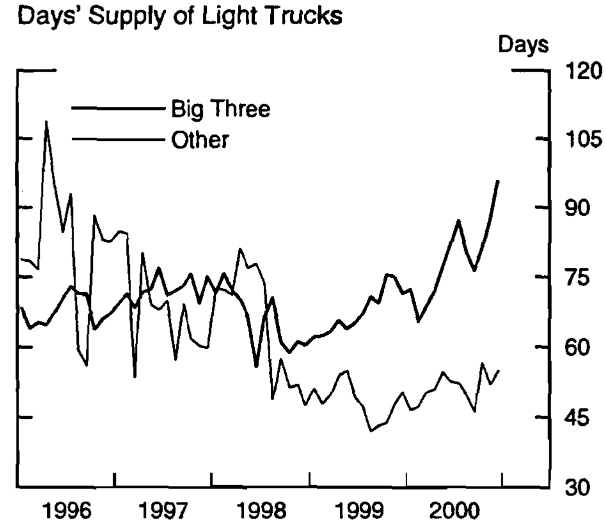
Light Truck Inventories



Days' Supply of Autos



Days' Supply of Light Trucks



* Annual rate; FRB seasonals

RETAIL SALES
(Percent change; seasonally adjusted)

	2000			2000		
	H1	Q3	Q4	Oct.	Nov.	Dec.
Total sales	1.8	1.4	.1	-.1	-.5	.1
Previous estimate		1.4		.0	-.4	
Retail control[1]	2.1	1.6	.5	.0	-.1	.0
Previous estimate		1.6		.2	.2	
GAF[2]	1.9	1.5	.3	.2	-.4	-.4
Previous estimate		1.5		.4	.4	

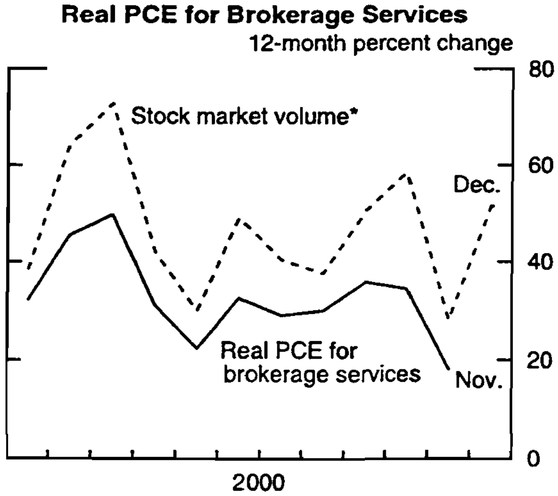
1. Total retail sales less sales at building material and supply stores and automotive dealers, except auto and home supply stores.
2. General merchandise, apparel, furniture, and appliance stores.

REAL PCE SERVICES
(Percent change from the preceding period)

		2000		2000		
	1999	H1	Q3	Sept.	Oct.	Nov.
	Q4/Q4	-- Annual rate --		--- Monthly rate ---		
PCE Services	4.2	4.9	3.7	.5	.3	.6
Electricity	.9	14.6	-5.4	.3	-.9	2.1
Natural Gas	3.6	12.8	-12.5	.7	-4.6	10.8
Nonenergy services	4.3	4.6	4.2	.5	.4	.4
Estimated with trends	3.3	3.8	3.7	.3	.3	.3
Estimated with indicators	5.0	4.7	3.8	.5	.5	.5

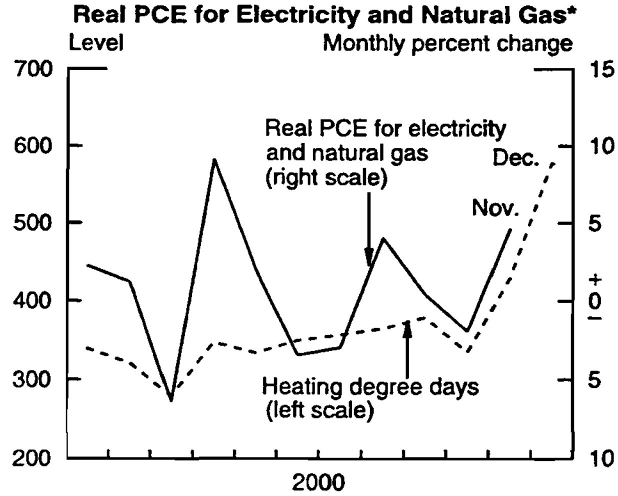
Note. Derived from billions of chained (1996) dollars.

Real PCE for Brokerage Services



*Sum of the trading volumes of the American Stock Exchange, Nasdaq, and New York Stock Exchange divided by 1000.

Real PCE for Electricity and Natural Gas*



*Seasonally adjusted.

higher market share for foreign-produced vehicles and half to a higher share for domestic transplants; these producers have been introducing new models of cars and light trucks that have proven to be attractive competitors to the Big Three's models.

Confidential reports from industry analysts suggest that retail demand for light vehicles has stabilized so far in January.[8] Nonetheless, the preliminary reading from the University of Michigan index of car-buying conditions indicated that consumer attitudes plummeted in mid-January. In addition to greater pessimism about the economy, anecdotal reports suggest that consumers, having become accustomed to sizable rebates and offers of low financing, now feel that current prices are too high. Indeed, after having dropped for several months, the CPI for new vehicles moved up 0.1 percent in November and 0.4 percent in December. These price increases are consistent with the quarterly data on incentives, which suggest that average incentives per vehicle shrank 9 percent in the fourth quarter. To date, manufacturers appear to be resisting the temptation to sweeten incentives to boost sales, although they have extended some offers that were scheduled to expire at midmonth.

Other consumer spending and income. Nominal outlays in the retail control group of stores were unchanged in December and, given revised data, little changed in October and November. Nominal outlays in the GAF group (general merchandise, apparel, and furniture and appliance stores) declined in November and December—readings that are consistent with anecdotal reports of relatively weak holiday spending. Real purchases of goods, excluding motor vehicles, increased a mere 3/4 percent (annual rate) in the fourth quarter. Including reduced outlays for motor vehicles, we estimate that real expenditures for all goods declined at an annual rate of about 1 percent last quarter, which would mark the largest decline in this spending category since the fourth quarter of 1991.[9]

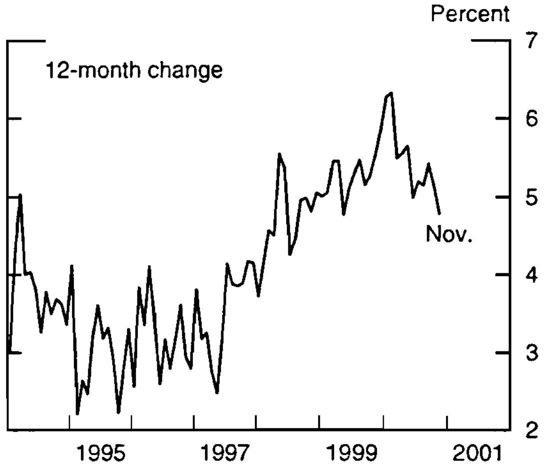
The most recent information on service expenditures is for November, when real service outlays are estimated to have risen 0.6 percent. The gain reflected in part higher consumption of electricity and natural gas that was due to unseasonably cold weather. However, spending on non-energy services—which include recreational services and air travel, for which the BEA uses

8. The anecdotal reports also suggest that several firms are boosting fleet sales in January.

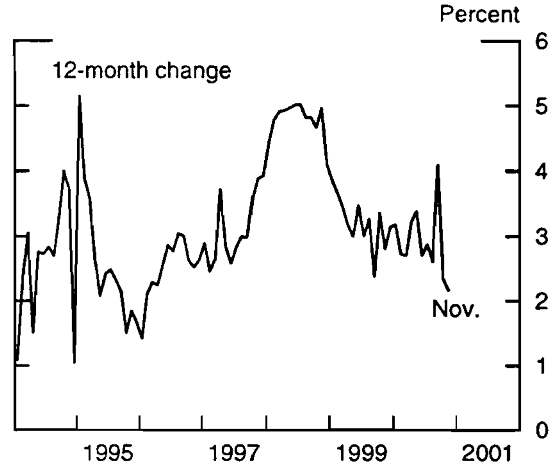
9. The only other quarter since 1991:Q4 during which real PCE for goods declined was 1997:Q2, when goods expenditures declined at an annual rate of 0.4 percent.

Household Indicators

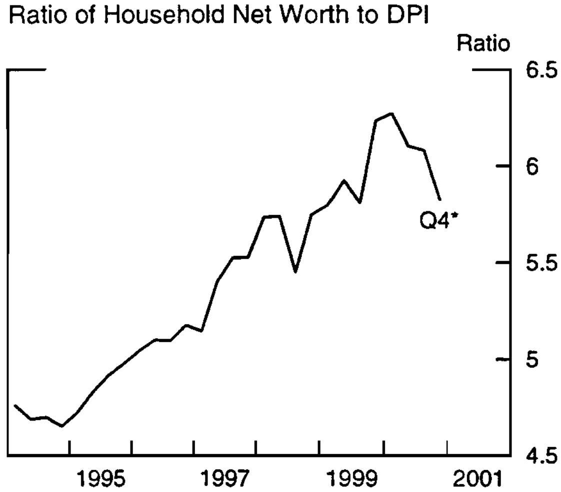
Real Total PCE



Real Disposable Income

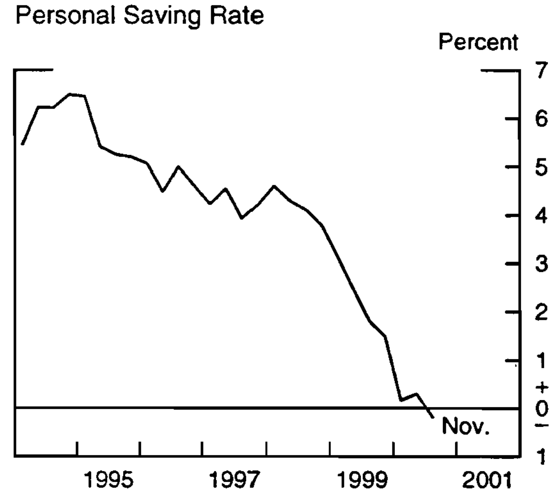


Ratio of Household Net Worth to DPI



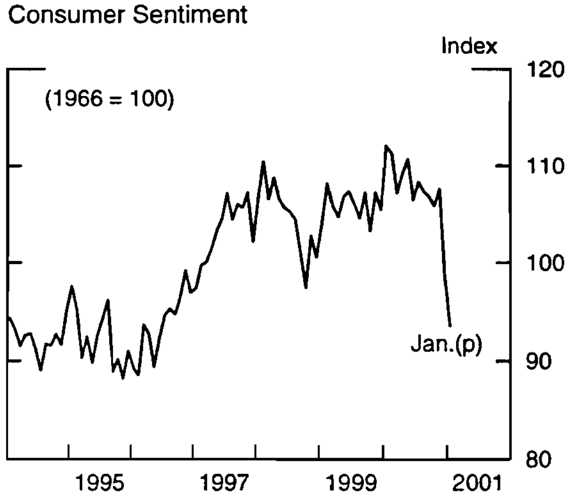
*The Q4 value is an estimate.

Personal Saving Rate

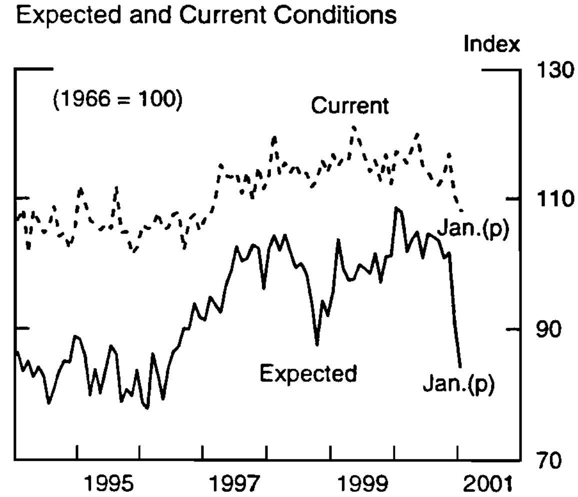


Michigan Survey

Consumer Sentiment



Expected and Current Conditions



timely indicators to estimate monthly movements—also posted noticeable gains in November.[10]

For December, below-average temperatures are again expected to have provided a boost to outlays for electricity and natural gas. But we have little information on purchases of services other than energy. The lone exception is real PCE for brokerage services, which is estimated by the BEA using stock market volume. We anticipate that this component of spending will be reported to have posted a moderate gain in December, reflecting the pickup in trading volume last month.

Income growth has slowed further in recent months. Real disposable personal income rose about 2-1/4 percent over the twelve months ended in November, down from a range of year-over-year increases of 2-3/4 to 3-1/4 percent recorded over much of last year. In addition, the ratio of household net worth to disposable personal income likely fell again in the fourth quarter to its lowest level since 1999:Q3. Looking ahead, labor market data for December suggest only a moderate gain in wage and salary income for the month.

According to the preliminary report on consumer sentiment from the Michigan Survey, household pessimism about the economic outlook increased at the outset of this year. The index of consumer sentiment fell almost 5 percentage points in early January, after a decline of more than 9 percentage points in December.[11] The index has not had back-to-back monthly declines of this magnitude since late 1991. As in December, all of the major components of the aggregate index moved lower. However, the decline was particularly dramatic for the index of expected business conditions over the next twelve months, which fell to its lowest level in more than seven years. As noted earlier, the index of expected unemployment change—which is not included in the overall measure, but has proven to be a useful indicator of consumer spending—shot up 15 percentage points in early January. This comes on the heels of a 13 percentage point increase in December. Although this index has recorded larger run-ups than this in a single month, it has not had back-to-back months of double-digit increases since the middle of 1979.[12]

10. Spending estimates for categories such as recreational services and air travel, which comprise about 60 percent of nominal non-energy services, are likely to be better indicators of current spending activity than are estimates for the remaining 40 percent of non-energy services. The BEA estimates monthly movements for the remaining services using trend growth rates that vary little from one month to another. The trends are not fully re-evaluated until the annual NIPA revision.

11 The final estimate of the index for January will be released on February 2.

12. The largest single-month increase in the expected unemployment index was 28 percentage points in June 1978.

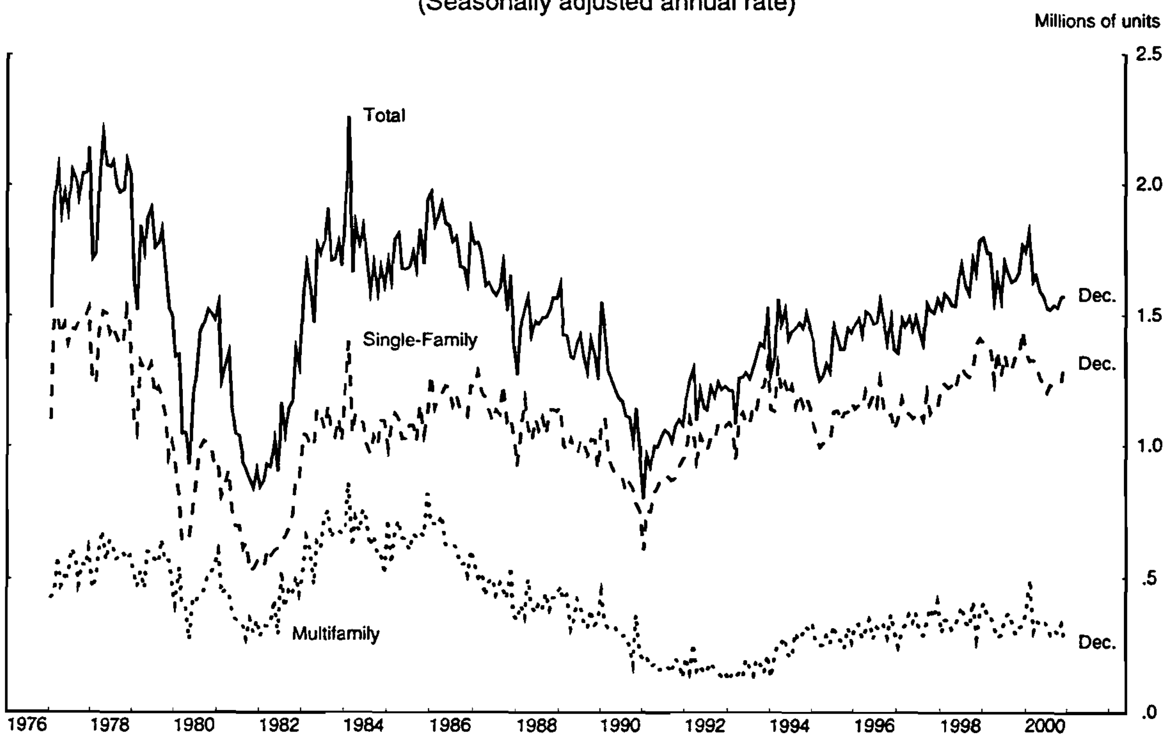
Private Housing Activity
(Millions of units; seasonally adjusted annual rate)

		2000					
	2000p	Q2	Q3	Q4p	Oct.r	Nov.r	Dec.p
All units							
Starts	1.59	1.61	1.53	1.56	1.53	1.57	1.58
Permits	1.57	1.53	1.51	1.55	1.55	1.60	1.49
Single-family units							
Starts	1.26	1.27	1.22	1.26	1.23	1.24	1.31
Permits	1.18	1.15	1.14	1.17	1.19	1.18	1.14
Adjusted permits[1]	1.26	1.24	1.22	1.25	1.26	1.25	1.23
New home sales	n.a.	.86	.90	n.a.	.93	.91	n.a.
Existing home sales	5.03	5.09	5.09	5.04	5.00	5.26	4.87
Multifamily units							
Starts	.33	.34	.31	.30	.30	.33	.26
Permits	.39	.39	.37	.37	.36	.42	.35
Mobile homes							
Shipments	n.a.	.27	.24	n.a.	.21	.20	n.a.

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

1. Adjusted permits equals permit issuance plus total starts outside of permit-issuing areas, minus a correction for those starts in permit-issuing places that lack a permit.

Total Private Building
(Seasonally adjusted annual rate)



Housing

Construction of single-family housing picked up noticeably in December, likely boosted by further reductions in mortgage rates, while multifamily construction continued to decline. Although more timely readings on housing activity were mixed in January, they appear, on balance, to be consistent with a stabilization of demand.

Single-family starts jumped 6 percent in December to an annual rate of 1.31 million units, the highest level since last March. However, adjusted permits for single-family units decreased 1.7 percent in December, to 1.23 million units. These data suggest that the underlying pace of new single-family construction in December probably remained close to the November pace, when starts were 1.24 million units. Starts were up 3.4 percent in the fourth quarter as a whole, marking the first quarterly increase of the year. The rise in the fourth quarter occurred despite unusually cold weather in November and December. However, on a construction-weighted basis for the month as a whole, December also was atypically dry, which likely helped offset some of the effects of the cold weather on construction. More important, rates on fixed-rate contracts averaged nearly 7-1/2 percent in December and about 7 percent in the first three weeks of January. The January reading is 150 basis points below the peak last May and the lowest monthly average since April 1999. January's reading for ARM rates is down 35 basis points from May.

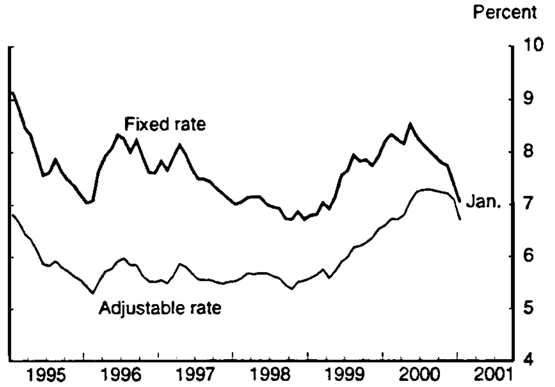
Over the past several months, trends in housing starts varied by region. For example, in the second half of last year—a period in which mortgage rates declined—starts of single-family homes picked up in the Northeast and especially in the West; but starts in the South and in the Midwest continued to trend down. The relatively large decline in the Midwest likely reflects the greater concentration in that region of manufacturing employment. The regional pattern in the second half of 2000 for multifamily starts was different, with starts essentially flat, on balance, in the Northeast and the Midwest, and lower in the South and especially in the West.

Sales of new homes declined in October and November after a strong showing in September. Despite these declines, the two-month average annual rate of 919,000 units was 1-3/4 percent above the third-quarter pace. Sales of existing homes fell about 7-1/2 percent in December to an annual rate of 4.87 million units, bringing the average for the fourth quarter about 1 percent below that for the third quarter.

Despite the ongoing declines in mortgage rates, builders' ratings of new-home sales have declined noticeably since November, and in January ratings reached their lowest level since mid-1997. However, the Michigan Survey's measure of household perceptions of homebuying conditions turned up again in January,

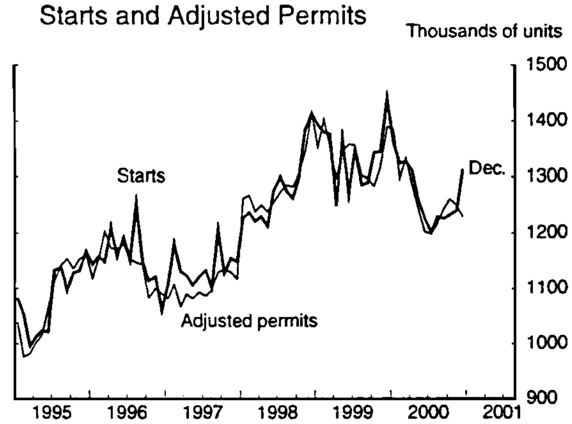
Indicators of Single-Family Housing

Mortgage Rates



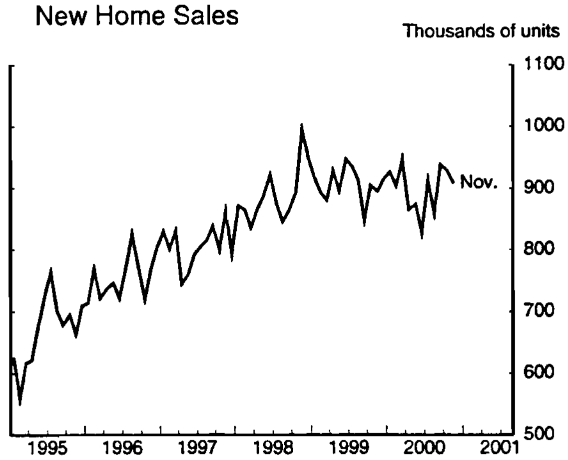
Note. The Jan. reading is an average of weekly data through Jan. 26.
Source. Freddie Mac.

Starts and Adjusted Permits



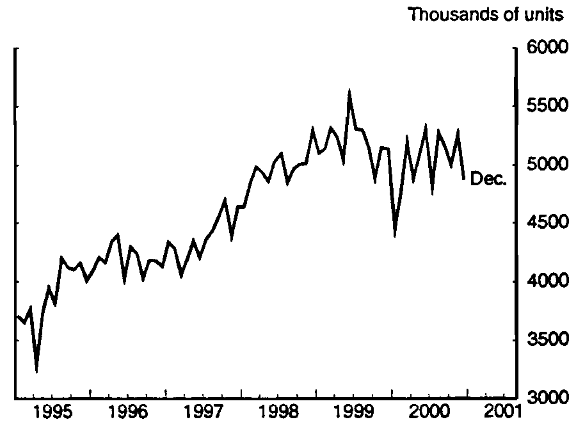
Source. Census Bureau. Adjusted permits calculated by staff.

New Home Sales



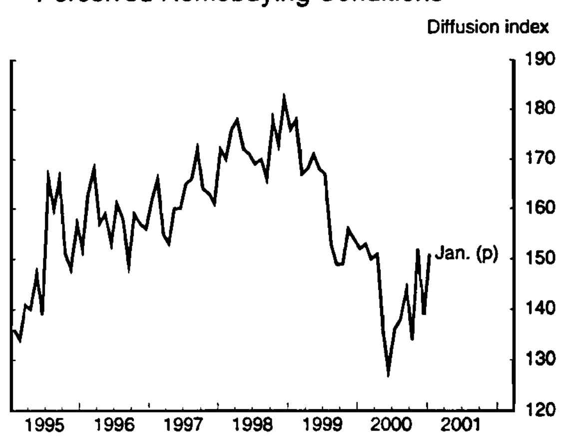
Source. Census Bureau.

Existing Home Sales



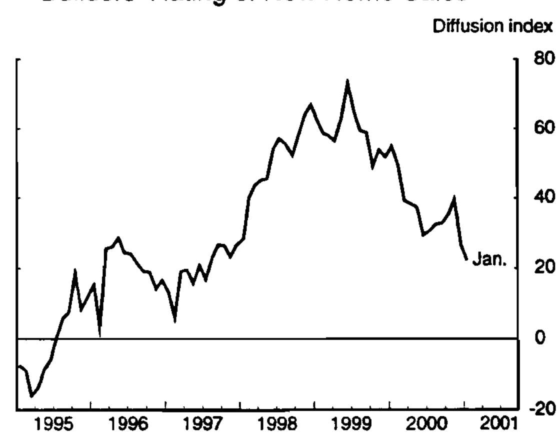
Source. National Association of Realtors.

Perceived Homebuying Conditions



Source. Michigan Survey, not seasonally adjusted.

Builders' Rating of New Home Sales



Source. National Association of Home Builders.

mainly because of a rise in the share of respondents who thought that mortgage rates were relatively low.

In the multifamily sector, housing starts dropped more than 20 percent in December to an annual rate of 262,000 units, more than offsetting a sharp increase in November. For the fourth quarter as a whole, multifamily starts fell 3.9 percent. Multifamily permits decreased nearly 16 percent in December. However, the ratio of starts to permits was below normal, a sign that starts are likely to pick up in coming months.

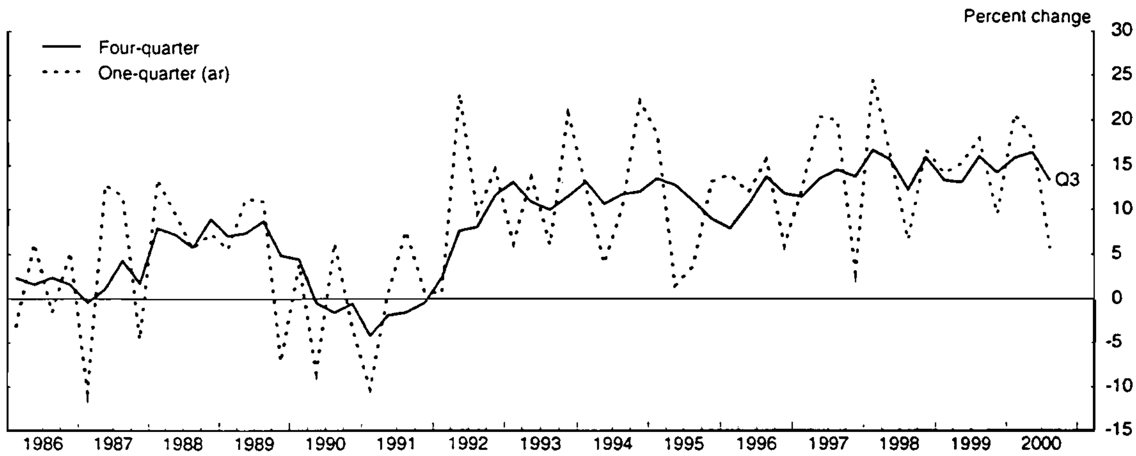
Business Investment

Equipment and software. Although the evidence is still incomplete, we believe that real expenditures on equipment and software were little changed last quarter. To some extent, the weakening in investment outlays is consistent with a deterioration in investment fundamentals: Business output and real cash flow decelerated over the course of 2000, and financial conditions generally became less favorable as banks tightened lending standards and declining stock prices boosted the cost of equity finance. Looking ahead, longer-term borrowing rates have come down, on balance, over the past few months and, more recently, although they are still high, quality spreads on high-risk debt have dropped back sharply.

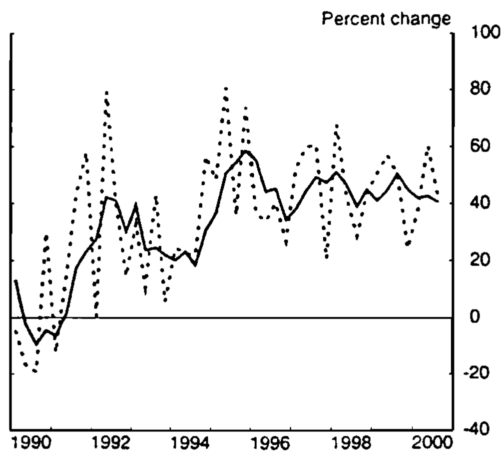
The most recent data on nominal orders and shipments of capital goods extend only through November, and, excluding transportation equipment, these indicators were weak. In the high-tech area, shipments of communications equipment fell in November, leaving the average pace for October and November near that for the third quarter. Moreover, orders for communications equipment fell in October and November, setting the stage for further softness in shipments. Shipments of office and computing equipment also declined in November, with the average for the October-November period barely exceeding the third-quarter average. Of course, given the decline in prices of high-tech equipment, expenditures in real terms are likely to rise in the fourth quarter, and probably at double-digit rates in the case of computers. Estimated real

Real Outlays for Equipment and Software

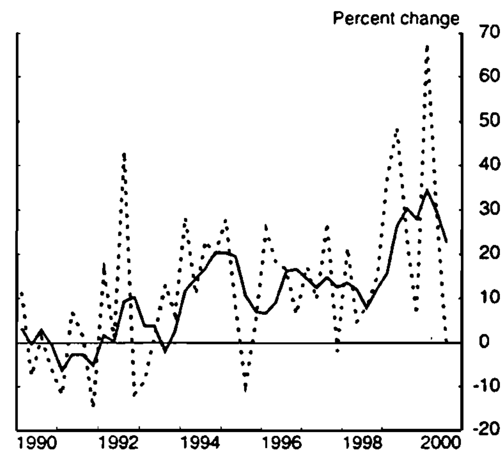
Total Equipment and Software



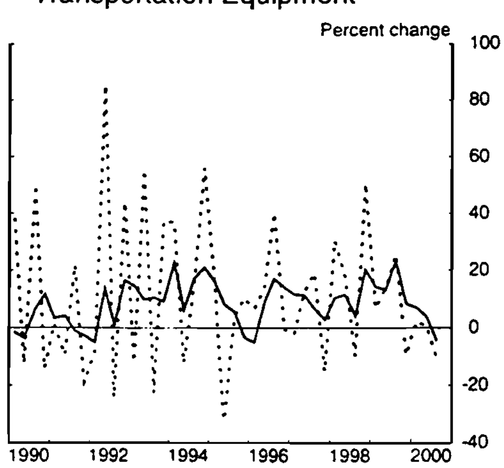
Computers and Software



Communications Equipment

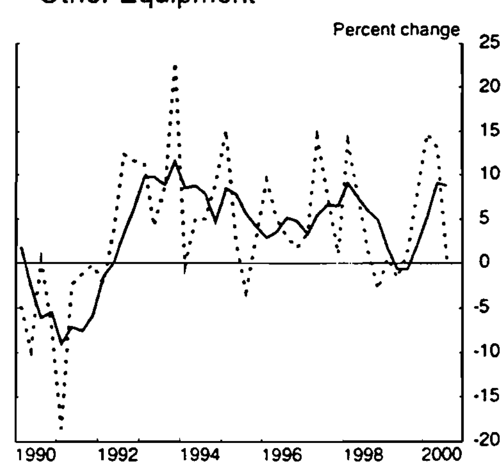


Transportation Equipment



Note. Motor vehicles and aircraft.

Other Equipment



Note. Excludes computers, software, communications, and transportation.

expenditures on software likely also posted a solid advance in the fourth quarter.[13]

Outside the high-tech area, shipments of equipment declined in November for the third straight month, and the October-November average was more than 1 percent below the third-quarter average. Given the low but positive rate of price inflation for such traditional equipment, the drop in nominal outlays translates into an even larger decline in real terms. In addition, orders for non-high-tech equipment fell in October and November.

With more complete data available, we estimate that real expenditures for transportation equipment decelerated markedly in the fourth quarter. In particular, we think that real spending on motor vehicles fell at an annual rate of nearly 40 percent last quarter, the third consecutive quarterly decline. Although unit sales of medium and heavy trucks, which constitute the bulk of motor vehicle equipment investment, posted a strong gain in December, sales were down about 40 percent (annual rate) for the fourth quarter as a whole.[14] Elsewhere in the transportation category, spending on civilian aircraft by domestic businesses—a volatile series owing to the lumpy nature of aircraft deliveries—likely declined a bit last quarter. The nominal value of shipments of domestically produced civilian aircraft declined in October and November (based on Census data), and deliveries by Boeing to U.S. carriers were off sharply, after seasonal adjustment, in December.

Nonresidential construction. Nominal spending on nonresidential construction continued to increase robustly in October and November, averaging 15-1/2 percent (annual rate) more than in the third quarter.

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13. Monthly shipments data are a key element in the BEA's quarterly NIPA estimates of spending for most categories of equipment expenditures. However, comparable shipments data for software do not exist. Instead, about one-third of total software spending (the so-called "own-account" piece) is assumed to increase at the same rate as nominal computer hardware. The remaining two-thirds (the so-called "prepackaged" and "custom" software pieces) are benchmarked each summer to annual data from the Census Service Annual Survey; the latest available data from this survey are from 1998. Subsequent quarterly estimates are based on an eight-quarter moving average of the rate of increase of unpublished unemployment insurance wage data for the prepackaged and custom software industries. The UI data are available only with a two-quarter lag. In the interim, the BEA assumes these wages rise at the rate they averaged during several previous quarters. This procedure has produced strong gains in nominal software spending over the past few quarters, and because the long averages of wage data change slowly over time, the NIPA estimates of software spending in the fourth quarter and subsequent few quarters will increase substantially—even if actual software spending were to be subdued.

14. Spending for motor vehicles has been the most consistently cyclical category of equipment and software spending over the past thirty years, generally declining in the quarter before a business cycle peak and in the peak quarter itself.

