

Prefatory Note

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Part 2

April 28, 2005

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

April 28, 2005

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Domestic Nonfinancial Developments

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Overview

Economic activity appears to have softened of late after having posted sizable gains around the turn of the year. Payroll employment increased only modestly in March, and manufacturing production has risen only a little, on balance, over the past couple of months. On the expenditure side, consumers seem to have turned cautious—perhaps partly because of higher energy prices—and housing starts slumped in March after a string of spectacular readings. In addition, capital spending is entering the second quarter with less forward momentum than seemed likely a month ago. Rising energy prices have pushed up headline inflation in recent months, and core inflation also moved up in the first quarter.

Labor Market Developments

Labor demand has continued to increase, albeit at a slow pace. A rise of just 101,000 in private nonfarm payroll employment in March left the three-month moving average at 142,000, a level similar to the average monthly gain in the second half of 2004. The workweek, at 33.7 hours, was unchanged in March, but the increase in employment generated a small rise in aggregate hours of production workers; for the first quarter as a whole, these hours were 2 percent (annual rate) above their fourth-quarter level.

Slack in the labor market has continued to erode gradually. In March, the unemployment rate moved back down to its January level of 5.2 percent. Another measure of the prevalence of individuals searching for work—the rate of insured unemployment—has also decreased this year and stands near its level in early 1997. Nevertheless, labor market conditions have still proven insufficient to pull potential workers back into the labor force; the labor force participation rate in March remained at its cyclical low of 65.8 percent. In addition, many job seekers have experienced long periods of search. Long-term unemployment is still high, and the exhaustion rate—the proportion of workers leaving the unemployment insurance (UI) rolls after having used their entire period of eligibility (usually twenty-six weeks)—remained elevated in March.

The four-week moving average of initial claims for UI was 323,000 in the week ending on April 23. Although claims have risen from the low levels observed in February, they are still below the range that prevailed in the fourth quarter of last year. Meanwhile, the JOLTS hiring rate moved down further in February after a spike in late 2004, and the volatile series on hiring plans from the NFIB dropped sharply in March. In contrast, the job openings rate from the JOLTS survey was unchanged in February at a level

Changes in Employment

(Thousands of employees; seasonally adjusted)

Measure and sector	2004	2004		2005			
		Q3	Q4	Q1	Jan.	Feb.	Mar.
	Average monthly change				Monthly change		
Nonfarm payroll employment (establishment survey)	183	134	190	159	124	243	110
Private	171	98	182	142	114	212	101
Previous	171	98	182	...	110	229	...
Manufacturing	3	3	-6	-7	-27	15	-8
Construction	23	14	29	20	4	31	26
Wholesale trade	7	6	4	6	-4	7	15
Retail trade	13	-8	13	11	4	39	-10
Transportation and utilities	9	8	5	13	31	3	6
Information	-2	-8	0	0	-4	-2	7
Financial activities	12	11	15	12	22	11	2
Professional and business services	45	33	53	40	20	72	27
Temporary help services	15	18	14	7	0	26	-4
Nonbusiness services ¹	59	37	67	41	62	30	31
Total government	12	35	8	17	10	31	9
Total employment (household survey)	146	123	210	115	85	-97	357
Memo:							
Aggregate hours of private production workers (percent change) ²	2.4	2.4	2.4	2.0	.3	.2	.1
Average workweek (hours) ³	33.7	33.7	33.7	33.7	33.7	33.7	33.7
Manufacturing (hours)	40.8	40.8	40.6	40.6	40.7	40.6	40.5

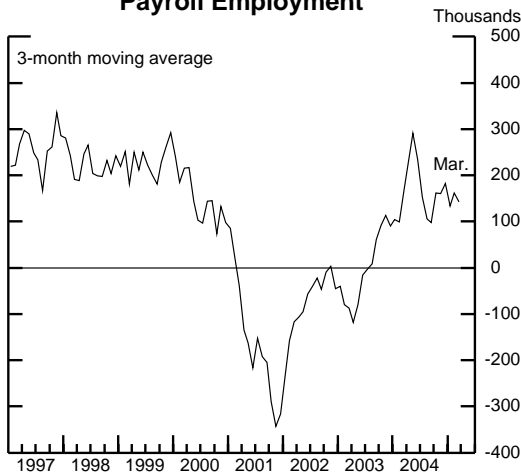
1. Nonbusiness services comprises education and health, leisure and hospitality, and "other."

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

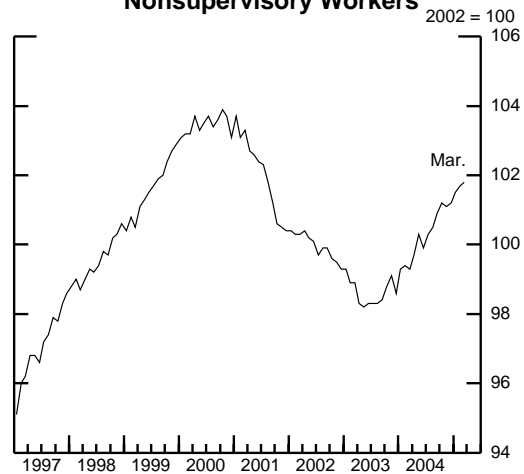
3. Establishment survey.

... Not applicable.

Changes in Private Payroll Employment



Aggregate Hours of Production or Nonsupervisory Workers

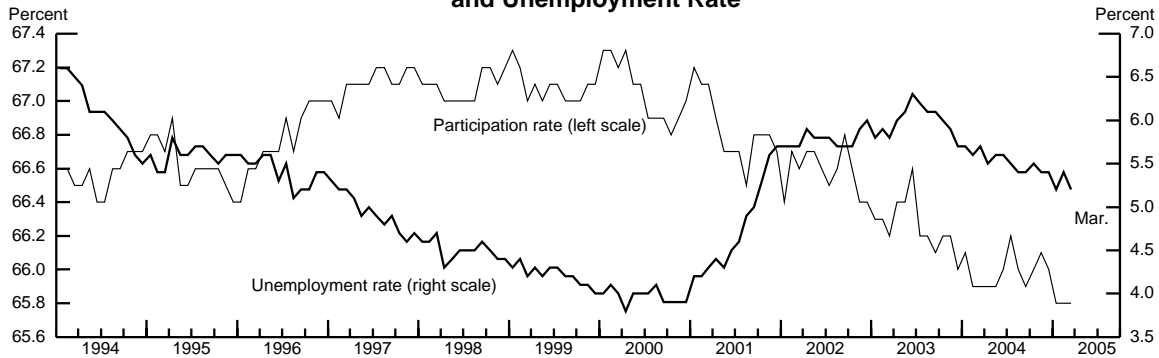


Selected Unemployment and Labor Force Participation Rates

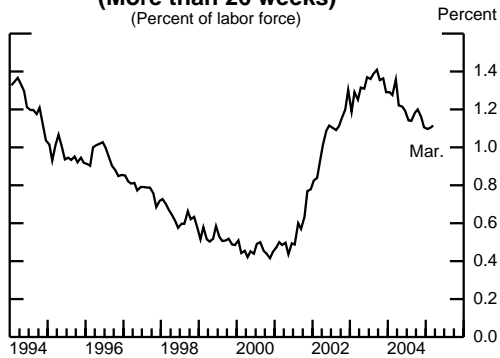
(Percent; seasonally adjusted)

Rate and group	2004	2004		2005			
		Q3	Q4	Q1	Jan.	Feb.	Mar.
<i>Civilian unemployment rate</i>							
Total	5.5	5.5	5.4	5.3	5.2	5.4	5.2
Teenagers	17.0	17.1	17.1	16.9	16.3	17.5	16.9
20-24 years old	9.4	9.3	9.3	9.5	9.5	10.1	9.0
Men, 25 years and older	4.4	4.4	4.3	4.1	4.0	4.1	4.0
Women, 25 years and older	4.4	4.3	4.2	4.1	4.1	4.2	4.0
<i>Labor force participation rate</i>							
Total	66.0	66.0	66.0	65.8	65.8	65.8	65.8
Teenagers	43.8	43.9	44.1	43.5	43.3	43.2	44.0
20-24 years old	75.0	74.9	75.3	74.4	74.7	74.2	74.2
Men, 25 years and older	75.3	75.4	75.3	75.2	75.1	75.2	75.3
Women, 25 years and older	59.3	59.3	59.2	59.1	59.2	59.2	58.9

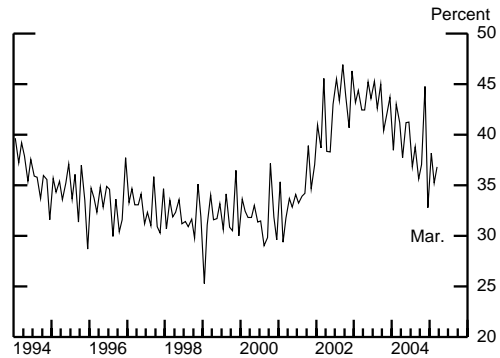
Labor Force Participation Rate and Unemployment Rate



Long-term Unemployed (More than 26 weeks)
(Percent of labor force)



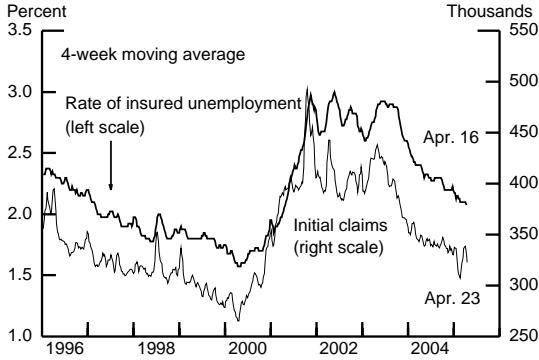
Exhaustion Rate



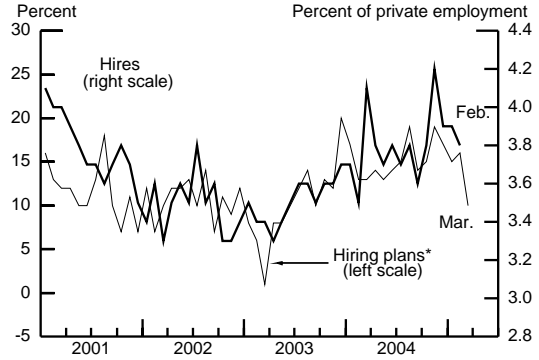
Note. Seasonally adjusted by FRB staff. Exhaustion rate is number of individuals who exhausted benefits without finding a job, expressed as a share of individuals who began receiving benefits six months earlier.

Labor Market Indicators

Unemployment Insurance



Hiring and Hiring Plans



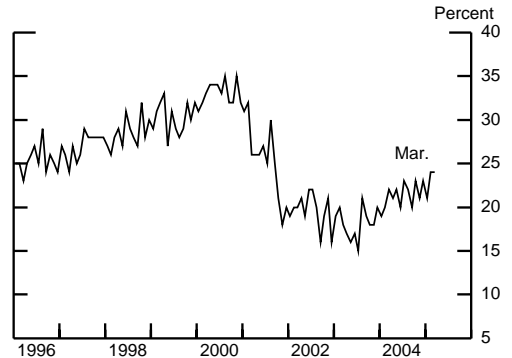
*Percent planning an increase in employment minus percent planning a reduction.
Source: For hires, Job Openings and Labor Turnover Survey; for plans, National Federation of Independent Businesses.

Job Openings and Help Wanted Index



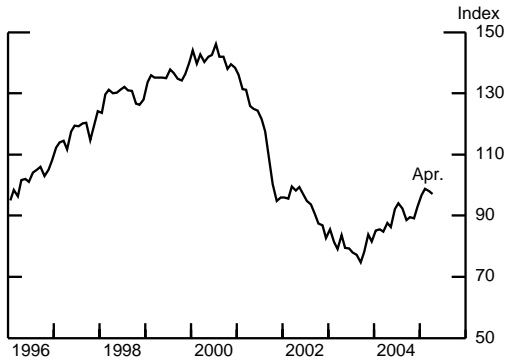
Source: For job openings, Job Openings and Labor Turnover Survey; for help wanted index, Conference Board.

Positions Hard to Fill



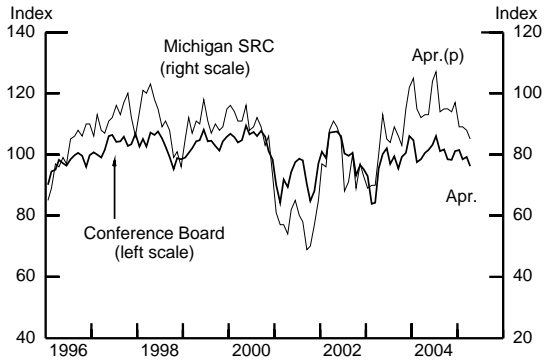
Note: Percent of small businesses surveyed with at least one "hard to fill" job opening.
Source: National Federation of Independent Businesses.

Job Availability



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

Expected Labor Market Conditions



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

somewhat above its late-2004 values, while the help-wanted index fell back in March but reversed only a portion of its spurt earlier in the year.

Uptrends in the fraction of small firms with hard-to-fill positions and in households' perceptions of job availability are consistent with the gradual improvement in labor demand and with the slow erosion of slack implied by the decline in the unemployment rate. However, in recent months, households seem to have become more pessimistic about future labor market conditions, and expected conditions in both the Michigan and Conference Board surveys are now at or below the low end of the range seen in the past two years.

Industrial Production

Industrial production continued to expand in early 2005, although the pace of expansion has slowed in recent months. Overall industrial production increased 0.3 percent in March, but the rise largely reflected a surge in energy output. Manufacturing output slipped 0.1 percent in March, and the data for both January and February were revised down to show smaller increases than previously reported. For the first quarter as a whole, factory output rose at an annual rate of 3.6 percent, the slowest rate since the middle of 2003. Capacity utilization in manufacturing edged down to 78.0 percent in March; that figure is 2.1 percentage points above its year-ago level but 1.8 percentage points below its 1972-2004 average.

Among the energy-producing industries, utilities output jumped 3.6 percent in March, as temperatures returned to seasonal norms after two months of unseasonably warm weather. Production also increased in March for all major energy-mining categories. Available weekly data point to a decline in electricity generation in April; energy mining is up a touch.

Motor vehicle assemblies fell back in March to an annual rate of 12.0 million units after having moved up to a rate of 12.6 million units in February. Assemblies are scheduled to fall another 600,000 units (annual rate) in April, and the lower production of motor vehicles and parts will likely shave nearly 0.2 percentage point from the change in April IP. Elsewhere in transportation, production of commercial aircraft jumped in March and

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

Component	Proportion 2004 (percent)	2004 ¹	2004	2005	2005		
			Q4	Q1	Jan.	Feb.	Mar.
			Annual rate		Monthly rate		
Total	100.0	4.3	4.5	3.6	.0	.2	.3
Previous	100.0	4.3	4.4	...	.1	.3	...
Manufacturing	81.9	5.1	4.6	3.6	.3	.3	-.1
Ex. motor veh. and parts	74.7	5.3	3.5	3.5	.5	-.1	.2
Ex. high-tech industries	70.2	4.4	2.8	1.9	.3	-.3	.2
Mining	8.3	-2.0	-3.6	6.6	-.1	.4	.7
Utilities	9.8	2.7	10.4	1.4	-2.3	-1.1	3.6
<i>Selected industries</i>							
High technology	4.5	18.7	14.5	29.0	3.4	1.7	.9
Computers	1.0	6.9	13.8	12.7	1.1	.9	.9
Communications equipment	1.2	9.6	13.2	24.2	4.2	.5	-1.0
Semiconductors ²	2.3	29.9	15.4	39.0	3.9	2.6	1.9
Motor vehicles and parts	7.2	2.9	16.3	4.9	-1.6	5.2	-3.6
<i>Market groups excluding energy and selected industries</i>							
Consumer goods	22.0	3.7	3.4	1.4	.4	-.3	-.1
Durables	4.3	1.3	-1.0	.1	-.1	.4	.1
Nondurables	17.7	4.3	4.5	1.7	.6	-.4	-.2
Business equipment	7.7	9.3	1.9	5.2	.5	-.2	.9
Defense and space equipment	1.9	6.1	5.0	9.8	.4	1.0	2.1
Construction supplies	4.3	3.8	.1	1.4	.1	.7	-.1
Business supplies	8.1	3.2	.9	4.4	1.0	-.5	.2
Materials	25.2	3.9	3.0	.3	.1	-.4	.1
Durables	13.9	4.6	4.2	.8	.4	-.5	.3
Nondurables	11.3	2.9	1.5	-.3	-.1	-.4	-.1

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

2. Includes related electronic components.

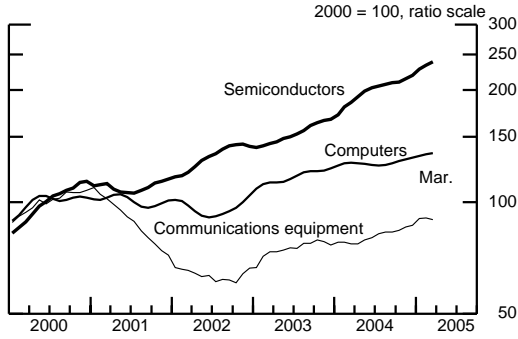
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Capacity Utilization
(Percent of capacity)

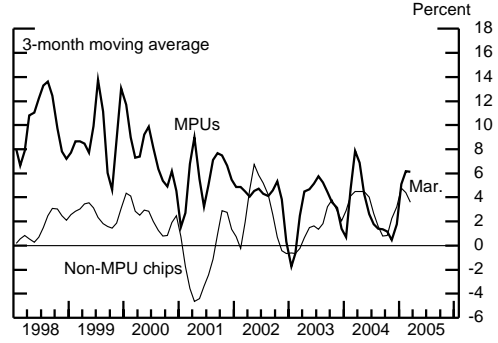
Sector	1972- 2004 average	1982 low	1990- 1991 low	2004		2005		
				Q3	Q4	Q1	Feb.	Mar.
				Total industry	81.0	70.8	78.6	78.2	78.8	79.3	79.3	79.4
Manufacturing	79.8	68.5	77.2	77.0	77.6	78.1	78.2	78.0
High-tech industries	78.3	74.1	74.3	69.9	69.8	71.7	71.9	71.7
Excluding high-tech industries	79.9	68.2	77.3	77.8	78.5	78.9	79.0	78.8
Mining	87.1	78.6	83.5	86.3	85.6	87.2	87.1	87.8
Utilities	86.8	77.7	84.2	83.7	85.4	85.4	84.1	87.1

Indicators of High-Tech Manufacturing Activity

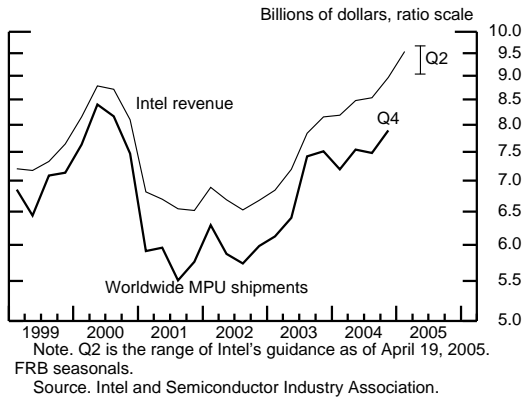
Industrial Production in the High-Tech Sector



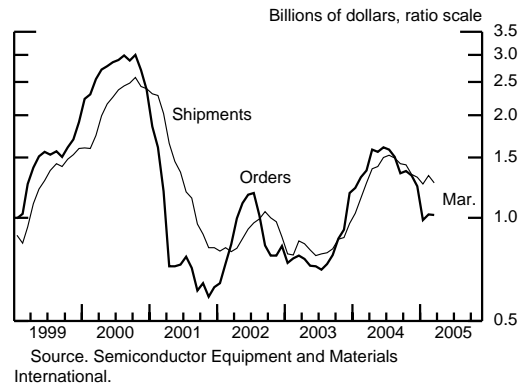
Rate of Change in Semiconductor Industrial Production



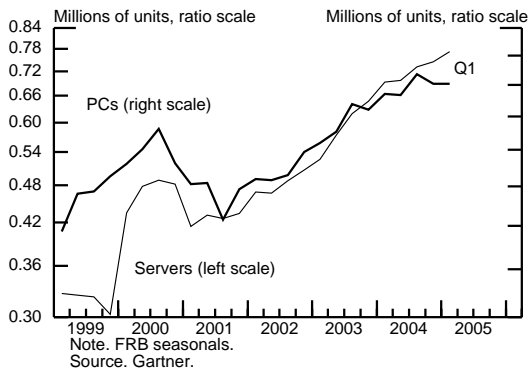
Microprocessor Unit (MPU) Shipments and Intel Revenue



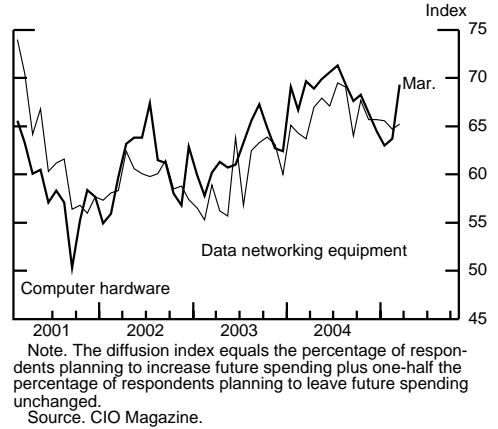
Semiconductor Manufacturing Equipment Orders and Shipments



U.S. Personal Computer and Server Sales

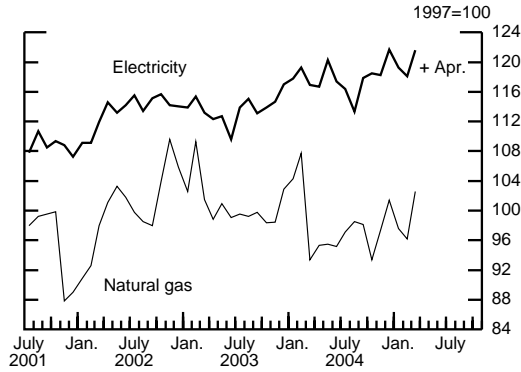


CIO Magazine Future Spending Diffusion Indexes



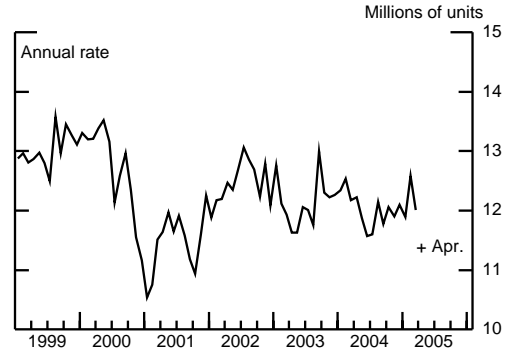
Indicators of Manufacturing Activity

Utilities Output



Note. April value for electricity generation is based on weekly data.

Motor Vehicle Assemblies

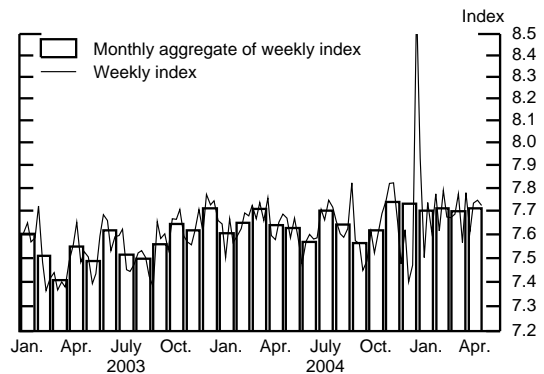


Note. April value is based on Ward's latest production schedules.

Boeing Commercial Aircraft Completions

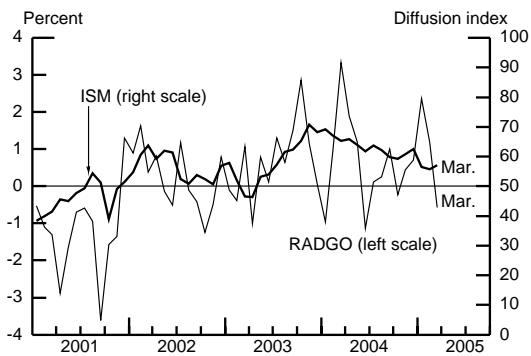


Weekly Production Index excluding Motor Vehicles and Electricity Generation



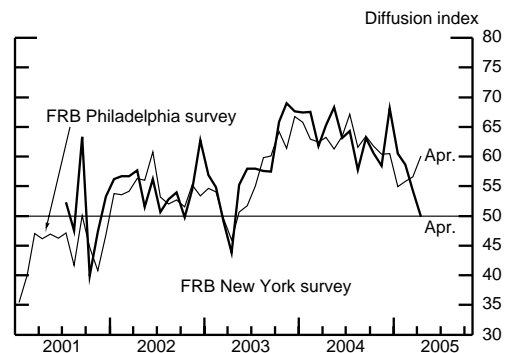
Note. One index point equals 1 percent of 1997 total industrial output.

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



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

New Orders: FRB New York and FRB Philadelphia Surveys



Note. The diffusion index equals the percentage of respondents reporting greater levels of new orders plus one-half the percentage of respondents reporting that new orders were unchanged.

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

Item	2004	2004	2005				
		Q4	Q1	Q2 ¹	Feb.	Mar.	Apr. ¹
U.S. production	12.0	12.0	12.2	11.8	12.6	12.0	11.4
Autos	4.3	4.1	4.4	4.1	4.6	4.4	4.0
Trucks	7.8	7.9	7.7	7.7	8.0	7.6	7.3
Days' supply ²	73	73	73	n.a.	78	71	n.a.
Autos	59	58	56	n.a.	61	55	n.a.
Trucks	83	82	85	n.a.	90	82	n.a.
Inventories ³	3.21	3.21	3.12	n.a.	3.27	3.12	n.a.
Autos	1.02	1.02	.99	n.a.	1.04	.99	n.a.
Trucks	2.19	2.19	2.13	n.a.	2.23	2.13	n.a.

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

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

2. Quarterly and semiannual values are calculated with end-of-period stocks and average reported sales; excludes medium and heavy trucks.

3. End-of-period stocks; excludes medium and heavy trucks.

n.a. Not available.

should increase at a robust clip for the next several months

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The output of high-tech industries rose a tepid 0.9 percent in March. Still, production increased at an annual rate of 29 percent for the first quarter as a whole—the largest quarterly advance since the middle of 2000. Much of the first-quarter strength was in semiconductors, where gains were broadly based across end-use categories. However, Intel's latest revenue forecast suggests that real semiconductor output will rise at a more moderate rate in the second quarter. Moreover, semiconductor manufacturers appear cautious about the outlook for high-tech; orders for semiconductor-fabricating equipment continue to languish well below shipments.²

Downstream from semiconductors, the production of computer and peripheral equipment continues to increase at a modest pace; Gartner data indicate that unit sales of PCs in the

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² Gartner, a high-tech research firm, expects total worldwide spending on semiconductor equipment to decline several percentage points in 2005, though spending in the United States is likely to increase. In fact, Intel recently revised up the range of its planned capital spending in 2005 by \$500 million, to between \$5.4 billion and \$5.8 billion; this projection is significantly higher than the \$3.8 billion the company spent last year.

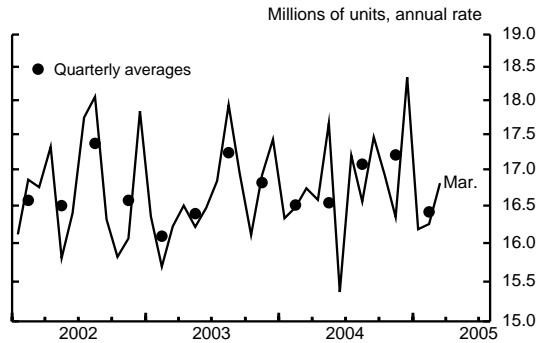
Sales of Light Vehicles
(Millions of units at an annual rate; FRB seasonals)

Category	2004	2004		2005			
		Q3	Q4	Q1	Jan.	Feb.	Mar.
Total	16.9	17.1	17.2	16.4	16.2	16.3	16.8
Autos	7.5	7.3	7.7	7.5	7.4	7.4	7.7
Light trucks	9.4	9.7	9.5	8.9	8.8	8.9	9.1
North American ¹	13.5	13.8	13.6	13.1	13.0	12.9	13.4
Autos	5.4	5.3	5.4	5.4	5.4	5.3	5.5
Light trucks	8.1	8.5	8.2	7.7	7.6	7.6	7.9
Foreign-produced	3.4	3.3	3.6	3.3	3.2	3.4	3.4
Autos	2.1	2.0	2.3	2.1	2.0	2.1	2.2
Light trucks	1.2	1.2	1.3	1.2	1.2	1.2	1.2
Memo: Medium and heavy trucks	.43	.44	.48	.50	.53	.49	.47

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

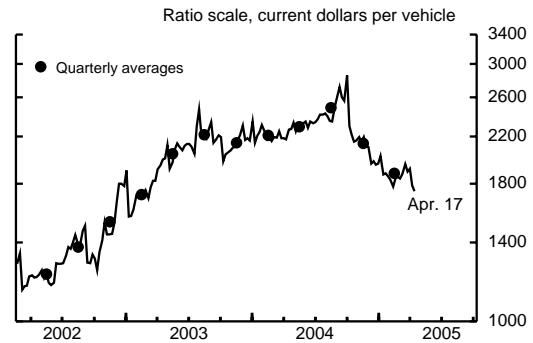
1. Excludes some vehicles produced in Canada that are classified as imports by the industry.

