## Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

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

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

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

Confidential (FR) Class III FOMC

# Part 2

March 14, 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

Confidential (FR) Class III FOMC

March 14, 2001

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# Domestic Nonfinancial Developments

# Domestic Nonfinancial Developments

## Overview

The economy appears to have registered a small gain this quarter. Consumer spending, especially on motor vehicles, has held up better than might have been expected given the decline in the stock market and the sharp downturn in consumer confidence. In addition, construction has expanded further, buoyed by low interest rates. Business spending on equipment appears likely to reverse at least some of its fourth-quarter decline; but a stream of downbeat news about sales and earnings, especially among high-tech firms, suggests that this rebound could be short-lived. Moreover, the latest inventory data still point to appreciable stock imbalances. As a result, the manufacturing sector remains especially weak, with further cutbacks in production in train this quarter. Core inflation has edged up.

## Labor Market Developments

The pace of private-sector hiring was relatively well maintained in January and February. Although employment declined in manufacturing and related industries, this was more than offset by moderate gains elsewhere. The unemployment rate edged up to 4.2 percent early this year.

Private nonfarm payrolls rose 98,000 in February, similar to the average monthly gain since the start of the fourth quarter but well below that seen during the first nine months of last year.[1,2] As in recent months, the weakness in February was concentrated in the manufacturing sector: Over the past two months, manufacturing has shed 190,000 workers, and since October, factory employment has dropped at an average rate of 52,000 per month. Employment in industries with strong ties to manufacturing, such as help-supply and wholesale trade, has also turned down in recent months. In addition, the widespread layoff announcements in the telecommunications sector are beginning to show through to payroll growth. For providers of telecommunications services, employment was flat in the first two months of this year after having grown almost 4 percent in 2000. Employment at telecommunications equipment producers dropped 2 percent in first two months of 2001 (not at an annual rate); this was the largest two-month decline in this industry during the current expansion, with the exception of 1998, the year of the Asian crisis.

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1. The BLS reports that the 2000 benchmark adjustment will increase the level of total nonfarm employment for the March 2000 reference month by 469,000. The BLS will introduce the revised data in the May employment report.

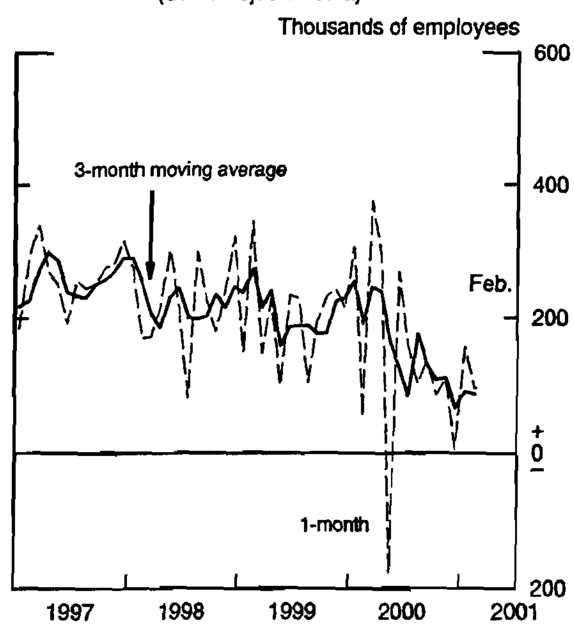
2. As we noted in the last Greenbook, the BLS's bias adjustment for employment growth at very young establishments (which are not included in the payroll survey sample) more than accounts for the rise in private payrolls since the third quarter of last year.

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

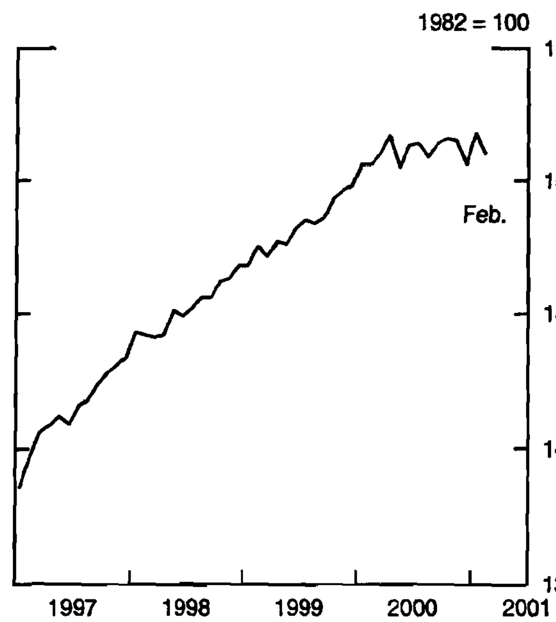
| | 2000 | Q3 | Q4 | 2000 Dec. | 2001 Jan. | 2001 Feb. |
|---|---|---|---|---|---|---|
| | --Average monthly change-- | | | | | |
| Nonfarm payroll employment[1] | 153 | 25 | 52 | 36 | 224 | 135 |
| *Previous* | *152* | *25* | *46* | *19* | *268* | |
| Private | 143 | 129 | 70 | 6 | 157 | 98 |
| Mining | 1 | 0 | 0 | -1 | 8 | 3 |
| Manufacturing | -14 | -38 | -23 | -48 | -96 | -94 |
| Construction | 14 | 17 | -1 | -17 | 158 | 16 |
| Transportation and utilities | 15 | 17 | 16 | 26 | -9 | 28 |
| Retail trade | 26 | 19 | 22 | 7 | 5 | 37 |
| Wholesale trade | 7 | 7 | 5 | -8 | -11 | -3 |
| Finance, insurance, real estate | 4 | 11 | 13 | 14 | 15 | 16 |
| Services | 91 | 95 | 37 | 33 | 87 | 95 |
| Total government | 11 | -104 | -19 | 30 | 67 | 37 |
| Total employment (household survey) | 112 | 42 | 175 | 358 | 163 | -184 |
| Nonagricultural | 116 | 28 | 203 | 260 | 257 | -139 |
| Memo: | | | | | | |
| Aggregate hours of private production workers (percent change)[1,2] | 1.1 | 0.2 | 0.0 | -0.6 | 0.8 | -0.5 |
| Average workweek (hours)[1] | 34.4 | 34.4 | 34.3 | 34.1 | 34.3 | 34.2 |
| Manufacturing (hours) | 41.5 | 41.5 | 41.0 | 40.4 | 40.9 | 40.6 |

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**



In contrast, hiring in other sectors has, thus far, continued apace. Employment outside of manufacturing, wholesale trade, and help-supply has increased about 180,000 per month since October, similar to the average for the first nine months of 2000. Most recently, construction employment rose another 16,000 in February after having shot up 158,000 the month before, and services employment excluding help-supply has expanded 120,000 per month so far this quarter, a bit more than its average pace in 2000.

Aggregate weekly hours of production or nonsupervisory workers on nonfarm private payrolls fell 0.5 percent in February after having risen 0.8 percent in January; the January-February average stood 0.5 percent (at an annual rate) above the fourth-quarter level.[3] The workweek has also fluctuated in recent months, but on net it has fallen about 1/4 hour from its average level in the third quarter of last year. Similar to the employment picture, the shortening of the workweek has occurred mainly in the manufacturing sector; February's level of 40.6 hours was nearly an hour below the average workweek in the third quarter.

In the household survey, the unemployment rate held steady at 4.2 percent in February, after having risen 0.2 percentage point in January. The number of job losers unemployed for less than five weeks—a proxy for the layoff rate—has risen in each of the past two months, and in February it stood at its highest level since 1996. Employment in the household survey fell 184,000 in February, but since October this measure has increased at an average rate of 100,000 per month, in line with employment growth in the payroll survey.[4]

Other indicators mirror the employment data, portraying a still-tight labor market in which demand has begun to soften. Initial claims for unemployment insurance have turned up again in recent weeks, averaging around 370,000 for the two-week period ending March 3. In addition, the most recent readings on net hiring strength from Manpower and the National Federation of Independent Businesses (NFIB) point to a slowing in the pace of hiring. Firms also have indicated some lifting of supply constraints in line with the rise in the

3. The large increase in January reflected a bounceback in the average workweek from a level in December that was depressed by the occurrence of severe winter storms during the survey week.

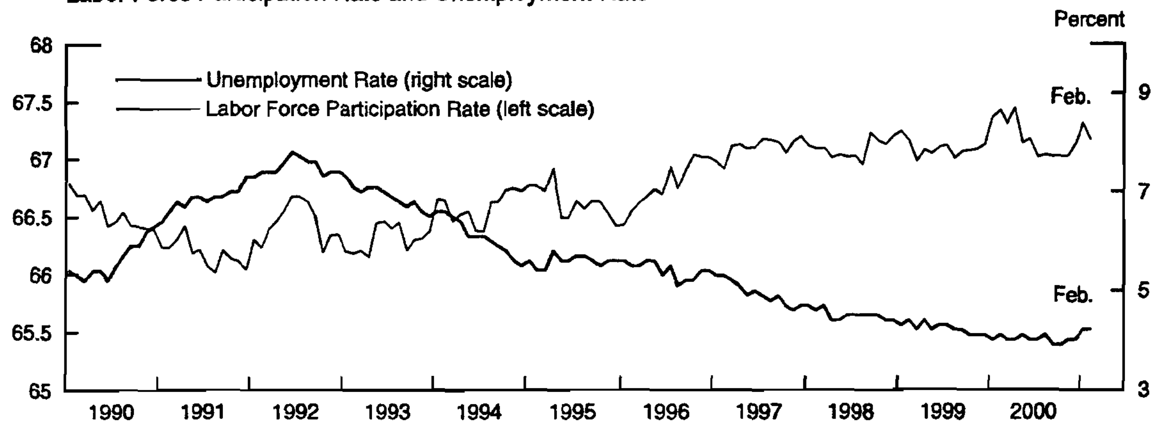
4. The Census Bureau recently released preliminary estimates of the undercount for the 2000 Census. Although the estimated undercount was smaller than in 1990, much of the improvement occurred in the under 18 years of age category, suggesting that the undercount for the working-age population (16 and over) may have been similar to the undercount in 1990. Although the Administration has decided not to adjust for the undercount when using the Census for redistricting purposes, our assumption is that the BLS will include an undercount adjustment when it updates the population controls in the Current Population Survey. As a result, we have not altered our view that a significant part of the gap between household and payroll employment growth that emerged over the 1990s will disappear when the BLS incorporates the new Census data.

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

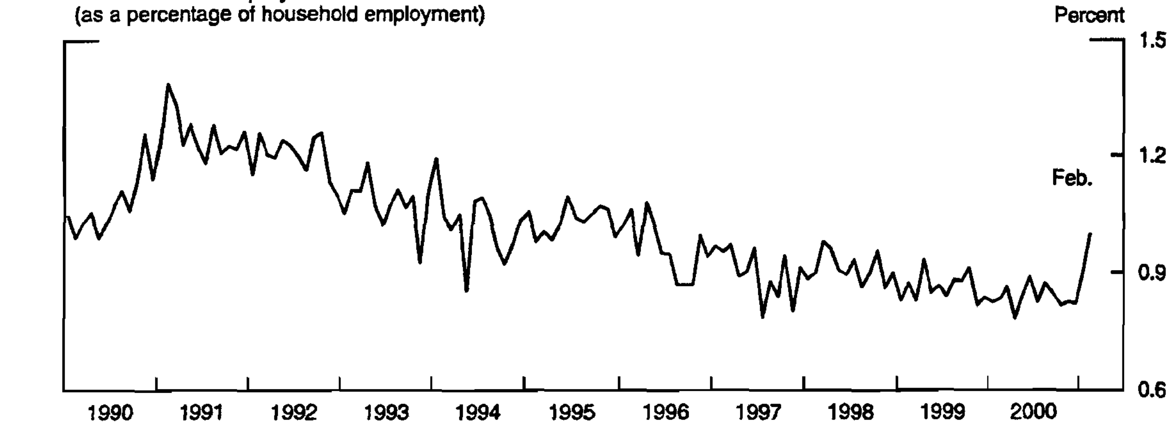
| | 1999 | 2000 | 2000 Dec. | 2001 Jan. | 2001 Feb. |
|---|---|---|---|---|---|
| Civilian unemployment rate (16 years and older) | 4.2 | 4.0 | 4.0 | 4.2 | 4.2 |
| Teenagers | 13.9 | 13.1 | 13.1 | 13.8 | 13.6 |
| 20-24 years old | 7.5 | 7.1 | 7.0 | 7.2 | 7.2 |
| Men, 25 years and older | 3.0 | 2.8 | 3.0 | 3.1 | 3.0 |
| Women, 25 years and older | 3.3 | 3.2 | 3.0 | 3.2 | 3.4 |
| Labor force participation rate | 67.1 | 67.2 | 67.1 | 67.3 | 67.2 |
| Teenagers | 52.0 | 52.2 | 52.3 | 51.9 | 51.2 |
| 20-24 years old | 77.6 | 77.9 | 78.0 | 78.8 | 78.1 |
| Men, 25 years and older | 76.1 | 76.0 | 75.9 | 76.0 | 75.9 |
| Women, 25 years and older | 59.5 | 59.7 | 59.5 | 59.9 | 59.9 |
| Memo: | | | | | |
| Potential worker rate[1] | 7.1 | 6.7 | 6.8 | 6.9 | 7.0 |

1. The potential worker rate equals the number of civilian unemployed plus those who are not in the labor force and want a job as a percent of the civilian labor force plus those who are not in the labor force and want a job.

Labor Force Participation Rate and Unemployment Rate

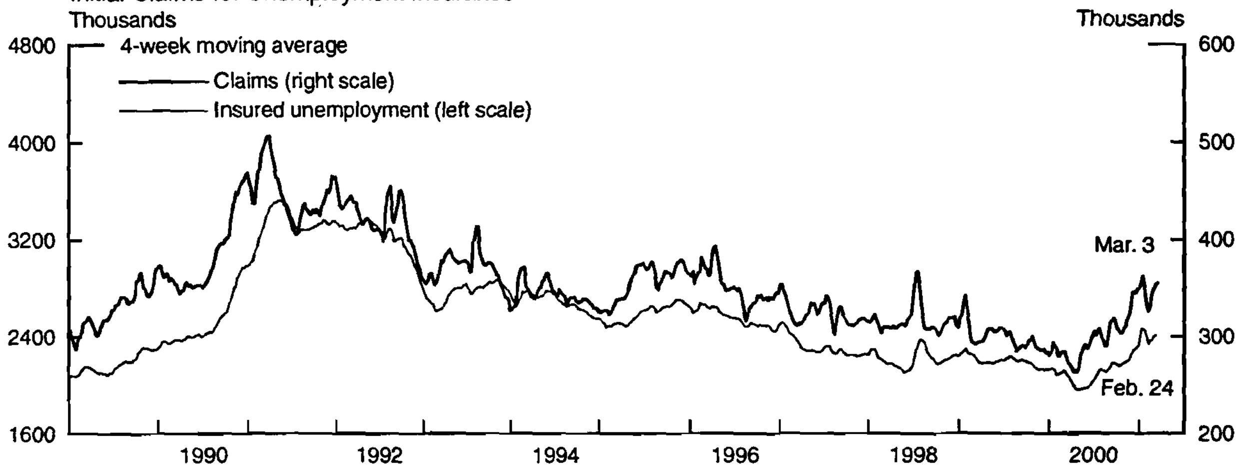



Job Losers Unemployed Less than 5 Weeks
(as a percentage of household employment)



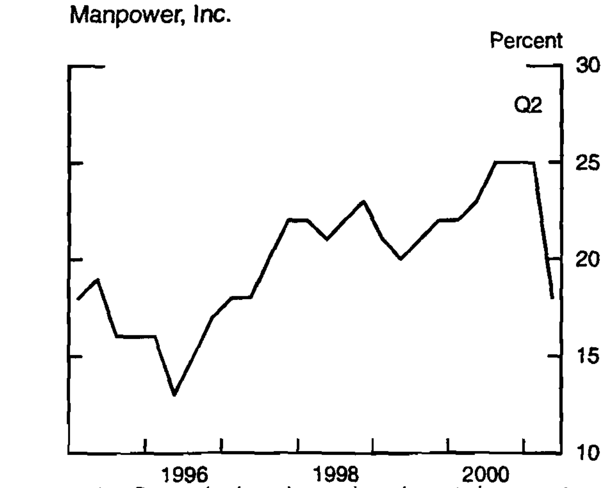
## Labor Market Indicators

Initial Claims for Unemployment Insurance



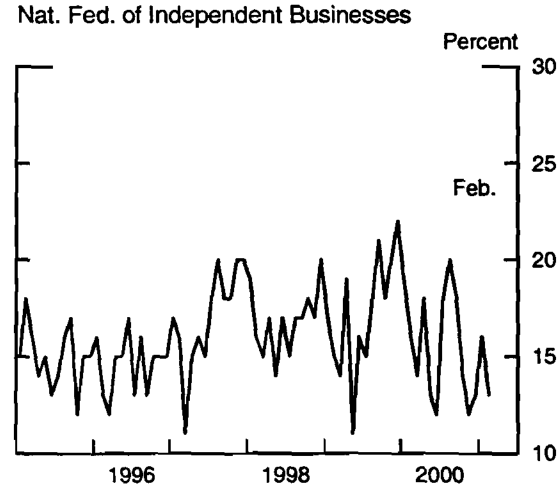

### Net Hiring Strength*

Manpower, Inc.



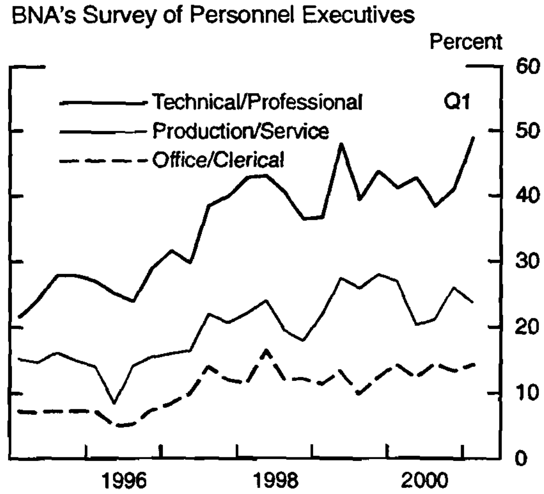

*Note. Percent planning an increase in employment minus percent planning a reduction.

Nat. Fed. of Independent Businesses

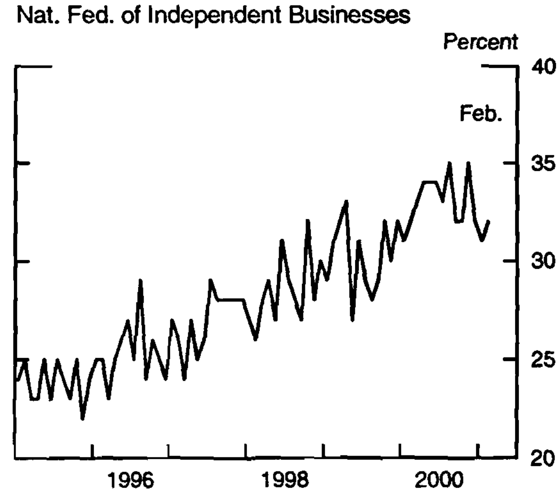



### Reporting Positions Hard to Fill

BNA's Survey of Personnel Executives

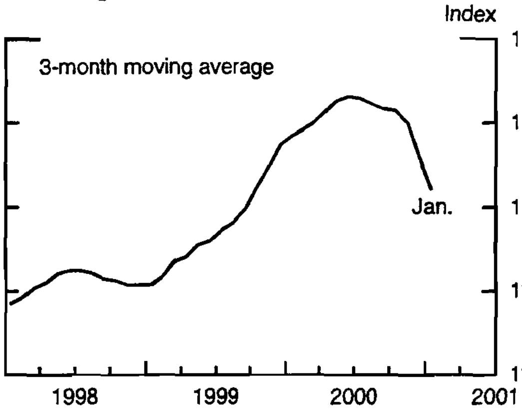



Nat. Fed. of Independent Businesses

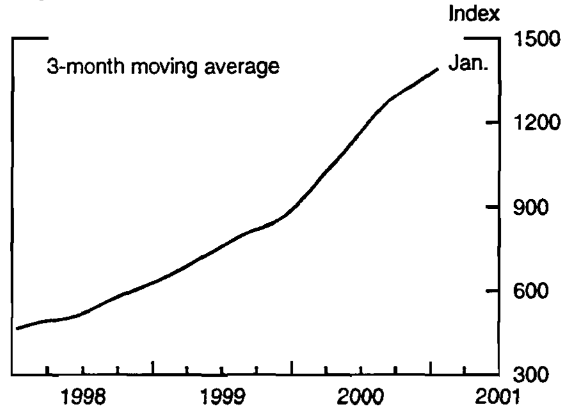


# Industrial Output and Related Indicators

Manufacturing IP Excluding Motor Vehicles and Parts, High-Tech, and Aircraft and Parts

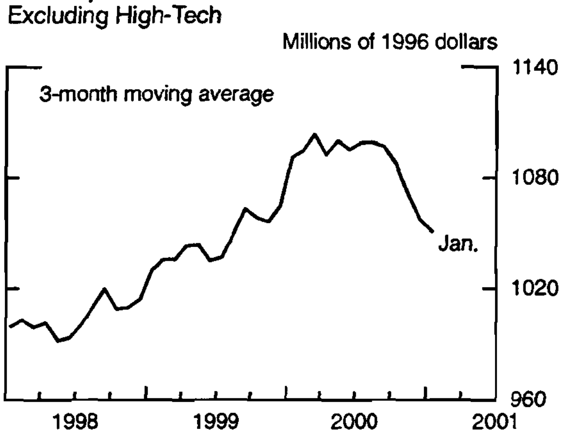



High-Tech IP



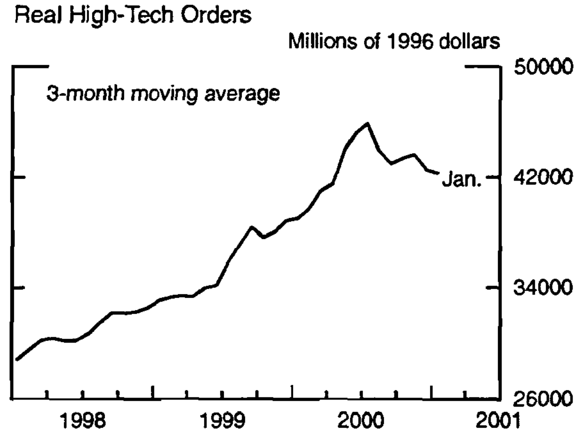

Note. Includes computers, communication equipment, and semiconductors.

Real Adjusted Durable Goods Orders Excluding High-Tech



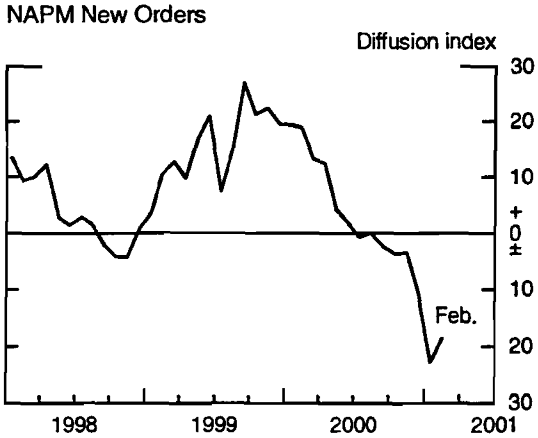

Source. M3 data.

Real High-Tech Orders

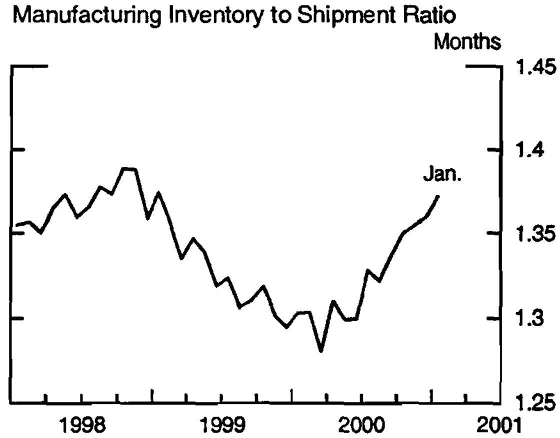



Source. M3 data.

NAPM New Orders




Manufacturing Inventory to Shipment Ratio




Note. Excludes motor vehicles and parts, high-tech, and aircraft and parts.

unemployment rate; the NFIB reported that the percentage of positions that were hard to fill fell in December and January before moving up slightly in February, although a recent survey by the Bureau of National Affairs indicated that it remained difficult to hire technical and professional workers at the beginning of the first quarter.

Growth in output per hour in the nonfarm business sector slowed during the second half of last year as the economy cooled, but even so it remained at relatively elevated rates compared with the pre-1995 experience.[5] Productivity is now reported to have increased at an annual rate of 2.1 percent in the fourth quarter, after having risen 3.0 percent in the third quarter. Over the four quarters of 2000, output per hour increased 3.4 percent, down slightly from the 3.8 percent rate registered in 1999 but still a percentage point higher than the average from 1996 to 1998.

**Industrial Production**

Aggregate hours worked in the manufacturing sector fell sharply in February, suggesting that industrial production dropped for a fifth consecutive month. IP continues to be held back by slower growth in the high-tech sector and, more broadly, by excess inventories that have accumulated in the face of slackening demand for U.S.-produced goods. Available physical product data point to a decline in mining and utility production last month as well.

Motor vehicle assemblies were about 10.4 million units (annual rate) in both January and February, down about 10 percent (not at an annual rate) from the level in the fourth quarter. Combined with a pickup in sales, this reduction in production resulted in sharp drops in inventories. Stocks fell about 130,000 units in January and 160,000 units in February, and the days' supply for the industry moved down to about 60 days in February. Nonetheless, several automakers, most notably General Motors and Ford, are still experiencing significant inventory overhangs, and while current schedules call for assemblies of 11.4 million units in March and 12 million units in the second quarter (annual rate), we expect production to fall short of scheduled rates. Indeed, some of the automakers have already hinted that they plan to trim production schedules for the second quarter.

High-tech industries have continued to struggle in recent weeks. Excessive stocks of semiconductors began accumulating at computer and communications equipment producers toward the end of last year, and according to industry analysts, the slowing in sales of PCs, cell phones, and equipment purchased by

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5. Published data on output per hour for nonfinancial corporations in the fourth quarter are not yet available.

**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] | Q2[1] | Dec. | Jan. | Feb. | Mar.[1] |
| U.S. production | 12.8 | 11.6 | 10.7 | 12.0 | 11.0 | 10.4 | 10.4 | 11.4 |
| Autos | 5.7 | 5.0 | 4.9 | 5.0 | 4.7 | 4.9 | 4.8 | 5.0 |
| Trucks | 7.1 | 6.6 | 5.8 | 7.0 | 6.3 | 5.4 | 5.6 | 6.5 |
| Days' supply[2] | 66.0 | 72.3 | n.a. | n.a. | 77.8 | 65.8 | 60.3 | n.a. |
| Autos | 55.9 | 60.6 | n.a. | n.a. | 65.9 | 54.9 | 48.9 | n.a. |
| Light trucks[3] | 74.9 | 82.8 | n.a. | n.a. | 88.3 | 75.8 | 71.0 | n.a. |
| Inventories[4] | 3.13 | 3.13 | n.a. | n.a. | 3.13 | 3.00 | 2.84 | n.a. |

Note. Components may not sum to totals because of rounding.
1. Production rates reflect manufacturers' schedules for March and Q2.
2. Quarterly average calculated using end-of-period stocks and average reported sales.
3. Excludes medium and heavy (classes 3-8) trucks.
4. End of period stocks; excludes medium and heavy (class 3-8) trucks.
n.a. Not available.

telecom service providers is beginning to damp chip production noticeably.[6] In addition, a number of high-tech firms have announced layoffs and plant closings. For example, Intel and Cisco recently announced that they would cut jobs, and Motorola announced that it would lay off another 7,000 workers in its cell-phone division and close a semiconductor plant currently employing 4,000 workers. Many of these producers have also slashed capital spending plans for this year.[7]

Manufacturing IP outside of the transportation and high-tech industries, which began to contract in the third quarter of last year, continues to be weak. The

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6. Weakening demand continues to put downward pressure on spot prices for memory chips, although recent declines were not nearly so steep as in October and November of last year. Most recently, Dataquest reports that spot prices picked up slightly the week of March 9, in response to rumors of a possible closure of a Hyundai semiconductor plant in Eugene, Oregon.

7. Dataquest predicts that North American capital spending by semiconductor producers will be flat this year in nominal terms. However, the Semiconductor Industry Association forecasts a 10 percent nominal decline relative to last year. Additionally, Semiconductor Equipment and Materials International reports that January shipments of equipment used to manufacture and assemble semiconductors outstripped new orders by nearly 20 percent; as a result, the semiconductor equipment book-to-bill ratio, which peaked in August, fell to 0.81 in January, its lowest reading since 1998.

**New Orders for Durable Goods**
(Percent change from preceding period; seasonally adjusted)

| Component | Share, 2000:H2 | 2000 | | | | 2001 |
|---|---|---|---|---|---|---|
| | | Q3 | Q4 | Nov. | Dec. | Jan. |
| **Total orders** | **100.0** | **-3.5** | **-2.0** | **3.1** | **1.4** | **-6.5** |
| Adjusted orders[1] | 71.0 | -1.3 | -2.7 | .2 | -1.1 | -.9 |
| Computers | 7.0 | 6.8 | -.3 | -.4 | -9.3 | 5.2 |
| Communication equipment | 5.0 | -9.5 | -3.0 | .5 | -2.6 | 13.5 |
| Semiconductors and related electronic components | 8.0 | -10.7 | -.2 | 15.2 | .1 | -19.4 |
| Other capital goods | 14.0 | .7 | -6.3 | -3.5 | 3.3 | 3.0 |
| Other[2] | 37.0 | -.1 | -2.4 | -1.4 | -1.1 | -1.0 |
| Memo: | | | | | | |
| Real adjusted orders | ... | -.4 | -1.8 | .6 | -.7 | -.1 |
| Excluding high tech | ... | .6 | -13.7 | -1.9 | .0 | .2 |

1. Orders excluding defense capital goods, nondefense aircraft, and motor vehicle parts.
2. Includes primary metals, most fabricated metals, most stone, clay, and glass products, household appliances, scientific instruments, and miscellaneous durable goods.
... Not applicable.

inventory situation in many of these industries appears to have worsened in January, and firms have reacted to these imbalances by cutting factory hours—and presumably production—further in February. Part of the accumulation occurred in industries producing inputs to motor vehicles, but imbalances have also persisted in industries hit hard by the intensification of import competition last year, such as lumber and wood products, paper and allied products, and fabricated metal products. In addition, real adjusted durable goods orders continued to fall on a three-month moving average basis, while the NAPM new orders diffusion index was nearly as negative in February as in January, when it fell to its lowest reading in ten years.

**Consumer Spending and Income**

Consumer spending appears to have advanced at a moderate pace this quarter. Sales of light motor vehicles to households—normally a very sensitive indicator of household demand—have rebounded some. However, consumer confidence has deteriorated, and balance sheets and income gains continue to erode.

Adjusted for shifts in reporting periods, sales of new light vehicles have averaged 17 million units (annual rate) so far this quarter, up from 16.3 million units in the fourth quarter. Some of this strength reportedly reflected an acceleration of fleet deliveries. However, retail sales have also moved up noticeably since the end of last year. In January, this step-up may have been,

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

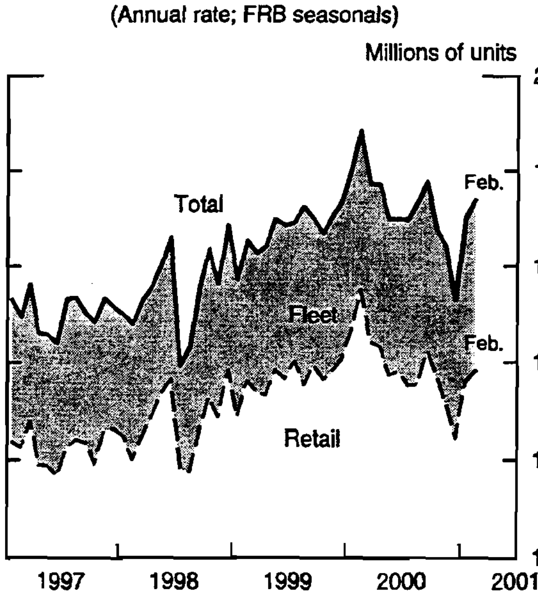
| | | | 2000 | | | 2000 | 2001 | |
|---|---|---|---|---|---|---|---|---|
| | 1999 | 2000 | Q2 | Q3 | Q4 | Dec. | Jan. | Feb. |
| Total[1] | 16.8 | 17.2 | 17.2 | 17.4 | 16.3 | 15.6 | 16.7 | 17.4 |
| Autos | 8.7 | 8.8 | 8.9 | 8.8 | 8.3 | 8.0 | 8.6 | 9.0 |
| Light trucks | 8.1 | 8.4 | 8.3 | 8.6 | 7.9 | 7.6 | 8.0 | 8.4 |
| North American[2] | 14.3 | 14.4 | 14.4 | 14.5 | 13.4 | 12.6 | 13.7 | 14.5 |
| Autos | 7.0 | 6.8 | 6.9 | 6.8 | 6.3 | 5.9 | 6.6 | 7.0 |
| Big Three | 4.9 | 4.7 | 4.8 | 4.5 | 4.2 | 3.8 | 4.4 | 4.9 |
| Transplants | 2.1 | 2.2 | 2.1 | 2.3 | 2.1 | 2.1 | 2.2 | 2.1 |
| Light trucks | 7.3 | 7.6 | 7.4 | 7.7 | 7.1 | 6.7 | 7.1 | 7.5 |
| Foreign-produced | 2.5 | 2.9 | 2.9 | 2.8 | 2.9 | 3.0 | 3.0 | 2.9 |
| Autos | 1.7 | 2.0 | 2.0 | 2.0 | 2.0 | 2.1 | 2.1 | 2.0 |
| Light trucks | .8 | .8 | .9 | .8 | .8 | .9 | .9 | .9 |
| Memo: | | | | | | | | |
| Total, as reported | 16.8 | 17.2 | 17.2 | 17.4 | 16.2 | 15.3 | 17.0 | 17.4 |

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 the estimated effect of automakers' changes in reporting periods.

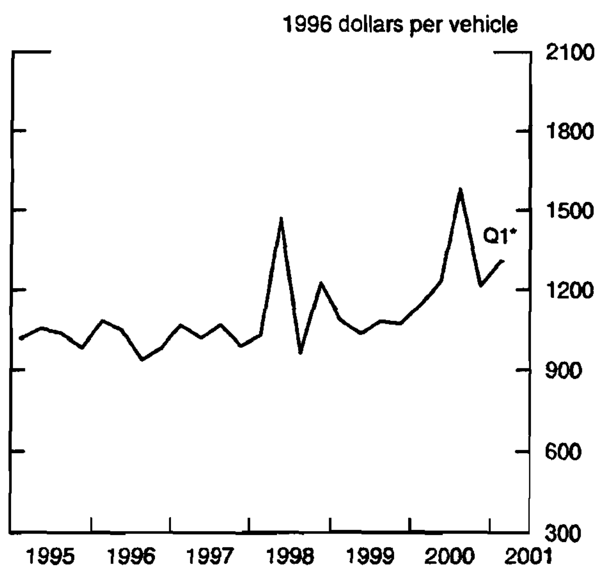
2. Excludes some vehicles produced in Canada that are classified as imports by the industry.

**Fleet and Retail Sales of Light Vehicles**
(Annual rate; FRB seasonals)




Note. Staff estimates based on confidential data.

**Marketing Incentives for Light Vehicles**




Note: Nominal industry data from GM and deflated by total CPI.
*Staff estimate

in part, to make up for sales deferred from a weather-related lull in December, while in February, consumers apparently responded strongly to sweetened incentives offered by General Motors and Chrysler. These recent incentive programs came as a bit of a surprise to us, given these firms' statements at the beginning of the year that incentives would be scaled back because of disappointing profits. However, pressed by nagging concerns about inventories and market shares, they once again resorted to increasing incentives. All of Chrysler's and some of GM's most recent incentive programs are currently scheduled to extend through early April.

Nominal sales in the retail control category fell 0.4 percent in February after having surged 1.3 percent in January.[8] Following large gains in January, sales fell sharply at eating and drinking establishments and at outlets selling furniture and appliances and "other durable goods," which include toys, books, jewelry, sporting goods, and photographic equipment. In contrast, nominal outlays rose modestly last month at apparel, food, and general merchandise stores. Taken together, the retail sales data and available estimates of consumer prices indicate that real outlays for goods excluding motor vehicles increased 0.8 percent in January but declined 0.5 percent in February; the average level of real expenditures in January and February was 3-1/4 percent (annual rate) above the fourth quarter.

Data on services expenditures are available only through January. Real spending on services fell 0.2 percent that month, held down by a sharp decline in outlays for electricity and natural gas as temperatures returned to more seasonal levels following unusually cold weather in November and December.[9] Excluding energy, real purchases of services increased 0.2 percent in January, reflecting higher expenditures for transportation, personal care, medical, and recreational services. In contrast, real outlays for business services fell in January, pulled down by a drop in spending for brokerage services.

Several important determinants of consumer spending weakened further early this year. The ratio of net worth to disposable income will almost surely decline again in the first quarter, as a result of a further drop in equity prices. In addition, rising consumer prices, especially for energy, continued to weigh on real disposable personal income, which rose only 1.9 percent over the twelve months ended in January; the twelve-month change had held in the neighborhood of 3 percent from early 1999 through the third quarter of last

8. The increase in nominal retail control in January was revised up 0.6 percentage point from the advance estimate, reflecting higher spending in most of the major components of sales.
9. Temperatures in February were a bit warmer than average.

