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Part 2

May 9, 2001

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

May 9, 2001

Recent Developments

Domestic Nonfinancial Developments

Domestic Nonfinancial Developments

Overview

Economic activity is now estimated to have posted a modest increase in the first quarter, but the second quarter is off to a shaky start. In the labor market, payroll employment fell appreciably in April, and unemployment rose. Moreover, the recent information on new orders points to continued softness in business investment, and inventories in a number of sectors remain excessive despite the sharp production cuts of the past several months. And although household spending, especially on motor vehicles and housing, has held up remarkably well to date, it, too, appears to be tilting toward slower growth. Core inflation seems to have continued the gentle upward drift that has been apparent since early 2000.

Employment

Labor market conditions have deteriorated considerably of late. Private nonfarm payroll employment dropped 261,000 in April, and the unemployment rate rose another 0.2 percentage point, to 4.5 percent. Whereas the downturn in labor demand previously had been concentrated in the manufacturing sector and the related help-supply and wholesale trade industries, the April employment report suggests that the rest of the labor market has softened.

Employment in the manufacturing sector fell 104,000 last month, bringing the cumulative decline since the start of the year to 373,000. In April, employment in the electrical machinery industry declined 31,000, with two-thirds of the decline occurring in the electronic components sector, which includes producers of computer chips. Since February, payrolls in electrical machinery have fallen an average of 17,000 a month, compared with average gains of 3,000 a month over the previous four months. Elsewhere, producers of metals and industrial machinery also suffered large job losses in April.

Sectors outside of manufacturing also experienced significant payroll declines in April. The help-supply industry shed more than 100,000 workers; since employment in this sector started to turn down last fall, job losses have totaled 370,000. Through March, the decline in help-supply jobs appeared attributable predominantly to the slowdown in manufacturing; however, the weakness in other sectors in April suggests that the help-supply job cuts may now be reflecting more widespread weakness in the labor market.¹ In particular, employment in the services industry excluding help-supply, which rose 100,000 per month, on average, in the first quarter, fell 13,000 in April, the first decline since February 1992. And although retail trade added 22,000 workers in April,

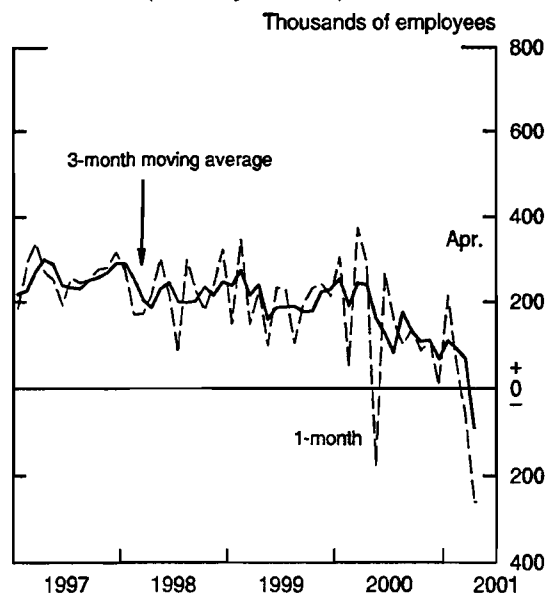
1. The help-supply industry is classified as a services industry but provides workers to sectors outside the services industry, such as manufacturing.

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

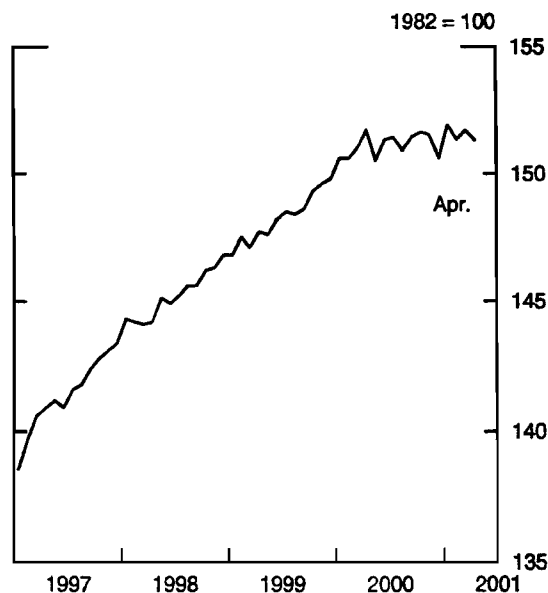
	2000	2000 Q4	2001 Q1	2001		
				Feb.	Mar.	Apr.
--Average monthly change--						
Nonfarm payroll employment ¹	153	52	124	136	-53	-223
<i>Previous</i>	153	52	114	140	-86	
Private	143	70	69	57	-64	-261
Mining	1	0	4	4	2	4
Manufacturing	-14	-23	-90	-96	-81	-104
Construction	14	-1	62	14	16	-64
Transportation and utilities	15	16	4	19	2	-2
Retail trade	26	22	21	83	-46	22
Wholesale trade	7	5	-5	-2	-2	-4
Finance, insurance, real estate	4	13	16	14	18	8
Services	91	37	56	21	27	-121
Total government	11	-19	55	79	11	38
Total employment (household survey)	112	175	-19	-184	-35	-426
Nonagricultural	116	203	19	-139	-62	-456
Memo:						
Aggregate hours of private production workers (percent change) ^{1,2}	1.1	0.0	1.1	-0.4	0.3	-0.3
Average workweek (hours) ¹	34.4	34.3	34.3	34.2	34.3	34.3
Manufacturing (hours)	41.5	41.0	40.8	40.7	40.7	40.7

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



the sector had cut 46,000 jobs in March. Employment in the construction industry fell 64,000 in April, retracing some of the unseasonably strong hiring during the winter months. Smoothing through these swings, construction employment has increased by an average of 17,000 per month since last September, about half of the average monthly increase during the same period a year earlier.

Reflecting the large decline in employment, aggregate hours of production or nonsupervisory workers fell 0.3 percent in April; the workweek held steady at 34.3 hours. As the economy slowed in the second half of last year, employers initially cut workweeks by a quarter of an hour and reduced hiring. Since January, however, the workweek has stabilized, and the level of employment has declined.

The April rise in the unemployment rate left it 0.5 percentage point above where it stood in December. Underscoring the job cuts evident in the payroll survey, employment also fell in the household survey in April, and the number of job losers unemployed less than five weeks jumped to 1.1 percent of household employment, the highest level since June 1995. The recent increases in short-term job losers have contributed 0.3 percentage point to the rise in the overall unemployment rate since December. Meanwhile, the labor force participation rate edged down 0.1 percentage point in April to 67.1 percent, which was the fourth-quarter average.

Other indicators point to a further weakening in labor demand through the end of April. Initial claims for unemployment insurance for the week ended April 28 rose to 405,000 (on a four-week moving-average basis), the highest level since 1993. In addition, respondents to the Conference Board's consumer sentiment survey have increasingly reported jobs to be both less plentiful and harder to get, and expectations about future labor market conditions, as measured by both the Conference Board and Michigan surveys, worsened a bit in April; the Michigan unemployment expectations index is now registering its weakest reading since January 1992. Meanwhile, according to the National Federation of Independent Business, the percentage of businesses with hard-to-fill positions was flat in April after having fallen sharply in March to the lowest level since 1997.

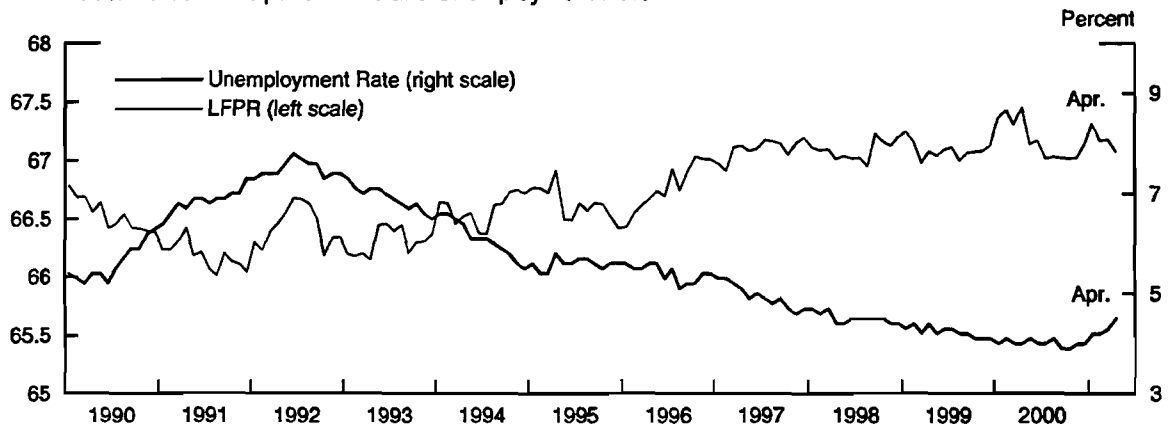
The Bureau of Labor Statistics reported that output per hour in the nonfarm business sector was about unchanged in the first quarter of 2001, after having risen at an annual rate of about 2 percent in the fourth quarter. However, this pattern reflects swings in hours of self-employed workers, which are a volatile component of total hours. Because of this volatility, output per hour of employees, whose hours account for more than 90 percent of total hours, provides a clearer picture of movements in productivity in recent quarters. In

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

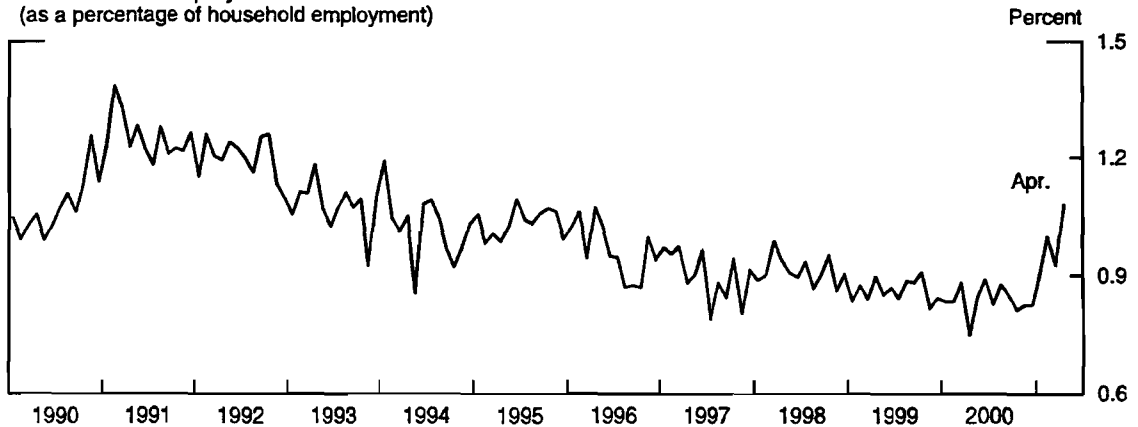
	1999	2000	2001 Q1	Feb.	2001 Mar.	Apr.
Civilian unemployment rate (16 years and older)	4.2	4.0	4.2	4.2	4.3	4.5
Teenagers	13.9	13.1	13.7	13.6	13.8	14.2
20-24 years old	7.5	7.1	7.4	7.2	7.8	8.3
Men, 25 years and older	3.0	2.8	3.1	3.0	3.2	3.5
Women, 25 years and older	3.3	3.2	3.3	3.4	3.2	3.3
Labor force participation rate	67.1	67.2	67.2	67.2	67.2	67.1
Teenagers	52.0	52.2	51.3	51.2	50.9	50.1
20-24 years old	77.6	77.9	78.2	78.1	77.8	77.5
Men, 25 years and older	76.1	76.0	75.9	75.9	75.9	76.0
Women, 25 years and older	59.5	59.7	59.9	59.9	60.0	59.7
Memo: Potential worker rate ¹	7.1	6.7	6.9	6.9	7.0	7.2

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

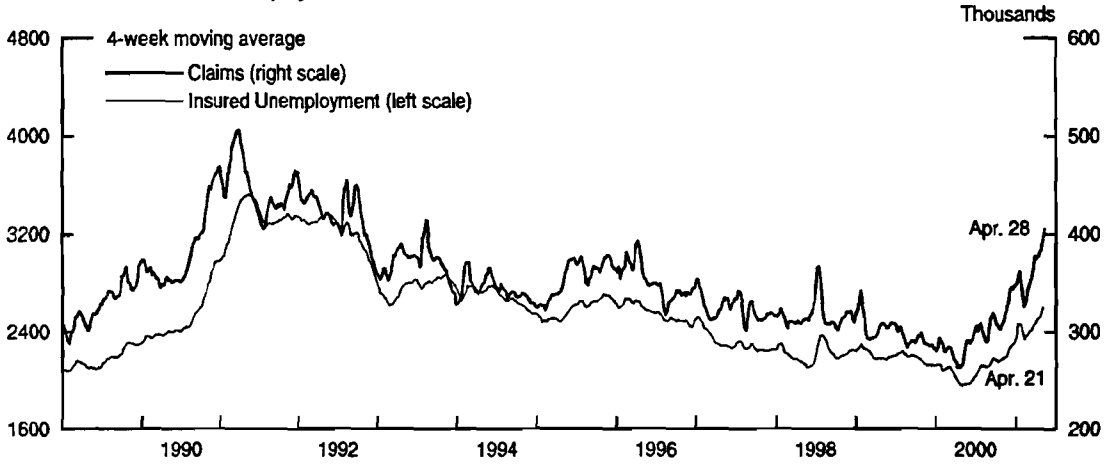


Job Losers Unemployed Less than 5 Weeks
(as a percentage of household employment)

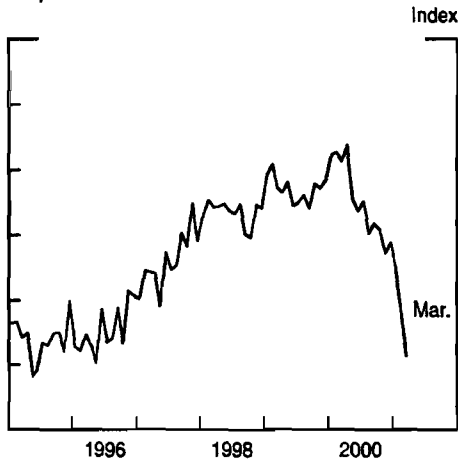


Labor Market Indicators

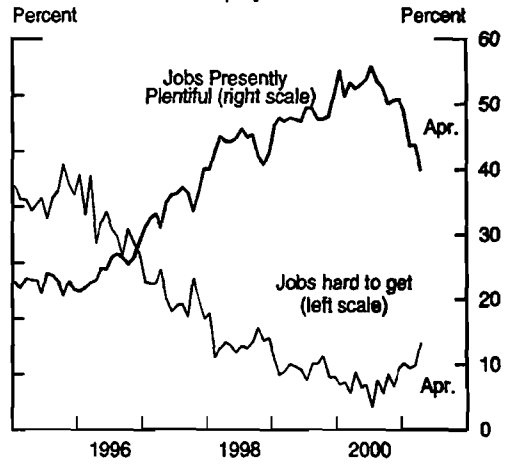
Initial Claims for Unemployment Insurance



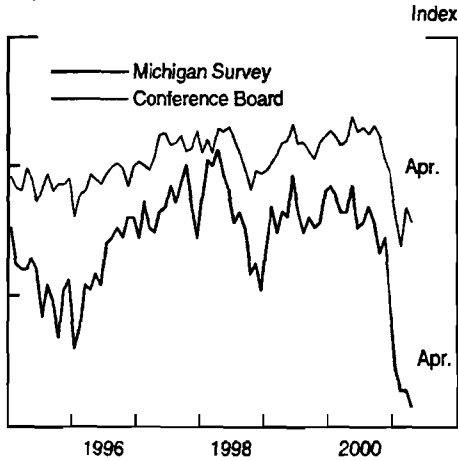
Help Wanted Index



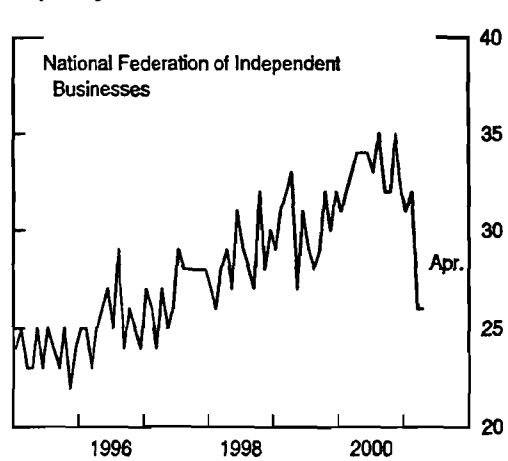
Conference Board: Employment Conditions



Expected Labor Market Conditions



Reporting Positions Hard to Fill



Note. Expected conditions index is the proportion of households expecting unemployment to fall, minus the proportion expecting unemployment to rise, plus 100.

Labor Output per Hour

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

Sector	1999 ¹	2000 ¹	2000			2001
			Q2	Q3	Q4	Q1
Nonfarm business	3.8	3.3	6.3	3.0	2.0	-0.1
Nonfarm business (employees)	3.2	2.9	5.4	2.5	1.3	1.2
Nonfinancial corporations ²	4.0	3.3	5.6	4.4	0.3	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, and finance and insurance companies; the sector accounts for about two-thirds of business employment.

particular, employee productivity increased at an annual rate of 1.3 percent in the fourth quarter and 1.2 percent in the first quarter.

BLS recently released data on multifactor productivity (MFP), capital deepening, and labor composition in 1999 and revisions to earlier years.² The MFP release had no implications for labor productivity growth through 1999, only for the contributions of the various components. Relative to our previous estimates, these data showed more capital deepening, a larger contribution from

Productivity Growth and its Components
(Annual percent change)

	1996	1997	1998	1999
Output per hour	2.5	2.0	2.7	2.5
Contribution of capital deepening	0.8	0.6	1.1	1.4
Contribution of labor composition	0.3	0.3	0.2	0.4
Multifactor productivity	1.4	1.0	1.4	0.6

Note. Detail may not sum to total because of rounding.

2. Multifactor productivity growth is estimated as the part of labor productivity growth not explained by changes in capital deepening and in the composition of the labor force. Publication of these estimates typically lags more than a year because much more detailed data are required than are needed for the quarterly productivity releases.

changes in labor composition, and less of an increase in multifactor productivity. In particular, the BLS reported that MFP rose just 0.6 percent on a year-over-year basis in 1999, well below the 1.4 percent increase posted in 1998. In light of the new data, we reduced slightly our estimate of the annual growth rate of structural multifactor productivity between 1996 and 1999, and raised slightly the average annual contribution of capital deepening to structural productivity growth. (The implications of these data for our projection of structural productivity are discussed in Part 1.)

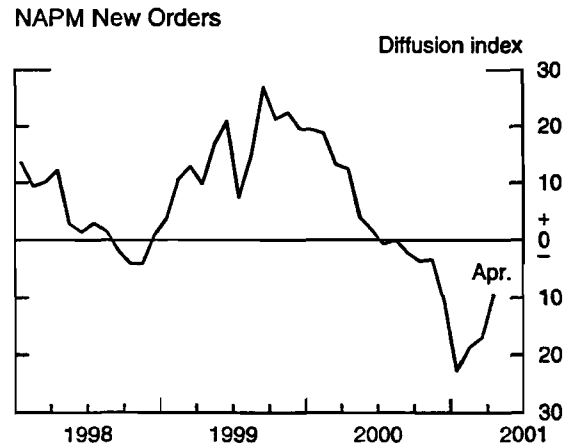
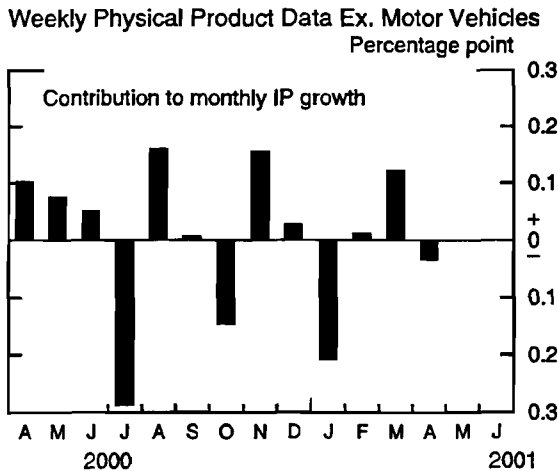
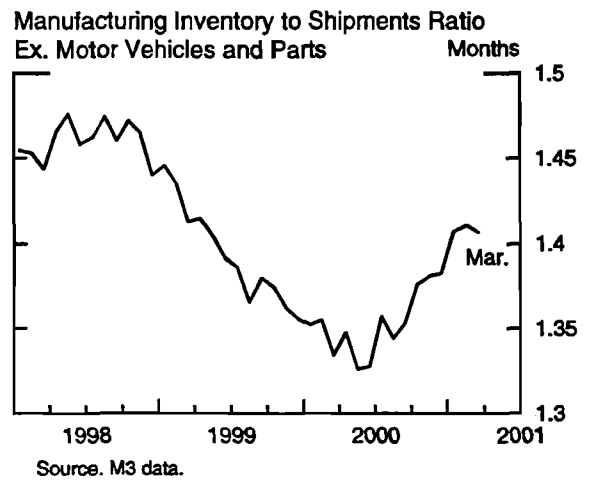
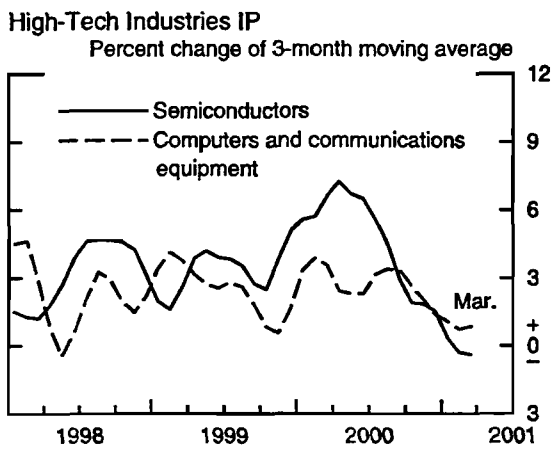
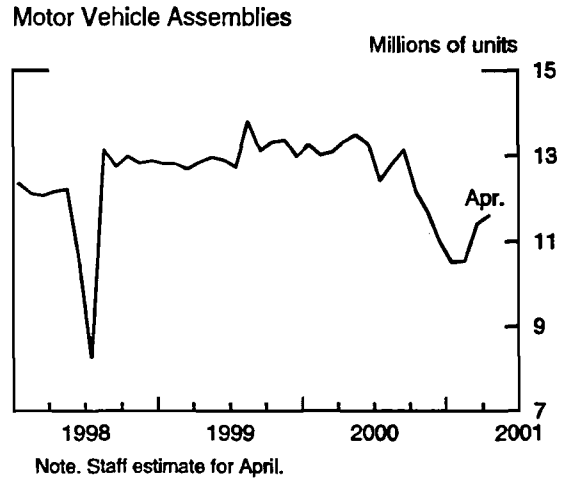
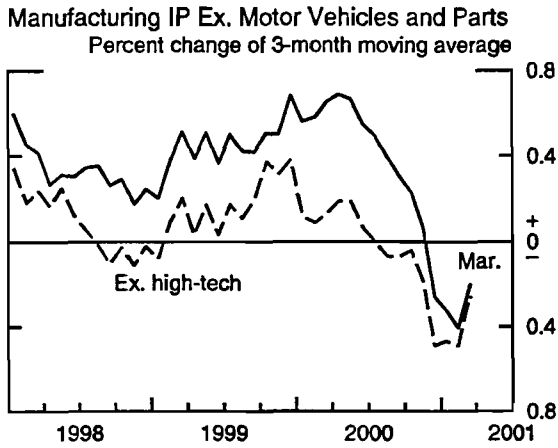
Industrial Production

The hours worked and weekly physical product data suggest that industrial production edged down in April. Although the output of motor vehicles and parts posted a gain, the remainder of manufacturing continued to be restrained by excess inventories and soft demand. Utilities production declined last month because of warm weather, while mining output increased for a fourth consecutive month, reflecting above-average gains in coal and oil and natural gas extraction.

Output in high-tech industries slowed noticeably in the first four months of the year. In the semiconductor industry, bloated inventories coupled with softening demand from downstream industries resulted in a drop in output in the first quarter, and incoming data from the Semiconductor Industry Association (SIA) suggest that the decline was even more severe than we had initially estimated. The latest Dataquest survey of large semiconductor buyers suggests that purchasers' inventories of semiconductors were still very high in March. More recently, some trade analysts have reported that chip inventories at PC manufacturers returned to comfortable levels in April, but some communications equipment firms, particularly Cisco, have indicated that their inventories of chips are excessive.

Although output in the computer industry has continued to slow, the steepest retrenchment in demand may be behind us. According to information from Dataquest, unit sales of PCs declined 3 percent (not at an annual rate) in the first quarter, considerably less than the 8-3/4 percent drop in the fourth quarter. Meanwhile, conditions in the communications industry continue to deteriorate. In particular, new orders for communications equipment fell considerably in

Industrial Output and Related Indicators



February and March, and several firms have announced layoffs; indeed, employment in the telecom industry has fallen sharply from its December peak.

Some of the indicators of manufacturing activity outside the transportation and high-tech industries have taken a mild turn for the better. Although the overall purchasing managers' index (PMI) remained below 50 in April, the diffusion index of new orders moved up noticeably, suggesting that the rate of decline has slowed. Additionally, responses regarding inventories improved: The NAPM index measuring the change in manufacturers' own inventory holdings dropped to its lowest level in more than four years, and the percentage of respondents who perceived their customers' inventories as too high declined for a third consecutive month. These movements are largely consistent with the aggressive liquidation of factory stocks reported by the Census Bureau in February and March. In spite of these improvements, however, many industries—including machinery, chemicals, primary and fabricated metals, rubber and plastics, and construction materials, supplies and intermediate products—continue to exhibit sizable inventory overhangs.

New Orders for Durable Goods

(Percent change from preceding period; seasonally adjusted)

Component	Share, 2000:H2	2000	2001			
		Q4	Q1	Jan.	Feb.	Mar.
Total orders	100.0	-2.0	-4.5	-7.3	-.1	3.5
Adjusted orders ¹	71.0	-2.7	-3.4	-1.8	-0.3	-2.3
Computers	7.0	-.3	-6.9	3.3	-4.7	-1.2
Communication equipment	5.0	-3.0	-.6	11.3	-12.0	-4.1
Semiconductors and related electronic components	8.0	-.2	-8.0	-22.7	25.5	-7.9
Other capital goods	14.0	-6.3	.0	1.6	-3.2	-1.4
Other ²	37.0	-2.4	-3.2	-.7	-1.4	-1.4
Memo:						
Real adjusted orders	...	-1.9	-1.6	-1.3	.5	-1.6
Excluding high tech	...	-13.9	-8.4	.0	-1.7	-1.4

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.

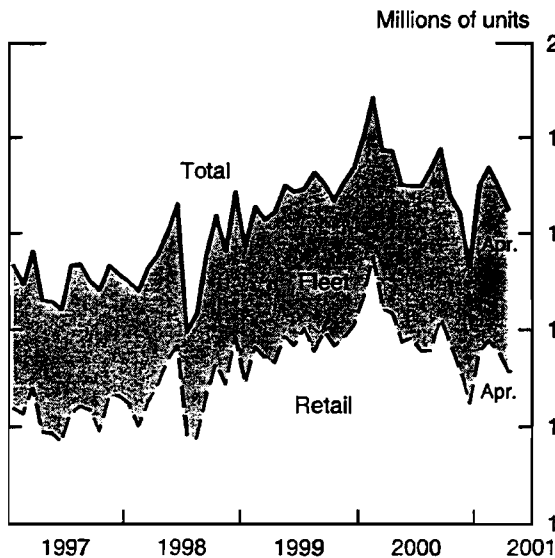
SALES OF AUTOMOBILES AND LIGHT TRUCKS
(Millions of units at an annual rate, FRB seasonals)

	1999	2000	2000		2001	2001		
			Q3	Q4	Q1	Feb.	Mar.	Apr.
Total¹	16.8	17.2	17.4	16.3	17.0	17.4	17.0	16.5
Autos	8.7	8.8	8.8	8.3	8.7	9.0	8.4	8.5
Light trucks	8.1	8.4	8.6	7.9	8.3	8.4	8.6	8.0
North American²	14.3	14.4	14.5	13.4	14.1	14.5	14.1	13.4
Autos	7.0	6.8	6.8	6.3	6.7	7.0	6.4	6.4
Big Three	4.9	4.7	4.5	4.2	4.5	4.9	4.3	4.1
Transplants	2.1	2.2	2.3	2.1	2.1	2.1	2.1	2.2
Light trucks	7.3	7.6	7.7	7.1	7.4	7.5	7.7	7.0
Foreign-produced	2.5	2.9	2.8	2.9	2.9	2.9	2.9	3.1
Autos	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.2
Light trucks	.8	.8	.8	.8	.9	.9	.9	.9
Memo:								
Total, as reported	16.8	17.2	17.4	16.2	17.1	17.4	17.0	16.5

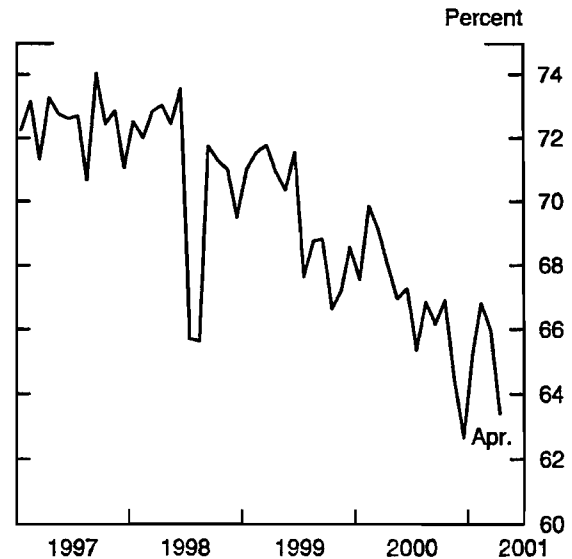
Note. Components may not sum to totals because of rounding. Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.

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)



Combined Market Share for the Big Three



Note. Staff estimates based on confidential data.

This month the NAPM also released the results of the latest survey on manufacturers' expected capital expenditures in 2001, which was conducted in April. The responses signaled a noticeable downshift in spending plans, with substantially more firms anticipating a decrease in their nominal capital expenditures relative to 2000 than planning an increase. The level of the diffusion index in April was 33, a downward revision of 15.5 points from December's level and the lowest reading since May 1982. These data point to a noticeably smaller expansion of manufacturing capacity in 2001 than we had assumed at the beginning of the year.⁵

Motor vehicles. Sales of new light vehicles have been well maintained this year, averaging an annual rate of 17 million units in the first quarter and a still-brisk 16-1/2 million units in April. Retail sales, though down in April, continue to be supported by hefty incentives, which have helped to counter the drag from weak consumer confidence; incentives are expected to remain sizable over the next couple of months. Fleet sales, which soared in the first quarter because of an acceleration in the timing of deliveries by General Motors and Chrysler, moved closer to normal levels in April, and further declines are likely in coming months, reflecting a payback for last winter's spike in deliveries.

The recent decline in overall sales has been concentrated at the Big Three, and their market share, which had turned up earlier in the year, dropped back to 63 percent in April. Indeed, sales of both transplants and imports have held up very well, even though these manufacturers have offered much smaller and less widespread incentives than the Big Three. Upbeat reviews on current models, particularly on those of some of the smaller Asian firms, coupled with ongoing favorable exchange rates, have likely fueled some of the recent strength in sales of foreign nameplates.

Sales of medium and heavy trucks were little changed in March and averaged 482,000 units (BEA basis) at an annual rate in the first quarter, the lowest level since early 1998. Moreover, preliminary new orders in April suggest that demand remains quite weak. Orders for heavy trucks ticked up but remained at

5. Manufacturing capacity increased at an annual rate of 5.9 percent, on average, from 1995 to 2000; our initial projection for 2001 was 3.5 percent. A downward-revised estimate of manufacturing capacity will be incorporated in our regular IP release on May 14.

a depressed level, while orders for medium trucks fell further. Backlogs have changed little on balance since late last year.

The overhang in inventories of motor vehicles that developed late last year was largely worked off by the end of the first quarter. However, with production up further in April and with sales down, days' supply increased a bit, especially for light trucks. Current assembly schedules point to little change in production in

Production of Domestic Autos and Trucks

(Millions of units at an annual rate except as noted; FRB seasonal basis)

Item	2000	2001		2001				
	Q4	Q1	Q2 ¹	Feb.	Mar.	Apr. ²	May ¹	June ¹
U.S. production	11.6	10.8	11.7	10.5	11.4	11.6	11.5	12.1
Autos	5.0	4.9	5.0	4.8	5.1	5.0	4.9	5.1
Trucks	6.6	5.9	6.7	5.8	6.3	6.6	6.6	7.0
Days' supply ³	72.3	60.7	n.a.	60.9	61.1	64.4	n.a.	n.a.
Autos	60.6	49.8	n.a.	49.3	52.0	52.4	n.a.	n.a.
Light trucks ⁴	82.8	70.5	n.a.	71.9	68.8	75.4	n.a.	n.a.
Inventories ⁵	3.13	2.80	n.a.	2.87	2.80	2.81	n.a.	n.a.

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

1. Production rates reflect manufacturers' schedules for Q2.

2. Staff estimates.

3. Quarterly average calculated using end-of-period stocks and average reported sales.

4. Excludes medium and heavy (classes 3-8) trucks.

5. End of period stocks and excludes medium and heavy (class 3-8) trucks.

n.a. Not available.

May and a rise in June. However, with sales expected to ease further, automakers likely will trim these plans some. Nonetheless, because of commitments to parts suppliers, cutbacks in production could be insufficient to keep inventories in line with sales. Consequently, the re-emergence of a moderate inventory overhang by the end of the quarter, particularly for light trucks, cannot be ruled out; indeed, days' supply of light trucks in April—at 75 days—already was a bit above the industry's target range of 65 to 70 days.

Consumer Spending and Income

Although consumer spending has decelerated appreciably since last year, real PCE still increased at an annual rate of about 3 percent in the first quarter. In addition to the surge in spending on motor vehicles, last quarter's gain was boosted by continued strong outlays for non-auto durables and a moderate increase in spending on nondurables. Spending on services rose more slowly, reflecting both a weather-related drop in energy services and only a modest increase in non-energy services.

The relatively solid pace of growth in PCE in the first quarter was somewhat surprising in light of rather weak fundamentals for the household sector. Among the more prominent of these influences, sagging demand in the labor market and higher energy prices have restrained the growth of real personal income, the soft stock market has continued to push down the ratio of household net worth to disposable income, and consumer sentiment has deteriorated. Notwithstanding last quarter's spending figures, these weak fundamentals likely are signaling a downshift in the rate of increase in real PCE. Indeed, although we do not want to read too much into the monthly pattern of these volatile data, the first-quarter increase in PCE reflected a strong gain in January, followed by a fairly flat trajectory for spending in February and March.

Real disposable income rose at an annual rate of 2 percent in the first quarter, and the personal saving rate declined to -1 percent—a new postwar quarterly low. Over the three years ending in the first quarter, the saving rate dropped 5 percentage points—more than in any other three-year period during the past forty years. Our econometric models explain most of this fall in the saving rate as a consequence of the stock-market boom experienced over the latter half of the 1990s.⁶ In addition, to the extent that households viewed the reduction in real income arising from recent increases in energy prices as temporary, they may have tended to maintain their level of real consumption by letting their saving fall. That said, the saving rate was unexpectedly low in the first quarter

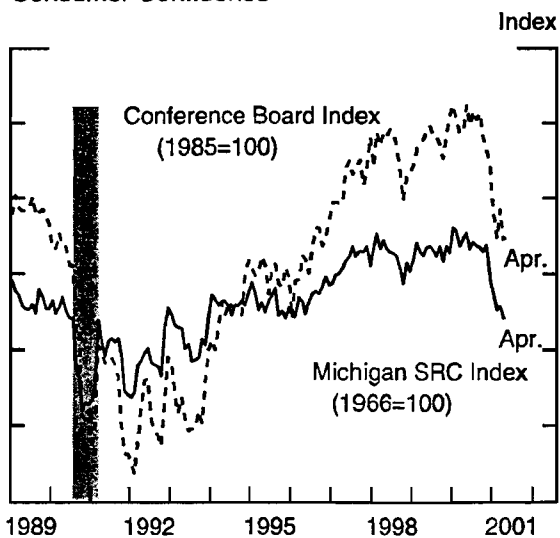
6. According to our models, households respond only gradually to a sustained increase in their wealth caused by rising equity prices (holding all other factors constant). Therefore, even though the Wilshire 5000 reached its peak level in March 2000—and has since fallen nearly 25 percent—the models imply that, after taking account of earlier gains, the stock market was boosting household spending (and lowering the saving rate) through late last year.

