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

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Part 2

December 13, 2000

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

Prepared for the Federal Open Market Committee
by the staff of the Board of Governors of the Federal Reserve System

Confidential (FR) Class III FOMC

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Domestic Nonfinancial Developments

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Overview

Economic activity continued to advance at a relatively subdued pace into the fourth quarter. Gains in payroll employment have moderated considerably since midyear, and the further rise in initial claims for unemployment insurance suggests that the softening in the labor market may have continued in recent weeks. Factory output has slowed sharply over the past few months, in part reflecting efforts to correct inventory overhangs that have developed in the motor vehicle sector. Consumer spending and business purchases of equipment and software have slowed from the extraordinary gains early this year. Core inflation has edged up over the past year.

Labor Market Developments

Private-sector hiring was moderate in November, but the slowdown in recent months has done little to alleviate pressures in what has remained an exceptionally tight labor market. There are signs, however, of further easing of labor demand; initial claims for unemployment insurance have been rising, and various surveys show that firms' and households' evaluations of labor market conditions have deteriorated.

Private nonfarm payroll employment rose 148,000 in November and was up an average of about 110,000 per month in October and November. This recent pace of growth represents a slight moderation from the third quarter's average monthly gain of about 130,000 and a significant slowdown from the first-half pace of about 185,000 per month.[1] In November, the slowdown was evident in most industries, aside from the relatively brisk holiday-season hiring in retail trade.[2] Construction employment fell somewhat, partly as a result of unfavorable weather in the South and Northwest. Payrolls were essentially unchanged in manufacturing, but the figure masks the extent of weakness in this sector: The numerous plant shutdowns in the auto industry all fell outside the survey reference period, and the factory workweek fell 0.3 hour, to its lowest level since 1992 (excepting a sharp, weather-induced drop in January 1996).

Overall, the workweek for production or nonsupervisory workers on private nonfarm payrolls edged down to 34.3 hours per week in November. Together with the moderate gains in employment, the average level of production worker

1. With this release, the BLS introduced new seasonal factors for data derived from the establishment survey. The new seasonal factors were applied to data for September, October, and November; data for months before September will not be revised to incorporate the new factors until next spring. However, unpublished information from the BLS suggests that the break in the seasonal factors does not significantly affect published September changes.

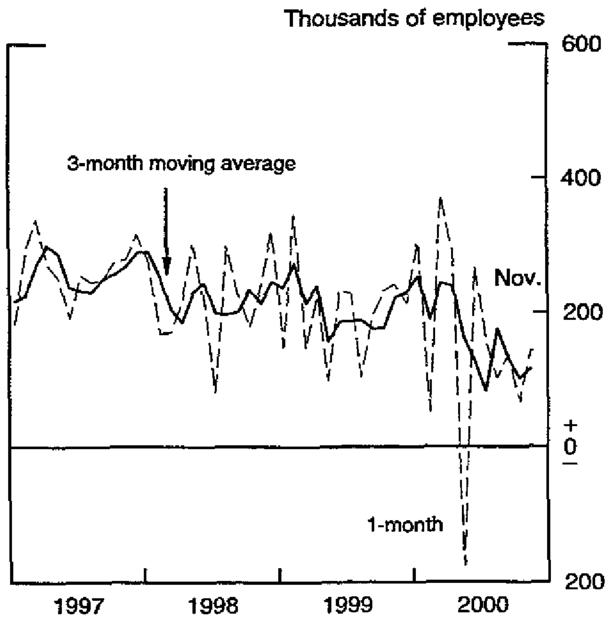
2. Because of the proximity of the November reference week to Thanksgiving, seasonal hiring by retailers may have occurred sufficiently early to have been captured in the November survey rather than the December survey.

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

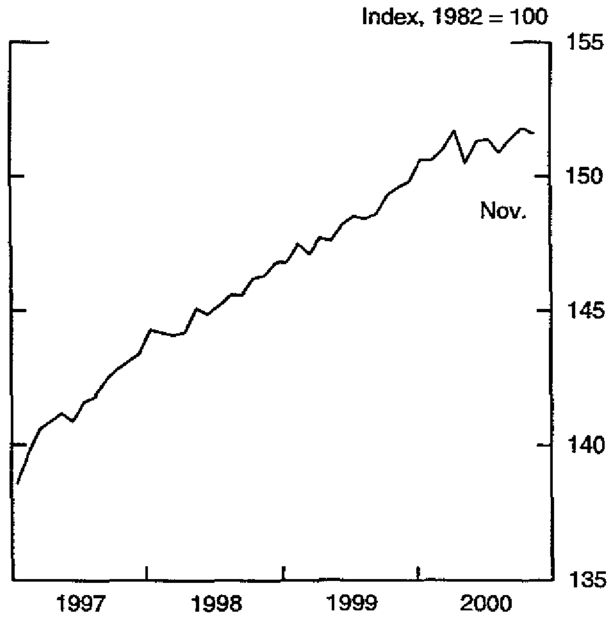
	1999	2000 H1	2000 Q3	2000 Oct.	2000 Nov.
	-Average monthly change-				
Nonfarm payroll employment[1]	229	268	25	77	94
Previous	*229*	*268*	*25*	*137*	
Private	202	186	129	74	148
Mining	-3	2	0	2	1
Manufacturing	-18	2	-38	-3	1
Construction	25	19	17	22	-6
Transportation and utilities	16	12	17	9	16
Retail trade	36	31	19	11	46
Wholesale trade	13	8	7	18	14
Finance, insurance, real estate	10	-4	11	15	11
Services	124	116	95	0	65
Total government	28	82	-104	3	-54
Total employment (Household Survey)	159	127	-6	261	-49
Nonagricultural	155	120	-12	367	31
Memo:					
Aggregate hours of private production workers (percent change)[1,2]	2.1	2.2	0.2	0.3	-0.1
Average workweek (hours)[1]	34.5	34.5	34.4	34.4	34.3
Manufacturing (hours)	41.7	41.7	41.5	41.4	41.1

Note. Average change from final month of preceding period to final month of period indicated.
1. Survey of establishments.
2. Annual data are percent changes from Q4 to Q4. Semi-annual data are percent changes from 1999:Q4 to 2000:Q2 at an annual rate. Quarterly data are percent changes from preceding quarter at an annual rate. Monthly data are percent changes from preceding month.

Private Payroll Employment Growth
(Strike-adjusted data)



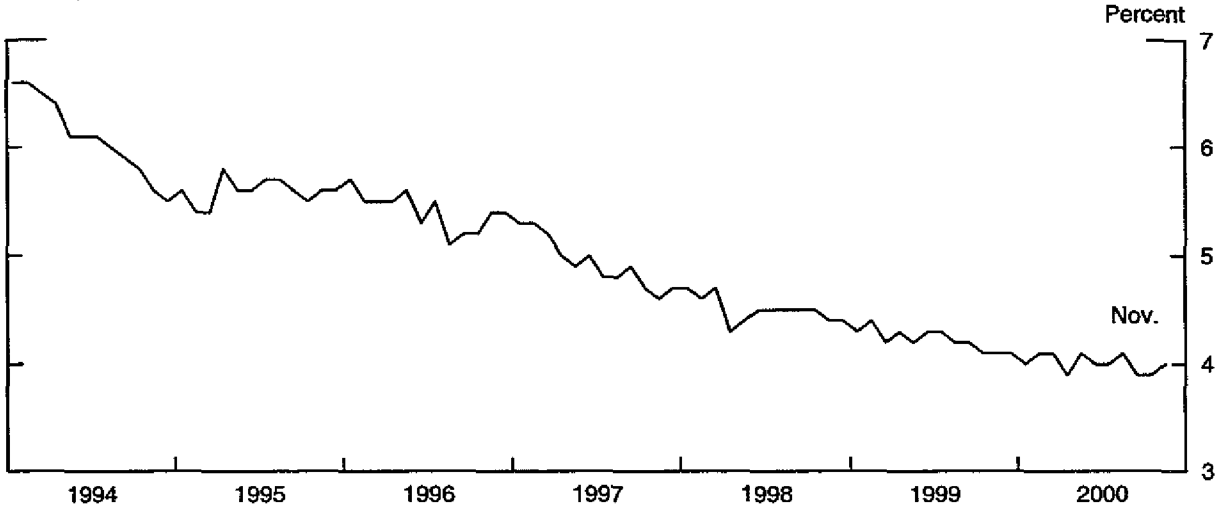
Aggregate Hours of Production or Nonsupervisory Workers



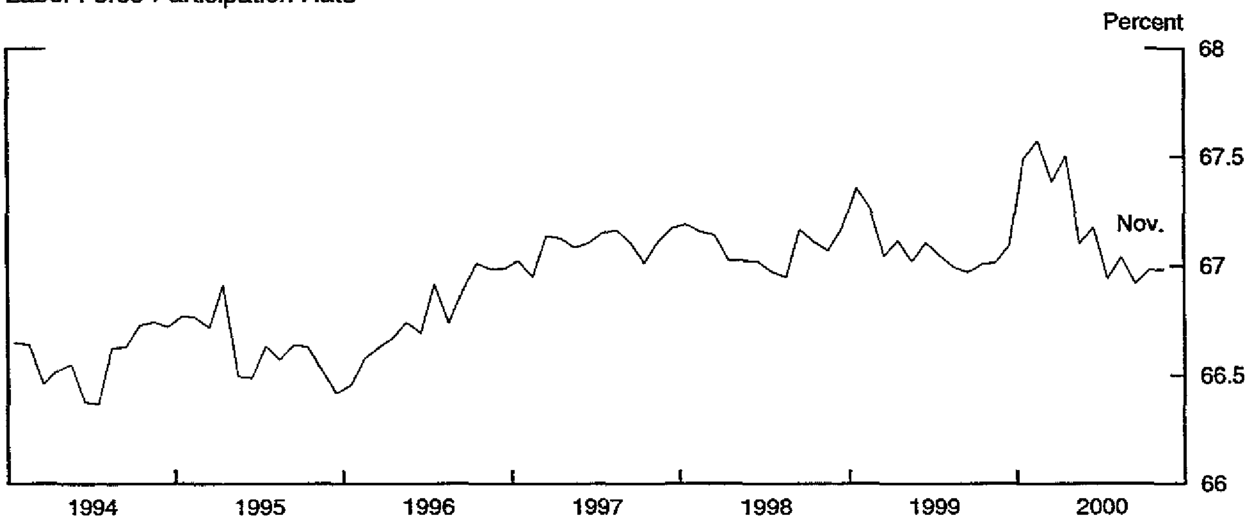
SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data, as published)

	1999	2000			
		H1	Q3	Oct.	Nov.
Civilian unemployment rate (16 years and older)	4.2	4.0	4.0	3.9	4.0
Teenagers	13.9	12.8	13.5	12.6	13.1
20-24 years old	7.5	7.6	6.5	6.8	6.8
Men, 25 years and older	3.0	2.8	2.8	2.9	3.0
Women, 25 years and older	3.3	3.2	3.3	3.0	3.1
Labor force participation rate	67.1	67.4	67.0	67.0	67.0
Teenagers	52.0	52.3	51.9	52.1	52.4
20-24 years old	77.6	78.2	77.4	78.7	77.7
Men, 25 years and older	76.1	76.1	75.9	75.7	75.8
Women, 25 years and older	59.5	60.0	59.4	59.3	59.4
Memo:					
Potential worker rate	7.1	6.7	6.7	6.7	6.7

