Prefatory Note

The attached document represents the most complete and accurate version available based on original files from the FOMC Secretariat at the Board of Governors of the Federal Reserve System.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

Content last modified 01/29/2016.

Class III FOMC - Internal (FR)

Part 2

January 20, 2010

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

Class III FOMC - Internal (FR)

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Domestic Nonfinancial Developments

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On balance, the data we received during the intermeeting period suggest that economic activity has continued to improve. Consumer spending was well maintained in the fourth quarter, and business expenditures on equipment and software appear to have strengthened. However, the improvement in the housing market has slowed lately, and spending on nonresidential structures has continued to fall. Recent data suggest that the pace of real business inventory liquidation decreased considerably in the fourth quarter, providing a sizable boost to economic activity. Moreover, industrial production advanced at a solid pace in the fourth quarter after a large increase in the previous quarter. In the labor market, layoffs subsided noticeably in the fourth quarter, but the unemployment rate remained elevated and hiring conditions remained weak. Meanwhile, increases in energy prices have pushed up top-line consumer price inflation, even as core consumer price inflation has remained subdued.

Labor Market Developments

The pace of job loss has continued to moderate. Private nonfarm payroll employment fell 64,000 in December after no change in November and a decline of 163,000 in October. Smoothing through these monthly fluctuations, the three-month change in employment has shown steady improvement since early last year, and this pattern has been widespread across industries. Of particular note, the temporary help services industry—a bellwether of developments in the labor market—added nearly 50,000 jobs per month during the past three months. Employers also may have begun to lengthen workweeks: The average workweek for production and nonsupervisory workers was 33.2 hours in November and December after hovering at 33.1 hours since March.

As with the payroll data, key measures from the household survey show some moderation in the rate of deterioration in the labor market. The unemployment rate moved up another ¼ percentage point in the fourth quarter to an average of 10 percent after an increase of almost ½ percentage point in the third quarter. These increases contrast with the steep rise of 4 percentage points in the jobless rate that occurred over the preceding year. In addition, the fraction of workers on part-time schedules for economic reasons increased only slightly, on net, in the second half of 2009. In contrast, the labor force participation rate has declined steeply since the spring, likely reflecting, at least in part, the ongoing deterioration in labor market conditions.

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

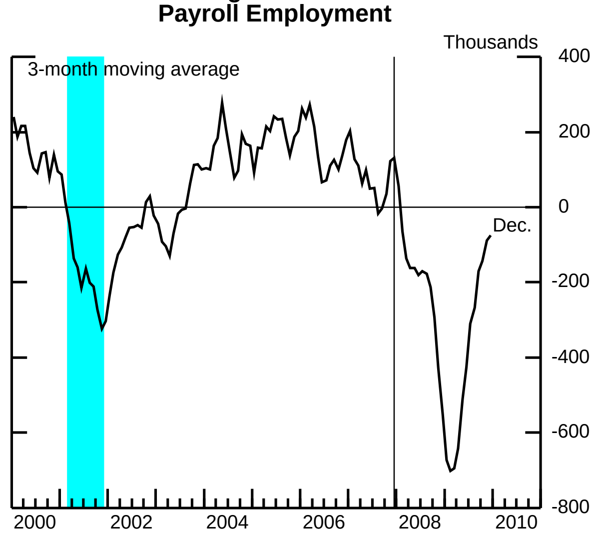
Changes in Employment

(Thousands of employees; seasonally adjusted)

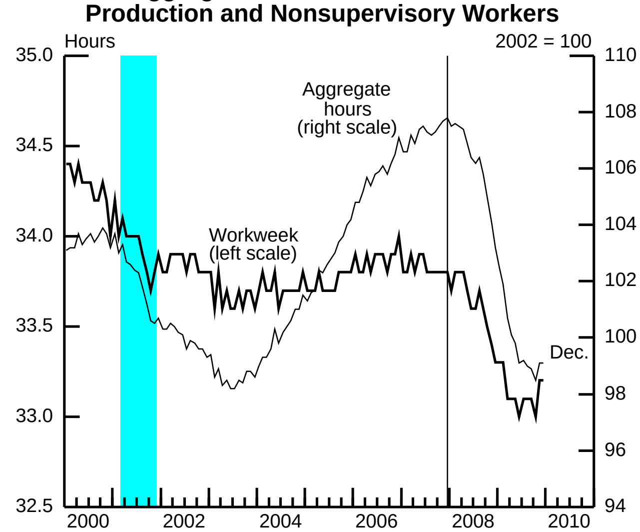
Measure and sector	2009	2009 Q2	Q3	Q4	Oct.	Nov.	Dec.
	Average monthly change				Monthly change		
Nonfarm payroll employment (establishment survey)	-347	-428	-199	-69	-127	4	-85
Private	-342	-425	-171	-76	-163	0	-64
Natural resources and mining	-7	-11	-5	-1	-5	4	-1
Manufacturing	-106	-140	-46	-37	-48	-35	-27
Ex. motor vehicles	-95	-117	-55	-35	-52	-31	-22
Construction	-78	-80	-63	-45	-56	-27	-53
Residential	-27	-26	-15	-12	-14	-4	-19
Nonresidential	-51	-54	-48	-33	-42	-23	-35
Wholesale trade	-19	-20	-9	-12	-7	-11	-18
Retail trade	-35	-27	-35	-21	-40	-14	-10
Financial activities	-26	-35	-16	-3	-6	-6	4
Temporary help services	-12	-28	5	49	44	55	47
Nonbusiness services[1]	5	19	25	2	-20	21	6
Total government	-5	-3	-28	6	36	4	-21
Federal government	4	3	3	1	17	-5	-9
Total employment (household survey)	-450	-272	-423	-325	-526	139	-589
Memo:							
Aggregate hours of private production workers (percent change)[2]	-5.0	-7.8	-2.5	-.5	-.4	.6	.0
Average workweek (hours)[3]	33.1	33.1	33.1	33.1	33.0	33.2	33.2
Manufacturing (hours)	39.8	39.5	39.9	40.3	40.1	40.4	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



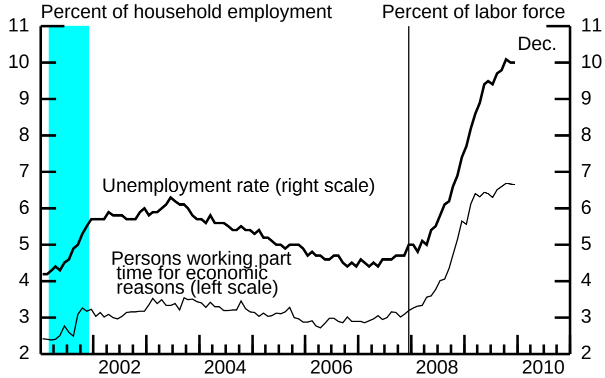
Note: The shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research (NBER). The vertical lines represent the last business cycle peak as defined by the NBER.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Selected Unemployment and Labor Force Participation Rates

(Percent; seasonally adjusted)

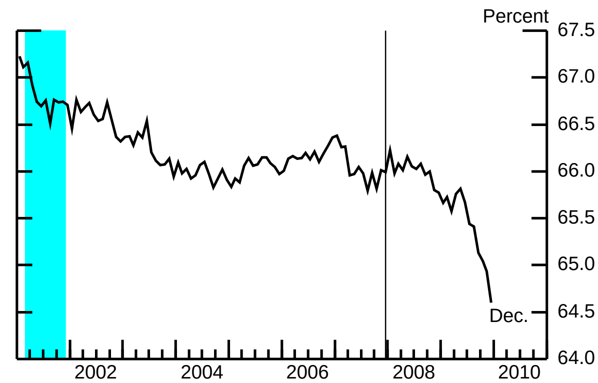
Rate and group	2009	2009 Q2	Q3	Q4	Oct.	Nov.	Dec.
Civilian unemployment rate							
Total	9.3	9.3	9.7	10.0	10.1	10.0	10.0
Teenagers	24.3	23.1	25.4	27.2	27.6	26.8	27.1
20-24 years old	14.8	14.9	15.1	15.7	15.6	15.9	15.6
Men, 25 years and older	8.8	8.9	9.4	9.5	9.7	9.5	9.2
Women, 25 years and older	6.9	6.9	7.1	7.5	7.6	7.3	7.6
Labor force participation rate							
Total	65.4	65.7	65.3	64.9	65.0	64.9	64.6
Teenagers	37.5	38.3	37.4	35.8	36.1	35.8	35.6
20-24 years old	73.0	73.9	72.8	71.4	71.4	71.8	71.1
Men, 25 years and older	74.7	74.9	74.8	74.3	74.7	74.3	73.8
Women, 25 years and older	59.9	60.2	59.8	59.6	59.6	59.6	59.5

Unemployment Rate and Persons Working Part Time for Economic Reasons



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

Labor Force Participation Rate

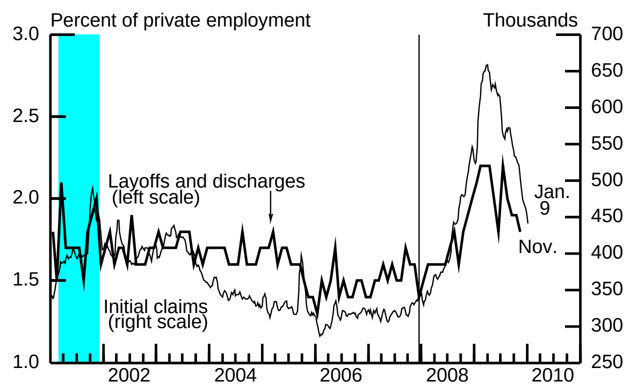


Source: U.S. Department of Labor, Bureau of Labor Statistics.

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

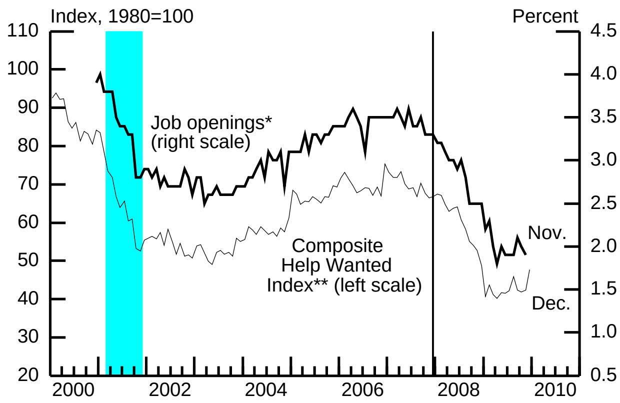


Note: Data for initial claims are 4-week moving averages.
Source: For layoffs and discharges, Job Openings and Labor Turnover Survey; for initial claims, U.S. Dept. of Labor, Employment and Training Administration.

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.

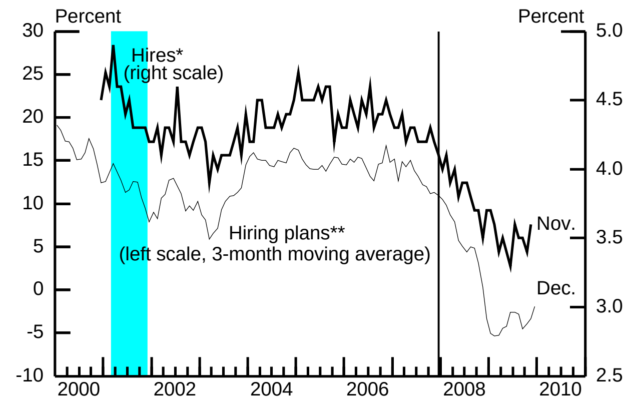
Labor Market Indicators

Job Openings



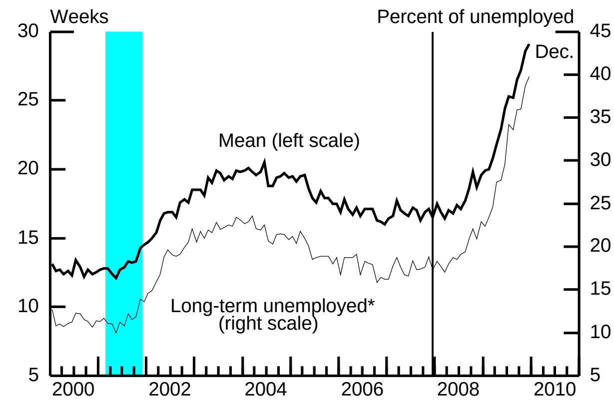
*Percent of private employment plus job openings.
**Index of staff composite help-wanted advertising as a percent of payroll employment.
Source: For job openings, Job Openings and Labor Turnover Survey; for Composite Help Wanted Index, Conference Board and staff calculations.

Hires and Hiring Plans



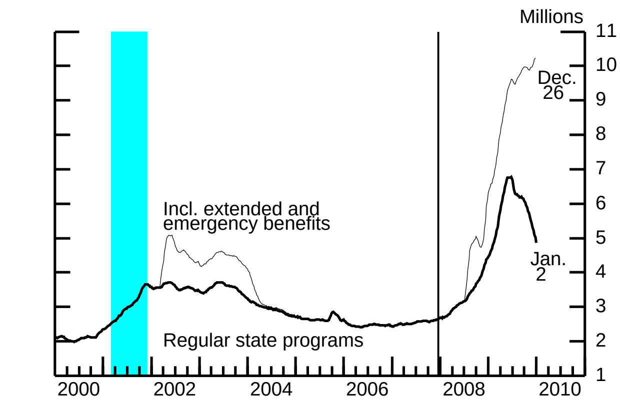
*Percent of private employment.
**Percent planning an increase in employment minus percent planning a reduction. Seasonally adjusted by FRB staff.
Source: For hires, Job Openings and Labor Turnover Survey; for hiring plans, National Federation of Independent Business.

Duration of Unemployment



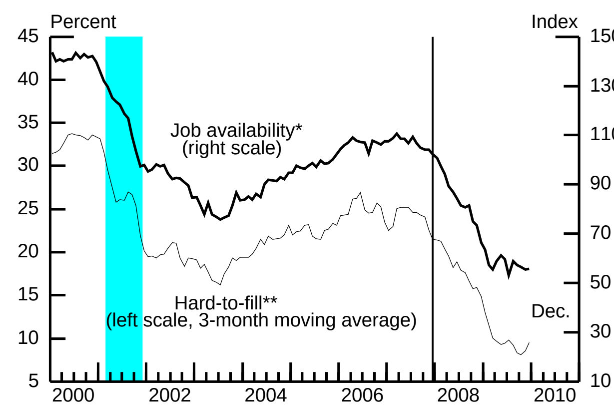
*Unemployed more than 26 weeks.
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

Insured Unemployment



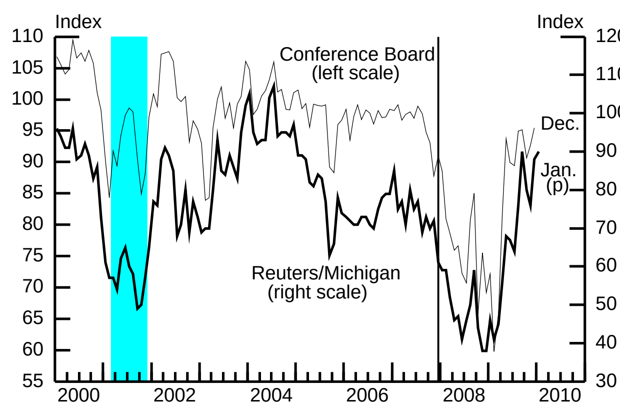
Note: 4-week moving averages.
Source: U.S. Dept. of Labor, Employment and Training Administration.

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.
p Preliminary.
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 the number of new job losers and initial claims for unemployment insurance have fallen over the past several months. The rate of layoffs and discharges as measured in the November Job Openings and Labor Turnover Survey (JOLTS) 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 and hiring in the JOLTS were little changed, on net, between April and November, and, although help-wanted advertising and survey-based indicators of hiring plans rebounded a bit in December, they remain near the depressed levels seen throughout 2009. 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. Indeed, as of December, 40 percent of unemployed persons have been unemployed for more than half a year, up from 23 percent one year earlier. Rising unemployment duration is also reflected in the increasing share of total claimants for unemployment insurance who are receiving extended or emergency benefits. Although 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—has continued to climb.

Most other indicators of the labor market—such as 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—remain weak. However, households' expectations of future labor market conditions have rebounded a bit recently.

We estimate that output per hour of all persons in the nonfarm business sector rose at an annual rate of 7.1 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 2009, labor productivity is estimated to have increased 3.7 percent. Despite the outsized productivity gains, wage increases have been quite subdued. Average hourly earnings rose 0.2 percent again in December, bringing the 12-month change to 2¼ percent, noticeably lower than the nearly 4 percent rise seen over 2008.

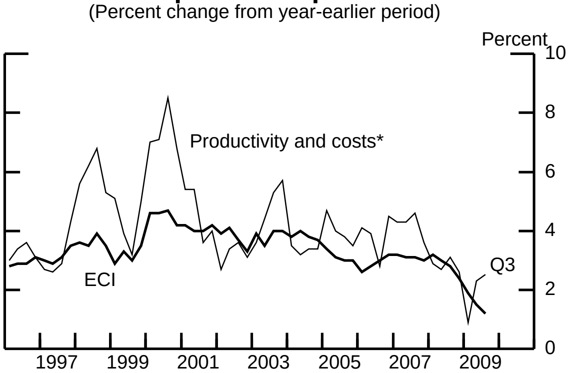
Hourly Compensation and Unit Labor Costs

(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]	2008 Q4	2009 Q1	2009 Q2	2009 Q3[e]
Compensation per hour						
Nonfarm business	3.1	2.5	2.9	-4.7	6.9	5.4
Output per hour						
Nonfarm business	1.2	3.7	.8	.3	6.9	7.1
Unit labor costs						
Nonfarm business	1.9	-1.2	2.0	-5.0	.0	-1.6

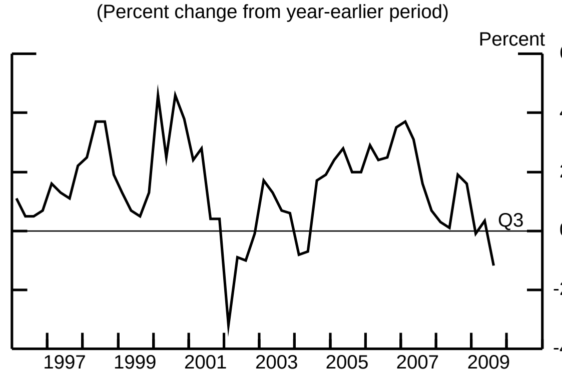
e Staff estimate.
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

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



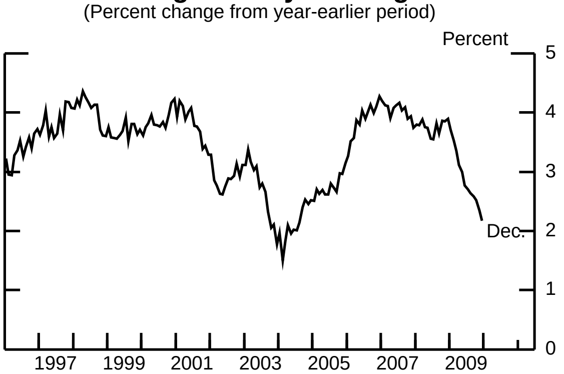
*Value for 2009:Q3 is a staff estimate.
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

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



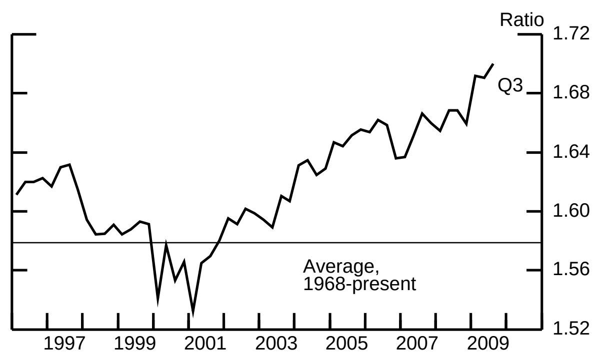
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

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:Q3 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.

Industrial Production

Expansion in the industrial sector was well maintained in the fourth quarter. Industrial production (IP) rose 0.6 percent in December, the sixth consecutive increase since its trough last June. The gain in December primarily resulted from a jump in output at electric and natural gas utilities due to unseasonably cold weather. In manufacturing, production edged down last month but advanced at an annual rate of 5¾ percent in the fourth quarter as a whole after having increased 9 percent in the third quarter. The increases in manufacturing IP in the second half of 2009 reflected the ongoing recovery in motor vehicle output, rising export demand, and a slower pace of business inventory liquidation.

The factory operating rate in December, at 68.6 percent, was 3 percentage points above its June trough, though it was still 11 percentage points below its average for the period from 1972 to 2008.

Production of light motor vehicles edged down in December. Nonetheless, the average pace for the fourth quarter as a whole, at 6.9 million units, was ½ million units above the pace in the third quarter. Dealer inventories expanded moderately in the fourth quarter after having contracted sharply in each of the three previous quarters. Days' supply moved up to 53 days at the end of the fourth quarter, a level still well below the industry target of about 65 days. Accordingly, manufacturers' assembly plans suggest that light motor vehicle production will rise further in the first quarter of 2010, to an annual rate of 7.3 million units.

Elsewhere in the transportation sector, commercial aircraft production increased at an annual rate of 5½ percent in the fourth quarter. Boeing's 787 Dreamliner, which had its maiden test flight in December after more than two years of delays, should provide a boost to commercial aircraft production starting late this year.

Production in high-tech industries posted a modest increase of 5½ percent in the fourth quarter. Since mid-2009, domestic semiconductor manufacturers have benefited from strong foreign demand for high-tech products—such as personal computers and cell phones—that use domestically produced chips. However, with inventories currently lean and with utilization rates at semiconductor factories at high levels, the industry may have trouble promptly meeting further increases in demand.[1] Domestic demand for high-tech

[1] Indeed, shortages of components reportedly delayed delivery of computers by a major manufacturer over the holiday season, and spot market prices for some key semiconductors remain elevated.

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

Component	Proportion 2009 (percent)	2009[1]	2009		2009		
			Q3	Q4	Oct.	Nov.	Dec.
			Annual rate		Monthly rate		
Total	**100.0**	**-4.5**	**6.9**	**7.0**	**.2**	**.6**	**.6**
Previous	100.0	...	6.1	...	.0	.8	...
Manufacturing	79.0	-4.8	9.0	5.7	-.1	.9	-.1
Ex. motor veh. and parts	74.5	-4.7	5.3	4.9	.0	.9	-.1
Mining	10.6	-5.8	5.8	7.5	.0	1.9	.2
Utilities	10.4	-1.8	-5.3	15.2	2.6	-2.4	5.9
Selected industries							
Energy	23.9	-3.2	-1.6	11.5	1.4	-.9	3.1
High technology	4.2	-3.7	9.2	5.5	.9	.1	2.4
Computers	1.0	-10.5	10.6	2.7	.4	.8	1.2
Communications equipment	1.3	-5.1	-12.2	1.4	1.5	.5	2.9
Semiconductors[2]	1.8	1.8	31.8	10.6	.6	-.7	2.7
Motor vehicles and parts	4.5	-7.4	123.2	22.9	-2.4	1.5	-.1
Aircraft and parts	2.3	10.9	8.6	3.9	-.6	-.5	1.4
Total ex. selected industries[3]	65.1	-5.7	5.2	4.9	.0	1.1	-.2
Consumer goods	20.7	-1.9	2.3	4.6	.3	.4	-.2
Durables	3.5	-9.6	1.9	.8	.4	1.1	-1.4
Nondurables	17.1	-.4	2.4	5.3	.3	.3	.0
Business equipment	6.6	-12.0	.0	1.3	.6	-.7	.5
Defense and space equipment	1.1	2.2	16.6	-5.4	-1.8	-.9	-1.6
Construction supplies	4.8	-13.7	1.8	-7.6	-1.6	1.5	-2.1
Business supplies	7.3	-8.5	1.2	3.2	.0	1.4	-.8
Materials	24.6	-5.0	11.0	9.9	.0	2.1	.2
Durables	12.4	-13.0	11.3	9.2	.1	1.5	.4
Nondurables	12.2	3.1	10.8	10.5	-.1	2.6	.0

1. From fourth quarter of preceding year to fourth quarter of year shown.
2. Includes related electronic components.
3. Includes manufactured homes (not shown separately).
... Not applicable.
Source: Federal Reserve, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

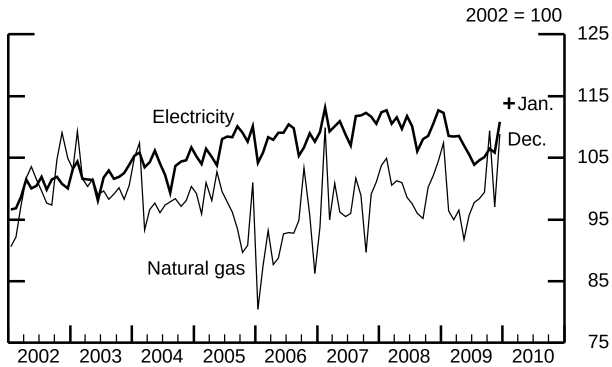
Capacity Utilization
(Percent of capacity)

Sector	1972-2008 average	1994-95 high	2001-02 low	2009				
				Q2	Q3	Q4	Nov.	Dec.
Total industry	**80.9**	**84.9**	**73.5**	**68.7**	**70.1**	**71.5**	**71.5**	**72.0**
Manufacturing	79.6	84.5	71.4	65.4	67.1	68.3	68.5	68.6
Mining	87.6	89.1	84.9	81.8	83.2	85.0	85.5	85.7
Utilities	86.8	93.3	84.2	79.6	78.2	80.6	78.4	82.9
Stage-of-process groups								
Crude	86.6	89.9	81.7	79.6	82.5	85.2	85.6	86.1
Primary and semifinished	82.0	87.9	74.3	66.2	67.1	68.3	68.2	68.9
Finished	77.7	80.3	70.0	67.1	68.6	69.9	69.9	70.2

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

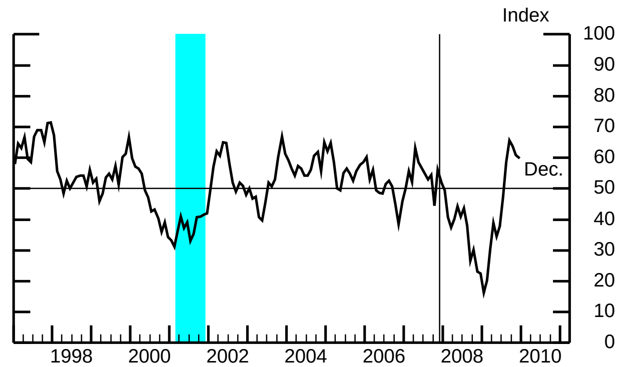
Indicators of Industrial Activity

Utilities Output



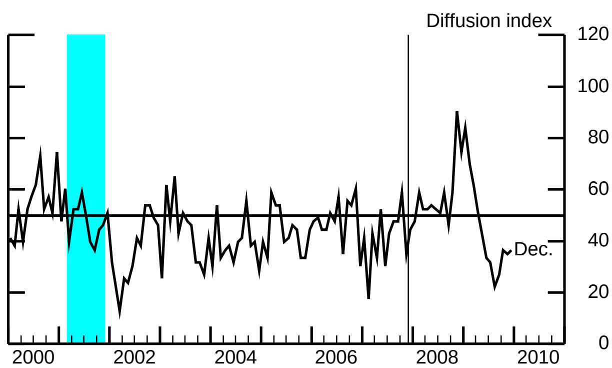
+January value for electricity generation is based on weekly generation data from the Edison Electrical Institute (EEI).
Source: EEI; Federal Reserve, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

IP Diffusion Index



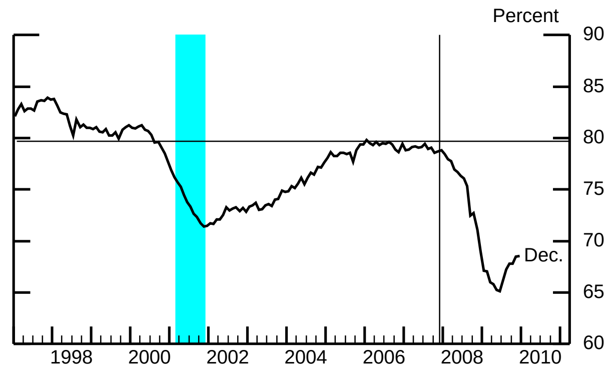
Note: The diffusion index equals the percentage of series that increased relative to 3 months earlier plus one-half the percentage that were unchanged.
Source: Federal Reserve Board, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

3-Month Changes in Months' Supply



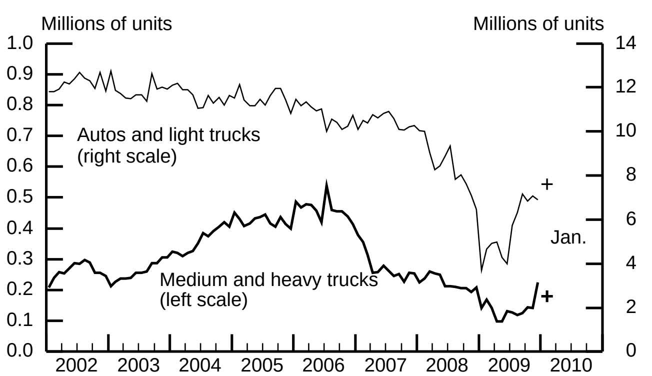
Note: The diffusion index equals 50 plus one-half the share of industries whose months' supply is up relative to 3 months earlier minus one-half the share of industries whose months' supply is down relative to 3 months earlier.
Source: Staff's flow-of-goods system.

Manufacturing Capacity Utilization



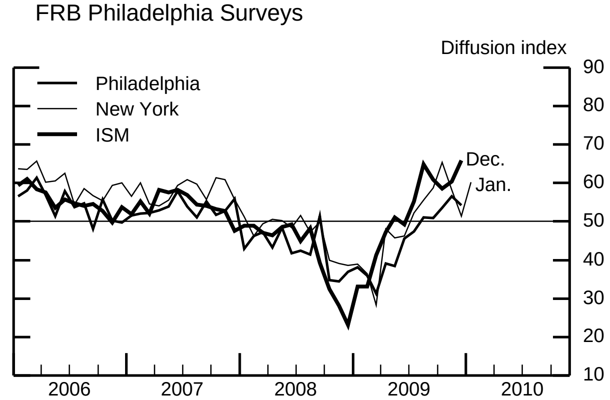
Note: Horizontal line is 1972-2008 average.
Source: Federal Reserve Board, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

Motor Vehicle Assemblies



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

New Orders: ISM, FRB New York, and FRB Philadelphia Surveys



Note: The diffusion index equals the percentage of respondents reporting greater levels of new orders plus one-half the percentage of respondents reporting that new orders were unchanged.
Source: Institute for Supply Management (ISM); Federal Reserve.

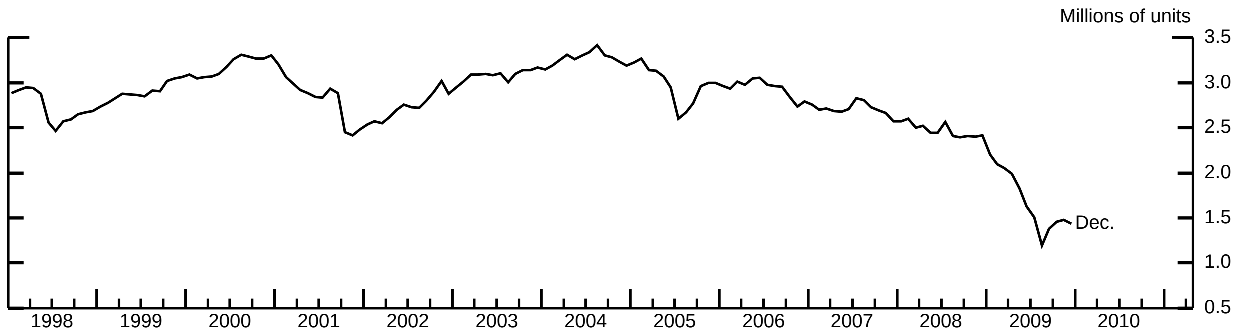
Note: The shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research (NBER). The vertical lines represent the last business cycle peak as defined by the NBER.

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 Sept.	2009 Oct.	2009 Nov.	2009 Dec.
U.S. production[1]	4.4	6.4	6.9	7.3	7.2	6.8	7.1	6.9
Autos	1.9	2.5	2.8	3.0	2.8	2.9	2.7	2.8
Light trucks	2.5	3.9	4.1	4.3	4.3	4.0	4.3	4.1
Days' supply[2]	70	50	53	n.a.	63	57	55	52
Autos	78	46	51	n.a.	59	56	54	48
Light trucks	64	55	55	n.a.	66	58	55	55
Inventories[3]	1.63	1.38	1.44	n.a.	1.38	1.46	1.48	1.44
Autos	.82	.63	.65	n.a.	.63	.66	.67	.65
Light trucks	.81	.75	.79	n.a.	.75	.79	.81	.79
Memo: U.S. production, total motor vehicles[4]	4.5	6.5	7.1	7.5	7.3	7.0	7.2	7.1

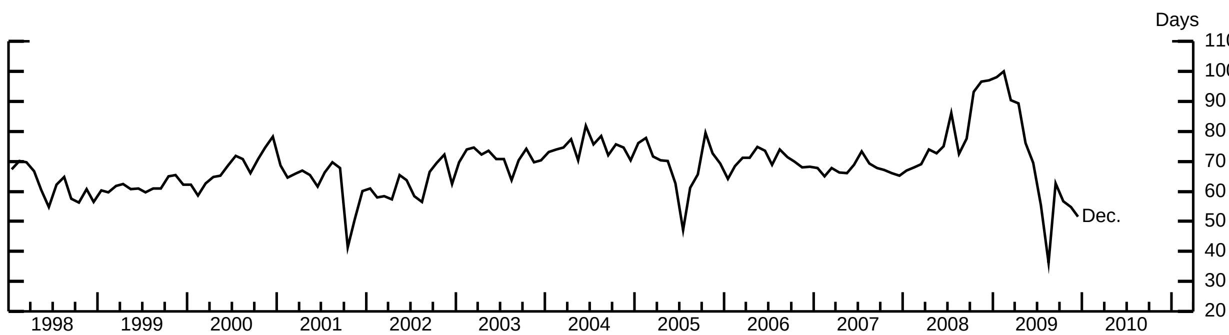
Note: FRB seasonals. Components may not sum to totals because of rounding.
1. Production rates for the first quarter of 2010 reflect the latest industry schedules.
2. Quarterly values are calculated with end-of-period stocks and average reported sales.
3. End-of-period stocks.
4. Includes medium and heavy trucks.
n.a. Not available.
Source: Ward's Communications.

Inventories of Light Vehicles



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

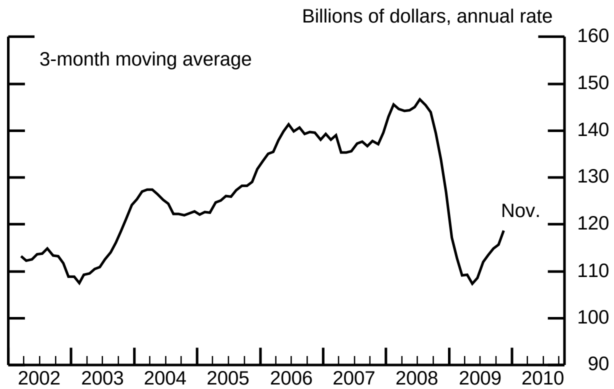
Days' Supply of Light Vehicles



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

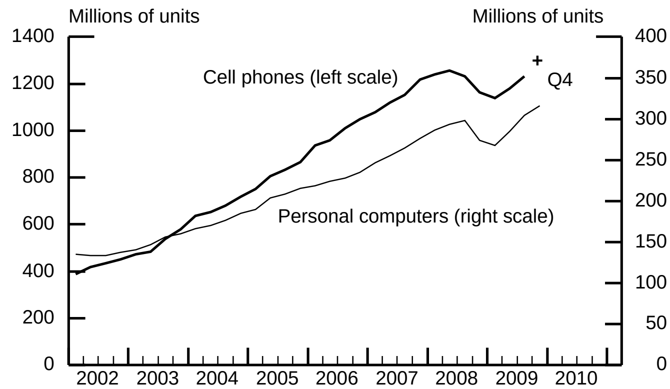
Indicators of High-Tech Manufacturing Activity

High-Tech Exports



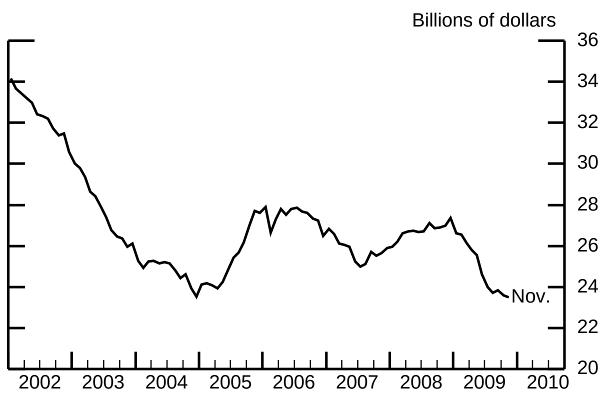
Note: Includes semiconductors and related equipment, communications equipment, and computers and peripherals.
Source: U.S. International Trade Commission.

Worldwide Shipments of Personal Computers and of Cell Phones



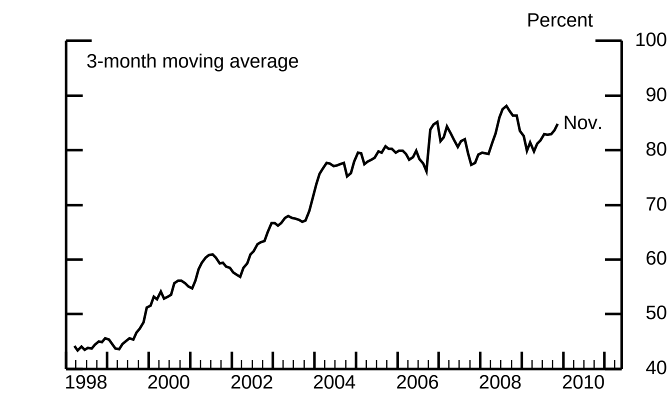
Note: FRB seasonals.
+ Q4 cell phone units are a Gartner forecast.
Source: IDC (personal computers); Gartner (cell phones).

High-Tech Inventories



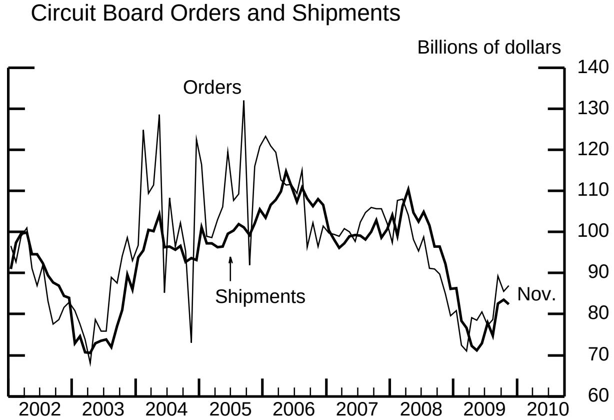
Note: Includes semiconductors and related equipment, communications equipment, computers and peripherals, and magnetic and optical media.
Source: U.S. Census Bureau.

Import Penetration of Computer and Peripheral Equipment



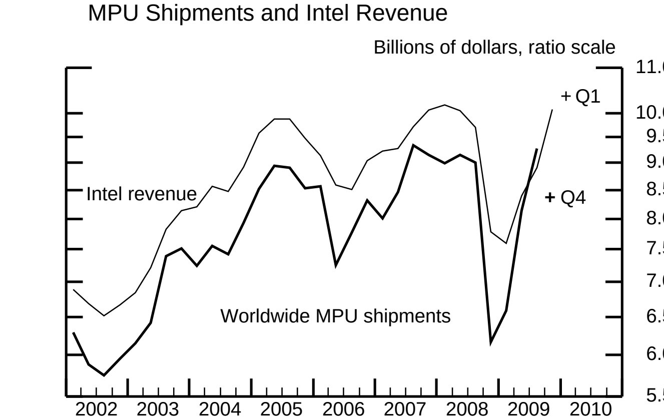
Source: FRB staff calculation.

Circuit Board Orders and Shipments



Note: U.S. and Canadian orders and shipments of bare and loaded circuit boards.
Source: IPC.

MPU Shipments and Intel Revenue



Note: FRB seasonals. MPU is a microprocessor unit. MPU shipments are a quarterly sum.
+ Q4 MPU shipments are based on October and November.
+ Q1 Intel revenue is the midpoint of the range given by the company's guidance as of January 14, 2010.
Source: Intel; Semiconductor Industry Association.

products has also been improving, but the effect on domestic production—particularly of computers—has been limited by rising import penetration.

Looking ahead, available indicators suggest solid increases in high-tech production in the first quarter. Orders for circuit boards were above shipments for a fourth consecutive month in November and point to continued gains in the semiconductors and related electronic components industry. Revenue guidance from Intel suggests further increases in microprocessor production in the current quarter. Forecasts from outside consultancies as well as corporate comments from IBM, Seagate, Micron, and key telecommunications service providers are consistent with rising output for computers and communications equipment in the near term.

Outside of energy, motor vehicles and parts, aircraft and parts, and high-technology industries, production decreased ¼ percent in December after large and widespread gains in November. The output of consumer goods, business equipment, and materials rose in the fourth quarter, though the average monthly gains in these categories were a little smaller than in the third quarter. In contrast, the output of construction supplies fell in the fourth quarter after having edged up in the third quarter.

The available near-term indicators of production suggest that IP will continue to increase in the coming months. The new orders diffusion index from the national ISM survey jumped in December to a level consistent with sizable near-term increases in manufacturing output, while the new orders indexes from the regional manufacturing surveys are suggestive of more-modest production gains. The three-month moving average of the staff’s series on real orders for durable goods (adjusted to exclude industries for which reported orders have little information content for predicting shipments) rose in November and was consistent with a moderate gain in manufacturing output in coming months. In the first reading on January activity, the new orders index from the Empire State survey reversed most of its decline from the previous month.

Consumer Spending

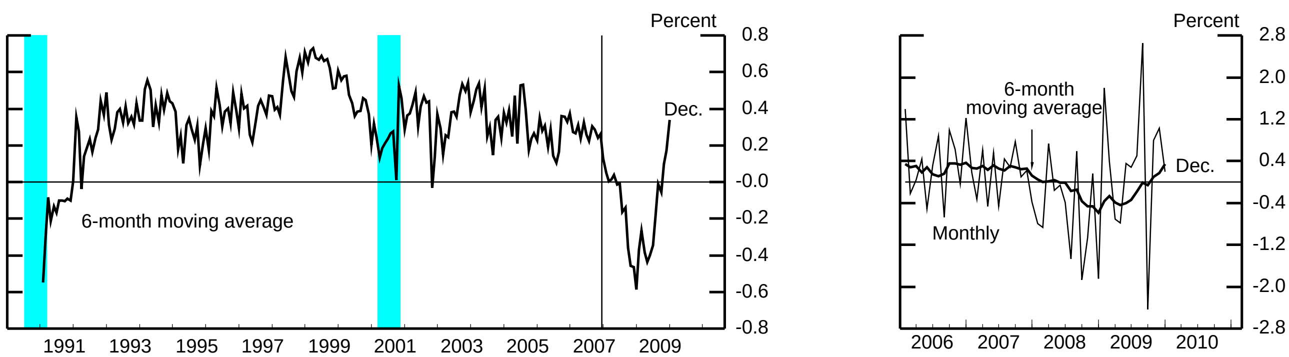
Consumer spending continued to trend up through the end of last year. Real PCE rose 0.3 percent in November, putting it on track to increase at an annual rate of more than 2 percent in the second half of the year. Still, overall spending remained well below its pre-recession level. Smoothing through the sharp movements in income and spending caused by various stimulus programs, the saving rate, at 4.7 percent in November, was little changed over 2009 following a sharp increase in 2008.