REAL PERSONAL CONSUMPTION EXPENDITURES
(Percent change from the preceding period)

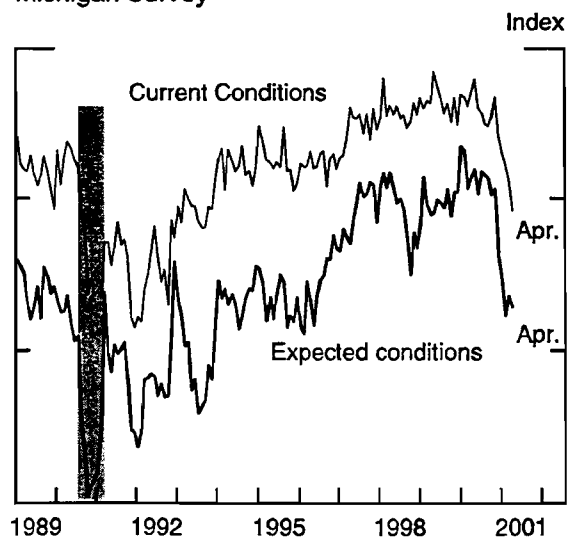
	2000		2001			
	H1	H2	Q1	Jan.	Feb.	Mar.
	---- Annual rate ----		--- Monthly rate ---			
Total PCE	5.3	3.6	3.1	.6	-.1	.2
PCE durables	8.4	2.1	11.9	3.1	2.0	-.7
Motor vehicles	3.0	-2.1	19.7	4.5	6.0	-3.2
Excluding motor vehicles	12.3	5.2	6.7	2.1	-.8	1.1
PCE nondurables	4.8	2.8	2.6	1.1	-1.0	.2
PCE services	4.9	4.3	1.7	-.2	.0	.4
Energy	14.1	3.0	-10.9	-8.9	.8	2.6
Non-energy	4.6	4.4	2.2	.2	-.1	.3
Memo:						
Real disposable income	2.8	1.6	2.0	.0	.2	.4
Personal saving rate (percent)	.3	-.5	-1.0	-1.3	-1.0	-.8

Consumer Sentiment

Consumer Confidence

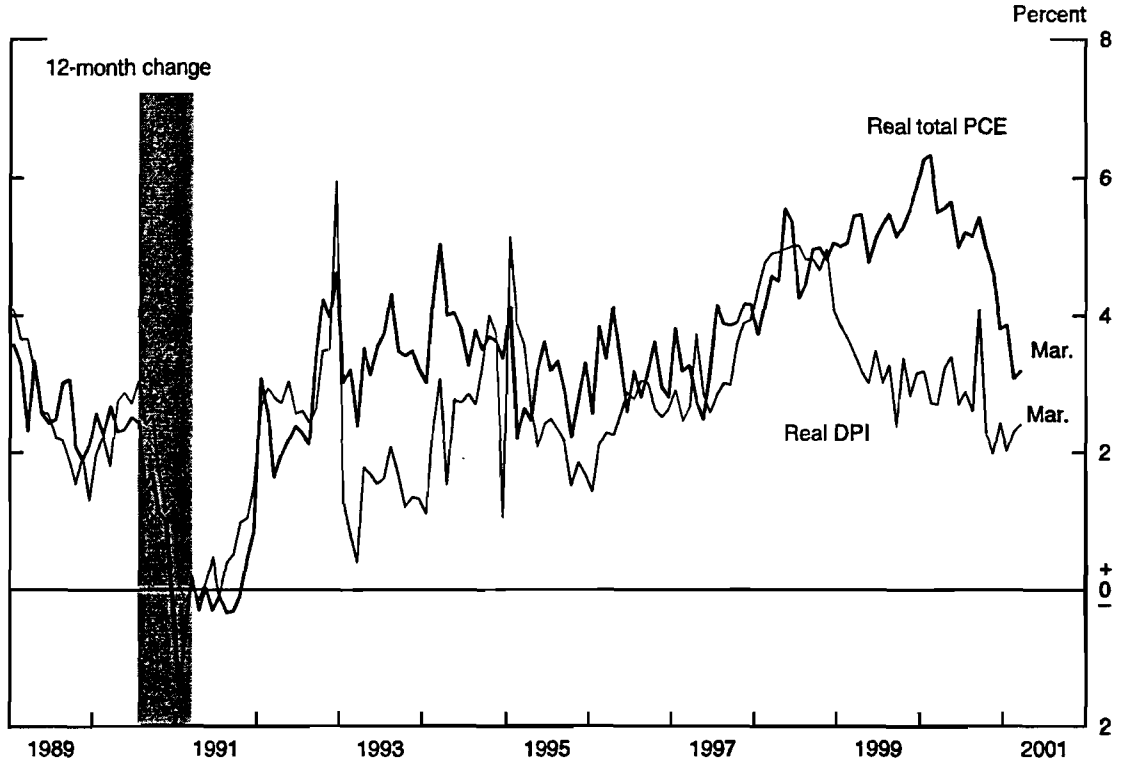


Michigan Survey

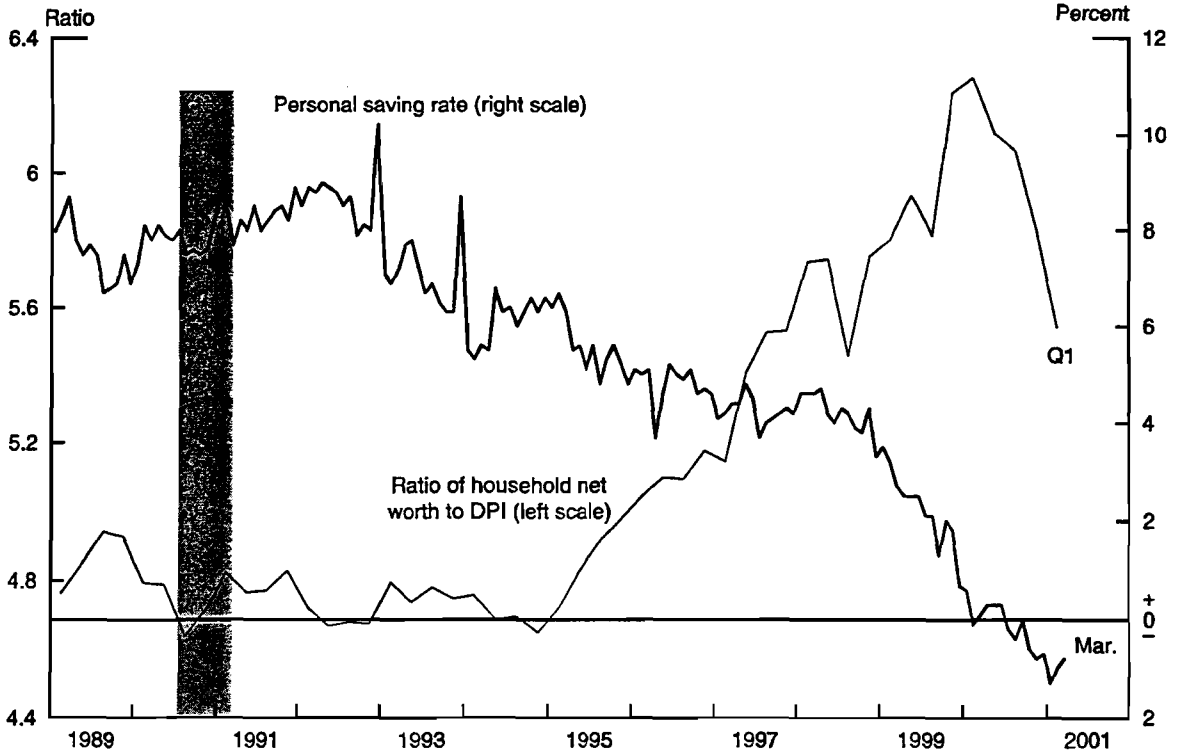


Household Indicators

Real Total PCE and Real DPI



Personal Saving Rate and Ratio of Household Net Worth to DPI



Private Housing Activity

(Millions of units; seasonally adjusted annual rate)

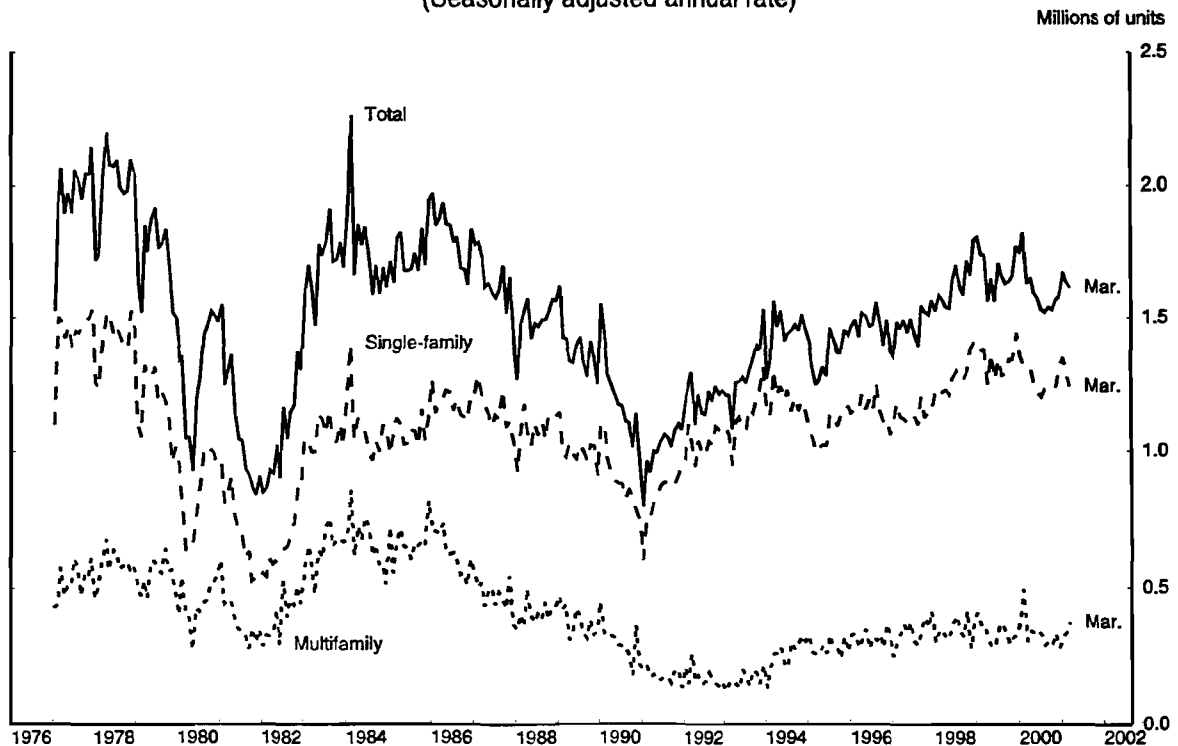
	2000			2001			
	2000	Q3	Q4	Q1 ^P	Jan. ^r	Feb. ^r	Mar. ^P
<i>All units</i>							
Starts	1.59	1.53	1.56	1.64	1.67	1.63	1.61
Permits	1.57	1.51	1.55	1.67	1.72	1.68	1.62
<i>Single-family units</i>							
Starts	1.26	1.22	1.25	1.30	1.35	1.30	1.24
Permits	1.18	1.14	1.18	1.24	1.29	1.24	1.20
Adjusted permits ¹	1.26	1.22	1.25	1.32	1.36	1.34	1.28
New home sales	0.90	0.90	0.95	0.99	0.97	0.98	1.02
Existing home sales	5.11	5.07	5.10	5.28	5.20	5.19	5.44
<i>Multifamily units</i>							
Starts	0.33	0.31	0.30	0.34	0.32	0.34	0.37
Permits	0.39	0.37	0.37	0.43	0.44	0.44	0.41
<i>Mobile homes</i>							
Shipments	0.25	0.24	0.20	0.17	0.16	0.18	0.18

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.

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

Total Private Building

(Seasonally adjusted annual rate)



of this year.⁷ On a monthly basis, the saving rate has risen since January, which would seem consistent with the deterioration in household balance sheets and the declines in consumer sentiment.

According to both the Conference Board and the Michigan Survey Research Center, consumer sentiment dipped again last month. Respondents noticeably downgraded their assessments of current economic conditions, and near-term expectations weakened a bit as well. Both surveys reported a more pessimistic outlook for the labor market later this year.

Housing Markets

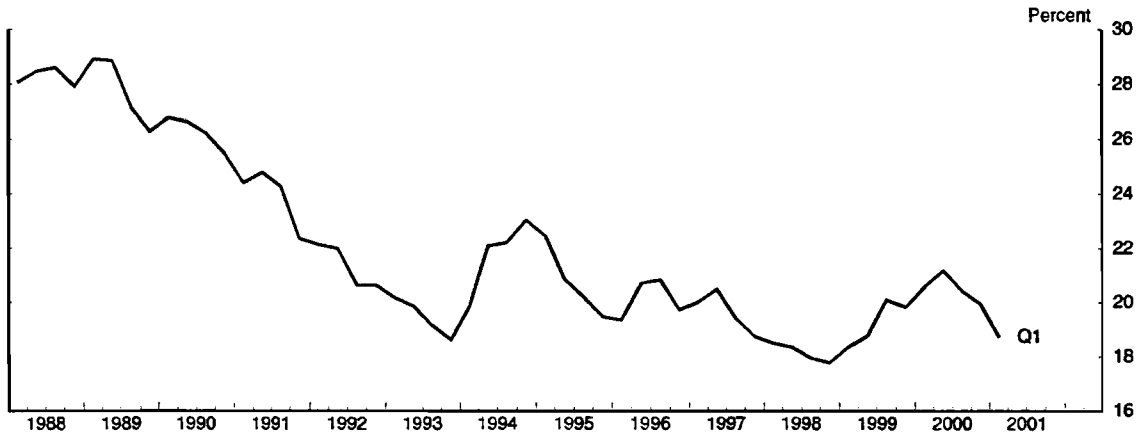
Buoyed by low mortgage rates, housing activity has remained robust in recent months. Single-family housing starts fell to an annual rate of 1.24 million units in March but still averaged a 1.3 million unit pace in the first quarter—the strongest quarterly reading in a year. The drop in starts in March almost certainly was exaggerated by the weather-related boost to construction in the previous two months. In addition, adjusted permits—which typically provide more reliable insight about near-term trends in this sector—were strong relative to starts, suggesting that part of the March drop may simply have reflected sampling variability.

Sales of new and existing homes also have remained brisk in recent months. In March, existing home sales were only a touch below the record of June 1999, and new home sales reached a new high. The rapid pace of sales in March drew the inventory of new homes for sale down to 300,000 units, which is the smallest stock since early 1999. Unless the pace of sales moderates, builders may need to increase construction in coming months just to maintain their desired level of inventory.

Likely reflecting the continued strength of housing demand, home prices have been rising faster than overall inflation. The constant-quality price index for

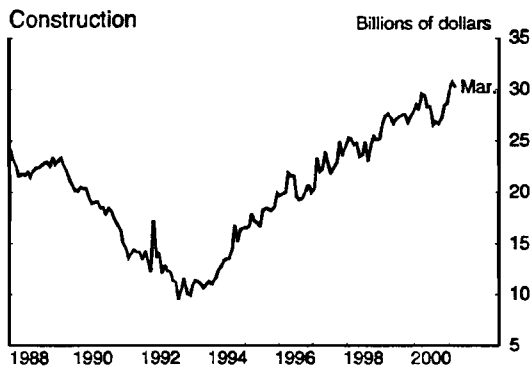
7. The saving rate, however, often looks quite different after revisions to the national accounts. In fact, the BEA has announced that data now available from state unemployment insurance records would lead them to raise their estimate of last year's growth in wage and salary income by roughly \$75 billion. All else equal, this would raise the saving rate in 2000 by 1 percentage point. This change will be incorporated in the NIPA with the regular annual revision scheduled for July. Of course, other components of personal income and outlays are also subject to revision this summer.

Cash-Flow Burden of Homeownership (For fixed-rate mortgages)

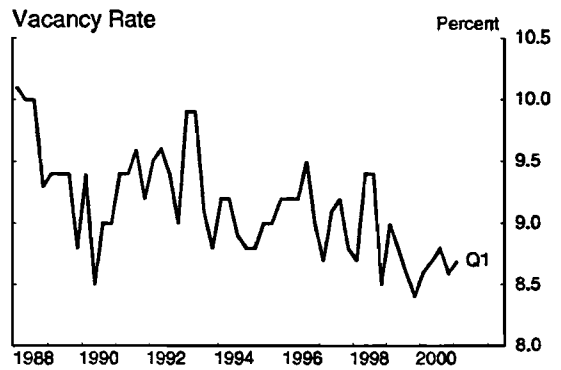


Note. Cash-flow burden defined as the financing cost of a constant-quality new home as a percentage of average household disposable income.

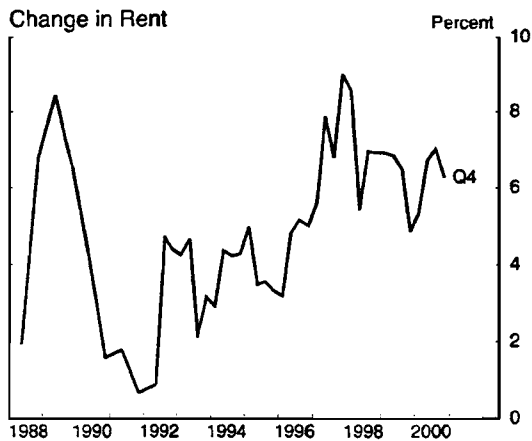
Market Conditions for Multifamily Housing



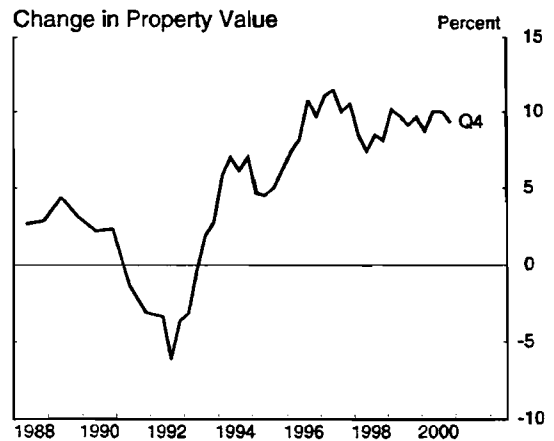
Source. Census Bureau.



Source. Census Bureau.



Note. Percent change from a year earlier.
Source. National Real Estate Index.



Note. Percent change from a year earlier.
Source. National Real Estate Index.

new homes rose about 4 percent over the year ending in the first quarter, and the repeat-sales price index for existing homes was up nearly 9 percent.⁸ That said, the share of income required to finance a home purchase has fallen in recent quarters, as mortgage rates have dropped back after last year's bulge; recent readings on affordability are near the favorable end of the range seen over the past decade.⁹ Furthermore, the proportion of respondents interviewed for the Michigan consumer surveys in March and April that mentioned low mortgage rates as a reason that it was a good time to buy a home jumped to 56 percent, an unusually high level.

In the multifamily sector, housing starts increased 10-1/2 percent in March, to an annual rate of 372,000 units, the most rapid pace since early last year. For the first quarter as a whole, multifamily starts were 3-1/2 percent above the average for all of last year. Moreover, conditions in the market for multifamily housing continue to be conducive to new construction. The vacancy rate for multifamily rental units in the first quarter held near its low year-earlier level, and rents and property values rose rapidly through the end of last year.

Business Fixed Investment

Equipment and software. Real spending on equipment and software posted its second straight decline in the first quarter. Apart from an increase in purchases of cars and trucks by businesses, spending was weak, reflecting unfavorable investment fundamentals, including a sluggish economy and deteriorating earnings, especially for high-tech firms. Indeed, real spending on high-tech items declined last quarter for the first time since the 1990 recession. Outside the high-tech sector, real outlays on equipment such as industrial machinery were flat last quarter. Despite the recent strength in the dollar, a noticeable fraction of the weakness in spending apparently reflects reduced demand for

8. The repeat-sales price index is jointly produced by Freddie Mac and Fannie Mae. An essentially identical index published by the Office of Federal Housing Enterprise Oversight (OFHEO) is used by the Flow of Funds section to estimate housing wealth.

9. The cash-flow burden of home ownership (chart) is based on the rate on thirty-year fixed-rate mortgages. Of course, the average cost of financing a new home also reflects rates on adjustable-rate mortgages and the mix of fixed- and adjustable-rate mortgages. FRM rates were about the same in April as in January, while ARM rates have fallen 55 basis points. However, the ARM share of mortgage originations in February and March (most recent data) was 10 percent, one of the lowest levels on record.

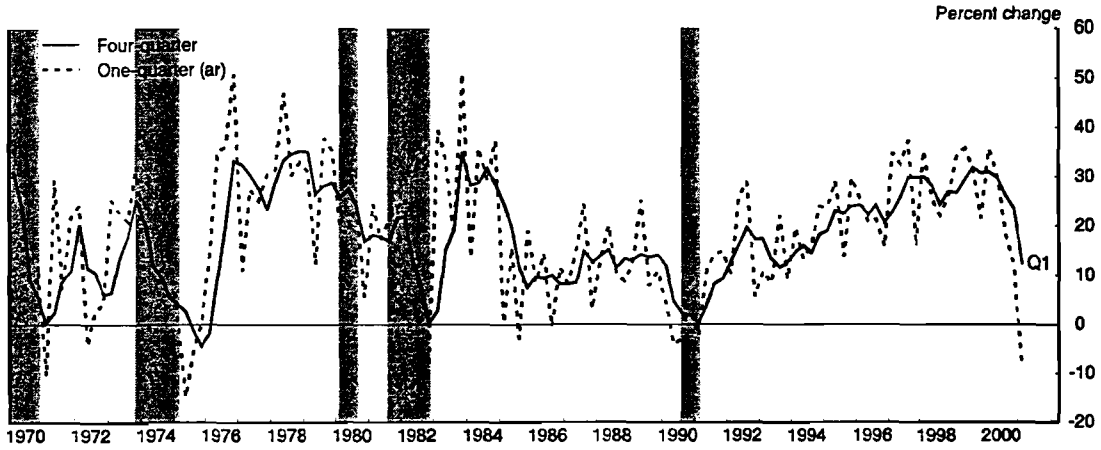
BUSINESS CAPITAL SPENDING INDICATORS
(Percent change from preceding comparable period;
based on seasonally adjusted data, in current dollars)

	2000		2001	2001		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
<u>Equipment and software</u>						
Shipments of nondefense capital goods	.8	-.6	-3.2	-3.2	-.9	.9
Excluding aircraft and parts	1.8	-.6	-4.1	-1.6	-4.2	1.1
Office and computing equipment	5.6	.1	-7.8	-1.9	-8.4	1.8
Communications equipment	1.2	-.3	-5.4	-4.4	-1.7	.5
All other categories	.1	-1.1	-1.7	-.5	-3.0	1.0
Shipments of complete aircraft	-5.9	-16.0	n.a.	5.6	47.2	n.a.
Medium & heavy truck sales (units)	-11.4	-11.3	-1.5	.5	-3.6	-.2
Orders for nondefense capital goods	1.3	.1	-6.3	-12.1	-7.1	4.3
Excluding aircraft and parts	.1	-4.1	-2.1	3.9	-5.4	-1.8
Office and computing equipment	6.8	-.3	-6.9	3.3	-4.7	-1.2
Communications equipment	-7.9	-2.0	-3.3	9.9	-11.5	-5.0
All other categories	.0	-6.6	.9	2.2	-3.5	-1.1
<u>Nonresidential structures</u>						
Construction put in place, buildings	2.2	1.2	5.4	5.4	-.1	3.4
Office	4.2	5.5	2.6	.4	-3.4	7.3
Other commercial	-1.1	-1.4	8.8	5.6	3.0	1.3
Institutional	4.2	.2	3.3	4.4	-1.0	2.6
Industrial	5.1	4.8	8.0	14.3	-.2	3.1
Lodging and miscellaneous	-.8	-5.6	2.4	3.7	2.1	1.3
Rotary drilling rigs in use ¹	10.2	7.4	13.9	6.2	6.1	2.7

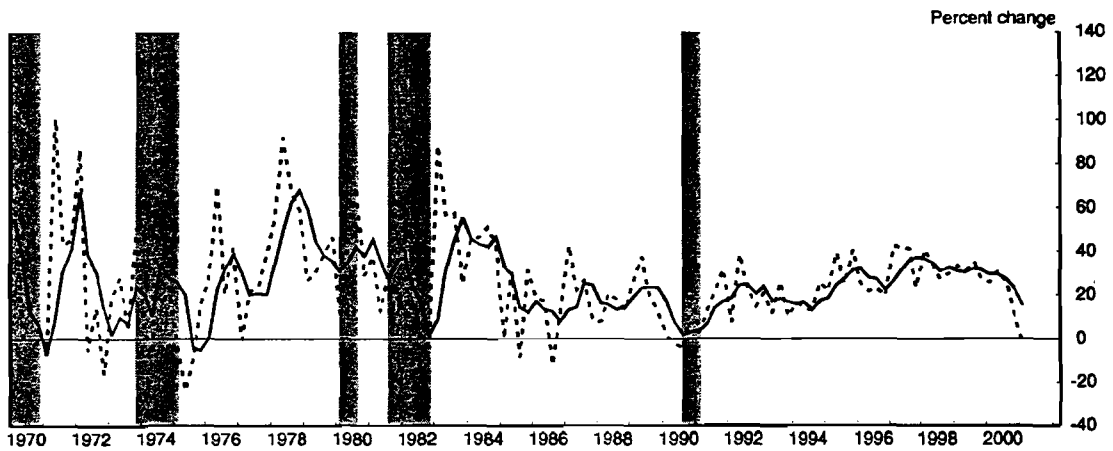
1. Percent change of number of rigs in use, seasonally adjusted.

Real Outlays for High-Tech Equipment

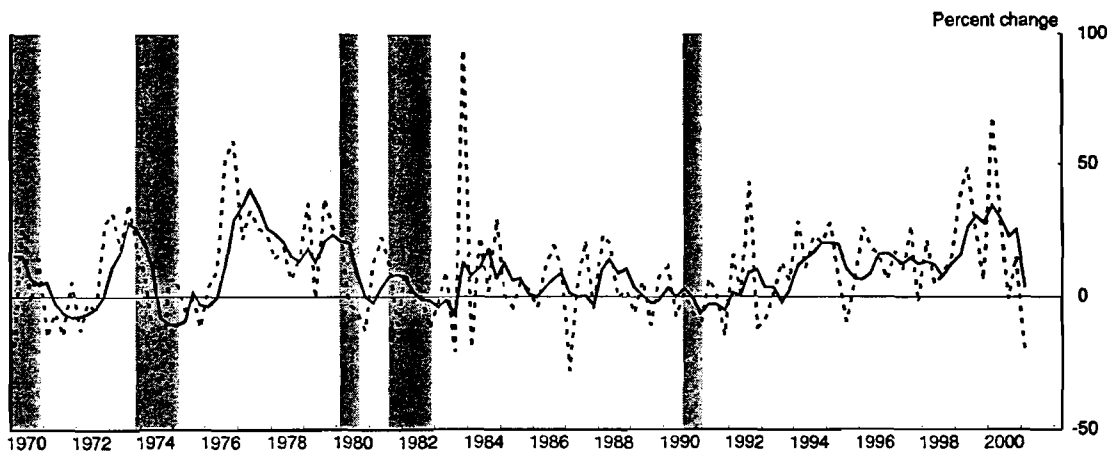
Total High-Tech



Computers & Software

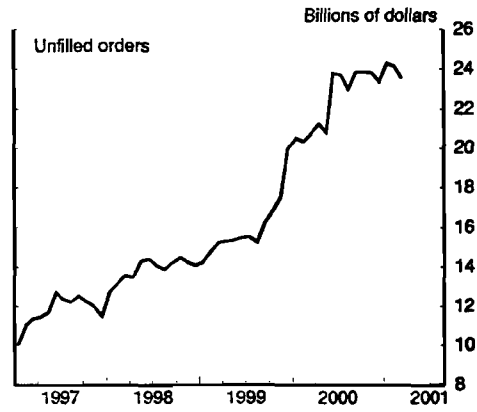
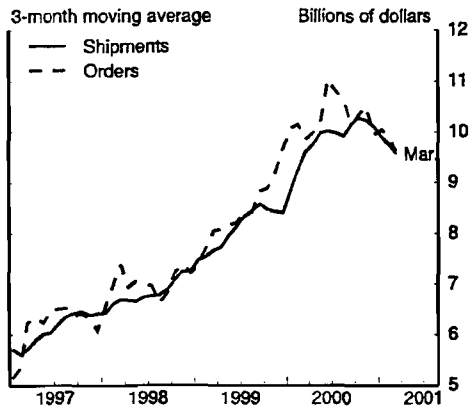


Communications

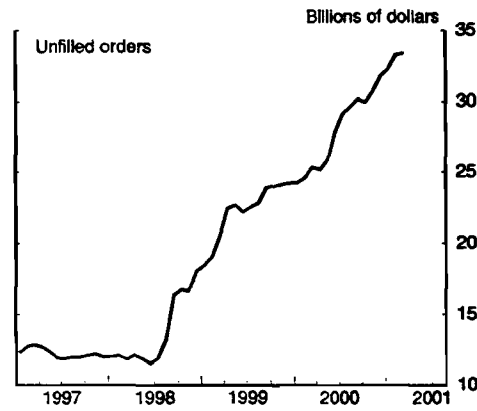
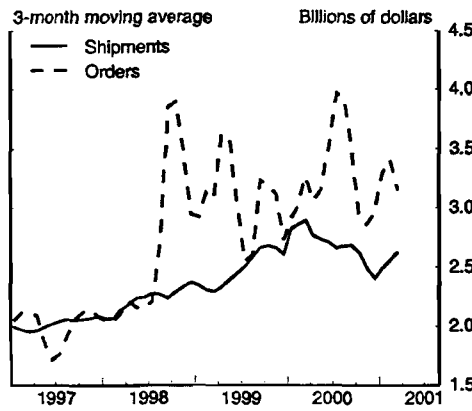


Recent Data on Orders, Shipments, and Order Backlogs

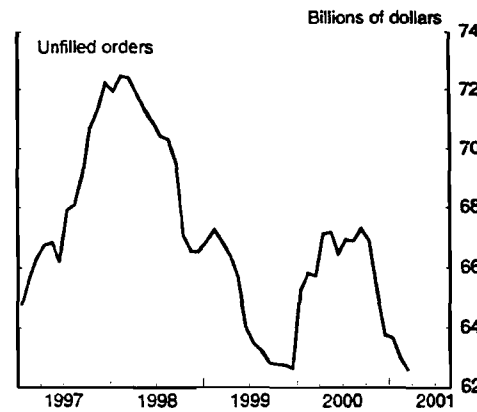
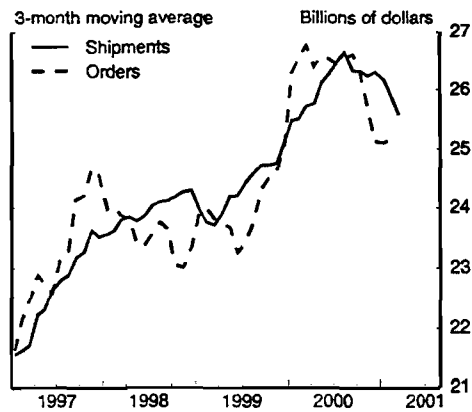
Communications Equipment



Engines and Turbines



Other Equipment Excluding Engines and Turbines*



* Excludes computers, communications, aircraft, and engines and turbines.

imported equipment, as real imports of capital goods—particularly aircraft, computers, and communications equipment—fell dramatically last quarter.

Recent data on new orders point to some further slippage in equipment spending in the second quarter. In particular, the nominal value of new orders for nondefense capital goods excluding aircraft and parts fell 1.8 percent in March. Bookings for communications equipment dipped again, continuing the downward trend that has been evident since the middle of last year. There also was little prospective support for spending, on balance, outside the high-tech area, as orders fell for a second month and backlogs edged down. In general, backlogs have been buoyed in recent months by the sustained strength in orders for engines and turbines, which take a long time to complete. Excluding engines and turbines, backlogs for non-high-tech capital goods declined 0.7 percent in March, extending a steep downtrend that has been evident since last fall.

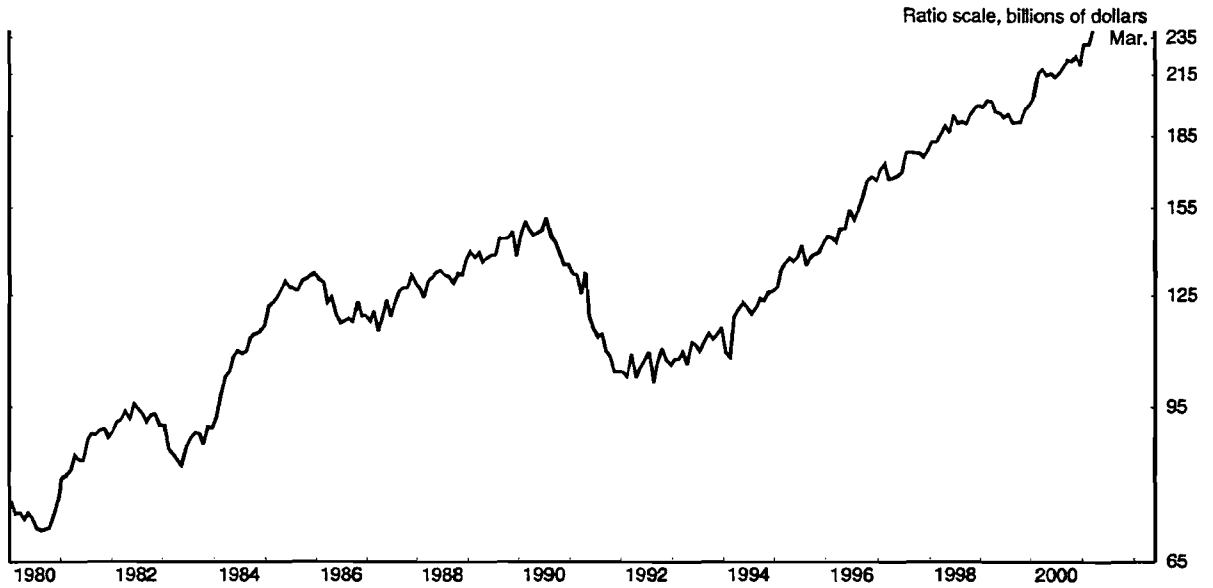
Nonresidential construction. Spending on nonresidential construction continued to expand rapidly in the first quarter. The increase was led by a surge in expenditures for drilling and mining that was primarily associated with increased exploration for natural gas. Expenditures on private nonresidential buildings also rose sharply again, reaching a level nearly 7-3/4 percent higher in real terms than in the first quarter of last year; gains were sizable for most major categories of buildings.

Prospects for construction in coming quarters are mixed. In the office sector, vacancies are still low despite the rapid pace of building in recent quarters, and property values and rents for office buildings continued to increase at double-digit rates through the fourth quarter (most recent data). However, prospects for the rest of the commercial sector are less favorable: Although property values and rents for warehouses have continued to rise moderately, year-over-year increases for retail space have slowed appreciably from the pace of the preceding few years. And in the industrial sector, recent anecdotes indicate that the slowdown in manufacturing activity is starting to restrain the demand for space. That said, industrial construction has been robust since the end of 1999, the vacancy rate remains at a moderate level, and existing space continues to be absorbed at a brisk pace. One factor likely helping to buoy industrial construction has been the apparent surge in construction of facilities for electric

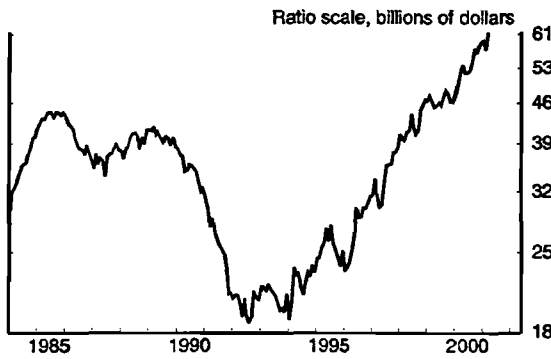
Nonresidential Construction

(Seasonally adjusted, annual rate)

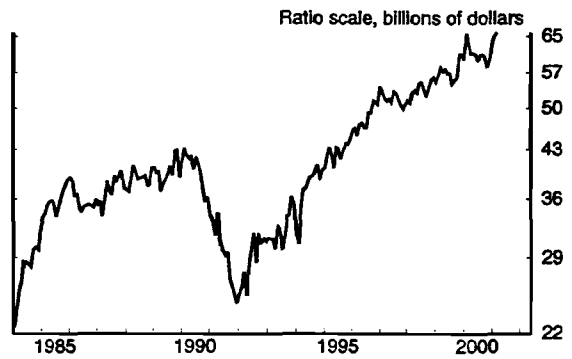
Total Building



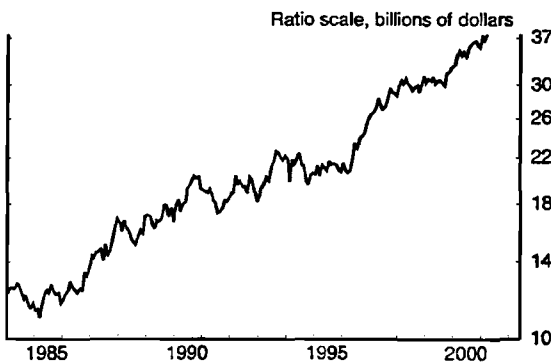
Office



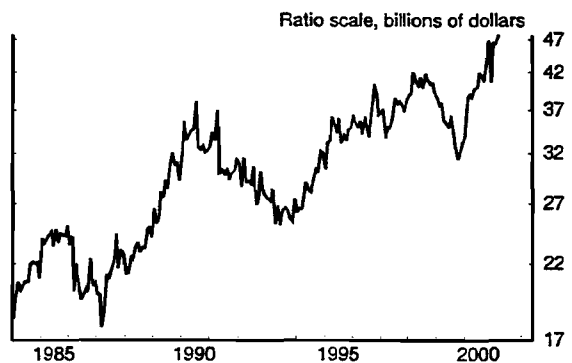
Other Commercial



Institutional

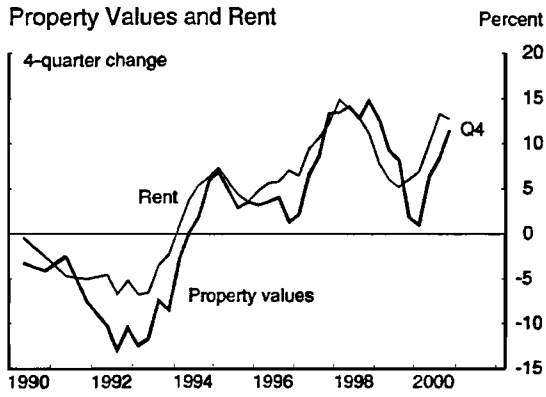


Industrial

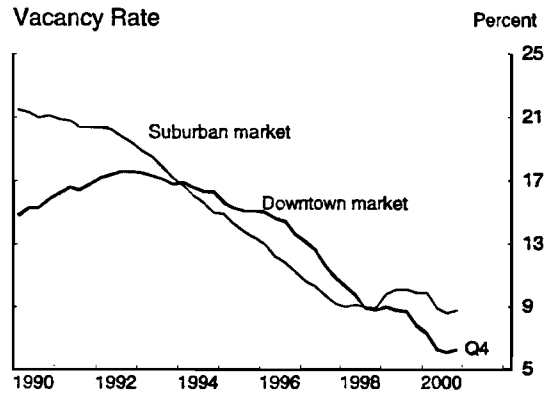


Indicators of Nonresidential Construction

Office Buildings

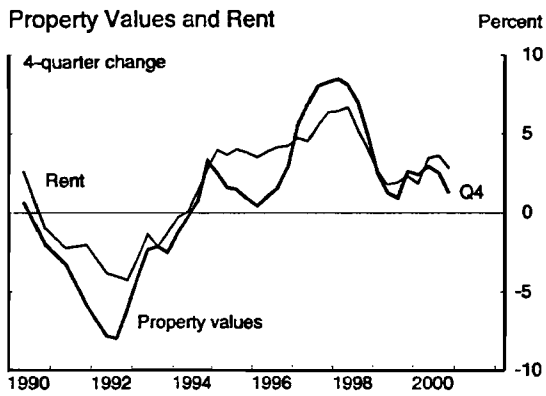


Source. National Real Estate Index.