Sales of Light Vehicles



Note. FRB seasonals.

Average Value of Incentives on Light Vehicles

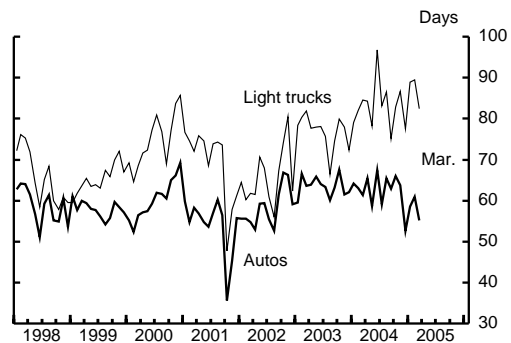


Note. Weighted average of customer cash rebate and interest rate reduction. Data are seasonally adjusted.
Source. J.D. Power and Associates.

Michigan Survey Index of Car-Buying Attitudes



Days' Supply of Autos and Light Trucks



United States were soft in the first quarter, although rest-of-world sales apparently were relatively strong. Communications equipment output, despite falling in March, rose more than 24 percent at an annual rate for the quarter as a whole. Industry contacts, as well as company reports, suggest that major providers of telecommunications services are ramping up spending on communications equipment, both to build wireless network infrastructure and to expand and upgrade broadband-delivery capabilities. Looking ahead, the respondents to the recent NABE survey remain upbeat about spending plans for high-tech equipment. *CIO Magazine's* diffusion index for future spending on computer hardware rose in March after having trended down for a few months.

Outside energy, transportation, and high-tech products, production was mixed across market groups in the first quarter. The output of business equipment rose at an annual rate of more than 5 percent, in part because of strong gains in mining, oil, and gas field machinery. The production of defense and space equipment surged nearly 10 percent. By contrast, the production of both durable and nondurable consumer goods was slow, as was the upstream output of both construction supplies and materials.

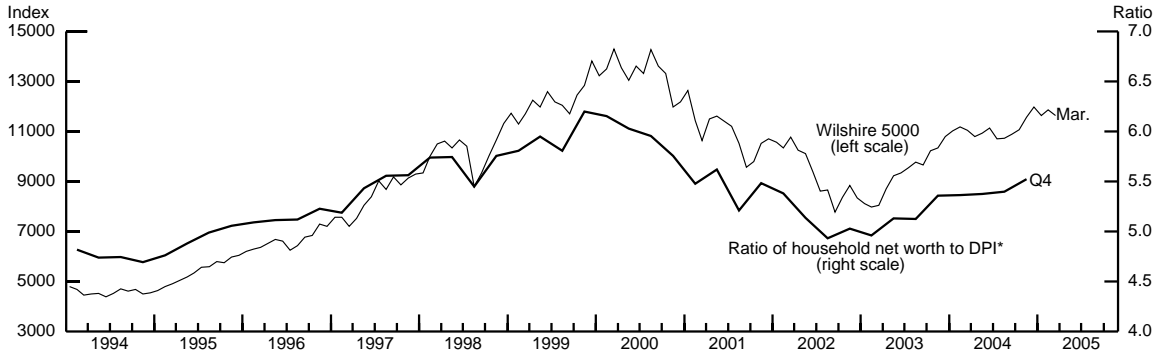
Outside the declines in motor vehicle assemblies and electricity generation, the other available weekly production data for April contribute little to the change in IP. The broad forward-looking indicators of manufacturing activity have been mixed. The diffusion index of new orders from the ISM in March was consistent with further moderate gains in IP, and the pop-up in new orders in April's Philadelphia Fed survey was another positive sign. However, the information from the New York Fed's April survey and data through March for the staff's measure of real adjusted durable goods orders suggest little, if any, increase in IP in the near term.

Motor Vehicles

Sales of light vehicles have continued to run below the rapid pace of late 2004, although they have improved appreciably in the past couple of months. Indeed, after having dropped to an annual rate of 16¼ million units in January and February, sales increased to 16¾ million units in March, and confidential reports from our industry contacts suggest that they will rise further in April. Incentives appear to have contributed little to the pickup in sales. Although some manufacturers have announced programs to boost sales of last year's models that are still in stock, the average value of incentives through mid-April remained well below the levels of last fall.

Household Indicators

Household Net Worth and Wilshire 5000



* 2004:Q4 value excludes the effect on income of the one-time Microsoft dividend payment in December.

Personal Saving Rate*



* December 2004 value excludes the effect on income of the one-time Microsoft dividend payment in that month.

Consumer Confidence*



* April 2005 value for the Michigan SRC is preliminary.

One puzzle is that the recent firming of sales has occurred despite a dramatic worsening in consumers' perceptions of buying conditions: The Michigan SRC index of car-buying attitudes has fallen sharply in the past few months, in part because of a drop in the fraction of respondents citing either low prices or low interest rates as a reason for it being a good time to buy a vehicle. The number of respondents who mentioned gas prices as the source of their pessimistic view of buying conditions also jumped noticeably in April.³

Motor vehicle inventories shrank a bit in the first quarter. However, dealers' stocks—especially of light trucks—remain high by historical standards. The automakers' latest plans call for assemblies to drop from 12.2 million units (annual rate) in the first quarter to 11.8 million units in the second quarter. Even if these plans are realized, however, inventories will likely remain high through the summer, unless the pace of sales picks up.

Consumer Spending

Apart from a falloff in outlays on motor vehicles, consumer spending appears to have posted a sizable gain in the first quarter. That said, the first-quarter increase seems to have been largely the result of a high level of spending early in the year. In particular, retail sales in the categories that are included in the BEA's estimate of PCE control—that is, sales by establishments other than auto dealers and building material and supply stores—were flat in March in nominal terms; excluding gasoline stations, these sales fell 0.6 percent. The weakness was evident across a broad range of stores. Factoring in our estimates of consumer prices, we estimate that real spending on PCE goods other than motor vehicles slumped 0.8 percent in March after having risen 0.8 percent in January and 0.3 percent in February.⁴

More recently, weekly data on chain store sales suggest that retail spending has been decent so far in April, although consumer sentiment declined further. The Michigan SRC's preliminary index of consumer sentiment and the Conference Board's index of consumer confidence both fell in April for the third straight month. The Michigan index is now below its average reading in 2004, whereas the Conference Board index remains a bit above its average 2004 level.

³ Although increases in prices for gasoline do not appear to have had an appreciable effect on total light-vehicle sales, we have recently seen a shift in demand away from large, light trucks (including vans, pickups, and sport-utility vehicles) and toward smaller, more fuel-efficient vehicles.

⁴ The BEA's estimate of PCE in March and any revisions to the data for earlier months will be released on Friday and reported in the Greenbook Supplement.

Private Housing Activity

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

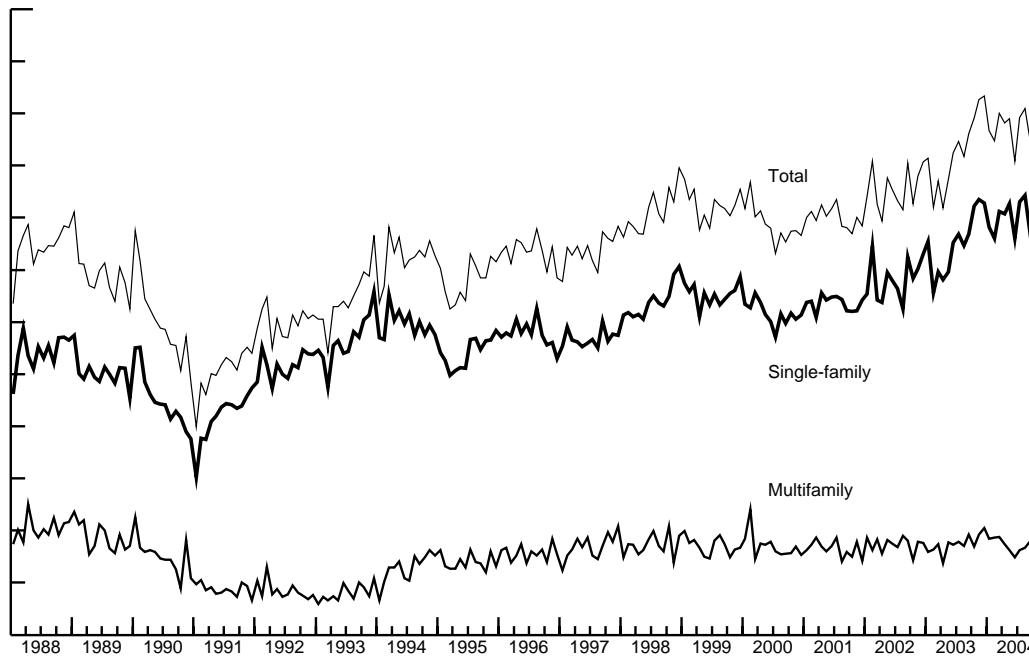
Sector	2004	2004		2005		
		Q3	Q4	Q1	Jan.	Feb.
<i>All units</i>						
Starts	1.96	1.97	1.98	2.09	2.19	2.23
Permits	2.02	2.01	2.03	2.09	2.13	2.11
<i>Single-family units</i>						
Starts	1.61	1.63	1.62	1.70	1.78	1.80
Permits	1.57	1.57	1.56	1.61	1.64	1.64
Adjusted permits ¹	1.58	1.60	1.59	1.64	1.67	1.67
Permit backlog ²	.150	.141	.150	.146	.139	.133
New home sales	1.20	1.16	1.24	1.30	1.18	1.28
Existing home sales	5.96	5.97	6.05	5.99	5.96	5.97
<i>Multifamily units</i>						
Starts	.35	.34	.35	.38	.41	.43
Permits	.45	.44	.47	.48	.49	.47
Permit backlog ²	.075	.067	.075	.072	.071	.066
<i>Mobile homes</i>						
Shipments	.131	.128	.139	n.a.	.151	.137
<i>Condos and Co-ops</i>						
Existing home sales	.82	.83	.83	.85	.86	.85

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

2. Number outstanding at end of period. Seasonally adjusted by Board staff. Excludes permits that have been canceled, abandoned, expired, or revoked. Not at an annual rate.

n.a. Not available.

Private Housing Starts
(Seasonally adjusted annual rate)



Retail and Food Services Sales

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

Item	2004		2005			
	Q3	Q4	Q1	Jan.	Feb.	Mar.
	Annual rate			Monthly rate		
Total	6.2	10.2	5.4	.1	.5	.3
Retail control ¹	6.2	10.6	6.9	.9	.7	.0
Excluding gasoline sales	6.8	9.1	6.5	.7	.7	-.6

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

Nevertheless, the fundamental factors underlying consumer spending remain favorable, although somewhat less so than at the time of the last Greenbook. Real wages and salaries appear to have risen at a solid rate last quarter. The ratio of wealth to income was roughly unchanged last quarter and remained high relative to its average level in recent years and to its long-run average. According to the published data, the saving rate averaged $\frac{3}{4}$ percent in the first two months of the year, a figure consistent with the high wealth-to-income ratio and the low level of interest rates.⁵

Housing

The sharp drop in starts in March notwithstanding, housing activity retains considerable vigor. Last month's fall in single-family starts—to an annual rate of 1.54 million units—came on the heels of strong readings in January and February, and the substantial increase in the permit backlog in March suggests that starts will probably move up in April.⁶ The multifamily sector exhibited a similar pattern: Starts fell in March, but the permit backlog rose, a sign that some bounceback in April is likely.

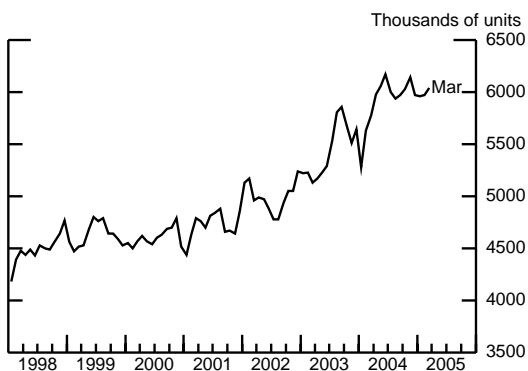
Home sales stayed strong in March. At an annual rate of 6.04 million units, sales of single-family existing homes remained around the ebullient levels prevailing since mid-

⁵ The Annual Benchmark Report for Retail Trade and Food Services, which was released on March 31, implies a downward revision to the level of consumer spending and an upward revision to the saving rate, all else being equal. We estimate that the upward revision to the first-quarter saving rate from this source, in isolation, amounts to about $\frac{1}{2}$ percentage point.

⁶ The backlog increased both because the level of permits—adjusted for activity in areas where permits are not required—was slightly higher than the level of starts and because of an apparent correction to a previous misclassification of permits.

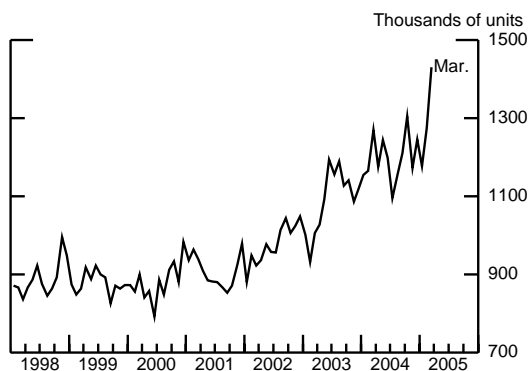
Indicators of Single-Family Housing

Existing Home Sales



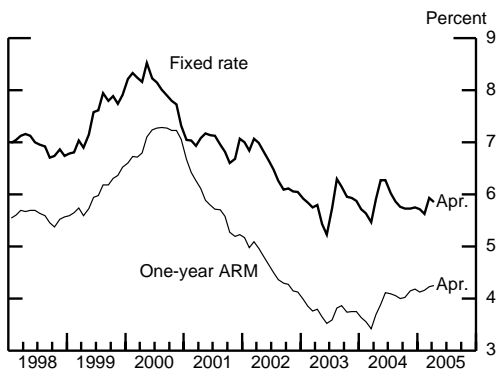
Source. National Association of Realtors.

New Home Sales



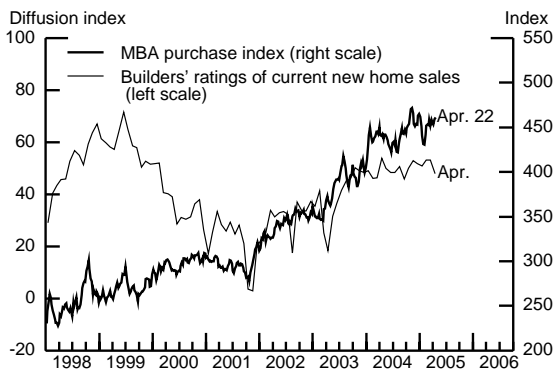
Source. Census Bureau.

Mortgage Rates



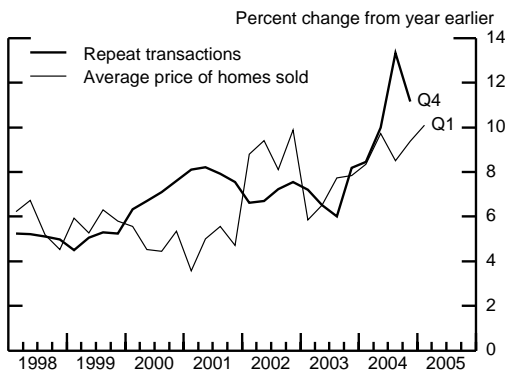
Note. The April readings are based on data through Apr. 27.
Source. Freddie Mac.

Homebuying Indicators



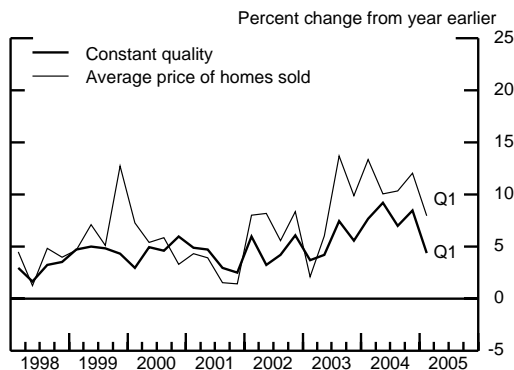
Note. MBA index is a 4-week moving average. Builders' ratings data are seasonally adjusted by Board staff.
Source. Mortgage Bankers Association and National Association of Home Builders.

Prices of Existing Homes



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

Prices of New Homes



Source. Census Bureau.

2004. In March, sales of new homes soared to the highest level on record; for the first quarter as a whole, they averaged 1.30 million units at an annual rate, a pace more than 8 percent above the total for 2004.

The performance of home prices in the first quarter was mixed. The average price of existing homes was up 10 percent from a year earlier, and the average price of new homes advanced $7\frac{3}{4}$ percent during the same period. However, the constant-quality price index for new homes—which controls for changes in the geographic composition of sales, home size, and a few other readily measurable attributes—was up only $4\frac{1}{2}$ percent, compared with an average pace of about $7\frac{1}{2}$ percent in the second half of last year. The repeat-transactions index for existing homes in the fourth quarter of last year (the most recent observation) was $11\frac{1}{4}$ percent higher than it was a year earlier.

Recent indicators suggest that housing demand likely will hold at a reasonably high level in the near term. In the last week of April, the rate for thirty-year fixed-rate mortgages was 5.78 percent, a figure about the same as that at the end of last year and close to its average over the past two years. The rate for one-year adjustable-rate mortgages has also changed little, on net, since the end of last year. After having dipped in January, the four-week moving average of mortgage applications to purchase homes has rebounded during the past couple of months, and the most recent readings are only slightly lower than the record highs posted last fall.

Equipment and Software

Real investment in equipment and software appears to have posted a respectable gain in the first quarter, although spending seems to have lost some steam since the turn of the year. The weakness in shipments and orders in March implies a less rosy near-term outlook than seemed likely a month ago, although the fundamentals supporting capital spending remain favorable. Indeed, business output has been rising at a solid rate, and the user cost of capital has continued to decline (albeit somewhat more slowly than it did several years ago). In addition, even though real cash flow did not increase during 2004, it remains at a high level, and firms continue to hold an abundance of liquid assets. The Beige Book and other survey evidence suggest that businesses are fairly comfortable about the outlook.

In the high-tech sector, shipments of computers and communications equipment were down, on balance, in nominal terms in February and March. Nonetheless, a big rise in

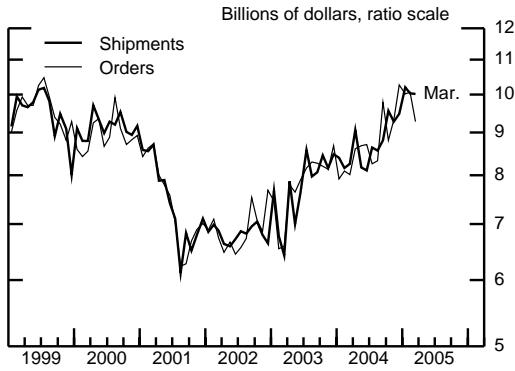
Orders and Shipments of Nondefense Capital Goods

(Percent change; seasonally adjusted current dollars)

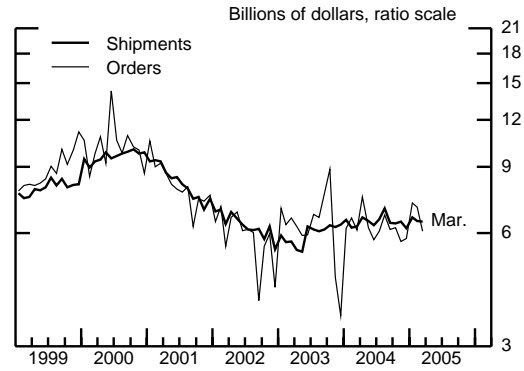
Indicators	2004	2005			
	Q4	Q1	Jan.	Feb.	Mar.
	Annual rate		Monthly rate		
Shipments	9.7	10.6	2.6	-2.9	.1
Excluding aircraft	9.6	11.8	3.6	-2.8	-1.1
Computers and peripherals	40.3	29.8	7.5	-1.6	-.1
Communications equipment	-17.1	11.0	6.7	-2.2	.0
All other categories	8.6	8.6	2.5	-3.1	-1.4
Orders	4.7	2.3	1.1	-.7	-6.2
Excluding aircraft	6.3	15.8	4.4	-2.5	-4.7
Computers and peripherals	34.6	14.3	-2.3	.5	-7.8
Communications equipment	-23.0	73.6	24.3	-2.7	-13.8
All other categories	5.9	10.1	3.5	-3.1	-2.7
Memo: Shipments of complete aircraft ¹	27.1	n.a.	25.4	18.4	n.a.

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

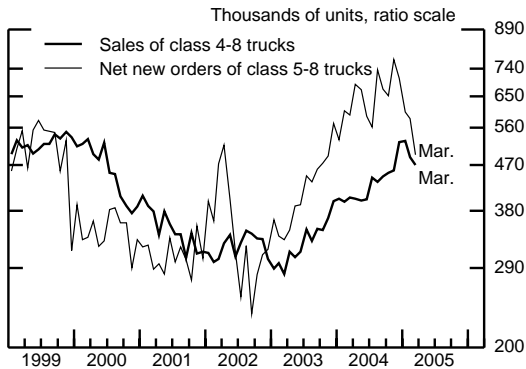
Computers and Peripherals



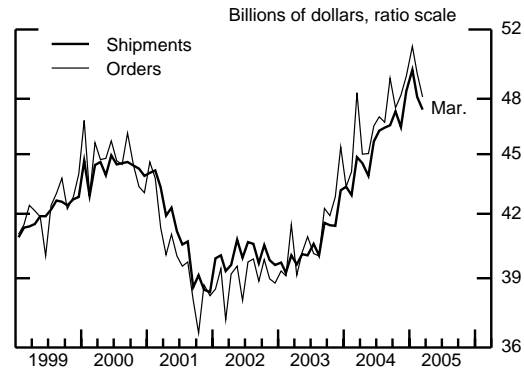
Communications Equipment



Medium and Heavy Trucks



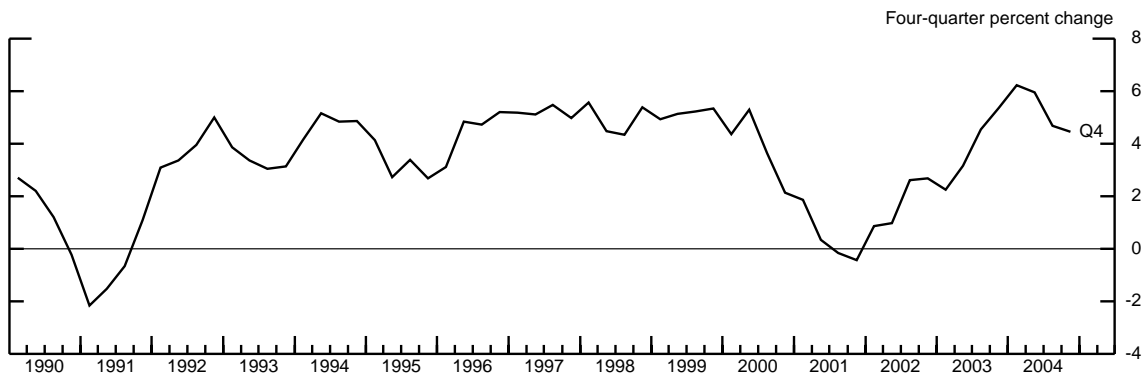
Other Equipment



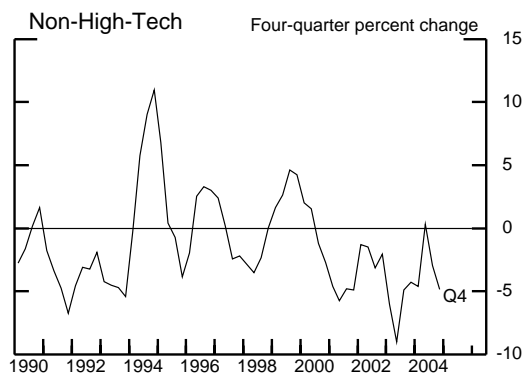
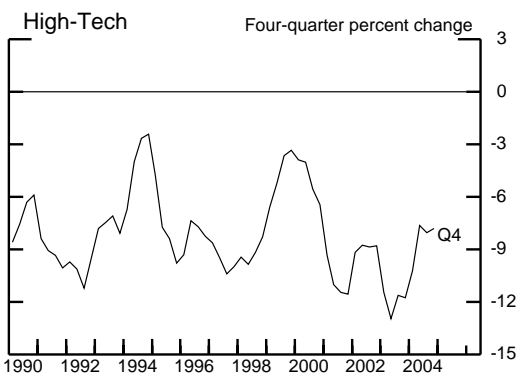
Note. Annual rate, FRB seasonals.
Source. For class 4-8 trucks, Ward's Communications;
for class 5-8 trucks, ACT Research.

Equipment and Software Investment Fundamentals

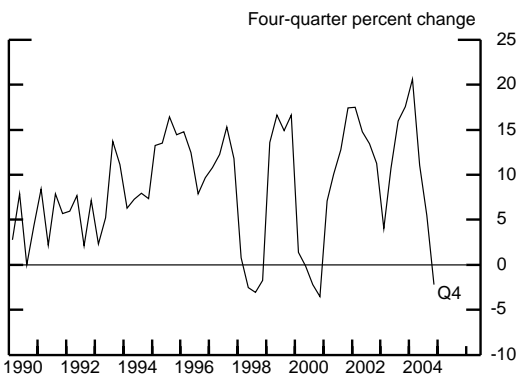
Real Business Output



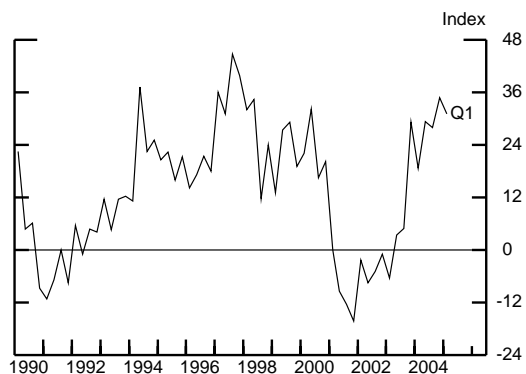
User Cost of Capital



Real Corporate Cash Flow



NABE Capital Spending Diffusion Index



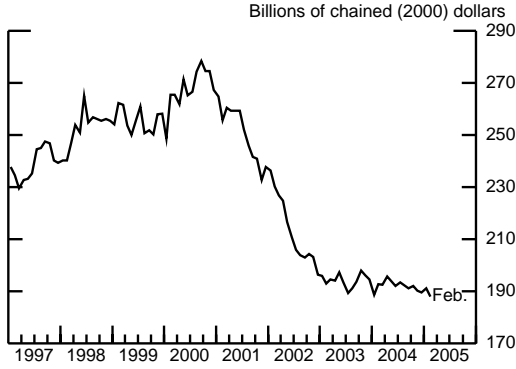
Note. The diffusion index equals the percentage of respondents planning to increase future spending minus the percentage of respondents planning to reduce future spending.
Source. NABE Industry Survey.

