Prefatory Note

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Class III FOMC - Internal (FR)

Part 2

December 9, 2009

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

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

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Domestic Nonfinancial Developments

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The recovery in economic activity appears to be gaining momentum. Consumer spending posted a robust gain in October, and sales of light vehicles climbed again in November. Sales of both new and existing homes also registered solid increases in October, and inventories of unsold new homes fell further. Although spending on nonresidential structures continued to contract sharply in October, shipments of capital goods have leveled off, on balance, in recent months. At the same time, industrial production has continued to rebound from the low level reached earlier in the year. Moreover, the decline in private payroll employment in November was the smallest since the start of the recession, and the unemployment rate ticked down. Nonetheless, the jobless rate and other estimates of slack in resource utilization remained substantial in recent months, and consumer sentiment indexes were still at low levels. Meanwhile, a sharp rise in energy prices pushed top-line inflation higher, even as the rise in core consumer prices remained subdued.

Labor Market Developments

The pace of job loss has slowed considerably in recent months relative to the steep drops that occurred in the first half of the year. Private nonfarm payroll employment declined an estimated 18,000 in November after three months in which declines averaged about 140,000 per month. Moreover, the recent improvement in the employment situation was widespread across most industries. Of particular note, the temporary help services industry—often considered a bellwether of developments in the labor market—added nearly 40,000 jobs per month during the past three months. Employers also appear to have begun lengthening workweeks, which can be a precursor to a pickup in hiring. The average workweek for production and nonsupervisory workers rose 0.2 hour to 33.2 hours in November, and aggregate hours worked for this group increased 0.6 percent, the first significant increase since the recession began.

As with the payroll data, key measures of labor market slack from the household survey have continued to weaken over the past several months, on balance, but more gradually than earlier in the year. Between June and November, the unemployment rate moved up ½ percentage point to 10 percent after having risen more than 2 percentage points in the first half of the year. Likewise, the fraction of workers working part time for economic reasons has increased only slightly in the second half of the year. However, the labor force participation rate, which held steady earlier in the recession, has moved down steeply since the spring.

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

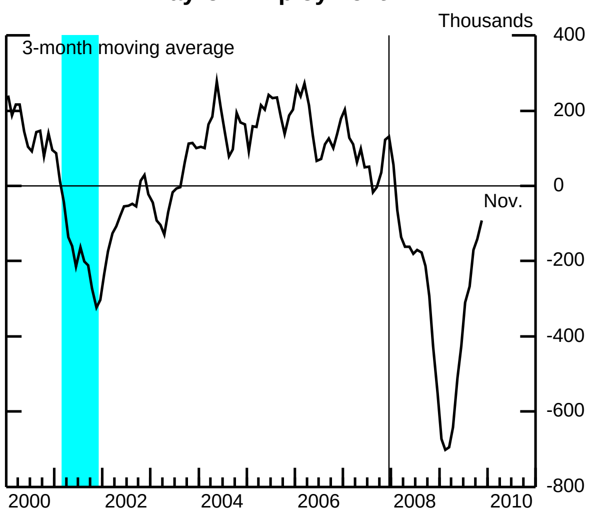
Changes in Employment

(Thousands of employees; seasonally adjusted)

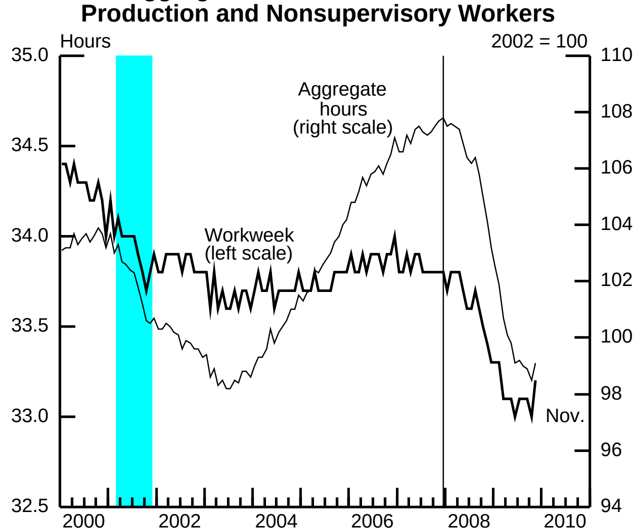
Measure and sector	2008	2009 Q1	2009 Q2	2009 Q3	2009 Sept.	2009 Oct.	2009 Nov.
	Average monthly change				Monthly change		
Nonfarm payroll employment (establishment survey)	-257	-691	-428	-199	-139	-111	-11
Private	-270	-695	-425	-171	-100	-157	-18
Natural resources and mining	4	-12	-11	-5	-1	-6	-1
Manufacturing	-73	-202	-140	-46	-41	-51	-41
Ex. motor vehicles	-58	-176	-117	-55	-40	-56	-35
Construction	-57	-124	-80	-63	-53	-56	-27
Residential	-35	-53	-26	-15	-6	-9	-3
Nonresidential	-22	-71	-54	-48	-46	-47	-24
Wholesale trade	-16	-36	-20	-9	-7	-3	-12
Retail trade	-44	-55	-27	-35	-40	-44	-15
Financial activities	-19	-51	-35	-16	-11	-10	-10
Temporary help services	-44	-73	-28	5	17	44	52
Nonbusiness services[1]	19	-25	19	25	39	-11	26
Total government	14	4	-3	-28	-39	46	7
Federal government	3	10	3	3	2	17	1
Total employment (household survey)	-246	-817	-230	-444	-785	-589	227
Memo:							
Aggregate hours of private production workers (percent change)[2]	-3.3	-8.9	-7.8	-2.5	-.1	-.4	.6
Average workweek (hours)[3]	33.6	33.2	33.1	33.1	33.1	33.0	33.2
Manufacturing (hours)	40.8	39.6	39.5	39.9	40.0	40.1	40.4

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.

Changes in Private Payroll Employment



Aggregate Hours and Workweek of Production and Nonsupervisory Workers



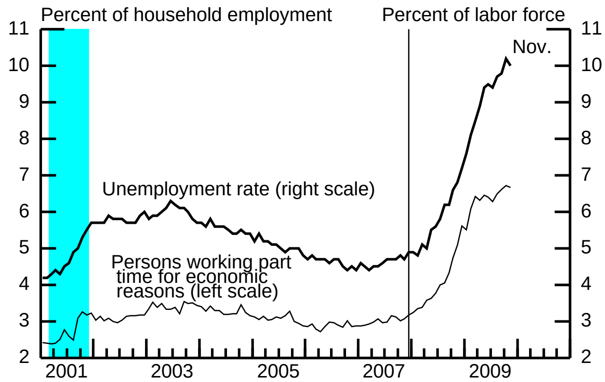
Note: The shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research (NBER). The vertical lines represent the last business cycle peak as defined by the NBER.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Selected Unemployment and Labor Force Participation Rates

(Percent; seasonally adjusted)

Rate and group	2008	2009 Q1	2009 Q2	2009 Q3	2009 Sept.	2009 Oct.	2009 Nov.
Civilian unemployment rate							
Total	5.8	8.1	9.2	9.6	9.8	10.2	10.0
Teenagers	18.7	21.3	22.7	25.1	25.9	27.6	26.7
20-24 years old	10.2	13.0	15.0	15.1	14.9	15.6	16.0
Men, 25 years and older	4.8	7.4	8.8	9.4	9.7	9.7	9.6
Women, 25 years and older	4.4	6.2	6.9	7.1	7.3	7.6	7.3
Labor force participation rate							
Total	66.0	65.6	65.8	65.4	65.2	65.1	65.0
Teenagers	40.2	38.3	38.4	37.5	36.9	36.2	35.8
20-24 years old	74.4	73.7	74.1	72.9	72.3	71.5	71.8
Men, 25 years and older	75.4	74.6	74.9	74.9	74.8	74.7	74.4
Women, 25 years and older	60.0	60.0	60.3	59.9	59.7	59.7	59.6

Unemployment Rate and Persons Working Part Time for Economic Reasons



Source: U.S. Department of Labor, Bureau of Labor Statistics.

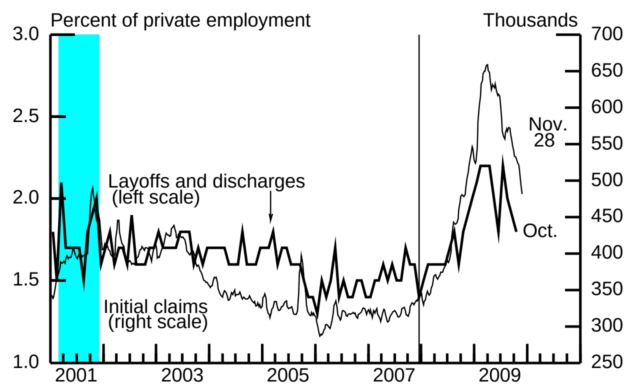
Labor Force Participation Rate

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Job Losers Unemployed Less Than 5 Weeks

Note: Thick line is the 3-month moving average.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Layoffs and Initial Claims

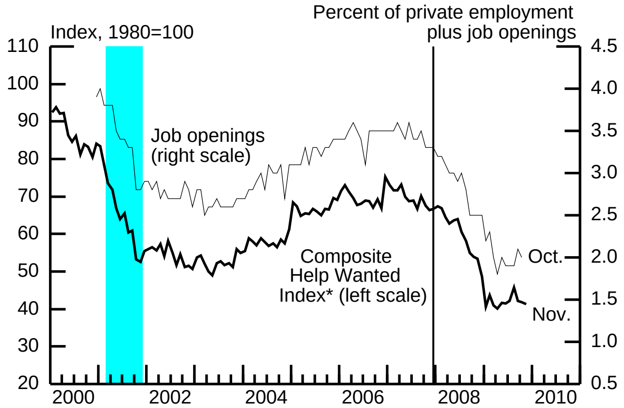


Note: Data for initial claims are 4-week moving averages.
Source: For layoffs and discharges, Job Openings and Labor Turnover Survey; for initial claims, U.S. Dept. of Labor, Employment and Training Administration.

Note: The shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research (NBER). The vertical lines represent the last business cycle peak as defined by the NBER.

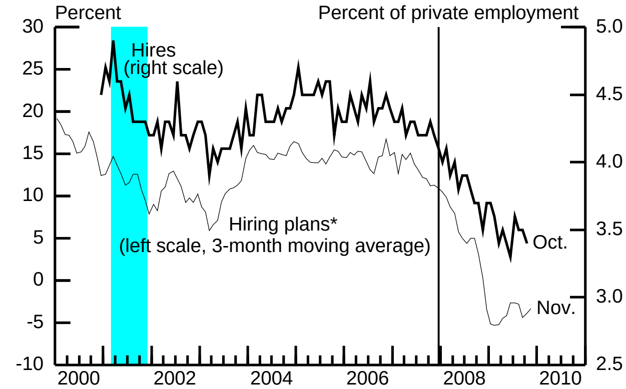
Labor Market Indicators

Job Openings



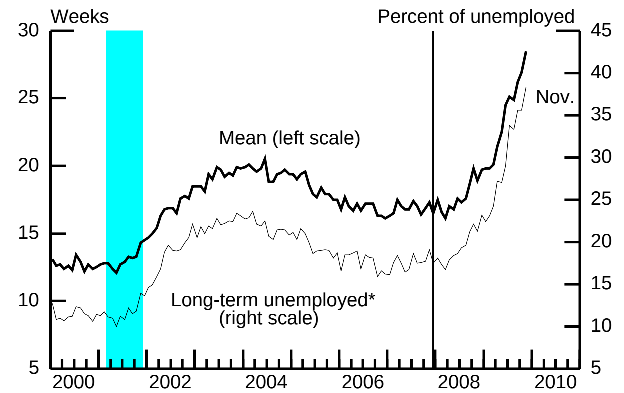
*Index of staff composite help wanted advertising as a percent of payroll employment.
Source: For job openings, Job Openings and Labor Turnover Survey; for Composite Help Wanted Index, Conference Board and staff calculations.

Hires and Hiring Plans



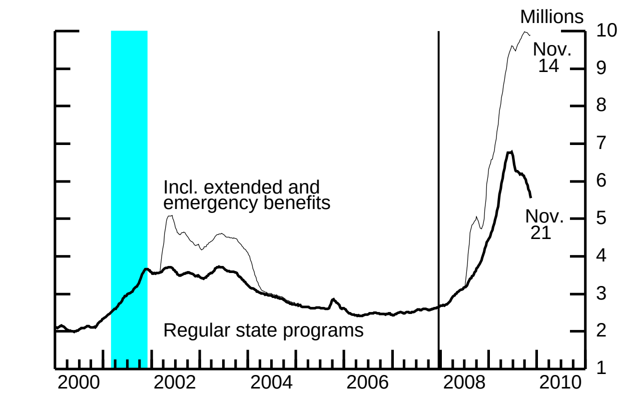
*Percent planning an increase in employment minus percent planning a reduction. Seasonally adjusted by FRB staff.
Source: For hires, Job Openings and Labor Turnover Survey; for hiring plans, National Federation of Independent Business.

Duration of Unemployment



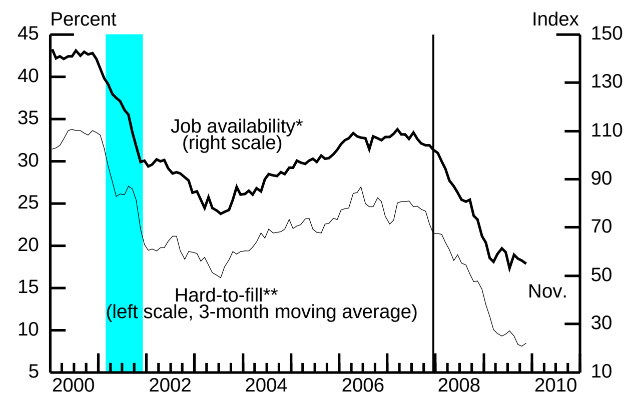
*Unemployed more than 26 weeks.
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

Insured Unemployment



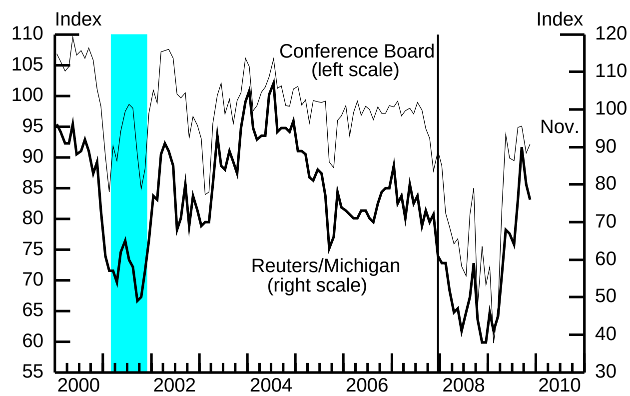
Note: 4-week moving averages.
Source: U.S. Dept. of Labor, Employment and Training Administration.

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

Note: The shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research (NBER). The vertical lines represent the last business cycle peak as defined by the NBER.

The slower rise in the unemployment rate since midyear primarily reflects a moderation in layoffs rather than an improvement in hiring. Both initial claims for unemployment insurance and the number of new job losers have fallen over the past several months. The rate of layoffs and discharges from the Job Openings and Labor Turnover Survey has also moved down from its highs last winter, but its progress has been more erratic.

In contrast, hiring conditions remain weak. Measures of job openings have been basically unchanged since April, and indicators of both actual and planned hiring are still near the depressed levels seen at the start of the year. As a result, the average length of ongoing unemployment spells has risen steeply, and joblessness has become increasingly concentrated among those out of work for more than 26 weeks. Rising unemployment duration is also reflected in the increasing share of total claimants for unemployment insurance who are receiving extended or emergency benefits. Indeed, even as the number of persons receiving unemployment insurance benefits through regular state programs has been declining for some time, the total number of individuals receiving unemployment insurance—including extended and emergency benefits—only recently appears to have leveled off.

Other indicators of the labor market have continued to deteriorate, including the number of firms reporting hard-to-fill positions in the NFIB survey and individuals' perceptions of current job availability from the Conference Board Survey. However, households' expectations of future labor market conditions have changed little, on net, in recent months and remain well above the low point reached earlier this year.

Output per Hour
(Percent change from preceding period at an annual rate; seasonally adjusted)

Sector	2007:Q3 to 2008:Q3	2008:Q3 to 2009:Q3[1]	2008 Q4	2009 Q1	2009 Q2	2009 Q3[1]
Nonfarm business						
All persons	1.2	3.8	.8	.3	6.9	7.4
All employees[2]	.8	3.7	-1.0	1.1	7.7	7.2

1. Staff estimates.
2. Assumes that the growth rate of hours of non-employees equals the growth rate of hours of employees.
Source: For output, U.S. Dept. of Commerce, Bureau of Economic Analysis; for hours, U.S. Dept. of Labor, Bureau of Labor Statistics.

The staff estimates that output per hour of all persons in the nonfarm business sector rose at an annual rate of 7.3 percent in the third quarter—as hours declined sharply and output expanded—following a similarly large increase in the second quarter. Over the four quarters ending in the third quarter of this year, labor productivity is estimated to have increased 3.8 percent.

Industrial Production

Industrial production (IP) edged up in October after increasing at an annual rate of 5.6 percent in the third quarter. In November, data on production worker hours as well as the available data on physical output suggest that IP rose solidly. Since the June trough in IP, production gains have been widespread; indeed, in well over half of the individual series that make up the index, the level of production in October was higher than three months earlier. Recent production gains have reflected a surge in output for motor vehicles and parts (and the resulting demand for intermediate materials), a slowing pace of inventory liquidation elsewhere, and rising export demand.

Despite the gains in production, the degree of manufacturing slack remains considerable. Although the factory operating rate in October, at 67.6 percent, was 2½ percentage points above its all-time low in June, it nevertheless remained 1 percentage point below its previous low (reached in December 1982).

After having moved up in September, the production of light motor vehicles fell back to an annual rate of 6.8 million units in October and appears to have edged up in November. Although stocks of domestic light vehicles expanded in both October and November, the recent increases in the pace of sales reduced days' supply at the end of November to 55 days, a level that is significantly below the industry target of about 65 days. Production schedules call for output to climb to an annual rate of 7.4 million units in December and then to remain at that level in the first quarter of 2010.

Industrial production in the high-tech sector edged up, on balance, over the three months through October as solid increases in semiconductor output outweighed the weakness in production of computers and communication equipment. However, recently released data on shipments of PCs and servers, which have not yet been incorporated in published IP, suggest that the production of mobile computers and servers jumped in the third quarter and that computer production is likely to be revised up. In contrast, production in the communications equipment segment of the industry has been weak, partly reflecting a

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

Component	Proportion 2008 (percent)	2008[1]	2009 Q2	2009 Q3	2009 Aug.	2009 Sept.	2009 Oct.
			Annual rate		Monthly rate		
Total	**100.0**	**-6.7**	**-10.3**	**5.6**	**1.3**	**.6**	**.1**
Previous	100.0	-6.7	-10.3	5.2	1.2	.7	...
Manufacturing	79.0	-8.7	-8.7	7.7	1.4	.8	-.1
Ex. motor veh. and parts	74.5	-7.8	-8.6	4.1	1.2	.4	-.1
Ex. high-tech industries	70.3	-7.8	-9.0	4.0	1.2	.4	-.1
Mining	10.6	.8	-21.6	4.2	1.1	.6	-.2
Utilities	10.4	.3	-11.2	-6.6	.8	-.2	1.6
Selected industries							
Energy	23.9	1.3	-14.4	-2.5	.6	.7	.5
High technology	4.2	-6.9	-1.3	5.4	-.3	.1	.6
Computers	1.0	-11.9	-25.1	-17.8	-1.4	-1.4	-1.2
Communications equipment	1.3	10.4	-4.5	-6.7	-.9	-2.3	.9
Semiconductors[2]	1.8	-15.0	19.0	34.0	.8	3.1	1.2
Motor vehicles and parts	4.5	-23.3	-10.4	116.8	6.3	8.1	-1.7
Aircraft and parts	2.3	-13.2	-18.6	2.9	-.7	2.0	-.6
Total ex. selected industries	65.1	-8.3	-9.0	4.2	1.4	.2	.0
Consumer goods	20.7	-4.2	-4.8	2.5	1.6	.4	.4
Durables	3.5	-14.7	-12.7	2.9	-.2	.4	-.7
Nondurables	17.1	-1.8	-3.3	2.4	2.0	.4	.6
Business equipment	6.6	-4.8	-22.5	-.7	1.5	-.8	-.4
Defense and space equipment	1.1	-2.1	3.8	16.6	1.4	1.5	-.6
Construction supplies	4.8	-11.8	-10.5	2.9	.7	-1.1	-1.2
Business supplies	7.3	-9.8	-10.6	-.5	.7	-.5	-.3
Materials	24.6	-11.7	-8.4	8.5	1.6	.6	.1
Durables	12.4	-11.4	-23.9	8.4	1.4	.9	.2
Nondurables	12.2	-12.0	8.1	8.6	1.7	.3	.1

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."

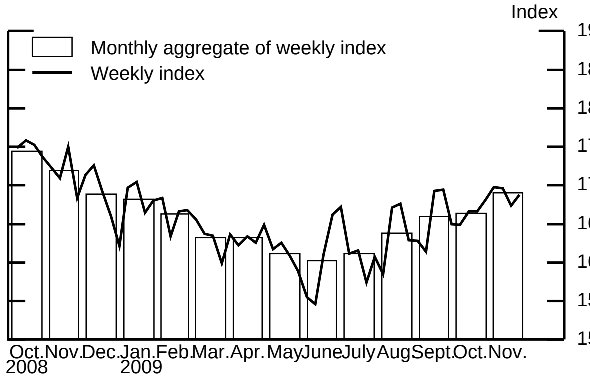
Capacity Utilization
(Percent of capacity)

Sector	1972-2008 average	1994-95 high	2001-02 low	2009 Q1	2009 Q2	2009 Q3	2009 Sept.	2009 Oct.
Total industry	**80.9**	**84.9**	**73.5**	**70.4**	**68.7**	**69.9**	**70.5**	**70.7**
Manufacturing	79.6	84.5	71.4	66.7	65.4	66.9	67.6	67.6
Mining	87.6	89.1	84.9	86.8	81.8	82.9	83.6	83.5
Utilities	86.8	93.3	84.2	82.4	79.6	77.9	77.9	79.0
Stage-of-process groups								
Crude	86.6	89.9	81.7	80.9	79.6	81.7	83.0	83.1
Primary and semifinished	82.0	87.9	74.3	68.4	66.2	66.9	67.3	67.4
Finished	77.7	80.3	70.0	68.4	67.1	68.5	69.4	69.5

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

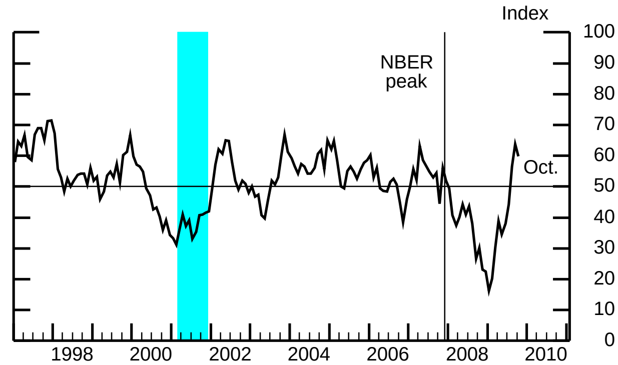
Indicators of Industrial Activity

Weekly Production Index excluding Motor Vehicles



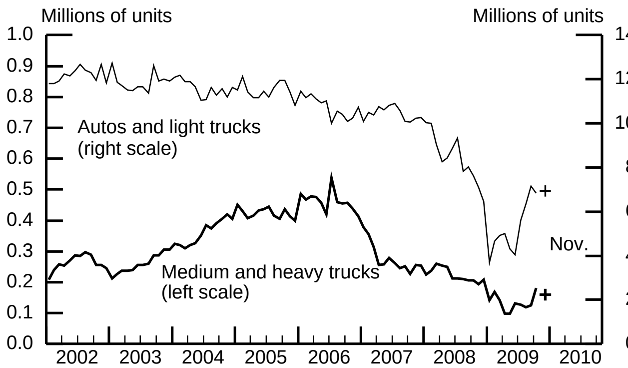
Note: One index point equals 1 percent of 2002 total industrial output.
Source: Federal Reserve Board, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

IP Diffusion Index



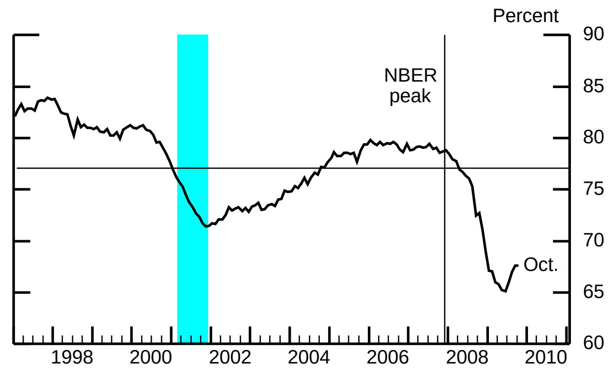
Note: The diffusion index equals the percentage of series that increased relative to 3 months earlier plus one-half the percentage that were unchanged.
Source: Federal Reserve Board, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

Motor Vehicle Assemblies



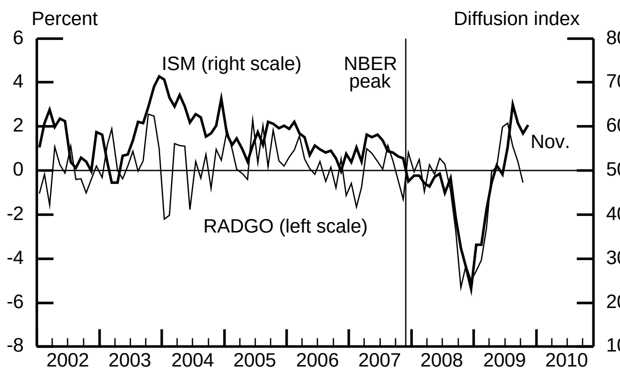
+ November values are based on latest industry schedules.
Source: Ward's Communications.

Manufacturing Capacity Utilization



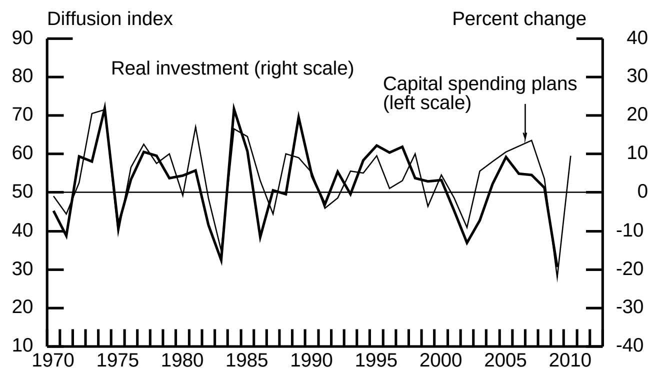
Note: Horizontal line is 1972-2008 average.
Source: Federal Reserve Board, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

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.

Manufacturing Investment



Note: Manufacturing investment data are from the Annual Survey of Manufacturers; values for 2007-09 are staff estimates.
The ISM series is a diffusion index that equals the percentage of respondents reporting plans to increase investment plus one-half the percentage reporting no plans to change investment.
Source: Institute for Supply Management.

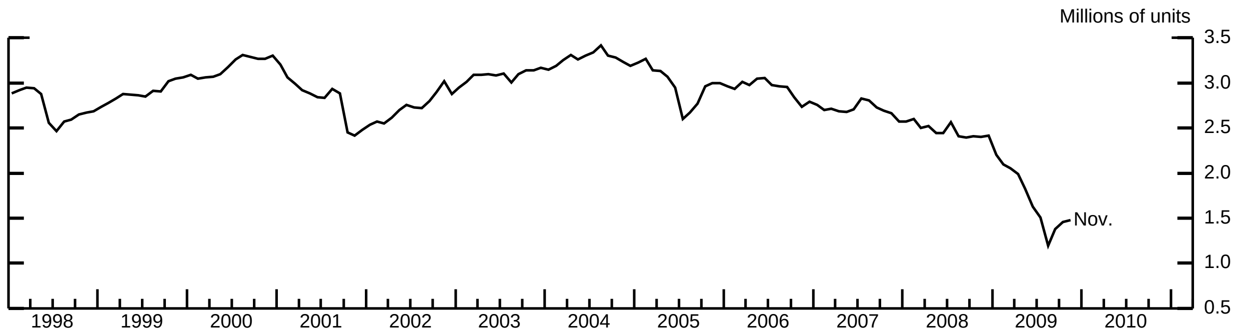
Note: Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER). The vertical line represents the last business cycle peak as defined by the NBER.

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

Item	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2009 Aug.	2009 Sept.	2009 Oct.	2009 Nov.
U.S. production[1]	4.5	6.4	7.0	7.4	6.3	7.1	6.8	6.9
Autos	1.9	2.5	2.9	3.1	2.5	2.8	2.9	2.8
Light trucks	2.5	3.8	4.2	4.3	3.8	4.3	3.9	4.1
Days' supply[2]	70	50	n.a.	n.a.	36	63	57	55
Autos	78	46	n.a.	n.a.	32	59	56	54
Light trucks	64	55	n.a.	n.a.	40	66	58	55
Inventories[3]	1.63	1.38	n.a.	n.a.	1.20	1.38	1.46	1.48
Autos	.82	.63	n.a.	n.a.	.56	.63	.66	.67
Light trucks	.81	.75	n.a.	n.a.	.64	.75	.79	.81
Memo: U.S. production, total motor vehicles[4]	4.6	6.5	7.2	7.6	6.5	7.3	7.0	7.1

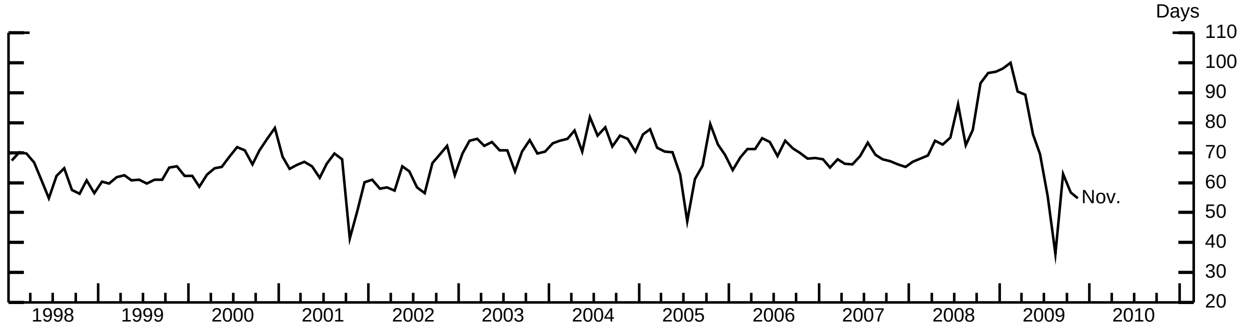
Note: FRB seasonals. Components may not sum to totals because of rounding.
1. Production rates for November and the fourth quarter of 2009 and the first quarter of 2010 reflect the latest industry schedules.
2. Quarterly values are calculated with end-of-period stocks and average reported sales.
3. End-of-period 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.

decline in the production of wireless infrastructure equipment, which had surged earlier in the year. Upstream, the solid gains in the production of semiconductors reflect some restocking after the enormous production declines early in the year as well as a bounceback in global chip demand.

Looking ahead, comments from high-tech consultancies and manufacturers suggest that global high-tech demand for computers has continued to improve this quarter.[1] In addition, orders and shipments of circuit boards—which are used in a wide variety of electronic products—have continued to move up, on balance. Some semiconductor producers could find a further brisk pickup in demand difficult to meet because utilization rates at some leading-edge facilities have already rebounded to elevated levels and days' supply has fallen substantially. In fact, shortages of certain types of memory chips have been reported recently.

The output of energy rose again in October. Moreover, available data for November suggest that drilling activity moved up for a fourth consecutive month, and oil extraction rose for a fifth consecutive month. The boost to both drilling and extraction activity was likely spurred by the rise in oil prices this year.

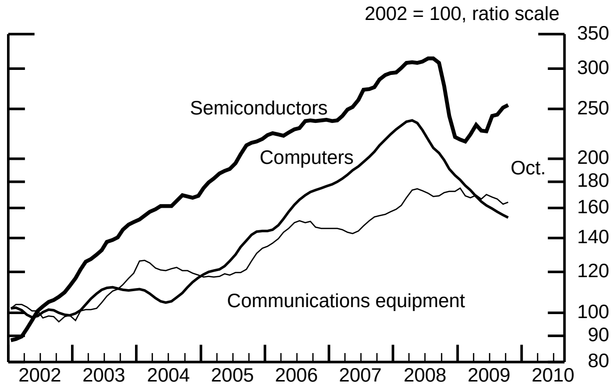
Outside of energy, transportation, and high-tech industries, output was flat in October after increasing 4¼ percent at an annual rate in the third quarter. Production of consumer goods moved up in October, as gains in nondurables more than offset decreases in durables. In addition, materials output edged up. By contrast, the output of construction supplies, business supplies, and business equipment each declined for a second consecutive month.

The available indicators of near-term manufacturing activity, on net, suggest that factory output will expand further in the coming months. The monthly diffusion index of new orders from the national ISM survey remained in a range that suggests solid increases in production, while the orders indexes from the regional surveys were broadly consistent with moderate gains in manufacturing output. By contrast, the staff series on real adjusted durable goods orders declined in October relative to three months earlier.

[1] However, because these sources anticipate that sustained demand from the business sector—the focus of U.S. computer production—will be slow to materialize, the pickup in domestic output will likely be delayed. Moreover, the eventual boost to domestic production from global demand is likely to be smaller than in recent years because Dell's recent change in business strategy—shifting toward outsourcing production—implies greater import penetration in the U.S. computer market. For example, Dell's North Carolina PC production plant will completely shut down around the turn of the year.

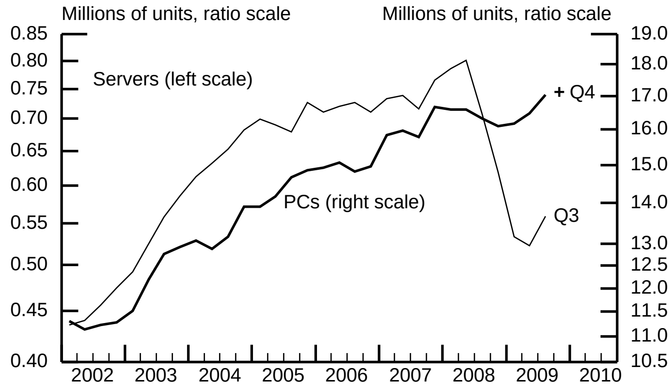
Indicators of High-Tech Manufacturing Activity

Industrial Production in the High-Tech Sector



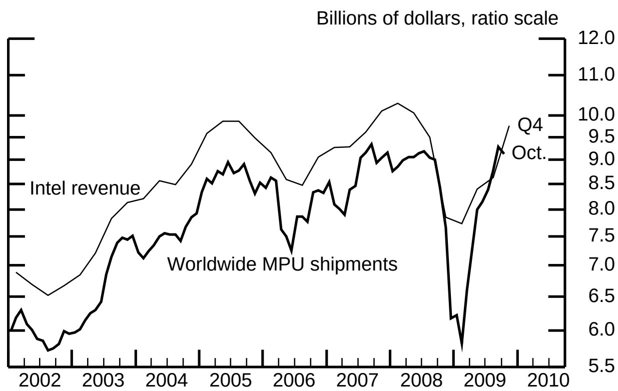
Source: Federal Reserve Board, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

U.S. Personal Computer and Server Absorption



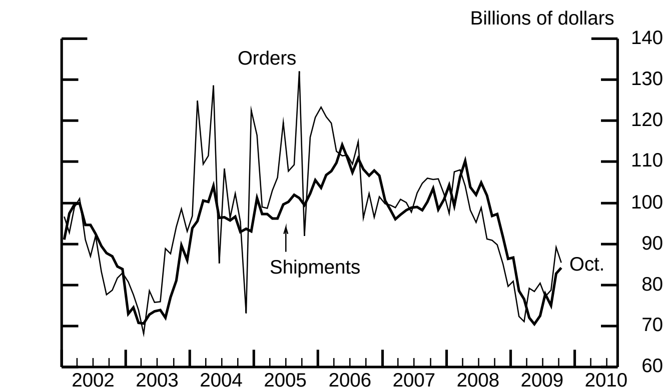
Note: FRB seasonals. PC and server units represent the most recent U.S. data available from IDC. Q4 PC units are from the PC forecast data release.
Source: IDC.

MPU Shipments and Intel Revenue



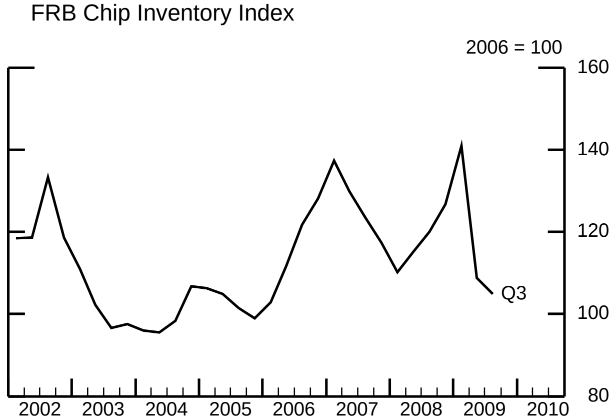
Note: FRB seasonals. MPU is a microprocessor unit. Q4 Intel revenue is the midpoint of the range given by the company's guidance as of November 12, 2009. MPU shipments are a 3-month sum.
Source: Intel; Semiconductor Industry Association.

Circuit Board Orders and Shipments



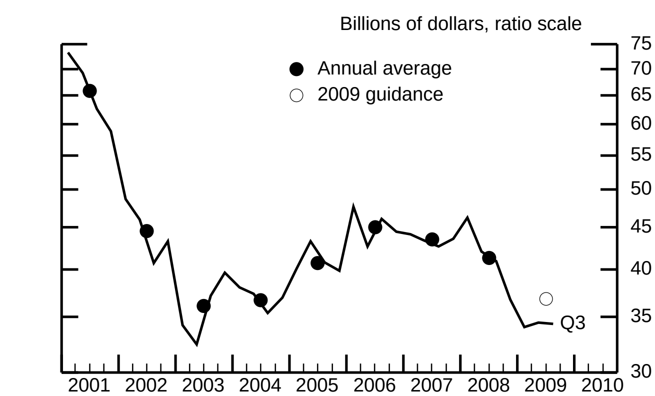
Note: U.S. and Canadian orders and shipments of bare and loaded circuit boards.
Source: Institute for Printed Circuits.

FRB Chip Inventory Index



Note: The staff's chip inventory index is a sales-weighted chain-type index constructed from financial data for 10 major chip manufacturers.
Source: Financial reports.

Capital Expenditures by Selected Telecommunications Service Providers



Note: FRB seasonals. Includes AT&T, Verizon, Sprint Nextel, and companies related by merger, acquisition, or spinoff.
Source: Securities and Exchange Commission filings.

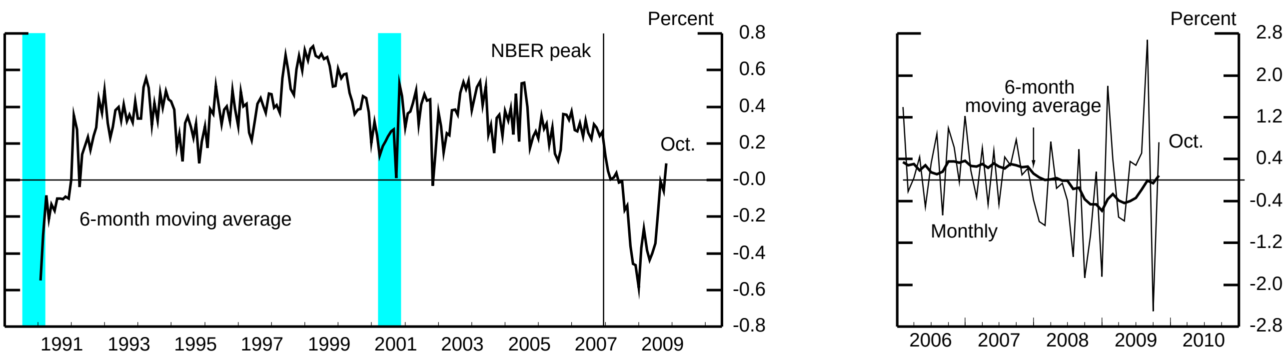
Real Personal Consumption Expenditures
(Percent change from preceding comparable period)

Category	2009 Q1	2009 Q2	2009 Q3	2009 Aug.	2009 Sept.	2009 Oct.
	Annual rate			Monthly rate		
Total real PCE	**.6**	**-.9**	**2.9**	**1.0**	**-.7**	**.4**
Motor vehicles	9.6	-6.3	53.7	20.1	-29.8	8.9
Goods ex. motor vehicles	-2.8	-5.9	3.0	1.1	.5	.1
Services	-.3	.2	1.0	.1	.2	.3
Ex. energy	-.2	.7	1.1	.1	.1	.2
Memo:						
Real PCE control[1]	1.3	-2.5	3.0	.8	.5	.4
Nominal retail control[2]	2.2	-2.8	1.1	.5	.4	.5

1. Durables excluding motor vehicles, nondurables excluding gasoline, and food services.
2. Total sales less outlays at building material and supply stores, automobile and other motor vehicle dealers, and gasoline stations.

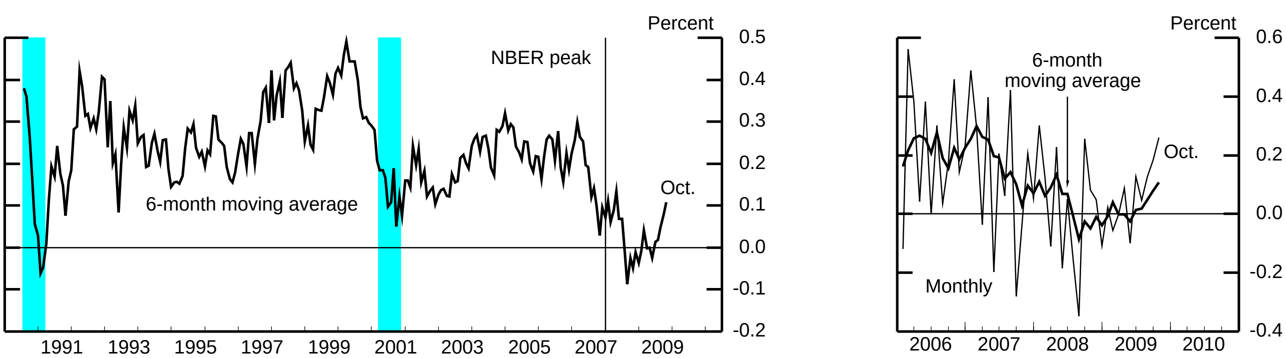
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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.