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

Category	2009			2009		
	Q2	Q3	Q4[e]	Oct.[e]	Nov.[e]	Dec.[e]
	Annual rate			Monthly rate		
Total real PCE	**-.9**	**2.8**	**n.a.**	**.4**	**.3**	**n.a.**
Motor vehicles	-6.3	53.7	-21.7	9.8	2.0	5.3
Goods ex. motor vehicles	-2.8	3.8	5.6	.1	.9	-.2
Services	.2	.8	n.a.	.2	.0	n.a.
Ex. energy	.7	.8	n.a.	.1	.1	n.a.
Memo:						
Real PCE control[1]	-2.5	3.2	5.6	.2	.8	-.3
Nominal retail control[2]	-2.8	1.4	5.2	.2	.8	-.3

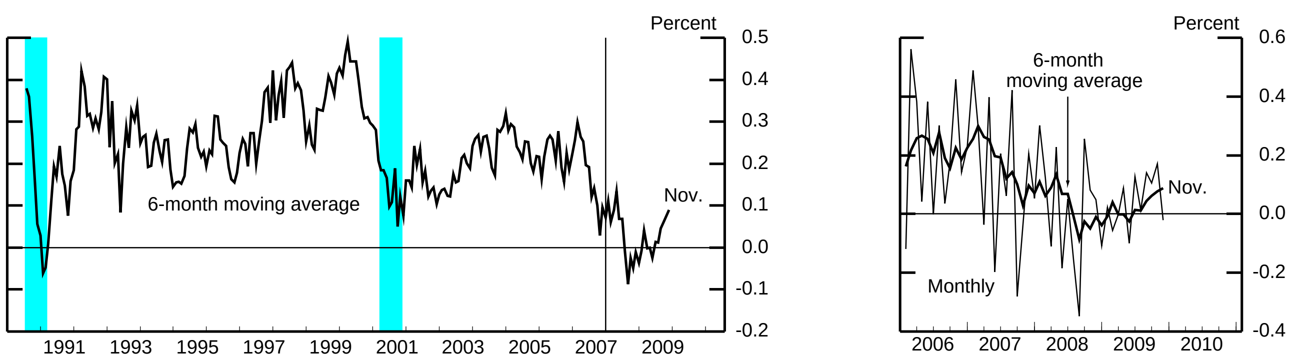
1. Durables excluding motor vehicles, nondurables excluding gasoline, and food services.
2. Total sales less outlays at building material and supply stores, automobile and other motor vehicle dealers, and gasoline stations.
e Staff estimate.
n.a. Not available.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Change in Real PCE Goods



Note: The shaded bars indicate a period 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.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Change in Real PCE Services



Note: The shaded bars indicate a period 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.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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

Category	2009	2009 Q2	2009 Q3	2009 Q4	2009 Oct.	2009 Nov.	2009 Dec.
Total	10.3	9.6	11.5	10.8	10.4	10.9	11.2
Autos	5.4	4.9	6.4	5.7	5.4	5.6	5.9
Light trucks	4.9	4.7	5.1	5.2	5.0	5.3	5.3
North American[1]	7.6	7.1	8.4	8.2	7.9	8.3	8.6
Autos	3.6	3.2	4.2	3.9	3.7	3.8	4.1
Light trucks	4.0	3.9	4.2	4.4	4.2	4.5	4.4
Foreign-produced	2.7	2.4	3.1	2.6	2.6	2.6	2.6
Autos	1.8	1.6	2.1	1.8	1.8	1.8	1.8
Light trucks	.9	.8	.9	.8	.8	.8	.8
Memo: Detroit Three market share (percent)[2]	44.7	46.8	43.1	45.0	44.8	44.9	45.3

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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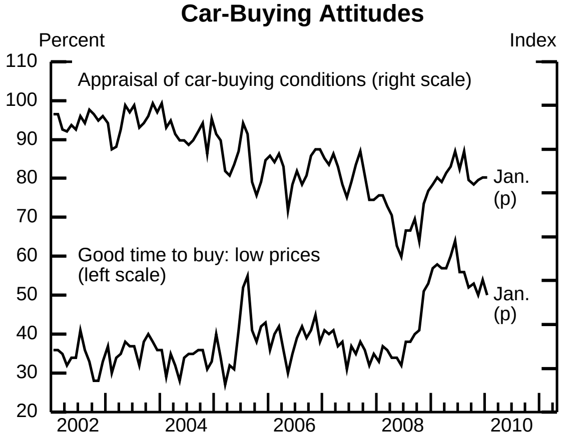
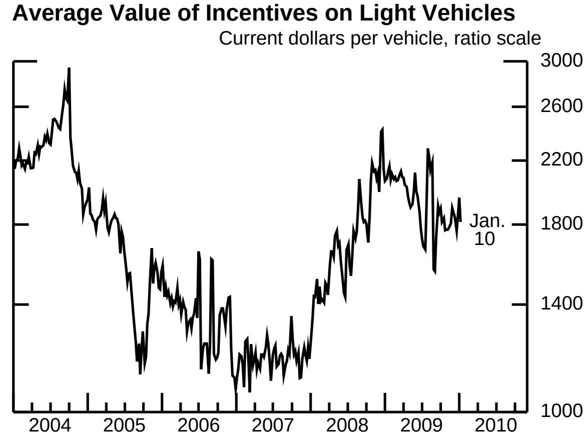
Car-Buying Attitudes



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

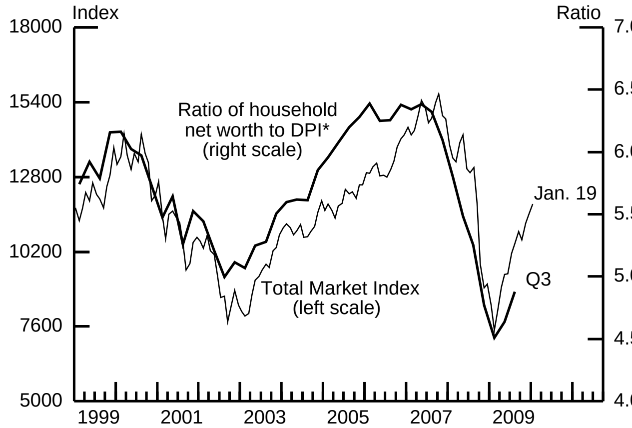
Average Value of Incentives on Light Vehicles



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

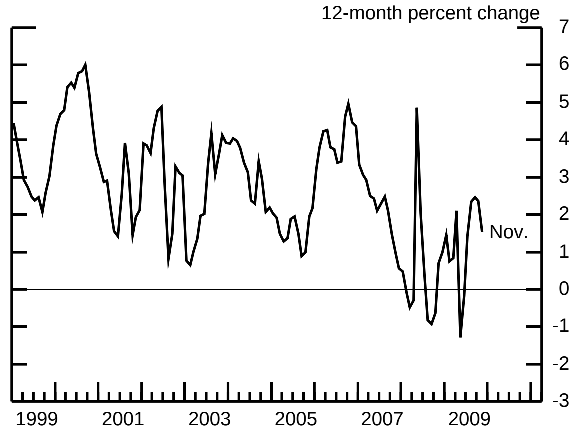
Fundamentals of Household Spending

Household Net Worth
and Dow Jones Total Market Index



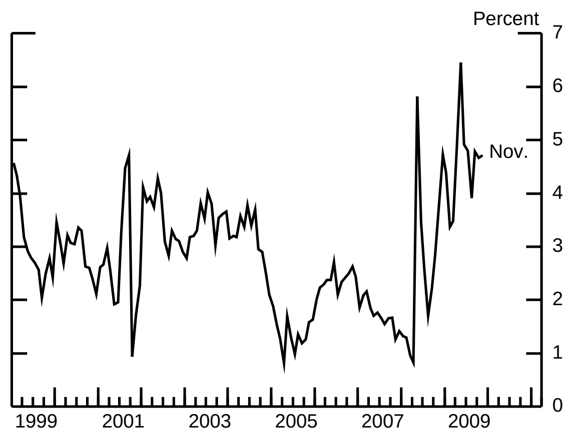
* The value for 2004:Q4 excludes the effect on income of the one-time Microsoft dividend in December 2004.
Source: Federal Reserve Board; U.S. Department of Commerce, Bureau of Economic Analysis; *Wall Street Journal.*

Change in Real Disposable Personal Income



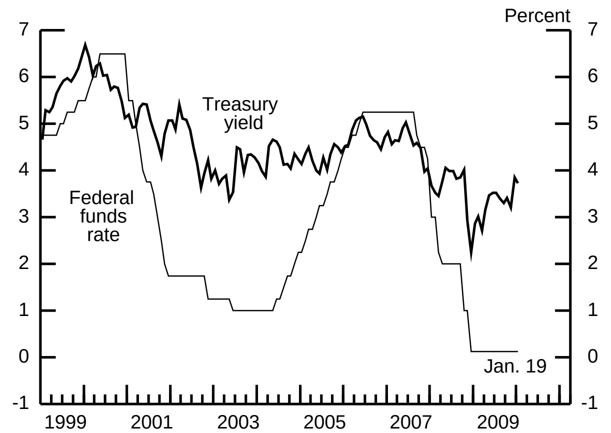
Note: Values for December 2004 and December 2005 exclude the effect on income of the one-time Microsoft dividend in December 2004.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Personal Saving Rate



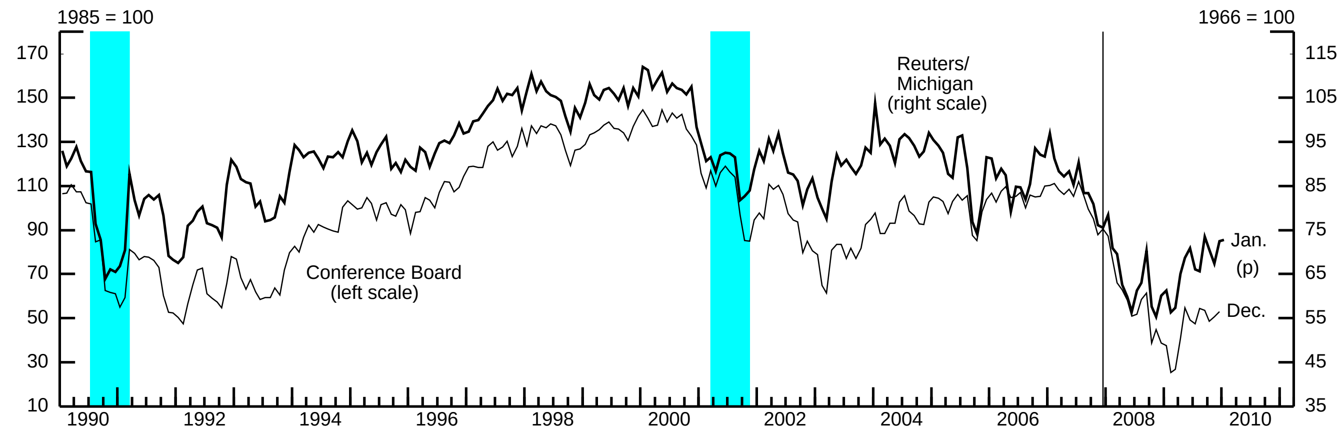
Note: The value for December 2004 excludes the effect on income of the one-time Microsoft dividend in that month.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Target Federal Funds Rate
and 10-Year Treasury Yield



Source: Federal Reserve Board.

Consumer Confidence



Note: The shaded bars indicate a period 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.
p Preliminary.
Source: Reuters/University of Michigan Surveys of Consumers; Conference Board.

The available data for spending in December have been mixed. Given the retail sales report and the CPI, we estimate that real PCE control (goods excluding motor vehicles and gasoline, plus food services) declined 0.3 percent in December after increasing at a solid average monthly rate of 0.6 percent in the four previous months. However, the dropback in spending in December may have partly reflected transitory factors, such as the unusually cold weather and a major winter storm the weekend before Christmas, as well as an apparent ongoing shift in the timing of holiday purchases.[2]

In contrast, sales of light vehicles rose to an annual rate of 11¼ million units in December. Smoothing through the ups and downs related to the "cash for clunkers" program, the underlying demand for light vehicles appears to have improved in the fourth quarter. Although consumer attitudes toward car-buying conditions and incentives at automakers were little changed in early January, a preliminary estimate from J.D. Power and Associates suggests that sales this month have been running below the pace in December.

The fundamental determinants of household spending strengthened modestly, on balance, near the end of the year but were still marked by general weakness. Real disposable personal income (DPI) rose 0.2 percent in November. Over the past year, real DPI likely increased about 1½ percent, with most of this modest gain stemming from fiscal stimulus. Equity prices continued to advance solidly in recent weeks, while house prices edged down in November. Although household balance sheets have improved considerably since last winter, household net worth from mid-2007 to present has still experienced a loss equivalent to nearly 1½ years of household income. Measures of consumer sentiment have held steady, on net, since the summer at levels that are much improved from those early last year. Despite the improvement, sentiment remains at low levels by historical norms. Similarly, while credit conditions for auto loans have improved significantly since midyear, terms and standards on other consumer loans, particularly on credit cards, remain very tight.

[2] In recent years, spending appears to have gradually shifted from the fourth quarter to the first quarter, perhaps because of deep post-holiday discounting or the increased use of gift cards. Because the seasonal factors will be slow to incorporate this shift, the seasonally adjusted retail sales data will be held down somewhat in December but boosted in January.

Housing

The recovery in the housing market slowed in the second half of 2009. Sales of new single-family homes in November were 15 percent below their pace in July after having risen 27 percent in the preceding six months. Moreover, although sales of existing single-family homes shot up 25 percent from July to November, the plunge in the pending home sales index in November suggests that much of this increase was transitory, possibly reflecting sales that were pulled forward ahead of the anticipated expiration of the first-time homebuyer tax credit.[3] On net, the pending home sales index rose only 5 percent from May to November, compared with a 10 percent increase in the previous six months.

The slowdown in sales notwithstanding, a number of factors supported housing demand in the second half of the year. Interest rates for conforming 30-year fixed-rate mortgages were very low by historical standards and remained low through mid-January. Although the repeat-sales price index for existing single-family homes calculated by LoanPerformance edged down in November, it still stood 4 percent above its trough in March—a marked change from the 22 percent decline over the 12 months ending in March. In addition, in the Reuters/University of Michigan Surveys of Consumers for early January, the number of respondents who expected house prices to increase over the next 12 months continued to exceed the number of respondents who expected prices to decrease.

Similar to the pattern of new home sales, starts of single-family homes retreated a little from June to December after advancing briskly last spring. According to anecdotal reports in the Beige Book , loans for acquisition, development, and construction became more difficult to obtain in the fall, which may have contributed, in part, to the deceleration in construction activity. However, adjusted permit issuance in this sector rose in December to a level not seen since September 2008, signaling an upturn in starts in the near term. In the much smaller multifamily sector—where credit conditions are very tight and vacancies are elevated—starts deteriorated a bit further, on balance, in the second half of the year.

Although the pace of new home sales is still modest, it has been ample enough, given the slow pace of construction, to reduce further the overhang of unsold new single-family

[3] In November, the Congress extended the first-time homebuyer tax credit by six months and expanded it to include repeat homebuyers who have owned and occupied a house for at least five of the past eight years.

Indicators of Single-Family Housing

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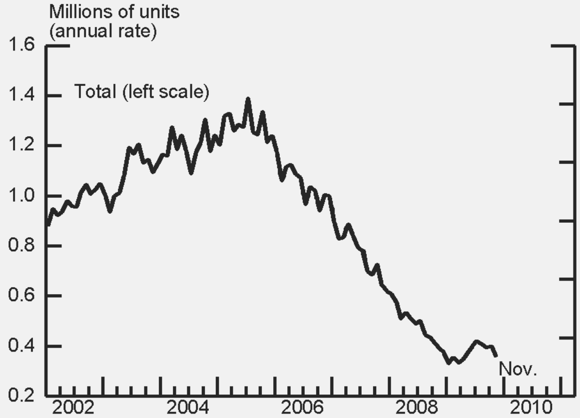
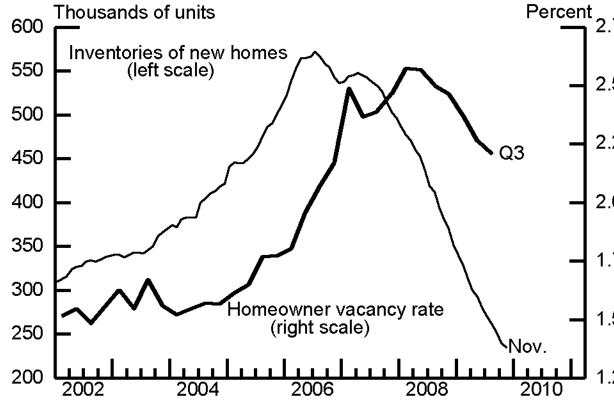
New Single-Family Home Sales



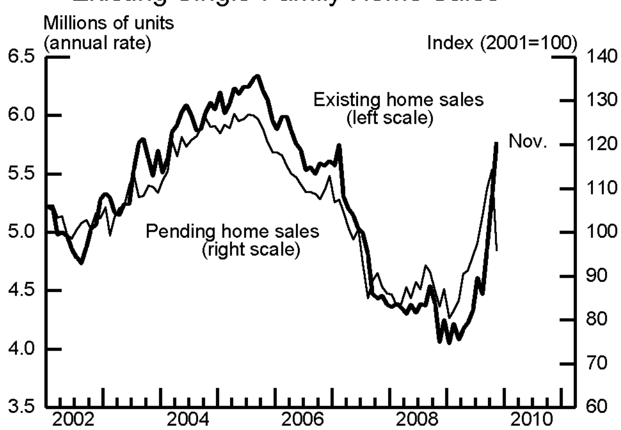
Source: For total, Census Bureau;

Inventories of New Homes and Homeowner Vacancy Rate



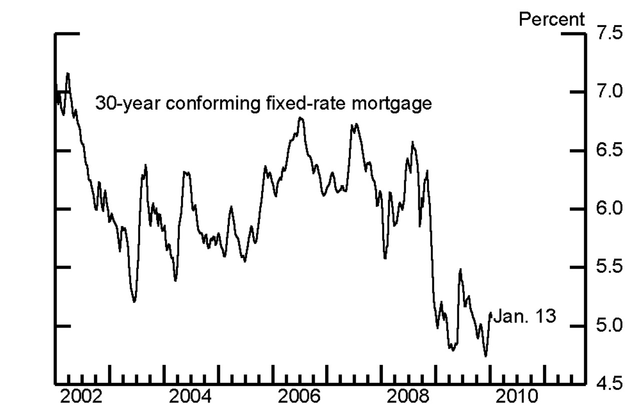
Note: Homeowner vacancy rate is seasonally adjusted by Board staff.
Source: Census Bureau.

Existing Single-Family Home Sales



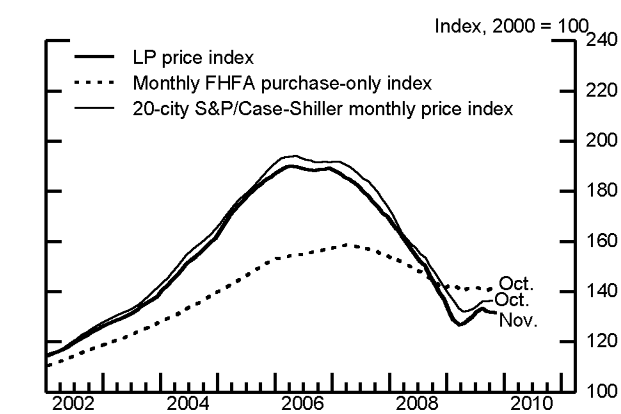
Source: National Association of Realtors.

Mortgage Rates



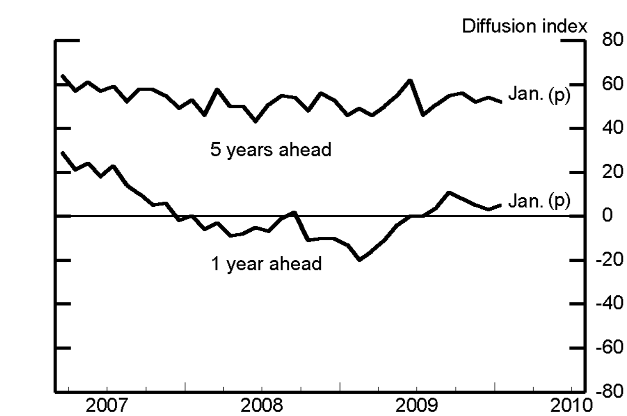
Note: 2-week moving average.
Source: Federal Home Loan Mortgage Corporation.

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



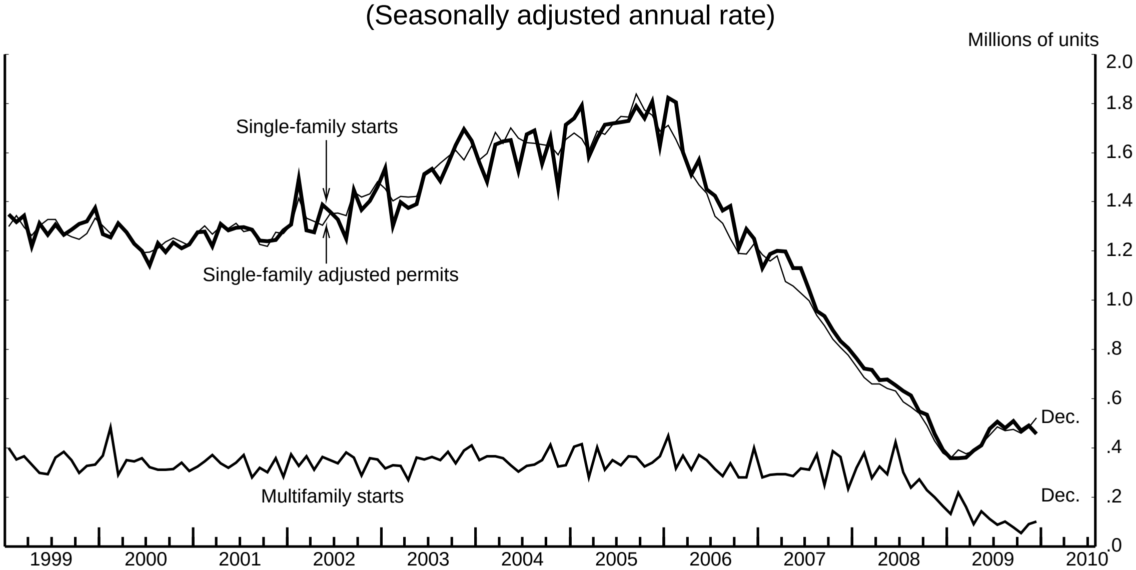
Note: Diffusion index is constructed by subtracting expectations of decrease from expectations of increase.
p Preliminary.
Source: Reuters/University of Michigan Surveys of Consumers.

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

Sector	2009	2009 Q2	Q3	Q4	Oct.	Nov.	Dec.
All units							
Starts	.55	.54	.59	.55	.52	.58	.56
Permits	.57	.53	.57	.60	.55	.59	.65
Single-family units							
Starts	.44	.43	.50	.47	.47	.49	.46
Permits	.44	.41	.46	.48	.45	.47	.51
Adjusted permits[1]	.44	.42	.48	.49	.46	.48	.52
New homes							
Sales	n.a.	.37	.41	n.a.	.40	.36	n.a.
Months' supply[2]	n.a.	9.44	7.71	n.a.	7.20	7.94	n.a.
Existing homes							
Sales	n.a.	4.24	4.65	n.a.	5.32	5.77	n.a.
Months' supply[2]	n.a.	8.80	8.05	n.a.	6.68	6.20	n.a.
Multifamily units							
Starts	.11	.12	.09	.08	.05	.09	.10
Built for rent	n.a.	.10	.07	n.a.	n.a.	n.a.	n.a.
Built for sale	n.a.	.01	.02	n.a.	n.a.	n.a.	n.a.
Permits	.14	.12	.11	.12	.10	.12	.15
Condos and co-ops							
Existing home sales	n.a.	.52	.64	n.a.	.77	.77	n.a.

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.

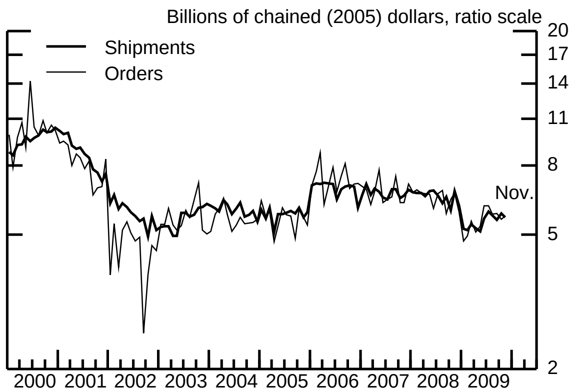
Orders and Shipments of Nondefense Capital Goods

(Percent change; seasonally adjusted current dollars)

Category	2009 Q2	Q3	Sept.	Oct.	Nov.
	Annual rate		Monthly rate		
Shipments	-13.3	3.8	3.3	-1.2	.5
Excluding aircraft	-10.1	2.2	.5	.5	1.1
Computers and peripherals	-7.2	.1	-.1	4.0	1.5
Communications equipment	4.2	33.5	-2.8	4.0	-2.7
All other categories[1]	-11.6	-.2	.9	-.2	1.4
Orders	12.2	28.6	4.2	2.0	-3.0
Excluding aircraft	7.2	14.1	3.5	-1.8	2.7
Computers and peripherals	14.2	5.5	2.2	.0	6.7
Communications equipment	35.4	31.2	.7	-4.1	2.2
All other categories[1]	4.1	13.4	4.0	-1.7	2.3
Memo:					
Shipments of complete aircraft[2]	36.8	36.4	43.0	31.6	38.0

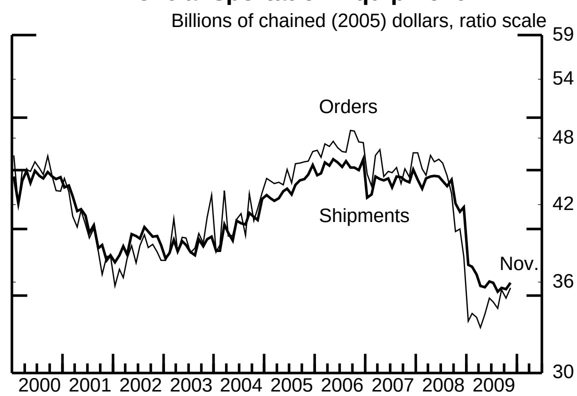
1. Excludes most terrestrial transportation equipment.
2. From Census Bureau, Current Industrial Reports; billions of dollars, annual rate.
Source: Census Bureau.

Communications Equipment



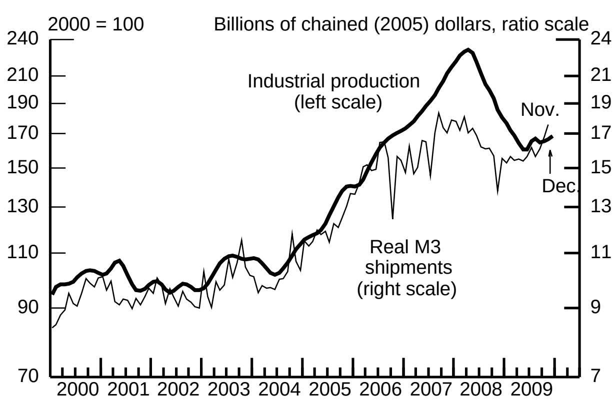
Note: Shipments and orders are deflated by a price index that is derived from the quality-adjusted price indexes of the Bureau of Economic Analysis and uses the producer price index for communications equipment for monthly interpolation.
Source: Census Bureau.

Non-High-Tech, Nontransportation Equipment



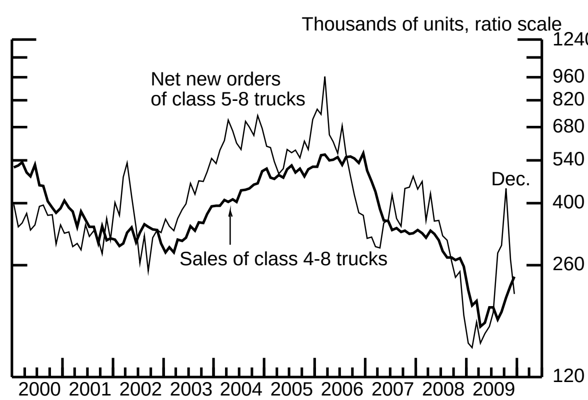
Note: Shipments and orders are deflated by the staff price indexes for the individual equipment types included in this category. Indexes are derived from the quality-adjusted price indexes of the Bureau of Economic Analysis.
Source: Census Bureau.

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.

houses. The stock of unsold new homes fell again in November and is now less than half of its peak in mid-2006; however, measured relative to the November pace of sales, the months' supply of new homes, which now stands at 8 months, is only about one-third below its peak in January 2009. More broadly, the vacancy rate for homes intended for owner occupancy (which includes both existing and completed new homes for sale), although down from its peak in 2008, is still quite high relative to pre-2006 levels.

Equipment and Software

Real spending on equipment and software (E&S) appears to have risen robustly in the fourth quarter after having increased at an annual rate of 1½ percent in the previous quarter. Business outlays on transportation equipment apparently surged last quarter, and spending outside of the transportation sector is on track to post a solid increase.

Business purchases of motor vehicles increased briskly in the fourth quarter. Although sales of light vehicles to fleet customers fell back a bit in December, they rose in the fourth quarter as a whole. In addition, new vehicle leases have stepped up sharply in recent months after having plunged to a very low level in the first half of the year.[4] Sales of medium and heavy trucks moved up in December for the fourth consecutive month. After jumping in September and October, new orders for medium and heavy trucks fell back, on net, in November and December; the recent volatility in orders was likely driven by new environmental regulations on diesel engines that took effect in January 2010.

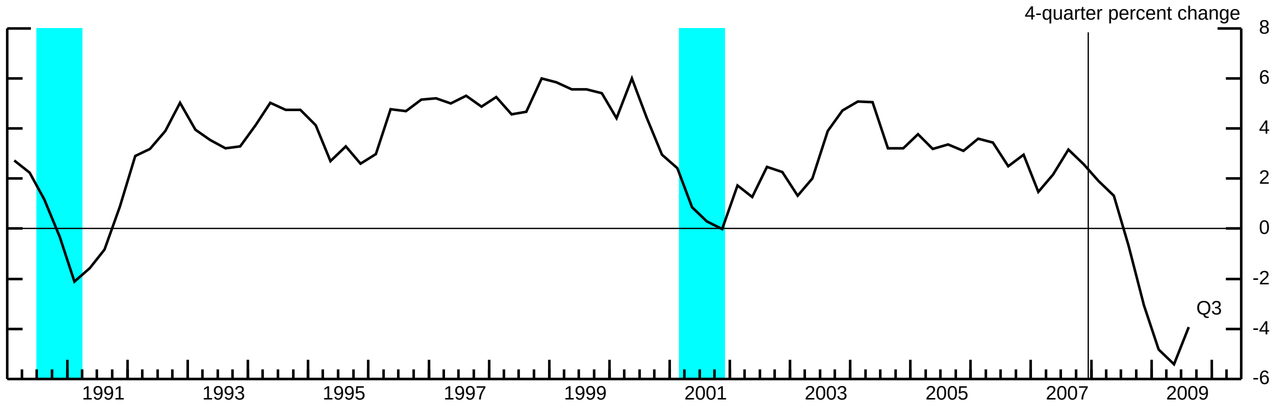
After posting a modest gain in the third quarter, spending on high-tech equipment appears to have risen at a considerably more rapid clip in the fourth quarter. Both orders and shipments of high-tech equipment rose markedly, on net, in October and November. Moreover, industrial production of computers increased further in the fourth quarter. According to a representative from Dell, the company expects continued strong spending on computers over the next 18 months as businesses do a "rolling refresh" of an aging computer stock.

Outside of the transportation and high-tech sectors, business investment appears little changed in the fourth quarter. Orders and shipments increased in November, reversing their declines in October. The increase in orders and shipments in November was concentrated in industrial machinery.

[4] New vehicle leases, which are included in the light vehicle sales data each month, are counted as a business purchase in the national accounts even if the vehicle is held by a household.

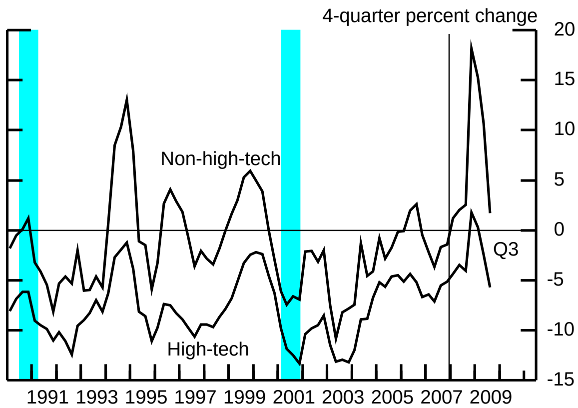
Fundamentals of Equipment and Software Investment

Real Business Output



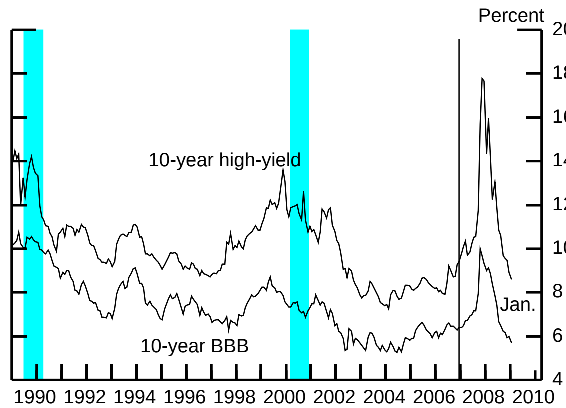
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

User Cost of Capital



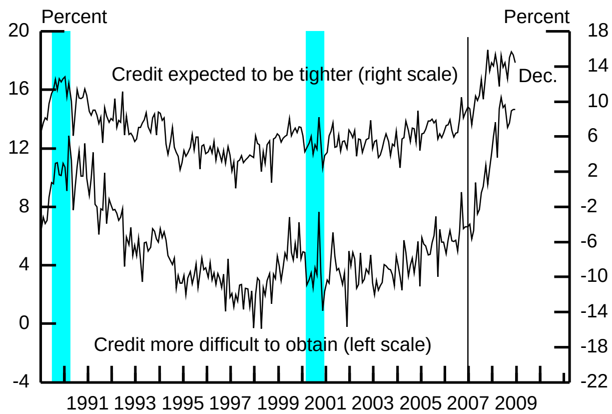
Source: Staff calculation.

Corporate Bond Yields



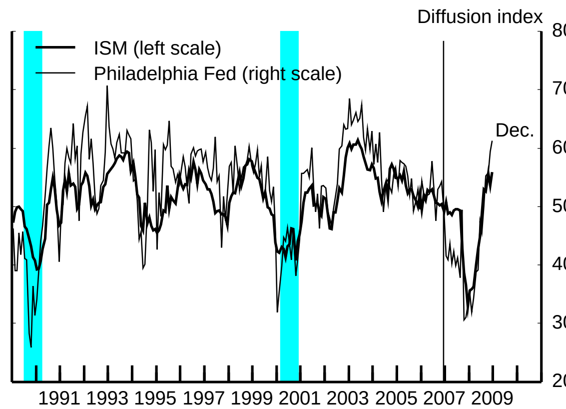
Note: End of month. January value as of January 15.
Source: Merrill Lynch.

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.

Note: 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 apparent pickup in overall equipment spending in the fourth quarter is consistent with the trend in a variety of other indicators of business demand. In December, both the ISM index of manufacturing activity and the Philadelphia Fed's indicator of general business conditions rose to their highest levels in several years. Similarly, yields on BBB-rated corporate bonds have declined to 2006 levels. In addition, according to the latest SLOOS, banks generally ceased tightening standards on commercial and industrial loans but have yet to unwind the unprecedented tightening that occurred over the past two years. Meanwhile, banks' responses indicated that the credit quality of their outstanding loans to small firms in the fourth quarter was worse than that of such loans to large and middle-market firms. Those responses are consistent with reports that small businesses are continuing to find credit difficult to obtain.

Nonresidential Construction

Conditions in the nonresidential construction sector generally remain poor. Real outlays on structures outside of the drilling and mining sector dropped at an annual rate of 23 percent in the third quarter, and recent data on nominal expenditures through November point to an even faster rate of decline in the fourth quarter. 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. According to the latest SLOOS, a substantial share of banks reported both tighter policies on commercial real estate loans and weaker demand for such loans. In addition, the most recent reading from the architectural billings index remained at levels consistent with further declines in spending in the first half of this year.

Following a steep drop in the first half of the year, real spending on drilling and mining structures rose at an annual rate of about 9 percent in the third quarter. Increases in the number of drilling rigs in operation and footage drilled point to a similar expansion in the fourth quarter. The upturn in investment in this sector was stimulated by a rebound in oil prices.

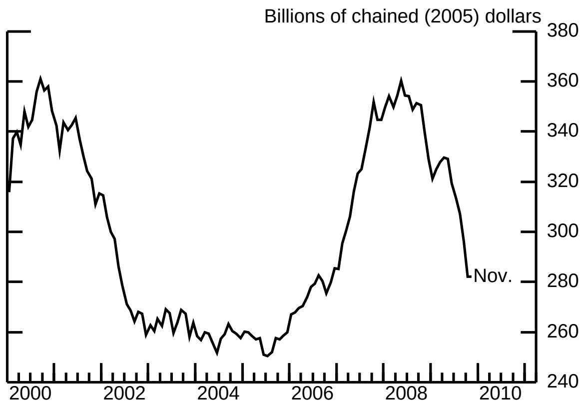
Business Inventories

The pace of real business inventory liquidation appears to have decreased considerably in the fourth quarter. Information from the motor vehicle sector indicates that auto dealers added to their stocks last quarter. In addition, after three quarters of sizable declines, real nonfarm inventories excluding motor vehicles ran off at a more modest pace in October, and book-value data for this category suggest that inventories may have increased in real terms in November. Although the book-value data for October and November received a

Nonresidential Construction and Indicators

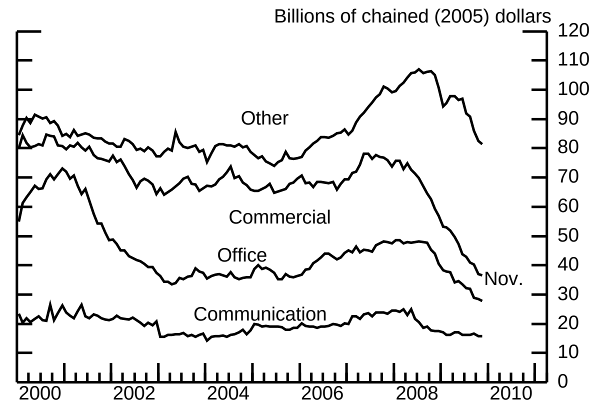
(All spending series are seasonally adjusted at an annual rate; nominal CPIP deflated by BEA prices through Q4 and by staff projection thereafter)

Total Structures



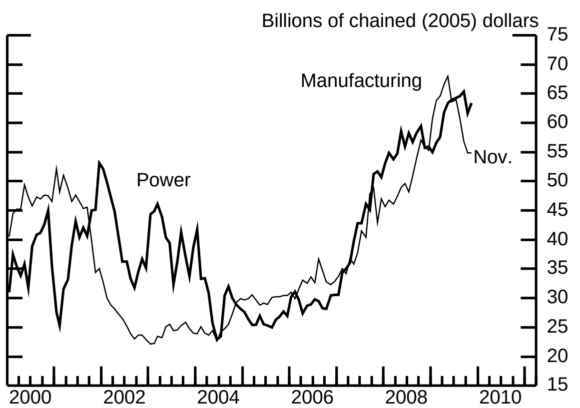
Source: Census Bureau.

Office, Commercial, Communication, and Other



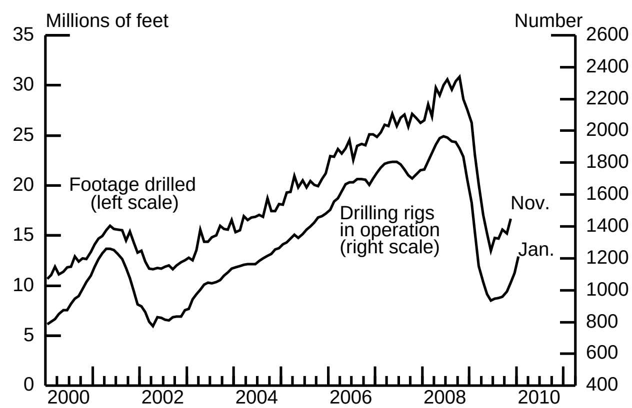
Note: Other consists of structures for religious organizations, education, lodging, amusement and recreation, transportation, and health care.
Source: Census Bureau.

Manufacturing and Power



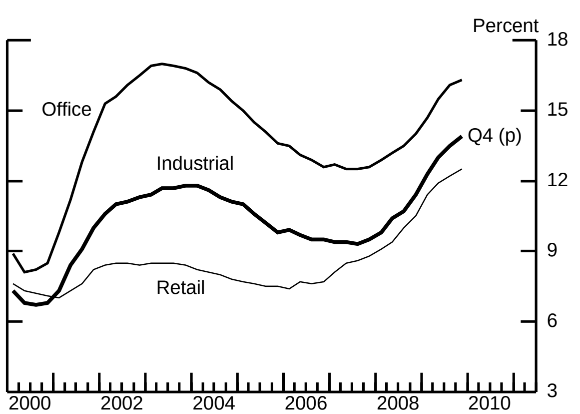
Source: Census Bureau.

Drilling and Mining Indicators



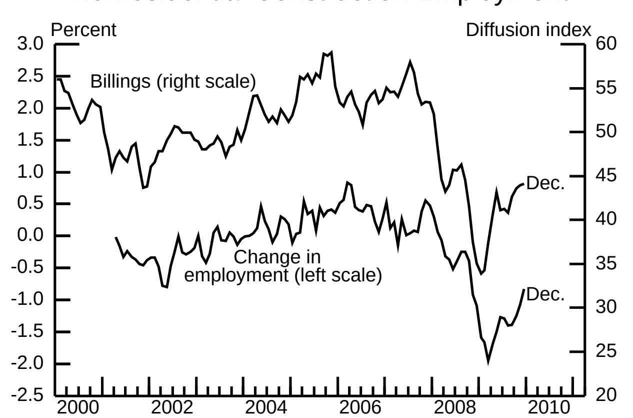
Note: The January readings for drilling rigs are based on data through January 15, 2010. Both series are seasonally adjusted by FRB staff.
Source: For footage drilled, U.S. Department of Energy, Energy Information Agency; for drilling rigs, Baker Hughes.

Vacancy Rates



Note: Industrial space includes both manufacturing structures and warehouses.
p. Preliminary.
Source: Torto Wheaton Research.

Architectural Billings and Nonresidential Construction Employment



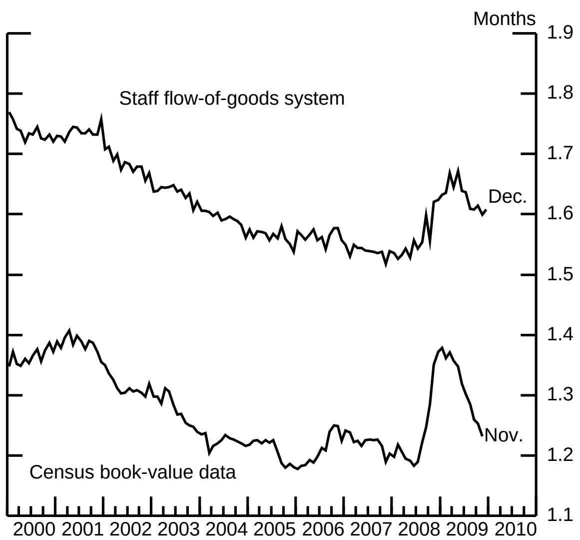
Note: Both series are 3-month moving averages. Employment consists of industrial, commercial, and specialty trade construction.
Source: For billings, American Institute of Architects; for employment, U.S. Department of Labor, Bureau of Labor Statistics.

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

Measure and sector	2009 Q1	2009 Q2	2009 Q3	2009 Sept.	2009 Oct.	2009 Nov.
Real inventory investment (chained 2005 dollars)						
Total nonfarm business	**-114.9**	**-163.1**	**-141.4**	**...**	**...**	**...**
Motor vehicles	-63.6	-48.1	-4.6	...	...	...
Nonfarm ex. motor vehicles	-51.3	-115.1	-136.9	...	...	...
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	**-49.3**	**-110.9**	**-129.3** e	**-166.3**	**-12.1** e	**n.a.**
Manufacturing	-28.9	-39.8	-55.3 e	-83.8	4.3 e	n.a.
Wholesale trade ex. motor vehicles & parts	-8.8	-52.5	-51.9 e	-51.2	-4.8 e	n.a.
Retail trade ex. motor vehicles & parts	-11.6	-18.6	-22.1 e	-31.2	-11.6 e	n.a.
Book-value inventory investment (current dollars)						
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	**-146.9**	**-152.6**	**-124.7**	**-109.2**	**33.1**	**62.9**
Manufacturing	-81.1	-66.0	-49.8	-47.9	22.1	9.0
Wholesale trade ex. motor vehicles & parts	-47.3	-62.9	-50.7	-34.5	19.8	68.5
Retail trade ex. motor vehicles & parts	-18.6	-23.7	-24.2	-26.8	-8.8	-14.5

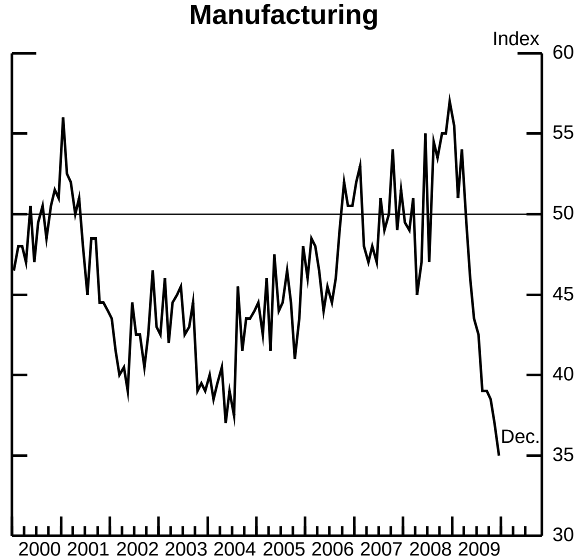
n.a. Not available.
... Not applicable.
e Staff estimate of real inventory investment based on revised book-value data.
Source: For real inventory investment, U.S. Dept. of Commerce, Bureau of Economic Analysis; for book-value data, Census Bureau.