RETAIL SALES
(Percent change; seasonally adjusted)

| | 2000 | | | 2000 | 2001 | |
|---|---|---|---|---|---|---|
| | H1 | Q3 | Q4 | Dec. | Jan. | Feb. |
| Total sales | 3.5 | 1.4 | .1 | .2 | 1.3 | -.2 |
| Previous estimate | | 1.4 | .1 | .1 | .7 | |
| Retail control[1] | 4.3 | 1.6 | .4 | .1 | 1.3 | -.4 |
| Previous estimate | | 1.6 | .4 | .0 | .7 | |
| Gasoline stations | 9.9 | 2.6 | -.2 | -2.5 | 1.1 | -.2 |

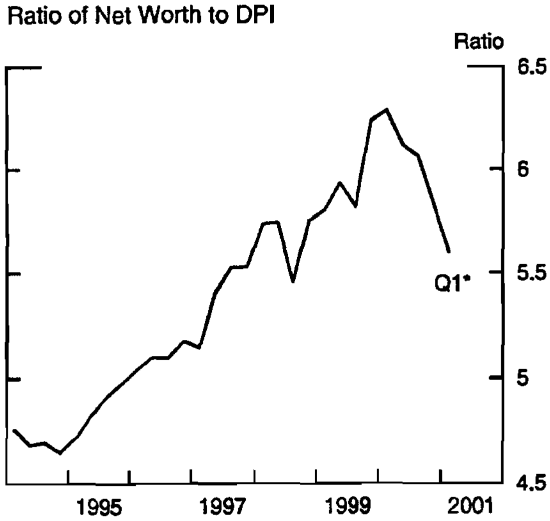
1. Total retail sales less sales at building material and supply stores and automotive dealers, except auto and home supply stores.

REAL PCE SERVICES
(Percent change from the preceding period)

| | | 2000 | | | 2000 | | 2001 |
|---|---|---|---|---|---|---|---|
| | 1999 | H1 | Q3 | Q4 | Nov. | Dec. | Jan. |
| | Q4/Q4 | --- Annual rate --- | | | --- Monthly rate --- | | |
| PCE services | 4.2 | 4.9 | 3.7 | 5.0 | .5 | .4 | -.2 |
| Electricity | .9 | 14.6 | -5.4 | 14.2 | 1.6 | 3.6 | -5.8 |
| Natural gas | 3.6 | 12.8 | -12.5 | 16.7 | 10.5 | 10.5 | -15.3 |
| Non-energy services | 4.3 | 4.6 | 4.2 | 4.7 | .4 | .2 | .2 |

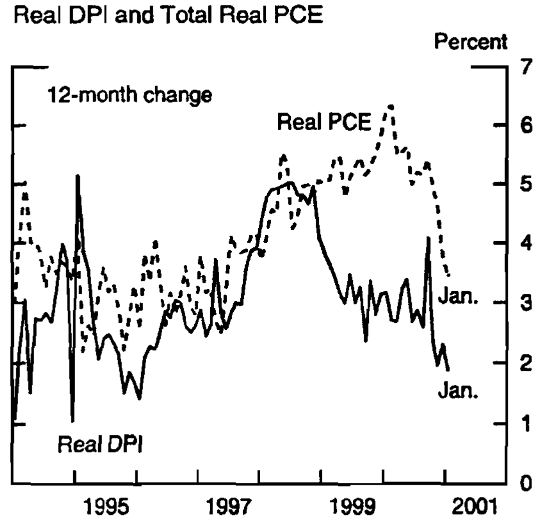
Note. Derived from billions of chained (1996) dollars.

Ratio of Net Worth to DPI



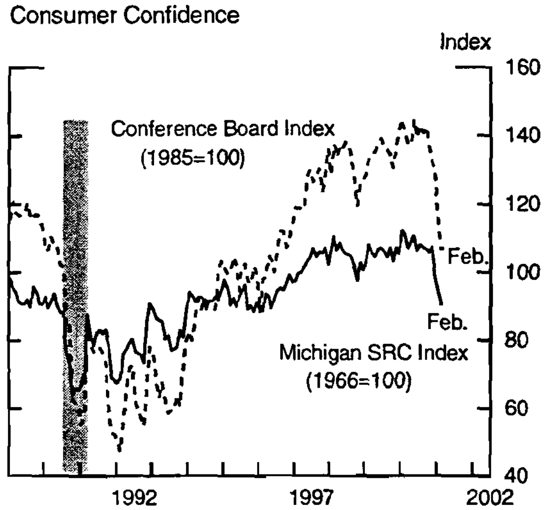

*The Q1 value is an estimate.

Real DPI and Total Real PCE

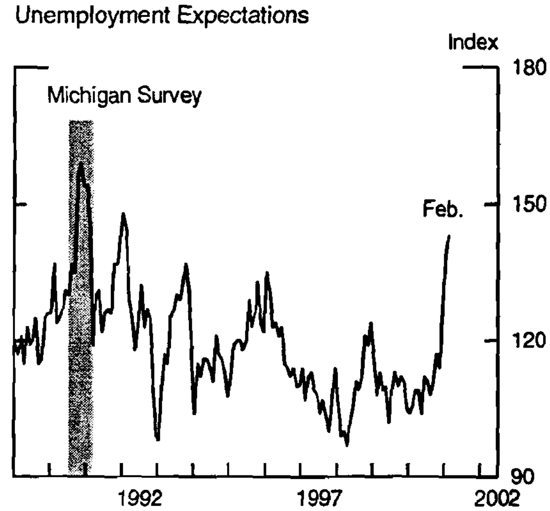


# Consumer Sentiment

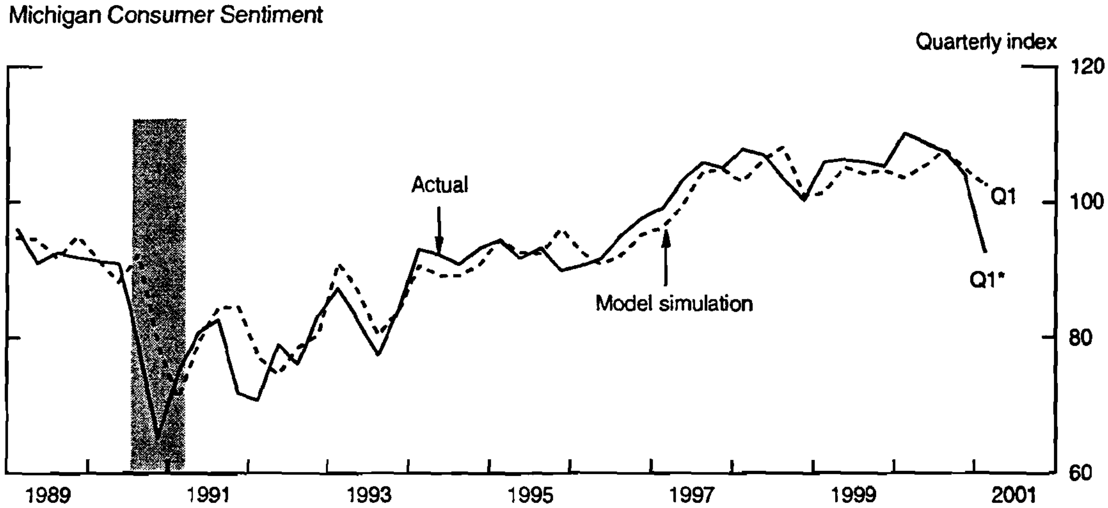
Consumer Confidence




Unemployment Expectations

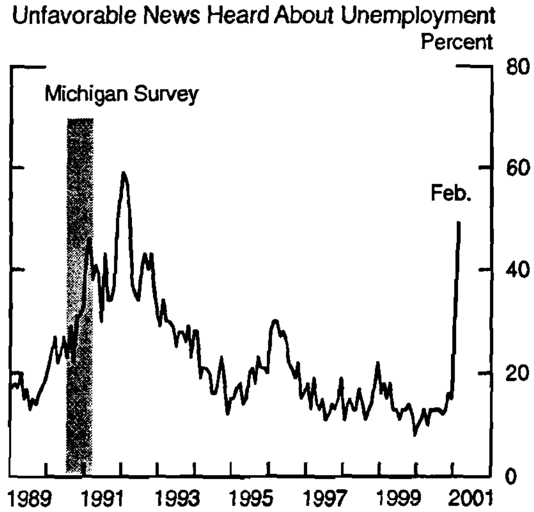



Michigan Consumer Sentiment

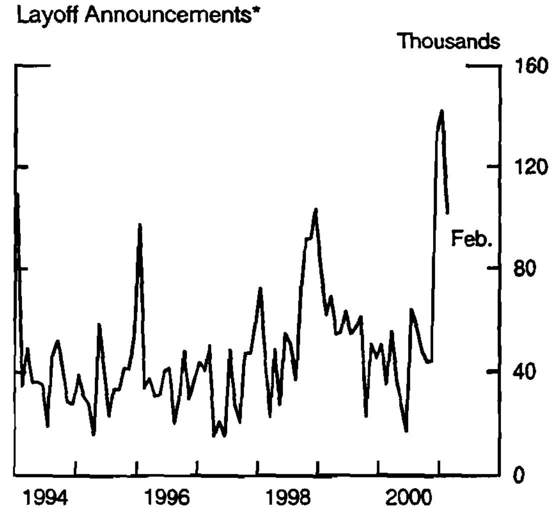



*The actual value for 2001:Q1 is an average of January and February.

Unfavorable News Heard About Unemployment




Layoff Announcements*




*Source: Challenger, Gray, and Christmas.

# Private Housing Activity

(Millions of units; seasonally adjusted annual rate)

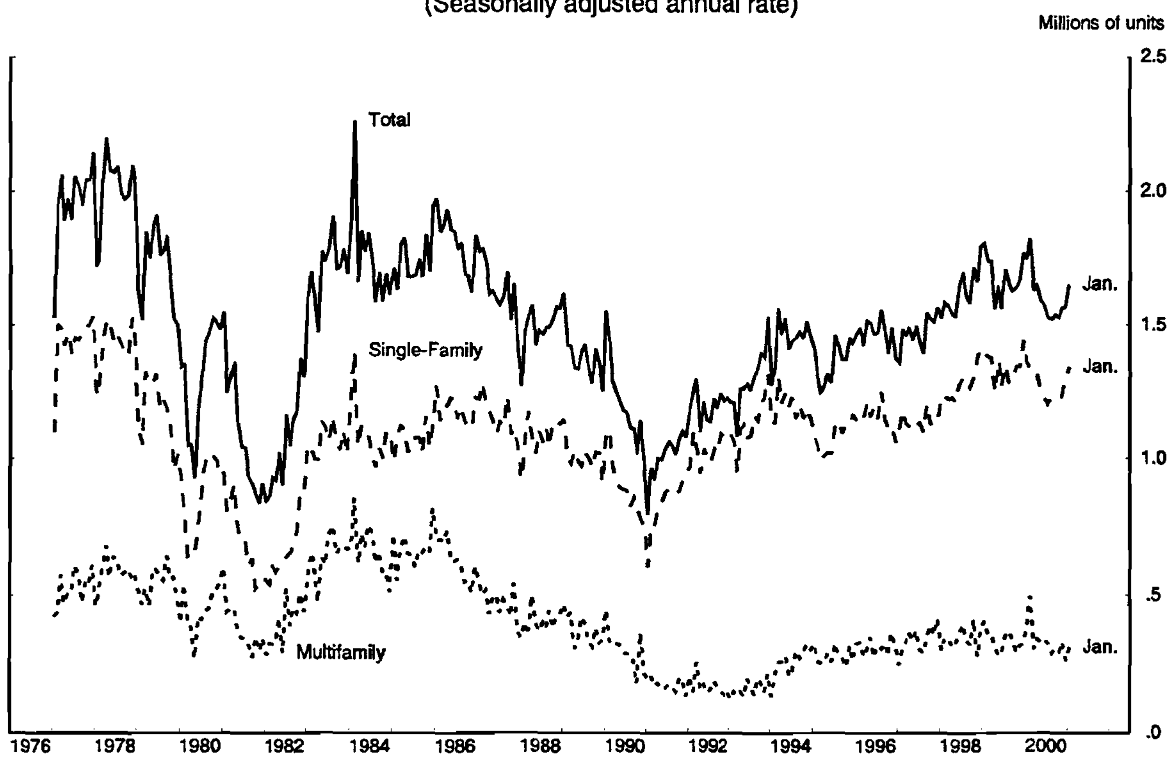
| | | 2000 | | | | | 2001 |
|---|---|---|---|---|---|---|---|
| | 2000 | Q2 | Q3 | Q4[r] | Nov.[r] | Dec.[r] | Jan.[p] |
| *All units* | | | | | | | |
| Starts | 1.59 | 1.61 | 1.53 | 1.55 | 1.56 | 1.57 | 1.65 |
| Permits | 1.57 | 1.53 | 1.51 | 1.55 | 1.60 | 1.51 | 1.70 |
| *Single-family units* | | | | | | | |
| Starts | 1.26 | 1.27 | 1.22 | 1.26 | 1.23 | 1.30 | 1.34 |
| Permits | 1.18 | 1.15 | 1.14 | 1.18 | 1.18 | 1.16 | 1.27 |
| Adjusted permits[1] | 1.26 | 1.24 | 1.22 | 1.25 | 1.25 | 1.24 | 1.34 |
| New home sales | .91 | .86 | .90 | .96 | .90 | 1.03 | .92 |
| Existing home sales | 5.11 | 5.12 | 5.07 | 5.10 | 5.30 | 4.94 | 5.13 |
| *Multifamily units* | | | | | | | |
| Starts | .33 | .34 | .31 | .30 | .33 | .26 | .31 |
| Permits | .39 | .39 | .37 | .37 | .42 | .35 | .42 |
| *Mobile homes* | | | | | | | |
| Shipments | .25 | .27 | .24 | .20 | .20 | .18 | 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)



year.[10] Meanwhile, consumer sentiment, as measured by both the Michigan and Conference Board surveys, fell again in February, retreating to the lowest levels since 1996. To some extent, the drop in sentiment likely reflects the downturn in the stock market and the slower gains in real income. But the recent slide in sentiment has been greater than these and other indicators would have predicted.[11]

Details from the Michigan survey point to one additional factor that may be behind the recent abrupt deterioration in this measure: Survey respondents have increasingly mentioned "bad news about unemployment" when asked about recent news they have heard regarding changes in business conditions.[12] Indeed, after holding relatively steady for some time, the share of respondents that reported hearing bad news about unemployment jumped to 49 percent in February, the highest level since March 1992. As the measured unemployment rate has moved up only a bit in recent months, respondents to the Michigan survey may instead be reacting to reported layoff announcements, which have become much more prevalent. Figures on layoff announcements compiled by Challenger, Gray, and Christmas—which are regularly reported in the press—surged 200 percent in December and remained at an elevated level in January and February.[13]

**Housing Markets**

Housing construction rebounded in January. Total housing starts rose to an annual rate of 1.65 million units, about 100,000 units above the average pace in the fourth quarter of last year. The higher level of building was no doubt spurred by the ongoing decline in mortgage rates; the rate on thirty-year fixed-rate mortgages averaged slightly above 7 percent in January, 150 basis points below the peak in May of last year.

Single-family starts rose 2-3/4 percent in January, to an annual rate of 1.34 million units. The level of starts in January was well aligned with adjusted permits, which are less affected by weather and statistical quirks than are the estimates of starts. Accordingly, the starts figure likely accurately represents

---

10. Data from the February employment report suggest a moderate increase in private wage and salary income in that month.

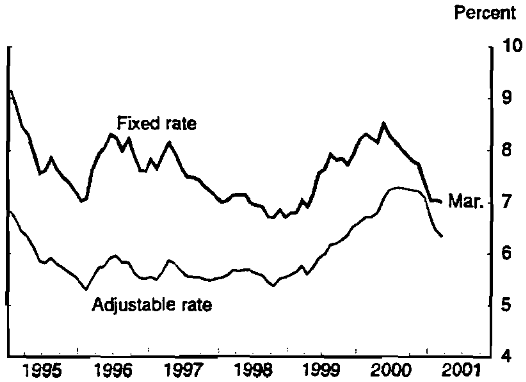
11. Factors that we have found to be statistically useful for explaining movements in the Michigan index of consumer sentiment include changes in the unemployment rate and stock prices, the level of consumer price inflation, and the rate of growth of real income.

12. The survey asks, "During the last months, have you heard of any favorable or unfavorable changes in business conditions? What did you hear?"

13. The Challenger data, which are compiled from newspaper reports, are subject to a number of limitations as a measure of actual lost jobs. Notably, the data may include layoffs far in the future that have little effect on current labor market conditions; they often include both domestic layoffs and those overseas; and they encompass layoffs from all sources, including attrition and retirement.

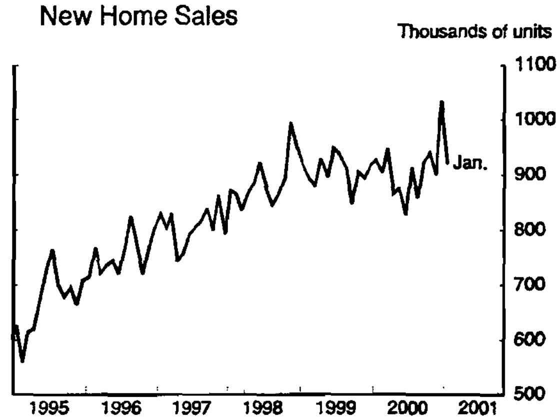
# Indicators of Single-Family Housing

## Mortgage Rates



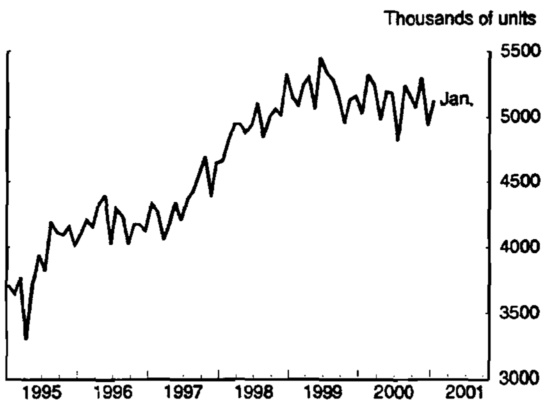

Note. The Mar. reading is an average of weekly data through Mar. 9.
Source. Freddie Mac.

## New Home Sales



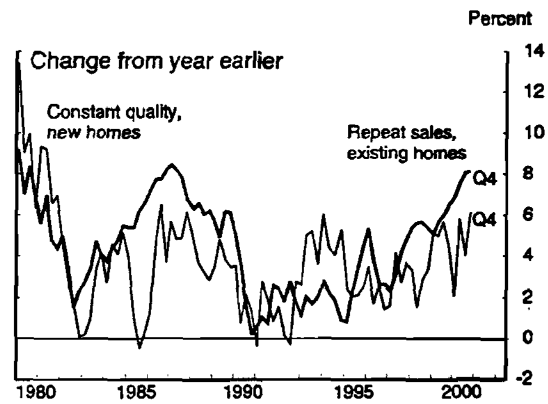

Source. Census Bureau.

## Existing Home Sales



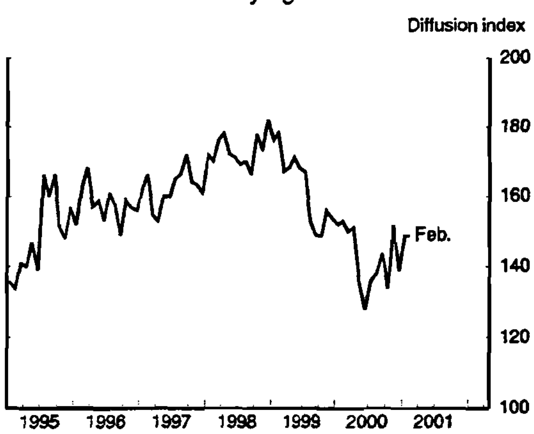

Source. National Association of Realtors.

## House Prices



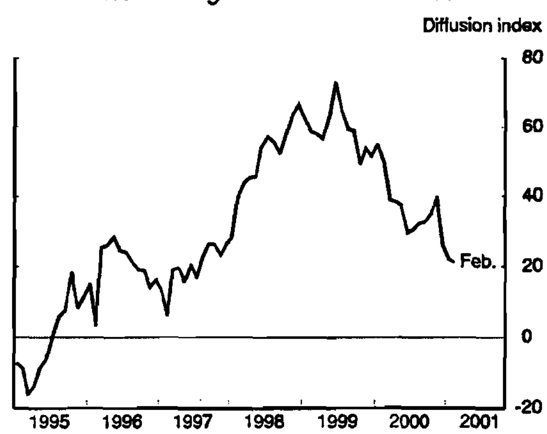

Source. Census Bureau (new homes); Office of Federal Housing Enterprise Oversight (existing homes).

## Perceived Homebuying Conditions




Source. Michigan Survey, not seasonally adjusted.

## Builders' Rating of New Home Sales




Source. National Association of Home Builders.

the underlying pace of activity. In the multifamily sector, housing starts bounced back in January to an annual rate of 311,000 units. That increase offset two-thirds of the drop in December and put starts at a level near the average for the second half of last year.

Sales of new single-family homes fell nearly 11 percent in January, to an annual rate of 921,000 units. However, that decline followed a surge in December, and the pace of January sales was still quite robust by historical standards. Sales of existing homes rose 3-3/4 percent in January, to an annual rate of 5.1 million units.[14] Sales in this category have not changed greatly on net since late 1999.

House price increases have been on an uptrend since late 1998. In the fourth quarter of 2000, the constant-quality price index for new homes stood 6.1 percent above its level of a year earlier, and the repeat-sales price index for existing homes was 8.1 percent higher than its year-earlier level.[15] Both rates of increase are toward the high end of the ranges recorded since the early 1980s.

Near-term indicators of housing demand remain relatively positive. The Michigan Survey's measure of household perceptions of homebuying conditions was unchanged in February but at a level toward the upper end of its range over the past year. In the first two months of this year, households' increased uneasiness about economic conditions has been offset by their view that mortgage rates are low. By contrast, builders' ratings of new home sales had retreated in recent months to a moderate level, but they were little changed in February.

### Business Fixed Investment

**Equipment and software.** Against a backdrop of deteriorating fundamentals—including a slowing economy and weaker profits—real expenditures on equipment and software fell in the fourth quarter. Incoming data on shipments and orders of nondefense capital goods, as well as the recent

14. The National Association of Realtors originally reported that existing home sales declined 6.6 percent in January. Subsequently, the NAR staff discovered a data processing error that had significantly understated sales in January 2001 (and in January and February 2000).

15. The monthly data on median and average home prices are more volatile than these series, in part because they do not control for shifts in housing characteristics or for changes in the geographic composition of homes sold. The constant-quality price index for new homes adjusts for many of the compositional shifts that affect prices. The repeat-sales price index for existing homes is relatively unaffected by compositional changes because it compares prices for the same housing units over time. Fourth-quarter figures for the repeat-sales price index for existing homes that we usually report were not available from Freddie Mac and Fannie Mae in time for publication. Instead, we used a closely comparable repeat-sales price index published by the Office of Federal Housing Enterprise Oversight that is based on the same source data as the Fannie/Freddie series. The two series move together very closely.

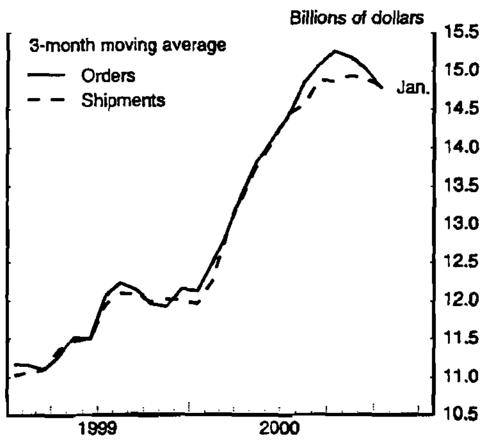
BUSINESS CAPITAL SPENDING INDICATORS
(Percent change from preceding comparable period;
based on seasonally adjusted data, in current dollars)

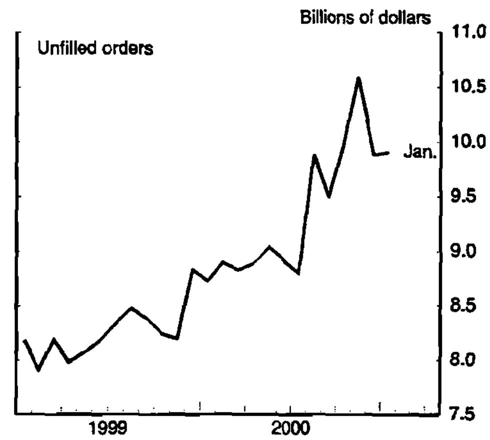
| | 2000 Q3 | 2000 Q4 | 2000 Nov. | 2000 Dec. | 2001 Jan. |
|---|---|---|---|---|---|
| Equipment and software | | | | | |
| Shipments of nondefense capital goods | .8 | -.6 | .8 | .1 | -2.0 |
| Excluding aircraft and parts | 1.8 | -.6 | -1.4 | .6 | -.5 |
| Office and computing equipment | 5.6 | .1 | -1.3 | -.9 | .1 |
| Communications equipment | 1.2 | -.3 | -3.1 | 1.5 | -3.2 |
| All other categories | .1 | -1.1 | -.8 | 1.1 | .1 |
| Shipments of complete aircraft | -5.9 | -16.0 | 1.4 | -11.7 | 7.4 |
| Medium & heavy truck sales (units) | -11.4 | -11.3 | -2.7 | 2.1 | .5 |
| Orders for nondefense capital goods | 1.3 | .1 | 8.8 | 11.7 | -10.4 |
| Excluding aircraft and parts | .1 | -4.1 | -1.9 | -1.5 | 5.6 |
| Office and computing equipment | 6.8 | -.3 | -.4 | -9.3 | 5.2 |
| Communications equipment | -7.9 | -2.0 | -3.9 | -2.7 | 12.2 |
| All other categories | .0 | -6.6 | -2.0 | 3.3 | 3.5 |
| Nonresidential structures | | | | | |
| Construction put in place, buildings | 2.2 | 2.1 | 1.2 | .1 | 5.8 |
| Office | 4.2 | 5.2 | 2.8 | .7 | 1.5 |
| Other commercial | -1.1 | -.5 | -3.9 | 5.7 | 7.9 |
| Institutional | 4.2 | 1.5 | -1.7 | 1.7 | 4.6 |
| Industrial | 5.1 | 6.4 | 9.9 | -8.4 | 10.9 |
| Lodging and miscellaneous | -.8 | -4.5 | -.5 | -1.0 | 3.6 |
| Rotary drilling rigs in use[1] | 10.2 | 7.4 | 2.5 | 2.0 | 6.2 |

1. Percent change of number of rigs in use, seasonally adjusted.

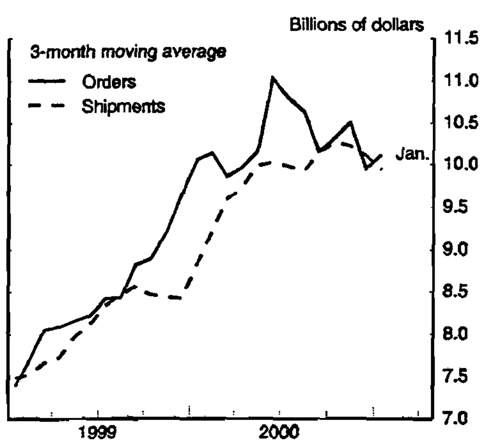
# Orders and Shipments for Nondefense Equipment
(Not at annual rate)

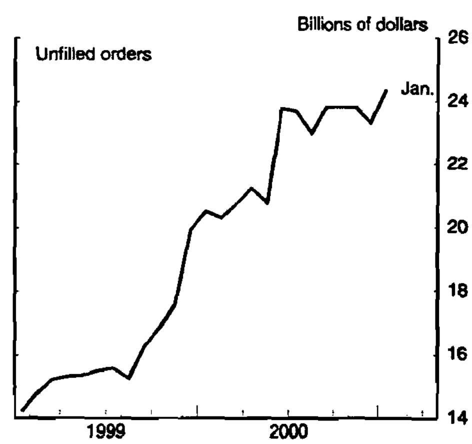
## Office and Computing Equipment



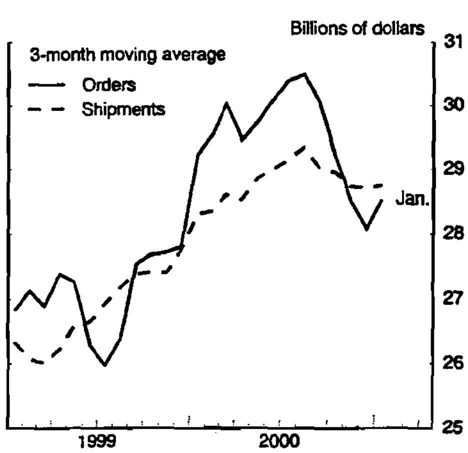



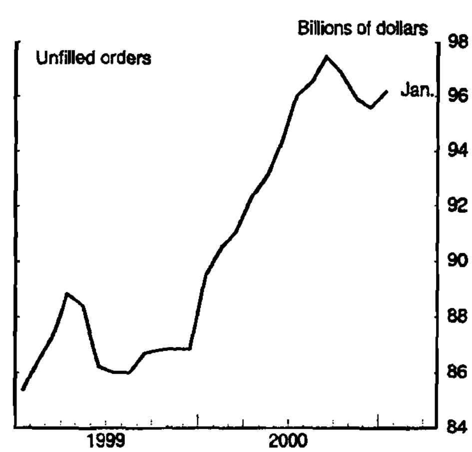

## Communications Equipment



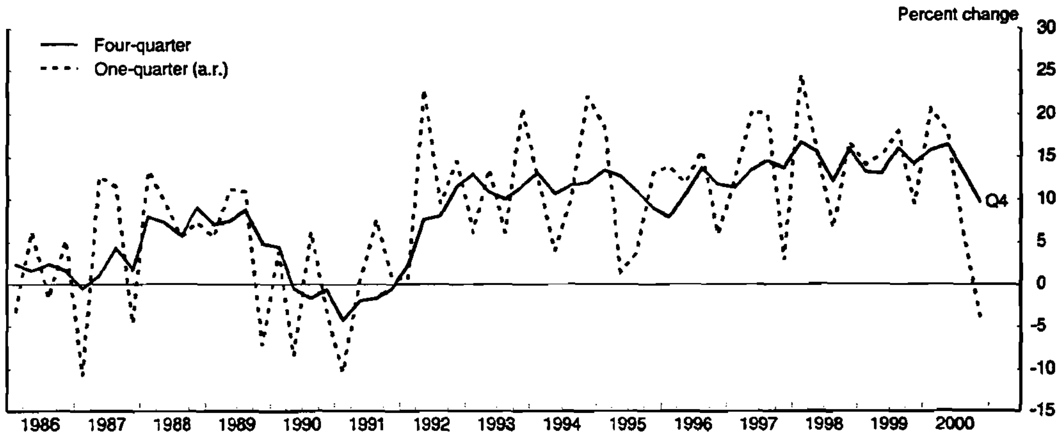

## Non-High-Tech Equipment Excluding Aircraft



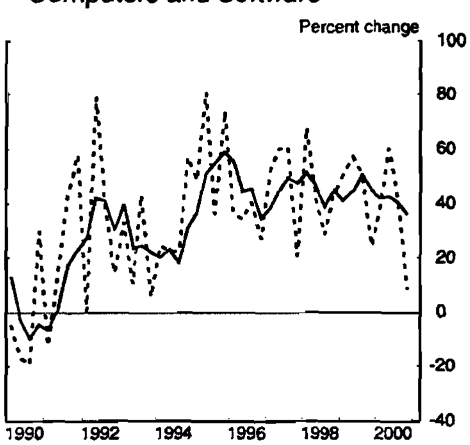



# Real Outlays for Equipment and Software

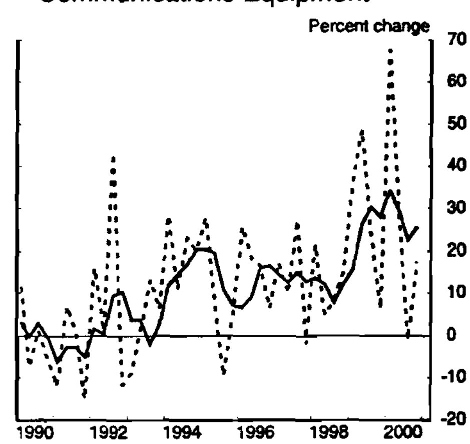
## Total Equipment and Software



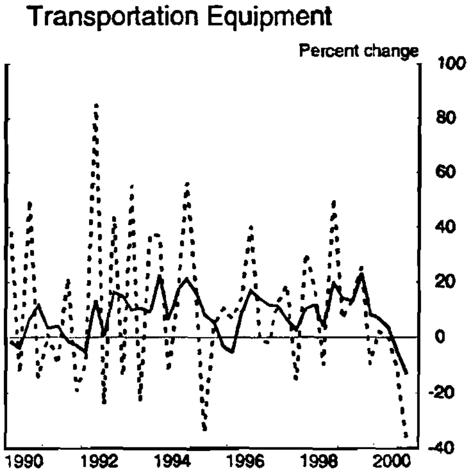

## Computers and Software




## Communications Equipment

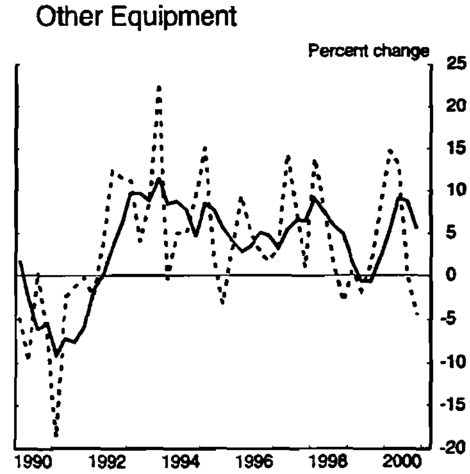



## Transportation Equipment




Note. Motor vehicles and aircraft.

## Other Equipment




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

pickup in motor vehicle sales, point to a small rise in real business spending in the current quarter.

Nominal shipments of nondefense capital goods, excluding aircraft and parts, fell 1/2 percent in January, on the heels of a decline in the fourth quarter. Within the high-tech grouping, nominal shipments of office and computing equipment changed little in January, and shipments of communications equipment declined. Outside the high-tech area, nominal shipments edged up in January, after having fallen 1 percent in the fourth quarter.

Orders for nondefense capital goods, excluding aircraft and parts, moved up 5-1/2 percent in January, following a decline in the fourth quarter. Orders for communications equipment posted an especially large increase in January; orders rose substantially outside the high-tech area as well.[16]

Cutting through the volatility of the last few months, nominal orders and shipments of both computing and communications equipment have flattened out noticeably. Nevertheless, these nominal expenditures should still translate into increases in real spending on high-tech equipment, given the rate at which prices of these items are falling.[17] Outside of the high-tech and transportation areas, the recent orders and shipments data suggest that real spending on equipment edged down early this year, after having declined at an annual rate of about 4-1/2 percent in the fourth quarter.

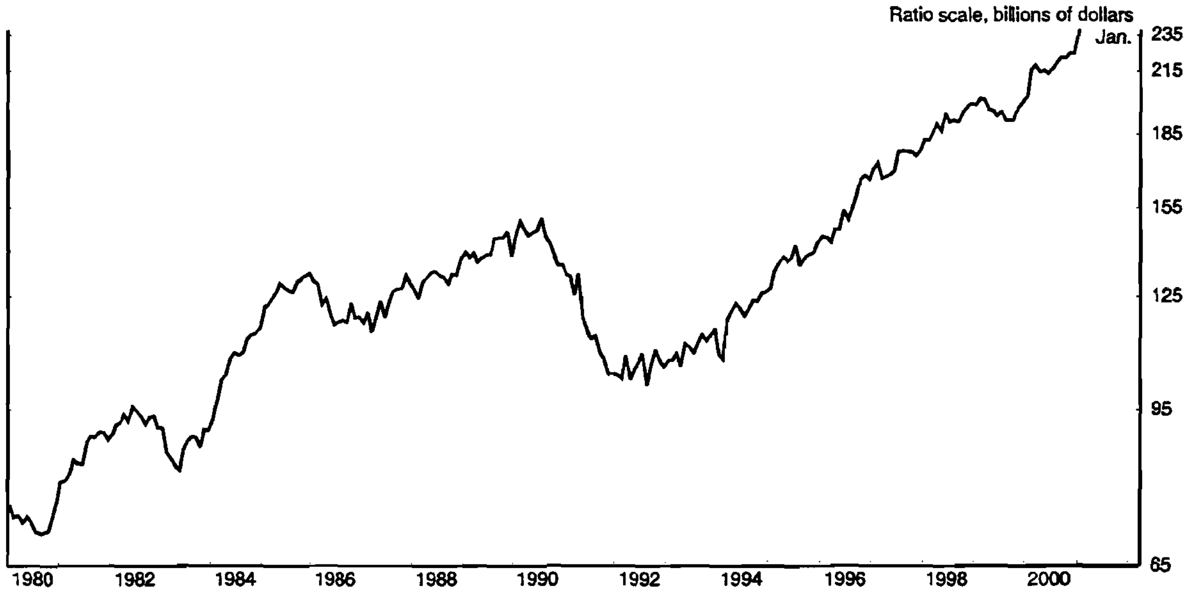
---

16. The latest jump in orders for communications equipment contrasts with the widespread anecdotal evidence of weakness in the high-tech sector, particularly telecommunications. This tension has raised questions about the representativeness of the sample underlying the Census monthly M3 report on orders and shipments in this sector. While there are general reasons for concern about the quality of the M3 data—notably, they come from a voluntary survey, with reported data representing only about 55 percent of total shipments in manufacturing—discussions with Census Bureau staff suggest no special problems of coverage or reporting in telecommunications. Reported data for telecommunications represent about 60 percent of shipments.

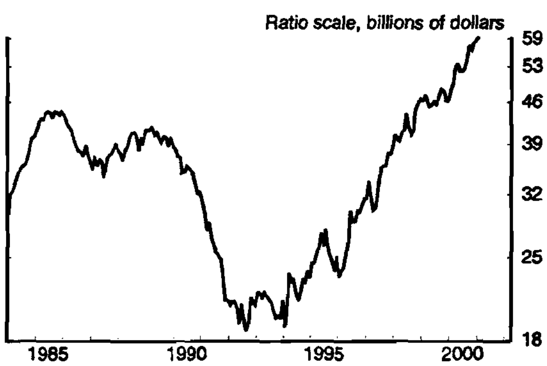
17. As noted in the January Greenbook, monthly shipments data for software, the other component of high-tech spending, do not exist. The BEA's standard methodology for estimating nominal software spending in the NIPAs ties about one-third of the total (the so-called "own-account" piece) to nominal outlays on computer hardware and the other two-thirds (the so-called "prepackaged" and "custom" software pieces) to a slowly changing indicator of wages and salaries. Because this indicator was consistent with strong growth, we had expected estimated software outlays in the fourth quarter to increase substantially. On a confidential basis, the BEA informed us that the fourth-quarter published estimate of software spending was about $5 billion below the level implied by their standard methodology, reflecting their judgment—based in large part on the weakness in other high-tech spending—that the wage indicator approach was overstating the strength of software outlays.

