Prefatory Note

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Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

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

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

Confidential (FR) Class III FOMC

Part 2

May 11, 2000

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

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Overview

Economic activity continued to grow rapidly through the early spring. Consumer and business spending have remained robust, driving large gains in payrolls. Unfortunately, however, the ongoing tightening of labor and product markets appears to be elevating inflation.

Real GDP

According to the advance estimate by the Bureau of Economic Analysis, real GDP rose at an annual rate of 5.4 percent in the first quarter.[1] Since the release, we have received additional data that point--all else equal--to a downward revision to about 4.9 percent. The largest anticipated revisions are to consumption and inventory investment. Unless otherwise noted, the discussion of first-quarter activity in the remainder of this section of the Greenbook incorporates our expected revisions to the GDP data.

Labor Market Developments

Payroll employment continued to rise rapidly in recent months, with a large gain of 340,000 in April coming on the heels of an even more remarkable increase of 458,000 in March.[2] Part of this surge reflected increases in government hiring of workers for the decennial census, but private payroll gains averaged about 265,000 in the past two months--an impressive number by itself. Indeed, the pace of hiring by private-sector employers so far this year--222,000 per month--now exceeds last year's rate--198,000 per month.

Aggregate hours of production or nonsupervisory workers on private nonfarm payrolls rose almost 1/2 percent per month in March and April; the April level was 0.8 percent (not at an annual rate) above the first-quarter average.

The associated employment gains in the household survey show an even more marked step-up from last year's pace--350,000 per month in the past four

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1 As noted previously, a Y2K-related speed-up in payments to defense contractors boosted real defense spending in the fourth quarter of 1999, and the subsequent "payback" depressed spending in the first quarter of 2000. These anomalies resulted in an overstatement of real GDP growth in the fourth quarter of about 1/2 percentage point and an understatement of 1 percentage point in the first quarter.

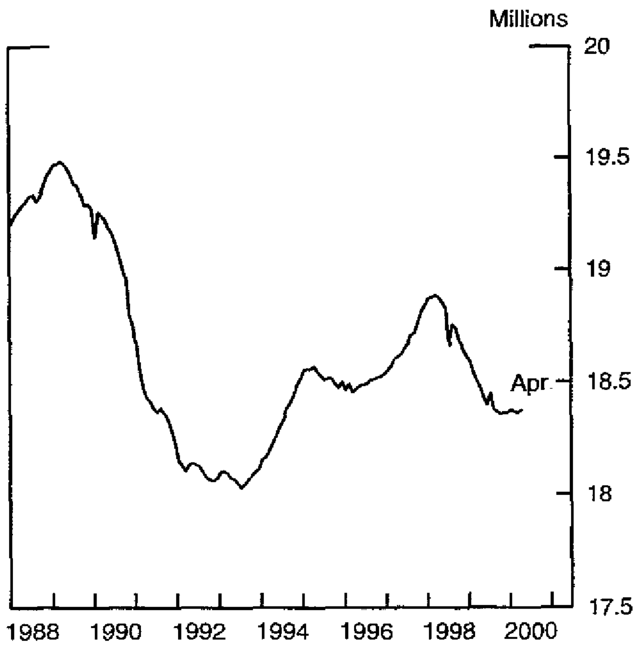
2. Unusual seasonal adjustment difficulties likely inflated the change in employment in March and lowered it in April. Because of leap year, this year the February and March reference periods were separated by five weeks, rather than the usual four. The BLS's seasonal adjustment routines take into account the variation in interval lengths between reference periods; in this case, however, because a five-week interval between February and March is so infrequent (occurring once every twenty-eight years), the BLS was unable to estimate a precise correction.

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

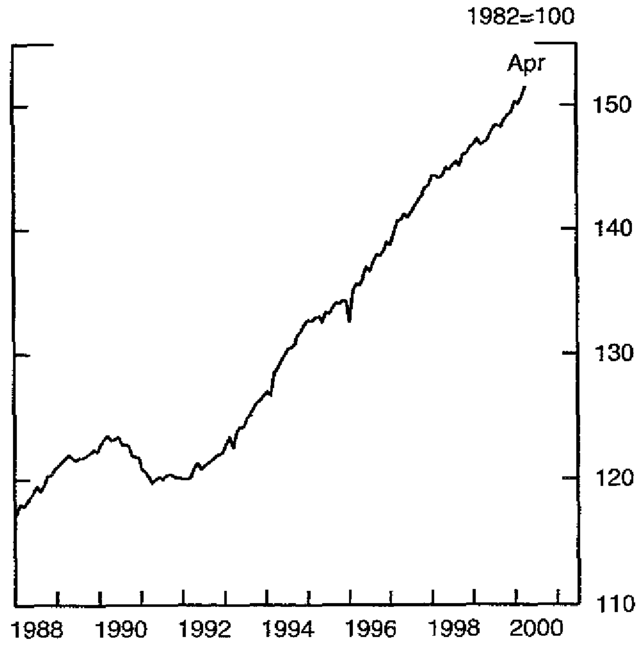
	1998	1999	2000 Feb.	2000 Mar.	2000 Apr.	2000 Jan.-Apr. Average
	-Average monthly change-					
Nonfarm payroll employment[1]	244	226	27	458	340	305
Private	217	198	10	300	233	222
Mining	-3	-3	2	4	4	3
Manufacturing	-19	-21	-10	-5	11	3
Construction	30	18	-20	90	-55	32
Transportation and utilities	18	18	-4	16	23	10
Retail trade	32	37	-2	25	119	47
Wholesale trade	14	16	13	21	3	14
Finance, insurance, real estate	26	12	13	-9	7	3
Services	119	121	18	158	121	111
Total government	27	29	17	158	107	83
Total employment[2]	156	159	141	-203	547	322
Nonagricultural	169	155	104	-153	550	303
Memo:						
Aggregate hours of private production workers (percent change)[1,3]	2.1	2.0	-0.1	0.4	0.5	3.1
Average workweek (hours)[1]	34.6	34.5	34.5	34.5	34.6	34.6
Manufacturing (hours)	41.8	41.7	41.8	41.7	42.1	41.8

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. Monthly data are percent change from preceding month.

Manufacturing Employment



Aggregate Hours of Production or Nonsupervisory Workers



Real GDP and Selected Components

Component	1999:Q4	2000:Q1 BEA advance	2000:Q1 With new data
Real GDP *(percent change, annual rate)*	**7.3**	**5.4**	**4.9**
Final sales	6.0	6.9	6.7
Private domestic final purchases	5.3	8.7	10.0
Consumption	5.9	8.3	7.6
Fixed investment	2.6	17.3	19.8
Federal government	14.7	-15.5	-15.5
Inventory investment *(level, billions of chained 1996 dollars)*	66.7	31 1	21.4

months of this year, compared with 150,000 per month in 1999.[3] While the extraordinary availability of job opportunities has been accompanied by a slight further decline in unemployment, a more notable development has been a pickup in labor force participation. The participation rate edged back up to 67.5 percent in April, matching the first-quarter's average and remaining well above the 67.1 percent rate that prevailed, on average, for the previous three years. In an accounting sense, a further rise in the participation rate of adult women (aged 25 and over) explains most of the increase in the overall participation rate compared with last year. However, in recent months participation rates for young adults (aged 20 to 24) and for older men (aged 65 and over) have also moved up noticeably. The belief that jobs are easy to get and will remain so--evident in surveys by the Conference Board and University of Michigan SRC--is apparently affecting the behavior of the employed as well: The ratio of job leavers unemployed less than five weeks to total employment--a rough proxy for the voluntary quit rate--has moved up, on balance, over the past year.

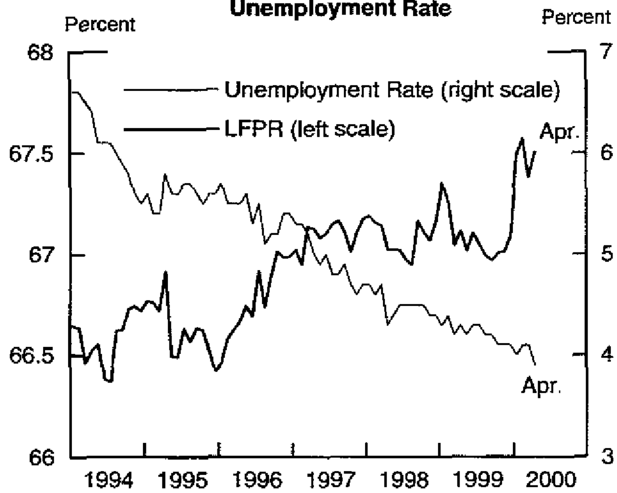
Other indicators suggest that labor demand remains strong. Although the four-week moving average of initial claims for unemployment insurance has crept up of late, it is still very low, as is the ratio of job losers unemployed less than five weeks to total employment. In the National Federation of Independent Businesses's monthly survey, the fraction of firms reporting that positions were hard to fill stepped up in April, while its measure of net hiring strength stood in the middle of the favorable range seen over the past year.

3. These estimates include our adjustments to the historical data for the introduction of new population controls in January 1999 and January 2000.

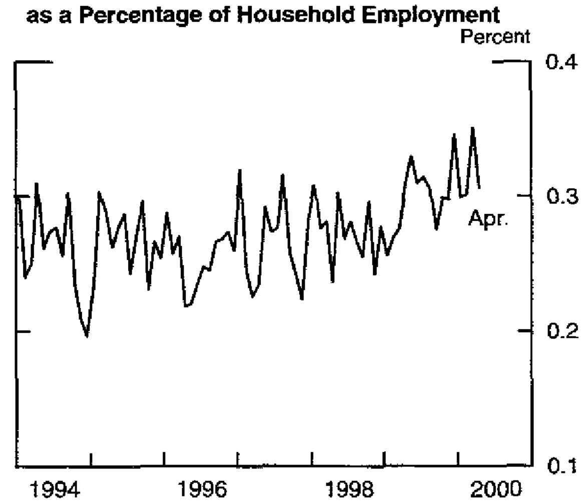
SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data, as published)

	1998	1999	2000 Feb.	2000 Mar.	2000 Apr.	2000 Jan.-Apr. Average
Civilian unemployment rate (16 years and older)	4.5	4.2	4.1	4.1	3.9	4.0
Teenagers	14.6	13.9	14.1	13.3	12.7	13.2
20-24 years old	7.9	7.5	7.5	7.6	7.2	7.4
Men, 25 years and older	3.2	3.0	2.9	2.8	2.7	2.8
Women, 25 years and older	3.6	3.3	3.0	3.2	3.0	3.1
Labor force participation rate	67.1	67.1	67.6	67.4	67.5	67.5
Teenagers	52.8	52.0	52.4	51.7	53.1	52.3
20-24 years old	77.5	77.6	78.5	78.4	78.3	78.6
Men, 25 years and older	76.2	76.1	76.5	76.1	75.9	76.2
Women, 25 years and older	59.2	59.5	59.8	60.1	60.3	60.1

Labor Force Participation Rate and Unemployment Rate

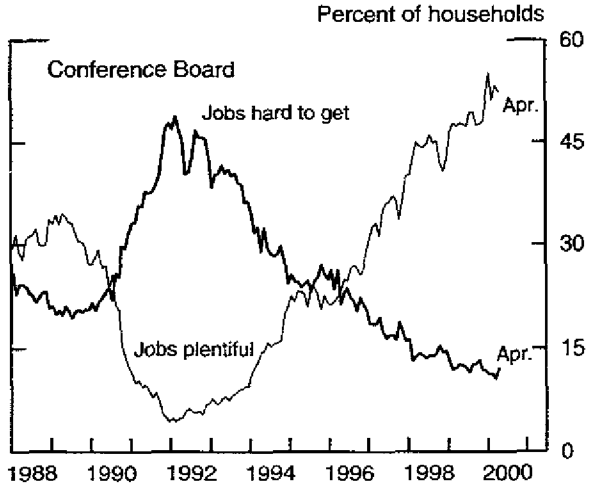


Job Leavers Unemployed Less than 5 Weeks as a Percentage of Household Employment

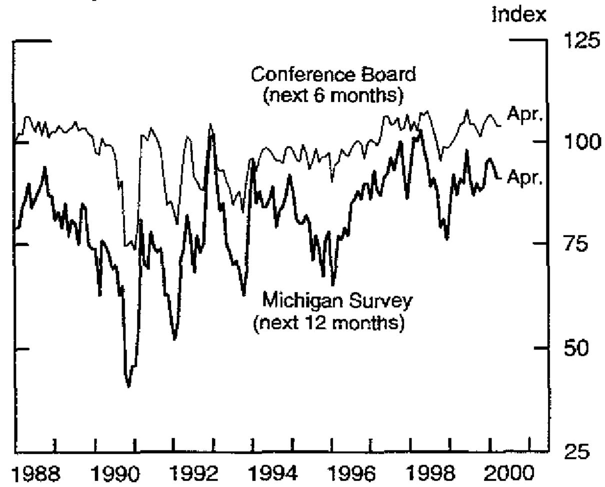


Note. Seasonally adjusted by FRB staff.

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.

Output per Hour

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

Sector	1998[1]	1999[1]	1999			2000
			Q2	Q3	Q4	Q1
Total business	3.3	3.7	.8	4.7	6.6	1.8
Nonfarm (as published)	3.3	3.7	.5	5.0	6.9	2.4
Nonfarm (staff estimate)[2]	3.3	3.6	.5	5.0	6.3	2.7
Manufacturing	5.5	6.9	5.3	4.3	10.8	6.9
Nonfinancial corporations[3]	4.2	4.2	3.4	4.0	5.1	n.a.

1 Changes are from fourth quarter of preceding year to fourth quarter of year shown.

2. Includes adjustments for incoming data and for defense spending swings in Q4 and Q1

3. The nonfinancial corporate sector includes all corporations doing business in the United States with the exception of banks, stock and commodity brokers, and finance and insurance companies; the sector accounts for about two-thirds of business employment.

n.a. Not available.

After taking into account the recent revised data on hours worked in the first quarter and our current guess for output, we estimate that labor productivity in the nonfarm business sector increased at an annual rate of only 1-1/2 percent in the first quarter of 2000 after rising almost 7 percent in the fourth quarter[4] Correcting for the probably spurious swings in defense spending reported for these two quarters, the staff estimates that output per hour increased about 2.7 percent in the first quarter after an exceptionally strong 6.3 percent rate in the fourth quarter of last year. All told, we estimate that nonfarm productivity in the first quarter (adjusted for incoming data and for defense spending swings) was up 3-1/2 percent from a year earlier.[5]

Industrial Production

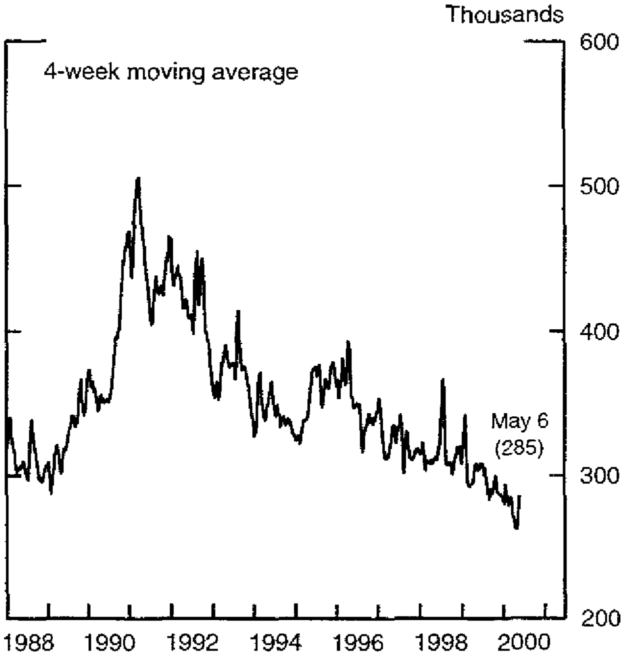
After having posted a strong gain in the first quarter, manufacturing activity appears to have accelerated in April. Production-worker hours posted a sizable increase last month, and the available physical product indicators were also

4. Based on the revisions in production-worker hours in the latest labor market report, we expect the BLS to revise up its first-quarter estimates of the change in total NFB hours by about 1/4 percentage point. Our real GDP estimate for the first quarter is consistent with a downward revision of about 3/4 percentage point in nonfarm business output.

5. The recent Productivity and Cost release also included the first estimate of productivity in the nonfinancial corporate sector for the fourth quarter of 1999. Productivity in this sector increased at an annual rate of 5.1 percent in the fourth quarter; over the four quarters ending in 1999:Q4, output per hour was up 4.2 percent, equal to the gain in the preceding four-quarter period.

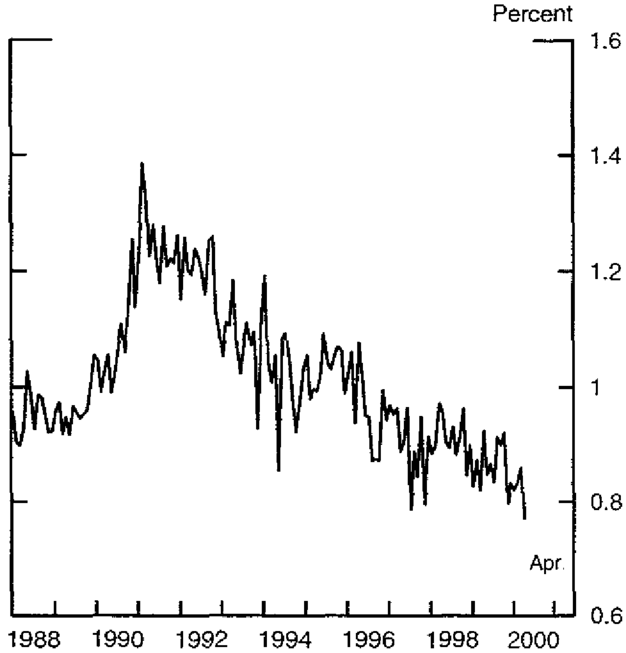
Labor Market Indicators

Initial Claims for Unemployment Insurance



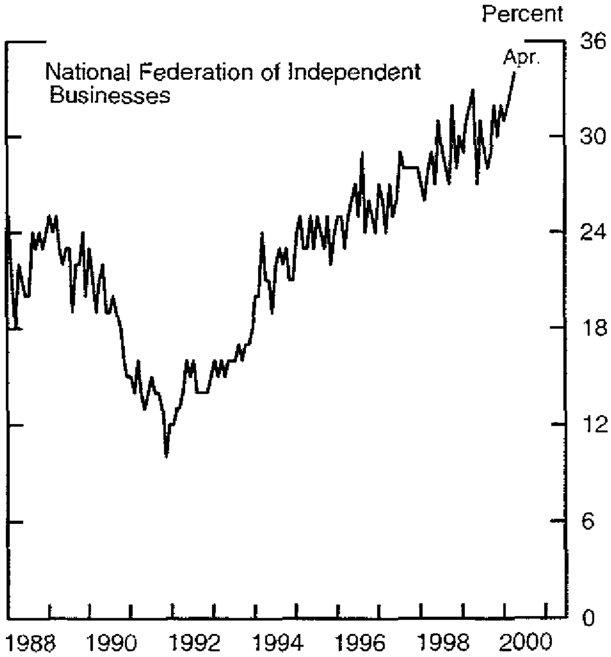
Note. State programs, includes EUC adjustment.

Job Losers Unemployed Less than 5 Weeks

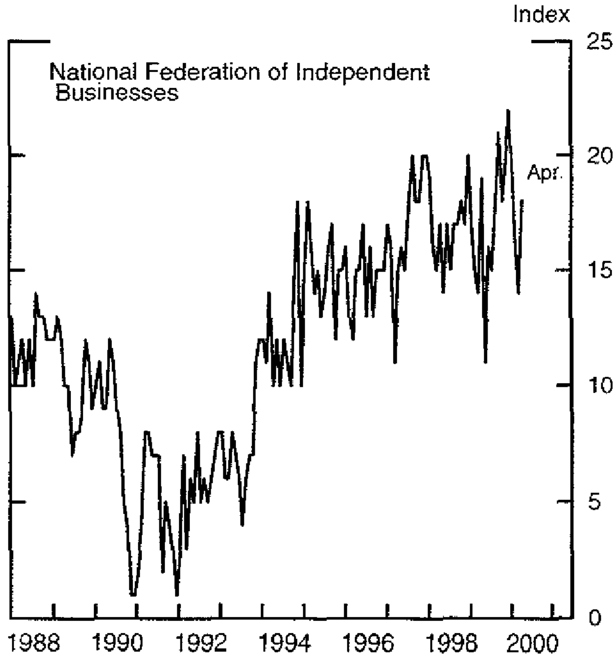


Note. Percent of household employment.

Reporting Positions Hard to Fill



Net Hiring Strength



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

strong.[6] In addition, data on orders for durable goods and other leading indicators point to continued strength in manufacturing in the near term.

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

Component	Share, 1999:H2	1999	2000			
		Q4	Q1	Jan.	Feb.	Mar
Total orders	**100.0**	**1.3**	**2.6**	**-1.9**	**-1.7**	**3.5**
Adjusted orders[1]	70.0	.9	4.0	-.2	.0	3.7
Computers	6.0	.1	5.5	8.1	3.3	-3.1
Communication equip.	5.0	15.4	-2.0	-5.7	-5.6	7.3
Other capital goods	13.0	-1.2	8.3	9.3	-10.0	1.4
Other[2]	46.0	.2	3.3	-3.4	3.5	4.9
MEMO						
Real adjusted orders[3]	...	1.2	4.7	.0	.3	3.9

1. Orders excluding defense capital goods, nondefense aircraft, and motor vehicle parts.
2. Includes primary metals, most fabricated metals, most stone, clay, and glass products, electronic components, household appliances, scientific instruments, misc. durable goods.
3. 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.

Within durable goods, gains in output occurred throughout the first quarter in all broad industry groups except aircraft and parts. Production of aircraft and parts declined as a result of Boeing's planned production cutback; output was essentially unaffected by the engineers' strike in February and March (although deliveries and inventories were affected). In April, a three-week strike by 2,000 engineers and technicians at a Lockheed production facility reduced military aircraft production; however, the effect on overall industrial output was negligible.[7]

From an already-high annual rate of 13.1 million units in the first quarter, total motor vehicle production climbed in April to 13.3 million units; announced plans point to a similar pace for May and June. Looking still further ahead, assembly schedules for the third quarter might suggest that--despite industry forecasts to the contrary--producers are not anticipating a weakening of sales from the torrid pace registered in recent months: Initial schedules show a

6. In manufacturing, published aggregate hours rose 1.1 percent in April. However, FRB seasonal factors--which do a more complete job of adjusting for the timing of Easter--point to an increase of 0.6 percent.
7. Unlike the Boeing strike, which included only engineers involved in the early stages of product development, the Lockheed strike included production-line workers.

INDUSTRIAL PRODUCTION
(Percent change from preceding period)

	Proportion	1999		2000	2000		
	Mar. 2000	Q3	Q4	Q1	Jan.	Feb.	Mar.
		--Annual rate--			--Monthly rate--		
TOTAL INDEX	100.0	4.8	5.3	6.4	1.0	.1	.3
MANUFACTURING	88.5	4.7	7.1	6.1	.8	.1	.4
Durables	50.5	8.7	7.0	9.7	1.4	.1	.8
Nondurables	38.0	-.4	7.2	1.6	.0	.1	.0
MINING	5.4	4.8	5.2	.9	.5	-.9	1.0
UTILITIES	6.1	6.6	-16.6	15.4	3.7	.8	-2.5
Manufacturing	88.5	4.7	7.1	6.1	.8	.1	.4
Motor vehicles and parts	5.3	7.4	3.7	-.2	2.7	-2.4	.7
Aircraft and parts	2.2	-13.4	-22.7	-19.4	-2.2	-3.4	-.4
High technology	10.8	44.9	31.2	47.7	4.5	2.8	3.3
Semiconductors and related	4.5	53.0	52.1	59.1	4.1	3.4	3.5
Communication equipment	2.8	29.2	-2.9	44.8	6.7	1.7	3.8
Computers	3.5	47.0	40.4	36.4	3.1	2.9	2.7
Remaining manufacturing	70.2	.7	5.7	2.6	.3	.1	.0
Food	8.5	-4.6	3.9	1.1	.0	.7	-.1
Paper and products	3.2	3.1	6.8	-5.5	-.4	-1.2	-.1
Chemicals	9.8	2.2	17.6	2.5	-.9	.8	.3
Publishing	6.5	-1.0	8.0	-.4	.6	-.6	.1
Petroleum products	1.6	1.9	-1.8	12.2	-1.3	3.4	3.6
Lumber and products	2.1	-6.6	.3	4.5	.9	-.5	-.6
Primary metals	3.3	12.0	7.3	4.2	.1	-.9	.5
Industrial machinery ex. comp.	7.5	-4.8	4.2	13.4	2.3	.9	.2

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1988-89	1959-99	1999		2000	2000		
	High	Avg.	Q3	Q4	Q1	Jan.	Feb.	Mar.
Manufacturing	85.7	81.6	79.7	80.3	80.7	80.7	80.6	80.6
Primary processing	88.9	82.9	82.8	83.7	83.9	83.9	83.9	84.0
Advanced processing	84.2	81.1	78.7	79.1	79.6	79.7	79.5	79.5

stunning 13.7 million unit rate of production. However, industry contacts have cautioned that rather substantial underbuilds are likely in light of the large number of new models being introduced during the model changeovers this summer.

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

Item	2000						
	Q1	Q2[1]	Q3[1]	Jan.	Feb.	Mar.	Apr.[1]
U.S. production	13.1	13.5	13.7	13.2	13.0	13.0	13.3
Autos	5.6	5.7	5.8	5.7	5.6	5.6	5.8
Trucks	7.4	7.8	7.9	7.5	7.4	7.4	7.6
Days' supply							
Autos	50.1	n.a.	n.a.	51.2	46.8	52.9	49.3
Light trucks[2]	63.7	n.a.	n.a.	70.0	61.3	63.5	69.2

NOTE. Components may not sum to totals because of rounding.
1. Production rates reflect actual April data and manufacturers' schedules for Q2 and Q3.
2. Excludes medium and heavy (classes 3-8) trucks.
n.a. Not available.

High-tech industries have also been booming, with especially robust growth in the output of semiconductors and communications equipment. Semiconductor production expanded at an annual rate of almost 60 percent in the first quarter, spurred by huge demand for inputs into communications equipment as well as strong sales of personal computers.[8] This strength has led to a shortage of Pentium III microprocessors that is expected to continue through the second quarter. Intense demand for these microprocessors has also put upward pressure on the price of DRAMS, as more memory chips are packaged with personal computers that use higher-speed microprocessors. Production of communications equipment surged in the first quarter, on the heels of a decline in the fourth quarter of 1999 that likely reflected, in part, Y2K "lockdowns." The average rate of increase over the past two quarters, however, is still quite strong by historical standards for the industry.

Gains in the production of nondurables slowed, on balance, in recent months, after shooting up last fall, when there were large increases in the output of food, paper and products, chemicals, and publishing; nonetheless, production of nondurables remained at a high level. Production of chemicals was bolstered by rising foreign demand last year; after a first-quarter dip in the rate of expansion

8. Dataquest, a private research firm, reports that unit sales of personal computers (which includes business and consumer sales) jumped 4.4 percent in the first quarter (not at an annual rate), up from a 1.2 percent increase in the fourth quarter of last year.

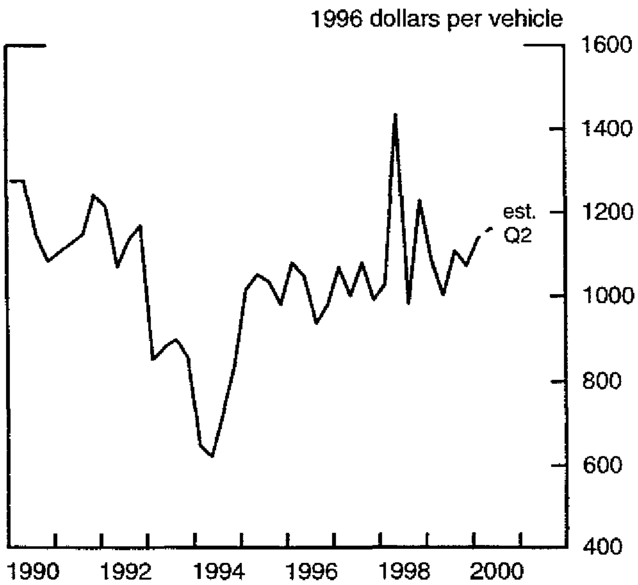
SALES OF AUTOMOBILES AND LIGHT TRUCKS
(Millions of units at an annual rate, FRB seasonals)

			1999		2000	2000		
	1998	1999	Q3	Q4	Q1	Feb.	Mar.	Apr.
Total[1]	15.5	16.8	17.2	16.9	18.1	19.0	17.7	17.0
Autos	8.2	8.7	8.8	8.8	9.3	9.7	8.8	9.0
Light trucks	7.3	8.1	8.3	8.1	8.9	9.3	8.9	8.0
North American[2]	13.4	14.3	14.7	14.1	15.3	16.0	14.9	14.2
Autos	6.8	7.0	7.1	6.9	7.3	7.6	6.9	7.0
Big Three	4.7	4.9	4.8	4.7	5.1	5.5	4.8	4.9
Transplants	2.1	2.1	2.3	2.2	2.1	2.1	2.1	2.1
Light trucks	6.7	7.3	7.6	7.3	8.0	8.4	8.0	7.2
Foreign Produced	2.0	2.5	2.5	2.8	2.8	3.0	2.7	2.9
Autos	1.4	1.7	1.7	2.0	2.0	2.1	1.9	2.0
Light trucks	.7	.8	.7	.9	.8	.9	.8	.8
Memo:								
Total, as reported	15.4	16.8	17.2	16.9	18.1	19.0	17.7	17.7

Note. Components may not add to totals because of rounding. Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.

1. Excludes the estimated effect of automakers' changes in reporting periods.
2. Excludes some vehicles produced in Canada that are classified as imports by the industry.

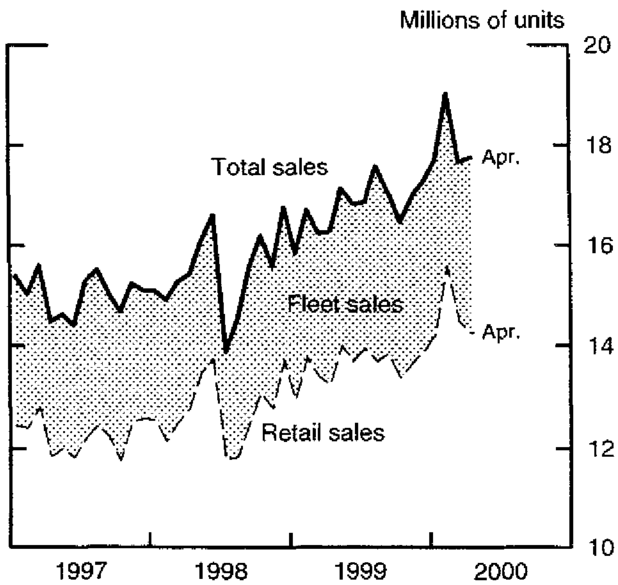
Marketing Incentives for Light Vehicles



Note. Data deflated by total CPI.

Fleet and Retail Sales of Light Vehicles

(Annual rate; FRB seasonals)



Note. Staff estimates based on confidential data.

of the industry--driven largely by a temporary decline in chemical exports around the turn of the year--production rebounded sharply in February.

Consumer Spending and Income

Even after taking account of expected downward revisions, the first-quarter gain in real PCE was the sharpest since early 1983; at that time the economy was in the initial phase of recovery after a deep recession, during which many households probably had deferred discretionary purchases. The growth of consumption appears to have slowed early in the second quarter.

In the motor vehicle sector, the strong gains in real income and household wealth in recent years, coupled with favorable pricing, have continued to fuel demand. Although down from the exceptional pace of 18.1 million units (annual rate) in the first quarter, light vehicle sales in April, adjusted for shifts in reporting periods, were at a robust annual rate of 17.0 million units. So far this year, sales of light vehicles have been on a record pace.

Nominal retail sales in the control group of stores, which excludes automotive dealers and building material and supply outlets, edged up 0.1 percent in April, after an increase of almost 1 percent in March. Sales in the control category were held down by decreases in outlays at apparel stores, eating and drinking establishments, and gasoline service stations. Purchases at food stores posted another solid increase in April, and sales in the other categories recorded moderate increases. Factoring in our forecast for consumer prices and the latest data on retail auto sales, we estimate that real purchases of consumer goods in April were 1/4 percent above the first-quarter average.

Real disposable personal income increased at an annual rate of 3.5 percent in the first quarter. The published personal saving rate tumbled 1.1 percentage points, dropping to a post-World War II low of 0.7 percent. In the absence of other revisions, the latest retail sales data suggest an upward revision of only 0.1 percentage point to this figure. Our current estimate is that the ratio of household net worth to disposable personal income edged up in the first quarter from the level posted at the end of 1999; the ratio has probably slipped since the end of March, given the decline in equity prices that has occurred.

The latest survey evidence indicates that consumers remained exceptionally upbeat in April. The Conference Board and the SRC reported continued highly favorable perceptions regarding current economic circumstances, and compared with March, households expressed a bit more optimism regarding their expectations for future economic conditions. The final report of the SRC survey for April included respondents interviewed after the mid-month drop in stock prices and during a period of unusual market volatility. Still, the overall index

RETAIL SALES
(Percent change; seasonally adjusted)

	1999	2000	2000		
	Q4	Q1	Feb.	Mar.	Apr.
Total sales	2.3	3.3	1.3	.5	-.2
Previous estimate		3.7	1.8	.4	
Retail control[1]	2.7	2.8	1.4	.9	.1
Previous estimate		3.3	2.1	1.2	
Durable goods stores	2.1	4.0	1.2	-.2	-.6
Previous estimate		4.8	1.5	-.9	
Furniture and appliances	2.4	3.6	1.3	.5	.3
Other durable goods	5.9	3.0	1.5	-.8	.5
Nondurable goods stores	2.4	2.8	1.4	1.1	.1
Previous estimate		2.9	2.0	1.3	
Apparel	.1	3.4	2.5	1.6	-.9
Food	2.6	-.2	1.4	.8	1.0
General merchandise[2]	1.6	2.5	.3	.7	.4
Gasoline stations	5.7	7.3	4.5	4.3	-2.3
Other nondurable goods[3]	2.4	3.6	.9	.5	.2
Eating and drinking	3.1	2.5	-.4	1.2	-.4
Drug and proprietary	2.2	1.3	.4	1.4	.7

Note. Previous estimates refer to retail sales data released on April 13, not the annual revision on April 28.

1. Total retail sales less sales at building material and supply stores and automotive dealers, except auto and home supply stores.
2. Excludes mail-order nonstores.
3. Also includes sales at liquor stores and mail order houses.

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

	1999	2000	2000		
	Q4	Q1	Jan.	Feb.	Mar.
	-- Annual rate --		--- Monthly rate ---		
Total PCE					
BEA	5.9	8.3	.5	1.0	.1
Staff est.		7.6	.5	.8	.0
PCE goods					
BEA	9.1	12.3	.3	1.9	-.4
Staff est.		10.7	.4	1.3	-.7
PCE services					
BEA	3.7	5.4	.6	.4	.5
Staff est.		5.4	.6	.4	.5

came in just a bit lower than the preliminary estimate. The two groups of respondents had identical views of current conditions, but the more recent interviewees were not quite so optimistic about expected conditions as the earlier group had been. Nonetheless, the difference was small.

Housing Markets

Residential investment rose further in the first quarter, in lagged response to a surge in single-family starts in late 1999. Although starts slipped back after the turn of the year, housing demand is showing only tentative signs of succumbing to the rise in mortgage rates that occurred over the past year. Demand undoubtedly has been bolstered by accumulated gains in stock market wealth, as well as by rapid job growth. In some markets, supply constraints are cited as more important in curbing building activity than any lack of demand.

Starts of single-family homes fell 3-1/2 percent in the first quarter but remained at a high level.[9] At an annual rate of 1.33 million units, starts matched the average for 1999. Shortages of skilled construction workers, some construction materials, and buildable lots reportedly have resulted in continued high order backlogs for new homes. These order backlogs likely have helped to buoy construction recently.