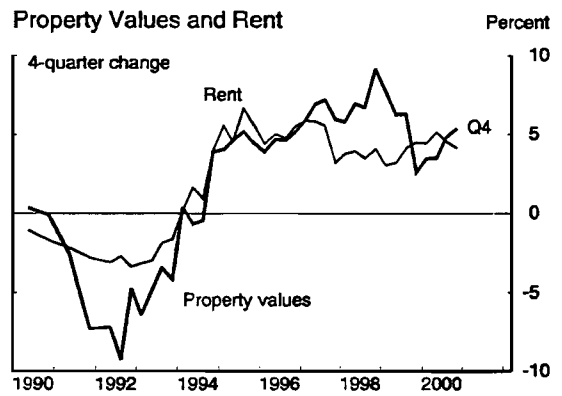
Source. CB Richard Ellis.

Retail Space



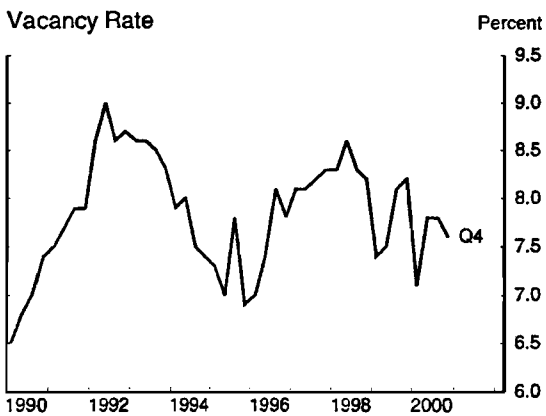
Source. National Real Estate Index.

Warehouses

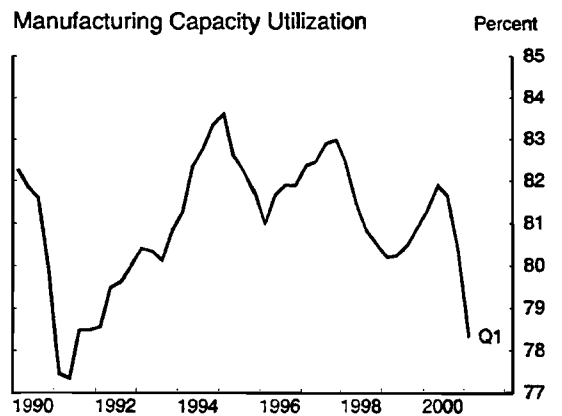


Source. National Real Estate Index.

Industrial

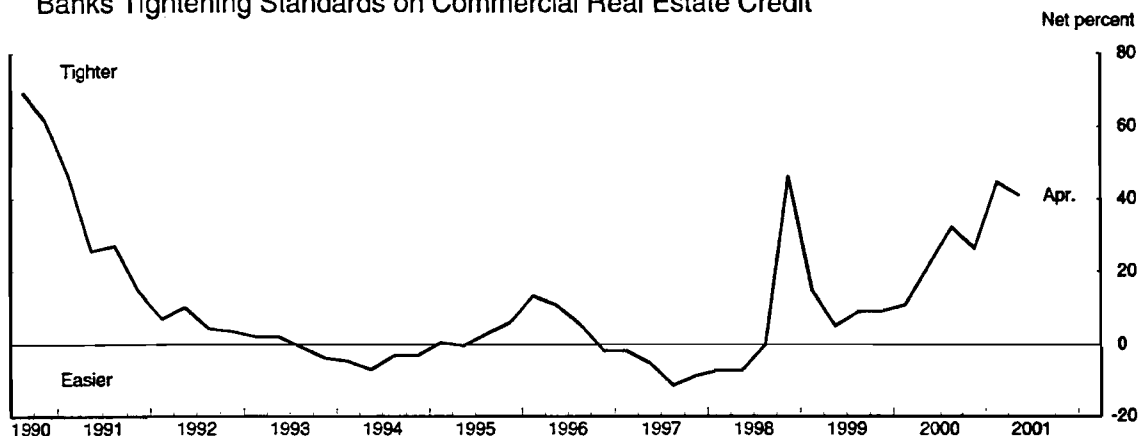


Source. CB Richard Ellis.



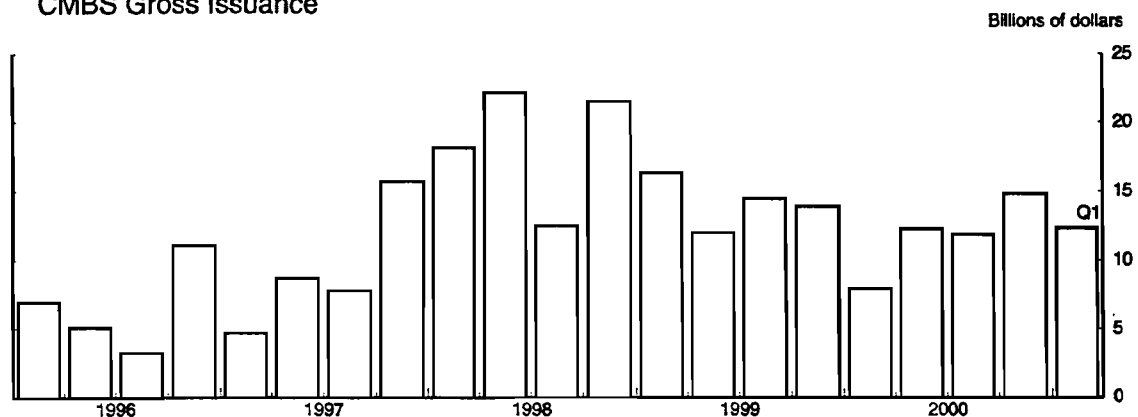
Commercial Mortgage Markets

Banks Tightening Standards on Commercial Real Estate Credit



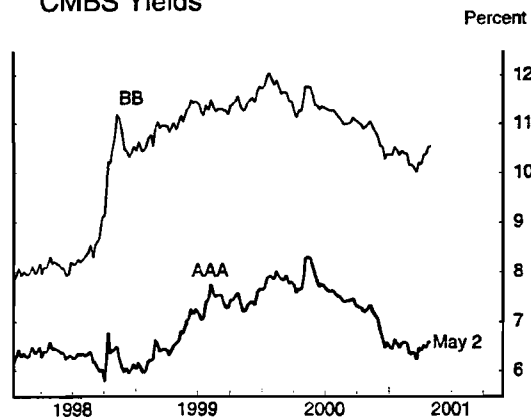
Source. Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices.

CMBS Gross Issuance



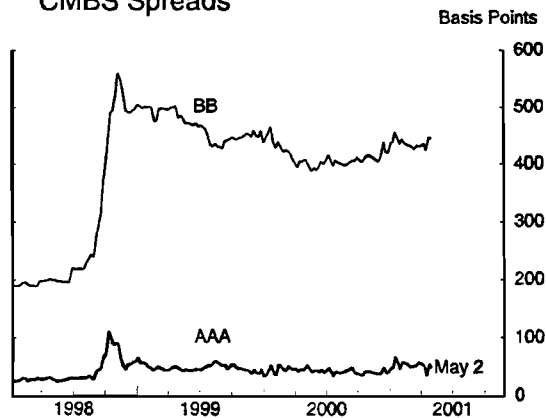
Note. Excludes Fannie Mae and Freddie Mac securities and all CMBS backed by mortgages on foreign properties.
Source. Commercial Mortgage Alert.

CMBS Yields



Source. Morgan Stanley.

CMBS Spreads



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

power generation by private utilities and for cogeneration of power by industrial companies.

Financial market conditions continue to be generally favorable for nonresidential construction, although there are reports of slowing demand and increased caution in funding projects. Issuance of commercial-mortgage-backed securities (CMBS) remained robust in the first quarter. The rates paid by borrowers on CMBS have been about unchanged, on balance, from January through early May, and spreads relative to the ten-year swap rate have been about flat, suggesting that investors' views of the risk of lending for commercial construction have not changed appreciably. The delinquency rate on CMBS edged up a bit in the first quarter, but it remains at a low level; delinquency rates on commercial mortgages held by life insurance companies were quite low through the fourth quarter. More recently, commercial banks have continued to tighten their standards for commercial mortgage loans, as indicated by the Senior Loan Officer Opinion Survey for the three months ended in late April. The net proportion of banks that reported having tightened their credit standards for commercial mortgage loans was 40 percent, only a bit less than the 45 percent that reported tightening in the January sampling.¹⁰

Business inventories. Stockbuilding in the nonfarm business sector fell in real terms in the first quarter, reflecting a sharp liquidation in motor vehicle stocks and essentially no change, on balance, in other nonfarm stocks.¹¹ All else equal, we estimate that the downswing in inventory investment between the fourth and first quarters lowered real GDP growth in the first quarter about 3 percentage points, with the negative contribution divided roughly equally between the motor vehicle and other sectors. Given this pattern of stockbuilding, broad inventory-sales ratios have receded a bit after having moved up in the second

10. A related question regarding changes in loan demand over the three months indicated somewhat weaker demand, on net, for commercial real estate loans to finance several types of structures, including office buildings, hotels, and retail, warehouse, and industrial facilities. The demand for loans for multifamily housing was reported to be unchanged.

11. The advance NIPA estimates showed an \$11 billion increase (annual rate) in real nonfarm inventories excluding motor vehicles. However, subsequent data on the book value of manufacturing inventories imply a sizable downward revision to that figure. The incoming information on wholesale inventories did not differ greatly from BEA's assumptions.

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Billions of dollars; annual rate except as noted;
based on seasonally adjusted Census book value)

Category	2000		2001	2001		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Manufacturing and trade	61.9	50.6	n.a.	20.6	-49.4	n.a.
Less wholesale and retail motor vehicles	53.5	39.2	n.a.	31.4	-27.3	n.a.
Manufacturing	27.4	16.7	-8.8	29.9	-22.2	-34.2
Less aircraft	29.4	16.1	-3.3	29.7	-12.1	-27.4
Merchant wholesalers	12.4	9.5	-6.2	-17.5	-6.4	5.3
Less motor vehicles	16.3	6.8	-2.5	-9.7	-5.9	8.0
Retail trade	22.1	24.4	n.a.	8.2	-20.9	n.a.
Automotive dealers	12.2	8.6	n.a.	-3.0	-21.7	n.a.
Less automotive dealers	9.9	15.8	n.a.	11.2	.8	n.a.

SELECTED INVENTORY-SALES RATIOS IN MANUFACTURING AND TRADE
(Months' supply, based on seasonally adjusted Census book value)

Category	Cyclical reference points		Range over preceding 12 months		March 2001
	1990-91	1991-98	High	Low	
	high	low			
Manufacturing and trade	1.58	1.37	1.37	1.31	n.a.
Less wholesale and retail motor vehicles	1.55	1.34	1.33	1.27	n.a.
Manufacturing	1.75	1.36	1.35	1.25	1.34
Primary metals	2.08	1.46	1.74	1.54	1.73
Steel	2.56	1.59	2.38	1.87	2.28
Nonelectrical machinery	2.48	1.61	1.57	1.40	1.58
Electrical machinery	2.08	1.21	1.24	1.09	1.24
Transportation equipment	2.93	1.51	1.68	1.32	1.46
Motor vehicles	.97	.53	.67	.52	.58
Aircraft	5.84	4.05	4.53	3.51	3.53
Fabricated metals	1.95	1.49	1.73	1.52	1.72
Textiles	1.71	1.38	1.72	1.55	1.74
Paper	1.32	1.06	1.23	1.13	1.21
Chemicals	1.44	1.25	1.41	1.31	1.40
Petroleum	.94	.80	.75	.66	.71
Rubber and plastics	1.47	1.16	1.37	1.23	1.36
Merchant wholesalers	1.36	1.24	1.31	1.28	1.32
Less motor vehicles	1.31	1.22	1.29	1.25	1.30
Durable goods	1.83	1.53	1.64	1.58	1.65
Nondurable goods	.96	.90	.96	.93	.97
Retail trade	1.61	1.45	1.47	1.40	n.a.
Less automotive dealers	1.48	1.38	1.35	1.32	n.a.

half of last year, but stocks of many products are still bloated at some point in the distribution channel.

In manufacturing, sharp liquidations in the book value of inventories in February and March helped to prevent further deterioration in the inventory situation. Nonetheless, overhangs in the sector remain sizable, and the overall inventory-shipments ratio for manufacturing—at 1.34 months in March—is still well above its level of a year ago. Among key industries, the inventory-to-shipments ratios for metals and machinery remain very high, but they have flattened recently after having climbed markedly over the preceding several months.

Excluding motor vehicles, the book value of wholesale inventories increased at an annual rate of \$8 billion in March after having decreased over the preceding three months. The increase in stocks in March reflects a surge at drug wholesalers. As at the manufacturing level, inventory-sales ratios for metals and for electrical machinery have recently held fairly steady at elevated levels.

Information for the retail sector is only available through February. It shows a further easing of the inventory-sales ratio for retailers of durable goods other than motor vehicles, which had risen sharply late last year. Inventory-sales ratios for other non-auto retailers have been about unchanged over the past year.

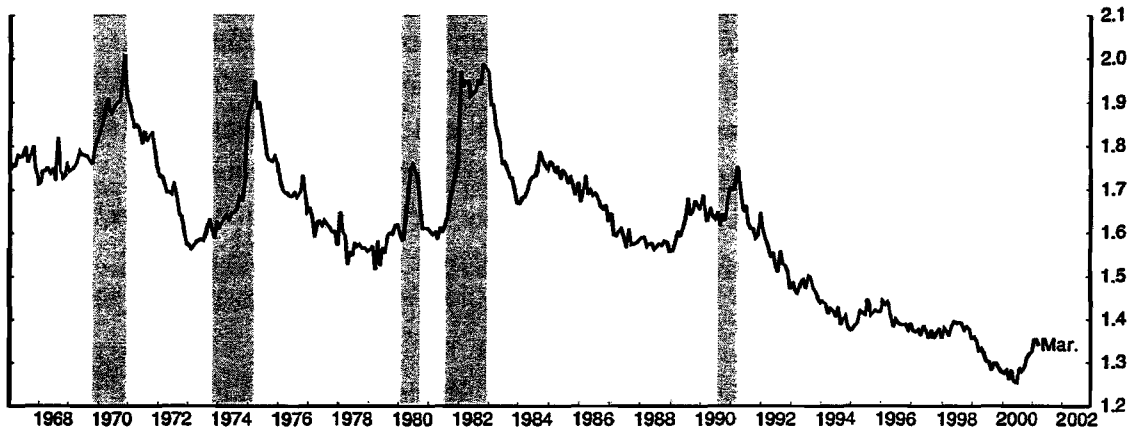
Government Expenditures

Federal sector. Improvements in the surplus have slowed in recent months. Outlays have continued to rise at an annual rate of roughly 4 percent, about the same as during fiscal year 2000 as a whole. But receipts have decelerated sharply after having risen about 10 percent last year.

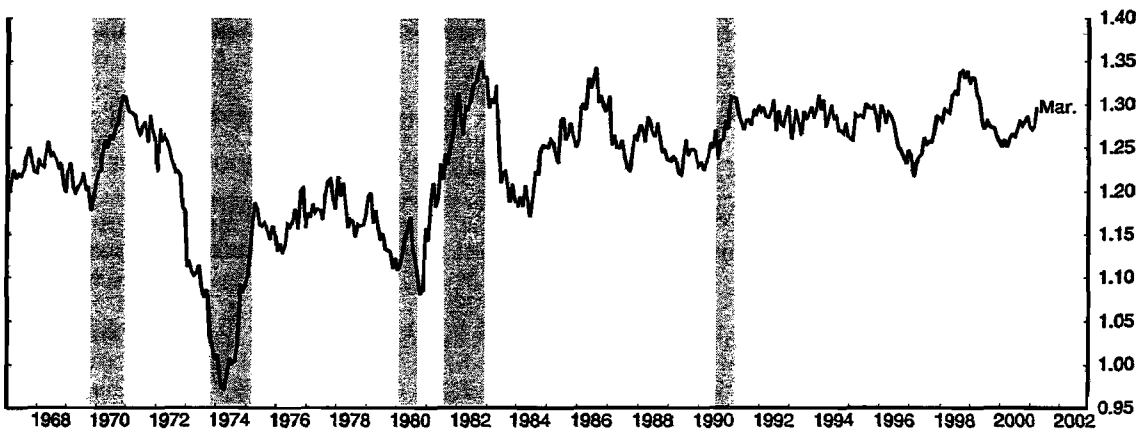
Some of the deceleration in receipts originates in the corporate sector and reflects the deterioration in corporate profits that began late last year. According to monthly Treasury data for February and March and daily data for April, net corporate payments over those months were about 12 percent lower than payments made during the same period a year ago, as gross payments fell and refunds soared.

Inventory-Sales Ratios

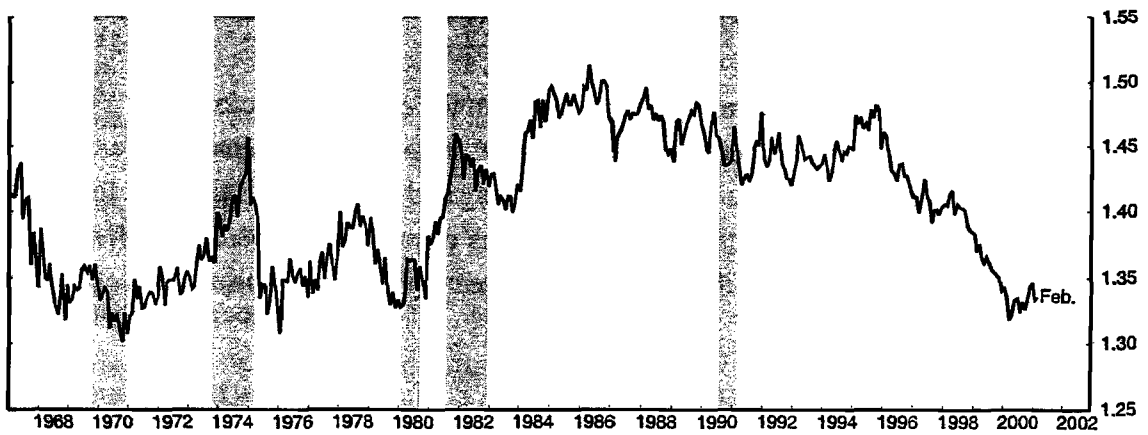
Manufacturing



Wholesale Trade Excluding Motor Vehicles



Retail Trade Excluding Motor Vehicles



Daily Treasury data indicate that April/May individual nonwithheld receipts, which are largely payments on the previous year's liability, were roughly 10 percent higher than those received last year. As a result, liabilities appear to have risen considerably faster than the NIPA tax base for another year in 2000, and the effective tax rate moved up further. We do not know the extent to which this increased effective tax rate reflects real bracket creep, higher capital gains (distributions of capital gains by mutual funds were strong during 2000), shifts in income distribution, or potential underestimates by the BEA of taxable income. However, as noted, the BEA has indicated that, all else equal, the unemployment insurance data now available imply an upward revision to the published estimate of last year's wage and salary income.

The House of Representatives passed the budget resolution agreed to by the conference committee. This resolution includes \$1.25 trillion in tax cuts over 2002-11 and \$100 billion in near-term stimulatory tax cuts. The resolution also provides \$300 billion for a Medicare prescription drug benefit as well as increased spending on agricultural subsidies.

State and local governments. Real consumption and investment spending by state and local governments appears to have risen at a hefty annual rate of 4-1/2 percent in the first quarter, once we adjust the advance NIPA estimate to take account of the monthly construction data that were released on May 1. According to these data, real construction rose sharply in the first quarter largely on the strength of a rebound in highway construction after three quarters of declines. In addition, real state and local consumption expenditures increased at their fastest pace in five years as employment in this sector surged. Employment in April advanced further, with sizable gains recorded on local payrolls.

Anecdotes suggest that states will continue to run surpluses in fiscal 2001, but they will be smaller than projected at the start of the fiscal year, and some states are trimming expectations for next year.¹² Most of the reports in the *Bond Buyer* in the past month point to lower-than-expected tax revenue as being the main culprit. Reports from a few midwestern states indicate that some governments are dealing with the weakness by asking agencies to reduce expenditures. Meanwhile, California is being affected by a softening in sales tax receipts and

12. The fiscal year ends on June 30 for all but four states.

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

	February-March			12 months ending in Mar.		
	2000	2001	Percent change	2000	2001	Percent change
Outlays	321.4	339.4	5.6	1752.5	1821.4	3.9
Deposit insurance	-1.4	-0.4	...	-4.4	-2.1	...
Spectrum auction	0.0	-1.0	...	-1.1	-1.2	...
Sale of major assets	0.0	0.0	...	0.0	0.0	...
Other	322.8	340.8	5.6	1758.0	1824.7	3.8
Receipts	244.3	240.6	-1.5	1890.4	2068.7	9.4
Surplus	-77.1	-98.8	...	137.9	247.4	79.4
Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts ¹						
Outlays	311.7	329.3	5.7	1746.6	1824.1	4.4
National defense	48.8	51.2	4.9	284.6	297.2	4.4
Net interest	37.9	36.2	-4.6	228.4	218.6	-4.3
Social security	67.1	71.7	7.0	396.9	422.3	6.4
Medicare	32.7	33.3	1.8	192.4	202.9	5.5
Medicaid	19.7	21.0	6.5	112.7	123.3	9.4
Other health	6.2	6.7	9.6	34.5	38.4	11.3
Income security	59.0	62.3	5.6	241.1	252.5	4.8
Agriculture	3.5	4.1	17.3	32.3	32.4	0.2
Other	36.8	42.7	16.0	223.6	236.5	5.8
Receipts	244.3	240.6	-1.5	1890.4	2068.7	9.4
Individual income and payroll taxes	190.1	191.2	0.6	1510.8	1664.3	10.2
Withheld + FICA	239.0	245.0	2.5	1304.7	1403.3	7.6
Nonwithheld + SECA	13.3	13.0	-2.1	347.5	399.9	15.1
Refunds (-)	62.1	66.8	7.5	141.2	138.9	-1.7
Corporate	26.1	20.6	-20.8	192.4	208.5	8.4
Gross	32.4	30.5	-6.1	222.6	241.8	8.6
Refunds (-)	6.4	9.8	53.5	30.2	33.2	10.1
Other	28.1	28.7	2.2	187.1	195.9	4.7
Surplus	-67.4	-88.7	...	143.8	244.6	70.0

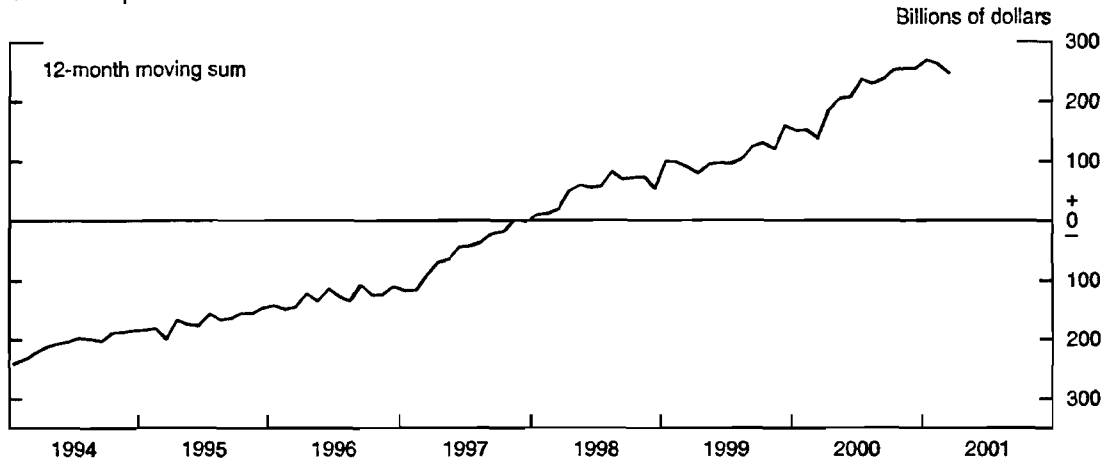
Note. Components may not sum to totals because of rounding.

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

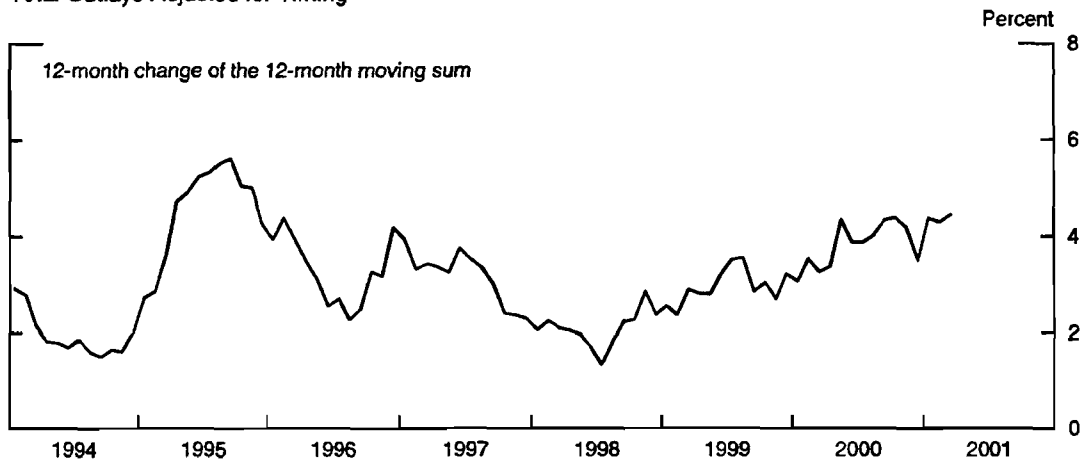
... Not applicable.

Federal Sector Developments

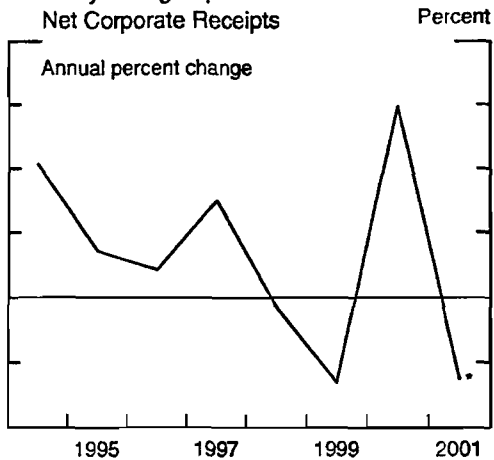
Unified Surplus



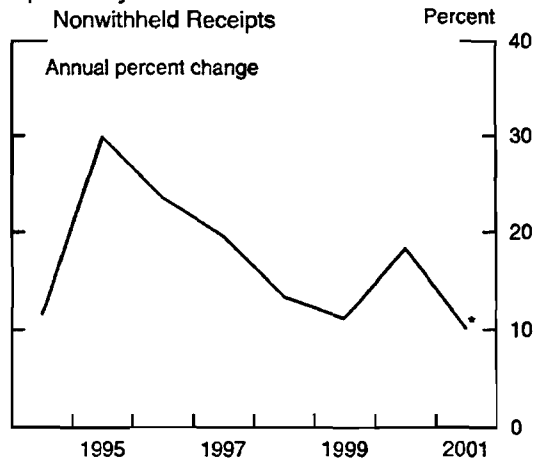
Total Outlays Adjusted for Timing



February through April Net Corporate Receipts



April & May Individual Nonwithheld Receipts



* Estimates for April and May 2001 are based on Daily Treasury Statements.

RECENT PRICE INDICATORS
(Percent)

	From 12 months earlier		2000	2001	2001	
	Mar. 2000	Mar. 2001	Q4	Q1	Feb.	Mar.
					-Annual rate-	-Monthly rate-
<u>CPI</u>						
Total	3.8	2.9	2.9	4.2	0.3	0.1
Core	2.4	2.7	2.4	3.2	0.3	0.2
ex tobacco	2.2	2.6	2.4	3.1	0.3	0.2
Core commodities	1.0	0.6	1.1	1.1	0.3	-0.1
ex tobacco	0.2	0.3	1.1	0.8	0.2	-0.1
Core services	3.5	3.6	3.4	4.0	0.3	0.3
Current-methods	3.7	2.9	2.9	4.2	0.3	0.1
Core	2.4	2.6	2.3	3.1	0.3	0.2
ex tobacco	2.2	2.6	2.4	3.1	0.3	0.2
<u>PCE Prices</u>						
Total	2.9	1.9	1.9	3.3	0.3	0.1
Core	1.8	1.7	1.6	2.7	0.3	0.2
ex tobacco	1.7	1.6	1.6	2.6	0.3	0.2
Core commodities	0.0	-0.1	0.3	0.3	0.2	-0.2
ex tobacco	-0.6	-0.4	0.3	0.0	0.1	-0.2
Core services	2.7	2.5	2.1	3.7	0.3	0.3
Core market prices	1.7	1.8	1.7	2.3	0.3	0.1
Core nonmarket prices	2.4	1.0	1.1	4.7	0.2	0.3
<u>PPI</u>						
Total finished goods	4.3	3.1	4.1	5.5	0.1	-0.1
Core	1.2	1.4	1.1	1.9	-0.3	0.1
ex tobacco	0.7	1.0	0.9	0.7	-0.4	0.1
Core consumer goods	1.6	1.6	1.4	2.6	-0.4	0.3
ex tobacco	0.9	1.1	1.1	0.7	-0.4	0.3
Capital equipment	0.6	0.9	0.7	0.7	-0.3	0.0
Core intermediate materials	3.2	1.0	-0.5	1.1	0.1	0.1
Core crude materials	16.2	-10.8	-8.0	-8.4	-2.5	-1.3

withheld tax payments as well as by the state's power subsidies, which were estimated by the BEA to have been \$3.8 billion in the first quarter; however, final payments this spring on taxpayers' liabilities for 2000 were strong.

Prices

Core consumer price inflation was on the high side in the first quarter and, sorting through the various measures, appears to have picked up slightly over the past year. However, overall consumer price inflation has declined or remained roughly flat over this period, held down by a significant deceleration in energy prices.

Retail energy prices turned down in March. Despite mid-March cuts in OPEC production quotas, spot prices of West Texas crude oil fell \$2 per barrel from the beginning of March through the end of the month, and the decline contributed to a drop in the wholesale and retail prices of gasoline and heating oil. Conditions in natural gas markets provided further relief: As the end of winter neared, U.S. natural gas demand dropped, and spot prices for natural gas fell sharply. This decline in spot prices was reflected in residential natural gas bills for March.

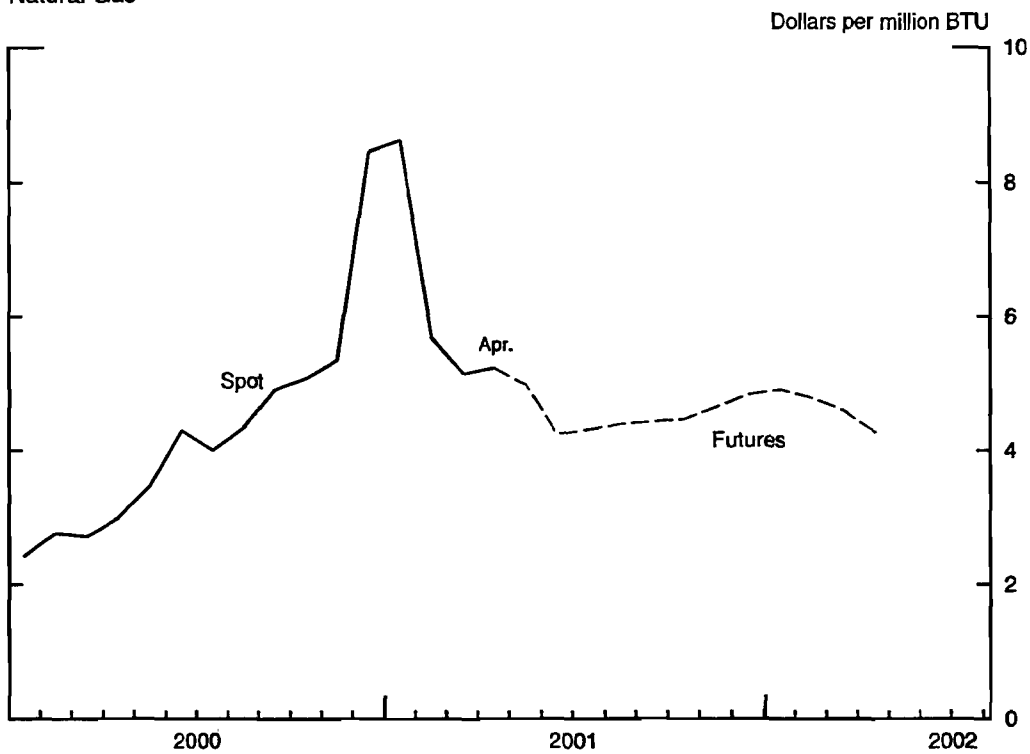
However, more recent information points toward a rebound in energy prices in April, with especially large increases for electricity and gasoline. With regard to electricity, California's public utility commission boosted residential rates sharply at the end of March, and this increase will likely raise the national electricity price index in April by about 1-1/2 percent. California's capacity problems, along with hydropower shortages in the Northwest, show no sign of immediate easing; the continued supply shortfall may lead to further blackouts in the region this spring and summer, and perhaps further residential rate increases in California. In contrast, capacity in the rest of the country has risen substantially over the past year and appears quite adequate to meet the normal seasonal rise in demand.

Concerns about lean inventories have pushed up gasoline prices in the past few weeks, with wholesale and retail prices hitting record highs in the first week of May. So far this year, the supply of gasoline has been similar to that of early 2000, despite several refineries having been closed for repairs or shut down permanently. But with consumption having surged recently, gasoline inventories have been drawn down significantly. Moreover, stocks for MTBE, an additive

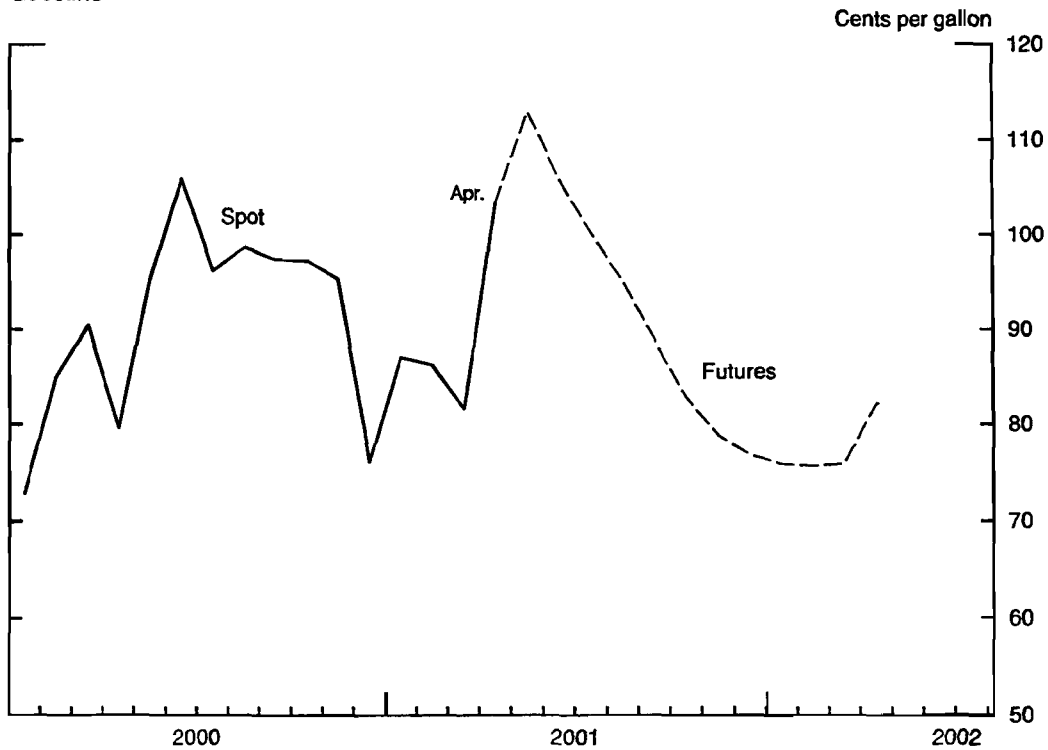
Energy Spot and Futures Prices

(Futures prices as of c.o.b. May 7, 2001)

Natural Gas



Gasoline



used in 10 percent of the reformulated gasoline (RFG) sold during the summer, are very low, which is adding another 2 cents or 3 cents per gallon to RFG prices. Despite the current high prices, futures quotes point to a sharp decline in wholesale gasoline prices over the next few months. This probably reflects the expectation of market participants that gasoline production capacity will soon be restored and that inventory levels will move back into their normal range.

Excluding food and energy items, PCE prices rose 0.2 percent in March after having risen 0.3 percent in both January and February. On a quarterly average basis, core PCE prices rose at an annual rate of 2.7 percent in the first quarter, compared with a 1.6 percent annual rate increase in the preceding quarter. About half of this step-up reflects a faster rate of increase in the nonmarket component of the index (that is, the portion of the index that is not computed using market-based prices). Still, the quarterly average increase in core market-based prices also moved up in the first quarter, as did the change in the core CPI. Over the past year or so, core PCE inflation has been about flat on net. However, there has been a modest acceleration in the core current-methods CPI and, to a lesser extent, in market-based core PCE prices over this period.