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 below 50 indicates inventories are "too low."
Source: Institute for Supply Management (ISM), Manufacturing ISM Report on Business.

sizable boost from wholesale inventories of farm products that reflected an unusually large and unusually late crop harvest, the moderation in the pace of stock liquidation outside of the motor vehicle industry appears to have been relatively widespread.[5] Taken together, the recent inventory data indicate that the change in inventory investment is likely to make an appreciable contribution to the rate of change of real GDP in the fourth quarter. The measure of months' supply implied by the book-value data has fallen significantly since mid-2009 and is only a little above the range observed in the year before the recession.

The staff's flow-of-goods inventory system, which uses industrial production data through December, also suggests that inventories outside motor vehicles declined at a noticeably slower pace than in the third quarter. This measure of months' supply edged down, on net, during the fourth quarter and has now reversed about one-half of its run-up from mid-2008 to mid-2009. Among market groups, inventories of consumer goods appear well-aligned with the current pace of sales, but months' supply for equipment, materials, and construction supplies remain elevated.

In the manufacturing ISM for December, the number of supply managers who described their customers' inventories as too low increased further and 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.[6]

Federal Government Sector

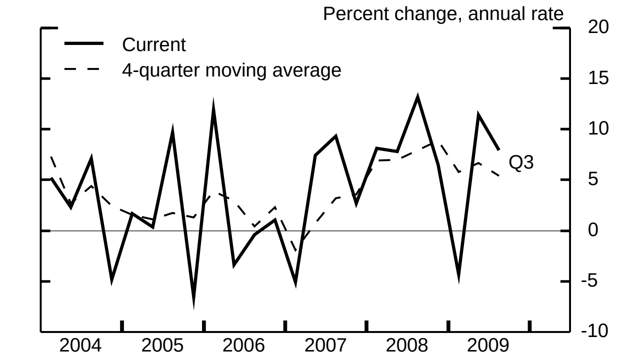
Incoming data suggest that total real purchases by the federal government decreased moderately in the fourth quarter after having risen substantially in the preceding two quarters. This decrease in federal expenditures reflects a marked decline in real defense spending as indicated by the Monthly Treasury Statements through December. However, outlays for defense tend to be volatile from quarter to quarter, and defense expenditures

[5] Wholesale inventories of farm products rose at an annual rate of $43 billion, on average, in book value terms in October and November after declining $6½ billion in the third quarter.

[6] 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 (a plausible assumption given the marked improvement in recent months of the ISM's new orders index), then the low level of the customers' inventories measure may well be consistent with the inventory ratios in both the book-value data and the staff's flow-of-goods system that use the current pace of sales.

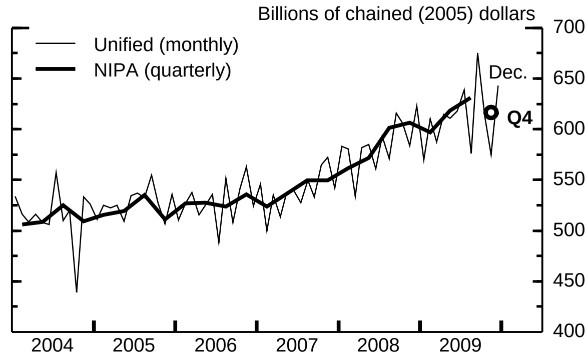
Federal Government Indicators

Total Real Federal Purchases



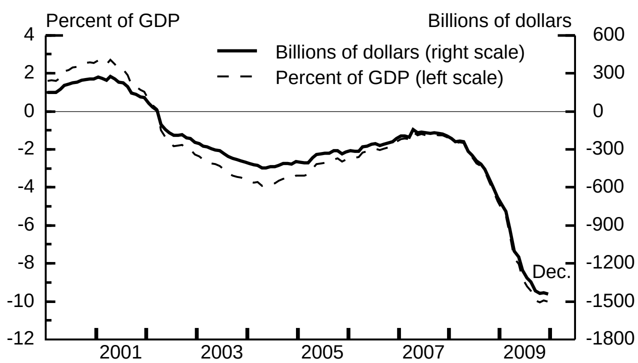
Note: NIPA measure.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Real Defense Spending



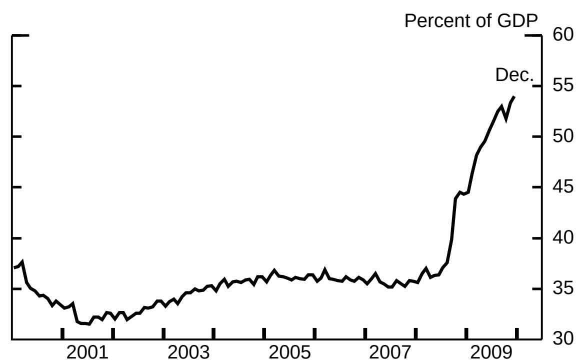
Note: Nominal unified defense spending is seasonally adjusted and deflated by BEA prices. NIPA defense purchases exclude consumption of fixed capital; Q4 is an estimate.
Source: Monthly Treasury Statement; U.S. Department of Commerce, Bureau of Economic Analysis.

Unified Budget Deficit



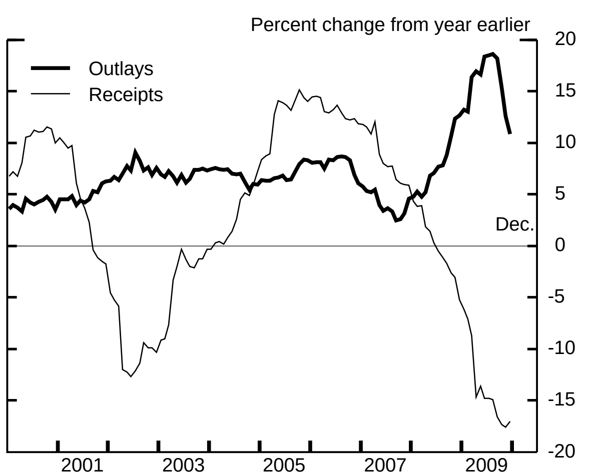
Note: Adjusted for payment-timing shifts; cumulative deficit over the previous 12 months.
Source: Monthly Treasury Statement.

Federal Debt Held by the Public



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.

Recent Unified Federal Outlays and Receipts

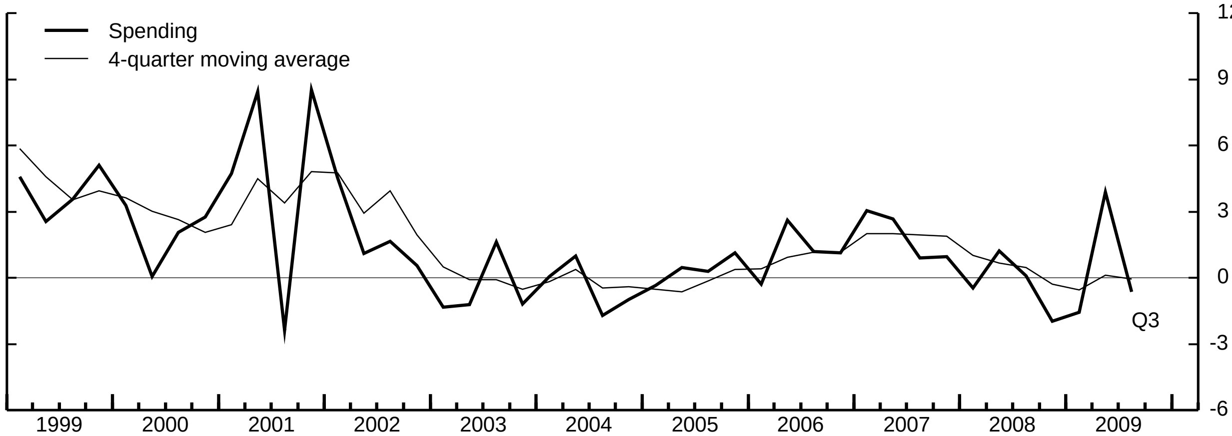
Function or source	Oct.-Dec. 2009 Billions of dollars	Oct.-Dec. 2009 Percent change*
Outlays	836	-3.9
National defense	181	2.1
Major transfers[1]	482	16.9
Other primary spending	121	-46.5
Net interest	52	-4.4
Receipts	488	-10.9
Individual income and payroll taxes	396	-11.6
Corporate income taxes	34	-32.6
Other	58	18.2
Deficit (-)	-348	8.0

Note: Adjusted for payment-timing shifts.
* Relative to same year-earlier period. Percent change in deficit is calculated on an absolute-value basis.
1. Includes Social Security, Medicare, Medicaid, and income security programs.
Source: Monthly Treasury Statement.

State and Local Indicators

Real Spending on Consumption and Investment

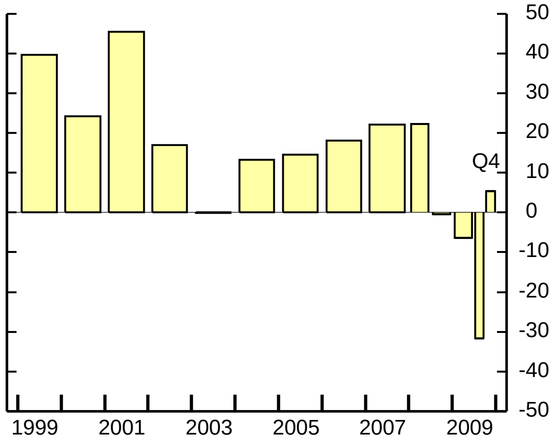
Percent change, annual rate



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

Net Change in Employment

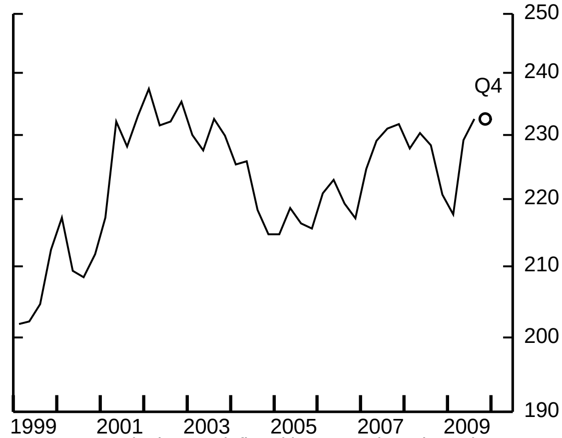
Thousands of jobs, monthly average



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

Real Construction

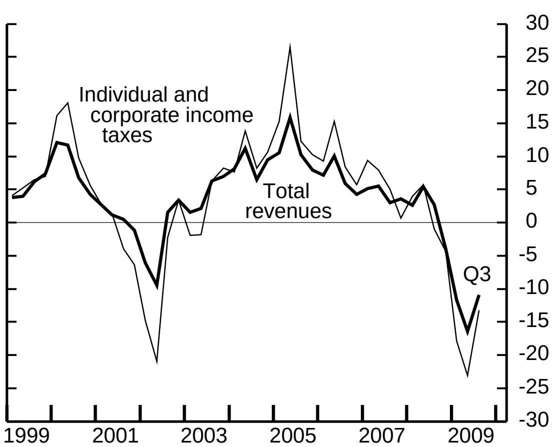
Billions of chained (2005) dollars, annual rate



Note: Nominal CPIP deflated by BEA prices through Q3 and by a staff projection thereafter. Observation for Q4 is the average of October and November.
Source: Census Bureau, Construction Spending.

State Revenues

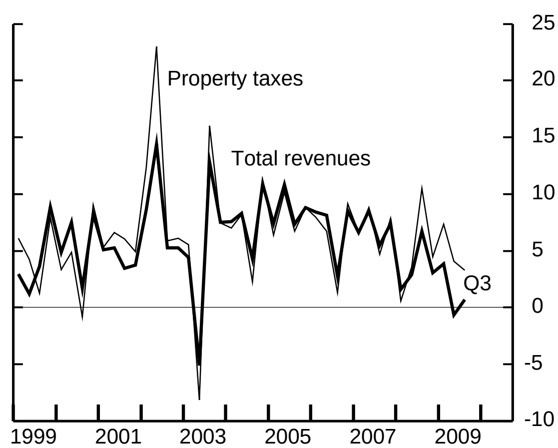
Percent change from year earlier



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

Local Revenues

Percent change from year earlier



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

in the fourth quarter appeared to be below a trend level of spending that is more consistent with what would be allowed by budget appropriations.

The unified federal budget deficit widened further in the first three months of fiscal year 2010, pushing federal debt held by the public up to around 55 percent of GDP. Receipts were 11 percent lower in the October to December period relative to the same period a year earlier, primarily because of the effects of continued weakness in taxable income as well as the revenue-reducing provisions of the 2009 stimulus legislation. On the spending side, outlays declined 4 percent in the first three months of the fiscal year relative to the same year-earlier period. However, this decline reflected TARP-related outlays; excluding these outlays, expenditures increased about 7 percent, boosted by both the effects of the weak labor market on low-income support programs, such as unemployment insurance and food stamps, and the spending from the stimulus package.[7] In all, about $285 billion in stimulus funds (about 36 percent of the total $787 billion stimulus package) had been distributed in the form of spending increases and tax cuts by the end of December.

State and Local Government Sector

Real purchases by state and local governments appear to have been roughly flat in the fourth quarter. Notably, employment appeared to stabilize: The sector averaged a modest 5,000 net new hires per month in the fourth quarter after having shed 32,000 jobs per month in the third quarter. Meanwhile, real construction spending moved sideways following large increases in the second and third quarters.

Despite the substantial federal aid provided by the American Recovery and Reinvestment Act, state and local governments continue to face significant fiscal headwinds because tax revenues are still declining. According to the Census Bureau's *Quarterly Summary of State and Local Government Tax Revenue*, total tax collections fell almost 7 percent in the third quarter relative to the year-earlier period. Personal income tax and sales tax receipts decreased significantly at the state level, whereas local property tax collections rose modestly. A recent report from The Nelson A. Rockefeller Institute of Government, based on data from 38 states in October and November, suggests that state tax revenues continued to decline in the fourth quarter but at a more moderate pace than in the preceding three quarters. These revenue declines have generated budget shortfalls at the state level. The National Conference of State Legislatures reports that these shortfalls,

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[7] Outlays associated with the TARP were only $6 billion in the first three months of the current fiscal year, in contrast to the $91 billion recorded in the same period last fiscal year.

Price Measures
(Percent change)

Measures	12-month change		3-month change		1-month change	
			Annual rate		Monthly rate	
	Dec. 2008	Dec. 2009	Sept. 2009	Dec. 2009	Nov. 2009	Dec. 2009
CPI						
Total	**.1**	**2.7**	**2.5**	**3.3**	**.4**	**.1**
Food	5.9	-.5	-1.1	1.2	.1	.2
Energy	-21.3	18.2	21.1	25.8	4.1	.2
Ex. food and energy	**1.8**	**1.8**	**1.3**	**1.3**	**.0**	**.1**
Core goods	-.6	3.0	.9	3.2	.2	.2
Core services	2.7	1.4	1.4	.6	.0	.1
Shelter	1.9	.3	-.1	-.3	-.2	.1
Other services	3.7	2.9	4.0	2.6	.2	.2
Memo: core ex. tobacco	1.7	1.5	1.1	1.2	.0	.1
Chained CPI (n.s.a.) [1]	-.5	2.8	...	...	...	...
Ex. food and energy [1]	1.3	1.5	...	...	...	...
PCE prices [2]						
Total	**.6**	**2.2**	**1.7**	**2.8**	**.2**	**.1**
Food and bev. at home	6.7	-1.5	-2.8	2.1	.1	.3
Energy	-23.5	21.0	23.2	27.8	4.4	.2
Ex. food and energy	**1.8**	**1.5**	**1.0**	**1.5**	**.0**	**.1**
Core goods	.0	1.4	.0	-.9	-.1	-.1
Core services	2.5	1.5	1.3	2.2	.1	.1
Housing services	2.4	.7	-.4	-.6	-.1	.0
Other services	2.5	1.8	1.9	3.1	.1	.2
Memo: core ex. tobacco	1.8	1.3	.9	1.4	.0	.1
Core market-based	2.1	1.6	1.1	.8	.0	.1
Core non-market-based	.2	1.1	.2	5.3	.1	.2
PPI						
Total finished goods	**-.9**	**4.4**	**.7**	**9.5**	**1.8**	**.2**
Food	3.2	1.1	-5.1	15.0	.5	1.4
Energy	-20.3	20.1	8.1	36.6	6.9	-.4
Ex. food and energy	**4.5**	**.9**	**.2**	**-.5**	**.5**	**.0**
Core consumer goods	4.6	1.6	.2	.4	.6	.1
Capital equipment	4.3	.0	.0	-1.5	.4	-.1
Intermediate materials	-2.3	3.0	6.9	9.0	1.4	.5
Ex. food and energy	2.9	-.1	6.9	2.3	.3	.5
Crude materials	-24.6	12.3	-9.3	60.9	5.7	1.0
Ex. food and energy	-24.1	28.4	58.8	20.5	-.8	5.0

1. Higher-frequency figures are not applicable for data that are not seasonally adjusted (n.s.a.).
2. PCE prices in December 2009 are staff estimates.
... Not applicable.
Source: For consumer price index (CPI) and producer price index (PPI), U.S. Dept. of Labor, Bureau of Labor Statistics; for personal consumption expenditures (PCE), U.S. Dept. of Commerce, Bureau of Economic Analysis.

which must be closed by the end of the current fiscal year (June 30 in most states), collectively equal $28 billion.

Prices

Consumer price inflation in December was modest after having been boosted in recent months by increases in energy prices. Based on our translation of the CPI and PPI, we estimate that overall PCE prices increased 0.1 percent in December after rising ¼ percent in November; core PCE prices are estimated to have edged up 0.1 percent in December after remaining flat in November. For the year as a whole, we estimate that overall PCE prices increased about 2¼ percent on a 12-month change basis, up from ½ percent in 2008; the pickup in overall inflation was the result of a rebound in energy prices.[8] Food prices fell last year, while both core PCE prices and market-based core PCE prices increased 1½ percent in 2009, somewhat less than in 2008.

Consumer energy prices rose ¼ percent in December and 4½ percent in November. Gasoline prices moved up again in December, and the advance in crude oil prices since the last Greenbook, as well as the latest available survey data, suggest that gasoline prices increased at a faster pace in January. Over the 12 months of 2009, the PCE energy price index advanced 21 percent, reversing most of its decline in 2008.

Food prices have turned up modestly of late. The PCE price index for food and beverages edged up 0.1 percent in both October and November and rose 0.3 percent in December after posting sizable declines earlier in the year. For the year as a whole, consumer food prices fell 1½ percent after surging 6¾ percent in 2008; this pattern largely reflects the pass-through of the huge swings in spot prices of farm commodities over the past two years.

Excluding food and energy, PCE inflation slowed noticeably last year. Core PCE prices rose at an annual rate of 1¾ percent in the first half of 2009, similar to the pace in 2008, and then increased at an annual rate of only 1¼ percent in the second half.[9] This slowdown in core inflation was concentrated in market-based components; nonmarket-based price inflation turned up briskly in the second half. Among services, the index for

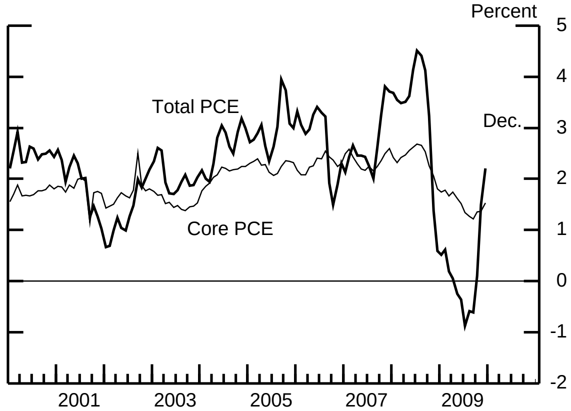
[8] Note that on a four-quarter change basis, we estimate that overall PCE inflation was 1¼ percent in 2009, down from 1¾ percent in 2008. The difference between the four-quarter changes and 12-month changes reflects the effects of large price declines recorded in November and December of 2008.

[9] Excluding tobacco, the deceleration in core PCE prices was steadier: After rising at an annual rate of 1¾ percent in 2008, core PCE prices excluding tobacco rose at an annual rate of about 1½ percent in the first half of 2009 and 1 percent in the second half.

Consumer Prices

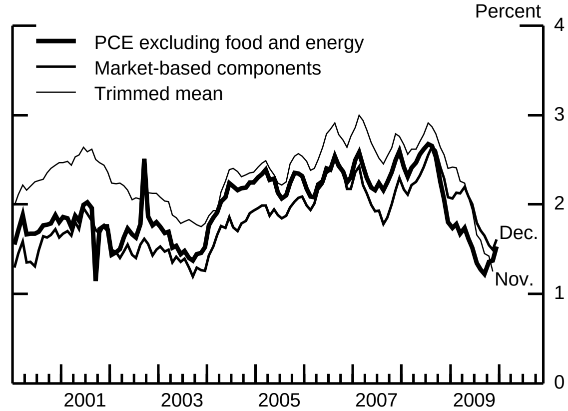
(12-month change except as noted; PCE prices in December are staff estimates)

PCE Prices



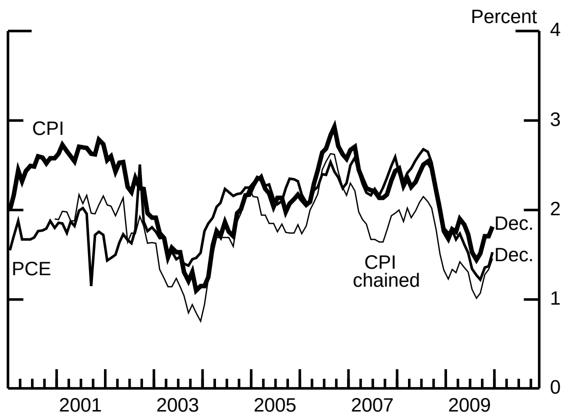
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Measures of Core PCE



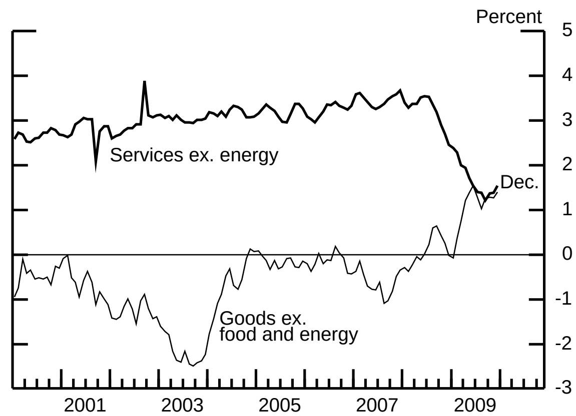
Source: For trimmed mean, Federal Reserve Bank of Dallas; for all else, U.S. Dept. of Commerce, Bureau of Economic Analysis.

CPI and PCE excluding Food and Energy



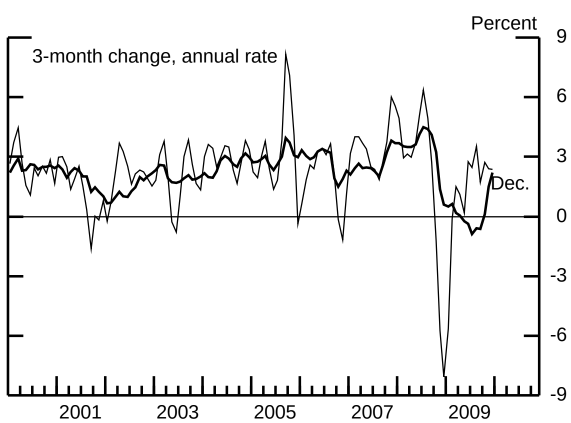
Source: For CPI, U.S. Dept. of Labor, Bureau of Labor Statistics; for PCE, U.S. Dept. of Commerce, Bureau of Economic Analysis.

PCE Goods and Services



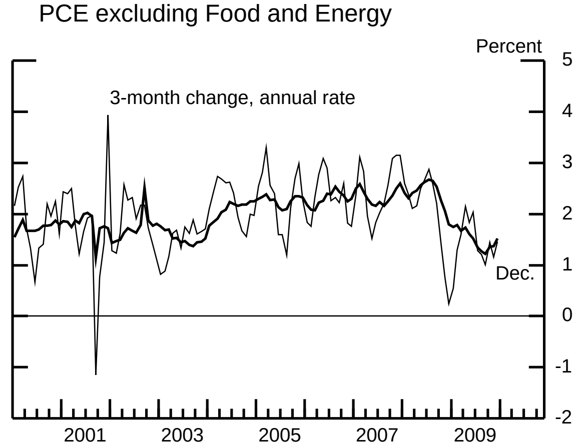
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Total PCE



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

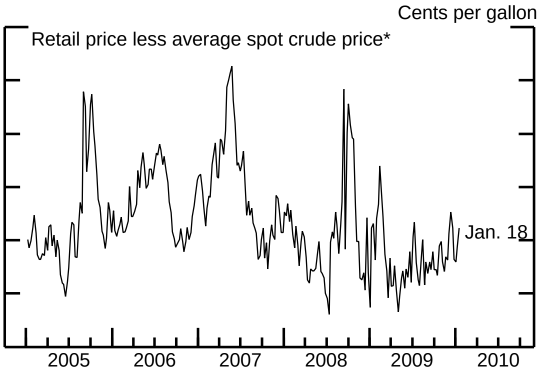
PCE excluding Food and Energy



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

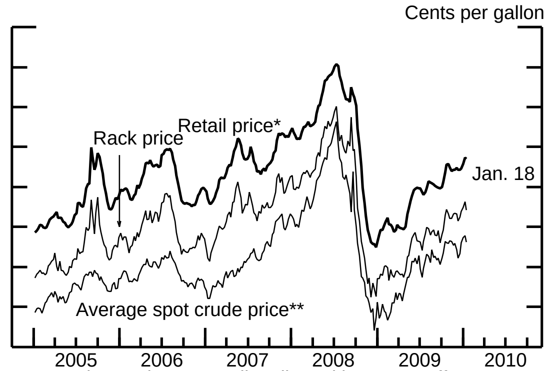
Energy and Food Price Indicators
(Data from U.S. Department of Energy, Energy Information Administration, except as noted)

Total Gasoline Margin



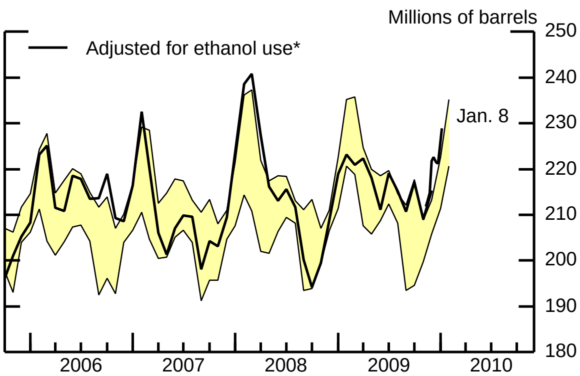
* Regular grade seasonally adjusted by FRB staff, less average spot crude price: 60% West Texas Intermediate, 40% Maya heavy crude. Includes gasoline taxes.

Gasoline Price Decomposition



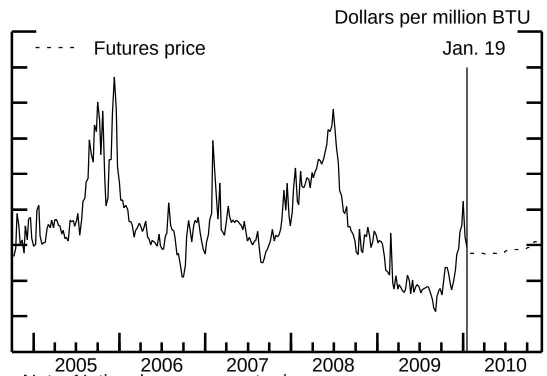
* Regular grade seasonally adjusted by FRB staff.
** 60% West Texas Intermediate, 40% Maya heavy crude.

Gasoline Inventories



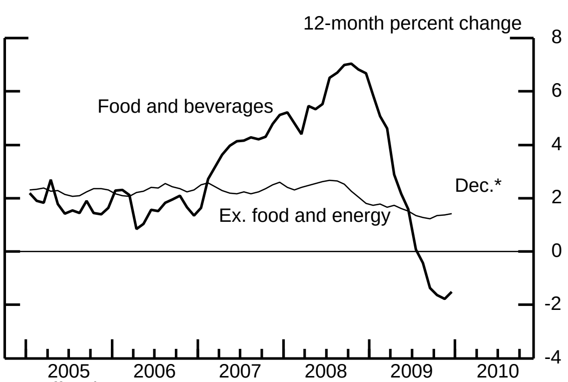
Note: Bounds are defined as the monthly mean over the preceding five years, plus or minus the standard deviation for each month. Monthly data through September 2009, weekly data thereafter.
* The RBOB component of total motor gasoline inventories is adjusted for ethanol use after 2006, boosting reported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

Natural Gas Prices



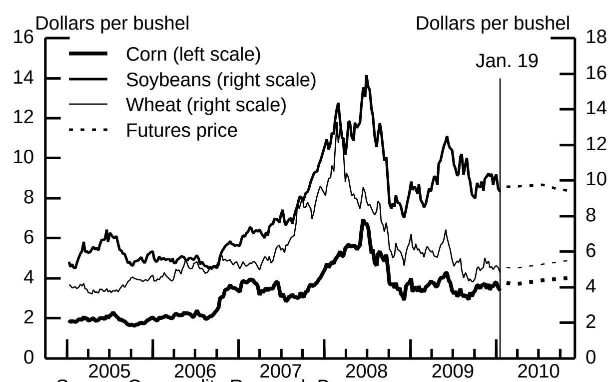
Note: National average spot price.
Source: Bloomberg.

PCE: Food at Home and Core Prices



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

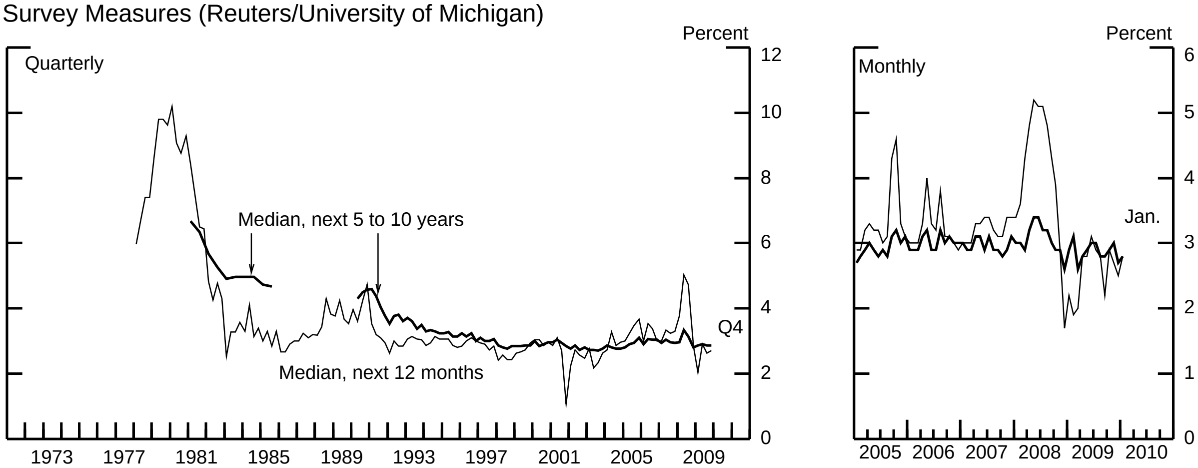
Spot Prices of Agricultural Commodities



Source: Commodity Research Bureau.

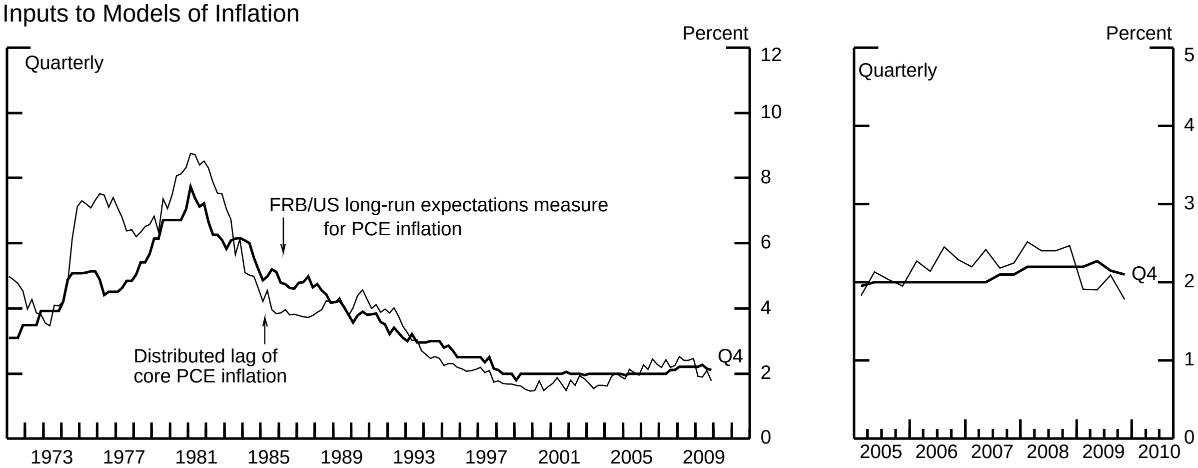
Measures of Expected Inflation

Survey Measures (Reuters/University of Michigan)



Source: Reuters/University of Michigan Surveys of Consumers.

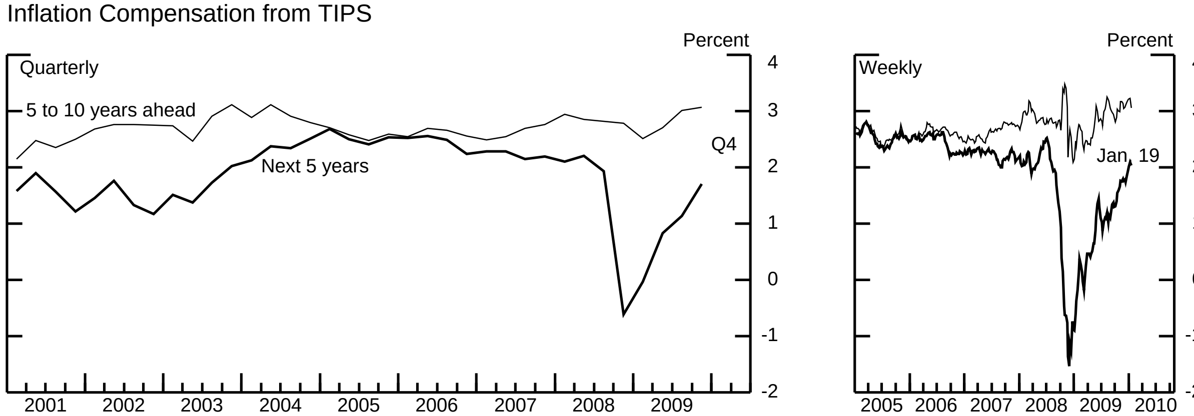
Inputs to Models of Inflation



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.

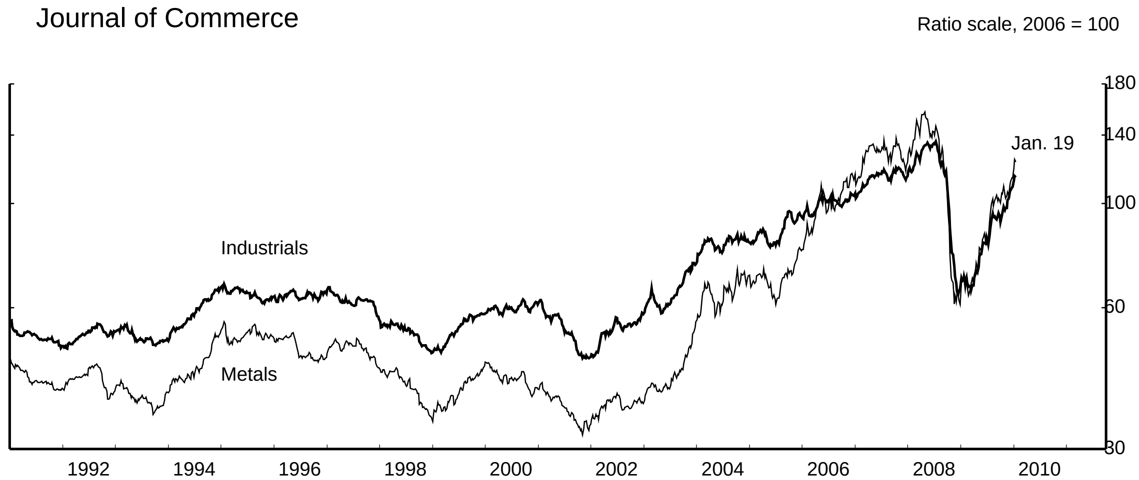
Inflation Compensation from TIPS



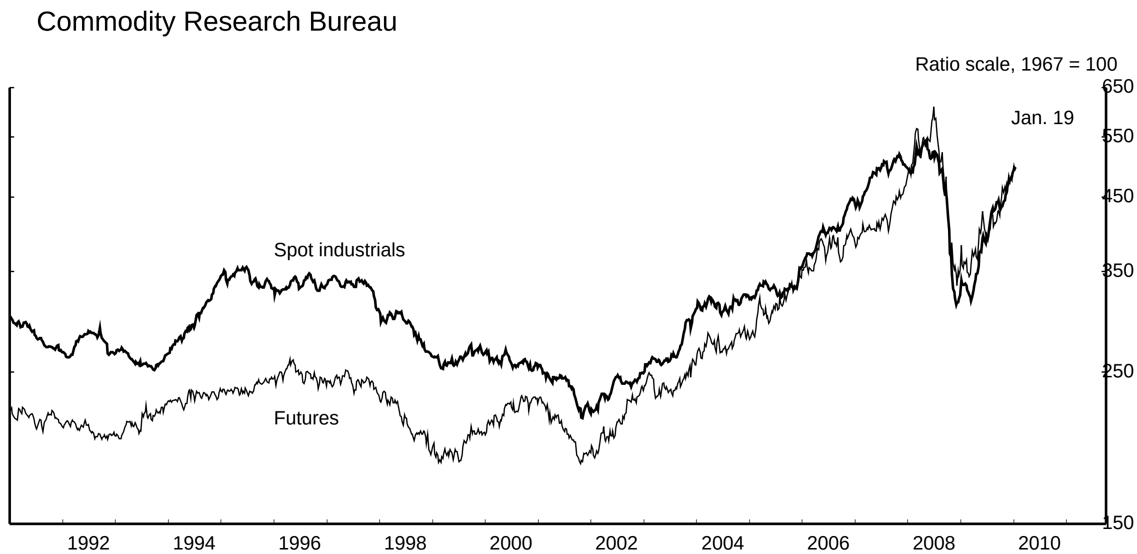
Note: Based on a comparison of an estimated TIPS (Treasury inflation-protected securities) yield curve with an estimated nominal off-the-run Treasury yield curve, with an adjustment for the indexation-lag effect.

Source: FRB staff calculations.

Commodity Price Indexes



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.



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 12/8/09 [2]	12/8/09 [2] to 1/19/10	52-week change to 1/19/10
JOC industrials	-41.4	62.0	6.8	66.0
JOC metals	-48.2	80.5	11.8	79.3
CRB spot industrials	-35.1	47.5	3.7	47.6
CRB spot foodstuffs	-14.1	15.8	4.0	17.4
CRB futures	-24.7	34.5	4.0	39.1

1. From the last week of the preceding year to the last week of the year indicated.
2. December 8, 2009, is the Tuesday preceding publication of the December 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	.2
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	1.4	3.1	2.7	3.1	2.9	2.3	2.1
2009:Sept.	-1.3	2.8	2.2	3.2	2.8	...	...
Oct.	-.2	3.2	2.9	3.2	2.9	...	...
Nov.	1.8	3.1	2.7	3.2	3.0	2.3	2.1
Dec.	2.7	3.0	2.5	3.0	2.7	...	...
2010:Jan.	n.a.	3.3	2.8	3.2	2.8	...	...

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.

housing services decelerated dramatically last year and actually fell in the second half, likely reflecting the poor state of the housing market. Aside from housing and energy, price increases for market-based services slowed early last year and remained modest throughout 2009, possibly reflecting the deceleration in labor costs. Prices for core goods also decelerated considerably last year apart from the tax-induced increases in tobacco prices and the rebound in motor vehicle prices.

Median near-term inflation expectations in the Reuters/University of Michigan survey increased in January to 2.8 percent from 2.5 percent in December. Meanwhile, median inflation expectations over the next 5 to 10 years edged up 0.1 percentage point from their December reading to 2.8 percent—still near the lower end of the narrow range that has prevailed over the past few years. The TIPS-based measure of inflation compensation 5 to 10 years ahead has changed little since the previous FOMC meeting, whereas five-year inflation compensation has moved up somewhat; as discussed in the "Domestic Financial Developments" section, most of the increase in five-year inflation compensation likely reflects changes in liquidity and inflation risk premiums.

At earlier stages of processing, the PPI for core intermediate materials rebounded in November and December following October's decline. Despite these recent increases, the December PPI for core intermediates was essentially unchanged from its year-earlier level. In contrast, commodity prices have rebounded considerably over the past year from their sharp drop in late 2008. Since the December Greenbook, both the Commodity Research Bureau spot index of industrial materials and the *Journal of Commerce* index of industrial materials have continued to move up—rising 3¾ percent and 6¾ percent, respectively—reflecting, in large part, sizable increases in metals prices.

Last page of Domestic Nonfinancial Developments

Domestic Financial Developments

Domestic Financial Developments

Overview

Over the intermeeting period, conditions in financial markets improved a bit further, as incoming data bolstered investors' confidence in the recovery in economic activity. Yields and spreads on both investment-grade and speculative-grade corporate bonds declined, and broad stock-price indexes rose. Bank stock prices outperformed broad equity indexes, and several large banking organizations issued equity and repaid TARP capital. However, conditions in commercial real estate markets remained strained, with delinquency rates on commercial mortgages rising further. In addition, credit flows remained weak overall, with further runoffs in bank loans to both households and businesses. While the Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS) conducted in January 2010 indicated that the tightening of banks' credit standards might be coming to an end, standards and terms on most types of loans remained tight, and loan demand continued to weaken, on net.

Policy Expectations and Treasury Yields

The FOMC's decision to keep the target range for the federal funds rate unchanged at the December meeting and the retention of the "extended period" language in the statement were widely anticipated and elicited little price response. Later in the intermeeting period, the expected path of monetary policy inferred from futures markets quotes shifted down slightly, on net, as market participants interpreted some Federal Reserve communications, including the discussion about the large-scale asset purchases in the FOMC minutes, as pointing to a more protracted period of accommodative monetary policy than had been anticipated. Futures quotes currently indicate that the federal funds rate is expected to rise above 25 basis points during the third quarter of 2010 and reach about 2 percent by the end of 2011.

In contrast to the slight downward shift in policy expectations, yields on 2-year and 10-year nominal Treasury securities increased by about 4 basis points and 10 basis points, respectively, consistent with a slight further unwind in flight-to-quality demands. Measures of TIPS-based inflation compensation over the next five years rose about 20 basis points; staff models interpret the increase as largely reflecting an increase in inflation risk premiums and some improvement in TIPS market liquidity. Inflation compensation 5 to 10 years ahead declined about 8 basis points.

