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Part 2

June 21, 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

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Domestic Nonfinancial Developments

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Overview

The pace of economic expansion appears to have slowed in the current quarter. Consumers, whose spending soared in the winter, increased their outlays for goods rather modestly this spring, and home purchases and starts seem to be subsiding; equipment outlays, though still strong, have decelerated after a Y2K-related surge in the first quarter. However, whether private demand has moved decisively onto a more moderate expansion track is not yet clear. Meanwhile, core consumer prices continue to evidence some tendency toward acceleration, reflecting in part the sustained tightness of the labor market and the ongoing pass-through of the sharp increase in petroleum prices over the past year.

Labor Market Developments

The employment report for May was surprisingly weak. While Census hiring led to an overall increase in nonfarm payroll employment, private employment fell 116,000, with the declines spread widely across industries. Aggregate hours of private production or nonsupervisory workers fell sharply in May, implying an appreciable drop in the average workweek. In the household survey, as well, there was a notable decline in employment, and the unemployment rate rose to 4.1 percent.

Given the absence of evidence elsewhere that labor demand has slackened noticeably, we are inclined to attribute the striking downswing in the May labor report mainly to statistical noise and seasonal adjustment problems.

Recognizing the noise in the monthly numbers, it makes sense to look at them on a moving average basis: The May drop came on the heels of very large gains in the preceding two months, so that private payroll growth averaged 185,000 in the March-May span, close to the 190,000 average of the prior twelve-months. As for seasonal considerations, first, the reference period fell early in the month and may have failed to capture some of the rising employment that the seasonal factors expect at this time of year.¹ Second, a shortage of workers may have inhibited normal hiring; the seasonal adjustment factors anticipate a particularly large gain in jobs in May. Alternatively, firms may have done their seasonal hiring earlier than usual--possibly in anticipation of intense competition for workers--and this could have contributed to the strong employment growth in March and April. Third, in an already tight labor market, the large amount of Census hiring may have drained some workers away from the private sector.

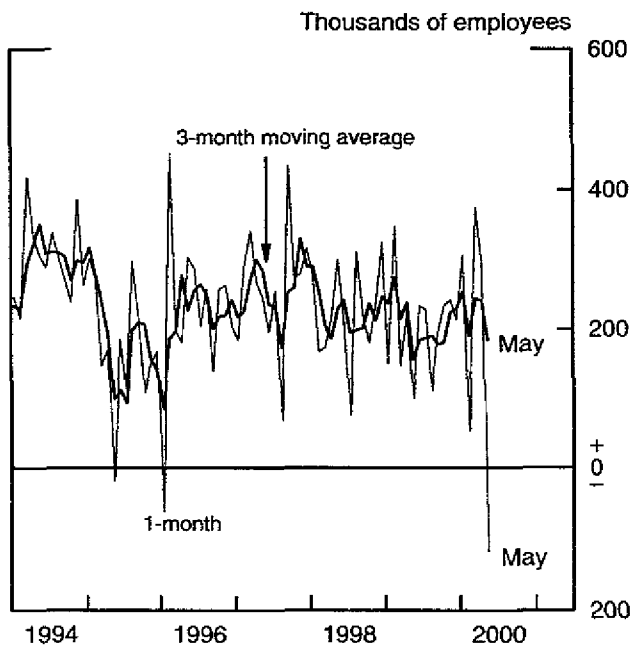
1. The BLS's seasonal adjustment procedures attempt to correct the payroll employment data for the timing of reference periods, but any given configuration of the calendar is sufficiently uncommon to render these corrections imprecise. Data from the household survey are not corrected for the timing of reference periods. This is probably not important for the unemployment rate, which exhibits no strong seasonality at this time of year. But May is a month of large flows into the labor force, and much of last month's decline in the labor force participation rate may be attributable to this source.

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

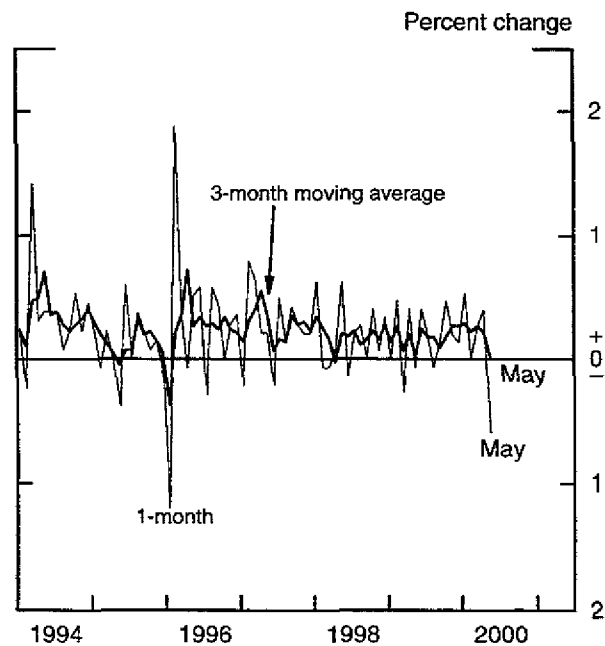
	1998	1999	2000 Q1	2000 Mar.	2000 Apr.	May
	-Average monthly change-					
Nonfarm payroll employment ¹	251	229	324	527	414	231
Previous	244	226	293	458	340	
Private	224	202	244	374	296	-116
Mining	-3	-3	2	3	3	-1
Manufacturing	-12	-18	-1	3	10	-17
Construction	37	25	58	108	-34	-29
Transportation and utilities	20	16	14	16	20	-11
Retail trade	30	36	30	49	176	-67
Wholesale trade	10	13	10	22	18	-4
Finance, insurance, real estate Services	22	10	3	-3	-10	-4
Total government	120	124	128	176	113	17
Census	28	28	80	153	118	347
			58	117	73	357
Total employment ²	156	159	246	-203	547	-991
Nonagricultural	169	155	220	-153	550	-934
Memo:						
Aggregate hours of private production workers (percent change) ^{1,3}	2.3	2.1	3.2	0.3	0.4	-0.6
Average workweek (hours) ¹	34.6	34.5	34.5	34.5	34.5	34.4
Manufacturing (hours)	41.8	41.7	41.7	41.7	42.2	41.4

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

Private Payroll Employment Growth



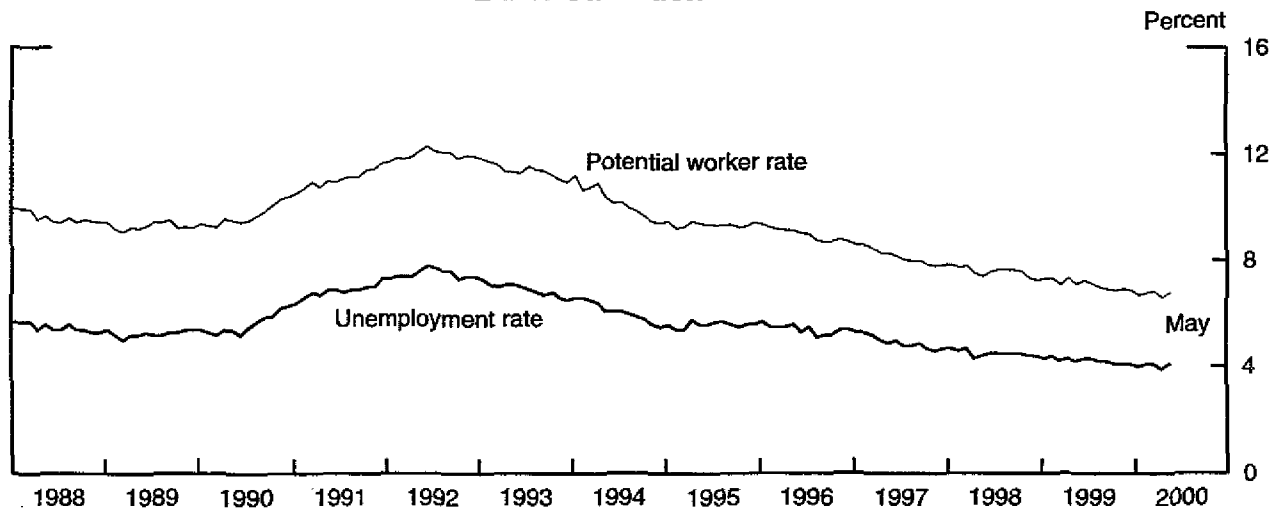
Aggregate Hours of Production or Nonsupervisory Workers



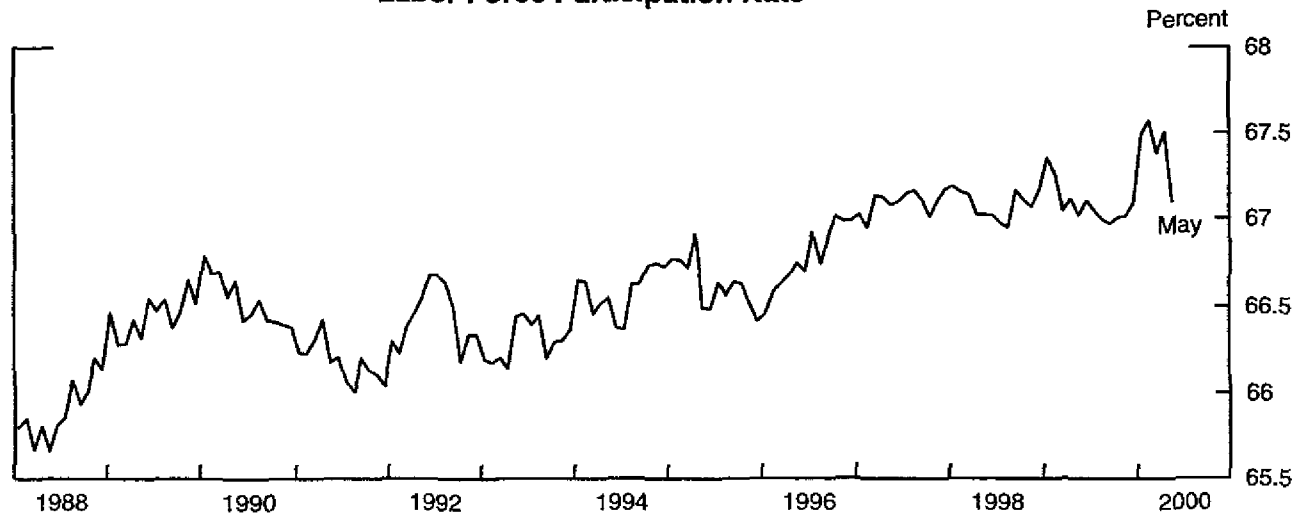
SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
 (Percent; based on seasonally adjusted data, as published)

	1998	1999	2000 Q1	2000 Mar.	2000 Apr.	2000 May
Civilian unemployment rate (16 years and older)	4.5	4.2	4.1	4.1	3.9	4.1
Teenagers	14.6	13.9	13.4	13.3	12.7	12.5
20-24 years old	7.9	7.5	7.5	7.6	7.2	8.2
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	3.2	3.2	3.0	3.3
Labor force participation rate	67.1	67.1	67.5	67.4	67.5	67.1
Teenagers	52.8	52.0	52.1	51.7	53.1	51.6
20-24 years old	77.5	77.6	78.6	78.4	78.3	77.2
Men, 25 years and older	76.2	76.1	76.3	76.1	75.9	75.8
Women, 25 years and older	59.2	59.5	60.0	60.1	60.3	59.9

Labor Utilization

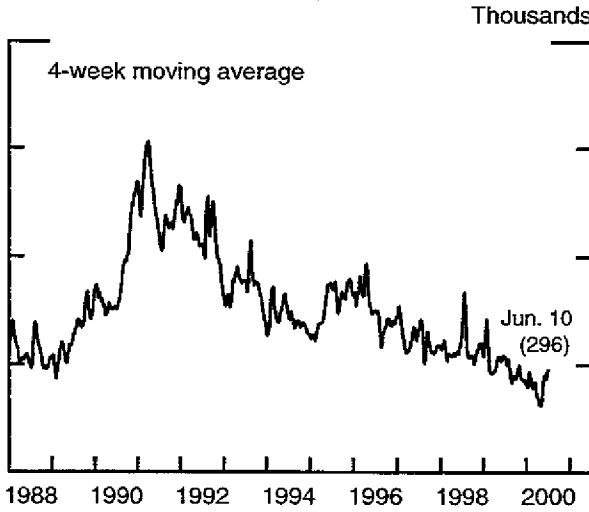


Labor Force Participation Rate



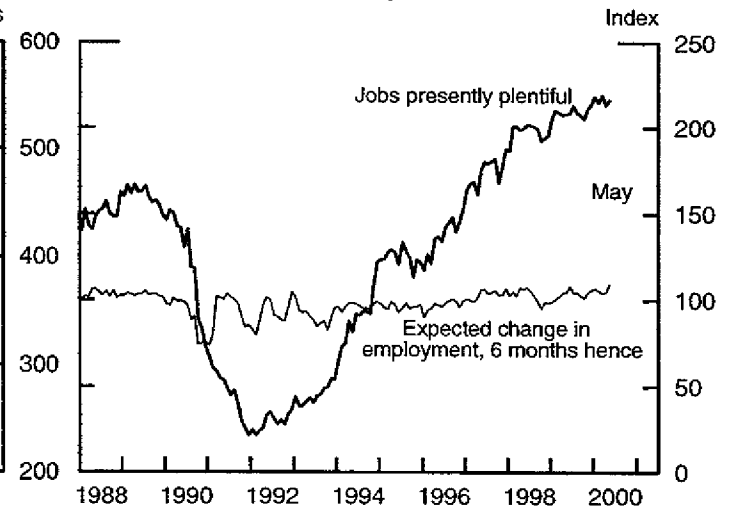
Labor Market Indicators

Initial Claims for Unemployment Insurance

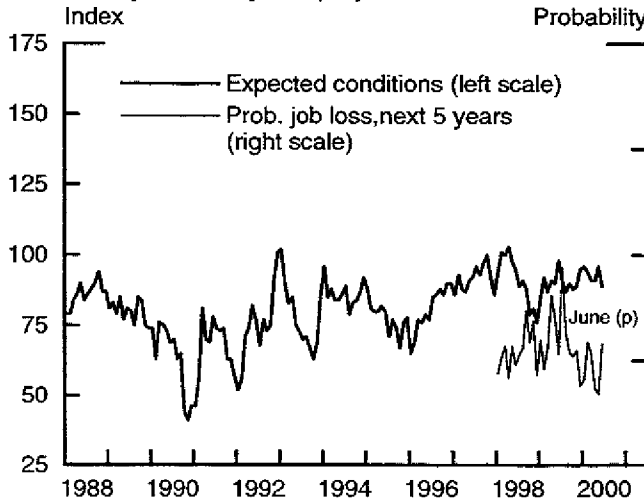


Note. State programs, includes EUC adjustment.

Conference Board: Employment Conditions

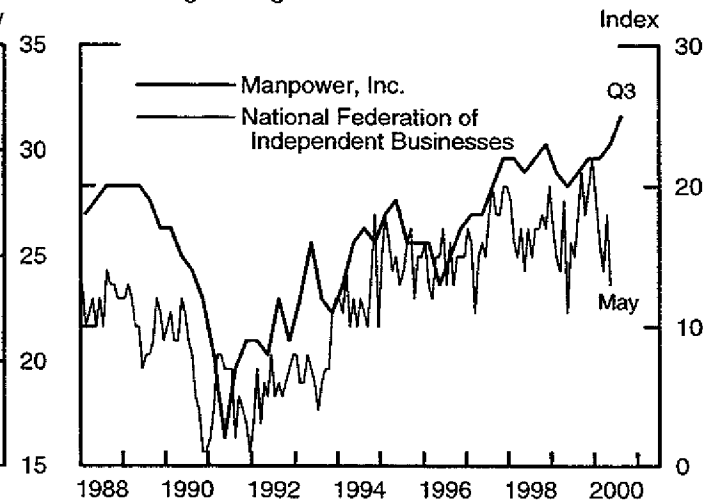


Michigan Survey: Employment Conditions



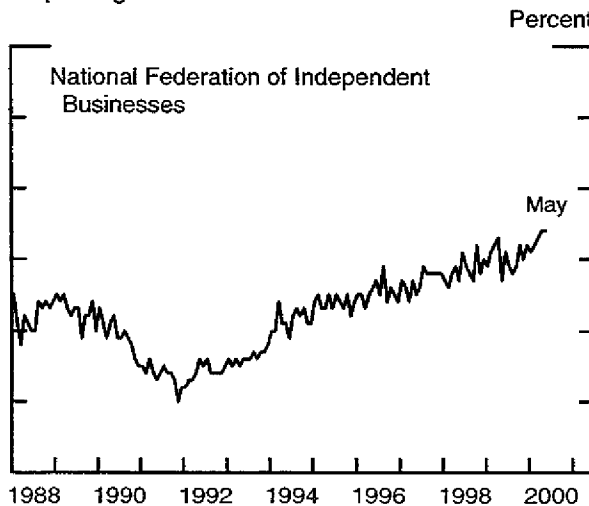
Note. Expected conditions index is the proportion of households expecting unemployment to fall, less the proportion expecting unemployment to rise, plus 100.

Net Hiring Strength

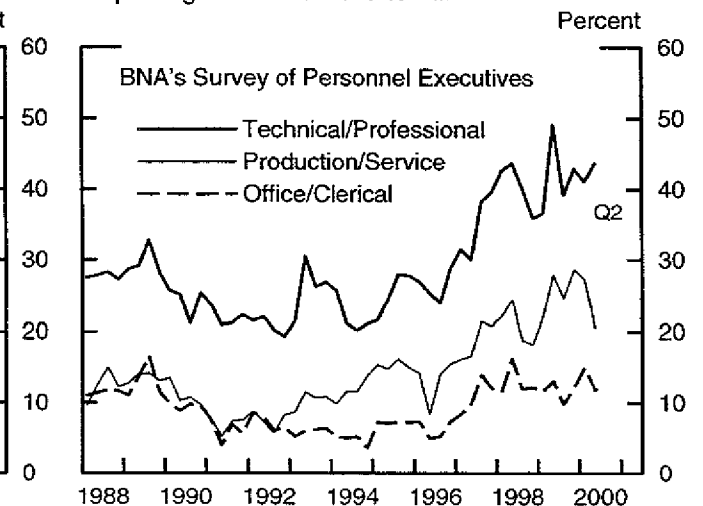


Note. Percent planning an increase in employment minus percent planning a reduction.

Reporting Positions Hard to Fill



Reporting Positions Hard to Fill



As noted, most other indicators of labor demand have yet to show appreciable weakening. Initial claims for unemployment insurance have moved up since April, but recent levels are similar to those we saw at the beginning of the year, when employment was increasing quite rapidly. The Conference Board and Michigan SRC surveys indicate that households continue to be fairly upbeat about employment prospects. From the employers' perspective, the latest reading on net hiring strength from Manpower's Employment Outlook Survey hit a record high, although a measure from the National Federation of Independent Businesses has dropped back some this year.² A second NFIB indicator--"positions hard to fill"--held at a record high in May,³ and similar measures from the Bureau of National Affairs continue to point to a tight labor market.

BLS now reports that productivity in the nonfarm business sector increased at an annual rate of 2.4 percent in the first quarter of 2000. As we have noted before, the estimates of first-quarter nonfarm productivity growth were held down by shifts in the timing of payments to defense contractors.⁴ Adjusting for this anomaly and small expected downward revisions to output and hours implied by the incoming data, nonfarm business productivity probably increased at an annual rate of about 4 percent in the first quarter and about 3.9 percent over the past four quarters.

The BLS report also included a preliminary estimate of productivity in the nonfinancial corporate sector for the first quarter of 2000. Output per hour in this sector rose at an annual rate of 3.6 percent in the first quarter and 4 percent over the four quarter quarters ended in 2000:Q1.⁵ Over the past few years, productivity in the nonfinancial corporate sector has increased, on average, about 1 percentage point per year faster than in the nonfarm business sector.

2. Although the latest Manpower survey results refer to the third quarter, historically the index, which began in 1976, has been more informative about the quarter in which the survey took place--in this case, the second quarter.

3. This NFIB series began in 1986.

4. A Y2K-related speed-up in payments to defense contractors boosted defense spending in the fourth quarter of 1999, and the subsequent "payback" depressed spending in the first quarter of 2000. We estimate that these anomalies raised measured productivity growth in the nonfarm business sector in the fourth quarter by 0.6 percentage point, depressed it in the first quarter by 1.2 percentage points, and will boost it again in the second quarter by 0.6 percentage point.

5. The defense spending anomaly probably did not distort the nonfinancial corporate figures. The latter are measured on the income side of the national accounts, and defense vendors most likely booked the early federal payments in the first quarter, when the services were actually rendered--in line with generally accepted accounting principles.

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

Sector	1997 ¹	1998 ¹	1999 ¹	1999			2000
				Q2	Q3	Q4	Q1
Total business	2.1	3.3	3.7	.8	4.7	6.6	1.8
Nonfarm							
As published	1.9	3.3	3.7	.5	5.0	6.9	2.4
Staff estimate, with adjustment for defense spending anomaly ²	1.9	3.3	3.6	.5	5.0	6.3	3.6
Nonfinancial corporations ³	3.2	4.2	4.2	3.4	4.0	5.1	3.6
MEMO							
Nonfarm business, staff estimate based on published income data ⁴	2.9	3.5	4.6	2.6	5.2	5.7	2.5

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

2. Adjusts for defense spending anomaly in 1999:Q4 and 2000:Q1 and for incoming data.

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

4. No adjustment for the defense spending anomaly necessary, as it likely did not affect the income side of the national accounts.

Average hourly earnings of production or nonsupervisory workers on private nonfarm payrolls rose just 0.1 percent in May after a 0.4 percent increase in April. Over the twelve months ended in May, hourly earnings rose 3.5 percent, a rate similar to the 3.6 percent increase over the preceding twelve months. Compensation per hour in the nonfarm business sector as calculated using NIPA estimates of worker compensation—a broader measure of labor costs than average hourly earnings—rose 4.3 percent over the four quarters ended 2000:Q1, compared with a 5.2 percent increase over the preceding four-quarter period. The first-quarter figure was revised only slightly from its earlier estimate, but BEA will have more opportunities to adjust the numbers in coming months as they receive additional data from unemployment insurance records.

Industrial Production

Manufacturing production increased 0.3 percent in May after a rise of 0.6 percent in April. The average gain for April and May fell below the average monthly gain of 0.6 percent in the first quarter, and available forward-looking indicators for the manufacturing sector point to even a bit slower pace of growth in the months ahead.

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	May ¹	June ¹	July ¹
U.S. production	13.1	13.4	13.7	13.3	13.4	13.6
Autos	5.6	5.7	5.8	5.7	5.6	5.8
Trucks	7.5	7.6	8.0	7.5	7.8	7.9
Days' supply						
Autos	50.1	n.a.	n.a.	52.2	n.a.	n.a.
Light trucks ²	63.7	n.a.	n.a.	73.5	n.a.	n.a.

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

1. Production rates reflect actual May data and manufacturers' schedules for June, July, Q2, and Q3.

2. Excludes medium and heavy (classes 3-8) trucks.

n.a. Not available.

Motor vehicle production has increased in the current quarter. Assemblies in April and May averaged 13.3 million units (annual rate), up from the 13.1 million pace recorded in the first quarter. The increase in production has occurred as sales of cars and light trucks have eased, allowing inventories to be rebuilt after reaching unusually low levels in the first quarter: Days' supply for light vehicles overall, which had fallen to 54 in February, was at the comfortable level of 63 in May. Looking ahead, assembly schedules for the third quarter call for production of 13.7 million units, but substantial underbuilds are likely because of the large number of new models being introduced during the model changeovers this summer.⁶ In addition, although inventories are generally in good shape, there are a few pockets of imbalances and some production cuts have been announced.

Measured output growth in the high-tech sector has stepped down in recent months but is still rapid. The output of semiconductor manufacturers, the stellar performers in the industrial sector so far this year, zoomed in February and March, increasing about 10 percent each month in response to exceptionally heavy demand. The rate of increase tapered off somewhat in April and May as fabrication plants started to hit capacity constraints--estimated capacity utilization is running above 100 percent. These supply constraints are placing upward pressure on prices for semiconductors and have also led to shortages for certain types of chips. However, as of yet, there are only a few reports of chip

6. On an FRB basis, if the underbuilds were to materialize, assemblies likely would show a decline, but the BEA estimates, which are produced with a considerably different set of seasonal factors, could well show an increase.

INDUSTRIAL PRODUCTION
(Percent change from preceding period)

	2000	1999		2000	2000		
	May	Q3	Q4	Q1	Mar.	Apr.	May
	--Proportion--	--Annual rate--			--Monthly rate--		
TOTAL INDEX	100.0	4.8	5.3	6.6	.7	.7	.4
MANUFACTURING	88.5	4.7	7.1	7.0	.8	.6	.3
Durables	51.2	8.7	7.0	11.9	1.5	1.1	.7
Nondurables	37.3	-.4	7.2	.8	-.2	.0	-.2
MINING	5.4	4.8	5.2	4.0	1.6	.4	.3
UTILITIES	6.1	6.6	-16.6	4.2	-1.9	2.6	1.4
Manufacturing	88.5	4.7	7.1	7.0	.8	.6	.3
Motor vehicles and parts	5.4	7.4	3.7	1.2	1.4	.2	.7
Aircraft and parts	2.2	-13.4	-22.7	-15.1	.0	-1.3	-.1
High technology	11.9	44.9	31.2	60.1	5.1	3.8	3.3
Semiconductors and related	5.3	53.0	52.1	92.1	7.9	5.2	4.0
Communication equipment	2.8	29.2	-2.9	35.6	2.2	2.8	2.8
Computers	3.7	47.0	40.4	44.3	3.5	2.8	2.6
Remaining manufacturing	69.1	.7	5.7	2.1	.1	.2	-.2
Chemicals	9.5	2.2	17.6	-.5	-1.1	.0	-.4
Paper and products	3.2	3.1	6.8	-2.8	1.0	1.3	-1.0
Publishing	6.4	-1.0	8.0	-.2	.1	-.8	.4
Food	8.4	-4.6	3.9	1.5	.5	-.1	-.1
Petroleum products	1.5	1.9	-1.8	6.5	2.7	-1.0	.7
Lumber and products	2.1	-6.6	.3	1.7	-1.1	-.2	-.1
Primary metals	3.2	12.0	7.3	4.4	1.9	.4	-.4
Industrial machinery ex. comp.	7.4	-4.8	4.2	13.7	.9	.5	-.5

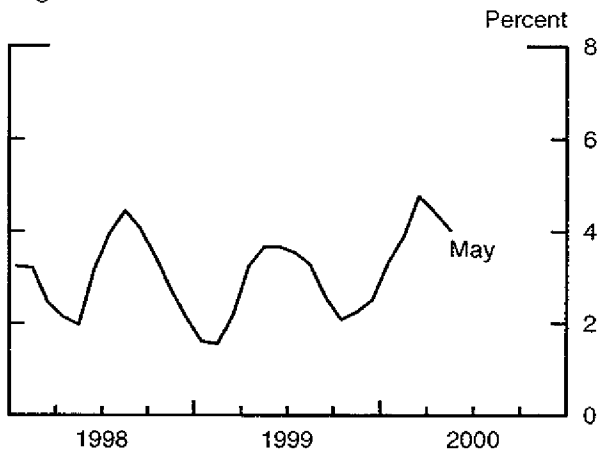
CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1988-89	1959-99	1999		2000	2000		
	High	Avg.	Q3	Q4	Q1	Mar.	Apr.	May
Manufacturing	85.7	81.6	79.7	80.3	80.8	81.0	81.3	81.2
Primary processing	88.9	82.9	82.8	83.7	83.7	83.6	83.9	83.5
Advanced processing	84.2	81.1	78.7	79.1	79.9	80.2	80.4	80.5

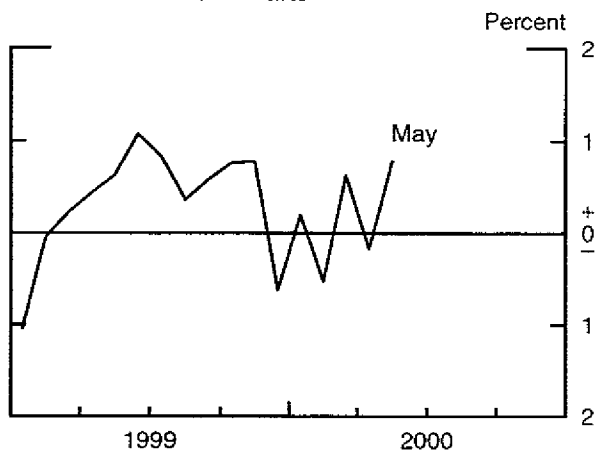
Components of Manufacturing IP

(Percent change of 3-month moving average)

High-Tech Industries

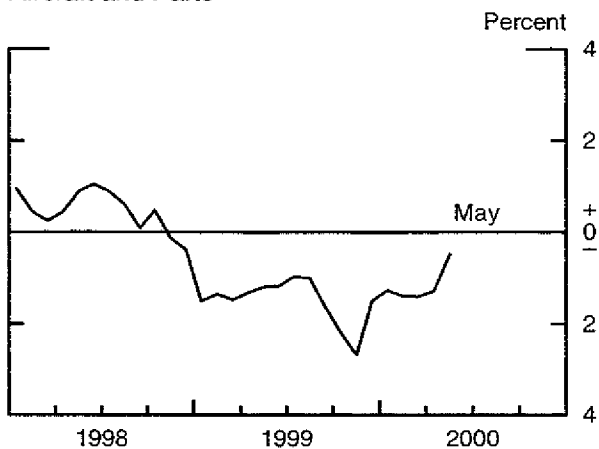


Motor Vehicles and Parts

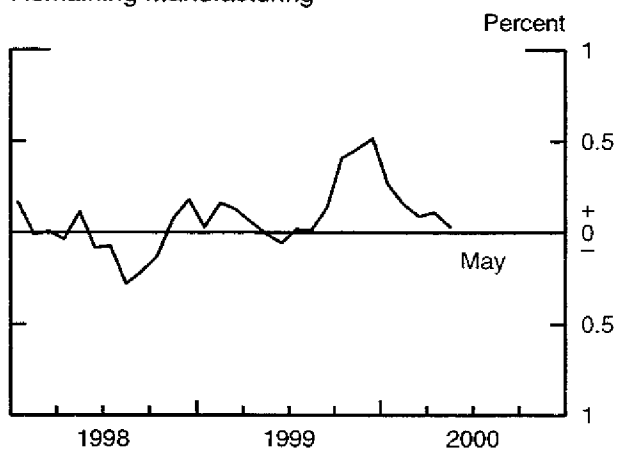


Note. Computers, semiconductors, and communications equipment.

Aircraft and Parts



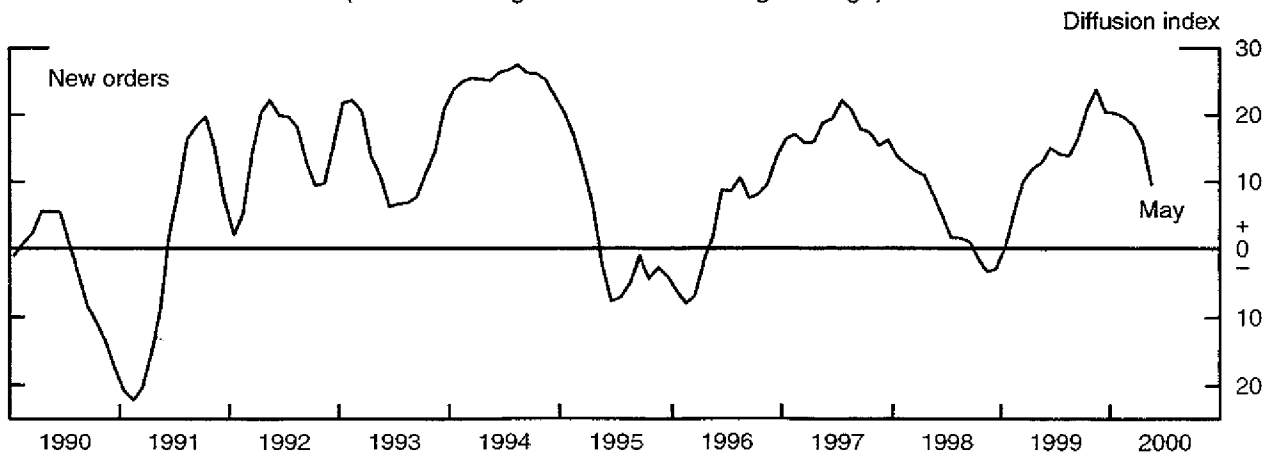
Remaining Manufacturing



Note. Manufacturing less high-tech, motor vehicles and parts, and aircraft and parts.

Indicators of Future Production: NAPM

(Percent change of 3-month moving average)



shortages holding back production in other industries producing electronic goods.

In response to the surge in demand, investment in semiconductor plants has been picking up. We now estimate that domestic semiconductor capacity, measured in quality-adjusted terms, will increase 84 percent this year.⁷ However, most of the additional capacity generated by this year's investment will not come on line until next year. Thus, the short-term outlook appears to be for a continued tight market for semiconductors.

Production of aircraft and parts has continued to decline, although more slowly than earlier in the year, as the step-down in production at Boeing has moderated. Growth in manufacturing output outside of the high-tech, motor vehicle, and aircraft sectors has slowed. The production of nondurables has edged down slightly this year after surging late last year.

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

Component	Share, 1999:H2	1999	2000			
		Q4	Q1	Feb.	Mar.	Apr.
Total orders	100.0	1.3	2.9	-1.7	4.2	-6.5
Adjusted orders ¹	70.0	.9	4.3	.0	4.7	-6.5
Computers	6.0	.1	6.1	3.3	-1.4	11.7
Communication equipment	5.0	15.4	-2.4	-5.6	5.8	2.7
Other capital goods	13.0	-1.2	10.0	-10.0	6.1	-1.9
Other ²	46.0	.2	3.3	3.5	4.9	-11.0
MEMO						
Real adjusted orders ³	...	1.2	5.0	.3	4.9	-6.2
Excluding electronic components	...	.5	4.2	-3.1	3.2	-1.0

1. Orders excluding defense capital goods, nondefense aircraft, and motor vehicle parts.

2. Primary metals, most fabricated metals, most stone, clay, and glass products, electronic components, household appliances, scientific instruments, and miscellaneous 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.

... Not applicable.

7. To place the current chip shortages in context, we note that only 15 percentage points of this year's increase in capacity reflects the ability to produce a greater number of chips; the rest reflects the higher quality of the chips being produced.

Looking ahead, indicators point to a continuation in the coming months of more moderate increases in manufacturing activity than earlier this year. The diffusion index for new orders from the National Association of Purchasing Management--though still positive--has eased somewhat. Excluding electronic components, durable goods orders also paint a picture of a moderate slowing in the growth of manufacturing production in the months ahead. The sharp drop in the staff's series on real adjusted durable goods orders in April should be discounted because it largely reflected an anomalous plunge in orders for semiconductors, an area in which underlying demand is soaring and for which orders were up sharply in the preceding months.

Consumer Spending and Income

After several quarters of outsized gains--including a first-quarter surge of 7-1/2 percent at an annual rate--real consumer spending appears headed for a much smaller increase in the current quarter. The drop-back is not surprising given the fading impetus from earlier wealth gains and the possibility that consumers need a breather. The underlying fundamentals have remained relatively favorable--although stock prices have been essentially unchanged on balance this year, income has continued to advance solidly and sentiment remains very positive.

Sales of light vehicles in May, adjusted for shifts in reporting periods, were 17.5 million units (annual rate), up 400,000 units from April but more than 3 percent below the blistering first-quarter pace. The latest readings on consumer attitudes about purchasing a new vehicle are still in a favorable range, and overall industry incentives remain high.

Nominal retail sales in the control group of stores, which excludes automotive dealers and building material and supply outlets, increased 0.2 percent in May after having edged down 0.1 percent in April. Large increases in sales were posted at apparel, general merchandise, and drug stores in May, but spending fell at furniture and appliance dealers, food stores, and restaurants. Sales at stores in the "other durable goods" category and at gasoline service stations registered moderate increases, although Department of Energy data indicate that real purchases of gasoline fell somewhat last month.