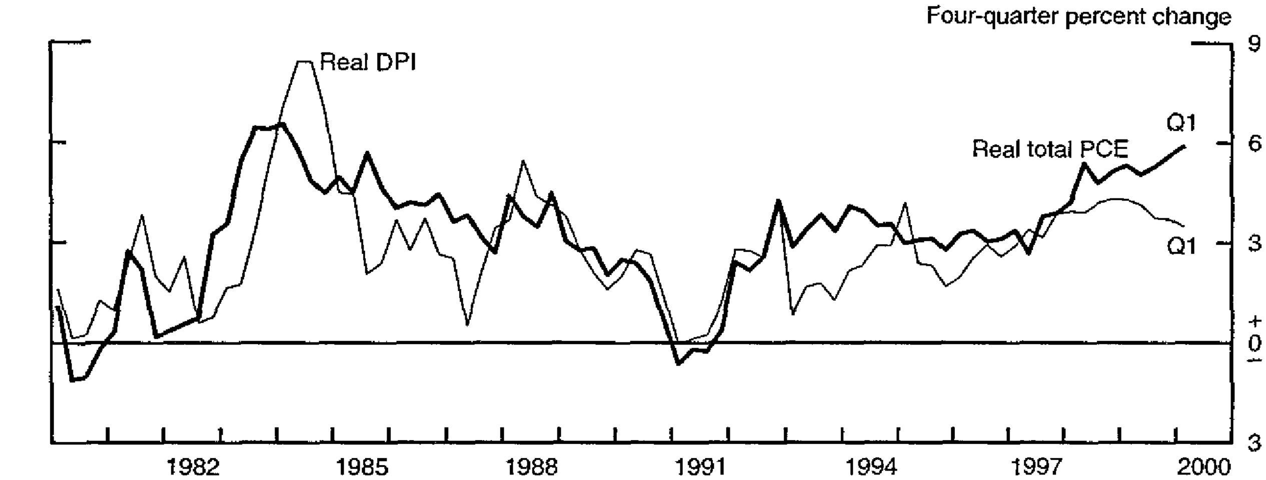
Sales of new single-family homes jumped to 966,000 units (annual rate) in March, the second highest reading on record. This degree of strength is surprising, and given the shakiness of the initially published figure, we are inclined to discount it somewhat. But even a noticeable downward revision could leave the first-quarter level above the 1999 average. In contrast, existing home sales decreased 7-1/2 percent in the first quarter, to a pace 10 percent below that registered, on average, last year. Some anecdotal reports point to a shortage of homes for sale as the reason for this decline, and the Realtors' data show a sharp drop in the number of homes on the market. We are hard pressed, however, to understand this phenomenon.

Other indicators of housing demand also have been mixed. Builders' ratings of new home sales edged down in April to a 2-1/2 year low. Similarly, the Michigan Survey's measure of households' perceptions of home-buying conditions remained in the lower end of the less favorable range that has prevailed since the end of last summer--mainly because of higher mortgage rates. In contrast, in the first week in May, the four-week moving average of the Mortgage Bankers' Association index of purchase applications for home

9. Starts were boosted by good weather in November and December, which typically would result in a negative "payback" in subsequent months; however, good weather continued through the first quarter, providing some offset to the payback effect.

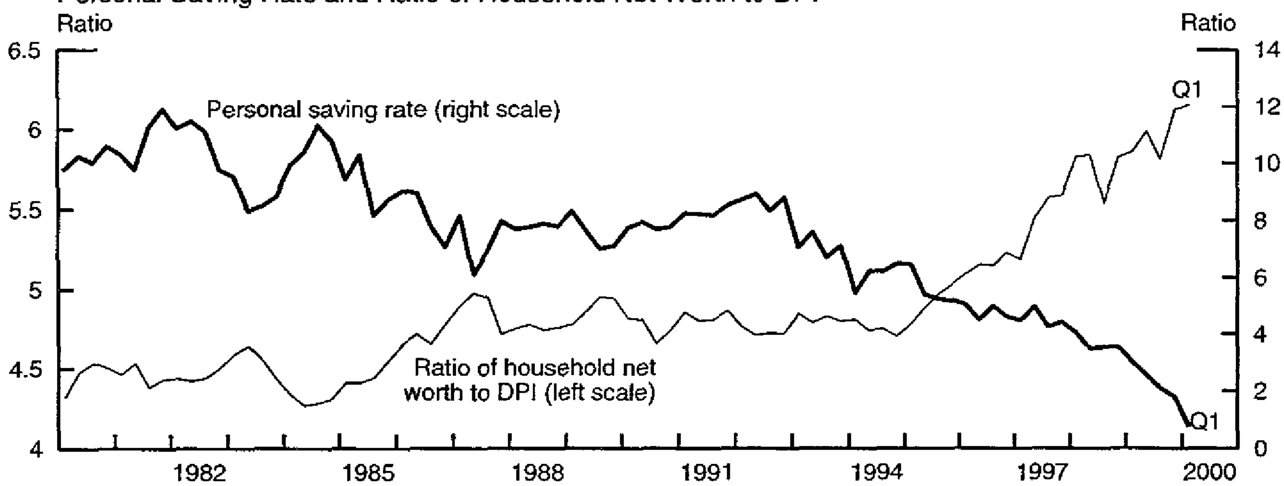
Household Indicators

Real Total PCE and Real DPI



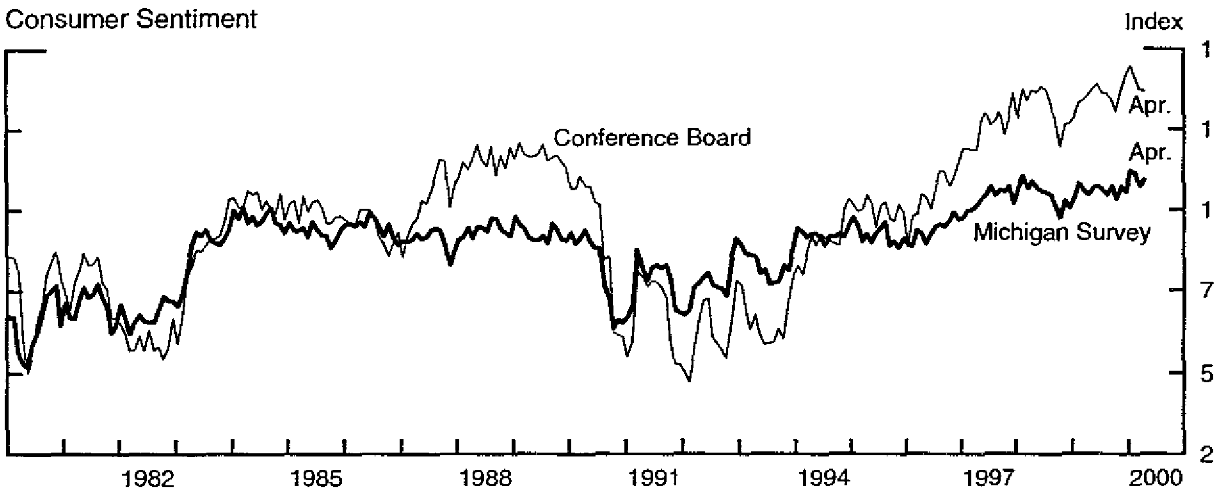
Note. Real PCE in 2000:Q1 has been adjusted to reflect revised retail sales data.

Personal Saving Rate and Ratio of Household Net Worth to DPI



Note. Saving rate in 2000:Q1 has been adjusted to reflect revised retail sales data.

Consumer Sentiment



Private Housing Activity

(Millions of units; seasonally adjusted annual rate)

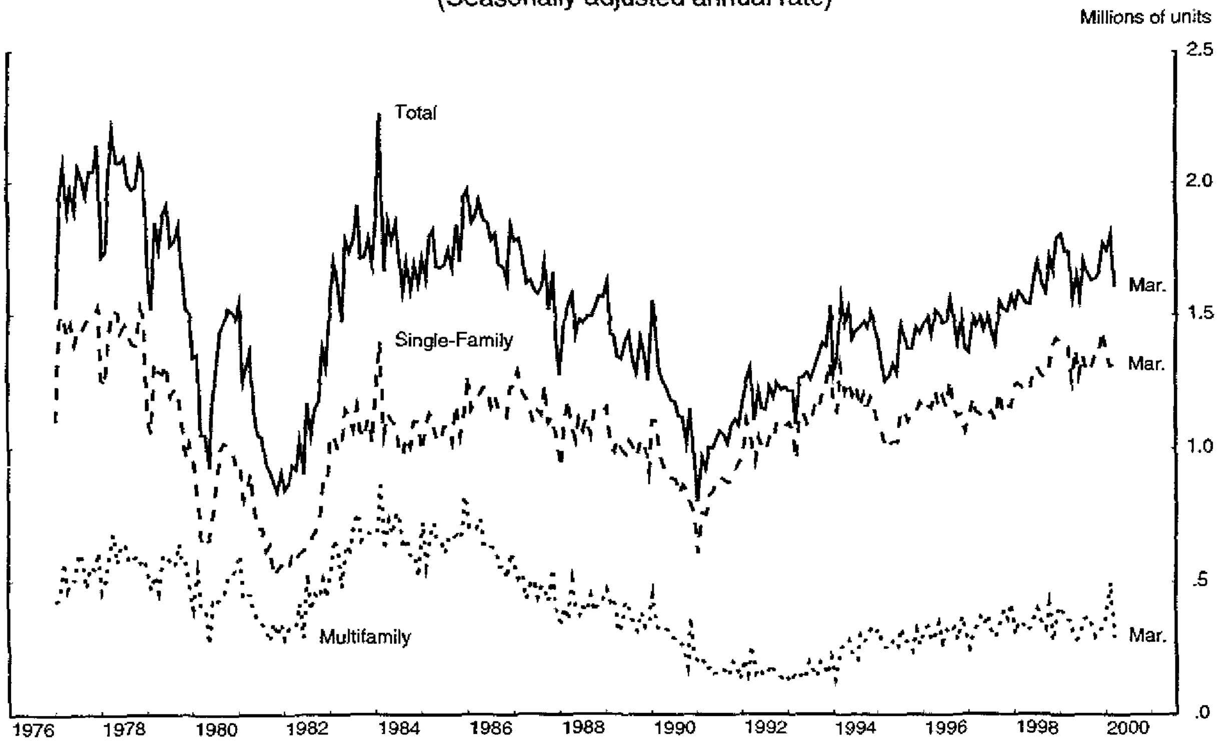
	1999	1999 Q3	1999 Q4	2000 Q1p	2000 Jan.r	2000 Feb.r	2000 Mar.p
All units							
Starts	1.67	1.66	1.69	1.72	1.74	1.81	1.60
Permits	1.64	1.59	1.61	1.67	1.77	1.65	1.58
Single-family units							
Starts	1.33	1.31	1.38	1.33	1.36	1.31	1.31
Permits	1.23	1.21	1.20	1.25	1.32	1.22	1.22
Adjusted permits[1]	1.32	1.30	1.30	1.33	1.39	1.30	1.31
New home sales	.91	.90	.91	.94	.93	.92	.97
Existing home sales	5.20	5.25	5.06	4.68	4.45	4.75	4.83
Multifamily units							
Starts	.33	.36	.31	.39	.38	.50	.30
Permits	.41	.38	.41	.41	.45	.43	.36
Mobile homes							
Shipments	.35	.33	.31	n.a.	.31	.29	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.

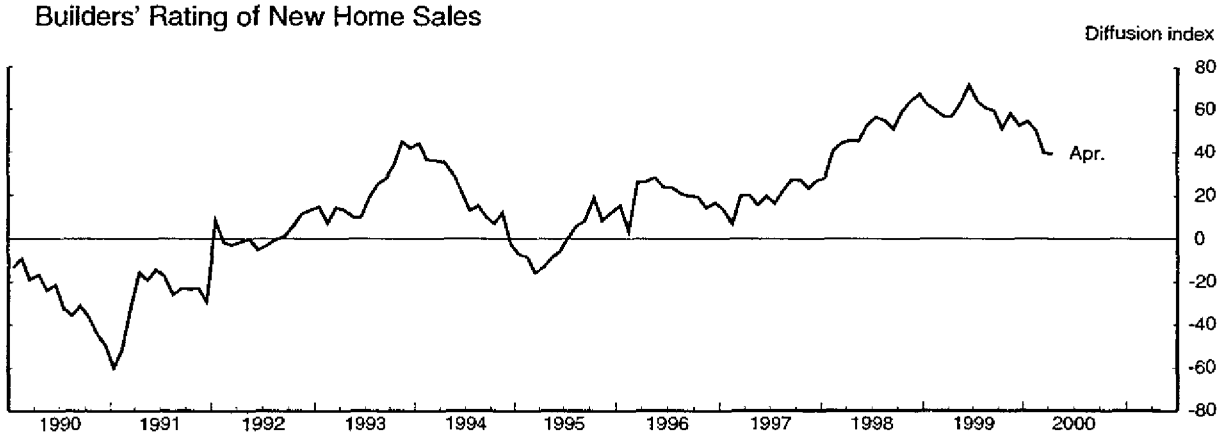
Total Private Building

(Seasonally adjusted annual rate)



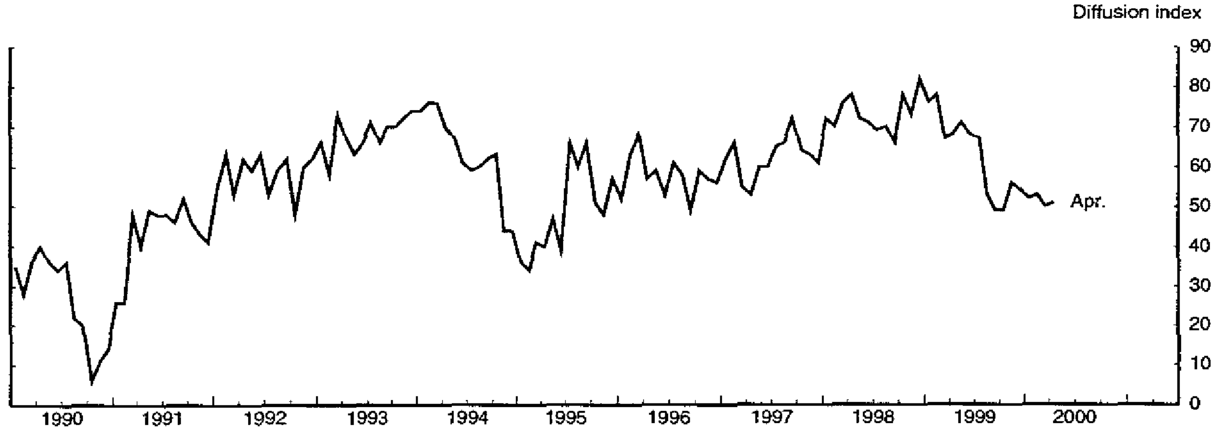
Indicators of Housing Demand

Builders' Rating of New Home Sales



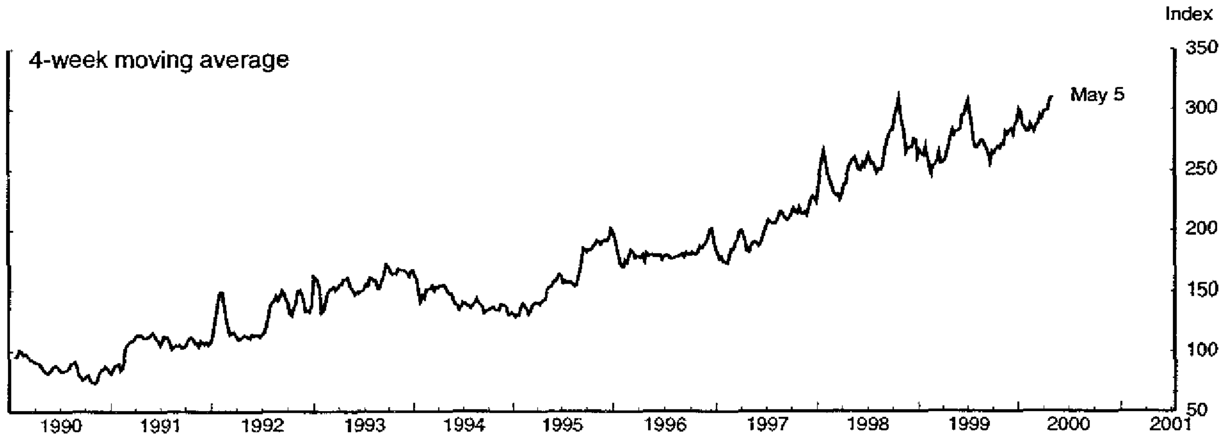
Note. Calculated from National Association of Homebuilders' data as the proportion of respondents rating current sales as good minus the proportion rating them as poor. Seasonally adjusted by Board staff.

Perceived Homebuying Conditions



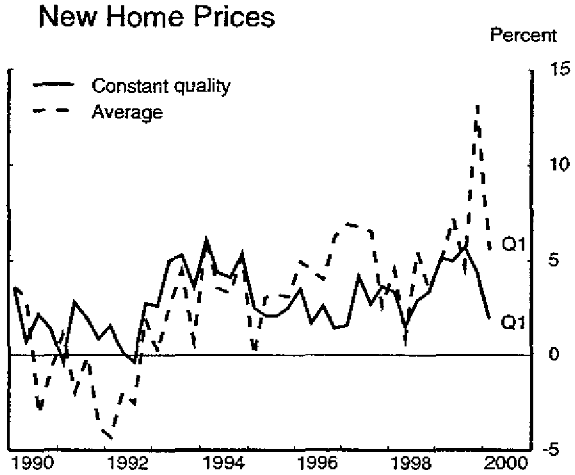
Source. Michigan Survey, not seasonally adjusted.

MBA Index of Purchase Applications

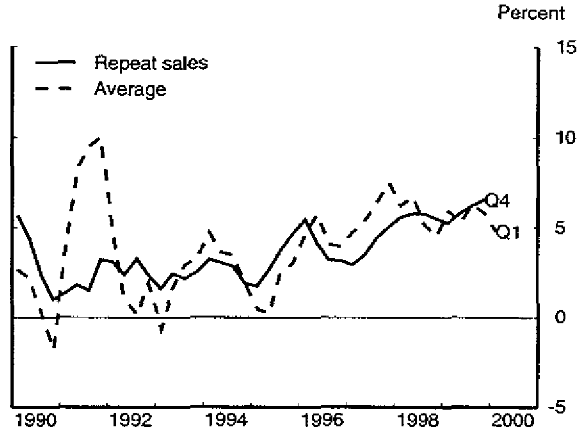


House Prices and Construction Costs
(Change from year earlier, except where noted)

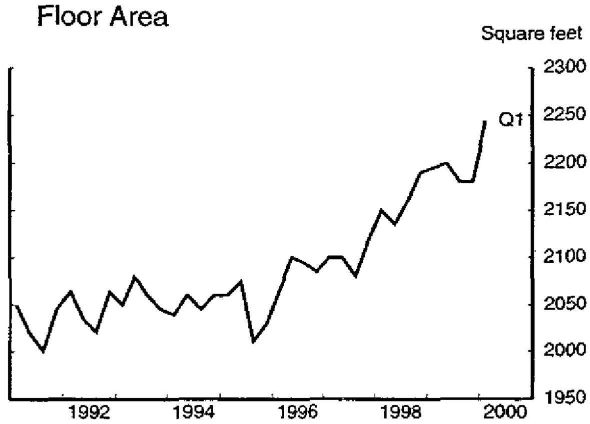
New Home Prices



Existing Home Prices

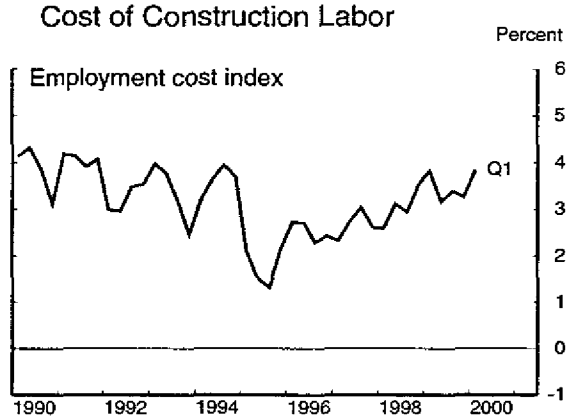


Floor Area



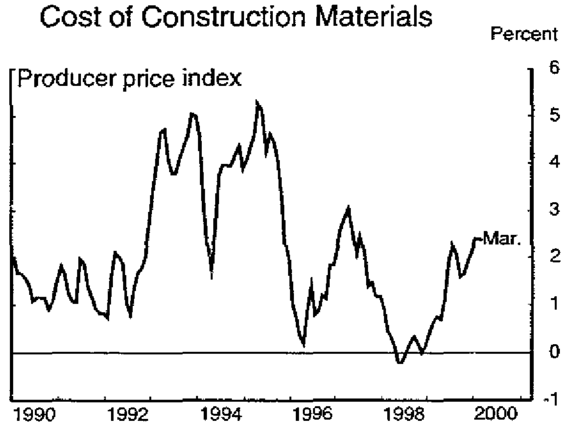
Note. Level, not change from year earlier. Computed by staff from Census data for new homes completed for sale.

Cost of Construction Labor



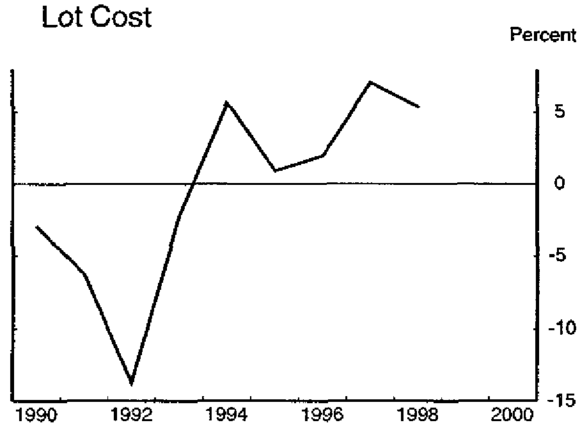
Note. ECI for total compensation.

Cost of Construction Materials



Note. PPI intermediate materials and components for construction.

Lot Cost



Note. Computed by staff from Census data.

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

	1999		2000	2000		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Equipment and software						
Shipments of nondefense capital goods	2.1	-.1	3.6	4.0	-2.6	1.3
Excluding aircraft and parts	3.8	.3	6.0	5.9	-2.0	3.7
Office and computing equipment	5.1	-.6	6.8	15.3	1.2	-1.1
Communications equipment	5.4	-1.7	14.4	11.5	-.3	2.7
All other categories	2.7	1.4	3.1	.5	-4.0	6.3
Shipments of complete aircraft	15.0	-4.5	-15.4	26.6	-29.4	-11.5
Medium & heavy truck sales (units)	5.2	3.5	-5.4	-9.7	2.9	4.3
Orders for nondefense capital goods	7.0	3.5	3.7	1.1	-8.9	1.7
Excluding aircraft and parts	5.4	2.3	5.4	5.8	-6.1	1.4
Office and computing equipment	5.6	.1	5.5	8.1	3.3	-3.1
Communications equipment	7.4	9.4	2.5	-7.8	-7.9	9.8
All other categories	4.7	1.0	6.4	10.1	-9.3	.7
Nonresidential structures						
Construction put in place, buildings	-1.2	.8	6.4	.1	7.1	1.4
Office	4.3	-3.1	5.1	-.2	7.3	5.8
Other commercial	-4.9	4.4	6.6	.2	7.0	-1.2
Institutional	-2.5	2.1	6.0	2.3	4.7	.1
Industrial	1.1	1.0	7.7	-3.1	11.4	1.8
Lodging and miscellaneous	-3.7	-1.0	7.6	1.0	5.3	.5
Rotary drilling rigs in use[1]	16.0	20.0	6.2	.2	2.1	.1

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

mortgages moved up to a new high. Some anecdotal reports suggest that buyers have recently been rushing to get in before the Fed tightens policy.

The year-over-year change in the average price of new homes fell back to a still-vigorous 5-1/2 percent in the first quarter from an outsized increase of 13 percent in the fourth quarter of 1999. In contrast, the constant-quality price index rose just 1.9 percent, year-to-year, in the first quarter, the smallest increase in nearly two years.[10] This mild increment is rather hard to believe, given the anecdotal reports of bidding wars and the rising costs of construction. The twelve-month rate of increase in the employment cost index for construction moved up to 3-3/4 percent as of the first quarter, and the cost of construction materials has accelerated in recent months to about a 2-1/2 percent rate. In addition, the cost of land for homebuilding may well have increased in recent years at rates that exceed those for labor and materials. Lot costs rose about 5 percent in 1998, and while data for 1999 are not yet available, reports from builders indicating that the availability of developed lots is now their greatest problem would suggest that prices have continued to rise rapidly.

In the multifamily sector, construction continued the wide swings that have occurred over the past year. Starts dropped 41 percent in March from the twelve-year high that was recorded in February. On balance, multifamily starts soared 25 percent in the first quarter, to an annual rate of 392,000 units. However, starts were unusually high relative to permits, which is a sign that the first-quarter pace of building may not continue.

Business Fixed Investment

Equipment and software. Real business expenditures on equipment and software shot up at an annual rate of 28 percent in the first quarter. The rapid growth came on the heels of the sluggish 4 percent pace recorded in the final quarter of last year. Robust growth of business output, abundant financing, and the unwinding of Y2K effects likely contributed to the first-quarter acceleration. With orders running at very high levels, the near-term outlook for equipment spending looks decidedly upbeat.

Real outlays on communications equipment soared in the first quarter, posting a 78 percent (annual rate) gain--the fastest pace registered since 1983. In addition, new orders for communications equipment jumped almost 10 percent (<u>not</u> at an annual rate) in March; orders have been running well ahead of shipments in recent quarters, and the ratio of unfilled orders to shipments remained high in

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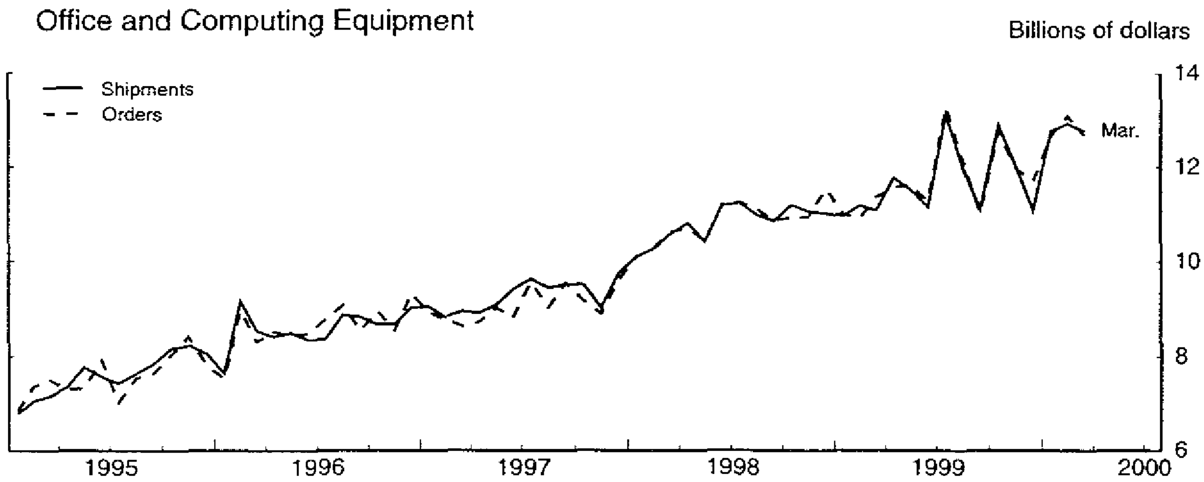
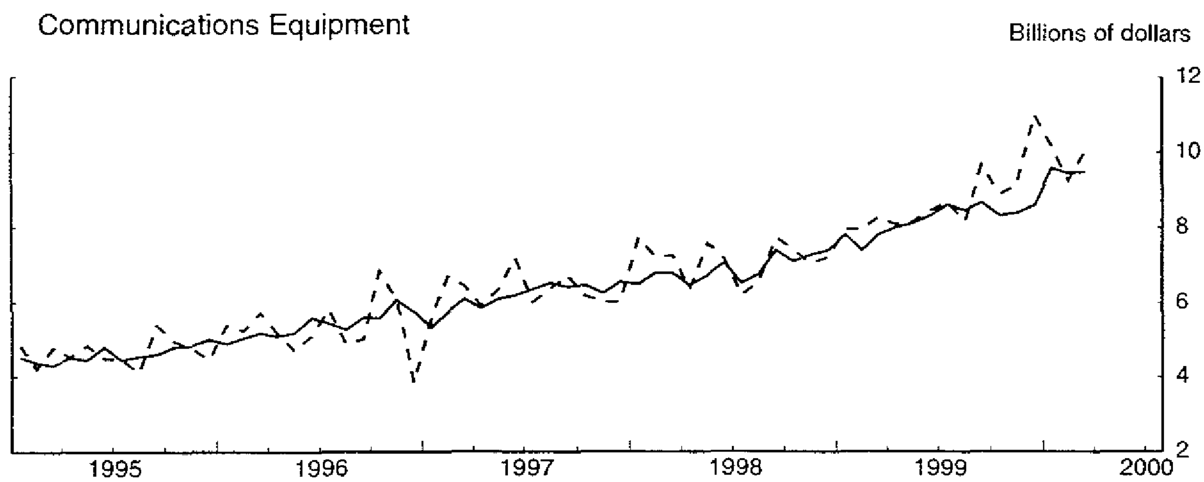
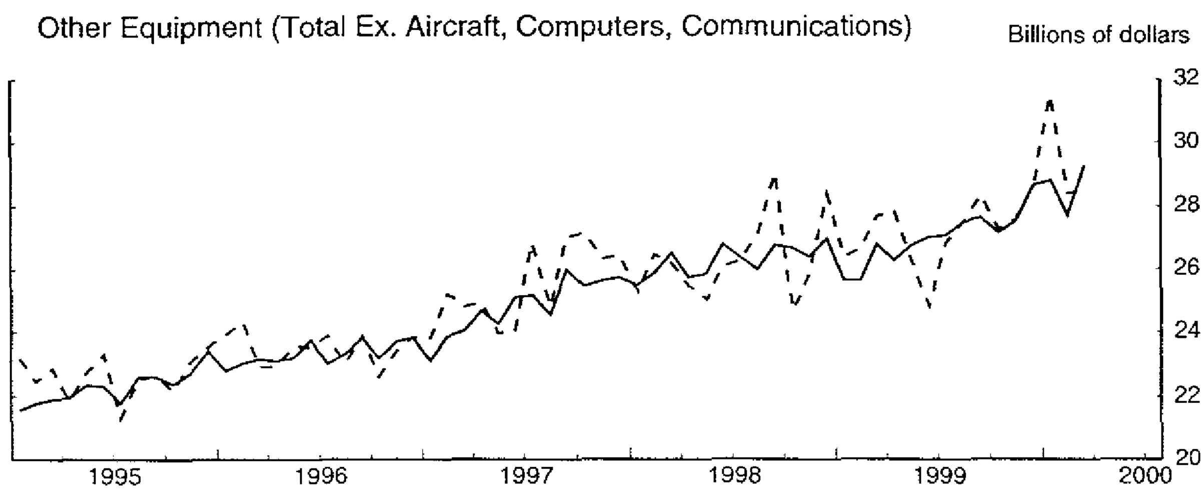
10. The constant-quality new home price index controls for differences over time in house size, geography, and several other important structural characteristics.

Recent Data on Orders and Shipments







March. Major manufacturers of networking equipment report that increased Internet usage is driving the need for new network architectures, particularly optical networking equipment. In addition, cable companies have been investing heavily in preparation for their planned entry into the markets for residential and commercial telephony and broad-band Internet services.

Real business spending on computer hardware and software is estimated to have accelerated markedly in the first quarter, boosted by the end of many Y2K-related computer system "lockdowns." Although the first-quarter acceleration of software expenditures was not as pronounced as the pickup in business outlays on hardware, the general pattern of spending in recent quarters is similar in the two categories.

Real expenditures on transportation equipment bounced back in the first quarter after having declined in the fourth. Surprisingly, despite reports that deliveries had been held down by the engineers' strike at Boeing and that inventory building was sizable, the latest Census report indicated that aircraft expenditures jumped in the first quarter. The inventory-sales ratio for aerospace manufacturers moved higher in March, suggesting that deliveries may remain high in the current quarter as well.

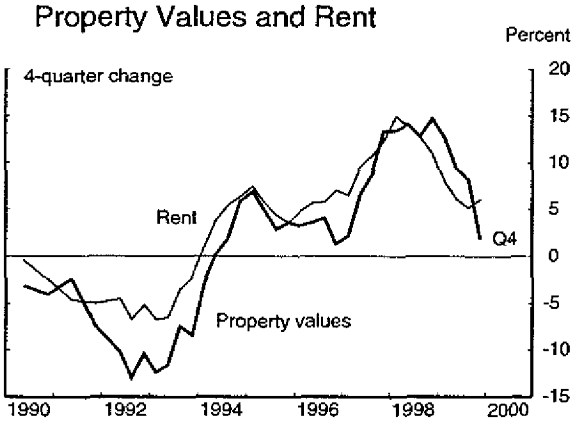
The recent data for motor vehicles, however, have been somewhat mixed. Sales of cars and light trucks to fleets (**confidential**) have remained extremely robust so far this year. In contrast, sales of medium and heavy trucks fell in the first quarter, more than reversing the jump late last year; the drop-off in sales in the first quarter was concentrated in heavy trucks. Although preliminary data on net new orders for heavy trucks in April point to a rebound from the depressed level in March, orders last month remained more than 40 percent below that of a year ago. The weakening demand for new heavy trucks partly reflects pressures on truckers' profits from higher fuel costs, increasing driver wages because of tight labor markets, and rising insurance costs. In addition, industry contacts have indicated that a glut of used trucks has driven down their prices and further damped demand for new trucks. Industry analysts attribute the oversupply to one major producer that reportedly attempted to boost market share in recent years by aggressive pricing.

Outside of the high-tech and transportation sectors, real equipment spending is estimated to have surged at an annual rate of 16 percent in the first quarter, the largest quarterly gain in more than six years. Industrial equipment outlays appear to have fully recovered from the sluggishness recorded during the Asian crisis. Moreover, expenditures on farm, construction, and mining equipment--which had been falling steadily since early last year--seem to have turned around in the first quarter. New orders of equipment and machinery (excluding

Indicators of Nonresidential Construction

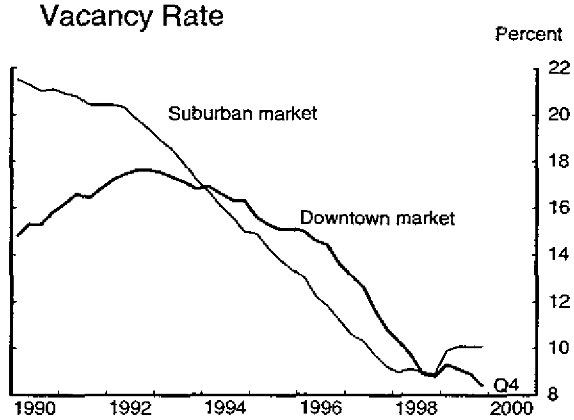
Office Buildings

Property Values and Rent



Source. National Real Estate Index.

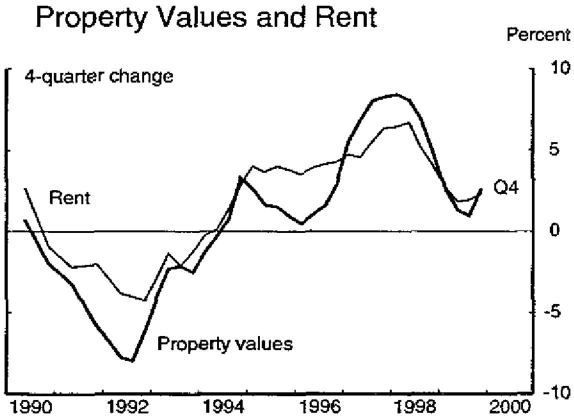
Vacancy Rate



Source. CB Richard Ellis.

Retail Space

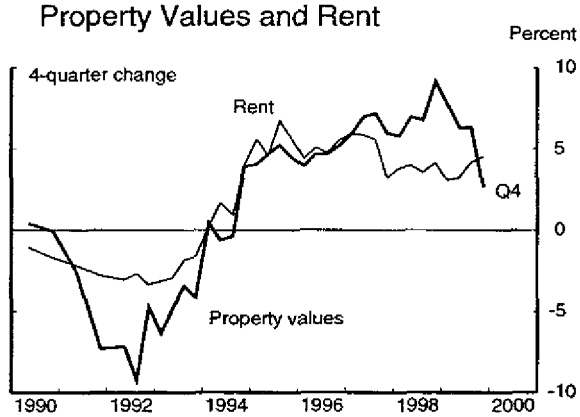
Property Values and Rent



Source. National Real Estate Index.

Warehouses

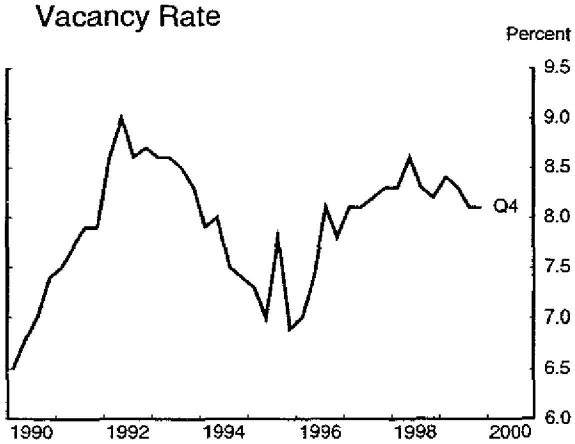
Property Values and Rent



Source. National Real Estate Index.