Unemployment Rate

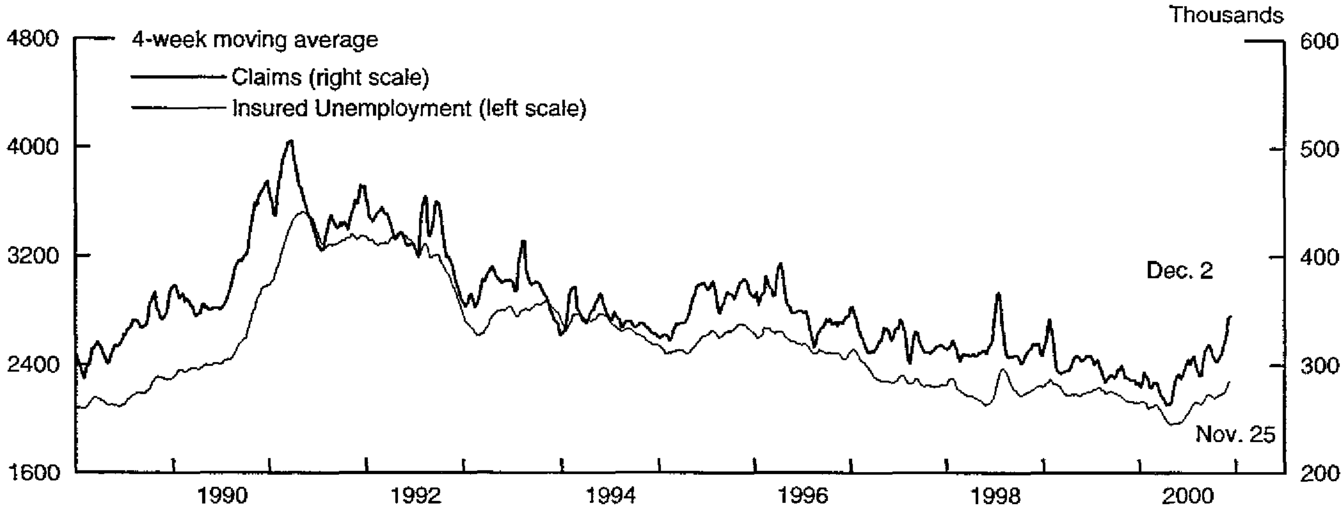


Labor Force Participation Rate

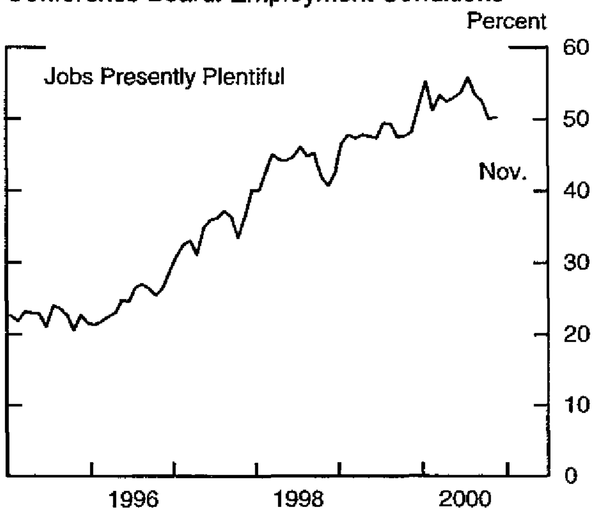


Labor Market Indicators

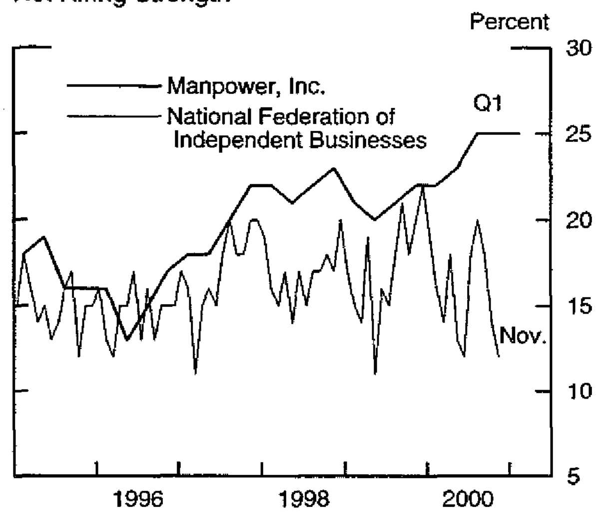
Initial Claims for Unemployment Insurance



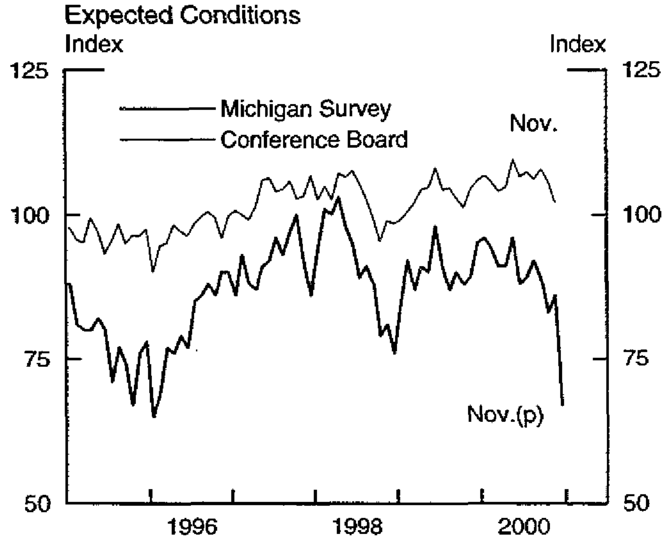
Conference Board: Employment Conditions



Net Hiring Strength

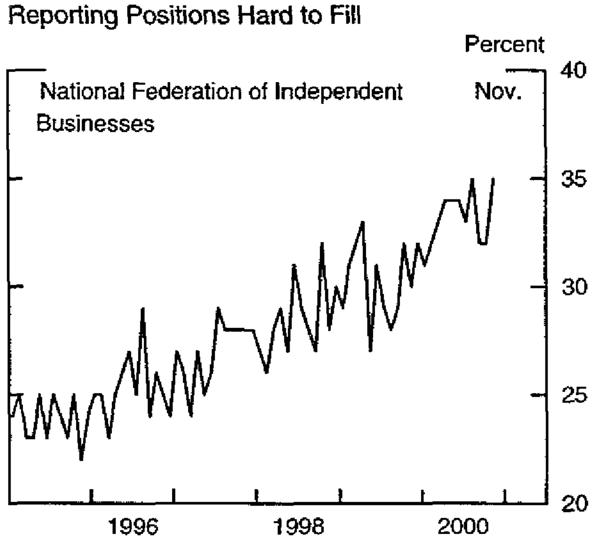


Expected Conditions



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

Reporting Positions Hard to Fill



hours in October and November stood 1-1/2 percent (at an annual rate) above the third-quarter average; aggregate hours have been essentially unchanged, on balance, since last April.

In the household survey, the unemployment rate edged up to 4.0 percent in November, its average reading so far this year. The labor force participation rate held steady at 67.0 percent.

Other indicators of labor market conditions reinforce the impression that the growth of labor demand has eased and, indeed, suggest that more weakening is in store. The four-week moving average of initial claims and the level of insured unemployment have increased significantly from the lows they reached last spring; their new, higher levels are consistent with a further decline in net job growth. Consistent with the rise in unemployment claims, the Conference Board's survey of households shows that the fraction of respondents who believe that jobs are currently plentiful has fallen from its recent high. In addition, measures of hiring strength from the Manpower and the National Federation of Independent Business (NFIB) surveys have leveled off or declined, and respondents to both the Michigan and Conference Board consumer surveys have become less optimistic about job prospects in the coming months; December's decline in employment expectations in the Michigan survey was particularly sharp. Despite these signs of easing, employers responding to the NFIB survey continue to report that they are finding it difficult to hire workers. The NFIB measure of "positions hard to fill" in November returned to its record high.

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

Sector	1998[1]	1999[1]	1999	2000		
			Q4	Q1	Q2	Q3
Nonfarm business	2.9	4.1	8.0	1.9	6.1	3.3
Nonfinancial corporations[3]	3.4	4.5	5.9	2.9	5.4	4.9

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

Revised estimates from the Bureau of Labor Statistics indicate that output per hour in the nonfarm business sector rose at an annual rate of 3.3 percent in the third quarter and was up 4.8 percent from the third quarter of 1999. The BLS

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

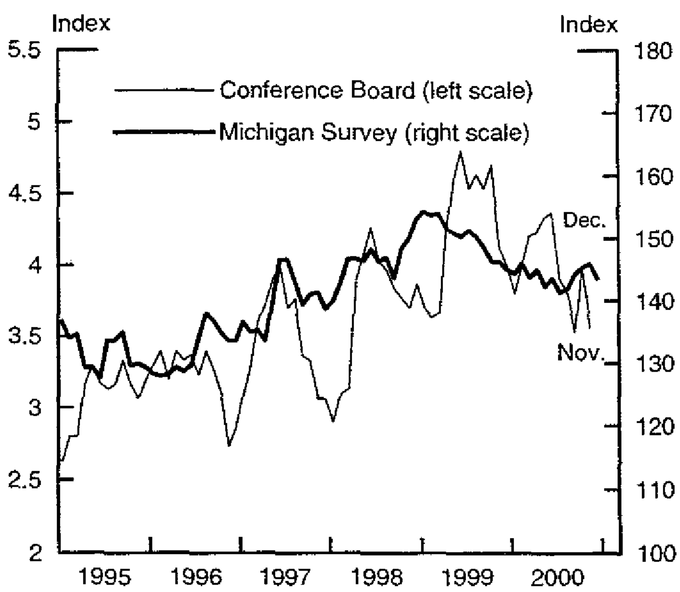
			2000			2000		
	1998	1999	Q1	Q2	Q3	Sept.	Oct.	Nov.
Total[1]	15.5	16.8	18.1	17.2	17.4	17.8	16.8	16.4
Autos	8.2	8.7	9.3	8.9	8.8	8.9	8.5	8.5
Light trucks	7.3	8.1	8.8	8.3	8.6	8.9	8.2	8.0
North American[2]	13.4	14.3	15.3	14.4	14.5	14.8	14.0	13.6
Autos	6.8	7.0	7.3	6.9	6.8	6.8	6.6	6.5
Big Three	4.7	4.9	5.2	4.8	4.5	4.5	4.4	4.2
Transplants	2.1	2.1	2.1	2.1	2.3	2.3	2.1	2.2
Light trucks	6.7	7.3	8.0	7.4	7.7	8.0	7.4	7.1
Foreign Produced	2.0	2.5	2.9	2.9	2.8	2.9	2.8	2.9
Autos	1.4	1.7	2.0	2.0	2.0	2.1	2.0	2.0
Light trucks	.7	.8	.8	.9	.8	.9	.8	.9
Memo:								
Total, as reported	15.4	16.8	18.2	17.2	17.4	17.8	16.8	16.4

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.

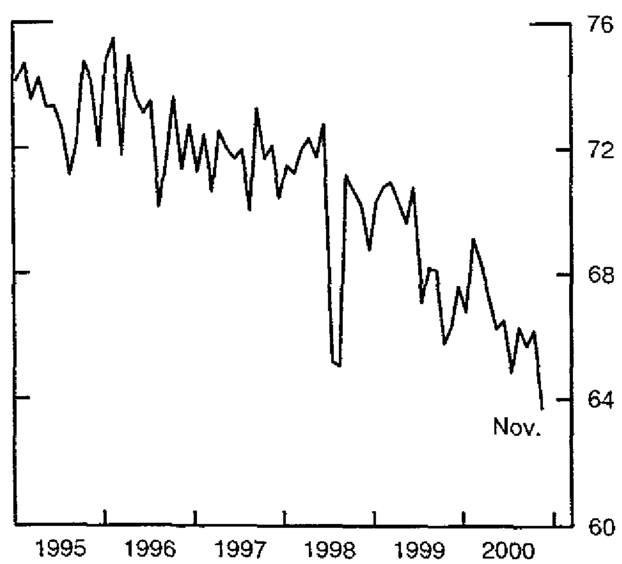
1. Excludes the estimated effect of automakers' changes in reporting periods.

2. Excludes some vehicles produced in Canada that are classified as imports by the industry.

Buying Attitudes for New Vehicles
(3-month moving average)



Combined Market Share for the Big Three



report also indicated that productivity in the nonfinancial corporate sector rose at an annual rate of 4.9 percent in the third quarter of 2000. Over the four quarters ended 2000:Q3, output per hour in this sector was up 4.8 percent, a percentage point more than the gain over the four quarters ended 1999:Q3.

Motor Vehicles

After having dropped 1 million units at an annual rate in October, sales of light vehicles fell 350,000 units in November. So far this quarter, sales have averaged 16.6 million units (annual rate), a marked stepdown from the pace during the spring and summer months. Some of this decline likely stems from less generous incentive programs; current estimates of average planned incentives per vehicle in the fourth quarter point to a decline of about $440 from the third-quarter peak of $1,790. Nonetheless, the level of incentives remains high by historical standards, and the softening in sales probably also reflects the downshift in employment growth and consumer sentiment. Indeed, consumer attitudes toward vehicle purchases have become a bit more subdued: In the latest Conference Board survey, the fraction of respondents planning to purchase a new vehicle within the next six months dropped back noticeably. The assessment of buying conditions for vehicles in the Michigan survey ticked down in early December but remains in the range recorded over the past year.