Translating the data on retail sales and unit sales of light vehicles, we estimate that, after having risen at a whopping 9-3/4 percent annual rate over the past two quarters, real consumer purchases of goods in April and May were little changed, on average, from their first-quarter level. Growth in spending has slowed in all of the major aggregates of goods. In contrast, the trend in real outlays for services has remained fairly steady: April's increase was just a shade below the strong 1/2 percent average monthly increase recorded during the first quarter and about the same as the pace of growth during 1999. In keeping with

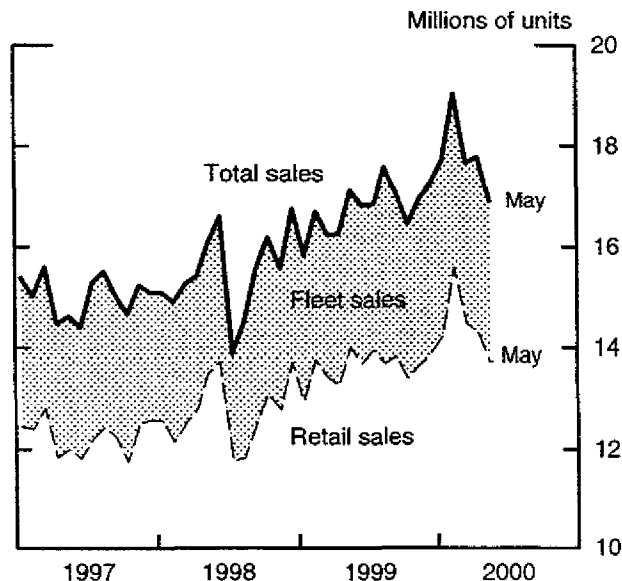
SALES OF AUTOMOBILES AND LIGHT TRUCKS
(Millions of units at an annual rate, FRB seasonals)

	1998	1999	1999		2000	2000		
			Q3	Q4	Q1	Mar.	Apr.	May
Total¹	15.5	16.8	17.2	16.9	18.1	17.7	17.1	17.5
Autos	8.2	8.7	8.8	8.8	9.3	8.8	9.0	9.1
Light trucks	7.3	8.1	8.3	8.1	8.9	8.9	8.1	8.4
North American²	13.4	14.3	14.7	14.1	15.3	14.9	14.2	14.6
Autos	6.8	7.0	7.1	6.9	7.3	6.9	7.0	7.0
Big Three	4.7	4.9	4.8	4.7	5.1	4.8	4.9	4.8
Transplants	2.1	2.1	2.3	2.2	2.1	2.1	2.1	2.2
Light trucks	6.7	7.3	7.6	7.3	8.0	8.0	7.2	7.6
Foreign Produced	2.0	2.5	2.5	2.8	2.8	2.7	2.9	2.9
Autos	1.4	1.7	1.7	2.0	2.0	1.9	2.0	2.1
Light trucks	.7	.8	.7	.9	.8	.8	.8	.9
Memo:								
Total, as reported	15.4	16.8	17.2	16.9	18.1	17.7	17.8	16.9

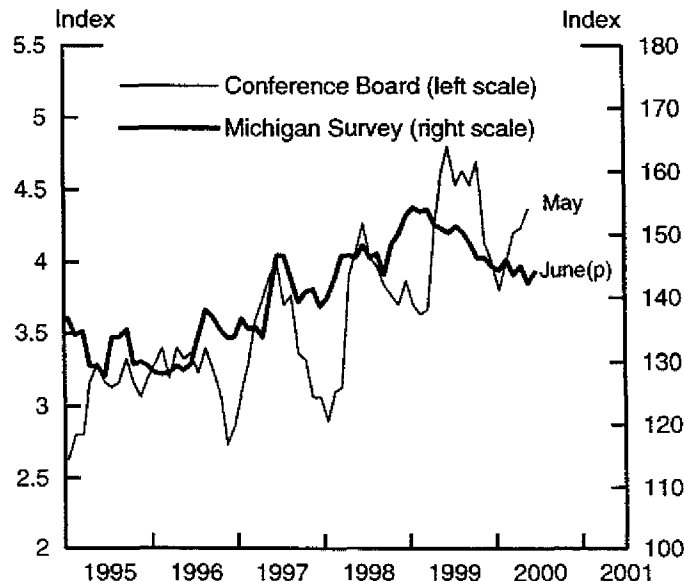
Note. Components may not add to totals because of rounding. Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.

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

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



Buying Plans/Conditions for New Vehicles
(3-month moving average)



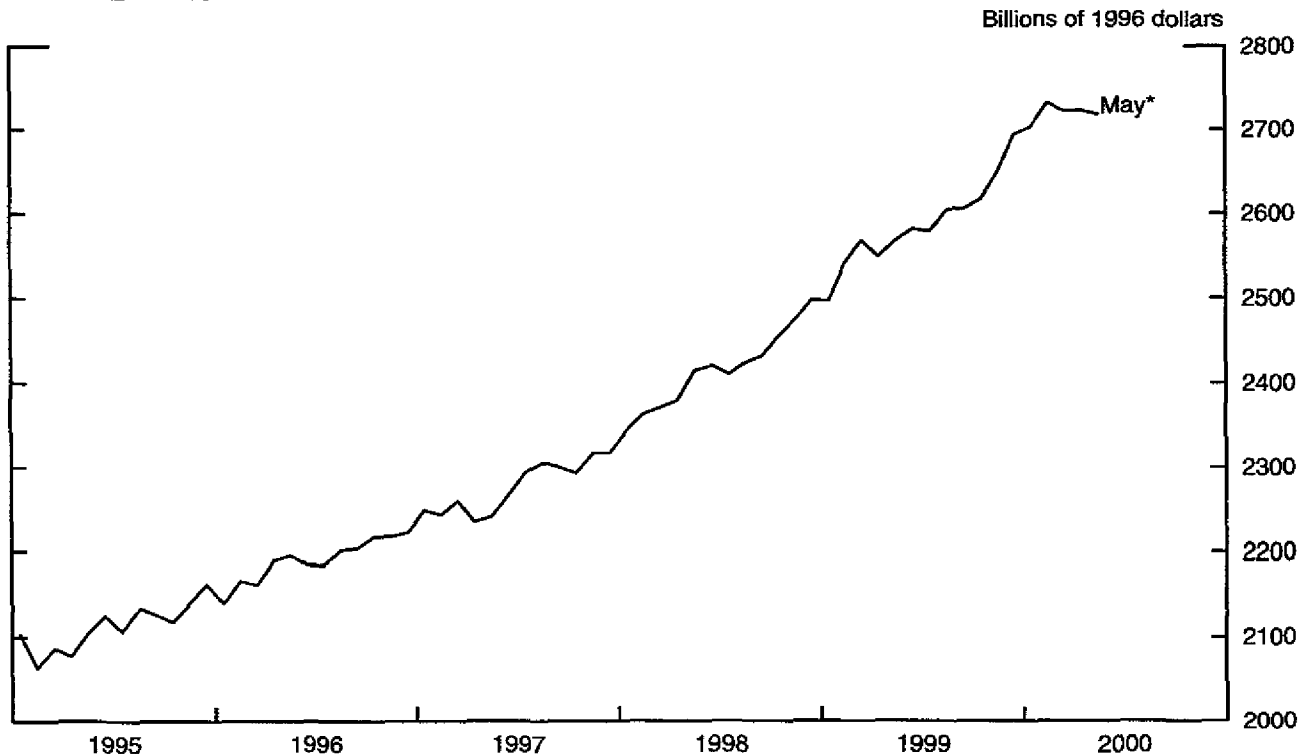
Note. Staff estimates based on confidential data.

RETAIL SALES
(Percent change; seasonally adjusted)

	1999	2000	2000		
	Q4	Q1	Mar.	Apr.	May
Total sales	2.3	3.2	.4	-.6	-.3
Previous estimate		3.2	.5	-.2	
Retail control ¹	2.6	2.8	.9	-.1	.2
Previous estimate		2.8	.9	.1	
Durable goods stores	2.1	3.8	-.6	-1.2	-1.0
Previous estimate		3.9	-.3	-.5	
Furniture and appliances	2.3	3.6	.6	.7	-.3
Other durable goods	5.5	2.9	-1.3	-.3	.4
Nondurable goods stores	2.4	2.8	1.2	-.1	.2
Previous estimate		2.7	1.1	.1	
Apparel	.3	3.2	1.2	-.9	1.1
Food	2.7	-.1	.9	1.5	-.5
General merchandise ²	1.7	2.4	.7	.3	1.2
Gasoline stations	5.2	7.7	5.1	-4.4	.3
Other nondurable goods ³	2.4	3.5	.4	.0	-.2
Eating and drinking	2.9	2.5	1.3	-.4	-.5
Drug and proprietary	2.2	1.2	1.4	.4	.7

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.

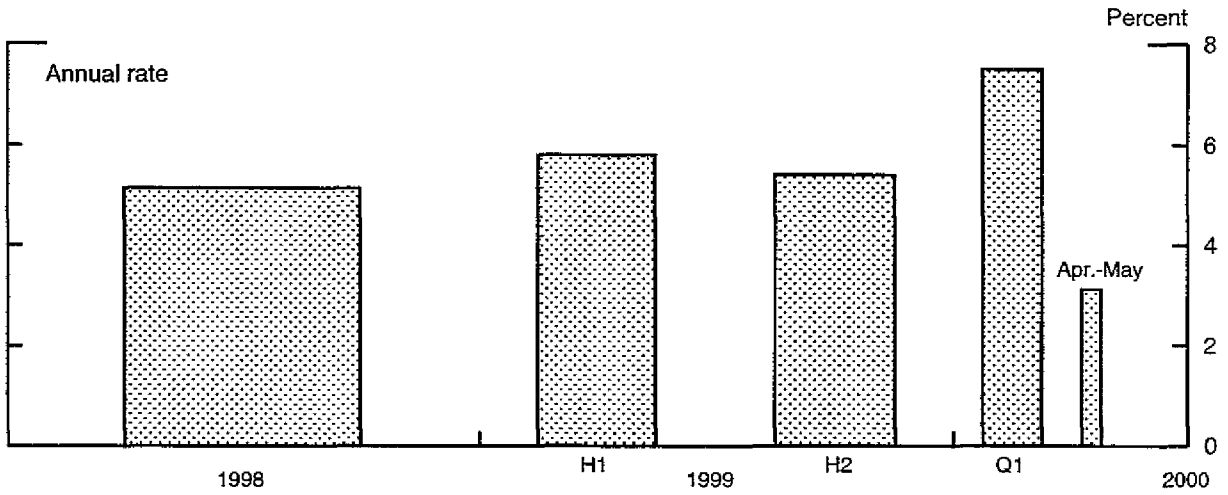
Real PCE Goods



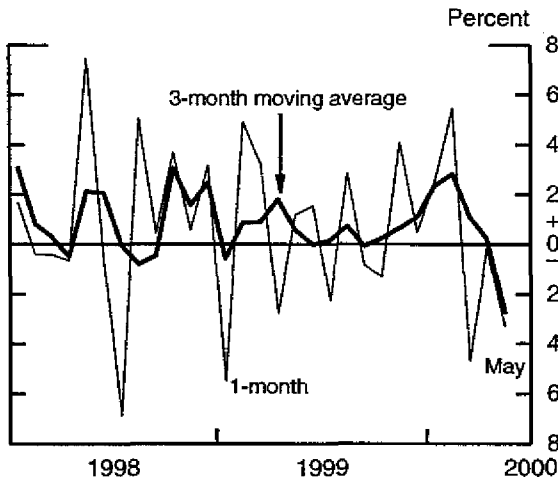
*Staff estimates for March through May.

Change in Real Personal Consumption Expenditures

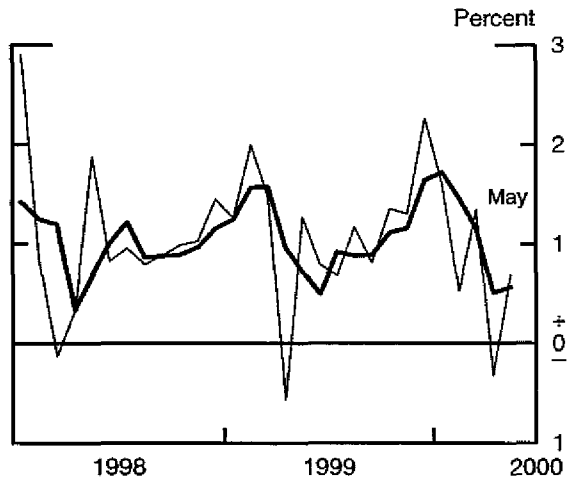
Total



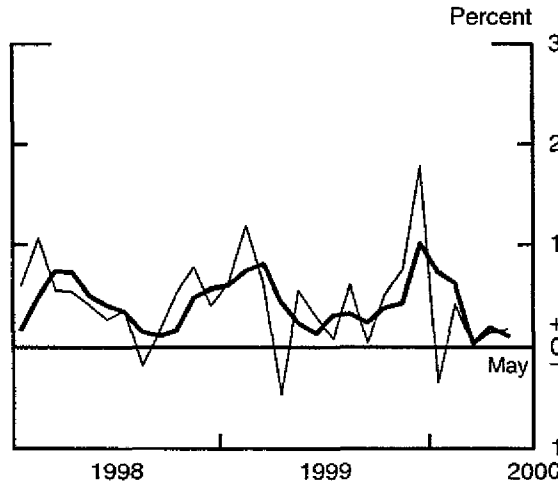
Motor Vehicles



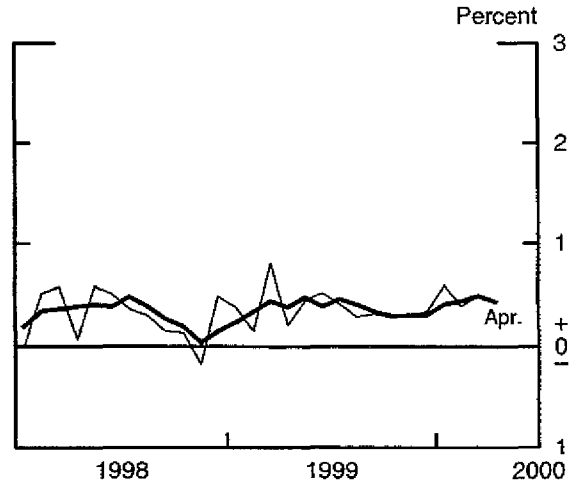
Durables Excl. Motor Vehicles



Nondurable Goods

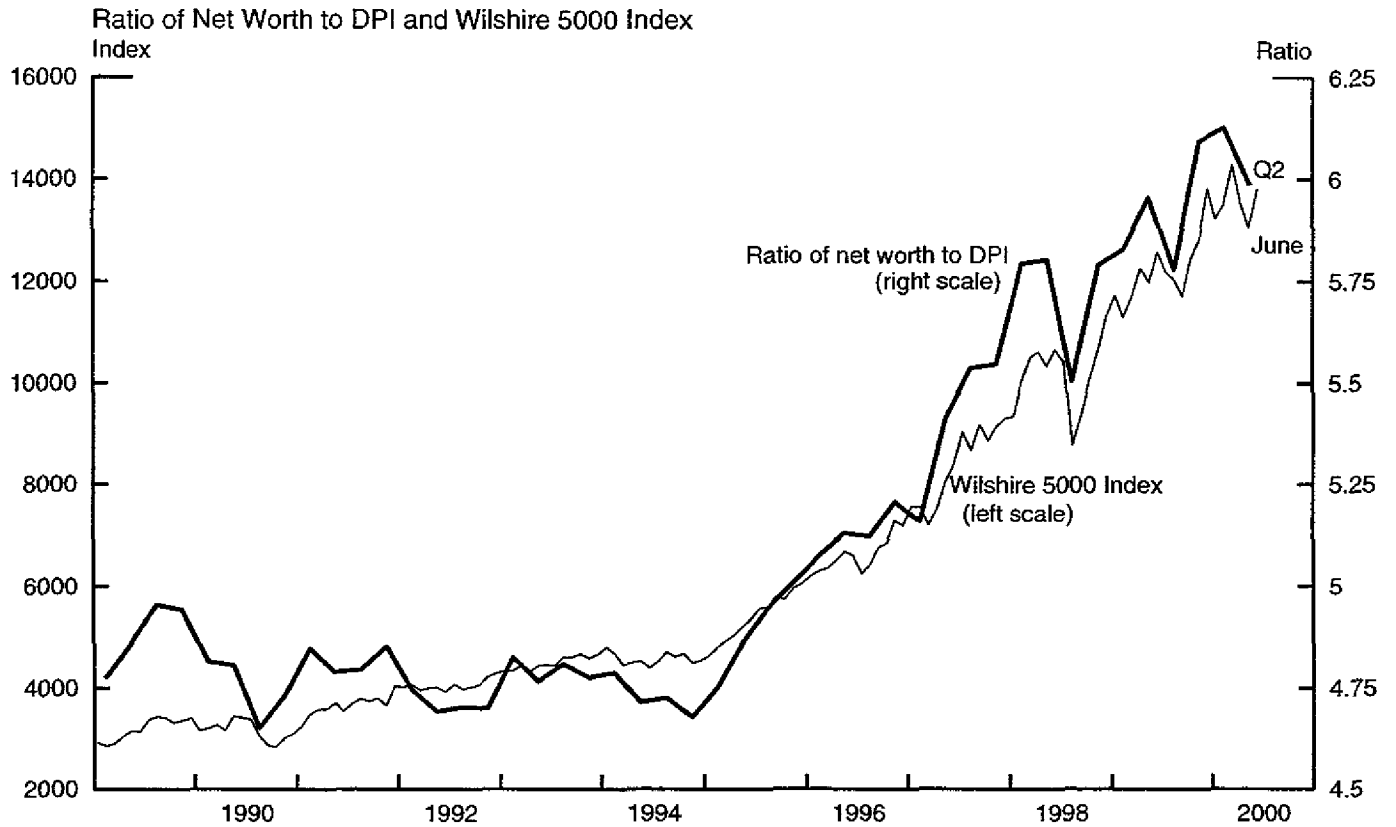


Services

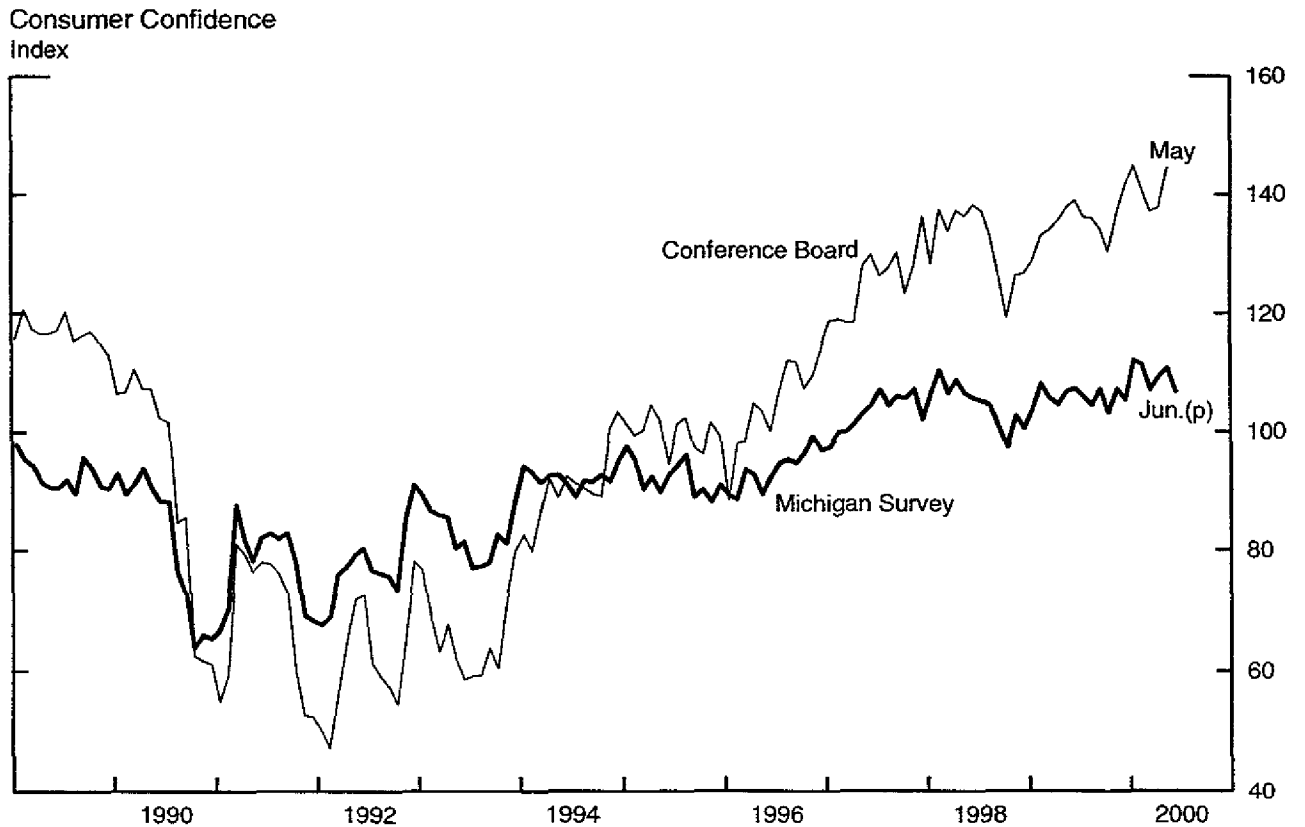


Note. For goods, data for March through May are staff estimates. The total includes a staff estimate for services for May.

Household Indicators



Note. End-of-month values are plotted for the Wilshire 5000, except in June, for which June 20 is shown. Net worth is calculated as of the end of each quarter. The Q2 figure is an estimate.



Private Housing Activity

(Millions of units; seasonally adjusted annual rate)

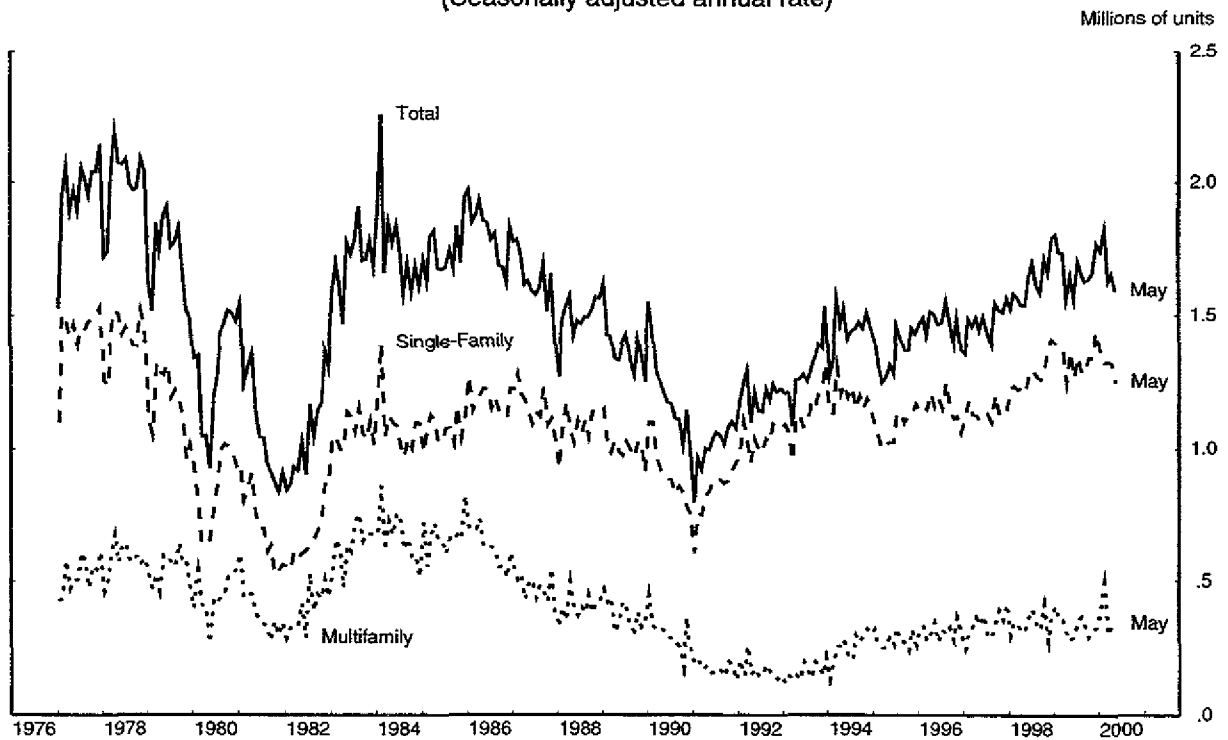
	1999			2000			
	1999	Q3	Q4	Q1 ^r	Mar. ^r	Apr. ^r	May ^p
<i>All units</i>							
Starts	1.67	1.66	1.69	1.73	1.63	1.66	1.59
Permits	1.66	1.63	1.67	1.67	1.60	1.56	1.49
<i>Single-family units</i>							
Starts	1.33	1.31	1.38	1.34	1.33	1.32	1.25
Permits	1.25	1.23	1.24	1.26	1.24	1.16	1.14
Adjusted permits ¹	1.34	1.32	1.33	1.34	1.33	1.28	1.22
<i>New home sales</i>							
Existing home sales	.91	.90	.91	.94	.97	.91	n.a.
<i>Multifamily units</i>							
Starts	.33	.36	.31	.40	.30	.34	.34
Permits	.42	.40	.43	.41	.36	.40	.35
<i>Mobile homes</i>							
Shipments	.35	.33	.31	.30	.29	.27	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)



recent trends, recreational services, telephone services, and personal care services all rose at robust rates in April.

Disposable personal income appears to be rising at a solid pace so far this quarter. The employment report for May points to a decline in private wage and salary disbursements in that month. However, this drop comes on the heels of a 1 percent surge in April, and we estimate that the average level of nominal private wage and salary disbursements in April and May was above the first-quarter level by about 1-1/2 percent (not at an annual rate). The Wilshire 5000 index is still near its value at the end of last year, so unless stock prices jump over the next week, household net worth should show little net gain over the first half of this year.⁵

The available information from consumer surveys suggests that confidence has remained extremely high. However, the early reading of the Michigan SRC index of consumer sentiment did show a small drop, reflecting deteriorations in all but one of the five components.

Housing Markets

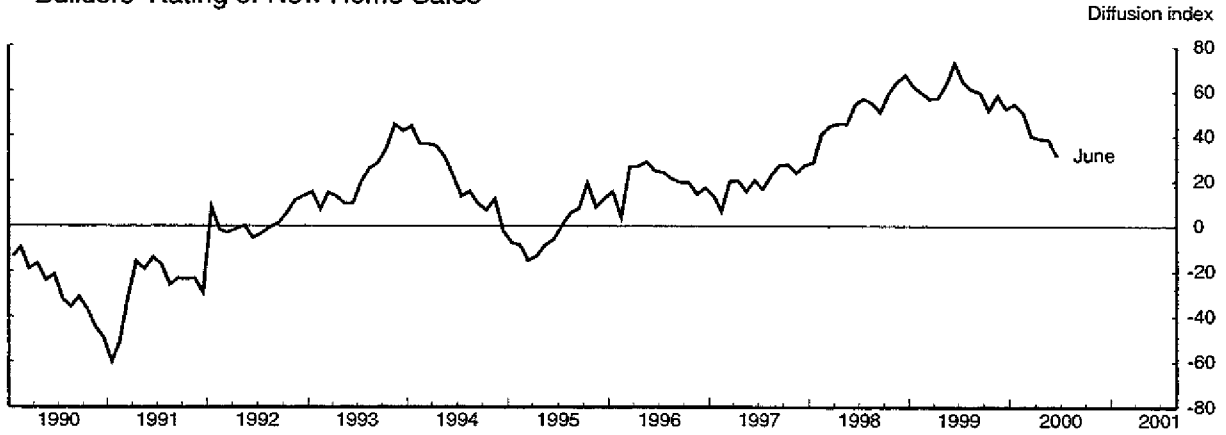
Recent indicators suggest that housing activity may finally be weakening, as the effects of higher mortgage rates apparently have begun to outweigh the boost from increases in income and wealth that has supported demand for some time. Starts of single-family houses, which were 1.33 million in 1999 and ran at about the same pace in the first four months of this year, slipped to an annual rate of 1.25 million in May. Adjusted permits for these units also declined over the past two months, suggesting that the drop in starts is not a statistical fluke. Sales of new single-family homes have yet to show a slackening, having averaged 928,000 (annual rate) during the first four months of this year, 2-1/2 percent more than the 1999 level. By contrast, existing home sales during the January-April period, at an annual rate of 482,000, were 7-1/4 percent below their 1999 average.

More timely indicators of single-family activity point to continued slowing. Builders' ratings of new home sales declined in June and have slumped significantly during the past year or so. According to the Michigan survey, consumers' assessments of homebuying conditions also have deteriorated

5. In the flow of funds accounts, household balance sheets are valued on an end-of-quarter basis.

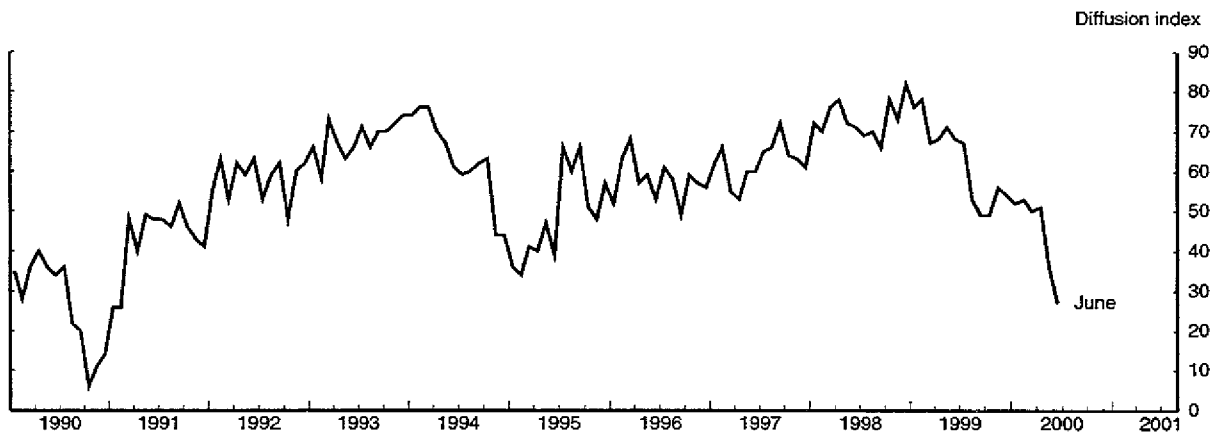
Indicators of Housing Demand

Builders' Rating of New Home Sales



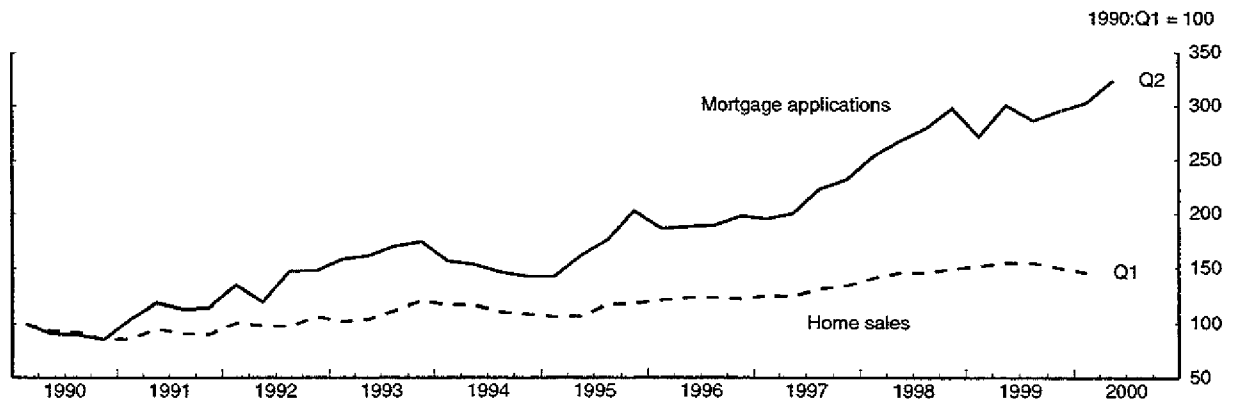
Note. Calculated from National Association of Homebuilders' data as the proportion of respondents rating current sales as good minus the proportion rating them as poor. Seasonally adjusted by Board staff.

Perceived Homebuying Conditions



Source. Michigan Survey, not seasonally adjusted.

Purchase Applications and Home Sales



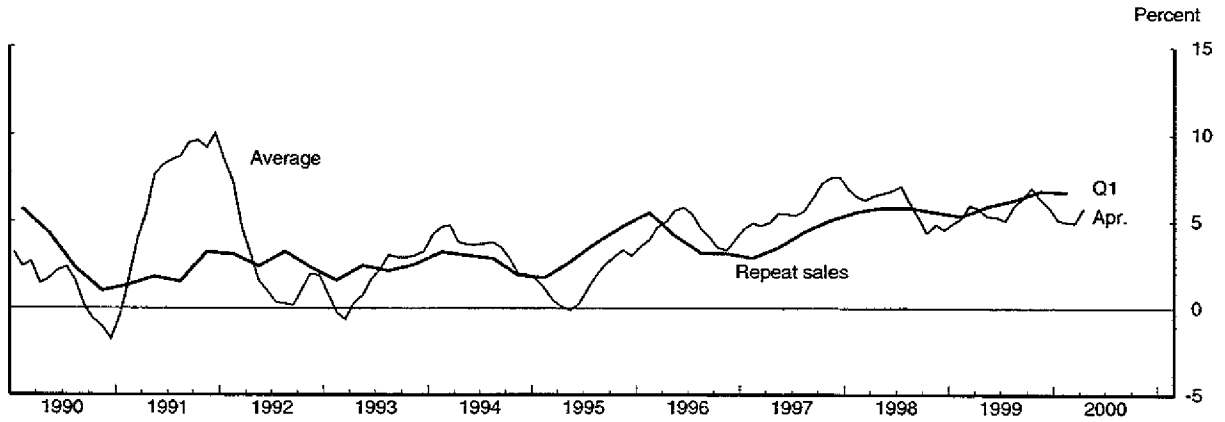
Note. Home sales include new sales, in buildings with one-to-four units, and existing sales, including condos and coops. The Q2 reading for mortgage applications is the average of weekly data through June 16.

Source. Mortgage Bankers Association, National Association of Realtors, and Census Bureau.

House Prices and Construction Costs

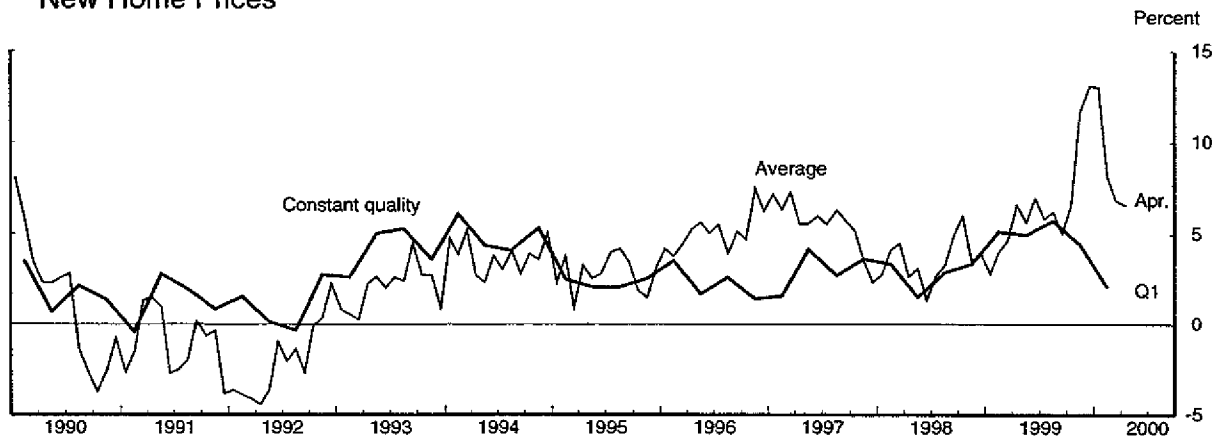
(Change from year earlier, except where noted)

Existing Home Prices



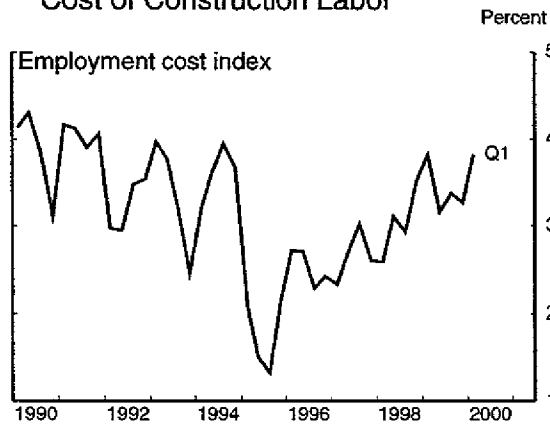
Note. The average price is a 3-month moving average of the 12-month percent change.