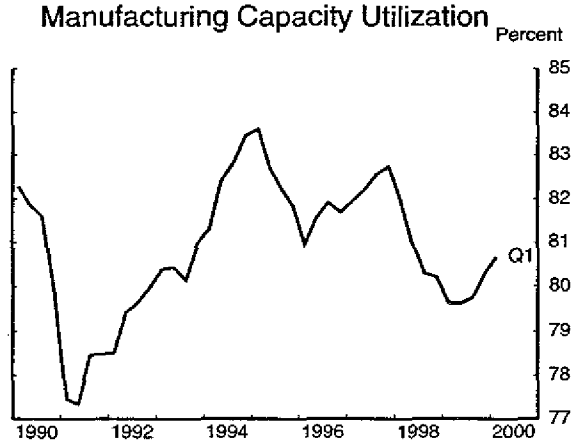
Industrial

Vacancy Rate



Source. CB Richard Ellis.

Manufacturing Capacity Utilization



transportation and high-tech) jumped 6 percent (not at an annual rate) and the level of unfilled orders rose; thus, spending appears likely to continue expanding in coming months.

Nonresidential structures. Real private investment in nonresidential structures jumped at an annual rate of 16-1/2 percent in the first quarter. Outlays for buildings increased at almost a 24 percent rate, the most rapid pace since late 1996; nonetheless, the level of spending on nonresidential buildings in the first quarter was still a tad below that in the first quarter of 1999.[11] Nonresidential construction likely received a positive impetus from unusually favorable weather in both the fourth and first quarters.

Real expenditures for construction of office buildings increased at an annual rate of 17 percent in the first quarter, more than offsetting a sharp decrease in the previous quarter and putting the level of spending 5 percent above the year-earlier period. At 1-3/4 percent, the year-over-year increase in the values of office properties continued to drop off in the fourth quarter of 1999 (the latest available data for the National Real Estate Index). However, year-to-year increases in rents--which had been trending down steadily since early 1998--leveled off at about 6 percent. Vacancy rates for office properties in downtown and suburban locations remained relatively low: The downtown vacancy rate edged down to 8-1/2 percent, and the rate for suburban locations was unchanged at 10 percent.

Real investment in construction of commercial structures (which include retail space and warehouses) rose at an annual rate of 26 percent in the first quarter, putting the level of activity up about 3 percent from a year earlier. Following a prolonged deceleration, the four-quarter change in both property values and rents in the retail sector ticked up in the fourth quarter. For warehouses, the year-over-year increase in property values dropped sharply to 2-1/2 percent in the fourth quarter, but rents continued their modest acceleration, reaching a 4-1/2 percent rate.

Real outlays for industrial construction jumped nearly 30 percent (annual rate) in the first quarter, the first increase in two years; still, expenditures last quarter were 10-3/4 percent below the level of a year earlier. As of the fourth quarter, the vacancy rate for industrial properties was 8.1 percent; this rate has changed little, on balance, since mid-1996.

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11. In addition to buildings, the nonresidential structures category includes outlays for drilling and mining, expenditures by utilities, and investment in miscellaneous private facilities such as streets, sewers, and parks.

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

Category	1999 Q3	1999 Q4	2000 Q1	2000 Jan.	2000 Feb.	2000 Mar.
Manufacturing and trade	50.6	79.8	n.a.	71.5	74.2	n.a.
Less wholesale and retail motor vehicles	45.1	69.4	n.a.	48.5	81.5	n.a.
Manufacturing	11.9	18.8	23.4	27.9	39.5	2.6
Less aircraft	15.0	27.2	20.1	32.6	32.3	-4.5
Merchant wholesalers	23.7	25.7	26.2	29.3	22.3	27.0
Less motor vehicles	20.7	22.8	22.5	26.4	21.8	19.3
Retail trade	15.1	35.3	n.a.	14.3	12.4	n.a.
Automotive dealers	2.6	7.5	n.a.	20.1	-7.8	n.a.
Less automotive dealers	12.5	27.8	n.a.	-5.8	20.2	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	March 2000
Manufacturing and trade	1.58	1.37	1.37	1.32	n.a.
Less wholesale and retail motor vehicles	1.55	1.34	1.34	1.29	n.a.
Manufacturing	1.75	1.36	1.33	1.28	1.26
Primary metals	2.08	1.46	1.66	1.53	1.54
Steel	2.56	1.59	2.10	1.88	1.86
Nonelectrical machinery	2.48	1.61	1.64	1.47	1.48
Electrical machinery	2.08	1.21	1.22	1.15	1.13
Transportation equipment	2.93	1.51	1.52	1.38	1.44
Motor vehicles	.97	.53	.55	.51	.52
Aircraft	5.84	4.05	4.47	3.68	4.72
Nondefense capital goods	3.09	2.04	2.04	1.79	1.85
Textiles	1.71	1.38	1.58	1.52	1.57
Paper	1.32	1.06	1.20	1.12	1.12
Chemicals	1.44	1.25	1.40	1.30	1.31
Petroleum	.94	.80	.85	.68	.68
Home goods & apparel	1.96	1.59	1.60	1.52	1.49
Merchant wholesalers	1.36	1.24	1.33	1.27	1.28
Less motor vehicles	1.31	1.22	1.31	1.25	1.25
Durable goods	1.83	1.53	1.61	1.55	1.58
Nondurable goods	.96	.90	.99	.94	.94
Retail trade	1.61	1.45	1.46	1.41	n.a.
Less automotive dealers	1.48	1.39	1.38	1.34	n.a.
Automotive dealers	2.23	1.58	1.72	1.61	n.a.
General merchandise	2.68	2.01	1.96	1.92	n.a.
Apparel	2.54	2.29	2.31	2.20	n.a.
Food	.83	.80	.82	.79	n.a.

Business inventories. Following a sizable accumulation in late 1999, inventory investment moderated substantially in the first quarter. Based on the still-incomplete book-value data, we estimate that real nonfarm inventories accumulated at an annual rate of $29 billion (2.4 percent) in the first quarter, down from a $72 billion rate in the fourth quarter of last year.[12] As a result, the change in investment subtracted 1.8 percentage points from the increase in real GDP in the first quarter, after having boosted the fourth-quarter figure by 1.4 percentage points. Some of the step-down in nonfarm inventory accumulation may have reflected the unwinding of precautionary stocks held in advance of the century date change. In any event, the real inventory-sales ratio evidently fell sharply further.

Inventory investment in the manufacturing sector was about unchanged in the first quarter. In real terms, we estimate that manufacturers accumulated inventories (excluding finished motor vehicle stocks) at an annual rate of $9-1/2 billion last quarter, following a $9-1/2 billion increase in the fourth quarter. In contrast, total book-value inventories, which were boosted by higher prices--particularly for petroleum and related products--increased at an annual rate of $22 billion, following a $19 billion increase in the fourth quarter. Last quarter's real stockbuilding was led by the aircraft industry, as the engineers' strike at Boeing stalled the delivery of a large number of airplanes. Most other manufacturing categories recorded moderate inventory accumulations in the first quarter. Nominal shipments rose briskly, and the ratio of inventories to shipments fell to a historically low level.

We estimate that real wholesale inventories (excluding motor vehicles) posted a $13.6 billion (annual rate) gain last quarter, a shade above the fourth-quarter accumulation. In book-value terms, distributors built stocks at a $22.5 billion annual rate, about the same as the pace recorded in the fourth quarter. Sales expanded apace, and the ratio of non-auto inventories to sales inched down in the first quarter.

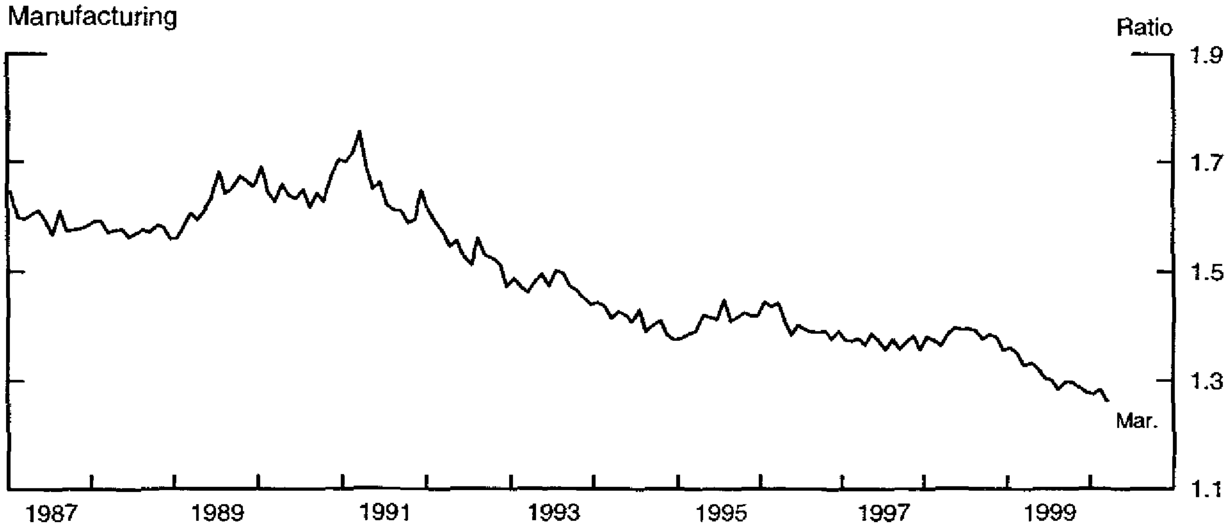
The BEA estimates that real retail inventories increased negligibly in the first quarter, after having risen at a $30 billion pace in the fourth quarter of 1999. The first-quarter slowdown in investment likely reflected, in part, the liquidation of precautionary Y2K stocks held by retailers. Excluding motor vehicles, the average increase in book-value stocks in January and February was $7 billion (annual rate), well below the $28 billion rate of accumulation posted in the

12. On balance, book-value manufacturing and wholesale trade inventory investment (excluding motor vehicles) in March was $20 billion lower than the BEA had assumed in the advance NIPA estimate. The data for retail inventory investment will be released tomorrow; the BEA had assumed a March increase of $12 billion (excluding motor vehicles).

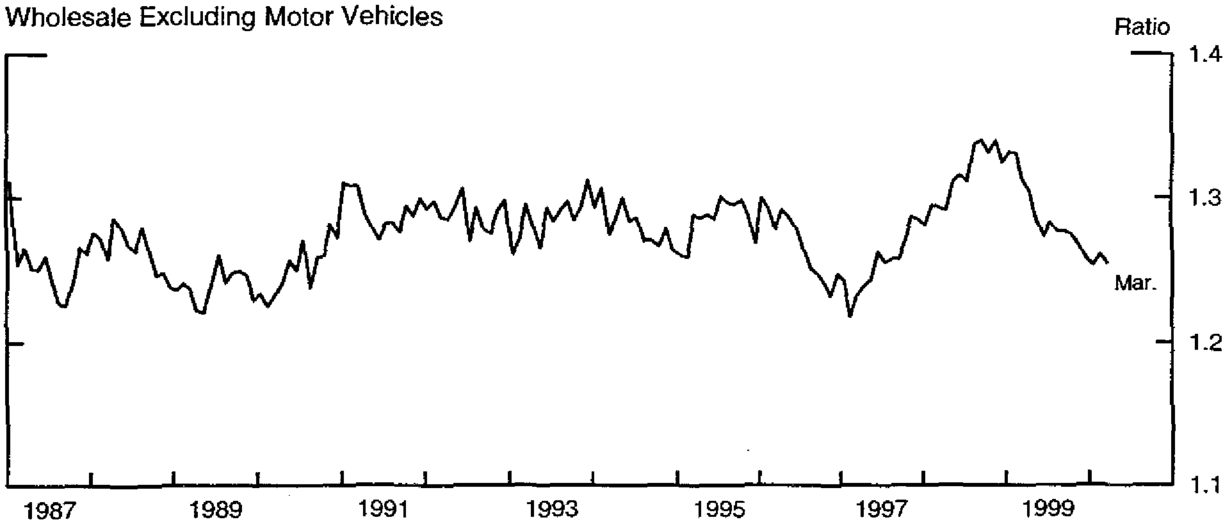
Inventory-Sales Ratios, by Major Sector

(Book value)

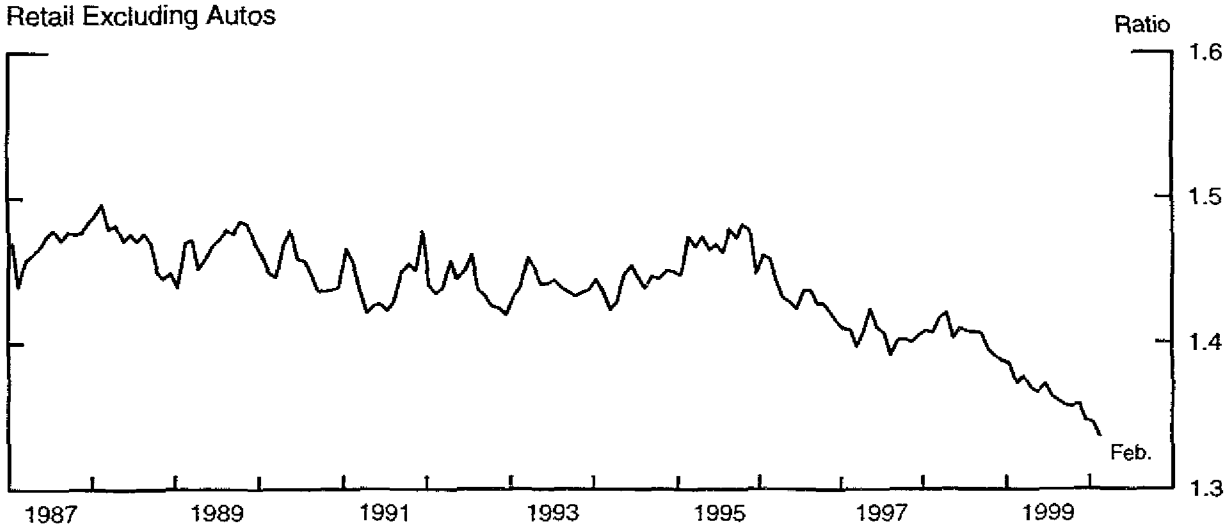
Manufacturing



Wholesale Excluding Motor Vehicles



Retail Excluding Autos



fourth quarter. Retail sales boomed in the first quarter, and--at least through February--the inventory-to-sales ratio dropped sharply

Government Expenditures

Federal government. The projected federal budget surplus continues to grow, and estimates for the current fiscal year now generally exceed $200 billion. Over the twelve months ending in March, the surplus totaled $138 billion, $48 billion more than the surplus over the preceding twelve months. In addition, the incoming data point to a noticeable rise in personal income tax payments in April.

Although the deficit in March was $13 billion larger than a year earlier, the increase reflected timing shifts that temporarily raised expenditures and cut receipts; in particular, refunds in March were substantially greater than last year, owing to an extra Friday, the day of the week when almost all refund checks are issued. Excluding refunds, personal tax collections were up about 8 percent in March. Corporate tax payments, which largely reflect final payments on 1999 income tax liability, surged about 30 percent in March, consistent with the sharp rebound in corporate profits in the fourth quarter of last year.

Preliminary data from the Daily Treasury Statements indicate that final individual income tax payments this filing season are up about 17 percent over last year. Total refunds issued thus far this tax season are about 8 percent greater than last year, though the timing of refunds was pushed forward as a result of faster processing by the IRS.

March outlays, after adjusting for payment timing shifts, were 4 percent higher than a year earlier, somewhat above the 3 percent average pace seen over the past twelve months. Notably, Medicaid spending continued to surge in March, while Medicare outlays remained subdued. Defense spending was up about 5 percent above last year's levels, but defense spending for the first quarter as a whole was well below the fourth-quarter level because of the Y2K-related shift in payments to service providers.

Congress has sketched out a blueprint of its fiscal policy proposals for the next five years. The budget resolution allows for at least $150 billion in tax cuts over five years and sets aside up to $40 billion for unspecified Medicare reform and a new prescription drug benefit. Total discretionary spending for fiscal year 2001 is set at $624 billion, enough to keep real spending roughly constant, but about $10 billion less than the request in the administration's budget. The fiscal outlook remains quite uncertain, however, because this blueprint is based on much lower surplus projections than now appear likely, and, of course, final

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

	Mar.			12 months ending in Mar.		
	1999	2000	Percent change	1999	2000	Percent change
Outlays	152.8	171.0	11.9	1680.5	1752.8	4.3
Deposit insurance	-0.5	-0.2	...	-5.3	-4.4	...
Spectrum auction	-0.4	0.0	...	-2.6	-1.1	...
Sale of major assets	0.0	0.0	...	-3.2	0.0	...
Other	153.7	171.1	11.3	1691.6	1758.3	3.9
Receipts	130.4	135.6	4.0	1770.8	1890.4	6.8
Surplus	-22.4	-35.4	...	90.3	137.6	52.3
	Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts[1]					
Outlays	153.7	160.2	4.2	1694.3	1747.2	3.1
National defense	25.5	26.8	5.3	273.1	285.0	4.3
Net interest	20.0	19.0	-4.8	236.1	228.4	-3.3
Social security	32.4	33.6	3.9	385.5	396.9	3.0
Medicare	17.5	16.4	-6.0	189.5	192.7	1.7
Medicaid	9.0	10.7	18.4	103.9	112.7	8.5
Other health	3.0	3.6	23.0	31.3	34.5	10.1
Income security	27.2	26.8	-1.4	238.1	241.1	1.2
Other	19.3	23.2	20.5	236.8	255.9	8.1
Receipts	130.4	135.6	4.0	1770.8	1890.4	6.8
Individual income and payroll taxes	98.8	96.9	-1.9	1406.8	1510.7	7.4
Withheld + FICA	116.4	126.0	8.2	1196.1	1304.7	9.1
Nonwithheld + SECA	8.5	9.2	7.5	318.2	347.5	9.2
Refunds (-)	26.2	38.2	45.8	107.6	141.2	31.3
Corporate	18.6	24.3	30.8	185.2	192.4	3.9
Gross	23.1	27.5	19.1	213.8	222.6	4.1
Refunds (-)	4.6	3.3	-28.5	28.7	30.2	5.3
Other	13.0	14.4	10.4	178.9	187.3	4.7
Surplus	-23.3	-24.7	...	76.6	143.2	87.0

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.

... Not applicable.

policy depends on the result of negotiations with the Administration. Finally, the Senior Citizens' Freedom to Work Act was passed and signed. This law eliminates the social security earnings test that reduced benefits for certain beneficiaries aged 65 to 69; it is expected to raise social security outlays about $4 billion per year over the next few years.

State and local governments. Real purchases of consumption and investment goods by state and local governments advanced at an annual rate of 7 percent in the first quarter, even faster than the rapid pace in the fourth quarter of last year.[13] The strong pace of spending over the past two quarters largely reflected higher highway construction spending, which has been boosted in recent years by rising federal grants and strong state and local fiscal positions.[14] In addition, construction of education facilities remained on the upward trend that has been apparent since early last year. Meanwhile, real consumption expenditures rose 3.3 percent at an annual rate in the first quarter, a little below the pace in 1999.

Prices and Labor Costs

The data received since the last Greenbook included some large increases in wages and prices. Although there are reasons for discounting this news to an extent, the latest readings clearly are consistent with our expectation of an upturn in the underlying inflation trend. Tightness in labor markets and the energy-induced pickup in consumer price inflation over the past year appear to be pushing up labor costs. At the same time, businesses apparently have enjoyed a bit more pricing "leverage" and have passed through some of these higher costs to consumers.

The employment cost index for hourly compensation of private industry workers increased at an annual rate of 5.9 percent over the three months ended in March, the largest quarterly increase in seventeen years. Wages and salaries increased at a 4.9 percent rate, while benefits rose 9.7 percent.

Given the noise in the quarterly ECI figures, we tend to emphasize moving averages. Even on this basis, however, the acceleration in pay rates is striking. Over the twelve months ending in March, hourly compensation increased 4.6 percent, versus the 3.0 percent rise in the year-earlier period. Faster rates of increase in benefit costs (about a quarter of total compensation) accounted for more than half of the acceleration over the past year.

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13. The slight downward revision from BEA's advance estimate of 7.4 percent reflected the receipt of data on construction put-in-place that indicated outlays were somewhat weaker than the BEA had assumed.

14. Increases in highway construction over the past two quarters also appear to have been boosted significantly by the unusually warm and dry weather between November and March.

EMPLOYMENT COST INDEX OF HOURLY COMPENSATION
FOR PRIVATE INDUSTRY WORKERS

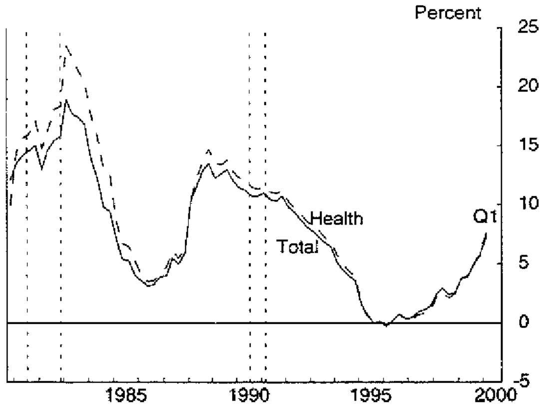
	1999				2000
	Mar.	June	Sept.	Dec.	Mar.
	-----Quarterly percent change------- (Compound annual rate)				
Total hourly compensation[1]	1.7	4.3	3.7	4.0	5.9
Wages and salaries	1.8	4.7	3.5	3.7	4.9
Benefit costs	1.4	3.9	3.9	4.7	9.7
By industry					
Construction	3.6	2.7	2.7	4.1	5.9
Manufacturing	2.9	2.9	3.5	4.6	6.6
Trans., comm., and public utilities	0.6	4.1	2.0	2.0	4.0
Wholesale trade	-0.3	4.8	5.1	6.4	4.1
Retail trade	3.3	5.7	2.0	4.4	6.7
FIRE	-2.8	12.7	5.0	1.9	10.4
Services	2.5	3.4	3.6	4.2	5.3
By occupation					
White collar	1.1	5.2	3.7	3.9	6.7
Blue collar	3.0	3.3	3.5	3.8	6.1
Service occupations	4.1	3.2	1.1	4.6	3.4
Memo:					
State and local governments	2.6	3.5	3.1	4.3	3.4
	-----Twelve-month percent change----				
Total hourly compensation	3.0	3.3	3.1	3.4	4.6
Excluding sales workers	3.0	3.2	3.2	3.7	4.3
Wages and salaries	3.3	3.6	3.2	3.5	4.2
Excluding sales workers	3.4	3.6	3.3	3.7	3.8
Benefit costs	2.2	2.5	2.8	3.4	5.5
By industry					
Construction	3.8	3.2	3.4	3.3	3.8
Manufacturing	2.6	2.7	2.8	3.4	4.4
Trans., comm., and public utilities	2.9	2.8	2.4	2.2	3.0
Wholesale trade	3.6	4.3	3.9	4.0	5.1
Retail trade	2.8	3.5	3.0	3.8	4.7
FIRE	3.5	5.3	4.7	4.1	7.4
Services	3.0	3.1	3.0	3.4	4.1
By occupation					
White collar	3.1	3.4	3.2	3.5	4.8
Sales	3.2	3.9	2.6	1.9	6.7
Nonsales	3.0	3.3	3.3	3.8	4.5
Blue collar	2.9	2.9	3.1	3.4	4.2
Service occupations	3.1	3.4	2.7	3.3	3.2
Memo:					
State and local governments	2.9	3.0	2.9	3.4	3.6

1. Seasonally adjusted by the BLS.

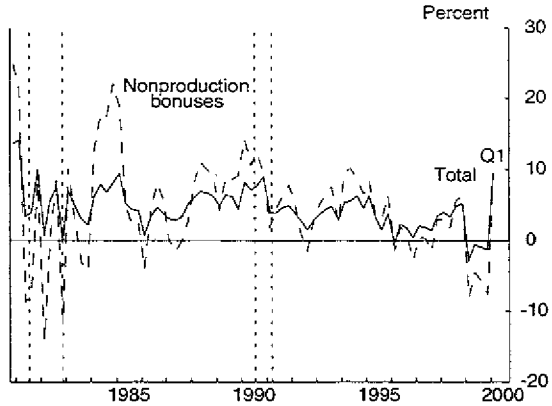
Components of ECI Benefits Costs (CONFIDENTIAL)

(Private industry workers; twelve-month change)

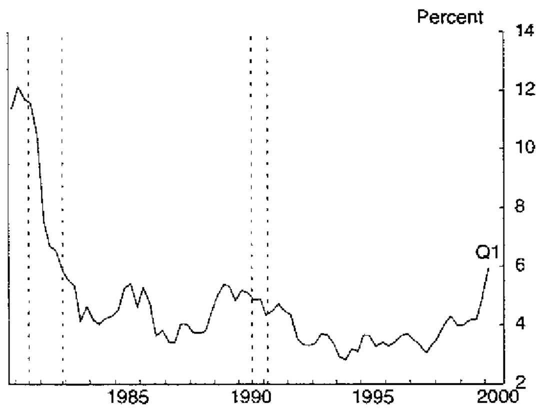
Insurance Costs



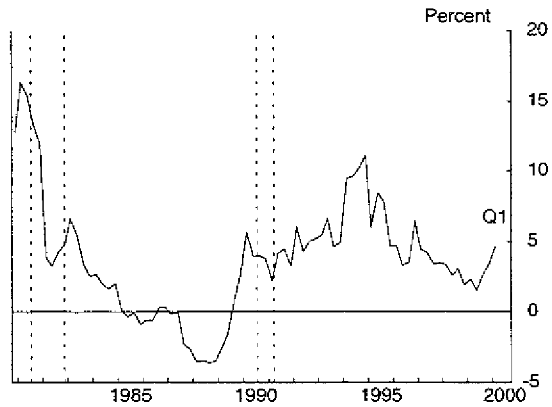
Supplemental Pay



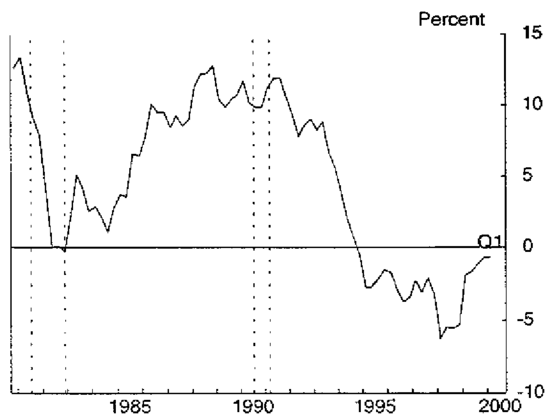
Paid Leave



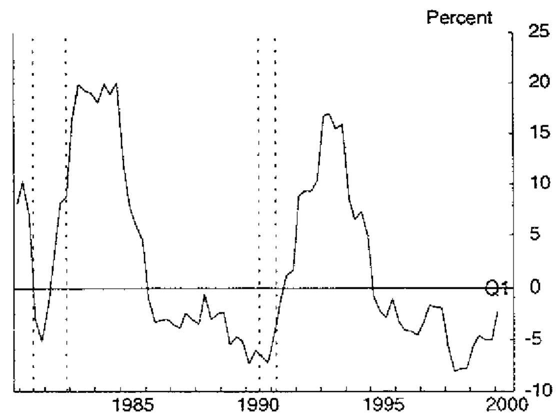
Retirement and Savings



Workers' Compensation Insurance



State Unemployment Insurance



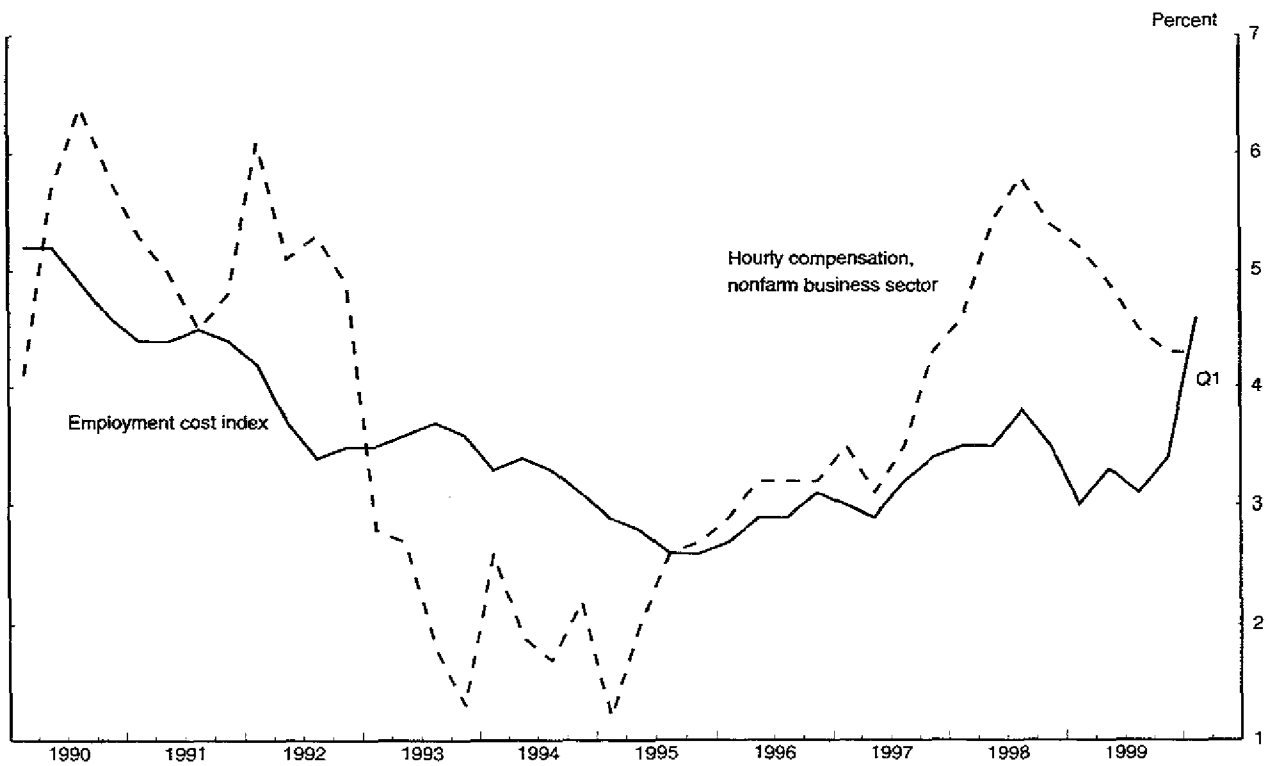
Note. Unpublished and confidential ECI benefits detail.

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

	1998[1]	1999[1]	1999 Q2	1999 Q3	1999 Q4	2000 Q1	1999:Q1 to 2000:Q1
Compensation per hour							
Total business	5.4	4.5	5.1	4.5	3.3	3.7	4.1
Nonfarm business	5.4	4.3	4.7	4.6	3.8	4.2	4.3
Nonfinancial corporations[2]	5.4	4.4	4.8	4.5	3.5	n.a.	n.a.
Unit labor costs							
Total business	2.0	.7	4.2	-.2	-3.1	1.9	.7
Nonfarm business	2.0	.6	4.2	-.3	-2.9	1.8	.7
Nonfinancial corporations[2]	1.2	.2	1.4	.5	-1.5	n.a.	n.a.

1. Changes are from fourth quarter of preceding year to fourth quarterof 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
(4-quarter change)



Among the major components of benefits, health insurance costs rose substantially in the first quarter and were up 7.6 percent on a twelve-month basis; these costs have accelerated nearly 4 percentage points in the past year on top of a noticeable acceleration in the year before that.[15] Confidential detail on other benefits components also shows some pickups.[16] Nonproduction bonuses rose 9.4 percent after actually having declined in the year-earlier period.[17] Given that bonuses partly reflect corporate performance, this pattern is consistent with recent movements in corporate profits, which were weak in the year-earlier period following the Asian crisis but have since recovered. In addition, the increase in paid leave picked up in the past year.

Within wages and salaries, accelerations occurred in many industries, but an exceptionally large increase in finance, insurance, and real estate (FIRE) accounted for roughly two-thirds of the pickup over the past year. The jump in FIRE wages and salaries may be related to commissions tied directly to increased activity in the sector. However, competition for workers is reported to be intense in these industries, suggesting that to some degree the increases in FIRE wages may also be indicative of tight labor markets.

In contrast to the ECI, the productivity and cost (P&C) measure of hourly compensation in the nonfarm business sector increased at an annual rate of 4.2 percent in the first quarter, about the same as the pace in 1999. Over the past four quarters, the P&C measure of hourly compensation in the nonfarm business sector increased 4.3 percent, slightly less than the 4.6 percent increase in the ECI for hourly compensation in private industry. Over the preceding two years, the P&C measure of hourly compensation had increased more rapidly.

In the past, we have speculated that one reason for the more rapid increase in the P&C measure in the earlier period is that it incorporates lagged information on employee compensation from the exercise of stock options, whereas the ECI does not. While it is possible that stock options have contributed less to growth in hourly compensation recently than they did a year ago, the P&C compensation

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15. The California Public Employees' Retirement System is currently considering a proposal that would result in an increase of 4.9 percent, on average, in its HMO premiums in 2001. The proposed increase would be only about half as large as the one that took effect in 2000, mainly because next year's increase would be restrained by the imposition of higher co-payments for prescription drugs and office visits. In addition, nearly one-fourth of Calpers members are enrolled in two large preferred provider plans (PPOs), in which premiums are slated to rise 13 percent and 19 percent next year. On balance, if the HMO proposal is adopted, overall Calpers premiums will likely rise about 7 percent, on average, next year.

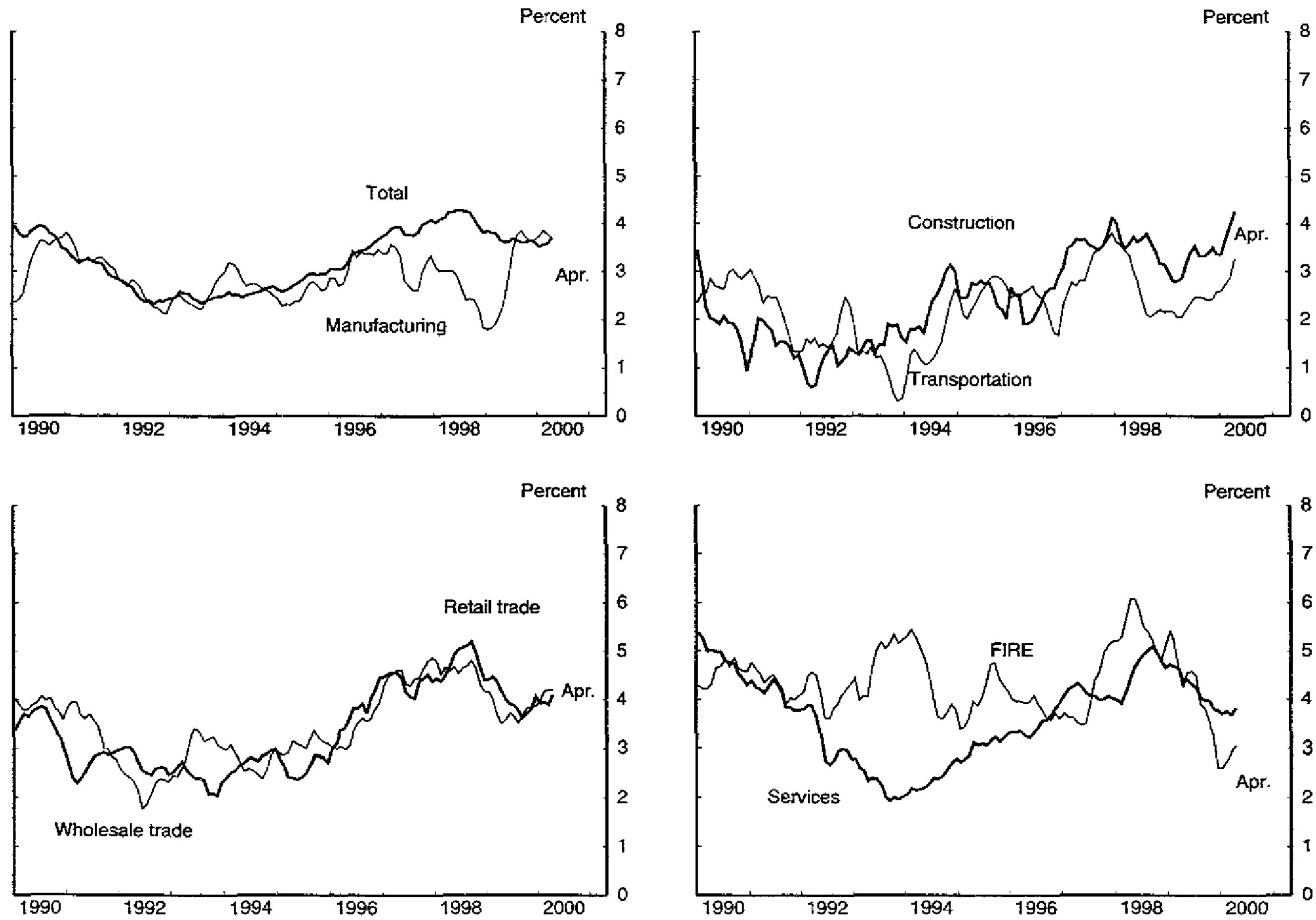
16. With the exception of health insurance, benefits detail is unpublished and is provided to us by the BLS on a confidential basis.