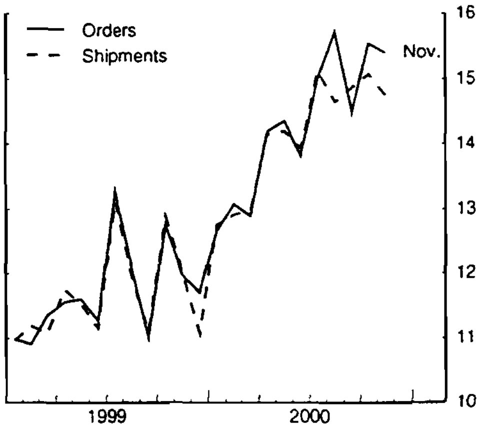
BUSINESS CAPITAL SPENDING INDICATORS
(Percent change from preceding comparable period; based on seasonally adjusted data, in current dollars)

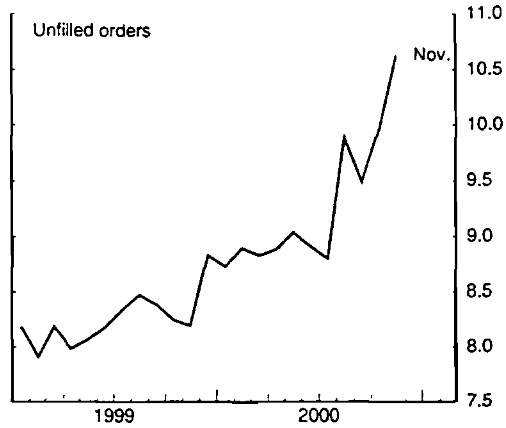
	2000		2000		
	Q3	Q4	Sept.	Oct.	Nov.
Equipment and software					
Shipments of nondefense capital goods	.8	n.a.	.0	-2.3	.7
Excluding aircraft and parts	1.8	n.a.	.5	-.3	-1.6
Office and computing equipment	5.6	n.a.	1.5	1.3	-2.1
Communications equipment	1.2	n.a.	3.6	-1.8	-2.4
All other categories	.1	n.a.	-1.0	-.5	-1.0
Shipments of complete aircraft	-5.9	n.a.	-10.4	-10.6	-2.1
Medium & heavy truck sales (units)	-11.4	-11.3	-7.9	-5.8	-2.7
Orders for nondefense capital goods	1.3	n.a.	5.4	-13.4	5.9
Excluding aircraft and parts	.1	n.a.	1.5	-2.9	-1.0
Office and computing equipment	6.8	n.a.	-7.9	7.4	-1.0
Communications equipment	-7.9	n.a.	20.5	-8.8	-3.5
All other categories	.0	n.a.	.5	-5.7	-.2
Nonresidential structures					
Construction put in place, buildings	2.2	n.a.	1.4	.9	1.2
Office	4.2	n.a.	5.5	-4.1	.6
Other commercial	-1.1	n.a.	.3	3.0	-4.4
Institutional	4.2	n.a.	1.3	2.9	-2.1
Industrial	5.1	n.a.	-1.6	4.1	13.7
Lodging and miscellaneous	-.8	n.a.	.7	-.6	.5
Rotary drilling rigs in use[1]	10.3	8.9	.4	4.7	2.9

1. Percent change of number of rigs in use, seasonally adjusted.
n.a. Not available.

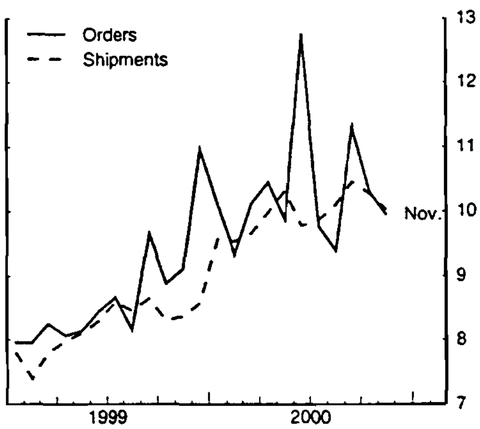
Orders and Shipments for Nondefense Equipment
(Billions of dollars; not at annual rate)

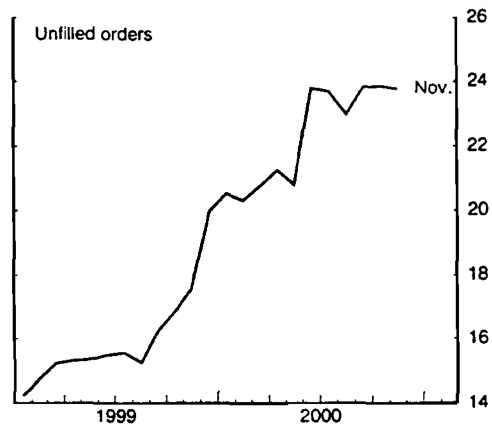
Office and Computing Equipment



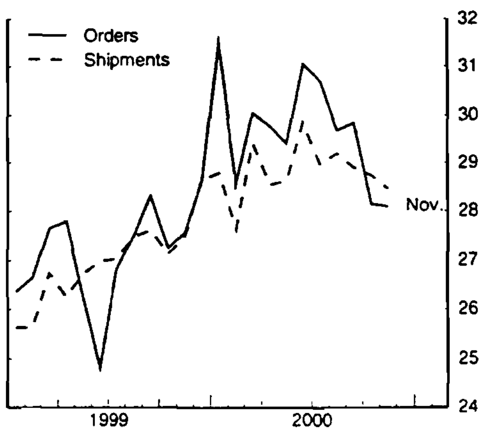


Communications Equipment



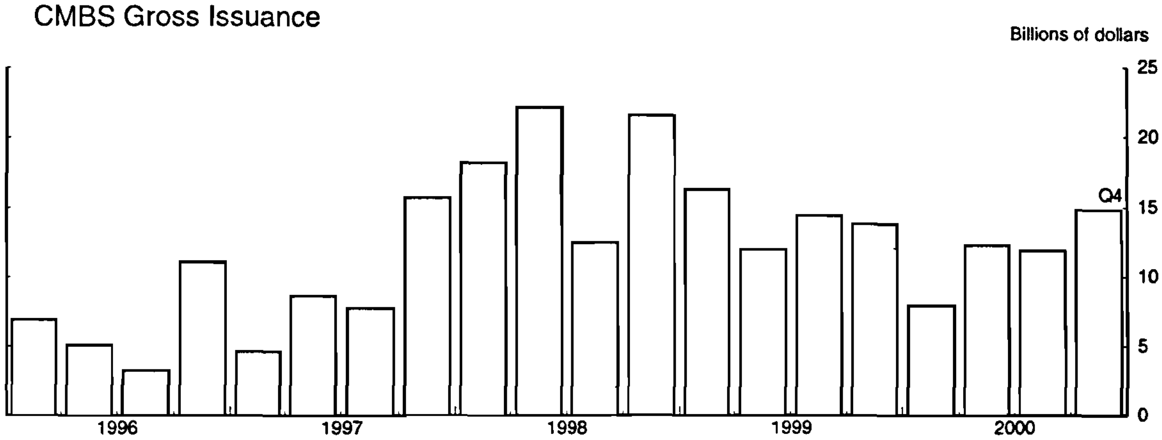


Non-High-Tech Equipment Excluding Aircraft



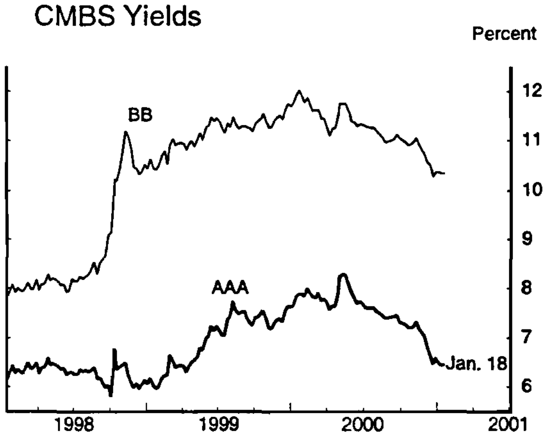
Commercial Mortgage Markets

CMBS Gross Issuance



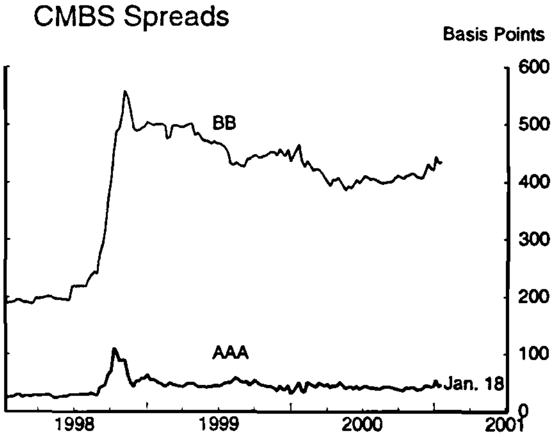
Note. Excludes all CMBS backed by mortgages on foreign properties, and Fannie Mae and Freddie Mac securities.
Source. Commercial Mortgage Alert.

CMBS Yields



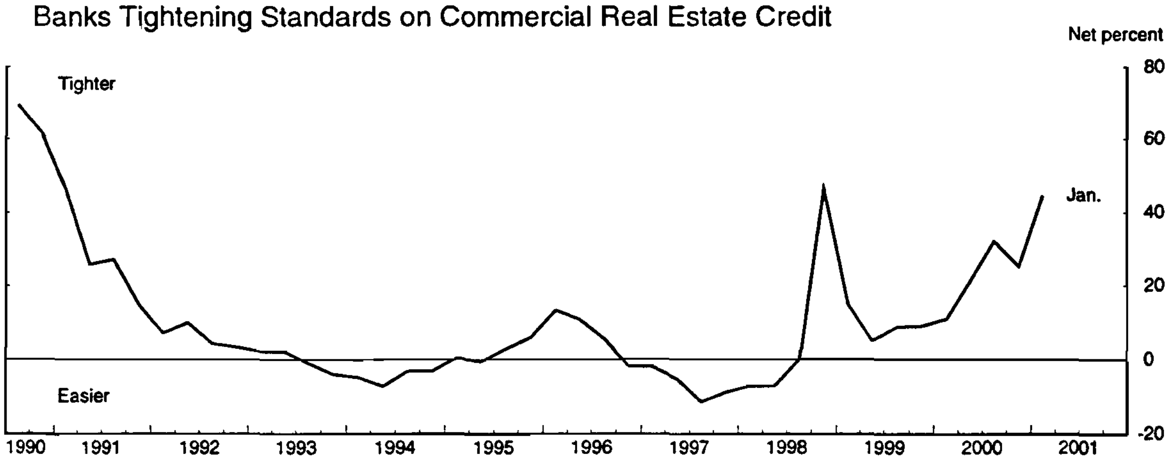
Source. Morgan Stanley.

CMBS Spreads



Note. Rate on CMBS minus 10-year swap rate.
Source. Morgan Stanley.

Banks Tightening Standards on Commercial Real Estate Credit



Source. Senior Loan Officer Opinion Survey.

After having increased rapidly earlier last year, spending for office construction settled back to an annual rate of increase of 3-1/2 percent in October and November from the third-quarter level. Construction spending for other commercial structures (which include retail space and warehouses) picked up in October and November to an annual rate of increase of 8-1/4 percent, which partly reversed their decline over the second and third quarters of last year. Outlays for industrial buildings continued to increase rapidly in October and November, jumping at an annual rate of 55-1/2 percent, on average, from the third-quarter level. Strong gains in industrial building throughout last year more than reversed a string of declines from late 1998 through the end of 1999 that reflected lower demand for U.S. exports owing to the Asian financial crisis.

Conditions in financial markets have remained generally favorable for nonresidential construction. Issuance of commercial-mortgage-backed securities (CMBS) was well maintained in the fourth quarter. Furthermore, over the second half of last year, yields on AAA-rated CMBS fell to the lowest level since mid-1999, and their spread relative to the ten-year swap rate was about flat last year. The spread for below-investment-grade (BB rated) CMBS edged up in the latter part of 2000 from its low last June, but it still was below its level at the end of 1999. Delinquency rates on CMBS remained low through November.[15]

Nonetheless, commercial banks have taken a more cautious approach to commercial real estate lending in recent months. In the senior loan officer opinion survey for the three months ended in mid-January, the net proportion of large domestic banks that reported having tightened their credit standards for commercial mortgage loans was 45 percent, compared with 26 percent in the November sampling. This finding is consistent with an early January survey of commercial mortgage lenders and borrowers that found that commercial banks have been requiring substantial pre-leasing of space and more equity investment as a condition for approving construction loans in recent months. In addition, over the past year, three-fourths of the large domestic banks in the survey reported having tightened their terms on commercial real estate loans.[16] Almost all of these banks cited a less favorable economic outlook as one of the reasons; in contrast, only three-fourths of them mentioned a worsening outlook for commercial real estate within their market area as a reason for tightening.

15. We do not have any timely information for delinquencies on commercial mortgages held by life insurance companies or commercial banks; these rates stayed low through the third quarter (latest data).

16. About half of them reported requiring a wider spread of loan rates relative to the cost of funds, 40 percent required higher debt coverage ratios, and 30 percent reported reducing the maximum loan size or the maximum maturity.

FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS
(Unified basis; billions of dollars)

	October-December			12 months ending in Dec.		
	1999	2000	Percent change	1999	2000	Percent change
Outlays	463.9	463.6	-0.1	1699.7	1787.9	5.2
Deposit insurance	0.8	-0.6	...	-2.4	-4.5	...
Spectrum auction	0.0	0.0	...	-1.5	-0.2	...
Sale of major assets	0.0	0.0	...	0.0	0.0	...
Other	463.1	464.2	0.2	1703.6	1792.5	5.2
Receipts	443.6	461.3	4.0	1858.3	2042.7	9.9
Surplus	-20.3	-2.3	...	158.6	254.8	60.7
	Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts[1]					
Outlays	452.0	459.6	1.7	1731.6	1792.2	3.5
National defense	75.9	75.1	-1.0	283.5	291.1	2.7
Net interest	57.6	54.4	-5.5	229.1	220.2	-3.9
Social security	98.1	103.8	5.8	393.0	415.2	5.6
Medicare	47.0	49.0	4.3	191.7	199.1	3.8
Medicaid	29.2	31.0	6.4	110.8	119.8	8.1
Other health	8.7	9.9	13.9	33.0	37.5	13.7
Income security	57.2	59.3	3.7	240.0	247.1	3.0
Agriculture	18.5	12.2	-34.2	30.7	32.1	4.7
Other	59.8	64.8	8.3	219.8	230.1	4.7
Receipts	443.6	461.3	4.0	1858.3	2042.7	9.9
Individual income and payroll taxes	350.3	365.6	4.4	1489.2	1635.4	9.8
Withheld + FICA	341.2	355.4	4.2	1272.2	1375.7	8.1
Nonwithheld + SECA	16.0	17.1	7.0	341.3	393.8	15.4
Refunds (-)	6.9	6.9	0.9	124.3	134.1	7.9
Corporate	48.8	55.1	12.9	185.9	213.6	14.9
Gross	57.1	64.6	13.1	217.0	243.1	12.1
Refunds (-)	8.3	9.5	14.3	31.1	29.6	-4.9
Other	44.5	40.6	-8.8	183.3	193.7	5.7
Surplus	-8.4	1.7	...	126.7	250.5	97.7

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

1. A shift in payment timing occurs when the first of the month falls on a weekend or holiday, or when the first three days of a month are nonworking days. Outlays for defense, social security, Medicare, income security, and "other" have been adjusted to account for these shifts.

... Not applicable.

Government Expenditures

Federal government. According to the Monthly Treasury Statement, the federal budget surplus for the October-December period totaled $2 billion, after adjustment for shifts in payment timing. The federal government recorded an $8-1/2 billion deficit, after such adjustments, during the same period last year.

After adjustment for routine shifts in the timing of payments, outlays in the October-December period rose only 2 percent relative to last year. Spending on agriculture programs was $6 billion lower than 1999 levels, which were elevated by emergency payments; in 2000, these payments were disbursed in August and September. Defense spending was also down slightly from its 1999 level, which had been boosted by outlays for Y2K preparations. Spending on health programs was pushed up significantly by recent cost increases.

Total receipts rose 4 percent during the October-December period. Even though withheld income and payroll taxes in calendar year 2000 were up 8 percent from 1999, comparable tax withholdings from October through December were 4 percent higher than in the same months of 1999. This deceleration reflects not only slower wage gains but also shifts in income and tax payments from January 2000 to December 1999 owing to Y2K concerns, and from December 2000 to January 2001, because of an anticipation of reductions in tax rates that may be made retroactive to the beginning of the year. Other receipts fell 9 percent, owing to the Federal Reserve's decision to withhold earnings deposits in order to rebuild its surplus. According to the Daily Treasury Statement, non-withheld income tax receipts for January 2001 are expected to increase roughly 10 percent over last January.

The outgoing Administration released new baseline budget projections on January 16. The federal unified budget surplus was projected to rise slowly, from $236 billion recorded in fiscal 2000 to $256 billion in fiscal 2001. The on-budget surplus, which excludes social security and the Postal Service, was forecast to expand from $86 billion to $98 billion. In fiscal 2002, the on-budget surplus is expected to edge up, to $104 billion, if the annual appropriations for discretionary spending rise with inflation.

For the fiscal 2002 to 2011 period, the OMB projected the total budget surplus to be $5 trillion, with a cumulative on-budget surplus of $2.4 trillion and net

ADMINISTRATION BUDGET AND ECONOMIC PROJECTIONS

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
BUDGET PROJECTIONS (fiscal years)											
	Billions of dollars										
Current services surplus	256	277	307	343	380	446	509	570	638	717	810
On-budget	98	104	113	133	146	198	243	288	341	402	479
Off-budget	158	173	194	210	234	248	266	282	297	315	331
	Percent of GDP										
Current services surplus	2.5	2.5	2.7	2.8	3.0	3.3	3.6	3.8	4.1	4.3	4.7
On-budget	0.9	0.9	1.0	1.1	1.1	1.5	1.7	1.9	2.2	2.4	2.8
Off-budget	1.5	1.6	1.7	1.7	1.8	1.8	1.9	1.9	1.9	1.9	1.9
ECONOMIC ASSUMPTIONS (calendar years)											
	Percent change, Q4 to Q4										
Nominal GDP	5.3	5.4	5.4	5.4	5.4	5.3	5.2	5.1	5.1	5.1	5.1
Real GDP	3.2	3.2	3.2	3.2	3.2	3.1	3.0	2.9	2.9	2.9	2.9
CPI-U	2.5	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
	Percent, annual average										
Unemployment rate	4.1	4.4	4.6	4.7	4.8	4.9	5.0	5.1	5.1	5.1	5.1
Treasury yields											
Three-month	6.0	5.7	5.4	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Ten-year	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8

Note. The on-budget surplus excludes the social security surplus and the Postal Service (which are off-budget). The current services baseline assumes that budget authority for discretionary spending grows at the rate of inflation after 2001.

Source. Office of Management and Budget, FY 2002 Economic Outlook, Highlights from FY 1994 to FY 2001, FY 2002 Baseline Projections, January 2001.

debt held by the public eliminated during fiscal 2009.[17] Budget surpluses were revised up a relatively small amount since last summer. At that time, the on-budget surplus over the 2001 to 2010 period—which has been the basis of policy discussions—was projected to total $1.9 trillion. The most recent estimates call for it to reach $2.1 trillion, as upward revisions to receipts reflecting higher estimates for potential GDP growth have been partially offset by upward revisions to outlays owing in part to last fall's budget legislation.

State and local governments. Indicators of state and local activity suggest that real purchases increased moderately again in the fourth quarter. The level of employment was, on balance, unchanged during the quarter. Although real construction spending fell in both October and November, average spending during the two months was still above the third-quarter level. However, December's unusually severe weather makes it unlikely that construction spending rebounded that month.

On the fiscal side, recent surveys indicate that budgetary conditions for states appear to be generally less rosy than in recent years, and analysts are increasingly calling attention to signs of impending fiscal difficulties for some states. Most of the problems appear to be related to slower revenue flows and rising health-care costs. Among the states experiencing slower increases in revenues, some blame recent tax reductions while others point to sluggish state economies. Notably, fewer states than in recent years are expected to consider tax cuts during their upcoming legislative sessions. In addition, 23 states reported cost overruns for Medicaid owing to rising prescription drug costs, increased caseloads, higher enrollment because of outreach projects under the State Children's Health Insurance Program, and higher medical service costs, especially for long-term care.

Prices

The consumer price index rose 0.2 percent in December, the same as in the previous month. Over 2000 as a whole, the CPI was up 3.4 percent, about 3/4 percentage point more than in the preceding year, with core prices accounting for more than half of this acceleration.[18] That said, the CPI excluding food and energy rose just 0.1 percent in December, and the

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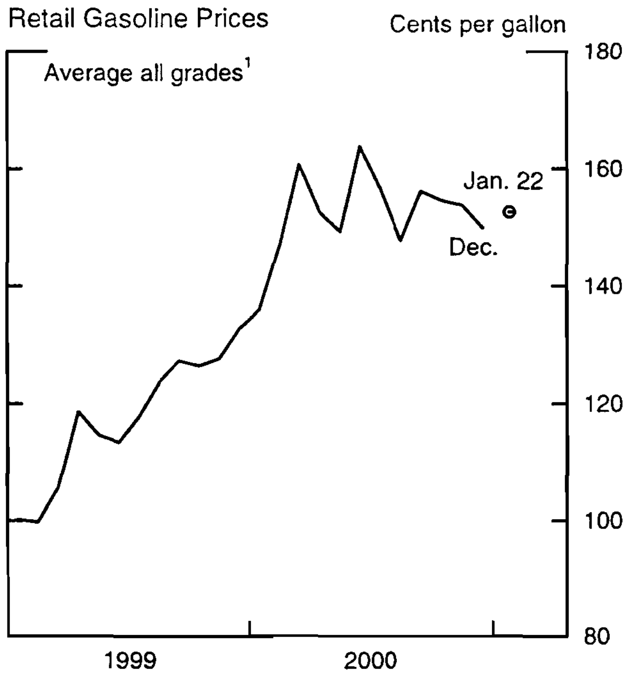
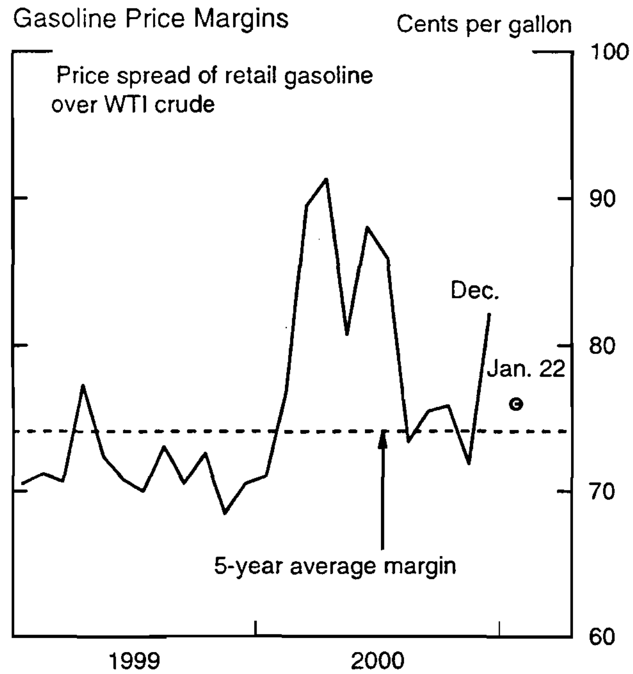
17. The projections are based on the OMB's economic assumptions that during the next ten years, real GDP will increase at an average rate of about 3.0 percent per year, the unemployment rate will move up slowly to about 5 percent, and CPI inflation will move up to about 2-3/4 percent per year. The CBO projections are expected to be released around January 31. According to the Senate Budget Committee, these projections will increase the cumulative ten-year total budget surplus to $5.7 trillion, up from $4.6 trillion forecast last July.

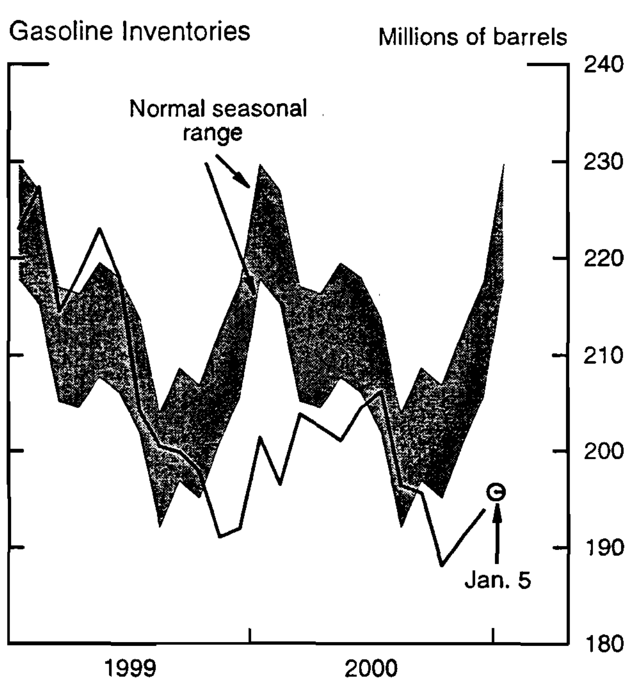
18. As we have noted previously, the December 1998 run-up in tobacco prices no longer affects comparisons of the most recent twelve-month change with that of the year-earlier period. Thus, the pickup in the twelve-month changes ending in December in the core index and the core excluding tobacco are similar.

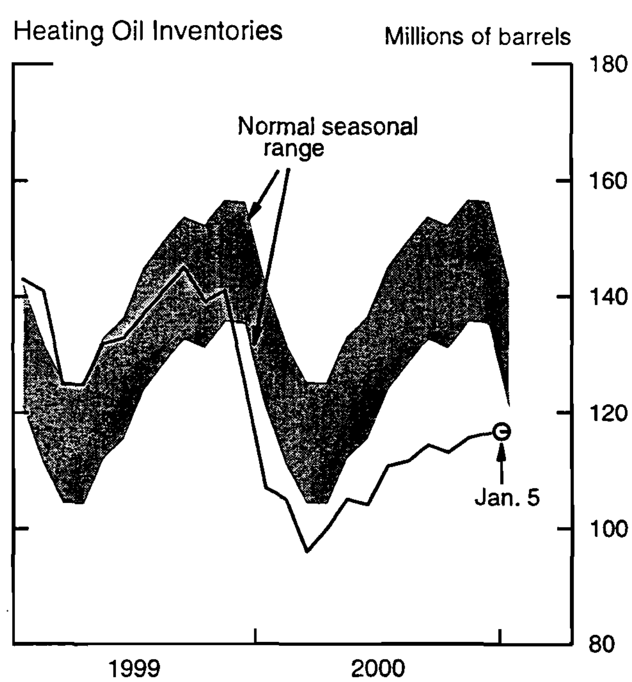
Gasoline and Heating Oil Developments



1. Prices adjusted using CPI seasonal factors.

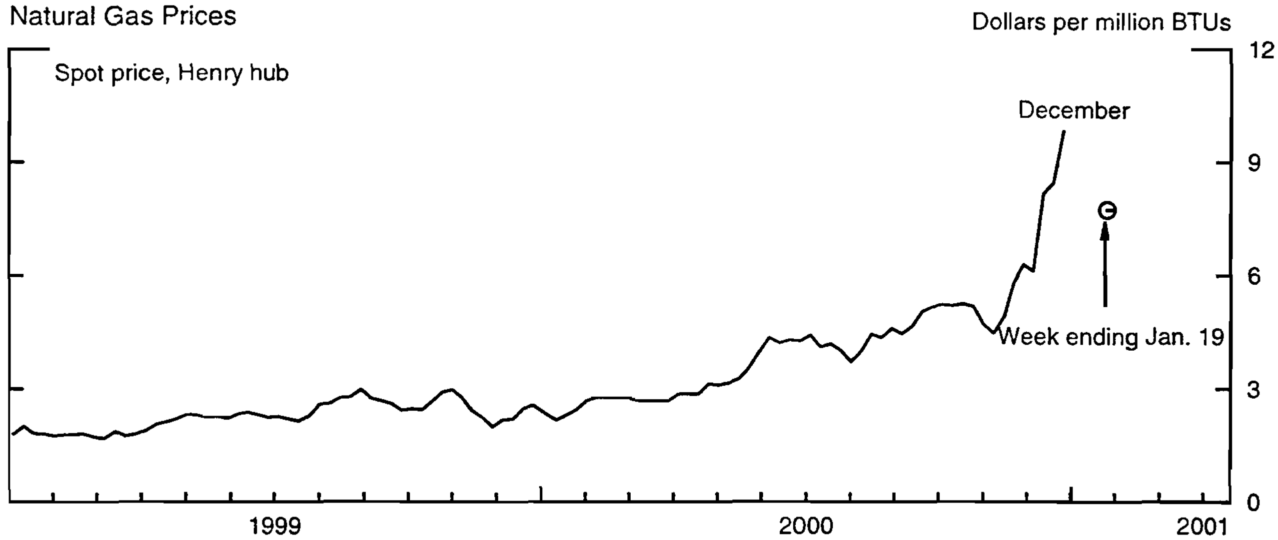


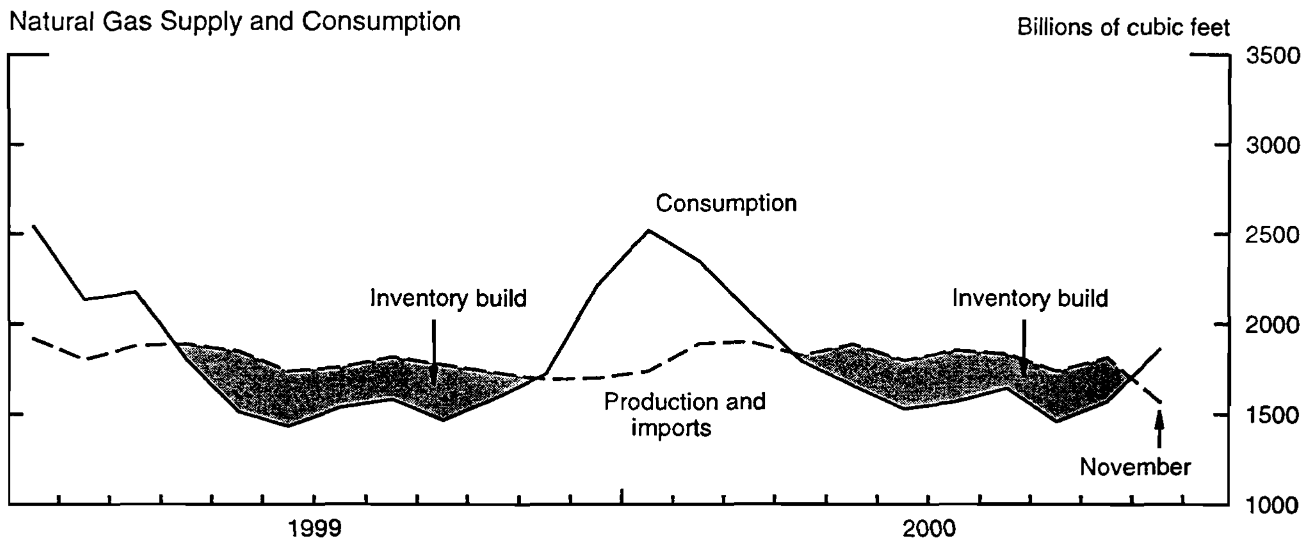


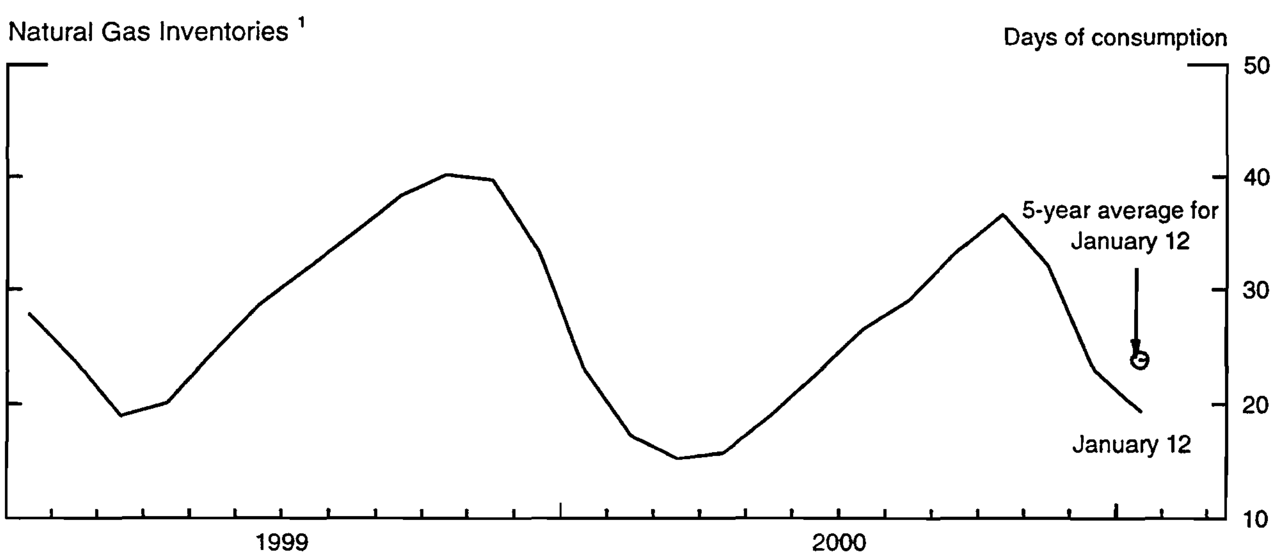


Source. U.S. Department of Energy.

Natural Gas Developments







1. Working gas in storage divided by U.S. D.O.E. projection of 2000/2001 average daily winter consumption.

Source. U.S. Department of Energy.