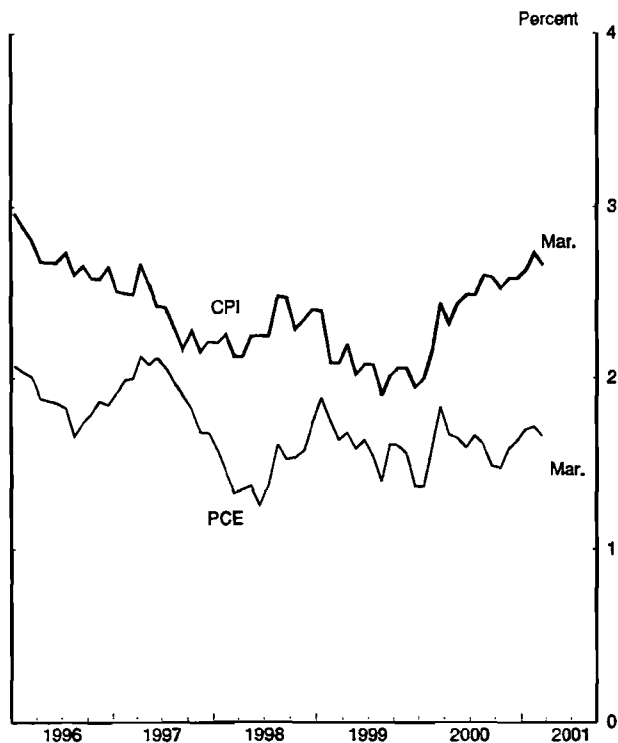
Capital goods prices (as measured by the producer price index) were unchanged over the first three months of 2001, held down in part by plunging computer prices. Based on anecdotes as well as the recent co-movement of computer prices and the capacity utilization rate for the semiconductor industry, the recent large drop in computer prices appears related to the weakening of demand evident in the high-tech sector.¹³ The total PPI for capital goods rose nearly 1 percent over the year ending in March after having risen 0.6 percent over the previous year.

Turning to broader measures of inflation, the GDP chain-type price index rose at an annual rate of 3.2 percent in the first quarter, pushed up by higher PCE prices. In addition, the reduction in the price of imported petroleum was not matched by

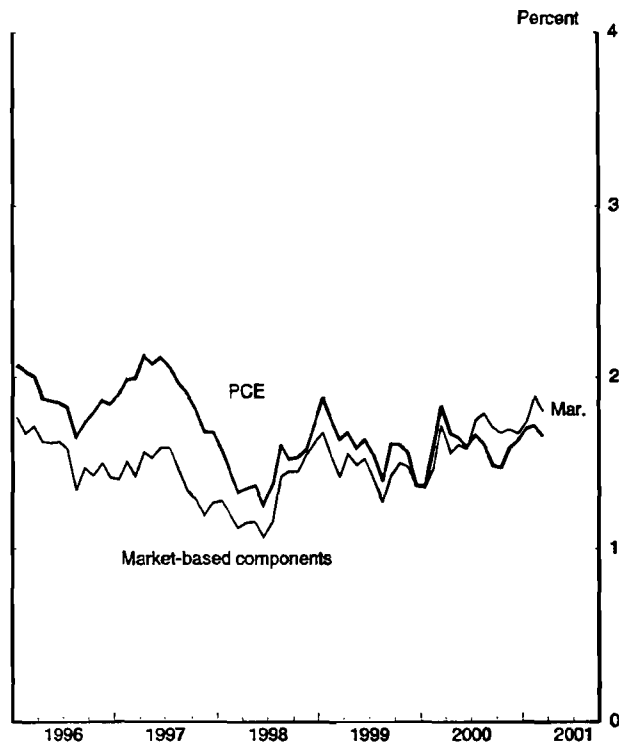
13. In April, press reports indicated that Intel was starting to sharply reduce the prices of its microprocessors. Advanced Micro Devices—Intel's major rival in this market—appears likely to follow Intel's lead with its own round of price cuts. This raises the prospect of additional large declines in computer prices in the near term.

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

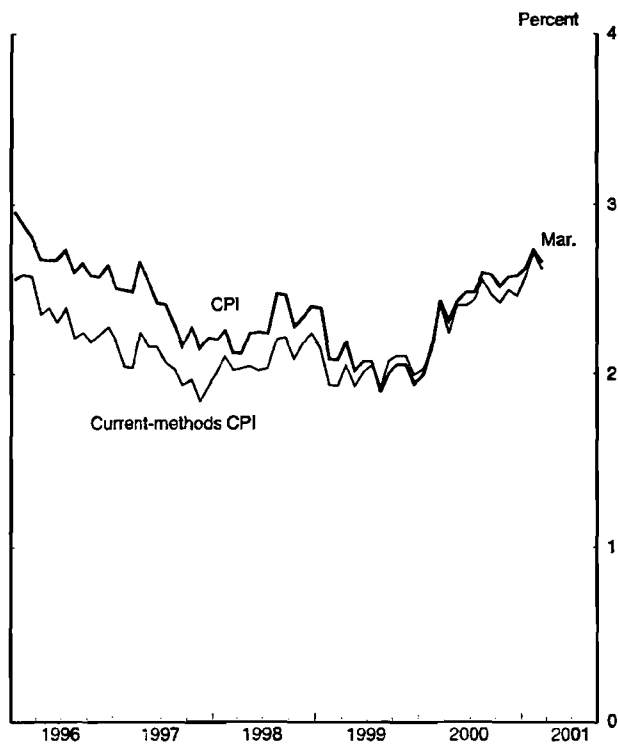
Core CPI and Core PCE



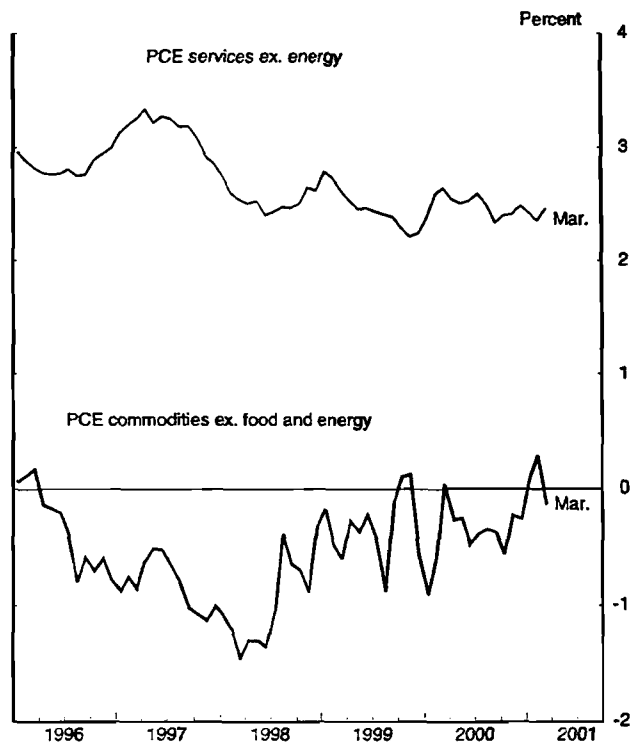
PCE Excluding Food and Energy



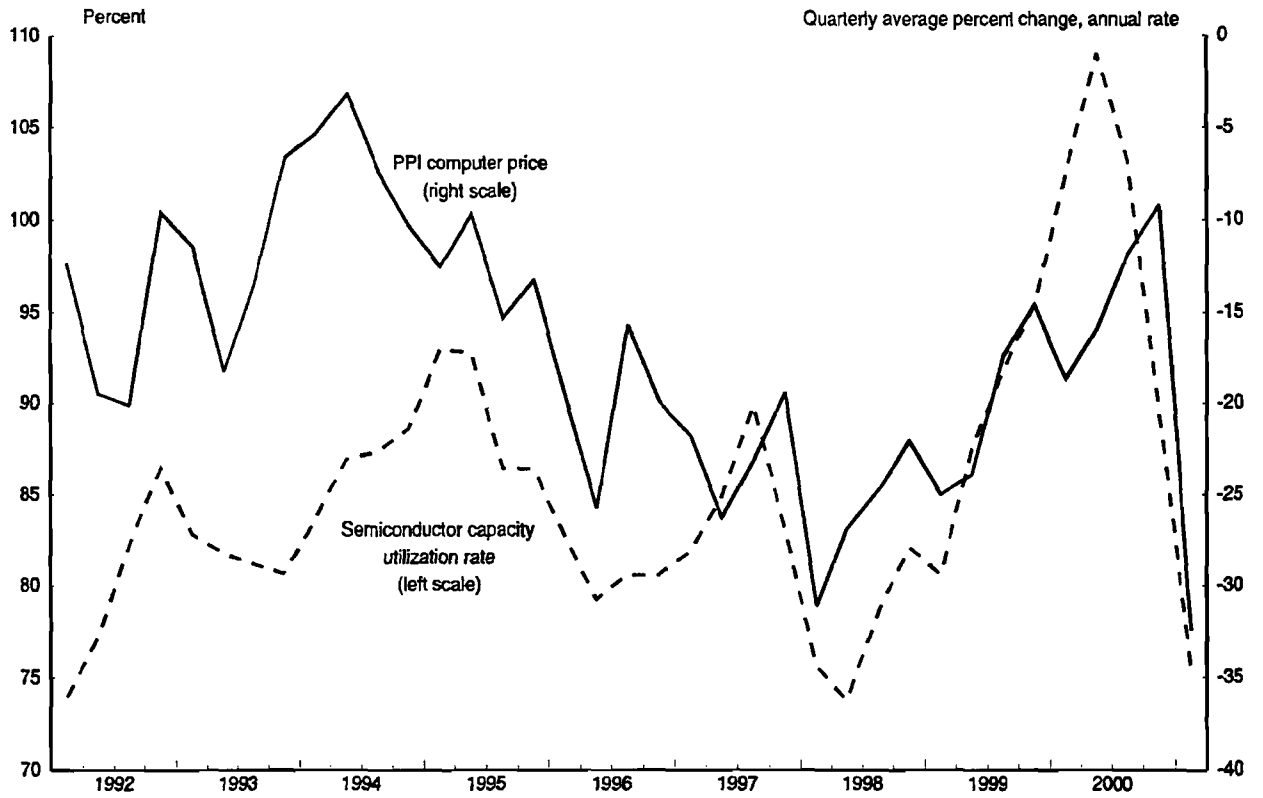
CPI Excluding Food and Energy



PCE Services and Commodities



Prices of Computers and Capacity Utilization in the Semiconductor Industry



BROAD MEASURES OF INFLATION
(4-quarter percent change)

	1998 Q1	1999 Q1	2000 Q1	2001 Q1
<u>Product prices</u>				
GDP chain price index	1.4	1.5	1.8	2.3
Less food and energy	1.4	1.5	1.8	2.0
Nonfarm business chain price index ¹	1.2	1.2	1.5	1.9
<u>Expenditure prices</u>				
Gross domestic purchases chain price index	0.8	1.2	2.3	2.2
Less food and energy	1.2	1.4	1.7	1.8
PCE chain price index	1.0	1.5	2.5	2.3
Less food and energy	1.5	1.8	1.6	1.7
PCE chain price index, market-based components	0.8	1.2	2.5	2.4
Less food and energy	1.2	1.5	1.5	1.8
CPI	1.5	1.7	3.3	3.4
Less food and energy	2.3	2.2	2.2	2.7
Current-methods CPI	1.3	1.5	3.3	3.4
Less food and energy	2.1	2.0	2.2	2.7
Median CPI	2.9	2.9	2.4	3.3
Trimmed mean CPI	2.0	1.8	2.3	3.0

1. Excluding housing.

SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

	Actual inflation ¹	University of Michigan				Professional forecasters (10-year) ⁴
		1 year		5 to 10 years		
		Mean ²	Median ²	Mean ³	Median ³	
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	3.4	3.4	2.9	3.6	3.0	2.5
2000-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.	3.5	3.2	2.8	3.6	3.0	
Mar.	2.9	3.3	2.8	3.6	3.0	2.5
Apr.		3.7	3.1	3.6	3.1	

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.

price declines for domestic energy goods and services.¹⁴ Over the past four quarters, GDP prices rose 2.3 percent, an acceleration of 1/2 percentage point from a year ago; by contrast, the rate of increase in the price index for gross domestic purchases—which is defined as the prices paid for consumption, investment, and government purchases—changed little on net over this period. Excluding food and energy, the latest four-quarter changes in both GDP and gross domestic purchases prices were also roughly the same as a year ago.

At earlier stages of processing, the producer price index for core intermediate materials rose 1 percent over the twelve months ending in March after having posted a 3 percent increase over the same period a year ago. This deceleration in the prices of core intermediate goods appears consistent with the indirect effects of recent swings in energy prices, domestic industrial activity, and the prices of imported goods.¹⁵ Prices of core crude materials have decelerated even more sharply over this period: The PPI for core crude materials fell 11 percent over the twelve months ending in March, compared with a 16 percent increase over the previous twelve-month period. Core crude materials prices continued to fall in March, posting a 1-1/4 percent decline in that month.

Indexes of industrial materials prices (such as the Commodity Research Bureau and *Journal of Commerce* commodity price indexes) initially declined following the March PPI pricing date, but then moved up on net after early April. Like the PPI for crude materials, these commodity price indexes have declined over the past year—although generally not as rapidly. Of course, these indexes are narrower in scope, and we would not expect them to closely match movements in the PPI, which likely provides a better measure of industrial materials costs.

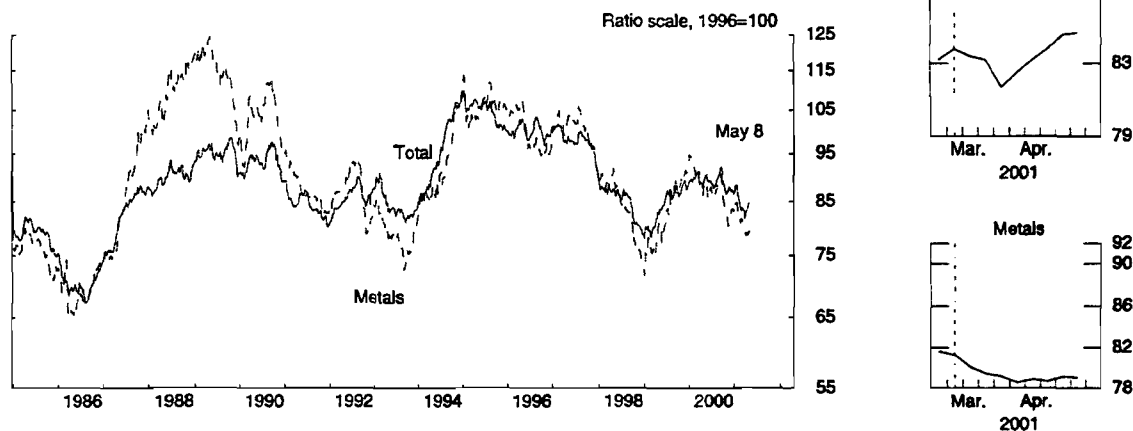
Inflation expectations from the Michigan survey have edged up a touch recently. The median expectation for inflation over the coming year stood at 3.1 percent in April, which is on the high side of the band in which measured expectations have

14. Because the GDP price index measures the price of domestic output, import prices are subtracted from the index. If a reduction in the price of imported intermediate goods is not matched by a decline in the price of domestic final output (perhaps because domestic producers have increased their margins), measured GDP prices will rise.

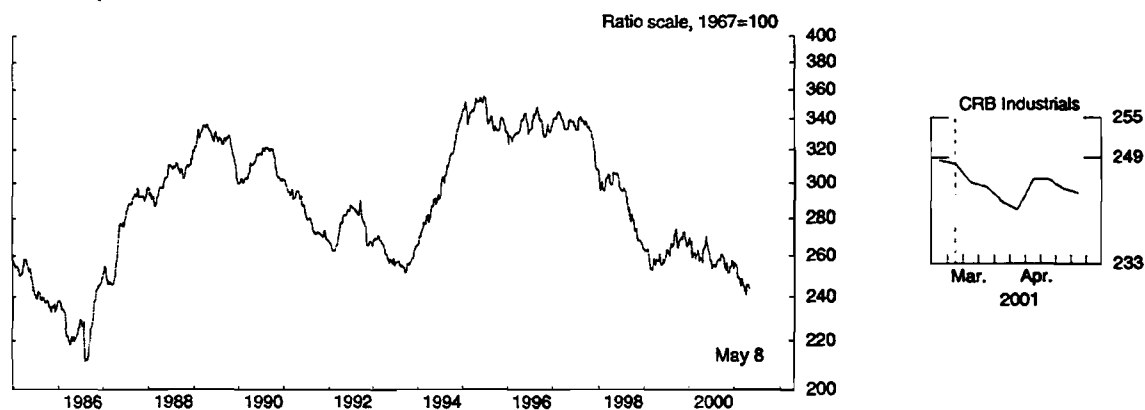
15. A statistical model relating the quarterly percent change in the PPI for core intermediate goods to changes in energy prices, core imported goods prices, and the rate of manufacturing capacity utilization closely tracks the runup in intermediate goods price inflation in 1999 and its subsequent decline in 2000.

Commodity Price Measures

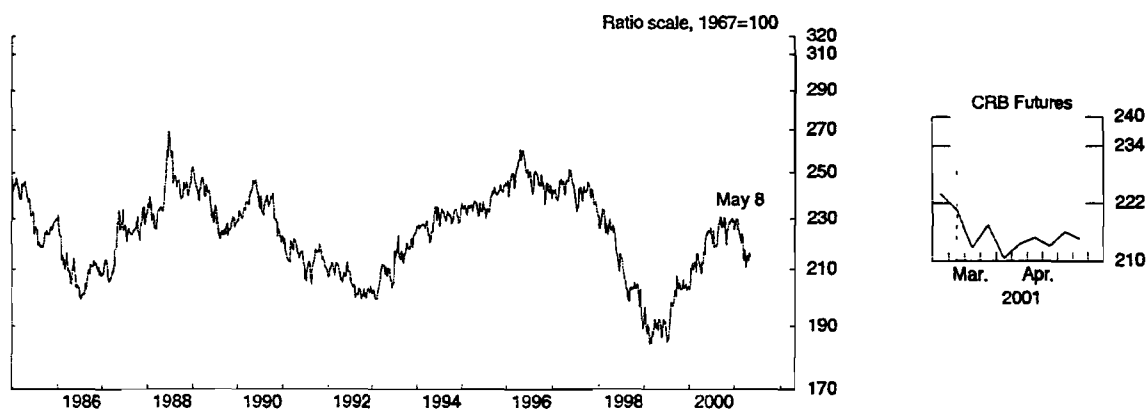
Journal of Commerce Index



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

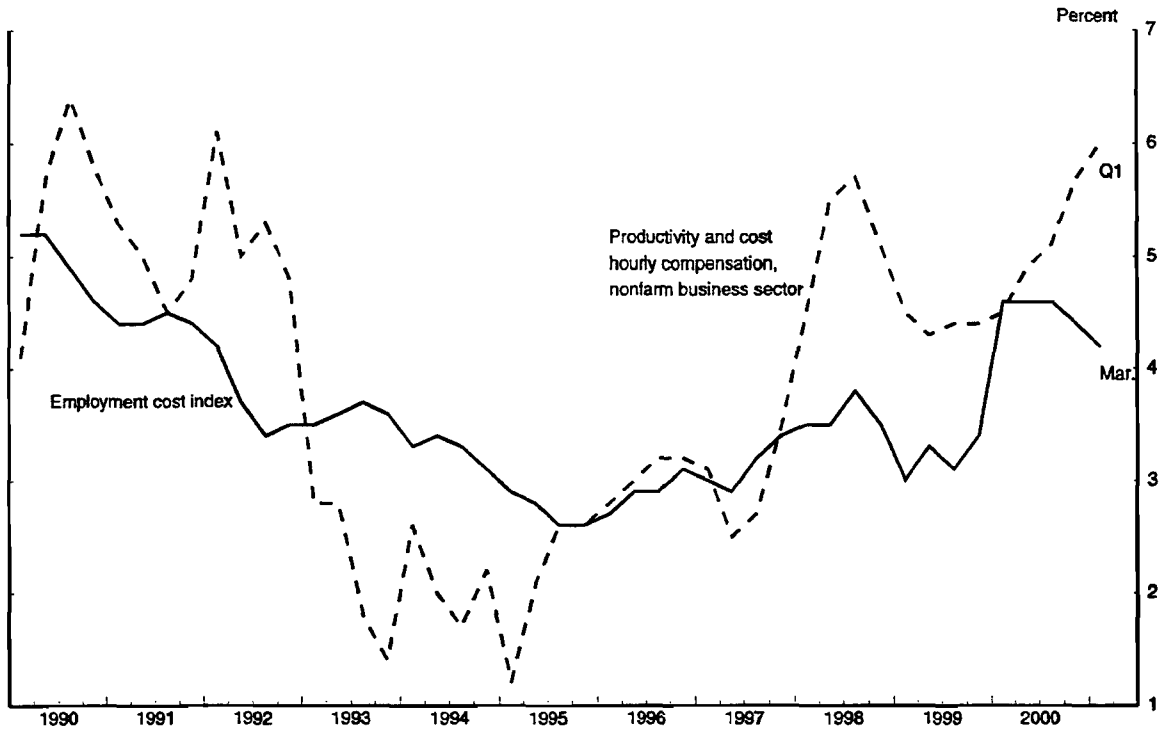
	Current price (dollars)	-----Percent change ¹ -----				Memo: Year earlier to date
		1999	2000	Dec. 26 to Mar. 13 ²	Mar. 13 ² to May 08	
Metals						
Copper (lb.)	0.820	26.1	3.4	-5.5	-4.7	-6.8
Steel scrap (ton)	77.000	61.5	-32.7	-2.5	0.0	-25.7
Aluminum, London (lb.)	0.719	27.7	-0.8	-3.5	5.4	8.6
Precious metals						
Gold (oz.)	265.200	-1.6	-5.7	-1.8	-1.5	-4.0
Silver (oz.)	4.330	5.5	-10.9	-4.6	-2.8	-14.8
Forest products³						
Lumber (m. bdft.)	296.000	8.3	-44.6	13.9	44.4	6.1
Plywood (m. sqft.)	330.000	-3.2	-8.2	-3.6	22.2	6.5
Petroleum						
Crude oil (barrel)	27.840	163.3	-13.0	11.0	12.8	4.1
Gasoline (gal.)	0.963	132.9	5.2	6.7	22.9	8.0
Fuel oil (gal.)	0.745	140.7	34.4	-22.2	0.8	3.7
Livestock						
Steers (cwt.)	75.500	15.7	13.2	3.9	-5.6	3.4
Hogs (cwt.)	51.500	194.0	7.1	22.5	11.4	1.0
Broilers (lb.)	0.560	-4.0	-13.7	19.2	-5.5	-1.8
U.S. farm crops						
Corn (bu.)	1.810	-10.2	10.1	-4.3	-8.8	-15.4
Wheat (bu.)	3.398	-17.4	31.9	2.9	-5.2	26.9
Soybeans (bu.)	4.375	-17.6	10.8	-9.8	-1.4	-17.1
Cotton (lb.)	0.408	-20.9	27.0	-17.0	-16.3	-29.0
Other foodstuffs						
Coffee (lb.)	0.825	5.1	-43.1	2.2	18.7	-17.1
Memo:						
JOC Industrials	84.700	11.0	-1.5	-3.5	1.1	-4.9
JOC Metals	79.100	26.3	-10.3	-2.5	-2.7	-10.6
CRB Futures	214.600	7.8	12.1	-3.6	-2.7	-0.5
CRB Spot	243.590	-0.1	-3.5	-3.4	-1.8	-7.7

1. Changes, if not specified, are from the last week of the preceding year to the last week of the period indicated.

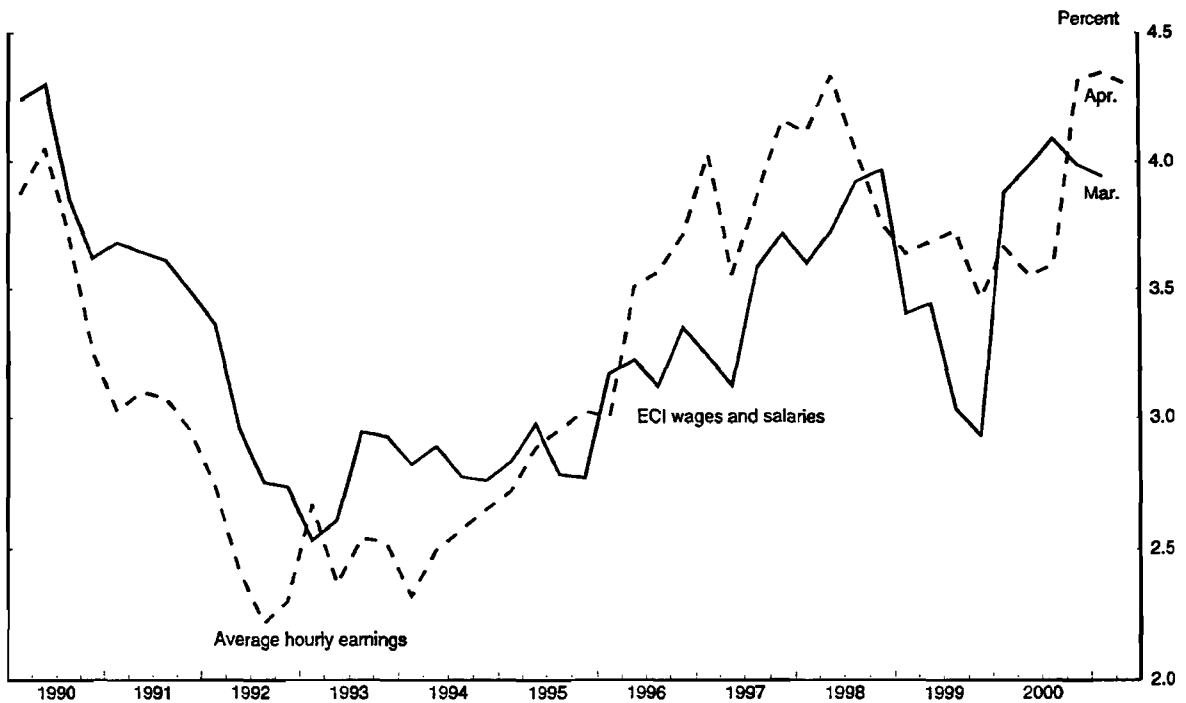
2. Week of the March Greenbook.

3. Reflects prices on the Friday before the date indicated.

Measures of Compensation per Hour (4-quarter change)



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



fluctuated over the past year or so. Median expected inflation over the next five to ten years was also 3.1 percent; this is the highest it has been since March of last year.

Labor Costs

Hourly compensation has accelerated over the past couple of years, as tight labor markets and the lagged effects of higher consumer price inflation have continued to put upward pressure on wage inflation. However, as is often the case, various measures of wage inflation have not moved together over shorter periods; these differences across the series are mainly differences of timing and are not as large when the series are compared over several years. Specifically, in the first quarter, the four-quarter change in compensation per hour in the productivity and costs data picked up further, while the twelve-month change in the ECI for hourly compensation dropped back a bit after having been boosted by sharp increases early last year.

As measured by the productivity and costs data, hourly compensation rose 5.2 percent in the first quarter, lifting the four-quarter change in this measure to 6 percent; this is 1.5 percentage points higher than a year ago.¹⁶ Average hourly earnings of production or nonsupervisory workers rose 0.4 percent in April; this put the twelve-month change in this measure of wages at 4.3 percent, compared with a year-earlier twelve-month change of 3.8 percent.

The employment cost index for hourly compensation rose at an annual rate of 4.6 percent in the first quarter; this increase was larger than those of recent quarters and reflected a 4.4 percent rise in wages and a 5.9 percent increase in benefit costs. The rise in benefit costs in part reflected another big increase in employer payments for health insurance, which have risen 8 percent over the past

16. As noted earlier, the BEA announced that tabulations of state unemployment insurance data imply a change in wage and salary disbursements from 1999 to 2000 that is about \$75 billion greater than current NIPA estimates. (Anecdotal evidence suggests that this additional compensation is at least partly related to a surge in stock option exercises in 2000.) Although it is impossible to know precisely what impact the revision to wages and salaries will have on the measured growth of P&C hourly compensation over this period, a very rough calculation indicates that the order of magnitude of this upward revision (combined with the effect of BLS revisions to measured employment growth) is about 1 percentage point.

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

	1999 ¹	2000 ¹	2000			2001	2000:Q1 to 2001:Q1
			Q2	Q3	Q4	Q1	
<u>Compensation per hour</u>							
Total business	4.5	6.0	7.1	5.7	7.5	5.2	6.4
Nonfarm business	4.4	5.7	6.0	6.2	6.6	5.2	6.0
Nonfinancial corporations ²	4.4	5.6	6.3	6.0	7.4	n.a.	n.a.
<u>Unit labor costs</u>							
Total business	.6	2.4	.0	3.1	4.5	5.6	3.3
Nonfarm business	.6	2.3	-.2	3.2	4.5	5.2	3.1
Nonfinancial corporations ²	.4	2.2	.7	1.5	7.1	n.a.	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.

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

	12-month percent change			Percent change to Apr. 2001 from month indicated		2001	
	Apr. 1999	Apr. 2000	Apr. 2001	Oct. 2000	Jan. 2001	Mar.	Apr.
	- - - - -Annual rate- - - - -					-Monthly rate-	
Total private nonfarm	3.5	3.8	4.3	5.0	5.8	.4	.4
Manufacturing	2.5	3.5	3.5	3.0	5.3	.2	.5
Construction	3.3	4.5	3.1	3.7	.0	.3	-.5
Transportation and public utilities	2.4	3.2	3.3	3.3	3.4	-.2	.1
Finance, insurance, and real estate	4.5	2.8	4.7	6.8	6.9	.5	.2
Retail trade	3.9	4.2	3.6	3.6	5.1	.3	.2
Wholesale trade	4.0	3.9	4.4	4.3	4.7	.4	-.1
Services	4.2	3.5	5.4	7.0	7.8	.3	.8

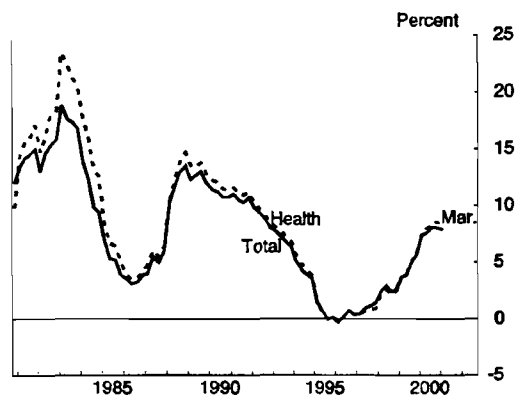
EMPLOYMENT COST INDEX OF HOURLY COMPENSATION
FOR PRIVATE INDUSTRY WORKERS

	2000				2001
	Mar.	June	Sept.	Dec.	Mar.
-----Quarterly percent change----- (Compound annual rate)					
Total hourly compensation ¹	5.6	4.7	3.8	3.5	4.6
Wages and salaries	4.6	4.2	3.6	3.3	4.4
Benefit costs	8.2	5.1	5.0	4.4	5.9
By industry					
Construction	5.6	5.8	5.7	5.9	3.9
Manufacturing	5.7	4.2	3.9	2.2	4.6
Trans., comm., and public utilities	4.0	5.1	4.2	3.6	5.5
Wholesale trade	4.1	4.6	1.6	5.4	2.1
Retail trade	5.8	4.0	3.6	3.6	4.1
FIRE	10.4	2.9	5.6	1.3	5.8
Services	5.2	4.6	4.3	3.4	6.6
By occupation					
White collar	5.5	4.9	3.8	4.0	4.5
Blue collar	5.8	3.4	4.2	3.3	4.7
Service occupations	3.4	4.5	3.4	4.4	5.0
Memo:					
State and local governments	3.4	3.1	2.5	3.3	4.1
-----Twelve-month percent change-----					
Total hourly compensation	4.6	4.6	4.6	4.4	4.2
Excluding sales workers	4.3	4.4	4.6	4.4	4.4
Wages and salaries	4.2	4.1	4.1	3.9	3.8
Excluding sales workers	3.8	3.9	4.0	3.9	4.2
Benefit costs	5.5	5.7	6.0	5.6	5.0
By industry					
Construction	3.8	4.6	5.2	5.8	5.3
Manufacturing	4.4	4.7	4.6	4.0	3.6
Trans., comm., and public utilities	3.0	3.4	3.9	4.2	4.6
Wholesale trade	5.1	5.0	4.0	4.0	3.4
Retail trade	4.7	4.1	4.4	4.2	3.8
FIRE	7.4	5.0	5.1	5.0	3.9
Services	4.1	4.6	4.7	4.4	4.8
By occupation					
White collar	4.8	4.9	4.8	4.6	4.3
Sales	6.7	5.4	4.9	4.2	2.3
Nonsales	4.5	4.7	4.7	4.6	4.8
Blue collar	4.2	4.3	4.4	4.2	3.9
Service occupations	3.2	3.4	4.0	3.9	4.2
Memo:					
State and local governments	3.6	3.5	3.3	3.0	3.3

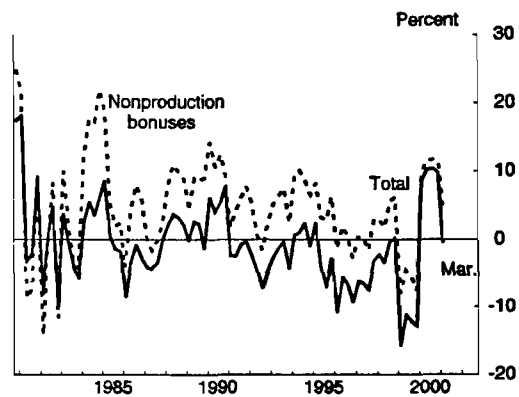
1. Seasonally adjusted by the BLS.

Components of ECI Benefits Costs (CONFIDENTIAL)
 (Private industry workers; 12-month change)

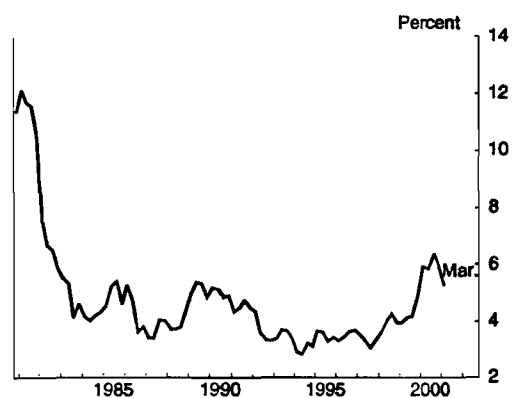
Insurance Costs



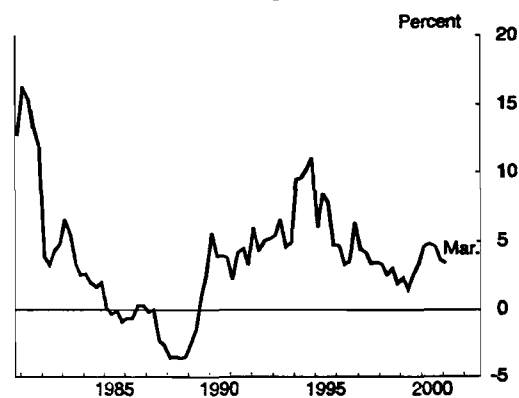
Supplemental Pay



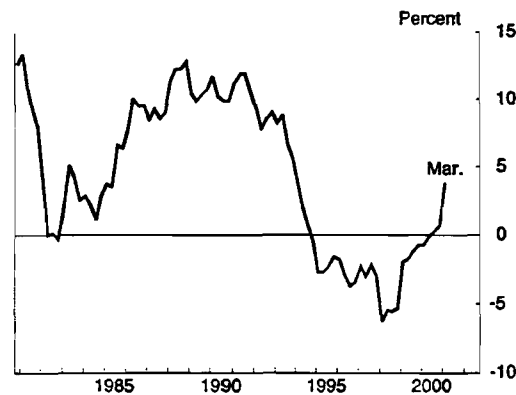
Paid Leave



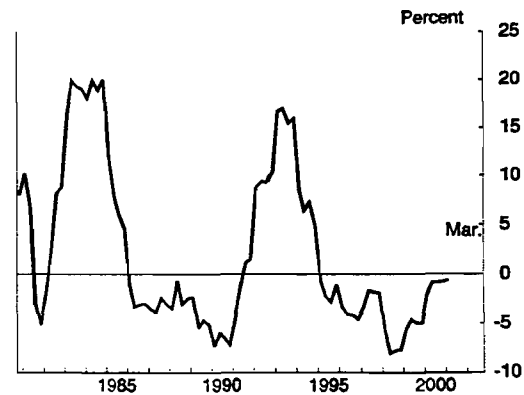
Retirement and Savings



Workers' Compensation Insurance



State Unemployment Insurance



Note. Unpublished and confidential ECI benefits detail.

year.¹⁷ Over the twelve months ending in March, the ECI for hourly compensation rose 4.2 percent, 0.4 percentage point less than a year ago. A reduction in the rate of compensation growth for sales workers, whose pay includes a substantial commission component, more than accounts for the deceleration in the ECI.

As was noted above, focusing on these recent movements in the ECI paints a slightly misleading picture of wage trends inasmuch as comparisons with a year ago are affected by the surge in the ECI that occurred in the first quarter of last year. Over the past two years, the acceleration in the ECI for hourly compensation, at roughly 1-1/4 percentage points, is similar to the acceleration in the productivity and costs measure of compensation per hour. Likewise, the two-year acceleration in the ECI for wages and salaries of production or nonsupervisory workers is broadly similar to the acceleration in average hourly earnings over this period.

17. The California Public Employees' Retirement System (CalPERS) has approved an average increase in HMO rates of 6 percent for 2002 (the corresponding increase for 2001 was 9 percent). The increase was substantially reduced by changes in copayments for drugs and office visits; absent this shifting of costs to employees, premiums would reportedly have risen by 13 percent. (We will not know the overall increase in CalPERS premiums until mid-May, when rates for preferred provider plans are determined.)

