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[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[2] A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

Confidential (FR) Class III FOMC

Part 2

June 23, 1999

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

Confidential (FR) Class III FOMC

June 23, 1999

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee
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DOMESTIC NONFINANCIAL DEVELOPMENTS

Domestic Nonfinancial Developments

Overview
Economic activity has continued to expand in the current quarter, though apparently more moderately than earlier in the year. Consumer spending and construction outlays have decelerated from their blistering gains in the first quarter, and this has evidently been only partially offset by faster growth of business purchases of equipment and a lesser decline in real net exports. The labor market has remained tight, with job gains sufficient on average to push the unemployment rate back down to 4.2 percent in May. Wage and price increases have been a bit larger on net in the past few months, but longer-term inflation trends have remained favorable to this point.

Labor Market Developments
Employment growth has been choppy this year. Smoothing through the fluctuations, private nonfarm payrolls rose an average of 175,000 a month in April and May, essentially unchanged from the pace over the first quarter.[1] The aggregate hours of private production or nonsupervisory workers rose rather modestly in the past two months, however, as the implicit average workweek edged down somewhat. This is a curious development in such a tight labor market, but it may reflect in small part recent job losses in manufacturing, where workweeks tend to be relatively long. Taking the first five months of the year together, growth in overall payrolls and production worker hours has slipped a bit from the trends in 1998.

Factory payrolls contracted in April and May at about the same rate as in the first quarter. Mining also continued to shed workers, reflecting in part the cautious response of domestic drilling companies to the resurgence of oil prices. Over the past several months, growth in construction employment has fluctuated widely. After a sizable increase in the first quarter, construction jobs were little changed, on net, in April and May. Some of the slowing this quarter merely reflects the fact that building activity fell less than the seasonal norm through the winter months; and with workers reportedly in short supply, employers apparently also are straining to meet the usual spring seasonal pickup in hiring.

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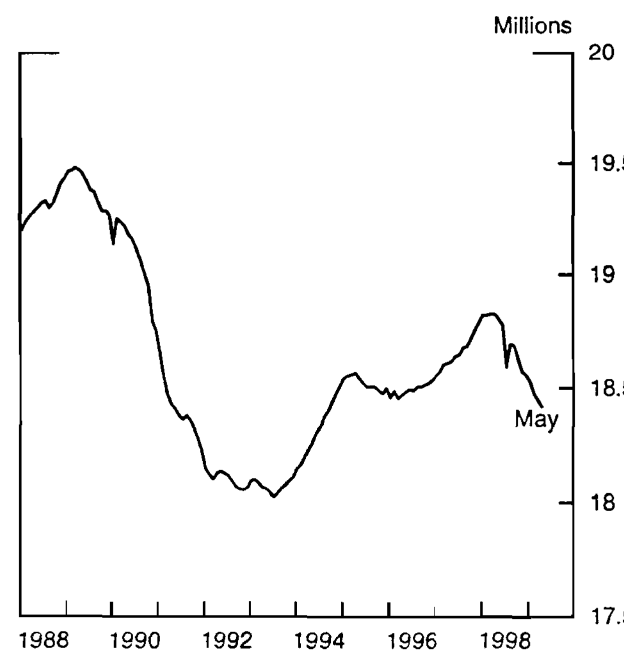
1. The May establishment report contained the annual benchmark revisions, which include the most recent comprehensive count of payroll jobs; the revisions affect data since April 1997. The revision to the level of payroll employment was small--the not seasonally adjusted March level was raised by 44,000, or less than 0.1 percent. As usual, new seasonal factors were estimated and applied to data back to January 1994. Also, the bias-adjustment factors were revised up an average of 13,000 per month to a monthly average of 150,000, which led to small upward revisions to job growth from April 1998 forward. The BLS uses its bias-adjustment factors mainly to capture employment gains due to new establishments that are missed in its regular monthly survey.

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

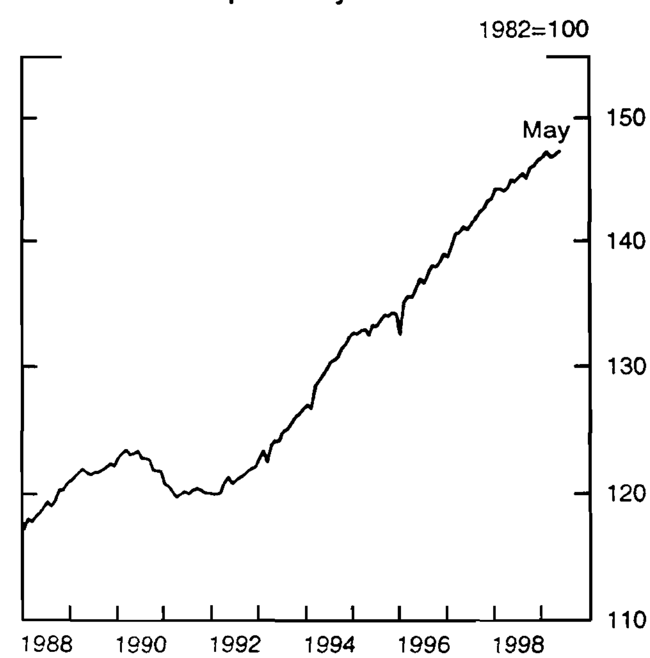
	1998	1998 Q3	1998 Q4	1999 Q1	1999 Mar.	1999 Apr.	1999 May
	--Average monthly changes--						
Nonfarm payroll employment [1]	244	224	275	209	83	343	11
Private	217	186	248	171	50	331	18
Goods Producing	8	-16	7	-23	-44	4	-92
Mining	-3	-3	-4	-7	-3	-12	-7
Manufacturing	-19	-28	-43	-36	-35	-28	-45
Construction	30	16	55	20	-6	44	-40
Service Producing	208	202	241	194	94	327	110
Transportation and utilities	18	16	16	16	9	20	13
Trade	46	57	58	44	-27	145	14
Finance, insurance, real estate	26	22	25	18	14	19	12
Services	119	107	142	116	98	143	71
Total government	27	38	27	38	33	12	-7
Private nonfarm production workers [1]	167	142	199	156	93	197	16
Total employment [2]	157	188	236	169	-111	36	155
Nonagricultural	171	153	319	149	-65	-67	244
Memo:							
Aggregate hours of private production workers (percent change)[1,3]	2.1	1.6	2.7	2.0	-0.3	0.1	0.2
Average workweek (hours) [1]	34.6	34.6	34.6	34.6	34.5	34.4	34.5
Manufacturing (hours)	41.8	41.7	41.7	41.6	41.5	41.6	41.7

Note. Average change from final month of preceding period to final month of period indicated.
1. Survey of establishments.
2. Survey of households.
3. Annual data are percent change from Q4 to Q4. Quarterly data are percent change from preceding quarter at an annual rate. Monthly data are percent change from preceding month.

Manufacturing Employment



Aggregate Hours of Production or Nonsupervisory Workers



In contrast, employment growth has remained robust in the service-producing sector. Finance, insurance, and real estate, wholesale and retail trade, services, and transportation and public utilities continued to add jobs in April and May at a rate that, in most cases, matched or exceeded the first-quarter pace.

In the household survey, the unemployment rate ticked back down to 4.2 percent in May; before hitting this level in March, the unemployment rate had not been so low since 1970. The labor force participation rate edged down to 67.0 percent in May, toward the lower end of the range it has traced out over the past year. The share of the population out of the labor force but wanting a job dropped back in May following an uptick in April; overall, this share has not moved much from the very low level reached at the end of 1998. In addition, the number of job leavers who have been unemployed for less than five weeks as a percentage of household employment has risen sharply recently. This is consistent with a tight labor market in which individuals feel more confident about leaving their current employers to look for opportunities elsewhere.

Other indicators also suggest, as yet, no appreciable slackening in labor demand. Initial claims for unemployment insurance have remained low since the reference week for the May employment report. Surveys of business hiring plans and help-wanted advertising are off their recent peaks but remain at relatively favorable levels, and firms still report that some types of jobs are very hard to fill.[2] Individuals' perceptions of current labor market conditions are quite positive: The proportion of households that reported that jobs are plentiful remained high in the Conference Board survey in May, and in June the Michigan index of expected employment conditions rose sharply.

According to the BLS's most recent estimate, productivity in the nonfarm business sector rose at a 3.5 percent annual rate in the first quarter of 1999. This is a downward revision of ½ percentage point from the earlier estimate and reflects a reduced estimate of the growth in output. Over the past four quarters, labor productivity rose 2.6 percent.[3] In the nonfinancial corporate sector,

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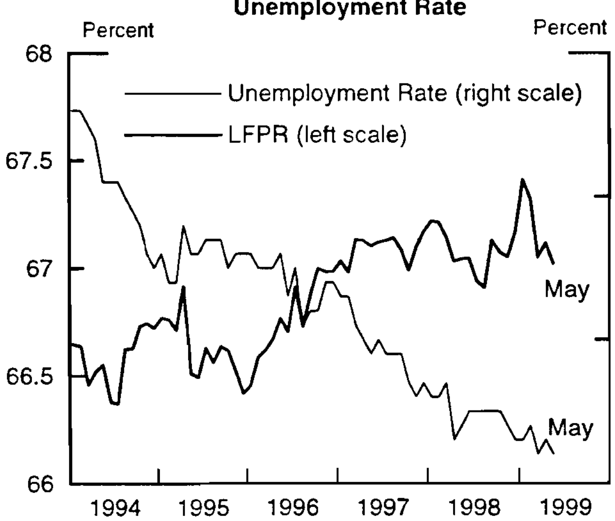
2. The National Federation of Independent Business's diffusion index on net hiring strength and its series on the share of firms reporting that jobs are difficult to fill both dropped sharply in May. These series, however, are volatile, which may partly reflect the variation in sample size from one month to the next: The sample for the NFIB survey in the first month of each quarter is about twice the size as in the second and third months.

3. Updated figures for first-quarter productivity will be published in August. Although nonfarm business sector output is currently reported to have increased at an annual rate of 4.4 percent in the first quarter, we estimate that growth in output will likely be revised back up to around 5 percent at an annual rate. Also, the first-quarter estimate of growth in nonfarm hours, 0.9 percent at an annual rate, does not incorporate the revisions to employment and hours published in the May Employment Situation. However, given these data, we expect only a small revision to the first-quarter increase in hours.

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

	1997	1998	1998 Q3	1998 Q4	1999 Q1	1999 Mar.	1999 Apr.	1999 May
Civilian unemployment rate	4.9	4.5	4.5	4.4	4.3	4.2	4.3	4.2
Teenagers	16.0	14.6	14.7	14.9	14.6	14.3	14.1	12.6
Men, 20 years and older	4.2	3.7	3.8	3.6	3.4	3.2	3.4	3.6
Women, 20 years and older	4.4	4.1	4.0	4.0	3.8	3.9	4.1	3.6
Labor force participation rate	67.1	67.1	67.0	67.1	67.3	67.0	67.1	67.0
Teenagers	51.6	52.8	52.8	52.8	52.6	52.1	51.9	52.1
Men, 20 years and older	76.9	76.8	76.7	76.8	76.9	76.7	76.7	76.5
Women, 20 years and older	60.5	60.4	60.3	60.5	60.8	60.6	60.8	60.7
Women maintaining families	67.4	68.3	68.7	69.1	69.4	68.8	69.1	68.5

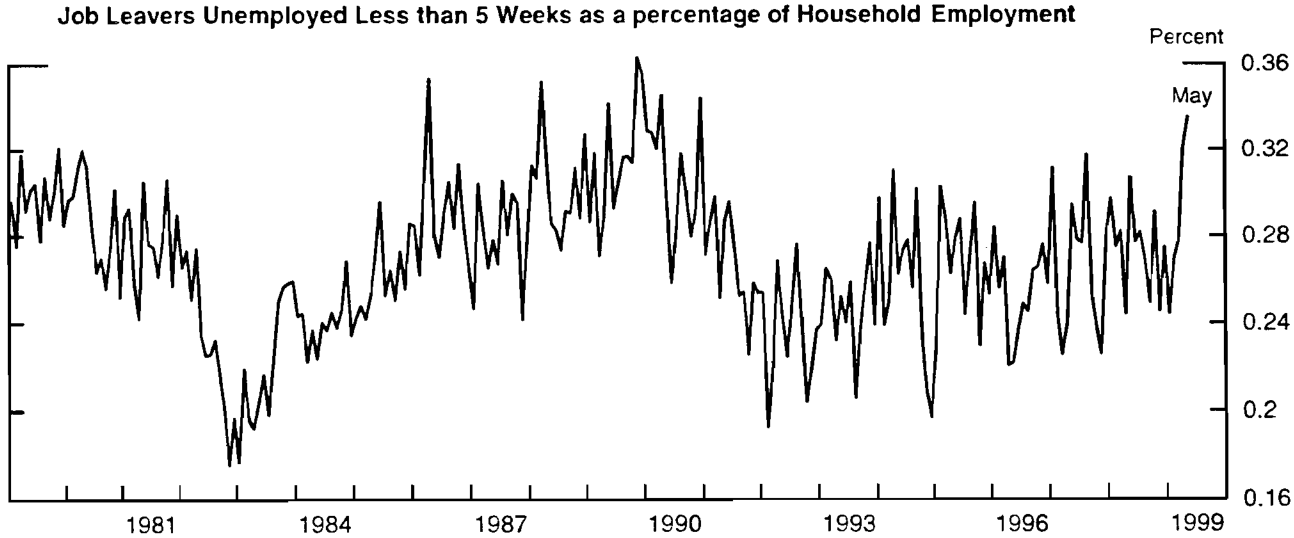
Labor Force Participation Rate and Unemployment Rate



Share of the Population Age 16 to 64 Who Want a Job and Are Not in the Labor Force

Note. Seasonally adjusted by FRB staff.

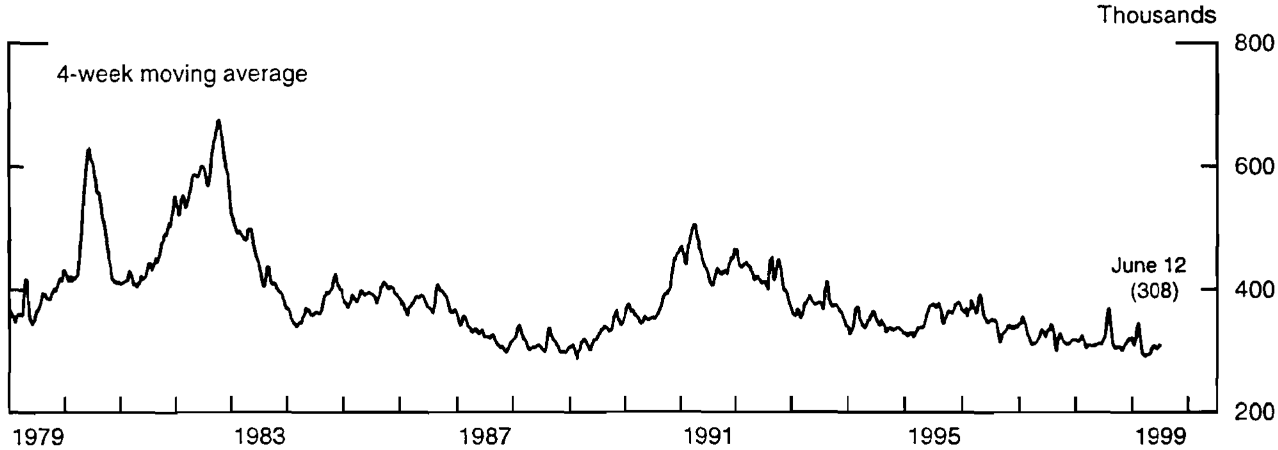
Job Leavers Unemployed Less than 5 Weeks as a percentage of Household Employment



Note. Seasonally adjusted by FRB staff.

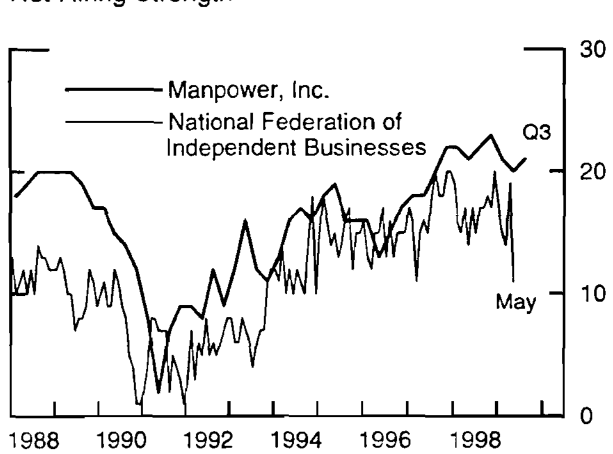
Labor Market Indicators

Initial Claims for Unemployment Insurance



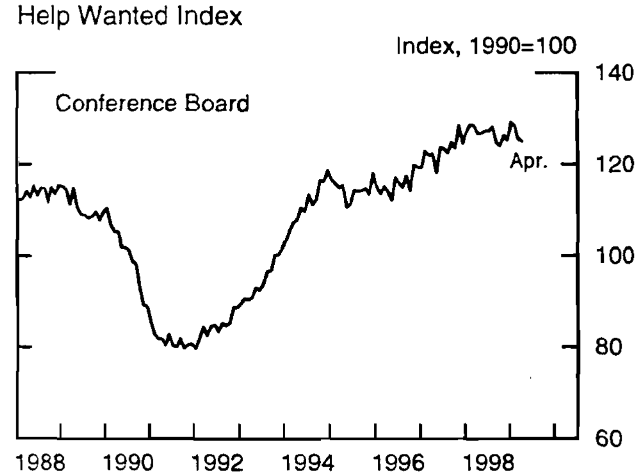
Note. State programs, includes EUC adjustment.

Net Hiring Strength



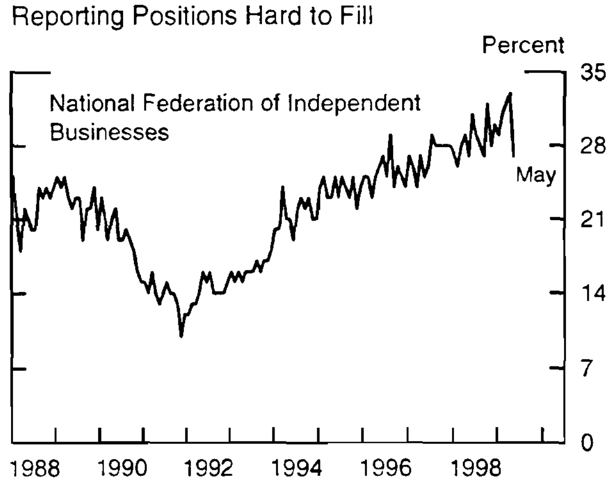
Note. Percent planning an increase in employment minus percent planning a reduction.

Help Wanted Index

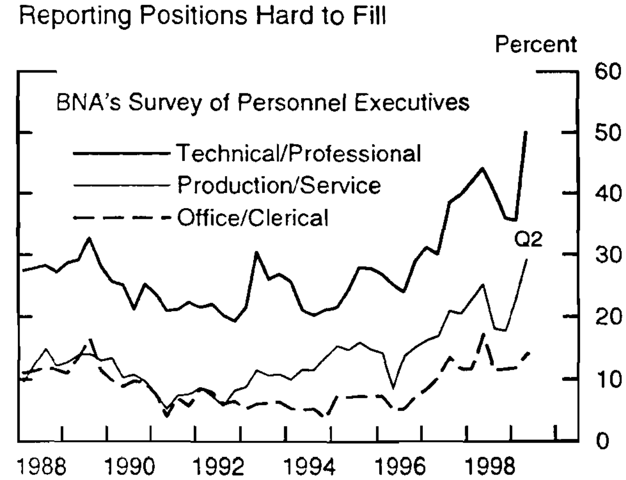


Note. Series adjusted for consolidation of newspaper industry and rise of hiring through personnel supply agencies.

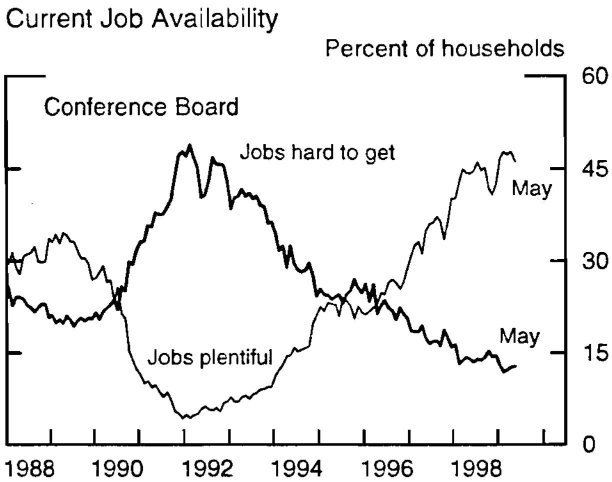
Reporting Positions Hard to Fill

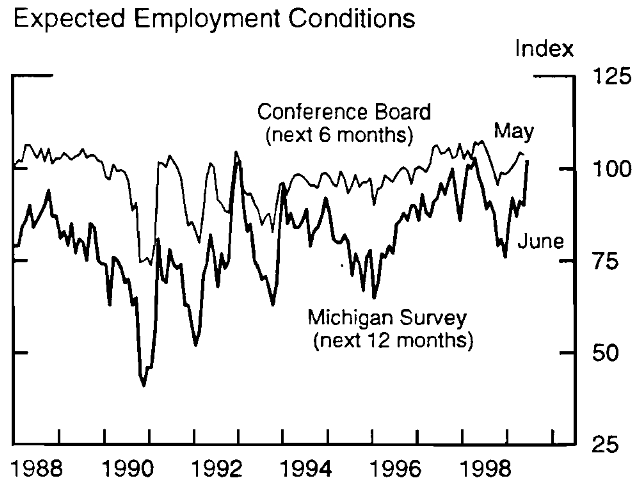


Reporting Positions Hard to Fill



Labor Market Indicators (cont.)





Note. Michigan index: the proportion of households expecting unemployment to fall, less the proportion expecting unemployment to rise, plus 100. Conference Board index: the proportion of respondents expecting more jobs, less the proportion expecting fewer jobs, plus 100.

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

	1997 [1]	1998 [1]	1998 Q2	1998 Q3	1998 Q4	1999 Q1
<u>Output per hour</u>						
Total business	1.7	2.9	0.1	2.6	4.6	4.1
Nonfarm business	1.5	2.7	0.3	2.5	4.3	3.5
Previous						4.0
Manufacturing	5.6	3.9	3.9	4.7	5.3	6.2
Nonfinancial corporations [2]	2.5	3.4	3.1	4.4	3.3	4.2
<u>Compensation per hour</u>						
Total business	3.8	4.3	4.1	3.7	4.4	5.0
Nonfarm business	3.7	4.2	4.1	3.9	4.0	4.2
Previous						4.3
Manufacturing	5.4	3.3	2.6	3.2	3.3	5.1
Nonfinancial corporations [2]	3.8	4.1	4.6	4.0	4.2	4.7
<u>Unit labor costs</u>						
Total business	2.0	1.4	4.0	1.0	-0.1	0.9
Nonfarm business	2.1	1.5	3.7	1.4	-0.4	0.7
Previous						0.3
Manufacturing	-0.1	-0.6	-1.3	-1.5	-1.9	-1.1
Nonfinancial corporations [2]	1.2	0.7	1.5	-0.3	0.8	0.5
Memo:						
ECI compensation per hour	3.4	3.5	3.6	4.1	2.9	1.4

1. Changes are from fourth quarter of preceding year to fourth quarter of year shown.
2. Nonfinancial corporate sector includes all corporations doing business in the United States except banks, stock and commodity brokers, and finance and insurance companies; the sector accounts for about two-thirds of business employment.

productivity surged 4.2 percent at an annual rate in the first quarter and is up 3.7 percent over the past four quarters.[4]

Industrial Production

Industrial production rose 0.2 percent last month, despite a sharp weather-related drop in the output of utilities. Manufacturing production rose 0.4 percent in May following gains of similar magnitudes in the preceding three months. The increases in production have lifted the factory operating rate 0.2 percentage point over the past three months to 79.7 percent in May, but this still is nearly 2 percentage points below the long-term average.

The output of motor vehicles and parts was up 2.2 percent in May, as the industry attempted to keep up with the blockbuster pace of sales. Production schedules for the third quarter indicate that assemblies are likely to remain high: They call for output to run at an annual rate of 13.1 million units, about the same as in the second quarter. High production rates could well be maintained even if

Production of Domestic Autos and Trucks

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

Item	1999					
	Q1	Q2[1]	Q3[1]	May	June[1]	July[1]
U.S. production	12.7	13.0	13.1	13.0	13.2	13.0
Autos	5.6	5.6	5.7	5.5	5.6	5.7
Trucks	7.1	7.5	7.3	7.6	7.6	7.2
Days' supply						
Autos	60.1	n.a.	n.a.	55.8	n.a.	n.a.
Light trucks[2]	61.4	n.a.	n.a.	62.6	n.a.	n.a.

NOTE. Components may not sum to totals because of rounding.
1. Production rates are manufacturers' schedules.
2. Excludes medium and heavy (class 4-8) trucks.
n.a. Not available.

4. Nonfarm business output is calculated on the product side of the national accounts, while the output of nonfinancial corporations is generated from income-side measures. We estimate that if it were measured from the income side of the accounts, nonfarm business output would have risen roughly 0.4 percentage point more over the past year, accounting for about one-third of the 1.1 percentage point difference between productivity growth in the two sectors over this period.

GROWTH IN SELECTED COMPONENTS OF INDUSTRIAL PRODUCTION
(Percent change from preceding comparable period)

	Proportion 1998	1998[1]	1998 Q4	1999 Q1	1999 Mar.	1999 Apr.	1999 May
			-Annual	rate-	--Monthly	rate---	
Total index	100.0	1.9	2.2	1.3	.7	.4	.2
Previous		1.9	2.2	1.1	.5	.6	
Manufacturing	88.4	2.5	4.9	1.6	.4	.4	.4
Durables	49.6	5.3	8.6	1.9	.7	.7	.6
Motor vehicles and parts	5.1	.7	37.3	-3.2	.7	-.1	2.2
Aircraft and parts	3.1	8.9	-2.6	-12.0	-1.8	-1.2	-.8
Other	41.4	5.6	6.3	3.8	.9	.9	.5
Nondurables	38.8	-.9	.3	1.1	.1	.1	.2
Manufacturing excluding motor vehicles and parts	83.3	2.6	3.1	1.9	.4	.5	.3
Mining	5.4	-4.9	-10.8	-8.2	-.6	-.6	.1
Utilities	6.2	-1.1	-20.5	4.8	4.9	.3	-2.2
IP by market group							
Consumer goods	27.5	-.4	.1	1.3	.2	.3	.1
Durables	6.0	4.9	18.0	7.7	-.8	1.8	.8
Nondurables	21.5	-1.8	-4.4	-.5	.5	-.1	-.1
Business equipment	15.4	8.3	6.2	-1.3	.5	.9	.1
Information processing	6.1	14.4	11.2	6.7	1.8	2.4	1.8
Computer and office eq.	2.5	53.0	45.9	30.9	3.1	2.7	2.3
Industrial	4.8	1.5	-2.9	-6.7	-.1	1.1	-1.8
Transit	3.1	12.1	19.1	-9.4	-1.3	-.2	-.5
Other	1.5	-1.4	-8.2	2.7	1.4	-4.1	-.1
Construction supplies	6.0	5.1	5.9	8.8	-.4	.3	-.2
Materials	39.1	1.6	3.5	2.2	.9	.4	.5
Durables	23.8	3.8	9.5	2.7	1.4	.5	.9
Semiconductors	3.9	25.7	51.7	15.7	2.3	3.4	2.4
Basic metals	3.6	-6.3	-7.5	1.6	2.4	-.6	.7
Nondurables	8.4	-2.8	-3.2	2.1	-.2	-.4	.2

1. From the final quarter of the previous period to the final quarter of the period indicated.

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1988-89 High	1959-98 Avg.	1998 Q3	1998 Q4	1999 Q1	1999 Mar.	1999 Apr.	1999 May
Manufacturing	85.7	81.6	80.2	80.1	79.5	79.5	79.6	79.7
Primary processing	88.9	82.8	82.9	82.5	82.8	82.7	82.7	82.7
Advanced processing	84.2	81.1	79.3	79.3	78.4	78.5	78.6	78.7

sales were to unexpectedly fall below the industry's forecast, as firms might see an advantage in building inventories prior to the upcoming labor negotiations.[5]

Elsewhere in manufacturing, advances were again fairly widespread in May. In particular, the high-tech sectors continue to be strong. Production has accelerated sharply for communications equipment in the past two months, while computers and semiconductors have continued to post solid gains in output. In addition, the output of iron and steel rose further in May after having plummeted in 1998. In contrast, production of aircraft and parts fell for the third consecutive month in May, reflecting Boeing's continued downshift in assemblies. The output of nondurable goods, which has been rising slowly since last fall, posted another small increase in May. The gains last month were relatively broadly based, with the main exceptions being apparel and textiles.

Recent readings on orders for manufactured goods suggest that factory output should continue to rise at a substantial clip in the near term. The new orders index from the National Association of Purchasing Management (NAPM) bounced up to its highest level in nineteen months in May, partly reflecting the improvement in export orders this year. The staff's series on real adjusted durable goods orders rose 1.2 percent in April following a sizable increase in the first quarter. The latest Beige Book reported improvement in manufacturing activity in most Districts. Respondents noted continued fierce competition from low-priced imports but also suggested that, on balance, foreign demand for manufactured goods has stabilized or improved slightly.

The May IP release contained new estimates of manufacturing capacity growth for 1999, which were last updated in December. Manufacturing capacity is now expected to grow 3.8 percent in 1999, versus the earlier estimate of 3.6 percent. The revised estimates reflect in part the May NAPM Semiannual Economic Forecast for Manufacturing, which showed a slight elevation of capital expenditure plans for 1999.[6] Some of the larger upward revisions to capacity growth occurred in high-tech industries such as semiconductors and in industries

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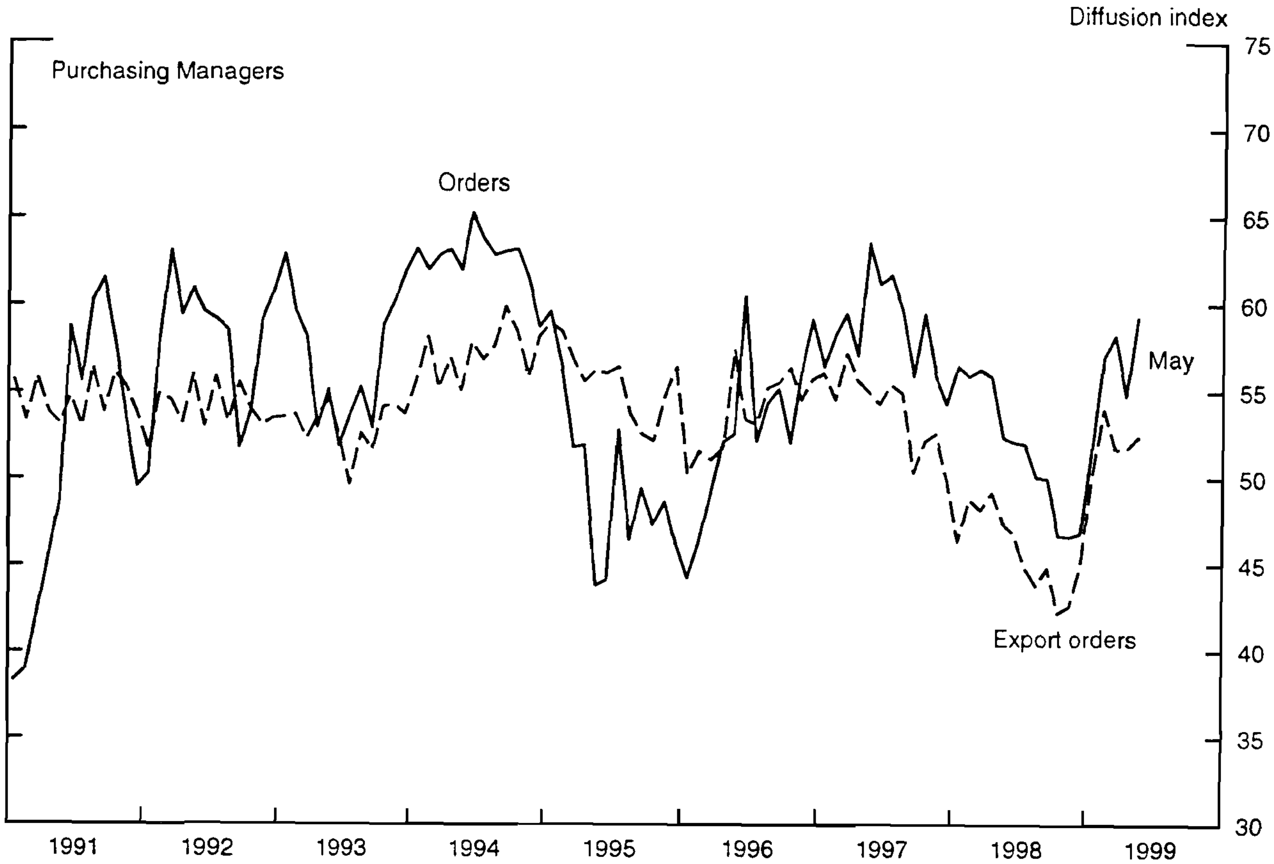
5. The current United Auto Workers Union (UAW) and Canadian Auto Workers Union (CAW) contracts expire on September 14 and September 21 respectively. Representatives from the automakers and unions began preliminary negotiations this month. However, in a twist from the usual pattern, the UAW will continue to negotiate simultaneously with General Motors, Ford, and DaimlerChrysler until an agreement is reached with one company. This contract will then set the pattern for the industry. The CAW will follow the more typical pattern of selecting a single company with which to negotiate a new contract.

6. The revision to capacity growth also reflects the incorporation of data on contracts for industrial building. These have been very weak in recent months and held down the revision to capacity growth.

Indicators of Future Production



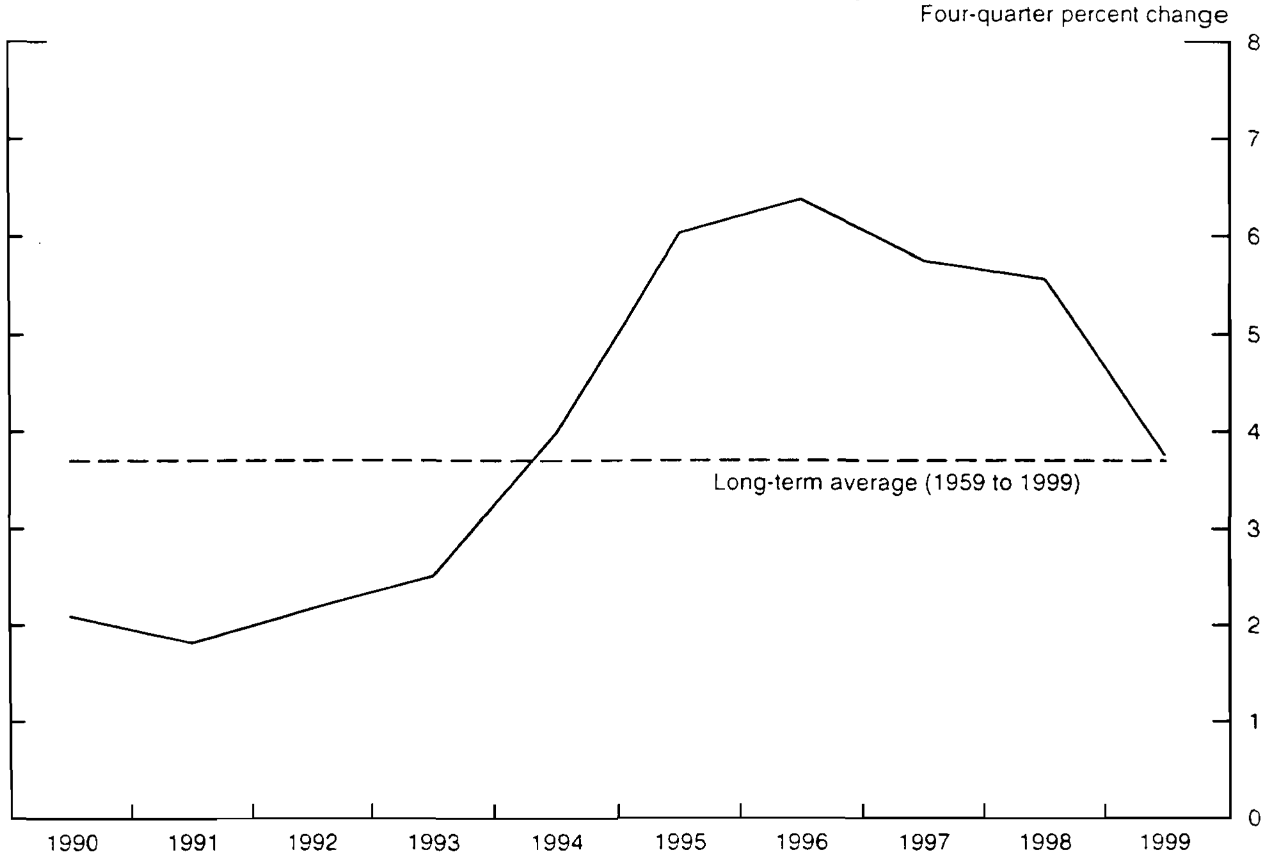
New Orders for Durable Goods
(Percent change from preceding period; seasonally adjusted)

Component	Share 1998-H2	1998 Q4	1999 Q1	1999 Feb.	1999 Mar.	1999 Apr.
Total durable goods	100.0	0.6	3.8	-3.9	2.9	-2.1
Adjusted durable goods[1]	70.0	-0.0	2.0	-1.5	2.7	0.6
Computers	6.0	0.6	-0.5	-0.7	4.0	2.3
Nondefense capital goods excluding aircraft and computers	18.0	-2.4	4.4	0.8	3.9	-0.2
Other	46.0	0.8	1.5	-2.5	2.0	0.7
MEMO						
Real adjusted orders[2]	...	0.9	3.3	-1.3	3.0	1.2

1. Orders excluding defense capital goods, nondefense aircraft, and motor vehicle parts.
2. Nominal adjusted durable goods orders were split into three components: computers, electronic components, and all other. The components were deflated and then aggregated in a chain-weighted fashion.
... Not applicable.

Overview of Manufacturing Capacity

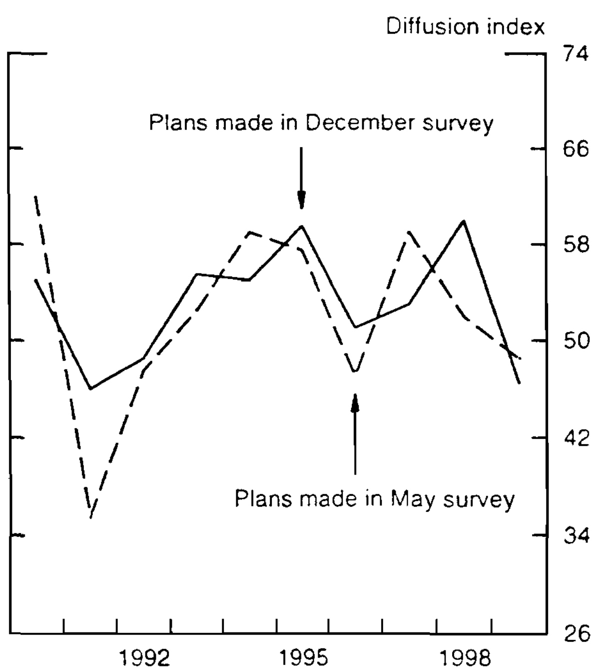
Change in Manufacturing Capacity



Note. Federal Reserve estimates of manufacturing capacity are based on the Survey of Plant Capacity through 1997. The more recent estimates rely on a number of indicators of investment spending and capital input growth.