Nonresidential Construction and Indicators

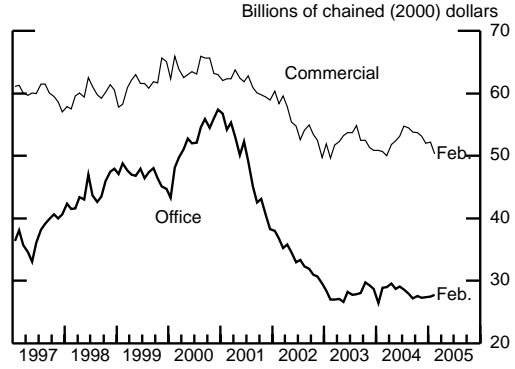
Real Construction

(Seasonally adjusted, annual rate; nominal CIPIP deflated by BEA prices through Q4 and by staff projection thereafter)

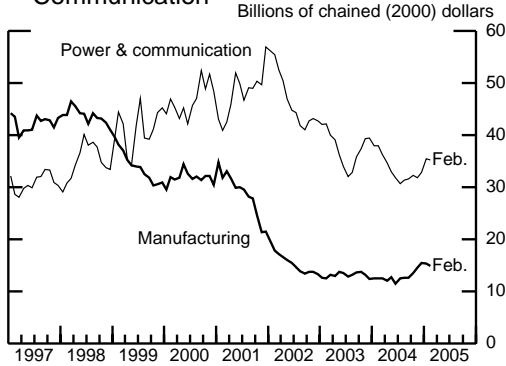
Total Structures



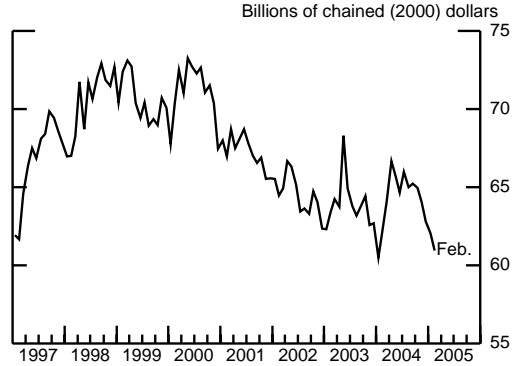
Office and Commercial



Manufacturing and Power & Communication



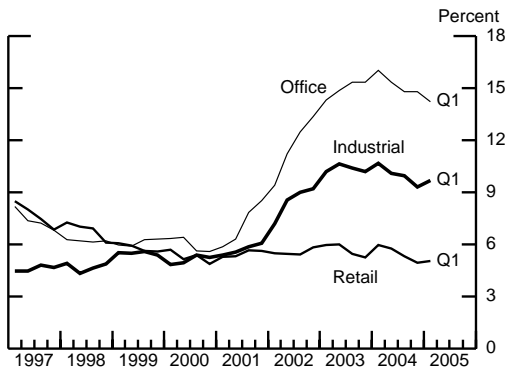
Other



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

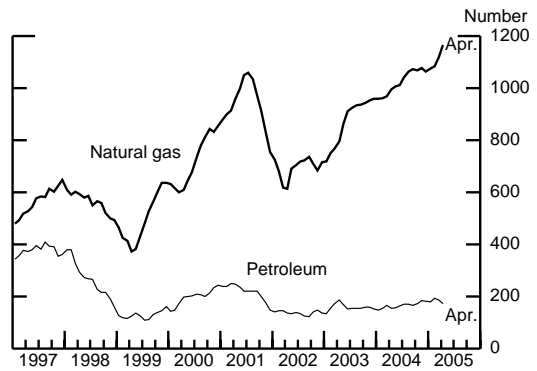
Indicators

Vacancy Rates



Source. National Council of Real Estate Investment Fiduciaries.

Drilling Rigs in Operation



Note. Apr. values are averages through Apr. 22.
Source. DOE/Baker Hughes.

shipments in January and continued falling prices in this category support a substantial increase in real outlays for these types of equipment in the first quarter.

After having surged in the second half of last year, business purchases of motor vehicles appear to have moderated in early 2005. As noted, sales of light vehicles dropped sharply in the first quarter, and some of the decline likely will show up as lower business spending. However, sales of medium and heavy trucks rose further, on average, through March, and net new orders—though down from their highs in the fourth quarter—suggest that sales will remain robust in the months ahead. Order backlogs for these vehicles are still high as well.

Real business spending on non-high-tech, non-transportation equipment seems to have softened lately after an exceptionally strong performance around the turn of the year. Shipments fell 1½ percent in March after having dropped 3 percent in February. The deceleration has been concentrated in construction, farm, and industrial machinery, all of which had posted sizable increases in the second half of 2004. Orders for this broad category have also slackened over the past couple of months but still are running above shipments.

Nonresidential Construction

Real construction of nonresidential structures remains depressed. Outlays in the power and communications sector and on manufacturing facilities have picked up a bit recently. However, spending on commercial structures has moved lower after an uptick in mid-2004, and outlays for office buildings are still moribund despite some easing in the vacancy rate for that sector. The number of rigs drilling for natural gas continues on a steep upward trend even as petroleum drilling remains soft.

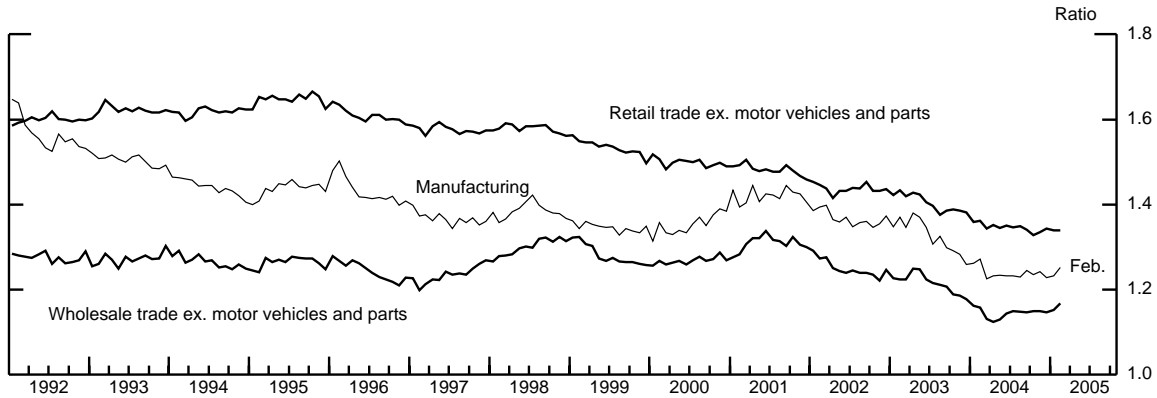
Business Inventories

The book value of business inventories excluding motor vehicles rose at an annual rate of \$108 billion, on average, in January and February, a rate similar to that in the fourth quarter. Interpreting the book-value data is especially difficult in periods when prices are rising rapidly, but we suspect that real inventories have continued to expand briskly this year. The book-value inventory-sales ratios have generally edged up, and although the majority of purchasing managers in the ISM survey continue to think that customer inventories are too low, the number with that view has decreased of late. Information from the staff's flow-of-goods inventory system indicates that inventories are mostly in

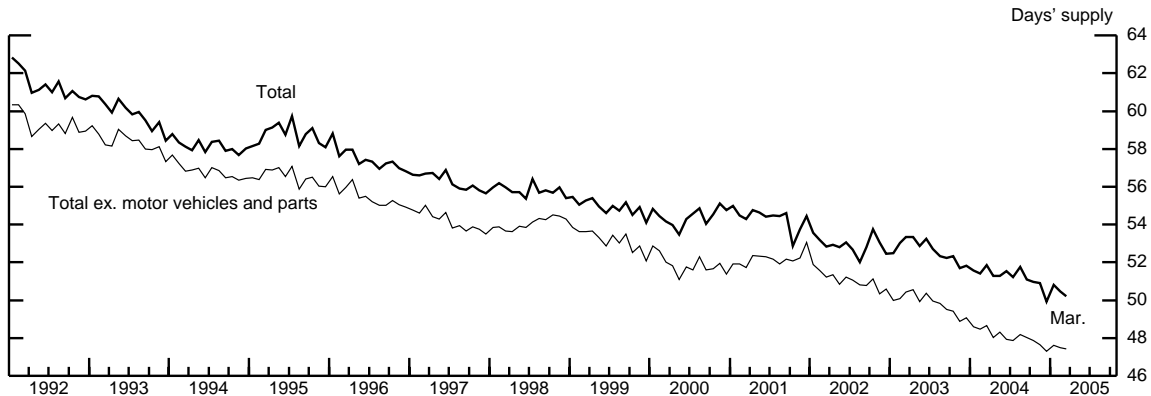
Changes in Manufacturing and Trade Inventories
(Billions of dollars; seasonally adjusted book value; annual rate)

Sector	2004				2005	
	Q2	Q3	Q4	Dec.	Jan.	Feb.
Manufacturing and trade	111.2	86.5	84.6	29.3	139.9	71.5
Ex. wholesale and retail motor vehicles and parts	90.3	77.6	101.8	59.8	142.8	72.2
Manufacturing	38.9	32.3	35.9	5.7	84.0	31.3
Ex. aircraft	39.0	33.9	33.2	6.6	77.6	23.6
Wholesale trade	32.2	38.3	36.7	13.1	41.8	23.8
Motor vehicles and parts	1.0	3.8	-2.4	-5.9	8.2	-.9
Ex. motor vehicles and parts	31.2	34.5	39.1	19.1	33.7	24.7
Retail trade	40.1	15.8	12.0	10.5	14.1	16.4
Motor vehicles and parts	20.0	5.0	-14.8	-24.5	-11.0	.2
Ex. motor vehicles and parts	20.2	10.8	26.8	35.0	25.1	16.3

Book-Value Inventories Relative to Shipments and Sales



Inventory-Consumption Ratios, Flow-of-Goods System



line with consumption, although days' supply is high for a few industries, including motor vehicles, food, paper, and chemicals excluding pharmaceuticals.

Federal Government Sector

The incoming data do not point to any major change in the federal budget situation. According to the *Monthly Treasury Statement (MTS)*, both receipts and outlays have posted hefty increases in recent months, and the deficit in the unified budget in March, at \$71 billion, was about the same as it was a year earlier.

Outlays in March, adjusted for financial transactions and payment-timing shifts, were about 7 percent above their year-earlier level. Defense spending was 9 percent higher than it was last March, in line with the increases posted over the past year. Outlays in other categories also rose roughly in line with recent trends.

Adjusted receipts in March were about 12 percent higher than they were last year. Corporate income tax receipts, which included final payments on 2004 tax liabilities, were up an impressive 43 percent. Data for April—when the first quarterly payment on 2005 liabilities is due for most firms—point to another strong month for corporate collections.

According to the *MTS*, withheld individual income taxes and social insurance taxes rose moderately in March. Information from the *Daily Treasury Statements* through late April suggests that nonwithheld individual and payroll taxes, which are largely final payments on 2004 individual income tax liabilities, are up more than 25 percent this tax season over last. This large increase reflects the fact that final payments last year were held down by the effects of the 2003 tax bill.⁷ Refunds (including the refundable portions of the EITC and the child credit, which are counted as outlays) are running only slightly higher than they did during last year's filing season.

On the legislative front, the Senate and the House have passed budget resolutions for fiscal year 2006. The plans from both chambers call for a small increase in real appropriations for defense and little change in funding for nondefense programs, in line with the President's proposals. The two budget resolutions contain different

⁷ The 2003 tax bill was passed in the summer of 2003 but was made retroactive to January 1, 2003. Thus, some of the reductions in 2003 tax liability showed up as lower final payments and higher refunds in the spring of 2004.

Federal Government Outlays and Receipts

(Unified basis; billions of dollars except as noted)

Function or source	March			12 months ending in March		
	2004	2005	Percent change	2004	2005	Percent change
Outlays	205.3	220.0	7.1	2232.8	2374.5	6.3
Financial transactions ¹	-.1	.7	...	-2.1	-.7	...
Payment timing ²	.0	.0	...	.7	-.1	...
Adjusted outlays	205.4	219.2	6.7	2234.3	2375.3	6.3
Receipts	132.4	148.7	12.3	1807.4	1968.4	8.9
Payment timing	.0	.0	...	.0	.0	...
Adjusted receipts	132.4	148.7	12.3	1807.4	1968.4	8.9
Surplus or deficit (-)	-72.9	-71.2	...	-425.4	-406.1	...
<i>Selected components of adjusted outlays and receipts</i>						
Adjusted outlays	205.4	219.2	6.7	2234.3	2375.3	6.3
Net interest	13.4	15.0	12.3	151.7	167.7	10.5
Non-interest	192.0	204.2	6.3	2082.5	2207.5	6.0
National defense	40.2	43.7	9.0	436.9	471.7	8.0
Social Security	41.1	43.5	5.7	484.5	508.8	5.0
Medicare	24.9	26.6	6.7	256.6	281.7	9.8
Medicaid	15.8	17.2	8.7	170.2	179.5	5.4
Income security	35.8	36.8	3.0	341.2	339.2	-.6
Agriculture	.8	.2	-71.2	22.1	23.3	5.6
Other	33.4	36.1	8.1	371.1	403.3	8.7
Adjusted receipts	132.4	148.7	12.3	1807.4	1968.4	8.9
Individual income and payroll taxes	100.4	106.4	6.0	1464.2	1549.5	5.8
Withheld + FICA	132.7	137.5	3.6	1375.7	1442.7	4.9
Nonwithheld + SECA	7.9	8.0	1.6	288.5	292.7	1.4
Less: Refunds	40.2	39.1	-2.7	200.0	188.0	-6.0
Corporate	18.9	27.0	42.9	154.5	221.9	43.6
Gross	24.2	30.8	27.1	204.1	255.5	25.2
Less: Refunds	5.3	3.8	-29.0	49.5	33.6	-32.1
Other	13.1	15.3	16.4	188.7	197.1	4.5
Adjusted surplus or deficit (-)	-73.0	-70.5	...	-426.9	-406.8	...

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

1. Financial transactions consist of deposit insurance, spectrum auctions, and sales of major assets.

2. A shift in payment timing occurs when the first of the month falls on a weekend or holiday, or when the first 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.

guidelines for mandatory spending and receipts, but press reports suggest that the differences have been resolved.

State and Local Governments

State and local government spending remains on a gradual uptrend. Employment rose 10,000 in March, with small advances in both the education and non-education categories. In addition, sizable gains in spending on highways and bridges kept nominal construction expenditures moving up through February (the most recent data).

According to a mid-April report from the National Conference of State Legislatures, the sector's fiscal situation continues to improve, although conditions remain uneven across the states. Revenue flows appear to have quickened, and all but a few states reported that collections from major taxes in 2005 are coming in at or above projected levels. About half of the states, however, are facing prospective budget gaps for fiscal 2006 as Medicaid costs continue to soar and pressures to reverse earlier cuts to K-12 education remain intense.

Prices

Spurred by sharp increases in energy prices, consumer price inflation turned up in February and March. Consumer prices excluding food and energy have also been rising a bit more rapidly of late, with core PCE prices estimated to have increased 2½ percent (annual rate) in the past three months.⁸ During the twelve months ending in March, core PCE prices rose an estimated 1.6 percent, about the same pace as in the preceding twelve-month period.

Consumer energy prices posted large run-ups in February and March, as the jump in crude oil prices since the turn of the year showed through to the retail level. Retail gasoline prices climbed almost 8 percent in March. And although gasoline inventories are at the upper end of their historical range for this time of year and crude prices have eased slightly, survey data suggest that retail gasoline margins have shot up in the past few weeks, thereby pushing consumer gasoline prices up further in April. Higher prices of crude oil in recent months have also boosted the cost of heavy fuel and induced some substitution toward natural gas by industrial users; this substitution has lately pushed up the price of natural gas as well.

⁸ This Greenbook was published just before the BEA released its initial estimates of PCE prices for March. As a result, all references in this section to PCE prices including that month represent staff estimates.

Measures of Inflation
(Percent)

Measures	12-month change		3-month change		1-month change	
	Mar. 2004	Mar. 2005	Annual rate		Monthly rate	
			Dec. 2004	Mar. 2005	Feb. 2005	Mar. 2005
<i>CPI</i>						
Total	1.7	3.1	3.4	4.3	.4	.6
Food	3.2	2.5	3.5	1.3	.1	.2
Energy	.4	12.4	15.3	21.1	2.0	4.0
Ex. food and energy	1.6	2.3	2.0	3.3	.3	.4
Core goods	-1.6	.6	1.4	1.1	.0	.0
Core services	2.9	3.0	2.3	4.0	.3	.5
Chained CPI (n.s.a.) ¹	1.6	2.6	...	...	...	...
Ex. food and energy ¹	1.4	1.9	...	...	...	...
<i>PCE prices</i> ²						
Total	1.7	2.3	2.5	3.3	.3	.4
Food	2.8	2.3	2.8	.9	.0	.2
Energy	.6	14.5	16.2	22.8	2.1	4.3
Ex. food and energy	1.5	1.6	1.6	2.6	.2	.2
Core goods	-1.2	.0	.4	1.6	.0	.0
Core services	2.7	2.3	2.1	3.0	.3	.2
Core market-based	1.4	1.7	1.7	2.4	.2	.2
Core non-market-based	2.3	n.a.	1.0	n.a.	.4	n.a.
<i>PPI</i>						
Total finished goods	1.5	4.9	7.2	5.7	.4	.7
Food	5.5	3.6	7.0	3.7	.8	.3
Energy	-.4	15.3	25.4	15.9	1.4	3.3
Ex. food and energy	.7	2.6	2.6	3.7	.1	.1
Core consumer goods	.8	2.6	2.5	4.5	.2	.1
Capital equipment	.4	2.7	3.1	2.8	-.2	.3
Intermediate materials	1.5	8.7	6.8	8.7	.7	1.0
Ex. food and energy	3.0	7.6	4.6	6.8	.5	.3
Crude materials	.5	10.8	41.9	2.4	-1.6	4.3
Ex. food and energy	31.8	3.3	25.2	-17.0	-3.0	1.0

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

2. PCE prices in March are staff estimates.

... Not applicable.

n.a. Not available.

Prices for consumer foods rose 0.2 percent in March, as price increases for food away from home—which accounts for more than 40 percent of consumer food expenditures—moderated after having jumped in January and February. Overall, the rise in the CPI for food so far this year has decelerated to a modest annual rate of 1¼ percent after having risen at a 3½ percent rate over the final three months of 2004.

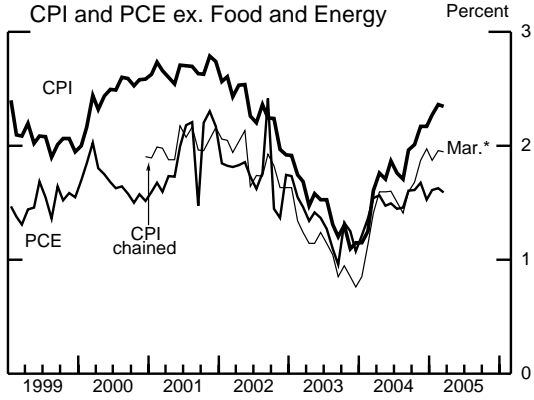
A rise of 0.4 percent in the core CPI in March boosted the three-month change to an annual rate of 3¼ percent. Core goods prices as measured in the CPI were flat for a second month in March, as a jump in apparel prices was offset by declines in prices of durable goods, especially motor vehicles. However, prices of core consumer services rose 0.5 percent after a 0.3 percent increase in February. The large increase in services prices in March reflects a sharp jump in the price of lodging away from home, which is sometimes erratic from month to month; sizable increases were also recorded in the categories of air fares, medical services, and tuition.

We estimate that core PCE prices rose 0.2 percent in March—a rate considerably less than the core CPI. One important reason for the difference is that lodging away from home has a much lower weight in PCE prices than it does in the CPI. Taking a longer perspective, the estimated increase of 1.6 percent in core PCE prices over the past year is only a touch above the year-over-year readings that have prevailed since last summer. Core goods prices, despite having remained flat in February and March, have accelerated noticeably over the past year; the pickup apparently reflects higher import prices, the indirect effect of higher energy prices, and higher prices for core intermediate materials. The opposite picture is evident in the incoming data for core PCE services—the twelve-month change has moved lower over the past year despite the more-rapid increases of the past few months.⁹

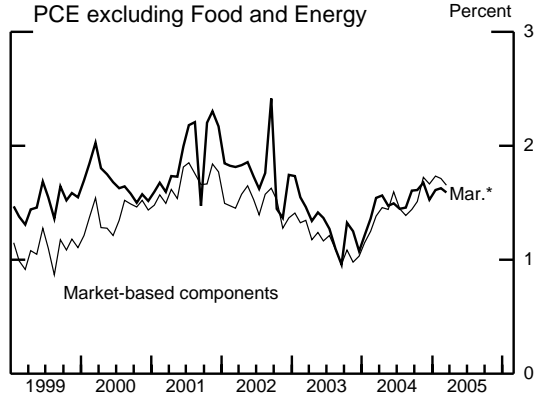
In the preliminary Michigan survey for April, households' median expectation for inflation over the next year edged up one-tenth, to 3.3 percent, after a 0.3 percentage point jump in March. This shift in near-term inflation expectations is consistent with the energy-induced pickup in headline inflation. The preliminary April reading on longer-

⁹ The twelve-month change in the PCE for core services has moved down during the past year, whereas its counterpart in the CPI has remained about flat. This relative decline in the PCE measure reflects a reported deceleration in non-market services prices, a smaller weight on housing services (whose prices have risen relatively rapidly of late), and the use of PPIs (which have been rising more slowly than the corresponding CPIs) to measure the cost of many medical services.

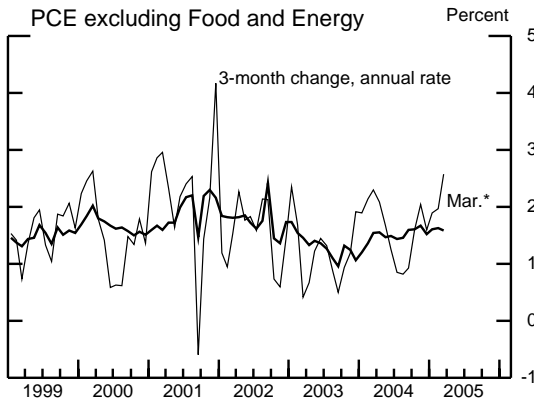
Consumer Price Inflation (12-month change except as noted)



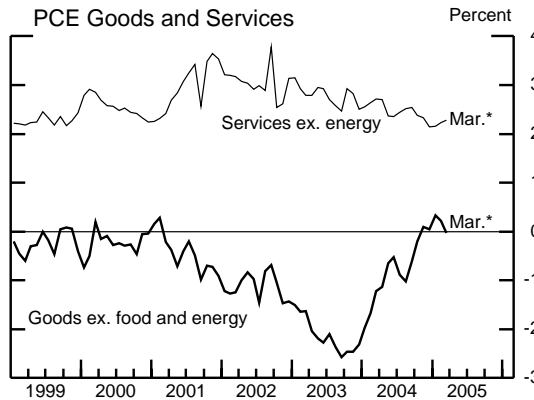
* PCE for March is a staff estimate.



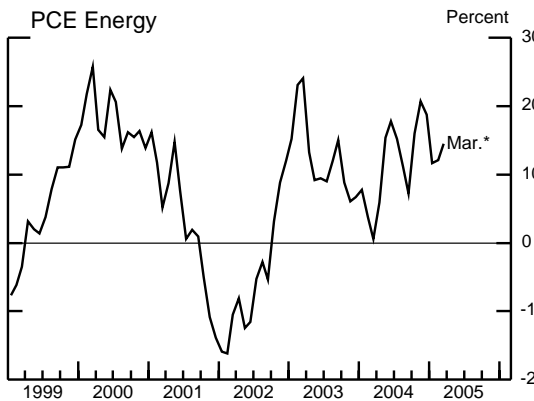
* PCE for March is a staff estimate.



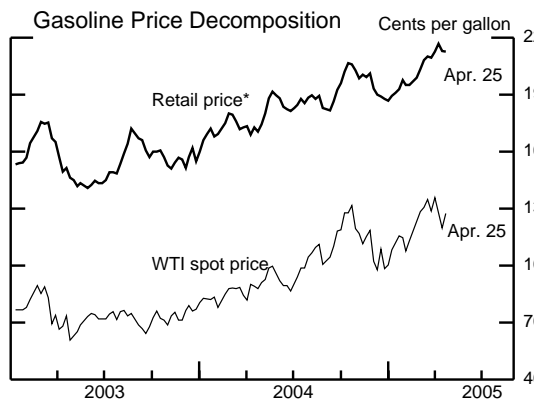
* PCE for March is a staff estimate.



* PCE for March is a staff estimate.



* PCE for March is a staff estimate.



* Average of all grades reported by the Department of Energy, seasonally adjusted by FRB staff.

Broad Measures of Inflation

(Percent change, Q4 to Q4)

Measure	2001	2002	2003	2004
<i>Product prices</i>				
GDP price index	2.4	1.6	1.7	2.4
Less food and energy	2.3	1.7	1.4	2.2
Nonfarm business chain price index	1.9	1.0	.8	2.3
<i>Expenditure prices</i>				
Gross domestic purchases price index	1.6	1.8	1.8	2.9
Less food and energy	2.1	1.6	1.4	2.2
PCE price index	1.7	1.8	1.7	2.6
Less food and energy	2.2	1.5	1.2	1.6
PCE price index, market-based components	1.3	1.7	1.6	2.8
Less food and energy	1.8	1.4	1.0	1.6
CPI	1.8	2.2	1.9	3.4
Less food and energy	2.7	2.1	1.2	2.1
Chained CPI	1.5	1.8	1.7	2.9
Less food and energy	2.1	1.7	.8	1.8
Median CPI	3.8	3.0	2.0	2.3
Trimmed mean CPI	2.6	2.1	1.7	2.2

Surveys of Inflation Expectations

(Percent)

Period	Actual CPI inflation ¹	University of Michigan				Professional forecasters (10-year) ⁴
		1 year ²		5 to 10 years ³		
		Mean	Median	Mean	Median	
2003:Q2	2.1	2.6	2.2	3.1	2.7	2.5
Q3	2.2	2.8	2.3	3.1	2.7	2.5
Q4	1.9	3.0	2.6	3.1	2.8	2.5
2004:Q1	1.8	3.1	2.7	3.4	2.9	2.5
Q2	2.9	4.0	3.3	3.3	2.8	2.5
Q3	2.7	3.3	2.9	3.1	2.8	2.5
Q4	3.3	3.4	3.0	3.1	2.8	2.5
2005:Q1	3.0	3.6	3.0	3.2	2.8	2.5
2004:Oct.	3.2	3.6	3.1	3.2	2.8	...
Nov.	3.5	3.3	2.8	3.1	2.7	...
Dec.	3.3	3.4	3.0	3.1	2.8	2.5
2005:Jan.	3.0	3.5	2.9	3.2	2.7	...
Feb.	3.0	3.3	2.9	3.1	2.8	...
Mar.	3.1	4.0	3.2	3.3	2.9	2.5
Apr.	n.a.	4.1	3.3	3.2	2.9	...

1. Percent change from the same period in the preceding year.

2. Responses to the question: By about what percent do you expect prices to go up, on average, during the next 12 months?

3. Responses to the question: By about what percent per year do you expect prices to go up, on average, during the next 5 to 10 years?

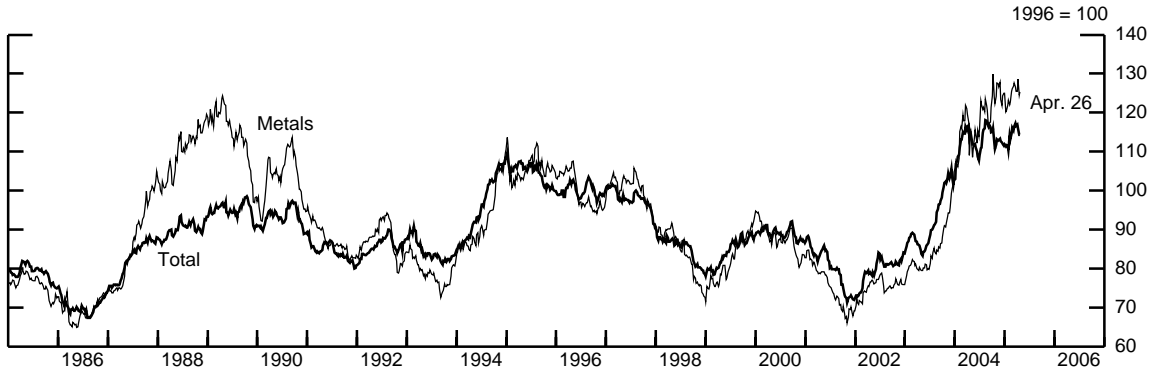
4. Quarterly CPI projections compiled by the Federal Reserve Bank of Philadelphia.

... Not applicable.