New Home Prices



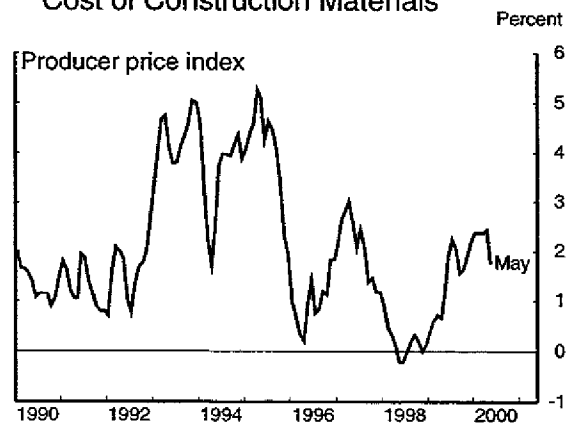
Note. The average price is a 3-month moving average of the 12-month percent change.

Cost of Construction Labor



Note. ECI for total compensation.

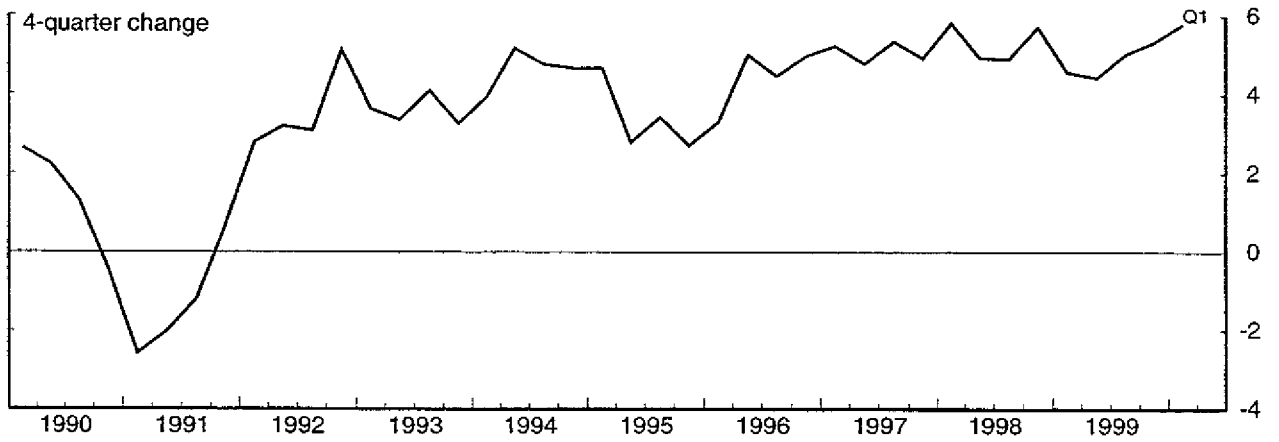
Cost of Construction Materials



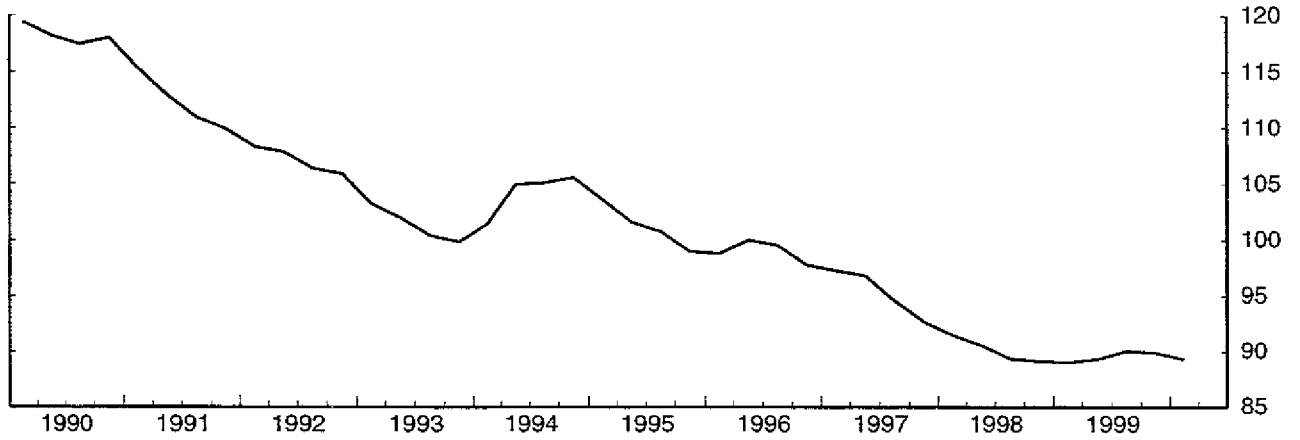
Note. PPI intermediate materials and components for construction.

Equipment Investment Fundamentals

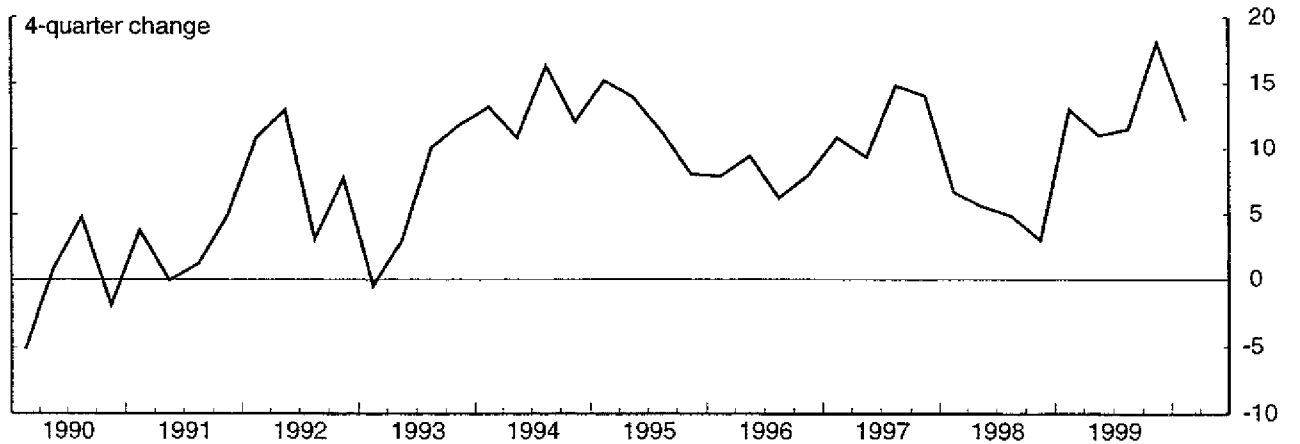
Business Output



User Cost of Capital



Real Cash Flow



sharply, with increasing numbers of households citing higher mortgage rates and higher house prices as reasons why it is a bad time to buy.⁶

The average price of existing homes was up 6.2 percent in April from a year earlier. The year-over-year change in Freddie Mac's repeat sales index, which measures sales of the same units over time, was unchanged in the first quarter but was up 6.7 percent on a year-over-year basis. The average price of new homes in April was up 8.7 percent from a year earlier. However, the constant-quality new home price index posted a year-over-year increase of only 1.9 percent in the first quarter.

Recent data on builders' costs show an end to the acceleration over the past few years: The employment cost index for construction workers rose 3.8 percent during the twelve months ended in March--the same as in the year-earlier period--and the twelve-month change in the producer price index for construction materials has been hovering in the 2 percent range for about a year. Moreover, the most recent indicators point to a considerable softening in the costs of builders' materials: The PPI for construction materials declined in May, and spot prices for lumber have fallen over the past month.

In the multifamily sector, starts were at an annual rate of 342,000 units in May, continuing to run above the average level in 1999. However, May starts were somewhat high relative to permits, suggesting that starts of these units will moderate in June.

Business Fixed Investment

Equipment and software. Smoothing through the recent fluctuations associated with the century date change, there is scant evidence that capital expenditures have begun slowing in response to higher interest rates or a less favorable stock market. To the contrary, real expenditures on equipment and software appear likely to advance at a rapid pace again in the second quarter. The strength reflects continued positive investment fundamentals. Business

6. The Mortgage Bankers Association (MBA) index of applications for mortgages to purchase homes has continued its upward trend--seemingly at odds with the indicators that suggest that housing activity has begun to weaken. However, we are inclined to discount the high level of applications because the series appears to contain an upward trend that greatly exceeds that of total home sales. One factor underlying this divergence is that the MBA sample consists mainly of large, national lenders. During the past decade the industry has been consolidated, so the share of total originations captured by the MBA sample has trended up over time. A second factor is that the incidence of multiple applications has increased as application fees have declined, and it has become more common for buyers to get pre-approved by one lender but borrow from another. Given that trends in these factors are unlikely to be stable over time, the MBA index is not likely to be especially helpful in identifying turning points in the housing market.

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

	1999		2000	2000		
	Q3	Q4	Q1	Feb.	Mar.	Apr.
<u>Equipment and software</u>						
Shipments of nondefense capital goods	2.1	-.1	3.9	-2.6	2.1	3.7
Excluding aircraft and parts	3.8	.3	6.0	-2.0	3.9	1.8
Office and computing equipment	5.1	-.6	7.4	1.2	.4	11.1
Communications equipment	5.4	-1.7	13.9	-.3	1.3	3.0
All other categories	2.7	1.4	3.1	-4.0	6.4	-2.7
Shipments of complete aircraft	15.0	-4.5	-24.4	-29.4	-46.4	106.5
Medium & heavy truck sales (units)	5.2	3.5	-5.4	2.9	4.3	-9.8
Orders for nondefense capital goods	7.0	3.5	4.7	-8.9	4.6	1.8
Excluding aircraft and parts	5.4	2.3	6.4	-6.1	4.1	2.3
Office and computing equipment	5.6	.1	6.1	3.3	-1.4	11.7
Communications equipment	7.4	9.4	2.1	-7.9	8.5	3.2
All other categories	4.7	1.0	8.0	-9.3	5.2	-2.0
<u>Nonresidential structures</u>						
Construction put in place, buildings	-1.2	.8	6.9	8.4	.4	.9
Office	4.3	-3.1	5.1	6.5	7.1	3.4
Other commercial	-4.9	4.4	6.8	9.3	-4.9	-.6
Institutional	-2.5	2.1	6.7	4.9	1.5	.4
Industrial	1.1	1.0	10.2	16.6	-.8	.2
Lodging and miscellaneous	-3.7	-1.0	7.6	5.5	.2	.9
Rotary drilling rigs in use ¹	16.0	20.0	6.2	2.1	.1	5.1

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

output has continued to expand briskly, and the user cost of capital has actually been fairly flat over the past year, as declining relative prices for equipment have offset the effects of rising interest rates. In addition, while a cooling IPO market and high yields on junk bonds may be restricting capital expenditures for some firms, bank lending and corporate cash flow have been ample, suggesting that financing has not been a problem for most firms.

Real business expenditures on computing equipment appear headed for another large advance in the second quarter. The capacity constraints in chip production do not seem to be cutting into business purchases of computing equipment as of yet, although computer prices are falling more slowly than their trend of recent years. Nominal shipments of computing equipment surged 11 percent in April (not at an annual rate) after a 7-1/2 percent increase in the first quarter. Anecdotal reports suggest that business demand for servers and PCs is picking up again after having been damped in the first quarter by the continuation of Y2K "lockdowns" at some firms through the early part of the year. Software spending, which tends to move with hardware expenditures, is also likely to expand apace in the current quarter.

The outlook for spending on communications equipment continues to be decidedly upbeat. Shipments were up 3 percent in April after having risen 14 percent in the first quarter. Bookings also increased smartly in April, and the backlog of unfilled orders--which had increased nearly 27 percent in the preceding six months--rose further. Telecommunications carriers appear to be spending heavily in order to expand their networks' abilities to carry increasing loads of data traffic. Equipment providers report that the fastest growth of orders is in optical networking equipment: As the need for bandwidth expands, optical fiber--which can carry data at far higher transfer rates and for much greater distances than copper wire can--is increasingly in demand.

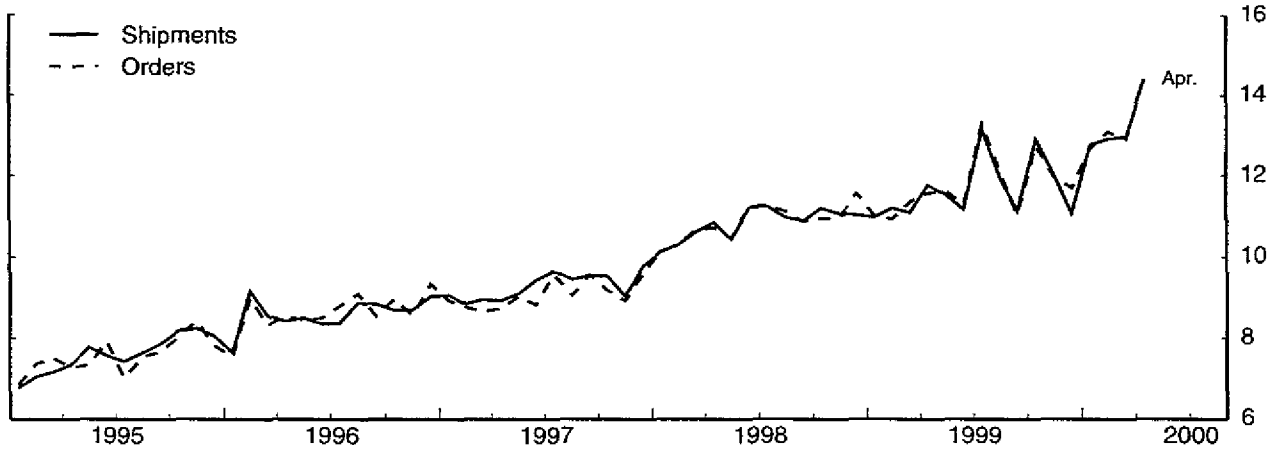
In contrast to high-tech equipment, business demand for motor vehicles has weakened. Sales of light vehicles to fleets (confidential) have changed little so far this quarter, and medium and heavy trucks sales are off sharply, continuing the downward trend that has been evident since early this year. Most of the slowing in sales has been in heavy trucks, and the recent slump in orders points to a further weakening in sales in the months ahead. The softness in demand appears to reflect problems in the trucking industry, for which profits have fallen because of higher costs for fuel and insurance and drivers have become scarce. Industry contacts also report that an overexpansion of fleets of new trucks has resulted in a large inventory overhang of used trucks, which has pushed prices down.

The near-term outlook for domestic outlays on aircraft appears positive. While the strike-related slump in aircraft shipments in February and March mainly

Recent Data on Orders and Shipments

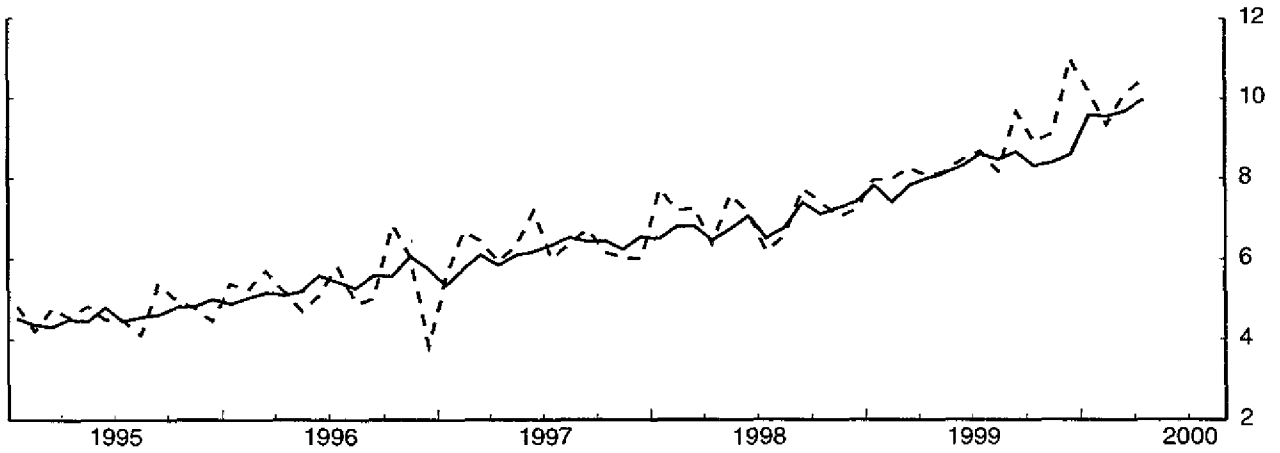
Office and Computing Equipment

Billions of dollars



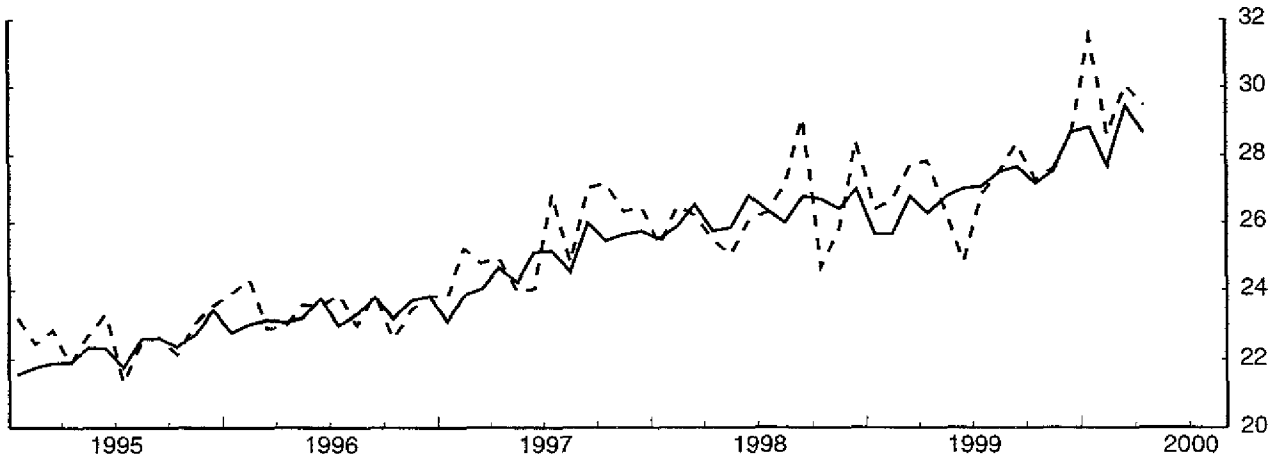
Communications Equipment

Billions of dollars



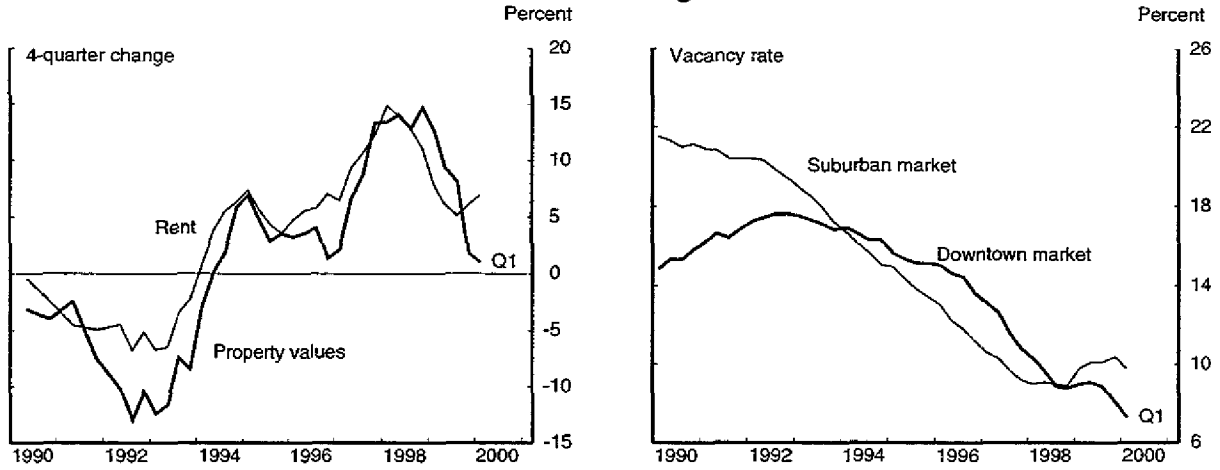
Other Equipment (Total Ex. Aircraft, Computers, Communications)

Billions of dollars



Indicators of Nonresidential Construction

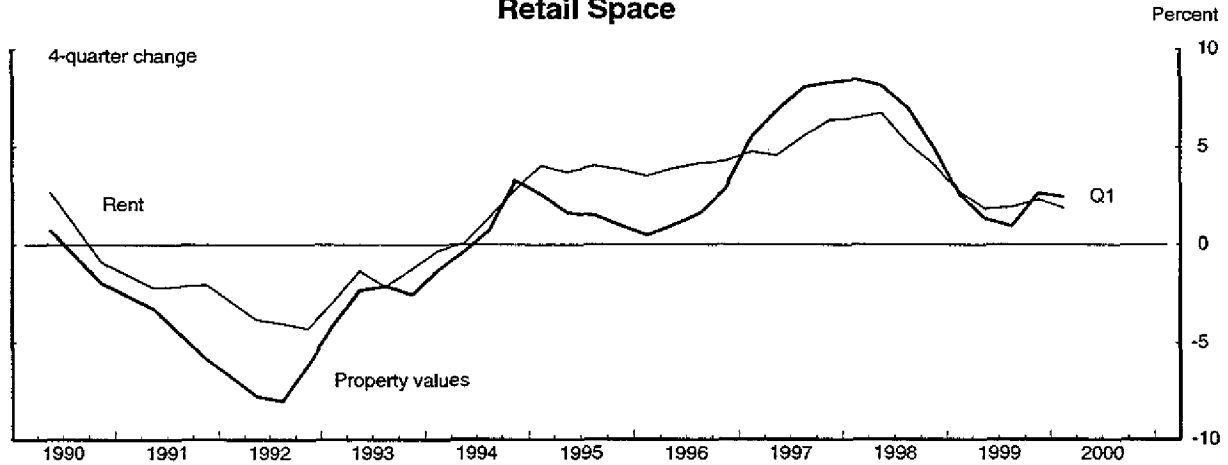
Office Buildings



Source. National Real Estate Index.

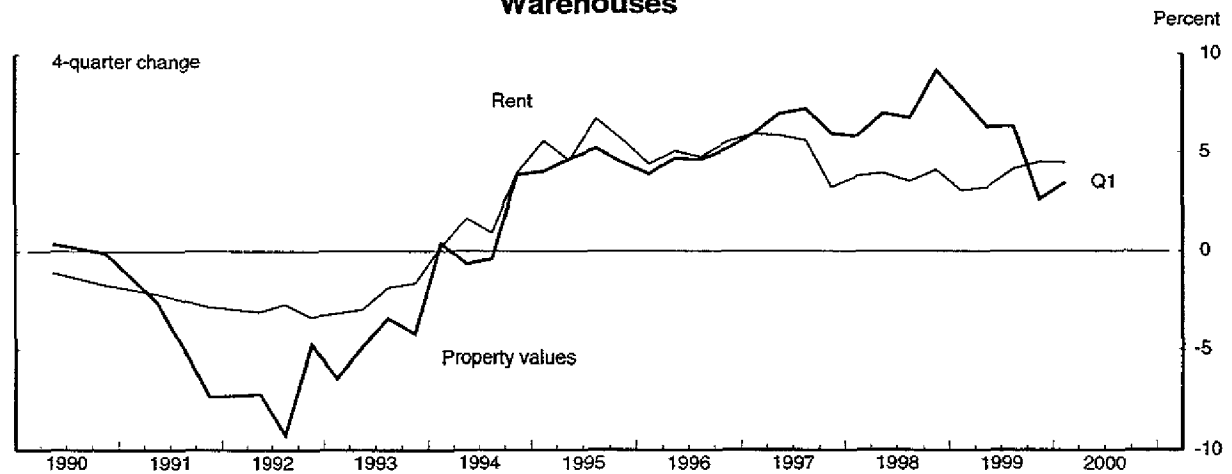
Source. CB Richard Ellis.

Retail Space



Source. National Real Estate Index.

Warehouses



Source. National Real Estate Index.

affected deliveries to foreign carriers, it did hold down the rise in domestic spending on aircraft to some degree. The recovery in shipments by Boeing is turning out to be speedier than the company had expected. According to delivery data for May (provided by Boeing), all but a couple of the planes held in inventory during the strike were delivered by the end of last month, and business expenditures on aircraft appear set for a substantial gain in the current quarter.

Outside of the high-tech and transportation sectors, nominal shipments of nondefense capital goods fell 2.7 percent in April. However, this decline followed a 6.4 percent increase in March, and the level of shipments in April stood slightly above the first-quarter average. Moreover, the recent trend in orders has been very positive, and backlogs of unfilled orders are running at high levels across a number of categories, suggesting a robust outlook for shipments in the coming months. For example, shipments of special industrial machinery jumped in April, a trend that seems likely to continue because the level of unfilled orders in this sector has increased 20 percent so far this year.⁷ Elsewhere, even though shipments of engines and turbines also climbed in April, manufacturers managed to work down only a small fraction of the huge backlog of orders accumulated over the preceding two years.

Nonresidential structures. Outlays for nonresidential structures, which declined almost 4 percent last year, increased at an annual rate of 22 percent in the first quarter, with strong gains across all the major categories. Non-residential construction put-in-place in April was about 3-1/2 percent above the first-quarter average, suggesting that spending will rise further in the current quarter.

The reason for the first-quarter surge in investment in nonresidential structures is not entirely clear. However, spending in this sector was surprisingly weak in 1999, and, given the strength in aggregate demand, some bounceback was overdue. In addition, good weather may have boosted construction a bit early in the year, although there is little statistical evidence that weather generally has a strong effect on this type of construction. Still, the fundamentals do not seem robust enough to support further gains as large as that seen in the first quarter. In the office sector, property values were up only 1 percent in the first quarter relative to a year earlier, and rent increases have been running well below the peak reached in 1998; vacancy rates, however, are at low levels. Although increases in prices and rents for retail space have been relatively flat for the past year or so, they are down substantially from the peaks in the second half of 1998 and first half of 1999. Increases in warehouse prices also have slowed

7. The special industrial machinery category includes printing and woodworking machinery and equipment used to manufacture textiles, food products, and paper.

substantially over the past year or so, although rent increases have been maintained over this period.

Business Inventories

The book value of manufacturing and trade inventories (excluding motor vehicles) increased at an annual rate of \$42 billion in April, down from the \$51 billion pace posted in the first quarter. Stockbuilding was concentrated in the manufacturing and wholesale sectors; inventories dropped sharply at non-auto retailers. Total shipments and sales fell in April, and aggregate inventory-to-sales ratios jumped in a few categories--perhaps because of negative surprises to demand. However, ratios appeared to be at fairly comfortable levels in most sectors: Responses to last month's surveys of the National Association of Purchasing Management and the National Federation of Independent Businesses suggested that firms are fairly satisfied with their levels of inventories.

In manufacturing, inventories increased at an annual rate of \$25 billion in April, up slightly from the \$22 billion pace posted in the first quarter. Aircraft inventories declined at a \$6 billion rate in April as a result of the step-up in Boeing deliveries. Outside of the aircraft industry, inventories rose at a robust \$30 billion rate, led by sizable stockbuilding at manufacturers of electrical machinery. This buildup was concentrated in the semiconductor industry, in which demand is booming and inventory-shipments ratios have been falling. In most other manufacturing categories, stocks also seem to be well aligned with shipments.

The book value of wholesale inventories excluding motor vehicles rose at an annual rate of \$24 billion in April. Professional and commercial equipment distributors--the category that includes computer distributors--accumulated stocks at a \$6 billion pace after having liquidated inventories by about twice that amount over the preceding two months. Inventories held by wholesalers of metals rose at a \$4 billion pace in April, and the inventory-sales ratio in this sector has increased quite a bit in recent months. Apparently, steel service centers were overly optimistic about second-quarter sales, and survey evidence from the Steel Service Center Institute now indicates that 45 percent of these centers believe their inventories are too high. Wholesale inventories and sales in most other sectors appeared to be balanced.

The book value of retail inventories (excluding automobile dealerships) dropped \$7 billion in April after having increased at a \$7 billion rate in the first quarter. Nondurable goods inventories fell at an \$11 billion pace in April. The drop was led by a \$7 billion reduction in stocks held by retailers in the "other nondurables" grouping, a category that includes gasoline service stations; the book-value decline likely reflects at least in part the April drop in gasoline prices. Nonetheless, by all reports, gasoline stocks are quite lean over the

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

Category	1999		2000	2000		
	Q3	Q4	Q1	Feb.	Mar.	Apr.
Manufacturing and trade	47.5	81.0	60.8	66.1	39.6	61.7
Less wholesale and retail motor vehicles	44.7	70.3	50.9	79.5	26.7	41.7
Manufacturing	11.9	18.8	22.0	39.5	-1.3	24.6
Less aircraft	15.0	27.2	18.6	32.3	-9.0	30.1
Merchant wholesalers	23.7	25.7	25.1	22.3	23.7	29.0
Less motor vehicles	20.7	22.8	21.6	21.8	16.7	24.3
Retail trade	11.9	36.5	13.6	4.2	17.2	8.1
Automotive dealers	-.2	7.7	6.4	-13.9	5.9	15.2
Less automotive dealers	12.1	28.8	7.2	18.1	11.3	-7.2

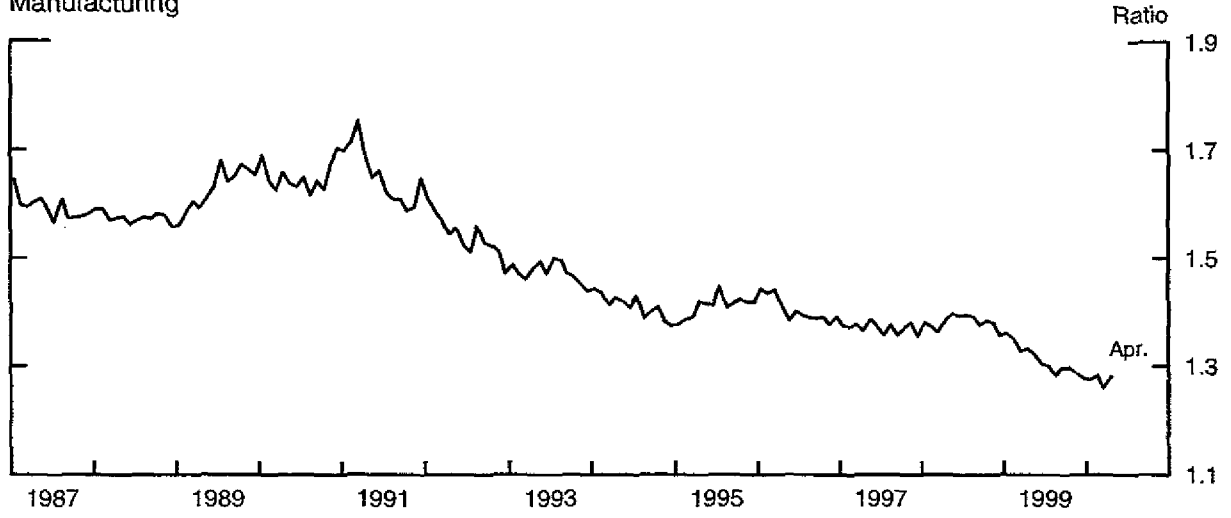
SELECTED INVENTORY-SALES RATIOS IN MANUFACTURING AND TRADE
(Months' supply, based on seasonally adjusted Census book value)

Category	Cyclical reference points		Range over preceding 12 months		April 2000
	1990-91	1991-98	High	Low	
	high	low			
Manufacturing and trade	1.58	1.37	1.36	1.31	1.32
Less wholesale and retail motor vehicles	1.55	1.34	1.33	1.27	1.29
Manufacturing	1.75	1.36	1.33	1.26	1.28
Primary metals	2.08	1.46	1.66	1.53	1.58
Steel	2.56	1.59	2.10	1.87	2.01
Nonelectrical machinery	2.48	1.61	1.61	1.46	1.40
Electrical machinery	2.08	1.21	1.21	1.13	1.14
Transportation equipment	2.93	1.51	1.52	1.38	1.50
Motor vehicles	.97	.53	.55	.51	.57
Aircraft	5.84	4.05	4.53	3.68	4.10
Nondefense capital goods	3.09	2.04	2.01	1.79	1.75
Textiles	1.71	1.38	1.57	1.52	1.57
Paper	1.32	1.06	1.20	1.12	1.15
Chemicals	1.44	1.25	1.40	1.30	1.34
Petroleum	.94	.80	.82	.66	.73
Home goods & apparel	1.96	1.59	1.60	1.49	1.50
Merchant wholesalers	1.36	1.24	1.32	1.27	1.28
Less motor vehicles	1.31	1.22	1.31	1.25	1.26
Durable goods	1.83	1.53	1.60	1.55	1.59
Nondurable goods	.96	.90	.99	.94	.94
Retail trade	1.61	1.45	1.46	1.40	1.41
Less automotive dealers	1.48	1.38	1.37	1.32	1.32
Automotive dealers	2.23	1.58	1.72	1.60	1.67
General merchandise	2.68	2.01	1.97	1.90	1.88
Apparel	2.54	2.29	2.32	2.18	2.20
Food	.83	.79	.82	.79	.80

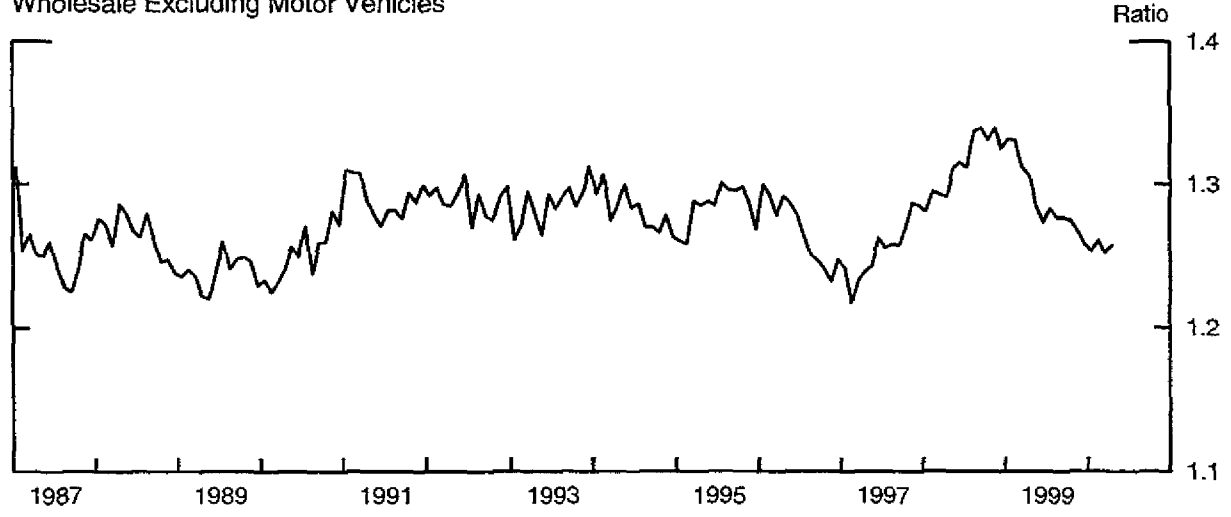
Inventory-Sales Ratios, by Major Sector

(Book value)

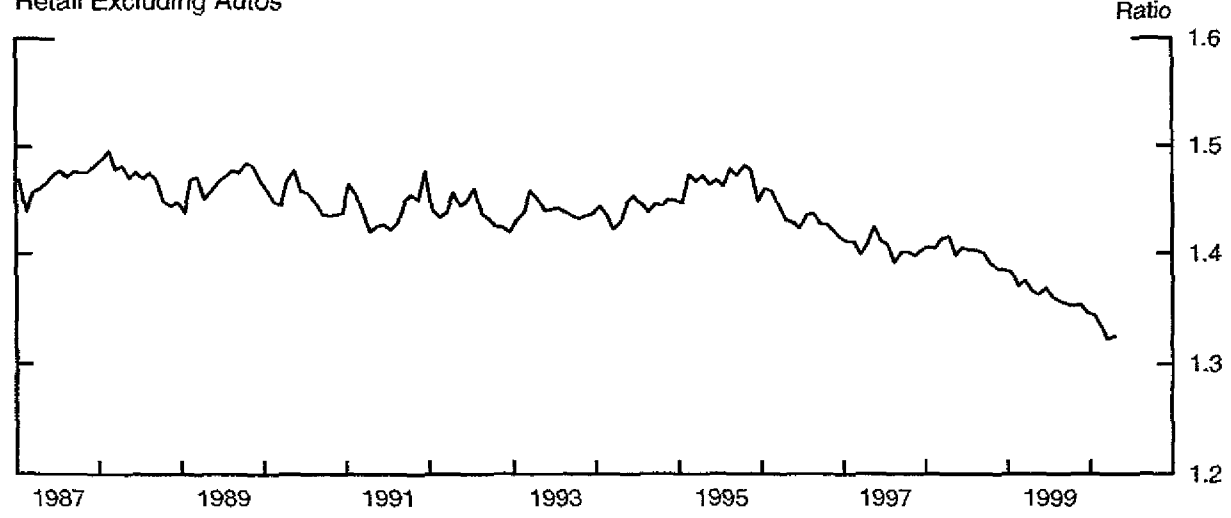
Manufacturing



Wholesale Excluding Motor Vehicles



Retail Excluding Autos



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

	Apr.-May			12 months ending in May		
	1999	2000	Percent change	1999	2000	Percent change
Outlays	275.4	285.3	3.6	1685.5	1762.7	4.6
Deposit insurance	-1.0	-0.6	...	-5.6	-4.0	...
Spectrum auction	-0.2	0.0	...	-2.8	-0.8	...
Sale of major assets	0.0	0.0	...	0.0	0.0	...
Other	276.7	285.9	3.3	1693.8	1767.5	4.4
Receipts	364.9	441.2	20.9	1779.5	1966.7	10.5
Surplus	89.5	155.9	...	94.0	204.0	117.0

Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts¹

Outlays	276.4	296.8	7.4	1693.1	1767.6	4.4
National defense	44.4	47.4	6.7	272.2	287.9	5.7
Net interest	40.2	40.7	1.4	234.5	229.0	-2.4
Social security	64.6	69.1	7.0	387.2	401.4	3.7
Medicare	31.8	34.2	7.8	188.9	195.2	3.3
Medicaid	17.8	19.1	7.2	104.9	114.0	8.7
Other health	5.2	5.9	14.3	31.6	35.2	11.6
Income security	37.5	39.5	5.4	236.1	243.1	2.9
Agriculture	1.2	1.8	57.1	24.1	33.0	36.8
Other	33.9	39.1	15.0	213.5	228.8	7.1
Receipts	364.9	441.2	20.9	1779.5	1966.7	10.5
Individual income and payroll taxes	300.8	361.4	20.2	1420.9	1571.5	10.6
Withheld + FICA	197.2	220.1	11.6	1207.3	1327.6	10.0
Nonwithheld + SECA	164.2	194.2	18.3	334.8	377.5	12.8
Refunds (-)	60.7	53.0	-12.8	121.1	133.5	10.2
Corporate	25.6	33.5	30.5	180.2	200.2	11.1
Gross	32.3	37.7	16.7	211.5	228.0	7.8
Refunds (-)	6.6	4.2	-36.6	31.3	27.8	-11.3
Other	38.5	46.3	20.2	178.3	194.9	9.3
Surplus	88.4	144.4	...	86.4	199.1	130.5

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.

production chain as a whole--particularly for the reformulated blends required to meet air quality standards. In other categories, lumber and building materials retailers accumulated stocks at an \$8 billion pace in April; sales dropped 3-3/4 percent, and the inventory-sales ratio jumped up to the highest level in about four years.