Capital Expenditure Plans

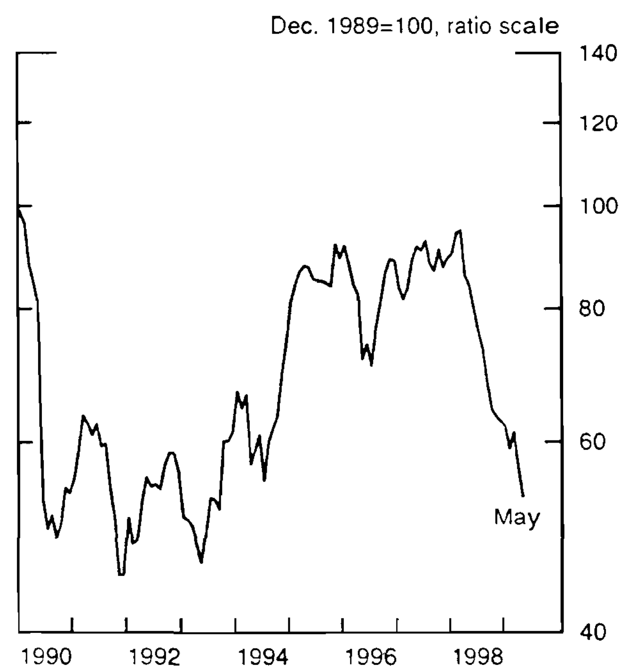
Semiannual NAPM



Note. The December survey reflects plans for the coming year; the May survey reflects plans for the current year.

Contracts for Industrial Buildings

(Six-month moving average)

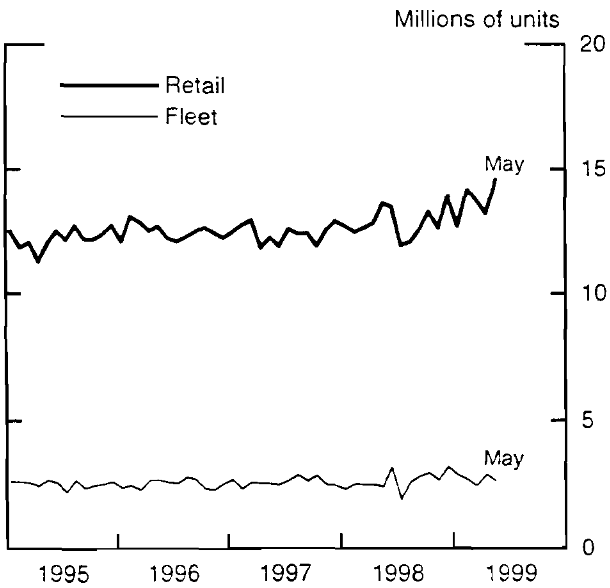


SALES OF AUTOMOBILES AND LIGHT TRUCKS
(Millions of units at an annual rate, FRB seasonals)

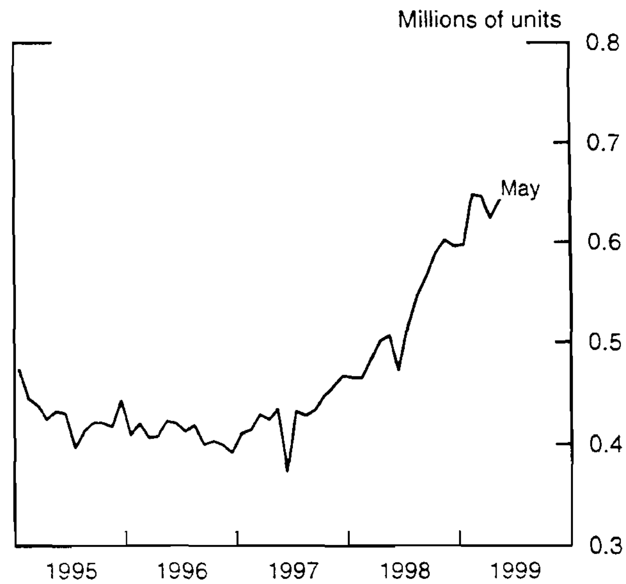
	1997	1998	1998 Q4	1999 Q1	1999 Mar.	1999 Apr.	1999 May
Total	15.1	15.4	16.2	16.2	16.3	16.1	17.2
Adjusted[1]	15.0	15.5	16.2	16.2	16.3	16.1	17.0
Autos	8.3	8.1	8.5	8.4	8.4	8.6	8.9
Light trucks	6.8	7.3	7.7	7.9	7.9	7.6	8.3
North American[2]	13.1	13.4	14.0	13.9	14.0	13.8	14.7
Autos	6.9	6.8	7.0	6.8	6.8	6.9	7.1
Big Three	4.9	4.7	4.8	4.9	4.9	4.9	5.0
Transplants	2.0	2.1	2.2	2.0	1.9	2.0	2.2
Light trucks	6.2	6.7	7.0	7.1	7.2	6.9	7.6
Foreign Produced	1.9	2.0	2.2	2.3	2.3	2.3	2.5
Autos	1.4	1.4	1.5	1.5	1.6	1.6	1.8
Light trucks	.6	.6	.7	.8	.7	.7	.7

Note. Components may not add to totals because of rounding. Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.
1. Excludes the estimated effect of automakers' changes in reporting periods.
2. Excludes some vehicles produced in Canada that are classified as imports by the industry.

Fleet and Retail Sales of Light Vehicles
(Annual rate, FRB seasonals)



Medium and Heavy Truck Sales
(Annual rate, BEA seasonals)



that produce construction supplies--most notably, lumber and related products and stone, glass, and clay products.

Motor Vehicles

Adjusted for shifts in manufacturers' reporting periods, light vehicle sales rose nearly 1 million units in May to an extraordinary 17 million units at an annual rate. So far this year, adjusted light vehicle sales have averaged a robust 16.3 million unit pace. Recent indicators point to continued strength in vehicle demand in the near term, and industry analysts' expectations for third-quarter sales currently lie in the range of 16.4 million to 16.7 million units (annual rate).

The surge in sales in May reflected higher retail purchases--that is, sales and leases to consumers.[7] So far this year, retail purchases have averaged 83 percent of total industry light vehicle sales--up noticeably from the fourth quarter of last year. Consumers' willingness and ability to maintain vehicle purchases at elevated levels have no doubt been aided by favorable trends in personal income and wealth as well as generous marketing incentives.[8] These incentives have helped to hold down prices: According to the CPI, over the past year prices for autos have fallen 3/4 percent while--despite very strong demand--prices for light trucks are up just 3/4 percent. In the Michigan survey, the index of car-buying conditions remains at a very positive level, although it has moved a bit lower on net since January.

On the business front, fleet sales of light vehicles have remained strong so far this year, with purchases running just above their 1998 level. Demand for medium and heavy trucks also has been quite robust. Sales of these vehicles in May were 642,000 units at an annual rate, up by about 17,000 units from the level in April. In addition, new orders for heavy trucks rose sharply in May and, for the first time in seven months, backlogs increased.

Consumer Spending and Personal Income

Smoothing through the monthly ups and downs, growth in consumer spending appears to have moderated from the first quarter's spectacular pace, but it has remained quite brisk. Real PCE in April and May still appears to be up at an annual rate of more than 4 percent from the first-quarter average. The fundamental determinants of consumption growth remain positive: Income and wealth have continued to trend up, and consumer confidence consequently is extraordinarily high.

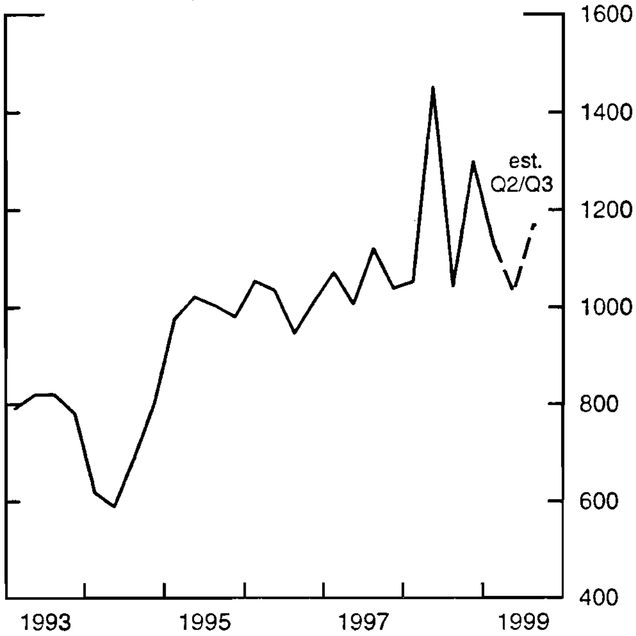
7. Data on retail purchases and on fleet sales are confidential.

8. Incentives include cut-rate financing on loans offered by auto companies through their financing subsidiaries.

Near-Term Indicators of Motor Vehicle Demand

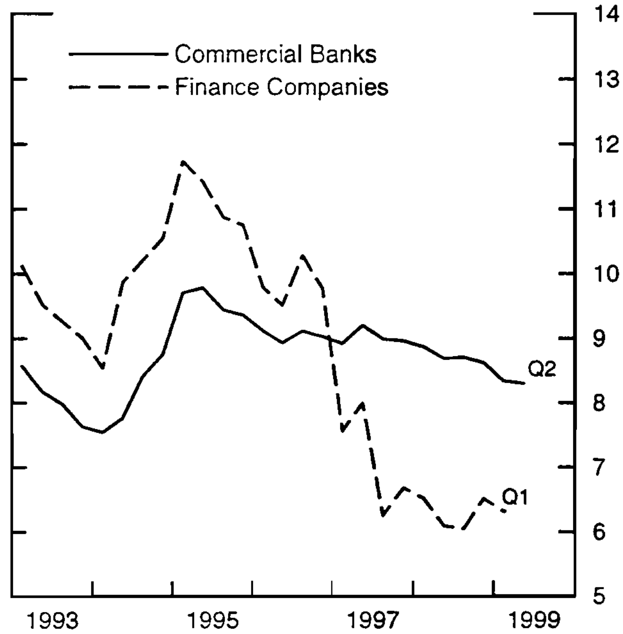
Marketing Incentives for Light Vehicles

(FRB seasonals) 1992 dollars per vehicle



Interest Rates on New Auto Loans

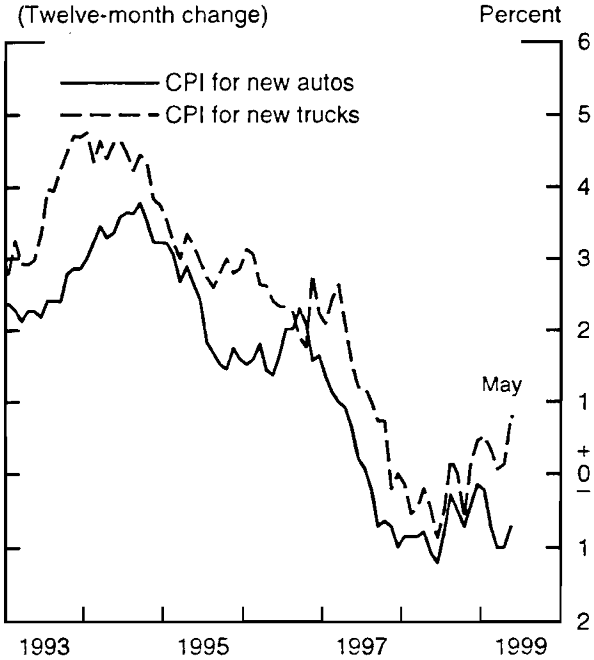
Percent



Note: Rates at finance companies are a volume-weighted average of all loans from the subsidiaries of Big Three manufacturers.

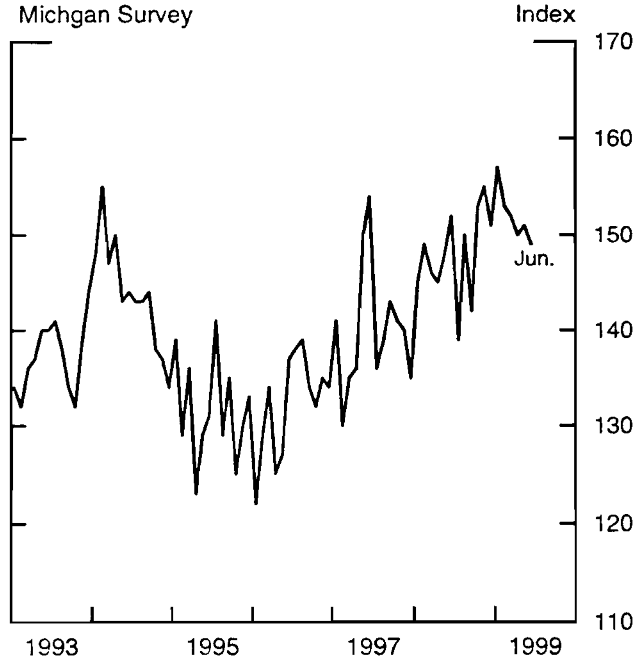
New Auto and Truck Prices

(Twelve-month change) Percent



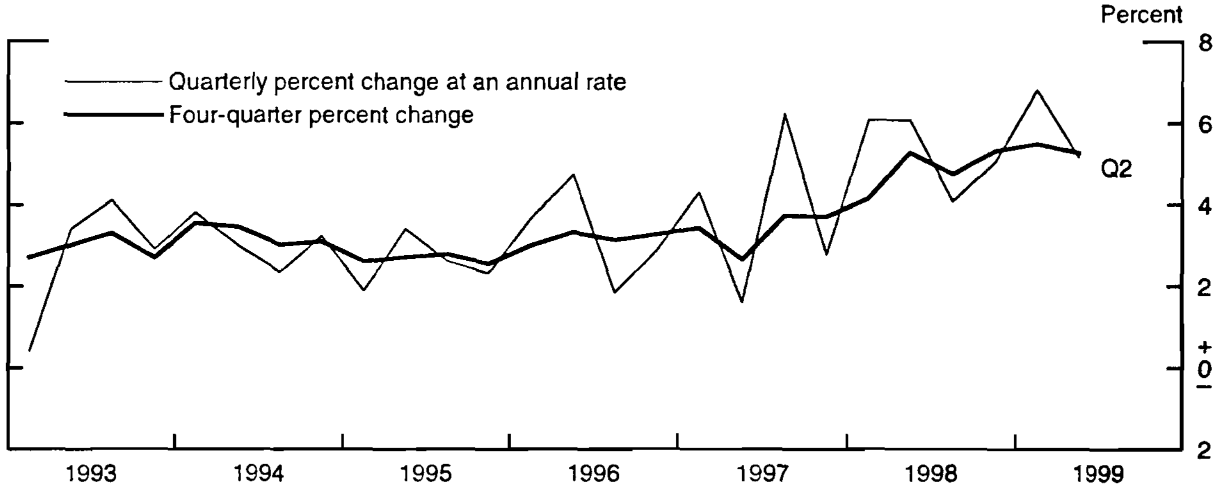
Buying Attitudes for New Vehicles

Michgan Survey Index



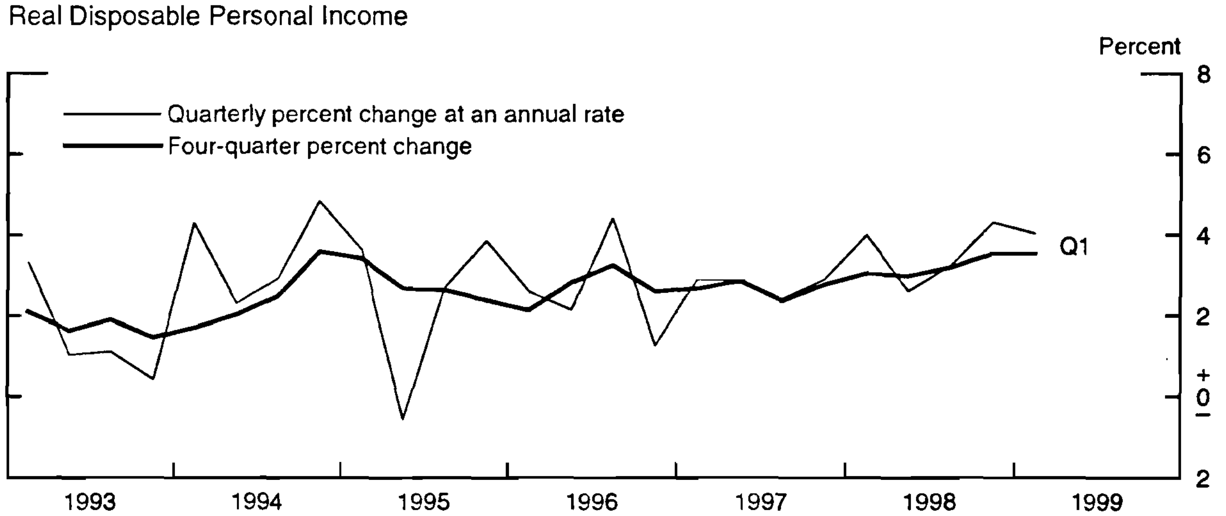
Household Indicators

Personal Consumption Expenditures



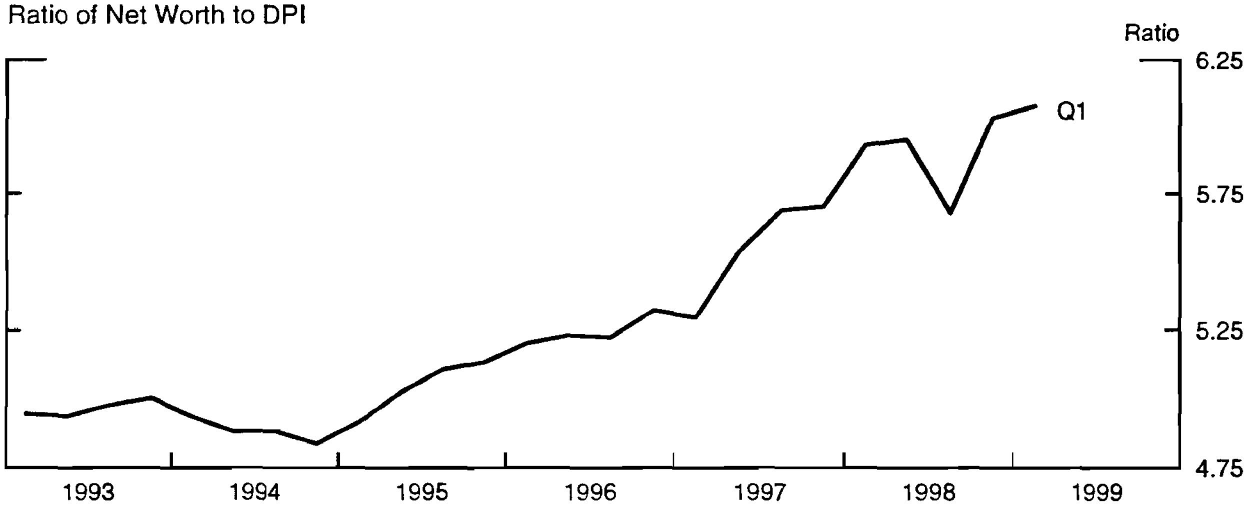
Note. Q2 values are staff estimates based only on April and May data.

Real Disposable Personal Income



Note. NIPA DPI has been adjusted by allocating wages and salaries to the period in which they were earned.

Ratio of Net Worth to DPI



Note. NIPA DPI has been adjusted by allocating wages and salaries to the period in which they were earned.

RETAIL SALES
(Percent change from preceding period)

	1998	1999	1999		
	Q4	Q1	Mar.	Apr.	May
Total sales	2.3	3.4	.0	.4	1.0
Previous estimate		3.5	.1	.1	
Retail control[1]	1.3	2.8	.6	.7	.5
Previous estimate		2.9	.6	.4	
Durable goods	1.4	3.2	.4	-.2	1.4
Furniture and appliances	1.1	3.2	.5	.0	1.1
Other durable goods	1.6	3.2	.3	-.4	1.6
Nondurable goods	1.3	2.8	.7	.9	.3
Apparel	.5	4.8	.1	1.9	.5
Food	1.1	1.5	-.1	-.4	.7
General merchandise	2.1	4.3	.8	-.3	.9
Gasoline stations	-1.1	1.5	2.6	5.1	-.8
Other nondurable goods	1.7	2.7	.8	1.5	-.1

1. Total retail sales less sales at building material and supply stores and automotive dealers, except auto and home supply stores.

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

		1998	1999	1999		
	1998	Q4	Q1	Feb.	Mar.	Apr.
	Q4/Q4	- Annual rate -		--- Monthly rate ---		
PCE	5.3	5.0	6.8	.8	.5	-.1
Durables	13.2	24.5	12.9	2.7	.6	-1.1
Motor vehicles	15.1	49.6	-.8	2.1	-.4	-1.9
Other durable goods	11.8	9.9	23.5	3.1	1.2	-.6
Nondurables	4.7	4.2	9.4	1.2	.5	-1.0
Services	4.0	1.7	4.3	.2	.5	.5
Energy	-4.6	-30.8	19.5	-.4	3.5	-1.5
Non-energy	4.4	3.3	3.7	.2	.4	.6
Housing	2.4	2.4	2.9	.2	.2	.2
Household operation	6.5	5.1	6.8	.6	.5	1.0
Transportation	2.7	2.5	3.4	.7	.4	.1
Medical	3.0	3.1	2.1	.1	.2	.3
Recreation	9.9	9.9	12.3	1.2	1.2	1.8
Personal business	6.0	5.2	7.0	-.6	.7	1.7
Brokerage services	17.1	11.6	35.0	-6.0	3.9	11.3
Other	6.8	-2.2	-.7	.3	.3	.2

Note. Derived from billions of chained (1992) dollars.

According to the advance report for May, nominal spending at stores in the retail control category, which excludes automotive dealers and building material and supply stores, rose 0.5 percent. In addition, nominal growth in the retail control was revised up from 0.4 percent to 0.7 percent in April. Gains last month were spread widely across major types of retail outlets, with particularly large increases reported by stores selling furniture and appliances, "other durable goods," food, and general merchandise. BEA uses nominal sales in the retail control to construct its estimates of real PCE for goods other than motor vehicles; given the relatively small changes, overall, in the CPI for these items, the retail sales data should translate into a sizable increase in real expenditures last month.

The most recent information on outlays for services is for April, when real service outlays are estimated by the BEA to have risen 0.5 percent for the second consecutive month. Particularly large gains were recorded for recreational services and brokerage fees. Real expenditures for electricity and natural gas edged lower, but weather data suggest that, for the second quarter as a whole, real spending for energy services will likely be little changed from the first-quarter level.

The increases in hours worked and average hourly earnings in the May employment report suggest a solid increase in nominal wages and salaries last month, which, with prices up only modestly, should yield a sizable boost to real income. On average, the year-on-year growth in real disposable income in April and May appears to be running close to the trends seen in late 1998 and early 1999. In April, outlays grew at about the same rate as disposable income, and the personal saving rate held steady at -0.7 percent.

According to its preliminary report for June, the Michigan Survey Research Center's index of consumer sentiment climbed to the second-highest reading ever. Respondents' views about expected business conditions during the next five years nearly reached the historical peak, and appraisals of current buying conditions for automobiles and major household durables remained in very favorable ranges.

Housing Markets

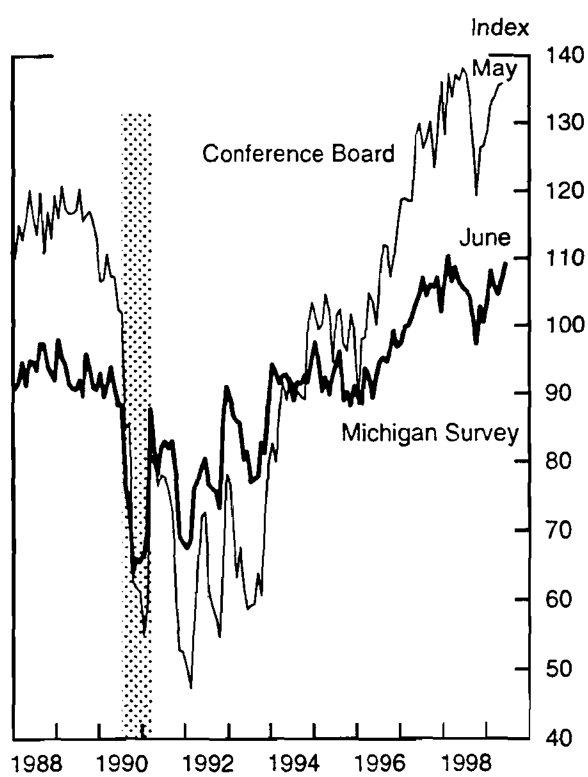
Housing demand has been robust this spring, and builders have been hard pressed to keep up with it. Starts of single-family houses zig-zigged in the past couple of months but averaged 1.33 million units (annual rate)--somewhat below the pace in the fourth and first quarters. Multifamily starts also fell off in April and May. As we have noted previously, aided by mild weather, builders did not pare construction as much as they usually do in the late fall and winter. This

PERSONAL INCOME
(Percent change)

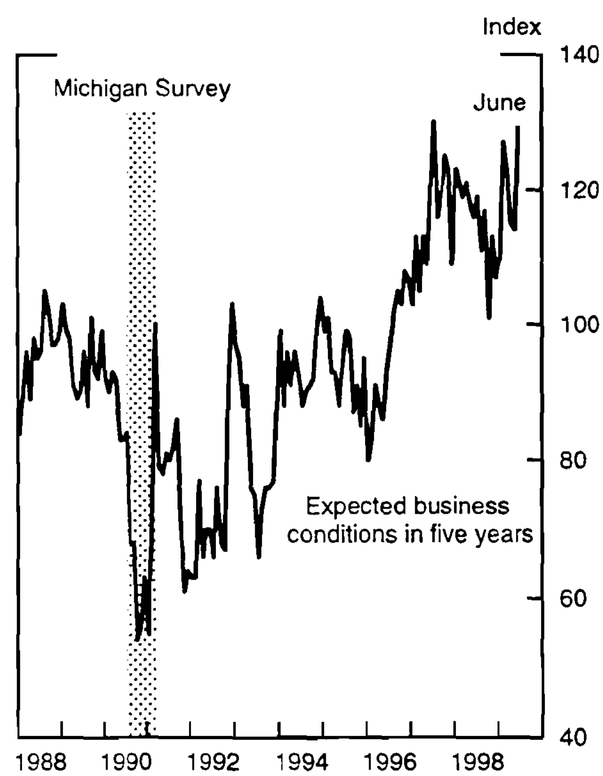
	1997	1998	1998 Q3	1998 Q4	1999 Q1	1999 Feb.	1999 Mar.	1999 Apr.
	-- Q4/Q4 --		-- Annual rate --			-- Monthly rate --		
Total personal income	5.4	5.1	4.5	5.5	5.2	.5	.3	.5
Wages and salaries	7.2	6.3	5.9	6.4	6.9	.6	.2	.6
Private	7.9	6.8	6.3	7.0	6.9	.6	.2	.6
Other labor income	2.8	3.5	2.7	2.6	3.6	.4	.5	.5
Transfer payments	3.8	3.4	2.5	1.9	6.1	.1	.6	.2
Less: Personal tax and nontax payments	11.5	9.7	5.8	6.1	4.0	.7	-.2	.6
Equals: Disposable personal income	4.4	4.3	4.3	5.4	5.4	.4	.4	.5
Memo:								
Real disposable income[1]	2.9	3.5	3.2	4.3	4.3	.4	.4	-.1
Saving rate (percent)	2.1	.5	.2	.0	-.6	-.7	-.7	-.7

1. Derived from billions of chained (1992) dollars.

Consumer Confidence



Business Conditions



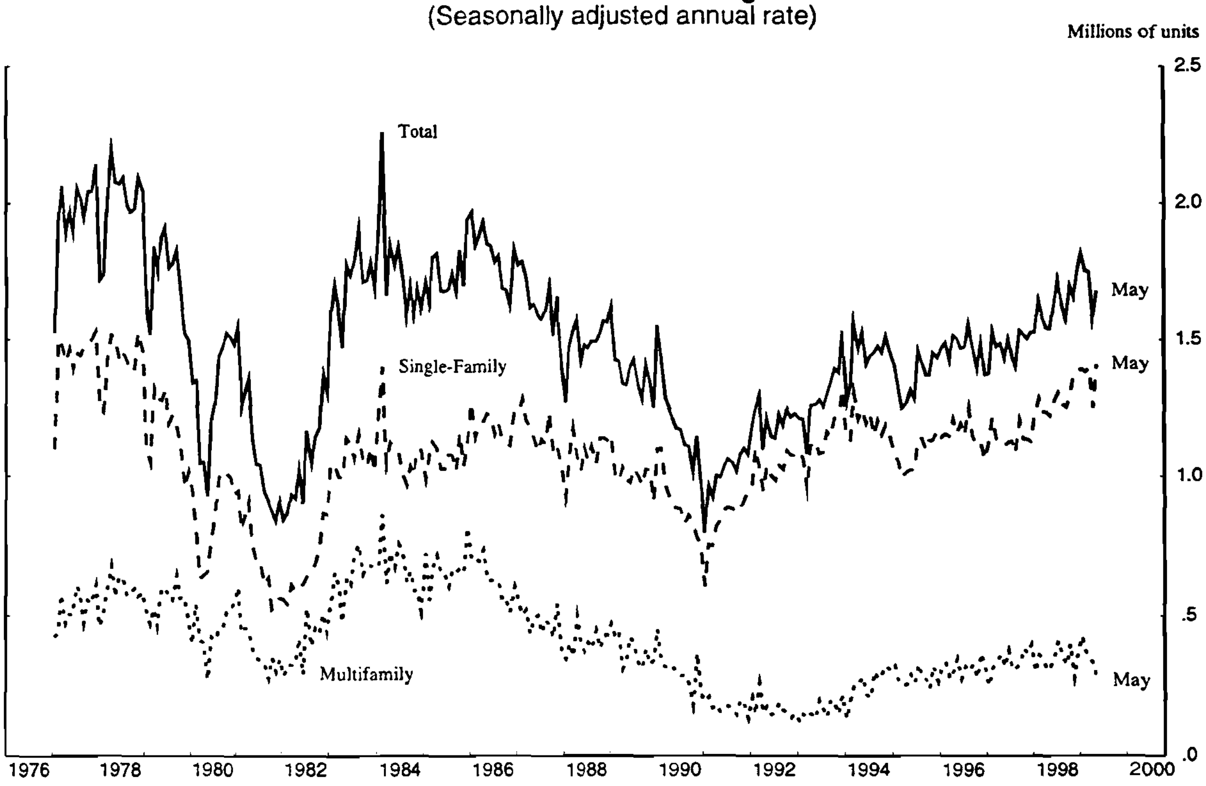
Private Housing Activity
(Millions of units; seasonally adjusted annual rate)

		1998		1999			
	1998	Q3	Q4	Q1[r]	Mar.[r]	Apr.[r]	May[p]
All units							
Starts	1.62	1.64	1.70	1.77	1.75	1.58	1.68
Permits	1.60	1.62	1.71	1.72	1.65	1.57	1.59
Single-family units							
Starts	1.27	1.27	1.35	1.39	1.39	1.25	1.41
Permits	1.18	1.19	1.25	1.27	1.24	1.21	1.23
Adjusted permits[1]	1.28	1.28	1.34	1.37	1.34	1.29	1.33
New home sales	.89	.86	.95	.90	.90	.98	n.a.
Existing home sales	4.97	4.98	5.10	5.21	5.42	5.24	n.a.
Multifamily units							
Starts	.35	.36	.35	.38	.35	.33	.27
Permits	.42	.43	.45	.45	.41	.36	.35
Mobile homes							
Shipments	.37	.37	.37	.38	.38	.37	n.a.

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

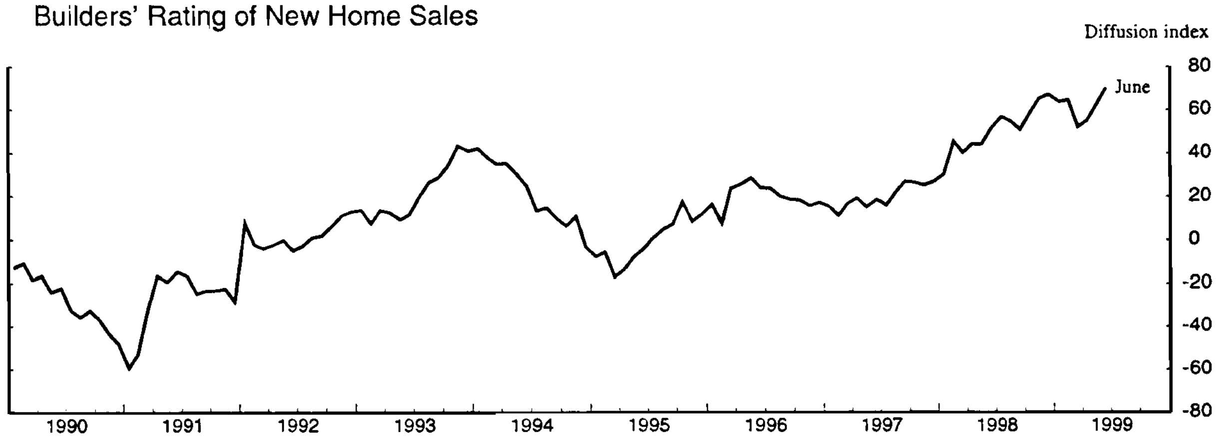
1. Adjusted permits equals permit issuance plus total starts outside of permit-issuing areas, minus a correction for those starts in permit-issuing places that lack a permit.

Total Private Building
(Seasonally adjusted annual rate)



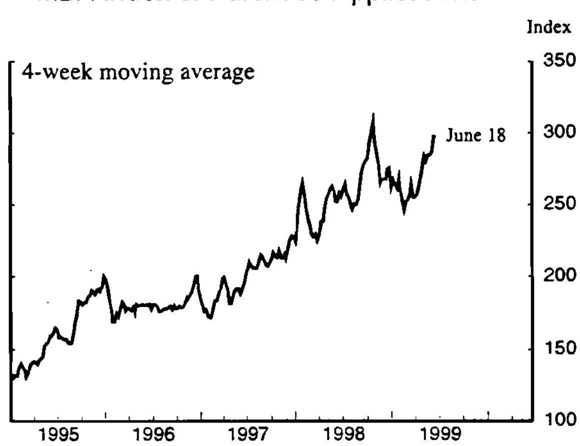
Indicators of Housing Demand and Prices

Builders' Rating of New Home Sales

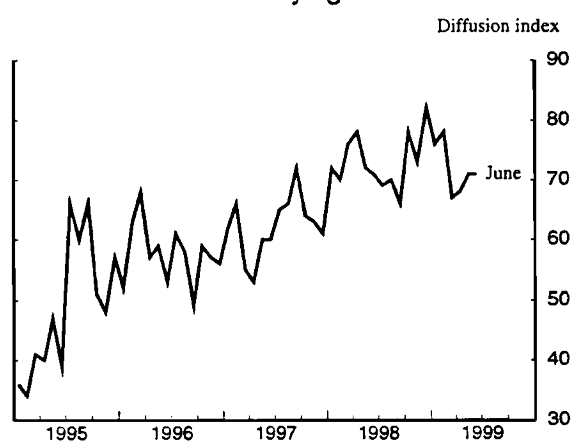


Note. Calculated from National Association of Homebuilders' data as the proportion of respondents rating current sales as good minus the proportion rating them as poor. Seasonally adjusted by Board staff.

MBA Index of Purchase Applications

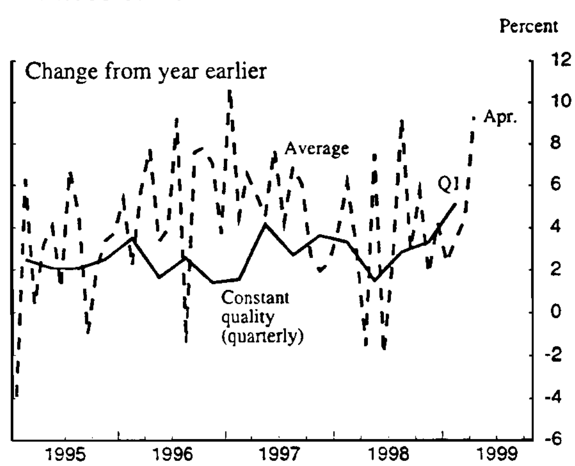


Consumer Home-Buying Attitudes

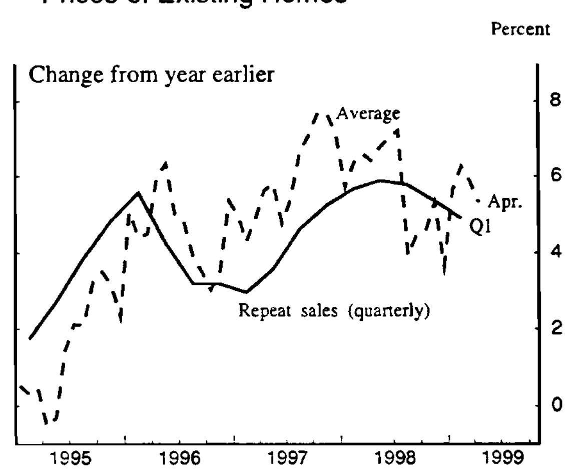


Source. Michigan Survey, not seasonally adjusted

Prices of New Homes



Prices of Existing Homes



spring, with limited availability of labor and some materials, builders evidently have been unable to boost starts by the usual seasonal increment.

Data on home sales, which are available only through April, remained strong. Indeed, sales of new homes rose to an annual rate of 980,000 units in that month, the second highest level on record and well above the first-quarter pace. Existing home sales were at a 5.24 million unit pace in April, a bit above the average earlier this year. (New homes sales are the more current indicator, for they generally are reported at the contract phase rather than at closing, as is more common for the existing home series.)

Last week, the contract rate for thirty-year, fixed-rate mortgages stood at 7.65 percent, more than 80 basis points above its average late last year and early this year.[9] Despite the recent rise in mortgage rates, indicators of housing demand have remained strong. Applications for mortgages to purchase homes have picked back up recently. In addition, builders' ratings of new home sales soared in June to the highest level on record. However, recent data from the Michigan survey showed that the back-up in mortgage rates has contributed to some retreat in consumers' assessments of homebuying conditions.

Reflecting the pressures of demand, some acceleration may be occurring in the prices of homes, but the statistics at this point are mixed. The volatile series on average prices for new homes jumped in April relative to a year ago. In addition, the constant-quality price index for new homes--which holds constant a number of attributes and is thus a better measure of house price inflation--has accelerated in recent quarters. However, in the market for existing homes, the data that we normally look at show no pickup in price gains--despite reports of fast sales and bids above asking prices. In fact, over the twelve months ended in April, the average price of existing homes increased 5.3 percent, down about 1 percentage point from the same period a year ago. In the first quarter, the repeat sales index, which tracks sales of the same units over time, was up 4.9 percent from a year earlier. Although this is a relatively high rate of increase, it is, nonetheless, about 1 percentage point less than the recent peak in the year-over-year price gains registered in the second quarter of last year.