In the recent ISM Semiannual Economic Forecast, the diffusion index of capital spending plans jumped to a moderate level from its record low in the spring. This reading is consistent with little change in capital spending in the manufacturing sector next year and with another sizable contraction in factory capacity.

Consumer Spending

Consumer spending has continued to recover. Real PCE climbed 0.4 percent in October following a solid increase in the third quarter. Moreover, the gains in October were broad based: Outlays for motor vehicles bounced back almost 9 percent after a sharp decline in September, spending on other goods rose 0.1 percent, and spending on services advanced 0.3 percent, the largest monthly increase in more than a year. More recently, sales of new light vehicles rose an additional 500,000 units in November to an annual rate of 10.9 million units despite less generous cash rebates and finance incentives this quarter. Other indicators of spending in November, including data on chain store sales and credit card transaction volumes, were mixed, but generally pointed to another increase in outlays.

While spending has rebounded, the fundamentals of household demand have remained soft. Although household net worth moved up in the third quarter, households have lost wealth equivalent to more than 1½ years of income over the past two years and are likely still adjusting their spending to that loss. In addition, real labor compensation, which plunged in the first quarter, declined modestly, on net, over the second and third quarters, largely reflecting decreases in aggregate hours worked.[2] In the current quarter, the available data suggest that a jump in energy prices has erased the modest gains in nominal labor income. Nevertheless, disposable income has been supported for most of the year by lower taxes and higher transfers. With spending on the rise, the personal saving rate dropped back down to 4.4 percent in October but is still well above the average rate observed before the recession. Meanwhile, credit conditions remain tight, and measures of consumer sentiment still suggest overall weakness.

Housing

Housing demand has continued to firm. Sales of existing single-family homes jumped

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[2] Since the last Greenbook, the BEA has revised up nominal compensation by $88 billion at an annual rate in the second quarter and by $111 billion at an annual rate in the third quarter, on the basis of newly available data on unemployment insurance tax records for the second quarter.

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

Category	2008	2009 Q1	2009 Q2	2009 Q3	2009 Sept.	2009 Oct.	2009 Nov.
Total	13.1	9.5	9.6	11.5	9.2	10.4	10.9
Autos	6.7	4.8	4.9	6.4	5.0	5.4	5.6
Light trucks	6.4	4.7	4.7	5.1	4.2	5.0	5.3
North American[1]	9.8	6.8	7.1	8.4	6.7	7.9	8.3
Autos	4.5	3.1	3.2	4.2	3.3	3.7	3.8
Light trucks	5.3	3.7	3.9	4.2	3.5	4.2	4.5
Foreign-produced	3.3	2.7	2.4	3.1	2.5	2.6	2.6
Autos	2.2	1.7	1.6	2.1	1.7	1.8	1.8
Light trucks	1.1	1.0	.8	.9	.8	.8	.8
Memo: Detroit Three market share (percent)[2]	48.3	44.1	46.8	43.1	43.7	44.8	44.9

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.

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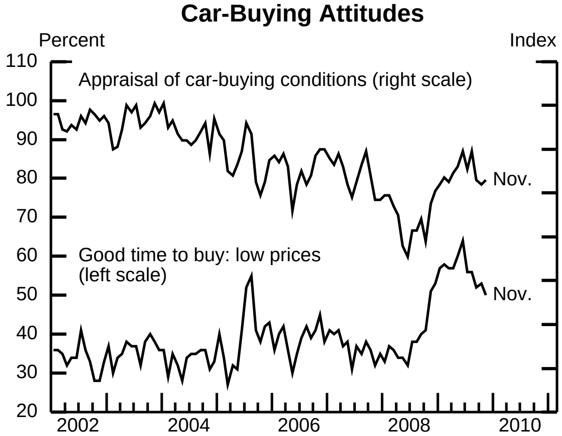
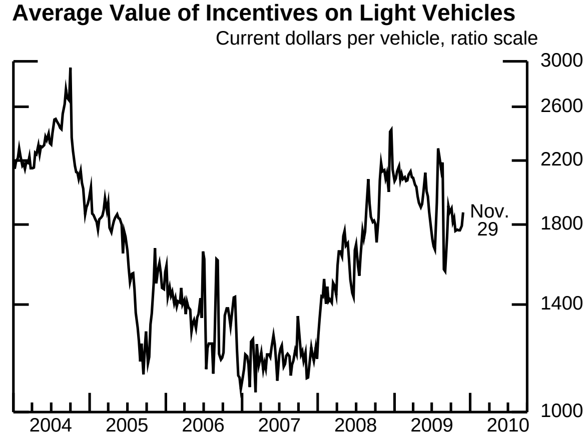
Car-Buying Attitudes



Source: Reuters/University of Michigan Surveys of Consumers.

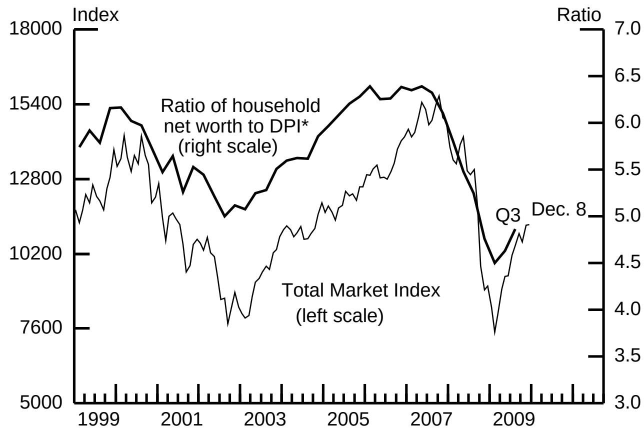
Average Value of Incentives on Light Vehicles



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.

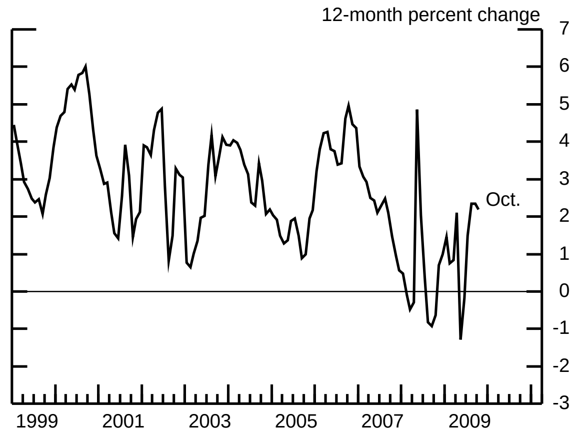
Fundamentals of Household Spending

Household Net Worth and Dow Jones Total Market Index



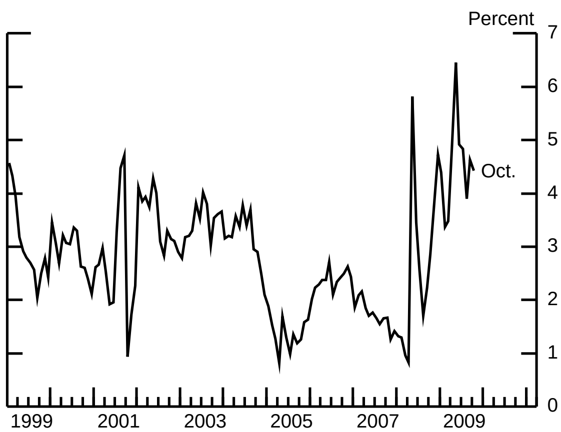
* The value for 2004:Q4 excludes the effect on income of the one-time Microsoft dividend in December 2004.
Source: Federal Reserve Board; U.S. Department of Commerce, Bureau of Economic Analysis; *Wall Street Journal.*

Change in Real Disposable Personal Income



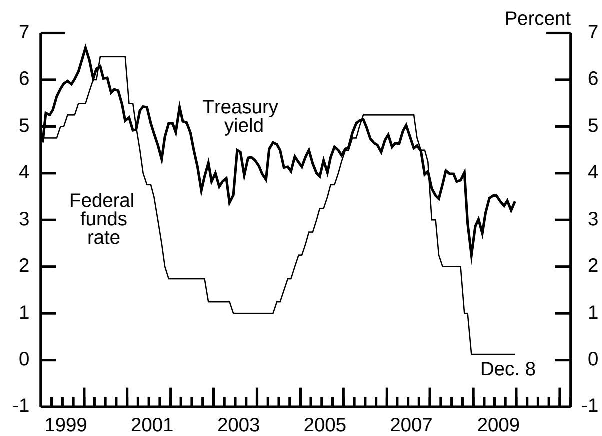
Note: Values for December 2004 and December 2005 exclude the effect on income of the one-time Microsoft dividend in December 2004.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Personal Saving Rate



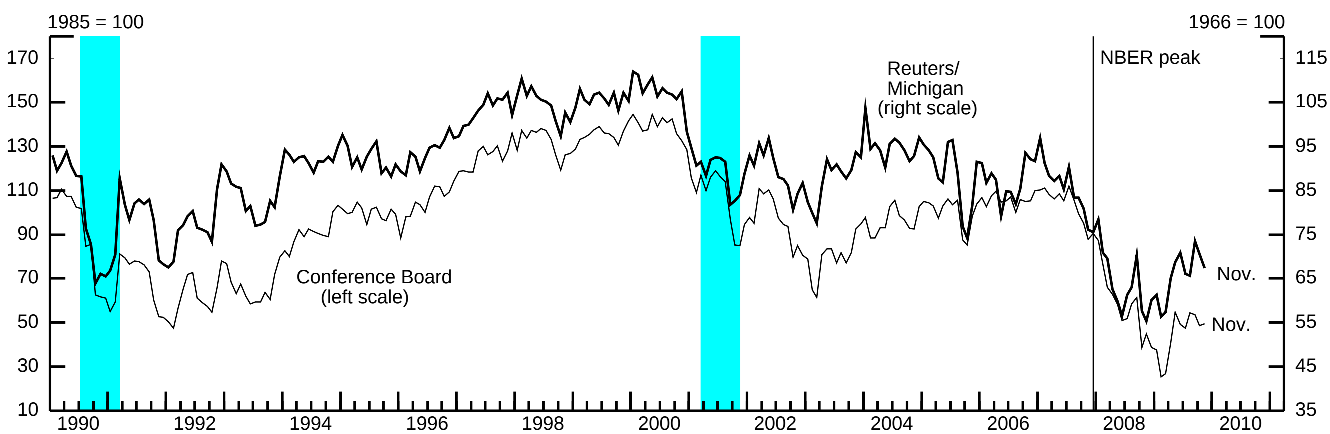
Note: The value for December 2004 excludes the effect on income of the one-time Microsoft dividend in that month.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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

10 percent in October following a similar increase in September. These huge increases probably reflect, in part, a greater supply of low-priced homes given the large number of transactions involving bank-owned and distressed properties.[3] Regarding the market for new homes, sales agreements rose a solid 6 percent in October following two months of little change.

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The modest recovery in housing demand likely reflects improvements in the underlying fundamentals, particularly greater affordability and the perception that house prices have bottomed out. Interest rates for conforming 30-year fixed-rate mortgages, which have been very low by historical standards throughout 2009, moved back below 5 percent in recent weeks. House prices also have shown signs of firming. Although the repeat-sales price index for existing single-family homes calculated by LoanPerformance edged down in September and October, the level in October stood 4 percent above its trough in March. In addition, in the Reuters/University of Michigan Surveys of Consumers, the number of respondents who expect house prices to increase over the next 12 months continued to exceed the number of respondents who expect prices to decrease.

Although the pace of sales is still modest, it has 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 October and is now less than half of its peak in mid-2006; measured relative to the October pace of sales, the months' supply of new homes has come down to 6¾ months, the lowest level in almost three years. More broadly, the vacancy rate for homes intended for owner occupancy (which includes both existing and completed new homes for sale) has come down from its peak in 2008, although it is still high relative to pre-2006 levels.

Despite further improvements in sales and inventories, construction activity has held steady in recent months. Single-family housing starts were essentially flat from June to October at an annual rate of around 500,000 units. Adjusted permit issuance has also been roughly constant since June and was a bit below the rate of starts in October.

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[3]Anecdotal reports suggest that the first-time homebuyer tax credit may also have provided some support to home sales this year. However, this effect appears to have been relatively minor. The National Association of Realtors reported that 47 percent of home purchases from July 2008 to June 2009 were made to first-time homebuyers, only somewhat higher than the average proportion of 40 percent in the past decade. Moreover, the rise in the first-time homebuyer share might also be due to improved housing affordability.

Indicators of Single-Family Housing

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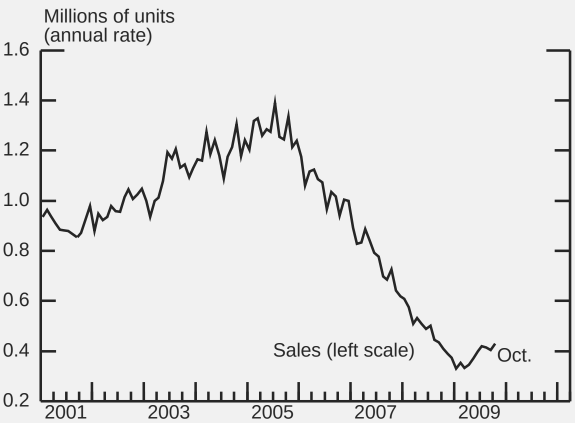
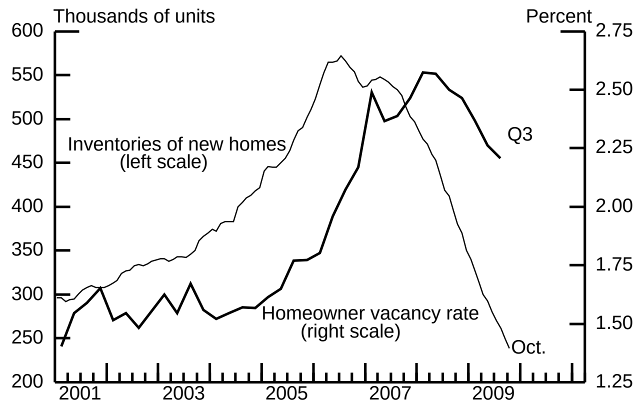
Market for New Single-Family Homes



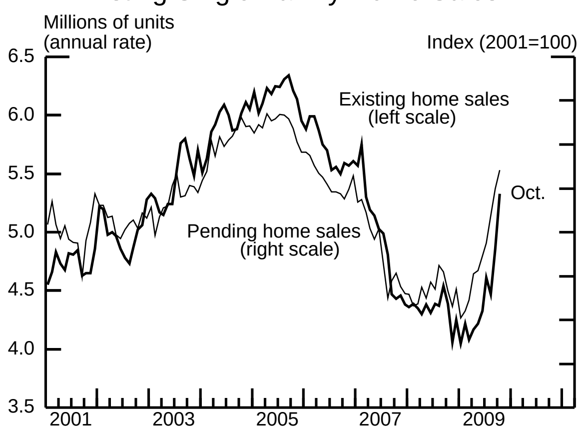
Source: For sales, Census Bureau;

Inventories of New Homes and Homeowner Vacancy Rate



Note: Homeowner vacancy rate is seasonally adjusted by Board staff.
Source: Census Bureau.

Existing Single-Family Home Sales

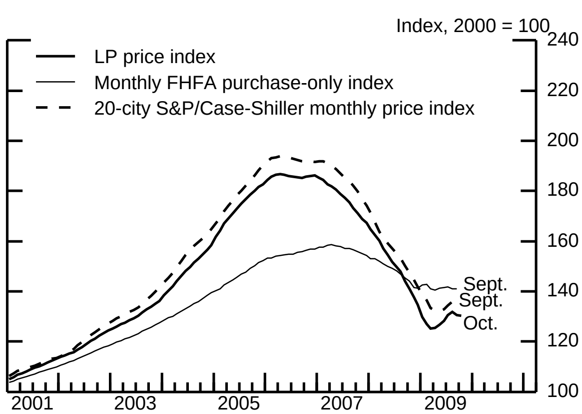


Source: National Association of Realtors.

Mortgage Rates

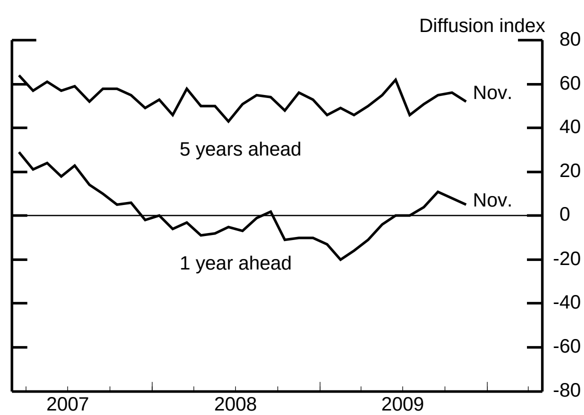
Note: 2-week moving average.
Source: Federal Home Loan Mortgage Corporation.

Prices of Existing Homes



Note: LP and S&P/Case-Shiller are seasonally adjusted by Board staff. FHFA is re-indexed to 2000.
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



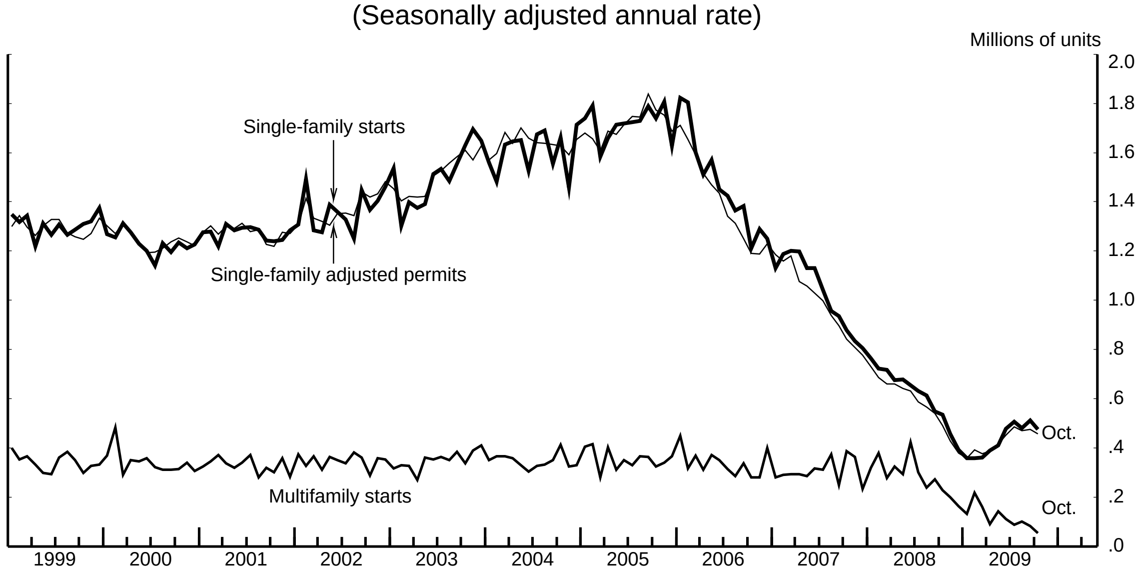
Note: Diffusion index is constructed by subtracting expectations of decrease from expectations of increase.
Source: Reuters/University of Michigan Surveys of Consumers.

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

Sector	2008	2009 Q1	2009 Q2	2009 Q3	2009 Aug.	2009 Sept.	2009 Oct.
All units							
Starts	.91	.53	.54	.59	.58	.59	.53
Permits	.91	.53	.53	.57	.58	.58	.55
Single-family units							
Starts	.62	.36	.43	.50	.48	.51	.48
Permits	.58	.36	.41	.46	.46	.45	.45
Adjusted permits[1]	.58	.37	.42	.48	.47	.48	.46
New homes							
Sales	.49	.34	.37	.41	.42	.41	.43
Months' supply[2]	10.68	11.61	9.44	7.56	7.55	7.41	6.67
Existing homes							
Sales	4.35	4.12	4.24	4.65	4.47	4.86	5.33
Months' supply[2]	9.98	9.68	8.78	8.05	8.60	7.51	6.68
Multifamily units							
Starts	.28	.17	.12	.09	.10	.08	.05
Built for rent	.22	.14	.10	.07	n.a.	n.a.	n.a.
Built for sale	.07	.03	.01	.02	n.a.	n.a.	n.a.
Permits	.33	.17	.12	.11	.12	.12	.10
Condos and co-ops							
Existing home sales	.56	.47	.52	.64	.62	.68	.77

1. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.
2. 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.

However, the low level of inventories relative to sales suggests that increases in single-family construction are likely to resume in the near term. In the much smaller multifamily sector—where tight credit conditions have persisted and vacancies have remained elevated—starts plunged 35 percent in October to their lowest level since the series began in 1959.

Equipment and Software

Real spending on equipment and software (E&S) is estimated to have edged up in the third quarter after falling sharply for more than a year. The available indicators of spending on transportation equipment suggest that outlays in this category have continued to rise. However, outside of transportation, E&S spending appears to have merely leveled off. Indeed, orders and shipments of nondefense capital goods excluding aircraft were about unchanged, on balance, in September and October.

Business purchases of motor vehicles have increased thus far in the fourth quarter. Sales of light vehicles to fleet customers moved up, on balance, in October and November, and sales of medium and heavy trucks increased in October. Moreover, new orders for medium and heavy trucks jumped sharply in October: With new environmental regulations on diesel engines taking effect in January 2010, some customers likely accelerated their orders for new trucks, a move that may pull forward some sales to November and December from early next year.

Real spending on high-tech E&S rose moderately in the third quarter and appears to be increasing at a subdued pace early in the fourth quarter. Although shipments of communications equipment in October retraced some of the declines seen in the prior two months, orders fell further. In addition, nominal orders and shipments of computers and peripherals declined again in October.[4] Nonetheless, major producers of high-tech equipment, such as Cisco and Dell, have since reported signs of improvement in demand this quarter.

Business investment in equipment other than transportation and high tech fell a bit further in the third quarter after having dropped steeply during the preceding three quarters. In October, shipments of these capital goods, which account for half of total E&S outlays, edged down, while new orders dropped markedly, erasing the prior month's gain in the

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[4] A report from Dell suggests that demand for computers in October may have been held down somewhat by an unusual drop in orders in the two weeks prior to the release of Windows 7 on October 22.

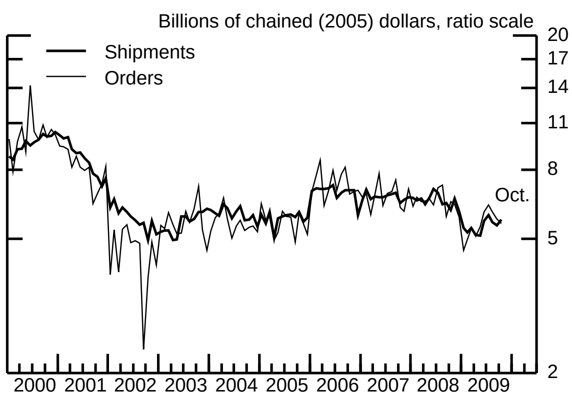
Orders and Shipments of Nondefense Capital Goods

(Percent change; seasonally adjusted current dollars)

Category	2009 Q2	2009 Q3	2009 Aug.	2009 Sept.	2009 Oct.
	Annual rate		Monthly rate		
Shipments	-17.5	.4	-2.6	2.7	-1.8
Excluding aircraft	-14.4	-1.3	-2.2	.3	-.3
Computers and peripherals	-8.1	-7.9	-4.6	-2.1	-1.7
Communications equipment	-3.5	28.9	-4.6	-2.4	3.9
All other categories[1]	-15.9	-3.1	-1.7	.7	-.6
Orders	13.3	23.3	-7.8	3.4	.7
Excluding aircraft	3.8	12.1	-1.0	2.9	-3.4
Computers and peripherals	13.0	-2.7	-3.1	.3	-7.2
Communications equipment	48.2	41.4	-4.4	-4.9	-3.1
All other categories[1]	-.6	11.0	-.4	4.0	-3.0
Memo:					
Shipments of complete aircraft[2]	36.8	36.4	33.8	43.0	31.6

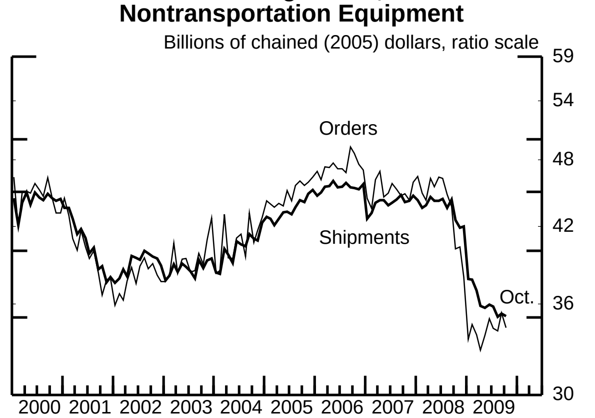
1. Excludes most terrestrial transportation equipment.
2. From Census Bureau, Current Industrial Reports; billions of dollars, annual rate.
Source: Census Bureau.

Communications Equipment



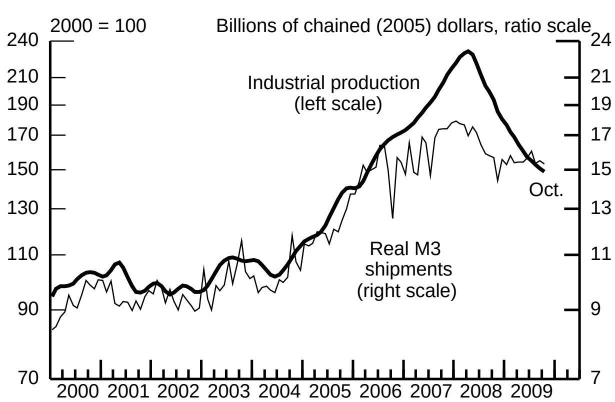
Note: Shipments and orders are deflated by a price index that is derived from the quality-adjusted price indexes of the Bureau of Economic Analysis and uses the producer price index for communications equipment for monthly interpolation.
Source: Census Bureau.

Non-High-Tech, Nontransportation Equipment



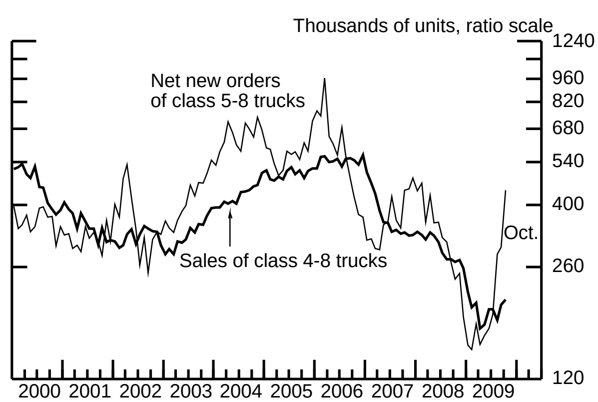
Note: Shipments and orders are deflated by the staff price indexes for the individual equipment types included in this category. Indexes are derived from the quality-adjusted price indexes of the Bureau of Economic Analysis.
Source: Census Bureau.

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.

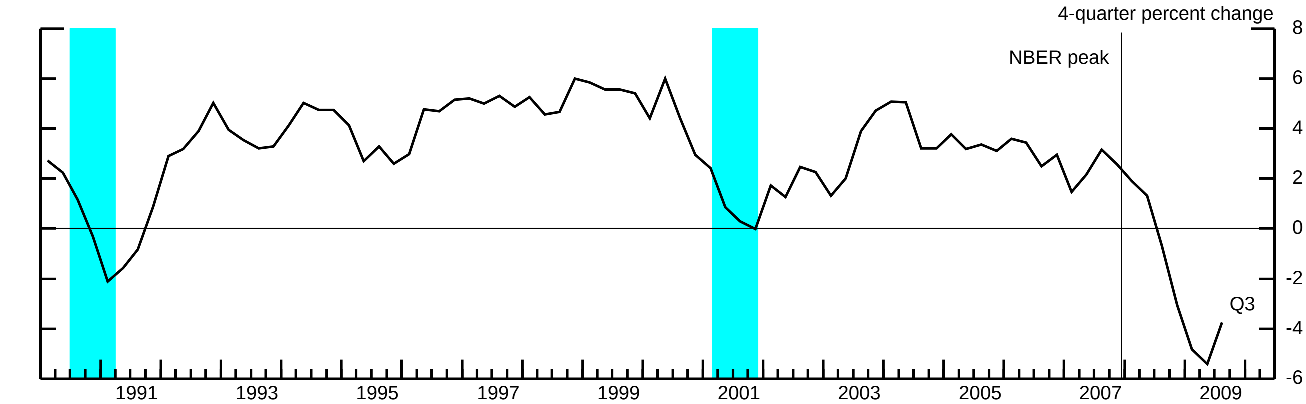
Medium and Heavy Trucks



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

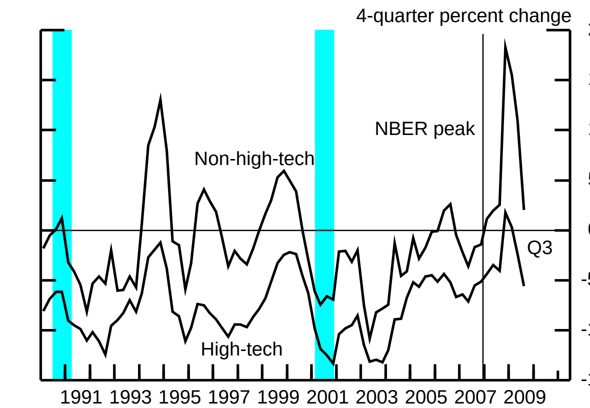
Fundamentals of Equipment and Software Investment

Real Business Output



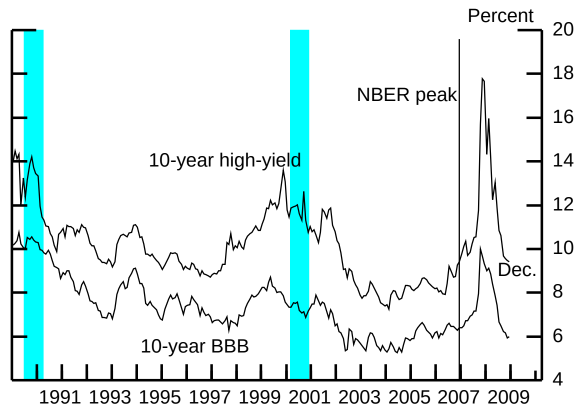
Note: Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER). The NBER peak is the last business cycle peak as defined by the NBER.
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

User Cost of Capital



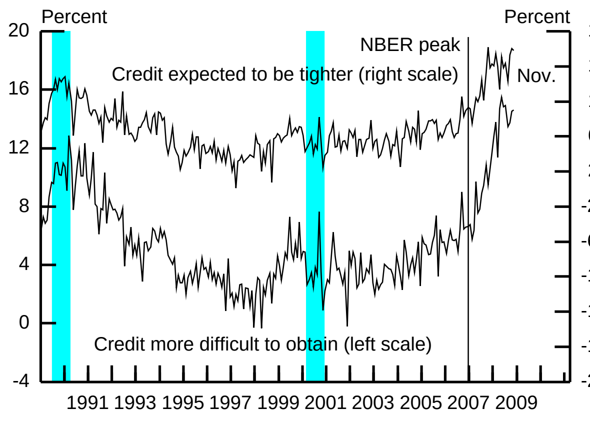
Source: Staff calculation.

Corporate Bond Yields



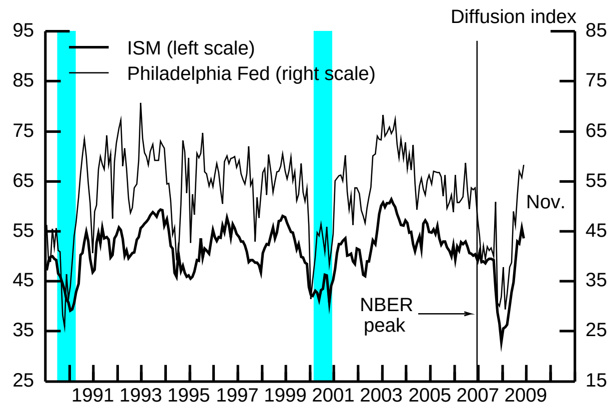
Note: End of month. December value as of December 8.
Source: Merrill Lynch.

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

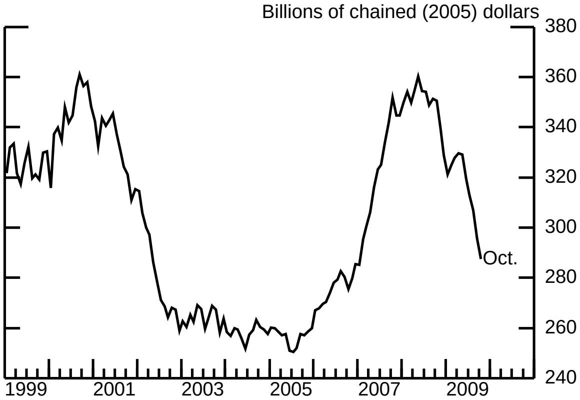


Source: Institute for Supply Management (ISM), Manufacturing ISM Report on Business; Philadelphia Fed Business Outlook Survey.

Nonresidential Construction and Indicators

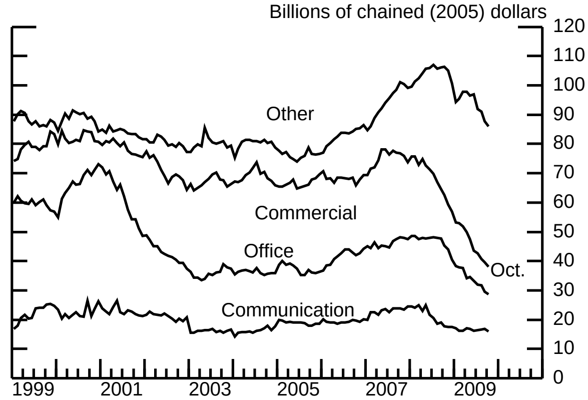
(All spending series are seasonally adjusted at an annual rate; nominal CPIP deflated by BEA prices through Q3 and by staff projection thereafter)

Total Structures



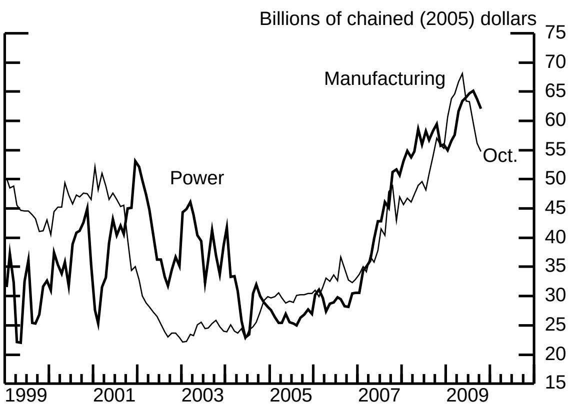
Source: Census Bureau.

Office, Commercial, Communication, and Other



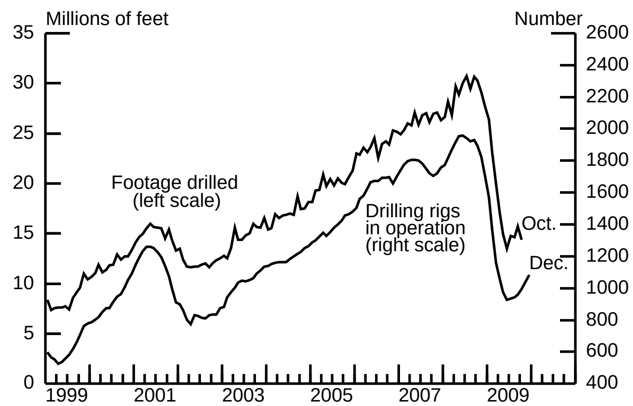
Note: Other consists of structures for religious organizations, education, lodging, amusement and recreation, transportation, and health care.
Source: Census Bureau.

Manufacturing and Power



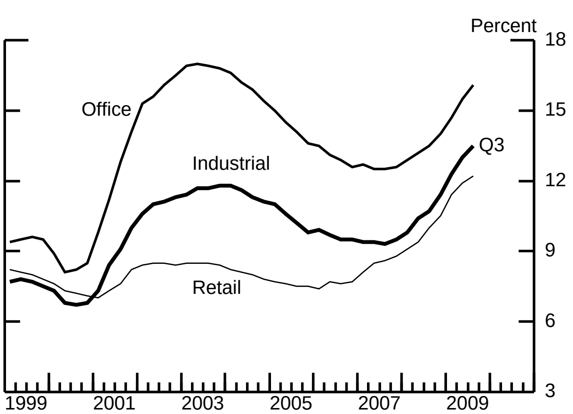
Source: Census Bureau.

Drilling and Mining Indicators



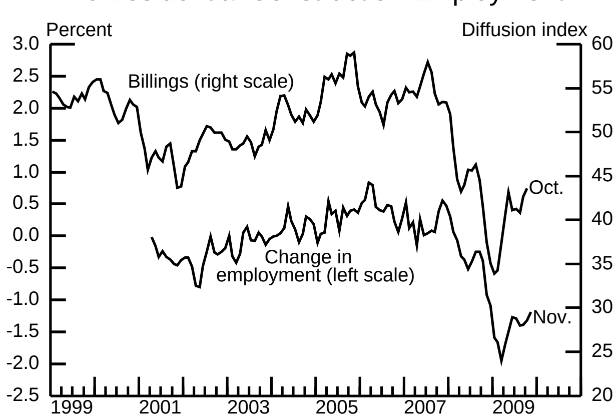
Note: The December readings for drilling rigs are based on data through December 4, 2009. Both series are seasonally adjusted by FRB staff.
Source: For footage drilled, U.S. Department of Energy, Energy Information Agency; for drilling rigs, Baker Hughes.

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.

stock of unfilled orders. The drop in orders was fairly broad based, with noteworthy declines in bookings for construction, industrial, and service machinery, as well as for electro-medical, measuring, and controlling devices.

The fundamental determinants of investment in E&S have improved somewhat recently, but, on balance, are consistent with only sluggish gains in business outlays in the coming months. On the positive side, the measure of the user cost of capital that we follow fell again in the third quarter and has now retraced the run-up that occurred late last year. Likewise, spreads of corporate bonds over Treasury securities have decreased considerably from their extremely high levels at the end of last year, likely reflecting less uncertainty and better assessments of future profitability. Meanwhile, monthly surveys of business conditions, sentiment, and capital spending plans have recovered somewhat, but thus far only to levels suggestive of a moderate rise in business spending. And, as noted earlier, the diffusion index of capital spending plans in the recent ISM semiannual report jumped to a moderate level from the historically low reading recorded in the spring. However, business output remained 4 percent below its year-earlier level, despite turning up in the third quarter. In addition, the net share of small businesses reporting increased difficulty in obtaining credit was unchanged in the November NFIB survey and remained at a historically high level.

Nonresidential Construction

Conditions in the nonresidential construction sector generally remain bleak. Real outlays on structures outside of the drilling and mining sector plunged at an annual rate of 22 percent in the third quarter, and recent data on nominal expenditures point to further deterioration in October. The weakness has been widespread across categories and likely reflects the drag from rising vacancy rates, plunging property prices, and difficult financing conditions for new projects. Moreover, the nonresidential construction industry continued to shed workers in November, and the most recent reading from the architectural billings index remained at levels consistent with further declines in spending.

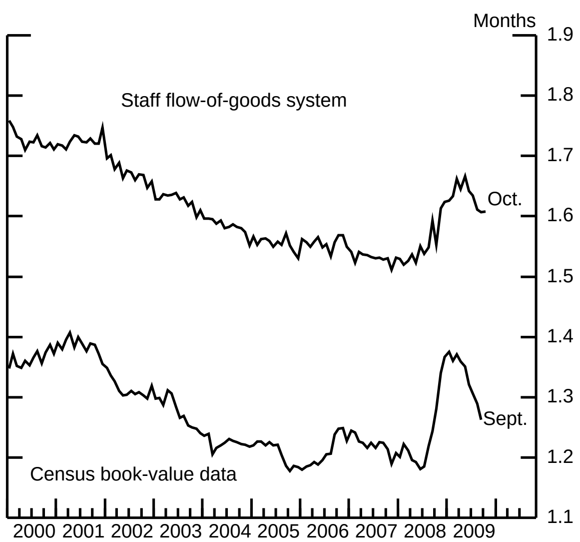
Following steep declines in the first half of the year, real spending on drilling and mining structures increased at an annual rate of nearly 9 percent in the third quarter. Apparently, the rebound in oil prices this year has led to an upturn in oil drilling in the past several months. Indeed, the number of drilling rigs in operation in early December was a good bit above the level at the end of the third quarter.

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

Measure and sector	2009					
	Q1	Q2	Q3	Aug.	Sept.	Oct.
Real inventory investment (chained 2005 dollars)						
Total nonfarm business	**-114.9**	**-163.1**	**-143.6** e	**...**	**...**	**...**
Motor vehicles	-63.6	-48.1	-4.3	...	...	...
Nonfarm ex. motor vehicles	-51.3	-115.1	-139.3 e	...	...	...
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	**-49.3**	**-110.9**	**-127.1**	**-114.7**	**-160.8** e	**n.a.**
Manufacturing	-28.9	-39.8	-54.5	-46.6	-82.0 e	n.a.
Wholesale trade ex. motor vehicles & parts	-8.8	-52.5	-51.9	-52.7	-51.1 e	n.a.
Retail trade ex. motor vehicles & parts	-11.6	-18.6	-20.7	-15.4	-27.7	n.a.
Book-value inventory investment (current dollars)						
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	**-143.2**	**-150.2**	**-135.3**	**-136.4**	**-130.9**	**n.a.**
Manufacturing	-77.3	-63.6	-62.2	-56.4	-74.9	21.1
Wholesale trade ex. motor vehicles & parts	-47.3	-62.9	-50.7	-54.1	-34.5	8.9
Retail trade ex. motor vehicles & parts	-18.6	-23.7	-22.4	-25.9	-21.5	n.a.