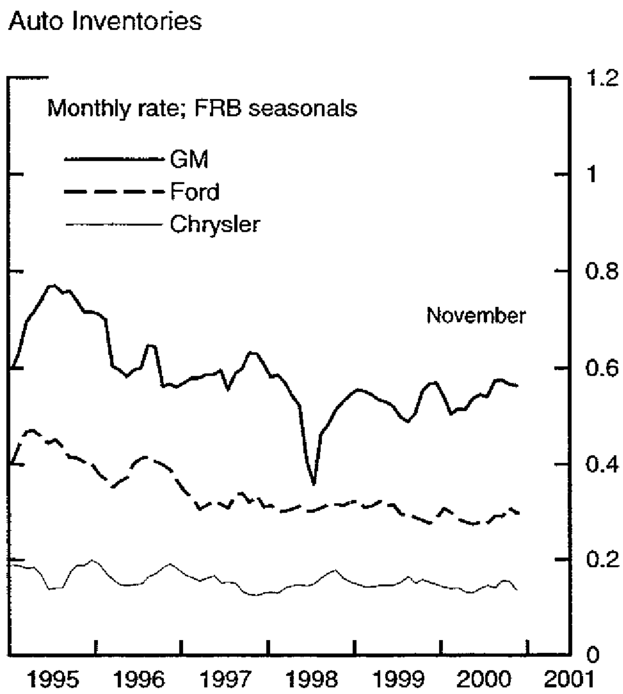
The recent slackening in sales has hit the Big Three automakers the hardest; their combined market share fell to a record low of 64 percent in November. The combination of weakening sales and loss of market share has led to significant inventory overhangs at the Big Three, which have been slow to cut

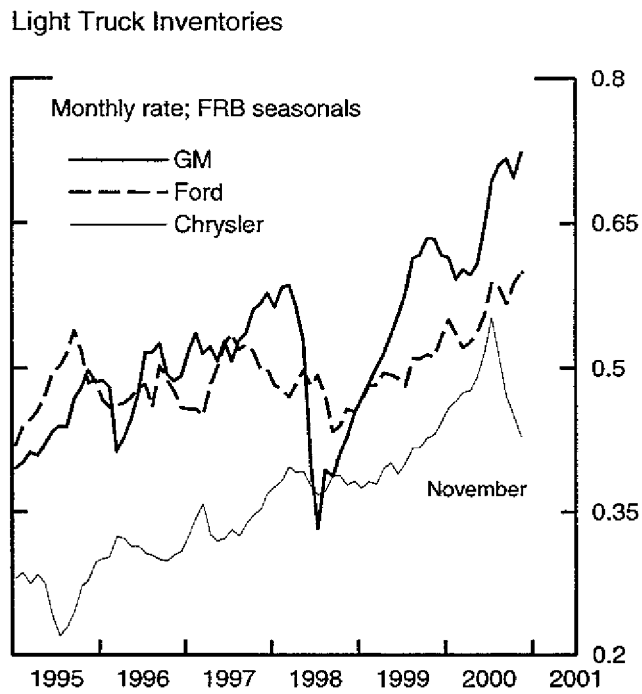
Production of Domestic Autos and Trucks
(Millions of units at an annual rate except as noted; FRB seasonal basis)

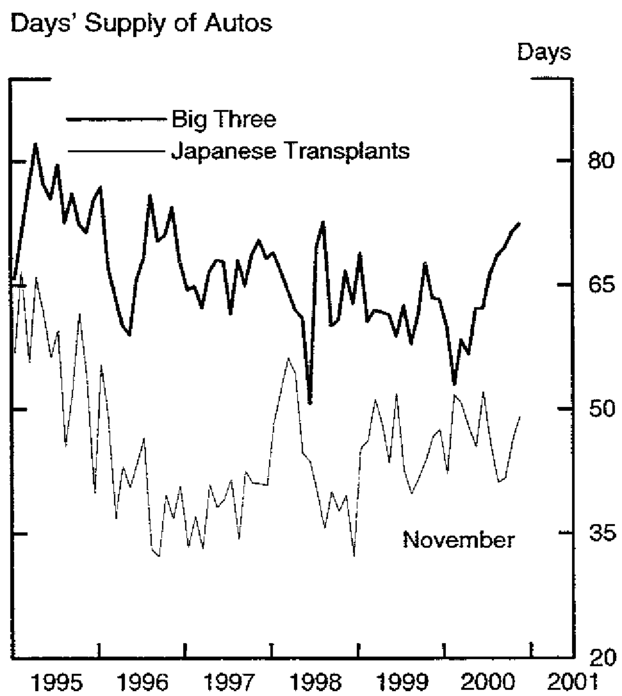
Item	2000		2001	2000			2001
	Q3	Q4[1]	Q1[1]	Oct	Nov	Dec[1]	Jan[1]
U.S. production	12.8	12.1	12.1	12.2	11.9	12.1	12.0
Autos	5.7	5.2	5.3	5.3	5.1	5.1	5.3
Trucks	7.1	6.9	6.8	6.9	6.8	7.0	6.8
Days' supply[2]							
Autos	55.9	n.a.	n.a.	58.6	59.1	n.a.	n.a.
Light trucks[3]	74.9	n.a.	n.a.	77.3	81.7	n.a.	n.a.

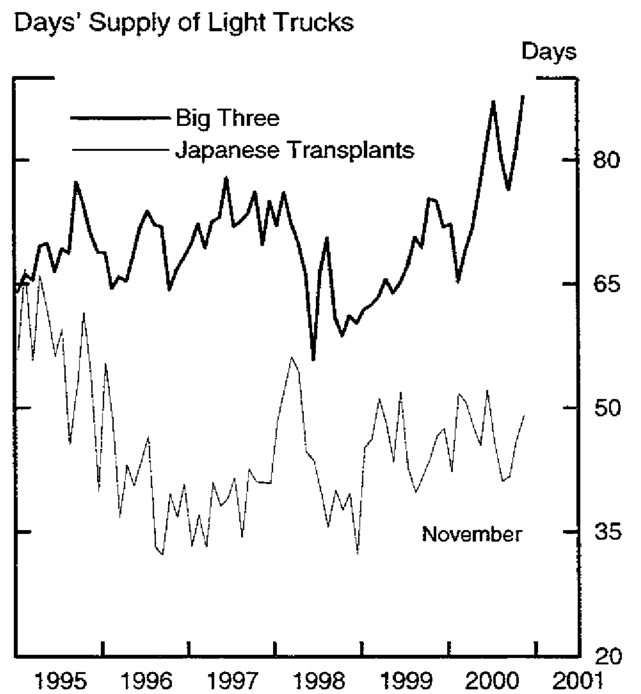
Note. Components may not sum to totals because of rounding.
1. Production rates reflect actual November data and manufacturers' schedules for December and Q1.
2. Quarterly average calculated using end-of-period stocks and average reported sales.
3. Excludes medium and heavy (classes 3-8) trucks.
n.a. Not available.

Light Vehicle Inventories









production. To begin to address these imbalances, the Big Three temporarily shut down several assembly plants in November, and total motor vehicle production dropped 300,000 units (annual rate), to 11.9 million units. In spite of these cutbacks, dealer stocks remained excessively high, with days' supply of light trucks at an elevated 82 days at the end of November. The overall days' supply of autos stood at a seemingly comfortable level of 59 days. However, because this figure is held down by the low days' supply of autos at the transplants, it masks serious inventory problems for the Big Three.

Production appears likely to remain depressed going forward. Automakers' assembly plans for December include additional shutdowns at all the Big Three firms. Although schedules currently call for an assembly rate of 12.1 million units in December, further production cuts apparently are under consideration. Similarly, although initial production schedules for the first quarter of next year average 12.1 million units, Ward's Communications has reported that it expects Chrysler to reduce its first-quarter assembly plans in the next week or two. Moreover, industry analysts have suggested that, as has been done in the past, automakers may extend the normal holiday shutdowns in order to achieve further reductions in inventories. Indeed, cutbacks at GM seem almost inevitable given the very high days' supply of light trucks (108 days) at GM.

Industrial Production

The drop in motor vehicle assemblies and the widespread reduction in factory hours in November suggest that manufacturing IP contracted in November.[3] The softness in production seems broadly consistent with other indicators of near-term manufacturing activity. Real adjusted durable goods orders fell 2.6 percent in October, with declines spread among high-tech and other goods. In the National Association of Purchasing Management (NAPM) survey of manufacturers, more respondents have indicated that orders are declining than have indicated that orders are expanding since July.

Within high-tech industries, the November hours data suggest a noticeable slowdown in the growth rate of computer production. Moreover, there are clear signs that the dramatic gains in the semiconductor industry may be nearing an end: The Semiconductor Industry Association survey of purchaser's procurement plans reports that target inventory holdings have been declining for the last three months and that actual inventories remain well above the target level; moreover, delivery lead times have been sliding over the same period, suggesting an easing in market pressures.

3. We estimate from the input-output tables that the total contribution of changes in motor vehicle assemblies to IP (including the indirect effects on downstream industries such as original motor vehicle equipment parts, stampings, iron and steel, flat glass, and textiles) is twice the magnitude of the direct contribution. However, there is considerable uncertainty about the exact timing of these effects.

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

	Proportion 1999	1999[1]	2000 H1[1]	2000 Q3	2000 Aug.	2000 Sept.	2000 Oct.
			-Annual rate-		--Monthly rate---		
Total	100.0	5.1	7.3	3.5	.7	.2	-.1
(Previous)		(4.2)	(7.3)	(3.7)	(.5)	(.4)	(-.1)
Manufacturing	89.2	5.6	7.6	3.7	.6	.3	.0
Excluding:							
High technology industries	80.6	2.3	1.9	-1.8	.3	-.1	-.4
Motor vehicles and parts	83.3	5.5	7.6	4.9	.2	.3	.5
Mining	4.8	-.5	2.1	2.3	.6	-1.0	.3
Utilities	5.9	2.3	8.1	.8	1.8	1.0	-1.8
Selected industries:							
High technology	8.7	40.6	72.0	62.3	3.6	3.0	3.0
Computers	2.6	54.3	46.5	52.2	3.8	2.9	2.4
Communication equipment	2.0	13.4	35.3	43.6	2.7	2.6	1.5
Semiconductors[2]	4.1	47.8	109.8	76.6	3.8	3.2	4.0
Motor vehicles and parts	5.9	5.9	6.4	-11.7	6.6	.5	-7.8
Aircraft and parts	2.5	-17.3	-7.7	9.6	-1.8	.2	.5
Market groups, excluding selected industries and energy products:							
Consumer goods	23.3	2.5	1.7	-.1	.0	-.2	.6
Durables	3.8	7.8	-.8	-8.8	-1.6	1.6	-1.9
Nondurables	19.5	1.5	2.2	1.6	.3	-.5	1.1
Business equipment	8.6	.8	8.0	2.8	.7	.0	.2
Construction supplies	6.3	4.5	3.6	-1.1	-.8	.2	-.2
Materials	24.9	3.3	.7	-3.4	-.5	.0	-.2
Durables	16.6	2.1	2.5	-1.2	-.3	.2	-.4
Nondurables	8.3	5.6	-2.6	-7.3	-.8	-.2	.3

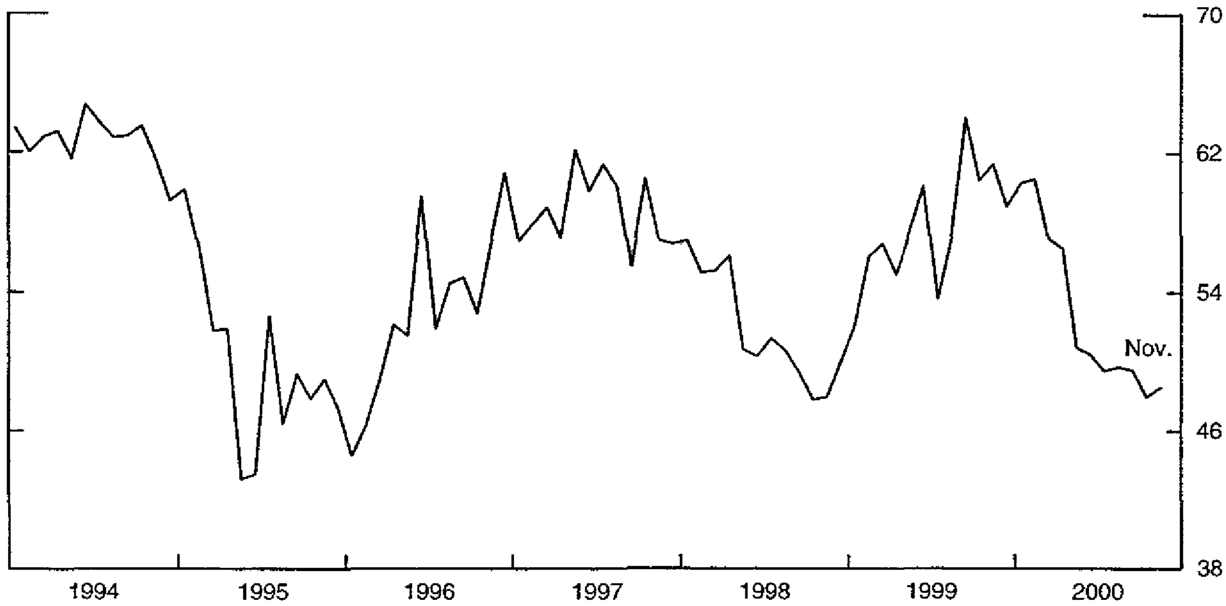
1. From the final quarter of the previous period to the final quarter of the period indicated.
2. Includes related electronic components.