CPI AND PPI INFLATION RATES
(Percent)

	From 12 months earlier		2000		2000	
	Dec. 1999	Dec. 2000	Q3	Q4	Nov.	Dec.
			-Annual rate-		-Monthly rate-	
CPI						
All items (100.0)[1]	2.7	3.4	3.1	2.8	.2	.2
Food (15.3)	1.9	2.8	4.0	2.0	.0	.5
Energy (7.0)	13.4	14.2	9.8	7.3	.1	.2
CPI less food and energy (77.7)	1.9	2.6	2.5	2.4	.3	.1
Commodities (23.4)	.2	.6	-.1	1.6	.3	-.2
New vehicles (4.8)	-.3	.0	-.1	-1.4	.1	.4
Used cars and trucks (1.9)	1.2	3.4	1.4	9.5	.9	.6
Apparel (4.7)	-.5	-1.8	-3.5	4.1	-.4	-.4
Tobacco (1.3)	11.4	7.5	5.6	.5	3.6	-3.5
Other Commodities (10.7)	-.6	.7	.4	.6	.2	-.1
Services (54.3)	2.7	3.4	3.4	2.8	.3	.1
Shelter (29.9)	2.5	3.5	3.2	3.3	.3	.1
Medical care (4.5)	3.6	4.6	5.1	4.0	.1	.3
Other Services (20.0)	2.8	3.0	3.4	1.8	.3	.2
PPI						
Finished goods (100.0)[2]	2.9	3.6	2.8	3.5	.1	.0
Finished consumer foods (22.9)	.8	1.7	-2.9	3.1	.2	-.4
Finished energy (13.8)	18.1	17.1	17.4	15.3	.4	-.7
Finished goods less food and energy (63.3)	.9	1.2	1.5	.9	.0	.3
Consumer goods (38.9)	1.2	1.2	1.7	1.0	-.1	.3
Capital equipment (24.4)	.3	1.2	1.5	.9	.0	.2
Applications software	1.4	4.3	22.3	-1.1	-7.1	-.5
Intermediate materials less food and energy	1.9	1.6	1.0	-.6	-.1	.0
Crude materials less food and energy	14.0	-5.8	-13.9	-8.7	-2.3	.0

1. Relative importance weight for CPI, December 1999.
2. Relative importance weight for PPI, December 1999.

underlying rate of change in this index appears to have stabilized in recent months. On a current-methods basis, the twelve-month change in the core CPI was 2.5 percent in each month from August through December; this pace is 0.4 percentage point above that registered in 1999.

Retail energy price inflation was mild in November and December—masking sizable swings within the components of the energy category. Crude oil prices, although volatile from week to week, have fallen, on balance, from their November highs, contributing to a corresponding decline in the price of gasoline last month. Although wholesale prices for heating oil have likewise declined in recent months, retail prices have moved up somewhat, sharply boosting retailers' margins.

Supply-demand balances in natural gas markets have been tightening for the past year, but dangerously so over the past two months. Spot prices of gas at Henry Hub rose from $2.50 per million Btu in December 1999 to about $5 per million Btu by October of last year, and prices surged to more than $9 per million Btu through the first half of January, before falling to about $7 over the past week or so. The CPI for natural gas rose 4.4 percent in December and was up nearly 37 percent over the past twelve months. Thus far, only about half of the increase in the cost of natural gas appears to have been passed through to the consumer level; indeed, spot and futures quotes for gas suggest another surge in the CPI for natural gas in January.

Higher prices of natural gas have raised the cost of generating electricity nationwide—the primary reason for December's 0.5 percent increase in retail electricity prices.[19] Further increases in the electricity CPI are likely in January, for the same reason. In addition, the spectacular problems of California's "deregulated" electricity market are expected to boost the nationwide CPI for electricity this month; residential rates in California rose between 7 and 10 percent in early January.[20] Although costs of electricity generation there have increased markedly with higher natural gas prices, the broader underlying problem is insufficient generating capacity to meet the rising demand.

Retail food prices bulged 0.5 percent in December—boosted by sizable increases in many categories—after having posted no change in November.

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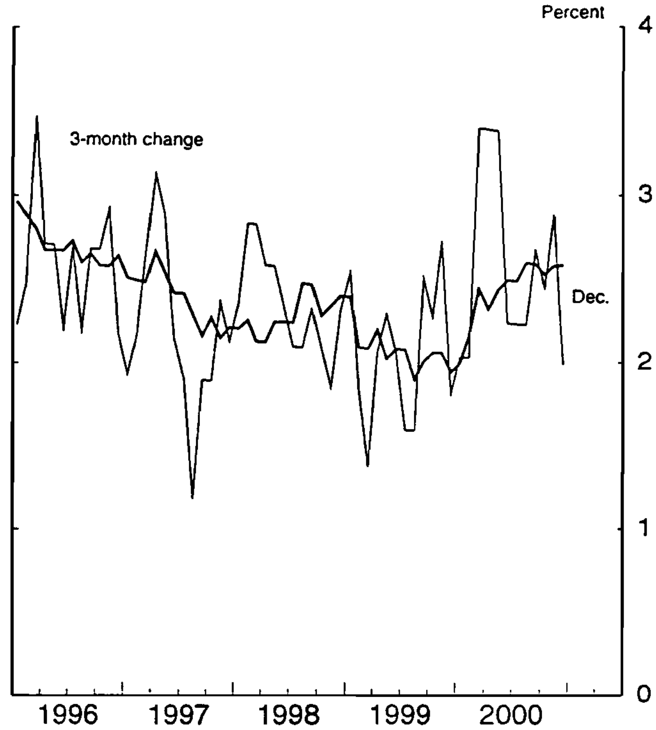
19. Both the CPI and the PPI for electricity are calculated from typical residential electric charges. However, the two indexes differ in timing and coverage. In particular, the PPI reflects prices early in the month, rather than the full month, and uses a smaller sample of distributing utilities. In addition, there are two intermediate-goods PPIs for electricity—one for the commercial sector and one for the industrial sector. These indexes also are end-user price measures, capturing prices paid by commercial and industrial users of electricity.

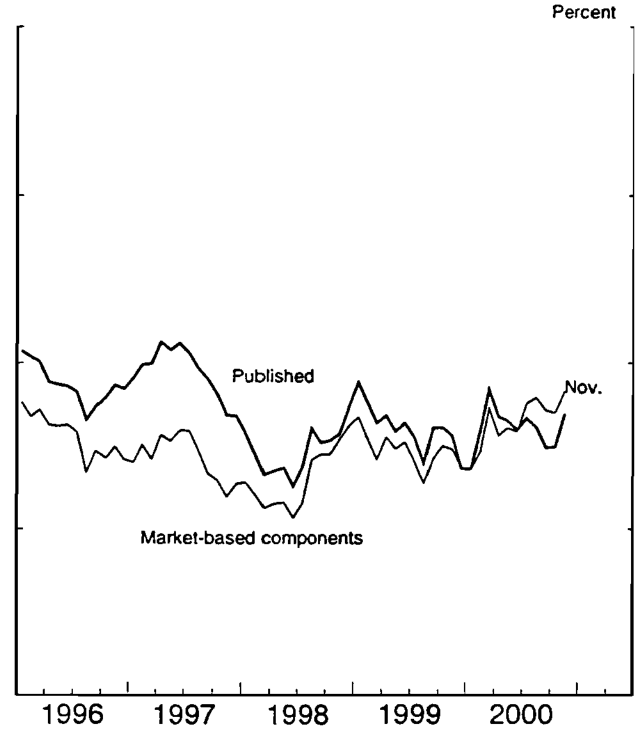
20. California has a weight of roughly 8 percent in the nationwide electricity index, and thus such an increase would boost the CPI for electricity by about 3/4 percentage point.

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

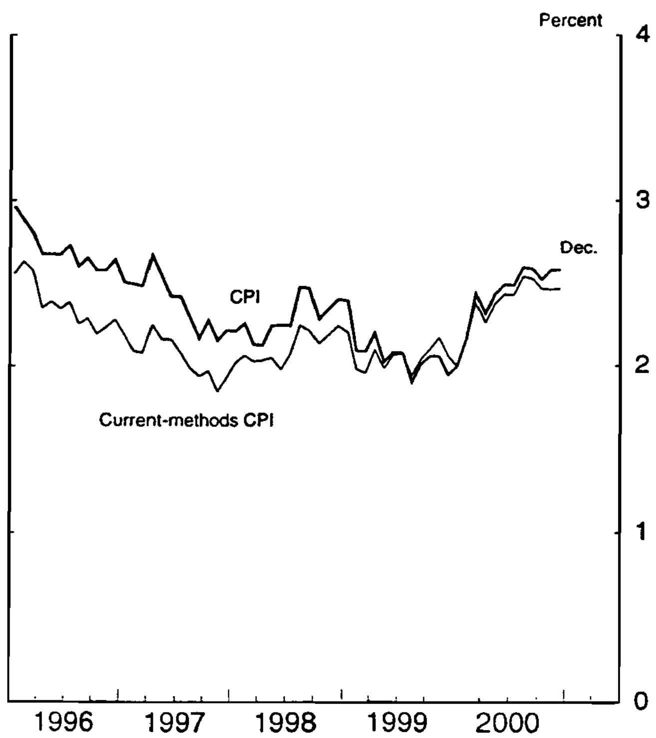
CPI Excluding Food and Energy



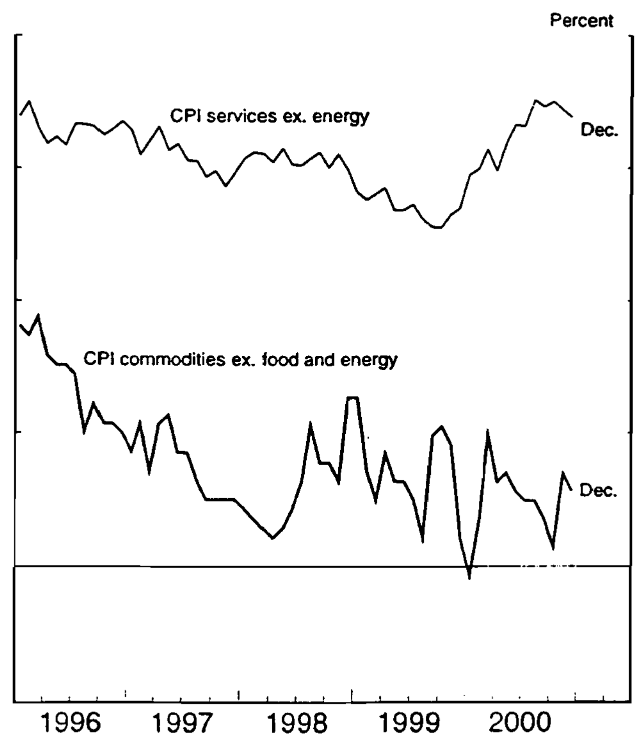
PCE Excluding Food and Energy



CPI Excluding Food and Energy



CPI Services and Commodities



Over the past twelve months, the CPI for food has risen 2.8 percent, about 1 percentage point more than in the year-earlier period; however, the increase over the past year is only a little above the pace in the core CPI.

The CPI for core commodities declined 0.2 percent in December, pulled down by a decrease in tobacco prices.[21] Over the past twelve months, prices of core commodities have risen 0.6 percent—about 1/2 percentage point more than in the year-earlier period—reflecting faster inflation rates for durable goods. Computer prices fell a little less rapidly in 2000 than in 1999, and prices of motor vehicles accelerated. Most of the acceleration in prices for vehicles was the result of more rapid rates of increase for used cars, although new vehicle prices were flat in 2000 after having declined slightly in 1999.

The CPI for non-energy services increased 0.1 percent last month, held down by a drop in the volatile index for lodging-away-from-home.[22] In contrast to the decline in that component of shelter, owners' equivalent rent and tenants' rent were up 0.3 percent and 0.4 percent in December respectively. During 2000, prices of non-energy services climbed 3.4 percent, noticeably above their pace of 2.7 percent in the previous year.[23] Faster rates of increase in medical services, shelter, and a variety of other items contributed to this pickup.

PCE prices are available only through November, and in that month, core PCE prices rose 0.2 percent.[24] In November, the twelve-month change in the core was 1.7 percent, just 0.1 percentage point above its rate in the preceding year. That slight pickup in core PCE inflation is less than that in the core CPI (on a current-methods basis) over the comparable period. As we have mentioned in previous Greenbooks, this pattern largely reflects two factors. First, the non-market components of PCE—which are not included in the CPI—decelerated over the past year. Second, differences in the source data used to measure

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21. According to the BLS, the 3.5 percent decrease in tobacco prices last month reflected discounting on major brands of cigarettes. The dropback in December was somewhat surprising because wholesale prices for cigarettes increased 14 cents per pack in mid-December, in time to have a partial effect on the CPI for that month. Although the wholesale price rise was offset last month, that increase is likely to pass through to the retail level in the coming months.

22. The U.S. Postal Service increased rates on January 7. Given the small weight of postage in the CPI, the increase in rates will have a minimal effect on the CPI for non-energy services.

23. As we have reported previously, last year the BLS corrected a programming error that affected owners' equivalent rent and tenants' rent. Although numbers for both 1999 and 2000 were affected by the error, the BLS corrected figures only for 2000. Because of this discontinuity, the amount of acceleration in non-energy service prices over the past year is overstated in the published figures by about 1/4 percentage point.

24. In its final GDP release for the third quarter, BEA revised down core PCE prices to an annual rate of increase of 1.1 percent, compared with a previously reported increase of 1.5 percent. Much of that revision was concentrated in the erratic index for bank imputed service charges, reflecting Call Report data from the FDIC that the BEA receives only in time for the final GDP release.

BROAD MEASURES OF INFLATION
(4-quarter percent change)

	1997 Q3	1998 Q3	1999 Q3	2000 Q3
Product prices				
GDP chain price index	1.9	1.3	1.4	2.2
Less food and energy	2.0	1.4	1.5	2.1
Nonfarm business chain price index[1]	2.1	0.8	1.2	1.9
Expenditure prices				
Gross domestic purchases chain price index	1.6	0.8	1.7	2.5
Less food and energy	1.6	1.1	1.4	1.9
PCE chain price index	1.9	1.1	1.8	2.4
Less food and energy	2.0	1.5	1.5	1.6
PCE chain price index - market-based components	1.5	0.9	1.8	2.6
Less food and energy	1.5	1.3	1.4	1.8
CPI	2.2	1.6	2.3	3.5
Less food and energy	2.3	2.4	2.0	2.5
Current-methods CPI	1.9	1.4	2.3	3.4
Less food and energy	2.0	2.2	2.0	2.5
Median CPI	2.9	2.9	2.3	2.9
Trimmed mean CPI	2.4	2.0	1.8	2.6

1. Excluding housing.

SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

		University of Michigan				
		1 year		5 to 10 years		
	Actual inflation[1]	Mean[2]	Median[2]	Mean[3]	Median[3]	Professional forecasters (10-year)[4]
1999-Q1	1.7	3.0	2.6	3.3	2.8	2.3
Q2	2.1	3.1	2.7	3.3	2.8	2.5
Q3	2.3	3.1	2.7	3.4	2.9	2.5
Q4	2.6	3.5	2.9	3.3	2.9	2.5
2000-Q1	3.2	3.6	3.0	3.5	3.0	2.5
Q2	3.3	3.5	3.0	3.3	2.8	2.5
Q3	3.5	3.6	2.9	3.4	2.9	2.5
Q4	3.4	3.8	3.0	3.7	3.0	2.5
July	3.7	3.7	3.0	3.2	2.8	
Aug.	3.4	3.5	2.7	3.5	2.9	
Sept.	3.5	3.7	2.9	3.6	3.0	2.5
Oct.	3.4	4.1	3.2	3.7	3.0	
Nov.	3.4	3.8	2.9	3.6	2.9	
Dec.	3.4	3.4	2.8	3.7	3.0	2.5
2001-Jan.		4.0	3.0	4.1	3.0	

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

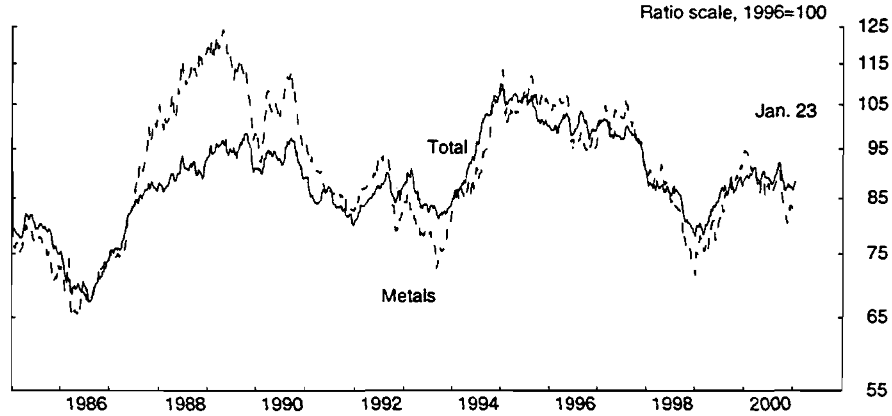
SPOT PRICES OF SELECTED COMMODITIES

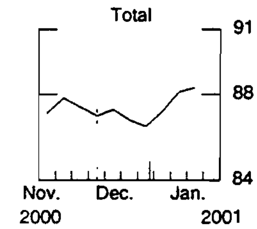
	Current price (dollars)	1998	1999	Dec. 28 to Dec. 12[2]	Dec. 12[2] to Jan. 23	Memo: Year earlier to date
		------------Percent change[1]------------				
Metals						
Copper (lb.)	0.890	-17.9	27.5	3.4	-2.2	0.0
Steel scrap (ton)	86.000	-47.5	61.5	-32.7	8.9	-29.9
Aluminum, London (lb.)	0.746	-17.9	26.8	2.4	2.3	-5.6
Precious metals						
Gold (oz.)	266.100	-1.8	1.3	-6.9	-1.7	-7.6
Silver (oz.)	4.815	-19.7	4.3	-10.2	2.3	-9.7
Forest products[3]						
Lumber (m. bdft.)	175.000	2.7	8.3	-38.5	-12.5	-47.0
Plywood (m. sqft.)	275.000	6.8	-1.6	-4.9	-5.2	-8.3
Petroleum						
Crude oil (barrel)	27.070	-43.2	147.2	3.9	2.0	-0.1
Gasoline (gal.)	0.829	-42.6	109.2	4.0	14.3	11.0
Fuel oil (gal.)	0.865	-39.3	115.2	35.5	-9.6	-31.7
Livestock						
Steers (cwt.)	80.000	-13.2	15.3	10.3	6.7	15.7
Hogs (cwt.)	38.750	-65.3	127.4	22.0	-9.9	0.0
Broilers (lb.)	0.545	27.6	1.4	-13.2	8.9	12.1
U.S. farm crops						
Corn (bu.)	1.940	-18.8	-8.5	3.2	-0.3	-5.1
Wheat (bu.)	3.510	-11.3	-20.3	25.8	5.6	27.2
Soybeans (bu.)	4.515	-20.5	-16.8	10.9	-8.2	-8.9
Cotton (lb.)	0.558	-9.3	-19.4	32.2	-8.7	2.8
Other foodstuffs						
Coffee (lb.)	0.705	-29.9	2.1	-44.8	6.8	-40.8
Memo:						
JOC Industrials	88.300	-13.6	12.2	-1.3	1.5	-1.3
JOC Metals	84.800	-20.1	28.0	-10.1	1.4	-10.2
CRB Futures	229.330	-18.5	6.9	12.6	-0.3	8.2
CRB Spot	254.430	-14.0	1.0	-4.1	-0.2	-4.9

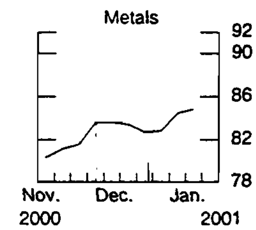
1. Changes, if not specified, are from the last week of the preceding year to the last week of the period indicated.
2. Week of the December Greenbook.
3. Reflects prices on the Friday before the date indicated.

Commodity Price Measures

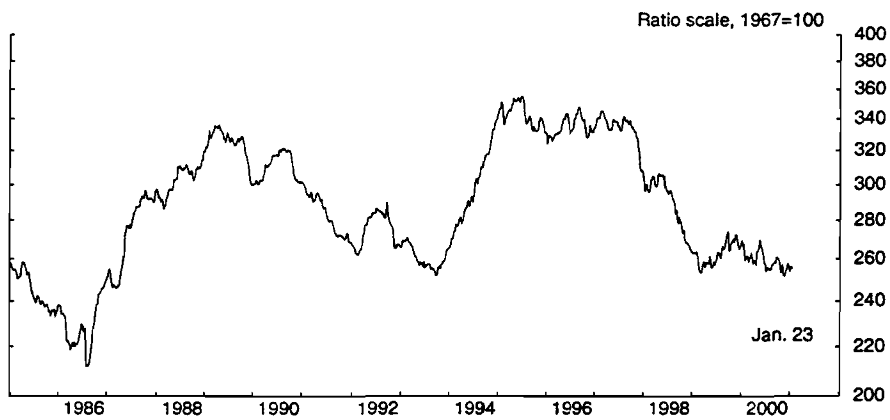
Journal of Commerce Index

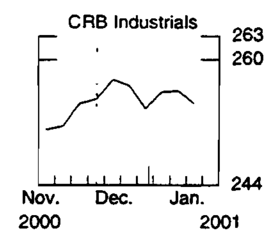




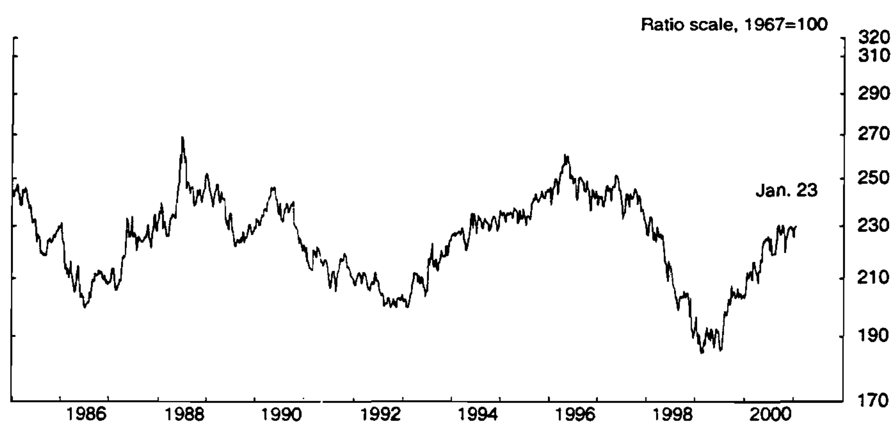


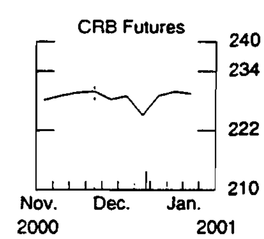
CRB Spot Industrials





CRB Futures





Note. Weekly data, Tuesdays. Vertical lines on small panels indicate week of last Greenbook. The Journal of Commerce index is based almost entirely on industrial commodities, with a small weight given to energy commodities, and the CRB spot price index consists entirely of industrial commodities, excluding energy. The CRB futures index gives about a 60 percent weight to food commodities and splits the remaining weight roughly equally among energy commodities, industrial commodities, and precious metals. Copyright for Journal of Commerce data is held by CIBCR, 1994.

certain prices—particularly for medical care services—held down the acceleration in core PCE prices relative to that in the CPI.

In terms of capital goods, the PPI for that category increased 0.2 percent in December following no change in November. Over the past year, the rate of increase in capital goods prices has picked up about 1 percentage point, owing to faster rates of increase for a range of items, including light trucks, civilian aircraft, oil and gas field equipment, and machine tools. In addition, computer prices did not fall as rapidly during 2000 as they did in 1999. However, with the softening in demand for computers and other high-tech products at the end of last year, prices appear poised to decline more rapidly; indeed, the PPI for computers posted a substantial 2 percent decline in December. The PPI for applications software—which is used as source data for estimating real pre-packaged software spending in the NIPAs—has been erratic recently. Following a sharp rise in early 2000, prices have dropped back considerably in the past two months, suggesting a flattening of the trend.[25]

At earlier stages of processing, prices have been mixed since the time of the last Greenbook. Although the *Journal of Commerce* index of industrial materials prices was up 1.5 percent—with higher prices registered for steel scrap and some petroleum products—prices of some other metals, textiles, and some forest products have moved lower.

Inflation expectations have remained subdued. The median response to the Michigan survey of one-year-ahead inflation expectations was 3.0 percent in early January, about the same as the rate that prevailed last year. Longer-term expectations—as measured by the five- to ten-year median expectations—were 3.0 percent in this month's preliminary survey, similar to the pace registered in recent quarters.

Labor Costs

Compensation per hour, as measured by the ECI, rose at an annual rate of 3.0 percent in the fourth quarter. Although this series can be volatile on a quarterly basis, the increase last quarter was noticeably below the pace registered earlier last year. Wages and salaries were also up at a 3.0 percent rate

25. Interpreting the recent movements in the PPI for applications software is complicated by the somewhat bizarre four-month lagged revision procedure used by the BLS for the PPI. Consider the revisions last month. With the release of the December figures, the BLS revised the *level* of the PPI down in August (four months earlier) to reflect late reports from companies. In addition, the December PPI was set at its best *level*, reflecting the new information incorporated for August. However, because the BLS does not adjust the levels of the intervening months—September, October, and November—the pattern of monthly percent changes for recent months is confounded. Although this revision procedure is used for every component of the PPI, its effects are particularly acute for software prices because revisions tend to be large in that component.

EMPLOYMENT COST INDEX OF HOURLY COMPENSATION
FOR PRIVATE INDUSTRY WORKERS

	1999	2000			
	Dec.	Mar.	June	Sept.	Dec.
	-----Quarterly percent change------- (Compound annual rate)				
Total hourly compensation[1]	4.0	5.9	4.4	4.1	3.0
Wages and salaries	3.7	4.9	4.2	3.6	3.0
Benefit costs	4.7	9.7	5.0	4.5	3.6
By industry					
Construction	4.1	5.9	5.5	5.4	6.2
Manufacturing	4.6	6.6	4.2	3.6	1.4
Trans., comm., and public utilities	2.0	4.0	5.7	4.2	3.0
Wholesale trade	6.4	4.1	4.3	1.1	6.5
Retail trade	4.4	6.7	3.4	3.4	3.3
FIRE	1.9	10.4	2.9	5.6	1.3
Services	4.2	5.3	5.2	4.0	3.2
By occupation					
White collar	3.9	6.7	5.2	3.5	2.9
Blue collar	3.8	6.1	3.7	3.9	3.1
Service occupations	4.6	3.4	4.5	3.4	4.4
Memo:					
State and local governments	4.3	3.4	3.1	2.5	3.3
	-----Twelve-month percent change----				
Total hourly compensation	3.4	4.6	4.6	4.6	4.4
Excluding sales workers	3.7	4.3	4.4	4.6	4.4
Wages and salaries	3.5	4.2	4.1	4.1	3.9
Excluding sales workers	3.7	3.8	3.9	4.0	3.9
Benefit costs	3.4	5.5	5.7	6.0	5.6
By industry					
Construction	3.3	3.8	4.6	5.2	5.8
Manufacturing	3.4	4.4	4.7	4.6	4.0
Trans., comm., and public utilities	2.2	3.0	3.4	3.9	4.2
Wholesale trade	4.0	5.1	5.0	4.0	4.0
Retail trade	3.8	4.7	4.1	4.4	4.2
FIRE	4.1	7.4	5.0	5.1	5.0
Services	3.4	4.1	4.6	4.7	4.4
By occupation					
White collar	3.5	4.8	4.9	4.8	4.6
Sales	1.9	6.7	5.4	4.9	4.2
Nonsales	3.8	4.5	4.7	4.7	4.6
Blue collar	3.4	4.2	4.3	4.4	4.2
Service occupations	3.3	3.2	3.4	4.0	3.9
Memo:					
State and local governments	3.4	3.6	3.5	3.3	3.0

1. Seasonally adjusted by the BLS.

last quarter, held down by small increases in manufacturing and in finance, insurance, and real estate (FIRE), where commissions can swing widely. In both of these areas, weakness in activity likely contributed to the step-down in wage gains. Benefits rose at a 3.6 percent rate last quarter following larger increases in the past several quarters.[26] Health insurance costs rose at a 6 percent rate, and nonproduction bonuses were up at a 3-3/4 percent rate.

Over the twelve months ending in December, the ECI for hourly compensation increased 4.4 percent, up 1 percentage point from a year ago. For wages and salaries, last year's increase was 3.9 percent, about 1/2 percentage point above that in 1999. In recent years, changes in overall wages and salaries have been heavily influenced by swings in the FIRE component that were related to the wave of mortgage refinancings in 1998. Excluding FIRE, the trends in wages and salaries are somewhat smoother in recent years, and twelve-month changes in this category appear to have moderated in the past couple of quarters. Benefits were up 5.6 percent in 2000, pushed up by faster rates of increase for most major components of benefits than in 1999. Given cost pressures on health care, available evidence suggests further sizable increases in this category of benefits in 2001.[27]

Although other compensation measures accelerated more in the fourth quarter than did the ECI, the various measures of compensation all showed a similar pattern of acceleration between 1999 and 2000. Average hourly earnings of production or nonsupervisory workers—which increased 0.4 percent in December and 0.6 percent in November—were up 4.2 percent over the twelve months ending in December, about 3/4 percentage point above their pace in 1999. Although fourth-quarter data for the Productivity and Cost measure of compensation per hour are not yet available, we estimate that P&C hourly compensation rose at an annual rate of 6-1/2 percent in the fourth quarter and 5-1/2 percent over the past year, compared with an increase of 4-3/4 percent in 1999.[28]

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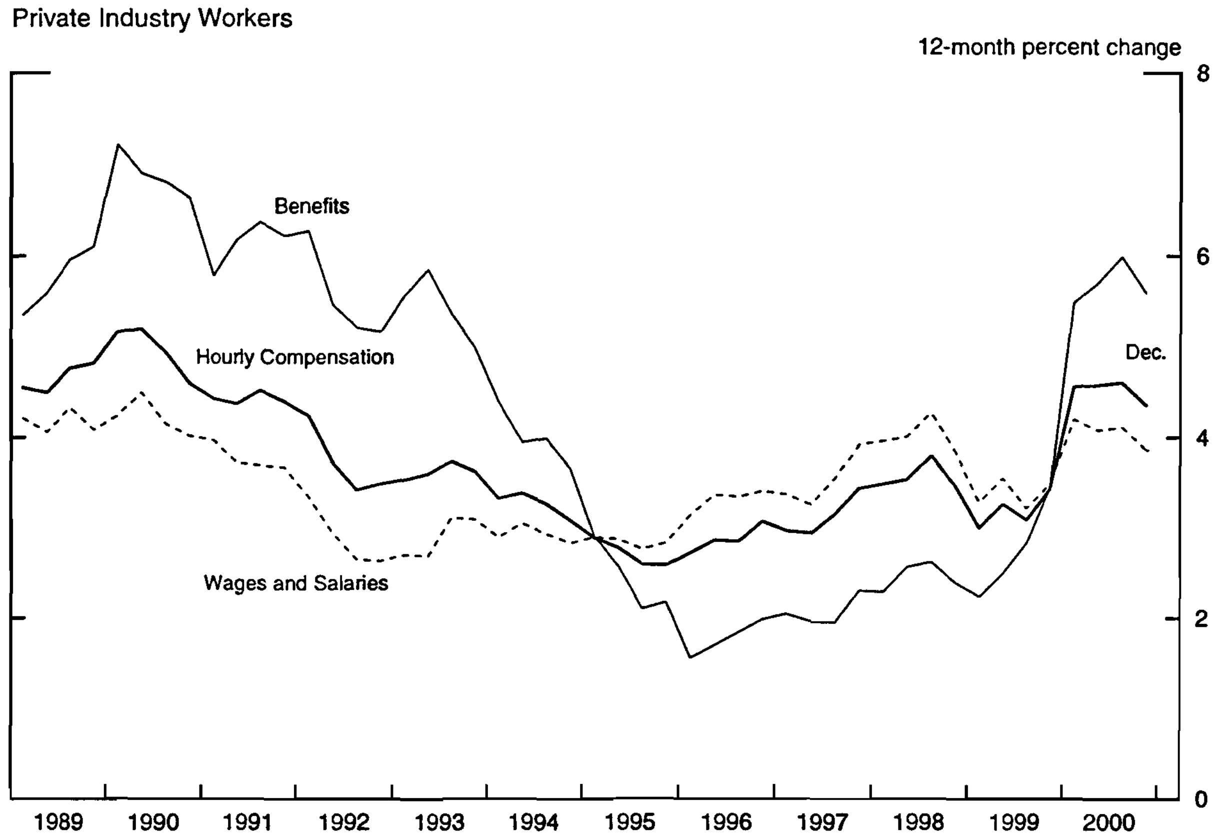
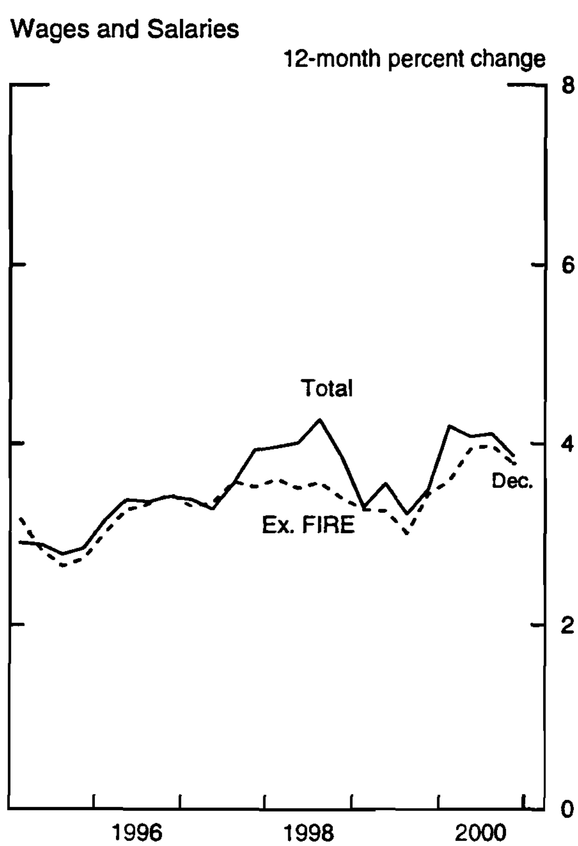
26. With the exception of health insurance, benefits detail is unpublished and is provided to us by the BLS on a confidential basis.