Government

Federal. The federal unified budget surplus has continued to expand, as a robust increase in receipts has more than offset an acceleration in outlays. The combined surplus for April and May was \$156 billion, \$66 billion more than in April-May 1999.

The recent performance of receipts has been extraordinary. Collections in April and May were up 21 percent over a year earlier, lifting the total for the twelve months ending in May 10-1/2 percent above the total for the preceding twelve months. Three factors account for much of this strength. First, there was another surge in nonwithheld taxes this spring (we now estimate that individual income tax liabilities rose about 12 percent in 1999, compared with a rise of 6-1/2 percent in the NIPA measure of taxable personal income). Second, withheld income and payroll taxes have continued to rise rapidly this year, outstripping the growth in NIPA wages and salaries by a wide margin and implying a sharp increase in the effective tax rate. In addition, net corporate tax collections have risen substantially of late, consistent with the corporate income data.

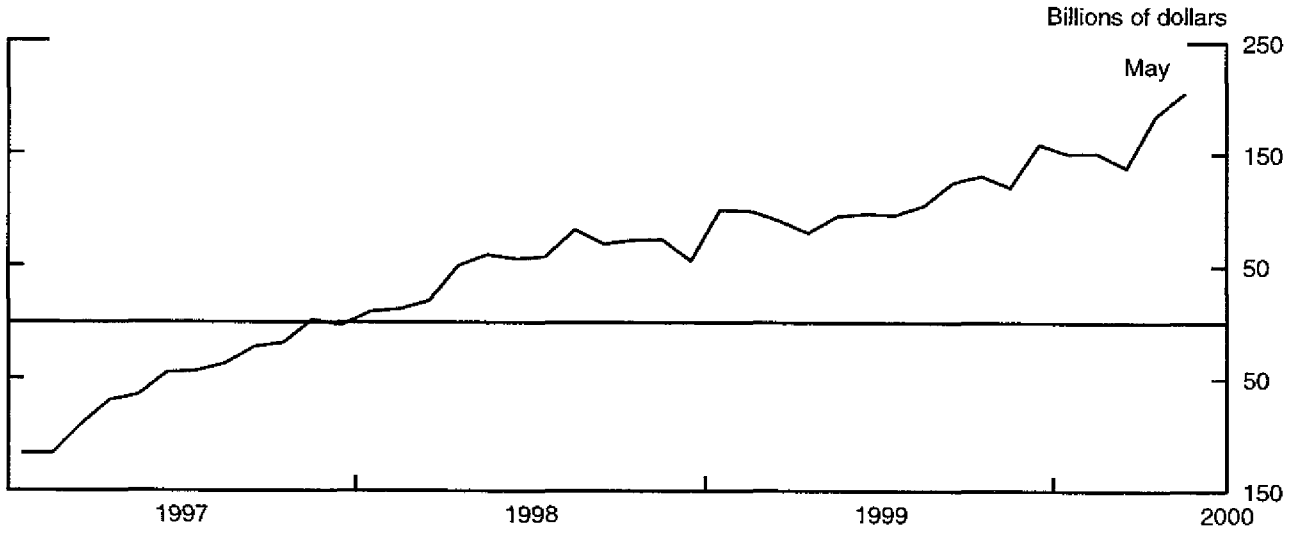
April and May outlays, adjusted for certain payment timing shifts, were 7-1/2 percent above a year earlier. Outlays for the most recent twelve months are 4-1/2 percent above the previous period; this pace is more than 1 percentage point faster than that seen in recent years. Much of the acceleration comes from a pickup in defense spending that reflects the lagged effects of a substantial boost in defense budget authority approved for fiscal 1999. In addition, agriculture spending has surged over the past twelve months because of "temporary" subsidy payments. Agricultural subsidies will likely remain elevated for some time, as another round of payments was enacted in June. The key features of the new agriculture legislation are an expansion of the crop insurance program by \$8 billion over five years, a \$5-1/2 billion increase in agriculture subsidies for fiscal 2000, and a \$1-1/2 billion further boost to subsidies for fiscal 2001.

State and local. Incoming data for the second quarter point to a deceleration in state and local purchases after considerable strength in the preceding two quarters. Spending growth in the current quarter has been held down by construction activity, which was 2.3 percent lower in April on a seasonally

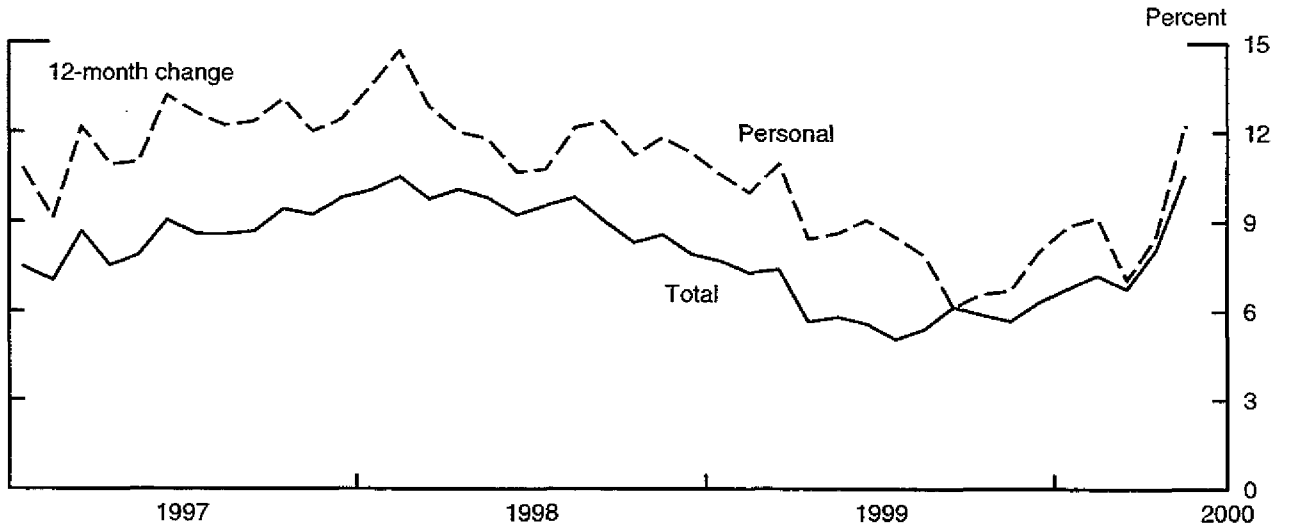
Federal Sector Developments

(12-month moving sum)

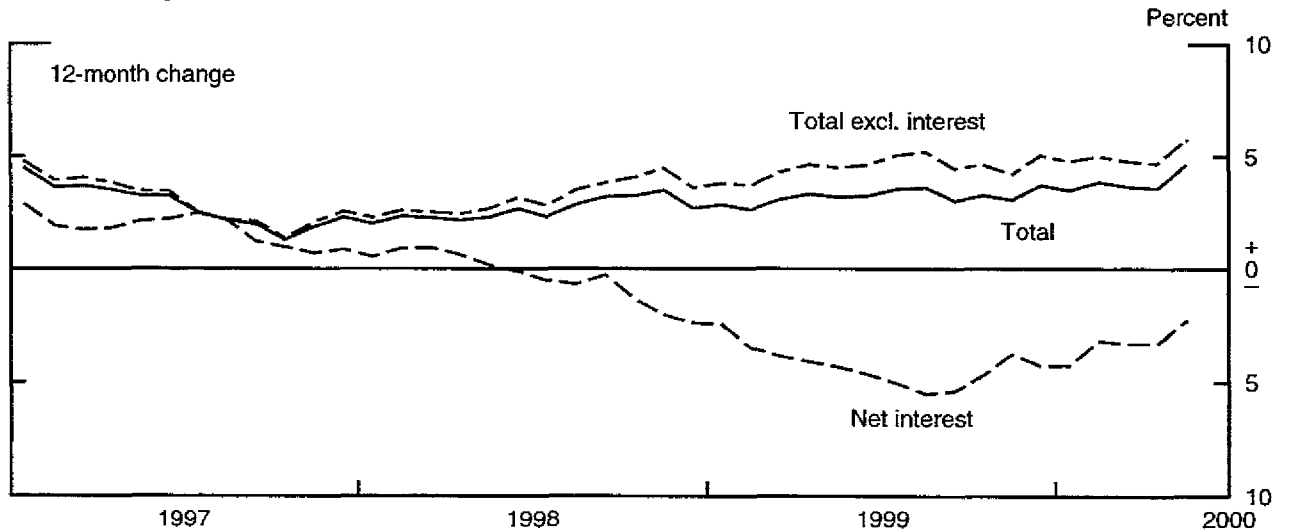
Unified Surplus



Unified Receipts



Unified Outlays



adjusted basis than its first-quarter average, as mild weather early in the year had allowed for more highway work than usual in the first quarter. More generally, state and local construction spending is being boosted this year by the strong fiscal condition of most governments, the continuing need to expand and repair infrastructure, and higher federal grants for highways.

Most states will begin the 2001 fiscal year on July 1. Almost all of the states are expected to have their budgets in place on time this year. As in the past six years, it appears that most states are finishing fiscal 2000 in better shape than they had projected at the start of the year, largely because of higher-than-expected revenue growth, and once again many states enacted tax cuts during their spring legislative sessions.

Prices

The consumer price index rose 0.1 percent in May after showing no change in April; headline CPI inflation was held down in April and May by apparently transitory declines in energy prices. However, over the twelve months ended in May, the CPI rose 3.1 percent, 1 percentage point more than over the preceding twelve-month period; faster energy price inflation accounted for much of this acceleration. Excluding food and energy, the CPI rose 0.2 percent in both April and May and was up 2.4 percent over the twelve months ended in May. On a current-methods basis, the twelve-month change in the core CPI has increased 0.5 percentage point over the past year; excluding tobacco as well as food and energy items, the acceleration over the past twelve months is 0.6 percentage point.

Energy prices remain of particular importance in explaining recent and prospective inflation developments. After having jumped more than 10 percent (not at an annual rate) over the first three months of the year, consumer energy prices turned down in April and May by almost 4 percent, in total. On balance, the CPI for energy is up nearly 15 percent over the past twelve months. The April and May energy price declines were concentrated in gasoline and heating fuel, reflecting both the temporary March downturn in crude oil costs and, in May, the restoration of refinery activity following disruptions that had curtailed early April production. However, survey data for early June point to a substantial jump in gasoline prices this month. The recent gasoline price increases reflect the rebound in crude oil prices as well as fears that low inventory levels--combined with the very limited ability of foreign producers to meet new standards for reformulated gasoline in the United States--could lead to shortages this summer. These fears have boosted margins notably in recent weeks.

Consumer prices for natural gas rose further in April and May and are up more than 7 percent (not at an annual rate) so far this year, reflecting the interaction of

CPI AND PPI INFLATION RATES
(Percent)

	From 12 months earlier		1999	2000	2000	
	May 1999	May 2000	Q4	Q1	Apr.	May
			-Annual rate-		-Monthly rate-	
<u>CPI</u>						
All items (100.0) ¹	2.1	3.1	2.9	4.1	.0	.1
Food (15.3)	2.1	2.2	2.7	1.5	.1	.5
Energy (7.0)	1.7	14.6	10.7	31.5	-1.9	-1.9
CPI less food and energy (77.7)	2.0	2.4	2.3	2.3	.2	.2
Commodities (23.4)	.6	.7	1.5	-.9	.2	.0
New vehicles (4.8)	-.3	.3	.5	-1.4	.3	.2
Used cars and trucks (1.9)	-.3	3.9	5.0	-6.3	.7	.9
Apparel (4.7)	-.8	-1.5	3.5	-4.2	-.5	-.2
Tobacco (1.3)	28.0	13.9	12.5	12.5	4.4	-2.7
Other Commodities (10.7)	-.5	-.1	-.7	.2	-.1	.2
Services (54.3)	2.7	3.0	2.7	3.6	.2	.2
Shelter (29.9)	3.0	2.9	2.3	3.5	.2	.3
Medical care (4.5)	3.3	4.1	3.4	4.6	.4	.3
Other Services (20.0)	2.3	2.9	3.3	3.4	.2	.2
<u>PPI</u>						
Finished goods (100.0) ²	1.4	3.9	3.4	4.9	-.3	.0
Finished consumer foods (22.9)	.7	2.6	.9	2.0	1.0	-.2
Finished energy (13.8)	1.6	18.1	12.9	32.8	-4.1	-.5
Finished goods less food and energy (63.3)	1.5	1.5	2.5	.4	.1	.2
Consumer goods (38.9)	2.5	1.9	3.3	.2	.1	.2
Capital equipment (24.4)	.2	.8	1.4	.9	.2	.1
Intermediate materials (100.0) ³	-1.1	5.0	3.7	6.9	-.1	-.1
Intermediate materials less food and energy (81.7)	-1.0	3.2	2.2	3.2	.4	.1
Crude materials (100.0) ⁴	-3.1	18.5	16.6	19.8	-2.5	3.2
Crude food materials (39.0)	-6.2	5.0	8.9	5.2	1.7	-1.8
Crude energy (39.0)	6.1	37.2	20.2	36.2	-6.9	9.9
Crude materials less food and energy (22.0)	-10.7	13.0	25.4	19.3	-1.2	-.3

1. Relative importance weight for CPI, December 1999.

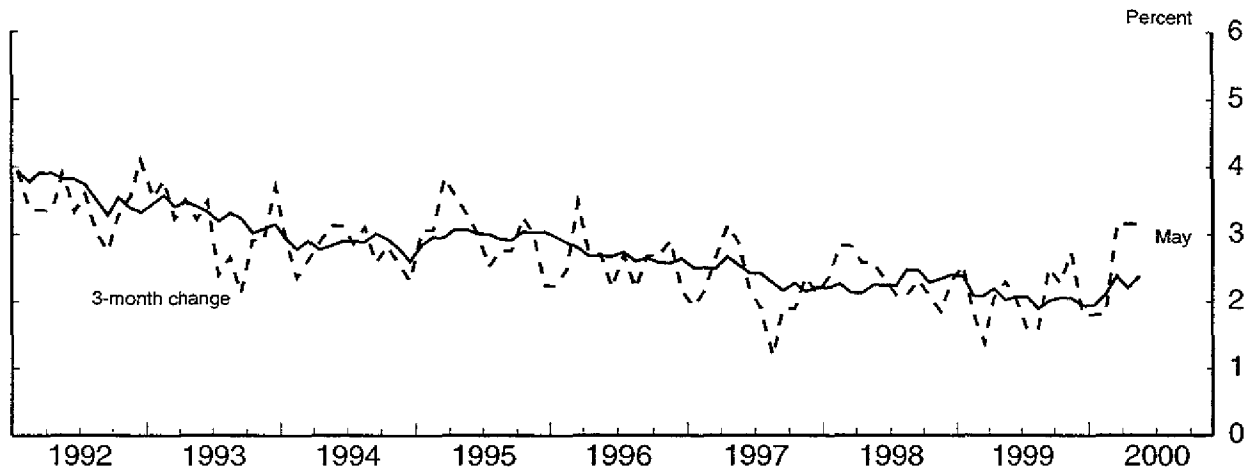
2. Relative importance weight for PPI, December 1999.

3. Relative importance weight for intermediate materials, December 1999.

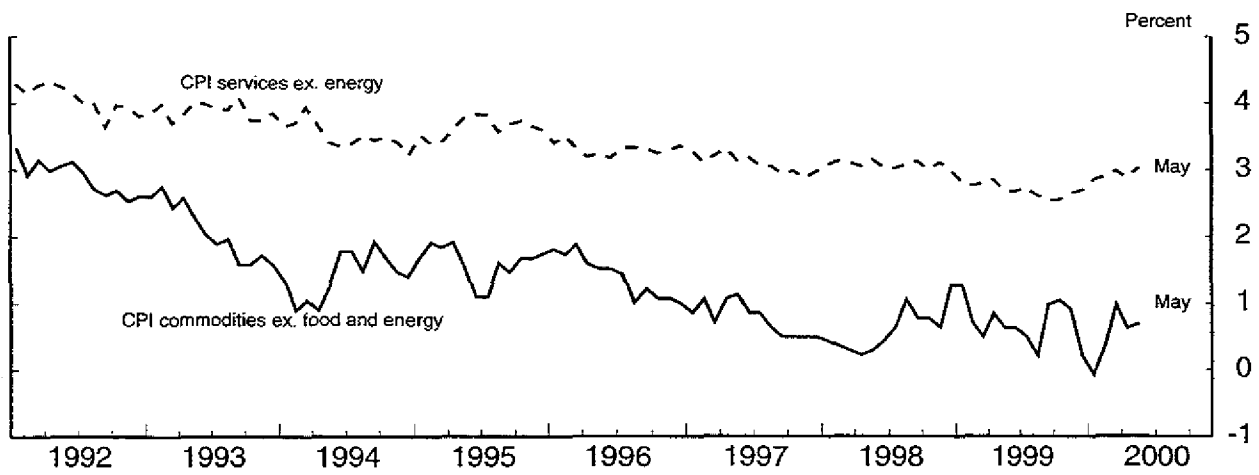
4. Relative importance weight for crude materials, December 1999.

Measures of Core Consumer Price Inflation (12-month change except as noted)

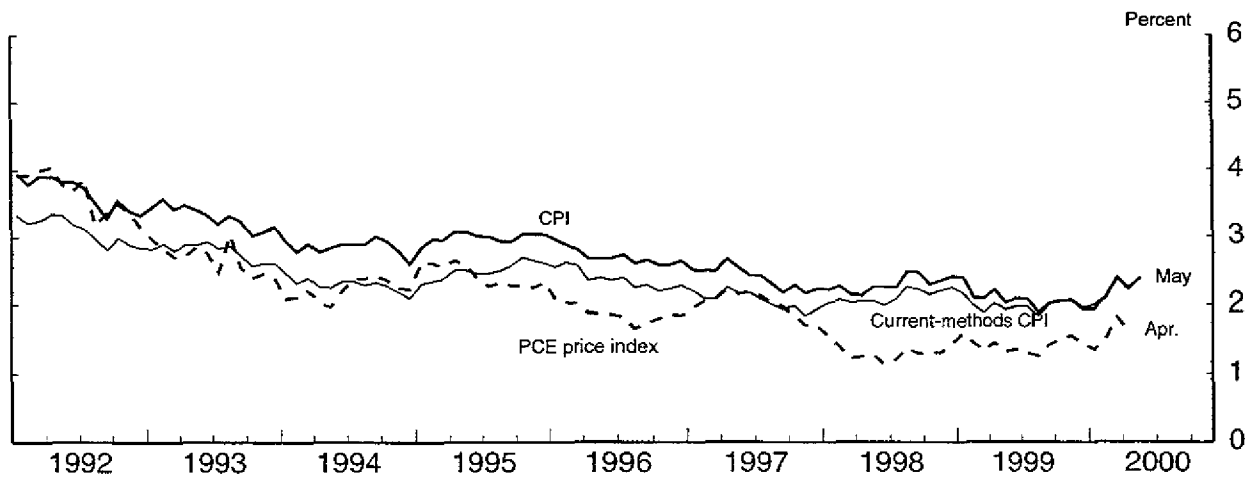
CPI Excluding Food and Energy



CPI Services and Commodities

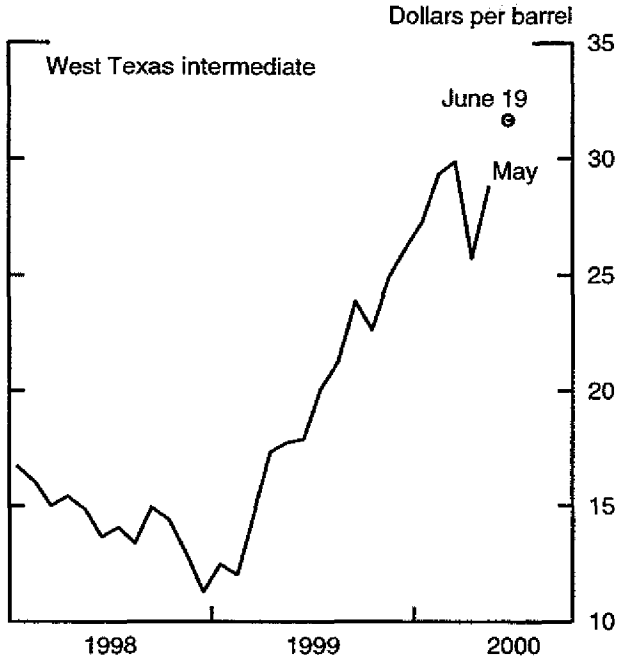


CPI and PCE Excluding Food and Energy

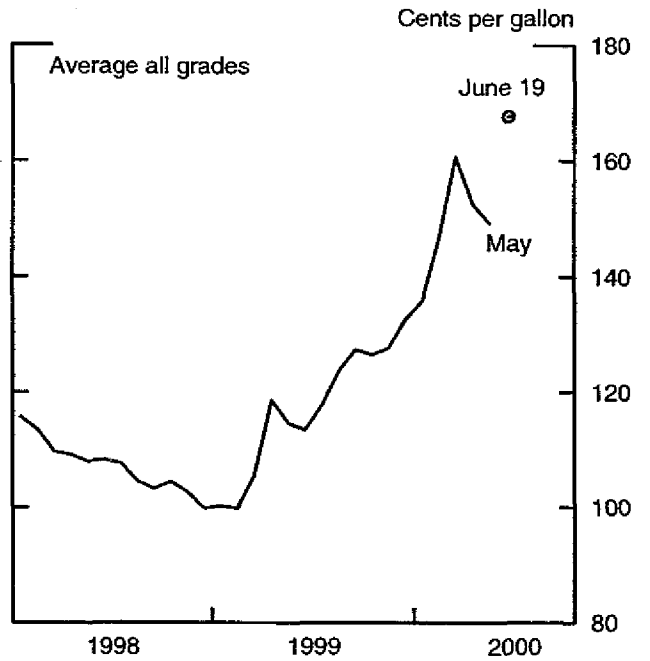


Energy Price Developments

Crude Oil Prices

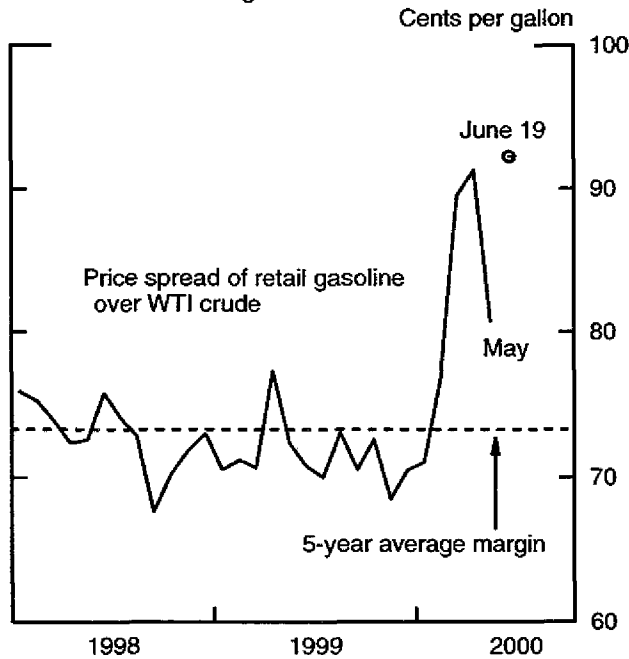


Retail Gasoline Prices

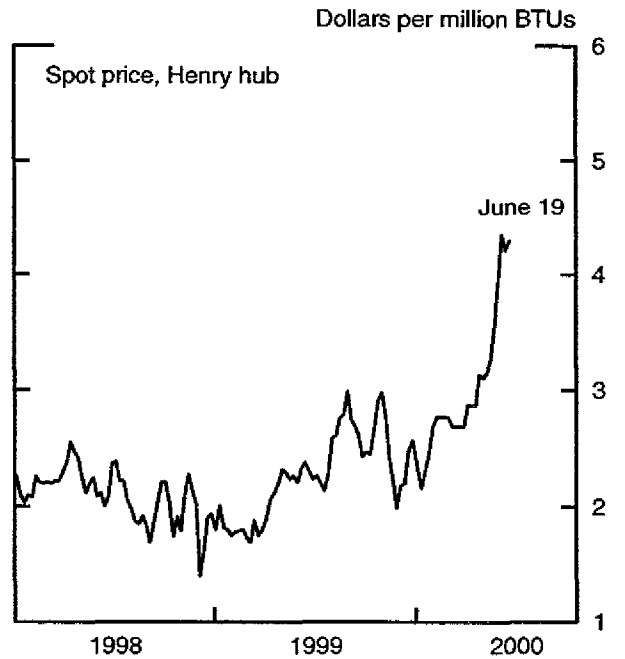


Source: U.S. Department of Energy, using CPI seasonal factors.

Gasoline Price Margins



Natural Gas Prices



strong demand and inelastic short-run supply. Inventories have been reduced to quite low levels, and, with market participants anticipating only slow rebuilding of these stocks, spot prices have risen sharply in recent weeks. Many utilities cannot pass the full extent of these price increases through to the consumer level immediately; nevertheless, if spot markets do not soften, the eventual pass-through will likely boost consumer gas prices further in the coming months. Consumer electricity prices have remained quiescent on balance in recent months, but, as with natural gas, fuel adjustment charges may lead to a gradual upturn in the pace of price increases in this sector as well--despite increased competition associated with more widespread deregulation.

Consumer food price increases have remained relatively subdued. Food prices rose 0.5 percent in May after increasing 0.1 percent in both March and April. The May increase reflected a jump in the erratic prices of fruits and vegetables as well as a further sizable increase in the meats, poultry, fish, and eggs category. Although we expect increased livestock production to begin to hold down meat prices later this summer, prices in this sector are likely to show a substantial increase for the year as a whole. Overall, food prices have increased 2-1/4 percent over the past twelve months, not much different from the rise in the core index. Looking forward, ample rainfall in the Midwest has calmed market participants' fears about crop conditions this summer. As a result, spot commodity prices for most major crops have declined in recent weeks; indeed, corn prices are nearly back to their lows of last autumn, although soybean prices remain somewhat elevated.

Outside of the food and energy areas, an acceleration in consumer prices is evident both in commodities (excluding tobacco) and services. Core commodity prices were unchanged in May and were up 0.7 percent on a twelve-month basis, about the same as the increase over the preceding period. However, excluding tobacco prices, which had increased especially sharply over the earlier period, core commodity prices have accelerated about 1/2 percentage point over the past year. Although prices of new vehicles edged up for a third month in May, they remain soft overall. However, consumer prices of used vehicles have accelerated noticeably over the past year, and prices have been rising more rapidly as well for a range of other consumer goods. The CPI for non-energy services increased 0.2 percent in May--a little below its average over the past few months--but is up 3 percent over the past year and 1/4 percentage point above its year-earlier increase. Shelter prices rose 0.3 percent last month and have increased about 3 percent over the past twelve months, the same as over the preceding period. In contrast, prices of medical services have been rising more rapidly, and airfares are up nearly 10 percent over the past year, reflecting strong demand and the pass-through of higher fuel costs.

BROAD MEASURES OF INFLATION
(4-quarter percent change)

	1997 Q1	1998 Q1	1999 Q1	2000 Q1
<u>Product prices</u>				
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
<u>Expenditure prices</u>				
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	1.5
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	1.6	3.1
Less food and energy	2.1	2.1	2.0	2.2
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				Professional forecasters (10-year) ⁴
		1 year		5 to 10 years		
		Mean ²	Median ²	Mean ³	Median ³	
1998-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
Q2		3.4	3.0	3.3	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.	3.0	3.5	3.2	3.2	2.8	
May	3.1	3.5	3.0	3.4	2.9	
June		3.3	2.9	3.3	2.9	2.5

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.

As with consumer prices, capital goods prices have shown signs of acceleration. The PPI for capital equipment moved up in April and May and has increased 0.8 percent over the past year—about 1/2 percentage point more than the increase over the preceding twelve-month period. Part of that pickup reflects a smaller rate of decline of computer prices: The PPI for computers fell about 16 percent over the past year after declining at about a 24 percent annual rate over the preceding three years. The ongoing tightness in the market for semiconductors could contribute to firmer computer prices through the summer.

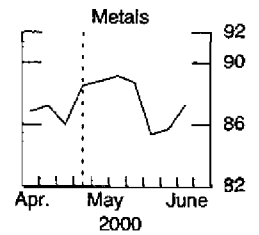
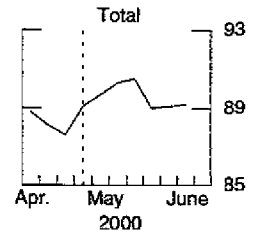
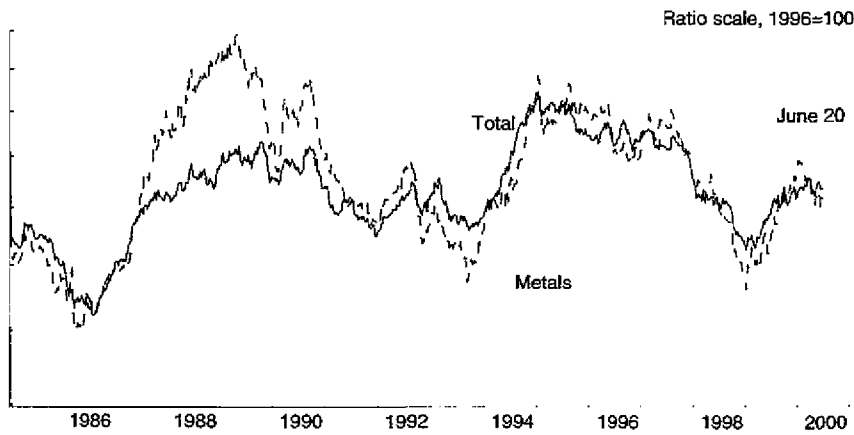
The firming of investment prices has contributed to an acceleration in broad price indexes. The chain price index for gross domestic purchases excluding food and energy items increased 1.6 percent over the four quarters ended in 2000:Q1, up from a 1.3 percent rate of increase over the preceding four-quarter period. The 0.3 percentage point acceleration in these prices is greater than the slight acceleration in core PCE prices over this period.

Prices have been mixed at earlier stages of processing. The PPI for intermediate materials excluding food and energy edged up another 0.1 percent in May, bringing the twelve-month change in this series to 3.2 percent. In contrast, the PPI for crude goods excluding food and energy moved down in May after declines in both March and February; this index rose 15 percent in the twelve-month period ended in February. In addition, prices of industrial commodities outside of the energy area have moved down since the PPI's price quotes were collected in mid-May. Despite the rise in prices of petroleum products, the Journal of Commerce industrial price index was about unchanged over the past month, reflecting price declines for metals and lumber products. At least in the case of steel, some anecdotes suggest that the softening prices may be an indication of weakening demand; as noted, excess supplies at steel service centers have been reported. Prices of livestock and some farm crops have also moved down in recent weeks.

