

Prefatory Note

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Part 2

Qevqdt'4: , 2009

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

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Recent Developments

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Domestic Nonfinancial Developments

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Domestic Nonfinancial Developments

On balance, the incoming data suggest that economic activity has continued to move up in recent months. To be sure, the labor market weakened further in September, as job losses remained sizable. Nonetheless, manufacturers increased production in September for a third consecutive month. The gradual recovery in construction of single-family homes from its extremely low level earlier in the year has continued, accompanied by an increase in home sales. Although consumer spending on motor vehicles plummeted in September after the expiration of the “cash for clunkers” program, other household spending is estimated to have stepped up in August and September. And, while business spending on nonresidential structures continued to decline, outlays for equipment and software appear to have stabilized after slumping earlier in the year. Meanwhile, core consumer price inflation has remained subdued in recent months.

Labor Market Developments

The labor market weakened further in September, although the pace of deterioration in recent months has been considerably slower than in the first half of the year. In September, private nonfarm payroll employment fell 210,000—about equal to the average monthly decline in the third quarter as a whole—and employment losses remained widespread across industries. The average workweek for production and nonsupervisory workers ticked down to 33.0 hours in September, and aggregate hours worked for this group fell 0.5 percent. While aggregate hours fell at an annual rate of 3 percent in the third quarter, the pace of decline was much slower than earlier in the year.¹

In the household survey, the unemployment rate edged up in September to 9.8 percent, and the labor force participation rate dropped to 65.2 percent. The participation rate had changed little, on net, from the beginning of the recession through the second quarter of this year, but it has fallen about $\frac{3}{4}$ percentage point in recent months; this pronounced drop presumably reflects, at least in part, potential workers’ responses to the scarcity of employment opportunities. That said, the participation rate probably has received some

Note: An abbreviations list is available at the end of Part 2.

¹ With the September employment report, the BLS issued preliminary estimates of the benchmark revision to nonfarm payrolls in March 2009 that suggest the level of private payroll employment in that month was 855,000 lower than the currently published estimates. (The benchmark information will not be incorporated into the published estimates of employment until February 2010.) The BLS also has indicated that much of this revision came in the first quarter of 2009. This revision implies that the level of nonfarm business productivity in the first quarter of 2009 was around $\frac{1}{2}$ percent above the currently published estimates. Also, the benchmark revision for last March could lead to downward revisions to the published changes in payrolls for later months; in the past, changes for later months have tended to be revised in the same direction as the revision to employment in March.

Changes in Employment

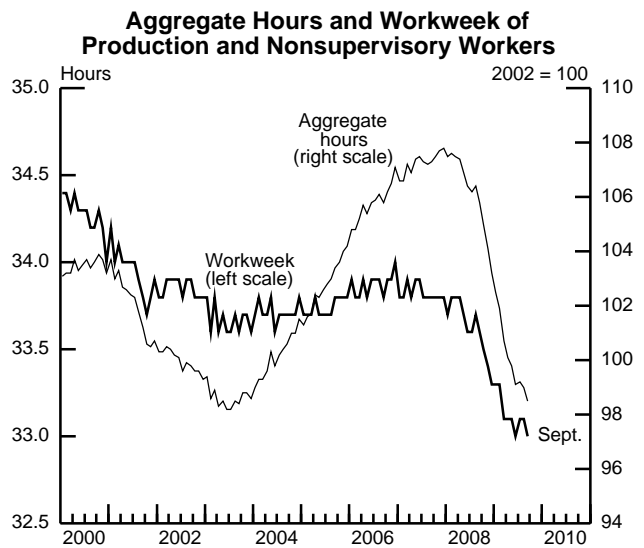
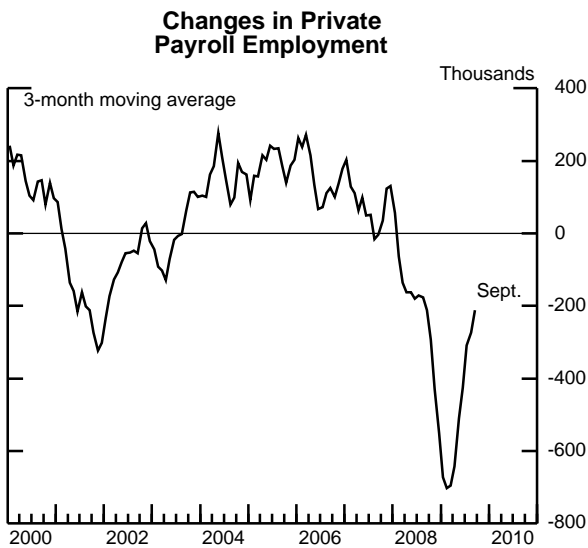
(Thousands of employees; seasonally adjusted)

Measure and sector	2008	2009					
		Q1	Q2	Q3	July	Aug.	Sept.
		Average monthly change			Monthly change		
Nonfarm payroll employment (establishment survey)	-257	-691	-428	-256	-304	-201	-263
Private	-270	-695	-425	-213	-246	-182	-210
Natural resources and mining	4	-12	-11	-4	-6	-6	-1
Manufacturing	-73	-202	-140	-53	-41	-66	-51
Ex. motor vehicles	-58	-176	-117	-58	-73	-52	-48
Construction	-57	-124	-80	-64	-69	-60	-64
Residential	-35	-53	-26	-18	-20	-20	-13
Nonresidential	-22	-71	-54	-47	-50	-40	-51
Wholesale trade	-16	-36	-20	-10	-14	-13	-5
Retail trade	-44	-55	-27	-31	-45	-9	-39
Financial activities	-19	-51	-35	-16	-14	-25	-10
Temporary help services	-44	-73	-28	-5	-6	-7	-2
Nonbusiness services ¹	19	-25	19	6	10	24	-16
Total government	14	4	-3	-43	-58	-19	-53
Federal government	3	10	3	0	9	-2	-6
Total employment (household survey)	-246	-817	-230	-444	-155	-392	-785
Memo:							
Aggregate hours of private production workers (percent change) ²	-3.3	-8.9	-7.8	-3.0	.1	-.2	-.5
Average workweek (hours) ³	33.6	33.2	33.1	33.1	33.1	33.1	33.0
Manufacturing (hours)	40.8	39.6	39.5	39.9	39.9	39.9	39.8

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.

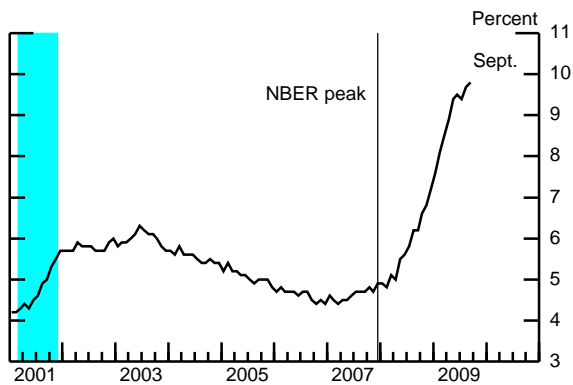


Selected Unemployment and Labor Force Participation Rates

(Percent; seasonally adjusted)

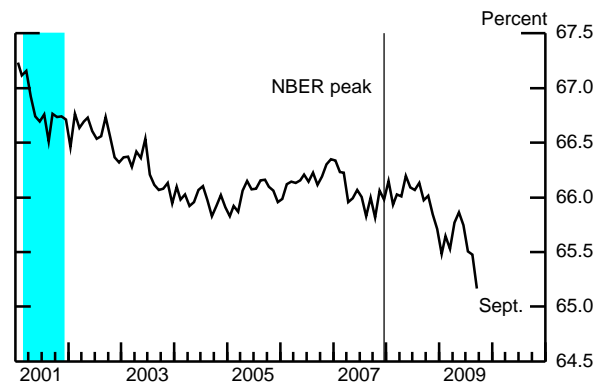
Rate and group	2008	2009					
		Q1	Q2	Q3	July	Aug.	Sept.
<i>Civilian unemployment rate</i>							
Total	5.8	8.1	9.2	9.6	9.4	9.7	9.8
Teenagers	18.7	21.3	22.7	25.1	23.8	25.5	25.9
20-24 years old	10.2	13.0	15.0	15.1	15.3	15.1	14.9
Men, 25 years and older	4.8	7.4	8.8	9.4	9.0	9.5	9.7
Women, 25 years and older	4.4	6.2	6.9	7.1	6.9	7.0	7.3
<i>Labor force participation rate</i>							
Total	66.0	65.6	65.8	65.4	65.5	65.5	65.2
Teenagers	40.2	38.3	38.4	37.5	38.0	37.7	36.9
20-24 years old	74.4	73.7	74.1	72.9	73.5	73.0	72.3
Men, 25 years and older	75.4	74.6	74.9	74.9	74.8	75.0	74.8
Women, 25 years and older	60.0	60.0	60.3	59.9	60.1	59.9	59.7

Unemployment Rate



Note: Shaded bar indicates a period of business recession as defined by the National Bureau of Economic Research (NBER). The NBER peak is the last business cycle peak as defined by the NBER.

Labor Force Participation Rate



Note: See the note to the figure "Unemployment Rate."

Persons Working Part Time for Economic Reasons

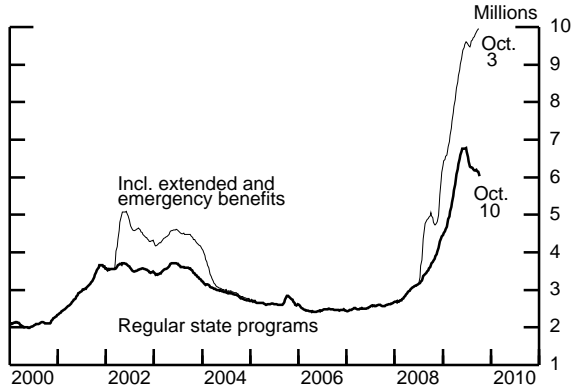


Job Losers Unemployed Less Than 5 Weeks



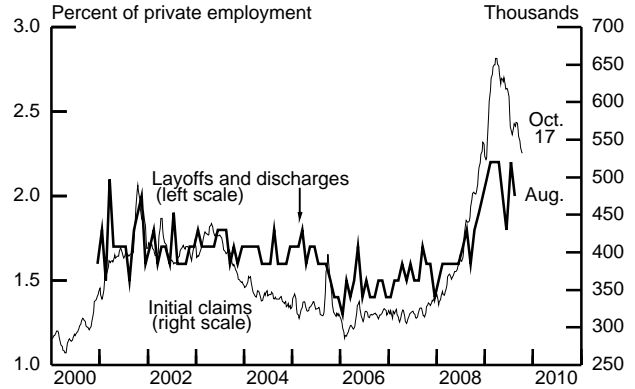
Labor Market Indicators

Insured Unemployment



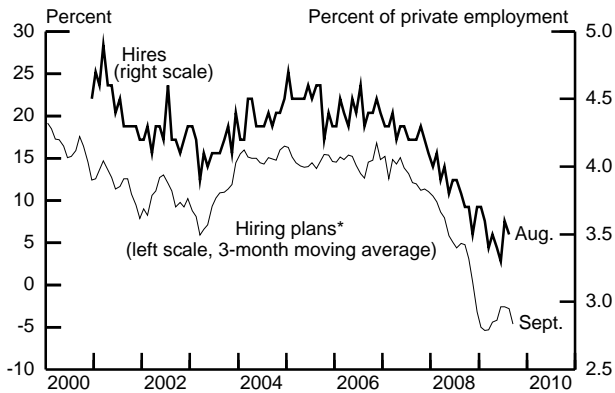
Note: 4-week moving averages.
Source: U.S. Dept. of Labor, Employment and Training Administration.

Layoffs and Initial Claims



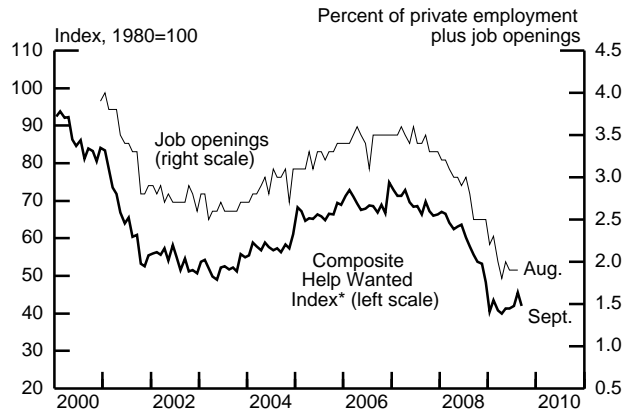
Note: Data for initial claims are 4-week moving averages.
Source: For layoffs and discharges, Job Openings and Labor Turnover Survey; for initial claims, U.S. Dept. of Labor, Employment and Training Administration.

Hiring and Hiring Plans



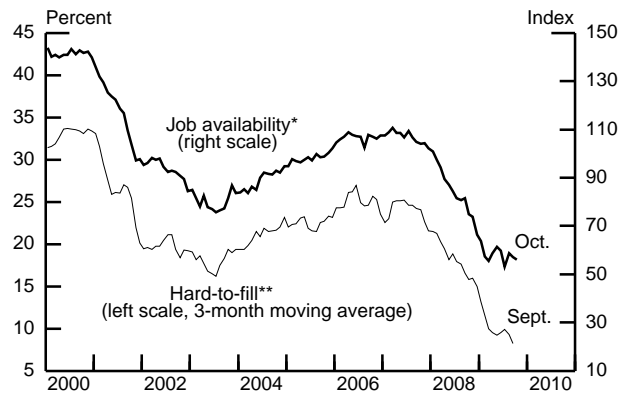
*Percent planning an increase in employment minus percent planning a reduction. Seasonally adjusted by FRB staff.
Source: For hires, Job Openings and Labor Turnover Survey; for hiring plans, National Federation of Independent Business.

Job Openings



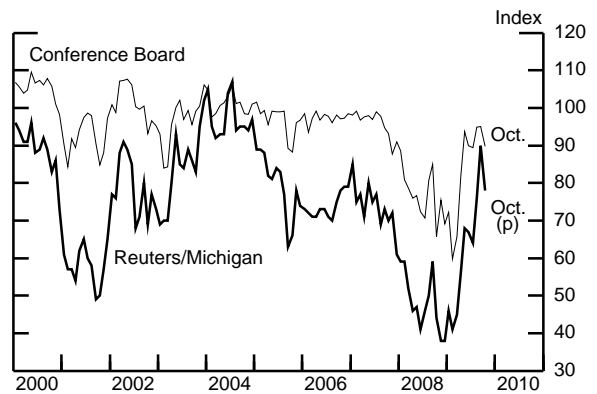
*Index of staff composite help wanted advertising as a percent of payroll employment.
Source: For job openings, Job Openings and Labor Turnover Survey; for Help Wanted Index, Conference Board and staff calculations.

Job Availability and Hard-to-Fill Positions



*Proportion of households believing jobs are plentiful, minus the proportion believing jobs are hard to get, plus 100.
**Percent of small businesses surveyed with at least one "hard-to-fill" job opening. Seasonally adjusted by FRB staff.
Source: For job availability, Conference Board; for hard-to-fill, National Federation of Independent Business.

Expected Labor Market Conditions



Note: The proportion of households expecting labor market conditions to improve, minus the proportion expecting conditions to worsen, plus 100.
p Preliminary.
Source: Conference Board; Reuters/University of Michigan Surveys of Consumers.

support over the past two years from the emergency unemployment compensation program and the influence of losses in household wealth on some individuals' labor market decisions. Meanwhile, the fraction of employees working part time for economic reasons—another manifestation of the underutilization of labor—edged up in September.

Other indicators of labor demand have been mixed. Initial claims for unemployment insurance moved a little lower in October but still are at a level consistent with additional declines in employment. While the number of persons receiving unemployment insurance benefits through regular state programs continued to drift down, the total number of individuals receiving unemployment insurance—including extended and emergency benefits—remained extraordinarily high. The layoff rate as measured from the Job Openings and Labor Turnover Survey (JOLTS) showed some improvement in August, but the hiring rate measured from the JOLTS remained low. Furthermore, the most recent readings for other measures of job openings and labor market slack indicate continued weakness and showed no evidence of improvement. Looking forward, the NFIB survey in September found that small firms pared back their expectations for hiring in coming months. Likewise, household expectations of future labor market conditions retreated a bit in both the Reuters/University of Michigan Surveys of Consumers and the Conference Board survey in early October, but both measures remain above their lows from the beginning of the year.

Industrial Production

Industrial production (IP) rose in September for the third consecutive month and increased at an annual rate of 5¼ percent in the third quarter as a whole. More than one-half of the gain in IP last quarter was directly attributable to a bounceback in motor vehicle assemblies and related parts production from exceptionally low levels earlier this year. Even so, gains in production were widespread across the industrial sector: The diffusion index of three-month changes in IP jumped in September to its highest level since 1997 and indicates that significantly more industries increased production last month, relative to three months earlier, than reduced it. The rise last quarter in manufacturing output other than motor vehicles and related parts likely reflected a somewhat slower pace of inventory liquidation and a pickup in foreign demand, although there also was some indirect boost in demand for materials by the motor vehicle sector. However, it appears that domestic demand for U.S.-manufactured goods other than motor vehicles has been relatively flat recently. Moreover, the degree of slack in the manufacturing sector remains substantial, as the factory operating rate of 67.5 percent in September was still only 2.4 percentage points above the post-1948 low recorded in June.

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

Component	Proportion 2008 (percent)	2008 ¹	2009		2009		
			Q2	Q3	July	Aug.	Sept.
			Annual rate		Monthly rate		
Total	100.0	-6.7	-10.3	5.2	.9	1.2	.7
Previous	100.0	-6.7	-10.5	...	1.0	.8	...
Manufacturing	79.0	-8.7	-8.7	7.1	1.2	1.2	.9
Ex. motor veh. and parts	74.5	-7.8	-8.7	3.8	.5	.9	.5
Ex. high-tech industries	70.3	-7.8	-9.1	3.4	.3	1.0	.5
Mining	10.6	.8	-21.7	3.7	1.2	1.1	.7
Utilities	10.4	.3	-11.2	-5.8	-1.5	1.9	-.7
<i>Selected industries</i>							
Energy	23.9	1.3	-14.4	-2.5	-.4	1.1	.5
High technology	4.2	-6.9	-.1	10.7	2.8	.0	.0
Computers	1.0	-11.9	-25.1	-16.9	-1.2	-1.4	-1.4
Communications equipment	1.3	10.4	-4.1	6.3	.5	.3	-1.1
Semiconductors ²	1.8	-15.0	22.3	33.2	7.1	.4	1.8
Motor vehicles and parts	4.5	-23.3	-10.4	103.0	17.8	6.1	8.1
Aircraft and parts	2.3	-13.2	-18.5	4.7	2.0	-.7	1.8
<i>Total ex. selected industries</i>	65.1	-8.3	-9.1	3.6	.3	1.2	.3
Consumer goods	20.7	-4.2	-4.9	1.4	-.4	1.3	.3
Durables	3.5	-14.7	-12.9	1.6	1.4	-.5	.2
Nondurables	17.1	-1.8	-3.3	1.4	-.7	1.6	.3
Business equipment	6.6	-4.8	-22.5	-.2	.3	1.4	-.2
Defense and space equipment	1.1	-2.1	4.0	15.9	2.0	1.3	1.2
Construction supplies	4.8	-11.8	-10.7	2.9	.5	.4	-.4
Business supplies	7.3	-9.8	-10.7	-1.2	-.4	.4	-.5
Materials	24.6	-11.7	-8.6	8.0	.9	1.4	.7
Durables	12.4	-11.4	-24.0	7.7	1.6	1.4	.7
Nondurables	12.2	-12.0	7.7	8.3	.3	1.4	.7

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

2. Includes related electronic components.

... Not applicable.

Source: Federal Reserve, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

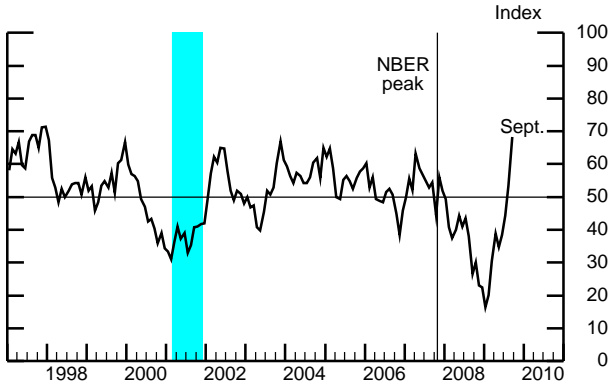
Capacity Utilization
(Percent of capacity)

Sector	1972- 2008 average	1994- 95 high	2001- 02 low	2009				
				Q1	Q2	Q3	Aug.	Sept.
Total industry	80.9	84.9	73.5	70.4	68.7	69.8	69.9	70.5
Manufacturing	79.6	84.5	71.4	66.7	65.4	66.8	66.8	67.5
Mining	87.6	89.1	84.9	86.8	81.8	82.8	82.9	83.6
Utilities	86.8	93.3	84.2	82.4	79.6	78.1	78.7	78.1
<i>Stage-of-process groups</i>								
Crude	86.6	89.9	81.7	80.9	79.5	81.4	81.4	82.5
Primary and semifinished	82.0	87.9	74.3	68.4	66.2	66.9	67.0	67.3
Finished	77.7	80.3	70.0	68.4	67.1	68.4	68.6	69.3

Source: Federal Reserve, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

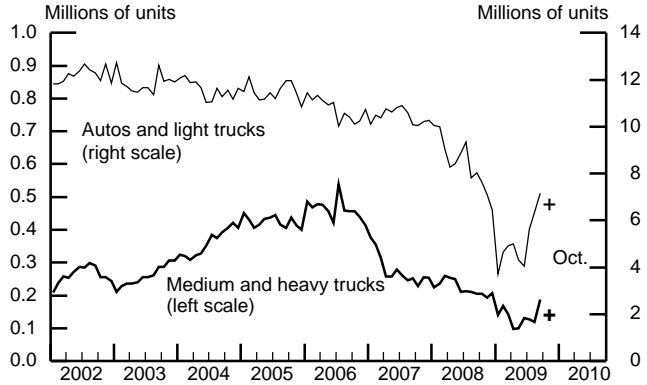
Indicators of Industrial Activity

IP Diffusion Index



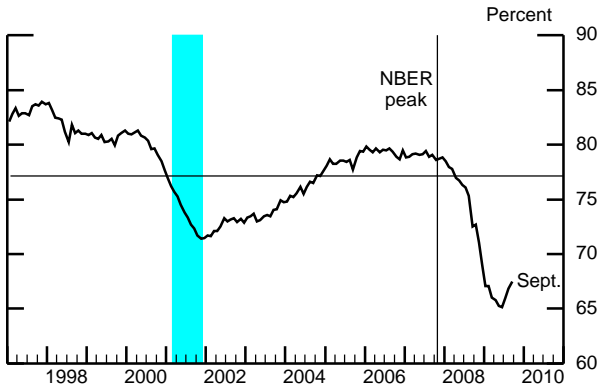
Note: The diffusion index equals the percentage of series that increased relative to 3 months earlier plus one-half the percentage that were unchanged.
 Source: Federal Reserve, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

Motor Vehicle Assemblies



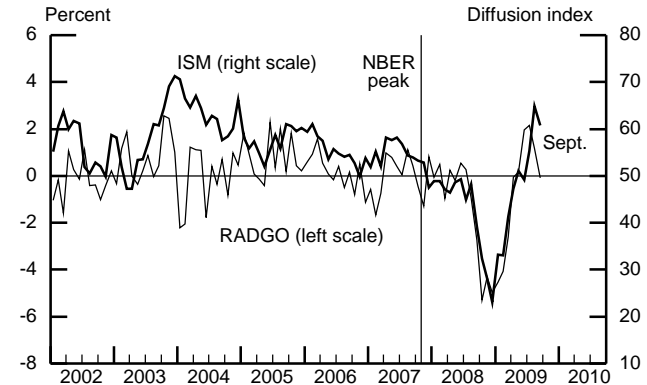
Note: October values are based on latest industry schedules.
 Source: Ward's Communications.

Manufacturing Capacity Utilization



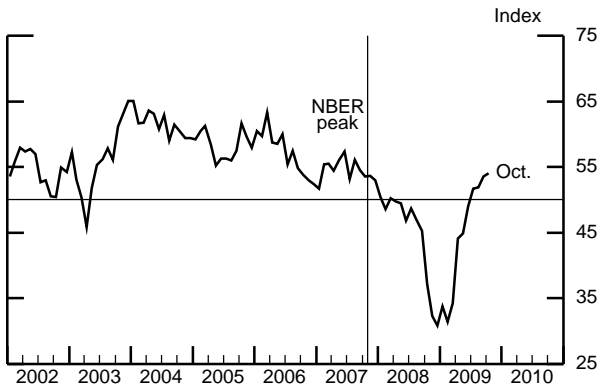
Note: Horizontal line is 1972-2008 average.
 Source: Federal Reserve, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

ISM New Orders Diffusion Index and Change in Real Adjusted Durable Goods Orders



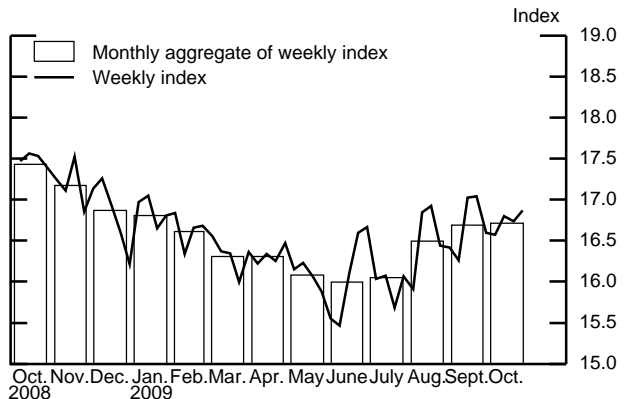
Note: The measure for real adjusted durable goods orders (RADGO) is a 3-month moving average.
 Source: Institute for Supply Management (ISM). RADGO is compiled by FRB staff based on data from the Bureau of Labor Statistics and the U.S. Census Bureau.

New Orders: Regional Survey Average



Note: The regional average includes new orders indexes from the Chicago, Dallas, Kansas City, New York (Empire State), Philadelphia, and Richmond surveys.
 Source: Federal Reserve.

Weekly Production Index excluding Motor Vehicles



Note: One index point equals 1 percent of 2002 total industrial output.
 Source: Federal Reserve, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

Production of light motor vehicles continued to move up last month and rose to an annual rate of 6.4 million units in the third quarter as a whole.² Despite the increase in motor vehicle output, inventories fell sharply last quarter—in large part because of the boost to sales from the cash-for-clunkers program—and days' supply slid to just 50 days. Industry schedules currently call for assemblies to step up in the fourth quarter to a pace of 6.8 million units. Elsewhere in the transportation sector, the production of civilian aircraft moved sideways, on balance, in recent months. Production will likely move down somewhat over the next several months, as Boeing recently postponed the introduction of their updated 747-8 aircraft; the first deliveries of the new 787 airplanes, as well as the 747-8 aircraft, are not expected to raise output noticeably until late next year.³

High-tech output rose at an annual rate of almost 11 percent in the third quarter after changing little in the second quarter. The output of semiconductors increased smartly last quarter, reportedly reflecting inventory restocking and possibly some firming in demand for chips used in consumer PCs, cell phones, and TVs. In contrast, computer production declined last quarter, albeit at a slower pace than in the second quarter, partly a result of weak business demand for servers. This decline in real production occurred despite an increase in unit shipments of PCs last quarter because the mix of PCs produced continued to shift toward lower-value machines. The output of communications equipment moved up modestly in the third quarter after two consecutive quarterly declines.

Forward-looking indicators of high-tech production generally point to some additional improvement this quarter. Intel is expecting a sharp increase in revenue in the fourth quarter—a positive indicator for the output of semiconductors—and orders for circuit boards suggest that output of those items in the coming months will be boosted by upstream demand from the producers of high-tech equipment and other electronic products. While orders and shipments of semiconductor manufacturing equipment are well above the low levels seen during the second quarter, they remain subdued, suggesting that semiconductor manufacturers are still cautious about expanding capacity. For computers, a number of companies, including Dell and HP, have provided tentative signals that the market for their products has bottomed out and may begin expanding

² Although GM and Chrysler struggled to ramp up production after emerging from bankruptcy last summer, both now appear to be producing closer to their desired assembly rates. However, Chrysler has had some more-recent production disruptions because of difficulties with its parts suppliers. These difficulties reportedly reflect challenges associated with Chrysler's transition to new suppliers after having lost some previous suppliers while in bankruptcy, as well as the reluctance by some smaller suppliers to commit to new projects with Chrysler because of uncertainty about its future as part of Fiat.

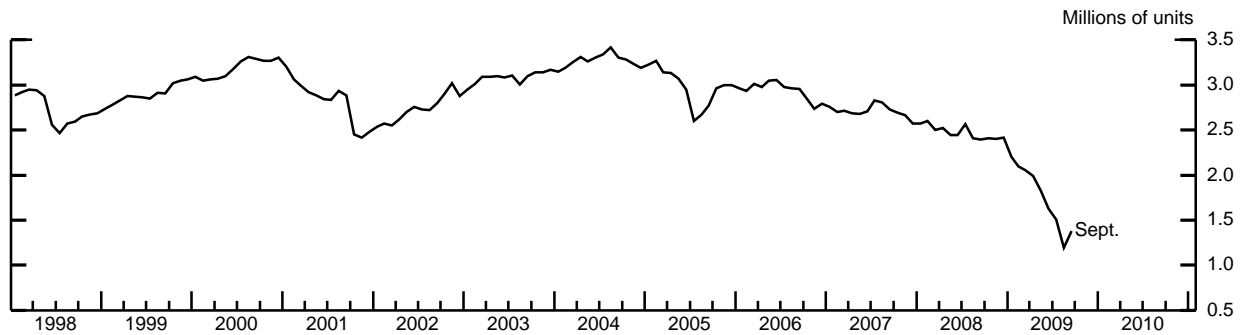
³ Deliveries of finished aircraft jumped in September after having been held down in the previous two months by some parts shortages at Boeing and by financing issues for some customers. The pace of assemblies, however, appeared little affected, as the swings in deliveries were mostly offset by changes in inventories.

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

Item	2009				2009			
	Q1	Q2	Q3	Q4	June	July	Aug.	Sept.
U.S. production ¹	4.4	4.5	6.4	6.8	4.1	5.6	6.3	7.1
Autos	1.7	1.9	2.5	2.7	1.9	2.2	2.5	2.8
Light trucks	2.8	2.5	3.8	4.0	2.2	3.4	3.8	4.3
Days' supply ²	93	70	50	n.a.	70	55	36	63
Autos	93	78	46	n.a.	76	55	32	59
Light trucks	93	64	55	n.a.	64	55	40	66
Inventories ³	2.05	1.63	1.38	n.a.	1.63	1.50	1.20	1.38
Autos	.92	.82	.63	n.a.	.82	.75	.56	.63
Light trucks	1.13	.81	.75	n.a.	.81	.75	.64	.75
Memo: U.S. production, total motor vehicles ⁴	4.6	4.6	6.5	7.0	4.2	5.7	6.5	7.3

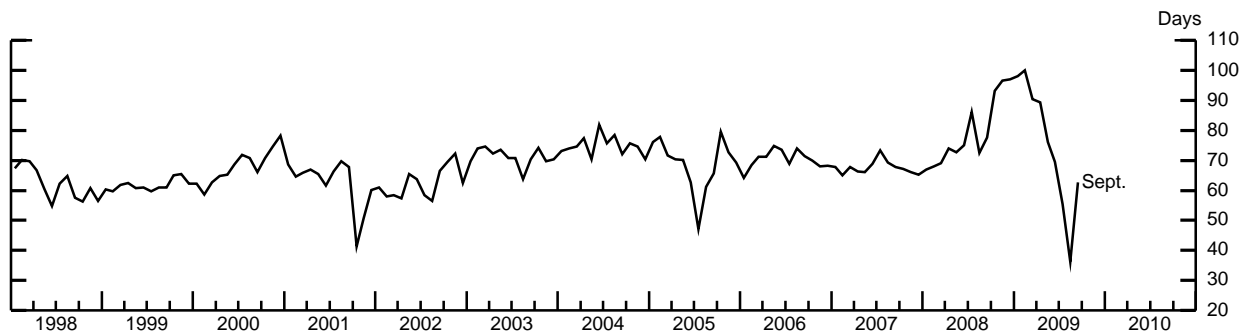
Note: FRB seasonals. Components may not sum to totals because of rounding.
 1. Production rates for the fourth quarter of 2009 reflect the latest industry schedules.
 2. Quarterly values are calculated with end-of-period stocks and average reported sales.
 3. End-of-period stocks.
 4. Includes medium and heavy trucks.
 n.a. Not available.
 Source: Ward's Communications.

Inventories of Light Vehicles



Source: Ward's Communications. Adjusted using FRB seasonals.

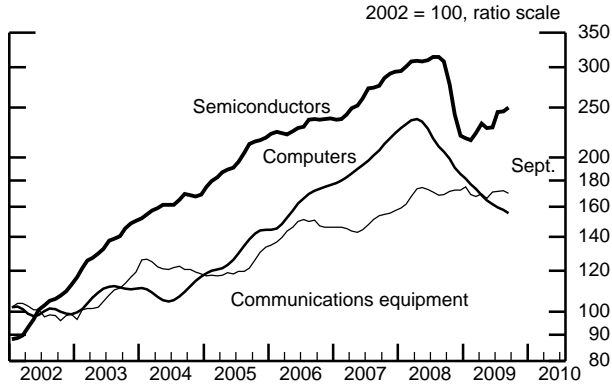
Days' Supply of Light Vehicles



Source: Constructed from Ward's Communications data. Adjusted using FRB seasonals.

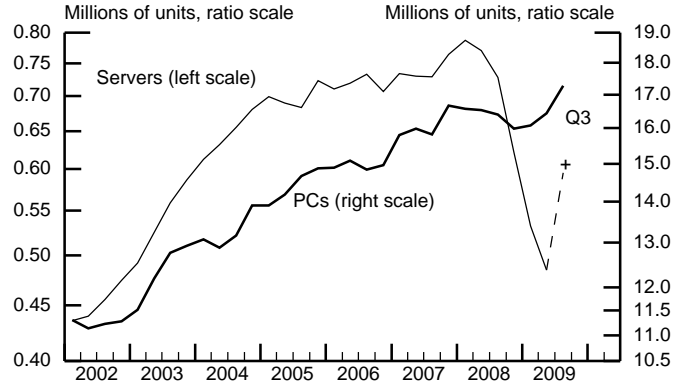
Indicators of High-Tech Manufacturing Activity

Industrial Production in the High-Tech Sector



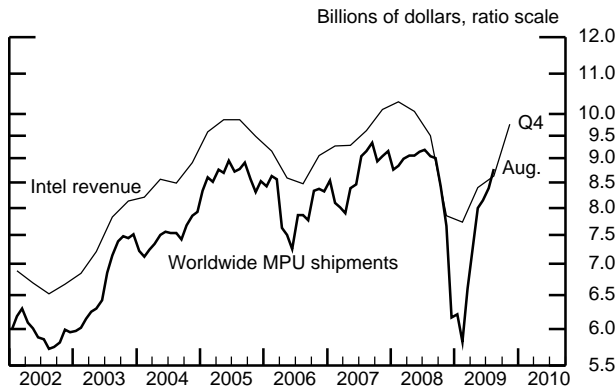
Source: Federal Reserve, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

U.S. Personal Computer and Server Absorption



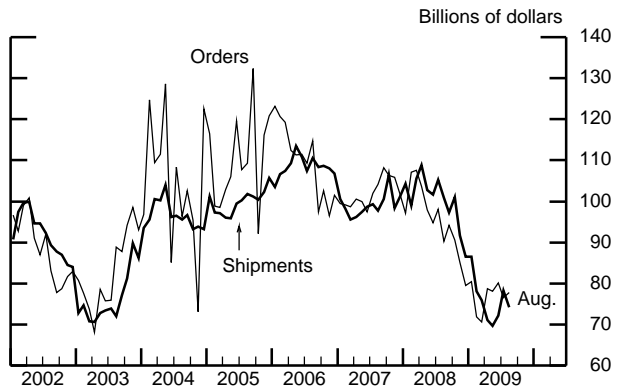
Note: FRB seasonals. PC and server units represent the most recent U.S. data available from IDC. Q3 PC units are from the IDC Top 10 data release. Q3 server units are implied from the IDC Top 10 data release. Source: IDC.

MPU Shipments and Intel Revenue



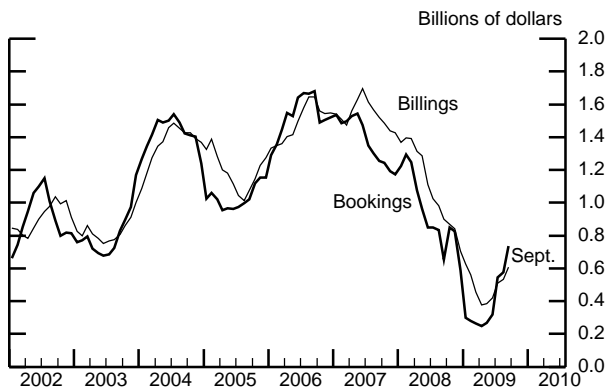
Note: FRB seasonals. MPU is a microprocessor unit. Q4 Intel revenue is the midpoint of the range given by the company's guidance as of October 13, 2009. MPU shipments are a 3-month sum. Source: Intel; Semiconductor Industry Association.

Circuit Board Orders and Shipments



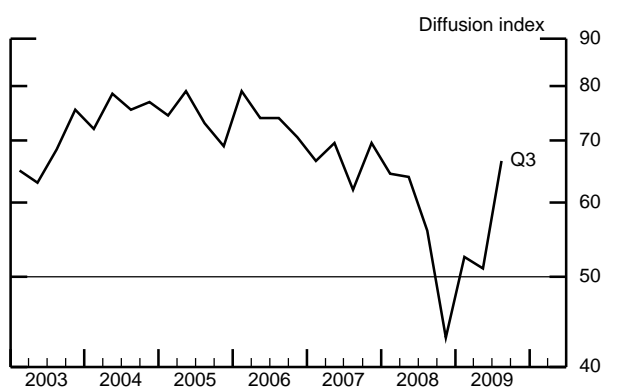
Note: U.S. and Canadian orders and shipments of bare and loaded circuit boards. Source: Institute for Printed Circuits.

Bookings and Billings for Semiconductor Manufacturing Equipment



Note: FRB seasonals. Source: Semiconductor Equipment and Materials International.

High-Tech Spending Plans



Note: Based on survey question on firms' plans to increase or decrease their spending on high-tech equipment in the next 12 months. Source: NABE Industry Survey.

soon. With regard to communications equipment, AT&T reported that it will ramp up equipment spending sharply this quarter in order to reach its annual capital spending target, and Verizon also indicated plans to increase its equipment spending. Finally, the diffusion index of planned capital spending on high-tech equipment in the NABE's quarterly survey rose in the third quarter to a level that suggests a solid rebound in high-tech spending in the next few quarters.

The output of energy increased in both August and September. Drilling activity rose for a second consecutive month in September after plunging by more than one-half since late last year, and oil extraction moved up for a third consecutive month. The boost to both extraction and drilling activity was likely spurred by recent increases in oil prices.

Outside of the transportation, high-technology, and energy sectors, output increased for the third consecutive month in September, bringing the increase for the third quarter as a whole to about 3½ percent. The output of consumer goods edged up in the third quarter, construction supplies rose at a moderate pace, and the index for materials turned up noticeably. The rise in the production of construction supplies likely reflects the upturn in housing starts and in state and local construction, while the increase in the output of materials was likely boosted, in part, by demand from the motor vehicle sector. The production of business equipment was little changed during the third quarter after plummeting in the first half of the year.

Forward-looking indicators of manufacturing activity continue to suggest moderate gains in production. The latest diffusion index of new orders from the national manufacturing ISM survey points to solid near-term gains in factory output, and readings on orders for October from the regional manufacturing surveys improved further, on balance, and are consistent with moderate increases in manufacturing production. However, the staff's estimate of real adjusted durable goods orders in September was about flat, and the latest weekly frequency product data that are used to construct IP suggest that output in these industries will contribute little, on net, to the change in IP for October.

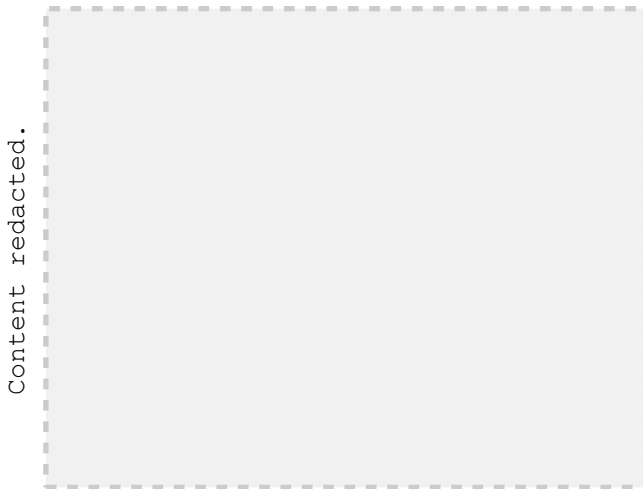
Motor Vehicles

Light vehicle sales surged in July and August in response to the cash-for-clunkers program, but then tumbled in September to an annual rate of 9.2 million units after the expiration of the program. Many of the clunker-related vehicle purchases in July and August were probably pulled forward from sales that would have otherwise occurred in subsequent months, as has often been the case for previous large sales-incentive programs, and the steep drop in light vehicle sales in September was consistent with this

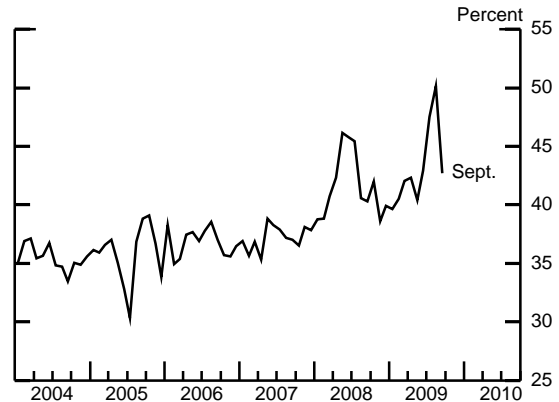
Sales of Light Vehicles
(Millions of units at an annual rate; FRB seasonals)

Category	2008	2009					
		Q1	Q2	Q3	July	Aug.	Sept.
Total	13.1	9.5	9.6	11.5	11.2	14.1	9.2
Autos	6.7	4.8	4.9	6.4	6.2	8.0	5.0
Light trucks	6.4	4.7	4.7	5.1	5.1	6.1	4.2
North American ¹	9.8	6.8	7.1	8.4	8.3	10.2	6.7
Autos	4.5	3.1	3.2	4.2	4.2	5.3	3.3
Light trucks	5.3	3.7	3.9	4.2	4.2	4.9	3.5
Foreign-produced	3.3	2.7	2.4	3.1	2.9	3.9	2.5
Autos	2.2	1.7	1.6	2.1	2.0	2.7	1.7
Light trucks	1.1	1.0	.8	.9	.9	1.2	.8
Memo: Detroit Three market share (percent) ²	48.3	44.1	46.8	43.1	44.8	41.3	43.7

Note: Components may not sum to totals because of rounding.
 1. Excludes some vehicles produced in Canada that are classified as imports by the industry.
 2. Includes domestic and foreign brands affiliated with the Detroit Three.
 Source: Ward's Communications. Adjusted using FRB seasonals.

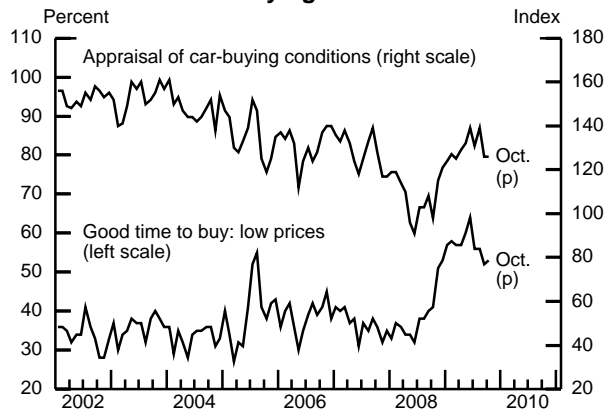


Market Share of Small and Midsize Autos



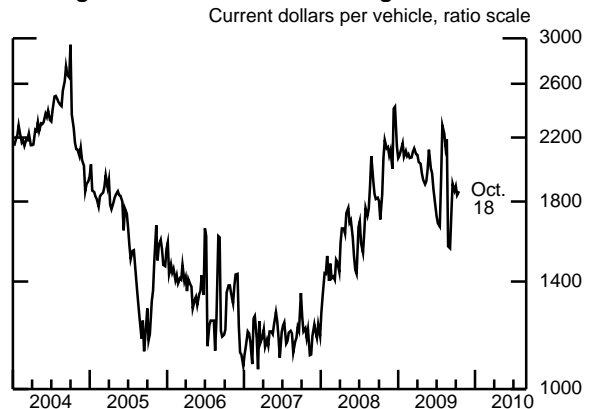
Note: As a share of total light vehicle sales.
 Source: Ward's Communications. Adjusted using FRB seasonals.

Car-Buying Attitudes



p Preliminary.
 Source: Reuters/University of Michigan Surveys of Consumers.

Average Value of Incentives on Light Vehicles



Note: Weekly weighted average of customer cash rebate and the present value of interest rate reduction.
 Source: J.D. Power and Associates. Adjusted using FRB seasonals.

expectation.⁴ Also, sales incentives were reduced in September, in part because some incentives that had been offered in conjunction with the cash-for-clunkers rebates were trimmed. Incentives in the first half of October were about unchanged, on average, from their September level. The expiration of the cash-for-clunkers program and the reduction in other sales incentives seem to have damped households' car-buying attitudes as measured in the Reuters/Michigan survey for September, and these sentiments continued to be little changed in the preliminary October survey.

Consumer Spending

Real personal consumption expenditures (PCE) appear to have increased at a solid pace in the third quarter. Based on our analysis of monthly retail sales data, we estimate that real spending on goods other than motor vehicles increased further in September after rising sharply in August. For the third quarter as a whole, real purchases of non-motor-vehicle goods likely moved up at an annual rate of more than 4 percent, the largest quarterly increase for this category of spending in more than two years. Moreover, these recent gains in household spending have been widespread across categories of consumer goods. The latest readings on consumer spending for services, which lag the indicators of goods purchases by a month, also have stepped up; excluding the volatile energy component, real spending on services increased 0.2 percent in both July and August.

Despite the apparent resuscitation in consumer spending, households still face substantial headwinds. Reflecting the ongoing weakness in the labor market, wages and salaries appear to have dropped further in the third quarter after having plunged in the first half of the year. Although gains in equity prices likely led to a further recoupment of households' net worth in the third quarter, data indicate that, on net, households have lost wealth equivalent to more than 1½ years of income over the past two years and are likely still making corresponding adjustments to their spending. Moreover, responses to the Senior Loan Officers Opinion Survey on Bank Lending Practices (SLOOS) suggest that many banking institutions continued to tighten consumer lending standards in the third quarter, although a considerable majority reported that such standards were roughly unchanged (see the appendix to "Domestic Financial Developments"). Meanwhile, consumer sentiment as measured by the Reuters/Michigan survey was about unchanged, on net, in September and early October. While consumer sentiment has moved up from its extremely depressed levels earlier in the year, it remains subdued, likely reflecting the continued strains on household balance sheets and incomes.

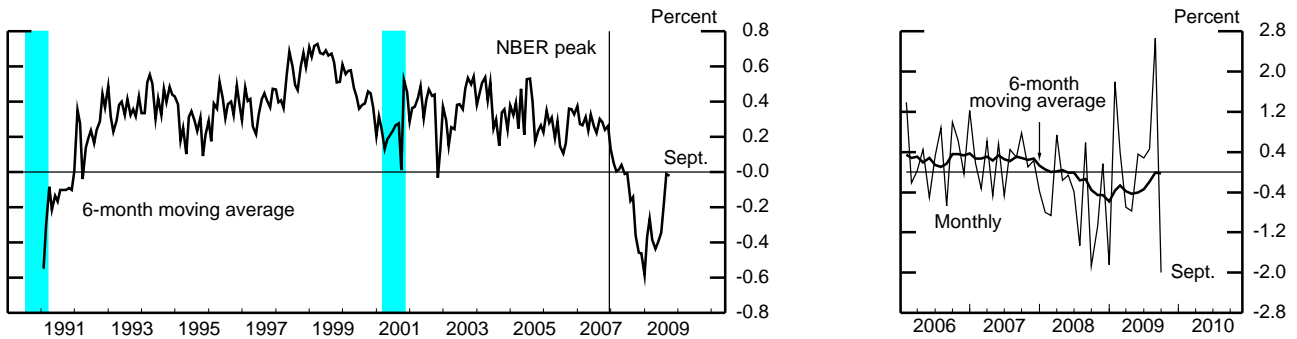
⁴ The cash-for-clunkers program officially ran from July 1 to August 24. All told, about 690,000 vouchers for cash-for-clunkers rebates were issued under the program, and the Department of Transportation announced on October 19 that 98 percent of the vouchers had been paid or approved for payment.