# Nonresidential Construction
(Seasonally adjusted, annual rate)

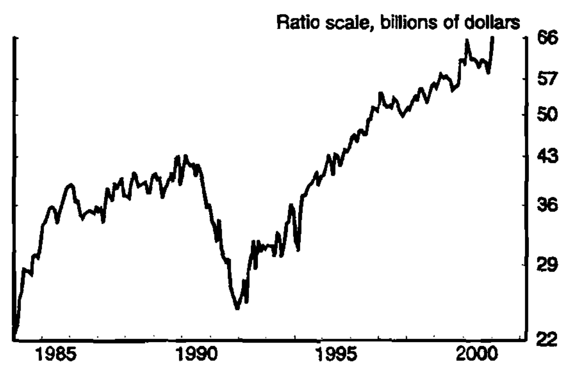
## Total Building



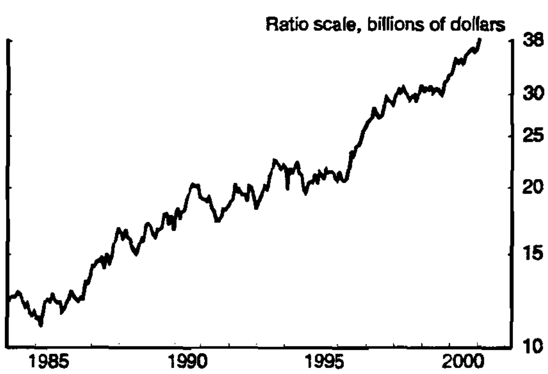

## Office



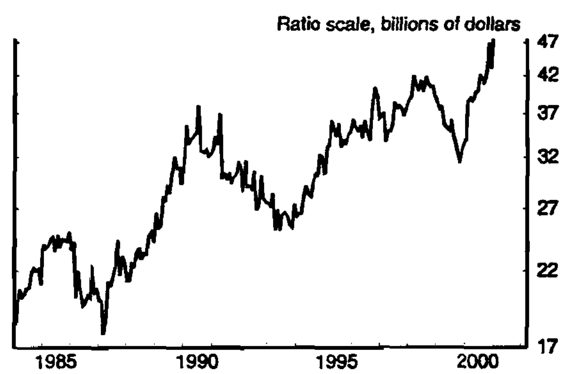

## Other Commercial




## Institutional




## Industrial



Real spending on transportation equipment dropped at an annual rate of about 35 percent in the fourth quarter, led by reduced spending on aircraft and lower sales of medium and heavy trucks. The nominal value of shipments of aircraft rose in January to a level roughly equal to the average pace in the fourth quarter, and deliveries by Boeing were up sharply in February after seasonal adjustment. Meanwhile, real business spending on motor vehicles appears poised to post a sizable gain this quarter. This gain reflects, in large part, the aforementioned surge in fleet sales of light vehicles; sales of medium and heavy trucks, which slumped badly over the latter half of 2000, remained depressed in January and February, while new orders stayed at low levels after having plunged in the fourth quarter.

**Nonresidential construction.** Investment in nonresidential structures continued to rise smartly in early 2001. Nominal expenditures on private nonresidential buildings jumped 5-3/4 percent in January (at a monthly rate), one of the strongest increases in more than twenty years. Relative to the already robust fourth-quarter level, expenditures in January were up 6-1/4 percent.

Nominal spending for construction of office buildings rose 1-1/2 percent in January, to a level 23-1/2 percent higher than a year earlier. Even with the rapid expansion in the stock of office space, property values and rents for office buildings have increased substantially. In the fourth quarter of 2000, the price per square foot of office property was up 11-1/2 percent from its year-earlier level, while rents for office space located in downtown areas rose 12-3/4 percent over the same period.

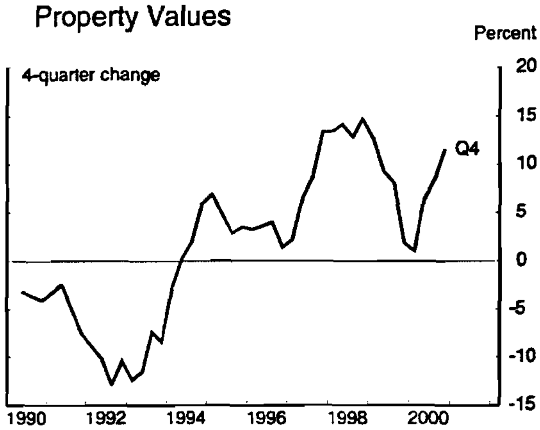
Spending for other commercial structures, which include retail space and warehouses, rose nearly 8 percent in January. At the same time, however, financial problems at some large retailers led to bankruptcies and store closings, raising concerns that some excess supply may be emerging for certain types of retail space in selected locations. Indeed, values of retail property were only 1-1/4 percent higher in the fourth quarter relative to a year earlier, and rents were up less than 3 percent. Furthermore, demand for warehouse space likely has softened along with the pace of consumer spending on goods. Nevertheless, values of warehouse property were about 5 percent higher in the fourth quarter relative to a year earlier, while rents for warehouse space were up roughly 4 percent.

Nominal outlays for industrial buildings rose nearly 11 percent in January, offsetting a drop in December. The level of spending in January was 40 percent higher than a year earlier. Although this continued strength seems inconsistent with the broad-based weakening in the manufacturing sector, industry analysts report that sizable increases in construction expenditures have taken place for certain types of specialized structures, such as research

# Indicators of Nonresidential Construction

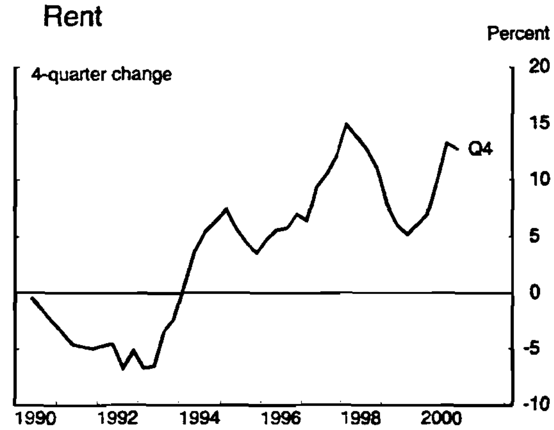
## Office Buildings

### Property Values




Source. National Real Estate Index.

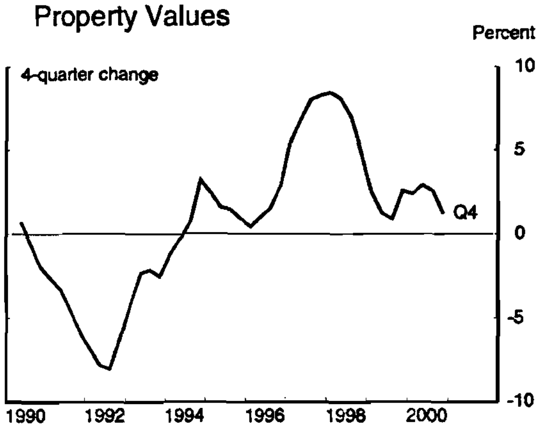
### Rent




Source. National Real Estate Index.

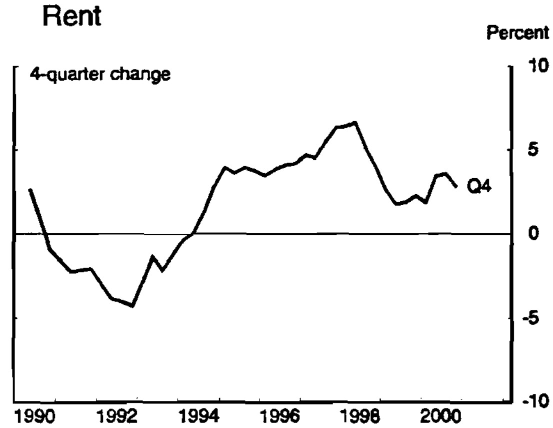
## Retail Space

### Property Values




Source. National Real Estate Index.

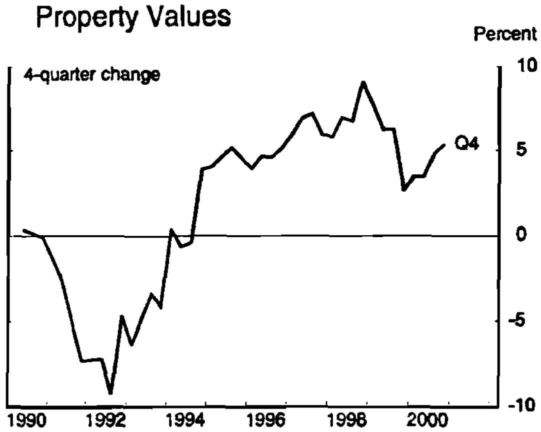
### Rent




Source. National Real Estate Index.

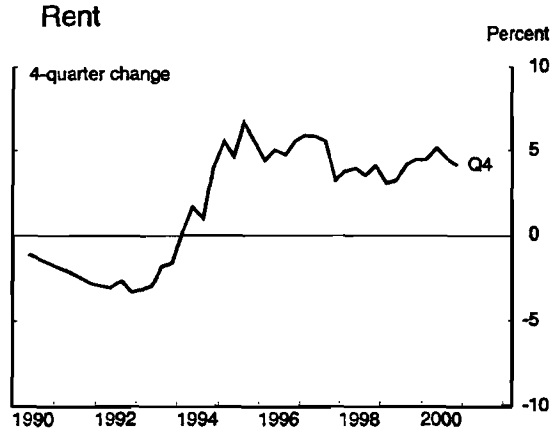
## Warehouses

### Property Values




Source. National Real Estate Index.

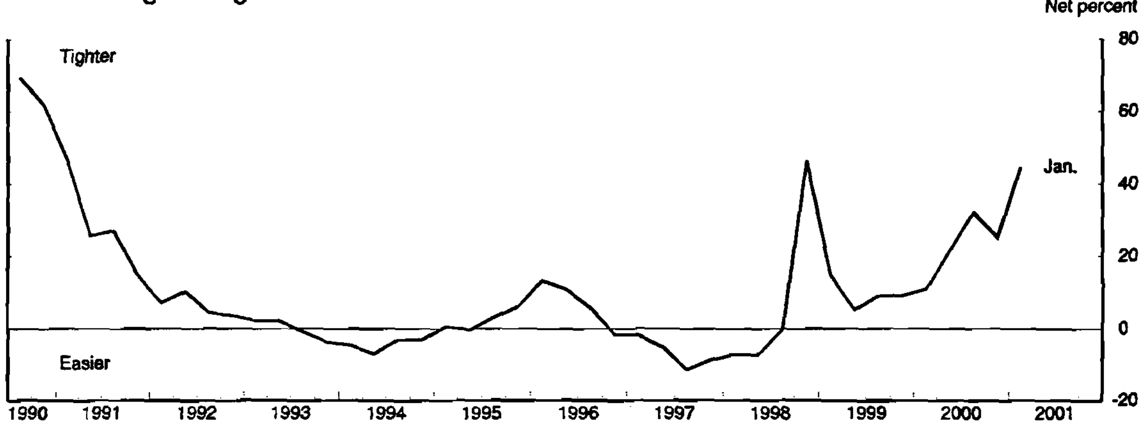
### Rent




Source. National Real Estate Index.

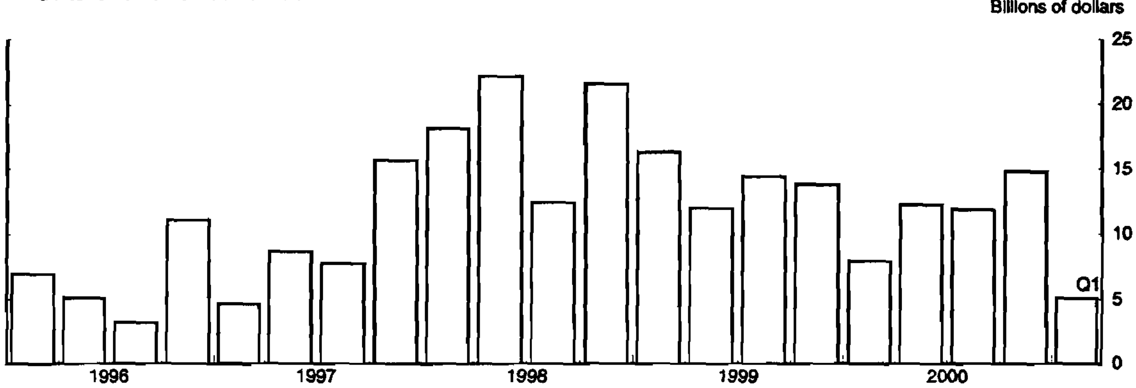
# Commercial Mortgage Markets

## Banks Tightening Standards on Commercial Real Estate Credit



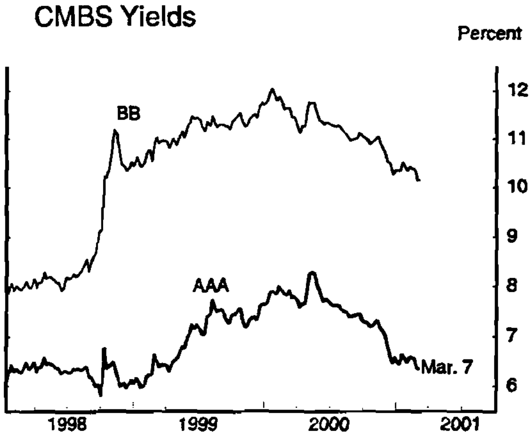

Source. Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices.

## CMBS Gross Issuance



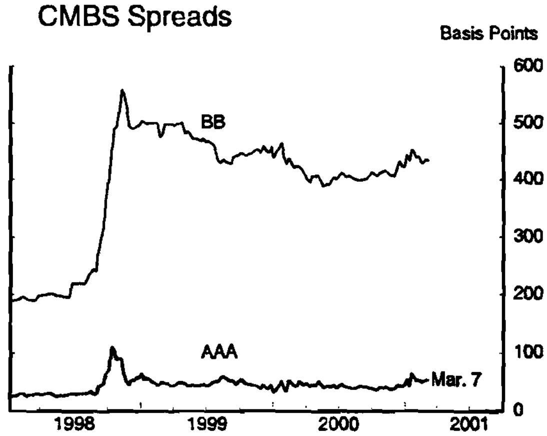

Note. 2001:Q1 data are for period to date. Excludes Fannie Mae and Freddie Mac securities and all CMBS backed by mortgages on foreign properties.
Source. Commercial Mortgage Alert.

## CMBS Yields




Source. Morgan Stanley.

## CMBS Spreads

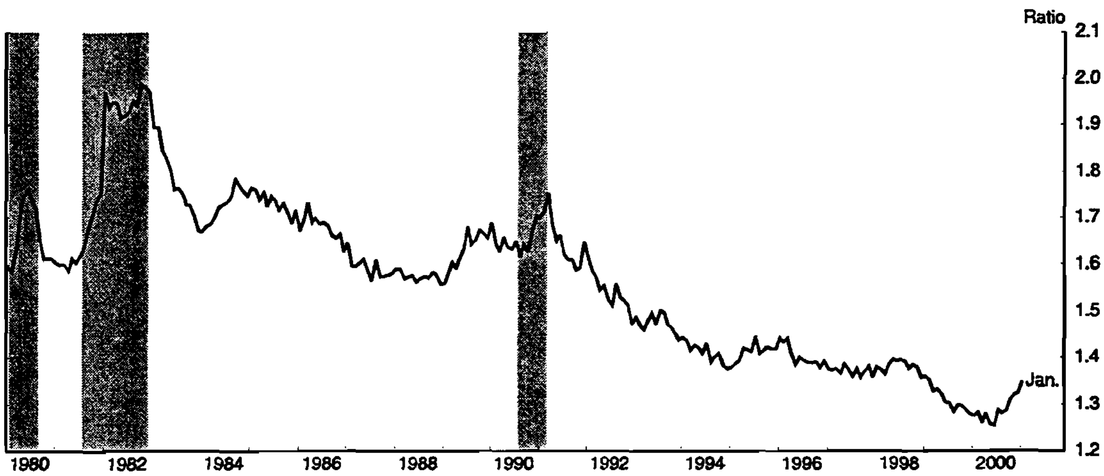



Note. Rate on CMBS minus 10-year swap rate.
Source. Morgan Stanley.

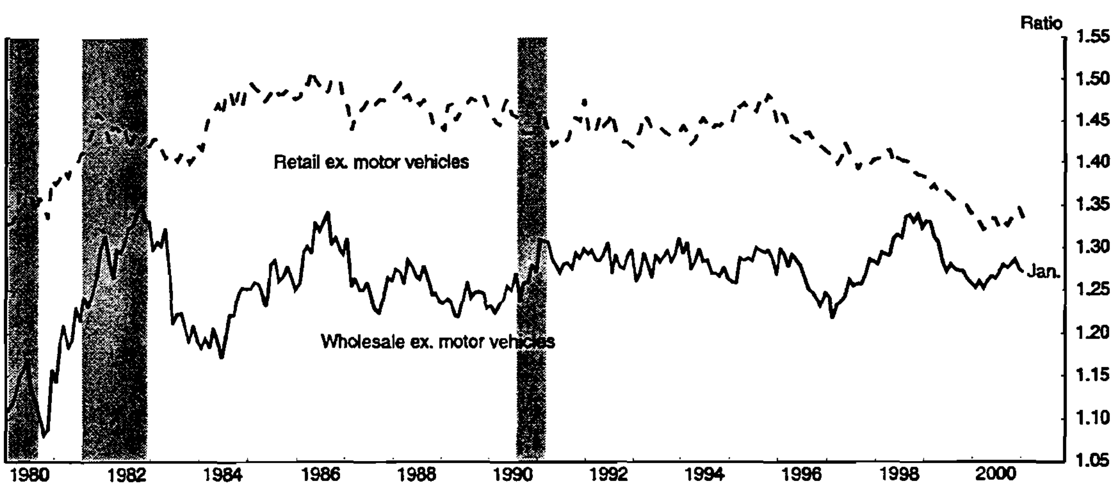
**Changes in Manufacturing and Trade Inventories**
**(Billions of dollars, seasonally adjusted book value, annual rate)**

| Category | 2000 Q2 | 2000 Q3 | 2000 Q4 | 2000 Nov. | 2000 Dec. | 2001 Jan. |
|---|---|---|---|---|---|---|
| Manufacturing and trade | 105.9 | 61.9 | 50.6 | 49.4 | 5.7 | 53.1 |
| Less wholesale and retail motor vehicles | 72.3 | 53.5 | 39.2 | 38.0 | -0.4 | 47.4 |
| Manufacturing | 24.6 | 27.4 | 16.7 | 13.2 | -3.9 | 38.7 |
| Less aircraft | 30.0 | 29.4 | 16.1 | 8.9 | -0.6 | 36.8 |
| Merchant wholesalers | 36.2 | 12.4 | 9.5 | 13.9 | -0.9 | -12.7 |
| Less motor vehicles | 33.1 | 16.3 | 6.8 | 11.7 | -5.5 | -5.3 |
| Retail trade | 45.1 | 22.1 | 24.4 | 22.2 | 10.6 | 27.1 |
| Automotive dealers | 30.5 | 12.2 | 8.6 | 9.2 | 1.5 | 13.2 |
| Less automotive dealers | 14.6 | 9.9 | 15.8 | 13.1 | 9.0 | 13.9 |

**Inventories Relative to Shipments: Manufacturing**




**Inventories Relative to Sales: Trade**



and development facilities, that are included in overall spending on industrial construction.

Despite the ongoing rise in construction expenditures, financial markets appear to have become somewhat more cautious in their approach to funding new construction projects. In the Senior Loan Officer Survey for the three months ending in late January, the net proportion of large domestic banks that had tightened their credit standards for commercial mortgage loans stood at 45 percent, compared with 26 percent in the November survey. In addition, issuance of commercial mortgage-backed securities (CMBS) slowed considerably in January and February, with industry observers citing greater uncertainty about economic prospects as the primary source of increased restraint. Despite these concerns, the rates paid by borrowers on CMBS have edged down in recent weeks, and spreads relative to the ten-year swap rate have edged up only a bit, suggesting little change in investors' view of the risk of lending for commercial construction. Similarly, the delinquency rate on CMBS remained very low late last year, as did delinquency rates on commercial mortgages held by life insurance companies and on those held by commercial banks.

**Business Inventories**

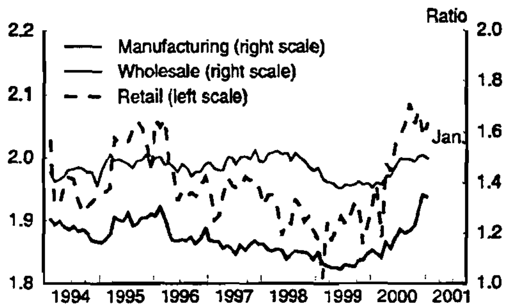
Stockbuilding in the nonfarm business sector (excluding motor vehicles) decelerated sharply in the fourth quarter. Nonetheless, inventories rose at a faster pace than business final sales, and the inventory-sales ratio continued to climb through year-end. The January inventory data provided further evidence of stock overhangs early this year. Stocks appear especially bloated for construction materials, metals, electrical equipment, paper, chemicals, and textiles.

The book value of manufacturers' inventories rose at an annual rate of $38.7 billion in January, following an accumulation of $16.7 billion in the fourth quarter. Shipments by manufacturers fell 1.1 percent in January, and the inventory-shipments ratio moved up to 1.35 months, the highest reading in two years. The book value of wholesale inventories excluding motor vehicles fell at an annual rate of $5.3 billion in January, following an accumulation of $6.8 billion in the fourth quarter. However, sales at non-auto wholesalers edged up only 0.1 percent in January, and the inventory-sales ratio was unchanged from its December value. The book value of retail inventories excluding motor vehicles increased at an annual rate of $13.9 billion in January, after an accumulation of $15.8 billion in the fourth quarter. But with sales at non-auto retailers having risen 1.3 percent in January, the inventory-sales ratio fell to 1.33 months in January, from 1.35 months in December.

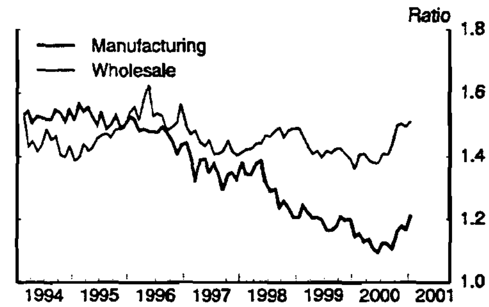
Significant stock overhangs are evident in several sectors. In the case of construction, inventory-sales ratios have been trending up sharply since early

# Inventory Sales Ratios
## Comparison Across Distributive Stages
(Book-value basis)

Construction & Building Materials



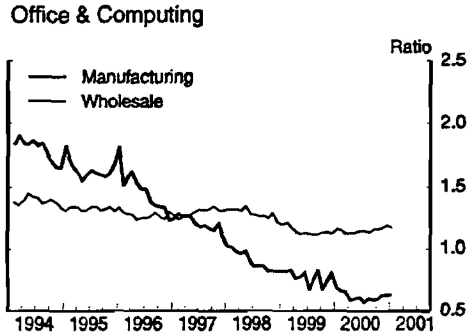

Electrical Equipment



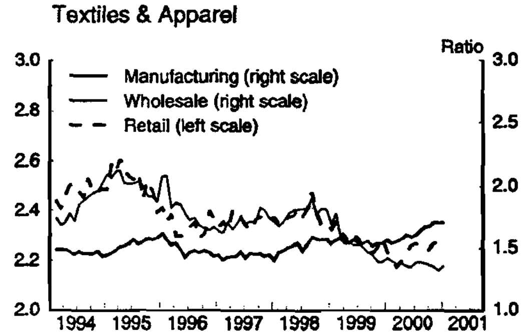

Metals & Minerals


Paper

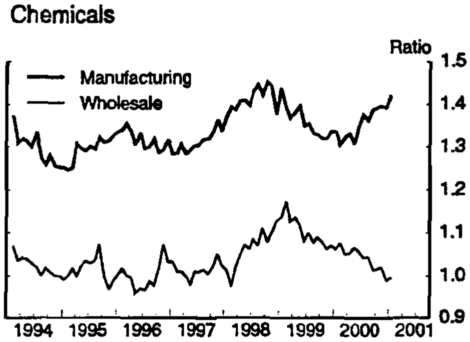

Office & Computing



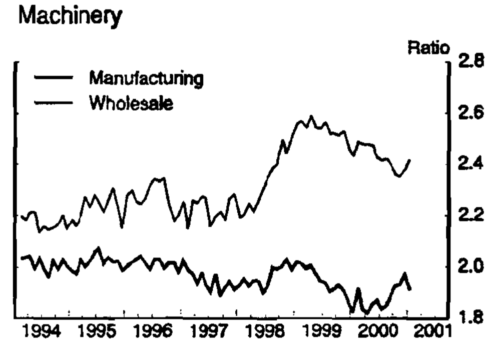

Textiles & Apparel




Chemicals




Machinery



last year for manufacturers of lumber and wood products, wholesalers of lumber and construction supplies, and retail building material and hardware supply stores. Noticeable overhangs at various points in the distribution channel are also increasingly apparent for electrical machinery, primary and fabricated metals, paper products, and textiles. And while inventory-sales ratios for office and computing machines are low by longer-term historical standards, they have edged up recently. In contrast, downstream inventory-sales ratios in apparel and industrial machinery do not appear to be at especially high levels.

## Government Expenditures

**Federal government.** The federal government recorded a $76 billion surplus during January 2001. Averaging through December-January timing shifts, outlays were 5 percent higher in the two-month period ending in January 2001 than in the same period a year earlier. Receipts were 7 percent higher in December and January relative to a year earlier. Non-withheld receipts were up 10 percent in December and January from the year-earlier period, continuing the strong uptrend in these receipts.

On February 28, the Bush Administration released its ten-year budget projections and an outline of its proposals. According to the Administration, if current policies were to remain in place, the unified budget surplus would total $5.6 trillion over the 2002-11 period, consisting of $3 trillion in the on-budget accounts and $2.6 trillion in the off-budget social security accounts. The Administration's economic assumptions and the associated surplus estimates are similar to the projections issued by CBO in January.

The President is proposing to use the social security surplus for net debt reduction. A portion of the on-budget surplus would be used to fund tax cuts of $1.6 trillion and a limited prescription drug benefit ($150 billion). Annual increases in nominal discretionary outlays would be held to roughly 3 percent after 2002, though outlays during 2002 would rise at a much faster 7 percent rate due to prior year appropriations and a temporary boost to spending included in the Administration's budget plan. The $842 billion that would remain after the President's policies and the associated interest costs are taken into account would be allocated to a contingency fund that could be used for additional policy initiatives or net debt reduction.

On March 8, the U.S. House passed legislation to reduce marginal income tax rates in line with the Administration's proposal. The legislation includes a component that lowers the bottom rate for 2001, from 15 percent to 12 percent, retroactive to January 1, 2001. According to estimates by the Joint Committee on Taxation, the legislation as a whole would reduce revenue by $6 billion in 2001, $49 billion in 2002, and $958 billion in total over the 2001-11 period.

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

| | Average of January and prior December | | | 12 months ending in Jan. | | |
|---|---|---|---|---|---|---|
| | 2000 | 2001 | Percent change | 2000 | 2001 | Percent change |
| Outlays | 147.7 | 155.4 | 5.1 | 1725.8 | 1803.4 | 4.5 |
| Deposit insurance | -0.7 | 0.0 | ... | -3.8 | -3.1 | ... |
| Spectrum auction | 0.0 | 0.0 | ... | -1.5 | -0.2 | ... |
| Sale of major assets | 0.0 | 0.0 | ... | 0.0 | 0.0 | ... |
| Other | 148.4 | 155.4 | 4.7 | 1731.1 | 1806.7 | 4.4 |
| Receipts | 195.4 | 209.9 | 7.4 | 1876.1 | 2072.4 | 10.5 |
| Surplus | 47.6 | 54.5 | ... | 150.3 | 269.1 | 79.1 |
| | Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts* | | | | | |
| Outlays | 148.2 | 155.5 | 4.9 | 1730.8 | 1806.5 | 4.4 |
| National defense | 24.4 | 25.5 | 4.5 | 282.2 | 294.8 | 4.5 |
| Net interest | 18.9 | 18.4 | -2.7 | 228.6 | 220.4 | -3.6 |
| Social security | 33.2 | 35.5 | 6.9 | 394.3 | 417.6 | 5.9 |
| Medicare | 15.8 | 17.1 | 8.2 | 191.7 | 202.3 | 5.5 |
| Medicaid | 9.5 | 10.3 | 8.4 | 110.6 | 122.0 | 10.3 |
| Other health | 3.1 | 3.2 | 3.2 | 33.8 | 37.8 | 11.7 |
| Income security | 20.2 | 21.3 | 5.4 | 239.2 | 249.2 | 4.2 |
| Agriculture | 4.3 | 3.8 | -11.6 | 31.0 | 31.8 | 2.7 |
| Other | 19.1 | 20.7 | 8.4 | 219.4 | 230.6 | 5.1 |
| Receipts | 195.4 | 209.9 | 7.4 | 1876.1 | 2072.4 | 10.5 |
| Individual income and payroll taxes | 155.8 | 166.8 | 7.1 | 1505.6 | 1663.2 | 10.5 |
| Withheld + FICA | 127.6 | 135.8 | 6.4 | 1284.2 | 1397.3 | 8.8 |
| Nonwithheld + SECA | 29.4 | 32.3 | 9.8 | 346.0 | 400.2 | 15.7 |
| Refunds (-) | 1.2 | 1.2 | 0.0 | 124.5 | 134.3 | 7.8 |
| Corporate | 25.2 | 28.5 | 13.1 | 186.1 | 213.9 | 15.0 |
| Gross | 26.8 | 30.5 | 13.8 | 216.9 | 243.8 | 12.4 |
| Refunds (-) | 1.7 | 2.0 | 17.6 | 30.8 | 29.8 | -3.3 |
| Other | 14.4 | 14.6 | 1.3 | 184.3 | 195.3 | 5.9 |
| Surplus | 47.1 | 54.5 | ... | 145.3 | 265.9 | 83.0 |

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

* 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.

**Bush Administration Budget Projections and Economic Assumptions**

| Category | 2001 | 2002 | 2002-11 |
|---|---|---|---|
| UNIFIED BUDGET SURPLUS (FISCAL YEARS) | Billions of dollars | | |
| Administration proposal | 281 | 231 | 3,433 |
| On-budget | 124 | 60 | 842 |
| Off-budget | 157 | 171 | 2,591 |
| Administration baseline | 284 | 283 | 5,644 |
| On-budget | 127 | 112 | 3,045 |
| Off-budget | 157 | 171 | 2,599 |
| CBO baseline | 281 | 313 | 5,610 |
| On-budget | 125 | 142 | 3,122 |
| Off-budget | 156 | 171 | 2,488 |
| OMB ECONOMIC ASSUMPTIONS (CALENDAR YEARS) | Year-over-year percent change | | |
| Real GDP | 2.4 | 3.3 | 3.2 |
| GDP price index | 2.1 | 2.1 | 2.1 |
| CPI-U | 2.7 | 2.6 | 2.5 |
| | Percent, annual average | | |
| Unemployment rate | 4.4 | 4.6 | 4.6 |
| Treasury yields | | | |
| 3-month | 5.3 | 5.6 | 5.2 |
| 10-year | 5.4 | 5.6 | 5.7 |

SOURCE. Office of Management and Budget, *A Blueprint for New Beginnings: A Responsible Budget for America's Priorities,* February 2001; and Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002-2011,* January 2001.

CPI AND PPI INFLATION RATES
(Percent)

| | From 12 months earlier Jan. 2000 | Jan. 2001 | 2000 Q3 | 2000 Q4 | 2000 Dec. | 2001 Jan. |
|---|---|---|---|---|---|---|
| | | | -Annual rate- | | -Monthly rate- | |
| CPI | | | | | | |
| All items (100.0)[1] | 2.7 | 3.7 | 3.5 | 3.0 | .2 | .6 |
| Food (15.2) | 1.5 | 2.9 | 3.9 | 1.9 | .5 | .3 |
| Energy (7.7) | 14.7 | 17.8 | 13.0 | 10.7 | .3 | 3.9 |
| CPI less food and energy (77.1) | 2.0 | 2.6 | 2.5 | 2.4 | .1 | .3 |
| Commodities (22.8) | -.1 | .8 | .0 | 1.1 | -.1 | .1 |
| New vehicles (4.7) | -.8 | .3 | -.2 | -1.1 | .2 | .1 |
| Used cars and trucks (1.9) | 2.2 | 4.2 | -.3 | 6.2 | .9 | .9 |
| Apparel (4.5) | -.9 | -1.1 | -2.8 | 2.7 | -.3 | -.2 |
| Tobacco (1.3) | 5.9 | 7.8 | 5.6 | .5 | -3.5 | 1.9 |
| Other Commodities (10.4) | -.5 | .5 | .6 | .6 | .0 | -.1 |
| Services (54.3) | 3.0 | 3.4 | 3.7 | 3.0 | .2 | .4 |
| Shelter (29.9) | 3.0 | 3.3 | 3.2 | 3.3 | .2 | .2 |
| Medical care (4.6) | 3.5 | 5.0 | 4.9 | 4.3 | .3 | .6 |
| Other Services (19.9) | 2.8 | 3.3 | 4.2 | 2.2 | .3 | .6 |
| PPI | | | | | | |
| Finished goods (100.0)[2] | 2.5 | 4.8 | 2.6 | 3.9 | .2 | 1.1 |
| Finished consumer foods (22.5) | -.4 | 2.5 | -2.0 | 3.0 | -.4 | .8 |
| Finished energy (15.6) | 17.5 | 21.6 | 14.5 | 18.7 | .8 | 3.8 |
| Finished goods less food and energy (61.9) | .8 | 2.0 | 1.9 | .6 | .1 | .7 |
| Consumer goods (38.0) | 1.1 | 2.4 | 1.9 | .8 | .2 | .8 |
| Capital equipment (23.9) | .4 | 1.3 | 1.6 | .6 | .1 | .3 |
| Applications software | .9 | 6.0 | 13.6 | 6.5 | -.5 | 2.0 |
| Intermediate materials less food and energy | 2.4 | 1.5 | 1.0 | -.6 | .0 | .2 |
| Crude materials less food and energy | 16.3 | -7.4 | -13.9 | -8.0 | .3 | .5 |

1. Relative importance weight for CPI, December 2000.
2. Relative importance weight for PPI, December 2000.

**State and local governments.** Available indicators for the first quarter point to a moderate rise in real spending by state and local governments. Employment rose 27,000 on average in January and February, similar to its pace in 2000. Real construction spending by these governments was little changed in January. Highway spending, which was quite weak during the final two months of last year when the weather was unusually cold, bounced back up in January to the third-quarter level. In contrast, spending on school construction dipped in January after having trended up rapidly in the past year.

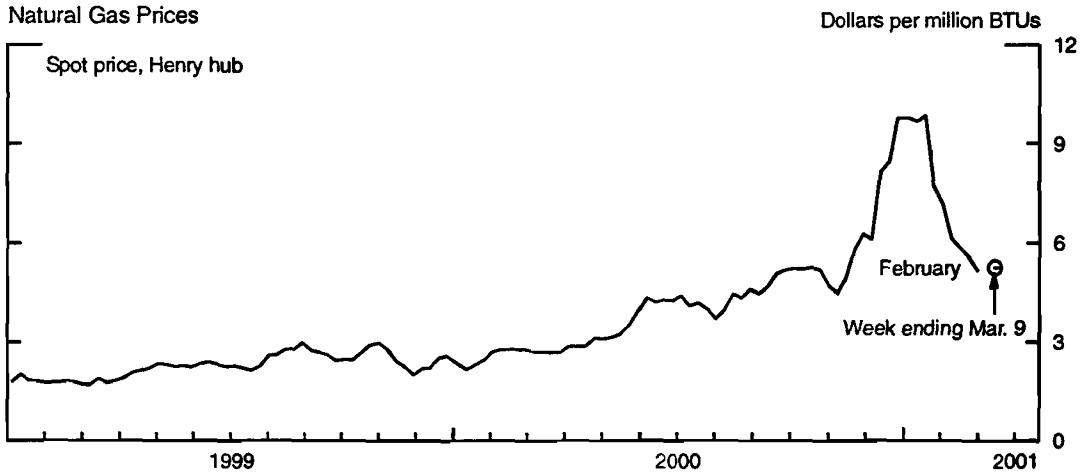
Although fiscal conditions for state governments have been robust in recent years, developments this fall and winter suggest some darkening of the fiscal picture of late. In a survey conducted in February by the National Conference of State Legislatures, thirteen states reported that their fiscal positions had deteriorated in recent months. Thirty-three states indicated that revenues were on or above target in late January, down from forty-four states just two months earlier. Most states noted that tax receipts were disappointing during the last two months of 2000. Sales taxes were particularly weak, although some states reported a rebound in taxes paid in January. On the spending side, more than half of the states anticipate making supplemental payments for various programs this fiscal year, particularly for Medicaid, and in some cases for corrections and education programs. Nonetheless, many states are still reporting fiscal strength, including some that have benefited from higher-than-expected oil and/or natural gas revenues (particularly in the Rocky Mountains and western region) and several in the northeast.