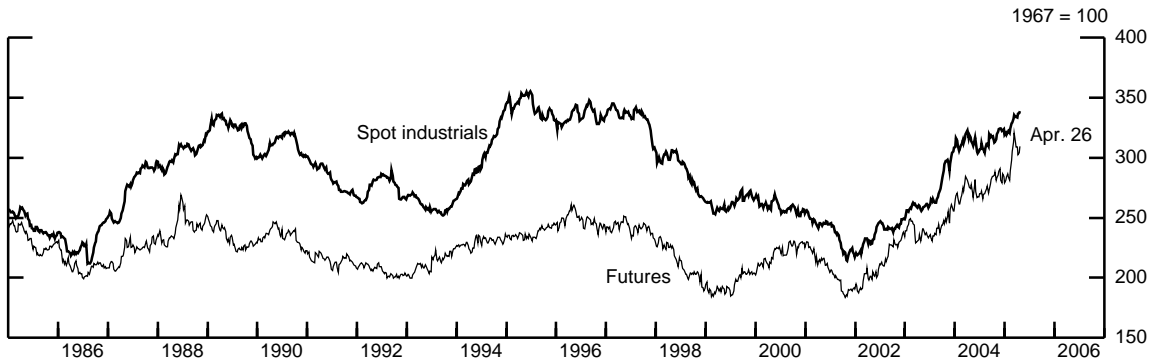
n.a. Not available.

Commodity Price Measures

Journal of Commerce



Commodity Research Bureau



Note. The Journal of Commerce index is based almost entirely on industrial commodities, with a small weight given to energy commodities. The Commodity Research Bureau (CRB) spot industrials index consists entirely of industrial commodities, excluding energy. The CRB futures index gives about a 60 percent weight to food commodities and splits the remaining weight roughly equally among energy commodities, industrial commodities, and precious metals. Copyright for Journal of Commerce data is held by CIBCR, 1994.

Spot Prices of Selected Commodities (Percent change)

Index	2004 ¹	12/28/04 to 3/15/05 ²	3/15/05 ² to 4/26/05	52-week change to 4/26/05
JOC industrials	8.7	4.4	-1.8	-.4
JOC metals	19.4	2.1	-1.8	8.7
CRB spot industrials	5.0	3.7	.9	6.8
CRB spot foodstuffs	2.7	1.0	-1.3	-11.4
CRB futures	11.1	12.7	-3.3	13.0

1. From the last week of the preceding year to the last week of the year indicated.
2. March 15, 2005, is the Tuesday preceding publication of the March Greenbook.

term inflation expectations remained at the upper end of the narrow range seen in the past few years.

A rise of 0.3 percent in the PPI for capital equipment in March more than reversed a 0.2 percent decline in February; last month, prices for autos and light trucks slipped a bit further after February's large decline, whereas prices for heavy trucks rose 0.4 percent and prices for other capital equipment rose 0.5 percent. During the twelve months ending in March, the PPI for capital equipment increased $2\frac{3}{4}$ percent, a pickup of more than 2 percentage points from the preceding year.

At earlier stages of processing, the PPI for core intermediate materials rose a modest 0.3 percent in March after larger increases in January and February. Between March 2004 and March 2005, this index rose $7\frac{1}{2}$ percent, compared with an increase of 3 percent over the preceding year. Higher inflation rates for energy and imported materials, as well as rising rates of capacity utilization, explain much of this acceleration.

Prices for industrial metals, though a bit off their recent peaks, have remained quite high so far this year. The metals index in the *Journal of Commerce* is down 1.8 percent since the March Greenbook. Among the other commodity indexes that exclude energy, the CRB spot industrials index has increased 0.9 percent since the last Greenbook, and the CRB spot foodstuffs index has fallen 1.3 percent. The *JOC* industrial index and the CRB futures index, both of which contain a substantial energy component, have declined since the last Greenbook, although the futures index is up considerably since the beginning of this year.

Domestic Financial Developments

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

Instrument	2004		2005		Change to Apr. 27 from selected dates (percentage points)		
	June 28	Dec. 31	Mar. 21	Apr. 27	2004 June 28	2004 Dec. 31	2005 Mar. 21
<i>Short-term</i>							
FOMC intended federal funds rate	1.00	2.25	2.50	2.75	1.75	.50	.25
Treasury bills ¹							
3-month	1.36	2.18	2.80	2.83	1.47	.65	.03
6-month	1.74	2.52	3.04	3.08	1.34	.56	.04
Commercial paper (A1/P1 rates) ²							
1-month	1.28	2.29	2.78	2.98	1.70	.69	.20
3-month	1.45	2.28	2.96	3.06	1.61	.78	.10
Large negotiable CDs ¹							
3-month	1.53	2.50	3.00	3.14	1.61	.64	.14
6-month	1.82	2.72	3.26	3.37	1.55	.65	.11
Eurodollar deposits ³							
1-month	1.29	2.32	2.79	3.01	1.72	.69	.22
3-month	1.51	2.49	2.98	3.13	1.62	.64	.15
Bank prime rate	4.00	5.25	5.50	5.75	1.75	.50	.25
<i>Intermediate- and long-term</i>							
U.S. Treasury ⁴							
2-year	2.88	3.08	3.75	3.64	.76	.56	-.11
5-year	3.97	3.63	4.17	3.91	-.06	.28	-.26
10-year	4.90	4.34	4.63	4.32	-.58	-.02	-.31
U.S. Treasury indexed notes							
5-year	1.56	1.03	1.26	1.17	-.39	.14	-.09
10-year	2.25	1.65	1.78	1.65	-.60	.00	-.13
Municipal revenue (Bond Buyer) ⁵	5.37	5.04	4.99	4.89	-.48	-.15	-.10
Private instruments							
10-year swap	5.21	4.65	4.95	4.66	-.55	.01	-.29
10-year FNMA ⁶	5.30	4.61	4.83	4.62	-.68	.01	-.21
10-year AA ⁷	5.59	4.98	5.26	5.02	-.57	.04	-.24
10-year BBB ⁷	6.18	5.38	5.64	5.51	-.67	.13	-.13
5-year high yield ⁷	8.30	7.34	7.68	8.21	-.09	.87	.53
Home mortgages (FHLMC survey rate) ⁸							
30-year fixed	6.21	5.77	6.01	5.80	-.41	.03	-.21
1-year adjustable	4.19	4.10	4.24	4.26	.07	.16	.02

Stock exchange index	Record high		2004	2005		Change to Apr. 27 from selected dates (percent)		
	Level	Date	Dec. 31	Mar. 21	Apr. 27	Record high	2004 Dec. 31	2005 Mar. 21
Dow Jones Industrial	11,723	1-14-00	10,783	10,565	10,199	-13.00	-5.42	-3.47
S&P 500 Composite	1,527	3-24-00	1,212	1,184	1,156	-24.29	-4.58	-2.31
Nasdaq	5,049	3-10-00	2,175	2,008	1,930	-61.76	-11.26	-3.84
Russell 2000	655	12-28-04	652	622	587	-1.30	-9.89	-5.54
Wilshire 5000	14,752	3-24-00	11,971	11,684	11,380	-22.86	-4.94	-2.60

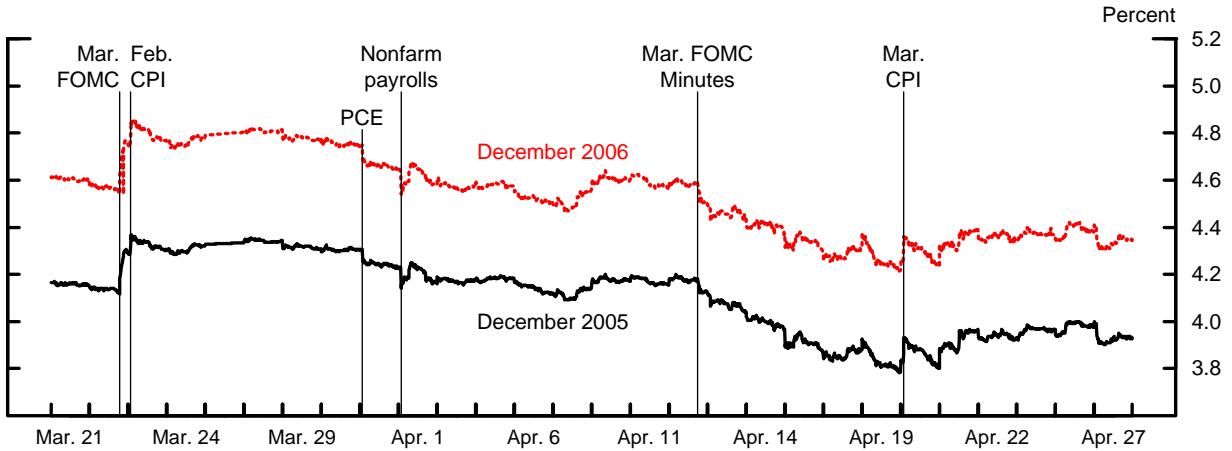
1. Secondary market.
2. Financial commercial paper.
3. Bid rates for Eurodollar deposits collected around 9:30 a.m. eastern time.
4. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
5. Most recent Thursday quote.
6. Constant maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
7. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.
8. Home mortgage data for Apr. 27, 2005, is from Apr. 21, 2005.

NOTES:

June 28, 2004, is the day before the most recent policy tightening began.
March 21, 2005, is the day before the most recent FOMC announcement.

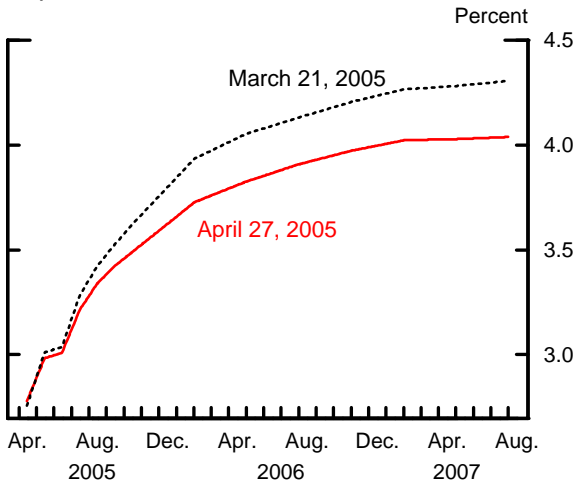
Policy Expectations and Treasury Yields

Eurodollar Futures



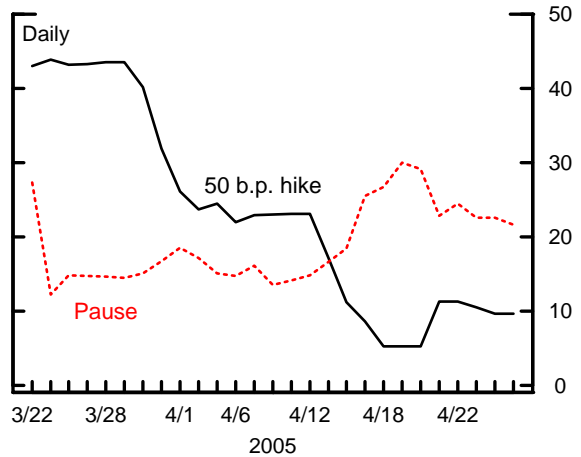
Note. 5-minute intervals.

Expected Federal Funds Rates



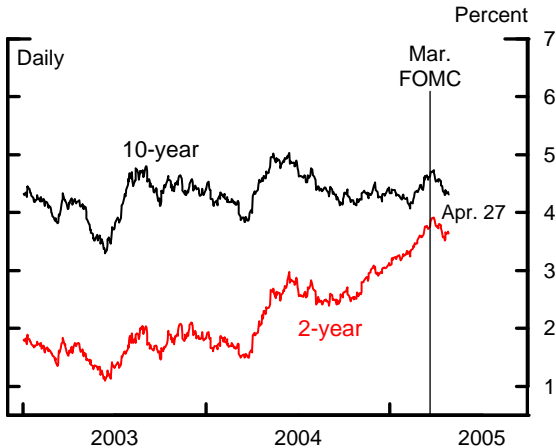
Note. Estimates from federal funds and Eurodollar futures, with an allowance for term premia and other adjustments.

Probability of a Pause and a 50-basis-point Rate Hike at June FOMC Meeting



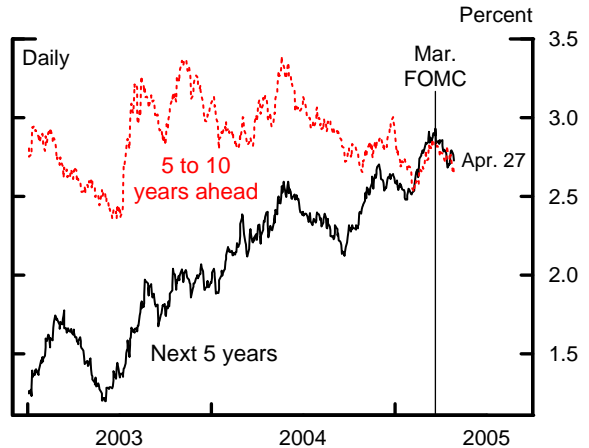
Note. Implied by options on July federal funds futures with term premium adjustment. Assumes quarter-point hike at May meeting is fully priced in.

Treasury Yields



Note. Based on a smoothed yield curve estimated using off-the-run securities.

Inflation Compensation



Note. Based on nominal and inflation-indexed Treasury yields.

Domestic Financial Developments

Overview

During the intermeeting period, policy expectations were shaped more by the weaker-than-expected data on spending and production than by the upside surprises on prices. On net, market participants marked down the anticipated path for the federal funds rate, and nominal Treasury yields moved lower across the curve. Despite generally positive first-quarter earnings reports, equity prices declined in response to indicators of economic weakness. Credit spreads on corporate bonds widened, particularly for speculative-grade firms. Business issuance of long-term debt has been subdued in recent months, but short-term borrowing has continued to expand briskly. Household debt growth, though still strong, appears to be running at a rate a bit below that of the rapid pace of last year.

Policy Expectations and Treasury Yields

The FOMC's decision to raise the target federal funds rate 25 basis points at the March meeting was widely anticipated in financial markets. However, the references in the statement to increasing inflation pressures and to more-evident pricing power reportedly led market participants to mark up their expected path for the federal funds rate, as did the surprising jump in the CPI reported the next day. Despite another outsized increase in the CPI a month later, these changes to policy expectations were more than reversed subsequently in response to the weaker-than-expected economic data and the release of the minutes of the March FOMC meeting, which suggested that the Committee saw less upside risk to inflation than investors had previously anticipated. Although market participants seem virtually certain of a quarter-point increase in the target funds rate at the upcoming meeting, the perceived chance of a pause at the June meeting has risen and now stands at about one in four. Looking further ahead, investors have ratcheted down the expected level of the funds rate nearly $\frac{1}{4}$ percentage point in 2006.

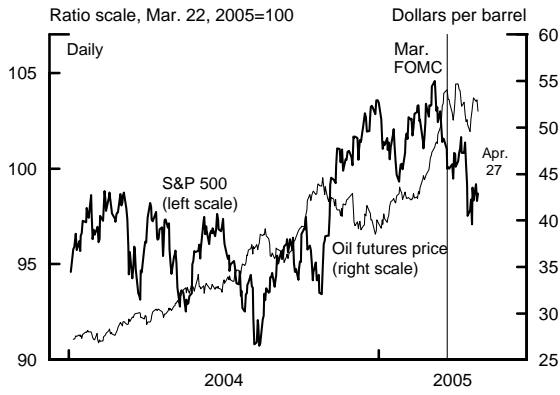
Nominal Treasury yields largely followed changes in policy expectations: Since the March FOMC meeting, the two-year yield moved down about 10 basis points, while the five- and ten-year yields fell 25 and 30 basis points respectively. With inflation-indexed yields down by less, inflation compensation over the next five years declined 15 basis points, and inflation compensation over the subsequent five years fell almost 20 basis points.

Stock Prices, Corporate Yields, and Risk Spreads

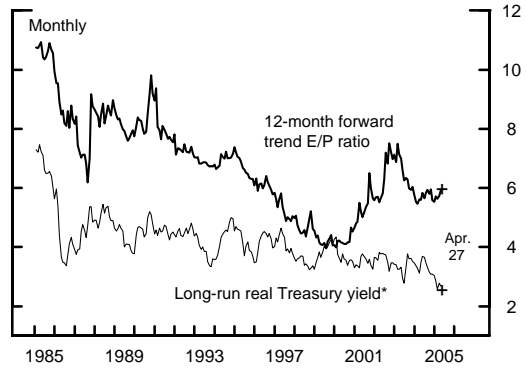
Broad equity price indexes sank about $3\frac{1}{2}$ percent, on net, over the intermeeting period, as weaker-than-expected economic data and a few high-profile disappointments in earnings spooked investors. The fall in stock prices was widespread, with retail and basic

Stock Prices, Corporate Yields, and Risk Spreads

S&P 500 and Oil Futures Price 24 Months Ahead

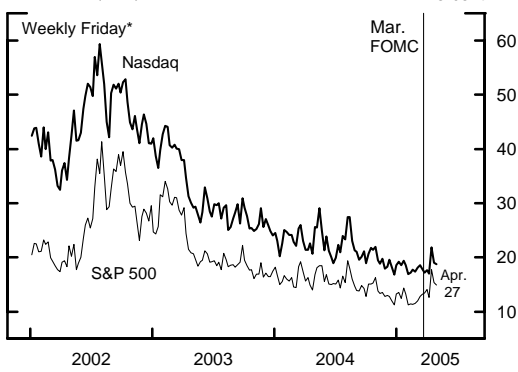


12-Month Forward Trend Earnings-Price Ratio for S&P 500 and Long-Run Treasury Yield



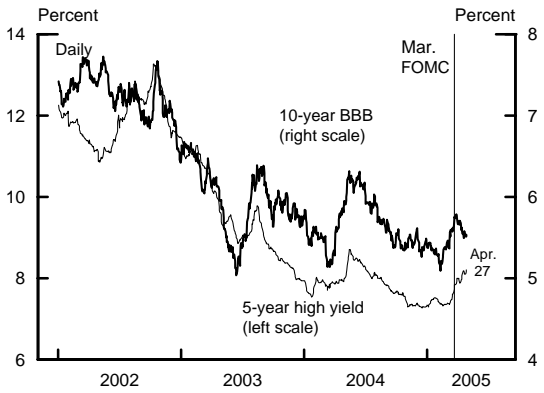
* Yield on synthetic Treasury perpetuity minus Philadelphia Fed 10-year expected inflation.
 + Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.

Implied Volatility on Nasdaq 100 (VXN) and S&P 500 (VIX)



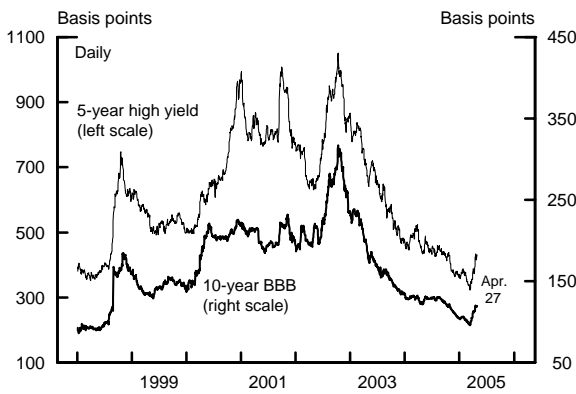
* Latest observation is for most recent business day.

Yields for BBB and High-Yield Corporate Bonds



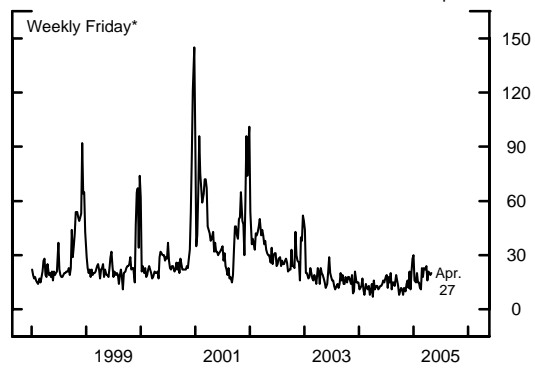
Note. Yields from smoothed yield curves based on Merrill Lynch bond data.

Corporate Bond Spreads



Note: Measured relative to comparable maturity Treasuries.

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



* Latest observation is for most recent business day.

materials stocks posting particularly large declines. The gap between the trend-adjusted forward earnings-price ratio and the real perpetuity Treasury yield widened a bit and now stands somewhat above its average level over the past two decades. Implied volatilities on the Nasdaq 100 and the S&P 500 moved up a bit from very low levels, likely a reflection of the greater uncertainty about the economic outlook.

Troubles in the auto sector evidently led investors to be more wary about risk. Yields on investment-grade corporate bonds declined less than those on comparable-maturity Treasuries, causing spreads on BBB-rated bonds to widen about 20 basis points over the intermeeting period. Yields on speculative-grade bonds rose about 50 basis points, which pushed spreads up more than 60 basis points since the last FOMC meeting. The sharp widening of credit spreads brought the staff's estimate of the risk premium on high-yield bonds—which had recently narrowed to levels last seen in 1997—back to more-typical territory. In the commercial paper market, the quality spread, though narrow on average, has been somewhat volatile, in part because of the current thinness of the A2/P2 segment of the market.

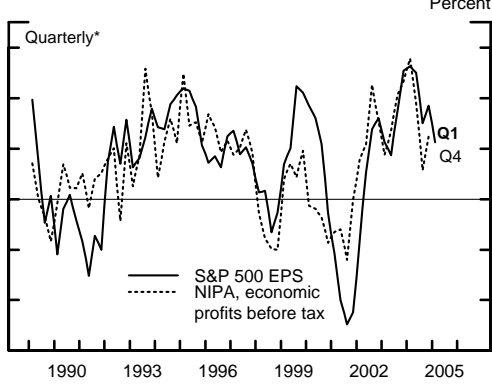
Corporate Earnings and Credit Quality

On the basis of reports from about 300 S&P 500 firms to date, earnings per share in the first quarter most likely rose more than 13 percent from the year-earlier levels, or about 3 percent from the fourth quarter on a seasonally adjusted basis. Although the majority of announcements beat analysts' forecasts, retail firms—which almost certainly experienced a disappointing first quarter in light of sagging sales—have yet to report their earnings. The index of analysts' revisions to year-ahead earnings forecasts was slightly above zero in mid-April because sharply lower year-ahead forecasts for Ford, GM, and IBM largely offset the still-rising forecast for the energy sector.

Nonfinancial firms remain flush with cash, and credit quality in the sector continues to be strong on balance. Solid credit quality of commercial loan portfolios was reflected in reduced loan-loss provisions at a number of large bank holding companies in the first quarter. The pace of bond downgrades slowed considerably in the first quarter, although the downgrade of GM in early April will result in a significant deterioration in this measure of corporate credit quality for the second quarter. The six-month trailing default rate on bonds was little changed in March at a low level. The aggregate expected year-ahead default rate, which is based on KMV's firm-level estimates, remained low in March but is likely to edge up in April, given the decline in stock prices and the rise in equity volatility.

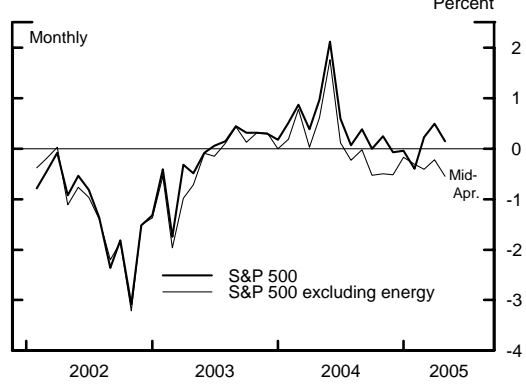
Corporate Earnings and Credit Quality

Corporate Earnings Growth



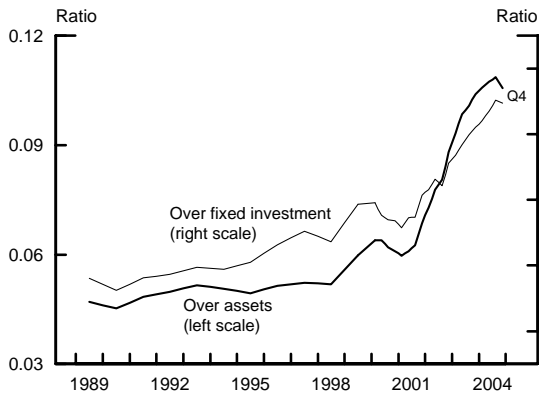
* Change from four quarters earlier.
Source: I/B/E/S for S&P 500 EPS.

S&P 500 Earnings Expectations Revisions Index



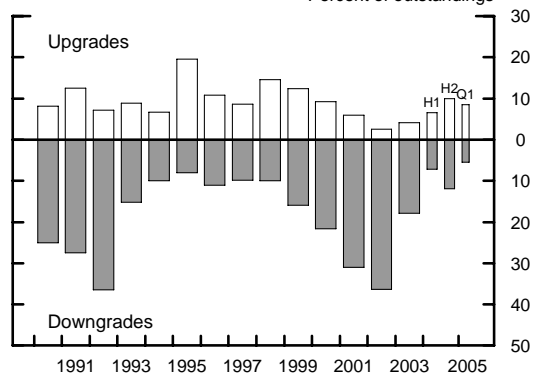
Note. Index is a weighted average of the percent change in the consensus forecasts of current-year and following-year EPS for constant sample.

Liquid Assets Held by Nonfinancial Corporations



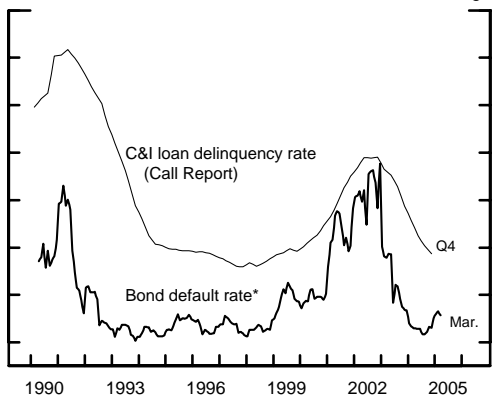
Note. Computstat data, annual through 1999 and quarterly thereafter; fixed investment is at an annual rate.

Bond Ratings Changes of Nonfinancial Companies



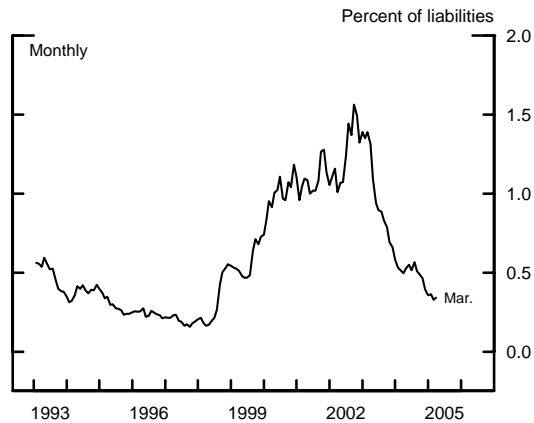
Note. Data are at an annual rate.
Source: Moody's Investors Service.

Bond Defaults and C&I Loan Delinquency Rates



* 6-month moving average, from Moody's Investors Service.

Expected Year-Ahead Defaults



Note. Firm-level estimates of default weighted by firm liabilities as a percent of total liabilities, excluding defaulted firms.
Source: KMV Corporation.