CAPACITY UTILIZATION
(Percent of capacity)

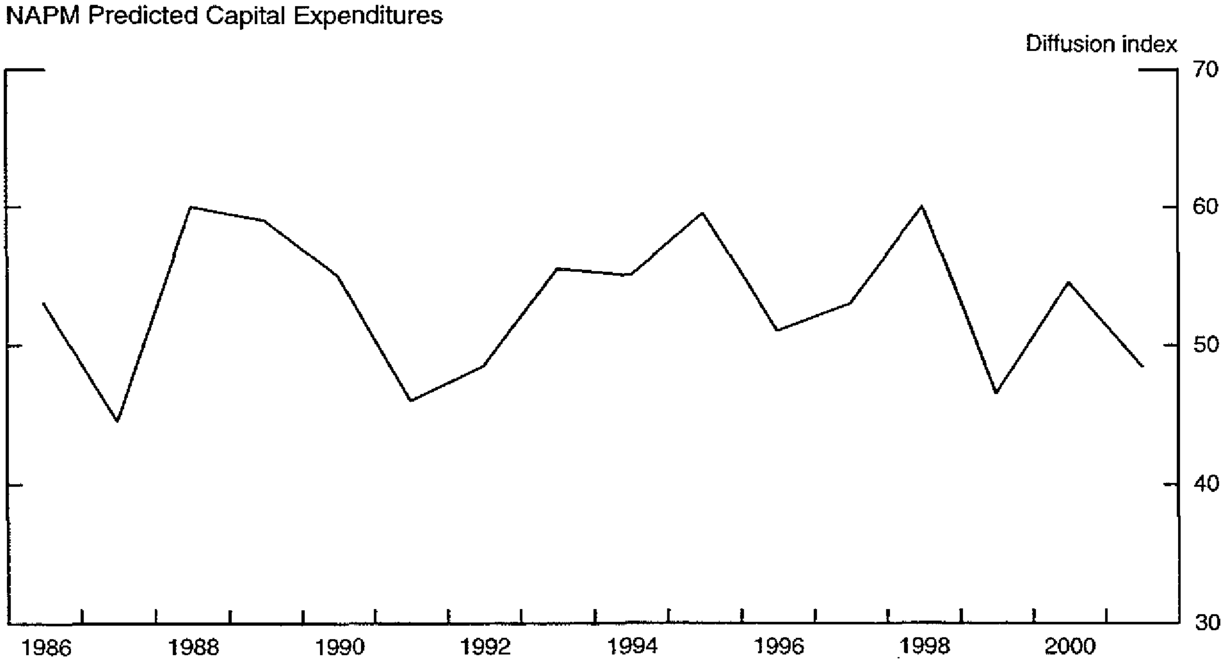
	1988-89 High	1959-99 Avg.	2000 H1	2000 Q3	2000 Aug.	2000 Sept.	2000 Oct.
Manufacturing	85.7	81.6	81.6	81.6	81.7	81.6	81.3
Primary processing	88.3	82.6	85.9	85.6	85.7	85.5	84.8
Advanced processing	84.2	81.2	79.7	79.9	80.0	80.0	79.9

Industrial Production and Capacity Growth Indicators

NAPM New Orders Index



NAPM Predicted Capital Expenditures



Note. Diffusion Index calculated from manufacturers' predicted capital expenditures in the coming, relative to the current, calendar year; survey responses are reported each year in the December publication of the National Association of Purchasing Management's Semiannual Survey.

RETAIL SALES
(Percent change; seasonally adjusted)

	2000 Q1	2000 Q2	2000 Q3	2000 Oct.	2000 Nov.
Total sales	3.1	.5	1.4	.0	-.4
Retail control[1]	2.8	1.5	1.6	.2	.2
Previous estimate			1.7	.3	
Furniture and appliances	3.4	.6	.0	.1	1.5
Other durable goods	2.6	-1.2	1.3	-1.2	.0
Apparel	3.3	.6	1.3	.4	.8
Food	-.1	2.7	.4	.6	.5
General merchandise[2]	2.3	1.4	2.2	.5	-.2
Gasoline stations	7.8	1.9	2.6	.5	.3
Eating & drinking establishments	2.5	.9	1.2	-.2	.2
Other nondurable goods[3]	4.6	2.7	3.7	.9	-.6

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 houses.
3. Includes sales at liquor stores, mail-order houses, and drug and proprietary stores.

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

	1999	2000 Q1	2000 Q2	2000 Q3	2000 Oct.[1]	2000 Nov.[1]
	Q4/Q4	----- Annual rate	-----		Monthly rate	
PCE	5.6	7.6	3.1	4.5	.0	.2
Goods	7.4	10.9	1.0	5.6	-.4	-.0
Durables	11.1	23.6	-5.0	7.7	-2.4	-.1
Motor Vehicles	6.4	27.7	-16.9	7.6	-5.7	-1.5
Ex. Motor Vehicles	14.7	20.8	4.4	7.7	.0	.8
Nondurables	5.9	6.0	3.6	4.8	.4	-.0
Services	4.2	5.2	4.6	3.7	.3	
Memo:						
Real PCE Goods Ex. Motor Vehicles	7.6	8.7	3.8	5.3	.3	.2
Real disposable income	3.1	1.9	3.7	2.4	-.6	
Saving rate (percent)	2.2	.2	.3	-.2	-.8	

Note. Derived from billions of chained (1996) dollars.
1. Staff estimate based on retail sales, the CPI, and confidential data on the retail share of light vehicle sales.

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

Component	Share, 2000:H1	2000				
		H1[1]	Q3	Aug.	Sept.	Oct.
Total orders	**100.0**	**3.5**	**-3.5**	**2.9**	**2.2**	**-5.6**
Adjusted orders[2]	70.0	3.3	-1.3	1.6	1.3	-2.7
Computers	6.0	7.8	6.8	4.7	-7.9	8.5
Communication equipment	5.0	4.3	-9.5	-2.4	9.9	-5.5
Other capital goods	14.0	4.9	.7	-3.9	3.8	-4.5
Other[3]	45.0	2.2	-2.2	3.2	1.2	-3.5
Memo:						
Real adjusted orders	...	4.0	-.5	2.0	1.4	-2.6
Excluding high tech	...	1.4	.9	.0	-.6	-1.4

1. Quarterly rate.
2. Orders excluding defense capital goods, nondefense aircraft, and motor vehicle parts.
3. Includes primary metals, most fabricated metals, most stone, clay, and glass products, electronic components, household appliances, scientific instruments, and miscellaneous durable goods.
... Not applicable.

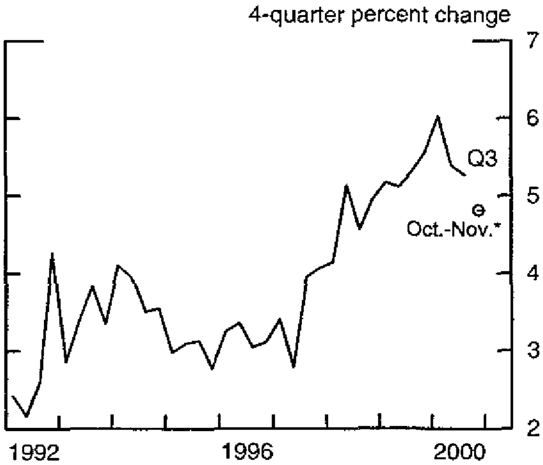
Before the slowing in production in recent months, the factory operating rate had been hovering around the long-term average of 81.6 percent. Industries with noteworthy strains on productive facilities included petroleum products, construction supplies, and semiconductors—although utilization in the latter industry has dropped since June as production gains have downshifted. Looking forward, the NAPM's semiannual survey conducted in November reported that more manufacturers plan to decrease than to increase their capital expenditures in 2001. This diffusion index, which we have found to be a good indicator of capital spending by manufacturers, suggests that aggregate manufacturing investment in 2001 will be essentially flat. However, that overall figure includes an expected increase in capital spending in the semiconductor industry that, based on reports from our contacts in the industry, we estimate will be about 20 percent (down from an estimated 70 percent gain this year). We estimate that investment expenditures by manufacturers outside the semiconductor industry will decline 1-1/2 percent to 2 percent next year.

Consumer Spending

The spending data in hand point to a noticeable deceleration in real consumer expenditures in the fourth quarter. Looking forward, the retrenchment in consumer sentiment, slower hiring, and the decline in the stock market suggest a continuation of this more moderate pace of expansion.

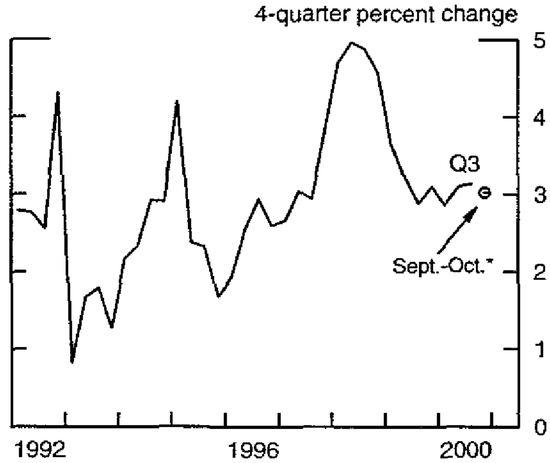
Personal Consumption Expenditures

Real Total PCE



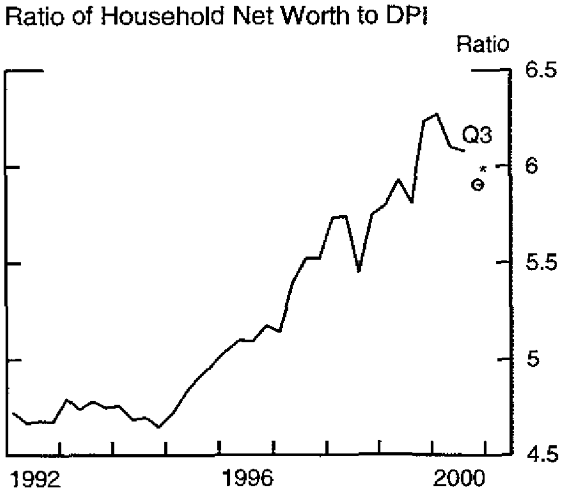
*Percent change in average spending in Oct. and Nov. between 1999 and 2000. Data for 2000 are based on staff estimates.

Real Disposable Income



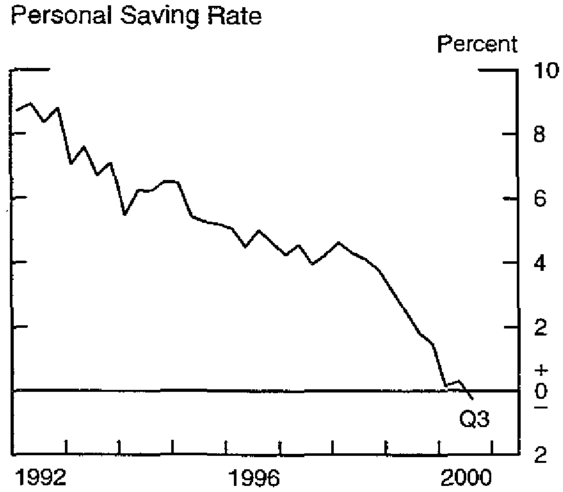
*Percent change in average income in Sept. and Oct. between 1999 and 2000.