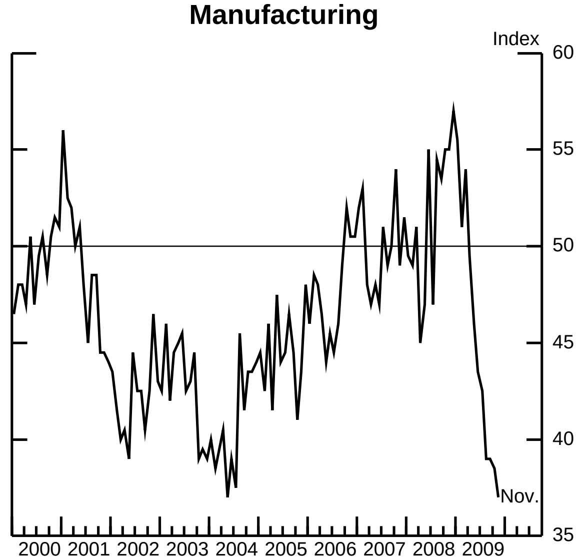
n.a. Not available.
... Not applicable.
e Staff estimate of real inventory investment based on revised book-value data.
Source: For real inventory investment, U.S. Dept. of Commerce, Bureau of Economic Analysis; for book-value data, Census Bureau.

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.

Business Inventories

After large liquidations in the first half of the year, real nonfarm inventories excluding motor vehicles are estimated to have fallen again in the third quarter—at an annual rate of about $130 billion. In October, however, the book value of manufacturing and wholesale trade inventories (other than motor vehicles) increased for the first time in more than a year, suggesting that some slowing in the pace of real inventory liquidation may be under way. The measure of months' supply implied by the book-value data for the manufacturing and trade sector (which includes retail inventories and is only available through September) remained somewhat elevated, but has fallen significantly since the middle of the year.

The staff's flow-of-goods inventory system suggests that inventories outside motor vehicles continued to decline through October, though at a slower pace than in the middle of the year. After falling sharply in the three months ending in August, months' supply excluding motor vehicles is estimated to have been little changed in September and October. According to this measure, inventory-sales ratios remain above trend for most market groups; one exception is consumer goods, where inventories in October were relatively well aligned with sales.

In contrast, in the November ISM, the number of supply managers who described their customers' inventories as too low continued to exceed those who described inventories as too high by a very wide margin. This reading suggests that managers in manufacturing expect their customers to do some restocking in the coming months.[5]

Federal Government Sector

Total real purchases by the federal government rose at an annual rate of 8¼ percent in the third quarter, led by a strong increase in real defense expenditures. Based on the Monthly Treasury Statement for October and the daily data for November, real defense spending appears to have dipped so far in the fourth quarter.

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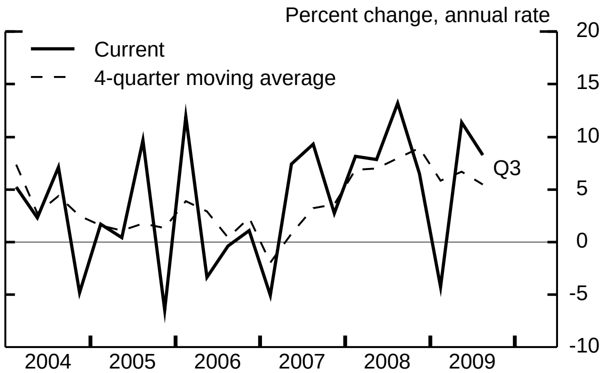
[5] The question posed to purchasing managers in the ISM survey to determine whether stocks are too high or too low does not specify the measure of sales against which respondents should compare the level of their customers' inventories. If the respondents currently are judging inventories against a level of expected sales in coming months that is materially above the recent pace of sales, the low level of the customers' inventories measure is less obviously at odds with the inventory ratios in both the book-value data and the staff's flow-of-goods system.

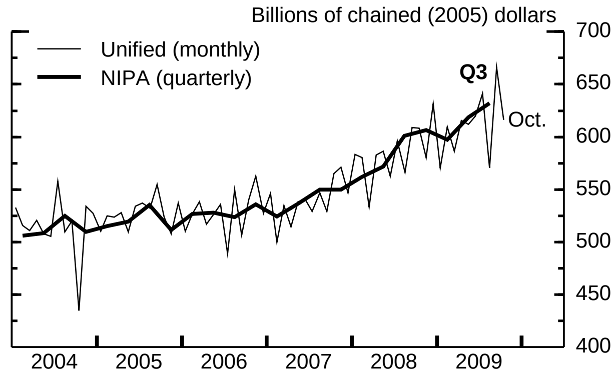
Federal Government Indicators

Total Real Federal Purchases



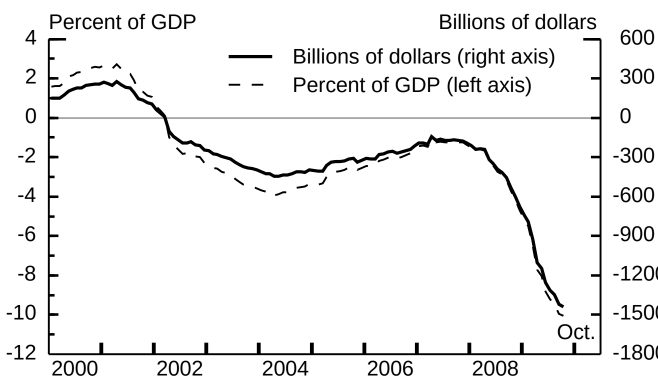
Note: NIPA measure.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Real Defense Spending



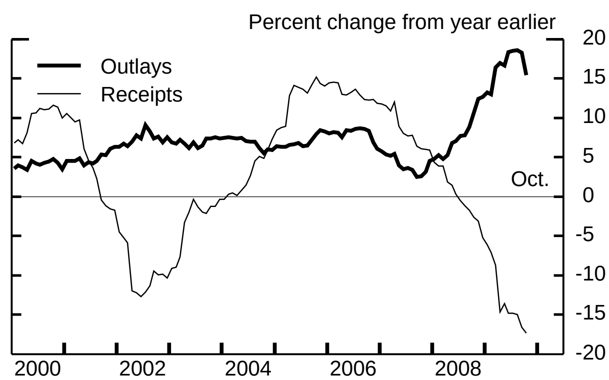
Note: Nominal unified defense spending is seasonally adjusted and deflated by BEA prices. NIPA defense purchases exclude consumption of fixed capital.
Source: Monthly Treasury Statement; U.S. Department of Commerce, Bureau of Economic Analysis.

Unified Budget Deficit



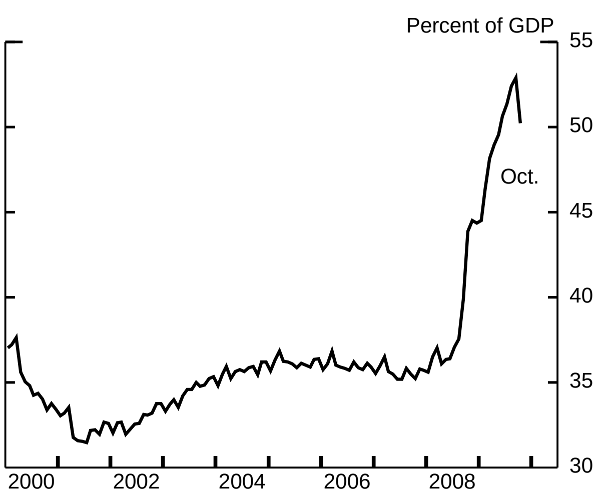
Note: Adjusted for payment-timing shifts; cumulative deficit over the previous 12 months.
Source: Monthly Treasury Statement.

Unified Outlays and Receipts



Note: Adjusted for payment-timing shifts; based on cumulative outlays or receipts over the previous 12 months.
Source: Monthly Treasury Statement.

Federal Debt Held by the Public



Source: Monthly Treasury Statement.

Recent Unified Federal Outlays and Receipts

Function or source	October 2009: Billions of dollars	October 2009: Percent change*
Outlays	291	-3.2
National defense	67	2.0
Major transfers[1]	164	15.9
Other primary spending	42	-43.8
Net interest	18	-5.6
Receipts	135	-17.9
Individual income and payroll taxes	122	-17.4
Corporate income taxes	-5	...
Other	17	5.1
Deficit (-)	-156	...

Note: Adjusted for payment-timing shifts.
* Relative to same year-earlier period.
1. Includes Social Security, Medicare, Medicaid, and income security programs.
... Not applicable.
Source: Monthly Treasury Statement.

The unified federal budget deficit continued to widen in October—the first month of fiscal 2010.[6] Receipts were 18 percent lower in October than in the same month last year, mostly reflecting the ongoing weakness in taxable income and the tax cuts in the 2009 stimulus package. Meanwhile, outlays declined 3 percent in October relative to the same month a year ago, primarily because of a drop in spending on the TARP from $33 billion last October to almost zero this year.[7] Excluding the TARP payments, federal spending increased in October relative to a year earlier, boosted by both the effects of the weak labor market on low-income support programs and the spending from the stimulus package. In all, about $240 billion in stimulus funds (about 30 percent of the total $787 billion stimulus package) had been distributed in the form of spending increases and tax cuts by the end of November.

State and Local Government Sector

Incoming data point to some firming in real purchases by state and local governments. According to the latest labor market report, state and local employment rose 6,000 in November, and the data for October were revised up to show an increase of 29,000; the increases over the past two months were concentrated in the education sector, where payrolls had fallen especially sharply between May and September. Meanwhile, after smoothing through the volatility in the monthly numbers, real construction expenditures appear to be holding up after rising appreciably in the second and third quarters. Real construction spending continues to be bolstered by the availability of federal stimulus funds, supportive conditions in the municipal bond market, and the moderation in construction costs this year.

Although the grants provided under the American Recovery and Reinvestment Act have helped cushion the effects of the recession on state and local governments, the sector's operating budgets remain under pressure. Based on information from 44 states, the Rockefeller Institute of Government estimates that nominal state tax collections fell nearly 11 percent over the four quarters ending in the third quarter of this year.[8] The ongoing weakness in revenues spans all major categories of taxes and is forcing states to

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[6] While the expanding deficit has pushed up the ratio of federal debt to GDP above 50 percent, debt outstanding declined a bit in October because the Treasury reduced the size of its Supplementary Financing Program by $185 billion (which does not show up in the unified deficit figures) in order to create more room under the current statutory debt limit.

[7] In the Monthly Treasury Statement, outlays associated with the TARP are recorded on a net present value basis, taking into account market risk; a positive outlay is associated with an expected loss.

[8] The states not included in the tabulation are Missouri, Nevada, New Mexico, Rhode Island, Texas, and Wyoming.

State and Local Indicators

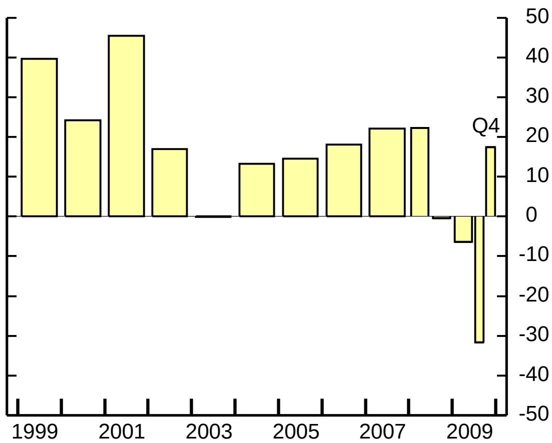
Real Spending on Consumption and Investment

Percent change, annual rate

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; national income and product accounts.

Net Change in Employment

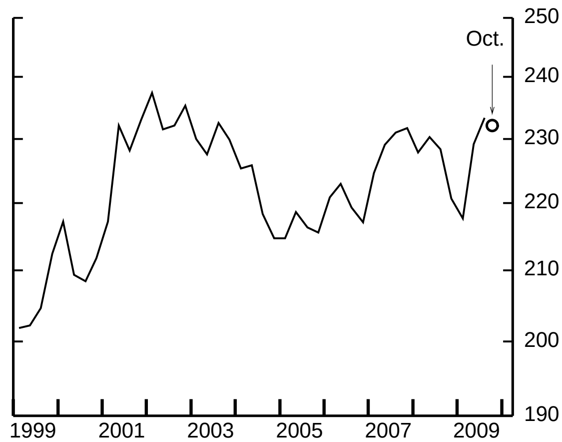
Thousands of jobs, monthly average



Note: Q4 is the average of October and November.
Source: U.S. Dept. of Labor, Bureau of Labor Statistics, Employment Situation.

Real Construction

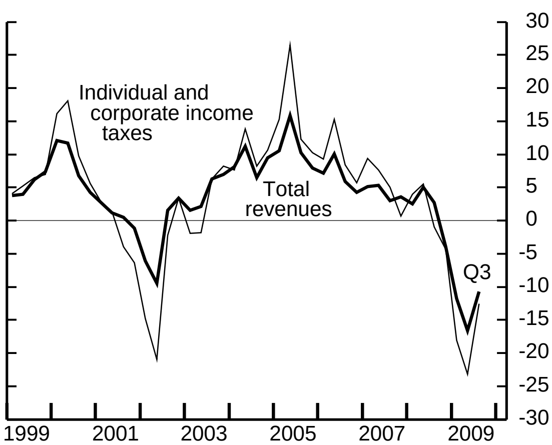
Billions of chained (2005) dollars, annual rate



Note: Nominal CPIP deflated by BEA prices through Q3 and by a staff projection thereafter.
Source: Census Bureau, Construction Spending.

State Revenues

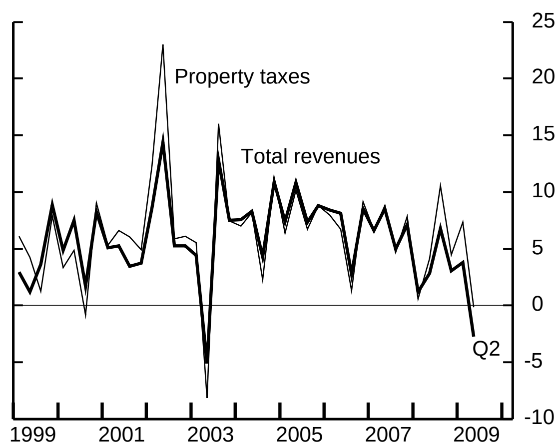
Percent change from year earlier



Source: Census Bureau, *Quarterly Summary of State and Local Government Tax Revenue* through Q2; Q3 is a preliminary estimate from the Rockefeller Institute of Government.

Local Revenues

Percent change from year earlier



Source: Census Bureau, *Quarterly Summary of State and Local Government Tax Revenue.*

make adjustments to their enacted budgets for fiscal year 2010 (which began on July 1 in most states). Indeed, according to a tabulation released by the National Conference of State Legislatures in mid-November, new budget gaps have emerged in at least 31 states since the start of the current fiscal year. In response, several states have implemented across-the-board cuts in spending to close budget gaps, while others have trimmed outlays for specific programs and laid off or furloughed workers.

Prices

After slowing considerably over the past year, consumer price inflation has moved up in recent months, while core inflation has remained subdued. Over the 12 months ending in October, the headline PCE price index increased just ¼ percent, down from a 3¼ percent increase in the year-earlier period. The sharp deceleration in the 12-month change partly reflected the plunge in energy prices at the end of 2008 and the decline in food prices over the past year. However, PCE prices have posted considerably larger increases in recent months as energy prices have surged. In contrast, core PCE prices have continued to increase moderately of late, abstracting from a jump in the nonmarket component of prices in October. Over the 12 months ending in October, core PCE prices increased 1½ percent, well below the increase of 2¼ percent registered over the year-earlier 12-month period. Survey measures of longer-term inflation expectations have been mixed with a small increase in the Reuters/University of Michigan survey and small decreases in the Survey of Professional Forecasters (SPF).

Consumer energy prices climbed 1.6 percent in October after increasing 0.8 percent in September. The surge in consumer energy prices in recent months reflects this year's rebound in the price of crude oil and an unusually quick pass-through of the run-up in spot prices for natural gas that occurred in October. Indeed, consumer prices for natural gas jumped 1.9 percent in October, boosted by fuel adjustment surcharges in several metropolitan areas that had unusually cold October weather. Based on recent survey data, we expect consumer gasoline prices to move up sharply in November. In contrast, natural gas spot prices moved down significantly in November in response to ample inventories, but they have more than retraced that decline in early December, likely because of a cold snap in several parts of the country.

Although the sizable declines in food prices that were evident earlier in the year seem mostly to have ended, consumer food prices remain 1½ percent below their level 12 months earlier. This 12-month decrease in consumer food prices stands in stark contrast to the 7 percent increase over the year-earlier period. More recently, consumer

Price Measures
(Percent change)

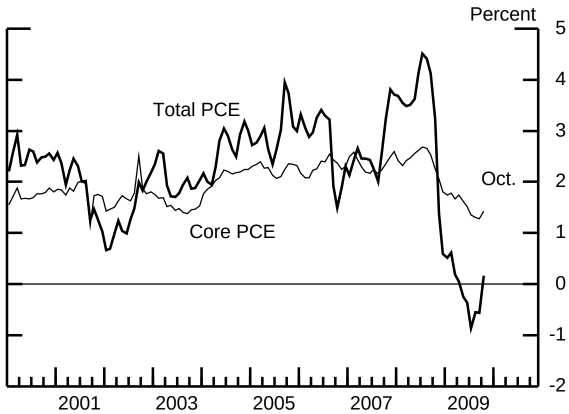
Measures	12-month change		3-month change		1-month change	
			Annual rate		Monthly rate	
	Oct. 2008	Oct. 2009	July 2009	Oct. 2009	Sept. 2009	Oct. 2009
CPI						
Total	**3.7**	**-.2**	**3.4**	**3.6**	**.2**	**.3**
Food	6.3	-.6	-1.8	.2	-.1	.1
Energy	11.5	-14.0	32.5	30.1	.6	1.5
Ex. food and energy	**2.2**	**1.7**	**1.7**	**1.7**	**.2**	**.2**
Core goods	.1	2.3	2.9	1.8	.3	.4
Core services	3.0	1.5	1.3	1.6	.1	.1
Shelter	2.2	.6	-.1	.8	.1	.0
Other services	4.2	2.7	2.9	3.4	.3	.2
Memo: core ex. tobacco	2.2	1.4	1.6	1.6	.2	.2
Chained CPI (n.s.a.) [1]	3.2	-.5	...	...	...	...
Ex. food and energy [1]	1.8	1.3	...	...	...	...
PCE prices						
Total	**3.2**	**.2**	**2.5**	**2.9**	**.1**	**.3**
Food and bev. at home	7.0	-1.6	-2.8	-.7	-.4	.1
Energy	12.5	-14.4	37.2	34.0	.8	1.6
Ex. food and energy	**2.3**	**1.4**	**1.3**	**1.7**	**.1**	**.2**
Core goods	.4	1.3	.4	.2	.3	.0
Core services	2.9	1.5	1.7	2.1	.1	.3
Housing services	2.7	1.2	.6	-.4	-.1	.0
Other services	3.0	1.6	2.0	2.9	.1	.4
Memo: core ex. tobacco	2.2	1.2	1.2	1.6	.1	.2
Core market-based	2.4	1.6	1.1	1.2	.1	.1
Core non-market-based	1.3	.5	2.6	4.1	.2	.8
PPI						
Total finished goods	**5.2**	**-1.9**	**3.6**	**6.0**	**-.6**	**.3**
Food	6.5	-2.7	-7.7	7.8	-.1	1.6
Energy	5.5	-9.4	25.6	31.4	-2.4	1.6
Ex. food and energy	**4.7**	**.7**	**1.2**	**-1.8**	**-.1**	**-.6**
Core consumer goods	4.9	1.2	1.8	-1.7	-.1	-.5
Capital equipment	4.2	.1	.3	-2.0	-.1	-.7
Intermediate materials	9.8	-7.5	5.6	9.7	.2	.3
Ex. food and energy	9.0	-5.6	.7	5.5	.9	-.2
Crude materials	.1	-14.1	17.4	31.5	-2.1	5.4
Ex. food and energy	-5.5	-1.6	50.6	48.6	3.6	.5

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

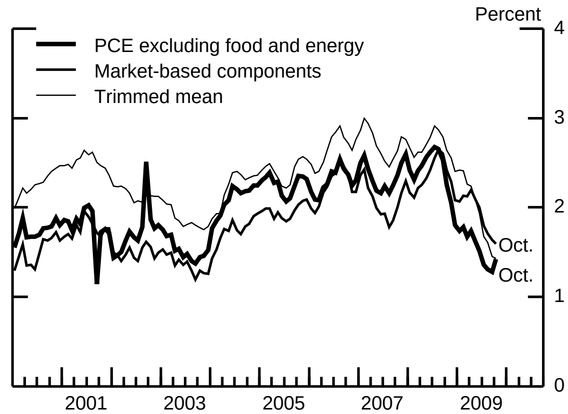
(12-month change except as noted)

PCE Prices



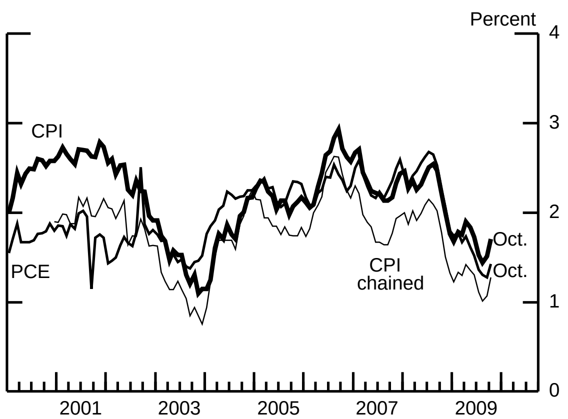
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Measures of Core PCE



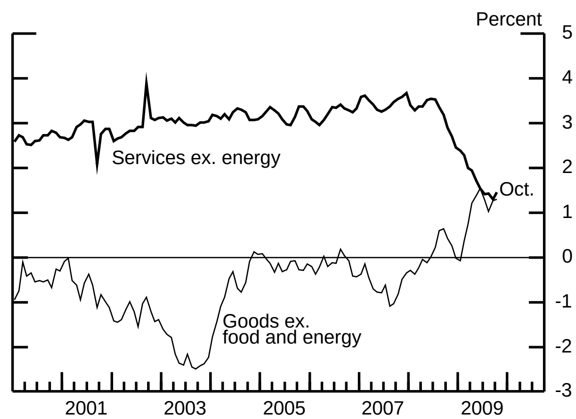
Source: For trimmed mean, Federal Reserve Bank of Dallas; for all else, U.S. Dept. of Commerce, Bureau of Economic Analysis.

CPI and PCE ex. Food and Energy



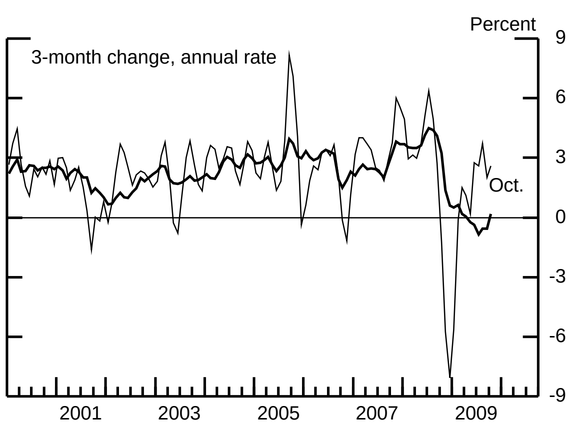
Source: For CPI, U.S. Dept. of Labor, Bureau of Labor Statistics; for PCE, U.S. Dept. of Commerce, Bureau of Economic Analysis.

PCE Goods and Services



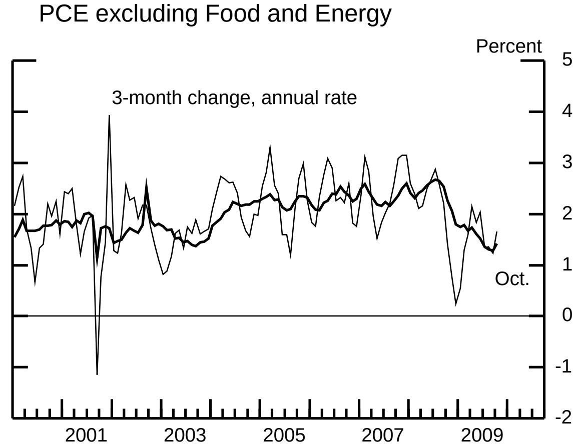
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Total PCE



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

PCE excluding Food and Energy

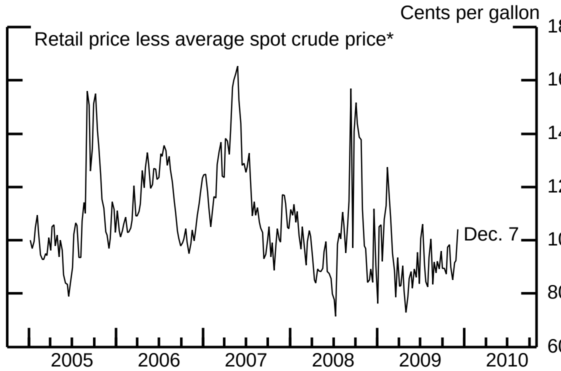


Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Energy and Food Price Indicators

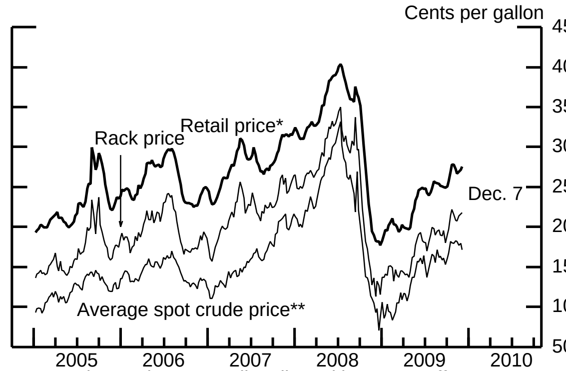
(Data from U.S. Department of Energy, Energy Information Administration, except as noted)

Total Gasoline Margin



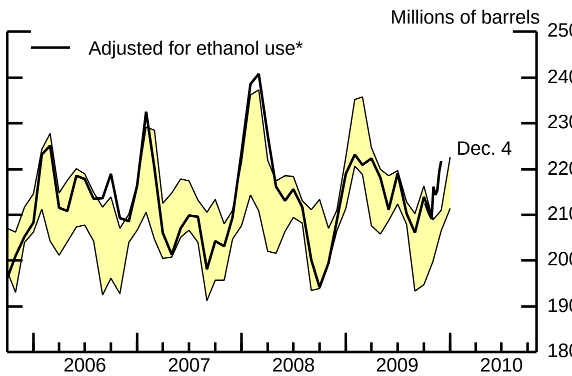
* Regular grade seasonally adjusted by FRB staff, less average spot crude price: 60% West Texas Intermediate, 40% Maya heavy crude. Includes gasoline taxes.

Gasoline Price Decomposition



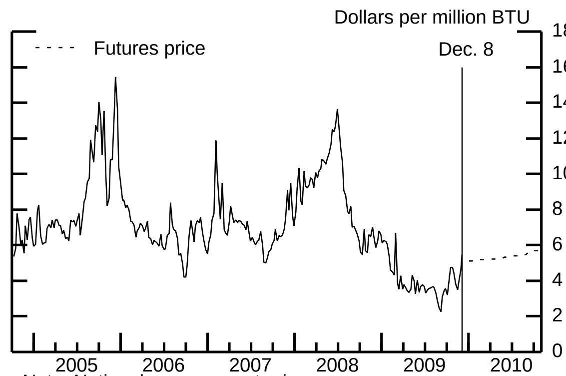
* Regular grade seasonally adjusted by FRB staff.
** 60% West Texas Intermediate, 40% Maya heavy crude.

Gasoline Inventories



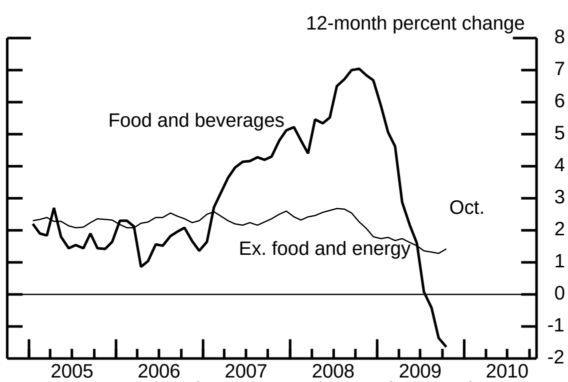
Note: Bounds are defined as the monthly mean over the preceding five years, plus or minus the standard deviation for each month. Monthly data through June 2009, weekly data thereafter.
* The RBOB component of total motor gasoline inventories is adjusted for ethanol use after 2006, boosting reported stocks; estimated by FRB staff.

Natural Gas Prices



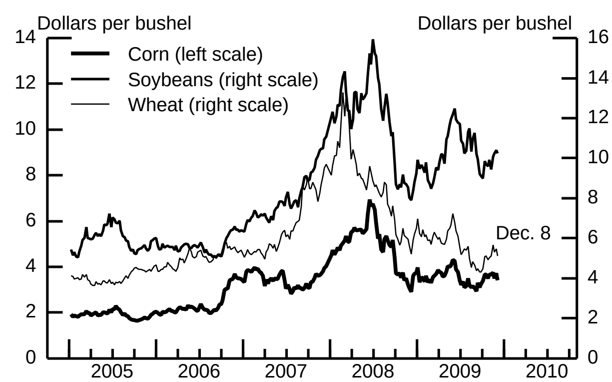
Note: National average spot price.
Source: Bloomberg.

PCE: Food at Home and Core Prices



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

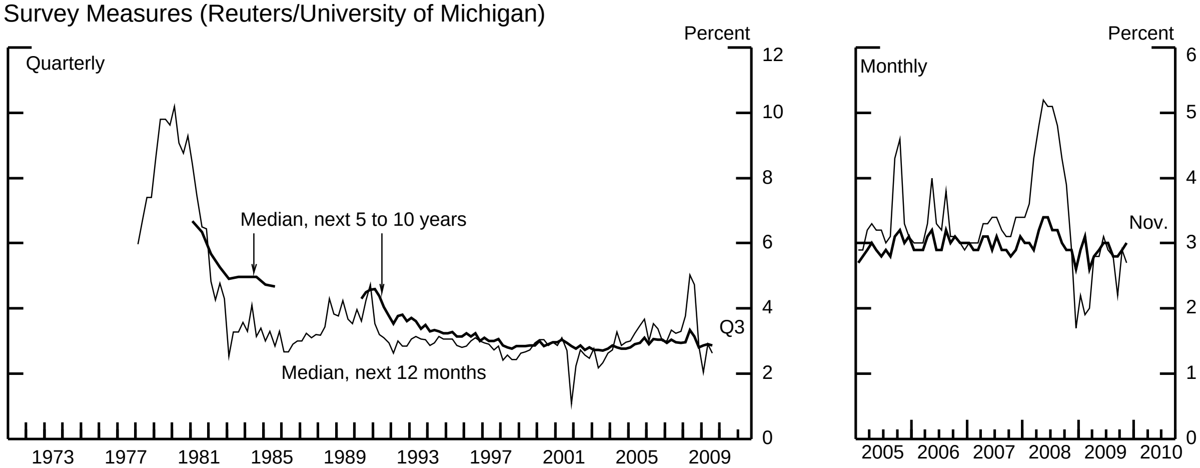
Spot Prices of Agricultural Commodities



Source: Commodity Research Bureau.

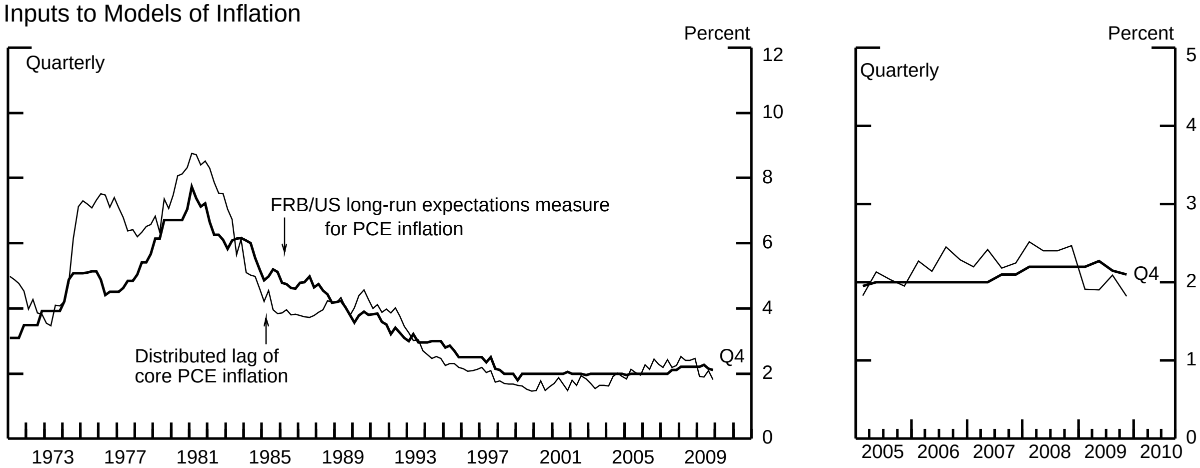
Measures of Expected Inflation

Survey Measures (Reuters/University of Michigan)



Source: Reuters/University of Michigan Surveys of Consumers.

Inputs to Models of Inflation



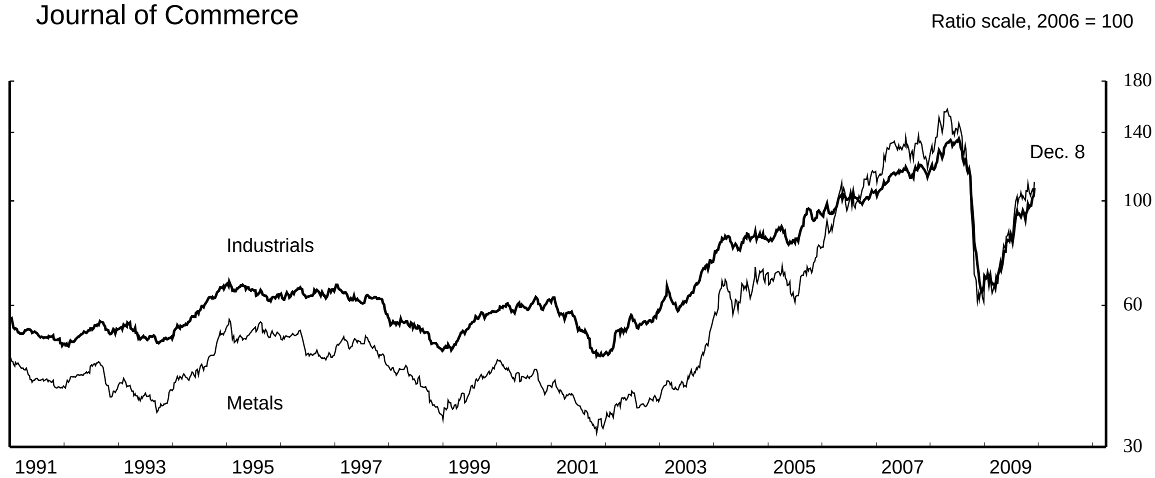
Note: The distributed lag of core PCE inflation is derived from one of the reduced-form Phillips curves used by Board staff.
Source: For the distributed lag of core PCE inflation, FRB staff calculations; for the FRB/US measure, for 2007 forward, the median projection for PCE inflation over the next 10 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.

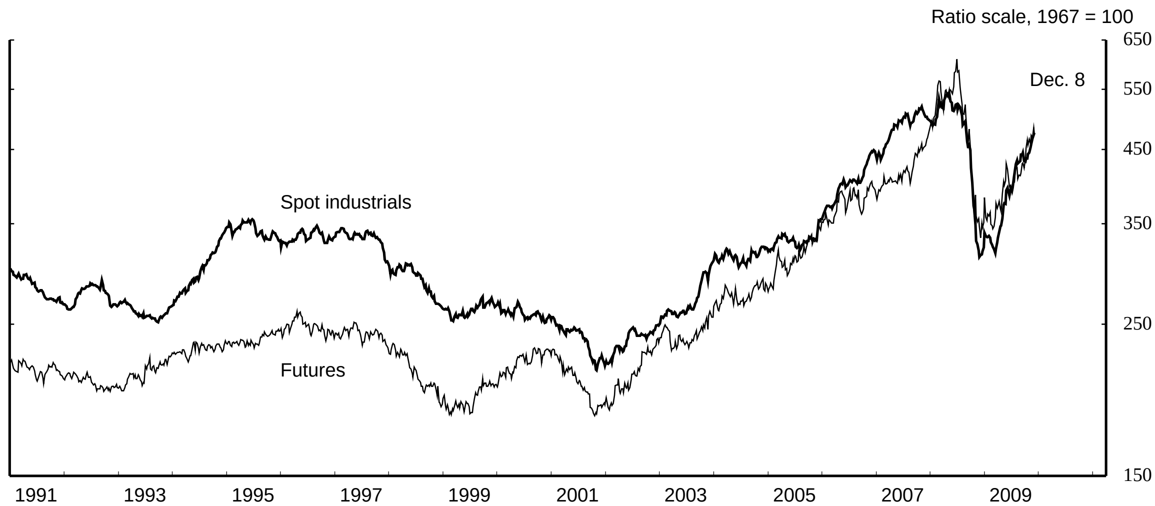
Commodity Price Indexes

Journal of Commerce



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



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 10/27/09 [2]	10/27/09 [2] to 12/8/09	52-week change to 12/8/09
JOC industrials	-41.4	49.4	8.4	64.1
JOC metals	-48.2	79.1	.8	70.8
CRB spot industrials	-35.1	36.8	7.5	51.0
CRB spot foodstuffs	-14.1	11.7	3.7	22.6
CRB futures	-24.7	29.5	3.8	41.9

1. From the last week of the preceding year to the last week of the year indicated.
2. October 27, 2009, is the Tuesday preceding publication of the October Greenbook.

Broad Measures of Inflation

(Percent change, Q3 to Q3)

Measure	2006	2007	2008	2009
Product prices				
GDP price index	3.3	2.6	2.5	.6
Less food and energy	3.3	2.6	2.7	.3
Nonfarm business chain price index	3.0	2.1	1.9	.7
Expenditure prices				
Gross domestic purchases price index	3.4	2.6	4.0	-.9
Less food and energy	3.2	2.6	2.9	.2
PCE price index	2.8	2.3	4.3	-.7
Less food and energy	2.5	2.2	2.6	1.3
PCE price index, market-based components	2.9	2.0	4.6	-.6
Less food and energy	2.5	1.9	2.6	1.7
CPI	3.3	2.3	5.2	-1.6
Less food and energy	2.8	2.1	2.5	1.5
Chained CPI	3.1	2.0	4.5	-1.6
Less food and energy	2.6	1.7	2.1	1.1
Median CPI	3.0	2.9	3.2	1.7
Trimmed mean CPI	2.8	2.5	3.6	1.1
Trimmed mean PCE	2.8	2.5	2.9	1.6

Source: For CPI, U.S. Dept. of Labor, Bureau of Labor Statistics; for median and trimmed mean CPI, Federal Reserve Bank of Cleveland; for all else, U.S. Dept. of Commerce, Bureau of Economic Analysis.

Surveys of Inflation Expectations

(Percent)

Period	Actual CPI inflation [1]	Reuters/Michigan Survey: 1 year [2]		Reuters/Michigan Survey: 5 to 10 years [3]		Professional forecasters (10 years) [4]	
		Mean	Median	Mean	Median	CPI	PCE
2008:Q1	4.1	4.2	3.8	3.3	3.0	2.5	2.2
Q2	4.4	6.4	5.0	3.8	3.3	2.5	2.2
Q3	5.3	5.4	4.7	3.6	3.1	2.5	2.2
Q4	1.6	3.0	2.8	2.9	2.8	2.5	2.2
2009:Q1	.0	2.4	2.0	3.3	2.9	2.4	2.2
Q2	-1.2	3.4	2.9	3.1	2.9	2.5	2.3
Q3	-1.6	3.1	2.6	3.2	2.9	2.5	2.2
Q4	n.a.	n.a.	n.a.	n.a.	n.a.	2.3	2.1
2009:July	-2.1	3.6	2.9	3.4	3.0	...	...
Aug.	-1.5	3.0	2.8	3.1	2.8	2.5	2.2
Sept.	-1.3	2.8	2.2	3.2	2.8	...	...
Oct.	-.2	3.2	2.9	3.2	2.9	...	...
Nov.	n.a.	3.1	2.7	3.2	3.0	2.3	2.1

1. Percent change from the same period in the preceding year.
2. Responses to the question, By about what percent do you expect prices to go up, on average, during the next 12 months?
3. Responses to the question, By about what percent per year do you expect prices to go up, on average, during the next 5 to 10 years?
4. Median CPI and PCE price projections.

... Not applicable.

n.a. Not available.

Source: For CPI, U.S. Dept. of Labor, Bureau of Labor Statistics; for Reuters/Michigan Survey, Reuters/University of Michigan Surveys of Consumers; for professional forecasters, the Federal Reserve Bank of Philadelphia.

food prices edged up 0.1 percent in October, while spot prices for grain and livestock have risen briskly in recent weeks.

PCE prices excluding food and energy moved up 0.2 percent in October as prices in the volatile nonmarket category jumped 0.8 percent. Market-based core prices remained subdued in October, edging up 0.1 percent for the sixth consecutive month. Over the past 12 months, the deceleration in core PCE prices has been relatively widespread. Apart from the tax-induced increases in tobacco prices and a rebound in motor vehicles prices, prices for core goods decelerated considerably over the year ending in October. Core services prices also decelerated significantly over the past 12 months, reflecting notably smaller increases in housing services and several other services categories.