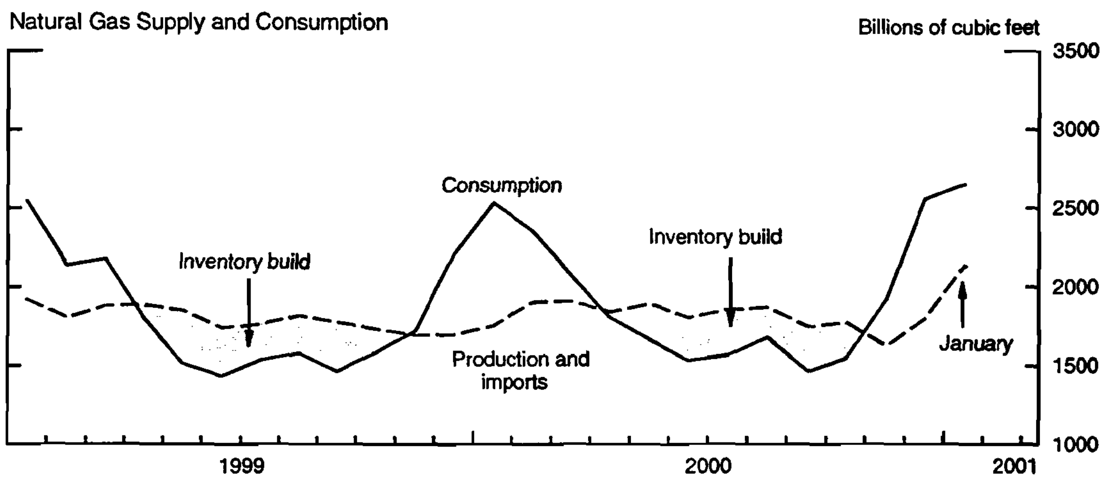
**Prices and Labor Costs**

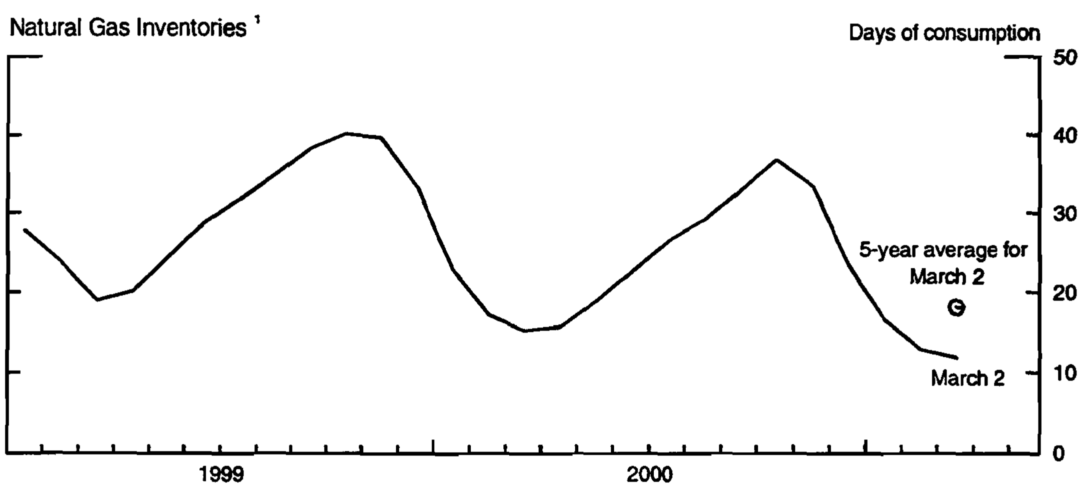
The consumer price index rose 0.6 percent in January, boosted by a surge in energy prices. Over the twelve months ending in January, the CPI was up 3.7 percent, 1 percentage point more than in the preceding year. The CPI excluding food and energy increased 0.3 percent in January, bringing the twelve-month change in core prices to 2.6 percent, an acceleration of 0.6 percentage point relative to the previous year (on a current-methods basis).

Energy prices jumped in January, reflecting rapid increases in natural gas and electricity prices. Crude oil prices fluctuated over the past couple of months but, on balance, prices of petroleum-derived products contributed little to overall consumer price inflation in January or—according to survey data—in February. In contrast, consumer prices for natural gas soared 17 percent in January. However, with the passing of the coldest part of the winter heating season, demand is retreating, and spot prices for natural gas have eased markedly from their recent highs. Gas futures prices point to further sharp price declines over the coming year as the increases in gas exploration over the past year add to supply.

## 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.

The CPI for electricity also rose sharply in January. Part of this increase was due to hikes ranging from 7 to 10 percent in California, but higher natural gas input costs drove up residential electricity prices elsewhere as well. The recent decline in spot natural gas prices should help to reduce the cost of electricity in most states. But residential electricity prices are likely to rise further in California, as surcharges intended to give utilities some compensation for the high costs of electricity generation this winter are added to consumers' electric bills. Moreover, California faces potential capacity shortfalls that could result in price hikes during the summer peaks in electricity demand. The state has just begun a crash program of building mini-gas-turbine generators to help meet summer peak demand, but when these additions will be in place is still unclear.[18] Moreover, utilities in California will lack two traditional safety valves to meet seasonal demand this summer. First, the level of the Columbia River is 50 percent below normal, limiting potential supplies of hydro power. Second, the utilities' contractual ability to interrupt power supplies to some industrial customers was exhausted in January, and thus no such cushion remains for the summer.

Retail food prices rose 0.3 percent in January on the heels of a 0.5 percent bulge in December. The twelve-month change in food prices was 2.9 percent in January, up from 1.5 percent a year earlier. Prices for livestock products, especially beef, pork, and eggs, were by far the biggest contributors to the acceleration in the CPI for food last year, and most of these items continued to rise in the January CPI. Spot prices of livestock remained strong in recent weeks.

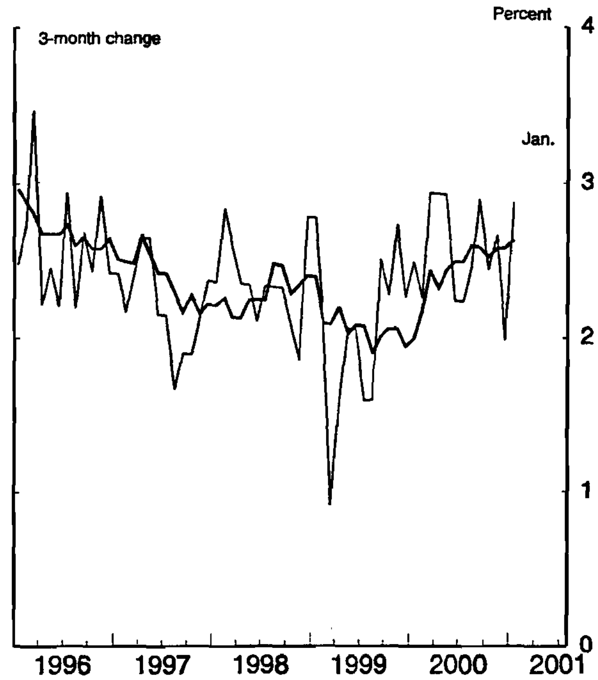
The run-up in energy prices has boosted the prices of farm production inputs quite sharply, but thus far the pass-through of these costs to consumer prices appears to have been small. According to USDA estimates, the prices of energy-intensive inputs such as fertilizers, petroleum, and electricity increased more than 25 percent, on average, over the twelve months ending in February 2001. However, farmers have a variety of possible responses to the energy shock, including planting crops with lower energy requirements, reducing tillage, and reducing slightly fertilizer inputs; these responses should help to reduce costs to some extent. Moreover, even with full pass-through, the increment to farm production costs would amount to less than 1 percent of the $950 billion that is spent domestically on food and beverages.

18. Mini-gas-turbine generators are small plants that typically generate only 50-100 megawatts of electricity, compared with 500-1,000 megawatts for larger baseload plants. The mini-turbines are more costly per kilowatt-hour than baseload plants, and so would be used only during periods of peak demand, but they can be built in two to six months, rather than 1-1/2 to 2 years. In February, the California Energy Commission identified thirty-three potential sites for mini-gas-turbines, and hopes to build enough of these turbines to add about 1,000 megawatts of generating capacity before this summer's peak demand period.

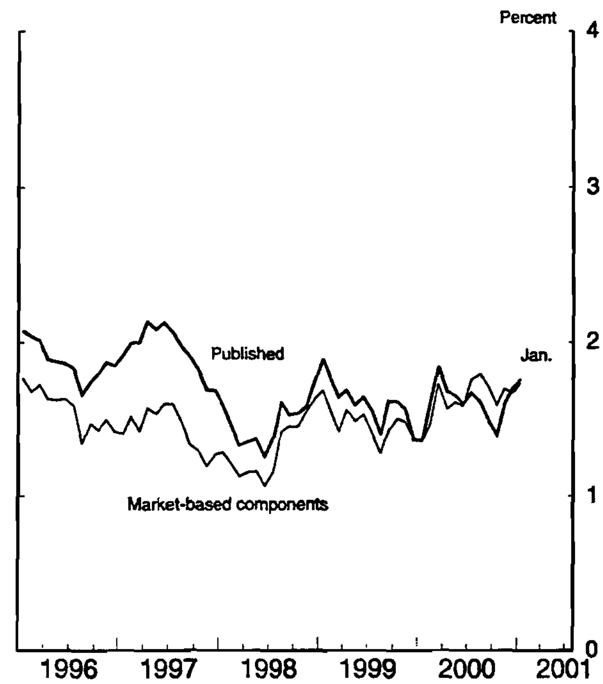
## Measures of Core Consumer Price Inflation

(12-month change except as noted)

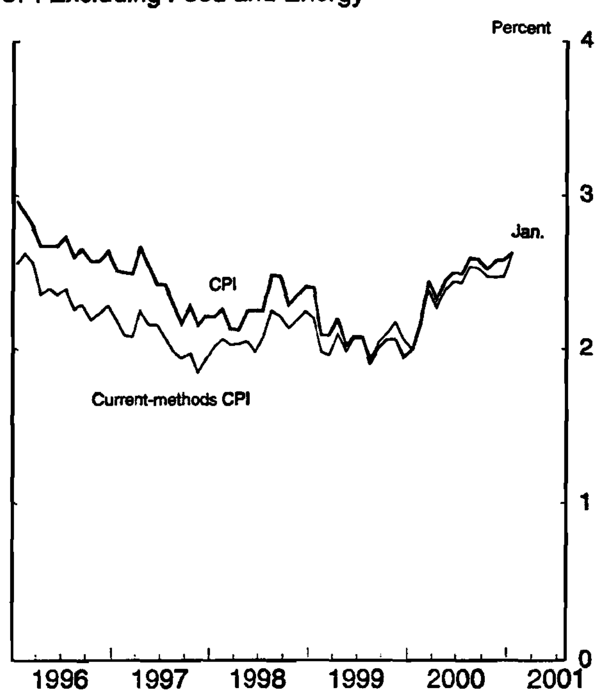
CPI Excluding Food and Energy



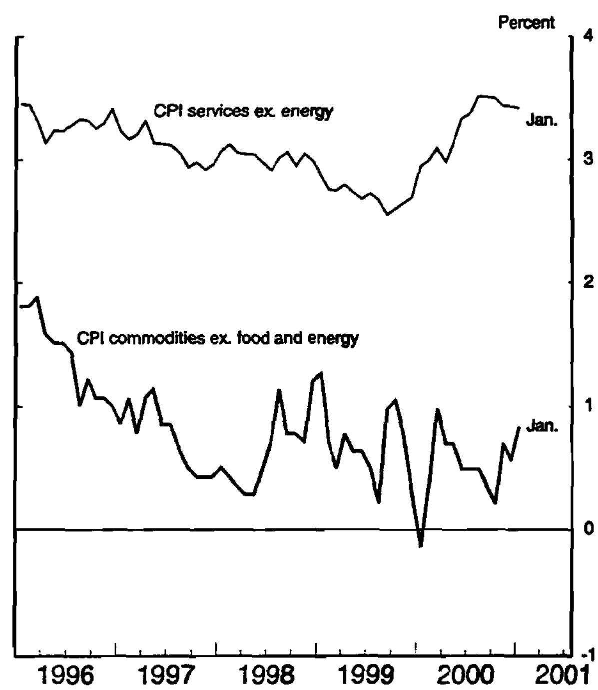

PCE Excluding Food and Energy




CPI Excluding Food and Energy




CPI Services and Commodities



The CPI for core commodities rose 0.1 percent in January. Over the past twelve months, the prices of core commodities have risen 0.8 percent, an acceleration of almost 1 percentage point relative to the small decline registered the previous year. An acceleration in prices was especially notable for motor vehicles: The twelve-month change in prices of used cars and trucks moved up 2 percentage points over the year, to 4.2 percent in January, while the twelve-month change for new vehicles was 0.3 percent in January, 1.1 percentage points higher than a year earlier.

The CPI for non-energy services rose 0.4 percent in January, as sizable gains for medical care and other services added to a small increase in the index for shelter. Over the past twelve months, prices of non-energy services have risen 3.4 percent, compared with 3 percent during the previous year. Among the major components of non-energy services, medical care has shown the most acceleration: Over the past twelve months, prices for medical care services rose 5.0 percent, a pickup of 1-1/2 percentage points from the previous year.[19]

Core PCE prices were up 0.3 percent in January, bringing the twelve-month change in this measure of inflation to 1.8 percent, an acceleration of 0.4 percentage point from the previous year.[20] The pickup in core PCE price inflation is a bit smaller than the 0.6 percentage point acceleration in the core CPI (on a current-methods basis) over the comparable period. Nevertheless, the acceleration shown by the two price measures has converged somewhat in recent readings, despite the differences in scope and methodology that we have noted in previous Greenbooks.

The surge in energy prices and its effect on the cost of producing goods and services likely has contributed to the pickup in core consumer price inflation. For the handful of (mainly transportation-related) industries—such as airlines, taxis, and mass transit—with sizable energy requirements, consumer prices have accelerated noticeably in the past year. Elsewhere, a pass-through of higher energy costs into consumer prices is more difficult to detect explicitly. However, we estimate that, overall, higher energy prices may account for about one-half of the acceleration in the core price measures over the past year.

Prices for capital goods were rising early in 2001. The PPI for capital equipment increased 0.3 percent in January, and relative to twelve months

19. In the January reading, the twelve-month changes in the CPIs for doctors' services and for hospital services had accelerated 0.9 percentage point and 1.8 percentage points, respectively, relative to the previous year. By contrast, in the PPI for the net output of health services, upon which the PCE estimates of prices for medical services are based, the twelve-month change in health services of doctors had decelerated 0.8 percentage point, while the index for hospital services had accelerated 0.9 percentage point.

20. The acceleration in the market-based component of core PCE prices is similar.

BROAD MEASURES OF INFLATION
(4-quarter percent change)

| | 1997 Q4 | 1998 Q4 | 1999 Q4 | 2000 Q4 |
|---|---|---|---|---|
| Product prices | | | | |
| GDP chain price index | 1.8 | 1.2 | 1.6 | 2.3 |
| Less food and energy | 1.8 | 1.3 | 1.6 | 2.0 |
| Nonfarm business chain price index[1] | 1.9 | 0.7 | 1.3 | 2.0 |
| Expenditure prices | | | | |
| Gross domestic purchases chain price index | 1.4 | 0.8 | 1.9 | 2.4 |
| Less food and energy | 1.5 | 1.2 | 1.5 | 1.9 |
| PCE chain price index | 1.5 | 1.1 | 2.0 | 2.3 |
| Less food and energy | 1.7 | 1.6 | 1.5 | 1.6 |
| PCE chain price index, market-based components | 1.1 | 1.0 | 2.0 | 2.5 |
| Less food and energy | 1.3 | 1.5 | 1.4 | 1.6 |
| CPI | 1.9 | 1.5 | 2.6 | 3.4 |
| Less food and energy | 2.2 | 2.4 | 2.0 | 2.5 |
| Current-methods CPI | 1.6 | 1.3 | 2.7 | 3.3 |
| Less food and energy | 1.9 | 2.2 | 2.1 | 2.4 |
| Median CPI | 2.8 | 3.1 | 2.2 | 3.1 |
| Trimmed mean CPI | 2.2 | 1.9 | 1.9 | 2.8 |

1. Excluding housing.

SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

| | Actual inflation[1] | University of Michigan: 1 year Mean[2] | University of Michigan: 1 year Median[2] | University of Michigan: 5 to 10 years Mean[3] | University of Michigan: 5 to 10 years Median[3] | Professional forecasters (10-year)[4] |
|---|---|---|---|---|---|---|
| 1999-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 |
| 2001-Q1 | n.a. | n.a. | n.a. | n.a. | n.a. | 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. | 3.7 | 3.8 | 3.0 | 3.5 | 2.9 | ... |
| Feb. | n.a. | 3.2 | 2.8 | 3.6 | 3.0 | ... |
| Mar. | n.a. | n.a. | n.a. | n.a. | n.a. | 2.5 |

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

earlier, the index was up 1.3 percent. The January rise largely reflected higher prices for passenger cars. In contrast, computer prices fell 5.4 percent in January, the largest monthly decline since mid-1997. The January decline, which followed a 2 percent drop in December, brought the twelve-month decline in computer prices to 16.2 percent, compared with a twelve-month drop of 19 percent the previous year. Although the PPI for applications software rose 2 percent in January, this volatile index has been roughly unchanged since August 2000, after having increased considerably earlier in 2000.[21]

At earlier stages of processing, most prices have fallen since the time of the last Greenbook. The *Journal of Commerce* index of industrial materials prices is down about 5 percent, with declines registered for most commodities in the index.

Inflation expectations have remained subdued. In the Michigan survey, the median expectation of inflation one year ahead edged down to 2.8 percent in February, a decrease toward the low end of the narrow range prevailing in the past year. Over the longer term, the median expectation of inflation in the next five to ten years crept up to 3 percent, an increase on the higher side of the narrow range seen in the last year or two.

Recent data continue to point to a gradual acceleration in labor costs. Compensation per hour in the nonfarm business sector, as measured by the productivity and cost data, rose at an annual rate of 6.6 percent in the fourth quarter and 5.7 percent over all of 2000, compared with an increase of 4.4 percent in 1999. For the first quarter, the only data that we have in hand are average hourly earnings of production or nonsupervisory workers. This measure of wages jumped 0.5 percent in February after a 0.1 percent increase the previous month. Over the twelve months ending in February, average hourly earnings rose 4.1 percent, compared with an increase of 3.7 percent the previous year. A pickup in the pace of wage increases is evident in most industries; a notable exception to this pattern is manufacturing, in which a deceleration in wages has accompanied the weakness in activity.

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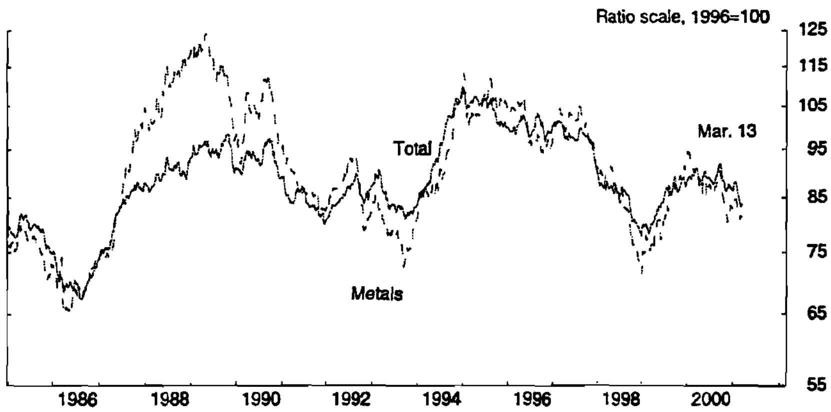
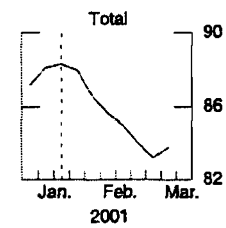
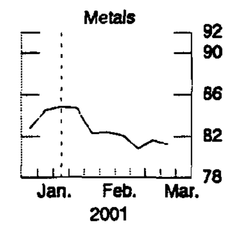
21. Although the PPI for applications software is not a part of the PPI capital goods index, it is used by the BEA as its quarterly indicator of prepackaged software prices in the NIPAs.

# Commodity Price Measures

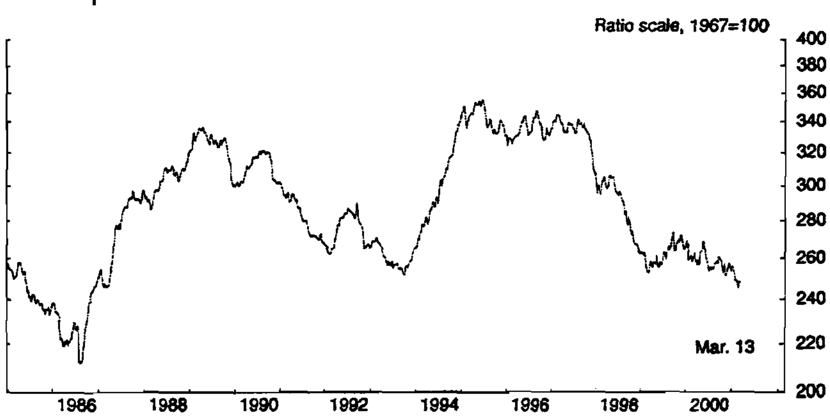
## Journal of Commerce Index

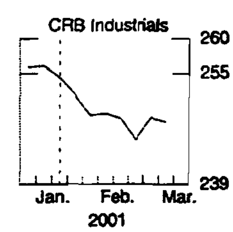


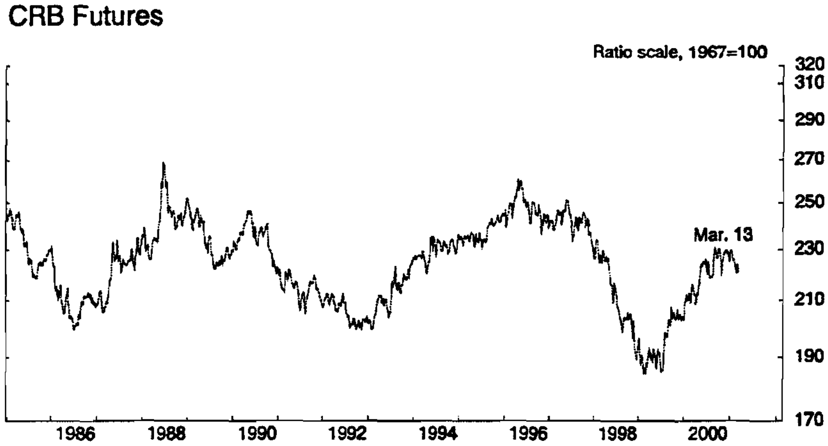



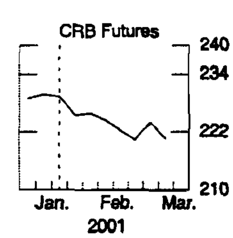

## CRB Spot Industrials




## 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.

SPOT PRICES OF SELECTED COMMODITIES

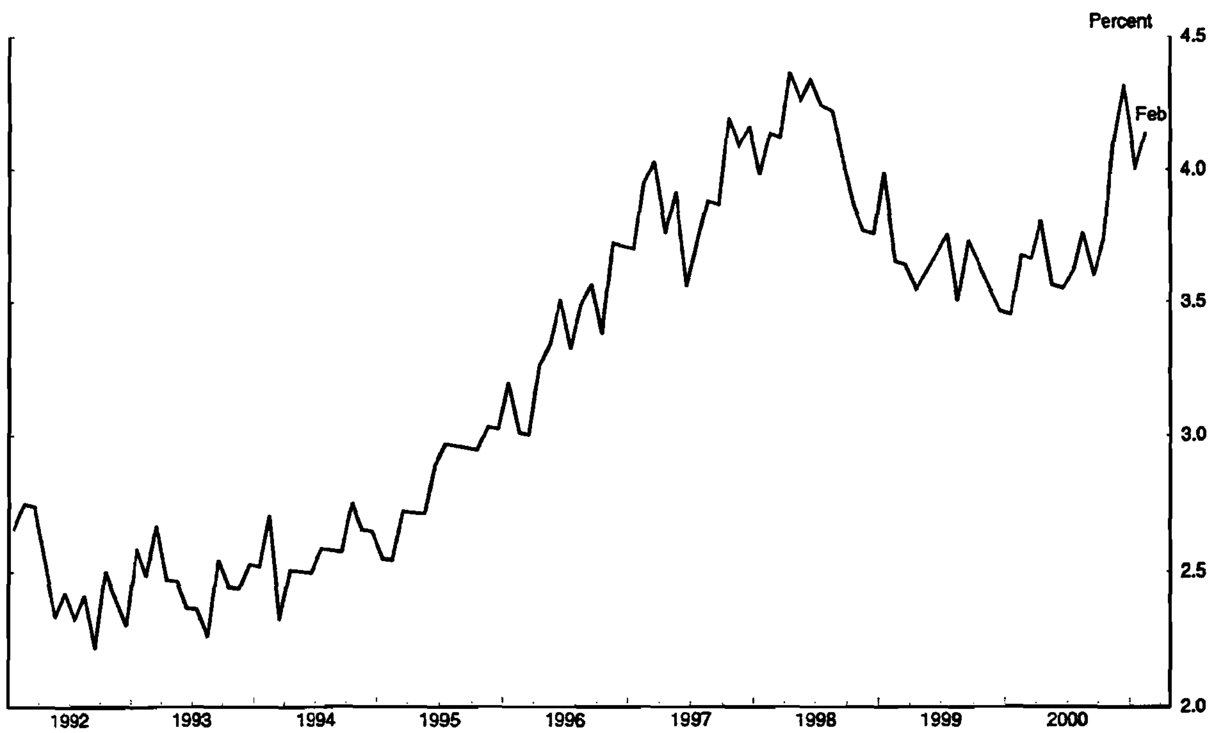
| | Current price (dollars) | Percent change[1] 1999 | 2000 | Dec. 26 to Jan. 23[2] | Jan. 23[2] to Mar. 13 | Memo: Year earlier to date |
|---|---|---|---|---|---|---|
| **Metals** | | | | | | |
| Copper (lb.) | 0.860 | 26.1 | 3.4 | -2.2 | -3.4 | 4.9 |
| Steel scrap (ton) | 77.000 | 61.5 | -32.7 | 8.9 | -10.5 | -30.4 |
| Aluminum, London (lb.) | 0.682 | 27.7 | -0.8 | 5.6 | -8.6 | -5.1 |
| **Precious metals** | | | | | | |
| Gold (oz.) | 269.300 | -1.6 | -5.7 | -3.0 | 1.2 | -7.3 |
| Silver (oz.) | 4.455 | 5.5 | -10.9 | 3.1 | -7.5 | -13.1 |
| **Forest products[3]** | | | | | | |
| Lumber (m. bdft.) | 205.000 | 8.3 | -44.6 | -2.8 | 17.1 | -37.9 |
| Plywood (m. sqft.) | 270.000 | -3.2 | -8.2 | -1.8 | -1.8 | -20.6 |
| **Petroleum** | | | | | | |
| Crude oil (barrel) | 24.670 | 163.3 | -13.0 | 21.8 | -8.9 | -14.8 |
| Gasoline (gal.) | 0.784 | 132.9 | 5.2 | 12.9 | -5.5 | -14.3 |
| Fuel oil (gal.) | 0.739 | 140.7 | 34.4 | -8.9 | -14.6 | -2.8 |
| **Livestock** | | | | | | |
| Steers (cwt.) | 80.000 | 15.7 | 13.2 | 3.9 | 0.0 | 11.1 |
| Hogs (cwt.) | 46.250 | 194.0 | 7.1 | 2.6 | 19.4 | 8.2 |
| Broilers (lb.) | 0.592 | -4.0 | -13.7 | 9.6 | 8.8 | 14.4 |
| **U.S. farm crops** | | | | | | |
| Corn (bu.) | 1.985 | -10.2 | 10.1 | -6.5 | 2.3 | -7.2 |
| Wheat (bu.) | 3.585 | -17.4 | 31.9 | 0.7 | 2.1 | 24.7 |
| Soybeans (bu.) | 4.435 | -17.6 | 10.8 | -8.1 | -1.8 | -12.0 |
| Cotton (lb.) | 0.487 | -20.9 | 27.0 | -5.0 | -12.6 | -18.7 |
| **Other foodstuffs** | | | | | | |
| Coffee (lb.) | 0.695 | 5.1 | -43.1 | 3.7 | -1.4 | -36.2 |
| **Memo:** | | | | | | |
| JOC Industrials | 83.800 | 11.0 | -1.5 | 1.7 | -5.1 | -7.9 |
| JOC Metals | 81.300 | 26.3 | -10.3 | 1.7 | -4.1 | -9.8 |
| CRB Futures | 220.620 | 7.8 | 12.1 | 0.2 | -3.8 | 2.0 |
| CRB Spot | 248.030 | -0.1 | -3.5 | -0.9 | -2.5 | -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 January Greenbook.
3. Reflects prices on the Friday before the date indicated.

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

| | 12-month percent change | | | Percent change to Feb. 2001 from month indicated | | 2001 | |
|---|---|---|---|---|---|---|---|
| | Feb. 1999 | Feb. 2000 | Feb. 2001 | Aug. 2000 | Nov. 2000 | Jan. | Feb. |
| | -Annual rate- | | | | | -Monthly rate- | |
| Total private nonfarm | 3.7 | 3.7 | 4.1 | 4.4 | 4.1 | .1 | .5 |
| Manufacturing | 1.9 | 3.9 | 3.2 | 3.4 | 1.1 | -.1 | .6 |
| Construction | 2.9 | 4.3 | 4.1 | 4.4 | 2.7 | 1.0 | .0 |
| Transportation and public utilities | 2.1 | 3.0 | 4.1 | 5.0 | 6.0 | .2 | .7 |
| Finance, insurance, and real estate | 5.2 | 2.5 | 4.8 | 6.2 | 8.4 | .7 | .9 |
| Retail trade | 4.4 | 4.1 | 3.5 | 3.4 | 2.1 | -.5 | .4 |
| Wholesale trade | 4.1 | 3.3 | 4.6 | 4.4 | 2.9 | -.6 | .6 |
| Services | 4.6 | 3.6 | 4.8 | 5.4 | 5.5 | .1 | .6 |

**Average Hourly Earnings for Production or Nonsupervisory Workers**
(12-month change)

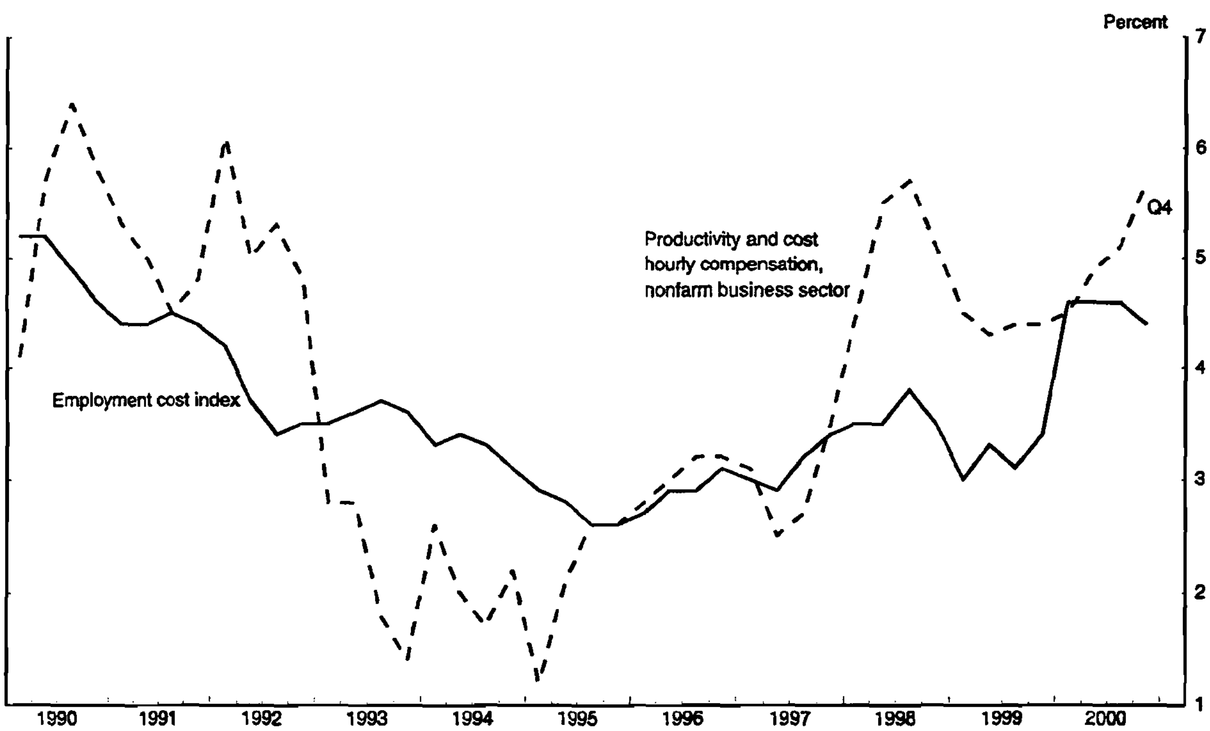


LABOR COSTS
(Percent change; annual rate; based on seasonally adjusted data)

| | 1999[1] | 2000[1] | 2000 Q1 | 2000 Q2 | 2000 Q3 | 2000 Q4 |
|---|---|---|---|---|---|---|
| Compensation per hour | | | | | | |
| Total business | 4.5 | 6.0 | 3.7 | 7.1 | 5.7 | 7.5 |
| Nonfarm business | 4.4 | 5.7 | 4.1 | 6.0 | 6.2 | 6.6 |
| Nonfinancial corporations[2] | 4.4 | n.a. | 2.9 | 6.3 | 6.0 | n.a. |
| Unit labor costs | | | | | | |
| Total business | .6 | 2.3 | 1.9 | .0 | 3.1 | 4.3 |
| Nonfarm business | .6 | 2.3 | 1.9 | -.2 | 3.2 | 4.3 |
| Nonfinancial corporations[2] | .4 | n.a. | -.2 | .7 | 1.5 | n.a. |

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

## Measures of Compensation per Hour
(4-quarter change)



# Domestic Financial Developments

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

| Instrument | 2000 June 26 | 2001 Jan. 2 | 2001 Jan. 30 | 2001 Mar. 13 | Change to Mar. 13 from selected dates (percentage points) 2000 June 26 | 2001 Jan. 2 | 2001 Jan. 30 |
|---|---|---|---|---|---|---|---|
| *Short-term* | | | | | | | |
| FOMC intended federal funds rate | 6.50 | 6.50 | 6.00 | 5.50 | -1.00 | -1.00 | -.50 |
| Treasury bills [1] | | | | | | | |
| 3-month | 5.66 | 5.69 | 4.89 | 4.54 | -1.12 | -1.15 | -.35 |
| 6-month | 5.94 | 5.36 | 4.76 | 4.41 | -1.53 | -.95 | -.35 |
| 1-year | 5.82 | 4.92 | 4.48 | 4.23 | -1.59 | -.69 | -.25 |
| Commercial paper | | | | | | | |
| 1-month | 6.56 | 6.45 | 5.47 | 5.09 | -1.47 | -1.36 | -.38 |
| 3-month | 6.56 | 6.15 | 5.40 | 4.84 | -1.72 | -1.31 | -.56 |
| Large negotiable CDs [1] | | | | | | | |
| 1-month | 6.64 | 6.49 | 5.58 | 5.11 | -1.53 | -1.38 | -.47 |
| 3-month | 6.73 | 6.27 | 5.45 | 4.97 | -1.76 | -1.30 | -.48 |
| 6-month | 6.89 | 6.07 | 5.26 | 4.84 | -2.05 | -1.23 | -.42 |
| Eurodollar deposits [2] | | | | | | | |
| 1-month | 6.63 | 6.46 | 5.53 | 5.09 | -1.54 | -1.37 | -.44 |
| 3-month | 6.69 | 6.27 | 5.44 | 4.98 | -1.71 | -1.29 | -.46 |
| Bank prime rate | 9.50 | 9.50 | 9.00 | 8.50 | -1.00 | -1.00 | -.50 |
| *Intermediate- and long-term* | | | | | | | |
| U.S. Treasury (constant maturity) | | | | | | | |
| 2-year | 6.50 | 4.87 | 4.70 | 4.46 | -2.04 | -.41 | -.24 |
| 10-year | 6.11 | 4.92 | 5.24 | 4.95 | -1.16 | .03 | -.29 |
| 30-year | 5.99 | 5.35 | 5.59 | 5.34 | -.65 | -.01 | -.25 |
| U.S. Treasury 10-year indexed note | 4.08 | 3.61 | 3.56 | 3.32 | -.76 | -.29 | -.24 |
| Municipal revenue (Bond Buyer) [3] | 5.99 | 5.48 | 5.47 | 5.45 | -.54 | -.03 | -.02 |
| Private instruments | | | | | | | |
| 10-year swap | 7.38 | 5.95 | 6.05 | 5.90 | -1.48 | -.05 | -.15 |
| 10-year FNMA | 7.15 | 5.74 | 5.92 | 5.80 | -1.35 | .06 | -.12 |
| Merrill Lynch BBB | 8.49 | 7.81 | 7.63 | 7.43 | -1.06 | -.38 | -.20 |
| High yield[4] | 11.97 | 13.00 | 11.88 | 11.67 | -.30 | -1.33 | -.21 |
| Home mortgages (FHLMC survey rate) [5] | | | | | | | |
| 30-year fixed | 8.14 | 7.13 | 7.15 | 6.97 | -1.17 | -.16 | -.18 |
| 1-year adjustable | 7.22 | 6.93 | 6.64 | 6.29 | -.93 | -.64 | -.35 |

| Stock exchange index | Record high Level | Record high Date | 2001 Jan. 2 | 2001 Jan. 30 | 2001 Mar. 13 | Change to Mar. 13 from selected dates (percent) Record high | 2001 Jan. 2 | 2001 Jan. 30 |
|---|---|---|---|---|---|---|---|---|
| Dow-Jones Industrial | 11,723 | 1-14-00 | 10,646 | 10,881 | 10,291 | -12.22 | -3.34 | -5.43 |
| S&P 500 Composite | 1,527 | 3-24-00 | 1,283 | 1,374 | 1,198 | -21.59 | -6.67 | -12.82 |
| Nasdaq (OTC) | 5,049 | 3-10-00 | 2,292 | 2,838 | 2,015 | -60.09 | -12.09 | -29.02 |
| Russell 2000 | 606 | 3-9-00 | 462 | 512 | 462 | -23.73 | -.05 | -9.65 |
| Wilshire 5000 | 14,752 | 3-24-00 | 11,764 | 12,719 | 11,015 | -25.33 | -6.37 | -13.40 |

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.

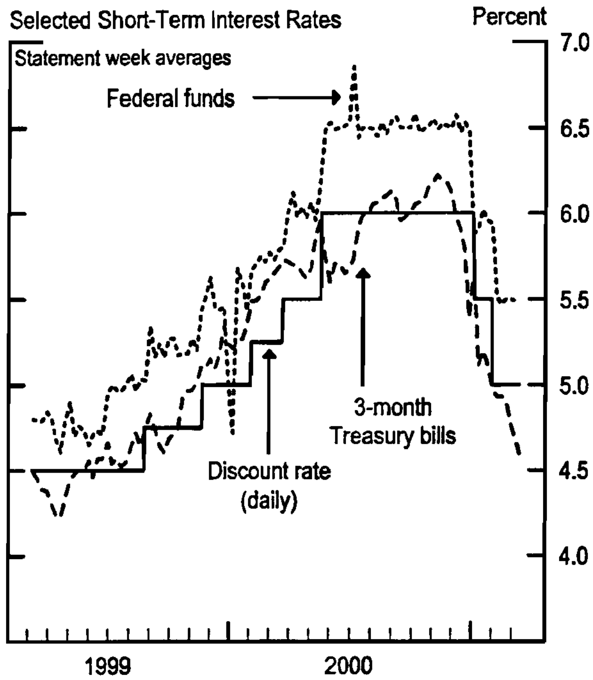
NOTES:

June 26, 2000, is the day before the final FOMC meeting during the most recent period of policy tightening.
January 2, 2001, is the day before the intermeeting FOMC action.
January 30, 2001, is the day before the most recent FOMC meeting.