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

Category	2009			2009		
	Q1	Q2	Q3	July	Aug.	Sept.
	Annual rate			Monthly rate		
Total real PCE¹	.6	-.9	n.a.	.2	.9	n.a.
Motor vehicles	9.5	-6.3	54.3	6.2	17.2	-24.8
Goods ex. motor vehicles	2.0	-2.8	4.3	.0	1.3	.5
Services	-.3	.2	n.a.	.1	.2	n.a.
Ex. energy	-.2	.7	n.a.	.2	.2	n.a.
Memo:						
Real PCE control ²	1.3	-2.5	3.6	.0	1.1	.4
Nominal retail control ³	1.9	-2.8	1.7	-.2	.7	.5

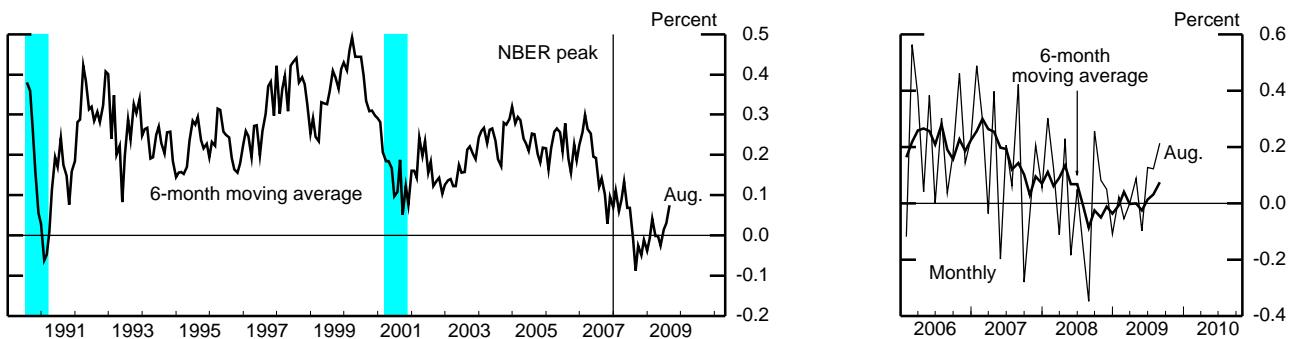
1. The values for Q3, July, August, and September are staff estimates based on available data.
 2. Durables excluding motor vehicles, nondurables excluding gasoline, and food services.
 3. Total sales less outlays at building material and supply stores, automobile and other motor vehicle dealers, and gasoline stations.
- n.a. Not available.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Change in Real PCE Goods



Note: Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER). The NBER peak is the last business cycle peak as defined by the NBER.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

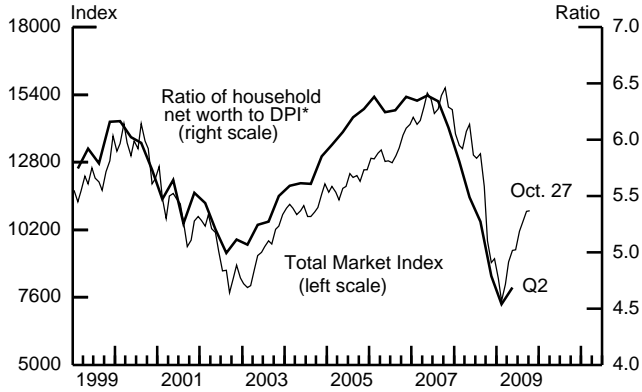
Change in Real PCE Services



Note: Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER). The NBER peak is the last business cycle peak as defined by the NBER.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

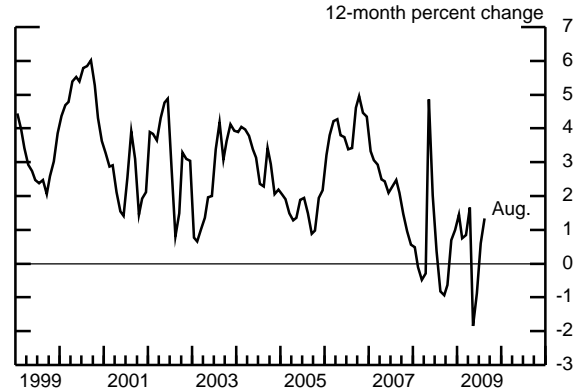
Fundamentals of Household Spending

Household Net Worth and Dow Jones Total Market Index



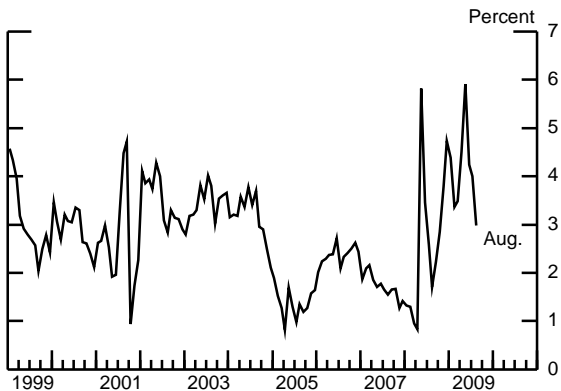
* The value for 2004:Q4 excludes the effect on income of the one-time Microsoft dividend in December 2004.
 Source: Federal Reserve Board; U.S. Department of Commerce, Bureau of Economic Analysis; *Wall Street Journal*.

Change in Real Disposable Personal Income



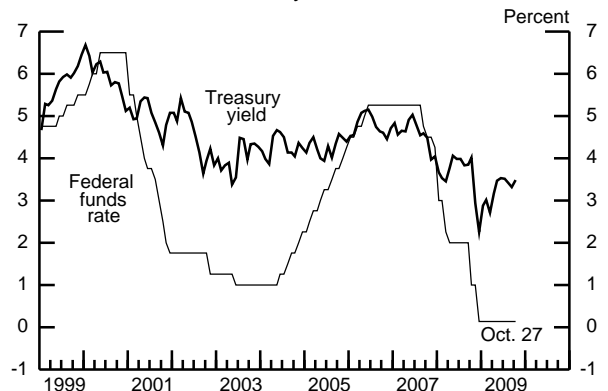
Note: Values for December 2004 and December 2005 exclude the effect on income of the one-time Microsoft dividend in December 2004.
 Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Personal Saving Rate



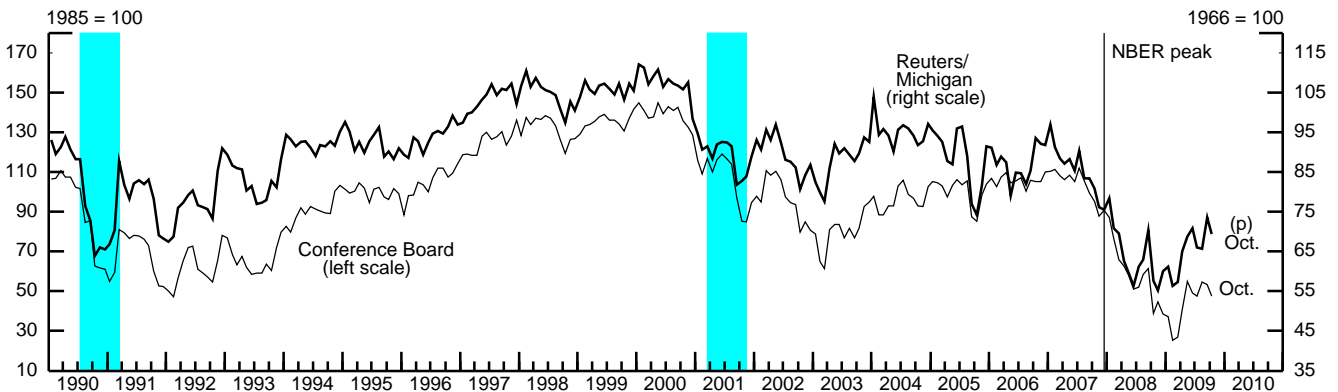
Note: The value for December 2004 excludes the effect on income of the one-time Microsoft dividend in that month.
 Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Target Federal Funds Rate and 10-Year Treasury Yield



Source: Federal Reserve Board.

Consumer Confidence



Note: Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER). The NBER peak is the last business cycle peak as defined by the NBER.

(p) Preliminary.

Source: Reuters/University of Michigan Surveys of Consumers; Conference Board.

Housing

On balance, the incoming data on residential construction activity suggest that the gradual recovery that began earlier this year has been maintained in recent months. Although single-family housing starts were essentially flat at an annual rate of around 500,000 units in August and September, the level of starts remained significantly above the record low of 360,000 units in the first quarter of the year. Adjusted permit issuance—which is often a useful indicator of the underlying pace of starts—has also been roughly constant in recent months and was only a bit below the rate of starts in September. In the much smaller multifamily sector—where tight credit conditions have persisted and vacancies have remained elevated—starts plunged beginning in the middle of 2008 but have basically leveled off during the past several months.

The Census Bureau's measure of the number of new-home sales agreements rose to an annual rate of about 410,000 units in the third quarter following gains also in the preceding quarter.

. Although sales levels are still modest, they have been ample enough, given the slow pace of construction, to reduce the overhang of unsold new single-family houses. The stock of unsold new homes dropped further in September, and these inventories were around one-half of their peak level in the summer of 2006; measured relative to the September pace of sales, the months' supply of new homes also remained lower than earlier in the year.

Sales of existing single-family homes jumped in the third quarter to an annual rate of 4.7 million units. Meanwhile, pending home sales agreements through August suggest that resale activity will continue to rise in future months.⁵ Although sales in the existing-home market have been supported for much of the year by the large number of transactions involving bank-owned and other distressed properties, resale activity more recently appears to have been driven primarily by transactions of nondistressed properties. Data from the National Association of Realtors suggest that distressed sales fell to about 30 percent of all sales transactions for existing homes in the period from May to September after reportedly accounting for more than 40 percent of sales between December and April.

⁵ However, according to the National Association of Realtors (NAR), the high proportion of distressed sales and the unusually tight credit conditions in the housing market have made pending home sales a less informative leading indicator of existing home sales than usual. Increases in the shares of cash purchases and of distressed sales have made the time between contract and closing for existing homes more uncertain than in the past.

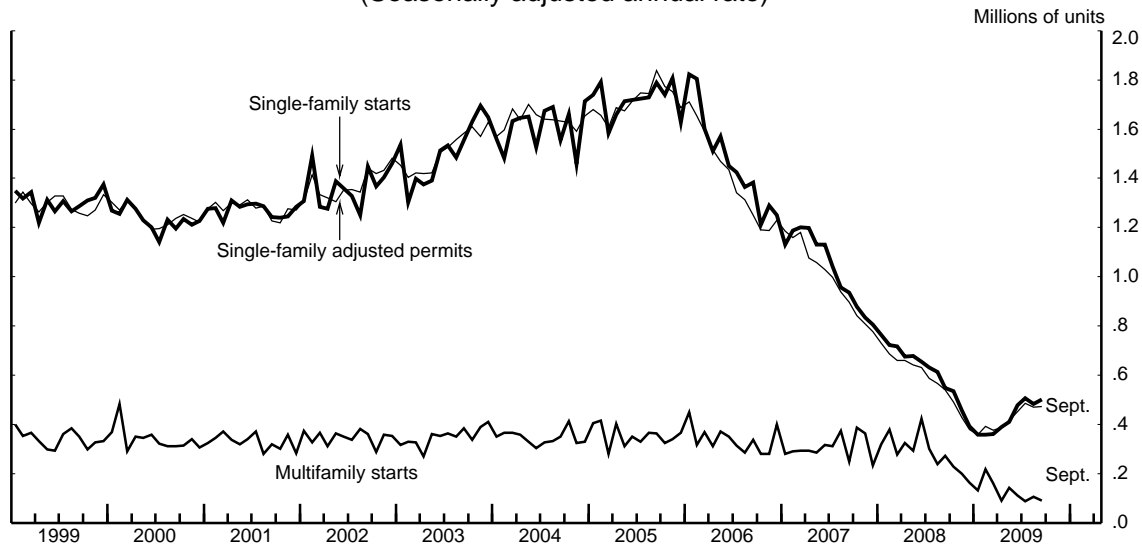
Private Housing Activity

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

Sector	2008	2009					
		Q1	Q2	Q3	July	Aug.	Sept.
<i>All units</i>							
Starts	.91	.53	.54	.59	.59	.59	.59
Permits	.91	.53	.53	.57	.56	.58	.58
<i>Single-family units</i>							
Starts	.62	.36	.43	.50	.51	.48	.50
Permits	.58	.36	.41	.46	.46	.46	.45
Adjusted permits ¹	.58	.37	.42	.48	.49	.47	.47
New homes							
Sales	.49	.34	.37	.41	.41	.42	.40
Months' supply ²	10.68	11.61	9.44	7.62	7.85	7.51	7.49
Existing homes							
Sales	4.35	4.12	4.24	4.66	4.61	4.47	4.89
Months' supply ²	9.98	9.68	8.78	7.97	8.03	8.61	7.27
<i>Multifamily units</i>							
Starts	.28	.17	.12	.09	.09	.11	.09
Built for rent	.22	.14	.10	n.a.	n.a.	n.a.	n.a.
Built for sale	.07	.03	.02	n.a.	n.a.	n.a.	n.a.
Permits	.33	.17	.12	.11	.10	.12	.12
<i>Condos and co-ops</i>							
Existing home sales	.56	.47	.52	.64	.63	.62	.68

- Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.
 - At current sales rate; expressed as the ratio of seasonally adjusted inventories to seasonally adjusted sales. Quarterly and annual figures are averages of monthly figures.
- n.a. Not available.
Source: Census Bureau.

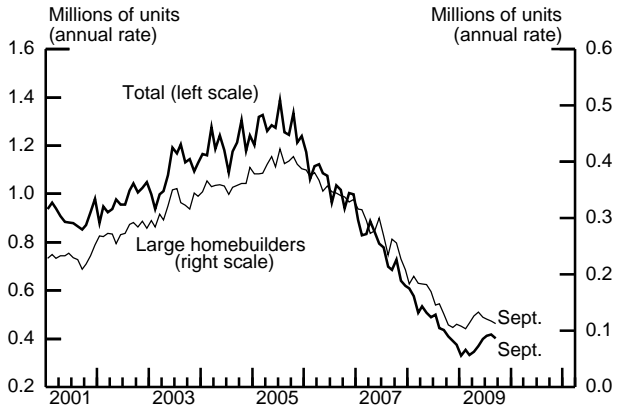
Private Housing Starts and Permits
(Seasonally adjusted annual rate)



Note: Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.
Source: Census Bureau.

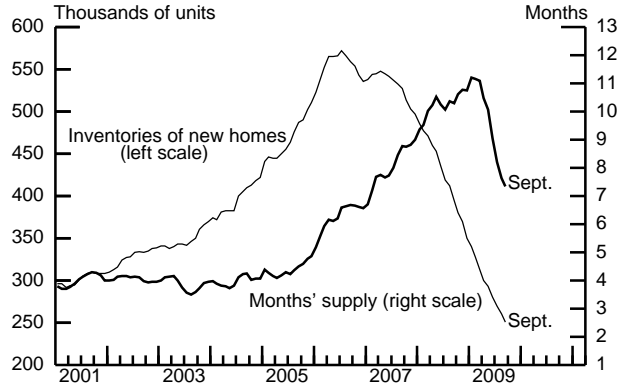
Indicators of Single-Family Housing

New Single-Family Home Sales



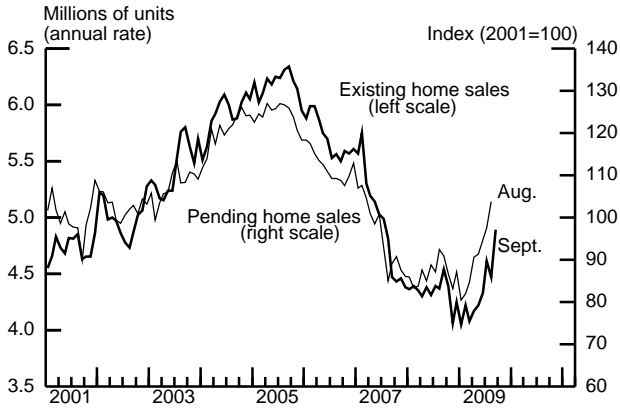
Source: For total, Census Bureau; for large homebuilders, National Association of Home Builders.

Inventories of New Homes and Months' Supply



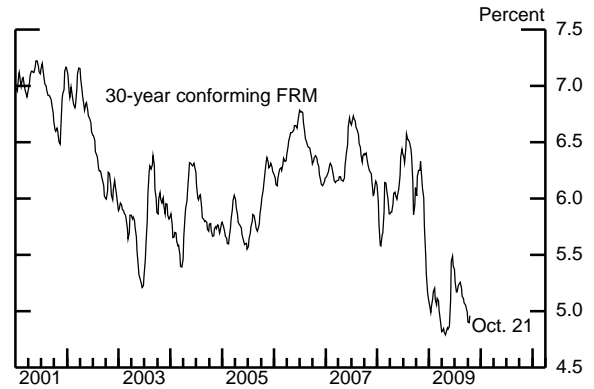
Note: Months' supply is calculated using the 3-month moving average of sales.
Source: Census Bureau.

Existing Single-Family Home Sales



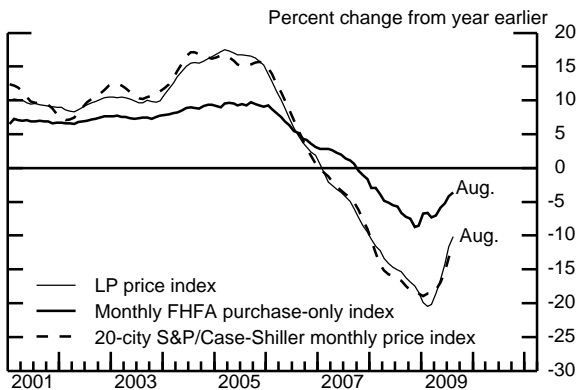
Source: National Association of Realtors.

Mortgage Rates



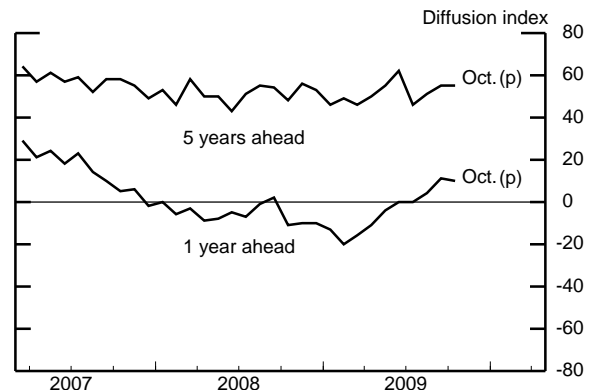
Note: 2-week moving average.
Source: Federal Home Loan Mortgage Corporation.

Prices of Existing Homes



Source: For FHFA, Federal Housing Finance Agency; for S&P/Case-Shiller, Standard & Poor's; for LP, LoanPerformance, a division of First American CoreLogic.

House Price Expectations



Note: Diffusion index is constructed by subtracting expectations of decrease from expectations of increase.
p. Preliminary.
Source: Reuters/University of Michigan Surveys of Consumers.

The modest recovery in housing demand that appears to have emerged probably reflects, at least in part, improvements in housing affordability stemming from relatively low mortgage rates and house prices that still remain below year-earlier levels but that have been firming recently, apparently raising expectations of future gains.⁶ Interest rates for conforming 30-year fixed-rate mortgages remain very low by historical standards at about 5 percent. In addition, although spreads between rates for jumbo and standard conforming loans are still high relative to pre-crisis levels, they have continued to fall recently despite the fact that the secondary market for private-label nonconforming mortgages remains closed. As for house prices, the repeat-sales price index for existing single-family homes calculated by LoanPerformance increased for a fifth consecutive month in August and is now only 10 percent below its level a year earlier. Moreover, the Reuters/Michigan survey's diffusion index for year-ahead house price expectations remained positive in early October, which indicates that the number of respondents who expect house prices to increase over the next 12 months exceeds the number of respondents who expect prices to decrease.

Equipment and Software

Real investment in equipment and software (E&S) seems to have stabilized in the third quarter after falling steeply for more than a year. Business purchases of motor vehicles appear to have increased, and purchases of high-tech equipment look to have continued their modest recovery. More broadly, the pace of decline in nominal shipments of nondefense capital goods excluding aircraft slowed substantially in the third quarter, while orders moved up in September to a level slightly above shipments, closing what had been a sizable gap.

Real business outlays on motor vehicles likely rose in the third quarter after declining steeply for an extended period. Purchases of light vehicles by both daily rental companies and other businesses moved up last quarter, as did sales of medium and heavy trucks. In response to a higher volume of freight deliveries, the pace of new truck orders has picked up noticeably, suggesting that sales should continue to increase through year-end.

Real spending on high-tech E&S looks to have risen modestly in the third quarter. Data on shipments indicate that real outlays on computers and peripheral equipment and on communications equipment increased at a solid pace last quarter, but company reports

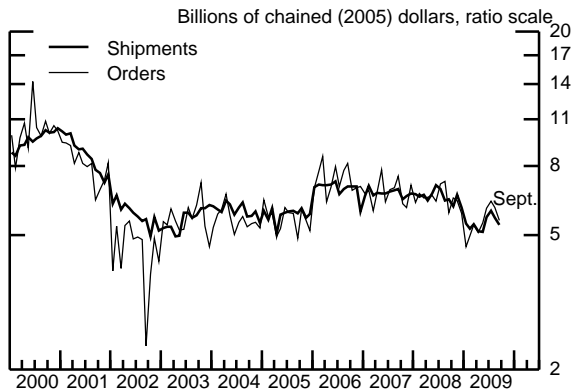
⁶ Anecdotal reports suggest that the first-time homebuyer tax credit that has been in place this year may have provided some support to home sales. The proportion of first-time homebuyers appears to have been about 45 percent this year—only a little higher than the average proportion of about 40 percent reported by the NAR for the past decade—suggesting that other factors likely have been more important for increasing home sales.

Orders and Shipments of Nondefense Capital Goods
(Percent change; seasonally adjusted current dollars)

Category	2009				
	Q2	Q3	July	Aug.	Sept.
	Annual rate		Monthly rate		
Shipments	-17.5	-.2	.6	-2.6	2.2
Excluding aircraft	-14.4	-1.9	.3	-2.2	-.2
Computers and peripherals	-8.1	-4.0	1.8	-4.3	.4
Communications equipment	-3.5	24.7	3.8	-4.6	-4.9
All other categories ¹	-15.9	-3.9	-.2	-1.8	.2
Orders	13.3	22.2	7.0	-7.7	2.5
Excluding aircraft	3.8	11.2	-1.3	-.8	2.0
Computers and peripherals	13.0	-1.7	-3.7	-2.8	.4
Communications equipment	48.2	34.9	4.8	-4.4	-8.4
All other categories ¹	-.6	10.4	-1.7	-.2	3.3
Memo: Shipments of complete aircraft ²	36.8	n.a.	34.1	32.6	n.a.

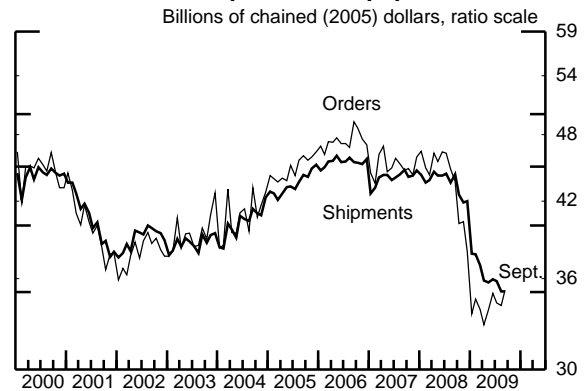
1. Excludes most terrestrial transportation equipment.
 2. From Census Bureau, Current Industrial Reports; billions of dollars, annual rate.
 n.a. Not available.
 Source: Census Bureau.

Communications Equipment



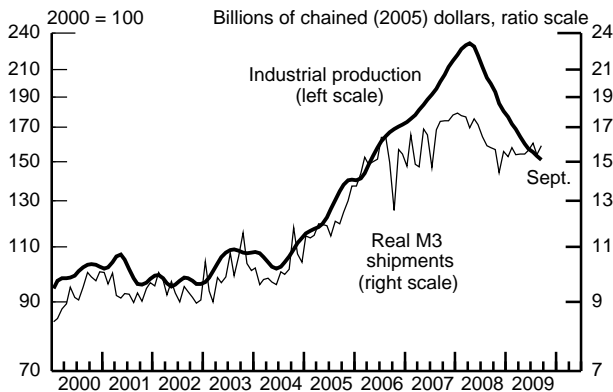
Note: Shipments and orders are deflated by a price index that is derived from the quality-adjusted price indexes of the Bureau of Economic Analysis and uses the producer price index for communications equipment for monthly interpolation.
 Source: Census Bureau.

Non-High-Tech, Nontransportation Equipment



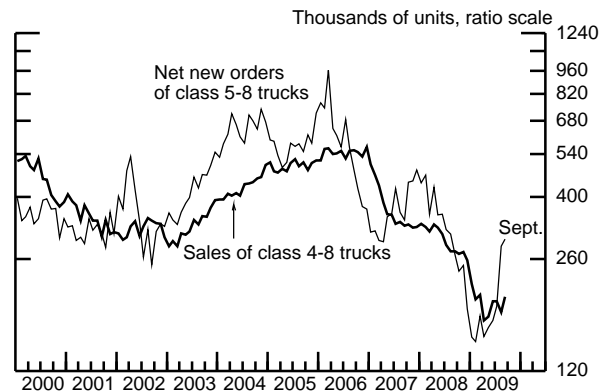
Note: Shipments and orders are deflated by the staff price indexes for the individual equipment types included in this category. Indexes are derived from the quality-adjusted price indexes of the Bureau of Economic Analysis.
 Source: Census Bureau.

Computers and Peripherals



Note: Shipments are deflated by the staff price index for computers and peripheral equipment, which is derived from the quality-adjusted price indexes of the Bureau of Economic Analysis.
 Source: Census Bureau; FRB Industrial Production.

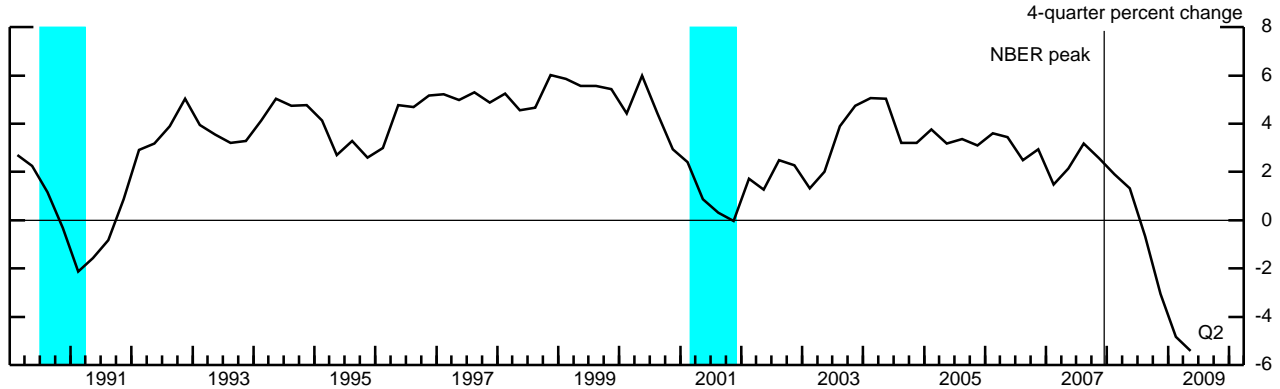
Medium and Heavy Trucks



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

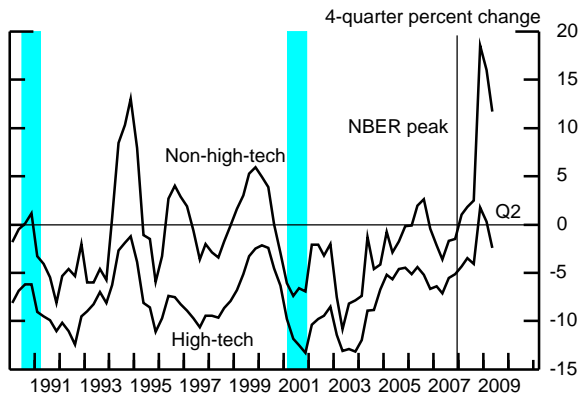
Fundamentals of Equipment and Software Investment

Real Business Output



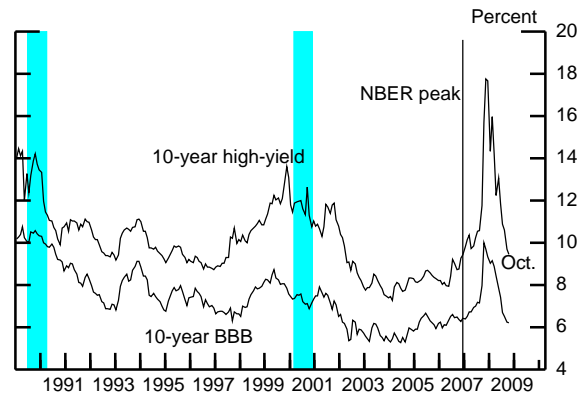
Note: Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER). The NBER peak is the last business cycle peak as defined by the NBER.
 Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

User Cost of Capital



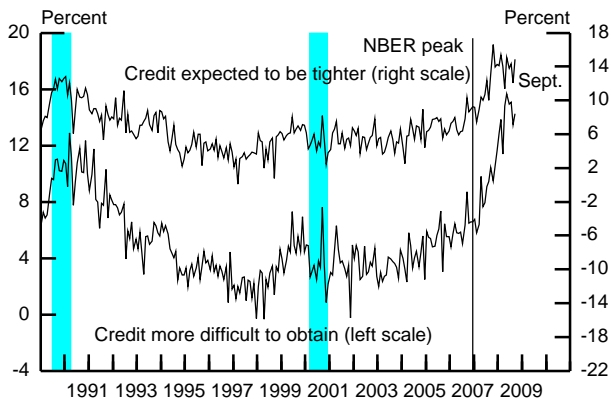
Source: Staff calculation.

Corporate Bond Yields



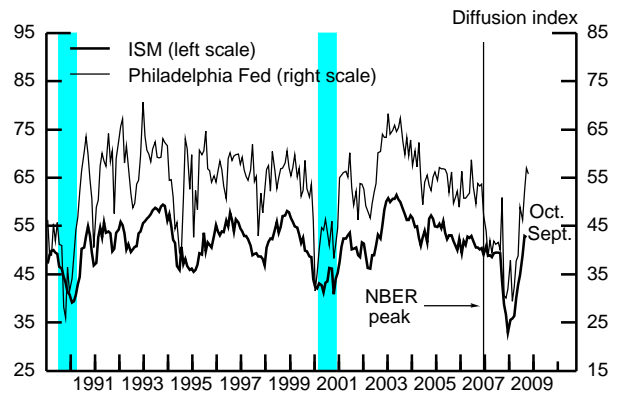
Note: End of month. October value as of October 27.
 Source: Merrill Lynch.

NFIB: Survey on Loan Availability



Note: Of borrowers who sought credit in the past 3 months, the proportion that reported or expected more difficulty in obtaining credit less the proportion that reported or expected more ease in obtaining credit. Seasonally adjusted.
 Source: National Federation of Independent Business (NFIB).

Surveys of Business Conditions



Source: Institute for Supply Management (ISM), Manufacturing ISM Report on Business; Philadelphia Fed Business Outlook Survey.

suggest that business purchases of software have shown some lingering weakness. Looking forward, the NABE index on capital spending plans over the next 12 months for computers and communications equipment bounced back noticeably from the low level seen since the end of last year, while orders for high-tech equipment stood somewhat above shipments in September. Meanwhile, major providers of telecommunications services, which account for about one-fourth of spending on communications equipment, reported that capital expenditures will be ramping up this quarter.

Business investment in equipment outside of transportation and high tech looks to have bottomed out in the third quarter after falling steeply during the preceding three quarters. Although shipments of these capital goods, which account for one-half of total E&S outlays, edged down, on net, in recent months, new orders jumped in September and the stock of unfilled orders increased for the first time in the past year, which could provide some impetus for shipments in future months.

The fundamental determinants of investment in E&S have improved somewhat in recent months, but, on balance, they point to only sluggish gains over the next couple of quarters. Business output appears to have turned up in the third quarter, and the user cost of capital has continued to fall in line with bond yields. Although spreads of corporate bonds over Treasury securities are still somewhat elevated, they have decreased considerably from their extremely high levels at the end of last year and continue to edge lower, likely reflecting less uncertainty and better assessments of future profitability. Meanwhile, monthly surveys of business conditions and sentiment have recovered to levels suggesting a modest rise in business spending. However, the net share of small businesses reporting increased difficulty in obtaining credit edged up in the September NFIB survey, and the October SLOOS reported that banks, on balance, continued to tighten standards on commercial and industrial loans to firms of all sizes over the past three months.

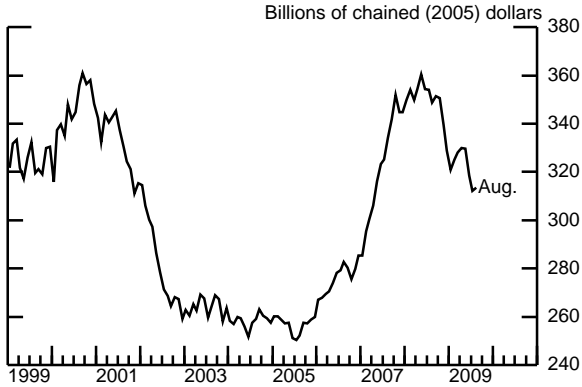
Nonresidential Construction

Conditions in the nonresidential construction sector have generally remained bleak. Recent data on nominal expenditures for nonresidential structures suggest that real construction outlays outside of the energy-related sectors declined sharply in the third quarter. The weakness was widespread across categories and likely reflected the drag from rising vacancy rates and plunging property prices. In addition, the architectural billings index in September remained at levels consistent with further declines in spending, and the nonresidential construction industry has continued to shed workers. Finally, the responses to the October SLOOS suggest that it remains extremely difficult for businesses to obtain financing for new construction projects.

Nonresidential Construction and Indicators

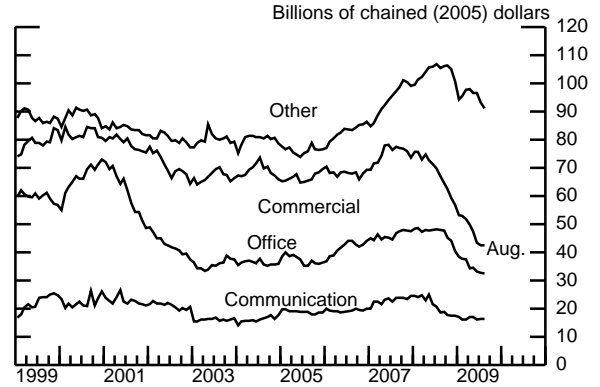
(All spending series are seasonally adjusted at an annual rate; nominal CPIP deflated by BEA prices through Q2 and by staff projection thereafter)

Total Structures



Source: Census Bureau.

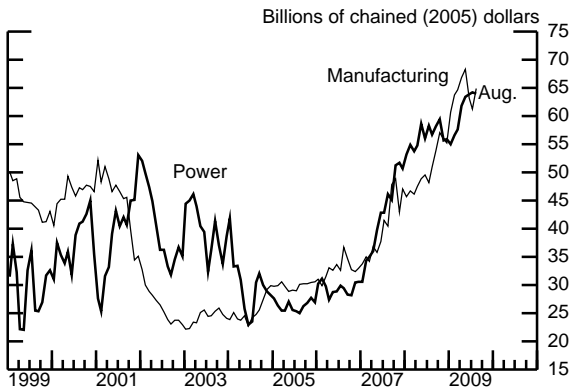
Office, Commercial, Communication, and Other



Note: Other consists of structures for religious organizations, education, lodging, amusement and recreation, transportation, and health care.

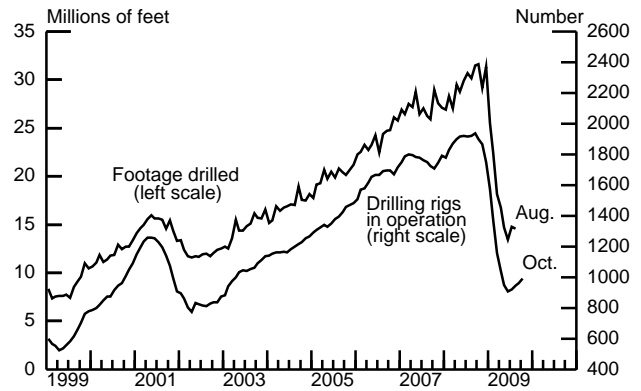
Source: Census Bureau.

Manufacturing and Power



Source: Census Bureau.

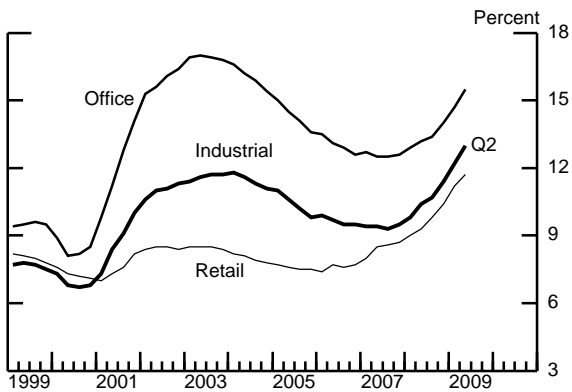
Drilling and Mining Indicators



Note: The October readings for drilling rigs are based on data through October 23, 2009. Both series are seasonally adjusted by FRB staff.

Source: For footage drilled, U.S. Department of Energy, Energy Information Agency; for drilling rigs, Baker Hughes.

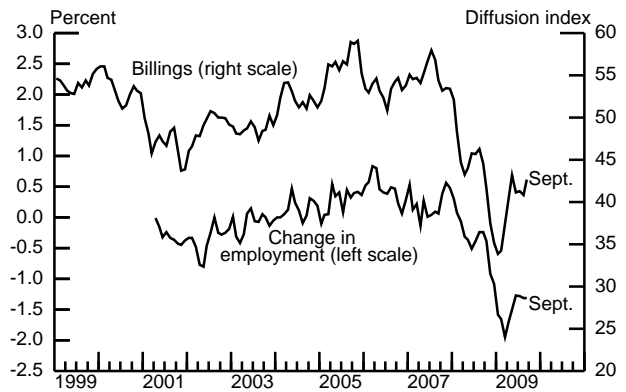
Vacancy Rates



Note: Industrial space includes both manufacturing structures and warehouses.

Source: Torto Wheaton Research.

Architectural Billings and Nonresidential Construction Employment



Note: Both series are 3-month moving averages. Employment consists of industrial, commercial, and specialty trade construction.

Source: For billings, American Institute of Architects; for employment, U.S. Department of Labor, Bureau of Labor Statistics.

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

Measure and sector	2008	2009				
	Q4	Q1	Q2	June	July	Aug.
<i>Real inventory investment (chained 2005 dollars)</i>						
Total nonfarm business	-35.7	-114.9	-163.1	...	...	...
Motor vehicles	-7	-63.6	-48.1	...	...	...
Nonfarm ex. motor vehicles	-35.1	-51.3	-115.1	...	...	...
Manufacturing and trade ex. wholesale and retail motor vehicles and parts						
Manufacturing	8.2	-28.9	-39.8	-44.8	-36.4 ^e	n.a.
Wholesale trade ex. motor vehicles & parts	-10.2	-8.8	-52.5	-81.6	-56.5 ^e	n.a.
Retail trade ex. motor vehicles & parts	-17.8	-11.6	-18.6	-11.2	-16.1 ^e	n.a.
<i>Book-value inventory investment (current dollars)</i>						
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	-155.9	-143.2	-150.2	-178.0	-138.6	-110.1
Manufacturing	-65.2	-77.3	-63.6	-68.9	-55.2	-47.2
Wholesale trade ex. motor vehicles & parts	-55.7	-47.3	-62.9	-90.6	-63.4	-51.8
Retail trade ex. motor vehicles & parts	-34.9	-18.6	-23.7	-18.5	-20.0	-11.0

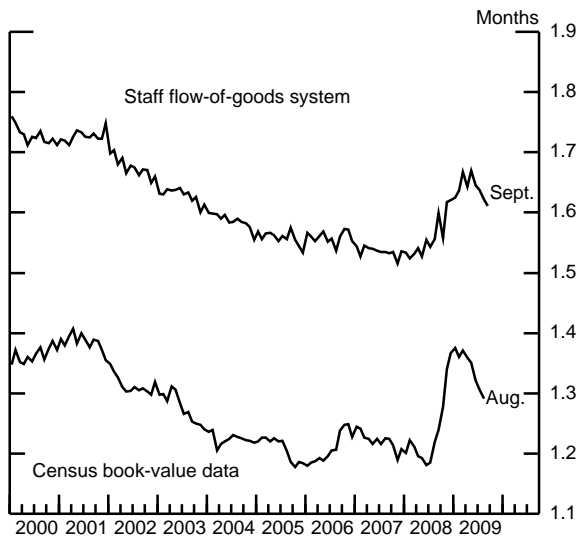
n.a. Not available.

... Not applicable.

^e Staff estimate of real inventory investment based on revised book-value data.

Source: For real inventory investment, U.S. Dept. of Commerce, Bureau of Economic Analysis; for book-value data, Census Bureau.

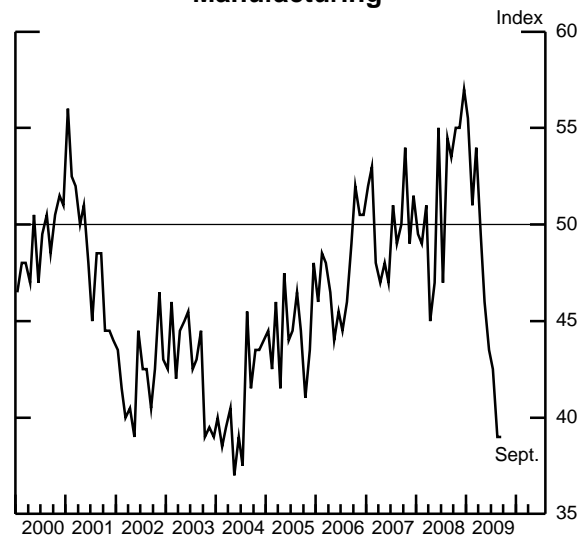
Inventory Ratios ex. Motor Vehicles



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

Source: Census Bureau; staff calculation.

ISM Customers' Inventories: Manufacturing



Note: A number above 50 indicates inventories are "too high."
Source: Institute for Supply Management (ISM), Manufacturing ISM Report on Business.

Real spending on drilling and mining structures slumped in the first half of the year, and available indicators suggest that activity more recently has only edged up from a very low level. The steep drop in energy prices in the second half of last year greatly weakened incentives for additional drilling activity, particularly in the natural gas sector, which accounts for most rigs in operation. However, the rebound in oil prices this year seems to have led to an increase in oil drilling activity.

Business Inventories

The sharp cuts in production earlier this year markedly reduced business inventories. Real nonfarm inventories excluding motor vehicles fell at an annual rate of \$115 billion in the second quarter, and the more recent book-value data for the manufacturing and trade sector suggest that inventories continued to fall at a similar pace in the third quarter. Although the measure of months' supply (excluding motor vehicles) implied by the book-value data has declined considerably in recent months, it remains somewhat elevated, especially for some categories of durable goods in manufacturing and wholesale trade. Similarly, the staff's flow-of-goods inventory system suggests that inventories continued to contract in the third quarter, but that months' supply for most major market groups (excluding motor vehicles) is still elevated even after the declines seen through September; progress in reducing months' supply has been most apparent for consumer goods. In contrast, a relatively low net fraction of manufacturing supply managers surveyed by the ISM in September perceived their customers' inventories as being too high, which could suggest that purchasing managers in manufacturing may believe their customers will be doing some restocking in the coming months.⁷

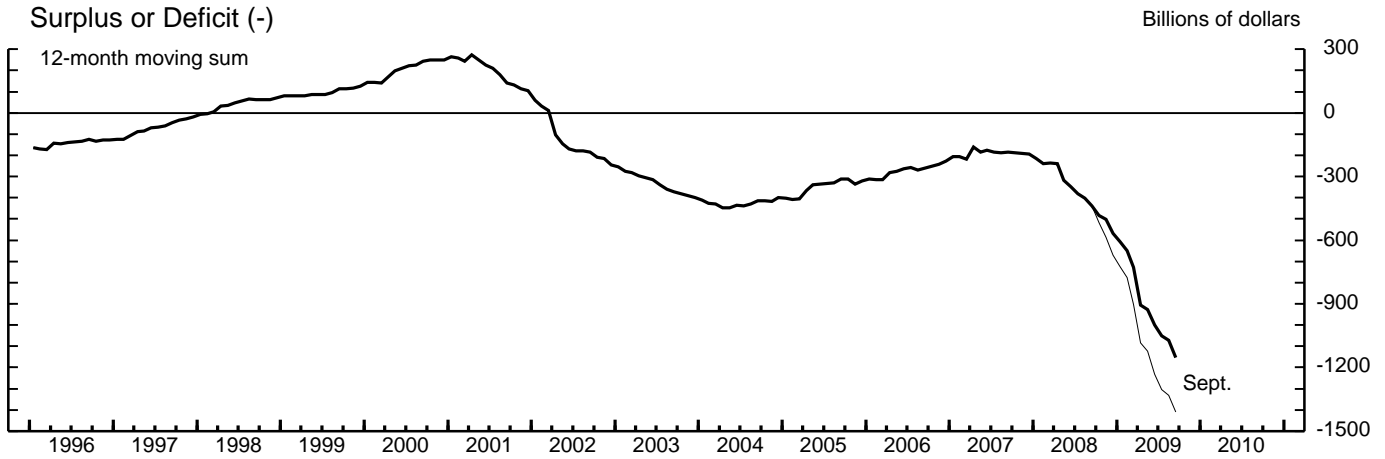
Federal Government Sector

The unified federal budget finished fiscal year 2009 in September with a deficit of \$1.42 trillion, which is about 10 percent of GDP. The budget deficit was almost \$1 trillion wider than in fiscal 2008, primarily reflecting the budget costs of the fiscal stimulus and the financial stabilization programs and a recession-related increase in outlays and a decline in revenues. The sizable jump in the budget deficit pushed up federal debt held by the public from 40 percent of GDP at the end of fiscal 2008 to 53 percent of GDP at the end of fiscal 2009.