Domestic Financial Developments

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

Instrument	2000	2001			Change to May 8 from selected dates (percentage points)		
	June 26	Mar. 19	Apr. 17	May 8	2000 June 26	2001 Mar. 19	2001 Apr. 17
<i>Short-term</i>							
FOMC intended federal funds rate	6.50	5.50	5.00	4.50	-2.00	-1.00	-.50
<i>Treasury bills</i> ¹							
3-month	5.66	4.42	4.02	3.62	-2.04	-.80	-.40
6-month	5.94	4.25	4.02	3.58	-2.36	-.67	-.44
1-year	5.82	4.07	3.99	3.55	-2.27	-.52	-.44
<i>Commercial paper</i>							
1-month	6.56	4.85	4.96	4.09	-2.47	-.76	-.87
3-month	6.56	4.71	4.62	3.95	-2.61	-.76	-.67
<i>Large negotiable CDs</i> ¹							
1-month	6.64	4.93	5.00	4.13	-2.51	-.80	-.87
3-month	6.73	4.79	4.72	4.01	-2.72	-.78	-.71
6-month	6.89	4.64	4.61	3.98	-2.91	-.66	-.63
<i>Eurodollar deposits</i> ²							
1-month	6.63	4.90	4.98	4.11	-2.52	-.79	-.87
3-month	6.69	4.79	4.71	4.01	-2.68	-.78	-.70
Bank prime rate	9.50	8.50	8.00	7.50	-2.00	-1.00	-.50
<i>Intermediate- and long-term</i>							
<i>U.S. Treasury (constant maturity)</i>							
2-year	6.50	4.32	4.41	4.10	-2.40	-.22	-.31
10-year	6.11	4.82	5.21	5.24	-.87	.42	.03
30-year	5.99	5.30	5.65	5.72	-.27	.42	.07
U.S. Treasury 10-year indexed note	4.08	3.29	3.42	3.21	-.87	-.08	-.21
Municipal revenue (Bond Buyer) ³	5.99	5.40	5.54	5.60	-.39	.20	.06
<i>Private instruments</i>							
10-year swap	7.38	5.76	6.13	5.97	-1.41	.21	-.16
10-year FNMA	7.15	5.67	5.99	5.91	-1.24	.24	-.08
Merrill Lynch BBB	8.49	7.31	7.59	7.26	-1.23	-.05	-.33
High yield ⁴	11.97	12.03	12.48	11.91	-.06	-.12	-.57
<i>Home mortgages (FHLMC survey rate)</i> ⁵							
30-year fixed	8.14	6.96	7.04	7.14	-1.00	.18	.10
1-year adjustable	7.22	6.32	6.15	6.00	-1.22	-.32	-.15

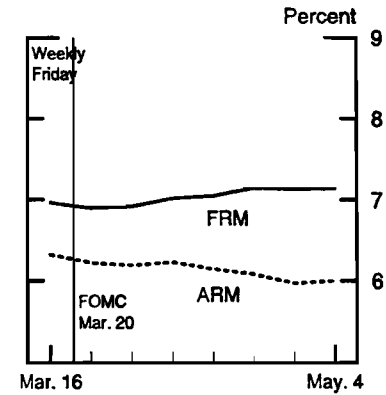
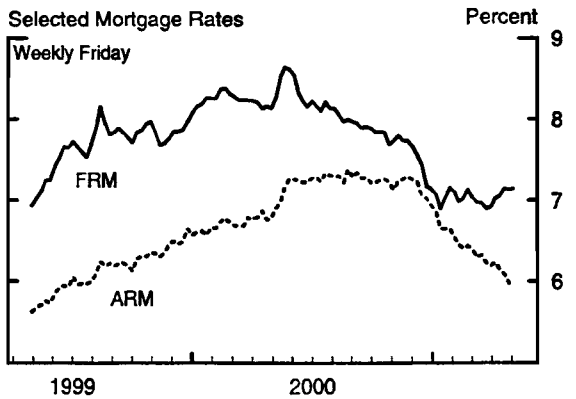
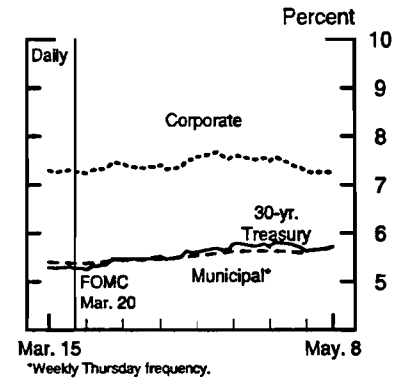
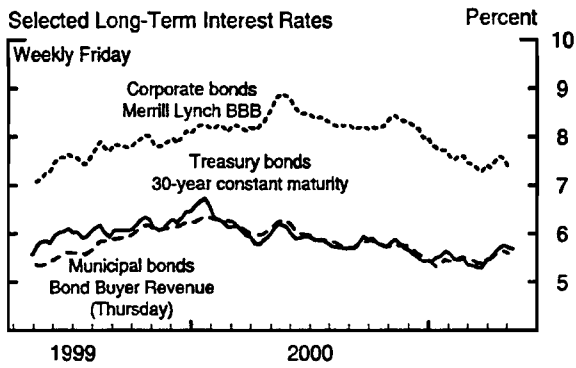
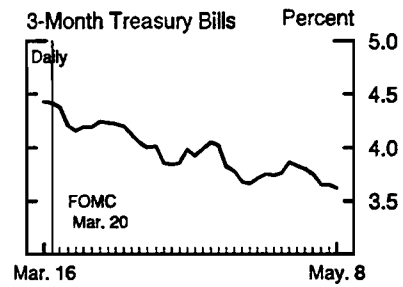
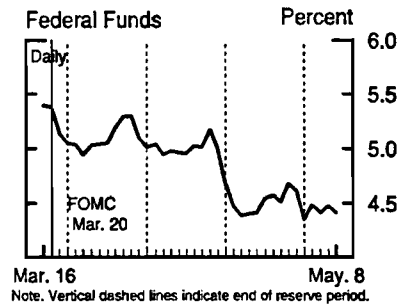
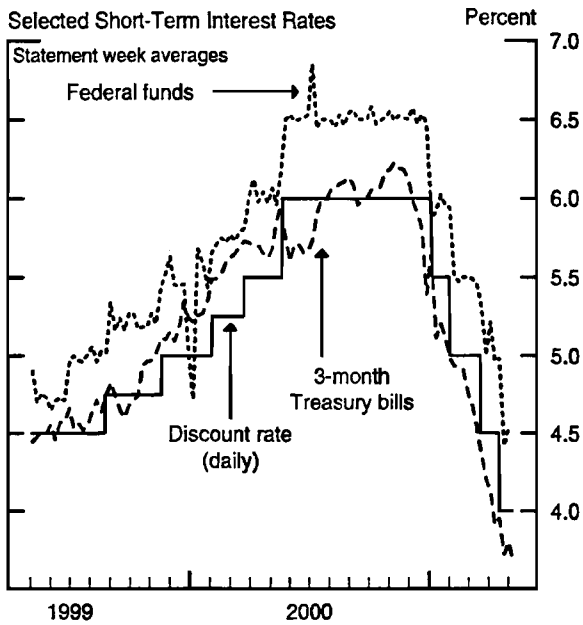
Stock exchange index	Record high		2001			Change to May 8 from selected dates (percent)		
	Level	Date	Mar. 19	Apr. 17	May 8	Record high	2001 Mar. 19	2001 Apr. 17
Dow-Jones Industrial	11,723	1-14-00	9,959	10,217	10,884	-7.16	9.28	6.53
S&P 500 Composite	1,527	3-24-00	1,171	1,192	1,261	-17.43	7.72	5.82
Nasdaq (OTC)	5,049	3-10-00	1,951	1,923	2,199	-56.45	12.69	14.33
Russell 2000	606	3-9-00	451	456	492	-18.87	8.97	7.94
Wilshire 5000	14,752	3-24-00	10,754	10,924	11,638	-21.11	8.21	6.54

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 FOMC meeting that ended the most recent period of policy tightening.
March 19, 2001 is the day before the most recent FOMC meeting.
April 17, 2001 is the day before the intermeeting FOMC action.

Selected Interest Rates



Domestic Financial Developments

Overview

The 100 basis points of reduction in the federal funds rate since mid-March was considerably more than had been built into market interest rates. This, along with more recent weakness evident in labor markets, contributed to declines in short-term interest rates generally of more than 70 basis points over the intermeeting period, and markets reduced noticeably the low point of the federal funds rate expected to be reached later this year. Judging from futures market prices and market surveys, investors expect 50 basis points of additional easing at the May FOMC meeting and attach high odds to a further 25 basis point reduction in the federal funds rate by the fall.

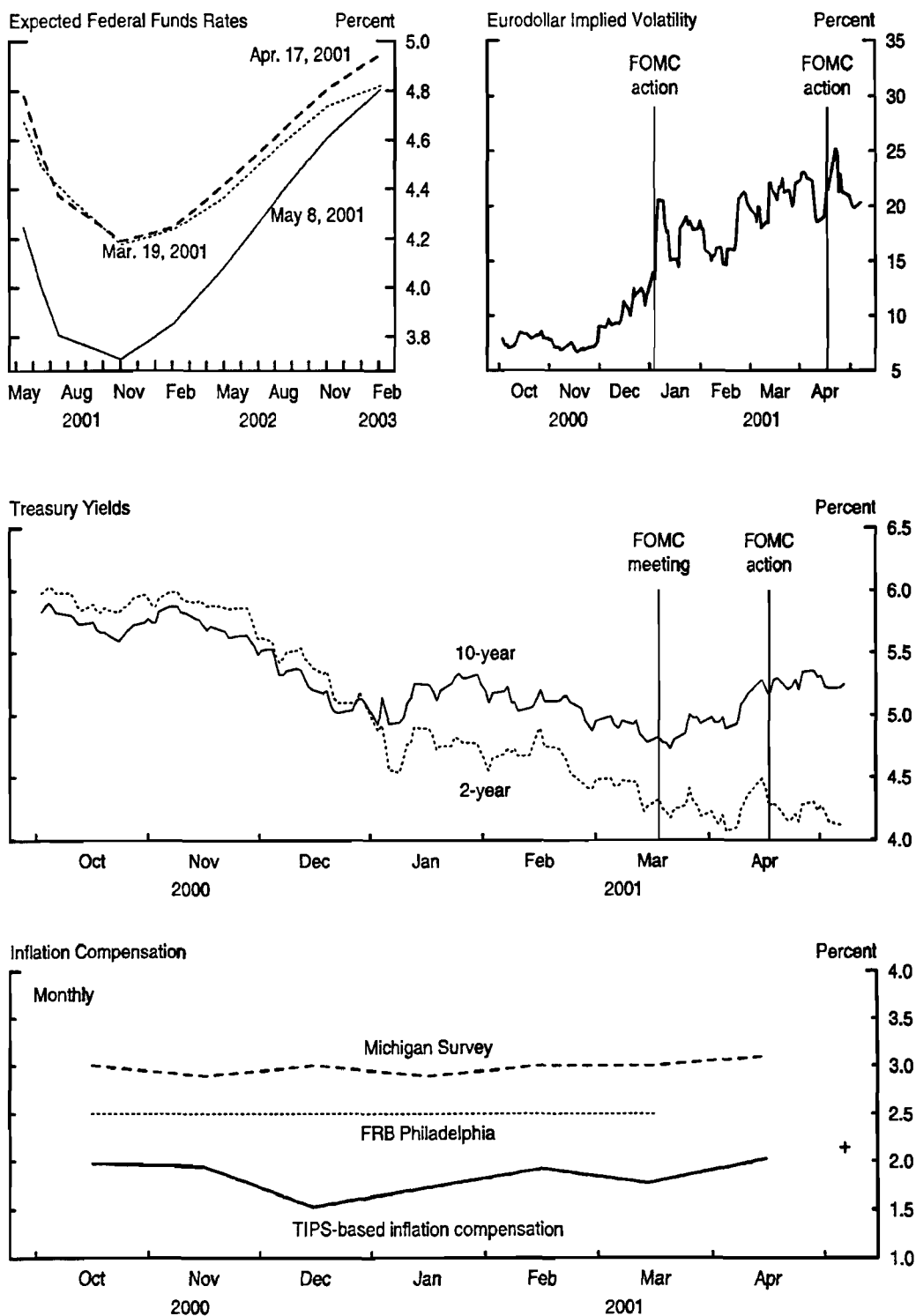
Despite the expectation of more near-term easing, long-term Treasury rates moved up more than 40 basis points in the intermeeting period, apparently reflecting some greater optimism about prospects for the economy beyond the near term, based on the scope of previous and expected future monetary policy actions. The rise in Treasury yields also appeared to reflect increased concern about inflationary pressures. According to survey data, long-term inflation expectations edged up, and inflation compensation derived from TIPS yields moved somewhat higher. However, this rise only reverses the decline that occurred in late 2000.

Although companies continued to report weak profits for the first quarter, earnings mostly beat substantially lowered expectations, which, along with greater confidence in renewed economic growth, boosted equity prices substantially over the intermeeting period. Apparently reflecting improved perceptions of business prospects, private long-term debt instruments outperformed Treasuries, despite continued evidence of deteriorating corporate credit quality, and bond issuance, both investment grade and speculative, has remained strong. In contrast, C&I loans and commercial paper have continued to run off in recent months, and, on net, borrowing by nonfinancial businesses has slowed this year. Equity issuance also has been muted. Meanwhile, household borrowing remained brisk in the first quarter, buoyed by strong mortgage refinancings as households reportedly sought to finance new outlays by extracting equity from their homes and to consolidate debt payments. The cumulative effect of four monetary easings since early January contributed to a continuation of rapid growth in the broad monetary aggregates in March and April.

Business Finance

The major stock indexes have risen 7 percent to 13 percent since the March FOMC meeting. Stock prices began to increase in early April and seemed to gain momentum from the intermeeting cut in the federal funds rate, which evidently eased investors' fears of recession. The initial upturn in equity prices occurred as many companies reported first-quarter operating earnings that

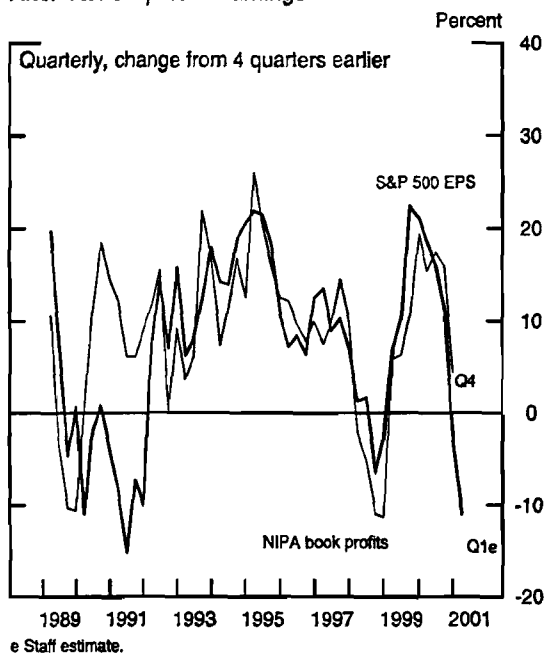
Policy Expectations and Treasury Yields



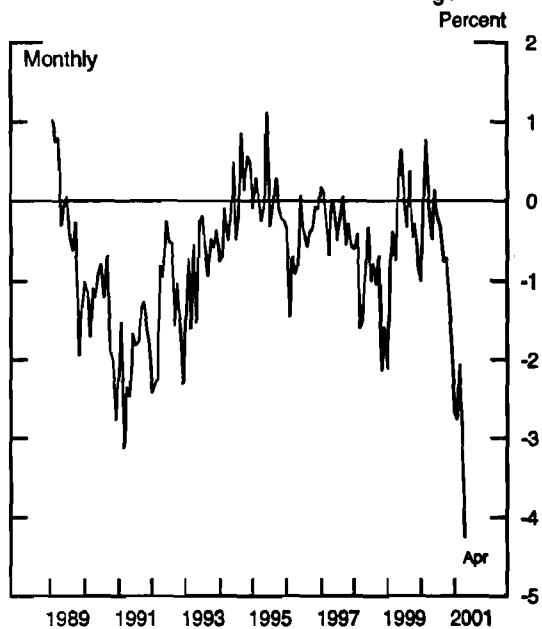
Note. The TIPS-based rate of inflation compensation is that at which the price of the indexed security equals the value of a portfolio of zero-coupon securities that replicates its payments. The zero-coupon securities are based on a yield curve estimated from coupon STRIPS and off-the-run notes and bonds. Data are mid-month observations. + Represents 5/8/2001.

Earnings and Stock Valuations

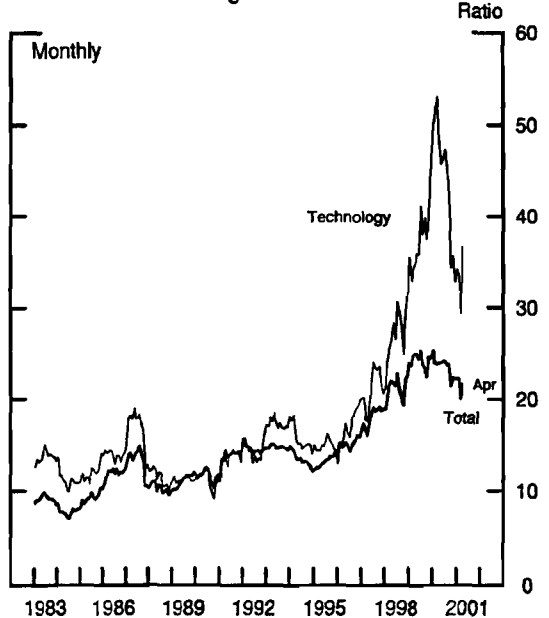
After-Tax Corporate Earnings



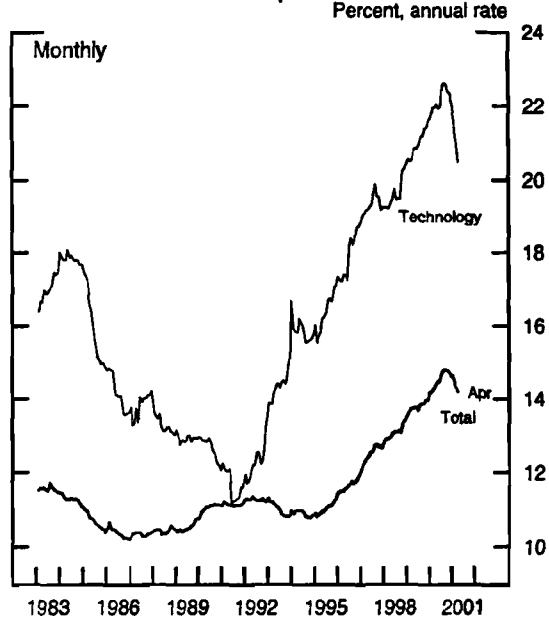
Revisions to S&P 500 Year-ahead Earnings



Selected Price-Earnings Ratios for S&P 500



Five-Year EPS Growth Expectations for S&P 500



Note. Using expected earnings for 12 months ahead.
Source. I/B/E/S.

Note. Earnings-weighted average of I/B/E/S consensus
firm-level 5 year growth forecasts.

Gross Issuance of Securities by U.S. Corporations

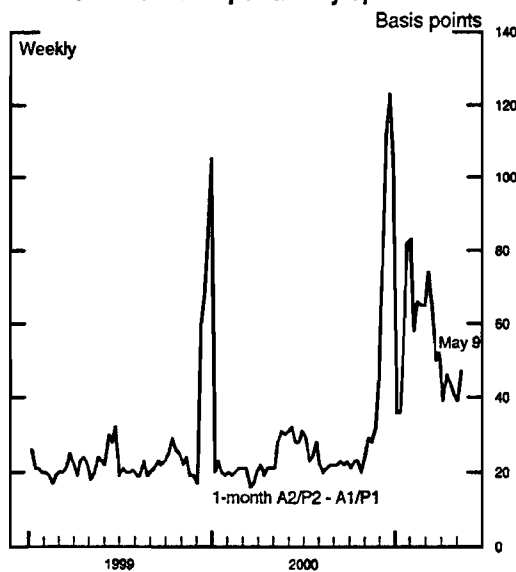
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1998	1999	2000		2001			
			H1	H2	Q1	Feb.	Mar.	Apr.
All U.S. corporations	94.0	89.4	80.0	77.0	120.3	96.2	138.7	92.7
Stocks ¹	10.6	11.0	14.1	8.4	8.7	7.4	11.3	6.6
Bonds	83.5	78.4	65.9	68.6	111.5	88.8	127.3	86.1
<i>Nonfinancial corporations</i>								
Stocks ¹	6.2	9.2	12.4	7.3	5.5	4.5	7.7	4.5
Initial public offerings	2.2	4.2	5.7	3.1	1.7	1.2	3.8	2.1
Seasoned offerings	4.0	5.0	6.7	4.2	3.8	3.3	4.0	2.4
Bonds ²	25.6	24.5	21.3	19.1	40.9	34.6	43.5	33.6
Investment grade ³	14.1	13.9	11.5	12.4	28.5	22.7	34.2	25.2
Speculative grade ³	10.2	7.5	5.4	3.7	10.2	9.0	7.0	6.8
Other (sold abroad/unrated)	1.3	3.1	4.4	3.1	2.1	2.9	2.3	1.5
<i>Financial corporations</i>								
Stocks ¹	4.4	1.8	1.6	1.1	3.2	2.9	3.6	2.1
Bonds	57.8	53.9	44.7	49.5	70.7	54.2	83.8	52.6
<i>Memo</i>								
Net issuance of commercial paper, nonfinancial corps. ⁴	2.3	3.6	6.4	2.7	-17.3	-15.5	-8.2	-5.2
Change in C&I loans at commercial banks ⁴	7.0	4.6	10.6	5.8	5.5	6.1	-8.2	1.1

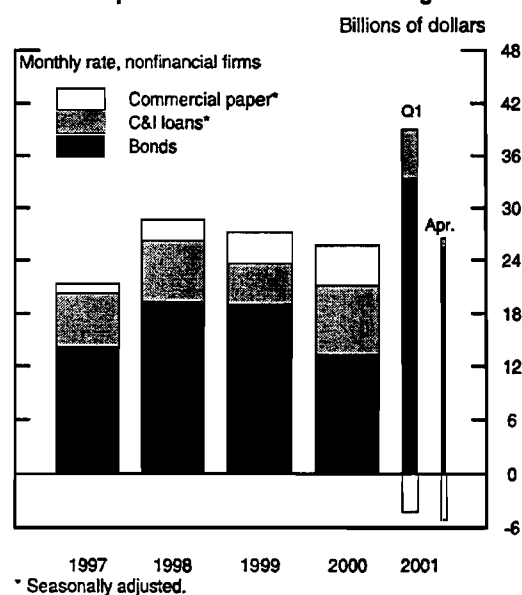
Note. Components may not sum to totals because of rounding. These data include speculative-grade bonds issued privately under Rule 144A. All other private placements are excluded. Total reflects gross proceeds rather than par value of original discount bonds.

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

Commercial Paper Quality Spread



Components of Net Debt Financing



topped pre-report forecasts. However, analysts had been aggressively lowering estimates in advance of those reports. Indeed, expected year-ahead earnings were revised down more than 4 percent in April, the largest monthly negative revision in more than fifteen years. With almost 90 percent of S&P 500 reports now in, it appears that first-quarter earnings per share declined about 11 percent from results four quarters earlier, following a 4-3/4 percent gain in the fourth quarter.

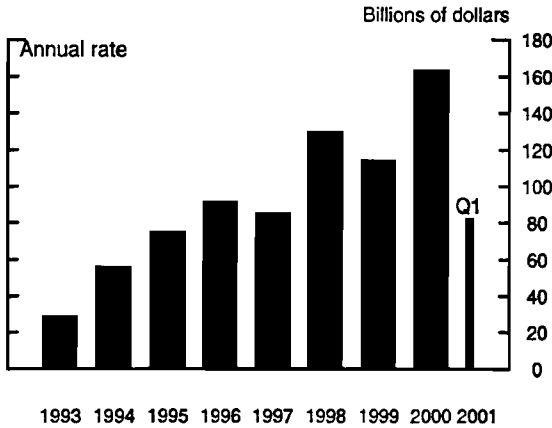
A good deal of the earnings weakness can be attributed to the technology sector, for which net income in the first quarter was 40 percent below the year-earlier level and for which expected year-ahead earnings were taken down about 20 percent in April. Looking further ahead, five-year growth forecasts for technology firms in the S&P 500, although still quite high by past standards, continued to tilt down over the intermeeting period. Nonetheless, the rebound in stock prices was particularly strong for technology companies, and the price-earnings ratio for S&P 500 technology firms has bounced back above thirty-five, a historically rich valuation. Investor nervousness about valuation levels is reflected in the volatility of stock prices, which remains at almost twice its historical average. In contrast, outside the technology sector, five-year growth forecasts have yet to show any downturn.

With most equity indexes still far below their highs of 2000, the pace of gross equity issuance by nonfinancial firms has remained fairly light. There were few IPOs in March and April, and the only large IPO, by Agere, a spinoff from Lucent, raised only a tenth of the amount intended when plans were announced a year ago. Seasoned issuance has been moderate, fueled somewhat by energy and oil firms. Equity retirements have also slowed. Announcements of new share repurchase programs and cash-financed acquisitions were sparse in April, likely owing to weak profits and a depletion of cash. Retirements from mergers have also been affected by a steep falloff in European buyers' demand to purchase U.S. companies.

Gross issuance of investment-grade corporate bonds has continued at a rapid pace, as firms have taken advantage of attractive interest rates, mostly to fund planned capital expenditures, but also to pay down commercial paper. Almost a third of the bonds issued during March and April had maturities exceeding twelve years, a substantially higher proportion than last year and about the same as in the first quarter. Issuance in March was boosted by a \$6 billion offering of AT&T Wireless early in the month. However, the AT&T deal priced far worse than other bonds with similar ratings, and telecom issuance generally has dropped off. Oil and energy firms, on the other hand, have stepped up their pace of bond issuance. With junk-bond yields holding above their recent lows in February and early March, issuance of junk bonds has remained off its pace of early this year; however, issuance remains above its average pace in 2000 owing to a stream of offerings from transportation and public utilities companies.

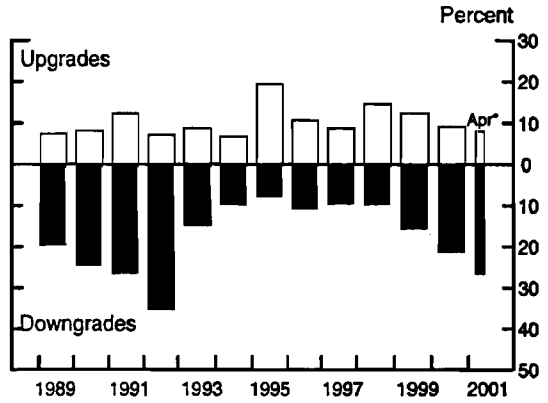
Corporate Finance

Equity Retirements from Domestic Mergers



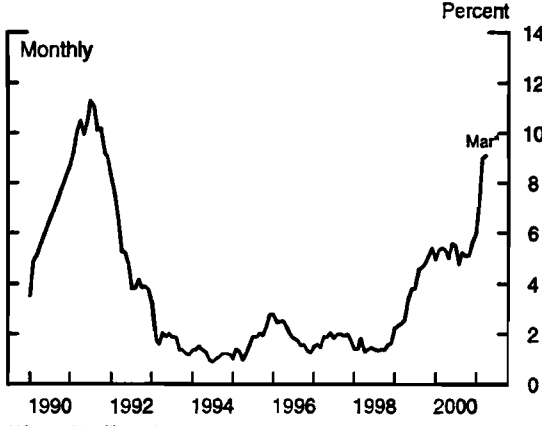
1993 1994 1995 1996 1997 1998 1999 2000 2001
 Source: Securities Data Company.

Rating Changes



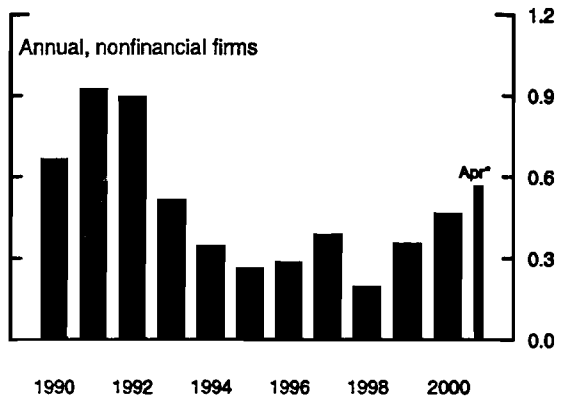
Note: Total debt upgrades (downgrades) as a percentage of par value of bonds outstanding.
 *12-month trailing rate.
 Source: Moody's.

Default Rates on Junk Bonds



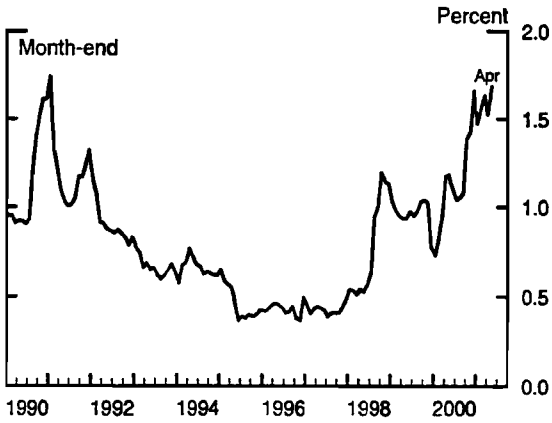
*12-month trailing rate.
 Source: Moody's.

Liabilities of Failed Businesses to Total Liabilities



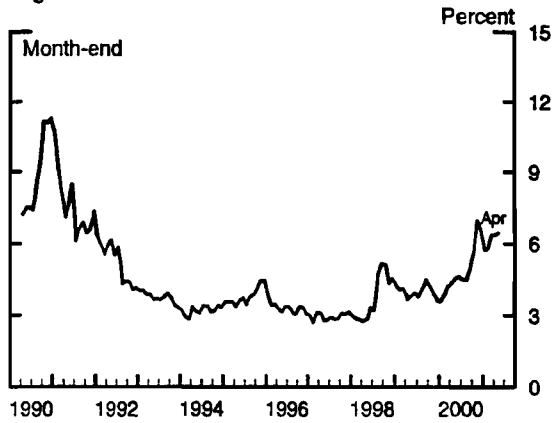
*12-month trailing rate
 Source: Dun & Bradstreet.

BBB Bond Yield less AAA Yield



Source: Merrill Lynch.

High-Yield Bond Yield less AAA Yield



Source: Merrill Lynch.

The commercial paper market has settled down some since the California utility defaults in January and \$16 billion of net downgrades in the first quarter shook investor confidence. The runoff in paper has slowed, and the spread of yields on one-month A2/P2 over A1/P1 paper fell 26 basis points over the intermeeting period. However, outstanding tier 2 paper remains about 30 percent below its November peak, suggesting that some relatively risky issuers remain shut out of the market. In the most recent Senior Loan Officer Opinion Survey, banks reported, on net, that they were applying stricter standards for approving requests for commercial paper backup lines of credit, especially for A2/P2 issuers, than they were a year ago. Approximately four-fifths of domestic respondents indicated that they considered these lines to be profitable overall, but most of the remaining banks reported that they expected more than minor declines in the volume of this business as a result of increases in fees and spreads associated with these credit lines.

On net, Moody's downgraded \$224 billion of nonfinancial debt in the first quarter, and large downgrades in April suggest that the pace has not abated. The downgrades during the first quarter were widespread, outnumbering upgrades by a ratio of three to one, and Moody's Watchlist suggests that the number of downgrades will continue to exceed the number of upgrades in the coming months.

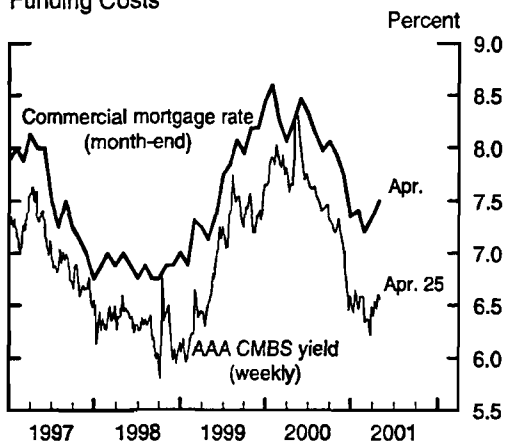
In the first quarter, the twelve-month trailing default rate on junk bonds continued to climb, to a near-record 9.07 percent. The rate was boosted markedly by the huge defaults of Finova Capital and Southern California Edison, but there were widespread defaults by smaller firms as well. Business failures have also increased substantially this year, and with the bankruptcy filing of PG&E in April, the ratio of failed to total liabilities has risen to its highest level since 1992. Looking ahead, a staff model suggests that the junk bond default rate will be sustained near its recent high level in the year ahead, with the forecast boosted recently by bond rating downgrades and the elevated volatility of stock prices.

Commercial Real Estate Finance

Interest rates on AAA-rated commercial-mortgage-backed securities (CMBS) have risen in line with those for comparable ten-year swaps since the last FOMC meeting, leaving spreads about unchanged. Preliminary estimates indicate that

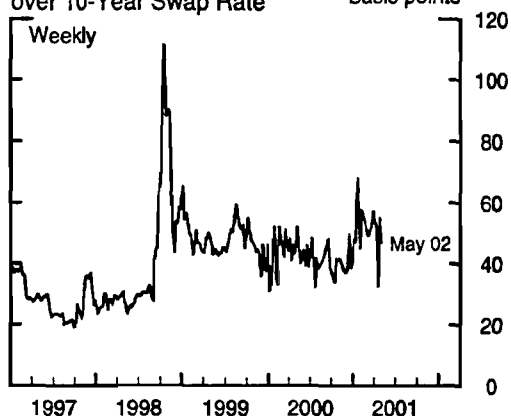
Commercial Real Estate

Funding Costs



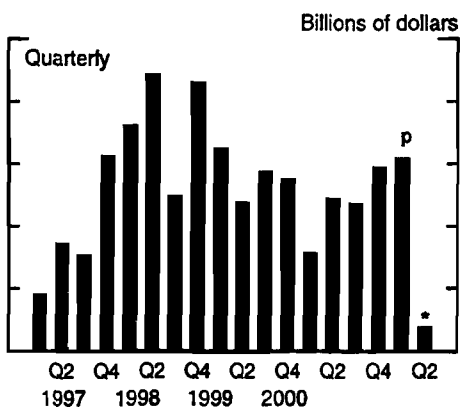
Source: Barron's/Levy National Mortgage Survey; Morgan Stanley.

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



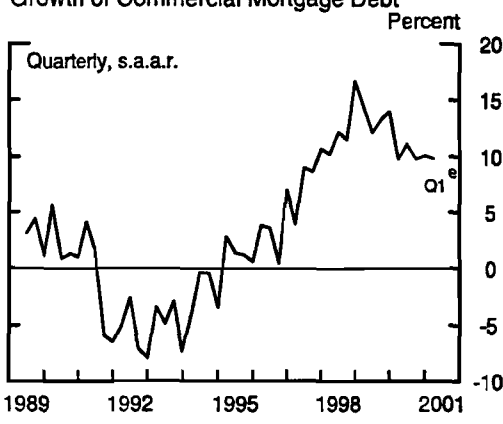
Source: Morgan Stanley.

Total CMBS Gross Issuance



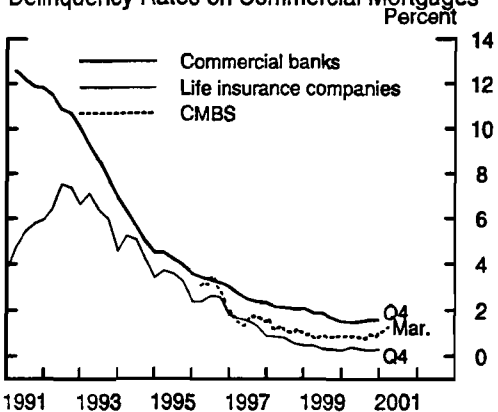
* Period to date.
p Preliminary.
Source: Commercial Mortgage Alert.

Growth of Commercial Mortgage Debt



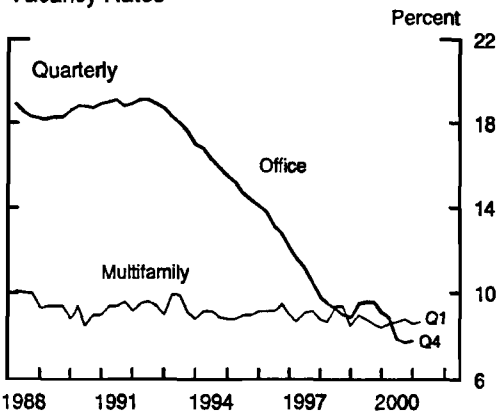
e. Staff estimate.

Delinquency Rates on Commercial Mortgages



Source: ACLI; Morgan Stanley; Call Reports.

Vacancy Rates



Source: Coldwell Banker.

CMBS issuance for the first quarter was similar to the average rate in 2000.¹ Growth in commercial mortgage debt from all sources is estimated to have remained fairly brisk in the first quarter.

Some signs of credit problems in this sector have emerged, with delinquency rates on CMBS creeping up in recent months from the historically low levels of last year. Low vacancy rates for commercial buildings suggest that to date this deterioration is not occurring against the backdrop of an overbuilt market, as it did in the early 1990s, although market commentary indicates that in some places demand is weakening relative to supply. Moreover, the most recent Senior Loan Officer Opinion Survey points to somewhat weaker demand for commercial real estate loans over the past three months, particularly demand for loans to finance office buildings and industrial structures.

Treasury and Agency Finance

The Treasury auctioned \$43 billion in two-, five-, and ten-year notes and \$114 billion in cash management bills over the intermeeting period. At its mid-quarter refunding, the Treasury announced plans to introduce a four-week bill before the end of the current fiscal year. The Treasury expects the four-week bill to provide it with greater flexibility and cost efficiency in managing its increasingly volatile cash balances, allowing it to reduce dependence on cash management bills. Cash management bills are said to be especially expensive forms of borrowing given their irregular pattern of issuance.

