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[2] A two-step process was used. An advanced optical 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.

Content last modified 6/05/2009.

Confidential (FR) Class III FOMC

Part 2

November 10, 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

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DOMESTIC NONFINANCIAL DEVELOPMENTS

Domestic Nonfinancial Developments

Overview

Recent data have presented a picture of vigorous economic expansion. Most notably, the October employment report confirmed that the demand for workers has remained strong. Despite what seems to be an increasingly tight labor market, though, wages have continued to rise at a lower rate than they did last year. Price increases have remained subdued at the consumer level, at least outside the energy sector; increases in the cost of materials and intermediate components evidently are still being offset through productivity gains or absorbed in profit margins.

Real GDP

According to the Bureau of Economic Analysis's (BEA) advance estimate, real GDP rose at an annual rate of 4.8 percent in the third quarter. Subsequently, we have received additional source data that point to an upward revision to around 5.4 percent. The largest anticipated revision is to inventory investment; some upward revision to construction expenditures in each of the residential, nonresidential, and state and local sectors is expected as well. Unless otherwise noted, the discussion of third-quarter activity in the remainder of this section of the Greenbook incorporates our expected revisions to the GDP data.

Labor Market Developments

Data on the labor market received since the last Greenbook indicate that employment continues to grow at an appreciable clip, as strong payroll growth in October offset September's weakness.[1] Moreover, initial claims for unemployment insurance since the October reference week have remained near their lowest levels since the late 1980s, and the ratio of initial claims to payroll employment is at its lowest level since the claims series began in the late 1960s. More broadly, the average monthly increase in payroll employment since midyear has been in line with gains during the first half.

In the payroll survey, employment growth in services; wholesale trade, finance, insurance, and real estate; and government rebounded in October from their weak showings in September. Manufacturing employment continued its 1-1/2 year slide, although its rate of decline has moderated somewhat since midyear, while job losses were posted in retail trade in both September and October.

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1. Based on a very rough calculation, the Bureau of Labor Statistics has estimated that Hurricane Floyd may have reduced payroll employment growth by about 60,000 in September, and a similar calculation suggests that October's employment growth may have been boosted by about half that amount. Although some analysts have interpreted these figures as indicating that more of a bounceback is still to come, we would caution against drawing such a strong conclusion from these very rough estimates.

Real GDP and Selected Components

Component	1999:Q2	1999:Q3 BEA advance	1999:Q3 Greenbook
	Percent change, annual rate		
Real GDP	1.9	4.8	5.4
Final sales	3.4	4.1	4.2
Private domestic final purchases	5.4	5.2	5.3
Consumption	5.1	4.3	4.3
Business fixed investment	7.0	14.9	13.6
Residential investment	5.5	-6.3	-3.0
Federal government	2.1	3.1	3.1
State and local government	.9	3.4	4.7
	Level, billions of chained (1996) dollars		
Inventory investment	14.0	28.1	36.2
Net exports	-319.0	-343.0	-342.7

Average weekly hours of production or nonsupervisory workers on private nonfarm payrolls in October more than rebounded from their hurricane-depressed September level. The index of aggregate hours of production or nonsupervisory workers rose 0.7 percent in October, more than retracing September's decline. Hours in October stood 0.5 percent (not at an annual rate) above their third-quarter average; the rebound from the effects of Hurricane Floyd likely boosted this figure by 0.1 percentage point.

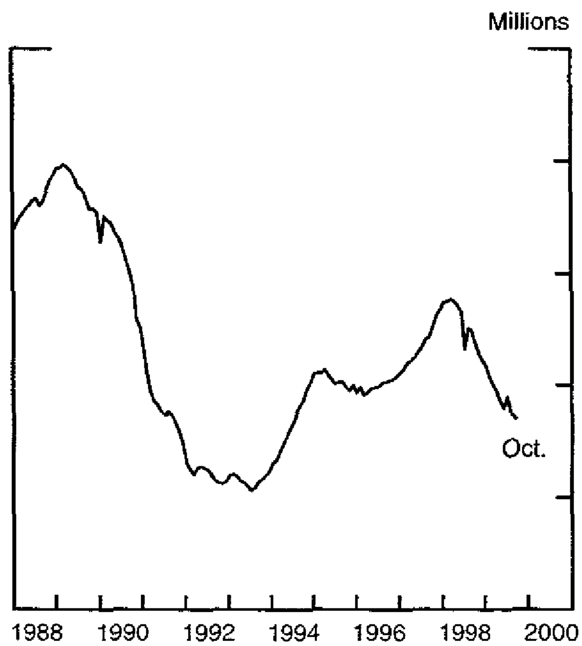
In the household survey, the unemployment rate ticked down 0.1 percentage point in October as the rates for adult women and for teenagers both fell. At the same time, the percentage of the population who were not in the labor force but reported wanting a job ticked down further in October. An increase in the labor force participation rate of teenagers drove the aggregate participation rate up 0.1 percentage point, to 67 percent. Aside from a spike last winter, the participation rate has run between 66.9 percent and 67.1 percent since March 1998.

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

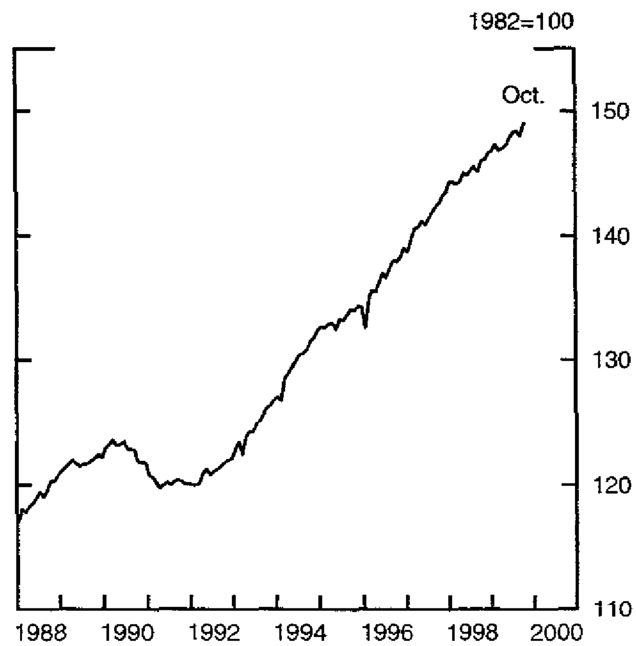
	1998	1999 Q1	1999 Q2	1999 Q3	1999 Aug.	1999 Sept.	1999 Oct.
	-Average monthly changes-						
Nonfarm payroll employment[1]	244	209	210	181	129	41	310
Private	217	171	204	147	72	44	257
Goods producing	8	-23	-35	-6	-99	15	17
Mining	-3	-7	-8	-0	-4	1	4
Manufacturing	-19	-36	-36	-11	-71	-14	-15
Construction	30	20	9	5	-24	28	28
Service producing	208	194	239	153	171	29	240
Transportation and utilities	18	16	16	19	14	24	17
Trade	46	44	77	34	4	-28	-10
Finance, insurance, real estate	26	18	14	2	3	-7	18
Services	119	116	132	98	150	40	215
Total government	27	38	6	34	57	-3	53
Private nonfarm production workers[1]	167	156	148	118	26	59	223
Total employment[2]	157	169	133	39	104	139	346
Nonagricultural	171	149	109	112	177	221	280
Memo:							
Aggregate hours of private production workers (percent change)[1,3]	2.1	2.0	1.0	2.5	0.1	-0.3	0.7
Average workweek (hours)[1]	34.6	34.6	34.4	34.5	34.5	34.4	34.6
Manufacturing (hours)	41.8	41.6	41.7	41.8	41.8	41.8	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



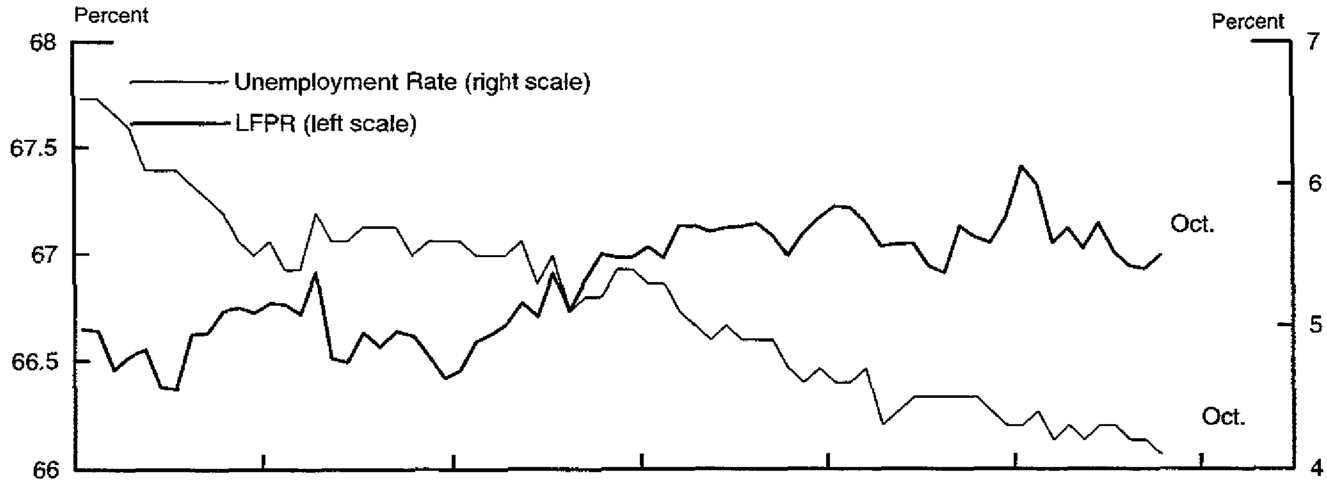
Aggregate Hours of Production or Nonsupervisory Workers



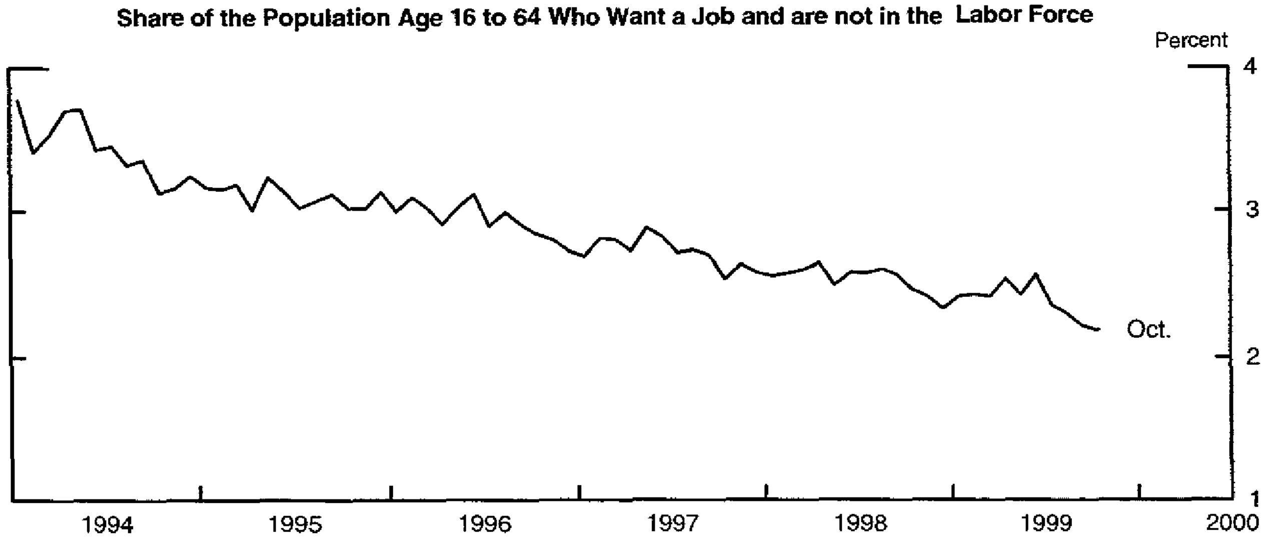
SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data, as published)

			1999			1999		
	1997	1998	Q1	Q2	Q3	Aug.	Sept.	Oct.
Civilian unemployment rate (16 years and older)	4.9	4.5	4.3	4.3	4.2	4.2	4.2	4.1
Teenagers	16.0	14.6	14.6	13.4	13.7	13.5	15.0	13.9
20-24 years old	8.5	7.9	7.3	7.6	7.4	7.3	7.2	7.8
Men, 25 years and older	3.6	3.2	3.0	3.0	3.0	3.1	3.0	3.0
Women, 25 years and older	3.9	3.6	3.4	3.5	3.4	3.3	3.2	3.0
Labor force participation rate	67.1	67.1	67.3	67.1	67.0	66.9	66.9	67.0
Teenagers	51.6	52.8	52.6	51.7	51.3	50.9	51.4	52.4
20-24 years old	77.6	77.5	77.7	77.2	77.7	77.7	78.0	77.9
Men, 25 years and older	76.3	76.2	76.4	76.1	76.0	76.1	76.0	75.7
Women, 25 years and older	59.3	59.2	59.6	59.6	59.4	59.4	59.3	59.4

Labor Force Participation Rate and Unemployment Rate



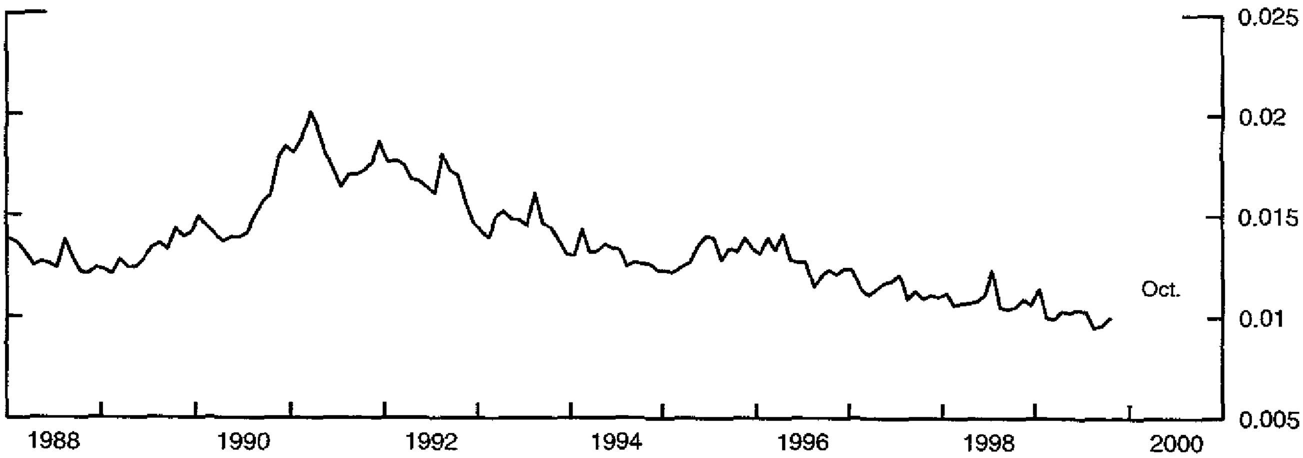
Share of the Population Age 16 to 64 Who Want a Job and are not in the Labor Force



Note. Seasonally adjusted by FRB staff.

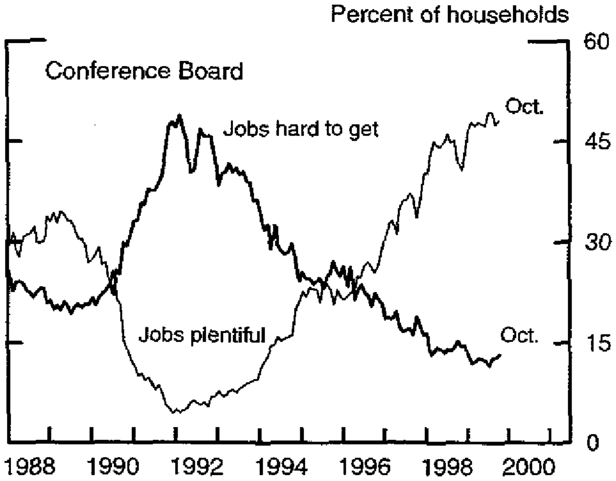
Labor Market Indicators

Ratio of Initial Claims for Unemployment Insurance to Payroll Employment

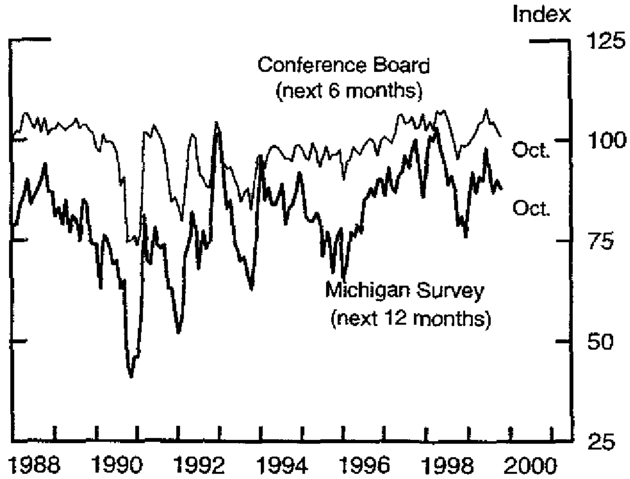


Note. State programs, includes EUC adjustment.

Current Job Availability

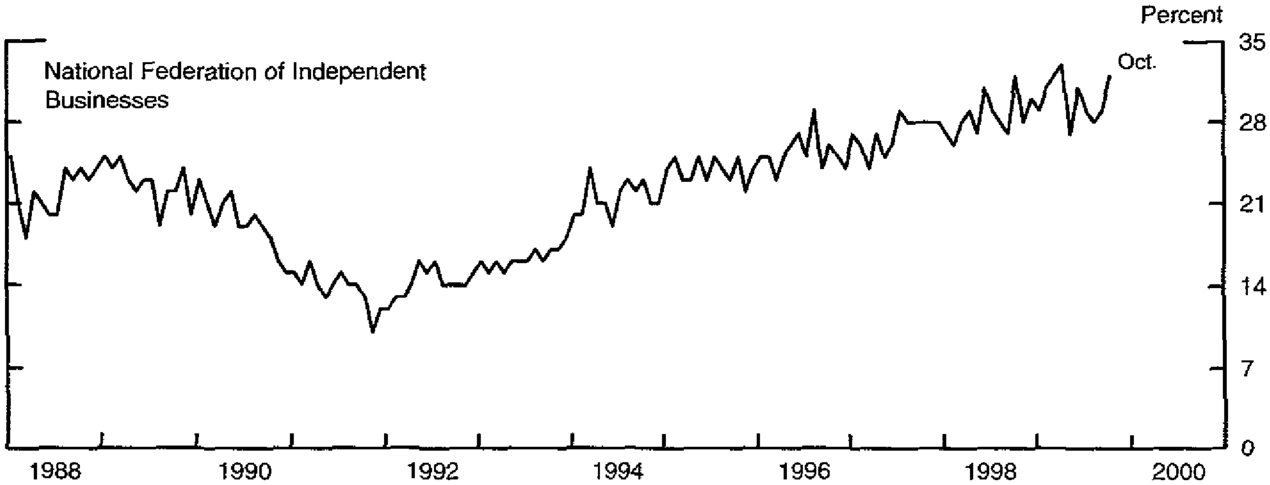


Expected Labor Market Conditions



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.

Reporting Positions Hard to Fill



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

	1997[1]	1998[1]	1998 Q4	1999 Q1	1999 Q2	1999 Q3
Output per hour						
Nonfarm business	2.2	3.1	4.1	2.7	0.6	3.2
Nonfinancial corporations[2]	3.3	4.2	3.1	4.3	3.2	n.a.
Memo:						
Nonfarm business output per hour (income side)	3.3	3.5	2.4	5.2	2.4	n.a.

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.

Other surveys of households also continue to bespeak a hot labor market. Consumers' perceptions of job availability in the Conference Board's October survey remained near the highest levels in the twenty-year history of the survey, and their expectations of future availability of jobs in both the Conference Board's and the University of Michigan Survey Research Center's (SRC) surveys continue to be upbeat. On the employers' side, the percentage of firms reporting that positions are hard to fill in the NFIB survey remained near its historical peak. These indicators of labor-market tautness make all the more impressive the fact that wages, as we shall discuss below, have not been accelerating this year.

The Bureau of Labor Statistics will publish the first estimates of productivity in the third quarter on November 12. Piecing together available data, we estimate that the BLS will report that productivity in the nonfarm business sector increased at an annual rate of 3-1/4 percent last quarter. Taking into account our expected revisions to the third-quarter NIPA figures would raise this estimate to 4-1/4 percent. If the higher figure is realized, the increase in nonfarm business productivity would be 3 percent over the four quarters ended in 1999:Q3, 1/2 percentage point greater than the increase over the previous four quarters. The available information also points to a very sizable increase in productivity for the nonfinancial corporate sector in the third quarter--more than 4 percent on a four-quarter basis; these data will not be published until December, however.

Industrial Production

Industrial production evidently posted a large gain in October, partly reflecting a bounceback in manufacturing and utilities output after the Hurricane Floyd-related slowdown along the eastern seaboard in September. Overall, output has risen substantially since midyear, and manufacturing capacity utilization in October is estimated to have been a bit above its first-half average.

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

Item	1999				
	Q3	Q4[1]	Aug.	Sept.	Oct.
U.S. production	13.0	13.0	13.7	12.9	13.2
Autos	5.6	5.6	5.7	5.7	5.7
Trucks	7.4	7.4	7.9	7.2	7.5
Days' supply					
Autos	54.5	n.a.	49.1	54.5	53.8
Light trucks[2]	65.5	n.a.	65.8	65.5	73.8

NOTE. Components may not sum to totals because of rounding.
1. Production rates reflect actual October data and manufacturers' schedules for November and December.
2. Excludes medium and heavy (class 3-8) trucks.
n.a. Not available.

Motor vehicle assemblies in October appear to have edged back up above the 13 million unit annual rate that had prevailed through the spring and summer before a hurricane-related slowing in September. Makers have scheduled assemblies to remain around this high level in the fourth quarter, and capacity utilization in production of autos and light trucks currently hovers around 90 percent. Elsewhere in transportation, the production of aircraft and parts apparently continued to drop in October, consistent with Boeing's plans to downshift its fourth-quarter completion rates at an annual rate of about 20 percent. In response to a finding that the drip shields installed in 747s, 757s, 767s, and 777s in the past few years were defective, Boeing halted delivery of thirty-four planes scheduled for this month; nevertheless, Boeing has not allowed this setback to affect its overall production plans for the fourth quarter.

The production of computer equipment slowed in August and September and seems to have slackened further in October. However, growth in semiconductor output, which also slowed in recent months, appears to have stepped up

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

	Proportion 1998	1998[1]	1999 H1[1]	1999 Q3	1999 July	1999 Aug.	1999 Sept.
			-Annual rate-		--Monthly rate---		
Total index	100.0	1.9	2.1	3.7	.6	.4	-.3
Mining	5.4	-4.9	-7.3	6.0	1.1	.9	.1
Utilities	6.2	-1.1	-1.6	5.3	1.6	-1.5	-2.5
Manufacturing	88.4	2.5	3.0	3.5	.5	.5	-.2
Motor vehicles and parts	5.1	.7	9.2	1.3	-1.0	.8	-1.8
Aircraft and parts	3.1	8.9	-9.9	-20.0	-.9	-2.3	-2.9
High-tech	8.4	26.7	26.3	43.1	4.5	2.5	1.7
Other manufacturing	71.8	-.2	.6	.7	.2	.3	-.2
Consumer goods	23.2	-1.1	-.6	.4	.0	.2	.0
Durables	3.6	1.7	5.7	.9	2.1	-1.4	-1.2
Nondurables	19.6	-1.6	-1.7	.3	-.3	.5	.2
Business equipment	9.0	1.0	-1.7	.6	.2	.6	-.3
Construction supplies	5.6	5.0	5.1	2.9	1.2	-.3	-.3
Materials	24.6	-1.3	1.2	4.2	.7	.5	-.1
Durables	16.2	-.8	1.2	6.1	1.0	.6	-.3
Nondurables	8.2	-2.8	.7	4.2	.2	.5	.3
Memo: High-tech industries							
Computer equipment	2.5	53.0	39.5	41.1	4.1	2.9	3.2
Communication equipment	2.1	5.6	6.4	41.1	5.1	2.5	-.4
Semiconductors[2]	3.9	25.7	29.7	45.4	4.5	2.2	2.0

1. From the final quarter of the previous period to the final quarter of the period indicated.
2. Includes related electronic components.

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1988-89 High	1959-98 Avg.	1999 Q2	1999 Q3	1999 July	1999 Aug.	1999 Sept.
Manufacturing	85.7	81.6	79.5	79.5	79.5	79.7	79.3
Primary processing	88.9	82.8	82.5	82.8	82.8	82.9	82.8
Advanced processing	84.2	81.1	78.5	78.4	78.4	78.6	78.2

noticeably in October; the sudden leveling in production of communications equipment in September also appears to have been an aberration. The remaining manufacturing industries seem to have recovered from the widespread hurricane-related weaknesses observed in September. Production of construction supplies, hampered by unseasonably heavy rainfall in the Northeast, declined in September but apparently bounced back in October as a result of post-hurricane reconstruction and increased demand for oil-drilling-related structures.

The staff series on real adjusted durable goods orders was about unchanged in September. However, the increase for the third quarter as a whole was quite robust at about 6 percent and point to solid gains in manufacturing production in the fourth quarter. The National Association of Purchasing Management's orders index remained high in October, though it was down somewhat from its September reading.

Motor Vehicles

Sales of light vehicles fell in October but remained quite robust. Adjusted for changes in reporting periods, total light vehicle sales were at an annual rate of 16.2 million units. The drop-off from the extraordinary third-quarter pace of more than 17 million units reflects a return to a more moderate volume of fleet sales and some softening in retail sales, mainly at General Motors. Anecdotal reports suggest that late-model changeovers at General Motors for a couple of popular models of light trucks damped its sales a bit. In addition, our contact at General Motors indicated that sales declined in response to higher prices for some new light truck models and to the company's cessation of incentives in early October; in response, General Motors reinstated its incentives program later in the month.

In the near term, the outlook for sales remains solid, bolstered by the continuation of a favorable pricing environment, including generous incentives and modest price increases on most models for 2000. Marketing incentives in the fourth quarter are estimated to have increased to about 6-1/2 percent of the cost of a new vehicle, although one industry contact believes that this figure is somewhat higher for the Big Three. Survey data from both the Conference Board and the Michigan SRC on car-buying plans and attitudes suggest that consumers still think market conditions are favorable. Motor vehicle inventories remain fairly lean, but our industry contacts do not expect low days' supply to materially constrain sales in the coming months.

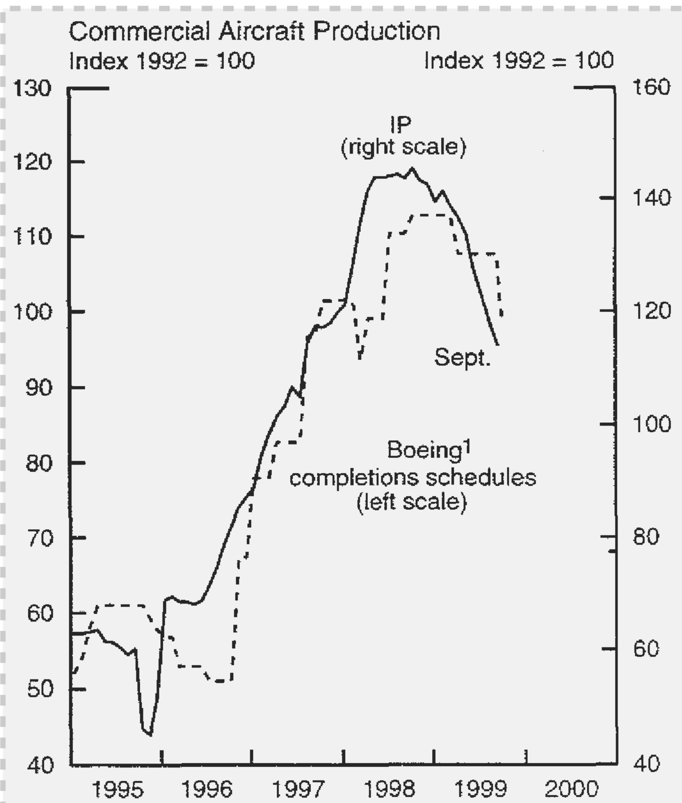
Business demand for medium and heavy trucks has been extraordinary, as shipments set a new record of 694,000 units (annual rate) in September. The strength of truck sales appears to be widespread across size categories. Industry

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

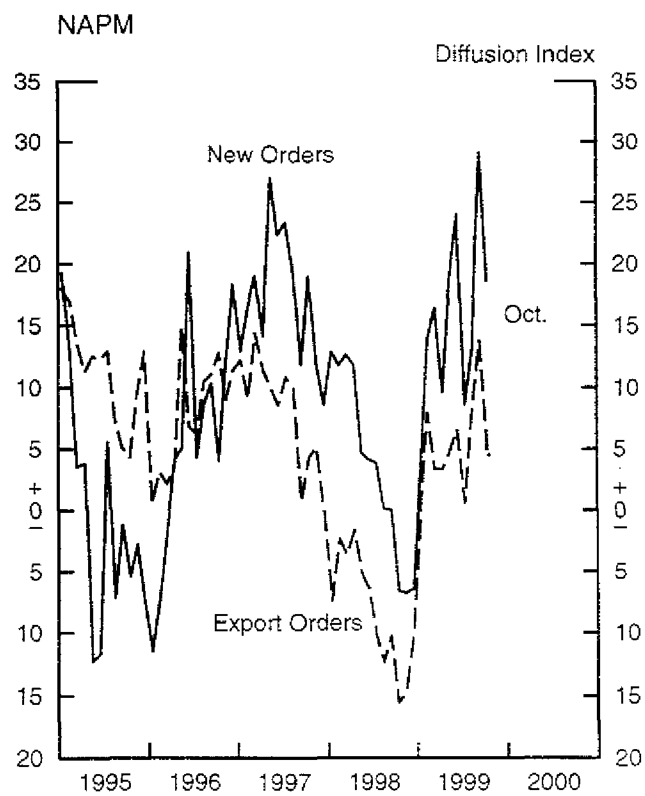
Component	Share, 1999:H1	1999				
		Q2	Q3	July	Aug.	Sept.
Total durable goods	100.0	-1.1	5.0	4.3	0.9	-1.3
Adjusted durable goods[1]	69.0	0.5	5.3	5.8	0.5	-0.3
Computers	6.0	3.6	6.1	17.7	-8.8	-7.8
Communication equipment	4.0	1.8	8.0	3.0	-6.0	19.2
Nondefense capital goods excluding aircraft, computers, and communication equipment	13.0	-2.2	4.7	8.0	2.7	3.1
Other	46.0	0.8	5.1	4.0	1.9	-2.0
MEMO						
Real adjusted orders[2]	...	1.3	6.1	6.0	1.0	-0.1

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.

Manufacturing Indicators



1. Boeing's completions schedules equals actual completions through August 1999 and scheduled completions thereafter.



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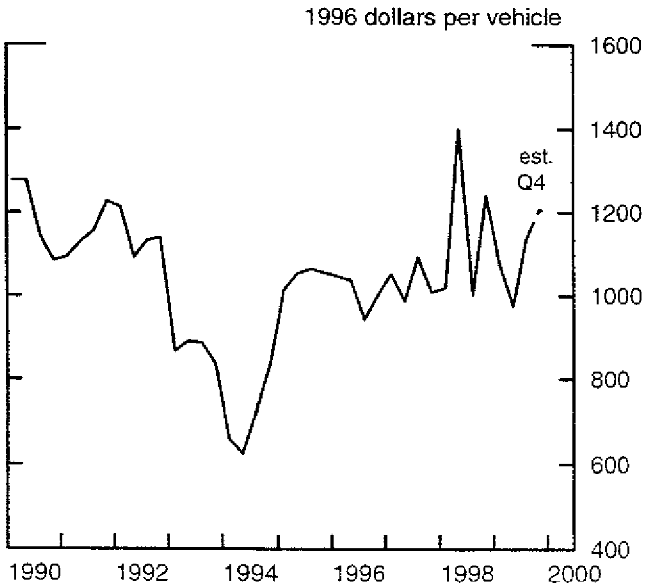
SALES OF AUTOMOBILES AND LIGHT TRUCKS
(Millions of units at an annual rate, FRB seasonals)

	1997	1998	1999 Q2	1999 Q3	1999 Aug.	1999 Sept.	1999 Oct.
Total	15.1	15.4	16.7	17.2	17.6	17.1	16.4
Adjusted[1]	15.0	15.5	16.7	17.2	17.8	17.1	16.2
Autos	8.3	8.1	8.8	8.8	9.3	8.5	8.6
Light trucks	6.8	7.3	8.0	8.3	8.3	8.6	7.8
North American[2]	13.1	13.4	14.3	14.7	15.2	14.6	13.7
Autos	6.9	6.8	7.1	7.1	7.6	6.8	6.6
Light trucks	6.2	6.7	7.2	7.6	7.6	7.8	7.0
Foreign produced	1.9	2.0	2.4	2.5	2.4	2.5	2.8
Autos	1.4	1.4	1.7	1.7	1.7	1.7	2.0
Light trucks	.6	.6	.7	.7	.7	.7	.8
Memo:							
Retail sales[3]	12.4	12.9	13.9	14.0	13.9	14.2	13.6
Fleet sales[3]	2.6	2.6	2.9	3.2	3.7	2.9	2.9

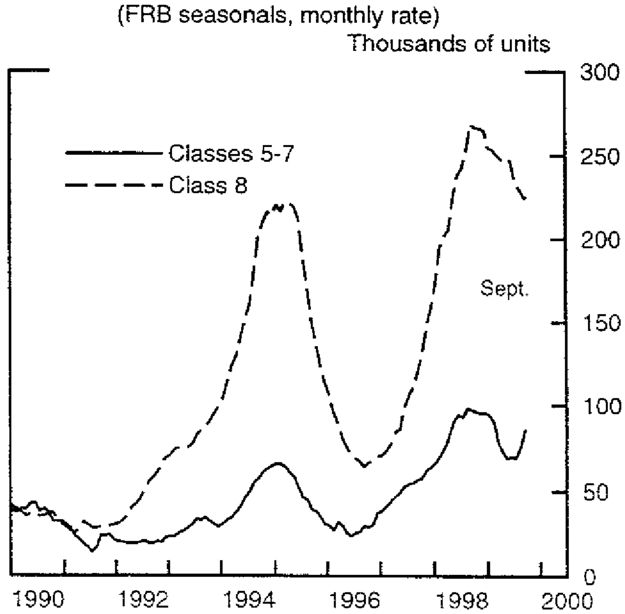
Note. Components may not add to totals because of rounding. Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.
1. Excludes the estimated effect of automakers' changes in reporting periods.
2. Excludes some vehicles produced in Canada that are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

Marketing Incentives for Light Vehicles



Note: Data deflated by total CPI.

Backlogs for Medium and Heavy Trucks
(FRB seasonals, monthly rate)



Real Personal Consumption Expenditures
(Percent change from preceding period)

Item	1998[1]	1999 Q1	1999 Q2	1999 Q3	1999 Aug.	1999 Sept.
		---- Annual Rate		-----	- Monthly rate -	
PCE	5.1	6.5	5.1	4.3	.6	.1
Durables	13.0	12.4	9.1	7.0	1.9	-.4
Nondurables	5.0	8.9	3.3	3.6	.6	-.0
Services	3.6	4.2	5.2	4.1	.3	.2
Memo:						
Personal saving rate (percent)	3.7	3.0	2.5	2.1	2.3	1.6

1. Percent change from Q4 to Q4.

Personal Income
(Percent change from preceding period)

Item	1998[2]	1999 Q1	1999 Q2	1999 Q3	1999 Aug.	1999 Sept.
		--- Annual Rate		---	- Monthly rate -	
Total personal income	6.0	5.4	5.5	4.9	.4	.0
Wages and salaries	7.4	7.1	5.7	6.9	.4	.3
Other labor income	3.2	4.6	3.8	4.1	.4	.3
Proprietors' income	8.5	1.8	10.0	-1.0	-.1	-.3
Rent	16.0	4.4	.5	-20.5	-.2	-11.2
Transfer payments	2.4	7.0	2.3	3.4	.5	.2
Less: Personal contributions for social insurance	5.6	8.9	4.2	5.2	.3	.2
Less: Personal tax and nontax payments	10.6	4.3	5.3	7.4	-.7	1.6
Equals: Disposable personal income	5.3	5.6	5.5	4.5	.5	-.2
Memo: Real disposable income[1]	4.2	4.1	3.2	2.5	.3	-.6

1. Percent changes derived from billions of chained (1996) dollars.

2. Percent change from Q4 to Q4.

contacts report strong demand for medium-sized trucks (classes 5 to 7). This in part reflects more sales of school buses and a surge in demand from shipping companies that provide local and home delivery service for Internet merchandisers. Although orders for heavy trucks (class 8) have eased some since late last year, sales have remained robust, supported by a large backlog of unfilled orders. Elsewhere, sales of smaller trucks (class 3) have also risen, likely boosted by consumer as well as business demand for these vehicles.[2]

Consumer Spending and Personal Income

The growth of consumer spending appears to have moderated somewhat in recent months. Real PCE grew at an annual rate of 4.3 percent in the third quarter, a substantial pace but well down from the 5.8 percent rate recorded during the first half of the year. Spending on motor vehicles remained high in the third quarter, and outlays for other types of durable goods posted strong gains. Purchases of nondurable goods increased at an annual rate of 3.6 percent in the third quarter, with expenditures on gasoline and clothing and shoes rising especially rapidly. Outlays on services in the third quarter were driven by strong increases in demand for electricity and natural gas, transportation services, and recreation services. Fourth-quarter indicators are limited at this juncture, with the advance retail sales release for October coming out at the end of this week. As noted above, however, light vehicle sales fell off last month, and chain store sales reports were mixed.

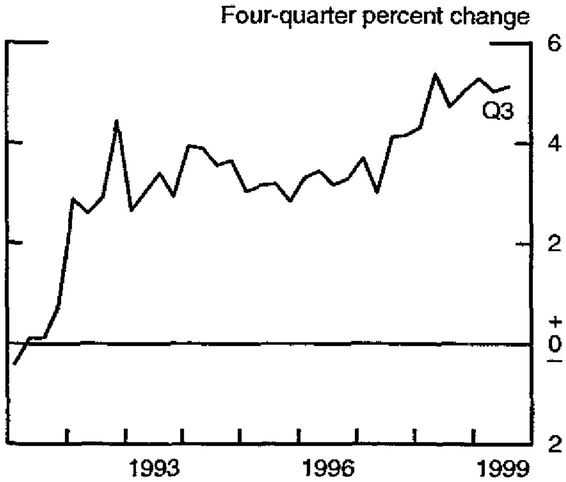
Personal income was unchanged in September, as uninsured losses due to Hurricane Floyd held down farm proprietors' income and rental income.[3] Nonetheless, personal income was up at an annual rate of nearly 5 percent for the third quarter as a whole, reflecting continued solid growth in wage and salary income. However, consumer prices were boosted last quarter by the run-up in energy prices, and, after factoring in tax payments, real disposable personal income increased at an annual rate of 2-1/2 percent, down more than a percentage point from the first-half pace. With outlays having risen faster than disposable income, the personal saving rate declined another 1/2 percentage point in the third quarter. Wage and salary income should have been up appreciably last month, judging by the data from the establishment survey on hours and production-worker wages.