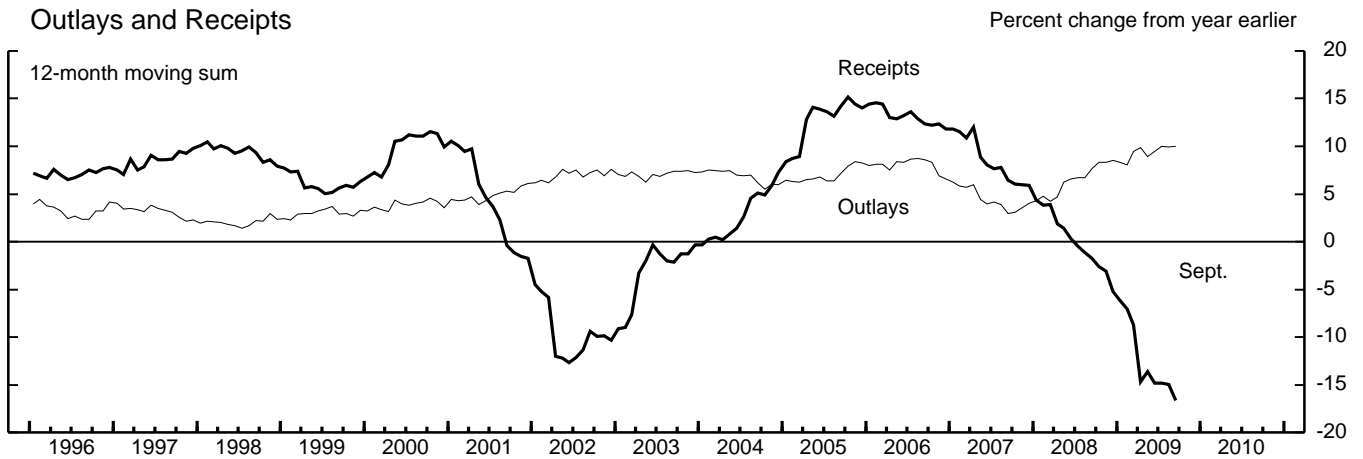
⁷ The question asked of purchasing managers in the ISM survey about whether stocks are too high or too low does not specify the measure of sales against which respondents should compare the level of their customers' inventories. If the respondents are evaluating inventories relative to a level of sales expected in coming months that is noticeably higher than the recent pace of sales (a plausible assumption given the marked improvement in recent months of the ISM's new orders index), the sharp drop in this measure of customers' inventories to a very low level is not necessarily at odds with the inventory ratios in both the book-value data and the staff's flow-of-goods system.

Federal Government Budget

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



Note: Thin line includes deficit effects of financial transactions related to Troubled Asset Relief Program (TARP) and government-sponsored enterprise equity purchase programs.



Recent Federal Outlays and Receipts

(Billions of dollars except as noted; adjusted for payment-timing shifts and financial transactions)

Function or source	Sum of July-September			12 months ending in September		
	2008	2009	Percent change	2008	2009	Percent change
Outlays	739.7	818.6	10.7	2,961.5	3,258.1	10.0
Net interest	63.9	42.1	-34.2	248.9	190.8	-23.3
National defense	163.0	171.0	4.9	624.5	665.7	6.6
Major transfers ¹	399.9	481.3	20.4	1,642.0	1,898.3	15.6
Other	112.9	124.2	10.0	446.2	503.3	12.8
Receipts	589.7	515.9	-12.5	2,523.6	2,104.6	-16.6
Individual income and payroll taxes	468.7	424.5	-9.4	1,996.5	1,759.5	-11.9
Corporate income taxes	67.8	36.3	-46.4	304.3	138.2	-54.6
Other	53.2	55.2	3.7	222.8	206.9	-7.1
Surplus or deficit (-)	-150.0	-302.7	...	-437.9	-1,153.5	...
Memo:						
Unadjusted surplus or deficit (-)	-168.9	-330.8	...	-454.8	-1,417.1	...

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

... Not applicable.

For fiscal 2009 as a whole, outlays associated with the TARP and the conservatorship of the GSEs totaled about \$260 billion. But even excluding the costs of these financial stabilization programs, other federal spending was about 10 percent higher than that in the preceding fiscal year. Spending under this year's fiscal stimulus bill amounted to about \$110 billion, and transfer payments—particularly for unemployment insurance and other low-income support programs—were boosted by the weak conditions in the labor market. In the period from July to September, defense spending rose solidly relative to the same period a year earlier; the level of spending points to a substantial increase in the NIPA measure of real defense purchases in the third quarter following a marked surge in the second quarter.

Receipts in fiscal 2009 were roughly 17 percent lower than in the preceding year. The drop in revenues primarily reflected the effects of the recession as wages and salaries have waned, capital gains realizations have likely contracted, and profits have slumped. Also, this year's stimulus plan is estimated to have reduced tax receipts by more than \$80 billion in fiscal 2009.⁸ Summing these stimulus-related tax cuts with the stimulus spending noted earlier shows that more than \$190 billion in total stimulus funds had been distributed by September, about one-fourth of the total \$787 billion stimulus package.

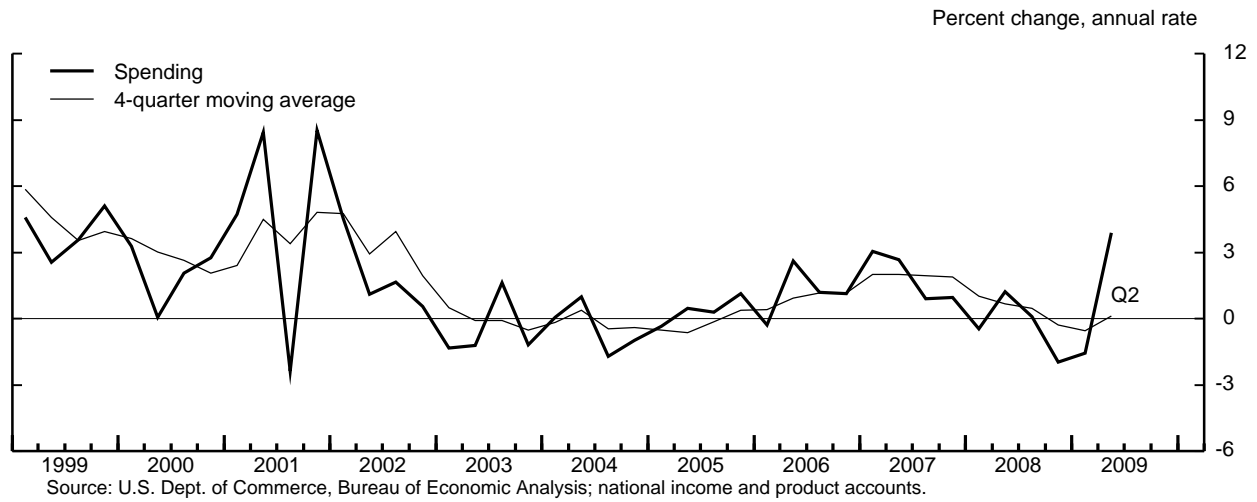
State and Local Government Sector

Purchases by state and local governments likely declined in real terms in the third quarter as governments took additional steps to address imbalances in their operating budgets. According to the latest labor market report, state and local employment fell 47,000 in September, and estimates for July and August were revised down to show a cumulative drop of 84,000 during those two months; payrolls at both the state and local levels have fallen sharply over the past three months after registering small declines during the first half of the year. In addition to laying workers off, many governments have furloughed employees—an action that does not show up in the employment figures for the sector—to further reduce their compensation costs. Meanwhile, real construction expenditures appear to have risen somewhat in July and August after increasing at an annual rate of 25 percent in the second quarter. The upturn in real construction spending followed a steep drop in late 2008 and early 2009 and is likely attributable to a number of factors, including the availability of federal stimulus grants and the easing of credit conditions in the municipal bond market. A moderation in construction costs is also helping states and localities make the most of the funding available for capital projects.

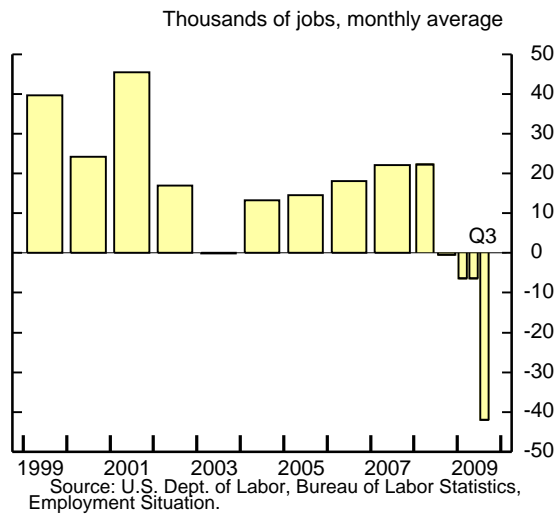
⁸ While the 2009 stimulus plan is estimated to have reduced tax receipts by more than \$80 billion in fiscal year 2009, the tax cuts in the 2008 stimulus plan lowered taxes by about \$100 billion in fiscal 2008. Thus, tax cuts associated with fiscal stimulus actions have not contributed to the year-over-year decline in revenues.

State and Local Indicators

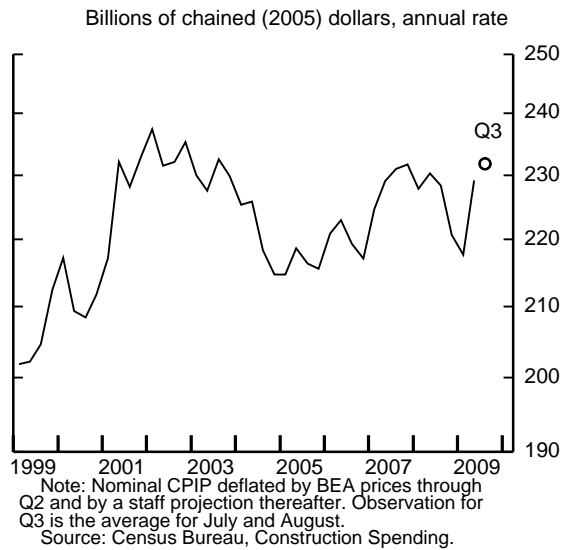
Real Spending on Consumption and Investment



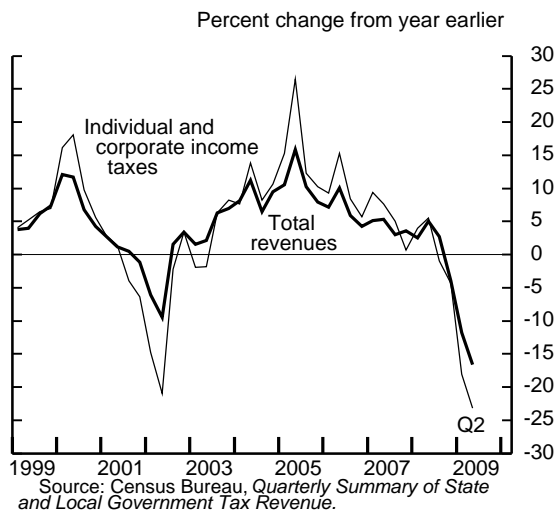
Net Change in Employment



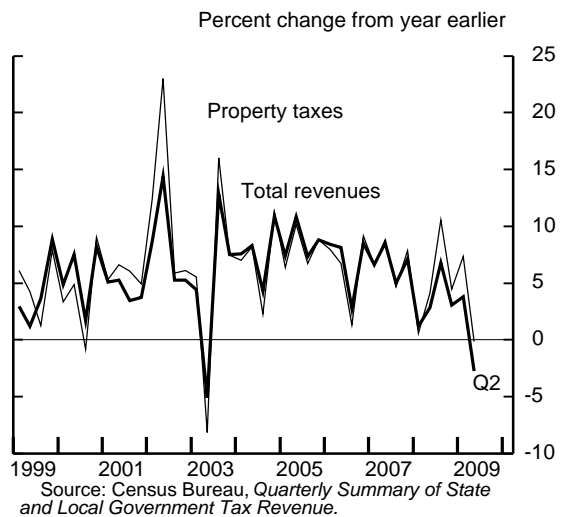
Real Construction



State Revenues



Local Revenues



Prices

Consumer price inflation has remained subdued in recent months after decelerating noticeably over the past year. Our translation of the recent readings on the consumer price index (CPI) and the producer price index (PPI) suggests that both the headline and core PCE price indexes edged up 0.1 percent in September. Core PCE prices are estimated to have risen at an annual rate of only 1¼ percent over both the most recent 3- and 12-month periods. Headline PCE prices *declined* ½ percent over the past 12 months, largely because of the plunge in energy prices at the end of 2008 and the decline in food prices over the past year, but they have risen 2 percent over the past three months as energy prices surged. Meanwhile, survey measures of longer-term inflation expectations have stayed within the range seen in recent years.

Consumer energy prices rose last quarter, largely in response to the rebound in crude oil prices this year. Prices paid by consumers for energy jumped 5 percent in August, and we estimate that they edged up another 0.7 percent in September. Recent survey data point to gasoline prices stepping up in October, and prices of crude oil have moved up, on net, in recent weeks, portending some upward pressure to energy prices in the coming months. After falling from an elevated level in the middle of last year, natural gas prices have, on balance, been roughly flat since this summer, but futures prices for natural gas currently tilt noticeably upward.

Consumer prices for food have remained soft. After rising only 0.1 percent in August, food prices are estimated to have fallen 0.2 percent last month and to have declined 1.2 percent over the 12 months ending in September, primarily reflecting the weak economy and ample supplies. Prices in farm commodity markets have been mixed recently: Grain prices, on balance, have moved up since the time of the September Greenbook because of concerns about frost damage to crops that were planted late, but livestock prices have continued to move down over this period.

PCE prices excluding food and energy have continued to rise slowly in recent months. We estimate that core PCE prices increased 0.1 percent in September, the same pace as in the preceding two months. While core nonmarket prices have turned up in the past two quarters after posting sizable declines earlier in the year, core market-based prices have risen more slowly. In particular, prices for housing services and for many durable goods declined over the three-month period ending in September.

In the preliminary Reuters/Michigan survey for October, median year-ahead inflation expectations moved up to 2.8 percent, retracing their dip in September. Median inflation expectations over the next 5 to 10 years edged up from 2.8 percent in September to

Price Measures
(Percent change)

Measures	12-month change		3-month change		1-month change	
	Sept. 2008	Sept. 2009	Annual rate		Monthly rate	
			June 2009	Sept. 2009	Aug. 2009	Sept. 2009
<i>CPI</i>						
Total	4.9	-1.3	3.3	2.5	.4	.2
Food	6.2	-.2	-1.5	-1.1	.1	-.1
Energy	23.1	-21.6	22.1	21.1	4.6	.6
Ex. food and energy	2.5	1.5	2.4	1.3	.1	.2
Core goods	.5	1.6	4.1	.9	-.3	.3
Core services	3.2	1.5	1.8	1.4	.2	.1
Shelter	2.4	.7	1.4	-.1	.1	.1
Other services	4.5	2.6	2.1	4.0	.4	.3
Memo: core ex. tobacco	2.4	1.2	2.0	1.1	.1	.2
Chained CPI (n.s.a.) ¹	4.2	-1.4	...	...	...	...
Ex. food and energy ¹	2.0	1.1	...	...	...	...
<i>PCE prices</i> ²						
Total	4.1	-.5	2.8	2.0	.3	.1
Food and bev. at home	7.0	-1.2	-2.8	-2.3	.1	-.2
Energy	24.5	-22.6	26.9	23.6	5.1	.7
Ex. food and energy	2.5	1.3	2.0	1.3	.1	.1
Core goods	.6	1.2	2.7	-.1	-.2	.2
Core services	3.2	1.3	1.8	1.7	.2	.1
Housing services	2.7	1.4	1.4	-.4	.1	-.1
Other services	3.3	1.3	2.0	2.4	.2	.2
Memo: core ex. tobacco	2.5	1.1	1.7	1.2	.1	.1
Core market-based	2.6	1.6	2.0	1.1	.1	.1
Core non-market-based	2.1	-.7	2.6	2.4	.1	.2
<i>PPI</i>						
Total finished goods	8.8	-4.8	9.0	1.2	1.7	-.6
Food	7.8	-4.2	4.4	-4.9	.4	-.1
Energy	23.4	-22.1	40.8	12.0	8.0	-2.4
Ex. food and energy	4.0	1.8	2.1	.0	.2	-.1
Core consumer goods	4.2	2.2	2.4	.0	.1	-.1
Capital equipment	3.6	1.2	1.3	.0	.3	-.1
Intermediate materials	15.3	-11.7	6.8	7.2	1.8	.2
Ex. food and energy	11.8	-7.5	-2.1	7.2	.6	.9
Crude materials	24.2	-31.5	54.4	-11.3	3.8	-2.1
Ex. food and energy	16.4	-19.7	37.3	63.3	6.0	3.6

1. Higher-frequency figures are not applicable for data that are not seasonally adjusted (n.s.a.).

2. PCE prices in September 2009 are staff estimates.

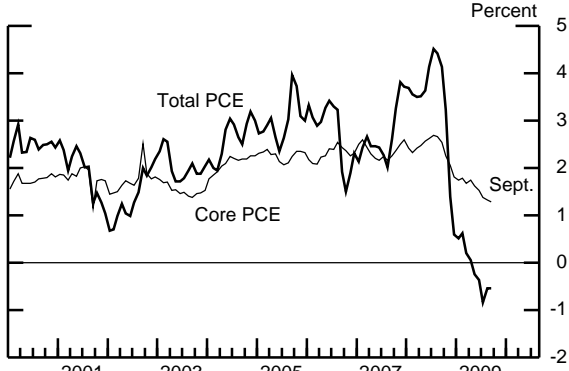
... Not applicable.

Source: For consumer price index (CPI) and producer price index (PPI), U.S. Dept. of Labor, Bureau of Labor Statistics; for personal consumption expenditures (PCE), U.S. Dept. of Commerce, Bureau of Economic Analysis.

Consumer Prices

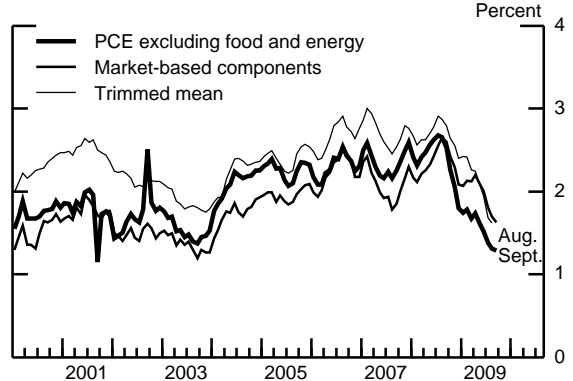
(12-month change except as noted; PCE prices in September are staff estimates)

PCE Prices



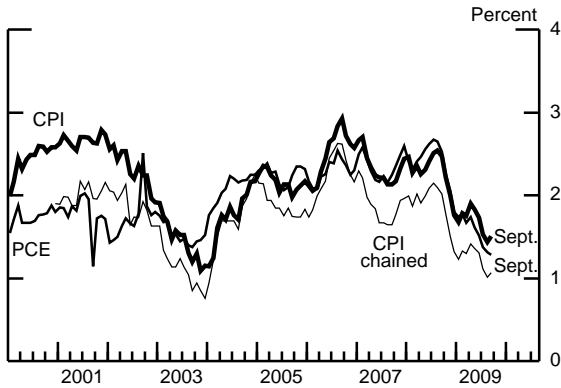
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Measures of Core PCE



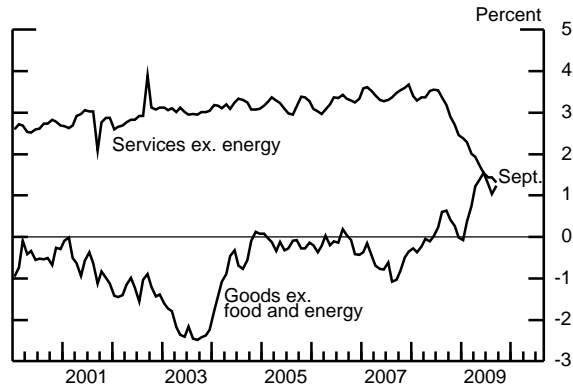
Source: For trimmed mean, Federal Reserve Bank of Dallas; for all else, U.S. Dept. of Commerce, Bureau of Economic Analysis.

CPI and PCE ex. Food and Energy



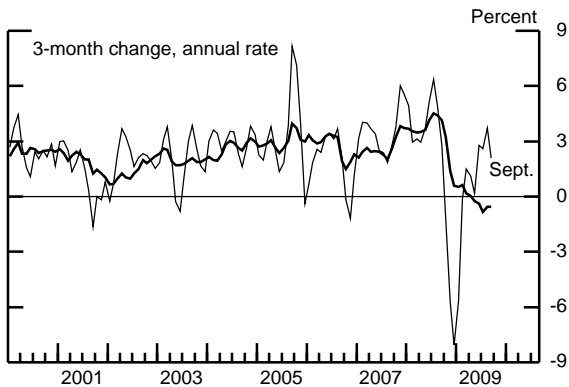
Source: For CPI, U.S. Dept. of Labor, Bureau of Labor Statistics; for PCE, U.S. Dept. of Commerce, Bureau of Economic Analysis.

PCE Goods and Services



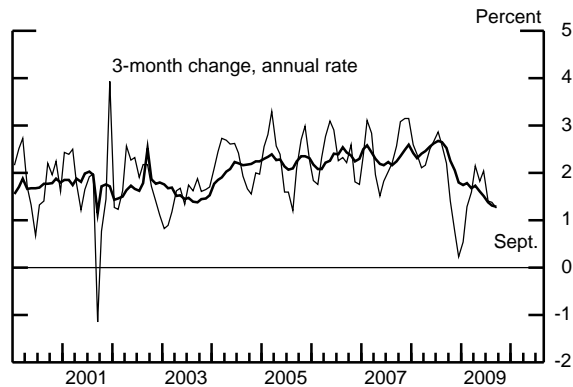
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Total PCE



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

PCE excluding Food and Energy

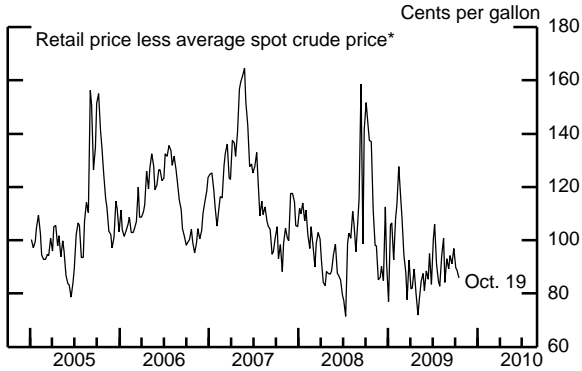


Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Energy and Food Price Indicators

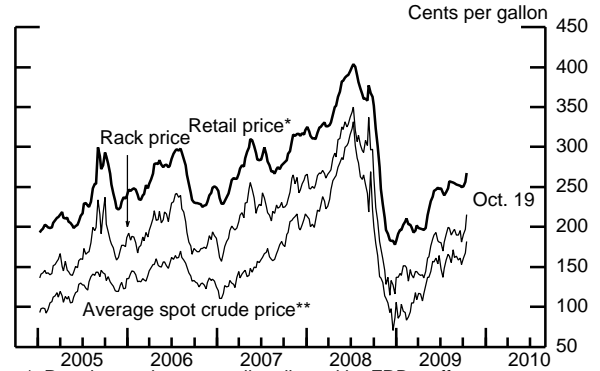
(Data from U.S. Department of Energy, Energy Information Administration, except as noted)

Total Gasoline Margin



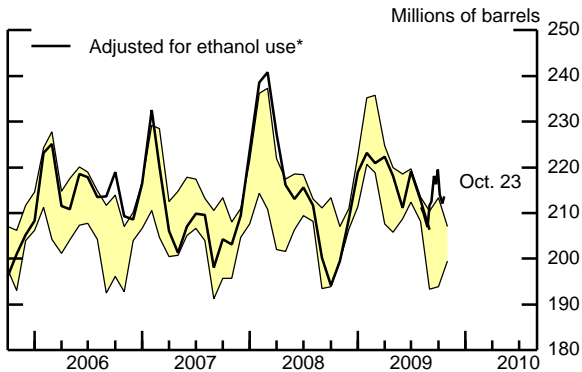
* Regular grade seasonally adjusted by FRB staff, less average spot crude price: 60% West Texas Intermediate, 40% Maya heavy crude. Includes gasoline taxes.

Gasoline Price Decomposition



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

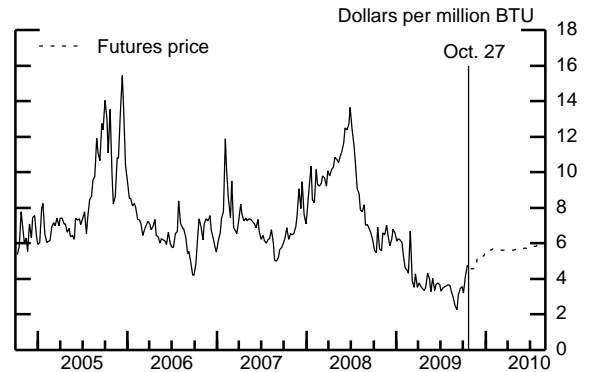
Gasoline Inventories



Note: Bounds are defined as the monthly mean over the preceding five years, plus or minus the standard deviation for each month. Monthly data through June 2009, weekly data thereafter.

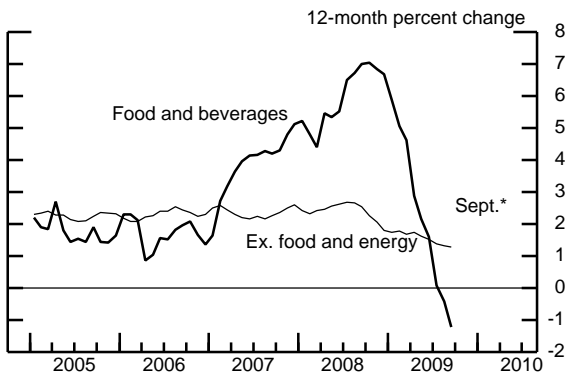
* The RBOB component of total motor gasoline inventories is adjusted for ethanol use after 2006, boosting reported stocks; estimated by FRB staff.

Natural Gas Prices



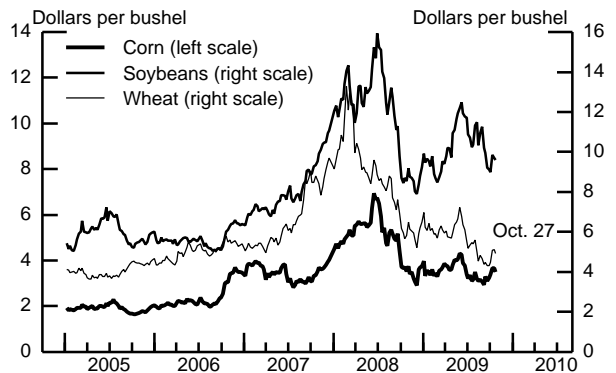
Note: National average spot price.
Source: Bloomberg.

PCE: Food at Home and Core Prices



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.
*Staff estimate.

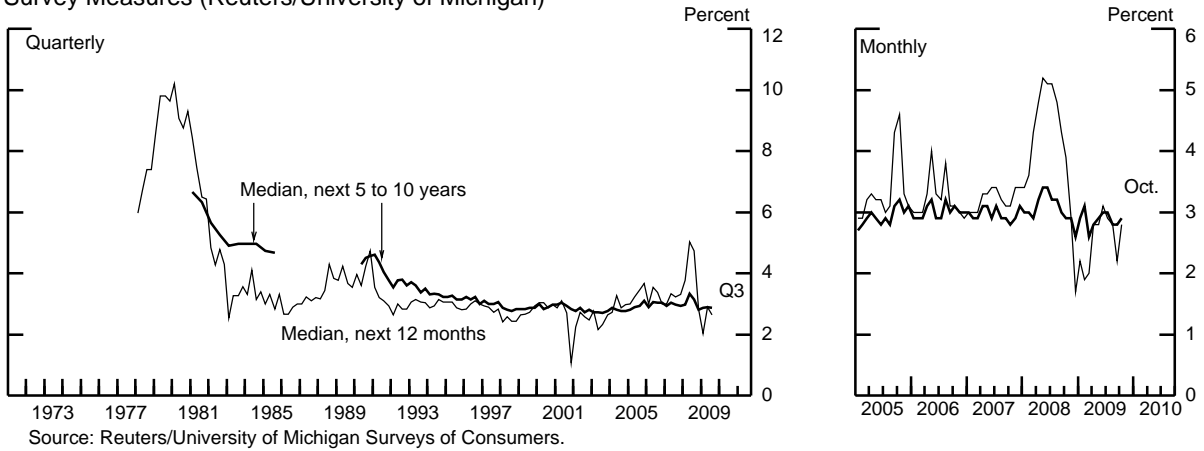
Spot Prices of Agricultural Commodities



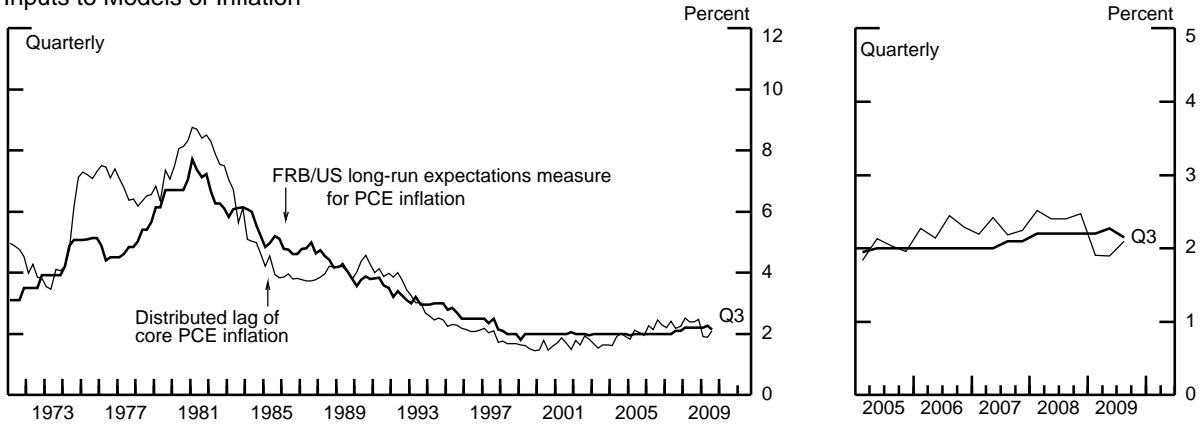
Source: Commodity Research Bureau.

Measures of Expected Inflation

Survey Measures (Reuters/University of Michigan)

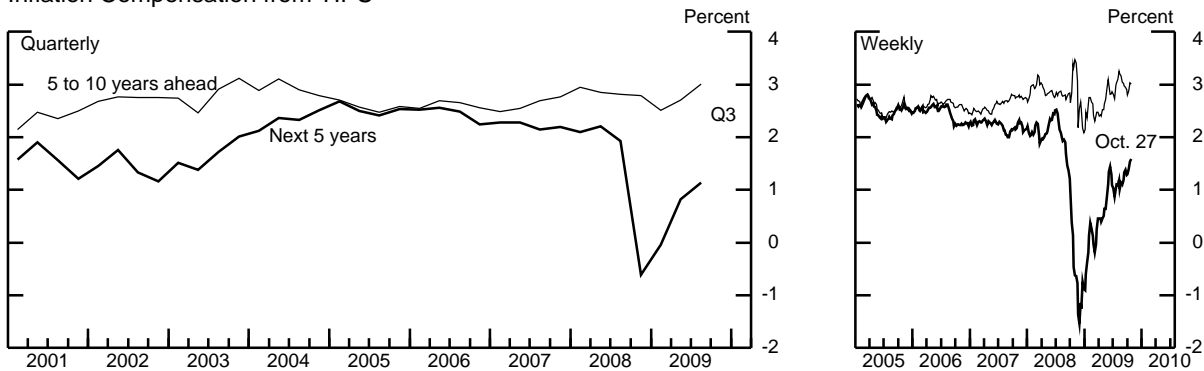


Inputs to Models of Inflation



Note: The distributed lag of core PCE inflation is derived from one of the reduced-form Phillips curves used by Board staff.
 Source: For the distributed lag of core PCE inflation, FRB staff calculations; for the FRB/US measure, for 2007 forward, the median projection for PCE inflation over the next 10 years from the Survey of Professional Forecasters (SPF); for 1990 to 2006, the equivalent SPF projection for the CPI; for 1981 to 1989, a related survey for the CPI conducted by Richard Hoey; and for the period preceding 1981, a model-based estimate constructed by Board staff. The survey data before 2007 are adjusted down 0.5 percentage point to put the CPI projections approximately on a PCE basis.

Inflation Compensation from TIPS

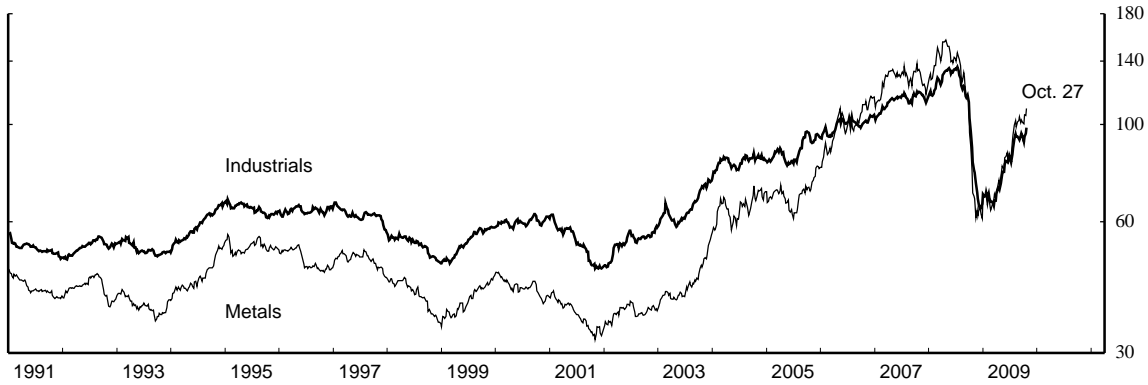


Note: Based on a comparison of an estimated TIPS (Treasury inflation-protected securities) yield curve with an estimated nominal off-the-run Treasury yield curve, with an adjustment for the indexation-lag effect.
 Source: FRB staff calculations.

Commodity Price Indexes

Journal of Commerce

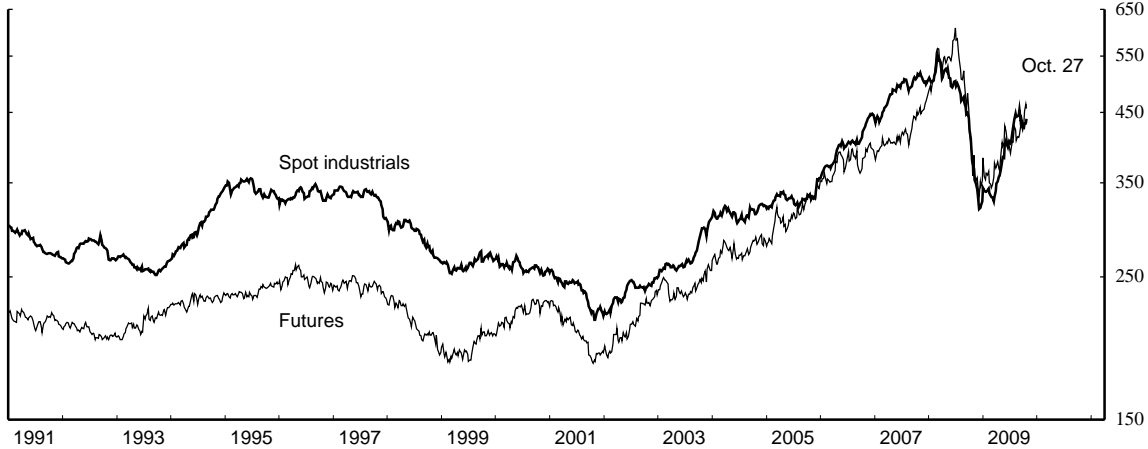
Ratio scale, 2006 = 100



Note: The *Journal of Commerce* (JOC) industrial price index is based almost entirely on industrial commodities, with a small weight given to energy commodities. Copyright for JOC data is held by CIBCR, 1994.

Commodity Research Bureau

Ratio scale, 1967 = 100



Note: The Commodity Research Bureau (CRB) spot industrials index consists entirely of industrial commodities, excluding energy. The CRB futures index gives about a 60 percent weight to food commodities and splits the remaining weight roughly equally among energy commodities, industrial commodities, and precious metals.

Selected Commodity Price Indexes (Percent change)

Index	2008 ¹	12/30/08 to 9/15/09 ²	9/15/09 ² to 10/27/09	52-week change to 10/27/09
JOC industrials	-41.4	43.4	4.2	20.0
JOC metals	-48.2	66.3	7.7	56.1
CRB spot industrials	-34.3	33.2	.9	17.2
CRB spot foodstuffs	-14.1	6.1	5.3	3.2
CRB futures	-24.7	21.9	6.3	27.2

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

2. September 15, 2009, is the Tuesday preceding publication of the September Greenbook.

2.9 percent in the preliminary October survey but remained within the narrow range that has prevailed over the past few years.

At earlier stages of processing, the PPI for core intermediate materials rose 0.9 percent in September after also increasing in the previous three months; even so, the index has retraced only a fraction of its decline over the preceding eight months. Commodity prices (excluding oil and gas) have risen significantly since the beginning of the year, likely reflecting, at least in part, improvement in global economic activity. Since the time of the September Greenbook, the *Journal of Commerce* (JOC) index of industrial materials has increased more than 4 percent, the JOC index of metals has risen almost 8 percent, and the Commodity Research Bureau (CRB) spot index of industrial materials has moved up about 1 percent.

Labor Costs

Recent developments in labor costs will be discussed in the Supplement to the Greenbook because data for the Employment Cost Index and GDP—the latter is used to estimate compensation per hour—are scheduled to be released after the publication of Greenbook Part 2.

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Domestic Financial Developments

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Domestic Financial Developments

Overview

Market expectations for the path of the federal funds rate and nominal Treasury yields were little changed over the intermeeting period. Risk premiums on corporate bonds declined a bit further, and some spreads in money markets edged lower. Stock prices were about unchanged and the equity premium remained wide. Meanwhile, net debt financing by nonfinancial businesses remained muted as C&I loans continued to run off. In the household sector, the 30-year fixed rate for mortgages was little changed, while delinquency rates on prime and nonprime mortgages continued to rise. Banks reported further tightening in lending standards and terms as well as weaker demand for most types of loans to businesses and households, on net, in the October Senior Loan Officer Opinion Survey. Credit card ABS issuance stopped amid uncertainty about the FDIC's treatment of these securities in the event of a bank failure. Amounts outstanding in most of the Federal Reserve's liquidity and credit facilities continued to decline.

Policy Expectations and Treasury Yields

Policy rates implied by federal fund futures market quotes were little changed, on net, over the intermeeting period. Based on the staff's standard assumptions about term premiums, investors apparently continued to expect the federal funds rate to remain in the current target range until the second quarter of 2010 and to reach about 1¼ percent by the end of 2010. The expected policy path moved down following the release of the September FOMC statement and some weaker-than-expected data releases, but increased amid speeches by Federal Reserve officials and better-than-expected earnings announcements. Staff models indicate that term premiums on federal funds futures rates remain elevated, suggesting that investors may expect policy to tighten somewhat later than the second quarter of 2010. According to the Desk's primary dealer survey, 14 of the 18 reporting primary dealers expect the first target rate increase to occur in or after the third quarter of 2010.

Intermediate- and longer-term nominal Treasury yields were little changed during the period. Yields on TIPS declined noticeably, however, resulting in an increase in near-term inflation compensation of 29 basis points. Increases in oil prices may have boosted near-term inflation expectations, though staff models indicate that an increase in TIPS liquidity may have been a factor. Five-year forward inflation compensation five years ahead was little changed.

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

Instrument	2008	2009			Change to Oct. 27 from selected dates (percentage points)			
	Sept. 12	Aug. 11	Sept. 22	Oct. 27	2008 Sept. 12	2009 Aug. 11	2009 Sept. 22	
<i>Short-term</i>								
FOMC intended federal funds rate	2.00	.13	.13	.13	-1.87	.00	.00	
Treasury bills ¹								
3-month	1.46	.18	.11	.08	-1.38	-.10	-.03	
6-month	1.80	.28	.20	.17	-1.63	-.11	-.03	
Commercial paper (A1/P1 rates) ²								
1-month	2.39	.22	.18	.16	-2.23	-.06	-.02	
3-month	2.75	.29	.21	.25	-2.50	-.04	.04	
Large negotiable CDs ¹								
3-month	2.79	.32	.25	.22	-2.57	-.10	-.03	
6-month	3.09	.46	.35	.31	-2.78	-.15	-.04	
Eurodollar deposits ³								
1-month	2.60	.50	.40	.32	-2.28	-.18	-.08	
3-month	3.00	.80	.55	.45	-2.55	-.35	-.10	
Bank prime rate	5.00	3.25	3.25	3.25	-1.75	.00	.00	
<i>Intermediate- and long-term</i>								
U.S. Treasury ⁴								
2-year	2.24	1.20	.99	.99	-1.25	-.21	.00	
5-year	2.97	2.70	2.44	2.41	-.56	-.29	-.03	
10-year	3.93	3.97	3.74	3.72	-.21	-.25	-.02	
U.S. Treasury indexed notes ⁵								
5-year	1.33	1.54	1.11	.78	-.55	-.76	-.33	
10-year	1.77	1.89	1.69	1.51	-.26	-.38	-.18	
Municipal general obligations (Bond Buyer) ⁶	4.54	4.65	4.20	4.31	-.23	-.34	.11	
Private instruments								
10-year swap	4.26	3.98	3.67	3.70	-.56	-.28	.03	
10-year FNMA ⁷	4.36	4.35	4.12	4.04	-.32	-.31	-.08	
10-year AA ⁸	6.62	5.41	5.11	5.10	-1.52	-.31	-.01	
10-year BBB ⁸	7.22	6.72	6.36	6.22	-1.00	-.50	-.14	
10-year high yield ⁸	10.66	10.61	9.90	9.44	-1.22	-1.17	-.46	
Home mortgages (FHLMC survey rate)								
30-year fixed	5.78	5.29	5.04	5.00	-.78	-.29	-.04	
1-year adjustable	5.03	4.72	4.52	4.54	-.49	-.18	.02	
Stock exchange index								
Stock exchange index	Record high		2009			Change to Oct. 27 from selected dates (percent)		
	Level	Date	Aug. 11	Sept. 22	Oct. 27	Record high	2009 Aug. 11	2009 Sept. 22
Dow Jones Industrial	14,165	10-9-07	9,241	9,830	9,882	-30.23	6.93	.53
S&P 500 Composite	1,565	10-9-07	994	1,072	1,063	-32.06	6.95	-.77
Nasdaq	5,049	3-10-00	1,970	2,146	2,116	-58.09	7.43	-1.41
Russell 2000	856	7-13-07	562	621	587	-31.41	4.42	-5.43
D.J. Total Stock Index	15,807	10-9-07	10,243	11,083	10,928	-30.87	6.68	-1.40

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

NOTES:

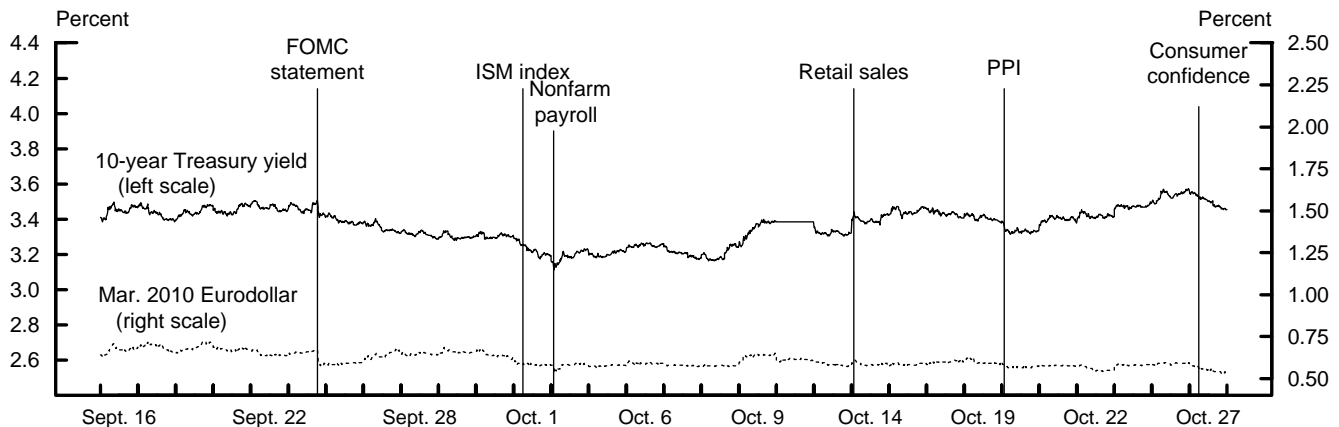
September 12, 2008, is the last business day before Lehman Brothers Holdings filed for bankruptcy.

August 11, 2009, is the day before the August 2009 FOMC monetary policy announcement.

September 22, 2009, is the day before the most recent FOMC monetary policy announcement.

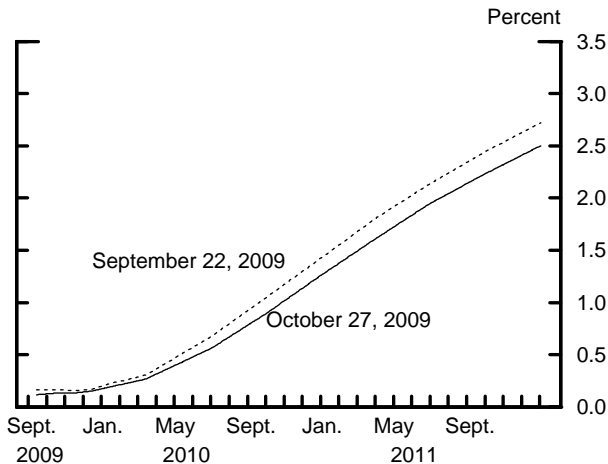
Policy Expectations and Treasury Yields

Interest Rates



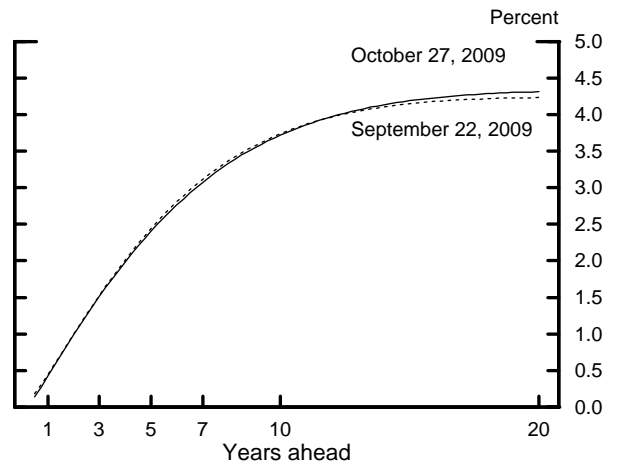
Note: 5-minute intervals. 8:00 a.m. to 4:00 p.m. No adjustments for term premiums.
Source: Bloomberg.

Implied Federal Funds Rate



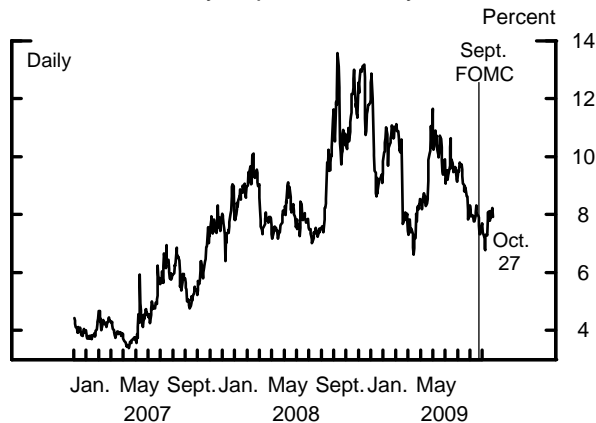
Note: Estimated from federal funds and Eurodollar futures, with an allowance for term premiums and other adjustments.
Source: CME Group.

Treasury Yield Curve



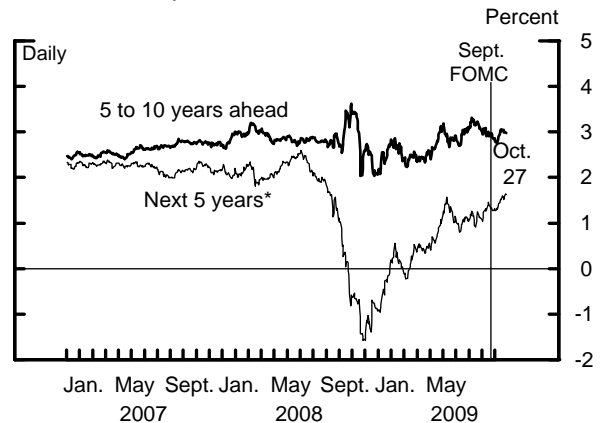
Note: Smoothed yield curve estimated from off-the-run Treasury coupon securities. Yields shown are those on notional par Treasury securities with semiannual coupons.
Source: Federal Reserve Board.

10-Year Treasury Implied Volatility



Note: 10-year Treasury note implied volatility derived from options on futures contracts.
Source: Bloomberg.