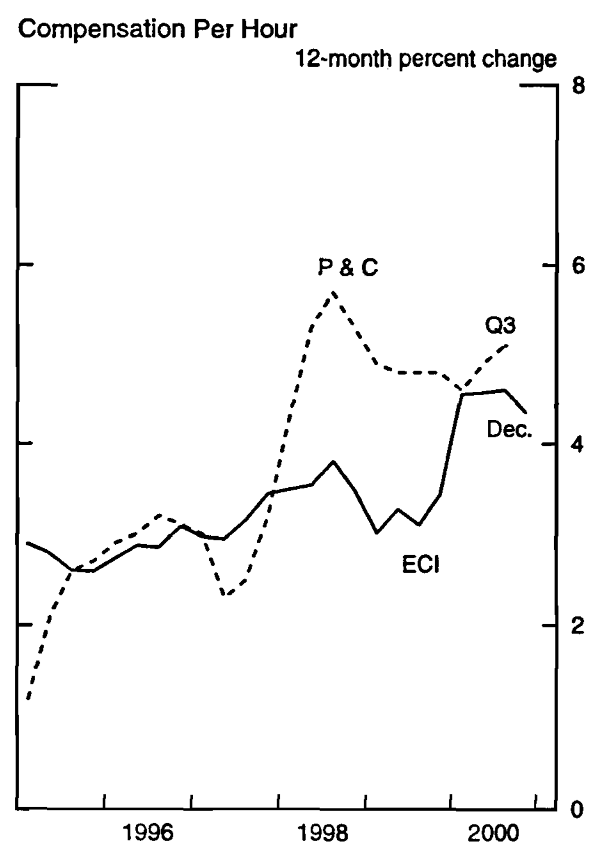
27. A recent survey by Mercer/Foster-Higgins points to faster rates of increase in health-benefits costs this year than seen last year. Towers-Perrin expects to release its survey of health-benefits costs next week.

28. Our projection for fourth-quarter P&C hourly compensation reflects information on average hourly earnings through December and the monthly readings on wage and salary income from the NIPAs through November.

Employment Cost Index



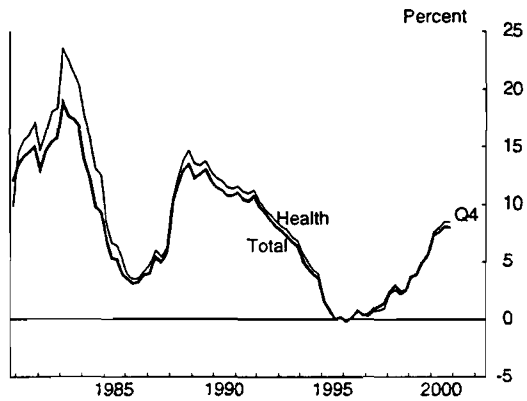




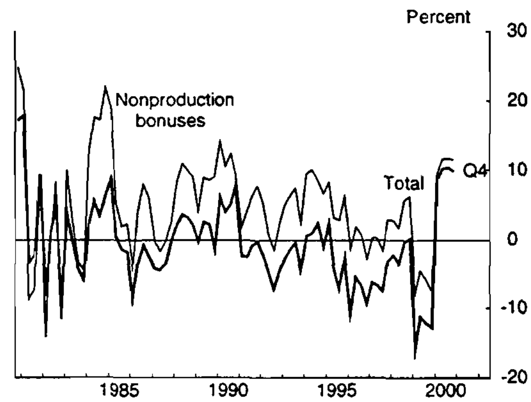
Components of ECI Benefits Costs (CONFIDENTIAL)

(Private industry workers; 12-month change)

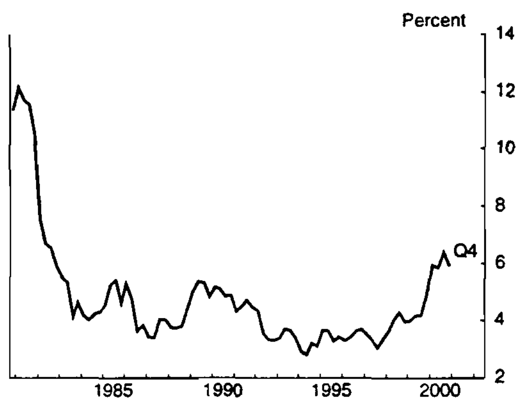
Insurance Costs



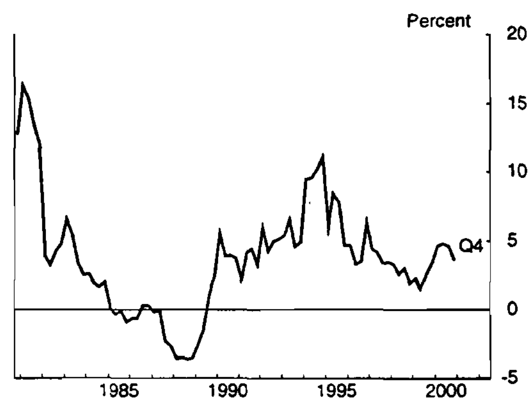
Supplemental Pay



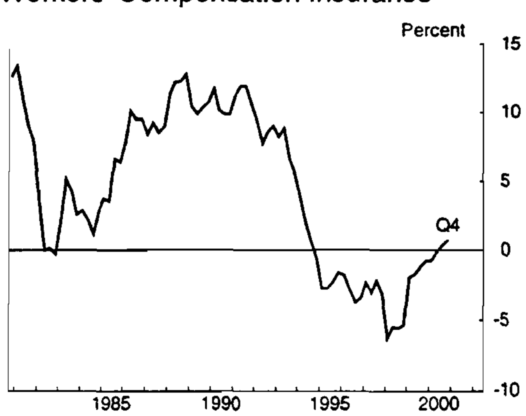
Paid Leave



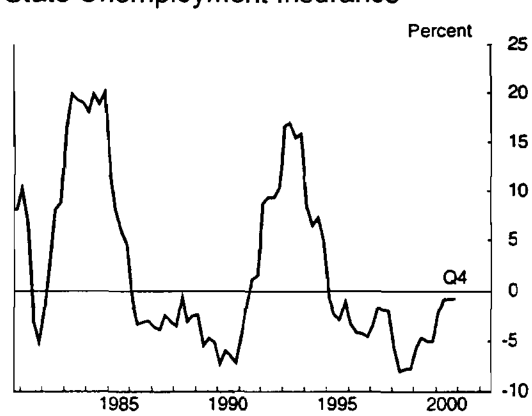
Retirement and Savings



Workers' Compensation Insurance



State Unemployment Insurance

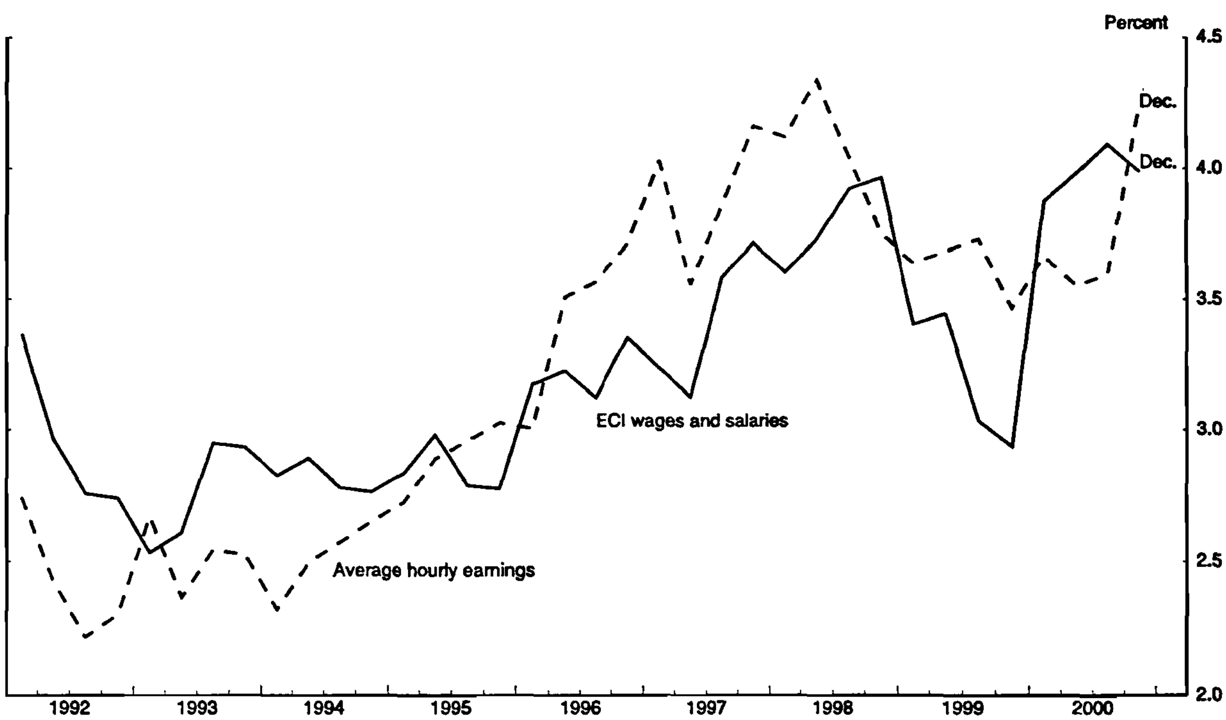


Note. Unpublished and confidential ECI benefits detail.

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

	12-month percent change			Percent change to Dec. 2000 from month indicated		2000	
	Dec. 1998	Dec. 1999	Dec. 2000	June 2000	Sept. 2000	Nov.	Dec.
	-Annual rate-					-Monthly rate-	
Total private nonfarm	3.8	3.5	4.2	4.6	5.3	.6	.4
Manufacturing	1.6	3.6	3.8	3.8	5.7	.5	.0
Construction	3.1	3.6	3.9	4.0	3.6	1.1	-.4
Transportation and public utilities	2.4	2.8	3.3	2.3	4.2	.2	.3
Finance, insurance, and real estate	5.6	2.5	4.2	4.7	5.6	.7	.7
Retail trade	4.6	4.0	4.3	4.7	4.7	.4	.5
Wholesale trade	4.1	3.7	5.1	5.8	7.2	.5	1.0
Services	4.5	3.7	4.4	5.1	5.9	.8	.4

Measures of Hourly Wages for Production or Nonsupervisory Workers
(12-month change)



Domestic Financial Developments

III-T-1

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

Instrument	2000 June 26	2000 Dec. 18	2001 Jan. 2	2001 Jan. 24	Change to Jan. 24 from selected dates (percentage points) 2000 June 26	2000 Dec. 18	2001 Jan. 2
Short-term							
FOMC intended federal funds rate	6.50	6.50	6.50	6.00	-.50	-.50	-.50
Treasury bills [1]							
3-month	5.66	5.78	5.69	5.14	-.52	-.64	-.55
6-month	5.94	5.69	5.36	4.95	-.99	-.74	-.41
1-year	5.82	5.31	4.92	4.68	-1.14	-.63	-.24
Commercial paper							
1-month	6.56	6.56	6.45	5.63	-.93	-.93	-.82
3-month	6.56	6.32	6.15	5.33	-1.23	-.99	-.82
Large negotiable CDs [1]							
1-month	6.64	6.60	6.49	5.68	-.96	-.92	-.81
3-month	6.73	6.45	6.27	5.52	-1.21	-.93	-.75
6-month	6.89	6.29	6.07	5.38	-1.51	-.91	-.69
Eurodollar deposits [2]							
1-month	6.63	6.56	6.46	5.65	-.98	-.91	-.81
3-month	6.69	6.44	6.27	5.51	-1.18	-.93	-.76
Bank prime rate	9.50	9.50	9.50	9.00	-.50	-.50	-.50
Intermediate- and long-term							
U.S. Treasury (constant maturity)							
2-year	6.50	5.33	4.87	4.81	-1.69	-.52	-.06
10-year	6.11	5.17	4.92	5.33	-.78	.16	.41
30-year	5.99	5.44	5.35	5.67	-.32	.23	.32
U.S. Treasury 10-year indexed note	4.08	3.75	3.61	3.50	-.58	-.25	-.11
Municipal revenue (Bond Buyer) [3]	5.99	5.59	5.48	5.36	-.63	-.23	-.12
Private instruments							
10-year swap	7.38	6.06	5.95	6.17	-1.21	.11	.22
10-year FNMA	7.15	5.96	5.74	6.06	-1.09	.10	.32
Merrill Lynch BBB	8.49	8.04	7.81	7.75	-.74	-.29	-.06
High yield[4]	11.97	13.04	13.00	11.89	-.08	-1.15	-1.11
Home mortgages (FHLMC survey rate) [5]							
30-year fixed	8.14	7.42	7.13	7.02	-1.12	-.40	-.11
1-year adjustable	7.22	7.05	6.93	6.64	-.58	-.41	-.29

Stock exchange index	Record high Level	Record high Date	2000 Dec. 18	2001 Jan. 2	2001 Jan. 24	Change to Jan. 24 from selected dates (percent) Record high	2000 Dec. 18	2001 Jan. 2
Dow-Jones Industrial	11,723	1-14-00	10,645	10,646	10,647	-9.18	.01	.01
S&P 500 Composite	1,527	3-24-00	1,323	1,283	1,364	-10.68	3.14	6.31
Nasdaq (OTC)	5,049	3-10-00	2,625	2,292	2,859	-43.37	8.94	24.75
Russell 2000	606	3-9-00	463	462	502	-17.14	8.42	8.60
Wilshire 5000	14,752	3-24-00	12,178	11,764	12,631	-14.37	3.72	7.37

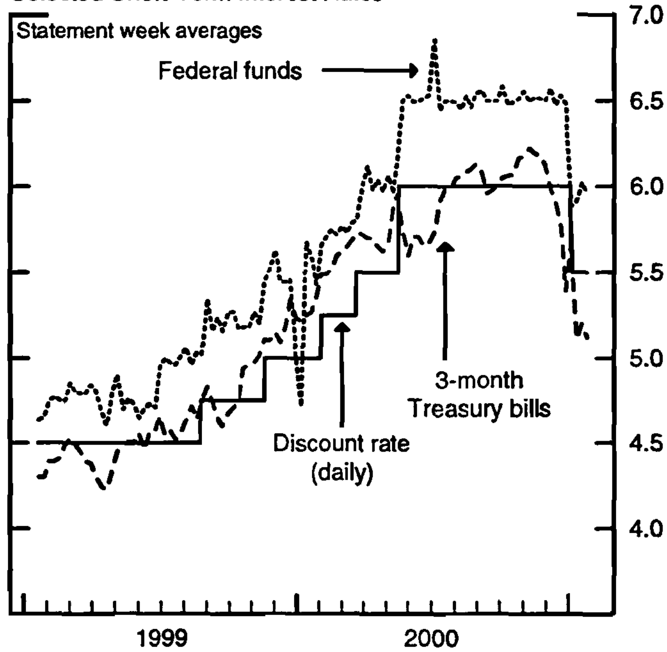
1. Secondary market.
2. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.
3. Most recent Thursday quote.
4. Merrill Lynch 175 high-yield bond index composite.
5. For week ending Friday previous to date shown.

NOTES:
June 26, 2000, is the day before the final FOMC meeting during the most recent period of policy tightening.
December 18, 2000, is the day before the most recent FOMC meeting.
January 2, 2001, is the day before the most recent FOMC action.

Selected Interest Rates

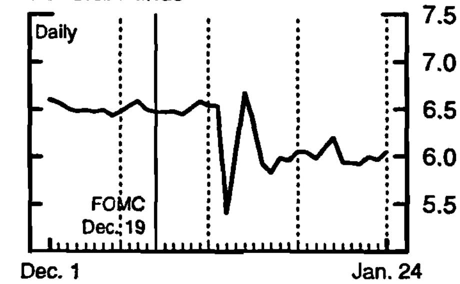
Selected Short-Term Interest Rates

Percent



Federal Funds

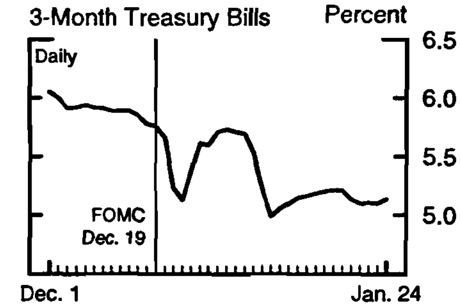
Percent



Note. Vertical dashed lines indicate end of reserve period.

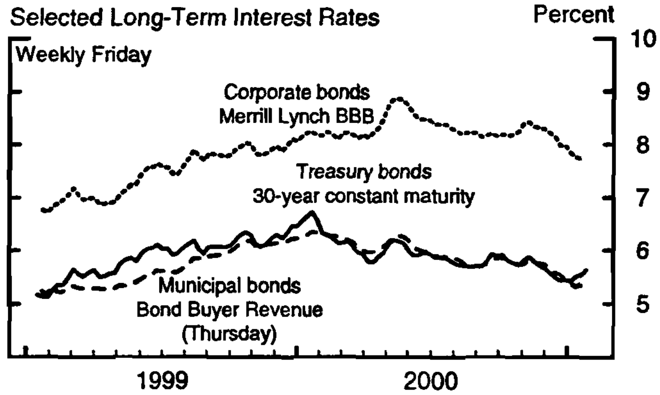
3-Month Treasury Bills

Percent

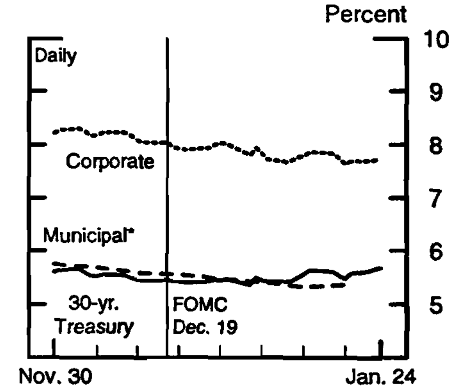


Selected Long-Term Interest Rates

Percent



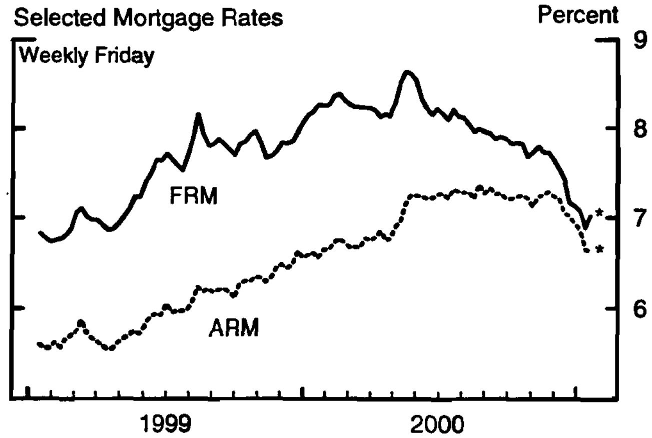
Percent



*Weekly Thursday frequency.

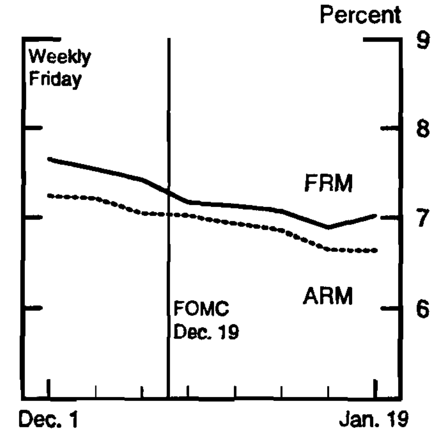
Selected Mortgage Rates

Percent



*January 19, 2001

Percent



Domestic Financial Developments

Overview

Short- and intermediate-term Treasury yields posted sizable declines in the two weeks following the December FOMC meeting. The Committee's shift in the balance-of-risks statement to concerns about economic weakness, along with incoming data that indicated deteriorating economic conditions, led to heightened expectations of a near-term easing in monetary policy. That sentiment was reinforced by a spate of negative corporate earnings warnings around year-end.

Although most market participants had come to expect an intermeeting policy easing, few anticipated the timing and the size of the 50 basis point reduction in the federal funds rate on January 3. The aggressive action by the FOMC led to expectations of further policy easing and a subsequent rebound in economic growth, which contributed to a recovery in equity prices and some unwinding of the flight to quality that had been holding down long-term Treasury yields. On balance, over the intermeeting period, the Treasury yield curve steepened, with rates on the two-year note falling about 52 basis points and ten- and thirty-year yields rising 16 basis points and 23 basis points respectively. Most major equity indexes have moved higher, on net, since the December FOMC meeting, with the largest advances posted by the tech-heavy Nasdaq and the small-cap Russell 2000.

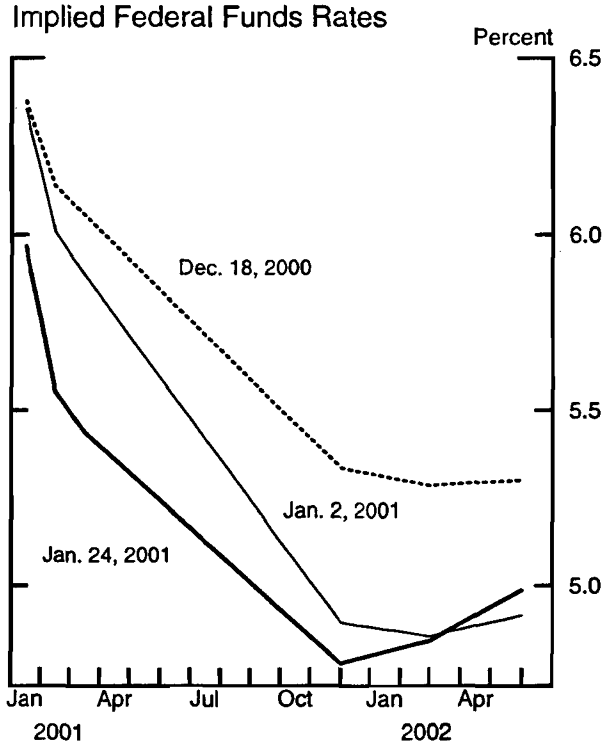
Yields on Treasury inflation-indexed securities declined appreciably, implying a substantial fall in real rates. Current readings from the futures markets suggest that market participants are placing high odds on another 50 basis point reduction in the intended funds rate at the January meeting, and another 75 basis points or more by year-end. Still, options prices continue to suggest substantial uncertainty about the timing of future policy actions.

Market conditions for business financing have been mixed over the intermeeting period. Junk bond spreads have retraced about half of their rise over the latter part of 2000, and issuance has revived in recent weeks. Investment-grade bond issuance remains robust. In contrast, the commercial paper market has been shaken by the defaults of two California utilities. Quality spreads have widened considerably in recent days, and investors are even reluctant to acquire the paper of some top-tier issuers. Some businesses facing resistance in commercial paper markets met their financing needs by tapping banks. However, bank loan officers, generally responding to concerns about prospects for the economy, report that they are continuing to tighten standards and terms for business borrowers, including the cost of credit lines.

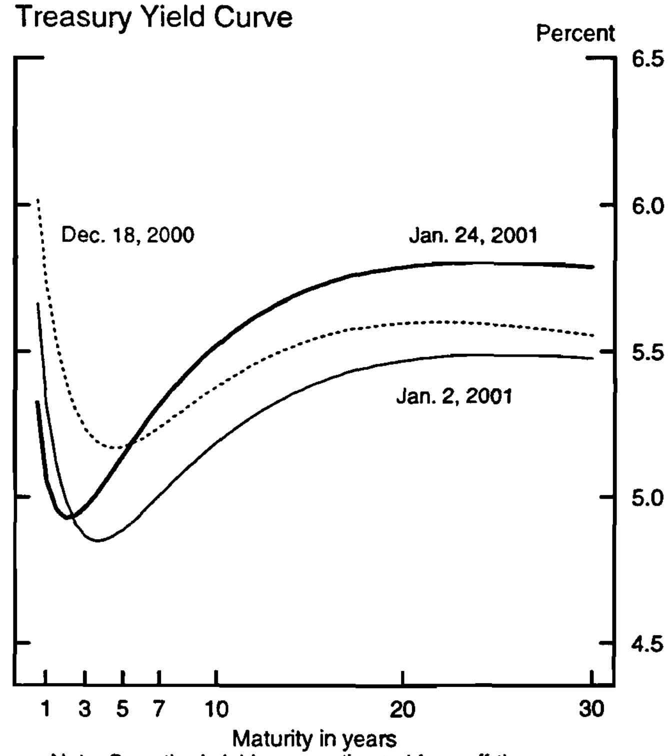
In the household sector, the drop in mortgage rates prompted a surge in refinancing applications, while the decline in light vehicle purchases and sluggish retail sales held down consumer credit growth. Meanwhile, bank loan

Financial Developments

Implied Federal Funds Rates

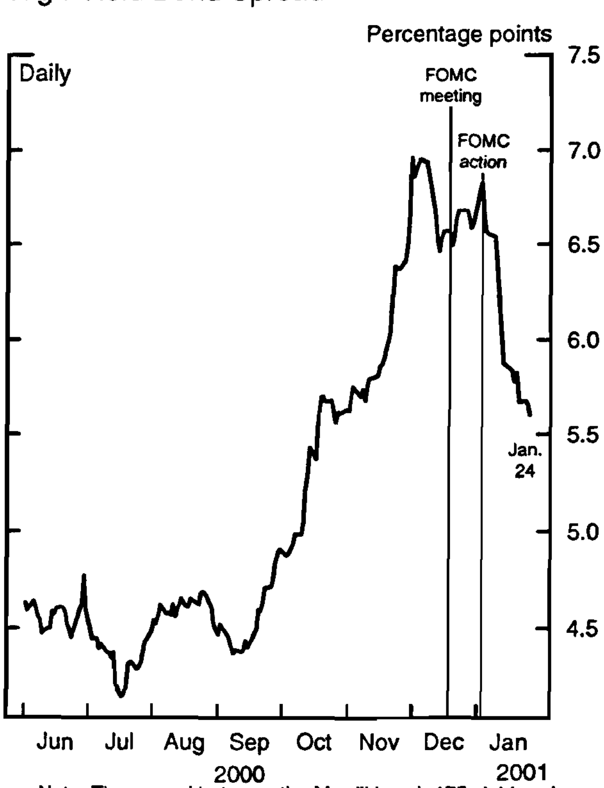


Treasury Yield Curve



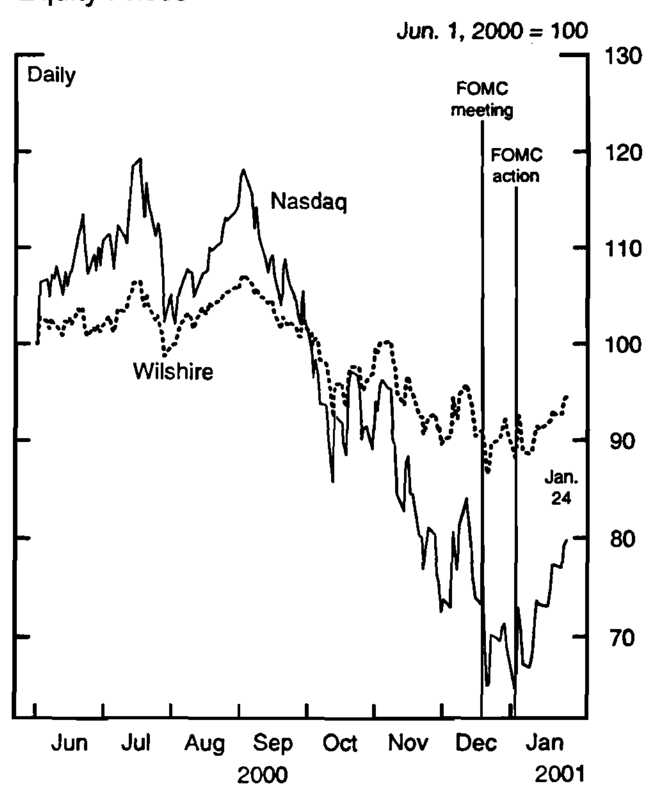
Note. Smoothed yield curve estimated from off-the-run Treasury coupon securities. Yields shown are those on notional par Treasury securities with semi-annual coupons.

High-Yield Bond Spread



Note. The spread between the Merrill Lynch 175 yield and the Merrill Lynch AAA yield.

Equity Prices



officers reported that they have begun to tighten standards for consumer loans, though there is little evidence that households are experiencing greater problems servicing their debt.

The federal government continued to outpace its own expectations for the paydown of Treasury debt. In contrast, a steady pace of tax-exempt bonds to finance new capital buoyed offerings in the state and local sector.

Business Finance

Equity analysts made hefty cuts to their estimates of fourth-quarter corporate profits in response to the continued stream of earnings warnings announced in December and early January. However, it appears that much of the bad earnings news came out early, and most nonfinancial firms are now reporting earnings that meet or exceed beaten-down forecasts, though by a smaller margin than has become customary in recent years. Based on reports for about half of S&P 500 firms, we estimate that earnings per share in the fourth quarter fell about 2 percent for the S&P 500 as a whole from its year-earlier level.

Analysts have lowered their estimates of earnings for 2001 as well. Over the past four weeks, year-ahead earnings for S&P 500 firms were reduced by more than 2-1/2 percentage points, to roughly 6 percent. Cuts to year-ahead earnings in the past two months have been the largest such monthly adjustments since the 1990-91 recession.

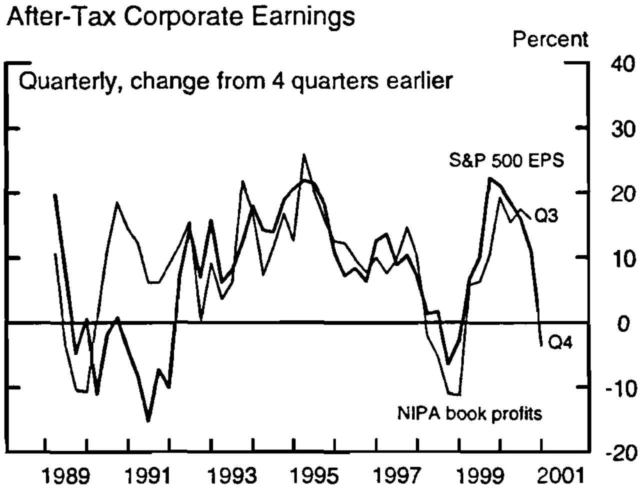
With stock prices reacting to mostly negative earnings reports, gross public equity issuance was a paltry $2 billion in December and dried up completely in early January as a number of firms cancelled planned offerings. More recently, issuance has shown signs of picking up; about $2 billion of stocks were marketed after mid-January, with another $2 billion slated for issue by month-end, including some IPOs. Venture capital, which grew rapidly through much of last year, is estimated to have slowed in December, and anecdotal reports suggest that private equity investors remain cautious.

Equity retirements from mergers of domestic firms spiked to about $50 billion in December, boosting the fourth-quarter total, as a backlog of previously announced deals was completed. Announcements of new mergers have continued at an elevated pace, suggesting that merger-related retirements will remain sizable. In contrast, announcements of share repurchases in the fourth quarter remained well below the average pace of recent years, which might be expected with the slump in corporate profits.

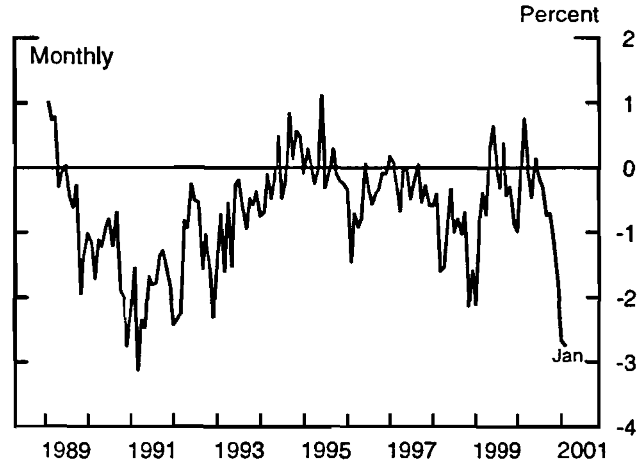
Weaker earnings prospects and rising debt contributed to further deterioration in credit quality measures for nonfinancial corporations in December. Moody's downgraded $140 billion of bonds (thirty-nine issues) in December and

Corporate Finance

After-Tax Corporate Earnings

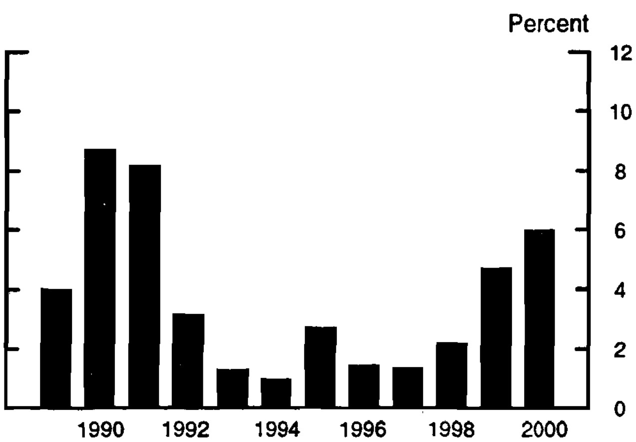


Revisions to S&P 500 Year-ahead Earnings

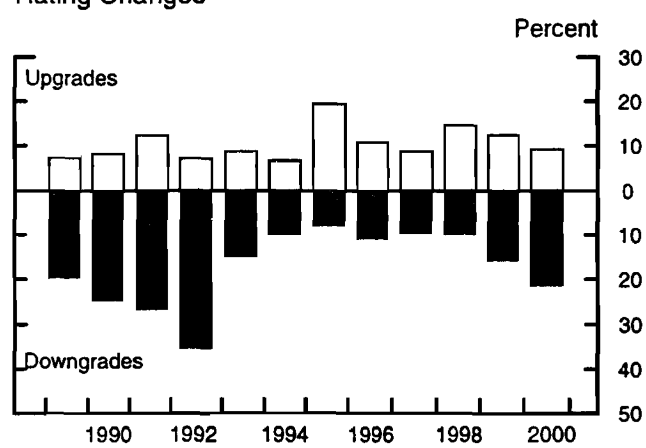


Nonfinancial Corporations

Default Rates on Junk Bonds

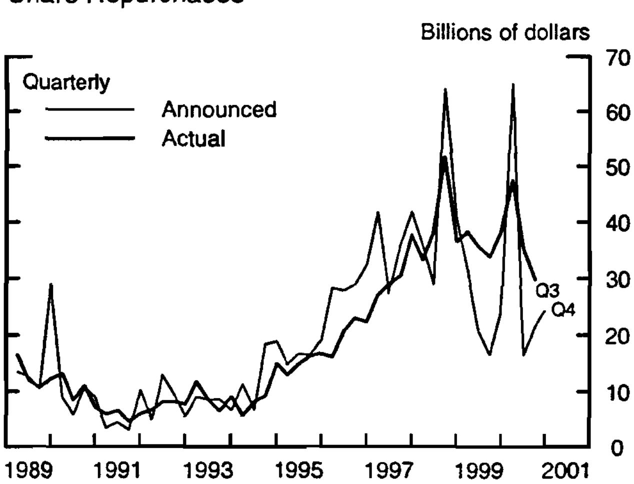


Rating Changes

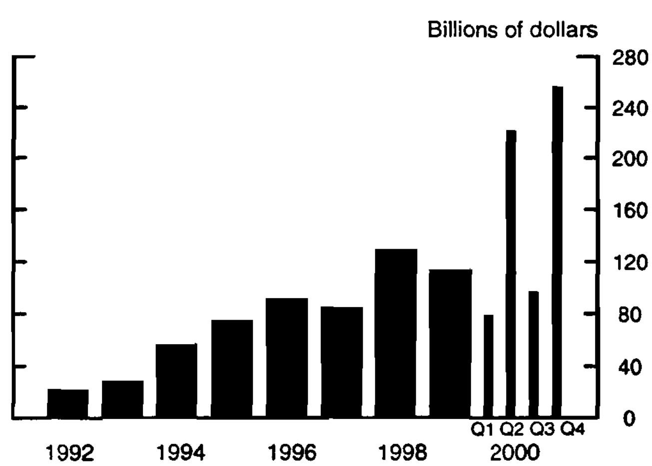


Note. Total debt upgrades (downgrades) as a percentage of par value of bonds outstanding.
Source. Moody's.