2. The BEA, however, counts all sales of such vehicles as business investment.

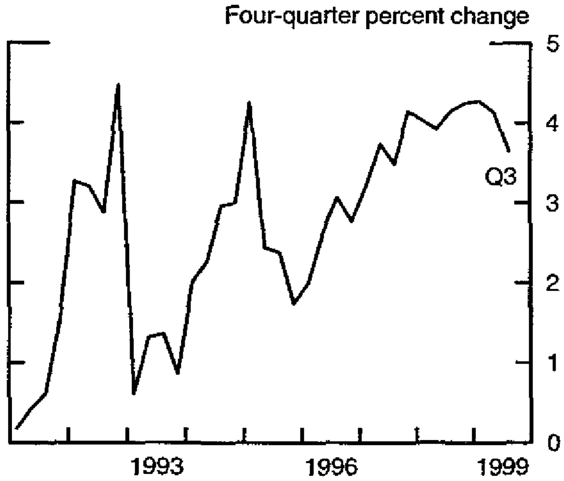
3. When uninsured property is lost in a storm, the BEA adjusts down proprietors' income and rental income to reflect a spike in depreciation (consumption of fixed capital). In the case of Hurricane Floyd, the BEA adjusted only these two categories; without the adjustments, personal income would have risen 0.3 percent in September.

Personal Consumption Expenditures

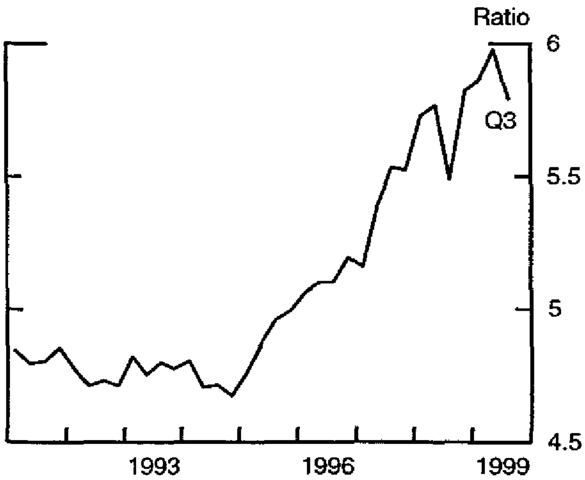
Real Total PCE



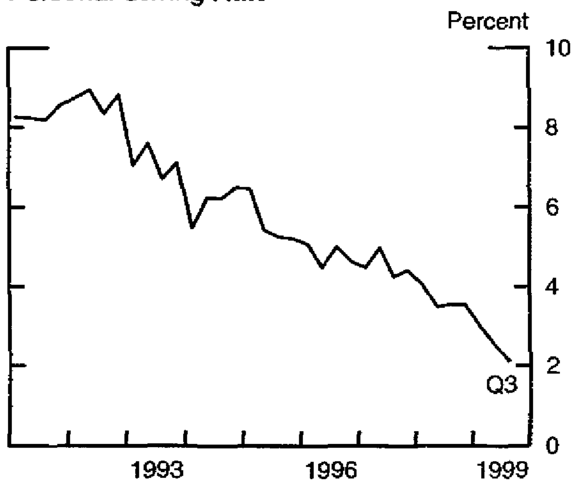
Real Disposable Income



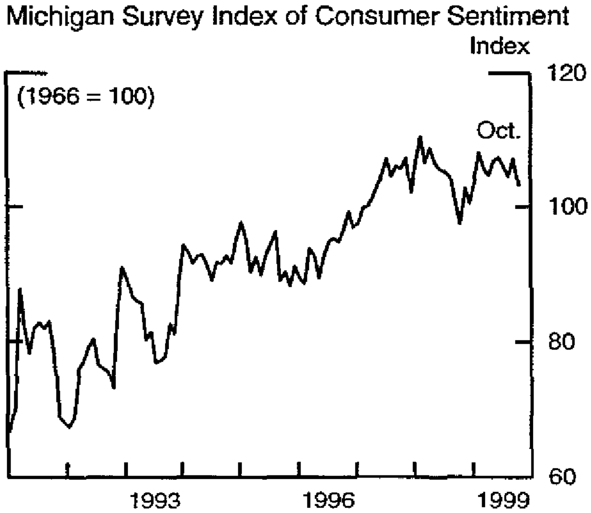
Ratio of Household Net Worth to DPI



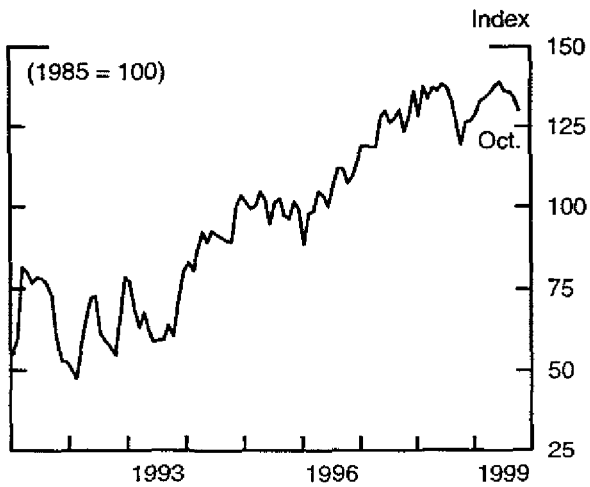
Personal Saving Rate



Michigan Survey Index of Consumer Sentiment



Conference Board Index of Consumer Confidence



The Conference Board's index of consumer confidence and the Michigan SRC's index of consumer sentiment dropped in October. Despite having moved down some, on net, since the summer, both indexes remain in the middle of the high ranges that have been recorded for the past two years.

Housing Markets

Housing demand and home construction have shown clear signs of weakening in the past few months. Single-family starts declined 2 percent in September to an annual rate of 1.27 million units, although some of the drop in September probably resulted from unusually heavy precipitation in the Northeast and in parts of the South. Starts were in line with adjusted permits. Sales of new homes plummeted nearly 13 percent to an annual rate of 811,000 units in September, and the estimates for the three preceding months were revised down noticeably.[4] Although the decline in September appears suspiciously large, the direction of the movement is certainly consistent with the softening in a number of other housing market indicators.

Among the more timely indicators of housing demand, builders' ratings of new home sales continued to edge down in early October, although they remain at a high level. The Mortgage Bankers Association index of purchase applications for home mortgages has been little changed in recent weeks, after a substantial decline from late June through September. In addition, the Michigan SRC's measure of consumer assessments of homebuying conditions was unchanged in October after a large decline over the summer that mainly reflected increased concerns about higher interest rates.

The year-over-year increase in the constant-quality price of new homes reached 5.8 percent in the third quarter, having moved up from an average of about 3 percent in 1997 and 1998. In addition, the year-over-year increase in the repeat-sales price index for existing homes edged up to 6 percent last quarter.[5] Cost pressures have likely contributed to the more rapid rise in new home prices. Price increases for a number of construction materials picked up notably

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4. The previous estimates had shown new home sales strengthening in July and August. The Census estimates of new home sales are based on a sample of building permits issued by local governments plus an imputation for sales that occur before the issuance of a permit. The Census has experienced long-standing problems with this imputation. Indeed, Census staff report that such difficulties accounted for most of the large revisions to the new home sales estimates in recent months.

5. Constant-quality new home prices adjust for compositional changes in the geographic distribution of sales and for changes over time in the size and quality of homes sold. The repeat-sales price index for existing homes is calculated using price data for homes that are sold repeatedly or refinanced.

Private Housing Activity

(Millions of units; seasonally adjusted annual rate)

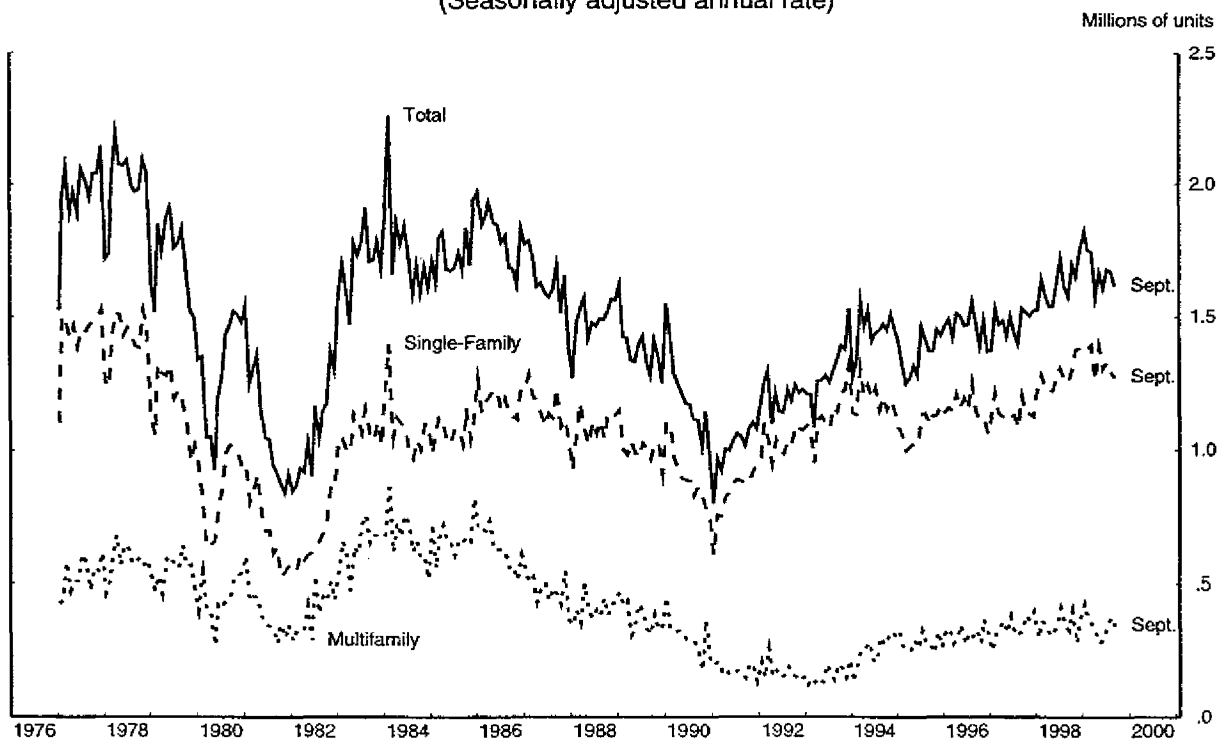
	1998	1999 Q1	Q2	Q3[p]	July[r]	Aug.[r]	Sept.[p]
All units							
Starts	1.62	1.77	1.62	1.66	1.68	1.67	1.62
Permits	1.60	1.72	1.60	1.59	1.64	1.62	1.50
Single-family units							
Starts	1.27	1.39	1.32	1.30	1.33	1.30	1.27
Permits	1.18	1.27	1.23	1.21	1.25	1.21	1.16
Adjusted permits[1]	1.28	1.37	1.32	1.29	1.34	1.28	1.26
New home sales	.89	.90	.93	.89	.93	.93	.81
Existing home sales	4.97	5.21	5.29	5.26	5.40	5.24	5.13
Multifamily units							
Starts	.35	.38	.30	.36	.35	.38	.35
Permits	.42	.45	.37	.38	.39	.41	.34
Mobile homes							
Shipments	.37	.38	.36	n.a.	.34	.34	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.

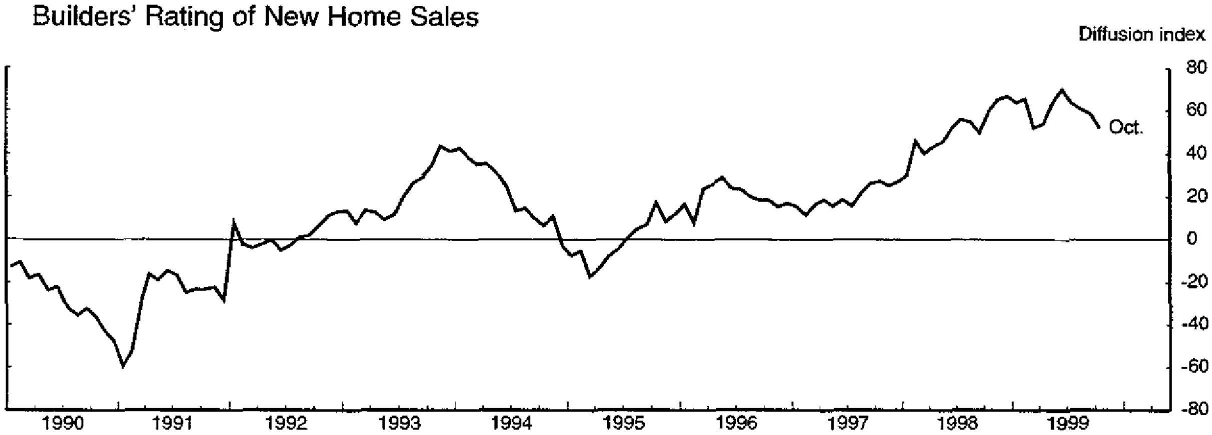
Total Private Building

(Seasonally adjusted annual rate)



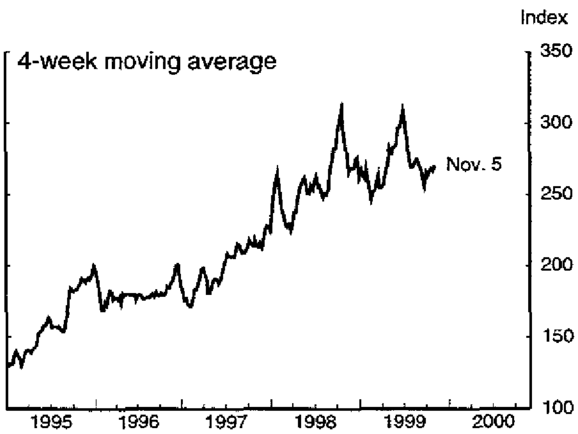
Indicators of Housing Demand and Prices

Builders' Rating of New Home Sales

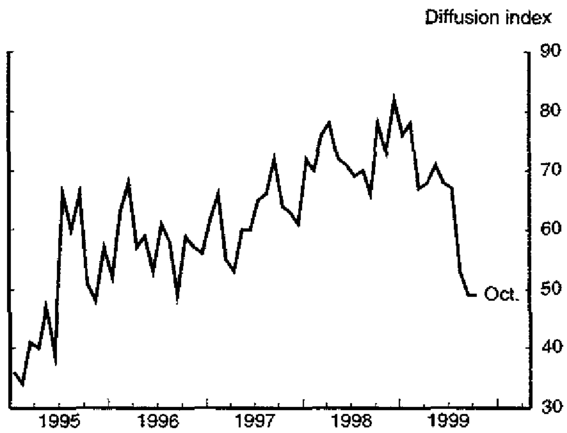


Note. Calculated from National Association of Homebuilders' data as the proportion of respondents rating current sales as good minus the proportion rating them as poor. Seasonally adjusted by Board staff.

MBA Index of Purchase Applications

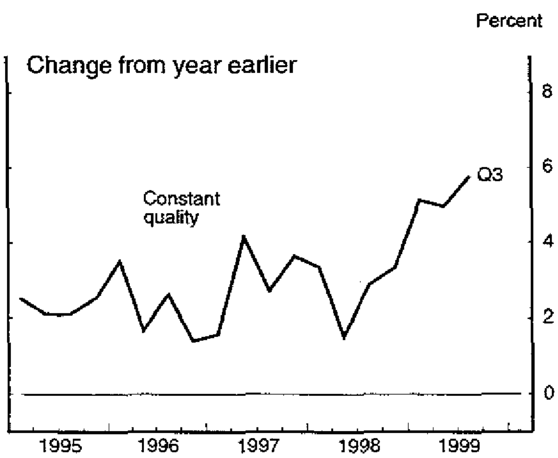


Consumer Homebuying Attitudes

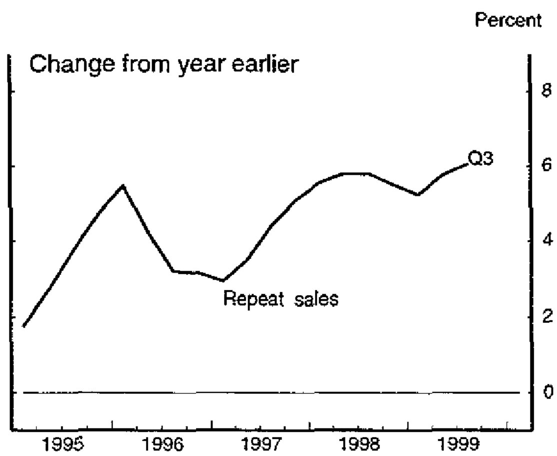


Source. Michigan Survey, not seasonally adjusted

Prices of New Homes

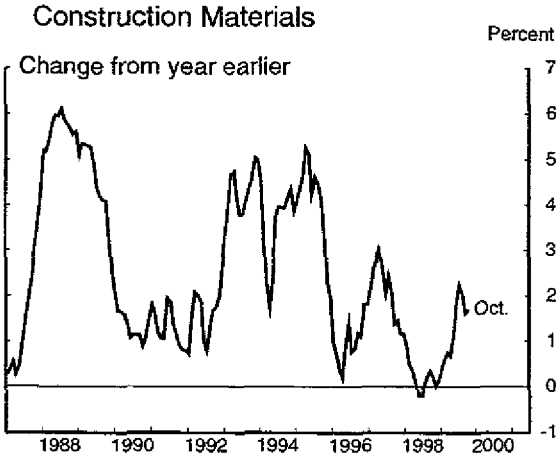


Prices of Existing Homes



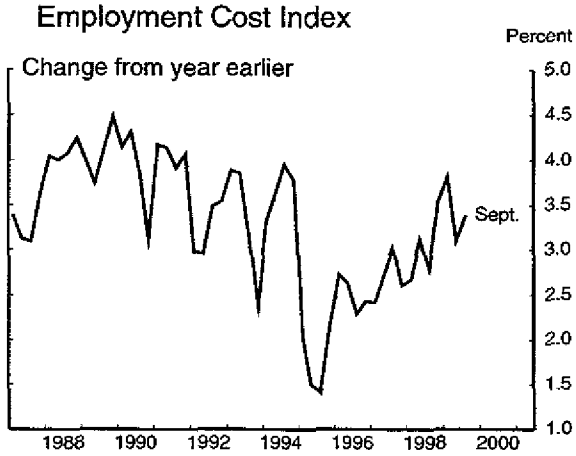
Costs of Construction Materials and Labor

Construction Materials



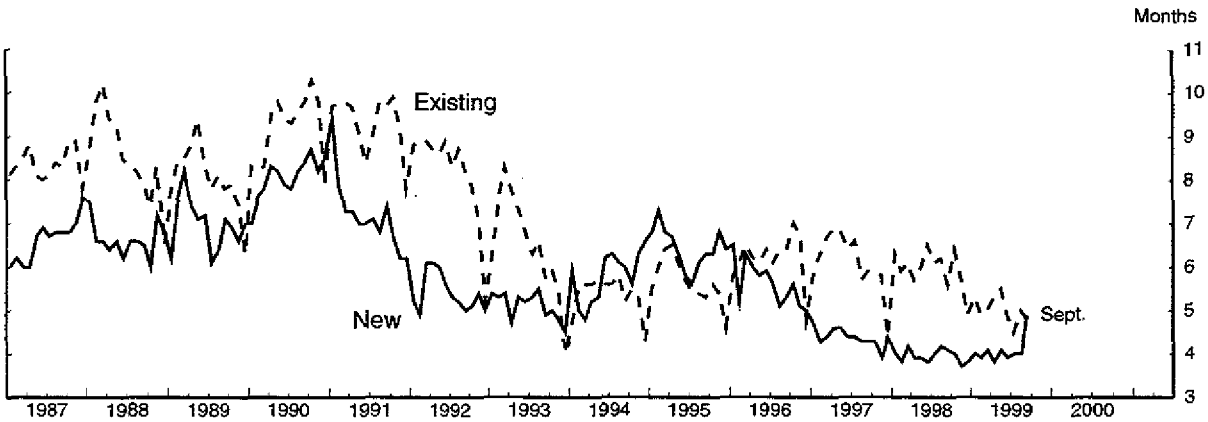
Note. PPI intermediate materials and components for all types of construction.

Employment Cost Index



Note. ECI for total compensation.

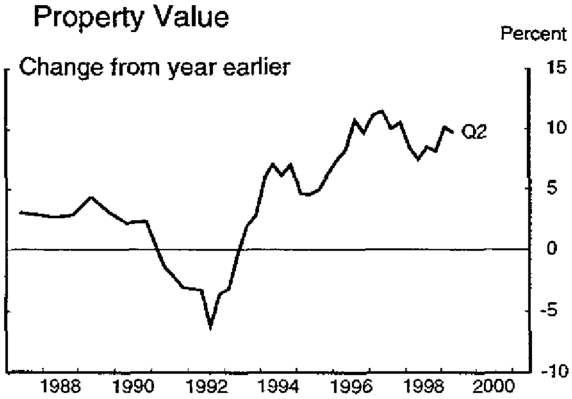
Months' Supply of Homes for Sale



Source: National Association of Realtors, Census Bureau.

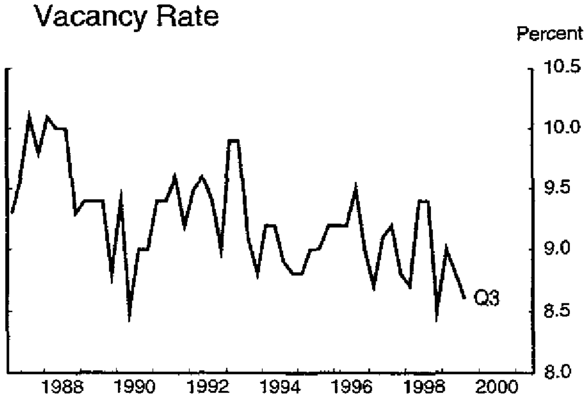
Multifamily Housing Market Conditions

Property Value



Source: National Real Estate Index.

Vacancy Rate



Source: Census Bureau.

this year, though they have eased a bit in recent months, and the September ECI reading for total compensation for construction workers was up nearly 3-1/2 percent from a year earlier. The more rapid price increases for both new and existing homes may also partly reflect a relative scarcity of homes for sale in many localities: In terms of months' supply, stocks of new and existing homes for sale in September were down to some of the lowest readings on record.[6]

In the multifamily sector, starts in the third quarter were up 19 percent from the weak second-quarter level and slightly exceeded the average pace for the first half of this year. Market conditions in the sector generally are favorable: The value of multifamily rental properties continued to rise rapidly in the second quarter, and the vacancy rate for multifamily rental units in the third quarter was a low 8.6 percent. Still, the most recent data point to some softening in construction. Multifamily starts fell 8 percent in September, fully retracing their jump in August and likely reflecting to some extent the unusually soggy weather. Multifamily permits recorded an even sharper decline, leaving the ratio of multifamily starts to permits at an unusually high level in September. Because permits tend to be more statistically reliable than starts, this pattern by itself points to a further weakening in starts in coming months.

Business Fixed Investment

Equipment and Software. Business investment has continued to boom. Real business expenditures on equipment and software are estimated to have expanded at an annual rate of 18-3/4 percent in the third quarter, well above the 12 percent pace recorded in the first half of the year.[7] The pickup mainly owed to a marked acceleration in purchases of computer hardware and transportation equipment.

We estimate that real outlays on computers and peripheral equipment climbed at an annual rate of about 60 percent last quarter. The three months of nominal

6. The months' supply of new homes for sale jumped up in September to 4.9 months. The number of new homes for sale--the numerator of the months' supply ratio--rose about 2 percent to 314,000 units in September; it was the sharp drop in new home sales, the denominator, that accounted for most of the rise in the ratio. As noted, preliminary estimates of new home sales are subject to large revisions; so it would not be surprising if the September sales figure were revised upward, which would reduce the months' supply reading for September.

7. Our third-quarter estimate is below the BEA's advance figure of 21.7 percent, reflecting our interpretation of the September data on orders and shipments of durable goods, which the BEA did not incorporate in its estimates.

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

	1999		1999		
	Q2	Q3	July	Aug.	Sept.
Equipment and software					
Shipments of nondefense capital goods	3.0	2.1	3.0	2.1	-4.3
Excluding aircraft and parts	3.4	3.7	5.0	-1.8	-1.2
Computers and peripherals	3.7	4.8	17.6	-8.8	-7.9
Communications equipment	6.0	5.8	3.5	-1.7	3.5
All other categories	2.5	2.6	.2	1.6	.3
Shipments of complete aircraft	-19.5	18.3	29.9	40.5	-39.1
Medium & heavy truck sales (units)	-.8	3.7	.5	4.1	8.4
Orders for nondefense capital goods	-4.2	7.2	8.0	2.5	-.1
Excluding aircraft and parts	-.1	5.6	9.5	-2.0	3.2
Computers and peripherals	3.6	6.1	17.7	-8.8	-7.8
Communications equipment	2.1	7.7	2.6	-5.9	19.6
All other categories	-2.2	4.8	8.1	2.6	3.1
Nonresidential structures					
Construction put in place, buildings	-2.2	-1.2	.2	-1.2	-.4
Office	.9	5.4	.8	4.0	1.6
Other commercial	1.5	-4.8	-2.5	-3.9	-.6
Institutional	-.1	-3.4	-1.8	-1.8	-1.7
Industrial	-12.8	-1.8	3.1	-4.1	-5.0
Lodging and miscellaneous	-6.1	-2.1	4.9	-1.1	2.6
Rotary drilling rigs in use[1]	-6.4	17.4	5.1	5.7	8.7

1. Percent change of number of rigs in use, seasonally adjusted.

shipments data underlying this estimate were quite erratic: Computer shipments jumped 17-1/2 percent in July (not at an annual rate) before retracing that gain during August and September. This spike may indicate that businesses moved some of their hardware spending forward to avoid having brand-new and untested systems in place around the turn of the millennium. Indeed, several major computer manufacturers have warned that sales of mainframes and high-end servers--which are likely to be more sensitive to Y2K considerations than PCs--appear to be weakening. According to press reports, some computer producers had expected that, in the fourth quarter, robust PC sales would offset a slowdown in sales of large-scale items. However, supply disruptions stemming from the Taiwan earthquake in September reportedly caused several manufacturers to scale back their fourth-quarter sales expectations.

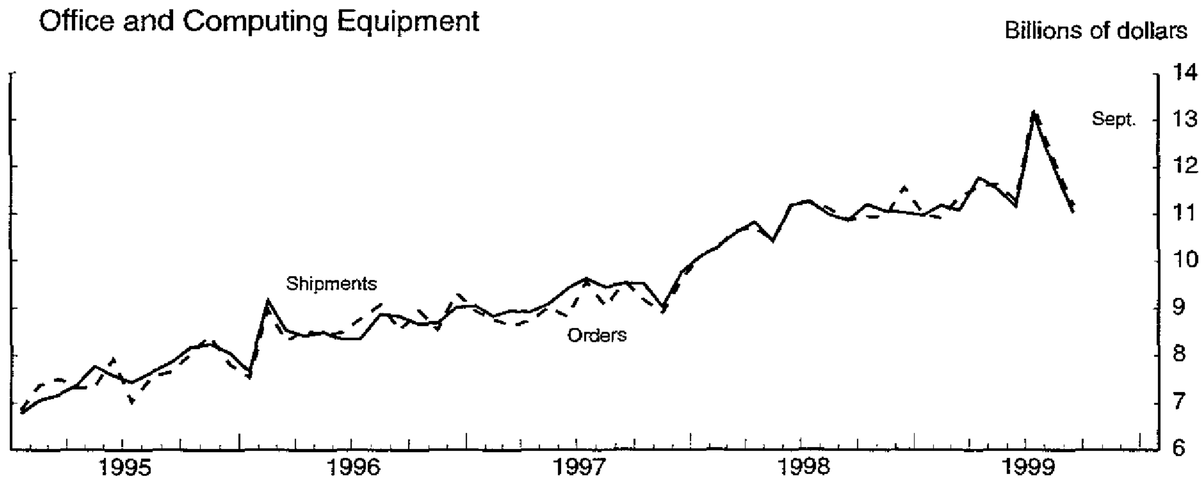
Real business spending on software is estimated to have increased at an annual rate of 17-1/2 percent in the third quarter after having averaged a 14 percent pace over the first half of the year. Although the acceleration in software expenditures was not so pronounced as for hardware, the general pattern of spending over the year is similar in the two categories. As with hardware outlays, software investment was probably boosted by demand from businesses that were finishing their Y2K remediation plans.[8]

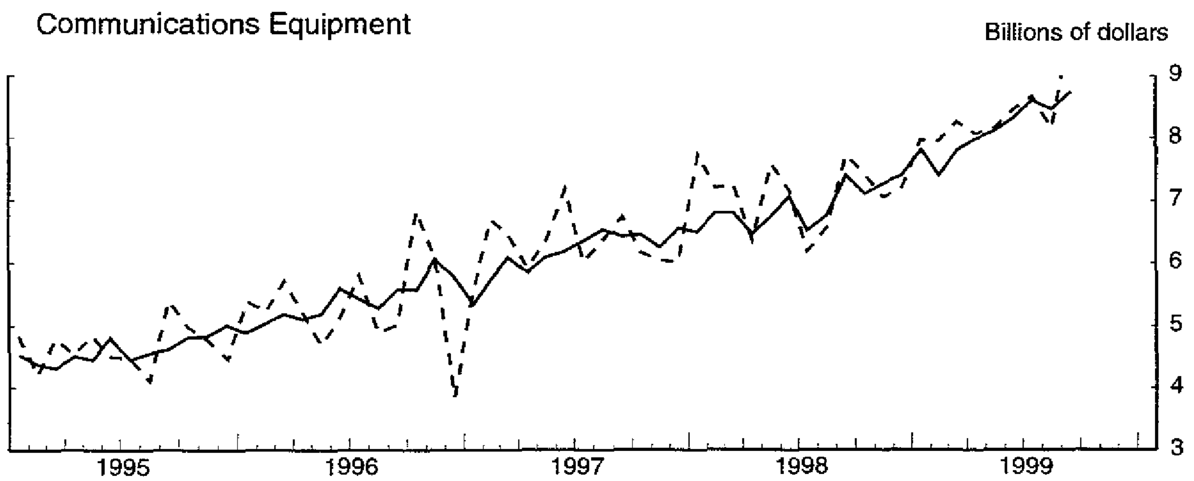
Real expenditures on transportation equipment were also reported to have accelerated in the third quarter. As noted, business purchases of medium and heavy trucks have been strong, and fleet sales of light vehicles registered a sizable gain in the third quarter. Moreover, available spending indicators suggest that domestic airlines substantially stepped up their purchases of commercial aircraft: While Boeing's domestic deliveries appear to have ticked up only moderately last quarter, Airbus reportedly delivered a record thirty-one planes to U.S. customers, nearly twice as many as in the second quarter.

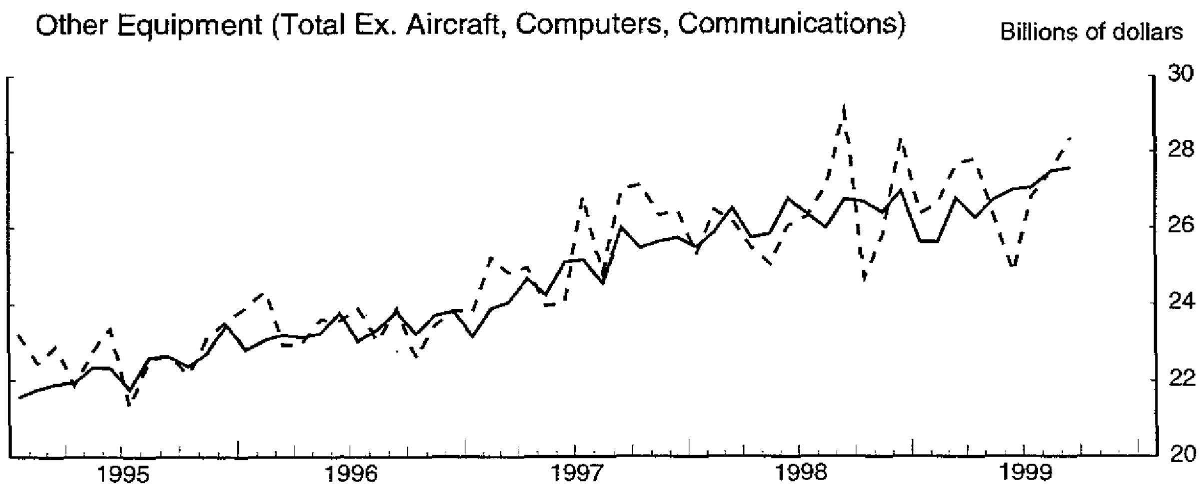
Real spending on communications equipment is estimated to have risen at an annual rate of 16 percent in the third quarter, after likely registering a blistering increase in the second quarter. Recent orders data point to continued strength in this spending category: New orders for communications equipment jumped almost 20 percent (not at an annual rate) in September, and the backlog of

8. The BEA's procedure for constructing its new estimates of software makes use of the fact that common factors may be affecting software and hardware. For the most recent periods, current-dollar own-account software, which accounts for about one-third of total software expenditures, is extrapolated using nominal expenditures on computers and peripheral equipment. Thus, because a portion of the nominal software estimates is extrapolated using the rate of increase in hardware spending, the third-quarter acceleration in software spending is influenced by the pickup in nominal expenditures of computers and peripheral equipment.

Recent Data on Orders and Shipments







unfilled orders increased significantly. Major manufacturers recently reported substantial strength in the areas of networking, wireless, and fiber-optics equipment.

Outside of the high-tech and transportation sectors, equipment spending appears to have bounced back from the sluggish pace of advance registered in the first half of the year. Orders in this category were, on average, above shipments during the first half of the year, causing the backlog of unfilled orders to rise. In the third quarter, manufacturers' shipments (excluding high-tech and transportation) rose 2-1/2 percent (not at an annual rate), led by sizable increases in shipments of metalworking machinery and turbines. Although some of these shipments likely went abroad, capital goods imports have also increased, and we now estimate that real domestic expenditures in this category grew moderately in the third quarter.

Nonresidential structures. Spending on nonresidential construction--one of the few areas of weakness so far this year--continued to slow in September, with nominal outlays for private buildings declining 0.4 percent. For the third quarter as a whole, expenditures on nonresidential structures were 1-1/4 percent below the second-quarter average.[9] This decline was driven by reduced institutional and industrial construction and weakness in other commercial construction, which includes stores and warehouses. In contrast, construction of office buildings stayed on its solid uptrend, expanding at a 5-1/2 percent pace in the third quarter.

Despite an 11-1/2 percent rise in September, contracts for private nonresidential construction decreased 10-1/4 percent in the third quarter as a whole, reflecting continued pronounced weakness in industrial building and faster declines in contracting for several types of construction, including office buildings, other commercial structures, and lodging and miscellaneous buildings. Note, however, that contracts data are both highly erratic and subject to large revisions.

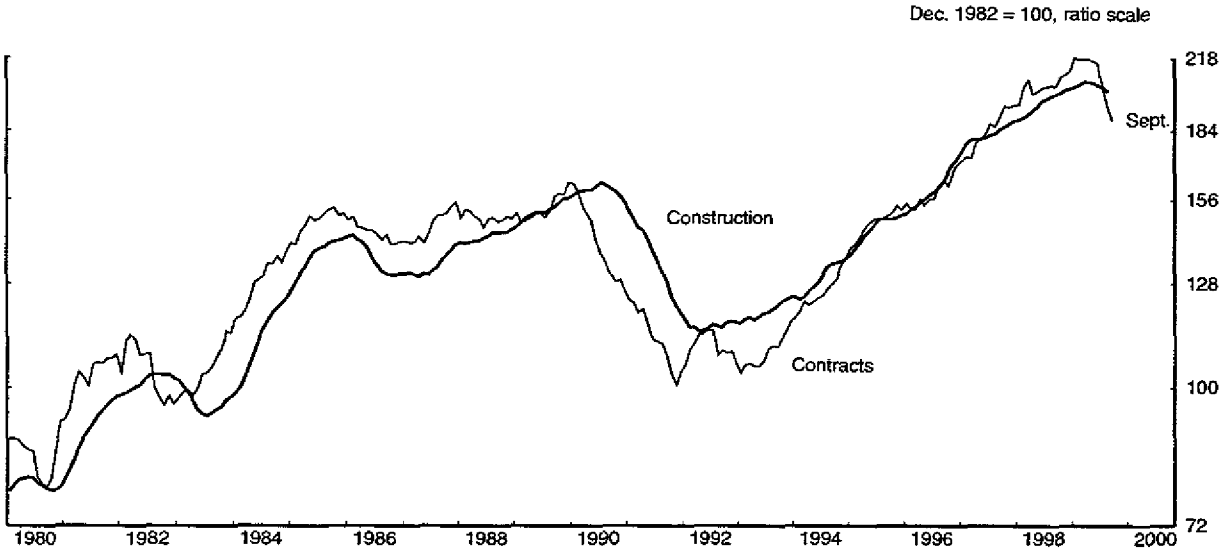
Business Inventories

Data on factory and wholesale inventories received since the release of the advance GDP report have been considerably higher than the BEA had anticipated. A literal translation would suggest that real nonfarm inventories increased at an annual rate of $40 billion, or 3-1/4 percent, in the third quarter,

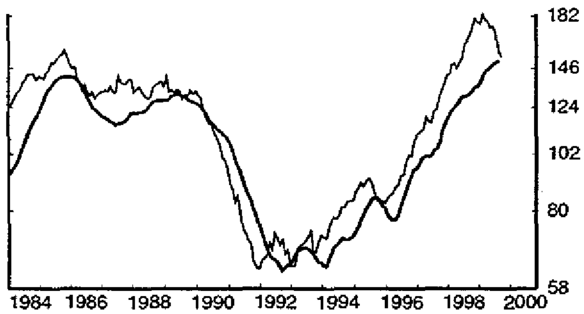
9. Nonetheless, the estimate for the third quarter was higher than the BEA had assumed in the advance GDP release and implies an upward revision of almost $2 billion to the third-quarter GDP estimate of real outlays.

Nonresidential Construction and Contracts
(Six-month moving average)

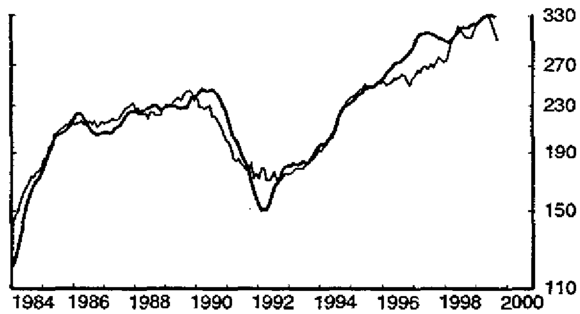
Total Private Building



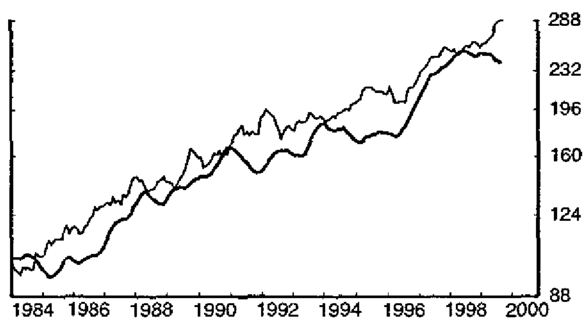
Office



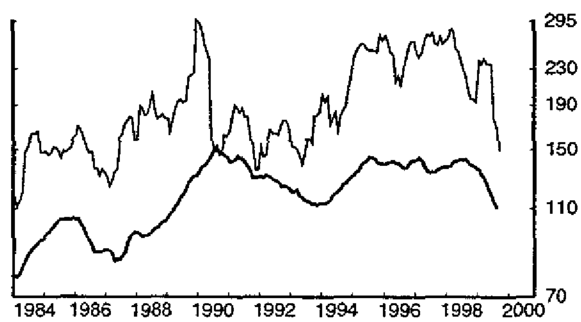
Other Commercial



Institutional



Industrial



Note. Individual sectors include both public and private building.