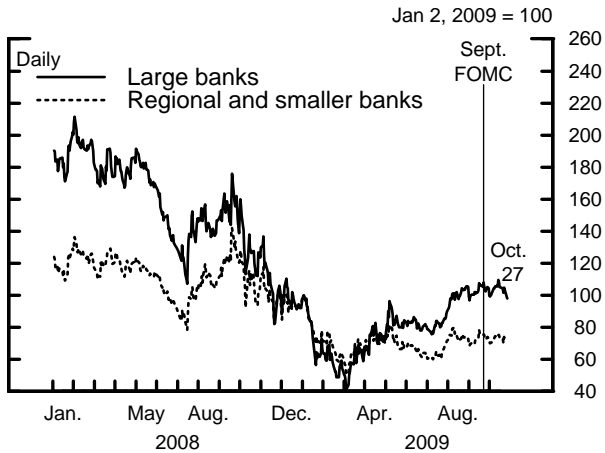
Inflation Compensation



Note: Estimates based on smoothed nominal and inflation-indexed Treasury yields.
*Adjusted for lagged indexation of Treasury inflation-protected securities.
Source: Federal Reserve Board.

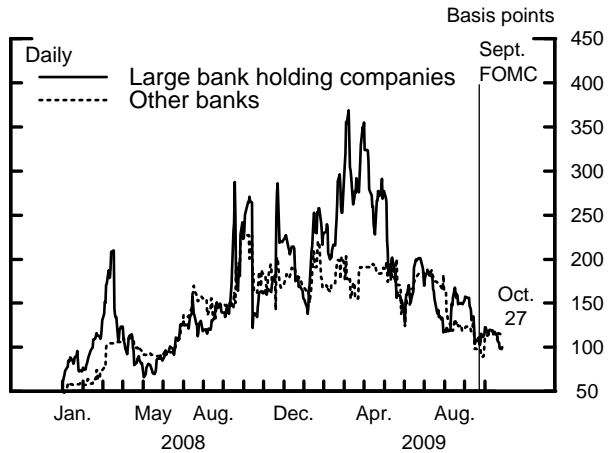
Financial Institutions, Short-Term Funding Markets, and Liquidity Facilities

Bank ETFs



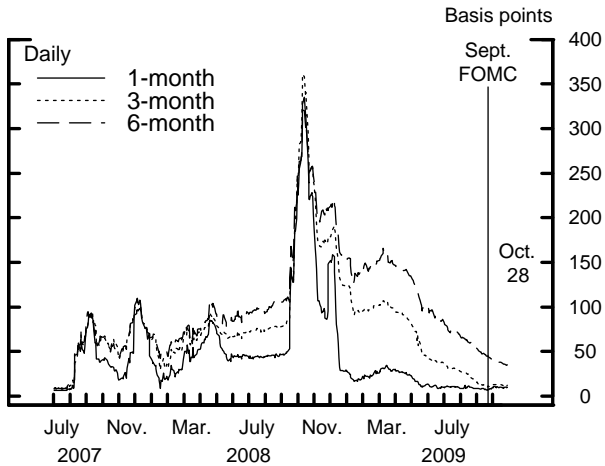
Note: Large bank ETF consists of 24 banks; regional and smaller bank ETF consists of 51 banks.
Source: Keefe, Bruyette & Woods (KBW) and Bloomberg.

Senior CDS Spreads for Banking Organizations



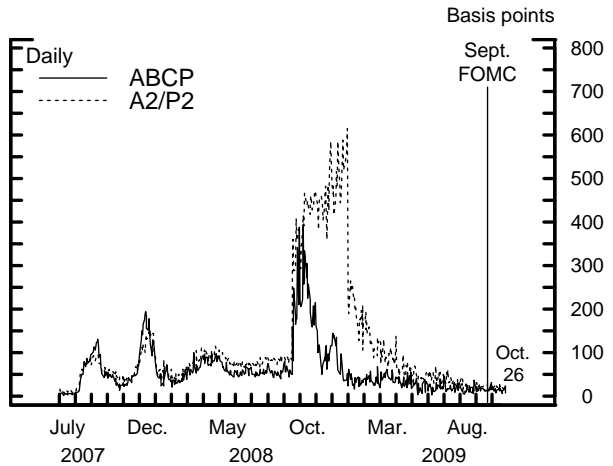
Note: Median spreads for 6 large bank holding companies and 10 other banks.
Source: Markit.

Libor over OIS Spread



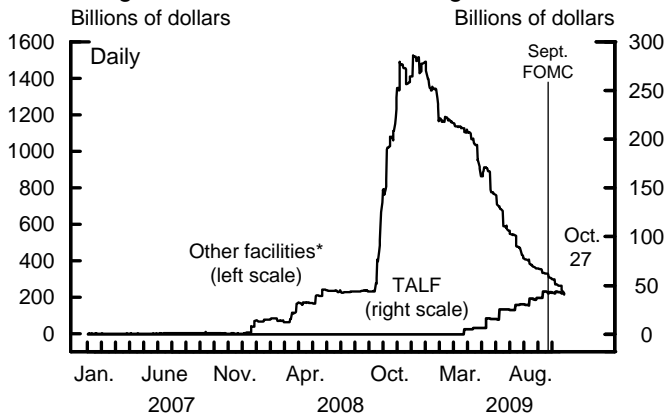
Source: British Bankers' Association and Prebon.

Spreads on 30-day Commercial Paper



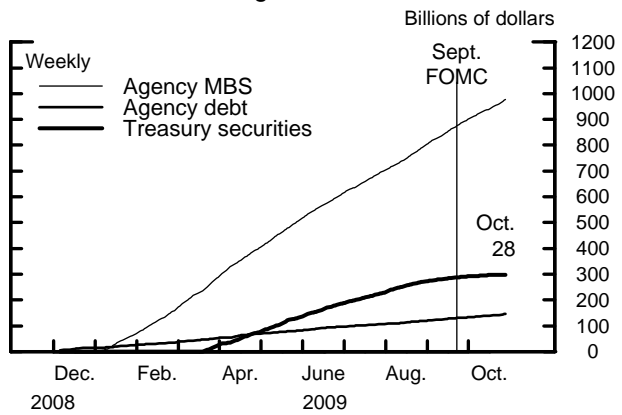
Note: The ABCP spread is the AA ABCP rate minus the AA nonfinancial rate. The A2/P2 spread is the A2/P2 nonfinancial rate minus the AA nonfinancial rate.
Source: Depository Trust & Clearing Corporation.

Usage of TALF and other lending facilities



* Includes primary, secondary, and seasonal credit; TAF; PDCF; dollar liquidity swaps; CPFF; and AMLF.
Source: Federal Reserve Board.

Federal Reserve Large-Scale Asset Purchases



Note: Due to settlement lags and other factors, cumulative purchases may be substantially higher than current holdings in the SOMA portfolio.
Source: Federal Reserve.

Financial Institutions and Short-Term Funding Markets

Investor sentiment toward the banking sector deteriorated a bit over the intermeeting period. While third-quarter earnings results at some large banks were boosted by revenues in investment banking and securities trading, market participants reportedly remained concerned about the earnings prospects for the banking sector in an environment of weak economic activity and rising loan losses. On net, equity prices for large banks declined about 9 percent, while prices for regional and smaller banks fell about 4 percent over the period. CDS spreads for large bank holding companies were about flat, but they widened for regional and smaller banking organizations. According to the Federal Reserve's weekly bank balance sheet data, commercial banks added more than \$13 billion to their allowances for loan and lease losses in the third quarter.

Conditions in short-term funding markets eased a bit further over the intermeeting period. One- and three-month Libor-OIS spreads remained around pre-crisis levels, while six-month spreads—still somewhat elevated by historical standards—continued to narrow. Spreads on A2/P2-rated commercial paper and AA-rated ABCP were little changed, on net, remaining at the low end of their ranges over the past two years. Overall, year-end pressures in funding markets appear quite modest; however, there is some evidence of increased demand for Treasury securities that mature soon after the turn of the year, suggesting some flight-to-quality demands related to year-end.

Federal Reserve Purchase Programs and Facilities

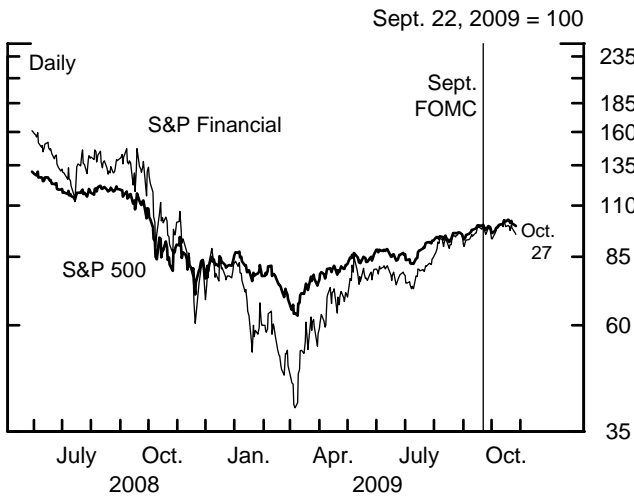
Over the intermeeting period, total Federal Reserve assets edged up, as increases in securities outpaced declines in credit extensions under the credit and liquidity facilities. As of October 28, the Federal Reserve purchased a total of about \$105 billion of long-term securities during the intermeeting period, bringing the System's cumulative purchases of Treasury securities, agency debt, and agency MBS to \$298 billion, \$140 billion, and \$977 billion, respectively.¹

Usage of Federal Reserve credit facilities declined further over the intermeeting period. TAF auctions continued to be undersubscribed, and TAF credit extended dropped 29 percent over the intermeeting period. Commercial paper held through the CPFF also decreased at the end of October when a substantial portion of the paper matured and was funded outside the program. TALF credit outstanding moved sideways as modest new

¹ Although approximately \$977 billion of the \$1.25 trillion in agency MBS has been purchased to date, only about \$775 billion is currently on the Federal Reserve's balance sheet due to lags in settlement and other factors.

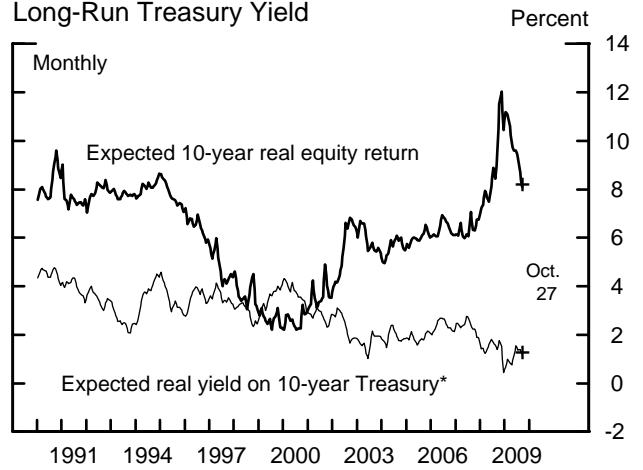
Corporate Yields, Risk Spreads, and Stock Prices

Selected Stock Price Indexes



Source: Standard & Poor's.

Expected Real Equity Return and Long-Run Treasury Yield

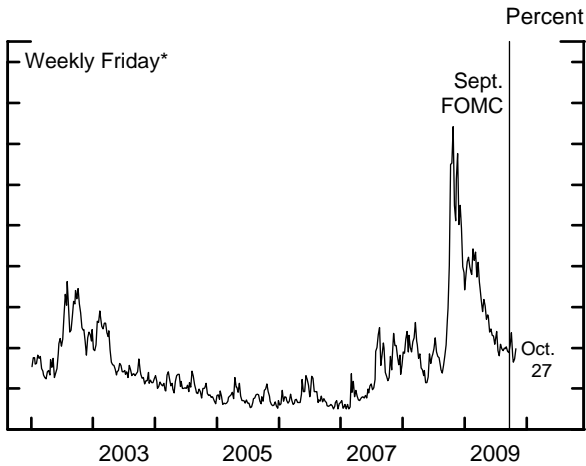


* Off-the-run 10-year Treasury yield less Philadelphia Fed 10-year expected inflation.

+ Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.

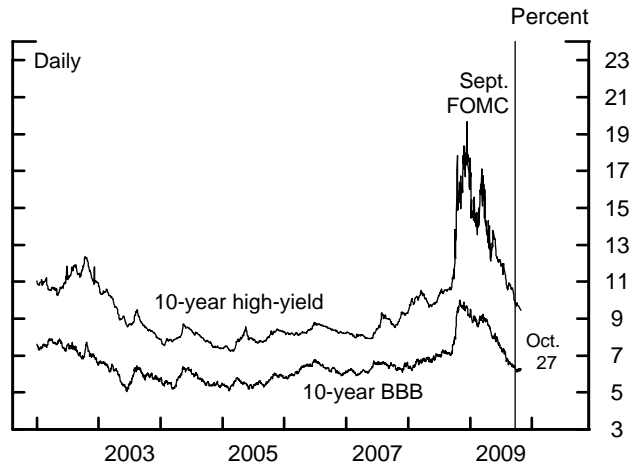
Source: Thomson Financial.

Implied Volatility on S&P 500 (VIX)



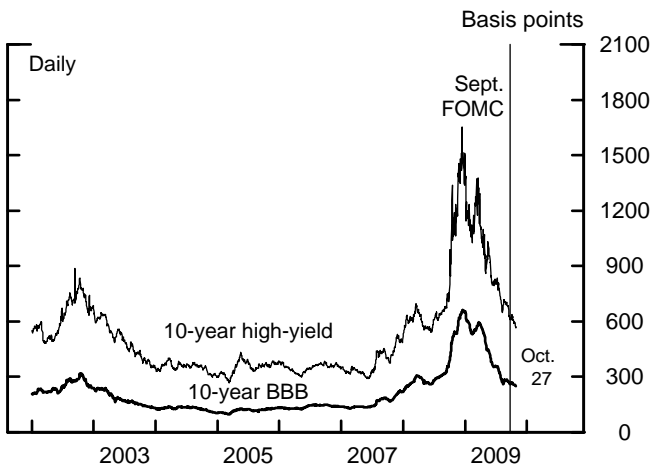
* Latest observation is for most recent business day.
Source: Chicago Board of Exchange.

Corporate Bond Yields



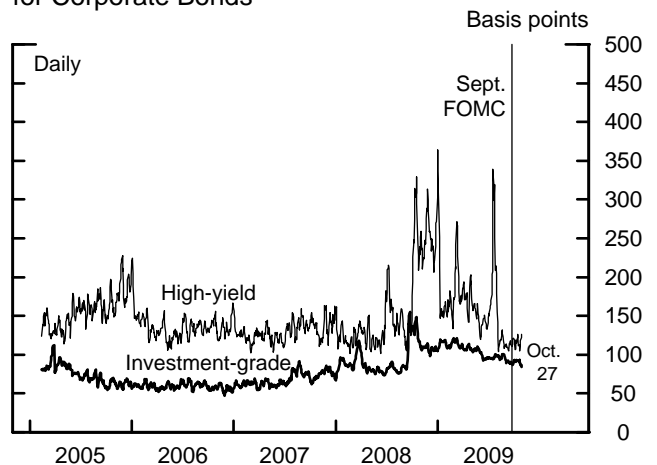
Note: Yields from smoothed yield curves based on Merrill Lynch bond data.

Corporate Bond Spreads



Note: Corporate yields from smoothed yield curves based on Merrill Lynch bond data and spreads measured relative to comparable-maturity Treasury securities.

Estimated Median Bid-Asked Spread for Corporate Bonds



Source: Staff estimate using data from the National Assn. of Securities Dealers' Trade Reporting and Compliance Engine.

loan extensions were offset by early loan repayments. The October 2 TALF subscription garnered \$2.4 billion in loan requests backed by ABS (supporting seven ABS deals totaling approximately \$6.5 billion). The October 21 CMBS TALF subscription saw \$2.1 billion in loan requests to finance legacy assets.

Stock Prices and Corporate Interest Rates

Broad stock-price indexes were about unchanged, on net, over the intermeeting period, despite an initial wave of third-quarter earnings reports that mostly beat analysts' forecasts. The staff's estimate of the expected real equity return over the next 10 years for S&P 500 firms was little changed at about its average levels during the recession of the early 1990s. As a result, the gap between the expected return and the real 10-year Treasury yield—a gauge of the equity risk premium—remained elevated and in line with weak economic activity. Option-implied volatility on the S&P 500 index was little changed, on balance.

Over the intermeeting period, corporate bond yields fell a bit, while those on comparable-maturity Treasury yields were about flat, leaving spreads on investment- and speculative-grade corporate bonds 12 and 44 basis points lower, respectively. Corporate bond spreads are now comparable to average levels in the previous recession. Estimates of bid-asked spreads for investment- and speculative-grade corporate bonds—a measure of liquidity in the corporate bond market—remained steady at moderate levels. Conditions in the leveraged loan market continued to improve, as average bid prices rose a bit further and bid-asked spreads narrowed.

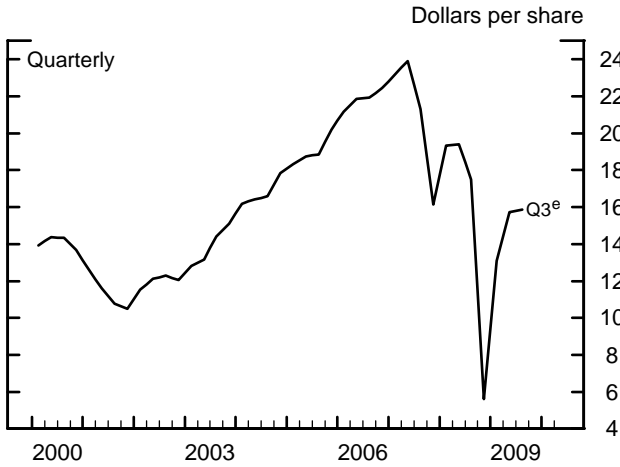
Corporate Earnings and Credit Quality

To date, about half of the firms in the S&P 500 have reported third-quarter earnings, and thus far most reports have come in well above expectations. On the basis of these reports and analysts' estimates for the rest, it appears that earnings per share among S&P 500 firms in the third quarter were on par with second-quarter results, which had been boosted by some large one-time gains. In addition, revisions to analysts' expectations of year-ahead earnings for nonfinancial S&P 500 firms were a bit above zero, on balance, in mid-October, largely due to the stronger-than-expected earnings reports over the past few weeks.

Indicators of the credit quality of nonfinancial firms improved a bit in recent months. The aggregate ratio of debt to assets for nonfinancial corporations ticked lower in the second quarter, while the aggregate liquid asset ratio rose to around its peak level in

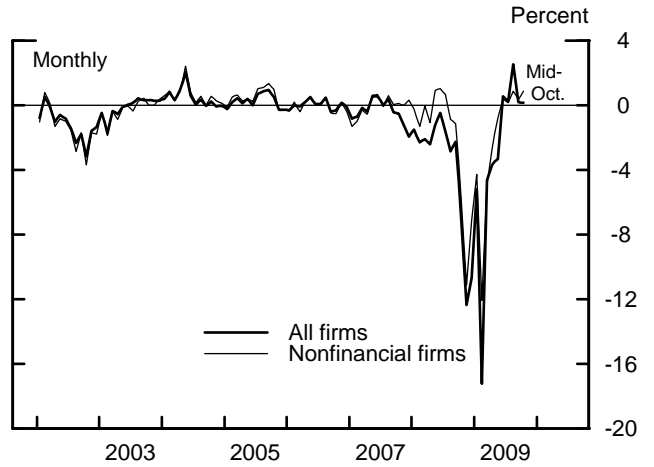
Corporate Earnings and Credit Quality

S&P 500 Earnings Per Share (Seasonally Adjusted)



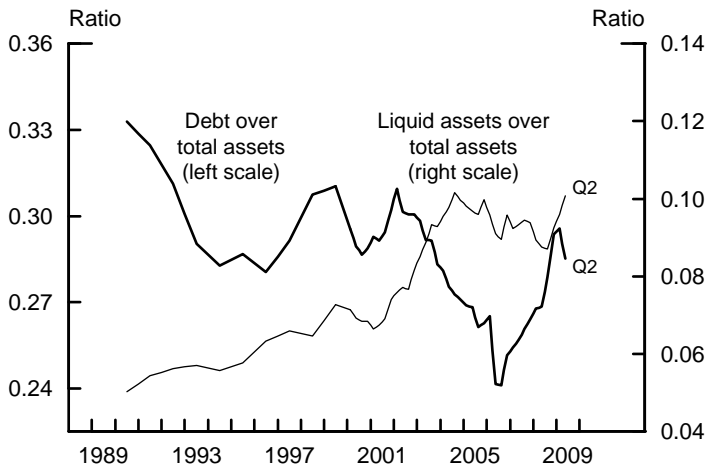
e Estimate.
Source: Thomson Financial.

Revisions to Expected S&P 500 Earnings



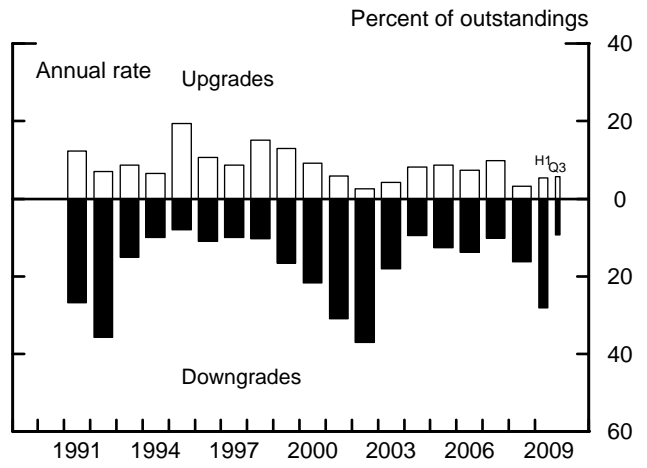
Note: Index is a weighted average of the percent change in the consensus forecasts of current-year and following-year earnings per share for a fixed sample.
Source: Thomson Financial.

Financial Ratios for Nonfinancial Corporations



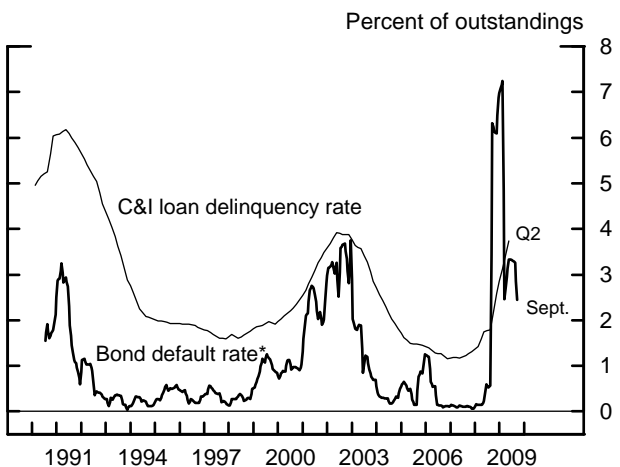
Note: Data are annual through 1999 and quarterly thereafter; fixed investment is at an annual rate.
Source: Compustat.

Bond Ratings Changes of Nonfinancial Companies



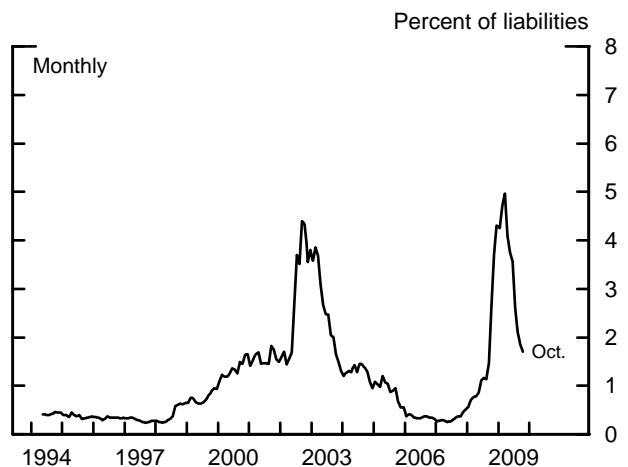
Source: Calculated using data from Moody's Investors Service.

Selected Default and Delinquency Rates



* 6-month trailing defaults divided by beginning-of-period outstandings, at an annual rate.
Source: For default rate, Moody's Investors Service; for delinquency rate, Call Report.

Expected Nonfinancial Year-Ahead Defaults



Note: Firm-level estimates of default weighted by firm liabilities as a percent of total liabilities, excluding defaulted firms.
Source: Calculated using firm-level data from Moody's KMV.

2004. The pace of nonfinancial corporate ratings downgrades by Moody's moderated substantially in the third quarter, while the pace of upgrades ticked up. The six-month trailing bond default rate for all U.S. firms edged down in September and is now below its peak level in the previous recession. The year-ahead expected default frequency for nonfinancial firms from Moody's KMV inched down further in October to just below 2 percent, well off its peak level in March.

Business Finance

Gross issuance of investment-grade bonds by nonfinancial corporations has slowed somewhat in October, even as speculative-grade firms have continued to issue bonds at a robust pace. Commercial paper outstanding turned positive, but the gains were not widespread across programs. C&I loans continued to contract significantly, albeit at a slower rate than in September. All told, net debt financing by nonfinancial businesses is on pace to post a small gain in October.

Gross public equity issuance by nonfinancial firms through seasoned and initial public offerings has been solid in October, though noticeably below its robust September pace. In the second quarter, equity retirements from estimated share repurchases slowed further, while retirements from cash-financed mergers remained low. As a result, net equity issuance in the second quarter stayed positive. In the third quarter and in early October, announcements of new share repurchase programs were sparse, likely due to corporations' continuing efforts to preserve liquidity. By contrast, announcements of mergers and acquisitions rebounded, boosted by both strategic deals as well as acquirers' renewed interest in potential opportunities to restructure distressed companies.

Equity issuance by financial firms slowed in October from a solid September pace. Issuance of bonds by financial firms remained robust, with about 20 percent offered under the FDIC's Temporary Liquidity Guarantee Program.² Citigroup and GE Capital accounted for all of the FDIC-guaranteed debt issuance.

Commercial Real Estate Finance

The commercial real estate sector remained strained. Outstanding commercial mortgage debt decreased at an annual rate of nearly 3 percent in the second quarter and recent data

² The TLGP in its current form will expire on October 31; however, the FDIC announced a modified extension to the program through April 2010 that is intended as an emergency facility. This extension carries significant restrictions on the use of the program—issuance approval will be given only on a case-by-case basis (requiring an inability to issue debt in the nonguaranteed market) and will be coupled with much higher fees.

Business Finance

Gross Issuance of Securities by U.S. Corporations

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

Type of security	2005	2006	2007	2008	2009			
					H1	Q3	Sept.	Oct. ^p
<i>Nonfinancial corporations</i>								
Stocks ¹	4.6	4.7	5.5	3.7	5.3	5.4	8.1	4.2
Initial public offerings	1.7	1.8	1.6	.3	.2	.6	1.4	1.2
Seasoned offerings	2.8	2.9	3.8	3.4	5.1	4.8	6.7	3.0
Bonds ²	18.7	29.3	35.1	27.7	50.1	30.4	39.9	23.0
Investment grade	8.7	13.1	17.5	19.5	32.6	13.4	17.1	7.0
Speculative grade	5.2	6.2	7.5	1.8	5.3	7.4	12.4	8.0
Other (sold abroad/unrated)	4.8	10.1	10.0	6.4	12.2	9.7	10.4	8.0
<i>Memo</i>								
Net issuance of commercial paper ³	-.2	2.4	-.4	1.6	-12.4	-.9	2.0	22.0
Change in C&I loans at commercial banks ³	10.2	11.1	21.2	12.8	-17.7	-34.6	-42.3	-26.0
<i>Financial corporations</i>								
Stocks ¹	5.0	5.3	8.6	13.5	15.9	5.4	8.3	3.5
Bonds ²	170.4	180.6	151.7	45.4	44.5	38.9	52.2	40.0

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

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

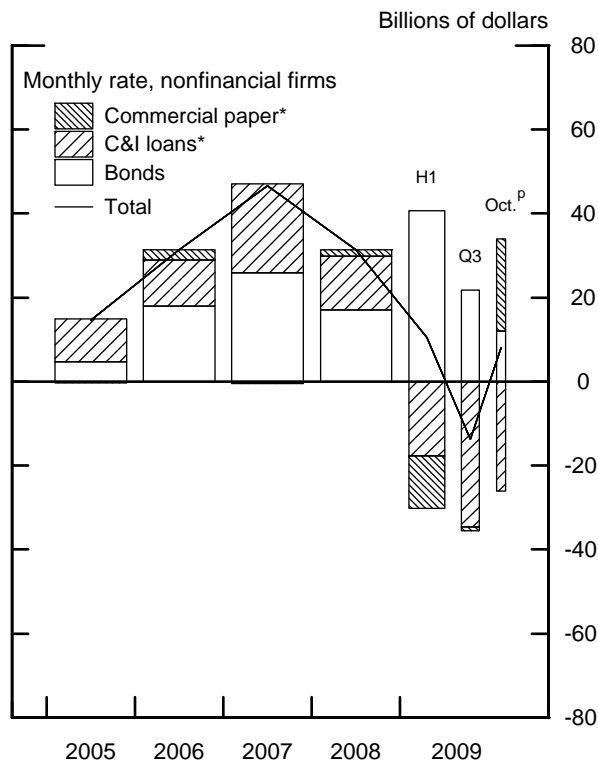
2. Data include regular and 144a private placements. Bond totals reflect gross proceeds rather than par value of original discount bonds. Bonds are categorized according to Moody's bond ratings or to Standard & Poor's if unrated by Moody's.

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

p Forecast based on preliminary data.

Source: Depository Trust & Clearing Corporation; Thomson Financial; Federal Reserve Board.

Selected Components of Net Debt Financing

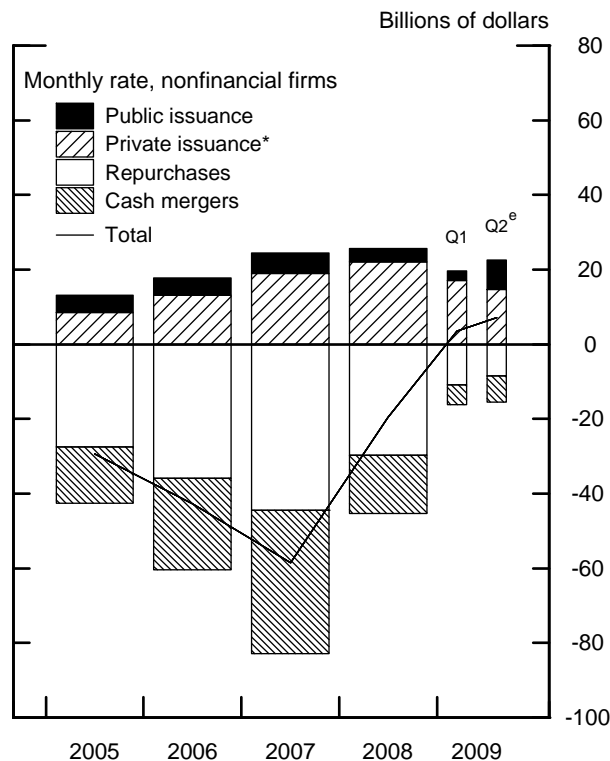


* Seasonally adjusted, period-end basis.

p Preliminary.

Source: Depository Trust & Clearing Corporation; Thomson Financial; Federal Reserve Board.

Components of Net Equity Issuance



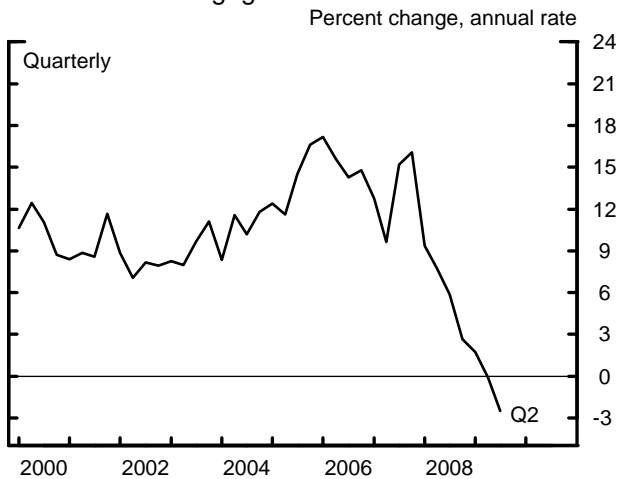
* Private issuance was revised back to 2005.

e Estimate.

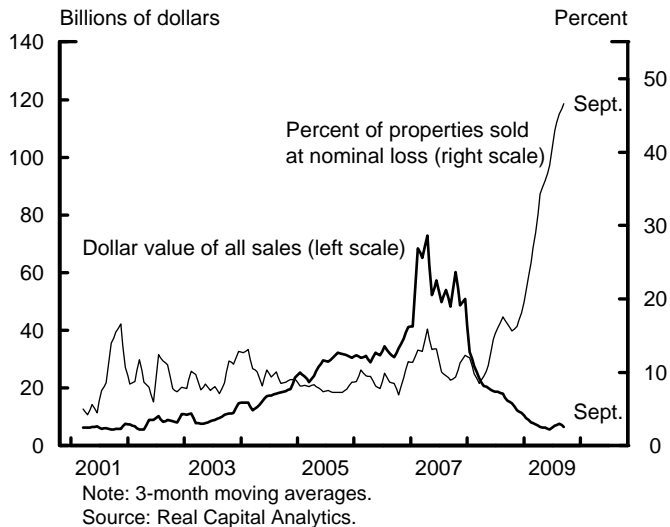
Source: Thomson Financial, Investment Benchmark Report; Money Tree Report by PricewaterhouseCoopers, National Venture Capital Association, and Venture Economics.

Commercial Real Estate

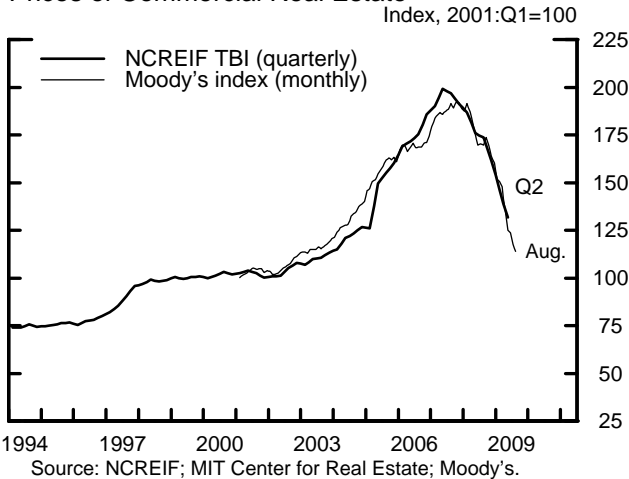
Commercial Mortgage Debt



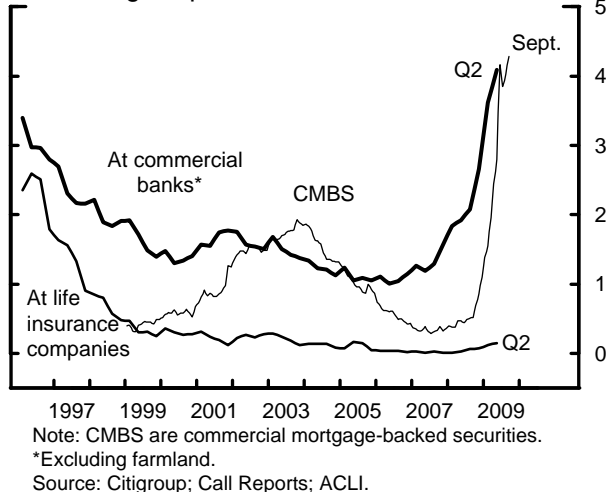
Commercial Real Estate Sales



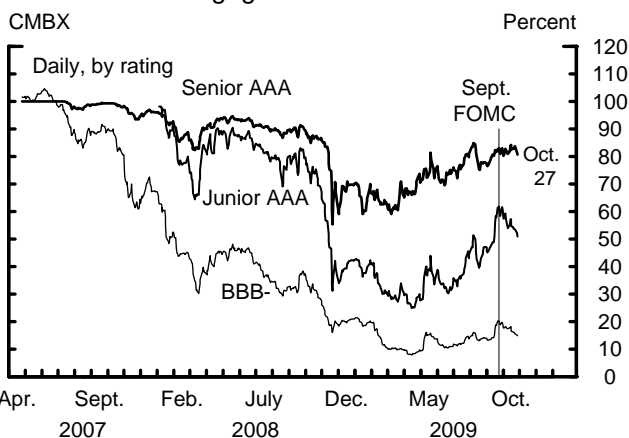
Prices of Commercial Real Estate



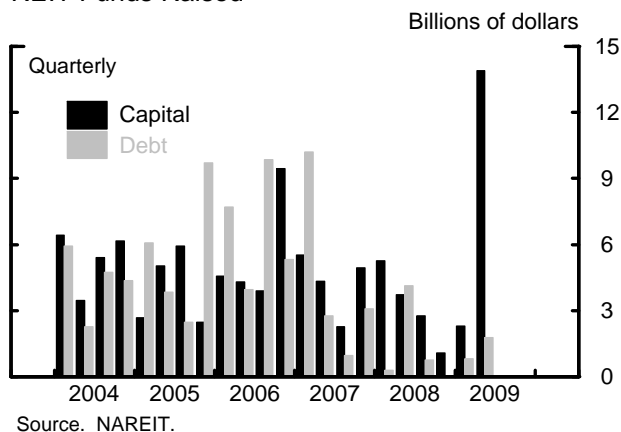
Delinquency Rates on Commercial Mortgages on Existing Properties



Commercial Mortgage CDS Index Prices

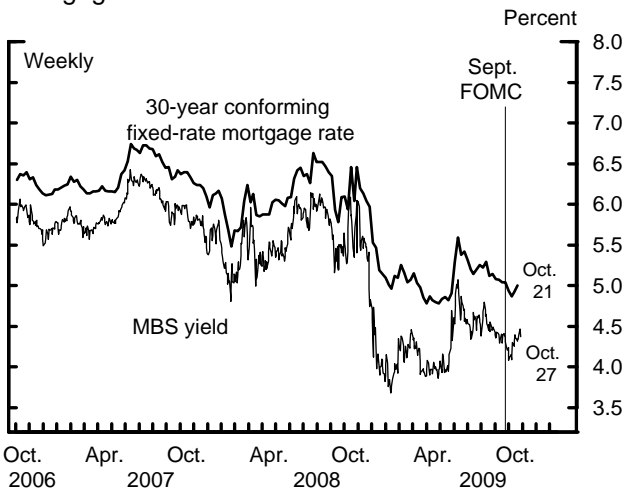


REIT Funds Raised



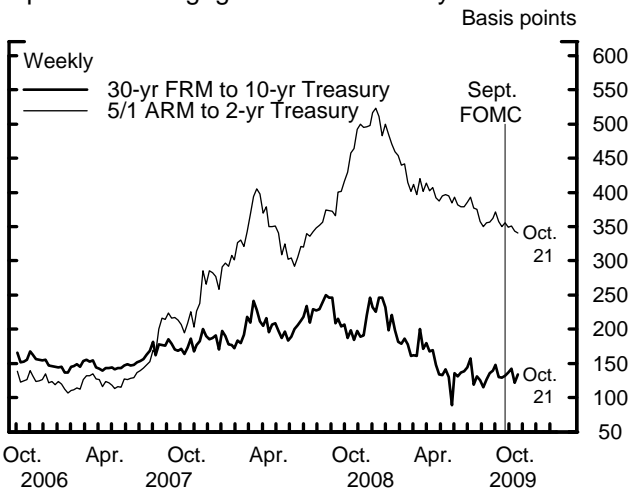
Residential Mortgages

Mortgage Rate and MBS Yield



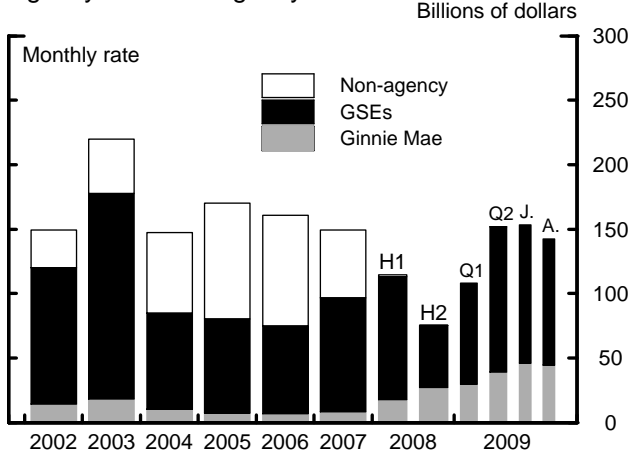
Note: For MBS yield, Fannie Mae 30-year current coupon rate.
 Source: For mortgage rate, Freddie Mac; for MBS yield, Bloomberg.

Spread of Mortgage Rate to Treasury Yield



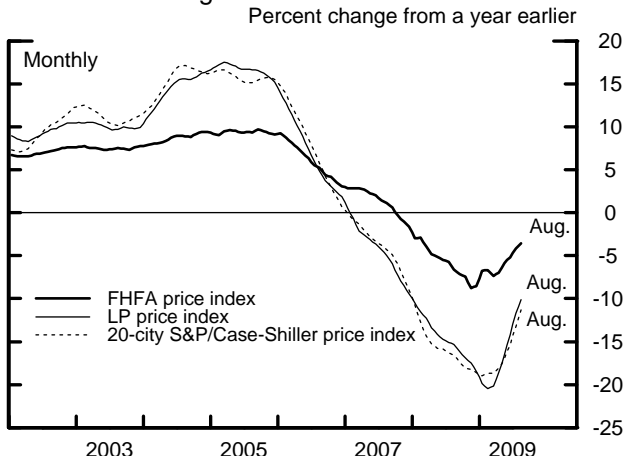
Note: Spreads are relative to corresponding off-the-run Treasury yields.
 Source: Bloomberg; Freddie Mac.

Agency and Non-Agency MBS Issuance



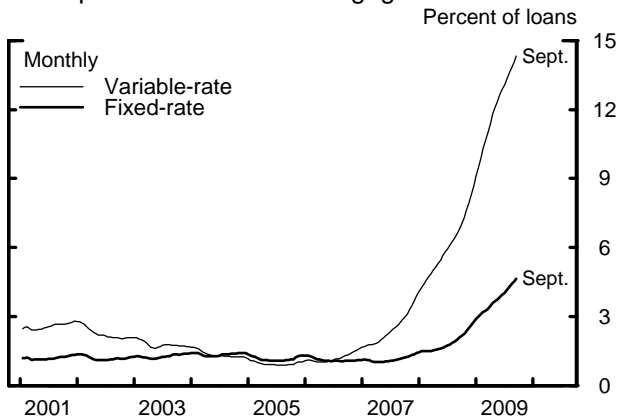
Source: For non-agency issuance, Inside Mortgage Finance; for agency, Fannie Mae, Freddie Mac, and Ginnie Mae.

Prices of Existing Homes



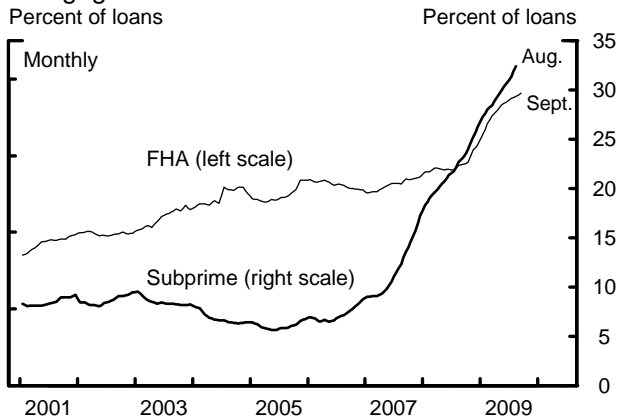
Note: LoanPerformance data are confidential until publicly released.
 Source: For FHFA, Federal Housing Finance Agency; for LP, LoanPerformance, a division of First American CoreLogic; for S&P/Case-Shiller, Standard & Poor's.

Delinquencies on Prime Mortgages



Note: Percent of loans 90 or more days past due or in foreclosure. Prime includes near-prime mortgages.
 Source: McDash Analytics.

Delinquencies on Subprime and FHA-Backed Mortgages



Note: Percent of loans 90 or more days past due or in foreclosure. For subprime mortgages, rates are for securitized loans.
 Source: For FHA-backed mortgages, McDash Analytics; for subprime mortgages, LoanPerformance, a division of First American CoreLogic.

suggest another decline in the third quarter. The dollar value of commercial real estate sales edged down in September as just under half of properties were sold at a nominal loss. Commercial property prices decreased 3 percent in August, leaving the index at about its mid-2003 level and 41 percent below its peak. Delinquency rates on securitized commercial mortgage pools increased in September to 4.3 percent, more than reversing the slight decrease in August. Commercial mortgage CDS index prices for senior AAA pools were about flat, on net, but decreased for junior AAA and BBB-minus pools over the intermeeting period. No CMBS has been issued this year, but other CRE sectors have seen some interest from investors. Real estate investment trusts (REITs) have raised over \$15 billion this year in equity and unsecured debt, reportedly to pursue bargains.

Household Finance

The average interest rate on 30-year conforming fixed-rate mortgages stayed near 5 percent over the intermeeting period; spreads between mortgage interest rates and 10-year Treasury yields were little changed. Agency MBS yields were also about unchanged, on net, and issuance of MBS by the housing-related GSEs was strong again in August. Anecdotal reports suggest that the tapering of Federal Reserve agency MBS purchase has, to date, placed only modest upward pressure on MBS yields. No private-label MBS have been issued since the beginning of 2008.

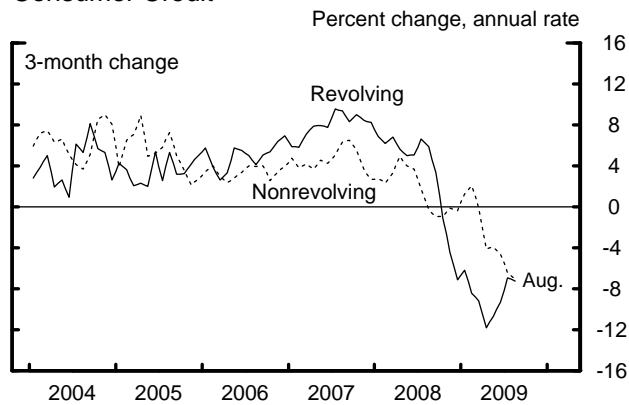
According to the repeat-sales index from LoanPerformance (LP), house prices increased for the fifth consecutive month in August, rising 8.9 percent at an annual rate. Nonetheless, over the year ending in August, the LP index decreased 10 percent. House price indexes from the Federal Housing Finance Agency and S&P/Case-Shiller suggest similar year-over-year rates of decline. Delinquency rates on prime and subprime mortgages continued to climb, and the delinquency rate for FHA-backed loans rose to nearly 8 percent in September.

Consumer credit contracted for the seventh consecutive month in August, reflecting declines in revolving and nonrevolving credit. Consumer ABS issuance decreased in October for both TALF-eligible and non-TALF-eligible securities. Issuance of credit card ABS is likely to be subdued until the FDIC clarifies how it would handle these securities in the event of a receivership of a sponsoring bank.³ The number of credit card

³ Over the intermeeting period, Moody's and Fitch joined Standard & Poor's in declining to rate credit card ABS as AAA (unless the sponsoring bank's rating is AA or higher) until the FDIC provides guidance on whether it would repudiate the securitization contract in the event of a bank receivership. The FDIC's current guidance establishes a safe harbor from repudiation for ABS that are off-balance sheet under FASB

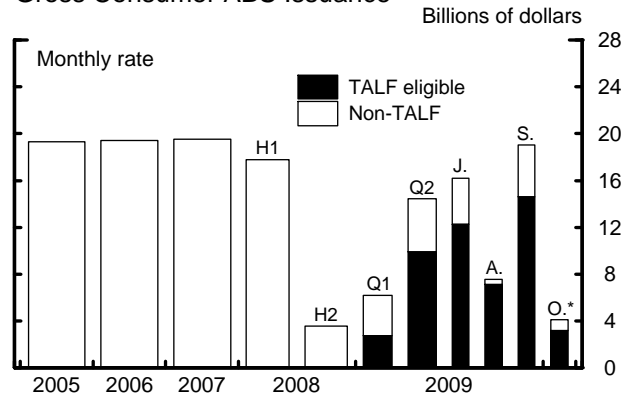
Consumer Credit and Mutual Funds

Consumer Credit



Source: Federal Reserve.