Business Finance

Gross Issuance of Securities by U.S. Corporations

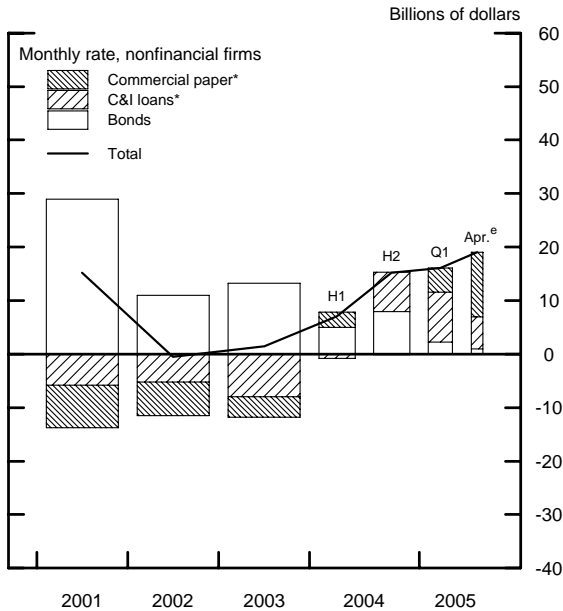
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	2001	2002	2003	2004		2005		
				H1	H2	Q1	Mar.	Apr. ^e
<i>Nonfinancial corporations</i>								
Stocks ¹	6.5	5.2	3.7	5.7	5.0	4.4	3.0	2.0
Initial public offerings	2.1	0.7	0.4	0.8	2.3	2.2	0.9	1.0
Seasoned offerings	4.4	4.4	3.2	4.9	2.6	2.1	2.1	1.0
Bonds ²	39.8	24.8	31.6	22.8	22.7	16.9	18.0	15.0
Investment grade	27.5	15.7	16.0	8.2	8.5	6.0	7.7	9.0
Speculative grade	8.9	4.8	11.3	10.5	8.5	7.7	6.8	4.0
Other (sold abroad/unrated)	3.4	4.2	4.3	4.1	5.7	3.3	3.5	2.0
<i>Memo</i>								
Net issuance of commercial paper ³	-8.0	-6.3	-3.8	2.8	-0.1	4.5	-9.6	12.0
Change in C&I loans at commercial banks ^{3,4}	-5.8	-5.2	-7.9	-0.8	7.3	9.4	7.6	6.0
<i>Financial corporations</i>								
Stocks ¹	4.2	4.0	6.9	8.3	5.1	5.0	6.1	3.0
Bonds ²	80.2	87.0	111.1	131.1	147.6	157.4	187.1	100.0

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

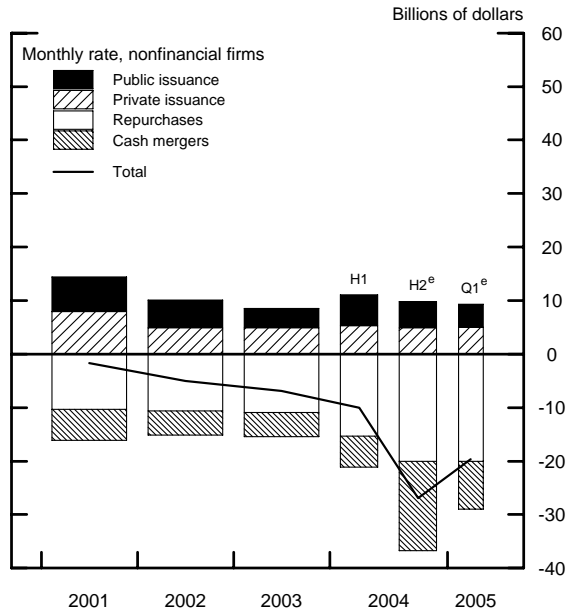
1. Excludes private placements and equity-for-equity swaps that occur in restructurings.
2. Data include regular and 144a private placements. Bond totals reflect gross proceeds rather than par value of original discount bonds. Bonds are categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's.
3. End-of-period basis, seasonally adjusted.
4. Adjusted for FIN 46 effects.
- e. Staff estimate.

Selected Components of Net Debt Financing



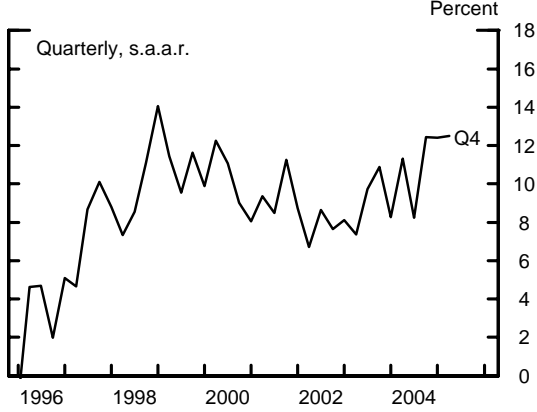
* Seasonally adjusted, period-end basis.

Components of Net Equity Issuance

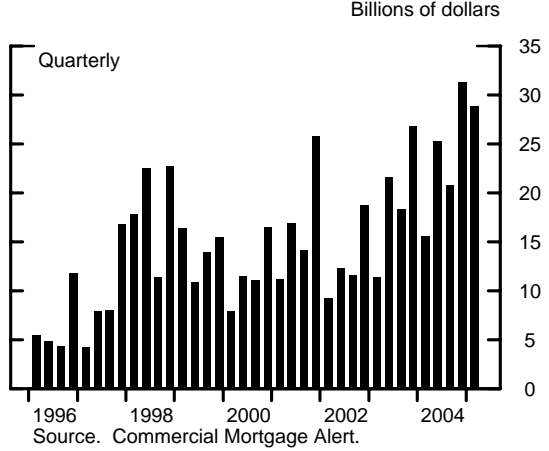


Commercial Real Estate

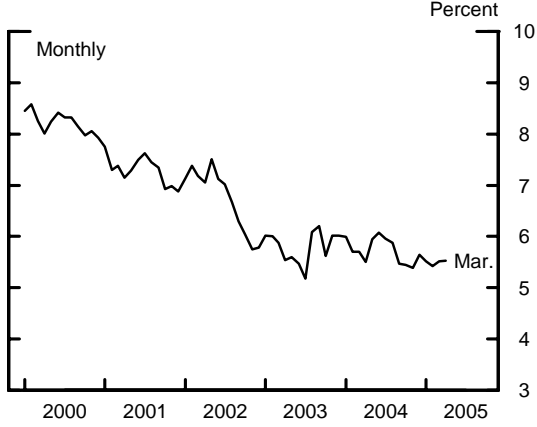
Growth of Commercial Mortgage Debt



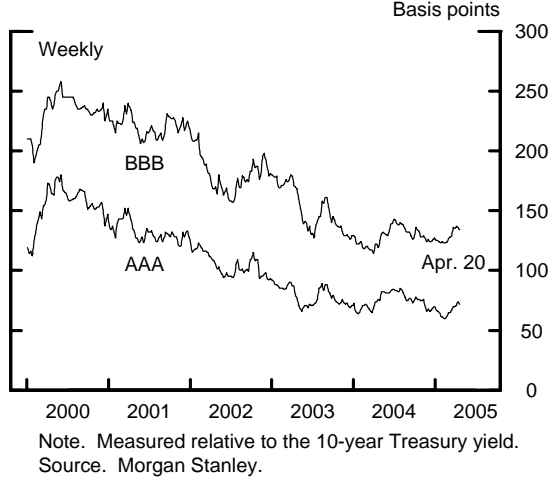
Gross Issuance of CMBS



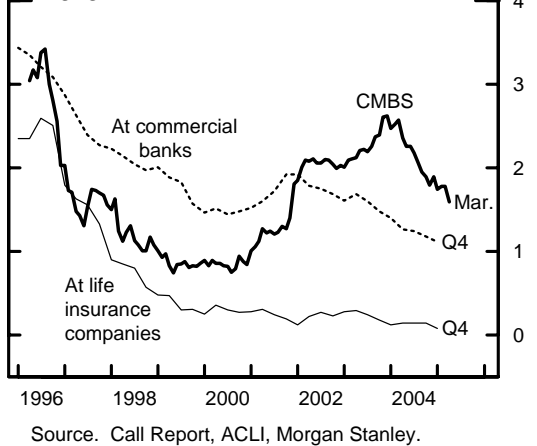
10-Year Commercial Mortgage Rates



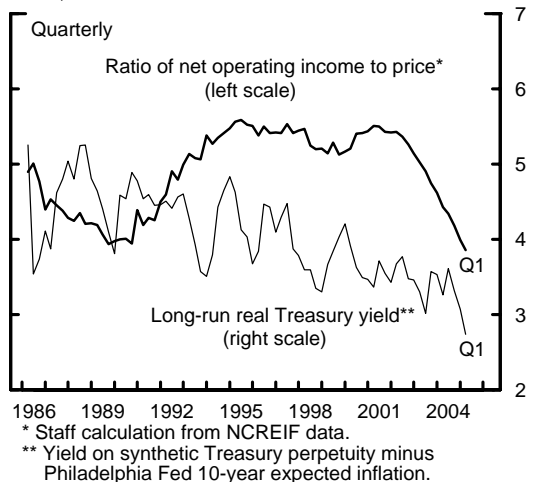
Investment-Grade CMBS Spreads



Delinquency Rates on Commercial Mortgages and CMBS



Commercial Real Estate Valuation Index, 1990:Q1=4



Business Finance

Gross bond issuance by nonfinancial corporations remained subdued in March and April. Speculative-grade issuance has been anemic in recent weeks as credit spreads in that segment of the market widened appreciably. Net of retirements, bond issuance has been negligible recently, in part because issuers have continued to use proceeds to refinance existing debt rather than to fund expansion. By contrast, business loans and commercial paper continued to expand notably over the intermeeting period.

Equity issuance by nonfinancial firms dwindled to a trickle over the intermeeting period. However, filings with the SEC of impending IPOs remained plentiful, and issuance is expected to pick up after the first-quarter earnings reporting season. Share repurchases in the first quarter are estimated to have rivaled their torrid fourth-quarter pace, and although completions of cash-financed mergers retreated somewhat in the first quarter, new announcements pointed to robust M&A activity going forward.

Commercial Real Estate

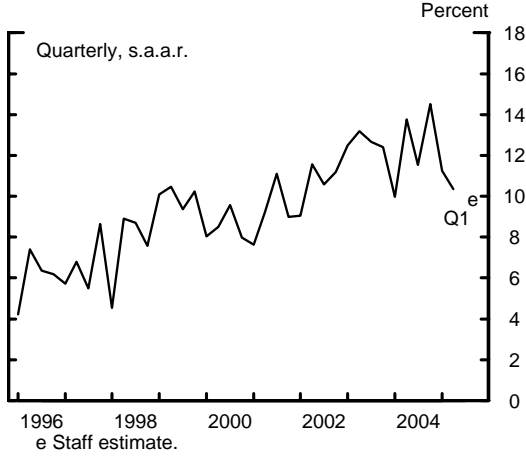
Supported in part by low interest rates, the expansion of commercial mortgage debt likely continued apace, as evidenced by heavy CMBS issuance in the first quarter and a full calendar of offerings going forward. Investment-grade CMBS spreads widened slightly over the intermeeting period—about in line with the widening of spreads for investment-grade corporate bonds—even as delinquency rates on loans backing CMBS declined further in March. The ratio of net operating income to prices for commercial properties—an indicator of the rate of return in this sector—slipped further in the first quarter. However, the difference between this ratio and the real Treasury perpetuity yield, a rough gauge of the risk premium on commercial real estate assets, was little changed in the first quarter, remaining in the lower part of the range observed over the past decade.

Household Finance

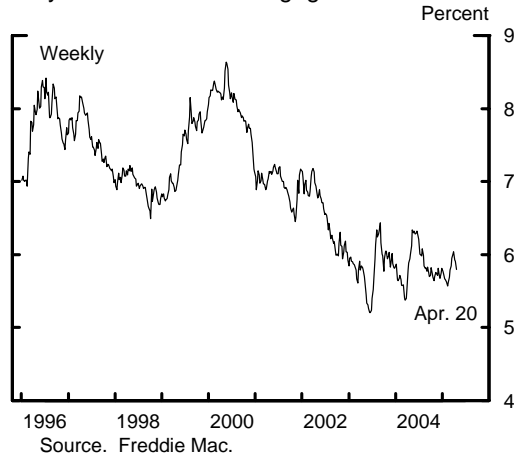
The staff estimates that the growth of household mortgage debt moderated a bit in the first quarter. In the absence of much actual data on mortgage flows, this assessment reflects the less robust pace of house price appreciation recorded in the fourth quarter and is consistent with the weakening of demand for residential mortgage loans over the past three months reported in the April Senior Loan Officer Opinion Survey. After topping 6 percent in the second half of March, interest rates on thirty-year fixed-rate mortgages dropped about $\frac{1}{4}$ percentage point, which spurred a slight lift in refinancing activity in the

Household Liabilities

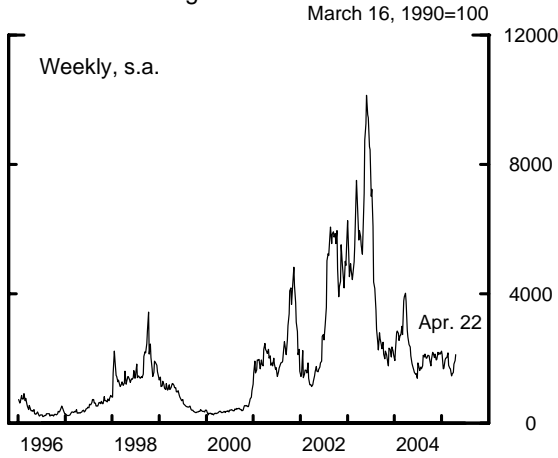
Mortgage Debt Growth



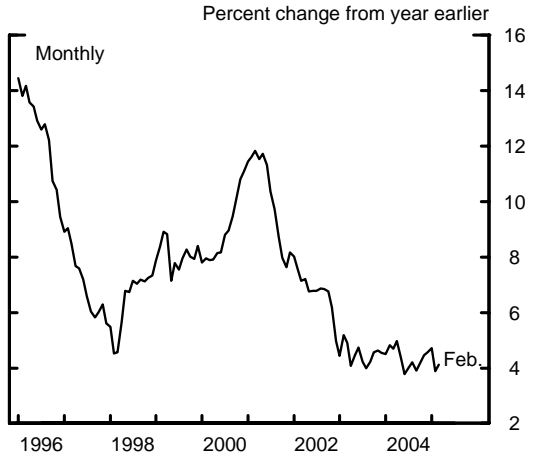
30-year Fixed-Rate Mortgage Rate



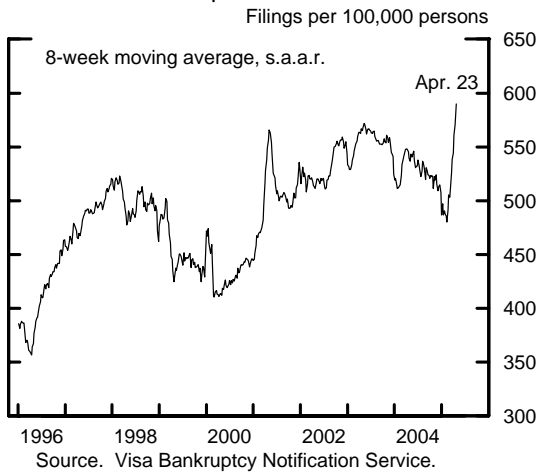
MBA Refinancing Index



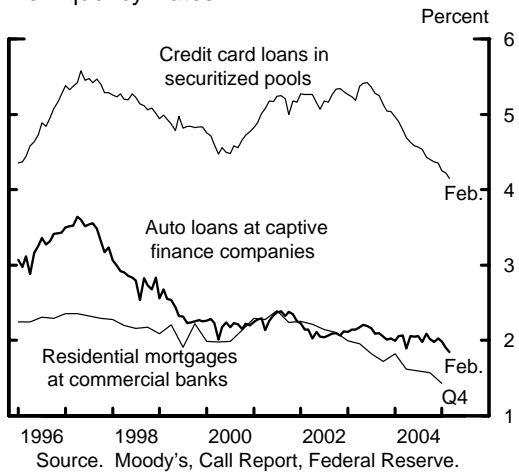
Consumer Credit Growth



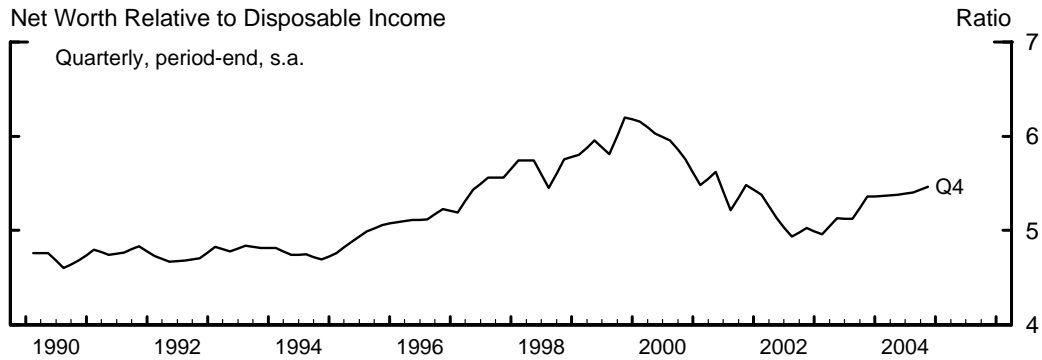
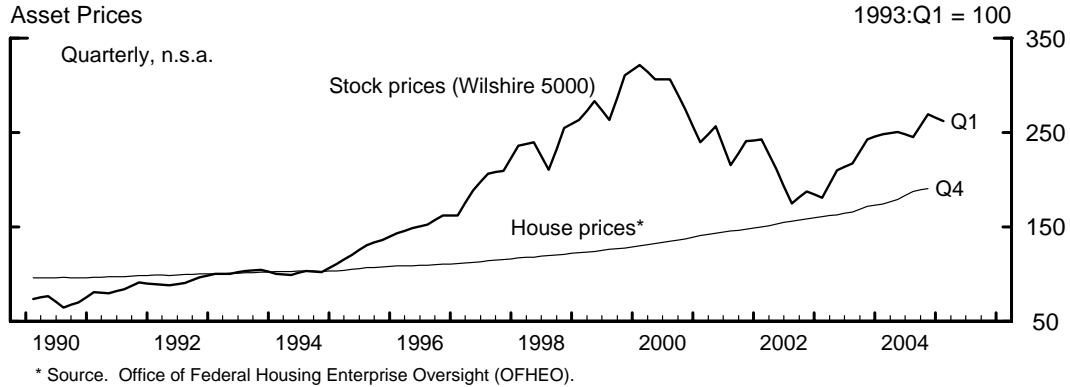
Household Bankruptcies



Delinquency Rates



Household Assets



Net Flows into Long-Term Mutual Funds

(Billions of dollars, monthly rate)

Fund type	2003	2004	2004		2005		Assets Feb.	
			Q3	Q4	Q1 ^e	Feb.		Mar. ^e
Total long-term funds	18.0	17.6	11.7	18.3	22.3	29.1	18.0	6,250
Equity funds	12.7	14.9	6.9	13.0	15.4	22.4	13.9	4,416
Domestic	10.7	9.3	3.8	5.9	4.8	10.5	2.1	3,687
International	2.0	5.6	3.1	7.1	10.6	11.9	11.7	730
Hybrid funds	2.7	3.6	2.8	3.2	4.5	4.3	3.9	529
Bond funds	2.6	-0.9	2.0	2.1	2.4	2.3	0.3	1,304
High-yield	2.2	-0.8	0.5	0.5	-2.1	-0.1	-4.3	157
Other taxable	1.0	1.1	2.0	1.9	4.1	1.6	4.8	817
Municipals	-0.6	-1.1	-0.5	-0.3	0.5	0.7	-0.2	331

Note. Excludes reinvested dividends.

^e Staff estimates based on confidential ICI weekly data.

Source. Investment Company Institute.

Treasury Financing
(Billions of dollars)

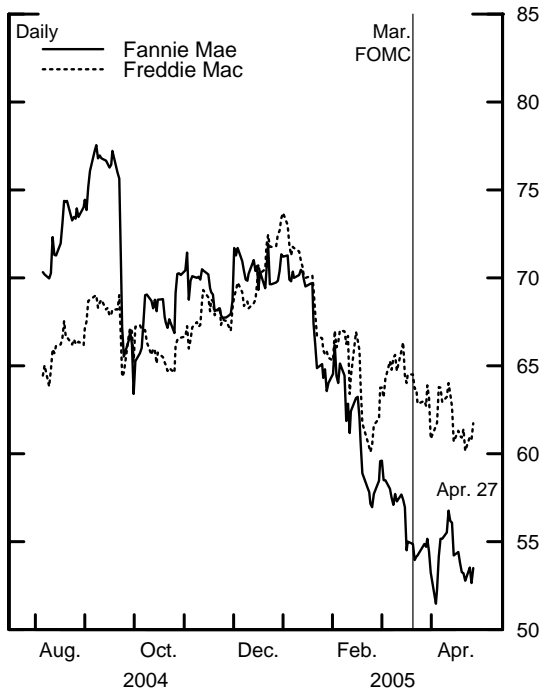
Item	2004			2005		
	Q2	Q3	Q4	Q1	Feb.	Mar.
Total surplus, deficit (-)	-25.7	-85.7	-118.1	-176.6	-113.9	-71.2
Means of financing deficit	40.7	83.4	102.1	164.7	79.5	65.0
Net borrowing						
Nonmarketable	6.2	-5.2	2.4	20.8	-0.7	16.1
Marketable	34.5	88.6	99.7	99.7	80.2	49.0
Bills	-34.9	14.3	43.6	55.7	43.9	28.2
Coupons	69.4	74.3	56.0	88.2	36.2	20.8
Decrease in cash balance	-23.3	8.3	11.7	2.2	41.7	-2.8
Other ¹	8.3	-6.0	4.3	9.7	-7.2	9.0
Memo:						
Cash balance, end of period	44.6	36.3	24.7	22.4	19.6	22.4

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

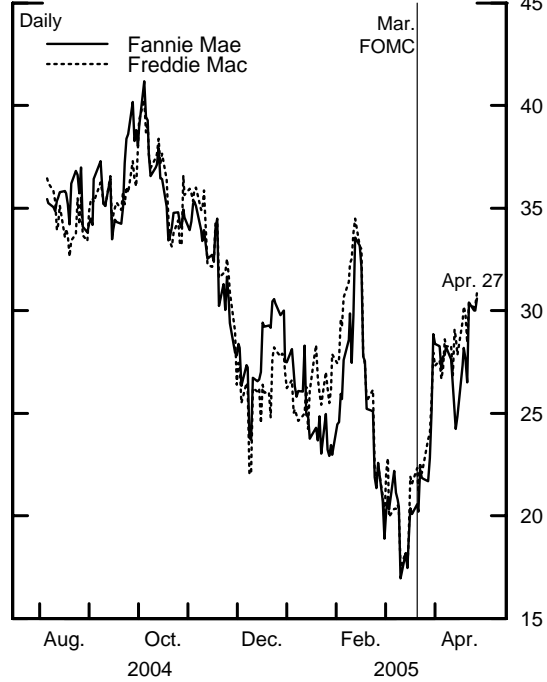
1. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.

GSE Market Developments

GSE Stock Prices



Ten-Year GSE Yield Spreads to Treasury



Note. GSE yields based on senior unsecured debt.

first part of April. Consumer credit continues to run moderately above its year-earlier levels.

On April 20, the President signed into law bankruptcy reform legislation designed to reduce incentives for individuals to file for bankruptcy. News of the legislation's impending passage appeared to have sparked a surge of personal bankruptcy filings in March, which have continued apace in April. Despite this surge, other measures of household credit quality, including a variety of delinquency rates, have continued to improve modestly.

With broad stock price indexes down so far this year, the ratio of household net worth to disposable personal income has likely edged lower. Flows to domestic equity mutual funds softened in March and early April in line with declines in equity prices.

Treasury and Agency Finance

Over the intermeeting period, the Treasury auctioned five- and ten-year TIPS as well as two- and five-year nominal coupon securities. The TIPS auctions were well received, but the demand for nominal securities was only lukewarm: The bid-to-cover ratios and indirect bids—a proxy for demand for Treasuries from foreign official institutions—were below recent averages, consistent with the ebbing of this demand suggested by the Treasury's data on international capital flows. The same data, however, suggest that private foreign demand for Treasuries has strengthened appreciably in recent months. Late in the period, investors took note of remarks by Treasury Secretary Snow that seemed to hint that the Treasury may be considering reintroducing sales of thirty-year bonds.

Fannie Mae's stock price ended the period down only slightly, on net, despite reports of further violations of accounting rules and Chairman Greenspan's and Secretary Snow's remarks supporting limits on the size of the investment portfolios of the housing GSEs. Freddie Mac's share price, by contrast, declined more after the company's delayed 2004 earnings report showed a drop in net income of 41 percent. Spreads of yields on GSEs' senior unsecured debt relative to those on comparable-maturity Treasuries have widened 10 basis points since the last FOMC meeting.

State and Local Government Finance

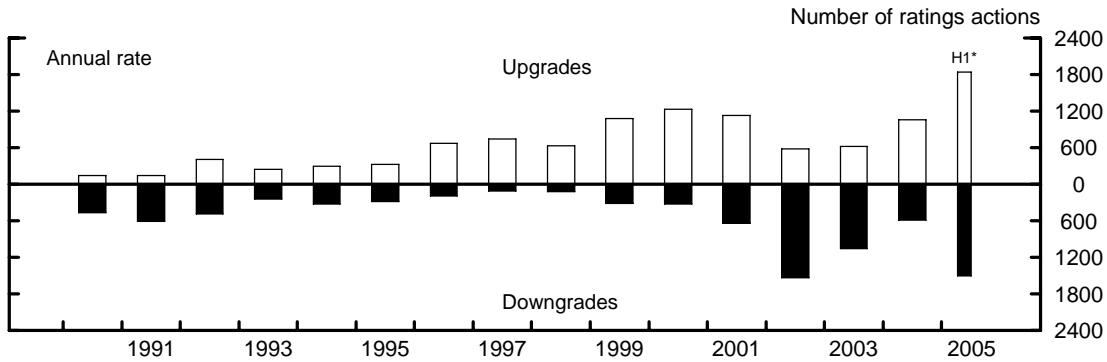
Gross Offerings of Municipal Securities

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

Type of security	2002	2003	2004	2005			
				Jan.	Feb.	Mar.	Apr. ^e
Total	36.3	37.9	34.6	24.8	33.0	45.9	32.0
Long-term ¹	30.3	32.0	29.8	22.5	31.3	44.2	31.0
Refundings ²	10.1	10.0	10.7	9.3	15.0	21.3	14.0
New capital	20.2	22.1	19.1	13.3	16.3	22.9	17.0
Short-term	6.0	5.8	4.9	2.3	1.7	1.7	1.0
Memo: Long-term taxable	1.7	3.5	2.1	1.1	1.9	1.4	1.0

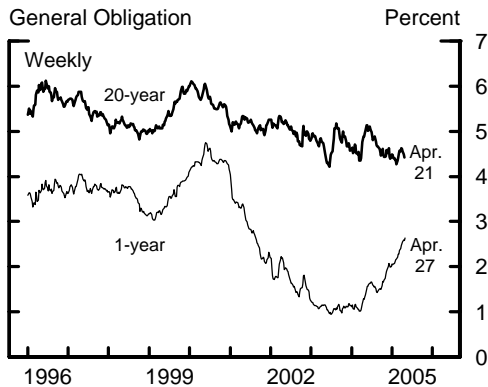
- 1. Includes issues for public and private purposes.
- 2. All issues that include any refunding bonds.
- e. Staff estimate based on preliminary data through April 21.

Ratings Changes



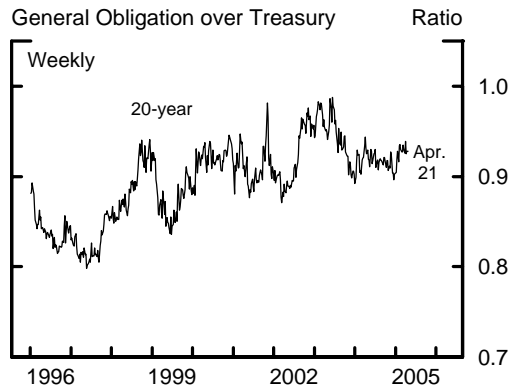
* Data through April 20 at an annual rate.
Source. S&P's Credit Week Municipal and Ratings Direct.

Municipal Bond Yields



Source. Bloomberg and Bond Buyer.

Municipal Bond Yield Ratio



Source. Bond Buyer.

State and Local Government Finance

Gross issuance of long-term municipal bonds continued at a rapid pace in March and April. Investments in transportation- and education-related projects fueled new capital issuance, and still-low interest rates supported a spate of advance refunding issues. In contrast, short-term issuance remained weak in the first quarter, likely a reflection of improving budget situations in many states.

The downgrade of a portion of Michigan's debt—related to the difficulties of Ford and GM—cut into the ongoing improvement in overall municipal credit quality over the past several quarters. This downgrade, which affected a multitude of small bonds issued by nearly every school district in the state, accounts for almost all of the downgrades so far in 2005 but amounts to only about \$2 billion of outstanding debt. Long-term municipal bond yields edged down in recent weeks, and the ratio of these yields to comparable-maturity Treasury yields was about unchanged over the intermeeting period.

Money and Bank Credit

The growth of M2 is estimated to have slowed further in April from an already subdued first-quarter pace. A contraction in liquid deposits—likely a consequence of their higher opportunity cost—accounted for the bulk of deceleration. In contrast, small time deposits, whose yields have kept pace with rising market interest rates, continued to grow briskly. The prolonged runoff of retail money market mutual funds appears to have slowed recently, as higher market interest rates have shown through to money fund yields, boosting the relative attractiveness of this M2 component.