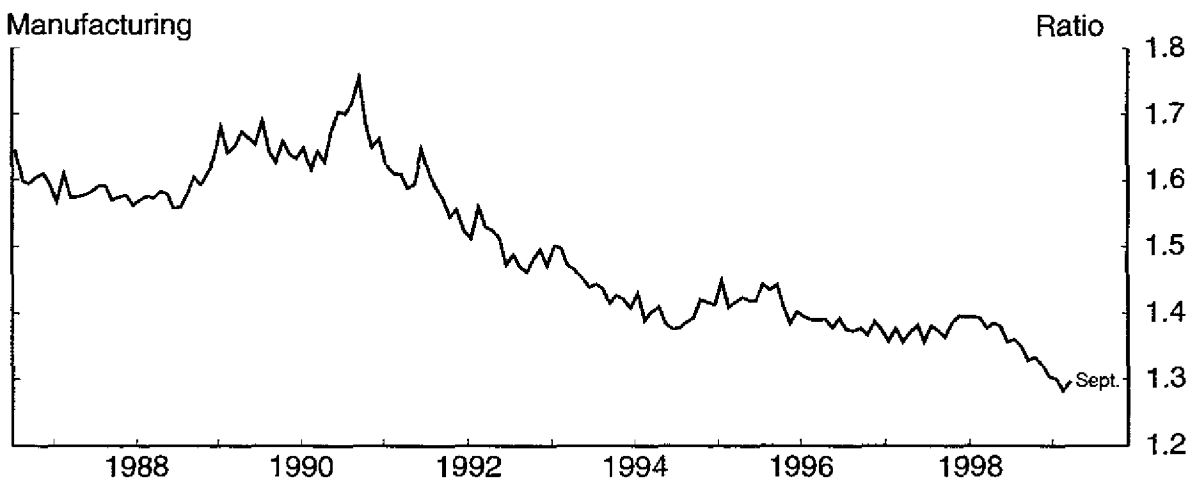
CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Billions of dollars; annual rate except as noted;
based on seasonally adjusted Census book value)

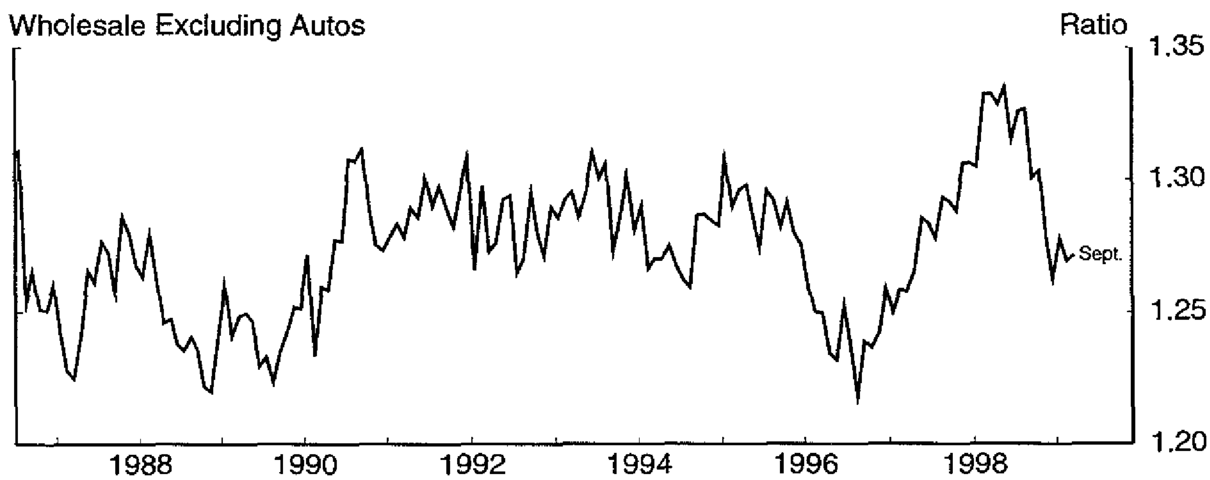
Category	1999 Q1	1999 Q2	1999 Q3	1999 July	1999 Aug.	1999 Sept.
Manufacturing and trade	34.3	34.8	n.a.	41.7	42.8	n.a.
Less wholesale and retail motor vehicles	10.2	12.9	n.a.	49.9	35.2	n.a.
Manufacturing	-12.9	-3.6	10.6	28.2	-8.3	11.9
Less aircraft	-3.0	5.1	13.3	21.2	10.2	8.4
Merchant wholesalers	7.5	8.0	25.6	31.4	18.9	26.5
Less motor vehicles	6.5	6.2	21.3	26.5	17.5	20.0
Retail trade	39.7	30.3	n.a.	-17.9	32.2	n.a.
Automotive dealers	23.1	20.1	n.a.	-13.0	6.2	n.a.
Less automotive dealers	16.6	10.2	n.a.	-4.9	26.0	n.a.

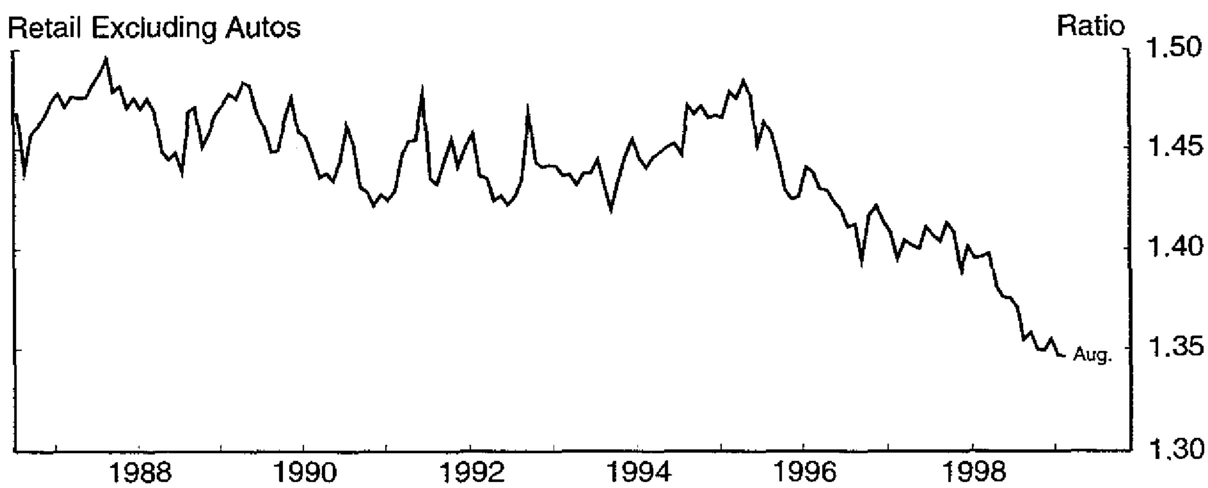
SELECTED INVENTORY-SALES RATIOS IN MANUFACTURING AND TRADE
(Months' supply, based on seasonally adjusted Census book value)

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	September 1999
Manufacturing and trade	1.58	1.37	1.39	1.32	n.a.
Less wholesale and retail motor vehicles	1.55	1.34	1.37	1.29	n.a.
Manufacturing	1.75	1.36	1.38	1.28	1.30
Primary metals	2.08	1.46	1.74	1.56	1.54
Steel	2.56	1.59	2.25	1.94	1.93
Nonelectrical machinery	2.48	1.61	1.66	1.52	1.60
Electrical machinery	2.08	1.21	1.26	1.17	1.16
Transportation equipment	2.93	1.51	1.62	1.39	1.45
Motor vehicles	.97	.53	.55	.51	.51
Aircraft	5.84	4.05	4.48	3.68	4.36
Nondefense capital goods	3.09	2.04	2.11	1.87	1.96
Textiles	1.71	1.38	1.59	1.53	1.56
Paper	1.32	1.06	1.23	1.14	1.16
Chemicals	1.44	1.25	1.45	1.33	1.33
Petroleum	.94	.80	.99	.76	.75
Home goods & apparel	1.96	1.59	1.75	1.53	1.61
Merchant wholesalers	1.36	1.24	1.35	1.28	1.29
Less motor vehicles	1.31	1.22	1.34	1.26	1.27
Durable goods	1.83	1.54	1.66	1.56	1.57
Nondurable goods	.95	.90	1.01	.95	.97
Retail trade	1.61	1.44	1.46	1.42	n.a.
Less automotive dealers	1.48	1.38	1.40	1.35	n.a.
Automotive dealers	2.22	1.59	1.74	1.61	n.a.
General merchandise	2.42	2.00	2.05	1.91	n.a.
Apparel	2.53	2.28	2.50	2.25	n.a.
GAF	2.41	2.06	2.11	1.97	n.a.

Inventory-Sales Ratios, by Major Sector
(Book Value)







versus the $32 billion estimated in the advance report. Coming on the heels of a very small accumulation in the second quarter, this increase would contribute more than 1 percentage point to the increase in real GDP in the third quarter. Final sales increased at a robust pace last quarter, and the real inventory-sales ratio edged down to its lowest level in two years.

Inventory investment by manufacturers appears to have turned slightly positive last quarter: In real terms, we estimate that manufacturers accumulated inventories at an annual pace of about $3 billion after having liquidated stocks at about an $8 billion rate in the second quarter. The book value of inventories, boosted by higher prices, particularly for petroleum and related products, increased at an annual rate of about $10-1/2 billion in the third quarter after having declined at an $8 billion average pace over the first half of the year. This accumulation was held down by the aircraft industry, in which stocks have been declining with the reduced production at Boeing. As the pace of book-value stockbuilding for manufacturing as a whole did not keep up with the nominal value of shipments, the inventory-sales ratio declined in the third quarter. In October, the NAPM survey of manufacturers showed a net positive diffusion index for materials inventories, the first this year. Among the purchasing managers surveyed in September, 38 percent had indicated that they intended to build some types of inventories because of supply concerns related to Y2K, and we suspect that any such accumulation will begin to be evident in the October data. Outside of manufacturing, however, purchasing managers did not indicate any overall pickup in the pace of inventory investment in October.

We estimate that real wholesale inventories posted a $20 billion accumulation last quarter (versus the $14 billion figure published in the advance GDP release). In book-value terms, with sales at wholesalers picking up as well in the third quarter, the inventory-sales ratio for this category remained about unchanged. Although most of last year's bulge in the ratio has now been reversed, stocks remain somewhat elevated relative to sales at distributors of chemicals, machinery, and metals and minerals.

The BEA reported that real retail inventories increased at an annual rate of $17 billion in the third quarter, up from the $6 billion pace posted in the second quarter; the increase was led by a pickup in inventory investment at motor vehicle dealerships. The BEA's estimates for the non-motor-vehicle portion of retail inventories are based on book-value data through August and an assumption of $21-1/2 billion for the September figure, which will be released next week. Excluding motor vehicles, the average increase in book-value stocks in July and August was $10-1/2 billion (annual rate), about the same as the rate of accumulation posted in the second quarter. This moderate pace of book-

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

	Sept.			12 months ending in Sept.		
	1998	1999	Percent change	1998	1999	Percent change
Outlays	143.6	144.0	0.3	1652.2	1704.5	3.2
Deposit insurance	-0.4	-0.1	-61.6	-4.4	-5.0	14.5
Spectrum auction	-1.5	-0.8	-47.7	-2.6	-1.8	-33.6
Sale of major assets	0.0	0.0	0.0	-3.2	0.0	-100.0
Other	145.4	144.9	-0.4	1662.4	1711.3	2.9
Receipts	181.0	200.4	10.7	1721.5	1827.3	6.1
Surplus	37.4	56.4	50.8	69.2	122.7	77.3
	Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts[1]					
Outlays	145.4	144.9	-0.4	1667.5	1712.3	2.7
National defense	24.7	24.3	-1.9	270.3	276.8	2.4
Net interest	16.0	15.3	-4.5	243.4	230.3	-5.4
Social security	31.8	32.6	2.5	379.2	390.6	3.0
Medicare	15.8	16.1	2.2	194.0	190.5	-1.8
Medicaid	8.7	10.1	15.8	101.2	108.0	6.7
Other health	2.6	2.9	13.8	29.8	32.8	10.0
Income security	17.3	16.9	-2.4	233.1	237.3	1.8
Other	28.5	26.7	-6.3	216.4	246.0	13.7
Receipts	181.0	200.4	10.7	1721.5	1827.3	6.1
Individual income and payroll taxes	132.7	143.7	8.3	1363.9	1455.4	6.7
Withheld + FICA	89.9	98.1	9.2	1149.1	1238.1	7.7
Nonwithheld + SECA	45.5	48.6	6.8	314.2	340.4	8.3
Refunds (-)	2.7	3.1	12.6	99.5	122.7	23.4
Corporate	36.8	40.2	9.3	188.7	184.7	-2.1
Gross	38.9	42.6	9.4	213.3	216.3	1.4
Refunds (-)	2.1	2.3	9.8	24.6	31.6	28.7
Other	11.5	16.5	43.1	168.9	187.2	10.8
Surplus	35.6	55.5	56.0	54.0	115.0	113.2

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.

value stockbuilding has kept the inventory-sales ratio for this category flat for several months.

Government Expenditures

The federal government recorded a unified budget surplus of $123 billion for fiscal year 1999, up about $54 billion from last year. The surpluses recorded over the past two years are the largest as a share of GDP in more than a half-century. Furthermore, even excluding social security and the Postal Service, the fiscal 1999 budget was almost in balance, with an on-budget deficit of only $1 billion. The improved surplus owed in part to a decline in net interest payments that reflected both lower interest rates and lower debt levels. In addition, Medicare expenditures were held down by cuts enacted in the Balanced Budget Act of 1997. Finally, receipts grew faster than nominal GDP for all major tax categories other than the corporate income tax.

The surplus in September--adjusted for timing shifts and asset transactions--was $20 billion larger than last September. Receipts were almost 11 percent higher this September than last, reflecting strong growth in all categories. Adjusted outlays this September were a bit lower than they were a year earlier. Net interest payments, national defense expenditures, income security expenditures, and "other" expenditures were below last year's level, while Medicare spending growth remained subdued. Medicaid and other health spending picked up somewhat in September.

The process of enacting the appropriations bills that fund discretionary spending is moving toward completion. The Congress has passed all thirteen of the regular appropriations bills that fund discretionary spending programs, but the President has signed only eight of these bills and has vetoed or threatened to veto the remaining five. While congressional and Administration negotiators have reported progress in their efforts to reconcile differences about these bills, they appear to have given up on their most recent, November 10, target for completing the bills. They have passed another continuing resolution that will fund affected programs at current levels through November 17.

The CBO has estimated that the provisions of the bills that have been passed by Congress would decrease its July baseline surplus projection for fiscal 2000 by about $32 billion, leaving a projected $17 billion on-budget deficit. Of course, these numbers may be altered by the congressional-Administration negotiations now in progress. But the net changes are expected to be small because the Administration and the Congress are not that far apart on spending levels and because the negotiators have agreed to provide offsetting spending cuts for any proposed increases.

CPI INFLATION RATES
(Percent change)

	From twelve months earlier		1999		1999	
	Sept. 1998	Sept. 1999	Q2	Q3	Aug.	Sept.
			-Annual rate-		-Monthly rate-	
All items (100.0)[1]	1.5	2.6	3.4	2.7	.3	.4
Food (15.4)	2.0	2.2	.9	2.1	.2	.2
Energy (6.3)	-9.8	10.2	25.5	13.6	2.7	1.7
CPI less food and energy (78.3)	2.5	2.0	2.5	1.6	.1	.3
Commodities (24.0)	.8	1.0	.6	.7	-.1	.7
New vehicles (5.0)	-.3	-.5	-1.0	.1	-.1	.2
Used cars and trucks (1.9)	2.5	2.5	2.3	12.1	1.0	1.2
Apparel (4.8)	.5	-1.3	3.9	-4.0	-.3	1.2
Tobacco (1.2)	15.0	31.9	-.7	18.1	-1.3	6.5
Other Commodities (11.1)	.0	-.4	-.3	-.5	-.2	-.1
Services (54.3)	3.1	2.5	3.1	2.1	.2	.2
Shelter (29.9)	3.6	2.7	3.4	2.3	.2	.3
Medical care (4.5)	3.5	3.3	3.3	3.3	.3	.2
Other Services (19.9)	2.3	2.1	2.7	1.6	.0	-.1

1. Relative importance weight for CPI, December 1998.

PPI INFLATION RATES
(Percent change)

	From twelve months earlier		1999		1999	
	Oct. 1998	Oct. 1999	Q2	Q3	Sept.	Oct.
			-Annual rate-		-Monthly rate-	
Finished goods (100.0)[1]	-.7	2.7	2.8	3.7	1.1	-.1
Finished consumer foods (23.3)	.3	.1	-2.1	.4	1.0	-.7
Finished energy (12.0)	-10.3	12.1	27.7	27.4	2.2	-1.0
Finished goods less food and energy (64.7)	1.2	1.9	.2	.6	.8	.3
Consumer goods (39.5)	2.1	3.0	.4	1.3	1.1	.3
Capital equipment (25.2)	-.3	.3	.0	-.6	.2	.3
Intermediate materials (100.0)[2]	-2.5	2.4	4.5	6.0	.3	.3
Intermediate materials less food and energy (83.2)	-1.1	1.1	1.9	3.5	.1	.4
Crude materials (100.0)[3]	-16.6	11.6	27.1	29.7	5.1	-1.6
Crude food materials (45.0)	-5.8	-4.0	-10.3	-3.1	1.3	-.1
Crude energy (31.7)	-29.3	36.6	131.1	83.7	10.4	-4.8
Crude materials less food and energy (23.3)	-14.1	7.0	2.0	22.7	2.2	2.4

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

On a NIPA basis, real federal purchases increased at an annual rate of 3.1 percent in the third quarter. Real defense consumption and gross investment grew about 10 percent after three quarters of decline; a large part of the increase should be attributed to the underlying volatility of defense spending. Real nondefense consumption and gross investment, on the other hand, fell 8 percent in the third quarter, owing to a reduction in NASA expenditures for research and development, which had surged in the second quarter.

According to the BEA's advance estimate, real spending on consumption and investment goods by state and local governments rose at an annual rate of 3.4 percent in the third quarter, about the same as the average increase now estimated for the past few years. Moreover, the construction data for September were considerably stronger than the BEA had anticipated, owing in large part to a surge in highway spending. In October, state and local employment rose 53,000, more than offsetting the previous month's small dip. So far this year, employment growth has been somewhat above last year's pace, in part because of more rapid local-education hiring to accommodate smaller class sizes and rising enrollments.

Prices and Labor Costs

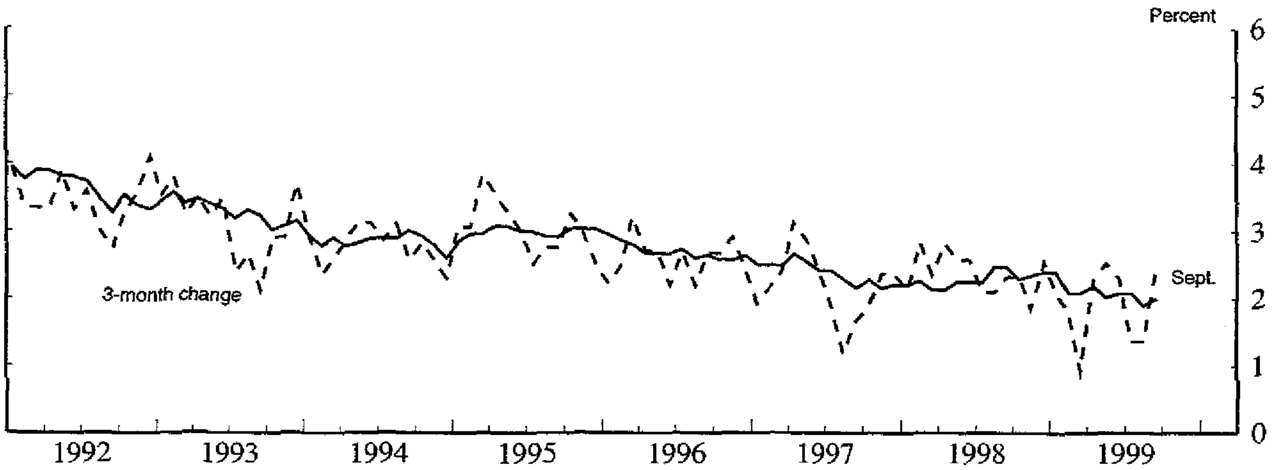
Prices. The underlying pace of price increases has remained subdued outside of the energy sector. The consumer price index increased 0.4 percent in September, boosted by another large increase in energy prices. Excluding food and energy, the CPI rose 0.3 percent in September, reflecting a large increase in tobacco prices that added about 0.1 percentage point to both overall and core inflation in September. Over the twelve months ended in September, the overall CPI increased 2.6 percent, up from a 1.5 percent increase in the year-earlier period. In contrast, excluding food and energy, the CPI increased just 2 percent, about 1/2 percentage point less than in the year-earlier period.

In September, the CPI for energy increased 1.7 percent, the third large monthly increase in a row. The surge in energy prices over the summer was largely the result of higher crude oil prices. So far this year, retail energy prices have risen at an annual rate of 16 percent, compared with a 9 percent decline last year. Food prices increased 0.2 percent in September and have risen 2.2 percent over the past twelve months, similar to the increase in the CPI excluding food and energy.

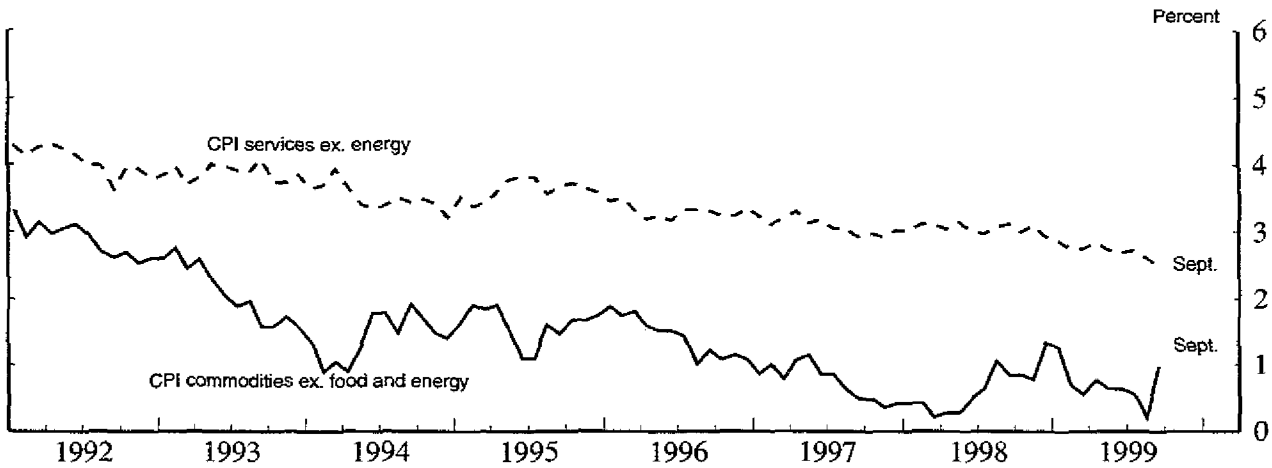
Excluding food and energy, the CPI was boosted in September by increases in several of its more erratic components. Most important, tobacco prices jumped 6.5 percent, suggesting that almost all of the increase in wholesale prices that was announced in September was quickly passed through to retail prices.

Measures of Core Consumer Price Inflation
(Twelve-month change except as noted)

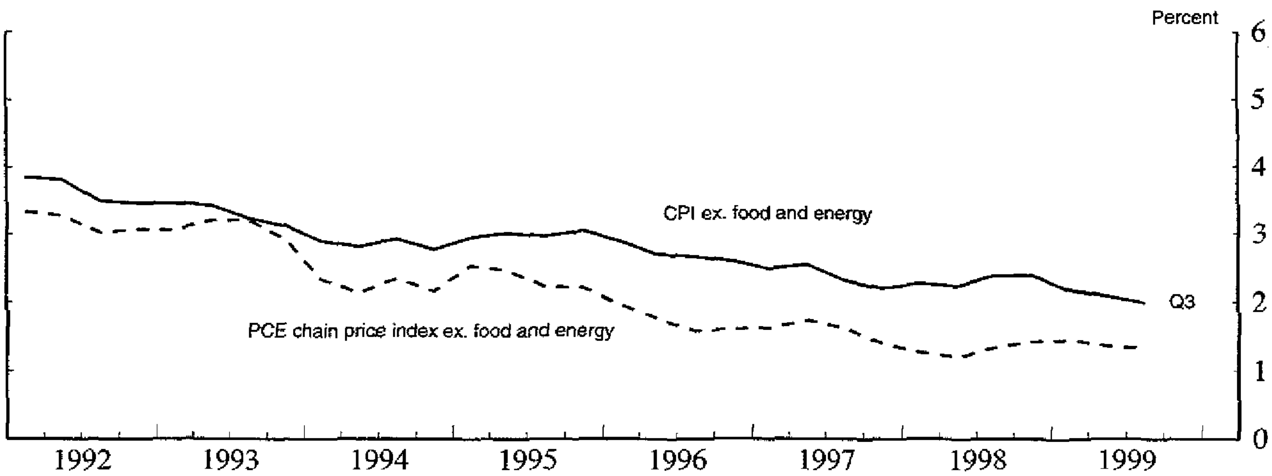
CPI Excluding Food and Energy



CPI Services and Commodities



CPI and PCE



Moreover, BLS analysts believe that the large price increases for apparel and lodging away from home reflected seasonal adjustment difficulties: For apparel, the increase can be traced largely to the earlier-than-usual introduction of new, fall-season clothing items. For lodging away from home, the September jump reflects less-pronounced seasonal variation in summer-resort room rates in the past couple of years; this caused the CPI's seasonal factors to anticipate a larger drop in room rates than actually occurred in September.[10] In addition, prices of used cars posted their sixth consecutive large increase; this surge followed a decline earlier in the year, and, on balance, used car prices were up 2.5 percent over the past twelve months. In contrast, prices of new vehicles increased just 0.2 percent in September and have fallen 0.5 percent over the past twelve months.

The CPI's largest single component, owners' equivalent rent, increased 0.2 percent in September. So far this year, owners' equivalent rent has risen at an annual rate of 2.2 percent, down from a 3.2 percent increase over the twelve months of 1998. This deceleration has occurred even though, as noted earlier, single-family home prices have been rising more rapidly. Owners' equivalent rent in the CPI is intended to be a proxy for the cost of homeownership; it is based on movements in market rents, with more weight placed on geographic areas that have a high concentration of owner-occupied homes. Thus, one explanation that has been proposed for the relatively sluggish performance of owners' equivalent rent relative to house prices--assuming that it is not a statistical aberration--is that the demand for housing has shifted from renting to owning, pushing house prices up and rents down. Similarly, the fact that the CPI for tenants' rent has not decelerated as much as has owners' equivalent rent so far this year suggests that, within the rental market, demand has been weakest in areas dominated by owner-occupied homes. Consistent with this hypothesis, the rental vacancy rate for single-family homes has been drifting up in recent years at the same time that the vacancy rate for units in multifamily buildings has been moving down.

The PCE chain price index provides an alternative perspective on consumer price inflation. Over the four quarters ending in the third quarter of 1999, the PCE chain price index increased 1.7 percent, up from a 1 percent increase over

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10. In addition, the seasonality of the indexes for both apparel and lodging away from home appears to have been changed by the adoption in January of the geometric-means formula for aggregating individual price quotes to form the CPIs for narrow categories. Our estimates suggest that this change led to some overstatement in the September increases in these two categories, after some understatement in the preceding three months. Note that while the effect of changed seasonality on these categories was large in September--on the order of 1/2 percentage point each--the effect on the core CPI came to only about 0.05 percentage point.

BROAD MEASURES OF INFLATION
(Four-quarter percent change)

	1996 Q3	1997 Q3	1998 Q3	1999 Q3
Product prices				
GDP chain price index	1.8	1.6	1.2	1.3
Nonfarm business chain price index[1]	1.2	1.8	0.7	0.8
Expenditure prices				
Gross domestic purchases chain price index	1.7	1.3	0.8	1.5
Less food and energy	1.4	1.4	1.1	1.2
PCE chain price index	1.9	1.6	1.0	1.7
Less food and energy	1.6	1.6	1.3	1.3
CPI	2.9	2.2	1.6	2.3
Less food and energy	2.7	2.3	2.4	2.0
Median CPI	3.1	2.9	2.9	2.3
Trimmed mean CPI	2.9	2.4	2.0	1.8

1. Excluding housing.

SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

		University of Michigan				
		1 year		5 to 10 years		
	Actual inflation[1]	Mean[2]	Median[3]	Mean[4]	Median[5]	Professional forecasters (10-year)[6]
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	2.1	3.1	2.7	3.3	2.8	2.5
Q3	2.3	3.1	2.7	3.4	2.9	2.5
July	2.1	3.0	2.7	3.3	2.9	
Aug.	2.3	3.2	2.8	3.3	2.8	
Sept.	2.6	3.2	2.7	3.5	2.9	2.5
Oct.		3.5	2.9	3.2	2.8	

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.

the preceding four quarters. Excluding food and energy, the PCE price index increased 1.3 percent, unchanged from the preceding four-quarter period. The lack of deceleration in core PCE prices even as the core CPI has decelerated further owes, in part, to the fact that housing prices have a much larger weight in the CPI than in the PCE price index.[11]

The producer price index for capital equipment rose 0.3 percent in October after a 0.2 percent increase in September. The increases in both months were boosted by large increases in prices of light motor vehicles. The September increase likely reflected the fact that, with stocks lean, manufacturers had less need than usual to cut prices in order to clear out 1999 models; this atypical behavior was translated by the seasonal factors into a large increase.[12] In addition, computer prices fell 0.5 percent in September and 1.3 percent in October, a slower pace of decline than had been posted earlier in the year. These smaller declines reflect disruptions in the supply of components, especially memory chips.

Combining consumer and investment prices, as well as prices from the government sector, the price index for gross domestic purchases rose at an annual rate of 1-1/2 percent in the third quarter; over the past four quarters, this measure was up 1-1/2 percent, about 3/4 percentage point more than its pace over the preceding four quarters. As noted above, resurgent energy prices accounted for most of the higher inflation this year. The price index for gross domestic product, which measures prices of goods produced in the United States and thus has a smaller weight on energy prices, increased 1-1/4 percent over the past four quarters, up just slightly from the year-earlier period.

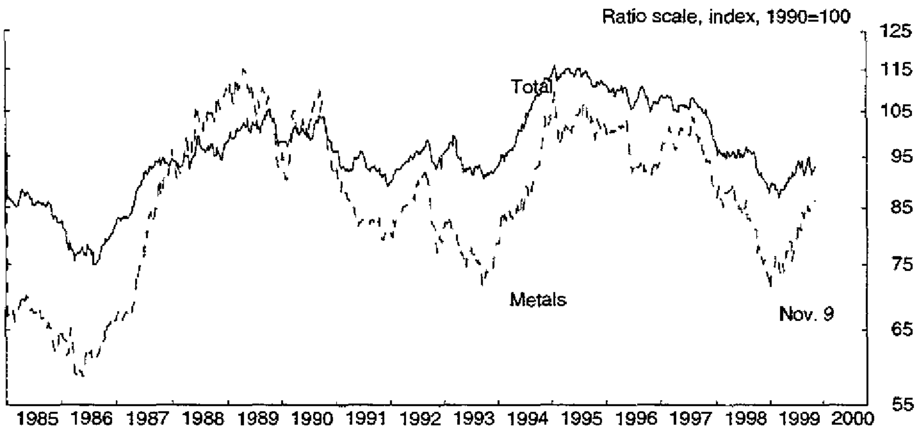
At earlier stages of processing, the PPI for intermediate materials excluding food and energy moved up 0.4 percent in October after a 0.1 percent uptick in September. Together, these increases are close to the average for the prior several months. Some of these increases--for example, for certain chemicals and plastics--reflect higher oil prices. But many metals prices also have been increasing rapidly. Higher prices for forest products boosted the materials PPI in the spring and early summer, but this component has posted declines more recently; indeed, spot prices of these commodities have almost entirely unwound their earlier run-up. Since it began turning up early last spring, the

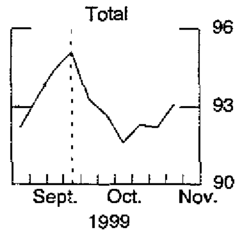
11. A more complete explanation of the difference between these price measures must await publication of the NIPA detail.

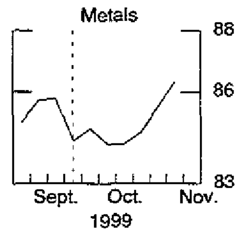
12. As is often the case, the September rise in the PPI for cars was not mirrored in the September CPI. In this instance, the increase may have been muted because the CPI phases in the model-year changeover over several months, whereas in the PPI, the old models are removed abruptly in September, exaggerating the effects of any special end-of-model-year pricing in the September PPI.

Commodity Price Measures

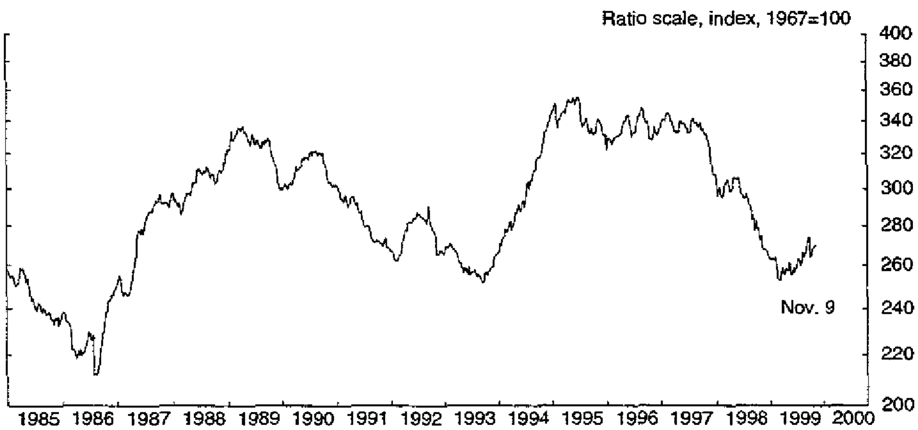
Journal of Commerce Index

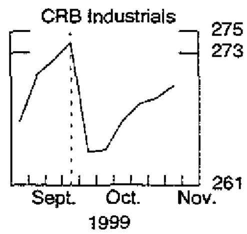




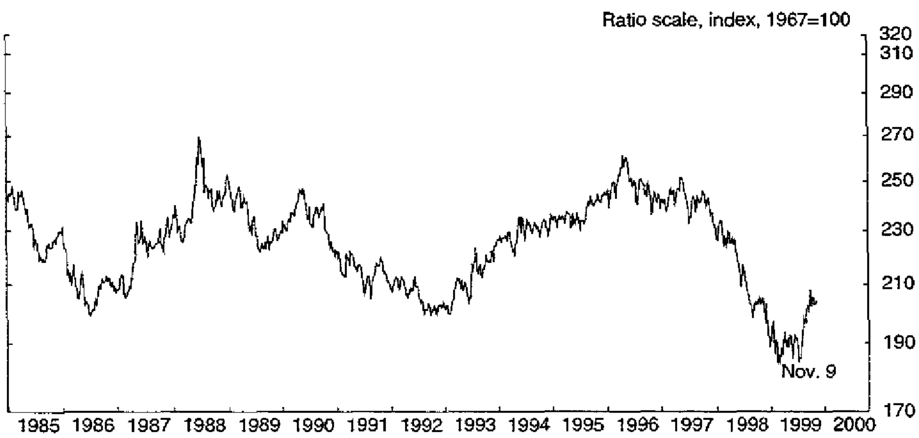


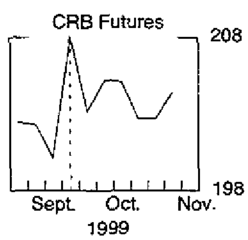
CRB Spot Industrials





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.

SPOT PRICES OF SELECTED COMMODITIES

	Current price (dollars)	---------------Percent change[1]--------------- 1997	1998	Dec. 29 to Sept. 28[2]	Sept. 28[2] to Nov. 09	Memo: Year earlier to date
Metals						
Copper (lb.)	.840	-21.5	-14.8	20.3	1.2	10.5
Steel scrap (ton)	106.667	19.3	-47.5	37.2	7.0	42.2
Aluminum, London (lb.)	.660	-1.9	-17.6	19.2	-1.5	12.2
Precious metals						
Gold (oz.)	290.750	-20.7	-1.1	12.4	-9.9	-.5
Silver (oz.)	5.125	27.2	-18.0	14.7	-11.1	2.3
Forest products[3]						
Lumber (m. bdft.)	315.000	-26.6	2.7	10.0	-4.5	15.8
Plywood (m. sqft.)	325.000	-1.7	3.3	14.5	-8.5	.9
Petroleum						
Crude oil (barrel)	24.210	-27.4	-36.1	125.4	4.0	116.7
Gasoline (gal.)	.676	-23.5	-33.5	117.8	-7.0	72.9
Fuel oil (gal.)	.625	-29.6	-33.6	87.2	1.8	68.4
Livestock						
Steers (cwt.)	69.250	4.2	-13.2	10.6	6.1	9.9
Hogs (cwt.)	31.250	-30.8	-55.7	136.3	-14.7	54.3
Broilers (lb.)	.611	-24.4	15.0	-3.8	11.9	-.7
U.S. farm crops						
Corn (bu.)	1.840	-3.8	-19.4	-11.4	.8	-12.4
Wheat (bu.)	2.735	-24.1	-5.7	-14.3	-3.8	-19.5
Soybeans (bu.)	4.540	-3.2	-21.1	-13.8	-1.2	-19.1
Cotton (lb.)	.482	-10.9	-10.2	-14.2	-2.2	-27.2
Other foodstuffs						
Coffee (lb.)	1.130	26.1	-31.4	-28.4	34.9	-9.2
Memo:						
JOC Industrials	93.100	-7.3	-9.8	7.5	-2.1	2.3
JOC Metals	86.300	-4.7	-18.5	16.6	2.3	14.0
CRB Futures	204.410	-4.9	-17.2	8.9	-1.7	-.1
CRB Spot	269.990	-7.6	-14.1	4.0	-1.4	.0

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 September Greenbook.
3. Reflects prices on the Friday before the date indicated.

EMPLOYMENT COST INDEX OF HOURLY COMPENSATION
FOR PRIVATE INDUSTRY WORKERS

	1998		1999		
	Sept.	Dec.	Mar.	June	Sept.
	-----Quarterly percent change------- (Compound annual rate)				
Total hourly compensation[1]	4.1	2.9	1.4	4.6	3.4
Wages and salaries	4.8	3.0	1.8	5.0	3.2
Benefit costs	2.5	2.8	0.8	3.9	3.6
By industry					
Construction	1.5	4.9	3.9	2.1	2.7
Manufacturing	2.9	2.3	2.6	2.6	3.7
Trans., comm., and public utilities	3.8	2.9	0.0	4.4	2.3
Wholesale trade	7.1	6.7	-1.4	5.1	5.4
Retail trade	3.9	0.9	3.0	6.3	1.7
FIRE	7.7	4.3	-2.8	12.7	5.0
Services	3.8	3.1	2.0	3.4	3.6
By occupation					
White collar	4.7	3.7	0.0	5.2	3.9
Blue collar	2.7	3.0	2.7	3.3	3.5
Service occupations	3.3	2.1	4.4	3.8	0.3
Memo:					
State and local governments	2.9	2.9	2.6	3.2	3.1
	-----Twelve-month percent change----				
Total hourly compensation	3.8	3.5	3.0	3.3	3.1
Excluding sales workers	3.5	3.1	3.0	3.2	3.2
Wages and salaries	4.3	3.9	3.3	3.6	3.2
Excluding sales workers	3.9	3.4	3.4	3.6	3.3
Benefit costs	2.6	2.4	2.2	2.5	2.8
By industry					
Construction	2.9	3.5	3.8	3.2	3.4
Manufacturing	2.7	2.7	2.6	2.7	2.8
Trans., comm., and public utilities	4.2	3.8	2.9	2.8	2.4
Wholesale trade	4.6	5.7	3.6	4.3	3.9
Retail trade	3.7	3.0	2.8	3.5	3.0
FIRE	8.0	5.9	3.5	5.3	4.7
Services	3.5	3.0	3.0	3.1	3.0
By occupation					
White collar	4.4	3.9	3.1	3.4	3.2
Sales	6.2	6.8	3.2	3.9	2.6
Nonsales	4.0	3.3	3.0	3.3	3.3
Blue collar	2.7	2.7	2.9	2.9	3.1
Service occupations	3.2	2.9	3.1	3.4	2.7
Memo:					
State and local governments	3.0	3.0	2.9	3.0	2.9

1. Seasonally adjusted by the BLS.

PPI for core intermediate materials has fully retraced the 1-1/2 percent decline it posted over the preceding twelve months. Looking at prices at even earlier stages of production, the PPI for crude materials other than food and energy rose 2.4 percent in October and 2.2 percent in September, suggesting that there are further materials price increases in the pipeline. Since they began turning up in May, prices of core crude materials have increased nearly 12 percent (not at an annual rate), after having declined 12-1/2 percent over the preceding twelve months.