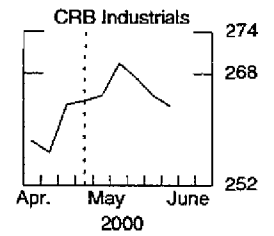
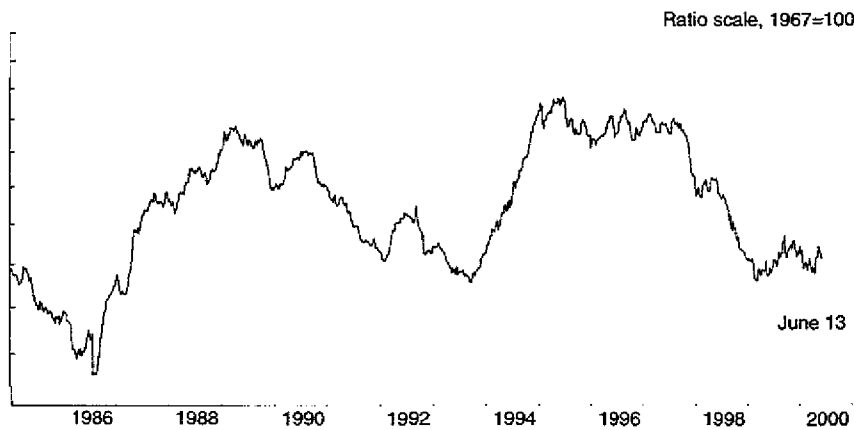
The median response to the University of Michigan survey of one-year-ahead inflation expectations was 2.9 percent in early June and averaged 3 percent for the second quarter as a whole, the same as the average in the first quarter. These near-term inflation expectations had risen about 1/2 percentage point over 1999, presumably reflecting the actual increase in inflation that occurred over the course of the year. The median five- to ten-year expectation of inflation from the Michigan survey also was 2.9 percent in early June; these longer-term inflation expectations have been quite stable over the past year.

Commodity Price Measures

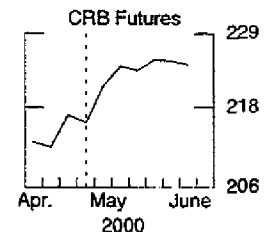
Journal of Commerce Index



CRB Spot Industrials



CRB Futures



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

SPOT PRICES OF SELECTED COMMODITIES

	Current price (dollars)	-----Percent change ¹ -----				Memo: Year earlier to date
		1998	1999	Dec. 28 to May 09 ²	May 09 ² to June 20	
Metals						
Copper (lb.)	.870	-18	27.5	.0	-1.1	29.9
Steel scrap (ton)	97.667	-47	61.5	-12	-5.8	3.9
Aluminum, London (lb.)	.696	-18	26.8	-7.1	5.1	14.3
Precious metals						
Gold (oz.)	286.20	-1.8	1.3	-5.0	3.6	10.7
Silver (oz.)	5.045	-20	4.3	-3.0	-.8	-.7
Forest products³						
Lumber (m. bdft.)	265.00	2.7	8.3	-14	-5.0	-32.7
Plywood (m. sqft.)	300.00	6.8	-1.6	1.6	-3.2	-39.4
Petroleum						
Crude oil (barrel)	28.550	-43	147.2	4.7	6.7	83.5
Gasoline (gal.)	.941	-43	109.2	27.9	5.5	96.0
Fuel oil (gal.)	.760	-39	115.2	1.8	5.7	77.2
Livestock						
Steers (cwt.)	70.250	-13	15.3	7.4	-3.8	4.9
Hogs (cwt.)	51.000	-65	127.4	44.7	.0	39.7
Broilers (lb.)	.571	27.6	1.4	-1.0	.1	-5.2
U.S. farm crops						
Corn (bu.)	1.785	-19	-8.5	13.5	-17	-9.6
Wheat (bu.)	2.938	-11	-20.3	1.3	9.7	7.7
Soybeans (bu.)	4.835	-20	-16.8	19.1	-8.4	8.2
Cotton (lb.)	.553	-9.3	-19.4	24.2	-3.6	3.8
Other foodstuffs						
Coffee (lb.)	.883	-30	2.1	-17	-11	-17.9
Memo:						
JOC Industrials	89.200	-14	12.2	1.1	-.1	5.8
JOC Metals	87.300	-20	28.0	-4.8	-1.4	9.6
CRB Futures	224.32	-18	6.9	5.7	4.0	17.1
CRB Spot	ND	-14	1.0	-.8	-.3	1.9

1. Changes, if not specified, are from the last week of the preceding year to the last week of the period indicated.

2. Week of the May Greenbook.

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

Domestic Financial Developments

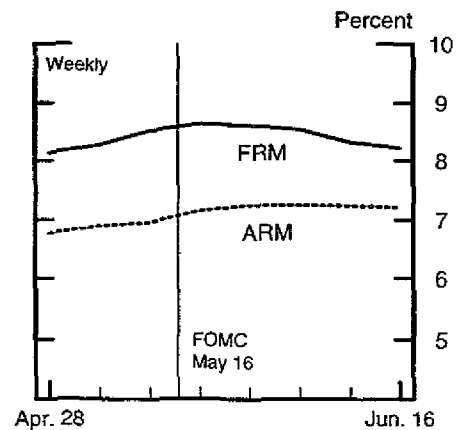
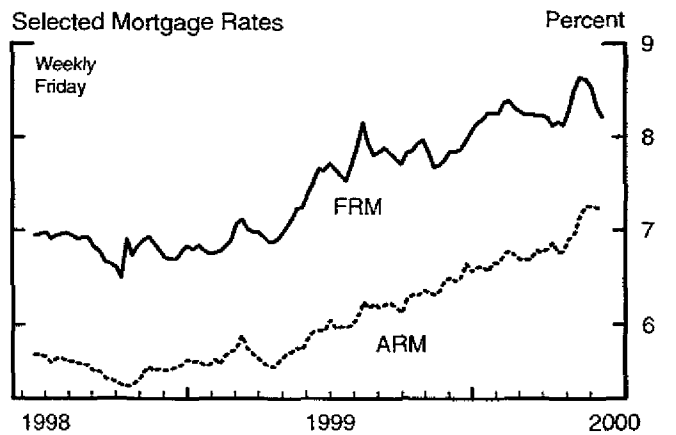
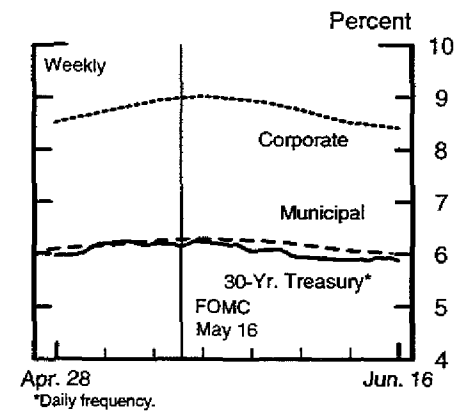
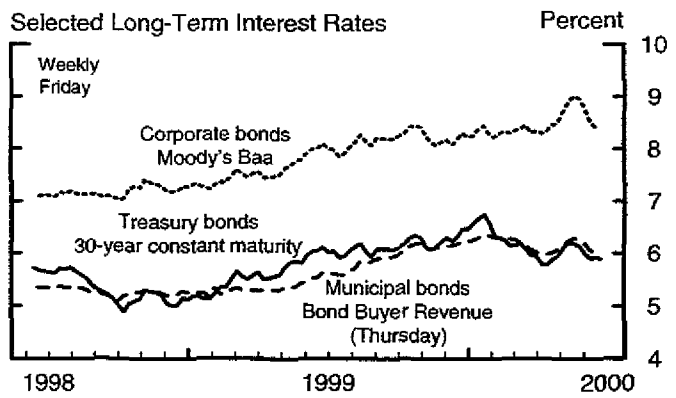
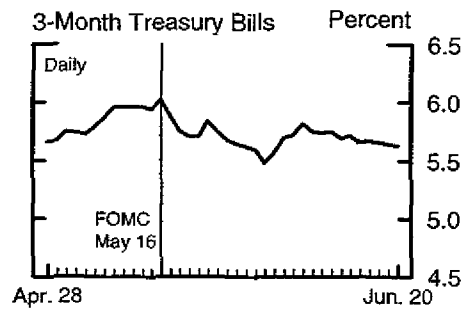
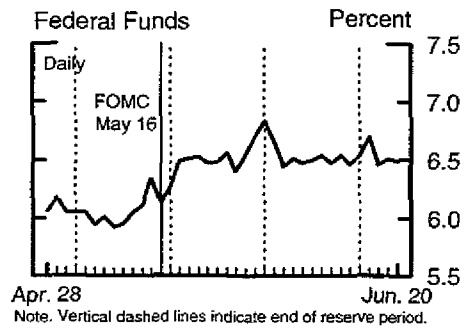
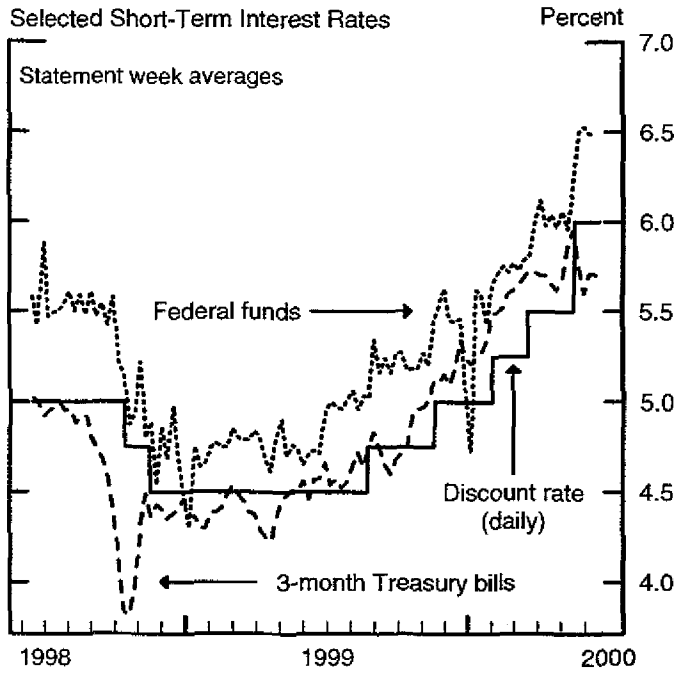
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Selected Financial Market Quotations
(One-day quotes in percent except as noted)

Instrument	1999		2000		Change to June 20 from selected dates (percentage points)		
	June 29	Dec. 31	FOMC* May 16	June 20	1999 June 29	1999 Dec. 31	FOMC* May 16
<i>Short-term</i>							
FOMC intended federal funds rate	4.75	5.50	6.00	6.50	1.75	1.00	.50
<i>Treasury bills</i> ¹							
3-month	4.70	5.17	5.94	5.63	.93	.46	-.31
6-month	4.92	5.49	6.24	5.92	1.00	.43	-.32
1-year	4.89	5.63	6.05	5.79	.90	.16	-.26
<i>Commercial paper</i>							
1-month	5.18	5.13	6.47	6.54	1.36	1.41	.07
3-month	5.12	5.75	6.59	6.56	1.44	.81	-.03
<i>Large negotiable CDs</i> ¹							
1-month	5.21	5.72	6.55	6.61	1.40	.89	.06
3-month	5.32	5.90	6.74	6.71	1.39	.81	-.03
6-month	5.43	6.08	6.97	6.86	1.43	.78	-.11
<i>Eurodollar deposits</i> ²							
1-month	5.13	5.69	6.53	6.59	1.46	.90	.06
3-month	5.25	5.88	6.72	6.69	1.44	.81	-.03
Bank prime rate	7.75	8.50	9.00	9.50	1.75	1.00	.50
<i>Intermediate- and long-term</i>							
<i>U.S. Treasury (constant maturity)</i>							
2-year	5.68	6.24	6.88	6.43	.75	.19	-.45
10-year	5.93	6.45	6.47	6.03	.10	-.42	-.44
30-year	6.07	6.48	6.17	5.90	-.17	-.58	-.27
U.S. Treasury 10-year indexed note	4.01	4.33	4.21	4.06	.05	-.27	-.15
Municipal revenue (Bond Buyer) ³	5.62	6.23	6.23	6.01	.39	-.22	-.22
Corporate bonds, Moody's seasoned Baa	8.05	8.18	8.99	8.39	.34	.21	-.60
High-yield corporate ⁴	10.53	10.94	11.94	11.93	1.40	.99	-.01
<i>Home mortgages (FHLMC survey rate)⁵</i>							
30-year fixed	7.63	8.06	8.52	8.22	.59	.16	-.30
1-year adjustable	5.93	6.56	6.96	7.21	1.28	.65	.25

Stock exchange index	Record high		1999	2000		Change to June 20 from selected dates (percent)		
	Level	Date	Dec. 31	FOMC* May 16	June 20	Record high	Dec. 31	FOMC* May 16
Dow-Jones Industrial	11,723	1-14-00	11,497	10,808	10,435	-10.99	-9.24	-3.45
S&P 500 Composite	1,527	3-24-00	1,469	1,452	1,476	-3.37	.46	1.62
Nasdaq (OTC)	5,049	3-10-00	4,069	3,608	4,013	-20.51	-1.37	11.25
Russell 2000	606	3-9-00	505	498	526	-13.27	4.15	5.60
Wilshire 5000	14,752	3-24-00	13,813	13,438	13,818	-6.33	.04	2.83

1. Secondary market.
 2. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.
 3. Most recent Thursday quote.
 4. Merrill Lynch 175 high-yield bond index composite.
 5. For week ending Friday previous to date shown.
- * Data are as of the close on May 15, 2000.

Selected Interest Rates



Domestic Financial Developments

Overview

Interest rates have fallen substantially since the May FOMC meeting, as economic data have been interpreted as evidence that the Committee would not have to tighten as much as had been previously expected. The interest rate decline has helped to spur increases in equity prices, particularly in the technology sector. Corporate borrowing has continued at a strong clip, while household borrowing--though remaining robust--has slipped in the first half of the year, primarily because of a slowdown in home mortgage borrowing. The Treasury has continued to pay down substantial amounts of debt.

Interest Rates and Stock Prices

Market participants had largely anticipated the 50 basis point increases in the federal funds and discount rates at the May FOMC meeting, as well as the Committee's statement about continuing inflation risks. As a result, interest rates rose only a little immediately after the FOMC announcement. Futures quotes at that time indicated that a majority of market participants expected at least a 25 basis point hike in the funds rate at the June FOMC meeting, and in some circles there was talk of another 50 basis point action in June.

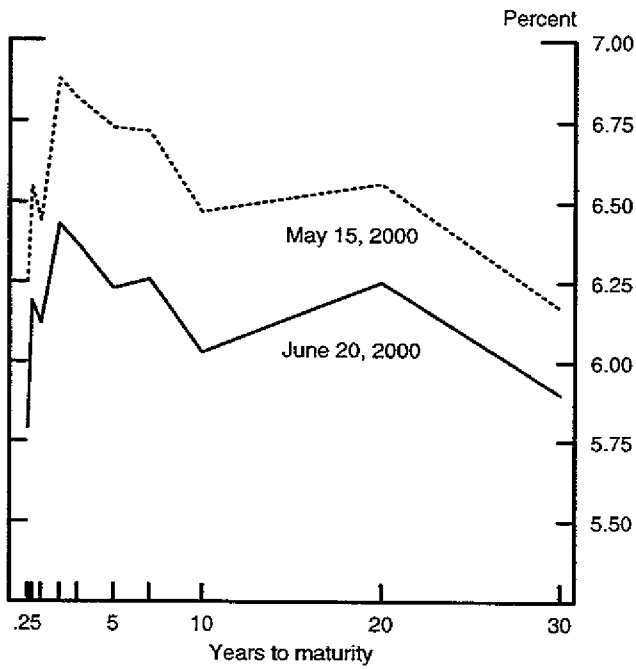
However, market participants interpreted the surprisingly weak May employment report, in combination with other data releases, as evidence that inflationary pressures were not building and that the FOMC would not have to tighten as much as had been previously expected. Indeed, futures rates on net have fallen sharply over the intermeeting period and currently indicate that most market participants believe that the FOMC will not tighten at the upcoming meeting. Moreover, rates on eurodollar futures contracts expiring farther out embed, at most, another 1/4 percentage point of tightening.

Treasury yields have declined with the revised outlook for monetary policy. In addition, yields may have been pulled lower by reports of substantial upward revisions to expected federal budget surpluses in coming years. On balance, Treasury yields have dropped between 25 and 50 basis points since the last FOMC meeting. Yields on Treasury inflation-indexed securities also have fallen over the intermeeting period, but less sharply than nominal Treasury yields, suggesting that a portion of the movement in nominal yields was driven by a decline in inflation compensation.

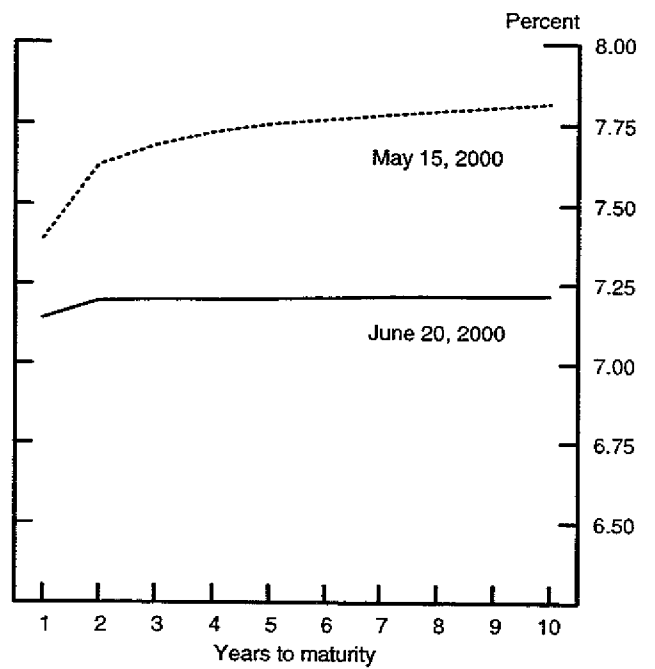
Investment-grade corporate bond yields generally followed yields in the Treasury market, and have fallen between 35 and 60 basis points on net since the last FOMC meeting. In contrast, junk bond yields have changed little on net over the intermeeting period. As a result, spreads on high-yield corporate bonds have widened appreciably since the last meeting, likely reflecting investors' perceptions of increased credit risk among low-grade issuers as defaults mounted.

Selected Yield Curves

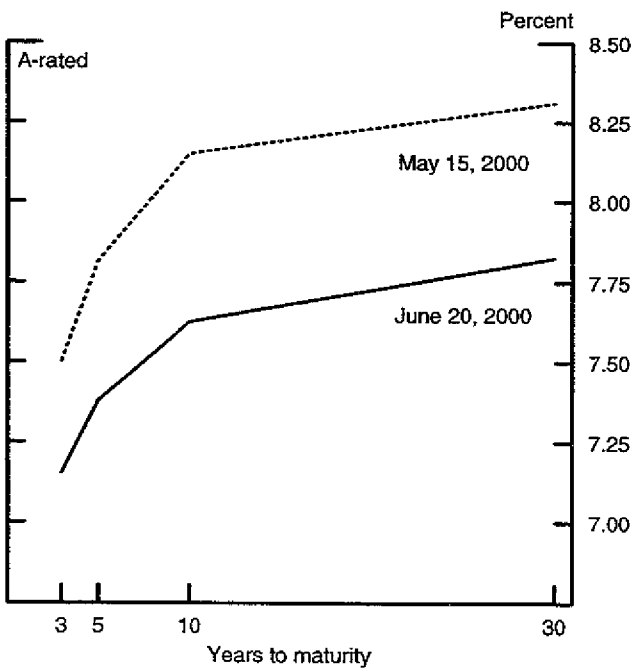
Treasury



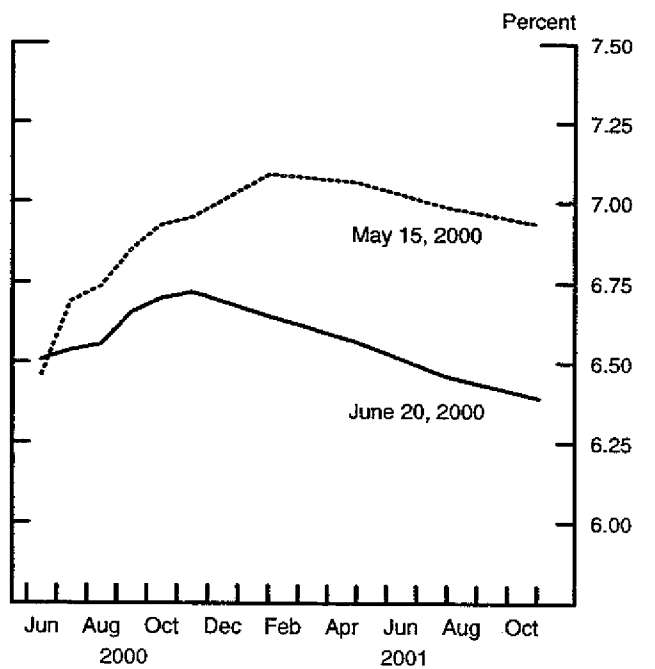
Interest Rate Swaps



AT&T



Expected Federal Funds Rate Curve



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

Equity prices, as measured by the Wilshire 5000, have risen about 2 -3/4 percent on net since the May FOMC meeting. After several steep drops shortly after the meeting, which were partly driven by interest rate jitters, most indexes have rebounded in recent weeks as these concerns eased. In the sharpest turnaround, the Nasdaq posted a remarkable 19 percent rise in one week and is up about 11-1/4 percent since the last FOMC meeting. In addition, volatility of the Nasdaq 100 has receded from its near-record level in early May. In contrast to the upturn for technology stock prices, bank stocks fell over the intermeeting period, pushed down most recently by concerns that second-quarter earnings for a number of institutions would come in below expectations.

Business Finance

Profit growth for S&P 500 firms evidently has remained robust in the second quarter but below the blistering pace of the last two quarters. Based on the sparse reporting to date and some early pre-announcements, there is little to suggest any aggregate shortfall from analyst projections.

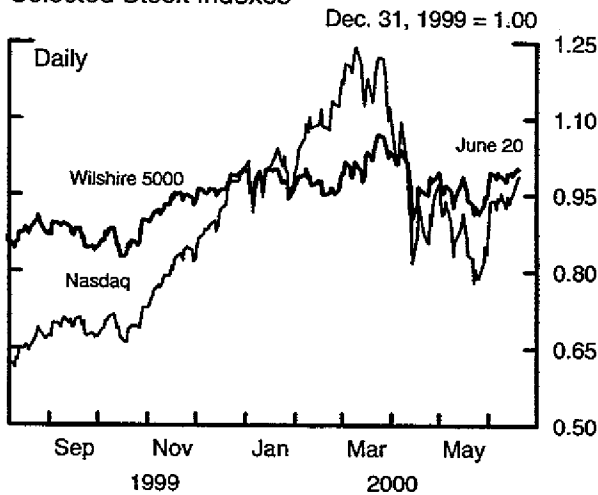
Questions remain, however, about the credit quality of nonfinancial firms, especially for lower-tier firms. Fourteen companies defaulted on a combined face value of \$5 billion in outstanding junk bonds in May, a new monthly record. The default rate on a one-year trailing basis has now climbed to its highest level since 1991. The ratio of liabilities of failed businesses to total business liabilities also edged up and is now at its highest level since 1993. Since the last FOMC meeting, Moody's has, on net, downgraded \$190 billion of debt, although most of the net downgrade was attributable to Ford, which still retained a solid investment-grade rating.¹ Meanwhile, announcements of extra provisioning for possible losses on syndicated loans by Wachovia and UnionBanCal have raised concerns that a deterioration in business and commercial mortgage loans may be in the offing.

Corporate bond issuance, which dried up almost completely amid the turbulence in financial markets in April, recovered somewhat in May and has shown signs of further improvement in June with the retreat in yields. Proceeds from recent bond issues mainly have been used to complete pending mergers and acquisitions. Buyers in the bond market continue to prefer large issues by well-known investment-grade firms and, as a result, a number of potential junk bond issuers have remained on the sidelines or sought alternative forms of credit. In addition, buyers remain quite selective, preferring bonds with maturities of ten years or less. Issuance of convertible bonds by high-tech companies, which helped boost junk bond issuance in recent months, has not reappeared since the Nasdaq's swoon in April.

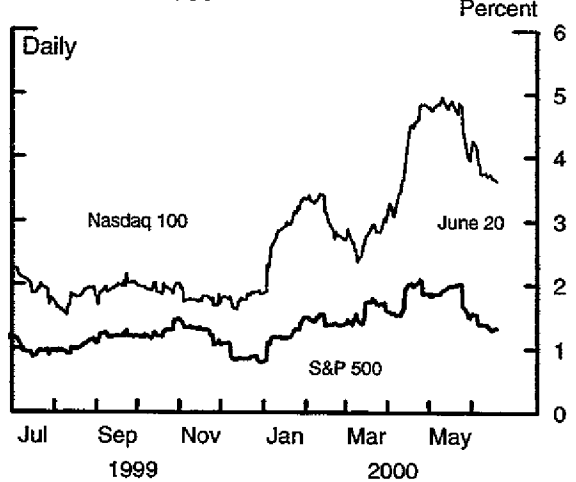
1. As noted in the last Greenbook, Ford was downgraded following its announcement of a \$10 billion special dividend.

Equity Market and Corporate Credit Quality

Selected Stock Indexes

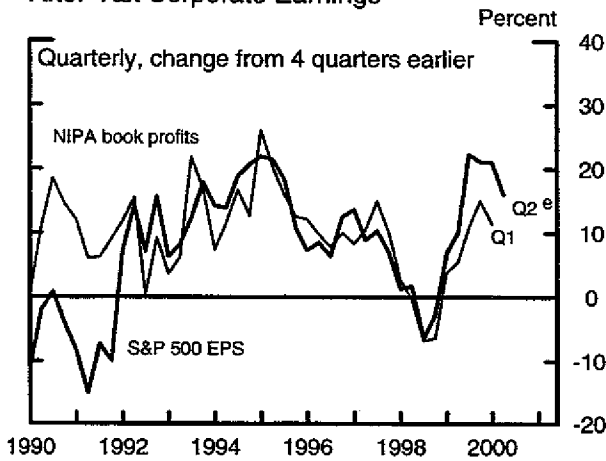


Actual Volatilities



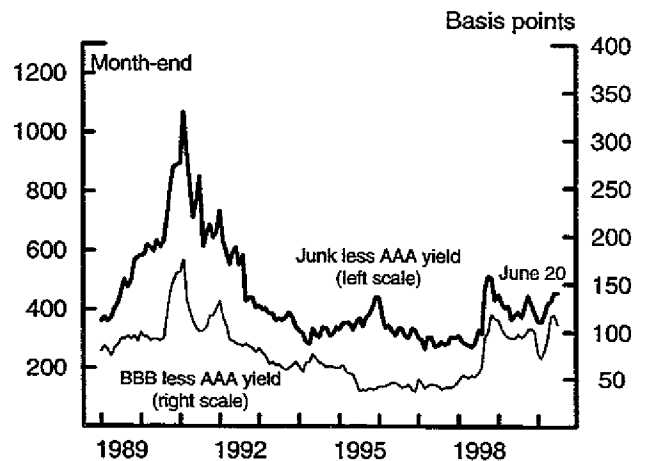
Note. Volatility is the standard deviation of daily percent changes in stock prices in a 30-day moving window.

After-Tax Corporate Earnings



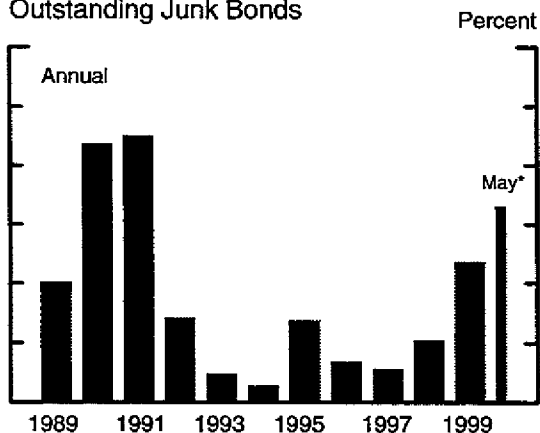
e. Staff estimate.

Selected Spreads



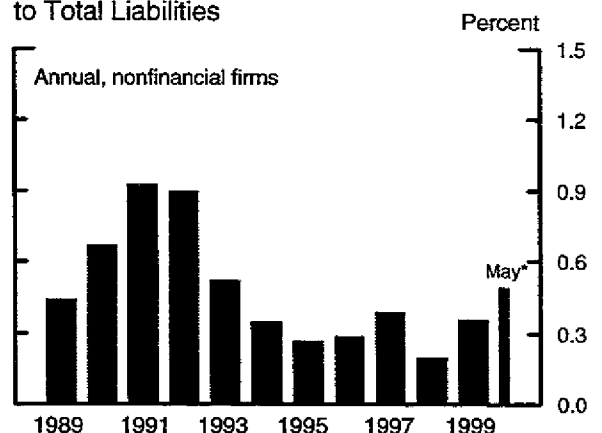
Source. Merrill Lynch.

Default Rates
Outstanding Junk Bonds



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

Liabilities of Failed Businesses
to Total Liabilities



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

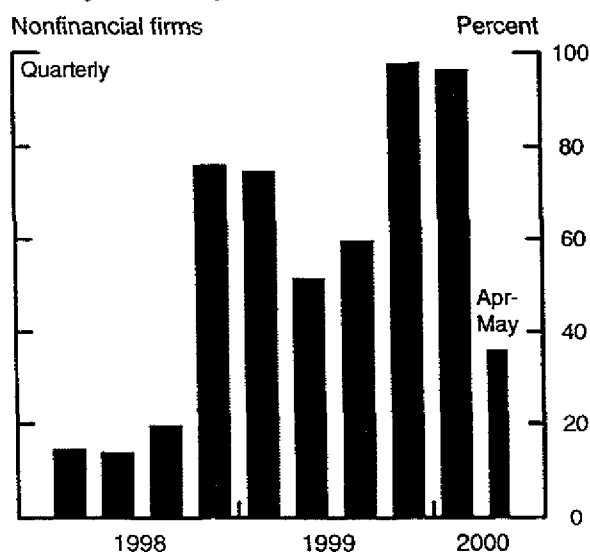
Gross Issuance of Securities by U.S. Corporations
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1998	1999	1999	2000			
			Q4	Q1	Mar.	Apr.	May
All U.S. corporations	94.0	89.4	64.8	84.8	113.1	62.0	62.2
Stocks ¹	10.6	11.0	14.6	16.9	16.9	20.9	4.6
Bonds	83.5	78.4	50.2	67.9	96.1	41.1	57.6
<i>Nonfinancial corporations</i>							
Stocks ¹	6.2	9.2	13.7	15.6	15.7	16.6	4.5
Initial public offerings	2.2	4.2	7.9	4.8	6.3	13.4	2.0
Seasoned offerings	4.0	5.0	5.8	10.8	9.4	3.2	2.5
Bonds ²	25.7	24.5	17.6	23.1	28.1	7.9	21.5
Investment grade ³	14.1	13.9	8.8	11.6	17.3	5.6	14.0
Speculative grade ³	10.2	7.5	6.6	7.5	7.0	1.5	1.9
Other (Sold Abroad/Unrated)	1.3	3.1	2.2	4.0	3.8	.8	5.6
<i>Financial corporations</i>							
Stocks ¹	4.4	1.8	.9	1.3	1.3	4.3	.1
Bonds	57.8	53.9	32.6	44.8	68.1	33.2	36.1
<i>Memo</i>							
Net issuance of commercial paper, nonfinancial corporations ⁴	2.3	3.6	4.2	3.0	-2.2	15.2	-1.8
Change in C&I loans at commercial banks ⁴	7.1	4.7	7.7	8.9	4.5	16.1	18.9

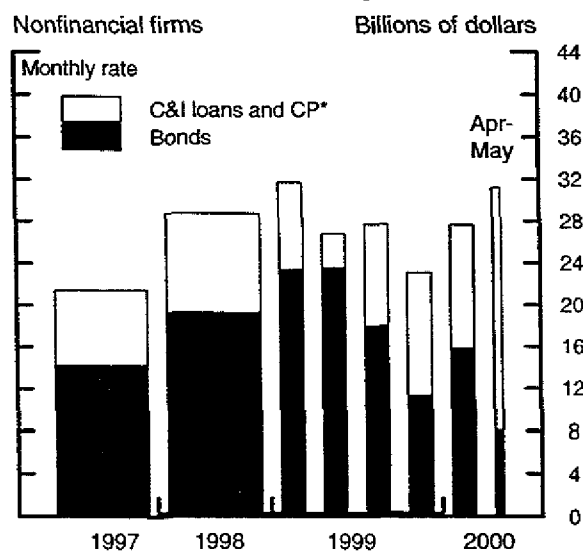
Note. Components may not sum to totals because of rounding. These data include speculative-grade bonds issued privately under Rule 144A. All other private placements are excluded. Total reflects gross proceeds rather than par value of original discount bonds.

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.

Average First-Day Returns on IPOs



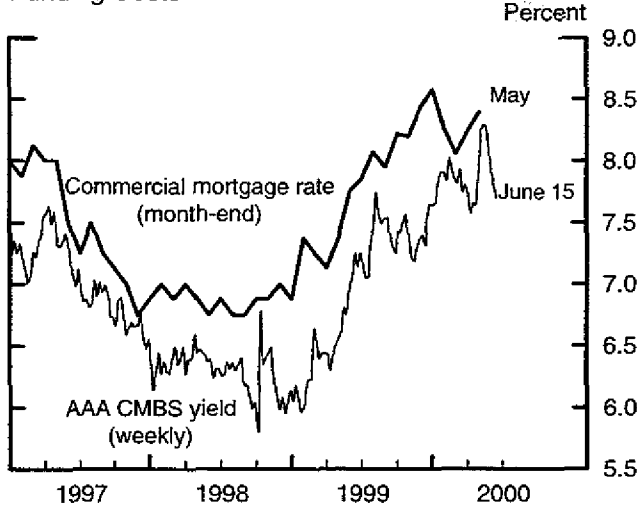
Sources of Net Debt Financing



* Seasonally adjusted

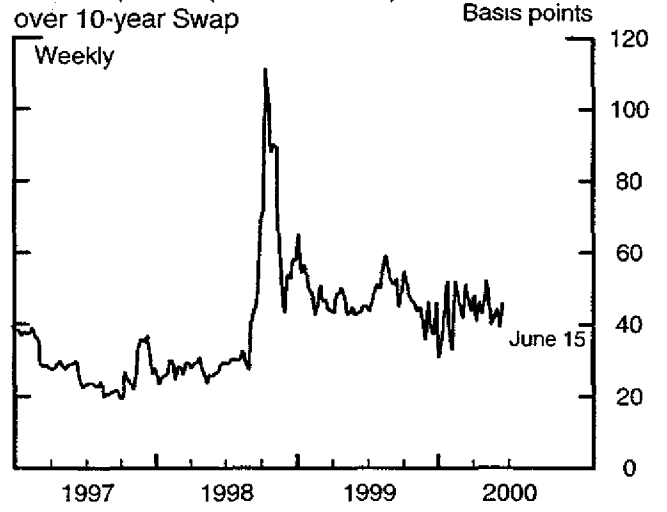
Commercial Real Estate

Funding Costs



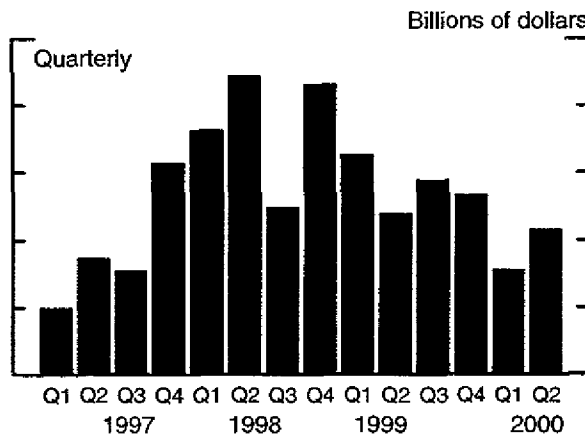
Source: Barron's/Levy National Mortgage Survey; Morgan Stanley

CMBS Spreads (AAA Tranches) over 10-year Swap



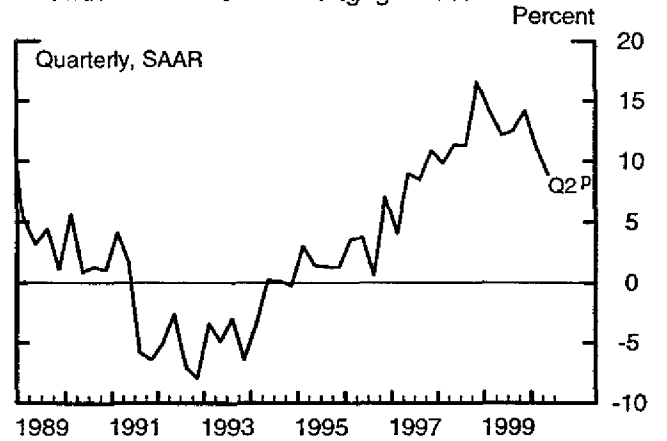
Source: Morgan Stanley.