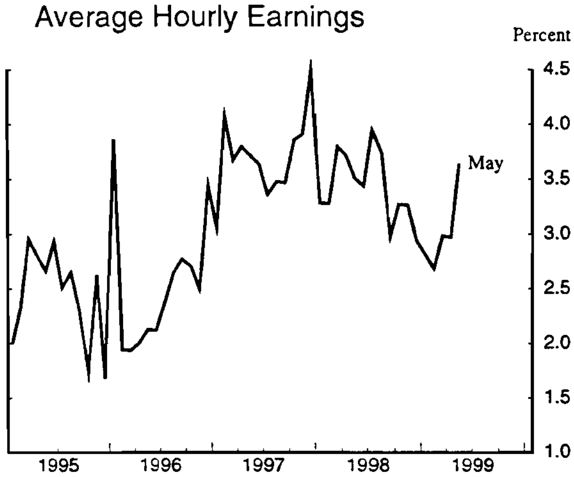
Cost pressures appear to be mounting in this sector. The average hourly earnings of construction workers, which decelerated last year, have picked up in recent months and in May had risen 3.6 percent from a year earlier. The

9. Over the same period, adjustable-rate mortgage (ARM) rates have risen more than 35 basis points. The share of ARM mortgage originations has risen from a recent low of 8 percent in October to 14 percent in April (latest available data).

Indicators of Input Costs for the Construction Sector

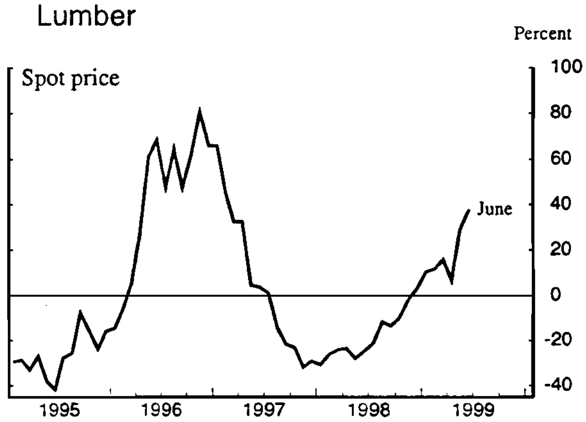
(Change from year earlier)

Average Hourly Earnings



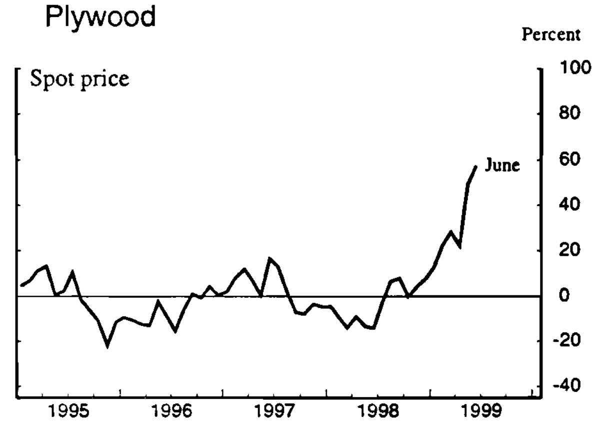
Employment Cost Index

Lumber



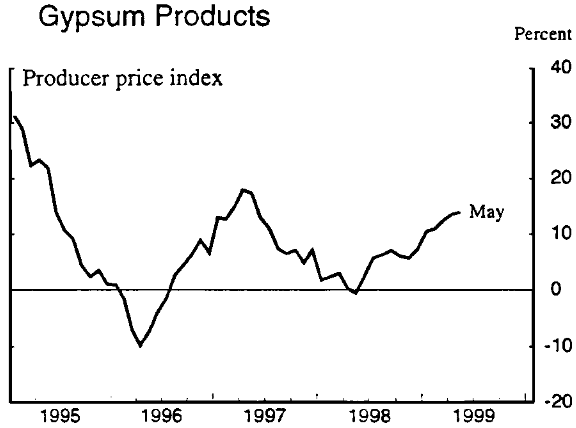
Note. The June reading is an average of weekly data through June 18.

Plywood

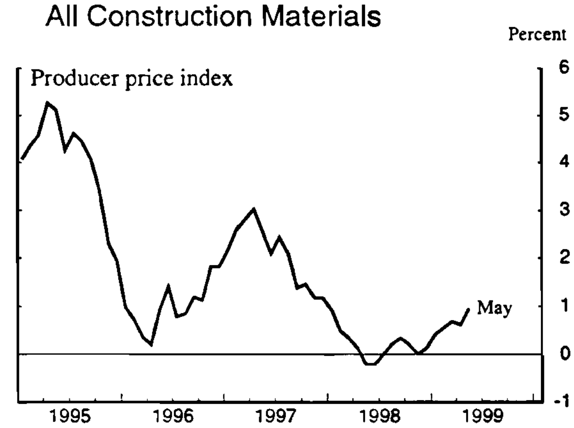


Note. The June reading is an average of weekly data through June 18.

Gypsum Products



All Construction Materials



Note. PPI Intermediate Materials and Components for Construction.

employment cost index for the construction industry, which includes both wages and benefits but holds constant the mix of jobs and overtime, also has accelerated noticeably during the past few quarters. With regard to construction materials, the prices of gypsum, lumber, plywood, and insulation materials have soared recently.[10] However, the producer price index for components and materials for construction--which measures the cost of inputs for all types of construction (not just residential)--has risen only 1 percent over the twelve months ended in May. The increase in this aggregate index has been held back by lower prices for asphalt roofing materials and a variety of metals.[11]

Business Fixed Investment

Producers' durable equipment. Real outlays on producers' durable equipment appear to have accelerated in the current quarter, with spending on computing equipment leading the way. Nominal shipments of office and computing equipment surged 6-1/2 percent in April, one of the largest monthly increases in the current expansion. Combined with significant declines in the PPI for computing equipment, this pace of nominal spending has given real outlays a leg-up on another outsized gain this quarter.

The underlying trend in business demand for computing equipment is difficult to read, however, because it is impossible to identify the extent of business efforts to address the Y2K problem. The replacement of old hardware that was not Y2K-compliant has certainly added to spending over the past year. However, corporate reports seem to suggest that, on balance, this boost is now waning. Still, the ongoing patterns of technological advance, steep price declines, and the shift towards electronic commerce seem likely to continue to increase firms' desired stock of computing equipment. Furthermore, given the expansion in the stock of computers that has already occurred and their very fast depreciation rate, the level of gross investment needed merely to replace obsolete equipment is rising rapidly.

Outlays for transportation equipment also appear set for a hefty gain in the current quarter. Business demand for motor vehicles, particularly for medium and heavy trucks, is remarkably strong, and the backlog of unfilled orders for

10. Shortages of drywall may be creating bottlenecks and delaying the completion of projects. However, the cost pressures on the price of single-family houses owing to the recent run up in drywall prices are limited: The typical house requires about 7,000 square feet of drywall, which even at today's inflated prices costs only about $1000.

11. Any acceleration in construction costs has not yet been evident in the Census estimate of average cost per start of single-family houses, which decelerated in 1998 and has picked up only modestly, on net, during the past few months. The data on average cost per start do not hold constant either the regional composition or the attributes of the units under construction.

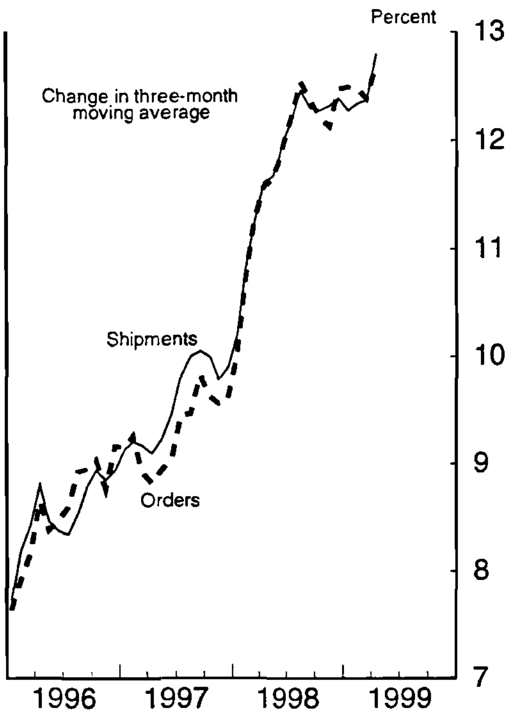
BUSINESS CAPITAL SPENDING INDICATORS
(Percent change from preceding comparable period;
based on seasonally adjusted data, in current dollars)

	1998		1999	1999		
	Q3	Q4	Q1	Feb.	Mar.	Apr.
Producers' durable equipment						
Shipments of nondefense capital goods	1.6	4.0	-1.4	-.3	2.7	1.0
Excluding aircraft and parts	1.4	1.7	-.6	-.4	3.2	.8
Office and computing	2.0	.6	-.1	2.0	-1.0	6.6
Communications equipment	2.1	5.3	5.7	-5.2	5.5	1.7
All other categories	1.0	1.2	-2.5	.0	4.4	-1.8
Shipments of complete aircraft	5.3	22.5	-21.2	-28.9	-17.8	15.6
Medium & heavy truck sales (units)	9.9	9.8	5.9	8.6	-.3	-3.4
Orders for nondefense capital goods	4.3	-4.3	6.9	-6.4	.1	-1.3
Excluding aircraft and parts	4.7	-1.6	3.1	.5	3.9	.4
Office and computing	2.7	.6	-.5	-.7	4.0	2.3
Communications equipment	-3.0	5.8	11.6	-.1	3.9	-2.8
All other categories	7.7	-4.4	2.4	1.1	3.9	.6
Nonresidential structures						
Construction put in place, buildings	1.7	3.1	3.0	3.7	.0	-3.0
Office	1.4	11.0	5.5	3.9	-.3	-1.2
Other commercial	-.2	4.1	2.9	5.3	.8	-3.8
Institutional	-.6	.4	1.0	4.4	.1	-.7
Industrial	.1	-3.3	-2.3	.5	-.2	-7.2
Lodging and miscellaneous	11.8	.0	7.8	3.1	-1.2	-2.4
Rotary drilling rigs in use[1]	-11.9	-14.7	-13.9	-6.9	-4.1	-5.0
Memo (1992 Chained dollars):						
Business fixed investment	-.7	14.6	7.9	n.a.	n.a.	n.a.
Producers' durable equipment	-1.0	17.8	9.7	n.a.	n.a.	n.a.
Office and computing	50.0	49.2	34.9	n.a.	n.a.	n.a.
Communications equipment	12.4	18.3	33.9	n.a.	n.a.	n.a.
Motor Vehicles	-29.9	43.9	9.9	n.a.	n.a.	n.a.
Aircraft	-53.2	34.8	-34.3	n.a.	n.a.	n.a.
Other equipment[2]	2.8	.1	1.5	n.a.	n.a.	n.a.
Nonresidential structures	.2	6.0	2.9	n.a.	n.a.	n.a.

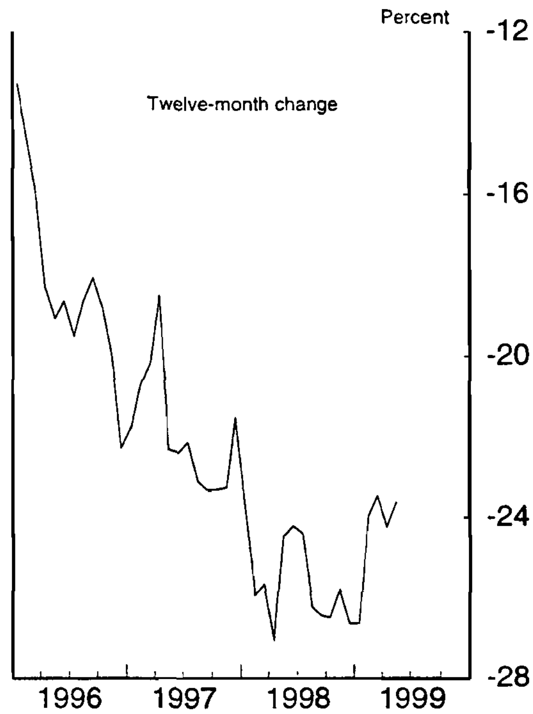
1. Percent change of number of rigs in use, seasonally adjusted.
2. Producers' durable equipment excluding office and computing, communications, motor vehicles, and aircraft and parts.
n.a. Not available.

Business Investment in Computing Equipment

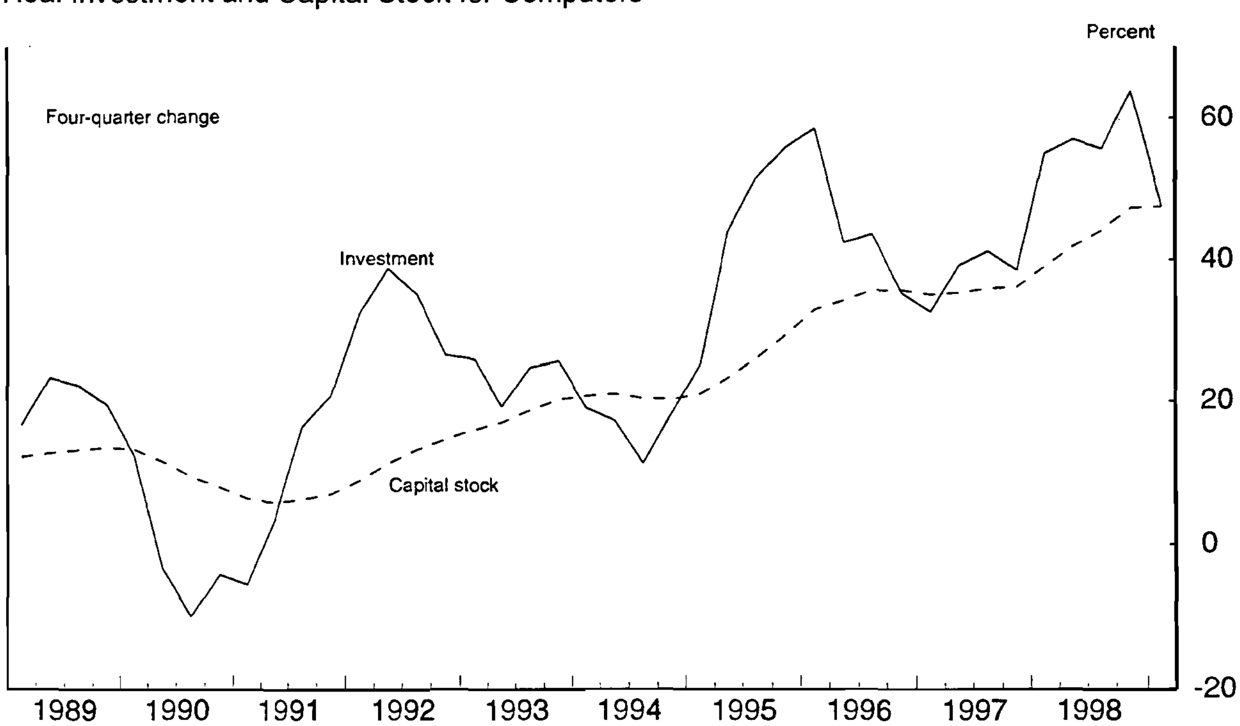
Orders and Shipments



PPI for Computers

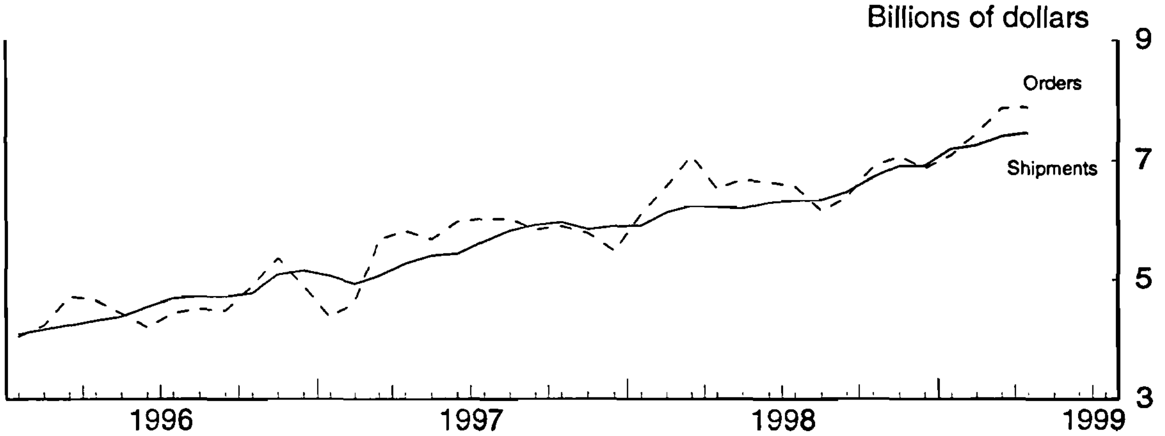


Real Investment and Capital Stock for Computers

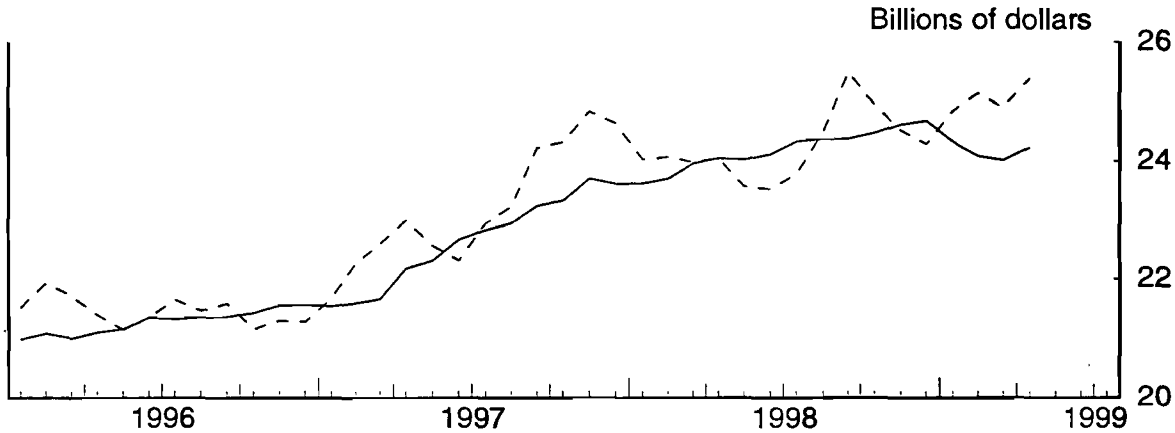


Recent Data on Orders and Shipments
(Three-Month Moving Averages)

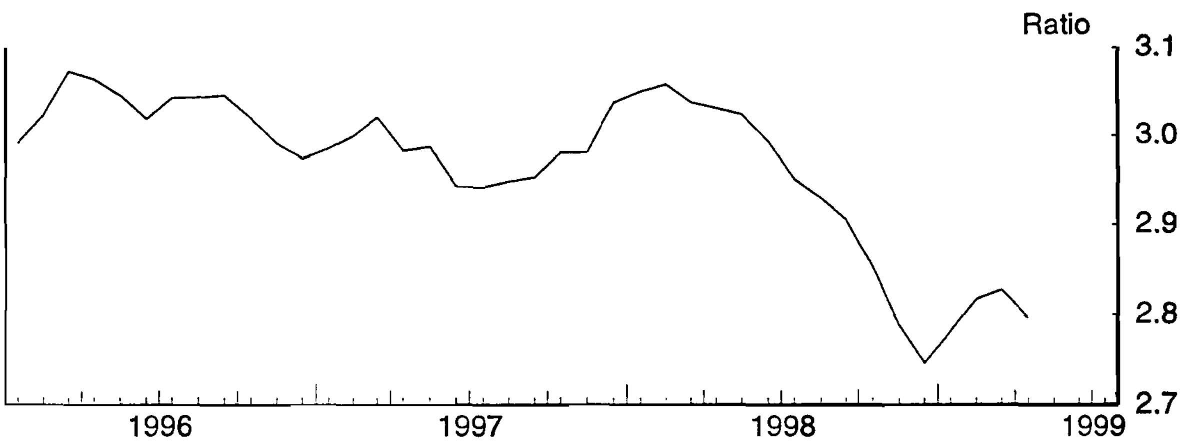
Communications Equipment



Other Equipment (Total Excluding Aircraft, Computers, Communications)



Unfilled Orders to Shipments Ratio for Other Equipment Excluding Engines & Turbines



these vehicles remains very large. Shipments of aircraft to domestic carriers appear likely to post a strong rebound in the current quarter. These shipments have been bouncing around very high levels since early last year, reflecting a surge in demand in response to strong growth in air traffic and soaring airline profits. However, with order backlogs down, the level of aircraft investment appears poised to fall.

Spending on equipment outside of the high-tech and transportation sectors has remained sluggish. In April, shipments of this equipment declined nearly 2 percent, and imports of capital goods were weak. However, forward-looking indicators are more positive. Excluding gas turbines (for which orders have surged but lead times are long), orders for these items have been strong of late, and the backlog of unfilled orders has stabilized after having fallen considerably in 1998.

Nonresidential structures. After remaining flat in 1998, we estimate that real nonresidential construction rose at an annual rate of 4-1/2 percent in the first quarter, reflecting, in part, sharp increases in the construction of office buildings, other commercial structures, and lodging facilities.[12] In April, though, construction put in place declined in all of the major building categories. Moreover, since around the turn of the year, contracts for future construction generally have either been flat or have trended lower.[13]

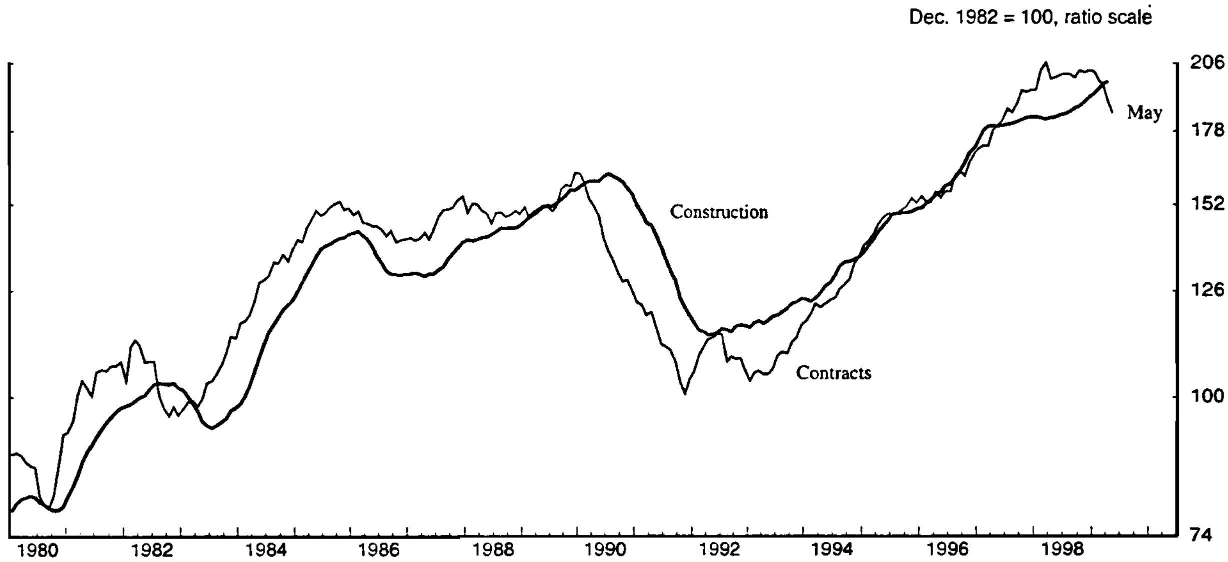
According to the National Real Estate Index, prices for office buildings rose 13 percent in the first quarter from a year earlier--similar to the average pace during the previous year or so. Vacancy rates ticked up in the first quarter but remained very low relative to the rates in the early 1990s. Together, these data indicate that the gains in office construction during the past few years have not led to supply imbalances to date, and given the decline in contracts for office buildings, it seems unlikely that projects in the pipeline will lead to excess capacity. Elsewhere, the prices for retail stores have decelerated sharply since the beginning of last year. Retail outlets are the largest component of the "other commercial" category in the construction put in place data; building in this sector has been moving sideways over the past couple of

12. We anticipate an upward revision to first-quarter growth in nonresidential construction from 3 percent at an annual rate to 4-1/2 percent at an annual rate.

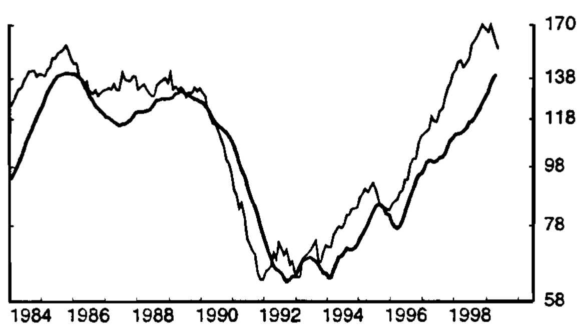
13. With the release of the May data, contracts were revised back to early 1998. The level of nonresidential contracts in the first quarter of 1999 was revised up 7 percent. Although the trend through the first quarter is still flat to down, it is not as weak as it appeared before the revision. However, contracts are now reported to have declined more steeply in April--leaving the level only one percent above the previous estimate. These data are still subject to further revision.

Nonresidential Construction and Contracts
(Six-month moving average)

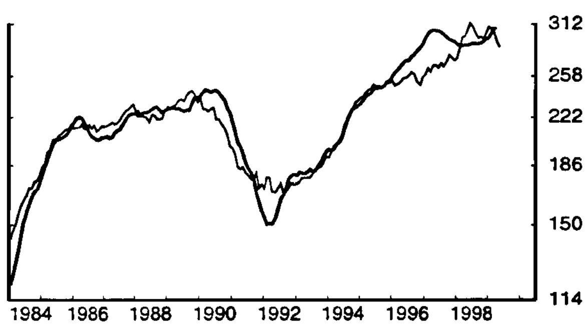
Total Private Building



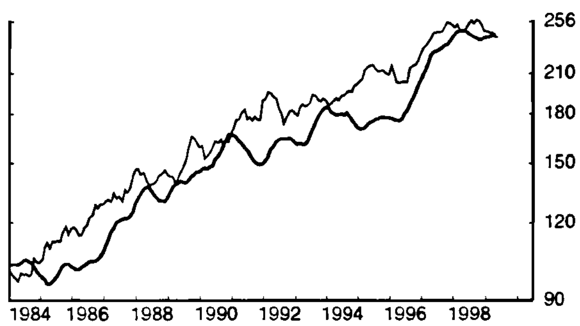
Office



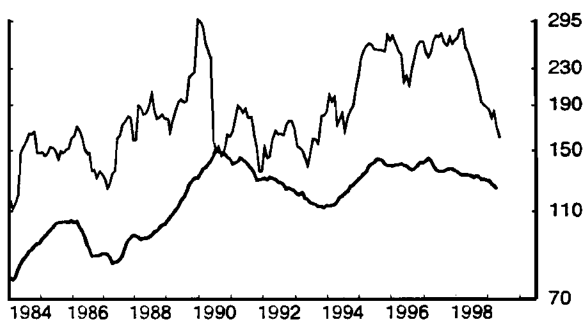
Other Commercial



Institutional



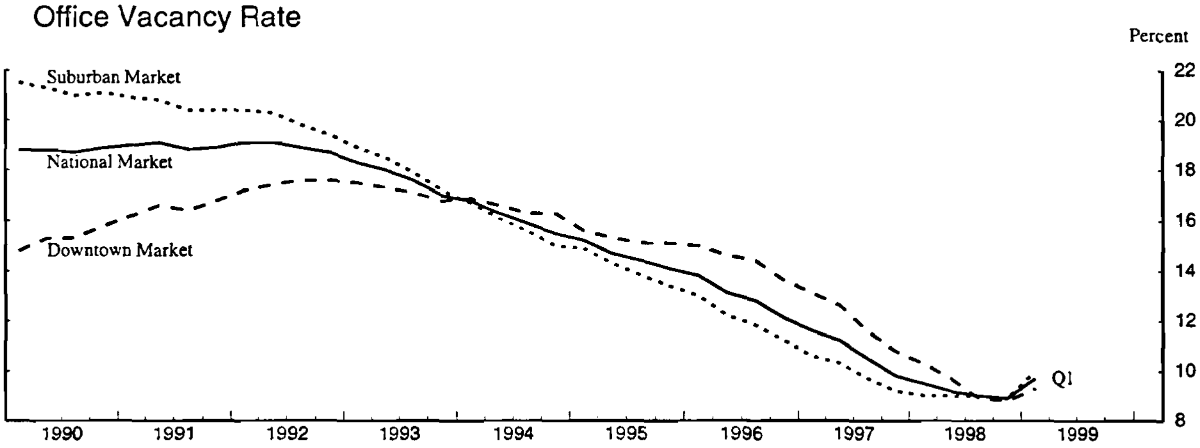
Industrial



Note. Individual sectors include both public and private building.

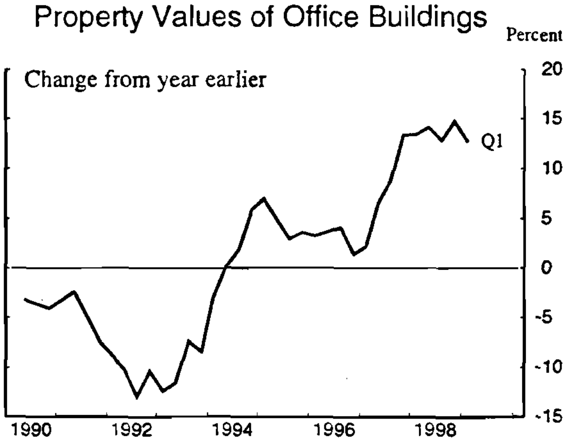
Indicators of Market Conditions for Nonresidential Structures and Apartments

Office Vacancy Rate



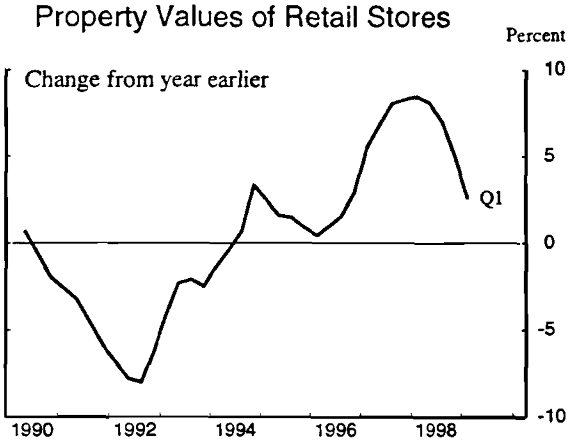
Source. CB Richard Ellis

Property Values of Office Buildings



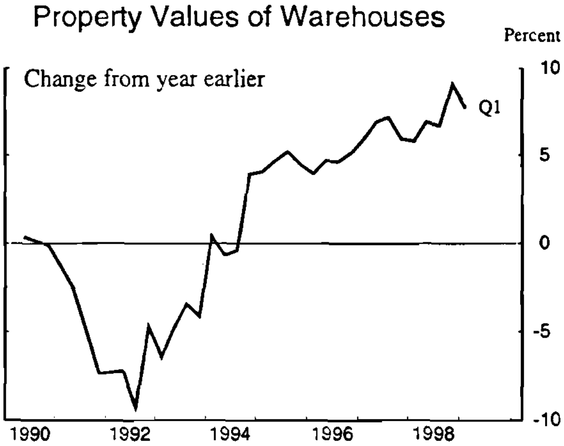
Source. National Real Estate Index

Property Values of Retail Stores



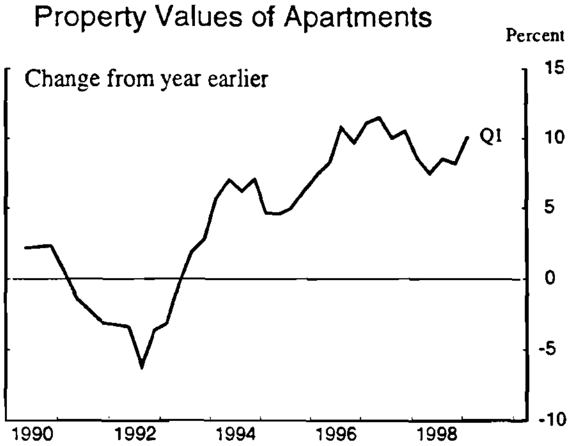
Source. National Real Estate Index

Property Values of Warehouses



Source. National Real Estate Index

Property Values of Apartments



Source. National Real Estate Index

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

Category	1998 Q3	1998 Q4	1999 Q1	1999 Feb.	1999 Mar.	1999 Apr.
Manufacturing and trade	41.4	26.2	33.4	42.8	63.5	26.3
Less wholesale and retail motor vehicles	33.8	6.3	9.6	27.3	9.6	9.9
Manufacturing	7.4	-7.0	-12.9	-8.0	-7.4	-7.4
Less aircraft	1.3	-3.9	-3.0	-9.4	3.1	.5
Merchant wholesalers	26.4	11.3	5.9	22.3	8.0	6.3
Less motor vehicles	24.5	6.3	4.7	21.5	1.0	5.7
Retail trade	7.6	21.9	40.4	28.5	63.0	27.3
Automotive dealers	5.7	14.9	22.6	14.7	46.9	15.8
Less automotive dealers	1.8	6.9	17.8	13.8	16.0	11.5

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

Category	Cyclical reference points 1990-91 high	Cyclical reference points 1991-98 low	Range over preceding 12 months High	Range over preceding 12 months Low	April 1999
Manufacturing and trade	1.58	1.37	1.39	1.35	1.36
Less wholesale and retail motor vehicles	1.55	1.34	1.37	1.32	1.33
Manufacturing	1.75	1.36	1.40	1.33	1.33
Primary metals	2.08	1.46	1.74	1.57	1.67
Steel	2.56	1.59	2.25	1.86	2.11
Nonelectrical machinery	2.48	1.61	1.67	1.61	1.61
Electrical machinery	2.08	1.21	1.39	1.21	1.21
Transportation equipment	2.93	1.51	1.85	1.49	1.52
Motor vehicles	.97	.53	.64	.52	.53
Aircraft	5.84	4.05	4.97	4.05	4.04
Nondefense capital goods	3.09	2.04	2.21	2.04	2.01
Textiles	1.71	1.38	1.59	1.48	1.54
Paper	1.32	1.06	1.23	1.17	1.19
Chemicals	1.44	1.25	1.45	1.37	1.38
Petroleum	.94	.80	.99	.85	.83
Home goods & apparel	1.96	1.59	1.75	1.59	1.53
Merchant wholesalers	1.36	1.24	1.33	1.29	1.30
Less motor vehicles	1.31	1.21	1.32	1.27	1.29
Durable goods	1.83	1.54	1.66	1.59	1.59
Nondurable goods	.95	.90	.99	.94	.97
Retail trade	1.61	1.44	1.48	1.42	1.44
Less automotive dealers	1.48	1.38	1.42	1.36	1.36
Automotive dealers	2.22	1.56	1.66	1.56	1.70
General merchandise	2.42	1.98	2.04	1.91	1.93
Apparel	2.53	2.27	2.54	2.35	2.31
GAF	2.42	2.04	2.09	1.98	1.99

years, and the contracts data do not suggest any major change in this trend in the coming months.

Business Inventories

At a $10 billion annual rate in book value terms, the April pace of stockbuilding in manufacturing and trade excluding motor vehicles was little changed from the first-quarter pace. Given these subdued rates of inventory investment and the strong gains in business sales, stocks, in the aggregate, remain relatively lean, and only isolated imbalances are evident in the sectoral detail.

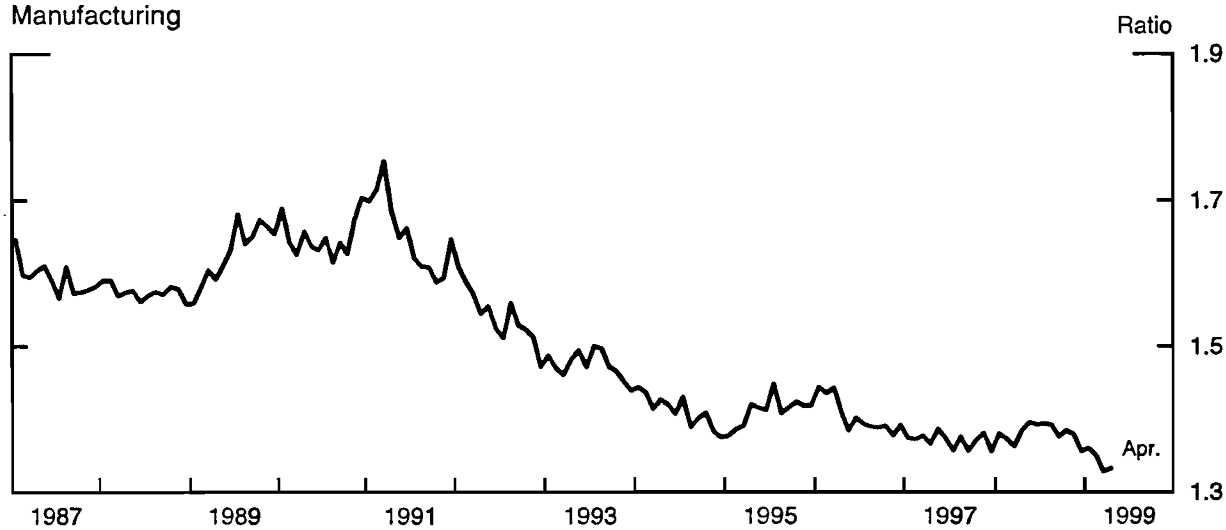
The book value of manufacturers' inventories fell in April at an annual rate of about $7 billion, following a decline of the same size in March. Indeed, stocks have fallen in each of the past six months at an average annual rate of $16 billion. This drop largely has been due to shrinking stocks at aircraft firms, a development that seems to be related to the falloff in production at Boeing and is reflected in a large decline in work-in-process inventories in the transportation sector. Excluding aircraft, inventories, on balance, have declined slightly this year, and inventory-shipments ratios have eased. Most notably, inventory-shipments ratios have been pared significantly in sectors such as metals and chemicals, where stocks ran up substantially last year as a result of weak demand.

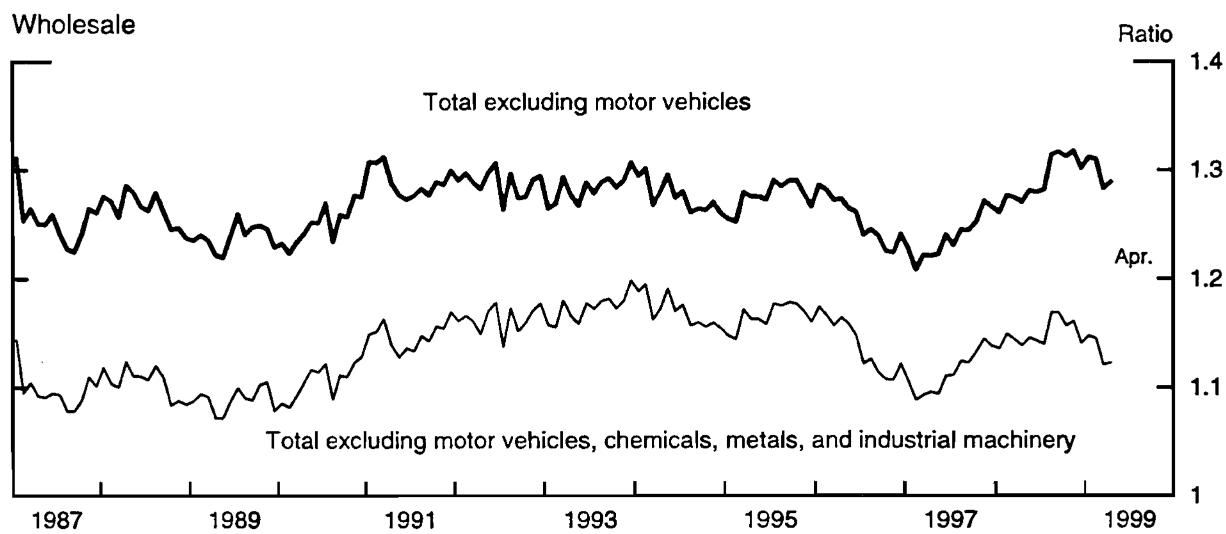
Wholesale inventories (excluding motor vehicles) accumulated at an annual rate of roughly $6 billion in April. A $10 billion increase in inventories at drug wholesalers more than accounted for this rise. Sales at both wholesale distributors and retail outlets have been very strong this year, and before April's stockbuilding, the wholesale inventory-sales ratio for drugs had slipped to a very low level. For the nonauto wholesale sector as a whole, the inventory-sales ratio ticked up in April, but it was still well below the high levels recorded over the second half of last year. On balance, wholesale stocks seem to be at fairly comfortable levels. Inventory-sales ratios for metals and minerals and miscellaneous durables (a category that includes wholesalers of steel scrap) have backed off substantially since last autumn, and the ratio for professional and commercial equipment (a category that includes computers) has dropped sharply in recent months. However, inventory-sales ratios remain stubbornly high at wholesalers of machinery and chemicals.