Gross Consumer ABS Issuance

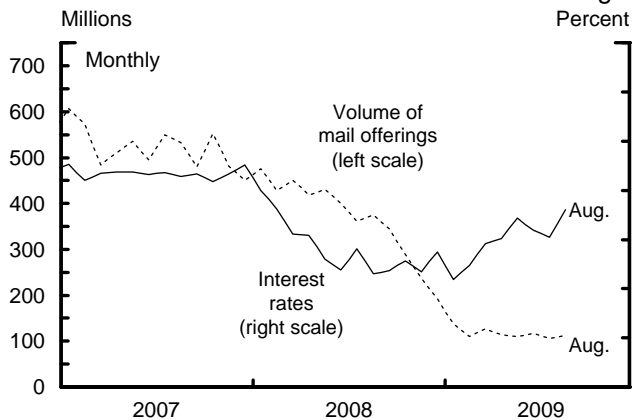


* Through October 23.

Note: Credit card, auto, and student loan ABS.

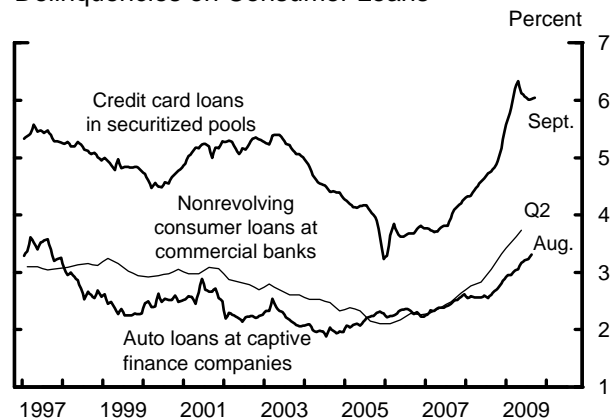
Source: Inside MBS & ABS; Merrill Lynch; Bloomberg; Federal Reserve.

Credit Card Rates and Volume of Mail Offerings



Source: Mintel.

Delinquencies on Consumer Loans



Source: For auto loans, Federal Reserve; for credit cards, Moody's Investors Service; for nonrevolving consumer loans, Call Report.

Net Flows into Mutual Funds

(Billions of dollars, monthly rate)

Fund type	2008		2009		2009			Assets Aug.
	H1	H2	Q1	Q2	July	Aug.	Sept. ^e	
Total long-term funds	11.8	-49.7	0.5	46.1	45.7	50.0	48.2	7,061
Equity funds	-3.6	-36.0	-14.4	14.2	9.2	3.9	-10.4	4,511
Domestic	-5.0	-20.7	-7.8	9.7	2.3	-2.0	-11.0	3,375
International	1.3	-15.3	-6.5	4.4	6.9	5.9	0.5	1,136
Hybrid funds	1.7	-4.7	-2.9	2.3	1.8	3.2	11.0	577
Bond funds	13.8	-9.0	17.8	29.7	34.7	42.9	47.6	1,973
High-yield	-0.2	0.1	2.7	2.9	1.9	1.0	1.2	167
Other taxable	11.1	-7.4	11.2	21.1	26.0	32.9	36.2	1,386
Municipals	2.9	-1.6	3.9	5.7	6.8	9.1	10.2	420
Money market funds	56.1	59.6	0.1	-54.6	-50.0	-55.6	-139.9	3,569

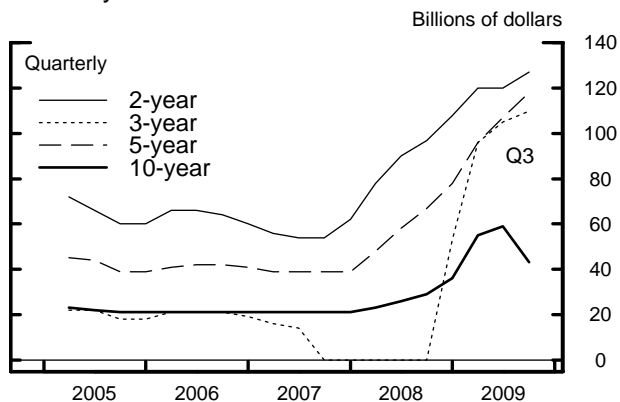
Note: Excludes reinvested dividends.

e Staff estimate.

Source: Investment Company Institute.

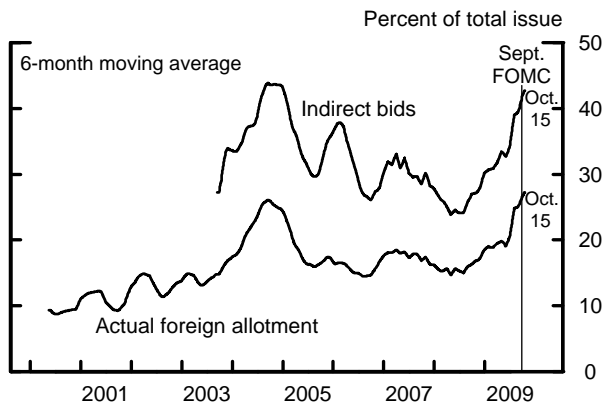
Treasury Finance

Treasury Auction Amounts



Source: U.S. Treasury Dept.

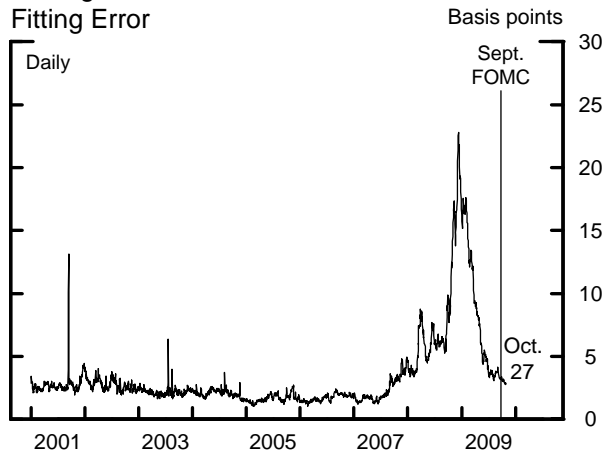
Foreign Participation in Treasury Auctions



Note: Indirect bids and actual allotment are a percentage of the total amount accepted, including the amount tendered to the Federal Reserve. Moving averages include 2-, 5-, and 10-year original auctions and reopenings.

Source: Federal Reserve Board.

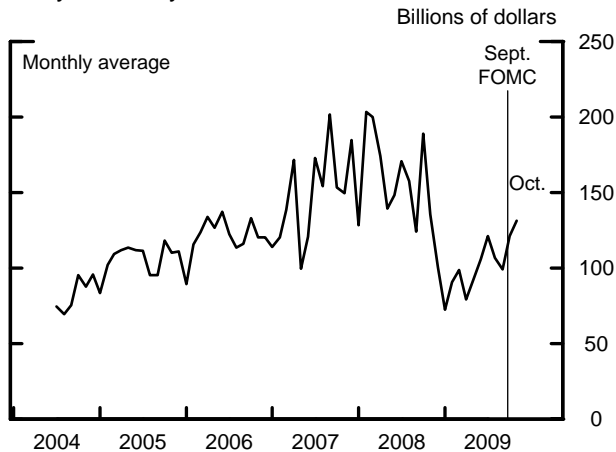
Average Absolute Nominal Yield Curve Fitting Error



Note: Calculated from securities with 2 to 10 years until maturity, excluding on-the-run and first off-the-run securities.

Source: Federal Reserve Board.

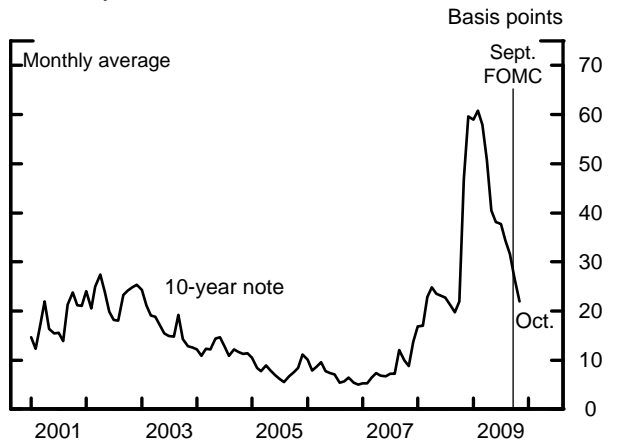
Daily Treasury Market Volume



Note: October observation is the month-to-date average.

Source: Bloomberg.

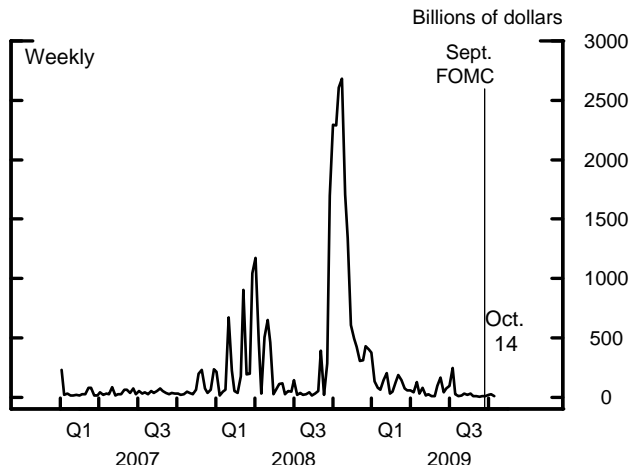
Treasury On-the-Run Premium



Note: Computed as the spread of the yield read from an estimated off-the-run yield curve over the on-the-run Treasury yield. October observation is the month-to-date average.

Source: Federal Reserve Board.

Treasury Fails-to-Deliver



Source: Federal Reserve Board, FR 2004, Government Securities Dealers Reports.

State and Local Government Finance

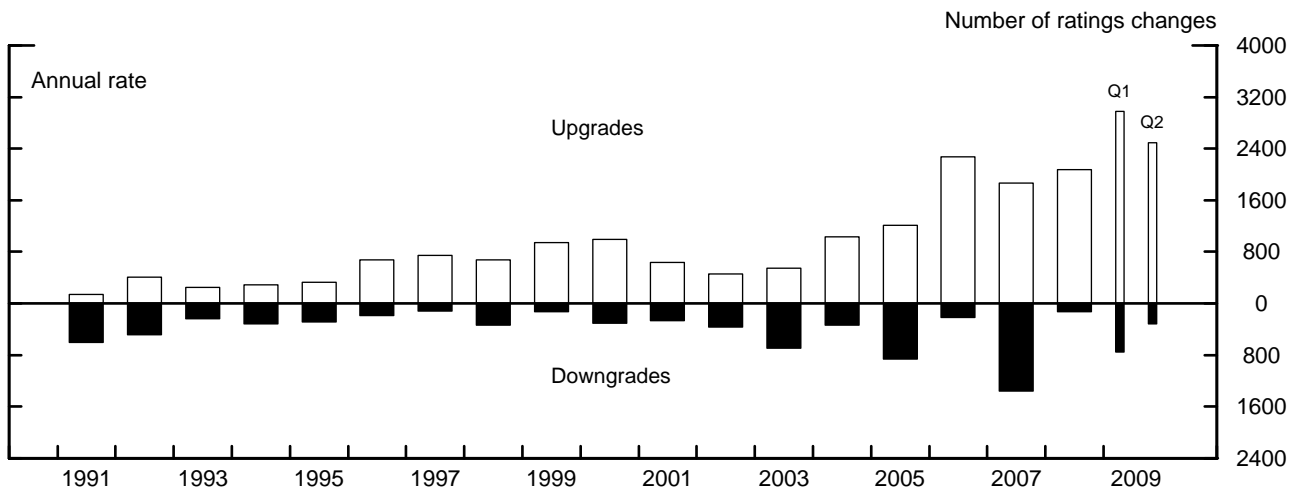
Gross Offerings of Municipal Securities

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

Type of security	2005	2006	2007	2008	2009			
					H1	Q3	Sept.	Oct. ^p
Total	38.4	36.1	40.4	37.5	36.5	41.9	42.5	33.0
Long-term ¹	34.2	32.5	35.5	32.4	32.9	30.7	29.9	31.0
Refundings ²	15.6	10.6	12.6	14.6	12.5	11.0	11.1	14.0
New capital	18.6	21.9	22.9	17.8	20.5	19.7	18.8	17.0
Short-term	4.2	3.7	4.9	5.0	3.6	11.2	12.7	2.0
Memo: Long-term taxable	2.1	2.5	2.4	2.3	4.5	7.9	8.4	1.3

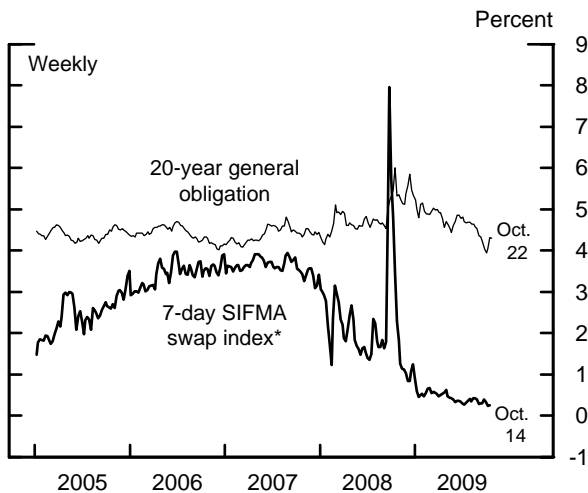
1. Includes issues for public and private purposes.
 2. All issues that include any refunding bonds.
 p Forecast based on preliminary data through October 22, 2009.
 Source: Thomson Financial.

Ratings Changes



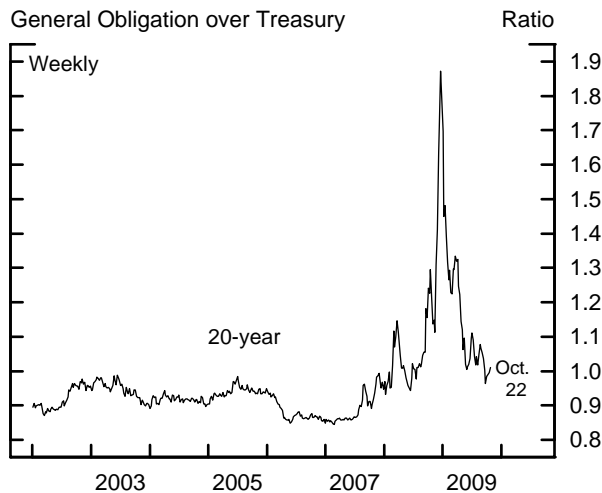
Note: Recent upgrades reflect S&P's change of rating standard.
 Source: S&P's Credit Week Municipal; S&P's Ratings Direct.

Municipal Bond Yields



* SIFMA is the Securities Industry and Financial Markets Association.
 Source: Municipal Market Advisors; Bond Buyer.

Municipal Bond Yield Ratio



Source: Bond Buyer.

offers sent to households by mail remained steady at low levels in August, but the interest rate offered on these credit card mailings edged up. The latest readings on delinquency rates for consumer loans remained high by historical standards.

As in recent months, long-term mutual funds received sizable inflows in September, as continued outsized flows to hybrid and bond funds more than offset net redemptions of equity funds. Money market mutual funds experienced further substantial net outflows last month, as yields on such funds remained extremely low.

Treasury and Agency Finance

Over the intermeeting period, the Treasury auctioned \$190 billion of coupon-bearing securities, including \$7 billion in TIPS. The auctions were generally well received, although the 30-year bond elicited relatively less strong demand. Demand for the re-opened 10-year TIPS was strong, and the auction recorded the highest bid-to-cover ratio since the inception of the TIPS program. Mutual fund flow data indicate that retail demand for TIPS has risen in recent months relative to its historical average. Foreign demand at auctions of both nominal and TIPS securities strengthened. As previously announced, the Treasury ran down the outstanding amount of short-term bills associated with its balances in the Supplementary Financing Program to about \$15 billion; the reduction in bill supply was reportedly associated with some downward pressure on bill yields.

Treasury market functioning showed some further signs of improvement over the intermeeting period. Average absolute fitting errors of the staff's nominal Treasury curve—a proxy for unexploited arbitrage opportunities in the nominal Treasury market—declined slightly over the intermeeting period. On-the-run premiums on the 10-year Treasury note continued to decline, although they remained significantly above their pre-crisis levels. Finally, fails-to-deliver in the Treasury market remained low. Trading volumes in both nominal and TIPS markets increased but remained below those observed in previous years.

State and Local Government Finance

Conditions in the municipal bond market were little changed over the intermeeting period. In October, gross issuance of long-term municipal bonds has continued at a robust pace, while short-term issuance moderated in line with typical seasonal patterns.

regulations. However, credit card ABS will no longer receive off-balance-sheet treatment when FAS 166/167 takes effect in the upcoming months.

M2 Monetary Aggregate
(Based on seasonally adjusted data)

Aggregate and components	Percent change (annual rate) ¹						Level (billions of dollars), Oct. (e)
	2007	2008	2009				
			Q2	Q3	Sept.	Oct. (e)	
M2	5.9	8.3	2.7	0.1	4.0	3.0	8,354
Components ²							
Currency	2.0	5.8	6.9	3.4	5.3	0.6	863
Liquid deposits ³	4.3	6.9	12.5	12.7	20.6	21.5	5,503
Small time deposits	4.3	11.7	-16.6	-26.5	-37.9	-43.1	1,133
Retail money market funds	20.2	13.1	-22.1	-33.0	-38.0	-46.7	850
Memo:							
Institutional money market funds	40.2	24.7	6.4	-9.6	-17.9	-40.8	2,341
Monetary base	2.0	70.4	24.2	-2.1	67.8	109.8	1,967

1. For years, Q4 to Q4; for quarters and months, calculated from corresponding average levels.

2. Nonbank traveler's checks are not listed.

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

e Estimated.

Source: Federal Reserve.

Yields on long-term municipal bonds rose about 11 basis points over the intermeeting period, and the ratios of yields on long-term municipal bonds to comparable-maturity Treasury yields were unchanged on net. Rating upgrades in the second quarter again outpaced downgrades, as rating agencies continued to change the rating scale for municipalities toward the more lenient scale used for corporate debt.

Money and Bank Credit

M2 expanded at a moderate 4 percent annual rate in September and has risen at an estimated 3 percent pace in October. While liquid deposits grew rapidly over this period, small time deposits and retail money market mutual funds continued to contract. Meanwhile, currency growth averaged 3 percent in September and October amid moderate demand from abroad. Growth in the monetary base averaged about 89 percent, primarily reflecting an increase in reserve balances due to additional purchases of long-term assets and the decline in the Treasury's Supplementary Financing Account.

The runoff in bank credit steepened in September as the decrease in core loans intensified to an 18 percent annual rate. According to the latest Senior Loan Officer Opinion Survey on Bank Lending Practices, standards and terms tightened further and demand continued to decline, on net, for most types of loans in the third quarter (see appendix to this section). On the business side, C&I loans dropped at a 32 percent pace, with maturities and steady paydowns reported across a wide variety of industries. Commercial real estate loans also continued to decrease, reportedly due to widespread paydowns and charge-offs. Residential mortgage loans on banks' books also ran off more quickly, with substantial loan sales to the GSEs continuing to more than offset strong originations. Revolving home equity loans and consumer loans also contracted, even though commercial banks continued to bring credit card assets back onto their books. The drop in total loans at large banks continued to substantially outpace the decline at smaller banks. The allowance for loan and lease losses rose further at large banks in September, but it was about unchanged at small banks.

Fifteen depository institutions, with aggregate assets of \$5.2 billion, failed over the intermeeting period. Thus far in 2009, there have been 118 failures, the highest annual total since 1992.

Commercial Bank Credit

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

Type of credit	2007	2008	H1 2009	July 2009	Aug. 2009	Sept. 2009	Level ¹ Sept. 2009
Total	10.0	4.9	-5.8	-7.1	-6.9	-12.5	9,131
<i>Loans²</i>							
Total	10.8	4.6	-7.2	-16.8	-15.2	-18.4	6,793
Core	9.6	5.2	-4.4	-8.8	-12.8	-17.9	6,036
To businesses							
Commercial and industrial	19.0	16.3	-13.9	-16.3	-26.5	-32.0	1,411
Commercial real estate	9.4	6.0	-1.6	-5.8	-6.8	-9.2	1,677
To households							
Residential real estate	5.5	-3.0	-1.4	-7.4	-11.8	-21.2	2,099
Revolving home equity	5.6	13.0	6.6	-6.5	-5.3	-5.7	604
Closed-end mortgages	5.5	-7.9	-4.3	-7.9	-14.4	-27.2	1,496
Consumer	6.8	7.1	.0	-5.2	-3.0	-3.2	849
Memo: Originated ³	6.5	5.6	-1.7	-2.3	-7.4	-5.8	1,245
Other	18.7	.7	-25.4	-76.1	-34.4	-21.9	757
<i>Securities</i>							
Total	7.7	6.0	-.9	23.4	18.6	4.8	2,338
Treasury and agency	-5.4	15.0	-1.7	48.1	33.7	11.9	1,399
Other ⁴	28.1	-4.2	.2	-10.1	-2.9	-5.5	939

Note: Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. Data have been adjusted to remove the effects of mark-to-market accounting rules (FAS 115) and the initial consolidation of certain variable interest entities (FIN 46). Data also account for the effects of nonbank structure activity of \$5 billion or more.

1. Billions of dollars. Pro rata averages of weekly (Wednesday) levels.

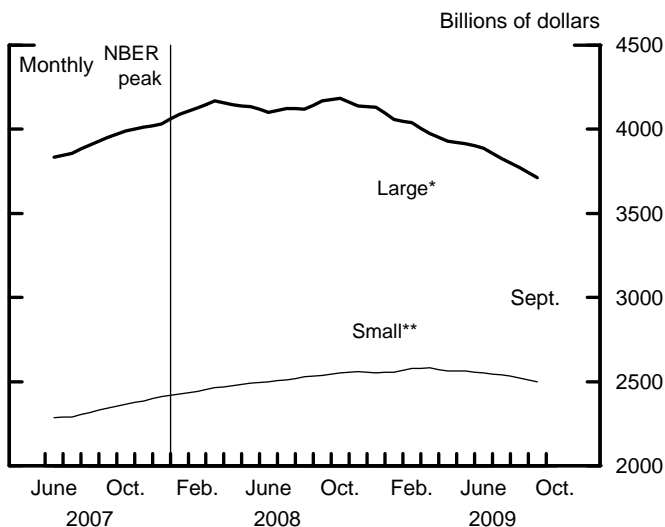
2. Excludes interbank loans.

3. Includes an estimate of outstanding loans securitized by commercial banks that retained recourse or servicing rights.

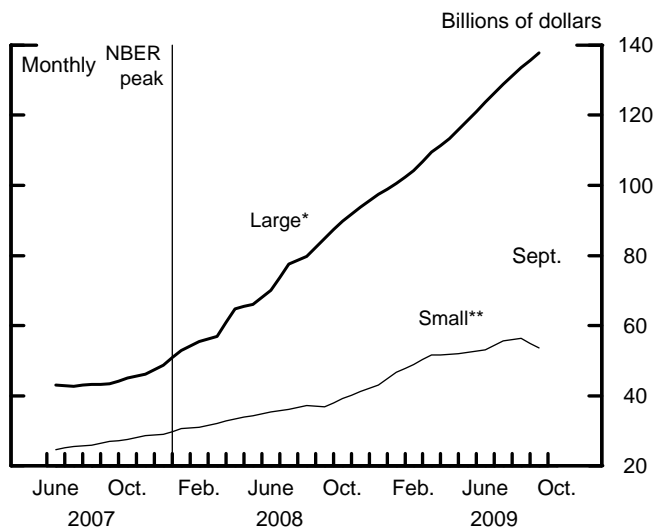
4. Includes private mortgage-backed securities; securities of corporations, state and local governments, and foreign governments; and any trading account securities that are not Treasury or agency securities.

Source: Federal Reserve.

Total Loans at Commercial Banks



Allowance for Loan Losses at Commercial Banks



Note: The NBER peak is the last business cycle peak as defined by the National Bureau of Economic Research (NBER).

* Large domestically chartered commercial banks are defined as the top 25 domestically chartered commercial banks, ranked by domestic assets as of the previous commercial bank Call Report to which the H.8 release data have been benchmarked.

** Small domestically chartered commercial banks are defined as all domestically chartered commercial banks not included in the top 25.

Source: Federal Reserve.

Appendix

Senior Loan Officer Opinion Survey on Bank Lending Practices

The October 2009 Senior Loan Officer Opinion Survey on Bank Lending Practices addressed changes in the supply of and demand for loans to businesses and households over the past three months. The survey also included three sets of special questions: The first asked banks about the reasons for the decline in commercial and industrial (C&I) loans over the first eight months of 2009, the second asked banks about the status of commercial real estate (CRE) loans on their books that were scheduled to mature by September of this year, and the third asked banks about potential changes in credit card lending due to implementation of the Credit Card Accountability Responsibility and Disclosure (Credit CARD) Act. This appendix is based on responses from 57 domestic banks and 23 U.S. branches and agencies of foreign banks.¹

In the October survey, domestic banks indicated that they continued to tighten standards and terms over the past three months on all major types of loans to businesses and households. However, the net percentages of banks that tightened standards and terms for most loan categories continued to decline from the peaks reached late last year. The exceptions were prime residential mortgages and revolving home equity lines of credit, which registered little change in the net fractions of banks that had tightened standards.² A small net fraction of branches and agencies of foreign banks eased standards on C&I loans, while a significant net fraction continued to tighten standards on CRE loans. Demand for most major categories of loans at domestic banks reportedly continued to weaken, on balance, over the past three months. This weakening was somewhat less widespread than in the July survey for C&I loans, CRE loans, and nontraditional mortgages; approximately the same for consumer loans; and significantly more widespread for home equity lines of credit. However, banks reported stronger demand, on net, for prime residential real estate loans. Demand for C&I and CRE loans at foreign banks continued to weaken, on balance, but the weakening was somewhat less widespread than that in the July survey.

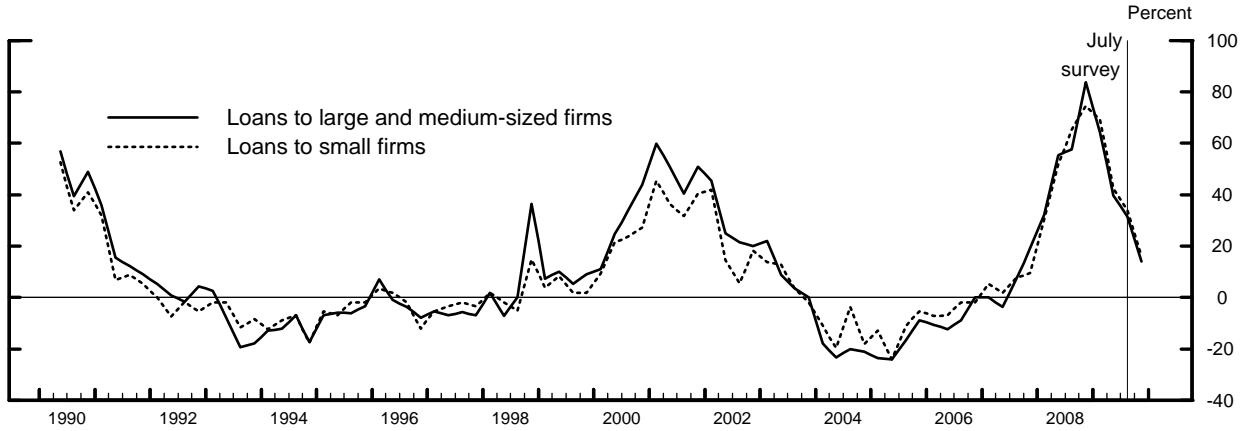
In response to a special question on the sources of the decline in C&I lending this year, the two sources that domestic banks cited most often as being “very” important were decreased originations of term loans and decreased draws on revolving credit lines. In response to a second special question, banks indicated that, of the CRE loans on their books that were scheduled to

¹ Respondent banks received the survey on or after October 6, 2009, and their responses were due by October 20, 2009.

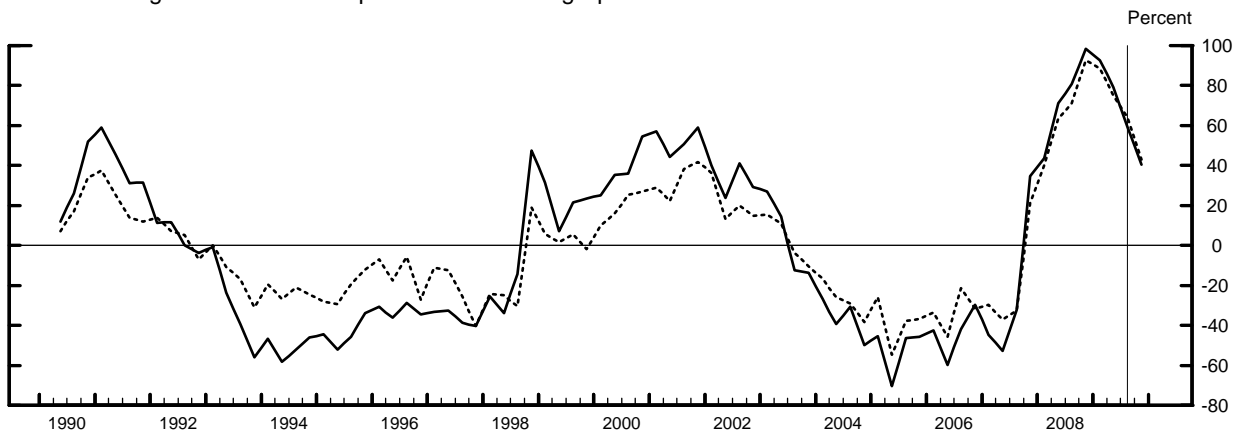
² For questions that ask about lending standards, reported net percentages equal the percentage of banks that reported tightening standards (“tightened considerably” or “tightened somewhat”) minus the percentage of banks that reported easing standards (“eased considerably” or “eased somewhat”). For questions that ask about demand, reported net percentages equal the percentage of banks that reported stronger demand (“substantially stronger” or “moderately stronger”) minus the percentage of banks that reported weaker demand (“substantially weaker” or “moderately weaker”).

Measures of Supply and Demand for Commercial and Industrial Loans, by Size of Firm Seeking Loan

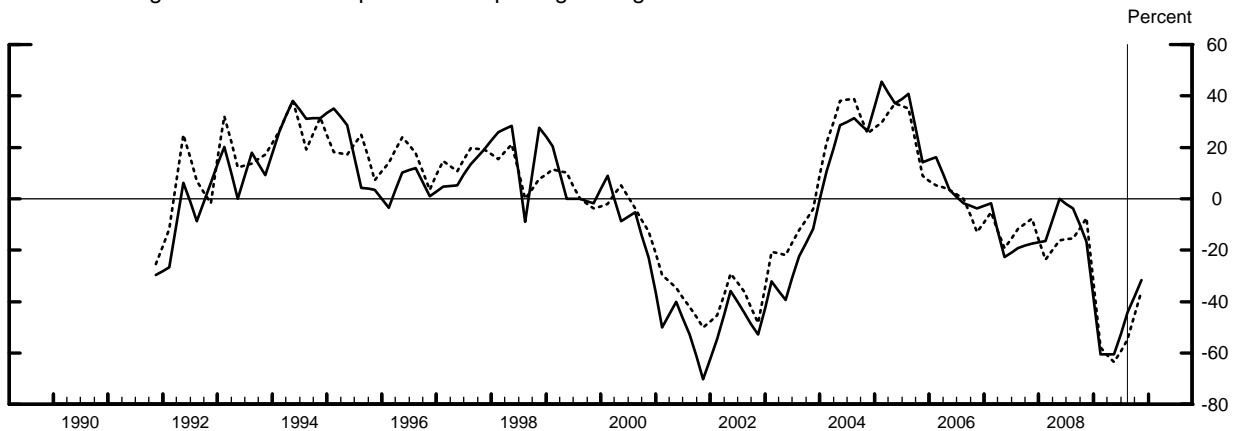
Net Percentage of Domestic Respondents Tightening Standards for Commercial and Industrial Loans



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



Net Percentage of Domestic Respondents Reporting Stronger Demand for Commercial and Industrial Loans



mature by September of this year, more loans had been extended than refinanced both for construction and land development loans and for loans secured by nonfarm nonresidential real estate. In response to special questions concerning the Credit CARD legislation passed in May 2009, the majority of banks reported that they had yet to fully comply with the new law. Banks indicated that they expected to tighten many of the terms and conditions of credit card loans as a result of the legislation, with the notable exception of penalty fees and the length of the grace period for payments, which banks, on net, reported they would ease.

Lending to Businesses

Questions on commercial and industrial lending. The net fraction of banks that reported tightening standards on C&I loans to firms of all sizes was about 15 percent, about one-half of the net fraction that reported doing so in the July survey and substantially below the peak of around 80 percent that was reported in the October 2008 survey.

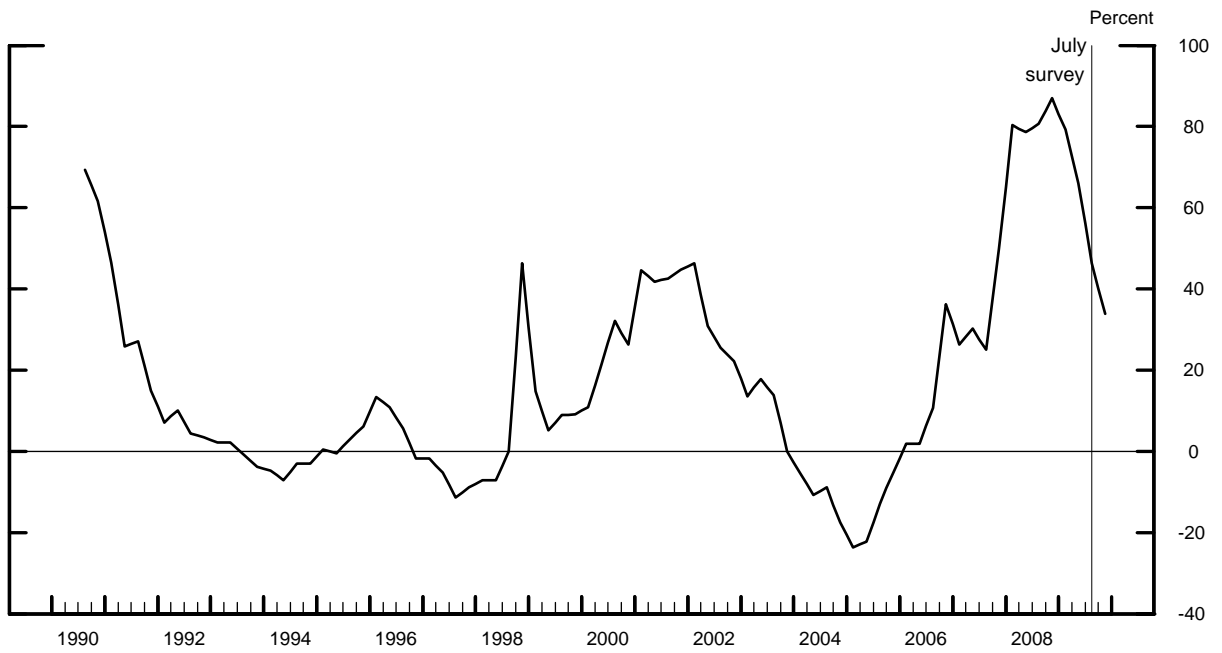
The net fractions of domestic respondents that reported having tightened selected terms on C&I loans remained fairly elevated, but generally continued to fall from the highs reported in late 2008. Approximately 40 percent of banks, on net, reported increasing spreads of loan rates over their cost of funds for large and middle-market firms and about 45 percent reported boosting such spreads on loans to small firms. By comparison, about 60 percent and 65 percent of banks, on net, reported raising spreads for loans to large and middle-market firms and to small firms, respectively, in July. Nearly 40 percent of respondents reported increasing the premiums charged on riskier loans to firms of all sizes. By contrast, only between 5 and 20 percent of banks, on net, reported decreasing the maximum maturity of loans or credit lines, decreasing the maximum size of credit lines, and tightening terms on loan covenants for loans to firms of all sizes. Indeed, some banks reported easing a few loan terms.

The predominant reasons cited for tightening credit standards or terms for C&I loans were the same as those reported in the previous three surveys. Respondents that tightened standards most commonly cited the reason as being a reduced tolerance for risk, followed by an economic outlook that was less favorable or more uncertain, and a worsening of industry-specific problems. Each of the six domestic banks that reported easing loan terms in the latest survey cited more aggressive competition from other banks or nonbank lenders as the most important reason for doing so.

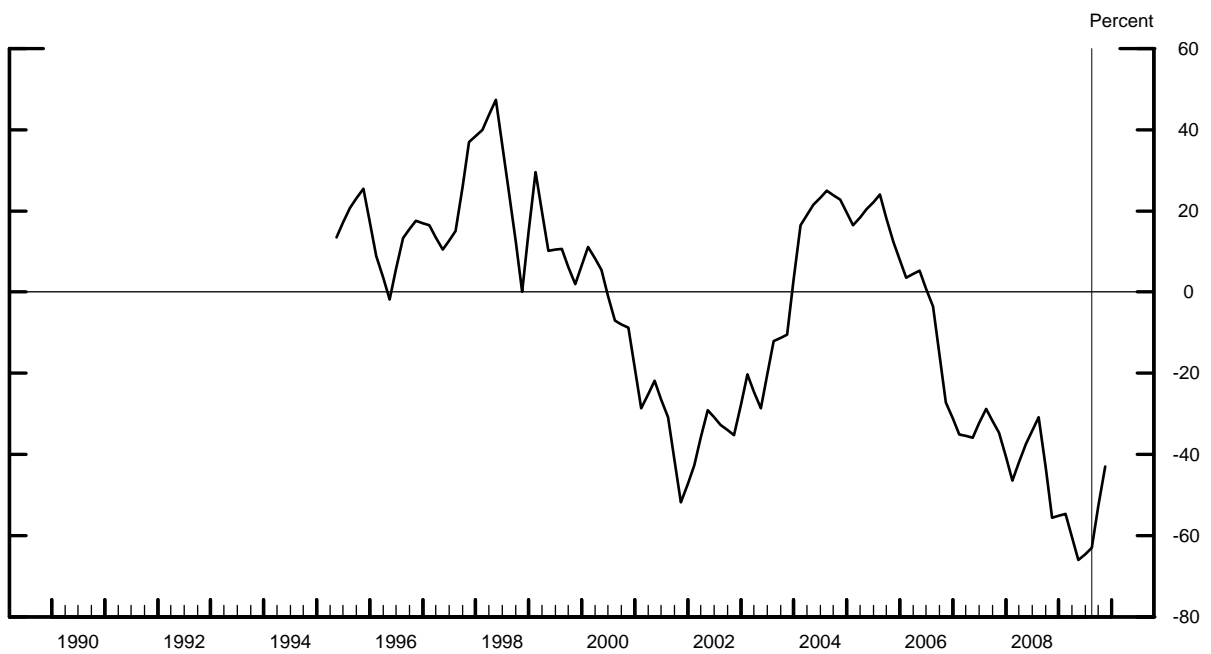
Notable net fractions of domestic banks reported weaker demand for C&I loans from firms of all sizes, though the weakening was less widespread than in the July survey. In July, roughly 50 percent of domestic banks reported weaker demand for C&I loans to firms of all sizes; that fraction fell to roughly 30 percent and to 35 percent for loans to larger and to smaller firms, respectively, in October. The predominant reasons for reduced demand were similar to those cited in the July survey and included decreases in the need to finance investment in plant and equipment, inventories, accounts receivable, and merger and acquisition activity.

Measures of Supply and Demand for Commercial Real Estate Loans

Net Percentage of Domestic Respondents Tightening Standards for Commercial Real Estate Loans



Net Percentage of Domestic Respondents Reporting Stronger Demand for Commercial Real Estate Loans



For the first time since the April 2007 survey, a positive net share of U.S. branches and agencies of foreign banks reported having eased standards for C&I loans, though about 90 percent reported that their standards remained basically unchanged. About 15 percent of foreign respondents, on net, reported narrower spreads of loan rates over their cost of funds and lower premiums charged on riskier loans. Like the domestic banks, each of the five foreign banks that reported easing standards or terms cited more aggressive competition from other banks or nonbank lenders as the most important reason for having done so. Only about 5 percent of foreign banks, on net, reported a decrease in demand for C&I loans.

Special Question on Commercial and Industrial Lending

The October survey included a special question on C&I lending, motivated by the significant decline in C&I loans outstanding over the first eight months of 2009. The question focused on the possible sources of the contraction in C&I lending, and it complements a special question in the July survey that asked banks to rank the relative importance of various supply and demand factors in explaining the decline in C&I loans. Domestic respondents to the July survey predominantly cited demand factors, including lower loan demand from creditworthy borrowers because their funding needs had declined, followed by a deterioration in the credit quality of potential borrowers.

Respondents to the October survey indicated that decreased originations of term loans and reduced draws on revolving credit lines were generally more important sources of declines than paydowns of outstanding C&I loan balances. More specifically, on a weighted basis, about 40 percent and 30 percent of banks, respectively, reported that decreased originations of term loans and decreased draws on revolving credit lines were “very” important sources of the decline in C&I loans this year.³ About 15 percent of banks reported that paydowns of previous draws on revolving credit lines were a “very” important source of the decline. Respondents also pointed to increased prepayments of term loans, paydowns of bridge loans, and increased loan write-downs as either “very” or “somewhat” important sources of the decline in C&I loans this year. In contrast, relatively few domestic banks, on a weighted basis, reported that increased sales or syndications of outstanding loans and increased incidence of term loans that matured and were not rolled over or extended were important factors.

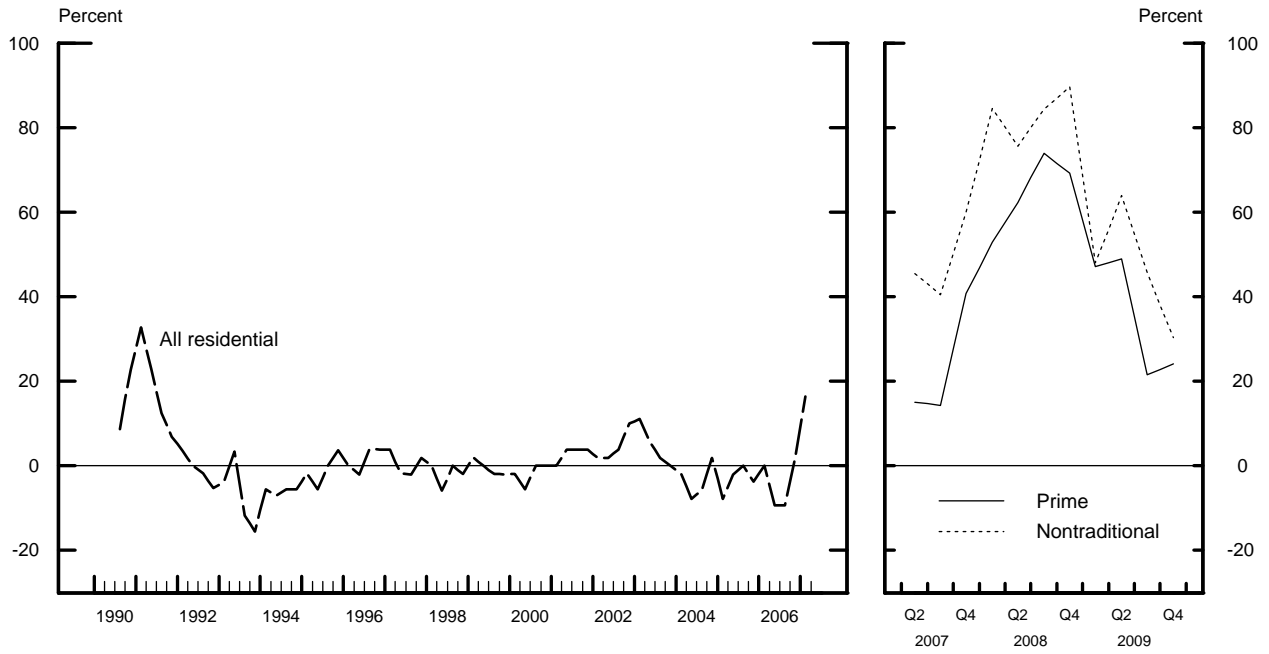
Among the foreign respondents that indicated that C&I lending had declined at their banks this year, about 50 percent, on a weighted basis, reported that decreased origination of term loans was a “very” important source of the decline.⁴ In weighted terms, about 30 percent and 15 percent of

³ Data from commercial bank Call Reports were used to weight individual responses by the amount of C&I loans booked in domestic offices outstanding at the end of the second quarter. The pattern of responses was similar on an unweighted basis.

⁴ Data from FFIEC 002 reports for U.S. branches and agencies of foreign banks were used to weight individual responses by the amount of C&I loans booked in domestic offices outstanding at the end of the second quarter.

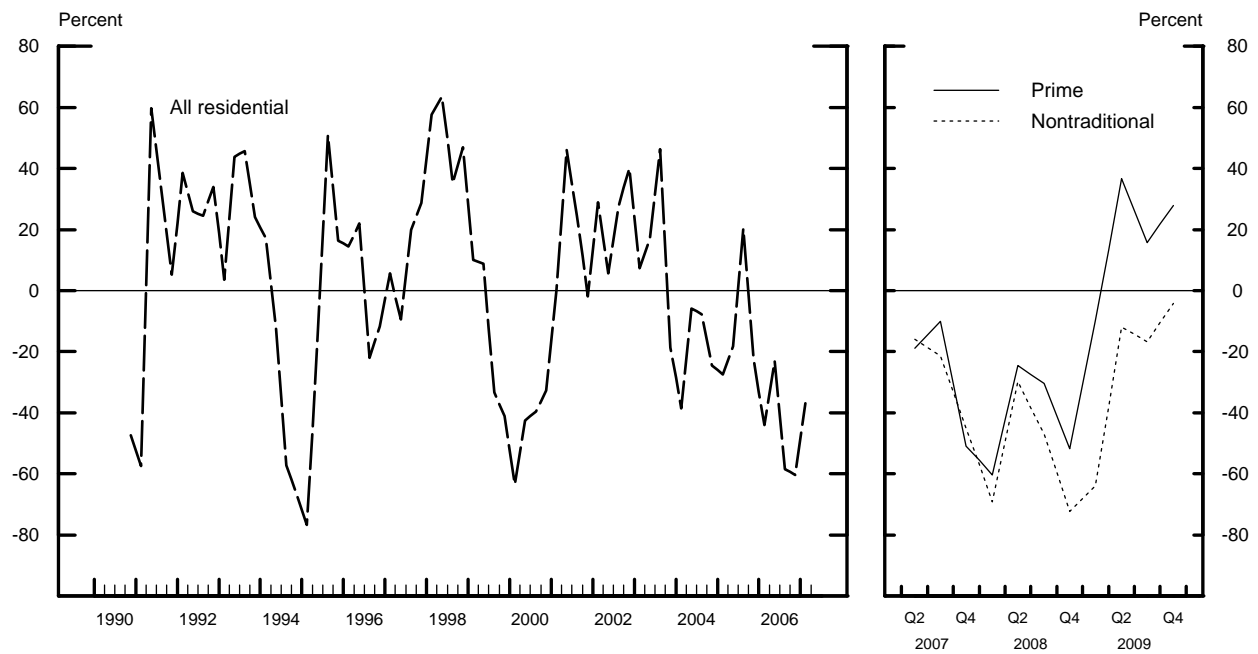
Measures of Supply and Demand for Residential Mortgage Loans

Net Percentage of Domestic Respondents Tightening Standards for Residential Mortgage Loans



Note: For data starting in 2007:Q2, changes in standards for prime and nontraditional mortgage loans are reported separately.

Net Percentage of Domestic Respondents Reporting Stronger Demand for Residential Mortgage Loans



Note: For data starting in 2007:Q2, changes in demand for prime and nontraditional mortgage loans are reported separately.

foreign banks, respectively, also reported paydowns of bridge loans and paydowns of draws on revolving credit lines as being “very” important. More than one-half of the respondents, on a weighted basis, also reported an increased incidence of term loans not being rolled over or extended, and increased write-downs as “very” or “somewhat” important sources of the decline in C&I loans.

Questions on commercial real estate lending. About 35 percent of domestic respondents reported tightening standards on CRE loans in the latest survey, a slightly smaller fraction than the 45 percent that reported having done so in July. The net percentage of respondents that reported weaker demand for CRE loans remained high by historical standards at about 45 percent, but this fraction dropped almost 20 percentage points relative to July. About 20 percent of foreign respondents, on net, reported tighter credit standards and weaker demand for CRE loans, down somewhat from the July survey.