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

Instrument	2008 Sept. 12	2009 Nov. 3	2009 Dec. 15	2010 Jan. 19	Change to Jan. 19 from selected dates (percentage points): 2008 Sept. 12	2009 Nov. 3	2009 Dec. 15
Short-term							
FOMC intended federal funds rate	2.00	.13	.13	.13	-1.87	.00	.00
Treasury bills[1]							
3-month	1.46	.06	.05	.06	-1.40	.00	.01
6-month	1.80	.17	.17	.14	-1.66	-.03	-.03
Commercial paper (A1/P1 rates)[2]							
1-month	2.39	.16	.13	.10	-2.29	-.06	-.03
3-month	2.75	.18	.20	.17	-2.58	-.01	-.03
Large negotiable CDs[1]							
3-month	2.79	.22	.22	.20	-2.59	-.02	-.02
6-month	3.09	.32	.31	.29	-2.80	-.03	-.02
Eurodollar deposits[3]							
1-month	2.60	.30	.32	.30	-2.30	.00	-.02
3-month	3.00	.45	.45	.45	-2.55	.00	.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	.93	.87	.91	-1.33	-.02	.04
5-year	2.97	2.37	2.33	2.46	-.51	.09	.13
10-year	3.93	3.73	3.79	3.89	-.04	.16	.10
U.S. Treasury indexed notes[5]							
5-year	1.33	.70	.50	.42	-.91	-.28	-.08
10-year	1.77	1.48	1.42	1.45	-.32	-.03	.03
Municipal general obligations (Bond Buyer)[6]	4.54	4.39	4.19	4.31	-.23	-.08	.12
Private instruments							
10-year swap	4.26	3.62	3.74	3.82	-.44	.20	.08
10-year FNMA[7]	4.36	4.06	4.08	4.19	-.17	.13	.11
10-year AA[8]	6.62	5.12	5.04	5.04	-1.58	-.08	.00
10-year BBB[8]	7.22	6.25	6.09	5.75	-1.47	-.50	-.34
10-year high yield[8]	10.66	9.48	9.29	8.62	-2.04	-.86	-.67
Home mortgages (FHLMC survey rate)							
30-year fixed	5.78	4.98	4.94	5.06	-.72	.08	.12
1-year adjustable	5.03	4.47	4.34	4.39	-.64	-.08	.05

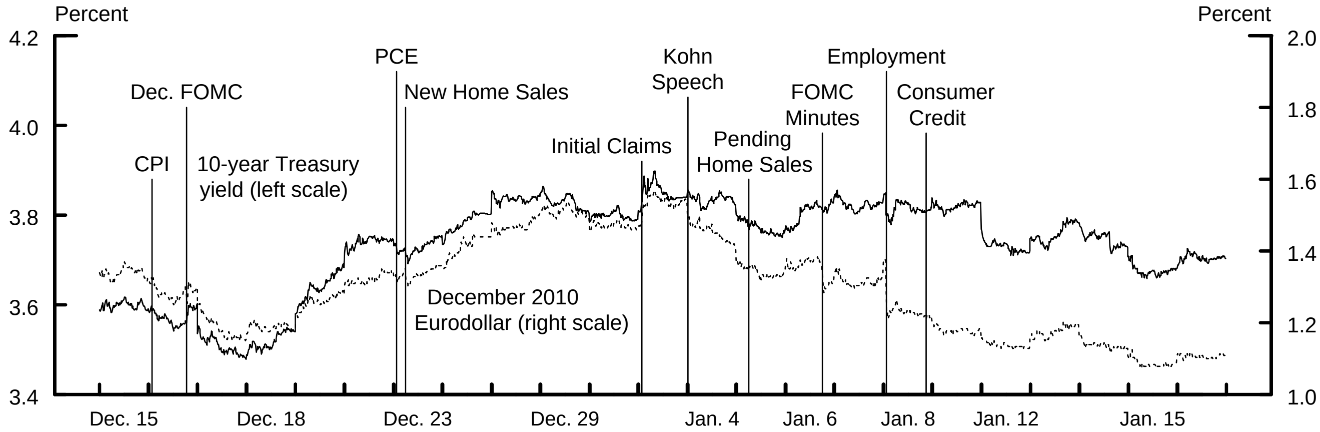
Stock exchange index	Record high: Level	Record high: Date	2009 Nov. 3	2009 Dec. 15	2010 Jan. 19	Change to Jan. 19 from selected dates (percent): Record high	2009 Nov. 3	2009 Dec. 15
Dow Jones Industrial	14,165	10-9-07	9,772	10,452	10,725	-24.28	9.76	2.62
S&P 500 Composite	1,565	10-9-07	1,045	1,108	1,150	-26.51	10.03	3.82
Nasdaq	5,049	3-10-00	2,057	2,201	2,320	-54.04	12.79	5.42
Russell 2000	856	7-13-07	571	606	649	-24.14	13.76	7.07
D.J. Total Stock Index	15,807	10-9-07	10,729	11,385	11,865	-24.93	10.59	4.22

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.
November 3, 2009, is the day before the November 2009 FOMC monetary policy announcement.
December 15, 2009, is the day before the most recent FOMC monetary policy announcement.

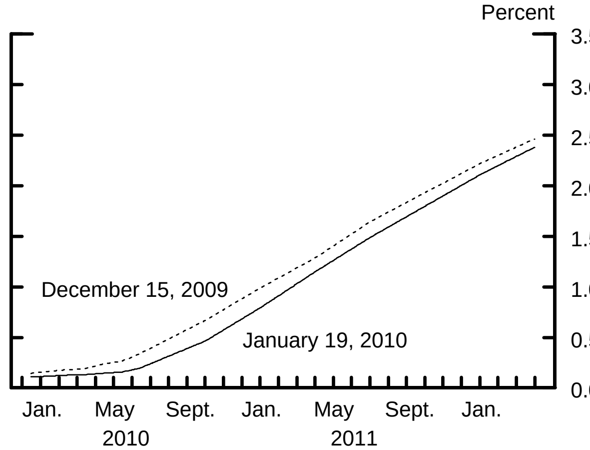
Policy Expectations and Treasury Yields

Interest Rates



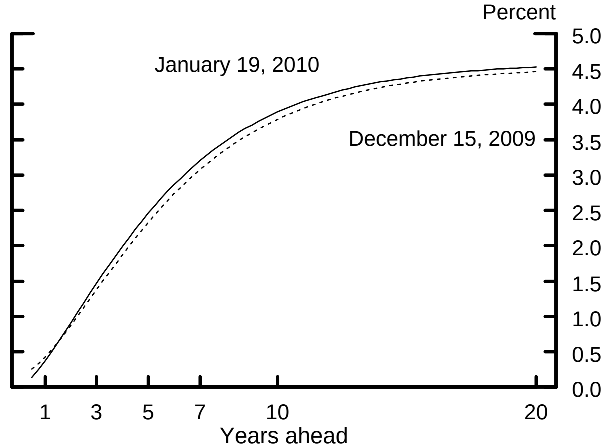
Note: 5-minute intervals. 8:00 a.m. to 4:00 p.m. No adjustments for term premiums.
Source: Bloomberg.

Implied Federal Funds Rate



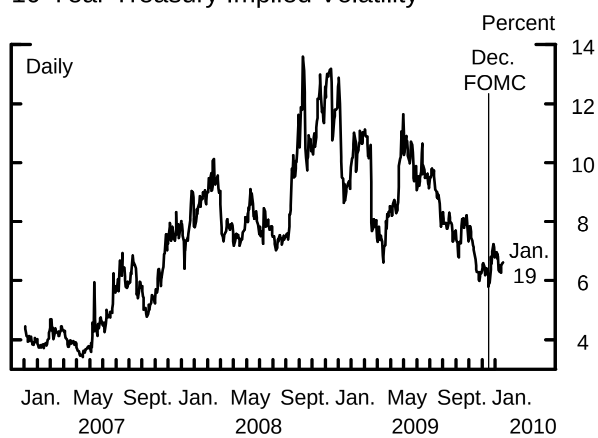
Note: Estimated from federal funds and Eurodollar futures, with an allowance for term premiums and other adjustments.
Source: CME Group.

Treasury Yield Curve



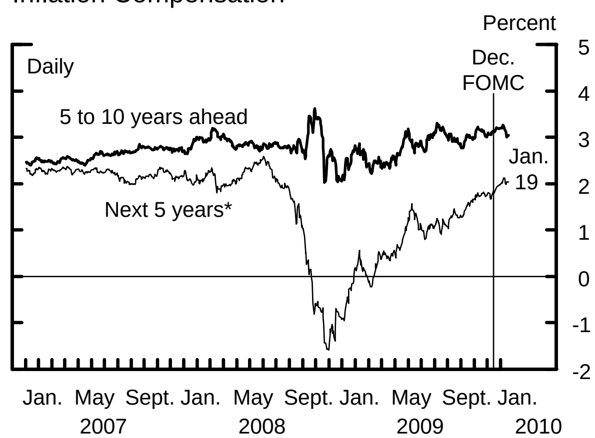
Note: Smoothed yield curve estimated from off-the-run Treasury coupon securities. Yields shown are those on notional par Treasury securities with semiannual coupons.
Source: Federal Reserve Board.

10-Year Treasury Implied Volatility



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

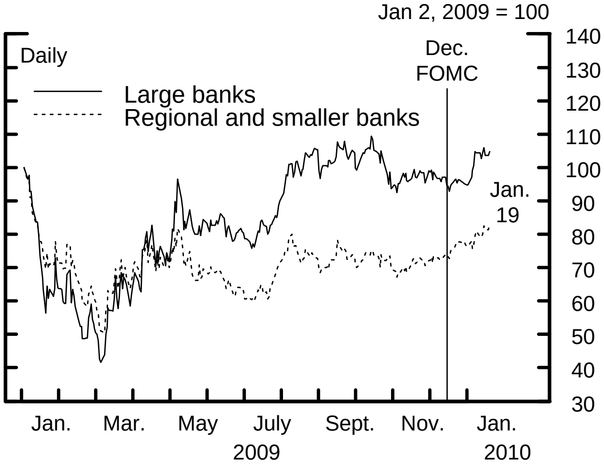
Inflation Compensation



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

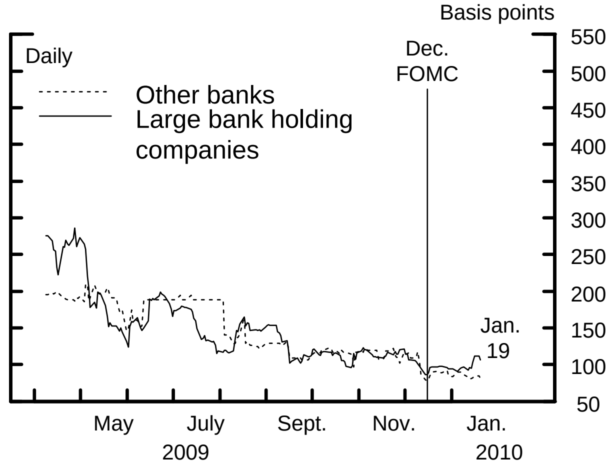
Financial Institutions, Short-Term Funding Markets, and Liquidity Facilities

Bank Exchange-Traded Funds



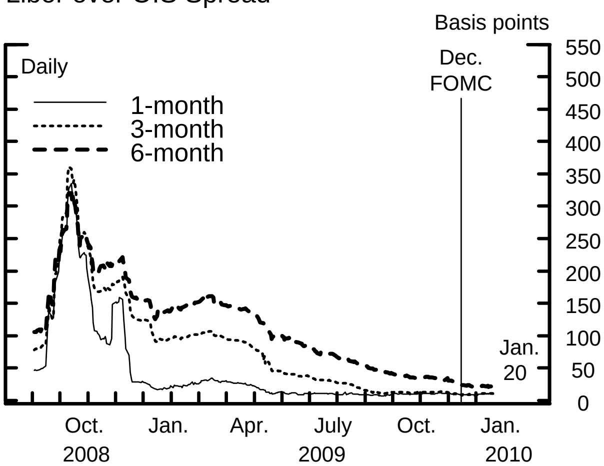
Note: Large banks ETF includes 24 banks. Small banks ETF includes 51 banks.
Source: Keefe, Bruyette & Woods (KBW) and Bloomberg.

Senior CDS Spreads for Banking Organizations



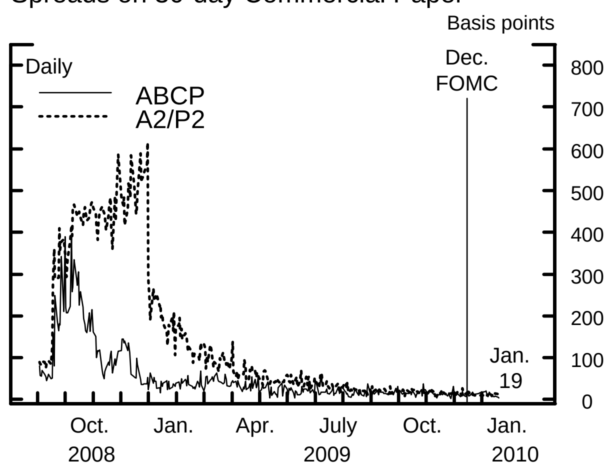
Note: Median spreads for 6 large bank holding companies and 8 other banks.
Source: Markit.

Libor over OIS Spread



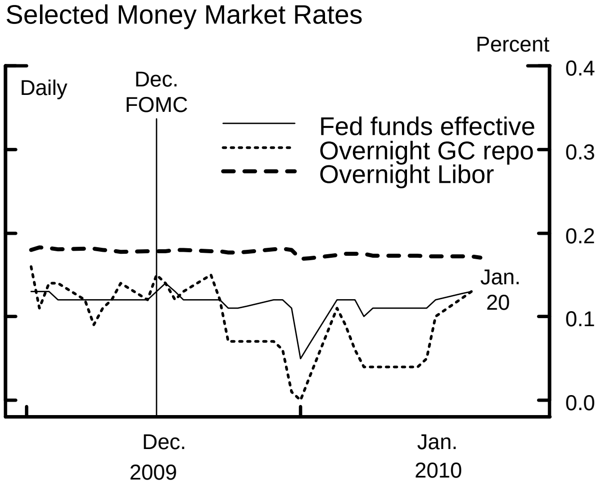
Source: British Bankers' Association and Prebon.

Spreads on 30-day Commercial Paper



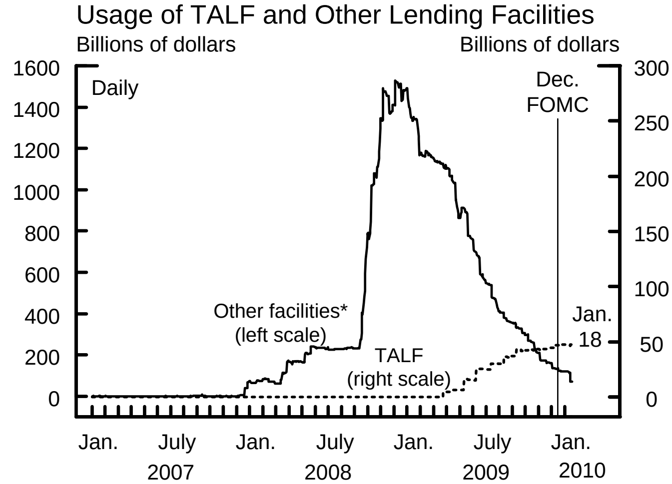
Note: The ABCP spread is the AA ABCP rate minus the AA nonfinancial rate. The A2/P2 spread is the A2/P2 nonfinancial rate minus the AA nonfinancial rate.
Source: Depository Trust & Clearing Corporation.

Selected Money Market Rates



Source: Federal Reserve Board.

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.

Financial Institutions and Short-Term Funding Markets

Over the intermeeting period, investor sentiment about prospects for financial institutions improved a bit further. Stock prices of both large and regional banks increased. CDS spreads ticked up for large bank holding companies and were about flat for other banks. In December, a few major banking organizations issued common equity to private investors and repaid the remainder of the government's preferred equity shares. However, the Treasury Department continues to hold common equity shares in Citigroup. Recently, sentiment about financial institutions appeared to be boosted by a generally positive start to the earnings season and only tempered somewhat by the Administration's proposal for a "financial crisis responsibility fee" that would be levied on financial institutions with more than $50 billion in total assets.

In December, the Treasury announced that it would increase its capital commitment to Fannie Mae and Freddie Mac from $200 billion per institution to any amount necessary to ensure that each firm would maintain positive net worth over the next three years. In addition, the Treasury provided additional capital to GMAC, though not as much as had been anticipated.

Short-term funding markets were generally stable over the intermeeting period. One- and three-month Libor-to-OIS spreads remained low while six-month spreads continued to edge down. Spreads on A2/P2-rated commercial paper and AA-rated ABCP held steady at the low end of their ranges since mid-2007. Strong demand for Treasury bills in the cash and repo market, together with a seasonal decline in bills outstanding, put downward pressure on both bill yields and short-term repo rates.

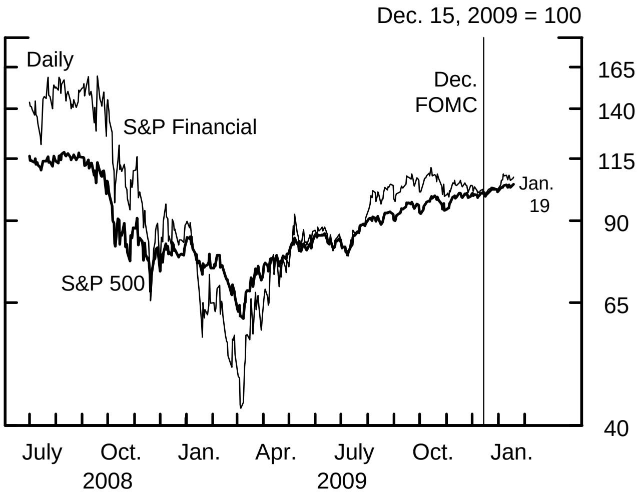
Year-end pressures in short-term funding markets were generally modest amid ample liquidity. The repo market experienced some year-end dislocations, with a few transactions reportedly occurring at negative interest rates, but that market now appears to have largely recovered.

Federal Reserve Purchase Programs and Facilities

Use of Federal Reserve credit facilities edged lower over the intermeeting period, and market commentary suggests little concern about the impending expiration of a number of the facilities. Three of the facilities scheduled to expire on February 1—the TSLF, PDCF, and AMLF—have no loans outstanding, while the CPFF, also set to expire on the same date, has a modest amount outstanding. Because of the normal lack of market activity around year-end, there was only one TALF-supported new issue over the

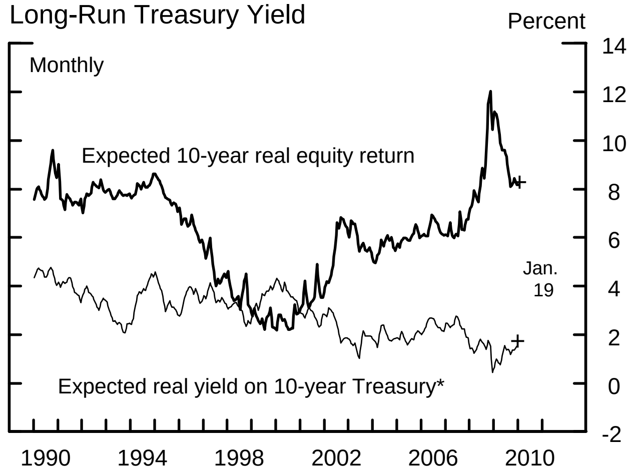
Corporate Yields, Risk Spreads, and Stock Prices

Selected Stock Price Indexes



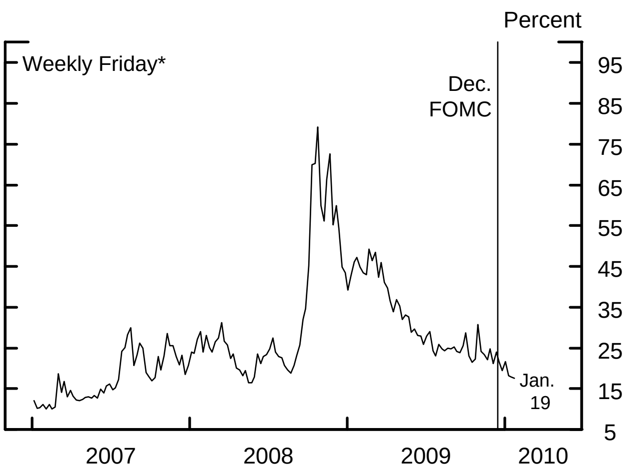
Source: Standard & Poor's.

Expected Real Equity Return and Long-Run Treasury Yield



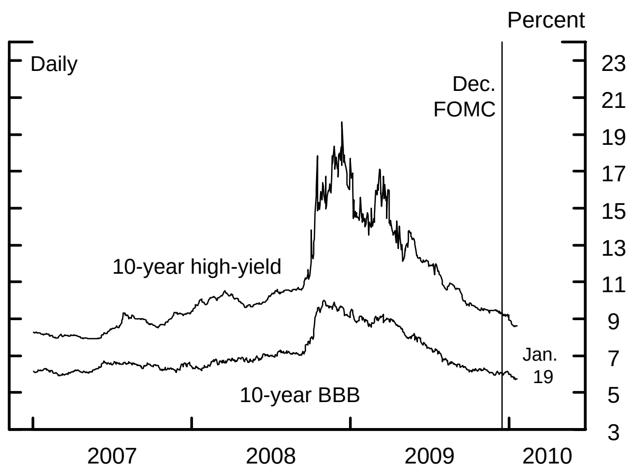
* Off-the-run 10-year Treasury yield less Philadelphia Fed 10-year expected inflation.
+ Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.
Source: Thomson Financial.

Implied Volatility on S&P 500 (VIX)



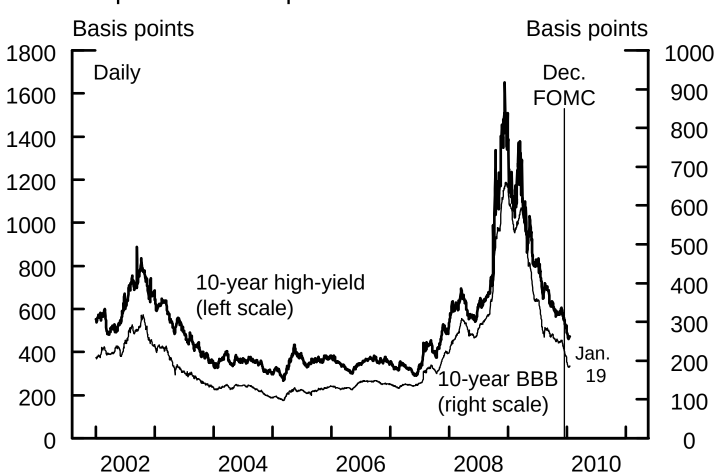
* Latest observation is for most recent business day.
Source: Chicago Board of Exchange.

Corporate Bond Yields



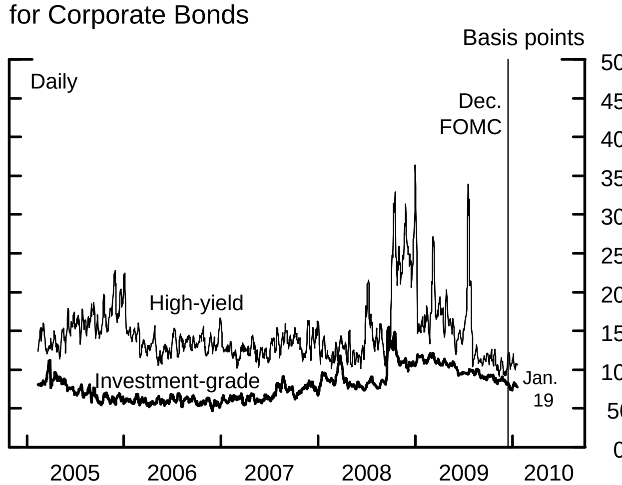
Source: Staff estimates of smoothed yield curves based on Merrill Lynch bond data.

Corporate Bond Spreads



Note: Spreads over 10-year Treasury yield.
Source: Staff estimates of smoothed corporate yield curves based on Merrill Lynch data and smoothed Treasury yield curve.

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.

intermeeting period, a $1.5 billion auto floor-plan ABS deal. At the mid-December CMBS subscription, $1.3 billion in loans collateralized by legacy CMBS were extended, and a similar amount is expected for the January subscription.

In December, the Federal Reserve Board proposed the establishment of a term deposit facility. Under the proposal, the Federal Reserve banks would offer interest-bearing term deposits to eligible institutions through an auction mechanism as a means of draining reserves. The news was generally well received by markets and elicited little price response.

Stock Prices and Corporate Interest Rates

Broad stock-price indexes rose about 4 percent, on net, over the intermeeting period, consistent with further indications that the economy is recovering. The gap between the staff's estimate of the expected real equity return over the next 10 years for S&P 500 firms and the real 10-year Treasury yield—a gauge of the equity risk premium—was little changed and remained well above its average level during the past decade. However, option-implied volatility on the S&P 500 index edged down to the low end of its range since mid-2007.

Over the intermeeting period, yields on both investment- and speculative-grade corporate bonds declined, even as those on comparable-maturity Treasury securities inched up. As a result, spreads on investment-grade and speculative-grade corporate bonds narrowed about 45 basis points and 80 basis points respectively. Risk spreads on investment-grade corporate bonds have nearly returned to the levels that prevailed before mid-2007. Estimates of bid-asked spreads for corporate bonds—a measure of liquidity in the corporate bond market—remained steady. In the leveraged loan market, average bid prices rose and bid-asked spreads were little changed.

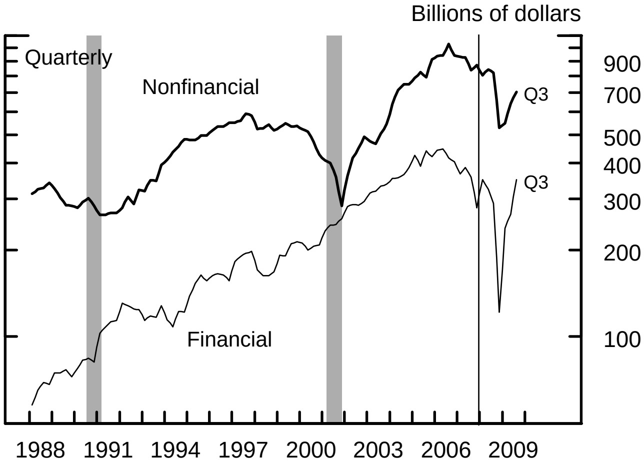
Corporate Earnings and Credit Quality

As shown by data from the national income accounts, profits of nonfinancial and financial corporations continued to rebound in the third quarter. Amid relatively few earnings announcements or warnings through mid-January, analysts' forecasts of year-ahead earnings for S&P 500 firms were little changed. Over the past several days, the initial spate of fourth-quarter earnings reports generally exceeded analyst forecasts.

On balance, the credit quality of nonfinancial firms has continued to improve in recent months. The aggregate ratio of debt to assets for nonfinancial corporations decreased in

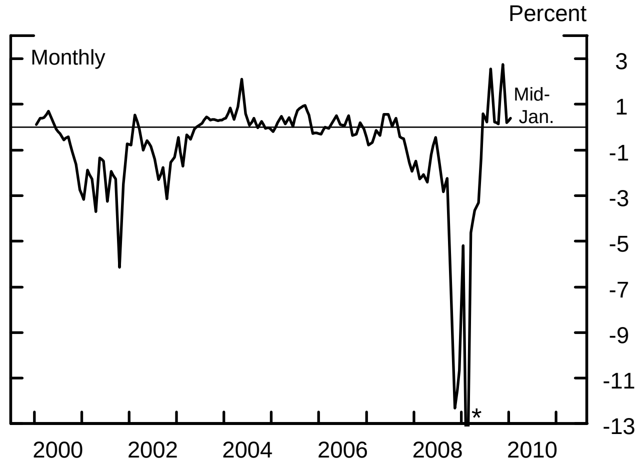
Corporate Earnings and Credit Quality

Domestic Corporate Profits before Tax*



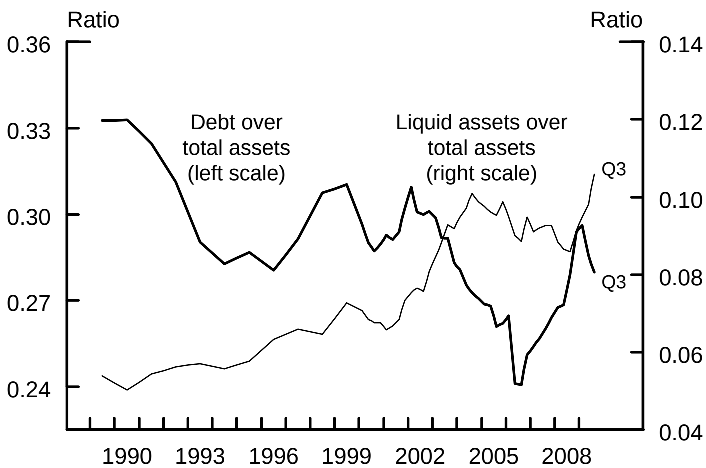
Note: Shaded bars indicate periods of business recessions defined by the National Bureau of Economic Research (NBER). Vertical line represents the last NBER business cycle peak.
* Profits before tax plus capital consumption adjustment.
Source: Bureau of Economic Analysis.

Revisions to Expected S&P 500 Earnings



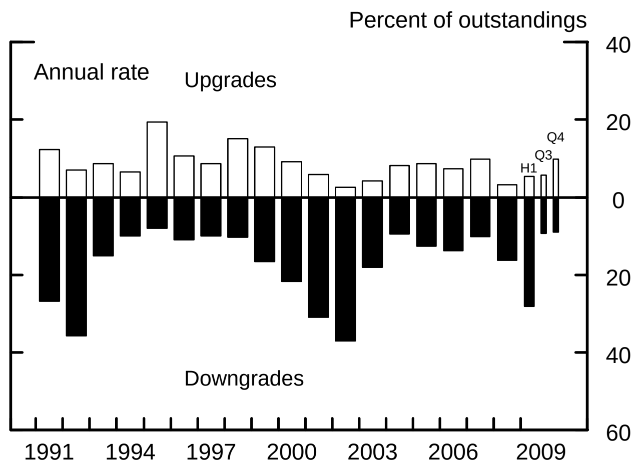
Note: Index is a weighted average of the percent change in the consensus forecasts of current-year and following-year earnings per share for a fixed sample.
* Revision in Feb. 2009 was -17.2%.
Source: Thomson Financial.

Financial Ratios for Nonfinancial Corporations



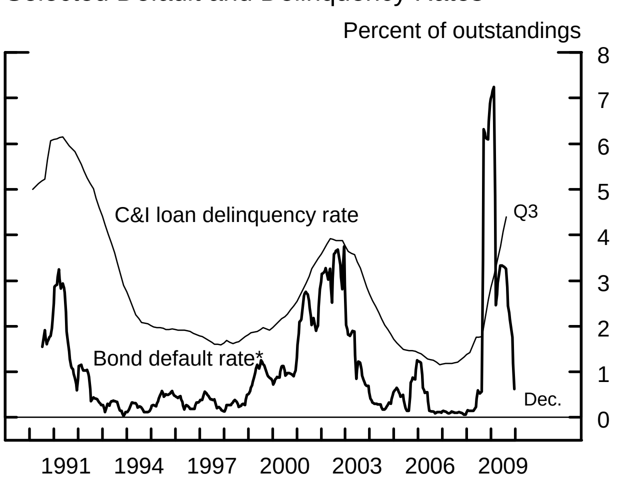
Note: Data are annual through 1999 and quarterly thereafter.
Source: Compustat.

Bond Ratings Changes of Nonfinancial Companies



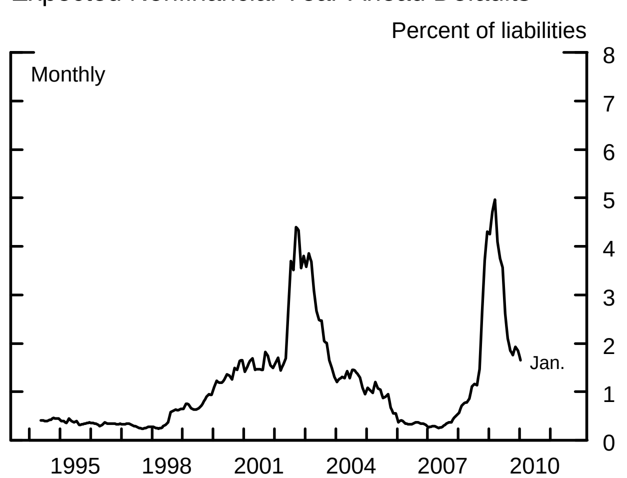
Source: Calculated using data from Moody's Investors Service.

Selected Default and Delinquency Rates



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

the third quarter, while the aggregate liquid asset ratio rose and now stands above its previous peak in 2004. The pace of nonfinancial corporate ratings downgrades by Moody's remained moderate in the fourth quarter, while the pace of upgrades rebounded, largely owing to the upgrade of Ford Motor Company in December. Meanwhile, the six-month trailing bond default rate for all U.S. firms dropped further in December and has now retraced almost all of the run-up since the outset of the financial crisis. The year-ahead expected default frequency for nonfinancial firms from Moody's KMV inched down a bit in the month ending in mid-January.

Business Finance

In December, gross issuance of investment-grade and speculative-grade bonds by nonfinancial corporations continued to be solid, and early indications suggest that bond issuance has picked up a bit in January. In contrast, commercial paper outstanding was little changed, and C&I loans continued to contract. Overall, net debt financing by nonfinancial businesses was close to flat in the fourth quarter, after declining in the third quarter, consistent with weak demand for credit and still tight credit conditions at banks.

Gross public equity issuance by nonfinancial firms maintained its solid pace in December; the pace was fueled by the continued strength of initial equity offerings. Equity retirements from cash-financed mergers rose sharply in the fourth quarter, mostly because of the completion of two large deals in the pharmaceutical industry. As a result, net equity issuance by nonfinancial firms, which had been positive in the first three quarters of 2009, turned negative in the fourth quarter. Although announcements of new share repurchase programs were sparse in the fourth quarter, announcements of cash-financed mergers and acquisitions increased.

Public equity issuance by financial firms surged in December, as several large banks were able to sell record-high volumes of shares to investors to raise funds to repay the Treasury for capital acquired under the TARP program. Gross bond issuance by financial firms continued to be somewhat slower than in the third quarter.

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 3½ percent in the third quarter of 2009, and recent data suggest another decline in the fourth quarter. In December, the dollar value of commercial real estate sales ticked up, as market participants tried to close deals by the end of the year, but the level of activity remained

Business Finance

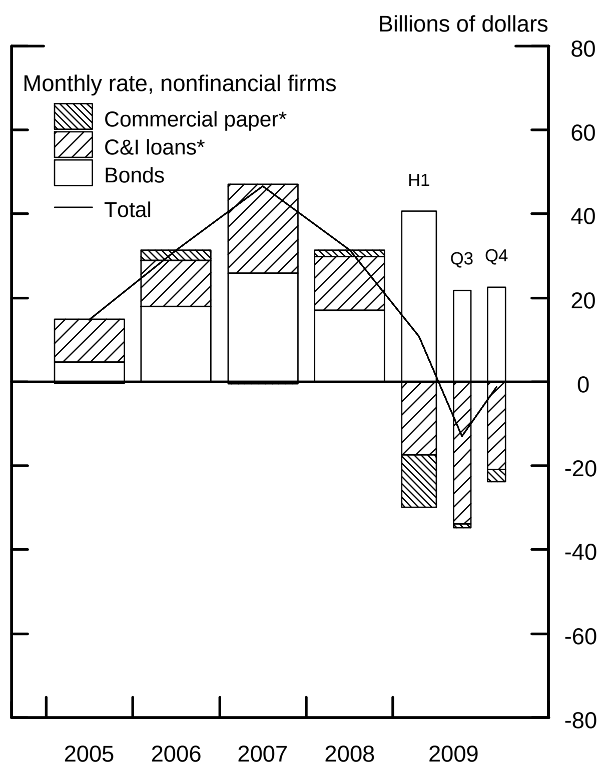
Gross Issuance of Securities by U.S. Corporations

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

Type of security	2005	2006	2007	2008	2009 H1	2009 Q3	2009 Q4	2009 Dec.
Nonfinancial corporations								
Stocks[1]	4.6	4.7	5.5	3.7	5.3	5.4	5.0	4.8
Initial public offerings	1.7	1.8	1.6	.3	.2	.6	1.6	1.5
Seasoned offerings	2.8	2.9	3.8	3.4	5.1	4.8	3.4	3.3
Bonds[2]	18.7	29.3	35.1	27.7	50.1	30.4	30.3	24.0
Investment grade	8.7	13.1	17.5	19.5	32.6	13.4	14.3	10.0
Speculative grade	5.2	6.2	7.5	1.8	5.3	7.4	8.2	9.7
Other (sold abroad/unrated)	4.8	10.1	10.0	6.4	12.2	9.7	7.8	4.3
Memo								
Net issuance of commercial paper[3]	-.2	2.4	-.4	1.6	-12.4	-.9	-2.9	.3
Change in C&I loans at commercial banks[3]	10.2	11.0	21.2	12.8	-17.4	-33.8	-20.9	-22.0
Financial corporations								
Stocks[1]	5.0	5.3	8.6	13.5	15.9	5.5	19.5	53.7
Bonds[2]	170.4	180.6	151.7	45.4	44.5	38.9	28.0	29.3

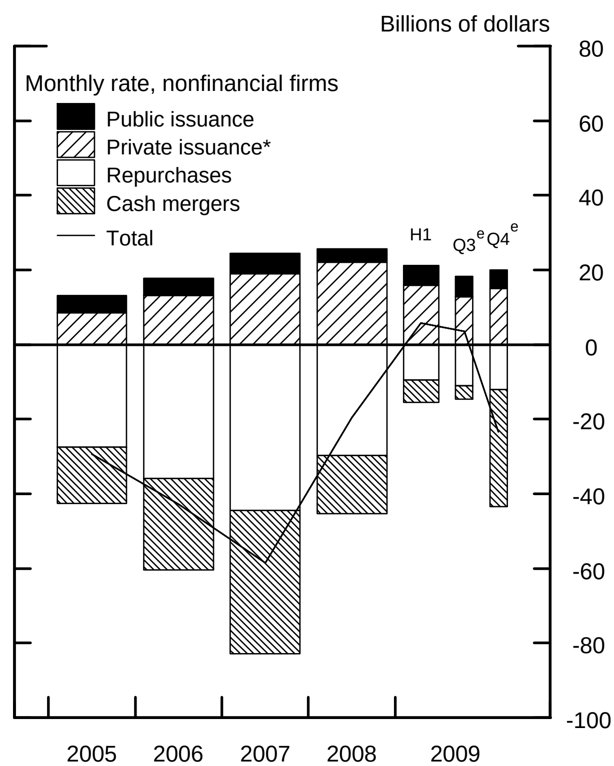
Note: Components may not sum to totals because of rounding.
1. Excludes private placements and equity-for-equity swaps that occur in restructurings.
2. Data include regular and 144a private placements. Bond totals reflect gross proceeds rather than par value of original discount bonds. Bonds are categorized 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.
Source: Depository Trust & Clearing Corporation; Thomson Financial; Federal Reserve Board.

Selected Components of Net Debt Financing



* Seasonally adjusted, period-end basis.
Source: Depository Trust & Clearing Corporation; Thomson Financial; Federal Reserve Board.

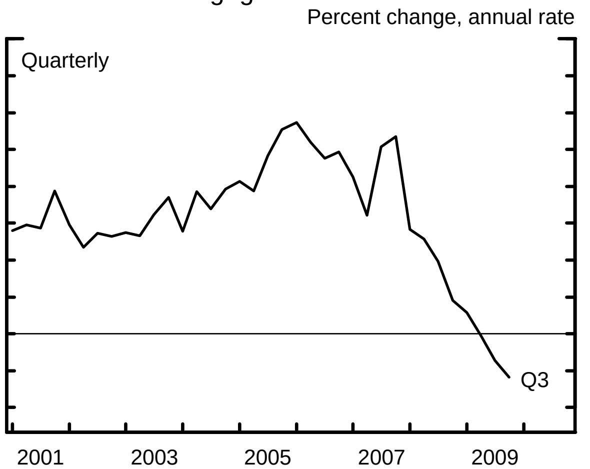
Components of Net Equity Issuance



* 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.

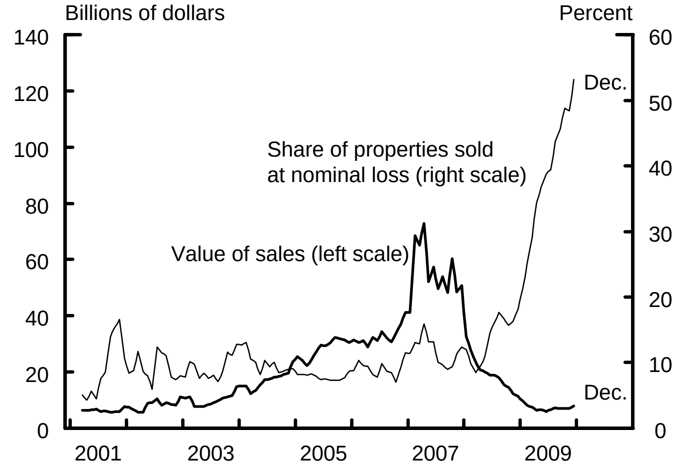
Commercial Real Estate

Commercial Mortgage Debt



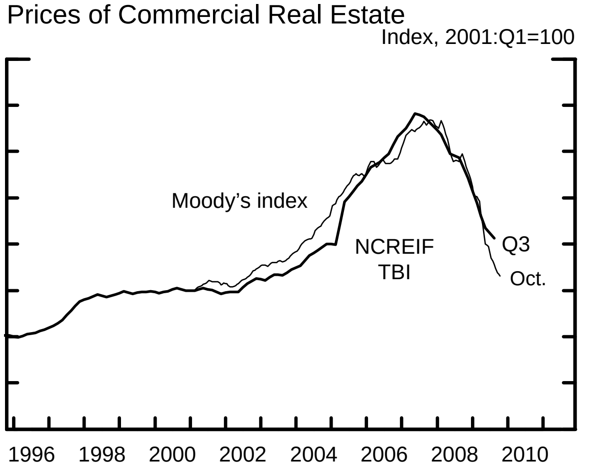
Source: Federal Reserve Board.

Commercial Real Estate Sales



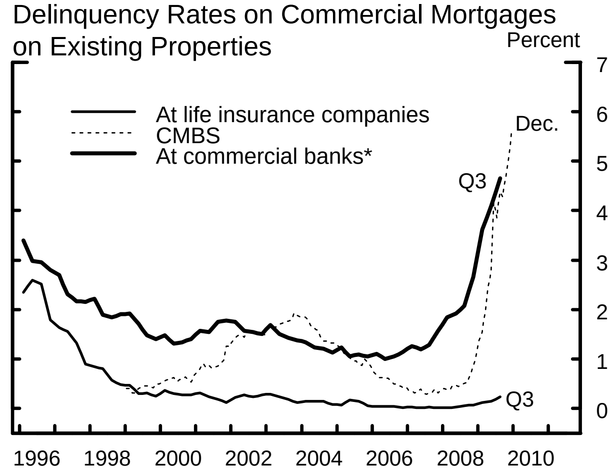
Note: 3-month moving averages.
Source: Real Capital Analytics.

Prices of Commercial Real Estate



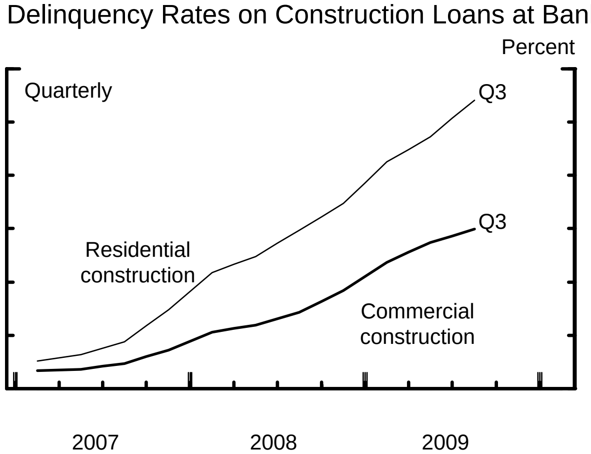
Note: NCREIF TBI series re-weighted by staff to exclude multifamily.
Source: NCREIF; MIT Center for Real Estate; Moody's.

Delinquency Rates on Commercial Mortgages on Existing Properties



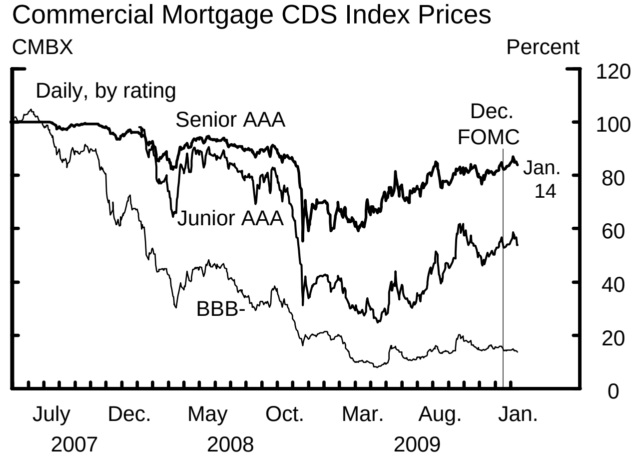
* Excluding farmland.
Note: CMBS are commercial mortgage-backed securities.
Source: Citigroup; Call Report data; ACLI.