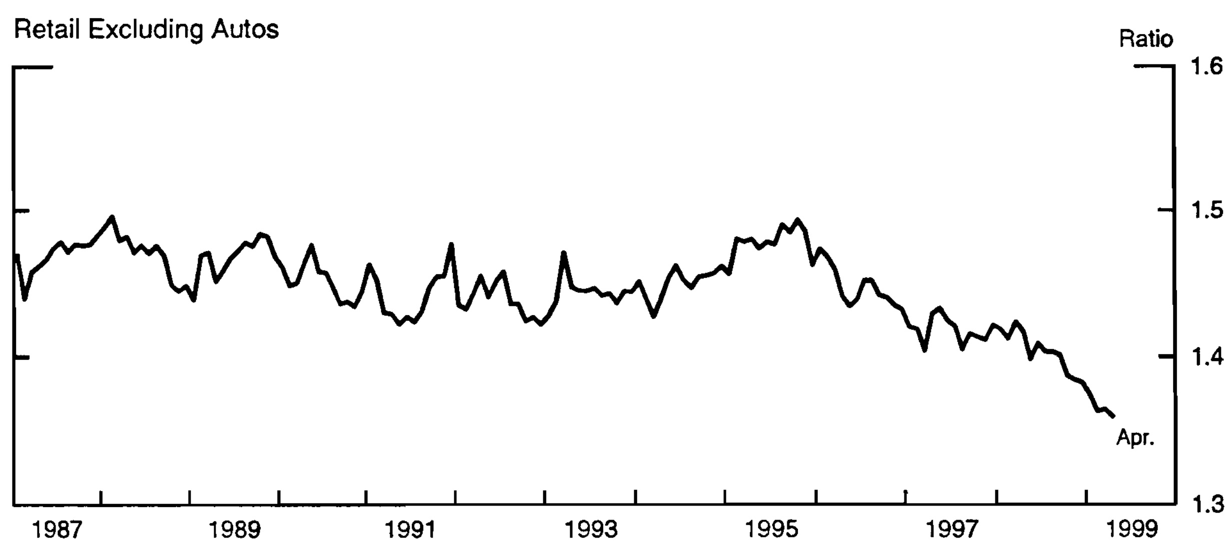
Retail stocks remained very lean in April. Non-auto retail inventories rose moderately, and the inventory-sales ratio remained at 1.36 months for the third month in a row. This is the lowest inventory-sales ratio recorded since 1980. Most notably, inventories of apparel outlets increased only marginally in April, and the inventory-sales ratio for these stores, which had run up last year, declined to 2.31 months, down from 2.54 months in September of last year.

Inventory-Sales Ratios, by Major Sector

(Book value)







Federal Government
The federal budget surplus over the twelve months ended in May was $94 billion, a $34 billion decline versus the corresponding year-earlier period. Adjusting outlays for payment timing shifts and excluding deposit insurance, major asset sales, and spectrum auction proceeds, the year's improvement was about $55 billion.

Over April and May alone, the adjusted surplus was about $10 billion higher than in the same period last year. Total adjusted outlays are about the same as during the year-earlier period as declines in spending on net interest, income security, Medicare, and defense offset moderate increases elsewhere.

This spring's tax season did not provide as great a revenue surprise as experienced in 1997 and 1998. Underlying personal tax liabilities continue to grow at a steady pace. During April and May, nonwithheld income and self-employed taxes (which include both final payments on 1998 liabilities and estimated taxes for the first quarter of 1999) were about 11 percent higher than last year. Individual income tax refunds also rose sharply, largely reflecting the child tax credit that became effective in 1998. Corporate tax receipts were down 16 percent, likely reflecting, in part, weak profits in 1998.

On May 21, the President signed the 1999 Emergency Supplemental Appropriations Act into law. It provides $15 billion in emergency appropriations for fiscal years 1999 through 2005 and is estimated to increase outlays by $3.7 billion in fiscal year 1999 and $7.4 billion in fiscal year 2000. About 80 percent of the spending in these two years is allocated to defense. The remainder is allocated to disaster aid and farm relief. Because these outlays were deemed "emergency" spending, they are not counted against the discretionary spending caps.

State and Local Governments
Real spending by state and local governments appears to be holding roughly steady in the second quarter after having risen about 8 percent at an annual rate in the first quarter. The surge in spending last quarter was driven mainly by construction outlays as unusually favorable weather allowed highway work to proceed without the typical seasonal slowdown. Construction fell sharply in April, though it remained well above the pace of late 1998. Employment growth also moderated in the spring after exceptionally large gains in the first quarter. So far this year, job growth has averaged 30,000 per month, slightly above the average for 1998 as a whole.

On balance, finances in most states appear to be finishing their fiscal years in good shape. Survey data published by the Center for the Study of the States

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

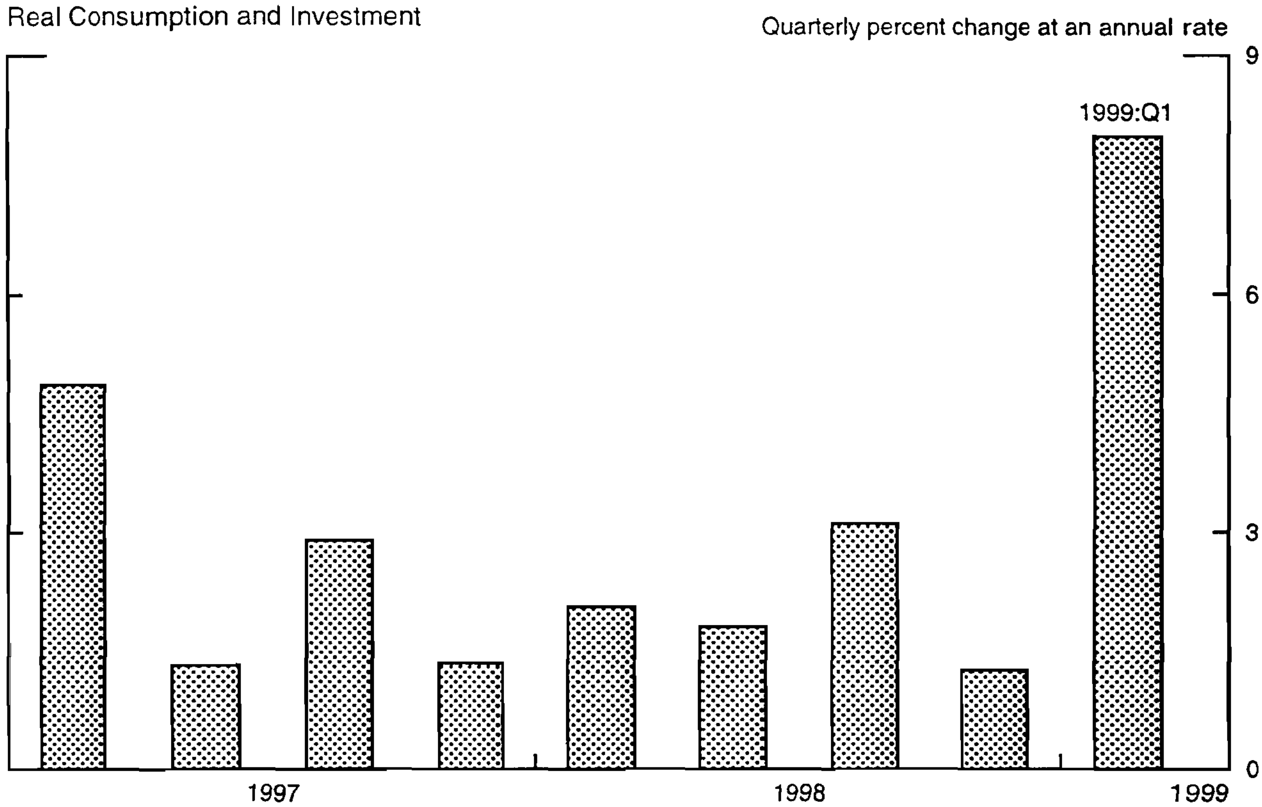
	April-May			12 months ending in May.		
	1998	1999	Percent change	1998	1999	Percent change
Outlays	270.5	275.2	1.8	1622.2	1685.1	3.9
Deposit insurance	-0.8	-1.0	35.9	-4.5	-5.6	23.3
Spectrum auction	-0.1	-0.2	221.4	-6.8	-2.8	-59.0
Sale of major assets	-3.2	0.0	-100.0	-3.2	0.0	-100.0
Other	274.5	276.5	0.7	1636.7	1693.4	3.5
Receipts	356.3	364.7	2.4	1681.9	1779.1	5.8
Surplus	85.8	89.5	4.3	59.7	94.0	57.4
	Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts[1]					
Outlays	277.7	276.5	-0.4	1652.4	1694.6	2.6
National defense	45.3	44.7	-1.4	270.9	272.8	0.7
Net interest	41.8	40.2	-3.9	245.1	234.5	-4.3
Social security	62.8	64.6	2.8	374.5	387.2	3.4
Medicare	32.4	31.8	-1.8	196.8	190.1	-3.4
Medicaid	16.8	17.8	6.1	99.0	104.9	5.9
Other health	4.9	5.2	4.9	28.6	31.6	10.6
Income security	39.5	37.3	-5.5	230.7	235.9	2.3
Other	34.2	35.1	2.5	206.8	237.7	14.9
Receipts	356.3	364.7	2.4	1681.9	1779.1	5.8
Individual income and payroll taxes	286.6	300.6	4.9	1324.2	1420.6	7.3
Withheld + FICA	186.0	197.2	6.0	1117.7	1207.3	8.0
Nonwithheld + SECA	147.7	164.2	11.2	305.1	334.8	9.7
Refunds (-)	47.1	60.9	29.1	98.6	121.5	23.2
Corporate	30.6	25.6	-16.2	189.2	180.2	-4.8
Gross	34.6	32.3	-6.7	213.5	211.5	-0.9
Refunds (-)	4.0	6.6	66.4	24.2	31.3	29.3
Other	39.1	38.5	-1.5	168.5	178.3	5.8
Surplus	78.6	88.2	12.2	29.5	84.4	186.1

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

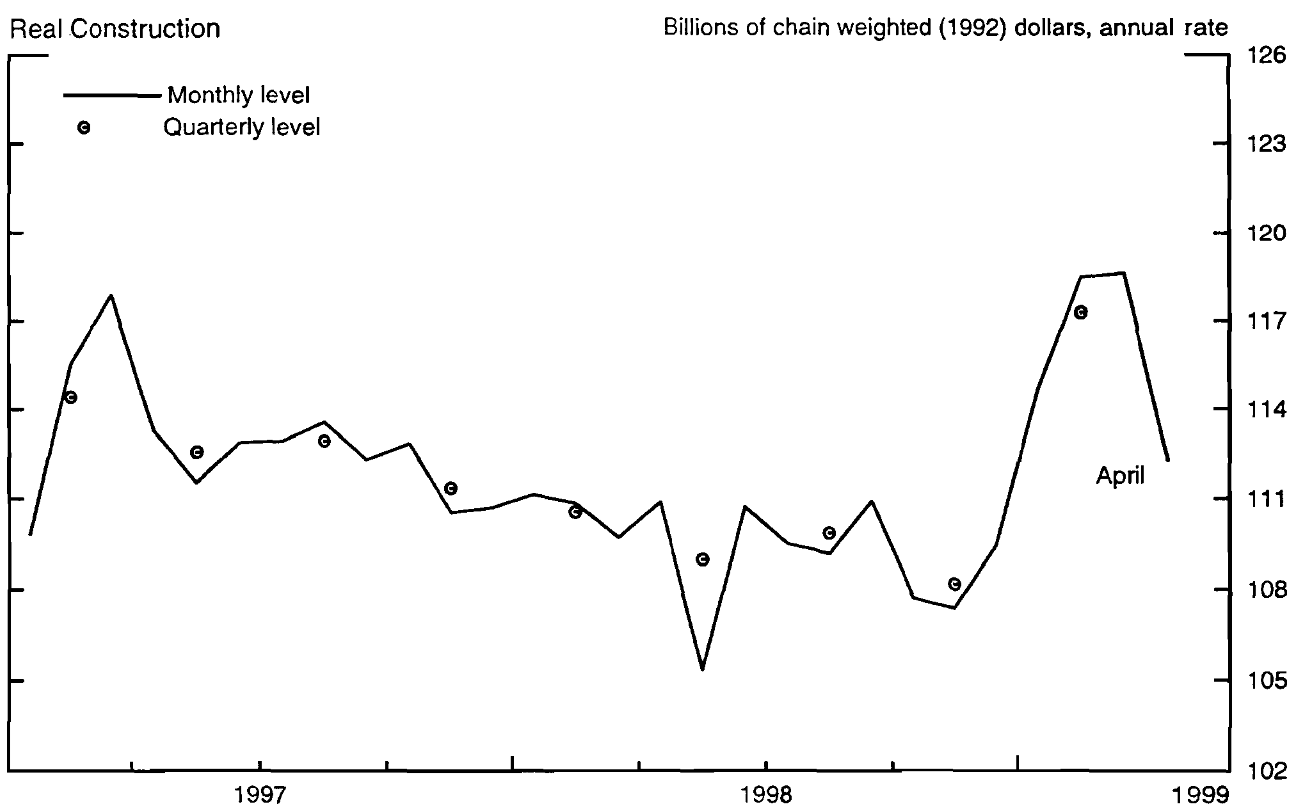
1. A shift in payment timing occurs when the first of the month falls on a weekend or holiday, or when the first three days of a month are nonworking days. Outlays for defense, social security, Medicare, income security, and "other" have been adjusted to account for these shifts.

n.a.--Not applicable

State and Local Sector



Note. Consumption and investment growth in 1999:Q1 is a staff estimate.



CPI AND PPI INFLATION RATES
(Percent change)

	From twelve months earlier		1998	1999	1999	
	May 1998	May 1999	Q4	Q1	Apr.	May
			-Annual rate-		-Monthly rate-	
CPI						
All items (100.0)[1]	1.7	2.1	2.0	1.5	.7	.0
Food (15.4)	2.4	2.1	2.9	2.4	.1	.4
Energy (6.3)	-5.6	1.7	-6.2	-2.0	6.1	-1.3
CPI less food and energy (78.3)	2.2	2.0	2.3	1.6	.4	.1
Commodities (24.0)	.2	.6	1.0	.0	.6	-.1
New vehicles (5.0)	-.9	-.3	-.9	-.7	.1	-.1
Used cars and trucks (1.9)	-2.5	-.3	5.2	-11.5	.6	.9
Apparel (4.8)	.0	-.8	-1.3	-6.8	1.5	-.2
Tobacco (1.2)	10.7	28.0	34.3	81.5	3.6	-1.4
Other Commodities (11.1)	.2	-.5	-.4	-.6	.1	-.0
Services (54.3)	3.1	2.7	2.8	2.4	.4	.2
Shelter (29.9)	3.4	3.0	3.8	1.7	.4	.2
Medical care (4.5)	3.1	3.3	2.8	3.7	.3	.3
Other Services (19.9)	2.8	2.3	1.4	3.1	.4	.1
PPI						
Finished goods (100.0)[2]	-.8	1.4	1.4	1.6	.5	.2
Finished consumer foods (23.3)	-1.2	.6	1.0	2.3	-.9	.5
Finished energy (11.9)	-7.2	1.3	-6.1	-2.7	5.1	.0
Finished goods less food and energy (64.8)	.8	1.7	2.9	2.2	.1	.1
Consumer goods (39.6)	1.7	2.6	4.3	4.0	.0	.0
Capital equipment (25.2)	-.6	.4	1.0	-.4	.0	.2
Intermediate materials (100.0)[3]	-1.5	-1.1	-3.4	-2.3	.6	.2
Intermediate materials less food and energy (83.2)	-.2	-1.2	-2.9	-1.7	.2	.2
Crude materials (100.0)[4]	-9.0	-4.4	-5.8	-12.5	1.3	5.5
Crude food materials (42.2)	-9.5	-6.1	1.5	-1.7	-2.5	2.2
Crude energy (31.9)	-10.0	2.3	-1.8	-29.7	8.5	11.9
Crude materials less food and energy (25.9)	-6.7	-10.7	-24.0	-5.2	-1.1	2.3

1. Relative importance weight for CPI, December 1998.
2. Relative importance weight for PPI, December 1998.
3. Relative importance weight for intermediate materials, December 1998.
4. Relative importance weight for crude materials, December 1998.

indicate relatively strong revenue gains through the third quarter of fiscal 1999 (in almost all cases the first quarter of calendar 1999). In addition, almost all of the states are expected to have their fiscal year 2000 budgets in place on time this year.

Prices and Wages

Prices. Since the previous Greenbook, we have received CPI data for both April and May. The CPI rose a hefty 0.7 percent in April but was unchanged in May. The large April increase owed, in part, to a 6 percent rise in energy prices. But the CPI excluding food and energy also played a role, posting a 0.4 percent monthly increase. In May, the core CPI excluding food and energy edged up just 0.1 percent while energy prices fell. Balancing the two reports, the underlying trend in core inflation appears little changed, with only a hint of incipient acceleration in prices.

The large increase in energy prices in April was the result of both the run-up in crude oil prices and some refinery fires in California, which pushed up gasoline prices there. The May decline in energy prices was, in large part, a result of a partial easing of the gasoline supply problems in California; nationally, gasoline prices fell 2.6 percent last month, and survey evidence suggests that the decline continued in June. By contrast, heating fuel prices, which were not affected by the California refinery problems, moved up further in May, reflecting continued pass-through of the increase in crude oil prices earlier this year.

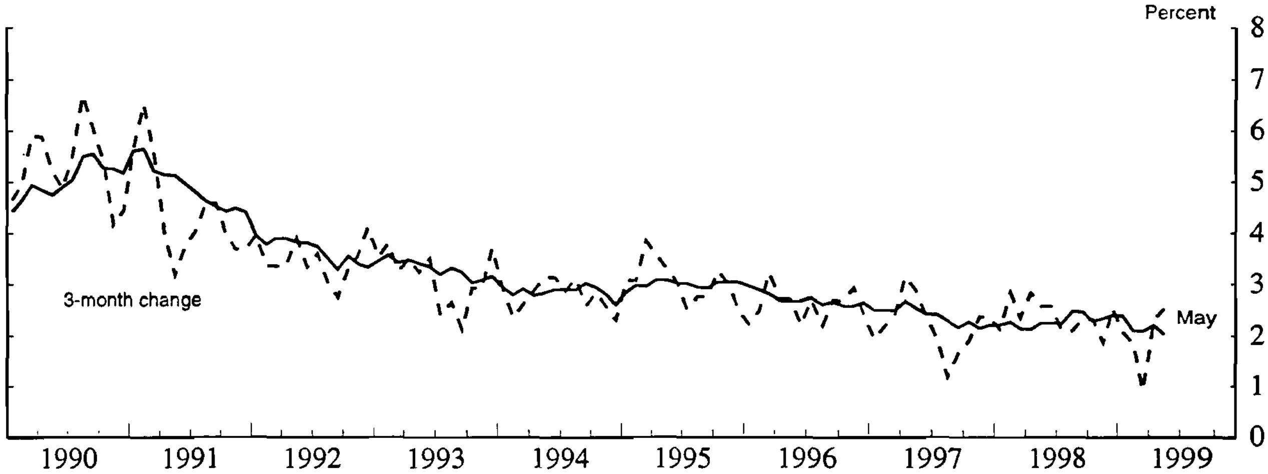
Consumer food prices rose 0.1 percent in April and 0.4 percent in May. Fruit and vegetable prices, which typically account for much of the short-run volatility in food prices, posted large increases in both months. Excluding fruits and vegetables, food prices changed little over the past two months. Over the past twelve months, the CPI for food has increased 2.1 percent.

The CPI for commodities other than food and energy rose 0.6 percent in April but edged down 0.1 percent in May. These swings in the core CPI for commodities mainly reflected price movements in the volatile tobacco and apparel categories. Since their peak in January, tobacco prices have come down about 3 percent (not at an annual rate). But they were still up 28 percent over the past twelve months, contributing roughly 1/4 percentage point to core inflation over that period. So far this year, apparel prices have fallen 3/4 percent at an annual rate, in line with their pace of decline last year. Among other consumer goods, prices of new motor vehicles were about flat in April and May, with new truck prices rising a bit and new car prices falling on net. Prices of used cars and trucks posted hefty increases in April and May after having decreased in each of the preceding four months.

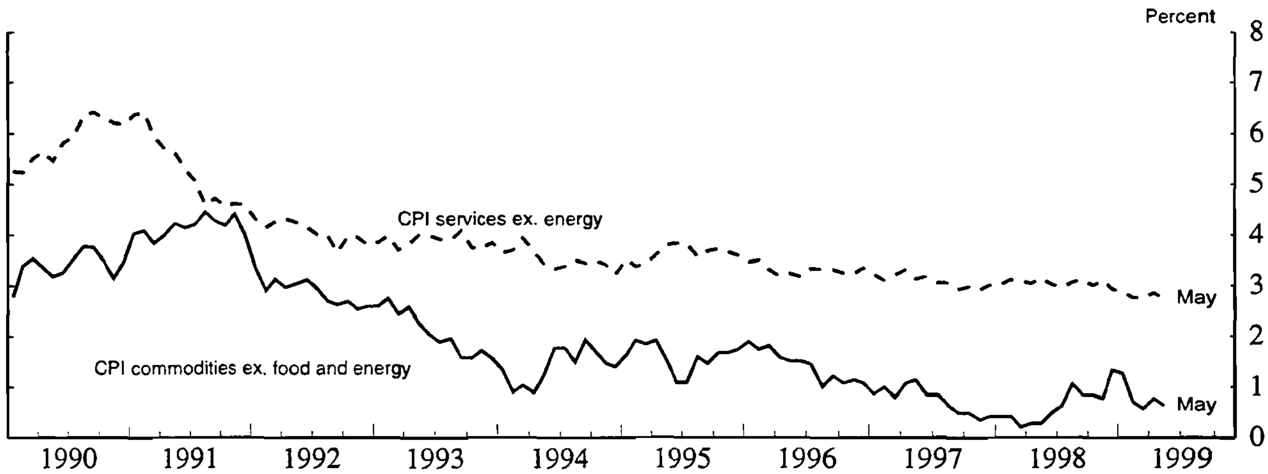
Measures of Core Consumer Price Inflation

(Twelve-month change except as noted)

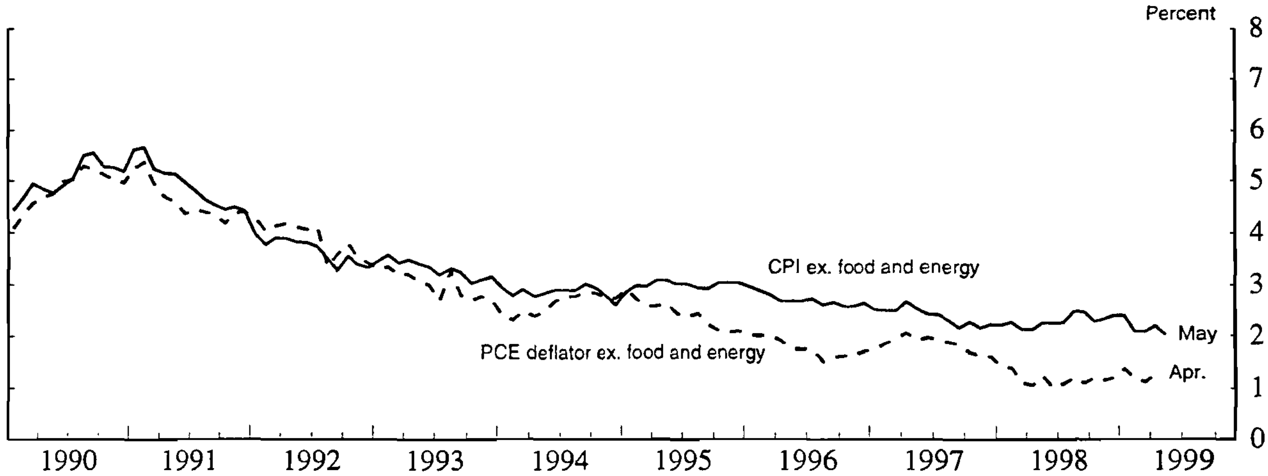
CPI Excluding Food and Energy



CPI Services and Commodities



CPI and PCE



The CPI for services other than energy rose 0.4 percent in April and 0.2 percent in May. The April rise was boosted by large increases in airfares and hotel room rates; prices in both of these areas fell in May. For the period ahead, press reports on airfares have sent conflicting signals in recent weeks: At the start of June, major airlines reportedly implemented an across-the-board 4 percent increase in "leisure" airfares, but the following week reports indicated that several airlines had offered temporary steep discounts on selected flights with excess capacity.

The BLS recently published their new "current-methods" CPI, which attempts to approximate how the CPI would have behaved if current methods for constructing the index had been used over history. This new series is more useful than the published CPI for making comparisons over time because it is less affected by technical changes. Over the twelve months ended in May 1999, the current-methods CPI excluding food and energy increased 1.9 percent, compared with an increase of 2.1 percent over the preceding twelve-month period.[14] This index does not take into account the effects of the change in base-year weights introduced in January 1998, which also affects comparability of inflation rates. If the index also is adjusted for the new weights, its increase over the twelve months ended in May 1998 would be 2.0 percent.

The PPI for capital goods increased 0.2 percent in May, the first increase in six months. Producer prices of motor vehicles rose in May, in part because manufacturers had added incentives earlier in the year than usual. Elsewhere among capital goods, computer prices fell 2.2 percent in May and are down 24 percent over the past twelve months.

Prices of non-energy materials at earlier stages of processing appear to have stopped falling this year, and some measures have edged up slightly: The PPI for intermediate materials has risen in each of the past three months after fifteen months with no increases in this series. In part, the pickup in core intermediate materials prices likely reflects the indirect effects of higher energy prices. However, as mentioned earlier, prices of a variety of materials used in home construction, notably plywood, softwood lumber, and gypsum products, also have risen sharply in recent months as strong demand appears to be leading to shortages. The picture for the PPI for crude materials other than food and energy is more mixed, with an increase in May but declines in March and April. On balance, the PPI for core crude materials has moved up

14. The published CPI excluding food and energy was up 2 percent over the twelve months ended in May 1999 and 2.2 percent over the preceding twelve-month period.

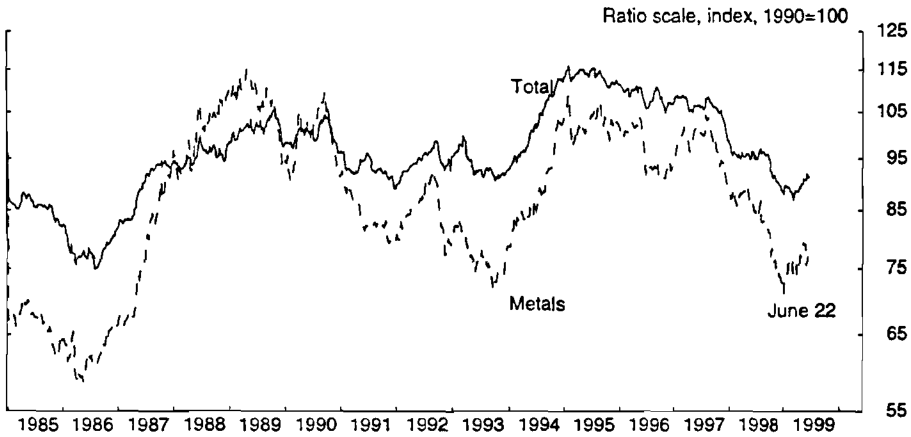
SPOT PRICES OF SELECTED COMMODITIES

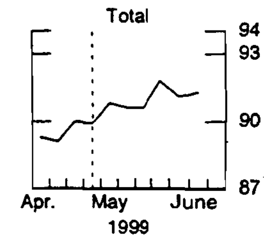
	Current price ($)	Percent change[1]: 1997	1998	Dec. 29 to May 11[2]	May 11[2] to June 22	Memo: Year earlier to date
Metals						
Copper (lb.)	.670	-21.5	-14.8	10.1	-11.8	-16.3
Steel scrap (ton)	94.000	19.3	-47.5	13.1	14.4	-23.4
Aluminum, London (lb.)	.609	-1.9	-17.6	6.9	1.3	2.1
Precious metals						
Gold (oz.)	258.550	-20.7	-1.1	-2.6	-7.5	-12.2
Silver (oz.)	5.080	27.2	-18.0	7.4	-5.8	-5.0
Forest products[3]						
Lumber (m. bdft.)	394.000	-26.6	2.7	15.0	14.2	40.7
Plywood (m. sqft.)	495.000	-1.7	3.3	22.6	30.3	59.7
Petroleum						
Crude oil (barrel)	15.560	-27.4	-36.1	49.0	1.1	26.4
Gasoline (gal.)	.480	-23.5	-33.5	51.3	-4.8	7.6
Fuel oil (gal.)	.429	-29.6	-33.6	30.2	.4	8.3
Livestock						
Steers (cwt.)	67.000	4.2	-13.2	8.9	4.3	6.3
Hogs (cwt.)	36.500	-30.8	-55.7	154.8	-7.6	-12.0
Broilers (lb.)	.602	-24.4	15.0	5.8	.3	-9.8
U.S. farm crops						
Corn (bu.)	1.975	-3.8	-19.4	-1.0	-3.2	-17.2
Wheat (bu.)	2.728	-24.1	-5.7	-15.4	-2.8	-13.7
Soybeans (bu.)	4.470	-3.2	-21.1	-14.0	-2.5	-31.9
Cotton (lb.)	.533	-10.9	-10.2	-.8	-6.4	-29.1
Other foodstuffs						
Coffee (lb.)	1.075	26.1	-31.4	-6.4	-1.8	-11.2
Memo:						
JOC Industrials	91.300	-7.3	-9.8	1.6	1.6	-4.4
JOC Metals	78.100	-4.7	-18.5	9.3	-1.3	-8.0
CRB Futures	191.550	-4.9	-17.2	.4	-.1	-11.5
CRB Spot	256.580	-7.6	-14.1	-2.3	-.3	-13.6

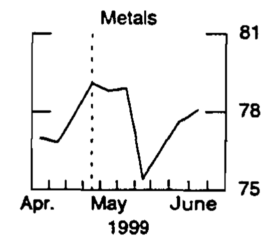
1. Changes, if not specified, are from the last week of the preceding year to the last week of the period indicated.
2. Week of the May Greenbook.
3. Reflects prices on the Friday before the date indicated.

Commodity Price Measures

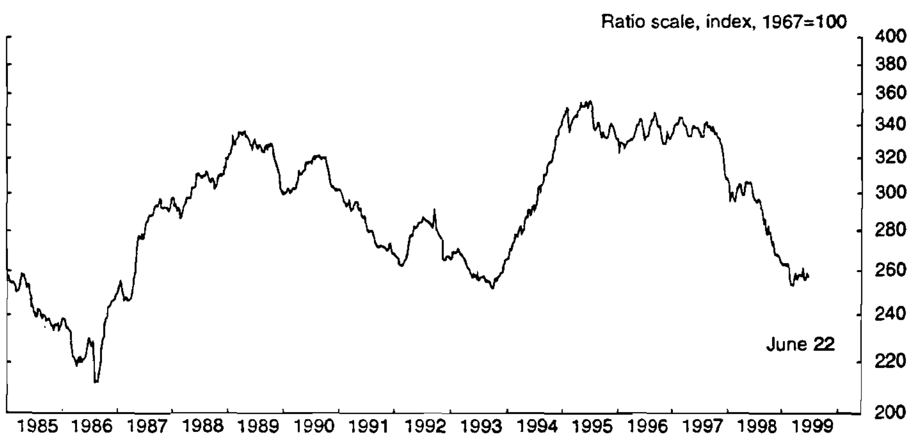
Journal of Commerce Index

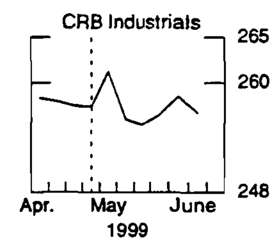




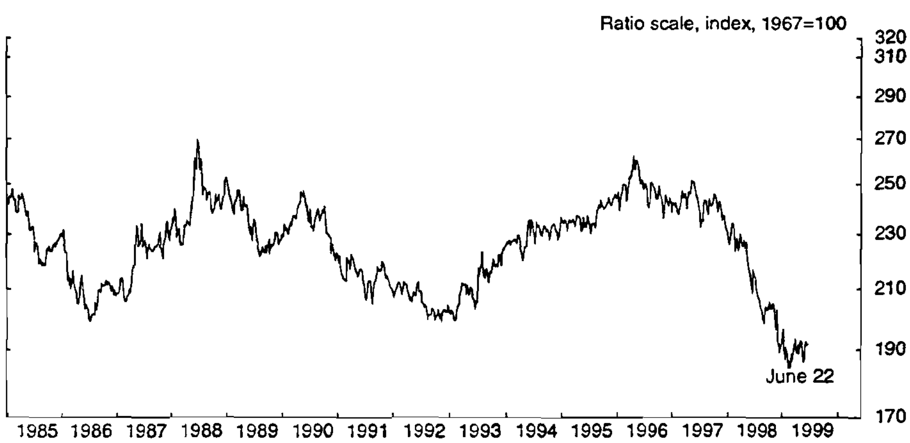


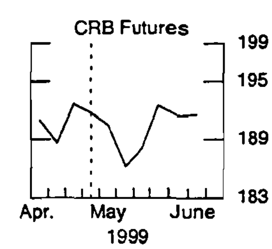
CRB Spot Industrials





CRB Futures





Note. Weekly data, Tuesdays. Vertical lines on small panels indicate week of last Greenbook. The Journal of Commerce index is based almost entirely on industrial commodities, with a small weight given to energy commodities, and the CRB spot price index consists entirely of industrial commodities, excluding energy. The CRB futures index gives about a 60 percent weight to food commodities and splits the remaining weight roughly equally among energy commodities, industrial commodities, and precious metals. Copyright for Journal of Commerce data is held by CIBCR, 1994.

BROAD MEASURES OF INFLATION
(Four-quarter percent change)

	1996 Q1	1997 Q1	1998 Q1	1999 Q1
Product prices				
GDP chain price index	2.0	1.9	1.2	1.0
Nonfarm business chain-type price index[1]	1.3	1.9	1.1	0.5
Expenditure prices				
Gross domestic purchases chain-type price index	2.0	1.8	0.7	0.8
Less food and energy	2.0	1.5	1.1	0.9
PCE chain-type price index	2.0	2.2	0.9	1.0
Less food and energy	2.0	1.8	1.3	1.2
CPI	2.8	2.9	1.5	1.7
Less food and energy	2.9	2.5	2.3	2.2
Median CPI	3.4	2.8	2.9	2.8
Trimmed mean CPI	2.8	2.7	2.0	1.7

1. Excluding housing.

SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

	Actual inflation[1]	University of Michigan: 1 year Mean[2]	University of Michigan: 1 year Median[3]	University of Michigan: 5 to 10 years Mean[4]	University of Michigan: 5 to 10 years Median[5]	Professional forecasters (10-year)[6]
1997-Q1	2.9	3.8	2.9	3.8	3.1	3.0
Q2	2.3	3.6	2.9	3.8	3.0	2.9
Q3	2.2	3.4	2.7	3.6	3.0	3.0
Q4	1.9	3.3	2.8	3.8	3.1	2.7
1998-Q1	1.5	2.8	2.4	3.3	2.9	2.6
Q2	1.6	3.0	2.6	3.3	2.8	2.5
Q3	1.6	2.8	2.4	3.2	2.8	2.5
Q4	1.5	2.7	2.4	3.2	2.8	2.5
1999-Q1	1.7	3.0	2.6	3.3	2.8	2.3
Q2		3.1	2.7	3.3	2.8	2.5
1999-Jan.	1.7	3.0	2.7	3.5	3.0	
Feb.	1.6	2.8	2.5	3.3	2.8	
Mar.	1.7	3.1	2.7	3.0	2.7	2.3
Apr.	2.3	3.0	2.7	3.0	2.8	
May	2.1	3.2	2.8	3.5	2.9	
June		3.2	2.6	3.4	2.8	2.5

1. CPI; percent change from the same period in the preceding year.
2. Average increase for responses to the question: By about what percent do you expect prices (CPI) to go up, on the average, during the next 12 months?
3. Median increase for responses to the question above.
4. Average increase for responses to the question: By about what percent per year do you expect prices (CPI) to go up, on the average, during the next 5 to 10 years?
5. Median increase for responses to question above.
6. Compiled by the Federal Reserve Bank of Philadelphia.

about 1-1/2 percent so for this year after having fallen 16 percent over the twelve months of 1998.

Since PPI prices were collected in mid-May, commodity price movements have been mixed. Steel scrap prices have risen sharply and aluminum prices have moved higher, but prices for copper dropped sharply. Prices of lumber and plywood have continued to skyrocket.

For the second quarter, median household inflation expectations for the year ahead averaged 2.7 percent according to the Michigan survey, about the same as in the first quarter but up from the 2.4 percent average of the second half of 1998. Longer-term median inflation expectations from the Michigan survey (for five to ten years ahead) remained at 2.8 percent in the second quarter, the same as in the preceding four quarters.