Ratio of Household Net Worth to DPI



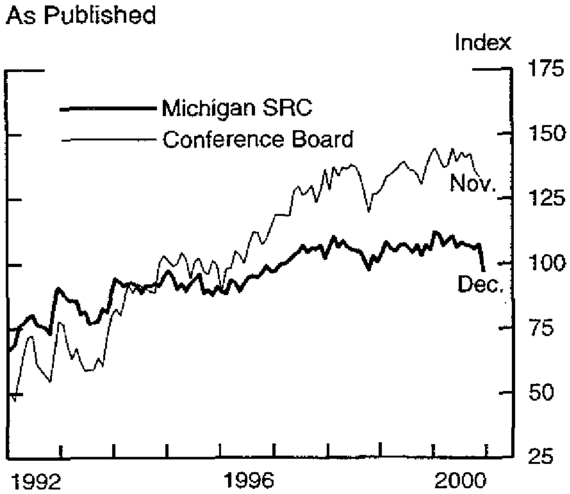
*Staff estimate for 2000:Q4. Assumes stock prices remain at their current level.

Personal Saving Rate

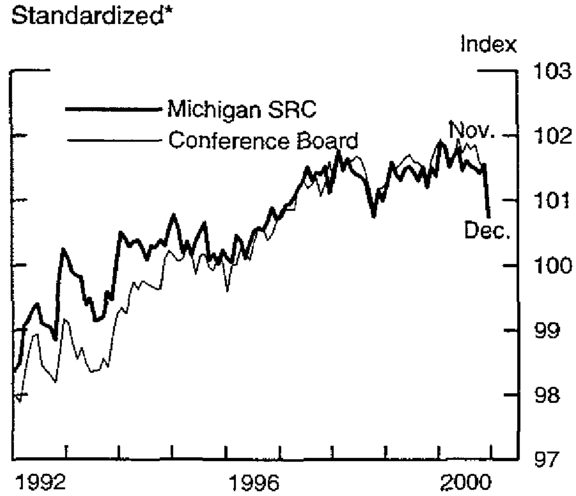


Consumer Sentiment

As Published



Standardized*



*Standardized series calculated as published minus sample average divided by standard deviation plus 100.

Although the most dramatic weakening has been in sales of light vehicles, the gains in spending on other consumer goods appear to have slowed in recent months as well. Nominal sales in the retail control group of stores, which excludes automotive dealers and building material and supply outlets, increased 0.2 percent in both October and November after having increased 0.6 percent per month during the previous three months. Although spending at apparel outlets continued to move up in November, sales at general merchandisers are estimated to have edged down, on a seasonally adjusted basis. Weaker outlays at establishments selling "other" durable goods and slower spending at those selling "other" nondurables also have contributed importantly to the moderation in nominal spending in the last two months. Factoring in our estimates for prices in November, we think that the level of real spending on consumer goods outside of motor vehicles in October and November was 3 percent above the third-quarter average (annual rate). Spending on these goods rose at a 5-1/4 percent annual rate last quarter.

Real outlays on services increased 0.3 percent in October. November data for outlays on services are not yet available, but indicators used by the BEA to construct its estimate of two particularly volatile components are sending mixed signals. The drop in the volume of trading on the major stock exchanges last month suggests a decline in PCE brokerage charges and investment counseling. In contrast, a swing from warmer-than-average weather in October to cooler-than-average weather in November points to a considerable increase in outlays on energy services.

The Michigan Survey Research Center (SRC) index of consumer sentiment plunged in early December to its lowest level since October 1998, when concern about the impact on the domestic economy of economic turmoil abroad reached its peak.[5] If this level were to hold through the final reading, December's drop—the fourth largest since monthly surveys began in 1978—would signal a sharp reversal of consumer attitudes. Indeed, the diffusion index of employment conditions, which we have found useful as an indicator of consumption, registered an even more sizable deterioration in December than the overall index. Taking a longer-term perspective, both the SRC index and the Conference Board (CB) index of consumer confidence have declined noticeably from the record highs recorded in January. After standardizing the two indexes to account for the larger historical volatility of the CB index, both measures were about 1-1/2 standard deviations above their long-run historical averages through November. The further sharp drop in the SRC index in early December left that index 0.7 standard deviation above its long-term average.

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5. Although the preliminary report was released earlier in the month than usual, it is based on the same number of responses that are typically available.

Private Housing Activity

(Millions of units; seasonally adjusted annual rate)

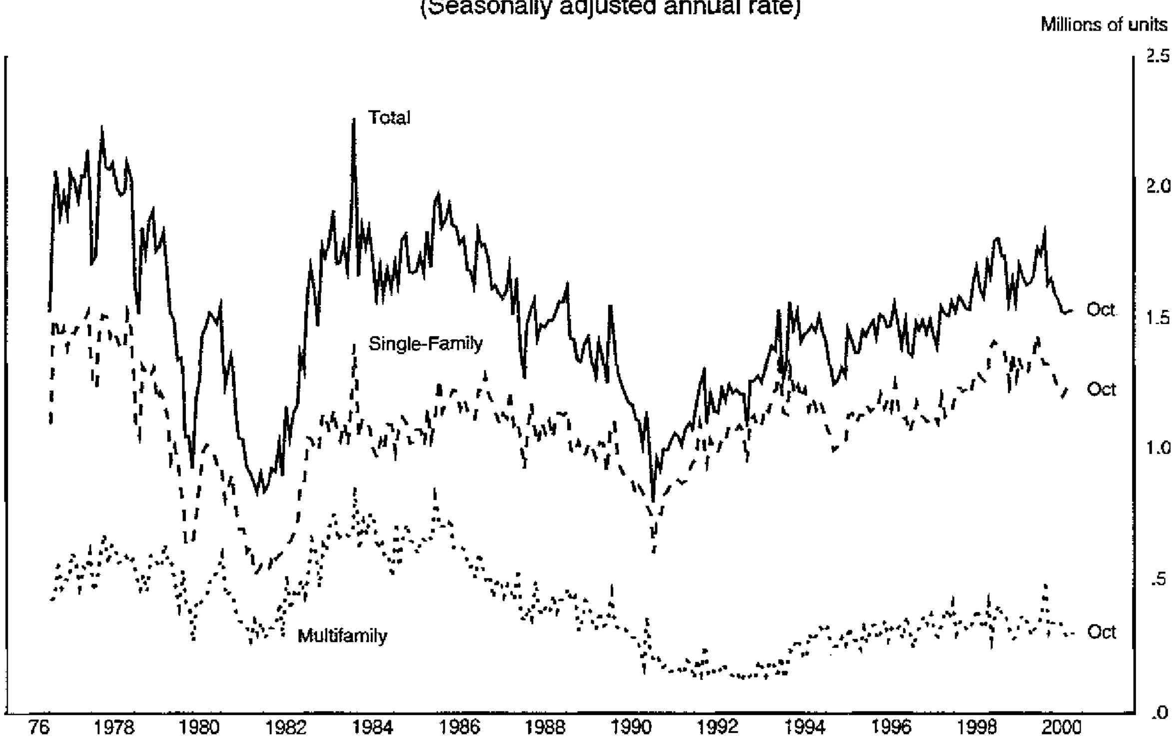
		2000					
	1999	Q1	Q2	Q3[r]	Aug.[r]	Sept.[r]	Oct.[p]
All units							
Starts	1.67	1.73	1.61	1.53	1.52	1.53	1.53
Permits	1.66	1.67	1.53	1.51	1.49	1.52	1.54
Single-family units							
Starts	1.33	1.34	1.27	1.22	1.23	1.23	1.23
Permits	1.25	1.26	1.15	1.14	1.14	1.16	1.18
Adjusted permits[1]	1.34	1.34	1.24	1.22	1.22	1.24	1.25
New home sales	.91	.93	.86	.91	.85	.95	.93
Existing home sales	5.20	4.80	5.09	5.09	5.28	5.16	4.96
Multifamily units							
Starts	.33	.40	.34	.31	.29	.30	.31
Permits	.42	.41	.39	.37	.35	.36	.36
Mobile homes							
Shipments	.35	.30	.27	.24	.25	.23	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)



All the major stock market indexes have fallen further since the November Greenbook. Assuming that stock prices remain near their current levels, we expect that the ratio of household net worth to disposable personal income will move down noticeably in the fourth quarter. Meanwhile, abstracting from monthly swings in the headline figures attributable to special farm subsidy payments in the third quarter, real personal income has continued to rise at close to an annual rate of 3 percent, the same pace that has prevailed since the spring of 1999.[6] The latest labor market report is consistent with personal income in November receiving a moderate lift from an increase in private wages and salaries.

Housing Markets

Housing activity appeared to level off early this fall. Single-family starts were unchanged at an annual rate of 1.23 million units in October—about the level that has prevailed since June. This flat pattern probably reflects the balance between the positive effect on demand of declining mortgage rates and the negative influences of declining equity prices and slower gains in employment.

Sales of new homes declined 2.6 percent in October, to an annual rate of 928,000 units, but this level was still 2-1/2 percent above the third-quarter pace. More broadly, new home sales have moved sideways since early last year in a range between 850,000 and 950,000 units. Existing home sales fell 3.9 percent in October, to an annual rate of 4.96 million units. Relative to the comparable year-earlier period, the average level of existing home sales through October of this year is down a modest 4-1/4 percent.

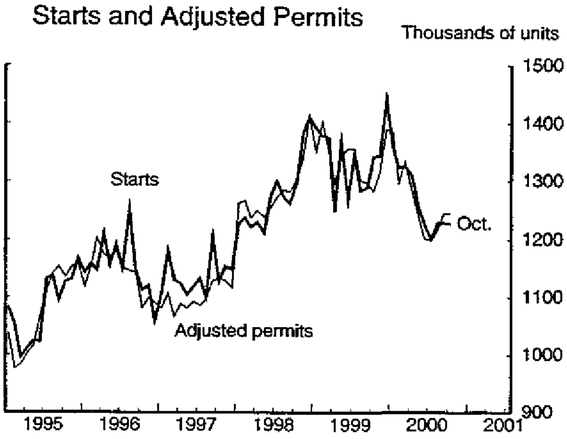
House prices continued to increase briskly in the third quarter. The repeat-sales price of existing homes rose at a year-over-year rate of 7.3 percent in the third quarter. Except for a fractionally higher figure in the second quarter, that increase is the most rapid rise recorded since early 1987. Regional data for the repeat-sales price index for existing homes show that price increases in recent quarters have been especially rapid in the New England, Middle Atlantic, and Pacific regions. These areas have relatively high concentrations of high-tech and financial industries, and high salaries and (at least until recently) lucrative stock options likely have helped stimulate housing demand.

For new homes, the year-over-year rate of increase in the constant-quality price dropped back from 5-3/4 percent in the second quarter to 4 percent in the third quarter, which is toward the lower end of the elevated range of increases that has prevailed since early last year. In October, the average new home price increased 9 percent from a year earlier, and the median price increased

6. Special farm subsidy payments boosted the change in personal income $61 billion in September and reduced it $57 billion in October.

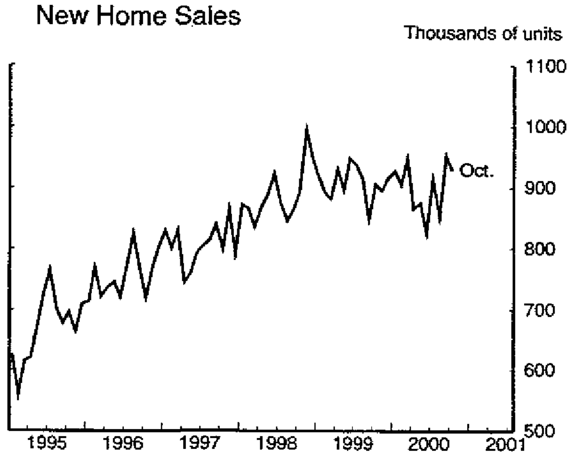
Indicators of Single-Family Housing

Starts and Adjusted Permits



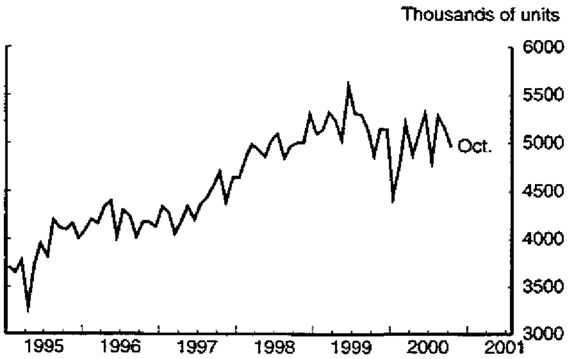
Source. Census Bureau. Adjusted permits calculated by staff.