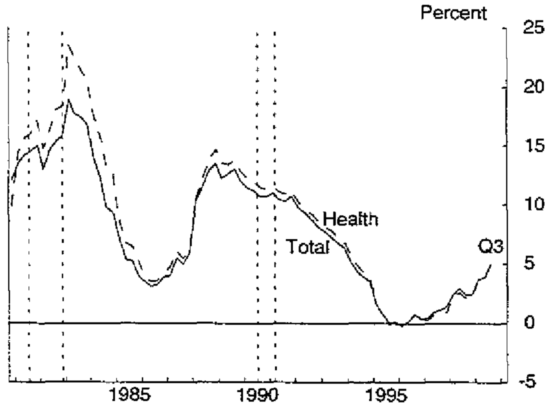
Mean one-year-ahead inflation expectations as captured by the Michigan SRC moved up 1/4 percentage point in October to 3-1/2 percent. While the mean expectation measure is quite erratic from month to month, the smoother median household expectation rose by a similar amount last month, to about 3 percent. On a three-month moving-average basis, household inflation expectations are about 1/2 percentage point higher than at the end of last year; this uptick mirrors the rise in overall inflation over this period. Looking further ahead, household expectations of inflation over the next five to ten years have been little changed since the end of last year, with a mean response of 3-1/4 percent and a median response of 2-3/4 percent in October.

Labor costs. Compensation costs have been rising more slowly than they did last year, but there are signs that this deceleration is coming to a close. The employment cost index for hourly compensation in private industry increased at an annual rate of 3.4 percent in the three months ended in September, a bit faster than the average pace in the first six months of the year. Over the twelve months ended in September, hourly compensation increased 3.1 percent, down from a 3.8 percent increase over the preceding twelve-month period. The deceleration occurred in the services, trade, and transportation industries, but was most marked in the finance, insurance, and real estate industry. There, some slowing of increases in equity prices and home sales, and the sharp drop in mortgage refinancing activity likely contributed to slower increases in commissions. However, the rate of increase in hourly compensation was unchanged in manufacturing and has moved up notably in the construction industry.

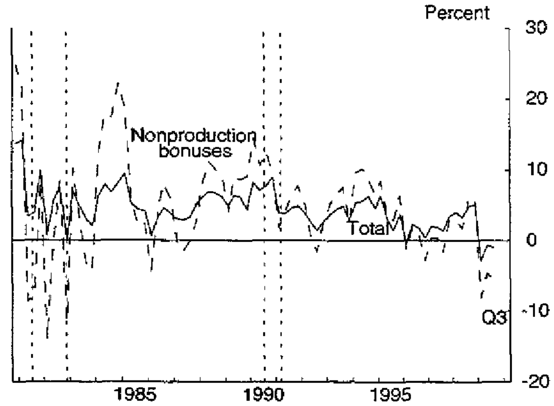
The deceleration in hourly compensation occurred entirely in wages and salaries, which increased 3.2 percent over the twelve months ended in September, about a percentage point less than in the preceding twelve-month period. By contrast, hourly benefits increased 2.8 percent over the latest twelve-month period, 0.2 percentage point more than in the preceding period. Health insurance costs have accelerated sharply in the past year, from a 2.2 percent increase in the year-ago period to a 5 percent increase over the most recent twelve months. According to unpublished and confidential detail on benefit

Components of ECI Benefits Costs (CONFIDENTIAL)
(Private industry workers; twelve-month change)

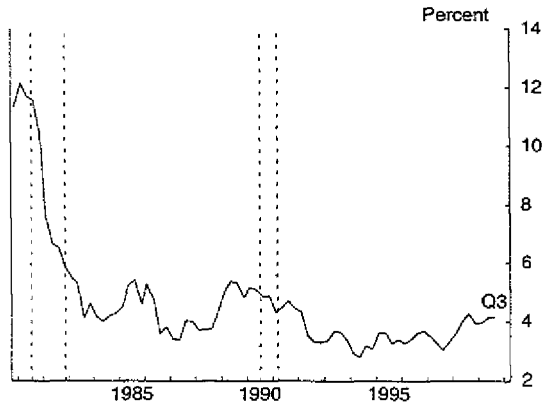
Insurance Costs



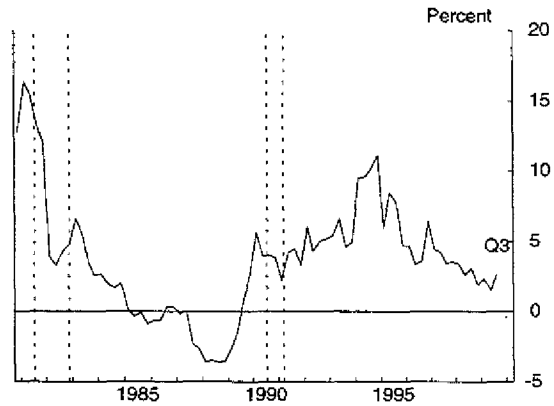
Supplemental Pay



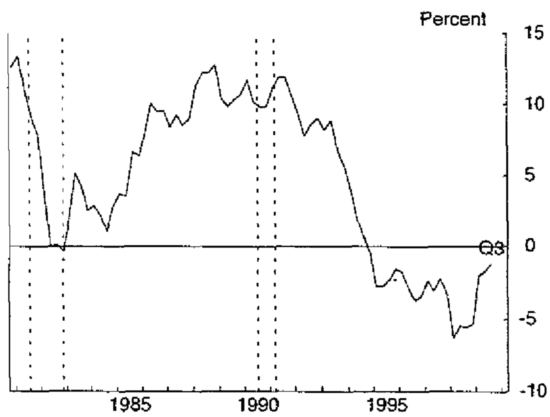
Paid Leave



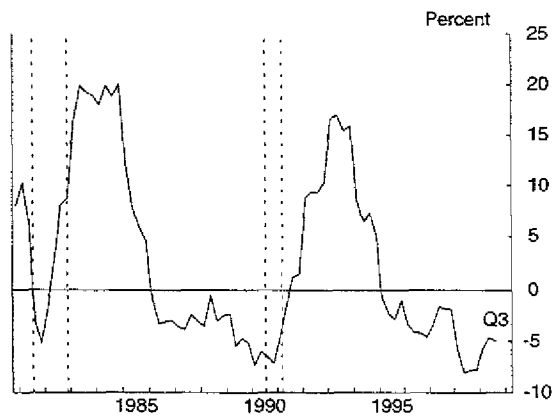
Retirement and Savings



Workers' Compensation Insurance



State Unemployment Insurance



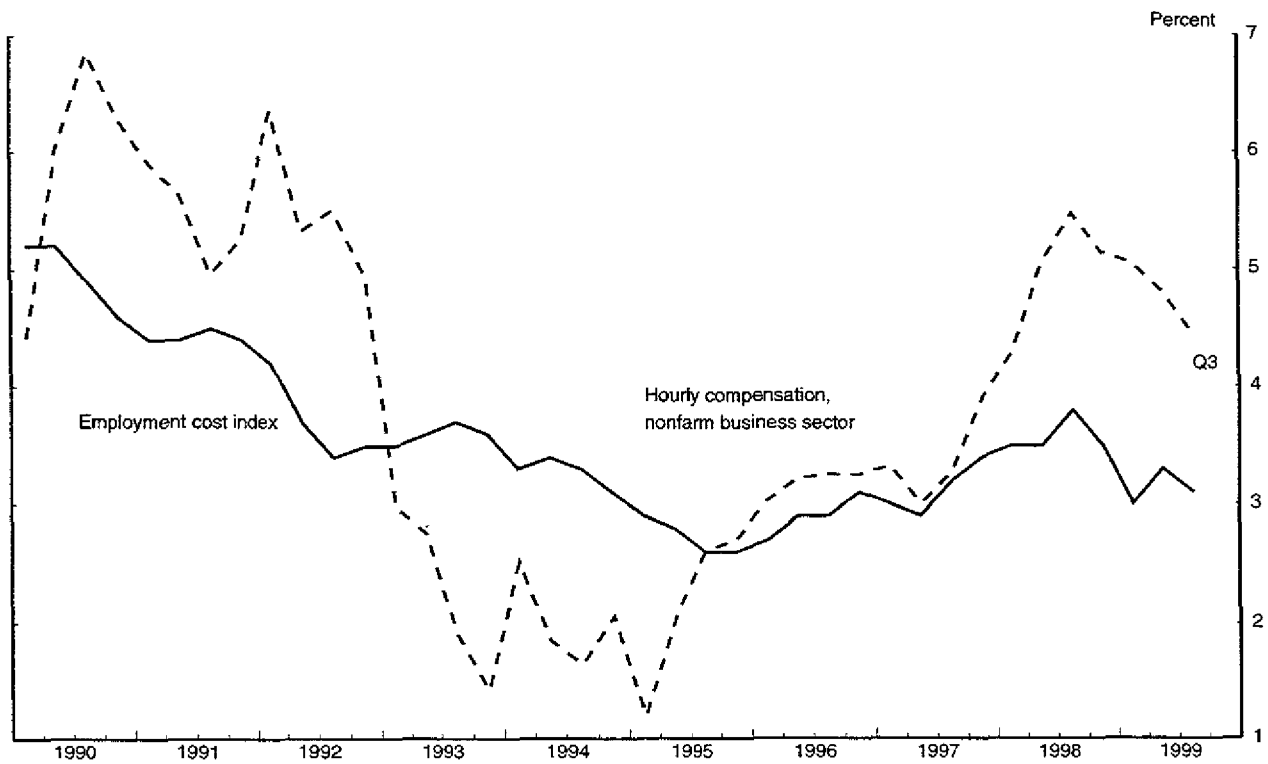
Note. Unpublished and confidential ECI benefits detail.

LABOR COSTS (STAFF ESTIMATES)
(Percent change; annual rate; based on seasonally adjusted data)

	1997[1]	1998[1]	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1998:Q3 to 1999:Q3
Compensation per hour							
Nonfarm business	3.9	5.1	4.5	4.3	4.6	4.6	4.4
Nonfinancial corporations[3]	4.4	5.5	4.9	4.9	4.8	n.a.	n.a.
Unit labor costs							
Nonfarm business	1.7	1.9	0.4	1.5	4.0	1.4	1.8
Nonfinancial corporations[3]	1.0	1.2	1.7	0.6	1.6	n.a.	n.a.

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

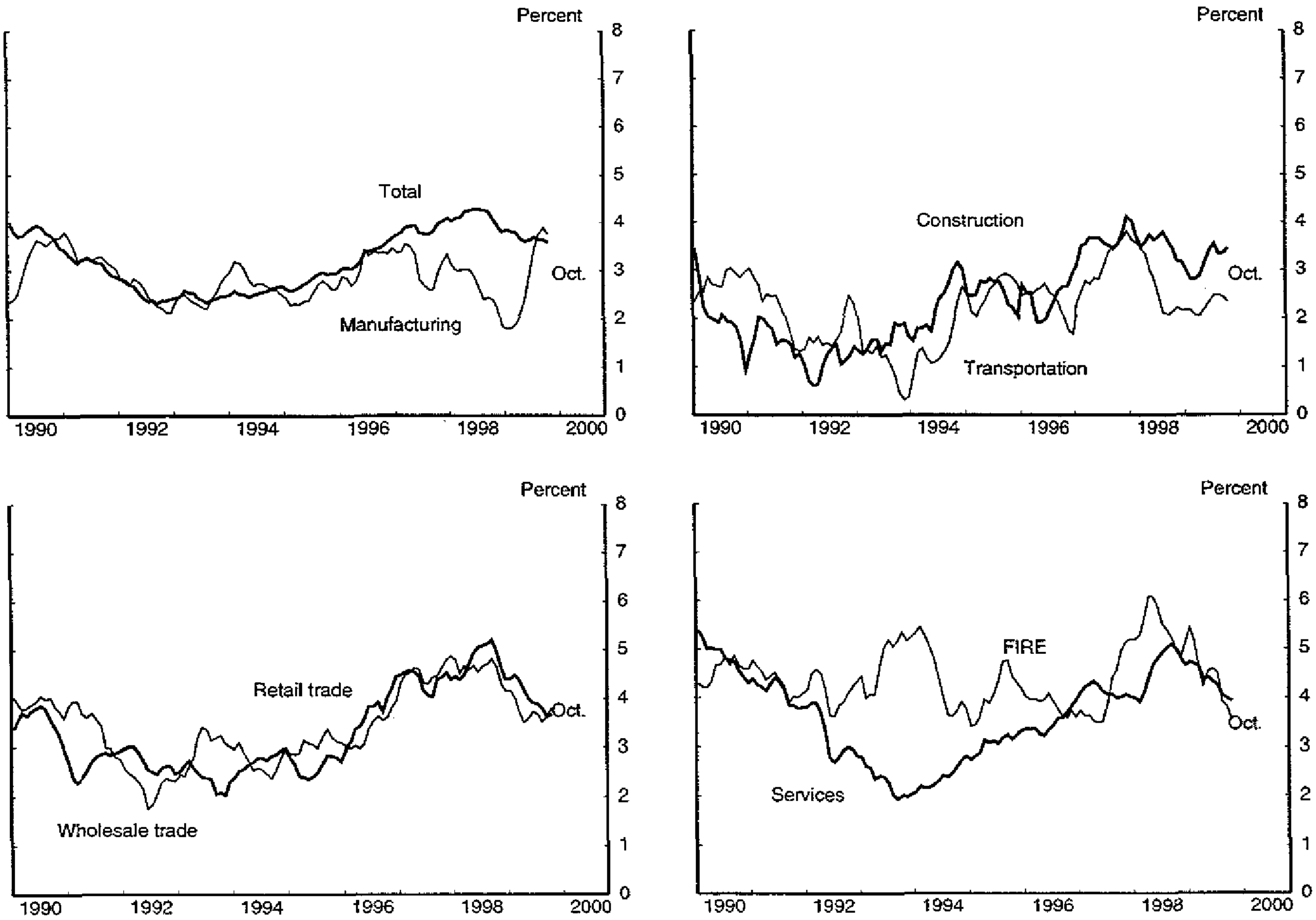
Measures of Compensation per Hour
(Four-quarter change)



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

	Twelve-month percent change			Percent change to Oct. 1999		1999	
	Oct. 1997	Oct. 1998	Oct. 1999	Apr. 1999	July 1999	Sept.	Oct.
	-Annual rate-					-Monthly rate-	
Total private nonfarm	4.2	3.9	3.6	3.5	2.7	.5	.1
Manufacturing	3.4	2.0	3.8	4.3	1.7	.4	-.1
Construction	3.8	3.3	3.5	4.0	3.1	.3	.6
Transportation and public utilities	3.9	2.2	2.2	1.5	.5	.4	-.3
Finance, insurance, and real estate	5.3	4.7	3.4	1.9	1.1	.3	.3
Retail trade	4.4	4.5	3.7	2.9	2.7	.3	.0
Wholesale trade	4.9	4.4	4.1	5.2	5.6	.8	.5
Services	4.0	4.8	3.9	3.8	3.3	.4	.3

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



costs, ongoing declines in employer costs of workers' compensation insurance and unemployment insurance are now less rapid. However, nonproduction bonuses have swung from a substantial increase in the period ending a year ago to a substantial decline in the latest period.

Based on the national accounts data, we estimate that hourly compensation as captured by the Productivity and Cost series will be reported on Friday to have risen at an annual rate of about 4-1/2 percent in the third quarter. In addition, the new national accounts data point to a small downward revision to the increase in hourly compensation in the first half of the year to an annual rate of about 4-1/2 percent; the new data also point to a large upward revision to the estimated change in hourly compensation in 1998, to about a 5 percent increase on a fourth-quarter-over-fourth-quarter basis. With these revised data, the Productivity and Cost series will, like the ECI, show a deceleration in compensation costs this year, albeit to a much higher rate of increase than in the ECI. We think that at least part of this higher rate in the Productivity and Cost series owes to the fact that this measure includes an estimate of the net proceeds of employee stock-option realizations, which have been rising rapidly in recent years and are included in this measure but not in the ECI.

Our only datum on fourth-quarter wages is the October figure for average hourly earnings, which increased just 0.1 percent after a 0.5 percent increase in September. Over the twelve months ended in October, average hourly earnings increased 3.6 percent, down 1/4 percentage point from the year-earlier period.

Appendix

Comprehensive Revision of the National Income and Product Accounts

The comprehensive revision of the National Income and Product Accounts (NIPA) released on October 28 included both conceptual changes in how components are defined and statistical changes in how components are measured. Among the conceptual revisions, the most important included the recognition of software acquired by business and government as a capitalized asset in the accounts rather than a current expense. In addition, government-employee pension plans are now treated like private pension plans.[1] Among the statistical revisions, the BEA has now incorporated into PCE prices the current-methods CPIs that take account of technical changes--most notably the introduction of the geometric-means aggregation formula--back to 1978; previously, such CPI series were used only back to 1995. In addition, the BEA has introduced a new measure of the real value of unpriced bank services, based on a BLS output index that is derived from measures of bank activity such as checks cleared, ATM transactions, and loan activity. Finally, the BEA has incorporated new source data from a plethora of sources.[2] These new source data include items generally incorporated only with comprehensive revisions, most notably the 1992 input-output tables, and selected data from the 1997 economic censuses.[3] The data for the more recent years were also affected by items that generally are incorporated in the NIPA at the time of the regular annual revisions.[4]

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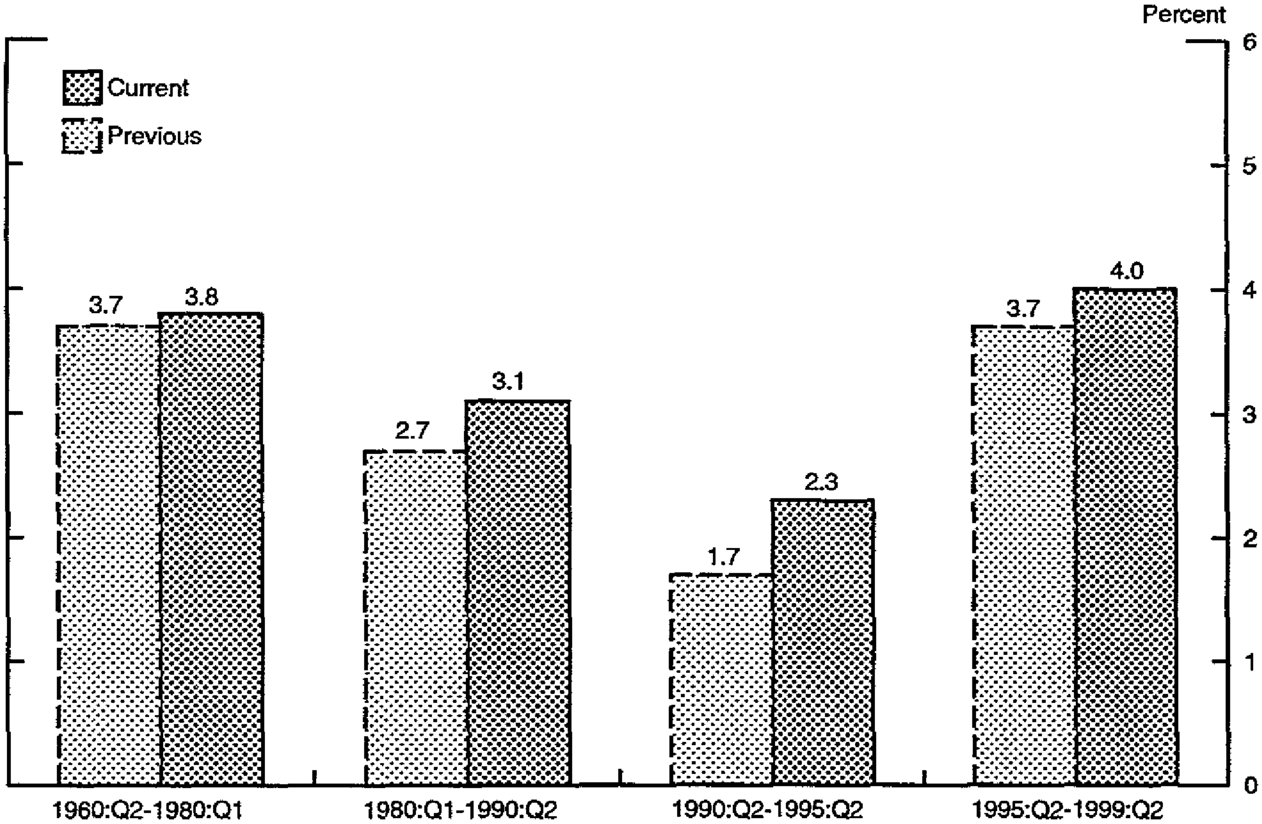
1. Other conceptual revisions to the accounts included modifying the treatment of private non-insured pension plans, reclassifying certain transactions in the accounts as capital transfers, redefining the value of imputed services of mutual funds, reclassifying several government tax and transfer programs, reclassifying as financial transactions the implicit subsidies associated with federal direct loan housing programs, and reclassifying directors' fees. In addition, the BEA extended back to 1946 a redefinition of dividend payments by regulated investment companies that excluded distributions reflecting capital gains distributions. In a prior revision, the BEA had made this adjustment back to 1982.

2. Other statistical changes included improving the price estimates for private higher education, improving the methods used to convert tax return data to a NIPA basis, and improving the estimates of farm proprietor's income. In addition, the BEA announced that they will begin using an industry-based price measure to deflate output in the nonfinancial corporate sector. However, the BEA does not intend to implement this change until next March.

3. Specifically, the BEA incorporated data from the 1997 Censuses of Wholesale and Retail Trade, as well as data on computer shipments from the 1997 Census of Manufactures. In some comprehensive revisions, the BEA has been able to incorporate more data from the latest quinquennial economic censuses. However, this comprehensive revision was completed less than four years after the January 1996 revision, and not all of the data from the 1997 censuses are available yet.

4. These data include such sources as BLS tabulations of wages and salaries for 1997 and 1998, IRS tabulations of business tax returns for 1997, revised data for 1996 to 1998 from the international transactions accounts, and data from the Census Bureau on construction put-in-place for 1997 and 1998 and on state and local receipts and expenditures for fiscal years 1997 and 1998.

Average Annual Growth Rate of Real GDP



Revisions to Growth of Real GDP and Selected Major Components
(Revisions in percentage points at annual rate, current less previous)

	1990:Q2–1995:Q2	1995:Q2–1999:Q2
Gross domestic product	.5	.3
Consumer spending	.4	.1
Business fixed investment	.9	.4
Residential investment	–.3	–.7
Government spending	.3	.7
Exports	.1	.0
Imports	–.3	.0
Memo:		
GDP price index	–.3	.0

Revisions to Real GDP and Major Components
The revisions had little effect, on balance, on average real GDP growth from 1960 to 1980 (upper panel of chart A-1). But over the period from 1980 to 1990, real GDP growth was revised up 0.4 percentage point per year. Output growth was revised up a similar amount in the 1990s, though the revision was somewhat larger in the first half of the decade.[5]

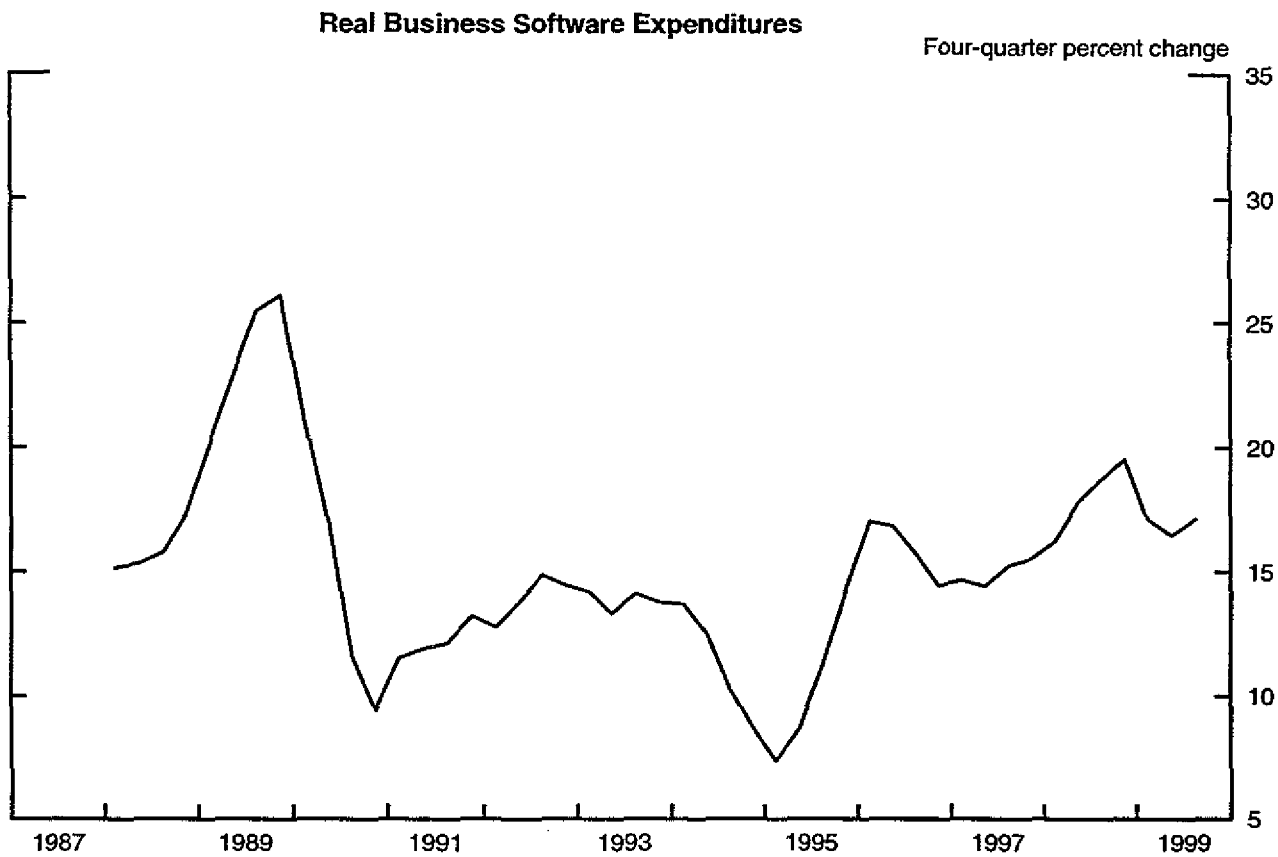
The revisions to growth in real GDP for the past decade reflected changes in several components. The rate of increase in real consumer spending was revised up 0.4 percentage point in the first half of the 1990s and 0.1 percentage point in the more recent period. These revisions largely reflected the switch to the new measure of unpriced bank services, which has grown faster than the BEA's old index for this category, and, before 1995, the use of the current-methods CPIs. The average growth rates of both real business fixed investment and government spending were also revised up this decade, primarily owing to the new accounting for software. Finally, the rate of increase in the GDP chain price index was revised down in the first part of the 1990s, largely reflecting the backward extension of current-methods CPIs.

Software
One of the most important aspects of this comprehensive revision is the incorporation of computer software into the accounts. The BEA's new estimates for software investment cover three categories: prepackaged software, which is purchased off the shelf and includes much PC software, as well as complicated but ready-to-go business software packages; custom software, which is acquired when people outside the company or government are hired to write custom programs; and own-account software, which refers to programs that a business or government develops in-house. For prepackaged and custom software, the BEA estimates current-dollar values based on revenues of software providers. The BEA has no direct data on own-account software production and so measures the output of this software using data on inputs.[6] According to the BEA's estimates, business and government investment in these three types of software in 1998 totaled $159 billion in current dollars, amounting to 1.8 percent of nominal GDP. The business portion accounts for three-fourths of this total.

Within the business sector, real investment in software has increased at a double-digit pace since the late 1980s. Through 1995, business investment in software contributed 0.1 percentage point per year to growth in real GDP. These contributions are small because, even though growth rates of business software were generally high in this

5. For real GDP growth, the revision shown for 1990:Q2 through 1995:Q2 in the lower panel of chart A-1 is 0.5 percentage point, while the bar chart in the upper panel implies a revision of 0.6 percentage point. The discrepancy reflects rounding.

6. For the most recent period, BEA uses a variety of extrapolators for software. For current-dollar purchases of custom and prepackaged software by business and government, total wages for the computer programming services and prepackaged software industries are used as extrapolators. For current-dollar own-account production of software, the BEA uses recent trends in purchases of computer hardware to extrapolate the software figures.



Price Changes for Business Computer Software[1]
(Percent change, annual rate)

	1985–1990	1990–1995	1995–1998
Total	–.7	–1.4	–2.1
Prepackaged	–11.9	–8.9	–7.4
Own–account	4.1	2.7	1.4
Custom	.1	–.2	–.8

1. Underlying detail is based on preliminary data from BEA that are still confidential.

period, the share of software in GDP was still relatively small. As software investment continued to rise rapidly, its contribution stepped up to 0.2 percentage point in the late 1990s.

The BEA also developed new indexes of software prices. For prepackaged software, the BEA linked together various price indexes from different sources covering different periods, including matched-model indexes, hedonic indexes, and for the most recent period, the PPI for software. According to the BEA's estimates, prices of prepackaged software have fallen at a sizable clip, although less rapidly than prices of computer hardware. For own-account software, the BEA has no direct information on prices. In lieu of price data, they assume that prices rise with the cost of inputs and therefore increase in line with rising wages and other input costs. This assumption implies zero productivity growth in the production of own-account software, a proposition that seems difficult to support. Price changes for custom software are assumed to be a weighted average of price changes for prepackaged and own-account software.[7] For total business software, the BEA takes a weighted average of the indexes for each of the three types of software; this broad measure of software prices is estimated to have fallen slowly since the mid-1980s.

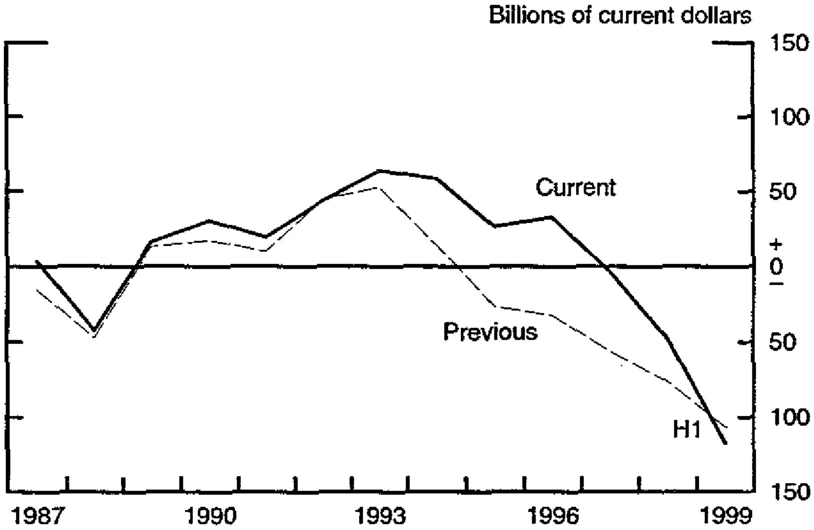
Income-Side Revisions
The income side of the accounts also was revised. Starting with the gap between the product- and income-side measures of output, the statistical discrepancy was revised up substantially in the middle of the 1990s and is now positive through 1996. However, starting in 1997, the discrepancy falls more sharply than previously reported, and, by the beginning of this year, it is just as negative as in the previous figures. As of the second quarter, the income side of the accounts is 1-1/2 percent larger than the product side.

As for the relative growth rates of output measured on the product side and income side, real GDI increased 0.3 percentage point faster per year than real GDP from 1992 to 1996. In the more recent period from the end of 1996 to the middle of this year, the gap is larger, with real GDI increasing 0.7 percentage point faster than real GDP.

Elsewhere on the income side, the personal saving rate was revised up 2-1/2 percentage points, on average, from 1987 to 1998. About 2 percentage points of this revision owe to the reclassification of government pension plans, which shifted the saving of the

7. To estimate custom software prices, BEA places a 75 percent weight on own-account software and a 25 percent weight on prepackaged software. BEA indicated that these weights are not data based, but rather were chosen judgmentally.

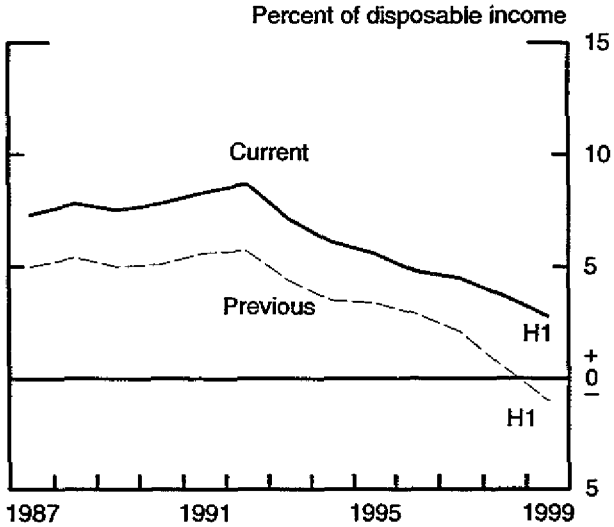
Statistical Discrepancy



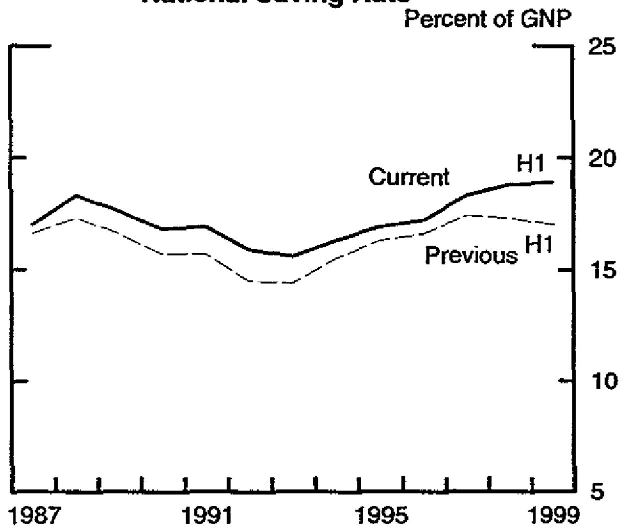
Real GDP and GDI Growth
(Percent change, annual rate)

	1992:Q4–96:Q4
1. GDP	3.2
2. GDI	3.5
	1996:Q4–99:Q2
3. GDP	4.1
4. GDI	4.8

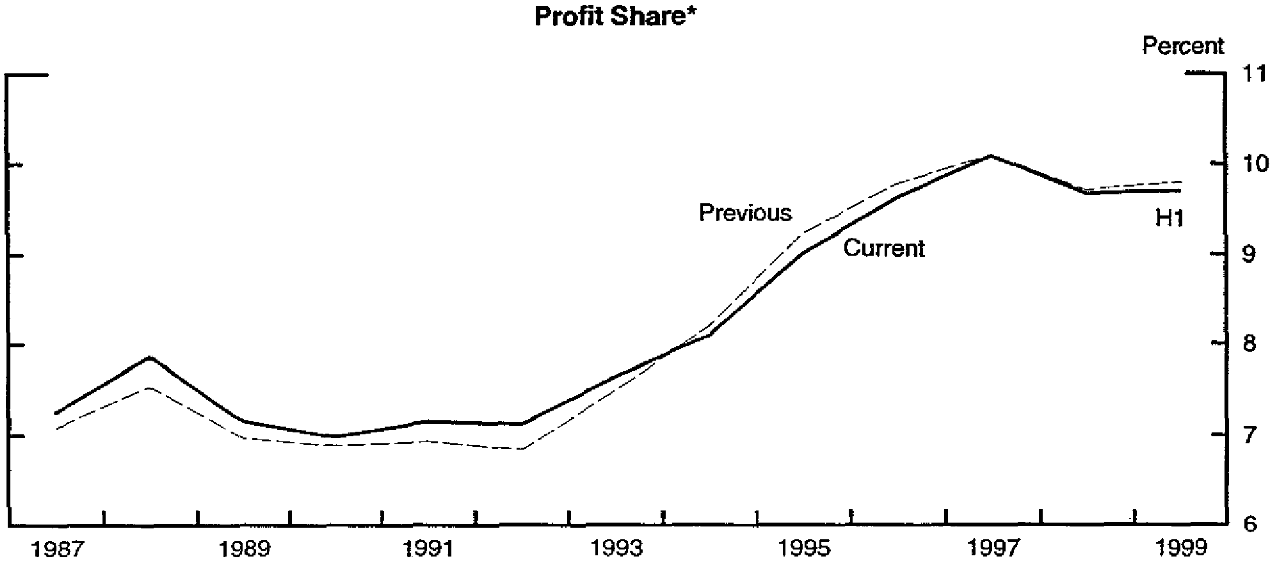
Personal Saving Rate



National Saving Rate



Profit Share*



* Economic profits as share of nominal GNP.

plans from the government sector to the household sector.[8] In addition, data from the unemployment insurance system led to a large upward revision to wages and salaries in 1998, which boosted the saving rate about 1/2 percentage point further last year. Despite the revisions, the downward trajectory of the saving rate has not changed much, and the new path remains consistent with our estimates of wealth effects.

The national saving rate was also revised up, but for a different reason than the personal saving rate.[9] National saving includes business and government saving, as well as personal saving. Thus, a reclassification of government pension plans--that just shifts saving from the government to household sector--does not affect national saving. However, because the BEA now recognizes software as investment, there is an associated increase in economic profits and depreciation allowances, which boosts business and government saving.

Although the overall profit share was not revised much, there were noticeable--but largely offsetting--revisions to the components of profits. Domestic financial profits were revised up considerably, largely reflecting a change in the accounting for uninsured private pension plans that boosted financial profits while reducing imputed interest paid by business to persons by an offsetting amount. Also, new source data indicate that domestic profits previously were overstated because of an incorrect allocation of legal and other expenses that support foreign operations of U.S. firms. This factor led to a downward revision to nonfinancial profits; however, it does not boost rest-of-world profits because the BEA uses different source data for rest-of-world profits than for these allocated expenses. Finally, the BEA's recognition of software as a capitalized asset led to an upward revision to profits. Previously, outlays for software were treated as expenses; because these expenditures are now capitalized, they are no longer deducted from profits. This boost to profits is partly offset by a larger deduction for consumption of fixed capital because, with software added, the capital stock is larger.