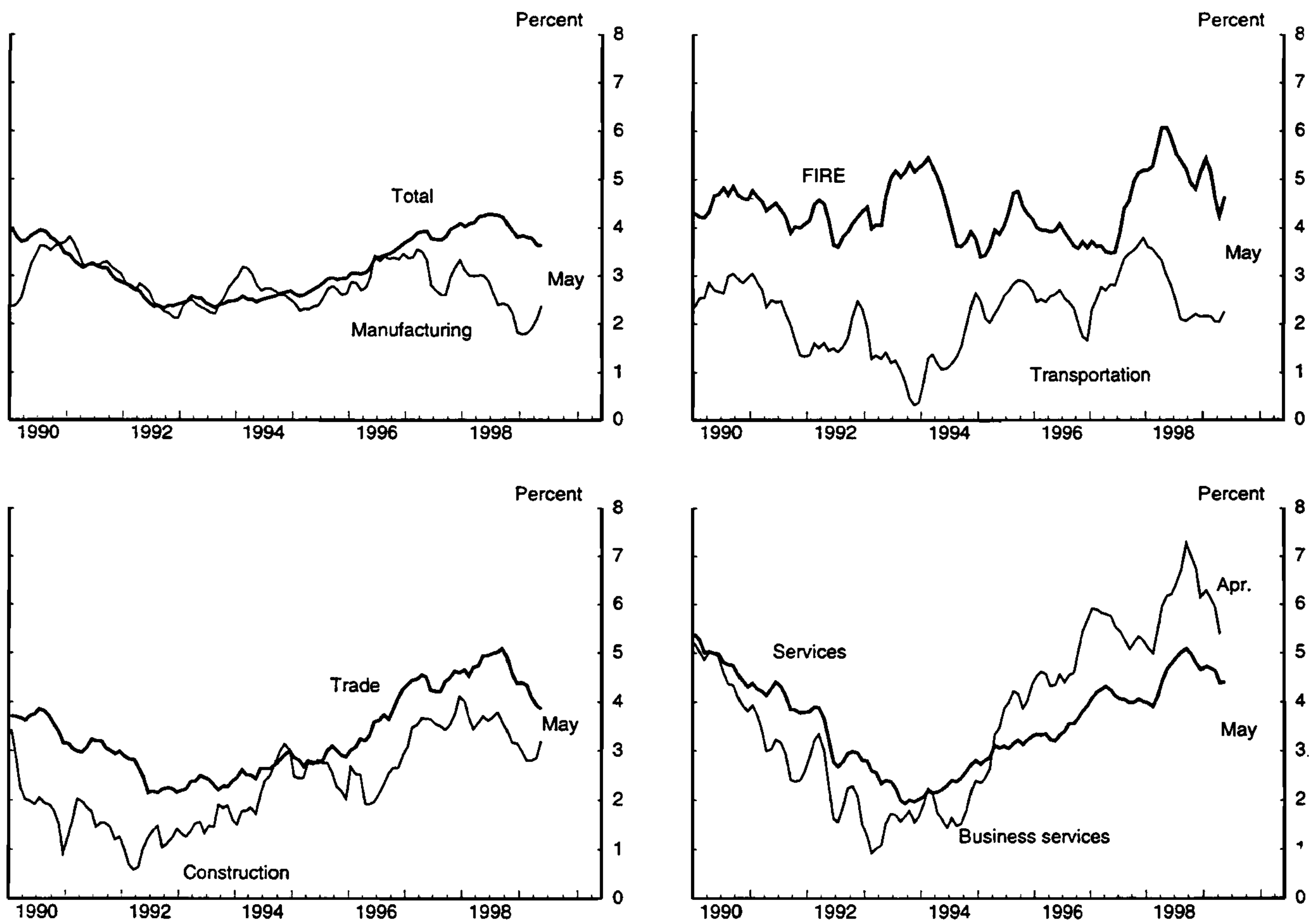
Wages. Average hourly earnings increased 0.4 percent in May after an increase of 0.2 percent in April. Revised data pushed up the twelve-month change as of April by 0.3 percentage point, to 3.5 percent.[15] Over the twelve months ending in May, average hourly earnings have increased 3.6 percent, compared with 4.3 percent over the preceding twelve-month period. Low price inflation in 1998 and early 1999 probably helped hold down the latest wage change figures. In addition, the May 1998 twelve-month change included a minimum wage hike, which may have boosted growth in hourly earnings by as much as 1/4 percentage point over that period.

15. In addition to the usual update of seasonal factors in the BLS's annual revision to the payroll data, the new average hourly earnings figures also reflect the correction of mistakes in the previously published March and April data for wholesale and retail trade.

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

	Twelve-month percent change			Percent change to May. 1999		1999	
	May 1997	May 1998	May 1999	Nov. 1998	Feb. 1999	Apr.	May
	- - - - - - - -Annual rate- - - - - - - -					-Monthly rate-	
Total private nonfarm	3.9	4.3	3.6	3.9	4.0	.2	.4
Manufacturing	2.9	2.9	2.7	3.9	5.1	.6	.4
Construction	3.7	3.5	3.6	4.1	6.6	.3	.8
Transportation and public utilities	2.8	3.0	2.7	3.5	4.5	.5	.5
Finance, insurance, and real estate	3.7	5.9	4.6	4.5	4.2	.5	.4
Retail trade	4.4	5.1	4.0	4.6	4.5	.6	.2
Wholesale trade	4.5	4.9	3.3	3.0	3.4	.1	.3
Services	4.2	4.8	4.2	4.3	3.4	.1	.4

Average Hourly Earnings
(Three-month moving average of twelve-month change)



DOMESTIC FINANCIAL DEVELOPMENTS

III-T-1

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

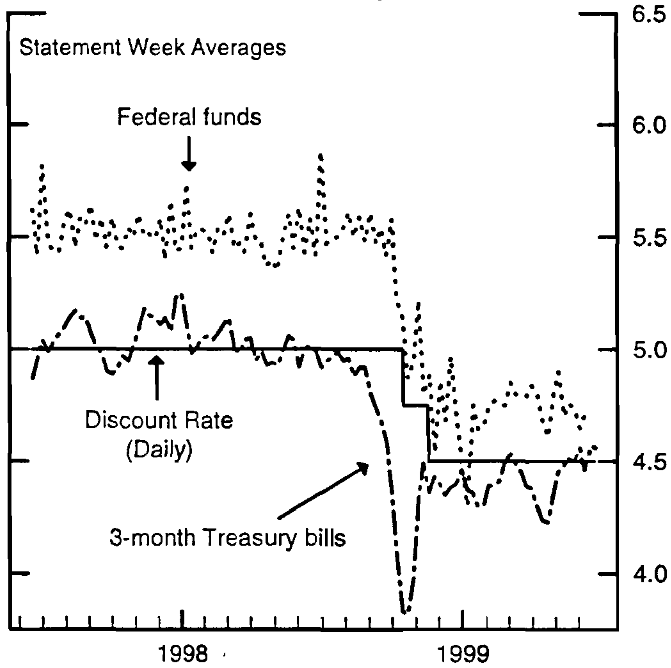
Instrument	1998 Oct. 15	1998 Dec. 31	1999 FOMC* May 18	1999 June 22	Change to June 22 from selected dates (percentage points) Oct. 15	Dec. 31	FOMC* May 18
Short-term							
Federal funds							
FOMC intended rate	5.00	4.75	4.75	4.75	-.25	.00	.00
Realized rate [1]	5.40	4.58	4.85	4.71	-.69	.13	-.14
Treasury bills [2]							
3-month	4.05	4.37	4.55	4.60	.55	.23	.05
6-month	4.12	4.39	4.62	4.85	.73	.46	.23
1-year	4.06	4.33	4.64	4.80	.74	.47	.16
Commercial paper							
1-month	5.27	4.90	4.80	4.97	-.30	.07	.17
3-month	5.13	4.84	4.83	5.01	-.12	.17	.18
Large negotiable CDs [2]							
1-month	5.35	5.01	4.86	5.05	-.30	.04	.19
3-month	5.31	4.97	4.94	5.15	-.16	.18	.21
6-month	5.10	4.97	5.05	5.32	.22	.35	.27
Eurodollar deposits [3]							
1-month	5.34	4.94	4.75	4.94	-.40	.00	.19
3-month	5.28	4.94	4.88	5.06	-.22	.12	.18
Bank prime rate	8.25	7.75	7.75	7.75	-.50	.00	.00
Intermediate- and long-term							
U.S. Treasury (constant maturity)							
2-year	4.13	4.54	5.31	5.65	1.52	1.11	.34
10-year	4.58	4.65	5.66	5.94	1.36	1.29	.28
30-year	5.02	5.09	5.91	6.07	1.05	.98	.16
U.S. Treasury 10-year indexed note	3.69	3.88	3.82	4.00	.31	.12	.18
Municipal revenue (Bond Buyer) [4]	5.21	5.26	5.34	5.52	.31	.26	.18
Corporate bonds, Moody's seasoned Baa	7.26	7.23	7.75	8.06	.80	.83	.31
High-yield corporate [5]	11.29	10.52	10.42	10.68	-.61	.16	.26
Home mortgages (FHLMC survey rate) [6]							
30-year fixed	6.49	6.77	7.10	7.65	1.16	.88	.55
1-year adjustable	5.36	5.58	5.71	5.94	.58	.36	.23

Stock exchange index	Record high Level	Record high Date	1998 Dec. 31	1999 FOMC* May 18	1999 June 22	Change to June 22 from selected dates (percent) Record high	Dec. 31	FOMC* May 18
Dow-Jones Industrial	11,107.19	5-13-99	9,181.43	10,853.47	10,721.63	-3.47	16.78	-1.21
S&P 500 Composite	1,367.56	5-13-99	1,229.23	1,339.49	1,335.88	-2.32	8.68	-.27
Nasdaq (OTC)	2,652.05	4-26-99	2,192.69	2,561.84	2,580.26	-2.71	17.68	.72
Russell 2000	491.41	4-21-98	421.96	441.35	447.33	-8.97	6.01	1.35
Wilshire 5000	12,549.05	5-13-99	11,317.59	12,293.78	12,238.98	-2.47	8.14	-.45

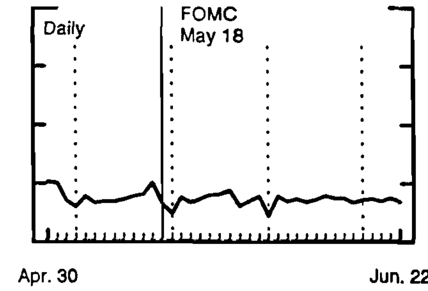
1. Average for two-week reserve maintenance period ending on or before date shown. Most recent observation is average for current maintenance period to date.
2. Secondary market.
3. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.
4. Most recent Thursday quote.
5. Merrill Lynch Master II high-yield bond index composite.
6. For week ending Friday previous to date shown.
* Data are as of the close on May 17, 1999.

Selected Interest Rates

Selected Short-Term Interest Rates

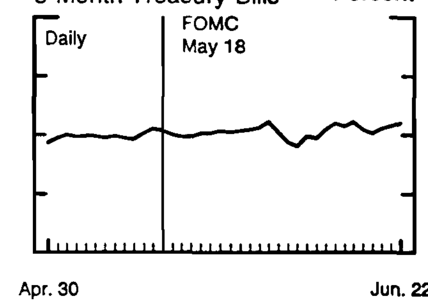


Federal Funds

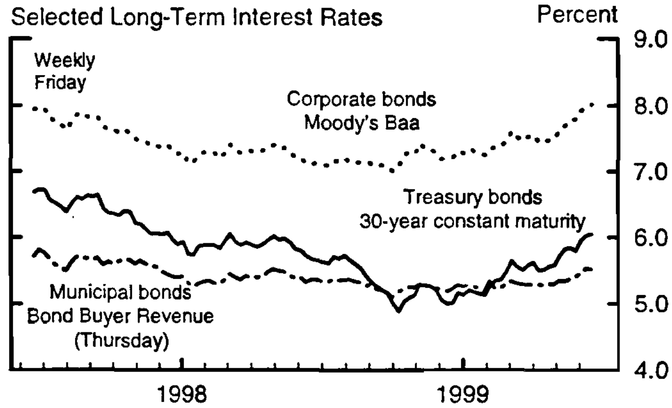


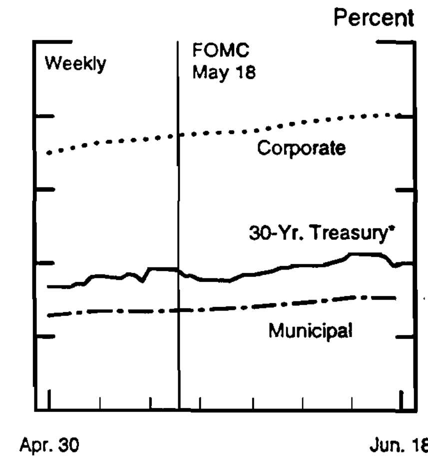
Note. Vertical dashed lines indicate end of reserve period.

3-Month Treasury Bills



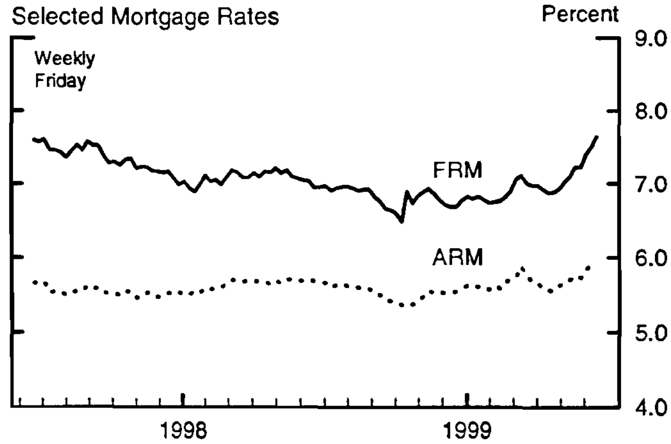
Selected Long-Term Interest Rates

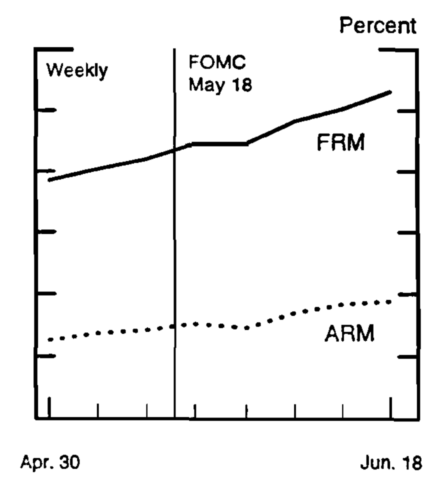




*Daily frequency.

Selected Mortgage Rates





Domestic Financial Developments

Overview

Market reaction to the announcement that the FOMC had adopted a tightening bias at its May meeting was muted, but subsequent evidence of continued economic strength and official comments heightened concerns that a sequence of hikes in the federal funds rate might be close at hand. By mid-June, just before the release of the consumer price index for May, the thirty-year Treasury coupon yield was 6.11 percent, up 20 basis points from the May FOMC meeting, and coupon yields at shorter maturities had risen more than 30 basis points. Market participants found comfort in the subdued price report and in Chairman Greenspan's congressional testimony the next day, and Treasury yields fell back considerably. However, the rally fizzled after a couple of days, and long rates have returned to their recent highs. Futures rates indicate that markets have priced in a 25 basis point increase in the funds rate at the June meeting and are putting some weight on another 25 basis point boost by late summer.

Measures of market liquidity have deteriorated a touch over the intermeeting period. On-the-run/off-the-run spreads on Treasury securities have edged up, as have bid-ask spreads for off-the-run securities with less than five years to maturity. However, credit risk spreads have registered small mixed changes: Spreads of investment-grade corporate bond rates over Treasuries have risen a little, while spreads on junk bonds are down slightly.

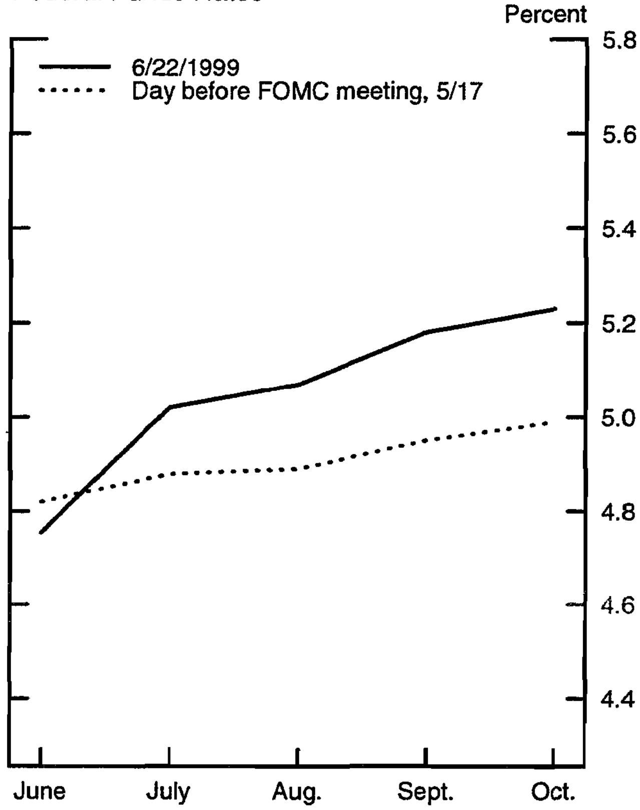
Equity prices of many firms have swung widely over the intermeeting period, partly in response to the movements in bond yields. But, overall, stocks seem to have fared better than bonds, apparently reflecting generally favorable earnings expectations. The S&P 500 and Nasdaq price indexes are little changed, on net, from the May FOMC meeting, while the DJIA is down about 1 percent.

Business and household borrowing appears to have slowed somewhat in the second quarter from the very brisk first-quarter pace. Gross corporate bond issuance was heavy in April and May, but dropped off when interest rates moved up in late May. When interest rates dipped in mid-June, issuers returned to the market. Bank lending to businesses has been weak since the start of the year, but there are signs of a stirring in June. In the household sector, the growth of consumer credit slowed to a 3-1/2 percent annual pace in April, and the growth of home mortgage debt for the second quarter as a whole seems likely to edge off its double-digit pace of the preceding two quarters. Meanwhile, municipal bond issuance has continued to be moderate, and the Treasury has paid down a sizable amount of debt this quarter.

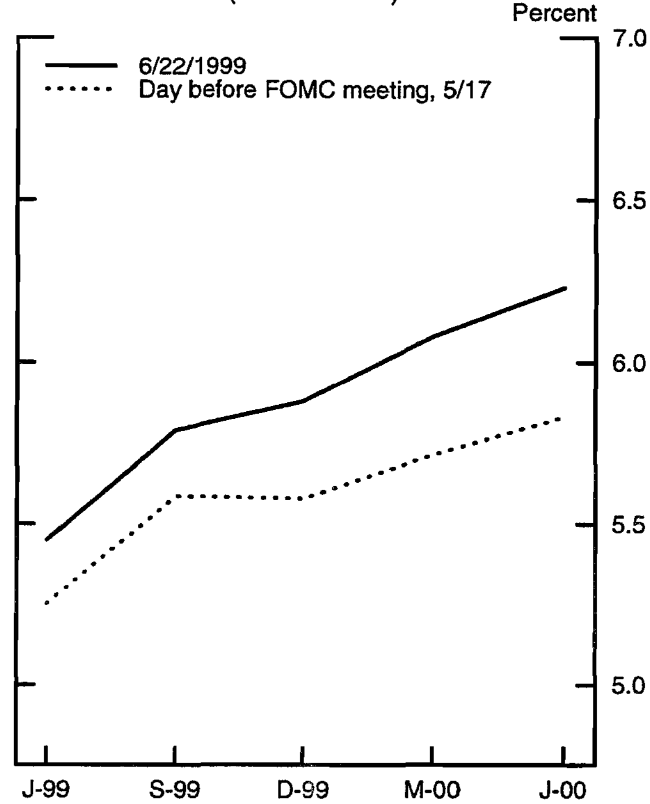
Growth of the broad monetary aggregates slowed sharply in May, mainly because of an unwinding of the tax-related run-up in April. So far this year, M2

Selected Short-Term Futures Rates

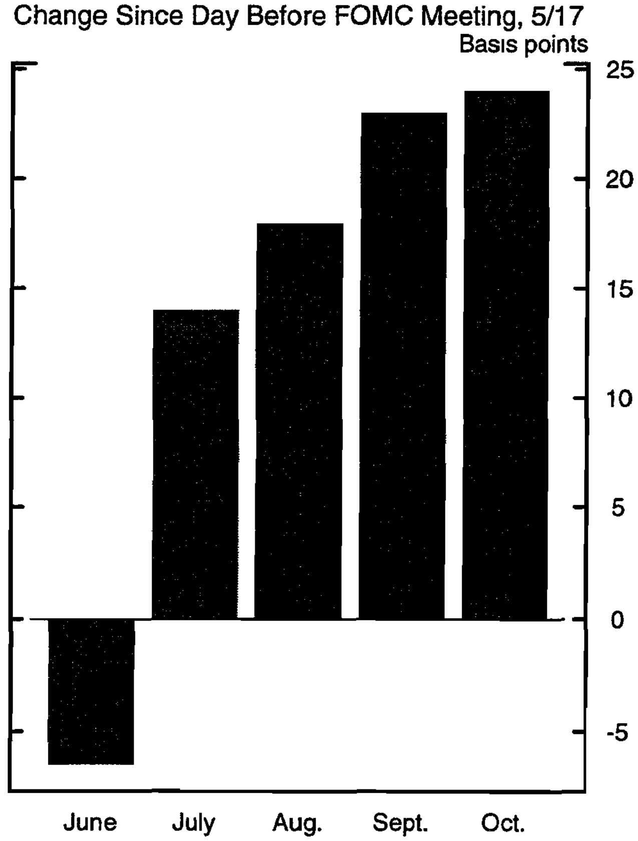
Federal Funds Rates



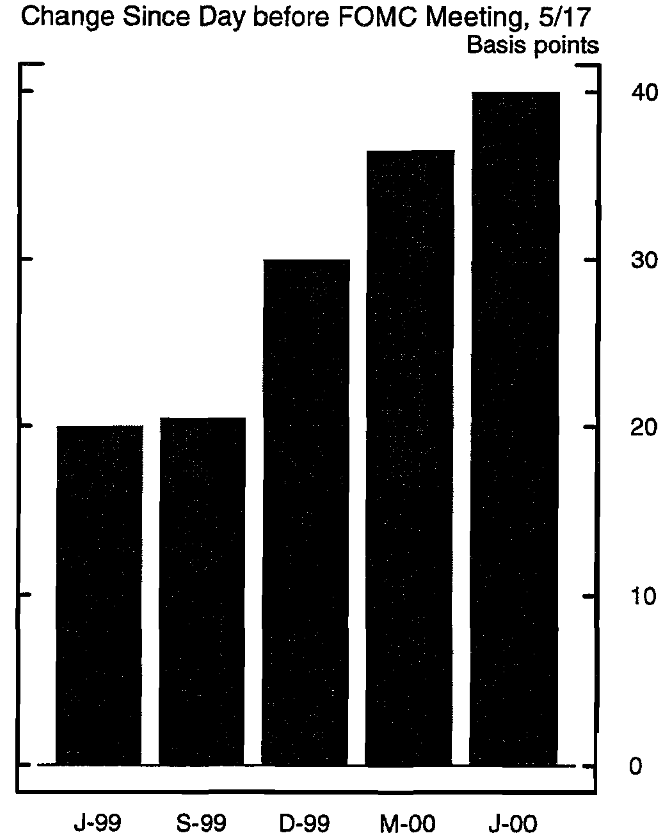
Eurodollar Rates (Three-Month)



Change Since Day Before FOMC Meeting, 5/17

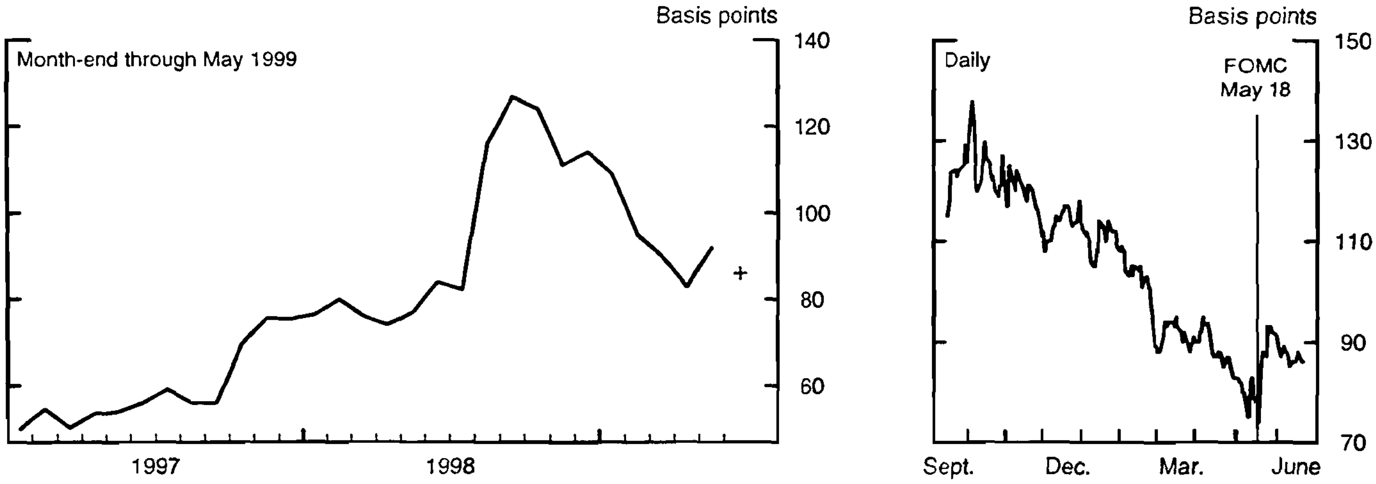


Change Since Day before FOMC Meeting, 5/17



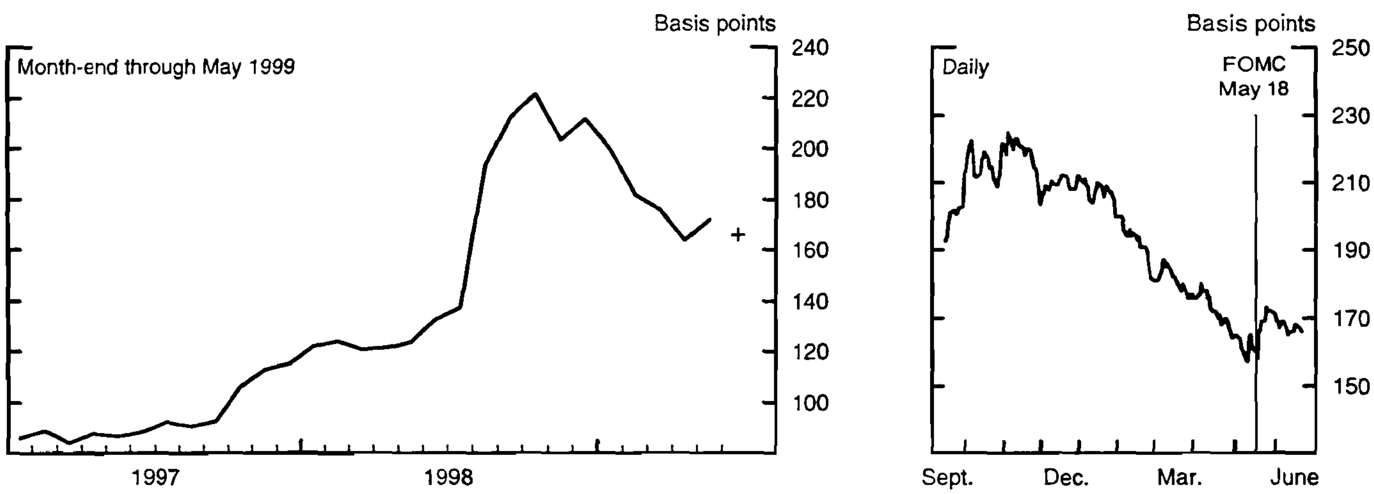
Spreads on Corporate Securities

AA Corporate Bond Yield Less 10-Year Treasury



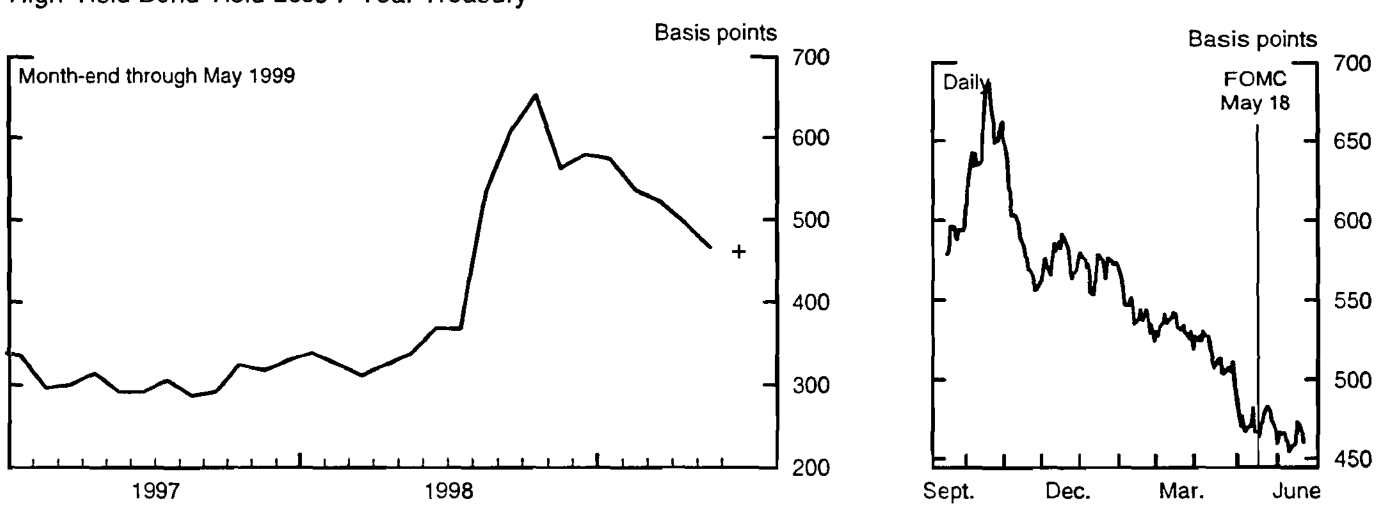
Note. + indicates the latest observation (June 22).
Source. Merrill Lynch.

BBB Corporate Bond Yield Less 10-Year Treasury



Note. + indicates the latest observation (June 22).
Source. Merrill Lynch.

High-Yield Bond Yield Less 7-Year Treasury



Note. + indicates the latest daily observation (June 22).
Source. Merrill Lynch Master II.

GROSS ISSUANCE OF SECURITIES BY U.S. CORPORATIONS
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1997	1998	1998 Q4	1999 Q1	1999 Apr.	1999 May
All U.S. corporations	77.4	94.0	87.8	107.7	83.7	107.3
Stocks[1]	9.8	10.6	8.7	9.0	9.0	15.5
Bonds	67.6	83.4	79.0	98.6	74.7	91.7
<u>Nonfinancial corporations</u>						
Stocks[1]	5.0	6.2	6.5	7.0	7.5	10.2
Initial public offerings	1.8	2.2	3.7	2.7	1.7	3.9
Seasoned offerings	3.2	4.0	2.8	4.3	5.8	6.4
Bonds	18.6	25.7	23.9	28.0	30.9	29.2
By rating, sold in U.S.[2]						
Investment grade	8.4	14.0	16.5	15.7	19.4	13.8
Speculative grade	8.2	10.3	6.8	9.2	6.8	13.1
Public	1.5	1.8	.6	1.3	1.1	1.8
Rule 144A	6.7	8.5	6.2	7.9	5.7	11.4
Other (Sold Abroad/Unrated)	1.9	1.4	.6	3.1	4.7	2.2
<u>Financial corporations</u>						
Stocks[1]	4.8	4.4	2.2	2.0	1.5	5.3
Bonds	49.1	57.7	55.2	70.6	43.8	62.5
<u>Memo:</u>						
Net issuance of commercial paper, nonfinancial corporations[3]	1.1	2.3	-3.3	5.4	2.0	5.8
Change in C&I loans at commercial banks[3]	6.1	7.4	8.3	1.2	4.5	-2.5

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

1. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.

2. Bonds categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.

3. End-of-period basis. Seasonally adjusted.

has risen at a 6-1/2 percent annual rate, and M3 at a 6 percent annual rate, from the fourth-quarter levels. Overall, the growth of bank credit remained weak in May, but partial data suggest that it may be strengthening in June.

Business Finance

Gross bond issuance by nonfinancial corporations totaled $29 billion in May, about the same strong pace as in earlier months this year. Junk bond issuance in May was the largest in almost a year and accounted for nearly half the month's total offerings. The rise in bond rates in late May led a number of investment-grade and junk firms to postpone scheduled bond offerings. However, issuers jumped back into the market when rates fell at the end of last week, and the forward calendar remains sizable.

Short- and intermediate-term business credit has expanded at a slower pace than in the first quarter. Business loans contracted in May, more than erasing a modest increase in April, but have turned up in early June. Commercial paper outstanding was up in May, following a small increase in April; so far in June, commercial paper has risen moderately.

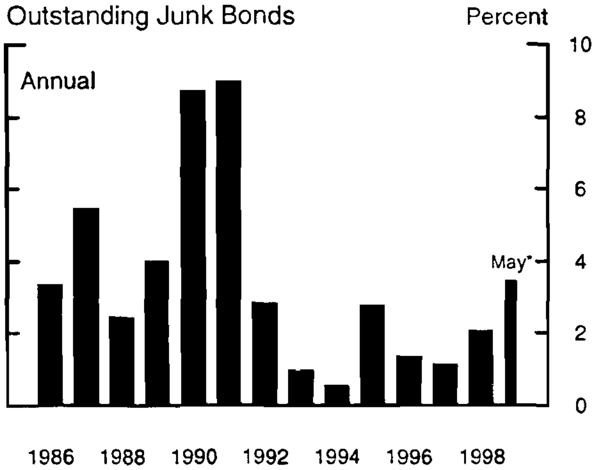
Credit quality in the corporate business sector, while still strong overall, has slipped a bit further. The default rate for junk bonds has trended up since the start of the year. Business failures, after surging in April, moderated in May and then picked up again in June. On a twelve-month basis, they show a rise from 1998, but remain low by the standards of this decade. Downgrades of bonds of nonfinancial firms outpaced upgrades by a small amount during May and the first half of June. However, looking ahead, Moody's Watchlist suggests little further net deterioration in the near term, as the dollar value of debt on review for upgrades about matches that for downgrades.

Gross equity issuance by nonfinancial corporations was strong in May, totaling about $10 billion, the largest amount in nearly a year. Both seasoned offerings and IPOs picked up. Although the volume of scheduled offerings remains large, equity issuance so far in June has slowed, held down by weak advances in equity prices and by some reduced enthusiasm for Internet-related offerings.

Equity retirements associated with cash-financed mergers remained low in May. Nonetheless, announcements of such mergers continue to be numerous, and the backlog of pending deals suggests that equity retirements will pick up soon. Announcements of share repurchases so far this year imply a slight moderation from the pace of equity retirements in 1998, when actual repurchases by nonfinancial firms totaled a record $169 billion.

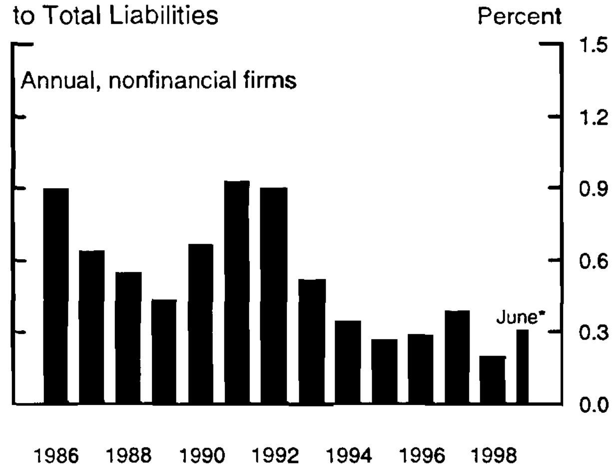
Corporate Finance and Stock Prices

Default Rates of
Outstanding Junk Bonds



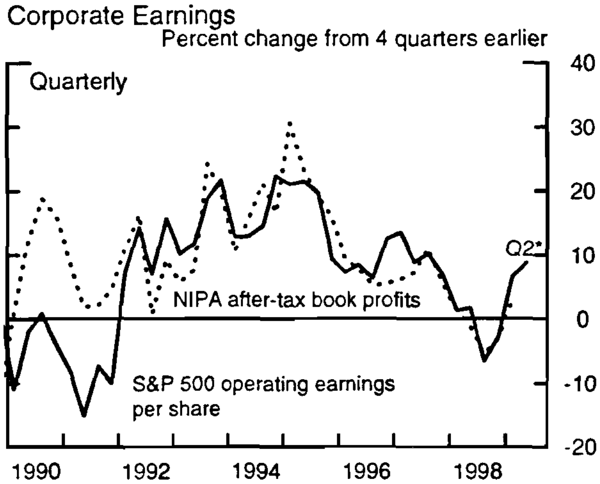
*Previous 12 months.

Liabilities of Failed Businesses
to Total Liabilities



*Through June 11, previous 12 months.
Source. Dun & Bradstreet.

Corporate Earnings



* Staff estimate.
Source. Goldman Sachs, I/B/E/S.

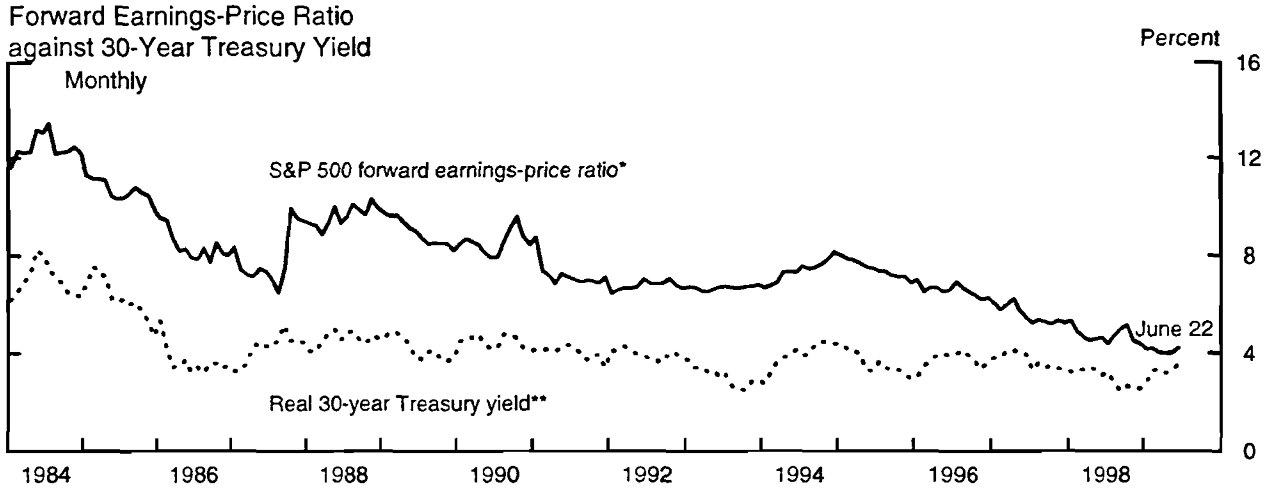
Selected Stock Indexes

Percent change from last FOMC* to June 22

DJIA	-1.06
S&P 500	0.19
Nasdaq	0.86
Russell 2000	1.10
Wilshire 5000	-0.14
Internet	-7.75

*May 18, 1999.

Forward Earnings-Price Ratio
against 30-Year Treasury Yield



* Based on I/B/E/S operating earnings over coming 12 months.
** Nominal yield less Philadelphia Fed 10-year inflation expectations.

Changes in major indexes of stock prices have been mixed since the previous FOMC meeting. The DJIA is down slightly, although it is up 17 percent for the year. Meanwhile, the S&P 500 and the Nasdaq are roughly unchanged, and are about 2 to 3 percent off their highs reached earlier in the spring. The prices of Internet stocks slid about 8 percent over the intermeeting period, bringing them about 16 percent below their earlier peaks, but still up 40 percent for the year.

Equity prices have held up quite well in recent months in the face of rising interest rates. Support has come from surprisingly strong first-quarter earnings and anticipation of even better second-quarter earnings. Analysts currently expect second-quarter S&P 500 earnings per share to be about 8-1/2 percent higher than four quarters earlier, up from a 6-3/4 percent increase in the first quarter.[1] There have been only sporadic earnings warnings thus far, which is usually viewed as a bullish signal. The S&P 500 twelve-month forward earnings-price ratio has moved up in June, but it remains near its record low in April. Moreover, the gap between the forward earnings-price ratio and the real thirty-year Treasury yield is at its narrowest for the twenty-one years such data are available.

Commercial Real Estate Finance

Commercial mortgage lending appears to have slowed in the second quarter. Banks' holdings of commercial mortgages grew near a 5-1/2 percent average annual rate in April and May, less than half the rate posted in the first quarter. Conduit lenders, citing resistance to higher mortgage rates, continue to report difficulties in originating commercial loans, and sector analysts have revised down their forecasts for the issuance of commercial mortgage-backed securities in coming months.