Share Repurchases



Merger Retirements from Domestic Takeovers



Note. Quarterly data for 2000 are at an annual rate.
Source. Securities Data Company.

Gross Issuance of Securities by U.S. Corporations

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

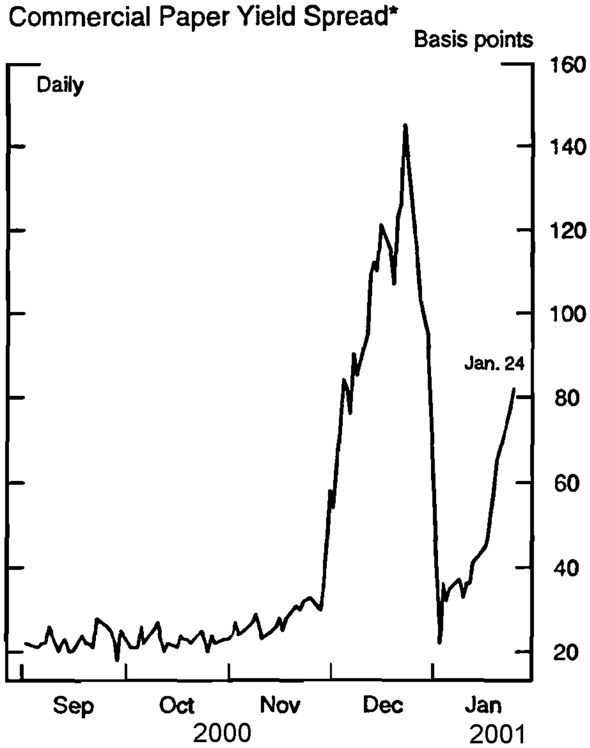
Type of security	1999	2000	2000 H1	2000 Q3	2000 Q4	2000 Nov.	2000 Dec.	2001 Jan. e
All U.S. corporations	89.4	78.5	80.0	80.9	73.0	95.5	61.0	78.0
Stocks [1]	11.0	11.2	14.1	9.1	7.7	11.5	2.6	5.0
Bonds	78.4	67.2	65.9	71.8	65.3	84.0	58.5	73.0
Nonfinancial corporations								
Stocks [1]	9.2	9.9	12.4	7.5	7.1	10.8	2.2	4.7
Initial public offerings	4.2	4.4	5.7	4.6	1.6	1.7	.5	.7
Seasoned offerings	5.0	5.5	6.7	3.0	5.5	9.0	1.8	4.0
Bonds [2]	24.5	20.3	21.3	19.4	19.4	25.8	19.8	32.0
Investment grade [3]	13.9	11.9	11.5	11.0	13.7	19.3	15.0	20.0
Speculative grade [3]	7.5	4.5	5.4	4.9	2.4	2.4	1.8	9.0
Other (sold abroad/unrated)	3.1	3.9	4.4	3.5	3.3	4.1	3.0	3.0
Financial corporations								
Stocks [1]	1.8	1.4	1.6	1.6	.6	.7	.3	.3
Bonds	53.9	46.9	44.7	52.4	45.9	58.2	38.7	41.0
Memo								
Net issuance of commercial paper, nonfinancial corporations [4]	3.6	4.5	6.4	5.2	.2	6.3	-8.2	-11.8
Change in C&I loans at commercial banks [4]	4.6	7.9	11.2	4.3	4.3	.9	10.2	9.1

Note. Components may not sum to totals because of rounding. These data include speculative-grade bonds issued privately under Rule 144A. All other private placements are excluded. Total reflects gross proceeds rather than par value of original discount bonds.

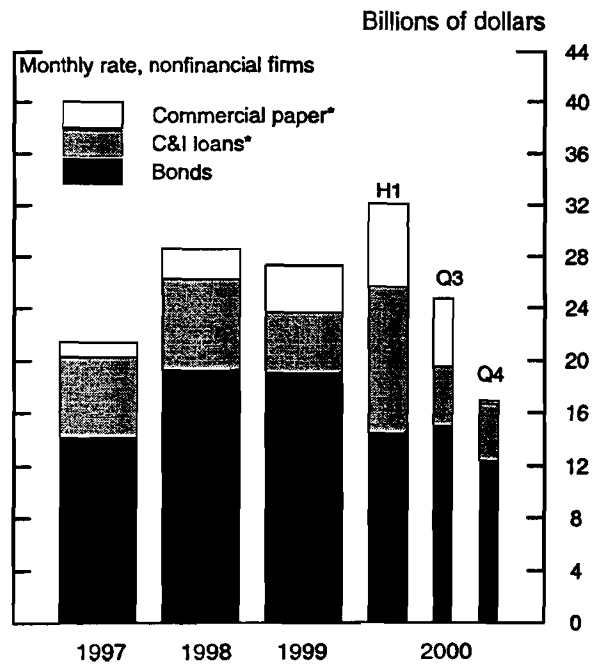
1. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.
2. Excludes mortgage-backed and asset-backed bonds.
3. Bonds sold in U.S. categorized according to Moody's bond ratings, or to Standard Poor's if unrated by Moody's.
4. End-of-period basis, seasonally adjusted.

e Staff estimate for month based on data through Jan. 25.

Commercial Paper Yield Spread*



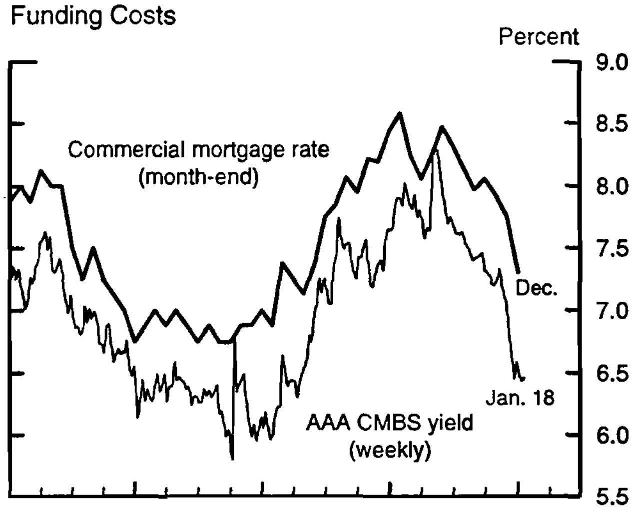
Components of Net Debt Financing



* Seasonally adjusted.

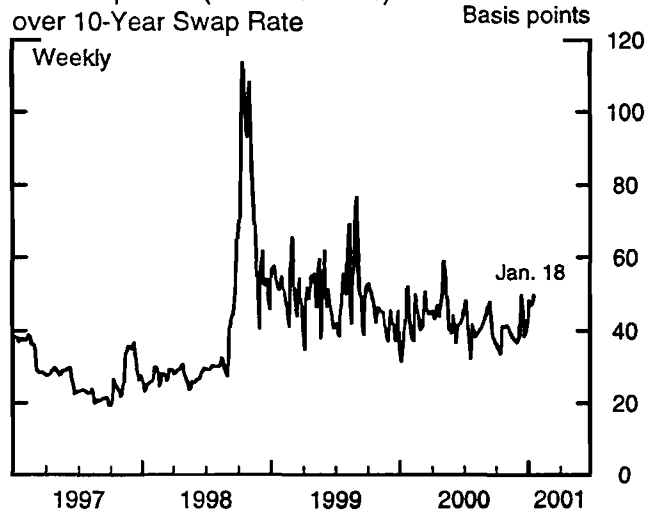
Commercial Real Estate

Funding Costs



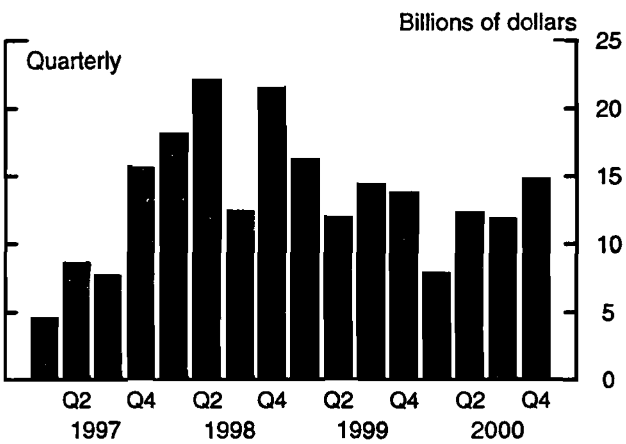
Source. Barron's/Levy National Mortgage Survey; Morgan Stanley.

CMBS Spreads (AAA Tranches) over 10-Year Swap Rate



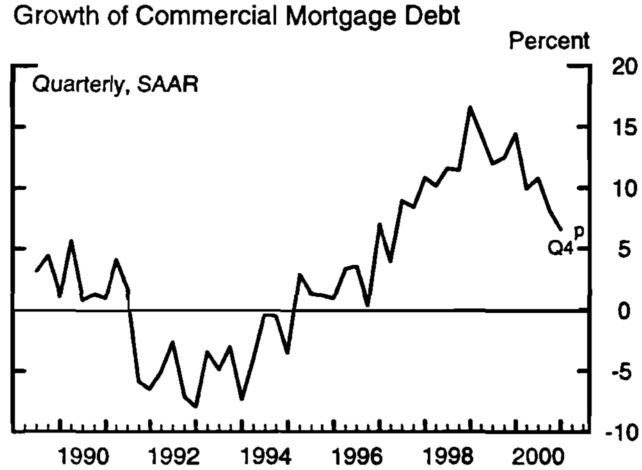
Source. Morgan Stanley.

Total CMBS Gross Issuance



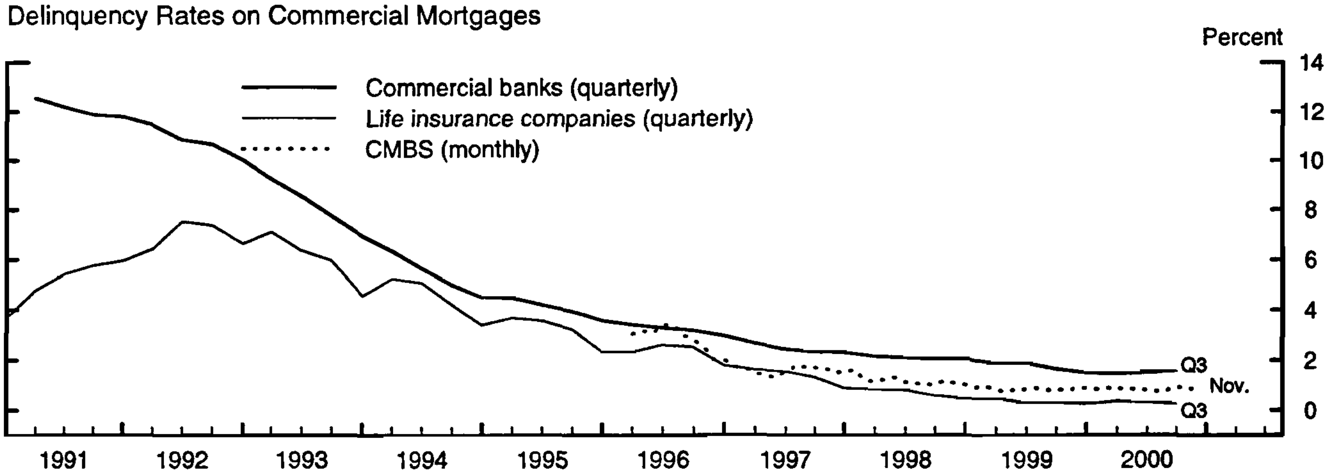
Source. Commercial Mortgage Alert.

Growth of Commercial Mortgage Debt



p. Staff projection.

Delinquency Rates on Commercial Mortgages



Source. ACLI; Morgan Stanley; Call Reports.

upgraded $20 billion (eleven issues). Daimler-Chrysler and Xerox accounted for about $100 billion of the downgrades. For 2000 as a whole, the debt of downgraded firms exceeded that of upgraded firms by a margin of two to one. The rate of junk bond defaults was about 6 percent in 2000, up substantially from 1999 but below the levels recorded during the early 1990s.

In mid-January, the debt of the California utilities, PG&E and Southern California Edison, was downgraded to junk status. These firms defaulted on some of their bonds and commercial paper after midmonth because revenues from regulated retail rates have not been sufficient to meet higher wholesale energy prices. The defaults have had few spillover effects in the bond market, but they have contributed to skittishness among commercial paper investors. Spreads of thirty-day A2/P2 paper over A1/P1 paper have ballooned to more than 80 basis points in recent days. Commercial paper outstanding contracted sharply in January, and new issues were concentrated at shorter maturities as investors remain extremely reluctant to buy longer-term issues of even top tier firms.

Gross bond offerings in December totaled nearly $20 billion, in line with the monthly average in 2000. Issuance picked up smartly in January and is on track to post the highest monthly total since May 1999. Although all offerings in December were from investment-grade companies, the junk bond market has shown renewed vigor since the intermeeting rate cut. So far in January, a handful of junk-rated telecom and high-tech companies have issued more than $6-1/2 billion dollars, eclipsing the total amount issued in November and December combined.

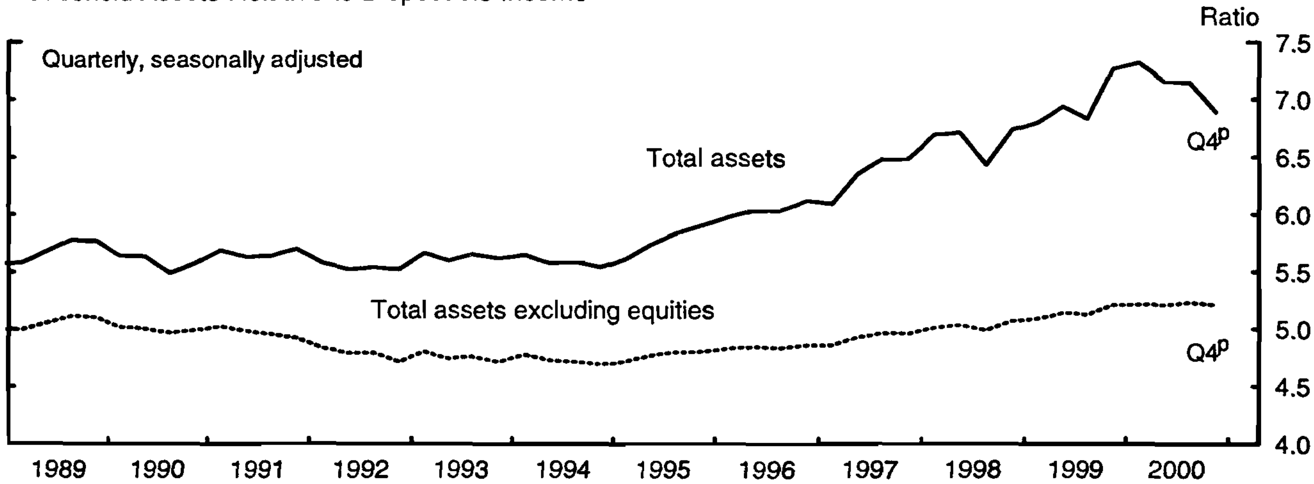
In the commercial mortgage market, yields on AAA-rated commercial-mortgage-backed securities (CMBS) declined over the intermeeting period in step with rates on comparable ten-year swaps, leaving spreads in line with those of the past two years. CMBS issuance in the fourth quarter was above the average pace of the first three quarters of last year, but issuance for 2000 as a whole was about 20 percent below that of 1999. Growth of commercial mortgage debt from all sources is estimated to have slowed further to an annual rate of about 6-1/2 percent in the fourth quarter. While available data show that delinquency rates on commercial mortgages remain at historically low levels, bank loan officers report that they continue to tighten standards for such loans.

Household Finance

The value of household assets relative to disposable income continued to decline in the fourth quarter, owing to the drop in equity prices, and has now retraced about a quarter of the run-up since 1995. Available data indicate that household debt growth remained brisk in the fourth quarter, with the 8-1/4 percent pace just under the 8-3/4 percent registered for the year as a whole. Strong demand for home mortgages, at least partially attributable to earlier declines in mortgage

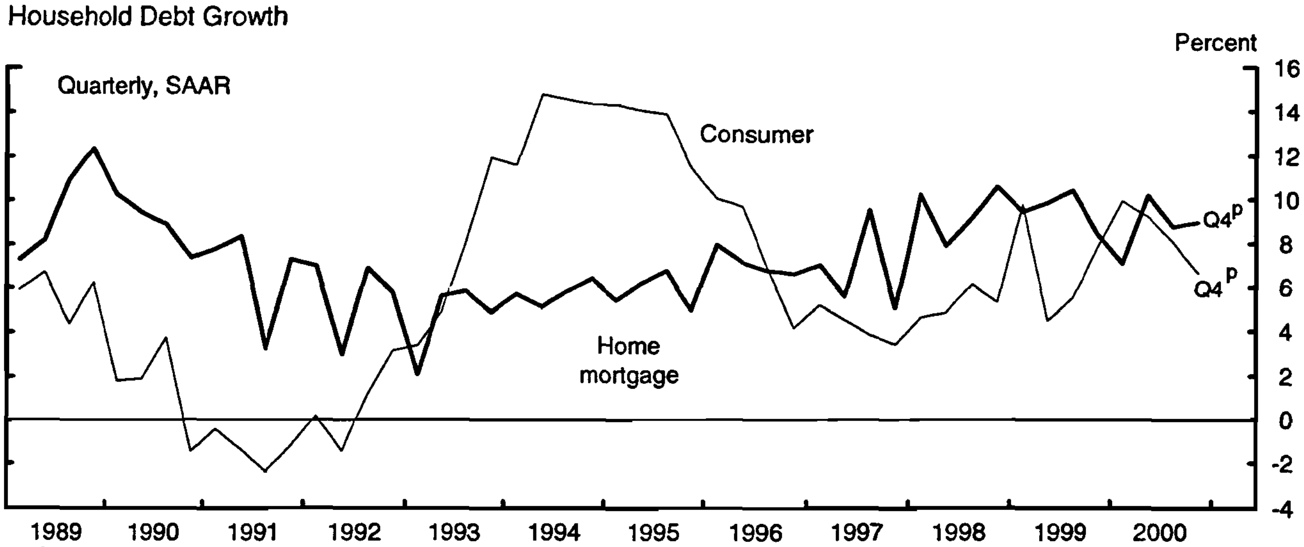
Household Sector

Household Assets Relative to Disposable Income



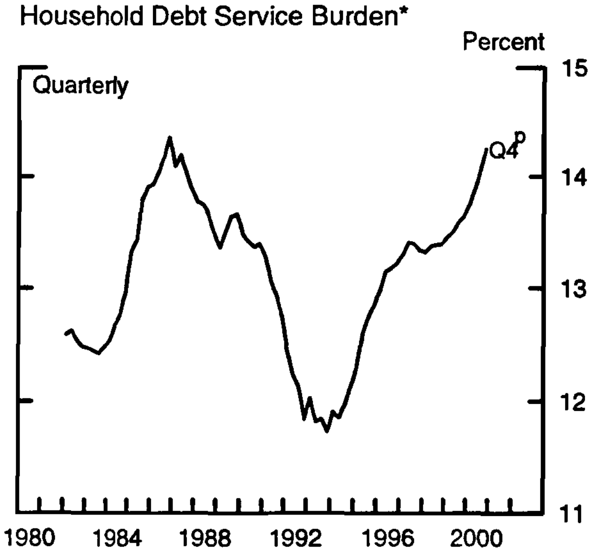
p. Staff projection.

Household Debt Growth



p. Staff projection.

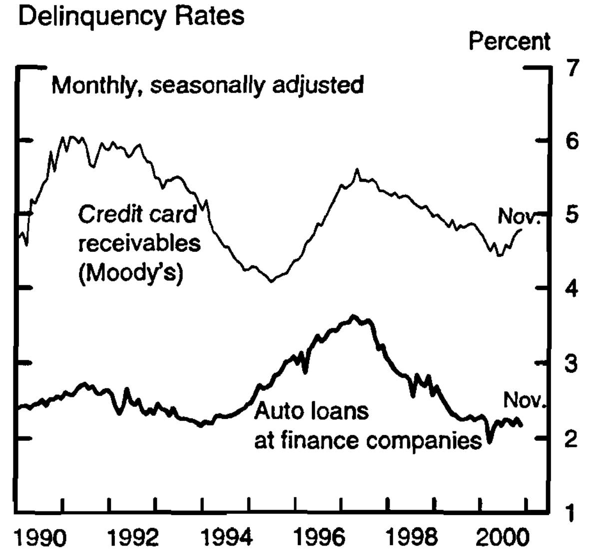
Household Debt Service Burden*



p. Staff projection.

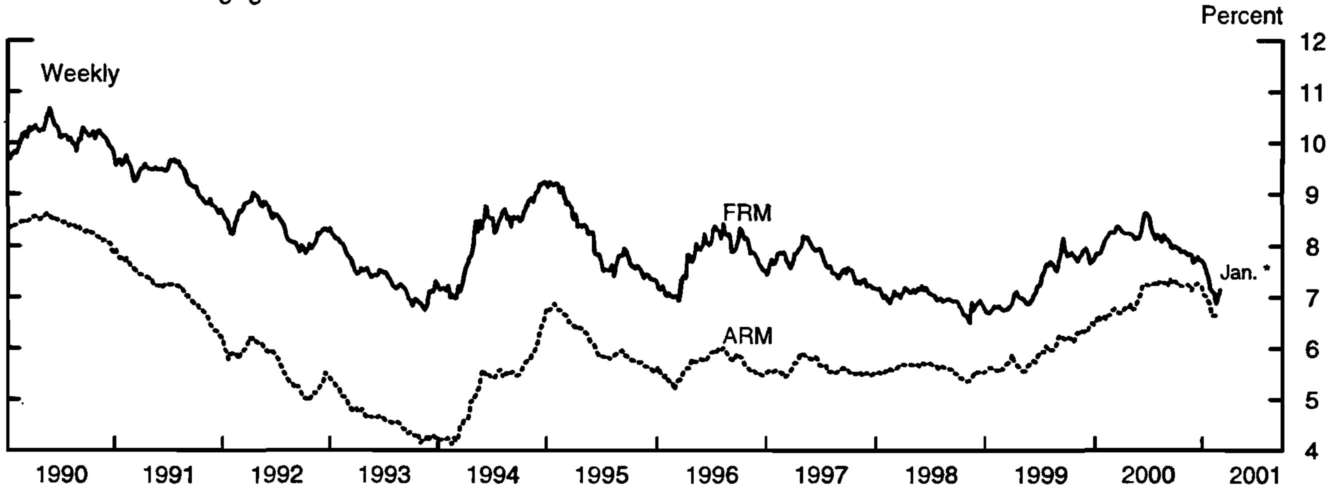
*Required debt payments relative to disposable personal income.

Delinquency Rates



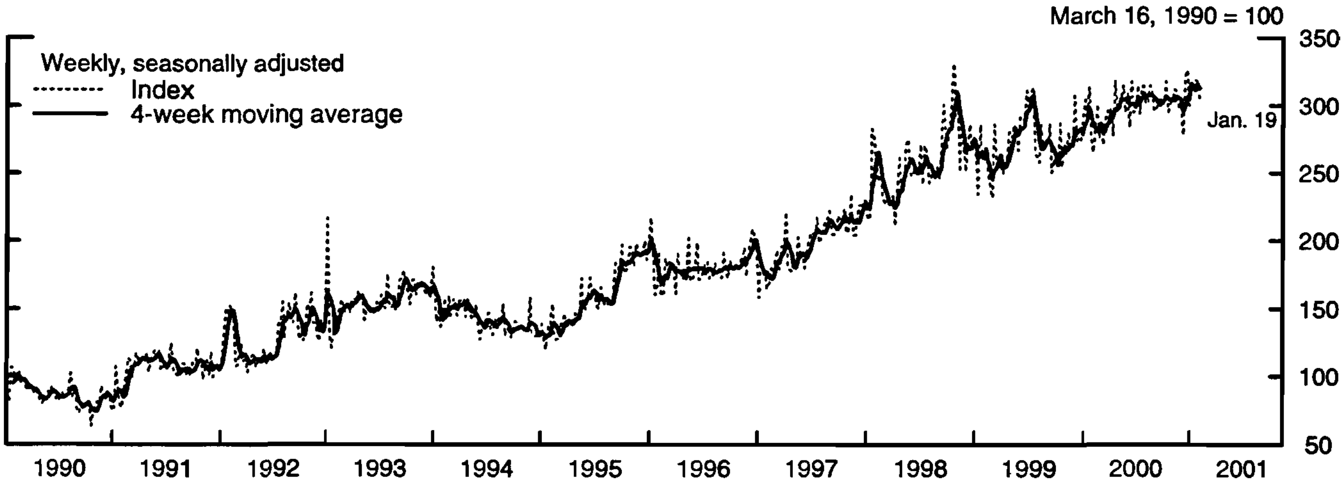
Residential Mortgage Markets

Freddie Mac Mortgage Rates

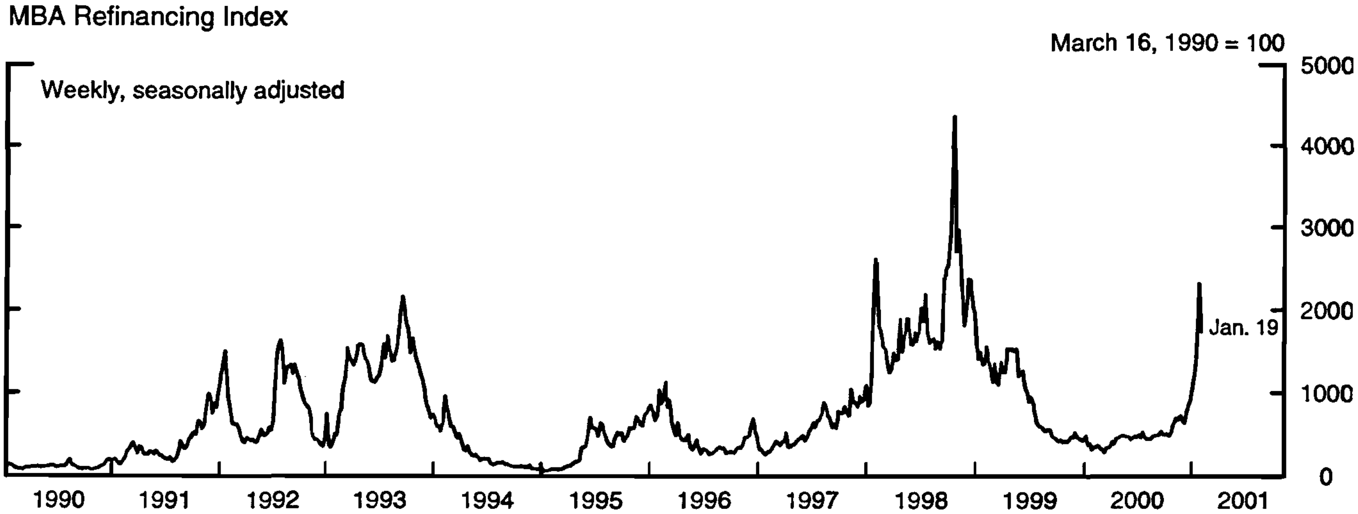


* For the week ending Friday, Jan. 26.

MBA Purchase Index



MBA Refinancing Index



Treasury and Agency Finance

Treasury Financing
(Billions of dollars)

Item	2000					
	Q2	Q3	Q4	Oct.	Nov.	Dec.
Total surplus, deficit (-)	**211.8**	**60.4**	**-2.3**	**-11.3**	**-23.7**	**32.7**
Means of financing deficit						
Net borrowing	-189.6	-53.6	-25.1	-29.7	41.3	-36.7
Nonmarketable	5.1	-5.5	1.5	0.9	-0.5	1.1
Marketable	-194.7	-48.1	-26.6	-30.6	41.8	-37.8
Bills	-126.6	-14.1	30.4	2.3	63.4	-35.3
Coupons[1]	-57.1	-25.7	-48.2	-28.9	-19.4	0.0
Debt buybacks	-11.0	-8.2	-8.7	-4.0	-2.2	-2.5
Decrease in cash balance	-12.7	4.8	31.6	42.7	-1.4	-9.6
Other[2]	-9.6	-11.5	-4.2	-1.6	-16.2	13.7
MEMO						
Cash balance, end of period	57.4	52.7	21.1	10.0	11.4	21.1

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

Net Borrowing of Government-Sponsored Enterprises
(Billions of dollars)

Agency	2000					2001
	Q2	Q3	Q4	Nov.	Dec.	Jan.*
FHLBs	33.2	12.1	13.8	4.3	13.4	n.a.
Freddie Mac	6.3	22.7	n.a.	6.7	n.a.	n.a.
Fannie Mae	21.0	28.5	35.7	17.6	9.6	n.a.
Farm Credit Banks	2.4	1.5	3.1	0.3	2.5	n.a.
Sallie Mae	-0.8	5.2	3.0	1.0	-4.6	n.a.
MEMO						
Outstanding noncallable reference and benchmark securities						
Notes and bonds	238.6	274.1	313.1	303.1	313.1	322.1
Bills	200.0	222.5	235.0	228.0	235.0	249.0
Total	438.6	496.6	548.1	531.1	548.1	571.1

NOTE. Excludes mortgage pass-through securities issued by Fannie Mae and Freddie Mac.
* As of January 25, 2001
n.a. Not available.

rates, offset a further decline in the growth of consumer credit, which is estimated to have slowed to a 6-1/2 percent rate—down from 8 percent in the third quarter.

Measures of household credit quality have been mixed, but they do not suggest significant deterioration. Credit card delinquency rates have edged up a bit recently, while delinquency rates on auto loans at finance companies are about unchanged at low levels. Preliminary calculations suggest that the household debt service burden continued to increase in the fourth quarter and was quite close to its twenty-year high of 14-1/2 percent in 1986.

Meanwhile, the lower level of mortgage rates led to a spike in home mortgage refinancing. The MBA refinancing index more than doubled in the first half of January but dropped back some last week. As refinancing applications work their way through the pipeline, reduced interest rates and longer maturities on the new mortgages are expected to contribute to a flattening out of the debt service burden.

Treasury and Agency Finance

The Treasury paid down about $27 billion in publicly held debt in the fourth quarter, nearly $4 billion more than had been projected at the midquarter refunding announcement. Buybacks thus far in January are about on pace to meet the $9 billion total the Treasury targeted for the first quarter.

Measures of market liquidity provided mixed signals during the intermeeting period. Bid-ask spreads on ten-, five-, and two-year notes spiked at the end of the year but have since returned to levels that are only somewhat elevated. Spreads between on- and off-the-run ten- and thirty-year Treasuries were stable at levels that would not indicate unusually strong demand for liquidity, but the spread for the five-year note was somewhat elevated.

Growth of agency debt remained robust over the intermeeting period. Freddie Mac and the Federal Home Loan Banking System issued a combined $10 billion in early January, and Fannie Mae priced about $3 billion in ten- and thirty-year bonds on January 18. Freddie Mac projected that issuance of domestic Reference notes and bonds in 2001 would total $90 billion, up from $58 billion in 2000, and Fannie Mae estimated that 2001 Benchmark coupon issuance would be at least $75 billion, compared with $77 billion last year.