Total CMBS Gross Issuance

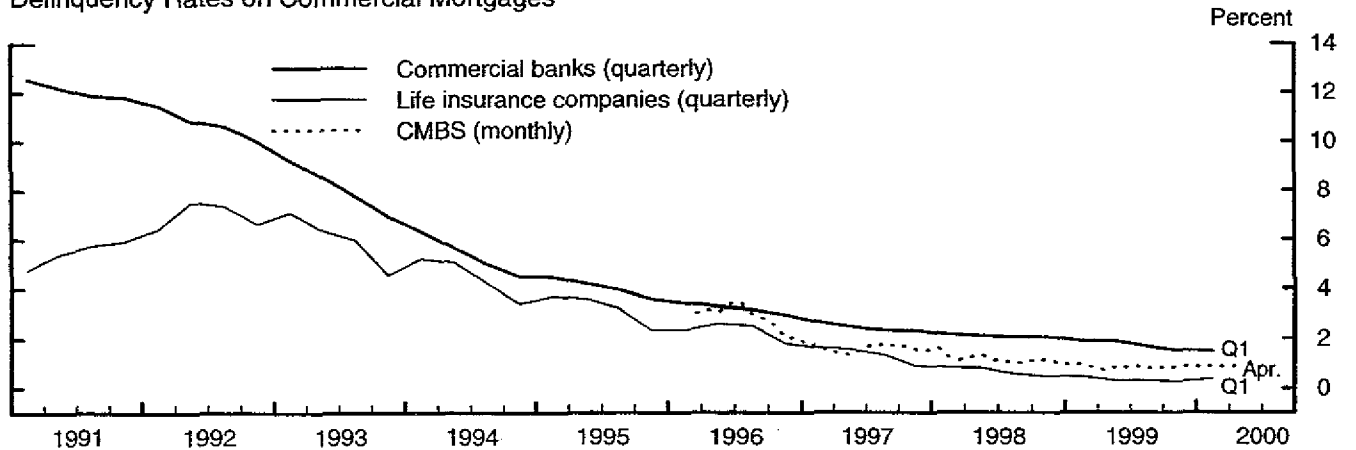


Note: 2000:Q2 figure is a staff projection.
Source: Commercial Mortgage Alert.

Growth of Commercial Mortgage Debt



Delinquency Rates on Commercial Mortgages



Source: ACLI, Morgan Stanley, Call Reports.

Firms needing immediate financing to complete mergers and large capital expenditures have raised substantial funds in the commercial paper market. AT&T, in particular, has sharply ramped up its volume of outstanding paper to finance its acquisition of Media One. Credit problems for a few lower-tier issuers have boosted spreads slightly in that part of the commercial paper market but do not appear to have deterred issuance. Firms also have turned to banks to meet their financing needs; commercial and industrial loans at banks grew rapidly in April and May, though some slowing has been evident in the early part of June.

Public equity issuance has remained weak in the intermeeting period, as investor demand for the stocks of technology companies has not recovered since the April stock price decline. Many firms postponed their IPOs after the drop in prices; of those that went ahead, nearly three-fourths received a price below their filing range. Nonetheless, a few telecommunications firms found enthusiastic buyers, and the average of first-day returns on newly issued stock in the quarter, though far lower than in the last couple of years, has still been above its historical average. The volume of IPOs could well pick up in the next few weeks, given some improvement in market tone associated with the turnaround in stock prices and a backlog of more than 300 companies waiting to issue.

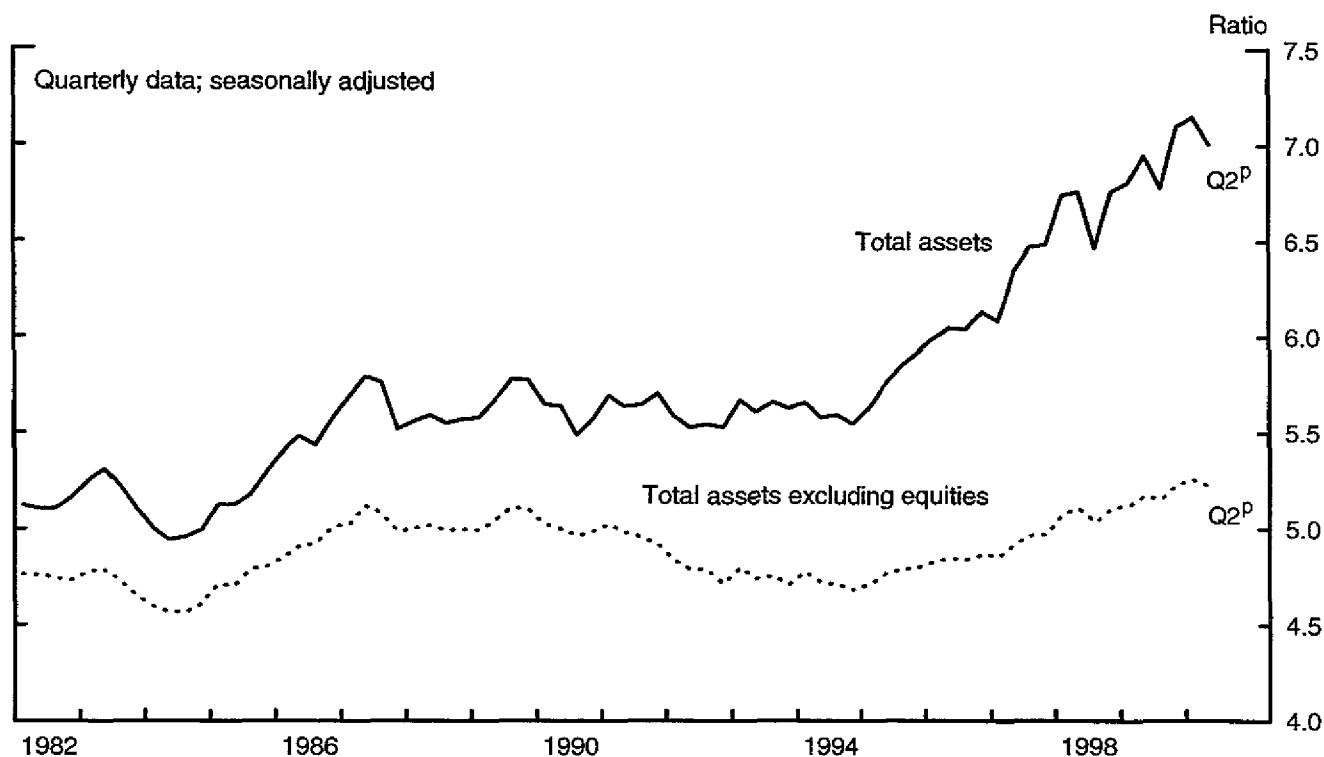
Merger activity has continued at an impressive pace, spurred by large intra-industry deals. In the current quarter, equity retired from mergers will likely finish at a near-record level, boosted by British Petroleum's purchase of ARCO and the completion of AT&T's purchase of Media One. Announcements of new deals also have remained brisk in the intermeeting period, indicating that hefty merger-related equity retirements will persist in coming quarters. However, announcements of stock buybacks have slowed considerably from their record pace in the first quarter, when a large number of "old economy" companies announced buyback initiatives. A handful of tech companies made new announcements after their prices fell in April.

Commercial Real Estate Finance

Yields on AAA-rated commercial mortgage-backed securities (CMBS) have fallen about 60 basis points since the May FOMC meeting, a drop similar to that of other high-grade securities. Through late May, interest rates on commercial mortgage loans had yet to turn down.

In contrast to the light volume in April and May, CMBS issuance is expected to be heavy later this month and into July, as securitizers disgorge the loans that piled up on their books when market conditions deteriorated earlier in the year. Once these old loans have been securitized, CMBS issuance likely will drop back. Commercial mortgage debt from all sources is expected to grow about 9 percent at an annual rate in the second quarter, paced by commercial bank lending. This increase, while still strong, would be the smallest quarterly rise

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		Q1	2000		Assets Apr.
			H1	H2		Apr.	May. ^e	
Total long-term funds	22.7	20.2	18.3	10.2	29.2	25.3	14.6	5,391
Equity funds	19.0	13.2	15.2	16.2	44.5	33.8	20.1	4,251
Domestic	15.8	12.6	15.7	14.0	32.3	29.5	16.1	3,636
Capital appreciation	7.9	7.1	12.1	14.8	46.5	28.2	18.4	2,341
Total return	7.9	5.5	3.6	-0.8	-14.2	1.3	-2.3	1,295
International	3.1	0.6	-0.4	2.2	12.1	4.3	4.0	615
Hybrid funds	1.4	0.9	-0.4	-1.6	-5.9	-1.7	-1.8	359
Bond funds	2.4	6.2	3.4	-4.3	-9.4	-6.8	-3.6	781
International	-0.1	-0.1	-0.1	-0.3	-0.2	-0.4	-0.2	22
High-yield	1.4	1.1	0.3	-0.8	-1.7	-1.2	-1.2	107
Other taxable	1.0	3.9	2.5	-0.6	-4.5	-2.1	-0.8	389
Municipals	0.1	1.3	0.7	-2.7	-3.0	-3.0	-1.3	264

e. Staff estimates based on confidential ICI weekly data.
Source: Investment Company Institute (ICI).

since mid-1997. Delinquency rates for commercial mortgages at banks, insurance companies, and in securitized pools all remain near their historic lows. The double-digit loan growth in recent years may be putting some downward pressure on these rates, as many loans originated during this period have not yet reached an age at which defaults typically occur.

Household Finance

The value of household assets relative to disposable income likely fell in the second quarter, as equity prices were lower on net despite the recent turnaround. Stock price volatility and the lower average returns since the first quarter have affected household asset choices. Net flows into equity mutual funds moderated in May and early June. Among equity funds, investors still favor capital appreciation funds—which on average hold a large share of their portfolio in technology stocks—and international funds, but the rotation into these funds from less risky total return funds has been less pronounced than in the first quarter. Bond and hybrid funds continued to experience outflows in May as interest rates were still generally rising over the first half of the month. However, with the more recent rate declines, some bond funds have started to attract inflows in early June.

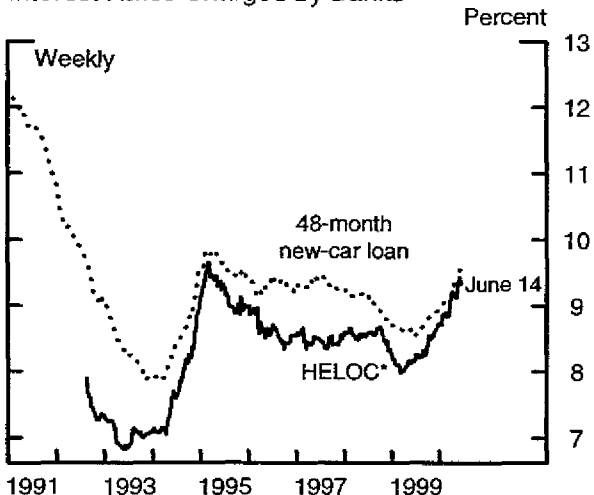
Since the May FOMC meeting, changes in consumer and mortgage loan rates have been mixed on balance. Rates on consumer loans at banks and on adjustable-rate mortgages have risen 20 to 25 basis points, while rates for fixed-rate mortgages have fallen 30 basis points on net. Most consumer rates are now at their highest levels since early 1995, and adjustable-mortgage rates are at their highest levels in nearly a decade. An exception to the recent upward trend in consumer loan interest rates is the decline in rates charged by captive finance companies for new-car loans, as manufacturers have continued incentive programs in an effort to maintain strong auto sales. However, DaimlerChrysler has indicated that it will shift away from these interest-rate incentives, suggesting that these rates also may rise before long.

Mainly because of a slowdown in mortgage debt, overall household debt growth—while remaining robust—appears to have decelerated a bit in the first half of 2000. After growing at a 10 percent pace in 1999, mortgage debt growth is expected to have slowed to a 7-1/2 percent pace in the first half of the year. Consumer credit grew at a 7-3/4 percent annual rate in April, down from the first quarter's double-digit pace, but still above the 1999 growth rate.

Rising household debt-service burdens suggest the potential for future problems, but current measures of debt repayment performance show little sign of deterioration. According to the most recent Call Report data, delinquency rates on revolving home equity loans ticked up slightly during the first quarter, but delinquency rates for home mortgage credit as a whole changed little and remained near historic lows, while delinquency rates for consumer credit at

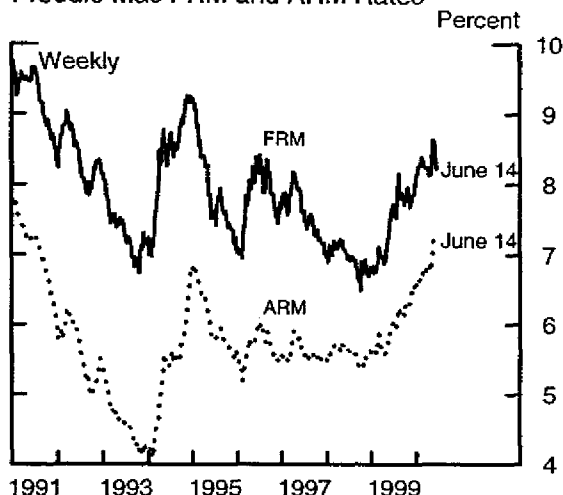
Household Liabilities

Interest Rates Charged by Banks

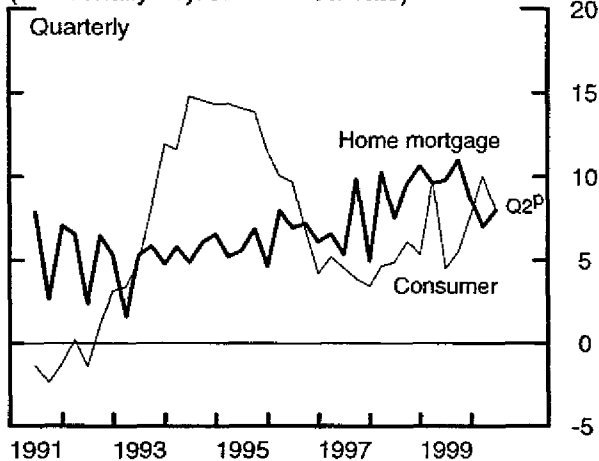


*Home equity lines of credit.
Source: Bank Rate Monitor.

Freddie Mac FRM and ARM Rates

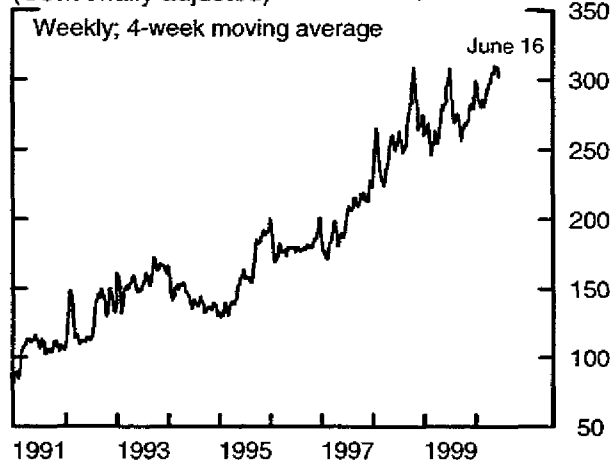


Household Debt Growth
(Seasonally adjusted annual rate)

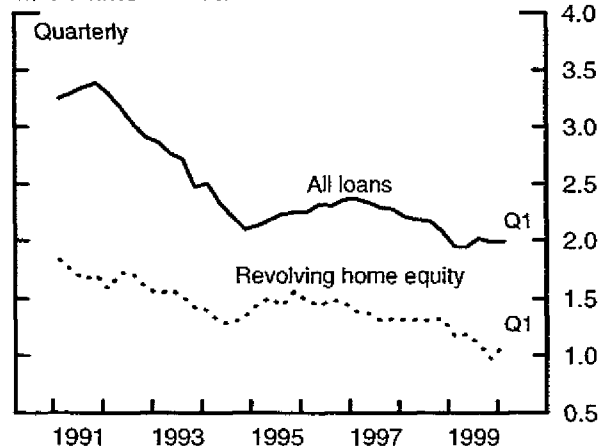


p. Staff projection.

MBA Purchase Index
(Seasonally adjusted) March 16, 1990 = 100

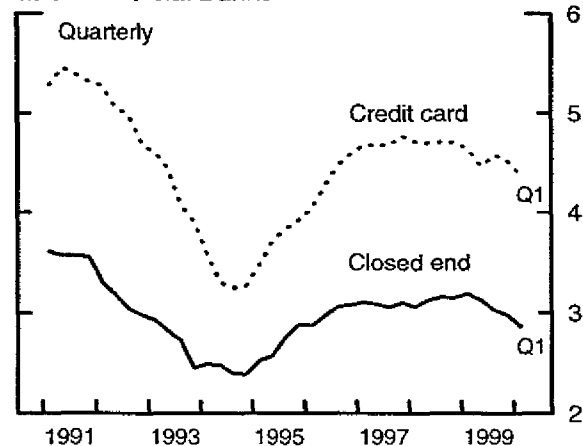


Home Mortgage Delinquency Rates
at Commercial Banks



Source: Call Report.

Consumer Loan Delinquency Rates
at Commercial Banks



Source: Call Report.

commercial banks fell to their lowest levels in four years. Delinquency rates on new-car loans at captive finance companies and on credit cards in securitized pools both edged up in April, but both series remain near their March levels, which were the lowest in several years. The per capita personal bankruptcy rate fell 11 percent at an annual rate in the first quarter, dropping to its lowest level in more than three years.

Treasury Finance

Over the intermeeting period, the Treasury continued to run off the very high cash balance it accumulated during the April tax season. The Treasury paid down about \$48 billion of maturing obligations in May, and substantial further paydowns are expected on net this month. In addition, in May the Treasury repurchased about \$7 billion of coupon securities with maturities between fifteen and twenty-three years, and plans to buy back another \$2 billion during June. The buyback operations to date have generally gone well, with comfortable bid-to-cover ratios, and the immediate effects on markets appear to have been fairly modest.

With tax receipts continuing to surprise on the high side, the staff now projects that the federal budget surplus will be near \$235 billion this fiscal year, more than \$10 billion higher than at the time of the last Greenbook. The Treasury appears to be on course to pay down more than \$235 billion of debt this fiscal year, implying a decline of more than 6 percent in federal government debt held by the public.

Liquidity in the Treasury bill market appears to have improved recently after deteriorating over part of the intermeeting period. Bid-asked spreads for on-the-run bills widened considerably for a time, and trading activity dipped, but both of these measures now are close to their readings at the time of the last meeting. Liquidity in the Treasury coupon security market has declined slightly, on balance, with some bid-asked spreads widening and trading volume trending lower.

Agency Finance

In contrast to the paydown of Treasury debt, borrowing by government-sponsored agencies was robust in April (the most recent month for which we have complete data), with Fannie Mae and Freddie Mac accounting for most of this borrowing. At the end of May, the total amount of coupon securities outstanding under Fannie and Freddie's benchmark securities programs exceeded \$230 billion.

Activity in the markets for agency security futures and options--which were established in March--has expanded rapidly, with the Chicago Board of Trade garnering an increasing share of the business. Trading in the CBOT's ten-year

Treasury and Agency Finance

Treasury Financing (Billions of dollars)

Item	1999	2000				
	Q4	Q1	Q2 ^e	Apr.	May	June ^e
Total surplus, deficit (-)	-20.6	-15.0	n.a.	159.5	-3.6	n.a.
Means of financing deficit						
Net borrowing	47.6	-27.1	n.a.	-112.7	-53.8	n.a.
Nonmarketable	1.0	-6.4	n.a.	2.1	1.5	n.a.
Marketable	46.6	-20.7	-193.6	-114.7	-55.3	-21.8
Bills	83.6	16.0	-124.3	-102.2	-14.8	-6.8
Coupons ¹	-37.0	-34.7	-58.3	-10.5	-33.5	-13.0
Debt buybacks	.0	-2.0	-11.0	-2.0	-7.0	-2.0
Decrease in cash balance	-26.9	38.6	n.a.	-47.8	69.5	n.a.
Other ²	-.2	3.5	n.a.	1.0	-12.1	n.a.
MEMO						
Cash balance, end of period	83.3	44.8	n.a.	92.6	23.1	n.a.

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	Mar.	Apr.	May
FHLBs	44.5	47.4	6.3	7.4	6.4	n.a.
Freddie Mac	26.7	19.6	17.3	-2.7	10.3	n.a.
Fannie Mae	25.0	22.7	9.9	10.4	4.2	n.a.
Farm Credit Banks	.2	.9	-1.7	-2.0	1.9	2.1
Sallie Mae	4.0	.1	-3.9	-4.6	n.a.	n.a.
MEMO						
<i>Outstanding noncallable notes and bonds</i>						
Fannie Mae benchmark	93.9	106.4	128.1	128.1	134.1	139.1
Freddie Mac reference	58.5	69.5	85.5	85.5	88.5	93.5

NOTE. Excludes mortgage pass-through securities issued by Fannie Mae and Freddie Mac.

n.a. Not available.

State and Local Finance

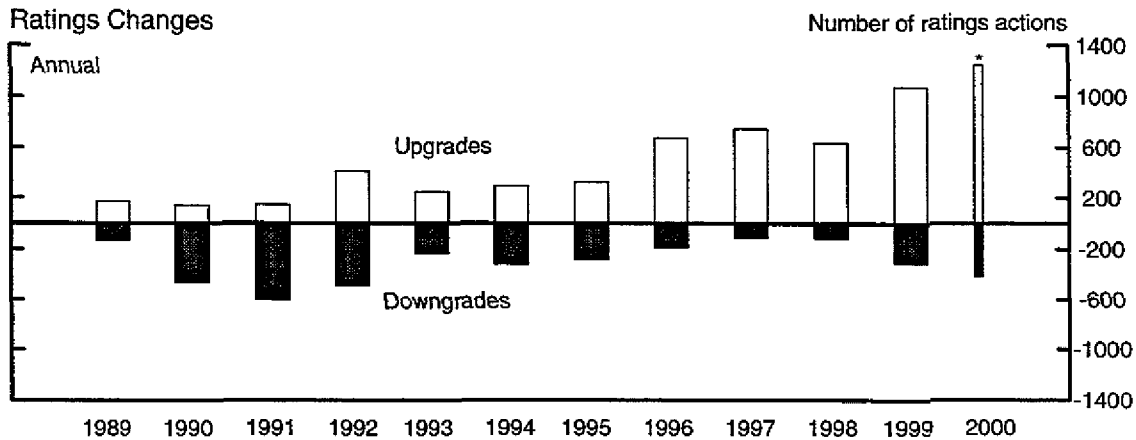
Gross Offerings of Municipal Securities

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

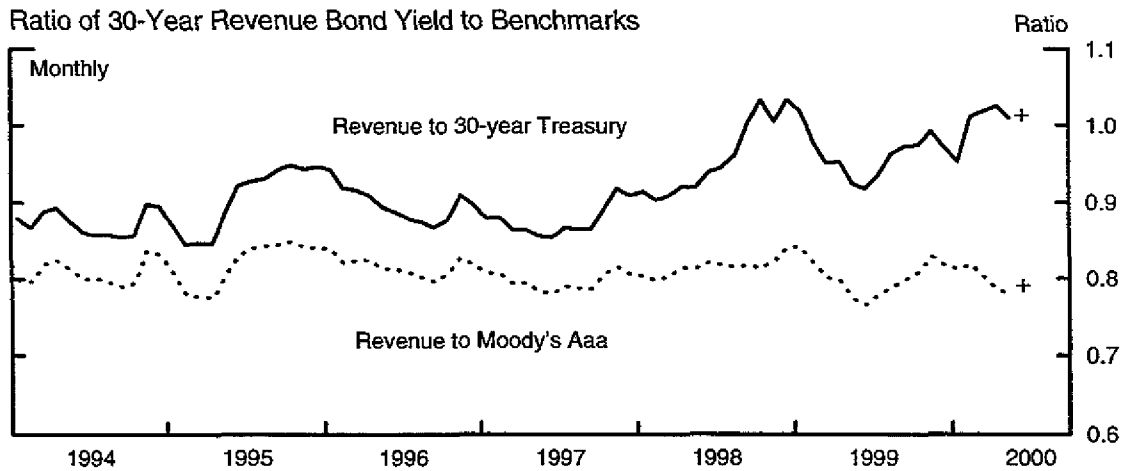
	1998	1999	1999	2000			
			Q4	Q1	Mar.	Apr.	May
Long-term	21.9	18.0	16.6	12.2	16.8	14.2	14.1
Refundings ¹	8.5	4.5	3.1	1.9	3.3	2.2	1.7
New capital	13.4	13.5	13.5	10.3	13.5	12.0	12.5
Short-term	2.4	2.7	2.2	1.6	1.8	1.0	1.4
Total tax-exempt	24.3	20.6	18.8	13.8	18.5	15.2	15.5
Total taxable	1.1	1.1	1.1	0.6	0.7	0.6	0.5

Note. Includes issues for public and private purposes.

1. All issues that include any refunding bonds.



* Data through June 8, 2000, at an annual rate.



Note. Average of weekly data. + indicates latest observation (June 15).

agency options has increased substantially, and growth in the use of agency futures has continued, though at a somewhat diminished pace.

State and Local Government Finance

Gross issuance of long-term municipal bonds in April and May remained well below the robust pace of the past two years. This decline largely reflects the dropoff in refunding volume that has accompanied the generally rising interest rates over the past year and a half. In addition, underwriters indicate that strong state tax revenues have limited the need to issue bonds for funding new capital expenditures.

Credit quality in the municipal sector (with the exception of the not-for-profit health care sector) has continued to improve this year, as upgrades have outnumbered downgrades by a ratio of three-to-one. Yields on municipal bonds followed the Treasury market over the intermeeting period, and the ratios of municipal yields to Treasuries and to Aaa corporate bonds were little changed.

Money and Bank Credit

Preliminary data for June suggest that M2 has resumed growing at a modest pace after having fallen in May. The May decrease followed robust growth in March and April and likely reflected a runoff of liquid deposit and money market fund balances built up to meet exceptionally large nonwithheld tax payments. In addition, the generally rising market interest rates associated with recent monetary tightenings have been holding down the demand for M2 assets, and currency growth, which skyrocketed over the century date change, has remained sluggish. From September 1999 through May 2000, which smooths through Y2K and tax effects, M2 has advanced at a 5-3/4 percent pace, down from about 7 percent in the preceding year.

The growth of M3 has moderated in recent months from the brisk pace recorded over the first three months of the year, with all components slowing. Even with the slowing of M3 growth of late, this aggregate expanded at a 10 percent pace from September 1999 through May 2000, up from its 7-1/2 percent advance over the preceding year.

Adjusted for mark-to-market accounting rules, bank credit accelerated in May to an annual rate of 14 percent, up from 12-3/4 percent in April and 11-1/4 percent in the first quarter. Slow growth in holdings of U.S. government securities was more than offset by robust growth in other securities, and loan growth was strong in most major categories. In particular, business loan growth spurted from a steady 10-1/2 percent pace over the first four months of the year to nearly 25 percent at an annual rate in May, though preliminary data indicate that it has slowed somewhat in early June. Real estate loans also grew at a better than 15 percent rate, paced by continued strength in home equity loans.

Monetary Aggregates
(Based on seasonally adjusted data)

Aggregate or component	1999	1999	2000	2000			1999:Q4 to May 00 ^p	Level (bil. \$) May 00 ^p
		Q4	Q1	Mar.	Apr.	May ^p	May 00 ^p	May 00 ^p
<i>Aggregate</i>	Percent change (annual rate) ¹							
1. M2 ²	6.1	5.1	6.0	9.4	10.3	-1.0	5.8	4764.7
2. M3	7.5	10.1	10.5	13.4	7.8	3.7	9.0	6675.2
<i>Selected components</i>								
3. Currency	10.9	12.2	10.8	-2.5	2.1	3.2	5.3	519.6
4. Liquid deposits ³	5.9	1.5	-0.4	8.8	8.4	-6.1	1.4	2352.4
5. Small time deposits	-0.7	6.3	8.2	8.2	11.2	11.6	9.4	993.4
6. Retail money market funds	12.8	10.5	18.7	19.7	19.1	-3.9	14.6	890.9
7. M3 minus M2 ⁴	11.3	23.7	22.4	23.5	1.5	15.4	17.2	1910.5
8. Large time deposits, net ⁵	8.7	33.9	22.0	12.2	27.6	6.0	18.7	743.0
9. Institution-only money market mutual funds	17.1	21.4	23.5	45.1	-1.3	17.3	19.2	649.2
10. RPs	9.8	12.8	17.6	-12.9	-17.7	24.0	11.1	341.2
11. Eurodollars	5.9	13.3	29.2	65.0	-55.1	30.6	15.6	177.0
<i>Memo</i>								
12. M1	1.8	4.8	0.4	6.9	4.4	-12.3	-1.2	1104.8
13. Sweep-adjusted M1 ⁶	5.1	5.7	2.5	7.9	7.5	-6.3	1.9	1491.3
14. Demand deposits	-6.2	-1.3	-14.9	17.4	-3.8	-26.3	-11.5	334.4
15. Other checkable deposits	-2.7	-0.2	1.5	12.4	21.2	-26.6	0.6	242.5
16. Savings deposits	10.2	2.2	2.3	6.7	8.9	0.7	4.2	1775.5
17. Monetary base	12.4	20.4	4.2	-4.7	2.7	2.1	0.2	573.4
	Average monthly change (billions of dollars) ⁷							
<i>Selected managed liabilities at commercial banks</i>								
18. Large time deposits, gross	7.5	25.2	16.9	1.4	7.4	0.6	...	888.1
19. Net due to related foreign institutions	0.5	1.3	3.5	-0.8	-9.3	25.6	...	249.4
20. U.S. government deposits at commercial banks	0.2	2.7	1.7	-17.9	20.9	0.1	...	41.4

1. For the years shown, Q4 to Q4 percent change. For the quarters shown, based on quarterly averages.

2. Sum of M1, retail money market funds, 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.

Commercial Bank Credit

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

Type of credit	1999	Q4 1999	Q1 2000	Mar. 2000	Apr. 2000	May 2000	Level, May 2000 (\$ billions)
Total							
1. Adjusted ¹	5.4	9.2	11.3	9.0	12.8	13.9	4,888
2. Reported	4.0	9.0	10.8	9.4	11.4	16.1	4,970
<i>Securities</i>							
3. Adjusted ¹	8.0	4.3	7.2	5.8	12.8	8.3	1,220
4. Reported	2.8	3.8	5.7	7.6	7.7	16.9	1,302
5. U.S. government	2.4	-5.8	3.5	-2.5	-3.3	2.1	811
6. Other ²	3.5	22.1	9.5	25.9	26.9	42.3	491
<i>Loans³</i>							
7. Total	4.5	11.0	12.7	10.1	12.8	15.8	3,668
8. Business	4.9	8.9	10.9	10.7	10.2	24.9	1,061
9. Real estate	9.1	15.6	17.7	13.6	16.0	16.7	1,563
10. Home equity	-3.0	4.4	22.6	29.3	41.8	29.8	116
11. Other	10.2	16.5	17.3	12.4	14.0	15.7	1,447
12. Consumer	-2.2	2.9	12.9	7.4	9.3	7.8	512
13. Adjusted ⁴	4.5	8.1	7.6	7.2	9.6	4.9	811
14. Other ⁵	-1.6	9.8	2.2	1.8	11.4	2.9	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.

Business loan growth has remained robust despite the modest further tightening of credit supply indicated by the May Survey of Terms of Business Lending. Although the average spread over the federal funds rate charged by domestic banks was little changed in the second quarter, spreads on acceptable- and moderate-risk loans edged up relative to those of minimal risk. The survey also showed a continued shift in originations toward lower-risk loans.

International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

In April, the U.S. trade deficit in goods and services was \$30.4 billion, roughly unchanged from March (revised). At an annual rate, the deficit in April was \$20 billion larger than in the first quarter (revised).

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

	1999	Annual rate			Monthly rate		
		1999		2000	2000		
		Q3	Q4	Q1	Feb.	Mar.	Apr.
<i>Real NIPA¹</i>							
Net exports of G&S	-323.0	-340.4	-344.1	-372.9	...	...	...
<i>Nominal BOP</i>							
Net exports of G&S	-265.0	-290.9	-305.1	-344.7	-28.1	-30.6	-30.4
Goods, net	-345.6	-369.3	-384.9	-423.4	-34.6	-37.1	-36.9
Services, net	80.6	78.4	79.8	78.7	6.5	6.5	6.5

1. Billions of chained (1996) dollars.

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

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

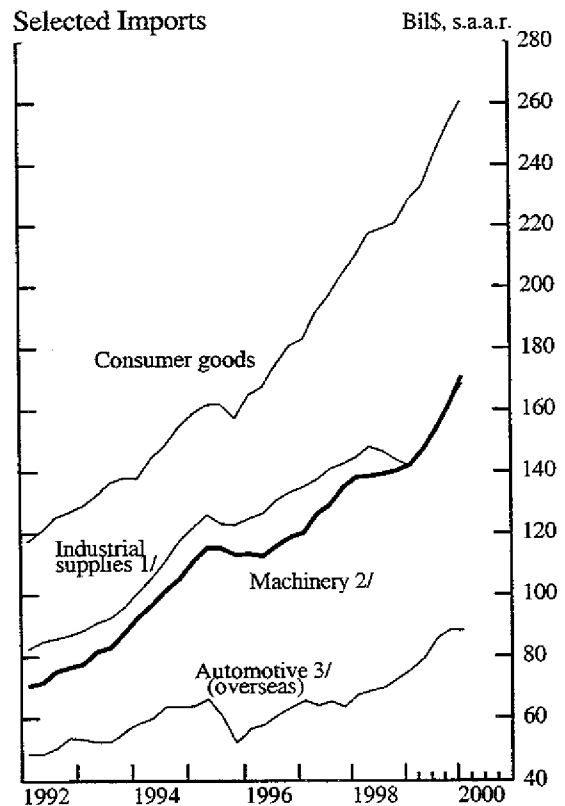
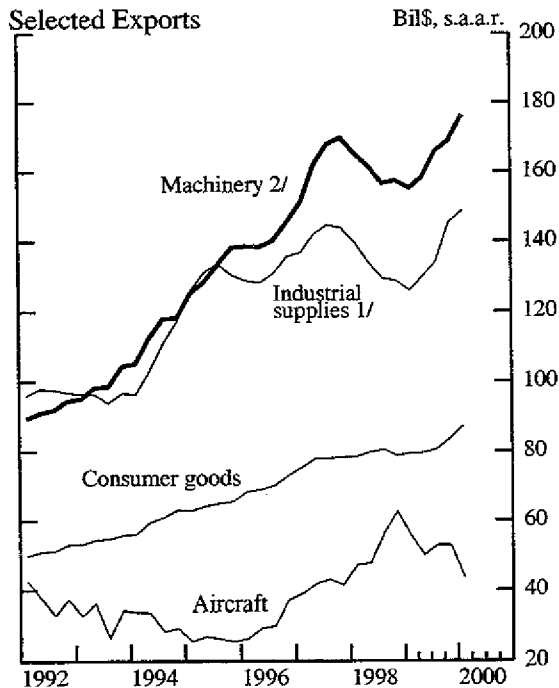
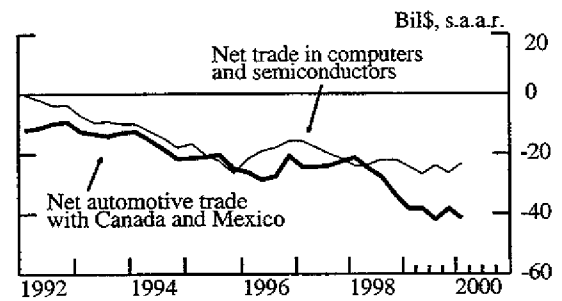
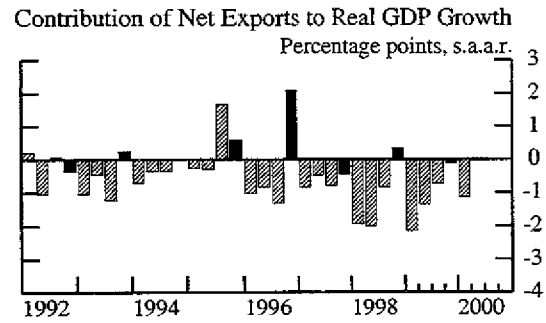
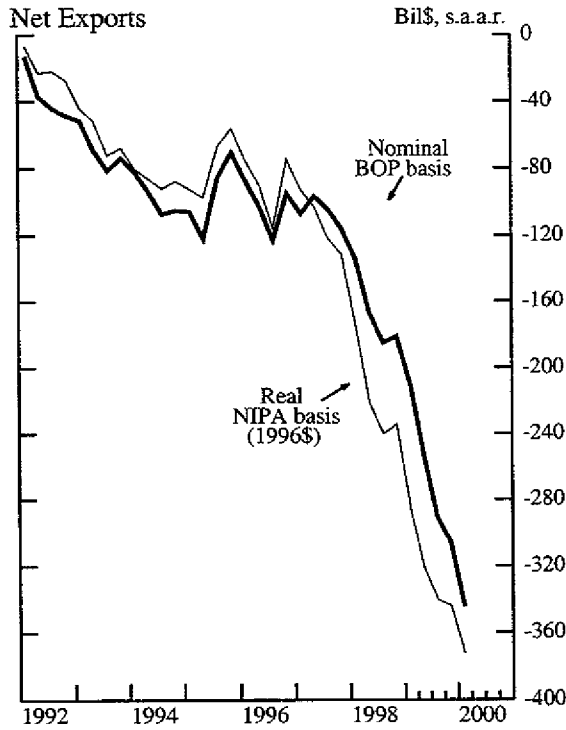
The value of exports in April remained steady at the strong level recorded in March. Increases in capital goods (largely aircraft) were offset by declines—from unusually high levels—in industrial supplies and automotive products. Exports of aircraft rose sharply in April from the strike-affected low recorded in March. The level of exports in April was 2 percent higher than the average for the first quarter.