Productivity

The BLS will publish new productivity figures incorporating the NIPA revisions on November 12. Based on staff estimates, the revised productivity figures will show a steeper upward trajectory for productivity, particularly in recent years.[10] In terms of growth rates, the new data for the nonfarm business sector suggest little revision to

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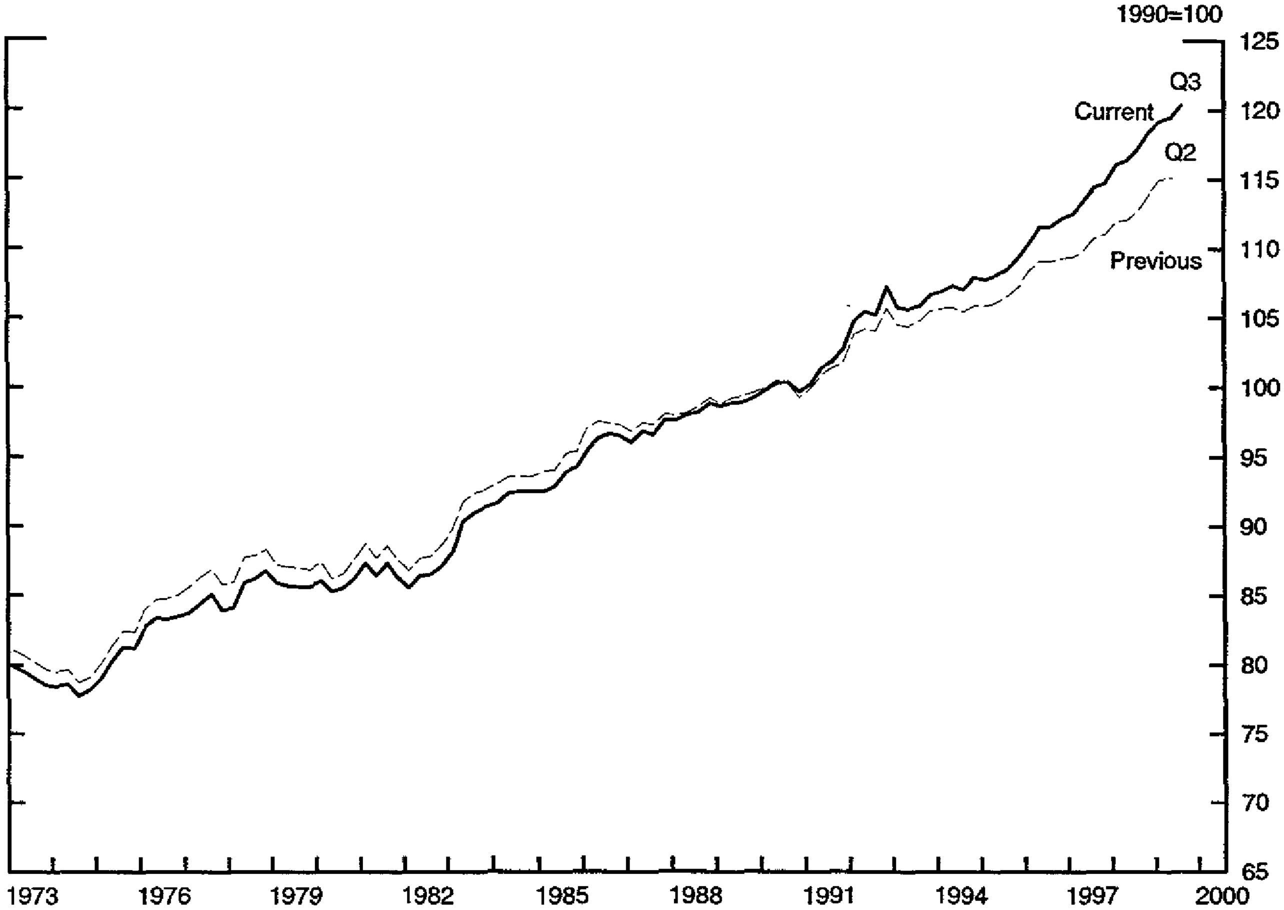
8. Employer and employee contributions to these plans are now counted as personal income, as are dividends and interest generated by these plans. Benefits paid are now considered a transfer within the household sector. Thus, the net saving of these plans--contributions plus dividend and interest income less benefits paid and administrative expenses--is now recorded in the household sector. Previously, contributions to these plans were counted as contributions to social insurance plans, and benefits were recorded as government transfers; therefore the net saving of these plans accrued in the government sector.

9. Net foreign investment was revised up just a touch in each year since 1982; that is, net foreign investment is a little less negative than in the previous numbers.

10. All of the numbers in the text and the chart are shown on a methodologically consistent basis. For the current numbers, the staff makes adjustments to figures before 1978; for the previously published numbers, the staff makes adjustments to figures before 1995.

Productivity in the Nonfarm Business Sector*



Productivity Growth
(Percent change, annual rate)

	1980:Q1 to 1990:Q2	1990:Q2 to 1995:Q2	1995:Q2 to 1997:Q4	1997:Q4 to 1999:Q2
Nonfarm business				
Current	1.5	1.5	2.3	2.6
Previous	1.4	1.1	1.9	2.4
Nonfinancial corporate				
Current	2.2	2.0	3.1	4.1
Previous	2.1	1.7	2.8	3.5

* Staff estimates. All figures are shown on a methodologically consistent basis.

productivity growth in the 1980s (lower panel of chart A-4). For the early 1990s, the new numbers have eliminated the previously evident slowdown in productivity growth in the first half of this decade. As for a possible shift in underlying productivity growth rates around 1995, the current figures indicate a sizable step-up in productivity growth around that time, as did the previously published figures. For the last couple of years, these product-side data provide less evidence for a further acceleration in productivity than was evident in the previous data: The current data show a 0.3 percentage point pickup in productivity growth at the end of 1997, while the previous data showed a larger 0.5 percentage point step-up.

However, the nonfarm productivity numbers are measured on the product side, and evidence from the income side tells a different story for the late 1990s. Just as real GDI increased more rapidly than real GDP in the past couple of years, productivity measured on the income side has also increased more rapidly in recent years than productivity measured on the product side. In particular, the latest estimates for the nonfinancial corporate sector--which are measured on the income side--point to a sizable further pickup in productivity growth in the late 1990s, and the step-up is somewhat greater than that in the previously reported data.

DOMESTIC FINANCIAL DEVELOPMENTS

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

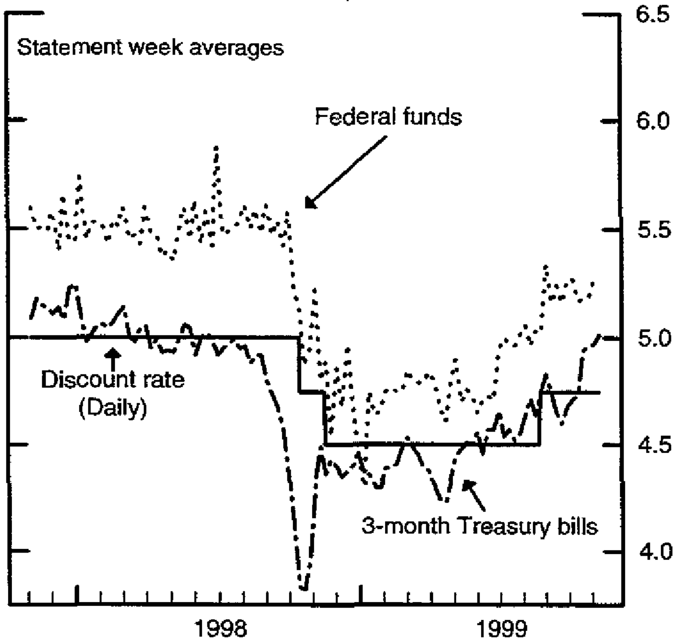
Instrument	1998		1999		Change to Nov. 9 from selected dates (percentage points)		
	Oct. 15	Dec. 31	FOMC* Oct. 5	Nov. 9	1998 Oct. 15	1998 Dec. 31	FOMC* Oct. 5
Short-term							
FOMC intended federal funds rate	5.00	4.75	5.25	5.25	.25	.50	.00
Treasury bills [1]							
3-month	4.05	4.37	4.69	5.04	.99	.67	.35
6-month	4.12	4.39	4.81	5.15	1.03	.76	.34
1-year	4.06	4.33	4.98	5.19	1.13	.86	.21
Commercial paper							
1-month	5.27	4.90	5.30	5.25	-.02	.35	-.05
3-month	5.13	4.84	5.96	5.79	.66	.95	-.17
Large negotiable CDs [1]							
1-month	5.35	5.01	5.38	5.36	.01	.35	-.02
3-month	5.31	4.97	6.08	5.96	.65	.99	-.12
6-month	5.10	4.97	5.97	5.93	.83	.96	-.04
Eurodollar deposits [2]							
1-month	5.34	4.94	5.31	5.31	-.03	.37	.00
3-month	5.28	4.94	6.00	5.94	.66	1.00	-.06
Bank prime rate	8.25	7.75	8.25	8.25	.00	.50	.00
Intermediate- and long-term							
U.S. Treasury (constant maturity)							
2-year	4.13	4.54	5.70	5.77	1.64	1.23	.07
10-year	4.58	4.65	5.95	5.97	1.39	1.32	.02
30-year	5.02	5.09	6.10	6.07	1.05	.98	-.03
U.S. Treasury 10-year indexed note	3.69	3.88	4.07	4.08	.39	.20	.01
Municipal revenue (Bond Buyer) [3]	5.21	5.26	5.96	6.09	.88	.83	.13
Corporate bonds, Moody's seasoned Baa	7.26	7.23	8.23	8.13	.87	.90	-.10
High-yield corporate [4]	11.28	10.17	10.99	10.85	-.43	.68	-.14
Home mortgages (FHLMC survey rate) [5]							
30-year fixed	6.49	6.77	7.70	7.84	1.35	1.07	.14
1-year adjustable	5.36	5.58	6.12	6.34	.98	.76	.22

Stock exchange index	Record high		1998	1999		Change to Nov. 9 from selected dates (percent)		
	Level	Date	Dec. 31	FOMC* Oct. 5	Nov. 9	Record high	Dec. 31	FOMC* Oct. 5
Dow-Jones Industrial	11,326.04	8-25-99	9,181.43	10,401.23	10,617.32	-6.26	15.64	2.08
S&P 500 Composite	1,418.78	7-16-99	1,229.23	1,304.60	1,365.28	-3.77	11.07	4.65
Nasdaq (OTC)	3,143.97	11-8-99	2,192.69	2,795.97	3,125.04	-.60	42.52	11.77
Russell 2000	491.41	4-21-98	421.96	426.61	446.28	-9.18	5.76	4.61
Wilshire 5000	12,976.99	7-16-99	11,317.59	11,892.90	12,583.70	-3.03	11.19	5.81

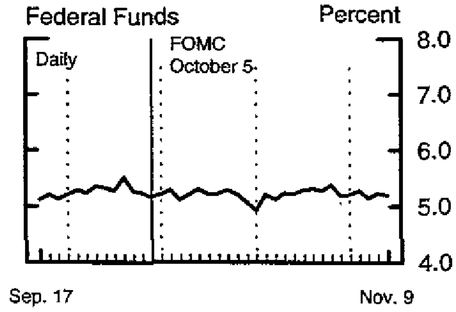
1. Secondary market.
2. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.
3. Most recent Thursday quote.
4. Merrill Lynch 175 high-yield bond index composite.
5. For week ending Friday previous to date shown.
* Data are as of the close on October 4, 1999.

Selected Interest Rates

Selected Short-Term Interest Rates

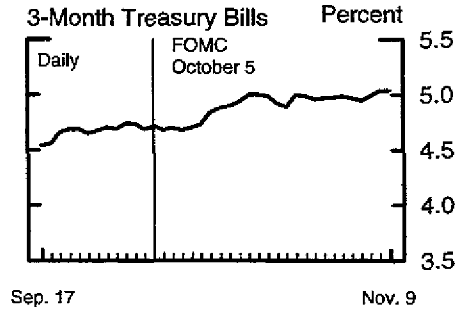


Federal Funds

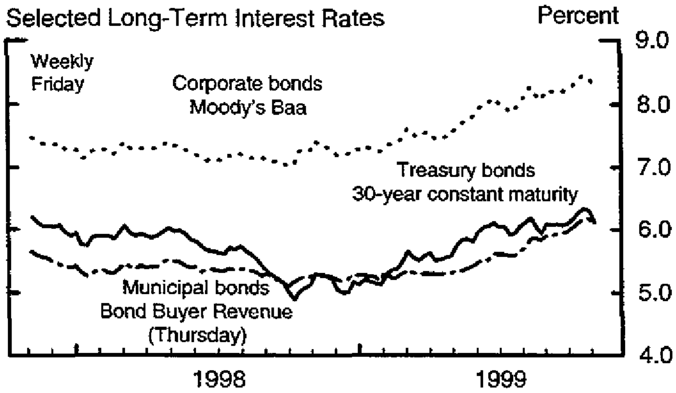


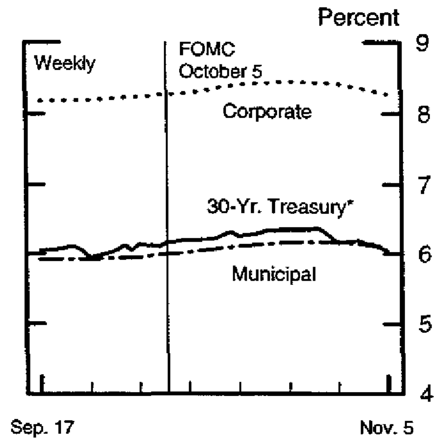
Note. Vertical dashed lines indicate end of reserve period.

3-Month Treasury Bills



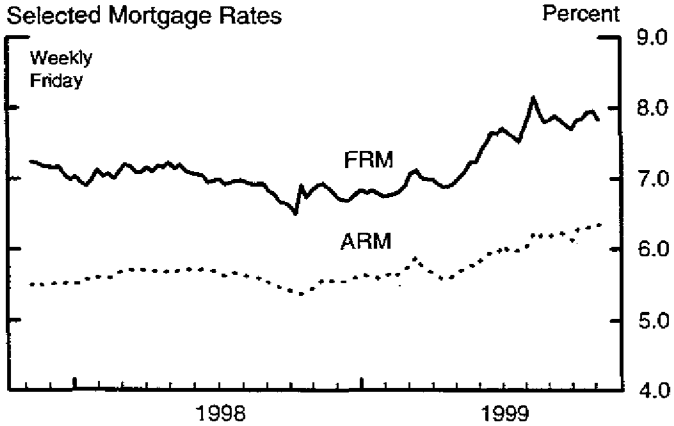
Selected Long-Term Interest Rates

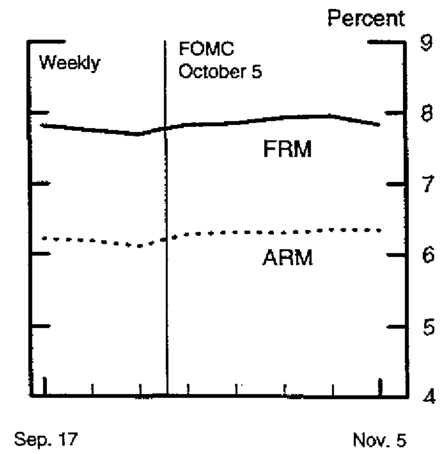




*Daily frequency.

Selected Mortgage Rates





Domestic Financial Developments

Overview

Immediately after the last FOMC meeting, Treasury yields rose somewhat in response to the announcement of a tightening bias in the policy directive. The news in the early part of the intermeeting period heightened inflation fears, and talk of the Fed falling behind the inflation-fighting curve became more common. But recent news on wages has calmed market concerns and diminished anticipations of a November hike in the funds rate; futures quotes suggest that market participants now see a little less than even odds of a tightening at the upcoming meeting. In these circumstances, a rally has moved long-term Treasury yields from two-year highs back to about where they were at the beginning of October. Measures of year-end financing pressures such as spreads and forward rate premiums have narrowed in recent weeks, though in general they remain elevated.

Equity markets have displayed considerable volatility in recent weeks. Major share price indexes dropped sharply in response to the higher-than-expected September PPI report and comments by the Chairman on financial risk and equity premiums. However, equity markets quickly recovered in conjunction with falling Treasury yields and strong earnings reports, leaving the indexes 2 to 12 percent higher, on net, over the intermeeting period.

The third-quarter data show another sizable increase in nonfederal debt, but there are some signs that businesses and households have begun to trim their borrowing. Gross bond issuance by nonfinancial businesses thus far in the fourth quarter has been considerably below its third-quarter pace. Although household debt growth in the third quarter remained near its first-half pace, indicators of mortgage activity have moved down. In addition, the results of the latest Senior Loan Officer Survey suggest that demands for both mortgage and consumer credit have slackened in the current quarter.

Year-End Financing Pressures

The Federal Reserve Bank of New York has implemented several initiatives since the October FOMC meeting to address concerns about the liquidity of short-term financing markets around year-end. As previously approved, the Desk began executing repurchase agreements using a tri-party agent, enabling it to take mortgage-backed agency securities, and it extended the maturity of some of its repurchase agreements over the year-end. It also began issuing options on repurchase agreements. A total of $186 billion of options were sold at the first three auctions, and four additional auctions are now scheduled--two more than first announced. Demand for the options has been strong, as total bids have exceeded the amounts auctioned by a wide margin--and the amounts auctioned themselves have been increased substantially relative to the initial schedule. In

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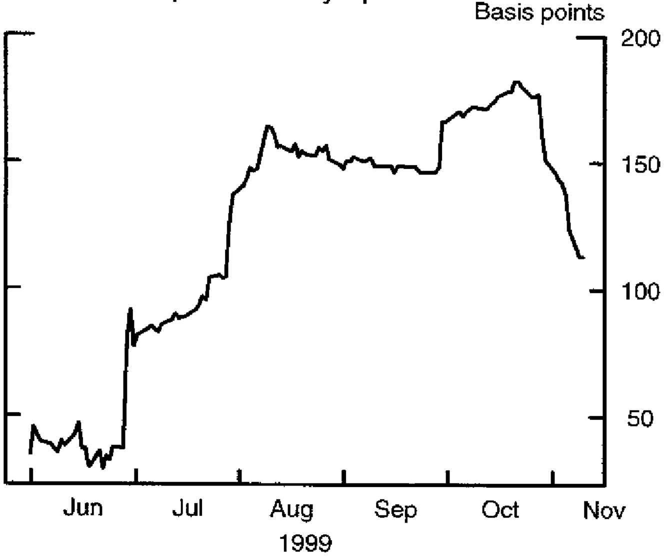
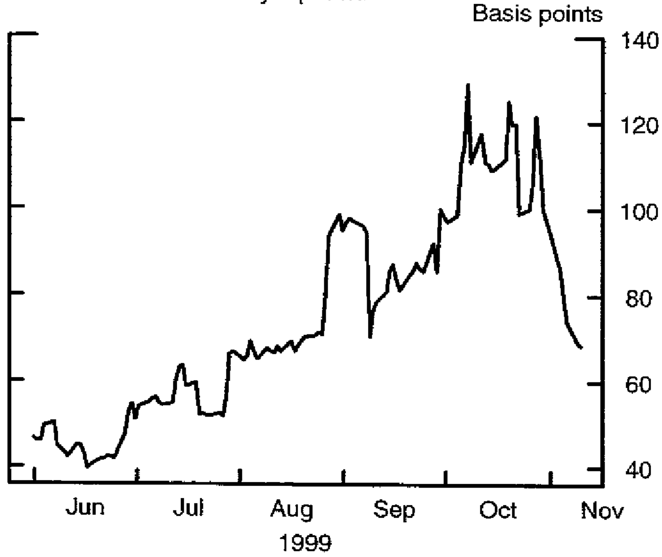
Measures of Year-End Financing Pressures

(All series are daily through November 9)

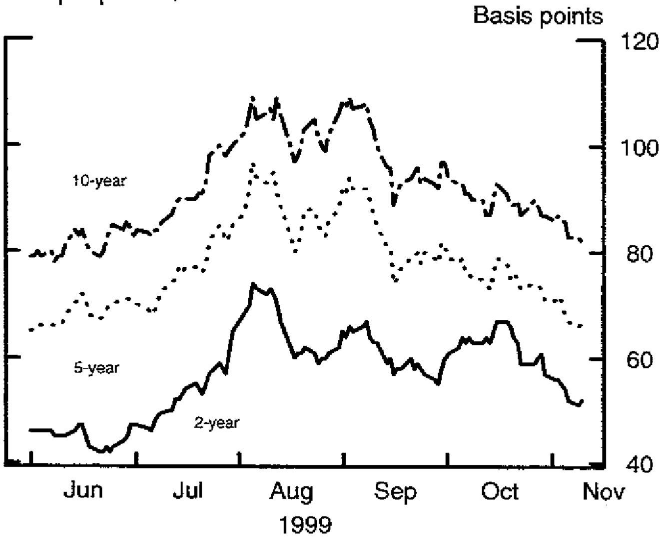
Eurodollar Deposit Butterfly Spread



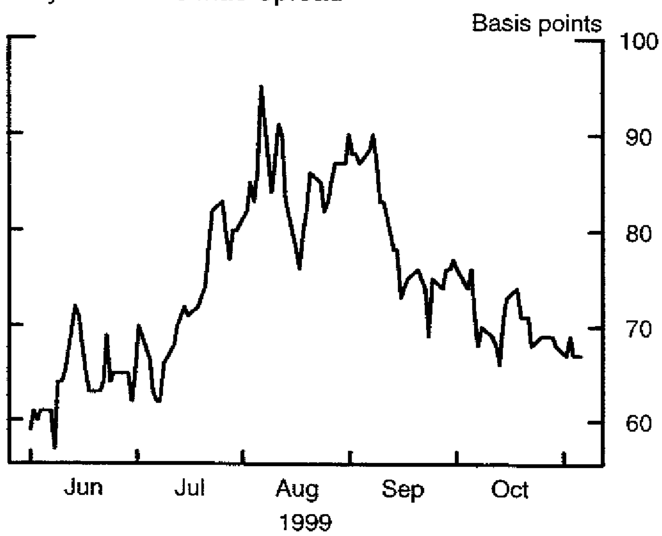
Libor Futures Butterfly Spread



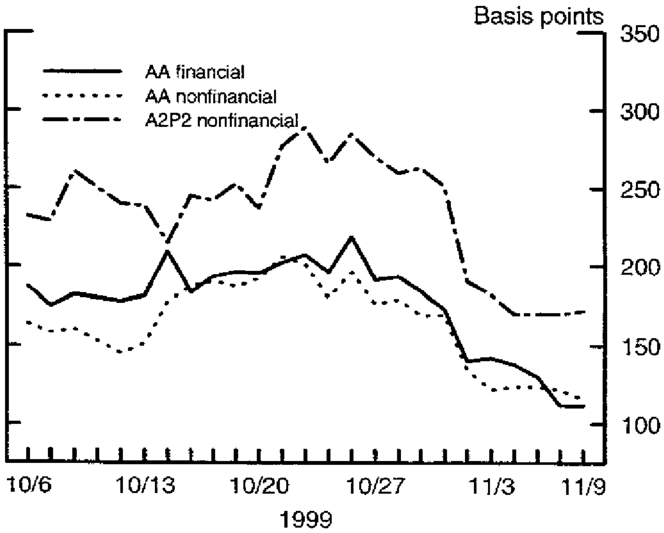
Swap Spreads



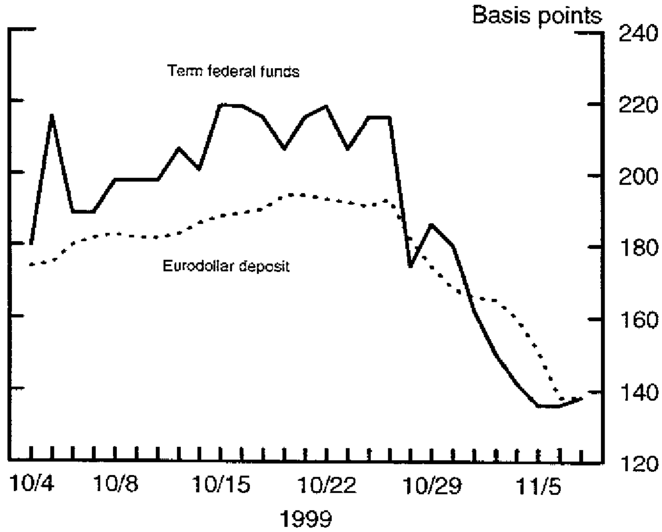
10-year Fannie Mae Spread



CP 30-Day Forward Premiums Over Year-End



1-month Forward Premiums Over Year-End



addition, both the volume of bids and the realized prices for the options have generally increased with each subsequent auction. Apparently, dealers and their customers, notably Fannie Mae and Freddie Mac, consider these options to be relatively inexpensive insurance against the small probability of a disruption in access to financing around year-end.

In the first few weeks after the Special Liquidity Facility opened on October 1, there were some small borrowings that were mostly system tests. But in recent weeks, two credit unions tapped the SLF to fund unusual loan demand and currency shipments, and one bank turned to the SLF to re-lend in the funds market in response to a spike in the federal funds rate.

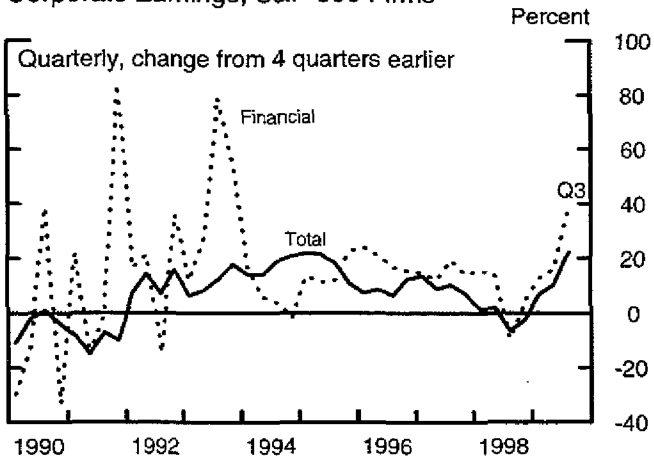
Measures of year-end pressures in financing have eased some over recent weeks, though they remain high. The Eurodollar deposit butterfly spread narrowed as the two-month deposit crossed over the year-end. A similar measure derived from Libor futures contracts has also narrowed, although it has been quite volatile. Swap and agency spreads have continued to shrink over the intermeeting period, and forward rate premiums derived from term federal funds transactions and commercial paper have also declined. The narrower spreads and forward rate premiums are attributable in part to a favorable reception to the repurchase auctions and other Federal Reserve actions, the resolution of some uncertainty as more firms line up financing across the year-end, and subdued credit demand as year-end approaches. The November Senior Loan Officer Survey indicates that although most banks were willing to extend year 2000 contingency lines to existing customers, demand for these lines has been light.

Firms have shifted the maturity of their commercial paper funding to avoid any potential disruptions caused by computer failure, or by illiquidity in the markets related to the fears of such failures. Issuers have very little paper maturing in the last week of December and the first two weeks of January. About 40 percent of outstandings have been placed beyond the first two weeks of January, roughly twice the proportion at the same point in recent years. Premiums for funding across year-end are significantly higher than last year, although they have drifted down over recent weeks.

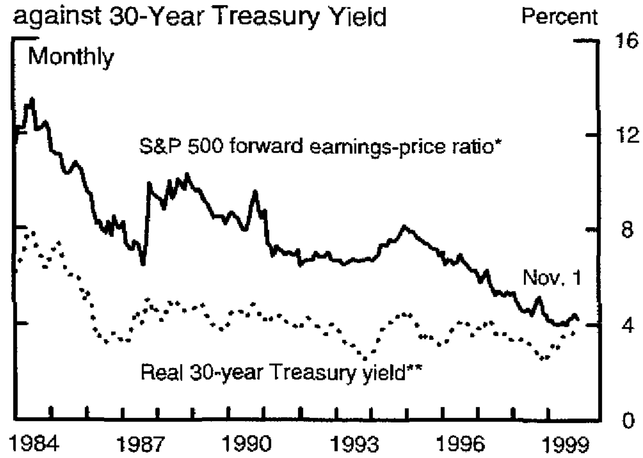
In longer-term markets, issuers of highly rated instruments--such as issuers of investment-grade corporate, commercial-mortgage-backed, and asset-backed securities--seem less hesitant to tap the markets before year-end, although many have already taken care of their expected financing needs and plan to enter the market only opportunistically. Investors have shied away from offerings by lower-quality and smaller issuers, and these firms largely continue to stay away from the bond market.

Corporate Finance and Stock Prices

Corporate Earnings, S&P 500 Firms

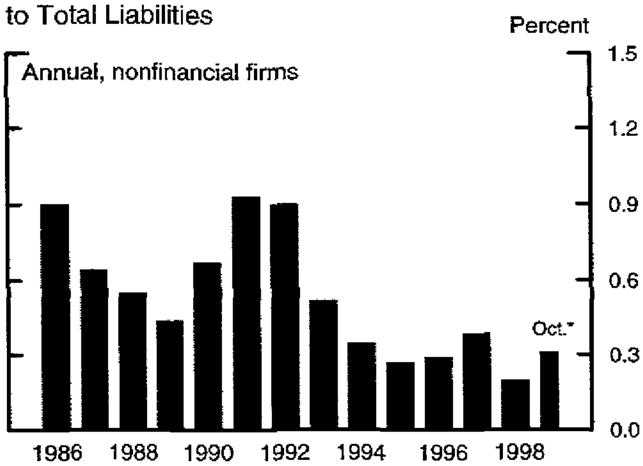


Forward Earnings-Price Ratio
against 30-Year Treasury Yield



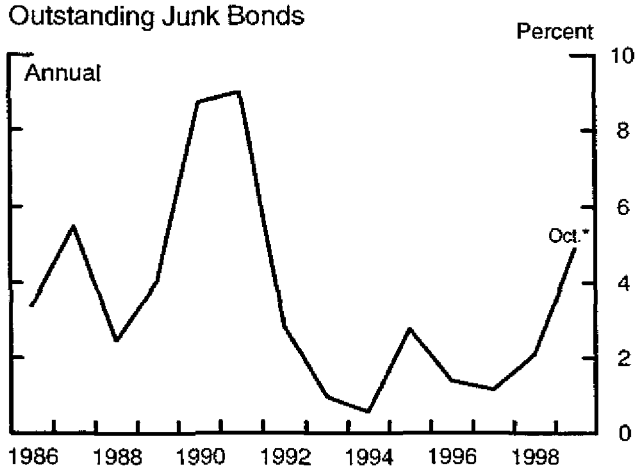
* Based on I/B/E/S operating earnings over coming 12 months.
** Nominal yield less Philadelphia Fed 10-year inflation expectations.

Liabilities of Failed Businesses
to Total Liabilities



*Previous 12 months.
Source. Dun & Bradstreet.

Default Rates
Outstanding Junk Bonds



*Previous 12 months.

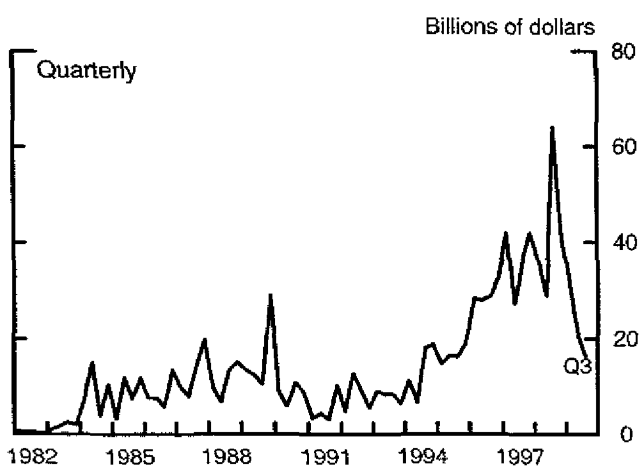
Mergers and Acquisitions
Nonfinancial Firms

Billions of dollars

Quarterly rate

	Cash paid by domestic corps.	Total deal value
1997	21.5	82.9
1998	32.6	129.4
1999 Q1	23.5	145.0
Q2	24.0	218.0
Q3	38.8	121.0

Announced Share Repurchases



Finally, the public's demand for currency in recent months has been in line with last year's briskly rising levels, but depository institutions have built up their vault cash appreciably in anticipation of much stronger demand with the approach of year-end.

Business Finance

With nearly 90 percent of the S&P 500 now having reported third-quarter earnings, we estimate that firms in the index posted a robust 22 percent gain in earnings per share from the year-earlier level. Some of this rapid year-over-year growth reflected weak earnings for financial and petroleum-related firms in the third quarter of last year, but other nonfinancial businesses also saw profits jump substantially. Indeed, earnings of technology firms and auto manufacturers were up more than 40 percent from the year-earlier level.

As noted, broad indexes of equity prices all moved higher over the intermeeting period. Most notable was the performance of technology firms; the Nasdaq composite soared in recent days past its previous all-time high. An index of Internet firms also reached a new high. Share prices of financial firms were boosted by the expected salutary effect of financial reform legislation.

Corporate credit quality decreased slightly in the third quarter, with the deterioration primarily concentrated in below-investment-grade firms. Moody's Watchlist showed little change, with downgrades slightly exceeding upgrades. The business failure rate has increased a bit but remains close to the lows of the current expansion. However, the annual default rate for junk bonds approached 5 percent during the year ended in October, the highest since 1992, and defaults have occurred across a broad range of industries. Default rates are likely to increase further, reflecting the seasoning effect from the strong pace of issuance through the middle of this year, as well as rising riskiness as indicated by higher debt-to-asset ratios and asset price volatility.

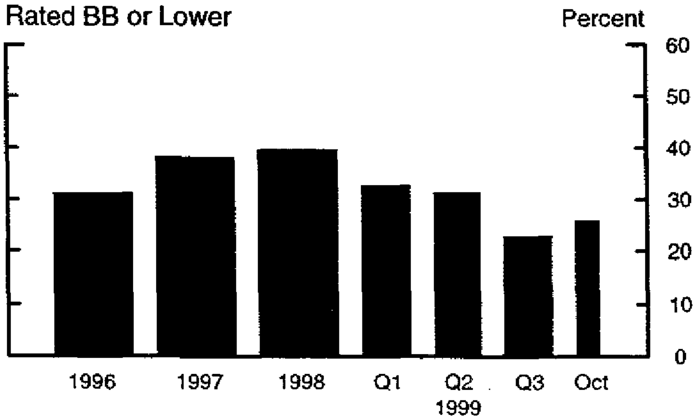
M&A activity among nonfinancial firms eased off a bit in the third quarter from the torrid pace seen during the first half of the year. Nevertheless, mergers financed with cash payments--rather than with stock--led to equity retirements of almost $39 billion in the third quarter, well above the pace in the first half. In addition, new merger announcements in the third quarter boosted the list of pending deals to roughly $850 billion, a record level, suggesting that financing needs should remain substantial in coming quarters. In contrast, share repurchases have moderated. Actual repurchases in the second quarter declined slightly, and announcements of new share repurchase programs dropped again in the third quarter to about $16 billion, the lowest reading since 1995; the rise in interest rates may have made using cash or borrowing to repurchase shares less attractive.

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

Type of security	1997	1998	1999 H1	1999 Q3	1999 Sept.	1999 Oct.
All U.S. corporations	77.4	94.0	102.7	87.5	82.5	51.6
Stocks[1]	9.8	10.6	10.1	9.0	6.1	9.5
Bonds	67.6	83.5	92.6	78.6	76.5	42.1
Nonfinancial corporations						
Stocks[1]	5.0	6.2	7.6	7.8	5.5	9.2
Initial public offerings	1.8	2.2	2.8	3.2	2.4	4.3
Seasoned offerings	3.2	4.0	4.8	4.6	3.1	4.9
Bonds	18.6	25.7	28.7	23.1	21.1	15.0
By rating, sold in U.S.[2]						
Investment grade	8.4	14.1	16.1	14.7	13.5	8.2
Speculative grade	8.2	10.2	9.2	5.1	6.0	4.0
Public	1.5	1.8	1.4	1.5	3.2	1.3
Rule 144A	6.7	8.4	7.8	3.6	2.8	2.6
Other (Sold Abroad/Unrated)	1.9	1.3	3.4	3.3	1.5	2.8
Financial corporations						
Stocks[1]	4.8	4.4	2.4	1.3	.9	.3
Bonds	49.1	57.8	63.9	55.5	55.4	27.1
Memo:						
Net issuance of commercial paper, nonfinancial corporations[3]	1.1	2.3	2.8	4.7	5.6	7.8
Change in C&I loans at commercial banks[3]	6.1	7.2	2.4	6.4	-.8	3.0

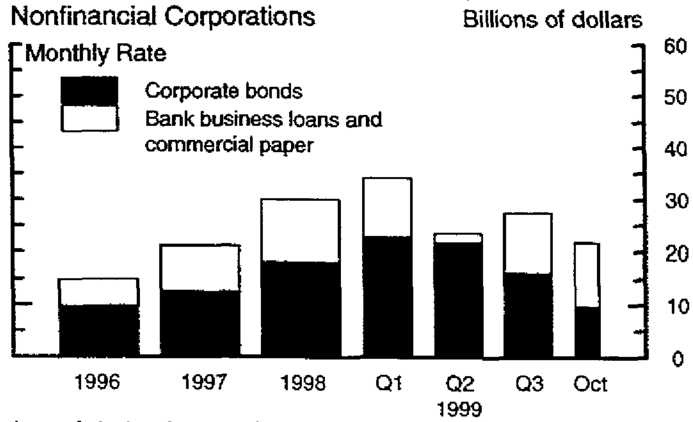
Note. Components may not sum to totals because of rounding. These data include speculative-grade bonds issued privately under Rule 144A. All other private placements are excluded. Total reflects gross proceeds rather than par value of original discount bonds.
1. Excludes equity issues associated with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

Share of Total Nonfinancial Bond Issuance Rated BB or Lower



Note. After 1994, includes nonrated issues.
Source. Securities Data Company.

Major Components of Net Borrowing by Nonfinancial Corporations



Note. Calculated on a period-end basis. Bank loans include CLOs.

Gross offerings of bonds by nonfinancial firms declined in October, as higher interest rates over much of the month apparently discouraged issuers. Investors' preference for liquidity was evident, as big issues were well received, while smaller, less-liquid issues met with resistance. Even so, investment-grade offerings declined, despite being propped up by financing needs for merger deals, and below-investment-grade offerings fell well below the pace of the past few years. As rates and Y2K concerns eased, offerings picked up in the first week of November, including for high-yield firms, but investors still showed a preference for larger issues. Net issuance of commercial paper was strong in October, partly reflecting the deferral of bond offerings, but growth of business loans at banks slackened substantially from its third-quarter pace.

Equity offerings by nonfinancial corporations were strong in October and early November, extending the rebound that began in the latter part of September. Gross issuance in October was over $9 billion, and was almost exclusively by Internet or other computer-related companies. Early November issuance has already surpassed $12 billion, including a record $5.5 billion initial public offering by UPS. The pipeline of new offerings is packed, with almost 200 new issues waiting to come to market.

Commercial Real Estate Finance

Commercial mortgage rates edged up in October and are now about 150 basis points higher than at the beginning of the year. Probably in response to the rising rates, the Senior Loan Officer Survey indicates that demand for commercial mortgage loans has leveled off after generally rising over the past three years. The survey also indicated that, on net, banks have continued to tighten credit standards for these types of loans.

Gross issuance of commercial-mortgage-backed securities in October totaled $6 billion, slightly above the average pace during the first three quarters of the year. Reports indicate that issuance in November and December will taper off from the October pace but nonetheless will be stronger than previously expected, largely because of diminished concern over Y2K-related funding difficulties. Spreads on investment-grade CMBS have remained flat or eased slightly since the October FOMC meeting.

REIT equity values have remained low, with many now trading at a discount to the value of their underlying holdings. As a result, REIT issuance of unsecured debt and equity has stayed low and property acquisitions are down substantially from recent peaks. A number of REITs have initiated share repurchase programs in an effort to bolster sagging equity values.