State and Local Government Finance

Gross offerings of long-term debt by state and local governments totaled roughly $15 billion in December, bringing the fourth-quarter pace to about $17 billion per month, somewhat above the average for the previous three quarters. As was the case for much of the year, issuance in December was

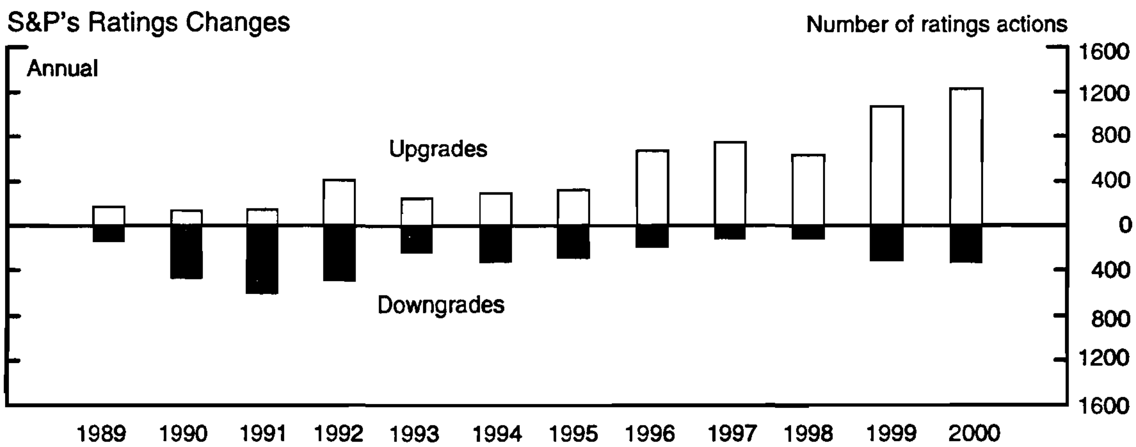
State and Local Finance

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

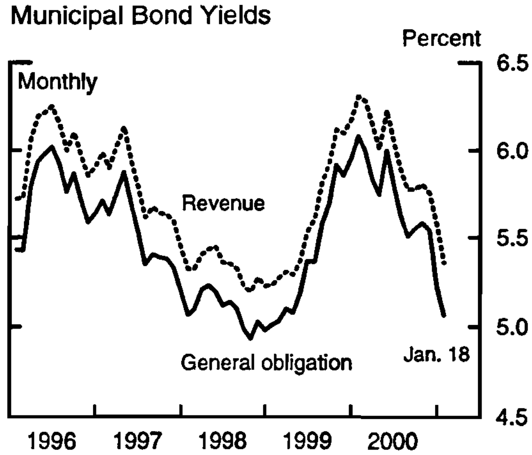
	1999	2000	2000 H1	2000 Q3	2000 Q4	2000 Nov.	2000 Dec.
Long-term[1]	18.0	15.0	14.2	14.6	17.2	18.1	15.3
Refundings[2]	4.5	2.2	2.1	2.0	2.4	3.6	2.1
New capital	13.5	12.9	12.1	12.6	14.7	14.5	13.3
Short-term	2.7	2.8	2.6	3.6	2.5	2.5	2.8
Total tax-exempt	20.6	17.9	16.8	18.1	19.7	20.6	18.1
Total taxable	1.1	0.7	0.6	0.8	0.8	1.2	0.8

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

S&P's Ratings Changes

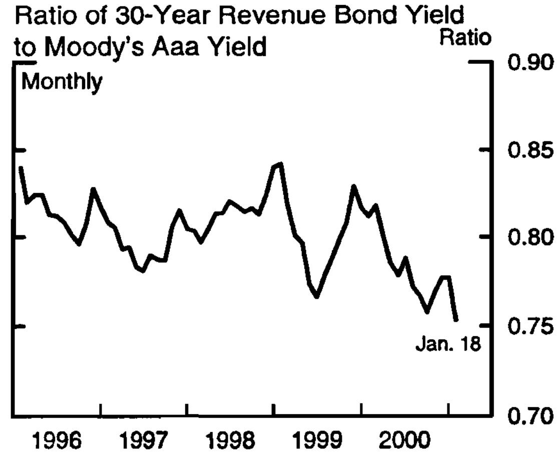


Municipal Bond Yields



Note. Average of weekly data.

Ratio of 30-Year Revenue Bond Yield to Moody's Aaa Yield



Note. Average of weekly data.

mainly for new capital. Yields on long-term municipal bonds have fallen about 15 to 25 basis points over the intermeeting period, slightly outperforming corporate bonds of similar maturity, reflecting limited supply as well as the strong credit quality of state and local governments. As a result, ratios of municipal bond yields to AAA corporate bonds continued to move lower.

While the financial problems at PG&E and Southern California Edison, investor-owned utilities in California, have had little impact on municipal utility debt yields, California's general obligation bonds have been put on watch for a possible downgrade. There is considerable uncertainty about how the situation in California will be resolved, but most proposals under consideration involve the state's issuing debt. The latest proposal receiving attention would allow the utilities limited ability to raise rates to pay off outstanding obligations. A state agency would be established that would issue revenue bonds and use the proceeds to purchase power under long-term contracts. The utilities would act as agents, distributing electricity and collecting monthly payments for the state.

Bank Credit and Money

Growth in bank credit bounced back in December. The advance, in part, owed to a jump in holdings of securities, which rose at a 17 percent annual rate, the first increase in five months. Business lending also perked up, following three months of little or no growth. Most of the rise in business loans occurred at large domestic banks and foreign institutions during the week of December 20 and coincided with a large decline in outstanding nonfinancial commercial paper, suggesting that lower-rated commercial paper issuers may have been drawing down bank lines. Growth in business loans has remained strong in January, perhaps owing in part to instability in the commercial paper market.

Growth of consumer loans originated by banks also rose last month. A pickup in credit card loans accounted for the increase and was offset in part by a decline in the growth of other consumer loans, likely reflecting slowing motor vehicle sales. Growth of real estate loans at banks slipped some in December and remained well below the increase for the year as a whole. The deceleration owed partly to increased securitization of loans for one- to four-family properties by large banks. In the January Senior Loan Officer Survey, a number of domestic commercial banks reported tightening terms and standards on consumer loans, but there was no reported change in standards on residential mortgage loans.

The broad monetary aggregates surged in December and January after weak growth in October and November.[1] M3 growth was boosted by brisk issuance

1. Data on the monetary aggregates incorporate the annual benchmark and seasonal revisions. These data are strictly confidential until their release on February 1.

Commercial Bank Credit

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

Type of credit	2000	Q3 2000	Q4 2000	Nov. 2000	Dec. 2000	Jan.p 2001	Level, Jan. 2001p ($ billions)
Total							
1. Adjusted[1]	**9.7**	**10.8**	**2.5**	**4.0**	**11.0**	**2.6**	**5,114**
2. Reported	10.0	10.3	3.7	2.7	14.4	5.9	5,242
Securities							
3. Adjusted[1]	2.9	6.9	-8.0	-2.8	16.9	2.4	1,223
4. Reported	4.5	5.1	-2.6	-7.0	29.7	15.4	1,352
5. U.S. government	-2.7	-1.0	-13.4	-15.4	3.2	-3.1	783
6. Other[2]	17.5	15.3	14.7	5.8	70.0	41.5	569
Loans[3]							
7. Total	12.0	12.1	6.0	6.0	9.2	2.7	3,890
8. Business	9.0	8.8	1.9	1.3	8.4	11.0	1,098
9. Real estate	13.7	11.8	4.3	8.2	4.8	-2.2	1,647
10. Home equity	22.0	9.1	22.0	16.8	13.7	15.4	126
11. Other	13.0	12.0	2.9	7.7	3.9	-3.5	1,521
12. Consumer	10.2	12.4	5.9	8.6	2.9	8.1	540
13. Adjusted[4]	7.6	11.2	3.6	6.3	12.1	5.2	852
14. Other[5]	14.8	19.2	18.6	6.5	28.1	-3.8	606

Note. All data are adjusted for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates are percentage changes in consecutive levels, annualized but not compounded. These data have been benchmarked to the December 1999 Call Report.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FIN 115).
2. Includes securities of corporations, state and local governments, and foreign governments and any trading account assets that are not U.S. government securities.
3. Excludes interbank loans.
4. Includes an estimate of outstanding loans securitized by commercial banks.
5. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

p Preliminary.

BA:LRC

Monetary Aggregates
(Based on seasonally adjusted data)

Aggregate or component	2000	2000 Q3	2000 Q4	2000 Nov.	2000 Dec.	2001 Jan. (pe)	Level (bil. $) Dec. 00
Aggregate	Percent change (annual rate)[1]						
1. M2[2]	6.1	5.6	6.5	4.2	9.6	11.9	4937.2
2. M3	9.1	8.8	7.0	4.2	12.5	15.8	7081.0
Selected components							
3. Currency	4.3	3.6	3.5	3.2	5.5	8.1	530.2
4. Liquid deposits[3]	3.3	4.6	5.1	1.4	7.8	10.5	2426.1
5. Small time deposits	9.4	10.8	7.2	7.8	7.6	7.0	1045.8
6. Retail money market funds	11.5	3.1	11.7	8.3	18.9	23.3	927.1
7. M3 minus M2[4]	16.5	16.4	8.2	4.3	19.3	24.9	2143.8
8. Large time deposits, net[5]	13.4	12.6	4.1	5.5	23.0	26.5	823.7
9. Institution-only money market mutual funds	24.2	29.4	18.7	12.9	24.7	46.9	767.7
10. RPs	9.1	8.2	-3.9	-15.5	10.7	-9.3	361.6
11. Eurodollars	17.1	0.6	9.2	3.8	-1.3	-7.5	190.9
Memo							
12. M1	-1.6	-3.6	-2.8	-8.0	2.3	4.9	1091.1
13. Sweep-adjusted M1[6]	1.8	0.7	1.0	-3.7	4.0	4.9	1507.4
14. Demand deposits	-10.3	-12.4	-12.7	-25.7	-4.9	-6.9	313.9
15. Other checkable deposits	-1.0	-8.3	-1.3	-7.0	5.5	12.5	239.1
16. Savings deposits	6.7	9.6	9.1	7.3	10.3	13.1	1873.2
17. Monetary base	1.5	2.7	2.2	-1.6	5.3	19.6	582.7
	Average monthly change (billions of dollars)[7]						
Selected managed liabilities at commercial banks							
18. Large time deposits, gross	8.8	10.6	4.6	8.5	18.6	22.9	950.6
19. Net due to related foreign institutions	1.3	6.2	-9.2	-10.5	-17.0	-3.1	224.4
20. U.S. government deposits at commercial banks	-1.4	-3.1	-1.6	1.1	-2.1	12.7	18.2

1. For the years shown, Q4 to Q4 precent change. For the quarters shown, based on quarterly averages.
2. Sum of M1, retail money market funds, saving deposits, and small time deposits.
3. Sum of demand deposits, other checkable deposits, and saving deposits.
4. Sum of large time deposits, institutional money funds, RP liabilities of depository institutions, and Eurodollars held by U.S. addressees.
5. Net of holdings of depository institutions, money market mutual funds, U.S. government and foreign banks and official institutions.
6. Sweep figures used to adjust these series are the estimated national total of transaction account balances initially swept into MMDAs owing to the introduction of new sweep programs on the basis of monthly averages of daily data.
7. For the years shown, "average monthly change" is the Q4 to Q4 dollar change divided by 12. For the quarters shown, it is the quarter-to-quarter dollar change, divided by 3.

pe--Preliminary Estimate

The above monetary data incorporate revisions associated with the annual benchmark and seasonal review and are strictly confidential until released on February 1.

of the managed liabilities in this aggregate—especially large time deposits—to fund the expansion of bank credit and to replace their reduced borrowing from overseas affiliates. Institutional money funds grew rapidly as well. The decline in short-term market interest rates enhanced the attractiveness of these funds, whose rates lag movements in market rates.

M2 was lifted in part by the narrowing of its opportunity cost. Higher demands for liquidity in the face of elevated volatility in equity markets likely also boosted this aggregate. Retail money funds and liquid deposits (the sum of checking and savings accounts) both picked up substantially. Small time deposits continued to expand at a fairly rapid clip. Currency growth increased notably but is still subdued by the standards of the 1990s.

The financial position of banks showed some noticeable deterioration in the fourth quarter. Published reports for twenty-one large bank holding companies indicate that their net income fell about 17 percent on average relative to the fourth quarter of 1999, reflecting depressed earnings from equity investments and substantial loss provisioning against nonperforming assets. Overall, loss provisions and net charge-offs rose 70 and 30 percent, respectively, from the year-earlier level, and nonperforming loans as a percentage of total loans and leases rose 20 percent.

Appendix

Senior Loan Officer Opinion Survey on Bank Lending Practices

The January 2001 Senior Loan Officer Opinion Survey on Bank Lending Practices focused on changes in the supply of and demand for bank loans to businesses and households over the past three months. Supplementary questions addressed the effect on borrowers of the reported tightening of lending standards and terms on C&I loans over the past year or so, changes in terms on commercial real estate loans over the past twelve months, banks' expectations about changes in standards on consumer loans over the next year, and banks' leasing operations. Loan officers from fifty-seven large domestic banks and twenty-four U.S. branches and agencies of foreign banks participated in the survey.

The number of domestic and foreign banking institutions that reported tightening standards and terms on C&I loans over the past three months remained large. Significant fractions of both domestic and foreign banks also tightened standards for commercial real estate loans. In general, banks indicated that the most important reasons for tightening standards and terms were a worsening economic outlook and a reduced tolerance for risk. On net, a substantial fraction of respondents reported weaker demand over the past three months for both C&I loans and commercial real estate loans.

On the consumer side, lending conditions also firmed noticeably. A much larger fraction of domestic banks than in the November survey reported tightening standards and terms on non-credit-card consumer loans. On net, about 15 percent of the banks indicated that they anticipate some tightening in their standards and terms on all types of consumer loans before the end of 2001. In addition, 35 percent, on net, indicated that demand for all types of consumer loans had weakened somewhat in the last three months. However, almost all domestic banks reported no change in standards for residential mortgage loans and, on net, demand for residential mortgages was also unchanged.

Lending to Businesses

The net percentage of domestic and foreign respondents that tightened standards during the last quarter was even higher than the elevated level in the November survey. Almost 60 percent of domestic banks reported tightening their standards on C&I loans to large and middle-market firms over the past three months, and 45 percent reported tightening standards to small firms over the same period. As in the November survey, about 80 percent of branches and agencies of foreign banks reported tightening standards for customers seeking C&I loans.

Large fractions of domestic banks reported tightening each of the loan terms listed in the survey. Almost three-quarters of domestic respondents reported charging higher premiums on riskier loans to large and middle-market firms, including 21 percent that claimed to have increased these premiums considerably. No banks reported lowering premiums. About half of the domestic banks, on net, indicated that they had tightened loan covenants and raised the cost of credit lines for large and middle-market firms over the past three months. Nearly 60 percent of domestic banks, on net, increased the spreads of loan rates over their cost of funds for these borrowers. Overall, somewhat smaller fractions of domestic banks tightened terms on C&I loans to small firms. Still, premiums on riskier loans to small firms increased at almost 60 percent of domestic banks, and 42 percent of the respondents tightened covenants on loans to small firms.

Two-thirds of the branches and agencies of foreign banks reported charging somewhat higher premiums on riskier loans, and an additional 17 percent increased these premiums considerably. Three-fourths of foreign institutions increased spreads of loan rates over their cost of funds, and 58 percent indicated a general strengthening of loan covenants. No foreign bank reported easing any of the terms listed in the survey.

Most of the domestic and foreign respondents that had tightened standards or terms on C&I loans cited a less favorable or more uncertain economic outlook, a worsening of industry-specific problems, and a reduced tolerance for risk as reasons for changing their lending policies. About three-fourths of domestic and foreign banks that had tightened standards and terms on commercial credits over the past three months also mentioned an increase in defaults by below-investment-grade borrowers as important, and many cited decreased liquidity in the secondary market for C&I loans as well.

The January survey included a special question to determine how banks' business customers responded to the general tightening of lending standards and terms that has been reported over the past year. Domestic banks indicated that about two-thirds of their customers borrowed as planned despite the stricter lending policies; for foreign institutions that share was about 50 percent. Of those customers that did not borrow as much as planned, both domestic and foreign banks reported that more than half were able to finance their spending plans either by borrowing elsewhere or by using liquid assets. Well under one-fifth of customers reduced spending plans, and only a handful canceled their plans altogether.

On net, about half of domestic banks reported decreased demand for C&I loans from large and middle-market firms, and 30 percent, on net, reported moderately weaker demand from small firms over the same period. Most of the domestic banks that reported weaker loan demand cited a decline in customer demand for credit to finance capital expenditures and reduced demand for financing mergers and acquisitions. A shortage of internally generated funds and increased need for inventory financing were cited as important reasons by the few domestic banks that experienced increased demand. Two large banks noted that they received increased demand from customers that had switched to bank loans from the commercial paper market.

On net, about 20 percent of foreign branches and agencies saw weaker demand over the past three months. A decline in customers' need for merger and acquisition financing was cited as an important reason by most of the banks that saw demand decrease, and a majority also mentioned that their customers had reduced spending on plant and equipment. Each of the four foreign banks that saw increased demand for C&I loans reported that customers shifted to bank loans because either the commercial paper market or other credit sources became less attractive.

More than 40 percent of domestic banks tightened standards on commercial real estate loans over the past three months, up from 26 percent in the November survey. The fraction of branches and agencies that tightened standards on these loans in the current survey, about 30 percent, was little changed from November. On net, almost 30 percent of domestic banks and 15 percent of foreign banks reported at least somewhat weaker demand for commercial real estate loans.

In response to a special question, significant fractions of both foreign and domestic banks indicated that they had tightened terms on commercial real estate loans over the past year. Most strikingly, about half of the domestic banks increased spreads of loan rates over their cost of funds, and about 40 percent demanded higher debt-service coverage ratios. More than 50 percent of the foreign institutions increased spreads over their cost of funds. Significant fractions of foreign banks also tightened their requirements for take-out financing, demanded higher loan-to-value ratios, and raised debt-service coverage ratios.

A less favorable economic outlook was the most important reason for tightening terms on commercial real estate loans at both domestic and foreign banks. Foreign banks also expressed significant concern about the availability of take-out financing, followed closely by a reduced tolerance for risk. The latter was the second most important reason in the minds of domestic banks that tightened terms. Interestingly, for both domestic and foreign banks, the number of respondents mentioning as an important factor a worsening of the outlook for commercial real estate in the market where they operate was slightly smaller than the number mentioning general economic weakness.

Lending to Households

Over the past three months, banks' credit standards for approving residential mortgage loans were largely unchanged. Changes in demand for residential mortgages were highly variable across respondents, with 30 percent reporting stronger demand and an equal fraction reporting weakness. In the November survey, about 33 percent of banks, on net, reported weaker demand for home mortgages.

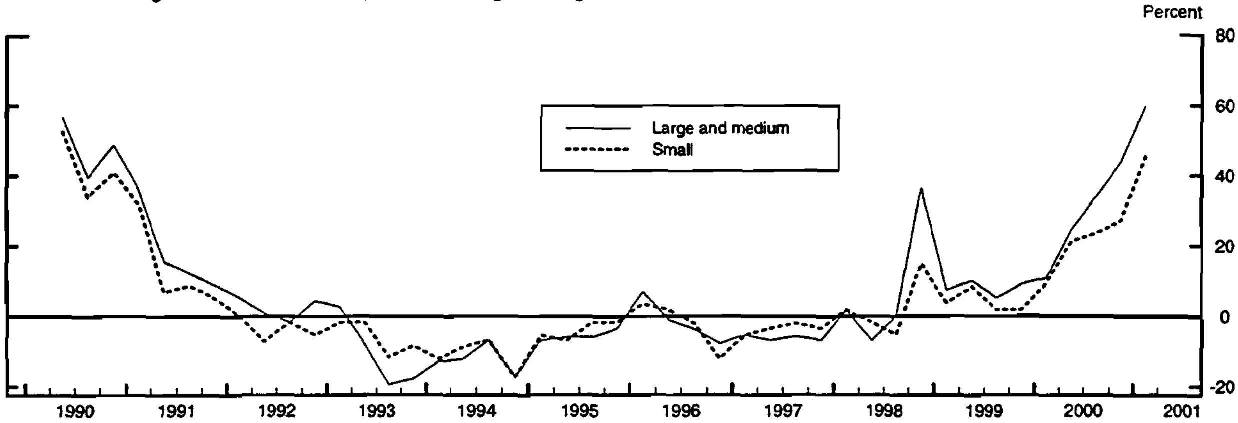
A few banks indicated that they were less willing to make consumer installment loans than they were three months ago, and more than 10 percent of banks tightened standards on credit card loans. For other types of consumer loans, almost 20 percent of domestic banks reported tighter standards, and about 25 percent increased spreads. Relative to recent surveys, this represents a significant increase in the number of banks tightening standards and terms for non-credit-card consumer loans. About 15 percent of banks, on net, expect to tighten their standards and terms on all types of consumer loans before the end of 2001, even if the economy expands at a sustainable rate. In addition, almost 35 percent of domestic banks, on net, reported that demand for all types of consumer loans had weakened over the past three months, compared with only 13 percent that observed weaker demand in the November survey.

Bank Leasing Operations

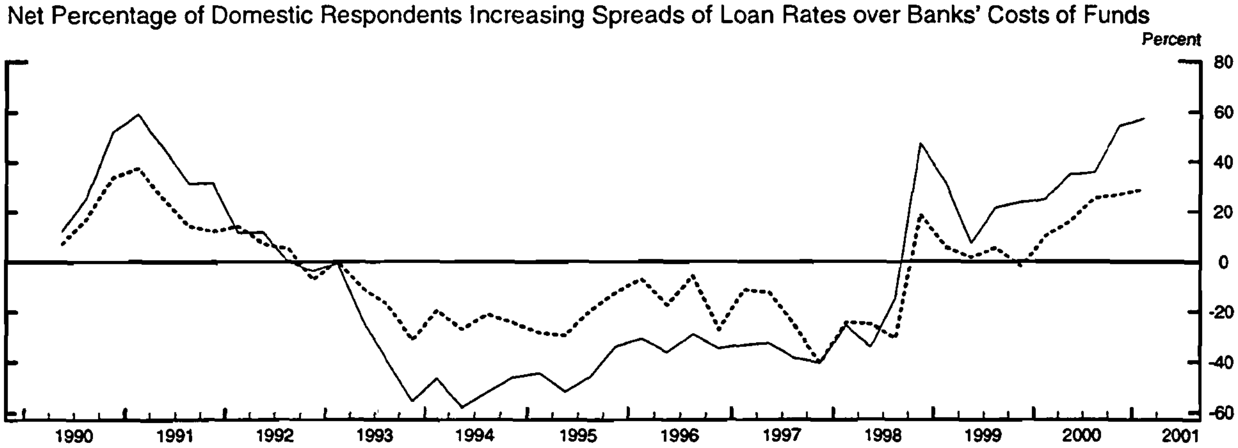
Lease financing has been expanding rapidly at domestic commercial banks since the late 1990s. The January survey asked three special questions designed to elicit information on the composition of leases at banks and on the reasons that leases have grown over that period. Banks reported that more than 60 percent of their leases are made to nonfinancial corporations and also indicated that this category was the primary area of growth in lease financing over the past several years. The rise in lease financing has accompanied rapid expansion in the types of capital investment for which lease financing is commonly used. Acquisitions of leases from third parties and a more competitive leasing market were also mentioned as important factors in the growth of these assets at domestic banks. Almost a third of the leases held by banks are consumer leases, which several banks noted are primarily auto leases. However, two banks indicated that they are exiting consumer leasing.

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

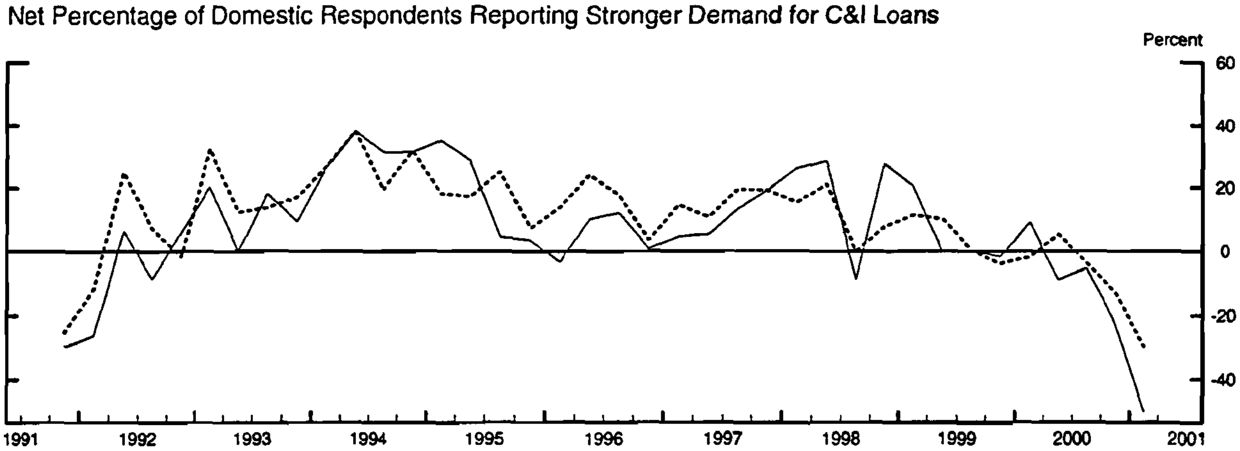
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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

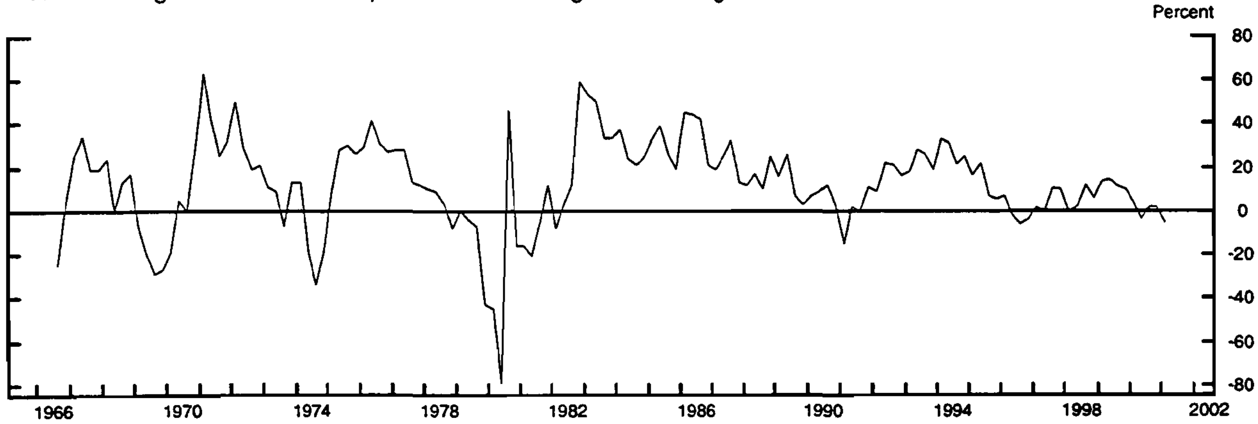


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

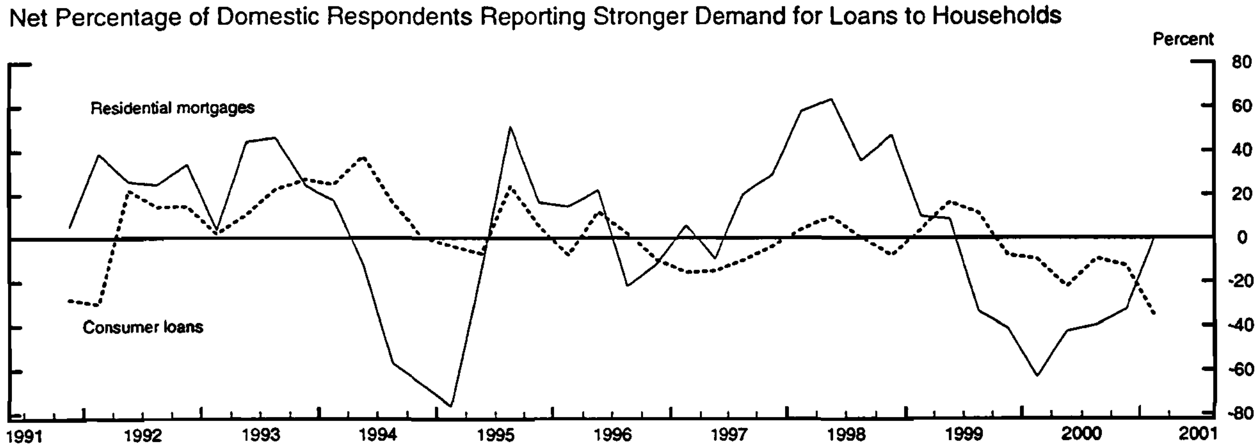


Measures of Supply and Demand for Loans to Households

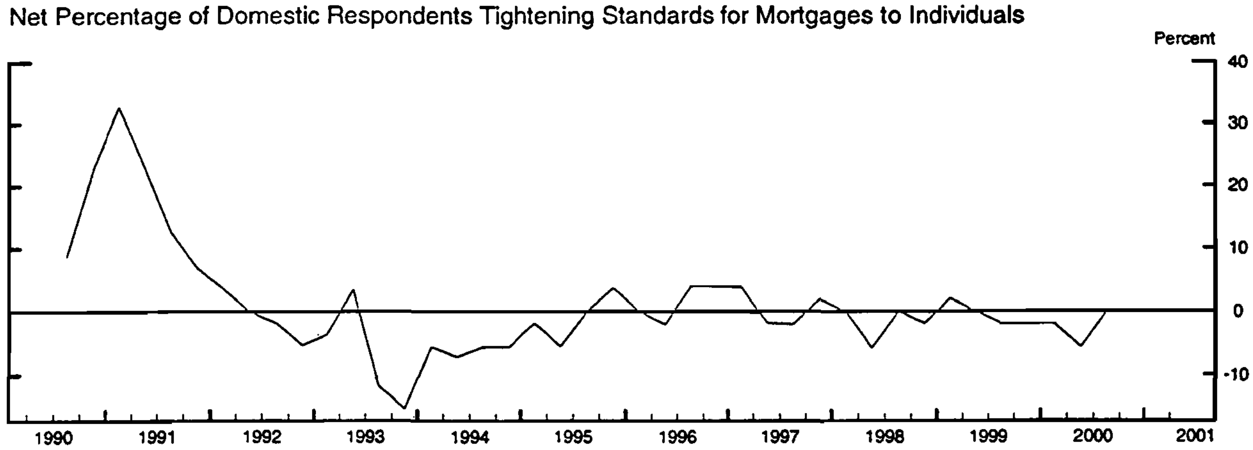
Net Percentage of Domestic Respondents Indicating More Willingness to Make Consumer Installment Loans



Net Percentage of Domestic Respondents Reporting Stronger Demand for Loans to Households



Net Percentage of Domestic Respondents Tightening Standards for Mortgages to Individuals



International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

The U.S. trade deficit in goods and services was $33.0 billion in November, somewhat smaller than recorded in the previous two months. Nonetheless, for October-November combined the deficit was $17 billion (a.r.) larger than in the third quarter.

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

	1999	Annual rate 2000			Monthly rate 2000		
		Q2	Q3	Q4[e]	Sept.	Oct.	Nov.
Real NIPA[1]							
Net exports of G&S	-322.4	-403.4	-427.7	n.a.	...	...	...
Nominal BOP							
Net exports of G&S	-265.0	-354.4	-382.5	-399.3	-33.7	-33.6	-33.0
Goods, net	-345.6	-440.9	-458.1	-473.3	-39.3	-39.9	-39.0
Services, net	80.6	86.5	75.7	74.1	5.6	6.3	6.0

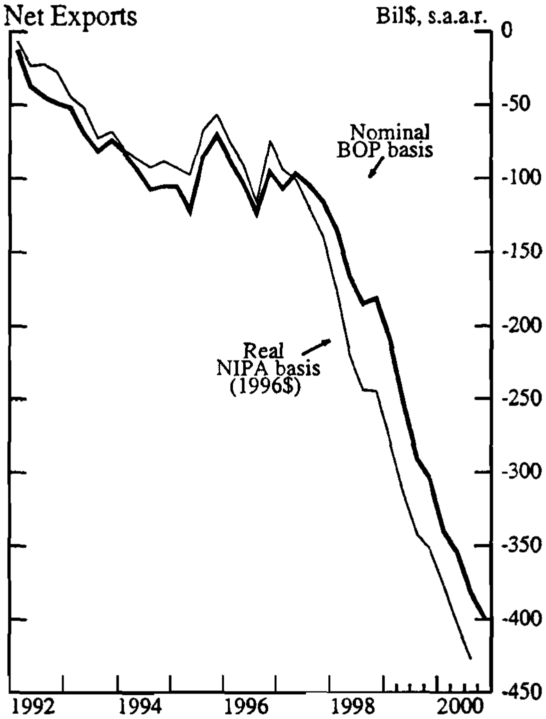
1. Billions of chained (1996) dollars.
e. BOP data are two months at an annual rate.
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.
n.a. Not available. ... Not applicable.

In November, the value of exports of goods and services declined for the third consecutive month, with decreases primarily in computers, semiconductors, and automotive products. For October-November, the value of exports declined 4½ percent at an annual rate from the third-quarter average. The decline was spread among computers, semiconductors, telecommunications equipment, aircraft, automotive products, consumer goods, and agricultural products. Exports of industrial supplies and other machinery rose a bit.

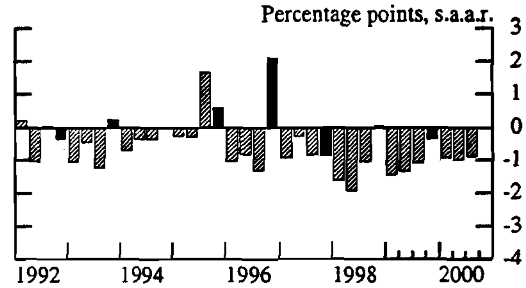
Imports in November declined for the second consecutive month which together nearly reversed the sharp run-up recorded in September. For October-November, the value of imports was slightly higher than the third-quarter average. Increases in imported consumer goods, aircraft, telecommunications equipment and other machinery were nearly offset by declines in imported automotive products, computers, semiconductors, and industrial supplies (largely chemicals and steel). The value of oil was about the same in October-November (at an annual rate) as in the third quarter, as a drop in quantity was offset by an increase in price.