New Home Sales



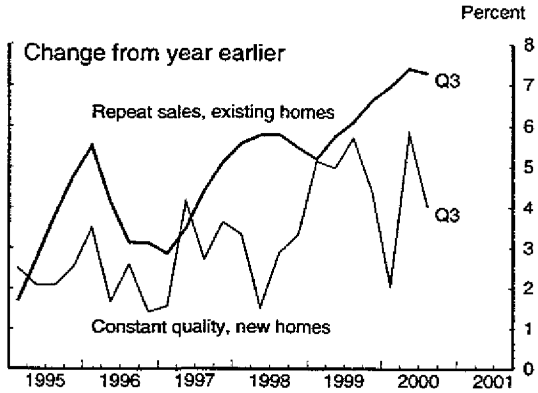
Source. Census Bureau.

Existing Home Sales



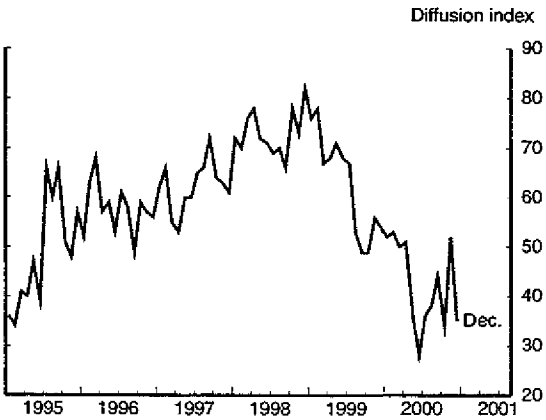
Source. National Association of Realtors.

House Prices



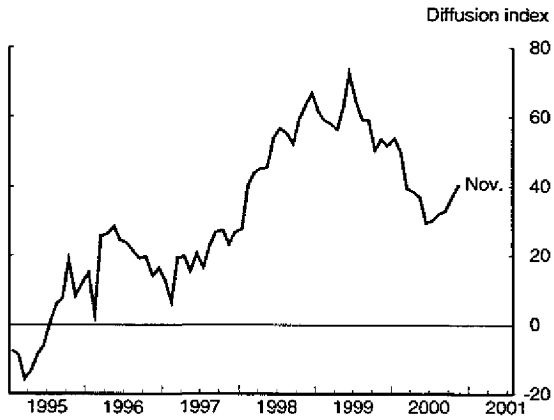
Source. Census Bureau (new); Fannie Mae and Freddie Mac (existing).

Perceived Homebuying Conditions



Source. Michigan Survey, not seasonally adjusted.

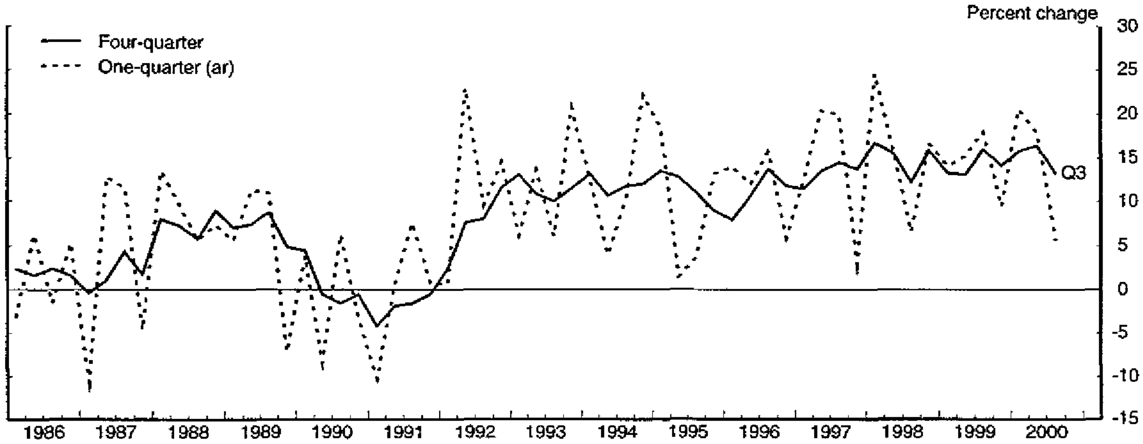
Builders' Rating of New Home Sales



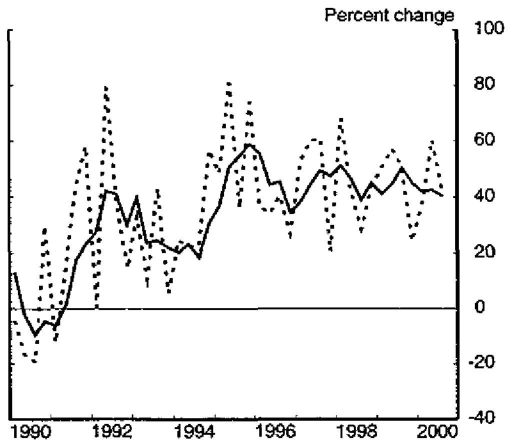
Source. National Association of Home Builders.

Equipment and Software

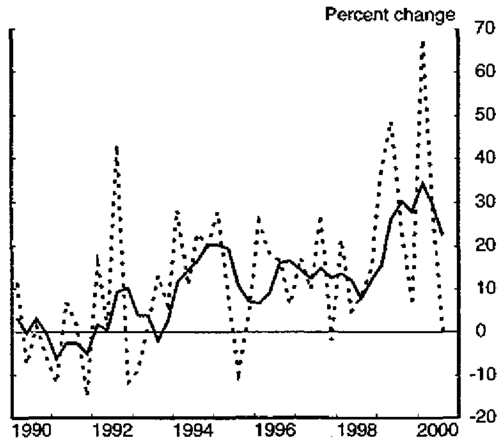
Total Equipment and Software



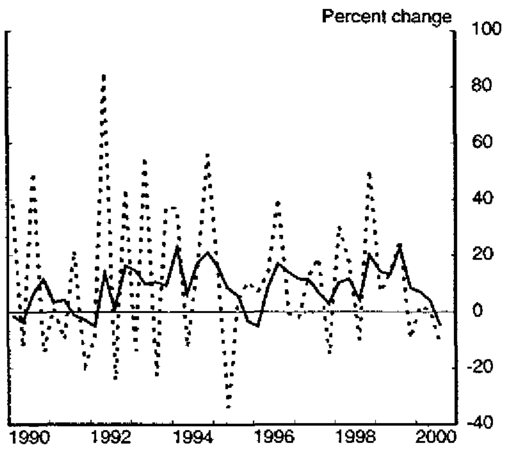
Computers and Software



Communications Equipment

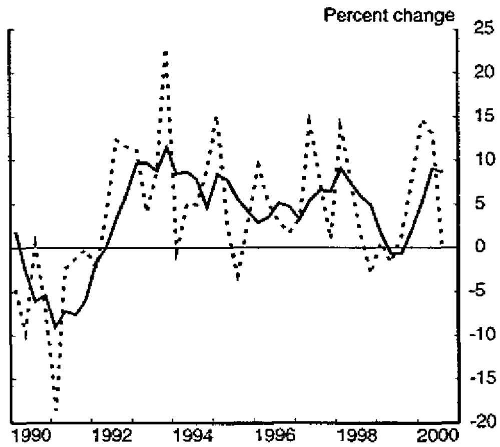


Transportation Equipment



Note. Motor vehicles and aircraft.

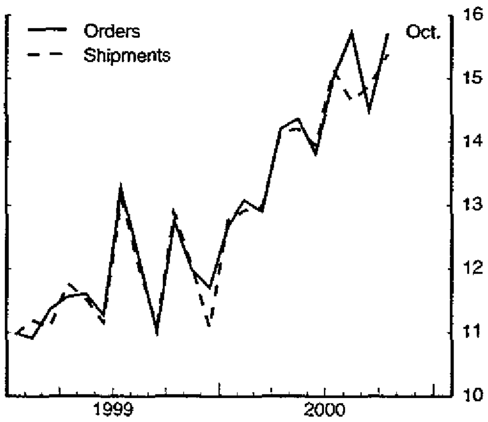
Other Equipment

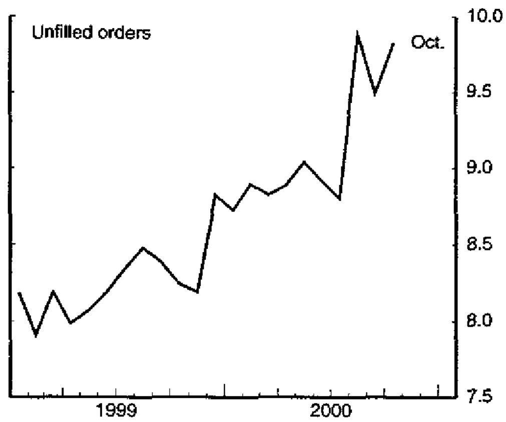


Note. Excludes computers, software, communications, and transportation.

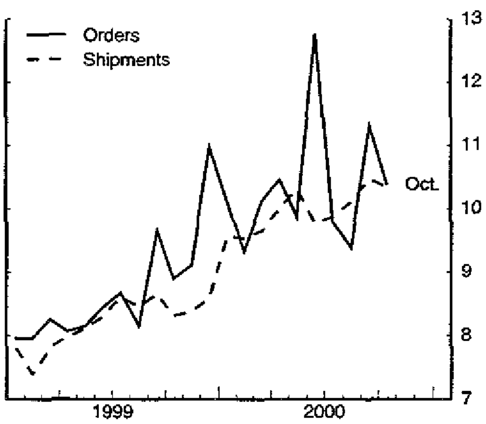
Orders and Shipments for Nondefense Equipment
(Billions of dollars; not at annual rate)

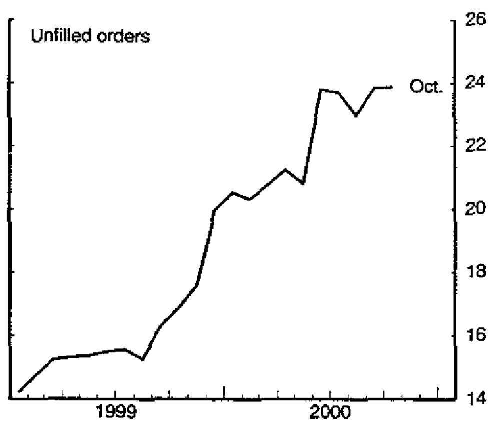
Office and Computing Equipment



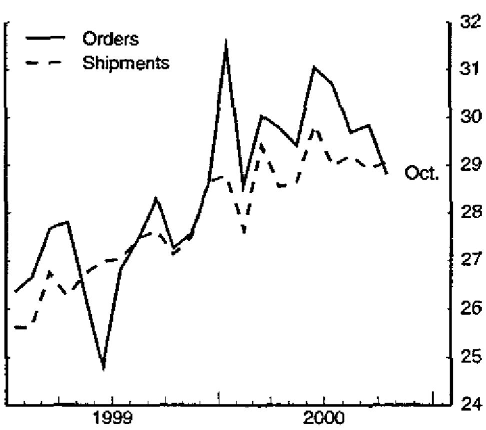


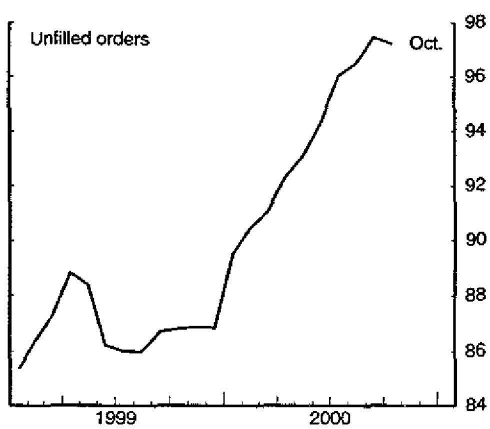
Communications Equipment





Non-High-Tech Equipment Excluding Aircraft





9.3 percent. However, these rapid increases were driven in part by a rise in the share of new homes sold in the Northeast region, where house prices are relatively high; sales in October jumped 38 percent in the Northeast but declined moderately in the three other regions of the country.

More timely indicators of housing demand were mixed in November and December. The index of builders' ratings of new home sales continued to rise in November, but it has retraced only about one-fourth of its decline from the high in mid-1999. The Michigan Survey's measure of consumer attitudes toward homebuying, which turned up noticeably in November in response to falling mortgage rates, retraced most of that increase in early December.

In the multifamily sector, starts edged up in October to an annual rate of 305,000 units, a pace that equals the average for the third quarter but is 17 percent below the elevated level in the first half of this year. Nevertheless, conditions in the multifamily sector remain conducive to additional construction. The vacancy rate for multifamily rental units was roughly unchanged in the second and third quarters from the relatively low year-earlier level.