The value of imports in April was about the same as in March. An increase in the value of imported capital goods (primarily computers) was largely offset by a decline in the value of oil imports caused by a sharp decline in oil prices. The level of imports in April was 3 percent higher than in the first quarter.

Prices of Internationally Traded Goods.

Oil. Following a sharp increase in the first quarter of 2000, the price of imported oil declined over \$2 per barrel in April, marking the first significant decline since late 1998. The easing of oil prices, which resulted primarily from increased crude oil production from OPEC and other producers, proved short-lived and spot oil prices have rebounded strongly since mid-April. In May, the monthly average spot price of West Texas Intermediate rose over \$3 per barrel to nearly \$29 per barrel; spot WTI has recently traded above \$30 per barrel. Strengthening global oil demand, resulting from the need to rebuild stocks and robust economic activity, combined with uncertainty over OPEC's production plans, appear to be driving the increase in oil prices.

U.S. International Trade in Goods and Services



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

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	Mar.	Apr.	Q4	Q1	Mar.	Apr.
Exports of G&S	998.6	1020.1	1040.7	1040.4	30.7	21.5	23.9	-0.3
Goods exports	720.3	734.9	750.2	751.6	24.8	14.6	19.4	1.4
Agricultural	50.0	52.5	53.6	51.1	-2.7	2.5	1.4	-2.5
Gold	8.8	9.6	9.0	3.3	2.7	0.9	-2.2	-5.7
Other goods	661.6	672.8	687.6	697.2	24.9	11.2	20.3	9.6
Aircraft & pts	53.0	43.6	34.6	47.4	-0.0	-9.4	-9.9	12.7
Computers	47.7	51.2	53.5	56.6	-0.1	3.4	0.4	3.1
Semiconductors	51.3	52.5	54.7	55.9	2.7	1.2	4.3	1.2
Other cap gds	171.7	179.0	183.3	190.8	3.5	7.2	7.6	7.5
Automotive	77.5	80.3	82.8	77.0	0.1	2.8	4.2	-5.8
to Canada	47.2	47.5	48.0	43.7	-0.1	0.2	1.8	-4.3
to Mexico	13.7	15.9	18.3	16.3	2.2	2.2	2.9	-2.0
to ROW	16.6	17.0	16.5	17.0	-2.0	0.4	-0.6	0.4
Ind supplies	145.5	148.8	156.9	152.7	11.1	3.3	10.2	-4.2
Consumer goods	83.6	87.3	89.1	87.1	2.9	3.7	0.6	-1.9
All other	31.2	30.0	32.7	29.8	4.7	-1.1	2.8	-2.9
Services exports	278.3	285.2	290.5	288.8	5.9	7.0	4.5	-1.7
Imports of G&S	1303.7	1364.8	1407.9	1405.6	45.0	61.1	53.4	-2.3
Goods imports	1105.3	1158.3	1195.9	1194.5	40.5	53.0	49.5	-1.4
Petroleum	85.7	108.0	116.5	108.2	6.1	22.3	3.8	-8.3
Gold	9.3	9.6	10.0	2.4	1.9	0.3	-0.7	-7.6
Other goods	1010.3	1040.6	1069.5	1083.9	32.5	30.4	46.4	14.4
Aircraft & pts	24.1	23.2	26.5	25.5	-1.5	-0.9	5.7	-1.0
Computers	83.8	83.8	82.9	90.3	1.8	0.1	-1.7	7.4
Semiconductors	41.7	43.2	44.6	42.9	3.4	1.5	2.6	-1.6
Other cap gds	165.1	173.9	179.0	185.4	8.5	8.8	5.2	6.5
Automotive	188.0	193.3	196.5	198.0	1.2	5.3	9.3	1.5
from Canada	65.3	66.1	68.2	63.0	-1.3	0.8	9.7	-5.2
from Mexico	33.9	38.9	42.6	40.5	-0.2	5.0	3.7	-2.1
from ROW	88.8	88.3	85.6	94.4	2.8	-0.5	-4.1	8.8
Ind supplies	162.1	168.4	173.4	170.9	7.8	6.3	5.9	-2.5
Consumer goods	252.9	260.5	270.4	275.2	9.4	7.6	16.3	4.8
Foods	44.6	44.6	45.9	45.3	0.5	0.0	1.9	-0.6
All other	48.0	49.6	50.3	50.4	1.4	1.6	1.2	0.1
Services imports	198.5	206.6	212.0	211.2	4.5	8.1	3.9	-0.9
<i>Memo:</i>								
Oil quantity (mb/d)	10.63	11.45	11.54	11.69	-0.85	0.82	-0.21	0.15
Oil import price (\$/bbl)	22.14	25.96	27.62	25.34	3.45	3.82	1.37	-2.28

1. Change from previous quarter or month.

Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

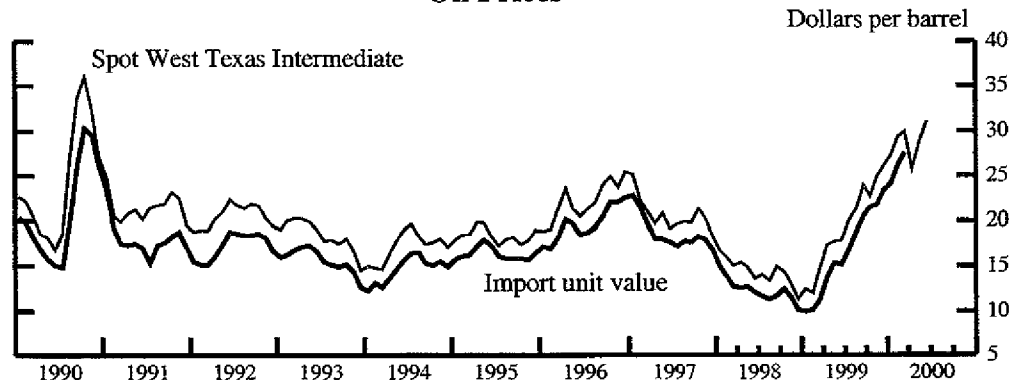
	Annual rates			Monthly rates		
	1999	2000		2000		
	Q4	Q1	Q2 ^e	Mar.	Apr.	May
	----- BLS prices (1995 weights)-----					
Merchandise imports	8.2	10.5	-1.9	0.1	-1.5	0.6
Oil	83.5	105.4	-19.4	-0.7	-11.8	6.5
Non-oil	1.9	1.7	1.0	0.2	0.1	-0.2
Core goods*	2.5	1.9	1.5	0.3	0.1	-0.2
Foods, feeds, beverages	2.6	0.6	-0.5	-0.4	0.9	-1.2
Industrial supplies ex oil	9.9	11.0	8.4	2.4	0.1	-0.3
Computers	-1.0	-1.4	-8.3	-0.5	-1.5	-0.6
Semiconductors	-1.6	-3.9	0.3	-0.3	0.8	-0.8
Cap. goods ex comp & semi	0.3	-1.7	-0.7	-0.3	0.0	0.0
Automotive products	0.5	0.7	1.1	0.0	0.1	0.3
Consumer goods	0.1	-0.8	-1.4	-0.3	0.0	-0.2
Merchandise exports	2.4	2.7	2.0	0.5	-0.1	0.2
Agricultural	-1.7	0.5	6.5	0.5	0.8	0.2
Nonagricultural	3.0	2.9	1.4	0.4	-0.1	0.1
Core goods*	4.1	4.4	1.6	0.7	-0.3	0.1
Industrial supplies ex ag	10.6	12.2	5.2	1.7	-0.7	0.7
Computers	-2.0	-7.1	-4.8	0.0	-0.5	-0.2
Semiconductors	-3.6	-5.0	-1.3	-0.5	0.1	-0.1
Cap. goods ex comp & semi	0.5	0.9	1.0	0.1	0.1	0.1
Automotive products	2.6	0.3	0.9	0.4	0.0	0.0
Consumer goods	1.3	0.7	-0.5	-0.1	-0.1	0.0
	---Prices in the NIPA accounts (1996 weights)---					
Chain price index						
Imports of goods & services	4.9	5.9	...	...	...	...
Non-oil merchandise	0.9	0.8	...	...	...	...
Core goods*	1.3	1.3	...	...	...	...
Exports of goods & services	2.6	2.1	...	...	...	...
Nonag merchandise	2.7	2.0	...	...	...	...
Core goods*	3.0	3.5	...	...	...	...

*/ Excludes computers and semiconductors.

e/ Average of two months.

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

Oil Prices



Non-oil imports. Prices of imported non-oil goods, as well as prices of core goods (which exclude computers, semiconductors, and oil), declined slightly in May following three months of increases. Among the major trade categories, only the price of imported automotive products rose in May. For April-May combined, prices of non-oil imports rose 1 percent at an annual rate compared with increases of nearly 2 percent in the last two quarters. This lower rate of increase in April-May reflected slower rises in the price of imported non-oil industrial supplies and slightly faster rates of decline in prices of imported consumer goods and foods. The price of imported machinery excluding computers and semiconductors declined only slightly in April-May, and the price of imported automotive products rose. Prices of core goods rose 1-1/2 percent at an annual rate in April-May, somewhat less than in the last two quarters.

Exports. Prices of total goods exports rose slightly in May. For April-May combined, the increase was 2 percent at an annual rate, a somewhat smaller rise than in the last two quarters. The increases were largely in agricultural products and industrial supplies. Prices of exported core goods (which exclude computers, semiconductors, and agricultural products) rose 1½ percent at an annual rate in April-May following two quarters of stronger increases; most of the slowing was from smaller increases in prices of industrial supplies.

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

Period	Goods and services, net	Investment income, net	Other income and transfers, net	Current account balance
<i>Annual</i>				
1998	-166.9	-6.2	-44.0	-217.1
1999	-265.0	-18.5	-48.0	-331.5
<i>Quarterly</i>				
1999:Q2	-253.2	-16.6	-46.1	-315.9
Q3	-290.9	-22.1	-45.6	-358.6
Q4	-305.1	-22.7	-57.0	-384.9
2000:Q1	-344.7	-16.8	-47.7	-409.2
<i>Change</i>				
Q2-Q1	-42.5	-4.1	-2.8	-49.4
Q3-Q2	-37.7	-5.5	0.5	-42.7
Q4-Q3	-14.2	-0.6	-11.4	-26.3
Q1-Q4	-39.6	5.9	9.3	-24.3

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

U.S. Current Account

The U.S. current account deficit rose to \$409 billion at a seasonally adjusted annual rate in the first quarter of 2000, an increase of \$24 billion over the fourth quarter (revised). The increase in the current account deficit was driven by a \$40 billion decline in the balance on goods and services. In contrast, the deficits on investment income and on other income and unilateral transfers narrowed in the first quarter. Net investment income payments declined \$6 billion as an increase in investment income receipts outpaced a more modest increase in payments. Net outflows of unilateral transfers decreased \$9 billion—more than accounted for by a fall in U.S. government grants, which were elevated in the fourth quarter by grants to Israel.

U.S. International Financial Transactions

Foreign official assets held in the United States increased \$7 billion in April (line 1 of the Summary of U.S. International Transactions Table). While holdings of Treasury bills declined \$7 billion, holdings of Treasury bonds increased by \$6 billion. The overall decrease in foreign official holdings of Treasury securities was more than offset by increases in holdings of agency bonds and deposit claims on U.S. banks. As in recent periods, Japanese reserve flows—associated with foreign-exchange intervention—resulted in the largest net inflow. Elsewhere, significant increases in Korean, Russian, and Spanish reserves were offset by decreases recorded for Germany, Brazil, Venezuela, and Singapore. Partial data from the FRBNY indicate a slight decline in foreign official assets for May.

Private foreigners bought net \$21 billion of U.S. securities in April, down from \$37 billion in March (line 4). In contrast to calendar year 1999 and the first quarter of this year, when foreigners made net sales, they bought \$5 billion of Treasury securities on net in April; their net purchases of Treasury bonds outpaced their net sales of Treasury bills. Net acquisitions by Japanese investors alone more than accounted for total net purchases of Treasury bonds by the private foreign sector. This outcome contrasts sharply with Japanese net sales of long-term Treasuries in recent periods. Although foreign demand for U.S. agency bonds and corporate securities apparently slackened from record highs in March, the \$5 billion in net purchases of agency bonds recorded in April was still robust and remained in line with the past few quarters. Transactions in agency bonds were concentrated in the Caribbean financial centers and to a lesser extent in Japan and other Asian markets. Net purchases of U.S. corporate bonds totaling \$8 billion came principally from the United Kingdom and the Caribbean. The decrease in net purchases of corporate bonds in April, as compared with March, coincides with a substantial decline in gross U.S. corporate bond issuance, including Euro-issues, in April. Net purchases of U.S. equities in April amounted to \$3 billion. Large purchases by Europe and Asia contrasted with substantial net sales by the Caribbean financial centers.

On balance, U.S. investors were modest net sellers of foreign securities in April (line 5). Across major regions, U.S. net sales of foreign bonds reported against Latin America and the Caribbean more than offset U.S. purchases in Europe, Canada and Singapore. As for foreign equities, net purchases by U.S. residents were reported in a relatively few areas and predominantly in the Caribbean financial centers. Large net sales were reported vis-à-vis Germany, the United Kingdom, and Japan. However, these data do not include the foreign stock acquired by U.S. residents associated with foreign takeovers of U.S. firms. Such acquisitions amounted to more than \$26 billion in April, the largest being some \$21 billion arising from the BP Amoco/Atlantic Richfield merger. Net U.S. sales of foreign equities in April may be due in part to a rebalancing of U.S. portfolios following mergers.

A small net inflow of \$5 billion was recorded for the banking sector in April (line 3). Inflows reported by U.S.-chartered institutions were even greater than large outflows from U.S. agencies and branches of foreign banks vis-à-vis related offices abroad. Partial data for May indicate that there were substantial inflows to both U.S.-chartered and foreign-chartered banks. These inflows are consistent with May's strong growth in domestic bank credit.

Recently released balance of payments data indicate that in the first quarter, direct investment capital inflows (line 7) fell moderately from the fourth quarter of 1999, while direct investment outflows (line 6) were basically flat. On balance, net direct investment inflows narrowed to \$8 billion in the first quarter from \$16 billion in the fourth.

Foreigners reduced their holdings of U.S. currency by almost \$7 billion in the first quarter following a rapid increase in late 1999 in anticipation of the century date change (line 8).

The statistical discrepancy (last line of table) was a positive \$30.4 billion in the first quarter and essentially unchanged from the positive \$30.5 billion in the last quarter of 1999 (revised from \$9.6 billion). A positive statistical discrepancy indicates under reporting either of net receipts in the current account, of net inflows in the financial account, or both.

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

	1998	1999	1999			2000		
			Q2	Q3	Q4	Q1	Mar	Apr.
<u>Official capital</u>								
1. Change in foreign official assets in U.S. (increase, +)	-16.6	46.1	*	13.0	27.4	21.3	15.0	7.1
a. G-10 countries	6.9	49.7	7.6	19.2	10.2	10.1	4.9	5.9
b. OPEC countries	-9.0	1.7	2.5	-1.3	-1.7	5.9	2.0	-7
c. All other countries	-14.4	-5.3	-10.2	-5.0	19.0	5.4	8.1	1.9
2. Change in U.S. official reserve assets (decrease, +)	-6.8	8.6	1.2	1.9	1.6	-6	-2	2.1
<u>Private capital</u>								
<u>Banks</u>								
3. Change in net foreign positions of banking offices in the U.S. ¹	57.3	-8.2	19.0	-18.5	-14.9	-34.3	-80.6	5.2
<u>Securities²</u>								
4. Foreign net purchases of U.S. securities (+)	275.2	321.2	83.5	105.7	76.1	124.0	36.6	20.6
a. Treasury securities ³	49.3	-19.8	-5.2	9.8	-17.0	-9.1	-13.6	4.5
b. Agency bonds	50.5	75.6	17.1	21.2	17.5	26.6	11.0	4.7
c. Corporate and municipal bonds	121.7	157.2	33.8	49.5	40.7	44.5	14.7	8.3
d. Corporate stocks	53.7	108.2	37.9	25.2	35.0	62.1	24.0	3.1
5. U.S. net purchases (-) of foreign securities	-11.1	10.0	17.4	-10.8	-3.9	-24.9	-11.6	1.5
a. Bonds	-17.4	-5.7	3.2	-10.1	2.0	-8.9	-3.4	.8
b. Stocks ⁴	6.2	15.6	14.2	-.8	-5.9	-15.9	-8.2	.7
<u>Other flows (quarterly data, s.a.)</u>								
6. U.S. direct investment (-) abroad	-146.1	-150.9	-33.0	-43.6	-33.3	-34.8	..	...
7. Foreign direct investment in U.S.	186.3	275.5	143.8	55.6	49.4	42.3	...	...
8. Foreign holdings of U.S. currency	16.6	22.4	3.1	4.7	12.2	-6.8	...	...
9. Other (inflow, +) ^{4,5}	-207.4	-204.8	-133.7	-36.6	-48.9	-14.3	...	...
<u>U.S. current account balance (s.a.)</u>	-217.1	-331.5	-79.0	-89.6	-96.2	-102.3	...	...
<u>Statistical discrepancy (s.a.)</u>	69.7	11.6	-22.3	18.2	30.5	30.4	...	...

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.

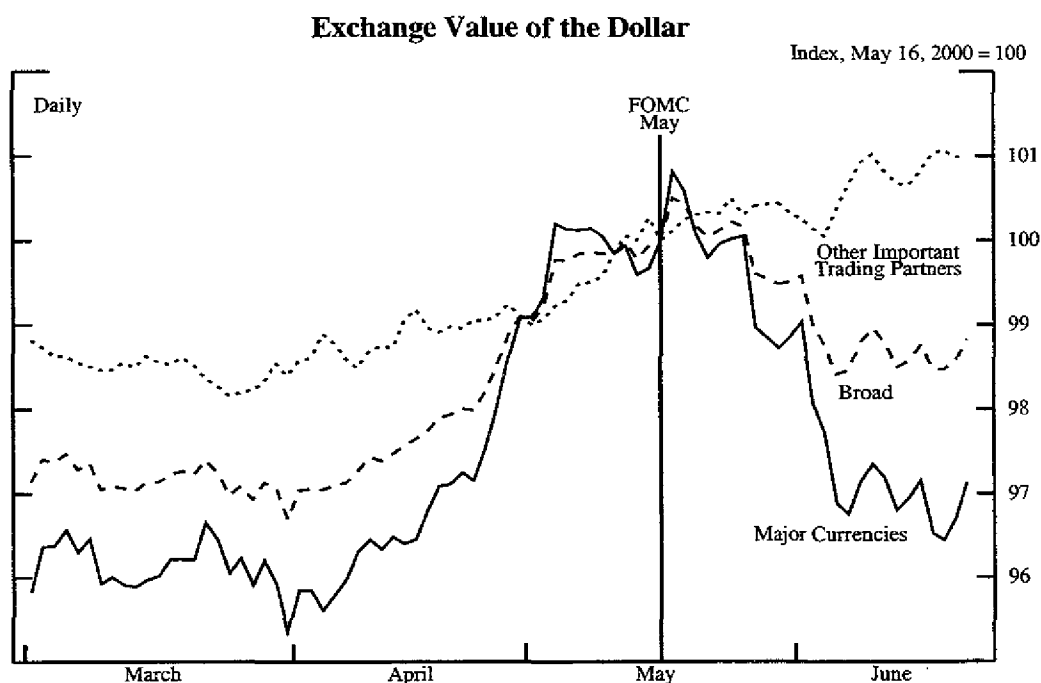
4. Quarterly balance of payments data include large U.S. acquisitions of foreign equities associated with foreign takeovers of U.S. firms. These are not included in line 5.b but are included in line 9.

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

Since the May FOMC meeting the dollar has depreciated relatively sharply versus major currencies. On balance, the major currencies index of the dollar's nominal exchange value fell 2½ percent over the intermeeting period, led by a 3¾ percent depreciation of the dollar versus the yen and 3½ percent depreciation against the euro. The dollar also depreciated 1 percent against the Canadian dollar. Sterling was an exception, against which the dollar appreciated slightly on balance. The index of the exchange value of the dollar versus other important trading partners rose ¾ percent, due almost entirely to a steep depreciation of the Mexican peso.



According to many market participants, the dollar's recent depreciation against major currencies owed to the cumulative effect of successive U.S. data releases, particularly the May employment report, which diminished expectations for future FOMC interest rate increases relative to future policy moves expected of foreign central banks. The growing expectation of a narrowing in the spread among official rates was especially influential in pushing the dollar down relative to the euro, as economic data for the euro area released during the intermeeting period pointed toward accelerating activity and further monetary tightening. On June 8, the European Central Bank exceeded market expectations by raising its two-week refinancing rate 50 basis points. Since then, the exchange value of the dollar has been little changed on balance against the euro.

The dollar's depreciation in terms of the yen occurred against the backdrop of rumblings from Bank of Japan Policy Board members that the Japanese central bank's zero-interest-rate policy is drawing to an end. Also bolstering the exchange value of the yen were signs of improving domestic demand, both in the first quarter GDP statistics and in April real household spending data.

The dollar appreciated slightly against sterling, however, as continued signs of a slowing pace of economic activity in the United Kingdom have led to market speculation that the Bank of England may be nearing the end of its tightening cycle.

Financial Indicators in Major Industrial Countries

Country	Three-month rate		Ten-year yield		Equities
	Jun. 21 (Percent)	Percentage Point Change	Jun. 21 (Percent)	Percentage Point Change	Percent Change
Canada	5.92	-.01	5.89	-.38	9.48
Japan	.06	.02	1.68	-.04	-.60
Euro area	4.52	.19	5.19	-.19	.05
United Kingdom	6.02	-.16	5.22	-.16	.23
Switzerland	3.37	.41	4.12	-.01	.76
Australia	6.33	.02	6.25	-.27	3.54
United States	6.71	-.03	6.07	-.40	-.99
Memo: Weighted-average foreign	3.86	.06	4.96	-.21	n.a.

NOTE. Change is from May 15 to June 21.
n.a. Not available.

Just prior to the FOMC's decision on May 16, the Bank of Mexico surprised market participants by announcing that it would increase to 200 million pesos from 180 million pesos the "corto," or amount by which it leaves the banking system short of required reserves. The day following the FOMC meeting, the Reserve Bank of New Zealand, the Hong Kong Monetary Authority, and the Bank of Canada all raised their policy rates 50 basis points. Subsequent to the European Central Bank's decision on June 8 to raise its refinancing rate 50 basis points, the central bank of Denmark raised its policy rates by as much. On June 14, the Bank of Norway raised its policy rate 50 basis points, and the following day the Swiss National Bank increased its target band for Swiss franc

LIBOR by an equal amount. The Central Bank of Brazil unexpectedly lowered the Selic rate by 100 basis points to 17.5 percent on June 20, the lowest rate since the 1994 introduction of the *real*.

While short-term rates rose significantly during the intermeeting period in continental Europe, ten-year sovereign bond yields in most European economies declined about 20 basis points and Canadian government bond yields fell almost 40 basis points. Similar yields in Japan fell just 4 basis points. Headline European equity indices were mixed with limited price movements; the Japanese TOPIX index lost almost 3 percent, but Canadian shares rose more than 9 percent.

Financial Indicators in Latin America, Asia, and Russia

Economy	Currency/ US dollar		Short-term Interest rates ¹		Dollar-denominated bond spread ²		Equity prices
	Jun. 21	Percent Change	Jun.20/21 (Percent)	Percentage Point Change	Jun.20/21 (Percent)	Percentage Point Change	Percent Change
Mexico	9.89	3.23	15.70	1.95	4.89	-.68	2.81
Brazil	1.81	-1.90	18.15	-1.60	9.01	-1.42	13.03
Argentina	1.00	.00	7.50	-2.00	8.35	-.49	2.47
Chile	531.20	2.35	7.96	-3.66	1.94	.11	-5.35
China	8.28	-.01	n.a.	n.a.	1.48	.20	12.23
Korea	1119.20	.39	5.90	.40	1.89	-.09	7.30
Taiwan	30.70	-.42	5.10	.00	...	...	2.04
Singapore	1.73	.00	2.44	-.50	...	...	3.46
Hong Kong	7.79	.04	6.38	-.64	...	...	9.12
Malaysia	3.80	-.01	2.68	-.01	1.88	-.09	-8.30
Thailand	39.16	-.48	3.75	.50	1.32	-.05	-.37
Indonesia	8660.00	-.12	11.55	.23	6.35	-.78	-4.25
Philippines	42.70	2.89	9.13	.38	3.98	-.64	2.54
Russia	28.23	-.07	n.a.	n.a.	8.66	-1.38	-17.09

NOTE. Change is from May 15 to June 20/21.

1. One month interbank interest rate, except Chile: 30-day deposit rate; Korea: 1-week call 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.

The Mexican peso depreciated 3¼ percent against the dollar after Francisco Labastida, presidential candidate of the ruling PRI party, said that if he failed to win the July 2 election by a wide margin, Mexico may experience social unrest. . Since the May FOMC meeting, the Mexican Bolsa has risen 2¾ percent.

In contrast, most other emerging market asset prices have benefitted from diminished market expectations for higher U.S. policy rates in the future. Bond spreads in emerging markets, as measured by the J.P. Morgan EMBI+ index, have shed almost 1 percentage point since the May FOMC meeting, even as the U.S. Treasury curve shifted down 25 to 60 basis points. Equity price indices in Argentina and Brazil climbed 2½ and 13 percent, respectively. Asian share prices were mixed, rising moderately in most countries, but falling more than 8 percent in Malaysia and 4 percent in Indonesia. Hong Kong and Mainland Chinese shares received a boost from the passage of Permanent Normal Trading Relations with China by the U.S. House of Representatives. The Hang Seng rose 9 percent and Shanghai B shares (open to foreigners) rose 31 percent.

The price of gold rose nearly \$12 per troy ounce over the intermeeting period to a level of \$287. Market participants attributed the sharp rise in the spot price to short-covering by producers, related to the depreciation of the U.S. dollar. According to market participants, gold producers had sold numerous Australian-dollar-denominated call options on gold in recent months. As the dollar depreciated sharply against a broad spectrum of foreign currencies, including the Australian dollar, the accompanying fall in the Australian-dollar price of gold forced these producers to cover their short positions in the spot market, driving up the spot price of gold.

. 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 May Greenbook confirm that the foreign industrial economies expanded robustly in the first quarter and suggest that growth generally continued at a strong pace in the second quarter. The Japanese economy rebounded in the first quarter from the sharp contraction in the second half of last year, but is apparently growing more slowly in the current quarter. Growth in Canada and the euro area remained near last year's pace in the first quarter, and current-quarter indicators have shown considerable strength. In the United Kingdom, in contrast, economic growth appears to be slowing, probably reflecting the impact of past monetary tightening and the strong pound.

Twelve-month measures of consumer price inflation have eased a bit recently in most foreign industrial countries, largely related to a moderation in energy prices. Canadian inflation has moved down from the top of its target range, and core inflation has declined as well. In the euro area, inflation has moved back below the 2 percent target ceiling, and core inflation has remained just over 1 percent. U.K. consumer price inflation remains well below its target rate, and Japanese consumer prices have continued to decline.

Since the May Greenbook, both the Bank of Canada and the European Central Bank have raised official interest rates 50 basis points. The Bank of Canada emphasized the strong momentum in the economy and expressed concern that activity may be pushing against capacity. The ECB highlighted risks to price stability from strong money growth and a strong euro-area economy.

In **Japan**, real GDP rose 10 percent (s.a.a.r.) during 2000Q1, with about 2 percentage points of this growth resulting from inadequate adjustment for the leap year. Consumption was up a little over 7 percent at an annual rate following steep declines in the two previous quarters. Private investment rose sharply, as nonresidential investment increased at a double-digit pace for the second consecutive quarter, and residential investment rebounded from a very weak performance in the second half of last year. In contrast, public investment declined sharply for the third consecutive quarter. The external sector contributed about 3½ percentage points to GDP growth in the first quarter, as exports surged and imports fell slightly.

Indicators suggest continued expansion in the second quarter, although at a much slower rate than in the first quarter. Industrial production fell slightly in April; but this drop followed three successive quarters of growth, and the outlook remains relatively bright. New car registrations were up in April, while housing starts and machinery orders fell slightly.

Ongoing corporate restructuring continues to take its toll on the Japanese labor market, with the unemployment rate only ticking below its historical high of 4.9 percent, and the offers-to-applicants ratio edging up to 0.56, still a very low level.

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

Component	1998 ¹	1999 ¹	1999			2000
			Q2	Q3	Q4	Q1
GDP	-3.1	-2	3.9	-3.9	-6.4	10.0
Total domestic demand	-3.1	.3	4.4	-5.4	-4.7	6.5
Consumption	.5	.1	4.6	-1.0	-6.3	7.2
Private investment	-13.2	2.2	2.4	-7.4	5.8	20.0
Public investment	4.1	-5.5	11.7	-29.8	-19.9	-26.8
Government consumption	1.2	.2	-5.2	3.5	-.6	3.3
Inventories (contribution)	-.8	.2	.6	-.5	-.1	.3
Exports	-6.2	7.4	6.0	21.6	2.9	23.3
Imports	-7.5	13.3	10.7	11.7	21.4	-2.4
Net exports (contribution)	.0	-.5	-.4	1.4	-1.9	3.6

1. Q4/Q4.

Deflation continues in the prices of most Japanese goods and services as well as real estate. Core consumer goods prices in the Tokyo area (which exclude fresh food but include energy) were down 0.4 percent in May from a year earlier, and the GDP deflator fell again in the first quarter, recording a year-over-year decline of 1.8 percent. The wholesale price index for domestic goods was up 0.3 percent year-over-year in May, largely reflecting higher energy prices. The Japan Real Estate Institute's urban land price index was down 3 percent at the end of March compared with six months earlier and was 33 percent below its September 1991 peak.

Japan's merchandise trade surplus for the first four months of 2000 was \$120 billion (s.a.a.r.), up from \$112 billion in the same period of the previous year. Denominated in dollars, exports were up 18 percent in the first quarter from year-ago levels, largely because of 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.

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

Indicator	1999		2000	2000			
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Industrial production ¹	2.7	1.3	.8	-.5	2.4	-.6	n.a.
Housing starts	-1.1	-5.2	8.6	-10.3	2.3	-.4	n.a.
Machinery orders ²	2.3	8.7	4.9	-.5	-4.9	-1.1	n.a.
Machinery shipments	4.9	2.6	4.4	2.3	.5	n.a.	n.a.
New car registrations	-1.3	-4.7	9.2	-6.4	-3.1	.8	n.a.
Unemployment rate ³	4.7	4.6	4.8	4.9	4.9	4.8	n.a.
Job offers ratio ⁴	.47	.49	.52	.52	.53	.56	n.a.
Business sentiment ⁵	-32	-26	-23	...	...	...	...
CPI (Core, Tokyo area) ⁶	-.1	-.3	-.4	-.4	-.4	-.5	-.4
Wholesale prices ⁶	-1.4	-.7	-.1	-.1	.1	.5	.3

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.

In the **euro area**, preliminary estimates show that real GDP rose 3 percent (s.a.a.r.) in the first quarter. In both France and Germany, where real GDP rose about 2¾ percent, domestic demand--fueled by rising equipment spending and business fixed investment--helped support growth, while net exports were flat.

Incoming data suggest that the pace of economic activity continued to pick up in the second quarter. In April and May, euro-area economic sentiment remained at record high levels. In April, German industrial production rose sharply on the back of robust manufacturing output, and the volume of German industry orders grew 2.5 percent (s.a.). Strong domestic orders more than offset a slight decline in foreign orders.

Euro-Area Real GDP						
(Percent change from previous period, s.a.a.r.)						
Component	1998 ¹	1999 ¹	1999			2000
			Q2	Q3	Q4	Q1
Euro-Area GDP	2.0	3.1	2.3	3.9	3.4	3.0
<i>Germany:</i>						
GDP	1.1	2.3	.5	3.1	2.9	2.7
Domestic demand	2.5	1.9	.1	1.7	1.3	2.7
Net exports (contribution)	-1.3	.4	.4	1.5	1.6	.0
<i>France:</i>						
GDP	3.0	3.2	3.1	3.9	3.4	2.6
Domestic demand	4.2	2.7	2.8	1.3	5.1	2.6
Net exports (contribution)	-1.0	.5	.4	2.5	-1.5	.1
<i>Italy:</i>						
GDP	.5	2.3	2.4	3.1	2.5	4.0
Domestic demand	2.6	1.8	0.9	-1.2	4.6	1.1
Net exports (contribution)	-2.1	.5	1.5	4.3	-2.0	2.9

1. Q4/Q4.

n.a. Not available.

In April, the harmonized unemployment rate for the euro area edged further down to 9.2 percent, its lowest rate since August 1992. (In constructing the harmonized unemployment series, Eurostat standardizes national statistics to International Labor Organization definitions.) In France, Germany, and Italy, unemployment rates remain above the euro-area average, although they have declined noticeably over the past year. May data show that the German unemployment rate, which a month earlier had fallen below 10 percent for the first time since 1995, remained flat at 9.6 percent.