Bank credit growth slowed sharply in April, as banks' holdings of securities contracted after outsized increases in the first quarter. Loan growth also slowed but is estimated to have remained brisk, and C&I and real estate loans continued to register large gains. The robust expansion in commercial lending is consistent with the most recent Senior Loan Officer Opinion Survey, which indicated a noticeable increase in the demand for C&I and commercial real estate loans over the past three months. A significant proportion of survey respondents also reported that, over the same period, they have eased their lending standards and terms on these types of loans.

Monetary Aggregates
(Based on seasonally adjusted data)

Aggregate or component	2003	2004	2004	2005	2005		Level (billions of dollars), Apr. (e)
			Q4	Q1	Mar.	Apr. (e)	
<i>Aggregate</i>	Percent change (annual rate) ¹						
1. M2 ²	5.5	5.2	5.7	3.6	3.6	2.0	6,486
2. M3 ³	4.9	5.8	3.7	4.2	2.6	6.9	9,587
<i>Components of M2⁴</i>							
3. Currency	5.9	5.5	5.0	3.7	3.8	1.4	705
4. Liquid deposits ⁵	14.1	10.0	8.5	3.4	2.3	-2.2	4,203
5. Small time deposits	-9.3	-.3	5.5	13.2	19.8	21.6	866
6. Retail money market funds	-11.4	-11.8	-9.5	-6.4	-8.5	4.4	704
<i>Components of M3</i>							
7. M3 minus M2 ⁶	3.6	7.1	-.4	5.7	.4	17.1	3,101
8. Large time deposits, net ⁷	4.3	20.9	10.0	35.0	18.0	52.7	1,212
9. Institutional money market funds	-5.6	-5.7	-12.2	-10.5	-5.4	14.8	1,048
10. RPs	14.1	.9	-18.0	-20.6	-19.1	-46.9	470
11. Eurodollars	29.3	27.1	34.4	5.7	-10.9	-3.9	371
<i>Memo</i>							
12. Monetary base	5.9	5.5	4.5	3.7	2.8	10.3	773
	Average monthly change (billions of dollars) ⁸						
<i>Selected managed liabilities at commercial banks</i>							
13. Large time deposits, gross	-1.1	14.8	9.9	26.2	8.7	41.0	1,313
14. Net due to related foreign institutions	3.1	-10.4	-3.5	21.1	12.0	-57.9	47
15. U.S. government deposits at commercial banks	-.3	.2	1.9	1.9	13.7	8.0	40

1. For the years shown, Q4-to-Q4 percent change. For the quarters shown, based on quarterly averages.

2. Sum of currency, liquid deposits (demand, other checkable, savings), small time deposits, retail money market funds, and nonbank traveler's checks.

3. Sum of M2, net large time deposits, institutional money market funds, RP liabilities of depository institutions, and Eurodollars held by U.S. addressees.

4. Nonbank traveler's checks not listed.

5. Sum of demand deposits, other checkable deposits, and savings deposits.

6. Sum of large time deposits, institutional money market funds, RP liabilities of depository institutions, and Eurodollars held by U.S. addressees.

7. Net of holdings of depository institutions, money market funds, U.S. government, and foreign banks and official institutions.

8. 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.

e Estimated.

Commercial Bank Credit

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

Type of credit	2003	2004	Q4 2004	Q1 2005	Mar. 2005	Apr. ^e 2005	Level, Apr. 2005 ^e (\$ billions)
Total							
1. Adjusted¹	5.9	8.7	5.3	13.4	17.8	3.3	6,811
2. Reported	5.6	8.2	5.6	11.2	14.5	4.7	6,948
<i>Securities</i>							
3. Adjusted ¹	8.6	6.1	-5	22.9	24.8	-14.0	1,840
4. Reported	7.2	4.8	.8	14.5	13.0	-8.0	1,978
5. Treasury and agency	8.9	4.7	-11.4	18.4	-.9	-25.0	1,184
6. Other ²	4.9	4.8	21.1	8.3	35.1	18.3	794
<i>Loans³</i>							
7. Total	4.9	9.6	7.5	9.9	15.1	9.9	4,971
8. Business	-9.4	1.2	6.0	15.1	8.3	16.7	940
9. Real estate	11.1	13.7	12.9	12.6	23.8	12.3	2,666
10. Home equity	30.8	43.3	37.3	18.2	23.3	11.6	419
11. Other	8.8	9.6	8.7	11.6	23.9	12.5	2,247
12. Consumer	5.4	8.6	-1.9	7.1	10.4	5.8	689
13. Adjusted ⁴	5.8	5.8	2.3	4.1	2.5	-1.3	1,048
14. Other ⁵	6.8	7.9	-6	-4.0	-3.9	-4.8	676

Note. Data are adjusted to remove estimated effects of consolidation related to FIN 46 and for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates are percentage changes in consecutive levels, annualized but not compounded.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FAS 115).

2. Includes private mortgage-backed securities, securities of corporations, state and local governments, foreign governments, and any trading account assets that are not Treasury or agency securities, including revaluation gains on derivative contracts.

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.

e Estimated.

Appendix

Senior Loan Officer Opinion Survey on Bank Lending Practices

The April 2005 Senior Loan Officer Opinion Survey on Bank Lending Practices addressed changes in the supply of, and demand for, bank loans to businesses and households over the past three months. The survey contained special questions on the net changes in C&I lending standards and terms since 1996-97 and on the reasons for those changes. This appendix reports the responses from fifty-four domestic banks and nineteen foreign banking institutions.

As has been the case since the beginning of 2004, notable fractions of banking institutions reported in the latest survey that they had eased lending standards and terms for C&I loans over the past three months. Banks that eased standards or terms once again reported having done so in large part because of increased competition from other sources of business credit. A moderate net fraction of banks also reported having eased lending standards for commercial real estate loans over the past three months. Standards on residential mortgages were about unchanged over the past three months, and a small net fraction of banks had eased standards for consumer loans. On the demand side, domestic and, to a lesser degree, foreign banks reported an increase in demand for C&I loans and for commercial real estate loans. Also, a noticeably smaller net fraction of domestic banks reported weaker demand for residential mortgages and consumer loans than had done so in the January survey.

In response to special questions on longer-term changes in lending standards and terms on C&I loans, domestic and foreign banks reported that, on net, lending standards for C&I loans were somewhat tighter relative to 1996-97. Both groups reported, however, that many terms for C&I loans are somewhat easier, on net, than they had been in 1996 and 1997, a period thought to have been characterized by relatively accommodative lending practices. Banks whose lending standards or terms currently are tighter cited improved risk-management techniques as the primary influence on the evolution of their credit policies, whereas banks whose lending standards or terms currently are easier noted a significant increase in competition from other lenders as the primary reason.

C&I Lending

In the April survey, domestic banks as well as branches and agencies of foreign banks reported a further net easing of standards and terms on C&I loans. On net, nearly one-fourth of domestic banks reported easing their standards for large and middle-market firms over the past three months, about the same net percentage that has prevailed in recent surveys. About 70 percent of domestic and of foreign banks narrowed spreads of loan rates over their cost of funds for these borrowers in the three months ending with

April, up substantially from 45 percent in the January survey and the largest shares reported since these questions were added to the survey in 1990. A large share of the foreign branches and agencies, on net, also reported reduced premiums on riskier loans and lower fees on credit lines. Many domestic respondents indicated that they had eased other terms for large and middle-market firms as well: Of the respondents, 40 percent had reduced the costs of credit lines, and about one-fourth had eased covenant restrictions, increased the maximum size of loans, or did both. For small firms, nearly one-fourth of domestic banks had eased lending standards—up from 13 percent in January—and more than half had trimmed spreads, on net.

All the domestic institutions that had eased their lending standards and terms over the past three months cited more-aggressive competition from other banks or nonbank lenders as a somewhat important or—much more commonly—a very important reason for doing so. In addition, about half of those respondents cited a more-favorable or less-uncertain economic outlook as a reason for their move toward a less-stringent lending posture, although that figure was down from 60 percent in January. A notable share of domestic respondents that had eased standards or terms also indicated that the change reflected a higher tolerance for risk and greater liquidity in the secondary market. Branches and agencies of foreign banks that had eased lending terms also universally emphasized the importance of increased competition from other lenders, and half of the foreign respondents, on net, noted increased liquidity in secondary loan markets.

On net, 37 percent of domestic institutions—down from 45 percent in the January survey—reported an increase in demand for C&I loans from large and middle-market firms. The same net fraction of domestic respondents also indicated that demand from small firms had increased—up a bit from the previous survey. The domestic respondents experiencing stronger loan demand most frequently pointed to their borrowers' increased financing needs for investment in plant and equipment, accounts receivable, and inventory financing as sources of increased demand. The survey results for foreign banks suggest that demand was somewhat stronger, on net, and the banks that reported an increase credited mainly merger and acquisition financing for the change. About

40 percent of the domestic respondents, on net—down from nearly 50 percent in the January survey—reported that inquiries from potential business borrowers had increased over the past three months. At foreign banks, about one-fifth of branches and agencies, on net—up from 10 percent in the previous survey—reported an increase in inquiries from potential business borrowers over the past three months.

Longer-term changes in C&I lending conditions. Notable fractions of respondents to this survey have been reporting an easing of standards or terms, on net, since the beginning of 2004, and other sources suggest that C&I loan spreads have reached levels near those prevailing before lending terms began to tighten in 1998. Against this background, respondent banks were asked to compare their current standards and terms on C&I loans with those that they offered on similar loans in 1996-97.

The results for lending standards point to a somewhat more-stringent lending posture. A small net fraction of domestic banks reported that their standards for loans to large and mid-sized firms were tighter than they had been in 1996 and 1997. The fraction of domestic banks that viewed their current lending standards for loans to small firms as tighter than they had been in 1996 and 1997 was nearly equal to the fraction that indicated their standards were currently easier than they had been. Notably, the largest banks in the sample reported tighter lending standards, on net, whereas smaller banks indicated that their standards were easier now than they were in 1996 and 1997. At foreign banks, nearly half the branches and agencies characterized their lending standards as tighter than they were in 1996 and 1997, whereas only 16 percent characterized them as easier.

Both foreign and domestic banks reported that, on balance, pricing terms were currently easier than they were in 1996-97, but the net fractions reporting changes in nonprice terms were small. Half of domestic banks, on net, reported that loan spreads for large and middle-market firms were narrower than they were in the earlier period, and about one-third, on net, noted that fees on credit lines were lower. Smaller net percentages of foreign branches and agencies reported that pricing terms were easier than they were in 1996-97. Domestic banks suggested, on net, that loan covenants and collateral requirements were little changed relative to conditions in 1996-97. The net percentage of foreign banks that reported changes in loan covenants and collateral requirements was also small, although a few of those institutions indicated that they had eased these terms considerably over the period.

Not surprisingly, given the results of the most recent surveys, almost all the domestic banks and all the foreign banks that said that their C&I loan standards and terms were easier now than earlier reported that competition from other banks and nonbank lenders was a very important reason for the change. A large majority also noted that improved measurement and management of risk had increased their tolerance for risk. At the same time, however, a substantial fraction of the domestic and foreign banks that reported tighter current lending standards or terms indicated that improved measurement and management of risk had reduced their tolerance for risk. Almost half the domestic banks and two-thirds of the foreign banks that reported having tighter

lending conditions now than in the earlier period also noted increased concerns about corporate governance and financial reporting.

Commercial Real Estate Lending

Almost one-fourth of the domestic respondents, on net, had eased lending standards on commercial real estate loans over the past three months, about the same fraction as in the January survey. All but one of the twelve foreign branches and agencies active in commercial real estate lending reported unchanged standards. On net, 20 percent of the domestic respondents reported stronger demand for these loans in the April survey, nearly the same fraction as in the January survey. One-third of the foreign banks noted that demand had increased somewhat over the past three months, up from 15 percent in January.

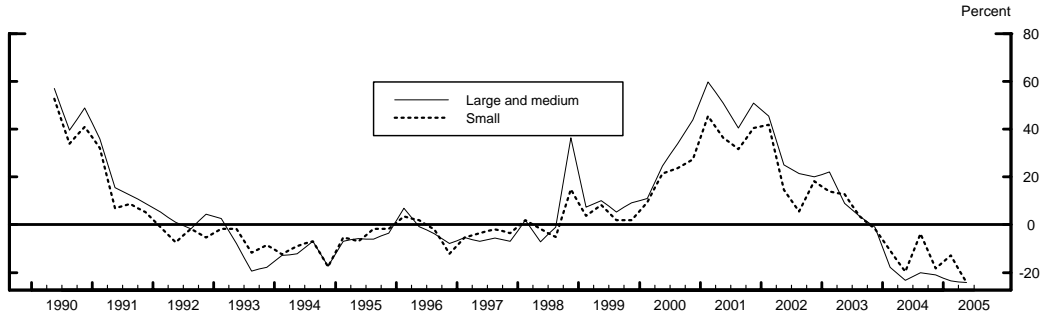
Lending to Households

Credit standards on residential mortgages were largely unchanged, on net, in the April survey, in contrast to a small net easing of standards in January. Though demand for residential mortgage loans reportedly weakened again over the past three months, the net fraction of banks reporting lower demand fell to 18 percent, compared with about 25 percent in the past two surveys.

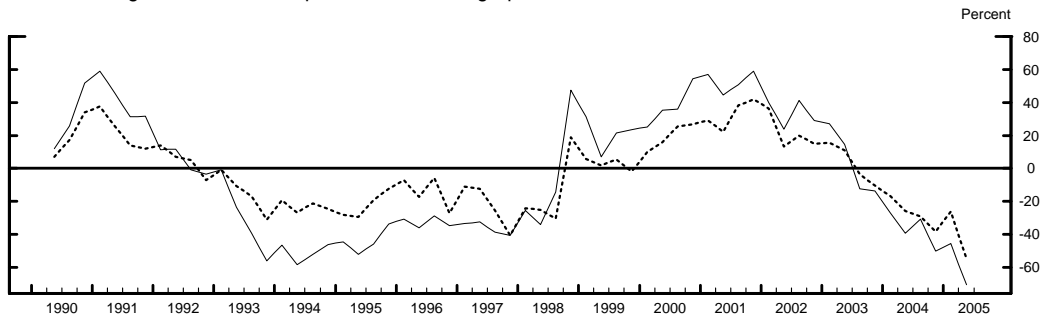
As has been the case since the middle of 2003, about 15 percent of the domestic respondents reported an increased willingness to make consumer installment loans. About 10 percent of banks, on net, indicated that they had eased standards on credit cards and non-credit-card consumer loans. Terms on consumer loans changed at only a few banks, and the movements were mixed. On net, banks indicated that demand for consumer loans weakened over the past three months, but the fraction doing so declined to 20 percent from 26 percent in January and nearly 30 percent last October.

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

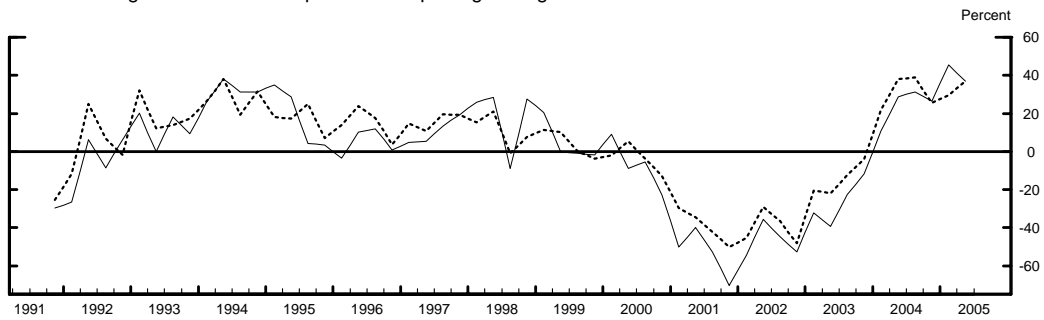
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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

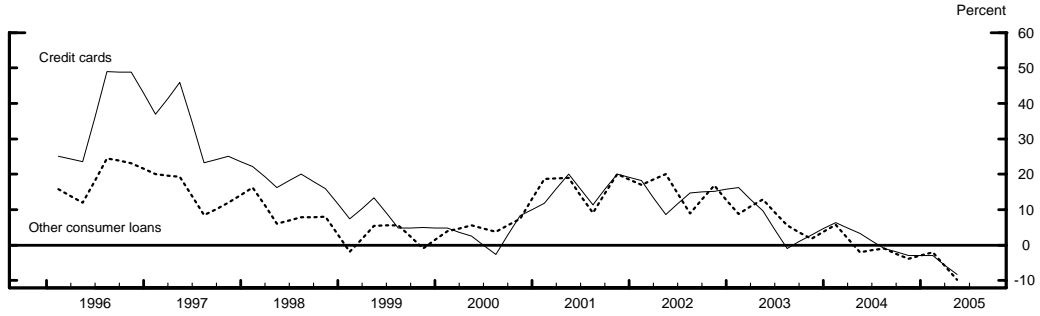


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

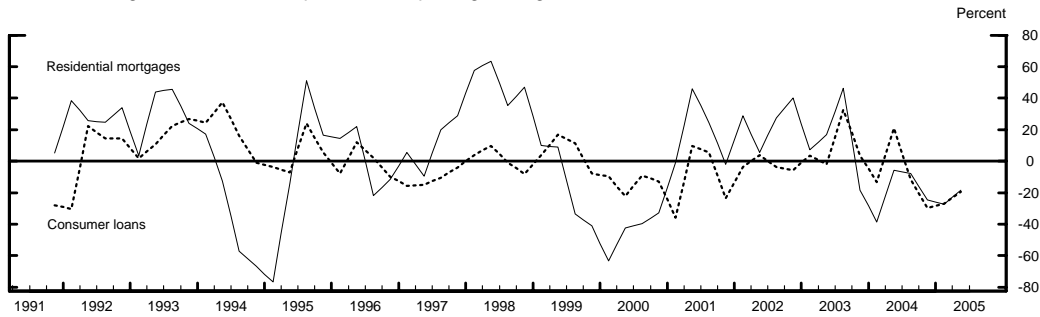


Measures of Supply and Demand for Loans to Households

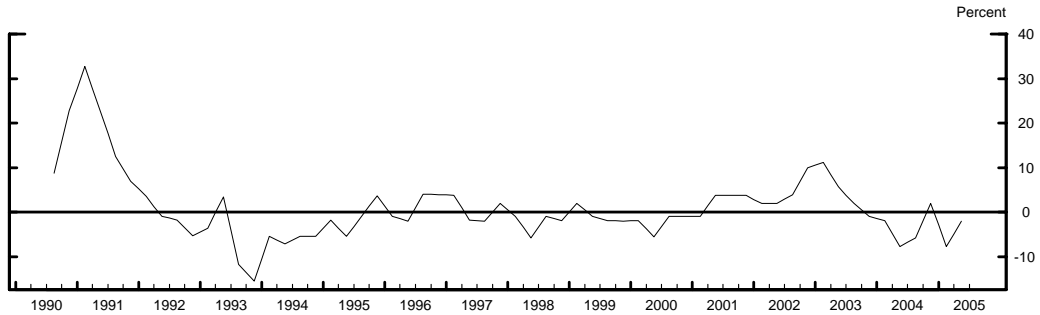
Net Percentage of Domestic Respondents Tightening Standards on Consumer Loans



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. international trade deficit widened to \$61 billion in February from \$58.5 billion in January (revised).

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

	2004	Annual rate			Monthly rate		
		2004		2005	2004	2005	
		Q3	Q4	Q1 ^e	Dec.	Jan.	Feb.
<i>Real NIPA¹</i>							
Net exports of G&S	-583.7	-583.2	-621.1	n.a.	...	...	...
<i>Nominal BOP</i>							
Net exports of G&S	-617.1	-623.5	-684.2	-717.2	-55.7	-58.5	-61.0
Goods, net	-665.5	-668.1	-734.2	-763.2	-59.9	-62.5	-64.7
Services, net	48.4	44.6	50.0	46.0	4.1	4.0	3.7

1. Billions of chained (2000) dollars.

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

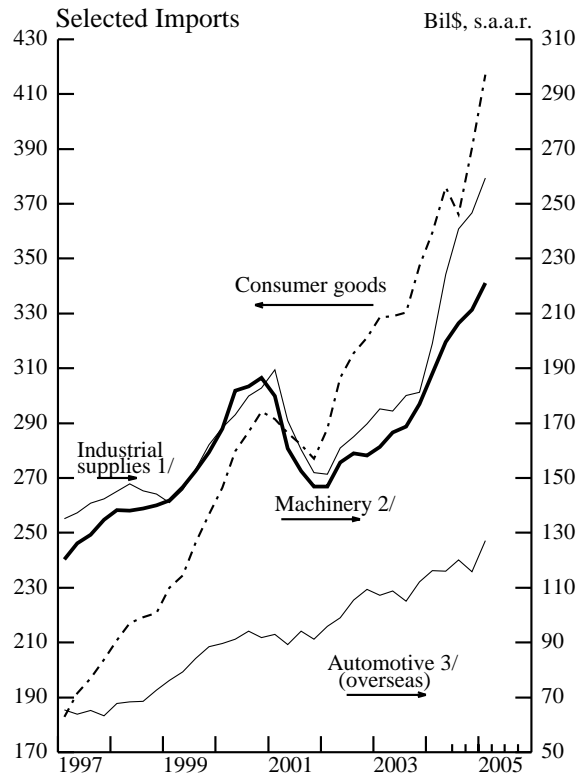
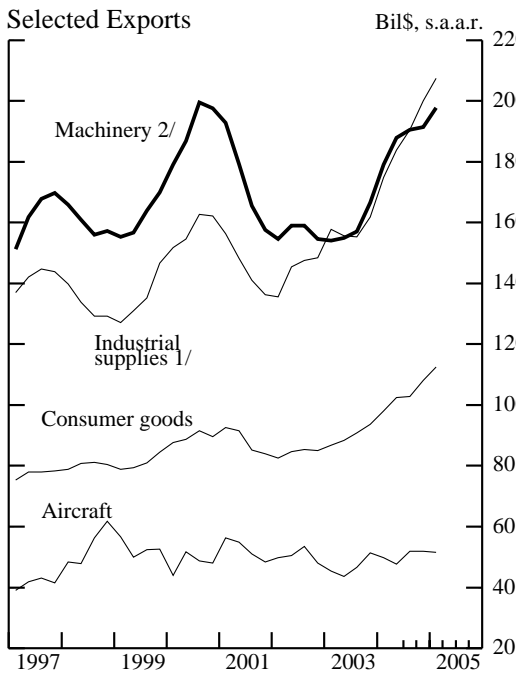
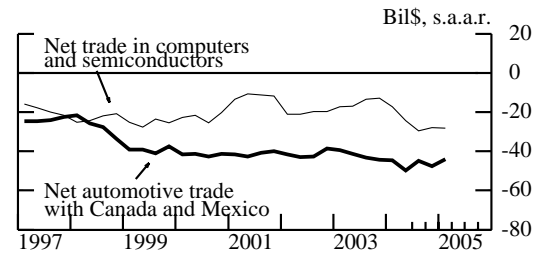
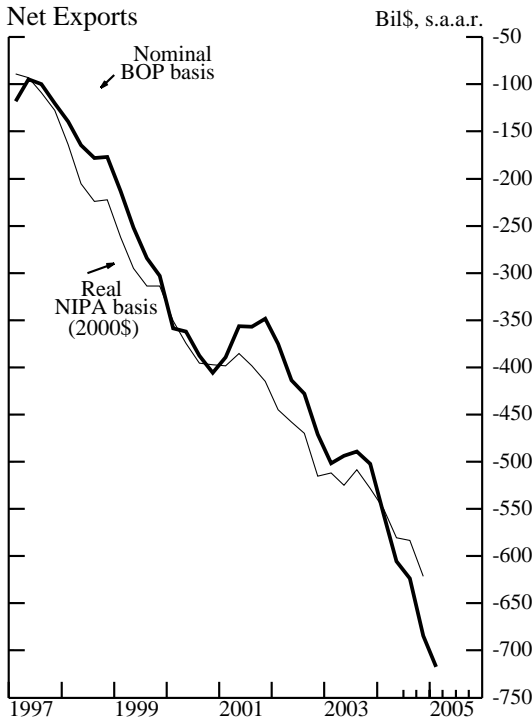
Source. U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

In February, as in January, the value of exports of goods and services was flat. Strong increases in exports of both industrial supplies and consumer goods in February were offset by decreases in exports of automotive products and capital goods, with particularly sharp declines in exports of computers and telecommunications products. Services exports were little changed from January. Although exports of goods and services did not increase in January or February, they maintained December's strong level. Consequently, nominal exports in January and February combined were 7.6 percent (a.r.) above the fourth-quarter average.

The value of imported goods and services increased 1.6 percent in February following 1.8 percent growth in January. The value of imported oil jumped sharply, and imports of non-oil goods and services also increased. Among non-oil goods, imports of industrial supplies, consumer goods, and automotive products exhibited sizable gains, more than offsetting a large decrease in imports of capital goods. Among consumer goods, imports of pharmaceuticals and cotton apparel were particularly strong. Within capital goods, imports of aircraft, semiconductors, and other capital goods fell sharply. In January and February combined, imports of goods and services were more than 12 percent (a.r.) above their fourth-quarter level.

U.S. International Trade in Goods and Services



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

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

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

	Levels				Change ¹			
	2004	2005	2005		2004	2005	2005	
	Q4	Q1 ^e	Jan.	Feb.	Q4	Q1 ^e	Jan.	Feb.
Exports of G&S	1183.5	1205.5	1205.2	1205.8	23.2	22.0	0.1	0.6
Goods exports	834.2	853.7	853.3	854.1	14.2	19.4	-0.3	0.8
Gold	4.9	5.0	5.8	4.2	-0.0	0.1	0.8	-1.6
Other goods	829.3	848.7	847.5	849.8	14.2	82.1	-1.1	2.4
Aircraft & parts	51.9	51.6	50.9	52.2	0.0	-0.3	-1.0	1.3
Computers & accessories	43.6	44.4	45.2	43.6	0.4	0.7	-0.5	-1.6
Semiconductors	46.0	43.9	43.9	43.8	-0.4	-2.1	-0.8	-0.1
Other capital goods	194.5	200.6	202.6	198.7	1.2	6.1	0.2	-3.9
Automotive	91.9	95.4	96.9	93.8	-0.3	3.5	3.2	-3.1
to Canada	50.7	52.4	53.8	51.0	-1.4	1.8	-0.2	-2.8
to Mexico	16.3	14.6	14.1	15.2	1.7	-1.6	0.5	1.1
to ROW	25.0	28.3	29.0	27.6	-0.6	3.3	2.9	-1.5
Agricultural	62.8	61.6	61.6	61.6	1.6	-1.2	-1.1	0.0
Ind supplies (ex. ag, gold)	200.1	207.5	204.1	211.0	9.6	7.4	-0.9	6.9
Consumer goods	108.1	112.5	110.7	114.2	5.3	4.4	-2.1	3.5
All other goods	30.4	31.2	31.6	30.9	-3.3	0.8	1.1	-0.7
Services exports	349.3	351.8	351.9	351.7	9.0	2.5	0.4	-0.2
Imports of G&S	1867.7	1922.7	1907.2	1938.2	83.9	55.0	33.2	31.0
Goods imports	1568.4	1616.9	1602.9	1630.9	80.3	48.5	31.0	28.1
Petroleum	217.3	208.6	198.4	218.8	38.2	-8.7	-11.2	20.4
Gold	4.8	3.7	3.5	3.8	0.8	-1.1	-2.0	0.3
Other goods	1346.3	1404.6	1400.9	1408.3	41.2	58.3	44.1	7.4
Aircraft & parts	28.0	25.8	27.8	23.8	3.7	-2.2	-0.3	-4.1
Computers & accessories	91.9	91.3	91.3	91.3	0.3	-0.6	-2.2	0.0
Semiconductors	25.5	25.1	25.8	24.4	-2.1	-0.4	1.8	-1.3
Other capital goods	213.8	223.6	225.5	221.6	5.3	9.8	8.4	-3.9
Automotive	230.4	238.2	237.3	239.1	-1.1	7.8	6.9	1.8
from Canada	70.5	72.1	69.7	74.5	1.1	1.6	-1.1	4.7
from Mexico	44.1	39.0	35.9	42.2	2.0	-5.0	-3.4	6.3
from ROW	115.9	127.1	131.7	122.5	-4.2	11.2	11.5	-9.2
Ind supplies (ex. oil, gold)	246.6	259.4	255.8	263.1	5.8	12.8	5.0	7.3
Consumer goods	390.4	417.1	413.0	421.1	24.2	26.7	21.4	8.1
Foods, feeds, bev.	65.0	66.9	66.8	66.9	4.1	1.9	0.0	0.1
All other goods	54.7	57.2	57.6	56.9	1.1	2.5	3.1	-0.7
Services imports	299.3	305.8	304.4	307.3	3.6	6.5	2.2	2.9
<i>Memo:</i>								
Oil quantity (mb/d)	14.55	14.98	14.62	15.35	1.53	0.42	-0.51	0.73
Oil import price (\$/bbl)	40.90	38.09	37.15	39.03	3.33	-2.81	-0.70	1.88

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

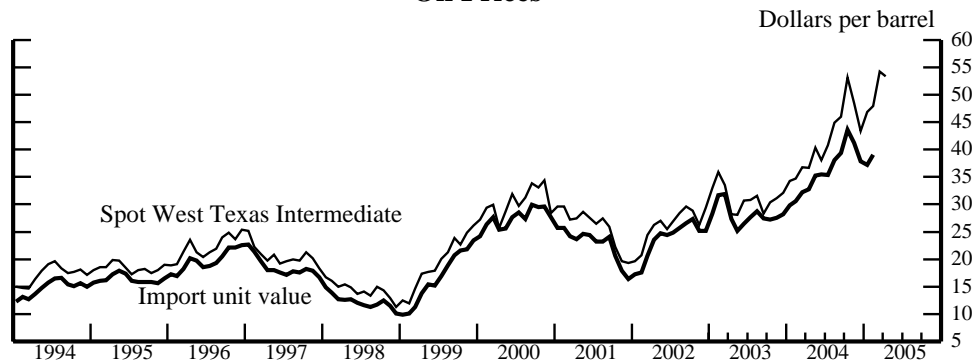
Source. U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

	Annual rate			Monthly rate		
	2004		2005	2005		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
	----- BLS prices -----					
Merchandise imports	7.9	7.3	2.6	0.6	0.8	1.8
Oil	57.1	35.3	-6.1	2.3	4.6	10.6
Non-oil	1.5	3.2	4.2	0.3	0.1	0.3
Core goods*	2.4	4.2	5.1	0.4	0.2	0.4
Cap. goods ex comp & semi	1.6	2.6	5.2	0.7	0.2	0.0
Automotive products	1.7	2.4	0.4	0.0	0.0	0.0
Consumer goods	-0.4	1.2	4.4	0.6	0.5	-0.4
Foods, feeds, beverages	3.3	10.7	10.1	-0.2	1.0	3.4
Industrial supplies ex oil	8.3	11.1	8.4	0.1	-0.3	1.1
Computers	-9.0	-7.3	-6.2	-0.7	-0.7	-0.7
Semiconductors	-4.4	-4.9	-1.7	-0.2	-0.1	0.1
Merchandise exports	-0.1	3.6	5.1	0.9	0.0	0.7
Core goods*	0.6	4.8	6.4	1.1	0.0	0.8
Cap. goods ex comp & semi	1.3	3.3	3.9	0.6	0.1	0.2
Automotive products	0.9	1.2	1.6	0.2	0.1	0.1
Consumer goods	2.3	0.1	2.5	0.6	-0.2	0.0
Agricultural products	-31.0	-11.5	2.1	0.6	-1.0	3.7
Industrial supplies ex ag	14.5	17.2	13.6	2.0	0.4	1.2
Computers	-7.6	-9.2	-8.5	-1.1	0.0	-1.1
Semiconductors	-3.9	-1.7	-1.2	-0.1	-0.3	-0.3
	----- NIPA prices -----					
Chain price index						
Imports of goods & services	5.1	7.7	n.a.	...	...	...
Non-oil merchandise	1.3	3.2	n.a.	...	...	...
Core goods*	2.3	4.3	n.a.	...	...	...
Exports of goods & services	1.6	3.9	n.a.	...	...	...
Total merchandise	1.2	3.9	n.a.	...	...	...
Core goods*	1.8	5.0	n.a.	...	...	...