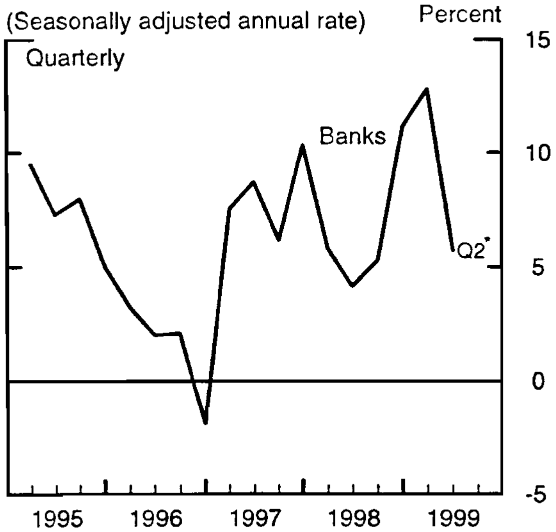
Gross CMBS issuance backed by previously originated loans is expected to be $13-1/2 billion in the second quarter, down from $16 billion in the first quarter. About half of the second-quarter securities were issued in late May, perhaps putting some pressure on spreads of highly rated CMBS securities. On balance, such spreads are up 16 to 18 basis points over the intermeeting period. In contrast, spreads on lower-rated CMBS securities have tightened of late, as new investors have entered the market in pursuit of yield.

Credit performance in the commercial mortgage sector continues to look good. At life insurance companies, delinquency rates for commercial mortgage loans dropped to their lowest level since 1965, when the American Council of Life

1. A measure of earnings per share that accounts for changes in the composition of firms included in the S&P 500 index is expected to increase 11 percent over the year ended in 1992:Q2, up from the 9-1/2 percent rise in the previous quarter.

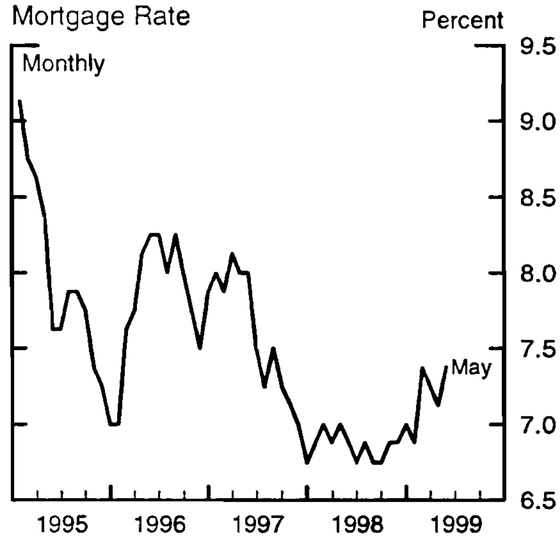
Commercial Real Estate

Growth in Commercial Mortgage Holdings



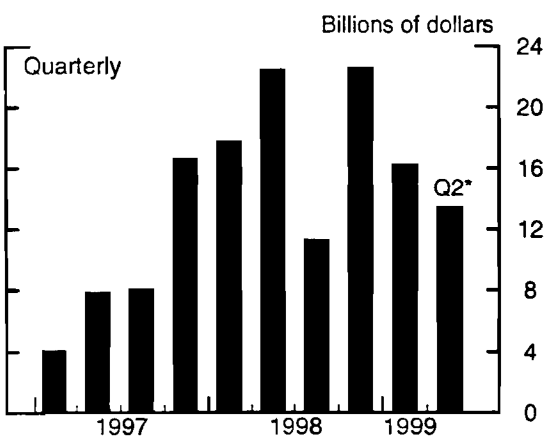
*Q2 is April and May average at annual rate.
Source. Bank Credit Survey.

10-Year Commercial Mortgage Rate



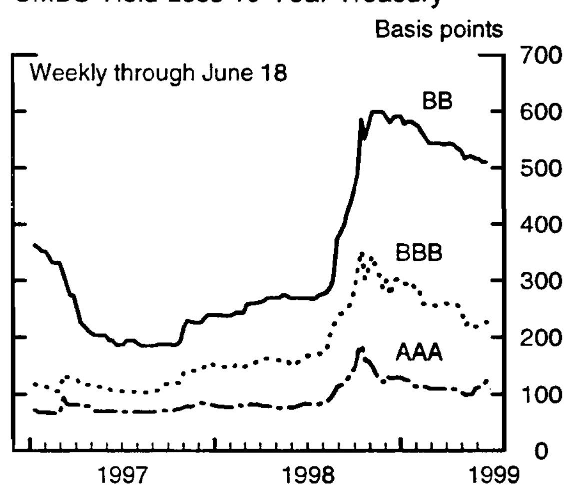
Source. Barron's/Levy National Mortgage Survey.

CMBS Gross Issuance



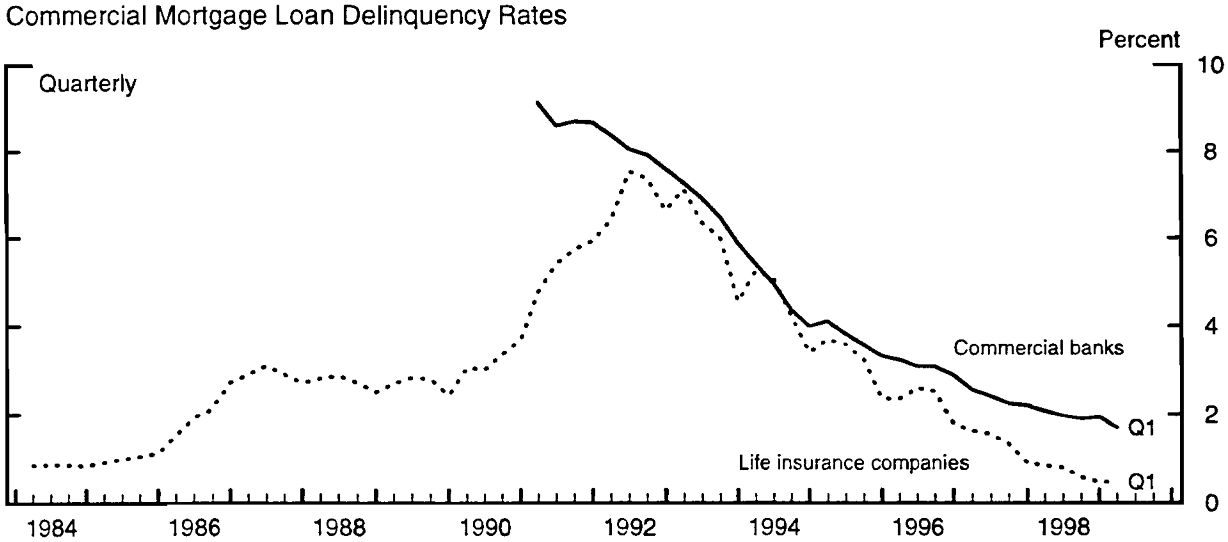
*Staff estimate.
Source. Commercial Mortgage Alert.

CMBS Yield Less 10-Year Treasury



Source. Bank of America Securities.

Commercial Mortgage Loan Delinquency Rates



Source. ACLI, Bank Call Report.

Insurance began compiling the data. Delinquency rates for commercial mortgage loans at banks also touched a new low in the first quarter.

Equity prices for real estate investment trusts were little changed over the intermeeting period, as enthusiasm for REIT shares fizzled quickly in May. Activity by REITs has been limited; equity issuance in March and April was weak, and REIT property acquisitions in April were the lowest since October 1995.

Household Finance

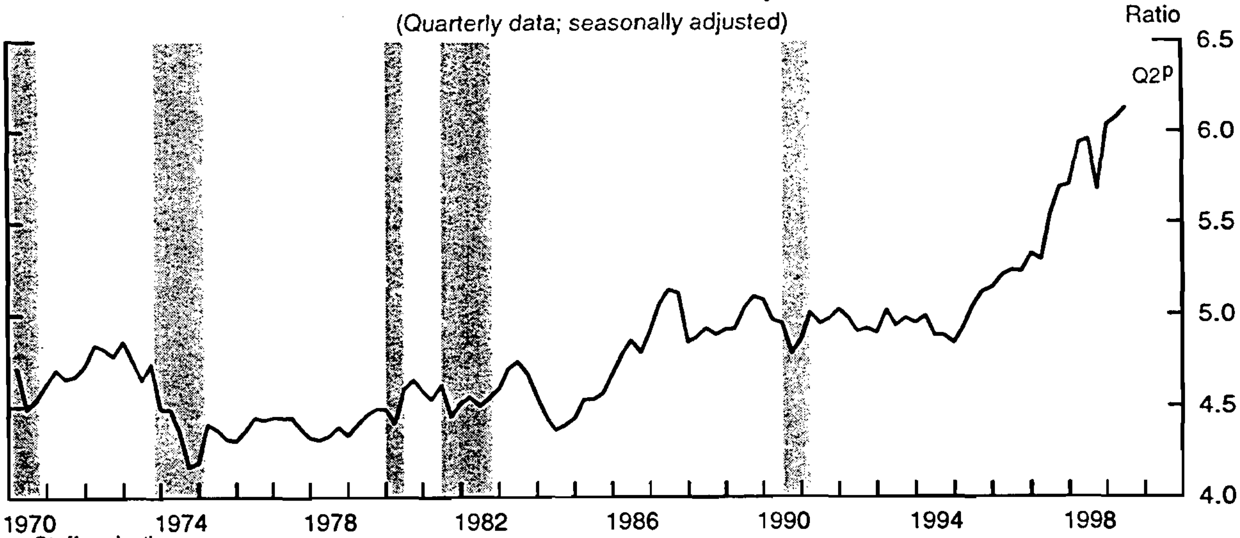
Household wealth has scored another solid increase in the second quarter, with capital gains on stock holdings and real estate pushing the ratio of household net worth to disposable income to a new high. At the same time, households have provided mixed signals about their preferences for risk. Net inflows to equity mutual funds are estimated to have been $15 billion in May, well below the rapid pace in April but still above the first-quarter rate. Weekly data through mid-June point to moderate inflows again this month. Investors shifted away from high-yield bond funds, withdrawing, on net, $1-1/2 billion in May--the first monthly outflow since last December--a pattern that has continued through mid-June. Households with 401(k) plans allocated funds to safer investments, with new contributions to fixed-income investments jumping to nearly 25 percent of total contributions in May from only 16 percent in April. However, transfers of existing 401(k) assets were primarily out of fixed-income funds and into company stock. On net, in May, such transfers and contributions favored equities over fixed-income assets.

Data for the second quarter suggest that household debt growth has slowed from the 9-1/2 percent annual pace over the previous two quarters. Consumer credit grew at a 3-1/2 percent annual rate in April, well below the average pace in the first quarter, and loans extended by banks to individuals contracted in May. Though down from its recent rapid pace, growth in home mortgage debt appears to have remained sizable in the second quarter, in keeping with continued strength in housing activity. Indeed, the Mortgage Bankers Association purchase index has risen sharply since the May FOMC meeting, despite increases in interest rates. The contract interest rate on a thirty-year fixed-rate mortgage was 7.65 percent last week, 55 basis points above the level at the time of the May FOMC meeting. More recent indicators suggest that home mortgage rates have retraced about one-quarter of that increase.

On balance, household credit performance has improved slightly this year. Consumer loan delinquencies reported by banks on the Call Report and the American Bankers Association survey edged down in the first quarter, while measures of credit card delinquencies at banks were mixed. Delinquency rates

Household Net Worth Relative to Disposable Income

(Quarterly data; seasonally adjusted)



p. Staff projection.

Net Flows of Mutual Funds

(Excluding reinvested dividends; billions of dollars; monthly rates; not seasonally adjusted)

	1996	1997	1998 H1	1998 H2	1999 Q1	1999 Apr.	1999 May[e]	Assets Apr.
Total long-term funds	**19.3**	**22.7**	**29.3**	**11.4**	**16.4**	**26.8**	**14.8**	**4,505**
Equity funds	**18.0**	**19.0**	**21.1**	**5.4**	**10.5**	**25.5**	**14.8**	**3,265**
Domestic	14.1	15.8	18.6	6.7	12.6	26.1	15.6	2,846
International	4.0	3.1	2.5	-1.3	-2.1	-0.6	-0.8	419
Hybrid funds	**1.0**	**1.4**	**1.7**	**0.1**	**-0.5**	**-0.2**	**0.2**	**381**
Bond funds	**0.2**	**2.4**	**6.5**	**5.9**	**6.4**	**1.5**	**-0.2**	**859**
International	-0.2	-0.1	0.0	-0.2	-0.1	-0.1	0.1	25
High-yield	1.0	1.4	1.8	0.5	1.0	0.9	-1.5	127
Other taxable	-0.1	1.0	3.5	4.3	3.9	1.1	1.2	402
Municipals	-0.5	0.1	1.2	1.3	1.6	-0.4	-0.1	304

e Staff estimates based on ICI weekly data.

Source. Investment Company Institute (ICI).

401(k) Plan Contributions and Transfers

(Percent of total)

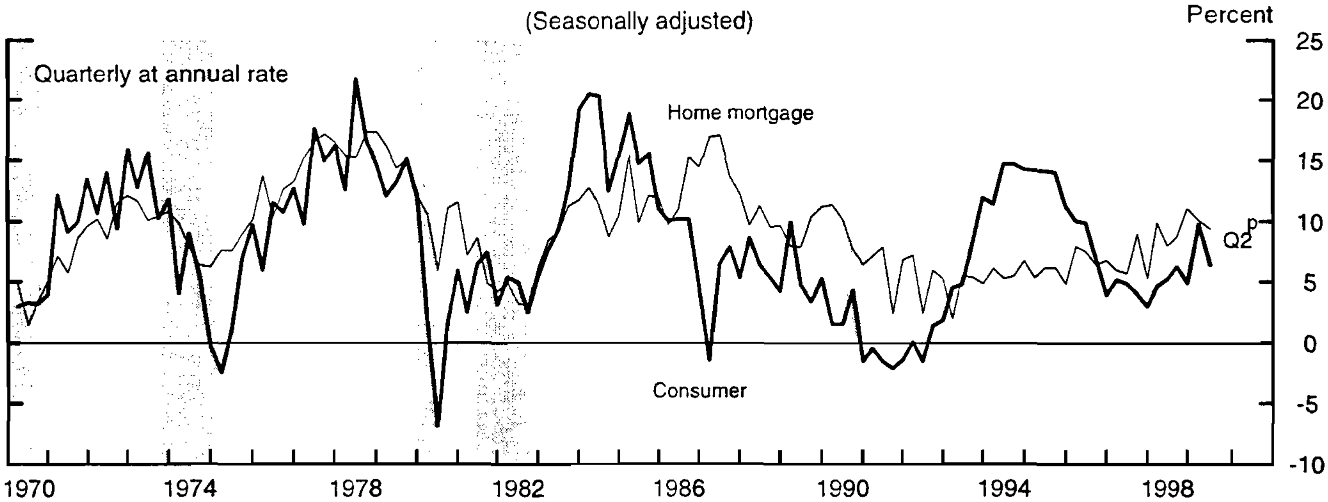
	Contributions[1] 1998	Contributions[1] 1999 Q1	Contributions[1] 1999 Apr.	Contributions[1] 1999 May	Transfers[2] 1998	Transfers[2] 1999 Q1	Transfers[2] 1999 Apr.	Transfers[2] 1999 May
Company stock	**19**	**19**	**18**	**18**	**-84**	**-53**	**-97**	**73**
Equity funds	**47**	**43**	**56**	**47**	**-16**	**-4**	**39**	**27**
Domestic	42	38	53	43	-14	27	32	16
International	5	5	4	4	-2	-32	7	11
Hybrid funds	**12**	**17**	**10**	**11**	**11**	**-44**	**-3**	**-14**
Fixed income[3]	**22**	**21**	**16**	**24**	**89**	**99**	**61**	**-86**
Memo: Total as % of assets	**0.8**	**0.9**	**0.8**	**0.6**	**1.2**	**1.6**	**1.7**	**1.4**

1. Allocation of new contributions to 401(k) plans; percentages sum to 100.
2. Allocation of transfers among existing assets within 401(k) plans; percentages sum to zero.
3. Includes bond and money funds and GIC/stable value investments.

Source. Hewitt Associates.

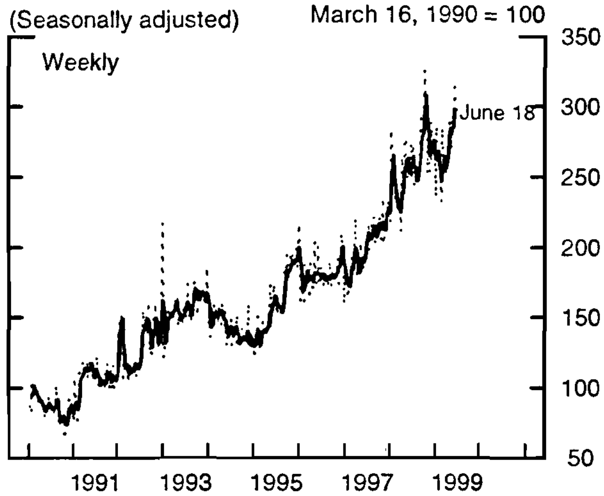
Household Debt Growth

(Seasonally adjusted)

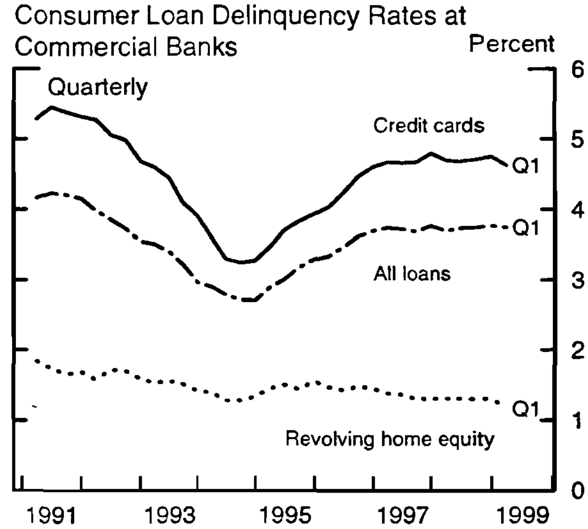


p. Staff projection.

MBA Purchase Index
(Seasonally adjusted)

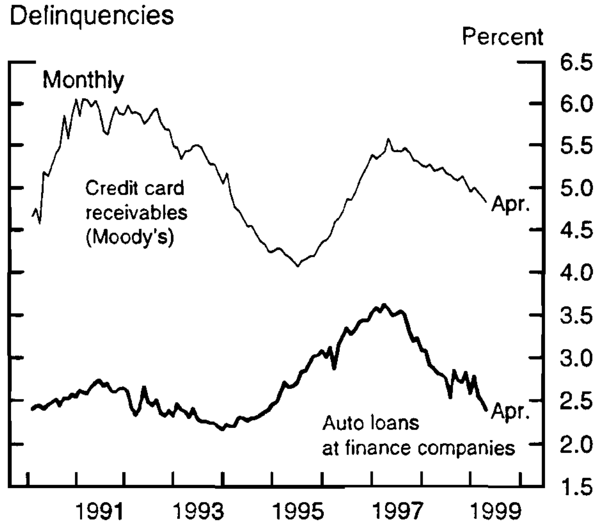


Consumer Loan Delinquency Rates at Commercial Banks

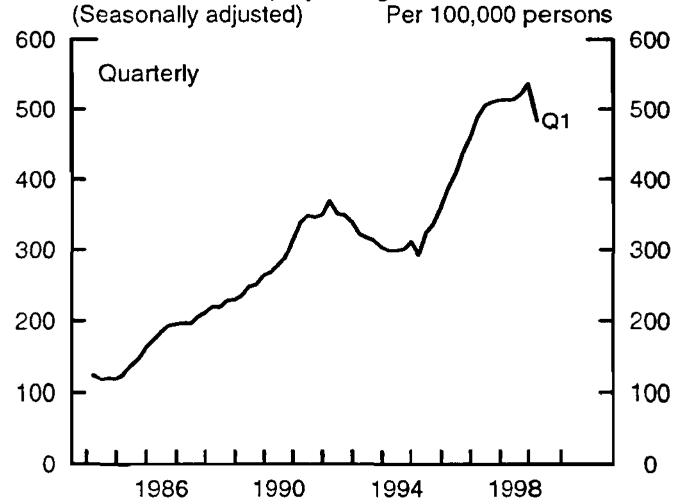


Source. Call Reports.

Delinquencies



Personal Bankruptcy Filings
(Seasonally adjusted)



Source. Administrative Office of the U.S. Courts.

Treasury and Agency Finance

Treasury Financing
(Billions of dollars)

Item	1998	1999				
	Q4	Q1	Q2[e]	Apr.	May	June[e]
Total surplus, deficit (-)	**-54.5**	**5.8**	**147.2**	**113.5**	**-24.0**	**57.7**
Means of financing deficit						
Net borrowing	32.3	7.5	-112.3	-85.2	-.6	-26.6
Nonmarketable	8.2	2.2	3.4	3.8	.9	-1.3
Marketable	24.1	5.2	-115.8	-89.0	-1.5	-25.3
Bills	53.3	34.0	-78.0	-75.5	-1.7	-.8
Coupons	-29.2	-28.7	-37.8	-13.4	.2	-24.5
Decrease in cash balance	21.4	-4.1	-30.6	-36.5	32.5	-26.6
Other[1]	.9	-9.1	-4.3	8.3	-8.0	-4.6
MEMO						
Cash balance, end of period	17.5	21.6	52.2	58.1	25.6	52.2

NOTE. Components may not sum to totals because of rounding.
1. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.
e Estimated.

Net Cash Borrowing of Government-Sponsored Enterprises
(Billions of dollars)

Agency	1998		1999			
	Q3	Q4	Q1	Mar.	Apr.	May
FHLBs	14.7	38.9	20.2	18.6	13.2	6.1
Freddie Mac	32.7	54.4	11.8	.0	11.2	n.a.
Fannie Mae	24.2	29.7	15.1	4.1	3.6	13.9
Farm Credit Banks	-.4	-.8	3.0	-.1	1.0	-.9
Sallie Mae	.5	1.6	1.4	.3	n.a.	n.a.
MEMO: Outstanding						
Fannie Mae benchmark notes	32.2	42.2	55.2	55.2	62.7	70.2
Freddie Mac reference notes	10.0	20.0	30.0	30.0	36.0	40.0

NOTE. Excludes mortgage pass-through securities issued by Fannie Mae and Freddie Mac.
n.a. Not available.

for loans at the captive auto finance companies and for credit card receivables that back securities continued to decline in April. Personal bankruptcy filings dropped sharply during the first quarter, more than retracing the run-up at the end of last year. The 1998 increase appears to have been boosted by efforts to file cases ahead of proposed legislation that would limit the ability of certain debtors to obtain forgiveness for their obligations.[2]

Government Securities Markets

Over the intermeeting period, the Treasury issued, on net, $15 billion of marketable securities to meet seasonal fluctuations in the cash balance. Gross issuance was concentrated in the shorter maturities, with $90 billion raised in three- and six-month bills and $20 billion sold in one-year bills. Demand for the only coupon security auctioned during the intermeeting period, the two-year note, was greater than expected and stronger than in the most recent midquarter refunding. Apparently, the shorter maturity securities were more appealing to investors concerned with the prospects of the Fed tightening.

In light of strong inflows of tax receipts, the Treasury expects to pay down a record $116 billion of marketable securities, on net, for the second quarter as a whole. Even so, the Treasury cash balance is projected to be a sizable $52 billion on June 30.

The Treasury again stated that it is considering steps to alleviate concerns that debt paydowns are impinging on liquidity of on-the-run Treasury securities. An approach that has been used successfully in the past is to reduce the number of auctions, thereby increasing the available dollar amount of on-the-run Treasury securities at each auction. A more unusual program, for which details have not been provided to the public, would allow the Treasury to issue more on-the-run Treasuries and use part of the proceeds to repurchase its off-the-run securities, thus raising the share of on-the-run securities relative to total Treasury debt. Canada has recently inaugurated such a program in the context of its own budget surpluses.

Government-sponsored enterprises continued to issue large blocks of benchmark securities over the intermeeting period as part of their ongoing attempt to take advantage of the vacuum created by the shrinking volume of Treasury securities. Since mid-May, Fannie Mae, Freddie Mac, and the Federal Home Loan Banks have together sold close to $16 billion in benchmark securities. Also, Fannie Mae issued its first thirty-year benchmark bond and plans to offer at least two benchmark bonds each year. In an effort to compete with Fannie Mae's and

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2. The House passed bankruptcy reform legislation in May of this year, and the Senate will consider legislation this summer.

State and Local Finance

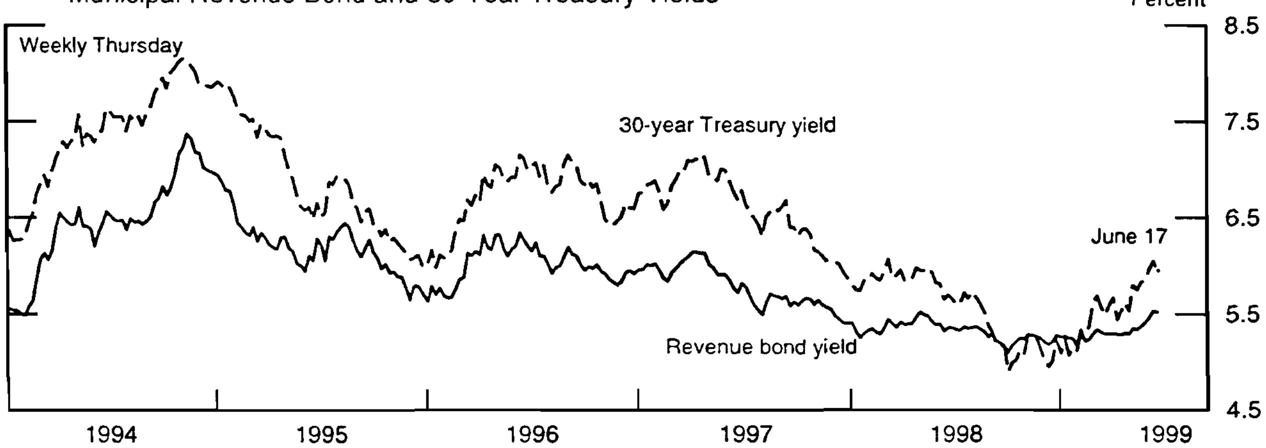
Gross Offerings of Municipal Securities

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

	1997	1998	1998 Q4	1999 Q1	1999 Mar.	1999 Apr.	1999 May
Long-term	17.9	21.9	21.0	19.2	24.3	15.8	16.2
Refundings [1]	6.6	8.5	7.8	6.2	8.1	5.3	4.1
New capital	11.3	13.4	13.2	12.9	16.2	10.5	12.1
Short-term	3.6	2.4	2.3	1.4	1.4	1.0	0.7
Total tax-exempt	21.5	24.3	23.4	20.6	25.7	16.8	17.0
Total taxable	1.1	1.1	0.8	1.4	1.2	0.6	0.9

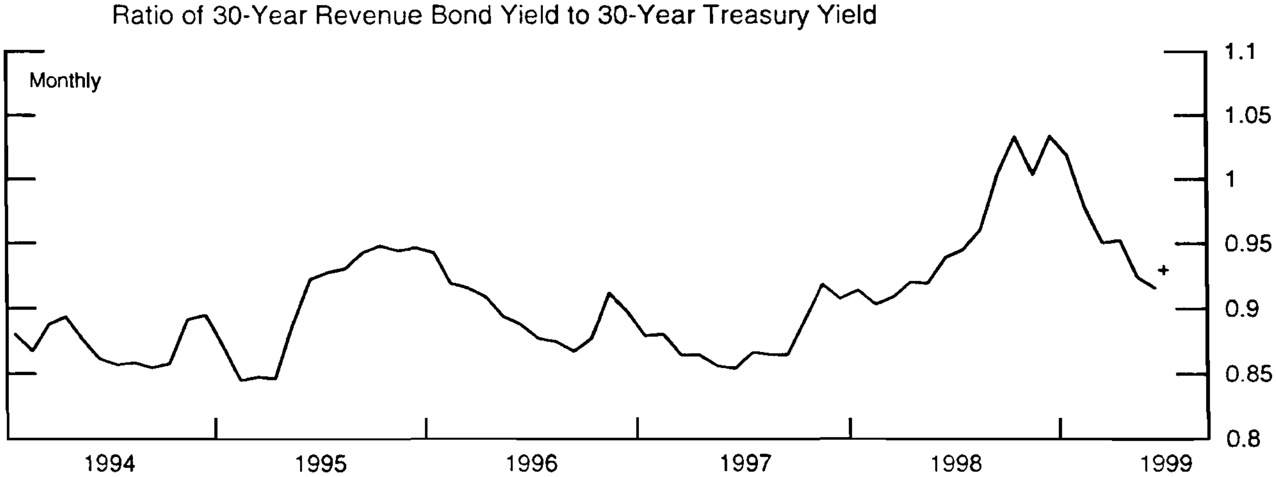
Note. Includes issues for public and private purposes.
1. All issues that include any refunding bonds.

Municipal Revenue Bond and 30-Year Treasury Yields



Source. Bond Buyer.

Ratio of 30-Year Revenue Bond Yield to 30-Year Treasury Yield



Note. Average of weekly data. + indicates latest observation (June 17).

Freddie Mac's large, liquid issues, the FHLBs increased the minimum issue size of their jumbo notes from $1 billion to $3 billion. The heavy supply of benchmark agency securities and greater uncertainty in financial markets have been accompanied by a widening of the securities' spreads relative to on-the-run Treasuries. Since the May FOMC meeting, spreads have widened 15 basis points, to about 67 basis points.

Municipal Finance

Gross issuance of long-term municipal bonds totaled about $16 billion in May, close to April's pace but down from the strong first-quarter rate. New capital issuance picked up in May after having been temporarily depressed during tax season, when investor demand tends to wane. Funding needs for education and transportation projects continued to account for the bulk of issuance. Advance refundings fell further in May, as rising yields reduced profitable refinancing opportunities.

Yields on long-term municipal bonds have risen 18 to 24 basis points over the intermeeting period, about in line with those on comparable Treasuries.

Credit quality of municipal debt issuers remains strong. During May and early June, Standard & Poor's upgraded considerably more issues than it downgraded, continuing the pattern of net upgrades that has prevailed over the past few years.

Money and Bank Credit

Growth of the broad monetary aggregates slowed in May after rising briskly in April. Liquid deposits, which had surged in April in anticipation of tax payments, expanded at a more modest rate in May, reflecting the clearing of those payments in late April and in early May. M2 decelerated to a 4-1/2 percent annual rate in May.

Growth of M3 also moved down to a 4-1/2 percent annual rate in May, bringing growth for the year down to just below 6 percent at an annual rate. The deceleration in May partly reflects smaller inflows into institution-only money market mutual funds. More important, M3 growth was held down by a decline in large time deposits due largely to a limited need for funding by banks.

Growth in bank credit, adjusted for mark-to-market accounting, picked up a little in May, but only to a sluggish 3 percent pace, and appears to have strengthened more in June. Securities holdings at banks increased slightly, as banks continued to run off mortgage-backed securities of government-sponsored agencies. However, data for early June indicate that securities holdings have picked up appreciably. Loan growth was modest in May but appears a bit stronger in early June. Commercial and industrial loans contracted sharply in

MONETARY AGGREGATES
(Based on seasonally adjusted data)

Aggregate or component	1998	1998 Q4	1999 Q1	1999 Mar.	1999 Apr.	1999 May (p)	1998:Q4 to May 99 (p)	Level (bil. $) May 99 (p)
Aggregate	Percentage change (annual rate)[1]							
1. M1	1.8	5.0	2.8	10.1	6.9	-4.0	3.1	1104.3
2. M2[2]	8.5	11.0	7.2	2.8	8.8	4.6	6.5	4507.0
3. M3	10.9	12.8	7.1	-2.0	8.1	4.6	5.9	6113.2
Selected Components								
4. Currency	8.3	9.6	9.7	11.3	11.4	11.1	10.8	480.9
5. Demand deposits	-4.2	.2	-4.5	7.4	-1.0	-15.4	-4.0	368.8
6. Other checkable deposits	.4	4.9	1.3	12.2	10.2	-16.3	-.2	246.7
7. M2 minus M1[3]	10.9	13.0	8.7	.3	9.4	7.4	7.7	3402.7
8. Savings deposits	14.0	15.6	11.9	2.1	15.3	12.8	11.5	1674.6
9. Small time deposits	-1.4	-2.1	-5.7	-5.0	-3 6	-3.9	-5.0	931.5
10. Retail money market funds	23.7	28.4	20.5	3.1	12.6	9.1	15.7	796.5
11. M3 minus M2[4]	18.0	18.0	6.6	-15.2	6.3	4.7	4.4	1606.2
12. Large time deposits, net[5]	9.8	4.7	-1.0	-22.1	11.6	-8.0	-3.8	613.9
13. Institution-only money market mutual funds	34.7	41.8	17.9	-1.8	21.1	13.8	16.9	544.6
14. RPs	17.4	16.6	11.6	-48.2	-37.3	16.3	.3	290.9
15. Eurodollars	8.6	3.1	-9.1	32.8	18.7	3.1	4.3	156.9
Memo								
16. Liquid Deposits[6]	8.8	11.7	7.9	4.1	12.1	5.0	7.6	2290.2
17. Sweep-adjusted M1[7]	6.2	7.6	5.6	10.1	8.8	4.2	6.4	1447.1
18. Monetary base	7.1	8.7	9.1	7.8	10.3	13.8	10.1	534.8
19. Household M2[8]	9.9	12.1	8.3	2.3	9.7	6.3	7.5	4138.1
	Average monthly change (billions of dollars)[9]							
Memo								
Selected managed liabilities at commercial banks:								
20. Large time deposits, gross	5.1	8.1	4.8	-10.1	2.5	-3.1	...	745.3
21. Net due to related foreign institutions	1.6	4.4	-.1	0	-7.2	-6.0	...	204.2
22. U.S. government deposits at commercial banks	.6	.5	-3.0	5.2	1.9	1.2	...	19.3

1. For the years shown, Q4-to-Q4 percent change. For the quarters shown, based on quarterly averages.
2. Sum of M1, retail money market funds, savings deposits, and small time deposits.
3. Sum of retail money funds, savings deposits, and small time deposits.
4. Sum of large time deposits, institutional money funds, RP liabilities of depository institutions, and Eurodollars held by U.S. addressees.
5. Net of holdings of depository institutions, money market mutual funds, U.S. government and foreign banks and official institutions.
6. Sum of demand deposits, other checkable deposits, and savings deposits.
7. Sweep figures used to adjust these series are the estimated national total of transaction account balances initially swept into MMDAs owing to the introduction of new sweep programs on the basis of monthly averages of daily data.
8. M2 less demand deposits.
9. For the years shown, "average monthly change" is the Q4-to-Q4 dollar change, divided by 12. For the quarters shown, it is the quarter-to-quarter dollar change, divided by 3
p--Preliminary.

Commercial Bank Credit
(Percent change; seasonally adjusted annual rate)

Type of credit	1998	1998 Q4	1999 Q1	1999 Mar	1999 Apr	1999 May	Level, May 1999 (billions of $)
1. Bank credit: Reported	11.0	16.8	-0.8	-8.8	1.7	2.5	4,502
2. Adjusted[1]	10.3	15.4	1.3	-1.6	1.5	2.9	4,416
3. Securities: Reported	13.9	22.8	-5.8	-18.7	0.6	0.1	1,189
4. Adjusted[1]	11.2	17.6	1.9	9.3	-0.3	1.3	1,102
5. U.S. government	5.9	8.3	4.1	11.4	0.3	-2.0	797
6. Other[2]	32.1	51.9	-23.6	-75.6	1.2	4.3	391
7. Loans[3]	10.0	14.7	1.1	-5.2	2.1	3.4	3,313
8. Business	12.1	16.1	-0.2	4.6	4.3	-6.4	949
9. Real estate	6.7	10.2	7.1	-0.2	1.5	6.1	1,346
10. Home equity	0.0	-3.2	-2.4	1.2	11.0	12.1	100
11. Other	7.3	11.4	7.9	-0.4	0.9	5.7	1,246
12. Consumer: Reported	-1.8	4.8	2.3	-3.1	1.2	-9.8	496
13. Adjusted[4]	5.8	7.8	2.9	3.0	1.7	-4.9	755
14. Other[5]	29.6	33.1	-12.4	-37.8	0.7	27.3	522

Note. Adjusted for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates shown are percentage changes in consecutive levels, annualized but not compounded.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FASB 115).
2. Includes securities of corporations, state and local governments, and foreign governments and any trading account assets that are not U.S. government securities.
3. Excludes interbank loans.
4. Includes an estimate of outstanding loans securitized by commercial banks.
5. Includes security loans, loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

May, mainly because of securitizations. Nevertheless, even after adjusting for securitizations, business loans fell 2 percent in May. Results from the May Survey of Terms of Business Lending indicate that banks may have become slightly more cautious lenders. Spreads on business loans relative to the intended federal funds rate have risen across all risk categories since February, with larger increases for loans with higher risk ratings. Also, delinquencies and charge-offs for commercial and industrial loans ticked up further in the first quarter, although they remain at low levels. Consumer loans on banks' books also declined sharply in May, reflecting brisk securitizations and a notable drop in originations, but appear to have remained flat in June. In contrast, growth in real estate loans accelerated in May and early June, likely because of a weaker pace of securitizations than in previous months.

INTERNATIONAL DEVELOPMENTS

International Developments

U.S. International Transactions

Trade in Goods and Services

For the first quarter of 1999, the nominal U.S. trade deficit in goods and services was $215 billion SAAR, substantially larger than for any quarter in 1998, as exports fell and imports rose strongly. In April, the U.S. trade deficit was $18.9 billion, nearly the same as recorded in the previous two months, with exports and imports both edging up.

Trade data for May will be released on July 20.

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

	1998	Annual rate 1998 Q3	Annual rate 1998 Q4	Annual rate 1999 Q1	Monthly rate 1999 Feb.	Monthly rate 1999 Mar.	Monthly rate 1999 Apr.
Real NIPA[1]							
Net exports of G&S	-238.2	-259.0	-250.0	-310.1	...	...	...
Nominal BOP							
Net exports of G&S	-164.3	-182.9	-173.0	-215.0	-18.5	-18.9	-18.9
Goods, net	-246.9	-259.9	-254.3	-296.8	-25.2	-25.7	-25.5
Services, net	82.6	77.0	81.3	81.8	6.6	6.7	6.6

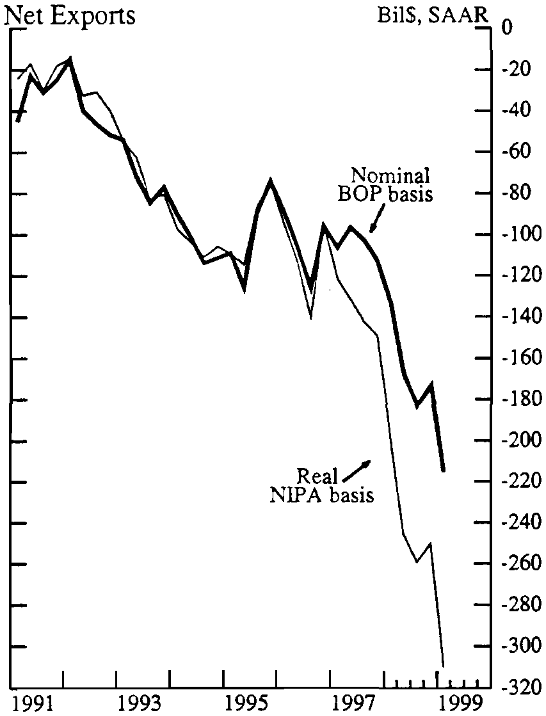
1. Billions of chained (1992) dollars.
Source. U.S. Department of Commerce, Bureaus of Economic Analysis and Census.
n.a. Not available. ... Not applicable.