Euro-area consumer prices rose 1.9 percent in the twelve months to May, with the pass-through effects of recent oil price increases on consumer prices appearing to be diminish. Headline consumer price inflation had reached a peak in March, slightly above the 2 percent target ceiling set by the ECB. Excluding energy prices, the twelve-month inflation rate has remained just above 1 percent.

Euro-Area Current Indicators

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

Indicator	1999		2000	2000			
	Q3	Q4	Q1	Feb	Mar.	Apr.	May
<i>Industrial production¹</i>							
Euro-Area	1.4	1.5	1.0	.8	.6	n.a.	n.a.
Germany	2.0	.9	1.2	2.7	.4	1.9	n.a.
France	1.5	1.5	.3	1.1	.5	n.a.	n.a.
Italy	1.9	1.4	.5	1.6	.3	-0.7	n.a.
<i>Unemployment rate²</i>							
Euro-Area	9.9	9.6	9.4	9.4	9.3	9.2	n.a.
Germany	10.5	10.4	10.1	10.0	10.1	9.6	9.6
France	11.2	10.8	10.2	10.2	10.0	9.8	n.a.
Italy	11.5	11.0	11.2	...	...	...	...
<i>Consumer prices³</i>							
Euro-Area ⁴	1.2	1.6	2.1	2.0	2.2	1.9	1.9
Germany	.6	.9	1.8	1.8	1.8	1.4	1.3
France	.5	1.0	1.6	1.4	1.6	1.2	1.4
Italy	1.7	2.1	2.3	2.3	2.4	2.3	2.4

1. Indexes exclude construction.

2. Euro-area 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.

On June 8, the European Central Bank raised its official interest rates by 50 basis points each. In a post-meeting press conference following the interest rate decision, ECB president Wim Duisenberg noted that "risks to price stability over the medium term have continued to increase," citing 12-month harmonized M3 growth that continues to exceed the ECB's reference value, economic indicators that suggest continued strong growth in the euro area, and the increase in oil prices in May. The ECB also announced that, in an effort to help alleviate the overbidding problem that has persisted since early last year, it will switch its main refinancing operations to a variable-rate tender with a minimum bid rate of 4.25 percent, effective June 28.

Euro-Area Forward-Looking Indicators

(Percent balance, s.a.)

Indicator	1999		2000	2000			
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Consumer confidence ¹	-3.7	-1.3	-.3	0	0	0	1
Construction confidence ²	-7.3	-3.3	.0	-2	0	2	1
Industrial confidence ³	-6.3	-1.3	2.7	3	4	5	6
<i>of which:</i>							
Production expectations	8.0	13.7	14.7	16	15	15	17
Total orders	-16.7	-8.7	-1.7	-2	1	3	4
Stocks	10.3	8.3	5.0	4	4	3	4

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.

Economic activity in the **United Kingdom** slowed in the first quarter, with real GDP growing 2.2 percent (s.a.a.r.). Total domestic demand rose 1.8 percent, with consumption expenditures and investment spending slowing from the pace in the fourth quarter, and government spending declining for the first time in two years. Net exports made a significant positive contribution to growth.

Current data for the second quarter suggest that economic activity will remain at a slower pace than last year. Although industrial production was up 0.9 percent in April, the gain was mainly due to a sharp increase in electric and gas demand during unseasonably cold weather. Business sentiment fell in April and May because of weak export orders. The average volume of retail sales in April and May was unchanged from first-quarter sales.

Labor market conditions remain tight. The official claims-based unemployment rate remained at 3.9 percent in May, the lowest rate in 20 years, and the labor force survey measure of the unemployment rate fell to a record low 5.7 percent for the three months centered in March. Average annual earnings growth slowed in April, however, as bonuses were smaller than in recent months.

Producer input prices have continued to rise briskly, boosted in May by a sharp increase in the cost of crude oil; producer output prices have remained subdued. The twelve-month rate of retail price inflation (excluding mortgage interest

rates) remains well below the 2½ percent target. Since raising the official repo rate to 6 percent in February, the Bank of England's Monetary Policy Committee has left the repo rate unchanged.

U.K. Real GDP
(Percent change from previous period, s.a.a.r.)

Component	1998 ¹	1999 ¹	1999			2000
			Q2	Q3	Q4	Q1
GDP	1.5	3.0	3.0	4.1	3.1	2.2
Total domestic demand	3.5	4.1	-1	3.8	7.4	1.8
Consumption	2.4	4.4	3.8	2.3	4.5	2.4
Investment	10.1	3.8	3.6	2.7	6.6	0.8
Government consumption	1.9	4.7	3.7	2.5	5.1	-1.6
Inventories (contribution)	-1	-3	-4.0	1.4	2.4	.5
Exports	-2	5.9	12.9	25.1	-6.0	13.4
Imports	6.8	9.0	2.6	20.2	8.2	8.1
Net exports (contribution)	-2.3	-1.3	2.9	.5	-5.0	1.2

1. Q4/Q4.

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

Indicator	1999		2000	2000			
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Industrial production	1.4	.1	-8	-6	.8	.9	n.a.
Retail sales	1.2	1.4	1.4	-1.3	.4	-1	.4
Unemployment rate ¹							
Claims-based	4.2	4.1	4.0	4.0	4.0	4.0	3.9
Labor force survey	5.9	5.9	5.8	5.8	5.7	n.a	n.a.
Business confidence ²	10.0	10.7	12.7	10.0	17.0	1.0	-6.0
Retail prices ³	2.2	2.2	2.1	2.2	2.0	1.9	2.0
Producer input prices ⁴	4.2	9.6	12.7	14.3	13.2	7.6	12.9
Average earnings ⁴	4.7	5.4	5.7	5.5	5.3	4.4	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.

In Canada, real GDP rose 4.9 percent (s.a.a.r.) in the first quarter, matching last year's vigorous pace. Net exports accounted for roughly half the gain, as exports grew a sizable 13.9 percent. In contrast, import growth slowed after rising sharply in the fourth quarter of last year as the pace of domestic demand slackened. Though slowing, both consumption and investment growth remained solid in the first quarter. In particular, investment spending on computers and other office equipment continued to expand rapidly, rising over 40 percent in the first quarter. Both government spending and inventory accumulation were soft in the first quarter, with inventories subtracting 1.1 percentage points from GDP growth.

After holding about steady in April, employment resumed growth in May. Solid gains were registered in service sector employment, while employment continued to rebound in resource-based industries. May's job gains helped lower the unemployment rate to 6.6 percent, the lowest rate since March 1976.

Canadian Real GDP
(Percent change from previous period, s.a.a.r.)

Component	1998 ¹	1999 ¹	1999			2000
			Q2	Q3	Q4	Q1
GDP	3.2	4.9	3.3	6.5	5.1	4.9
Total domestic demand	1.0	5.9	9.9	4.1	8.1	2.9
Consumption	2.2	4.4	4.7	4.6	3.7	3.4
Investment	1.6	13.0	21.4	4.8	18.2	10.8
Government consumption	2.2	1.3	.8	2.4	1.6	.1
Inventories (contribution) ²	-1.0	.6	2.7	-0	2.0	-1.1
Exports	9.7	9.3	.4	12.9	10.7	13.9
Imports	4.2	13.3	16.7	6.5	22.1	7.9
Net exports (contribution) ²	2.1	-1.2	-5.7	2.6	-3.7	2.5

1. Q4/Q4.

2. In percentage points.

Movements in energy prices largely explained the sharp decline in the twelve-month change in consumer prices in April and the partial rebound in May. Core consumer price inflation (which excludes food and energy) has also moved lower, on balance, over the past two months. Despite low core inflation, the Bank of Canada matched the 50 basis point rate increase by the Federal Reserve by raising its Bank Rate from 5½ percent to 6 percent on May 17. In explaining its latest rate hike, the Bank continued to emphasize the strong momentum in the economy from both domestic and external sources and its concern that the high level of activity is putting pressure on the economy's capacity.

Canadian Economic Indicators

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

Indicator	1999		2000	2000			
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
GDP at factor cost	1.4	1.1	1.0	-.3	.7	n.a.	n.a.
Industrial production	2.7	1.1	1.3	-.9	.6	n.a.	n.a.
New manufacturing orders	5.7	1.7	1.0	-1.5	4.2	-2.3	n.a.
Retail sales	3.1	.4	1.9	-1.0	2.1	n.a.	n.a.
Employment	.5	.9	.9	.2	.2	.0	.3
Unemployment rate ¹	7.6	6.9	6.8	6.8	6.8	6.8	6.6
Consumer prices ²	2.2	2.4	2.7	2.7	3.0	2.1	2.4
Consumer attitudes ³	114.2	119.9	113.8	...	...	...	...
Business confidence ⁴	153.9	164.9	161.9	...	...	...	...

1. Percent.

2. Percent change from year earlier, n.s.a.

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

3. Level of index, 1991 = 100.

4. Level of index, 1977 = 100.

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

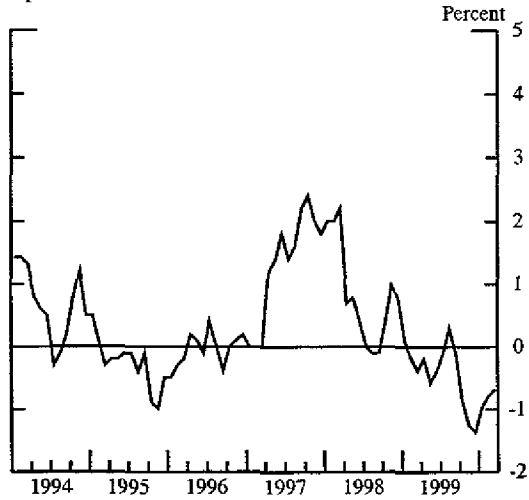
Country and balance	1999		2000	2000		
	Q3	Q4	Q1	Feb.	Mar.	Apr.
<i>Japan</i>						
Trade	113.8	98.1	120.1	135.2	105.8	129.0
Current account	110.2	103.5	135.7	167.5	95.5	144.9
<i>Euro-Area</i>						
Trade ¹	70.1	58.6	-8.6	3.5	28.9	n.a.
Current account ¹	18.9	13.7	n.a.	...	...	...
<i>Germany</i>						
Trade	64.0	70.4	61.6	71.2	62.7	57.4
Current account	-23.7	-30.4	-18.2	...	...	...
<i>France</i>						
Trade	23.1	12.5	9.5	9.6	9.2	3.7
Current account	7.3	5.8	4.4	5.8	4.4	n.a.
<i>Italy</i>						
Trade	10.6	9.6	9.3	9.8	9.9	n.a.
Current account ¹	20.8	-3.5	-5.8	-1.5	-2.9	-7.1
<i>United Kingdom</i>						
Trade	-34.9	-48.8	-44.2	-42.3	-35.6	n.a.
Current account	-19.8	-18.0	n.a.	...	...	...
<i>Canada</i>						
Trade	27.4	23.2	33.4	30.2	33.8	25.9
Current account	1.1	-9	13.3	...	...	...

1. Not seasonally adjusted.

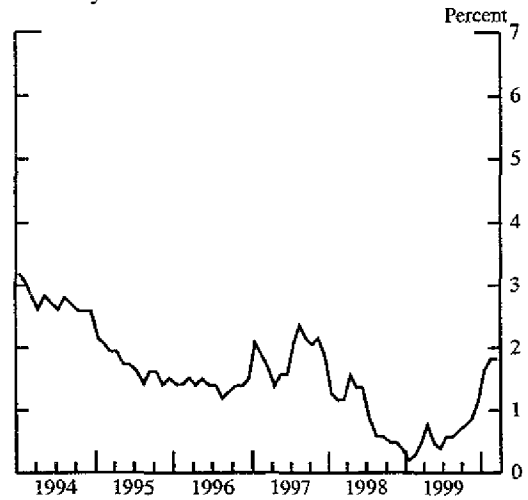
n.a. Not available. ... Not applicable.

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

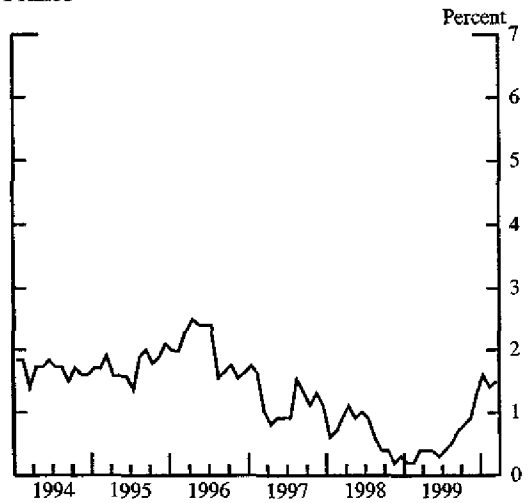
Japan



Germany



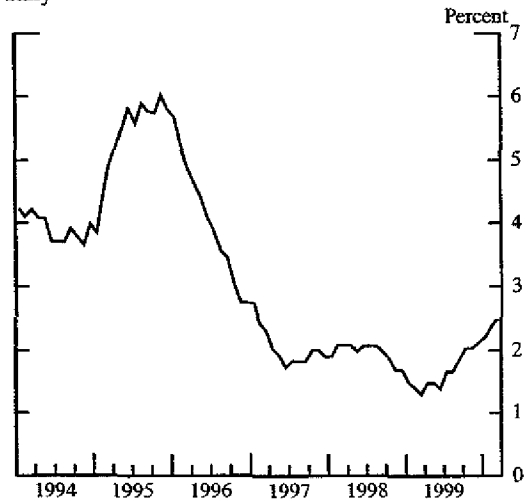
France



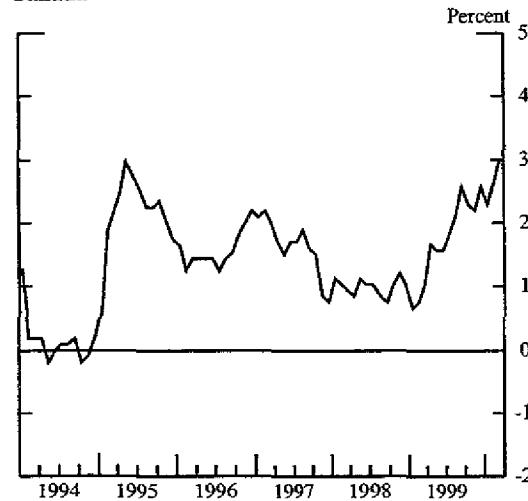
United Kingdom



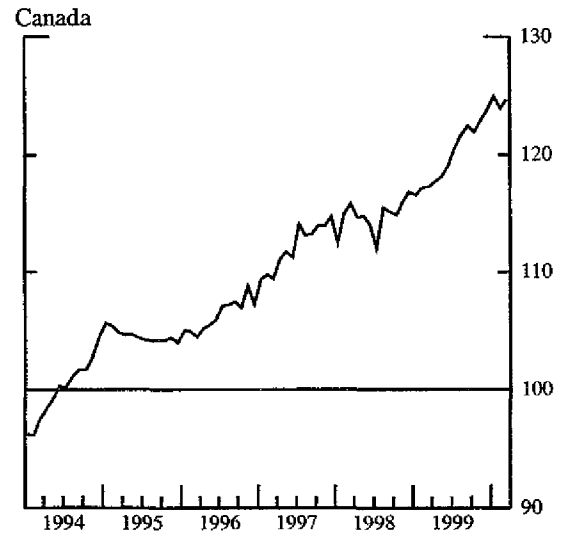
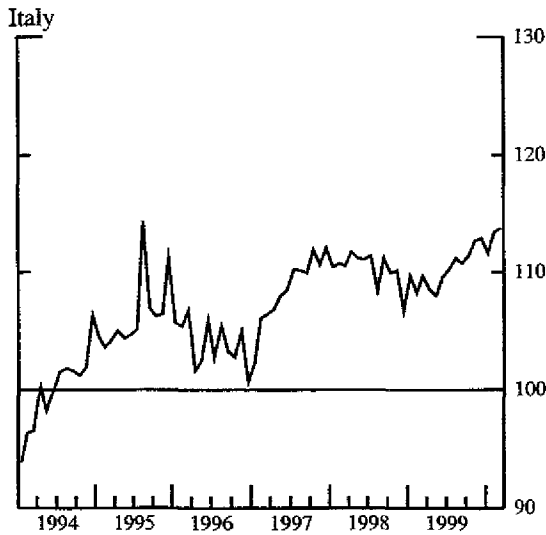
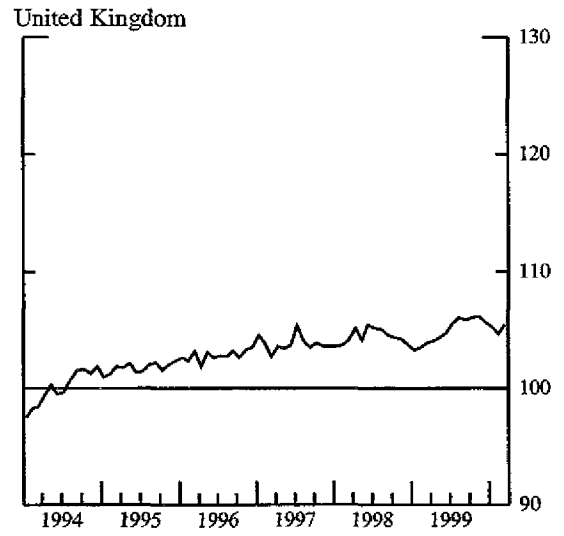
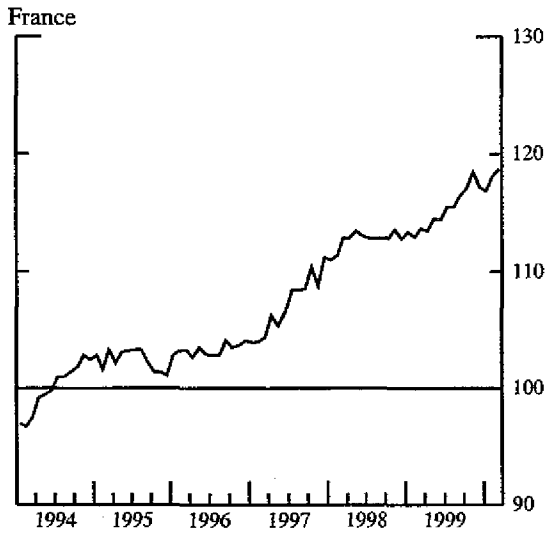
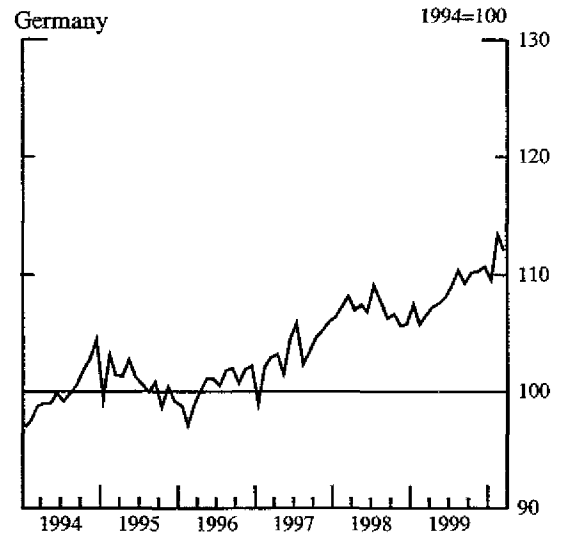
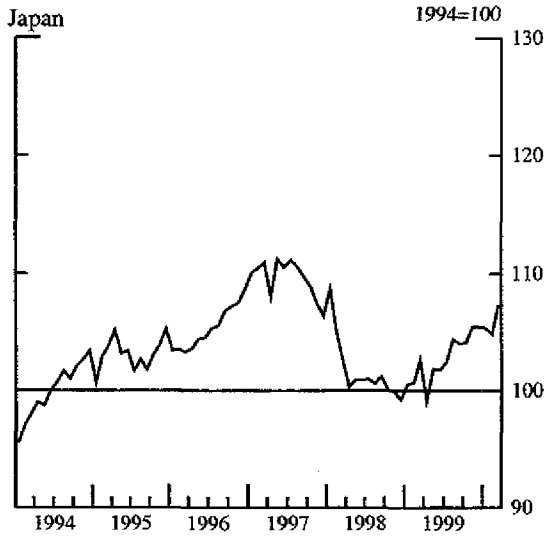
Italy



Canada



Industrial Production in Selected Industrial Countries



Economic Situation in Other Countries

Economic activity continued to expand in Latin America, reflecting both strong export growth and a pickup in domestic demand. Growth appeared to be strongest in Mexico and Brazil, although output indicators suggest some slowing from the fast pace of recent quarters. Recovery also continued in Argentina, albeit at a more modest pace. Inflation rates continued to trend downward in Mexico, Brazil, and Venezuela; in Argentina, consumer prices fell further.

The level of economic activity across emerging Asian economies remained robust, despite signs of some slowing following an extraordinary surge in the first quarter. Even allowing for leap year effects, growth was remarkably strong in Greater China and the ASEAN region, driven by a rise in exports and a rebound in private consumption. Korea's economy also performed strongly, although growth cooled some from the rapid pace of last year. In most countries in the region, recent inflation data have suggested a distinct absence of inflationary pressures. Trade surpluses have narrowed as strong activity and high oil prices have stimulated imports.

In **Mexico**, economic activity continued to expand rapidly in recent months, with real GDP rising more than 11 percent (s.a.a.r.) in the first quarter. In April, industrial production increased by 3 percent (s.a.), driven by both strong exports and domestic demand. However, the average unemployment rate in April and May rose slightly from its first-quarter level. This, together with the tightening of monetary policy in mid-May, suggests that the pace of growth may have slowed in the second quarter. The strength of domestic demand led to a surge in imports in April, nearly doubling the trade deficit to over \$13 billion (s.a.a.r.) compared with its first-quarter level. Inflationary pressures remained contained, with consumer price inflation continuing its slight downward trend in May.

Financial markets in Mexico have been particularly volatile over the past few weeks, amid increasing political uncertainty in Mexico and concerns that the U.S. economy might have begun to slow. Domestic interest rates have generally been on the rise since late April. Statements by Francisco Labastida, the presidential candidate of the ruling PRI party, asserting that, if he does not win the July 2 presidential elections by a clear margin, there could be disruptions to the Mexican economy, appeared to have contributed to weakness in the peso. The election race is tight; latest polls indicate that Labastida has only a slim lead over his main rival, Vicente Fox, of the National Action Party (PAN).

Mexican Economic Indicators							
(Percent change from previous period, s.a., except as noted)							
Indicator	1998	1999	1999	2000			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	2.7	5.3	3.3	11.3	...	...	...
Industrial production	6.6	3.8	.7	1.9	1.2	3.0	n.a.
Unemployment rate ²	3.2	2.5	2.3	2.2	2.1	2.4	2.2
Consumer prices ³	18.6	12.3	13.7	10.6	10.2	9.7	9.5
Trade balance ⁴	-7.9	-5.4	-5.6	-6.8	-6.3	-13.3	n.a.
Imports ⁴	125.4	142.1	152.2	160.8	158.7	170.6	n.a.
Exports ⁴	117.5	136.7	146.6	154.0	152.4	157.3	n.a.
Current account ⁵	-15.7	-14.0	-17.7	-16.8	...	...	...

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.

In **Brazil**, data released since the May Greenbook paint a mixed picture of economic activity. Industrial production rose nearly 3 percent (s.a.) in April, but was still unchanged from its first-quarter level. Sales and production of automobiles rose strongly in May to levels 20 percent and 25 percent higher than in the same periods a year earlier, respectively. Consumer prices fell in May, lowering the twelve-month inflation rate to 6.5 percent, only slightly above the government's mid-point inflation target for 2000 of 6 percent.

In early June, the central bank reduced the (non-remunerated) reserve requirement on demand deposits from 55 to 45 percent, the second decline in the last few months. On June 20, the central bank lowered its benchmark Selic overnight interest rate 100 basis points to 17.5 percent and announced a downward bias toward future moves. The interest rate reduction had not been expected by analysts, as the central bank had previously expressed concern about potential inflationary pressures stemming from rises in government-controlled prices (including energy prices) and about the risk of future interest rate increases in the United States.

Brazil's government continued to record monthly primary budget surpluses, putting it well over the minimum requirements under its IMF program. However, the government faces the prospect of potentially large future liabilities associated with several lawsuits currently making their way through the courts. Furthermore, legal maneuvering by opponents may once again postpone the privatization of one of the country's largest banks, Banespa, currently scheduled for next month.

Brazilian Economic Indicators

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

Indicator	1998	1999	1999	2000			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	-1.6	3.7	9.4	5.0	...	...	...
Industrial production	-2.0	-.7	4.0	1.2	-4.6	2.9	n.a.
Unemployment rate ²	7.6	7.6	8.0	7.6	7.3	7.3	7.3
Consumer prices ³	1.7	8.9	8.4	7.8	6.9	6.7	6.5
Trade balance ⁴	-6.6	-1.2	2.6	1.9	2.4	-.2	-1.3
Current account ⁵	-33.8	-24.4	-30.3	-16.2	-22.6	-29.8	-19.7

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.

In **Argentina**, data released since the May Greenbook provide mixed evidence on the pace of activity in the second quarter. Industrial production recovered somewhat in May following a sharp drop in April, but was still below its first-quarter level. Export growth for April posted another strong gain and, combined with anemic import growth, led to a \$2.2 billion trade surplus for that month. Tax revenues jumped in May following several months of weaker-than-expected receipts. Despite these positive figures, with import growth weak and with consumer prices continuing to fall through May, the evidence suggests no more than a modest recovery so far.

Financial market conditions were somewhat rocky over the past month. In mid-May, bond rates jumped after the release of weak tax revenue figures for April raised concerns that Argentina might miss its budget targets for the second quarter. To alleviate these concerns, President de la Rúa announced further spending cuts in late May. Markets have responded positively to the fiscal

package: Argentina's Brady and EMBI+ spreads over Treasuries have fallen from their peaks in mid May, domestic short-term rates have also dropped notably, and the stock market has recovered somewhat. International spreads, however, remain elevated from their recent lows, in late March, as the state of the domestic economy and international liquidity conditions remain uncertain.

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

Indicator	1998	1999	1999	2000			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	-6	.1	8.2	n.a.	...	...	...
Industrial production	1.5	-6.9	4.9	1.2	3.4	-5.0	1.6
Unemployment rate ²	12.9	13.8	13.8	...	...	...	n.a.
Consumer prices ³	.7	-1.8	-1.7	-1.3	-1.1	-1.1	-1.0
Trade balance ⁴	-3.1	-8	-8	1.9	2.3	2.2	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.

High oil prices continue to sustain the **Venezuelan** economy. The current account registered a \$14 billion surplus at an annual rate in the first quarter that was more than entirely accounted for by revenues from oil exports. Oil revenues are also fueling an expansion of government spending. Outside the public and oil sectors, the level of activity remained very low. Unofficial reports put the unemployment rate above 20 percent. Consistent with high unemployment rates, price inflation continued to decline. Elections for almost all political offices, which had been planned for the end of May, have been postponed because of technical flaws in the ballot system. The elections have yet to be rescheduled but are expected some time in the next few months. Uncertainty about the economy and the elections remains a source of concern for investors. Despite the significant current account surplus, foreign currency reserves have risen only modestly, pointing to sizable capital flight.

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

Indicator	1998	1999	1999	2000			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	-4.9	-4.5	1.5	4.4	...	...	...
Unemployment rate ²	11.2	15.2	14.5	n.a.	n.a.	n.a.	n.a.
Consumer prices ³	29.9	20.0	20.1	18.2	17.5	18.0	16.9
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	12.8	19.1	n.a.	n.a.	n.a.
Current account ⁵	-2.6	5.4	12.0	14.0	...	...	...

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**, data for recent activity have been mixed, but on balance appear to suggest some slowing in the very rapid pace of recovery. Real GDP growth in the first quarter moderated from the double digit rate of last year. Domestic demand growth slowed, with inventory investment providing less of a positive contribution. Industrial production declined for the third consecutive month in April. However, officials attributed the April decrease mainly to special factors, in particular strikes in the automobile industry and fewer working days on account of a general election holiday. In contrast to the decline in production, employment grew strongly, and the unemployment rate continued to ease in May. Recent data give no indication of a pickup in inflation.

The recent financial difficulties of Hyundai, the largest *chaebol* (industrial conglomerate), served as a reminder that, despite a sustained rapid recovery in activity, there are still significant weaknesses in Korea's financial and corporate sectors. Hyundai's latest difficulties were precipitated by a refusal by lenders to renew loans to two Hyundai subsidiaries, mainly because of concerns over the health of the group's investment trust company. The lenders relented, but only after Hyundai agreed to a significant restructuring and the relinquishment of management control by the conglomerate's aging founder. Hyundai's difficulties prompted a temporary drop in equity prices and downward exchange market pressure on the won.

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

Indicator	1998	1999	1999	2000				
			Q4	Q1	Mar.	Apr.	May	
Real GDP ¹	-4.6	14.0	11.7	7.3	...	...	...
Industrial production	-6.5	24.2	7.0	2.5	-9	-3.2	n.a.	
Unemployment rate ²	6.8	6.3	4.8	4.4	4.1	4.0	3.9	
Consumer prices ³	4.0	1.4	1.3	1.5	1.6	1.0	1.1	
Trade balance ⁴	41.6	28.7	24.8	14.3	6.9	5.1	n.a.	
Current account ⁵	40.6	25.0	22.9	5.2	2.2	-3.1	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.

The ASEAN region had a remarkably strong first quarter, with Malaysia, Singapore, and Indonesia all registering double digit rates of growth. Activity also expanded in Thailand, although at a more modest pace. Exports remained strong, and rebounding consumption played a larger role in the regional recovery, particularly for Malaysia. Nevertheless, quarterly figures for these countries are often volatile and may have been influenced by leap year effects. April industrial production indices point to continued strength in Singapore, but suggest some payback in Malaysia. Countries across the region continued to record trade surpluses. Inflation edged up slightly in May in several ASEAN countries, but remains very low across the region.

In contrast, first-quarter growth in the Philippines was disappointing, coming in at just 0.2 percent (s.a.a.r.), as agricultural growth slowed and government spending was constrained by the combination of weak revenue collection and a deficit target. Industrial production figures in Thailand also point to some weakness.

A hostage crisis and renewed conflict between government forces and Muslim separatists in the southern Philippines have added to existing political uncertainties there. Separatist pressures have also increased in Indonesia's West Papua, following a vote for independence by the West Papua congress. On a positive note, a cease fire was recently signed between the Indonesian government and separatist forces in Aceh.

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

Indicator and country	1998	1999	1999	2000			
			Q4	Q1	Feb.	Mar.	Apr.
<i>Real GDP¹</i>							
Indonesia	-17.7	5.2	2.2	13.4	...	...	...
Malaysia	-10.8	10.8	9.2	19.8	...	...	...
Philippines	-2.0	5.1	3.1	.2	...	...	...
Singapore	-1.2	7.0	4.7	12.8	...	...	...
Thailand	-7.2	6.8	4.4	6.0	...	...	...
<i>Industrial production</i>							
Indonesia	-13.3	24.5	3.9	n.a.	...	...	...
Malaysia	-7.2	9.1	3.3	8.5	7.3	4.9	-5.2
Philippines	-11.6	-1.3	-2.0	4.5	-2.4	.3	n.a.
Singapore	-.3	13.9	1.5	3.8	-9.5	-4.5	3.6
Thailand	-10.0	12.4	3.0	-4.0	3.4	-1	-1.3

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	Mar.	Apr.	May
Indonesia	77.5	2.0	1.7	-.5	-1.1	.1	1.3
Malaysia	5.3	2.5	2.1	1.5	1.5	1.5	1.3
Philippines	10.3	4.3	4.5	3.0	3.3	3.7	4.1
Singapore	-1.5	1.4	1.4	1.5	1.2	1.1	n.a.
Thailand	4.3	.7	.1	.8	1.1	1.2	1.7

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	Mar.	Apr.	May
Indonesia	21.5	24.7	26.7	32.3	35.6	33.5	n.a.
Malaysia	15.0	18.9	18.7	20.9	23.7	11.7	n.a.
Philippines	-2	4.3	6.7	3.4	2.3	3.4	n.a.
Singapore	8.3	3.6	5.6	5.9	6.2	-4.1	6.8
Thailand	12.2	9.0	4.5	9.9	10.3	13.4	n.a.

n.a. Not available.

Indonesia signed a new letter of intent with the IMF, allowing it to continue its IMF adjustment program and fulfilling the prerequisite for its Paris Club restructuring. Nevertheless, the honeymoon has clearly ended for the Wahid administration, following months of contradictory public statements, a lack of leadership on economic reform, and allegations of corruption. Bank Indonesia Governor Syahril Sabirin also became embroiled in controversy after being named as a suspect in last year's Bank Bali scandal.

In China, retail sales figures for April suggest that the nascent recovery in private consumption continued, partly reflecting the impact of government measures such as increased social welfare benefits. China's monthly trade surplus widened in April and May, as imports declined from their first-quarter level while exports were roughly unchanged. Recently released data show that the current account surplus shrank to \$15.7 billion in 1999 from \$29.3 billion a year earlier. Consumer prices were essentially unchanged in May on a twelve-month basis.

In May, the U.S. House of Representatives passed a trade bill that grants China Permanent Normal Trading Relations status, which will facilitate U.S. market access on China's entry into the World Trade Organization (WTO). That same month, China finalized an agreement with the European Union on its accession to the WTO. Bilateral agreements are still under negotiation with several smaller WTO member states, with final accession expected by the end of the year.

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

Indicator	1998	1999	1999	2000			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	9.5	6.2	10.6	9.6	...	...	...
Industrial production ²	7.8	9.6	8.8	14.2	13.0	n.a.	n.a.
Consumer prices ²	-1.0	-1.0	-8	.1	-2	-3	.1
Trade balance ³	43.5	29.2	43.7	13.8	32.3	25.5	39.4

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**, real GDP surged 23.4 percent (s.a.a.r.) in the first quarter, driven by a sharp pickup in private consumption, in turn reflecting strong employment growth as well as wealth effects associated with large stock market gains. Exports of goods and services also grew strongly, as Hong Kong's entrepot economy continued to benefit from the steep rise in trade flows throughout emerging Asia. Strong gains in employment pushed the unemployment rate down to 5.1 percent (s.a.) in the March-May period, notwithstanding rapid expansion in the labor force. Weakness in the property market continued to contain inflationary pressures; consumer prices in April were roughly flat on a seasonally adjusted basis, bringing the twelve-month rate of decline to 4.4 percent. In mid-May, following the FOMC meeting, the Hong Kong Monetary Authority raised the base rate it charges at its discount window 50 basis points to 8 percent.

In **Taiwan**, real GDP rose 10.6 percent (s.a.a.r.) in the first quarter, on the back of a sharp pickup in domestic demand and continued rapid growth in the export-oriented electronics and information technology sectors. Industrial production rose 4.3 percent (s.a.) in May, following some weakness in April. The twelve-month rate of inflation continued to creep up in the face of robust domestic demand and high oil prices, albeit to still very low levels. Despite strong export growth, a surge in imports of capital goods in May pushed the trade balance into deficit.

Hong Kong Economic Indicators

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

Indicator	1998	1999	1999	2000			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	-5.8	9.1	16.1	23.4	...	...	...
Unemployment rate ²	4.4	6.1	6.0	5.6	5.5	5.5	5.1
Consumer prices ³	-1.6	-4.0	-4.1	-5.1	-5.0	-4.4	n.a.
Trade balance ⁴	-10.6	-5.6	-8.2	-7.7	-7.1	-6.6	n.a.

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.

Taiwan Economic Indicators

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

Indicator	1998	1999	1999	2000			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	3.3	6.8	10.1	10.6	...	...	...
Unemployment rate ²	2.7	2.9	2.9	3.0	3.0	3.0	n.a.
Industrial production	2.6	7.7	4.3	3.1	4.0	-3.9	4.3
Consumer prices ³	2.1	.1	-.1	.9	1.1	1.3	1.6
Trade balance ⁴	5.9	11.0	8.8	8.9	8.3	9.3	-3.0
Current account ⁵	3.4	5.8	5.7	1.9	...	...	...

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.