Measures of inflation expectations have been mixed recently. In the Reuters/University of Michigan survey for November, median year-ahead inflation expectations moved down 0.2 percentage point from their October reading to 2.7 percent. Median inflation expectations over the next 5 to 10 years edged up 0.1 percentage point from their October reading to 3.0 percent but remain in the narrow range that has prevailed over the past few years. In contrast, median long-run inflation expectations as measured by the SPF moved down in the fourth quarter from earlier readings, with expectations for the CPI moving down 0.2 percentage point to 2.3 percent, and expectations for the PCE index edging down 0.1 percentage point to 2.1 percent.

At earlier stages of processing, the producer price index (PPI) for core intermediate materials declined 0.2 percent in October, breaking a string of four consecutive months of increases. Despite the recent four-month increase, the PPI for core intermediates remains well below its elevated level a year ago. In contrast, commodity prices stand a good bit above their year-earlier levels. Since the October Greenbook, both the Commodity Research Bureau (CRB) spot index of industrial materials and the *Journal of Commerce* (JOC) index of industrial materials have continued to move up, rising 7.5 percent and 8.4 percent, respectively.

Labor Costs

After a sharp decline in the first quarter, revised data indicate that P&C compensation per hour rebounded in the second quarter and continued to rise solidly in the third quarter.[9]

[9] In the supplement to the October Greenbook, P&C compensation per hour was reported to have *decreased* at an annual rate of 2¼ percent in the first half of the year and was estimated to have increased at an annual rate of nearly 2 percent in the third quarter. After folding in the upwardly revised data on

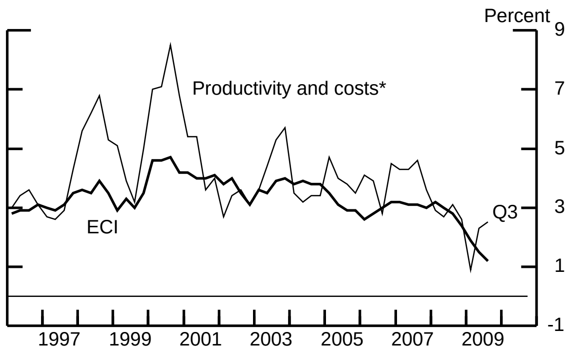
Hourly Compensation and Unit Labor Costs

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

Category	2007:Q3 to 2008:Q3	2008:Q3 to 2009:Q3[e]	2009		
			Q1	Q2	Q3[e]
Compensation per hour					
Nonfarm business	3.1	2.5	-4.7	6.9	5.4
Output per hour					
Nonfarm business	1.2	3.8	.3	6.9	7.3
Unit labor costs					
Nonfarm business	1.9	-1.2	-5.0	.0	-1.8

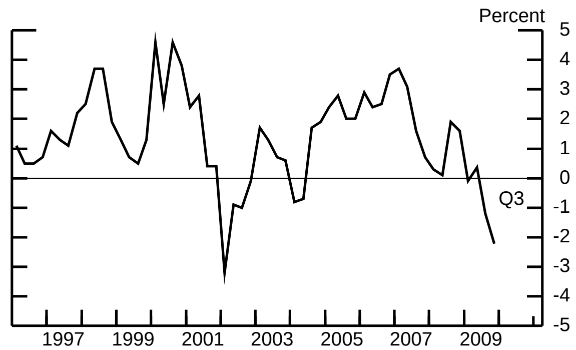
e Staff estimate.
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

Compensation per Hour
(Percent change from year-earlier period)



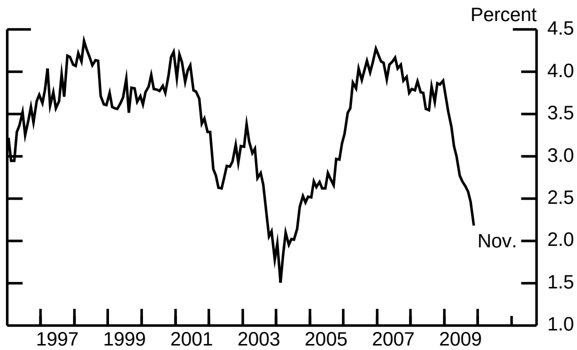
*Value for 2009:Q3 is a staff estimate.
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

Unit Labor Costs
(Percent change from year-earlier period)



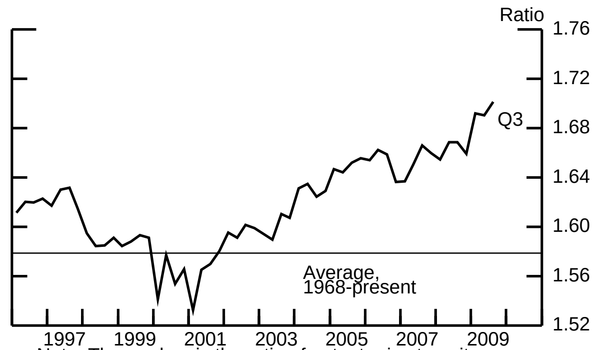
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

Average Hourly Earnings
(Percent change from year-earlier period)



Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

Markup, Nonfarm Business



Note: The markup is the ratio of output price to unit labor costs. Value for 2009:Q4 is a staff estimate.
Source: For output price, U.S. Dept. of Commerce, Bureau of Economic Analysis; for unit labor costs, U.S. Dept. of Labor, Bureau of Labor Statistics.

Change in Employment Cost Index of Hourly Compensation for Private-Industry Workers

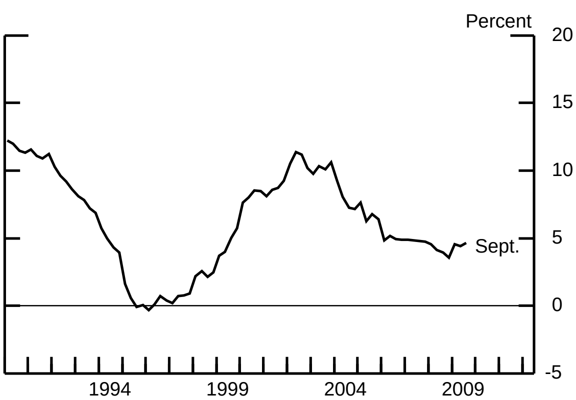
Measure	2008 Sept.	2008 Dec.	2009 Mar.	2009 June	2009 Sept.
	Quarterly change (compound annual rate)[1]				
Total hourly compensation	**2.6**	**1.9**	**.7**	**.7**	**1.8**
Wages and salaries	2.6	1.8	.7	.7	1.8
Benefits	2.3	1.5	.7	.7	1.1
	12-month change				
Total hourly compensation	**2.8**	**2.4**	**1.9**	**1.5**	**1.2**
Wages and salaries	2.9	2.6	2.0	1.6	1.4
Benefits	2.4	2.0	1.6	1.3	1.1

1. Seasonally adjusted.
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

Change in ECI Benefits (unpublished)*

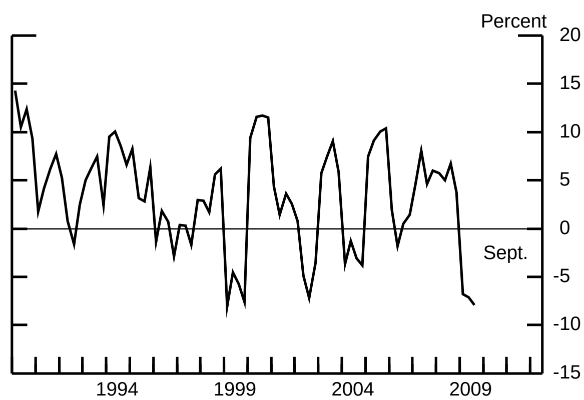
(Private-industry workers; 12-month change)

Health Insurance



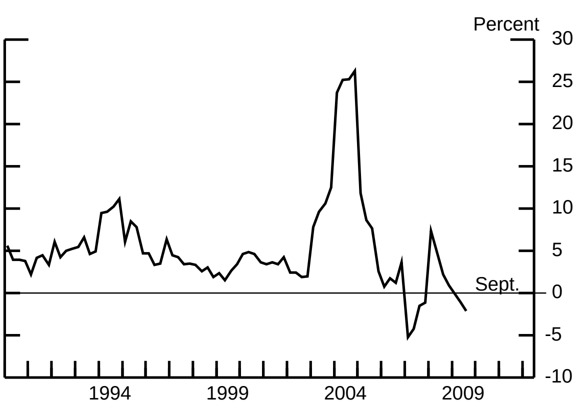
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

Nonproduction Bonuses



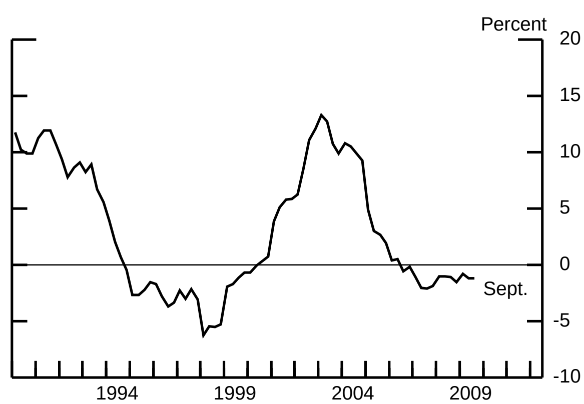
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

Retirement and Savings



Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

Workers' Compensation Insurance



Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

*The data on the costs of individual benefits should be interpreted with care because, with the exception of health insurance, they do not meet BLS's standard publication criteria.

Nonetheless, after smoothing through the quarterly swings, measures of labor costs have decelerated modestly over the past year. P&C compensation per hour is reported to have risen 2.5 percent over the four quarters ending in the third quarter of this year, down from a 3.1 percent increase over the four quarters ending a year earlier. Labor compensation as measured by the ECI decelerated more sharply over the past year, moving up only 1.2 percent over the 12 months ending in September after increasing 2.8 percent in the year-earlier period.

Turning to the current quarter, average hourly earnings of production and nonsupervisory workers increased 0.3 percent in October and 0.1 percent in November. Average hourly earnings have also decelerated over the past year. Over the 12 months ending in November, this wage measure increased 2.2 percent, 1.7 percentage points less than over the preceding year.

Last page of Domestic Nonfinancial Developments

second-quarter labor income from the BEA described earlier, the BLS now estimates that P&C compensation per hour increased at annual rates of 1 percent in the first half of the year and 5½ percent in the third quarter.

Domestic Financial Developments

Domestic Financial Developments

Overview

Market expectations for the path of the federal funds rate shifted down over the intermeeting period, and yields on nominal Treasury coupon securities decreased as well. Stock prices moved higher, while yield spreads on corporate bonds edged down. In short-term funding markets, year-end pressures have been muted thus far, although strong demand for Treasury bills that mature early next year has helped push their yields close to zero. Net debt financing by nonfinancial businesses remained light in recent weeks, as C&I loans outstanding contracted further but net bond issuance remained fairly strong. The first newly issued CMBS since June 2008 came to market over the intermeeting period, but conditions in the commercial mortgage market continued to be tight overall. In the household sector, the latest data showed a further slight contraction of mortgage debt and consumer credit and delinquency rates that have remained very high.

Policy Expectations and Treasury Yields

Implied rates on federal funds and Eurodollar futures decreased, on net, over the intermeeting period. Although the FOMC's decision to keep the target range for the federal funds rate unchanged at the November meeting and the retention of the "extended period" language in the accompanying statement were largely anticipated, market participants took note of the Committee's explicit enumeration of some of the factors that are expected to continue to warrant this policy, and Eurodollar futures rates decreased slightly on the release. Investors' perceptions that the federal funds rate will likely remain near its current level for some time appeared to be reinforced by subsequent Federal Reserve communications, most notably Chairman Bernanke's speech on November 16. Incoming economic data were, on balance, somewhat better than expected, but their net impact on interest rate expectations appeared to be small. Based on the staff's usual assumption of a term premium of 1 basis point per month, futures quotes currently indicate that the federal funds rate is expected to rise above 25 basis points for the first time during the third quarter of 2010 and to reach about 1¾ percent by the end of 2011. In the December survey of primary dealers, around two-thirds of respondents reported expecting the first policy rate increase to occur by the end of 2010, a slightly larger fraction than in the October survey.

Consistent with the decline in the expected path of the federal funds rate over the intermeeting period yields on nominal Treasury securities declined 22 basis points and 12 basis points at the 2- and 10-year maturities, respectively. TIPS yields fell slightly more than nominal yields, implying a small net increase in inflation compensation.

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

Instrument	2008	2009			Change to Dec. 8 from selected dates (percentage points)		
	Sept. 12	Sept. 22	Nov. 3	Dec. 8	2008 Sept. 12	2009 Sept. 22	2009 Nov. 3
Short-term							
FOMC intended federal funds rate	2.00	.13	.13	.13	-1.87	.00	.00
Treasury bills[1]							
3-month	1.46	.11	.06	.03	-1.43	-.08	-.03
6-month	1.80	.20	.17	.15	-1.65	-.05	-.02
Commercial paper (A1/P1 rates)[2]							
1-month	2.39	.18	.16	.13	-2.26	-.05	-.03
3-month	2.75	.21	.18	.20	-2.55	-.01	.02
Large negotiable CDs[1]							
3-month	2.79	.25	.22	.22	-2.57	-.03	.00
6-month	3.09	.35	.32	.30	-2.79	-.05	-.02
Eurodollar deposits[3]							
1-month	2.60	.40	.30	.32	-2.28	-.08	.02
3-month	3.00	.55	.45	.45	-2.55	-.10	.00
Bank prime rate	5.00	3.25	3.25	3.25	-1.75	.00	.00
Intermediate- and long-term							
U.S. Treasury[4]							
2-year	2.24	.99	.93	.71	-1.53	-.28	-.22
5-year	2.97	2.44	2.37	2.12	-.85	-.32	-.25
10-year	3.93	3.74	3.73	3.61	-.32	-.13	-.12
U.S. Treasury indexed notes[5]							
5-year	1.33	1.11	.70	.41	-.92	-.70	-.29
10-year	1.77	1.69	1.48	1.33	-.44	-.36	-.15
Municipal general obligations (Bond Buyer)[6]	4.54	4.20	4.39	4.24	-.30	.04	-.15
Private instruments							
10-year swap	4.26	3.67	3.62	3.52	-.74	-.15	-.10
10-year FNMA[7]	4.36	4.12	4.06	3.85	-.51	-.27	-.21
10-year AA[8]	6.62	5.11	5.12	4.96	-1.66	-.15	-.16
10-year BBB[8]	7.22	6.36	6.25	6.00	-1.22	-.36	-.25
10-year high yield[8]	10.66	9.90	9.48	9.42	-1.24	-.48	-.06
Home mortgages (FHLMC survey rate)							
30-year fixed	5.78	5.04	4.98	4.71	-1.07	-.33	-.27
1-year adjustable	5.03	4.52	4.47	4.25	-.78	-.27	-.22

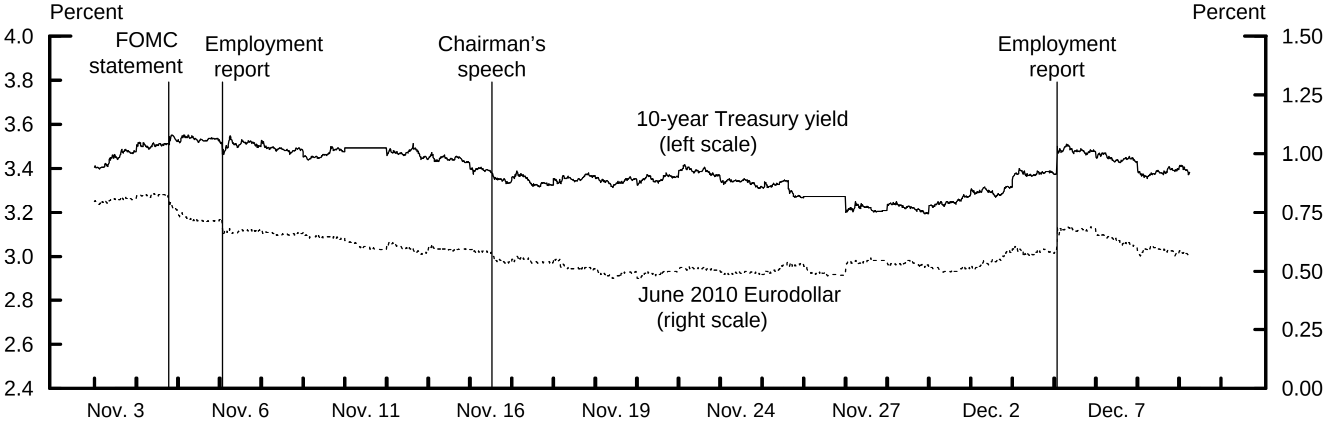
Stock exchange index	Record high		2009			Change to Dec. 8 from selected dates (percent)		
	Level	Date	Sept. 22	Nov. 3	Dec. 8	Record high	2009 Sept. 22	2009 Nov. 3
Dow Jones Industrial	14,165	10-9-07	9,830	9,772	10,286	-27.38	4.64	5.26
S&P 500 Composite	1,565	10-9-07	1,072	1,045	1,092	-30.23	1.89	4.45
Nasdaq	5,049	3-10-00	2,146	2,057	2,173	-56.96	1.24	5.62
Russell 2000	856	7-13-07	621	571	598	-30.16	-3.70	4.75
D.J. Total Stock Index	15,807	10-9-07	11,083	10,729	11,207	-29.10	1.12	4.46

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.
September 22, 2009, is the day before the September 2009 FOMC monetary policy announcement.
November 3, 2009, is the day before the most recent FOMC monetary policy announcement.

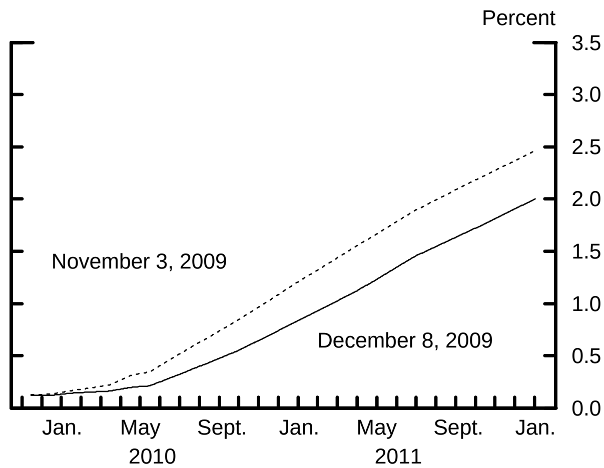
Policy Expectations and Treasury Yields

Interest Rates



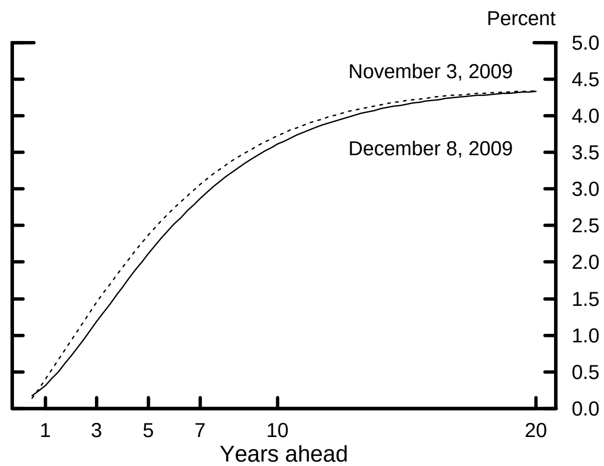
Note: 5-minute intervals. 8:00 a.m. to 4:00 p.m. No adjustments for term premiums.
Source: Bloomberg.

Implied Federal Funds Rate



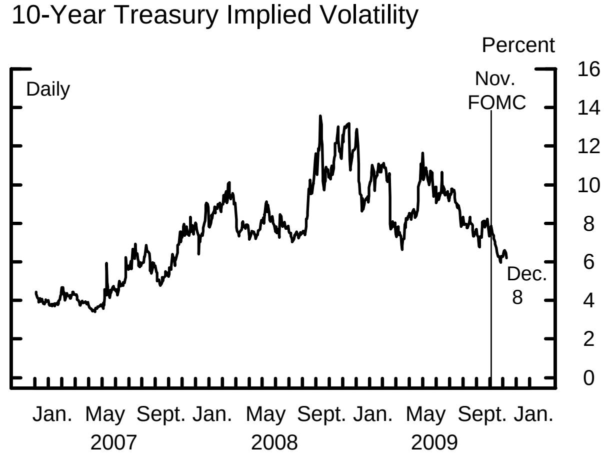
Note: Estimated from federal funds and Eurodollar futures, with an allowance for term premiums and other adjustments.
Source: CME Group.

Treasury Yield Curve



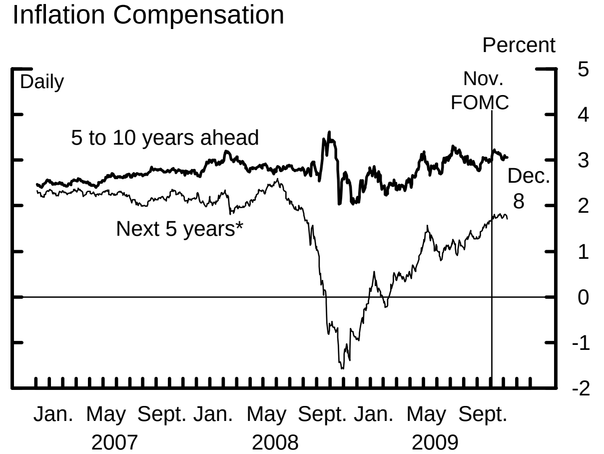
Note: Smoothed yield curve estimated from off-the-run Treasury coupon securities. Yields shown are those on notional par Treasury securities with semiannual coupons.
Source: Federal Reserve Board.

10-Year Treasury Implied Volatility



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

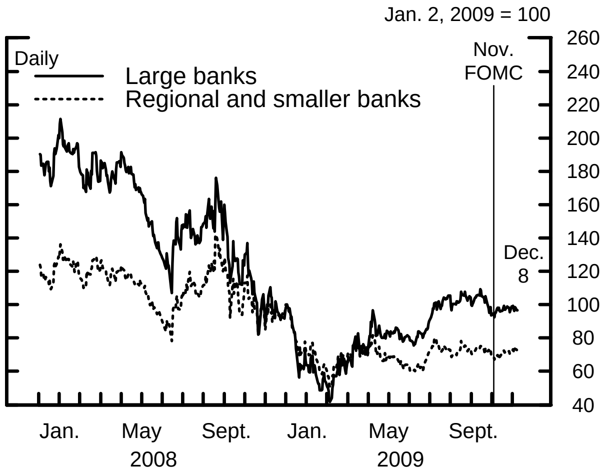
Inflation Compensation



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

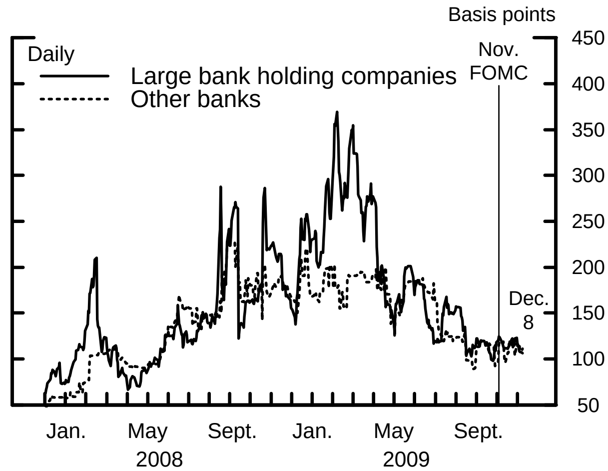
Financial Institutions, Short-Term Funding Markets, and Liquidity Facilities

Bank Exchange-Traded Funds



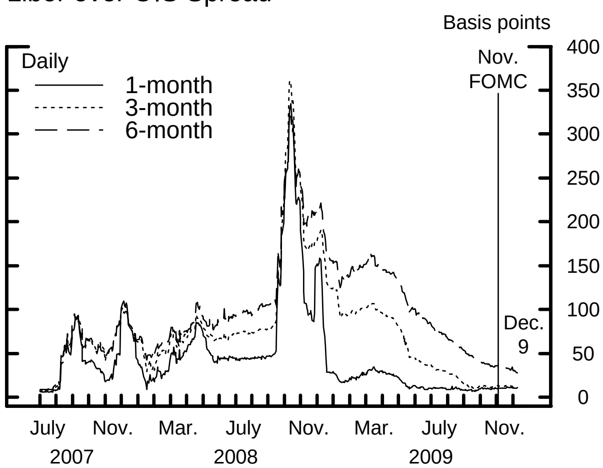
Note: Large bank ETF consists of 24 banks; regional and smaller bank ETF consists of 51 banks.
Source: Keefe, Bruyette & Woods (KBW) and Bloomberg.

Senior CDS Spreads for Banking Organizations



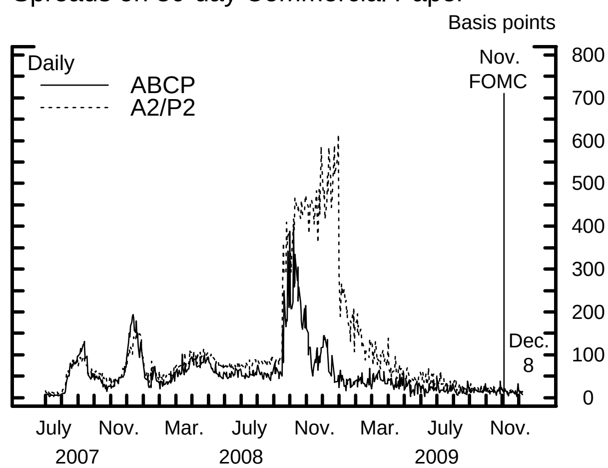
Note: Median spreads for 6 large bank holding companies and 10 other banks.
Source: Markit.

Libor over OIS Spread



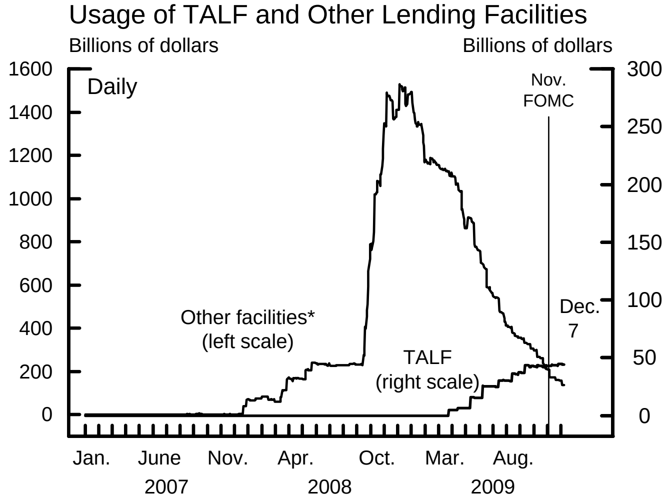
Source: British Bankers' Association and Prebon.

Spreads on 30-day Commercial Paper



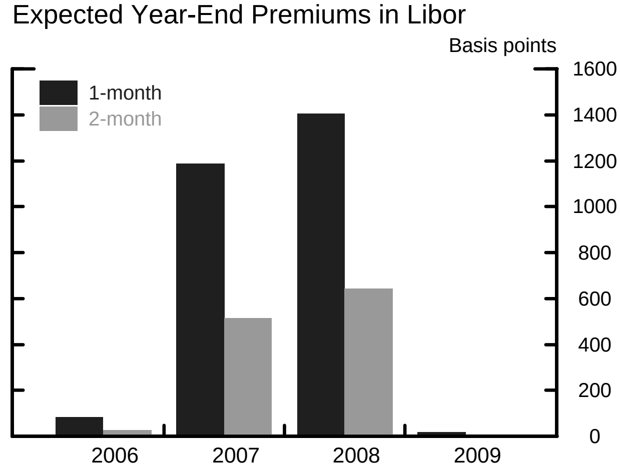
Note: The ABCP spread is the AA ABCP rate minus the AA nonfinancial rate. The A2/P2 spread is the A2/P2 nonfinancial rate minus the AA nonfinancial rate.
Source: Depository Trust & Clearing Corporation.

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.

Expected Year-End Premiums in Libor



Note: Premiums measured from the change in Libor rates when these contracts first rolled forward to settle past the year-end.
Source: Bloomberg and staff estimates.

Financial Institutions and Short-Term Funding Markets
Investor sentiment toward the financial sector has changed little, on balance, since the November FOMC meeting. Equity prices at large and small banks increased a bit less than broader market indexes, in part as investors continued to express concerns about the future profitability of the banking industry; CDS spreads for banking institutions edged down. Market commentary suggested that some large financial firms and hedge funds may have pared their holdings of riskier assets ahead of year-end in order to lock in capital market gains posted over the course of the year. Their increased demand for safe assets reportedly contributed to the scarcity and near-zero yields of Treasury bills maturing just after year-end.

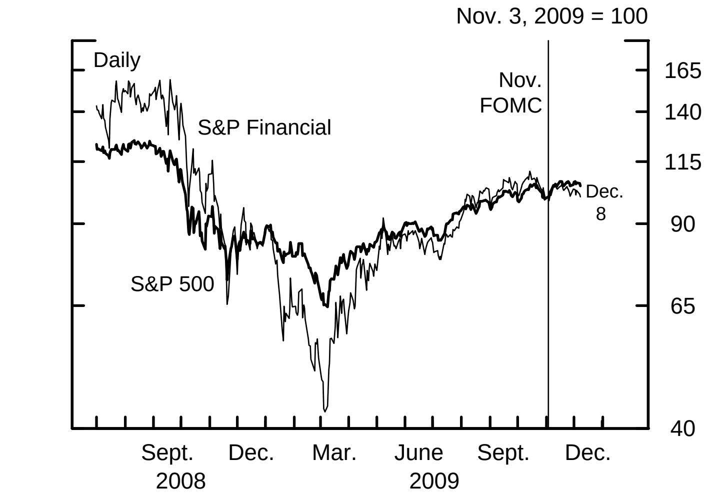
Conditions in short-term funding markets changed little over the intermeeting period. One- and three-month Libor-OIS spreads remained very low, while six-month spreads continued to edge down. Spreads on A2/P2-rated commercial paper and AA-rated ABCP also remained at the low end of each of their ranges since the fall of 2007. Thus far, year-end pressures appear to be much lighter than in the past two years. The forward premiums priced into one- and two-month Libor rates as they crossed year-end were only 20 basis points and 3 basis points, respectively—significantly less than those of last year and the year before. Meanwhile, the term structure of commercial paper rates has stayed relatively flat through the early part of 2010.

Federal Reserve Purchase Programs and Facilities
Total Federal Reserve holdings of agency debt and MBS under the large-scale asset purchase programs reached \$156 billion and about \$1.1 trillion, respectively, during the intermeeting period. Reports suggest that the tapering of Federal Reserve purchases of agency MBS has, to date, placed only modest upward pressure on MBS yields. Some market participants reportedly interpreted the relatively low shares of accepted bids in the agency debt operations as indicating a wind-down in that program as well. The announcement in the FOMC statement that the Federal Reserve would purchase only about \$175 billion of agency securities had not been generally anticipated by market participants, and spreads on those securities increased a few basis points on the release.

Usage of the Federal Reserve's credit facilities generally declined further over the intermeeting period. TAF auctions—including those that provided funding over year-end—continued to be substantially undersubscribed. Commercial paper held by the CPFF declined to around \$9 billion, and TALF credit edged up slightly to around \$44 billion. On November 17, the TALF subscription for CMBS resulted in loans totaling about \$1.4 billion, including about \$72 million in loans backed by the first newly issued CMBS since June 2008. On December 3, the ABS TALF subscription supported

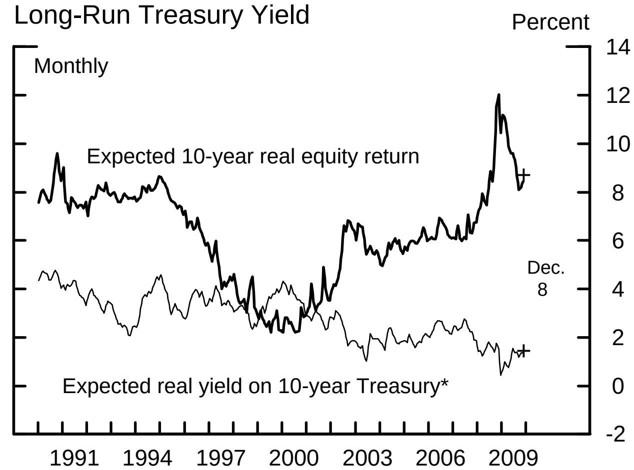
Corporate Yields, Risk Spreads, and Stock Prices

Selected Stock Price Indexes



Source: Standard & Poor's.

Expected Real Equity Return and Long-Run Treasury Yield

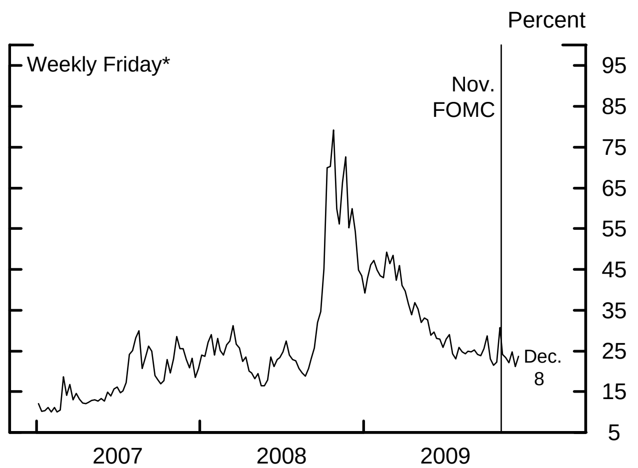


* Off-the-run 10-year Treasury yield less Philadelphia Fed 10-year expected inflation.

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

Source: Thomson Financial.

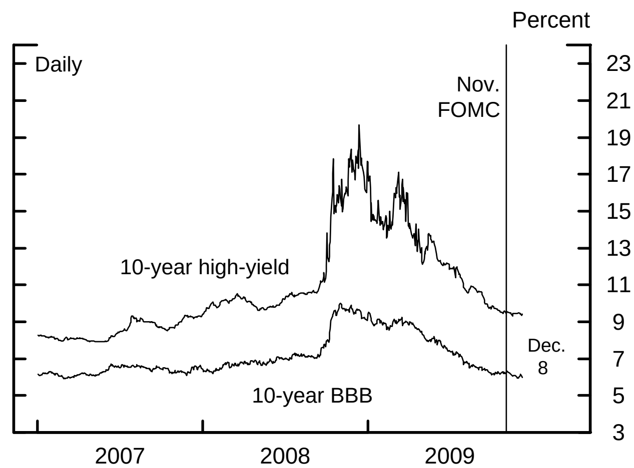
Implied Volatility on S&P 500 (VIX)



* Latest observation is for most recent business day.

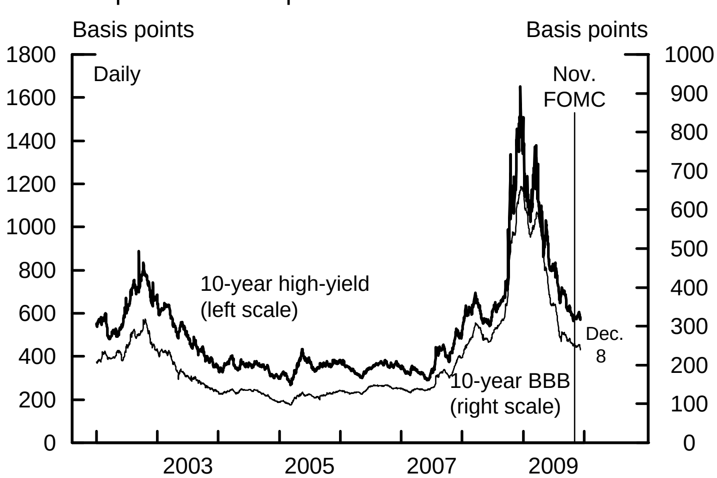
Source: Chicago Board of Exchange.

Corporate Bond Yields



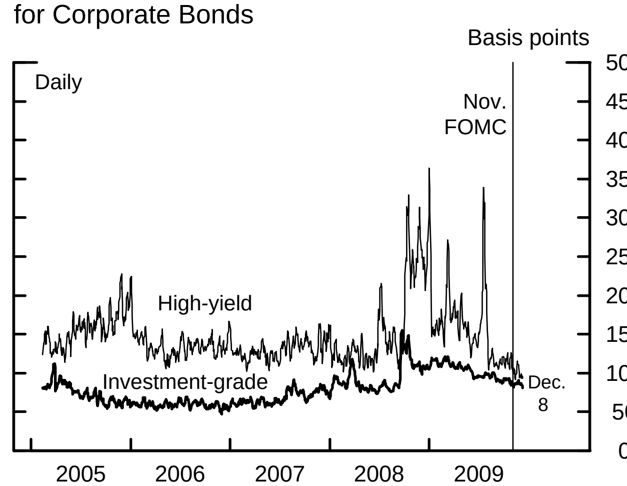
Note: Yields from smoothed yield curves based on Merrill Lynch bond data.

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.

six deals, with a total of about $3 billion in loan requests that will settle later this week. Thus far, there are no indications in interbank, repurchase agreement (repo), or commercial paper markets to suggest that market participants expect conditions to deteriorate around February 1, 2010, when some facilities (the AMLF, CPFF, PDCF, TSLF, and foreign currency swap lines) are scheduled to expire.

On November 17, the Board announced a reduction in the maximum maturity of primary credit loans at the discount window for depository institutions to 28 days from 90 days, effective January 14, 2010. In early December, the Federal Reserve Bank of New York began conducting a series of small-scale, real-value reverse repo transactions with primary dealers as a test of the systems needed to use such transactions as a reserve-draining tool. Financial markets were unaffected by these developments.

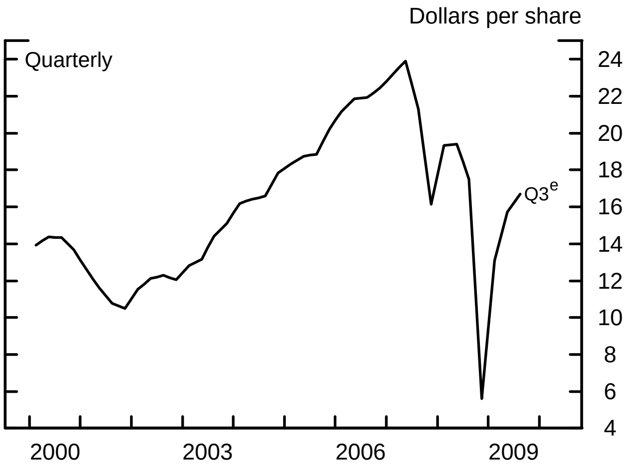
Stock Prices and Corporate Interest Rates

Over the intermeeting period, broad stock price indexes rose about 5 percent, reflecting, in part, stronger-than-expected earnings reports from a number of firms in the first half of November. The staff's estimate of the real return on equity expected over the next 10 years for S&P 500 firms continued to hover 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 at a level that would appear broadly consistent with continued investor uncertainty about the pace of economic recovery. However, option-implied volatility on the S&P 500 index fell, and it now stands at roughly its lowest level since early September 2008.

Over the intermeeting period, yields on investment- and speculative-grade corporate bonds decreased a little more than those on comparable-maturity Treasury securities, leaving the risk spreads a touch narrower. Estimates of bid-asked spreads for investment- and speculative-grade corporate bonds—indicators of liquidity in the secondary corporate bond market—remained steady at moderate levels. Conditions in the leveraged loan market were also little changed, with both average bid prices and bid-asked spreads about flat for the period.

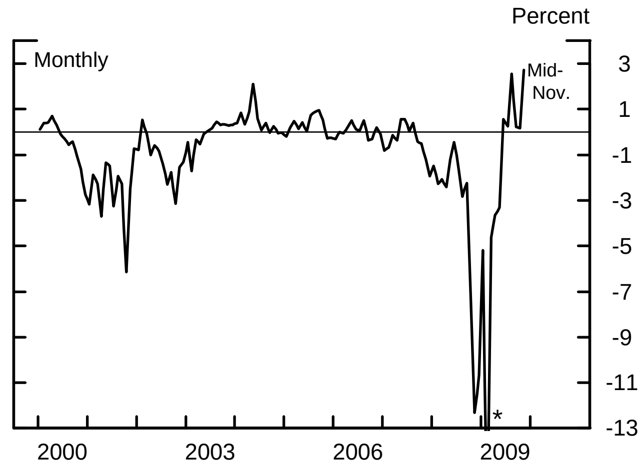
Corporate Earnings and Credit Quality

S&P 500 Earnings Per Share



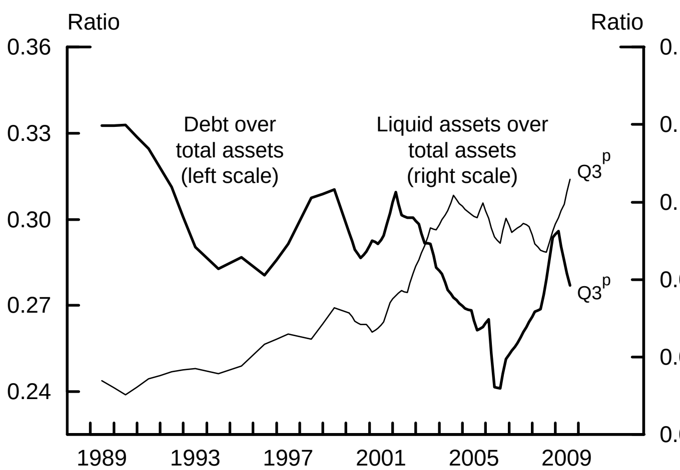
Note: Data are seasonally adjusted by Board staff.
e Estimate.
Source: Thomson Financial.

Revisions to Expected S&P 500 Earnings



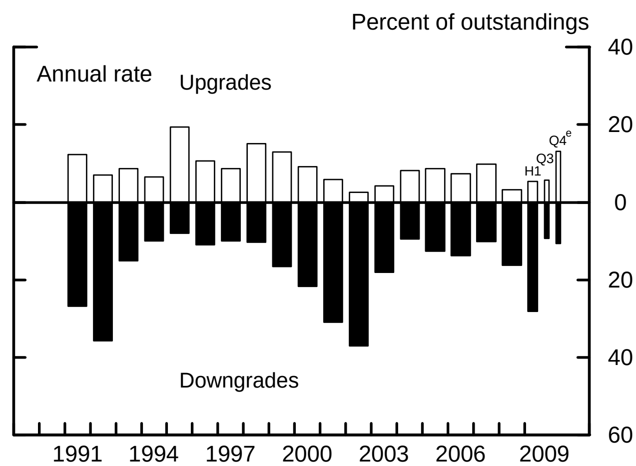
Note: Index is a weighted average of the percent change in the consensus forecasts of current-year and following-year earnings per share for a fixed sample.
* Revision in Feb. 2009 was -17.2%.
Source: Thomson Financial.