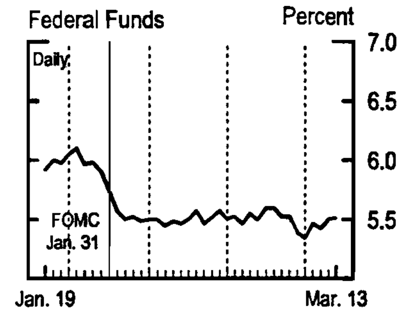
BA:DAM

# Selected Interest Rates

Selected Short-Term Interest Rates

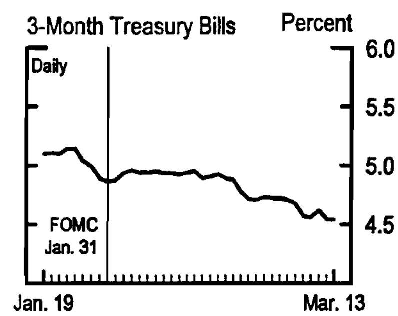



Federal Funds

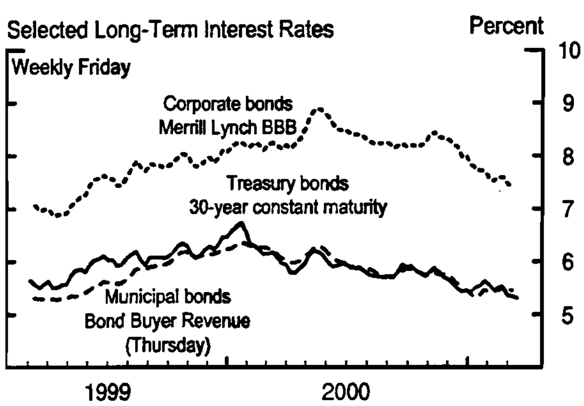


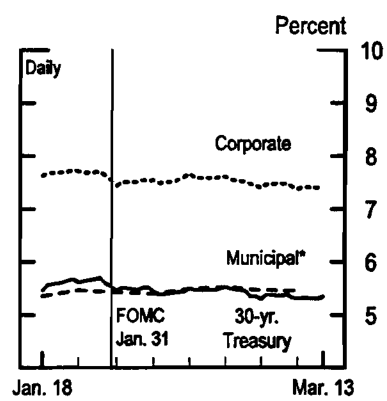

Note. Vertical dashed lines indicate end of reserve period.

3-Month Treasury Bills



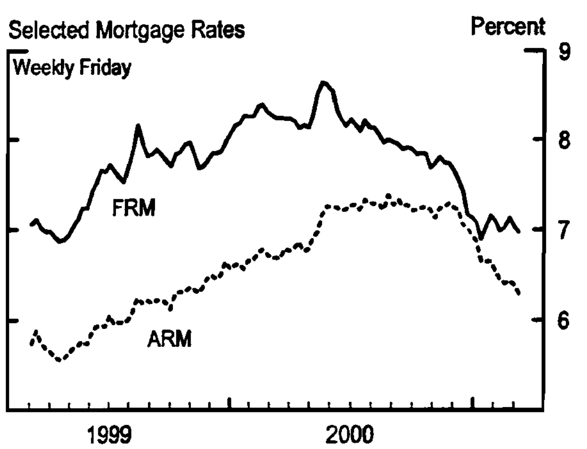

Selected Long-Term Interest Rates

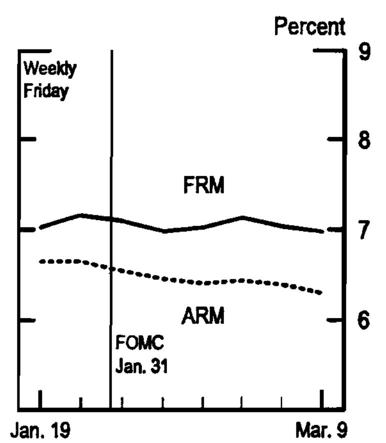



*Weekly Thursday frequency.

Selected Mortgage Rates



# Domestic Financial Developments

## Overview

Changing expectations about near-term prospects for corporate profits and the course of monetary policy were the dominant forces in financial markets over the intermeeting period. Incoming data provided mixed signals about the direction of the economy, but stock prices fell substantially as pessimism and uncertainty intensified after a raft of negative earnings announcements and profit warnings, primarily from technology firms. Amid the sell-off in equity markets, investors marked down their expected path for the federal funds rate. Futures quotes suggest the market expects at least a 50 basis point easing at next week's FOMC meeting and has priced in an additional 50 basis point decline in the funds rate by this fall.

Expectations of greater policy easing over the remainder of the year contributed to sizable declines in most market interest rates. Lower bond rates have encouraged corporate treasurers to issue bonds at a rapid clip, with the proceeds used, in part, to finance paydowns of other funding, notably commercial paper. State and local governments have also ramped up bond offerings as rates have come down. Household borrowing has been well maintained early this year, supported by strong growth in both mortgage debt and consumer credit. Lower interest rates and equity price volatility have spurred expansion of the broad monetary aggregates, with M2 and M3 growing at double-digit rates in January and February.

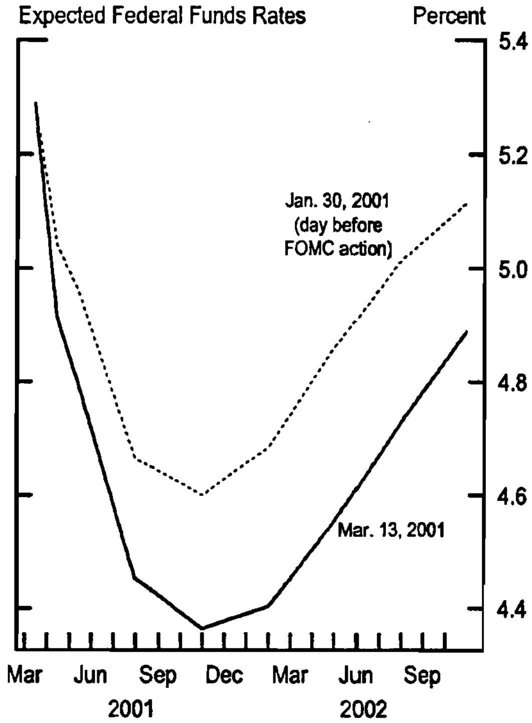
## Policy Expectations, Interest Rates, and Stock Prices

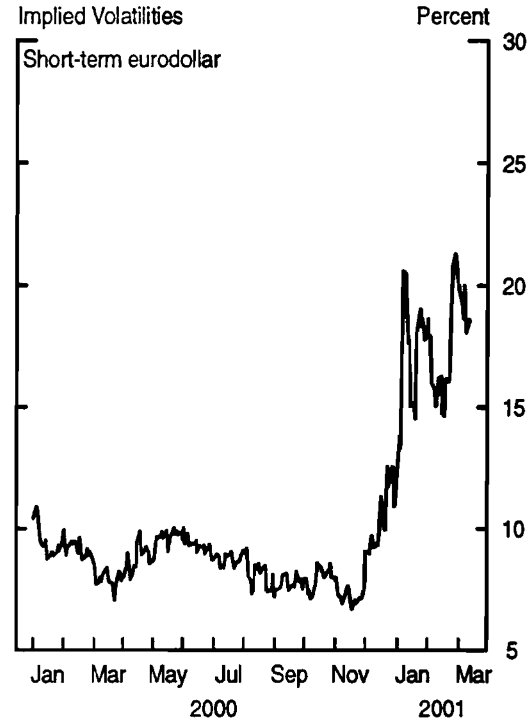
The FOMC's decision on January 31 to lower the target federal funds rate 50 basis points, to 5-1/2 percent, and to reiterate its view that the balance of risks remained weighted toward economic weakness was anticipated by financial markets and elicited little immediate response. However, weaker-than-anticipated consumer confidence data released on February 16 renewed market concerns about an economic slump and fueled speculation about a possible intermeeting move. The Chairman's second round of congressional testimony on monetary policy at the end of February effectively dispelled notions of a move before the March FOMC meeting, but as noted above, investors anticipate policy easings that will reduce the intended federal funds rate to 4-1/2 percent or below by the fall.

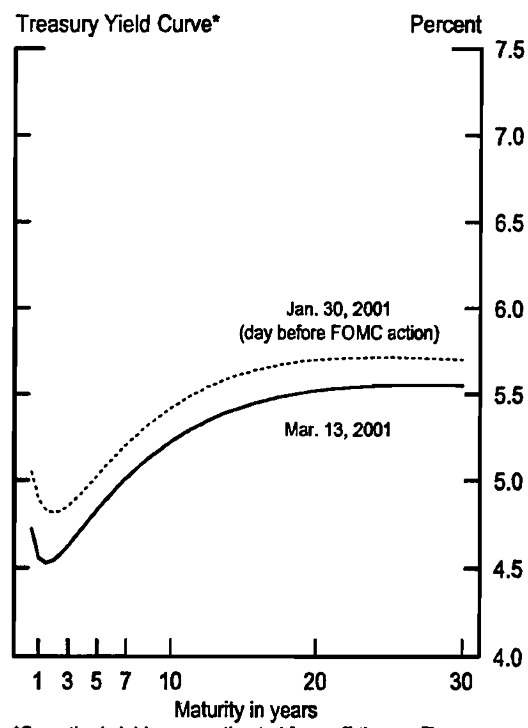
Treasury coupon yields fell 25 to 30 basis points on balance over the intermeeting period, to around their lowest levels in two years. Yields on Treasury inflation-indexed securities fell about in step with comparable nominal yields, implying little change in inflation compensation.

Yields on investment-grade private securities also declined, but by somewhat less than those on Treasury securities, and spreads on agency debt, swaps, and investment-grade corporate debt widened a bit. High-yield spreads changed little

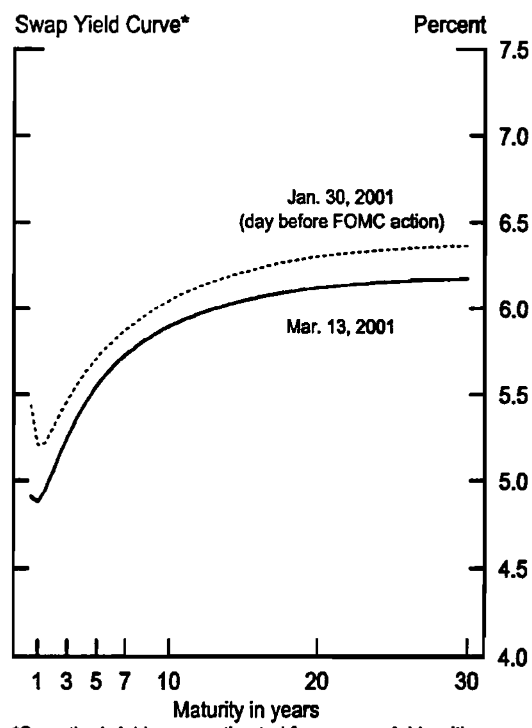
## Financial Developments



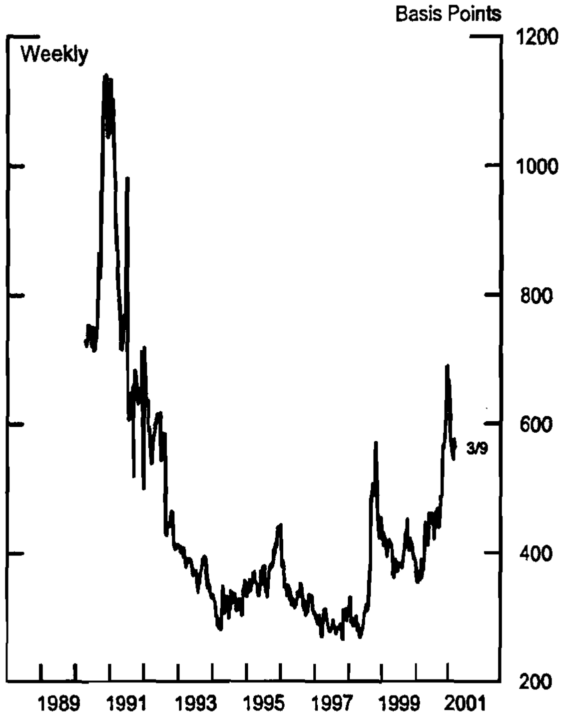

*Smoothed yield curve estimated from off-the-run Treasury coupon securities. Yields shown are those on notional par Treasury securities with semiannual coupons.



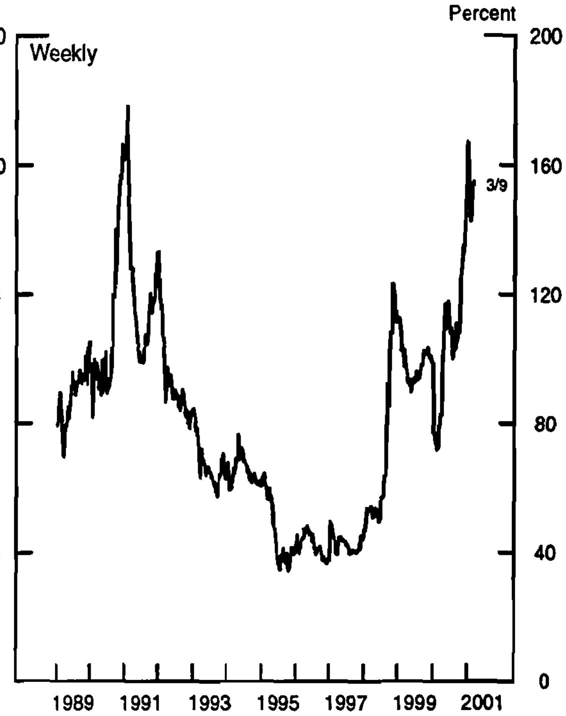

*Smoothed yield curve estimated from swap yields with maturities of 1 to 30 years.

# Corporate Spreads

High Yield over AAA Spread

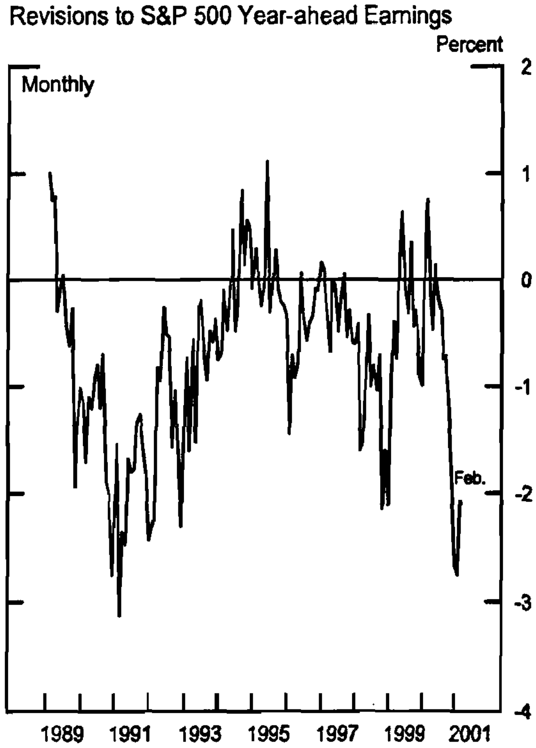



BBB over AAA Spread

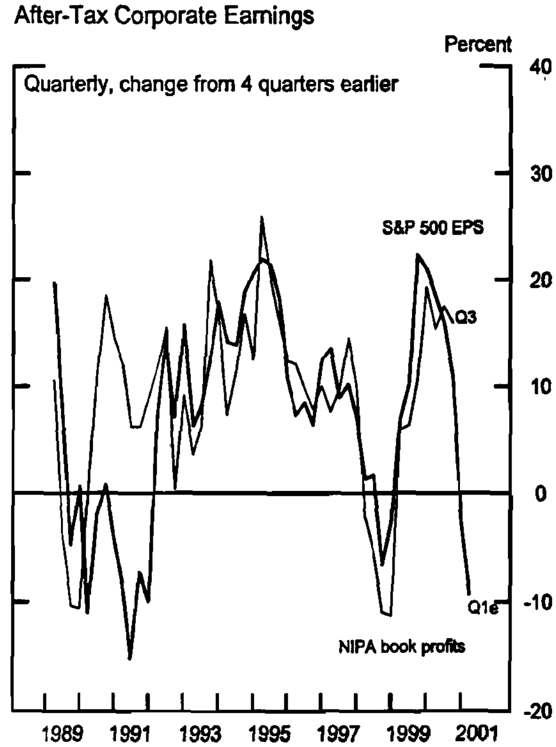



# Corporate Profits

Revisions to S&P 500 Year-ahead Earnings




After-Tax Corporate Earnings




e Staff estimate.

## Gross Issuance of Securities by U.S. Corporations

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

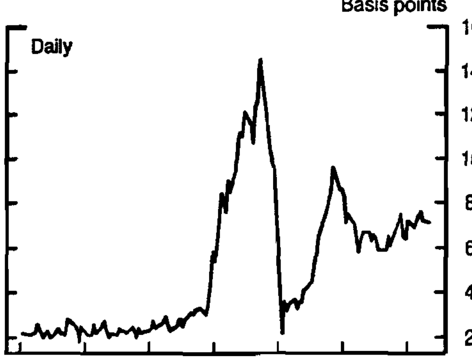
| Type of security | 1998 | 1999 | 2000 H1 | 2000 Q3 | 2000 Q4 | 2000 Dec. | Jan. | Feb.[e] |
|---|---|---|---|---|---|---|---|---|
| All U.S. corporations | 94.0 | 89.4 | 80.0 | 80.9 | 73.1 | 61.4 | 128.9 | 94.9 |
| Stocks[1] | 10.6 | 11.0 | 14.1 | 9.1 | 7.8 | 2.7 | 7.5 | 6.8 |
| Bonds | 83.5 | 78.4 | 65.9 | 71.8 | 65.4 | 58.7 | 121.5 | 88.1 |
| *Nonfinancial corporations* | | | | | | | | |
| Stocks[1] | 6.2 | 9.2 | 12.4 | 7.5 | 7.1 | 2.1 | 4.3 | 4.4 |
| Initial public offerings | 2.2 | 4.2 | 5.7 | 4.6 | 1.6 | .4 | .2 | 1.1 |
| Seasoned offerings | 4.0 | 5.0 | 6.7 | 3.0 | 5.5 | 1.8 | 4.1 | 3.2 |
| Bonds[2] | 25.6 | 24.5 | 21.3 | 19.4 | 18.8 | 18.2 | 44.8 | 34.0 |
| Investment grade[3] | 14.1 | 13.9 | 11.5 | 11.0 | 13.9 | 15.4 | 28.6 | 22.2 |
| Speculative grade[3] | 10.2 | 7.5 | 5.4 | 4.9 | 2.4 | 1.8 | 14.6 | 9.0 |
| Other (sold abroad/unrated) | 1.3 | 3.1 | 4.4 | 3.5 | 2.6 | 1.0 | 1.6 | 2.8 |
| *Financial corporations* | | | | | | | | |
| Stocks[1] | 4.4 | 1.8 | 1.6 | 1.6 | .7 | .5 | 3.1 | 2.4 |
| Bonds | 57.8 | 53.9 | 44.7 | 52.4 | 46.5 | 40.5 | 76.7 | 54.1 |
| *Memo* | | | | | | | | |
| Net issuance of commercial paper, nonfinancial corps.[4] | 2.3 | 3.6 | 6.4 | 5.2 | .2 | -8.2 | -28.1 | -15.5 |
| Change in C&I loans at commercial banks[4] | 7.0 | 4.6 | 11.5 | 4.1 | 4.8 | 10.7 | 16.4 | 7.0 |

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.

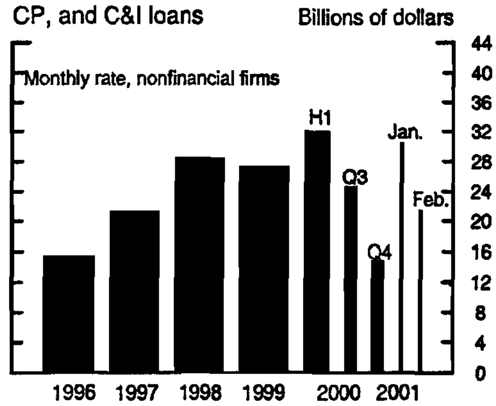
e Staff estimate.

Commercial Paper Yield Spread*




*A2/P2 less A1/P1 yield, 30-day paper.

Net Debt Financing from Bonds, CP, and C&I loans




* Seasonally adjusted.
e Staff estimate.

over the intermeeting period, but are still quite wide by historical standards. Commercial paper spreads narrowed somewhat, but they too remain elevated, reflecting continued worries in that market about further downgrades or defaults.

Equity analysts continued to revise down their near-term forecasts of S&P 500 earnings in February and early March, as another wave of corporate profit warnings surfaced. Analysts lowered their forecasts of earnings growth for the first quarter by nearly 5 percentage points, implying a quarter-over-quarter decline in earnings of 3 percent (seasonally adjusted) and leaving projected earnings per share in the first quarter about 9 percent below the level four quarters earlier. For 2001 as a whole, analysts revised S&P 500 earnings growth down more than 3 percentage points, a sizable reduction over a six-week period.

Broad stock price indexes fell sharply, especially the tech-laden Nasdaq, which plummeted around 30 percent. The Nasdaq is now at its lowest level since December 1998 and is off more than 60 percent from the record high reached last year. Broader stock indexes fell less sharply but still substantially; the Wilshire 5000 and the S&P 500 declined nearly 15 percent over the intermeeting period.

**Business Finance**

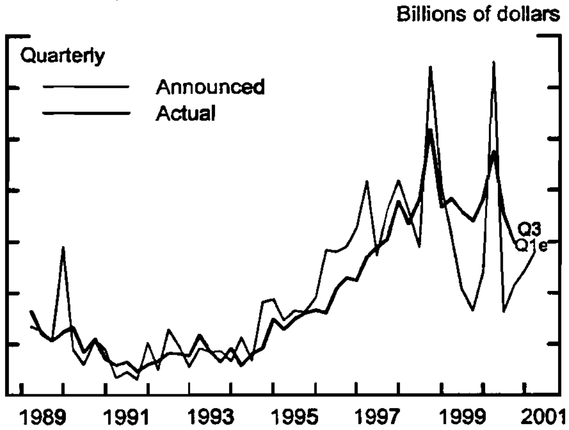
Following a record-setting pace in January, gross issuance of bonds by nonfinancial firms remained robust in February, with substantial volumes of both investment-grade and speculative-grade issues during the two months. However, in recent weeks, speculative-grade issuance has tailed off, as concerns about earnings have intensified. A large portion of the long-term bond issuance since the start of the year represents substitution out of other debt instruments. Indeed, nearly half of the funds raised through bond issuance in February were reported to be targeted for retiring commercial paper, bank loans, or other fixed-income obligations.

The commercial paper market has remained skittish as money funds and other institutional investors continue to avoid credit risk. Commercial paper outstanding of nonfinancial firms fell another $16 billion in February and early March and is down $45 billion since November. Risk spreads on commercial paper initially widened in December as year-end approached and after scares from several issuers, and they have remained elevated in the wake of defaults by the California utilities in January and a number of ratings downgrades on short-term obligations.

Some commercial paper issuers have turned to commercial banks, even as banks report that they have continued to tighten standards and terms on C&I loans and credit lines since early this year. In addition, loan officers report that demand for business credit has waned of late, owing to reduced investment in plant and equipment and diminished financing for mergers and acquisitions.

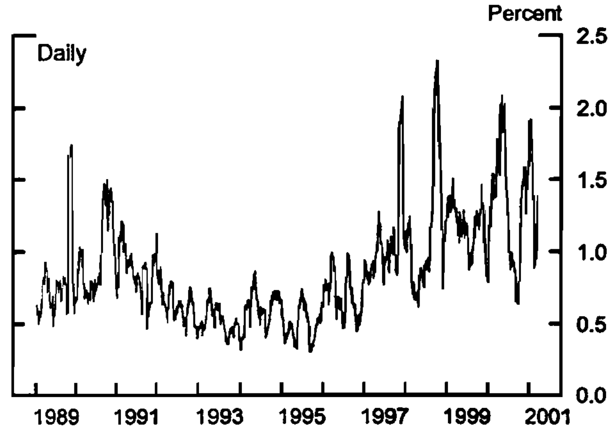
# Corporate Finance

Share Repurchases



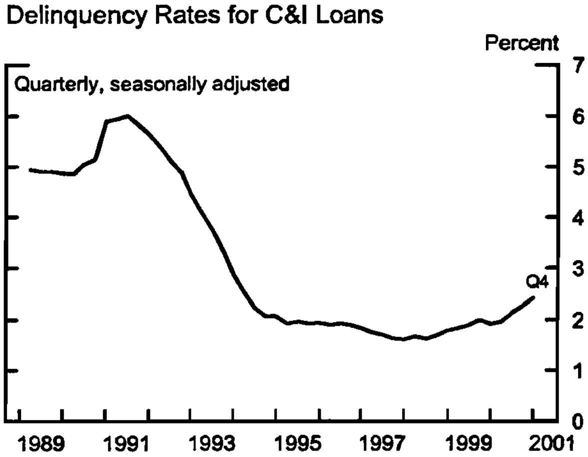

e Staff estimate.

Actual Volatility for S&P 500

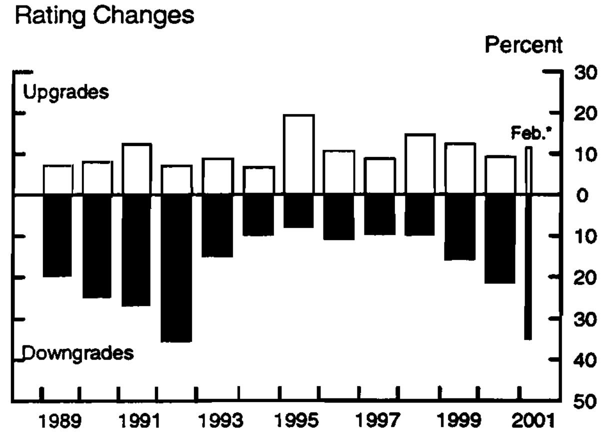



Note. Daily volatility is the standard deviation of daily percent changes in stock prices in a moving 30-day window. Data through March 14.

Delinquency Rates for C&I Loans

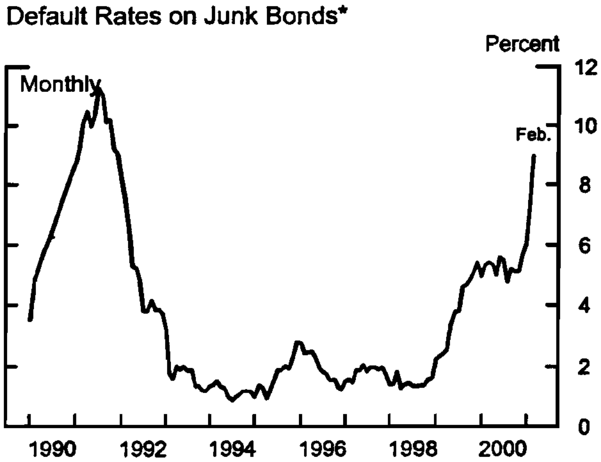



Rating Changes



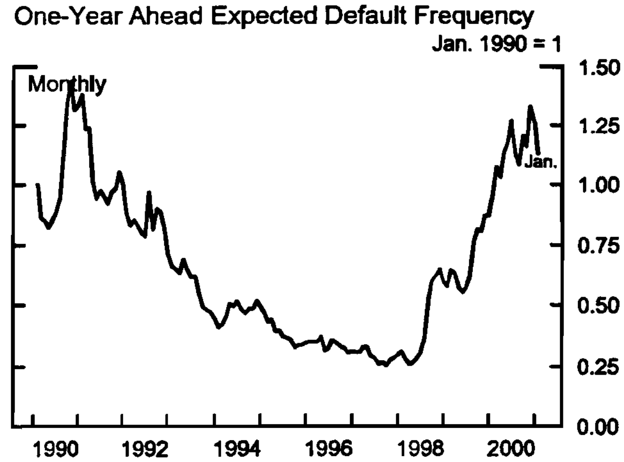

Note. Total debt upgrades (downgrades) as a percentage of par value of bonds outstanding.
*12-month trailing rate.
Source. Moody's.

Default Rates on Junk Bonds*




*12-month moving default rate.

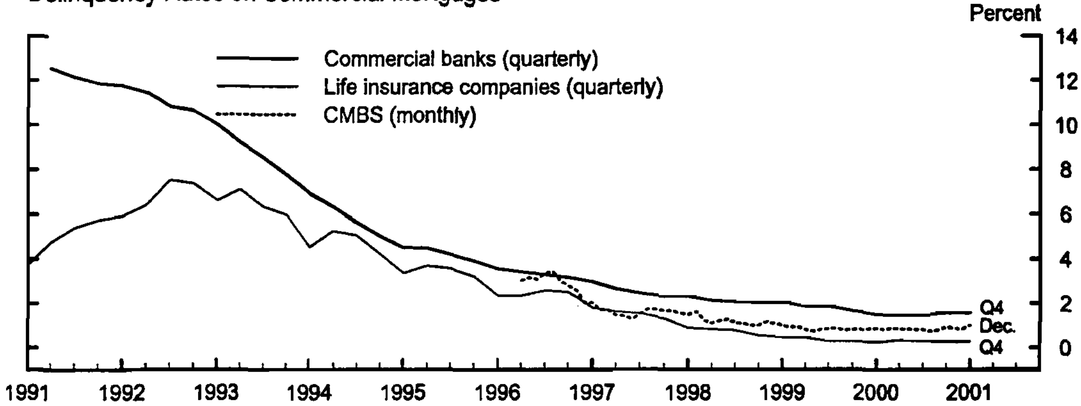
One-Year Ahead Expected Default Frequency




Source. KMV Corporation.

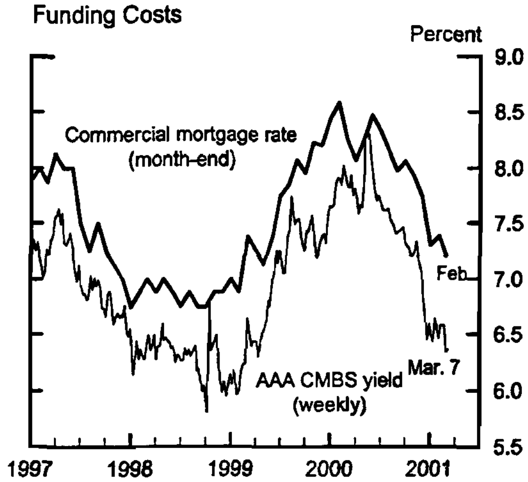
## Commercial Real Estate

### Delinquency Rates on Commercial Mortgages



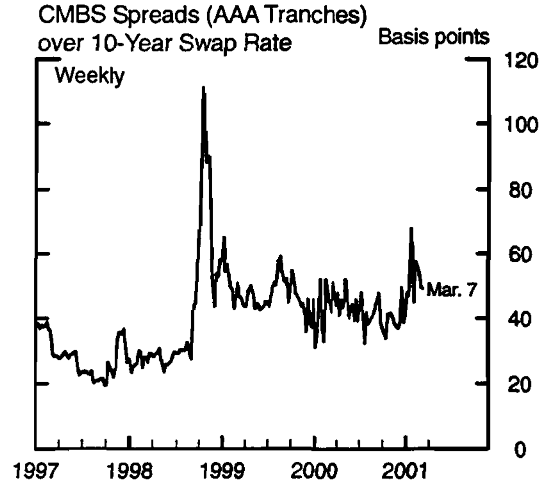

Source. ACLI; Morgan Stanley; Call Reports.

### Funding Costs



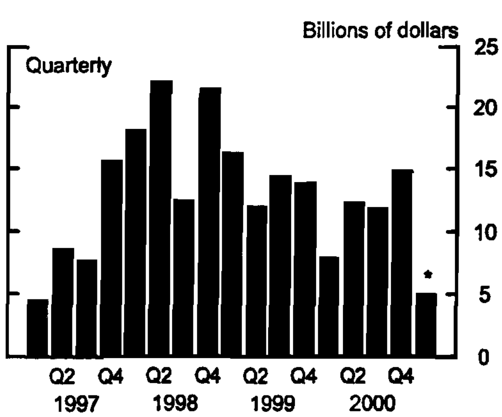

Source. Barron's/Levy National Mortgage Survey; Morgan Stanley.

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




Source. Morgan Stanley.

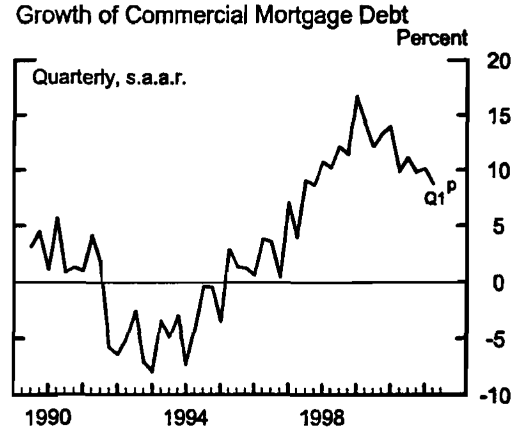
### Total CMBS Gross Issuance




* Period to date.

Source. Commercial Mortgage Alert.

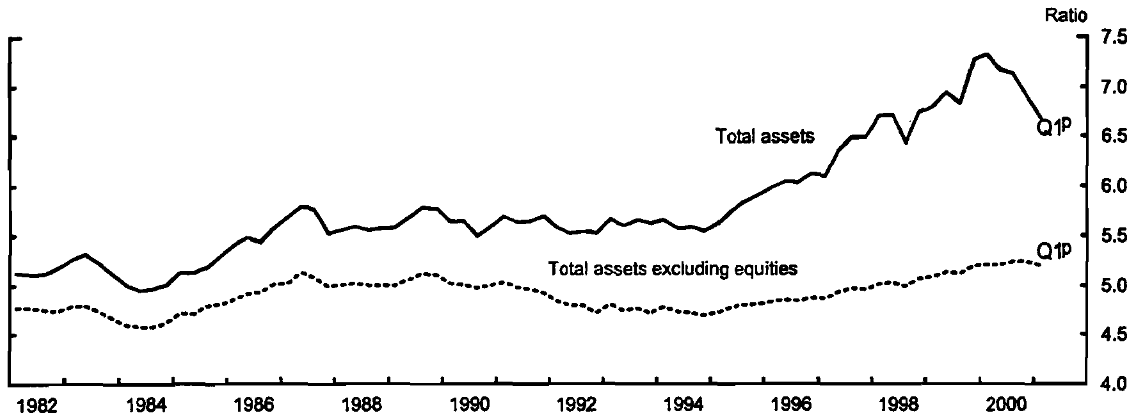
### Growth of Commercial Mortgage Debt




p. Staff projection.

## Household Assets Relative to Disposable Income

(Quarterly data; seasonally adjusted)




p. Staff projection.

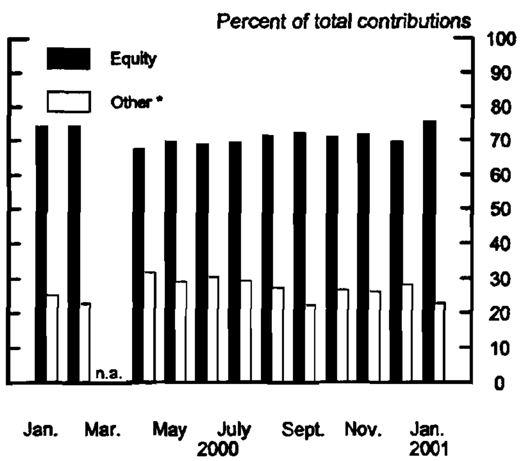
## Net Flows into Long-Term Mutual Funds

(Excluding reinvested dividends; billions of dollars, monthly rates.)

| | 1998 | 1999 | 2000 | 2000 H1 | 2000 H2 | 2000 Jan. | 2000 Feb.[e] | Assets Jan. |
|---|---|---|---|---|---|---|---|---|
| **Total long-term funds** | **20.2** | **14.2** | **18.4** | **23.8** | **13.1** | **34.4** | **5.2** | **5,279** |
| **Equity funds** | **13.2** | **15.7** | **25.1** | **34.4** | **15.9** | **24.6** | **-4.2** | **4,093** |
| Domestic | 12.6 | 14.8 | 21.2 | 26.7 | 15.7 | 20.8 | 1.1 | 3,535 |
| Capital appreciation | 7.1 | 13.5 | 25.5 | 34.4 | 16.7 | 17.5 | -0.7 | 2,236 |
| Total return | 5.5 | 1.4 | -4.3 | -7.6 | -0.9 | 3.3 | 1.8 | 1,299 |
| International | 0.6 | 0.9 | 3.9 | 7.7 | 0.2 | 3.8 | -5.3 | 558 |
| **Hybrid funds** | **0.9** | **-1.0** | **-2.6** | **-4.0** | **-1.3** | **1.2** | **0.9** | **358** |
| **Bond funds** | **6.2** | **-0.5** | **-4.0** | **-6.6** | **-1.5** | **8.6** | **8.5** | **828** |
| International | -0.1 | -0.2 | -0.2 | -0.2 | -0.2 | 0.1 | 0.1 | 21 |
| High-yield | 1.1 | -0.2 | -1.0 | -1.1 | -0.9 | 4.4 | 1.5 | 100 |
| Other taxable | 3.9 | 1.0 | -1.6 | -2.8 | -0.3 | 3.1 | 5.2 | 426 |
| Municipals | 1.3 | -1.0 | -1.2 | -2.5 | -0.0 | 1.0 | 1.7 | 280 |

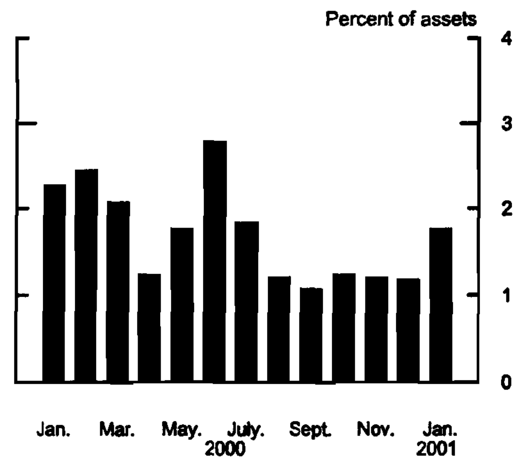
e. Staff estimates based on confidential ICI weekly data.
Source. Investment Company Institute (ICI).