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

Oil Prices



Prices of Internationally Traded Goods

Non-oil imports. In March, the prices of U.S. imports of non-oil goods and of core goods rose 0.3 and 0.4 percent, respectively. The material-intensive categories of foods, feeds, and beverages and non-oil industrial supplies were the main contributors to the price increase. Prices for non-oil industrial supplies rose 1.1 percent in March, mainly on higher prices for building materials, natural gas, and chemicals. Food prices rose 3.4 percent, reflecting higher vegetable prices. The categories of finished goods experienced either unchanged prices or price declines in March. Prices for imported consumer goods fell 0.4 percent. Within consumer goods, apparel prices fell 0.2 percent. For both capital goods (excluding computers and semiconductors) and automotive products, prices were unchanged. Prices for computers fell 0.7 percent in March, and those for semiconductors edged up.

The average level of imported core goods prices in the first quarter was 5 percent at an annual rate above the fourth-quarter level. All of the major categories, except automotive products, registered substantial price gains. Due to price increases in the first two months of the quarter, the inflation rates for both capital goods (excluding computers and semiconductors) and consumer goods moved noticeably higher.

Oil. The BLS price of imported oil rose 10.6 percent in March. The spot price of West Texas Intermediate crude oil rose 13 percent in March—averaging more than \$54 per barrel. The spot price rose to a new high of more than \$57 per barrel on April 1, but has retraced those gains in response to a rise in U.S. crude oil inventories, closing at \$54.21 per barrel on April 26. Oil prices remain elevated due to continued strong oil demand and concerns about future supplies, particularly from Iran, Iraq, Nigeria, Russia, and Venezuela.

Exports. In March, the prices of U.S. exports of total goods and of core goods rose 0.7 and 0.8 percent, respectively. As with imports, prices for material-intensive goods were the main contributors. February's 1 percent price decline for agricultural products was more than reversed by a 3.7 percent gain in March, led by higher soybean prices. Prices for industrial supplies rose 1.2 percent, as prices of fuels rose sharply. Within finished goods, exported capital goods (excluding computers and semiconductors) had

the largest price increase in March at 0.2 percent. Prices for automotive products edged up, whereas prices for consumer goods were unchanged. Prices of both exported computers and semiconductors declined.

The average level of exported core goods prices in the first quarter was 6½ percent at an annual rate above the fourth-quarter level. All categories had price increases, with industrial supplies having the largest gain.

U.S. International Financial Transactions

Private foreign purchases of U.S. securities (line 4 of the Summary of U.S. International Transactions table) continued strong in February, at a record \$67 billion. There were substantial purchases of corporate bonds (line 4c) and Treasury securities (line 4a), especially Treasury bonds. Purchases of corporate stocks (line 4d) also continued above their recent trend, but purchases of agency bonds (line 4b) moderated from high levels. Private inflows into U.S. securities in January and February combined are running roughly 50 percent above the rate recorded in 2004.

Net foreign official inflows (line 1) reversed to a slight outflow in February for the first time since April 2003. Most of the \$17 billion swing from January to February was accounted for by notably smaller inflows from China and by outflows from Norway, where monthly data have been volatile. China's small net inflow reflected a significant decline in holdings of short-term securities that was offset by an even larger increase in holdings of long-term securities. The increase in holdings of long-term securities was only partially captured by the TIC system, with the rest inferred from an increase in custody holdings at the Federal Reserve Bank of New York (FRBNY). (In general, the TIC system can only capture a subset of foreign official transactions in U.S. assets, in large part because these transactions may involve intermediaries outside the United States. Even when the TIC data are supplemented by confidential information on custody holdings at FRBNY, our measurement of these flows may be incomplete.) Data from FRBNY indicate relatively small net inflows from China in March and the first half of April, and custody holdings for all countries indicate moderate net inflows for March and small net outflows thus far in April.

U.S. investors made large net purchases of foreign securities (line 5) in February. Consistent with recent monthly data indicating substantial flows into world equity mutual funds, U.S. investors made large purchases of foreign stocks (line 5b). The majority of

these transactions were recorded with the United Kingdom, and 20 percent were concentrated in Japan. For the second month in row, U.S. investors sold a small amount of foreign bonds (line 5a).

The volatile banking sector (line 3) registered a slight net inflow in February, reversing only a small part of the substantial outflow in January.

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

	2003	2004	2004				2005	
			Q1	Q2	Q3	Q4	Jan.	Feb.
Official financial flows	250.1	361.2	137.1	69.2	71.1	83.8	20.0	.9
1. Change in foreign official assets in the U.S. (increase, +)	248.6	358.4	136.5	68.1	70.7	83.1	16.2	-8
a. G-10 countries	114.7	162.7	96.7	46.2	20.3	-.4	1.4	.8
b. OPEC countries	6.1	12.1	3.5	-2.3	3.6	7.3	3.2	-2.2
c. All other countries	127.8	183.6	36.3	24.2	46.8	76.3	11.6	.6
2. Change in U.S. official reserve assets (decrease, +)	1.5	2.8	.6	1.1	.4	.7	3.8	1.7
Private financial flows	295.6	254.3	1.4	95.4	57.6	100.0	...	...
Banks								
3. Change in net foreign positions of banking offices in the U.S. ¹	64.7	-26.9	-42.7	33.6	-23.1	5.3	-61.6	5.9
Securities²								
4. Foreign net purchases of U.S. securities (+)	361.8	512.1	89.1	151.8	88.4	182.7	57.9	66.5
a. Treasury securities	116.7	117.3	41.5	64.4	-.8	12.2	12.8	23.5
b. Agency bonds	-15.9	90.2	-.8	29.9	5.8	55.3	14.4	5.5
c. Corporate and municipal bonds	222.9	242.1	42.9	48.0	81.7	69.5	13.5	26.3
d. Corporate stocks ³	38.1	62.6	5.5	9.6	1.7	45.8	17.1	11.3
5. U.S. net acquisitions (-) of foreign securities	-94.1	-106.7	-13.8	-25.5	-48.8	-18.7	-.3	-14.8
a. Bonds	20.7	-19.8	3.1	14.9	-31.8	-6.0	5.8	1.5
b. Stock purchases	-97.4	-96.0	-16.8	-27.7	-16.4	-35.1	-6.1	-16.3
c. Stock swaps ³	-17.4	9.1	.0	-12.7	-.6	22.4	.0	.0
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-173.8	-248.5	-48.0	-55.9	-43.3	-101.3	...	...
7. Foreign direct investment in U.S.	39.9	115.5	10.5	32.9	35.9	36.3	...	...
8. Foreign holdings of U.S. currency	16.6	14.8	-1.8	8.8	2.6	5.3	...	...
9. Other (inflow, +) ⁴	80.4	-6.1	8.1	-50.3	45.8	-9.7	...	...
U.S. current account balance (s.a.)	-530.7	-665.9	-147.5	-164.7	-165.9	-187.9	...	...
Capital account balance (s.a.)⁵	-3.1	-1.5	-0.4	-0.3	-0.4	-0.4	...	...
Statistical discrepancy (s.a.)	-12.0	51.9	9.4	0.5	37.5	4.5	...	...

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

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

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

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

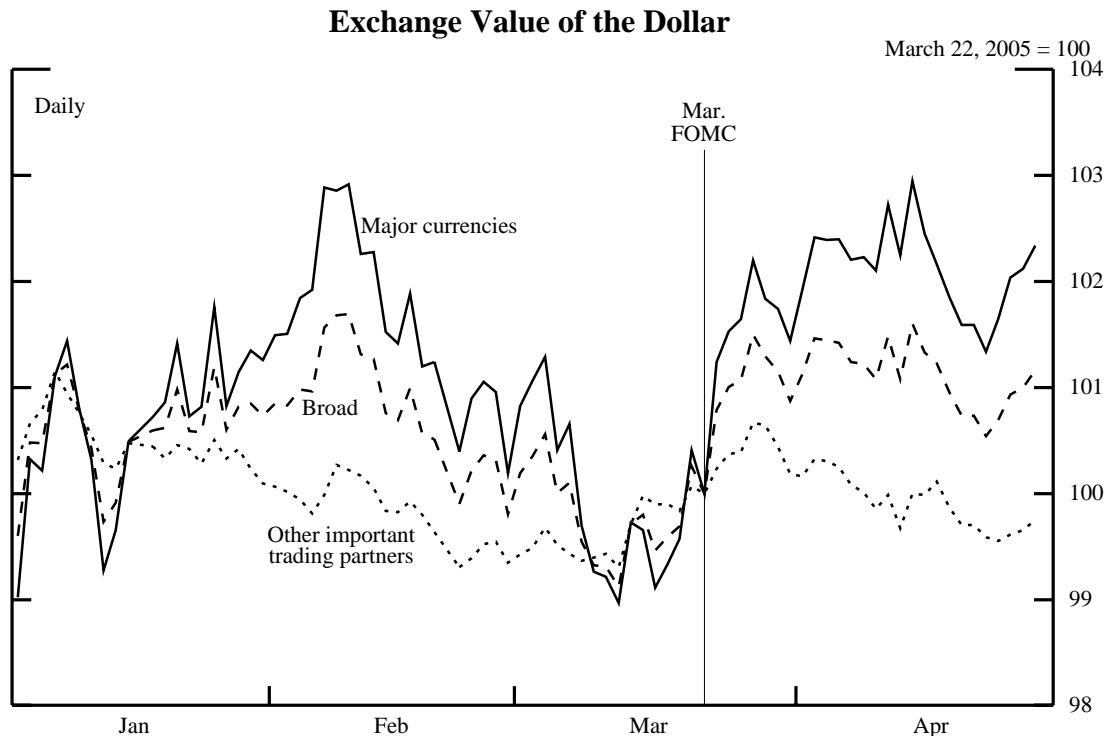
4. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business

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

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

Foreign Financial Markets

On a trade-weighted basis, the exchange value of the dollar against major foreign currencies rose $2\frac{1}{4}$ percent on net this intermeeting period. This increase largely reflects broad-based dollar appreciation in the week following the March FOMC announcement. During April, the major currencies index was somewhat volatile but changed little on net as the dollar's bilateral movements against currencies in the index were approximately offsetting; the dollar rose strongly against the Canadian dollar during April but depreciated against all other currencies in the index. The nominal broad index of the dollar's value rose 1 percent on balance over the intermeeting period.



Early in the period, the dollar was supported by expectations that the FOMC might be more aggressive in raising rates in an effort to counter inflationary pressures, as well as by higher-than-expected U.S. price data which helped reinforce these views. During April, however, data on economic activity in the United States as well as in the euro area, Canada, and Japan generally came in below expectations, and interest rates declined globally. On balance, the dollar declined modestly in April against all currencies in the major currencies index except the Canadian dollar, as U.S. benchmark bond yields declined more than their foreign counterparts.

The dollar gained over 4 percent against the Canadian dollar during the intermeeting period. The decline in the Canadian dollar came amid a significant downward shift in the expected path of short-term Canadian interest rates. Implied rates on Canadian dollar interest rate futures maturing later this year fell 30 to 40 basis points, exceeding the yield declines on comparable dollar, euro, and sterling instruments. Following Canadian employment and GDP data that were somewhat below expectations early in the period, the Bank of Canada revised down its forecast for 2005 economic growth, suggesting to some investors that the Bank of Canada could put off further rate increases. As had been widely expected, the Bank of Canada left its policy rate unchanged at 2.5 percent at its meeting on April 12. The Canadian dollar may also have been weighed down by political uncertainty associated with the possibility of early national elections due to a financial scandal involving the ruling Liberal Party. Statements by Bank of Canada Governor Dodge during the period referred to this political uncertainty as a possible contributing factor to currency volatility.

Financial Indicators in Major Industrial Countries

Country	Three-month rate		Ten-year yield		Equities
	Apr. 28 (Percent)	Percentage point change	Apr. 28 (Percent)	Percentage point change	percent change
Canada	2.58	-.07	4.14	-.25	-3.82
Japan	.05	.00	1.24	-.17	-6.04
Euro area	2.13	-.01	3.40	-.29	-3.83
United Kingdom	4.84	-.05	4.55	-.25	-3.61
Switzerland	.71	.01	2.06	-.34	-.67
Australia	5.70	-.16	5.36	-.36	-5.92
United States	3.14	.14	4.21	-.42	-2.31
Memo: Weighted-average foreign	1.95	-.03	3.58	-.24	n.a.

NOTE. Change is from March 21/22 to April 28 (10 a.m. EDT).

n.a. Not available.

Yields on benchmark bonds declined 17 basis points in Japan and 25 to 29 basis points in the euro area, the United Kingdom, and Canada. European and Japanese long-term yields fell in response to domestic data which showed less strength in recent economic activity

than had been expected, as well as disappointing U.S. data releases. On the morning of April 28, the 10-year German government bond yield reached a new historic low of 3.40 percent. Inflation data from the euro area was, in contrast, generally a bit higher than had been expected, but elicited little change in inflation compensation spreads for these countries.

Foreign three-month spot interest rates were little changed or declined slightly on net, reflecting relatively stable near-term policy expectations. As had been widely expected, the European Central Bank and the Bank of England decided to leave their respective policy rates unchanged in meetings this period. Euro yields declined slightly, however, after ECB President Trichet noted in a press conference following the ECB rate announcement that recent data from the euro area had been “mixed.”

Equity prices in Europe and Japan were generally little changed to modestly higher through the first weeks of the period, but declined sharply in the second half of April. Global share prices dropped in response to the U.S. March retail sales data and then fell further following mixed earnings reports from the technology sector. Automobile sector shares underperformed on concerns over accounting issues and union negotiations at GM. The decline in broad European indexes was somewhat larger than that of U.S. markets. Japanese shares underperformed substantially, reportedly weighed down by political tensions with China as well as weak domestic data.

The dollar’s value against our other important trading partners declined slightly on net, as a more than 7 percent depreciation in the dollar against the Brazilian *real* was nearly offset by modest gains against the currencies of several emerging market economies in Asia. The *real* rose against the dollar despite evidence of a slowdown in domestic growth and a 9 percent decline in Brazil’s broad equity index. In contrast, the Brazilian EMBI+ spread increased a modest 15 basis points on net. The gains in the *real* since mid-March coincide with several institutional factors, including a relaxation of some government restrictions on Brazil’s onshore currency market. In addition, since March 17 Brazil’s central bank has not been offering hedging opportunities against future *real* appreciation through currency swaps, as it had been doing during February and early March. The *real* was also supported against the dollar late in the period by an unexpected monetary policy tightening by Brazil’s central bank.

Financial Indicators in Latin America, Asia, and Russia

Economy	Currency/ US dollar		Short-term interest rates ¹		Dollar-denominated bond spread ²		Equity prices
	Apr. 28	Percent change	Apr.27/28 (Percent)	Percentage point change	Apr.27/28 (Percent)	Percentage point change	Percent change
Mexico	11.13	-.84	9.50	.20	1.88	.11	-4.89
Brazil	2.52	-7.40	20.32	1.07	4.51	.15	-8.56
Argentina	2.90	-.58	n.a.	n.a.	62.62	11.70	-4.11
Chile	581.75	-.73	3.78	.74	.71	.09	-1.86
China	8.28	.00	n.a.	n.a.	.75	.19	-3.13
Korea	1002.50	-.68	3.55	.00	...	...	-6.39
Taiwan	31.42	.42	1.40	.00	...	...	-2.93
Singapore	1.65	.70	2.00	.13	...	...	-1.97
Hong Kong	7.80	-.01	1.94	-.31	...	...	.97
Malaysia	3.80	-.01	2.81	.01	.54	.06	-.54
Thailand	39.58	2.51	2.45	.01	.60	.18	-5.76
Indonesia	9575.00	1.91	7.65	.20	1.08	-.01	-9.91
Philippines	54.30	.55	3.50	-2.00	4.36	.20	-8.05
Russia	27.80	.83	n.a.	n.a.	1.90	-.10	.68

NOTE. Change is from March 21/22 to April 27/28.

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 security yield. Mexico, Brazil, Argentina, Korea, the Philippines and Russia: EMBI+ yield. Chile and China: Global bond yield. Malaysia: 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.

Argentina's EMBI+ spread rose nearly 12 percentage points on balance. Market liquidity on Argentinean sovereign debt has reportedly declined to a trickle as markets await the outcome of U.S. judicial rulings regarding the government's debt exchange.

The forward exchange value of the Chinese renminbi twelve months ahead was somewhat volatile late in the period and increased modestly on net to 5.2 percent above the current spot rate. Official commentary from several U.S. and foreign officials regarding China's currency regime, as well as heightened political pressure for trade protection measures in Europe and the United States, reportedly prompted increased speculation that the Chinese government will change its currency regime.

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

Developments in Foreign Industrial Countries

Recent economic indicators suggest that economic growth in the major foreign economies slowed late in the first quarter following a pick up in the beginning of the year. After rising briskly in January, Japan's industrial production fell back some later in the quarter. Similarly, the latest data indicate that the euro-area industrial sector erased gains posted earlier in the year, while in the United Kingdom, industrial production continued to lose ground. In contrast, the Canadian manufacturing sector showed signs of improvement relative to its poor performance in the second half of last year.

Demand indicators posted modest increases in the first quarter, with the gains generally waning as the quarter progressed. Retail sales in Japan and the United Kingdom receded somewhat recently from their stronger pace at the start of the year and retail sales in the euro area firmed.

Consumer price inflation remained subdued overall. In the euro area, core inflation posted its slowest rate since early 2001, while in Canada consumer prices continued rising at moderate rates. Even though the inflation rate in the United Kingdom moved up recently, it continued to be slightly below the Bank of England's 2 percent target. Mild deflation persisted in Japan.

In **Japan**, monthly indicators during the first quarter have been volatile, mainly as a result of a shift in the Lunar New Year to February this year from January last year. Averaging through this shift, the data suggest some strengthening in economic activity in the first quarter. Average industrial production for the first quarter was up 1.7 percent from the fourth-quarter average, and inventories of high-tech goods have eased back from recent highs. The all-industries index of output for January and February on average was up nearly 2 percent from the fourth-quarter average. Workers' household expenditures and retail sales fell in February and March but were still up for the first quarter as a whole due to a spike in January. Real exports and imports both rose slightly in the first quarter. Core machinery orders, a leading indicator of business investment, were roughly unchanged in January and February compared with the fourth quarter.

The BOJ's Tankan diffusion index of business conditions for firms of all sizes and industries declined to -2 in March from 1 in December. Survey respondents projected that the index would remain steady at this level in June. The headline index for large manufacturers dropped to 14 in March from 22 in December, while indices for small- and

medium-sized manufacturing firms fell slightly less. In contrast, confidence among firms in the non-manufacturing sector showed a small improvement.

Labor markets have gradually improved, but deflation continued. In March, the unemployment rate fell to 4.5 percent, returning to its lowest level since late 1998. The job-offers-to-applicants ratio, a leading indicator of employment, remained at a thirteen-year high in March. Core consumer goods prices in the Tokyo area (which exclude fresh food but include energy) were unchanged in April from the previous month, and were down 0.5 percent from a year earlier. Wholesale price inflation ticked up to 1.4 percent in March.

Japanese Economic Indicators

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

Indicator	2004		2005				
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Industrial production ¹	-.1	-.9	n.a.	3.2	-2.3	-0.3	n.a.
All-industries index	-.2	-.1	n.a.	2.3	-1.1	n.a.	n.a.
Housing starts	5.0	-3.9	n.a.	9.9	-9.9	-0.6	n.a.
Machinery orders ²	-8.4	6.0	n.a.	-2.2	4.9	n.a.	n.a.
Machinery shipments ³	-.7	-.8	n.a.	.9	-3.5	n.a.	n.a.
New car registrations	10.2	1.2	-2.9	-2.9	-.7	-.5	n.a.
Unemployment rate ⁴	4.8	4.6	n.a.	4.5	4.7	4.5	n.a.
Job offers ratio ⁵	.85	.90	.91	.91	.91	.91	n.a.
Business sentiment ⁶	2.0	1.0	-2.0	...	...	...	...
CPI (core, Tokyo area) ⁷	-.1	-.3	-.5	-.5	-.5	-.5	-.5
Wholesale prices ⁷	1.8	2.0	1.3	1.4	1.3	1.4	n.a.

1. Mining and manufacturing.

2. Private sector, excluding ships and electric power.

3. Excluding ships and railway vehicles.

4. Percent.

5. Level of indicator.

6. Tankan survey, diffusion index.

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

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

On April 1, the government limited deposit insurance on ordinary deposits at financial institutions to ¥10 million per account. This limit has applied to time deposits (savings accounts and CDs) since April 2002. Settlement-only accounts, such as checking accounts, remain fully protected.

Euro-area economic indicators generally point to a slowing of growth late in the first quarter after a pickup early in the quarter. Euro-area industrial production declined 0.5 percent in February, following gains in the previous two months. Indicators of business sentiment suggested a further weakening of activity in March. The manufacturing PMI moved sharply lower in March, although the services PMI remained steady. The German IFO index fell in March and April, and the European Commission's index of euro-area business sentiment declined for the fourth consecutive month in March to the lowest level since December 2003. The index of euro-area consumer sentiment turned lower as well in March, raising some concern that consumer spending, which supported GDP growth in the fourth quarter, could be slowing. Euro-area retail sales gained 0.3 percent in February, the same as in the previous month, but French household consumption of manufactured products declined in February following a strong gain in the previous month.

Euro-Area Economic Indicators

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

	2004		2005	2004	2005		
	Q3	Q4	Q1	Dec.	Jan.	Feb.	Mar.
Industrial production ¹	.3	-.3	n.a.	.3	.3	-.5	n.a.
Retail sales volume ²	-.2	.1	n.a.	.0	.3	.3	n.a.
Unemployment rate ³	8.8	8.8	n.a.	8.8	8.8	8.9	n.a.
Consumer confidence ⁴	-13.7	-13.0	-13.3	-13.0	-13.0	-13.0	-14.0
Industrial confidence ⁴	-3.7	-3.3	-6.3	-4.0	-5.0	-6.0	-8.0
Manufacturing orders, Germany	-.1	1.6	n.a.	7.6	-3.5	-2.1	n.a.
CPI ⁵	2.2	2.3	2.0	2.4	1.9	2.1	2.1
Producer prices ⁵	3.1	3.8	n.a.	3.5	3.9	4.2	n.a.
M3 ⁵	6.0	6.6	6.5	6.6	6.8	6.7	6.5

1. Excludes construction.

2. Excludes motor vehicles.

3. Percent. Euro-area standardized to ILO definition. Includes Eurostat estimates in some cases.

4. Diffusion index based on European Commission surveys in individual countries.

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

n.a. Not available.

Labor market conditions remained weak in the euro area, with the unemployment rate rising a bit to 8.9 percent in February. In Germany, the unemployment rate rose further to 12.0 percent in March, up from 10.8 percent in December. However, according to the German Federal Statistical Office, the recent surge in measured unemployment is mostly attributable to the implementation of the Hartz IV laws, as welfare recipients able to work now are counted as unemployed.

The twelve-month rate of consumer price inflation in the euro area remained at 2.1 percent in March. The rate of core inflation, excluding energy and unprocessed food, held steady at 1.6 percent, the same as in February, which itself was the slowest rate since early 2001.

Real GDP in the **United Kingdom** rose 2.2 percent in the first quarter, according to the preliminary estimate. Service sector activity grew 3.3 percent while industrial production fell slightly, both roughly in-line with their fourth-quarter pace. Construction output grew by 2.6 percent, well below its fourth-quarter growth rate of 4.7 percent. Business confidence has recovered, on balance, from its slump in the fourth quarter. Consumer confidence, after remaining subdued through the fourth quarter and first part of this year, increased above zero, its long-run average, in March. The PMI for services was unchanged over the first quarter, although manufacturing and construction PMIs fell slightly.

Depending on the survey consulted, house prices grew between 4 and 6 percent (a.r.) in the first quarter, slightly higher than in the fourth quarter of 2004. Consistent with the increase in house prices, household net mortgage borrowing rose somewhat faster over January and February than in the fourth quarter. The growth rate of mortgage lending is still well below its 2003 peak.

The twelve-month rate of consumer price inflation jumped to 1.9 percent in March from 1.6 percent in February, remaining just below the Bank of England's 2 percent target. Twelve-month consumer price inflation excluding energy also increased sharply to 1.5 percent in March, from 1.2 percent in February. In its February *Inflation Report*, the Bank of England forecast inflation, using market expectations for interest rates, to edge just above the target at a two-year horizon.

The U.K. labor market remains very tight. Over the twelve months ending in March, earnings grew 5.6 percent for the whole economy and rose 7.2 percent in the private services sector. Producer input prices have also accelerated, growing nearly 12 percent on a twelve-month basis in March.