17. With the release of the June ECI, the BLS will expand the definition of nonproduction bonuses to include hiring and referral bonuses.

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

	12-month percent change			Percent change to Apr. 2000 from month indicated		2000	
	Apr. 1998	Apr. 1999	Apr. 2000	Oct. 1999	Jan. 2000	Mar.	Apr.
	-Annual rate-					-Monthly rate-	
Total private nonfarm	4.4	3.5	3.8	3.8	4.5	.3	.4
Manufacturing	2.9	2.5	3.7	3.3	4.3	.1	.6
Construction	3.7	3.0	4.4	5.3	6.6	.4	.6
Transportation and public utilities	3.2	2.2	3.3	4.5	6.2	.4	.4
Finance, insurance, and real estate	6.5	4.5	2.7	3.6	2.7	.6	.3
Retail trade	5.2	4.0	4.0	4.6	5.7	.3	.5
Wholesale trade	4.5	3.8	3.9	2.7	.3	.5	-.1
Services	4.8	4.2	3.8	3.6	4.5	.3	.4

Average Hourly Earnings
(3-month moving average of 12-month change)



CPI AND PPI INFLATION RATES
(Percent)

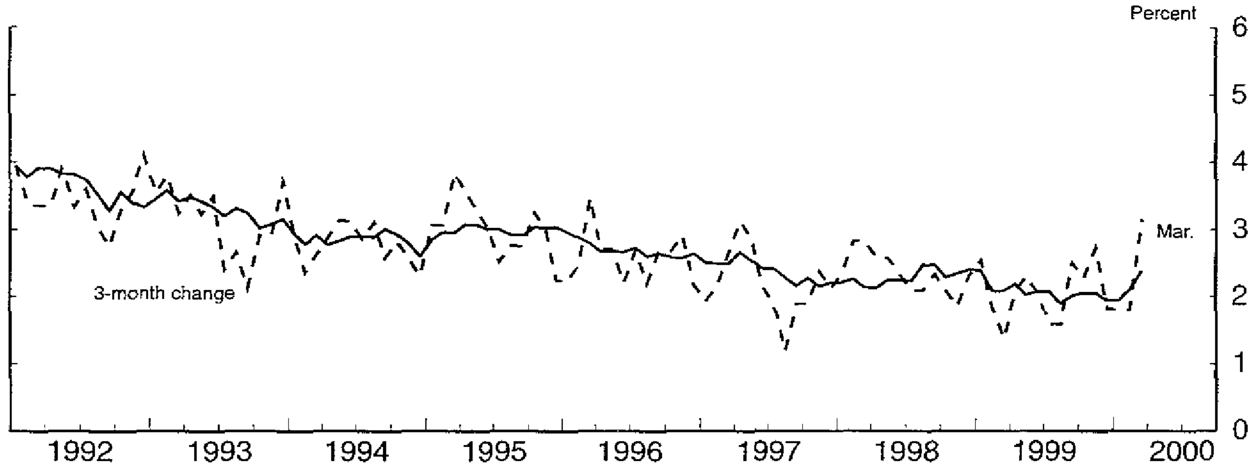
	From 12 months earlier		1999	2000	2000	
	Mar. 1999	Mar. 2000	Q4	Q1	Feb.	Mar.
			-Annual rate-		-Monthly rate-	
CPI						
All items (100.0)[1]	1.7	3.7	2.9	4.1	.5	.7
Food (15.3)	2.3	2.0	2.7	1.5	.4	.1
Energy (7.0)	-3.1	24.2	10.7	31.5	4.6	4.9
CPI less food and energy (77.7)	2.1	2.4	2.3	2.3	.2	.4
Commodities (23.4)	.6	1.0	1.5	-.9	.0	.3
New vehicles (4.8)	-.7	-.1	.5	-1.4	-.1	.1
Used cars and trucks (1.9)	.1	3.8	5.0	-6.3	-.6	.0
Apparel (4.7)	-1.6	-.2	3.5	-4.2	.2	.3
Tobacco (1.3)	32.2	15.3	12.5	12.5	2.1	1.1
Other Commodities (10.7)	-.3	-.1	-.7	.2	-.2	.3
Services (54.3)	2.8	3.0	2.7	3.6	.3	.5
Shelter (29.9)	3.1	3.0	2.3	3.5	.3	.5
Medical care (4.5)	3.4	4.0	3.4	4.6	.5	.5
Other Services (20.0)	2.2	2.7	3.3	3.4	.2	.4
PPI						
Finished goods (100.0)[2]	.8	4.5	3.5	4.8	1.0	1.0
Finished consumer foods (22.9)	1.0	.9	1.0	1.9	.4	.1
Finished energy (13.8)	-4.0	29.2	13.2	32.4	5.2	5.8
Finished goods less food and energy (63.3)	1.6	1.2	2.5	.4	.3	.1
Consumer goods (38.9)	2.8	1.6	3.3	.2	.5	.1
Capital equipment (24.4)	-.1	.6	1.4	.8	.0	.1
Intermediate materials (100.0)[3]	-2.1	6.0	3.9	6.8	.8	.9
Intermediate materials less food and energy (81.6)	-1.6	3.1	2.3	3.1	.2	.4
Crude materials (100.0)[4]	-10.5	27.3	17.2	19.9	4.2	1.8
Crude food materials (38.8)	-7.1	2.5	8.8	5.2	.7	3.5
Crude energy (39.4)	-13.1	70.9	22.2	35.6	10.0	1.2
Crude materials less food and energy (21.8)	-12.9	16.3	24.8	20.7	-.2	-.2

1. Relative importance weight for CPI, December 1999.
2. Relative importance weight for PPI, December 1999.
3. Relative importance weight for intermediate materials, December 1999.
4. Relative importance weight for crude materials, December 1999.

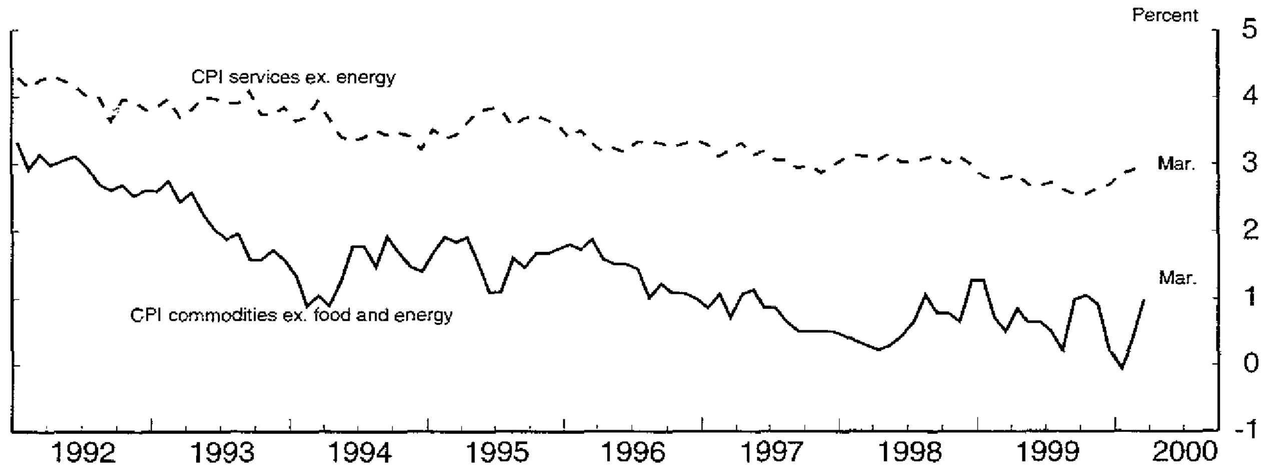
Measures of Core Consumer Price Inflation

(12-month change except as noted)

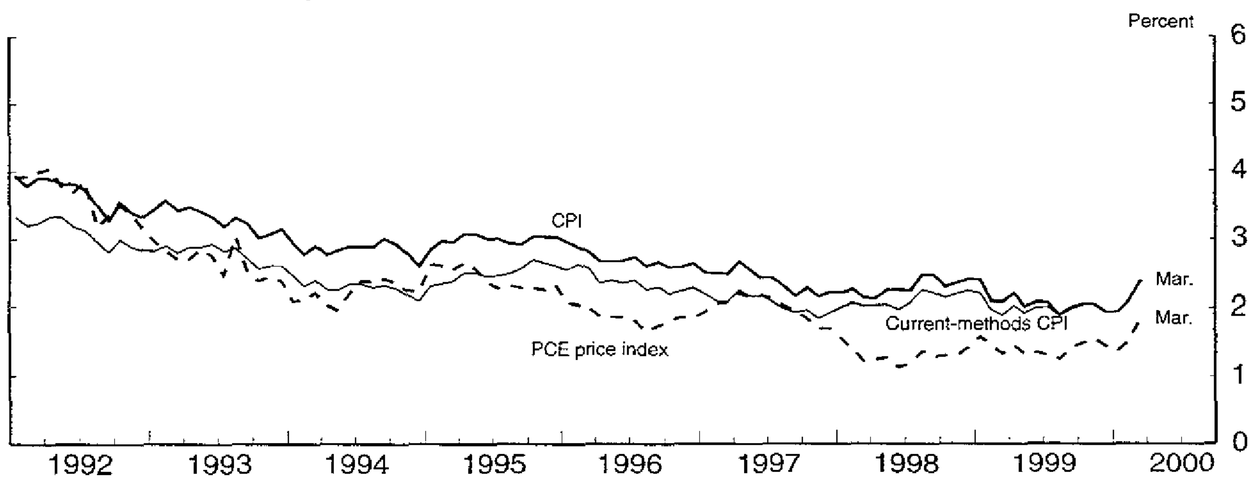
CPI Excluding Food and Energy



CPI Services and Commodities



CPI and PCE Excluding Food and Energy



data might not reflect such a phenomenon accurately until they fully incorporate the 1999 and 2000 unemployment insurance records; in any event, we think it is unlikely that the swing in this form of compensation would be large enough to fully explain the change in the relative increase in these two measures of hourly compensation. Another possible explanation for the divergence is that the ECI incorporates more up-to-date information on benefit costs, notably health benefits. Although the BEA can, in principle, incorporate ECI benefits information in estimating P&C hourly compensation, it does so only informally, and, in any case, the first-quarter ECI data were not available when the BEA prepared the advance estimate of the first-quarter national accounts.

The April employment report gave us our first glimpse of wage developments for the second quarter. Average hourly earnings of production or nonsupervisory workers increased 0.4 percent in April and have increased at a 4.5 percent rate so far this year. Over the twelve months ended in April, average hourly earnings increased 3.8 percent, up slightly from the increase over the preceding twelve-month period.

The most recent consumer price index data are for March, when the CPI increased 0.7 percent, the largest monthly increase since April of last year. A 5 percent increase in energy prices contributed to the large March increase; however, the CPI for items other than food and energy jumped 0.4 percent, the largest monthly increase in more than five years.

Over the twelve months ended in March, the overall CPI increased 3.7 percent, compared with a 1.7 percent increase over the preceding twelve-month period. Most of this pickup in inflation stems from energy prices, which increased 24 percent over the past year after having fallen in the year-earlier period. The CPI excluding food and energy increased 2.4 percent over the twelve months ended in March, a pickup of about 1/2 percent from the year-earlier period once allowance is made for changes in statistical procedures.

The surge in energy prices over the past year has been driven largely by increases in the world price of crude oil. Crude oil prices peaked in March and then dropped sharply following the announcement of a new agreement among OPEC producers. (See the International Developments section for more details.) Product prices began falling shortly thereafter, and surveys suggest that retail gasoline prices fell about 3 percent in April.

Crude oil prices also affect non-energy inflation through petroleum's role as an input into production. Although the effects of crude oil price changes on gasoline prices are very rapid, econometric evidence suggests that the indirect effects of energy price changes are more sluggish, being spread over several

BROAD MEASURES OF INFLATION
(4-quarter percent change)

	1997 Q1	1998 Q1	1999 Q1	2000 Q1
Product prices				
GDP chain price index	1.9	1.3	1.3	1.8
Less food and energy	1.9	1.4	1.4	1.8
Nonfarm business chain price index[1]	2.1	1.2	0.5	1.6
Expenditure prices				
Gross domestic purchases chain price index	1.8	0.8	1.1	2.3
Less food and energy	1.5	1.1	1.3	1.6
PCE chain price index	2.4	1.0	1.2	2.4
Less food and energy	2.0	1.4	1.4	1.6
CPI	2.9	1.5	1.7	3.2
Less food and energy	2.5	2.3	2.2	2.1
Current-methods CPI	2.6	1.2	1.5	3.2
Less food and energy	2.1	2.1	2.0	2.1
Median CPI	2.8	2.9	2.8	2.5
Trimmed mean CPI	2.7	2.0	1.7	2.2

1. Excluding housing.

SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

	Actual inflation[1]	University of Michigan: 1 year Mean[2]	Median[2]	5 to 10 years Mean[3]	Median[3]	Professional forecasters (10-year)[4]
1998-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
Q4	2.6	3.5	2.9	3.3	2.9	2.5
2000-Q1	3.2	3.6	3.0	3.5	3.0	2.5
Oct.	2.6	3.5	2.9	3.2	2.8	
Nov.	2.6	3.3	2.9	3.5	2.9	
Dec.	2.7	3.6	3.0	3.2	2.9	2.5
2000-Jan.	2.7	3.5	3.0	3.5	3.0	
Feb.	3.2	3.5	2.9	3.3	2.9	
Mar.	3.7	3.8	3.2	3.8	3.1	2.5
Apr.		3.5	3.2	3.2	2.8	

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

quarters. Among the economic factors that account for a slower pass-through is the use of hedging by some large energy users; for example, anecdotal reports suggest that airlines try to use futures contracts to mitigate the short-term effects of crude oil price swings on fuel costs.[18] On balance, based upon our econometric models, the indirect effects of energy price movements should have boosted core inflation over the past twelve months by roughly 1/4 percentage point. The models also suggest that the upward pressure on core prices could continue for a few more quarters. Of course, these model results represent rough estimates of the average relations over a number of years, and they might not capture the particulars of the recent episode. (One hypothesis is that short-run pass-throughs now are less pronounced than they were because monetary policy is seen as less accommodative. The hedging story also suggests a possibly smaller effect if it was practiced less widely in the past.)

Several outsized price increases contributed to the large increase in the CPI excluding food and energy in March. In particular, prices of tobacco products increased 1 percent, as New York state increased its cigarette tax. Jumps of 3 percent in the index for lodging-away-from-home and 4-1/2 percent in air fares also added to the rise in the core rate. While both hotel rates and air fares are quite volatile from month to month, they also likely are responding to strong demand. In addition, airlines obviously were feeling pressure from higher fuel costs. The largest single category of the CPI, owners' equivalent rent, increased 0.3 percent in each of the first three months of 2000, up from a surprisingly low average monthly increase of 0.2 percent last year.

Over the four quarters ended in the first quarter of this year, the price index for personal consumer expenditures other than food and energy rose 1.6 percent, about 1/2 percentage point less than the increase in the core CPI over the same period.[19] Among components, the biggest difference occurred within durable goods, where the PCE price index for durable goods fell 1.9 percent over the past four quarters, compared with a drop of just 0.8 percent in the CPI for

18. The tendency of firms to attenuate the effects of energy cost swings on prices is apparent in the response of profits to energy price shocks: For non-energy-producing firms, profits tend to fall in the aftermath of an increase in energy prices, as increases in costs are not immediately matched by an increase in prices.

19 As we have noted before, the CPI and the PCE price index differ in several important ways. First, the weights placed on various items in the CPI differ from those in the PCE price index; this difference in weights accounts for about 0.2 percentage point of the difference in core inflation over the past four quarters as measured by these two indexes. Second, while the CPI is the primary source data for the PCE price index, the PCE index uses different sources in some areas. Finally, the coverage of the PCE price index is broader than the CPI--although over the most recent four-quarter period, items that were included in the PCE price index but not in the CPI actually added 0.2 percentage point to the core PCE price index.

SPOT PRICES OF SELECTED COMMODITIES

	Current price (dollars)	1998	1999	Dec. 28 to Mar. 14[2]	Mar. 14[2] to May 09	Memo: Year earlier to date
		Percent change[1]				
Metals						
Copper (lb.)	.880	-18	27.5	-6.8	7.3	15.8
Steel scrap (ton)	103.67	-47	61.5	-5.7	-6.3	26.2
Aluminum, London (lb.)	.662	-18	26.8	.9	-7.9	10.2
Precious metals						
Gold (oz.)	276.30	-1.8	1.3	.0	-4.9	-1.1
Silver (oz.)	5.085	-20	4.3	-2.2	-.8	-5.7
Forest products[3]						
Lumber (m. bdft.)	279.00	2.7	8.3	1.5	-15	-19.1
Plywood (m. sqft.)	310.00	6.8	-1.6	11.5	-8.8	-18.4
Petroleum						
Crude oil (barrel)	26.750	-43	147.2	13.4	-7.6	73.8
Gasoline (gal.)	.892	-43	109.2	31.0	-2.4	76.7
Fuel oil (gal.)	.719	-39	115.2	7.7	-5.5	68.3
Livestock						
Steers (cwt.)	73.000	-13	15.3	5.9	1.4	13.6
Hogs (cwt.)	51.000	-65	127.4	21.3	19.3	29.1
Broilers (lb.)	.570	27.6	1.4	-10	10.0	-5.1
U.S. farm crops						
Corn (bu.)	2.140	-19	-8.5	13.5	.0	4.9
Wheat (bu.)	2.678	-11	-20.3	8.8	-6.9	-4.6
Soybeans (bu.)	5.280	-20	-16.8	13.6	4.8	15.2
Cotton (lb.)	.574	-9.3	-19.4	29.7	-4.2	.8
Other foodstuffs						
Coffee (lb.)	.995	-30	2.1	-8.8	-8.7	-9.1
Memo:						
JOC Industrials	89.100	-14	12.2	3.2	-2.1	8.0
JOC Metals	88.500	-20	28.0	-3.1	-1.8	9.5
CRB Futures	217.13	-18	6.9	6.0	.4	13.2
CRB Spot	264.04	-14	1.0	-2.0	1.3	2.6

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

durable goods. The main reason for this difference is the smaller weight of computers in the CPI.

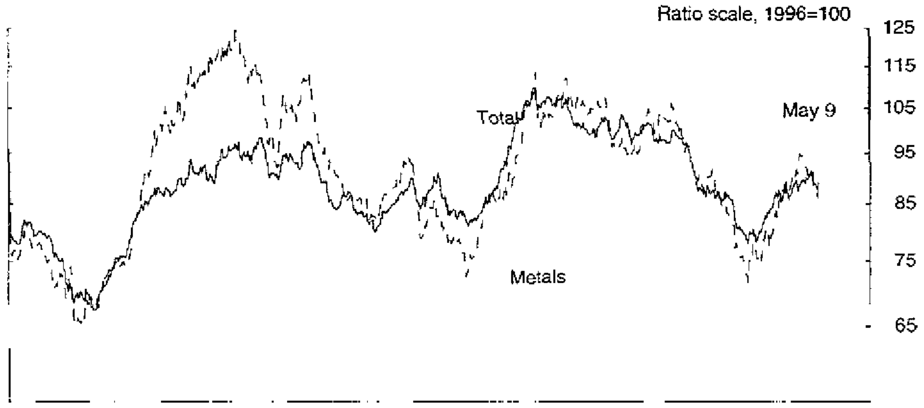
According to the Survey Research Center, the median of household expectations of inflation over the next twelve months was 3.2 percent in April, the same as in March. However, this level of inflation expectations marks a step-up from that of the preceding several months and is about 1/2 percentage point higher than expectations in the year-earlier period. Expectations of inflation over the next five to ten years remain more subdued; the median April reading was for inflation of 2.8 percent, down from 3.1 percent in March and little changed from year-earlier expectations.[20]

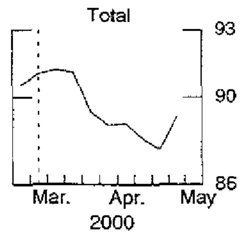
Raw commodity prices have been mixed in recent weeks. Prices of steel scrap and aluminum have dropped notably. Prices of these and many other metals moved up sharply throughout 1999, with press reports generally indicating a strong economy both in the United States and abroad as a major factor behind the rebound. Metals prices reached a peak early this year and have since retreated. Major crop prices have been mixed: Soybean prices have moved up; wheat prices are down sharply; and corn prices are about unchanged. Among livestock, prices of hogs and chickens have moved up sharply in recent weeks. In the case of hogs, the price is up nearly 30 percent over the past year, reflecting strong demand--notably for bacon for restaurant use--and production cutbacks.

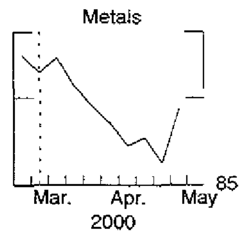
20. In recent weeks, the interest rate on ten-year Treasury securities has increased more than 50 basis points. In contrast, the interest rate on inflation-indexed Treasury securities has changed little over this period. If changes in inflation expectations were the only factor driving the spread between these interest rates, we could infer that ten-year inflation expectations had moved up sharply since early April. However, the three years of experience with inflation-indexed securities suggest that the spread is affected by other factors besides inflation expectations. For example, during the financial crisis of the fall of 1998, the "flight to liquidity" meant that the interest rate on the traditional ten-year security fell much more than the rate on the inflation-indexed issue, which is much more thinly traded. Because such factors can be an important influence on the spreads between these rates, it may be premature to conclude from this evidence that longer-term inflation expectations have recently shot up.

Commodity Price Measures

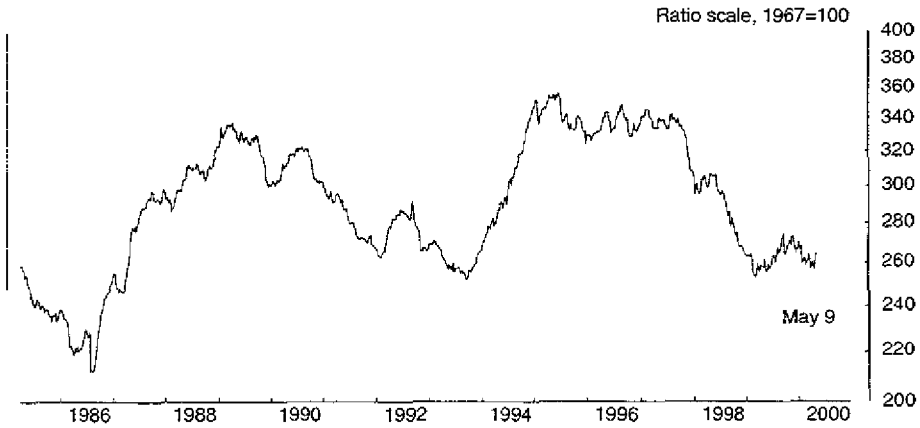
Journal of Commerce Index

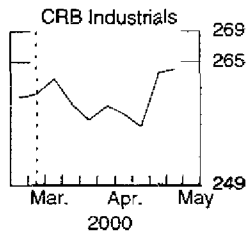




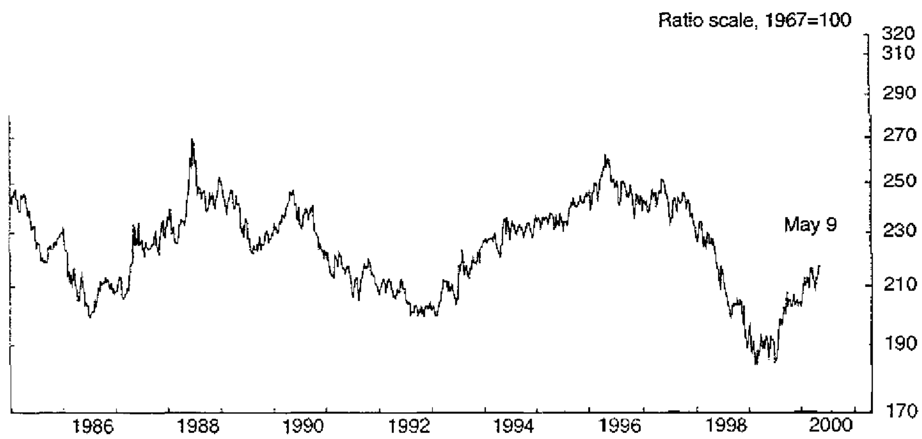


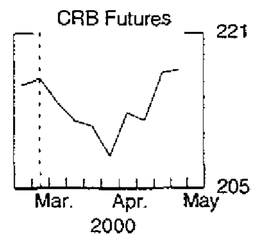
CRB Spot Industrials





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.

Domestic Financial Developments

III-T-1

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

Instrument	1999 June 29	1999 Dec 31	2000 FOMC* Mar. 21	2000 May 10	Change to May 10 from selected dates (percentage points): 1999 June 29	1999 Dec 31	FOMC* Mar. 21
Short-term							
FOMC intended federal funds rate	4.75	5.50	5.75	6.00	1.25	.50	.25
Treasury bills [1]							
3-month	4.70	5.17	5.74	5.96	1.26	79	.22
6-month	4.92	5.49	5.89	6.13	1.21	.64	.24
1-year	4.89	5.63	5.87	5.99	1.10	.36	.12
Commercial paper							
1-month	5.18	5.13	6.00	6.37	1.19	1.24	.37
3-month	5.12	5.75	6.04	6.55	1.43	.80	.51
Large negotiable CDs [1]							
1-month	5.21	5.72	6.07	6.49	1.28	.77	.42
3-month	5.32	5.90	6.18	6.70	1.38	.80	.52
6-month	5.43	6.08	6.38	6.91	1.48	.83	.53
Eurodollar deposits [2]							
1-month	5.13	5.69	6.06	6.44	1.31	75	.38
3-month	5.25	5.88	6.16	6.66	1.41	78	.50
Bank prime rate	7 75	8.50	8.75	9.00	1.25	.50	.25
Intermediate- and long-term							
U.S. Treasury (constant maturity)							
2-year	5.68	6.24	6.52	6.84	1.16	.60	.32
10-year	5.93	6.45	6.18	6.47	.54	.02	.29
30-year	6.07	6.48	5.99	6.18	.11	-.30	19
U.S. Treasury 10-year indexed note	4.01	4.33	4.16	4.13	12	.20	-.03
Municipal revenue (Bond Buyer) [3]	5.62	6.23	6.16	6.15	.53	-.08	-.01
Corporate bonds, Moody's seasoned Baa	8.05	8.18	8.32	8.88	.83	.70	.56
High-yield corporate [4]	10.53	10.94	11.14	11.87	1.34	.93	73
Home mortgages (FHLMC survey rate) [5]							
30-year fixed	7.63	8.06	8.24	8.52	.89	.46	.28
1-year adjustable	5.93	6.56	6.68	6.96	1.03	.40	.28

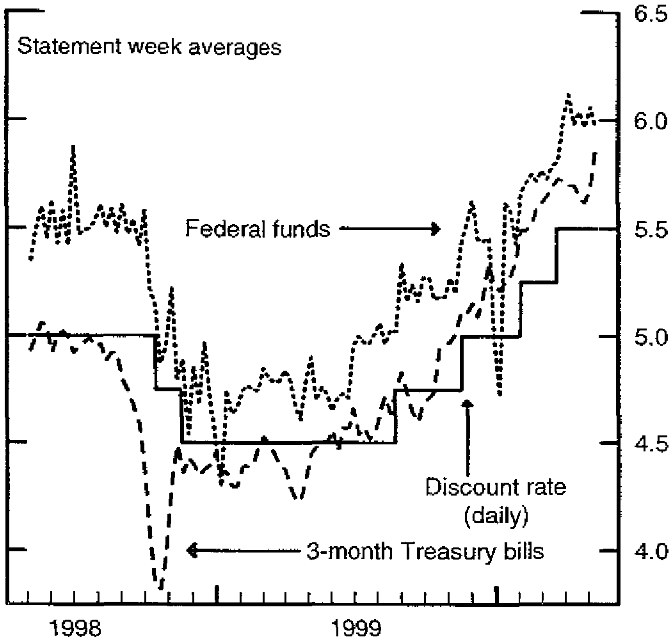
Stock exchange index	Record high: Level	Record high: Date	1999 Dec. 31	2000 FOMC* Mar. 21	2000 May 10	Change to May 10 from selected dates (percent): Record high	Dec. 31	FOMC* Mar. 21
Dow-Jones Industrial	11,723	1-14-00	11,497	10,680	10,368	-11.56	-9.82	-2.93
S&P 500 Composite	1,527	3-24-00	1,469	1,457	1,383	-9.45	-5.87	-5.05
Nasdaq (OTC)	5,049	3-10-00	4,069	4,610	3,385	-32.96	16.82	-26.58
Russell 2000	606	3-9-00	505	549	474	-21.75	-6.04	-13.64
Wilshire 5000	14,752	3-24-00	13,813	14,053	12,789	-13.30	-7.41	-9.00

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 May 12.
* Data are as of the close on March 20, 2000.

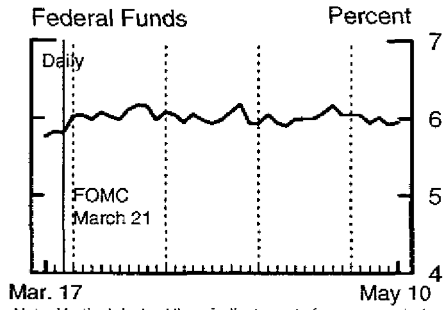
BA:DAM

Selected Interest Rates

Selected Short-Term Interest Rates

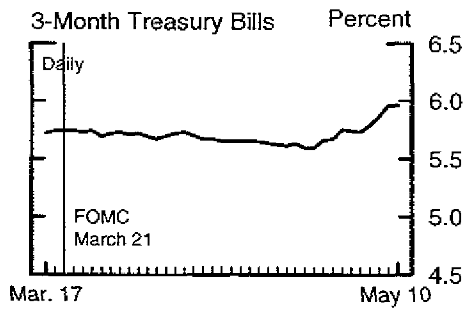


Federal Funds

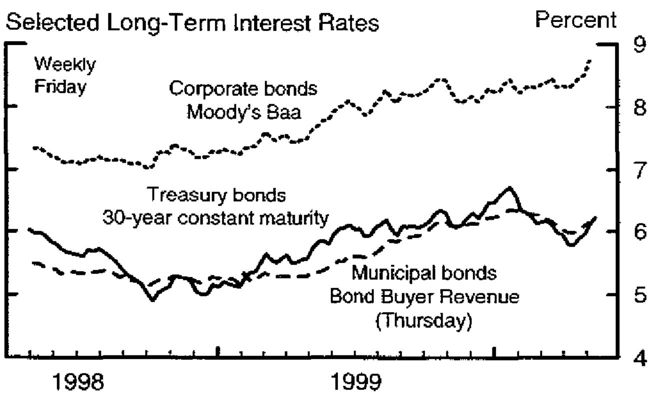


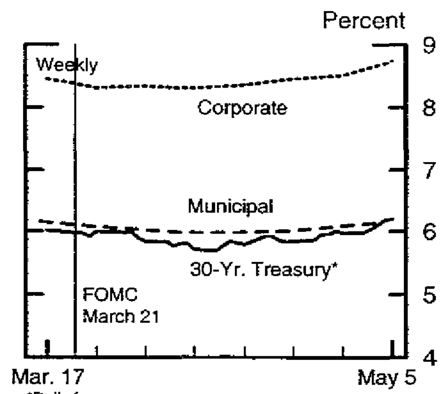
Note. Vertical dashed lines indicate end of reserve period.

3-Month Treasury Bills



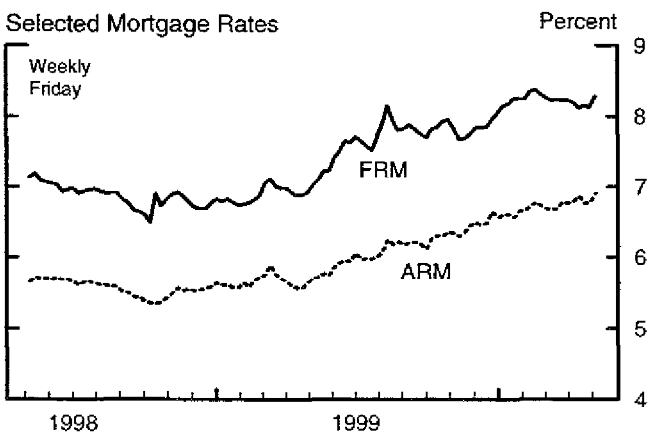
Selected Long-Term Interest Rates

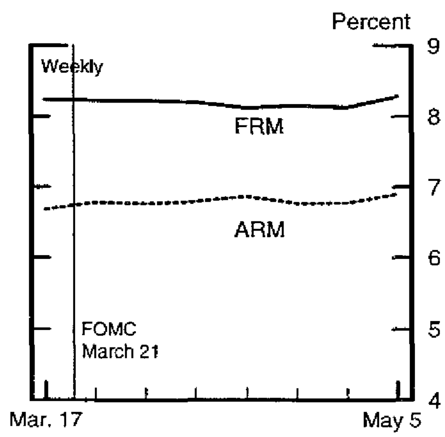




*Daily frequency.

Selected Mortgage Rates





Domestic Financial Developments

Overview
Nominal interest rates have risen since the March FOMC meeting--some quite substantially--in response to evidence that economic growth has remained vigorous and that wage and price increases are picking up. A further increase in the federal funds rate is now viewed as a certainty at next week's meeting of the FOMC, and the predominant expectation is that it will be a 50 basis point hike. Equity markets have been volatile, and share prices of many high-tech firms have plunged as investors have become skittish about the extremely rich valuations.

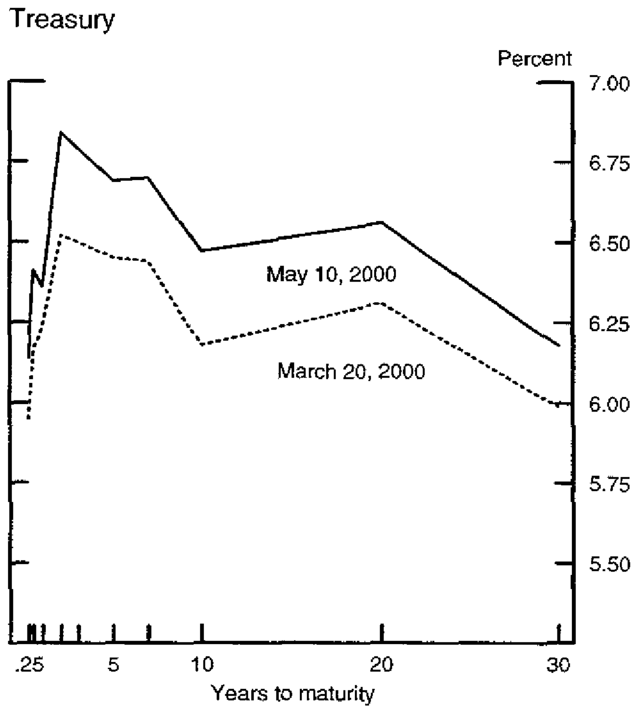
Businesses have continued to borrow heavily, but, given the less hospitable bond markets, they have turned more to commercial paper and bank financing. Households also have been piling on debt despite increases in borrowing costs. In contrast, higher tax collections from a robust economy have reduced federal borrowing needs; higher interest rates have discouraged advance refundings by state and local governments, while retirements from previous operations have been sizable.

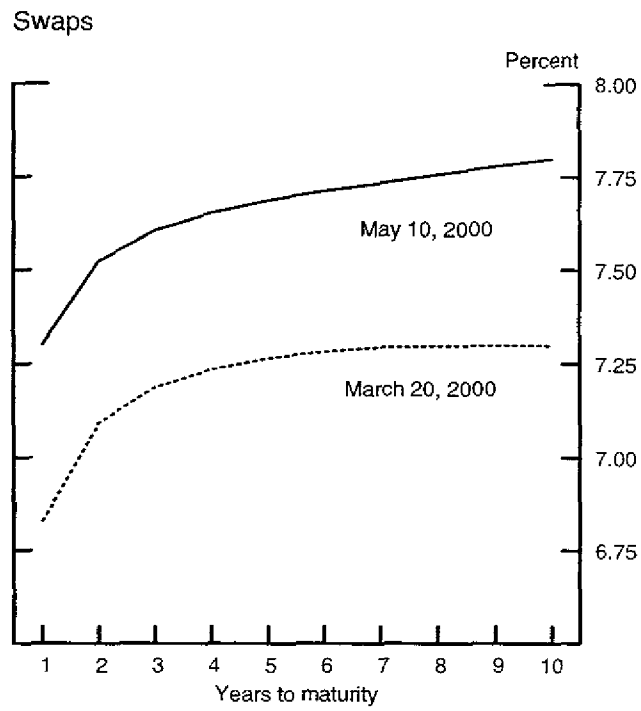
Interest Rates and Stock Prices
Since the March FOMC meeting, market participants have come to expect a greater tightening of monetary policy over the remainder of this year. Treasury coupon yields in the two- to ten-year range moved up 30 to 35 basis points; the rise in the two-year note was likely muted to some degree by the Treasury statements suggesting that issuance may be cut back in the future.