Financial Ratios for Nonfinancial Corporations



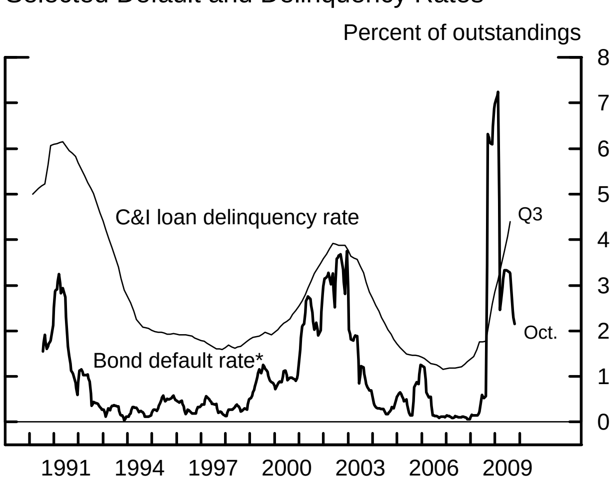
Note: Data are annual through 1999 and quarterly thereafter.
p Preliminary.
Source: Compustat.

Bond Ratings Changes of Nonfinancial Companies



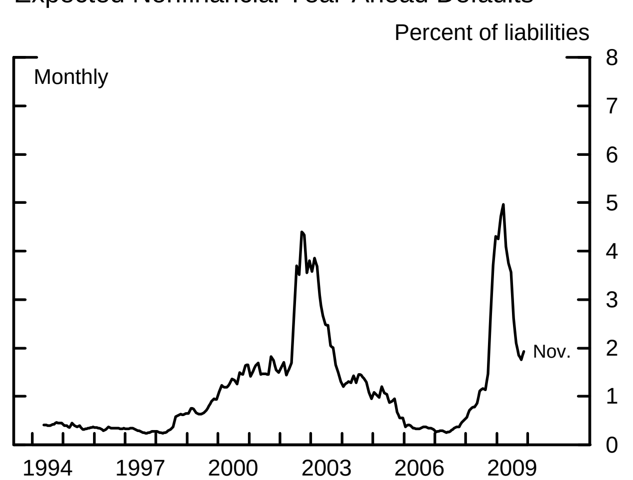
e Estimate.
Source: Calculated using data from Moody's Investors Service.

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 data.

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.

Corporate Earnings and Credit Quality

With the latest quarterly earnings season now almost complete, earnings per share for S&P 500 firms are estimated to have logged another solid gain in the third quarter. In addition, during the month ending in mid-November, analysts significantly revised up their expectations for year-ahead earnings for S&P 500 firms.

On balance, indicators of the credit quality of nonfinancial firms improved somewhat in recent months. The aggregate ratio of debt to assets for nonfinancial corporations fell in the third quarter, while liquid assets as a share of total assets climbed further. The pace of nonfinancial corporate ratings downgrades by Moody's remained moderate through November, while the pace of upgrades was strong, in large part reflecting the upgrade of Ford Motor Company last month. Although the delinquency rate on C&I loans continued to increase in the third quarter, the six-month trailing bond default rate for all U.S. firms inched down further in October and has retraced about three-quarters of the spike that occurred in late 2008 and early this year. The year-ahead expected default frequency for nonfinancial firms from Moody's KMV remained close to 2 percent, less than half its level in March.

Business Finance

Gross issuance of investment-grade bonds by nonfinancial corporations jumped in November following a lull in October, and speculative-grade bond issuance maintained a solid pace. By contrast, both nonfinancial commercial paper outstanding and C&I loans contracted, on net, in November, although the decrease in commercial paper was not widespread across issuers. Overall, net debt financing by nonfinancial businesses is estimated to have been negligible this quarter after having been negative in the third quarter.

Gross public equity issuance by nonfinancial firms remained solid in November, including a spate of initial public offerings that were generally well received by the market. In the third quarter, overall private and public equity issuance continued to outpace retirements, as both estimated share repurchases and retirements from cash-financed mergers remained muted. So far in the fourth quarter, announcements of share repurchase programs have continued to be sparse, but the volume of announced mergers and acquisitions has rebounded.

Public equity issuance by financial firms remained moderate in November. However, on December 3, Bank of America completed a large secondary equity offering of just over $19 billion in common-equivalent shares as part of the firm's plan to repay TARP funds; this offering was very well received. Gross bond issuance by financial firms slowed

Business Finance

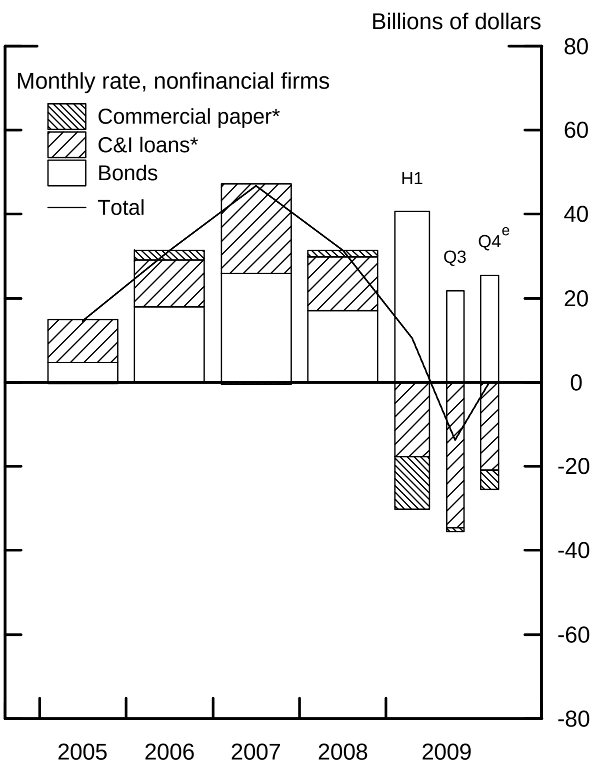
Gross Issuance of Securities by U.S. Corporations

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

Type of security	2005	2006	2007	2008	2009 H1	2009 Q3	2009 Oct.	2009 Nov. p
Nonfinancial corporations								
Stocks[1]	4.6	4.7	5.5	3.7	5.3	5.4	4.7	5.0
Initial public offerings	1.7	1.8	1.6	.3	.2	.6	1.8	1.5
Seasoned offerings	2.8	2.9	3.8	3.4	5.1	4.8	2.9	3.5
Bonds[2]	18.7	29.3	35.1	27.7	50.1	30.4	21.4	45.8
Investment grade	8.7	13.1	17.5	19.5	32.6	13.4	4.7	28.3
Speculative grade	5.2	6.2	7.5	1.8	5.3	7.4	6.7	8.3
Other (sold abroad/unrated)	4.8	10.1	10.0	6.4	12.2	9.7	10.0	9.2
Memo								
Net issuance of commercial paper[3]	-.2	2.4	-.4	1.6	-12.4	-.9	4.2	-13.2
Change in C&I loans at commercial banks[3]	10.2	11.1	21.2	12.8	-17.7	-34.6	-22.2	-19.5
Financial corporations								
Stocks[1]	5.0	5.3	8.6	13.5	15.9	5.5	2.7	2.1
Bonds[2]	170.4	180.6	151.7	45.4	44.5	38.9	31.0	23.7

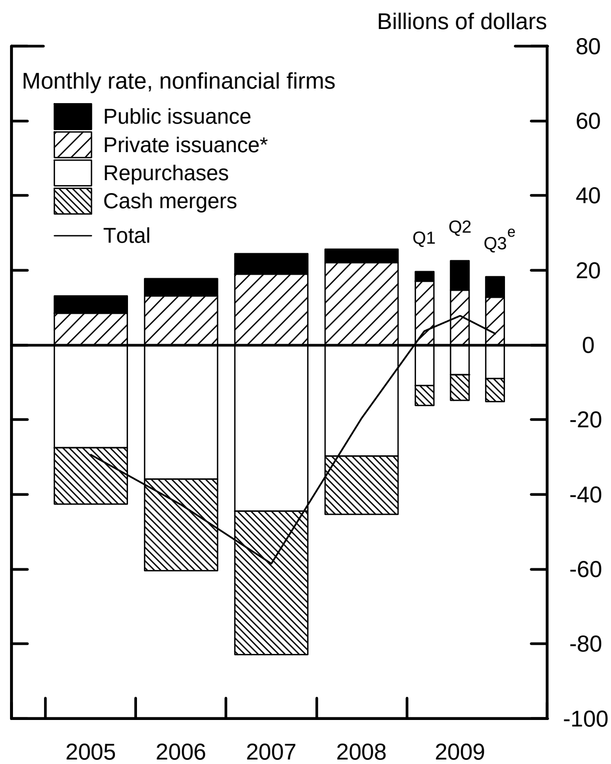
Note: Components may not sum to totals because of rounding.
1. Excludes private placements and equity-for-equity swaps that occur in restructurings.
2. Data include regular and 144a private placements. Bond totals reflect gross proceeds rather than par value of original discount bonds. Bonds are categorized according to Moody's bond ratings or to Standard & Poor's if unrated by Moody's.
3. For all nonfinancial firms; 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.
e Estimate.
Source: Depository Trust & Clearing Corporation; Thomson Financial; Federal Reserve Board.

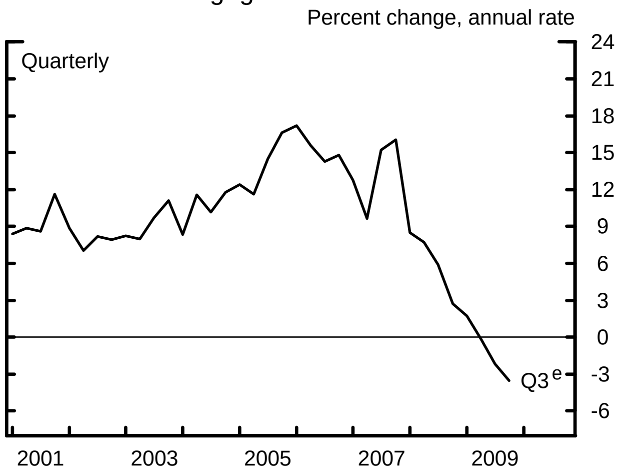
Components of Net Equity Issuance



* 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.

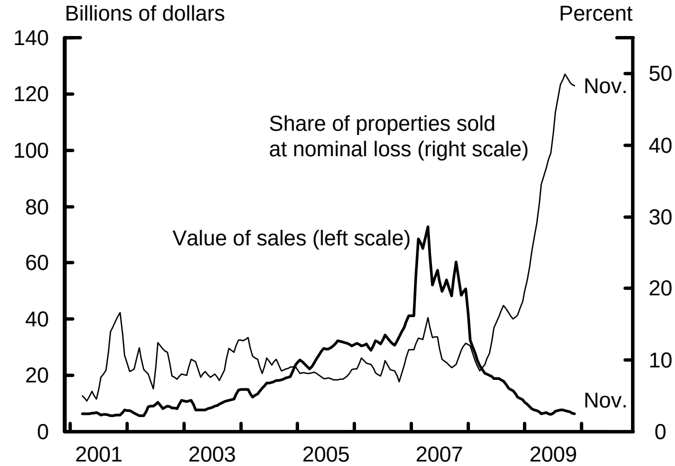
Commercial Real Estate

Commercial Mortgage Debt



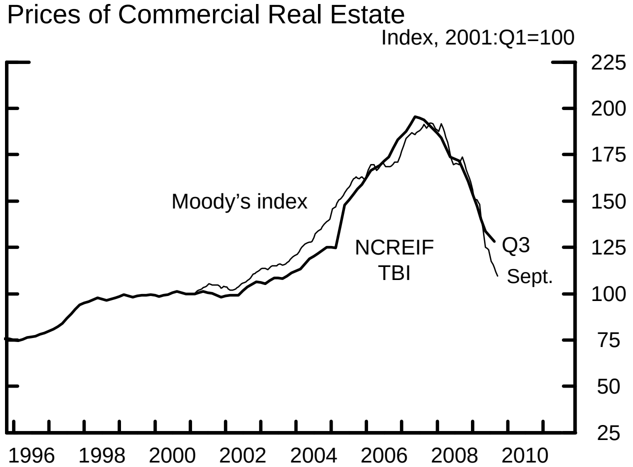
e Estimate
Source: Federal Reserve Board.

Commercial Real Estate Sales



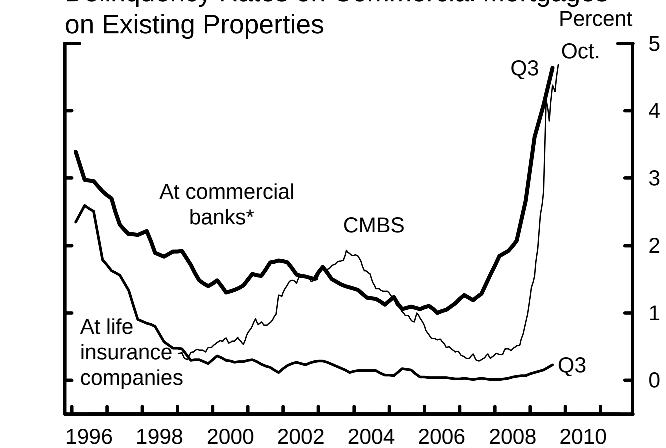
Note: 3-month moving averages.
Source: Real Capital Analytics.

Prices of Commercial Real Estate



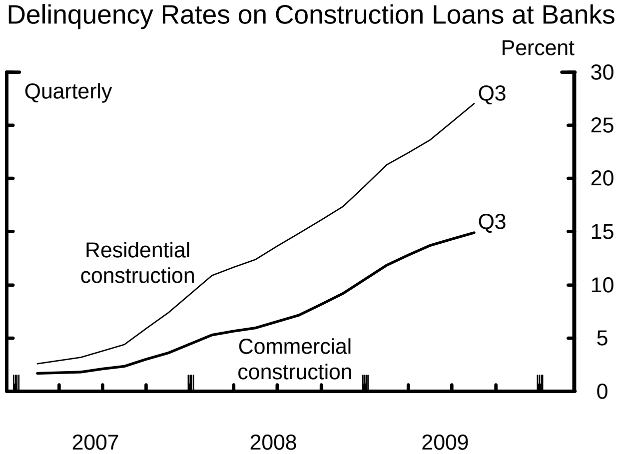
Note: NCREIF TBI series re-weighted by staff to exclude multifamily.
Source: NCREIF; MIT Center for Real Estate; Moody's.

Delinquency Rates on Commercial Mortgages on Existing Properties



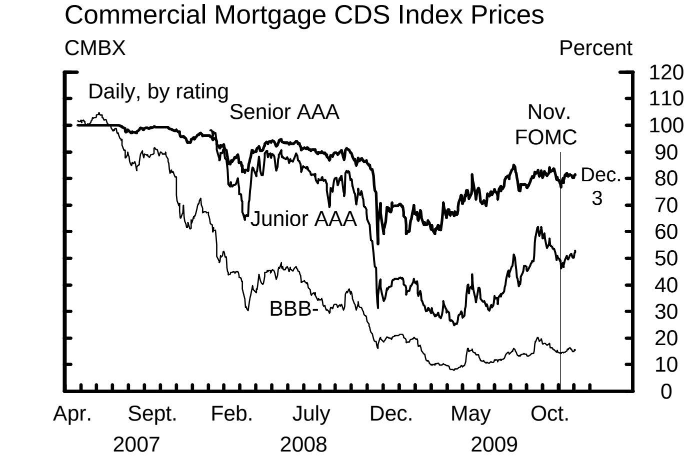
Note: CMBS are commercial mortgage-backed securities.
*Excluding farmland.
Source: Citigroup; Call Report data; ACLI.

Delinquency Rates on Construction Loans at Banks



Note: Data series begin in 2007:Q1.
Source: Call Report data.

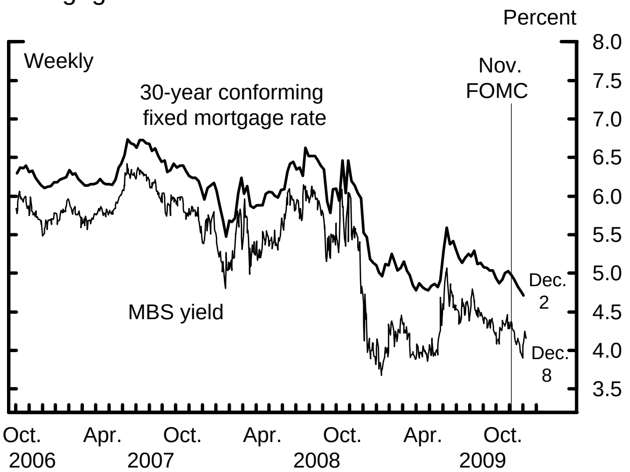
Commercial Mortgage CDS Index Prices



Note: Each index corresponds to pools of mortgages securitized in 2006:H1.
Source: JPMorgan Chase & Co.

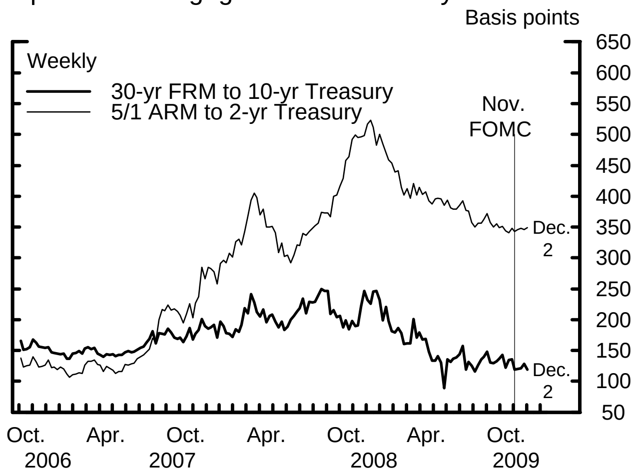
Residential Mortgages

Mortgage Rate and MBS Yield



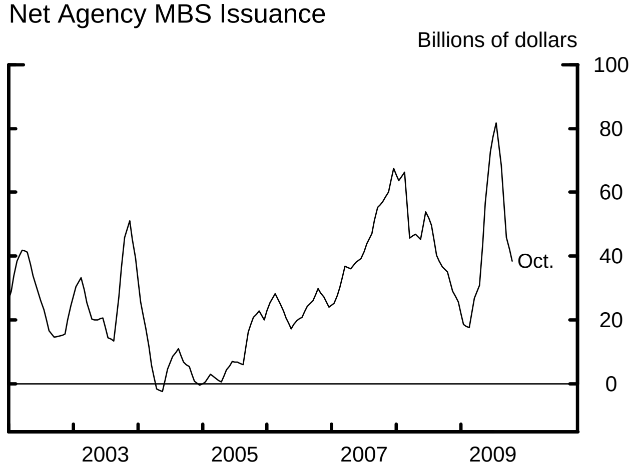
Note: For MBS yield, Fannie Mae 30-year current coupon rate.
Source: For mortgage rate, Freddie Mac; for MBS yield, Bloomberg.

Spread of Mortgage Rate to Treasury Yield



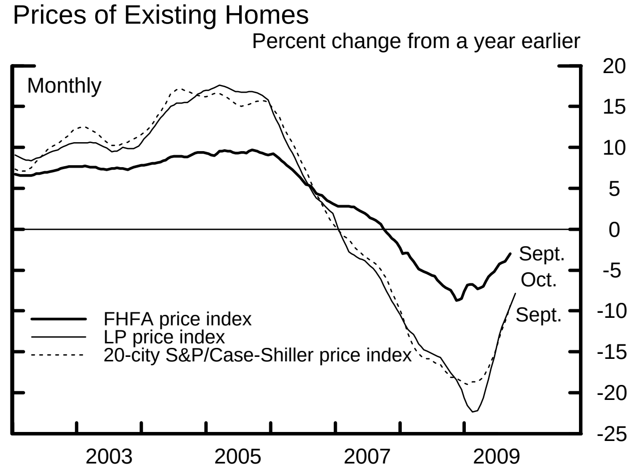
Note: Spreads are relative to corresponding off-the-run Treasury yields.
Source: Bloomberg; Freddie Mac.

Net Agency MBS Issuance



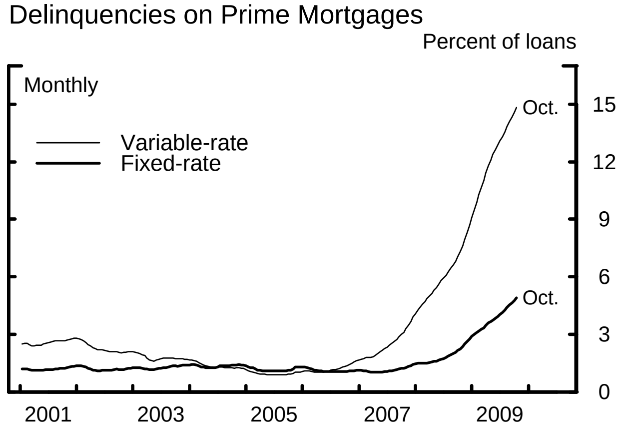
Note: 3-month moving average
Source: FHLMC, FNMA, and GNMA.

Prices of Existing Homes



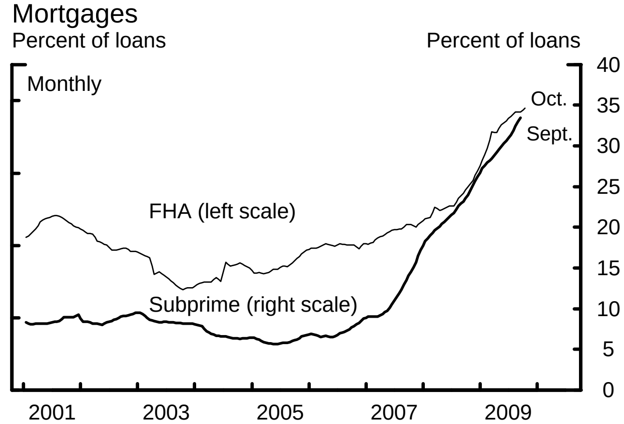
Source: For FHFA, Federal Housing Finance Agency; for LP, LoanPerformance, a division of First American CoreLogic; for S&P/Case-Shiller, Standard & Poor's.

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.

somewhat further following the October 31 expiration of the FDIC's Temporary Liquidity Guarantee Program.

Commercial Real Estate Finance

Financing conditions for commercial real estate remained strained. Outstanding commercial mortgage debt is estimated to have decreased at an annual rate of about 4 percent in the third quarter, and recent data suggest another decline this quarter. The dollar value of commercial real estate sales stayed very low in November, and around half of transacted properties were sold at a nominal loss. Commercial property prices decreased about 3 percent in September, leaving the index about 40 percent below its peak in mid-2007, at roughly its mid-2003 level. In October, delinquency rates on loans in CMBS pools increased to 4¾ percent, about the same as the delinquency rate on CRE loans for existing properties held by commercial banks in the third quarter. Delinquency rates on banks' construction and land development loans for residential and commercial projects climbed above levels that were already exceptionally high. CDS index prices covering a range of investment-grade CMBS increased, on net, as investors appear to have been encouraged by the first issuance of CMBS since the spring of 2008; moreover, reports suggest that two more CMBS deals will be offered in coming weeks.

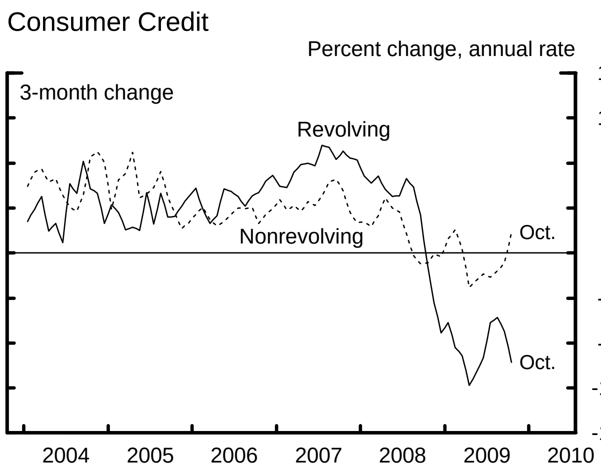
Household Finance

Over the intermeeting period, the average interest rate on 30-year conforming fixed-rate mortgages decreased to less than 5 percent, and the spread between this mortgage rate and the 10-year Treasury yield was little changed. Despite the low level of the conforming mortgage rate, refinancing activity does not seem to have picked up in recent weeks. Agency MBS yields decreased, on net, in recent weeks, while issuance of these securities moderated through October.

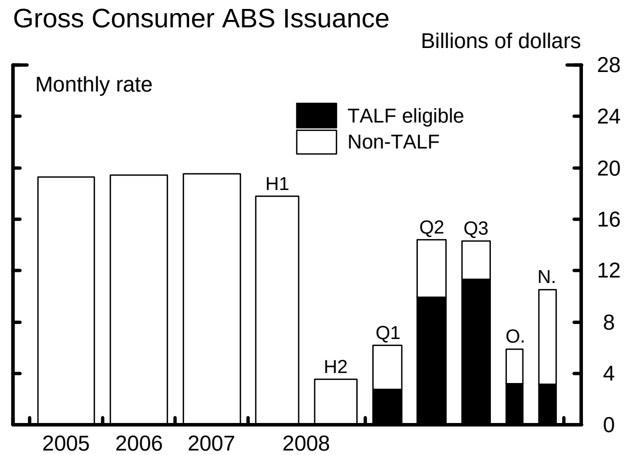
Following several monthly increases, the repeat-sales house-price index from LoanPerformance (LP) inched down in September and October, leaving the index about 8 percent below its year-earlier level. Delinquency rates for fixed- and variable-rate prime mortgages continued to climb in October, as did the delinquency rate for FHA-backed loans.

Consumer credit contracted for the ninth consecutive month in October, as a sizable decline in revolving credit more than offset a slight increase in nonrevolving credit. Consumer ABS issuance increased in November, boosted by an increase in auto-loan securitizations. Credit card ABS issuance, which was very low in the past two months, is anticipated to pick up substantially in December as a result of interim guidance clarifying how the FDIC would handle these securitizations for a sponsoring bank in receivership.

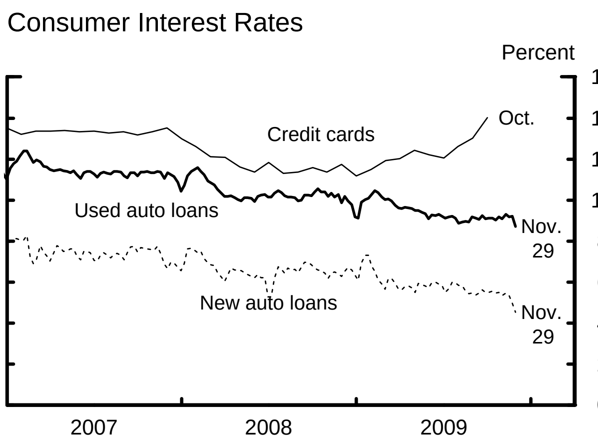
Consumer Credit and Mutual Funds



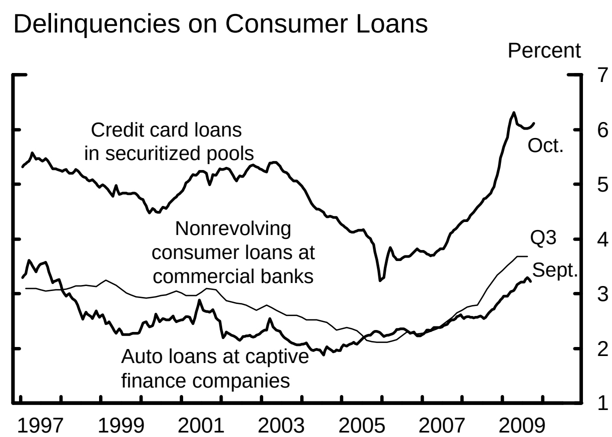
Source: Federal Reserve Board.



Note: Credit card, auto, and student loan ABS.
Source: Inside MBS & ABS; Merrill Lynch; Bloomberg; Federal Reserve Board.



Source: For credit cards, Mintel; for auto loans, Federal Reserve Board.



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

Net Flows into Mutual Funds

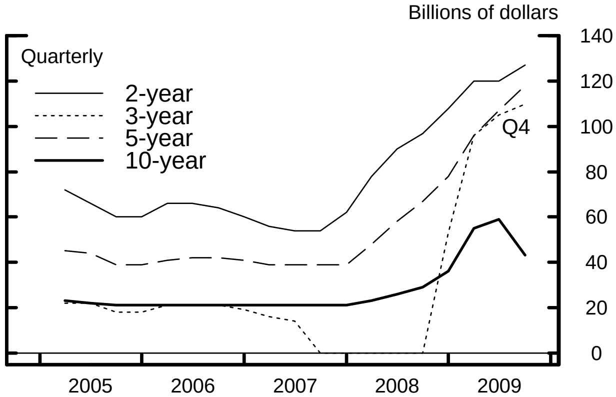
(Billions of dollars, monthly rate)

Fund type	2008 H1	2008 H2	2009 Q1	2009 Q2	2009 Q3	2009 Oct.	2009 Nov.[e]	Assets Oct.
Total long-term funds	**11.8**	**-49.0**	**0.5**	**46.1**	**47.9**	**40.9**	**33.4**	**7,327**
Equity funds	**-3.6**	**-35.1**	**-14.4**	**14.2**	**0.9**	**-7.1**	**-5.2**	**4,596**
Domestic	-5.0	-20.1	-7.8	9.7	-3.7	-14.8	-10.0	3,408
International	1.3	-15.1	-6.5	4.4	4.6	7.8	4.8	1,188
Hybrid funds	**1.7**	**-4.8**	**-2.9**	**2.3**	**5.2**	**2.9**	**2.5**	**605**
Bond funds	**13.8**	**-9.1**	**17.8**	**29.7**	**41.8**	**45.0**	**36.1**	**2,126**
High-yield	-0.2	0.1	2.7	2.9	1.4	0.7	0.8	180
Other taxable	11.1	-7.6	11.2	21.1	31.8	39.6	30.3	1,503
Municipals	2.9	-1.6	3.9	5.7	8.7	4.8	5.1	444
Money market funds	**56.1**	**59.6**	**0.1**	**-54.6**	**-81.8**	**-71.8**	**-34.6**	**3,357**

Note: Excludes reinvested dividends.
e Staff estimate.
Source: Investment Company Institute.

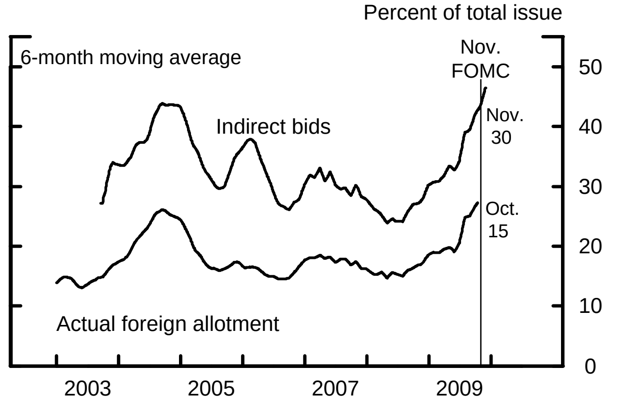
Treasury Finance

Treasury Auction Amounts



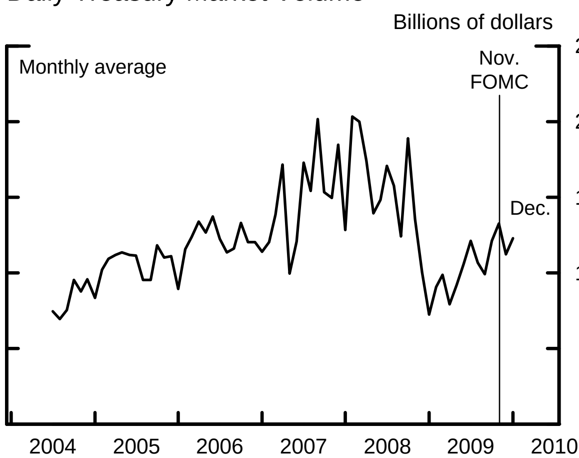
Note: No 3-year issuance between Q3 2007 and Q3 2008.
Source: U.S. Treasury.

Foreign Participation in Treasury Auctions



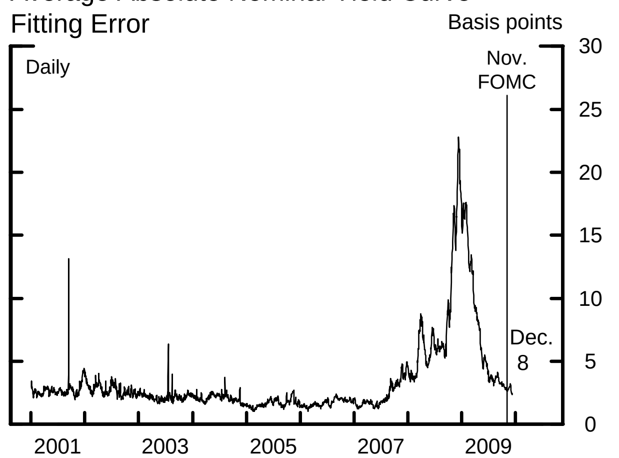
Note: Indirect bids and actual allotment are a percentage of the total amount accepted, including the amount tendered to the Federal Reserve. Moving averages include 2-, 5-, and 10-year original auctions and reopenings.
Source: Federal Reserve Board.

Daily Treasury Market Volume



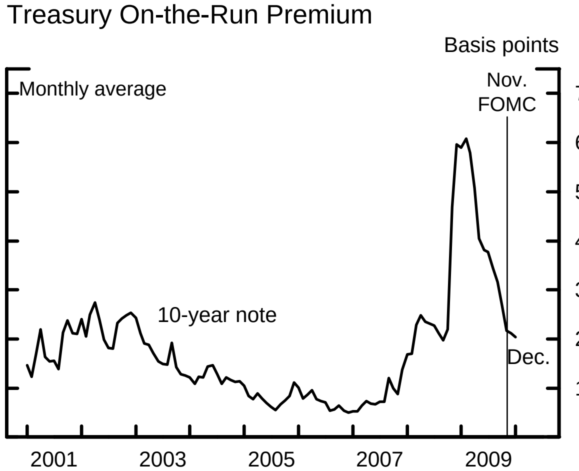
Note: December observation is the month-to-date average.
Source: Bloomberg.

Average Absolute Nominal Yield Curve Fitting Error



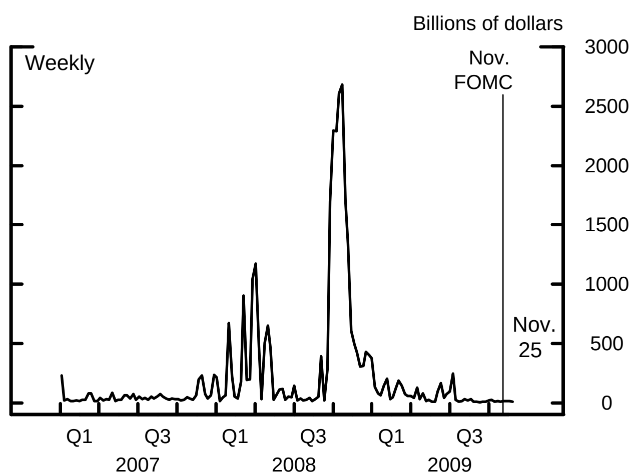
Note: Calculated from securities with 2 to 10 years until maturity, excluding on-the-run and first off-the-run securities.
Source: Federal Reserve Board.

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. December observation is the month-to-date average.
Source: Federal Reserve Board.

Fails-to-Deliver of Treasury Securities



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

State and Local Government Finance

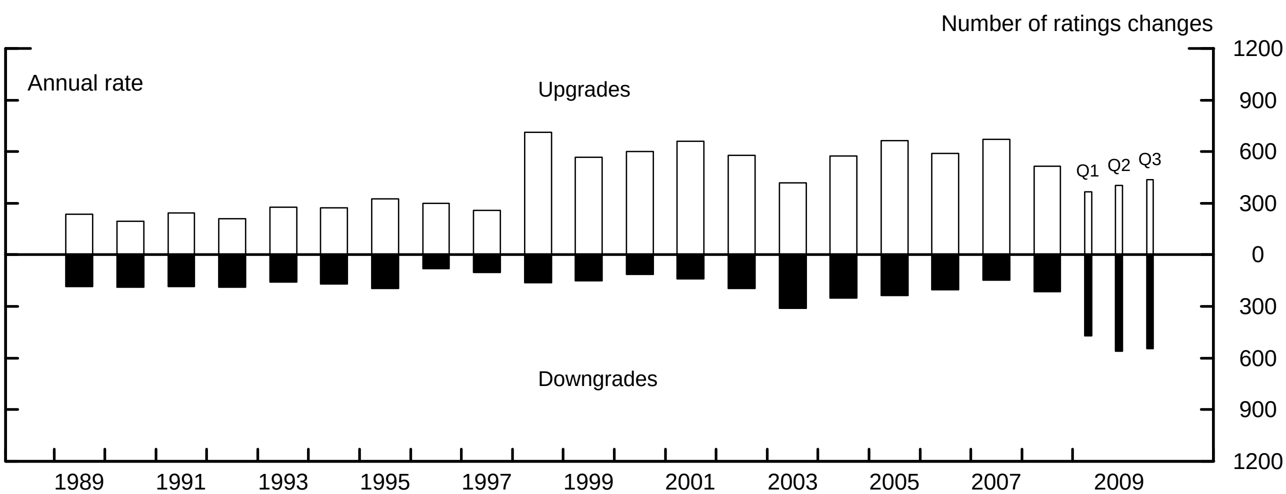
Gross Offerings of Municipal Securities

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

Type of security	2005	2006	2007	2008	2009			
					H1	Q3	Oct.	Nov.
Total	38.4	36.1	40.4	37.6	36.5	41.9	48.7	39.7
Long-term [1]	34.2	32.5	35.5	32.5	32.9	30.6	45.8	38.2
Refundings [2]	15.6	10.6	12.6	14.6	12.5	11.1	22.7	14.5
New capital	18.6	21.9	22.9	17.9	20.4	19.5	23.1	23.7
Short-term	4.2	3.7	4.9	5.0	3.6	11.2	2.9	1.5
Memo: Long-term taxable	2.1	2.5	2.4	2.3	4.5	7.9	15.9	9.0

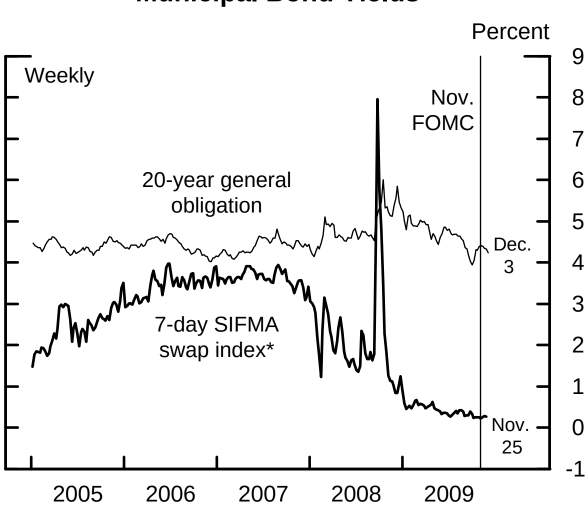
1. Includes issues for public and private purposes.
2. All issues that include any refunding bonds.
Source: Thomson Financial.

Ratings Changes



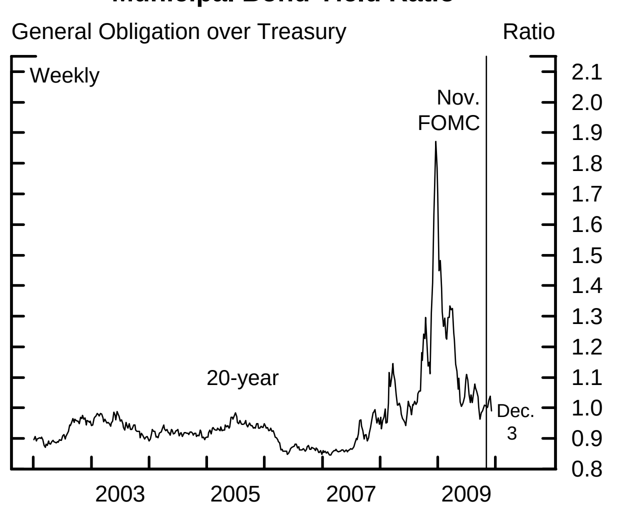
Source: Moody's Credit Trends.

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.

The latest readings on consumer interest rates have been mixed: Interest rates offered on credit cards increased in October, while rates on new and used auto loans dropped in November. Delinquency rates on consumer loans have remained high in recent months, although they have not continued to climb.

Long-term mutual funds received sizable net inflows in November, though not quite as large as had been seen during the summer. Net flows into bond funds last month again more than offset net redemptions from equity funds. Money market mutual funds continued to experience net outflows in November, as yields paid by these funds remained extremely low.

Treasury Finance

To date, the Treasury has auctioned about $240 billion of nominal coupon securities across the term structure during the intermeeting period. The auctions were very well received, with bid-to-cover ratios mostly at the upper end of their recent ranges. Indirect participation continued to trend upward, indicating resilient foreign demand. Treasury trading volumes remained within their recent ranges, and indicators of liquidity in the nominal coupon market—yield curve fitting errors, on-the-run premiums, and fails-to-deliver in the repo market—were roughly stable. In the TIPS market, there were indications that liquidity improved, on balance, in recent weeks.

In its quarterly refunding statement, the Treasury announced the discontinuation of the 20-year TIPS and the re-introduction of the 30-year TIPS, actions that were broadly in line with market expectations. Separately, the Treasury Borrowing Advisory Committee recommended that total TIPS issuance for 2010 increase to between $70 billion and $80 billion, up from $58 billion in 2009. This amount, which would not be sufficient to replace the stock of TIPS maturing next year, was significantly below traders' expectations and may have put some downward pressure on TIPS yields over the period. Absent legislative action, Treasury debt subject to limit is projected to breach the current statutory ceiling in coming weeks. As in the past, the Treasury will likely use its available accounting tools to continue normal funding operations until the Congress raises the limit.