Delinquency Rates on Construction Loans at Banks



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

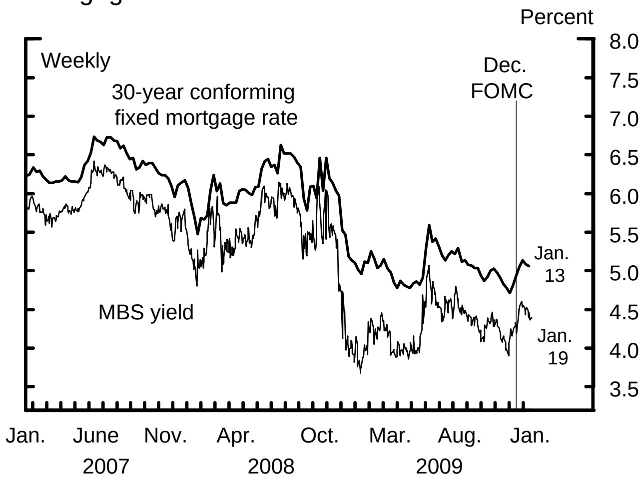
Commercial Mortgage CDS Index Prices



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

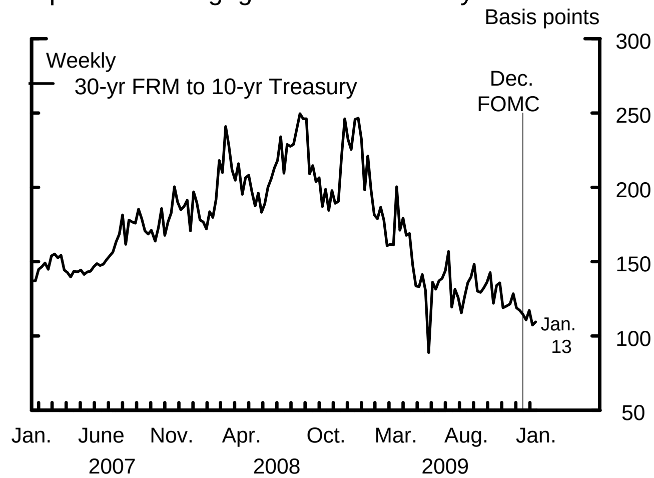
Residential Mortgages

Mortgage Rate and MBS Yield



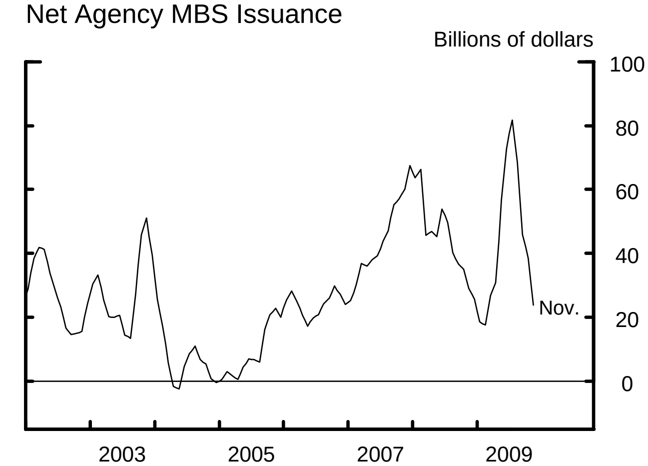
Note: For MBS yield, Fannie Mae 30-year current coupon rate.
Source: For mortgage rate, Freddie Mac; for MBS yield, Bloomberg.

Spread of Mortgage Rate to Treasury Yield



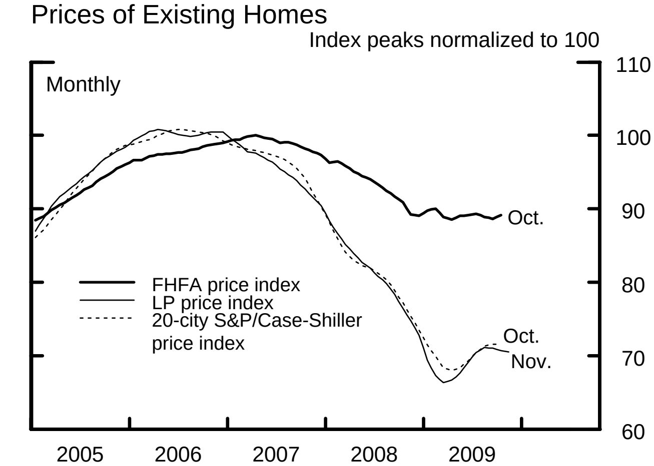
Note: Spread is relative to corresponding off-the-run Treasury yield.
Source: Bloomberg; Freddie Mac.

Net Agency MBS Issuance



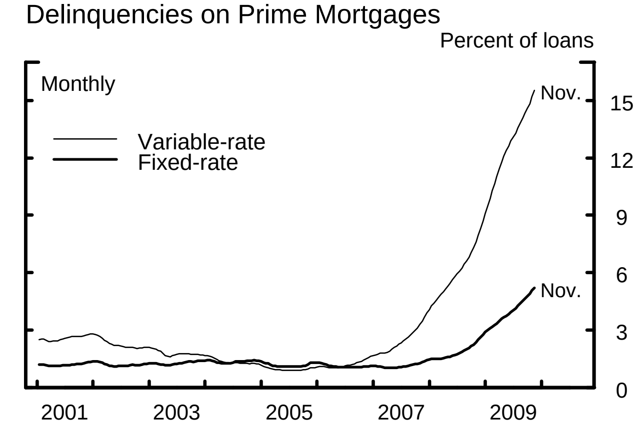
Note: 3-month moving average
Source: FHLMC, FNMA, and GNMA.

Prices of Existing Homes



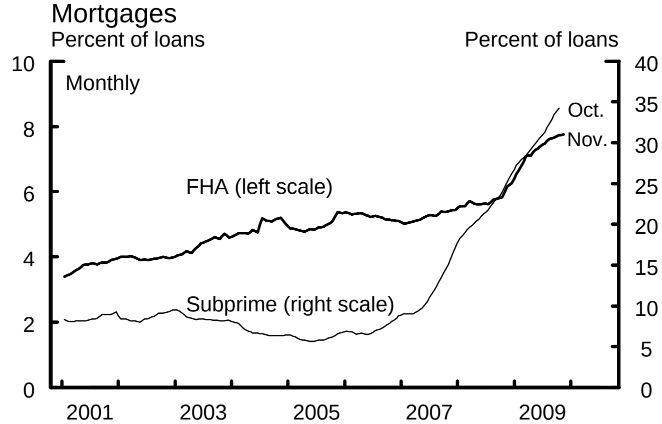
Source: For FHFA, Federal Housing Finance Agency; for LP, LoanPerformance, a division of First American CoreLogic; for S&P/Case-Shiller, Standard & Poor's.

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.

very low by historical standards and transaction prices appeared weak. In October, Moody's index of commercial property prices decreased about 2 percent, bringing the index back to its 2002 level—40 percent below its mid-2007 peak. Delinquency rates on loans in CMBS pools increased further in December. CDS index prices on CMBS were little changed, on net, over the intermeeting period.

Household Finance

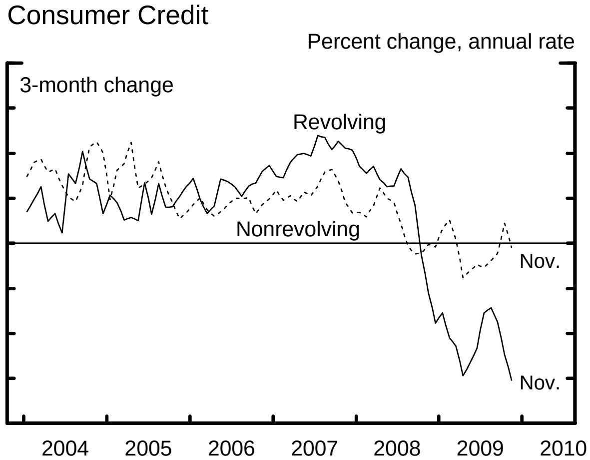
The average interest rate on 30-year conforming fixed-rate mortgages increased to just over 5 percent over the intermeeting period. However, the increase in this mortgage rate was slightly smaller than that in the 10-year Treasury yield, leaving the mortgage spread to the 10-year Treasury yield a touch narrower. Net issuance of agency MBS dropped in November to its early 2009 level. As yet, there are few signs that the tapering of the Federal Reserve's purchases of MBS ahead of the scheduled completion of the MBS purchase program in March is putting much upward pressure on MBS yields.

The repeat-sales house-price index from LoanPerformance ticked down in October and November, and the S&P/Case-Shiller index was unchanged in October, after rising modestly in previous months. Both indexes are about 30 percent below their peaks in 2006. In November, delinquency rates for fixed- and variable-rate prime mortgages continued to climb and the delinquency rate for FHA-backed loans reached nearly 8 percent.

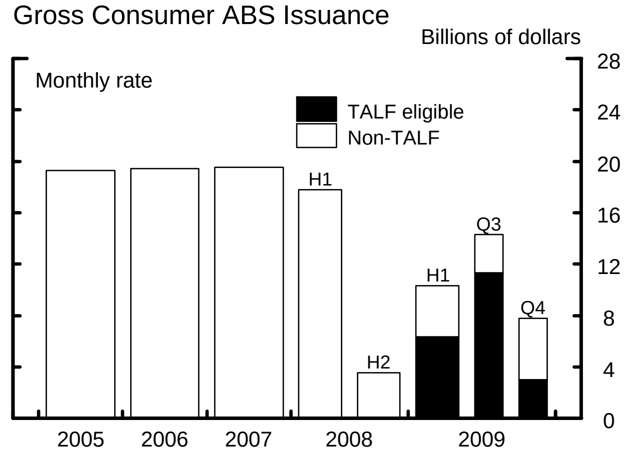
Consumer credit contracted for the tenth consecutive month in November, pushed down by a further steep decline in revolving credit. Gross consumer ABS issuance slowed in the fourth quarter, in response to a widening in spreads and typical year-end effects, but is expected to be strong in the first quarter of 2010, as suggested by the current calendar of offers. Credit card ABS issuance was minimal in October and November but picked up in December, following the FDIC's announcement of a temporary extension of safe-harbor rules for its handling of securitized assets should a sponsoring bank be taken into receivership. Changes in spreads of consumer loan interest rates over two-year Treasury yields were mixed. Credit card interest rate spreads continued to increase in November, while spreads on new auto loans continued to trend down through early January. Delinquency rates on consumer loans remained high in recent months.

Long-term mutual funds received sizable net inflows in December, with large net flows into bond funds more than offsetting net redemptions from equity funds. In early January, bond, hybrid, and equity funds all attracted net inflows. Money market funds

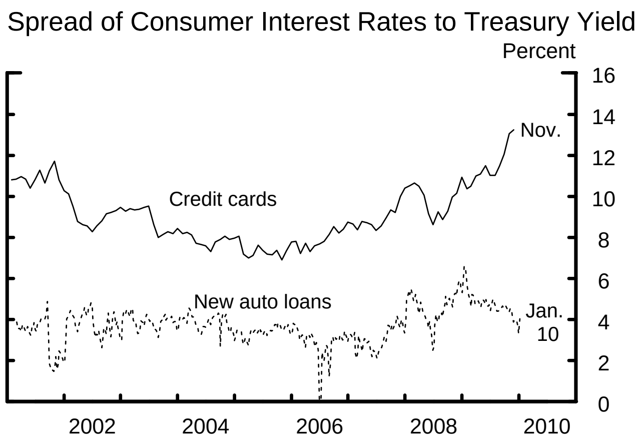
Consumer Credit and Mutual Funds



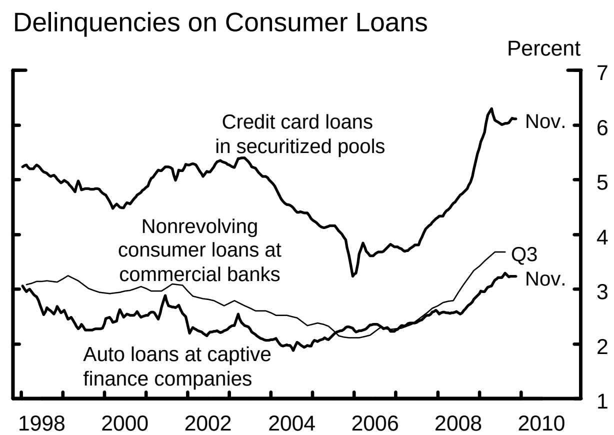
Source: Federal Reserve Board.



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



Note: Spreads are relative to 2-yr Treasury yields.
Source: For credit cards, Mintel; for auto loans, PIN.



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

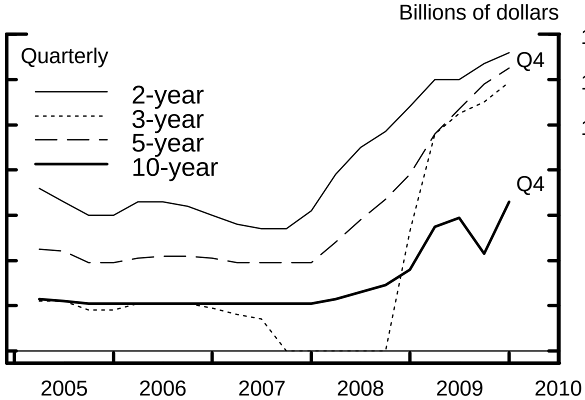
Net Flows into Mutual Funds
(Billions of dollars, monthly rate)

Fund type	2008		2009					Assets
	H1	H2	H1	Q3	Oct.	Nov.	Dec.[e]	Nov.
Total long-term funds	**11.8**	**-49.4**	**23.3**	**47.9**	**40.7**	**36.8**	**26.9**	**7,641**
Equity funds	**-3.6**	**-35.2**	**-0.1**	**0.9**	**-7.1**	**-2.8**	**-4.2**	**4,825**
Domestic	-5.0	-20.2	0.9	-3.7	-14.8	-8.8	-8.1	3,580
International	1.3	-15.1	-1.0	4.6	7.8	6.0	3.9	1,245
Hybrid funds	**1.7**	**-5.0**	**-0.3**	**5.2**	**2.9**	**3.4**	**2.6**	**629**
Bond funds	**13.8**	**-9.2**	**23.8**	**41.8**	**44.9**	**36.2**	**28.6**	**2,186**
High-yield	-0.2	0.1	2.8	1.4	0.7	0.3	1.2	182
Other taxable	11.1	-7.7	16.2	31.8	39.5	31.0	22.5	1,554
Municipals	2.9	-1.6	4.8	8.7	4.8	5.0	4.8	450
Money market funds	**56.1**	**59.6**	**-27.3**	**-81.1**	**-70.9**	**-33.7**	**-30.7**	**3,327**

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

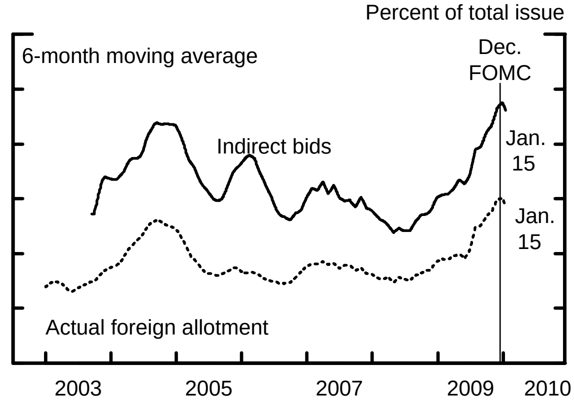
Treasury Finance

Treasury Auction Amounts



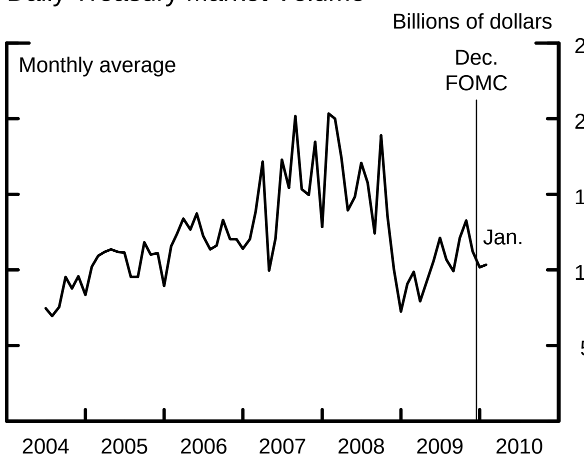
Note: No 3-year issuance between Q3 2007 and Q3 2008.
Source: U.S. Treasury.

Foreign Participation in Treasury Auctions



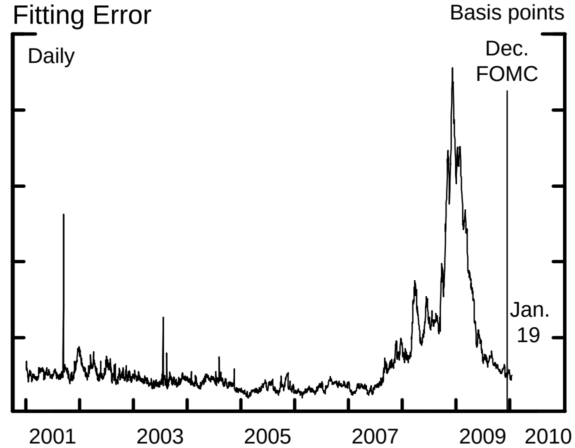
Note: Indirect bids and actual allotment are a percentage of the total amount accepted, including the amount tendered to the Federal Reserve. Moving averages include 2-, 5-, and 10-year original auctions and reopenings.
Source: Federal Reserve Board.

Daily Treasury Market Volume



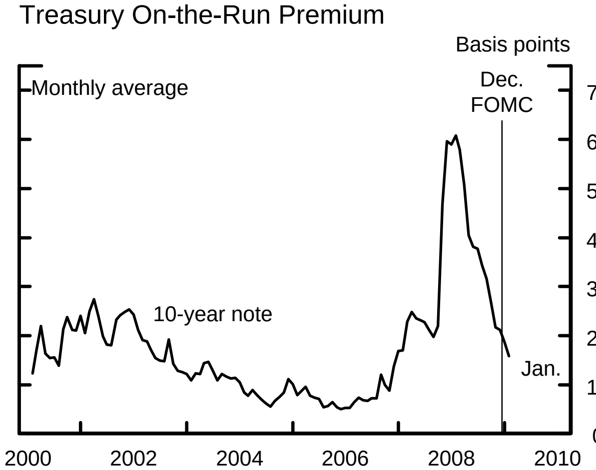
Note: January observation is the month-to-date average.
Source: Bloomberg.

Average Absolute Nominal Yield Curve Fitting Error



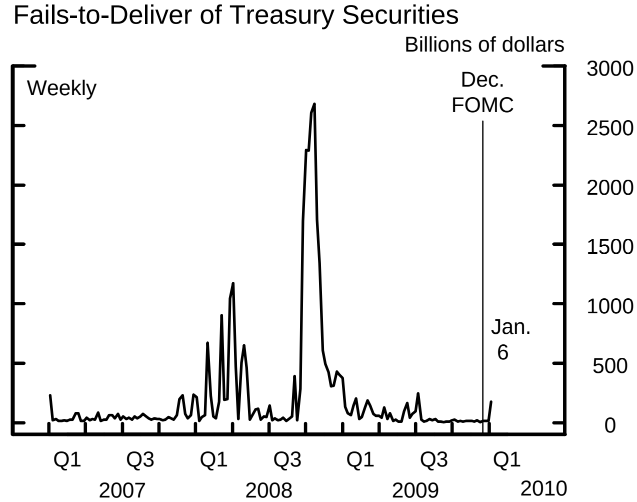
Note: Calculated from securities with 2 to 10 years until maturity, excluding on-the-run and first off-the-run securities.
Source: Federal Reserve Board.

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. January 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

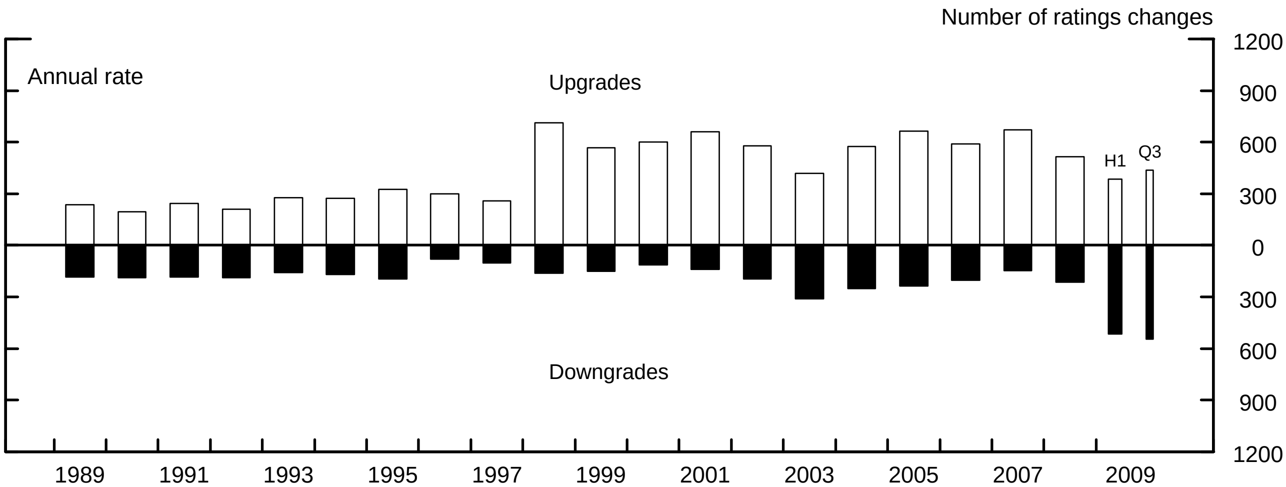
Gross Offerings of Municipal Securities

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

Type of security	2005	2006	2007	2008	2009 H1	2009 Q3	2009 Q4	2009 Dec.
Total	38.4	36.1	40.4	37.6	36.6	42.0	43.2	40.9
Long-term [1]	34.2	32.5	35.5	32.6	33.0	30.7	40.2	36.2
Refundings [2]	15.6	10.6	12.6	14.6	12.5	11.2	16.0	10.0
New capital	18.6	21.9	22.9	17.9	20.4	19.5	24.2	26.1
Short-term	4.2	3.7	4.9	5.0	3.6	11.2	3.1	4.7
Memo: Long-term taxable	2.1	2.5	2.4	2.3	4.5	7.9	11.9	10.5

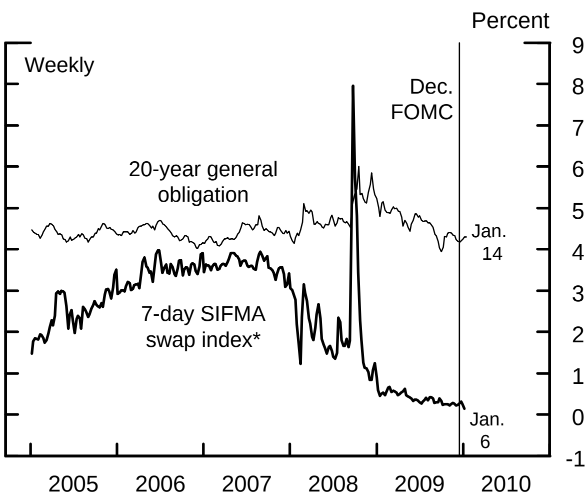
1. Includes issues for public and private purposes.
2. All issues that include any refunding bonds.
Source: Thomson Financial.

Ratings Changes



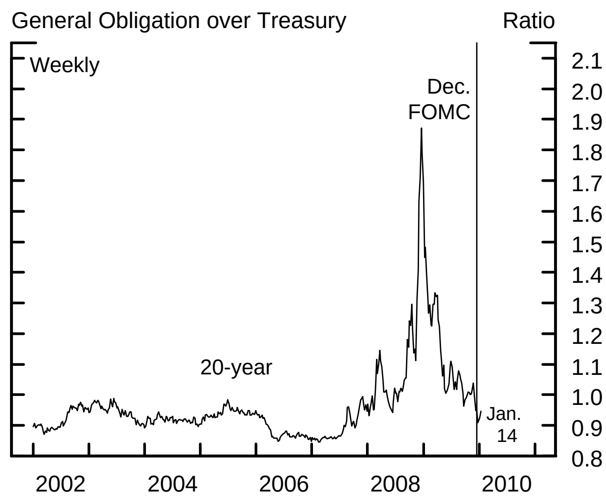
Source: Moody's Credit Trends.

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.

continued to experience net outflows in December and early January, as yields paid by these funds remained extremely low.

Treasury Finance

During the intermeeting period the Treasury auctioned $192 billion of nominal coupon securities and $10 billion of inflation-protected securities. Consistent with typically weaker demand around year-end, the auctions in the last week of 2009 were less favorably received than those in previous months, as indicated by relatively-low bid-to-cover ratios. However, the auctions since year-end have garnered stronger demand.

Also consistent with typical seasonal patterns, Treasury trading volumes were on the lower side of their recent ranges. The repo market experienced some dislocations, including negative repo rates and a modest rise in fails to deliver. However, the cash market continued to function normally, with on-the-run premiums and yield curve fitting errors little changed over the intermeeting period.

State and Local Government Finance

Financing conditions in the municipal bond market appeared solid. Gross issuance of long-term municipal bonds remained robust in December, mostly driven by continued strength in new capital issuance. The pace of short-term issuance picked up a bit, but remained subdued. Ratings data from Moody’s show that the number of municipal bond downgrades outpaced the number of upgrades in the third quarter of 2009. Yields on long-term municipal bonds were about flat over the intermeeting period and their ratios to those on comparable-maturity Treasury securities remained at levels within the typical historical range.

Money and Bank Credit

M2 continued to expand sluggishly in December, rising about 2 percent at an annual rate. Although growth in liquid deposits remained robust, small time deposits and retail money market mutual funds continued to contract at a rapid pace in response to the low yields on those assets. The monetary base was roughly flat in December, as the contraction in credit outstanding under liquidity and credit facilities was about offset by the increase in reserves from the large-scale asset purchases.

M2 Monetary Aggregate

(Based on seasonally adjusted data)

Aggregate and components	Percent change (annual rate)[1]						Level (billions of dollars), Dec. (p)
	2008	2009 (p)	2009 Q3	2009 Q4 (p)	2009 Nov.	2009 Dec. (p)	
M2	8.5	4.9	1.6	3.4	3.9	2.1	8,524
Components[2]							
Currency	5.8	6.9	3.8	2.0	-1.3	.6	862
Liquid deposits[3]	6.9	17.2	14.5	18.7	18.3	14.7	5,676
Small time deposits	12.3	-16.0	-23.6	-31.9	-30.9	-30.0	1,168
Retail money market funds	13.0	-23.0	-32.2	-34.8	-33.3	-34.9	814
Memo:							
Institutional money market funds	24.9	-1.9	-11.0	-27.6	-29.9	-32.2	2,220
Monetary base	70.3	41.6	-1.9	62.1	51.0	-.7	2,018

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.
p Preliminary.
Source: Federal Reserve Board.

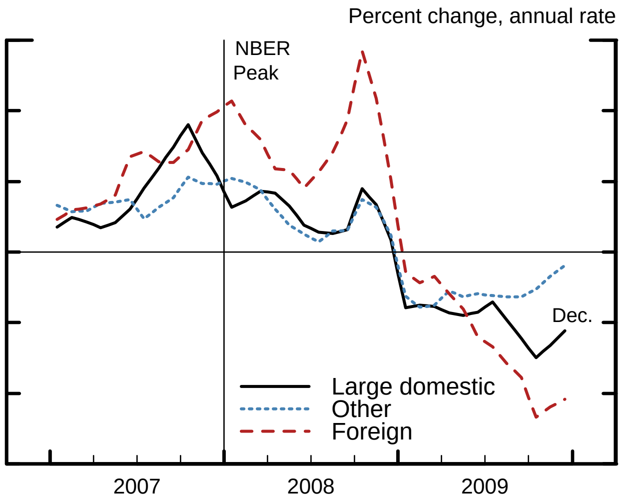
Commercial Bank Credit

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

Type of credit	2007	2008	2009	Q3 2009	Oct. 2009	Nov. 2009	Dec. 2009	Level[1] Dec. 2009
Total	9.9	4.9	-6.5	-7.1	-10.7	-4.6	-3.4	9,087
Loans[2]								
Total	10.6	4.4	-9.6	-12.3	-14.2	-5.5	-9.8	6,730
Core	9.5	5.0	-7.6	-9.5	-13.1	-7.2	-9.6	5,983
To businesses								
Commercial and industrial	19.2	16.3	-17.0	-19.8	-26.5	-16.5	-20.2	1,343
Commercial real estate	9.4	6.1	-4.4	-5.6	-9.9	-8.6	-9.0	1,647
To households								
Residential real estate	5.3	-3.2	-5.3	-7.8	-11.2	-.6	-1.7	2,159
Revolving home equity	5.6	13.0	.5	-4.5	-5.3	-5.7	-6.0	602
Closed-end mortgages	5.3	-8.0	-7.4	-9.1	-13.4	1.3	-.1	1,558
Consumer	6.8	7.1	-2.2	-3.7	-2.0	-6.2	-13.7	833
Memo: Originated[3]	6.5	5.7	-3.6	-4.6	-3.9	-9.0	-5.2	1,225
Other	18.5	.4	-22.8	-33.4	-22.8	8.0	-11.6	747
Securities								
Total	7.7	6.8	3.9	9.5	-.5	-1.8	15.2	2,358
Treasury and agency	-6.2	16.3	7.9	18.1	-.9	2.1	33.6	1,438
Other[4]	29.4	-4.2	-1.8	-2.4	.0	-7.6	-12.7	919

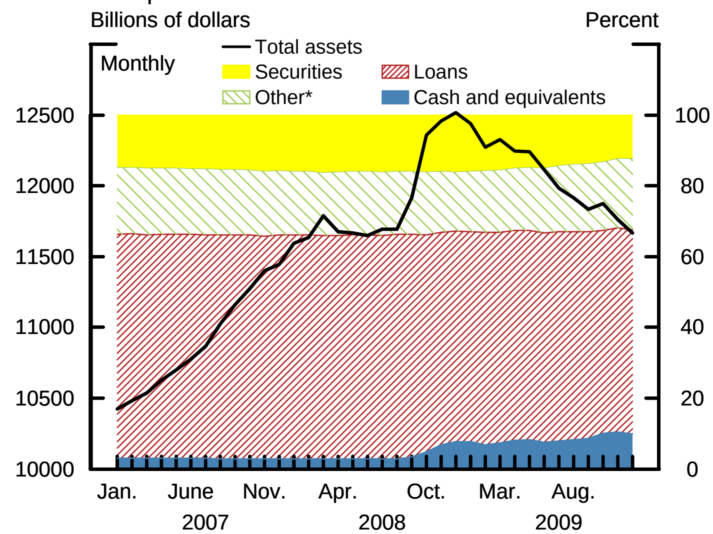
Note: Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. Data have been adjusted to remove the effects of mark-to-market accounting rules (FAS 115) and the initial consolidation of certain variable interest entities (FIN 46) and off-balance sheet vehicles (FAS 166 and 167). Data also account for the effects of nonbank structure activity of $5 billion or more.
1. Billions of dollars. Pro rata averages of weekly (Wednesday) levels.
2. Excludes interbank loans.
3. Includes an estimate of outstanding loans securitized by commercial banks that retained recourse or servicing rights.
4. Includes private mortgage-backed securities; securities of corporations, state and local governments, and foreign governments; and any trading account securities that are not Treasury or agency securities.
Source: Federal Reserve Board.

C&I Loans at Commercial Banks



Note: Three-month moving average based on seasonally adjusted data. Large domestic banks include the top 25 domestic banks by assets.
Source: Federal Reserve.

Composition of Assets at Commercial Banks



* Other assets include loans to banks, trading assets (excluding securities), and other assets not elsewhere classified.
Source: Federal Reserve.

Commercial bank credit continued to contract in December; an increase in banks' securities holdings was more than offset by a large drop in total loans[1]. C&I loans and commercial real estate loans again fell steeply. Paydowns continued to be the most commonly cited reason for the decline in C&I loans, and reports of large originations remained sparse. In the fourth quarter, C&I loans contracted sharply at large domestic banks and foreign banks, while the decline at smaller domestic banks abated somewhat. Holdings of closed-end residential mortgages were little changed in December, but home-equity loans continued to run off. Consumer loans originated by banks contracted further, reflecting continued substantial weakness in credit card loans.

For the year as a whole, the substantial decline in total loans was only partly offset by high growth in cash assets, which include reserves and now account for 10 percent of total bank assets. Overall, industry assets dropped more than 5 percent in 2009.

Although lending standards for most types of loans were little changed according to the January SLOOS, banks' standards and terms on all major loan types remained tight in the fourth quarter, and the demand for loans generally weakened further (see the appendix to this section). A substantial fraction of banks continued to tighten their credit policies on commercial real estate loans.

[1] Available data indicate that, so far, about 10 banks have consolidated about $115 billion in total assets onto their books in conjunction with the adoption of new accounting rules FAS 166 and 167, and many more banks are expected to do so by the end of the first quarter of 2010. The effects of these consolidations have been removed from the bank credit data presented here.

Appendix

Senior Loan Officer Opinion Survey on Bank Lending Practices

The January 2010 Senior Loan Officer Opinion Survey on Bank Lending Practices indicated that commercial banks generally ceased tightening standards on most loan types in the fourth quarter of last year but have yet to unwind the unprecedented tightening that has occurred over the past two years. The net fraction of banks reporting tighter loan terms continued to trend lower. Banks reported that loan demand from both businesses and households weakened further, on net, over the survey period.[1]

For most major loan categories covered by the survey, the net fraction of respondents that tightened standards in the fourth quarter of 2009 was close to zero, an indication that the recent bout of tightening in credit standards may be drawing to an end. However, banks continued to tighten a number of terms on loans to both businesses and households, although the net fractions of banks that reported doing so in the January survey generally stepped down again. Banks' policies on commercial real estate (CRE) lending are an exception, as large net fractions of respondents further tightened their credit standards during the final quarter of last year. In addition, banks reported that they had tightened terms on CRE loans substantially over the past year.

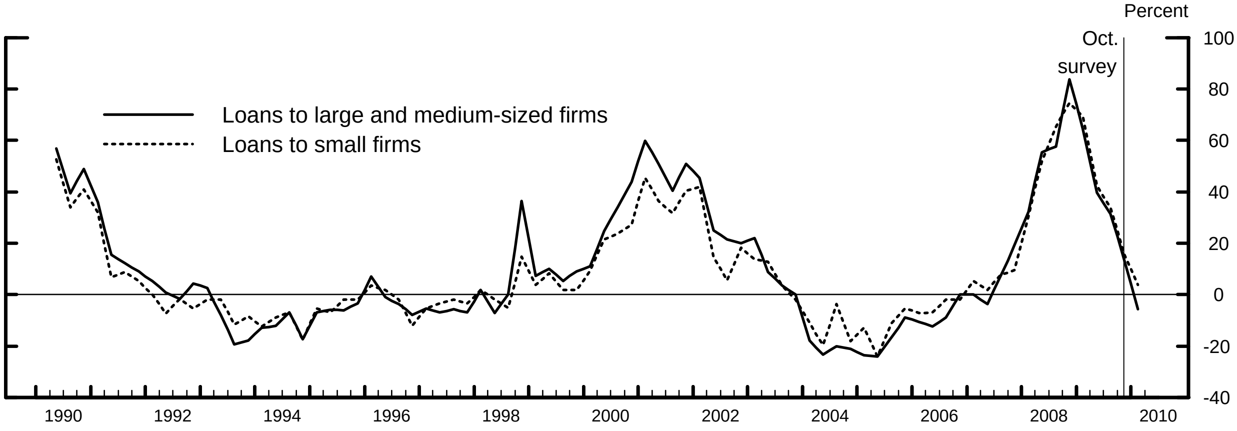
Banks' responses regarding commercial and industrial (C&I) lending indicated some disparities between recent changes in their credit policies for small firms and those for large and middle-market firms. For example, some banks reported easing a number of price and nonprice terms on C&I loans over the past three months, and, in several cases, a few more banks did so on loans to large and middle-market firms than did so on loans to small firms. These differences may partly reflect differences in the current and expected credit quality between firms in the two size categories. Indeed, in response to special questions on credit quality, banks indicated that the credit quality of their outstanding loans to large and middle-market firms in the fourth quarter was better than that for small firms; moreover, respondents indicated that the outlook for credit quality in 2010 was more positive for larger firms than for their smaller counterparts.

Demand from both businesses and households for all major categories of loans weakened further, on net, over the past three months. The net fractions of banks that reported weaker demand for

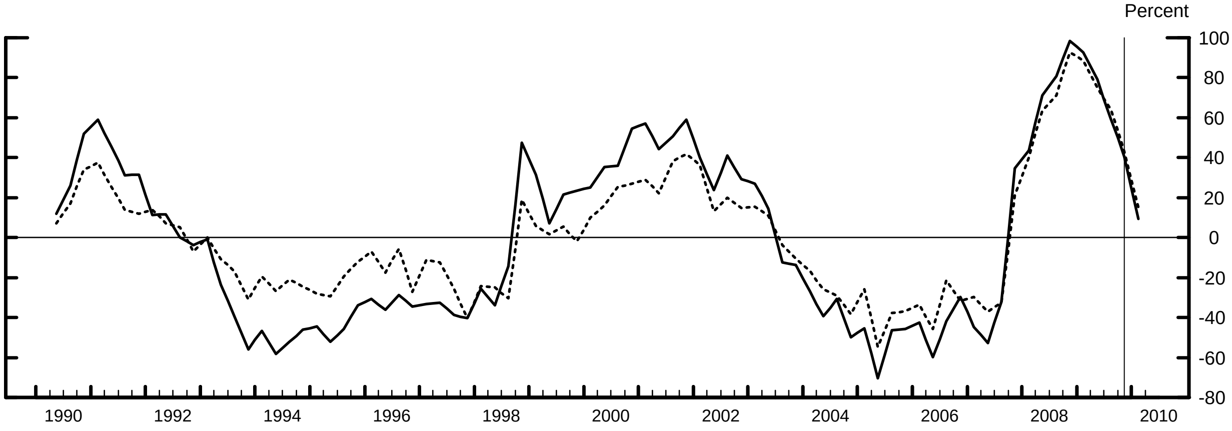
[1] The January 2010 survey addressed changes in the supply of, and demand for, loans to businesses and households over the past three months. The survey also included three sets of special questions: The first set asked banks to compare the delinquency rate of commercial and industrial loans made to small firms to the delinquency rate of such loans made to large and middle-market firms, the second set asked banks about changes in policies on commercial real estate loans over the past year, and the third set asked banks about their outlook for the loan quality of a number of categories of loans in 2010. This appendix is based on responses from 54 domestic banks and 22 U.S. branches and agencies of foreign banks. Respondent banks received the survey on or after December 29, 2009, and their responses were due by January 12, 2010.

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

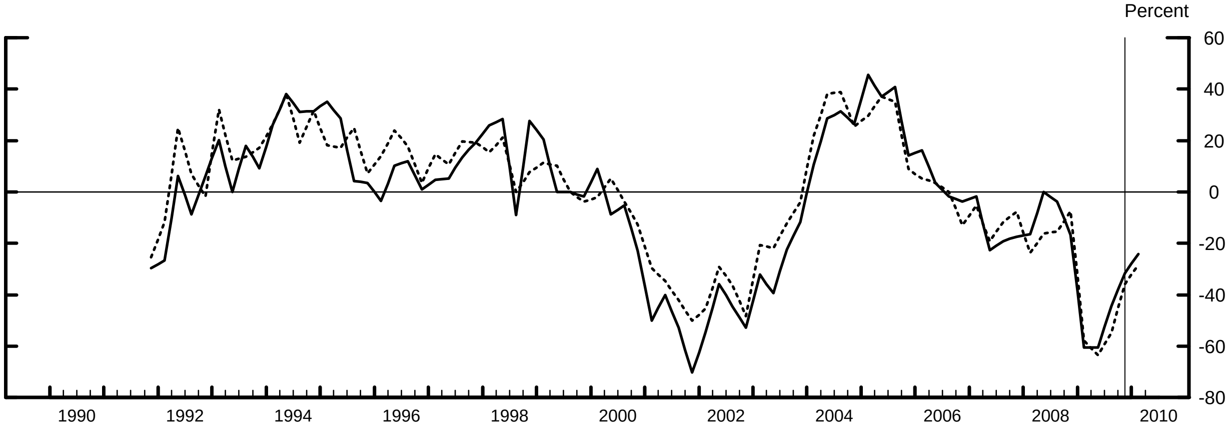
Net Percentage of Domestic Respondents Tightening Standards for Commercial and Industrial Loans



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



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



business loans continued to decline, while changes in the comparable readings on demand for loans to households were mixed.

In response to a set of special questions on asset quality, the majority of banks indicated that their outlook for the change in credit quality in 2010 was less pessimistic relative to their outlook, when asked one year ago, for the change in credit quality in 2009. Outside of commercial and prime residential mortgages, banks generally expect asset quality to stabilize this year.

Lending to Businesses

Questions on commercial and industrial lending. Overall, banks reported little net change in their standards for C&I loans in the fourth quarter of 2009. However, moderate net fractions of domestic banks continued to tighten both price and nonprice terms on C&I loans to large and middle-market firms as well as to small firms. In general, the net fractions of banks that reported a further tightening of loan terms over the past three months were considerably below those from recent surveys, though the net fraction of banks that reported further increases in loan rate premiums for risky borrowers remained somewhat elevated. In a tentative sign that the current credit cycle may be coming to an end, some of the largest domestic banks (those with assets greater than $20 billion) reported having eased loan terms to large and middle-market firms, particularly terms pertaining to loan maturities and loan spreads. Similarly, branches and agencies of foreign banks reported, on net, that they had eased most loan terms over the past three months.

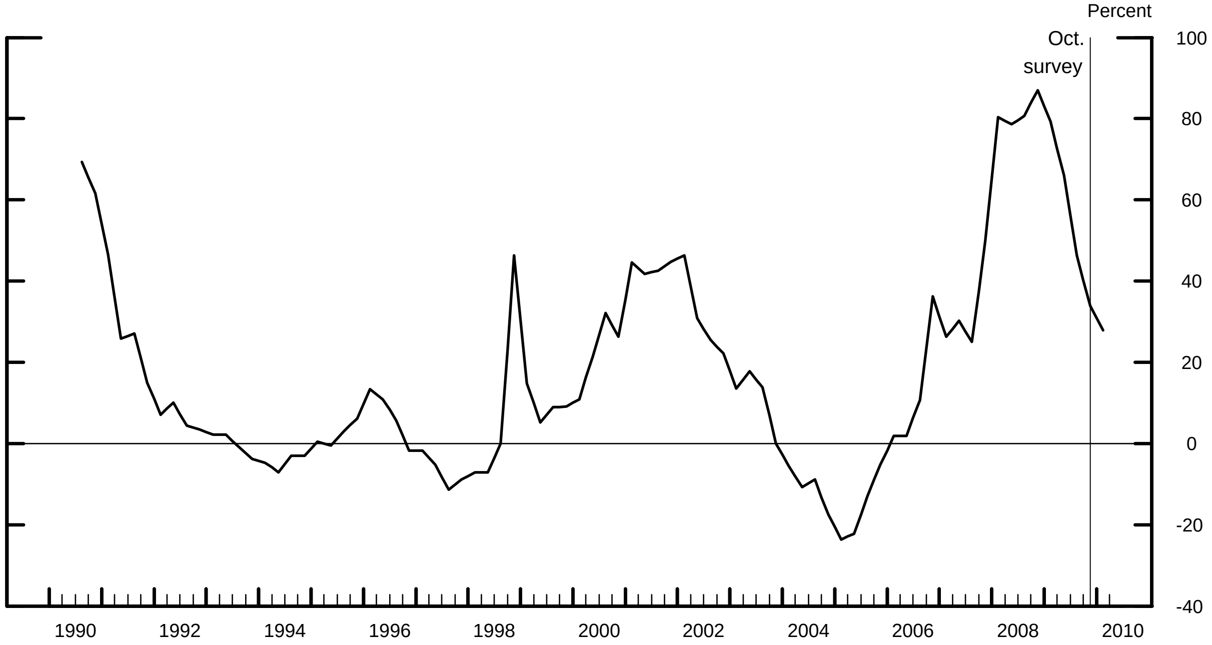
The reported thawing of loan terms at large domestic banks and foreign institutions for C&I loans to large firms is consistent with the substantial narrowing of credit spreads in the corporate bond market—an important alternative source of credit for large business borrowers—and improved conditions in the syndicated loan market, which includes many nonbank lenders. Indeed, almost all of the domestic and foreign institutions that reported having eased credit standards or loan terms over the past three months cited increased competition from other banks and from nonbank sources of funding as an important reason for the change in their lending posture. In addition, a majority of banks that eased some of their loan terms viewed the improved economic outlook as an important reason for the change in their credit policies.

In contrast, moderate net fractions of smaller domestic bank respondents (those with total assets below $20 billion) continued to tighten terms on loans to firms of all sizes. Moreover, the net fractions of domestic banks that tightened terms on loans to small firms were generally a little larger than the net fractions that tightened terms on loans to large and middle-market firms. Most banks that tightened standards and terms continued to point to a weaker or more uncertain economic outlook as one of the reasons, and many banks reported greater aversion to risk as well.