Buybacks totaled \$6.75 billion over the intermeeting period and are on schedule to meet the \$10 billion target for the second quarter. The second-quarter target for debt buybacks was upwardly revised from \$9 billion, and the Treasury also announced a \$10 billion buyback target for the third quarter. Markets were a bit surprised by the larger size of the buybacks, given recent statements by Administration officials about maintaining a viable government bond market even if future federal budget surpluses were large enough effectively to retire the debt.

The Treasury also announced in its mid-quarter refunding statement that it was considering changes in the so-called "35 percent rule," which limits bidding in auctions by those having claims on large amounts of an issue. With re-opening increasingly being used to maintain liquidity in individual issues, this rule was constraining many potential bidders. The private-sector committee advising

1. In the current quarter, issuance may be held down by uncertainty over new Financial Accounting Standards Board (FASB) accounting rules governing securitizations that went into effect on April 1. As yet, the exact limitations imposed by the rules are somewhat unclear, but some interpretations would sharply increase the tax liability associated with certain transactions. FASB is now working to clarify the standards, and securities issuers are reportedly deferring deals until the uncertainty is resolved.

Treasury and Agency Finance

Treasury Financing

(Billions of dollars)

Item	2000		2001			
	Q3	Q4	Q1	Feb.	Mar.	Apr.
Total surplus, deficit (-)	60.4	-2.3	-22.5	-48.2	-50.7	n.a.
Means of financing deficit						
Net borrowing	-53.6	-25.1	23.7	15.1	32.6	-138.7
Nonmarketable	-5.5	1.5	6.0	3.2	4.7	1.7
Marketable	-48.1	-26.6	17.6	11.9	27.8	-140.4
Bills	-14.1	30.4	65.0	24.4	31.3	-92.8
Coupons ¹	-25.7	-48.2	-39.4	-10.8	0	-42.6
Debt buybacks	-8.2	-8.7	-8.0	-1.7	-3.5	-5.0
Decrease in cash balance	4.8	31.6	-7.2	45.7	-7.2	-36.8
Other ²	-11.5	-4.2	6.0	-12.6	25.3	n.a.
MEMO						
Cash balance, end of period	52.7	21.1	28.3	21.1	28.3	65.1

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

1. Does not include Treasury debt buybacks.

2. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.

e. Estimated.

n.a. Not available.

Net Borrowing of Government-Sponsored Enterprises

(Billions of dollars)

Agency	2000		2001			
	Q3	Q4	Q1	Jan.	Feb.	Mar.
FHLBs	12.1	13.8	8.4	10.5	-6.3	4.2
Freddie Mac	22.7	20.0	34.4	20.1	8.6	5.7
Fannie Mae	28.5	35.7	23.9	11.5	14.0	-1.6
Farm Credit Banks	1.5	3.1	0	-3	-3	.5
Sallie Mae	5.2	3.0	1.9	5.3	3.2	-6.6
MEMO						
<i>Outstanding noncallable</i>						
<i>Reference and Benchmark</i>						
<i>Securities</i>						
Notes and Bonds	274.1	313.1	351.2	322.1	335.6	351.2
Bills	222.5	235.0	270.0	253.0	280.5	270.0
Total	496.6	548.1	621.2	575.1	616.1	621.2

NOTE. Excludes mortgage pass-through securities issued by Fannie Mae and Freddie Mac.

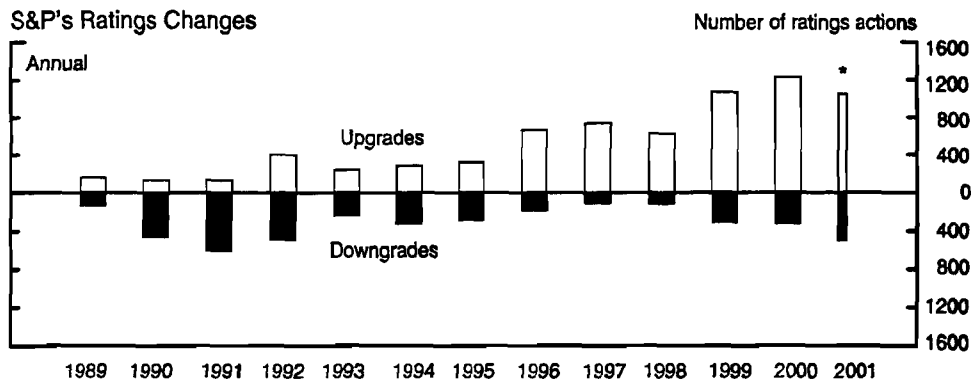
n.a. Not available

State and Local Government Finance

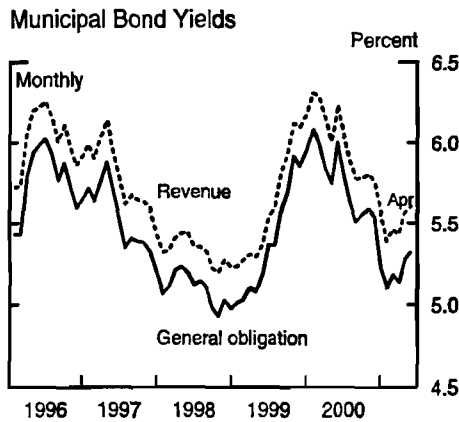
Gross Offerings of Municipal Securities
(Billions of dollars; monthly rates, not seasonally adjusted)

	1999	2000	2000		2001		Apr. ^e
			H2	Q4	Q1	Mar.	
Long-term ¹	18.0	15.0	15.9	17.2	18.5	24.5	10.5
Refundings ²	4.5	2.2	2.2	2.4	6.0	9.1	2.6
New capital	13.5	12.9	13.6	14.7	12.5	15.4	7.9
Short-term	2.7	2.8	3.0	2.5	2.6	2.0	0.1
Total tax-exempt	20.6	17.9	18.9	19.7	21.2	26.5	11.5
Total taxable	1.1	0.7	0.8	0.8	1.0	1.7	0.3

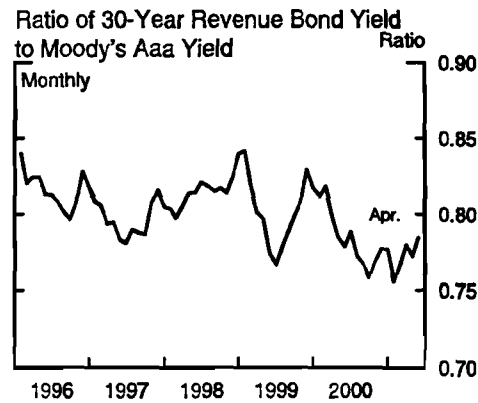
- 1. Includes issues for public and private purposes.
- 2. All issues that include any refunding bonds.
- e. Staff estimate.



Source: S&P's Credit Week Municipal.
* Data through Apr. 19 at an annual rate.



Note: Average of weekly data.



Note: Average of weekly data.

Treasury on debt management recommended dropping inflation-indexed securities owing to their relatively high cost. The Treasury is expected to announce the fate of both the indexed securities and the thirty-year bond in August.

Fannie Mae and Freddie Mac continued to issue a substantial volume of Benchmark and Reference securities over the intermeeting period. Both also announced buyback programs for off-the-run Benchmark and Reference notes and bonds, evidently to help maintain funding flexibility while continuing their commitments to regular debt issuance under the two programs. The buybacks will also enable the GSEs to better match the duration of their assets and liabilities, given recently increased mortgage prepayments.

As expected, agency subordinated debt received a regulatory risk weighting of 20 percent from the Federal Financial Institutions Examination Council rather than the 100 percent risk weighting assigned to non-agency corporate debt. Subsequently, Fannie Mae priced its second subordinated debt issue. The spread between ten-year agency subordinated debt and ten-year Fannie Mae Benchmark debt has narrowed about 4 basis points since the March FOMC meeting, to 24 basis points.

State and Local Government Finance

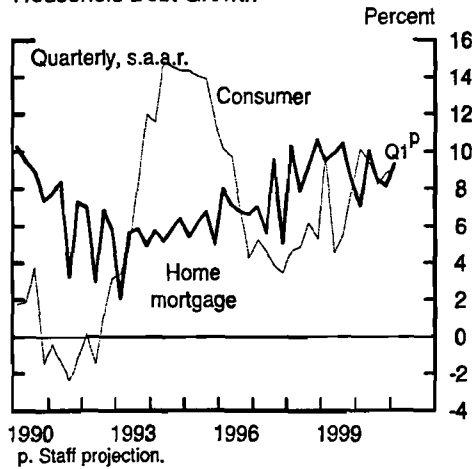
Gross issuance of long-term municipal bonds was brisk in March, boosted by strong refundings of existing debt, before tailing off in April. Governments also took advantage of the lower rates to issue bonds to raise new capital. Credit quality of the municipal sector remained very high, with upgrades again outpacing downgrades by a ratio of more than two to one. Significant among the downgrades, however, was Standard and Poor's lowering of the rating of California's \$27 billion general obligation bonds; S&P cited the lack of resolution of the state's energy crisis and the likely adverse effects of the crisis on the state's economy. Following long-term Treasury rates, municipal yields edged up in April, though they remained quite low by historical standards.

Household Finance

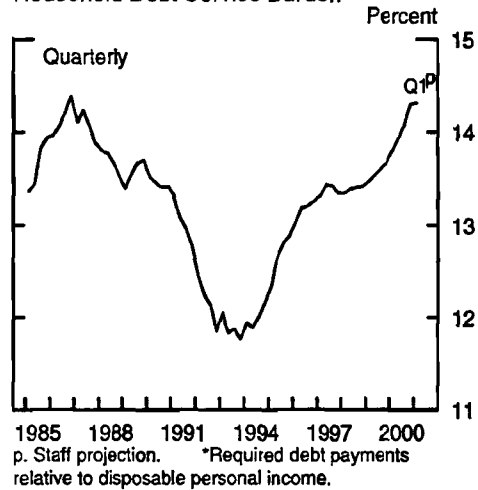
Available data indicate that household debt continued to expand at a brisk pace in the first quarter, although the monthly pattern for consumer credit showed some slowing, particularly for non-revolving credit. With debt growth having far outstripped income growth in recent quarters, the household debt-service burden has risen considerably over the past year, putting the estimated first-quarter value about equal to its twenty-year high of around 14-1/2 percent. Recent declines in interest rates paid by consumers and relatively low levels of mortgage interest rates should hold down the increase in the debt-service burden going forward.

Household Liabilities

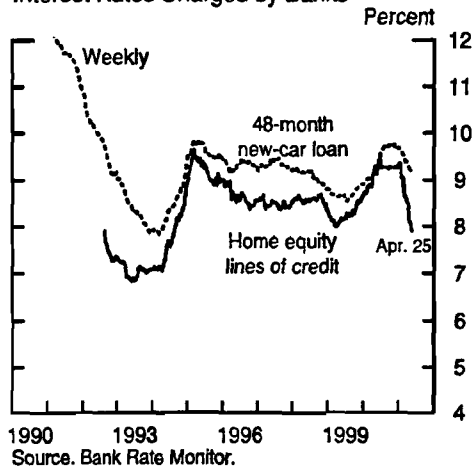
Household Debt Growth



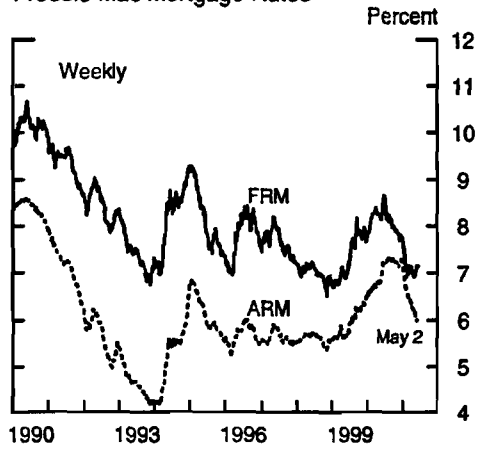
Household Debt Service Burden*



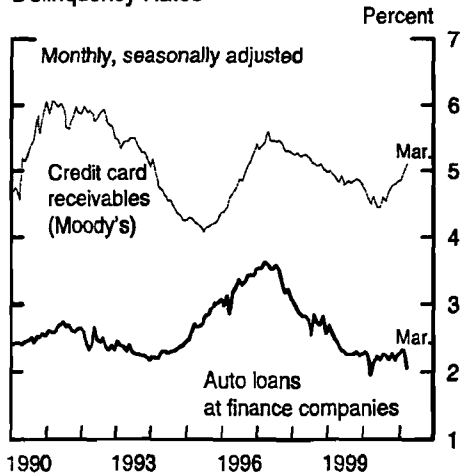
Interest Rates Charged by Banks



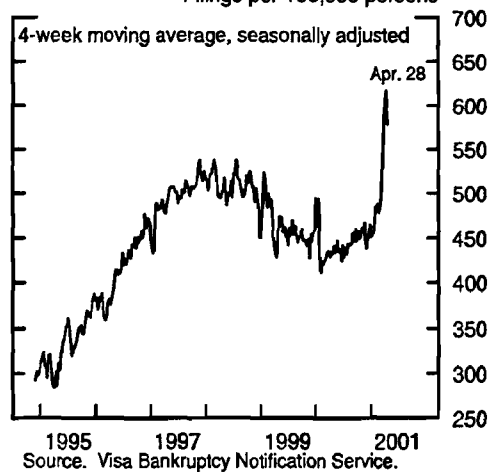
Freddie Mac Mortgage Rates



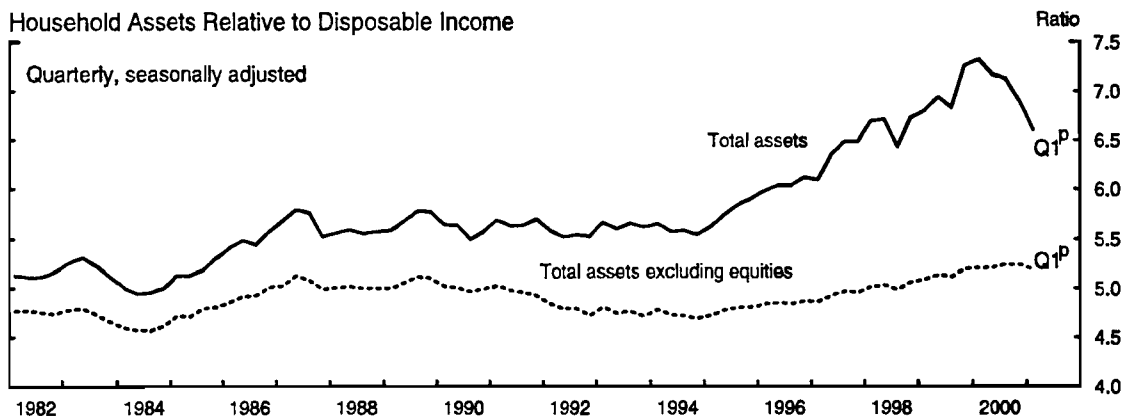
Delinquency Rates



Household Bankruptcy Filings
Filings per 100,000 persons



Household Assets



p. Staff projection.

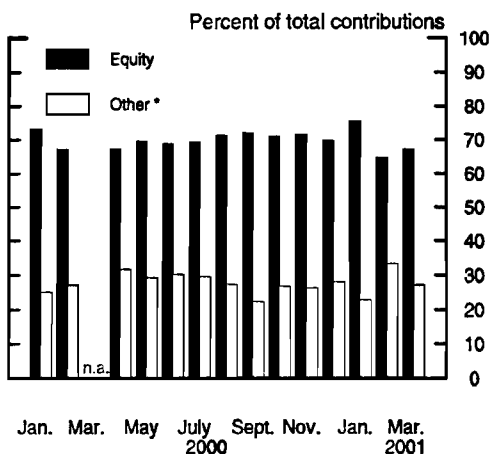
Net Flows into Long-Term Mutual Funds (Excluding reinvested dividends; billions of dollars, monthly rates.)

	1998	1999	2000	2001 Q1	2001 Feb.	2001 Mar.	2001 Apr. ^e	Assets Mar.
Total long-term funds	20.2	14.2	18.4	9.6	6.7	-13.0	16.9	4,600
Equity funds	13.2	15.7	25.1	0.5	-3.3	-20.6	13.8	3,408
Domestic	12.6	14.8	21.2	2.3	1.2	-15.7	15.8	2,940
Capital appreciation	7.1	13.5	25.5	0.4	-3.0	-14.2	9.4	1,783
Total return	5.5	1.4	-4.3	1.9	4.2	-1.5	6.3	1,156
International	0.6	0.9	3.9	-1.8	-4.5	-4.9	-2.0	468
Hybrid funds	0.9	-1.0	-2.6	0.6	1.2	-0.4	0.3	334
Bond funds	6.2	-0.5	-4.0	8.5	8.8	8.0	2.7	859
International	-0.1	-0.2	-0.2	0.1	0.3	-0.2	-0.2	21
High-yield	1.1	-0.2	-1.0	1.7	1.1	-0.5	0.4	98
Other taxable	3.9	1.0	-1.6	5.4	5.6	7.6	3.3	455
Municipals	1.3	-1.0	-1.2	1.4	1.9	1.0	-0.8	286

e. Staff estimates based on confidential ICI weekly data.

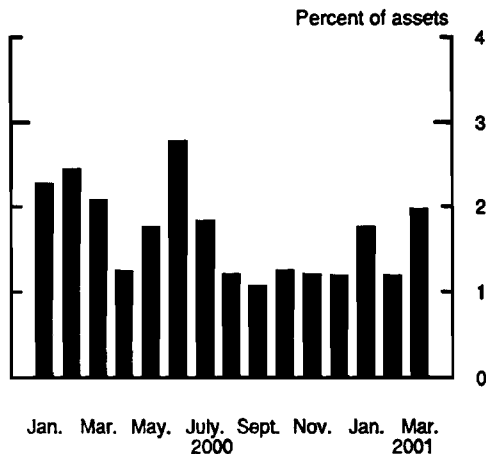
Source. Investment Company Institute (ICI).

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.

Household credit quality has deteriorated somewhat this year. The delinquency rate for credit card loans in securitized pools has been rising since late last year, with the most recent readings the highest in about two years. However, the most recent data for auto loans at finance companies has stayed at the low end of its recent range. In the May Senior Loan Officer Opinion Survey, banks that had tightened credit standards on consumer loans pointed to an expected increase in consumer delinquency rates as an important reason. Household bankruptcy filings have popped up in recent weeks, although press accounts suggest that a good portion of this rise may reflect a rush to file before the likely enactment of bankruptcy reform by Congress.²

The market value of total household assets declined again in the first quarter. The ratio of household assets to disposable income has fallen steadily since the beginning of 2000 and now stands at its lowest level since mid-1998. This deterioration reflects the weak performance of the stock market over this period, as the value of assets other than equities is estimated to have risen modestly relative to disposable income over the past twelve months.

Equity mutual funds experienced substantial outflows in March, followed by only a partial reversal in April. In contrast, bond funds have attracted considerable amounts of new funds in recent months, on average, and net flows of new funds to retail money funds have been stronger than they usually are at this time of year. The share of new contributions to 401(k) pension plans allocated to equities remained about constant through March, but transfer activity ran high, with substantial net outflows from equity funds.

Money and Bank Credit

The broad monetary aggregates continued to expand rapidly in March and April, with M2 and M3 registering double-digit growth in each month. M2 posted 14-1/2 percent growth in March and 10-1/4 percent in April. The sharp easing in the stance of monetary policy since the start of the year has resulted in a significant drop in the opportunity cost of holding M2 assets. In addition to the strength in retail money funds, growth of liquid deposits has been particularly brisk, while small time deposits have run off. Both reflect the typical responses to declines in short-term interest rates. The recent growth in M2 has also been boosted by special factors, including a surge in mortgage refinancing activity (which results in prepayments that temporarily accumulate in deposit accounts before being distributed to investors in mortgage-backed securities) and higher final tax payments than were implicitly built into seasonal factors. In addition, M2 growth has likely continued to benefit from the heightened volatility of equity markets in recent months.

2. The two houses of Congress passed different versions of the Bankruptcy Reform Act of 2001 in March; a conference committee is now being formed to negotiate a compromise.

Monetary Aggregates
(Based on seasonally adjusted data)

Aggregate or component	2000	2000		2001			Level (bil. \$) Mar. 01
		Q4	Q1	Feb.	Mar.	Apr. (pe)	
<i>Aggregate</i>		Percent change (annual rate) ¹					
1. M2 ²	6.2	6.4	10.8	10.7	14.4	10.3	5098.9
2. M3	9.2	7.1	12.5	9.8	10.5	17.6	7315.2
<i>Selected components</i>							
3. Currency	4.3	3.4	6.8	6.3	4.0	5.8	539.1
4. Liquid deposits ³	3.3	4.9	11.9	17.8	20.9	15.1	2526.4
5. Small time deposits	9.4	7.3	4.6	-1.6	-4.0	-5.3	1048.4
6. Retail money market funds	12.2	11.8	17.1	8.7	23.9	17.1	977.1
7. M3 minus M2 ⁴	16.7	8.6	16.5	7.8	1.4	34.3	2216.3
8. Large time deposits, net ⁵	13.7	4.8	0.9	-48.1	-34.7	29.5	788.9
9. Institution-only money market mutual funds	24.0	18.6	50.4	86.9	40.5	42.6	888.0
10. RPs	9.2	-3.4	-11.3	-30.2	-20.7	68.7	342.3
11. Eurodollars	17.9	10.1	1.4	-3.7	17.9	-43.2	197.0
<i>Memo</i>							
12. M1	-1.6	-3.0	4.7	0.0	10.6	5.2	1110.9
13. Sweep-adjusted M1 ⁶	1.7	0.8	5.3	0.9	10.3	7.8	1530.9
14. Demand deposits	-10.4	-13.2	-1.1	-8.3	2.7	-16.4	315.5
15. Other checkable deposits	-1.0	-1.3	8.4	-3.0	36.8	30.9	248.5
16. Savings deposits	6.6	8.9	14.6	24.7	22.0	18.0	1962.5
17. Monetary base	1.4	2.8	6.3	3.3	2.4	8.3	592.2
<i>Selected managed liabilities at commercial banks</i>		Average monthly change (billions of dollars) ⁷					
18. Large time deposits, gross	8.8	4.6	6.8	-14.5	-21.1	17.9	937.0
19. Net due to related foreign institutions	1.3	-7.5	-5.4	-1.9	14.2	-52.9	233.5
20. U.S. government deposits at commercial banks	-1.4	-1.6	1.1	-12.2	-10.6	6.9	11.5

1. For the years shown, Q4 to Q4 percent 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

M3 was buoyed by growth of institutional money funds, as the rates on these instruments adjust with a lag to declining market rates. Strong issuance of large time deposits by U.S. branches and agencies of foreign banks also boosted M3 in April, with the proceeds apparently used in part to reduce obligations to their offices abroad.

Bank credit was about unchanged in March, but its growth rebounded to a moderate 5-1/2 percent rate in April. The pickup last month owed to increased holdings of securities, particularly mortgage-backed securities. Bank loans grew at a sluggish pace over March and April. The rate of growth of real estate loans averaged about 5-1/4 percent over these months, primarily because of robust expansion of residential mortgages. Consumer loans adjusted for securitization were about flat in March, with the slowdown attributable importantly to credit card loans made by small banks. These loans recovered in April, however, and growth of adjusted consumer lending by banks rebounded to an 8 percent rate.

Business lending by banks, which had surged earlier this year, slumped into negative territory in March and edged off further in April, perhaps reflecting, in part, strict bank lending standards, which the latest Senior Loan Officer Opinion Survey indicates were tightened again over the past three months. The survey also indicated that demand weakened, on net, over the past three months, primarily as a result of decreased investment in plant and equipment and reduced need for merger and acquisition financing. In addition, demand had been boosted earlier in the year, as some businesses apparently tapped backup credit lines as a substitute for issuing commercial paper. A substitution of long-term debt for loans also appears to have played a role in limiting demand for business loans.

The net income of a sample of twenty-five large bank holding companies declined more than 10 percent in the first quarter of 2001 relative to the same quarter last year. Profitability was restrained significantly by continued increases in loan-loss provisioning, owing to further deterioration in credit quality, which, according to several banks, remains concentrated in their business loan portfolios. The decline in net income also reflected reduced income from capital markets activities, particularly at banking organizations that have substantial venture capital operations.

Commercial Bank Credit

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

Type of credit	2000	Q4 2000	Q1 2001	Feb. 2001	Mar. 2001	Apr. ^P 2001	Level, Apr. 2001 ^P (\$ billions)
Total							
1. Adjusted ¹	9.4	3.4	7.0	3.2	.4	5.6	5,181
2. Reported	10.0	5.1	7.9	3.2	1.8	5.7	5,314
<i>Securities</i>							
3. Adjusted ¹	1.9	-6.7	5.6	-5.5	-12.7	16.0	1,229
4. Reported	4.4	.5	9.0	-4.7	-5.9	15.1	1,362
5. Treasury & Agency	-2.3	-10.4	-7.9	-14.3	-29.8	16.0	768
6. Other ²	16.3	17.7	33.9	8.8	26.6	13.9	593
<i>Loans³</i>							
7. Total	12.0	6.7	7.5	5.9	4.5	2.5	3,952
8. Business	9.4	4.5	10.0	9.4	-.6	-3.1	1,115
9. Real estate	14.0	6.3	5.2	7.4	5.5	4.9	1,686
10. Home equity	26.7	23.3	16.4	10.1	13.6	8.1	135
11. Other	13.1	5.0	4.2	7.2	4.8	4.7	1,551
12. Consumer	10.2	5.8	4.6	-1.1	-4.4	9.1	542
13. Adjusted ⁴	7.5	3.0	7.7	9.4	.8	8.0	865
14. Other ⁵	13.1	12.6	11.9	1.2	19.8	-2	609

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 Treasury or Agency securities.
 3. Excludes interbank loans.
 4. Includes an estimate of outstanding loans securitized by commercial banks.
 5. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.
- p Preliminary.

Appendix

Senior Loan Officer Opinion Survey on Bank Lending Practices

The May 2001 Senior Loan Officer Opinion Survey on Bank Lending Practices focused on changes in the supply of and demand for bank loans to businesses and households over the past three months. Supplementary questions on the business side addressed lending and pricing policies for commercial paper backup lines of credit and recent changes in the composition of demand for commercial real estate loans. On the household side, additional questions were included in order to discern changes over the past year in terms on mortgage loans to purchase homes and reasons for changes in lending standards and terms associated with consumer lending. Loan officers from fifty-four large domestic banks and twenty-one U.S. branches and agencies of foreign banks participated in the May survey.

The number of foreign and domestic banking institutions that reported tightening standards and terms on commercial and industrial (C&I) loans over the past three months remained in the elevated range of the last three regular surveys. A significant fraction of domestic respondents also noted that they tightened standards for commercial real estate loans over the same period. In general, both foreign and domestic institutions indicated that the most important reasons for tightening standards and terms on C&I loans were a less favorable or more uncertain economic outlook and a worsening of industry-specific problems. Compared to the January survey, somewhat smaller, though still substantial, net fractions of domestic banks reported weaker demand for both C&I and commercial real estate loans over the past three months.

In view of the recent turmoil in the commercial paper market, a series of special questions addressed lending and pricing policies for commercial paper backup lines of credit at commercial banks. All foreign institutions and a large majority of domestic commercial banks indicated that they provided commercial paper backup lines of credit. Citing concerns about the credit quality of commercial paper issuers, significant fractions of both foreign and domestic respondents indicated that they tightened standards and terms on these credit facilities over the past year, particularly for lower-rated (A2/P2) borrowers. Most institutions offering these credit facilities noted that commercial paper backup lines of credit are profitable under current pricing policies, when account is taken of associated business opportunities.

After a noticeable firming of consumer lending policies reported in the January survey, similar net fractions of domestic banks tightened their standards and increased spreads over their cost of funds over the past three months. The most frequently cited reason for the tightening was a concern about the recent and expected future deterioration in consumer credit quality. According to the respondents, the demand for consumer loans of all types picked up in the May survey, with a small net fraction of banks reporting increased demand over the past three months, compared to the January survey, when more than one-third of banks noted weaker demand for consumer loans. Almost all domestic banks reported no change in standards for residential mortgage loans. About one-half of the respondents noted that demand for residential mortgages had strengthened during the survey period, a marked contrast to the January survey, which indicated no net change in demand for this type of loan.

Lending to Businesses

The net percentage of domestic and foreign respondents that tightened standards on C&I loans during the last quarter backed down some from the January peak. One-half of domestic banks reported tightening their standards on business loans to large and middle-market firms over the past three months, compared with 60 percent in January. For small firms, the percentage of banks tightening fell from 45 percent to 37 percent between the two surveys. The fraction of U.S. branches and agencies of foreign banks that reported tightening standards for customers seeking C&I loans also fell in January.

Compared to the January survey, somewhat smaller fractions of domestic banks reported tightening each of the loan terms listed in the survey. More than 60 percent of domestic respondents reported charging higher premiums on riskier loans to large and middle-market firms, down some from almost 75 percent in the last survey. Again, no banks reported lowering these premiums, but significantly fewer banks than in January raised them considerably. Almost half of the domestic banks, on net, indicated that they had increased the cost of credit lines for large and middle-market firms over the past three months. Almost 40 percent of domestic banks also tightened loan covenants for these borrowers, compared with about 60 percent in the January survey. Somewhat smaller net fractions of domestic banks reported tightening these terms on C&I loans to small firms.

On net, 62 percent of the U.S. branches and agencies of foreign banks reported charging higher premiums on riskier loans over the past three months, about the same as in the January survey. More than 55 percent of foreign institutions, on net, increased the costs associated with credit lines, and 48 percent reported a general strengthening of loan covenants.

Most of the domestic and foreign respondents that had tightened standards or terms on C&I loans over the previous three months cited a less favorable or more uncertain economic outlook, a worsening of industry-specific problems, and a reduced tolerance for risk as reasons for changing their lending policies. About half of domestic banks and more than 80 percent of foreign institutions that had tightened standards and terms on commercial credits also mentioned an increase in defaults by below-investment-grade borrowers as contributing to the firming reported over the survey period. In addition, decreased liquidity in the secondary market for C&I loans continued to be a concern in the May survey.

On net, 43 percent of domestic banks reported weaker demand for C&I loans from large and middle-market firms, and 37 percent, on net, reported decreased demand from small firms over the past three months. Most of the domestic banks that reported weaker loan demand cited a decline in customer demand for credit to finance capital expenditures and reduced demand for funds to finance mergers and acquisitions. A decline in internally generated funds was cited as an important reason by six of the seven domestic respondents that experienced increased C&I loan demand. On net, about 10 percent of foreign branches and agencies saw weaker demand during the survey period. The reasons for reduced C&I loan demand cited by the foreign institutions were largely the same as in the case of domestic banks.

The current survey included a series of special questions that addressed lending and pricing policies for commercial paper backup lines of credit. Forty-three domestic institutions (80 percent of those surveyed) and all of the U.S. branches and agencies of foreign banks answered these questions. More than one-third of both domestic and foreign respondents indicated that they tightened standards on these credit facilities for firms that issued A1/P1-rated commercial paper over the past year. For A2/P2-rated issuers, almost 60 percent of domestic banks and 70 percent of foreign branches and agencies reported firmer standards. Over this period, no institution eased standards on commercial paper backup lines.

In addition to a shift to more stringent credit standards over the past year, large fractions of domestic and foreign respondents also increased pricing, reduced the size, and shortened the length of commercial paper backup commitments. During that period, 68 percent of domestic banks widened spreads, and 60 percent raised commitment fees on these credit facilities for A1/P1-rated issuers. Similarly, more than half of foreign institutions, on net, reported higher spreads and fees for A1/P1-rated borrowers. For lower-rated firms, more than 70 percent of domestic and foreign respondents reported increasing fees and spreads.

According to the institutions that reported tightening standards or terms on backup facilities over the past year, a heightened concern about a possible deterioration in the credit quality of the issuers was most often cited as a reason for a shift to firmer lending policies. In addition, notable net fractions of domestic and foreign respondents pointed to an increased likelihood of lines being drawn, because of less certain conditions in the commercial paper market.

Very few institutions reported that commercial paper backup lines of credit made money on a standalone basis. However, more than four-fifths of domestic and almost 60 percent of foreign respondents indicated that these credit facilities are profitable when accounting for associated business opportunities. At institutions that claimed pricing would have to increase from current levels in order to make these lines profitable, most indicated that the resulting decline in the volume is likely to be moderate.

More than 40 percent of domestic banks tightened their standards on commercial real estate loans over the past three months, about the same as in the January survey. The fraction of foreign institutions that tightened standards on these loans fell from 30 percent in January to less than 10 percent in the current survey. On net, 20 percent of domestic and 17 percent of foreign respondents noted that demand for these loans weakened in the first quarter. Except for multi-family or apartment homes, domestic banks indicated that demand was weaker, on net, for all major components of commercial real estate, particularly office buildings.

Lending to Households

Over the past three months, banks' credit standards for approving residential mortgage loans were largely unchanged. According to the domestic respondents, demand for residential mortgages to purchase homes increased, on net, over the past three months. However, interest rates on fixed-rate mortgages fell sharply in the last months of 2000 and at the beginning of this year, and banks' answers may have been influenced by the resulting increase in refinancing activity.

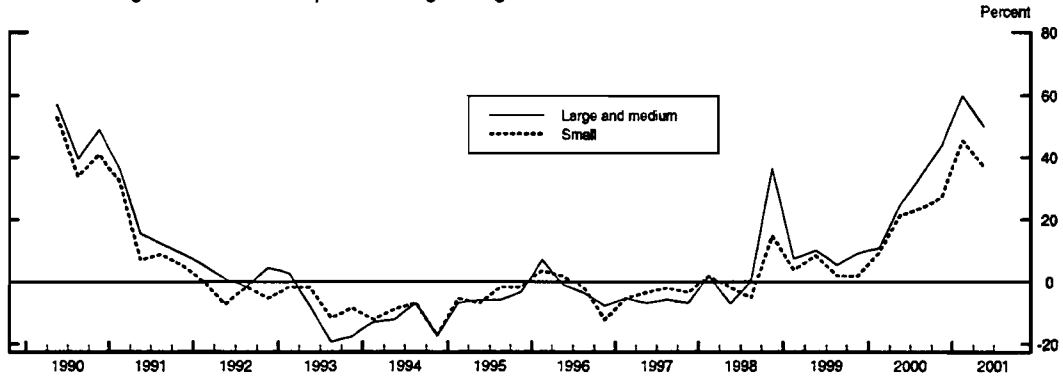
In the current survey, domestic banks were also queried about changes in terms on mortgage loans to purchase homes over the past year. About 15 percent of banks, on net, reported increasing the spread of loan rates over their cost of funds during that period. According to the respondents, most non-price terms on residential mortgages were essentially unchanged over that period, except for the maximum size of a mortgage, which increased.

As in the January survey, a number of domestic banks tightened standards and terms for consumer loans. About 20 percent of banks reported that they had tightened standards on credit card loans over the past three months, compared with 12 percent in January. In addition, one-fifth of respondents reduced credit limits on these loans.

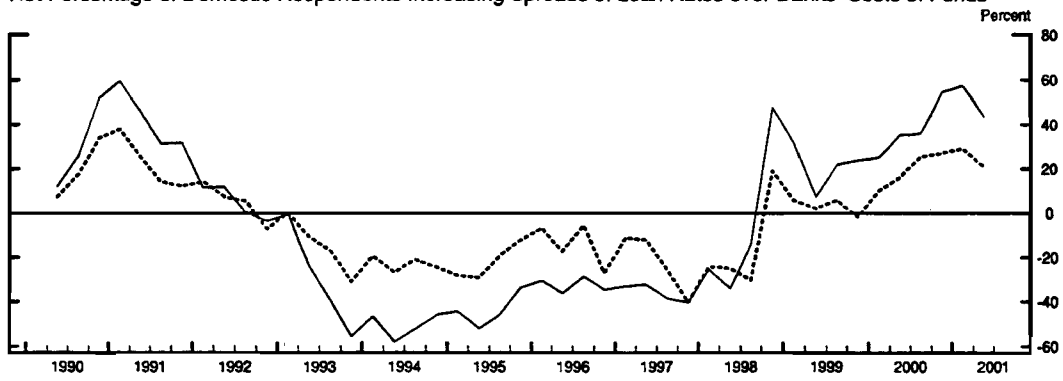
For other types of consumer loans, 19 percent of domestic banks, on net, reported tighter standards, and about one-quarter, on net, increased spreads over their cost of funds, roughly the same net percentages as in the previous survey. The recent run-up, or expected future increases, in consumer delinquency rates were most often cited as a reason for changing consumer-lending policies. On net, demand for consumer loans of all types was reported as unchanged.