State and Local Government Finance

Gross issuance of long-term municipal bonds remained robust in November, mostly driven by the strength of new capital issuance. The pace of short-term issuance was again subdued in November, consistent with typical seasonal patterns. Newly acquired ratings data from Moody's show that credit quality in the municipal sector has steadily deteriorated over the first three quarters of 2009. This trend had been obscured in the

M2 Monetary Aggregate
(Based on seasonally adjusted data)

Aggregate and components	Percent change (annual rate)[1] 2007	2008	2009 H1	2009 Q3	2009 Oct.	2009 Nov. (e)	Level (billions of dollars), Nov. (e)
M2	5.9	8.3	7.7	.1	3.9	4.6	8,392
Components[2]							
Currency	2.0	5.8	11.6	3.4	.6	-5.0	859
Liquid deposits[3]	4.3	6.9	16.9	12.7	23.0	19.8	5,600
Small time deposits	4.3	11.7	-8.3	-26.5	-43.0	-33.4	1,102
Retail money market funds	20.2	13.1	-15.8	-33.0	-46.9	-34.2	826
Memo:							
Institutional money market funds	40.2	24.7	18.4	-9.6	-41.2	-38.2	2,266
Monetary base	2.0	70.4	46.7	-2.2	90.1	49.4	2,016

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 Estimate.
Source: Federal Reserve Board.

ratings data we obtained from Standard & Poor’s because of that firm’s gradual increase in municipal debt ratings as they moved to align their ratings criteria for corporate and municipal debt. Yields on long-term municipal bonds edged slightly lower over the intermeeting period, leaving their ratios to comparable-maturity Treasury yields little changed.

Money and Bank Credit

M2 increased at an annual rate of 4½ percent in November, in line with its rate of growth in September and October. Liquid deposits continued to expand rapidly, while small time deposits and retail money market mutual funds contracted further, albeit at a slightly slower pace than in prior months. Currency ran off at an annual rate of 5 percent in November, as demand from abroad continued to moderate. The monetary base expanded at an annual rate of almost 50 percent, as purchases of long-term assets more than offset a decrease in the usage of liquidity and credit facilities.

Commercial bank credit is estimated to have fallen further in November, although the rate of decline slowed from that in previous months. Banks’ holdings of securities decreased at about a 2 percent pace in November, and their total loans contracted about 5 percent at an annual rate. Core loans (the sum of C&I, real estate, and consumer loans) decreased at an estimated annual rate of 7¼ percent in November, a pace that was about half as rapid as in recent months. On the business side, C&I loans fell at a nearly 16 percent rate, as paydowns, maturing loans, and loan sales reportedly contributed to the decline. Commercial real estate loans shrank at about a 10 percent pace, consistent with weak fundamentals in that sector. On the household side, a slowdown in banks’ sales of loans to the GSEs during the intermeeting period arrested the contraction in on-balance-sheet holdings of closed-end residential mortgages registered in each of the previous seven months; however, home equity loans continued to run off. Consumer loans declined considerably as credit card loan originations dropped. Call Report data for the third quarter show that unused commitments to fund loans contracted for the seventh consecutive quarter, but that the rate of decline slowed, particularly for commitments to lend to businesses.

Industry-wide measures of returns on assets and equity were bolstered by substantial profits at a few large banks that resulted, in part, from reduced loan loss provisioning at those institutions. However, delinquency and charge-off rates continued to rise for most loan categories, and losses remained widespread among regional and smaller banks. In the aggregate, regulatory capital ratios increased further in the third quarter, as commercial banks received equity infusions from their parent holding companies and reduced their asset holdings.

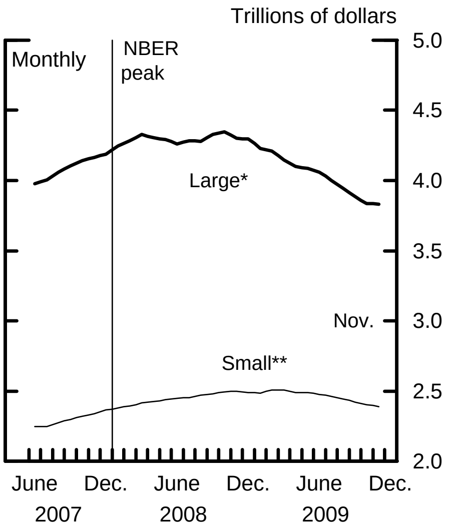
Commercial Bank Credit

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

Type of credit	2007	2008	H2 2008	H1 2009	Q3 2009	Oct. 2009	Nov. 2009[e]	Level[1] Nov. 2009[e]
Total	9.9	5.0	4.8	-5.5	-7.3	-12.0	-4.3	9,107
Loans[2]								
Total	10.6	4.4	3.0	-7.4	-12.9	-15.5	-5.0	6,773
Core	9.5	5.0	3.2	-4.7	-9.7	-14.4	-7.3	6,017
To businesses								
Commercial and industrial	19.0	16.3	14.1	-14.1	-20.0	-28.7	-15.7	1,362
Commercial real estate	9.4	6.0	3.2	-1.6	-5.5	-11.6	-10.2	1,654
To households								
Residential real estate	5.3	-3.3	-5.5	-2.0	-8.2	-11.8	-.1	2,159
Revolving home equity	5.6	13.0	12.9	6.5	-5.2	-5.1	-6.7	604
Closed-end mortgages	5.3	-8.0	-11.2	-5.1	-9.3	-14.4	2.6	1,556
Consumer	6.8	7.1	7.6	.0	-3.4	-2.7	-6.1	843
Memo: Originated[3]	6.5	5.6	4.5	-1.7	-4.3	-3.8	-12.4	1,228
Other	18.7	.8	1.7	-25.4	-37.0	-25.0	13.0	756
Securities								
Total	7.6	6.9	11.1	.7	10.7	-1.5	-2.1	2,334
Treasury and agency	-5.5	16.4	31.4	.5	20.5	.8	5.1	1,412
Other[4]	28.0	-4.1	-12.0	1.0	-3.0	-5.0	-13.0	922

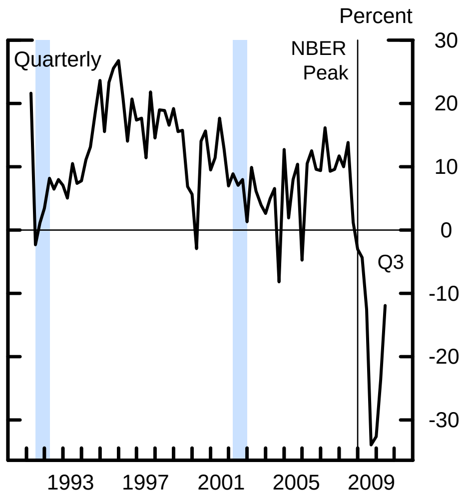
Note: Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. Data have been adjusted to remove the effects of mark-to-market accounting rules (FAS 115) and the initial consolidation of certain variable interest entities (FIN 46). Data also account for the 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.
e Estimate.
Source: Federal Reserve Board.

Total Loans at Commercial Banks



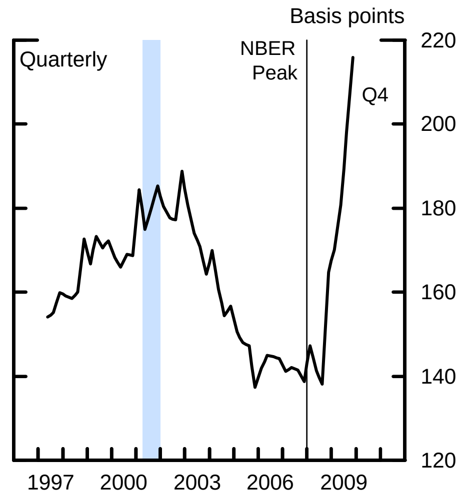
*Large are the top 25 domestic commercial banks ranked by assets as of the last Call Report.
**Small are all other domestic commercial banks.
Source: Federal Reserve Board.

Change in Unused Commitments



Source: Call Report data, adjusted for the effects of merger and failure activity involving large thrift institutions.

C&I Loan Rate Spreads*



*The spread over market interest rate on an instrument of comparable maturity, adjusted for changes in nonprice loan characteristics.
Source: Survey of Terms of Business Lending.

Loan price data from the November Survey of Terms of Business Lending indicated that C&I loan rate spreads over comparable-maturity market instruments rose noticeably for the fifth consecutive survey. The increase was apparent across most types of loans, including small loans and loans at small banks, which may indicate that credit conditions for small and medium-sized firms tightened further.

Last page of Domestic Financial Developments

International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

The U.S. international trade deficit widened to $36.5 billion in September, from $30.8 billion in August, as a surge in imports outpaced an increase in exports.

Trade in Goods and Services

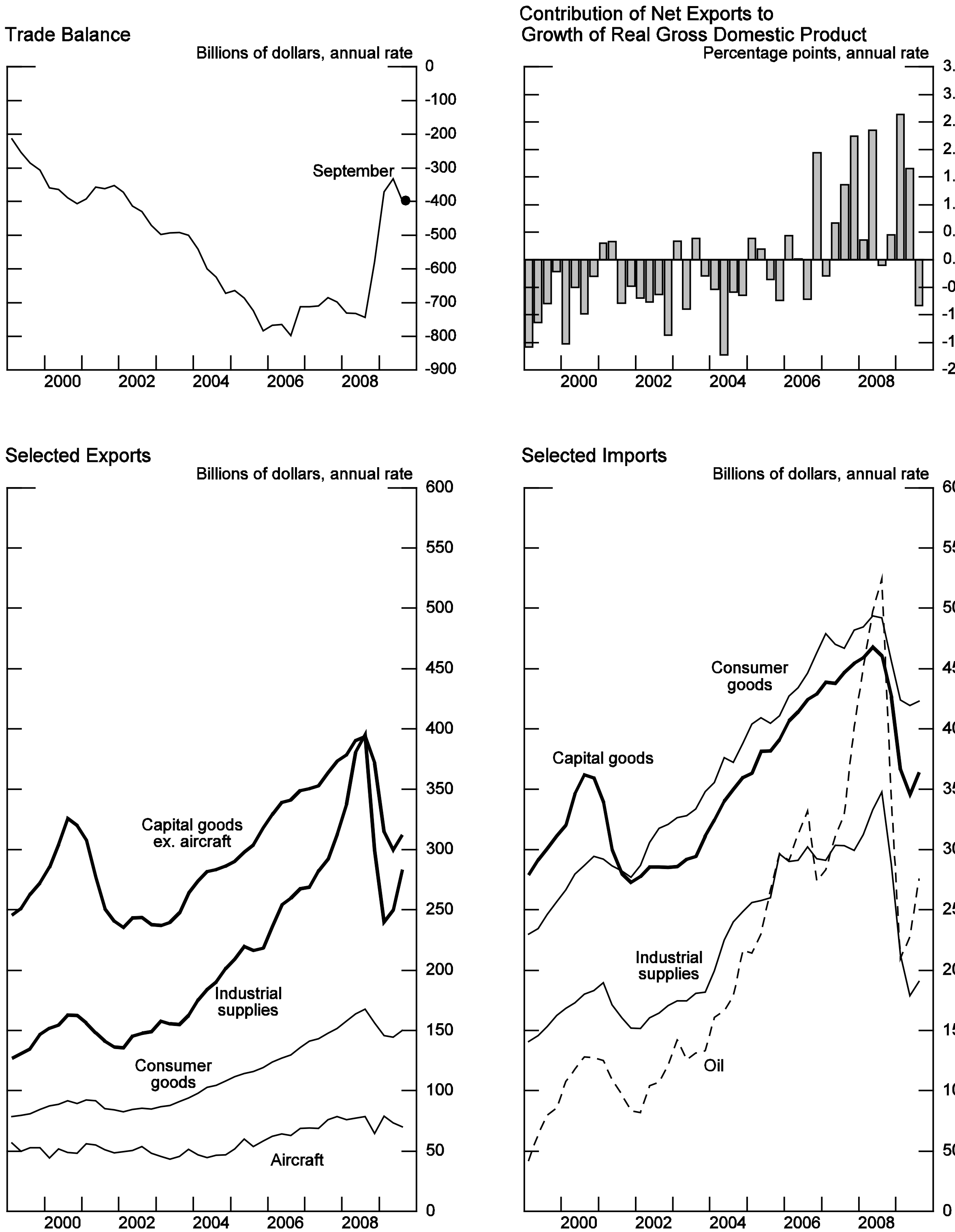
	2008	Annual rate 2009			Monthly rate 2009		
		Q1	Q2	Q3	July	Aug.	Sept.
	Percent change						
Nominal BOP							
Exports	-3.4	-40.7	-4.6	24.1	2.5	.2	2.9
Imports	-7.3	-55.4	-11.4	36.6	4.9	-.4	5.8
Real NIPA							
Exports	-3.4	-29.9	-4.1	17.0	...	...	...
Imports	-6.8	-36.4	-14.7	20.8	...	...	...
	Billions of dollars						
Nominal BOP							
Net exports	-695.9	-369.6	-332.0	-396.7	-31.9	-30.8	-36.5
Goods, net	-840.2	-496.1	-461.9	-529.5	-42.8	-42.0	-47.6
Services, net	144.3	126.5	129.9	132.8	10.9	11.2	11.1

n.a. Not available. ... Not applicable.
BOP Balance of payments.
NIPA National income and product accounts.
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; Census Bureau.

The value of exports of goods and services moved up 2.9 percent in September after remaining about flat in August. The September increase was relatively broadbased with most major categories of exports moving higher. Capital goods recorded a particularly robust gain, as aircraft recovered following a weak August and exports of machinery climbed sharply, more than offsetting a slight decline in high-tech goods. Industrial supplies also grew strongly, supported by higher exports of petroleum products and chemicals. In contrast, exports of agricultural products fell, largely on account of lower prices.

In the third quarter, nominal exports jumped a robust 24 percent at an annual rate, but only retraced a small portion of the declines recorded late last year and through the first half of this year. The third-quarter increase was most pronounced in industrial supplies, helped by higher prices as well as an increase in volumes. Exports of automotive products also recorded a large increase following especially steep declines in earlier quarters. Most other major categories of exports also increased with the exception of agricultural products, which recorded a small decline.

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



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	Aug.	Sept.	Q2	Q3	Aug.	Sept.
Exports of goods and services	**1471.3**	**1553.0**	**1539.6**	**1583.5**	**-17.5**	**81.7**	**3.6**	**43.9**
Goods exports	984.5	1055.8	1042.2	1084.1	-13.0	71.3	1.0	41.9
Gold	12.3	14.3	15.2	15.0	-1.5	2.0	2.4	-.2
Other goods	972.2	1041.5	1027.0	1069.1	-11.4	69.3	-1.4	42.1
Capital goods	373.1	382.2	370.4	390.2	-20.7	9.1	-15.7	19.8
Aircraft & parts	73.4	70.4	61.6	73.6	-5.6	-3.0	-14.3	11.9
Computers & accessories	35.5	37.4	36.7	36.5	-1.4	1.9	-2.5	-.2
Semiconductors	35.0	38.5	38.8	38.2	1.6	3.5	.2	-.6
Other capital goods	229.2	235.9	233.3	242.0	-15.3	6.7	.8	8.7
Automotive	66.7	86.4	87.5	90.1	-3.4	19.7	5.9	2.6
Ind. supplies (ex. ag., gold)	249.8	283.3	280.5	297.1	9.6	33.5	8.1	16.6
Consumer goods	144.2	150.0	147.6	153.1	-1.8	5.8	-1.7	5.5
Agricultural	101.0	99.0	101.3	97.0	6.6	-1.9	2.4	-4.2
All other goods	37.4	40.5	39.8	41.6	-1.7	3.1	8.4	1.8
Services exports	486.7	497.2	497.4	499.4	-4.6	10.5	2.6	2.0
Imports of goods and services	**1803.3**	**1949.7**	**1909.8**	**2021.1**	**-55.1**	**146.4**	**-8.4**	**111.4**
Goods imports	1446.5	1585.3	1546.2	1655.4	-47.2	138.8	-8.1	109.3
Oil	227.8	275.6	253.2	306.0	18.9	47.8	-14.5	52.8
Gold	8.4	8.8	7.8	8.6	1.1	.4	-2.4	.8
Other goods	1210.3	1300.9	1285.3	1340.9	-67.2	90.6	8.8	55.6
Capital goods	345.6	364.0	360.6	370.1	-20.7	18.3	-.5	9.5
Aircraft & parts	31.4	29.0	25.0	28.5	1.2	-2.4	-8.6	3.5
Computers & accessories	84.4	95.0	94.1	96.0	3.8	10.6	-.8	1.8
Semiconductors	20.4	22.2	22.8	22.6	1.4	1.8	1.6	-.2
Other capital goods	209.4	217.7	218.7	223.0	-27.1	8.3	7.3	4.3
Automotive	126.8	178.2	176.6	196.9	-2.6	51.4	15.4	20.4
Ind. supplies (ex. oil, gold)	178.7	190.7	189.0	200.9	-34.2	12.0	6.7	11.9
Consumer goods	419.1	423.1	418.1	426.1	-4.4	4.0	-7.1	8.0
Foods, feeds, beverages	81.5	81.2	80.6	81.0	-.2	-.3	-1.3	.4
All other goods	58.6	63.7	60.4	65.9	-5.1	5.1	-4.4	5.5
Services imports	356.8	364.4	363.6	365.7	-8.0	7.6	-.3	2.1
Memo:								
Oil quantity (mb/d)	11.62	11.37	10.42	12.13	-2.16	-.25	-1.16	1.71
Oil import price ($/bbl)	53.70	66.25	66.52	69.07	12.10	12.55	3.26	2.55

1. Change from previous quarter or month.
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; Census Bureau.

The value of imports of goods and services jumped 5.8 percent in September, after declining slightly in August. Imports of oil accounted for roughly one half of the September increase, reflecting both greater volumes and higher prices. In addition to oil, most other categories of imports also recorded gains in September, with imports of automotive products exhibiting a particularly large increase.

For the third quarter as a whole, nominal imports surged nearly 37 percent at an annual rate, but, as with exports, only managed to retrace a small amount of the steep decline that occurred over the previous three quarters. The third-quarter increase was broadbased across major categories of imports, with automotive products and oil showing particularly large gains. The increase in oil imports was wholly reflected in higher prices as volumes declined slightly.

Prices of Internationally Traded Goods

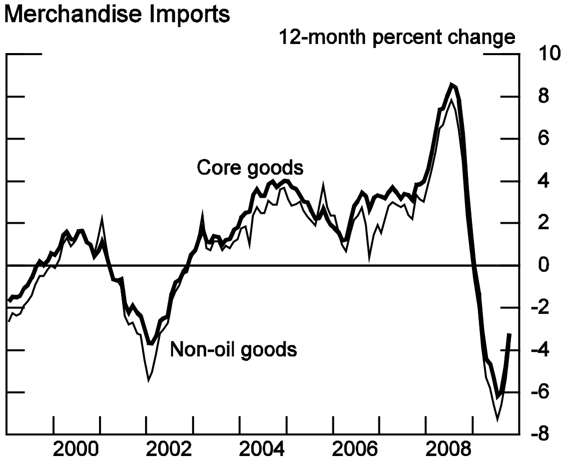
Non-oil imports. Prices for imported core goods rose 0.6 percent in October, slightly less than in September, when they registered their largest increase since July 2008. The increase reflected higher prices for both material-intensive goods, as in previous months, and finished goods, whose prices previously had remained rather flat. Within finished goods, prices for all major subcategories showed moderate growth.

Oil. The Bureau of Labor Statistics price index of imported oil has been roughly flat for the past two months, falling 1 percent in September and then rising nearly 1 percent in October. In contrast, the spot price of West Texas Intermediate (WTI) crude oil moved higher during October, rising about 9 percent to an average of $76 per barrel for the month as a whole, and then continued to move higher during November, rising to an average of $78. In early-December, however, spot WTI retreated, closing most recently on December 8 at $72.62 per barrel.

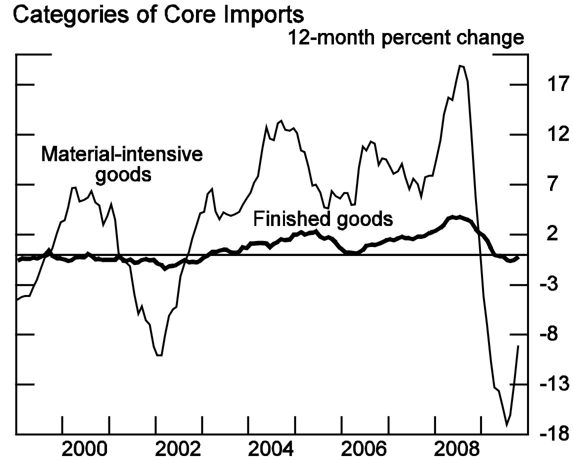
Exports. Core export prices rose 0.3 percent in October, in contrast to a 0.3 percent decline the previous month. October prices were boosted by an increase in the prices of materially-intensive exports, as higher prices for industrial supplies more than offset lower prices of agricultural products. Prices for finished goods increased only slightly.

Prices of U.S. Imports and Exports

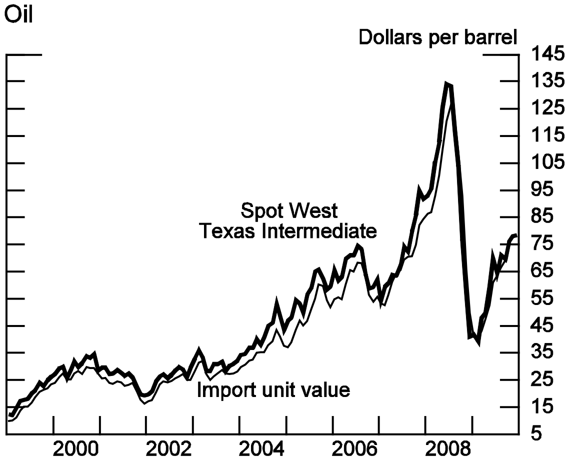
Merchandise Imports



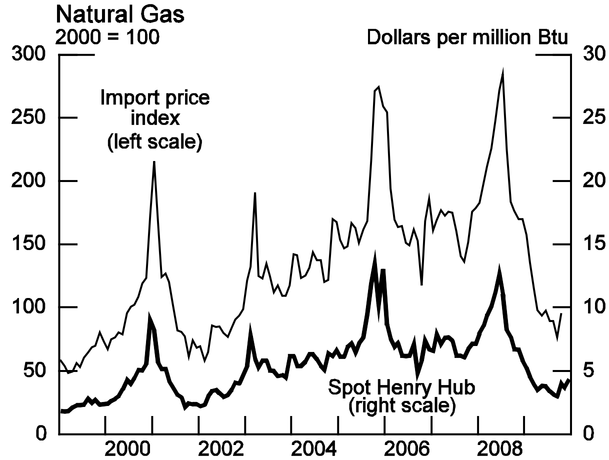
Categories of Core Imports



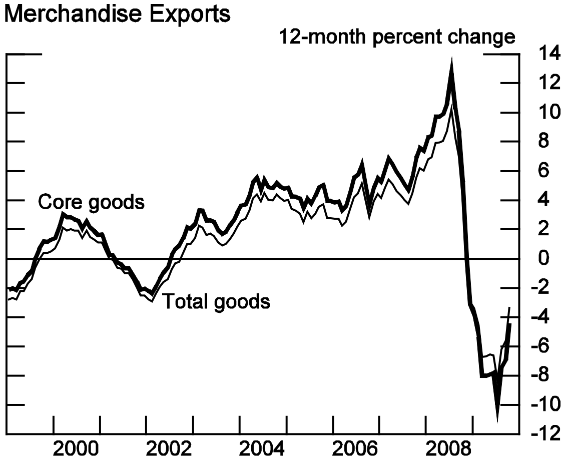
Oil



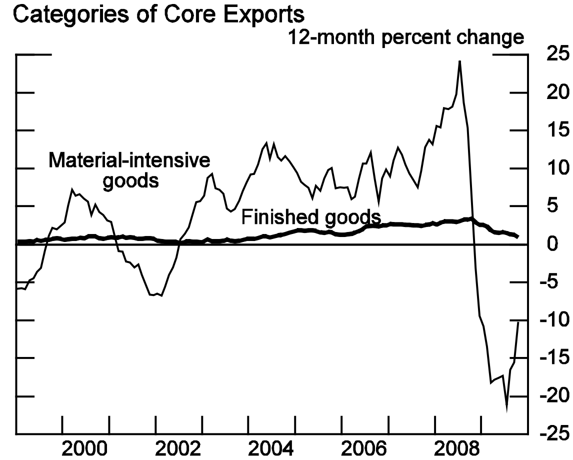
Natural Gas



Merchandise Exports



Categories of Core Exports



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

U.S. International Financial Transactions

Since the previous Greenbook, we have received additional Treasury data on international financial transactions in the third quarter and partial data for October. On balance, private foreigners have continued to sell U.S. Treasury securities and purchase U.S. equities, while foreign official purchases of U.S. Treasuries have remained strong.

Foreign official inflows dipped in September but resumed quite strongly in October (see line 1 of the table "Summary of U.S. International Transactions"; see also the figure "Foreign Official Financial Inflows through October 2009"). Official purchases of U.S. Treasury securities continued at a strong pace in both months,

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Net official financial inflows in October also received a boost from a further $25 billion decline in outstanding drawings by foreign central banks on the Federal Reserve swap lines, reflecting continued normalization of funding markets. The swap lines are recorded as a U.S. claim on foreigners and therefore generate inflows as they are repaid.

Banks located in the United States borrowed funds from affiliated foreign offices, contributing to large net banking inflows in September (line 3). These flows could reflect a recycling of funds that went abroad through other channels. In particular, we received additional partial data for the third quarter that show U.S. institutional investors purchased $130 billion in U.S. dollar-denominated negotiable CDs and short-term debt abroad—most issued by foreign financial institutions. (These data, not shown, will be included in line 10 upon the release of the third-quarter balance of payments accounts.) Although dollar interest rates remain higher in Europe than in the United States, the spreads have narrowed during 2009, suggesting that the large third-quarter outflows may reflect improved sentiment toward foreign financial institutions.

Private foreigners intensified their net sales of Treasuries in October to $45 billion (line 4a), continuing the reversal of flight-to-safety flows. Net sales of Treasuries by foreigners were concentrated in bills, likely in part reflecting the decline in the stock outstanding. Private foreign investors continued to show interest in U.S. equities in both September and October (line 4d), with September's purchases ranking among the highest since early 2008.

However, private foreign interest in U.S. agency and corporate debt remains weak. Private foreigners bought about $7 billion in agency bonds in September but sold $5 billion on net in October (line 4b). U.S. corporate bonds continue to be sold, on net, by foreigners (line 4c).

U.S. investors continued their strong net purchases of foreign securities in September and October, buying primarily foreign bonds (line 5a). International bond issuance has been high in recent months, and the portion of such bonds denominated in U.S. dollars remains elevated, which may be attracting U.S. investors.

Summary of U.S. International Transactions

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

	2007	2008	2008	2009				
			Q4	Q1	Q2	Q3	Sept.	Oct.
Official financial flows	**451.1**	**-54.6**	**-286.5**	**313.5**	**316.1**	**128.0**	**11.9**	**71.3**
1. Change in foreign official assets in the U.S. (increase, +)	475.2	480.0	-17.9	70.7	124.6	76.1	10.7	46.6
a. Long-term Treasury securities	76.7	203.8	-15.7	35.0	103.2	99.7	41.9	39.8
b. Short-term Treasury securities	21.5	272.4	194.0	84.8	21.2	25.8	-9.6	0.3
c. Long-term agency securities	171.0	66.4	-95.8	0.0	-3.1	-25.7	-10.9	-2.2
d. Other [1]	205.9	-62.7	-100.4	-49.2	3.3	-23.8	-10.8	8.7
2. Change in U.S. official assets (decrease, +) [2]	-24.1	-534.6	-268.7	242.8	191.4	51.9	1.2	24.7
Private financial flows	**212.5**	**559.7**	**374.8**	**-278.1**	**-257.8**	**n.a.**	**...**	**...**
Banks								
3. Change in net foreign positions of banking offices in the U.S. [3]	-81.7	-4.4	321.3	-269.9	-203.0	32.2	112.2	8.4
Securities [4]								
4. Foreign net purchases (+) of U.S. securities	673.9	68.6	52.7	-3.8	-8.0	-0.3	21.9	-43.6
a. Treasury securities	67.1	196.4	81.6	52.4	-22.4	-25.7	6.8	-44.6
b. Agency bonds	-8.6	-186.6	-21.5	-49.7	-0.3	6.8	6.8	-4.5
c. Corporate and municipal bonds	384.7	2.5	-3.8	-12.5	-21.0	-32.6	-6.6	-3.9
d. Corporate stocks [5]	230.7	56.4	-3.6	6.0	35.7	51.1	14.9	9.4
5. U.S. net acquisitions (-) of foreign securities	-366.8	45.9	57.6	-35.2	-91.9	-54.6	-17.8	-25.4
a. Bonds	-218.5	46.6	23.1	-33.9	-54.6	-24.7	-17.2	-19.8
b. Stock purchases	-136.4	6.4	38.8	0.6	-37.3	-29.9	-0.6	-5.7
c. Stock swaps [6]	-11.9	-7.1	-4.3	-1.9	0.0	0.0	0.0	0.0
Other flows [5]								
6. U.S. direct investment (-) abroad	-398.6	-332.0	-84.5	-40.3	-44.9	n.a.	...	...
7. Foreign direct investment in the U.S.	275.8	319.7	96.8	23.9	26.1	n.a.	...	...
8. Net derivatives (inflow, +)	6.2	-28.9	-17.7	7.2	11.3	n.a.	...	...
9. Foreign acquisitions of U.S. currency	-10.7	29.2	29.9	11.8	-1.9	n.a.	...	...
10. Other (inflow, +) [7]	114.4	461.5	-81.3	28.2	54.4	n.a.	...	...
U.S. current account balance [6]	**-726.6**	**-706.1**	**-154.9**	**-104.5**	**-98.8**	**n.a.**	**...**	**...**
Capital account balance [8]	**-1.9**	**1.0**	**-0.7**	**-0.7**	**-0.7**	**n.a.**	**...**	**...**
Statistical discrepancy [6]	**64.9**	**200.1**	**67.2**	**69.8**	**41.2**	**n.a.**	**...**	**...**

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.

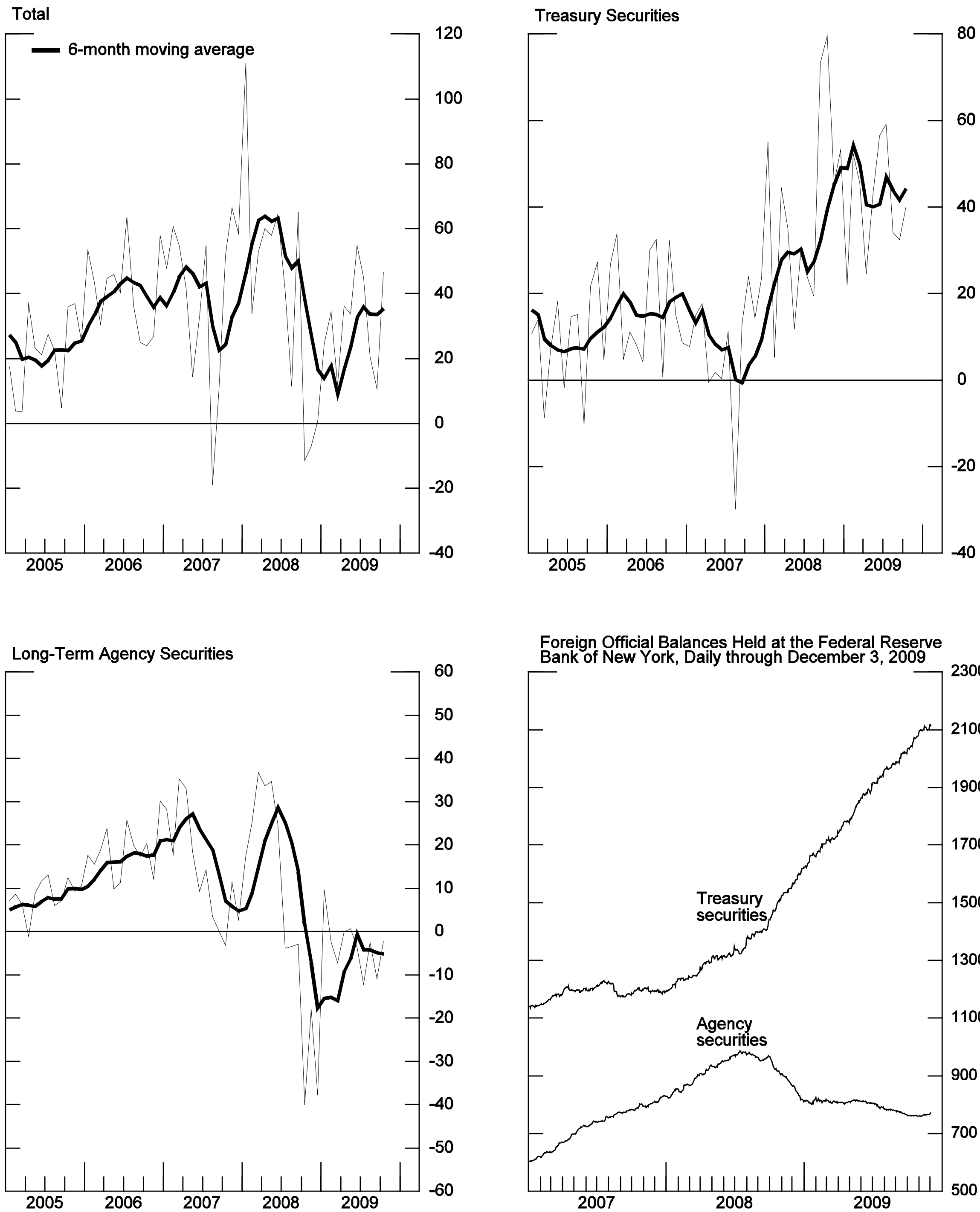
1. Includes foreign official net purchases of stocks, bonds, short-term securities, and changes in other bank-reported liabilities to foreign official institutions.
2. Includes changes in U.S. official reserve assets and in outstanding reciprocal currency swaps with certain foreign central banks.
3. 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.
4. Includes commissions on securities transactions and therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.
5. Includes (4d) or represents (5c) stocks acquired through nonmarket means such as mergers and reincorporations.
6. Quarterly data; seasonally adjusted.
7. 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.
8. Seasonally adjusted; consists of transactions in nonproduced nonfinancial assets and capital transfers.

n.a. Not available. ... 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 October 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.

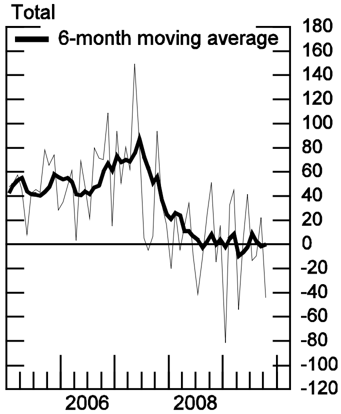
Source: U.S. Treasury International Capital reports with staff adjustments and the Federal Reserve Bank of New York.

Private Securities Flows through October 2009

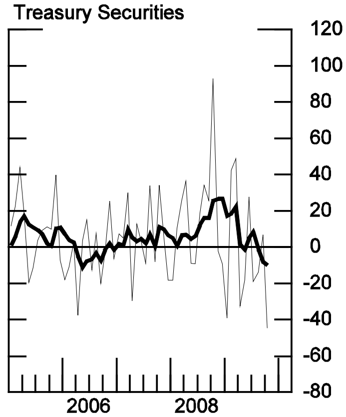
(Billions of dollars; monthly rate, not seasonally adjusted)

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

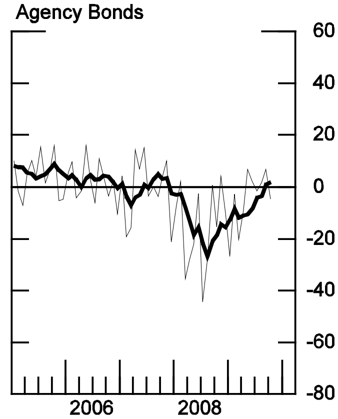
Total



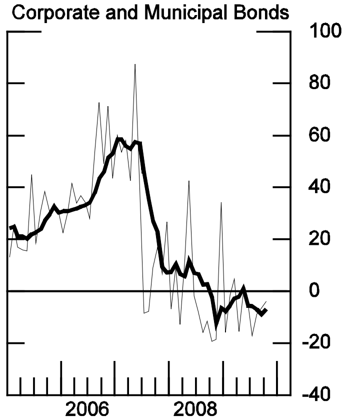
Treasury Securities



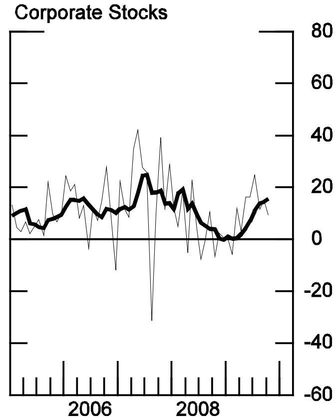
Agency Bonds



Corporate and Municipal Bonds

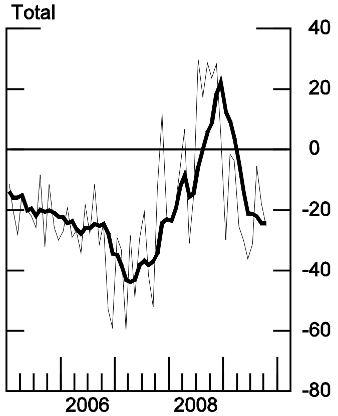


Corporate Stocks

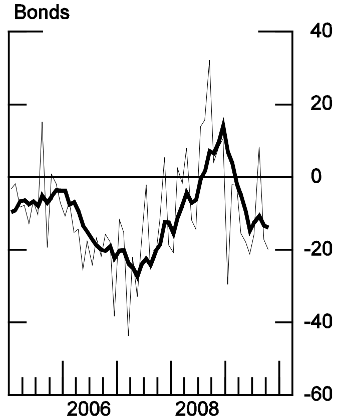


U.S. Net Acquisitions (-) of Foreign Securities

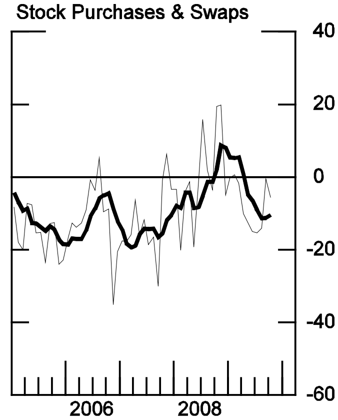
Total



Bonds



Stock Purchases & Swaps



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

Foreign Financial Markets

Since the October Greenbook, the dollar has depreciated, on net, against most major currencies, falling about 1 percent on a trade-weighted basis against both the major foreign currencies and the currencies of our other important trading partners. This decline appears to have been driven in part by a continued normalization of risk attitudes. Much of the dollar's depreciation occurred early in the period, and the dollar fell broadly after the meeting of the G-20 ministers over the weekend of November 7-8, with market participants noting that the meeting's communiqué failed to mention concern over the dollar's recent depreciation. Notably, the dollar depreciated 3 percent, on balance, against the yen. Japanese officials have voiced concerns about the yen's strength, although in real effective terms, the yen has just returned to its level in 2005, a time when the Japanese did not intervene in the foreign exchange market. The depreciation of the dollar led several emerging economies, including Brazil and Korea, to intervene to stem the appreciation of their currencies, while others are reportedly contemplating tightening capital controls.

Consistent with a normalization in risk attitudes, global mutual fund flows show that investors continue to pull money out of money-market funds in favor of equity and bond funds. Foreign stock markets have generally risen, and foreign sovereign yields have declined on net. Equity indexes in Europe and Japan rose 2¾ and 1 percent respectively, while stock markets in Brazil and Mexico registered double-digit gains, amid rising commodity prices and a better-than-expected Mexican GDP report. China's stock market rose nearly 9 percent, in part due to strong trade data. Yields on German and Japanese sovereign benchmark bonds declined about 10 basis points. However, U.K. yields rose by 9 basis points on net, in part because yields increased after the Bank of England surprised markets by raising the size of its Asset Purchase Facility by only £25 billion to £200 billion at the beginning of November.

News that the Dubai government had requested a standstill on debts owed by Dubai World's temporarily roiled financial markets. Global equity markets and sovereign bond yields fell, while the dollar rose roughly 1 percent as investors pulled back from riskier investments. These movements have largely been reversed as investors became increasingly confident that this was an isolated event that was unlikely to spillover to other markets. Sentiment was buttressed by the announcement that Dubai World was seeking to restructure only $26 billion of its debt. U.K. banks appear to have the largest exposure to Dubai World, with reports in the financial press suggesting that their overall exposure is about $5 billion. The Dubai World event raised concerns that other sovereign nations with large outstanding debt levels, such as Greece, Hungary, and Ireland, may have trouble refinancing, and CDS spreads rose accordingly. Although most spreads have since fallen back, the Greek spread has risen further this week after Fitch lowered Greece's sovereign debt rating.