**Allocation of New Contributions to 401(k) Pension Plans**




* Includes bond and money market funds and GICs.
Source. Hewitt Associates.

**Transfers Among Existing 401(k) Pension Plan Assets***




* Includes money market funds and GICs.
Source. Hewitt Associates.

With falling stock prices and elevated volatility, the pace of gross equity issuance of nonfinancial firms remained light in February and early March. Equity retirements have slowed as well. Announcements of new share repurchase programs have been sparse in recent months, as firms may be guarding their cash buffers against possible future earnings shocks. Business merger activity also has been damped by the turbulence in equity markets, with the total deal value of announced mergers down considerably in January and February. Cash-financed deals have become more difficult to complete, given the dim prospects for corporate earnings and tighter bank lending standards, while high stock-price volatility has made it increasingly difficult for parties to agree on the terms of stock-financed deals. Overall, net equity retirements appear to have slowed substantially in the first quarter from the rapid pace in 2000, despite the scarcity of new offerings.

The credit quality of nonfinancial corporations continues to erode. Call report data indicate that delinquencies on business loans at banks moved up in the fourth quarter, and the rate of business failures, on a twelve-month trailing basis, edged up in January before returning to a more moderate level in February. Moody's downgraded a large number of bonds of nonfinancial issuers in January and February; Daimler-Chrysler bonds accounted for about $100 billion, or close to two-thirds, of the total value of downgrades in February.

In addition, the junk bond default rate, on a twelve-month trailing basis, jumped up sharply in January and again in February to the highest level since 1991. But the increase may overstate problems in this sector, because the huge dollar volume of defaults in the past two months results primarily from a few large issues. A widely used, aggregated measure of firm-specific probabilities of default on corporate debt over the coming year, the expected default frequency (EDF) from KMV Corporation, fell a bit in January but remained quite high.

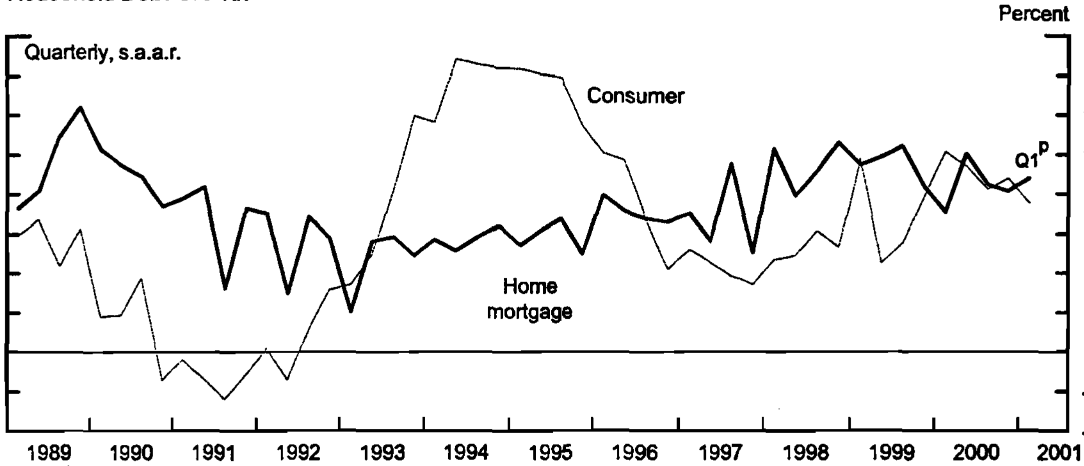
In contrast, there is little evidence of credit problems in the commercial real estate sector, and delinquency rates on commercial mortgage debt through the fourth quarter of last year were very low by historical standards. Interest rates on AAA-rated commercial-mortgage-backed securities (CMBS) followed those on comparable ten-year swaps, and CMBS-swap spreads remain in the upper part of the narrow range in which they have fluctuated over the past two years. CMBS issuance so far this quarter has been fairly modest, but a backlog of loans in the pipeline is expected to provide a substantial boost to issuance in coming weeks. The available indicators suggest that growth in commercial mortgage credit from all sources is slowing a touch in the first quarter from the 10 percent pace in the fourth quarter of last year.

**Household Finance**

The appreciable drop in stock prices has further reduced the ratio of household assets to disposable income this quarter. This ratio now stands at its lowest level

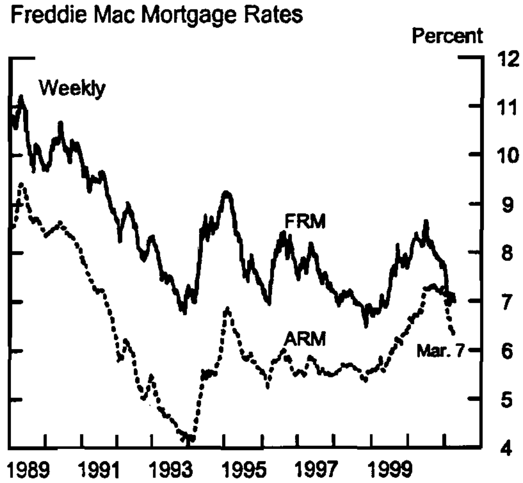
## Household Liabilities

Household Debt Growth

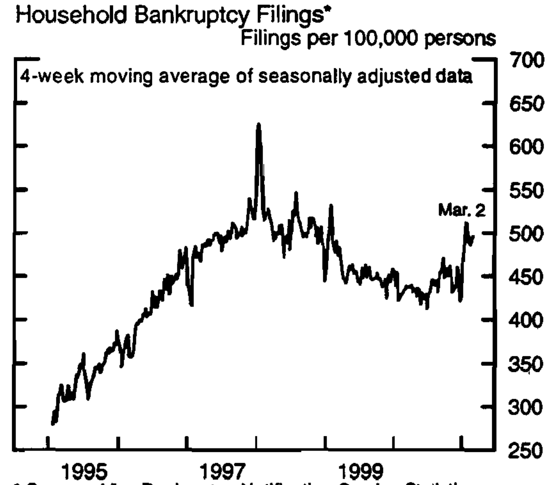



*p. Staff projection.*

Freddie Mac Mortgage Rates

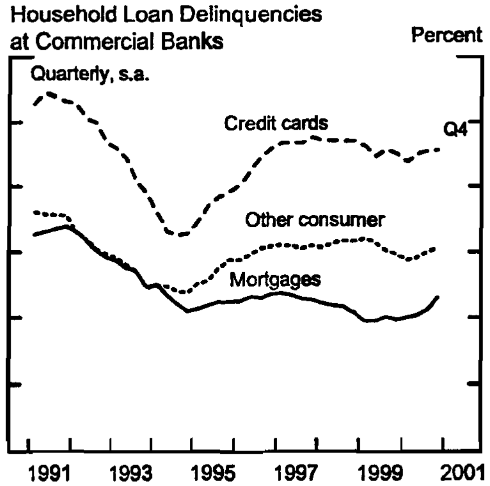



Household Bankruptcy Filings*




* Source. Visa Bankruptcy Notification Service Statistics.

Household Loan Delinquencies at Commercial Banks




Source. Call Report.

Household Debt Service Burden*


p. Staff projection.

*Required debt payments relative to disposable personal income.

in more than two years, having reversed about a third of its ascent during the latter half of the 1990s.

Sinking equity markets sparked a net outflow from equity mutual funds in February— their first monthly outflow since August 1998. Investors appear to be seeking refuge in stable-value securities, such as bond and money funds, which saw large inflows for the second consecutive month. The share of new 401(k) contributions allocated to equities remained steady through January, but transfer activity within existing 401(k) assets increased appreciably, with net outflows from equity funds.

Household debt appears to be expanding this quarter around the 8 percent pace of recent quarters. Growth of both consumer and mortgage debt has held firm, with the latter buoyed by the relatively low interest rates on home loans.

Measures of household credit quality have worsened somewhat of late. Personal bankruptcy filings have popped up in recent weeks, reaching their highest level in about two years.[1] Delinquency rates on residential mortgages, credit cards, and other consumer loans at domestic commercial banks increased as well in the fourth quarter, moving into the higher end of the narrow bands in which they have fluctuated over the past several years. The household debt service burden appears to have edged up early this year, as the rise in household debt relative to disposable income has been nearly offset by a small decline in the average interest rate on that debt. Preliminary calculations suggest the level in the first quarter stands just below its twenty-year high of 14-1/2 percent reached in late 1986.

**Treasury and Agency Finance**

Excluding cash management bills, the Treasury paid down about $38 billion of publicly held debt in January and February. However, heavy issuance of cash management bills in preparation for expected seasonal lows in cash balances ahead of the March and April tax dates pushed total marketable Treasury debt higher by $12 billion in February. Another $3 billion in buybacks were executed, though not fully booked in February, and the Treasury announced plans to buy back $3 billion of securities in each month of the second quarter. Also, as previously announced, the Treasury auctioned the last fifty-two-week bill on February 27. Beginning in August, the Treasury will estimate the one-year constant maturity yield using a nonlinear interpolation between the yields on the on-the-run six-month bill and two-year note as well as other issues. The constant maturity yield is commonly referenced in adjustable-rate contracts.

1. The recent uptick may reflect, at least in part, rising odds that bankruptcy reform will be enacted in the near future; repayment requirements are stricter in the bill before Congress, possibly influencing some households to file before the new law is enacted.

# Treasury and Agency Finance

## Treasury Financing
(Billions of dollars)

| Item | 2000 | | | | 2001 | |
|---|---|---|---|---|---|---|
| | Q2 | Q3 | Q4 | Dec. | Jan. | Feb. |
| **Total surplus, deficit (&)** | **211.8** | **60.4** | **-2.3** | **32.7** | **76.4** | **n.a.** |
| Means of financing deficit | | | | | | |
| Net borrowing | -189.6 | -53.6 | -25.1 | -36.7 | -24.0 | 14.0 |
| Nonmarketable | 5.1 | -5.5 | 1.5 | 1.1 | -1.9 | 2.1 |
| Marketable | -194.7 | -48.1 | -26.6 | -37.8 | -22.1 | 11.9 |
| Bills | -126.6 | -14.1 | 30.4 | -35.3 | 9.3 | 24.4 |
| Coupons[1] | -57.1 | -25.7 | -48.2 | .0 | -28.6 | -10.8 |
| Debt buybacks | -11.0 | -8.2 | -8.7 | -2.5 | -2.7 | -1.7 |
| Decrease in cash balance | -12.7 | 4.8 | 31.6 | -9.6 | -45.8 | 45.7 |
| Other[2] | -9.6 | -11.5 | -4.2 | 13.7 | -6.6 | n.a. |
| MEMO | | | | | | |
| Cash balance, end of period | 57.4 | 52.7 | 21.1 | 21.1 | 66.8 | 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.
n.a. Not available.

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

| Agency | 2000 | | | | 2001 | |
|---|---|---|---|---|---|---|
| | Q2 | Q3 | Q4 | Dec. | Jan. | Feb. |
| FHLBs | 33.2 | 12.1 | 13.8 | 13.4 | 10.5 | n.a. |
| Freddie Mac | 6.3 | 22.7 | 20.0 | -2.7 | 20.1 | n.a. |
| Fannie Mae | 21.0 | 28.5 | 35.7 | 9.6 | 11.5 | 14.0 |
| Farm Credit Banks | 2.4 | 1.5 | 3.1 | 2.5 | -.3 | -.3 |
| Sallie Mae | -.8 | 5.2 | 3.0 | -4.6 | n.a. | n.a. |
| MEMO | | | | | | |
| *Outstanding noncallable reference and benchmark securities* | | | | | | |
| Notes and bonds | 238.6 | 274.1 | 313.1 | 313.1 | 322.1 | 335.6 |
| Bills | 200.0 | 222.5 | 235.0 | 235.0 | 253.0 | 280.5 |
| Total | 438.6 | 496.6 | 548.1 | 548.1 | 575.1 | 616.1 |

NOTE. Excludes mortgage pass-through securities issued by Fannie Mae and Freddie Mac.
n.a. Not available.

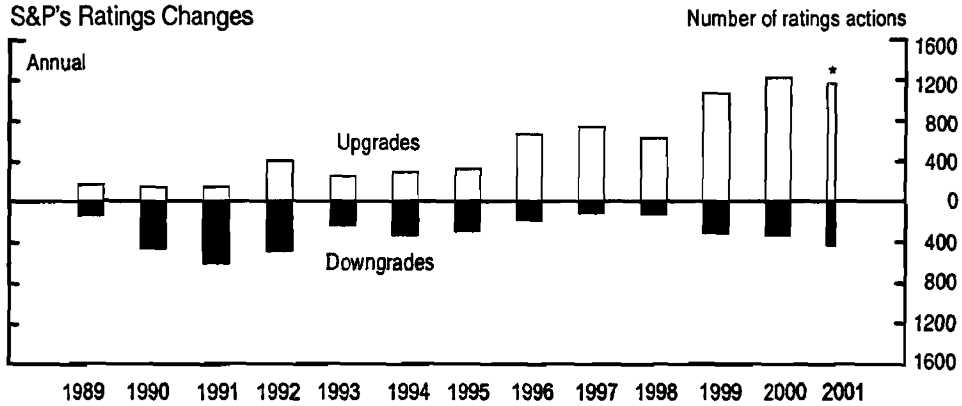
# State and Local Finance

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

| | 1999 | 2000 | 2000 H2 | 2000 Q3 | 2000 Q4 | 2001 Jan. | 2001 Feb. |
|---|---|---|---|---|---|---|---|
| Long-term[1] | 18.0 | 15.0 | 15.9 | 14.6 | 17.2 | 11.3 | 19.8 |
| Refundings[2] | 4.5 | 2.2 | 2.2 | 2.0 | 2.4 | 2.5 | 6.4 |
| New capital | 13.5 | 12.9 | 13.6 | 12.6 | 14.7 | 8.8 | 13.4 |
| Short-term | 2.7 | 2.8 | 3.0 | 3.6 | 2.5 | 3.3 | 2.6 |
| Total tax-exempt | 20.6 | 17.9 | 18.9 | 18.1 | 19.7 | 14.5 | 22.5 |
| Total taxable | 1.1 | 0.7 | 0.8 | 0.8 | 0.8 | 0.7 | 0.6 |

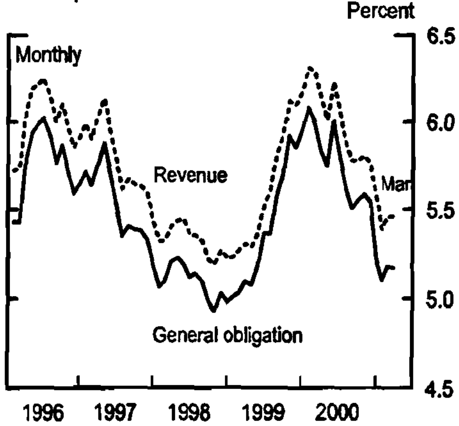
1. Includes issues for public and private purposes.
2. All issues that include any refunding bonds.

S&P's Ratings Changes



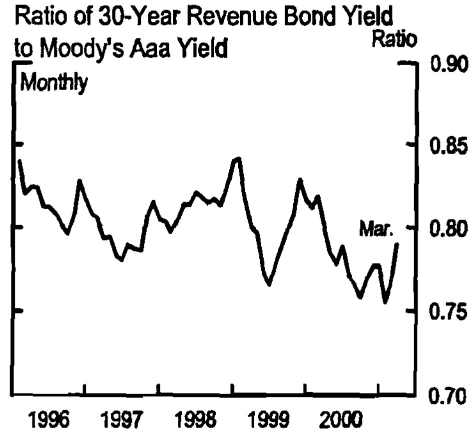

Source. S&P's Credit Week Municipal.
* Data through Feb. 15 at an annual rate.

Municipal Bond Yields




Note. Average of weekly data. March 2001 based on data through March 1.

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




Note. Average of weekly data. March 2001 based on data through March 1.

## Commercial Bank Credit

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

| Type of credit | 2000 | Q3 2000 | Q4 2000 | Dec. 2000 | Jan. 2001 | Feb. 2001 | Level, Feb. 2001 ($ billions) |
|---|---|---|---|---|---|---|---|
| **Total** | | | | | | | |
| **1. Adjusted[1]** | **9.9** | **10.7** | **3.3** | **11.4** | **6.6** | **5.4** | **5,162** |
| 2. Reported | 10.2 | 10.5 | 4.2 | 14.6 | 9.1 | 5.5 | 5,287 |
| *Securities* | | | | | | | |
| 3. Adjusted[1] | 3.1 | 5.0 | -6.3 | 17.6 | 10.0 | -3.0 | 1,228 |
| 4. Reported | 4.8 | 4.8 | -2.2 | 30.0 | 19.3 | -1.9 | 1,354 |
| 5. U.S. government | -2.2 | -1.1 | -12.5 | 3.2 | 1.5 | -18.1 | 776 |
| 6. Other[2] | 17.5 | 14.5 | 14.2 | 70.2 | 45.1 | 20.3 | 578 |
| *Loans[3]* | | | | | | | |
| 7. Total | 12.2 | 12.5 | 6.4 | 9.5 | 5.5 | 8.0 | 3,933 |
| 8. Business | 9.2 | 9.0 | 2.0 | 9.9 | 16.4 | 9.3 | 1,114 |
| 9. Real estate | 13.9 | 12.7 | 5.0 | 5.0 | -.7 | 9.7 | 1,666 |
| 10. Home equity | 26.3 | 23.1 | 20.2 | 14.2 | 9.3 | 13.9 | 131 |
| 11. Other | 13.0 | 11.9 | 3.8 | 4.1 | -1.7 | 9.4 | 1,535 |
| 12. Consumer | 10.6 | 12.4 | 7.4 | 2.9 | 5.1 | 1.8 | 542 |
| 13. Adjusted[4] | 8.0 | 11.2 | 4.9 | 12.0 | 3.8 | 4.6 | 858 |
| 14. Other[5] | 14.4 | 18.9 | 17.8 | 27.1 | 3.6 | 6.9 | 612 |

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.

BA:LRC

Treasury market liquidity remained relatively low over the intermeeting period. Bid-ask spreads for bills widened a bit, while those for coupon securities narrowed, but the spreads on both bills and coupon securities are high compared with recent years. As is typical, liquidity premiums for the ten-year note and the thirty-year bond jumped after new securities were issued in the midquarter refunding.

In February, new auction rules went into effect for noncompetitive tenders submitted by Foreign and International Monetary Authorities (FIMA). The changes, which are designed to make the amount of cash raised at Treasury auctions more predictable, limit individual, noncompetitive FIMA tenders to $200 million, with a $1 billion aggregate limit for each security auctioned. Also, FIMA noncompetitive tenders are now filled as a portion of the announced auction amount, not as an add-on.

Agency debt continued to expand rapidly, with net issuance of Reference and Benchmark securities by Fannie Mae and Freddie Mac totaling $68 billion for January and February. In February, Freddie Mac inaugurated a new Dutch auction procedure, and a $5 billion offering using the Internet was well received. As part of an agreement reached last year with Congress, Fannie Mae inaugurated issuance of subordinated debt on January 25. The yield on this debt has been about 60 basis points below similarly rated corporate issues, likely reflecting the greater liquidity of agency subordinated debt, the agencies' ties to the government, and market expectations of a regulatory risk weighting of 20 percent rather than 100 percent for bank holdings. As another part of the agreement with Congress, Standard and Poor's began monitoring the "risk-to-the-government" of Fannie Mae and Freddie Mac in February, establishing an initial credit rating of AA− on each agency. The rating is intended to capture the risk-status of the agencies were they to have no special relationship with the Treasury.

**State and Local Government Finance**
Gross offerings of long-term debt by state and local governments picked up in February, bringing the average for the first two months of the year to $15.5 billion, near the average pace in 2000. February's volume consisted mostly of new capital issues, although the sharp decline in yields since December appears to have boosted refunding issues as well. More recently, though, yields on long-term municipal bonds have edged up, lifting ratios of municipal bond yields to AAA corporate bond yields, as the prospect of a cut in marginal federal tax rates has reduced the attractiveness of holding municipal debt.

**Bank Credit and Money**
Bank credit growth slowed in February, owing to a runoff of securities holdings. Loan growth, however, accelerated to an 8 percent rate, noticeably above the pace in January and the fourth quarter of last year. Business lending, which surged in

## Monetary Aggregates

(Based on seasonally adjusted data)

| Aggregate or component | 2000 | 2000 Q3 | 2000 Q4 | 2000 Dec. | 2001 Jan. | 2001 Feb. (pe) | Level (bil. $) Jan. 01 |
|---|---|---|---|---|---|---|---|
| | Percent change (annual rate)[1] | | | | | | |
| *Aggregate* | | | | | | | |
| 1. M2[2] | 6.3 | 5.8 | 6.6 | 9.6 | 12.3 | 10.5 | 4998.0 |
| 2. M3 | 9.2 | 8.9 | 6.9 | 13.3 | 17.2 | 12.2 | 7194.4 |
| *Selected components* | | | | | | | |
| 3. Currency | 4.3 | 3.6 | 3.4 | 5.5 | 9.5 | 6.5 | 534.3 |
| 4. Liquid deposits[3] | 3.3 | 4.6 | 4.8 | 7.5 | 11.2 | 17.4 | 2446.9 |
| 5. Small time deposits | 9.4 | 10.6 | 7.3 | 8.1 | 8.1 | -1.7 | 1053.3 |
| 6. Retail money market funds | 12.6 | 4.6 | 12.7 | 19.5 | 21.2 | 9.2 | 955.4 |
| 7. M3 minus M2[4] | 16.4 | 16.3 | 7.7 | 21.8 | 28.6 | 16.1 | 2196.4 |
| 8. Large time deposits, net[5] | 13.5 | 12.9 | 4.3 | 28.5 | 33.8 | -28.1 | 850.1 |
| 9. Institution-only money market mutual funds | 24.0 | 29.1 | 18.6 | 24.9 | 52.5 | 86.9 | 801.0 |
| 10. RPs | 9.2 | 8.0 | -3.4 | 12.4 | -10.7 | -29.6 | 357.3 |
| 11. Eurodollars | 15.5 | 0.6 | 1.9 | -1.3 | -17.0 | 1.3 | 188.0 |
| *Memo* | | | | | | | |
| 12. M1 | -1.6 | -3.6 | -3.0 | 2.0 | 11.9 | -0.7 | 1101.1 |
| 13. Sweep-adjusted M1[6] | 1.8 | 0.7 | 0.8 | 3.8 | 10.4 | 1.3 | 1519.8 |
| 14. Demand deposits | -10.4 | -12.4 | -13.2 | -6.1 | 14.6 | -10.2 | 317.0 |
| 15. Other checkable deposits | -1.0 | -8.3 | -1.3 | 5.0 | 13.6 | -3.5 | 241.7 |
| 16. Savings deposits | 6.6 | 9.6 | 8.9 | 10.0 | 10.4 | 24.6 | 1888.2 |
| 17. Monetary base | 1.4 | 2.5 | 2.8 | 5.3 | 10.9 | 6.3 | 589.3 |
| | Average monthly change (billions of dollars)[7] | | | | | | |
| *Selected managed liabilities at commercial banks* | | | | | | | |
| 18. Large time deposits, gross | 8.8 | 10.6 | 4.6 | 18.7 | 22.0 | -14.7 | 972.6 |
| 19. Net due to related foreign institutions | 1.7 | 7.9 | -9.2 | -17.2 | -1.3 | -12.2 | 223.0 |
| 20. U.S. government deposits at commercial banks | -1.4 | -3.1 | -1.6 | -2.1 | 16.1 | -12.2 | 34.3 |

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

January, moderated some in February but remained strong. Business lending has been boosted since December by commercial paper issuers tapping backup lines to avoid the elevated rates in that market.

Growth of consumer loans originated at banks strengthened a bit in February, possibly reflecting brisk motor vehicle sales. A large volume of securitizations held down real estate loan growth in January, but bookings expanded rapidly in February, as loans for both commercial and one-to-four-family properties grew.

Growth of the broad monetary aggregates remained rapid in February. The expansion of M3 was driven by large inflows into institutional money funds, the returns on which have become highly attractive in the wake of recent declines in market rates. M3 growth was tempered in February by a pullback in the issuance of bank-managed liabilities, particularly large time deposits, consistent with the downshift in bank credit growth.

M2 continued to be lifted in February by the sharp narrowing of its opportunity cost since November. Liquid deposits (the sum of checking and savings accounts) and retail money funds both expanded briskly.[2] Negative returns and high volatility in equity markets likely boosted household demand for M2 assets as well. Currency growth remained ahead of last year's lethargic pace. In contrast, small time deposits contracted in February as their yields adjusted fairly promptly to the decline in market rates, making them relatively less attractive than other types of deposits.

2. Liquid deposits have been boosted at the expense of retail money market mutual funds by large, systematic shifts between these two account types initiated by Merrill Lynch in June 2000 and by Salomon Smith Barney in January 2001.

# Appendix

## Senior Loan Officer Opinion Survey on Bank Lending Practices

A special March 2001 Senior Loan Officer Opinion Survey on Bank Lending Practices focused on changes in the supply of and demand for bank loans to businesses since the beginning of the year. Loan officers from fifty-four large domestic banks and twenty-two U.S. branches and agencies of foreign banks participated in the survey. Overall, the responses indicated that business lending conditions at banks had tightened further since January, while demand for business loans waned.

**Lending to Businesses**

The fraction of domestic banks that tightened lending standards since the beginning of the year remained in the very elevated range of recent quarters and was comparable to the fractions observed during the early 1990s. In March, half of the domestic bank respondents reported applying somewhat stricter standards to applications for C&I loans and credit lines by large and medium-sized firms, and one bank indicated that it had tightened standards considerably. A slightly smaller percentage of domestic banks, 43 percent, reported that they had tightened standards on C&I loans to small firms. No bank indicated that it had eased standards. For comparison, in the January survey, 60 percent of domestic banks reported stricter standards for large and medium-sized firms, while 45 percent tightened standards to small firms.

As in the previous survey, about two-thirds of the domestic respondents said that they had pushed up premiums on riskier loans to large and medium-sized firms at least somewhat, including a significant fraction that had widened spreads considerably. For small firms, 58 percent raised premiums somewhat, and 10 percent raised them considerably. The fractions of domestic banks that toughened their policies for other loan terms in March were also similar to the shares reported in the January survey. On net, about 50 percent of domestic banks reported increasing the costs associated with credit lines, charging higher spreads over their cost of funds, tightening loan covenants, and raising collateral requirements for C&I loans to large and medium-sized firms. Between a quarter and a third of domestic banks, on net, toughened terms on C&I loans to small firms.

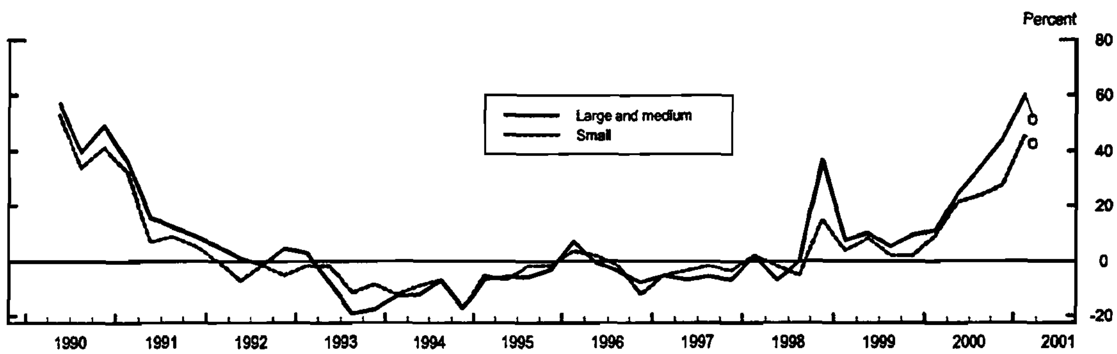
The percentage of branches and agencies of foreign banks that reported stricter standards on C&I loans fell to 46 percent in March from almost 80 percent in January. Substantial numbers of foreign banks also reported further tightening of loan terms during the first two months of the year. On net, 57 percent of foreign banks reported charging somewhat higher premiums on riskier loans, down a fair bit from more than 80 percent in January, and one respondent indicated that it had somewhat reduced these premiums. About 40 percent of foreign banks, on net, also reported a general increase in spreads over their cost of funds, down from 75 percent in January. On net, 57 percent of foreign banks tightened loan covenants, and 52 percent raised collateral requirements, compared with 60 percent and 46 percent, respectively, in January.

More than half of the domestic respondents indicated that a less favorable economic outlook was a very important factor in their decision to tighten standards or terms, and almost all domestic banks claimed that the economic outlook was at least a somewhat important factor. About a third of the domestic banks also reported that a worsening of industry-specific problems and a reduced tolerance for risk were very important reasons for tightening. In addition, many domestic banks mentioned continued defaults by below-investment-grade borrowers in public debt markets as a somewhat important reason for tightening. Interestingly, some respondents also commented on the rapid deterioration in certain investment-grade credits. At branches and agencies of foreign banks, a worsening of industry-specific problems and a less favorable or more uncertain economic outlook were, on average, the most important reasons for tightening.

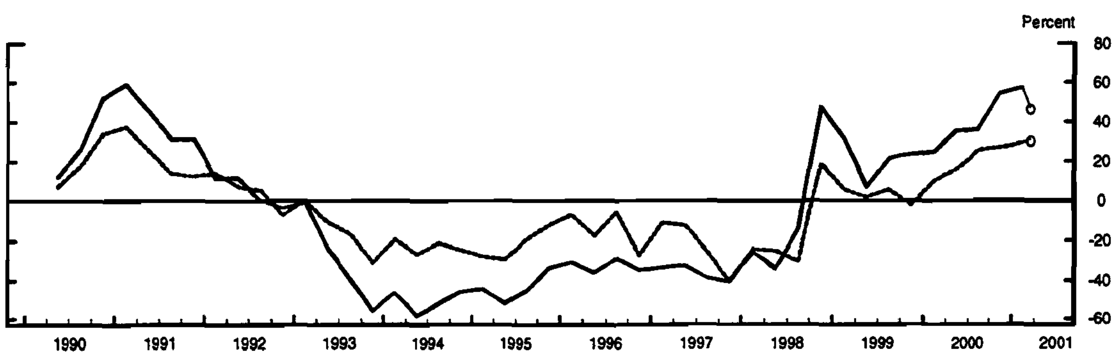
Respondents indicated that demand for C&I loans weakened further since the beginning of the year. On net, more than 40 percent of domestic banks and 23 percent of foreign banks reported moderately or substantially weaker demand for C&I loans, compared with 50 percent and 20 percent, respectively, in January. Both domestic and foreign respondents cited their customers' reduced investment in plant and equipment as the most important reason for diminished demand, followed by a decrease in the need for merger and acquisition financing. Among the few banks that reported higher demand for C&I loans, a decrease in internally generated funds was most often cited as an important or very important reason.

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

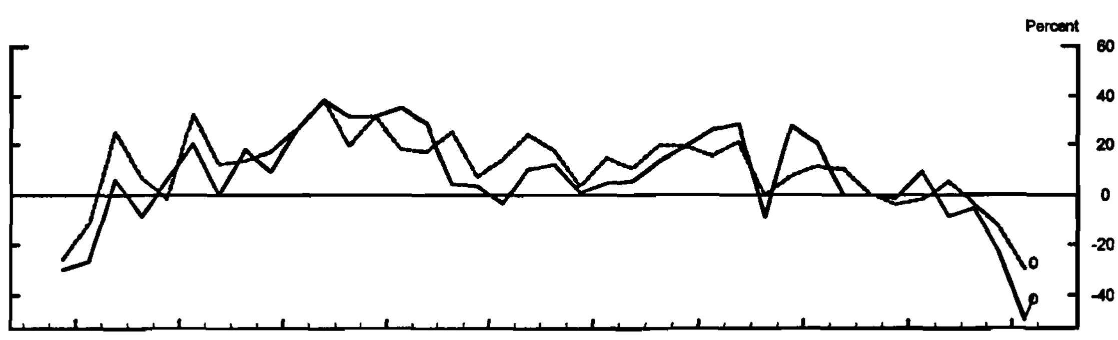
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans




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




Note. 'o' indicates March 2001 observation.

# 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 December, about the same as recorded in November. For the fourth quarter, the deficit was $16 billion at an annual rate larger than in the third quarter.

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

| | 2000 | Annual rate 2000 | | | Monthly rate 2000 | | |
|---|---|---|---|---|---|---|---|
| | | Q2 | Q3 | Q4 | Oct. | Nov. | Dec. |
| *Real NIPA*[1] | | | | | | | |
| Net exports of G&S | -412.7 | -403.4 | -427.7 | -442.9 | ... | ... | ... |
| *Nominal BOP* | | | | | | | |
| Net exports of G&S | -369.7 | -355.2 | -383.3 | -399.0 | -33.6 | -33.1 | -33.0 |
| Goods, net | -449.5 | -441.7 | -459.0 | -473.0 | -40.0 | -39.1 | -39.2 |
| Services, net | 79.8 | 86.5 | 75.7 | 74.1 | 6.3 | 6.0 | 6.2 |

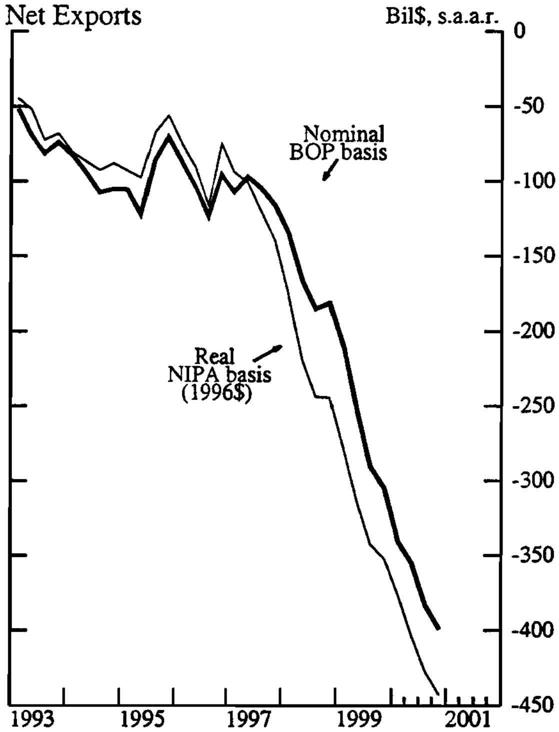
1. Billions of chained (1996) dollars.
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.
n.a. Not available. ... Not applicable.

In December, the value of exports of goods and services declined for the fourth consecutive month, with decreases primarily in capital goods and industrial supplies. For the fourth quarter, the value of exports fell 5-1/4 percent at an annual rate from the prior quarter. Notable declines were recorded in exported computers, semiconductors, telecommunications equipment, aircraft, automotive products, consumer goods, and agricultural products. Exports of other machinery grew only slightly following strong increases in the first three quarters of the year. By area, much of the decline in the fourth quarter was in exports to developing economies in Asia (particularly Taiwan and Korea), Mexico, and Canada (especially automotive parts). Exports to Western Europe rose for the fifth consecutive quarter.

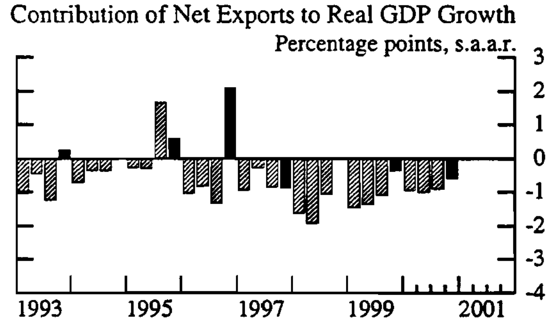
The value of imports in December dropped for the third consecutive month, as sharp declines in automotive vehicles, consumer goods, and computers were only partly offset by a strong increase in the value (mostly price) of imported natural gas. The rise in the value of imported oil in December was entirely from higher quantity as the average price dropped. For the fourth quarter, the value of imports leveled off at the high level recorded in the third quarter. Declines in imported automotive products, computers, semiconductors, steel, and chemicals were offset by increased imports of telecommunications equipment, consumer goods, and smaller increases in other categories of trade.