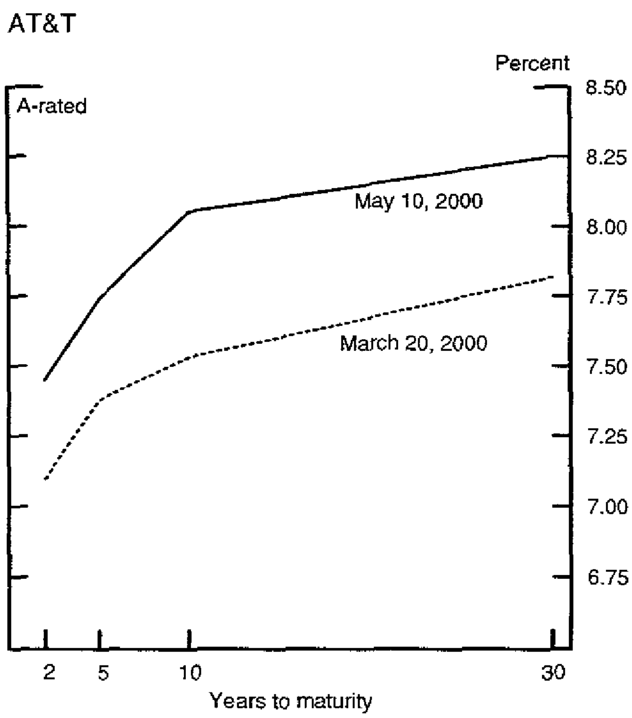
Among private securities, investment-grade corporate yields have risen about 50 to 60 basis points, and junk yields somewhat more, since late March. In addition to concerns about an overheated economy, investors' assessments of credit quality appear to have worsened a bit in light of rising default rates and recent equity market volatility. In contrast to the inversion in the Treasury market, most corporate yield curves have retained an upward tilt.

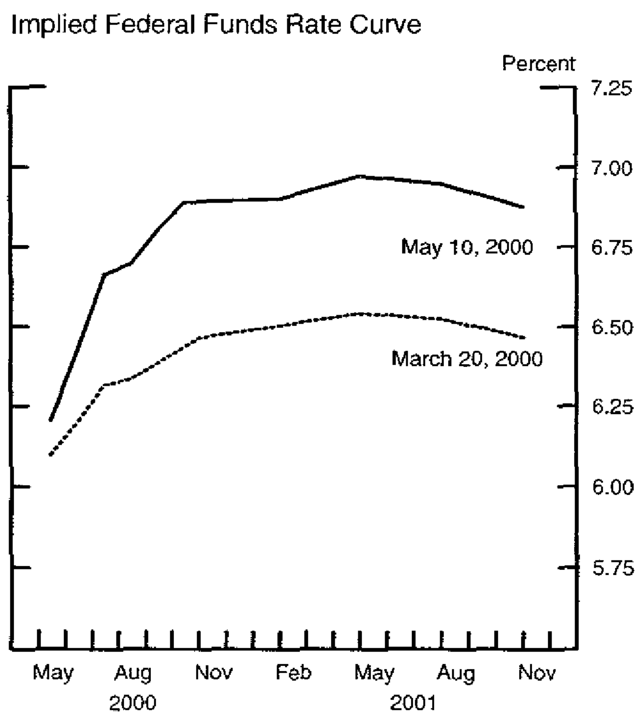
Equity prices, as measured by the Wilshire 5000, fell 9 percent over the intermeeting period, as investors seem to have had second thoughts about prospects for high-tech stocks. Many of the dot-com companies with no earnings and shaky prospects have seen their share prices plummet, sometimes to well below their IPO levels. On net, the tech-heavy Nasdaq has declined about 27 percent against a backdrop of highly volatile price movements. In contrast, the DJIA and S&P 500 indexes, which include a larger complement of "Old Economy" stocks, edged down only about 3 and 5 percent, respectively. These indexes likely received support from the good news about earnings. With nearly all S&P 500 firms' first-quarter results in, earnings are up about

Selected Yield Curves





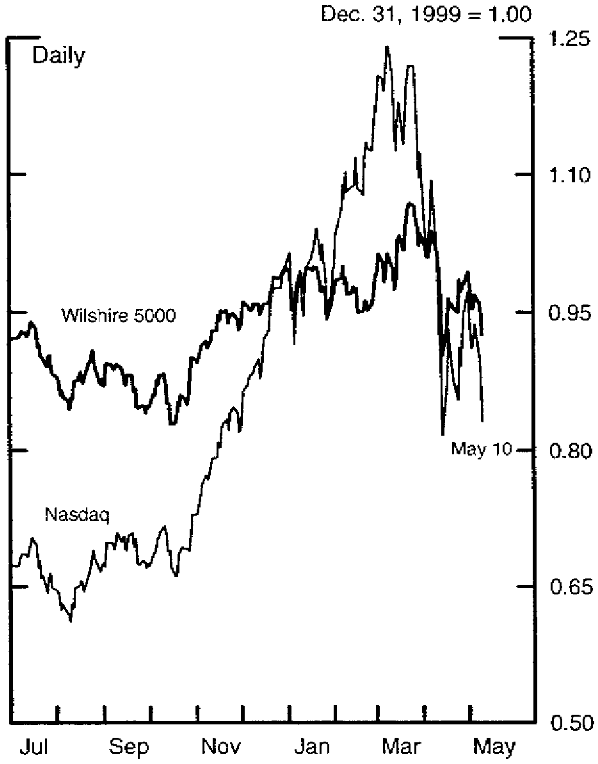




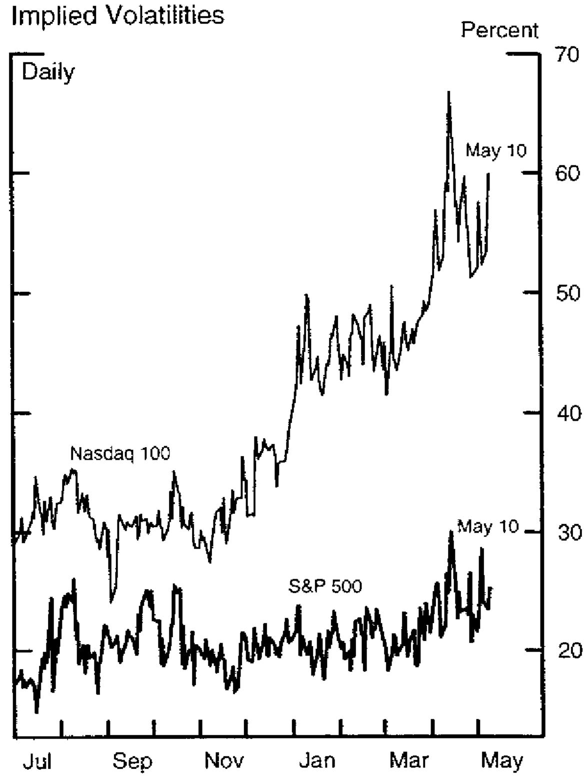
Note: Based on federal funds futures through October and Eurodollar futures thereafter, with an allowance for term premia and other adjustments.

Equity Market

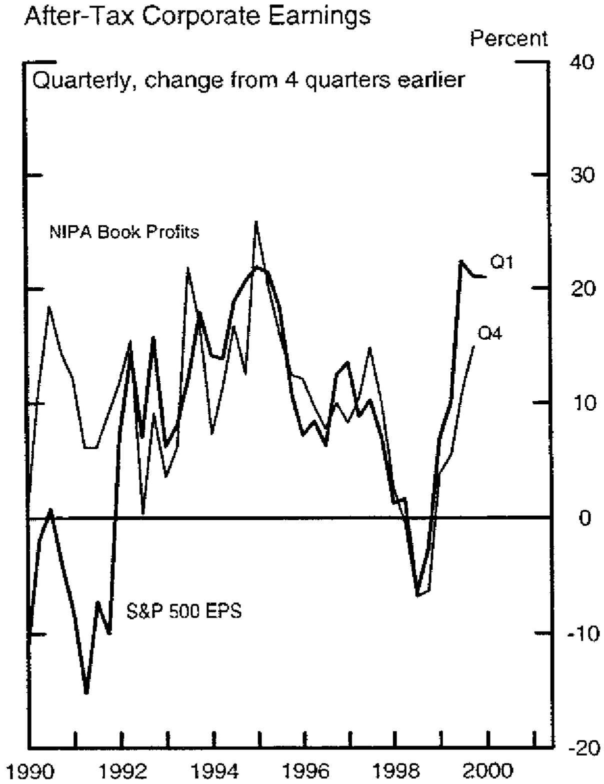
Selected Stock Indexes



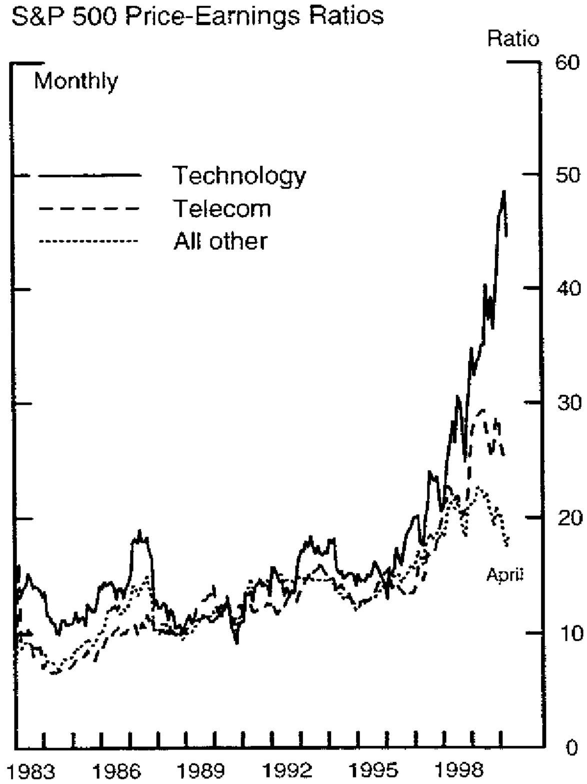
Implied Volatilities



After-Tax Corporate Earnings



S&P 500 Price-Earnings Ratios



Note. Using expected earnings for twelve months ahead.
Source. I/B/E/S.

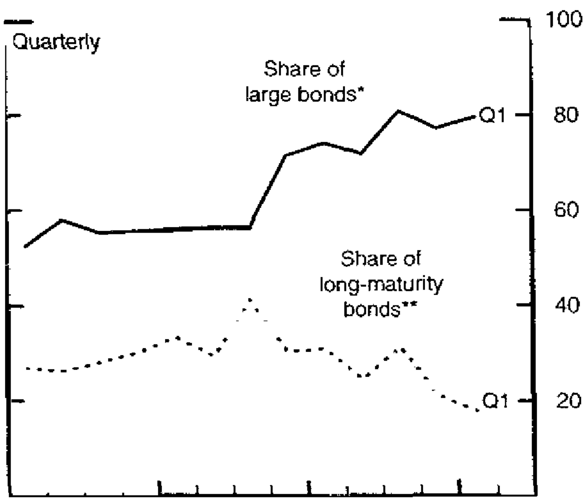
Gross Issuance Of Securities By U.S. Corporations

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

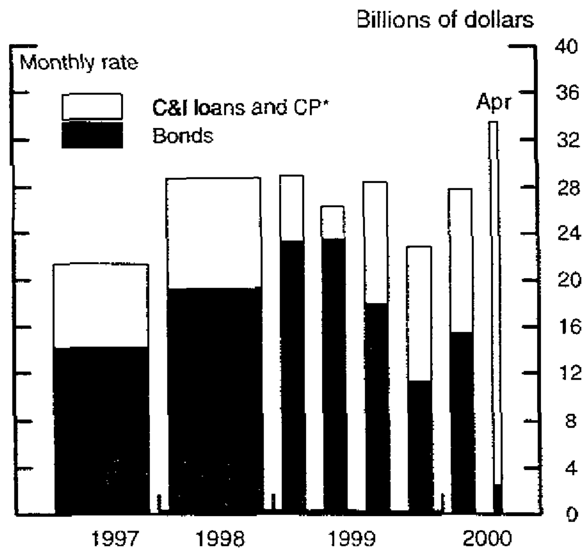
Type of security	1998	1999	1999	2000			
			Q4	Q1	Feb.	Mar.	Apr.
All U.S. corporations	94.0	89.4	64.8	84.5	85.7	112.1	61.3
Stocks [1]	10.6	11.0	14.6	16.9	22.3	16.8	20.7
Bonds	83.5	78.4	50.2	67.6	63.4	95.3	40.6
Nonfinancial corporations							
Stocks [1]	6.2	9.2	13.7	15.5	21.8	15.6	16.4
Initial public offerings	2.2	4.2	7.9	4.7	6.9	6.3	13.3
Seasoned offerings	4.0	5.0	5.8	10.8	14.9	9.3	3.2
Bonds [2]	25.7	24.5	17.6	23.1	26.6	28.1	7.7
Investment grade [3]	14.1	13.9	8.8	11.6	12.1	17.3	5.5
Speculative grade [3]	10.2	7.5	6.6	7.5	10.4	7.0	1.5
Other (Sold Abroad/Unrated)	1.3	3.1	2.2	4.0	4.0	3.8	.8
Financial corporations							
Stocks [1]	4.4	1.8	.9	1.3	.5	1.3	4.3
Bonds	57.8	53.9	32.6	44.5	36.8	67.2	32.9
Memo							
Net issuance of commercial paper, nonfinancial corporations [4]	2.3	3.6	4.2	3.0	9.5	-2.2	15.2
Change in C&I loans at commercial banks [4]	7.1	4.6	7.4	8.4	5.9	4.3	12.9

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. Excludes mortgage-backed and asset-backed bonds.
3. Bonds sold in U.S. categorized according to Moody's bond ratings, or to Standard Poor's if unrated by Moody's.
4. End-of-period basis, seasonally adjusted.



Sources of Net Debt Financing



* Seasonally adjusted

20 percent from four quarters earlier, well above the increase expected by analysts; the decline in share prices thus was generally a contraction of price-earnings multiples.

Business Finance

After setting a record in the first quarter, gross equity issuance remained strong in the first half of April but then cooled as stock prices plunged and volatility shot up. Many IPOs priced below their filing range, and first-day returns fell back sharply, causing many companies to postpone their planned offerings. Nonetheless, total issuance in April was strong because AT&T issued a tracking stock for AT&T Wireless, raising a record $10 billion in an IPO that priced within its filing range.

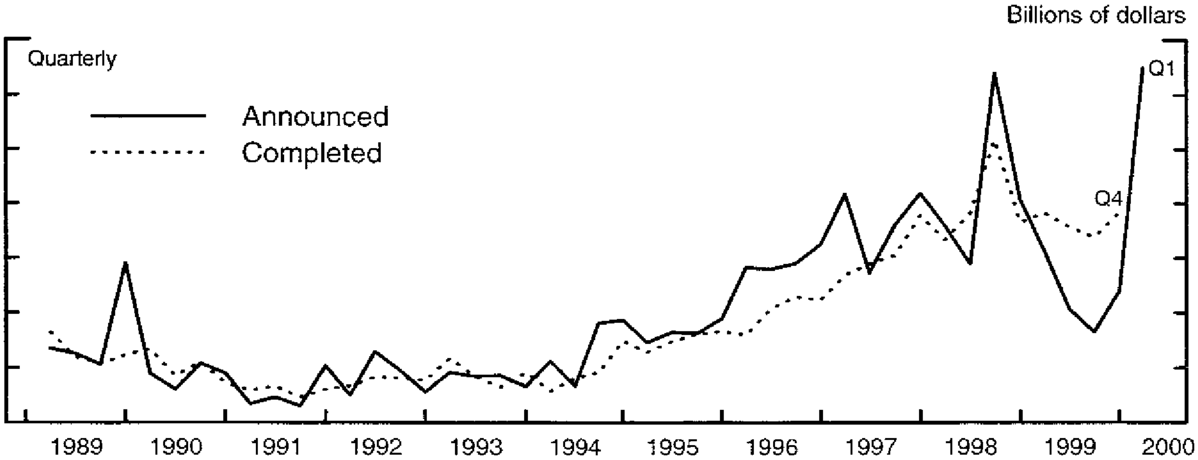
After showing strength in February and March, gross corporate bond issuance dropped substantially in April. As long-term rates rose and their future path became more uncertain, several planned deals were pulled. And faced with the greater uncertainty, dealers and investors have sought to reduce their exposure to all but the most liquid corporate bonds. As evidence of the strong preference for liquidity, the share of total bond proceeds attributable to larger (and so more liquid) issues was very high in the first quarter. Investment-grade borrowers also have responded to market pressures by reducing the share of longer-maturity bonds and increasing the share of floating-rate bonds. Junk-rated borrowers who had been issuing substantial amounts of convertible bonds were shut out of the market by the drop in share prices and the rise in volatility. Still, some firms with pending mergers have announced intentions to issue bonds in the near term.

With the difficulties in the bond market, firms have turned to other sources of credit. Commercial paper bulged in April as many firms borrowed to raise temporary financing to complete acquisitions ahead of planned bond issues. C&I loans from banks were strong in April and may have been elevated as some firms were shut out of the bond market. The May Senior Loan Officer Survey confirmed some strengthening of demand for bank loans by speculative-grade companies because of unfavorable conditions in the junk bond market, though the survey question referred to the past twelve months rather than specifically to April. At the same time that firms were turning to banks, many banks reported that they had continued to tighten both standards and terms on business loans over the past three months, the tightening of standards being more widespread than has been the case for some time.

Merger activity has continued at an impressive pace, although equity retired from mergers has been a bit below the amounts of the past few years. Firms have also continued to repurchase their shares. Data through the fourth quarter indicate that actual repurchases in 1999 were below the elevated 1998 levels.

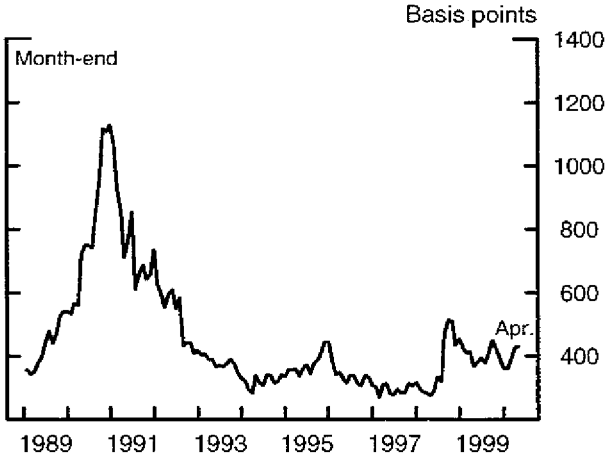
Corporate Credit Quality

Share Repurchases



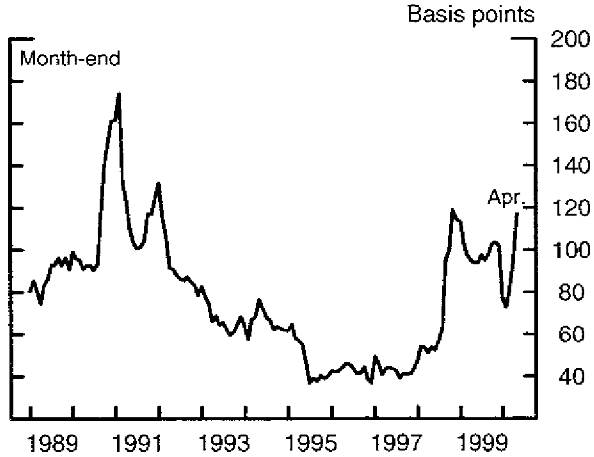
Source. Securities Data Company (announcements) and Compustat (completions).

Junk Less AAA Yield



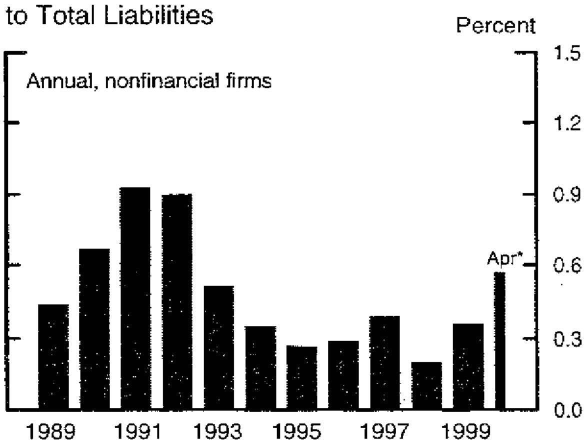
Source. Merrill Lynch.

BBB Less AAA Yield



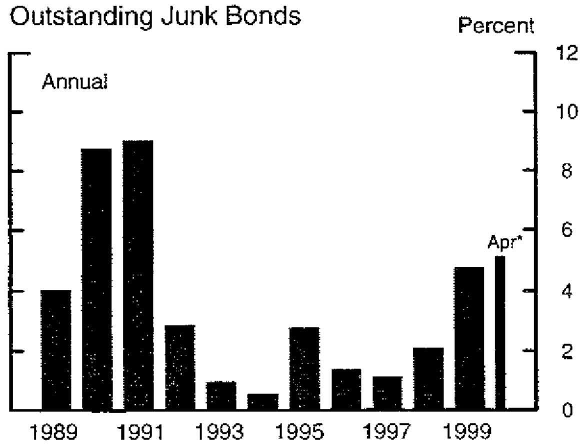
Source. Merrill Lynch.

Liabilities of Failed Businesses to Total Liabilities



* Year-to-date, at an annual rate.
Source. Dun & Bradstreet.

Default Rates Outstanding Junk Bonds



* Year-to-date, at an annual rate.

Announced repurchases for the first quarter of this year came to a record $65 billion. Investors may have begun to wonder whether firms, in an effort to increase shareholder value through buybacks, will wind up leveraging their balance sheets so much that they reduce their credit rating.[1]

Credit quality has deteriorated somewhat since the start of the year, and quality spreads over AAA corporates have widened for both below-investment-grade and BBB-rated firms. So far this year, Moody's has downgraded, on net, $40 billion of public bonds of nonfinancial firms (but it has placed a net of $30 billion on watch for a future upgrade). The ratio of liabilities of failed businesses to total liabilities has surged so far this year, while the default rate on outstanding junk bonds has moved a bit above the elevated level it reached last year. So far in 2000, thirty-eight firms have defaulted on a total of $8 billion of outstanding junk bonds. Defaults were highest in telecommunications but occurred in all sectors. The staff's model for forecasting the default rate on junk bonds, which aggregates firm-level projections based on various financial measures and asset price volatility, predicts some further deterioration.

Commercial Real Estate Finance

Primary commercial mortgage interest rates have risen since late March, as have yields on AAA-rated commercial mortgage-backed securities (CMBS). Because the spread between CMBS and Treasury yields has been erratic over the past year and a half, conduits have turned to the swaps market for a better pricing benchmark. Indeed, these conduits, which originate and pool loans backing CMBS, have begun quoting primary mortgage rates as spreads over swap rates rather than Treasury rates.

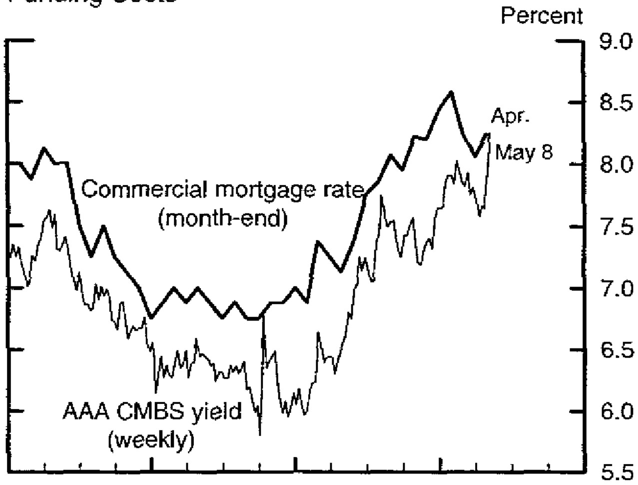
Gross CMBS issuance in the first quarter was the lightest since the third quarter of 1997. Offerings remained weak in April, although the forward calendar suggests that it is likely to pick up this month and next. Despite the fall in CMBS issuance, growth in overall commercial mortgage debt appears to have remained robust, particularly at commercial banks. The May Senior Loan Officer Survey confirmed somewhat stronger demand for commercial real estate loans over the past three months even as banks appear to be tightening credit standards for approving these loans.

The share prices of real estate investment trusts have risen about 9 percent since the March FOMC and are up nearly 17 percent from their trough in mid-December. The recovery in REIT stocks appears to be related to a shift in

1. In one case that illustrated the potential consequences of distributing cash to shareholders, Ford recently announced a $10 billion special dividend and was promptly downgraded by Moody's from A1 to A2.

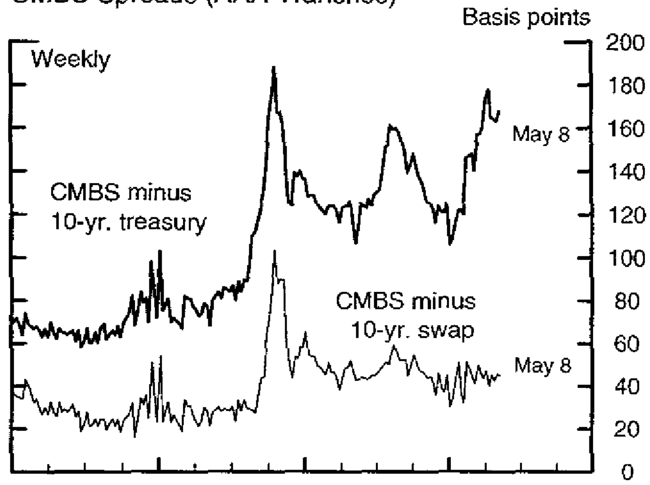
Commercial Real Estate

Funding Costs



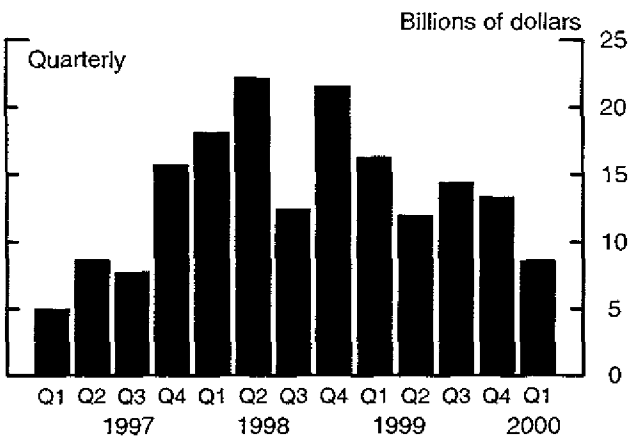
Source. Barron's/Levy National Mortgage Survey; Morgan Stanley

CMBS Spreads (AAA Tranches)



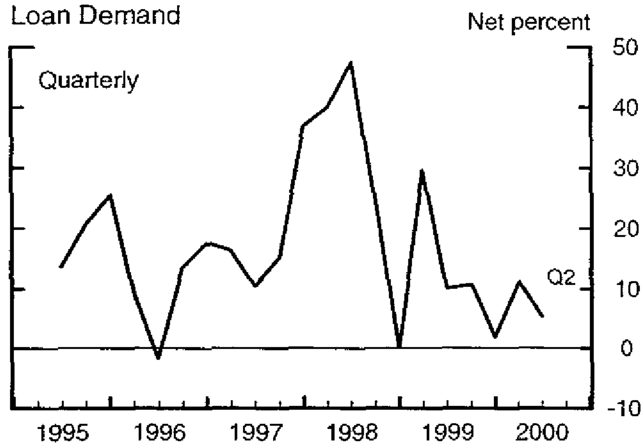
Source. Morgan Stanley.

Total CMBS Gross Issuance



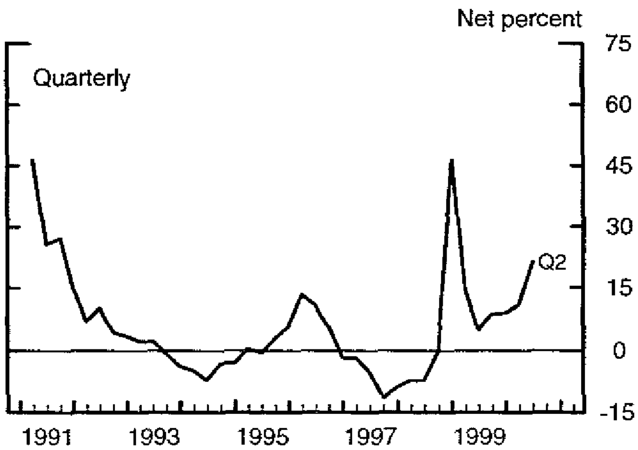
Source. Commercial Mortgage Alert.

Domestic Banks Reporting Stronger Loan Demand



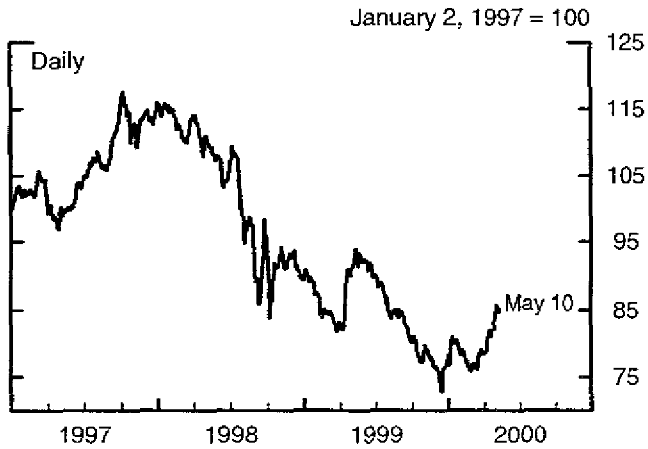
Note. Percent reporting stronger demand less percent reporting weaker demand.
Source. Senior Loan Officer Survey.

Domestic Banks Tightening Credit Standards



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

REIT Price Index



Source. National Association of Real Estate Investment Trusts.

investor sentiment in favor of companies with actual earnings, rather than a fundamental change in the property markets that would affect the future earnings of REITs.

Household Finance

The ratio of household assets to disposable income reached a new high in the first quarter, but has likely fallen off somewhat with the subsequent declines in the stock market. Net inflows to equity funds remained strong through March and April despite weaker equity prices and heightened market volatility. However, there are indications of some weakening of equity fund inflows in early May. The rotation out of total return funds and into capital appreciation funds that had been evident in the previous few months abated in April, perhaps in reaction to the recent rout in technology stocks. Bond and hybrid funds continue to experience outflows.

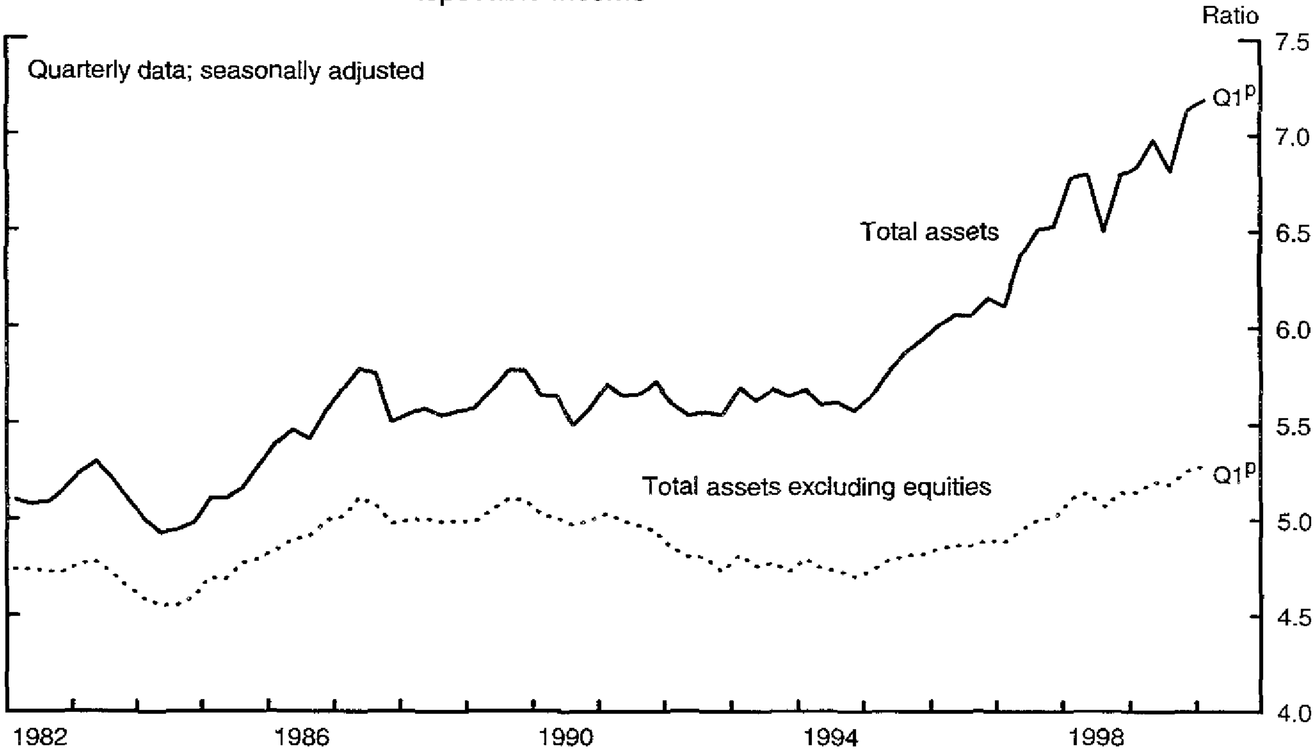
Consumer loan rates have continued to rise. Rates on new car loans have risen 26 basis points since the March FOMC and are now 83 basis points above their trough in June 1999. Rates on home equity lines of credit, thirty-year fixed-rate mortgages, and one-year ARMs have increased around 25 basis points and all are at least 120 basis points above their respective troughs in late 1998 or early 1999. Rates on one-year ARMs now stand at their highest level since September 1991.

Data usually are slower in coming for household debt than for corporate, but at this point there is no indication that higher interest rates have put much of a dent in household debt growth. Consumer credit grew at an 11 percent annual rate in the first quarter, in connection with strong purchases of consumer durables, especially automobiles. Although robust, this quarterly growth rate obscured an underlying monthly deceleration, a pattern consistent with moderately weaker demand for consumer loans reported on the May Senior Loan Officer Survey. Growth in home mortgage debt in the first quarter is estimated to have remained robust, based on the strength of such indicators as the MBA purchase index and home sales. The Senior Loan Officer Survey for May sounded a weaker note for housing finance. A substantial fraction of banks reported weaker demand for residential mortgages, a trend that has appeared in the last four quarterly surveys. By easing terms on these loans, banks may have been responding to slower growth of demand.

The combination of rapid debt growth and higher interest rates has pushed up the debt-service burden recently. Recent measures of household credit quality, however, have been stable or even slightly improved. Mortgage delinquencies on loans guaranteed or held by Fannie Mae and Freddie Mac remained at or near the lowest levels in the eight-year history of the two series. Moody's index of

Household Assets

Household Assets Relative to Disposable Income



p. Staff projection.

Net Flows into Long-Term Mutual Funds

(Excluding reinvested dividends; billions of dollars, monthly rates.)

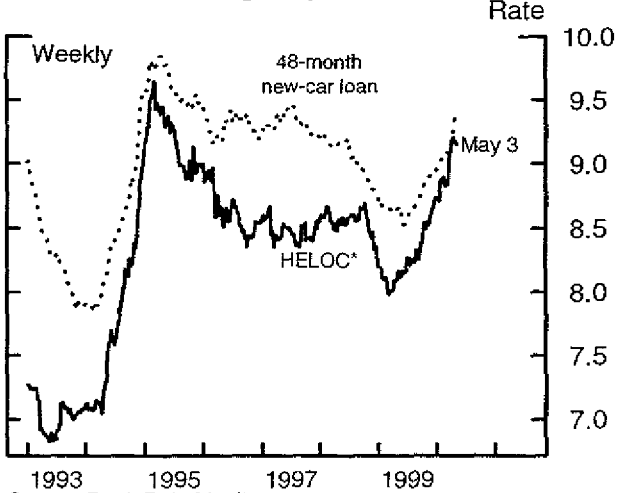
	1997	1998	1999 H1	1999 Q3	1999 Q4	2000 Q1	2000 Apr. e	Assets Mar.
Total long-term funds	**22.7**	**20.2**	**18.3**	**8.6**	**11.8**	**27.8**	**26.9**	**5,597**
Equity funds	**19.0**	**13.2**	**15.2**	**10.7**	**21.7**	**43.2**	**34.5**	**4,432**
Capital appreciation	7.9	7.1	12.1	8.6	21.1	45.2	29.0	2,460
Aggressive growth	2.7	1.0	0.6	1.9	8.5	20.7	10.2	767
Growth	4.3	5.5	10.1	5.6	6.7	12.0	14.3	1,421
Sector	0.8	0.6	1.4	1.1	5.8	12.4	4.5	271
Total return	7.9	5.5	3.6	2.4	-4.1	-14.2	-1.4	1,321
International	3.1	0.6	-0.4	-0.3	4.7	12.2	6.8	651
Hybrid funds	**1.4**	**0.9**	**-0.4**	**-0.7**	**-2.6**	**-5.9**	**-2.2**	**372**
Bond funds	**2.4**	**6.2**	**3.4**	**-1.4**	**-7.3**	**-9.5**	**-5.3**	**793**
International	-0.1	-0.1	-0.1	-0.2	-0.4	-0.2	-0.1	23
High-yield	1.4	1.1	0.3	-0.8	-0.8	-1.7	-1.2	109
Other taxable	1.0	3.9	2.5	1.0	-2.1	-4.6	-1.5	392
Municipals	0.1	1.3	0.7	-1.4	-4.0	-3.0	-2.5	269

e. Staff estimates based on confidential ICI weekly data.