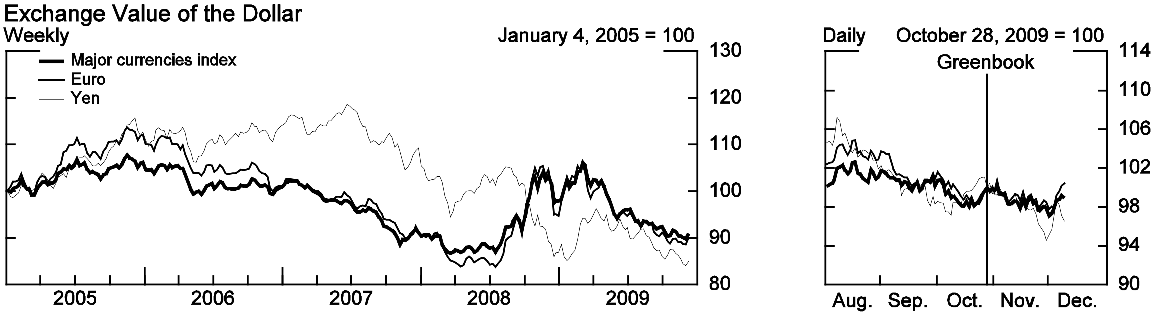
Exchange Value of the Dollar and Stock Market Indexes

	Latest	Percent change since October Greenbook
*Exchange rates**		
Euro ($/euro)	1.4741	0.1
Yen (¥/$)	88.410	-2.9
Sterling ($/£)	1.6302	0.4
Canadian dollar (C$/$)	1.0599	-1.5
Nominal dollar indexes^*		
Broad index	101.4	-1.0
Major Currencies index	73.5	-0.9
OITP index	132.4	-1.0
Stock market indexes		
DJ Euro Stoxx	266	2.7
TOPIX	897	0.9
FTSE 100	5223	2.8
S&P 500	1092	4.7

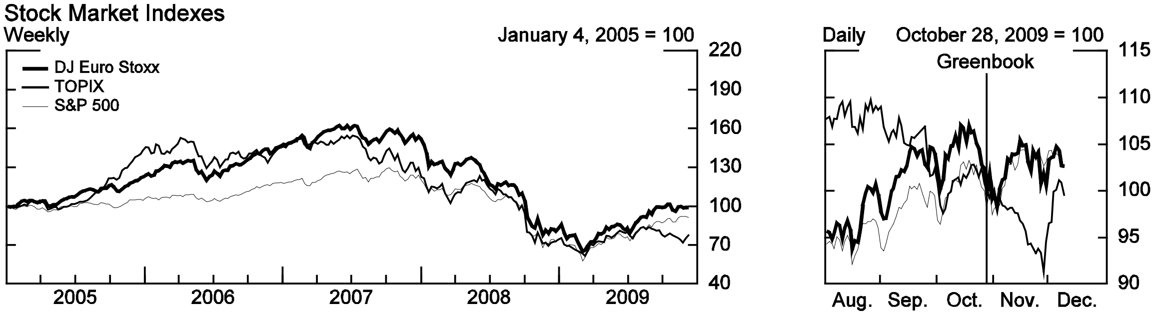
* Positive percent change denotes appreciation of U.S. dollar.

^ 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



Stock Market Indexes



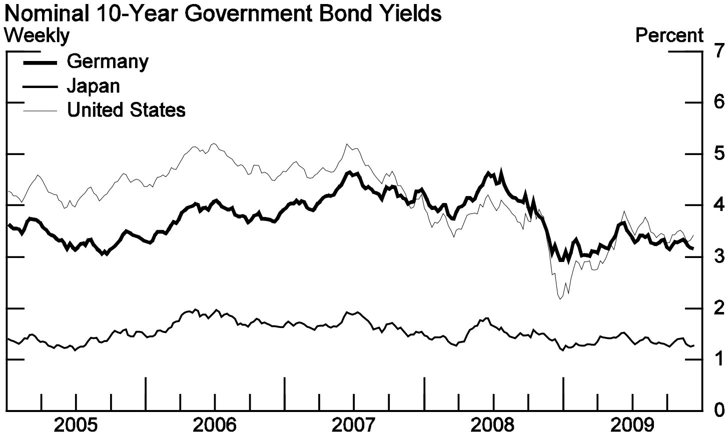
Industrial Countries: Nominal and Real Interest Rates

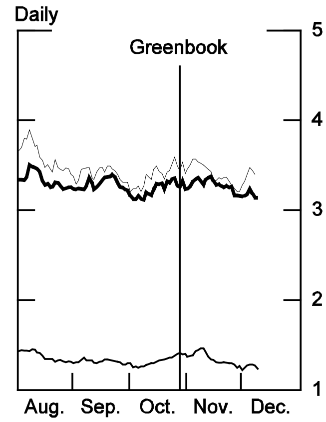
Percent

	3-month Libor		10-year nominal		10-year indexed	
	Latest	Change since Oct. Greenbook	Latest	Change since Oct. Greenbook	Latest	Change since Oct. Greenbook
Germany	0.68	0.01	3.14	-0.12	0.84	-0.20
Japan	0.28	-0.04	1.27	-0.14	1.99	-0.27
United Kingdom	0.61	0.02	3.70	0.09	0.71	-0.02
Canada	0.47	-0.03	3.29	-0.17	...	...
United States	0.26	-0.02	3.40	-0.04	1.39	-0.19

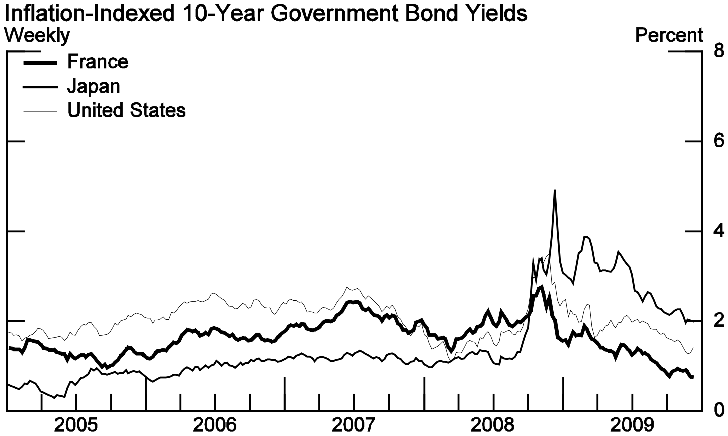
... Not applicable.
Libor: London interbank offered rate.

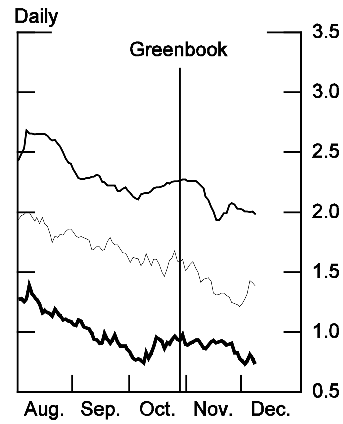
Nominal 10-Year Government Bond Yields





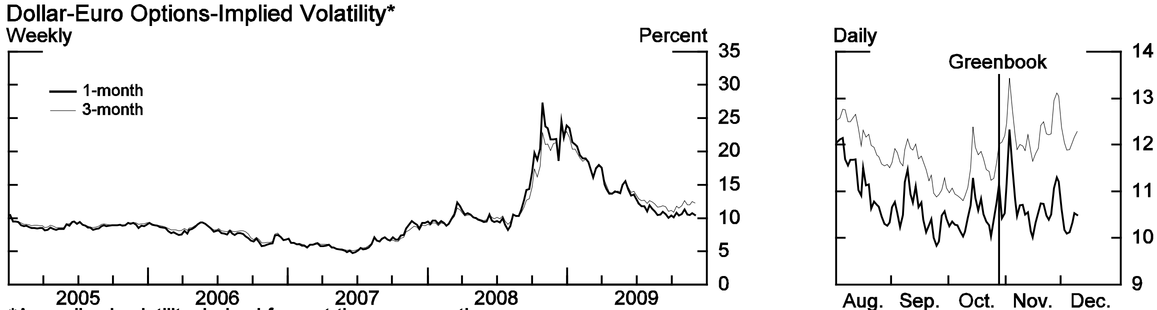
Inflation-Indexed 10-Year Government Bond Yields





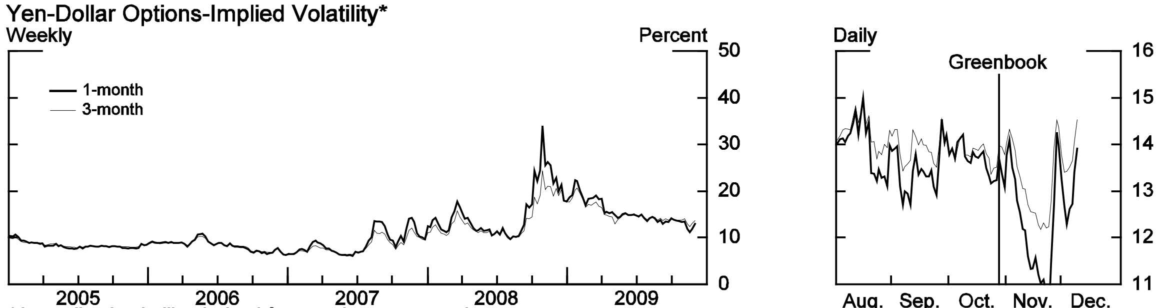
Measures of Market Volatility

Dollar-Euro Options-Implied Volatility*



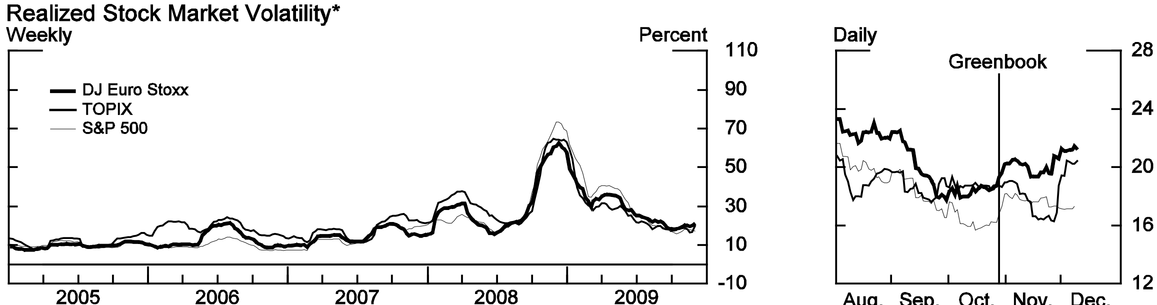
*Annualized volatility derived from at-the-money options.

Yen-Dollar Options-Implied Volatility*



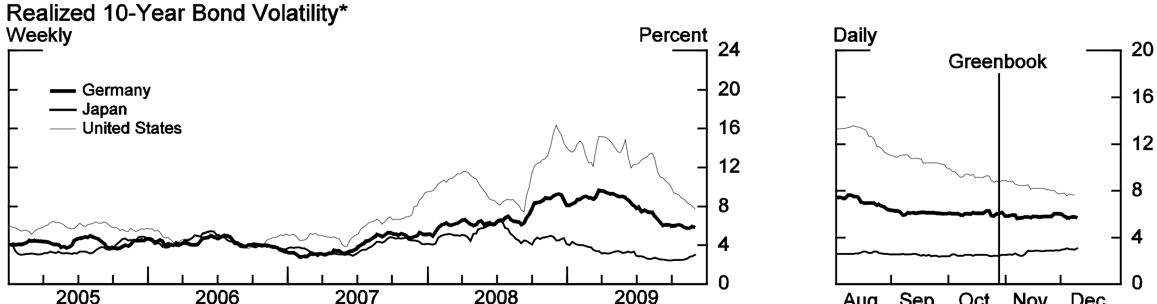
*Annualized volatility derived from at-the-money options.

Realized Stock Market Volatility*



*Annualized standard deviation of 60-day window of daily returns.

Realized 10-Year Bond Volatility*

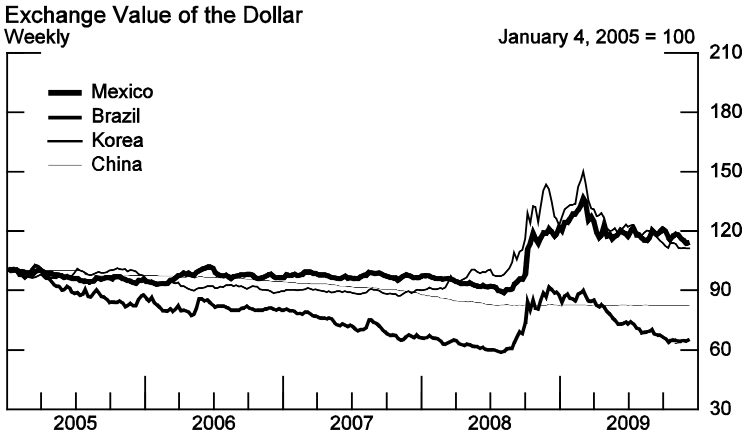


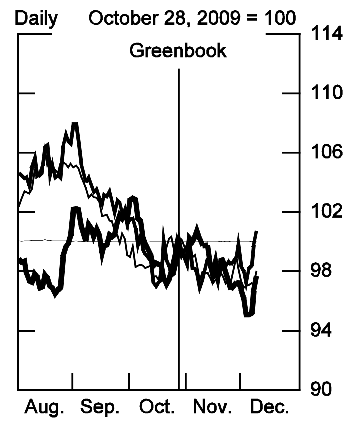
*Annualized standard deviation of 60-day window of daily returns.

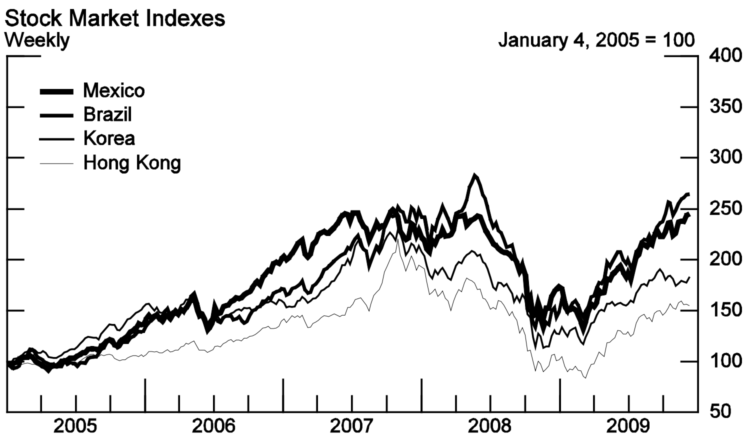
Emerging Markets: Exchange Rates and Stock Market Indexes

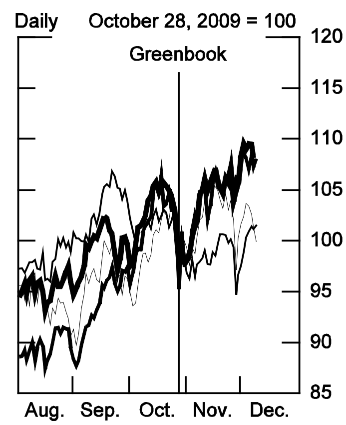
	Exchange value of the dollar		Stock market index	
	Latest	Percent change since Oct. Greenbook*	Latest	Percent change since Oct. Greenbook
Mexico	12.8410	-3.3	31710	10.6
Brazil	1.7500	-0.2	67729	12.6
Venezuela	2.14	0.0	53161	5.1
China	6.8275	0.0	3297	8.8
Hong Kong	7.7504	0.0	22061	1.4
Korea	1151.2	-2.9	1628	1.1
Taiwan	32.22	-0.7	7769	3.1
Thailand	33.15	-0.9	699	-0.7

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









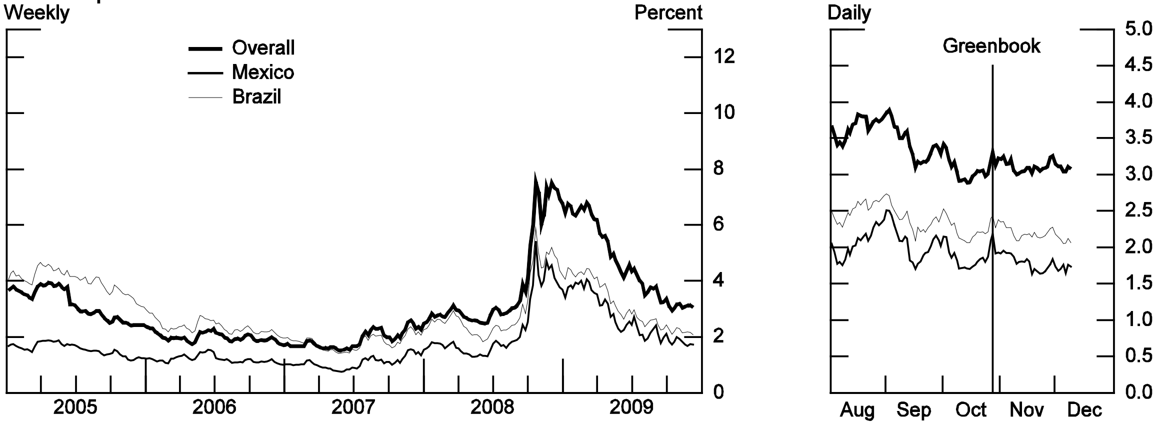
Emerging Markets: Short-Term Interest Rates and Dollar-Denominated Bond Spreads

Percent

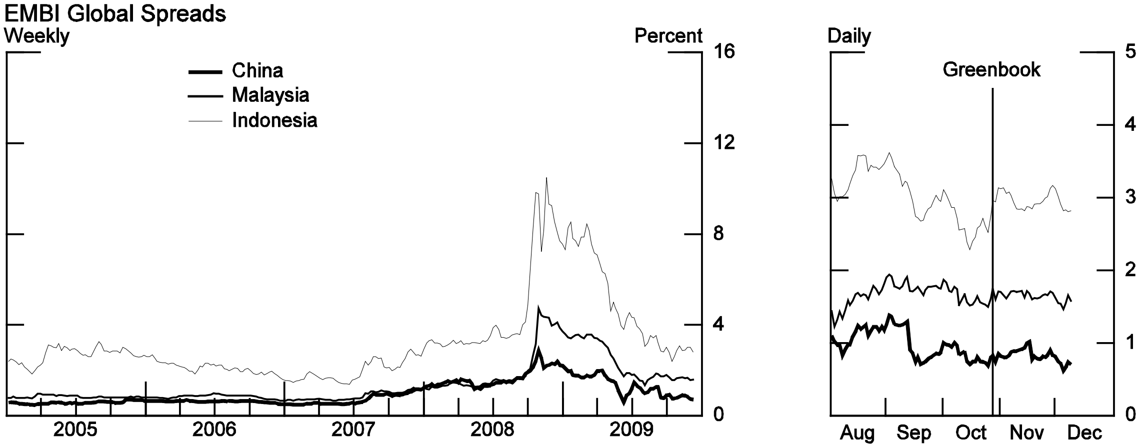
	Short-term interest rates*		Dollar-denominated bond spreads**	
	Latest	Change since Oct. Greenbook	Latest	Change since Oct. Greenbook
Mexico	4.47	-0.06	1.76	-0.43
Brazil	8.60	0.00	2.12	-0.31
Argentina	...	...	7.67	0.73
China	...	...	0.74	-0.09
Korea	2.10	0.00	...	...
Taiwan	1.20	0.06	...	...
Singapore	0.31	0.00	...	...
Hong Kong	0.05	-0.02	...	...

*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



EMBI Global Spreads

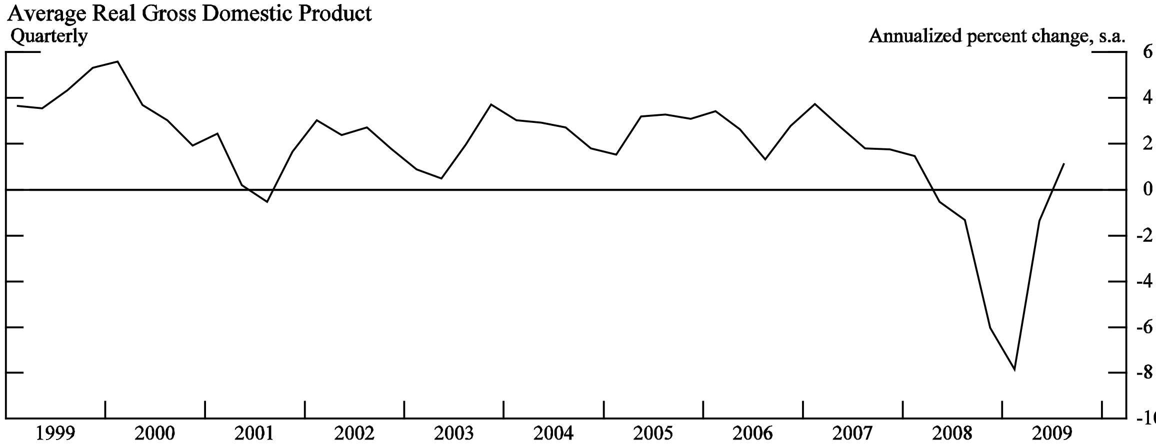


Developments in Advanced Foreign Economies

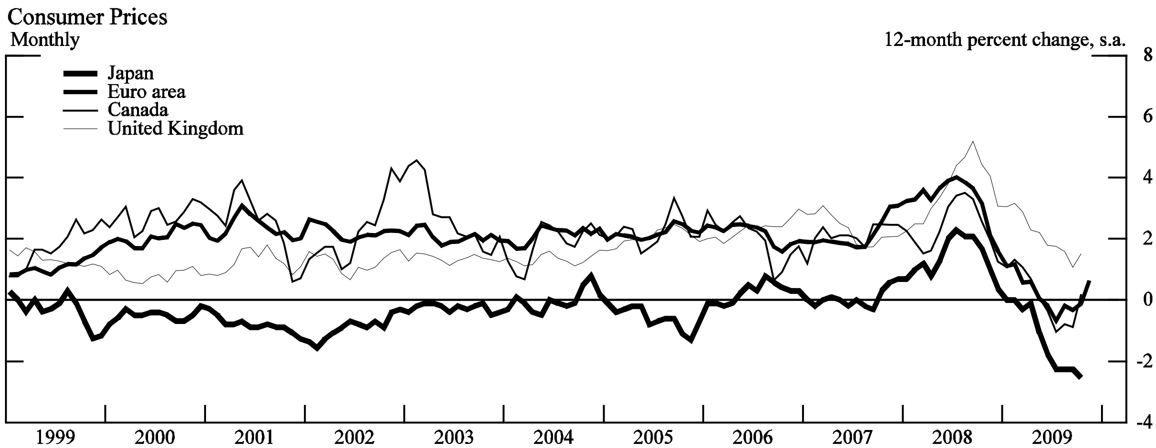
The advanced foreign economies are gradually emerging from their deep recessions. Japan, the euro area, and Canada posted positive real GDP growth in the third quarter. In the United Kingdom, GDP continued to decline, but domestic demand stabilized and the pace of contraction moderated substantially. Indicators for the current quarter are consistent with positive growth in all the major foreign economies. In particular, improvements in PMIs and confidence indicators suggest continued positive momentum. In addition, incoming data show that trade volumes improved further from their early-year lows, accompanied by increases in production.

Headline inflation has generally moved up since the October Greenbook, primarly reflecting higher commodity prices. A notable exception is Japan, where 12-month rates of both headline and core (excluding food and energy) inflation fell to record lows in October. All major foreign central banks have kept their policy rates unchanged. Recently, the BOJ announced a new lending facility offering three-month funds and the BOE increased, though modestly, the size of its asset purchase program. The ECB, in contrast, has announced some unwinding of liquidity support measures.

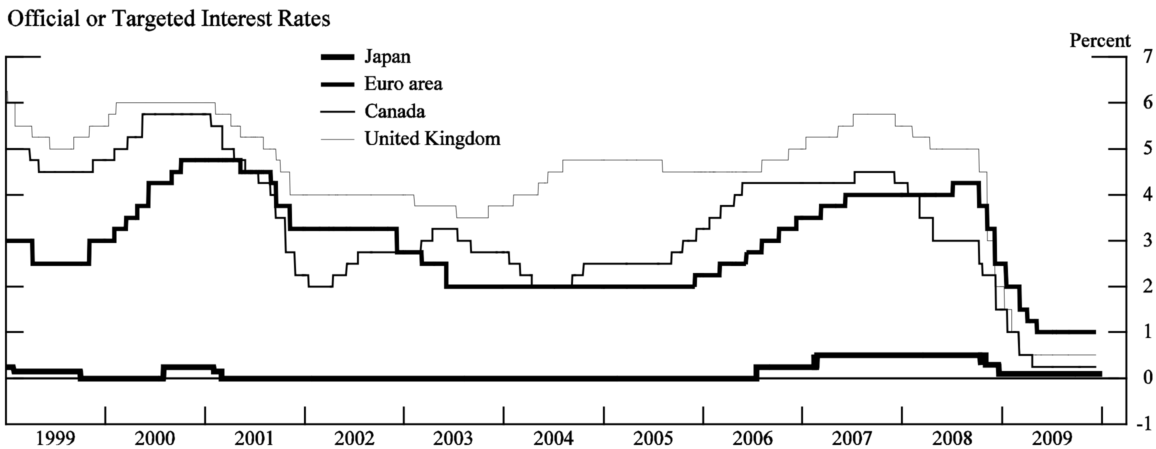
Advanced Foreign Economies



Note: Chain weighted by moving bilateral shares in U.S. merchandise exports.
Source: FRB staff calculations.



Source: Haver Analytics.



Source: Bloomberg.

The **Japanese** economy grew 1.3 percent (s.a.a.r.) in the third quarter, substantially below the 4.8 percent pace reported in the first release. Although private consumption rose at a solid pace, likely supported by government stimulus, private investment continued to fall sharply. Net exports remained a source of growth, but to a lesser extent than in the previous quarter as imports began to rebound.

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

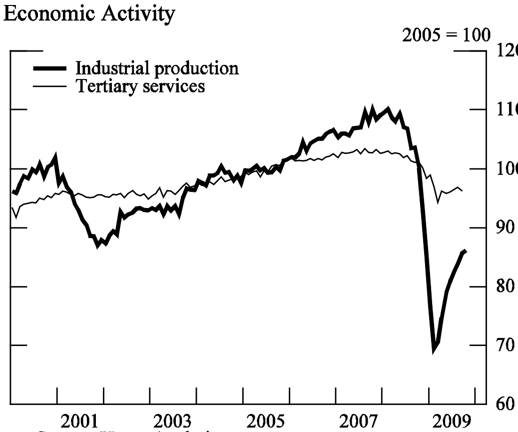
Component	2007[1]	2008[1]	2008	2009		
			Q4	Q1	Q2	Q3
GDP	1.7	-4.4	-10.2	-11.9	2.7	1.3
Total domestic demand	.3	-2.0	-1.4	-9.0	-2.7	-.2
Consumption	1.2	-1.9	-3.5	-4.9	4.8	3.8
Private investment	-4.3	-5.1	-19.5	-28.6	-19.8	-13.6
Public investment	-4.2	-8.6	1.7	15.5	27.5	-6.3
Government consumption	2.7	-.5	4.7	2.8	1.1	-.5
Inventories[2]	.3	.4	3.2	-1.4	-2.7	.3
Exports	9.5	-13.4	-44.9	-61.7	28.8	28.6
Imports	1.5	.2	-6.2	-47.7	-13.0	13.9
Net exports[2]	1.2	-2.2	-8.0	-5.3	4.5	2.0

1. Q4/Q4.
2. Percentage point contribution to GDP growth.
Source: Haver Analytics.

Indicators for the fourth quarter suggest continued moderate expansion. Industrial production rose for the eighth consecutive month in October, but at a considerably slower pace, as autos and electronics production fell back somewhat after surging earlier. In addition, consumer confidence was nearly unchanged in October, and the Shoko-Chukin business confidence survey posted only modest gains in the fourth quarter; previously, both indexes had grown at a more robust pace. Although the appreciating yen is raising concerns about the near-term outlook, in October, Japanese real exports rose 3.4 percent on a monthly basis. The unemployment rate declined to 5.1 percent in October, down from a peak of 5.7 percent in July. However, the more reliable job opening-to-application ratio suggests a much more limited improvement in labor market conditions.

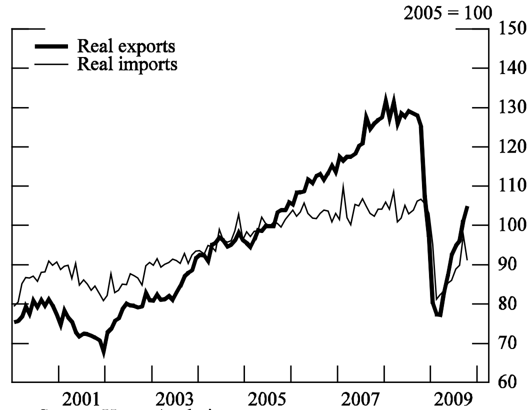
Japan

Economic Activity



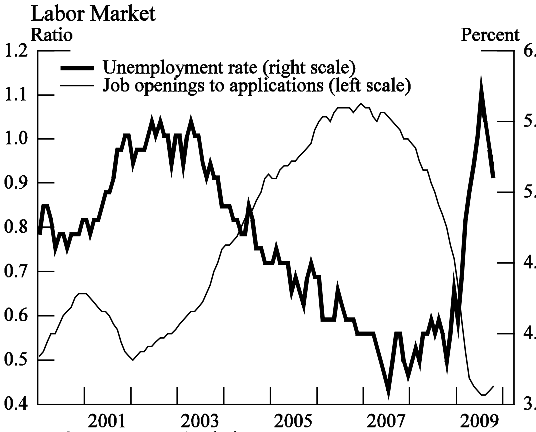
Source: Haver Analytics.

Real Trade



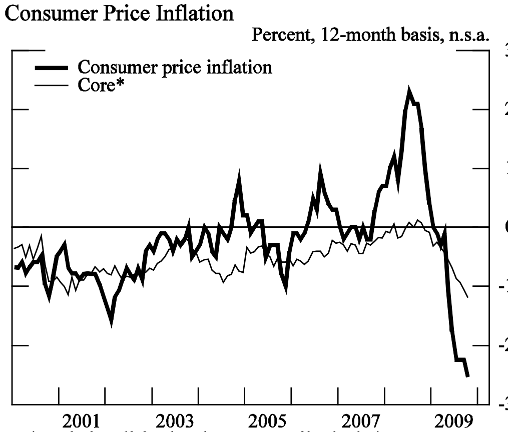
Source: Haver Analytics.

Labor Market



Source: Haver Analytics.

Consumer Price Inflation



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

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

Indicator	2009			2009			
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Housing starts	-10.6	-15.7	-7.2	-9.3	3.3	9.0	n.a.
Machinery orders[1]	-9.9	-4.9	-.9	.5	10.5	n.a.	n.a.
Household expenditures	-1.9	.9	.5	-.1	.7	n.a.	n.a.
New car registrations	-10.8	14.4	19.7	-.2	3.3	5.3	4.4
Business sentiment[2]	-46.0	-45.0	-38.0	...	...	...	...
Wholesale prices[3]	-1.8	-5.5	-8.3	-8.5	-8.0	-6.7	n.a.

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.

In October, the 12-month inflation rate reached a new all-time low of negative 2.5 percent. The decline in prices was not limited to commodities; core inflation (excluding all food and energy) also reached a record low. Incoming data suggest that deflationary pressures might have eased a bit in November; in the Tokyo area, headline prices rose on a monthly basis for the first time since February 2009.

The BOJ left its policy rate unchanged and repeated its commitment to maintain the zero-interest-rate policy for an extended period. On December 1, at an emergency meeting, the BOJ announced a new lending program, which in part replaces existing facilities, to provide 10 trillion yen (about $110 billion) worth of funds for three months at a rate of 0.1 percent against a wide range of collateral. Previously, Japan's central bank had unveiled plans to withdraw some unconventional policy measures, beginning with commercial paper and corporate debt purchase programs at the end of 2009. As for fiscal policy, the new Hatoyama government recently announced that it intends to take "policy action in view of the strengthening yen and problems surrounding stock prices" and plans to spend 7.2 trillion yen (1½ percent of GDP) over 2010 and 2011. It appears, however, that about one-third of the resources for the additional package, which calls for government guarantees for new lending as well as grants to local governments, will come from reshuffling existing budget priorities.

Euro-area real GDP increased 1.5 percent (s.a.a.r.) in the third quarter, marking a return to positive growth after five quarters of contraction. The rise reflects positive contributions from inventories and net exports; final domestic demand continued to decline, although at a moderating pace. Private consumption fell almost 1 percent, as the effects of government incentives for car purchases waned. Investment decreased 1.4 percent, the slowest pace of decline in six quarters. Changes in inventories provided a contribution of 1.4 percentage points to growth. As world trade rebounded, both exports and imports surged at double-digit rates, and net exports contributed 0.6 percentage point to third-quarter growth.

Recent indicators suggest further improvement in economic conditions in the current quarter. In November, several measures of economic sentiment reached their highest levels since August 2008, and PMIs rose further, consistently indicating expansion in both manufacturing and services. There are also some signs that household spending might be bottoming out; real retail sales were flat in October after falling in the third quarter. In addition, the unemployment rate, after having risen 2½ percentage points since early 2008, held at 9.8 percent in October.

Euro-Area 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	2.1	-1.8	-7.3	-9.4	-.6	1.5
Total domestic demand	1.8	-.5	-2.8	-7.2	-3.2	.9
Consumption	1.2	-.7	-2.0	-1.8	.2	-.9
Investment	3.1	-5.5	-14.2	-18.3	-6.5	-1.4
Government consumption	2.0	2.4	2.6	2.5	2.6	2.1
Inventories[2]	.1	.6	.7	-2.8	-2.3	1.4
Exports	4.2	-6.9	-25.7	-30.6	-5.0	12.2
Imports	3.5	-4.1	-17.8	-26.4	-11.1	10.7
Net exports[2]	.4	-1.4	-4.5	-2.4	2.6	.6
Memo:						
GDP of selected countries						
France	2.1	-1.7	-5.9	-5.5	1.1	1.1
Germany	1.6	-1.8	-9.4	-13.4	1.8	2.9
Italy	.1	-2.9	-8.0	-10.5	-1.9	2.4

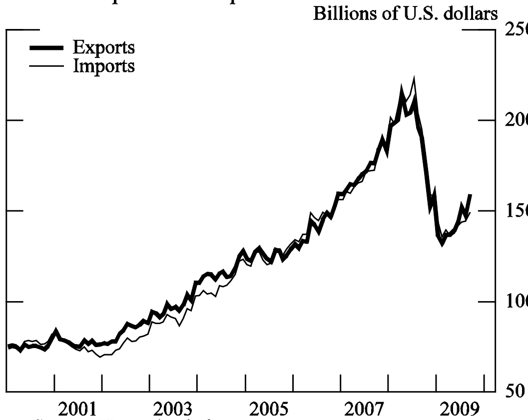
1. Q4/Q4.
2. Percentage point contribution to GDP growth.
Source: Haver Analytics.

In November, 12-month inflation rose to 0.6 percent from negative 0.1 percent in October, according to the flash estimate. Excluding all food and energy, October inflation was 1.2 percent.

The ECB kept its benchmark policy rate unchanged at 1 percent at its December 3 meeting. The ECB also announced that the one-year refinancing operation scheduled for December 16 will be the last liquidity operation with such a long maturity and that the average refinancing rate will be indexed to the minimum bid rate over the life of the operation. In addition, the ECB indicated that its last six-month refinancing operation will be conducted on March 31, 2010, and that its main refinancing operations will be at a fixed rate with full allotment at least through April 13. The ECB has continued to implement plans to buy €60 billion worth of covered bonds, and by early December had purchased about €26 billion in such bonds.

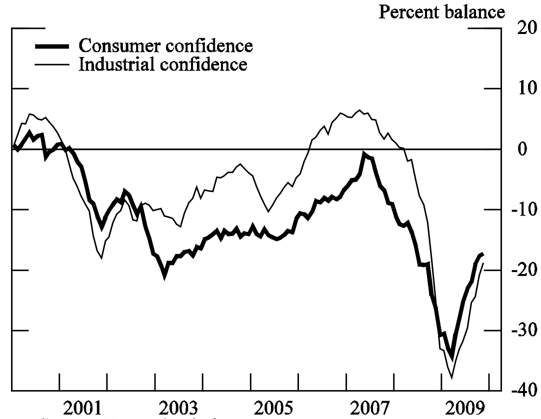
Euro Area

Nominal Exports and Imports



Source: Haver Analytics.

Economic Sentiment

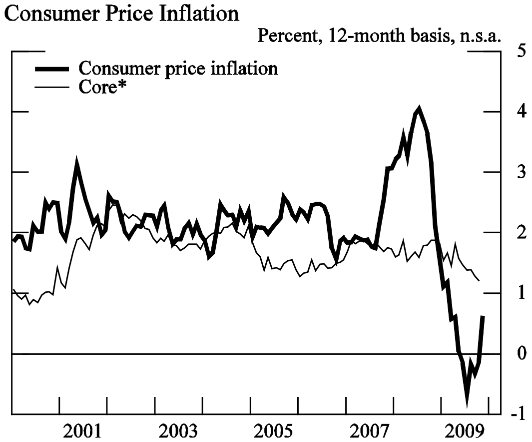


Source: Haver Analytics.

Unemployment Rate

Source: Haver Analytics.

Consumer Price Inflation



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

Economic Indicators

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

Indicator	2009 Q1	2009 Q2	2009 Q3	2009 July	2009 Aug.	2009 Sept.	2009 Oct.
Industrial production[1]	-8.6	-1.1	2.2	.3	1.2	.3	n.a.
Retail sales volume[2]	-.8	-.3	-.5	-.2	-.0	-.5	.0
New car registrations	.9	12.2	1.4	-2.0	1.0	-.9	n.a.
Employment	-.7	-.5	n.a.	...	...	...	...
Producer prices[3]	-2.0	-5.2	-7.1	-7.6	-6.8	-7.0	-6.3
M3[3]	6.5	4.7	2.8	3.5	3.0	2.0	.2

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.

Euro-area credit conditions have shown signs of improvement in recent months. Household credit growth turned positive in the second quarter and edged up further in the third, although corporate credit growth has continued to fall. Bank lending surveys showed less tightening in credit standards in the third quarter. The surveys also indicate that while demand for credit from corporations is still contracting, that from households has begun to increase. Tight lending has induced firms to issue new debt in financial markets. In the first three quarters of 2009, nonfinancial corporations have issued €80 billion worth of debt, making up for much of the contraction in bank loans.

Amid rising fiscal deficits, the EC recently announced deadlines for countries to return within the 3 percent rule required by the Stability and Growth Pact. Most countries, including France and Germany, are expected to reach the reference value in 2013. However, in the case of Greece, the Commission has yet to change the original deadline set to 2010, which appears quite unrealistic given the projected budget deficit is about 12 percent of GDP for 2009. On December 8, Fitch downgraded Greek debt to BBB+ with a negative outlook, citing concerns over the medium-term outlook for public finances.

In the **United Kingdom**, GDP growth in the third quarter was revised up ½ percentage point to negative 1.2 percent (s.a.a.r.). Final domestic demand stabilized, as small declines in private consumption and investment were partly offset by higher government spending. Net exports made their first negative contribution to GDP growth since 2007. Imports rose 5.2 percent, while exports increased a more modest 2.0 percent.

Data received since last Greenbook are consistent with output expanding moderately in the fourth quarter. The volume of retail sales rose 0.4 percent in October, and analysts project further increases late in the quarter as households bring forward consumption expenditures ahead of the expiration of the temporary value-added tax cut on December 31. The manufacturing and services PMIs edged down in November but continue to point to a moderate expansion of those sectors. According to the Labor Force Survey, the total number of unemployed (measured as a three-month centered average) declined modestly in July and August. However, the number of people claiming unemployment benefits continued to rise through October.

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	-1.2
Total domestic demand	3.1	-3.3	-8.7	-9.9	-3.2	-.3
Consumption	2.2	-.8	-4.7	-6.0	-2.6	-.3
Investment	4.9	-8.7	-8.4	-26.2	-19.3	-1.1
Government consumption	1.2	3.1	4.0	.3	2.4	.9
Inventories[2]	.6	-1.9	-5.3	-1.5	1.3	-.0
Exports	3.4	-3.5	-15.2	-25.5	-5.5	2.0
Imports	5.6	-8.0	-20.2	-25.2	-8.4	5.2
Net exports[2]	-.8	1.5	2.1	.6	1.0	-.9

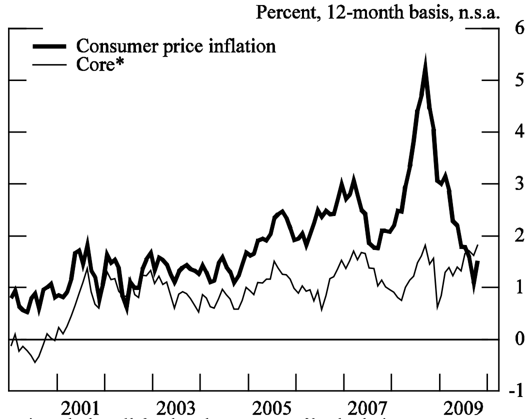
1. Q4/Q4.
2. Percentage point contribution to GDP growth.
Source: Haver Analytics.

Price pressure has increased in recent months, although it remains subdued overall. Headline inflation jumped to 1.5 percent in October on a 12-month basis, in part as record declines in fuel prices in September 2008 dropped out of the calculation. Excluding all food and energy, inflation edged up 0.2 percentage point to 1.8 percent. Producer input and output prices rose further in October. Both series now stand close to their pre-recession peaks. Reading through the monthly volatility, measures of earnings growth were well below their recent trends in September.

At its November meeting, the BOE announced the acquisition of an extra £25 billion in assets through the creation of reserves, bringing total purchases to £200 billion. The additional purchases are to be completed by the end of January; the BOE is effectively halving the pace of asset purchases. As of November 26, the BOE had acquired £183.4 billion in assets through the creation of bank reserves, almost the entirety of which were gilts.

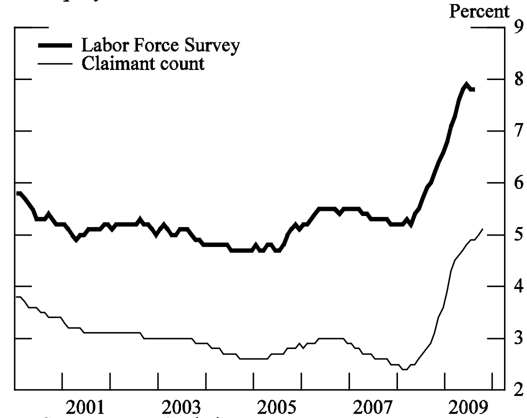
United Kingdom

Consumer Price Inflation



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

Unemployment Rates

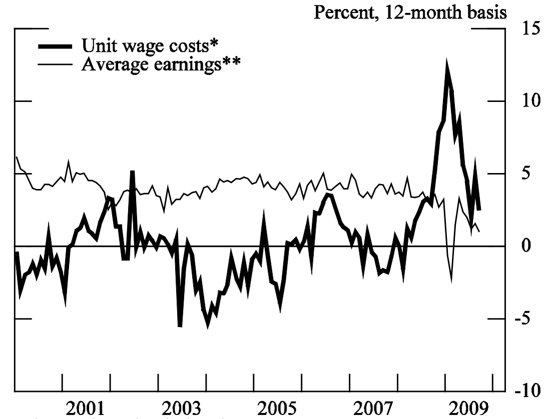


Source: Haver Analytics.