U.K. Economic Indicators

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

Indicator	2004		2005				
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Preliminary GDP*	2.3	3.0	2.2	...	...	...	...
Industrial production	-1.2	-.1	n.a.	-.3	-.4	n.a.	n.a.
Retail sales volume ¹	.9	.2	n.a.	.7	.2	n.a.	n.a.
Unemployment rate ²							n.a.
Claims-based	2.7	2.7	2.6	2.6	2.6	2.7	n.a.
Labor force survey ³	4.7	4.7	n.a.	4.8	n.a.	n.a.	n.a.
Business confidence ⁴	12.3	4.3	12.7	10.0	19.0	9.0	n.a.
Consumer confidence ⁵	-3.3	-.7	1.0	.0	.0	3.0	n.a.
Consumer prices ⁶	1.2	1.4	1.7	1.6	1.6	1.9	n.a.
Producer input prices ⁷	5.6	6.8	10.7	9.7	10.9	11.5	n.a.
Average earnings ⁷	3.8	4.3	n.a.	4.2	5.7	n.a.	n.a.

* Annual rate.

1. Excludes motor vehicles.

2. Percent.

3. Three-month average centered on month shown.

4. Percentage of firms expecting output to increase in the next four months less percentage expecting output to decrease.

5. Average of the percentage balance from consumers' expectations of their financial situation, general economic situation, unemployment, and savings over the next 12 months.

6. Consumer prices index (CPI), percent change from year earlier.

7. Percent change from year earlier.

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

In **Canada**, incoming data point to a pickup in growth in the first quarter, after a deceleration in the fourth quarter. In January, GDP by industry advanced 2.8 percent (a.r.), lifted by surges in manufacturing and retail trade.

The manufacturing sector, which is heavily export-oriented and was hard hit during the third and fourth quarters of 2004, turned up in January and February. Manufacturing output was buoyed by solid demand for machinery and equipment, suggesting sustained momentum from the fourth-quarter's strong growth in business investment. Through the first two months, manufacturing shipments, new orders, and unfilled orders all rose on balance. In addition, the manufacturing sub-index in the composite index of leading indicators suggests that manufacturing new orders may have surged again in March.

In February, the merchandise trade balance rebounded sharply, as exports across all major categories increased and imports declined slightly. The recovery follows steep

declines in the trade balance during the previous two months. In addition, while overall imports fell, imports of machinery and equipment continued their recent strength, as businesses seem to be taking advantage of the stronger currency to add to capacity.

Retail sales surged for the second consecutive month in February, and the composite index of leading indicators advanced for the fourth straight month in March. Housing starts remained strong in the first quarter, despite coming off a 17-year high in 2004.

Canadian Economic Indicators

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

Indicator	2004		2005	2004	2005		
	Q3	Q4	Q1	Dec.	Jan.	Feb.	Mar.
GDP by industry	.9	.5	n.a.	.2	.2	n.a.	n.a.
Industrial production	1.3	.3	n.a.	.4	.3	n.a.	n.a.
New manufacturing orders	1.5	-.7	n.a.	.5	6.5	-4.3	n.a.
Retail sales	1.7	.7	n.a.	-1.3	2.3	1.7	n.a.
Employment	.3	.4	.1	.1	-.0	.2	.0
Unemployment rate ¹	7.1	7.1	7.0	7.0	7.0	7.0	6.9
Consumer prices ²	2.0	2.3	n.a.	2.1	2.0	2.1	2.3
Core consumer prices ^{2,3}	1.7	1.6	n.a.	1.7	1.6	1.8	1.8
Consumer attitudes (1991 = 100)	122.8	123.7	123.7	...	...	...	...
Business confidence (1991 = 100)	151.4	139.8	n.a.	...	...	...	...

1. Percent.

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

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

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

Total employment was essentially unchanged in March, but the unemployment rate edged down to 6.9 percent as fewer individuals were looking for work. The manufacturing sector, which has shed about 2 percent of its workforce since the middle of 2004, also saw virtually no change in employment in March, although it posted a sizable drop in employment overall in the first quarter.

In March, the twelve-month rate of consumer price inflation moved up to 2.3 percent, largely due to higher gasoline prices. The twelve-month rate of core inflation, excluding the eight most volatile components, also edged up in March to 1.9 percent, from 1.8 percent in February.

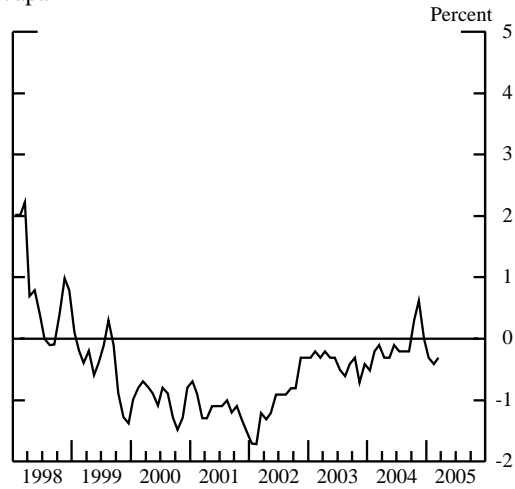
External Balances
(Billions of U.S. dollars, s.a.a.r.)

Country and balance	2004		2005	2005		
	Q3	Q4	Q1	Jan.	Feb	Mar
<i>Japan</i>						
Trade	102.7	105.5	107.6	98.7	105.2	119.0
Current account	169.8	175.0	n.a.	175.4	190.0	n.a.
<i>Euro area</i>						
Trade	57.8	61.6	n.a.	78.4	79.2	n.a.
Current account	18.1	27.3	n.a.	50.4	n.a.	n.a.
<i>Germany</i>						
Trade	183.2	194.9	n.a.	205.9	205.7	n.a.
Current account	100.5	83.7	n.a.	174.4	128.1	n.a.
<i>France</i>						
Trade	-16.2	-26.2	n.a.	-19.3	-23.7	n.a.
Current account	-12.2	-16.9	n.a.	-61.7	13.8	n.a.
<i>Italy</i>						
Trade	-1.1	-8.6	n.a.	-4.8	-8.2	n.a.
Current account	-3.2	-22.1	n.a.	-39.3	-16.6	n.a.
<i>United Kingdom</i>						
Trade	-108.6	-114.5	n.a.	-114.4	-108.9	n.a.
Current account	-68.7	-37.7	n.a.	...	...	...
<i>Canada</i>						
Trade	51.0	50.8	n.a.	42.0	46.9	n.a.
Current account	25.6	20.7	n.a.	...	...	...

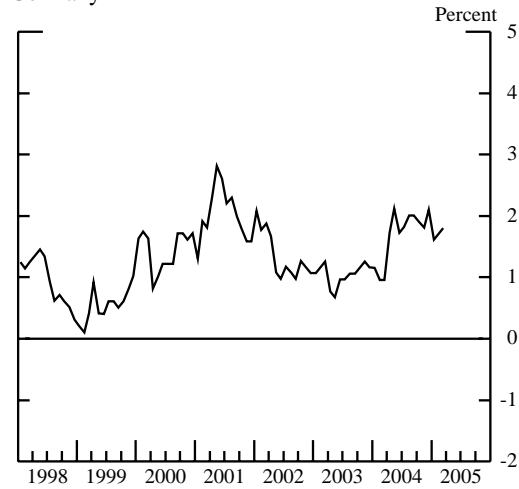
n.a. Not available. ... Not applicable.

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

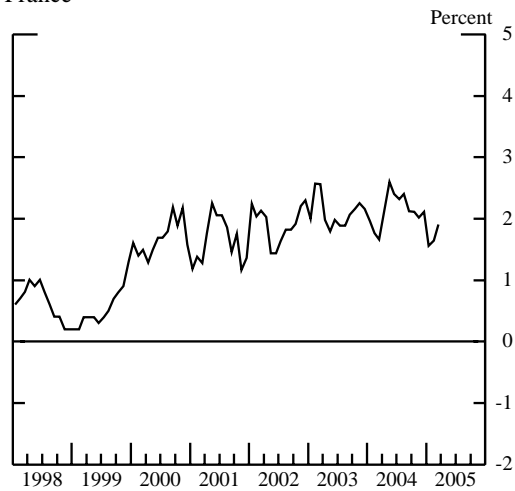
Japan



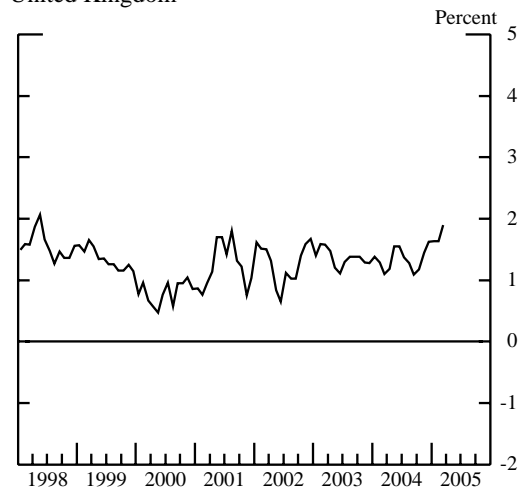
Germany



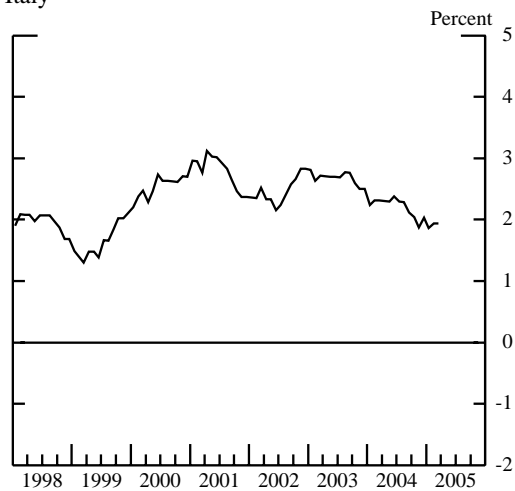
France



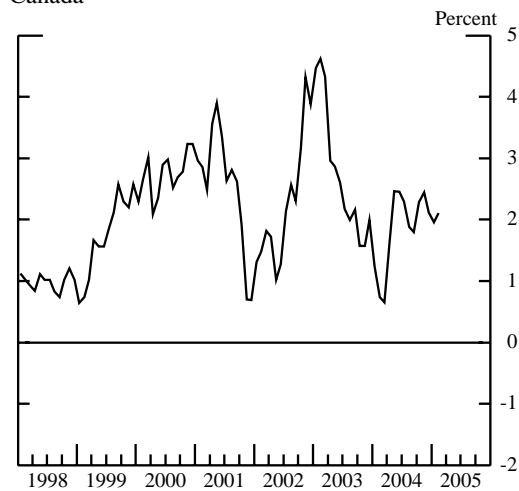
United Kingdom



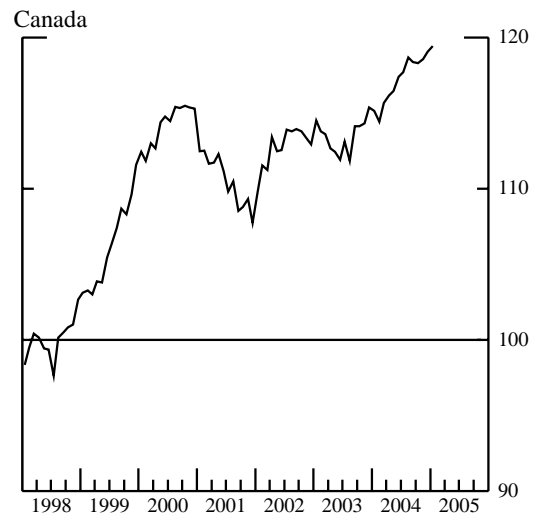
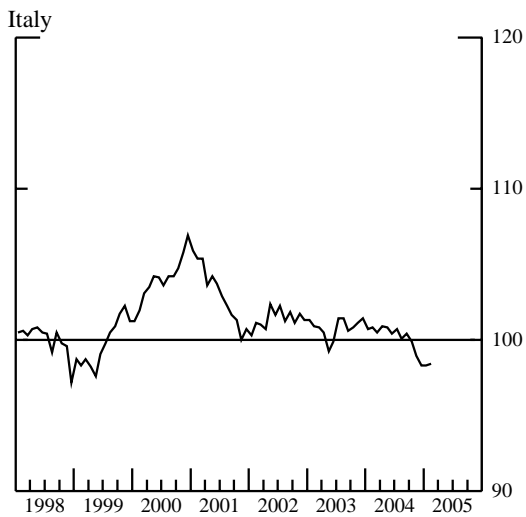
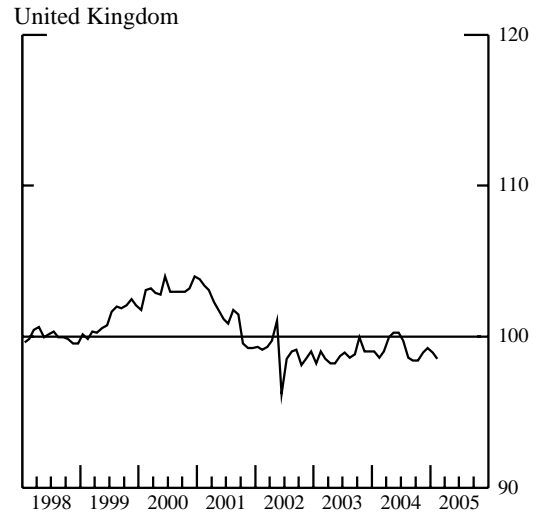
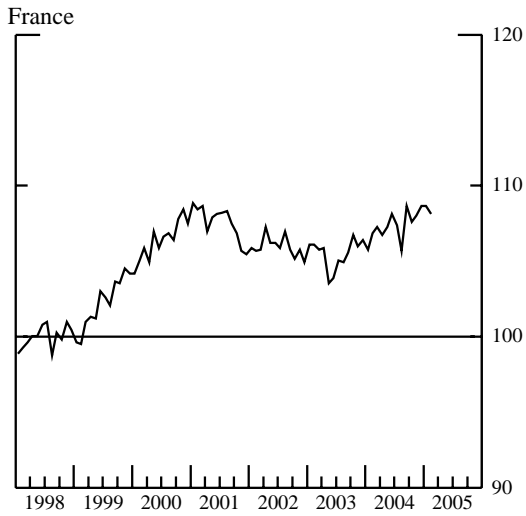
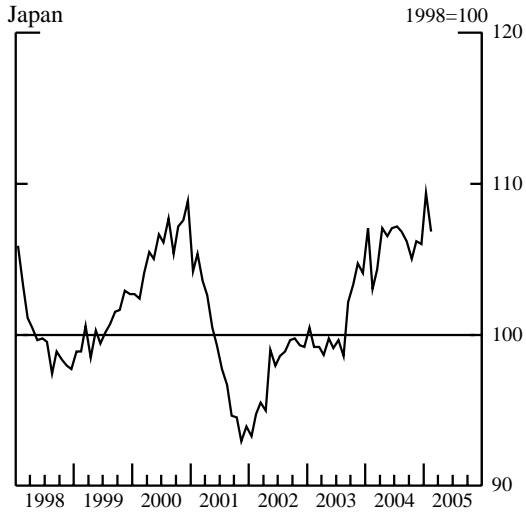
Italy



Canada



Industrial Production in Selected Industrial Countries



Economic Situation in Other Countries

Recent data from the emerging market economies have been mixed and on average point to a moderation of growth in the first quarter. The economies of China, Hong Kong, Korea, Mexico, and Argentina have all shown signs of strength, while the economies of Brazil, the ASEAN countries, and India appear to have moderated. Consumer price inflation has moved up in general since the last Greenbook, reflecting higher oil prices. Several countries have responded with monetary tightening.

Chinese real GDP surged 14 percent in the first quarter, led by strong growth in exports and investment. The first-quarter growth figure is surprising in light of numerous other indicators that point to slowing, including industrial production, imports, the money supply, and bank lending. Moreover, consumer price inflation moved down a bit in the first quarter, to less than 3 percent. The resurgence of investment growth, after three quarters of weak performance, implies that additional tightening measures may be needed in order to bring investment onto a more sustainable growth path. The trade surplus widened significantly in the first quarter, as exports continued to soar and import growth slowed considerably.

Chinese Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP ¹	10.0	9.5	11.2	14.0	...	...	...
Industrial production	18.6	14.5	3.6	3.0	-2.5	6.6	1.0
Consumer prices ²	3.2	2.6	3.3	2.8	2.3	3.3	2.8
Trade balance ³	25.5	32.1	72.9	91.3	96.0	79.5	98.4

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

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

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

... Not applicable.

Recent indicators from **Hong Kong** point to continued strength in the domestic economy. The unemployment rate fell in the first quarter, retail sales growth picked up somewhat, and consumer confidence rose. Trade volume, a good indicator of growth for the entrepôt economy, edged down in the fourth quarter but has since stabilized. Consumer price inflation inched up in the first quarter but remains quite low.

Hong Kong Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP ¹	4.6	6.9	2.4	n.a.	...	...	...
Unemployment rate ²	7.9	6.9	6.5	6.1	6.4	6.1	6.1
Consumer prices ³	-1.9	.2	.2	.3	-.3	.5	.8
Trade balance ⁴	-8.5	-12.0	-7.5	n.a.	-2.6	-16.7	n.a.

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

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

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

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

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

Recent indicators from **Taiwan** have been mixed. Industrial production fell in the first quarter, but orders for high-tech goods rose and hit a new record high. The trade balance returned to surplus in the first quarter, after a rare deficit in the previous quarter. Consumer prices have picked up in recent months due to higher oil and gas prices.

Taiwan Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP ¹	5.8	3.2	2.1	n.a.	...	...	...
Unemployment rate ²	5.0	4.5	4.2	4.2	4.2	4.3	4.2
Industrial production	7.1	9.8	-.5	-.4	.0	1.0	-1.6
Consumer prices ³	-.1	1.6	1.8	1.6	.5	1.9	2.3
Trade balance ⁴	16.9	6.1	-6.6	6.9	-3.3	20.5	3.5
Current account ⁵	29.3	19.0	8.7	n.a.	...	...	...

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

2. Percent.

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

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

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

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

In **Korea**, incoming data suggest a modest improvement in domestic demand. Real GDP expanded 3.8 percent in the fourth quarter, boosted by exports, inventory accumulation, and the strongest growth in private consumption in more than two years. In the first quarter, industrial production rose 1 percent, while retail sales and indicators of consumer confidence and business expectations moved up noticeably. Averaging over the first two

months of the year, the current account surplus has roughly matched that of the fourth quarter, as the effects of the rising value of the won in foreign exchange markets and high fuel prices have been offset by strong external demand. Both headline and core consumer prices were unchanged in March, leaving twelve-month core inflation within the government's target range of 2.5-3.5 percent.

Korean Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP ¹	4.1	3.0	3.8	n.a.	...	...	...
Industrial production	4.9	10.2	2.0	1.0	3.1	-4.6	3.8
Unemployment rate ²	3.4	3.5	3.5	3.5	3.6	3.5	3.5
Consumer prices ³	3.4	3.0	3.4	3.1	3.1	3.3	3.0
Trade balance ⁴	22.0	38.2	35.5	n.a.	58.0	32.8	n.a.
Current account ⁵	11.9	27.6	29.4	n.a.	46.4	12.1	n.a.

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

2. Percent.

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

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

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

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

Incoming data from the **ASEAN** countries suggest that economic growth generally moderated in the first quarter. In Singapore, the advance estimate of first-quarter real GDP (unofficial) indicates a decline of almost 6 percent, mostly due to a sharp contraction in the volatile biomedical sector. However, a strong electronics PMI reading for the first quarter is more encouraging. Elsewhere in the region, recent data on industrial production have been mixed. While production fell in Indonesia, the Philippines, and Thailand, it was up in Malaysia. Recent data show the ASEAN economies continuing, on average, to run trade surpluses. The exception is Thailand, where higher oil prices have contributed to consecutive monthly trade deficits.

Consumer price inflation remained elevated across the region, partly reflecting higher energy prices and the reduction of oil subsidies in some countries. Citing concerns over higher inflation, the central banks in the Philippines and Indonesia raised interest rates 25 basis points in early April following a similar rate increase by the Thai central bank in March.

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Jan.	Feb.	Mar.
<i>Real GDP¹</i>							
Indonesia	5.0	6.5	9.8	n.a.	...	...	...
Malaysia	6.6	5.6	3.9	n.a.	...	...	...
Philippines	4.8	5.4	2.4	n.a.	...	...	...
Singapore	5.5	6.5	7.9	n.a.	...	...	...
Thailand	7.7	5.3	7.2	n.a.	...	...	...
<i>Industrial production²</i>							
Indonesia ³	3.9	4.7	2.5	n.a.	-14.8	n.a.	n.a.
Malaysia	9.3	11.3	1.3	n.a.	-1.9	4.7	n.a.
Philippines	.0	.9	.5	n.a.	-1.6	-1.0	n.a.
Singapore	3.0	13.9	5.3	-8.1	-6.8	-10.6	-1.7
Thailand	14.0	6.4	1.8	n.a.	-7.2	-4	n.a.

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

2. Annual data are annual averages.

3. Staff estimate.

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

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Jan.	Feb.	Mar.
Indonesia	28.5	25.1	30.4	n.a.	26.9	33.2	n.a.
Malaysia	21.4	21.2	18.3	n.a.	25.4	26.2	n.a.
Philippines	-1.3	-.7	-.5	n.a.	3.3	-.6	n.a.
Singapore	16.2	16.1	18.3	14.8	10.6	20.0	13.9
Thailand	3.8	1.7	3.6	n.a.	-11.4	-13.1	n.a.

n.a. Not available.

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

Indicator	2003 ¹	2004 ¹	2004	2005			
			Q4	Q1	Jan.	Feb.	Mar.
Indonesia	5.2	6.4	6.3	7.8	7.3	7.2	8.8
Malaysia	1.2	2.1	2.1	2.4	2.4	2.4	2.6
Philippines	3.9	8.6	8.1	n.a.	8.4	8.5	n.a.
Singapore	.7	1.3	1.7	.3	.4	.0	.4
Thailand	1.8	2.9	3.2	2.8	2.7	2.5	3.2

1. Dec./Dec.

n.a. Not available.

In **India**, economic growth appears to be moderating. After surging almost 20 percent (a.r.) in the third quarter, real GDP was flat in the fourth quarter, and industrial production in the first two months of this year was slightly below the fourth-quarter average. The trade deficit widened further in the first quarter. Inflation continues to be above market expectations, and the Indian central bank raised its benchmark short-term interest rate to 5 percent in late April. The Indian government transitioned to a long-awaited VAT tax regime at the beginning of April. The tax, adopted by two-thirds of India's states, is intended to promote growth by streamlining the tax system, reducing the incidence of evasion, and unifying tax policies across states. Even with this tax, however, the government's proposed budget for the current fiscal year fails to reduce the deficit to levels required by Indian law.

Indian Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP ¹	11.0	6.2	.5	n.a.	...	...	...
Industrial production	6.6	8.4	4.3	n.a.	.3	-1.4	n.a.
Consumer prices ²	3.7	3.8	4.2	n.a.	4.4	4.2	n.a.
Wholesale prices ²	5.8	6.7	7.2	5.2	5.5	5.0	5.2
Trade balance ³	-13.8	-21.7	-28.8	-32.9	-31.5	-40.4	-26.7
Current account ⁴	6.9	-1.6	-21.9	n.a.	...	...	...

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

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

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

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

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

In **Mexico**, recent data releases point to a continued healthy pace of economic activity. The country's index of overall economic activity (a monthly proxy for real GDP) rose 6.2 percent in February from its year-earlier level, on the back of solid performances of the service and industrial sectors. Average industrial production for January and February was up 1 percent from the fourth-quarter average, boosted by strong maquiladora production. Domestic demand has continued to be an important source of growth, aided by increasing bank credit despite relatively high real interest rates.

In late March, the Bank of Mexico tightened monetary policy for the twelfth time in the past year in an ongoing effort to tame inflation and signal its commitment to its inflation target. The rate on 28-day peso-denominated bills, the Cetes, currently stands at about 9.6 percent, up from about 5 percent when tightening began early last year. Twelve-month consumer price inflation stood at 4.4 percent in the first quarter, down from 5.3 percent at the end of the fourth quarter of 2004, but still above the target range of 2-4 percent.

Mexican Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP ¹	2.1	4.9	5.5	n.a.	...	...	...
Overall economic activity	1.4	4.0	1.3	n.a.	.2	.1	n.a.
Industrial production	-2	3.5	.8	n.a.	.4	.1	n.a.
Unemployment rate ²	3.2	3.7	3.5	3.8	3.8	3.9	3.8
Consumer prices ³	4.0	5.2	5.3	4.4	4.6	4.3	4.4
Trade balance ⁴	-5.8	-8.5	-12.1	-12.1	-16.4	-10.3	-9.5
Imports ⁴	170.5	197.2	207.8	211.6	212.4	211.1	211.4
Exports ⁴	164.8	188.6	195.7	199.6	196.0	200.8	201.9
Current account ⁵	-8.5	-8.6	-18.2	n.a.	...	...	...

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

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

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

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

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

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

In **Brazil**, data releases since the last Greenbook point to a softening of activity. Industrial production declined 1.2 percent in February, bringing the January-February average slightly below its fourth-quarter level. February retail sales were weak, and auto

sales were down in the first quarter. The external sector was the bright spot, as the trade surplus grew in the first quarter, with nominal exports up nearly 25 percent at an annual rate. Headline consumer price inflation was 0.6 percent in March, bringing the twelve-month increase to about 7½ percent, well above the central bank's target of 5 percent for 2005. Monthly core inflation, which excludes food and administered prices, has also been high, but slowed in March.

Since mid-March, the central bank has raised its policy rate, the Selic, 75 basis points, to 19.5 percent in a bid to reduce inflation. The latest hike of 25 basis points on April 20 surprised analysts, who had expected an end of the tightening that began last fall. The central bank's tight monetary policy has been increasingly controversial and is partly responsible for efforts by some to remove Central Bank President Mereilles from his post.

Brazilian Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP ¹	.8	4.8	1.7	n.a.	...	...	...
Industrial production	.1	8.3	.4	n.a.	-6	-1.2	n.a.
Unemployment rate ²	12.3	11.5	9.7	10.5	9.7	10.5	11.2
Consumer prices ³	9.3	7.6	7.2	7.4	7.4	7.4	7.5
Trade balance ⁴	24.8	33.7	34.0	39.8	37.7	41.9	39.8
Current account ⁵	4.0	11.8	8.0	10.8	9.8	1.4	21.1

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

2. Percent; break in October 2001 as a result of change in methodology.

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

Price index is IPC-A.

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

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

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

In **Argentina**, the economic recovery continued in the fourth quarter of last year, with real GDP expanding at an annual rate of over 11 percent. In the first quarter of 2005, industrial production continued to expand briskly, with the first-quarter average 3 percent above its fourth-quarter level. The unemployment rate has steadily fallen over the past few years, reaching about 12 percent in the fourth quarter, half of what it was at the peak of the 2001-02 financial crisis. Food price increases pushed twelve-month consumer price inflation to over 9 percent in March, above the upper end of the central bank's unofficial target range of 5-8 percent for 2005.

The final settlement of the Argentine government's February debt exchange, originally scheduled for April 1, has been delayed in response to legal action pursued by a group of bondholders who did not accept the swap offer and who seek to freeze assets in the United States owned by the Argentine government. The case is currently pending a decision in U.S. courts. It remains to be seen how the Argentine government will ultimately deal with investors holding almost \$20 billion (about 25 percent) in defaulted bonds who did not accept the government's offer.

Argentine Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP ¹	12.1	8.4	11.4	n.a.	...	...	...
Industrial production	16.1	10.7	2.5	3.0	.7	-.8	4.1
Unemployment rate ²	17.3	13.6	12.1	n.a.	...	...	...
Consumer prices ³	3.7	6.1	5.8	8.2	7.2	8.2	9.2
Trade balance ⁴	15.7	12.1	10.4	n.a.	12.6	8.5	n.a.
Current account ⁵	7.4	3.0	1.9	n.a.	...	...	...

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

2. Percent; n.s.a.

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

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

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

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

In **Venezuela**, there have been few data releases since the last Greenbook.

Unemployment declined in the first quarter but remained high, and monthly inflation jumped to 1.2 percent in March (n.s.a.) in the wake of the March devaluation of the bolivar. Fiscal policy continues to be expansionary, supported by the high price of oil. International reserves stood at about \$26 billion in mid-April, up a little since end-2004. Oil production is still estimated to be below the level prevailing before the national strikes of 2002.

Venezuelan Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP ¹	6.6	11.2	8.2	n.a.	...	...	...
Unemployment rate ²	18.0	15.1	14.1	13.3	13.5	13.2	13.2
Consumer prices ³	27.1	19.2	19.5	17.0	18.5	16.8	15.7
Non-oil trade balance ⁴	-5.5	-10.5	-12.2	n.a.	...	...	...
Trade balance ⁴	16.5	22.1	25.2	n.a.	...	...	...
Current account ⁵	11.4	14.6	15.6	n.a.	...	...	...

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

2. Percent.

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

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

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

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