Source. Investment Company Institute (ICI).

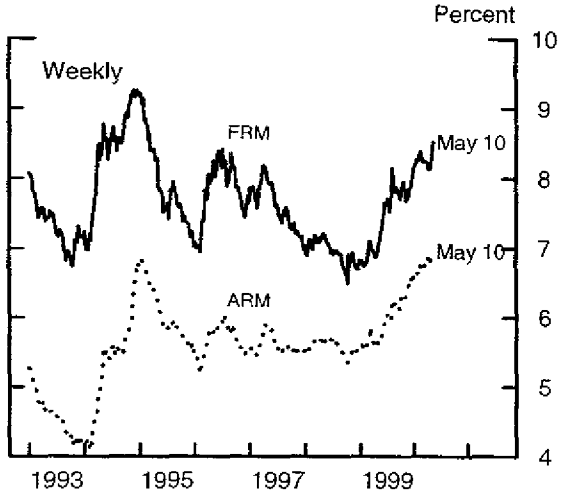
Household Liabilities

Interest Rates Charged by Banks

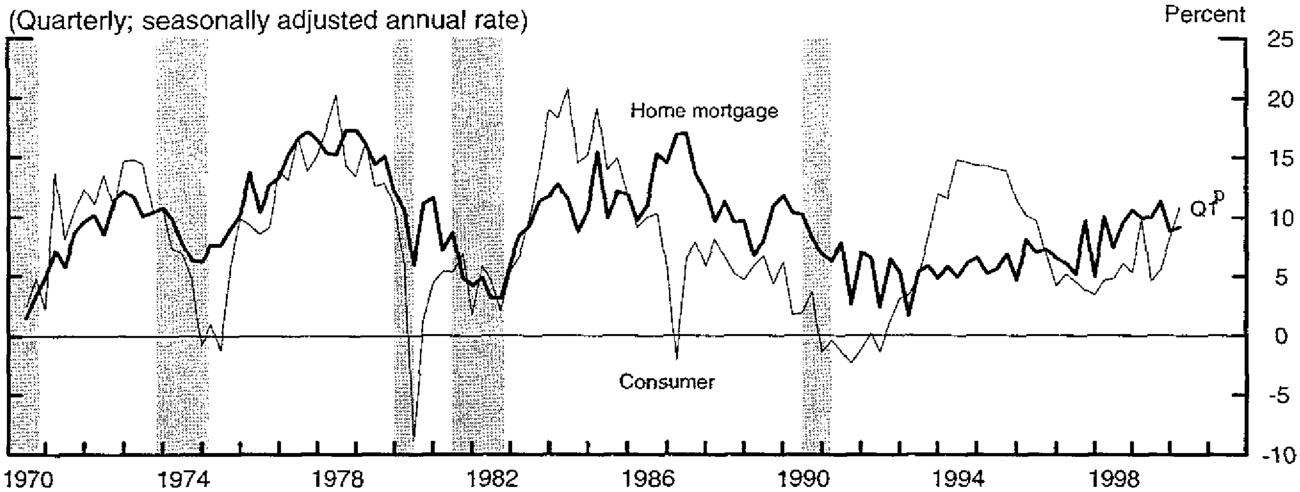


Source. Bank Rate Monitor.
*Home equity lines of credit.

Freddie Mac FRM and ARM Rates

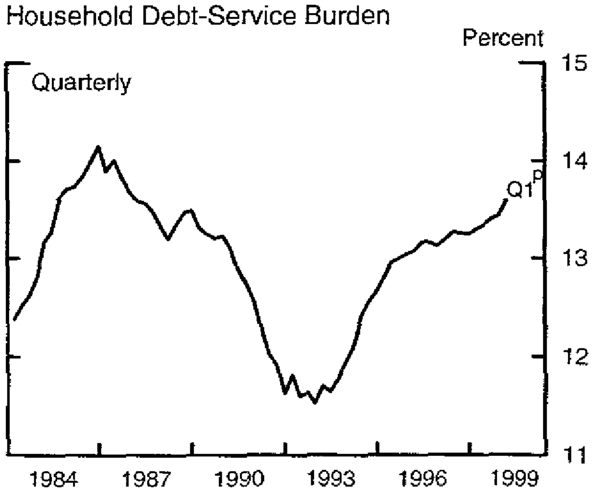


Household Debt Growth
(Quarterly; seasonally adjusted annual rate)



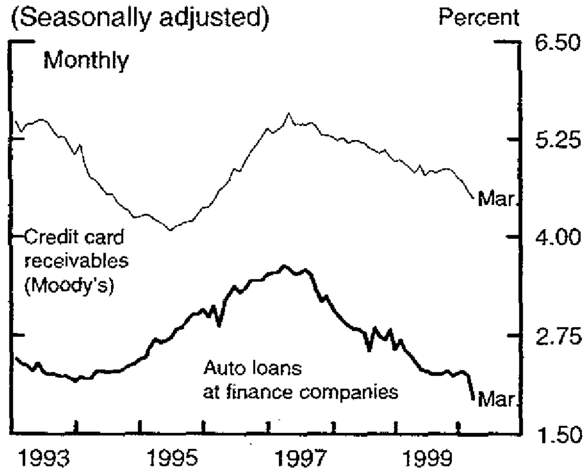
p. Staff projection.

Household Debt-Service Burden



p. Staff projection.

Delinquency Rates
(Seasonally adjusted)



Treasury and Agency Finance

Treasury Financing
(Billions of dollars)

Item	1999		2000			
	Q3	Q4	Q1	Feb.	Mar.	Apr.
Total surplus, deficit (-)	**30.1**	**-20.6**	**-15.0**	**-41.7**	**-35.4**	**n.a.**
Means of financing deficit						
Net borrowing	-20.1	47.6	-27.1	17.1	39.7	-113.2
Nonmarketable	-2.7	1.0	-6.4	-1.6	-2.4	1.5
Marketable	-17.4	46.6	-20.7	18.8	42.1	-114.7
Bills	4.7	83.6	16.0	25.8	57.3	-102.2
Coupons[1]	-22.0	-37.0	-34.7	-7.1	-13.2	-10.5
Debt buybacks	.0	.0	-2.0	.0	-2.0	-2.0
Decrease in cash balance	-3.4	-26.9	38.6	40.8	-22.8	-47.8
Other[2]	-6.7	-.2	3.5	-16.2	18.4	n.a.
MEMO						
Cash balance, end of period	56.5	83.3	44.8	22.0	44.8	92.6

NOTE. Components may not sum to totals because of rounding.
1. Does not include Treasury debt buybacks.
2. 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		2000			
	Q3	Q4	Q1	Feb.	Mar.	Apr.
FHLBs	44.5	47.4	6.3	5.1	7.4	n.a.
Freddie Mac	26.7	19.6	17.3	8.1	-2.7	n.a.
Fannie Mae	25.0	22.7	9.9	2.7	10.4	4.2
Farm Credit Banks	0.2	0.9	-1.7	0.1	-2.0	n.a.
Sallie Mae	4.0	0.1	-3.9	-1.0	-4.6	n.a.
MEMO						
Outstanding noncallable notes and bonds						
Fannie Mae benchmark	93.9	106.4	128.1	124.1	128.1	134.1
Freddie Mac reference	58.5	69.5	85.5	80.5	85.5	88.5

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

credit card delinquencies fell further in February, reaching a four-year low. Delinquency rates on auto loans at captive finance companies reached a twelve-year low in March. Because delinquencies tend to rise as loans age, the surge of new loans may be adding to the decline in delinquency rates by boosting the denominator (total loans) at a faster rate than the numerator (delinquent loans).

Treasury Finance
Treasury cash balances once again have been swollen by surprisingly strong non-withheld individual tax receipts over the second half of April and early May. On a cumulative basis, receipts are now $28 billion higher than last year's robust levels. Because of the improved federal budget position, the Treasury is on track to pay down more than $220 billion in marketable debt this fiscal year. As a result, it has had to reconsider auction sizes and schedules. On May 3, in connection with its refunding announcement, the Treasury announced further cutbacks in the size of two-year note auctions, conducted monthly, and indicated that it might reduce the frequency of those auctions. The Treasury also announced that it was considering reduced issuance or elimination of the one-year bill. The refunding itself took place on May 9 and 10 and consisted of $12 billion of five-year notes and an $8 billion reopening of the ten-year note. Both auctions went well.

The Treasury also announced a regular schedule of two buybacks per month, at least until the next refunding in August. So far, four buyback operations have been conducted, through which the Treasury repurchased a total of $7 billion par value of debt. Since the March FOMC meeting, $2 billion of debt with maturities of twenty to twenty-five years were bought back on April 20, and $3 billion with maturities of fifteen to twenty-five years were repurchased on April 27.[2] Both operations were roughly in line with expectations, had comfortable bid-to-cover ratios, and elicited little market reaction.

Liquidity in the Treasury securities market deteriorated a bit during the intermeeting period, reflecting a more cautious attitude among dealers amid market volatility. Bid-asked spreads widened, and daily trading volume for most on-the-run issues edged down.

Agency Finance
Since the last FOMC meeting, yield spreads on the debt of government-sponsored enterprises over Treasuries rose about 25 basis points as uncertainty about the degree of federal backing of the GSEs increased. Spreads were boosted in large part by testimony from the Treasury endorsing a Congressional

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2. The $3 billion buyback operation settled on May 1 and thus does not show up in the April column in the table.

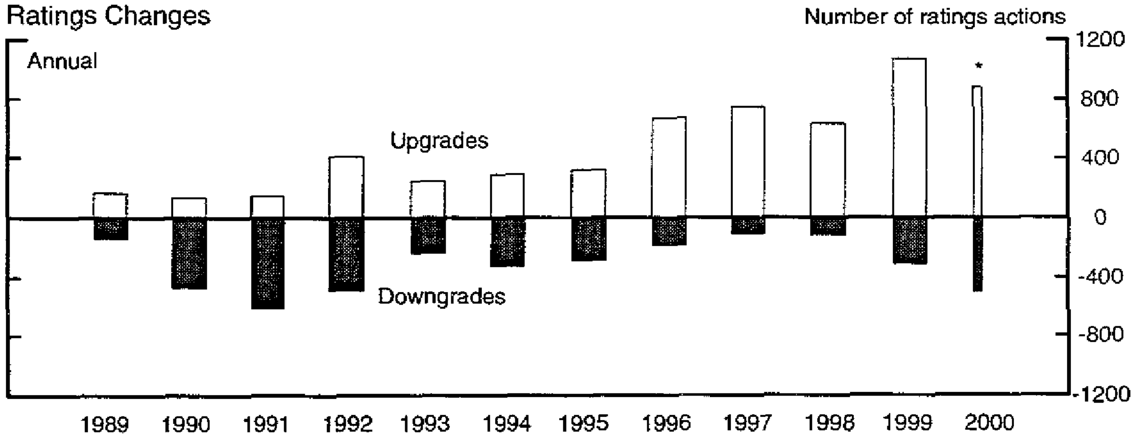
State and Local Finance

Gross Offerings of Municipal Securities
(Billions of dollars; monthly rates, not seasonally adjusted)

	1998	1999	1999 Q4	2000 Q1	2000 Feb.	2000 Mar.	2000 Apr.
Long-term	21.9	18.0	16.6	12.2	10.9	16.8	14.2
Refundings[1]	8.5	4.5	3.1	1.9	1.5	3.3	2.2
New capital	13.4	13.5	13.5	10.3	9.4	13.5	12.0
Short-term	2.4	2.7	2.2	1.6	1.3	1.8	1.0
Total tax-exempt	24.3	20.6	18.8	13.8	12.2	18.5	15.2
Total taxable	1.1	1.1	1.1	0.6	0.6	0.7	0.6

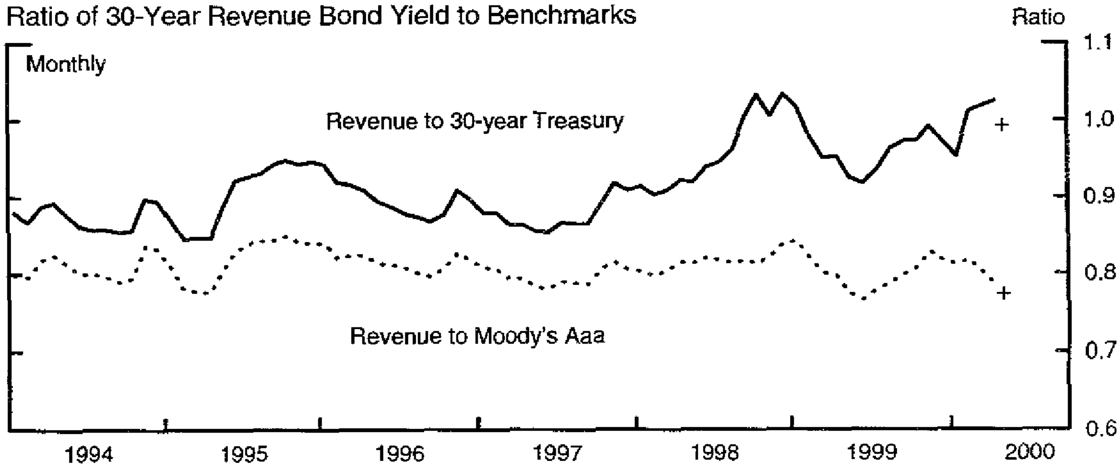
Note. Includes issues for public and private purposes.
1. All issues that include any refunding bonds.

Ratings Changes



* Data through Apr. 27, 2000, at an annual rate.

Ratio of 30-Year Revenue Bond Yield to Benchmarks



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

proposal to sever the agencies' lines of credit with the government and by Treasury's suggestion that commercial bank holdings of agency debt should be subject to the same limits (10 percent of capital) that apply to corporate bonds.

Despite the wider spreads, Fannie Mae and Freddie Mac continued to issue new benchmark debt at a very strong pace, in accordance with their announced calendars. The $14 billion offered since the last FOMC meeting brought the total outstanding of Fannie Mae's Benchmark Notes and Freddie Mac's Reference Notes to $220 billion, a remarkable amount considering that these programs were begun in early 1998. Only about $11 billion of this total represents existing agency debt that was exchanged for the new securities. The agency market has now become liquid enough to support an active futures market, as evidenced by the good reception of the futures contracts based on five- and ten-year agency notes recently introduced on the Chicago Board of Trade and the Chicago Mercantile Exchange.

State and Local Government Finance

Gross issuance of long-term municipal bonds picked up in March and April but remained below the levels of the last two years. Issues to raise new capital were only a bit below the pace in recent years, but refunding volume remained depressed owing to the rise in interest rates. Nonetheless, some refunding deals were made possible by credit upgrades, which reduced rates for the issuers.

With upgrades outnumbering downgrades by a substantial margin so far this year, credit quality (except in the not-for-profit health care sector) continued to improve. Improved credit quality has probably contributed to an edging down in municipal yields since the start of this year, but, with long-term Treasury yields falling even more on supply concerns, the ratio of municipal bond yields to Treasuries has risen. In contrast, the ratio of municipal yields to an index of AAA corporate bonds has fallen.

Money and Bank Credit

With the post-Y2K runoff of liquid balances that had held down money growth in February completed, M2 and M3 rebounded over March and April. M2 growth in April was also boosted by larger-than-usual buildups of liquid balances to pay taxes. Yet, even aside from likely tax-related effects, M2 has been strong in the face of rising opportunity costs. Robust income growth has surely supported this expansion, and higher stock market volatility may also have contributed.

M3 growth snapped back to a 12-1/4 percent annual rate in March but moderated to a 6-1/4 percent pace in April. Institutional money funds expanded briskly in March and then slumped in April, reflecting the lagged adjustment of their yields

Monetary Aggregates
(Based on seasonally adjusted data)

Aggregate or component	1999	1999 Q4	2000 Q1	2000 Feb.	2000 Mar	2000 Apr (p)	1999:Q4 to Apr 00 (p)	Level (bil. $) Mar. 00
Aggregate	Percent change (annual rate)[1]							
1 M2[2]	6.1	5.0	5.7	2.4	8.9	10.0	6.9	4719.8
2. M3	7.4	9.8	10.2	3.0	12.3	6.3	9.3	6596.4
Selected components								
3. Currency	10.9	12.3	10.6	-14.0	-2.8	2.1	5.5	517.0
4. Liquid deposits[3]	5.9	1.5	-0.3	3.5	8.5	8.3	2.8	2347.6
5. Small time deposits	-0.7	6.2	7 7	6.9	7 1	10.7	8.2	972.5
6. Retail money market funds	12.3	9.4	17.8	4 1	19.4	18.9	17.6	874.5
7 M3 minus M2[4]	11 1	23.1	21.9	4.6	20.9	-2.9	15.8	1876.6
8. Large time deposits, net[5]	8.3	32.6	20.9	6.3	5.4	15.9	17.1	716.1
9. Institution-only money market mutual funds	17 1	21.4	23.5	-11.5	45.1	-1.3	19.3	640.7
10. RPs	9.8	12.8	16.1	47.4	-15.1	-19.9	6.6	337 7
11. Eurodollars	5.6	12.1	31.8	-25.3	70.4	-52.0	15.5	182.2
Memo								
12. M1	1.8	4.8	0.5	-16.5	6.3	4.2	0.9	1111.5
13. Sweep-adjusted M1[6]	5.1	5.7	2.5	-8.8	7.5	7.3	3.4	1489.2
14. Demand deposits	-6.2	-1.2	-14.2	-25.0	16.7	-5.9	-9.2	343.0
15. Other checkable deposits	-2.7	-0.2	1.3	-10.4	11.4	22.7	6.2	243.4
16. Savings deposits	10.2	2.3	2.3	11.1	6.6	8.9	4.8	1761.3
17 Monetary base	12.4	20.0	3.7	-37.9	-5.2	6.8	0.3	570.2
	Average monthly change (billions of dollars)[7]							
Selected managed liabilities at commercial banks								
18. Large time deposits, gross	7.5	25.0	16.9	2.2	1.3	7.6	..	879.6
19. Net due to related foreign institutions	0.5	1.3	3.4	4.1	-0.8	-17.3	..	232.9
20. U.S. government deposits at commercial banks	0.2	2.7	1.7	-7 7	-17.9	21.0	..	20.4

1. For the years shown, Q4 to Q4 precent change. For the quarters shown, based on quarterly averages.
2. Sum of M1, retail money market funds, saving deposits, and small time deposits.
3. Sum of demand deposits, other checkable deposits, and saving 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. 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.
7 For the years shown, "average monthly change" is the Q4 to Q4 dollar change divided by 12. For the quarters shown, it is the quarter to quarter dollar change, divided by 3.
p--Preliminary

to changes in market rates. The RP and eurodollar components of M3 contracted in April, but strong growth in large time deposits plus the retail deposit inflows that boosted M2 provided ample funding for the expansion of bank credit. Net of a boost from mergers of thrift institutions into commercial banks, growth in bank credit averaged about 8-3/4 percent at an annual rate over the last two months. Smoothing through the monthly fluctuations, bank credit has been accelerating since the second quarter of 1999.

Banks' holdings of securities expanded moderately in March and April, and loan growth was brisk. Business loans grew at the same robust rate recorded in the first quarter of this year and probably were buoyed by the slowdown in the high-yield bond market in recent months. Thrift mergers added about 5 percentage points to real estate loan growth in April, mainly in residential components, while the commercial component continued the rapid advance it has shown for the past several quarters.

First-quarter results at twenty-five large bank holding companies showed increased profits (year-over-year), mainly from investment management and securities underwriting. In addition, asset quality remained good and noninterest expense appeared to be under control, suggesting that the recent reported tightening of credit supply was not being driven by pressures on earnings.

Commercial Bank Credit

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

Type of credit	1999	Q4 1999	Q1 2000	Feb. 2000	Mar. 2000	Apr 2000	Level, Apr. 2000 ($ billions)
Total							
1. Adjusted[1]	**5.4**	**9.2**	**11.3**	**8.4**	**8.9**	**12.1**	**4,830**
2. Reported	4.0	9.0	10.8	8.7	9.3	10.7	4,902
Securities							
3. Adjusted[1]	8.0	4.3	7.2	.4	5.6	10.3	1,209
4. Reported	2.8	3.7	5.6	2.3	7.5	5.0	1,281
5. U.S. government	2.4	-5.8	3.5	3.7	-2.8	-4.3	809
6. Other[2]	3.5	22.1	9.4	-.3	25.7	21.2	472
Loans[3]							
7. Total	4.5	11.0	12.7	11.0	10.0	12.8	3,621
8. Business	4.9	9.0	10.9	10.8	10.3	9.8	1,039
9. Real estate	9.1	15.6	17.6	14.2	13.4	16.1	1,541
10. Home equity	-2.8	5.2	22.6	25.3	29.2	40.6	113
11. Other	10.2	16.4	17.2	13.4	12.2	14.2	1,428
12. Consumer	-2.2	2.8	12.9	11.6	7.4	9.3	509
13. Adjusted[4]	4.5	8.1	7.6	2.1	7.2	7.9	807
14. Other[5]	-1.6	9.8	2.1	2.3	1.8	12.3	532

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. These data have been benchmarked to the December 1999 Call Report.

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.

BA:LRC

Appendix

Senior Loan Officer Opinion Survey on Bank Lending Practices

The May 2000 Senior Loan Officer Opinion Survey on Bank Lending Practices (BLPS) focused primarily on changes in the supply of, and demand for, bank loans to businesses and households over the past three months. Supplementary questions addressed the effect of conditions in the high-yield bond market on demand for C&I loans, changes in terms on residential real estate lending over the past two years, the distribution of loan-to-value ratios on home mortgage originations during the past three months, and loans to purchase and carry securities. Loan officers from fifty-seven large domestic banks and twenty-one U.S. branches and agencies of foreign banks participated in the survey. The responses indicate that banks became significantly more cautious lenders over the past three months.

The survey results point to an intensification of the recent tendency toward firmer business lending practices. The percentage of domestic banks tightening standards on C&I loans was the largest since the November 1998 survey, and the percentage of U.S. branches and agencies of foreign banks that tightened standards also rose. Both domestic and foreign banks tightened terms on C&I loans as well, particularly risk premiums, most commonly citing a less certain or more unfavorable economic outlook as the reason. In addition, a notable fraction of banks raised standards for commercial real estate loans.

Domestic banks noted that demand for C&I loans from large and middle-market firms had decreased, on net, over the past three months, while a small net fraction reported that demand from small firms had increased. Meanwhile, more than half of the foreign branches and agencies reported weaker demand. Nonetheless, both domestic and foreign banks reported that demand for C&I loans had been boosted by unfavorable conditions in the high-yield bond market, and most were fairly receptive to these customers.

In general, standards for residential mortgage loans were unchanged relative to three months ago. However, a significant fraction of banks reported having easier terms on residential mortgages relative to two years ago, including narrower spreads of loan rates over the cost of funds and increases in the maximum size of loans. As in the past four surveys, a large fraction of banks reported that demand for home mortgages had weakened. A notable fraction of banks also reported a modest decrease in demand for consumer loans. Most respondents reported no change in their willingness to make consumer installment loans.

Banks reported that the pickup in loans to purchase and carry securities since last fall was the result of strong demand from nonbank brokers and dealers as well as from private banking and retail clients. Most security loans are made to brokers and dealers. Most banks indicated that a very large percentage of their security loans are collateralized. At domestic banks, the most common form of collateral is equity instruments, whereas at foreign branches and agencies, U.S. government and agency securities were as commonly used for collateral as equities.

Lending to Businesses

Almost 25 percent of domestic respondents reported having tightened standards on C&I loans to large and middle-market firms over the past three months, double the 12 percent last quarter. For large and middle-market firms, the percentage of banks tightening was the largest since the November 1998 survey, and for small firms the percentage tightening rose above that level, to 21 percent. The share of U.S. branches and agencies of foreign banks reporting tighter lending standards also rose, to about 40 percent. Similarly, more than 20 percent of domestic and foreign banks reported somewhat tighter standards on commercial real estate loans. No banks indicated that they had eased standards on either C&I or commercial real estate loans.

Large fractions of banks also reported a further tightening of lending terms. For large and middle-market firms, 49 percent of domestic respondents and 43 percent of foreign branches and agencies, on net, reported higher premiums on riskier loans. In addition, more than a third of domestic banks, on net, charged higher fees and increased spreads of loan rates over their cost of funds. Significant fractions of foreign banks increased fees and reduced the maximum size of credit lines. For small firms, 36 percent of domestic banks reported charging higher spreads on riskier loans, and smaller percentages also reported tightening all terms mentioned in the survey. Among both foreign and domestic banks that had tightened standards or terms on C&I loans, a less favorable or more uncertain economic outlook and a reduced tolerance for risk were most often reported as reasons for the tightening. A worsening of industry-specific problems was also mentioned by a substantial fraction of banks.

Almost 20 percent of domestic banks reported stronger demand for C&I loans from large and middle-market firms, whereas more than 25 percent saw weaker loan demand. A small net fraction of banks reported stronger demand from small firms. Domestic banks reporting stronger demand cited a wide variety of reasons as about equally important; banks reporting weaker demand most commonly cited reduced business fixed investment as the reason. More than half the foreign branches and agencies reported weaker demand for C&I loans, reflecting reduced need for merger and acquisition financing and increases in internally generated funds at their customers. On net, a small fraction of domestic banks reported moderately stronger demand for commercial real estate loans; in contrast, 25 percent of foreign respondents reported weaker demand.

Two special questions addressed the extent to which C&I lending has been affected by developments in the market for below-investment-grade bonds over the past year. A large fraction of domestic respondents, and more than 40 percent of large banks, reported that demand has been somewhat strengthened by below-investment-grade borrowers that have turned to banks because of unfavorable conditions in the high-yield bond market. Out of sixteen banks that reported additional demand, ten reported having been fairly receptive, five reported having been fairly unreceptive, and one reported having been very unreceptive to these customers. Almost half the branches and agencies reported stronger demand, with most being fairly receptive.

Lending to Households

The deterioration in the demand for home mortgage loans continued in May. On net, 43 percent of respondents reported weaker demand than three months ago. Banks have now been reporting weaker demand for home mortgage loans, on net, for the past four quarters. Over the past three months, three banks eased their credit standards for approving residential mortgage loans and all others kept their standards unchanged.

A special question revealed that terms on residential mortgage loans are generally less stringent, on net, than they were two years ago. On net, almost half the banks surveyed have increased the maximum size of residential mortgages that they are willing to approve, and about 30 percent have narrowed the spread of loan rates over their banks' cost of funds. About 20 percent of domestic respondents, on net, also indicated that they have lowered origination fees relative to two years ago.

On balance, banks indicated that they are more willing to make high loan-to-value loans than they were two years ago. More than 30 percent of the respondents noted that they have eased their down-payment requirements, while just three banks reported that they had tightened requirements. Nonetheless, more than half of residential mortgage loans originated at banks in the past three months had a loan-to-value ratio greater than 80 percent, and almost 80 percent of loans were made with more than 10 percent down.

A small number of domestic banks reported less willingness to make consumer installment loans compared with three months ago. Standards and terms for both credit card and other consumer loans also remained unchanged at most banks. However, a few banks reported a moderate tightening of standards, and about 10 percent of banks, on net, reported charging higher spreads over banks' cost of funds on consumer loans other than credit card loans. On net, 22 percent of domestic banks reported moderately weaker demand for all types of consumer loans.

Loans to Purchase and Carry Securities

Loans to purchase and carry securities expanded rapidly late last year and in the early months of 2000; a series of special questions addressed banks' activities in the market for such loans.[1] Domestic respondents indicated that the expansion of security loans resulted from a significant increase in demand from nonbank brokers and dealers; many also noted increased demand from private banking and other retail customers.[2] One bank noted that the broker-dealers were in turn using the loans to finance their customers, and another reported that demand was being spurred by high equity values.

Domestic banks reported that 62 percent of their loans to purchase and carry securities were made to nonbank brokers and dealers and 28 percent went to private banking and other retail customers. At branches and agencies of foreign banks, almost all security

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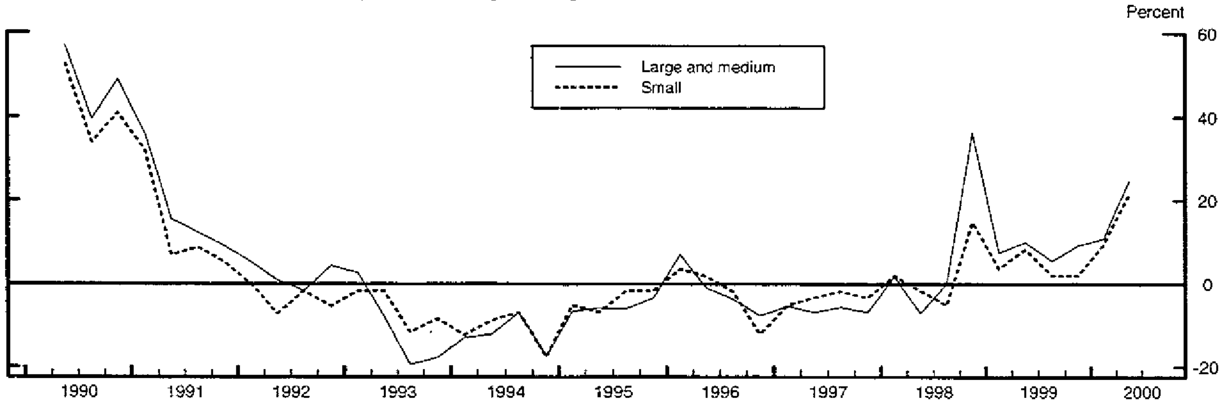
1. Loans to purchase and carry securities are defined to include all loans made to nonbank brokers and dealers and all loans, whether secured (except by real estate) or unsecured, to any other borrower for the purpose of purchasing or carrying securities.
2. Responses are weighted by the weekly average of security loans outstanding in April.

loans were made to nonbank brokers and dealers. Only a minority of security loans at domestic and foreign banks are made under commitment.

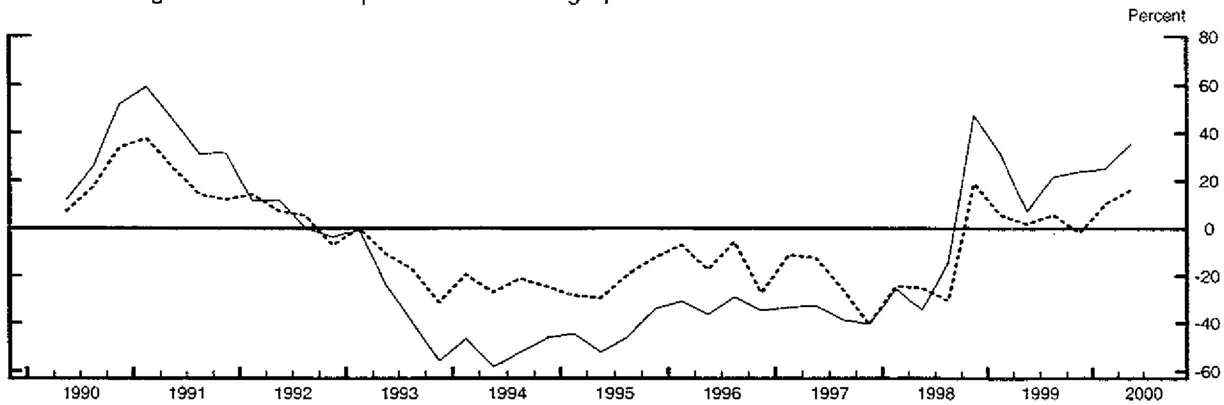
Banks accounting for 76 percent of all security loans among respondent banks reported that more than three-quarters of their loans to purchase and carry securities are collateralized. Equity instruments are the most common forms of collateral, especially for retail customers; U.S. government and agency securities are a distant second. At branches and agencies, compared with domestic banks collateral was somewhat less common and was more likely to be U.S. government securities or other debt instruments.

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

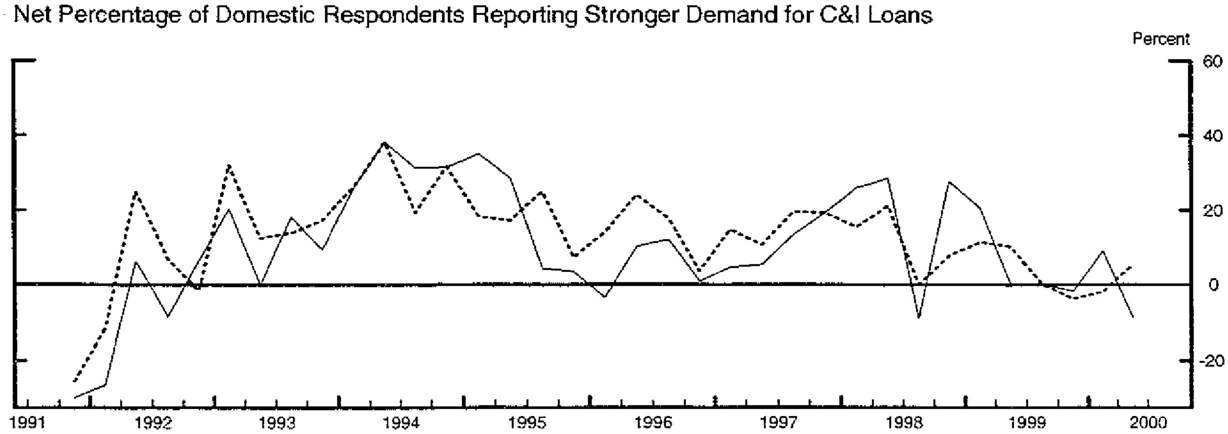
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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

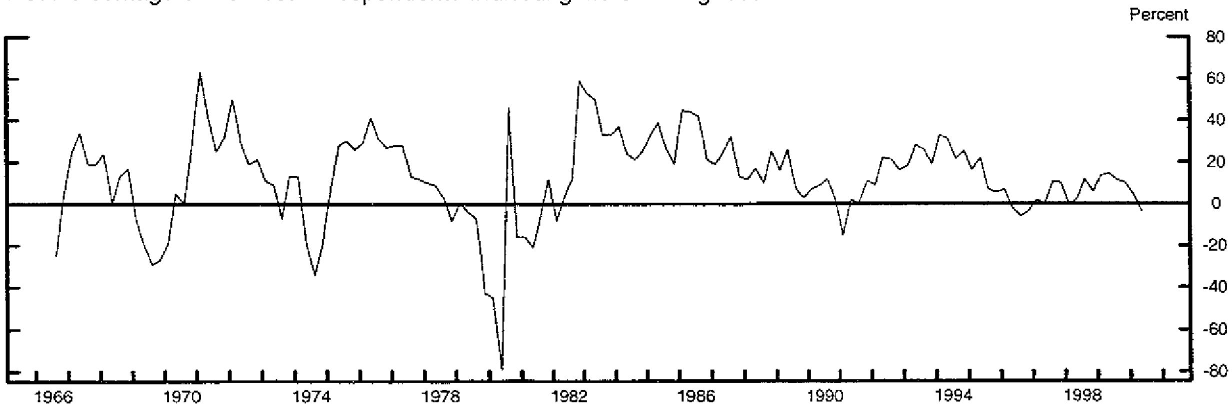


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

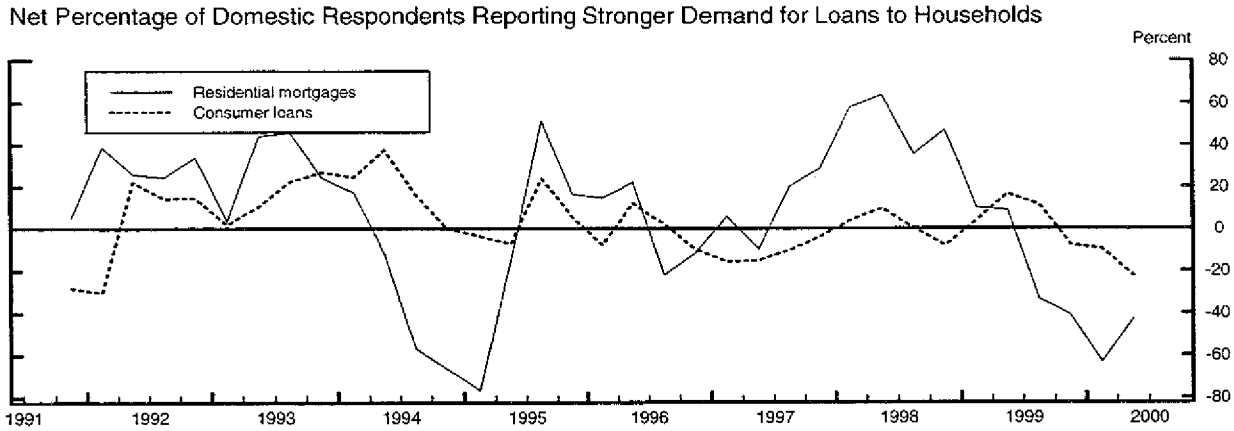


Measures of Supply and Demand for Loans to Households

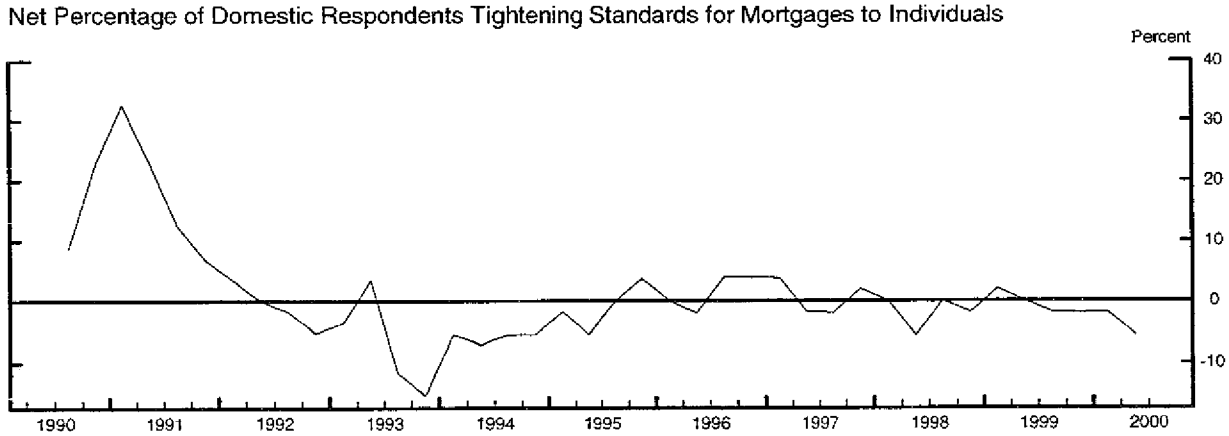
Net Percentage of Domestic Respondents Indicating More Willingness to Make Consumer Installment Loans



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 February, the nominal U.S. trade deficit in goods and services was $29.2 billion, $1.8 billion larger than in January (revised). For January-February combined, the deficit, at an annual rate of $340 billion, was $38 billion larger than in the fourth quarter of 1999.