Business Investment

Equipment and software. The substantial slowdown in business expenditures on equipment and software last quarter was relatively widespread. Overall, real outlays rose at an annual rate of 5.6 percent in the third quarter, after having risen at a pace of nearly 20 percent in the first half of the year. Among the components, growth in real spending on high-tech equipment and software dropped back from an average annual rate of 33 percent in the first half of the year to less than 20 percent in the third quarter, with outlays for communications equipment particularly soft. Non-high-tech spending, which rose at around a pace of 10 percent in the first half, fell 4 percent (annual rate) in the third quarter.

The slowing in investment expenditures under way is consistent with deteriorating fundamentals. Both business output and real cash flow have decelerated over the past year. Moreover, the financial environment has become less hospitable: Increasingly stringent bank lending standards have made borrowing more difficult, while the cost of equity finance has risen along with declining stock prices. The telecommunications industry has been hit especially hard in the face of lower stock prices and higher risk premiums on its debt issuance. Further, while the technology-driven decline in computer prices has continued, the rate of descent moderated during the first three quarters of this

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

	2000		2000		
	Q2	Q3	Aug.	Sept.	Oct.
Equipment and software					
Shipments of nondefense capital goods	5.8	.8	3.4	.0	-1.2
Excluding aircraft and parts	4.0	1.8	.0	.5	1.0
Office and computing equipment	9.4	5.6	-3.2	1.5	3.4
Communications equipment	4.6	1.2	2.4	3.6	-1.2
All other categories	1.4	.1	.8	-1.0	.5
Shipments of complete aircraft	59.4	-5.9	13.7	-10.4	-10.6
Medium & heavy truck sales (units)	-3.0	-11.4	1.8	-7.9	-5.8
Orders for nondefense capital goods	6.5	1.3	4.4	5.4	-12.1
Excluding aircraft and parts	4.7	.1	-1.3	1.5	-1.3
Office and computing equipment	9.6	6.8	4.7	-7.9	8.5
Communications equipment	11.9	-7.9	-4.0	20.5	-8.3
All other categories	.2	.0	-3.3	.5	-3.5
Nonresidential structures					
Construction put in place, buildings	1.2	2.8	1.6	2.7	1.5
Office	5.1	4.2	3.3	5.4	-3.1
Other commercial	-3.1	-.8	2.7	.6	4.9
Institutional	1.4	4.8	.8	2.8	.5
Industrial	6.2	6.5	-1.5	2.0	5.2
Lodging and miscellaneous	-2.8	-.1	1.5	2.8	-.8
Rotary drilling rigs in use[1]	8.7	10.3	3.0	.4	4.7

1. Percent change of number of rigs in use, seasonally adjusted.
n.a. Not available.

year, in part because of capacity pressures in the semiconductor industry that boosted input costs to computer manufacturers.

Incoming data suggest that real spending on equipment and software will post another moderate gain in the fourth quarter. In October, nominal shipments of computing and office equipment and of communications equipment stood about 3-1/4 percent and 2 percent, respectively, above their third-quarter averages. Outside the high-tech area, shipments turned up in October, with notable gains in special industrial machinery, a category that includes textile, paper, printing, and food products machinery. Moreover, backlogs for non-high-tech equipment remained elevated. On the downside, business conditions in the commercial truck sector have continued to deteriorate this quarter. Sales of medium and heavy trucks fell almost 6 percent in October, to an annual rate of 500,000 units. Net new orders for medium and heavy trucks (classes 5 though 8) decreased to about 21,000 units in November (monthly rate), suggesting that sales may weaken further in the near-term.

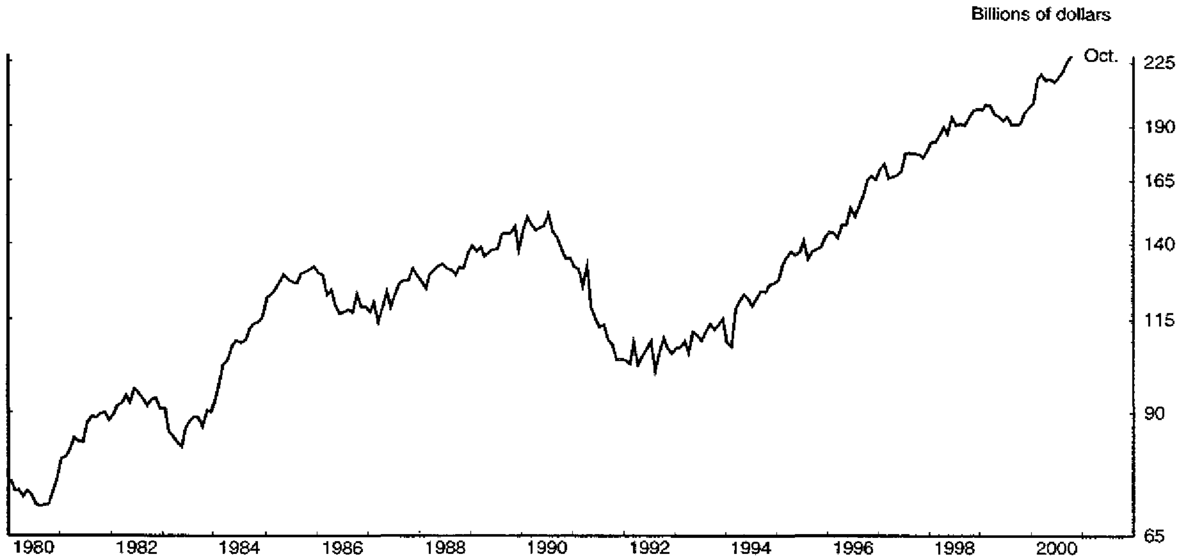
Nonresidential construction. In contrast to recent trends in outlays on equipment and software, spending on nonresidential construction continued to rise briskly in October, with nominal outlays for private buildings increasing 1-1/2 percent following a 2-3/4 percent rise in the third quarter. Except for April and June, nonresidential construction has risen in every month this year, and the level of construction in October was up 19-1/2 percent from the year-earlier level. All the major subcategories show substantial year-over-year gains in activity.

Spending for construction of office buildings fell 3 percent in October. The decline followed a large increase in September, however, and the level of spending in October remained slightly above its third-quarter average. The pace of office construction was 15-1/2 percent ahead of the year-earlier level, and market conditions appear to favor continued growth. The rate of increase in property values continued to pick up in the third quarter, and rents accelerated to a pace only slightly below the high in early 1998. The vacancy rate for office properties in downtown locations edged down 0.1 percentage point, to 6.2 percent, in the third quarter, which is the lowest level on record. The downtown vacancy rate is off considerably from 8.7 percent in the third quarter of last year. Available space in suburban office buildings declined 0.3 percentage point in the third quarter, to 8.6 percent, down from 10.1 percent in the corresponding period last year.

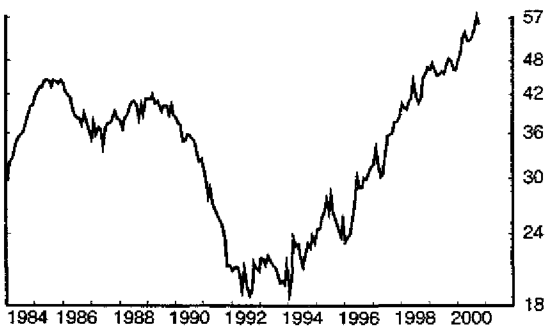
Construction spending for commercial structures (which include retail space and warehouses) jumped 5 percent in October. The rate of change in property values for retail space was unchanged in the third quarter, and the growth rate

Nonresidential Construction
(Seasonally adjusted, annual rate)

Total Building

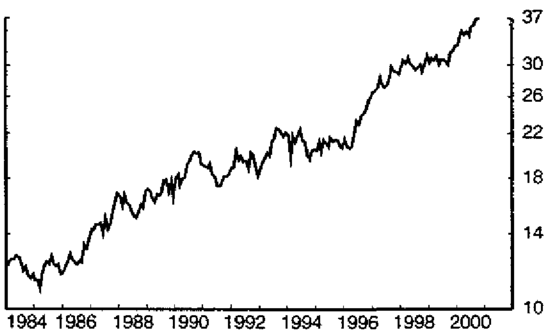


Office



Other Commercial

Institutional

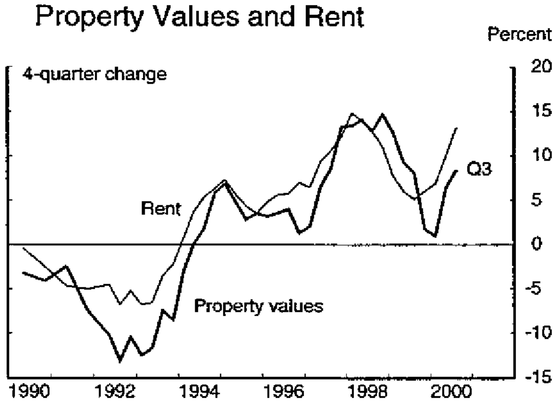


Industrial

Indicators of Nonresidential Construction

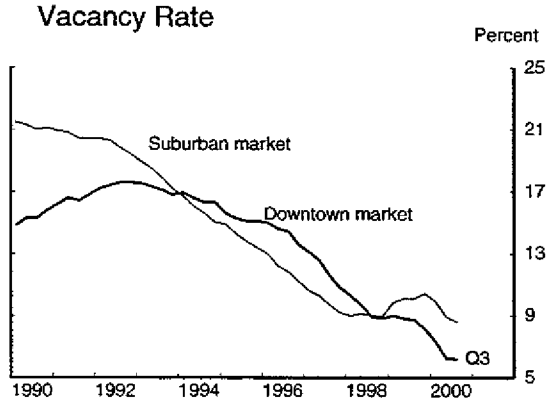
Office Buildings

Property Values and Rent



Source. National Real Estate Index.

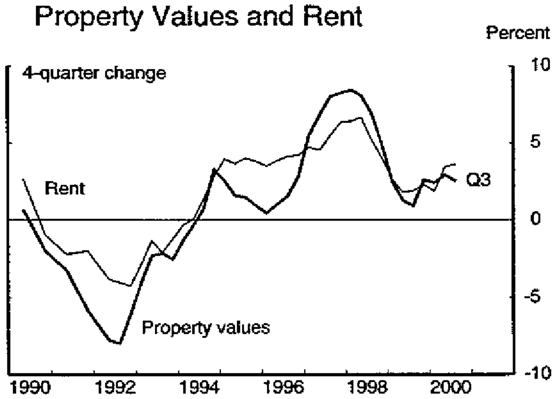
Vacancy Rate



Source. CB Richard Ellis.

Retail Space

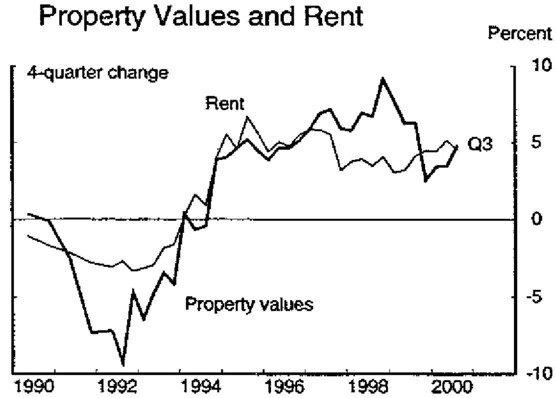
Property Values and Rent



Source. National Real Estate Index.

Warehouses

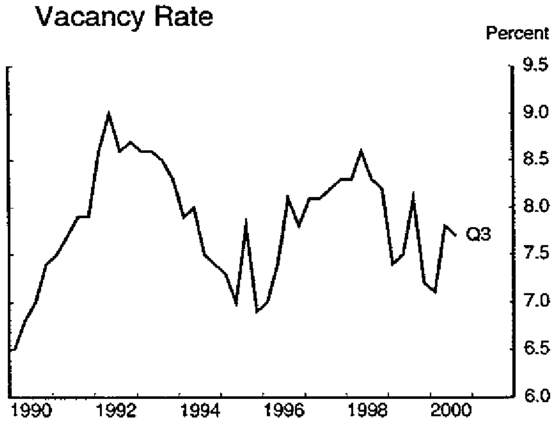
Property Values and Rent



Source. National Real Estate Index.

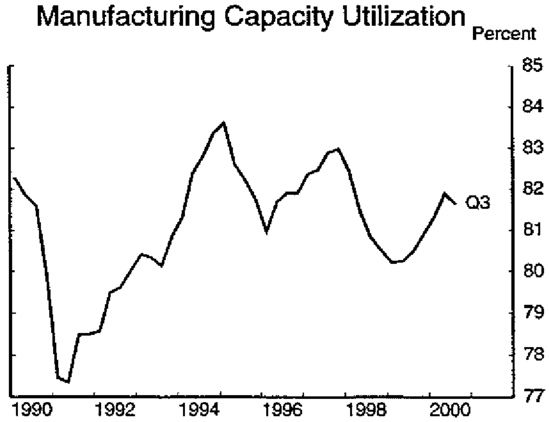
Industrial

Vacancy Rate



Source. CB Richard Ellis.