Special Question on Commercial Real Estate Lending

The October survey included a special question on the status of CRE loans on banks’ books that, at the beginning of 2009, were scheduled to mature by September of this year. The question focused on construction and land development loans and loans secured by nonfarm nonresidential real estate. Among the domestic respondents that reported possessing such maturing CRE loans, about 85 percent, on a weighted basis, reported that they had extended more than one-fourth of them.⁵ In contrast, weighted fractions of only about 15 percent and 25 percent of domestic banks reported that they had refinanced more than one-fourth of maturing construction and land development loans and maturing loans secured by nonfarm nonresidential real estate, respectively. In general, large banks tended to extend more of their maturing CRE loans than small banks.

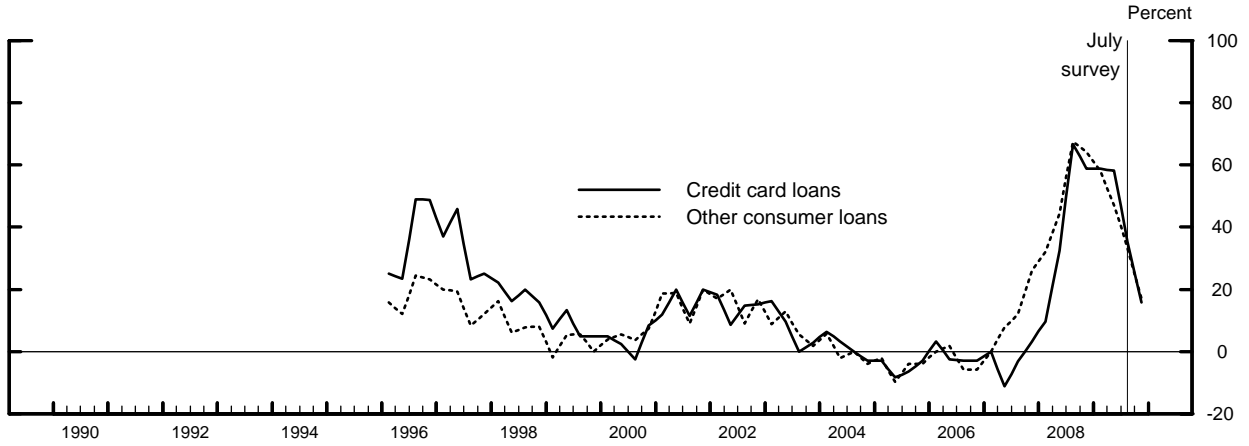
Lending to Households

Questions on residential real estate lending. About 25 percent of banks, on net, reported in the latest survey that they had tightened standards on prime residential real estate loans over the past three months. This figure is slightly higher than in the July survey but is still significantly below the peak of about 75 percent that was reported in July 2008. For the third consecutive quarter, banks reported that demand for prime residential real estate loans strengthened on net. About 30 percent of banks reported tightening standards on nontraditional mortgage loans, which represents a 15 percentage point decline in net tightening from the July survey. Only about 5 percent of domestic respondents, on net, reported weaker demand for nontraditional mortgages, the smallest net fraction reporting so since the survey began to include questions on the demand for nontraditional mortgages in April 2007.

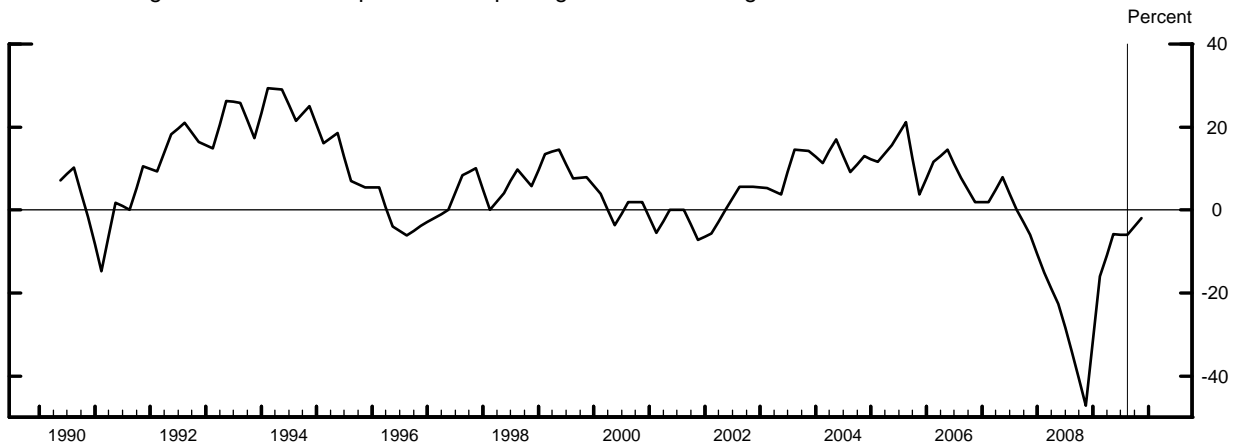
⁵ Data from commercial bank Call Reports were used to weight individual responses by the amount of CRE loans booked in domestic offices outstanding at the end of the second quarter for each type of CRE loan.

Measures of Supply and Demand for Consumer Loans

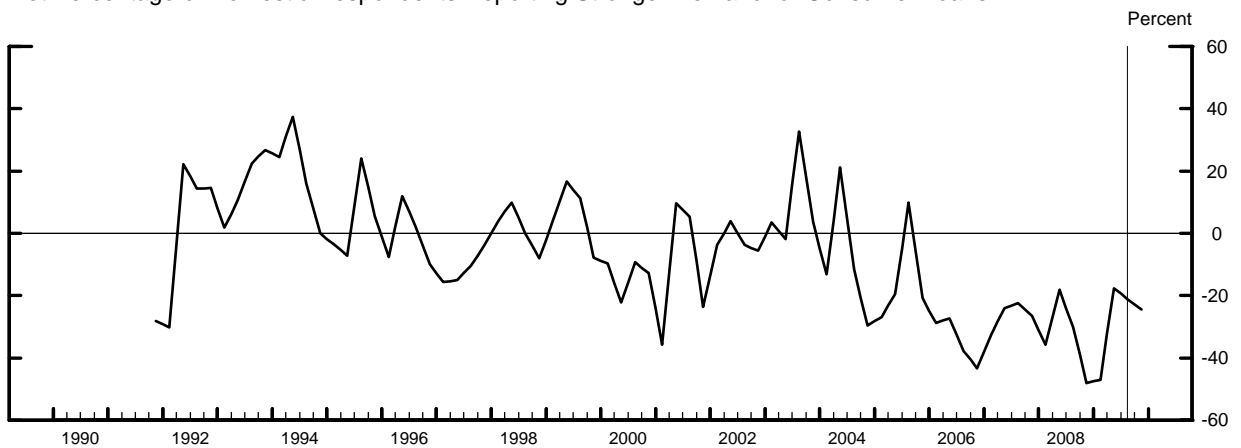
Net Percentage of Domestic Respondents Tightening Standards for Consumer Loans



Net Percentage of Domestic Respondents Reporting Increased Willingness to Make Consumer Installment Loans



Net Percentage of Domestic Respondents Reporting Stronger Demand for Consumer Loans



The net percentage of respondents that tightened standards on revolving home equity lines of credit was about 30 percent, roughly the same as in the previous survey. A net fraction of 30 percent of banks reported weaker demand for home equity lines of credit, compared with about 15 percent in the previous survey.

Question on consumer lending. About 15 percent of respondents reported tightening standards for credit card loans to individuals or households, down from the 35 percent that reported doing so in the previous survey and the smallest net percentage reported since April 2008. Sizable net fractions of banks—between 30 and 40 percent—continued to report a tightening of various terms and conditions on credit card loans, including credit limits, interest rate spreads, minimum required credit scores, and willingness to grant loans to customers who do not meet credit-scoring thresholds.

About 15 percent of banks, on net, reported having tightened standards on consumer loans other than credit card loans, down from the 35 percent that reported having done so in the previous survey and the smallest net percentage of tightening recorded since January 2008. With the exception of interest rate spreads, which nearly 35 percent of banks reported having widened, reports of tighter terms on other consumer loans were also less widespread.

For consumer loans of all types, 25 percent of banks reported weaker demand, roughly the same as in the July survey.

Special Question on the Credit CARD Act of 2009

The October survey included a special question on banks' expectations with regard to the effects of the Credit CARD Act of 2009. Of the banks that make credit card loans, 75 percent did not expect to be compliant with the provisions of the legislation until February 2010, when most of the provisions will go into effect, while the rest were either already compliant or expected to be compliant by the end of this year. Weighted by credit card loans booked in domestic offices, about 90 percent did not expect to be in compliance until February 2010.⁶

As a result of the act, banks reported that they expect to tighten (or have already tightened) many terms on credit card loans for both prime and nonprime borrowers, although small fractions of banks reported, on net, that they expected to lengthen grace periods for prime borrowers and decrease penalty fees for both prime and nonprime borrowers. The decrease in penalty fees is consistent with the provisions of the legislation that restrict the conditions under which banks may impose such fees. When responses are weighted, significantly larger fractions of banks

⁶ Data from commercial bank Call Reports were used to weight individual responses by the amount of credit card loans booked in domestic offices outstanding at the end of the second quarter for all the commercial bank subsidiaries within a given parent holding company. Many credit card loans made at the commercial banks in the sample are booked at various other commercial bank subsidiaries within the parent holding company.

reported easing penalty fees for both prime and nonprime borrowers.

For both prime and nonprime borrowers, majorities of respondents expected to increase interest rate spreads, raise minimum required credit scores, reduce credit limits, and reduce the extent to which loans will be granted to customers who do not meet credit-scoring thresholds.

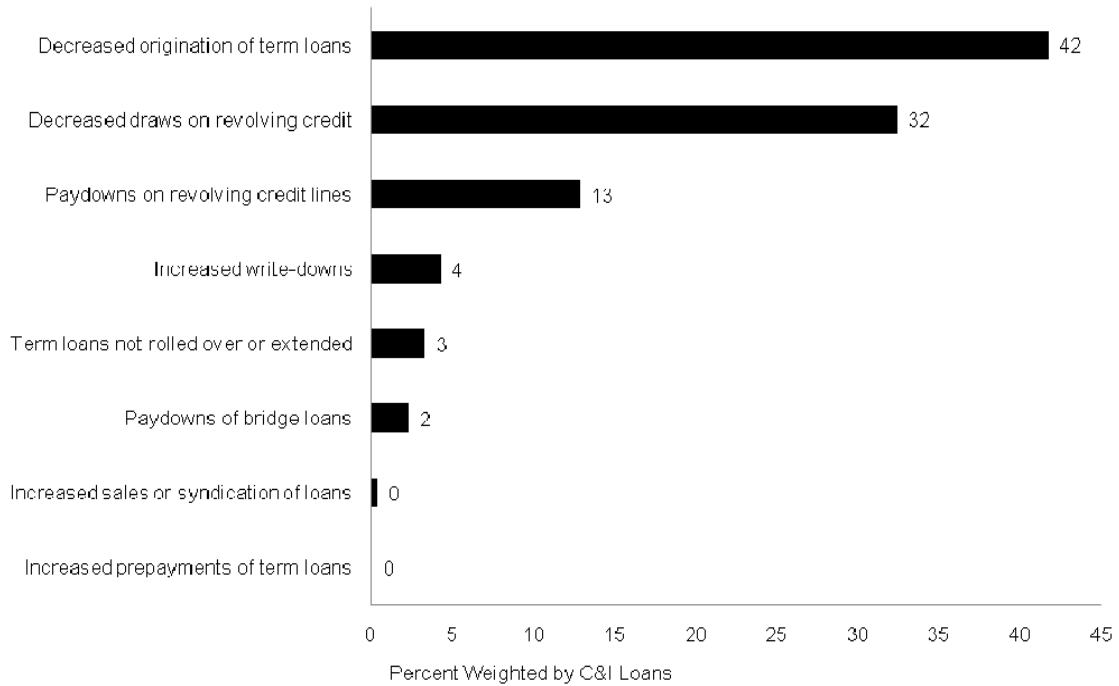
Expectations for considerable degrees of tightening were more common for loans to nonprime borrowers. On a weighted basis, substantial majorities of respondents, on net, expected to increase interest rate spreads, raise minimum required credit scores, and reduce credit limits.

The survey also included two questions on interest rate practices for credit card loans. A net fraction of about 35 percent of banks expected to increase the use of risk-based pricing. A similar fraction of banks expected to increase the use of variable interest rates and decrease the use of fixed interest rates, but when weighted by credit card loans outstanding, this fraction is about 75 percent.

Questions on existing credit lines. As in the July survey, sizable net fractions of domestic respondents reported decreasing the sizes of credit lines for existing customers on most types of accounts. For certain loan categories, such as home equity lines of credit, commercial construction lines of credit, and lines of credit for financial firms, the net percentages of banks reporting such adjustments increased.

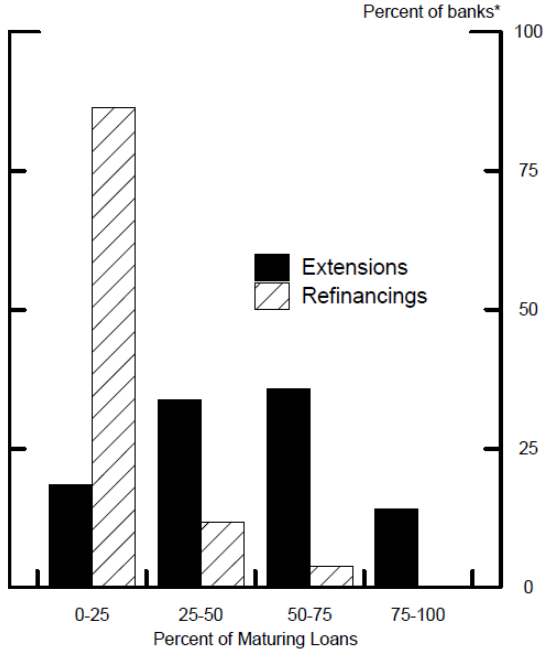
As in the July survey, considerable net fractions of foreign respondents reported decreasing the sizes of credit lines for existing customers on C&I credit lines, commercial construction lines of credit, and lines of credit to financial firms. Nevertheless, the net percentages of foreign banks reporting such changes edged down from their levels in the July survey.

Percentage of Domestic Banks Reporting Each of the Following Was a "Very" Important Source in the Contraction of C&I Loans



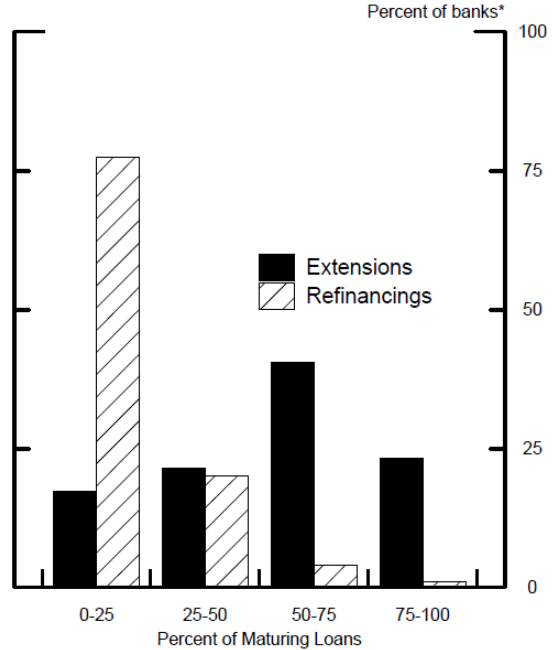
Distribution of Extensions and Refinancings of Maturing CRE Loans Across Domestic Banks

Construction and Land Development Loans



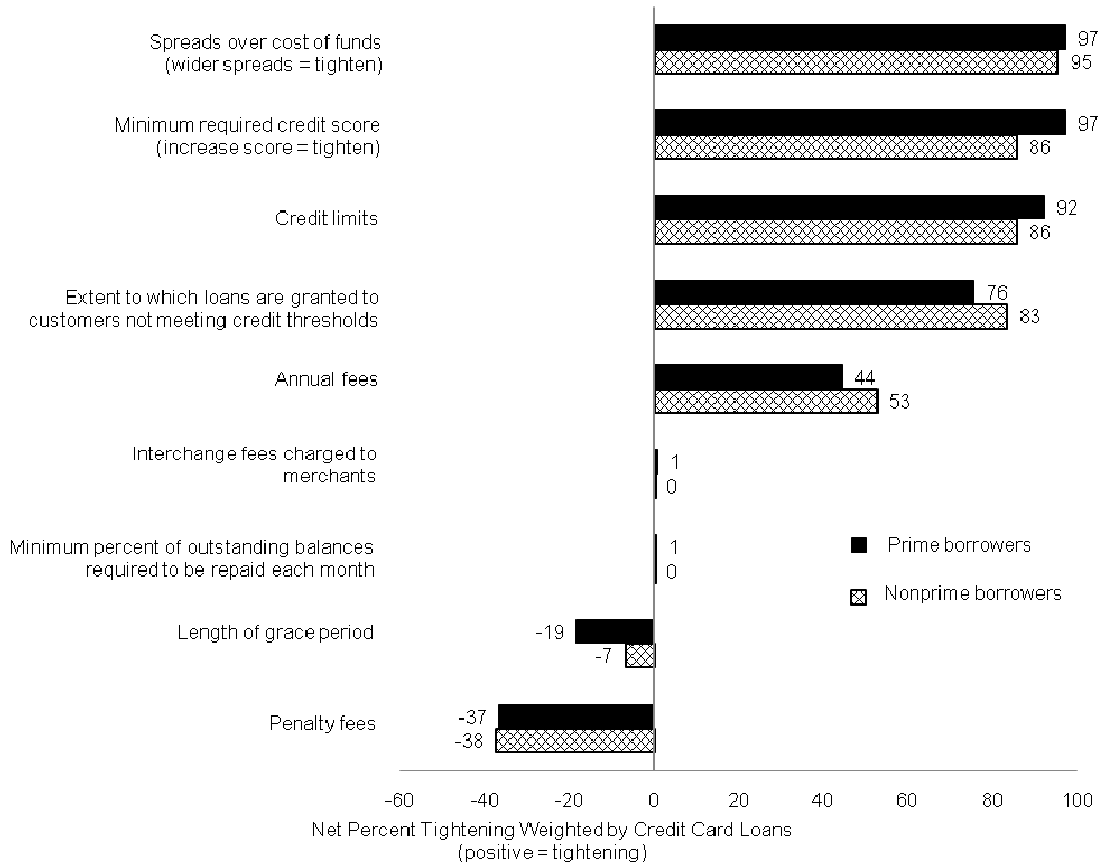
*Weighted by construction and land development loans.

Loans Secured by Nonfarm/Nonresidential Real Estate



*Weighted by loans secured by nonfarm/nonresidential real estate.

Effect of Credit CARD Legislation on Credit Card Terms



International Developments

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International Developments

U.S. International Transactions

Trade in Goods and Services

The U.S. international trade deficit narrowed to \$30.7 billion in August, from \$31.9 billion in July, the result of a small increase in exports and a decrease in imports.

Trade in Goods and Services

	2008	Annual rate			Monthly rate		
		2009			2009		
		Q1	Q2	Q3 ^e	June	July	Aug.
Percent change							
<i>Nominal BOP</i>							
Exports	-3.4	-40.7	-4.6	19.2	2.1	2.5	.2
Imports	-7.3	-55.4	-11.4	26.6	2.5	4.9	-6
<i>Real NIPA</i>							
Exports	-3.4	-29.9	-4.1	...	...	...	...
Imports	-6.8	-36.4	-14.7	...	...	...	...
Billions of dollars							
<i>Nominal BOP</i>							
Net exports	-695.9	-369.6	-332.0	-375.4	-27.5	-31.9	-30.7
Goods, net	-840.2	-496.1	-461.9	-508.0	-38.3	-42.8	-41.9
Services, net	144.3	126.5	129.9	132.6	10.8	10.9	11.2

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

BOP Balance of payments.

NIPA National income and product accounts.

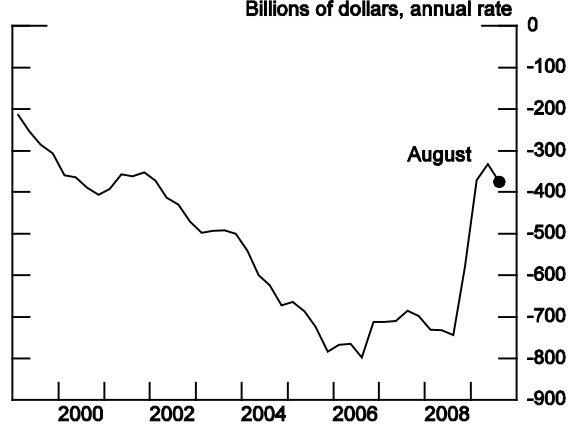
^e BOP data are two months at an annual rate.

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; Census Bureau.

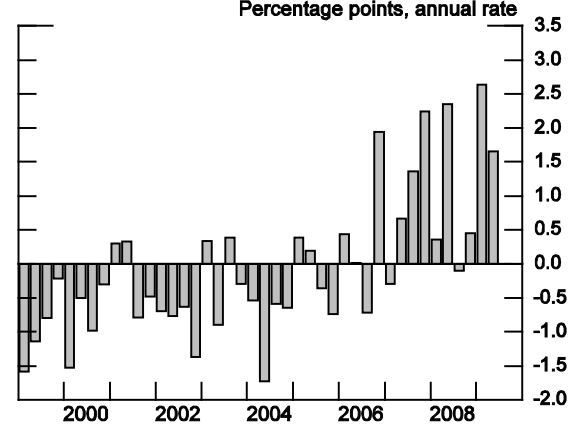
The value of exports of goods and services moved up 0.2 percent in August, following a robust 2.5 percent gain in July. The August increase was primarily accounted for by an increase in exports of services, with exports of goods exhibiting only a very mild increase. Among major categories, exports of aircraft showed a marked decline, with exports of computers and consumer goods recording more modest decreases. In contrast, exports of automotive products and industrial supplies showed noteworthy increases. Higher automotive exports likely reflected the continuing recovery in U.S. automakers' production, while the increase in exports of industrial supplies reflected higher prices.

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

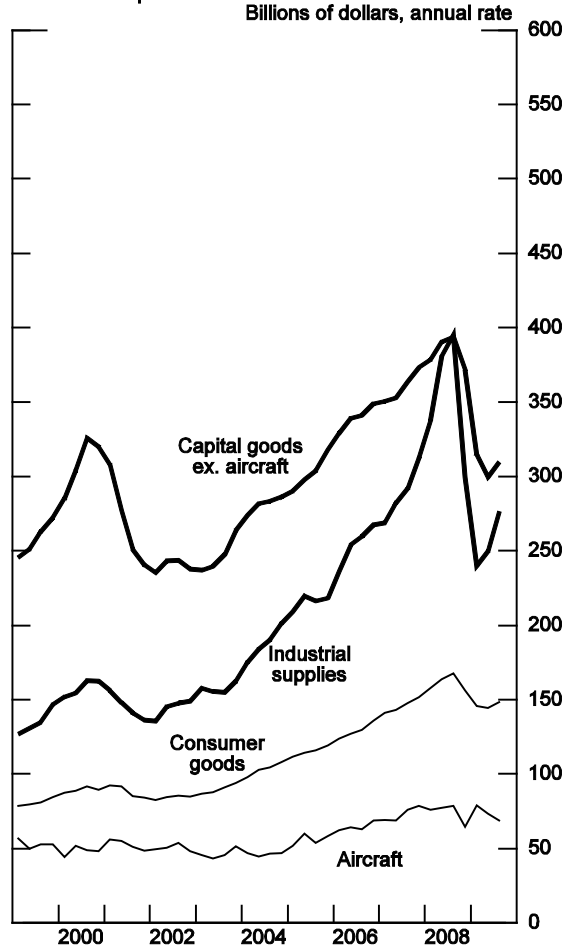
Trade Balance



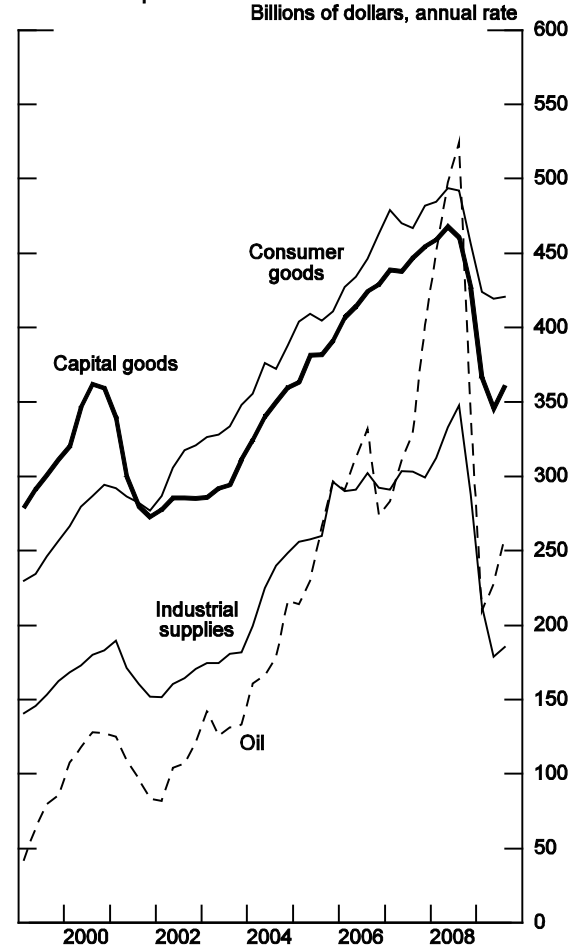
Contribution of Net Exports to Growth of Real Gross Domestic Product



Selected Exports



Selected Imports



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; Census Bureau.

U.S. Exports and Imports of Goods and Services
(Billions of dollars; annual rate, balance of payments basis)

	Levels				Change ¹			
	2009		2009		2009		2009	
	Q2	Q3 ^e	July	Aug.	Q2	Q3 ^e	July	Aug.
Exports of goods and services	1471.3	1537.3	1536.0	1538.7	-17.5	66.1	37.4	2.7
Goods exports	984.5	1041.4	1041.2	1041.6	-13.0	56.8	32.6	.4
Gold	12.3	13.9	12.7	15.2	-1.5	1.6	.8	2.4
Other goods	972.2	1027.4	1028.4	1026.4	-11.4	55.2	31.8	-2.0
Capital goods	373.1	378.2	386.1	370.3	-20.7	5.1	9.0	-15.8
Aircraft & parts	73.4	68.8	76.0	61.6	-5.6	-4.6	1.8	-14.4
Computers & accessories	35.5	37.9	39.1	36.6	-1.4	2.4	4.0	-2.5
Semiconductors	35.0	38.6	38.5	38.8	1.6	3.6	1.6	.2
Other capital goods	229.2	232.9	232.5	233.3	-15.3	3.7	1.6	.8
Automotive	66.7	84.6	81.6	87.5	-3.4	17.8	16.1	6.0
Ind. supplies (ex. ag., gold)	249.8	276.3	272.4	280.3	9.6	26.5	4.6	8.0
Consumer goods	144.2	148.4	149.3	147.6	-1.8	4.3	4.5	-1.7
Agricultural	101.0	100.0	98.8	101.2	6.6	-.9	-4.9	2.4
All other goods	37.4	39.9	40.3	39.4	-1.7	2.4	6.8	-.8
Services exports	486.7	495.9	494.8	497.1	-4.6	9.2	4.8	2.4
Imports of goods and services	1803.3	1912.7	1918.2	1907.2	-55.1	109.4	89.7	-11.0
Goods imports	1446.5	1549.4	1554.2	1544.5	-47.2	102.9	85.6	-9.7
Oil	227.8	260.0	267.7	252.3	18.9	32.2	8.5	-15.4
Gold	8.4	8.9	10.1	7.7	1.1	.5	-1.3	-2.5
Other goods	1210.3	1280.5	1276.5	1284.6	-67.2	70.2	78.4	8.1
Capital goods	345.6	360.8	361.2	360.4	-20.7	15.1	14.9	-.8
Aircraft & parts	31.4	29.3	33.6	24.9	1.2	-2.2	2.1	-8.7
Computers & accessories	84.4	94.5	95.0	94.1	3.8	10.1	5.9	-.9
Semiconductors	20.4	22.0	21.2	22.8	1.4	1.6	.4	1.6
Other capital goods	209.4	215.0	211.4	218.5	-27.1	5.5	6.4	7.1
Automotive	126.8	168.2	161.2	175.1	-2.6	41.4	28.3	13.9
Ind. supplies (ex. oil, gold)	178.7	185.2	182.2	188.2	-34.2	6.5	9.4	6.0
Consumer goods	419.1	421.0	425.2	416.7	-4.4	1.8	20.4	-8.5
Foods, feeds, beverages	81.5	81.1	81.9	80.3	-.2	-.3	-.4	-1.6
All other goods	58.6	64.3	64.8	63.8	-5.1	5.7	5.9	-1.0
Services imports	356.8	363.3	363.9	362.7	-8.0	6.5	4.1	-1.2
Memo:								
Oil quantity (mb/d)	11.62	10.99	11.58	10.39	-2.16	-.65	-.08	-1.20
Oil import price (\$/bbl)	53.70	64.88	63.26	66.50	12.10	11.16	2.41	3.24

1. Change from previous quarter or month.

e Estimate based on average of two months.

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; Census Bureau.

The average value of exports in July and August surged 19.2 percent at an annual rate, the first quarterly increase since the third quarter of 2008. With the exception of aircraft, all major categories of exports rose. About two thirds of the overall gain was accounted for by significant jumps in exports of automotive products and industrial supplies, with the increase in the latter partly reflecting higher prices.

The value of imports of goods and services decreased 0.6 percent in August, after rebounding strongly in June and July. The August decrease was led by a decline in the value of oil imports, which wholly reflected lower volumes, as prices moved up. Imports of aircraft and consumer goods also recorded notable decreases. In contrast, imports of machinery, automotive products, and industrial supplies increased significantly. As with exports, the increase in automotive imports continued to reflect, in part, a recovery in North American auto production, while the increase in imports of industrial supplies reflected higher prices.

The average value of imports in July and August rose 26.6 percent at an annual rate, interrupting a string of three consecutive quarterly declines. Nearly all major categories rose. Imports of automotive products and oil recorded the largest increases, although the increase in the value of oil imports reflected higher prices, as volumes remained essentially flat. Imports of computers, machinery, industrial supplies, and services showed somewhat more moderate increases, while imports of aircraft registered a small decrease.

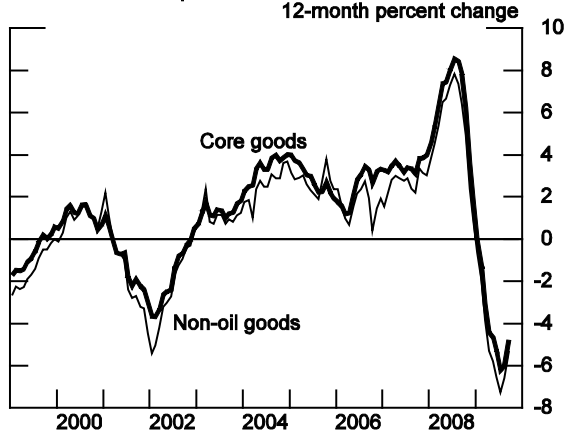
Prices of Internationally Traded Goods

Non-oil imports. Prices for imported core goods rose 0.7 percent in September, the largest increase since July 2008. The increase largely reflected higher prices of material-intensive goods, and in particular, prices for non-fuel industrial supplies. Prices for finished goods were essentially flat across all major subcategories.

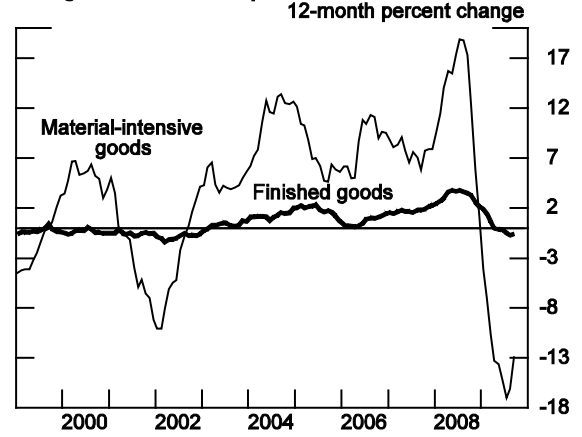
In the third quarter, core import prices, as measured by the Bureau of Labor Statistics (BLS), increased 2¼ percent at an annual rate, primarily due to a more than 7 percent increase in prices of material intensive goods. Prices of finished goods increased a modest ¼ percent, as lower prices for consumer goods largely offset higher prices for automotive products and capital goods.

Prices of U.S. Imports and Exports

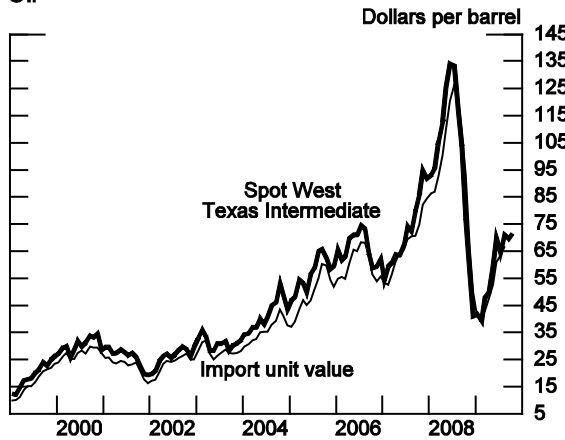
Merchandise Imports



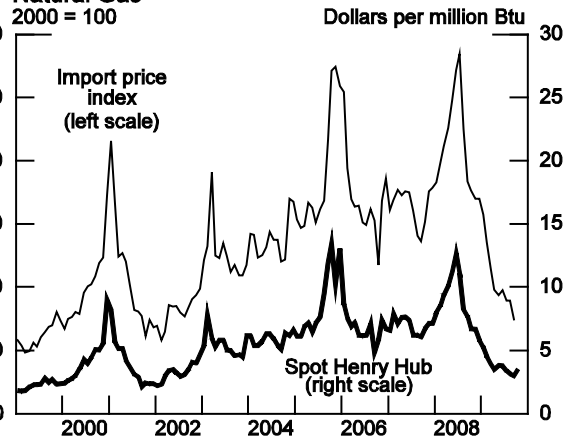
Categories of Core Imports



Oil



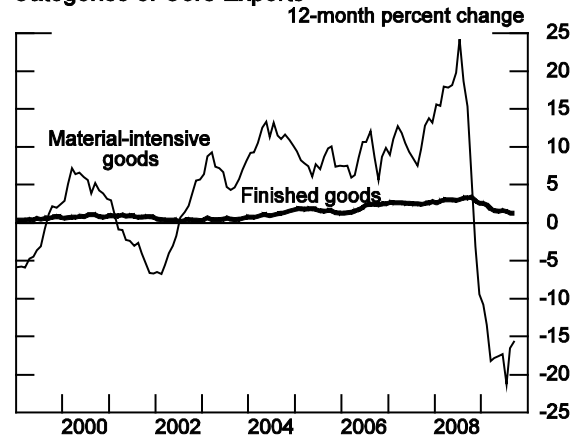
Natural Gas



Merchandise Exports



Categories of Core Exports



Source: Bureau of Labor Statistics; Wall Street Journal; Commodity Research Bureau.

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

	Annual rate			Monthly rate		
	2009			2009		
	Q1	Q2	Q3	July	Aug.	Sept.
	----- BLS prices -----					
Merchandise imports	-24.3	14.9	11.7	-7	1.6	.1
Oil	-72.6	246.9	86.5	-2.5	7.7	-1.1
Non-oil	-10.9	-3.3	1.0	-2	.3	.4
Core goods ¹	-11.3	-1.2	2.2	-2	.4	.7
Finished goods	-1.2	-.5	.2	-.0	-.0	.1
Cap. goods ex. comp. & semi.	-.7	-1.4	.4	.1	.0	.0
Automotive products	-.5	.0	1.9	.2	.2	.1
Consumer goods	-1.8	-.1	-.9	-.3	-.1	.1
Material-intensive goods	-30.1	-2.9	7.1	-.5	1.3	2.3
Foods, feeds, beverages	-9.6	.8	.8	-1.1	1.3	.4
Industrial supplies ex. fuels	-35.4	-4.2	8.8	-.3	1.4	2.8
Computers	-8.3	-4.2	1.3	.6	.0	.2
Semiconductors	-10.9	7.1	-7.1	-2.1	.5	.0
Natural gas	-61.0	-74.8	-41.0	-8.4	-.1	-16.5
Merchandise exports	-8.8	2.4	3.5	-.3	.7	-.3
Core goods ²	-11.1	2.6	3.8	-.5	.8	-.4
Finished goods	1.6	.4	1.9	.2	.1	.0
Cap. goods ex. comp. & semi.	3.1	2.5	1.8	.3	.1	.0
Automotive products	.5	-.6	-.7	-.2	.1	.0
Consumer goods	-1.2	-3.9	4.3	.5	.2	.1
Material-intensive goods	-24.4	5.3	6.2	-1.3	1.6	-.9
Agricultural products	-12.3	19.6	-7.6	-4.9	.2	-2.8
Industrial supplies ex. ag.	-28.4	1.3	11.6	-.1	2.1	-.2
Computers	-9.1	-3.4	.9	-.5	.3	2.0
Semiconductors	7.4	12.3	5.2	1.2	.1	.1
	----- NIPA prices -----					
Chain price index						
Imports of goods & services	-28.3	4.2	n.a.	...	...	...
Non-oil merchandise	-10.5	-3.9	n.a.	...	...	...
Core goods ¹	-9.4	-2.3	n.a.	...	...	...
Exports of goods & services	-12.6	.1	n.a.	...	...	...
Total merchandise	-14.8	1.9	n.a.	...	...	...
Core goods ²	-12.5	2.4	n.a.	...	...	...

1. Excludes computers, semiconductors, and natural gas.

2. Excludes computers and semiconductors.

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

BLS Bureau of Labor Statistics.

NIPA National income and product accounts.

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; Bureau of Labor Statistics.

Oil. Following a 1.6 percent increase in August, the Bureau of Labor Statistics price index of imported oil was flat in September, increasing only 0.1 percent. The spot price of West Texas intermediate (WTI) crude oil averaged just above \$69 per barrel in September, not materially different from the previous month's average price. In recent weeks, however, spot WTI has increased sharply, closing most recently on October 27 at \$79.55 per barrel. The upward movement in oil prices is surprising, although some analysts have pointed to a more positive assessment of global growth prospects as well as U.S. data pointing to a more rapid pace of inventory drawdown than had previously been expected.

Exports. Core exports prices fell 0.4 percent in September following a 0.8 percent increase in August. The lower September prices primarily reflected a decline in the prices of exported agricultural products. Prices for finished goods were flat.

In the third quarter, core export prices on a BLS basis increased $3\frac{3}{4}$ percent at an annual rate. An $11\frac{1}{2}$ percent increase in prices for industrial supplies contributed to the increase. Prices for exports of finished goods rose almost 2 percent, led by higher prices for consumer goods.

U.S. International Financial Transactions

Since the previous Greenbook, we have received Treasury data on international financial transactions which indicate the recent trend of portfolio reallocations toward riskier securities continued in August. Private foreign investors sold U.S. Treasury securities and purchased U.S. equities, and U.S. investors purchased a sizable amount of foreign equities. Foreign official purchases of U.S. Treasury securities remained strong in August, although purchases were below the levels recorded at the height of the financial crisis.

Foreign official inflows in August (see line 1 of the table "Summary of U.S. International Transactions"; see also the figure "Foreign Official Financial Inflows through August 2009") eased a bit to \$21 billion.

. More recent custody data from the FRBNY suggest that the pace of foreign official inflows into Treasury securities accelerated in September and October, consistent with reports of greater intervention activity by foreign monetary authorities.

Foreign private demand for U.S. securities remained weak in August, as private foreigners on net sold \$16 billion in U.S. securities (line 4 of the table and the middle-right panel of the figure “Private Securities Flows through August 2009”). Foreign private investors purchased modest amounts of agency debt (line 4b) and corporate stocks (line 4d), but continued to sell U.S. corporate debt (line 4c). In the years prior to the financial crisis, foreign investors had typically purchased a significant percentage of new issues of U.S. corporate debt. Despite the pick-up in issuance of U.S. corporate debt in 2009, however, foreign investors have on net sold a significant amount of corporate bonds. This lack of interest may reflect the larger share of recent issuance accounted for by nonfinancial firms, as foreign investors have tended to favor debt issued by financial firms.

Financial outflows associated with U.S. investors’ net purchases of foreign securities slowed in August (line 5 and the bottom panels of the figure “Private Securities Flows through August 2009”). Strong net purchases of foreign stocks by U.S. investors were offset by net sales of foreign bonds.

Central banks’ outstanding drawings on the Federal Reserve swap lines declined further to \$33 billion as of October 23, which reflects further normalization of the funding markets. The official inflows associated with the unwinding of these swaps are included in line 2. There were small net inflows associated with net private bank borrowing in August (line 3).

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

	2007	2008	2008		2009			
			Q3	Q4	Q1	Q2	July	Aug.
Official financial flows	451.1	-54.6	-108.9	-286.5	313.5	316.1	82.6	32.9
1. Change in foreign official assets in the U.S. (increase, +)	475.2	480.0	117.5	-17.9	70.7	124.6	44.9	20.5
a. G-10 countries + ECB	36.8	-8.4	8.9	-16.0	-7.4	15.5	6.6	5.7
b. OPEC	33.0	45.5	16.1	-3.4	-5.0	-0.3	-0.5	1.4
c. All other countries	405.5	430.0	92.5	-11.4	83.1	117.4	38.8	13.4
2. Change in U.S. official assets (decrease, +) ¹	-24.1	-534.6	-226.4	-268.7	242.8	191.4	37.7	12.4
Private financial flows	212.5	559.7	252.0	374.8	-278.1	-257.8	...	...
Banks								
3. Change in net foreign positions of banking offices in the U.S. ²	-81.7	17.7	-86.7	316.8	-271.4	-200.8	-109.1	10.8
Securities³								
4. Foreign net purchases (+) of U.S. securities	673.9	68.6	-26.4	52.7	-3.8	-8.0	-14.8	-15.6
a. Treasury securities	67.1	196.4	78.5	81.6	52.4	-22.4	-19.1	-17.9
b. Agency bonds	-8.6	-186.6	-71.8	-21.5	-49.7	-0.3	-1.8	2.2
c. Corporate and municipal bonds	384.7	2.5	-35.4	-3.8	-12.5	-21.0	-17.5	-9.7
d. Corporate stocks ⁴	230.7	56.4	2.4	-3.6	6.0	35.7	23.5	9.8
5. U.S. net acquisitions (-) of foreign securities	-366.8	45.9	75.9	57.6	-35.2	-91.9	-31.5	-7.1
a. Bonds	-218.5	46.6	61.8	23.1	-33.9	-54.6	-15.9	7.3
b. Stock purchases	-136.4	6.4	14.1	38.8	0.6	-37.3	-15.6	-14.4
c. Stock swaps ⁴	-11.9	-7.1	0.0	-4.3	-1.9	0.0	0.0	0.0
Other flows⁵								
6. U.S. direct investment (-) abroad	-398.6	-332.0	-54.1	-84.5	-40.3	-44.9	...	...
7. Foreign direct investment in the U.S.	275.8	319.7	62.8	96.8	23.9	26.1	...	...
8. Net derivatives (inflow, +)	6.2	-28.9	-4.9	-17.7	7.2	11.3	...	...
9. Foreign acquisitions of U.S. currency	-10.7	29.2	5.8	29.9	11.8	-1.9	...	...
10. Other (inflow, +) ⁶	114.4	439.4	279.7	-76.8	29.6	52.2	...	...
U.S. current account balance⁵	-726.6	-706.1	-184.2	-154.9	-104.5	-98.8	...	...
Capital account balance⁷	-1.9	1.0	3.0	-0.7	-0.7	-0.7	...	...
Statistical discrepancy⁵	64.9	200.1	38.1	67.2	69.8	41.2	...	...

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. Includes changes in U.S. official reserve assets and in outstanding reciprocal currency swaps with certain foreign central banks.

2. 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.

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

4. Includes (4d) or represents (5c) stocks acquired through nonmarket means such as mergers and reincorporations.

5. Quarterly data; seasonally adjusted.

6. 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 and 8) since publication of the quarterly data in the Survey of Current Business.

7. Seasonally adjusted; consists of transactions in nonproduced nonfinancial assets and capital transfers.

G-10 Group of Ten (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, United Kingdom, United States).

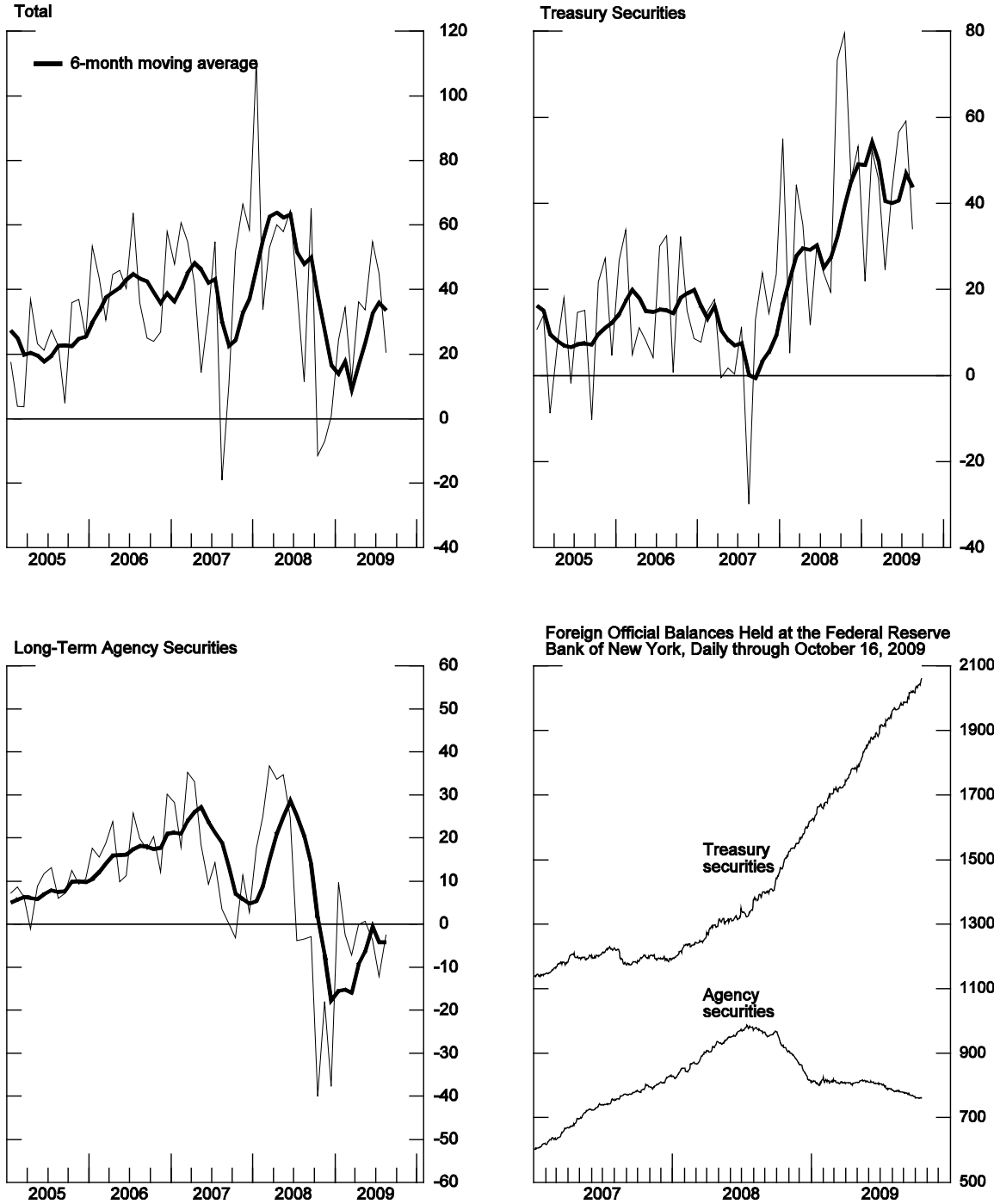
ECB European Central Bank.

OPEC Organization of the Petroleum Exporting Countries.