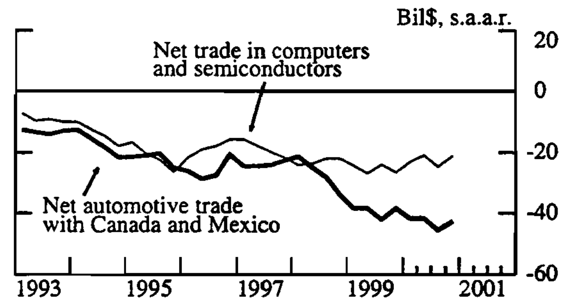
# U.S. International Trade in Goods and Services

Net Exports

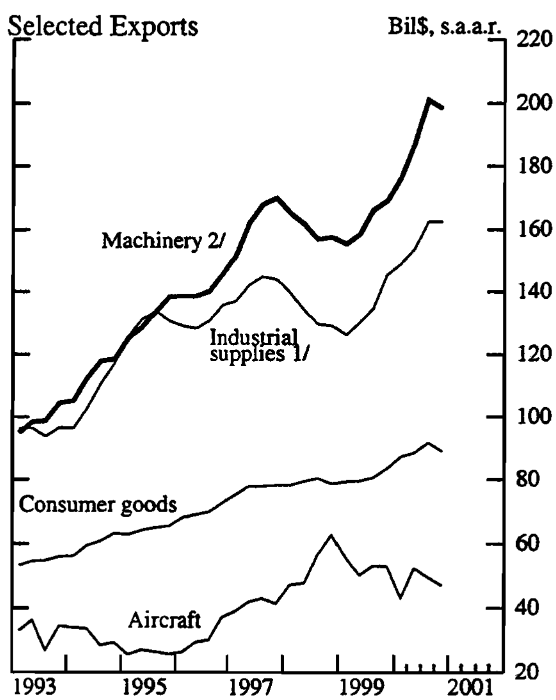



Contribution of Net Exports to Real GDP Growth



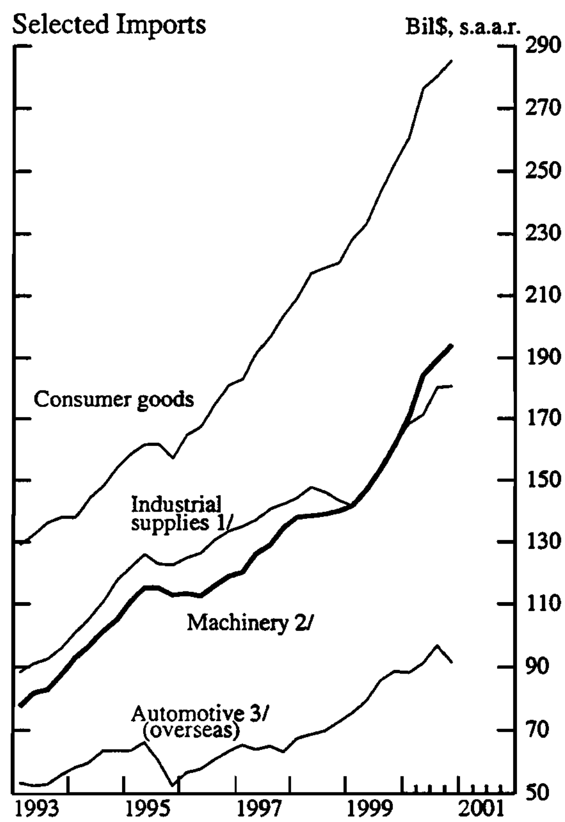




Selected Exports




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 | Nov. | Dec. | Q3 | Q4 | Nov. | Dec. |
| **Exports of G&S** | **1100.4** | **1085.9** | **1086.7** | **1077.8** | **36.8** | **-14.5** | **-6.6** | **-8.8** |
| Goods exports | 803.3 | 788.4 | 790.2 | 779.1 | 36.5 | -15.0 | -5.7 | -11.1 |
| Agricultural | 55.4 | 53.1 | 51.7 | 52.6 | 3.0 | -2.3 | -3.3 | 0.9 |
| Gold | 4.2 | 6.5 | 6.7 | 7.3 | 0.5 | 2.3 | 1.1 | 0.6 |
| Other goods | 743.7 | 728.7 | 731.8 | 719.2 | 32.9 | -15.0 | -3.5 | -12.6 |
| Aircraft & pts | 49.5 | 47.2 | 48.5 | 44.8 | -2.8 | -2.4 | 0.4 | -3.7 |
| Computers | 58.7 | 56.8 | 55.0 | 56.7 | 3.2 | -2.0 | -3.6 | 1.7 |
| Semiconductors | 65.1 | 62.3 | 62.5 | 59.9 | 5.3 | -2.8 | -2.1 | -2.7 |
| Other cap gds | 203.3 | 201.1 | 201.8 | 199.9 | 14.0 | -2.2 | 0.4 | -2.0 |
| Automotive | 81.0 | 78.5 | 77.4 | 77.7 | 0.8 | -2.5 | -2.8 | 0.2 |
| to Canada | 44.3 | 42.0 | 41.1 | 40.5 | -0.9 | -2.3 | -3.2 | -0.6 |
| to Mexico | 15.9 | 17.6 | 18.5 | 15.7 | -1.4 | 1.7 | -0.1 | -2.8 |
| to ROW | 20.8 | 18.9 | 17.8 | 21.5 | 3.1 | -1.9 | 0.5 | 3.7 |
| Ind supplies | 162.5 | 162.5 | 165.9 | 158.0 | 8.8 | -0.0 | 2.4 | -7.9 |
| Consumer goods | 91.7 | 89.1 | 89.1 | 91.0 | 3.1 | -2.6 | 1.9 | 1.8 |
| All other | 31.9 | 31.3 | 31.4 | 31.3 | 0.5 | -0.6 | -0.0 | -0.1 |
| Services exports | 297.1 | 297.5 | 296.5 | 298.7 | 0.3 | 0.5 | -0.9 | 2.2 |
| **Imports of G&S** | **1483.7** | **1484.9** | **1484.2** | **1473.8** | **64.9** | **1.2** | **-12.5** | **-10.4** |
| Goods imports | 1262.3 | 1261.4 | 1259.7 | 1249.2 | 53.7 | -0.9 | -15.7 | -10.5 |
| Petroleum | 127.3 | 128.3 | 124.5 | 128.1 | 10.0 | 1.0 | -7.7 | 3.6 |
| Gold | 4.2 | 6.7 | 7.1 | 6.7 | 1.3 | 2.5 | 0.7 | -0.5 |
| Other goods | 1130.8 | 1126.4 | 1128.0 | 1114.4 | 42.5 | -4.4 | -8.7 | -13.6 |
| Aircraft & pts | 26.7 | 30.5 | 28.3 | 33.8 | 1.9 | 3.8 | -1.1 | 5.5 |
| Computers | 95.0 | 90.2 | 91.3 | 84.0 | 5.1 | -4.8 | -4.1 | -7.2 |
| Semiconductors | 53.5 | 50.1 | 49.7 | 51.2 | 7.1 | -3.4 | 0.2 | 1.5 |
| Other cap gds | 192.3 | 197.2 | 195.0 | 197.7 | 4.9 | 4.9 | -3.9 | 2.6 |
| Automotive | 202.6 | 193.7 | 198.4 | 181.6 | 7.1 | -8.8 | -2.9 | -16.8 |
| from Canada | 64.7 | 61.8 | 64.5 | 56.2 | 1.3 | -2.8 | -0.3 | -8.3 |
| from Mexico | 41.0 | 40.3 | 41.3 | 33.1 | 0.2 | -0.6 | -5.3 | -8.2 |
| from ROW | 96.9 | 91.6 | 92.6 | 92.3 | 5.6 | -5.4 | 2.8 | -0.3 |
| Ind supplies | 180.1 | 180.6 | 174.1 | 189.0 | 8.6 | 0.5 | -4.4 | 14.9 |
| Consumer goods | 280.3 | 285.5 | 289.6 | 280.9 | 3.8 | 5.2 | 3.7 | -8.7 |
| Foods | 47.3 | 46.4 | 47.8 | 45.6 | 1.7 | -0.9 | 1.9 | -2.2 |
| All other | 52.9 | 52.1 | 53.9 | 50.6 | 2.4 | -0.7 | 2.0 | -3.3 |
| Services imports | 221.4 | 223.5 | 224.5 | 224.6 | 11.2 | 2.0 | 3.2 | 0.0 |
| *Memo:* | | | | | | | | |
| Oil quantity (mb/d) | 12.13 | 12.07 | 11.42 | 12.60 | -0.15 | -0.06 | -0.76 | 1.18 |
| Oil import price ($/bbl) | 28.74 | 29.14 | 29.85 | 27.85 | 2.63 | 0.39 | 0.12 | -2.00 |

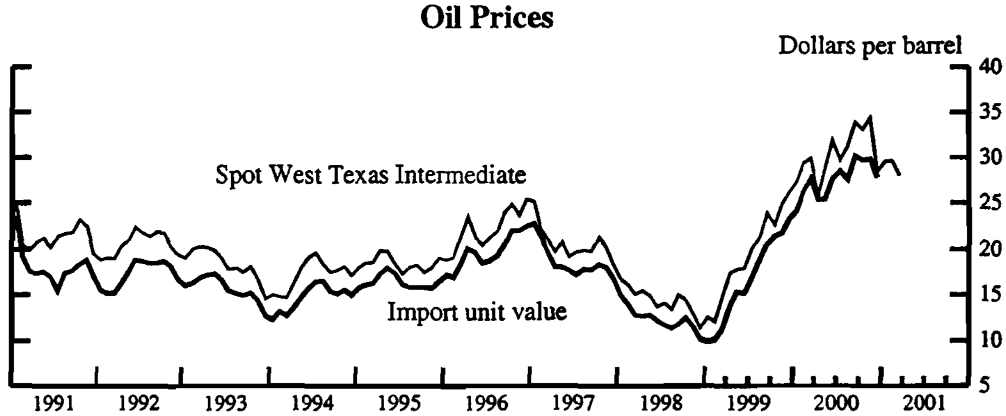
1. Change from previous quarter or month.
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

| | Annual rates 2000 Q2 | Annual rates 2000 Q3 | Annual rates 2000 Q4 | Monthly rates 2000 Nov. | Monthly rates 2000 Dec. | Monthly rates 2001 Jan. |
|---|---|---|---|---|---|---|
| | ------------- BLS prices (1995 weights)------------- | | | | | |
| **Merchandise imports** | 0.1 | 6.7 | 0.5 | 0.0 | -0.8 | -0.4 |
| Oil | -6.3 | 52.9 | 3.4 | 0.9 | -10.8 | -5.0 |
| Non-oil | 1.0 | 0.9 | 0.1 | -0.2 | 0.9 | 0.3 |
| Core goods* | 1.5 | 1.5 | 0.7 | -0.2 | 0.9 | 0.4 |
| Foods, feeds, beverages | -4.4 | -4.6 | -3.0 | -1.4 | 1.7 | -0.4 |
| Industrial supplies ex oil | 9.8 | 8.6 | 6.4 | -0.3 | 3.6 | 1.4 |
| Computers | -9.1 | -3.4 | -10.1 | 0.2 | 0.0 | -0.2 |
| Semiconductors | 0.0 | -4.9 | -0.2 | -0.2 | -0.8 | -0.2 |
| Cap. goods ex comp & semi | 0.3 | -1.5 | -1.8 | -0.2 | 0.0 | -0.1 |
| Automotive products | 1.4 | 0.5 | 0.0 | 0.1 | 0.0 | 0.0 |
| Consumer goods | -1.9 | -0.5 | -1.0 | -0.1 | -0.1 | 0.1 |
| **Merchandise exports** | 2.0 | -0.1 | 0.8 | 0.0 | -0.1 | 0.2 |
| Agricultural | 5.7 | -12.1 | 12.4 | 1.0 | 1.2 | 0.5 |
| Nonagricultural | 1.5 | 1.1 | -0.3 | -0.1 | -0.2 | 0.2 |
| Core goods* | 2.1 | 1.8 | -0.1 | -0.1 | -0.3 | 0.3 |
| Industrial supples ex ag | 5.9 | 3.2 | -1.4 | -0.3 | -0.8 | 0.2 |
| Computers | -4.5 | -2.2 | -1.6 | 0.0 | -0.2 | -0.2 |
| Semiconductors | -4.1 | -5.5 | -3.1 | -0.1 | 0.0 | -0.6 |
| Cap. goods ex comp & semi | 1.3 | 1.0 | 0.9 | 0.1 | 0.1 | 0.4 |
| Automotive products | 0.8 | 1.0 | 0.0 | -0.1 | 0.0 | 0.0 |
| Consumer goods | -0.1 | 0.0 | -0.8 | -0.1 | -0.2 | 0.0 |
| **Chain price index** | ---Prices in the NIPA accounts (1996 weights)--- | | | | | |
| Imports of goods & services | 0.2 | 3.8 | 0.3 | ... | ... | ... |
| Non-oil merchandise | 0.8 | 0.7 | 0.0 | ... | ... | ... |
| Core goods* | 1.8 | 1.4 | 0.9 | ... | ... | ... |
| Exports of goods & services | 1.9 | 0.7 | 0.6 | ... | ... | ... |
| Nonag merchandise | 1.3 | 1.0 | -0.2 | ... | ... | ... |
| Core goods* | 2.4 | 1.2 | 0.4 | ... | ... | ... |

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

## Oil Prices



Note: Quarterly data on the U.S. current account, and other U.S. international transactions, for 2000:Q4 and the year will be released by the Commerce Department on Thursday, March 15. These data will be reported in the Greenbook supplement.

**Prices of Internationally Traded Goods**

**Oil.** The price of imported oil (BLS) declined 5 percent in January following a drop of nearly 11 percent in December, largely on news of weakening U.S. economic growth. However, spot oil prices moved higher in January with OPEC's decision to cut oil production targets 1.5 million barrels per day. Since the beginning of February, spot WTI has fluctuated between $27 and $32 per barrel, recently trading near the low end of this range.

**Non-oil imports.** Prices of imported non-oil goods rose 0.3 percent in January following a 0.9 percent increase in December. The index for industrial supplies again led the advance for prices of non-oil imports, rising 1.4 percent in January after gaining 3.6 percent in December. The increase in January reflected the ongoing rise in prices of natural gas as well as an upturn in prices of unfinished metals, whereas the increase in December was primarily from a surge in the price of natural gas alone. Prices of most other imported core goods (which exclude oil, computers, and semiconductors) were little changed in January. Prices of imported computers and semiconductors both declined slightly in January.

**Exports.** Prices of U.S. goods exports rose slightly in January following a small decline in December. All of the major categories of exported core goods (which exclude agricultural products, computers, and semiconductors) either posted small increases or were unchanged in January. Core goods prices had posted three months of small declines prior to January. An important part of this turnaround was in industrial supplies, led by rising prices for chemicals and metals. Prices of agricultural exports rose for the fifth consecutive month, reflecting continued increase in prices for grains. As they have in most months, prices of exported computers and semiconductors declined in January

Note: Price data for February will be released by BLS on Thursday, March 15, and will be reported in the Greenbook supplement.

**U.S. International Financial Transactions**

Foreign official reserves held in the United States (line 1 of the Summary of U.S. International Transactions table) decreased modestly in December but increased $39 billion for the year, marginally less than in 1999. However, reserves held in the United States increased a substantial $18 billion in January, with the largest increases recorded by China ($6 billion), Taiwan ($4 billion) and

Hong Kong ($3 billion). Turkish reserves in the United States mirrored their total reserves: they increased $4 billion during the December-January period as Turkey received disbursements from IMF emergency loans, but were depleted by a like amount during February as financial difficulties re-emerged. Also during February, China's reserves held at FRBNY increased by $15 billion. This could reflect a transfer of reserves from another U.S. custodian to FRBNY, a transfer of reserves from abroad to FRBNY, or an increase in China's total reserves. If indeed this reflects an increase in total reserves, it would represent a significant break in the pattern of steady, modest increases. However, China's recent privatization of several large state-owned enterprises might account for such a significant increase in its reserves.

Foreign private net purchases of U.S. securities (line 4) continued at a strong pace in December and January. Total net purchases in 2000 were $414 billion, up from $319 billion in 1999 and well in excess of the record $348 billion set in 1997. Record net purchases of equities, corporate bonds, and agency bonds contrasted with record net sales of Treasury securities.

Treasuries (line 4a) were sold on net in both months, with unusually large net sales in January. Treasury securities have now recorded net sales in each of the past five quarters. Net purchases of U.S. equities (line 4d) were at a near record level in January, while net purchases of agency and corporate bonds (lines 4b and 4c) continued to be strong.

There were modest net U.S. acquisitions of foreign securities (line 5) in both December and January. For the year, U.S. net purchases were slightly below, but similar to, the levels recorded in the previous two years. As in prior years, most U.S. net acquisitions in 2000 resulted from stock swaps (line 5c).

The U.S. banking sector (line 3) experienced large net outflows in January, due primarily to a significant increase in claims. The increase in claims may be attributable in part to a potential break in series in the TIC banking forms, which now separately report repurchase agreement activity. The new reporting formats may also subsequently result in larger-than-normal revisions to the January banking data as reporters adapt to the new form.

## Summary of U.S. International Transactions

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

| | 1999 | 2000 | 2000 Q1 | 2000 Q2 | 2000 Q3 | 2000 Q4 | 2000 Dec. | 2001 Jan. |
|---|---|---|---|---|---|---|---|---|
| **Official financial flows** | **55.0** | **39.3** | **22.1** | **9.0** | **12.2** | **-4.0** | **-4.2** | **17.9** |
| 1. Change in foreign official assets in U.S. (increase, +) | 46.4 | 39.6 | 22.7 | 7.0 | 12.5 | -2.6 | -3.1 | 18.3 |
| a. G-10 countries | 49.7 | 12.3 | 11.1 | 5.6 | -4.2 | -.2 | -4.1 | -1.3 |
| b. OPEC countries | 2.0 | 10.7 | 5.7 | 1.1 | 3.4 | .6 | -.5 | 3.6 |
| c. All other countries | -5.3 | 16.6 | 5.9 | .4 | 13.3 | -3.0 | 1.5 | 16.0 |
| 2. Change in U.S. official reserve assets (decrease, +) | 8.6 | -.3 | -.6 | 2.0 | -.3 | -1.4 | -1.1 | -.4 |
| **Private financial flows** | **268.4** | **n.a** | **35.4** | **143.7** | **110.8** | **...** | **...** | **...** |
| Banks | | | | | | | | |
| 3. Change in net foreign positions of banking offices in the U.S.[1] | -12.4 | 15.3 | -29.8 | 46.2 | -11.8 | 10.8 | -32.4 | -35.8 |
| Securities[2] | | | | | | | | |
| 4. Foreign net purchases of U.S. securities (+) | 319.0 | 414.4 | 122.9 | 67.2 | 110.4 | 113.8 | 33.3 | 37.8 |
| a. Treasury securities | -19.9 | -52.3 | -9.2 | -20.4 | -12.4 | -10.3 | -5.0 | -10.3 |
| b. Agency bonds | 71.9 | 111.9 | 26.0 | 19.0 | 28.6 | 38.3 | 9.5 | 11.2 |
| c. Corporate and municipal bonds | 158.8 | 180.4 | 44.0 | 41.6 | 45.7 | 49.1 | 17.6 | 12.9 |
| d. Corporate stocks | 108.2 | 173.8 | 62.1 | 27.0 | 48.5 | 36.2 | 11.1 | 24.1 |
| 5. U.S. net acquisitions (-) of foreign securities | -113.0 | -97.2 | -25.2 | -32.0 | -18.7 | -21.1 | -4.4 | -8.1 |
| a. Bonds | -5.7 | -3.9 | -9.4 | 10.8 | -9.0 | 3.8 | -1.2 | -1.4 |
| b. Stock purchases | 15.6 | -9.3 | -15.8 | 5.2 | -4.0 | 5.4 | -3.2 | -2.9 |
| c. Stock swaps[3] | -122.9 | -84.0 | .0 | -48.0 | -5.7 | -30.3 | .0 | -3.8 |
| Other flows (quarterly data, s.a.) | | | | | | | | |
| 6. U.S. direct investment (-) abroad | -150.9 | n.a | -43.0 | -37.5 | -36.1 | n.a | ... | ... |
| 7. Foreign direct investment in U.S. | 275.5 | n.a | 49.0 | 100.3 | 64.9 | n.a | ... | ... |
| 8. Foreign holdings of U.S. currency | 22.4 | n.a | -6.8 | 1.0 | .8 | n.a | ... | ... |
| 9. Other (inflow, +)[4] | -72.2 | n.a | -31.7 | -1.5 | 1.3 | n.a | ... | ... |
| **U.S. current account balance (s.a.)** | **-331.5** | **n.a** | **-101.5** | **-105.0** | **-113.8** | **n.a** | **...** | **...** |
| **Capital account balance (s.a.)[5]** | **-3.5** | **n.a** | **.2** | **.2** | **.2** | **n.a** | **...** | **...** |
| **Statistical discrepancy (s.a.)** | **11.6** | **n.a** | **43.8** | **-47.9** | **-9.4** | **n.a** | **...** | **...** |

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

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

2. Includes 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

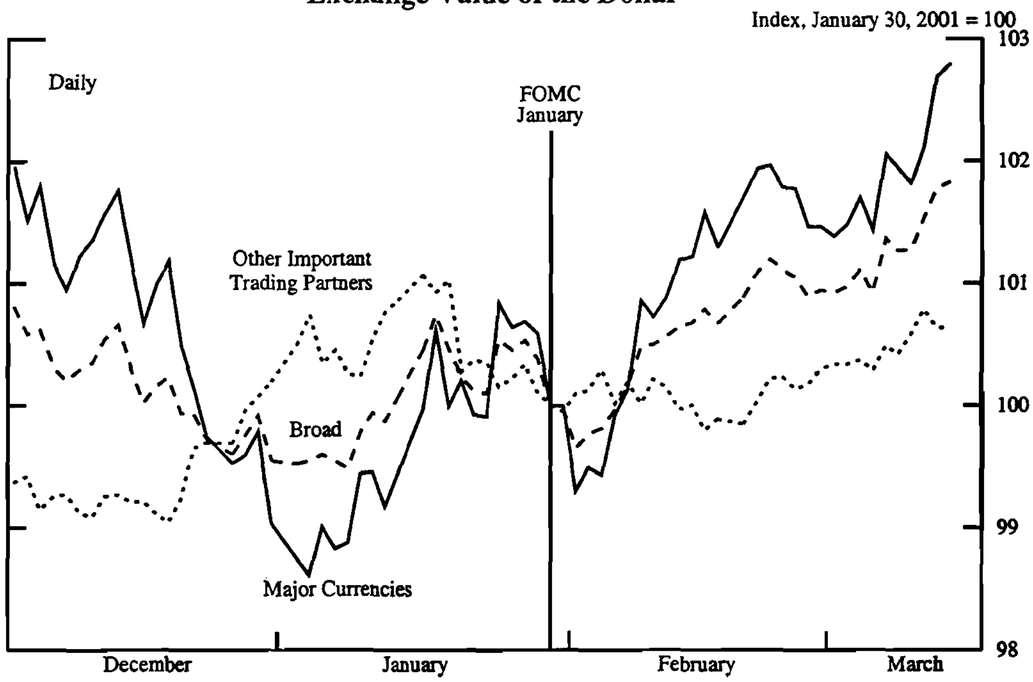
5. Consists of transactions in nonproduced nonfinancial assets and capital transfers.

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

## Foreign Exchange Markets

The major currencies index of the exchange value of the dollar has risen 2¾ percent on balance since the January FOMC meeting. The dollar's gains were due primarily to appreciations of 3¼ percent against the Canadian dollar and 4½ percent versus the yen.

**Exchange Value of the Dollar**




The Canadian dollar appeared to be pressured by signs of a slowing economy. Fourth quarter GDP fell short of market expectations, as domestic demand stagnated. On March 6, the Bank of Canada lowered its key policy rate 50 basis points, citing weakening domestic demand as well as concerns that the slowdown in the U.S. economy could be more pronounced than had been expected earlier in the year. Following the Bank of Canada's policy action, Canadian short-term interest rates fell below rates in the United States, contributing to further pressure on the Canadian currency.

Data showing that Japan may be slipping back into recession seemed to weigh on the yen and counterbalanced the effects of fiscal year-end repatriation flows from Japanese exporters and financial institutions. Comments by Bank of Japan Governor Hayami, in which he discussed "a policy to induce a massive depreciation of the yen's exchange value" as one of the "drastic, unconventional" options facing the Bank of Japan, no doubt contributed to the softness of the yen, as did concerns over the future direction of Japan's political leadership.

The dollar has appreciated 1 percent on balance versus the euro, as many market participants have reportedly lowered their intermediate-term growth expectations for Germany. Also contributing to market participants negative outlook for the euro-area economy and the euro's exchange value were concerns that with inflation continuing to hover above the European Central Bank's 2 percent limit, the ECB's short-run flexibility to adjust policy to changing economic conditions may be hindered.

The U.S. dollar appreciated 9¾ percent against the Australian dollar, as the Australian currency fell to a new low against the dollar. Markets were quite surprised by data showing that Australian GDP had contracted in the fourth quarter. The dollar appreciated ½ percent against the pound.

The index of the exchange value of the dollar versus the currencies of our other important trading partners rose ½ percent over the intermeeting period, owing primarily to appreciations of 7½ percent against the Indonesian rupiah and 5½ percent against the Brazilian *real.* In early February, the *real* weakened, in part, on concerns over spillovers from the worsening financial problems in Turkey. However, the *real* continued to weaken even after Turkey's financial markets appeared to stabilize, on concerns over a domestic political dispute in Brazil. Political concerns were also a major cause of weakness for the Indonesian currency.

**Financial Indicators in Major Industrial Countries**

| | Three-month rate | | Ten-year yield | | Equities |
|---|---|---|---|---|---|
| Country | Mar. 14 (Percent) | Percentage Point Change | Mar. 14 (Percent) | Percentage Point Change | Percent Change |
| Canada | 4.76 | -.66 | 5.23 | -.22 | -16.45 |
| Japan | .15 | -.27 | 1.16 | -.34 | -14.34 |
| Euro area | 4.78 | .00 | 4.69 | -.15 | -7.00 |
| United Kingdom | 5.41 | -.27 | 4.76 | -.15 | -12.83 |
| Switzerland | 3.33 | -.03 | 3.61 | -.04 | -10.99 |
| Australia | 5.17 | -.62 | 5.01 | -.41 | -2.23 |
| United States | 4.97 | -.48 | 4.86 | -.38 | -10.06 |
| Memo: Weighted-average foreign | 3.53 | -.30 | 4.37 | -.22 | n.a. |

NOTE. Change is from January 30 to March 14 .
n.a. Not available.

Over the intermeeting period, the Bank of England's Monetary Policy Committee lowered its key interest rate 25 basis points and the Reserve Bank of Australia reduced its main policy rate a total of 75 basis points. Three-month rates moved in line with the official target rates. Long-term rates in the industrial countries, as measured by the yield on ten-year government bonds, also moved lower, as market expectations for economic growth in the near term were revised downward.

On February 9, the Bank of Japan announced that it would soon change the operation of its discount window to a Lombard facility. In addition, the BOJ reduced the rate on this instrument by 15 basis points. On February 28, the BOJ cut the target of its key overnight rate by 10 basis points to 15 basis points and further lowered the discount/Lombard rate by 10 basis points, to 25 basis points. Three-month yen rates have fallen 27 basis points over the intermeeting period, mainly in reaction to the BOJ's two policy actions. Weakness in equity prices and renewed pessimism over near-term prospects for economic growth in Japan contributed to the 35 basis point tumble of the yield on the benchmark ten-year Japanese government bond. The last time ten-year yields were this low, in the second quarter of 1999, the Bank of Japan had recently pushed overnight rates almost to zero. There has been considerable market speculation that the Bank of Japan may reinstate the zero interest rate policy or take other measures such as increasing its outright purchases on ten-year government bonds in a effort to reverse the reemerging deflationary trend.

Over the intermeeting period, share prices dropped sharply in all of the major industrial countries. Canadian equity prices had the sharpest downturn, in part due to earnings warnings from several optical networking companies that comprise a large share of the Toronto index. In Japan, the Nikkei index fell to a level last seen in early 1985; the broader Topix index still remains 20 percent above its recent low reached in October 1998. Share prices in most emerging market economies have also declined since the January FOMC meeting, in line with movements in the industrial country indexes.

The price of gold rose 1 percent, on balance, over the intermeeting period, with one-month lease rates spiking to nearly 7 percent. Market participants have speculated that less central bank gold is being made available to the lease market, pushing up lease rates and leading short sellers to cover their positions.

. 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: Mar. 14 | Currency/ US dollar: Percent Change | Short-term Interest rates[1]: Mar.13/14 (Percent) | Short-term Interest rates[1]: Percentage Point Change | Dollar-denominated bond spread[2]: Mar.13/14 (Percent) | Dollar-denominated bond spread[2]: Percentage Point Change | Equity prices: Percent Change |
|---|---|---|---|---|---|---|---|
| Mexico | 9.63 | -.38 | 15.96 | -1.86 | 5.07 | 1.13 | -8.08 |
| Brazil | 2.08 | 5.61 | 15.15 | .40 | 8.75 | .26 | -14.72 |
| Argentina | 1.00 | .00 | 6.75 | -1.00 | 10.75 | 1.98 | -13.85 |
| Chile | 590.50 | 5.10 | 1.69 | -4.86 | 2.65 | -.09 | -2.37 |
| China | 8.28 | -.01 | n.a. | n.a. | 1.23 | -.13 | -2.27 |
| Korea | 1276.00 | .83 | 5.45 | -.05 | 2.24 | -.03 | -8.13 |
| Taiwan | 32.43 | .62 | 4.59 | -.41 | ... | ... | -2.32 |
| Singapore | 1.76 | 1.03 | 2.25 | -.25 | ... | ... | -6.43 |
| Hong Kong | 7.80 | .00 | 5.01 | -.32 | ... | ... | -16.12 |
| Malaysia | 3.80 | .00 | 2.91 | -.03 | 1.88 | -.08 | -5.58 |
| Thailand | 43.66 | 2.30 | 2.50 | -.50 | 1.67 | .06 | -7.77 |
| Indonesia | 10110.00 | 7.61 | 15.18 | .27 | 7.71 | .26 | -6.52 |
| Philippines | 48.10 | -2.53 | 11.13 | -1.50 | 5.24 | -.38 | -8.67 |
| Russia | 28.68 | .96 | n.a. | n.a. | 9.02 | .07 | -2.95 |

NOTE. Change is from January 30 to March 13/14.

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.

## Developments in Foreign Industrial Countries

Data released since the January Greenbook indicate that economic activity in the foreign industrial countries grew at a moderate pace in the fourth quarter of 2000, but recent indicators point to a slowing in the current quarter. Performance across countries remains uneven. Although Japanese real GDP posted a sizable increase in the fourth quarter, fueled largely by an increase in corporate investment, indicators for January were weak, suggesting that the first quarter will see a reversal of much of this growth. In the euro area, real GDP recorded a solid gain in the fourth quarter, about matching the growth pace of the prior two quarters. Overall, the euro area appears to have cooled slightly in the first quarter of this year, with activity in Germany notably weak. Both the United Kingdom and Canada have experienced more significant slowing in activity since the middle of last year.

Declining prices for petroleum-based energy caused broad measures of inflation to recede in January from recent peaks. However, energy prices remained above their levels of a year ago, keeping twelve-month headline inflation above core rates. Core inflation remains comfortably within target ranges for most of the major industrial countries. Japanese consumer price deflation continued in the early part of this year, with a 1.1 percent decline in core consumer prices posted over the twelve months ended in February.

Recent indicators for **Japan** suggest a sharp slowing in the early part of this year. Real GDP rose 3.2 percent in the fourth quarter, more than reversing the third-quarter decline. However, growth in business investment more than accounted for the increase, while both private consumption and net exports fell. The rapid growth in investment largely reflects the rising corporate profits and business confidence of earlier last year, both of which have since cooled.

Activity indicators for January have so far been weak: Industrial production was about 3 percent below the fourth quarter's average level, and both housing and nonresidential construction starts were down about 2 percent over the same period. Equipment investment, which had been the leading sector last year, showed a sharp reversal in January, with both orders and shipments of machinery down sharply. Indicators of household spending have been mixed, with real expenditures for all households falling in January to a level slightly below the fourth-quarter average, and new car registrations rebounding after two quarters of decline.

Employment fell in both December and January (reversing about half of the roughly 1 percent increase in employment recorded between July and November), and the unemployment rate reached a postwar high. The job-offers-to-applicants ratio edged down in January after more than a year of small but steady increases.

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

| Component | 1999[1] | 2000 | 2000 Q1 | 2000 Q2 | 2000 Q3 | 2000 Q4 |
|---|---|---|---|---|---|---|
| GDP | .4 | 2.8 | 10.0 | .9 | -2.4 | 3.2 |
| Total domestic demand | .5 | 2.8 | 8.4 | .5 | 1.4 | 1.0 |
| Consumption | -.4 | 1.5 | 8.2 | .5 | .1 | -2.3 |
| Private investment | 3.5 | 6.9 | 10.0 | -11.8 | 5.3 | 27.7 |
| Public investment | -6.4 | -3.7 | 6.1 | 23.3 | -36.5 | 3.3 |
| Government consumption | 4.1 | 3.7 | 4.1 | 5.0 | 2.2 | 3.6 |
| Inventories[2] | .0 | 0.2 | .6 | .2 | -.1 | 0.1 |
| Exports | 7.0 | 9.5 | 18.8 | 17.1 | .9 | 2.5 |
| Imports | 10.3 | 10.4 | 1.6 | 16.5 | 5.3 | 19.3 |
| Net exports[2] | -.1 | 0.1 | 1.8 | .5 | -.3 | -1.3 |

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

Prices continue to decline. Core consumer goods prices in the Tokyo area (which exclude fresh food but include energy) were down 1.1 percent in February relative to a year ago. Twelve-month changes in wholesale prices for domestic goods have been negative in the past five months after having been boosted for several months by the runup in energy prices. Land prices have also continued to fall; the national urban land price index in the third quarter of 2000 was 6¼ percent below its year-earlier level. The GDP deflator in the fourth quarter was down 1.8 percent from a year earlier.

The merchandise trade surplus (customs clearance basis) totaled $100 billion in 2000, down from $108 billion in 1999, with most of the decline occurring in the fourth quarter. The trade surplus narrowed further in January on a seasonally adjusted basis to $37 billion at an annual rate, the lowest level in nearly five years. The declining surplus reflects the impact of higher oil prices as well as a softening of exports to developing Asian countries.

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

| Indicator | 2000 | | | | | 2001 | |
|---|---|---|---|---|---|---|---|
| | Q2 | Q3 | Q4 | Nov. | Dec. | Jan. | Feb. |
| Industrial production | 1.5 | 1.8 | .2 | -.5 | 1.4 | -3.3 | n.a. |
| All-industry index | 1.8 | .4 | .0 | .3 | 1.4 | n.a. | n.a. |
| Housing starts | -3.2 | -.9 | 1.7 | 5.5 | 1.0 | -4.6 | n.a. |
| Machinery orders[1] | 3.1 | 8.2 | 2.6 | -2.9 | 3.8 | -11.8 | n.a. |
| Machinery shipments | 4.6 | 1.0 | 1.3 | 0.8 | 2.1 | -5.0 | n.a. |
| New car registrations | .3 | -2.9 | -.6 | 2.0 | 1.1 | 3.1 | n.a. |
| Unemployment rate[2] | 4.7 | 4.7 | 4.8 | 4.8 | 4.9 | 4.9 | n.a. |
| Job offers ratio[3] | .56 | .62 | .65 | .65 | .66 | .65 | n.a. |
| Business sentiment[4] | -18 | -15 | -14 | ... | ... | ... | ... |
| CPI (Core, Tokyo area)[5] | -.6 | -.8 | -.9 | -.9 | -1.0 | -.8 | -1.1 |
| Wholesale prices[5] | .4 | .2 | -.1 | -.2 | -.1 | -.3 | -.4 |

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.

Japanese officials have become increasingly worried about the gloomy economic news. The ruling coalition has announced an emergency economic package which includes several "stock market revitalization" measures to provide tax and other economic incentives to encourage more people to invest in the stock market. It also proposes the establishment of a private body to buy cross shareholdings from banks; these shareholdings must be marked to market in the fiscal year beginning April 1. Other measures are aimed at increasing the liquidity of the real estate market, including reforming regulations on land use in urban areas. The proposals also include a call for quantitative easing of monetary policy and the setting of an inflation target by the Bank of Japan. The BOJ lowered its target for the overnight call rate 10 basis points to 15 basis point on February 28; the latest proposals suggest that the government would like the BOJ to go further in easing monetary policy.

At the ruling Liberal Democratic Party's convention on March 12, Prime Minister Mori announced that a new election for party president will be held before his term expires in September. Because the party president becomes Prime Minister, this effectively amounts to a resignation. Negotiations over the timing of the new election are still underway, but it is widely expected to be held as early as April.

**Euro-area** GDP was up 2.9 percent (s.a.a.r.) in the fourth quarter, rising somewhat faster than the previous quarter's pace. Domestic demand growth picked up in the fourth quarter due in part to stronger government spending and a large contribution from inventory investment. Consumer spending also picked up following its weak third quarter performance, but still grew only a modest 1.4 percent in the fourth quarter. Investment spending increased only 1.7 percent, slowing considerably from its rate of growth in the previous quarter. Both exports and imports continued to expand at double-digit rates in the fourth quarter, with export growth outpacing import growth. Consequently, net exports made another positive contribution to growth, adding roughly 0.5 percentage points in the fourth quarter.

Fourth quarter growth in the euro area was uneven. For example, in Germany, GDP rose only 0.8 percent (s.a.a.r.), as final domestic demand remained weak. However, GDP in Italy rose over 3 percent in the fourth quarter, and nearly 4 percent in France.

Indicators for the current quarter are mixed, but on balance suggest the continuation of moderate growth. The euro-area purchasing managers surveys moved down for the tenth consecutive month in February, but to a level that indicates that manufacturing activity continues to expand. Euro-area industrial confidence declined somewhat further in February. Consumer confidence moved back down in January and February, but remained slightly above the fourth-quarter average. In Germany, manufacturing orders for January fell sharply after increasing substantially in the fourth quarter. However, the German Ifo index ticked up in January, partly reversing seven consecutive monthly declines, while German industrial production increased a larger-than-expected 0.9 percent. The French survey of consumer climate improved in January to a record high, and subsided only slightly below that level in February. French consumption of manufactured products also registered a large increase in January.

The harmonized unemployment rate for the euro area edged up to 8.8 percent in January, in part reflecting the addition of unemployment data for Greece. Still, on a comparable basis the unemployment rate is down nearly a full percentage point from a year ago. Based on national statistics, the French unemployment rate moved down in January to 9 percent. In Germany, recent sluggish rates of economic growth appear to have slowed employment gains. As a result, the German unemployment rate (based on national statistics) edged up to 9.3 percent in January and remained at that rate in February.

The twelve-month rate of consumer price inflation in the euro area declined to 2.4 percent in January from 2.6 percent in December due to lower energy prices, but remained above the European Central Bank's 2 percent target ceiling for the eighth consecutive month. The twelve-month rate of core inflation (which excludes energy and food prices) rose to 1.6 percent in January. In addition, February consumer prices in Germany and Italy rose 0.5 percent (s.a.) and 0.3 percent, respectively. These increases reflect a rebound in energy prices as well as higher meat prices associated with Europe's evolving livestock disease crisis. France, which remains as one of the low-inflation nations of the euro area, recorded a modest increase of 0.1 percent in consumer prices for February; this came after two consecutive monthly declines in consumer prices, owing in part to falling energy and clothing prices.