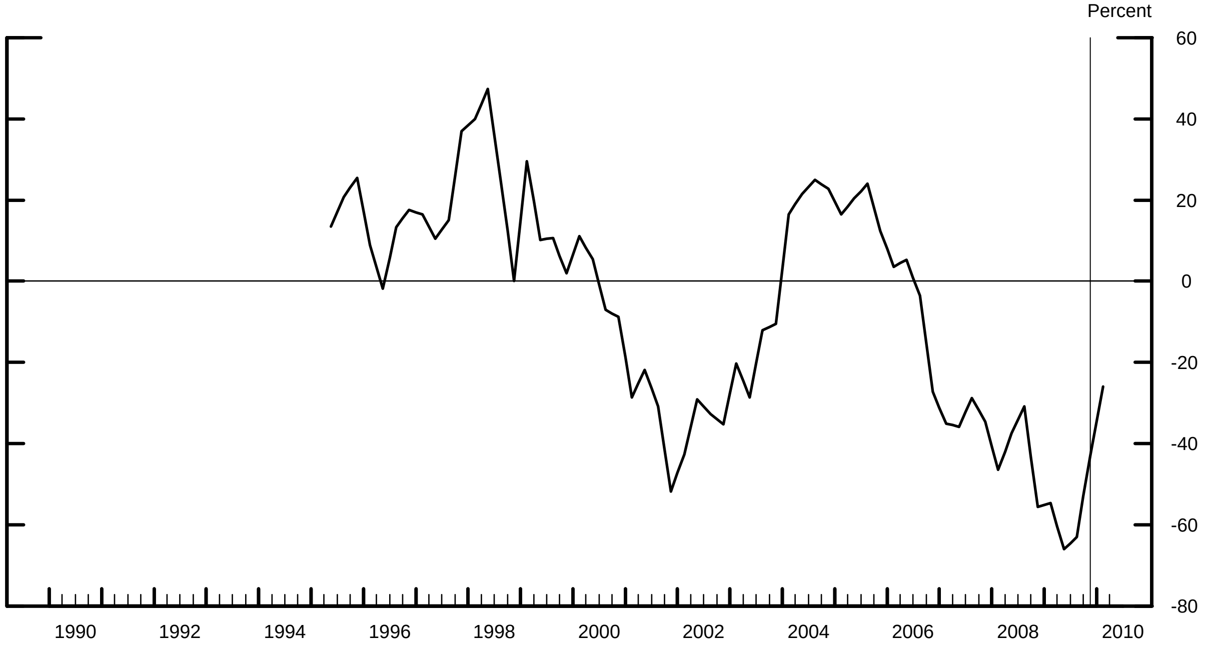
Demand for C&I loans—from firms in both size categories—weakened further, on net, at domestic banks over the past three months. The net fraction that reported weaker demand over

Measures of Supply and Demand for Commercial Real Estate Loans

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



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



the past three months was only somewhat smaller than it was in the October survey. In contrast, foreign institutions reported that loan demand was about unchanged, on net, over the same period. Almost all banks that reported weaker loan demand indicated that their customers' financing needs for investment in plant and equipment had declined as had funding needs for inventories and accounts receivable. Most of the handful of banks that experienced an increase in loan demand cited a shift in demand from other credit sources to their bank, increased merger and acquisition activity, and higher credit demand for financing accounts receivable. The number of inquiries for new or expanded C&I credit lines—which tends to be a leading indicator of near-term changes in loan demand—weakened again, on net, at domestic banks, but at a more moderate pace than in recent quarters; foreign institutions, in contrast, reported little change in the number of inquires for new or expanded C&I credit lines over the survey period.

Special questions on delinquency rates on C&I loans by firm size. In response to a special question about the quality of C&I loans on banks' books in the fourth quarter, banks reported higher delinquency rates on loans to small firms than on loans to large and middle-market firms. On net, nearly 65 percent of domestic respondents indicated that in the fourth quarter of 2009, the delinquency rate on their outstanding loans to small firms was higher than the rate on outstanding loans to large and middle-market firms.

Questions on commercial real estate lending. In contrast to C&I lending, a substantial share of domestic banks, on net, reported having tightened standards on CRE loans again in the fourth quarter of 2009. Consistent with the weak fundamentals in the sector, domestic banks reported a further weakening in demand for such loans. Moderate net fractions of foreign banks also reported having tightened standards on CRE loans and having seen weaker demand for such loans over the past three months.

Special question on commercial real estate lending. In response to a special question (repeated on an annual basis since 2001), large net fractions of both domestic and foreign institutions again reported having tightened a range of terms on CRE loans over the course of 2009. The largest net tightening was reported on the spreads of loan rates over banks' cost of funds, debt-service coverage ratios, and loan-to-value ratios.

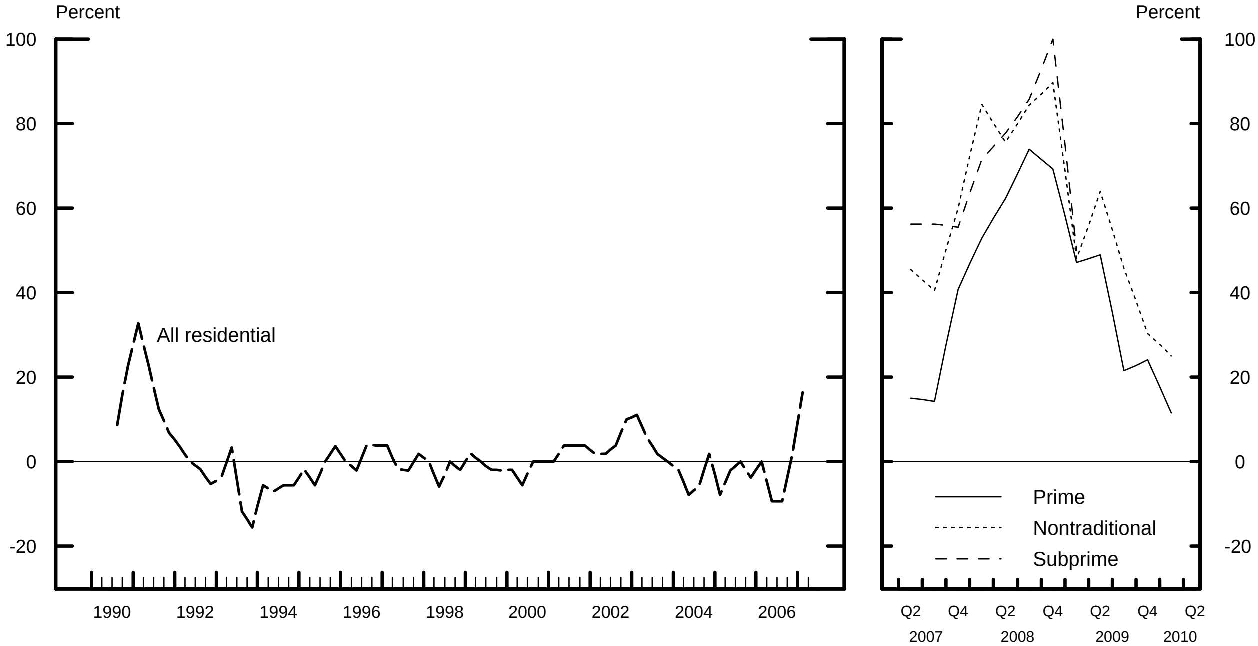
Lending to Households

Questions on residential real estate lending. Banks continued to tighten standards on residential real estate loans over the past three months. In line with recent patterns, a small net fraction of banks reportedly tightened standards on prime residential real estate loans over that period, and somewhat larger net fractions of banks tightened standards on nontraditional residential real estate loans.[2] For the first time since the January 2009 survey, a moderate net fraction of banks reported weaker demand from prime borrowers for residential real estate loans,

[2] Only two banks reported that they had made subprime residential real estate loans over the survey period.

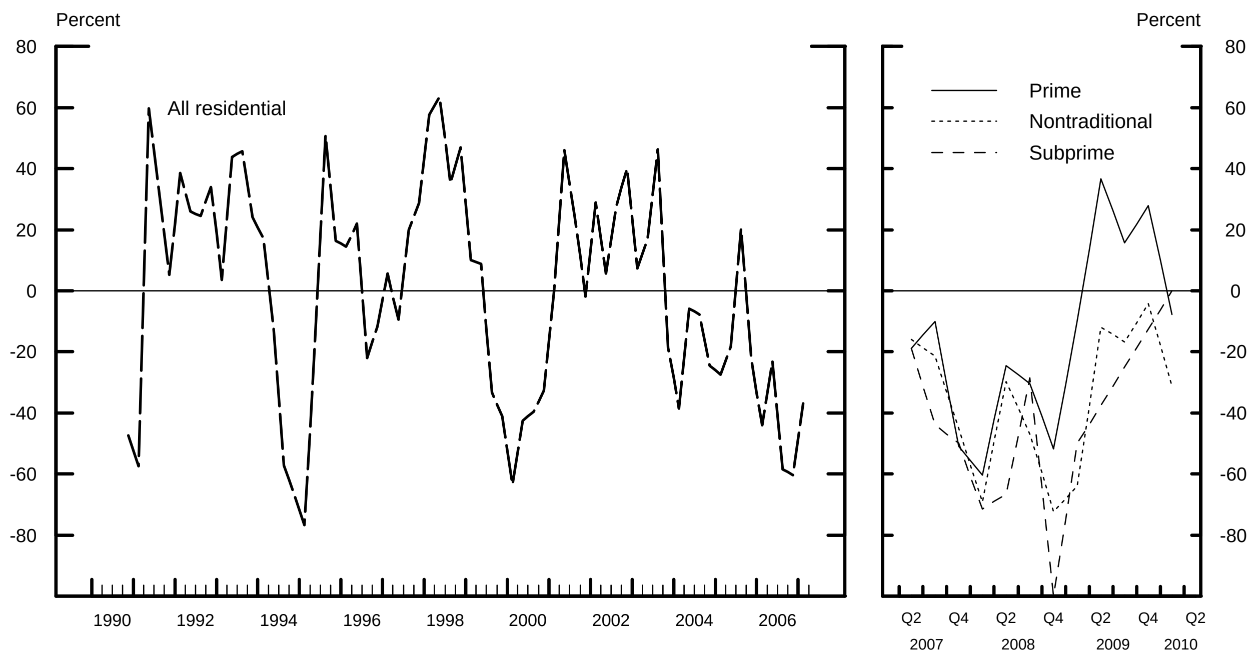
Measures of Supply and Demand for Residential Mortgage Loans

Net Percentage of Domestic Respondents Tightening Standards for Residential Mortgage Loans



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

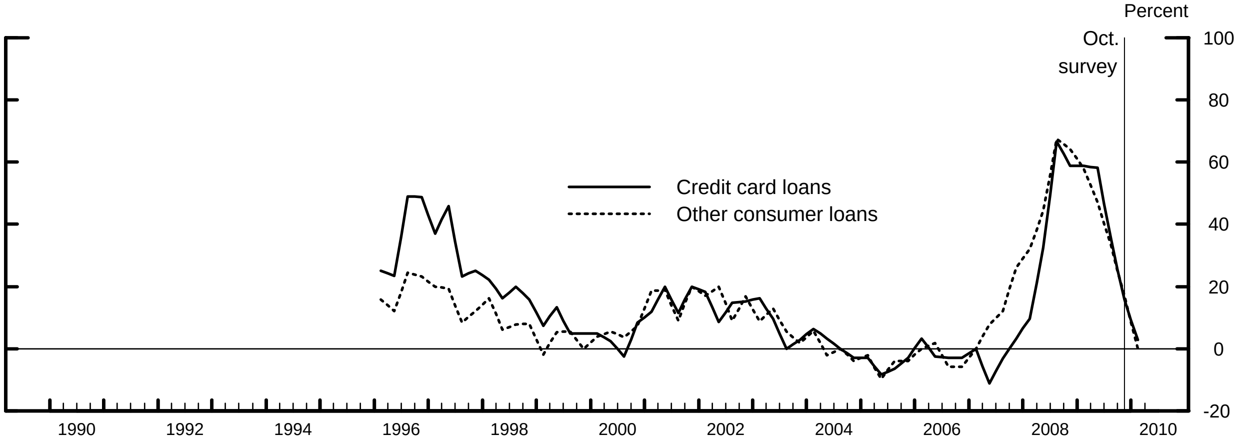
Net Percentage of Domestic Respondents Reporting Stronger Demand for Residential Mortgage Loans



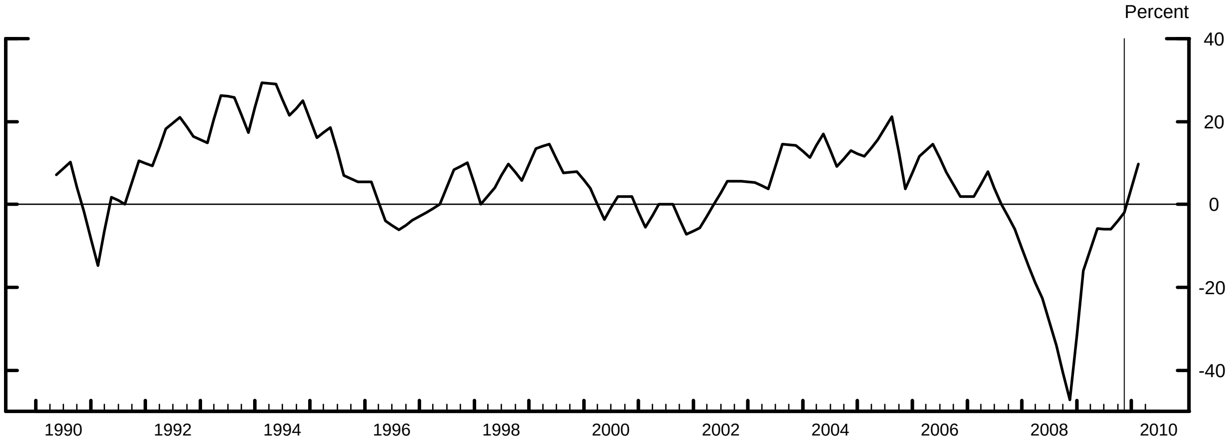
Note: For data starting in 2007:Q2, changes in demand for prime, nontraditional, and subprime mortgage loans are reported separately.

Measures of Supply and Demand for Consumer Loans

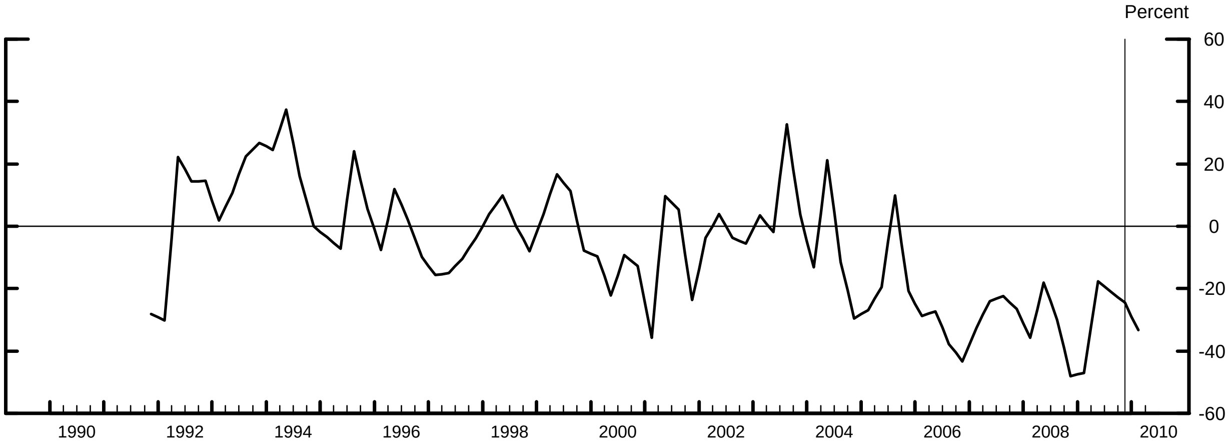
Net Percentage of Domestic Respondents Tightening Standards for Consumer Loans



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



Net Percentage of Domestic Respondents Reporting Stronger Demand for Consumer Loans



a pattern consistent with the softer recent data on housing market activity, including home prices and new home sales. Demand from customers seeking nontraditional mortgages weakened further over the survey period. Only a small net fraction of banks reported having tightened standards on revolving home equity lines of credit over the past three months, but a substantial net fraction of banks continued to report lower demand for such loans.

Questions on consumer lending. For the first time in nearly three years, banks reported an increased willingness to make consumer installment loans now as opposed to three months ago. However, demand for consumer loans weakened further in the January survey: A sizable net fraction of banks again reported weaker demand for consumer loans of all types, a reading that stayed within its range of the past few years.

Regarding credit card loans, a very small net fraction of banks reported having tightened standards on such loans over the past three months. However, substantial net fractions of banks indicated that they had reduced credit limits on credit cards and had become less likely to issue cards to customers not meeting credit scoring thresholds. A moderate fraction reported having increased spreads. These results are consistent with responses to the October 2009 survey, in which banks indicated that they would tighten a wide range of their credit card policies following the enactment of the Credit CARD Act. For consumer loans other than credit card loans, banks reported no change, on net, in their standards in the January survey. Moreover, respondents indicated little change in most terms on such loans.

Special Questions on Banks' Outlook for Asset Quality

The January survey included a set of special questions that asked banks about their outlook for delinquencies and charge-offs across major loan categories in the current year, assuming that economic activity progresses in line with consensus forecasts. This set of special questions has been asked on an annual basis since 2006. In general, the outlook for loan quality in 2010 was among the least pessimistic recorded since this series of questions began. In the previous two years, large majorities of banks expected widespread deterioration in credit quality over the coming year across all major loan categories. In this survey, by contrast, substantially fewer banks reported having such expectations; banks anticipated significant additional deterioration in the quality of only CRE loans, prime residential mortgages, and revolving home equity lines of credit this year, with the quality of other loans expected to change little or improve, on net.

Regarding C&I loans, a substantial net fraction of banks reportedly expect delinquencies and charge-offs of such loans to large and middle-market firms to decline in 2010. A much smaller net fraction of banks expect an improvement in the credit quality of C&I loans to small firms, which suggests that many small business borrowers are likely to continue to face tight credit conditions this year.

On the household side, a moderate net fraction of banks indicated that the credit quality of their prime residential mortgages and home equity loans would likely deteriorate further in 2010. However, banks reportedly expect portfolios of most other types of consumer and residential real estate loans to experience little further deterioration in credit quality this year—indeed, banks indicated that they hold a relatively optimistic outlook for the credit quality of other consumer loans, with a moderate net share of banks reportedly expecting some improvement in credit quality in this loan category.

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 $36.4 billion in November, from $33.2 billion in October, as a sharp rise in nominal imports outpaced an increase in exports.

Trade in Goods and Services

		Annual rate			Monthly rate		
	2008	2009			2009		
	Q2		Q3	Q4^{e}	Sept.	Oct.	Nov.
	Percent change						
Nominal BOP							
Exports	-3.4	-.8	24.8	22.4	2.8	2.7	.9
Imports	-7.3	-9.9	37.2	24.3	5.6	.7	2.6
Real NIPA							
Exports	-3.4	-4.1	17.8	...	...	...	...
Imports	-6.8	-14.7	21.3	...	...	...	...
	Billions of dollars						
Nominal BOP							
Net exports	-695.9	-325.0	-389.5	-417.6	-35.7	-33.2	-36.4
Goods, net	-840.2	-461.9	-528.6	-561.3	-47.4	-45.2	-48.4
Services, net	144.3	137.0	139.0	143.8	11.7	12.0	12.0

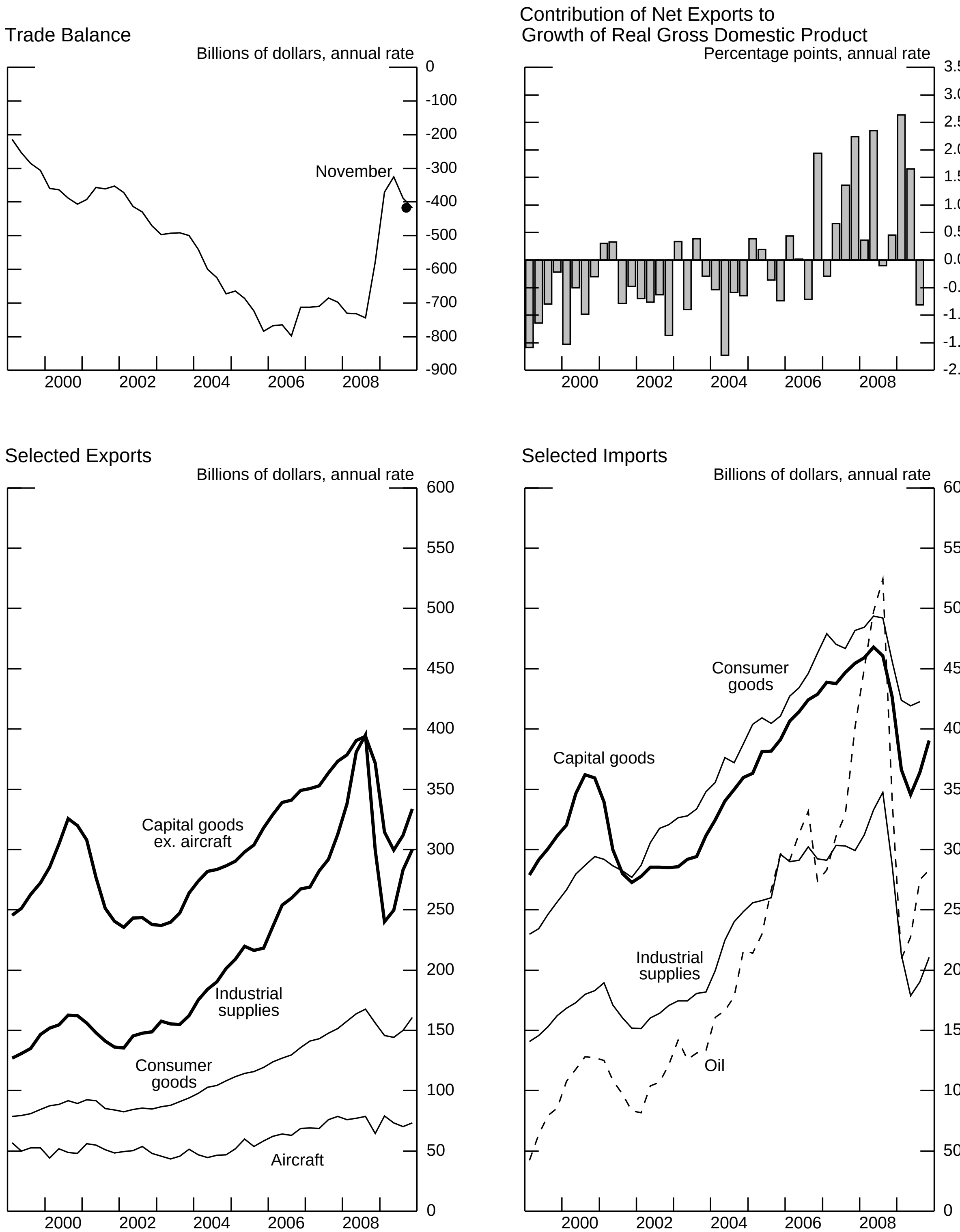
BOP Balance of payments.
NIPA National income and product accounts.
e BOP data are two months at an annual rate.
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; Census Bureau.

The value of exports of goods and services moved up 0.9 percent in November after increasing by almost 3 percent in both September and October. The November increase was driven primarily by a surge in agricultural exports, which was partially offset by a decline in consumer goods after a robust October. Exports of capital goods rose, as computers and semiconductors built further on increases in October. Exports of automotive products were boosted by strong exports to Canada, while exports of industrial supplies were flat.

In the first two months of the fourth quarter, nominal exports jumped a robust 22 percent at an annual rate, continuing to retrace the declines recorded in late 2008 and the first half of 2009. The fourth-quarter increase was broad-based across capital goods, consumer goods, industrial supplies, automotive products, and services. Agricultural products also had a notable increase, reflecting rising quantities and prices.

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	
	Q3	Q4[e]	Oct.	Nov.	Q3	Q4[e]	Oct.	Nov.
Exports of goods and services	**1570.1**	**1651.5**	**1644.1**	**1658.8**	**84.5**	**81.4**	**43.5**	**14.7**
Goods exports	1055.6	1128.6	1121.6	1135.6	71.1	73.0	38.1	13.9
Gold	14.3	14.3	16.8	11.8	2.0	-.0	1.8	-5.0
Other goods	1041.4	1114.3	1104.9	1123.8	69.1	73.0	36.3	18.9
Capital goods	382.2	406.8	404.7	409.0	9.1	24.6	14.6	4.3
Aircraft & parts	70.4	73.2	75.8	70.6	-3.0	2.8	2.3	-5.2
Computers & accessories	37.4	40.4	39.6	41.1	1.9	3.0	3.1	1.6
Semiconductors	38.5	43.2	41.6	44.7	3.5	4.7	3.4	3.2
Other capital goods	235.9	250.1	247.7	252.5	6.7	14.2	5.7	4.8
Automotive	86.4	99.4	95.1	103.7	19.7	13.0	5.0	8.6
Ind. supplies (ex. ag., gold)	283.3	300.0	300.4	299.6	33.5	16.7	3.4	-.8
Consumer goods	150.0	160.6	164.9	156.3	5.8	10.6	11.8	-8.6
Agricultural	99.0	106.8	99.1	114.5	-1.9	7.8	2.1	15.4
All other goods	40.4	40.7	40.7	40.7	3.0	.3	2.8	-.0
Services exports	514.5	522.9	522.5	523.3	13.4	8.4	5.5	.8
Imports of goods and services	**1959.7**	**2069.0**	**2042.4**	**2095.7**	**149.1**	**109.4**	**14.0**	**53.3**
Goods imports	1584.2	1689.9	1663.8	1716.1	137.7	105.7	11.6	52.3
Oil	275.5	283.3	273.3	293.2	47.7	7.8	-32.3	19.8
Gold	8.8	11.1	10.8	11.4	.4	2.3	2.4	.5
Other goods	1299.9	1395.6	1379.6	1411.5	89.6	95.6	41.5	31.9
Capital goods	364.2	390.7	383.4	398.0	18.6	26.5	12.5	14.6
Aircraft & parts	29.1	29.9	30.6	29.2	-2.3	.8	1.8	-1.3
Computers & accessories	95.0	110.6	106.2	115.1	10.6	15.6	10.2	8.9
Semiconductors	22.2	23.9	24.5	23.3	1.8	1.7	1.8	-1.2
Other capital goods	217.9	226.3	222.2	230.4	8.4	8.4	-1.3	8.2
Automotive	178.0	202.6	202.9	202.3	51.2	24.6	6.8	-.6
Ind. supplies (ex. oil, gold)	190.5	210.7	208.5	213.0	11.8	20.3	8.2	4.6
Consumer goods	422.6	447.4	439.2	455.5	3.5	24.7	14.6	16.3
Foods, feeds, beverages	81.0	82.1	83.0	81.1	-.5	1.1	2.6	-1.9
All other goods	63.6	62.1	62.6	61.6	5.1	-1.5	-3.1	-1.0
Services imports	375.5	379.1	378.6	379.6	11.3	3.7	2.4	1.0
Memo:								
Oil quantity (mb/d)	11.36	10.92	10.89	10.94	-.26	-.45	-1.22	.05
Oil import price ($/bbl)	66.25	71.02	68.69	73.34	12.55	4.73	-.38	4.65

1. Change from previous quarter or month.
e Estimate based on average of two months.
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; Census Bureau.

The value of imports of goods and services rose 2.6 percent in November after posting a modest gain of 0.7 percent in October. Imports of oil accounted for roughly one-third of the November increase, which reflected rising prices as volumes were flat. Most other categories of imports also recorded gains in November. A prominent exception was automotive products, which shrank modestly following three months of strong growth.

For the first two months of the fourth quarter, nominal imports rose by 24 percent at an annual rate, down somewhat from the rapid third-quarter pace. However, as with exports, these increases have reversed only a small amount of the earlier steep decline. The fourth-quarter increase was broad-based across major categories of imports.

Prices of Internationally Traded Goods

Non-oil imports. Prices for imported non-oil goods rose 0.5 percent in December, in line with their increases over the past four months. The pickup was driven by higher prices for material-intensive goods, particularly nonfuel industrial supplies. Prices for finished goods were flat.

In the fourth quarter, non-oil import prices as measured by the Bureau of Labor Statistics (BLS) increased 5¾ percent at an annual rate. The increase largely reflected higher prices for material-intensive goods. Prices for finished goods imports rose a more modest 1 percent.

Oil. The BLS price index of imported oil fell 2 percent in December after an increase of more than 6 percent in November. The spot price of West Texas Intermediate (WTI) crude oil followed a similar pattern, dipping roughly 4 percent in December from an average of $78 per barrel in the previous month. Spot WTI has increased early in the new year, closing most recently on January 19 at $79 per barrel. The higher oil prices in late December and early January reflect stronger demand from China as well as from a spell of colder-than-expected temperatures across much of the northern hemisphere.

Exports. Goods export prices rose 0.6 percent in December, a little less than in the previous month. Once again, growth in the prices for these goods came from material-intensive goods, where prices of both agricultural products and industrial supplies increased about 2 percent. However, prices for imported finished goods were unchanged.

For the fourth quarter, goods export prices on a BLS basis increased 3¾ percent at an annual rate. Prices for material-intensive goods shot up 10 percent, while prices for finished goods edged up only 1 percent.

U.S. International Financial Transactions

Since the previous Greenbook, we have received Treasury data on international financial transactions through November and partial data for December and January. On balance, official purchases of long-term U.S. Treasuries have remained elevated while private foreigners have continued to purchase U.S. equities and, more recently, long-term U.S. Treasuries.

Foreign official inflows slipped a bit in November but remained strong (see line 1 of the table "Summary of U.S. International Transactions;" see also the figure "Foreign Official Financial Inflows through November 2009"). Purchases of long-term Treasuries (line 1a) increased smartly and offset a shift to net sales of short-term Treasuries (line 1b). Since August of 2009, official foreigners have been selling bills or letting their bill holdings roll off. This has brought the share of bills in their portfolios back toward pre-crisis levels and has been in line with the overall composition of Treasuries outstanding. Confidential custody data from FRBNY suggest further robust official inflows in December. Foreign official holdings of Treasuries at FRBNY increased modestly and there was a large increase in holdings in the Repo Pool, which acts as a deposit account. Through the first half of January, foreign official holdings at FRBNY declined as Repo Pool holdings dropped back.

Net official financial inflows in November also received a boost from a further $11 billion decline in outstanding drawings by foreign central banks on the Federal Reserve swap lines. Drawings on the swap lines involve U.S. purchases of foreign currency, which are recorded as an official U.S. claim on foreigners, and repayments of those drawings therefore generate inflows. As of the end of 2009, the outstanding balances on the lines totaled $10 billion, down from a high of $583 billion in December 2008.

The decline in the swap drawings has coincided with renewed net lending abroad by banks located in the United States amounting to, on net, $44 billion in November (line 3). Bank flows tend to be volatile but, overall, net lending has grown as gross claims on foreigners trended up throughout 2009 while gross liabilities to foreigners leveled out. A rebound in lending through the repo market has contributed to the growth in gross claims, though they are still far below their pre-crisis levels.

Private foreigners purchased on net $47 billion of Treasuries in November, a break from the pattern of net sales, which totaled $74 billion, from March to October (line 4a; see also figure “Private Securities Flows through November 2009”). Purchases of Treasuries reflected acquisitions of bonds and notes that outstripped reductions in bills (not shown separately). This pattern is similar to that of official holdings, largely reflecting a change in the composition of Treasuries outstanding. Private foreign investors continued to show interest in U.S. equities (line 4d) in November and continued to sell, on net, agency (line 4b) and corporate bonds (line 4c), despite robust issuance of corporate bonds.

U.S. investors purchased, on net, $3.1 billion of foreign securities in November, a sharp decline relative to purchases in October (line 5). These small purchases of foreign securities reflected acquisitions of foreign bonds (line 5a) offsetting small net sales of foreign stocks (line 5b).

Summary of U.S. International Transactions

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

	2007	2008	2008	2009				
			Q4	Q1	Q2	Q3	Oct.	Nov.
Official financial flows	**451.1**	**-54.6**	**-286.5**	**313.3**	**316.1**	**124.1**	**70.0**	**48.3**
1. Change in foreign official assets in the U.S. (increase, +)	475.2	480.0	-17.8	70.5	124.7	72.2	45.3	37.3
a. Long-term Treasury securities	76.7	203.8	-15.7	35.0	103.2	99.7	39.8	63.3
b. Short-term Treasury securities	21.5	272.4	194.0	84.8	21.2	25.8	0.3	-11.4
c. Long-term agency securities	171.0	66.3	-95.8	0.0	-3.0	-29.6	-3.6	3.0
d. Other [1]	205.9	-62.7	-100.4	-49.4	3.3	-23.8	8.7	-17.7
2. Change in U.S. official assets (decrease, +) [2]	-24.1	-534.6	-268.7	242.8	191.4	51.9	24.7	11.0
Private financial flows	**212.5**	**559.7**	**374.8**	**-277.9**	**-252.8**	**-85.8**	**...**	**...**
Banks								
3. Change in net foreign positions of banking offices in the U.S. [3]	-81.7	-7.7	318.0	-277.6	-196.6	36.3	-1.7	-44.3
Securities [4]								
4. Foreign net purchases (+) of U.S. securities	673.9	70.1	54.2	2.7	-5.0	13.8	-39.4	48.9
a. Treasury securities	67.1	196.1	81.3	52.7	-22.4	-11.7	-40.0	47.0
b. Agency bonds	-8.6	-186.2	-21.1	-49.0	2.9	6.7	-4.4	-0.9
c. Corporate and municipal bonds	384.7	3.1	-3.1	-10.9	-22.5	-32.3	-4.3	-6.3
d. Corporate stocks [5]	230.7	57.2	-2.9	9.9	37.0	51.1	9.2	9.2
5. U.S. net acquisitions (-) of foreign securities	-366.8	46.5	58.2	-33.5	-91.3	-48.0	-24.3	-3.1
a. Bonds	-218.5	46.8	23.3	-32.4	-54.3	-21.1	-19.8	-5.6
b. Stocks [5]	-148.3	-0.4	34.9	-1.1	-37.0	-26.9	-4.4	2.5
Other flows [6]								
6. U.S. direct investment (-) abroad	-398.6	-332.0	-84.5	-40.3	-47.4	-62.7	...	...
7. Foreign direct investment in the U.S.	275.8	319.7	96.8	23.9	37.0	40.0	...	...
8. Net derivatives (inflow, +)	6.2	-28.9	-17.7	7.2	11.3	11.5	...	...
9. Foreign acquisitions of U.S. currency	-10.7	29.2	29.9	11.8	-1.9	4.2	...	...
10. Other (inflow, +) [7]	114.4	462.8	-80.0	27.9	41.3	-80.8	...	...
U.S. current account balance [6]	**-726.6**	**-706.1**	**-154.9**	**-104.5**	**-98.0**	**-108.0**	**...**	**...**
Capital account balance [8]	**-1.9**	**1.0**	**-0.7**	**-0.7**	**-0.7**	**-0.7**	**...**	**...**
Statistical discrepancy [6]	**64.9**	**200.1**	**67.2**	**69.8**	**35.4**	**70.4**	**...**	**...**

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.

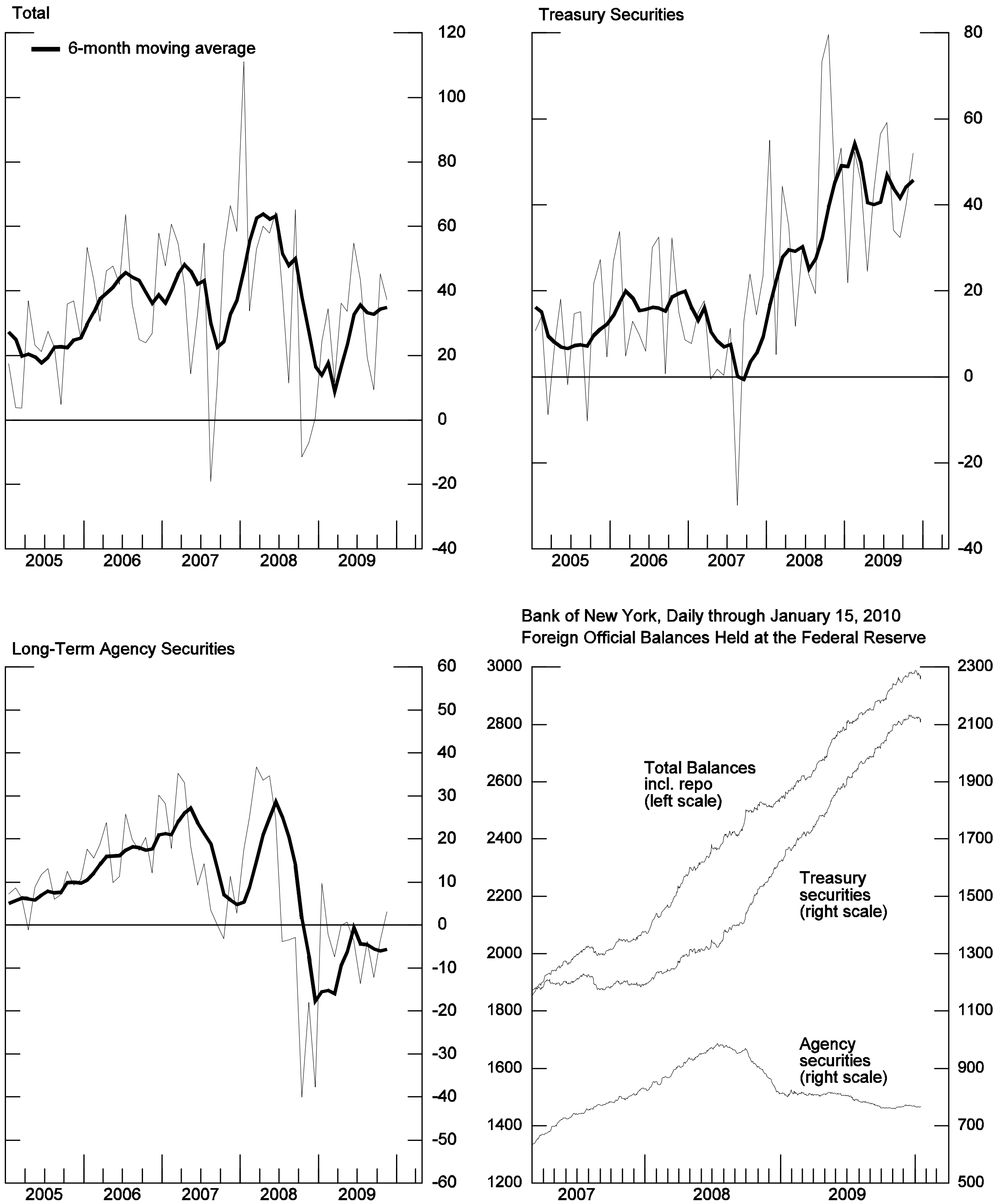
1. Includes foreign official net purchases of stocks, bonds, short-term securities, and changes in other bank-reported liabilities to foreign official institutions.
2. Includes changes in U.S. official reserve assets (other than allocations of Special Drawing Rights) and in outstanding reciprocal currency 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 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.

... 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 November 2009

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

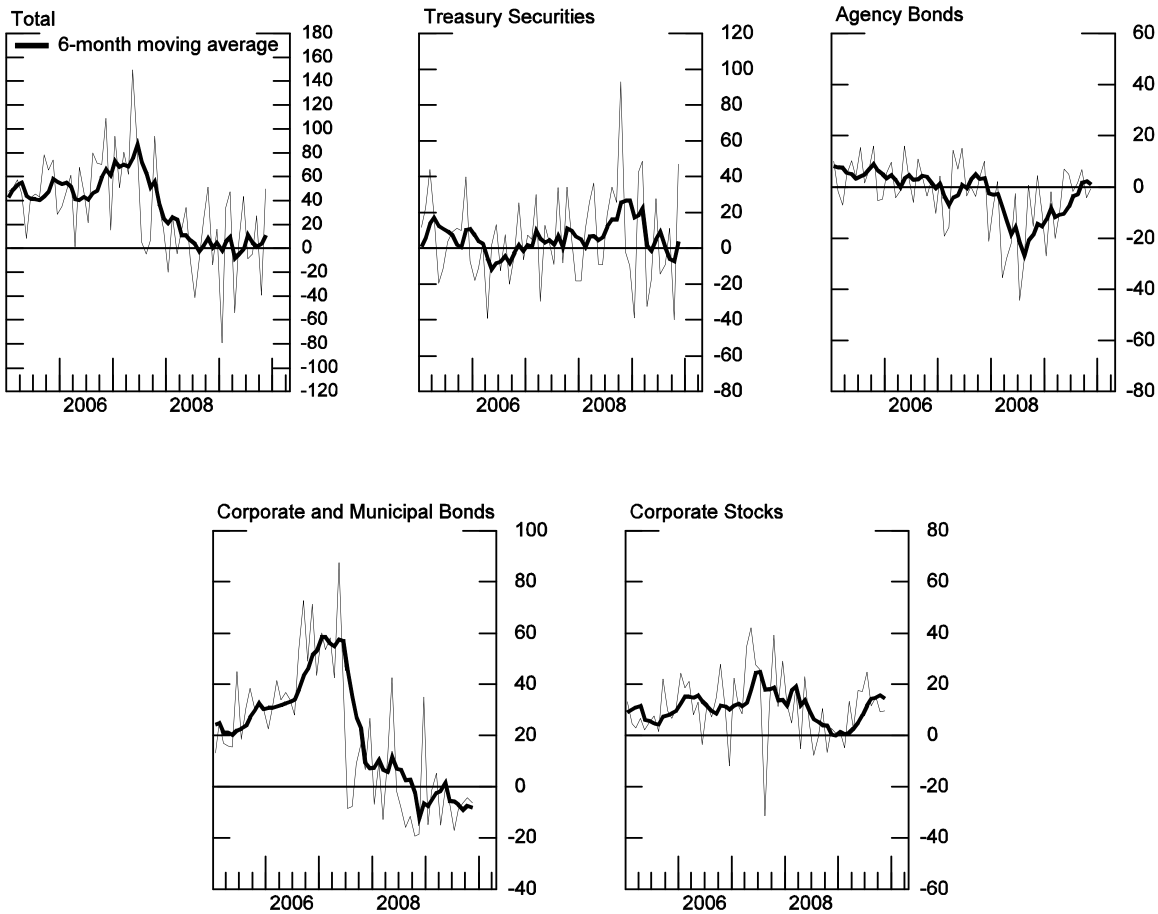


Note: Total foreign official inflows consists of net purchases of Treasury securities, long-term agency securities, short-term securities, corporate stocks and bonds, and bank flows.

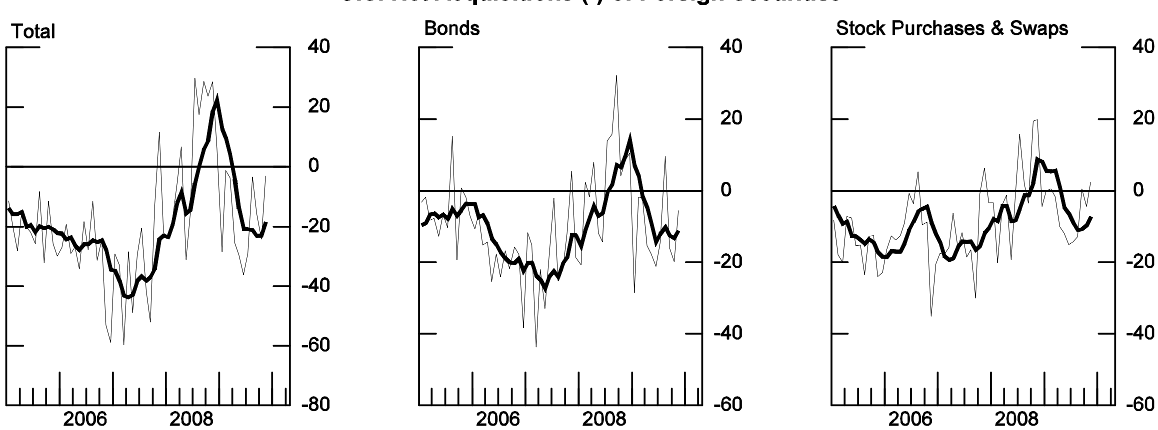
Source: U.S. Treasury International Capital reports with staff adjustments and the Federal Reserve Bank of New York.

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

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



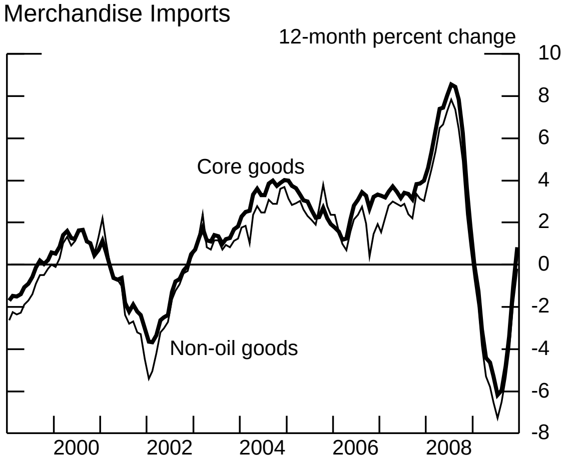
U.S. Net Acquisitions (-) of Foreign Securities



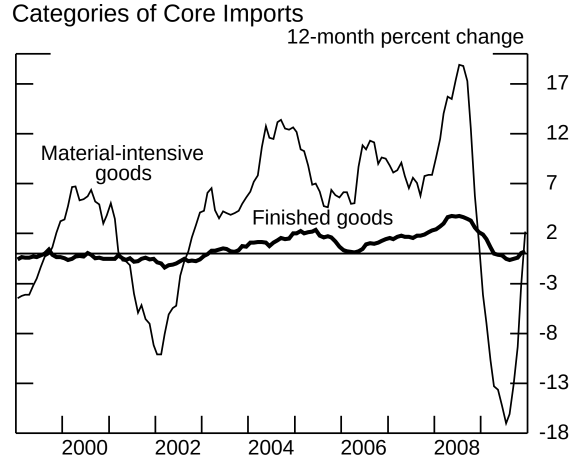
Source: For all figures, U.S. Treasury International Capital reports with staff adjustments.