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

	1999	Annual rate 1999 Q3	Annual rate 1999 Q4	Annual rate 2000 Q1[e]	Monthly rate 1999 Dec.	Monthly rate 2000 Jan.	Monthly rate 2000 Feb.
Real NIPA[1]							
Net exports of G&S	-323.0	-340.4	-344.1	-377.1	...	...	...
Nominal BOP							
Net exports of G&S	-267.6	-290.4	-302.1	-340.1	-24.6	-27.4	-29.2
Goods, net	-347.2	-367.8	-385.0	-420.6	-31.5	-34.2	-36.0
Services, net	79.6	77.4	82.9	80.5	6.9	6.7	6.7

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 in February was little changed from January as declines in aircraft, telecommunications equipment, semiconductors, and fuel were offset by increases in other exported items, including consumer goods and service receipts. For January-February combined at an annual rate, exports were ½ percent higher than in the fourth quarter of last year. Most major trade categories posted moderate increases, except for aircraft, fuels, and chemicals, which declined. By destination, the largest increases in exports were to Canada, Western Europe, and Mexico.

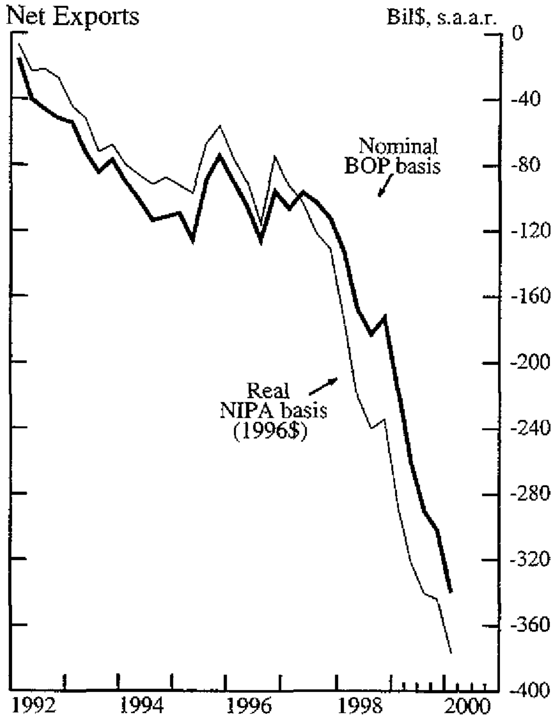
The value of imports rose sharply in February, as in January, with most of the increase in oil (both price and quantity). A drop in imports of automotive products from Canada (from notably elevated levels in the previous two months) and consumer goods was largely offset by increases in imported industrial supplies, machinery, and service payments. For January-February combined at an annual rate, imports were 3½ percent higher than in the fourth quarter of last year, with increases in all major trade categories, other than foods.

Prices of Internationally Traded Goods

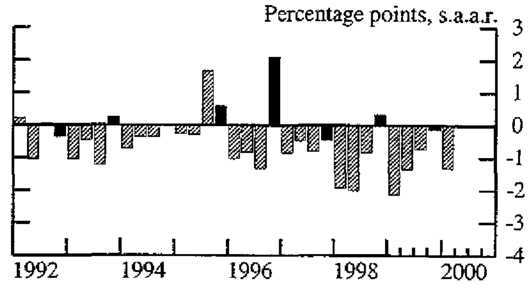
Oil. The price of imported oil rose sharply in the first quarter of 2000, marking the fourth consecutive quarter of sizable increases. The average spot price of West Texas Intermediate was nearly $30 per barrel in March, but fell to $25.75

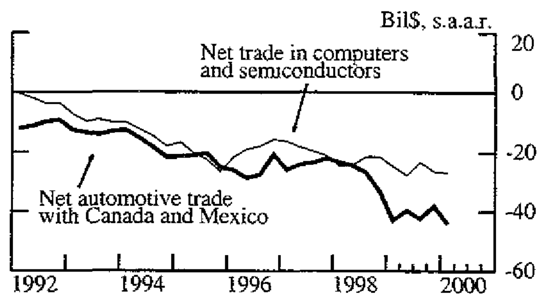
U.S. International Trade in Goods and Services

Net Exports

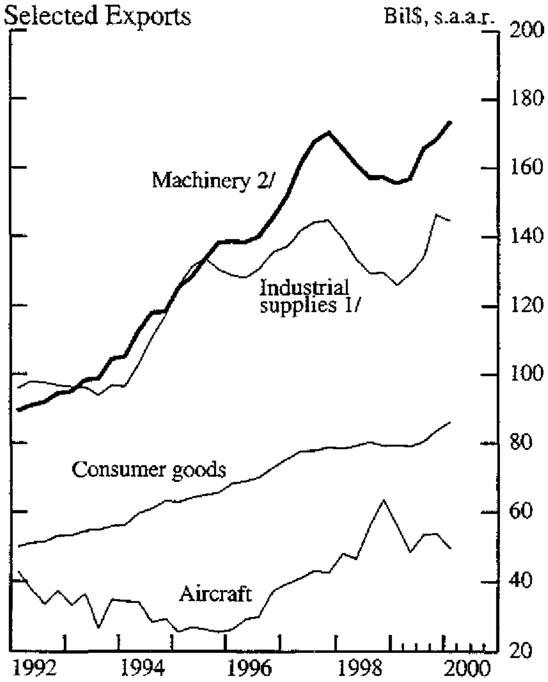


Contribution of Net Exports to Real GDP Growth



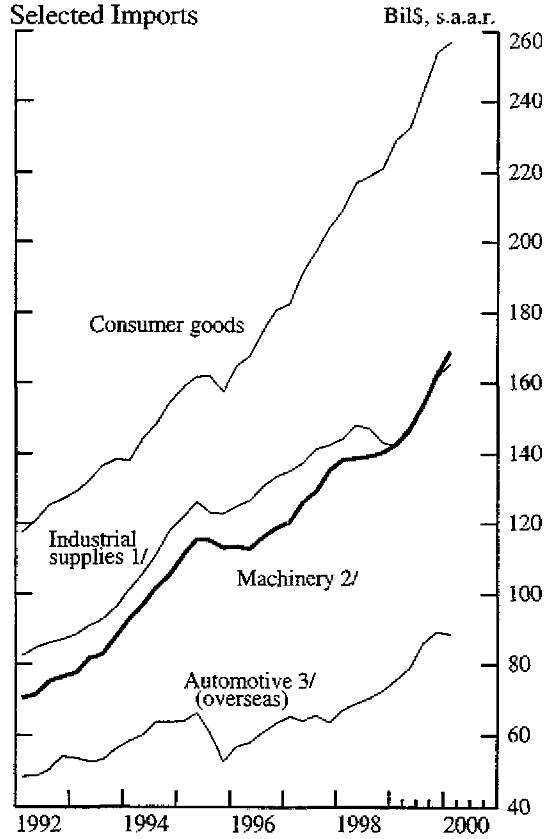


Selected Exports



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

Selected Imports



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

U.S. Exports and Imports of Goods and Services

(Billions of dollars, s.a.a.r., BOP basis)

	Levels				Amount Change[1]			
	1999	2000	2000		1999	2000	2000	
	Q4	Q1[e]	Jan.	Feb.	Q4	Q1[e]	Jan.	Feb.
Exports of G&S	**1005.2**	**1011.2**	**1012.1**	**1010.2**	**32.2**	**6.0**	**-14.6**	**-1.9**
Goods exports	719.8	725.5	728.6	722.5	25.1	5.7	-14.7	-6.1
Agricultural	50.5	52.2	52.4	51.9	-1.0	1.6	1.9	-0.4
Gold	8.8	9.9	8.7	11.1	2.7	1.1	-0.7	2.3
Other goods	660.5	663.5	667.5	659.5	23.4	3.0	-16.0	-8.0
Aircraft & pts	53.9	49.6	54.4	44.8	0.4	-4.3	-3.7	-9.6
Computers	47.6	49.3	46.6	52.1	-0.6	1.8	-1.9	5.5
Semiconductors	51.1	50.8	51.6	49.9	1.9	-0.3	-3.4	-1.7
Other cap gds	171.2	176.2	178.6	173.8	3.3	5.0	-0.5	-4.8
Automotive	76.7	79.6	80.1	79.1	0.8	3.0	0.6	-1.0
to Canada	46.0	47.2	48.2	46.3	0.0	1.2	0.4	-1.9
to Mexico	13.9	14.7	14.1	15.4	2.4	0.9	-0.3	1.2
to ROW	16.8	17.7	17.8	17.5	-1.6	0.9	0.5	-0.3
Ind supplies	146.5	144.6	144.2	145.1	12.5	-1.9	-3.6	0.8
Consumer goods	83.6	86.2	84.7	87.8	3.1	2.6	-2.4	3.0
All other	30.0	27.1	27.2	27.0	2.0	-2.9	-4.0	-0.2
Services exports	285.3	285.6	283.5	287.8	7.0	0.3	0.1	4.2
Imports of G&S	**1307.3**	**1351.3**	**1341.5**	**1361.1**	**43.9**	**44.0**	**19.4**	**19.7**
Goods imports	1104.8	1146.2	1138.4	1153.9	42.3	41.4	17.2	15.5
Petroleum	85.8	105.7	96.0	115.5	7.3	19.9	12.6	19.5
Gold	9.3	9.4	8.1	10.7	1.9	0.1	-1.2	2.6
Other goods	1009.7	1031.1	1034.3	1027.8	33.1	21.4	5.8	-6.5
Aircraft & pts	23.7	22.0	22.2	21.8	-1.2	-1.7	-1.0	-0.4
Computers	83.6	84.0	83.4	84.7	1.0	0.5	1.6	1.2
Semiconductors	41.7	42.9	43.3	42.6	3.5	1.3	-1.4	-0.7
Other cap gds	165.4	172.0	169.8	174.2	8.7	6.6	2.1	4.4
Automotive	187.1	194.3	200.8	187.7	1.3	7.2	6.2	-13.1
from Canada	64.0	68.7	76.7	60.8	-1.7	4.7	9.0	-15.9
from Mexico	33.9	37.2	35.5	38.9	-0.2	3.3	2.6	3.4
from ROW	89.2	88.4	88.7	88.1	3.2	-0.8	-5.5	-0.6
Ind supplies	161.7	165.5	163.3	167.7	7.8	3.8	-3.8	4.4
Consumer goods	254.0	256.8	258.0	255.5	11.3	2.8	1.3	-2.5
Foods	44.8	43.5	43.5	43.6	0.6	-1.2	-2.5	0.1
All other	47.9	49.9	49.9	49.9	0.2	2.1	3.4	-0.0
Services imports	202.5	205.1	203.1	207.2	1.6	2.7	2.2	4.2
Memo:								
Oil quantity (mb/d)	10.63	11.48	10.91	12.06	-0.85	0.85	1.12	1.15
Oil import price ($/bbl)	22.02	25.16	24.09	26.22	3.45	3.02	0.76	2.13

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

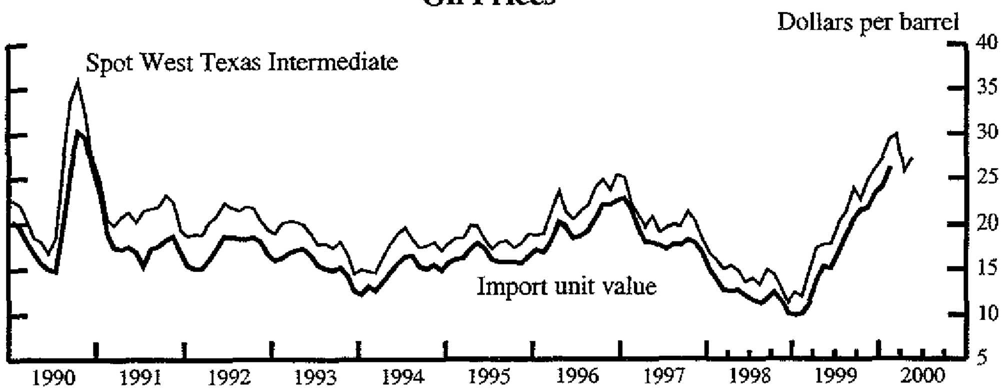
Prices of U.S. Imports and Exports

(Percentage change from previous period)

	Annual rates			Monthly rates		
	1999		2000	2000		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
	------------ BLS prices (1995 weights)------------					
Merchandise imports	9.0	8.2	10.5	0.4	2.0	0.3
Oil	178.2	83.5	107.3	3.7	14.4	0.2
Non-oil	-0.1	1.9	1.7	0.0	0.3	0.2
Core goods*	1.0	2.5	1.9	-0.1	0.5	0.3
Foods, feeds, beverages	-6.8	2.6	1.7	-1.3	-0.1	0.0
Industrial supplies ex oil	7.9	9.9	10.7	0.3	1.6	2.2
Computers	-13.7	-1.0	-1.4	-0.2	-0.4	-0.7
Semiconductors	-7.4	-1.6	-4.8	0.0	-0.6	-0.5
Cap. goods ex comp & semi	-2.1	0.3	-1.7	-0.1	0.1	-0.3
Automotive products	0.8	0.5	0.7	0.1	0.1	0.0
Consumer goods	-0.4	0.1	-0.7	0.0	0.0	-0.4
Merchandise exports	0.7	2.4	2.8	0.2	0.5	0.4
Agricultural	-4.2	-1.7	0.0	0.1	1.0	0.1
Nonagricultural	1.1	3.0	3.2	0.2	0.5	0.4
Core goods*	1.6	4.1	4.2	0.3	0.6	0.5
Industrial supples ex ag	10.1	10.6	12.1	0.5	1.5	1.8
Computers	-8.6	-2.0	-2.7	0.0	-0.6	0.0
Semiconductors	-9.6	-3.6	-5.0	-0.4	-0.1	-0.5
Cap. goods ex comp & semi	-0.5	0.5	0.9	0.2	0.1	0.1
Automotive products	0.8	2.6	0.5	0.1	0.0	0.4
Consumer goods	0.3	1.3	0.9	0.1	0.0	0.0
Chain price index	---Prices in the NIPA accounts (1996 weights)---					
Imports of goods & services	6.3	4.9	5.6	...	...	...
Non-oil merchandise	-0.7	0.9	0.7	...	...	...
Core goods*	1.1	1.3	1.4	...	...	...
Exports of goods & services	1.3	2.6	1.8	...	...	...
Nonag merchandise	0.9	2.7	1.8	...	...	...
Core goods*	2.5	2.9	3.3	...	...	...

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

Oil Prices



per barrel in April. The decrease resulted primarily from OPEC's decision in late March to increase production 1.7 million barrels per day. Production increases from Mexico and Norway, higher exports from Russia, and weak consumption associated with abnormally warm weather also put downward pressure on oil prices. Recently, oil prices have retraced some of that decline in response to a labor strike in Norway which temporarily interrupted shipments and to indications that OPEC does not intend to increase production further in the next few months. Spot WTI is currently trading around $29 per barrel.

Non-oil imports. Prices of non-oil goods imports increased moderately in March for the second consecutive month, primarily from rising prices of imported "core" goods (which exclude oil, computers, and semiconductors). Higher prices of industrial supplies were only partly offset by declines in prices for consumer goods and machinery. Prices of imported computers and semiconductors fell. For the first quarter of 2000, prices of non-oil imports increased ¾ percent at an annual rate after rising a similar amount in the fourth quarter of 1999. Prices of imported "core" goods rose 1½ percent at an annual rate, the third consecutive quarter of price increases. The rise reflected higher prices for industrial supplies, automotive products, and foods, feeds, and beverages, which were only partly offset by a swing from increases to decreases in the prices of machinery and consumer goods.

Exports. Prices of total goods exports continued to rise in March, primarily accounted for by higher prices of exported "core" goods (which exclude agricultural products, computers, and semiconductors). The increase was largely in industrial supplies, with smaller increases in most other major trade categories. For the first quarter of 2000, prices of "core" goods exports increased 3¼ percent at an annual rate, about the same as in the fourth quarter of 1999, with large increases in the prices of industrial supplies and smaller increases in the prices of automotive products, machinery, and consumer goods.

Note: Price data for April will be reported in the Greenbook Supplement.

U.S. International Financial Transactions

Private foreigners accumulated U.S. securities at a record pace in the first quarter. (See line 4 of the Summary of U.S. International Transactions table.) Accompanying this private inflow was a significant inflow of official capital (line 1).

Although the foreign private sector continued to reduce its holdings of U.S. Treasuries (line 4a), there were extraordinary increases in its demand for U.S. corporate bonds, agency bonds, and corporate stocks (lines 4c, 4b, 4d); inflows in these last two categories set monthly and quarterly records. Net purchases of corporate stocks were concentrated in Europe (totaling $59 billion); Germany led the way with $16 billion, with lesser, but large, purchases in the United Kingdom, Switzerland, and Belgium-Luxembourg. In contrast, Japan showed net sales of $5 billion for the quarter. U.S. corporate bonds were also purchased primarily by Europeans, while net purchases of agency bonds were significant for the United Kingdom, the Caribbean, and Japan. The net sales of Treasuries in the first quarter (line 4a) were concentrated in Japan and the United Kingdom; each recorded net sales in excess of $7 billion. All of the total in line 4a was accounted for by net sales of long-term Treasury securities – instruments with original maturities of a year or more; private foreigners made small net purchases of Treasury bills.

Foreign official assets held in the United States increased substantially for the first quarter, primarily on the basis of inflows in March (line 1). Japanese foreign-exchange intervention accounted for almost half of the first quarter's inflow. Korea, Brazil, Venezuela, Russia, and Indonesia also increased their holdings significantly for the quarter. Preliminary data from the FRBNY indicate that, despite continued Japanese intervention, foreign official assets fell moderately in April.

U.S. investors returned to making significant net purchases of foreign securities in the first quarter (line 5). Net purchases of foreign bonds were concentrated in Europe, Bermuda and Mexico, while purchases of foreign stocks were strong in the Caribbean and Asia. In February and March, for the first time in over a year, U.S. investors purchased European equities; the earlier net sales in Europe likely reflected a rebalancing of portfolios in response to the acquisition of European equities in merger-related stock swaps.

The moderate net outflow through banks for the quarter (line 3) was the result of a large outflow in March offsetting inflows in the first two months of the year. Partial data for April indicate that the large outflows did not continue.

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

	1998	1999	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Feb	2000 Mar
Official capital								
1. Change in foreign official assets in U.S. (increase, +)	-16.6	46.1	*	13.0	27.4	21.1	3.9	15.0
a. G-10 countries	6.9	49.7	7.6	19.2	10.2	10.1	1.1	4.9
b. OPEC countries	-9.0	1.7	2.5	-1.3	-1.7	5.7	.4	2.0
c. All other countries	-14.4	-5.3	-10.2	-5.0	19.0	5.3	2.3	8.1
2. Change in U.S. official reserve assets (decrease, +)	-6.8	8.6	1.2	1.9	1.6	-.6	-.3	-.2
Private capital								
Banks								
3. Change in net foreign positions of banking offices in the U.S.[1]	57.3	-8.2	19.0	-18.5	-14.9	-21.2	2.2	-70.0
Securities[2]								
4. Foreign net purchases of U.S. securities (+)	275.2	321.2	83.5	105.7	76.1	124.6	57.8	36.6
a. Treasury securities[3]	49.3	-19.8	-5.2	9.8	-17.0	-9.1	3.1	-13.6
b. Agency bonds	50.5	75.6	17.1	21.2	17.5	26.6	11.7	11.0
c. Corporate and municipal bonds	121.7	157.2	33.8	49.5	40.7	44.9	15.5	15.1
d. Corporate stocks	53.7	108.2	37.9	25.2	35.0	62.2	27.6	24.2
5. U.S. net purchases (-) of foreign securities	-11.1	10.0	17.4	-10.8	-3.9	-25.5	-10.9	-12.3
a. Bonds	-17.4	-5.7	3.2	-10.1	2.0	-9.8	-2.0	-4.3
b. Stocks[4]	6.2	15.6	14.2	-.8	-5.9	-15.8	-8.9	-8.0
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-132.8	-152.2	-31.8	-47.4	-31.3	n.a	...	..
7. Foreign direct investment in U.S.	193.4	282.5	154.5	60.8	44.1	n.a	...	...
8. Foreign holdings of U.S. currency	16.6	22.4	3.1	4.7	12.2	n.a	...	...
9. Other (inflow, +)[4,5]	-164.7	-152.4	-127.3	-14.9	-21.1	n.a	...	...
U.S. current account balance (s.a.)	-220.6	-338.9	-81.2	-89.1	-99.8	n.a	...	...
Statistical discrepancy (s.a.)	10.1	-39.1	-38.4	-5.4	9.6	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. 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.

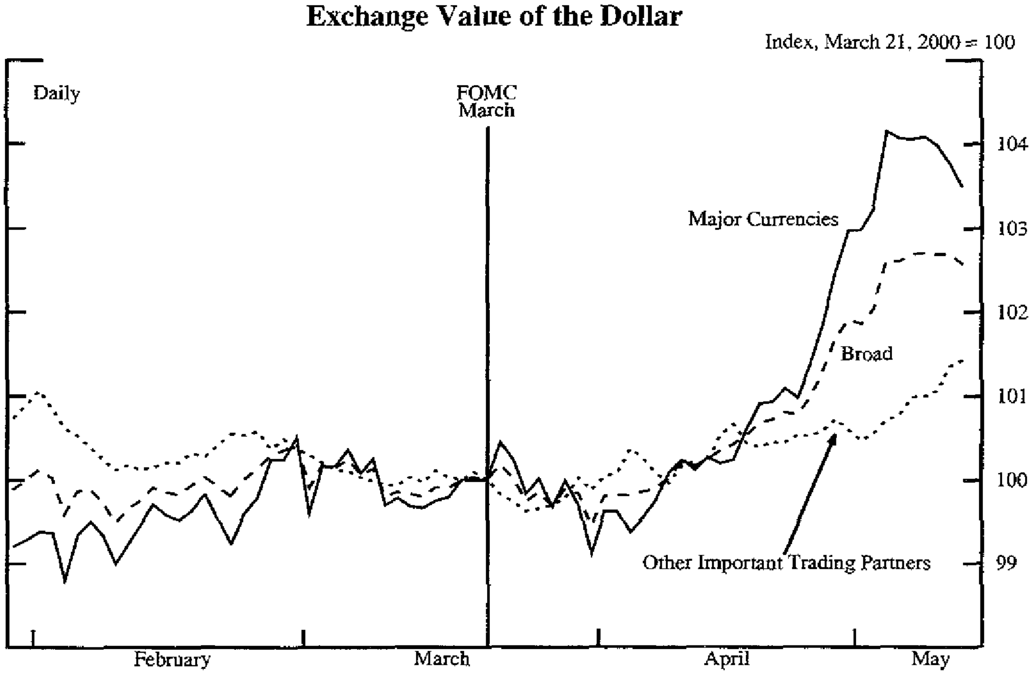
5. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business.

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

Foreign Exchange Markets

The trade-weighted nominal exchange value of the dollar has appreciated substantially since the March FOMC meeting, with our major currencies index rising 3½ percent and our broad index up 2½ percent. This owed in great part to a 7 percent appreciation of the dollar against the euro, but the dollar also appreciated against other major currencies, including 4 percent versus sterling, 3 percent against the Swiss franc and 2 percent vis-à-vis the yen. The dollar appreciated 1¼ percent against the currencies of our other important trading partners.

Exchange Value of the Dollar



The intensifying weakness of the euro against all other major currencies, even as euro-area data continued to point to a solid recovery with moderate inflationary pressures, garnered considerable attention in international financial markets. Market analysts pointed to the persistent differentials in interest rates and economic growth rates between the United States and the euro area, to the large outflows of foreign direct investment from Europe, and to the lack of a united voice about the single currency among euro-zone officials. The slow pace of structural reforms in Europe at the national level, particularly in labor and fiscal policies, and the need for further harmonization and integration were seen by many as the preeminent underlying causes of the euro's weakness. The European Central Bank increased its refinancing rate 25 basis points to 3.75 percent on April 27, citing the exchange rate's effect on inflationary pressures as one of its concerns, but the rate hike did not stem the euro's decline. Late in the intermeeting period, the euro recovered a bit as market participants focused on the possibility that the European Central Bank may soon intervene for the first time to support its currency.

The Swiss franc, which had tracked the euro closely since the single currency's introduction, appreciated 4 percent on net against the euro. Much of the exchange rate movement came after the chief economist of the Swiss National Bank indicated that, in part out of concern over rising inflationary pressures, the bank would let the Swiss franc appreciate versus the euro. The SNB also shifted its interest rate corridor up 75 basis points; the operating range for the three-month Swiss LIBOR now stands at 2.5 to 3.5 percent. In the United Kingdom, where sterling's strength versus the euro has become a preeminent political issue, the Monetary Policy Committee's decision not to increase the repo rate after its May 3 meeting came as somewhat of a surprise and was followed by sterling's depreciation to a four-year low against the dollar.

In Japan, incoming data pointed to a recovery in industrial production but continued weakness in consumer demand. Japanese monetary authorities intervened on April 3, the day of the release of the March Tankan survey, which showed a further improvement in business sector sentiment, purchasing an extremely large amount of dollars for yen. The intervention appeared to meet with some success, in that the yen did not return to its pre-intervention level for the remainder of the intermeeting period.

Financial Indicators in Major Industrial Countries

	Three-month rate		Ten-year yield		Equities
Country	May 11 (Percent)	Percentage Point Change	May 11 (Percent)	Percentage Point Change	Percent Change
Canada	5.82	.38	6.24	.26	-4.92
Japan	.04	-.03	1.68	-.14	-9.53
Euro area	4.29	.52	5.37	.12	-5.21
United Kingdom	6.15	.07	5.37	.19	-.62
Switzerland	3.10	.67	4.10	.18	6.12
Australia	6.31	.43	6.42	-.08	-8.09
United States	6.70	.52	6.42	.24	-.44
Memo: Weighted-average foreign	3.76	.30	5.15	.11	n.a.

NOTE. Change is from March 20 to May 11. n.a. Not available.

Headline equity indexes for major industrial countries, shown in the table above, registered moderate declines in most cases, but indexes with a heavier weighting towards high-technology issues, not shown, tended to fall more substantially, following the U.S. Nasdaq. Japan's Nikkei index fell sharply late in the period. Short-term interest rates increased more than 50 basis points in the euro area and in Switzerland, and a bit less in Australia and Canada, where policy interest rates were also raised during the intermeeting period. Ten-year benchmark yields declined in Japan and Australia, but rose in the other industrial countries.

Financial Indicators in Latin America, Asia, and Russia

	Currency/ US dollar		Short-term Interest rates[1]		Dollar-denominated bond spread[2]		Equity prices
Economy	May 11	Percent Change	May 10/11 (Percent)	Percentage Point Change	May 10/11 (Percent)	Percentage Point Change	Percent Change
Mexico	9.59	2.84	13.65	.30	5.50	1.95	-23.05
Brazil	1.81	4.25	19.68	.13	10.57	2.21	-17.18
Argentina	1.00	.00	9.00	1.25	8.06	.71	-24.00
Chile	526.00	3.92	10.95	-2.13	1.85	.18	-6.74
China	8.28	.00	n.a.	n.a.	1.26	-.18	1.46
Korea	1112.00	-.55	6.00	.00	1.89	.58	-10.70
Taiwan	30.62	-.75	5.10	.10	...	...	-2.18
Singapore	1.73	.31	3.13	.81	...	...	-9.47
Hong Kong	7.79	.06	6.82	.94	...	...	-15.91
Malaysia	3.80	-.01	2.69	-.01	1.99	.23	-.86
Thailand	38.85	2.13	3.25	-.50	1.23	.08	-16.07
Indonesia	8350.00	12.38	11.29	-.16	7.19	-.10	-9.52
Philippines	41.40	1.22	8.81	.00	3.91	.72	-9.16
Russia	28.30	-.39	n.a.	n.a.	10.23	1.43	2.75

NOTE. Change is from March 20 to May 10/11.

1. One month interbank interest rate, except Chile: 30-day deposit rate. No reliable short-term interest rates exist for China or Russia.

2. Spread over similar maturity U.S. Treasury bond yield. Mexico, Brazil, Argentina and Venezuela: Stripped Brady bond yield. Chile, China, and Korea: Global bond yield. Malaysia, Philippines and Russia: Eurobond yield. Thailand and Indonesia: Yankee bond yield. Taiwan, Singapore and Hong Kong do not have outstanding sovereign bonds denominated in dollars.

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

In Latin America, amid concerns about rising interest rates in the United States, equity prices fell sharply in major financial centers, led by declines in technology shares. The Brazilian *real* depreciated 4 percent against the dollar, in part on concerns about potential future government liabilities to a workers' insurance fund, and the Mexican peso depreciated almost 3 percent. Dollar-denominated bond spreads increased substantially in Mexico and Brazil. In emerging Asia, share prices also fell in several markets, but currencies and interest rates were generally little changed. Indonesia was an exception; the rupiah depreciated 12 percent, in part as the IMF, citing the slow pace of reform, temporarily suspended its loan disbursements to the government.

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

Developments in Foreign Industrial Countries

Data released since the March Greenbook suggest that economic activity in the foreign industrial countries continued to expand at a healthy pace in the first quarter. In the euro area, activity remained strong. Recent data in Japan are consistent with a significant upturn in the first quarter. But, the sustainability of the recovery remains unclear. In the United Kingdom and Canada, activity appears to have slowed a bit from a relatively brisk pace experienced in the fourth quarter.

The lagged effect of the run-up in energy prices has exerted upward pressure on consumer prices in most foreign industrial countries, but core consumer price inflation remains subdued. In the euro area, core CPI inflation is running around 1 percent. Moreover, in Germany, there is evidence that the effect of higher energy prices on consumer prices may have already peaked. In both the United Kingdom and Canada, consumer price inflation remains low relative to official targets set by those countries' central banks, while in Japan deflationary pressures persist.

Since the March Greenbook, both the Bank of Canada and the European Central Bank raised official interest rates 25 basis points. Officials at both central banks cited concerns about the possible buildup of inflationary pressures, with the Europeans putting particular emphasis on the potential inflationary effects of their currency's depreciation.

In **Japan**, recent indicators suggest that real GDP rebounded in the first quarter of this year following a contraction in the second half of last year. The improvement partly reflects inadequate adjustment for an extra work day owing to leap year. It also appears to have included some bounceback in areas that were particularly weak in the fourth quarter. Notably, new car registrations and housing starts both increased sharply after falling in the two previous quarters. Nevertheless, household expenditures, a major component of consumption, was down slightly in the first quarter.

Indicators of business investment, including shipments of machinery and building construction, have continued the upward trend begun in the middle of last year. However, public construction contracts fell sharply in the first quarter, suggesting public investment was weak. Supply-side indicators continued to expand in the first quarter. Industrial production adjusted for working days rose 1.3 percent in the first quarter, while the broader all-industry index was up about 1 percent for January and February on average relative to the fourth quarter.

The Japanese labor market has remained stagnant. The unemployment rate was unchanged in March at 4.9 percent, an historical high, as corporate restructuring continues to restrain job growth. The offers-to-applicants ratio edged up to 0.53 in March, still a very low level.

Deflation continues in the prices of most Japanese goods and services as well as real estate. The core consumer price index in the Tokyo area (which excludes fresh food but includes energy) was down 0.5 percent in April from a year earlier, and the GDP deflator fell again in the fourth quarter, recording a year-over-year decline of 1.5 percent. The wholesale price index for domestic goods was up 0.5 percent year-over-year in April, partly as a result of higher oil prices. Posted prices for all categories of land have continued to decline sharply. Official land prices as of January 1 of this year were down by an average of 4.9 percent from a year earlier, which was the ninth consecutive year of decline.

Japanese Economic Indicators

(Percent change from previous period except as noted, s.a.)

Indicator	1999		2000	2000			
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Industrial production[1]	3.6	.8	1.3	1.2	-.6	1.4	n.a.
Housing starts	-1.1	-5.2	8.6	16.4	-10.3	2.3	n.a.
Machinery orders[2]	3.1	9.9	n.a.	.8	-2.5	n.a.	n.a.
Machinery shipments	4.9	2.6	4.4	2.2	2.3	.5	n.a.
New car registrations	-1.3	-4.7	9.2	12.1	-6.4	-3.1	n.a.
Unemployment rate[3]	4.7	4.6	4.8	4.7	4.9	4.9	n.a.
Job offers ratio[4]	.47	.49	.52	.52	.52	.53	n.a.
Business sentiment[5]	-32	-26	-23	...	...	...	...
CPI (Core, Tokyo area)[6]	-.1	-.3	-.4	-.5	-.4	-.4	-.5
Wholesale prices[6]	-1.4	-.7	-.1	-.3	-.1	.1	.5

1. Adjusted for working days.
2. Private, excluding ships and electric power.
3. Percent.
4. Level of indicator
5. Tankan survey, diffusion index.
6. Percent change from year earlier, n.s.a.

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

The BOJ's March Tankan showed another improvement in business confidence, and firms in most categories expect conditions to continue improving over the next three months. This survey also provided the first glimpse of expectations for profits, sales, and capital spending for FY2000, and these were generally optimistic. Profits are expected to increase 16 percent, following an estimated 14 percent increase in FY1999. Sales are expected to increase 2.5 percent this year, reversing the FY1999 decline. Capital expenditures are projected to show a 1 percent decline in FY2000, after falling nearly 11 percent in FY1999. However, the capital expenditure projections typically are revised upward throughout the fiscal year as investment plans become more definite, suggesting that capital expenditures may show some increase in FY2000.

Japanese Prime Minister Keizo Obuchi suffered a stroke on April 2 and remains in a coma. He was quickly replaced by the ruling LDP's Secretary General, Yoshiro Mori, who reappointed the full cabinet. No major policy changes are expected immediately. Mori has in particular reiterated the government's commitment to assuring that economic recovery is firmly established before fiscal consolidation is undertaken. However, speculation has mounted that the timetable for the next Lower House election, which must be held by October, may be moved up in order for the new government to obtain a popular endorsement and take advantage of a possible sympathy vote. Recent reports suggest that the election is likely to be held in June in order to give the new government a mandate before the July G-7 summit in Okinawa.