The value of exports in the first quarter was 2 percent lower than in the fourth quarter. A good part of the decline reflected a reversal of the surge in exports of aircraft and automotive products that occurred at the end of last year. Exports to countries in Asia were generally lower in the first quarter than in the fourth quarter, because the level of exports in the fourth quarter had been boosted by record year-end deliveries of aircraft to that region. Exports in April increased somewhat, following declines in the previous five months. Exports of computers and semiconductors turned up moderately, and there were small increases in most other major trade categories.

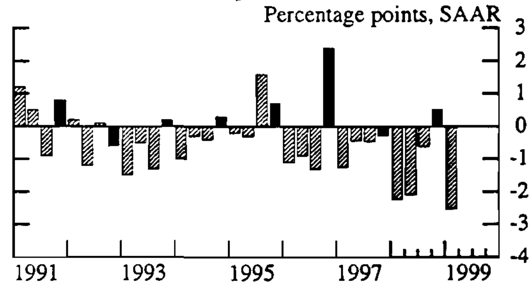
The value of imports in the first quarter was 2 percent higher than in the fourth quarter, with the largest increases in automotive products, consumer goods, and machinery. In contrast, the value of imported oil dropped 8 percent, primarily because of sharp price declines prior to February. Total imports rose moderately in April, but the increase was more than accounted for by a sharp jump in the value of oil imports, mostly as a result of higher oil prices. There were small-to-moderate increases in imports of most other major trade categories. The exception was a large decline in imports of automotive products from Canada and Mexico that partly reversed steady increases recorded in previous months.

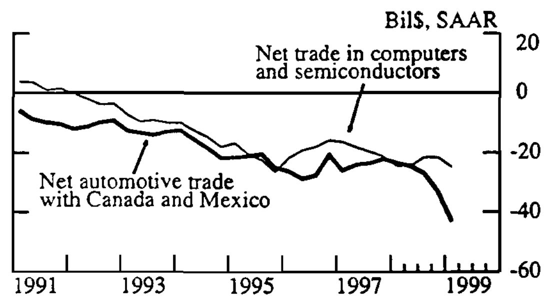
U.S. International Trade in Goods and Services

Net Exports

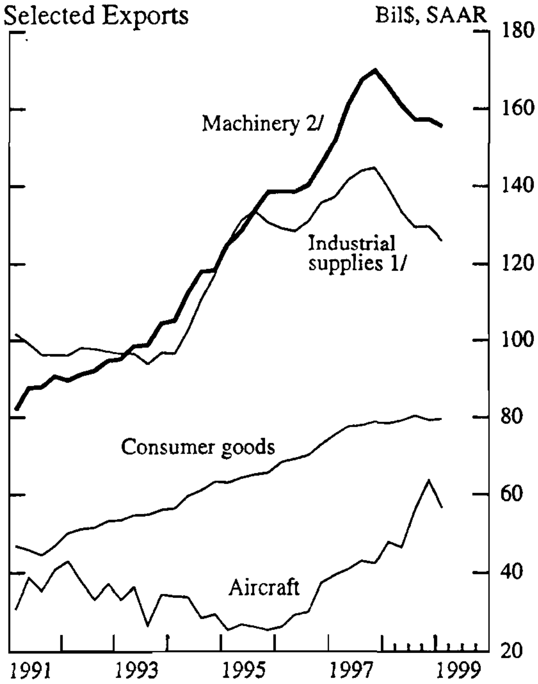


Contribution of Net Exports to Real GDP Growth



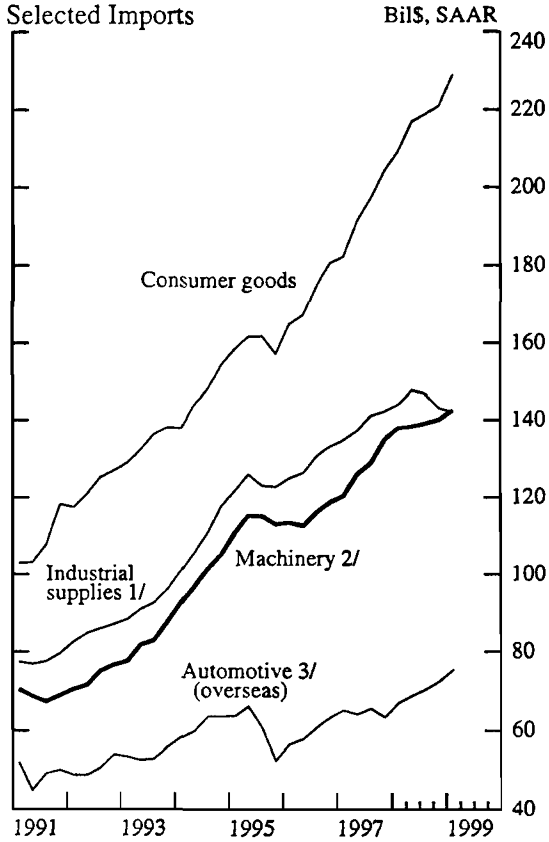


Selected Exports



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

Selected Imports



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

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

	Levels				Amount Change[1]			
	1998	1999	1999		1998	1999	1999	
	Q4	Q1	Mar.	Apr.	Q4	Q1	Mar.	Apr.
Exports of G&S	947.6	928.4	924.6	936.1	30.5	-19.2	-1.0	11.5
Goods exports	680.5	657.2	651.9	661.7	23.5	-23.3	-4.5	9.8
Agricultural	54.3	47.3	46.5	48.1	5.1	-7.0	-1.2	1.6
Gold	7.1	2.9	2.9	3.9	1.8	-4.2	-0.1	1.0
Other goods	619.1	607.0	602.6	609.7	16.5	-12.1	-3.2	7.1
Aircraft & pts	63.6	56.6	51.1	51.5	7.4	-7.0	-4.8	0.4
Computers	45.6	44.1	43.2	45.7	0.7	-1.4	-0.8	2.4
Semiconductors	39.5	42.1	42.9	45.2	2.1	2.5	1.0	2.3
Other cap gds	160.4	158.8	161.7	159.5	-0.1	-1.6	4.7	-2.2
Automotive	74.7	71.4	70.1	74.2	6.5	-3.3	-1.5	4.0
to Canada	43.7	42.7	42.7	42.7	7.0	-1.0	0.2	-0.0
to Mexico	11.9	10.3	10.2	11.3	1.6	-1.7	0.1	1.1
to ROW	19.1	18.4	17.2	20.2	-2.2	-0.7	-1.8	3.0
Ind supplies	129.8	126.1	126.7	128.4	0.4	-3.6	0.2	1.7
Consumer goods	79.2	79.6	78.2	81.0	-1.2	0.4	-3.5	2.8
All other	26.3	28.2	28.8	24.3	0.6	1.9	1.8	-4.4
Services exports	267.1	271.2	272.7	274.5	7.0	4.1	3.5	1.7
Imports of G&S	1120.7	1143.4	1152.0	1163.4	20.6	22.8	3.8	11.4
Goods imports	934.8	954.0	960.1	968.2	17.9	19.1	1.6	8.1
Petroleum	45.8	42.4	44.4	57.1	-4.0	-3.4	3.9	12.7
Gold	6.6	3.2	3.4	3.3	-0.8	-3.3	0.7	-0.1
Other goods	882.5	908.4	912.3	907.8	22.7	25.9	-3.1	-4.4
Aircraft & pts	24.2	22.2	22.2	22.2	1.8	-2.1	0.7	0.0
Computers	74.7	77.6	75.2	79.4	3.1	2.9	-5.4	4.3
Semiconductors	31.9	33.4	33.2	35.6	-0.3	1.5	-0.9	2.4
Other cap gds	143.3	145.9	146.0	142.6	1.5	2.6	-1.7	-3.3
Automotive	161.2	171.6	175.3	164.9	16.9	10.4	3.7	-10.4
from Canada	58.1	65.1	66.1	59.9	10.0	7.0	2.3	-6.2
from Mexico	30.6	30.9	34.3	31.0	4.8	0.3	3.6	-3.3
from ROW	72.5	75.6	75.0	74.0	2.1	3.1	-2.2	-0.9
Ind supplies	143.1	142.2	144.7	144.7	-4.0	-0.9	3.2	0.1
Consumer goods	220.9	229.1	227.1	231.3	2.1	8.2	-6.3	4.2
Foods	41.6	41.7	40.6	42.5	0.3	0.1	-1.6	1.9
All other	41.4	44.6	48.1	44.5	1.4	3.2	5.2	-3.6
Services imports	185.8	189.4	191.9	195.2	2.7	3.6	2.3	3.3
Memo:								
Oil qty (mb/d)	11.00	11.21	10.84	11.57	-0.80	0.20	-0.17	0.73
Oil price ($/bbl)	11.38	10.39	11.20	13.51	-0.19	-0.99	1.14	2.31

1. Change from previous quarter or month.
Source. U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

Quantity and price of imported oil. The quantity of imported oil edged up in the first quarter relative to the fourth quarter, and rose further in April due to strong inventory demand. Preliminary Department of Energy statistics indicate that imports in May increased modestly. The price of imported oil rose 20 percent in April (to around $13.50 per barrel) following an 11 percent increase in March. These price increases were largely driven by a March agreement by OPEC and non-OPEC producers to reduce supply by two million barrels per day.

After trading near $19 per barrel in early May, spot WTI fell about $2.50 per barrel in response to surprisingly high exports from Russia, higher production from Nigeria, and high global product inventories. Spot WTI averaged $17.75 per barrel in May. More recently, oil prices have rebounded somewhat on news that OPEC's compliance with production cuts is near 90 percent. Spot WTI is currently trading around $18 per barrel.

Prices of non-oil imports and exports. For April and May combined, prices of non-oil imports decreased 2 percent at an annual rate, a somewhat larger rate of decline than in the previous two quarters. Prices of "core" imports declined 1-1/2 percent at an annual rate following two quarters of virtually no price change. The decline in core prices reflected a swing from increases to decreases in the prices of machinery and consumer goods combined with smaller (or zero) declines in prices of imported industrial supplies and foods. Prices of automotive products rose slightly.

For April and May combined, prices of exports were about unchanged from the first quarter level compared to 1 to 2 percent declines in the first and fourth quarters. Although prices of agricultural exports recently turned up, the April and May average was still well below that of the first quarter. Prices of "core" exports rose 1-1/2 percent at an annual rate in April and May combined led by increases in chemicals and metals. This increase followed little change in "core" export prices in the first quarter and a decline of 1 percent AR in the fourth quarter of 1998.

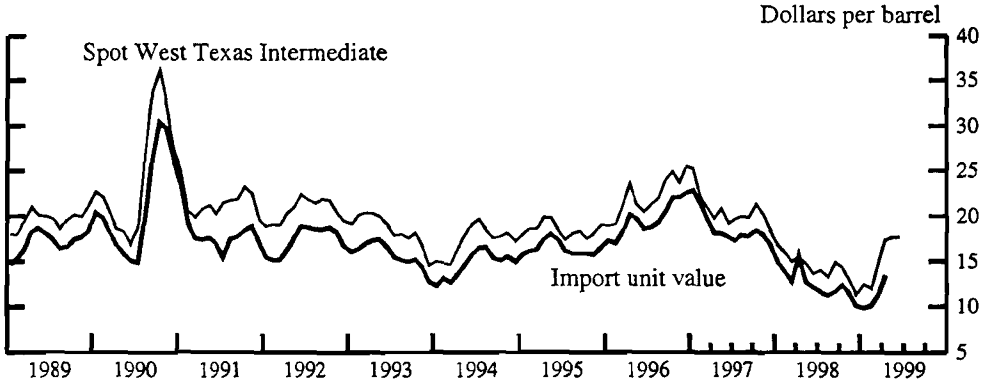
Price data for June will be released on July 13.

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

	Annual rates			Monthly rates		
	1998	1999		1999		
	Q4	Q1	Q2e	Mar.	Apr.	May
	---------------- BLS prices (1995=100)----------------					
Merchandise imports	-1.9	-1.7	5.5	0.1	1.0	0.7
Oil	-17.7	-20.5	216.9	11.8	19.4	8.0
Non-oil	-0.7	-0.7	-2.1	-0.5	-0.2	0.1
Core goods*	0.3	-0.1	-1.4	-0.4	-0.1	0.1
Foods, feeds, beverages.	1.3	-6.0	-0.9	-0.3	0.5	0.7
Industrial supplies ex oil	-4.7	-1.7	0.0	-0.3	-0.2	0.9
Computers	-16.6	-9.0	-17.9	-3.1	-2.2	-0.3
Semiconductors	2.6	2.2	-1.3	0.1	-0.7	0.1
Cap. goods ex comp & semi	2.9	0.7	-2.4	-0.5	-0.3	-0.1
Automotive products	1.5	1.3	0.5	-0.1	0.1	0.1
Consumer goods	0.7	0.3	-1.7	-0.4	-0.2	-0.1
Merchandise exports	-2.1	-1.1	-0.1	-0.4	0.3	0.0
Agricultural	-7.3	-6.0	-8.8	-3.0	0.5	0.1
Nonagricultural	-1.4	-0.6	0.6	-0.2	0.2	0.1
Core goods*	-1.1	0.3	1.4	-0.1	0.2	0.3
Industrial supples ex ag	-5.6	-2.0	2.5	-0.1	0.5	0.5
Computers	-5.0	-6.5	-5.2	-0.4	-0.6	-0.6
Semiconductors	-1.6	-7.6	-3.9	-1.5	0.8	-1.6
Cap. goods ex comp & semi	0.1	1.4	0.4	0.1	0.1	-0.2
Automotive products	1.7	0.6	0.0	-0.1	-0.1	0.2
Consumer goods	0.3	-0.5	-0.1	-0.1	0.1	-0.1
Chain-weight	-----Prices in the NIPA accounts (1992=100)-----					
Imports of goods & services	-0.2	-3.4	n.a.	...	...	...
Non-oil merchandise	-1.1	-1.7	n.a.	...	...	...
Core goods*	0.3	-0.0	n.a.	...	...	...
Exports of goods & services	-0.9	-0.7	n.a.	...	...	...
Nonag merchandise	-1.8	-1.3	n.a.	...	...	...
Core goods*	-1.2	-0.2	n.a.	...	...	...

*/ Excludes computers and semiconductors.
e/ Average of two months.
n.a. Not available. ... Not applicable.

Oil Prices



U.S. Current Account

The U.S. current account deficit increased to $274 billion (SAAR) in the first quarter of 1999. The deficit for goods and services widened, while the deficit for net unilateral transfers narrowed and the deficit on income was little changed. The larger deficit for goods and services reflected a wider trade deficit, as exports fell and imports rose; the surplus on services edged up as receipts rose more than payments increased. The reduction in net unilateral transfers in the first quarter reflected lower U.S. government grant disbursements, which were boosted in the fourth quarter by the annual payment of grants to Israel.

As is customary each June, estimates of U.S. international transactions were revised to incorporate updated source data and improved methodologies. These revisions lowered the deficit $12 to $13 billion in 1997 and 1998 and had varying effects on deficits in other years. Most of this revision reflected higher estimated portfolio investment receipts, owing to new data from the end-1997 outward portfolio survey, which raised considerably the estimates of U.S. holdings of foreign securities. Also this year, changes were made to the presentation of the current account to be more consistent with the presentation of the NIPA accounts. The "net income" category has replaced "net investment income" and includes compensation of employees, previously included in services. In addition, a small part of the previous measure of unilateral transfers was removed and is now included in the new capital account measure.

U.S. International Financial Transactions

Foreign official reserves held in the United States increased marginally in April (line 1 of the Summary of U.S. International Transactions table). Decreases in assets of industrial countries, particularly Western Europe and Canada, were offset by increases in developing countries in Latin America and Asia. Reserves of Argentina, Brazil, and Venezuela registered significant increases, while Mexican reserves increased moderately. Increased reserves were also reported for China, Hong Kong, and Singapore. Overall, reduced foreign official holdings of Treasury securities were more than matched by increases in foreign official claims on U.S. banks, and to a lesser extent, increases in foreign official holdings of U.S. government agency bonds. Partial data through May from the FRBNY indicate a slight reduction last month in total foreign official reserves held in the United States.

In sharp contrast to recent periods, banks reported large net outflows in April of $27 billion (line 3). These outflows were reported almost entirely by U.S. agencies and branches of foreign-based banks and were attributed largely to the unwinding of borrowing from, or increased lending to, related offices in the Caribbean financial centers and Japan. U.S. agencies and branches reduced their assets (especially C&I loans) in April. At the same time, they increased their issuance of large time deposits. (The premium that Japanese banks had been paying to issue large CDs fell from around 20 basis points to zero in mid-March.)

U.S. Current Account
(Billions of dollars, seasonally adjusted annual rate)

Period	Goods and services balance	Net income	Net transfers	Current account balance
Annual				
1997	-104.7	3.2	-42.0	-143.5
1998	-164.3	-12.2	-44.1	-220.6
Quarterly				
1998:Q1	-133.4	1.0	-39.7	-172.1
Q2	-167.8	-2.2	-39.5	-209.6
Q3	-182.9	-27.8	-43.1	-253.9
Q4	-173.0	-19.7	-53.9	-246.7
1999:Q1	-215.0	-18.9	-40.4	-274.3
Change				
Q2-Q1	-34.4	-3.2	0.2	-37.5
Q3-Q2	-15.1	-25.6	-3.6	-44.3
Q4-Q3	9.9	8.1	-10.7	7.2
Q1-Q4	-42.0	0.8	13.5	-27.7

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

Private foreigners bought net $32 billion of U.S. securities in April, up slightly from March (line 4). Although both total U.S. bond issuance and U.S. issues abroad decreased significantly in April, net foreign purchases of U.S. corporate and other bonds were $19 billion, only moderately below the March level. Purchases of corporate bonds were concentrated in the U.K. and Caribbean financial centers. Large net purchases of U.S. federally-sponsored agency bonds were also reported in those same markets and in Japan. Foreigners' appetite for U.S. equities was very robust in April. Net purchases were registered at $18 billion as compared to $11 billion for the first quarter. Activity in U.S. stocks was strongest in Western Europe, the Caribbean financial centers, and Japan. Holdings of Treasury securities declined somewhat, principally by Western European investors.

U.S. residents continued to be net sellers of foreign securities in April (line 5) as net purchases of $3 billion of foreign bonds were more than offset by net sales of

$6 billion of foreign stocks. Large net purchases of foreign bonds were recorded vis-a-vis Argentina, Mexico, and Korea. Significant net purchases of foreign stocks vis-a-vis Japan ($3.4 billion) were overwhelmed by net sales elsewhere, particularly in the United Kingdom.

Recently-released balance of payments data for 1999:Q1 show a sharp reduction in foreign direct investment flows into the United States (line 7). Inflows in 1998:Q4 were swollen by several extraordinarily large takeovers; and the 1999:Q1 figures represent a return to more normal levels. U.S. direct investment abroad accelerated in 1999:Q1 (line 6), bringing it above last year's record-setting pace.

Net U.S. currency shipments decreased to $2.4 billion in1999:Q1 from $6.3 billion in 1998:Q4 (line 8).

The statistical discrepancy, which reflects the errors and omissions in recorded transactions in both the current and capital account, was an outflow of some $16 billion in 1999:Q1, down somewhat from the $38 billion outflow in 1998:Q4. This discrepancy implies either an overstatement of net capital inflows or an understatement of net current account outflows.

Summary of U.S. International Transactions

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

	1997	1998	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Mar	1999 Apr
Official capital								
1. Change in foreign official assets in U.S. (increase, +)	20.0	-18.6	-9.7	-46.3	25.4	8.0	5.9	.5
a. G-10 countries	1.8	6.5	-10.0	*	12.5	13.1	6.1	-7.2
b. OPEC countries	12.9	-9.0	.1	-11.6	2.8	2.6	1.0	.2
c. All other countries	5.2	-16.0	.1	-34.7	10.1	-7.8	-1.2	7.5
2. Change in U.S. official reserve assets (decrease, +)	-1.0	-6.8	-1.9	-2.0	-2.4	3.9	.3	*
Private capital								
Banks								
3. Change in net foreign positions of banking offices in the U.S.[1]	34.0	58.4	1.2	52.1	14.3	21.1	8.0	-27.1
Securities[2]								
4. Foreign net purchases of U.S. securities (+)	346.7	275.8	96.9	22.8	81.2	51.6	30.5	31.7
a. Treasury securities[3]	147.2	49.3	26.0	1.1	24.6	-9.1	7.4	-4.8
b. Corporate and other bonds[4]	128.1	172.3	57.4	27.8	41.0	50.1	20.7	18.9
c. Corporate stocks	71.3	54.2	13.6	-6.1	15.7	10.6	2.4	17.6
5. U.S. net purchases (-) of foreign securities	-89.1	-11.0	-29.7	14.7	16.5	7.4	3.6	3.1
a. Bonds	-48.2	-17.4	-25.8	7.8	10.4	-.8	1.7	-2.6
b. Stocks[6]	-40.9	6.4	-3.8	7.0	6.2	8.2	1.8	5.7
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-110.0	-132.8	-43.2	-21.6	-30.8	-38.3	n.a.	n.a
7. Foreign direct investment in U.S.	109.3	193.4	20.9	24.9	120.6	19.1	n.a.	n.a
8. Foreign holdings of U.S. currency	24.8	16.6	2.3	7.3	6.3	2.4	n.a.	n.a
9. Other (inflow, +)[5,6]	-48.5	-164.5	5.3	-20.3	-131.7	9.1	n.a.	n.a
U.S. current account balance (s.a.)	-143.5	-220.6	-52.4	-63.5	-61.7	-68.6	n.a.	n.a
Statistical discrepancy (s.a.)	-143.2	10.1	10.3	31.9	-37.7	-15.7	n.a.	n.a

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

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

2. Includes commissions on securities transactions and excludes securities acquired through exchange of equities; therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.

3. Includes Treasury bills.

4. Includes U.S. government agency bonds.

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

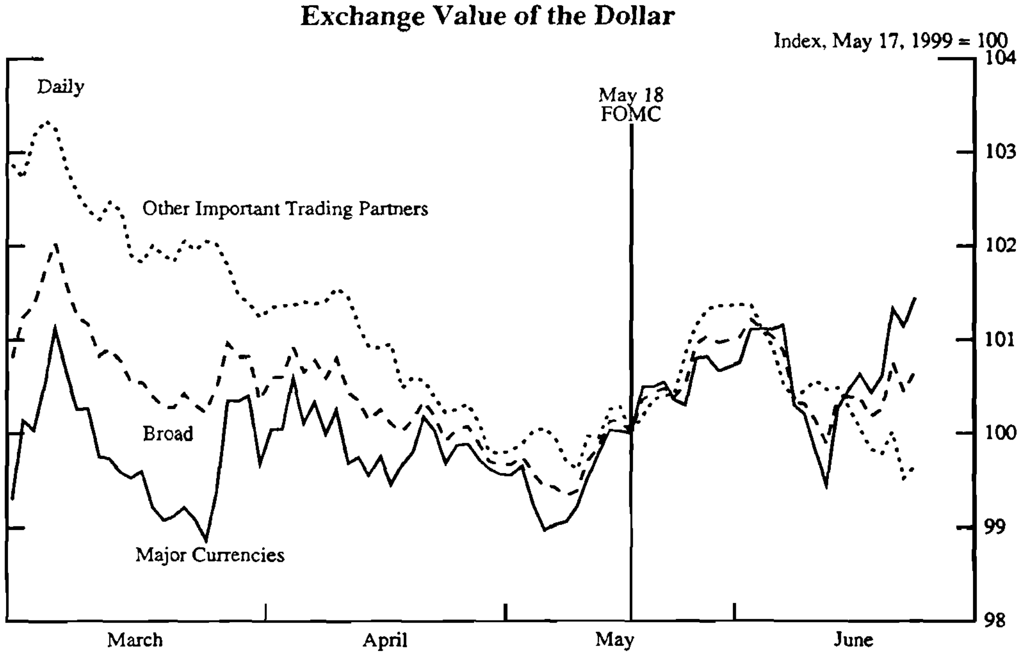
6. Quarterly balance of payments data include large U.S. acquisitions of foreign equities associated with foreign takeovers of U.S. firms. These are not included in line 5.b but are included in line 9.

n.a. Not available. * Less than $50 million.

Foreign Exchange Markets

In the period since the May FOMC meeting, the exchange value of the dollar experienced pronounced upward and downward fluctuations against most currencies, appreciating about 1.4 percent on balance in terms of the major currencies index. The dollar depreciated 1 percent on balance against the yen and appreciated 3.6 percent against the euro.

Exchange Value of the Dollar



The dollar's weakening against the yen over the period was accompanied by a 17 basis point narrowing of the yield spread between U.S. and Japanese 10-year government debt. The leak and ultimate release of Japanese GDP data on June 10, showing that the economy grew at an annualized rate of 7.9 percent in the first quarter, evidently took most market participants by complete surprise and led to an immediate strengthening of the yen. Earlier talk of further fiscal stimulus measures also provided some support for the yen. Japan's monetary authorities intervened on four occasions late in the period, buying exceptionally large amounts of dollars and euros, to stem the currency's appreciation. Share prices in Japan have surged more than 7 percent since the May FOMC meeting. Short-term Japanese interest rates have remained near zero, as the Bank of Japan continues its efforts to support economic activity through ample provision of liquidity.

Financial Indicators in Major Industrial Countries

Country	Three-month rate Jun. 23	Three-month rate Change	Ten-year yield Jun. 23	Ten-year yield Change	Equities Change
Canada	4.86	0.20	5.65	0.18	0.95
Japan	0.03	-0.01	1.75	0.51	7.10
Euro area	2.65	0.07	4.46	0.32	5.67
United Kingdom	4.94	-0.31	5.13	0.33	5.15
Switzerland	1.01	0.07	2.94	0.27	2.82
Australia	4.96	0.08	6.27	0.22	0.08
United States	5.13	0.19	6.00	0.34	-1.16
Memo: Weighted-average foreign	2.78	0.06	4.59	0.35	

NOTE. Change is in percentage points from May 17 to June 23.

The dollar's strengthening against the euro over the intermeeting period continued a trend that began almost immediately after the inception of the new currency in January. As in the preceding intermeeting periods, the dollar's rise vis-à-vis the euro was accompanied by a widening of U.S. dollar and euro-area government bond yield differentials, as signals of ongoing robust growth in the United States contrasted with indications of sub-par economic activity on average in the eurozone countries. The Bank of England lowered its repo rate 25 basis points, noting that price pressures appeared well contained and that U.K. economic growth had slowed considerably in the first quarter. Share prices in eurozone countries and the United Kingdom have risen more than 5 percent since the May FOMC meeting. On balance, the dollar appreciated more than 3 percent against sterling, with most of this change occurring late in the period.

Latin American financial markets experienced several bouts of increased stress, which were caused both by home-grown problems, such as uncertainty over the commitment of Argentine authorities to maintaining the currency board regime and the slowing progress towards fiscal reform in Brazil. Expectations for higher global interest rates following the FOMC's announcement of the adoption of a tightening bias at the May meeting also contributed to the stress in these markets. Brady bond stripped spreads spiked higher in May and early June. On balance, Brazilian and Argentine Brady bond spreads remain 60 to 110 basis points above levels recorded in mid-May, while Mexican and Venezuelan Brady spreads are little changed. The *real* has depreciated about 6 percent against the

Financial Indicators in Latin America, Asia, and Russia

	Currency/ US dollar		Short-term Interest Rates		Dollar-denominated bond spread[1]		Equity prices
Country	Jun. 22	Change	Jun.21/22	Change	Jun.21/22	Change	Change
Mexico	9.39	-0.05	19.75	-0.25	7.09	-0.03	-1.33
Brazil	1.77	5.86	21.05	-2.00	11.19	0.63	-1.45
Argentina	1.00	0.00	7.50	2.45	9.00	1.13	-1.21
Chile	507.50	4.17	n.a.	n.a.	n.a.	n.a.	2.07
China	8.28	-0.00	n.a.	n.a.	1.48	0.26	46.82
Korea	1160.00	-3.89	5.10	0.15	1.90	-0.08	22.03
Taiwan	32.36	-1.31	4.70	0.05	n.a.	n.a.	13.28
Singapore	1.70	-0.81	1.25	-0.25	n.a.	n.a.	12.63
Hong Kong	7.76	0.07	5.67	0.78	n.a.	n.a.	11.25
Malaysia	3.80	0.00	3.00	-0.10	2.61	0.16	4.01
Thailand	36.58	-1.80	4.25	-0.50	1.11	-0.22	16.74
Indonesia	6700.00	-15.46	22.24	-8.76	7.22	-0.26	20.29
Philippines	37.60	-0.79	n.a.	n.a.	3.04	0.19	1.02
Russia	24.43	-1.13	n.a.	n.a.	48.15	-12.82	40.92

NOTE. Change is in percentage points from May 17 to June 21/22.
1. Mexico, Brazil, Argentina, Venezuela, and Russia: Stripped Brady bond yield spread over U.S. Treasuries. China and Korea: Global bond yield spread. Malaysia and Philippines: Eurobond yield spread. Thailand and Indonesia: Yankee bond yield spread.
n.a. Not available.

dollar. Major Latin American stock market indexes declined 1 to 2 percent over the intermeeting period. In contrast to the heightened stress experienced in Latin American markets, financial markets in the Southeast Asian economies generally improved, with share price indexes up substantially in most of these countries.

The price of gold slumped another 15 dollars, to below $260 per troy ounce, as market participants continued to focus on the announcement made by U.K. authorities that they would sell off more than half of the country's monetary gold reserves in coming years.

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

Developments in Foreign Industrial Countries

Recent economic developments in the major foreign industrialized countries suggest that GDP growth may have strengthened somewhat. Signs of improvement were evident in Germany, where final domestic demand was strong in the first quarter and the drag coming from net exports considerably reduced relative to the fourth quarter of 1998. For the euro area overall, the pickup in growth was more modest, as Germany's better performance was partially offset by the slowing growth of domestic demand in France. In the United Kingdom, data for the second quarter suggest that activity has picked up after two quarters of very little growth. In Japan, real GDP rose a surprising 7.9 percent (SAAR) in the first quarter, but the extent to which this strong number represents a shift toward sustained improvement is unclear. The sharp rise in GDP contradicts an unemployment rate that continues to rise and other indications that the economy remains stagnant.

With the exception of an uptick in CPI inflation in Canada, inflationary pressures remain subdued. In Japan, consumer prices remain below year-earlier levels, while twelve-month consumer price inflation in the euro area has edged up but is still near 1 percent. In the United Kingdom, concerns that inflation might be trending below its target prompted the Bank of England to cut interest rates 25 basis points in June.

In **Japan**, the surge in real GDP in the first quarter marked the first quarterly growth in a year and a half and brought GDP back to its 1998Q1 level. All components of domestic demand increased robustly. Private consumption and residential investment each rose about 5 percent (SAAR), business fixed investment was up more than 10 percent, and public investment surged at almost a 50 percent rate for the second consecutive quarter, with public demand contributing more than 4 percentage points to GDP growth. External demand subtracted 1 percentage point from growth, with exports contracting slightly and imports expanding 7.5 percent, after seven consecutive quarterly declines.

Indicators for the second quarter provide little evidence of further expansion. Industrial production during April was down 3.4 percent (not annualized) from March and down 1.3 percent from the first-quarter average. April private "core" machinery orders plunged to a ten-year low, falling 11.1 percent below the first-quarter average. Labor market conditions also remained depressed, with unemployment at an all-time high of 4.8 percent in both March and April and the offers-to-applicants ratio remaining near an all-time low. The real household

Japanese Real GDP

(Percent change from previous period, SAAR)

Component	1997[1]	1998[1]	1998 Q2	1998 Q3	1998 Q4	1999 Q1
GDP	-.8	-3.0	-2.9	-1.2	-3.3	7.9
Total domestic demand	-2.2	-3.2	-4.5	-2.2	-1.9	9.2
Consumption	-1.1	-.1	-.6	-.6	-.6	5.0
Private Investment	-4.9	-15.9	-13.5	-12.7	-21.1	9.5
Public Investment	-4.5	8.6	-11.3	15.6	49.8	47.9
Government consumption	-1.0	1.1	.6	3.1	-2.2	3.2
Inventories (contribution)	.0	-.3	-.3	-.5	-.1	.0
Exports	7.6	-6.0	-7.6	7.4	-12.1	-1.2
Imports	-3.3	-7.7	-21.4	-.5	-3.1	7.5
Net exports (contribution)	1.4	.0	1.6	1.0	-1.4	-1.0

1. Q4/Q4.

Japanese Economic Indicators

(Percent change from previous period except as noted, SA)

Indicator	1998 Q3	1998 Q4	1999 Q1	1999 Feb.	1999 Mar.	1999 Apr.	1999 May
Industrial production	.0	-.7	.6	1.3	2.7	-3.4	n.a.
Housing starts	-6.7	-1.8	7.8	3.2	8.8	-3.5	n.a.
Machinery orders	-4.0	-2.7	1.9	2.8	6.6	-10.9	n.a.
New car registrations	.7	-11.9	3.6	-5.2	1.2	-5.4	6.8
Unemployment rate[1]	4.3	4.4	4.6	4.6	4.8	4.8	n.a.
Job offers ratio[2]	.49	.47	.49	.49	.49	.48	n.a.
Business sentiment[3]	-51	-56	n.a.	...	...	...	...
CPI (Tokyo area)[4]	-.1	.7	-.2	-.2	-.4	-.2	-.6
Wholesale prices[4]	-.7	-3.6	-4.0	-3.8	-3.4	-3.5	-3.4

1. Percent.
2. Level of indicator.
3. Tankan survey, diffusion index.
4. Percent change from year earlier, NSA.

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

expenditure series in April rebounded modestly from a plunge during the first quarter, but new car registrations during the second quarter have slowed from their first-quarter pace. The twelve-month Tokyo CPI inflation rate fell to -0.6 percent in May, suggesting the continued presence of deflationary pressures.

Japan's trade surplus during the first five months of 1999 was $110 billion at an annual rate, essentially unchanged from the $108 billion surplus during all of 1998. Denominated in dollars, merchandise imports and merchandise exports during the first five months of the year were almost identical to their 1998 averages.

In mid-June, the government announced a package of measures intended to address rising unemployment and encourage firm restructuring. The package aims to create 700,000 new jobs, mainly through public subsidies and other government-sponsored job creation measures. The package also includes proposals to strengthen worker retraining programs and increase the duration and generosity of unemployment benefits. To facilitate corporate restructuring, the package calls for debt-for-equity swaps, in which banks would forgive enterprise loans in exchange for shares, and legal reforms to streamline bankruptcy proceedings and facilitate firm restructuring. The measures in this package will be funded by a supplemental budget expected to total about ¥500 billion (0.1 percent of GDP)

The eleven European Union countries in the **euro zone** registered growth of 1.7 percent at an annual rate in the first quarter, according to preliminary estimates from Eurostat. The pace of real economic activity has picked up following the slowdown at the end of last year, mainly due to better German performance. However, France and Italy have slowed, and, as a group, the three countries still appear to be growing below potential and more slowly than many other euro-area countries.

German first-quarter growth owed entirely to broad-based strength in domestic demand. Strong gains in private consumption, government spending, and fixed investment were tempered by a sharp reduction in the pace of inventory accumulation.

In France, domestic demand slowed sharply from its robust pace in the fourth quarter. Although fixed investment spending was unexpectedly strong, consumption and government spending posted only modest gains. Net exports subtracted slightly from first-quarter growth.

Euro-11 Real GDP
(Percent change from previous period, SAAR)

Component	1997[1]	1998[1]	1998 Q2	1998 Q3	1998 Q4	1999 Q1
Euro-11 GDP	3.0	2.0	2.3	1.9	1.2	1.7
Germany:						
GDP	1.8	1.3	0.0	1.8	-0.6	1.8
Domestic demand	1.1	2.6	-1.2	2.8	2.9	1.9
Net exports[2]	0.7	-1.3	1.2	-0.9	-3.4	-0.1
France:						
GDP	3.1	2.7	3.4	1.2	3.0	1.3
Domestic demand	2.3	3.4	4.1	-0.1	4.8	1.5
Net exports[2]	0.8	-0.6	-0.5	1.3	-1.6	-0.2
Italy:						
GDP	2.9	.9	3.3	2.2	-1.1	n.a.

1. Q4/Q4.
2. Contribution to GDP growth.

Little information is available for the second quarter. Unemployment rates in the euro area have fallen in recent months. In Germany, industrial production moved up in April, suggesting that the recovery in the first quarter may be continuing there. In contrast, industrial production in France and Italy declined significantly in April, indicating a continuing slowdown in France and no sign of reversal in the weak pace of economic activity in Italy.

Price pressures continue to be mild. Twelve-month consumer price inflation for the euro area edged up to 1.1 percent in April, reflecting the effects of higher oil prices and the decline in the value of the euro.

Forward-looking indicators for the euro area are suggestive of continued recovery in industry, but are less positive for household spending. Consumer confidence edged down further in May, likely in reaction to the Kosovo conflict. Confidence in the construction sector remains low but has improved steadily since the end of 1998. Higher production expectations have helped boost confidence in the industrial sector in recent months. Still, industrial confidence remains near lows registered in the first quarter.

Euro-11 Current Indicators
(Percent change from previous period except as noted, SA)

Indicator	1998		1999				
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Industrial production							
Euro-11[1]	.2	-.4	.0	-.4	.6	n.a.	n.a.
Germany	1.0	-2.1	-.2	-3.2	.1	0.7	n.a.
France	.1	-.2	-.4	-.5	1.2	-.6	n.a.
Italy	.1	-1.9	1.5	-1.3	1.9	-1.4	n.a.
Unemployment rate							
Euro-11[2]	10.9	10.7	10.5	10.5	10.5	10.4	n.a.
Germany	10.9	10.7	10.6	10.6	10.6	10.6	10.5
France	11.8	11.5	11.5	11.5	11.5	11.4	n.a.
Consumer prices[3]							
Euro-11[4]	1.1	.8	.9	.8	1.0	1.1	n.a.
Germany	.7	.4	.3	.2	.4	.7	.4
France	.6	.3	.3	.2	.4	.4	.4
Italy	2.0	1.7	1.4	1.4	1.3	1.5	1.5

1. Index excludes construction. May figure includes Eurostat estimate for Portugal.
2. Standardized to ILO definition. Includes Eurostat estimates in some cases.
3. Percent change from year earlier.
4. Eurostat harmonized definition.

Euro-11 Forward-looking Indicators
(Percent balance measure, SA)

Indicator	1998		1999				
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Consumer confidence[1]	-4.6	-2.0	-.3	0.0	-1.0	-3.0	-4.0
Construction confidence[2]	-13.3	-15.0	-9.0	-9.0	-9.0	-7.0	-8.0
Industrial confidence[3]	-.7	-7.3	-10.6	-11.0	-12.0	-11.0	-10.0
Of which:							
Production expectations	11.0	3.0	1.0	1.0	0.0	2.0	3.0
Total orders	-4.0	-13.0	-20.0	-20.0	-23.0	-20.0	-20.0
Stocks	8.0	11.0	14.0	15.0	14.0	14.0	14.0

NOTE: Diffusion indexes based on European Commission surveys in individual countries.
1. Averages response to questions on financial situation, general economic situation, and purchasing attitudes.
2. Averages response to questions on output trend and orders.
3. Averages response to questions on production expectations, orders, and stocks.