Purchasing Managers Survey

Source: Reuters.

Labor Costs



*Manufacturing industries.
**Whole economy, including bonuses.
Source: Haver Analytics.

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

Indicator	2009 Q2	2009 Q3	2009 Q4	2009 Sept.	2009 Oct.	2009 Nov.	2009 Dec.
Producer input prices[1]	-8.9	-8.7	n.a.	-6.2	.1	n.a.	n.a.
Industrial production	-.6	-.9	n.a.	1.3	.0	n.a.	n.a.
Business confidence[2]	-22.0	-7.0	.3	-2.0	4.0	4.0	-7.0
Consumer confidence[2]	-19.9	-14.1	n.a.	-10.1	-8.3	-8.3	n.a.
Trade balance[3]	-13.0	-12.7	n.a.	-5.0	-5.2	n.a.	n.a.
Current account[3]	-17.7	n.a.	n.a.	...	...	...	...

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.

On December 9, the Chancellor of the Exchequer delivered the 2009 Pre-Budget Report which confirmed the sharp deterioration in U.K. public finances. The fiscal deficit is projected to be about 12 percent of GDP in the current and next fiscal years (fiscal years run from April to March). As a consequence, public sector debt is expected to jump, from under 40 percent of GDP prior to the recession to peak of almost 80 percent in fiscal year 2014-2015. The Treasury's economic forecast calls for output to grow a meager 1¼ percent in 2010 on the back of a further small contraction in investment and stagnant consumption. GDP is then forecast to rise 3½ percent in 2011 and 2012.

Canadian GDP rose 0.4 percent in the third quarter (s.a.a.r.), following a 3 percent contraction in the previous quarter. Final domestic demand expanded rapidly, moving up almost 5 percent, as private consumption increased at the fastest pace since the fourth quarter of 2007. Much of the strength in consumption was in durable goods purchases, particularly motor vehicles and furniture. Fixed investment increased, rising almost 9 percent, as outlays on motor vehicles and industrial machinery surged. Government consumption and investment were strong as well in the third quarter, contributing nearly 2 percentage points to growth. Residential investment rose 8.1 percent.

The strength in domestic demand was almost fully offset by a large negative contribution from net exports, as imports grew at about twice the pace of exports. Both imports and exports were boosted by a surge in automotive trade. Exports outside of energy and autos remained muted, while import gains were widespread.

As yet, we have little data beyond the end of September. The contour of growth heading into the current quarter, however, points to further expansion. September monthly GDP rose at an annual rate of 5.3 percent, suggesting momentum built up toward the end of the third quarter. Likewise, retail sales and manufacturing orders ended the third quarter with strong performance. In addition, the Canadian housing market continued to rebound forcefully. After rising more than 15 percent in the third quarter, housing starts were up 5.4 percent in October, neither number at an annual rate.

Canadian 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	2.8	-1.0	-3.7	-6.2	-3.1	.4
Total domestic demand	6.6	-1.1	-6.1	-11.4	1.0	5.7
Consumption	5.4	.2	-3.1	-1.4	1.8	3.1
Investment	4.5	-3.6	-14.8	-22.8	-4.9	8.9
Government consumption	3.7	3.1	2.5	2.2	3.3	5.0
Inventories[2]	1.7	-1.1	-1.2	-5.5	.4	.9
Exports	-1.5	-7.3	-17.7	-29.8	-19.5	15.3
Imports	8.5	-7.7	-23.4	-39.2	-6.9	36.0
Net exports[2]	-4.2	.7	2.2	4.5	-4.0	-5.5

1. Q4/Q4.
2. Percentage point contribution to GDP growth.
Source: Haver Analytics.

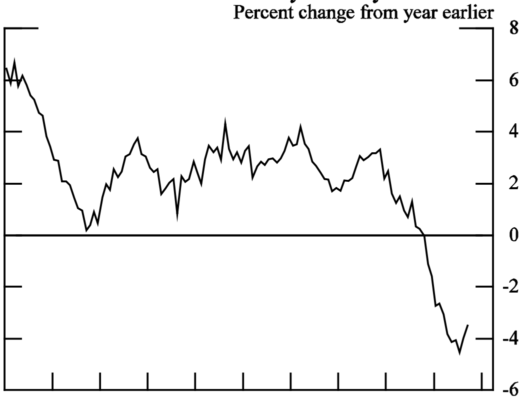
Canadian labor market conditions improved in November. Total employment rose 0.5 percent. A record-setting increase in public employment and a solid gain in private employment drove November's gains. Excluding the public sector, private-sector employment rose a solid 0.2 percent. Tempering the good news, aggregate hours worked declined in November, as part-time employment rose and full-time hours dropped. The unemployment rate fell 0.1 percentage point to 8.5 percent.

Consumer prices rose 0.2 percent in the year ending in October, the first 12-month increase since May 2009. Excluding all food and energy, inflation was 1.2 percent in October, up sharply from 0.7 percent in September. The 12-month change in average hourly wages fell a full percentage point to 2.3 percent in November.

At its December 8 meeting, the BOC maintained its policy rate at 0.25 percent and 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.

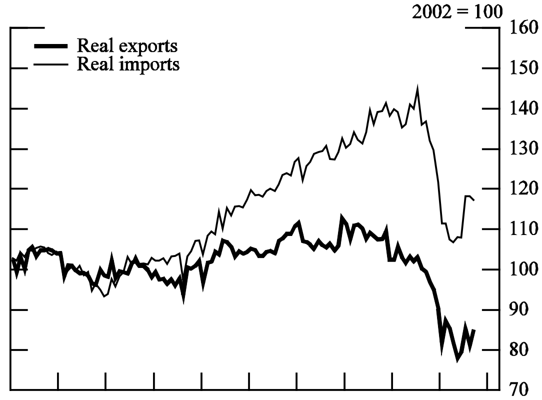
Canada

Real Gross Domestic Product by Industry



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

Real Trade

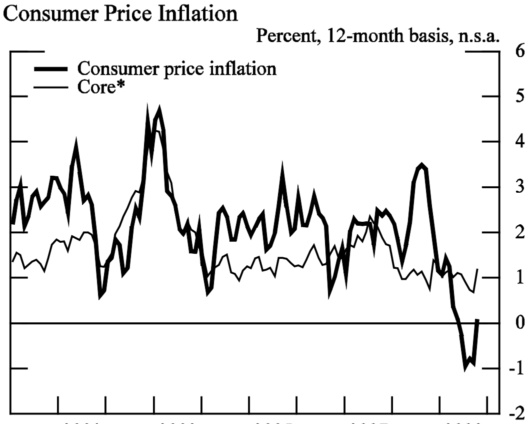


Source: Haver Analytics.

Unemployment Rate

Source: Haver Analytics.

Consumer Price Inflation



*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 Q1	2009 Q2	2009 Q3	2009 Aug.	2009 Sept.	2009 Oct.	2009 Nov.
Industrial production	-5.2	-4.6	-1.4	-.9	1.2	n.a.	n.a.
New manufacturing orders	-12.0	-1.4	1.1	1.8	7.4	n.a.	n.a.
Retail sales	-1.1	.5	1.3	.5	1.2	n.a.	n.a.
Employment	-1.4	-.4	-.2	.2	.2	-.3	.5
Wholesale sales	-7.3	.8	2.9	-.7	.3	n.a.	n.a.
Ivey PMI[1]	41.5	53.4	56.4	55.7	61.7	61.2	55.9

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

Economic activity in the emerging market economies continued to surprise on the upside in the third quarter despite a moderation in the pace of recovery in emerging Asia. Mexico's economy grew at an unexpectedly brisk pace in the third quarter, reflecting in part a large payback from an H1N1 virus-related contraction in the second quarter. In India, GDP also came in well above expectations in the third quarter, reflecting a surprisingly effective fiscal stimulus. Industrial production and trade data point to a slight dip in October in several Asian economies, suggesting a relatively slow start to the fourth quarter. In emerging Asia, headline inflation continued to rise (albeit generally from low levels), in several cases led by rising food prices. Meanwhile, inflation continued to fall in Latin American countries, likely owing in part to recent appreciation of their currencies and still-weak domestic demand.

In **China**, economic activity continues to expand robustly, although a few indicators dipped in October. Real retail sales growth, on a 12-month basis, remained around 17 percent in October, and fixed-asset investment growth stayed above 30 percent. In November, the purchasing managers index was 55, the same level as in October, which was the highest since April of last year. However, industrial production moved down in October from its September level, as did trade, with the value of imports falling more than exports.

Chinese authorities have continued to trim economic stimulus at the margin. In October, the level of outstanding bank loans expanded at the slowest pace this year, and concerns about overcapacity led authorities to instruct financial institutions to limit lending to six industries, including steel and cement. Nonetheless, credit growth remains accommodative, and outstanding loans are 34 percent higher than a year earlier. In November, authorities raised the price of electricity for nonresidential use. This likely will put upward pressure on the producer price index, which has fallen nearly 6 percent over the past year. Consumer prices have moved higher recently, led by food and housing, but the consumer price index remains slightly below its year-earlier level.

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

Indicator	2007	2008	2009				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP[1]	12.3	6.9	18.5	9.8	...	...	...
Industrial production	19.5	1.8	4.4	5.4	1.7	1.3	-2.9
Consumer prices[2]	6.5	1.2	-1.5	-1.3	-1.2	-.8	-.5
Merch. trade balance[3]	262.7	298.1	142.4	100.3	133.4	98.8	183.5

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**, GDP surged 15 percent at an annual rate in the third quarter, underpinned by robust manufacturing activity and an especially sharp rebound in social services, reflecting very accommodative fiscal policy. The strong growth of domestic demand during the third quarter caused the merchandise trade deficit to widen, as imports grew faster than exports. Available data point to a slight retrenchment of economic activity in the beginning of the fourth quarter: The purchasing managers index for manufacturing crept down in October and November, reaching 53, its lowest level since March.

Consumer price inflation continued to hover above 10 percent on a 12-month basis through October. Wholesale price inflation pushed further into positive territory after several months of deflation during the summer, primarily reflecting rising food prices following one of the driest rainy seasons in decades.

Indian Economic Indicators

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

Indicator	2007	2008	2009				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP[1]	9.3	5.9	7.3	15.1	. . .	. . .	. . .
Industrial production	9.9	4.4	3.6	5.3	2.3	.5	n.a.
Consumer prices[2]	5.5	9.7	8.9	11.1	10.7	10.7	10.5
Wholesale prices[2]	3.8	6.1	.5	-.1	-.2	.5	1.3
Merch. trade balance[3]	-79.2	-121.9	-62.3	-71.6	-90.3	-64.0	-85.4
Current account[4]	-11.3	-36.1	-23.2	n.a.	. . .	. . .	. . .

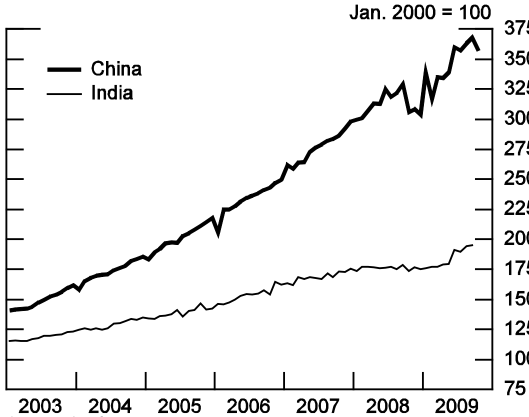
1. Gross domestic product. Annual rate. Annual data are Q4/Q4.
2. Non-seasonally adjusted percent change from year-earlier period, except annual data, which are Dec./Dec.
3. Billions of U.S. dollars, annualized.
4. Billions of U.S. dollars, not seasonally adjusted, annualized.

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

Source: CEIC.

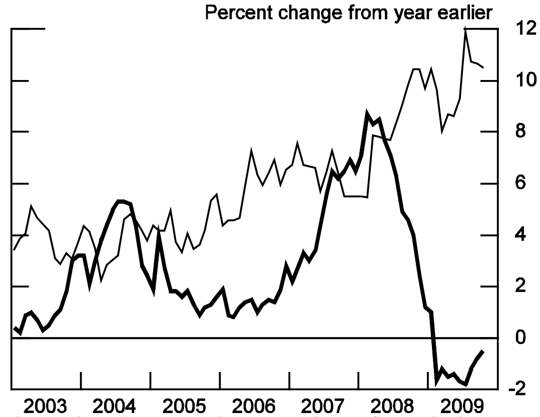
China and India

Industrial Production



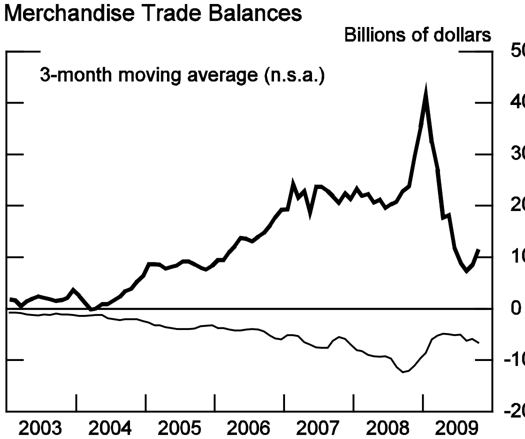
Source: CEIC.

Consumer Prices



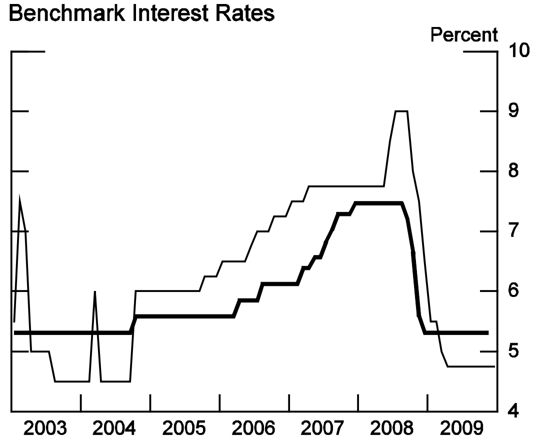
Source: China Statistic and Consultancy Service Center; CEIC.

Merchandise Trade Balances



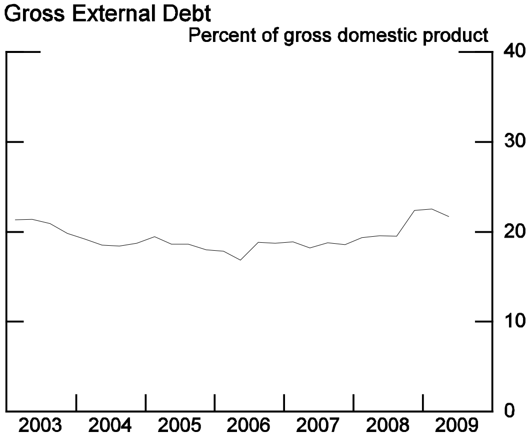
Source: China Statistic and Consultancy Service Center; CEIC.

Benchmark Interest Rates



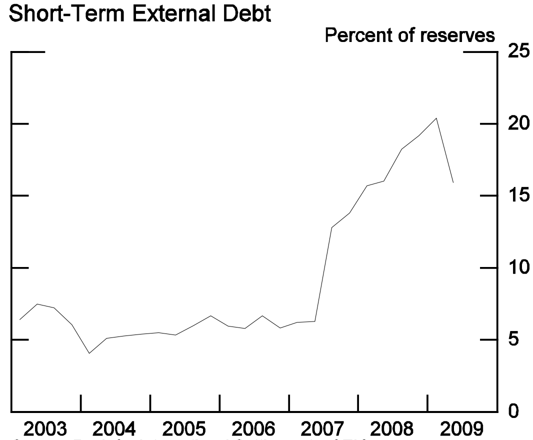
Source: Bloomberg; CEIC.

Gross External Debt



Source: Bank for International Settlements; Haver Analytics.

Short-Term External Debt



Source: Bank for International Settlements; CEIC.

In the **newly industrialized economies (NIEs),**[1] most indicators point to robust, though moderating, growth in recent months. In line with Korea and Singapore, which released strong third-quarter GDP reports prior to the last Greenbook, Taiwan's real GDP expanded at an 8.3 percent annual rate in the third quarter. Exports, consumption, and investment all contributed to growth, pointing to a broad-based recovery. Meanwhile, Hong Kong's growth slowed sharply to 1.5 percent in the third quarter, as weak consumption and exports offset a boost from inventory accumulation. Several monthly indicators show a slight dip in the level of economic activity in the region going into the fourth quarter, particularly in Korea, where industrial production, imports, and the purchasing managers index retreated in October. Trade balances, which moved sharply up at the onset of the crisis as imports fell even more sharply than exports, have since started to give up these increases.

Inflation has risen from very low levels across the NIEs. In Korea and Hong Kong, prices have risen a bit more than 2 percent during the past year, while in Singapore and Taiwan prices remain below their year-earlier levels. With inflation still contained, central banks have kept policy rates on hold.

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

	2007	2008	2009				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP[1]							
Hong Kong	7.0	-2.6	14.9	1.5	...	...	...
Korea	5.7	-3.4	11.0	13.6	...	...	...
Singapore	5.8	-4.0	21.7	14.2	...	...	...
Taiwan	6.5	-6.3	18.8	8.3	...	...	...
Industrial production							
Hong Kong	-1.5	-6.6	-.3	n.a.	...	...	...
Korea	7.0	3.0	11.4	7.2	-1.4	5.6	-3.8
Singapore	5.9	-4.2	15.3	8.6	-5.9	-13.5	.9
Taiwan	7.8	-1.8	17.3	7.0	-.2	7.0	-.5

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

[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	Sept.	Oct.	Nov.
Hong Kong	-23.5	-25.9	-15.5	-39.3	-44.3	-42.1	n.a.
Korea	28.2	6.0	68.0	57.0	56.2	46.2	n.a.
Singapore	36.2	18.4	26.8	21.7	1.5	38.6	n.a.
Taiwan	16.8	4.4	21.7	24.4	22.2	21.2	-11.8

Source: CEIC.

Economic Indicators for Newly Industrialized Economies: Consumer Price Inflation

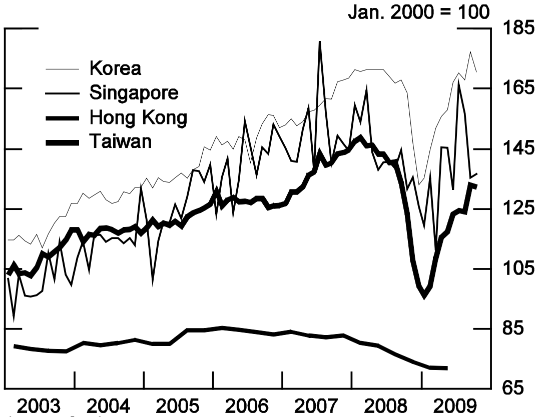
(Non-seasonally adjusted percent change from year earlier except as noted)

	2007[1]	2008[1]	2009				
			Q2	Q3	Sept.	Oct.	Nov.
Hong Kong	3.8	2.1	-.1	-.9	.5	2.2	n.a.
Korea	3.6	4.1	2.8	2.0	2.2	2.0	2.4
Singapore	4.4	4.3	-.5	-.4	-.4	-.8	n.a.
Taiwan	3.3	1.3	-.8	-1.3	-.9	-1.9	-1.6

1.Dec./Dec.
n.a. Not available
Source: CEIC.

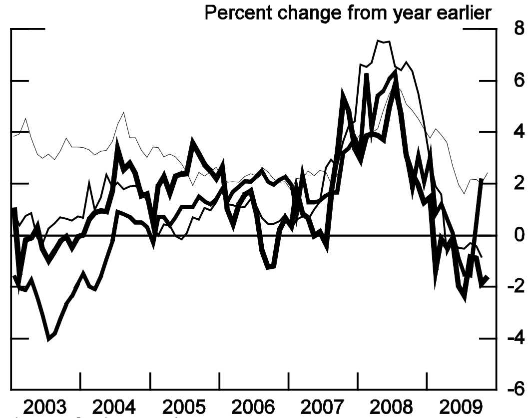
Newly Industrialized Economies

Industrial Production



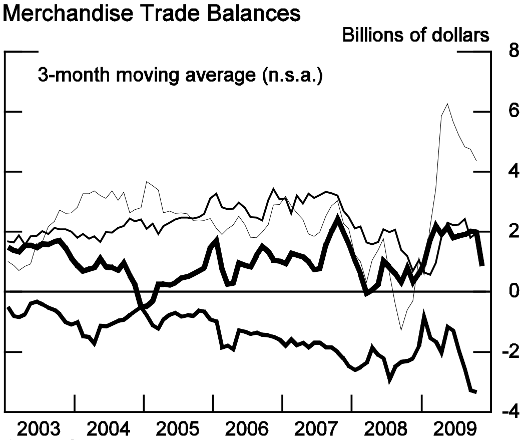
Source: CEIC.

Consumer Prices



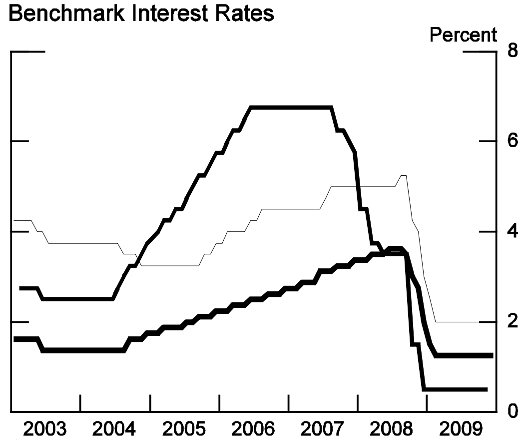
Source: CEIC; Bank of Korea; Reuters.

Merchandise Trade Balances



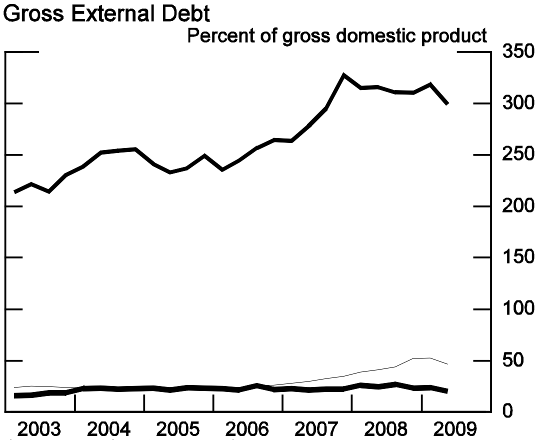
Source: CEIC.

Benchmark Interest Rates



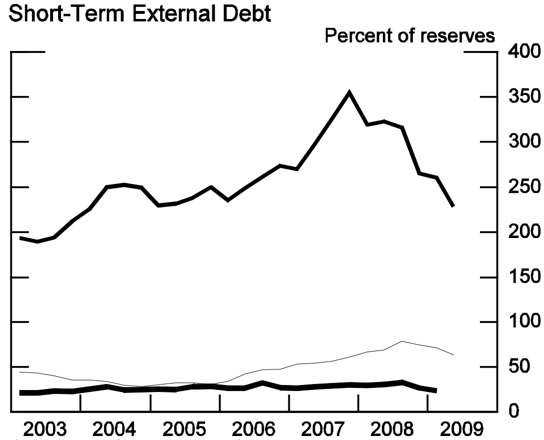
Source: Bloomberg.

Gross External Debt



Source: Bank for International Settlements.

Short-Term External Debt



Source: Bank for International Settlements.

Since the previous Greenbook, we have received third-quarter GDP for the **Association of Southeast Asian Nations (ASEAN-4)**.[2] Malaysia and Indonesia led the group, growing at 10 and 8 percent, respectively, spurred by government spending and a pickup in private domestic demand. Growth in Thailand came in a bit lower, as the recovery stalled in the first two months of the quarter before picking up sharply in September. In the Philippines, growth decelerated because of weak domestic demand and flat remittances. With the exception of the Philippines, trade balances have deteriorated relative to the second quarter as strengthening domestic demand caused import growth to outpace that of exports.

Consumer prices continued to accelerate in the region with the exception of Indonesia, where inflation remained roughly flat because of subdued food prices and the strengthening rupiah. In Thailand, 12-month inflation turned positive in October for the first time this year and increased further in November. Central banks left policy rates unchanged.

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

Indicator	2007	2008	2009				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP[1]							
Indonesia	5.8	5.3	4.7	7.9	...	...	...
Malaysia	7.3	.2	12.5	9.9	...	...	...
Philippines	6.4	2.9	7.0	4.1	...	...	...
Thailand	5.6	-4.1	9.0	5.5	...	...	...
Industrial production[2]							
Indonesia[3]	5.6	3.0	-.6	-1.0	4.9	-5.3	n.a.
Malaysia	2.1	.7	2.0	3.4	-2.3	-1.7	n.a.
Philippines	-2.7	.3	12.4	5.3	-2.0	7.3	n.a.
Thailand	8.2	5.3	9.7	4.0	-4.1	9.8	.1

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.
n.a. Not available
Source: CEIC.

[2] The ASEAN-4 is 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				
			Q2	Q3	Aug.	Sept.	Oct.
Indonesia	39.6	31.6	36.9	n.a.	31.4	n.a.	n.a.
Malaysia	29.2	42.7	30.8	30.2	30.3	30.5	40.2
Philippines	-5.0	-7.7	-5.0	-2.7	.4	-1.5	n.a.
Thailand	12.8	.1	22.6	15.9	26.7	9.2	15.2

Note: Association of Southeast Asian Nations.
n.a. Not available
Source: CEIC; Bank of Thailand; Philippines Economic Indicators Telegram (PEIT); Monetary Authority of Singapore.

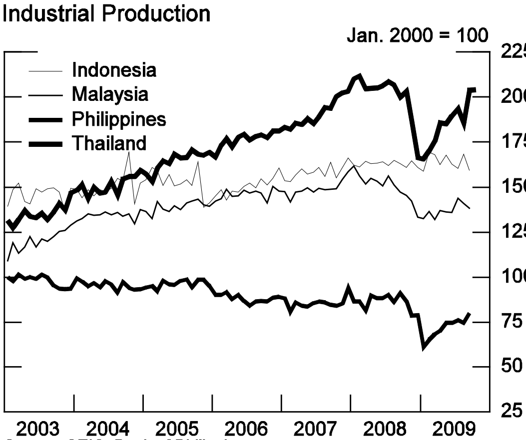
ASEAN-4 Economic Indicators: Consumer Price Inflation
(Non-seasonally adjusted percent change from year earlier except as noted)

Indicator	2007[1]	2008[1]	2009				
			Q2	Q3	Sept.	Oct.	Nov.
Indonesia	5.8	11.1	5.6	2.8	2.8	2.6	2.4
Malaysia	2.4	4.4	1.3	-2.3	-2.0	-1.5	n.a.
Philippines	3.9	8.0	3.2	.3	.7	1.6	2.8
Thailand	3.2	.4	-2.8	-2.2	-1.0	.4	1.9

1. Dec./Dec.
Note: Association of Southeast Asian Nations.
n.a. Not available
Source: CEIC; Haver Analytics; IMF International Financial Statistics database.

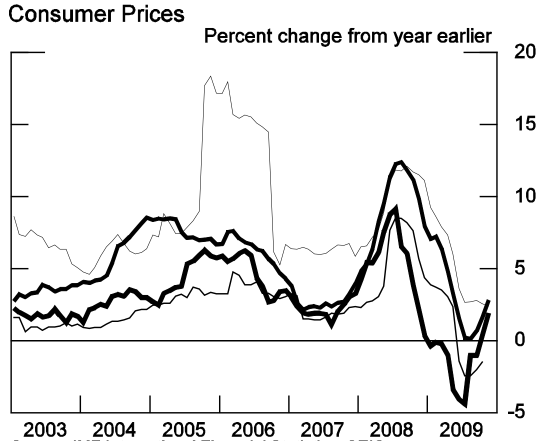
ASEAN-4

Industrial Production



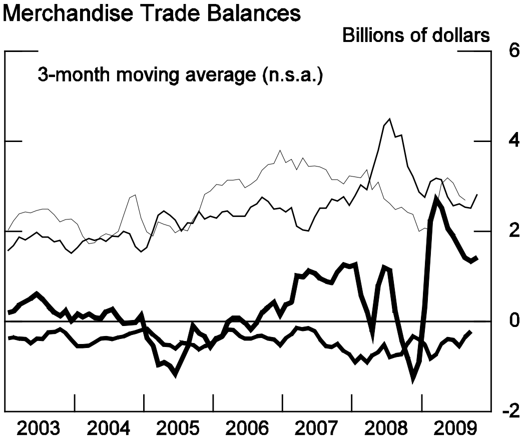
Source: CEIC; Bank of Philippines.

Consumer Prices



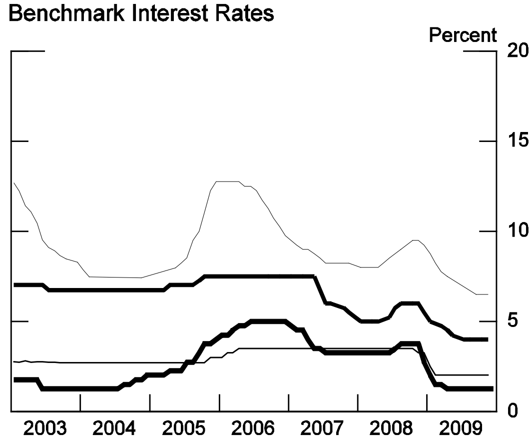
Source: IMF International Financial Statistics; CEIC.

Merchandise Trade Balances



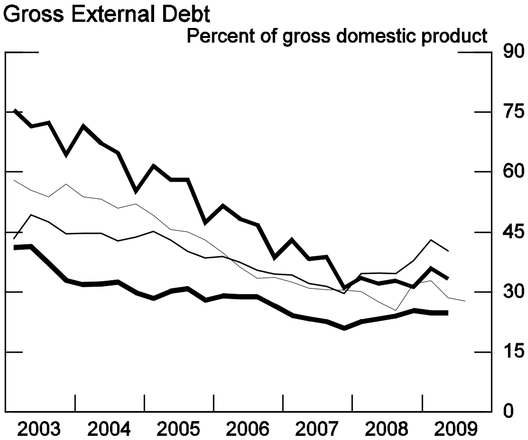
Source: CEIC; Philippines Economic Indicators Telegram (PEIT); Bank of Thailand Monthly Statistical Release.

Benchmark Interest Rates



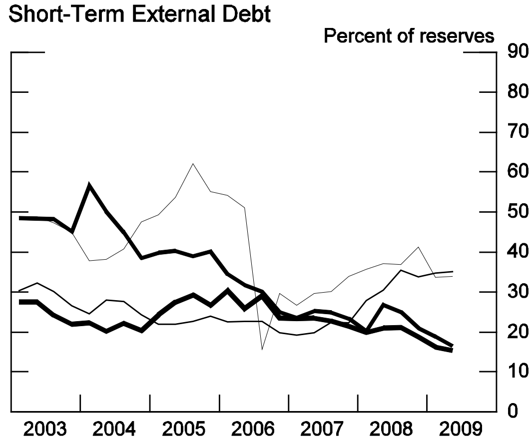
Source: Bloomberg; Haver Analytics.

Gross External Debt



Note: ASEAN is the Association of Southeast Asian Nations.
Source: CEIC; Bank for International Settlements.

Short-Term External Debt



Source: Bank for International Settlements.

In **Mexico**, real GDP rebounded sharply in the third quarter, with strength in both manufacturing and services. The service sector rebound reflected a strong payback from the H1N1 virus-related contraction in the second quarter. The manufacturing sector benefited from higher auto production following the reopening of Chrysler and GM plants. Both exports and imports rose in the third quarter, and exports rose further in October. But consumer demand remained weak going into the fourth quarter despite a modest improvement in the unemployment rate. Weak domestic demand and an appreciating peso helped lower 12-month headline inflation to 4.5 percent in October.

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

Indicator	2007	2008	2009				
			Q2	Q3	Aug.	Sept.	Oct.
Real GDP[1]	3.7	-1.7	-1.1	12.2	...	...	...
Overall economic activity	3.1	1.0	-1.3	2.2	-1.3	.7	n.a.
Industrial production	2.4	-.9	-1.1	1.3	-1.2	.2	n.a.
Unemployment rate[2]	3.7	4.0	5.7	5.9	5.9	6.0	5.8
Consumer prices[3]	3.8	6.5	6.0	5.1	5.1	4.9	4.5
Merch. trade balance[4]	-10.1	-17.3	-4.4	-8.4	-7.2	-6.7	11.5
Merchandise imports[4]	281.9	308.6	218.5	231.9	229.6	238.4	234.4
Merchandise exports[4]	271.9	291.3	214.1	223.5	222.3	231.7	246.0
Current account[5]	-8.3	-15.8	3.4	-7.6	...	...	...

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 early November, the Mexican congress approved a watered-down version of the government's fiscal reform. Although the final package includes various tax hikes, a rise in fuel prices, and some spending cuts, it left out a centerpiece of the original proposal: a new general sales tax that would have paved the way for broadening the tax base. As such, the reform is not generally viewed as a significant step toward addressing structural weaknesses in Mexico's fiscal framework, although it will help the government's finances in 2010. As expected, Fitch downgraded Mexican sovereign debt to BBB following the bill's passage. However, the fact that Fitch gave Mexico a stable outlook was regarded as positive news that led to a rally in the peso and stock markets. President

Calderón has nominated Agustín Carstens as the new Governor of the Bank of Mexico and Ernesto Cordero as the new Minister of Finance.

In **Brazil**, monthly indicators suggest that robust economic growth in the third quarter has extended into the fourth quarter. (Third-quarter GDP will not be released until December 10.) Industrial production continued to climb rapidly through October to a level that was only 5 percent below its September 2008 peak. The purchasing managers index for manufacturing shot up to 55 in November, its highest level in two years. The recovery has been supported by rapid growth of government-directed credit and strong domestic demand, particularly for autos and appliances, which have benefited particularly from government tax breaks. Export growth has been comparatively tepid, causing the trade surplus to narrow since the second quarter.

Despite the rapid pace of recovery, inflation has continued to creep down. Headline inflation fell to 4.2 percent in October on a 12-month basis, just below the midpoint of the central bank's target range. The *real*'s strong appreciation this year has likely played some part in the fall in inflation. However, given the weak export recovery, the government moved again to limit upward pressure on the currency by closing a loophole that allowed foreign investors to circumvent the 2 percent tax on portfolio capital inflows imposed in late October. Brazilian companies' issuance of American Depository Receipts, which foreign investors had been using to gain exposure to the Brazilian stock market without paying the tax, is now subject to a 1.5 percent tax.

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

Indicator	2007	2008	2009				
			Q2	Q3	Sept.	Oct.	Nov.
Real GDP[1]	6.1	1.2	7.8	n.a.	. . .	. . .	. . .
Industrial production	6.0	3.1	4.1	4.8	1.8	2.2	n.a.
Unemployment rate[2]	9.3	7.9	8.2	7.9	7.7	7.7	n.a.
Consumer prices[3]	4.5	5.9	5.2	4.4	4.3	4.2	n.a.
Merch. trade balance[4]	40.0	25.0	43.1	21.7	9.5	14.4	18.0
Current account[5]	1.6	-28.2	-8.5	-19.2	-27.7	-34.9	n.a.

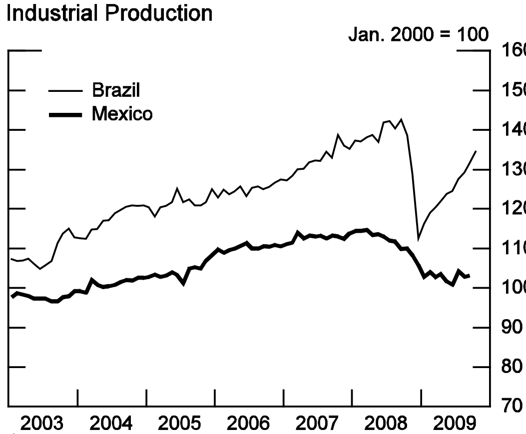
1. Gross domestic product. Annual rate. Annual data are Q4/Q4.
2. Percent.
3. Non-seasonally adjusted percent change from year-earlier period, except annual data, which are Dec./Dec. Price index is IPCA.
4. Billions of U.S. dollars, annualized.
5. Billions of U.S. dollars, not seasonally adjusted, annualized.

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

Source: Haver Analytics; IMF International Financial Statistics database; Intituto Brasileiro de Geografia e Estatistica.

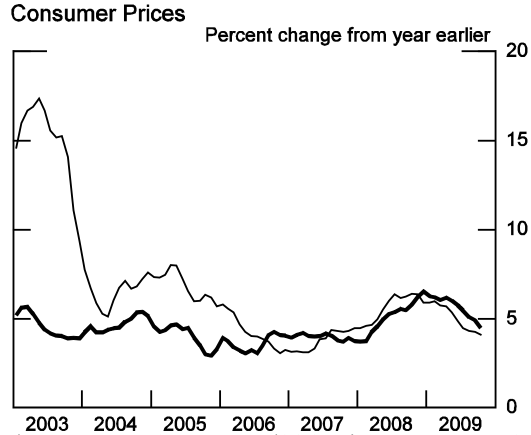
Latin America

Industrial Production



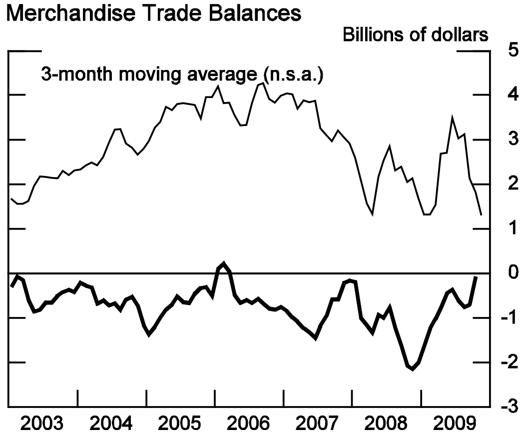
Source: Fundacion de Investigaciones Economicas Latinoamericanas; Haver Analytics.

Consumer Prices



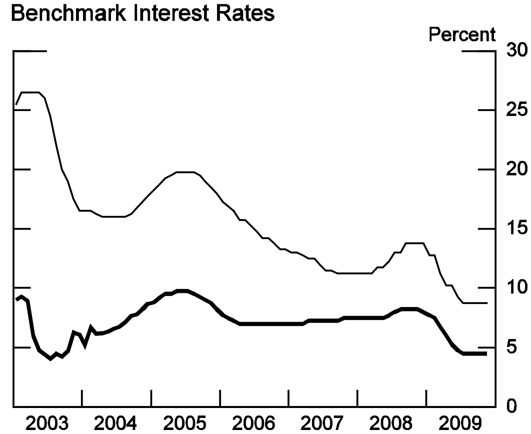
Source: IMF International Financial Statistics; Getulio Vargas Foundation; Haver Analytics; Bank of Mexico.

Merchandise Trade Balances



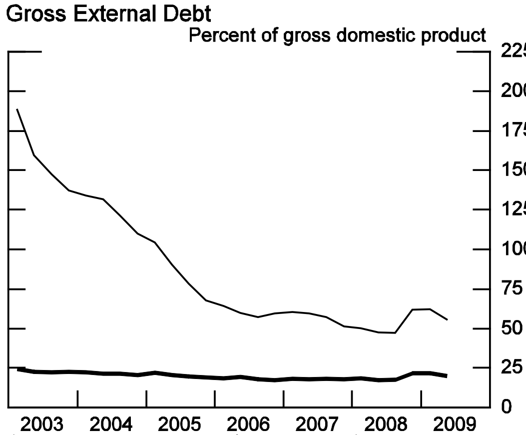
Source: IMF International Financial Statistics, Bank of Mexico.

Benchmark Interest Rates



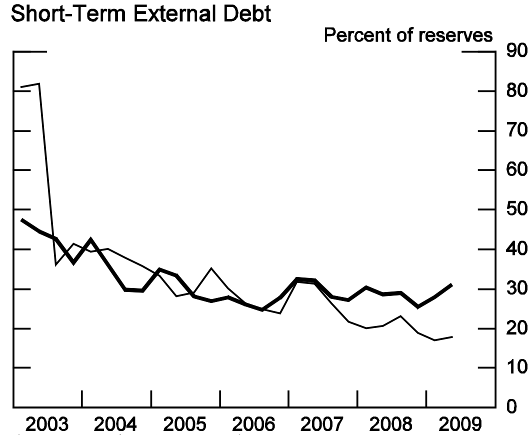
Source: Bloomberg.

Gross External Debt



Source: Haver Analytics; Bank for International Settlements.

Short-Term External Debt



Source: Bank for International Settlements.

In **Russia**, real GDP expanded at a 10.5 percent annual rate in the third quarter following three quarters of decline. The rebound reflected rapid growth of the manufacturing and transport sectors on the production side, and strong investment growth and inventory accumulation on the expenditure side. Retail sales were flat in the third quarter but posted two consecutive months of growth in September and October, while the unemployment rate crept below 8 percent in October. Consumer prices were flat in October, bringing headline consumer price inflation down to 9.7 percent on a 12-month basis, the lowest level in two years. The central bank of Russia lowered its refinancing rate 50 basis points in late November to stem capital inflows and slow the appreciation of the ruble, which has also been supported by higher oil prices.

Last page of International Developments

Abbreviations–Part 2

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
BOC	Bank of Canada
BOE	Bank of England
BOJ	Bank of Japan
BOP	balance of payments
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
EC	European Commission
ECB	European Central Bank
ECI	Employment Cost Index
E&S	equipment and software
ETF	exchange-traded fund
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; also, the Board
FRBNY	Federal Reserve Bank of New York
FRM	fixed-rate mortgage
GDP	gross domestic product
GM	General Motors
GNMA	Government National Mortgage Association (Ginnie Mae)
GSE	government-sponsored enterprise
IMF	International Monetary Fund
IP	industrial production
ISM	Institute for Supply Management
JOC	Journal of Commerce
Libor	London interbank offered rate
LP	LoanPerformance
MBS	mortgage-backed securities
MPU	microprocessor unit
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
repo	repurchase agreement
s.a.a.r.	seasonally adjusted annual rate
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
TSLF	Term Securities Lending Facility
WTI	West Texas Intermediate