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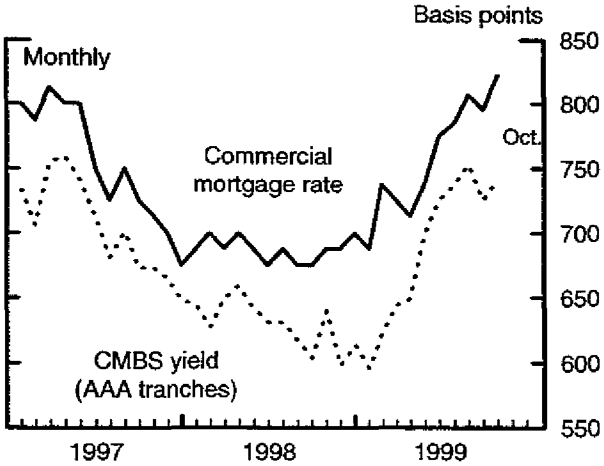
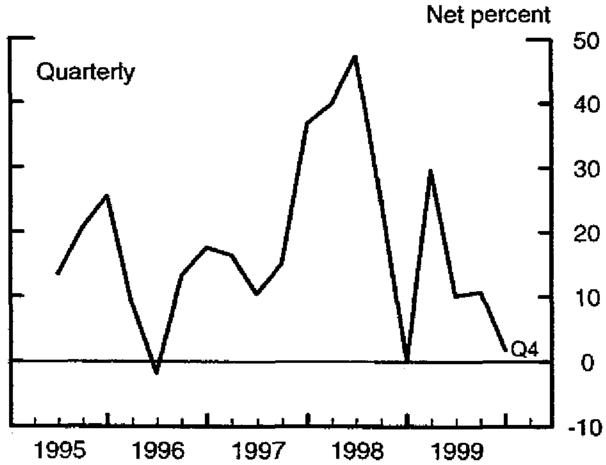
Commercial Real Estate

Funding Costs



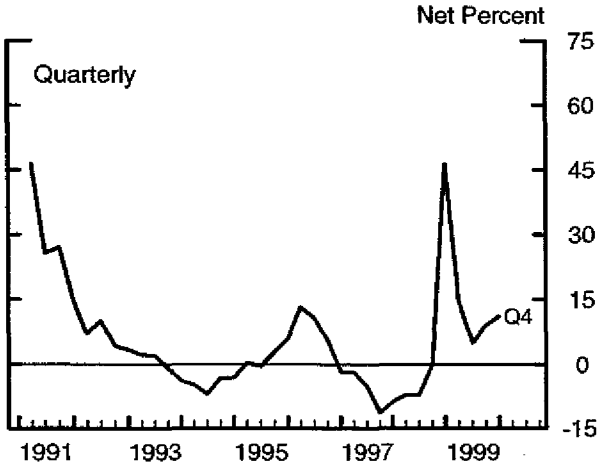
Source. Barron's/Levy National Mortgage Survey; Morgan Stanley.

Domestic Banks Reporting Stronger Loan Demand



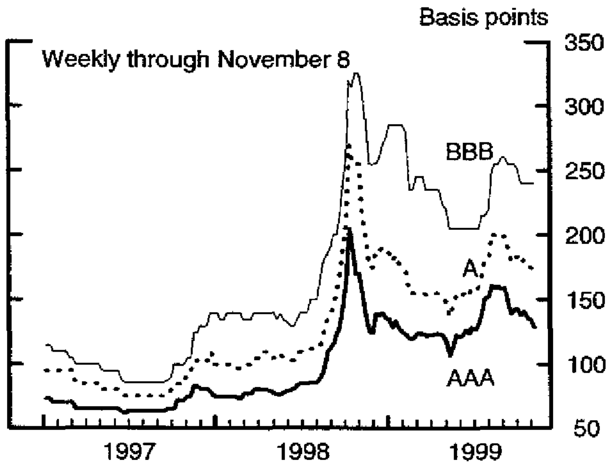
Note. Percent reporting stronger demand less percent reporting weaker demand.
Source. Senior Loan Officer Survey.

Domestic Banks Tightening Credit Standards



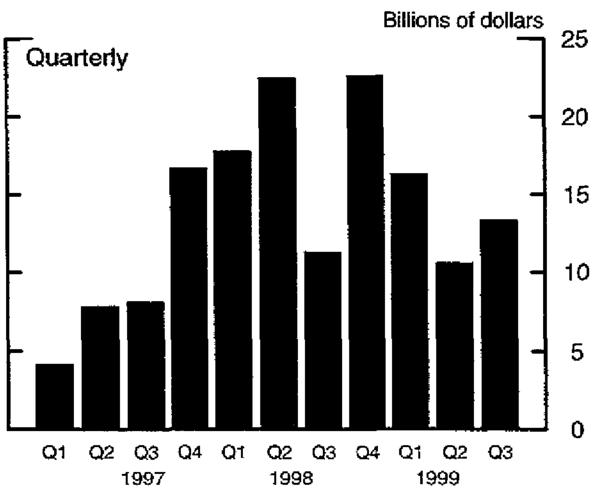
Note. Percent reporting tightening less percent reporting easing.
Source. Senior Loan Officer Survey.

CMBS Yield Less Ten-Year Treasury



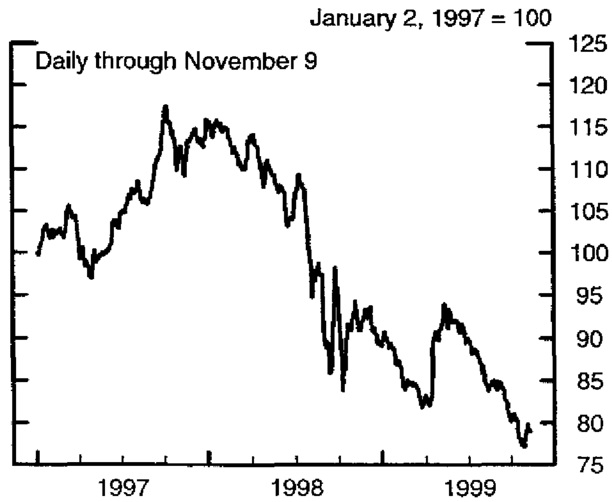
Source. Morgan Stanley.

CMBS Gross Issuance



Source. Commercial Mortgage Alert.

REIT Price Index



Source. National Association of Real Estate Investment Trusts.

Household Finance

Consumer credit grew at a 6-1/2 percent pace in the third quarter, just under its pace in the first half of the year. The Senior Loan Officer Survey suggests that consumer credit growth in the fourth quarter may be subdued: For the first time in a year, banks, on net, reported weaker demand for consumer loans. There is some evidence that higher market interest rates are being passed on to consumers. Rates charged by banks on home equity lines of credit (HELOC) and new car loans have risen 30 to 50 basis points from their lows earlier this year. In contrast, interest rates charged by the captive auto finance companies, which often are held down by credit incentive programs, have not increased in recent months.

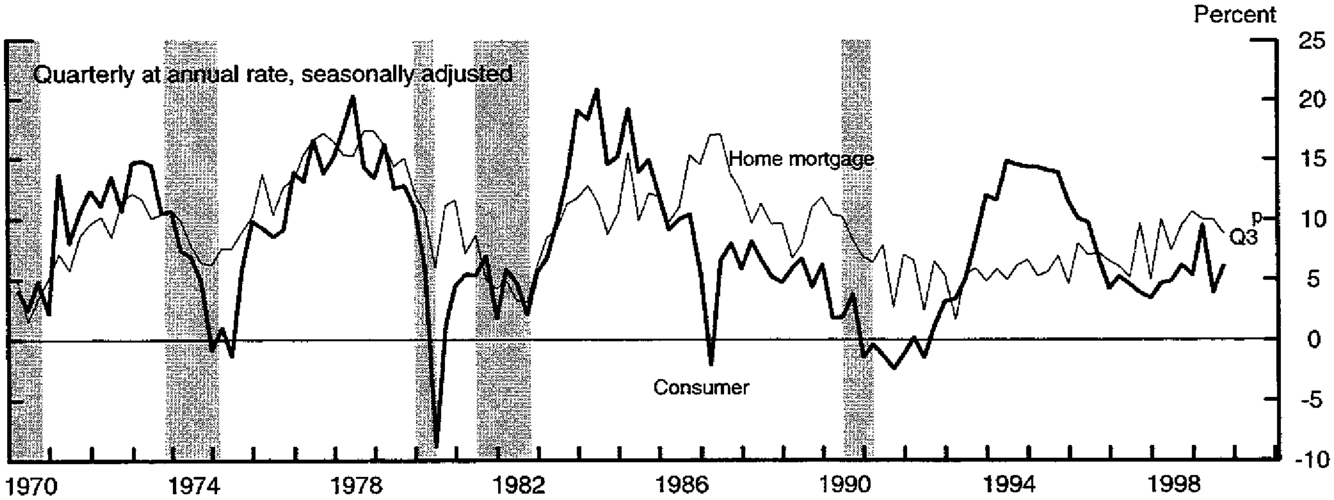
Rising interest rates may have begun to cool the mortgage market last quarter. Preliminary estimates put mortgage debt growth in the third quarter at about 9 percent, down slightly from the 10 percent rate in the first half of the year. The Senior Loan Officer Survey indicated that demand for home loans continued to decline in November; the net percentage of banks reporting weaker demand was the highest since 1995. The four-week moving average of the volatile MBA mortgage purchase index has been relatively flat in recent weeks and is still below its recent July peak. Refinancing activity continues its downward trend. Meanwhile, as rates have risen, households have shifted away from fixed-rate mortgages and toward adjustable-rate mortgages; indeed, the ARM share of mortgage originations rose from 11 percent a year ago to 29 percent in September.

Measures of household credit quality have remained favorable. Moody's index of credit card delinquencies was up slightly in September but stayed near its three-year low. Delinquencies at captive auto-finance companies have stayed near their lowest levels in a decade. Measures of delinquencies on mortgages purchased by Fannie Mae and Freddie Mac were unchanged in August at their four-year lows. The debt-service burden is estimated to have edged up slightly in the third quarter, reaching roughly 13.2 percent of income--about where it has been for two years and still a percentage point below the mid-1980s peak. (The debt-service burden has been recalculated using revised NIPA data.)

The ratio of household net worth to income at the end of the third quarter is estimated to have declined slightly from its historical high but no doubt has risen along with the rebound in equity prices thus far in the fourth quarter. In spite of recent equity price volatility, net new flows to equity funds were steady in September and October, averaging about $10 billion each month. In contrast, as interest rates rose, bond funds experienced outflows over both months.

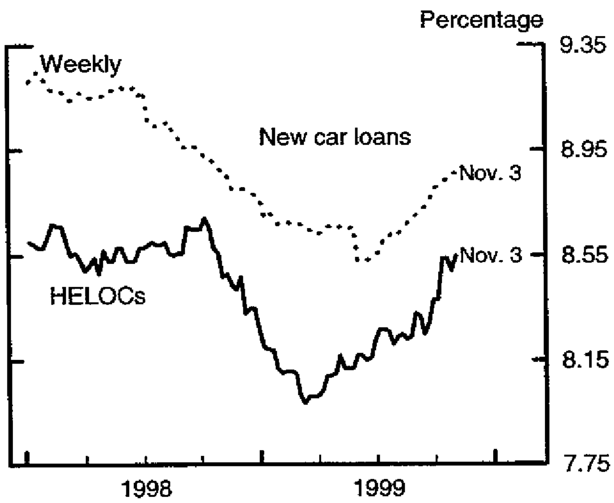
Household Sector

Household Debt Growth



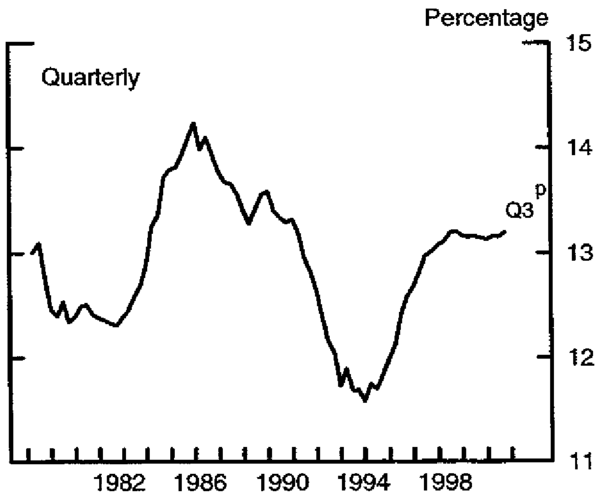
p. Staff projection.

Interest Rates Charged by Banks



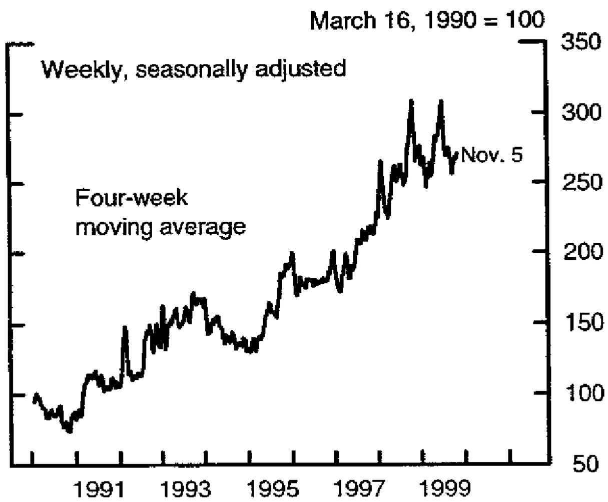
Source. Bank Rate Monitor.

Debt-Service Burden



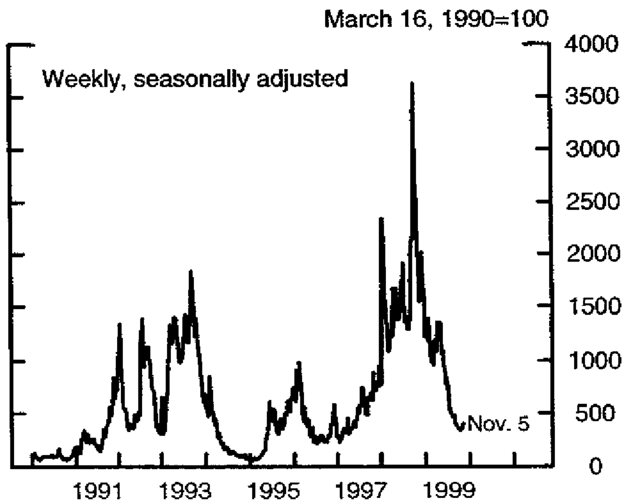
p. Staff projection.

MBA Purchase Index



Source. Mortgage Bankers Association.

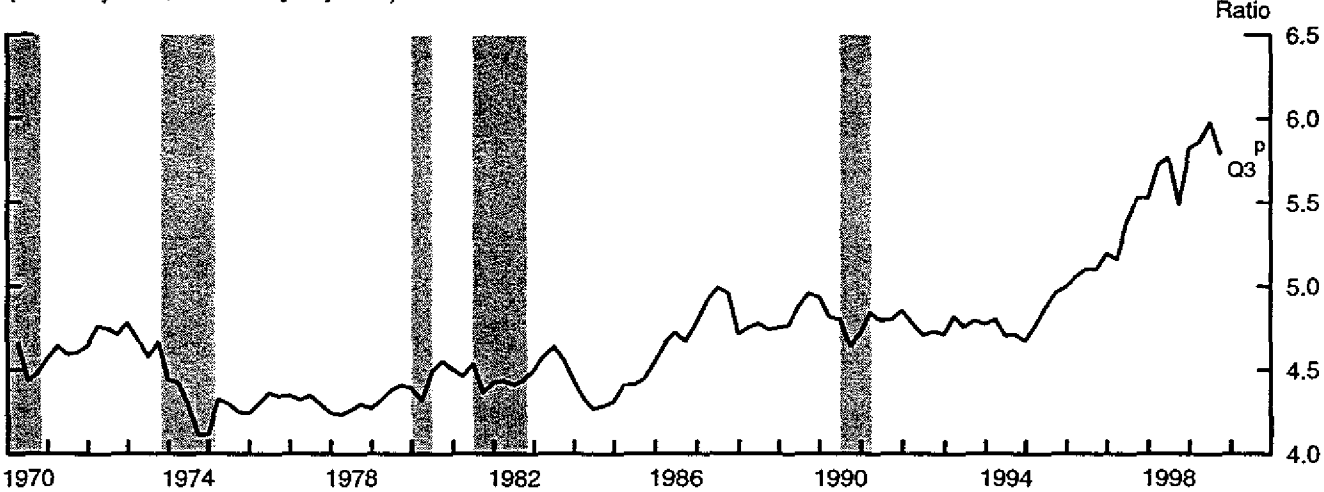
MBA Refinancing Index



Source. Mortgage Bankers Association.

Household Net Worth and Mutual Fund Flows

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 at monthly rates.)

	1996	1997	1998 H1	1998 H2	1999 Q1	1999 Q2	1999 Q3	1999 Oct.[e]	Assets Sept.
Total long-term funds	**19.3**	**22.7**	**29.3**	**11.4**	**16.4**	**20.1**	**8.1**	**8.1**	**4,500**
Equity funds	**18.0**	**19.0**	**21.1**	**5.4**	**10.5**	**19.9**	**10.2**	**12.5**	**3,301**
Domestic	14.1	15.8	18.6	6.7	12.6	18.7	10.6	9.3	2,856
International	4.0	3.1	2.5	-1.3	-2.1	1.2	-0.4	3.2	445
Hybrid funds	**1.0**	**1.4**	**1.7**	**0.1**	**-0.5**	**-0.3**	**-0.7**	**-0.8**	**368**
Bond funds	**0.2**	**2.4**	**6.5**	**5.9**	**6.4**	**0.5**	**-1.4**	**-3.6**	**831**
International	-0.2	-0.1	0.0	-0.2	-0.1	-0.1	-0.2	-0.3	23
High-yield	1.0	1.4	1.8	0.5	1.0	-0.4	-0.8	-0.8	117
Other taxable	-0.1	1.0	3.5	4.3	3.9	1.2	0.9	-0.7	401
Municipals	-0.5	0.1	1.2	1.3	1.6	-0.2	-1.4	-1.8	289

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 1999 Q1	Contributions 1999 Q2	Contributions 1999 Q3	Contributions 1999 Oct.	Transfers[2] 1998	Transfers 1999 Q1	Transfers 1999 Q2	Transfers 1999 Q3	Transfers 1999 Oct.
Company stock	**19**	**19**	**21**	**22**	**19**	**-84**	**-53**	**-70**	**46**	**-18**
Equity funds	**47**	**43**	**47**	**45**	**49**	**-16**	**-4**	**100**	**54**	**-59**
Domestic	42	38	43	41	44	-14	27	34	39	-69
International	5	5	4	4	5	-2	-32	66	15	9
Hybrid funds	**12**	**17**	**10**	**12**	**12**	**11**	**-44**	**-18**	**-76**	**-23**
Fixed income[3]	**22**	**21**	**22**	**21**	**20**	**89**	**99**	**-13**	**-24**	**100**

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.

Treasury and Agency Finance

Treasury Financing
(Billions of dollars)

Item	1999					
	Q1	Q2	Q3	Sept.	Oct.	Nov.[e]
Total surplus, deficit (-)	**5.8**	**143.1**	**28.5**	**56.4**	**-29.7**	**n.a.**
Means of financing deficit						
Net borrowing	7.5	-108.0	-20.1	-47.7	4.8	n.a.
Nonmarketable	2.2	6.3	-2.7	1.0	-1.9	n.a.
Marketable	5.2	-114.3	-17.4	-48.7	6.8	18.2
Bills	34.0	-78.0	4.7	-37.2	9.7	45.6
Coupons	-28.7	-36.3	-22.0	-11.5	-3.0	-27.3
Decrease in cash balance	-4.1	-31.5	-3.4	-20.1	8.9	n.a
Other[1]	-9.1	-3.6	-5.1	11.4	11.9	n.a.
MEMO						
Cash balance, end of period	21.6	53.1	56.5	56.5	47.6	n.a.

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.
n.a. Not available.

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

Agency	1999					
	Q1	Q2	Q3	Aug.	Sept.	Oct.
FHLBs	20.2	34.7	44.5	13.5	23.3	n.a.
Freddie Mac	11.8	15.2	26.7	6.4	0.2	n.a.
Fannie Mae	15.1	24.5	25.0	14.5	7.7	n.a.
Farm Credit Banks	3.0	1.2	.2	.3	.7	n.a.
Sallie Mae	1.4	1.2	4.0	-0.5	1.6	n.a.
MEMO						
Outstandings						
Fannie Mae benchmark notes	61.5	82.7	96.0	95.1	96.0	96.0
Freddie Mac reference notes	30.0	45.5	55.8	57.8	55.8	60.8

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

Evidence from 401(k) pension plans paints a more mixed picture. Plan participants have continued to invest roughly two-thirds of their new contributions in equity funds or company stock. However, transfers among existing plan balances in October, which totaled only about 1-1/2 percent of assets, were pulled mainly from domestic equity funds and company stock and put into stable-value fixed-income investments, such as money funds and guaranteed investment contracts.

Government Finance

Treasury and agency. As part of the midquarter refunding announcement, the Treasury revised its targeted year-end cash balance to $70 billion, down from the $80 billion announced in the August refunding. The current target is still substantially larger than usual, owing to Y2K-related concerns. As a result, the Treasury expects its overall borrowing needs for the current quarter to be substantial--about $51 billion. However, our own reading of the budget picture suggests that the cash balance goal can be reached with net borrowing well under that figure.

In any event, because the Treasury has increased the size of its weekly bill auctions three times since late September and has experienced continuing strength in tax revenues, it has sold no cash management bills thus far this quarter. However, it expects to issue two cash management bills before the end of the year, both maturing in mid-January. Larger actual and expected supplies of bills, and perhaps a new Fannie Mae program to issue bill-like securities on the same schedule as the Treasury, probably account for the upward movement of bill rates over the intermeeting period, while most other rates were essentially unchanged.

The Treasury announced several steps designed to improve the liquidity of the market for its securities in the face of dwindling public debt. One was a new initiative, a temporary rule that allows the reopening of benchmark Treasury securities within one year of issuance without regard to the price of the issue relative to par. Previous rules kept the Treasury from reopening a security when its price was significantly below par. The new rule makes it easier for the Treasury to maintain the liquidity of on-the-run issues by systematically adding to the supply of existing securities--rather than creating smaller (and less liquid) issues. The Treasury also is going forward with rulemaking that would enable it to buy back outstanding debt; such buybacks will create additional latitude for increasing the size of new securities issues--and for reopening recent issues under the previously noted temporary rules.

The Treasury is selling $25 billion in new five-year notes and reopened ten-year notes in its quarterly refunding auctions in November, for a net paydown of

State and Local Finance

Gross Offerings of Municipal Securities

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

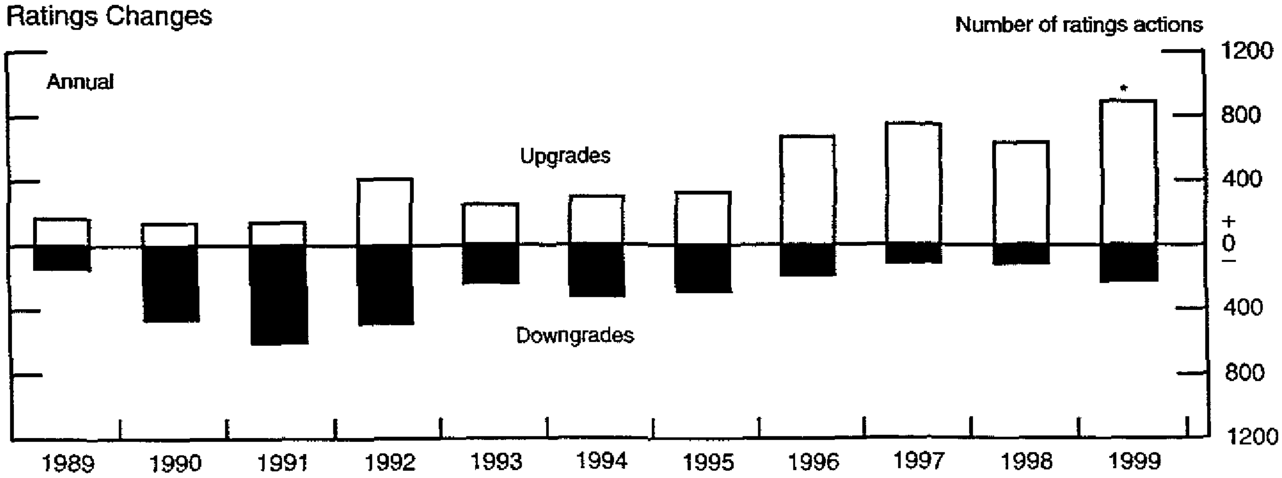
	1997	1998	1999 H1	1999 Q3	1999 Aug.	1999 Sept.	1999 Oct.
Long-term	17.9	21.9	18.8	17.6	15.7	18.4	17.5
Refundings[1]	6.6	8.5	5.2	4.4	3.2	3.5	2.6
New capital	11.3	13.4	13.6	13.2	12.5	15.0	14.9
Short-term	3.6	2.4	2.3	3.9	6.2	3.1	2.2
Total tax-exempt	21.5	24.3	21.1	21.5	22.0	21.5	19.7
Total taxable	1.1	1.1	1.2	0.8	0.6	1.2	0.7

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

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

Note. Average of weekly data. + indicates latest observation (Nov. 4).

Ratings Changes



* 1999 data through Sept. 30, 1999, at an annual rate.

$4.3 billion. Government-sponsored enterprises continue to take advantage of the Treasury's gradual withdrawal from the market, and Fannie Mae, Freddie Mac, and the Federal Home Loan Banks each issued substantial amounts of their benchmark debt in the intermeeting period. In addition, Fannie Mae announced a set of changes for its benchmark notes in order to make the schedule of issuance more similar to that of the Treasury.

State and local. Gross issuance of long-term municipal bonds totaled $17-1/2 billion in October, about matching the third-quarter rate. Refunding issuance continued to drop as municipal yields rose to their highest level in three years. However, this decline was offset by a pickup in new-capital issuance from the already-strong third-quarter pace.

In October, softening demand and continued strong supply raised the ratio of the thirty-year revenue bond yield to the thirty-year Treasury yield nearly to its historic highs. Contributing to the softening demand have been sizable net outflows from tax-exempt mutual funds for several months. Moreover, property and casualty insurance companies have pulled back from the muni market, as falling profits, partly resulting from a storm season that has battered the East Coast, limited their ability to invest.

The credit quality of municipal issuers continued to improve on balance. In the third quarter, Standard and Poor's again upgraded more issues than it downgraded, both in terms of the number of issues and in terms of dollar volume. Downgrades continue to be concentrated among not-for-profit health care providers, which are facing revenue pressures due to cuts in government payments and the expansion of managed care.

Money and Bank Credit

M2 growth continued to be moderate in October, with the 5 percent rate of advance matching the third-quarter pace. In contrast, M3 growth accelerated to a 10 percent pace in October, boosted by especially strong increases in large time deposits and institution-only money funds; the growth in large time deposits was concentrated in foreign banks, where lending activity increased in October. Currency growth edged up, moving from an annualized rate of 9-1/2 percent in September to 10 percent in October.

Growth of adjusted bank credit slowed from a 6-1/2 percent rate in September to about 4 percent in October. Consumer loans, adjusted for securitizations, expanded at a solid 12 percent rate, up slightly from the pace in September. Real estate loans were very strong, partly reflecting a rise in home equity loans due to a thrift acquisition. Even taking this acquisition into account, however, growth of real estate loans was rapid, possibly because households' shift toward ARMs--which banks are more likely to hold in portfolio--has left a greater share

MONETARY AGGREGATES
(Based on seasonally adjusted data)

Aggregate or component	1998	1999 Q2	1999 Q3	1999 Aug.	1999 Sept	1999 Oct. (pe)	1998:Q4 to Oct. 99 (pe)	Level (bil. $) Sept 99
Aggregate	Percentage change (annual rate)[1]							
1. M1	1.8	3.5	-2.3	3.2	-9.8	6	1	1093.4
2. M2[2]	8.5	5.7	5.1	5.5	4.8	5	6	4581.8
3. M3	10.9	5.7	5.6	5.1	6.6	10	6¾	6251.6
Selected Components								
4. Currency	8.3	11.2	8.8	9.1	9.5	10	10¼	494.9
5. Demand deposits	-4.2	-3.8	-10.1	2.0	-35.0	5	-6½	352.6
6. Other checkable deposits	.4	-.3	-13.1	-6.5	-10.5	-2	-4¼	237.6
7. M2 minus M1[3]	10.9	6.4	7.5	6.3	9.4	5	7½	3488.4
8. Savings deposits	14.0	11.0	12.4	6.6	11.6	2	11	1741.8
9. Small time deposits	-1.4	-4.9	-.9	2.7	5.8	6	-2¼	931.2
10. Retail money market funds	23.6	10.7	6.9	9.9	8.7	10	12½	815.4
11. M3 minus M2[4]	18.1	5.9	7.1	4.0	11.5	25	9¼	1669.8
12. Large time deposits, net[5]	9.8	-3.7	6.6	-3.8	25.7	53	7½	639.7
13. Institution-only money market mutual funds	34.7	14.5	7.5	22.9	6.3	25	15	559.3
14. RPs	17.6	-2.7	15.3	6.2	-1.9	-10	6½	309.7
15. Eurodollars	8.5	31.8	-7.0	-32.6	-.7	-23	3	161.0
Memo								
16. Liquid Deposits[6]	8.8	7.3	6.0	4.6	2.1	2	6½	2332.0
17. Sweep-adjusted M1[7]	6.2	6.9	3.0	7.2	-6.0	6	4¾	1455.1
18. Monetary base	7.1	10.1	8.5	7.1	11.2	16	10¾	549.5
19. Household M2[8]	9.8	6.6	6.4	5.9	8.2	5	7	4229.2
	Average monthly change (billions of dollars)[9]							
Memo								
Selected managed liabilities at commercial banks:								
20. Large time deposits, gross	5.1	-2.5	2.2	-.1	9.0	28	...	757.1
21. Net due to related foreign institutions	1.6	-.9	2.7	9.9	-4.1	1	...	218.3
22. U.S. government deposits at commercial banks	.6	.2	1.4	-8.2	14.3	8	...	30.4

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.
pe--Preliminary estimate.

Commercial Bank Credit

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

Type of credit	1998	Q2 1999	Q3 1999	Aug. 1999	Sept. 1999	Oct.p 1999	Level, Oct. 1999p ($ billions)
Total							
1. Adjusted[1]	**10.2**	**2.2**	**5.8**	**8.9**	**6.6**	**4.1**	**4,543**
2. Reported	11.0	.8	5.2	9.3	8.1	.5	4,621
Securities							
3. Adjusted[1]	11.2	4.7	17.8	16.0	4.4	2.6	1,170
4. Reported	14.0	-.8	14.8	16.8	10.1	-10.6	1,248
5. U.S. government	5.9	4.2	6.0	8.8	-3.8	-10.9	810
6. Other[2]	32.3	-10.5	32.5	32.2	36.4	-9.8	438
Loans[3]							
7. Total	9.9	1.4	1.8	6.5	7.4	4.6	3,373
8. Business	11.8	2.6	5.0	10.0	9.3	.4	979
9. Real estate	6.5	3.6	6.5	10.8	14.7	18.4	1,418
10. Home equity	.0	6.7	-10.8	7.4	96.2	94.7	115
11. Other	7.1	3.3	7.9	11.1	8.4	12.1	1,303
12. Consumer	-1.6	-2.9	-11.7	-4.7	3.0	-.2	481
13. Adjusted[4]	6.0	1.2	5.0	10.6	10.6	12.3	781
14. Other[5]	30.0	-2.2	-3.9	-1.7	-11.3	-21.0	495

Note. All data are 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 are percentage changes in consecutive levels, annualized but not compounded.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FIN 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 and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

p Preliminary.

of originations on banks' books. Partly owing to a large bank's sale of its business loan portfolio to a thrift, which reduced loan growth about 3-1/2 percent, business loans were flat following two months of brisk expansion. The November Senior Loan Officer Survey indicates that banks further tightened standards and terms for large and middle-market firms and that the demand for these loans was roughly unchanged.

Appendix

Senior Loan Officer Opinion Survey on Bank Lending Practices

The November 1999 Senior Loan Officer Opinion Survey on Bank Lending Practices focused primarily on changes over the past three months in the supply of and demand for bank loans to businesses and households. Additional questions addressed Year 2000 (Y2K) issues. Loan officers from fifty-four large domestic banks and twenty U.S. branches and agencies of foreign banks participated in the survey. The responses indicate that banks became more cautious lenders over the past quarter but do not suggest a widespread reduction in credit availability. Household demand for credit has reportedly declined, particularly in the mortgage market.

The survey results point to a continued firming of business lending practices. At domestic banks, the tightening took place predominantly in terms on C&I loans, particularly risk premiums; a higher net percentage of respondents than in August reported that they had strengthened underwriting standards as well. The tightening of both standards and terms on C&I loans was particularly notable at branches and agencies of foreign banks. A small net fraction of domestic banks and a larger fraction of branches and agencies of foreign banks raised standards for commercial real estate loans.

Among domestic banks, there was some evidence of greater willingness to make consumer installment loans. Very few banks changed their standards or terms on credit card or other consumer loans, although several banks reported charging higher spreads over their cost of funds on outstanding credit card balances. For the second consecutive quarter, a significant fraction of banks reported that demand for home mortgages weakened, and in November, several banks also reported a modest decrease in demand for consumer loans.

On Y2K questions, the respondents indicated that demand for contingency lines of credit remained low. Domestic banks were generally willing to extend such lines, but often only to existing customers; moreover, the standards and terms for such loans were usually tighter than those on otherwise similar credit lines. However, banks were not, in general, tightening terms and standards on renewals of existing lines extending over year-end. Banks that were limiting credit lines over year-end to specific customer groups were chiefly concerned about adequately evaluating new customers for Y2K preparedness and about the possibility of a significant increase in the cost of funding loans over year-end.

Lending to Businesses

About 9 percent, on net, of domestic bank respondents said that over the past three months they had tightened standards on C&I loans to large and middle-market firms, up from 5 percent in August. Among branches and agencies of foreign banks, 30 percent said that they had tightened, up from 23 percent in August. For the second consecutive quarter, the survey found virtually no change, on net, in standards on loans to small businesses.

On C&I loans to large and middle-market firms, an average of 30 percent, on net, of domestic banks reported tightening risk premiums, costs of credit lines, and spreads of loan rates over the banks' cost of funds. The net percentage of respondents tightening these terms to large and middle-market firms has been rising since May. In addition, a significant number of banks reported charging higher premiums on riskier loans to small businesses. A substantial fraction of branches and agencies of foreign banks reported increasing premiums charged on riskier loans and many also indicated tightening non-price-related terms. As in the August survey, the most commonly cited reasons for tightening remained a less favorable or more uncertain economic outlook, an expected worsening of industry-specific problems, and a reduced tolerance for risk.

Demand for C&I loans at domestic banks was reported to be essentially unchanged, on net, for the second consecutive quarter. Similarly, foreign respondents also indicated virtually no net change in demand. However, 16 percent of large domestic banks and 10 percent of foreign banks stated that demand for C&I loans had been moderately boosted by the high cost of commercial paper issuance over year-end. Merger and acquisition financing needs were given as the primary reason for increased demand by both the domestic banks and foreign branches and agencies that reported higher demand. Among domestic banks that experienced decreased demand, reduced business fixed investment was cited as the most common reason.

On net, 11 percent of domestic respondents reported tighter standards on commercial real estate loans. By contrast, nearly 40 percent of foreign respondents tightened standards on commercial real estate loans, the same percentage as in August. On net, domestic bank respondents reported no change in the demand for commercial real estate loans over the past three months; on the other hand, 20 percent of branch and agency respondents noted a moderate weakening in demand.

Two special questions addressed changes in terms on commercial real estate loans over the past *nine* months. On net, domestic respondents reported that the terms on commercial real estate loans have been essentially unchanged since February. A considerable fraction of branches and agencies of foreign banks tightened terms on commercial real estate loans; in particular, spreads of loan rates over banks' cost of funds had widened, while maximum loan sizes and loan-to-value ratios had declined.

Lending to Households

On net, 41 percent of senior loan officers reported weaker demand for home mortgage loans in November, the highest net percentage since mid-1995 and the second consecutive quarter of weakness in this sector. Even though the question specifically asks about demand for mortgages for purchasing homes as opposed to refinancing existing mortgages, respondents reporting a decrease in demand may have been influenced by the decline in refinancing activity that began earlier in the year. However, the survey results are broadly consistent with the slowing in residential housing activity evident since the summer.

The willingness of banks to make consumer installment loans has increased slightly compared to three months ago. Most standards and terms for both credit card and other consumer loans remained basically unchanged. However, 13 percent of banks, on net, reported charging higher spreads over their cost of funds on credit cards, a small increase from the August survey. Consistent with evidence from the current *Beige Book*, there was a turnaround on the demand side: on net, 8 percent of respondents reported decreased demand for consumer loans, whereas in August, 11 percent had reported an increase in demand.

Year 2000

The survey results continue to indicate that requests for Y2K contingency lines of credit have been limited. A relatively small percentage of domestic bank respondents had received requests for such lines from nonfinancial firms, while 17 percent of banks had received requests from financial firms. Despite some loan officers in the last survey noting that more requests might be forthcoming, these percentages are actually slightly lower than those observed in August. Branches and agencies of foreign banks were even less likely to have received requests for such lines. Requests for contingency lines came from many different types of financial firms, with the largest number of respondents having received requests from other domestic commercial banks, followed by mutual funds, securities dealers and brokers, and insurance companies. Several respondents commented that they expect higher utilization of existing credit lines to fund year-end inventory accumulation and slower collection of receivables, but that in many cases companies have already extended the maturities of their lines of credit and so did not need Y2K contingency lines.

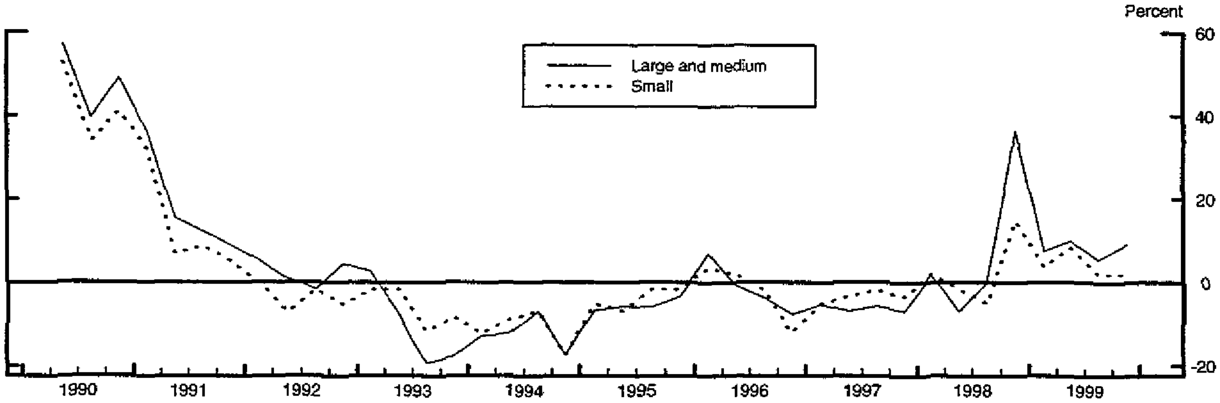
On the supply side, only two domestic and four branch and agency respondents were unwilling to extend Y2K contingency lines of credit. However, nearly two-thirds of domestic and foreign respondents are limiting Y2K contingency lines of credit to existing customers, and in many cases such lines are being made available only to their most creditworthy existing customers. Compared to otherwise similar credit arrangements (such as with respect to maturity and size), a substantial fraction of large domestic and foreign respondents reported somewhat more stringent standards and terms on Y2K contingency lines. The most commonly cited reasons for limiting Y2K lines to specific customer groups or imposing relatively tight terms on these lines are concerns about adequate evaluation of new customers and potentially high cost of funds over year-end. Nonetheless, compared to three months ago, 10 percent of domestic banks were more willing to extend Y2K contingency financing.

In contrast to the tighter standards and terms for Y2K contingency lines, 77 percent of the domestic banks surveyed reported no effect on either standards or terms for the renewal of expiring credit lines that extend over year-end but that are not specifically meant to meet year-end funding needs. Similarly, 58 percent of branch and agency respondents, up from 32 percent in August, reported no effect on either standards or terms. Among domestic banks that are tightening standards or terms on financing that extends over year-end, a higher percentage than in August stated that advances over year-end will be priced relative to their own cost of funds rather than independent indexes (such as LIBOR) and will likely entail a rate premium. The most common adjustment made by foreign respondents to credit lines that extend over year-end was to apply tighter credit standards.