Prices of U.S. Imports and Exports

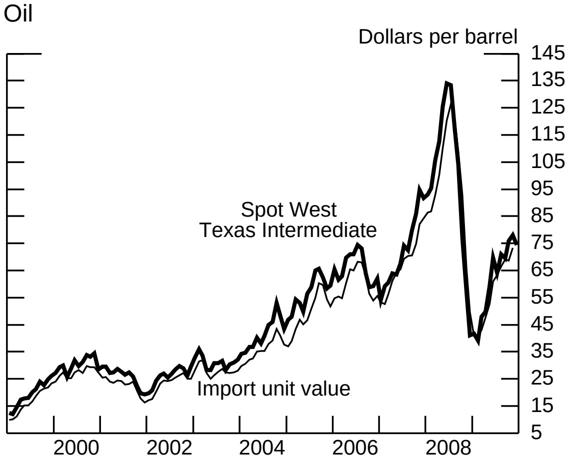
Merchandise Imports



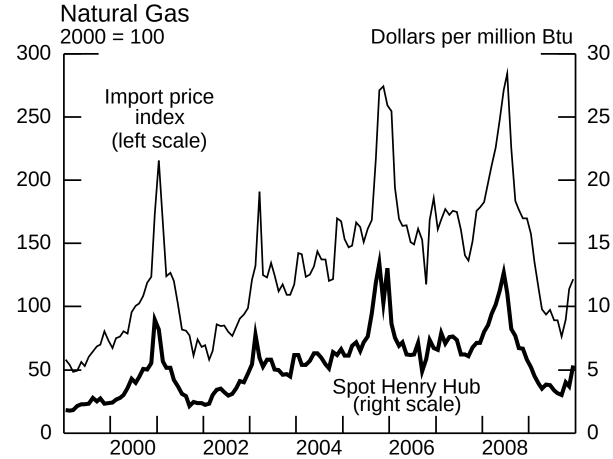
Categories of Core Imports



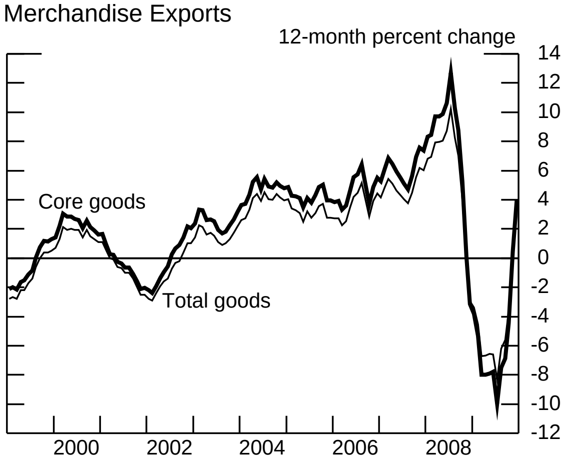
Oil



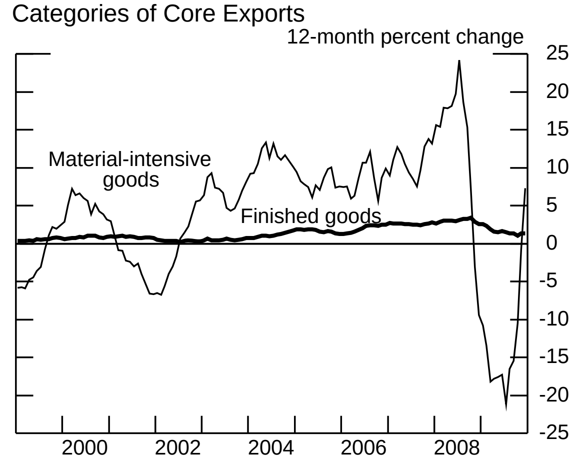
Natural Gas



Merchandise Exports



Categories of Core Exports



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

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

	Annual rate 2009			Monthly rate 2009		
	Q2	Q3	Q4	Oct.	Nov.	Dec.
	BLS prices					
Merchandise imports	14.9	12.0	10.9	.9	1.6	.0
Oil	246.9	88.4	36.6	2.4	6.3	-2.0
Non-oil	-3.3	1.1	5.7	.5	.6	.5
Core goods[1]	-1.2	2.3	6.2	.5	.4	.5
Finished goods	-.5	.4	1.0	.2	.0	.0
Cap. goods ex. comp. & semi.	-1.4	.4	.7	.1	.1	.1
Automotive products	.0	2.0	2.2	.3	.1	.1
Consumer goods	-.1	-.4	.5	.2	-.1	.0
Material-intensive goods	-2.9	6.9	18.8	1.2	1.2	1.6
Foods, feeds, beverages	.8	.9	8.3	.4	.9	.9
Industrial supplies ex. fuels	-4.2	8.4	22.1	1.5	1.3	1.9
Computers	-4.2	.3	-.5	-.4	.4	.0
Semiconductors	7.1	-5.4	3.4	-.5	1.2	.1
Natural gas	-74.8	-39.4	163.9	17.4	26.6	6.9
Merchandise exports	2.4	3.4	3.7	.0	.9	.6
Core goods[2]	2.6	4.1	5.0	.2	1.0	.8
Finished goods	.4	2.1	.9	.1	-.0	.0
Cap. goods ex. comp. & semi.	2.5	2.2	.9	.2	-.1	.0
Automotive products	-.6	-.5	.9	.1	.1	.0
Consumer goods	-3.9	4.3	1.1	.1	.1	.0
Material-intensive goods	5.3	6.5	10.0	.3	2.2	1.8
Agricultural products	19.6	-7.8	2.9	-.7	4.0	2.0
Industrial supplies ex. ag.	1.3	12.1	13.0	.6	1.5	1.9
Computers	-3.4	-1.5	10.7	.3	2.6	-.2
Semiconductors	12.3	-.8	-13.7	-3.9	.2	.0
	NIPA prices					
Chain price index						
Imports of goods & services	4.2	11.4	n.a.	...	...	...
Non-oil merchandise	-3.9	.6	n.a.	...	...	...
Core goods[1]	-2.3	1.3	n.a.	...	...	...
Exports of goods & services	.1	4.6	n.a.	...	...	...
Total merchandise	1.9	4.6	n.a.	...	...	...
Core goods[2]	2.4	5.1	n.a.	...	...	...

1. Excludes computers, semiconductors, and natural gas.
2. Excludes computers and semiconductors.
n.a. Not available. ... Not applicable.
BLS Bureau of Labor Statistics.
NIPA National income and product accounts.
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; Bureau of Labor Statistics.

Foreign Financial Markets

The trade-weighted value of the broad nominal dollar is slightly higher than at the time of the December Greenbook, while foreign equity prices and sovereign yields have risen as markets seem to have revised up their view of the prospects for global growth.

The major-currencies index of the dollar's value has increased ¾ percent, while the OITP index has declined slightly. Consistent with a shift in focus on growth and away from risk appetite, there was a change in the tenor of the foreign exchange market, with positive U.S. news leading to dollar appreciation and negative U.S. news leading to depreciation. The dollar appreciated about 3 percent against the euro and yen as the market seemed to be driven by a growing realization that U.S. growth prospects appear considerably better than in Europe and Japan. Partially offsetting these moves, rising commodity prices and a strong outlook for China led the dollar to decline against the currencies of commodity producers and against most emerging Asian currencies, though Chinese authorities continued to hold the renminbi stable against the dollar

Benchmark sovereign yields have increased about 30 basis points in the United Kingdom, comparable to the increase in the United States, while yields in Germany and Japan have moved up 15 and 5 basis points respectively. Consistent with the rise in yields in the United Kingdom, expectations for the policy rate set by the Bank of England (BOE) as of the end of 2012 has increased as inflation has come in higher than expected. In contrast, expectations for the policy rates set by the ECB and Bank of Japan (BOJ) are little changed over the forecast horizon. Most of the rise in nominal foreign yields can be attributed to an increase in inflation compensation, and staff estimates of nominal and real yield curves indicate that most of the rise in inflation compensation was at the short-end of the term structure. This may reflect some increase in short-term inflation expectations associated with the recent move up in commodity prices, as survey measures of foreign inflation expectations have also edged up; however, the rise in inflation compensation may also reflect movements in the inflation risk premium and further improvement in the liquidity of indexed-debt markets.

Although the rise in nominal sovereign yields is consistent with greater confidence in the growth outlook and rising commodity prices, it may also have been affected by expectations of greater government and corporate borrowing in the coming year. Sovereign issuance is likely to be at record levels this year for many countries. Corporate issuance also may be high; in 2009, for the first time on record, global corporate investment grade bond issuance surpassed syndicated bank lending to investment grade corporations. However, despite the prospect of a large supply, public bond offerings so far this year have met with reasonably strong demand. One notable exception to this is Greece, where the government has avoided any public offerings of long-term debt in January, stating that it may choose instead to place its debt privately, out of concern that a public offering would *not* be met with strong demand. Spreads on Greek debt over German bunds rose about 60 basis points as Greece was downgraded from A1 to A2 by Moody's and the country continued intense negotiations over its fiscal situation with the European Union. Concerns about the fiscal situations in Spain and Portugal also led spreads on Spanish and Portuguese debt over German bunds to increase.

In line with the more positive view of growth prospects, European and Japanese equity prices rose about 5½ percent. European bank stocks indexes rose by a less than the headline indexes. Although most earnings reports for the fourth quarter will not arrive for a month or more, Societe Generale issued a profit warning and the Spanish retail bank Banesto posted disappointing results after raising its estimates of the losses it would incur from bad loans, rekindling some concern as to the health of European banks.

Although the Chinese stock prices have declined slightly on net, most other emerging market equities indexes have risen at least 2 percent and a few have risen as much as 12 percent. Earlier in the period, emerging market equities had increased by even more; however, news late in the period that the Peoples Bank of China had raised reserve requirements caused a modest retreat in many emerging stock markets.

. In addition, Taiwan's central bank moved to curb speculative capital inflows.

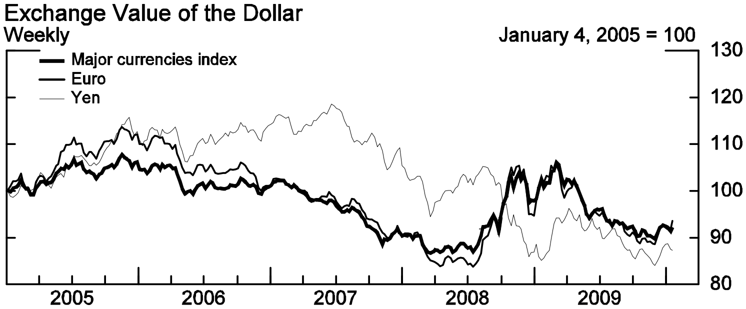
Exchange Value of the Dollar and Stock Market Indexes

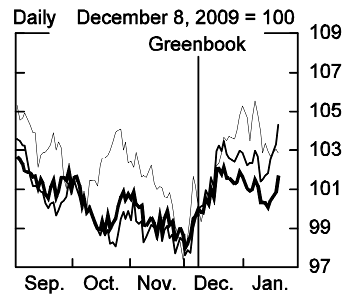
	Latest	Percent change since December Greenbook
*Exchange rates**		
Euro ($/euro)	1.4269	3.3
Yen (¥/$)	91.130	3.1
Sterling ($/£)	1.6370	-0.4
Canadian dollar (C$/$)	1.0325	-2.6
Nominal dollar indexes^*		
Broad index	101.8	0.4
Major Currencies index	74.1	0.8
OITP index	132.3	-0.1
Stock market indexes		
DJ Euro Stoxx	279	5.0
TOPIX	950	5.9
FTSE 100	5513	5.6
S&P 500	1150	5.3

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

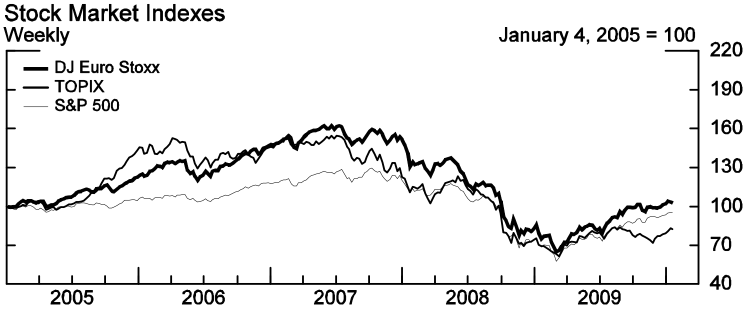
^ Indexed to 100 in Jan. 1997 for the Broad and OITP indexes and Mar. 1973 for the Major Currencies index.

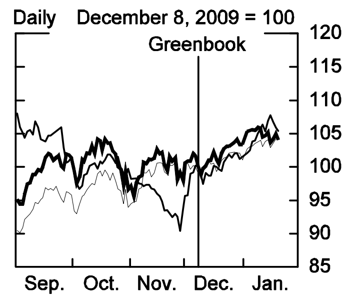
Exchange Value of the Dollar





Stock Market Indexes





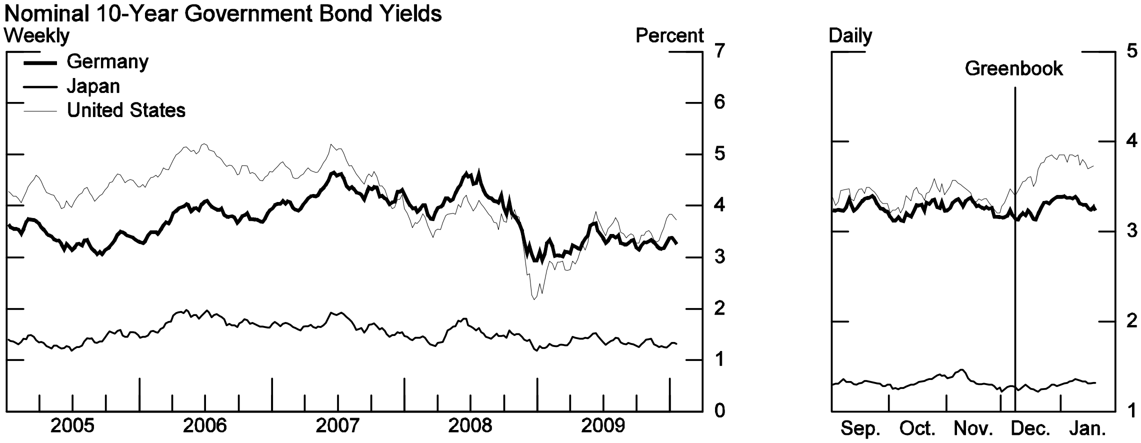
Industrial Countries: Nominal and Real Interest Rates

Percent

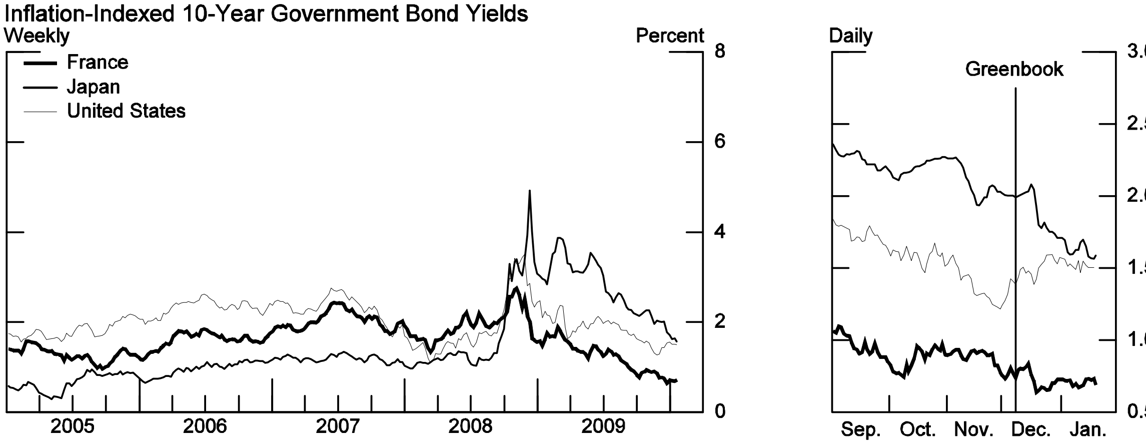
	3-month Libor		10-year nominal		10-year indexed	
	Latest	Change since Dec. Greenbook	Latest	Change since Dec. Greenbook	Latest	Change since Dec. Greenbook
Germany	0.62	-0.06	3.28	0.14	0.86	0.02
Japan	0.26	-0.02	1.32	0.05	1.57	-0.42
United Kingdom	0.61	0.01	4.03	0.33	0.77	0.07
Canada	0.45	-0.02	3.49	0.20	...	...
United States	0.25	-0.01	3.73	0.33	1.51	0.11

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

Nominal 10-Year Government Bond Yields

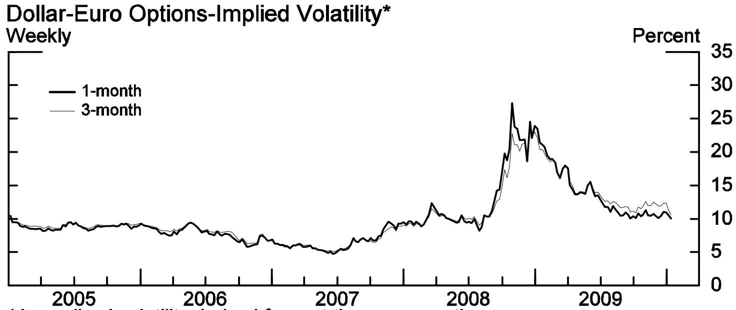


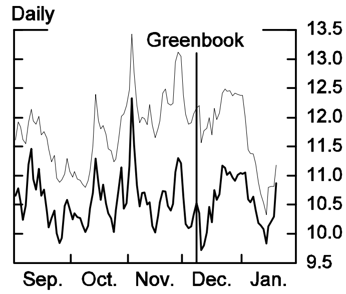
Inflation-Indexed 10-Year Government Bond Yields



Measures of Market Volatility

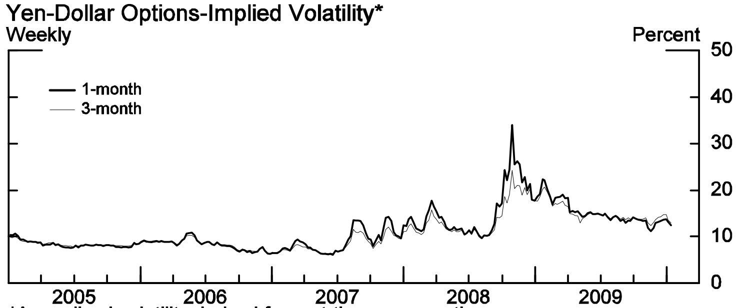
Dollar-Euro Options-Implied Volatility*

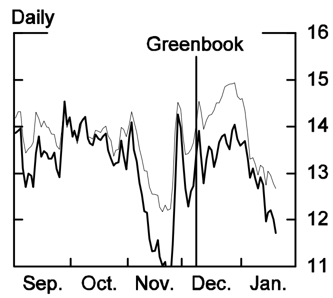




*Annualized volatility derived from at-the-money options.

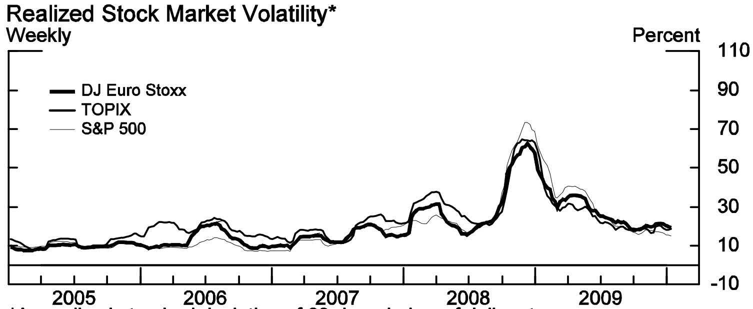
Yen-Dollar Options-Implied Volatility*

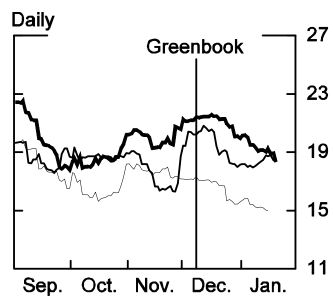




*Annualized volatility derived from at-the-money options.

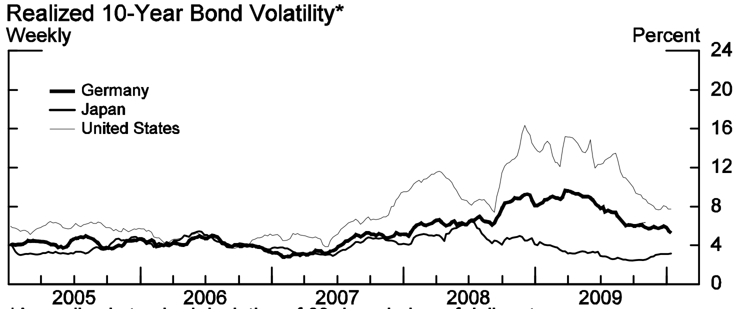
Realized Stock Market Volatility*

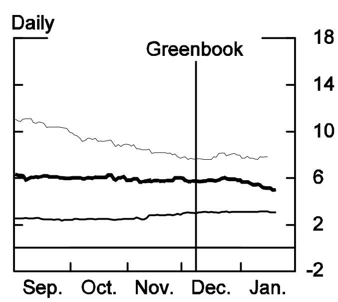




*Annualized standard deviation of 60-day window of daily returns.

Realized 10-Year Bond Volatility*





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

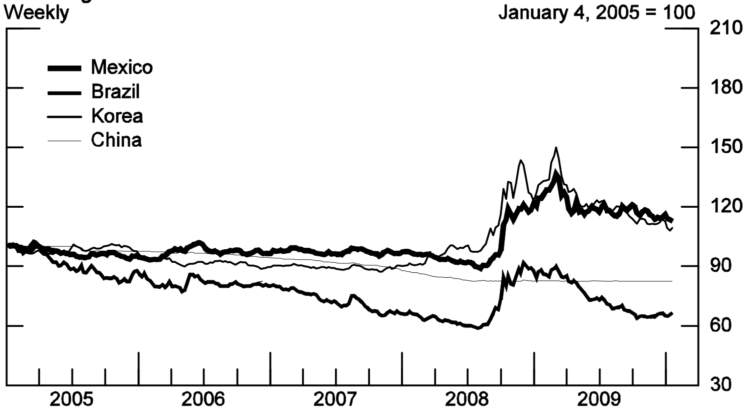
Emerging Markets: Exchange Rates and Stock Market Indexes

	Exchange value of the dollar		Stock market index	
	Latest	Percent change since Dec. Greenbook*	Latest	Percent change since Dec. Greenbook
Mexico	12.6500	-1.5	32473	2.4
Brazil	1.7767	1.5	69909	3.2
Venezuela	4.29	100.0	59699	12.3
China	6.8268	-0.0	3247	-1.5
Hong Kong	7.7626	0.2	21678	-1.7
Korea	1129.3	-1.9	1710	5.1
Taiwan	31.83	-1.2	8188	5.4
Thailand	32.89	-0.8	736	5.4

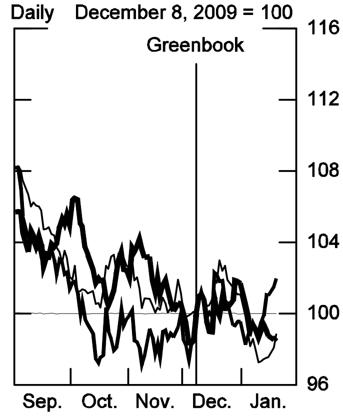
* Positive percent change denotes appreciation of U.S. dollar.

Exchange Value of the Dollar
Weekly

January 4, 2005 = 100

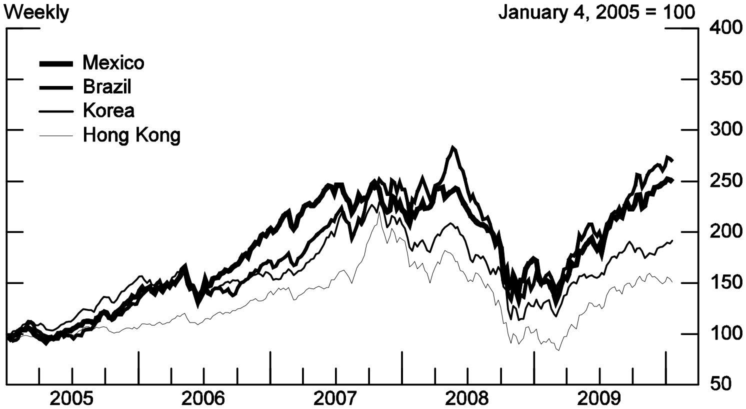


Daily December 8, 2009 = 100

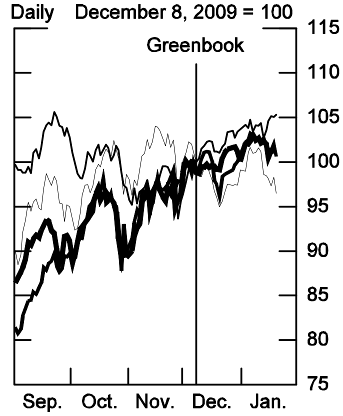


Stock Market Indexes
Weekly

January 4, 2005 = 100



Daily December 8, 2009 = 100



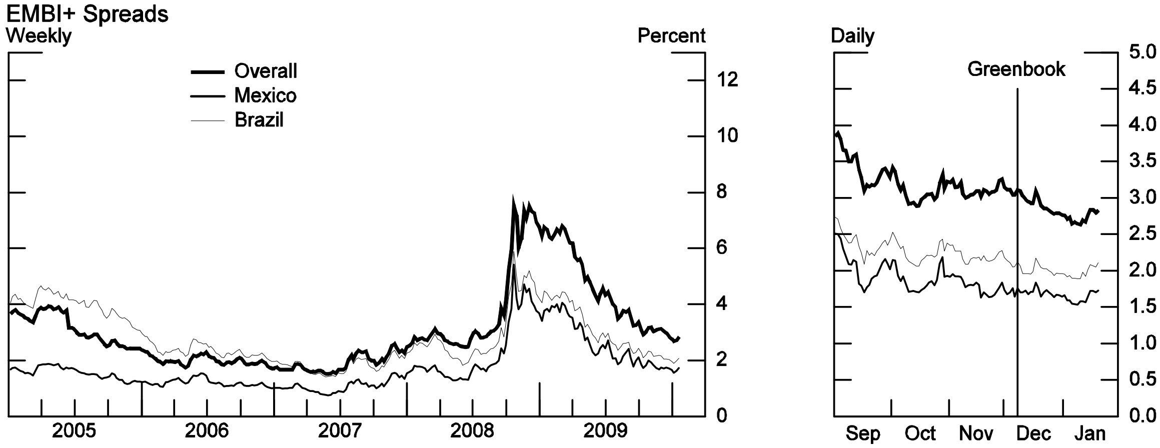
Emerging Markets: Short-Term Interest Rates and Dollar-Denominated Bond Spreads

Percent

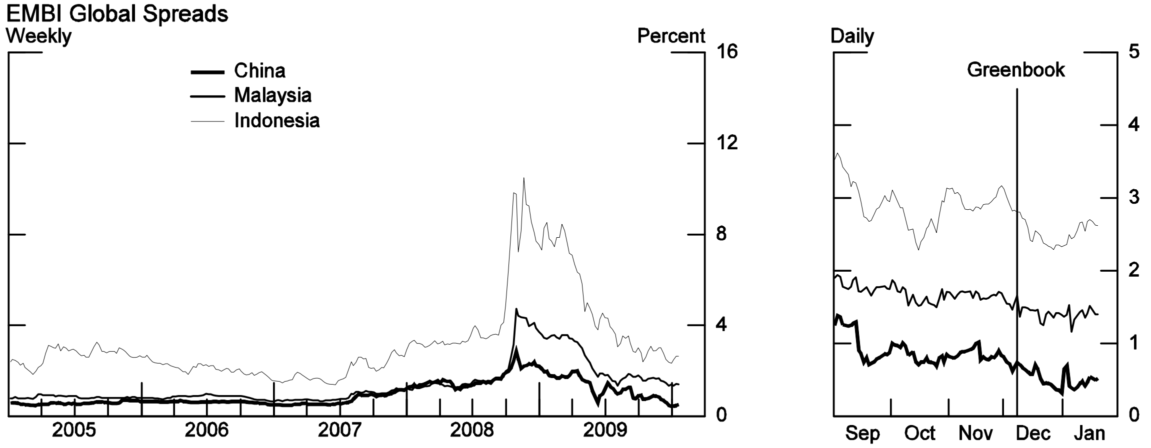
	Short-term interest rates*		Dollar-denominated bond spreads**	
	Latest	Change since Dec. Greenbook	Latest	Change since Dec. Greenbook
Mexico	4.53	0.06	1.70	-0.06
Brazil	9.02	0.42	2.05	-0.07
Argentina	10.69	0.00	6.79	-0.88
China	...	...	0.50	-0.24
Korea	2.10	0.00	...	...
Taiwan	1.22	0.02	...	...
Singapore	0.31	0.00	...	...
Hong Kong	0.06	0.01	...	...

*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

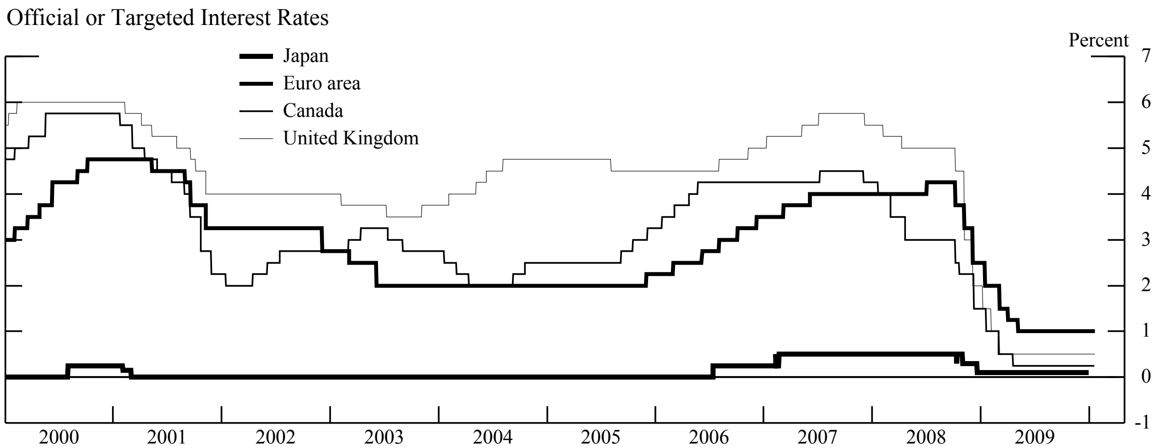
Incoming data suggest that activity in the advanced foreign economies continued to expand in the fourth quarter, though at a moderate pace. PMIs and confidence indicators generally advanced, industrial production firmed, and measures of capacity utilization rebounded from their third-quarter lows. However, unemployment rates remain elevated and consumption indicators were mixed. Credit conditions improved further, as lending to the private sector expanded in most economies. Increases in export and import volumes point to a gradual recovery in international trade.

Amid rising energy prices, 12-month headline inflation for December picked up in all countries except Japan, where deflation moderated only mildly. Excluding food and energy, inflation remained subdued. All major foreign central banks have kept their policy rates unchanged.

Advanced Foreign Economies

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

Source: Haver Analytics.



Source: Bloomberg.

Japanese Real GDP

(Percent change from previous period except as noted, annual rate)

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

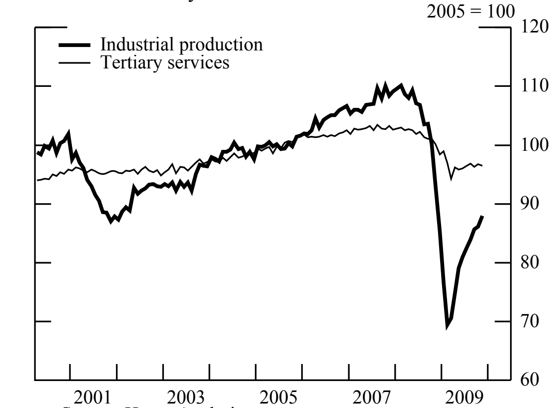
1. Q4/Q4.
2. Percentage point contribution to GDP growth.
Source: Haver Analytics.

Recent indicators suggest that the **Japanese** economy expanded at a faster pace in the fourth quarter. Industrial production rose 2.2 percent in November from the previous month and foreign orders climbed, as the industrial sector continues to benefit from the recovery in global trade. Indeed, real exports increased sharply in November following strong gains in the preceding two months. However, a bounceback in real imports indicates that the contribution of the external sector to GDP growth may be moderating.

Indicators of domestic demand, however, remain soft. The monthly index of real consumption fell in November. In December, new car registrations were flat and consumer confidence weakened for the second consecutive month. Labor market conditions have yet to improve significantly. In November, machinery orders fell at double digit rate. Higher business confidence and a nascent increase in housing starts, however, indicate that private investment might be approaching a trough.

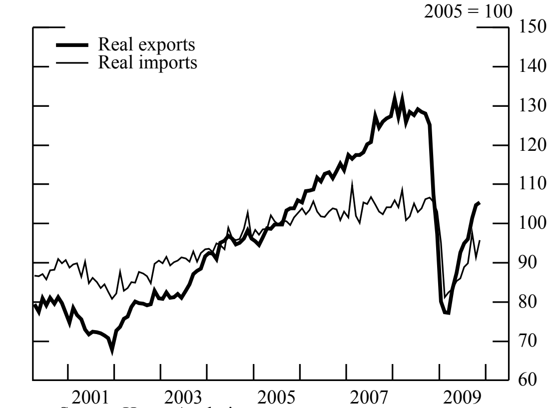
Japan

Economic Activity



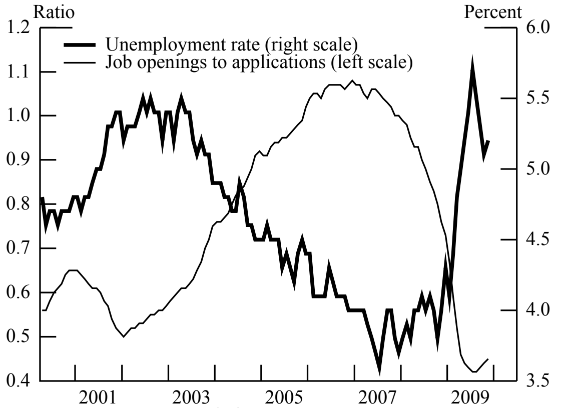
Source: Haver Analytics.

Real Trade



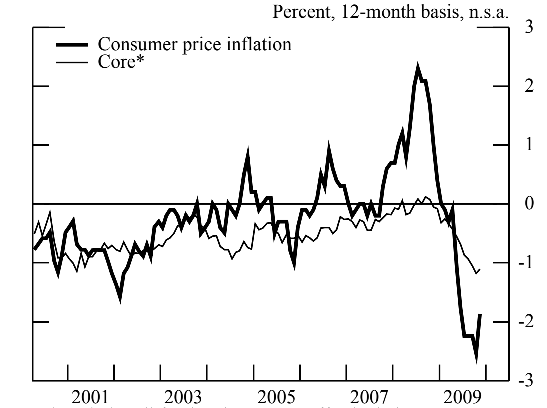
Source: Haver Analytics.

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)

Indicator	2009			2009			
	Q2	Q3	Q4	Sept.	Oct.	Nov.	Dec.
Housing starts	-15.7	-7.2	n.a.	3.3	9.0	4.7	n.a.
Machinery orders[1]	-4.9	-.9	n.a.	10.5	-4.5	-11.3	n.a.
Household expenditures	1.0	.5	n.a.	.6	.2	-.6	n.a.
New car registrations	14.6	19.4	10.9	3.3	5.2	4.5	.5
Business sentiment[2]	-45.0	-38.0	-32.0	...	...	...	...
Wholesale prices[3]	-5.5	-8.3	-5.2	-8.0	-6.8	-5.0	-3.9

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

In November, the 12-month inflation rate moved up to negative 1.9 percent from an all-time low of negative 2.5 percent in October, as energy prices rose. Core inflation (excluding all food and energy) edged up to negative 1 percent. Incoming data, however, point to ongoing deflationary pressures; in December, both headline and core inflation declined further in the Tokyo area.

On December 18, the Bank of Japan (BOJ) left its policy rate unchanged and repeated its commitment to maintain an extremely accommodative policy stance. Furthermore, the BOJ reiterated its goal to attain inflation of around 1 percent over the medium- and long-term.

In the next few weeks, the Japanese Parliament is expected to approve the budget submitted by the Hatayama government for the 2010 fiscal year. The budget proposal provides additional fiscal stimulus, including increased transfers to households and local governments.

Euro-Area Real GDP

(Percent change from previous period except as noted, annual rate)

Component	2007[1]	2008[1]	2008	2009		
			Q4	Q1	Q2	Q3
GDP	2.2	-1.8	-7.4	-9.5	-.5	1.7
Total domestic demand	1.8	-.4	-3.0	-7.5	-3.0	1.4
Consumption	1.2	-.7	-2.0	-1.6	.2	-.6
Investment	3.1	-5.8	-15.1	-19.9	-6.3	-3.3
Government consumption	2.0	2.4	2.6	2.5	2.6	2.3
Inventories[2]	.1	.6	.8	-2.9	-2.2	2.0
Exports	4.2	-6.9	-25.7	-30.2	-4.7	13.1
Imports	3.5	-4.0	-17.8	-26.6	-10.7	12.5
Net exports[2]	.3	-1.4	-4.5	-2.1	2.6	.3
Memo: GDP of selected countries						
France	2.1	-1.7	-5.9	-5.3	1.3	1.0
Germany	1.6	-1.8	-9.4	-13.4	1.8	2.9
Italy	.1	-2.9	-8.0	-10.4	-1.9	2.3

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

Third quarter GDP growth in the **euro area** was revised up 0.2 percentage point to 1.7 percent, reflecting a larger contribution from inventories. Recent indicators have been mixed but, on balance, suggest that economic activity continued to expand, albeit moderately, in the fourth quarter. Advance reports indicate that German GDP stagnated in the fourth quarter, surprising markets on the downside. In November, euro-area retail sales and new car registrations declined, after a middling performance in October, and the unemployment rate reached 10 percent. In contrast, after edging down in October, industrial production rebounded in November and PMIs rose further into expansionary territory in December. Moreover, in December, several measures of economic sentiment reached their highest levels since July 2008.

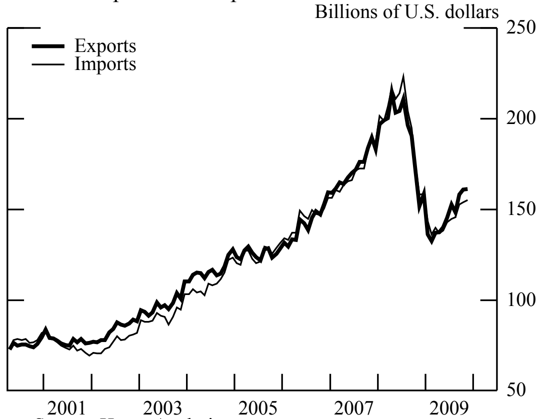
In December, 12-month inflation rose to 0.9 percent from 0.5 percent in November. Excluding all food and energy, November inflation was about 1.0 percent.

The ECB kept its benchmark policy rate unchanged at 1 percent at its January 14 meeting. The ECB has continued to buy covered bonds, and by early January had purchased €29 billion out of planned €60 billion of total acquisitions.

Euro-area credit conditions have improved considerably in recent months. Household credit continued to expand through November. Corporate credit edged down in October and was flat in November, suggesting that it might soon start to recover. Tight bank lending standards have induced firms to issue new debt in capital markets. In 2009, nonfinancial corporations issued almost €100 billion worth of bond debt, making up for much of the contraction in bank loans.

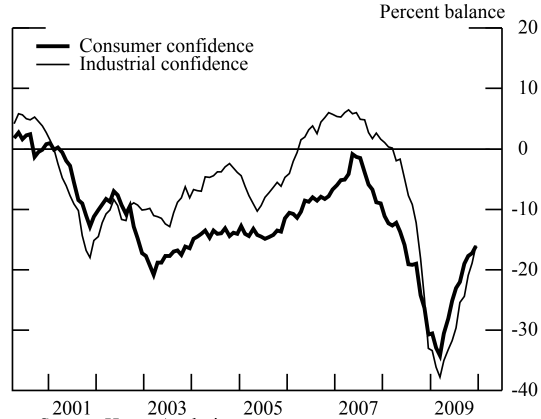
Euro Area

Nominal Exports and Imports



Source: Haver Analytics.

Economic Sentiment

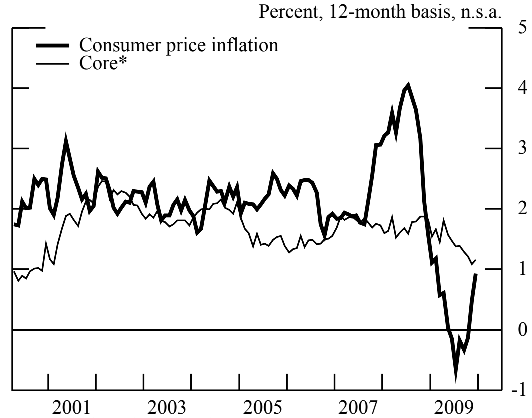


Source: Haver Analytics.

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)

Indicator	2009			2009			
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Industrial production[1]	-8.5	-1.2	2.3	1.1	.3	-.3	1.0
Retail sales volume[2]	-.9	-.4	-.4	-.2	-.5	.3	-1.1
New car registrations	.4	12.7	3.0	-4.3	4.1	1.2	-.5
Employment	-.7	-.5	-.5	...	...	...	...
Producer prices[3]	-2.0	-5.2	-7.1	-6.8	-7.0	-6.0	-3.9
M3[3]	6.5	4.7	2.8	3.0	2.0	.2	-.3

1. Excludes construction.
2. Excludes motor vehicles.
3. Eurostat harmonized definition. Percent change from year earlier.
... Not applicable.
Source: Haver Analytics.

In the **United Kingdom**, recent indicators suggest that the economy is finally emerging from the longest recession of the post-war period. Labor market indicators have stabilized; the unemployment rate has remained at just under 8 percent since May and the number of people claiming unemployment benefits edged down in November and December. Output in the services sector posted modest gains in September and October, and industrial production inched up in November. The volume of retail sales slid in November after registering solid gains in the previous two months.

U.K. Real GDP
(Percent change from previous period except as noted, annual rate)

Component	2007[1]	2008[1]	2008	2009		
			Q4	Q1	Q2	Q3
GDP	2.4	-2.1	-7.0	-9.7	-2.7	-.6
Total domestic demand	3.1	-3.4	-8.9	-9.3	-3.7	.3
Consumption	2.2	-.9	-4.5	-6.0	-3.2	-.1
Investment	4.9	-9.1	-9.4	-26.8	-21.6	8.9
Government consumption	1.2	3.3	4.5	-.2	2.6	1.3
Inventories[2]	.6	-2.1	-5.5	-.7	1.5	-1.2
Exports	3.4	-3.6	-16.8	-25.1	-8.5	3.2
Imports	5.6	-8.1	-22.1	-24.2	-12.2	6.0
Net exports[2]	-.8	1.5	2.4	.3	1.3	-.8

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

Surveys paint a mixed portrait of the strength of the recovery. In December, PMIs were consistent with the manufacturing and services sectors growing at their pre-recession average. By contrast, business and consumer confidence weakened in December, and a British Chambers of Commerce survey conducted late in the fourth quarter points to further stagnation. Lenders reportedly increased the availability of secured household credit and corporate credit, but the availability of unsecured household credit was restrained further.

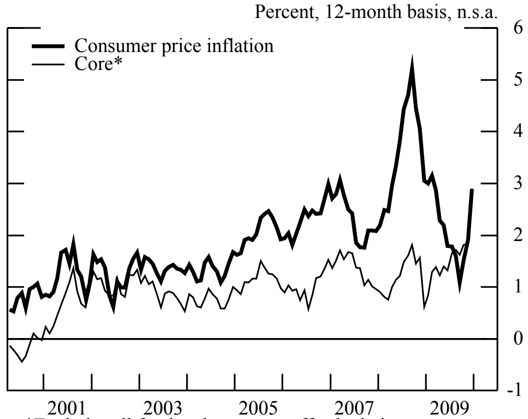
The housing sector continues to recover at a slow, yet steady, pace. Loan approvals for house purchases rose for a 13th consecutive month in November, although they remained at only about one-half their pre-recession level. House price indexes in December had retraced about one-third of their peak-to-trough decline while new construction orders in November lingered near their nadir.

Twelve-month headline inflation surged to 2.9 percent in December as unusually large price declines in December 2008 – reflecting the value-added tax cut, sharp oil price decreases, and heavy discounts by retailers – dropped out of the equation. The recent rise in commodity prices and a weak sterling have continued to exert significant upward pressure on goods prices. The price of consumer goods excluding food and energy rose 3.2 percent in the 12 months to December, the fastest pace since the adoption of the current methodology in 1997. By contrast, services inflation edged up to 2.6 percent, a figure well below its recent trend.