... Not applicable.

Source: U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Treasury International Capital reports with staff adjustments.

Foreign Official Financial Inflows (+) through August 2009
 (Billions of dollars; monthly rate, not seasonally adjusted)

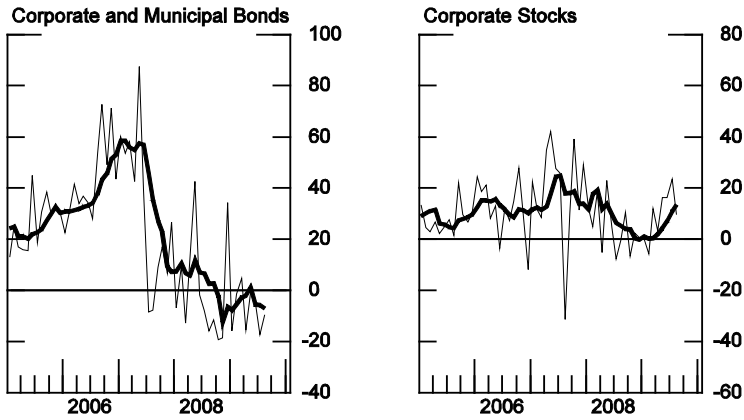
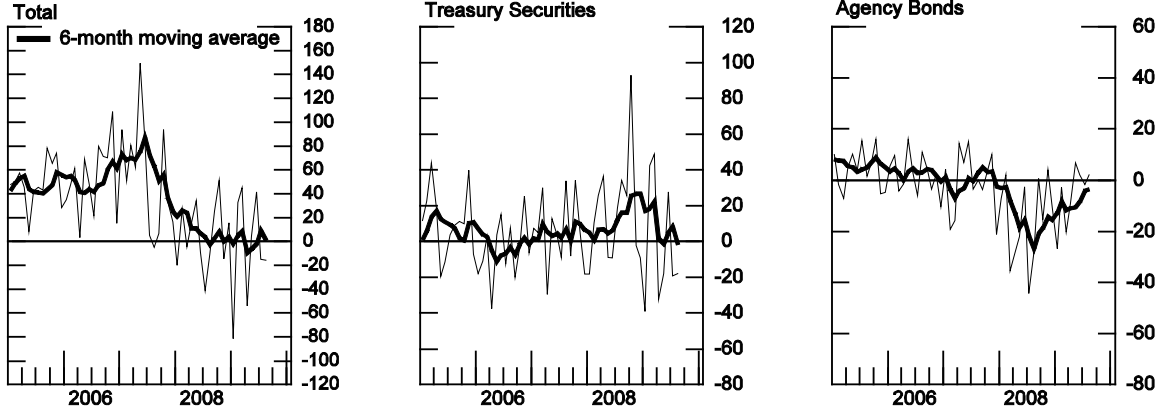


Note: Total foreign official inflows consists of net purchases of Treasury securities, long-term agency securities, short-term securities, corporate stocks and bonds, and bank flows.

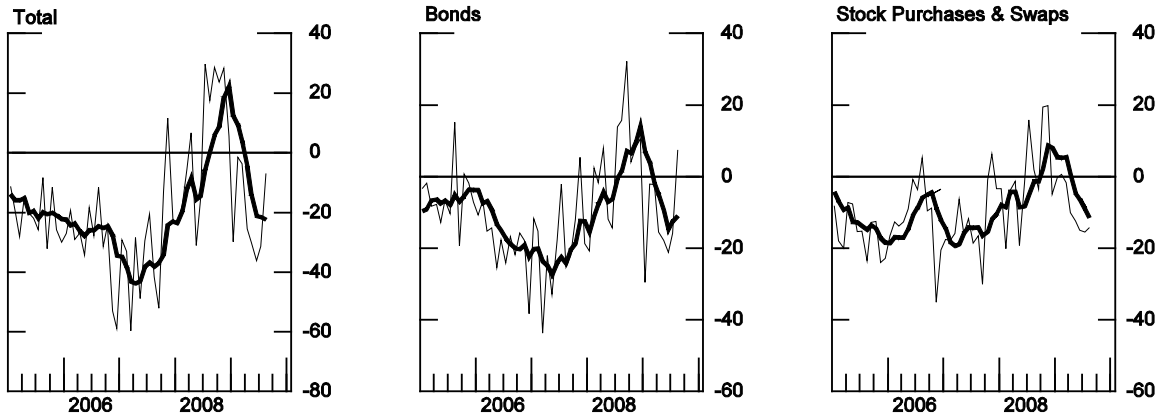
Source: U.S. Treasury International Capital reports with staff adjustments and the Federal Reserve Bank of New York.

Private Securities Flows through August 2009
 (Billions of dollars; monthly rate, not seasonally adjusted)

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



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



Source: For all figures, U.S. Treasury International Capital reports with staff adjustments.

Foreign Financial Markets

The trade-weighted index of the exchange value of the dollar against the major foreign currencies has depreciated slightly on net since the September Greenbook. Some further unwinding of the crisis-induced shift toward the dollar due to continued improvements in funding conditions and global economic outlook was subsequently reversed after the weaker-than-expected U.S. consumer confidence data revived concerns over the pace of an economic rebound. The dollar depreciated 1 percent on balance against the euro and the Canadian dollar and 6 percent against the Australian dollar, but appreciated 1 percent against the yen and sterling. Dollar weakness against the euro prompted President Trichet of the European Central Bank (ECB) to call for a strong dollar. Despite interventions by several Asian and Latin American central banks to stem appreciation of their currencies, the exchange value of the dollar against the other important trading partners of the United States has decreased slightly, with the dollar down 4 and 5 percent against the Brazilian real and Russian ruble, respectively, and 2 percent against the Korean won.

Expected policy rates (from OIS forwards) 12 months hence rose broadly in most major industrial economies on the improved foreign economic outlook. The Reserve Bank of Australia (RBA) became the first central bank among G-20 countries to hike rates since August 2008, raising its policy rate 25 basis points to 3.25 percent. Further tightening by the RBA is expected in November and December. Norges Bank also raised its policy rate 25 basis points to 1.5 percent. Expected policy rates have also risen in other major foreign industrial economies, despite indications that central banks will continue to remain accommodative for some time. The ECB left its policy rate unchanged at 1 percent, as expected. Its second 12-month long-term refinancing operation was again conducted at a fixed rate of 1 percent, which temporarily dampened market expectations that the ECB will begin to hike rates within the next year. The Bank of Canada kept its key policy rate unchanged and reiterated its intention to maintain its stance through mid-2010. The Bank of England kept its policy rate and its asset purchase program unchanged, as expected. Although the October Monetary Policy Committee minutes were seen by participants as suggesting earlier rate increases than had been previously expected, as well as a diminished likelihood for an increase in asset purchases, the weaker-than-expected Q3 GDP data pared back such expectations.

Ten-year sovereign yields were little changed in Europe and increased 8 and 12 basis points in Japan and Canada, respectively. Headline stock indexes fluctuated in a narrow range in most major industrial economies. Equity prices in most major emerging market

economies rose 4 to 16 percent, but in China and South Korea they were little changed. CDS spreads on emerging market sovereign debt continued to decline.

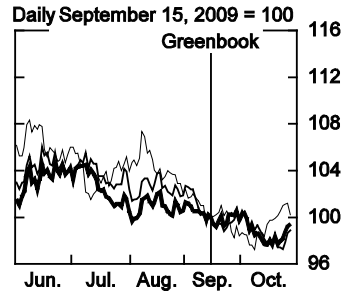
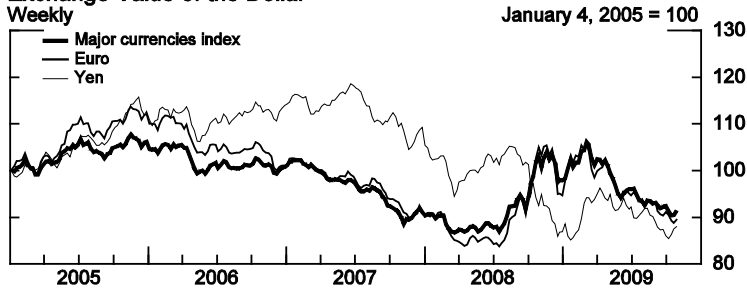
Exchange Value of the Dollar and Stock Market Indexes

	Latest	Percent change since September Greenbook
<i>Exchange rates*</i>		
Euro (\$/euro)	1.4821	-1.4
Yen (¥/\$)	92.040	1.2
Sterling (\$/£)	1.6334	0.6
Canadian dollar (C\$/\\$)	1.0644	-1.1
<i>Nominal dollar indexes*^</i>		
Broad index	102.1	-0.9
Major Currencies index	73.9	-0.8
OITP index	133.5	-1.1
<i>Stock market indexes</i>		
DJ Euro Stoxx	265	-0.3
TOPIX	895	-4.0
FTSE 100	5201	3.2
S&P 500	1063	1.0

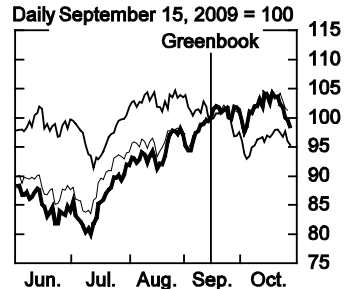
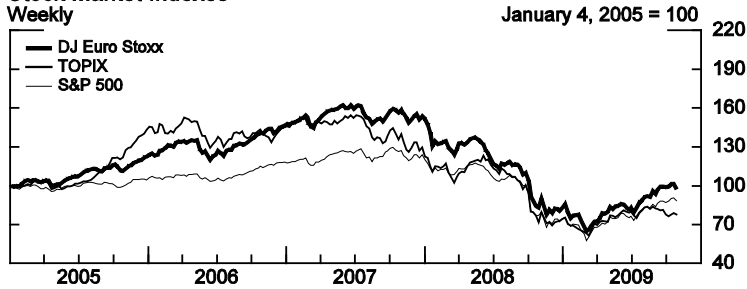
* Positive percent change denotes appreciation of U.S. dollar.

^ Indexed to 100 in Jan. 1997 for the Broad and OITP indexes and Mar. 1973 for the Major Currencies index.

Exchange Value of the Dollar
Weekly



Stock Market Indexes
Weekly



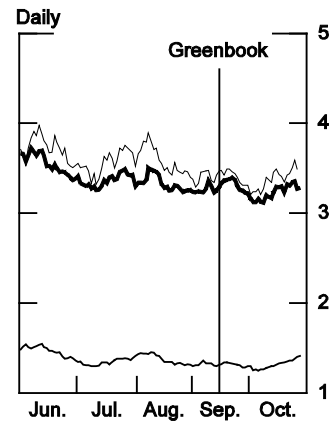
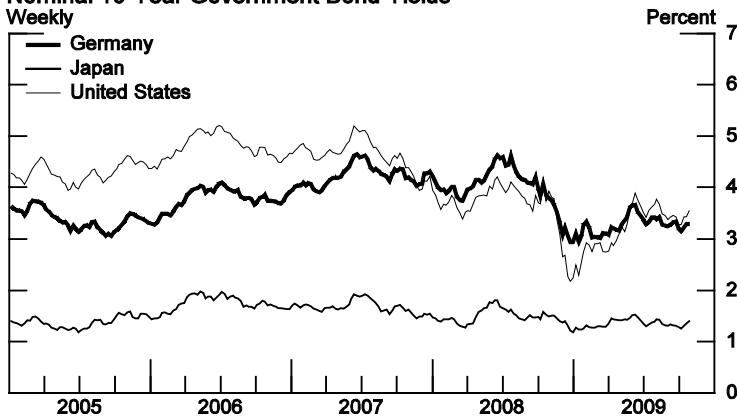
Industrial Countries: Nominal and Real Interest Rates

	Percent					
	3-month Libor		10-year nominal		10-year indexed	
	Latest	Change since Sep. Greenbook	Latest	Change since Sep. Greenbook	Latest	Change since Sep. Greenbook
Germany	0.68	-0.04	3.27	-0.02	1.04	0.02
Japan	0.32	-0.03	1.40	0.08	2.26	-0.05
United Kingdom	0.59	-0.02	3.61	-0.01	0.81	-0.20
Canada	0.50	-0.00	3.49	0.12	...	...
United States	0.28	-0.01	3.49	0.02	1.60	-0.12

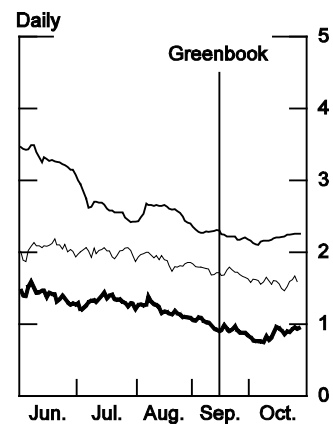
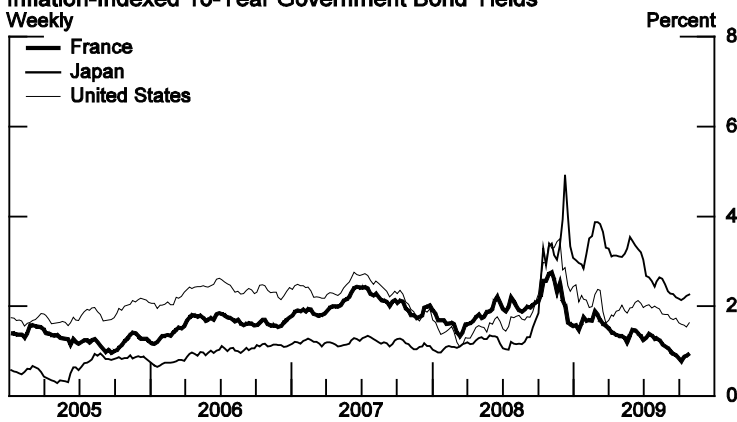
... Not applicable.

Libor: London interbank offered rate.

Nominal 10-Year Government Bond Yields
Weekly

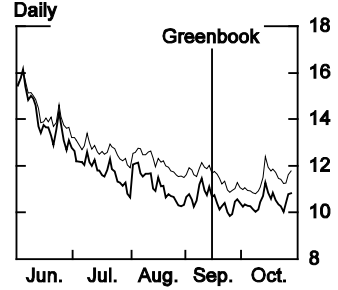
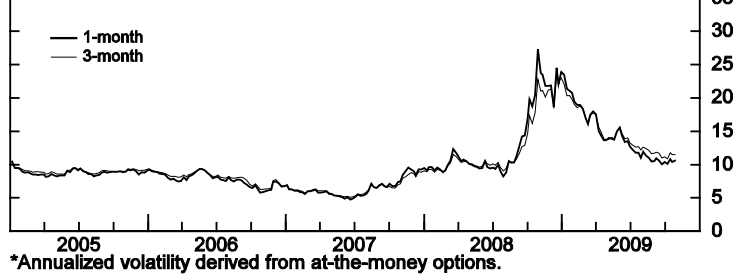


Inflation-Indexed 10-Year Government Bond Yields
Weekly

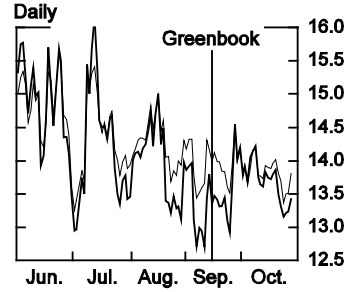
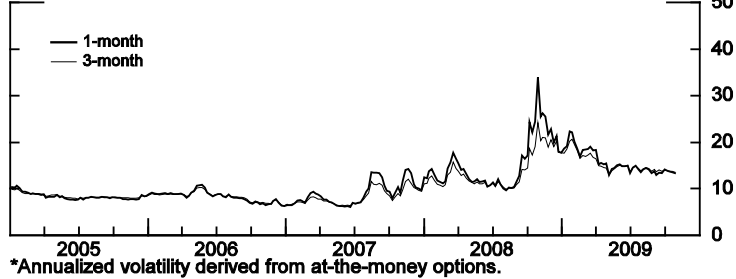


Measures of Market Volatility

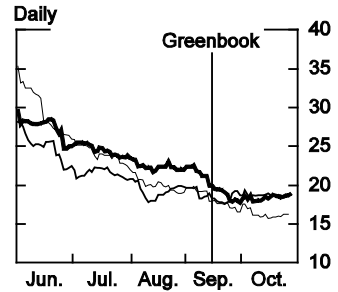
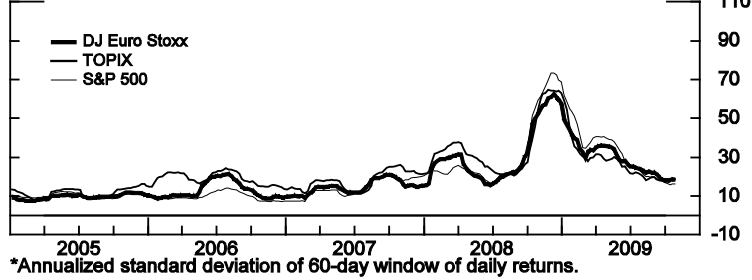
Dollar-Euro Options-Implied Volatility*
Weekly



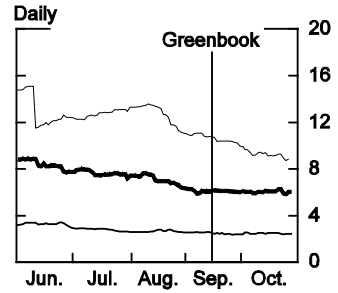
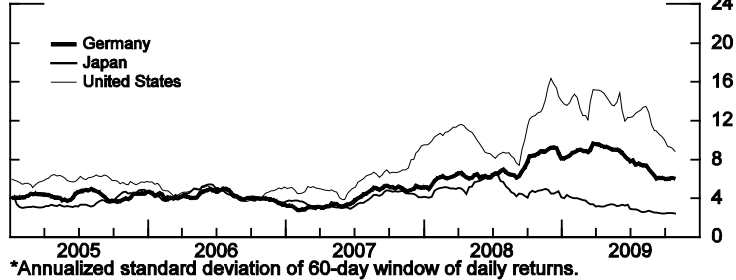
Yen-Dollar Options-Implied Volatility*
Weekly



Realized Stock Market Volatility*
Weekly



Realized 10-Year Bond Volatility*
Weekly

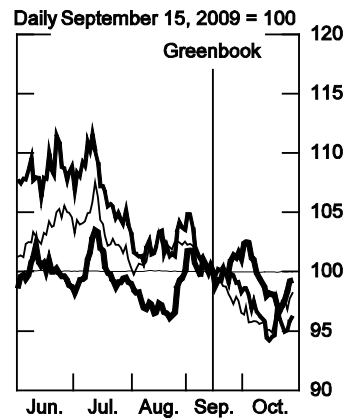
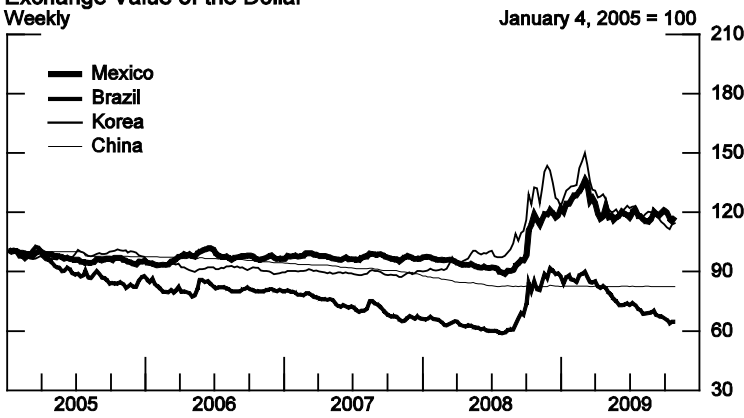


Emerging Markets: Exchange Rates and Stock Market Indexes

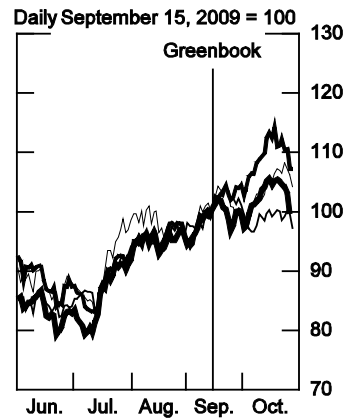
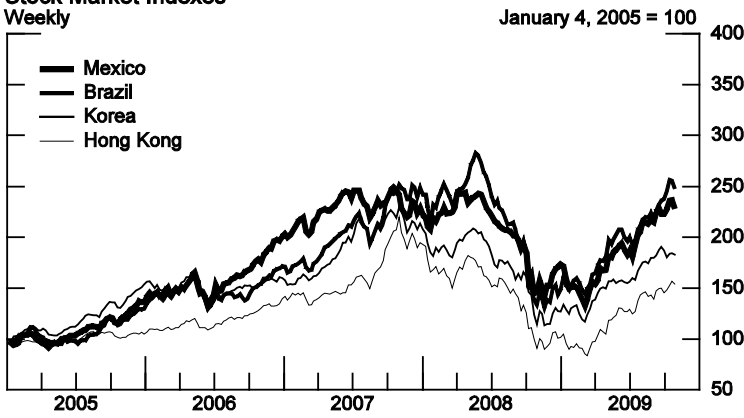
	<u>Exchange value of the dollar</u>		<u>Stock market index</u>	
	Latest	Percent change since Sep. Greenbook*	Latest	Percent change since Sep. Greenbook
Mexico	13.2300	-0.8	29313	-1.1
Brazil	1.7308	-4.2	63161	6.6
Venezuela	2.14	0.0	50100	-6.9
China	6.8292	0.0	3021	-0.4
Hong Kong	7.7495	-0.0	22170	6.2
Korea	1190.0	-2.3	1650	-0.2
Taiwan	32.46	-0.3	7657	4.2
Thailand	33.41	-1.4	715	1.6

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

Exchange Value of the Dollar
Weekly



Stock Market Indexes
Weekly



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

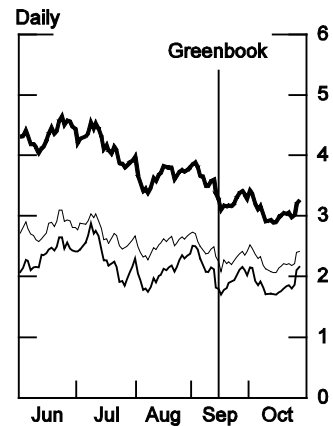
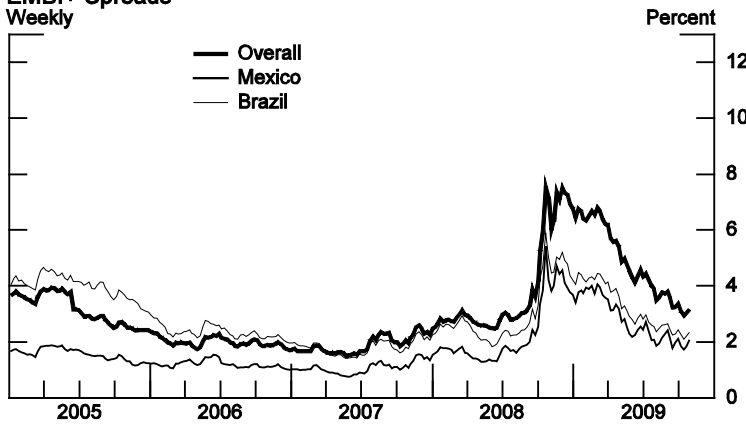
	Short-term interest rates*		Dollar-denominated bond spreads**	
	Latest	Change since Sep. Greenbook	Latest	Change since Sep. Greenbook
Mexico	4.53	0.04	2.10	0.31
Brazil	8.60	-0.40	2.40	0.16
Argentina	11.94	-0.50	6.75	-0.72
China	...	...	0.80	-0.06
Korea	2.10	0.00	...	...
Taiwan	1.11	-0.02	...	...
Singapore	0.31	0.00	...	...
Hong Kong	0.07	-0.07	...	...

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

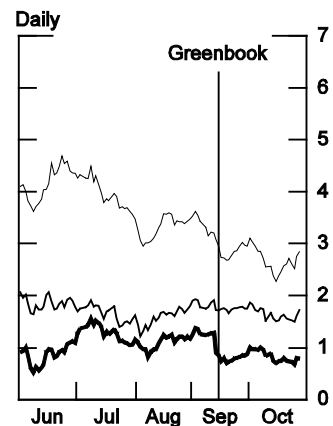
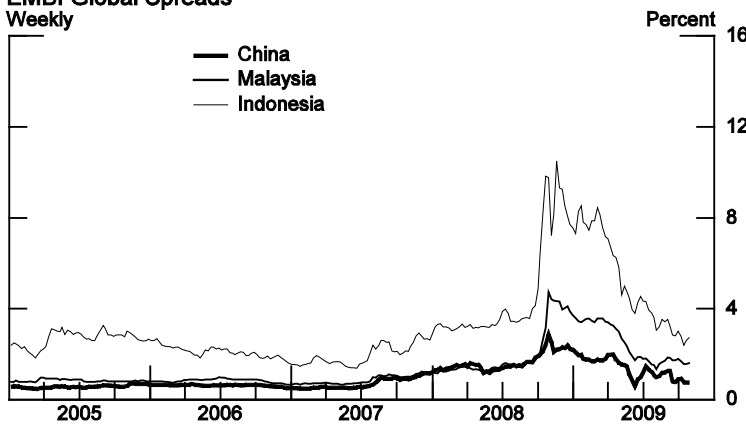
**EMBI+ Spreads or EMBI Global Spreads over similar-maturity U.S. Treasury securities.

... Not applicable. Korea, Taiwan, and Hong Kong have no outstanding dollar-denominated sovereign bonds.

EMBI+ Spreads
Weekly



EMBI Global Spreads
Weekly

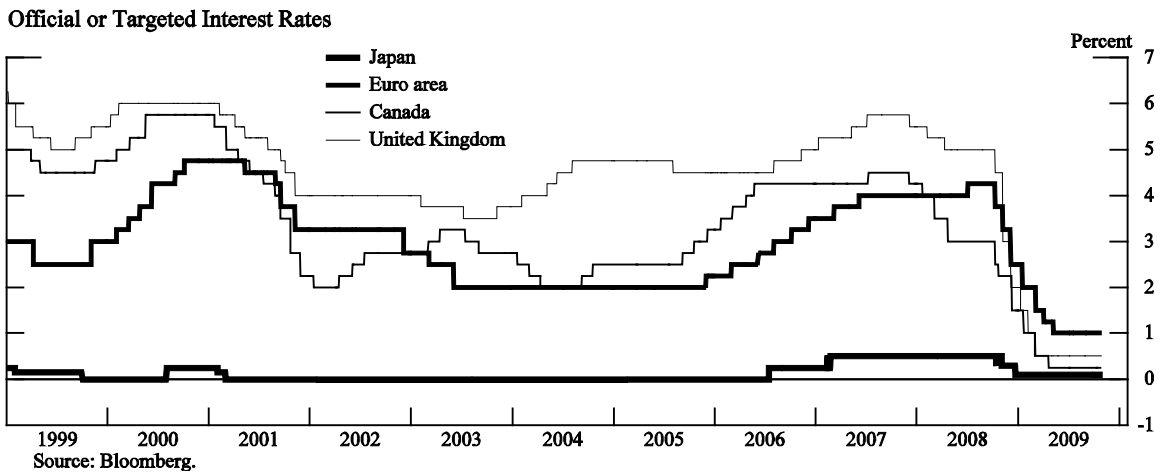
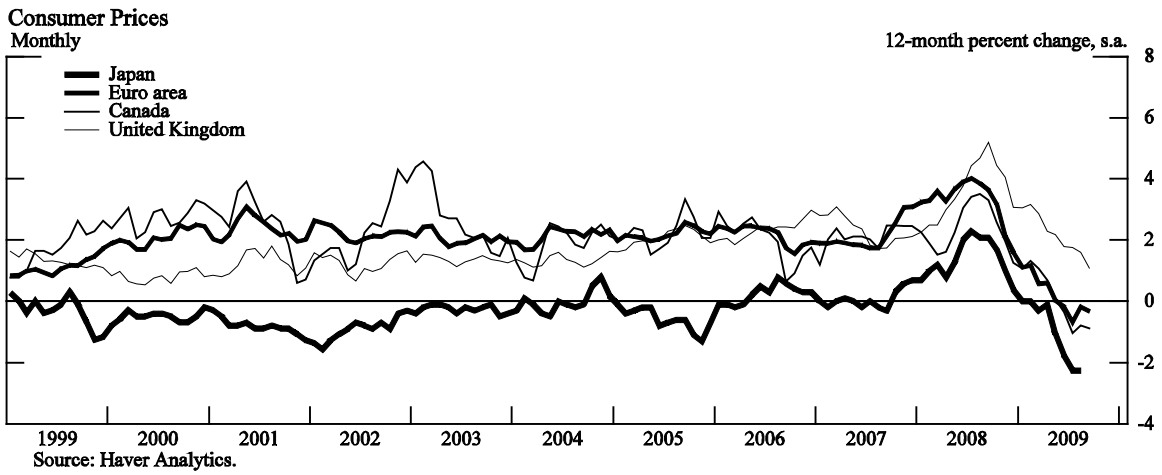
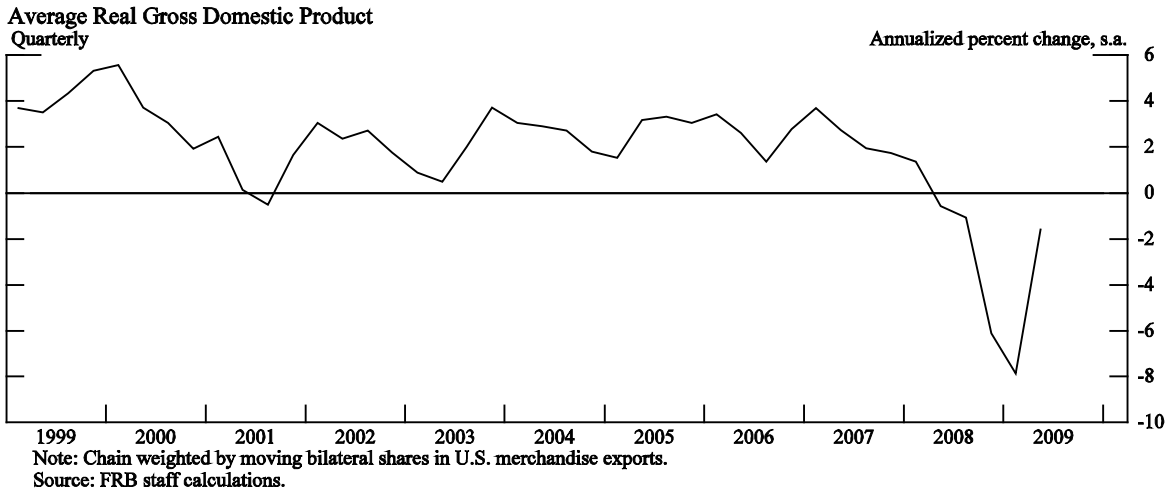


Developments in Advanced Foreign Economies

Incoming indicators for the third quarter have been positive, on balance, across the advanced foreign economies with the notable exception of the United Kingdom, where GDP unexpectedly contracted. Purchasing managers indexes (PMIs) rose solidly in the third quarter, reaching levels consistent with a stabilization or moderate expansion of output, and flash PMIs continued to rise in the euro area in October. Consumption spending, with the help of fiscal stimulus in many cases, appears to have risen over the third quarter. Surveys suggest that consumer confidence also continued to climb, although it remains below pre-recession levels, in part because households remain concerned over labor market conditions. Trade volumes are up from their early-year lows, and in some countries, the rebound in trade has been accompanied by an increase in production. The production bounce has been especially pronounced in Japan.

Twelve-month consumer price inflation stayed negative in all major economies, with the exception of the United Kingdom, where it was 1.1 percent in September. The European Central Bank (ECB), the Bank of Japan (BOJ), and the Bank of England (BOE) kept policy rates on hold and continued implementing their asset-purchase programs, but BOJ officials signaled an intention to let some credit-easing programs expire at the end of the year.

Advanced Foreign Economies



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

Component	2007 ¹	2008 ¹	2008		2009	
			Q3	Q4	Q1	Q2
GDP	1.9	-4.5	-5.1	-12.8	-12.4	2.3
Total domestic demand	.5	-1.8	-4.6	-1.9	-9.1	-4.0
Consumption	.3	-.2	.5	-2.9	-4.6	3.0
Private investment	-1.9	-8.8	-14.0	-20.7	-28.6	-20.7
Public investment	-4.3	-4.7	6.4	8.8	10.5	33.6
Government consumption	3.2	.1	-.7	5.5	.4	-1.3
Inventories ²	.3	.1	-2.0	2.2	-1.2	-2.8
Exports	9.8	-12.9	-2.9	-44.2	-63.9	28.1
Imports	1.4	2.6	.7	10.3	-47.7	-18.9
Net exports ²	1.3	-2.3	-.6	-9.5	-5.9	5.1

1. Q4/Q4.

2. Percentage point contribution to GDP growth.

Source: Haver Analytics.

Incoming data for **Japan** suggest that external demand remained the main driver of the recovery in the third quarter. Although both imports and exports remain well below 2008 levels, international trade surged in the third quarter with real exports and real imports rising at annual rates of 52 percent and 39 percent, respectively. Domestic demand also improved in the third quarter. With the help of government stimulus, consumption, which rose 3 percent in the second quarter, appears to have continued to rise in the third quarter. Consumer confidence has risen back to levels last seen in the fourth quarter of 2007.

Industrial production rose in August for the sixth consecutive month, and machinery orders appear to have stabilized over the summer, suggesting that private investment might have leveled out after contracting sharply over the past year. Recent indicators of business confidence, including the BOJ's Tankan index, show that pessimism among Japanese firms eased somewhat in the third quarter, although business sentiment remains near record lows.

The overall good news for the Japanese economy is moderated somewhat by data from the labor and housing markets. Despite the recent downtick in the unemployment rate to 5.5 percent in August from 5.7 percent in July, the more reliable ratio of job openings to applicants (the number of officially posted job openings relative to the number of officially registered job seekers) held at a 46-year record low in August. The housing

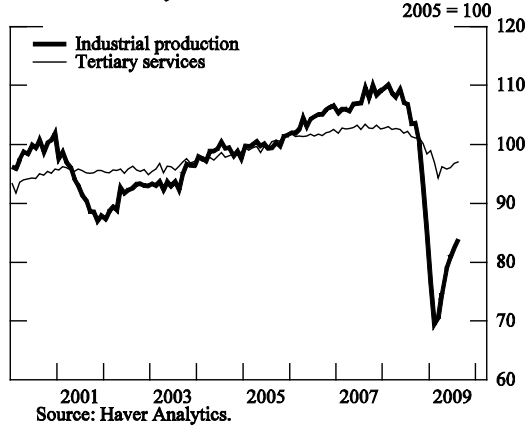
market also remains depressed, with housing starts dropping more than 9 percent in August from the previous month to a new series low.

On the consumer price front, 12-month headline inflation was unchanged in August at negative 2.2 percent, a record low. Energy prices continued to put downward pressure on inflation, but they were not solely to blame. Inflation excluding food and energy prices fell 0.9 percent over the 12 months ending in August.

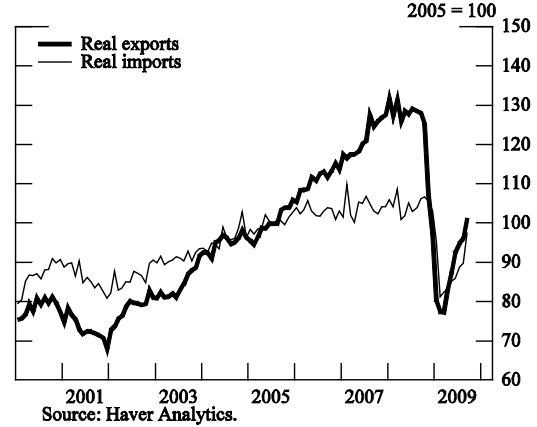
The BOJ held its target for the overnight call rate at 0.1 percent over the intermeeting period but signaled that it intends to let some of its credit-easing programs expire at the end of the year, citing improved conditions in the markets for commercial paper and corporate bonds. Newly appointed Prime Minister Hatoyama has promised to transform the economy into one where growth is generated by domestic spending rather than by exports alone. In October, the administration unveiled a set of emergency measures intended to create 100,000 jobs by the end of the fiscal year. The stimulus package focuses on easing regulatory hurdles and helping job-seekers find work in the agricultural and environmental sectors.

Japan

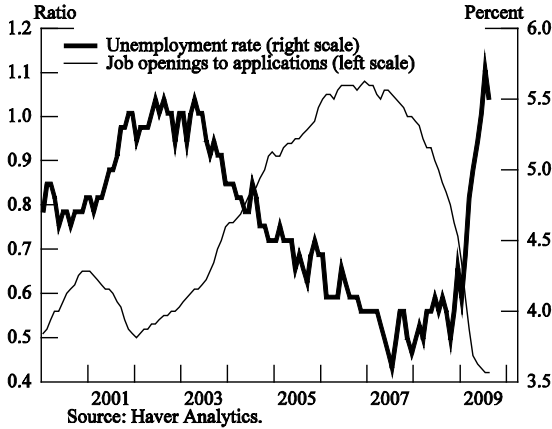
Economic Activity



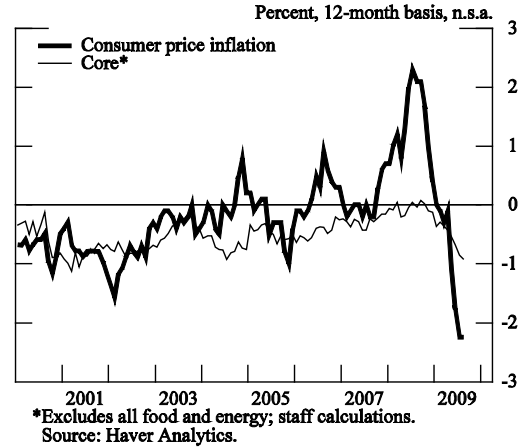
Real Trade



Labor Market



Consumer Price Inflation



Economic Indicators

(Percent change from previous period except as noted; seasonally adjusted)

Indicator	2009			2009			
	Q1	Q2	Q3	June	July	Aug.	Sept.
Housing starts	-10.6	-15.7	--	-1.2	-.5	-9.3	n.a.
Machinery orders ¹	-9.9	-4.9	--	9.7	-9.3	.5	n.a.
Household expenditures	-1.9	.9	--	.2	.3	.2	n.a.
New car registrations	-12.0	14.4	19.0	7.4	10.9	-.0	3.1
Business sentiment ²	-46.0	-45.0	-38.0	...	...	...	...
Wholesale prices ³	-1.8	-5.5	-8.3	-6.7	-8.5	-8.5	-7.9

1. Private sector excluding ships and electric power.
 2. Tankan survey, diffusion index. Level.
 3. Percent change from year earlier; not seasonally adjusted.
 n.a. Not available. ... Not applicable.
 Source: Haver Analytics.

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

Component	2007 ¹	2008 ¹	2008		2009	
			Q3	Q4	Q1	Q2
GDP	2.2	-1.8	-1.5	-7.1	-9.6	-.7
Total domestic demand	1.9	-.4	.8	-2.5	-7.3	-3.0
Consumption	1.2	-.7	.0	-1.8	-2.1	.3
Investment	3.2	-5.5	-5.7	-13.3	-19.8	-6.0
Government consumption	2.0	2.4	2.1	2.4	2.6	3.0
Inventories ²	.1	.6	1.4	.7	-2.5	-2.4
Exports	4.1	-6.6	-3.8	-25.3	-32.0	-6.0
Imports	3.4	-3.7	1.1	-17.1	-27.9	-11.3
Net exports ²	.3	-1.4	-2.2	-4.6	-2.3	2.3
Memo:						
GDP of selected countries						
France	2.1	-1.7	-1.1	-5.7	-5.4	1.1
Germany	1.6	-1.8	-1.3	-9.4	-13.4	1.3
Italy	.1	-2.9	-3.1	-8.1	-10.4	-2.0

1. Q4/Q4.

2. Percentage point contribution to GDP growth.

Source: Haver Analytics.

On balance, recent indicators for the **euro area** suggest a further improvement in economic conditions. Measures of economic sentiment continued to improve and flash PMIs rose further in October, generally indicating expansion. Industrial production, excluding construction, has been particularly strong, increasing 1 percent in August, the fourth consecutive monthly increase. New industrial orders grew 2.0 percent in August. On a less positive note, in August, real retail sales declined 0.2 percent, and the unemployment rate edged up to 9.6 percent. Exports fell about 6 percent in August, led by an almost 9 percent decline in manufactured products. In addition, the pace of car registrations slowed from more than 12 percent in the second quarter to 1.4 percent in the third, reflecting the unwinding of schemes to support car sales.

Developments of credit to the nonfinancial sector have been mixed, with rising credit to the household sector and falling credit to nonfinancial corporations. In September, loans to nonfinancial corporations fell 0.2 percent from the previous month, the fifth consecutive monthly decline. Loans to households added to recent gains, increasing 0.3 percent from the previous month.

Twelve-month euro-area inflation was negative 0.3 percent in September, following negative 0.2 percent in August. The downturn in energy prices (which fell 11 percent in September from a year earlier) has been an important factor in the decline of inflation. Excluding food and energy, September inflation was 1.2 percent.

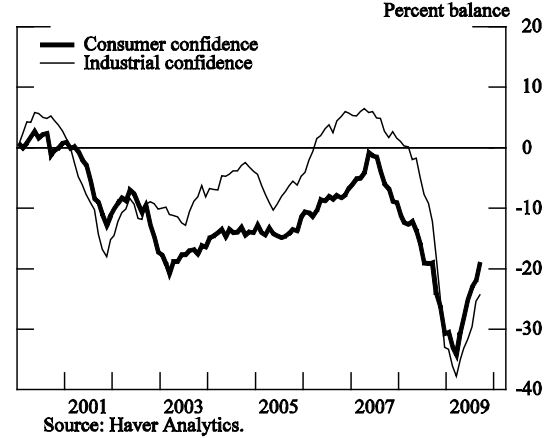
The Governing Council of the ECB kept its benchmark policy rate unchanged at 1 percent at its October 8 meeting. Since the ECB's record liquidity injection of €442 billion in one-year funds in June, the overnight EONIA rate has tended to be just above the 0.25 percent rate on the ECB's deposit facility. The second one-year operation on September 30 elicited less interest, with allotments totaling €75 billion. The ECB has continued to implement plans to buy €60 billion worth of covered bonds and had purchased about €20 billion by late October.

Euro Area

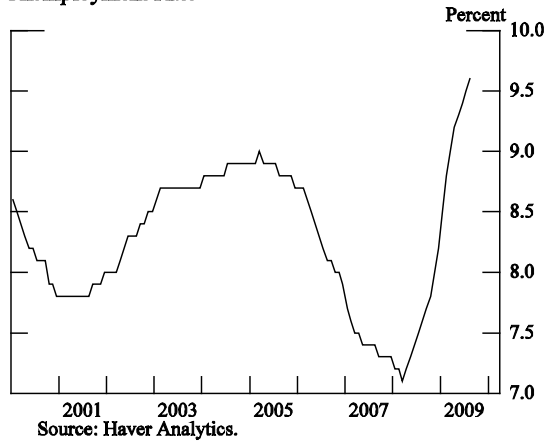
Nominal Exports and Imports



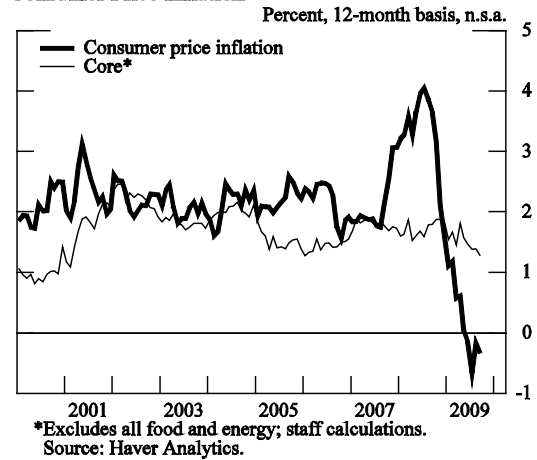
Economic Sentiment



Unemployment Rate



Consumer Price Inflation



Economic Indicators
(Percent change from previous period except as noted; seasonally adjusted)

Indicator	2009			2009			
	Q1	Q2	Q3	June	July	Aug.	Sept.
Industrial production ¹	-8.6	-1.1	--	.9	.2	1.1	n.a.
Retail sales volume ²	-.8	-.3	--	.0	-.2	-.2	n.a.
New car registrations	.9	12.2	1.4	2.1	-2.0	1.0	-9
Employment	-.7	-.5	--	...	...	...	...
Producer prices ³	-2.0	-5.2	--	-5.9	-7.6	-6.8	n.a.
M3 ³	6.5	4.7	2.8	4.2	3.5	3.0	2.0

1. Excludes construction.
 2. Excludes motor vehicles.
 3. Eurostat harmonized definition. Percent change from year earlier.
 n.a. Not available. ... Not applicable.
 M3 Manufacturers' shipments, inventories, and orders.
 Source: Haver Analytics.

In the **United Kingdom**, real GDP contracted 1.6 percent in the third quarter according to the preliminary estimate, bringing the cumulative drop since the beginning of the recession to 6.0 percent. The output of services industries fell 1.1 percent despite strong performance from retail sales during the quarter. The output of manufacturing and construction industries is estimated to have fallen 0.9 percent and 4.7 percent, respectively.

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

Component	2007 ¹	2008 ¹	2008	2009		
			Q4	Q1	Q2	Q3
GDP	2.4	-2.0	-6.9	-9.6	-2.3	-1.6
Total domestic demand	3.1	-3.3	-8.7	-9.9	-3.2	n.a.
Consumption	2.2	-.8	-4.7	-6.0	-2.6	n.a.
Investment	4.9	-8.7	-8.4	-26.2	-19.3	n.a.
Government consumption	1.2	3.1	4.0	.3	2.4	n.a.
Inventories²	.6	-1.9	-5.3	-1.5	1.3	n.a.
Exports	3.4	-3.5	-15.2	-25.5	-5.5	n.a.
Imports	5.6	-8.0	-20.2	-25.2	-8.4	n.a.
Net exports²	-.8	1.5	2.1	.6	1.0	n.a.

1. Q4/Q4.

2. Percentage point contribution to GDP growth.

Source: Haver Analytics.

The moderation in the pace of GDP contraction was accompanied by tentative signs of stabilization in the labor market. The Labor Force Survey measure of the unemployment rate was unchanged at 7.9 percent in the three months to August. Short-term unemployment (durations 0 to 6 months) fell somewhat relative to the previous three months. A similarly-sized increase in unemployment at longer durations suggests that finding new employment remains difficult. Expenditures on machinery, equipment, and infrastructure appear especially weak. According to the Bank of England (BOE) Agents' Summary of Business Conditions, investment intentions of manufacturing and services firms remained depressed in September. New construction orders fell back in August.

Measures of credit to the nonfinancial sector continue to be weak. Bank lending to private nonfinancial corporations fell 3.8 percent in the 12 months to August, a pace approaching the low observed in the wake of the early 1990s recession. Net lending secured by dwellings was near its recent trough in August despite some improvement in

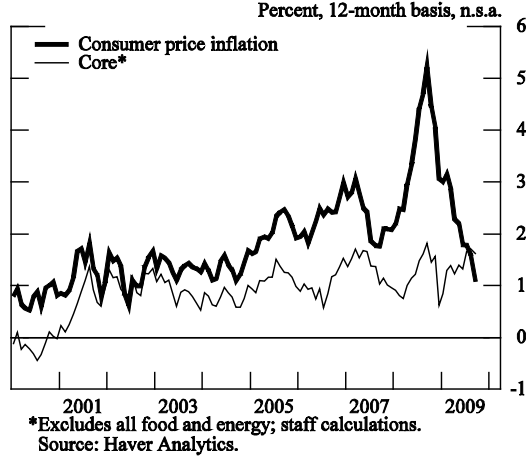
house purchases and prices since the beginning of the year. House prices fell close to 20 percent between late summer 2007 and early spring 2009 but have since risen around 6 percent. Housing equity withdrawal as a share of households' post-tax disposable income was negative 3 percent in the second quarter, compared with about 5 percent in 2007.

Price pressure remains subdued. Headline inflation tumbled to 1.1 percent in September on a 12-month basis, its lowest reading since June 2003, as sharp increases in utility prices last year dropped out of the equation. Producer input prices fell 6.5 percent over the same period, up from double-digit declines at the beginning of the summer. In contrast, in August, the 12-month change in average weekly earnings excluding bonuses posted its first increase in a year.