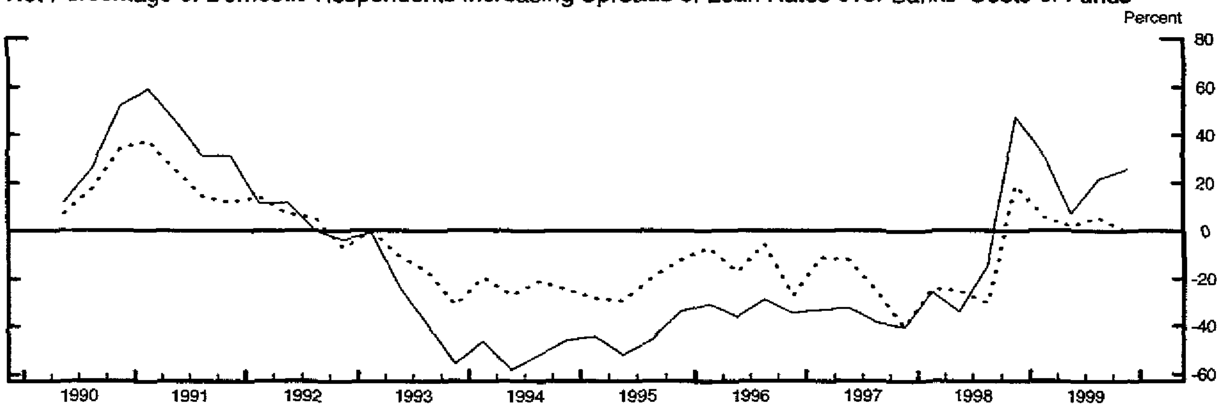
The respondents that were unwilling to extend Y2K contingency lines of credit, or that had limited such lines to existing customers, or that had tightened standards or terms on renewals of existing lines, gave a variety of reasons for their caution. Almost half of domestic banks cited concerns about adequately evaluating new customers for Y2K preparedness. In addition, a high percentage of both domestic banks and branches and agencies of foreign banks expressed concern about the anticipated increased cost of, and uncertainty surrounding, funding credit extensions over year-end. At both domestic and foreign banks, concerns about the effect of Y2K-related lending on capital ratios abated significantly relative to the August survey.

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

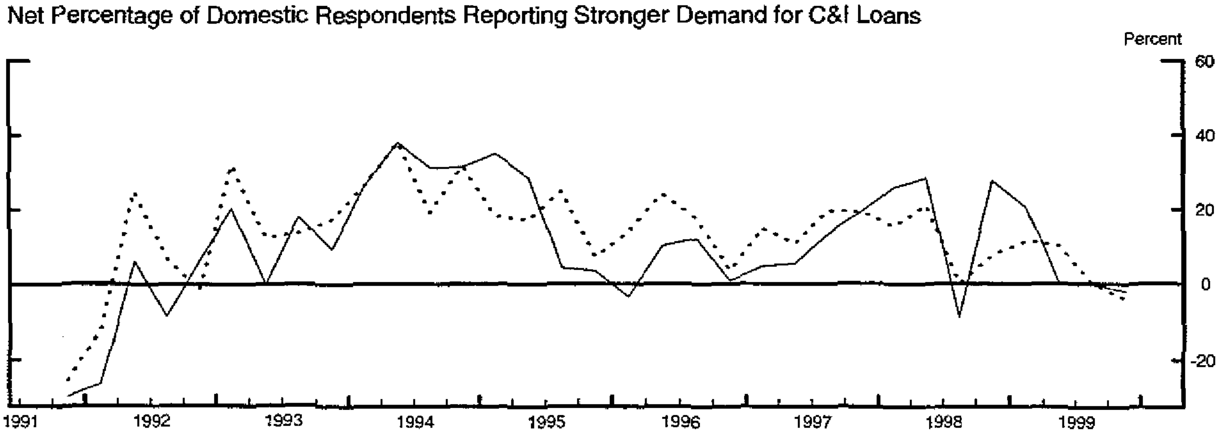
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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

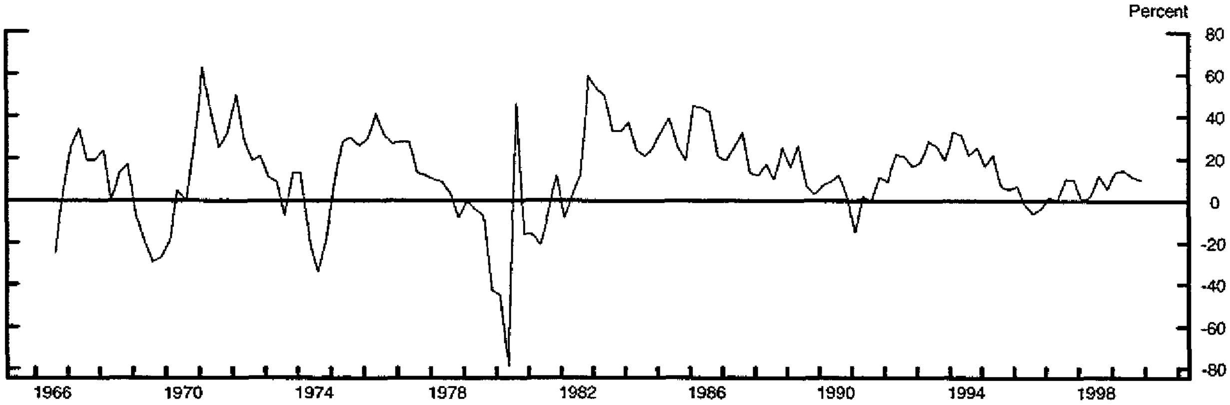


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

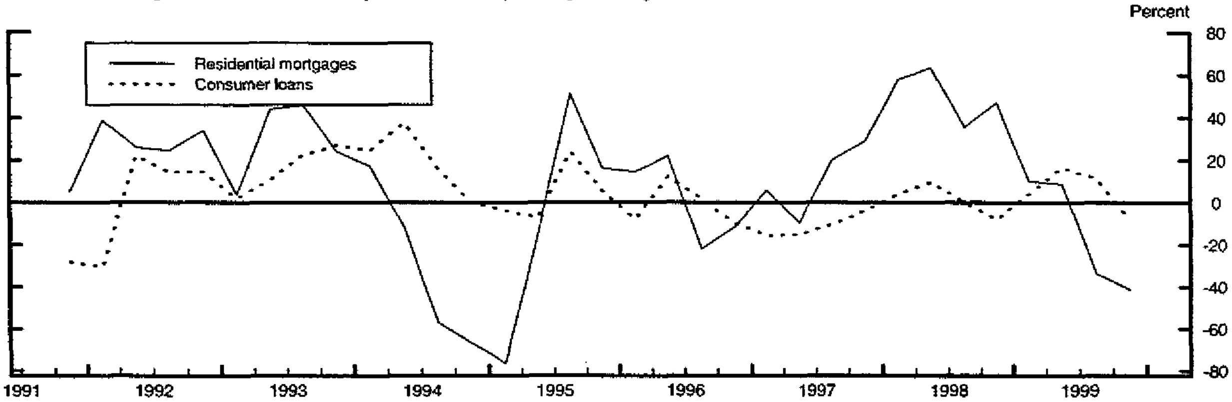


Measures of Supply and Demand for Loans to Households

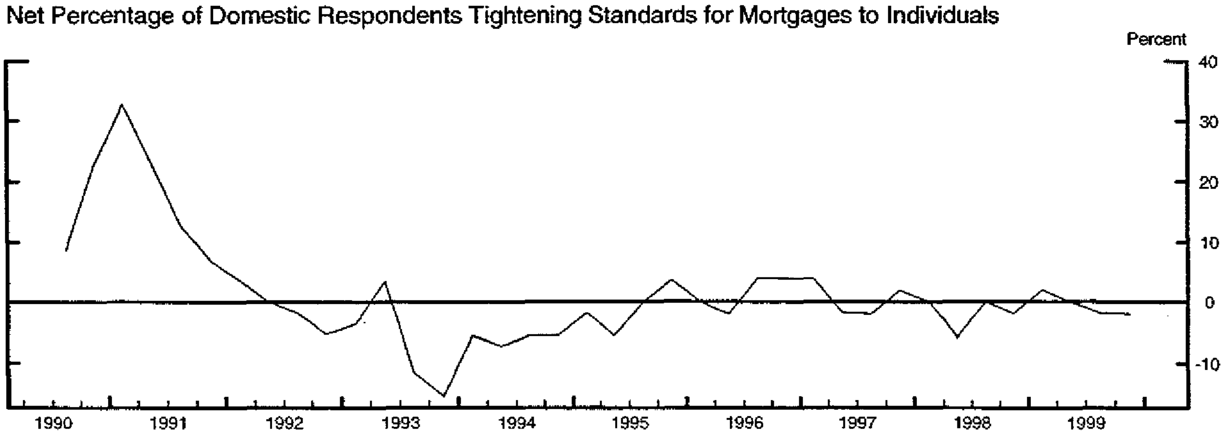
Net Percentage of Domestic Respondents Indicating More Willingness to Make Consumer Installment Loans



Net Percentage of Domestic Respondents Reporting Stronger Demand for Loans to Households



Net Percentage of Domestic Respondents Tightening Standards for Mortgages to Individuals



INTERNATIONAL DEVELOPMENTS

International Developments

U.S. International Transactions

Trade in Goods and Services

In August, the nominal U.S. trade deficit in goods and services was $24.1 billion, somewhat smaller than the deficits recorded in the previous two months. For July-August combined, however, the deficit was $35 billion SAAR larger than in the second quarter. Trade data for September will be released on November 18.

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

	1998	Annual rate 1999			Monthly rate 1999		
		Q1	Q2	Q3[e]	June	July	Aug.
Real NIPA[1]							
Net exports of G&S	-215.1	-284.5	-319.0	-343.0	...	...	...
Nominal BOP							
Net exports of G&S	-164.3	-215.9	-259.1	-293.9	-24.6	-24.9	-24.1
Goods, net	-246.9	-296.8	-337.6	-372.0	-31.2	-31.4	-30.6
Services, net	82.6	80.9	78.5	78.2	6.6	6.5	6.5

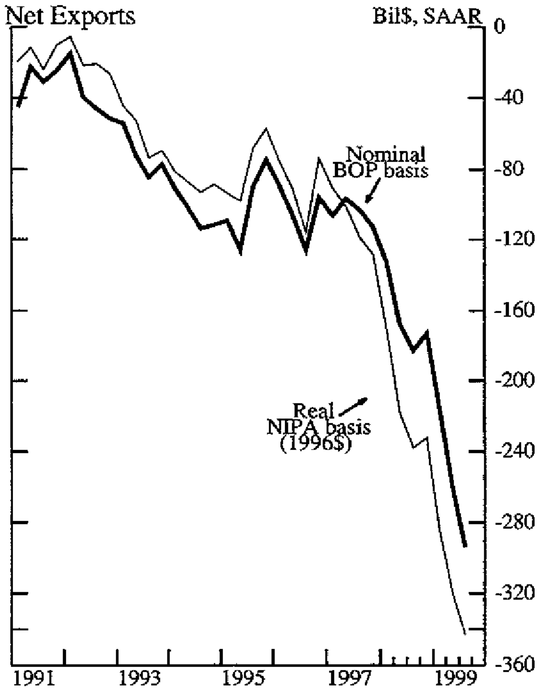
1. Billions of chained (1996) dollars.
e. BOP data are two months at an annual rate.
Source. U.S. Department of Commerce, Bureaus of Economic Analysis and Census.
n.a. Not available. ... Not applicable.

The value of exports jumped 3¾ percent in August, owing mainly to a surge in exports of aircraft and to strong increases in exports of automotive products, industrial supplies, and agricultural products. The increase in automotive products was largely parts sent to Canada and Mexico for use in production of vehicles to be shipped back to the United States. Much of the increase in the value of industrial supplies was in chemicals, and the rise in the value of agricultural products was primarily from soybeans (in terms of both price and quantity). For July-August combined, the value of exports was 3 percent higher than in the second quarter, with increases posted in most major trade categories, largely reflecting the strength of the August export values.

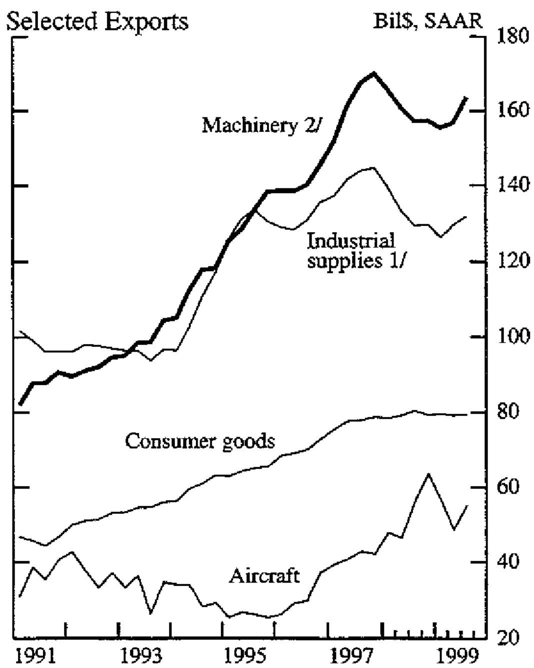
The value of imports increased 2 percent in August, largely from oil (primarily higher prices), industrial supplies, and vehicles from Canada. For July-August combined at an annual rate, the value of imports was 5¼ percent higher than in the second quarter with large increases in all major trade categories other than food.

U.S. International Trade in Goods and Services

Net Exports

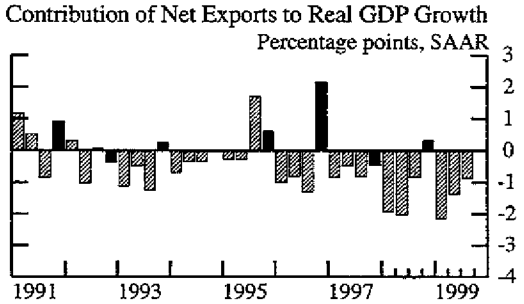


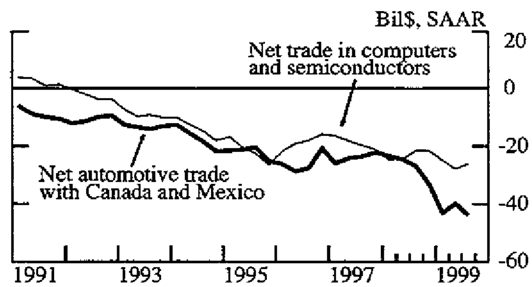
Selected Exports



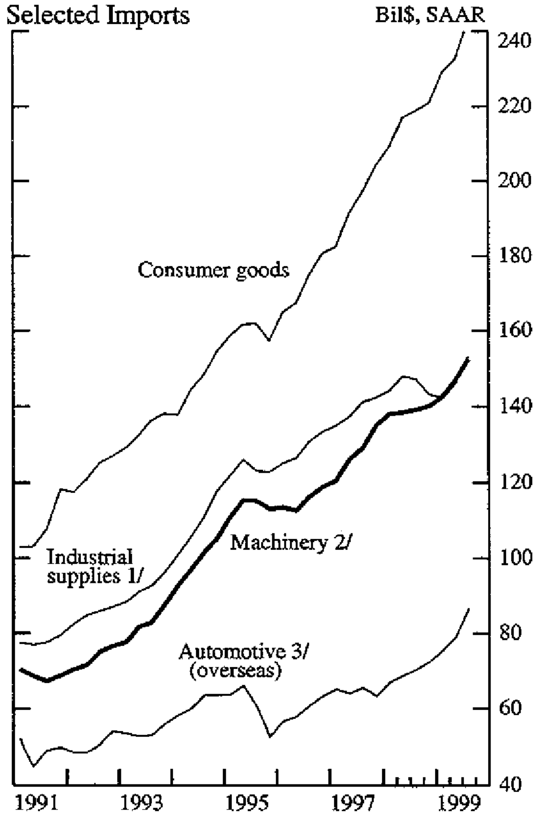
1. Excludes agriculture and gold.
2. Excludes computers and semiconductors.

Contribution of Net Exports to Real GDP Growth





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]			
	1999		1999		1999		1999	
	Q2	Q3e	July	Aug.	Q2	Q3e	July	Aug.
Exports of G&S	938.9	966.9	949.5	984.3	11.2	28.0	6.0	34.9
Goods exports	663.4	688.0	670.7	705.4	6.3	24.6	5.0	34.7
Agricultural	49.0	51.6	50.2	53.0	1.7	2.5	0.4	2.8
Gold	3.3	3.3	1.8	4.8	0.5	-0.1	-2.2	3.0
Other goods	611.1	633.2	618.8	647.7	4.1	22.1	6.8	28.9
Aircraft & pts	48.7	55.2	46.4	64.0	-7.9	6.5	-0.0	17.7
Computers	46.5	47.9	47.6	48.2	2.3	1.4	0.5	0.6
Semiconductors	45.2	49.5	49.8	49.2	3.1	4.3	4.4	-0.6
Other cap gds	159.2	165.9	165.1	166.6	0.3	6.7	5.9	1.4
Automotive	75.0	76.7	73.2	80.3	3.6	1.7	-4.8	7.1
to Canada	44.6	46.5	44.8	48.2	1.9	1.9	-2.0	3.4
to Mexico	11.4	11.0	10.2	11.8	1.2	-0.4	-1.2	1.6
to ROW	19.0	19.2	18.1	20.2	0.6	0.2	-1.7	2.1
Ind supplies	129.5	131.9	128.4	135.3	3.4	2.4	-1.1	6.9
Consumer goods	79.1	79.2	79.8	78.5	-0.5	0.1	1.3	-1.3
All other	27.9	27.0	28.4	25.5	-0.3	-0.9	0.4	-2.9
Services exports	275.4	278.9	278.8	278.9	5.0	3.5	1.0	0.2
Imports of G&S	1198.0	1260.8	1248.1	1273.5	54.5	62.8	9.4	25.4
Goods imports	1001.1	1060.1	1047.7	1072.4	47.1	59.0	7.9	24.6
Petroleum	63.7	75.2	70.5	79.9	21.3	11.5	3.3	9.4
Gold	3.2	5.1	2.7	7.4	-0.1	1.9	-0.6	4.7
Other goods	934.3	979.8	974.6	985.1	25.9	45.6	5.2	10.5
Aircraft & pts	22.6	24.6	27.3	22.0	0.4	2.0	4.0	-5.3
Computers	82.0	85.1	86.0	84.2	4.5	3.0	0.1	-1.8
Semiconductors	37.3	38.5	38.8	38.1	3.9	1.1	0.6	-0.7
Other cap gds	149.8	155.3	153.9	156.7	3.9	5.5	-4.3	2.9
Automotive	175.1	187.8	185.6	190.1	3.4	12.8	-0.1	4.5
from Canada	62.6	68.0	63.1	73.0	-2.5	5.5	-1.4	9.9
from Mexico	33.3	33.2	31.5	35.0	2.4	-0.0	-3.1	3.5
from ROW	79.2	86.5	91.0	82.1	3.6	7.3	4.3	-9.0
Ind supplies	146.2	153.1	150.9	155.4	3.9	7.0	2.2	4.6
Consumer goods	232.7	242.8	242.4	243.1	3.6	10.1	3.4	0.7
Foods	43.8	44.0	44.1	44.0	2.1	0.3	-1.0	-0.1
All other	44.8	48.6	45.7	51.5	0.2	3.8	0.4	5.8
Services imports	196.9	200.7	200.4	201.1	7.4	3.8	1.4	0.7
Memo:								
Oil qty (mb/d)	11.86	11.59	11.46	11.72	0.65	-0.26	-0.71	0.26
Oil price ($/bbl)	14.69	17.74	16.83	18.65	4.30	3.06	1.71	1.82

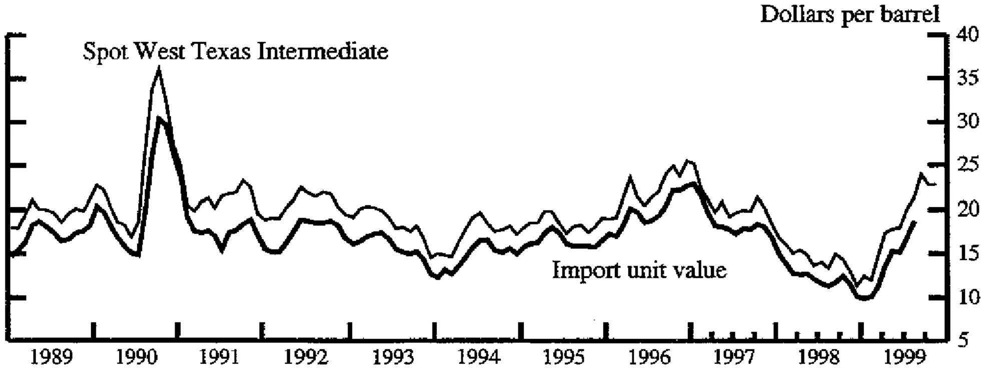
1. Change from previous quarter or month. e. Average of two months.
Source. U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

	Annual rates 1999 Q1	Q2	Q3	Monthly rates 1999 Aug.	Sept.	Oct.
	------------ BLS prices (1995 weights)------------					
Merchandise imports	-1.6	6.6	8.5	0.9	1.1	0.5
Oil	-18.4	256.6	168.6	10.2	8.4	4.9
Non-oil	-0.7	-2.0	-0.3	0.1	0.1	0.1
Core goods*	-0.1	-1.1	1.0	0.0	0.2	0.1
Foods, feeds, beverages	-6.0	0.4	-6.8	-0.3	-0.2	-1.1
Industrial supplies ex oil	-1.7	1.5	7.7	0.3	0.4	1.0
Computers	-9.0	-17.7	-13.7	-0.4	-0.5	-1.1
Semiconductors	2.0	-3.3	-8.0	0.6	0.2	0.6
Cap. goods ex comp & semi	0.7	-3.4	-2.1	0.0	0.3	0.2
Automotive products	1.3	0.9	0.8	0.1	0.0	0.1
Consumer goods	0.3	-2.3	-0.4	0.0	0.3	-0.2
Merchandise exports	-1.1	-0.3	0.6	0.3	0.0	0.3
Agricultural	-6.0	-8.5	-4.5	1.9	-0.4	-0.2
Nonagricultural	-0.6	0.6	1.1	0.1	0.1	0.4
Core goods*	0.3	1.8	1.6	0.2	0.3	0.5
Industrial supples ex ag	-2.0	2.9	8.6	1.0	0.8	1.1
Computers	-6.5	-7.0	-8.4	0.0	-1.0	0.4
Semiconductors	-7.7	-5.9	-9.7	-0.5	0.0	-0.7
Cap. goods ex comp & semi	1.4	0.3	-0.5	-0.1	0.0	0.1
Automotive products	0.6	0.1	0.8	0.0	0.1	0.7
Consumer goods	-0.5	0.0	0.7	0.2	0.0	0.2
Chain-weight	---Prices in the NIPA accounts (1996 weights)---					
Imports of goods & services	-2.9	5.2	5.9	...	...	...
Non-oil merchandise	-1.3	-2.6	-0.8	...	...	...
Core goods*	-0.5	-0.8	1.1	...	...	...
Exports of goods & services	-0.5	0.7	1.0	...	...	...
Nonag merchandise	-0.8	0.2	0.8	...	...	...
Core goods*	0.3	1.2	2.1	...	...	...

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

Oil Prices



Quantity and price of imported oil. The value of imported oil increased further in August, reflecting both higher prices and higher quantities. The price of imported oil rose to over $18.50 per barrel in August, up more than $1.75 per barrel from July, driven by reduced supplies, primarily from OPEC, and strengthening world demand. Still, the quantity of imported oil rose slightly due to higher U.S. consumption.

More recently, oil prices have moderated somewhat as Iraqi exports remain high and as expectations of higher non-OPEC production have increased. OPEC compliance with production targets has remained high, which has tended to support prices. In October, the monthly average spot price of West Texas Intermediate (WTI) declined for the first time in eight months to around $22.50 per barrel from over $23.75 per barrel in September. Spot WTI is currently trading around $24 per barrel.

Prices of non-oil imports and exports. In the third quarter, non-oil import prices declined ¼ percent at an annual rate, reflecting large declines in the prices of computers and semiconductors. The price of "core" goods imports (excluding oil, computers, and semiconductors), however, rose 1 percent at an annual rate in the third quarter, the first increase since the fourth quarter of last year. Strong increases in prices of imported non-oil industrial supplies (particularly lumber) and a small rise in prices of imported automotive products more than outweighed declines recorded for prices of imported machinery (other than computers and semiconductors), foods (especially coffee), and consumer goods. Prices of non-oil imports increased slightly in October, with prices of core goods continuing to move up, especially prices for industrial supplies, machinery, and automotive products.

In the third quarter, export prices increased ½ percent at an annual rate, the first increase recorded since the first quarter of 1997. Prices of "core" goods exports (which exclude agricultural products, computers, and semiconductors) rose 1½ percent at an annual rate in the third quarter (nearly the same rate of increase as in Q2), reflecting primarily higher prices for exported industrial supplies with smaller increases for prices of exported automotive products and consumer goods. Prices of agricultural products declined 4½ percent in the third quarter (the smallest quarterly rate of decline since the second quarter of 1997). Prices of computers and semiconductors fell at an 8 to 10 percent annual rate. Export prices continued to increase in October, as price increases for core goods were somewhat offset by declines in prices for agricultural goods. Trade price data for November will be released on December 9.

U.S. International Financial Transactions

At $104 billion, private foreign net purchases of U.S. securities in the third quarter totaled just below the record set in the fourth quarter of 1996 (line 4 of the Summary of U.S. International Transactions table). Net purchases of corporate and other bonds accounted for almost 70 percent of the total, with net stock purchases accounting for most of the rest (lines 4b and 4c). Purchases of agency bonds comprised about $21 billion of line 4b. As is typical, a large part of both net corporate bond and stock purchases was transacted through international financial centers in the third quarter: over $45 billion for the quarter went through the United Kingdom, with another $6 billion (each) going through the Caribbean and Japan. Net foreign purchases of Treasury securities (line 4a) were small and negative in the third quarter except for the month of August; about half of the $15 billion net in that month was the result of hedge fund purchases in the Caribbean.

U.S. residents registered modest net purchases of foreign securities in the third quarter, almost entirely the result of bond purchases (lines 5 and 5a). The pattern was reversed in September, as there were small net sales of both foreign bonds and stocks. Much of the August total for net bond purchases was attributable to U.S. purchases of $4.5 billion of a Daimler-Chrysler flotation. While overall net stock purchases were minuscule for the quarter (line 5b), U.S. net purchases of Japanese stocks amounted to almost $9 billion.

Official capital inflows were a net $13 billion in the quarter, although there was a modest official outflow in September (line 1). The third quarter total was more than accounted for by increases in Japanese reserves that closely tracked their intervention activities. Significant reserve increases were also registered by Germany and Singapore. In September, Argentina's reserves held in the United States fell substantially.

Capital flows associated with banks during the third quarter were moderate, but volatile (line 3). A $9 billion net capital outflow to the British West Indies, associated with the purchases of corporate bonds and stocks noted above, accounted for almost all of the net banking outflow in the quarter.

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

	1997	1998	1998	1999				
			Q4	Q1	Q2	Q3	Aug.	Sept.
Official capital								
1. Change in foreign official assets in U.S. (increase, +)	20.0	-16.6	27.2	5.7	*	13.3	9.0	-3.5
a. G-10 countries	1.8	6.9	12.8	12.7	7.6	19.2	2.7	8.7
b. OPEC countries	12.9	-9.0	2.8	2.2	2.5	-1.3	-.5	-1.5
c. All other countries	5.2	-14.4	11.6	-8.6	-10.0	-4.6	6.8	-10.7
2. Change in U.S. official reserve assets (decrease, +)	-1.0	-6.8	-2.4	3.9	1.2	1.9	1.4	.1
Private capital								
Banks								
3. Change in net foreign positions of banking offices in the U.S.[1]	33.9	57.2	12.4	6.0	16.9	-9.8	31.1	-20.1
Securities[2]								
4. Foreign net purchases of U.S. securities (+)	346.7	275.2	80.6	55.7	82.8	104.2	44.4	29.5
a. Treasury securities[3]	147.2	49.3	24.6	-7.3	-5.2	9.9	14.9	-.1
b. Corporate and other bonds[4]	128.1	172.2	40.9	52.9	50.2	69.0	17.3	24.7
c. Corporate stocks	71.3	53.7	15.2	10.2	37.9	25.3	12.2	4.9
5. U.S. net purchases (-) of foreign securities	-89.1	-11.1	16.5	7.3	17.5	-10.7	-5.8	2.2
a. Bonds	-48.2	-17.4	10.4	-.8	3.3	-10.1	-6.4	1.1
b. Stocks[6]	-40.9	6.2	6.2	8.1	14.2	-.6	.6	1.1
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-110.0	-132.8	-30.8	-41.4	-35.0	n.a.	n.a.	n.a.
7. Foreign direct investment in U.S.	109.3	193.4	120.6	22.9	118.6	n.a.	n.a.	n.a.
8. Foreign holdings of U.S. currency	24.8	16.6	6.3	2.4	3.1	n.a.	n.a.	n.a.
9. Other (inflow, +)[5,6]	-47.9	-164.6	-131.0	11.4	-88.0	n.a.	n.a.	n.a.
U.S. current account balance (s.a.)	-143.5	-220.6	-61.7	-68.7	-80.7	n.a.	n.a.	n.a.
Statistical discrepancy (s.a.)	-143.2	10.1	-37.7	-5.2	-36.4	n.a.	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.

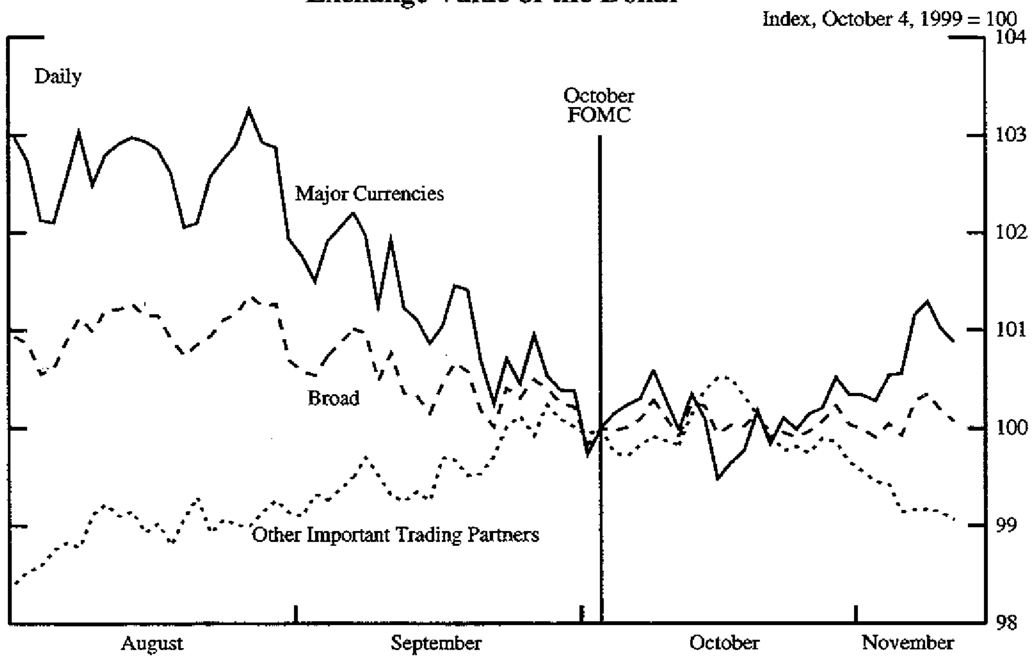
6. Quarterly balance of payments data include large U.S. acquisitions of foreign equities associated with foreign takeovers of U.S. firms These are not included in line 5.b but are included in line 9.

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

Foreign Exchange Markets

The foreign exchange value of the dollar has moved in a narrow range since the October FOMC meeting, appreciating about 1 percent on net in terms of the major currencies index, while depreciating 1 percent in terms of the currencies of our other important trading partners. As a result, the broad trade-weighted index was little changed on balance. Among major currencies, the dollar's appreciation against European currencies (2 percent versus sterling, 2¾ percent vis-a-vis the euro, and 3½ percent against the Swiss franc) was partially offset by a 1½ percent depreciation versus the Japanese yen.

Exchange Value of the Dollar



During the intermeeting period, financial markets became increasingly focused on the prospects for monetary policy actions in Europe and in the United States. In the event, on November 4, the European Central Bank increased its refinancing rate 50 basis points to 3 percent, and the Bank of England raised its repurchase rate 25 basis points to 5½ percent. The moves were generally expected by market participants. The Reserve Bank of Australia and the National Bank of Denmark also increased policy rates 25 basis points during the period.

The euro's weakness versus both the dollar and the yen was somewhat puzzling, as data continued to point to a robust inflation-free recovery in Europe. Euro-area 10-year bond yields rose gradually early in the period, then fell sharply after higher-than-expected monetary growth data solidified expectations of an ECB rate hike, and continued to decline after the rate hike itself. On net, a

20-basis-point overall decline in long yields was paired with a 24-basis-point increase in 3-month rates. Increased prospects for price stability in the long run, as well as reduced uncertainty about the path of euro-area monetary policy, were cited as possible explanations for the unexpected flattening of the yield curve. The fall in 10-year yields was even more pronounced in the United Kingdom, where a 51-basis-point fall outstripped a 20-basis-point decline in 3-month yields. Share prices rose 6½ percent in Germany and 3 percent in the United Kingdom during the period.

Financial Indicators in Major Industrial Countries

	Three-month rate		Ten-year yield		Equities
Country	Nov. 10 (Percent)	Percentage Point Change	Nov. 10 (Percent)	Percentage Point Change	Percent Change
Canada	5.12	0.07	6.04	0.18	3.79
Japan	0.30	0.10	1.81	0.20	4.53
Euro area	3.46	0.24	5.00	-0.20	6.60
United Kingdom	5.60	-0.20	5.20	-0.51	2.96
Switzerland	1.83	-0.17	3.49	-0.02	3.61
Australia	5.41	0.22	6.54	0.14	1.56
United States	5.95	-0.13	5.99	0.04	4.39
Memo: Weighted-average foreign	3.25	0.10	4.94	-0.02	

NOTE. Change is from October 4 to November 10.

The yen strengthened to its highest level against the dollar since the September G-7 meeting before retracing some of its gains late in the period. Despite frequent warnings by Japanese authorities about the excessive strength of the currency, the Bank of Japan did not intervene in foreign exchange markets. The yen was supported by continued signs of economic recovery and by reports that the Japanese government was considering a fiscal package larger than had been previously expected. Perhaps in reaction to the prospects for increased deficit spending, 10-year bond yields increased 20 basis points. Japanese share prices rose 4½ percent.

Latin American financial markets performed well during the intermeeting period. Equity prices rose more than 16 percent in Mexico and Brazil, and Brady spreads narrowed substantially for most Latin American issues. The

Financial Indicators in Latin America, Asia, and Russia

Economy	Currency/ US dollar: Nov. 10	Currency/ US dollar: Percent Change	Short-term Interest Rates: Nov.9/10 (Percent)	Short-term Interest Rates: Percentage Point Change	Dollar-denominated bond spread[1]: Nov.9/10 (Percent)	Dollar-denominated bond spread[1]: Percentage Point Change	Equity prices: Percent Change
Mexico	9.43	-0.28	17.10	-2.40	5.94	-1.42	16.31
Brazil	1.93	-0.41	18.85	1.45	9.19	-3.03	16.19
Argentina	1.00	-0.00	11.00	1.00	7.46	-1.18	6.39
Chile	541.40	1.98	n.a.	n.a.	n.a.	n.a.	1.41
China	8.28	0.00	n.a.	n.a.	1.28	-0.11	-7.67
Korea	1179.00	-2.80	5.00	-0.10	1.90	-0.17	14.71
Taiwan	31.63	-0.53	4.80	0.00	n.a.	n.a.	-3.69
Singapore	1.67	-1.02	2.13	0.06	n.a.	n.a.	4.48
Hong Kong	7.77	0.04	5.60	0.03	n.a.	n.a.	8.54
Malaysia	3.80	0.00	2.72	-0.06	2.01	-0.39	6.73
Thailand	38.96	-3.68	3.50	0.00	1.08	-0.04	7.64
Indonesia	6895.00	-12.17	13.42	-0.03	7.40	0.07	15.06
Philippines	40.20	-0.74	n.a.	n.a.	3.09	-0.05	-5.11
Russia	26.15	1.47	n.a.	n.a.	67.00	0.10	28.18

NOTE. Change is from October 4 to November 9/10.

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.

Mexican peso was little changed. The victory of the opposition candidate in Argentina's presidential elections had been widely expected and generated little market reaction. In Brazil, the *real* came under pressure early in the period despite continued sales of dollar-indexed debt by the central bank. The *real* later recovered after the central bank announced a series of measures designed to support the currency, including an agreement with the IMF allowing it to spend additional reserves in intervention operations.

Amid general optimism about the recovery in emerging Asia, several currencies appreciated during the period. The Korean won gained almost 3 percent, the Thai baht rose over 3 percent, and the Indonesian rupiah surged 12 percent as a new administration was elected. Share prices rose in many Asian markets.

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

Developments in Foreign Industrial Countries

Data for the foreign industrial countries suggest that economic expansion continues to gain strength. In Japan, third-quarter production data indicate continued growth after the surprisingly robust first half. However, consumer spending appears to have slowed in the third quarter, pointing to a mixed overall picture. Following modest gains in the second quarter, economic activity in the euro zone appears to have surged in the third quarter, with industrial production, new orders for manufactured goods, and economic sentiment all pointing up in most of the region. Activity in the United Kingdom and Canada during the third quarter appears to have surpassed an already strong second-quarter pace, with GDP rising sharply in both countries.

Inflationary pressures remain subdued in the foreign industrial countries, although higher oil prices have contributed to an uptick in headline inflation. Japanese core consumer prices fell slightly in October from a year earlier, while wholesale prices continue to decline at an annual rate of nearly 4 percent. Euro-zone inflation remains modest, with twelve-month inflation around 1¼ percent, primarily reflecting higher energy costs. Canadian core inflation has nudged up recently, but is still below the midpoint of the Bank of Canada's 1 to 3 percent target. U.K. inflation remains close to 2 percent.

Production indicators for **Japan** suggest that the economy continued to expand in the third quarter following a surprisingly strong rebound in the first half of the year. However, there is as yet no firm evidence that private demand growth in Japan has become self-sustaining. Industrial production in the third quarter was nearly 4 percent higher than the second quarter, and the more broadly-based all-activity index was up a touch more than 1 percent on average in July and August relative to the second quarter level. Production and shipments of investment goods posted a particularly large gain in the third quarter, possibly related to Y2K effects.

Japanese consumer demand has dropped back following strong growth in the first half of the year, as both real household expenditures and new passenger car registrations were down somewhat in the third quarter. Housing starts were down a little in the third quarter as well, albeit to a level still about 7 percent higher than a year earlier, reflecting the impact of tax and interest rate incentives that boosted construction earlier this year.

Forward-looking indicators are mixed. Machinery orders appear to have stabilized in recent months, but are still at a low level. The September Tankan survey showed a broad improvement in business sentiment across major categories. However, firms expect to reduce capital expenditures next year by a much larger amount than this year's decline. They also expect to continue reducing "excessive" employment, consistent with recent announcements of large-scale restructuring at Nissan and other corporations. While the unemployment rate has edged down to 4.6 percent in the last few months, the improvement is widely expected to be short-lived as corporate restructuring proceeds.

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

Indicator	1999						
	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
Industrial production	.6	-1.0	3.8	-.6	4.4	-0.8	n.a.
Housing starts	7.8	3.7	-2.5	-11.7	10.7	-1.3	n.a.
Machinery orders	1.9	-3.7	n.a.	-2.6	8.2	n.a.	n.a.
Machinery shipments	1.8	-2.4	4.9	-1.0	4.5	0.4	n.a.
New car registrations	1.5	-.0	-.3	-7.8	11.6	-4.2	n.a.
Unemployment rate[1]	4.6	4.8	4.7	4.9	4.7	4.6	n.a.
Job offers ratio[2]	.49	.47	.46	.46	.46	.47	n.a.
Business sentiment[3]	-44	-37	-32	...	...	...	...
CPI (Core, Tokyo area)[4]	-.1	-.2	-.1	-.1	-.1	0	-.2
Wholesale prices[4]	-4.0	-3.6	-4.0	-3.8	-4.4	-3.9	-2.1

1. Percent.
2. Level of indicator.
3. Tankan survey, diffusion index.
4. Percent change from year earlier, NSA.
n.a. Not available. ... Not applicable.