As of January 14, the Bank of England had acquired £195 billion in securities at its Asset Purchase Facility, nearly all of which (£193.2 billion) were gilts. The BOE plans to purchase a total of £200 billion in assets through the creation of central bank reserves by the end of January.

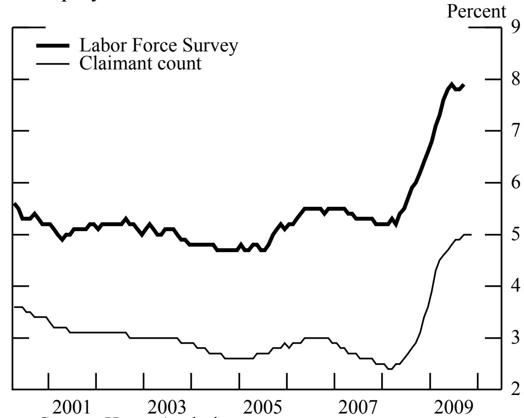
United Kingdom

Consumer Price Inflation



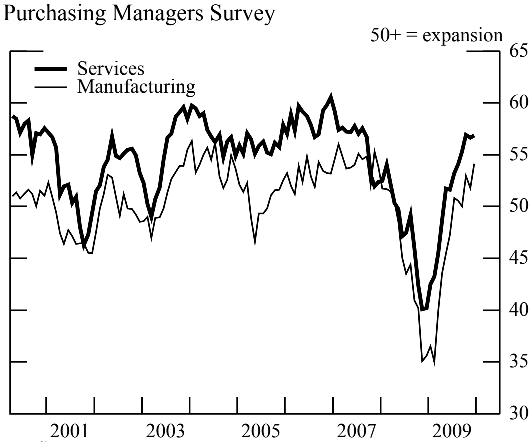
*Excludes all food and energy; staff calculations.
Source: Haver Analytics.

Unemployment Rates



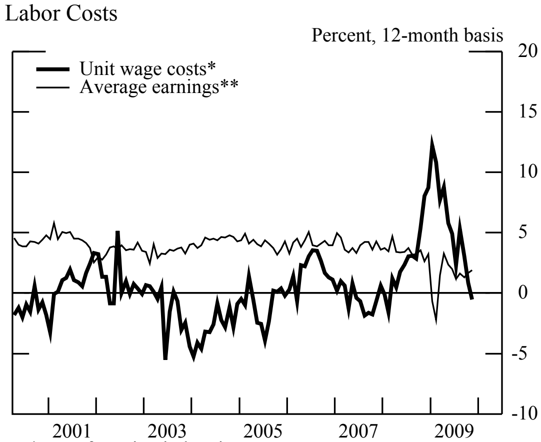
Source: Haver Analytics.

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)

Indicator	2009			2009			
	Q2	Q3	Q4	Sept.	Oct.	Nov.	Dec.
Industrial production	-.6	-.9	n.a.	1.3	.0	.3	n.a.
Producer input prices[1]	-8.9	-8.7	3.7	-6.2	.4	4.0	6.9
Retail sales volume	.8	1.1	n.a.	.4	.6	-.4	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	-8.8	-10.1	-8.3	-8.3	-9.7
Trade balance[3]	-12.9	-12.9	n.a.	-5.0	-5.1	-4.8	n.a.

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

Canadian Real GDP
(Percent change from previous period except as noted, annual rate)

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.

In **Canada**, data received for the fourth quarter have been positive. The monthly GDP index rose at an annual rate of 1.9 percent in October following an outsized increase of 5.2 percent in September. Gains in output were broad based over the two months. Real retail sales were up in October amid strong sales of new cars, marking the sixth consecutive monthly increase. Credit growth, which has remained relatively strong through the downturn, may get a further lift going forward. According to the Bank of Canada’s senior loan officer survey, credit conditions eased in the fourth quarter for the first time since 2007.

The Canadian housing market has continued to rebound forcefully. Building permits have increased more than 70 percent from their February lows. The level of permits is now only a touch below its average level during the boom years of 2006 and 2007. Prices for new houses rose 4½ percent at an annual rate over the three months ending in November.

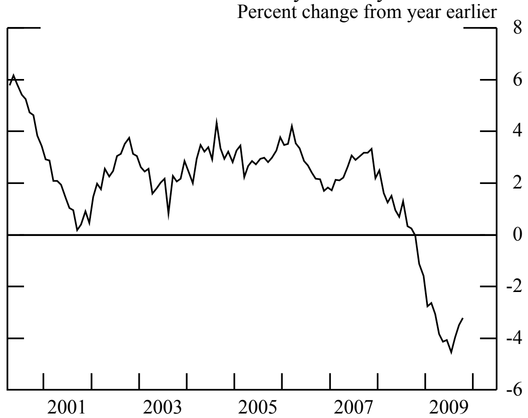
Labor market conditions improved further in the fourth quarter, as total employment rose at an annual rate of nearly 1 percent. Public-sector employment advanced markedly, whereas private-sector employment edged up in the last two months of the quarter, after having fallen in October. Total hours of work were unchanged over the quarter, as a rise in December hours offset previous declines. The unemployment rate remained at 8.5 percent in December.

Consumer prices rose 1.2 percent over the 12 months ending in December, up 0.2 percentage point from November. Excluding food and energy, inflation was 0.7 percent in December, remaining at its lowest level since the early 1990s.

At its January meeting, the Bank of Canada 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.

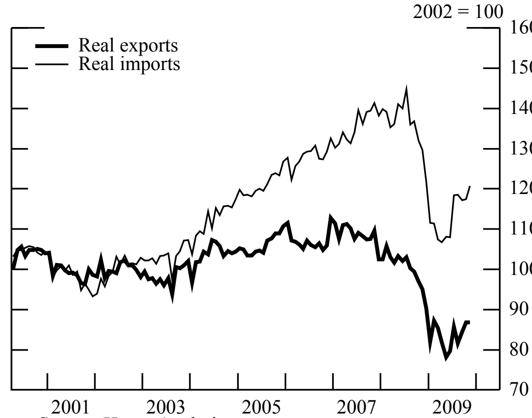
Canada

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

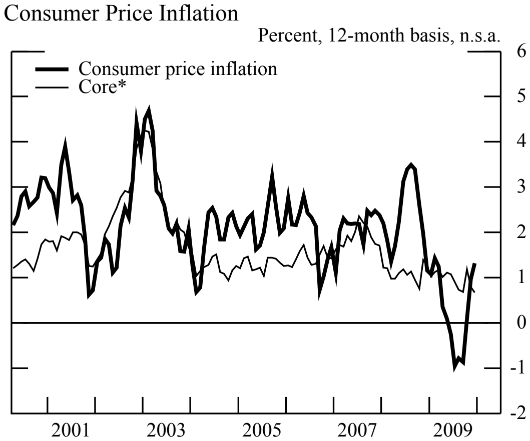


Source: Haver Analytics.

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 except as noted)

Indicator	2009			2009			
	Q2	Q3	Q4	Sept.	Oct.	Nov.	Dec.
Industrial production	-4.6	-1.4	n.a.	1.1	.1	n.a.	n.a.
New manufacturing orders	-1.7	1.8	n.a.	5.6	-2.8	1.2	n.a.
Retail sales	.5	1.4	n.a.	1.3	.6	n.a.	n.a.
Employment	-.4	-.2	.2	.2	-.3	.5	-.0
Wholesale sales	.8	2.7	n.a.	.1	.4	n.a.	n.a.
Ivey PMI[1]	53.4	56.4	55.2	61.7	61.2	55.9	48.4

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 expand in the fourth quarter, although at a more moderate pace than in the third quarter. Within emerging Asia, growth appears to have remained robust in China and to have slowed elsewhere. Exports continued to rebound, although merchandise trade balances declined in a number of countries where strong domestic demand caused imports to outpace exports. In Latin America, indicators point to a continuation of growth in much of the region, although activity in Mexico appears to have decelerated significantly following the third quarter's outsized gain. Headline inflation continued to rise in emerging Asia, driven by energy and food prices, but remained below its earlier elevated pace in Latin America. The increase in food prices largely reflected the effects of adverse weather in several emerging Asian economies during the fourth quarter.

In **China**, incoming data point to continued strong growth of real GDP in the fourth quarter. Growth appears to be broad based, with consumption, investment, and net exports all likely contributing positively. In December, real auto sales were 45 percent higher than their year-earlier level, and, more generally, retail sales growth remained strong. Over October and November, fixed-asset investment was 28 percent higher than the same period in 2008. The value of nominal exports and imports jumped considerably in December, although the levels of both remain about 5 percent below their pre-crisis peaks. In the fourth quarter, the growth of exports outpaced that of imports, and, consequently, the trade surplus widened.

Chinese authorities have recently taken significant steps to tighten monetary policy, as the rapid pace of economic growth has led to concerns about inflation and potential asset bubbles. In particular, the People's Bank of China raised required reserve ratios 50 basis points, to 16 percent for large banks and 14 percent for smaller banks, after holding these ratios constant for more than a year. In addition, loan growth was subdued in the fourth quarter relative to the extraordinary growth earlier in the year—in part owing to stricter enforcement of mortgage requirements and restrictions on lending to industries with excess capacity. Headline consumer prices rose rapidly from August through November, led by food prices, but nonfood prices also increased. Over that period, 12-month headline inflation climbed nearly 2 percentage points, from -1¼ percent to ½ percent.

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

Indicator	2008	2009	2009				
			Q3	Q4	Oct.	Nov.	Dec.
Real GDP[1]	6.9	n.a.	9.8	n.a.	. . .	. . .	. . .
Industrial production	1.8	n.a.	5.4	n.a.	-2.9	3.4	n.a.
Consumer prices[2]	1.2	n.a.	-1.3	n.a.	-.5	.6	n.a.
Merch. trade balance[3]	298.1	196.4	99.5	228.4	183.0	241.2	261.0

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.

n.a. Not available. ... Not applicable.
Source: CEIC.

In **India**, economic activity appeared to pick up toward the end of the fourth quarter after a slow start, underpinned by strength in the manufacturing sector. Industrial production shot up 3.2 percent in November, buoyed by a strong rebound in consumer durables. The purchasing managers index, which had been drifting down since May, jumped to 55.6 in December, indicating a faster pace of expansion. Consistent with the domestic demand-led recovery, the merchandise trade deficit has been widening since May, as demand for imports has outpaced that for exports.

A severe drought in the summer has led to rapidly rising food prices and caused the inflation outlook to deteriorate in recent months. Consumer price inflation, which had been hovering above 10 percent, rose to 12.5 percent on a 12-month basis in November, while wholesale price inflation jumped more than 3 percentage points, to 4.8 percent.

Indian Economic Indicators

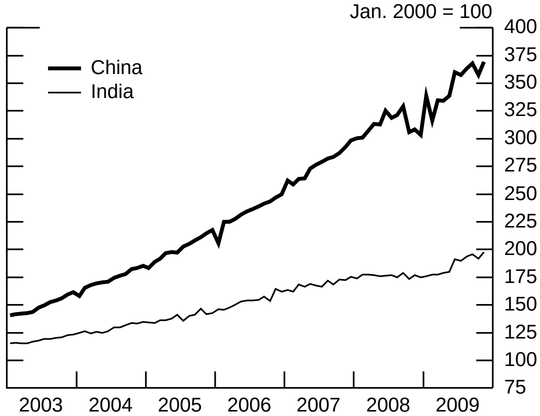
(Percent change from previous period, seasonally adjusted, except as noted)

Indicator	2008	2009	2009				
			Q3	Q4	Oct.	Nov.	Dec.
Real GDP[1]	5.9	n.a.	15.1	n.a.	. . .	. . .	. . .
Industrial production	4.4	n.a.	5.4	n.a.	-2.2	3.2	n.a.
Consumer prices[2]	9.7	n.a.	11.8	n.a.	10.5	12.5	n.a.
Wholesale prices[2]	6.1	7.3	-.1	4.4	1.3	4.8	7.3
Merch. trade balance[3]	-126.2	n.a.	-73.8	n.a.	-85.4	-103.0	n.a.
Current account[4]	-31.0	n.a.	-50.5	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.
... Not applicable.
Source: CEIC.

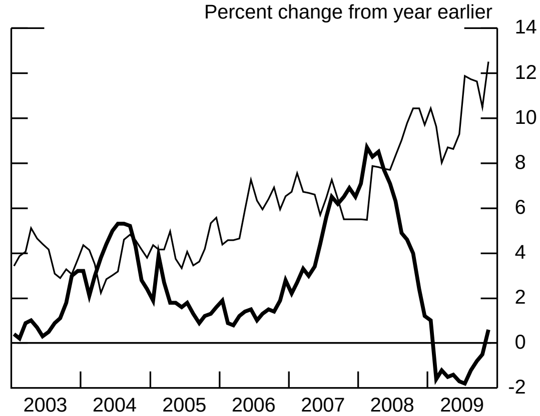
China and India

Industrial Production



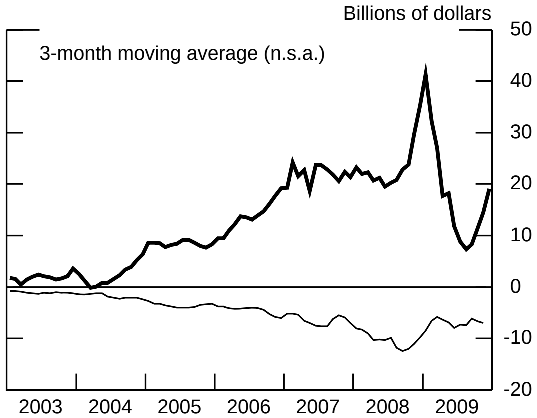
Source: CEIC.

Consumer Prices



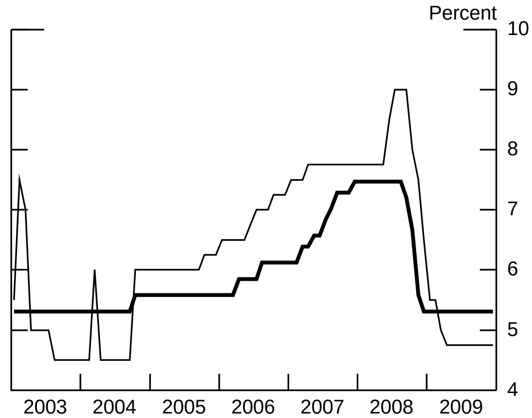
Source: China Statistic and Consultancy Service Center; CEIC.

Merchandise Trade Balances



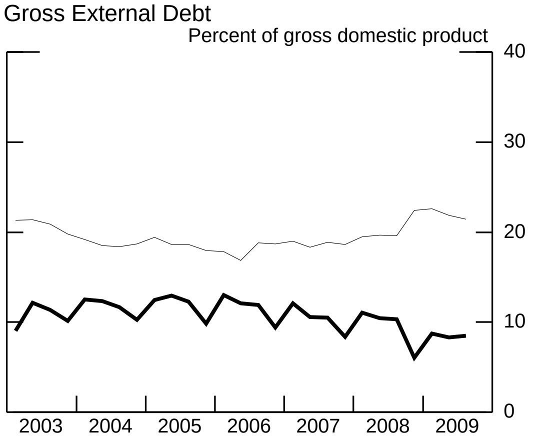
Source: China Statistic and Consultancy Service Center; CEIC.

Benchmark Interest Rates



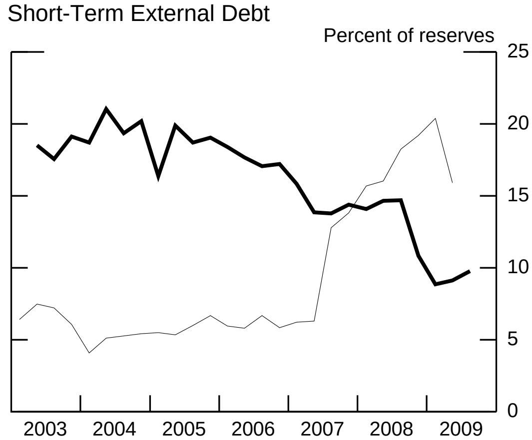
Source: Bloomberg; CEIC.

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] recent indicators point to slowing growth in the fourth quarter from its rapid bounce back earlier last year. In Singapore, the advance estimate of fourth-quarter GDP indicated a contraction of 6.8 percent at an annual rate after two quarters of double-digit gains. The contraction was mainly due to an output decline in the volatile biomedical sector. Other sectors, such as services and construction, experienced positive growth. In Korea, incoming data suggest slowing momentum in the economy; industrial production in October and November was, on average, unchanged from its third-quarter level. However, exports—particularly to China—surged in December, suggesting a possible pickup in growth toward the end of the quarter. Exports picked up sharply in Taiwan as well during the fourth quarter, reflecting increased demand from both Asia and the advanced economies.

Inflation has risen from very low levels across the NIEs, with Korea experiencing the largest increase to about 3 percent in December on a 12-month basis. The increase primarily reflects rising food prices; core inflation, which excludes food and energy prices, moderated in recent months. To date, central banks in the region 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	Sept.	Oct.	Nov.
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	-2.6	. . .	. . .	. . .
Korea	7.0	3.0	11.4	7.2	5.7	-3.8	1.4
Singapore	5.9	-4.2	15.2	8.6	-13.4	.3	-8.8
Taiwan	7.8	-1.8	17.3	7.0	7.0	-.1	6.5

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

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

Economic Indicators for Newly Industrialized Economies: Merchandise Trade Balance

(Billions of U.S. dollars; seasonally adjusted, annualized)

	2008	2009	2009				
			Q3	Q4	Oct.	Nov.	Dec.
Hong Kong	-25.9	n.a.	-39.3	n.a.	-42.1	-36.6	n.a.
Korea	5.7	n.a.	56.9	n.a.	45.6	52.7	n.a.
Singapore	18.4	24.1	21.7	35.7	39.0	33.9	34.1
Taiwan	4.4	20.1	24.4	6.8	21.4	-11.8	10.9

Source: CEIC.
n.a. Not available.

Economic Indicators for Newly Industrialized Economies: Consumer Price Inflation

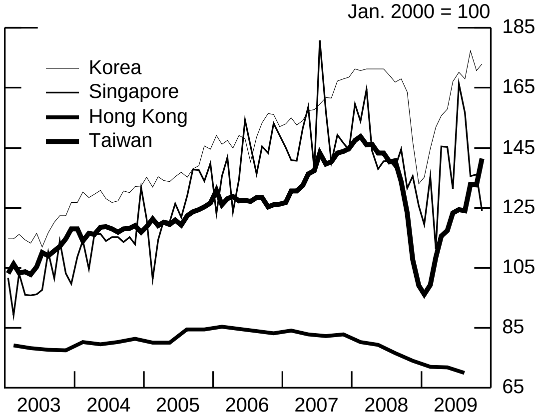
(Non-seasonally adjusted percent change from year earlier except as noted)

	2008[1]	2009[1]	2009				
			Q3	Q4	Oct.	Nov.	Dec.
Hong Kong	2.1	n.a.	-.9	n.a.	2.2	.5	n.a.
Korea	4.1	2.8	2.0	2.4	2.0	2.4	2.8
Singapore	4.3	n.a.	-.4	n.a.	-.8	-.2	n.a.
Taiwan	1.3	-.2	-1.3	-1.2	-1.9	-1.6	-.2

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

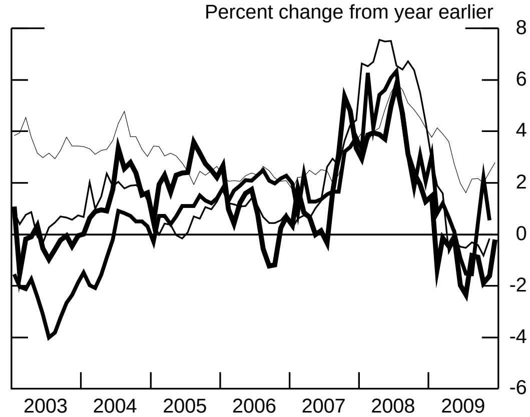
Newly Industrialized Economies

Industrial Production



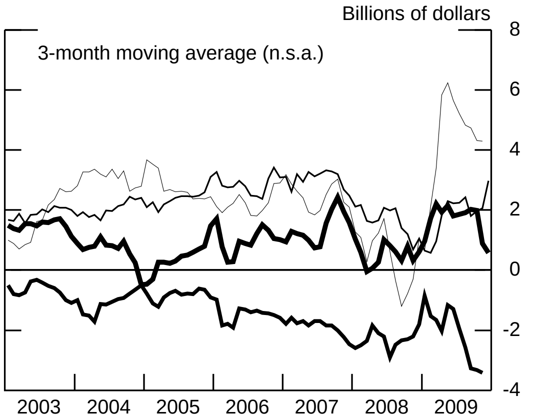
Source: CEIC.

Consumer Prices



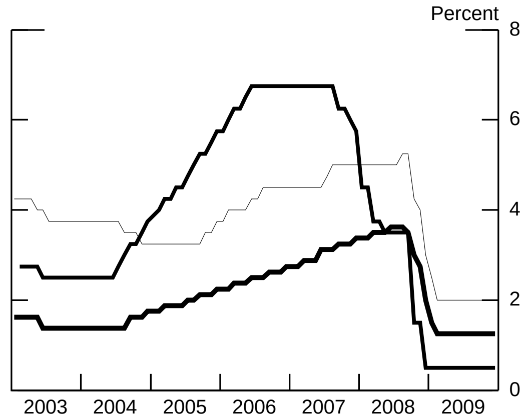
Source: CEIC; Bank of Korea; Reuters.

Merchandise Trade Balances



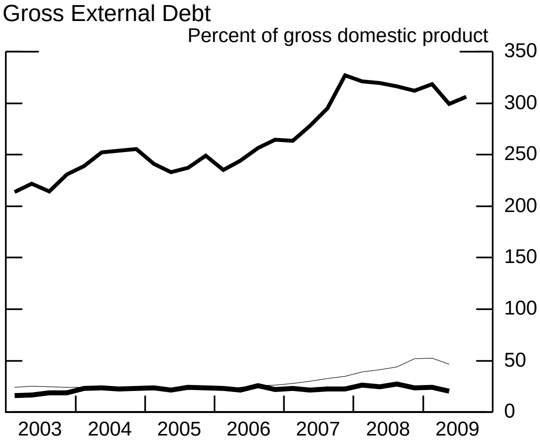
Source: CEIC.

Benchmark Interest Rates



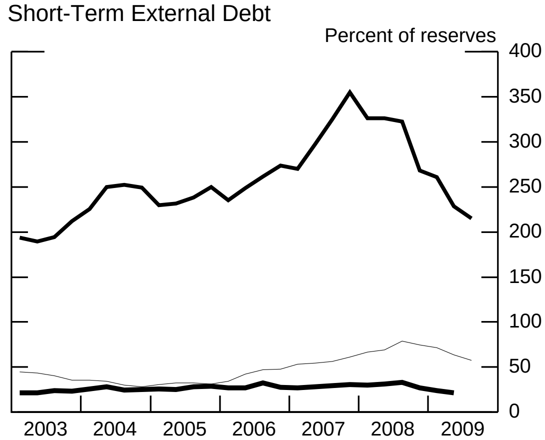
Source: Bloomberg.

Gross External Debt



Source: Bank for International Settlements.

Short-Term External Debt



Source: Bank for International Settlements.

In the **Association of Southeast Asian Nations (ASEAN-4)**,[2] economic growth during the fourth quarter was uneven across the region. In Indonesia, industrial production accelerated on average in October and November, boosted by improved consumer confidence and export demand. In Malaysia, it continued to increase but at a slightly slower pace than in the third quarter. In Thailand, industrial production has edged down since September amid subdued private investment and the suspension of 65 industrial projects at Thailand's largest industrial zone by a court order on environmental grounds. Trade surpluses increased as exports recovered, but edged down in November in Indonesia and Malaysia due to a boost to imports from strengthening domestic demand and appreciating currencies.

Headline inflation continued to rise in Thailand and the Philippines, driven mostly by energy and food prices. In the case of Thailand, the increase in food prices was related to the implementation of a new price insurance scheme that limits the government's role as a supplier of farm products, and, in the case of the Philippines, to a crop shortfall caused by floods in late 2009. In Indonesia, headline inflation remained flat due to the strengthening of the rupiah and delays in increasing administered energy prices. With year-end inflation in line with or below targets, central banks kept policy rates on hold.

[2] The ASEAN-4 is Indonesia, Malaysia, the Philippines, and Thailand.

ASEAN-4 Economic Indicators: Growth

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

Indicator	2007	2008	2009 Q2	2009 Q3	2009 Sept.	2009 Oct.	2009 Nov.
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	-.9	-5.1	4.9	-.4
Malaysia	2.1	.7	2.0	3.4	-1.7	6.3	-4.6
Philippines	-2.7	.3	12.4	6.0	8.4	.3	n.a.
Thailand	8.2	5.3	9.7	4.0	10.0	-.1	-.4

Note: ASEAN is the Association of Southeast Asian Nations.
1. Gross domestic product. Annual rate. Annual data are Q4/Q4.
2. Annual data are annual averages.
3. Staff estimate.
n.a. Not available. ... Not applicable.
Source: CEIC.

ASEAN-4 Economic Indicators: Merchandise Trade Balance

(Billions of U.S. dollars; seasonally adjusted, annualized)

Indicator	2007	2008	2009 Q2	2009 Q3	2009 Sept.	2009 Oct.	2009 Nov.
Indonesia[1]	39.6	7.9	20.7	16.2	17.5	29.8	28.8
Malaysia	29.2	42.7	30.8	30.2	30.5	40.2	27.3
Philippines	-5.0	-7.7	-5.0	-2.7	-1.5	-1.2	n.a.
Thailand	12.8	.1	22.6	15.9	9.2	15.2	6.0

Note: ASEAN is the Association of Southeast Asian Nations.
1. Imports prior to 2008 do not include trade through Indonesia's bonded zone, causing a break in the trade balance in 2008.
n.a. Not available.
Source: CEIC; Bank of Thailand; Philippines Economic Indicators Telegram (PEIT).

ASEAN-4 Economic Indicators: Consumer Price Inflation

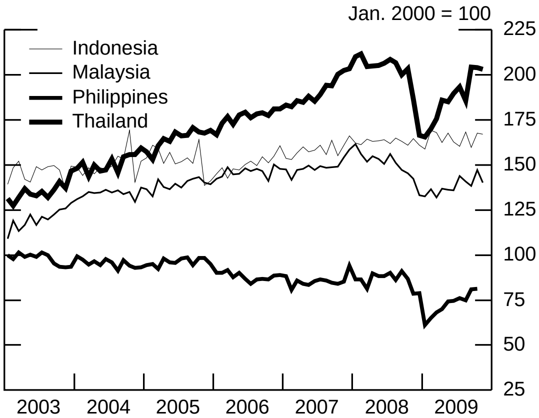
(Non-seasonally adjusted percent change from year earlier except as noted)

Indicator	2008[1]	2009[1]	2009				
			Q3	Q4	Oct.	Nov.	Dec.
Indonesia	11.1	2.8	2.8	2.6	2.6	2.4	2.8
Malaysia	4.4	1.1	-2.3	-.2	-1.5	-.1	1.1
Philippines	8.0	4.4	.3	3.0	1.6	2.8	4.4
Thailand	.4	3.5	-2.2	1.9	.4	1.9	3.5

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

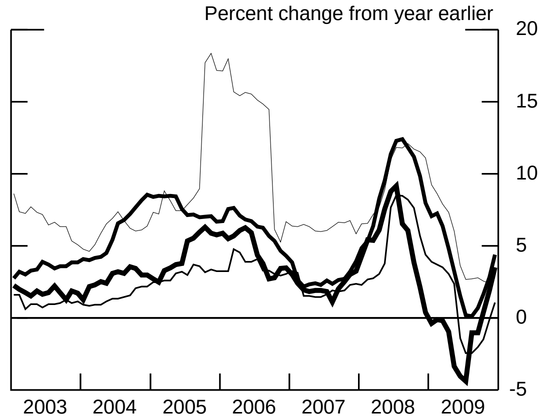
ASEAN-4

Industrial Production



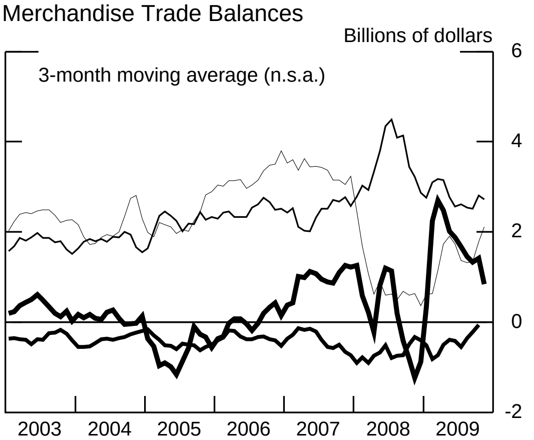
Source: CEIC; Bank of Philippines.

Consumer Prices



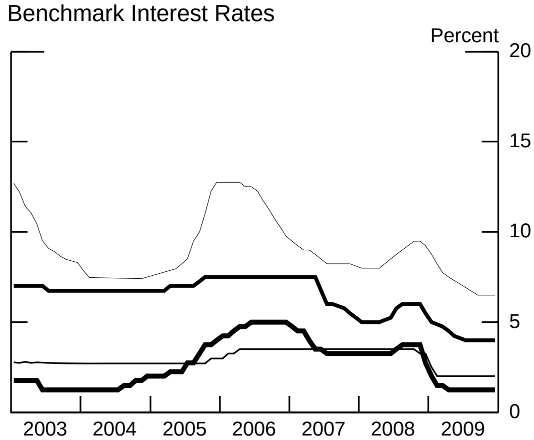
Source: IMF International Financial Statistics; CEIC.

Merchandise Trade Balances



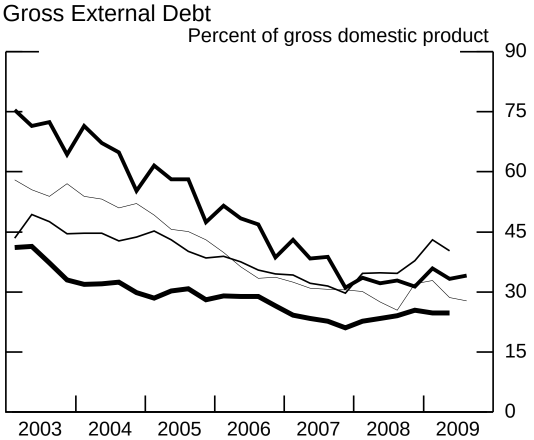
Source: CEIC; Philippines Economic Indicators Telegram (PEIT);
Bank of Thailand Monthly Statistical Release.

Benchmark Interest Rates



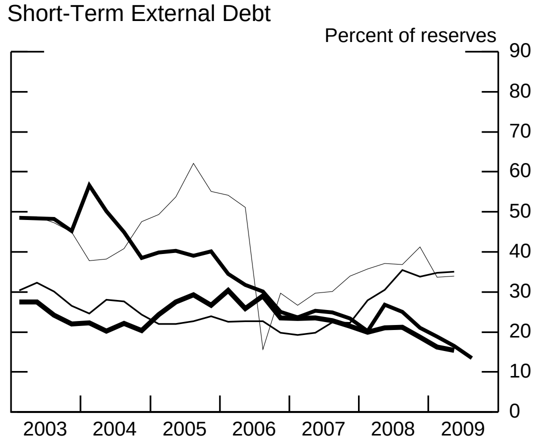
Source: Bloomberg; Haver Analytics.

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**, indicators of economic activity point to subdued growth in the fourth quarter, following the very rapid 12 percent pace seen in the third quarter, which partly reflected the reversal of the H1N1 effects. Consumer demand continued to be restrained by the still weak employment and tight credit conditions. The overall economic activity indicator also points to weak performance in October. However, industrial production extended its upward trend, though at a somewhat slower pace than in the previous quarter, and the auto sector continued to expand. The trade balance turned positive in October and November, as exports rose faster than imports. Forward-looking indicators are also more upbeat; the purchasing managers index increased further for both manufacturing and services, with both now above the neutral level of 50.

Headline inflation continued to decline in December, ending the year at 3.6 percent on a 12-month basis and within the Bank of Mexico's 2 to 4 percent target range. The continued decline in inflation reflected subdued domestic demand and the appreciation of the peso. It occurred despite a series of price increases for administered goods and services that started in the second half of December, along with the 1 percent increase in the value added tax approved in the recent fiscal reform. Separately, Agustín Carstens took office as the new governor of the Bank of Mexico on January 1.

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

Indicator	2008	2009	2009				
			Q3	Q4	Oct.	Nov.	Dec.
Real GDP[1]	-1.7	n.a.	12.2	n.a.	...	...	...
Overall economic activity	1.0	n.a.	2.2	n.a.	.1	n.a.	n.a.
Industrial production	-1.0	n.a.	1.7	n.a.	.9	1.0	n.a.
Unemployment rate[2]	4.0	n.a.	5.9	n.a.	5.8	5.7	n.a.
Consumer prices[3]	6.5	3.6	5.1	4.0	4.5	3.9	3.6
Merch. trade balance[4]	-17.3	n.a.	-7.9	n.a.	7.7	1.9	n.a.
Merchandise imports[4]	308.6	n.a.	235.8	n.a.	246.2	265.0	n.a.
Merchandise exports[4]	291.3	n.a.	227.9	n.a.	253.9	266.9	n.a.
Current account[5]	-15.8	n.a.	-7.6	n.a.	...	...	...

1. Gross domestic product. Annual rate. Annual data are Q4/Q4.
2. Percent; counts as unemployed those working 1 hour a week or less.
3. Non-seasonally adjusted percent change from year-earlier period, except annual data, which are Dec./Dec.
4. Billions of U.S. dollars, annualized.
5. Billions of U.S. dollars, not seasonally adjusted, annualized.
n.a. Not available. ... Not applicable.
Source: Haver Analytics; Bank of Mexico.

In **Brazil**, real GDP grew 5.1 percent in the third quarter, as investment soared and private consumption remained robust. Indications are that fourth-quarter activity remained strong. Although November industrial production declined slightly, it was up 3.7 percent on average in October and November relative to its third-quarter level, and auto production continued to climb in December. The purchasing managers index for manufacturing was nearly 56 in December, a level consistent with further expansion. The recovery has been supported by rapid growth of government-directed credit and strong domestic demand, particularly for autos and appliances, which benefited from government tax breaks. Import growth far exceeded export growth, reflecting strong domestic demand, causing the trade surplus to narrow.

Headline inflation came in at 4.3 percent in December on a 12-month basis, just below the midpoint of the central bank's target range. The central bank continued to intervene to mitigate upward pressures on the *real*, and international reserves climbed to a record high of over $240 billion in mid-January, about 14 percent of GDP.

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

Indicator	2008	2009	2009				
			Q3	Q4	Oct.	Nov.	Dec.
Real GDP[1]	.9	n.a.	5.1	n.a.	. . .	. . .	. . .
Industrial production	3.1	n.a.	4.8	n.a.	2.3	-.2	n.a.
Unemployment rate[2]	7.9	n.a.	7.9	n.a.	7.7	7.7	n.a.
Consumer prices[3]	5.9	4.3	4.4	4.2	4.2	4.2	4.3
Merch. trade balance[4]	25.0	25.0	21.6	14.2	14.4	18.0	10.2
Current account[5]	-28.2	-24.3	-19.7	-48.9	-36.2	-39.2	-71.4

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.

In **Argentina**, economic activity appears to have accelerated somewhat in the fourth quarter from its relatively flat performance over the first three quarters of 2009. Growing Brazilian demand for automotive products and global demand for commodities contributed to an expansion of exports. Inflation increased in the fourth quarter, reflecting a pickup in commodity prices and a move by government officials to bring official estimates in line with actual inflation rates.

On January 7, Argentine president Fernandez signed a decree ousting central bank Governor Redrado for misconduct. Reportedly, the governor's refusal to transfer $6½ billion of the central bank's reserves to the government's Bicentennial Fund triggered the action. Created in mid-December, the fund is intended to pay the government's upcoming debt obligations. To date, Governor Redrado has refused to step down citing legal provisions, and a court order has halted the implementation of the decree. The government's attempt to use central bank reserves for debt repayments has further blurred the distinction between the assets of the government and those of the central bank. The attempt triggered a U.S. court order that froze the assets of Argentina's central bank deposited at the New York Fed, worth $1.7 million. The court order was later lifted on January 19.

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

Indicator	2008	2009	2009				
			Q3	Q4	Oct.	Nov.	Dec.
Real GDP[1]	3.9	n.a.	.2	n.a.	. . .	. . .	. . .
Industrial production	4.9	n.a.	1.2	n.a.	.1	1.0	n.a.
Unemployment rate[2]	7.9	n.a.	9.1	n.a.	. . .	. . .	. . .
Consumer prices[3]	7.2	7.7	5.9	7.1	6.5	7.1	7.7
Merch. trade balance[4]	12.6	n.a.	12.1	n.a.	14.0	17.8	n.a.
Current account[5]	7.1	n.a.	4.5	n.a.	. . .	. . .	. . .

1. Gross domestic product. Annual rate. Annual data are Q4/Q4.
2. Percent; not seasonally adjusted.
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, IMF International Financial Statistics database; Ministerio de economia; U.S. State Department.

In **Venezuela**, the currency was devalued in mid-January and a formal dual exchange rate regime was announced. The bolivar, which had been set at 2.144 bolivares per dollar since 2005, was moved to 4.3 bolivares per dollar. Dollars will also be available at the subsidized exchange rate of 2.6 bolivares per dollar for certain imports and for debt payments. The devaluation is expected to alleviate pressures on public finances in the short term, as oil export revenues, priced in dollars, comprise a large share of government revenues.

Inflation remained at more than 25 percent over the past year, despite the weakening in economic activity. Economic conditions appear to have weakened further over the past few weeks, as a severe drought has prompted the government to impose drastic rationing measures for electricity and water. Electricity generation in Venezuela is hydro-based, and reservoirs are expected to remain well below normal levels until the rainy season returns in May.

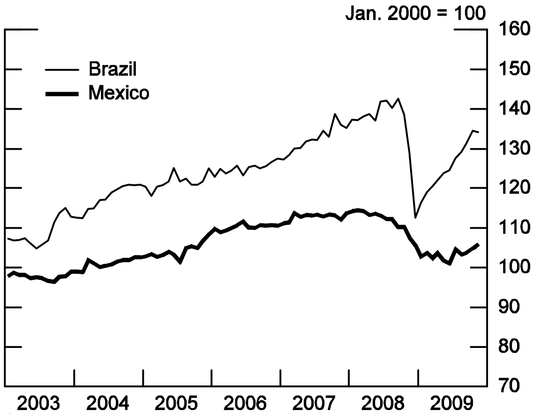
Venezuelan Economic Indicators
(Percent change from previous period, seasonally adjusted, except as noted)

Indicator	2008	2009	2009				
			Q3	Q4	Oct.	Nov.	Dec.
Real GDP[1]	3.3	n.a.	-10.6	n.a.	. . .	. . .	. . .
Consumer prices[2]	30.9	25.1	26.8	26.0	26.7	26.2	25.1
Non-oil trade balance[3]	-39.2	n.a.	-26.9	n.a.	. . .	. . .	. . .
Merch. trade balance[3]	45.7	n.a.	26.7	n.a.	. . .	. . .	. . .
Current account[4]	37.4	n.a.	20.3	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: IMF International Financial Statistics database; Bank of Venezuela.

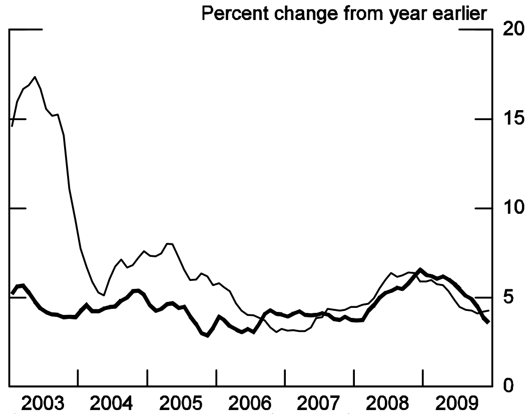
Latin America

Industrial Production



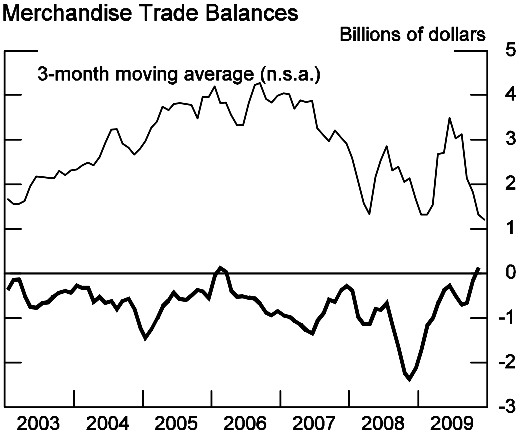
Source: Fundacion de Investigaciones Economicas Latinoamericanas; Haver Analytics.

Consumer Prices



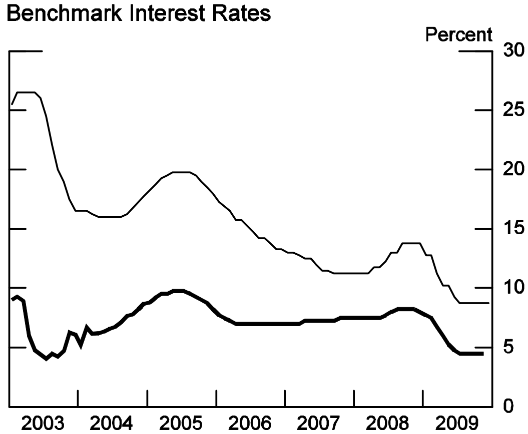
Source: IMF International Financial Statistics; Getulio Vargas Foundation; Haver Analytics; Bank of Mexico.

Merchandise Trade Balances



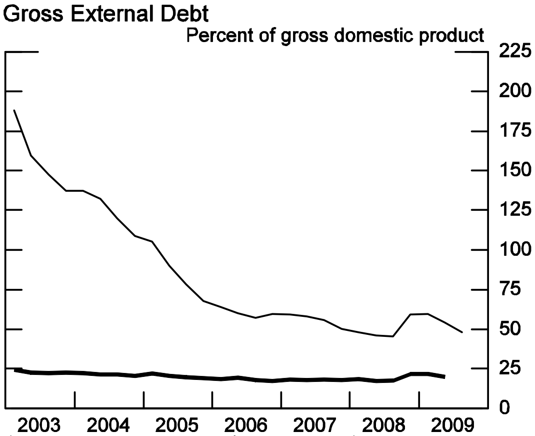
Source: IMF International Financial Statistics, Bank of Mexico.

Benchmark Interest Rates



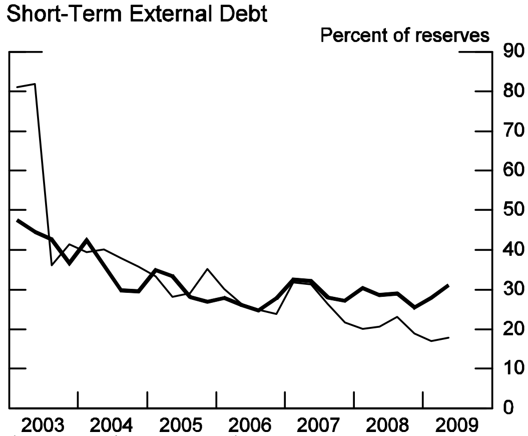
Source: Bloomberg.

Gross External Debt



Source: Haver Analytics; Bank for International Settlements.

Short-Term External Debt



Source: Bank for International Settlements.

In **Russia**, economic activity rose at an annual rate of 10½ percent in the third quarter following three consecutive quarters of decline, led by the industrial and transportation sectors. However, retail sales were flat in the third quarter and remained sluggish in October and November, and unemployment also ticked up in November. Consumer prices rose 5 percent at an annual rate in December, bringing 12-month inflation down to 8.8 percent, the lowest rate in two years. The central bank has continued to decrease interest rates to stem speculative capital inflows and the appreciation of the ruble.

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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
ASEAN-4	Association of Southeast Asian Nations (Indonesia, Malaysia, the Philippines, and Thailand)
BEA	Bureau of Economic Analysis, Department of Commerce
BLS	Bureau of Labor Statistics, Department of Labor
BOE	Bank of England
BOJ	Bank of Japan
BOP	balance of payments
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
DPI	disposable personal income
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
FRM	fixed-rate mortgage
GDP	gross domestic product
GNMA	Government National Mortgage Association (Ginnie Mae)
IMF	International Monetary Fund
IP	industrial production
ISM	Institute for Supply Management
JOC	Journal of Commerce
JOLT	Job Openings and Labor Turnover Survey
Libor	London interbank offered rate
LP	LoanPerformance
MBS	mortgage-backed securities
MPU	microprocessor unit
NAHB	National Association of Home Builders
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
PCE	personal consumption expenditures
PDCF	Primary Dealer Credit Facility

PMI	purchasing managers index
PPI	producer price index
repo	repurchase agreement
s.a.a.r.	seasonally adjusted annual rate
SIFMA	Securities Industry and Financial Markets Association
SLOOS	Senior Loan Officer Opinion Survey on Bank Lending Practices
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

Last page of Part 2