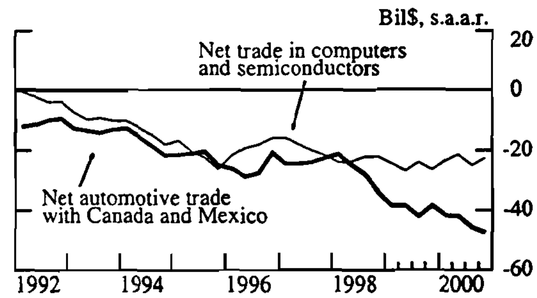
U.S. International Trade in Goods and Services

Net Exports

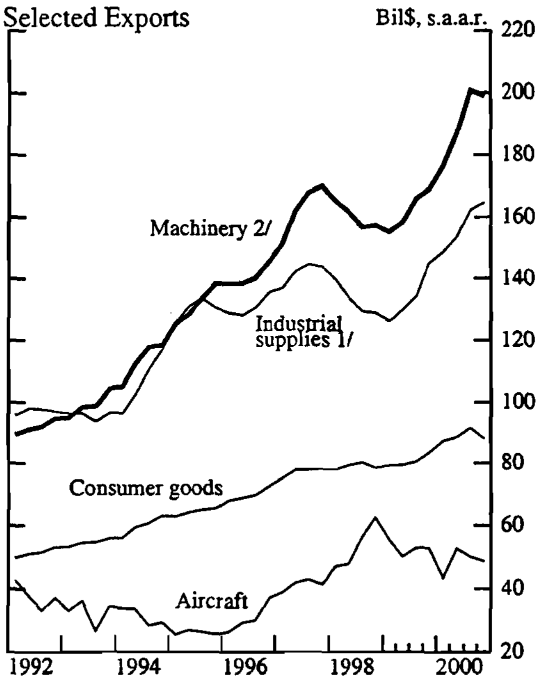


Contribution of Net Exports to Real GDP Growth



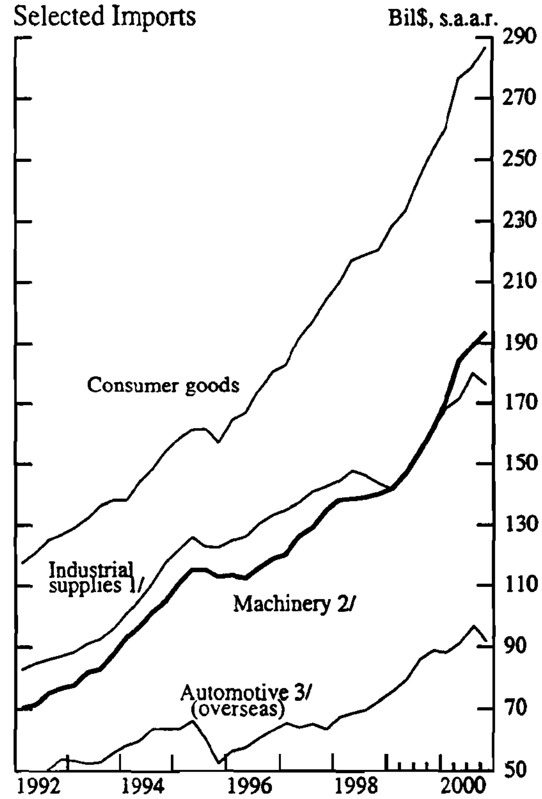


Selected Exports



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

Selected Imports



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

U.S. Exports and Imports of Goods and Services

(Billions of dollars, s.a.a.r., BOP basis)

	Levels				Amount Change[1]			
	2000		2000		2000		2000	
	Q3	Q4[e]	Oct.	Nov.	Q3	Q4[e]	Oct.	Nov.
Exports of G&S	**1100.7**	**1088.9**	**1093.5**	**1084.3**	**36.8**	**-11.8**	**-18.3**	**-9.3**
Goods exports	803.6	792.1	796.2	788.0	36.5	-11.5	-17.9	-8.1
Agricultural	55.8	53.8	55.5	52.1	3.0	-2.0	-0.7	-3.4
Gold	4.2	6.2	5.6	6.7	0.5	1.9	-0.5	1.1
Other goods	743.6	732.1	735.1	729.2	32.9	-11.4	-16.6	-5.9
Aircraft & pts	50.1	48.7	48.6	48.7	-2.8	-1.4	-1.8	0.1
Computers	58.6	56.6	58.4	54.8	3.2	-2.0	-0.0	-3.7
Semiconductors	64.9	63.5	64.4	62.6	5.3	-1.4	-3.3	-1.8
Other cap gds	203.1	201.8	201.3	202.3	14.0	-1.3	-2.3	1.0
Automotive	80.9	78.7	80.2	77.3	0.8	-2.2	0.6	-2.9
to Canada	44.2	42.6	44.2	41.0	-0.9	-1.6	1.2	-3.2
to Mexico	15.9	18.5	18.6	18.4	-1.4	2.6	2.1	-0.3
to ROW	20.9	17.6	17.3	17.9	3.1	-3.2	-2.7	0.5
Ind supplies	162.4	164.7	163.5	165.8	8.8	2.2	-3.8	2.3
Consumer goods	91.7	88.1	87.2	89.0	3.1	-3.6	-4.8	1.8
All other	31.9	30.1	31.4	28.7	0.5	-1.9	-3.8	-2.7
Services exports	297.1	296.8	297.4	296.2	0.3	-0.3	-0.4	-1.2
Imports of G&S	**1483.2**	**1488.2**	**1496.2**	**1480.2**	**64.9**	**5.0**	**-20.6**	**-16.0**
Goods imports	1261.8	1265.4	1274.8	1256.1	53.7	3.7	-11.2	-18.7
Petroleum	127.0	127.0	132.0	122.1	10.0	0.0	2.4	-10.0
Gold	4.2	6.8	6.4	7.1	1.3	2.5	-0.6	0.8
Other goods	1130.5	1131.6	1136.4	1126.8	42.5	1.1	-13.0	-9.5
Aircraft & pts	26.8	28.8	29.4	28.2	1.9	2.1	0.6	-1.2
Computers	95.0	93.3	95.3	91.2	5.1	-1.7	1.3	-4.1
Semiconductors	53.5	49.5	49.3	49.6	7.1	-4.0	-8.8	0.2
Other cap gds	192.2	196.7	198.8	194.5	4.9	4.5	1.5	-4.4
Automotive	202.6	200.2	201.3	199.1	7.1	-2.4	0.5	-2.1
from Canada	64.6	64.6	64.8	64.5	1.3	0.0	1.7	-0.3
from Mexico	41.0	44.0	46.6	41.3	0.2	3.0	1.7	-5.3
from ROW	97.0	91.6	89.8	93.3	5.6	-5.4	-2.9	3.5
Ind supplies	180.1	176.5	178.6	174.5	8.6	-3.6	-7.2	-4.0
Consumer goods	280.1	286.7	285.8	287.7	3.8	6.6	1.5	1.9
Foods	47.3	46.8	45.9	47.8	1.7	-0.5	-1.2	1.9
All other	52.9	53.1	52.0	54.2	2.4	0.2	-1.2	2.3
Services imports	221.4	222.8	221.4	224.1	11.2	1.3	-9.4	2.8
Memo:								
Oil quantity (mb/d)	12.11	11.66	12.16	11.17	-0.15	-0.44	0.38	-0.99
Oil import price ($/bbl)	28.74	29.83	29.73	29.92	2.63	1.07	-0.42	0.19

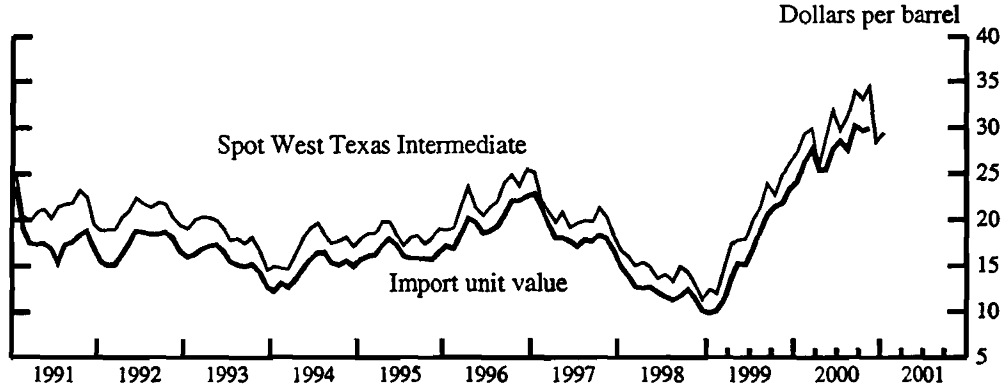
1. Change from previous quarter or month. e. Average of two months.
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

	Annual rates 2000			Monthly rates 2000		
	Q2	Q3	Q4	Oct.	Nov.	Dec.
	------------- BLS prices (1995 weights)-------------					
Merchandise imports	0.1	6.7	1.2	-0.4	0.1	-0.5
Oil	-6.3	52.9	7.1	-2.9	1.6	-9.3
Non-oil	1.0	0.9	0.4	0.0	-0.1	0.9
Core goods*	1.5	1.5	1.1	0.1	-0.1	1.0
Foods, feeds, beverages	-4.4	-4.6	-3.3	-0.1	-1.3	1.6
Industrial supplies ex oil	9.8	8.6	8.0	0.7	0.0	4.1
Computers	-9.1	-3.4	-10.4	-2.5	0.2	-0.2
Semiconductors	0.0	-4.9	-0.6	0.3	-0.2	-1.1
Cap. goods ex comp & semi	0.3	-1.5	-1.8	-0.2	-0.2	0.0
Automotive products	1.4	0.5	0.1	0.2	0.0	0.0
Consumer goods	-1.9	-0.5	-0.8	0.0	0.0	-0.2
Merchandise exports	2.0	-0.1	0.8	-0.1	0.0	-0.1
Agricultural	5.7	-12.1	12.4	0.5	1.0	1.2
Nonagricultural	1.5	1.1	-0.3	-0.1	-0.1	-0.2
Core goods*	2.1	1.8	-0.1	-0.1	-0.1	-0.3
Industrial supples ex ag	5.9	3.2	-1.4	-0.6	-0.3	-0.8
Computers	-4.5	-2.2	-1.4	-0.2	0.0	0.0
Semiconductors	-4.1	-5.5	-3.3	-0.6	-0.1	-0.1
Cap. goods ex comp & semi	1.3	1.0	0.9	0.1	0.1	0.1
Automotive products	0.8	1.0	0.0	0.0	-0.1	0.0
Consumer goods	-0.1	0.0	-0.9	0.0	0.0	-0.2
Chain price index	---Prices in the NIPA accounts (1996 weights)---					
Imports of goods & services	0.2	3.8	n.a.	...	...	...
Non-oil merchandise	0.8	0.7	n.a.	...	...	...
Core goods*	1.8	1.5	n.a.	...	...	...
Exports of goods & services	1.9	0.7	n.a.	...	...	...
Nonag merchandise	1.3	1.0	n.a.	...	...	...
Core goods*	2.3	1.2	n.a.	...	...	...

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

Oil Prices



Prices of Internationally Traded Goods

Oil. The price of imported oil (BLS) declined over 9 percent in December following two months of smaller changes. In spite of intermittent disruptions to Iraqi oil exports, the spot price of West Texas Intermediate fell nearly $6 per barrel during December in the wake of moderating concerns about low inventories and high demand. Through mid-January, however, oil prices generally moved higher in advance of OPEC's decision to cut oil production targets 1.5 million barrels per day. Spot WTI is currently trading near $31 per barrel.

Non-oil imports. Prices of imported non-oil goods rose 0.9 percent in December, following a small decline in November. The monthly increase (the largest recorded since these data began in 1989) was driven by a 4.1 percent rise in the prices of imported industrial supplies, reflecting primarily a surge in the price of natural gas. Prices of most other imported core goods (which exclude oil, computers, and semiconductors) either declined in December (consumer goods) or were unchanged (automotive products and machinery). For the fourth quarter, prices of both non-oil and core goods imports rose, but at a somewhat slower pace than recorded over the past four quarters -- core goods by ½ percent at an annual rate and non-oil imports by 1 percent (a.r.) Most major trade categories registered price declines in the fourth quarter, with the notable exception of industrial supplies.

Exports. Prices of total U.S. goods exports declined slightly in December as increases in the prices of exported agricultural products (for the fourth consecutive month) were more than offset by declines in the prices of most other exported goods. For the fourth quarter, the prices of exported core goods (which exclude computers, semiconductors, and agricultural products) fell slightly--the first decline since the fourth quarter of 1998--as decreases in the prices of exported consumer goods and industrial supplies outweighed increases prices of exported machinery. Prices of exported computers and semiconductors both declined in the fourth quarter.

U.S. International Financial Transactions

Foreign private-sector demand for U.S. securities remained strong in November (line 4 of the Summary of U.S. International Transactions table), as foreign purchases of corporate and agency securities far outpaced net sales of Treasury securities. Through November, year-to-date net foreign purchases of agency bonds, corporate bonds, and corporate stocks were all at record annual levels. Demand for agency bonds has been noteworthy. November marked the fourth straight month of record net purchases of agency bonds, with demand from Japan being particularly strong.

The sustained demand for agency and corporate securities contrasts with net sales of Treasury securities, related in part to the ongoing paydown of securities issued by the Treasury given the federal budget surplus. In 1999, private-sector foreigners were net sellers of Treasuries for the first year since 1990. The selling continued in 2000 and, barring substantial net purchases in December, the fourth quarter will be the fifth straight quarter of net sales of Treasuries by private foreigners. Despite the net sales during 1999 and 2000, private foreigners' holdings of Treasuries as a share of total outstanding has changed little over the period, indicating that they appear to have responded to the changing yield differential between Treasuries and alternative debt instruments in a manner similar to the market as a whole.

In November, net sales of foreign stocks and bonds by U.S. residents (lines 5a and 5b) more than offset the acquisition of foreign stocks through stock swaps (line 5c). The net sales of foreign bonds were mostly through Europe, where U.S. residents have been acquiring bonds. The net sales of foreign stocks were mostly through Hong Kong and Japan.

Although our measures of the sources and destinations of capital flows are imperfect, the November data are consistent with an apparent shift in portfolios away from Japan and towards Europe. Through November, U.S. residents acquired on net about $65 billion in European securities, mostly through bond purchases and acquisitions of stocks through merger-related swaps. In contrast, on net U.S. residents sold $20 billion in Japanese securities, following large net purchases of Japanese stocks in 1999.

Foreign official assets held in the United States fell slightly in November after a small increase in October (line 1). The largest decline was recorded for Turkey ($4 billion), in conjunction with its banking crisis; FRBNY data for December suggest that Turkey's reserves have since stabilized. A large decrease was also recorded for Germany ($3 billion), almost offsetting a large increase in October. Sizable declines were also recorded for Hong Kong and Taiwan. Russia's reserves increased substantially ($3 billion) in November and have increased $15 billion for the year. A sizable increase was also recorded for China. As has been the case all year, reported increases in reserve assets held in the United States by OPEC countries were modest in November. Partial data from FRBNY indicate that in December foreign official reserves held in the United States increased $12 billion.

Modest inflows through banking offices in the United States were reported in November (line 3), following large inflows in October.

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

	1998	1999	1999	2000				
			Q4	Q1	Q2	Q3	Oct.	Nov.
Official financial flows	**-23.4**	**55.0**	**28.7**	**22.1**	**9.1**	**12.5**	**.9**	**-1.2**
1. Change in foreign official assets in U.S. (increase, +)	-16.6	46.4	27.1	22.7	7.1	12.8	1.0	-1.4
a. G-10 countries	6.9	49.7	10.2	11.1	5.6	-3.9	3.7	-.4
b. OPEC countries	-9.0	2.0	-1.7	5.7	1.2	3.4	.0	1.1
c. All other countries	-14.4	-5.3	18.6	5.9	.4	13.3	-2.7	-2.2
2. Change in U.S. official reserve assets (decrease, +)	-6.8	8.6	1.6	-.6	2.0	-.3	-.1	.2
Private financial flows	**170.6**	**268.4**	**41.0**	**35.4**	**143.6**	**110.5**	**...**	**...**
Banks								
3. Change in net foreign positions of banking offices in the U.S.[1]	57.3	-12.4	1.8	-29.8	46.2	-11.8	37.6	12.9
Securities[2]								
4. Foreign net purchases of U.S. securities (+)	275.2	319.0	73.9	122.6	67.2	109.5	45.9	33.7
a. Treasury securities	49.3	-19.9	-17.3	-9.2	-20.4	-12.4	3.9	-8.9
b. Agency bonds	50.5	71.9	15.6	26.0	19.0	28.6	13.1	15.7
c. Corporate and municipal bonds	121.7	158.8	40.7	43.8	41.6	45.7	12.8	17.8
d. Corporate stocks	53.7	108.2	35.0	62.1	27.0	47.6	16.1	9.0
5. U.S. net acquisitions (-) of foreign securities	-107.3	-113.0	-17.3	-25.5	-33.1	-19.1	-22.0	7.3
a. Bonds	-17.4	-5.7	2.0	-9.3	10.8	-9.0	-3.4	8.5
b. Stock purchases	6.2	15.6	-5.9	-16.2	4.1	-4.4	2.9	5.9
c. Stock swaps[3]	-96.1	-122.9	-13.4	.0	-48.0	-5.7	-21.5	-7.1
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-146.1	-150.9	-33.3	-43.0	-37.5	-36.1	..	...
7. Foreign direct investment in U.S.	186.3	275.5	49.4	49.0	100.3	64.9	..	...
8. Foreign holdings of U.S. currency	16.6	22.4	12.2	-6.8	1.0	.8	...	...
9. Other (inflow, +)[4]	-111.4	-72.2	-45.7	-31.1	-0.5	2.3	...	...
U.S. current account balance (s.a.)	**-217.1**	**-331.5**	**-96.2**	**-101.5**	**-105.0**	**-113.8**	**...**	**...**
Capital account balance (s.a.)[5]	**.2**	**-3.5**	**-4.0**	**.2**	**.2**	**.2**	**...**	**...**
Statistical discrepancy (s.a.)	**69.7**	**11.6**	**30.5**	**43.8**	**-47.9**	**-9.4**	**...**	**...**

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

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

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

3. U.S. acquisitions of foreign equities associated with foreign takeovers of U.S. firms.

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

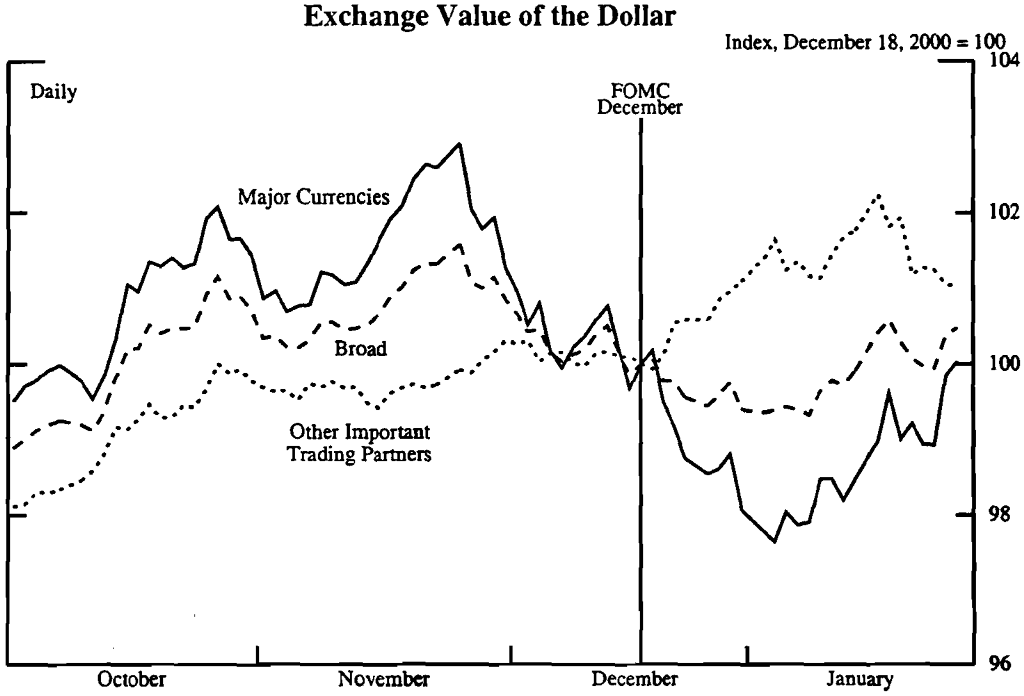
5. Consists of transactions in nonproduced nonfinancial assets and capital transfers.

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

Foreign Exchange Markets

The exchange value of the dollar has changed little, on balance, against the major currencies since the December FOMC meeting, as a 2½ percent depreciation against the euro was counterbalanced by an appreciation of 4¼ percent against the yen. Right after the FOMC's surprise 50 basis point rate cut, it was difficult to discern what the longer-term impact of the policy action on the exchange value of the dollar against the euro and yen would be. While the dollar appreciated against the euro and depreciated against the yen in the immediate aftermath of the announcement, these moves were largely reversed the following day. However, within a few days of the rate cut market participants became more confident that the downside risks for the U.S. economy were moderate, and the major currencies index of the exchange value of the dollar recovered its earlier losses.

Exchange Value of the Dollar



Recent economic data suggesting that the growth rate of the U.S. economy is moderating more rapidly than that of the European economy appears to have helped revive the fortunes of the euro at the end of last year. In contrast, the downward revisions in growth expectations for Japan have been quite modest compared to the change in assessment of U.S. growth prospects. One factor behind the yen's weakness may be market perceptions that the Japanese government wants a weaker currency, to help generate an export-led recovery. Further adding to negative sentiment towards the yen was the announcement by Toyota that it would reduce the rate at which it repatriates its foreign earnings;

market participants opined that other large Japanese exporters were likely to follow suit.

In comparison to the dollar's sharp fluctuations against the euro and yen, the dollar's movements against other major currencies were moderate. On net, the U.S. dollar depreciated ¾ percent against the Canadian dollar and ¼ percent versus the Australian dollar over the intermeeting period. From the December FOMC meeting to January 3, the U.S. dollar had depreciated by much larger amounts against the Canadian and Australian currencies, but in the period following the FOMC policy action, the U.S. dollar recovered most of its losses. Over the intermeeting period the dollar appreciated 1 percent, on balance, against sterling. With recent economic data suggesting the rate of growth may also be slowing more rapidly in the United Kingdom than in the euro area, sterling has moved more in line with the dollar than the euro since the December FOMC meeting.

The exchange value of the dollar rose 1 percent versus the currencies of our other important trading partners over the intermeeting period, owing primarily to a 3¼ percent appreciation against the Mexican peso and a 5¾ percent appreciation versus the Korean won. Market participants expressed concern that Mexico and the emerging Asian economies would be hardest hit by a slowing of the U.S. economy, as they export heavily to the United States. The Philippines peso was extremely volatile over the intermeeting period, as the twists and turns in the fate of President Estrada were reflected in the Philippines currency. On balance, the dollar depreciated 3¼ percent against the Philippines peso, as market participants appeared relieved by the change in regime.

Canadian three-month interest rates moved lower after the FOMC's January 3 policy action, as the market brought forward its expected time frame for the Bank of Canada to begin easing. These expectations were realized on January 23, when the Bank of Canada cut its key policy rate 25 basis points. Since the December FOMC meeting, Canadian three-month rates have declined 32 basis points, but the yield on the Canadian ten-year bond has risen 17 basis points. Share prices in Canada rose over 6 percent. Short-term rates in the euro area declined 15 basis points, while rates in Japan have slipped even further from their already low level. Yields on other major industrial country ten-year sovereign bonds have changed relatively little since the December FOMC, with the exception of the yield on the ten-year Japanese government bond, which fell 25 basis points. Share prices in Japan declined almost 5 percent on net; discussions by Japanese government officials on undertaking "price-keeping operations" seemed to help reverse initially larger losses.

Financial Indicators in Major Industrial Countries

Country	Three-month rate: Jan. 25 (Percent)	Three-month rate: Percentage Point Change	Ten-year yield: Jan. 25 (Percent)	Ten-year yield: Percentage Point Change	Equities: Percent Change
Canada	5.43	-.32	5.53	.17	6.3
Japan	.40	-.15	1.45	-.25	-4.7
Euro area	4.77	-.17	4.87	.00	1.5
United Kingdom	5.72	-.19	4.94	.04	.7
Switzerland	3.37	.08	3.67	-.01	.1
Australia	5.89	-.29	5.42	-.04	2.6
United States	5.52	-.93	5.32	.15	2.0
Memo: Weighted-average foreign	3.84	-.20	4.62	.00	n.a.

NOTE. Change is from December 18 to January 25 .
n.a. Not available.

Share prices in the emerging market economies in Asia, led by the semiconductor manufacturing companies, rebounded smartly following the FOMC's January 3 policy action, gaining 16 to 25 percent over the intermeeting period. The apparent end to the political uncertainty in the Philippines helped equities gain 20 percent. Share prices in Latin America also recorded strong gains during the intermeeting period, ranging from 14 to 31 percent, with the sharpest upward movement occurring shortly after the FOMC's January 3 rate cut. Short-term interest rates in Argentina were dramatically lower, as the FOMC's rate cut and an earlier IMF loan agreement improved sentiment towards Argentina. The yield spread of Argentine and Brazilian Brady bond debt over U.S. Treasuries also narrowed substantially.

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

Financial Indicators in Latin America, Asia, and Russia

Economy	Currency/ US dollar		Short-term Interest rates[1]		Dollar-denominated bond spread[2]		Equity prices
	Jan. 25	Percent Change	Jan.24/25 (Percent)	Percentage Point Change	Jan.24/25 (Percent)	Percentage Point Change	Percent Change
Mexico	9.69	3.3	18.04	1.32	4.05	-.45	13.8
Brazil	1.97	1.0	14.95	-.80	8.25	-1.33	17.8
Argentina	1.00	.0	7.75	-8.75	8.73	-1.66	31.1
Chile	567.50	-.77	6.42	-1.02	2.73	.48	4.9
China*	8.28	.0	n.a.	n.a.	1.27	-.17	1.0
Korea*	1275.00	5.7	5.50	-.50	2.14	.08	16.4
Taiwan*	32.50	-1.8	5.07	-.30	...	...	15.7
Singapore	1.74	.2	2.50	-.38	...	...	-4.4
Hong Kong	7.80	-.0	5.48	-.58	...	...	6.8
Malaysia*	3.80	.0	2.94	.00	1.84	-.07	-.0
Thailand	42.98	-.9	3.25	-2.75	--	--	25.3
Indonesia	9400.00	.4	14.96	.32	7.34	.28	-.3
Philippines	48.40	-3.2	12.44	-2.75	5.50	-.34	20.2
Russia	28.37	1.4	n.a.	n.a.	8.86	-1.34	24.1

NOTE. Change is from December 18 to January 24/25.

1. One month interbank interest rate, except Chile: 30-day deposit rate; Korea: 1-week call rate. No reliable short-term interest rates exist for China or Russia.

2. Spread over similar maturity U.S. Treasury bond yield. Mexico, Brazil, Argentina and Venezuela: Stripped Brady bond yield. Chile, China, and Korea: Global bond yield. Malaysia, Philippines and Russia: Eurobond yield. Thailand and Indonesia: Yankee bond yield. Taiwan, Singapore and Hong Kong do not have outstanding sovereign bonds denominated in dollars.

n.a. Not available. ... Not applicable. * Short-term interest rates and equity prices: last trading day Jan. 18-22.

Developments in Foreign Industrial Countries

Recent information suggests the rate of expansion of activity moderated in major foreign industrial countries in the fourth quarter. Euro-area data, although mixed across economies, indicate growth continued to slow. The pace of the Canadian expansion is estimated to have moderated, largely due to weaker exports to the United States. Growth in the United Kingdom seems to have declined to a rate closer to trend, while the Japanese economy seems to have stagnated.

Continued high oil prices kept broad measures of inflation near their recent peaks in December, but core inflation remained relatively subdued. Twelve-month consumer price inflation in the euro area was 2.6 percent, well above the European Central Bank's 2 percent target ceiling, although core inflation (excluding food and energy prices) remained below 1½ percent. Canadian consumer price inflation breached the ceiling of the Bank of Canada's 1 percent to 3 percent inflation target band, while core inflation was 1.9 percent. In the United Kingdom, retail price inflation excluding mortgage interest payments remained below the 2½ percent target rate. Japanese consumer price deflation persisted at 1 percent.

In **Japan**, economic activity appears to have stagnated once again. The all-industry index of output, which includes both industrial production and indicators of activity in the service, construction, and public sectors was down about ½ percent on average in October and November relative to the third quarter. Industrial production and service sector output were little changed from their third-quarter levels, but weakness was evident in the construction industry where output was down about 3 percent. On the demand side, the household sector remains sluggish; partial fourth-quarter data on real household expenditures and car registrations suggest that consumer spending may have fallen in the fourth quarter after having been little changed over the preceding half-year. Housing starts were also below their third-quarter level on average in October and November following two quarters of decline. Even private nonresidential investment, which has been the strongest component in the tentative expansion so far, appears to be losing steam, as growth of both orders and shipments of machinery slowed sharply in the fall following robust increases earlier in the year.

Signals from the labor market are mixed. The unemployment rate rose by one-tenth of a percentage point to 4.8 percent in November, just below the record high of 4.9 percent reached early last year. However, employment expanded for a second consecutive month, while an increase in job seekers boosted the ranks of the unemployed. Meanwhile, the job-offers-to-applicants ratio continued to edge up, to 0.65 percent, the highest level in almost three years. The high unemployment rate reportedly reflects the impact of corporate restructuring and the increasing mismatch between skills needed and those possessed by older laid-off workers.

Concern over deflation has re-ignited. Core consumer goods prices in the Tokyo area (which exclude fresh food but include energy) declined 1 percent in December from a year earlier, compared with a decline of ½ percent in 1999. Twelve-month changes in wholesale prices for domestic goods have been slightly negative in the past three months after having been boosted for several months by the runup in energy prices. Land prices also have continued to fall in the third quarter of 2000; the national urban land price index fell 6¼ percent below its year-earlier level.

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

Indicator	2000						
	Q2	Q3	Q4	Sept.	Oct.	Nov.	Dec.
Industrial production	1.5	1.8	n.a.	-3.5	1.3	-.5	n.a.
All-industry index	1.8	.4	n.a.	-1.7	-.1	.4	n.a.
Housing starts	-2.5	-2.8	n.a.	.1	-4.6	5.4	n.a.
Machinery orders[1]	3.1	8.2	n.a.	-16.5	8.3	-2.9	n.a.
Machinery shipments	4.6	1.0	n.a.	-6.4	2.6	.8	n.a.
New car registrations	1.0	-3.8	n.a.	-9.6	-4.2	4.3	n.a.
Unemployment rate[2]	4.7	4.6	n.a.	4.7	4.7	4.8	n.a.
Job offers ratio[3]	.57	.61	n.a.	.62	.64	.65	n.a.
Business sentiment[4]	-18	-15	-14	...	...	...	...
CPI (Core, Tokyo area)[5]	-.6	-.8	-.9	-1.0	-1.0	-.9	-1.0
Wholesale prices[5]	.4	.2	-.1	.1	-.1	-.2	-.1

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

The merchandise trade surplus (customs clearance basis) for the first eleven months of 2000 was $104 billion (s.a.a.r.), down from $109 billion in the same period last year, with exports up 16 percent and imports up 23 percent. The developing Asian countries have continued to account for most of the export gain, although demand from those countries softened in the latter part of the year, while higher oil prices have contributed significantly to the increase in dollar-denominated imports.

Despite the weakness in the economy, the substantial government debt burden is becoming an increasingly important constraint on fiscal policy. The Japanese cabinet has approved a draft budget for FY2001 which is contractionary even compared with last year's initial budget. When last year's supplemental budget is included, the year-over-year decline in fiscal spending, in the absence of a further supplemental budget, would be about 8 percent (nearly 1½ percent of GDP), including a substantial decline in public works spending.

The rate of economic growth in the **euro area** continued to slow in the fourth quarter. Most of the slowdown is apparent in Germany, where industrial production was down 0.9 percent in October/November from the third quarter average owing to weak manufacturing activity. However, for the euro area overall, industrial production rose 0.8 percent in October/November from the third quarter average. Additionally, the euro-area purchasing managers' survey continued to indicate an overall expansion in manufacturing activity, but moved down for the eighth consecutive month in December, dropping to its lowest level since June 1999. Retail sales declined in the euro area overall in October; German sales recorded their third monthly decline in November. However, in France, consumption of manufactured goods rebounded in the fourth quarter to be up ½ percent over the third quarter.

Business confidence in the euro area appears to have stabilized in recent months, while consumer confidence improved in December, bolstered by receding oil prices. Continued improvements in labor market conditions have also helped raise consumer confidence. In Germany, the December unemployment rate declined for the ninth consecutive month to 9.2 percent, while in Italy the unemployment rate in the fourth quarter fell to 10 percent from 10½ percent in the third quarter.

Declining oil prices in December also helped contain consumer price inflation. Euro area consumer prices were unchanged (s.a.) in December from the previous month, and the 12-month rate of inflation fell to 2.6 percent (n.s.a.) but still remained above the European Central Bank's 2 percent target ceiling. Core consumer prices (which exclude food and energy prices) rose a modest 0.1 percent in December, leaving the 12-month rate of core inflation unchanged at

1.4 percent. Preliminary German and Italian CPI data for January indicate that inflation has picked up, primarily reflecting higher food prices. Euro area labor costs also rose a modest 0.9 percent (s.a.) in the third quarter of last year, down slightly from a 1 percent increase in the second quarter.