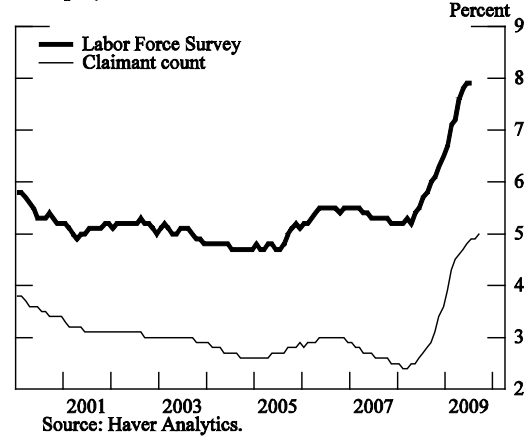
At its October meeting, the BOE left its policy rate unchanged and maintained its current asset-purchase programs. As of October 22, the BOE had acquired £170.6 billion in assets through the creation of bank reserves, the vast majority of which (£168.6 billion) were gilts. The central bank is expected to complete its £175 billion asset-purchase program by the end of the month and decide on a further extension at the November meeting of its monetary policy committee.

United Kingdom

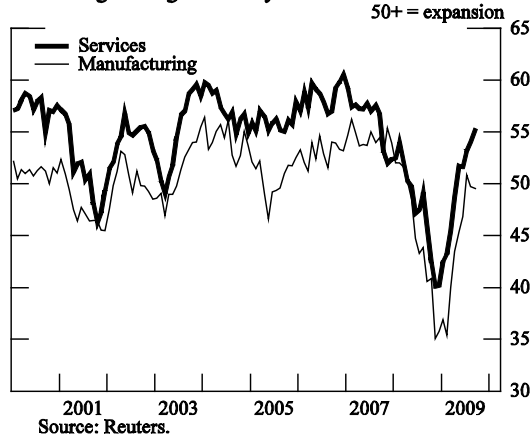
Consumer Price Inflation



Unemployment Rates



Purchasing Managers Survey



Labor Costs



Economic Indicators
(Percent change from previous period except as noted; seasonally adjusted)

Indicator	2009			2009			
	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
Producer input prices ¹	.7	-8.9	-8.8	-12.2	-7.7	-6.5	n.a.
Industrial production	-5.1	-.5	--	.6	-2.5	n.a.	n.a.
Business confidence ²	-45.0	-22.0	-7.0	-14.0	-5.0	-2.0	4.0
Consumer confidence ²	-31.0	-19.9	-14.1	-16.0	-16.2	-10.1	n.a.
Trade balance ³	-10.5	-13.3	--	-4.3	-3.8	n.a.	n.a.
Current account ³	-5.9	-17.7	--	...	...	...	...

1. Percent change from year earlier.
 2. Percent balance.
 3. Level in billions of U.S. dollars.
 n.a. Not available. ... Not applicable.
 Source: Haver Analytics; FRB staff calculations.

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

Component	2007 ¹	2008 ¹	2008		2009	
			Q3	Q4	Q1	Q2
GDP	2.8	-1.0	.4	-3.7	-6.1	-3.4
Total domestic demand	6.6	-1.1	.6	-6.1	-10.9	-.0
Consumption	5.4	.2	.6	-3.1	-1.2	1.8
Investment	4.5	-3.6	.6	-14.8	-22.8	-5.6
Government consumption	3.7	3.1	-.0	2.5	2.1	3.2
Inventories ²	1.7	-1.1	.1	-1.2	-5.1	-.4
Exports	-1.5	-7.3	-4.1	-17.7	-30.4	-19.3
Imports	8.5	-7.7	-3.4	-23.4	-38.9	-8.5
Net exports ²	-4.2	.7	-.4	2.2	4.1	-3.4

1. Q4/Q4.

2. Percentage point contribution to GDP growth.

Source: Haver Analytics.

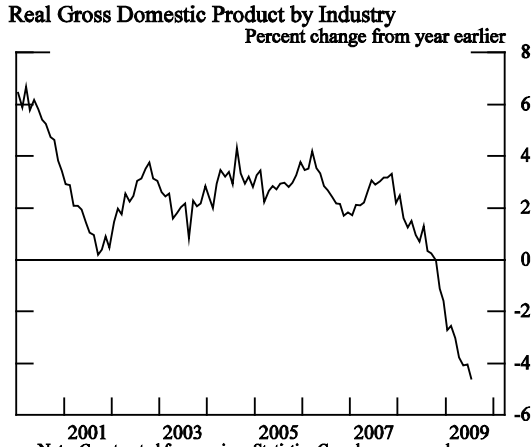
Canadian indicators for the third quarter are positive, on balance. After faltering early in the year, trade volumes have rebounded. Over the three months ending in August, exports and imports increased at annual rates of 23 percent and 43 percent, respectively. Both exports and imports were supported by a surge in automotive trade. Machinery and equipment imports were also up sharply. Likely reflecting, in part, the strength in international trade, manufacturing shipments rose solidly. The Canadian housing market is also rebounding forcefully. Total housing starts rose more than 15 percent, not at an annual rate, in the third quarter. Monthly GDP declined negligibly in July.

Canadian labor-market conditions showed modest improvement. Total employment declined slightly in the third quarter as a whole, but rose modestly in both August and September. The September gain was driven by a sharp increase in full-time employment; prior to the September release, almost all of the stability in Canadian employment was attributable to increases in part-time work. With the increase in full-time employment, hours worked rose 1.6 percent in September, the first increase in three months. The unemployment rate fell 0.3 percentage point to 8.4 percent, the first monthly decline since the beginning of the labor-market downturn in the fall of 2008.

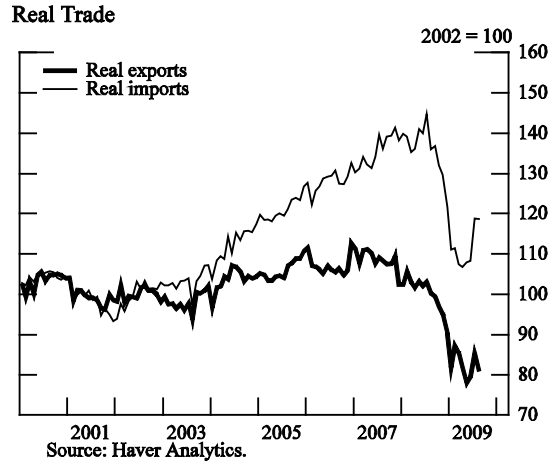
Consumer prices fell 0.9 percent in the 12 months ending in September. The decrease was due primarily to a decline in energy prices. Inflation excluding food and energy was 0.9 percent, near its lowest level of the past several years.

The Bank of Canada kept its policy rate at 0.25 percent and has reiterated its intention, conditional on the outlook for inflation, to keep rates at this level until at least the end of the second quarter of 2010.

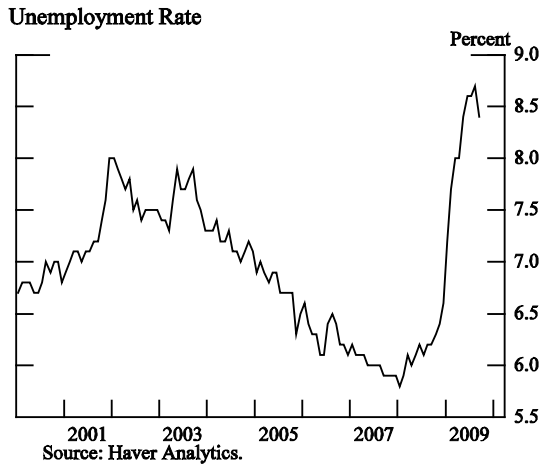
Canada



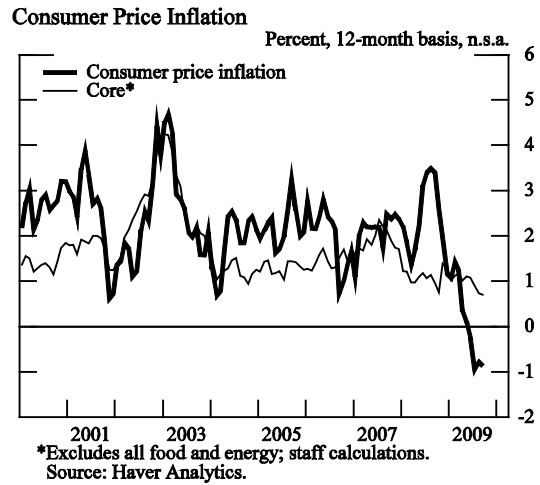
Note: Constructed from various Statistics Canada surveys and supplements to the quarterly income and expenditure-based estimates.
Source: Haver Analytics.



Source: Haver Analytics.



Source: Haver Analytics.



*Excludes all food and energy; staff calculations.
Source: Haver Analytics.

Economic Indicators
(Percent change from previous period and seasonally adjusted, except as noted)

Indicator	2009			2009			
	Q1	Q2	Q3	June	July	Aug.	Sept.
Industrial production	-5.2	-4.7	--	-0.7	-0.4	n.a.	n.a.
New manufacturing orders	-12.0	-1.1	--	18.9	-16.0	7.9	n.a.
Retail sales	-1.1	.4	--	.4	-0.1	.4	n.a.
Employment	-1.4	-0.4	-0.2	-0.0	-0.3	.2	.2
Wholesale sales	-7.3	.7	--	1.2	2.3	-0.8	n.a.
Ivey PMI ¹	41.5	53.4	56.4	58.2	51.8	55.7	61.7

1. PMI Purchasing managers index. Not seasonally adjusted. 50+ indicates expansion.
n.a. Not available.
Source: Haver Analytics; Bank for International Settlements.

Economic Situation in Other Countries

Data since the September Greenbook indicate that the economic recovery in the emerging market economies continued over the third quarter. Domestic demand appears to be playing an important role in supporting recovery across Asia and parts of South America. China's economy continued to roar ahead, supported by accommodative policies, and growth was surprisingly strong in Korea and Singapore. Ample government credit has supported demand in Brazil. The Mexican economy showed signs of a revival in activity after a year of output contraction. Inflation, although declining, remains a concern in Mexico and Brazil, but inflation pressures appear to be contained in Asia with the major exception of India. Imports have generally continued to rise and there are firmer signs of export growth.

In **China**, the staff estimates that real GDP increased 9.8 percent at an annual rate in the third quarter, as activity continued to be supported by monetary and fiscal stimulus. (The official, headline four-quarter growth rate was 8.9 percent.) In September, industrial production was nearly 12 percent above its year-earlier level, and the official PMI reading remained solidly in the expansionary range. Real retail sales growth remained strong, and fixed-asset investment was up more than 33 percent from September of last year. Robust domestic demand has contributed to rising imports, which are now within 10 percent of their pre-crisis peak. Exports have also increased, but in September, they remained 17 percent below their year-earlier levels.

In October, Premier Wen Jiabao explicitly stated that the recovery of the Chinese economy is on firm ground. He stressed that in the coming months authorities will focus on striking the appropriate balance between maintaining growth, restructuring the economy, and guarding against inflation. As in recent months, loan growth in September was around 1 percent on a month-over-month basis, considerably down from the pace in the first half of the year, but a level still supportive of economic growth; the value of outstanding loans was 34 percent higher than a year ago. Food prices moved higher in the third quarter, pushing quarterly headline inflation up to 1.2 percent at an annual rate, whereas inflation measured on a four-quarter basis remained negative.

Chinese Economic Indicators
(Percent change from previous period, seasonally adjusted, except as noted)

Indicator	2007	2008	2009				
			Q2	Q3	July	Aug.	Sept.
Real GDP ¹	12.3	6.9	18.5	9.8	...	...	...
Industrial production	19.5	1.8	4.4	5.4	-7	1.7	1.3
Consumer prices ²	6.5	1.2	-1.5	-1.3	-1.8	-1.2	-8
Merch. trade balance ³	262.7	298.1	142.7	100.9	69.6	133.8	99.3

1. Gross domestic product. Annual rate. Quarterly data estimated by staff from reported 4-quarter growth rates. Annual data are Q4/Q4.
 2. Non-seasonally adjusted percent change from year-earlier period, except annual data, which are Dec./Dec.
 3. Billions of U.S. dollars, annualized. Imports are valued at cost, insurance, and freight.
- ... Not applicable.
Source: CEIC.

In **India**, recent indicators point to solid growth in the third quarter. The pace of recovery of the manufacturing sector has been surprisingly swift, mostly driven by a sharp rise in the demand for investment goods and consumer durables, particularly autos. The merchandise trade deficit, which had narrowed sharply during the crisis, has widened during the past few months as the domestic-demand-led recovery has caused imports to grow faster than exports. However, weak credit demand raises some concerns that the recovery may prove to be tenuous.

Consumer price inflation spiked in July and August to just under 11 percent on a 12-month basis, while wholesale price inflation, which is more closely followed in India, turned positive in September after several months of falling prices. The monsoon season was one of the driest in decades and put upward pressure on food prices in recent months. In late October, the central bank removed the extraordinary liquidity measures that had been provided during the crisis, while leaving its key policy rates unchanged.

Indian Economic Indicators
(Percent change from previous period, seasonally adjusted, except as noted)

Indicator	2007	2008	2009				
			Q2	Q3	July	Aug.	Sept.
Real GDP ¹	9.3	5.8	7.3	n.a.	...	...	...
Industrial production	9.9	4.4	3.5	n.a.	-6	1.8	n.a.
Consumer prices ²	5.5	9.7	8.2	n.a.	10.9	10.7	n.a.
Wholesale prices ²	3.8	6.2	.5	-.2	-.7	-.3	.5
Merch. trade balance ³	-79.2	-121.9	-60.2	n.a.	-76.4	-93.6	n.a.
Current account ⁴	-11.3	-36.1	-23.2	n.a.	...	...	...

1. Gross domestic product. Annual rate. Annual data are Q4/Q4.

2. Non-seasonally adjusted percent change from year-earlier period, except annual data, which are Dec./Dec.

3. Billions of U.S. dollars, annualized.

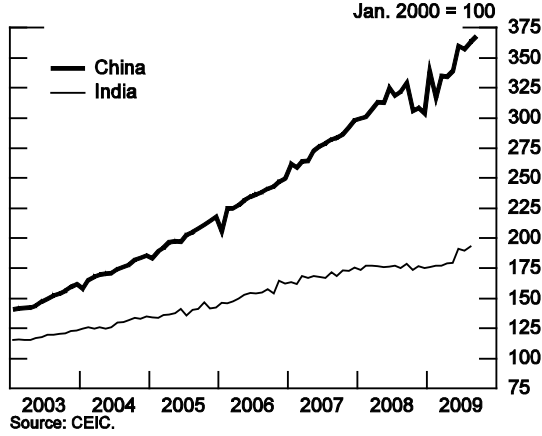
4. Billions of U.S. dollars, not seasonally adjusted, annualized.

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

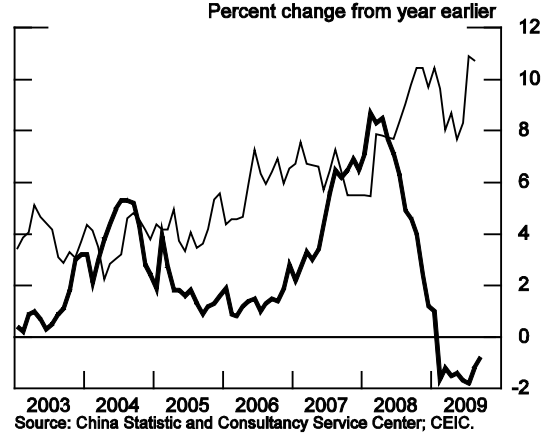
Source: CEIC.

China and India

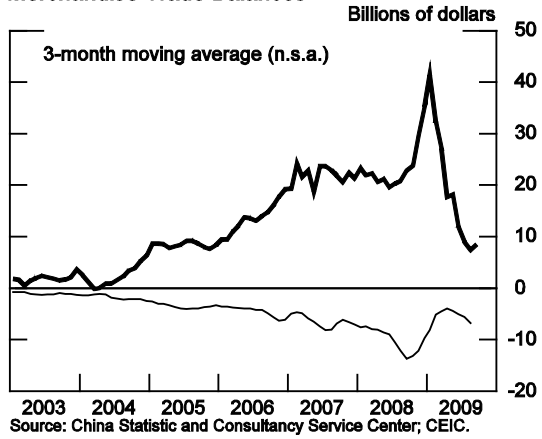
Industrial Production



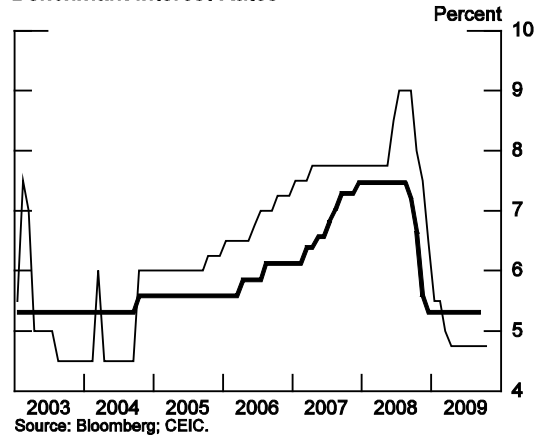
Consumer Prices



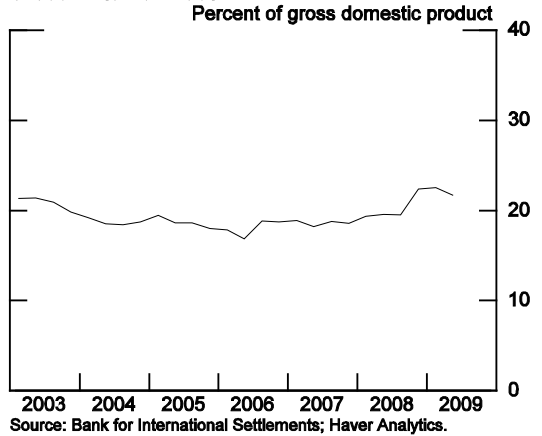
Merchandise Trade Balances



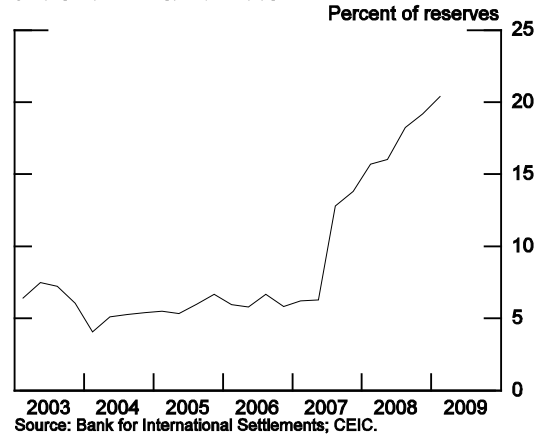
Benchmark Interest Rates



Gross External Debt



Short-Term External Debt



In the **newly industrialized economies (NIEs)**, third-quarter Korean real GDP rose 12.3 percent, boosted by a sharp moderation in inventory drawdown.¹ Consumption and fixed investment decelerated from the second quarter. Preliminary data indicate that growth remained at a double-digit level in Singapore, reflecting strong exports and stabilizing domestic demand. The trade surpluses in Singapore, Korea, and Taiwan—which had risen sharply during the crisis because imports collapsed more sharply than exports—narrowed again in the third quarter as brisk domestic demand growth led imports to bounce back faster than exports.

Inflation has risen a little from low or negative rates in the region. Inflationary pressures have not presented a threat in the near term, but the reduced degree of economic slack has led observers to believe that central banks in the region, particularly Korea, will tighten monetary policy in coming months. Policymakers have also expressed concerns about potential asset bubbles and to date have addressed these concerns with prudential measures.

Economic Indicators for Newly Industrialized Economies: Growth
(Percent change from previous period, seasonally adjusted, except as noted)

	2007	2008	2009				
			Q2	Q3	July	Aug.	Sept.
<i>Real GDP¹</i>							
Hong Kong	7.1	-2.7	13.9	n.a.	...	...	...
Korea	5.7	-3.4	11.0	12.3	...	...	...
Singapore	5.8	-4.0	20.7	n.a.	...	...	...
Taiwan	6.5	-8.5	11.8	n.a.	...	...	...
<i>Industrial production</i>							
Hong Kong	-1.5	-6.6	-.3	n.a.	...	...	...
Korea	7.0	3.0	11.4	n.a.	2.1	-1.3	n.a.
Singapore	5.9	-4.2	15.4	8.0	26.2	-5.7	-13.9
Taiwan	7.8	-1.8	17.3	6.8	.9	-2	6.5

1. Gross domestic product. Annual rate. Annual data are Q4/Q4.
n.a. Not available. ... Not applicable.
Source: CEIC; Reuters.

¹ The NIEs are Hong Kong, South Korea, Singapore, and Taiwan.

Economic Indicators for Newly Industrialized Economies: Merchandise Trade Balance
(Billions of U.S. dollars; seasonally adjusted, annualized)

	2007	2008	2009				
			Q2	Q3	July	Aug.	Sept.
Hong Kong	-23.5	-25.9	-15.5	-39.3	-39.9	-33.7	-44.3
Korea	28.2	6.0	68.0	n.a.	61.0	55.4	n.a.
Singapore	36.2	18.4	26.8	21.9	33.6	30.1	1.9
Taiwan	16.8	4.4	21.7	24.4	23.0	27.9	22.3

n.a. Not available.
Source: CEIC.

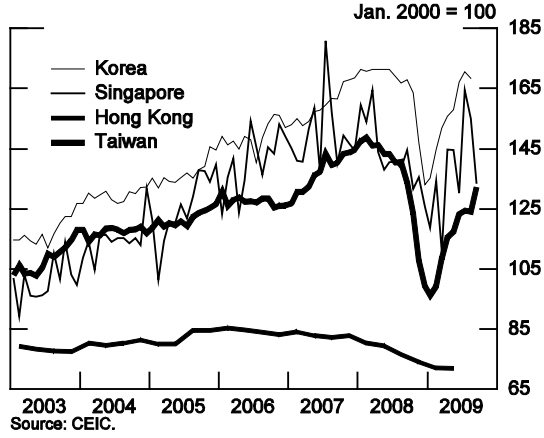
Economic Indicators for Newly Industrialized Economies: Consumer Price Inflation
(Non-seasonally adjusted percent change from year earlier except as noted)

	2007 ¹	2008 ¹	2009				
			Q2	Q3	July	Aug.	Sept.
Hong Kong	3.8	2.1	-.1	-.9	-1.5	-1.6	.5
Korea	3.6	4.1	2.8	2.0	1.6	2.2	2.2
Singapore	4.4	4.3	-.5	-.4	-.5	-.3	-.4
Taiwan	3.3	1.3	-.8	-1.3	-2.3	-.8	-.9

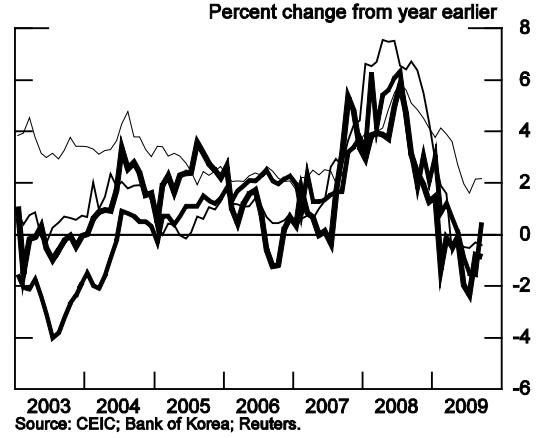
1.Dec./Dec.
Source: CEIC.

Newly Industrialized Economies

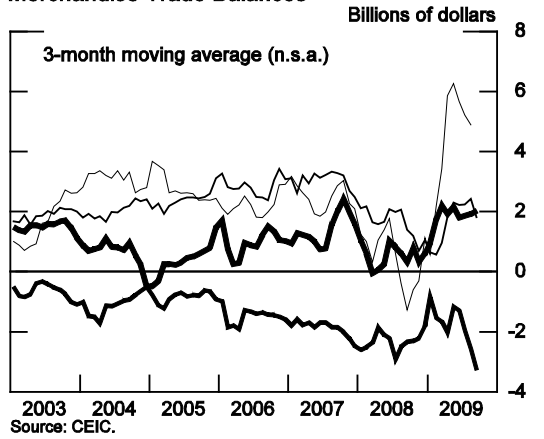
Industrial Production



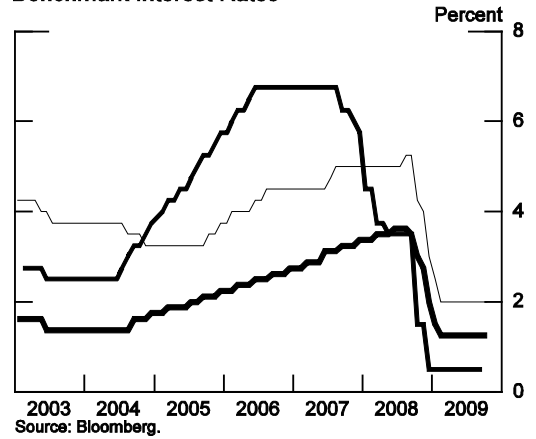
Consumer Prices



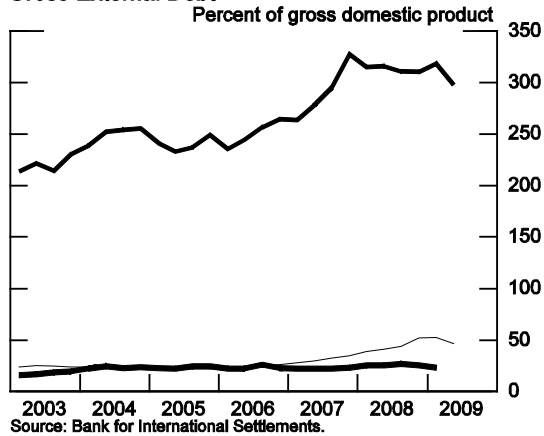
Merchandise Trade Balances



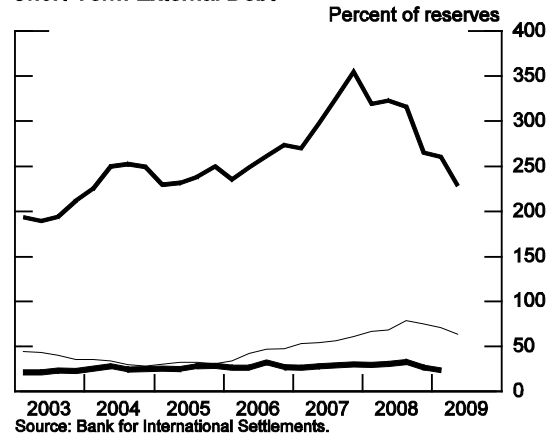
Benchmark Interest Rates



Gross External Debt



Short-Term External Debt



In the **Association of Southeast Asian Nations (ASEAN-4)**, economic recovery continued into the third quarter, albeit at a slower pace than in the previous quarter.² Within the region, the recovery of Thailand's economy appears the most tenuous. Domestic demand appears to be supporting growth in Indonesia. In contrast, domestic demand was weak in Thailand as well as the Philippines, where remittances declined over the July-August period. In Thailand and Malaysia, industrial production fell in August after several months of growth, and in each case, was about 12 percent below the peaks attained in early 2008. Trade balances in the region were generally flat or deteriorated slightly, as the pace of recovery in imports exceeded the pace of recovery in exports.

Consumer prices increased on a monthly basis in August and September. As a result, on a 12-month basis, inflation in Indonesia and the Philippines edged up, and in Thailand and Malaysia became less negative. With inflation subdued, central banks maintained their policy rates unchanged.

ASEAN-4 Economic Indicators: Growth
(Percent change from previous period, seasonally adjusted, except as noted)

Indicator	2007	2008	2009				
			Q1	Q2	June	July	Aug.
<i>Real GDP¹</i>							
Indonesia	5.8	5.3	4.4	4.5	...	...	...
Malaysia	7.2	.1	-17.6	14.5	...	...	...
Philippines	6.4	2.9	-8.3	9.8	...	...	...
Thailand	5.9	-4.2	-7.2	9.6	...	...	...
<i>Industrial production²</i>							
Indonesia ³	5.6	3.0	1.9	-6	-2.9	-1.6	4.4
Malaysia	2.1	.5	-4.5	2.0	.2	5.7	-1.4
Philippines	-2.7	.3	-20.3	12.4	.1	1.8	-1.5
Thailand	8.2	5.3	-8.7	9.6	2.3	1.8	-3.6

1. Gross domestic product. Annual rate. Annual data are Q4/Q4.

2. Annual data are annual averages.

3. Staff estimate.

Note: Association of Southeast Asian Nations.

... Not applicable.

Source: CEIC.

² The ASEAN-4 are Indonesia, Malaysia, the Philippines, and Thailand.

ASEAN-4 Economic Indicators: Merchandise Trade Balance
(Billions of U.S. dollars; seasonally adjusted, annualized)

Indicator	2007	2008	2009				
			Q1	Q2	June	July	Aug.
Indonesia	39.6	31.6	29.8	36.9	34.1	31.8	35.9
Malaysia	29.2	42.7	38.1	30.8	31.1	29.9	30.3
Philippines	-5.0	-7.7	-8.7	-5.0	-6.3	-7.0	.4
Thailand	12.8	.1	32.6	22.6	12.2	11.8	26.7

Note: Association of Southeast Asian Nations.

Source: CEIC; Bank of Thailand; Philippines Economic Indicators Telegram (PEIT); Monetary Authority of Singapore.

ASEAN-4 Economic Indicators: Consumer Price Inflation
(Non-seasonally adjusted percent change from year earlier except as noted)

Indicator	2007 ¹	2008 ¹	2009				
			Q2	Q3	July	Aug.	Sept.
Indonesia	5.8	11.1	5.6	2.8	2.7	2.8	2.8
Malaysia	2.4	4.4	1.3	-2.3	-2.4	-2.4	-2.0
Philippines	3.9	8.0	3.2	.3	.2	.1	.7
Thailand	3.2	.4	-2.8	-2.2	-4.4	-1.0	-1.0

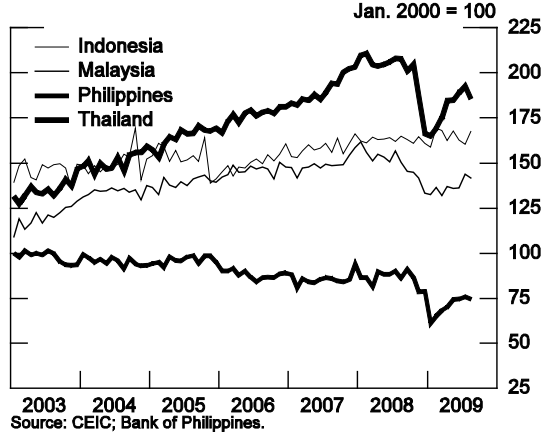
1. Dec./Dec.

Note: Association of Southeast Asian Nations.

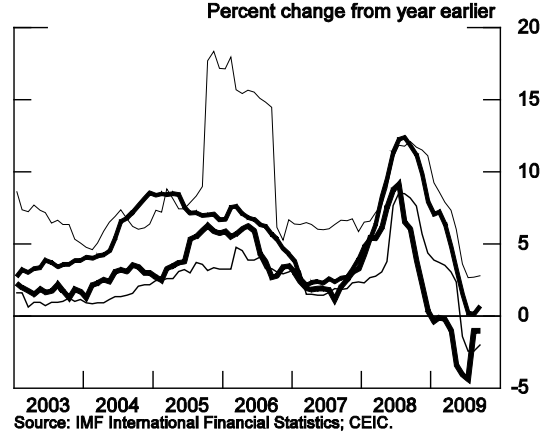
Source: CEIC; IMF International Financial Statistics database.

ASEAN-4

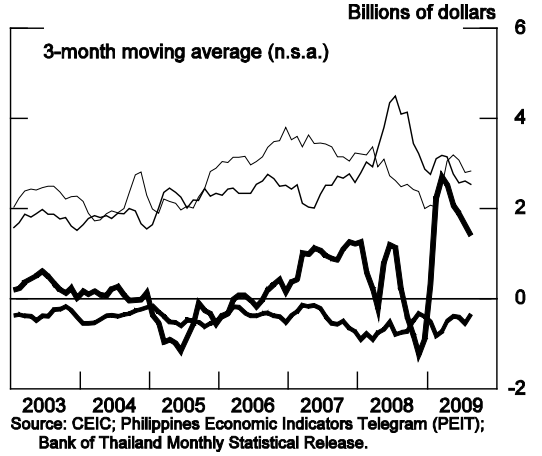
Industrial Production



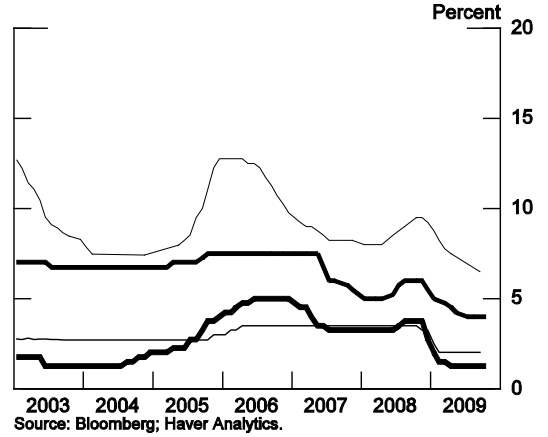
Consumer Prices



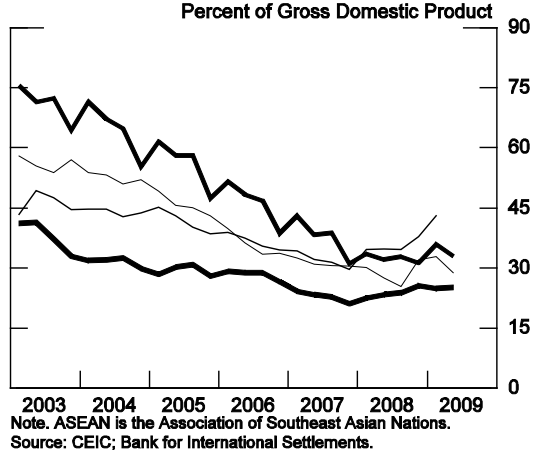
Merchandise Trade Balances



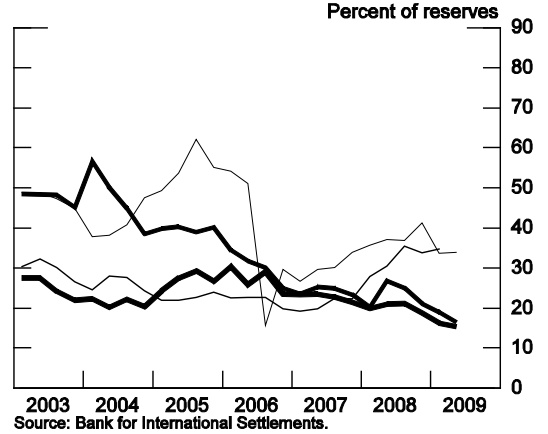
Benchmark Interest Rates



Gross External Debt



Short-Term External Debt



In **Mexico**, data suggest that activity began to revive in the third quarter following four quarters of decline in real GDP. Industrial production was up, on balance, over the July-August period, boosted by auto production for the export market. Accordingly, overall exports were up in the third quarter through August. In September, the manufacturing PMI continued to climb and moved into the expansion range. Although business confidence has picked up, consumer confidence remained weak.

Weak domestic activity has helped mitigate inflationary pressures in recent months, bringing 12-month headline and core inflation down to just below 5 percent. However, inflation remains above the 2 to 4 percent inflation target range. Balancing concerns about inflation against the still-fragile state of the economy, the Bank of Mexico kept its policy rate on hold at its mid-October meeting. In early September, the Calderon government introduced a bill that envisions far-reaching reforms to public finances. However, the lower house unexpectedly watered down the tax provisions considerably, fueling concern that Mexico's government would continue to be heavily dependent on oil revenues amid a trend of declining oil production. That development fueled speculation that Mexico's credit risk rating will be reduced. In response, the Senate, which had been expected to accept the lower house provisions, is now expected to review the bill and has until the end of October to decide on the tax provisions.

Mexican Economic Indicators
(Percent change from previous period, seasonally adjusted, except as noted)

Indicator	2007	2008	2009				
			Q2	Q3	July	Aug.	Sept.
Real GDP ¹	3.7	-1.7	-4.4	n.a.	...	...	...
Overall economic activity	3.1	1.0	-1.3	n.a.	2.5	n.a.	n.a.
Industrial production	2.4	-9	-1.2	n.a.	2.8	-2	n.a.
Unemployment rate ²	3.7	4.0	5.7	5.9	5.7	5.9	6.1
Consumer prices ³	3.8	6.5	6.0	5.1	5.4	5.1	4.9
Merch. trade balance ⁴	-10.1	-17.3	-4.8	-9.6	-12.8	-9.6	-6.4
Merchandise imports ⁴	281.9	308.6	218.6	232.0	228.4	230.6	237.1
Merchandise exports ⁴	271.9	291.3	213.7	222.4	215.6	221.0	230.7
Current account ⁵	-8.2	-15.7	2.2	n.a.	...	...	...

1. Gross domestic product. Annual rate. Annual data are Q4/Q4.

2. Percent; counts as unemployed those working 1 hour a week or less.

3. Non-seasonally adjusted percent change from year-earlier period, except annual data, which are Dec./Dec.

4. Billions of U.S. dollars, annualized.

5. Billions of U.S. dollars, not seasonally adjusted, annualized.

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

Source: Haver Analytics; Bank of Mexico.

In **Brazil**, data releases indicate that the recovery continued in the third quarter, supported by higher commodity prices and expansionary fiscal policies. The manufacturing PMI continued to climb through September and remained in the range indicating expansion. Industrial production climbed further through August, but was still 10 percent below its September 2008 peak. Production was supported by strong domestic demand, particularly for autos and appliances, which have been boosted by temporary government tax incentives. Domestic demand also continued to be supported by rapid loan growth, particularly government-directed credit. The trade surplus narrowed in the third quarter, as exports expanded at a slower pace than imports.

Headline and core inflation both fell in September, coming in at 4.3 percent and 5 percent, respectively, on a 12-month basis. At its October 21 meeting, the central bank of Brazil held its policy rate at 8¾ percent, where it has been since last July. However, there has been considerable speculation in recent weeks that soon the central bank will raise reserve requirements to tighten credit conditions and that the central bank will raise its policy rate in early 2010.

Strong net capital inflows continued through late October, fueling upward pressures on the currency. In late October, as a result of official purchases of foreign exchange to stem the appreciation of the *real*, international reserves reached a record high of \$230 billion. The government imposed a 2-percent tax on portfolio capital inflows to stem currency appreciation. Analysts have questioned how effective the tax will be in the longer term in curbing capital inflows and whether the move will hinder financial sector development.

Brazilian Economic Indicators
(Percent change from previous period, seasonally adjusted, except as noted)

Indicator	2007	2008	2009				
			Q2	Q3	July	Aug.	Sept.
Real GDP ¹	6.1	1.2	7.8	n.a.	...	...	...
Industrial production	6.0	3.1	3.8	n.a.	2.2	1.2	n.a.
Unemployment rate ²	9.3	7.9	8.2	7.9	8.0	8.0	7.7
Consumer prices ³	4.5	5.9	5.2	4.4	4.5	4.4	4.3
Merch. trade balance ⁴	40.0	25.0	43.2	21.6	23.4	32.0	9.6
Current account ⁵	1.6	-28.2	-8.5	-19.2	-20.0	-9.9	-27.7

1. Gross domestic product. Annual rate. Annual data are Q4/Q4.

2. Percent.

3. Non-seasonally adjusted percent change from year-earlier period, except annual data, which are Dec./Dec. Price index is IPCA.

4. Billions of U.S. dollars, annualized.

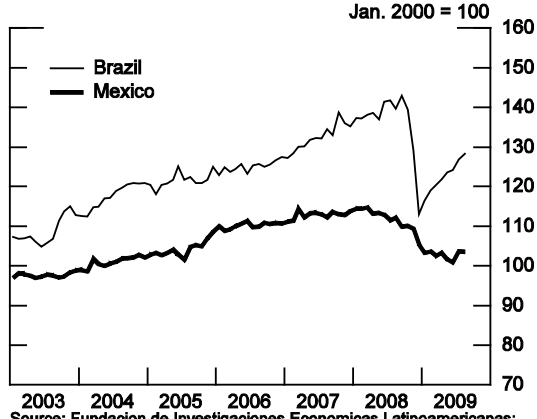
5. Billions of U.S. dollars, not seasonally adjusted, annualized.

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

Source: Haver Analytics; IMF International Financial Statistics database;
Instituto Brasileiro de Geografia e Estatística.

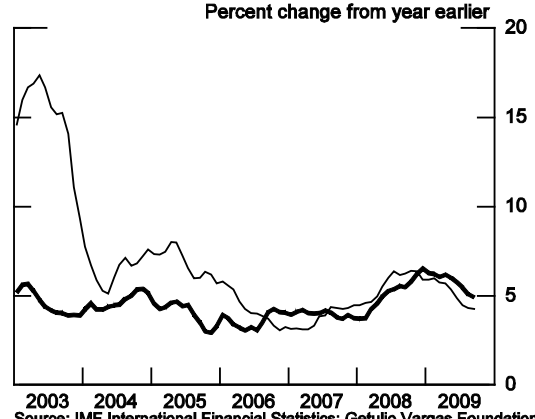
Latin America

Industrial Production



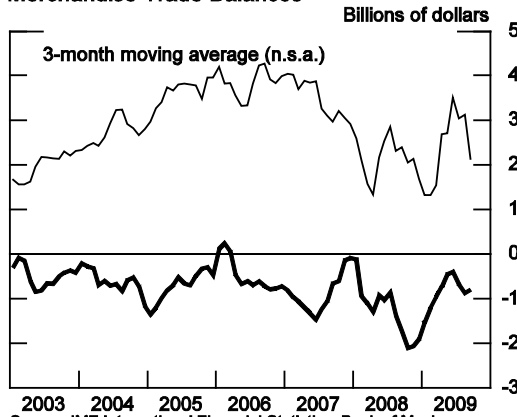
Source: Fundacion de Investigaciones Economicas Latinoamericanas; Haver Analytics.

Consumer Prices



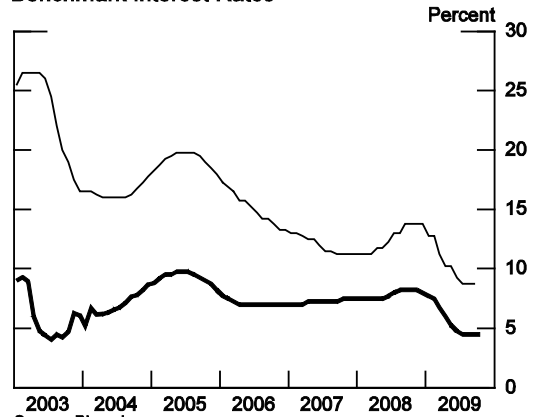
Source: IMF International Financial Statistics; Getulio Vargas Foundation; Haver Analytics; Bank of Mexico.

Merchandise Trade Balances



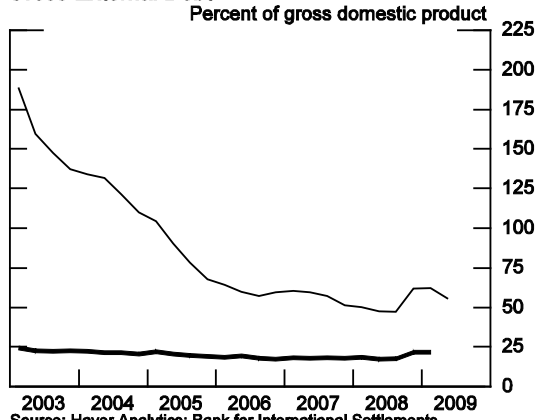
Source: IMF International Financial Statistics, Bank of Mexico.

Benchmark Interest Rates



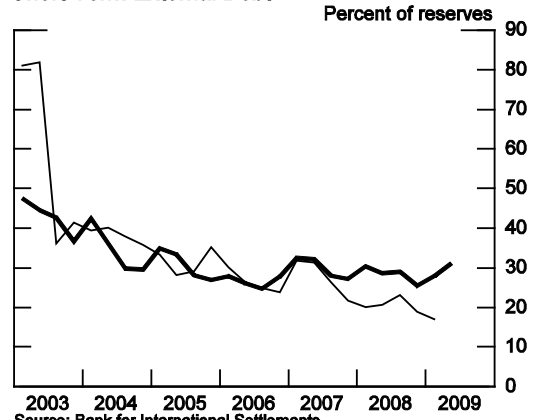
Source: Bloomberg.

Gross External Debt



Source: Haver Analytics; Bank for International Settlements.

Short-Term External Debt



Source: Bank for International Settlements.

In **Russia**, economic activity began to rebound in the third quarter following three quarters of decline. Industrial production was up 22 percent at an annual rate in the third quarter. Retail sales were flat in the third quarter, but consumer confidence has shown improvement in recent months. The unemployment rate ticked down in September, to a seasonally-adjusted 8 percent, from 9 percent in May. Consumer prices rose just 0.3 percent in September bringing headline consumer price inflation down to 10.7 percent on a 12-month basis, the lowest in two years. Higher oil prices have supported a strong ruble. The central bank of Russia has allowed some currency appreciation but also has been accumulating reserves over the past few months.

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Abbreviations–Part 2

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Abbreviations—Part 2

ABCP	asset-backed commercial paper
ABS	asset-backed securities
ACLI	American Council of Life Insurers
AMLF	Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility
ARM	adjustable-rate mortgage
ASEAN-4	Association of Southeast Asian Nations (Indonesia, Malaysia, the Philippines, and Thailand)
BEA	Bureau of Economic Analysis, Department of Commerce
BLS	Bureau of Labor Statistics, Department of Labor
BOE	Bank of England
BOJ	Bank of Japan
BOP	balance of payments
CARD	Credit Card Accountability Responsibility and Disclosure (Act)
CD	certificate of deposit
CDS	credit default swap
C&I	commercial and industrial
CMBS	commercial mortgage-backed securities
CPFF	Commercial Paper Funding Facility
CPI	consumer price index
CPIP	construction put in place
CRB	Commodity Research Bureau
CRE	commercial real estate
DI	depository institution
ECB	European Central Bank
EONIA	euro overnight index average
E&S	equipment and software
ETF	exchange-traded fund
FASB	Financial Accounting Standards Board

FDIC	Federal Deposit Insurance Corporation
FHA	Federal Housing Administration, Department of Housing and Urban Development
FHFA	Federal Housing Finance Agency
FHLMC	Federal Home Loan Mortgage Corporation (Freddie Mac)
FNMA	Federal National Mortgage Association (Fannie Mae)
FOMC	Federal Open Market Committee; also, the Committee
FRB	Federal Reserve Board
FRBNY	Federal Reserve Bank of New York
FRM	fixed-rate mortgage
GDP	gross domestic product
GM	General Motors
GSE	government-sponsored enterprise
IP	industrial production
ISM	Institute for Supply Management
JOC	Journal of Commerce
JOLT	Job Openings and Labor Turnover Survey
Libor	London interbank offered rate
LP	LoanPerformance
MBS	mortgage-backed securities
MPU	microprocessor unit
NABE	National Association of Business Economists
NAR	National Association of Realtors
NBER	National Bureau of Economic Research
NCREIF	National Council of Real Estate Investment Fiduciaries
NFIB	National Federation of Independent Business
NIEs	newly industrialized economies (Hong Kong, South Korea, Singapore, and Taiwan)
NIPA	national income and product accounts
nsa	not seasonally adjusted

OIS	overnight index swap
OPEC	Organization of the Petroleum Exporting Countries
PC	personal computer
P&C	Productivity and Costs
PCE	personal consumption expenditures
PDCF	Primary Dealer Credit Facility
PMI	purchasing managers index
PPI	producer price index
RADGO	real adjusted durable goods orders
RBA	Reserve Bank of Australia
REIT	real estate investment trust
s.a.a.r.	seasonally adjusted annual rate
SLOOS	Senior Loan Officer Opinion Survey on Bank Lending Practices
SOMA	System Open Market Account
SPF	Survey of Professional Forecasters
TAF	Term Auction Facility
TALF	Term Asset-Backed Securities Loan Facility
TARP	Troubled Asset Relief Program
TIPS	Treasury inflation-protected securities
TLGP	Temporary Liquidity Guarantee Program
WTI	West Texas Intermediate