**Euro-Area Real GDP**

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

| Component | 1999[1] | 2000 | 2000 | | | |
|---|---|---|---|---|---|---|
| | | | Q1 | Q2 | Q3 | Q4 |
| GDP | 3.3 | 3.0 | 3.7 | 3.1 | 2.2 | 2.9 |
| Total domestic demand | 2.9 | 2.5 | 2.5 | 3.4 | 1.8 | 2.4 |
| Consumption | 2.7 | 2.1 | 3.2 | 3.0 | .6 | 1.4 |
| Investment | 5.5 | 3.9 | 7.2 | 2.4 | 4.3 | 1.6 |
| Government consumption | 1.6 | 1.6 | 2.5 | 1.2 | .3 | 2.6 |
| Inventories[2] | -.1 | .1 | -1.4 | 0.8 | .4 | 0.7 |
| Exports | 10.0 | 11.6 | 12.4 | 8.3 | 11.6 | 13.9 |
| Imports | 9.1 | 10.7 | 9.1 | 9.5 | 10.9 | 13.3 |
| Net exports[2] | .4 | .5 | 1.3 | -.2 | .5 | .5 |
| *Memo:* | | | | | | |
| France | 3.7 | 2.8 | 2.2 | 2.8 | 2.4 | 3.9 |
| Germany | 2.5 | 2.6 | 3.9 | 4.8 | 1.1 | .8 |
| Italy | 2.3 | 2.7 | 4.6 | .7 | 2.3 | 3.3 |

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

**Euro-Area Economic Indicators**[1]
(Percent change from previous period except as noted, s.a.)

| Indicator | 2000 | | | | | 2001 | |
|---|---|---|---|---|---|---|---|
| | Q2 | Q3 | Q4 | Nov. | Dec. | Jan. | Feb. |
| Industrial production[2] | 2.1 | 1.0 | 1.8 | 1.2 | 2.0 | n.a. | n.a. |
| Retail sales volume | 1.1 | .2 | .3 | .3 | .1 | n.a. | n.a. |
| Unemployment rate[3] | 9.1 | 8.9 | 8.7 | 8.7 | 8.7 | 8.8 | n.a. |
| Consumer confidence[4] | .3 | -.7 | -1.3 | -2.0 | 0 | -1.0 | -2.0 |
| Industrial confidence[5] | 6.3 | 6.7 | 5.3 | 5.0 | 5.0 | 3.0 | 1.0 |
| Mfg. orders, Germany | 5.3 | .7 | 2.3 | .9 | 2.0 | -3.9 | n.a. |
| CPI[6,7] | 2.1 | 2.5 | 2.7 | 2.9 | 2.6 | 2.4 | n.a. |
| Producer prices[6,7] | 5.2 | 5.8 | 6.1 | 6.3 | 5.4 | 4.8 | n.a. |
| M3[8] | 5.4 | 5.3 | 5.2 | 5.0 | 5.2 | 4.7 | n.a. |

1. Euro-area indicators do not include Greece prior to 2001 but do include Greece as of January.
2. Excludes construction.
3. Euro-area standardized to ILO definition. Includes Eurostat estimates in some cases.
4. Diffusion index based on European Commission surveys in individual countries; Averages of responses to questions on financial situation, general economic situation, and purchasing attitudes.
5. Diffusion index based on European Commission surveys in individual countries; Averages of responses to questions on production expectations, orders, and stocks.
6. Percent change from year earlier.
7. Eurostat harmonized definition.
8. Eurostat harmonized definition, n.s.a., 12-month percent change.

n.a. Not available.

Real GDP in the **United Kingdom** expanded 1.3 percent (s.a.a.r) in the fourth quarter, down sharply from growth in the prior two quarters. Total domestic demand rose a modest 0.5 percent; moderate consumption growth and a strong expansion of fixed investment were offset by a negative contribution from inventory accumulation. Robust growth in exports together with a moderate rise in imports saw net exports make a positive contribution to fourth quarter GDP growth.

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

| Component | 1999[1] | 2000 | 2000 Q1 | 2000 Q2 | 2000 Q3 | 2000 Q4 |
|---|---|---|---|---|---|---|
| GDP | 3.2 | 2.5 | 1.2 | 4.2 | 3.3 | 1.3 |
| Total domestic demand | 4.2 | 2.7 | .4 | 6.1 | 4.0 | .5 |
| Consumption | 4.9 | 3.3 | 2.7 | 3.8 | 3.9 | 2.9 |
| Investment | 5.3 | 1.9 | -5.4 | 4.9 | 3.8 | 4.8 |
| Government consumption | 4.1 | 2.7 | -2.0 | 6.9 | 5.1 | .8 |
| Inventories[2] | -.6 | -.2 | .1 | 1.7 | .0 | -2.5 |
| Exports | 7.2 | 6.9 | 7.3 | 11.0 | 3.8 | 5.6 |
| Imports | 9.5 | 7.2 | 4.4 | 16.2 | 5.9 | 2.7 |
| Net exports[2] | -1.1 | -.5 | .7 | -2.3 | -1.0 | .8 |

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

Data for the current quarter point to somewhat firmer growth in economic activity. Both consumer and business confidence indices were up in January and remain high relative to historical levels. Industrial production, which fell in the fourth quarter, was flat in January. The volume of retail sales increased 0.7 percent in January to a level 2.8 percent above its fourth-quarter average.

Notwithstanding some recent slowing in activity, labor market conditions remain tight. The official claims-based unemployment rate edged down to 3.4 percent in February, the lowest rate in 25 years, while the labor force survey measure of the unemployment rate declined to a record low of 5.2 percent for the three months centered in December. Average annual earnings growth for December breached the 4½ percent rate that the Bank of England believes to be compatible with its inflation target, but fell back to a 4 percent rate for the twelve months ended in January. Producer input prices have moderated in recent months, reflecting a fall in fuel prices, and the twelve-month rate of retail price inflation (excluding mortgage interest payments) continues to run below the 2½ percent target.

At its February 8, 2001 meeting, the Monetary Policy Committee (MPC) of the Bank of England voted to lower the official repo rate to 5.75 percent. This is the first move since February 2000 and the first cut since June 1999.

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

| Indicator | 2000 | | | | | 2001 | |
|---|---|---|---|---|---|---|---|
| | Q2 | Q3 | Q4 | Nov. | Dec. | Jan. | Feb. |
| Industrial production | 1.3 | .7 | -.6 | .2 | -.7 | .0 | n.a. |
| Retail sales | .3 | 1.3 | 1.2 | .6 | .4 | .7 | n.a. |
| Unemployment rate[1] | | | | | | | |
| Claims-based | 3.8 | 3.6 | 3.6 | 3.6 | 3.5 | 3.5 | 3.4. |
| Labor force survey[2] | 5.5 | 5.4 | 5.3 | 5.3 | 5.2 | n.a. | n.a. |
| Business confidence[3] | -4.0 | 3.3 | 5.3 | 1.0 | 12.0 | 14.0 | 9.0 |
| Retail prices[4] | 2.1 | 2.1 | 2.1 | 2.2 | 2.0 | 1.8 | n.a. |
| Producer input prices[5] | 11.4 | 12.1 | 9.9 | 11.6 | 5.2 | 6.6 | 6.0 |
| Average earnings[5] | 4.1 | 4.1 | 4.4 | 4.4 | 4.8 | 4.0 | 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.

On March 7, 2001, Chancellor Gordon Brown introduced the government's budget for the fiscal year 2001-2002. The budget is slightly expansionary and is seen by some as reflecting the current government's desire to boost its popularity in advance of the coming general election (which is expected to take place in May of this year). On the taxation side, the budget will raise the upper end of the lowest tax bracket and will broaden the coverage of last year's cut in the capital gains tax. Duties on most fuels will also be cut, although the tax relief on unleaded petrol expires in June. The budget provides for an additional £2.3 billion in public spending to be spread over the next three years, mainly on education and health. A budget surplus of about 2½ percent of GDP is forecast for fiscal year 2001-2002.

Real GDP in **Canada** rose a weaker-than-expected 2.6 percent (s.a.a.r.) in the fourth quarter, down from a growth rate of 4.5 percent in the third quarter. Growth of consumer spending slowed in the fourth quarter, led by sharply lower automobile purchases. Following very high growth in the first three quarters of 2000, fixed investment fell in the final quarter, reflecting a broad-based decline in machinery and equipment investment. After surging in the third quarter, inventory investment slowed, subtracting 2.6 percentage points from growth.

Export growth edged further down, with rising exports of energy products and machinery and equipment nearly offset by declining motor vehicle exports. Mainly as a result of a substantial decline in imports, net exports added 4.7 percentage points to fourth-quarter growth.

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

| Component | 1999[1] | 2000 | 2000 Q1 | 2000 Q2 | 2000 Q3 | 2000 Q4 |
|---|---|---|---|---|---|---|
| GDP | 4.9 | 4.0 | 4.8 | 4.3 | 4.5 | 2.6 |
| Total domestic demand | 5.9 | 3.2 | 4.7 | 4.4 | 6.3 | -2.4 |
| Consumption | 4.4 | 3.7 | 4.0 | 3.6 | 5.0 | 2.3 |
| Investment | 13.0 | 5.5 | 11.4 | 11.6 | 7.3 | -7.2 |
| Government consumption | 1.3 | 2.5 | 2.9 | 3.6 | 1.5 | 2.1 |
| Inventories[2] | .6 | -.6 | -.4 | -.6 | 1.4 | -2.6 |
| Exports | 9.3 | 7.0 | 15.8 | 9.6 | 2.0 | 1.0 |
| Imports | 13.3 | 5.6 | 15.8 | 12.1 | 6.0 | -9.8 |
| Net exports[2] | -1.2 | .7 | .3 | -.8 | -1.6 | 4.7 |

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

Limited available data suggest that while the Canadian economy retains many areas of strength, intensifying weakness in the manufacturing sector is continuing to slow growth in the current quarter. Various surveys of business conditions in the manufacturing industry plummeted in January and manufacturing employment fell sharply in both January and February. However, housing starts and employment data through February suggest the construction sector remains healthy, led by a rebound in residential investment following a sluggish fourth quarter. Non-trade-related service sector employment also continues to expand, consistent with continued strength in this sector.

The twelve-month rate of consumer price inflation was 3 percent in January, at the ceiling of the Bank of Canada's 1 percent to 3 percent target range. Higher energy prices continue 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 only 2 percent in January. Wage increases have moderated, with average hourly earnings rising 3 percent in the twelve months ending in January, down from a rate close to 4 percent in previous months.

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

| Indicator | 2000 | | | | | 2001 | |
|---|---|---|---|---|---|---|---|
| | Q2 | Q3 | Q4 | Nov. | Dec. | Jan. | Feb. |
| GDP at factor cost | 1.0 | 1.0 | .5 | .0 | .2 | n.a. | n.a. |
| Industrial production | 1.3 | .9 | .3 | -.2 | -.2 | n.a. | n.a. |
| New mfg. orders | 1.8 | 2.9 | -.7 | -.6 | -1.2 | n.a. | n.a. |
| Retail sales | 1.1 | 2.6 | .3 | .4 | .9 | n.a. | n.a. |
| Employment | .4 | .2 | .7 | .4 | .2 | .0 | -.2 |
| Unemployment rate[1] | 6.7 | 6.9 | 6.9 | 6.9 | 6.8 | 6.9 | 6.9 |
| Consumer prices[2] | 2.4 | 2.7 | 3.1 | 3.2 | 3.2 | 3.0 | n.a. |
| Consumer attitudes[3] | 117.0 | 119.8 | 114.2 | ... | ... | ... | ... |
| Business confidence[4] | 154.3 | 149.4 | 140.4 | ... | ... | ... | ... |

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 Bank of Canada lowered its policy rate, the Bank Rate, 25 basis points on January 23 and an additional 50 basis points on March 6, to 5.25 percent. In its March 6 statement, the Bank cited "indications that the slowdown in the U.S. economy in the first half of 2001 could be more pronounced than expected" as a reason for its decision. The Bank cited weaker domestic demand as further justification, noting that "in Canada, recent information suggests that the positive underlying momentum in the economy at the end of 2000 was somewhat less strong than had been previously estimated." The Bank's next policy announcement date is April 17.

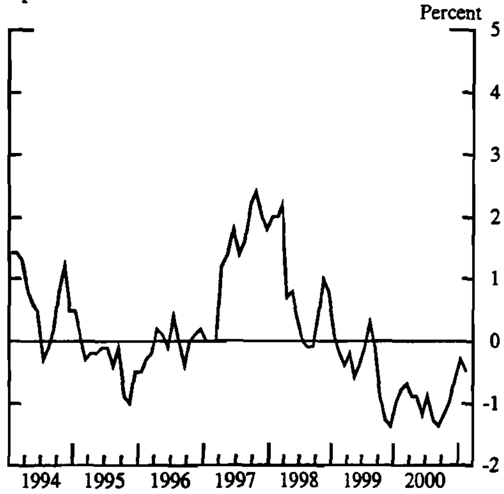
**External Balances**
(Billions of U.S. dollars, s.a.a.r.)

| Country and balance | 2000 | | | | | 2001 |
|---|---|---|---|---|---|---|
| | Q2 | Q3 | Q4 | Nov. | Dec. | Jan. |
| *Japan* | | | | | | |
| Trade | 112.5 | 104.6 | 61.6 | 68.5 | 48.9 | 37.1 |
| Current account | 121.4 | 119.8 | 102.4 | 109.1 | 87.7 | 86.8 |
| *Euro-Area* | | | | | | |
| Trade[1] | 20.0 | 17.4 | 17.6 | 17.5 | 7.5 | n.a. |
| Current account[1] | -24.6 | -22.4 | -27.7 | -29.8 | -51.2 | n.a. |
| *Germany* | | | | | | |
| Trade | 55.6 | 47.4 | 36.1 | 27.8 | 20.4 | n.a. |
| Current account | -31.4 | -27.4 | n.a. | ... | ... | ... |
| *France* | | | | | | |
| Trade | 7.0 | -4.6 | -3.5 | -2.2 | -2.4 | 3.3 |
| Current account | 5.3 | 4.2 | n.a. | 3.3 | n.a. | n.a. |
| *Italy* | | | | | | |
| Trade | -2.6 | -2.8 | -1.5 | -7.5 | 6.6 | n.a. |
| Current account[1] | -14.8 | 9.4 | -5.5 | .9 | -12.6 | n.a. |
| *United Kingdom* | | | | | | |
| Trade | -43.4 | -43.2 | -43.8 | -40.4 | -49.3 | n.a. |
| Current Account | -21.1 | -18.7 | n.a. | ... | ... | |
| *Canada* | | | | | | |
| Trade | 34.9 | 36.9 | 41.0 | 34.3 | 46.1 | n.a. |
| Current Account | 10.3 | 12.4 | 15.3 | ... | ... | ... |

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

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

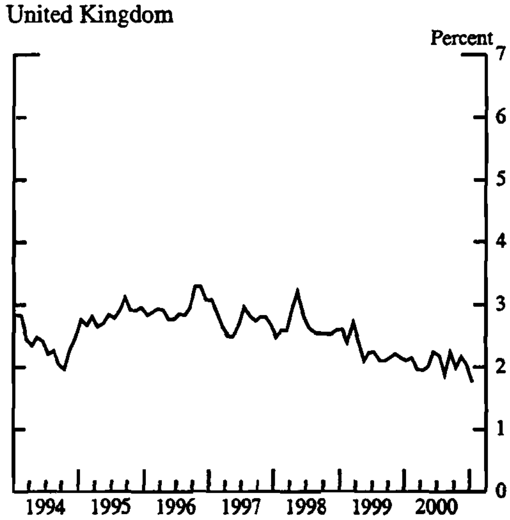
Japan



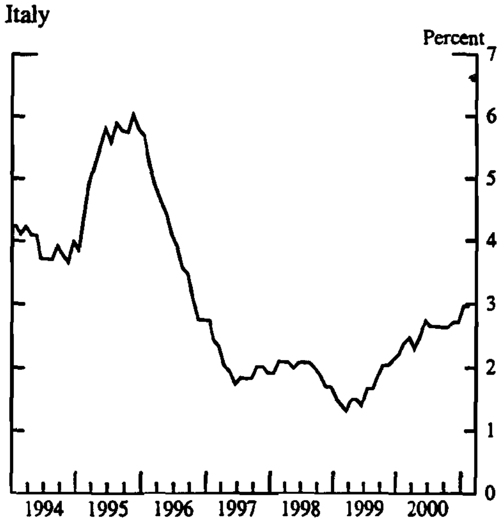

Germany


France

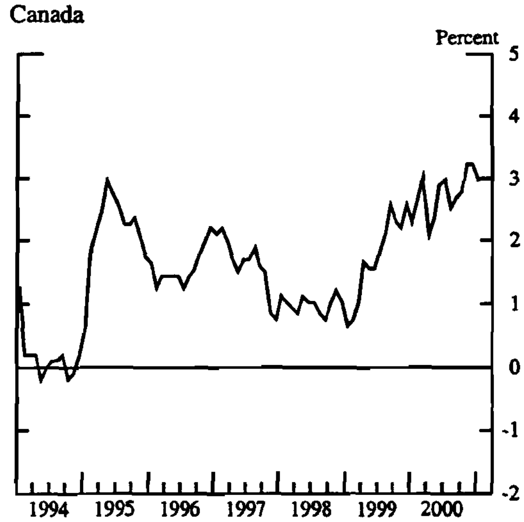

United Kingdom



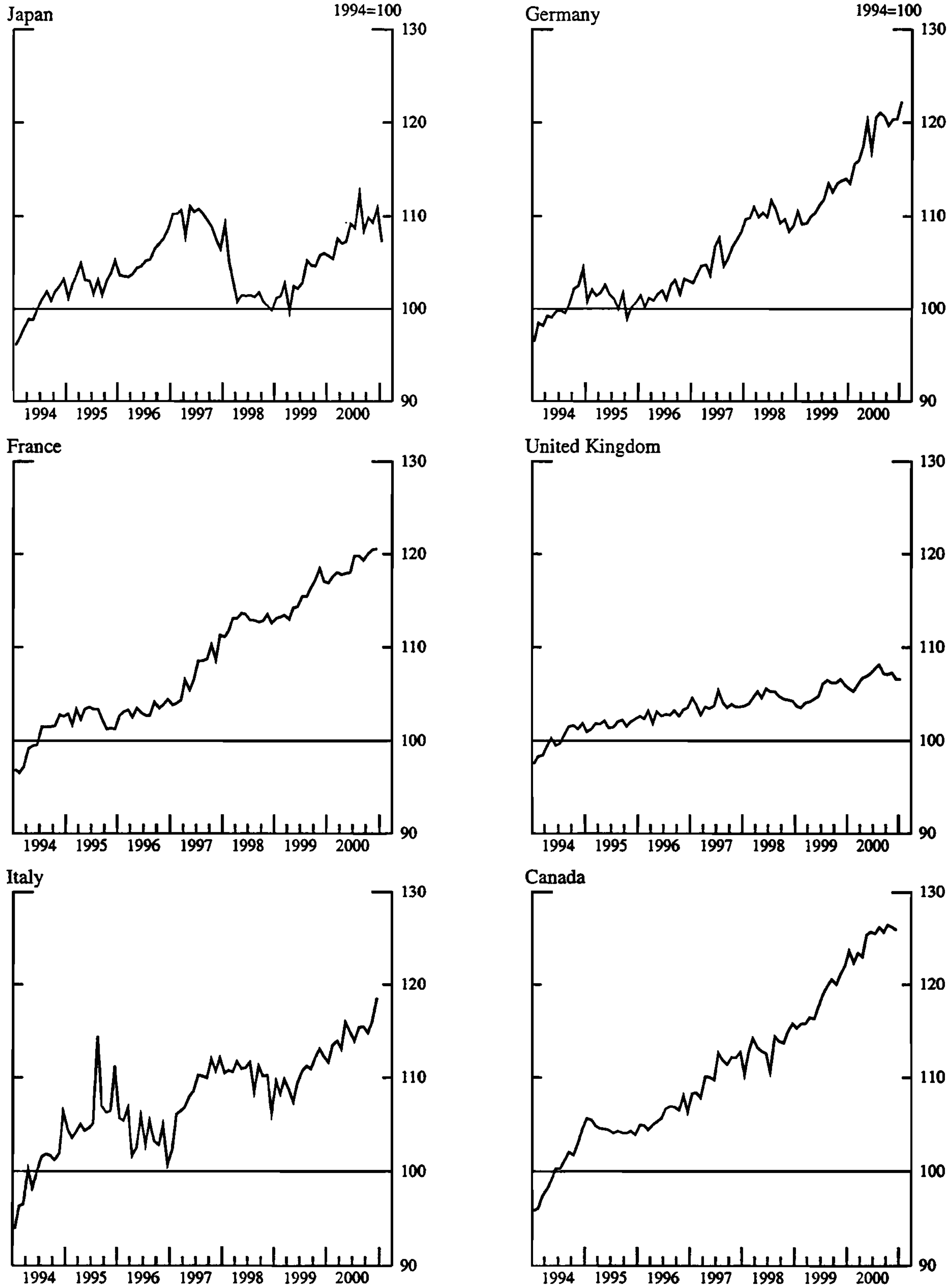

Italy




Canada



## Industrial Production in Selected Industrial Countries



## Economic Situation in Other Countries

Data received since the last Greenbook have confirmed that growth in major developing countries has slowed markedly. In most countries, the slowdown largely appeared to reflect weaker external demand. In Latin America, output actually declined in Mexico in the fourth quarter of last year, while economic activity was about flat in Argentina. Growth appears to have turned negative in most of emerging Asia in the first quarter of this year, after having slowed sharply in the fourth quarter, and showed signs of moderating in China. Inflation rates have edged down across the developing countries, consistent with the slowdown in growth; deflation has intensified in Argentina.

Turkey abandoned its crawling-peg exchange-rate regime on February 22, allowing the lira to float. Since then, the lira has depreciated about 30 percent against the dollar and inflation has begun to rise. In an effort to instill confidence, Prime Minister Ecevit put a new economic team in place, including Kemal Dervis, former senior World Bank official, and Surreya Serdengecti, who was appointed the new governor of the central bank; Serdengecti was formerly the bank's deputy governor. Turkish authorities and the IMF are working on a new economic program that is expected to be announced soon.

In **Mexico,** recent data provide clear evidence that economic activity has weakened. Real GDP fell 3 percent (s.a.a.r) in the fourth quarter of last year, a sharp deterioration from the over 6.5 percent growth recorded in the prior quarter. In large part, the drop in output was due to weak external demand resulting from the slowdown in the United States. Mexican exports declined in January for the third consecutive month, while imports have been roughly flat since last October; as a result, the trade deficit increased to over $11 billion (s.a.a.r.) in the fourth quarter of 2000 and to $18 billion in January. The current account deficit also widened in the fourth quarter to over $22.5 billion (n.s.a.) at an annual rate. Consistent with weaker economic activity and tight domestic policies, the twelve-month inflation rate moved down in January and February.

Mexico posted a public sector deficit equal to 1.1 percent of GDP for 2000, a bit larger than the government's target. This year's target for the deficit is 0.7 percent of GDP. However, earlier this month, Mexico's finance minister warned that, without fiscal reform, the augmented deficit--including the financing costs of the liabilities arising from bank restructuring and other expenditures--could be in the neighborhood of 4 percent of GDP. A fiscal reform package aimed at overhauling government finances on both the revenue and expenditure sides is expected to be presented to the legislature later this month.

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

| Indicator | 1999 | 2000 | 2000 | | | 2001 | |
|---|---|---|---|---|---|---|---|
| | | | Q2 | Q3 | Q4 | Jan. | Feb. |
| Real GDP[1] | 5.5 | 5.2 | 6.4 | 6.7 | -3.0 | ... | ... |
| Industrial production | 4.4 | 6.3 | 2.1 | 0.9 | -1.5 | n.a. | n.a. |
| Unemployment rate[2] | 2.5 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | n.a. |
| Consumer prices[3] | 12.3 | 9.0 | 9.5 | 9.0 | 8.9 | 8.1 | 7.1 |
| Trade balance[4] | -5.4 | -8.2 | -7.4 | -8.9 | -11.2 | -18.0 | n.a. |
| Imports[4] | 142.1 | 174.5 | 170.5 | 180.7 | 186.7 | 186.8 | n.a. |
| Exports[4] | 136.7 | 166.2 | 163.1 | 171.8 | 175.5 | 168.8 | n.a. |
| Current account[5] | -13.5 | -17.9 | -13.5 | -15.9 | -22.7 | ... | ... |

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.

In **Argentina**, data since the last Greenbook indicate continued stagnation. Industrial production, which had increased sharply in December, declined in January, leaving the level well below the most recent peak at the end of 1999. Construction and sales indicators for January also point to weakness and consumer prices in February fell 1.7 percent compared with the same month a year earlier. The federal government's fiscal deficit for the January-February period reached $1.4 billion; as a result, the government is widely expected to miss its deficit target with the IMF for the first quarter.

On the heels of the FOMC rate cuts and the final approval by the IMF executive board of the assistance package in January, financial market confidence in Argentina greatly improved in January. During the late January-early February period, the Argentine government was able to execute several successful rollovers of short-term debt and a $4.2 billion bond exchange to lengthen the maturity profile of its debt. Financial conditions deteriorated in February, however, as a result of the negative domestic data releases, spillover effects from the crisis in Turkey, and calls for the resignation of the president of the central bank. In early March, Economy Minister Jose Luis Machinea resigned and was replaced by Ricardo Lopez Murphy, reportedly a staunch advocate of fiscal austerity. Lopez Murphy is expected to unveil a package of fiscal reform and economic stimulus measures soon.

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

| Indicator | 1999 | 2000 | 2000 | | | 2001 | |
|---|---|---|---|---|---|---|---|
| | | | Q4 | Nov. | Dec. | Jan. | Feb. |
| Real GDP[1] | -.3 | n.a. | n.a. | ... | ... | ... | ... |
| Industrial production | -6.0 | 1.7 | 1.5 | 1.5 | 4.1 | -1.5 | n.a. |
| Unemployment rate[2] | 13.8 | 15.1 | 14.7 | ... | ... | ... | ... |
| Consumer prices[3] | -1.8 | -.7 | -.6 | -.7 | -.7 | -1.5 | -1.7 |
| Trade balance[4] | -2.2 | 1.1 | 3.5 | 2.8 | 5.9 | 4.9 | n.a. |
| Current account[5] | -12.3 | n.a. | 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 Q4 reflect data for October.
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**, data releases since the last Greenbook have painted a mixed picture on economic activity. Real GDP growth slowed to 0.9 percent (s.a.a.r.) in fourth quarter from a revised 8.9 percent in third quarter, but industrial production surged in December. Although industrial production gave back some of December's surge in January, other data releases have pointed to continued strength. The unemployment rate fell considerably in recent months, although the drop largely reflected declines in the labor force. Over the mid-December to mid-January period, the central bank cut (in two steps) its benchmark overnight interest rate, the Selic, from 16.5 percent to 15.25 percent. Loan rates charged by domestic banks have fallen more steeply over this period. Meanwhile, the inflation rate continued to decline.

The government recorded a sizeable primary fiscal surplus in January. In early February, the federal government also announced spending cuts equivalent to about 0.5 percent of GDP to offset additional expenditures that had not been programmed into the 2001 fiscal budget. In early March, President Cardoso unveiled reform initiatives for the remainder of his term in office, which ends in December 2002, including a proposal to grant central bank officials political independence.

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

| Indicator | 1999 | 2000 | 2000 | | | 2001 | |
|---|---|---|---|---|---|---|---|
| | | | Q3 | Q4 | Dec. | Jan. | Feb. |
| Real GDP[1] | 3.4 | 4.2 | 8.9 | .9 | ... | ... | ... |
| Industrial production | -.7 | 6.5 | 1.1 | 3.9 | 7.2 | -2.7 | n.a. |
| Unemployment rate[2] | 7.6 | 7.1 | 7.0 | 6.7 | 5.9 | 5.7 | n.a. |
| Consumer prices[3] | 8.9 | 6.0 | 7.6 | 6.2 | 6.0 | 5.9 | n.a. |
| Trade balance[4] | -1.2 | -0.7 | -1.6 | -1.5 | -2.1 | -3.4 | 3.7 |
| Current account[5] | -25.1 | -24.6 | -17.9 | -35.6 | -35.4 | -27.6 | 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.

Data on the **Venezuelan** economy have been sparse since the last Greenbook. What little information has been released points to continued recovery with inflation remaining on a downward trend. Auto sales have continued to rise while consumer prices over the twelve months ended February were up about 13 percent. With the price of oil falling somewhat, there is growing concern that Venezuela's fast pace of government spending will lead to a large fiscal deficit and a greater need for the government to tap domestic and international financing sources, intensifying financial vulnerabilities and possibly crowding out domestic private investment.

In **Korea,** the latest indicators of economic activity have been somewhat less negative than was the case late last year. Industrial production increased in January. However, this followed four consecutive months of decline, and inventories continued to increase. Measures of consumer confidence also moved up in January, breaking, at least temporarily, their downward trend over the second half of last year. Inflation, which had been pushed up in recent months by higher oil prices and a depreciating won, was unchanged in February, remaining slightly above the upper end of the Bank of Korea's target range.

On February 8, the Bank of Korea announced a 25 basis point reduction in its overnight interest rate target. The last change in the rate had been a 25 basis point increase last October. In explaining its easing move, Bank officials cited a greater-than-expected slowing in the pace of economic activity, and expressed confidence that this slowing would lead to a reduction in inflation later in the year.

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

| Indicator | 1999 | 2000 | 2000 | | | 2001 | |
|---|---|---|---|---|---|---|---|
| | | | Q4 | Nov. | Dec. | Jan. | Feb. |
| Real GDP[1] | -4.1 | 5.6 | 5.6 | ... | ... | ... | ... |
| Unemployment rate[2] | 15.2 | 13.4 | 11.4 | 12.1 | 10.2 | n.a. | n.a. |
| Consumer prices[3] | 19.5 | 13.4 | 14.2 | 14.2 | 13.4 | 13.0 | 13.1 |
| Non-oil trade balance[4] | -9.1 | -10.8 | -11.9 | n.a. | n.a. | n.a. | n.a. |
| Trade balance[4] | 7.6 | 18.0 | 17.6 | n.a. | n.a. | n.a. | n.a. |
| Current account[5] | 3.7 | 13.4 | 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.

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

| Indicator | 1999 | 2000 | 2000 | | | 2001 | |
|---|---|---|---|---|---|---|---|
| | | | Q4 | Nov. | Dec. | Jan. | Feb. |
| Real GDP[1] | 14.0 | n.a. | n.a. | ... | ... | ... | ... |
| Industrial production | 24.1 | 16.9 | -3.8 | -1.1 | -2.7 | 1.8 | n.a. |
| Unemployment rate[2] | 6.3 | 4.1 | 4.0 | 4.1 | 4.0 | 4.1 | n.a. |
| Consumer prices[3] | 1.3 | 3.1 | 2.8 | 2.6 | 3.1 | 4.2 | 4.2 |
| Trade balance[4] | 28.4 | 16.6 | 14.7 | 13.7 | 15.6 | 18.9 | n.a. |
| Current account[5] | 24.5 | 11.0 | 13.3 | 12.7 | 14.9 | 8.2 | 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, recent data point to declining economic activity. Real GDP fell in Indonesia and was roughly flat in the Philippines in the fourth quarter. For the first quarter of this year, monthly data show declines in industrial production throughout the region, even in Singapore and Malaysia, which had registered strong GDP growth in the fourth quarter. Exports fell in most ASEAN countries in the fourth quarter, and monthly trade surpluses shrank in Malaysia, Singapore and Thailand. With the exception of Indonesia and the Philippines, inflation remained very low in the region.

Much of the political uncertainty that has plagued several ASEAN countries in recent months has been resolved. In the Philippines and Thailand, the transitions to new governments have been smooth, although there are issues that continue to provide some concern. On the other hand, in Indonesia, the pressure on President Wahid to resign is growing, and impeachment proceedings have begun. In addition, regional violence in several parts of the Indonesian archipelago poses a threat to domestic security and international confidence.

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

| Indicator and country | 1999 | 2000 | 2000 | | | | 2001 |
|---|---|---|---|---|---|---|---|
| | | | Q3 | Q4 | Nov. | Dec. | Jan. |
| *Real GDP*[1] | | | | | | | |
| Indonesia | 5.8 | 5.3 | .4 | -3.8 | ... | ... | ... |
| Malaysia | 11.0 | 6.5 | .0 | 4.6 | ... | ... | ... |
| Philippines | 5.1 | 3.6 | 3.7 | .9 | ... | ... | ... |
| Singapore | 8.0 | 11.0 | 9.8 | 10.3 | ... | ... | ... |
| Thailand | 6.8 | n.a. | -4.5 | n.a. | ... | ... | ... |
| *Industrial production*[2] | | | | | | | |
| Indonesia[3] | -.9 | 11.6 | 3.0 | -4.6 | -4.5 | -3.8 | -2.2 |
| Malaysia | 9.1 | 19.2 | 2.6 | .8 | -1.8 | 1.0 | -.3 |
| Philippines | 3.6 | 14.0 | 8.7 | 5.7 | -.9 | -2.8 | n.a. |
| Singapore | 13.9 | 15.2 | 3.8 | 4.6 | -.7 | -3.0 | -12.6 |
| Thailand | 12.5 | 3.0 | 1.1 | 3.2 | 2.8 | -1.6 | -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 Q3 | 2000 Q4 | 2000 Nov. | 2000 Dec. | 2001 Jan. |
|---|---|---|---|---|---|---|---|
| Indonesia | 24.7 | 28.5 | 27.9 | 22.5 | 21.0 | 20.6 | 24.9 |
| Malaysia | 19.1 | 16.0 | 13.6 | 17.6 | 18.3 | 17.2 | 13.8 |
| Philippines | 4.3 | 6.7 | 7.0 | 8.7 | 6.3 | 15.3 | n.a. |
| Singapore | 3.6 | 3.3 | 4.4 | 4.6 | 6.7 | .3 | n.a. |
| Thailand | 9.3 | 5.5 | 6.1 | 2.2 | 4.0 | 1.9 | -3.2 |

n.a. Not available.

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

| Country | 1999[1] | 2000[1] | 2000 Q4 | 2000 Nov. | 2000 Dec. | 2001 Jan. | 2001 Feb. |
|---|---|---|---|---|---|---|---|
| Indonesia | 2.0 | 9.3 | 8.8 | 9.1 | 9.3 | 8.3 | 9.1 |
| Malaysia | 2.5 | 1.4 | 1.8 | 1.9 | 1.4 | 1.5 | n.a. |
| Philippines | 4.3 | 6.6 | 5.9 | 6.0 | 6.6 | 6.9 | 6.7 |
| Singapore | .9 | 2.1 | 2.0 | 2.0 | 2.1 | 2.0 | n.a. |
| Thailand | .7 | 1.3 | 1.6 | 1.7 | 1.3 | 1.3 | 1.5 |

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

In **China**, the latest economic indicators suggest a moderation in the pace of growth, led by a weakening in exports. Industrial production rose 10.2 percent in the January-February period from the same period a year earlier, a little slower than its pace of growth in previous months. Exports in January and February recovered somewhat from their steep decline late last year, but remained relatively weak. Inflation remained very low; consumer prices were unchanged in February compared with the same month a year ago, partly reflecting a decline in food prices in February following January's Lunar New Year holiday.

In a speech to the National People's Congress in early March, Premier Zhu Rongji announced an annual growth target for real GDP of 7 percent for the 2001-2005 period. To meet the target, Premier Zhu said that the government will "continue to implement a pro-active fiscal policy to increase investment."

China's efforts to reform its domestic stock markets continued in February, when the government relaxed restrictions on the purchase of B shares by local residents. Hitherto, these shares had been reserved for foreign investors only.

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

| Indicator | 1999 | 2000 | 2000 | | | 2001 | |
|---|---|---|---|---|---|---|---|
| | | | Q3 | Q4 | Dec. | Jan. | Feb. |
| Real GDP[1] | 6.2 | 7.5 | 11.0 | 7.5 | ... | ... | ... |
| Industrial production[2] | 8.0 | 11.4 | 12.5 | 10.8 | 10.4 | 2.3 | 10.2 |
| Consumer prices[2] | -1.0 | 1.5 | .3 | .9 | 1.5 | 1.2 | .0 |
| Trade balance[3] | 29.2 | 24.1 | 14.3 | 21.4 | 22.5 | 3.0 | 16.4 |

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. Industrial production figures for February refer to January-February period. Annual figures are year over year.
3. Billions of U.S. dollars, annual rate. Imports are c.i.f.
... Not applicable.

In **Hong Kong**, real GDP declined 0.4 percent (s.a.a.r.) in the fourth quarter. Output was dragged down by a sharp fall in exports, in part reflecting weaker U.S. and Japanese growth and a related slowdown in global electronics demand. More recent trade data suggest that the weakness in exports continued into 2001. Nonetheless, the trade deficit shrank in January, as imports declined sharply. In addition, private consumption remained sluggish in the fourth quarter, as high real interest rates and uncertainties in the stock and property markets continued to weigh on consumer confidence. The unemployment rate, however, edged down to 4.3 percent (s.a.) in the November-January period, and the twelve-month rate of decline in consumer prices eased in January. In its fiscal budget for 2001, announced in early March, the government projected a small deficit for this year.

In **Taiwan**, real GDP ticked up 0.4 percent (s.a.a.r) in the fourth quarter of last year. Private consumption showed only a modest increase, restrained by higher unemployment and sharply lower local stock prices. Exports and investment spending declined sharply. More recent data point to continued sluggishness, with industrial production plunging 12.1 percent (s.a.) in January, although much of this decline reflected fewer working days that month due to the unusually early Lunar New Year holidays. In addition, exports in the January-February period were down about 4 percent compared with the same period a year earlier. Consumer prices were highly volatile around the holidays, but on average inflation remained low. In early March, Taiwan's central bank trimmed interest rates an additional 12½ basis points, following a cut of 25 basis points in February.

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

| Indicator | 1999 | 2000 | 2000 | | | | 2001 |
|---|---|---|---|---|---|---|---|
| | | | Q3 | Q4 | Nov. | Dec. | Jan. |
| Real GDP[1] | 9.3 | 6.6 | 8.7 | -.4 | ... | ... | ... |
| Unemployment rate[2] | 6.1 | 5.0 | 4.8 | 4.4 | 4.6 | 4.4 | 4.3 |
| Consumer prices[3] | -4.0 | -1.8 | -2.8 | -2.2 | -2.0 | -1.8 | -1.2 |
| Trade balance[4] | -5.6 | -11.0 | -13.7 | -13.7 | -13.4 | -13.6 | -1.6 |

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 | | | 2001 | |
|---|---|---|---|---|---|---|---|
| | | | Q4 | Nov. | Dec. | Jan. | Feb. |
| Real GDP[1] | 6.5 | 4.1 | .4 | ... | ... | ... | ... |
| Unemployment rate[2] | 2.9 | 3.0 | 3.2 | 3.2 | 3.4 | n.a. | n.a. |
| Industrial production | 7.7 | 7.4 | -3.1 | -1.8 | -4.2 | -12.1 | n.a. |
| Consumer prices[3] | .1 | 1.7 | 1.6 | 2.3 | 1.7 | 2.4 | -1.0 |
| Trade balance[4] | 10.9 | 8.3 | 13.2 | 3.6 | 25.2 | 8.5 | 21.4 |
| Current account[5] | 8.4 | 9.6 | 16.9 | ... | ... | ... | ... |

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.