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

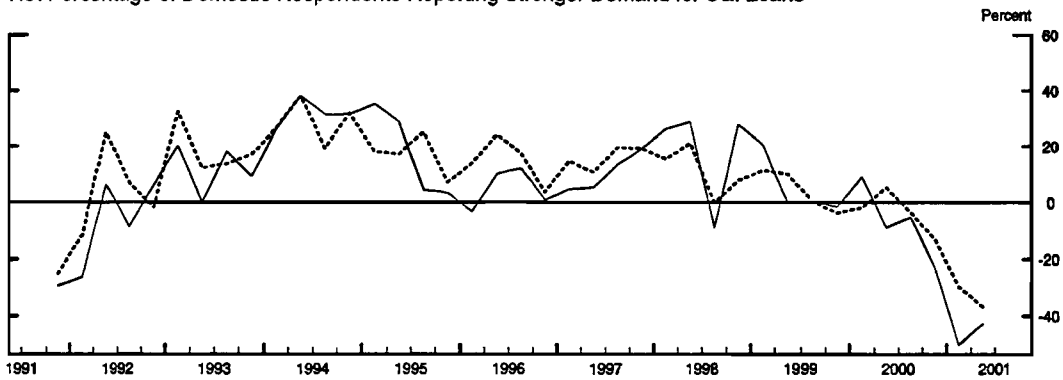
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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

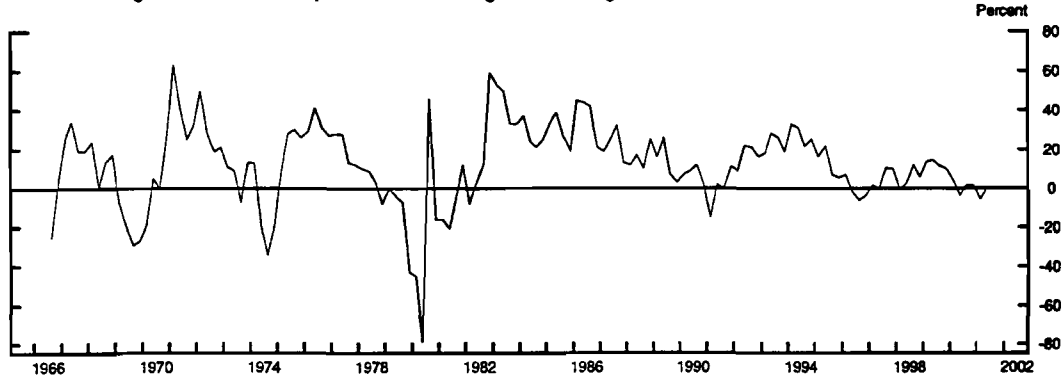


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

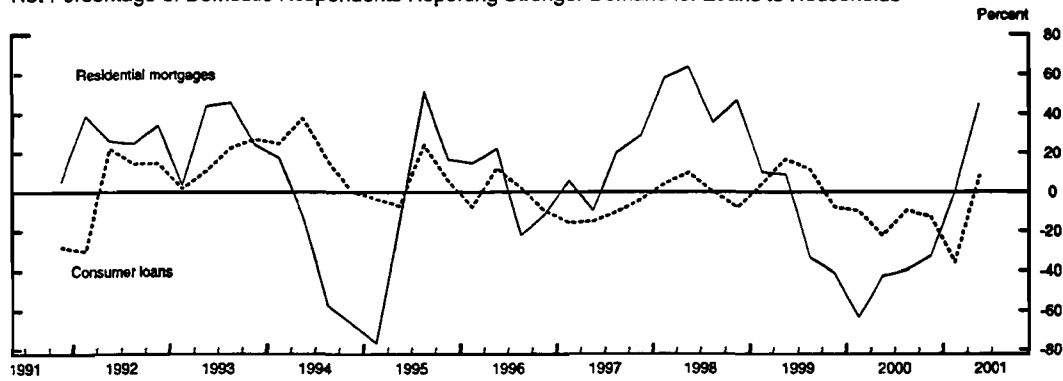


Measures of Supply and Demand for Loans to Households

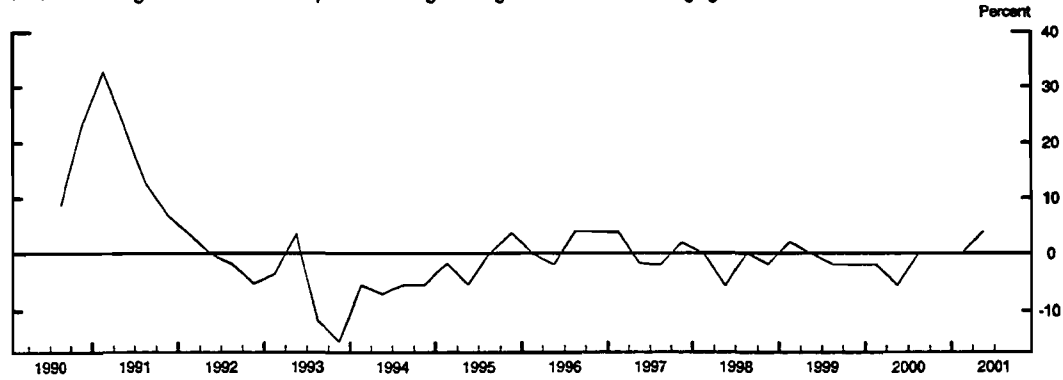
Net Percentage of Domestic Respondents Indicating More Willingness to Make Consumer Installment Loans



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



Net Percentage of Domestic Respondents Tightening Standards for Mortgages to Individuals



International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

The U.S. trade deficit in goods and services was \$27.0 billion in February, much smaller than the deficit in January. For January-February combined, the deficit at an annual rate was \$35 billion smaller than in the fourth quarter of last year.

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

	2000	Annual rate			Monthly rate		
		2000		2001	2000		2001
		Q3	Q4	Q1 ^e	Dec.	Jan.	Feb.
<i>Real NIPA¹</i>							
Net exports of G&S	-412.4	-427.7	-441.7	-404.9	...	...	...
<i>Nominal BOP</i>							
Net exports of G&S	-368.9	-382.5	-397.0	-361.4	-33.2	-33.3	-27.0
Goods, net	-449.9	-458.9	-474.6	-437.1	-39.6	-39.5	-33.4
Services, net	81.0	76.4	77.6	75.6	6.4	6.2	6.4

1. Billions of chained (1996) dollars.

e. BOP data are two months at an annual rate.

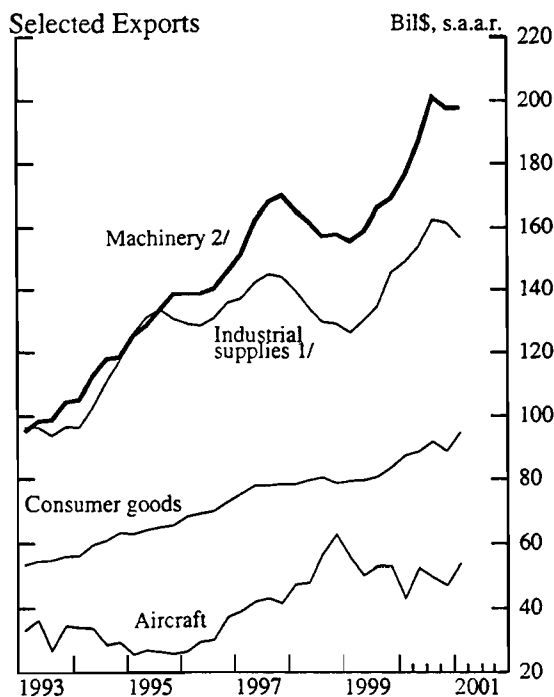
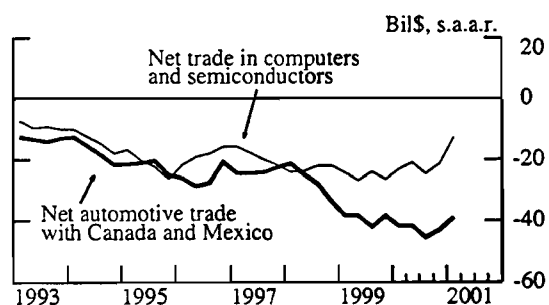
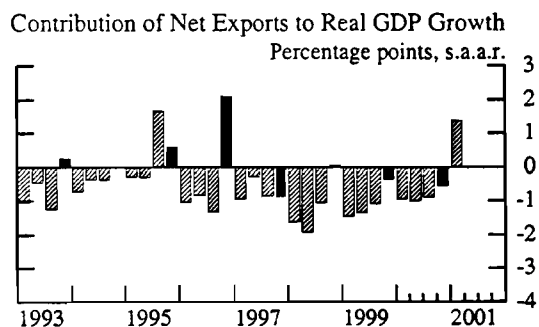
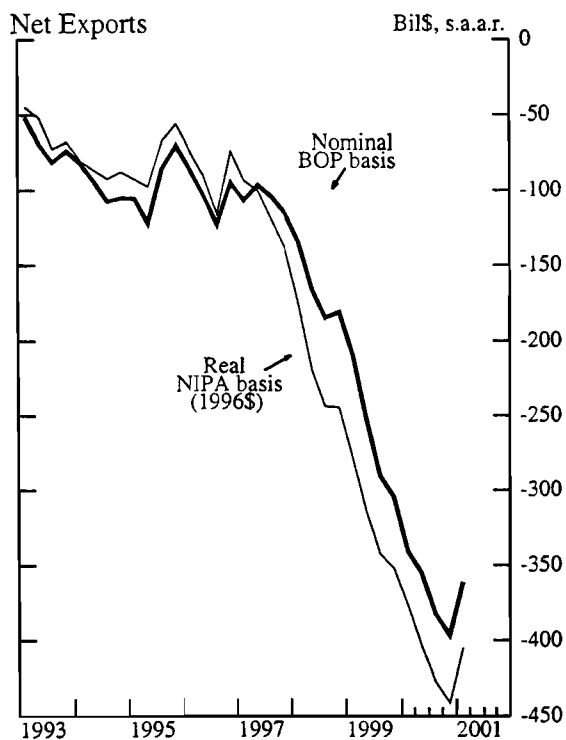
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

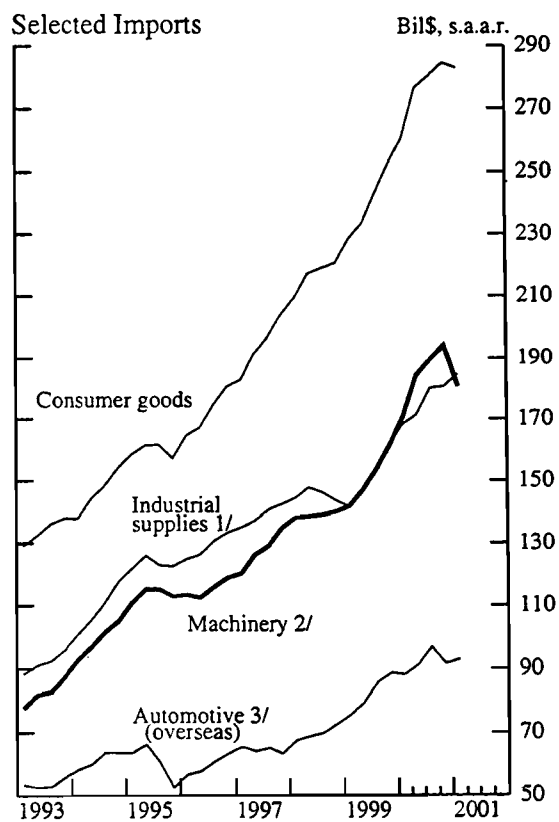
In February, the value of exports of goods and services moved up for the second consecutive month, with the increase largely due to a jump in aircraft exports. However, exports in January-February combined were still below the fourth-quarter average. Sharp declines in exports of automotive products (largely to Canada), industrial supplies, and semiconductors were only partly offset by significant increases in exports of aircraft and consumer goods. In January-February, exports of capital goods other than aircraft and semiconductors held at about the fourth-quarter average. By area, declines in exports to countries in Asia, Latin America, and Canada were partly offset by an increase in exports to Western Europe.

The value of imports plunged a record \$5.4 billion in February (not at annual rate). The fall was widespread across trade categories, with the largest declines in imported consumer goods, a wide range of high-tech and other machinery, oil (entirely quantity), and other industrial supplies. Notably, automotive imports held at about the same level as recorded in December and January. Imports in January-February were 3 percent lower (not at annual rate) than the fourth-quarter average. The decline was broadly based (and strongest in automotive products, high-tech goods, and oil) with only the value of non-oil industrial supplies and service payments showing an increase.

U.S. International Trade in Goods and Services



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



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

U.S. Exports and Imports of Goods and Services

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

	Levels				Amount Change ¹			
	2000	2001	2001		2000	2001	2001	
	Q4	Q1 ^e	Jan.	Feb.	Q4	Q1 ^e	Jan.	Feb.
Exports of G&S	1085.8	1080.2	1075.0	1085.5	-15.9	-5.6	4.5	10.5
Goods exports	785.2	778.9	774.9	782.9	-18.2	-6.2	5.6	8.0
Gold	6.5	6.3	5.8	6.8	2.3	-0.3	-1.5	1.0
Other goods	778.6	772.6	769.2	776.1	-20.5	46.8	7.1	7.0
Aircraft & parts	47.2	53.9	46.5	61.3	-2.4	6.7	1.6	14.8
Computers	56.6	56.8	57.8	55.9	-2.1	0.2	1.4	-1.9
Semiconductors	62.3	59.2	62.1	56.4	-2.8	-3.0	2.4	-5.8
Other capital gds	200.2	200.5	203.2	197.8	-3.0	0.2	5.8	-5.4
Automotive	78.1	69.3	69.9	68.7	-2.9	-8.8	-6.7	-1.2
to Canada	42.0	35.2	34.9	35.4	-2.3	-6.8	-5.6	0.5
to Mexico	17.2	15.5	14.6	16.5	1.4	-1.7	0.1	1.8
to ROW	18.9	18.6	20.4	16.8	-1.9	-0.3	-1.2	-3.5
Agricultural	52.7	53.4	51.8	55.0	-2.6	0.7	0.3	3.2
Ind supplies (ex. ag)	161.5	156.3	155.3	157.4	-1.0	-5.2	0.3	2.0
Consumer goods	88.7	94.8	94.0	95.7	-3.0	6.1	4.2	1.7
All other goods	31.2	28.3	28.6	28.0	-0.7	-2.9	-1.6	-0.6
Services exports	300.6	301.3	300.0	302.6	2.3	0.7	-1.0	2.6
Imports of G&S	1482.8	1441.7	1474.0	1409.3	-1.4	-41.1	5.2	-64.6
Goods imports	1259.7	1216.0	1248.8	1183.2	-2.6	-43.8	4.6	-65.7
Petroleum	127.5	121.3	126.9	115.7	0.3	-6.2	1.0	-11.2
Gold	6.7	6.1	6.2	6.0	2.5	-0.6	-0.5	-0.2
Other goods	1125.5	1088.6	1115.7	1061.5	-5.3	-36.9	4.0	-54.2
Aircraft & parts	30.6	28.3	27.9	28.7	3.9	-2.3	-6.2	0.8
Computers	90.2	83.8	84.9	82.8	-4.8	-6.4	0.9	-2.1
Semiconductors	50.1	45.0	47.3	42.8	-3.5	-5.1	-3.9	-4.5
Other capital gds	197.1	183.9	188.9	178.9	4.7	-13.1	-8.3	-10.0
Automotive	193.8	182.8	183.6	182.0	-8.7	-11.0	1.8	-1.6
from Canada	61.8	53.6	55.0	52.1	-2.8	-8.2	-1.1	-2.9
from Mexico	40.3	36.1	36.3	35.8	-0.6	-4.3	3.2	-0.5
from ROW	91.6	93.2	92.3	94.1	-5.3	1.5	-0.3	1.8
Ind supplies	180.7	184.8	189.7	180.0	0.5	4.2	0.4	-9.6
Consumer goods	284.6	282.9	294.4	271.3	4.3	-1.7	16.3	-23.1
Foods, feeds, bev.	46.4	46.2	47.4	45.0	-0.9	-0.1	2.0	-2.4
All other goods	52.1	50.7	51.6	49.9	-0.8	-1.4	1.1	-1.7
Services imports	223.0	225.7	225.2	226.2	1.2	2.6	0.6	1.0
<i>Memo:</i>								
Oil quantity (mb/d)	12.00	13.00	13.60	12.39	-0.13	1.01	1.22	-1.21
Oil import price (\$/bbl)	29.13	25.55	25.53	25.56	0.38	-3.59	-2.29	0.03

1. Change from previous quarter or month. e. Average of two months.

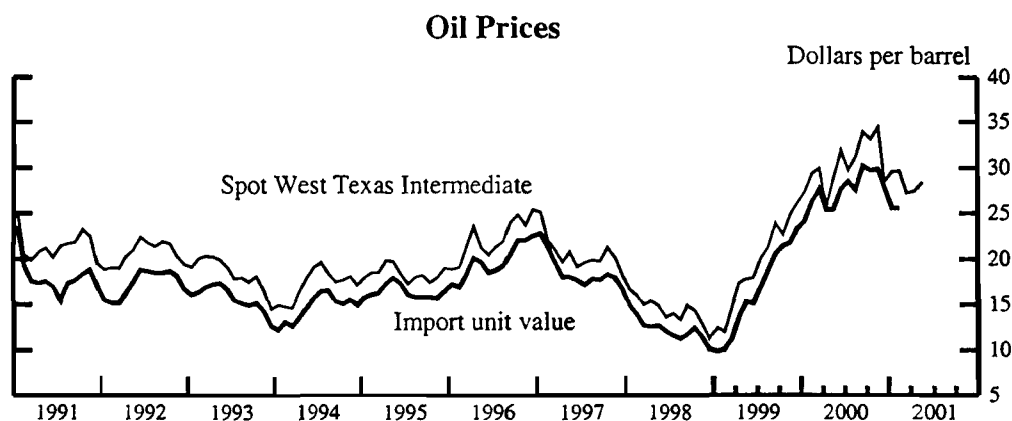
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

	Annual rates			Monthly rates		
	2000		2001	2001		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
	----- BLS prices (1995 weights)-----					
Merchandise imports	6.7	0.8	-5.2	0.0	-0.6	-1.6
Oil	52.9	5.0	-43.5	-6.2	1.1	-5.9
Non-oil	0.9	0.3	2.3	1.0	-0.8	-0.9
Core goods*	1.5	0.8	2.8	1.1	-0.9	-0.9
Computers	-3.4	-10.4	-4.1	0.0	-1.2	-0.6
Semiconductors	-4.9	-0.2	-3.7	-0.2	-0.2	-0.3
Cap. goods (ex comp & semi)	-1.5	-1.7	-0.8	-0.1	0.0	0.0
Automotive products	0.5	0.0	0.1	0.0	0.0	0.0
Consumer goods	-0.5	-1.0	0.3	0.1	0.1	0.0
Foods, feeds, beverages	-4.6	-2.9	-1.3	-0.2	-1.1	-0.2
Industrial supplies (ex oil)	8.6	6.9	12.8	3.8	-2.7	-3.9
Merchandise exports	-0.1	0.7	-0.4	0.2	-0.2	-0.1
Core goods*	0.1	1.2	-0.3	0.3	-0.2	-0.1
Computers	-2.2	-1.6	-2.2	-0.3	0.0	-0.5
Semiconductors	-5.5	-3.1	-3.5	-0.7	-0.3	0.1
Cap. goods (ex comp & semi)	1.0	0.9	2.3	0.3	0.2	0.2
Automotive products	1.0	0.0	0.8	0.2	0.0	0.1
Consumer goods	0.0	-0.8	-0.7	0.1	-0.1	-0.1
Agricultural products	-12.1	12.4	2.9	0.5	-1.4	0.2
Industrial supplies (ex ag)	3.2	-1.8	-4.2	0.1	-0.2	-0.8
	---Prices in the NIPA accounts (1996 weights)---					
Chain price index						
Imports of goods & services	3.8	0.2	-2.1	...	...	...
Non-oil merchandise	0.7	0.1	1.4	...	...	...
Core goods*	1.5	1.0	2.2	...	...	...
Exports of goods & services	0.7	0.5	-0.4	...	...	...
Total merchandise	0.0	0.4	-0.5	...	...	...
Core goods*	0.1	1.1	-0.0	...	...	...

* / Excludes computers and semiconductors.

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



Prices of Internationally Traded Goods

Oil. The BLS oil import price declined 5.9 percent in March, after increasing slightly in February. For the first quarter, the price of imported oil fell over 40 percent at an annual rate. After declining during March, the spot price of West Texas Intermediate crude generally moved up during April as a new round of OPEC supply cuts became effective. In early May, spot WTI has traded between \$27 and \$29 per barrel.

Non-oil imports. Prices of imported non-oil goods (and core goods) declined 0.9 percent in March following a similar decline in February (revised). Virtually all of the declines in non-oil (and core) import prices in both months were from natural gas. The declines follow two months of sharp price increases, also driven by the price of natural gas. In March, prices of industrial supplies were also held down by a decline in prices of imported unfinished metals. Prices for imported capital goods (excluding computers and semiconductors), automotive products, and consumer goods remained flat in March, while prices for imported foods declined slightly. In the first quarter, the price of imported core goods rose about 2½ percent at an annual rate, almost entirely because of natural gas prices. In addition, there were small increases in prices of imported automotive products and consumer goods and declines in prices of imported machinery (other than computers and semiconductors) and foods.

Exports. Prices of U.S. goods exports declined slightly in March for the second consecutive month, largely because of declines in the prices of industrial supplies. With the exception of industrial supplies and consumer goods, prices of all major categories of exported core goods (which exclude computers and semiconductors) rose slightly. In the first quarter, prices of core goods exports were little changed, as increases in prices of machinery, automotive and agricultural products were offset by declines in prices of industrial supplies and consumer goods.

U.S. International Financial Transactions

Foreign official reserves held in the United States (line 1 of the Summary of U.S. International Transactions Table) increased by \$19 billion in the first quarter, reflecting a substantial rise in January. Nearly all the increase owes to increased holdings by China of Treasury bills and short-term agencies at FRBNY as these securities were transferred from a custodian in Luxembourg to the New York bank. Other large increases were reported for Hong Kong (\$5 billion), Mexico (\$4 billion), and Venezuela (\$2 billion). The most significant downward movement in the quarter was in Argentina's reserves (\$6 billion). This drop came almost entirely in March and coincided with large withdrawals from the Argentine banking system due to the recent crisis. Declines in the \$2

billion to \$3 billion range were reported for Turkey, Japan, Korea, and Singapore.

Foreign private net purchases of U.S. securities (line 4) remained robust in the first quarter as net purchases of both U.S. agency bonds (line 4b) and corporate debt (line 4c) set new records. Although corporate funding requirements were down in the quarter, the decline in the commercial paper market saw firms shifting to the bond markets for sources of funds. Also, there has been an increase in the volume of euro-denominated U.S. issues tailored to foreign investors and placed abroad. Foreign net purchases of U.S. equities (line 4d) were substantial in the first quarter, especially in January when U.S. equity prices were rising. Private foreign sales of Treasury securities slowed in the first quarter. Even the \$9 billion in net sales reported in line 4a are somewhat overstated as they include a portion of the above-mentioned transfer of China's holdings from a foreign private custodian to FRBNY.

Net U.S. acquisitions of foreign securities (line 5) picked up in the first quarter as purchases of equities spiked to \$15 billion in March. The spike reflected in part several significant new foreign listings on the New York Stock Exchange. Overall, U.S. activity in foreign securities was concentrated in the United Kingdom, the Caribbean financial centers, and Japan. Net acquisitions arising from stock swaps (line 5c) slowed to \$4 billion for the quarter, reflecting the seasonal pattern in takeover activity.

The U.S. banking sector (line 3) reported extraordinary net outflows of \$105 billion in the first quarter due to widespread increases in U.S. banks' claims on their own foreign offices. Weekly FRB data indicate the outflows occurred near the end of the quarter and were largely reversed in April.

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

	1999	2000	2000			2001		
			Q2	Q3	Q4	Q1	Feb	Mar
<u>Official financial flows</u>	55.0	39.3	9.4	12.2	-4.7	18.9	.5	-2.1
1. Change in foreign official assets in the U.S. (increase, +)	46.4	39.6	7.4	12.5	-3.3	18.7	-.2	-2.0
a. G-10 countries	49.7	12.3	6.0	-4.2	-.8	-5.6	-.3	-3.3
b. OPEC countries	2.0	10.7	1.2	3.4	.6	.2	-2.0	-1.6
c. All other countries	-5.3	16.6	.3	13.3	-3.1	24.1	2.2	2.9
2. Change in U.S. official reserve assets (decrease, +)	8.6	-.3	2.0	-.3	-1.4	.2	.7	-.1
<u>Private financial flows</u>	268.4	359.8	143.2	90.4	91.4	...	...	...
<u>Banks</u>								
3. Change in net foreign positions of banking offices in the U.S. ¹	-12.4	-1.7	44.5	-27.0	10.5	-105.4	24.7	-109.6
<u>Securities²</u>								
4. Foreign net purchases of U.S. securities (+)	319.0	413.8	67.2	110.4	113.3	139.2	53.8	49.7
a. Treasury securities	-19.9	-52.3	-20.4	-12.4	-10.3	-8.5	6.6	-2.5
b. Agency bonds	71.9	111.9	19.0	28.6	38.3	38.8	9.2	18.4
c. Corporate and municipal bonds	158.8	180.4	41.6	45.7	49.1	67.1	28.2	25.8
d. Corporate stocks	108.2	173.8	27.0	48.5	36.2	41.7	9.7	8.0
5. U.S. net acquisitions (-) of foreign securities	-112.9	-97.2	-32.0	-20.8	-15.5	-23.4	.7	-16.0
a. Bonds	-5.7	-3.9	10.8	-9.0	3.8	.4	3.2	-1.5
b. Stock purchases	15.6	-9.3	5.2	-4.1	5.4	-20.0	-2.5	-14.5
c. Stock swaps ³	-122.9	-84.0	-48.0	-7.7	-24.7	-3.8	.0	.0
<u>Other flows (quarterly data, s.a.)</u>								
6. U.S. direct investment (-) abroad	-150.9	-161.6	-37.5	-36.2	-45.0	...	...	...
7. Foreign direct investment in U.S.	275.5	316.5	100.4	72.7	94.4	...	...	...
8. Foreign holdings of U.S. currency	22.4	1.1	1.0	.8	6.2	...	...	...
9. Other (inflow, +) ⁴	-72.2	-111.2	-0.5	-9.5	-72.5	...	...	...
<u>U.S. current account balance (s.a.)</u>	-331.5	-435.4	-105.0	-113.8	-115.3	...	...	...
<u>Capital account balance (s.a.)⁵</u>	-3.5	.7	.2	.2	.2	...	...	...
<u>Statistical discrepancy (s.a.)</u>	11.6	35.6	-47.8	11.0	28.4	...	...	...

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

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

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

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

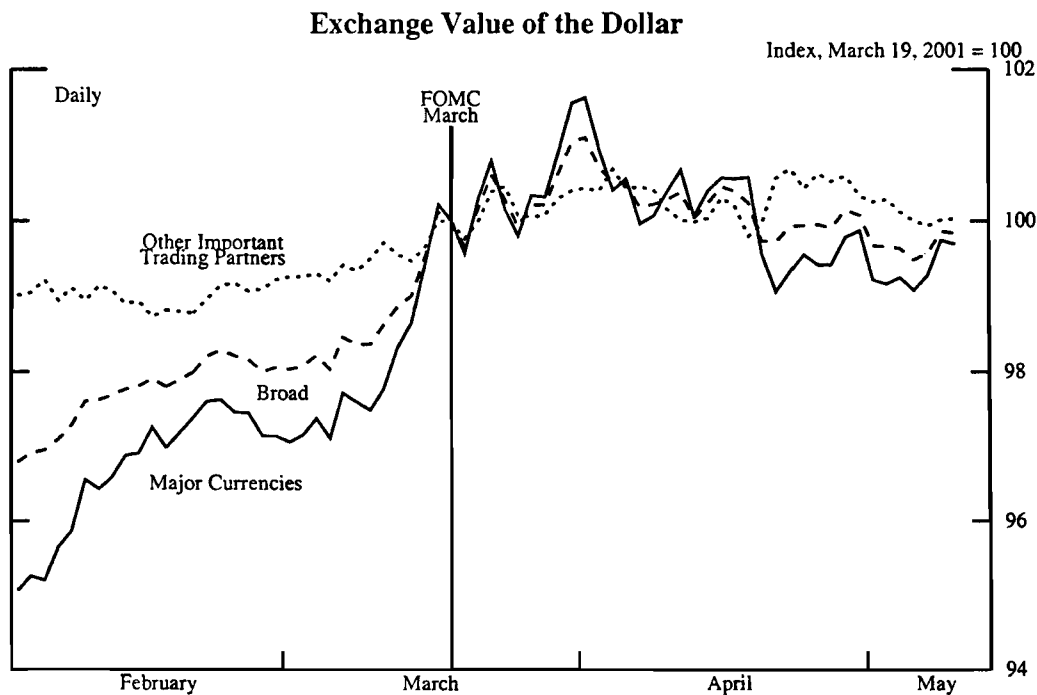
4. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business

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

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

Foreign Exchange Markets

On balance, the major currencies index was largely unchanged over the intermeeting period, as a modest appreciation of the dollar against the euro was counterbalanced by a depreciation of the dollar against the yen, Canadian dollar, and the Australian dollar. The dollar appreciated somewhat against the euro early in the intermeeting period as market participants reportedly expressed concern over the susceptibility of the euro-area to a global economic slowdown, but depreciated after the FOMC's surprise 50 basis point interest rate cut on April 18th. The dollar appreciated against the yen early in the intermeeting period, as signs of additional weakness in the Japanese economy weighed on the currency. Market participants also expressed disappointment over the lack of details of the Japanese government's emergency economic plan. However, since the surprise election of Prime Minister Koizumi, widely viewed among market participants as a reformer, the dollar has depreciated slightly against the yen.



In contrast to market expectations held at the beginning of the intermeeting period, the European Central Bank did not adjust its policy stance, and instead adopted a “wait and see” strategy as euro-area inflation remained above its target ceiling. The Bank of Canada, the Bank of England, and the Swiss National Bank cut their respective policy rates 25 basis points during the period, while Australia’s central bank cut interest rates by 50 basis points. Just before the March FOMC meeting, the Bank of Japan moved to a reserve targeting policy,

which, in effect, returned Japan to zero nominal interest rates, but has not adjusted its monetary policy stance since.

During the intermeeting period, share prices in the euro area and the United Kingdom increased 6.8 and 5.3 percent, respectively. Share prices jumped in most major equity markets following the FOMC's surprise intermeeting move, in line with the sharp response in the United States. Since the BOJ's de facto return to the zero-interest-rate policy on March 19th, Japanese share prices have soared more than 15 percent. Japanese share prices also reacted favorably to the election of Prime Minister Koizumi. As global equity markets rallied, ten-year government bond yields rose sharply across most major industrial economies; however, three-month interest rates declined in most countries. Late in the period, Japanese ten-year government bond yields declined in response to reduced expectations for bond issuance under the new government.

Financial Indicators in Major Industrial Countries

Country	Three-month rate		Ten-year yield		Equities
	May 9 (Percent)	Percentage Point Change	May 9 (Percent)	Percentage Point Change	Percent Change
Canada	4.41	-.20	5.70	.50	1.94
Japan	.01	-.14	1.25	.11	15.54
Euro area	4.79	.02	4.94	.24	6.81
United Kingdom	5.22	-.22	4.96	.30	5.30
Switzerland	3.06	-.23	3.61	.00	5.11
Australia	4.83	-.07	5.73	.78	3.97
United States	4.01	-.78	5.22	.40	6.77
Memo: Weighted-average foreign	3.36	-.11	4.66	.30	n.a.

NOTE. Change is from March 19 to May 9.
n.a. Not available.

The dollar's exchange value against a group of currencies of our other important trading partners was largely unchanged. Speculation that Argentina may alter its fixed exchange rate peg or restructure its debt, and a dispute between newly appointed Economy Minister Cavallo and Argentina's central bank over reserve requirements, weighed heavily on Latin American financial markets. On

balance, the Brazilian *real* depreciated 3.9 percent against the dollar over the intermeeting period. In sharp contrast, the Mexican peso appreciated 3.8 percent against the dollar over the period despite the regional turmoil as Mexican monetary authorities maintained a relatively tight policy stance. The dollar appreciated 6.1 percent against the Indonesian rupiah, amid uncertainty surrounding President Wahid's battle to retain power and Indonesia's current fiscal problems. The dollar also appreciated against the Turkish lira, not shown, early in the period amid continued uncertainty about Turkey's economic situation; however, the lira recovered somewhat after the release of Economic Minister Dervis' reform plan and the promise of additional official financial support.

Financial Indicators in Latin America, Asia, and Russia

Economy	Currency/ US dollar		Short-term Interest rates ¹		Dollar-denominated bond spread ²		Equity prices
	May 9	Percent Change	May 8/9 (Percent)	Percentage Point Change	May 8/9 (Percent)	Percentage Point Change	Percent Change
Mexico	9.21	-3.79	12.84	-3.17	4.10	-.75	1.27
Brazil	2.26	3.92	16.95	.10	10.16	.17	-.79
Argentina	1.00	-.07	17.00	-10.00	12.28	.72	-1.24
Chile	602.05	2.41	9.12	7.18	2.82	.17	3.89
China	8.28	.00	n.a.	n.a.	.90	-.18	4.73
Korea	1301.70	.29	5.35	-.25	2.31	.09	8.33
Taiwan	32.81	.03	4.27	-.24	...	...	-7.25
Singapore	1.82	2.97	2.44	.19	...	...	-4.49
Hong Kong	7.80	.00	3.87	-1.02	...	...	.95
Malaysia	3.80	.00	2.92	.00	1.99	.13	-13.88
Thailand	45.49	3.65	2.00	-.25	2.21	.44	7.01
Indonesia	11050.00	6.12	16.24	1.03	7.73	.27	1.35
Philippines	50.55	4.49	11.38	.69	5.78	.49	-4.36
Russia	28.96	1.15	n.a.	n.a.	8.52	-.85	9.32

NOTE. Change is from March 19 to May 8/9.

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.

Over the period, equity prices in Asian emerging markets were mixed. Concerns about the demand for technology exports and prospects for earnings going forward weighed on the tech-heavy Asian equity markets early in the period, but prices rebounded sharply after the FOMC's intermeeting rate cut.

While Latin American equity market indices were also mixed over the intermeeting period, share prices were extremely volatile. Equity market indices jumped higher following the FOMC's interest rate cut, but subsequently reversed much of these gains amid uncertainty surrounding the turmoil in Argentina. On balance, EMBI+ spreads for Argentina and Brazil widened 65 and 18 basis points, respectively, over the intermeeting period, but the overall EMBI+ spread narrowed 19 basis points.

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

Developments in Foreign Industrial Countries

It is becoming increasingly clear that spillover effects from the slowdown in the U.S. economy are rippling through the foreign industrial countries, although the magnitude of the impact varies widely. The Canadian external sector has been particularly hard-hit, but so far domestic demand has remained quite resilient. In contrast, in Japan slower growth of exports to both the United States and the developing Asian economies has exacerbated the persistent weakness in the household and construction sectors. Activity in the euro area, where indicators are less current, also appears to be softening to rates below potential. Growth has turned down in the United Kingdom as well, but one-time factors, including the fallout from foot-and-mouth disease, have been the primary culprits.

Slower growth and declining energy prices have contributed to an easing in headline inflation rates in Canada and the United Kingdom. In the euro area, rising food prices have kept inflation about ½ percent above the ECB's target ceiling of 2 percent. Japanese consumer prices continue to fall by about 1 percent per year.

The widespread deceleration in activity has been counteracted by significant monetary policy easing by most foreign central banks. Since January, official rates have been lowered 100 basis points to 5 percent in Canada, and by 50 basis points to 5.5 percent in the United Kingdom. The Bank of Japan in March effectively returned to the zero-interest-rate policy it abandoned when it raised official rates by 25 basis points last August. The exception remains the European Central Bank, which has maintained its repurchase rate at 4.75 percent this year; the ECB's most recent change was a 25-basis-point increase last October.

Recent indicators for **Japan** suggest that the economy is faltering. Declines in both orders and shipments of machinery, as well as continued weakness in nonresidential building contracts, indicate that investment spending is retreating from the lofty levels reached late last year, as both corporate profits and business confidence have eroded in the face of stagnant household demand and weakening exports. Industrial production fell in the first quarter, its first quarterly decline in nearly two years, and the all-industries index of output for January and February on average was flat compared with its fourth-quarter level. Housing starts were below their fourth-quarter level in the first quarter despite some rebound in March. Indicators of consumer demand so far this year have been somewhat more positive, as household expenditures in the first quarter were about 1 percent above the fourth-quarter level. However, some of the increase may have been due to a rush to make last-minute purchases of household appliances before more stringent laws for the disposal and recycling

of goods such as televisions and refrigerators were introduced on April 1. New passenger car registrations were also up for the quarter on average, but all of the increase was in January and registrations have fallen back since then.

The job market continues to soften. Employment in March was down about ½ percent from its recent peak in November of last year, reversing about half of the gain that had occurred in the previous five months. The unemployment rate remained at 4.7 percent in March, a bit below the recent postwar high, as both employment and the labor force fell. The job-offers-to applicants ratio, a key leading indicator, fell for the third consecutive month.

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

Indicator	2000		2001				
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Industrial production	1.6	.4	-3.3	-3.8	.7	-2.1	n.a.
All-industry index	.0	.5	n.a.	1.7	-1.8	n.a.	n.a.
Housing starts	-9	1.7	-4.0	-4.6	-5.7	6.3	n.a.
Machinery orders ¹	8.2	2.6	n.a.	-11.8	5.0	n.a.	n.a.
Machinery shipments	1.1	1.4	-4.6	-4.8	.2	-3.9	n.a.
New car registrations	-2.9	-.6	2.6	3.1	-1.7	-2.3	n.a.
Unemployment rate ²	4.7	4.8	4.8	4.9	4.7	4.7	n.a.
Job offers ratio ³	.62	.65	.63	.65	.64	.61	n.a.
Business sentiment ⁴	-15	-14	-22	...	...	...	...
CPI (Core, Tokyo area) ⁵	-.8	-.9	-1.0	-.8	-1.1	-1.1	-.9
Wholesale prices ⁵	.2	-.1	-.4	-.3	-.4	-.5	n.a.

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.

Prices continue to decline sharply. Core consumer goods prices in the Tokyo area (which exclude fresh food but include energy) were down 0.9 percent in April from a year earlier. Deflation in wholesale prices for domestic goods has

intensified as the impact of the earlier run-up in energy prices has faded, with prices in March down about ½ percent from a year earlier. Land prices also have continued to fall, with prices down 5 percent on average in January 2001 from a year earlier. This marked the tenth consecutive year of decline in prices for both residential and commercial property.

The merchandise trade surplus (customs clearance basis) averaged \$68 billion at an annual rate in the first quarter of this year, about half the level in the same period in 2000. The declining trend in the surplus reflects the impact of higher oil prices as well as slowing global demand.

The Bank of Japan's March Tankan survey showed a sharp deterioration in business sentiment. Sentiment declined across all major categories, although larger drops were recorded in the manufacturing sector, where sentiment had improved more last year, than in the nonmanufacturing sector. The survey showed smaller expected gains this year than last in both sales and profits. Investment is expected to fall nearly 9 percent in FY2001.