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

Indicator	2000						
	Q2	Q3	Q4	Sept.	Oct.	Nov.	Dec.
Industrial production[1]	1.7	.9	n.a.	.8	-.1	.6	n.a.
Retail sales volume	1.0	.3	n.a.	.4	-.2	n.a.	n.a.
Unemployment rate[2]	9.1	9.0	n.a.	8.9	8.8	8.8	n.a.
Consumer confidence[3]	.0	-.7	-2.3	-3.0	-3.0	-3.0	-1.0
Industrial confidence[4]	6.0	6.3	5.3	6.0	6.0	5.0	5.0
Mfg. orders, Germany	5.3	.7	n.a.	-3.8	3.1	.9	n.a.
CPI[5,6]	2.1	2.5	2.7	2.8	2.8	2.9	2.6
Producer prices[5,6]	5.2	5.8	n.a.	6.2	6.5	6.3	n.a.
M3[7]	5.4	5.3	n.a.	5.3	5.2	4.9	n.a.

1. Excludes construction.
2. Euro-area standardized to ILO definition. Includes Eurostat estimates in some cases.
3. Diffusion index based on European Commission surveys in individual countries; Averages of responses to questions on financial situation, general economic situation, and purchasing attitudes.
4. Diffusion index based on European Commission surveys in individual countries; Averages of responses to questions on production expectations, orders, and stocks.
5. Percent change from year earlier.
6. Eurostat harmonized definition.
7. Eurostat harmonized definition, n.s.a., 12-month percent change.
n.a. Not available.

Fourth-quarter data suggest that the pace of expansion of economic activity slowed in the **United Kingdom**. Industrial production in October and November on average was down 0.7 percent from the third-quarter level, growth in the volume of retail sales moderated over the fourth quarter, and consumer confidence remained low. On the up side, business sentiment rose in the fourth quarter and again in January; however, these numbers remain below the levels recorded in 1999.

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

Indicator	2000						
	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
Industrial production	1.3	.7	n.a.	-.2	.1	n.a.	n.a.
Retail sales	.3	1.3	1.2	.0	.7	.1	n.a.
Unemployment rate[1]							
Claims-based	3.8	3.6	3.6	3.6	3.6	3.6	n.a.
Labor force survey[2]	5.5	5.4	n.a	5.3	n.a.	n.a.	n.a.
Business confidence[3]	-4.0	3.3	5.3	3.0	1.0	12.0	14.0
Retail prices[4]	2.1	2.1	2.1	2.0	2.2	2.0	n.a.
Producer input prices[5]	11.4	12.1	n.a	13.0	10.8	n.a.	n.a.
Average earnings[5]	4.1	4.1	n.a	4.1	4.4	n.a.	n.a.

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

Labor market conditions remain tight. The official claims-based unemployment rate remained at 3.6 percent in December, the lowest rate in 25 years. However, average annual earnings growth in November remained below the 4½ percent rate that the Bank of England believes to be compatible with the inflation target. Producer input prices have been rising sharply, in part reflecting higher oil prices. Nevertheless, the twelve-month rate of retail price inflation (excluding mortgage interest payments) remains below the 2½ percent target, as price discounting has continued in the goods sector.

In **Canada,** indicators available for the fourth quarter suggest that economic activity continued to expand at a solid pace, although weak external demand and softening consumption slowed growth from earlier in the year. Real GDP, measured at factor cost, rose 6.2 percent (s.a.a.r.) in October. A broad-based advance in manufacturing production, particularly in the electronics sector, and continued gains in business services drove the strong growth. However, data on merchandise trade and manufacturing shipments suggest that, outside of the energy sector, manufacturing activity failed to expand in November. In addition, new orders for manufactured goods fell in November, while inventories expanded rapidly. Consumption activity also showed signs of slowing, as November retail sales were unchanged from October in real terms and housing starts contracted in the fourth quarter.

Labor markets displayed continued strength, with employment rising a stronger-than-expected 3.2 percent (s.a.a.r.) in the fourth quarter. For the year, employment increased 2.6 percent, slightly below the pace of the previous two years. The unemployment rate was 6.8 percent in December, unchanged from the beginning of the year, as labor force participation rates rose along with employment.

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

Indicator	2000						
	Q2	Q3	Q4	Sept.	Oct.	Nov.	Dec.
GDP at factor cost	1.1	.9	n.a.	.0	.5	n.a.	n.a.
Industrial production	1.5	.6	n.a.	-.6	1.0	n.a.	n.a.
New mfg. orders	1.8	2.8	n.a.	-3.4	4.6	-.1	n.a.
Retail sales	1.1	2.6	n.a.	.4	-.7	.4	n.a.
Employment	.4	.2	.8	.4	.1	.4	.2
Unemployment rate[1]	6.7	6.9	6.9	6.8	6.9	6.9	6.8
Consumer prices[2]	2.4	2.7	3.1	2.7	2.8	3.2	3.2
Consumer attitudes[3]	117.0	119.8	n.a.	...	...	...	...
Business confidence[4]	154.3	149.4	n.a.	...	...	...	...

1. Percent.
2. Percent change from year earlier, n.s.a.
3. Level of index, 1991 = 100.
4. Level of index, 1977 = 100.
n.a. Not available. ... Not applicable.

The twelve-month rate of consumer price inflation remained steady at 3.2 percent in December, above the ceiling of the Bank of Canada's 1 percent to 3 percent target range. Higher energy prices continued to account for much of the increase in consumer prices, as the twelve-month core rate of inflation (which excludes food and energy prices) was a more moderate 1.9 percent in December. However, core inflation is now markedly higher than the 1½ percent rate recorded throughout much of 2000. On the other hand, wage increases have moderated, with average hourly earnings rising 3.2 percent in the twelve months ending in December, down from growth close to 4 percent earlier in the year.

The Bank of Canada announced on December 20 that David Dodge, the former Deputy Minister of Finance and the current Deputy Minister of Health Canada, would serve as the next Governor of the Bank of Canada, replacing Gordon Thiessen. Governor Thiessen will retire from the Bank on January 31.

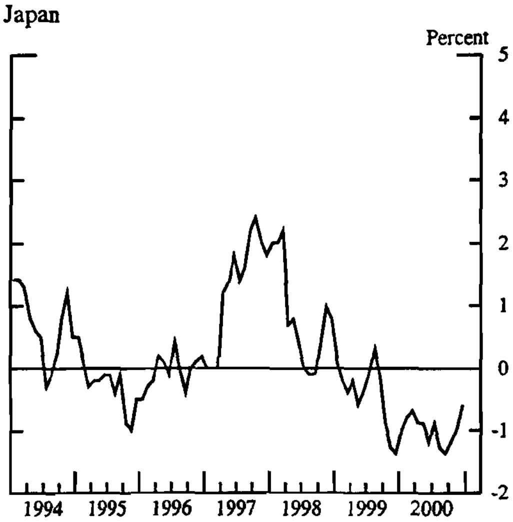
External Balances
(Billions of U.S. dollars, s.a.a.r.)

Country and balance	2000					
	Q2	Q3	Q4	Oct.	Nov.	Dec.
Japan						
Trade	112.5	104.6	61.6	67.5	68.5	48.9
Current account	128.3	117.6	n.a.	105.2	109.9	n.a.
Euro-Area						
Trade[1]	16.9	24.3	n.a.	34.9	17.5	n.a.
Current account[1]	-25.0	-21.5	n.a.	-1.0	n.a.	n.a.
Germany						
Trade	51.6	43.5	n.a.	56.3	26.7	n.a.
Current account	-31.4	-27.4	n.a.	...	...	...
France						
Trade	9.1	-3.7	n.a.	-7.8	n.a.	n.a.
Current account	5.3	4.2	n.a.	1.1	n.a.	n.a.
Italy						
Trade	-2.6	-2.7	n.a.	-3.4	n.a.	n.a.
Current account[1]	-14.8	9.4	n.a.	-4.8	.9	n.a.
United Kingdom						
Trade	-42.9	-42.1	n.a.	-42.9	-36.8	n.a.
Current Account	-21.1	-18.7	n.a.	...	...	...
Canada						
Trade	34.7	35.5	n.a.	38.5	34.9	n.a.
Current Account	9.8	9.1	n.a.	...	...	...

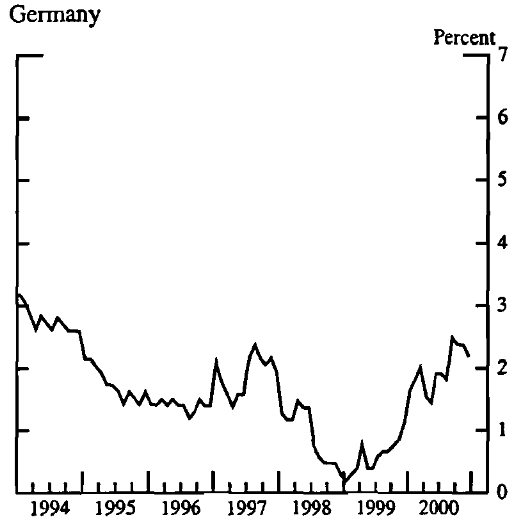
1. Not seasonally adjusted.
n.a. Not available. ... Not applicable.

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

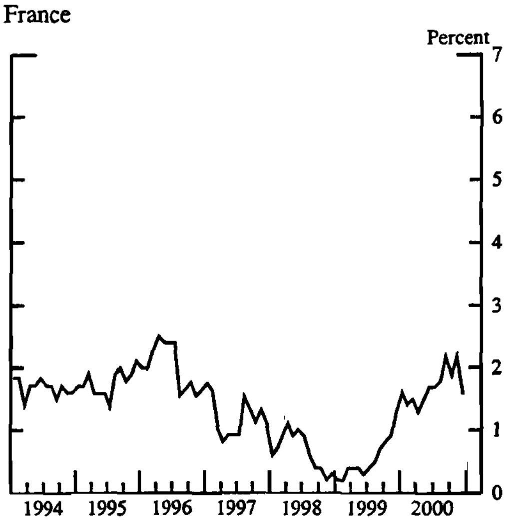
Japan



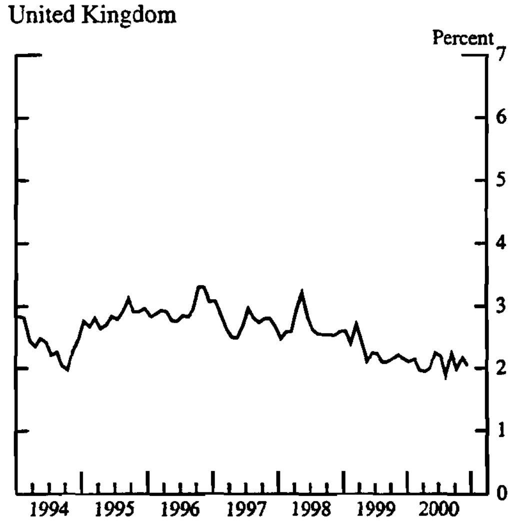
Germany



France

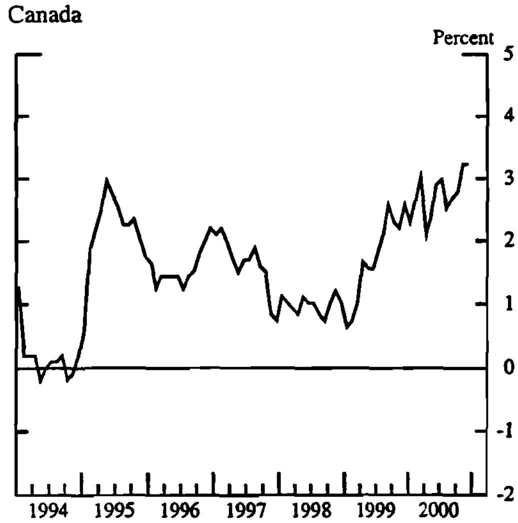


United Kingdom



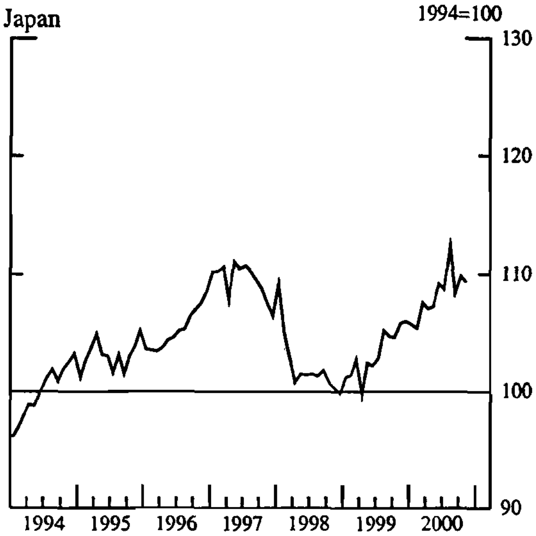
Italy

Canada

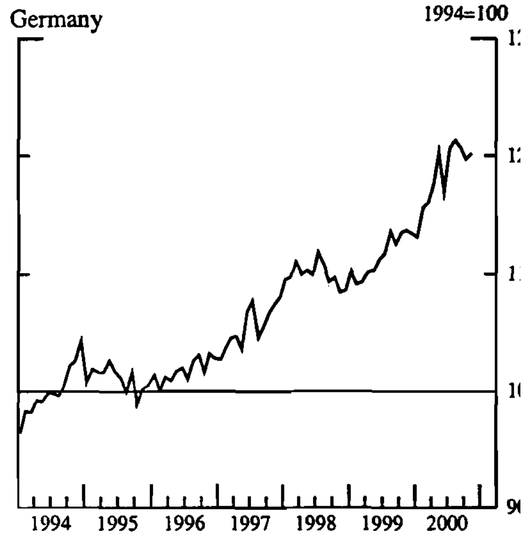


Industrial Production in Selected Industrial Countries

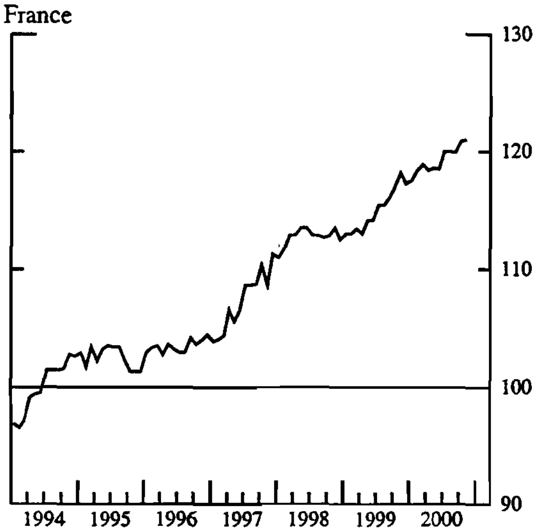
Japan



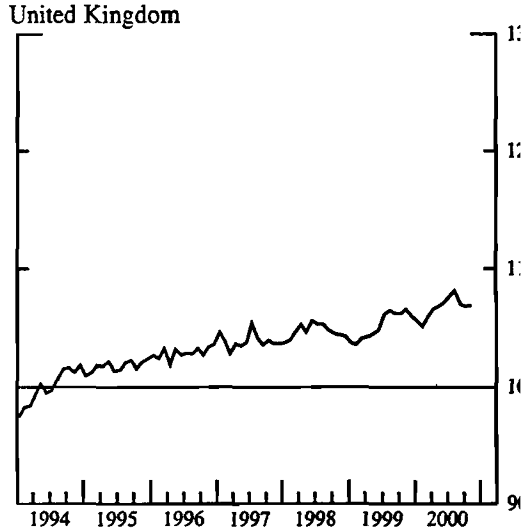
Germany



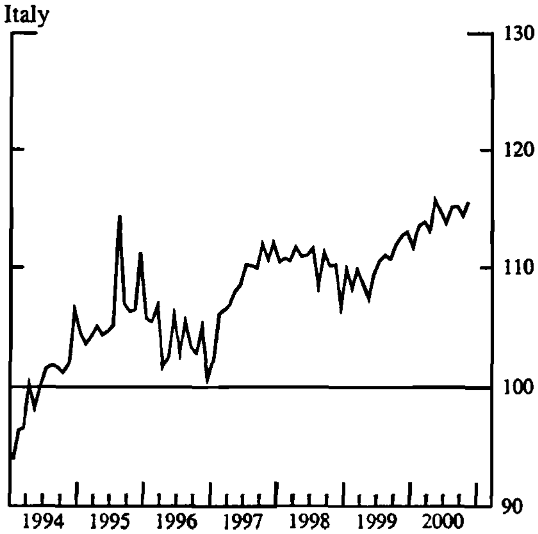
France



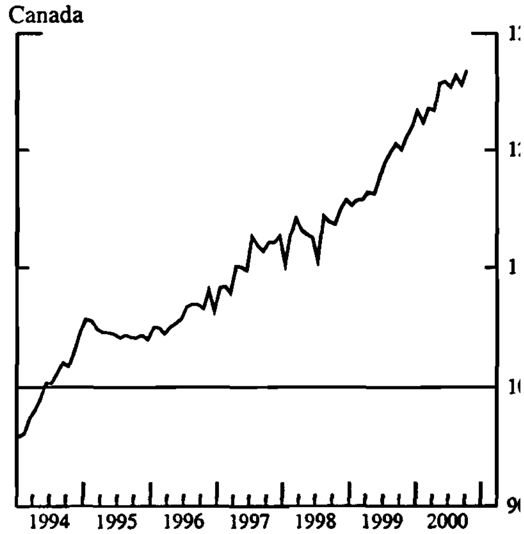
United Kingdom



Italy



Canada



Economic Situation in Other Countries

Data received since the last Greenbook have reinforced our perception that growth is slowing in the major developing countries. In Latin America, the evidence is largely concentrated in Mexico, where industrial production posted declines in recent months. The slowdown in growth in Asia is more widespread, with the exception of China. Inflation pressures have remained generally subdued across the developing economies, and prices have continued to decrease in Argentina and Hong Kong. Developing country exports appear to have fallen off recently, in part reflecting weaker U.S. growth and a slowdown in global electronics demand, resulting in declining trade balances in Mexico and in some Asian economies.

In **Mexico**, the latest monthly indicators point to a slowing in the rate of economic growth. Industrial production fell 1.6 percent (s.a.) in November--the second consecutive monthly decline. In addition, partly due to reduced U.S. demand for Mexican goods, the trade deficit widened to nearly $14 billion in the fourth quarter, bringing the 2000 deficit to $8.2 billion from a $5.4 billion deficit in 1999.

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

Indicator	1999	2000	2000				
			Q2	Q3	Q4	Nov.	Dec.
Real GDP[1]	5.3	n.a.	6.7	5.8	n.a.	...	...
Industrial production	3.8	n.a.	2.3	1.1	n.a.	-1.6	n.a.
Unemployment rate[2]	2.5	2.2	2.2	2.2	2.2	2.2	2.2
Consumer prices[3]	12.3	9.0	9.5	9.0	8.9	8.9	9.0
Trade balance[4]	-5.4	-8.2	-7.5	-9.0	-13.8	-16.2	-15.6
Imports[4]	142.1	174.4	170.3	181.0	188.3	187.6	189.1
Exports[4]	136.7	166.2	162.8	172.0	174.5	171.4	173.5
Current account[5]	-14.0	n.a.	-13.8	-16.2	n.a.	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent; counts as unemployed those working one hour a week or less.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

Inflation in 2000 came in at 9.0 percent, well below the Bank of Mexico's (BOM) 10 percent target. However, BOM's target of 6.5 percent inflation for 2001 is generally considered to be ambitious. Already this year, the BOM has tightened monetary policy, responding to survey expectations of 2001 inflation that were running over a percentage point higher than the target.

In late December, the Mexican congress approved the 2001 fiscal budget. The passage of the budget, by near consensus, before the year-end deadline, and through the politically divided Congress, represents a victory for the Fox government. In order to persuade lawmakers to pass the budget before the deadline, the government agreed to widen the budget deficit to 0.65 percent of GDP from the original proposal of 0.5 percent of GDP. Nevertheless, the approved budget should narrow the deficit relative to the estimated 2000 deficit of 1.1 percent of GDP and represents significant fiscal tightening, especially given expectations of lower output growth and a sizable decline in oil prices. In addition, if government revenues fall between one and five percent below budgeted revenues, the government is authorized to cut expenditures without prior approval from Congress in order to achieve the budget deficit target.

In **Argentina**, economic data since the last Greenbook were mixed, while financial market conditions improved markedly after the FOMC's policy easing on January 3. GDP fell 6 percent (s.a.a.r.) in the third quarter, reflecting a large decline in investment. For the fourth quarter, however, industrial production showed signs of improvement--rising 1½ percent. Nevertheless, the level of prices was about ¾ percent below its year-earlier level. Export growth remained robust through November while imports fell more than 5 percent from a year ago, with notable declines in capital goods imports. Early indicators for January are more encouraging. January consumer confidence rebounded to levels not seen since mid-2000, although still well below the end-1999 level. In addition, private sector bank deposits jumped to a three-month high (n.s.a.) in early January, making up much of the ground lost in the last quarter of 2000.

In mid-December, the Argentine government formally announced the details of an IMF-led assistance package. The total amount of the three-year package is nearly $40 billion--about $14 billion from the IMF, $5 billion from the World Bank and IADB, $1 billion from Spain, and the remaining $20 billion from private sector sources. Before year-end, Argentina drew $2 billion in IMF funds available under its previous stand-by arrangement that was subsumed in the new program. Argentina accessed another $3 billion in IMF funds in mid-January following the approval of the new, enlarged stand-by program by the IMF Executive Board. The announcement of the package, the surprise intermeeting rate cut by the FOMC, and the final IMF approval all contributed to improving financial market conditions in Argentina. Since mid-December, the Argentine stock market has risen about 25 percent, spreads on Argentine sovereign bonds have fallen almost 150 basis points, and domestic interest rates on 30-day peso deposits have declined around 875 basis points.

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

Indicator	1999	2000	2000 Q2	2000 Q3	2000 Q4	2000 Nov.	2000 Dec.
Real GDP[1]	-.3	n.a.	.6	-6.0	n.a.	...	...
Industrial production	-6.0	1.7	-4.2	-2.0	1.5	1.5	4.1
Unemployment rate[2]	13.8	15.1	15.4	...	14.7	...	...
Consumer prices[3]	-1.8	-.8	-1.1	-.9	-.7	-.7	-.8
Trade balance[4]	-.8	n.a.	.8	2.3	n.a.	2.8	n.a.
Current account[5]	-12.3	n.a.	-5.7	-9.7	n.a.	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent, n.s.a. Data are released for May and October only. Figures for Q2 and Q4 reflect data for May and October, respectively.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

In **Brazil**, recent evidence points to continued strong economic activity, although there are hints of some deceleration in the fourth quarter. Industrial production edged down in November, after a 1.7 percent (s.a.) increase in October. The unemployment rate was stable in November and the level of employment has been basically flat since September. Consumer price inflation (as measured by the IPC-A index) ended the year at 6 percent, down from nearly 9 percent in 1999, despite large increases in fuel prices.

On January 17, the Brazilian central bank's monetary policy committee lowered its benchmark Selic rate 50 basis points to 15¼ percent and retained its neutral bias on future moves. This action puts the Selic at its lowest level since the *real* was created in 1994. It was the second month in a row that the central bank eased rates, taking advantage of falling U.S. interest rates and low domestic inflation.

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

Indicator	1999	2000	2000				
			Q2	Q3	Q4	Nov.	Dec.
Real GDP[1]	3.5	n.a.	2.1	4.8	n.a.	...	...
Industrial production	-.7	n.a.	.3	1.2	n.a.	-.2	n.a.
Unemployment rate[2]	7.6	7.1	7.2	7.0	6.7	7.0	5.9
Consumer prices[3]	8.9	6.0	6.6	7.6	6.2	6.0	6.0
Trade balance[4]	-1.2	-0.7	-1.2	-1.6	-1.5	-1.4	-2.1
Current account[5]	-25.1	n.a.	-28.2	-18.0	n.a.	30.7	n.a.

1. Annual rate. Annual figures are Q4/Q4.
2. Percent. "Open" unemployment rate.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec. Price index is IPC-A.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

In late December, Brazil's congress approved the 2001 federal government budget. The budget calls for a primary (non-interest) surplus consistent with a primary (non-interest) surplus for the entire public sector of 3 percent of GDP, down from about 3¼ percent of GDP in 2000. In January, S&P raised its credit rating for the Brazilian government's long-term foreign-currency debt from B+ to BB-, citing Brazil's improved fiscal and monetary performance, including the congressional approval of the federal government budget. Also in January, the Brazilian federal government launched five- and ten-year bond issues totaling $2.5 billion.

In **Venezuela,** output growth rose sharply in the fourth quarter, and upward revisions in previous quarterly figures point to a 5.6 percent growth rate over the four quarters ended 2000Q4. Last year's recovery primarily reflects strength in the oil-related and public sectors. Inflation over the twelve months ended December was 13.3 percent--the lowest annual inflation figure in almost fifteen years. Strong oil revenues led to a $13.4 billion (12½ percent of GDP) current account balance in 2000.

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

Indicator	1999	2000	2000				
			Q2	Q3	Q4	Nov.	Dec.
Real GDP[1]	-4.1	5.6	5.3	-2.0	5.6	...	...
Unemployment rate[2]	15.2	n.a.	14.4	14.0	n.a.	n.a.	n.a.
Consumer prices[3]	20.0	13.3	17.1	15.6	14.1	14.0	13.3
Non-oil trade balance[4]	-8.9	-10.8	-9.9	-12.0	-11.9	n.a.	n.a.
Trade balance[4]	7.7	18.0	18.3	16.0	17.6	n.a.	n.a.
Current account[5]	3.7	13.4	11.4	12.4	15.8	...	...

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

In **Korea**, recent data suggest a marked slackening in growth during the fourth quarter. Industrial production declined for the third consecutive month in November, with production of office machinery and automobiles especially weak; semiconductor production was about flat, a sharp contrast to the rapid increases earlier in the year. Most data on business fixed investment also stayed weak in November, with investment in facilities dropping particularly sharply. Near-term growth prospects appear to have weakened due to a recent buildup in inventories. The inventory-to-shipments ratio rose for the fourth consecutive month in November, reaching its highest level in nineteen months. The central bank kept its policy rate unchanged at its latest meeting in early January. However, there is a general expectation of a reduction in rates in the fairly near future.

In what may mark a significant setback for market-based corporate reform, the government recently announced that, acting through the government-owned and operated Korea Development Bank, it would buy up to 20 trillion won (about $16 billion) of corporate bonds of "viable" but ailing companies. The purchases will initially target three affiliates of the troubled Hyundai conglomerate, most notably Hyundai Engineering and Construction, that have appeared to be on the verge of financial failure. Since the collapse of Daewoo in late 1999, the government has pressured commercial banks to buy corporate bonds, which they would not otherwise have purchased, by creating several bond funds in which the banks were required to participate. However, this is the first time that the government will be directly purchasing and guaranteeing bonds of private companies.

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

Indicator	1999	2000	2000				
			Q2	Q3	Q4	Nov.	Dec.
Real GDP[1]	14.0	n.a.	4.8	14.0	n.a.	...	...
Industrial production	24.1	n.a.	1.0	8.1	n.a.	-1.0	n.a.
Unemployment rate[2]	6.3	4.1	3.9	3.9	4.0	4.1	4.0
Consumer prices[3]	1.3	3.2	1.5	3.2	2.9	2.6	3.2
Trade balance[4]	28.4	n.a.	13.3	25.3	n.a.	11.9	n.a.
Current account[5]	24.5	n.a.	10.6	13.8	n.a.	12.6	n.a.

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

In the **ASEAN** region, the economic expansion showed further signs of deceleration. Third-quarter real GDP fell in Indonesia, Malaysia, and Thailand, while growth moderated in Singapore and the Philippines. More recently, production numbers from the fourth quarter indicated further slowing in parts of the region. Export performance also appeared to have weakened over the past few months. Inflation continued to be a problem in Indonesia and the Philippines, but remains subdued in the rest of the region.

The political problems that have plagued Thailand, the Philippines, and Indonesia continued to pose substantial risks. In Thailand, Thaksin Shinawatra was elected Prime Minister and was almost simultaneously indicted on corruption charges. If found guilty, he could be removed from office. Even if he remains in office, there is concern over how he can fund the populist proposals he campaigned on without causing the fiscal deficit to balloon from its current level of roughly 5 percent of GDP. Meanwhile, Philippine President Estrada resigned on January 20, and Vice President Arroyo was sworn in as president. This followed the mass resignation of Estrada's cabinet and the withdrawal of support of Philippine military leaders from Estrada. In Indonesia, formal hearings have begun on two scandals involving President Wahid that could result in his impeachment.

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

Indicator and country	1998	1999	2000 Q1	2000 Q2	2000 Q3	2000 Oct.	2000 Nov.
Real GDP[1]							
Indonesia	-17.5	5.1	15.3	7.9	-.7	...	...
Malaysia	-11.1	11.0	19.8	3.1	-.7	...	...
Philippines	-2.1	5.0	1.9	9.9	4.3	...	...
Singapore	-1.2	7.0	16.7	14.2	6.6	...	...
Thailand	-7.2	6.8	5.8	2.9	-4.5	...	...
Industrial production[2]							
Indonesia[3]	-13.4	-1.0	4.3	7.1	3.0	-.2	1.5
Malaysia	-7.2	9.1	7.0	4.2	2.6	-.6	-2.7
Philippines	-11.6	3.5	4.1	3.6	8.2	6.6	-3.7
Singapore	-.3	13.9	4.0	5.5	3.9	5.9	-1.0
Thailand	-10.0	12.5	-2.3	-.6	1.1	-.9	2.8

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

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

Country	1999	2000	2000 Q2	2000 Q3	2000 Q4	2000 Nov.	2000 Dec.
Indonesia	24.7	n.a.	31.4	28.2	n.a.	19.3	n.a.
Malaysia	18.9	n.a.	14.0	13.6	n.a.	19.0	n.a.
Philippines	4.3	n.a.	7.0	7.0	n.a.	6.3	n.a.
Singapore	3.6	3.3	-1.6	4.4	4.6	6.7	.3
Thailand	9.3	n.a.	7.1	6.1	n.a.	4.0	n.a.

n.a. Not available.

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

Country	1999[1]	2000[1]	2000				
			Q2	Q3	Q4	Nov.	Dec.
Indonesia	2.0	9.3	1.2	5.8	8.8	9.1	9.3
Malaysia	2.5	1.4	1.4	1.5	1.8	1.9	1.4
Philippines	4.3	6.6	3.9	4.5	5.9	6.0	6.6
Singapore	.9	n.a.	.8	1.4	n.a.	2.0	n.a.
Thailand	.7	1.3	1.6	2.2	1.6	1.7	1.3

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

China continued to register robust economic growth, supported by substantial government spending and rising consumption expenditures. Real GDP rose 7½ percent (s.a.a.r.) in the fourth quarter, taking the year-over-year growth rate for 2000 to 8 percent. Recent statements from various government officials indicate that the government expects the economy to expand at a similar rate this year, despite a projected slowdown in exports. Exports slumped sharply (s.a.) in December as global demand softened. However, an even larger decline in imports--particularly intermediate goods imports--resulted in a widening of the trade surplus. Inflation remained low, although the twelve-month inflation rate continued to edge up and hit a three-year high of 1½ percent in December.

According to government figures, China's industrial firms (including state-owned enterprises) recorded profits of $45 billion in the first eleven months of last year, up 92 percent compared with the same period in 1999. The figures prompted the government to declare that it had met its 1997 target of turning around most ailing state-owned enterprises within three years. Analysts generally agree that part of the improved performance last year was due to continued lay-offs as a result of restructuring and higher revenues reflecting stronger economic activity. Some of the profit increases likely also reflected reductions in interest payments (for example, because of lower interest rates and debt-equity swaps).

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

Indicator	1999	2000	2000				
			Q2	Q3	Q4	Nov.	Dec.
Real GDP[1]	6.2	7.5	1.9	11.0	7.5	...	...
Industrial production[2]	8.0	11.4	11.7	12.5	10.8	10.6	10.4
Consumer prices[2]	-1.0	1.5	.1	.3	.9	1.3	1.5
Trade balance[3]	29.1	24.1	31.4	14.3	21.4	11.5	22.5

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

In **Hong Kong**, recent indicators point to an abrupt drop off in growth. Exports fell almost 9 percent (s.a.) in November and likely declined further in December, judging from China's poor trade performance last month. Real retail sales were down roughly 3 percent (s.a.) in the October-November period compared with their third-quarter average, as high real interest rates and uncertainties in the stock and property markets continued to weigh on consumer confidence. Nonetheless, the unemployment rate edged down to 4½ percent (s.a.) and the twelve-month rate of decline in consumer prices eased in the fourth quarter. The Hong Kong Monetary Authority cut interest rates 50 basis points in early January, matching the FOMC's move.

In **Taiwan**, indicators suggest that growth may have turned negative in the fourth quarter as the slowdown in global electronics demand depressed exports. Exports, which had been a key engine of growth earlier in the year, rose 22 percent in 2000 as a whole, but fell about 4 percent (s.a) in the fourth quarter. Domestic demand also appeared to weaken in the fourth quarter, as evidenced by significantly lower imports of consumer goods and capital equipment. Other signs of retrenchment included a 4.9 percent fall (s.a.) in industrial production in December and an increase in the unemployment rate. In the face of waning domestic demand, the inflation rate moved down to 1.7 percent in December. In late December, Taiwan's central bank cut interest rates 12½ basis points.

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

Indicator	1999	2000	2000				
			Q2	Q3	Q4	Nov.	Dec.
Real GDP[1]	9.3	n.a.	-3.2	5.5	n.a.	...	...
Unemployment rate[2]	6.1	5.0	5.0	4.8	4.5	4.6	4.5
Consumer prices[3]	-4.0	-1.8	-4.5	-2.8	-2.2	-2.0	-1.8
Trade balance[4]	-5.6	n.a.	-8.9	-14.1	n.a.	-11.7	n.a.

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

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

Indicator	1999	2000	2000				
			Q2	Q3	Q4	Nov.	Dec.
Real GDP[1]	6.4	n.a.	2.8	1.6	n.a.	...	...
Unemployment rate[2]	2.9	3.0	3.0	2.9	3.2	3.2	3.4
Industrial production	7.7	7.7	1.7	1.4	-4.1	-1.5	-4.9
Consumer prices[3]	.1	1.7	1.4	1.1	1.6	2.3	1.7
Trade balance[4]	10.9	8.4	6.0	4.9	13.5	3.9	25.4
Current account[5]	8.4	n.a.	5.7	11.5	n.a.	...	...

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