Japan's merchandise trade surplus during the first nine months of 1999 was $112 billion at an annual rate, up a little from the $108 billion surplus recorded for 1998. Denominated in dollars, exports during the first nine months rose about 5 percent from their 1998 averages, while imports were up about 5½ percent. Japanese exports to developing Asia have surged this year, as recovery in these countries has taken hold, but exports to Europe have declined significantly from 1998 levels.

Discussions are currently underway over the scale and composition of a second supplemental budget for the current Japanese fiscal year. Initial statements by government officials suggested that the package will include fiscal stimulus measures totaling more than 10 trillion yen, with about 5.5 trillion (approximately 1 percent of GDP) in "real-water" expenditures. However, recent remarks have indicated that the package, which should be announced later this month, could be somewhat larger. Current plans call for 3.5 trillion yen for infrastructure projects and 2 trillion yen to assist small businesses, encourage home-building and "create jobs".

In the **euro area**, data on current economic activity as well as recent information on economic sentiment and new orders indicate that activity picked up sharply in the third quarter. For the euro area as a whole, industrial production for July and August on average was about 0.9 percent (s.a.) above the second-quarter level. In Germany, new orders for manufactured goods surged in August; for the third quarter as a whole, orders rose 4.9 percent (s.a.) compared to the second period. Manufacturers' orders--especially from foreigners--have been on a rising trend for several months. Economic sentiment has been improving in most of the countries in recent months, with improvement in all components of the index–industrial, consumer, and construction.

The harmonized unemployment rate for the euro area was unchanged at 10 percent in September. For the third quarter on average, the unemployment rate was also 10 percent. In France, Germany and Italy, unemployment rates have declined modestly so far this year, and those in France and Italy remained above eleven percent in the third quarter.

The euro-area harmonized CPI inflation remained flat at 1.2 percent (year over year) in September, after having risen steadily but slowly during the summer due to higher energy prices. Still, consumer price inflation remains considerably below the ECB's goal of keeping annual inflation below 2 percent. Noticeable differences in performance persist among individual countries, with inflation rates in Austria, France and Germany all below 1 percent, while rates in Ireland, the Netherlands, Portugal, Spain are a little above 2 percent.

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

Indicator	1999						
	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
Industrial production[1]							
Euro-11	0.1	0.2	n.a.	0.2	0.5	n.a.	n.a.
Germany	0.2	0.8	-0.3	-0.4	1.2	-2.6	n.a.
France	0.7	0.0	n.a.	1.5	0.0	n.a.	n.a.
Italy	-1.2	-2.2	n.a.	0.5	1.0	n.a.	n.a.
Unemployment rate							
Euro-11[2]	10.3	10.1	10.0	10.0	10.0	10.0	n.a.
Germany	10.6	10.5	10.5	10.5	10.5	10.5	10.5
France	11.4	11.3	11.2	11.2	11.3	11.1	n.a.
Italy	11.8	11.5	11.5	...	...	...	...
Consumer prices[3]							
Euro-11[4]	0.9	1.0	1.2	1.1	1.2	1.2	n.a.
Germany	0.3	0.5	0.6	0.6	0.7	0.7	0.8
France	0.3	0.4	0.6	0.4	0.5	0.7	n.a.
Italy	1.4	1.5	1.8	1.7	1.7	1.9	1.8

1. Indexes exclude construction.
2. Standardized to ILO definition. Includes Eurostat estimates in some cases.
3. Percent change from year earlier.
4. Eurostat harmonized definition.
n.a. Not available. ... Not applicable.

On November 2, French Finance Minister Dominique Strauss-Kahn resigned following accusations that he received payment from a student insurance organization for allegedly billing for legal services he had not performed while in opposition from 1994 to 1996. Secretary of State for the Budget Christian Sautter was immediately nominated as his replacement.

At its meeting on November 4, the Governing Council of the European Central Bank (ECB) raised its official rates by 50 basis points. In a news conference following the meeting, ECB President Wim Duisenberg said that since early summer the balance of risks to future price stability had moved towards the upside, and that the "precautionary interest rate reduction" of 50 basis points made last April was no longer justified. Although harmonized inflation is expected to remain below 2 percent in 2000, the Governing Council concluded that "a timely rise in interest rates will avoid the need for a larger increase in interest rates later."

Euro-11 Forward-looking Indicators
(Percent balance, SA) — note: October data expected on 11/8

Indicator	1999						
	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
Consumer confidence[1]	0	-4	-4	-3	-4	-4	-2
Construction confidence[2]	-9	-7	-7	-5	-9	-8	-6
Industrial confidence[3]	-10	-10	-6	-7	-7	-5	-3
Of which:							
Production expectations	1	3	8	7	7	10	n.a.
Total orders	-19	-21	-17	-18	-17	-15	n.a.
Stocks	14	13	10	11	10	10	n.a.

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

Incoming data confirm that economic activity in the **United Kingdom** continued to strengthen in the third quarter, with the preliminary estimate of real GDP registering growth of 3.7 percent (s.a.a.r.). Industrial production increased 1.2 percent over the quarter; the slight drop in September production reflected a decline in output of utilities industries. Retail sales remained strong: after registering robust increases in the first half of the year, the volume of sales in the third quarter increased at its fastest rate in nearly two years. Business confidence eased somewhat in October but remained well above lows reached late last year, and business surveys for October point to further expansion in both the manufacturing and service sectors.

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

Indicator	1999						
	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
Real GDP (SAAR)	.9	2.6	3.7	...	...	...	...
Industrial production	-.6	.6	1.2	.7	.5	-.1	n.a.
Retail sales	1.0	1.0	1.3	.4	.6	.1	n.a.
Unemployment rate[1]	4.5	4.5	4.2	4.3	4.2	4.2	n.a.
Business confidence[2]	-10.3	8.0	10.0	-4.0	17.0	17.0	12.0
Retail prices[3]	2.6	2.3	2.2	2.2	2.1	2.1	n.a.
Producer input prices[4]	-5.8	-1.6	4.2	2.9	3.9	5.8	6.5
Average earnings[4]	4.8	4.4	n.a.	4.5	4.9	n.a.	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.

Labor market conditions remained tight in the third quarter. The official claims-based unemployment rate remained 4.2 percent in September, the lowest rate in nearly 20 years, and the Labor Force Survey measure of the unemployment rate remained 5.9 percent for the June-August period. Average annual earnings growth was 4.9 percent for the three months centered in August, somewhat higher than growth recorded in the first half of the year, but still below average earnings growth recorded through most of 1998. However, business surveys suggest that wage costs are rising.

The twelve-month rate of retail price inflation (excluding mortgage interest rates) remains comfortably below the official target of 2.5 percent, but producer input prices have risen noticeably since April.

In its November *Inflation Report*, the Monetary Policy Committee of the Bank of England released its latest GDP and inflation forecasts. Under the assumption that official interest rates remain unchanged at 5.5 percent, the forecast for GDP growth is somewhat stronger than at the time of the August *Report*, reflecting improved prospects for both domestic demand and net exports. Over the two-year forecast period, GDP growth is expected to average between 2½ and 3 percent, somewhat above trend. Inflation is projected to remain subdued in the near term, dipping to sightly below 2 percent, but is then projected to increase to about the 2½ percent target level in two years. In the near term, downward pressure on inflation comes from a somewhat stronger profile for sterling and a reduction in retail price margins; inflationary pressure is masked somewhat by a price-level effect from utilities price cuts scheduled for next spring. The pick-up in inflation in the medium term largely reflects the impact of a higher earnings profile.

Economic activity in **Canada** gained momentum during the third quarter from an already strong pace. Monthly real GDP at factor cost rose over 5 percent (s.a.a.r.) in both July and August. Sizeable increases in retail sales suggest that consumer spending has strengthened, while strong U.S. demand, particularly for automobiles, has contributed to a booming manufacturing sector. In addition, continued strength in computer sales and services in July and August indicate the pace of investment in machinery and equipment remained vigorous.

With growth strengthening, labor market conditions in Canada have strengthened noticeably in recent months. Employment rose sharply in October for the second consecutive month. As a result, the unemployment rate fell to 7.2 percent in October, its lowest level since March 1990.

Canada's merchandise trade surplus widened to $2.4 billion in August, its highest level since December 1996. A vigorous automotive sector led to large increases in both exports and imports in August. In addition, recovering commodity prices continued to bolster the value of exports.

Canadian core consumer prices (which exclude food and energy) rose 0.3 percent (s.a.) in September, pushing the twelve-month core inflation rate to 1.8 percent, from 1.6 percent in August. While still comfortably within the Bank of Canada's 1 to 3 percent target range, core inflation has risen considerably from its low level at the beginning of the year. Higher energy prices also helped push the twelve-month change in overall inflation in September to 2.6 percent, its highest level in over four years.

In the government's fall fiscal update, Finance Minister Paul Martin announced the federal budget projections for the next five years. Based on the assumption of no tax or spending changes, the cumulative surplus for the years 2000 to 2005 is projected to be C$95 billion. Mr. Martin also announced that the next budget (FY2000-01) will contain a multi-year tax cut plan and there will be a reduction in employment insurance premiums starting on January 1, 2000.

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

Indicator		1999					
	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
GDP at factor cost	1.0	.9	n.a.	.5	.5	n.a.	n.a.
Industrial production	1.0	.8	n.a.	1.2	.9	n.a.	n.a.
New manufacturing orders	.6	1.2	n.a.	1.0	4.5	n.a.	n.a.
Retail sales	2.5	1.0	n.a.	1.4	1.2	n.a.	n.a.
Employment	.9	-.1	.4	.3	.0	.4	.5
Unemployment rate[1]	7.8	8.0	7.7	7.7	7.8	7.5	7.2
Consumer prices[2]	.8	1.6	2.2	1.8	2.1	2.6	n.a.
Consumer attitudes[3]	117.1	116.6	114.2	...	...	...	...
Business confidence[4]	150.1	150.7	153.9	...	...	...	...

1. Percent.
2. Percent change from year earlier.
3. Level of index, 1991 = 100.
4. Level of index, 1977 = 100.

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

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

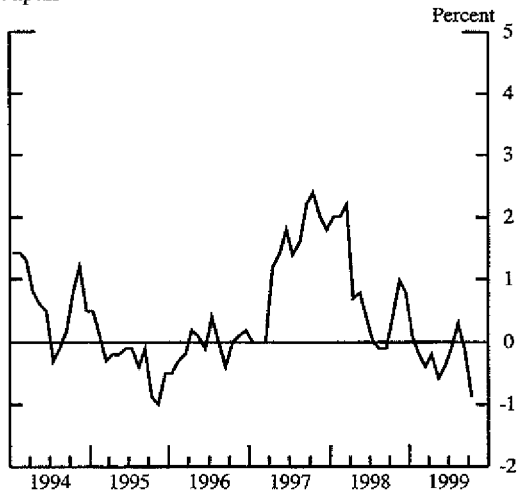
Country and balance	1998	1999				
	Q4	Q1	Q2	Q3	Aug.	Sept.
Japan						
Trade	109.3	113.1	104.7	118.4	101.3	129.9
Current account	133.0	116.0	110.2	110.4	119.2	91.2
Euro-11						
Trade[1]	95.5	45.0	64.7	n.a.	48.3	n.a.
Current account[1]	84.3	41.3	n.a.	n.a.	...	...
Germany						
Trade	70.5	77.1	64.7	68.1	49.5	72.8
Current account	-16.0	-9.0	n.a.	n.a.	n.a.	n.a.
France						
Trade	25.4	18.0	15.7	n.a.	18.4	n.a.
Current account	48.3	34.5	29.4	n.a.	n.a.	n.a.
Italy						
Trade	25.8	20.2	14.4	n.a.	n.a.	n.a.
Current account[1]	11.4	0.2	13.2	n.a.	15.7	n.a.
United Kingdom						
Trade	-41.1	-48.4	-43.4	n.a.	-36.6	n.a.
Current account	-8.3	-23.3	-24.0	n.a.	...	...
Canada						
Trade	12.9	19.7	20.7	n.a.	28.8	n.a.
Current account	-10.7	-2.7	-3.6	n.a.	...	...

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

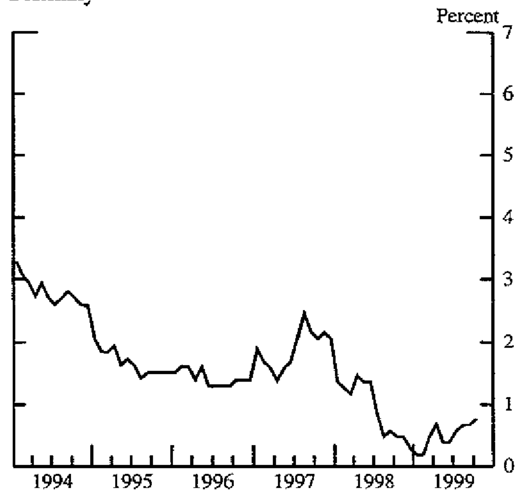
Consumer Price Inflation in Selected Industrial Countries

(12-month change)

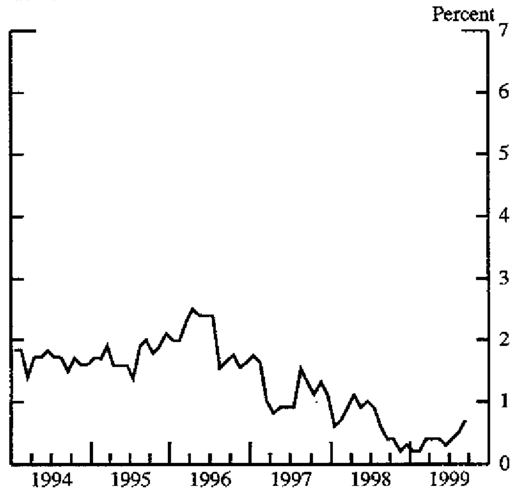
Japan



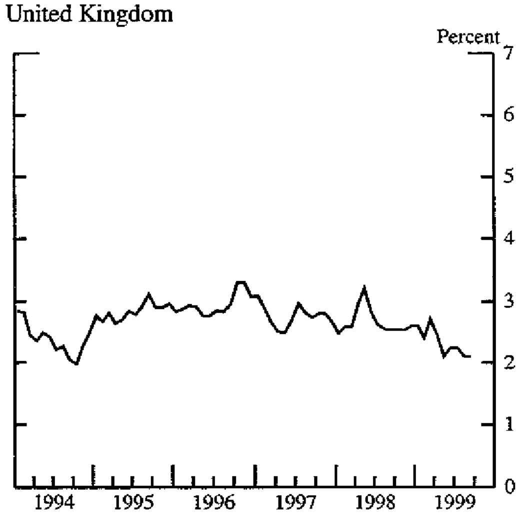
Germany



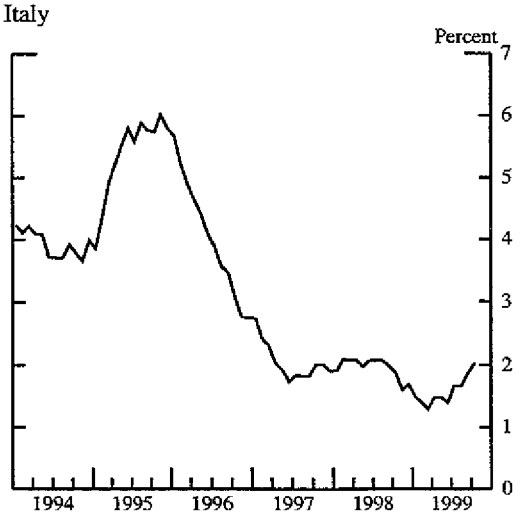
France



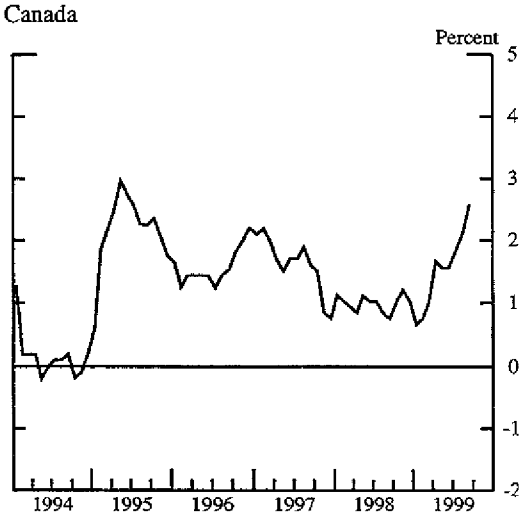
United Kingdom



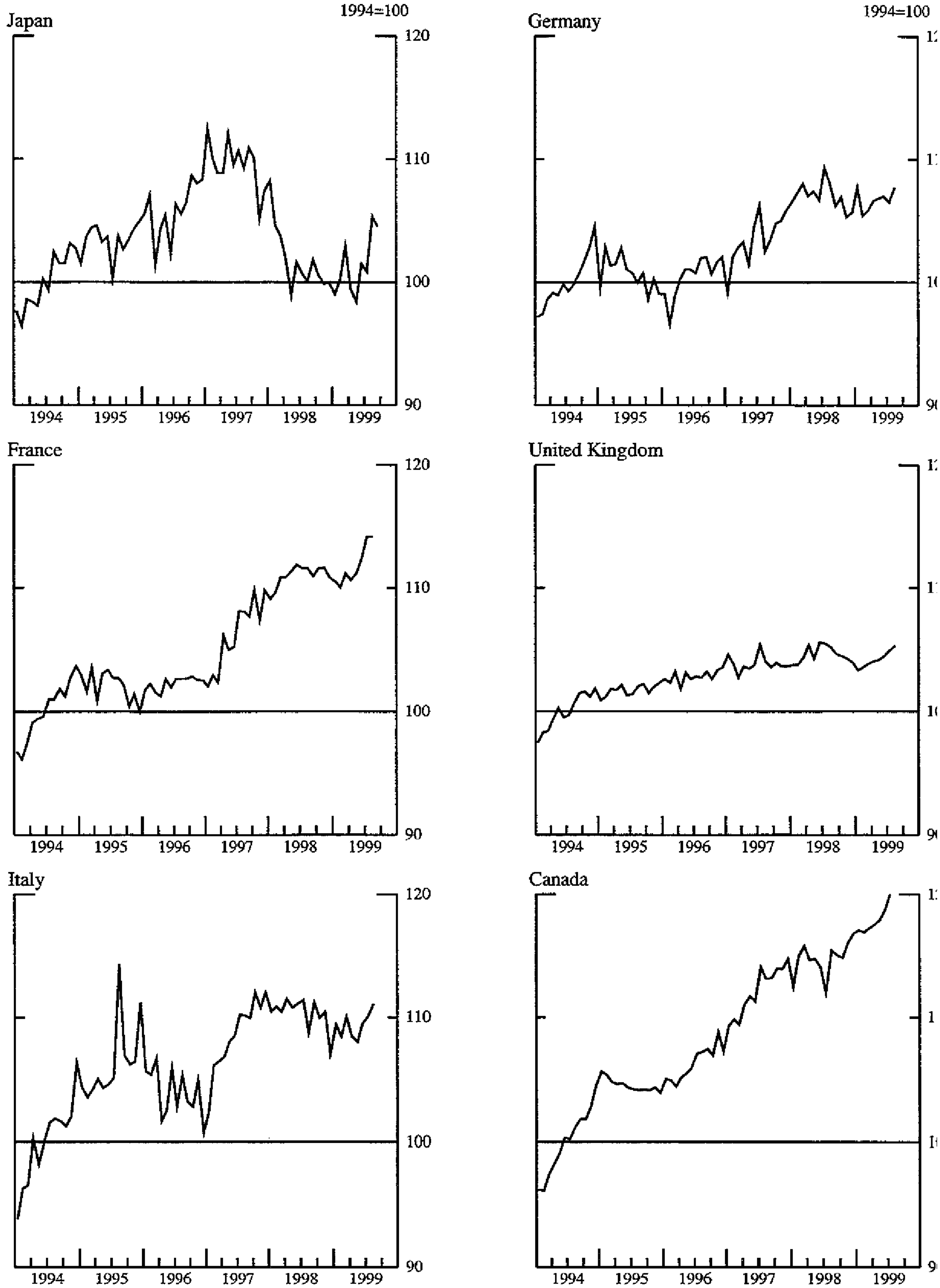
Italy



Canada



Industrial Production in Selected Industrial Countries



Economic Situation in Other Countries

In Latin America, economic growth in Mexico remains strong. Indications point to improved performance in Brazil and the latest industrial production data from Argentina suggest that the recession there may have bottomed out. Venezuela, however, continues to falter as political uncertainty overshadows the benefits of higher oil prices. Inflation remains subdued, on balance, across the region, reflecting low levels of economic activity in Argentina and Venezuela and relatively tight monetary policy in Mexico. In Brazil, however, price pressures may be intensifying.

In developing Asia, the economic recovery continues at a rapid pace. Soaring exports are helping to fuel a possible economic rebound in China and sustaining high rates of output growth in the ASEAN countries. The exceptions are Taiwan, where a major earthquake in September disrupted output, and Indonesia, where internal problems have hindered growth. While deflation continues a pace in China and the excess capacity in the ASEAN countries is keeping inflation at bay, rapid growth in Korea is beginning to push prices up.

In **Brazil**, signs are pointing both to a pickup in economic activity after what appears to have been a lackluster third quarter and to mounting inflationary pressures. Rising sales have been reported in several industries over the past weeks and the unemployment rate, although still elevated, edged lower in September. Consumer price inflation, as measured by the government-compiled IPC-A, remained fairly low through the third quarter–rising 5.6 percent from the same quarter a year ago. However, wholesale price inflation has moved up in the past few months, reflecting depreciation of the *real*. More recently, several producers have announced that they will increase prices, and generous wage packages in the auto industry have been highly publicized. Brazil's trade deficit continued to narrow relative to its year-earlier level; the decline mainly reflected a large fall in imports. Export growth has been weak, due, in part, to a dropoff in demand from Argentina.

The Brazilian government has continued to record monthly fiscal surpluses and will exceed its IMF program goal of a primary surplus of 3¼ percent of GDP by end-1999, but this strong performance in part reflects temporary factors. More troubling for the longer-term state of Brazil's fiscal affairs was the surprise ruling by the supreme court in mid-October that the government's efforts to tax benefits of civil service retirees were unconstitutional. Although the immediate fiscal impact of the ruling was considered small for the federal government, it posed a greater problem for Brazil's state governments and signaled continued opposition to social security reform. The federal government quickly took stop-gap measures to offset the revenue loss and, more importantly, proposed a constitutional amendment to allow the taxation of civil-servant pensions. The proposed amendment, however, faces opposition from both congress and the supreme court.

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

Indicator	1997	1998	1999				
			Q1	Q2	Q3	Sept.	Oct.
Real GDP[1]	2.2	-1.6	3.1	3.8	n.a.	...	...
Industrial production	3.9	-2.1	.4	1.4	-.5	.1	n.a
Unemployment rate[2]	5.7	7.6	7.5	7.5	7.5	7.4	n.a.
Consumer prices[3]	5.2	1.7	2.3	3.3	5.6	6.3	n.a.
Trade balance[4]	-6.7	-6.6	-2.1	-2.9	-2.1	-.6	2.7
Current account[5]	-30.5	-33.8	-20.8	-28.4	n.a.	-14.3	n.a

1. Annual rate. Annual figures are Q4/Q4.
2. Percent. "Open" unemployment rate.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec. 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.

Partly in response to the supreme court's decision, the central bank's monetary council did not lower the overnight interest rate, the Selic rate, at its October 6 meeting. Instead, a downward bias was introduced and the Selic rate has edged down slightly since the October meeting. In recent weeks, Brazil's central bank also has taken action to support the currency, allowing international reserves to fall $2 billion in October to $40 billion at the end of the month. As reserves came close to the international reserve floor specified in Brazil's IMF program, an agreement was reached with the Fund reducing the floor by $2 billion, plus an extra $1 billion as an offset for an unexpected shortfall in loan disbursements from multilateral institutions. The central bank also announced in late October that it would sell about $7 billion worth of dollar-indexed debt in coming weeks, signaling that the bank would continue to provide securities that permit the private sector to hedge against a depreciation of the *real*. Finally, in late October and early November, the Brazilian government also issued seven-year Eurobonds worth 700 million euros, partially offsetting earlier losses in foreign currency reserves.

In **Mexico**, there is continuing evidence of solid growth, driven by rising domestic demand as well as strong U.S. growth and favorable oil prices. Although seasonally adjusted industrial production fell slightly in August, the drop followed a 1 percent rise in July, and the July-August average was up 2.1 percent relative to the second quarter. Moreover, the unemployment rate declined slightly in the third quarter. Consumer price inflation has trended downward this year as monetary policy has remained relatively tight; through October, prices have risen 10 percent, and indications are that annual year-end inflation for 1999 will probably be fairly close to the government's target of 13 percent. A rapid deceleration in import growth caused the seasonally adjusted trade deficit to narrow sharply in the third quarter, suggesting that spending growth may have slowed.

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

Indicator	1997	1998	1999				
			Q1	Q2	Q3	Sept.	Oct.
Real GDP[1]	7.2	2.9	1.3	7.7	n.a.	...	...
Industrial production	9.3	6.6	1.2	1.4	n.a.	n.a.	n.a.
Unemployment rate[2]	3.7	3.2	2.8	2.5	2.4	2.2	n.a.
Consumer prices[3]	15.7	18.6	18.6	17.9	16.5	15.8	14.9
Trade balance[4]	.6	-7.8	-6.2	-6.2	-1.7	-2.5	n.a
Imports[4]	109.8	125.2	129.3	138.5	142.3	145.1	n.a.
Exports[4]	110.4	117.5	123.1	132.3	140.6	142.6	n.a.
Current account[5]	-7.4	-15.8	-11.7	-11.3	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. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, NSA, annual rate.
n.a. Not available. ... Not applicable.

On the financial side, performance has been mixed. After appreciating for much of the year, the peso depreciated about 2½ percent in October. The Mexican stock market has displayed considerable volatility in recent months, apparently reflecting variability in U.S. markets. The benchmark 28-day cetes rate was about 16½ percent in the latest auction on November 9 and has declined by over 250 basis points in the past month or so, consistent with about a 150 basis point decline in Brady bond spreads since late September.

The ruling PRI party held its first-ever presidential primary on November 7. Francisco Labastida, a former minister of Interior, won the party nomination, defeating his closest rival Roberto Madrazo, the former governor of Tabasco, by a wider margin than expected. After conceding defeat, Madrazo allayed fears that he would leave the PRI and, for now at least, is taking the posture that he will work within the party for change. Negotiations between the two major opposition parties, the PAN and the PRD, about the possibility of putting forth a joint opposition candidate have broken down.

In **Argentina**, data released since the last Greenbook provide some hint of a bottoming out of the recession. For the third quarter as a whole, industrial production increased 1.5 percent--the first quarterly gain in over a year. Industrial production only edged off in September, following a big jump in August. The August trade deficit was $1.4 billion at an seasonally adjusted annual rate, compared with $2.9 billion last August. Low and/or falling prices, particularly of agricultural commodities, have depressed the value of exports in 1999, but export volumes have remained virtually unchanged. The unemployment rate for August was 14.5 percent (n.s.a.), unchanged from the May reading, and the consumer price index held steady in September, following two months of decline.

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

Indicator	1997	1998	1999				
			Q1	Q2	Q3	Sept.	Oct.
Real GDP[1]	7.8	-.6	-5.8	-1.2	n.a.	...	...
Industrial production	10.4	1.4	-2.2	-1.5	1.5	-.5	n.a.
Unemployment rate[2]	14.9	12.9	n.a.	14.5	14.5	...	...
Consumer prices[3]	.4	.7	-.1	-1.1	-1.8	-2.0	-1.6
Trade balance[4]	-2.1	-3.2	-1.1	1.6	n.a.	n.a.	n.a.
Current account[5]	-12.0	-14.7	-14.0	n.a.	n.a.	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent, NSA. Data are released for May, August, and October, only. Figures for Q2, Q3, and Q4 reflect data for May, August, and October, respectively.
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 Argentine presidential elections were held late last month and Fernando de la Rua, the candidate from the Alianza party, emerged as the victor by a decisive margin over the Peronist candidate. De la Rua appears to be solidly behind the Convertibility Program and generally supportive of the economic reforms introduced by President Menem. His victory was widely anticipated and market reaction has been subdued but favorable. The Argentine stock market jumped 8 percent the week preceding the election and has since remained around that level. Brady spreads, which by early-October had fallen almost 400 basis points since peaking in mid-July, dropped almost 100 basis points in the two weeks preceding the election. In contrast, domestic interest rates for both peso and dollar-denominated deposits have been rising over the past several months and spreads have widened recently. This behavior perhaps reflects attempts by depositories to retain deposits in the unsettled period surrounding the change in government.

In **Venezuela**, new information points to continued poor economic performance amid political uncertainty. Over the first half of the year, real GDP fell about 9-1/2 percent, and the sustained decline in inflation since then suggests that economic activity has remained extremely depressed. Any positive effect of the continued rise in oil prices appears to be more than offset by weak domestic demand and an overvalued exchange rate.

Venezuelan Economic Indicators

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

Indicator	1997	1998	1999				
			Q1	Q2	Q3	Sept.	Oct.
Real GDP[1]	5.5	-8.2	4.9	-6.3	n.a.	...	...
Unemployment rate[2]	11.7	11.2	14.0	16.3	n.a.	n.a.	n.a.
Consumer prices[3]	37.6	29.9	29.1	23.9	22.2	21.2	20.2
Non-oil trade balance[4]	-7.5	-8.6	-8.7	-5.6	n.a.	n.a.	n.a.
Trade balance[4]	10.6	3.4	2.0	9.8	n.a.	n.a.	n.a.
Current account[5]	4.7	-1.7	n.a.	n.a.	n.a.	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent. NSA. Q1 figure is for March. Q2 figure is May-June average.
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.

Despite the serious recession, the government's attention remains focused on political rather than economic matters. A constitutional assembly, elected in July, has spent the past several months rewriting the constitution, acting to disband the supreme court, and taking on many of the responsibilities of the legislature. Most of the proposed constitutional changes are not dramatic, but uncertainty surrounding the political situation has raised anxiety among both domestic and foreign investors.

In **Korea**, growth continues at a healthy clip although some recent data point to a moderation from the very rapid recovery earlier this year. In particular, industrial production declined slightly for the second consecutive month in September. Other indicators of activity remain strong, however. The average factory operating rate increased to 79 percent in September, near its pre-crisis level. Through September, the trade balance was in surplus by almost $30 billion, down only about one-quarter from last year's surplus, as strong exports of semiconductors and computer-related products continued partially to offset rapidly rising imports. The unemployment rate declined further to 5.2 percent on a seasonally adjusted basis, over 3 percentage points below its peak of last year. The pace of inflation has picked up slightly, albeit from very low levels.

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

Indicator	1997	1998	1999				
			Q1	Q2	Q3	Sept.	Oct.
Real GDP[1]	3.7	-5.3	14.7	15.4	n.a.	...	...
Industrial production	5.3	-7.3	1.9	6.4	6.4	-.4	n.a.
Unemployment rate[2]	2.6	6.8	7.8	6.6	5.8	5.2	n.a.
Consumer prices[3]	6.6	4.0	.7	.6	.7	.8	1.2
Trade balance[4]	-3.2	41.6	31.7	28.0	31.7	32.3	n.a.
Current account[5]	-8.2	40.6	24.8	25.3	26.6	29.2	n.a.

1. Annual rate. Annual figures are Q4/Q4.
2. Percent.
3. Percent change from year earlier, except annual changes, 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.

Government forecasts now project that real GDP will register a year-over-year increase of nearly 9 percent in 1999. With growth this rapid, recent statements by government officials have increasingly emphasized the need to contain inflation, which the central bank forecasts to rise to 4 percent next year. So far, however, the central bank has not pushed up short-term interest rates, probably reflecting concern over the still fragile health of domestic financial institutions, especially the investment trust companies that hold most of the ailing Daewoo's debt securities. Daewoo's total debts are currently thought to be at least $50 billion, about twice its estimated assets, and substantially higher than earlier estimates. Negotiations among Daewoo, its domestic and foreign creditors, and the government are continuing, with some agreement expected to be reached by year-end.

In the **ASEAN** region as a whole, recent indicators point to a bit more moderate growth in the third quarter. Thai industrial production remained strong in the third quarter, Malaysian industrial production moderated only somewhat, and the Philippine index surged in August. The exception was Singapore, which posted weak third-quarter production growth following torrid growth in the previous quarter. Despite strong growth in recent quarters, the region's economies remain below capacity and inflationary pressures have been slight.

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

Indicator and country	1997	1998	1999				
			Q1	Q2	Q3	Aug	Sept.
Real GDP[1]							
Indonesia	1.1	-17.7	20.0	-2.2	n.a.	...	...
Malaysia	5.7	-10.3	12.4	22.6	n.a.	...	...
Philippines	5.0	-1.8	5.5	4.8	n.a.	...	...
Singapore	8.1	-1.1	5.0	22.7	n.a.	...	...
Thailand	-4.7	-6.0	3.6	1.7	n.a.	...	...
Industrial production							
Indonesia	13.2	-13.3	9.2	2.7	n.a.	...	...
Malaysia	10.7	-7.2	1.8	5.2	3.5	1.3	4.3
Philippines	5.1	-11.6	7.8	.2	n.a.	10.1	n.a.
Singapore	4.7	-.4	6.1	6.5	.9	-1.4	4.7
Thailand	-.5	-10.0	2.0	5.4	4.4	2.0	-1.0

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

Both ASEAN exports and imports increased noticeably in the third quarter, reflecting stronger export markets and a firming of domestic demand. The resulting trade surpluses for the region have not shown a clear tendency in either direction.

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

Country	1997[1]	1998[1]	1999				
			Q1	Q2	Q3	Sept.	Oct.
Indonesia	10.3	77.6	56.0	30.9	6.6	1.3	1.6
Malaysia	2.9	5.3	4.0	2.7	2.3	2.1	n.a.
Philippines	6.6	10.3	10.1	6.8	5.6	5.7	n.a.
Singapore	2.0	-1.5	-.6	.1	.9	1.2	n.a.
Thailand	7.6	4.3	2.7	-.4	-1.0	-.8	-.4

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

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

Country	1997	1998	1999				
			Q1	Q2	Q3	Aug	Sept.
Indonesia	11.9	21.5	19.7	23.2	28.4	28.7	29.9
Malaysia	-.2	15.0	19.4	18.8	19.2	18.9	18.7
Philippines	-11.1	.0	2.6	1.2	n.a.	6.0	n.a.
Singapore	-7.4	8.3	6.7	2.7	-1.2	-4.9	2.9
Thailand	-4.6	12.2	11.1	11.5	9.7	11.1	6.1

n.a. Not available.

The political situation in Indonesia has improved following the recent presidential election of moderate Islamic leader Abdurrahman Wahid. In order to avoid political unrest after the election, President-elect Wahid orchestrated the election of his principal rival, Megawati Sukarnoputri, as vice president and has made ministerial appointments from the broad coalition of parties that supported his election. As a result, the new government is unusually inclusive and, for the time being at least, enjoys a broad base of political support. The new government has also made public an international audit of the politically charged

Bank Bali financial scandal, possibly opening the door to resumption of an IMF loan program. (In the wake of the scandal, which involved illicit payments to high-ranking officials of former President B.J. Habibie's ruling Golkar party, the IMF and other international agencies had interrupted their lending to Indonesia.)

After a second-quarter rebound, growth in **Hong Kong** appears to have slowed. Retail sales were sluggish in July and August, and new mortgage lending fell sharply in the third quarter. The trade deficit widened in the third quarter, as growing imports outpaced a rise in exports. The unemployment rate was 6.1 percent (s.a.) in the July-September period, unchanged from June-August period, and consumer prices fell sharply on a 12-month basis in September. Spreads between one-year Hong Kong government debt and U.S. Treasuries fell to 25 basis points in early November from about 75 basis points a month earlier, as fears of a devaluation of the Chinese currency eased.

Hong Kong Economic Indicators

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

Indicator	1997	1998	1999				
			Q1	Q2	Q3	Aug	Sept.
Real GDP[1]	2.8	-5.7	-2.2	12.6	n.a.	...	...
Unemployment rate[2]	2.4	4.4	6.2	6.1	6.1	6.1	6.1
Consumer prices[3]	5.2	-1.6	-1.8	-4.0	-5.8	-6.0	-6.0
Trade balance[4]	-20.6	-10.6	-2.5	-4.6	-9.3	-3.5	-13.8

1. Annual rate. Annual figures are Q4/Q4.
2. Percent. Monthly numbers are averages of the current and previous two months.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
4. Billions of U.S. dollars, annual rate. Imports are c.i.f.

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

In **China**, there are signs that the economy may have turned the corner, with real GDP up sharply in the third quarter on the back of surging exports. Press reports suggest that Chinese policymakers recently have become more confident that this year's GDP growth target of 7 percent will be reached. Soaring exports in the third quarter caused the trade surplus, which had narrowed sharply in the first half of the year, to more than double. Prices continue to fall on a year-over-year basis, reflecting still weak private domestic demand, but the recent drop off in rates of decline is a hint that deflationary pressures are easing. Talks on China's accession to the WTO resumed in September, though there still remain many hurdles to a final deal.

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

Indicator	1997	1998	1999				
			Q1	Q2	Q3	Aug	Sept.
Real GDP[1]	8.2	9.5	2.2	1.1	11.4	...	...
Industrial production[2]	11.7	7.8	12.4	8.5	9.5	11.4	6.7
Consumer prices[2]	.4	-1.0	-1.4	-2.2	-1.2	-1.3	-.8
Trade balance[3]	40.4	43.6	19.4	13.1	33.7	39.6	25.6

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.
3. Billions of U.S. dollars, annual rate. Imports are c.i.f.
n.a. Not available. ... Not applicable.

In **Taiwan**, industrial production and the volume of trade in September fell noticeably from the previous month, reflecting the impact of a major earthquake late in the month that temporarily halted production with widespread electricity outages. Electricity has largely been restored, damage to infrastructure was found to be minimal, and the volume of trade rebounded sharply in October, suggesting that the longer-term effects of the earthquake will be limited. The unemployment rate was 2.9 percent in September (s.a.), little changed from previous months. The inflation rate remained low in September and October, despite the impact of the earthquake.

In **Russia** the underlying trend in industrial production has flattened now that the boost from import substitution after the 1998 collapse of the ruble has run its course, but surging oil prices have continued to keep tax revenues and the current account surplus above their pre-crisis levels. Investigations into the recent money laundering scandal and the alleged misuse of IMF funds are still pending but, by the end of December, Russia expects to receive the second $640 million tranche from the IMF loan approved in August.

Taiwan Economic Indicators

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

Indicator	1997	1998	1999				
			Q1	Q2	Q3	Sept.	Oct.
Real GDP[1]	7.1	3.7	6.3	10.9	n.a.	...	...
Unemployment rate[2]	2.7	2.7	2.9	3.0	2.9	2.9	n.a.
Industrial production	7.4	2.6	.8	5.9	-1.8	-3.9	n.a.
Consumer prices[3]	.3	2.1	.7	-.1	.3	.6	.4
Trade balance[4]	14.4	10.4	15.6	15.7	6.5	8.4	3.6
Current account[5]	7.7	3.4	8.4	6.7	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. Billions of U.S. dollars, annual rate. Imports are c.i.f.
5. Billions of U.S. dollars, NSA, annual rate.
n.a. Not available. ... Not applicable.

Russian Economic Indicators

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

Indicator	1997	1998	1999				
			Q1	Q2	Q3	Sept.	Oct.
Real GDP[1]	2.6	-9.0	18.6	9.4	n.a.	...	...
Industrial production	1.7	-5.1	10.4	4.2	n.a.	n.a.	n.a.
Unemployment rate[2]	10.8	11.5	13.0	14.1	14.2	14.2	n.a.
Consumer prices[3]	11.0	84.4	102.8	116.8	92.3	62.1	57.3
Trade balance[4]	14.7	15.4	27.3	27.5	n.a.	n.a.	n.a.
Current account[5]	4.0	2.4	20.3	15.7	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. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, NSA, annual rate.
n.a. Not available. ... Not applicable.