Japan's merchandise trade surplus for the first three months of 2000 was $120 billion at an annual rate, up from $115 billion in the same period of the previous year. Denominated in dollars, exports were up 18 percent from year-ago levels, largely due to a continuing surge in exports to the developing Asian economies. Imports were up 24 percent, partly reflecting a jump in the value of oil imports.

In the **euro area**, recent data suggest that real economic activity remained strong in the first quarter. Euro-area industrial production rose 1.2 percent (s.a.) in February after remaining relatively flat in January. In addition, German industrial production was up 0.8 percent (s.a.) in the first quarter. The overall economic sentiment index rose again in March after hitting record highs in January and February and following consistent gains during most of 1999. The volume of German industry orders rose 0.8 percent (s.a.) in the first quarter. While domestic orders dropped during the first quarter, foreign orders rose a robust 2.6 percent.

In March, the harmonized unemployment rate for the euro area edged further down to 9.4 percent, its lowest rate since September 1992. In France, Germany and Italy, unemployment rates remain above the euro-area average, although they continue to decline.

Indicators for the second quarter are very limited, but euro-area economic sentiment remained at a record high in April. Confidence improved in the industrial and construction sectors, but remained flat among consumers.

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

Indicator	1999		2000	2000			
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Industrial production[1]							
Euro-11	1.4	1.5	n.a.	-.2	1.2	n.a.	n.a.
Germany	2.0	.9	.8	-.8	2.7	-1.0	n.a.
France	1.5	1.4	n.a.	-.2	1.1	n.a.	n.a.
Italy	1.9	1.4	n.a.	-1.1	1.7	n.a.	n.a.
Unemployment rate[2]							
Euro-11	9.9	9.7	9.5	9.5	9.5	9.4	n.a.
Germany	10.5	10.4	10.1	10.1	10.0	10.1	9.6
France	11.2	10.8	10.2	10.5	10.2	10.0	n.a.
Italy	11.5	11.0	11.2	...	...	...	...
Consumer prices[3]							
Euro-11[4]	1.2	1.6	2.1	1.9	2.0	2.2	n.a.
Germany	.6	1.0	1.8	1.6	1.8	1.9	1.5
France	.5	1.0	1.6	1.6	1.5	1.6	n.a
Italy	1.7	2.1	2.3	2.2	2.3	2.4	2.3

1. Indexes exclude construction.
2. Euro-11 standardized to ILO definition. Includes Eurostat estimates in some cases. Country figures are based on national definitions.
3. Percent change from year earlier.
4. Eurostat harmonized definition.
n.a. Not available. ... Not applicable.

Euro-area consumer prices were up 2.2 percent (n.s.a.) in March from a year earlier to breach the 2 percent target ceiling set by the European Central Bank (ECB). Excluding energy prices, however, the twelve-month inflation rate continued to remain about 1 percent, the same as in both January and December. In addition, the twelve-month rate of pan-German consumer price inflation declined to 1.5 percent (s.a.) in April–after climbing steadily in 1999 and the first three months of 2000 and reaching 1.9 percent in March–suggesting that the pass-through effects of recent oil price increases on consumer prices are beginning to wane.

On April 28, the European Central Bank (ECB) raised its main refinancing rate 25 basis points to 3.75 percent. The text that accompanied the interest rate decision expressed the Governing Council's concern about upside risks to price stability and explicitly linked the level of the exchange rate to these risks. In four separate moves since early November 1999, the ECB has raised rates by a total of 125 basis points.

Euro-11 Forward-looking Indicators
(Percent balance, s.a.)

Indicator	1999		2000	2000			
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Consumer confidence[1]	-3.7	-1.3	-.3	-1	0	0	0
Construction confidence[2]	-7.3	-3.3	0	2	-2	0	2
Industrial confidence[3]	-6.3	-1.3	2.7	1	3	4	5
of which:							
Production expectations	8	13.7	14.7	13	16	15	15
Total orders	-16.7	-8.7	-1.7	-4	-2	1	3
Stocks	10.3	8.3	5	7	4	4	3

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.

On April 26, Italian President Ciampi swore in Italy's new prime minister, Giuliano Amato, and his ministers. The new government is widely seen as a stop-gap administration until the general elections due April 2001.

Incoming data show that the pace of economic activity in the **United Kingdom** slowed in the first quarter, with a preliminary estimate of real GDP growth of 1.8 percent (s.a.a.r.). Consumer demand appears to have remained strong as the volume of retail sales in the first quarter increased at its fastest rate in over two years. However, industrial production declined 0.8 percent in the first quarter. Business sentiment declined sharply in April, reflecting weak export orders.

Labor market conditions remained tight in the first quarter. The official claims-based unemployment rate remained 4.0 percent in March, the lowest rate in 20 years, and the Labor Force Survey measure of the unemployment rate hit a record low of 5.8 percent for the three months centered in January. Average annual earnings growth fell to 5.5 percent in February, but this rate is above the level of 4.5 percent that the Bank of England has suggested is compatible with its inflation target.

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

Indicator	1999		2000	2000			
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Real GDP (s.a.a.r.)	4.1	3.1	n.a.	...	...	...	...
Industrial production	1.4	.1	-.8	-.4	-.5	.5	n.a.
Retail sales	1.3	1.4	1.5	1.5	-1.1	.5	n.a.
Unemployment rate[1]							
Claims-based	4.2	4.1	4.0	4.0	4.0	4.0	n.a
Labor force survey	5.9	5.9	n.a.	5.8	n.a	n.a	n.a
Business confidence[2]	10.0	10.7	12.7	11.0	10.0	17.0	1.0
Retail prices[3]	2.2	2.2	2.1	2.1	2.2	2.0	n.a
Producer input prices[4]	4.2	9.6	12.7	10.8	14.1	13.0	7.0
Average earnings[4]	4.7	5.4	n.a	6.4	5.5	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. ... Not applicable.

The twelve-month rate of British retail price inflation (excluding mortgage interest payments) for March was 2.0 percent, below the 2.5 percent official target. On an EU-harmonized basis, U.K. consumer price inflation was lower, registering 0.7 percent in the twelve months to March. Producer input prices, however, have risen in recent months; in the first quarter producer input prices rose 12.7 percent from a year earlier.

On May 10, 2000 the Monetary Policy Committee of the Bank of England released its latest GDP and inflation forecasts in its quarterly Inflation Report. Under the assumption that official interest rates remain unchanged at 6 percent, annual GDP growth is expected to ease from its present rate of 3 percent to around 2 ½ - 2 ¾ percent, at or above trend, by the first quarter of 2001. Inflation is projected to remain below target this year and then rise to around the

2½ percent target level at the end of the forecast horizon. Underlying this forecast is the assumption that sterling depreciates by 1.6 percent over the forecast period. Alternative assumptions for the exchange rate can raise or lower the inflation profile by up to ½ percent at the two-year horizon.

Chancellor of the Exchequer Gordon Brown released the Budget for fiscal year 2000-01 on March 21, 2000. The budget was slightly expansionary in its overall impact and contained few surprises. For fiscal year 2000-2001, the budget surplus is forecasted at £14 billion (1.6 percent of GDP), slightly less than the fiscal year 1999-2000 forecast of £17 (nearly 2 percent of GDP). The economic forecasts underlying the budget were unchanged from last November's pre-budget report, and call for somewhat weaker growth this year than most private sector forecasts.

In **Canada**, growth slowed somewhat in the first quarter from the fourth quarter's brisk pace. After continuing to rise sharply in January, real GDP fell 0.4 percent in February, posting the largest monthly decline in two years. Manufacturing activity, in particular, dropped off significantly in part due to temporary production shutdowns in the automobile industry. Lower retail sales and construction activity also contributed to February's decline. However, February's weakness is likely to be short-lived. Based on an April survey, more than 80 percent of manufacturers expect that they would produce the same amount or more in the coming three months than in the previous three months.

Employment also rose a hefty 3.8 percent (s.a.a.r.) in the first quarter, the largest quarterly increase since the third quarter of 1997. Despite the surge in employment, the unemployment rate in the first quarter remained largely unchanged at 6.8 percent due to strong labor force growth.

While the twelve-month rate of CPI inflation rose to 3 percent in March, core CPI inflation (which excludes food and energy prices) was 1.5 percent in March, well within the Bank of Canada's 1 to 3 percent target range. Despite low core inflation, the Bank of Canada matched the 25 basis point rate increase by the Federal Reserve by raising its Bank Rate to 5.5 percent on March 22. In justifying its decision, the Bank continued to emphasize the strong momentum in the economy and its concern that the economy may be approaching its capacity limit.

Canadian Economic Indicators
(Percent change from previous period except as noted, s.a.)

Indicator	1999		2000	2000			
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
GDP at factor cost	1.3	1.0	n.a.	.5	-.4	n.a.	n.a.
Industrial production	2.8	1.0	n.a.	1.1	-1.2	n.a.	n.a.
New manufacturing orders	5.7	1.5	n.a.	-1.2	-1.7	n.a.	n.a.
Retail sales	3.1	.4	n.a.	0.0	-1.1	n.a.	n.a.
Employment	.5	.9	.9	.3	.2	.2	.0
Unemployment rate[1]	7.6	6.9	6.8	6.8	6.8	6.8	6.8
Consumer prices[2]	2.2	2.4	2.7	2.3	2.7	3.0	n.a.
Consumer attitudes[3]	114.2	119.9	n.a.	...	...	...	...
Business confidence[4]	153.9	164.9	n.a.	...	...	...	...

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

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

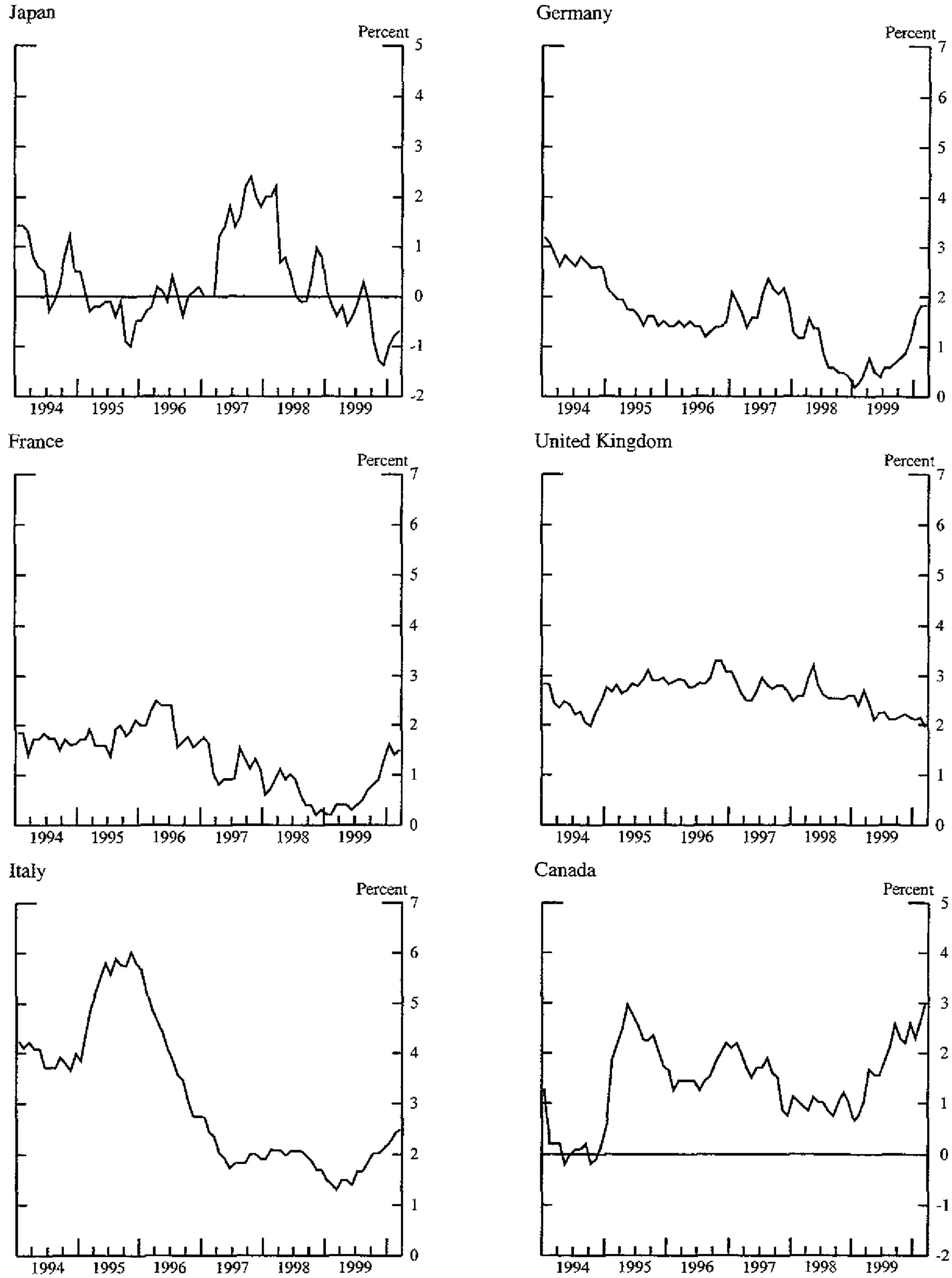
External Balances
(Billions of U.S. dollars, s.a.a.r.)

Country and balance	1999		2000	2000		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Japan						
Trade	113.8	98.1	120.1	119.2	135.2	105.8
Current account	110.2	103.7	n.a.	144.2	167.5	n.a.
Euro-11						
Trade[1]	70.0	60.4	n.a	-59.5	3.5	n.a.
Current account[1]	18.9	13.7	n.a.	...	...	...
Germany						
Trade	64.9	70.8	63.0	49.7	68.8	70.4
Current account	-23.3	-30.4	n.a.	...	...	...
France						
Trade	23.2	12.9	n.a.	10.6	13.3	n.a.
Current account	7.3	5.8	n.a.	2.9	n.a.	n.a.
Italy						
Trade	10.6	9.6	n.a.	n.a.	n.a.	n.a.
Current account[1]	22.7	11.4	n.a.	-12.9	-1.5	n.a.
United Kingdom						
Trade	-34.9	-48.8	n.a.	-54.2	-46.2	n.a.
Current account	-19.8	-18.0	n.a.	...	...	...
Canada						
Trade	27.4	23.2	n.a.	37.3	32.8	n.a.
Current account	1.4	-3.4	n.a.	...	...	...

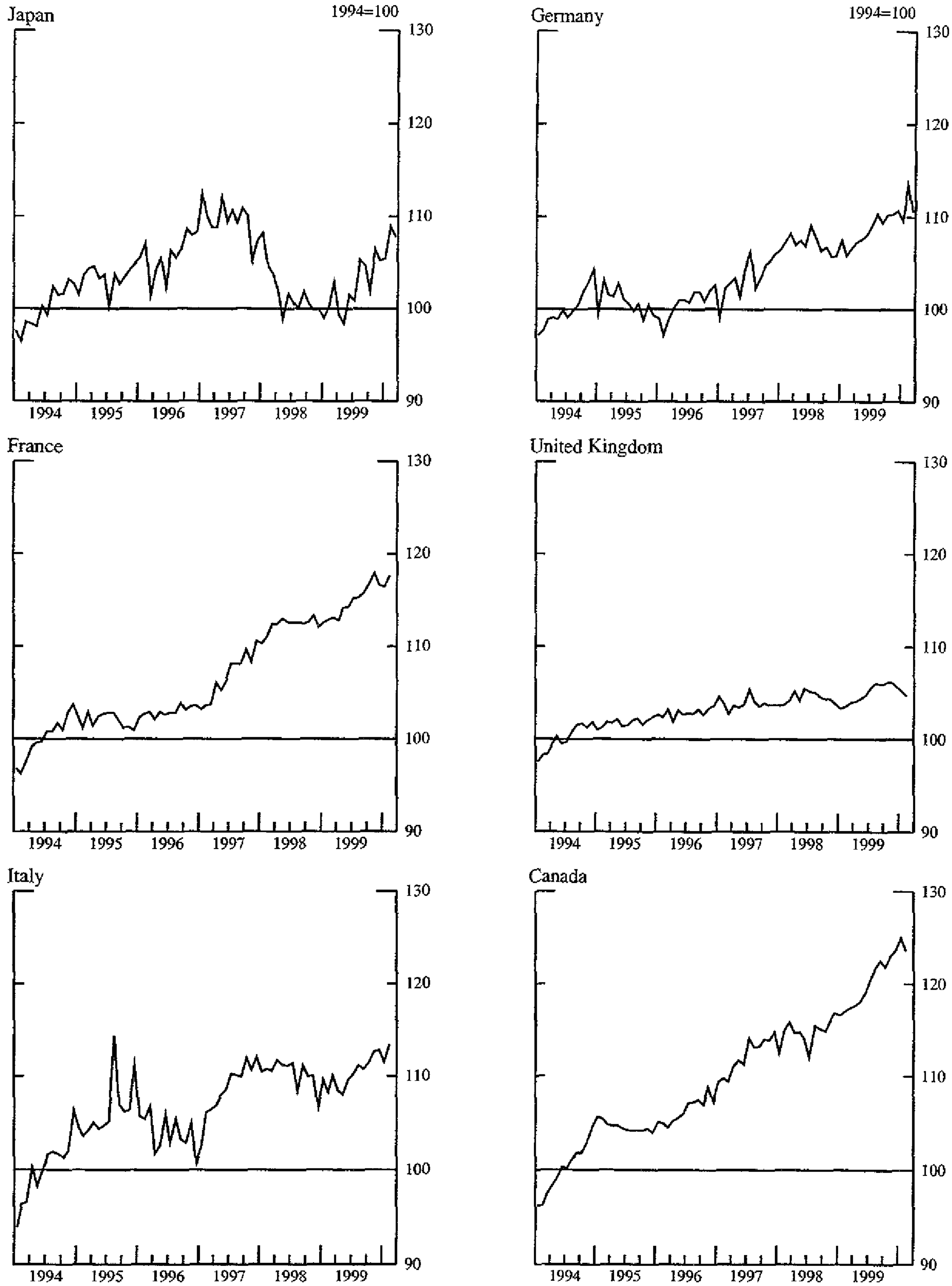
1. Not seasonally adjusted.
n.a. Not available. ... Not applicable.

Consumer Price Inflation in Selected Industrial Countries

(12-month change)



Industrial Production in Selected Industrial Countries



Economic Situation in Other Countries

In major Latin American countries, output continued to rise during the first quarter, but at an uneven pace across countries. Data have pointed to continued strength in Mexico, but some slowing in the pace of growth in Argentina and Brazil. Mexican export strength has been driven by the U.S. economy, while in Brazil a pickup in exports has been fueled by improved international competitiveness. The net oil exporters (Argentina, Mexico, and Venezuela) have benefitted from high oil prices, while most of the region also has also been helped by a rise in other commodity prices. Inflation has fallen in Mexico, Brazil, and Venezuela; in Argentina, consumer prices continued to fall.

In Korea, there are indications of a moderation from the very rapid pace of growth last year. In Greater China, activity so far this year has remained robust, led primarily by strong export growth. In the ASEAN region, after a strong fourth quarter, output indicators for most of the economies in the region have been mixed. Inflationary pressures have remained at bay in much of the region.

On April 19, the IMF approved a $304 million three-year stand-by arrangement for **Ecuador**. Ecuador will also receive an additional $1.7 billion in loans from other international organizations over the next three years, assuming all IMF program performance criteria are met. Official dollarization of Ecuador's economy was institutionalized by the passage of the Economic Transformation Law in mid-March. The central bank's liquid international reserves have stabilized since then, and more prices are being quoted in dollars. Dollars have been gradually replacing *sucre* notes, and the legislation stipulates that *sucre* notes will be retired from circulation within the next few months. However, some economists in Ecuador have criticized the government's dollarization plans, and the person expected to preside over the Dollarization Commission resigned in early May. The government nonetheless reiterated its determination to implement its dollarization plan. Ecuador resumed talks to restructure its privately held foreign debt in early May.

In **Brazil**, real GDP rose 5 percent (s.a.a.r.) in the first quarter, more than most observers had expected. The quarterly figures for 1999 was revised sharply, including an upward revision in Q4 growth from 5.8 to 9.4 percent. Although the latest data should be viewed with caution, the results are consistent with other evidence of continued growth in the first quarter. Imports grew 8.5 percent over the twelve-month period through April, boosted by higher oil prices and rapid growth in imports of intermediate goods. Over the same period, exports rose 13 percent, led by growth in manufactured exports.

Inflation has fallen according to most price indices, pulled down by declines in food prices and tight monetary policy. Consumer prices declined in the months of February and March on a seasonally adjusted basis. Partly as a result of these developments, in late March, Brazil's central bank reduced its target overnight interbank rate (the Selic) from 19 percent to 18.5 percent, the first rate decrease since September 1999. The move also followed the government's decision to set the annual increase in the minimum wage at 11 percent, less than many had feared. Brazil's government recorded a higher-than-expected fiscal surplus over the January-February period, ensuring that it will meet its IMF program target for the first quarter of 2000. In early April, Brazil's government repaid over $10 billion in emergency loans from the IMF and bilateral creditors (under the BIS-Japanese government loan facility) that had been granted as part of an international rescue package cobbled together in late 1998.

Brazilian Economic Indicators

(Percent change from previous period, s.a., except as noted)

Indicator	1998	1999	1999	2000			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP[1]	-1.6	3.7	9.4	5.0	...	...	...
Industrial production	-2.0	-1.7	3.9	1.6	3.1	-5.3	n.a.
Unemployment rate[2]	7.6	7.6	8.0	7.6	8.0	7.3	n.a.
Consumer prices[3]	1.7	8.9	8.4	7.8	7.8	6.9	n.a.
Trade balance[4]	-6.6	-1.2	2.6	1.9	3.9	2.4	-.2
Current account[5]	-33.8	-24.4	-30.3	-16.2	-15.1	-22.6	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, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

Nonetheless, since late March, Brazilian asset prices have declined somewhat, pulled down by turmoil in U.S. equity markets and by domestic pressures. In early April, it became apparent that the government will face an additional 2 to 7 percent of GDP in liabilities associated with special workers' savings accounts, pending a court ruling expected later this month. Furthermore, members of the coalition of parties supporting President Cardoso pressured for a more generous minimum wage hike in early 2001, raising doubts about the political and popular support for fiscal and monetary conservatism. In response to the adverse internal and external developments, in mid-April, the central bank removed the downward bias on the Selic.

In **Mexico**, both domestic demand and external indicators remained strong in the past quarter. Retail sales rose over 16 percent in February on a twelve-month basis and exports were up 25 percent in the first quarter from their year-ago value. Industrial production fell in February from the previous month, but this followed an especially strong performance in January, and was still 9.7 percent above its year-earlier level. Strong exports, largely driven by a booming U.S. economy, have led to a narrowing of the trade deficit. There is no evidence that strong economic activity is fueling inflationary pressures; the twelve-month inflation rate, as well as survey data on twelve-month ahead inflation expectations, have continued on their downward trajectories in recent months.

Mexican Economic Indicators
(Percent change from previous period, s.a., except as noted)

Indicator	1998	1999	1999	2000			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP[1]	2.6	5.2	2.2	n.a.	...	...	...
Industrial production	6.6	3.8	.3	n.a.	-1.9	n.a.	n.a.
Unemployment rate[2]	3.2	2.5	2.3	2.2	2.2	2.1	n.a.
Consumer prices[3]	18.6	12.3	13.7	10.6	10.5	10.2	9.7
Trade balance[4]	-7.9	-5.4	-6.9	-5.2	-5.2	-4.2	n.a.
Imports[4]	125.4	142.1	152.8	159.8	163.3	155.0	n.a.
Exports[4]	117.5	136.7	145.9	154.6	158.1	150.8	n.a.
Current account[5]	-15.7	-14.0	-17.9	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, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

The Mexican senate unanimously approved a new bankruptcy bill in late April, paving the way for President Zedillo to sign it into law. Some analysts argue that the new law, which strengthens rights of creditors, will increase banks' willingness to grant loans and induce shareholders to inject more capital into the banks, thus revitalizing the ailing banking system. On the political front, the lead held by Francisco Labastida, the presidential candidate of the ruling party (PRI), in the polls over his main rival, Vincente Fox of the National Action Party

(PAN), has almost disappeared. With the July 2 presidential elections less than two months away, the two top candidates are locked in an extremely tight race.

In **Argentina**, data released since the last Greenbook show some slackening in the pace of recovery following a burst in output growth in the fourth quarter. GDP growth posted an 8.2 percent jump (s.a.a.r.) in the last quarter of 1999 supported by strong industrial production. In the first quarter, however, industrial production rose only 1.2 percent (s.a.), compared with almost 5 percent in the fourth quarter. Other signs point to sluggish demand as well, including anemic growth in income tax revenues, weak import growth, and continued declines in consumer prices. On the positive side, economic strength in Brazil, continued high oil prices, and the steady recovery of some key commodity prices have boosted exports.

Argentine Economic Indicators
(Percent change from previous period, s.a., except as noted)

Indicator	1998	1999	1999	2000			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP[1]	-.6	.1	8.2	n.a.	...	...	...
Industrial production	1.5	-6.9	4.9	1.2	-4.4	3.4	n.a.
Unemployment rate[2]	12.9	13.8	13.8	...	...	...	...
Consumer prices[3]	.7	-1.8	-1.7	-1.3	-1.3	-1.1	-1.2
Trade balance[4]	-3.1	-.8	-.7	1.9	7	2.3	n.a.
Current account[5]	-14.3	-12.2	-13.3	n.a.	...	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent, n.s.a. Data are released for May, August, and October, only. Figures for Q4 reflect data for October.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

President de la Rua managed to push controversial labor market reform through the senate in late April. To become law, the bill needs final approval in the house, which is expected some time in May. Over the long run, this reform is expected to increase labor market flexibility by reducing employers' firing costs and social security contributions and by weakening union control.

Developments in **Venezuela** have been mixed since the last Greenbook. Car sales hit a 20-month high in March, following gains in January and February and the government reported that manufacturing production increased in the first quarter. However, consumer price inflation stayed steady at 18 percent over the twelve months ending in April, the lowest rate in over a decade, apparently indicating continued weakness in domestic demand. High oil prices boosted the current account balance in the fourth quarter, but the non-oil trade balance fell sharply, reflecting the sizeable real appreciation of the currency. Venezuela will hold elections for almost all political offices, including the presidency, on May 28. President Chavez now faces some competition from Arias Cardenas, a former ally. Political uncertainty about the elections continues to paralyze policymaking and depress Venezuelan asset prices.

Venezuelan Economic Indicators
(Percent change from previous period, s.a., except as noted)

Indicator	1998	1999	1999	2000			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP[1]	-4.9	-4.5	1.5	n.a.	...	...	...
Unemployment rate[2]	11.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Consumer prices[3]	29.9	20.0	20.1	18.3	18.0	17.7	18.1
Non-oil trade balance[4]	-9.4	-7.5	-7.8	n.a.	n.a.	n.a.	n.a.
Trade balance[4]	2.7	9.2	12.3	n.a.	n.a.	n.a.	n.a.
Current account[5]	-2.6	5.5	12.2	n.a.	...	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent. n.s.a.
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, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

In **Korea**, recent activity data have been somewhat mixed, but on balance appear to suggest continued strong growth. Real GDP posted its fourth straight double-digit growth rate in the fourth quarter. This increase was entirely accounted for by growth of domestic demand. Much of domestic demand growth was attributable to a swing to positive inventory investment; consumption rose, but fixed investment declined slightly for the second consecutive quarter. After increasing sharply in January, industrial production declined in both February and March, possibly indicating a moderation in the rapid pace of growth. However, the unemployment rate declined further in those two months. Recent data give no indication of a pickup in inflation.

Korean Economic Indicators
(Percent change from previous period, s.a., except as noted)

Indicator	1998	1999	1999	2000			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP[1]	-5.5	14.0	11.7	n.a.	...	...	...
Industrial production	-6.5	24.2	7.0	2.3	-.9	-1.6	n.a.
Unemployment rate[2]	6.8	6.3	4.8	4.4	4.4	4.1	n.a.
Consumer prices[3]	4.0	1.4	1.3	1.6	1.4	1.6	1.0
Trade balance[4]	41.6	28.7	24.8	14.3	13.6	6.9	n.a.
Current account[5]	40.6	25.0	22.9	5.2	9.5	2.2	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, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

Reflecting the strength of domestic demand, the trade surplus for the first quarter of this year declined to less than half its year-ago level. Over this period, export growth was strong (over 30 percent) but import growth was even faster (surging over 60 percent), fueled by strong domestic demand. As the trade surplus has declined, officials have expressed concern that further appreciations of the won could weaken the price competitiveness of Korean goods. Consistent with this concern, the authorities have been intervening to hold down the won. This has contributed to the continued rise in foreign exchange reserves, currently over $80 billion, compared with a low of less than $10 billion at the end of 1997.

In the **ASEAN** region, Thailand registered strong fourth-quarter growth, adding to the already strong fourth quarter picture for the region. However, recent industrial production figures for the ASEAN countries have given a mixed picture of first quarter performance. While Malaysian industrial production continued to rise, for the other countries, monthly movements in industrial production have been volatile. The recent trade data for ASEAN were also choppier than usual, although the general picture that emerges is one of continued strength in exports. Despite the overall strength of the ongoing regional recovery, inflation remains subdued across the region.

In early April, the Paris Club agreed to reschedule $5.8 billion of Indonesia's foreign debt. The accord covered outstanding debt due over the period between end-March 2000 and end-March 2002, exceeding expectations that only the

$2.1 billion due in 2000 would be rescheduled. The agreement will enter into force upon the approval by the IMF board of the first review under Indonesia's IMF program, which is expected by early June 2000.

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

Indicator and country	1998	1999	1999	2000			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP[1]							
Indonesia	-17.7	6.0	7.8	n.a.	...	...	...
Malaysia	-10.3	10.6	10.1	n.a.	...	...	...
Philippines	-1.9	4.6	2.0	n.a.	...	...	...
Singapore	-1.2	7.0	4.7	n.a.	...	...	...
Thailand	-7.2	6.8	7.8	n.a.	...	...	...
Industrial production							
Indonesia	-13.3	n.a.	n.a.	n.a.	...	...	...
Malaysia	-7.2	9.1	3.3	7.3	.4	7.3	1.5
Philippines	-11.6	-1.6	-3.0	n.a.	-2.2	-2.4	n.a.
Singapore	-.3	13.9	1.5	3.6	16.0	-9.7	-4.6
Thailand	-10.0	12.4	2.9	-4.6	-5.0	3.1	-1.1

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

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

Country	1998[1]	1999[1]	1999	2000			
			Q4	Q1	Feb.	Mar.	Apr.
Indonesia	77.5	2.0	1.7	-.5	-.8	-1.1	.1
Malaysia	5.3	2.5	2.1	1.5	1.5	1.5	n.a.
Philippines	10.3	4.3	4.5	3.0	3.0	3.3	3.7
Singapore	-1.5	1.5	1.4	1.8	1.9	2.0	n.a.
Thailand	4.3	.7	.1	.8	.8	1.1	1.2

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

ASEAN Economic Indicators: Trade Balance
(Billions of U.S. dollars, s.a.a.r.)

Country	1998	1999	1999	2000			
			Q4	Q1	Jan.	Feb.	Mar.
Indonesia	21.5	24.5	26.7	32.0	30.0	30.3	35.6
Malaysia	15.0	19.0	18.7	20.9	14.4	24.7	23.6
Philippines	.0	4.3	6.7	n.a.	4.0	3.8	n.a.
Singapore	8.3	3.6	6.2	n.a.	.9	12.1	n.a.
Thailand	12.2	9.0	4.5	10.8	19.8	-.4	12.9

n.a. Not available.

In mid-March, Thai Petrochemicals Industry (TPI), Thailand's largest debtor, was declared insolvent after failing to service its debt for over two years. This court case was the first significant action brought by a creditor against a large corporate debtor under the newly amended Thai bankruptcy laws and is seen as an important test case. By increasing the pressure on debtors, market analysts expect that the new law will hasten the resolution of the country's large stock of non-performing loans.

In **China**, real GDP rose 9.6 percent (s.a.a.r.) in the first quarter, boosted by a large increase in exports, although some recovery in private consumption also contributed to growth. Exports rose 21 percent (s.a.) in the first quarter, driven by recovery elsewhere in Asia. Imports grew even more sharply, rising 45 percent (s.a.) in the first quarter, reflecting the high import content of Chinese exports as well as some strengthening in private domestic demand; as a result, the trade surplus has narrowed. Deflationary pressures have eased in the face of stronger economic activity and higher oil prices; consumer prices were roughly unchanged in March on a twelve-month basis.

In April, China's central bank announced its intention to move toward a more market-based system of interest rates, although no specific details or time frame were mentioned. (Interest rates in China remain well below U.S. levels.) Inflows of foreign direct investment (FDI) have recovered somewhat in recent months, partially reflecting expectations that China will soon enter the World Trade Organization (WTO). For example, contracted FDI inflows rose 20 percent in the first quarter from the same period a year earlier. However, bilateral agreements on China's accession to the WTO are still under negotiation with the European Union and some other WTO member states. The U.S. Congress is scheduled to vote on a related bill to grant China Permanent Normal Trading Relations (PNTR) during the week of May 22.

Chinese Economic Indicators
(Percent change from previous period, s.a., except as noted)

Indicator	1998	1999	1999	2000			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP[1]	9.5	6.2	10.6	9.6	...	...	...
Industrial production[2]	7.8	9.6	8.8	n.a.	13.2	16.9	13.0
Consumer prices[2]	-1.0	-1.0	-.8	.1	-.2	.7	-.2
Trade balance[3]	43.5	29.2	43.7	13.8	.2	9.0	32.3

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 **Hong Kong**, recent data suggest that economic activity remained robust. Exports rose 8 percent (s.a.) in the first quarter, aided by a pickup in trade flows to and from mainland China. Imports also rose sharply, however, with the trade deficit remaining roughly unchanged. The unemployment rate fell to 5.6 percent (s.a.) in the January-March period, down from 6.0 percent in the October-December period. Weakness in the property market and a price war among retailers continued to contain inflationary pressures; consumer prices in March were roughly flat on a seasonally adjusted basis, bringing the twelve-month decline to 5 percent. In late March, the Hong Kong Monetary Authority raised the base rate it charges at its discount window 25 basis points to 7.5 percent.

Hong Kong Economic Indicators
(Percent change from previous period, s.a., except as noted)

Indicator	1997	1998	1999	1999	2000		
				Q4	Q1	Feb.	Mar.
Real GDP[1]	2.2	-5.8	8.6	14.3	n.a.	...	...
Unemployment rate[2]	2.4	4.4	6.1	6.0	5.6	5.7	5.6
Consumer prices[3]	5.2	-1.6	-4.0	-4.1	-5.1	-5.1	-5.0
Trade balance[4]	-20.6	-10.6	-5.6	-8.2	-7.7	.8	-7.1

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 **Taiwan**, economic activity continued to expand at a rapid pace. Industrial production in March rose 4.4 percent (s.a.), driven by strong growth in the electronics and information technology sectors. Stronger domestic demand and rising oil prices caused consumer prices to edge up further through April, although the twelve-month rate of inflation remained low. In late March, Chen Shui-bian, leader of the pro-independence Democratic Progressive Party (DPP), won the presidential election, ending more than half a century of Nationalist Party rule. The Chinese government's response to the election outcome was relatively restrained. Also in late March, the central bank raised its rediscount rate to 4.625 percent from 4.5 percent, the first increase since July 1997.

Taiwan Economic Indicators

(Percent change from previous period, s.a., except as noted)

Indicator	1998	1999	1999	2000			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP[1]	3.3	6.8	10.1	n.a.	...	...	...
Unemployment rate[2]	2.7	2.9	2.9	3.0	2.9	3.0	n.a.
Industrial production	2.6	7.7	4.3	3.2	-.9	4.4	n.a.
Consumer prices[3]	2.1	.1	-.1	.9	.9	1.1	1.3
Trade balance[4]	5.9	11.0	8.8	8.9	4.8	8.3	9.3
Current account[5]	3.4	5.9	5.9	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, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

In **Russia,** GDP rebounded robustly in 1999, supported by a recovery in domestic demand and high oil prices. Industrial production in the first quarter rose nearly 2 percent (n.s.a.), and twelve-month consumer price inflation has decreased to 22 percent. In late March, Vladimir Putin won the presidential election in the first round, and took office May 7. Although Putin has not fully articulated his views on economic policy, he has emphasized the need for fiscal and structural reforms.

Russian Economic Indicators
(Percent change from previous period, s.a., except as noted)

Indicator	1998	1999	1999	2000			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP[1]	-9.0	10.0	16.7	n.a.	...	...	...
Industrial production, n.s.a.	-5.1	26.9	7.6	1.9	-7.9	3.6	7.2
Unemployment rate[2]	11.5	11.5	11.7	12.3	12.3	12.3	12.3
Consumer prices[3]	84.4	36.6	47.4	25.3	28.9	25.0	22.4
Trade balance[4]	15.1	33.4	38.2	n.a.	46.8	50.4	n.a.
Current account[5]	2.4	n.a.	n.a.	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, n.s.a., annual rate.

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