On March 19, the day before the last FOMC meeting, the Bank of Japan made several monetary policy moves, including a change in the operating target for money market operations from the uncollateralized overnight call rate to the outstanding balance of banks' deposits at the Bank of Japan; an explicit commitment that this policy will be maintained until consumer price inflation is registered at zero or more; and a stated intention on the part of the BOJ to increase its outright purchases of long-term government bonds if it considers that to be necessary for providing liquidity smoothly. The current target level of bank balances is similar to the amount during the period when the zero-interest-rate policy was in effect, so it is not yet clear whether the recent moves amount to more than a return to that policy.

The government's release of more details of its "emergency economic package" on April 6 was a disappointment to most analysts. The plan focuses on the disposal of non-performing loans and on measures to reduce banks' exposure to the equity market, partly by establishing a fund to purchase equity owned by banks. The plan also includes tax reductions for dividends and capital gains as well as measures to promote corporate restructuring, encourage urban revitalization, increase liquidity in the land market, and introduce an employment "safety net." On many points details are still sketchy. In particular, the tax proposals will require legislation and there is some question about whether they will actually be enacted.

In somewhat of an upset, former Health and Welfare Minister Junichiro Koizumi was chosen to replace the unpopular Prime Minister Mori on April 26. Mr.

Koizumi ran on a platform of political renewal and structural reform, promising in particular to speed up the write-off of non-performing bank loans, to reduce government borrowing, and to privatize the postal savings system. Although Mr. Koizumi's election suggests that the trend toward structural reform has gained strength, it remains to be seen to what extent this will be translated into actual policy, particularly in advance of the Upper House election in late July.

Indicators of activity in the **euro area** for the first quarter are limited and mixed, but on balance suggest that growth has moderated from the pace recorded at the end of last year. Industrial production displayed a typically volatile pattern in January and February, but on balance was little changed from the fourth-quarter average. In Germany, industrial production fell 3.7 percent in March to its lowest level since last June, although it was still up 1 percent for the first quarter as a whole. The euro-area purchasing managers survey moved down for the twelfth consecutive month in April, dipping below the level that indicates a contraction in manufacturing activity. Retail sales in the euro area were up a moderate 0.5 percent in January/February from the fourth-quarter average, but present a somewhat mixed picture across countries, with sales relatively weak in Germany and Italy and strong in France. French consumption of manufactured products also rebounded in the first quarter, growing 2.3 percent from the fourth-quarter average.

More forward-looking indicators point to further moderation in the pace of growth in the months ahead, as the rate of decline in euro-area industrial confidence has intensified in recent months. Production expectations declined considerably in France in April, and German manufacturing orders fell sharply in the first quarter. Consumer confidence remains more upbeat, holding steady in both March and April at a level well above its historical average.

The harmonized unemployment rate for the euro area edged down to 8.4 percent in March. Based on national statistics, the French unemployment rate also moved down further in March to 8.7 percent, its lowest rate in eighteen years. In Germany, recent sluggish rates of economic growth appear to have slowed employment gains. As a result, the German unemployment rate edged up to 9.3 percent in January and remained at that rate through April.

Euro-area consumer prices rose 0.4 percent in March from the previous month, primarily reflecting higher food prices. The twelve-month rate of consumer price inflation in the euro area remained at 2.6 percent, above the European Central Bank's 2 percent target ceiling for the tenth consecutive month. The twelve-month rate of core inflation (which excludes energy and food prices) remained at 1.8 percent in March. Preliminary data for Italy and Germany

indicate that consumer prices rose more than expected in April, in part reflecting further food and energy price increases.

Euro-Area Economic Indicators¹
(Percent change from previous period except as noted, s.a.)

Indicator	2000		2001				
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Industrial production ²	.9	1.6	n.a.	-1.7	.4	n.a.	n.a.
Retail sales volume	.2	.5	n.a.	.5	-.1	n.a.	n.a.
Unemployment rate ³	8.8	8.5	8.5	8.5	8.5	8.4	n.a.
Consumer confidence ⁴	-.7	-2.7	-1.7	-1.0	-2.0	-2.0	-2.0
Industrial confidence ⁵	6.7	5.3	1.0	3.0	1.0	-1.0	-4.0
Mfg. orders, Germany	.9	2.1	-3.3	-2.6	-.4	-4.4	n.a.
CPI ^{6,7}	2.5	2.7	2.5	2.4	2.6	2.6	n.a.
Producer prices ^{6,7}	5.8	6.1	4.5	4.8	4.5	4.1	n.a.
M3 ⁸	5.3	5.1	5.0	4.7	4.7	5.0	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.

Economic activity in the **United Kingdom** remained surprisingly weak in the first quarter, with preliminary real GDP growth estimated to be only 1.2 percent (s.a.a.r.). Output from extraction industries and manufacturing fell, while growth in services related to tourism were only about half their fourth quarter rates as visitors shied away because of foot-and-mouth disease. However, retailing showed strong gains, as did some other areas of the service sector.

Very limited indicators for the second quarter paint a mixed picture. Consumer confidence, although ticking down slightly, remained at a relatively high level in April. Business confidence, on the other hand, has fallen steadily over the first four months of 2001, with the outlook for expected future production in the manufacturing sector remaining quite pessimistic. Foot-and-mouth disease, although abating, will most likely have noticeable effects on output in the tourism and transportation sectors in the second quarter.

U.K. Economic Indicators

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

Indicator	2000		2001				
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Real GDP* (s.a.a.r.)	3.4	1.6	1.2	...	...	...	...
Industrial production	.7	-.6	n.a.	.0	-.3	n.a.	n.a.
Retail sales	1.3	1.3	1.5	.6	.6	.1	n.a.
Unemployment rate ¹							
Claims-based	3.5	3.4	3.3	3.3	3.3	3.3	n.a.
Labor force survey ²	5.4	5.3	n.a.	5.2	n.a.	n.a.	n.a.
Business confidence ³	3.3	5.3	8.7	14.0	9.0	3.0	-2.0
Retail prices ⁴	2.1	2.1	1.9	1.8	1.9	1.9	n.a.
Producer input prices ⁵	12.1	9.9	5.2	6.6	5.5	3.6	n.a.
Average earnings ⁵	4.1	4.4	n.a.	4.3	5.9	n.a.	n.a.

* preliminary

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. ... Not applicable.

Notwithstanding the recent slowing in activity, labor market conditions remain tight. The official claims-based unemployment rate remained at 3.3 percent in March, 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 January. Average annual earnings growth for February breached the 4½ percent rate that the Bank of England believes to be compatible with its inflation target, partly reflecting big bonuses in the financial sector. However,

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 April 5, 2001 meeting, the Monetary Policy Committee (MPC) of the Bank of England voted to lower the official repo rate to 5.5 percent. This is the second cut this year.

On March 7, 2001, Chancellor Gordon Brown introduced the government's budget for the fiscal year 2001-2002. The budget is slightly expansionary, providing for an additional £2.3 billion in public spending to be spread over the next three years, mainly on education and health. It is seen by some as reflecting the current government's desire to boost its popularity in advance of the coming June 7th general election. Nevertheless, a budget surplus of about 2½ percent of GDP is forecast for fiscal year 2001-2002.

In **Canada**, indicators available for the first quarter suggest that growth has slowed markedly from the pace observed during 2000. Real GDP at factor cost on average in January and February was 0.4 percent above the fourth quarter level, down from average quarterly growth of 0.9 percent in 2000. To date, the slowdown has been concentrated in the export-dependent manufacturing sector, with average industrial production in January and February about 1 percent below the fourth-quarter level. The motor vehicle and electronic equipment sectors, both of which are heavily dependent on U.S. demand, are the primary areas of weakness.

Industries outside of manufacturing appear to be stronger. Despite further declines in consumer confidence in the first quarter, nominal retail sales in January and February were about 1 percent above the fourth quarter average, suggesting consumption growth remains robust. Real GDP data for January and February suggest the construction sector boomed in the first part of the year, boosted by falling interest rates and a surge in construction following poor weather in the fourth quarter. High levels of oil and gas exploration also contributed heavily to growth in the first quarter. Total employment rose only 0.2 percent in the first quarter, but this followed a surge in employment in the fourth quarter. The unemployment rate was 6.9 percent in the first quarter, unchanged from the fourth quarter.

The twelve-month rate of consumer price inflation was 2.5 percent in March, well within 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 1.7 percent in March. The yield differential between nominal

and real-return bonds has remained steady around 2 percent, suggesting inflation expectations are stable.

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

Indicator	2000		2001			
	Q3	Q4	Q1	Jan.	Feb.	Mar.
GDP at factor cost	.9	.5	n.a.	.3	-.1	n.a.
Industrial production	.7	.0	n.a.	-.5	-.2	n.a.
New mfg. orders	1.8	.2	n.a.	-3.1	5.6	n.a.
Retail sales	2.5	.1	n.a.	.5	-.3	n.a.
Employment	.2	.7	.2	.0	-.2	.2
Unemployment rate ¹	6.9	6.9	6.9	6.9	6.9	7.0
Consumer prices ²	2.7	3.1	2.8	3.0	2.9	2.5
Consumer attitudes ³	119.8	114.2	109.4	...	...	...
Business confidence ⁴	149.4	140.4	117.5	...	...	...

1. Percent.

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

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

3. Level of index, 1991 = 100.

4. Level of index, 1977 = 100.

The Bank of Canada has lowered its policy rate, the Bank Rate, a total of 100 basis points this year, most recently by 25 basis points on April 17. The Bank Rate now stands at 5 percent, with the corresponding target for the overnight rate, the rate most comparable to the U.S. Federal Funds Rate, being 4.75 percent. In its April 17 statement, the Bank singled out a pace of economic expansion that was currently below trend as justification for the rate reduction. In characterizing the economic slowdown in Canada, the Bank noted that "the slowdown has largely been a consequence of the marked easing in the pace of U.S. economic growth, while final domestic demand has maintained its underlying momentum." The Bank's next policy announcement date is May 29.

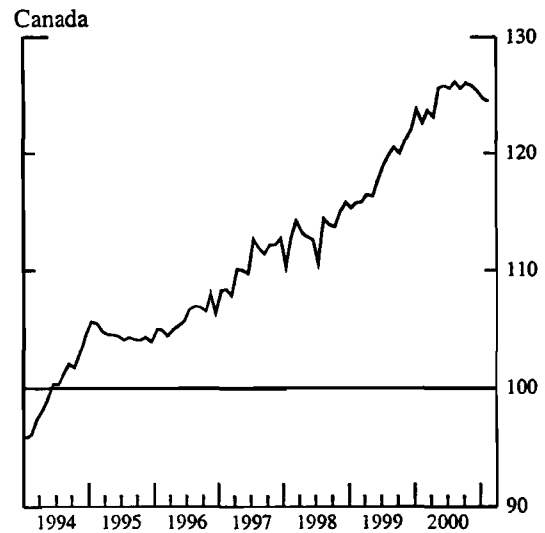
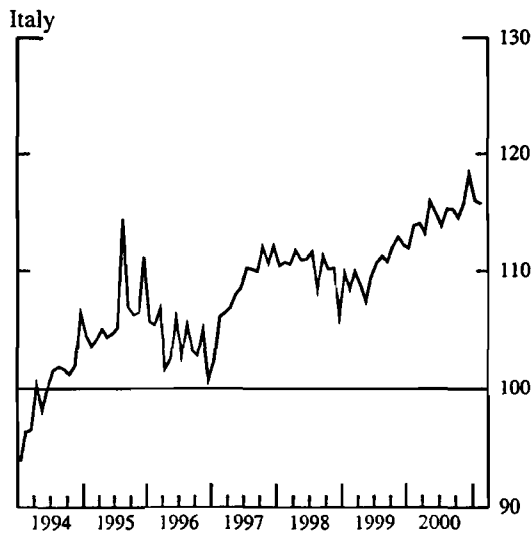
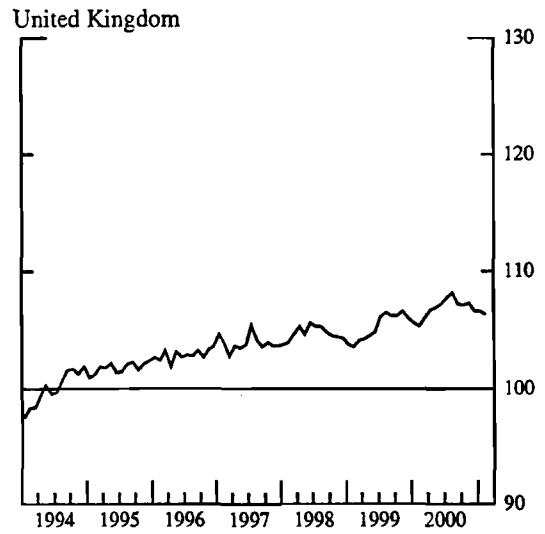
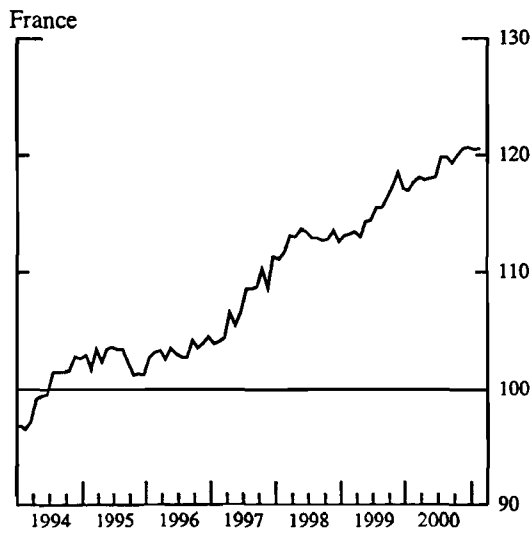
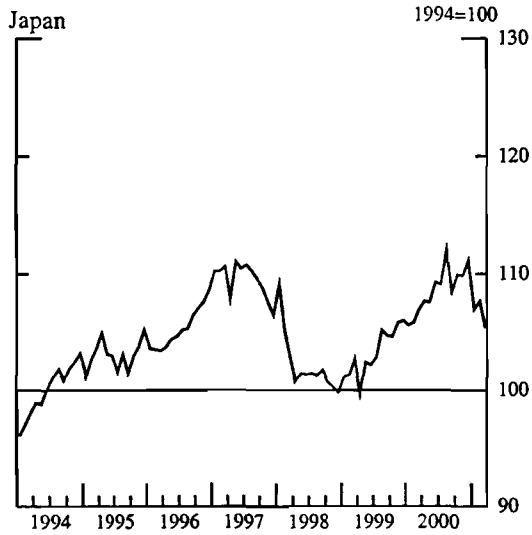
External Balances
(Billions of U.S. dollars, s.a.a.r.)

Country and balance	2000			2001		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
<i>Japan</i>						
Trade	102.3	67.9	67.6	37.1	86.6	79.0
Current account	119.8	100.9	n.a.	86.8	128.8	n.a.
<i>Euro-Area</i>						
Trade ¹	17.7	11.9	n.a.	-69.9	-11.1	n.a.
Current account ¹	-22.40	-48.4	n.a.	-96.2	22.8	n.a.
<i>Germany</i>						
Trade	49.2	38.0	n.a.	74.8	62.1	n.a.
Current account	-19.5	n.a.	n.a.	...	...	...
<i>France</i>						
Trade	-5.0	-4.6	n.a.	2.1	10.6	n.a.
Current account	4.2	1.5	n.a.	0.0	5.9	n.a.
<i>Italy</i>						
Trade	-1.9	0.7	n.a.	7.5	11.1	n.a.
Current account ¹	9.4	-11.2	n.a.	-17.4	-6.6	n.a.
<i>United Kingdom</i>						
Trade	-43.7	-44.2	n.a.	-45.2	-39.8	n.a.
Current Account	-23.9	-21.4	n.a.	...	...	...
<i>Canada</i>						
Trade	36.9	41.0	n.a.	53.2	46.3	n.a.
Current Account	12.4	15.3	n.a.	...	...	...

1. Not seasonally adjusted.

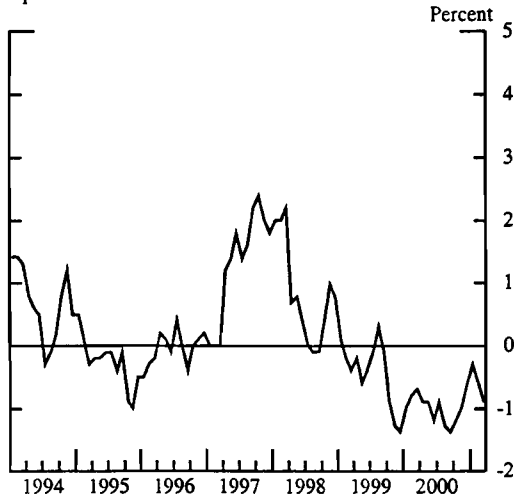
n.a. Not available. ... Not applicable.

Industrial Production in Selected Industrial Countries

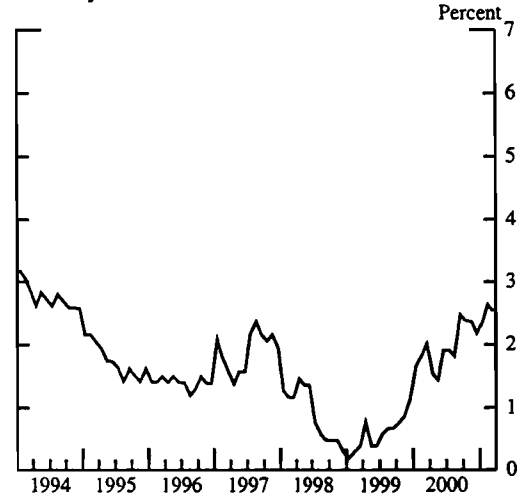


Consumer Price Inflation in Selected Industrial Countries
(12-month change)

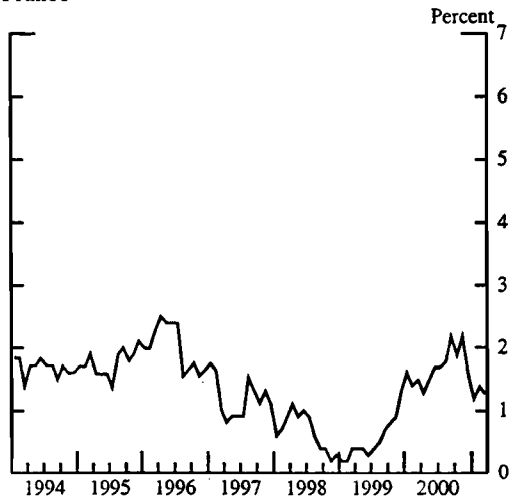
Japan



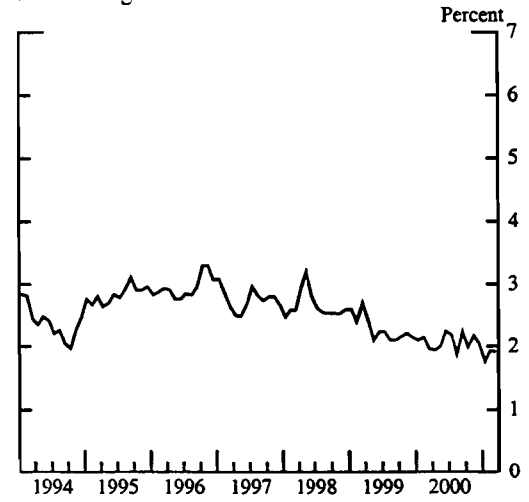
Germany



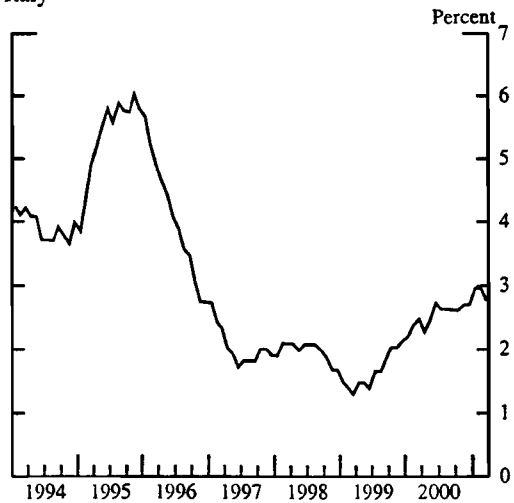
France



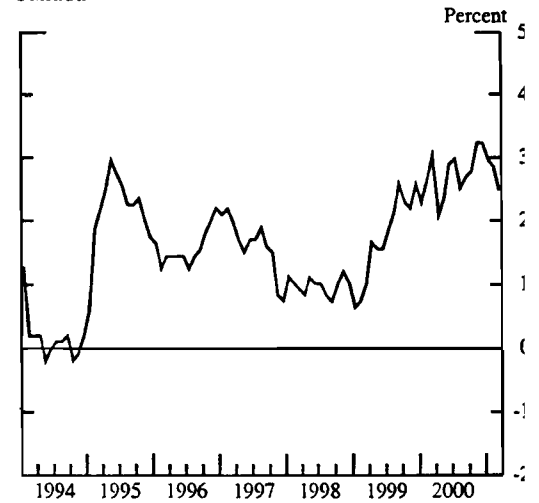
United Kingdom



Italy



Canada



Economic Situation in Other Countries

Continued weakness in external demand has kept economic growth sluggish in most of the major developing countries. One important exception is China, where output was boosted by surprising strength in both domestic demand and exports. In Korea, also, there have been some indications that the recent sharp slowing in activity may be coming to an end. Inflationary pressures, on balance, have remained contained in the developing regions, although inflation edged up in Korea. Despite the weakness in exports, external balances did not deteriorate markedly in most of the developing economies, as imports tended also to be anemic.

Since the last Greenbook, the economic situation in Argentina has deteriorated sharply, and Argentine financial markets have been in turmoil. Newly appointed Economy Minister Cavallo has moved to try to stabilize a near-crisis situation through several measures aimed at addressing Argentina's fiscal problems, lack of international competitiveness, weak growth, and debt-servicing burden. Nevertheless, the situation remains unstable.

Turkey is in the process of passing several laws as part of its economic reform plan, and sent a letter of intent to the IMF on May 4. The Executive Board is expected to meet Tuesday, May 15, to consider the program, which includes \$10 billion of additional money. After depreciating 40 percent, on balance, since the currency was floated, the Turkish lira appears to have stabilized since the beginning of April. Wholesale price inflation hit 51 percent (a.r.) in April, reflecting substantial exchange rate pass-through.

In **Argentina**, data releases since the last Greenbook have given no signs of a revival in economic activity. Industrial production declined in March for the second consecutive month, and construction activity declined nearly 5 percent in the first quarter (s.a.). The federal government's fiscal deficit for the first quarter reached \$3.1 billion, which was \$1 billion higher than the government's ceiling under its IMF program. April's tax revenues were lower than expected, partly reflecting weak activity.

On March 21, Economy Minister Ricardo Lopez Murphy was forced to resign after only 16 days on the job, as a result of his controversial proposed cuts in public spending. He was replaced by Domingo Cavallo, the architect of Argentina's currency board, who soon announced his "Competitiveness Plan" to boost fiscal revenues in a politically more feasible way while improving the country's international competitiveness. A tax on financial transactions was put into effect, tariffs on consumer goods were raised, and tariffs on capital goods were lowered. In late March, congress granted Cavallo limited emergency

powers for one year, enabling him to issue decrees on many economic issues, but prohibiting him from undermining the independence of the central bank and from cutting certain types of public spending.

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

Indicator	1999	2000	2000	2001			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP ¹	-6	-2.0	1.4	n.a.	...	...	...
Industrial production	-6.0	1.7	1.8	3.4	-2	-1.1	n.a.
Unemployment rate ²	13.8	15.1	14.7	...	...	...	...
Consumer prices ³	-1.8	-.7	-.6	-1.4	-1.7	-1.0	-2
Trade balance ⁴	-2.2	2.5	3.5	n.a.	4.3	n.a.	n.a.
Current account ⁵	-12.4	-9.4	-9.0	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 early April, the central bank relaxed its reserve requirement on deposits from 20 to 18 percent, and allowed a limited portion of those reserves to be held in the form of government bonds. This paved the way for a \$2 billion issue of government debt that was placed with banks on April 11. On April 16, Cavallo submitted to congress a proposal that would peg the Argentine peso to an average of the euro and the dollar, stipulating that the change would not occur until the euro reached parity against the dollar. Escalating confrontation between the government and the central bank over the government's desire for a further relaxation in reserve requirements, combined with a congressional inquiry into allegations that central bank president Pou had failed to investigate money laundering, culminated in the dismissal of Pou on April 25. These developments led to further disruptions in Argentine financial markets. Roque Maccarone, a banker and associate of Cavallo, was appointed central bank president.

Since April 26, market conditions have improved, on balance, as a result of the news of further budget cuts and of a possible government debt exchange with foreign banks to alleviate short-term funding pressure. On May 3, the Argentine government released its Memorandum of Understanding on a revised IMF

program. The program is scheduled to go before the Fund's Board within the next few weeks. Also on May 3, the lower house of congress approved by a vote 136 to 16 Cavallo's proposal to add the euro to the peg; the bill will now be sent to the senate for deliberation. On May 8 Argentine asset prices declined as a result of the news that the government sold short-term treasury bills (Letes) at a higher yield (12.4 percent) than many observers had expected, and that S&P downgraded Argentine long-term and short-term debt.

In **Mexico**, economic activity has remained sluggish as a result of weaker exports to the United States as well as a slowing of domestic demand. Industrial production fell in both January and February (s.a.). Exports declined over 4½ percent (s.a.) in the first quarter, but, reflecting weakness in domestic demand, imports fell about 3½ percent in the quarter. As a result, the trade deficit widened only modestly. The stance of monetary policy remained restrictive, and twelve-month inflation was flat in March, coming in at just over 7 percent.

Mexican Economic Indicators

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

Indicator	1999	2000	2000	2001			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP ¹	5.5	5.2	-3.0	n.a.	...	...	...
Industrial production	4.2	6.3	-2.2	n.a.	-5	-7	n.a.
Unemployment rate ²	2.5	2.2	2.2	2.3	2.3	2.3	2.3
Consumer prices ³	12.3	9.0	8.9	7.5	8.1	7.1	7.2
Trade balance ⁴	-5.4	-8.2	-8.3	-9.7	-11.6	-9.8	-7.7
Imports ⁴	142.1	174.5	181.4	175.0	180.1	176.8	168.2
Exports ⁴	136.7	166.2	173.1	165.3	168.4	167.0	160.6
Current account ⁵	-13.5	-17.9	-22.7	n.a.	...	...	...

1. Annual rate. Annual figures are Q4/Q4.

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

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

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

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

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

In early April, the government presented a comprehensive reform package to congress. The fiscal portion of the package seeks to reduce the government's budget deficit by increasing tax revenues substantially. This is to be done through broadening the tax base, eliminating exemptions, and introducing a

15 percent VAT on food and medicines (categories which are currently not subject to this tax). Financial measures contained in the package include the creation of a new mortgage institution and a national savings bank, as well as measures to make domestic financing more readily available to small and medium-sized firms and reforms to more closely supervise the financial system and increase transparency. The fiscal portion of the reform package has proved to be quite controversial, and it is now expected to be debated and voted on in an “extraordinary” session of congress sometime in June. The financial portion of the package, however, was approved almost in its entirety in the regular session of congress that ended in April.

In **Brazil**, data releases since the last Greenbook have been mixed. Preliminary data for March indicate a decline in industrial production (s.a.), but the unemployment rate in the first quarter was about a percentage point lower than in the fourth quarter of 2000. Consumer confidence, on the other hand, declined between February and April. External deficits narrowed modestly in the first quarter relative to the previous quarter.

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

Indicator	1999	2000	2000	2001			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP ¹	3.4	4.2	.9	n.a.	...	...	...
Industrial production	-.7	6.5	3.9	2.0	.8	-.3	n.a.
Unemployment rate ²	7.6	7.1	6.7	5.7	5.4	5.9	n.a.
Consumer prices ³	8.9	6.0	6.2	6.2	6.3	6.4	n.a.
Trade balance ⁴	-1.2	-.6	-1.5	-.9	3.7	-2.9	-2.6
Current account ⁵	-25.1	-24.6	-35.6	-26.2	-19.9	-31.1	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.

Many of these developments, particularly the softening in consumer sentiment, were heavily influenced by the spillovers from the turmoil afflicting neighboring Argentina. In March and April, the central bank raised its benchmark interest rate, the Selic, in two steps of 50 basis points each. The interest rate increases were motivated by evidence of a rise in core inflation and a concern that the

sizeable depreciation of the *real* in recent weeks would fuel inflationary pressures. Political troubles have also weighed on the *real*; the threat of congressional investigations into wrongdoing by some important members of the political coalition supporting President Cardoso have reduced the prospects that congress will enact reforms this year, including a measure that would grant the central bank political independence.

In **Venezuela**, data released since the last Greenbook point to continued growth and a further decline in inflation. Although the unemployment rate blipped up in February to 14.2 percent (n.s.a.), it was down from the 16 percent level of a year ago. Moreover, auto sales were up 39 percent in the first quarter from their year-earlier level. Consumer prices rose 10.6 percent for the twelve months ending in April, down over two percentage points from February's rate. However, fiscal performance remains an area of concern, along with vulnerability to a downturn in oil prices.

Venezuelan Economic Indicators

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

Indicator	1999	2000	2000	2001			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP ¹	-4.1	5.6	5.6	n.a.	...	...	...
Unemployment rate ²	15.2	13.4	11.4	n.a.	14.2	n.a.	n.a.
Consumer prices ³	19.5	13.4	14.2	12.4	13.1	11.1	10.6
Non-oil trade balance ⁴	-9.1	-10.8	-11.9	n.a.	...	...	...
Trade balance ⁴	7.6	18.0	17.6	n.a.	...	...	...
Current account ⁵	3.7	13.4	15.8	n.a.	...	...	...

1. Annual rate. Annual figures are Q4/Q4.

2. Percent, n.s.a.

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

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

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

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

In **Korea**, recent indicators suggest that the sharp slowing in activity that became evident near the end of last year and extended into the early months of this year may be coming to an end. Industrial production rose slightly in March, the third consecutive monthly increase after four straight months of decline. The unemployment rate has stabilized in recent months after edging up in the last half of last year. Indices of consumer and business confidence have turned up in February and March, although their levels remain well below levels of a year ago. Inflation has continued to edge higher in recent months, moving the

twelve-month rate well above the Bank of Korea's target band of 2 percent to 4 percent. This uptick in inflation appears to be due mainly to the lagged impact of higher oil prices, the weakness of the won, and an unusual seasonal surge in food prices. Although the passing of temporary factors and relatively weak economic growth are expected to bring the inflation rate back down later this year, the elevated level of inflation has probably acted as a constraint on monetary authorities, who have not changed interest rates since the reduction in February.

Exports in March were 1 percent below their year-earlier level, the first year-over-year decline in two years. The export slowdown over the past year has been most noticeable for semiconductors (down 24 percent), computers (down 9 percent) and autos (down 6 percent). Imports registered an even steeper 9 percent overall drop in the twelve months to March, with raw material and capital good imports (down 14 percent and 11 percent respectively) showing particular weakness. With about half of imports used as inputs in export production, the slowdown in intermediate goods imports is consistent with a weak outlook for exports.

Korean Economic Indicators

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

Indicator	1999	2000	2000	2001			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP ¹	13.8	5.2	-1.7	n.a.	...	...	...
Industrial production	24.1	17.0	-3.3	.5	1.0	.3	n.a.
Unemployment rate ²	6.3	4.1	4.0	4.2	4.2	4.2	n.a.
Consumer prices ³	1.3	3.1	2.8	4.2	4.2	4.4	5.3
Trade balance ⁴	28.4	16.6	14.7	20.7	19.0	24.6	n.a.
Current account ⁵	24.5	11.0	13.3	13.0	9.5	21.7	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. Unusual seasonal effects in January and February distorted the monthly pattern of industrial production, but the overall trend was clearly down. Leading the decline was Singapore, where production fell over 10 percent in the first quarter. The slowdown in the region's production was largely driven by weaker external demand. Although exports have fallen throughout the region, movements in the trade balances have varied across the countries, as imports of components used in production of export goods have also fallen. Inflation remained very low in the region in the first quarter, with the notable exceptions of Indonesia and the Philippines.

Serious political problems remain in parts of the region. In Indonesia, President Wahid has been censured twice by parliament, and the next step in the process is an impeachment trial. In addition, Indonesia and the IMF have not been able to agree on a new letter of intent. Political problems in the Philippines re-emerged recently when protests in Manila over the arrest of former president Estrada led to concerns that rival politicians were trying to overthrow the Arroyo administration.

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

Indicator and country	1999	2000	2000	2001			
			Q4	Q1	Jan.	Feb.	Mar.
<i>Real GDP¹</i>							
Indonesia	5.8	5.3	-3.8	n.a.	...	...	...
Malaysia	11.0	6.5	4.6	n.a.	...	...	...
Philippines	5.1	3.6	.9	n.a.	...	...	...
Singapore	8.0	11.0	10.3	n.a.	...	...	...
Thailand	6.7	2.9	3.6	n.a.	...	...	...
<i>Industrial production²</i>							
Indonesia ³	-.9	11.6	-4.6	n.a.	-2.4	9.0	n.a.
Malaysia	9.1	19.2	.8	-3.3	-1.5	-2.8	.2
Philippines	3.6	13.0	5.6	n.a.	-14.6	-2.3	n.a.
Singapore	13.9	15.2	4.6	-10.4	-12.9	13.5	-9.6
Thailand	12.5	3.1	4.2	-3.0	-1.3	.6	-3.1

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	2001			
			Q4	Q1	Jan.	Feb.	Mar.
Indonesia	24.7	28.5	22.5	24.7	24.9	23.9	25.1
Malaysia	19.1	16.0	17.6	16.6	13.7	26.4	9.6
Philippines	4.3	6.6	8.3	n.a.	8.6	6.9	n.a.
Singapore	3.6	3.3	4.6	8.2	14.2	3.2	7.2
Thailand	9.3	5.5	2.2	-1.3	-3.2	-8	.2

n.a. Not available.

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

Country	1999 ¹	2000 ¹	2000	2001			
			Q4	Q1	Feb.	Mar.	Apr.
Indonesia	2.0	9.3	8.8	9.3	9.1	10.6	10.5
Malaysia	2.5	1.2	1.7	1.6	1.6	1.6	n.a.
Philippines	4.3	6.6	5.9	6.8	6.7	6.7	6.7
Singapore	.9	2.1	2.0	1.7	1.3	1.8	n.a.
Thailand	.7	1.3	1.6	1.4	1.5	1.4	2.6

1. December/December.

n.a. Not available.

In **China**, real GDP rose a faster-than-expected 12.3 percent (s.a.a.r.) in the first quarter, largely reflecting a strengthening of domestic demand. Private consumption was boosted by recent increases in social welfare payments and salaries of civil servants, while investment expanded due to increased infrastructure spending and a pickup in inflows of foreign direct investment. Despite stronger domestic demand, inflation remained well contained; consumer prices increased only 0.8 percent in March compared with the same month a year ago. The trade surplus widened sharply in March, as exports showed surprising strength. China's exports appear to be holding up better than those of many other emerging Asian economies, mainly due to a lower reliance on technology products. President Bush is expected in the near future to extend China's normal trade relations status for another year, despite increased political tensions between the United States and China.

In **Hong Kong**, recent indicators point to continued sluggishness. Exports were roughly flat in the first quarter (s.a.), while imports declined about 3 percent. Consumer sentiment weakened further as a result of recent falls in stock and property prices. Rising concerns over job losses also weighed on consumer confidence, with recent months having witnessed a reversal of last year's trend of falling unemployment. The unemployment rate moved up to 4.6 percent (s.a.) in the first quarter. The moribund property market has also put a drag on investment, with property developers holding off on new construction spending. The twelve-month rate of decline in consumer prices eased in the first quarter, although prices continued to edge down on a seasonally adjusted basis.

In **Taiwan**, economic activity weakened further, largely in response to the global slowdown. In the first quarter, industrial production declined 4 percent (s.a.), dragged down by lower electronics and information technology production, and exports fell nearly 10 percent (s.a.). In addition, imports plunged roughly 13 percent in the first quarter, partly reflecting a sharp decrease in demand for imported capital equipment. Exports and imports remained weak in April. Deteriorating economic conditions are also reflected in the labor market, where the unemployment rate rose to 4 percent (s.a.) in March, close to a record high. With domestic demand depressed, inflation remained very low. Since the March Greenbook, Taiwan's central bank has cut interest rates by 25 basis points, bringing the cumulative interest rate reduction since December 2000 to 75 basis points. In an accompanying statement, the central bank cited the slowing global economy, rising unemployment and "increasingly conservative" private spending as reasons for the latest cut.

Chinese Economic Indicators

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

Indicator	1999	2000	2000	2001			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP ¹	6.2	7.5	7.5	12.3	...	...	...
Industrial production ²	8.0	11.4	10.8	11.2	2.3	10.2	12.1
Consumer prices ²	-1.0	1.5	.9	.7	1.2	.0	.8
Trade balance ³	29.2	24.1	21.4	18.6	3.0	16.2	36.5

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

2. Percent change from year earlier. 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.

Hong Kong Economic Indicators

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

Indicator	1999	2000	2000	2001			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP ¹	9.3	6.6	-4	n.a.	...	...	...
Unemployment rate ²	6.1	5.0	4.4	4.6	4.3	4.4	4.6
Consumer prices ³	-4.0	-1.8	-2.2	-1.5	-1.2	-2.1	-1.3
Trade balance ⁴	-5.6	-11.0	-13.7	-10.9	-1.6	-24.1	-7.0

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	Q1	Feb.	Mar.	Apr.
Real GDP ¹	6.5	4.1	.4	n.a.	...	...	...
Unemployment rate	2.9	3.0	3.2	3.8	3.7	4.0	n.a.
Industrial production ²	7.7	7.4	-3.1	-4.0	-1.2	1.8	n.a.
Consumer prices ³	.1	1.7	1.6	.6	-1.0	.4	.4
Trade balance ⁴	10.9	8.3	13.2	17.0	21.3	21.3	8.8
Current account ⁵	8.4	9.6	16.9	n.a.	...	...	...

1. Annual rate. Annual figures are Q4/Q4.

2. Percent. Industrial production figure for February refers to January-February period.

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.