In late May, the ECOFIN Council, which is composed of finance ministers of the fifteen member states in the European Union, approved a proposal submitted by Italian Finance Minister Amato to change the official fiscal deficit target for 1999 from 2 percent of GDP to a maximum of 2.4 percent of GDP. The revision to Italy's budget deficit was due to a reduction in the official growth projection for 1999 in light of disappointing growth so far this year. This decision weighed on the euro, as it generated concern about prospects for fiscal discipline in Europe.

Economic activity in the **United Kingdom** remained very weak in the first quarter, with real GDP essentially unchanged from its fourth-quarter level. Consumption expenditures grew a robust 4.5 percent (SAAR), the strongest rate in more than a year. Government spending was also up sharply, but investment spending declined after growing at double-digit rates in the previous two quarters and inventories subtracted about 3/4 percentage point from growth. Net exports made a significant negative contribution to growth for the sixth consecutive quarter, as exports fell and imports rose moderately.

U.K. Real GDP
(Percent change from previous period, SAAR)

Component	1997[1]	1998[1]	1998			1999
			Q2	Q3	Q4	Q1
GDP	3.9	1.1	1.2	1.1	.3	-.1
Total domestic demand	5.2	2.6	2.1	1.7	3.9	1.9
Consumption	4.3	1.7	1.9	.3	2.2	4.5
Investment	10.6	7.2	-2.8	11.0	12.2	-6.7
Government consumption	0.2	1.7	1.7	2.2	1.1	5.8
Inventories (contribution)	.7	-.0	1.1	-.7	.2	-.7
Exports	7.5	.1	7.0	2.1	-6.1	-5.3
Imports	11.3	6.2	10.4	5.8	5.2	1.2
Net exports (contribution)	-1.2	-2.0	-1.2	-1.3	-3.7	-2.1

1. Q4/Q4.

Preliminary indicators suggest that the pace of activity picked up in the second quarter. Industrial production edged up further in April to a level 0.4 percent above the first-quarter average. Business surveys through May point to renewed expansion of activity, and business confidence through May has risen sharply from very low levels late last year. For April and May on average, the volume of retail sales was up 0.6 percent from the first-quarter average.

Conditions in the labor market remain healthy. The official unemployment rate was unchanged at 4.5 percent in May, and the Labor Force Survey unemployment rate edged down to 6.2 percent for the February-April period as employment expanded modestly.

U.K. Economic Indicators
(Percent change from previous period except as noted, SA)

Indicator	1998		1999				
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Industrial production	.0	-.8	-.9	.0	.4	.1	n.a.
Retail sales	.4	-.1	1.0	-.3	.6	-.3	1.0
Unemployment rate[1]	4.6	4.6	4.5	4.6	4.5	4.5	4.5
Business confidence[2]	-11.7	-23.0	-10.3	-10.0	-8.0	-1.0	15.0
Retail prices[3]	2.6	2.6	2.6	2.4	2.7	2.4	2.1
Producer input prices[4]	-9.1	-9.2	-5.8	-6.5	-3.8	-1.3	-2.6
Average earnings[4]	5.1	4.6	4.6	4.6	4.8	4.6	n.a.

1. Percent.
2. Percentage of firms expecting output to increase in the next four months less percentage expecting output to decrease.
3. Excluding mortgage interest payments. Percent change from year earlier.
4. Percent change from year earlier.
n.a. Not available. ... Not applicable.

The twelve-month rate of retail price inflation (excluding mortgage interest rates) fell to 2.1 percent in May, the lowest inflation rate in over four years. Producer input prices for materials and fuel edged up in April, but were little changed in May. On a twelve-month basis, input prices were down 2.6 percent in May.

With sterling stronger than expected, the Monetary Policy Committee of the Bank of England voted to reduce the repo rate 25 basis points to 5 percent at its June meeting. The MPC had noted in May that if sterling did not depreciate as expected, "further easing of monetary policy might be needed to prevent undershooting of the inflation target."

Canadian GDP rose 4.2 percent (SAAR) in the first quarter, maintaining the vigorous pace of the previous quarter. Robust U.S. demand for Canadian products continued to fuel activity, as export growth remained strong and net exports contributed 1.8 percent towards growth in the first quarter. Domestic demand rose 3.3 percent, as firms expanded their workforce and augmented their capital stock sharply to keep pace with the strong external demand. These sizable employment gains helped boost consumer spending by over 5 percent in the quarter. Partially offsetting this pickup in fixed investment and consumption, inventory investment slowed to a more sustainable pace following the rebuilding of strike-depleted inventories in the fourth quarter of 1998.

Canadian Real GDP
(Percent change from previous period, SAAR)

Component	1997[1]	1998[1]	1998			1999
			Q2	Q3	Q4	Q1
GDP	4.4	2.8	1.1	2.6	4.8	4.2
Total domestic demand	4.9	1.1	2.2	-4.0	4.9	3.3
Consumption	4.1	2.0	5.8	.9	.0	5.1
Investment	10.6	2.0	6.5	.1	4.5	7.6
Government consumption	.3	2.1	1.5	-.1	2.4	-.6
Inventories (contribution)	.4	-.8	-2.7	-4.6	3.4	-1.1
Exports	11.9	9.0	5.6	11.2	14.2	8.5
Imports	14.6	4.2	7.6	-6.2	15.9	4.2
Net exports (contribution)	-.8	1.9	-.6	6.5	-.2	1.8

1. Q4/Q4.

Recent indicators suggest that growth has slowed from the 4.2 percent pace of the first quarter. Employment in April and May on average was down from its level in the first quarter. Gains in consumer spending also appear to have moderated, as retail sales fell 0.4 percent in April. New orders of manufactured goods fell sharply in both March and April, albeit from a high level. However, substantial improvements in consumer and business confidence imply that any abatement in the pace of activity may be modest.

Twelve-month CPI inflation has risen sharply in recent months mainly as a result of higher energy prices. At the same time, the twelve-month change in core prices (which exclude energy and food prices) also rose from slightly below 1 percent in February to 1.4 percent in May. This increase in core inflation along with the announcement of a tightening bias by the Federal Reserve has led to a sharp turnaround in market expectations regarding future policy actions by the Bank of Canada. Following these events, futures contracts on Bankers' Acceptances priced in over 50 basis points of tightening by the Bank of Canada by September of this year.

Canadian Economic Indicators
(Percent change from previous period except as noted, SA)

Indicator	1998		1999				
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May.
GDP at factor cost	.3	1.1	.8	.1	.3	n.a.	n.a.
Industrial production	-.4	1.2	1.0	-.3	.3	n.a.	n.a.
New manufacturing orders	1.9	4.5	.6	5.2	-2.8	-1.5	n.a.
Retail sales	.6	-.1	2.5	-.2	1.1	-.4	n.a.
Employment	.5	1.3	.9	.1	-.2	.1	-.1
Unemployment rate[1]	8.3	8.0	7.8	7.8	7.8	8.3	8.1
Consumer prices[2]	.9	1.1	.8	.7	1.0	1.7	1.6
Consumer attitudes[3]	103.2	109.8	116.9	...	...	...	...
Business confidence[4]	128.6	132.3	150.1	...	...	...	...

1. Percent.
2. Percent change from year earlier.
n.a. Not available. ... Not applicable.
3. Level of index, 1991 = 100.
4. Level of index, 1977 = 100.

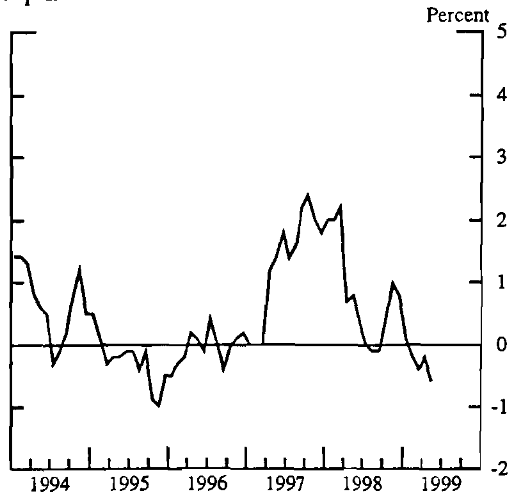
External Balances
(Billions of U.S. dollars, SAAR)

Country and balance	1998			1999		
	Q2	Q3	Q4	Q1	Apr.	May
Japan						
Trade	114.0	107.3	113.0	113.1	105.4	104.4
Current account	113.3	118.5	133.0	118.0	83.0	n.a.
EU-11						
Trade[1]	109.6	105.8	97.5	47.4	n.a.	n.a.
Current account[1]	97.7	86.3	84.3	41.3	...	...
Germany						
Trade	75.7	73.9	71.9	79.3	n.a.	n.a.
Current account	3.6	7.3	-18.3	-4.1	...	...
France						
Trade	22.3	29.4	26.2	18.5	16.8	n.a.
Current account	37.0	42.7	48.3	34.5	n.a.	n.a.
Italy						
Trade	30.7	27.9	25.4	18.8	n.a.	n.a.
Current account[1]	30.8	42.6	20.5	16.8	n.a.	n.a.
United Kingdom						
Trade	-31.0	-34.7	-41.4	-45.4	-42.1	n.a.
Current account	-8.0	15.8	6.4	-11.9	...	...
Canada						
Trade	10.7	15.0	12.9	20.4	19.7	n.a.
Current account	-12.3	-10.1	-10.7	-3.6	...	...

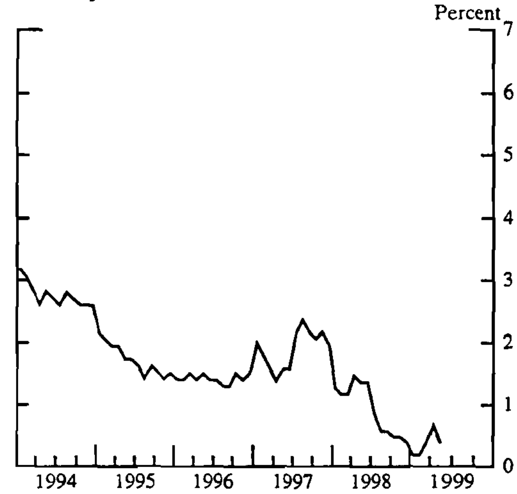
1. Not seasonally adjusted.
n.a. Not available. ... Not applicable.

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

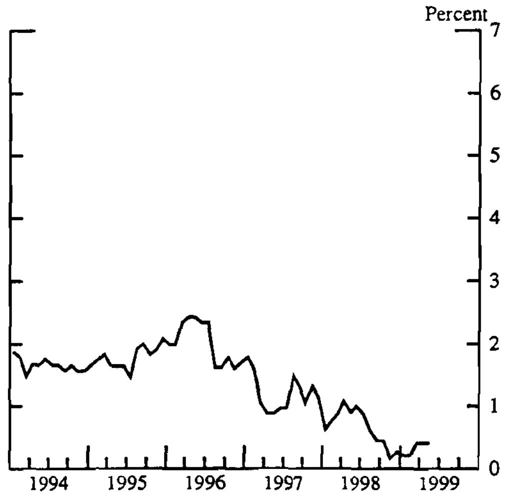
Japan



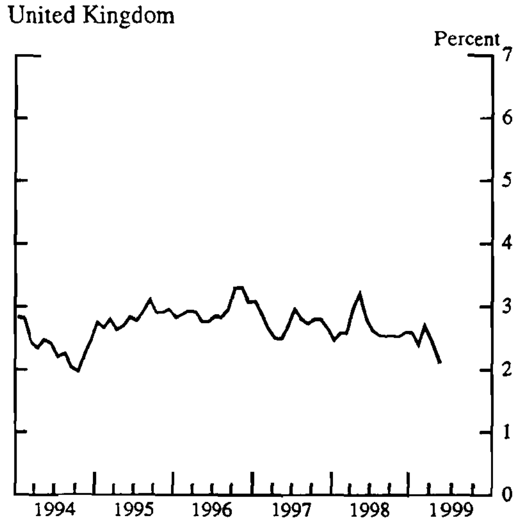
Germany



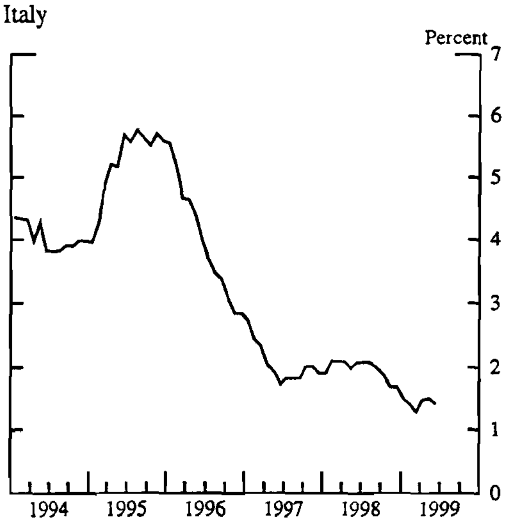
France



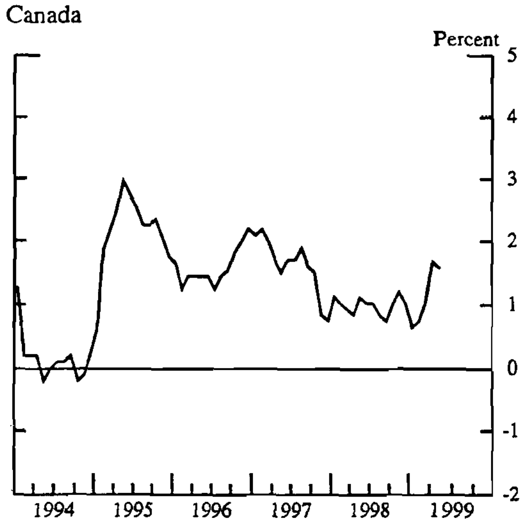
United Kingdom



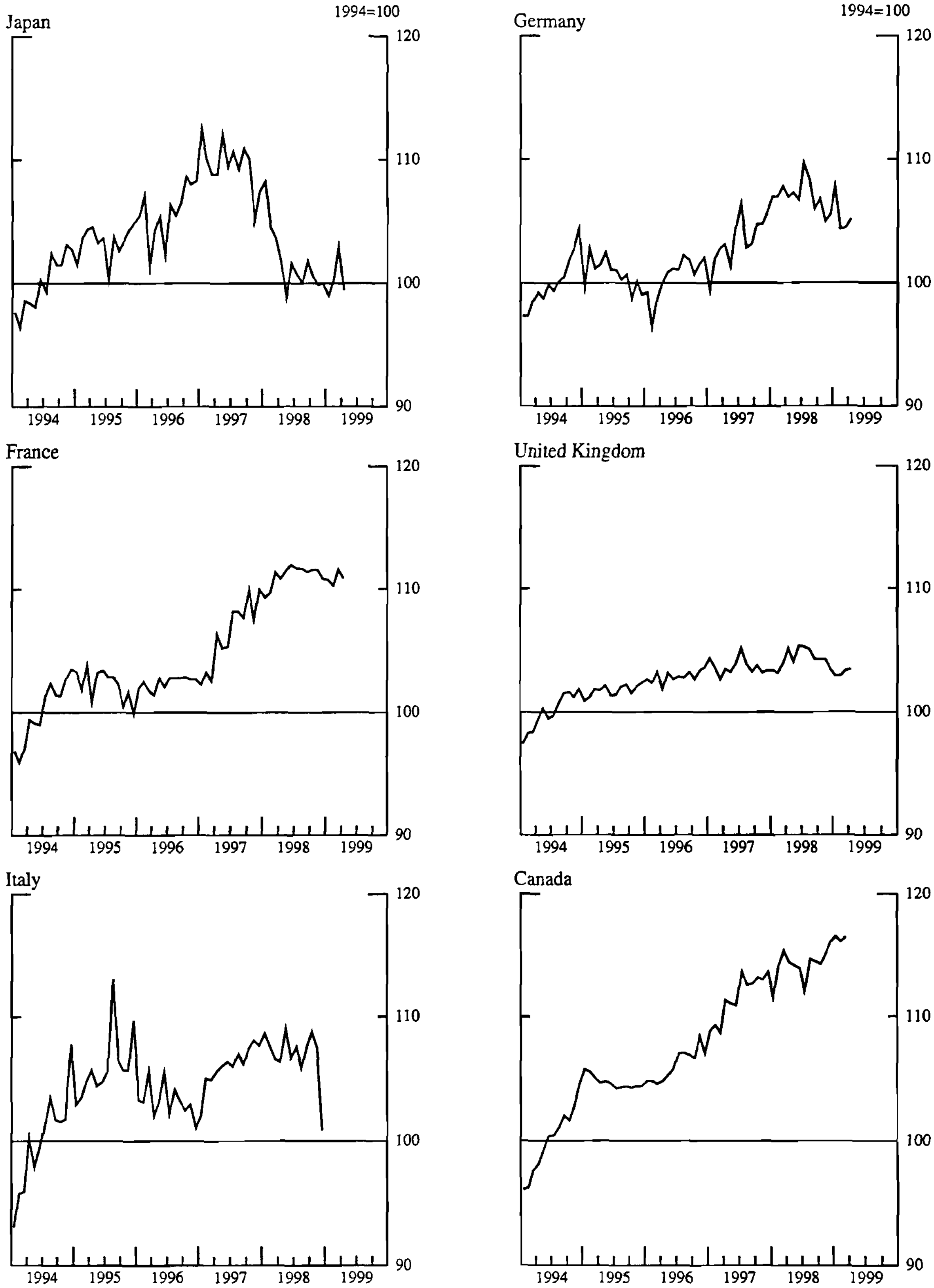
Italy



Canada



Industrial Production in Selected Industrial Countries



Economic Situation in Other Countries

There is increasing evidence that the international financial crisis may be abating, although its effects on economic activity in Latin America are far from over. In Brazil and Mexico, output growth appears to have recovered somewhat, inflation has remained subdued, and the trade surplus has improved. Venezuela's economy may be bottoming out, although prospects remain precarious. In Argentina, pressures in financial markets have recently resurfaced; GDP contracted sharply in the first quarter, deflation has intensified, and imports have fallen sharply.

In developing Asia, Korea and the ASEAN economies appear to be recovering particularly strongly from last year's deep recession. Growth remained strong in Taiwan, and in China, industrial production remains firm. In Hong Kong, GDP fell further in the first quarter, but financial market pressures have lessened markedly in recent months, suggesting improved prospects. Trade surpluses in Korea, the ASEAN countries, and China are falling as imports have begun to rebound. Inflation throughout developing Asia has remained moderate or declined, with more rapid deflation in Hong Kong.

In Russia, GDP rose in the first quarter, inflation has remained steady, and the trade surplus remains strong. The political landscape remains a concern.

In **Brazil**, recent data suggest that economic activity may have bottomed out. Real GDP posted surprisingly strong growth in the first quarter (SAAR), boosted by special factors such as phenomenally high growth in agriculture (reflecting in part an early harvest). However, industrial production fell slightly in April, after rising in March, and unemployment has remained high by historical standards. The weak economy has helped keep inflationary pressures at bay; the CPI has risen by less than 4 percent since the end of January, after the *real*'s peg to the dollar was abandoned.

The trade balance has improved less than expected following the large depreciation of the real; the trade balance shifted from a deficit of $6-1/2 billion in 1998 to a small surplus over the February-May period (SAAR). Although imports fell 18 percent, exports also fell by 7 percent. The decline in exports reflects weak demand from Argentina and other Latin trading partners and a fall in world prices of many primary commodity exports.

Developments since mid-May have fueled concerns that the fiscal reforms may be stalling. Various court challenges to reforms passed by Congress earlier this year have called into question about 1 percentage point of the fiscal adjustment that had been expected for 1999. The privatizations of several state government electricity firms have been postponed under pressures from workers and other privatization opponents. Finally, President Cardoso's approval rating has fallen to its lowest level ever amid increasing infighting among members of his fragile political coalition. These developments contributed heavily to a rise in market interest rates over late May and early June, despite surprisingly low inflation and the continued gradual reduction in the central bank's overnight lending rate, the Selic rate. The Selic rate has fallen from 45 percent in early March to 22 percent recently. All indications are that Brazil has so far satisfied all of the performance criteria under its IMF program, including fiscal targets. The IMF is in the process of reviewing recent performance and setting performance criteria for the rest of the year.

Brazilian Economic Indicators

(Percent change from previous period, SA, except as noted)

Indicator	1997	1998	1998	1999			
			Q4	Q1	Mar.	Apr.	May
Real GDP[1]	2.0	-1.9	-6.6	4.1	...	...	...
Industrial production	3.9	-2.1	-3.7	.4	1.9	-.3	n.a.
Unemployment rate[2]	5.7	7.6	7.6	7.4	7.4	7.5	n.a.
Consumer prices[3]	5.2	1.7	1.8	2.3	3.0	3.4	3.1
Trade balance[4]	-8.4	-6.4	-5.3	-1.5	1.6	-2.5	-.6
Current account[5]	-33.8	-34.9	-46.8	-20.7	-18.2	-30.4	-19.7

1. Annual rate. Annual figures are Q4/Q4.
2. Percent. "Open" unemployment rate.
3. Annual figures are December-over-December. Quarterly figures are the quarterly average relative to the same quarter a year earlier. Monthly figures are the level in the month relative to a year earlier. Price index is IPC-A.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, NSA, annual rate.
n.a. Not available. ... Not applicable.

Recent **Mexican** data suggest that the economy continues to recover from its slowdown in the fourth quarter of 1998. Although industrial production fell slightly in April on a seasonally adjusted basis, it has risen since the beginning of the year. The trade deficit has narrowed since the beginning of the year, as maquiladora exports to the United States were strong, and petroleum prices surged from their depressed levels at the beginning of the year. Consumer prices in May rose at their slowest pace since 1994 as spending remained sluggish while the peso's strength kept import prices down. Since December, inflation has been 15.6 percent (SAAR), about a percentage point lower than the rate over the same period in 1998.

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

Indicator	1997	1998	1998	1999			
			Q4	Q1	Mar.	Apr.	May
Real GDP[1]	7.2	2.9	.1	1.3	...	...	...
Industrial production	9.3	6.6	-.4	1.2	1.5	-1.3	n.a.
Unemployment rate[2]	3.7	3.2	3.0	2.7	2.7	2.7	n.a.
Consumer prices[3]	15.7	18.6	17.6	18.6	18.3	18.2	18.0
Trade balance[4]	.6	-7.7	-7.3	-6.3	-7.4	-4.8	-6.0
Imports[4]	109.8	125.2	128.0	129.3	133.3	132.0	141.6
Exports[4]	110.4	117.5	120.7	123.0	125.9	127.2	135.6
Current account[5]	-7.4	-15.8	-18.6	-11.7	...	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, NSA, annual rate.
n.a. Not available. ... Not applicable.

The new Bank Deposit Insurance Institute (IPAB), which was created to rescue the bank bailout fund, announced on June 1 the transition timetable for limiting deposit insurance to about $100,000 per account by the year 2005. The IPAB also established rules for bank contributions to the insurance fund and is determining the process for selling bank assets acquired during the 1995 peso crisis. In what may be the first test of its ability to resolve lingering banking sector problems, the IPAB announced on June 18 that Grupo Financiero Serfin SA, Mexico's third largest banking group, will be taken over by the government and auctioned off if current shareholders are unwilling to recapitalize the bank themselves.

On June 15, Mexico announced that it is requesting a $4.1 billion 17-month standby agreement from the International Monetary Fund. The new loan, which is likely to be approved by the IMF Executive Board in early July, is part of a larger effort by Mexico to cover the major portion of its outstanding external debt payments through the next presidential election in the fall of 2000. Over the next year, Mexico will receive additional credit of $5.2 billion from the World Bank, $3.5 billion from the Inter-American Development Bank, and $4.0 billion from the U.S. Eximbank. Moreover, the $6.8 billion swap facility with Canada ($800 million), the U.S. Treasury ($3 billion), and the Federal Reserve ($3 billion) has been renewed through December 2000 under the North American Framework Agreement.

In recent weeks, financial markets in Mexico have seesawed as investors first grew nervous over the Fed's announcement of a bias toward tightening and then were calmed by the news of Mexico's likely agreement with the IMF. On May 25, the peso depreciated 2.2 percent to 9.6 pesos per dollar, and the Bank of Mexico responded by selling $65 million to stabilize the currency. Since June 15, however, markets have rallied on the news of Mexico's extended credit lines and expectations of only a mild hike in U.S. interest rates. Interest rates on the benchmark 28-day Mexican treasury bills (cetes) fell 124 basis points to yield 20.48 percent at the June 22 auction, while the peso appreciated nearly 2 percent to 9.3 pesos per dollar.

In **Argentina**, pressures in financial markets have recently resurfaced and data on economic activity confirm that the recession continues. In the first quarter, seasonally adjusted GDP fell for the third straight quarter. Industrial production grew in April from the previous month (SA) but was nevertheless about 12 percent lower than a year earlier; in the first quarter, industrial production was down sharply from the fourth quarter last year. Exports continued to decline, but the sharp slowdown in economic activity caused imports to decline by more, thus narrowing external imbalances. March's trade surplus was the first surplus since early 1997. With weak aggregate demand, consumer prices fell in May for the fourth consecutive month.

Campaigning for the October presidential elections is underway. Uncertainty about politics and about the future of Argentina's currency peg (including the dollarization proposal) has led to a modest increase in interest rates since mid-May. President Menem has expressed interest in moving quickly on official dollarization and having the process underway before he leaves office in December. However, political support for immediate dollarization appears weak--the likely presidential candidate from Menem's own Peronist party (rival Eduardo Duhalde, the governor of the Buenos Aires province) and the presidential candidate of the opposition Alliance party have both recently spoken out in favor of maintaining the convertibility of the Argentine peso to the U.S. dollar, but against the idea of dollarization.

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

Indicator	1997	1998	1998	1999			
			Q4	Q1	Mar.	Apr.	May
Real GDP[1]	8.5	-.5	-5.7	-6.1	...	...	...
Industrial production	8.6	.4	-7.4	-4.3	-4.0	3.8	n.a.
Unemployment rate[2]	14.9	12.9	12.4	n.a.	...	...	...
Consumer prices[3]	.3	.7	.8	-.1	-.6	-.7	-1.2
Trade balance[4]	-2.2	-3.6	-2.1	-2.1	.0	2.9	n.a.
Current account[5]	-9.4	-12.4	-14.8	n.a.	...	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent, NSA. Q4 figures are from a survey conducted in October.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, NSA, annual rate.
n.a. Not available. ... Not applicable.

With the recent rise in oil prices, the **Venezuelan** economy is improving slowly, but still remains precarious. Car sales in May rose nearly 20 percent from April, but nevertheless were down 50 percent from their year earlier. The 12-month inflation rate continued to decline slowly in May but, with the bolivar not allowed by the government to depreciate as rapidly, the real exchange rate continues to appreciate and become further overvalued. While the overall trade balance remains in surplus, the non-oil trade deficit fell to -$8.4 billion in February (SAAR).

Venezuela has decided not to try to sign the monitoring agreement with the IMF that, until recently, it was actively seeking. It appears the government feels that the stringent conditions for such an agreement--including a rise in gasoline prices, extensive government spending cuts, and steps toward a more competitive exchange rate--are too costly politically, as President Chavez prepares for the July 25 election of a new constituent assembly that would have the power to change the constitution. It is generally believed that the lack of an IMF agreement will make it very difficult for the government to raise a proposed $2 billion on international capital markets later this year designed to help cover the budget deficit.

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

Indicator	1997	1998	1998	1999			
			Q4	Q1	Mar.	Apr.	May
Real GDP[1]	5.5	-8.2	-19.8	n.a.	...	...	...
Unemployment rate[2]	11.7	11.2	11.0	n.a.	...	...	...
Consumer prices[3]	37.6	29.9	31.2	29.1	27.6	25.0	23.5
Non-oil trade balance[4]	-7.5	-8.6	-8.1	n.a.	n.a.	n.a.	n.a.
Trade balance[4]	10.6	3.4	2.9	n.a.	n.a.	n.a.	n.a.
Current account[5]	4.7	-1.7	-.9	n.a.	...	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent. NSA.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, NSA, annual rate.
n.a. Not available. ... Not applicable.

In **Korea**, the pace of the recovery appears to have accelerated further. Real GDP increased at nearly a 15 percent seasonally adjusted annual rate in the first quarter. Domestic demand rose, as a strong increase in consumption more than offset a further decline in fixed investment. Industrial production declined in April, but reversed only one-third of the very strong rise of the previous month. The unemployment rate declined to 6.4 percent in May, well below its peak late last year of over 8 percent. Despite the recent increase in the pace of activity, inflation has remained subdued, with consumer prices less than 1 percent above their year-earlier level.

The trade and current account surpluses have continued to shrink as imports have risen with the revival of activity. The current account surplus in the first four months of this year was nearly 40 percent below the surplus in the corresponding period last year.

Despite progress, government efforts to restructure the financial system remain far from complete. The Financial Supervisory Commission announced that non-performing loans of financial institutions were 11 percent of total loans at the end of the first quarter, up slightly from end-1998. With a stricter definition of non-performing loans going into effect at the end of the year, this figure is expected to rise significantly further. The previously announced sale of government-owned Seoul Bank to Hong Kong and Shanghai Bank has been delayed due to disputes over the terms of the sale. The other planned sale of a Korean bank to foreign interests--the acquisition of Korea First Bank by Newbridge Capital--collapsed last month due to similar disagreements.

Korean Economic Indicators
(Percent change from previous period, SA, except as noted)

Indicator	1997	1998	1998	1999			
			Q4	Q1	Mar.	Apr.	May
Real GDP[1]	3.7	-5.3	6.0	14.7	...	...	...
Industrial production	5.3	-7.3	10.0	1.9	4.7	-1.9	n.a.
Consumer prices[2]	6.6	4.0	6.0	.7	.5	.4	.8
Trade balance[3]	-3.2	41.2	35.8	33.3	30.6	31.2	n.a.
Current account[4]	-8.2	40.0	34.7	27.2	31.4	24.2	n.a.

1. Annual rate. Annual figures are Q4/Q4.
2. Percent change from year earlier.
3. Billions of U.S. dollars, annual rate.
4. Billions of U.S. dollars, NSA, annual rate.
n.a. Not available. ... Not applicable.

Recent indicators for the **ASEAN** countries provide further evidence that economic activity in the region has bottomed out and a recovery has begun. First quarter GDP growth was stronger than expected in Indonesia, the Phillippines and Singapore. Industrial production in Malaysia and Singapore rose significantly, reflecting renewed vigor in the electronics sector, while industrial production in Thailand and the Philippines began to accelerate.

Notwithstanding increasing export values across the region, trade surpluses have begun to narrow since late last year as import growth has resumed, with the Philippines even recording a trade deficit in April.

ASEAN financial markets have surged recently as signals of an economic recovery have begun to emerge. The region's currencies have remained firm, while the Indonesian rupiah has strengthened on optimism about prospects for political and economic reforms following national elections in June. Inflation continues to decline across the region, mainly reflecting weak domestic demand.

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

Indicator and country	1997	1998	1998 Q4	1999 Q1	1999 Feb.	1999 Mar.	1999 Apr.
Real GDP[1]							
Indonesia	2.3	-19.6	-.0	20.6	...	...	...
Malaysia	6.0	-10.3	7.4	8.5	...	...	...
Philippines	5.0	-1.8	-1.6	3.9	...	...	...
Singapore	8.0	-.9	.9	6.4	...	...	...
Thailand	-4.8	n.a.	n.a.	n.a.	...	...	...
Industrial production							
Indonesia	13.2	-13.7	5.6	5.9	...	...	...
Malaysia	10.7	-7.2	2.5	1.6	10.0	5.8	-3.6
Philippines	5.2	-11.4	-3.7	5.4	2.5	-.3	-2.7
Singapore	4.7	-.4	2.5	6.0	5.6	.1	-2.2
Thailand	-.5	-10.0	2.6	1.6	1.6	-.7	3.1

1. Annual rate. Annual figures are Q4/Q4.
n.a. Not available. ... Not applicable.

ASEAN Economic Indicators: Trade Balance
(Billions of U.S. dollars, SAAR)

Country	1997	1998	1998 Q4	1999 Q1	1999 Mar.	1999 Apr.	1999 May
Indonesia	11.9	21.5	15.5	19.6	26.5	24.9	n.a.
Malaysia	-.1	14.9	19.3	19.4	21.5	20.2	n.a.
Philippines	-10.5	-.2	2.7	2.6	.1	-1.5	n.a.
Singapore	-7.4	8.3	9.5	6.7	6.1	2.5	1.9
Thailand	-4.6	12.2	11.3	11.1	10.7	11.8	n.a.

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

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

Country	1997[1]	1998[1]	1998	1999				
			Q4	Q1	Feb.	Mar.	Apr.	May
Indonesia	10.3	77.6	78.4	56.0	53.7	45.4	38.2	30.7
Malaysia	2.9	5.3	5.4	4.0	3.9	3.0	2.9	2.9
Philippines	6.6	10.4	10.6	10.1	9.9	8.7	7.9	6.7
Singapore	2.0	-1.5	-1.6	-.6	-.6	-.6	-.3	.1
Thailand	7.6	4.3	5.0	2.7	2.9	1.6	.4	-.5

1. December/December.
n.a. Not available. ... Not applicable.

The Finance Ministry of Thailand stated that Thai banks will now be allowed to retroactively use the equity portion of hybrid security issuances to meet previous entry requirements for the government's tier-one recapitalization program. The government of Singapore announced that it will open its retail banking sector to foreign investors by issuing full banking licences to a limited number of foreign banks and by raising the limit on foreign ownership of domestic banks.

In **Hong Kong**, real GDP continued its steady decline in the first quarter. The unemployment rate rose to 6.3 percent in the March-May period, up from 6.0 percent in the December-February period. Consumer prices continue to fall sharply. The merchandise trade deficit narrowed slightly in April from March. Foreign exchange reserves were $89 billion at the end of May, down slightly from April but nevertheless about $2 billion higher than their September low. Spreads between one-year Hong Kong government debt and U.S. Treasuries were around 80 basis points on June 22, roughly unchanged since mid-May, but nevertheless down sharply from their levels of nearly 280 basis points in January.

Hong Kong Economic Indicators
(Percent change from previous period, SA, except as noted)

Indicator	1997	1998	1998	1999			
			Q4	Q1	Mar.	Apr.	May
Real GDP[1]	2.8	-5.7	-1.4	-2.8	...	...	...
Consumer prices[2]	5.2	-1.6	-0.8	-1.8	-2.6	-3.8	-4.0
Trade balance[3]	-20.6	-10.6	-4.5	-2.5	-6.0	-3.5	n.a.

1. Annual rate. Annual figures are Q4/Q4.
2. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
3. Billions of U.S. dollars, annual rate. Imports are c.i.f.
n.a. Not available. ... Not applicable.

In **China**, industrial production growth remained relatively steady through April. Moderate deflation continues, reflecting weak private demand as well as falling import prices. The trade surplus has narrowed since the fourth quarter of 1998, although it began widening again in May. The seasonally adjusted level of exports, which fell sharply during 1998, have grown rapidly since the fourth quarter. Exports in the March-May period (SA) were 5 percent higher than in the December-February period. Over the same period, however, imports surged--the seasonally adjusted level of imports rose 22 percent, after being roughly flat since 1995. The strength in imports appears to reflect an anti-smuggling campaign begun in the second half of last year. As a result of this campaign, some smuggled imports that were previously unrecorded in the customs statistics (and thus increased China's sizeable errors and omissions in the balance of payments) are now passing through official import channels.

China cut interest rates in mid-June, hoping to encourage domestic spending. Deposit rates were cut about 1-1/2 percentage points (to 2-1/4 percent for one-year deposits), while lending rates were cut about ½ percentage point. The rate cut, along with a reduction in taxes on stock transactions and an announcement that more private companies would be allowed to list on the stock market, contributed to surging Chinese share prices.

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

Indicator	1997	1998	1998	1999			
			Q4	Q1	Mar.	Apr.	May
Real GDP[1]	8.2	9.5	13.8	2.2	...	...	...
Industrial production[2]	11.7	7.8	9.6	12.5	11.5	8.9	n.a.
Consumer prices[2]	.4	-1.0	-1.1	-1.4	-1.8	-2.2	n.a.
Trade balance[3]	40.4	43.6	35.1	19.4	6.3	11.1	22.7

1. Annual rate. Quarterly data estimated by staff from reported four-quarter growth rates. Annual figures are Q4/Q4.
2. Percent change from year earlier.
2. Billions of U.S. dollars, annual rate. Imports are c.i.f.
n.a. Not available. ... Not applicable.

In **Taiwan**, real GDP rose strongly in the first quarter. The unemployment rate was 2.8 percent in May, roughly unchanged from the beginning of the year. Prices in May were slightly above their year-earlier level, ending several months of deflation. Taiwan's trade surplus rose sharply in the first five months of 1999, with the value of exports rising 5 percent from a year earlier and the value of imports falling 6 percent. Taiwan's foreign exchange reserves rose to US$96 billion at the end of May, the highest level since July 1995.

Taiwan Economic Indicators
(Percent change from previous period, SA, except as noted)

Indicator	1997	1998	1998	1999			
			Q4	Q1	Mar.	Apr.	May
Real GDP[1]	7.1	3.7	3.9	4.5	...	...	...
Industrial production	7.3	4.0	-.3	1.6	4.7	1.5	-1.5
Consumer prices[2]	.3	2.1	2.9	.7	-.5	-.1	.5
Trade balance[3]	7.5	5.9	.4	14.2	15.4	19.6	23.7
Current account[4]	7.7	3.4	2.0	8.4	...	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
3. Billions of U.S. dollars, annual rate. Imports are c.i.f.
4. Billions of U.S. dollars, NSA, annual rate.
n.a. Not available. ... Not applicable.

The **Russian** economy has begun to show some signs of improvement, but a fractured political landscape continues to impede progress on reforms needed to pull the economy out of its recession, secure economic stability, and obtain funding from the IMF.

On the bright side, month-to-month inflation has remained steady at around 3 percent since March, industrial output was up 1.5 percent in the 12 months to April, and GDP surged in the first quarter. The exchange rate has remained under 25 rubles per dollar since mid-April and has even strengthened since mid-March. The RTS stock index, up 65 percent this year, recently regained its pre-crisis level in ruble terms. The weak ruble and rising oil prices have enabled Russia to run large trade surpluses.

Russian Economic Indicators
(Percent change from previous period, SA, except as noted)

Indicator	1997	1998	1998	1999			
			Q4	Q1	Mar.	Apr.	May
Real GDP[1]	2.6	-9.0	-.9	5.7	...	...	...
Industrial production	1.7	-5.1	2.9	10.4	3.3	-.2	1.0
Unemployment rate[2]	10.8	11.5	11.7	13.0	14.2	14.1	14.1
Consumer prices[3]	11.0	84.4	70.0	102.8	107.7	113.1	116.7
Ruble depreciation[4]	6.8	71.3	23.9	16.2	8.0	-1.2	.2
Trade balance[5]	14.7	14.2	34.2	27.3	31.5	37.1	n.a.
Current account[6]	4.0	2.4	26.6	n.a.	...	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
4. End of period, NSA.
5. Billions of U.S. dollars, annual rate.
6. Billions of U.S. dollars, NSA, annual rate.
n.a. Not available. ... Not applicable.

However, political instability, underscored by last month's sacking of the Primakov government and the ongoing battle over IMF-required reforms, continues to inhibit the ability of the authorities to consolidate economic gains and restore confidence in the economy. Although Russia seems to have successfully avoided any fallout from the sacking of Primakov and appointment of Sergei Stepashin to the post of Prime Minister, it has become clear that the legislature will neither quickly nor quietly pass key reforms on taxation and bank restructuring. Russia may, however, be able to tolerate a delay in IMF disbursements, as the economy has outperformed expectations recently, enabling reserves to rise $500 million over the past four weeks. Also, political momentum for a restructuring of debts owed to bilateral and commercial creditors appears to be gathering speed, as members of the G-7 move to improve relations with Russia following the peace agreement in the Balkans.