Manufacturing Capacity Utilization



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

Category	2000 Q1	2000 Q2	2000 Q3	2000 Aug.	2000 Sept.	2000 Oct.
Manufacturing and trade	60.8	105.9	58.1	102.3	13.2	n.a.
Less wholesale and retail motor vehicles	50.9	72.3	51.2	67.0	21.8	n.a.
Manufacturing	22.0	24.6	27.4	16.1	14.9	35.7
Less aircraft	18.6	30.0	29.4	18.8	14.7	34.7
Merchant wholesalers	25.1	36.2	12.4	22.6	1.9	12.8
Less motor vehicles	21.6	33.1	16.3	25.7	6.4	12.2
Retail trade	13.6	45.1	18.3	63.6	-3.5	n.a.
Automotive dealers	6.4	30.5	10.7	38.4	-4.1	n.a.
Less automotive dealers	7.2	14.6	7.6	25.2	.6	n.a.

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

Category	Cyclical reference points: 1990-91 high	Cyclical reference points: 1991-98 low	Range over preceding 12 months: High	Range over preceding 12 months: Low	October 2000
Manufacturing and trade	1.58	1.37	1.34	1.31	n.a.
Less wholesale and retail motor vehicles	1.55	1.34	1.30	1.27	n.a.
Manufacturing	1.75	1.36	1.30	1.25	1.30
Primary metals	2.08	1.46	1.60	1.53	1.62
Steel	2.56	1.59	2.14	1.87	2.13
Nonelectrical machinery	2.48	1.61	1.56	1.40	1.44
Electrical machinery	2.08	1.21	1.21	1.09	1.14
Transportation equipment	2.93	1.51	1.50	1.32	1.51
Motor vehicles	.97	.53	.59	.52	.60
Aircraft	5.84	4.05	4.53	3.51	4.20
Fabricated metals	1.95	1.49	1.62	1.51	1.63
Textiles	1.71	1.38	1.67	1.52	1.67
Paper	1.32	1.06	1.20	1.12	1.21
Chemicals	1.44	1.25	1.39	1.30	1.38
Petroleum	.94	.80	.77	.66	.71
Rubber and plastics	1.47	1.16	1.31	1.22	1.32
Merchant wholesalers	1.36	1.24	1.30	1.27	1.30
Less motor vehicles	1.31	1.22	1.28	1.25	1.28
Durable goods	1.83	1.53	1.62	1.55	1.62
Nondurable goods	.96	.90	.96	.94	.96
Retail trade	1.61	1.45	1.45	1.40	n.a.
Less automotive dealers	1.48	1.38	1.35	1.32	n.a.
Automotive dealers	2.23	1.58	1.80	1.60	n.a.
General merchandise	2.68	2.01	1.95	1.83	n.a.
Apparel	2.54	2.29	2.29	2.18	n.a.
Food	.83	.79	.82	.78	n.a.

for rents picked up a bit further. Property values for warehouses continued to accelerate, and the rate of increase in warehouse rents was about flat.

Outlays for industrial buildings were up 5-1/4 percent in October, continuing the sizable increases in expenditures that have generally prevailed since October of last year. Over that twelve-month period, industrial construction more than retraced the sharp decline that occurred in 1998. The vacancy rate for industrial properties edged down 0.1 percentage point in the third quarter, to 7.7 percent; since late 1998, this vacancy rate has fluctuated between 7 percent and just over 8 percent.

Business Inventories

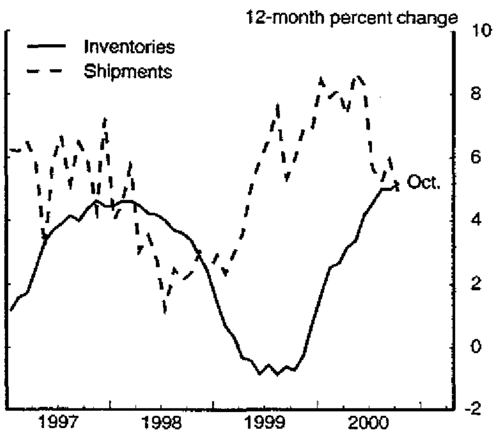
The book value of inventories in manufacturing rose at an annual rate of $36 billion in October following stockbuilding at a $27 billion pace in the third quarter. October's gain was led by large increases in stocks at manufacturers of industrial and electrical machinery. The inventory-shipments ratio for manufacturing edged up to 1.3 months in October, the highest level in more than a year. Increases in inventory-shipments ratios were widespread among manufacturers of durable goods; in particular, the ratios for both primary and fabricated metals rose from already high levels. Among producers of nondurables, inventory-shipments ratios in the chemicals, textiles, and rubber and plastics industries remained high.

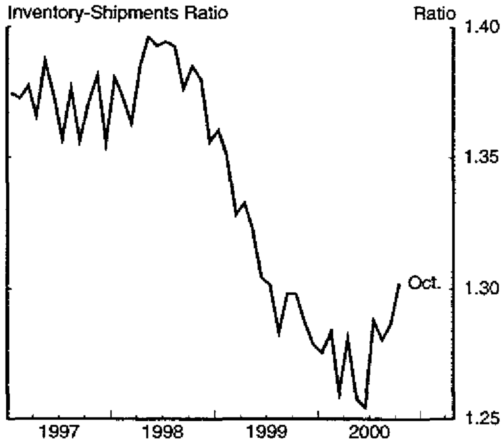
The book value of wholesale inventories, excluding stocks held by auto dealers, rose at an annual rate of $12 billion in October, only a bit below the $16 billion pace of the third quarter. Large increases in inventories at wholesalers of electrical goods were matched by the combined inventory liquidations at wholesalers of machinery and farm products. Among other distributors, a small amount of stockbuilding was reported. The October inventory-sales ratio for the wholesale sector excluding motor vehicles was 1.28 months, the same as the third-quarter average and at the top of the range that has prevailed over the past year—albeit well off the peaks of 1998. The inventory-sales ratios for distributors of electrical goods, metals and minerals, and paper products were at their highest levels in more than a year.

Although the overhang in motor vehicle inventories had begun to emerge by the end of the third quarter, no problems were apparent at other retailers. The book value of retail inventories, excluding stocks held by auto dealers, increased at an annual rate of only $0.6 billion in September. The inventory-sales ratio edged down to 1.32 months, at the bottom of the range that has prevailed this year.

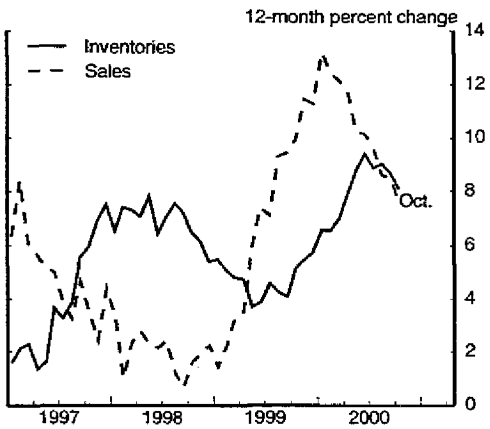
Inventories and Sales

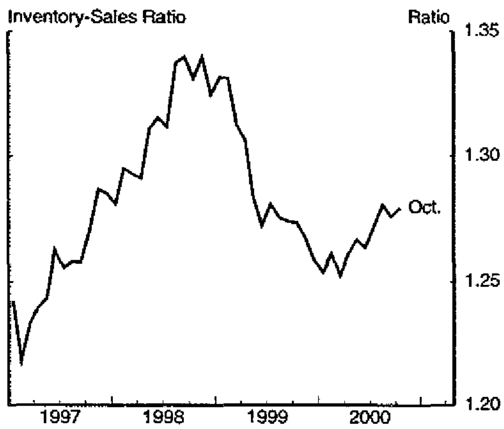
Manufacturing



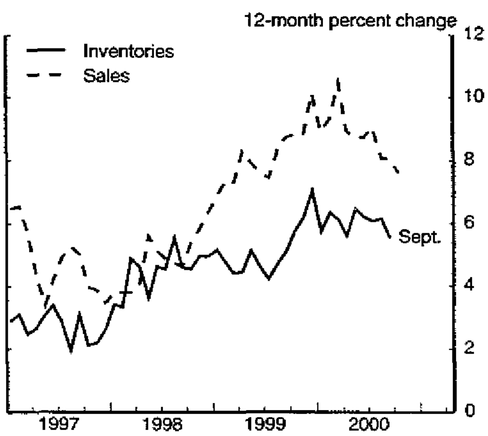


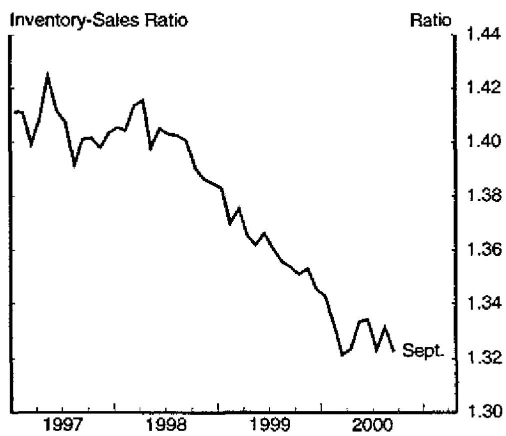
Wholesale Trade Excluding Motor Vehicles





Retail Trade Excluding Motor Vehicles





Note. Inventories are book value.

Government Expenditures

Federal government. The federal government's unified surplus continues to rise. For the twelve months ended in October, the unified surplus reached $252 billion, up substantially from the $131 billion surplus of a year earlier. For the month of October, the deficit was $11 billion, compared with $26 billion last October.

October receipts were 12 percent higher than a year earlier. Withheld income and payroll taxes were 14 percent higher, partly because there was an additional business day in the month this year. "Other" receipts fell $1 billion, or 5 percent, reflecting the Federal Reserve's decision to rebuild its surplus by temporarily stopping its weekly payment to the Treasury.

October outlays fell slightly, relative to last year, because of shifts in payments from October to September this year. After adjusting for these payment shifts and for other major financial transactions, outlays rose $6 billion, a 4 percent increase over last year. Although some of these outlays were funded through a series of continuing resolutions, rather than new 2001 appropriations bills, the delays in appropriation bills do not appear to have disrupted spending.

Congress has completed work on nine of the thirteen appropriations bills, and, according to press reports, the White House and congressional leaders have agreed to an outline for completing the remaining four bills. If implemented, this agreement would increase nominal discretionary spending by roughly 5 percent over last year. In addition, negotiations continue over a proposal to increase Medicare spending by approximately $30 billion over five years.

State and local governments. Indicators of spending by state and local governments were mixed early in the fourth quarter. Employment fell 41,000 in November following a small rise in October. Finding adequate staff appears to be a problem at both state and local education establishments, and anecdotal reports suggest that hiring of poll workers was weaker than in previous presidential elections.

While real spending on construction projects by state and local governments dipped in October, the level of real construction outlays in October remained above the third-quarter pace. Among the categories of construction outlays, highway construction fell notably in October while most other types of construction rose. In particular, school construction has trended up this year, reaching its highest level on record. Anecdotal reports indicate that the increase reflects rising public school enrollment along with widening emphasis on smaller class sizes, renovation and replacement of aging facilities, and efforts by

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

	October			12 months ending in Oct.		
	1999	2000	Percent change	1999	2000	Percent change
Outlays	147.4	146.4	-0.6	1697.9	1787.4	5.3
Deposit insurance	0.3	-0.1	...	-4.7	-3.4	...
Spectrum auction	0.0	0.0	...	-1.8	-0.2	...
Sale of major assets	0.0	0.0	...	0.0	0.0	...
Other	147.1	146.5	-0.4	1704.3	1790.9	5.1
Receipts	121.0	135.1	11.6	1828.4	2039.1	11.5
Surplus	-26.3	-11.3	...	130.5	251.8	92.9
	Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts[1]					
Outlays	147.1	153.1	4.1	1715.2	1790.7	4.4
National defense	23.8	24.0	0.7	276.7	292.0	5.5
Net interest	18.9	18.4	-2.6	229.7	222.9	-3.0
Social security	32.7	34.5	5.6	391.6	411.3	5.0
Medicare	15.4	17.2	11.5	191.5	198.7	3.7
Medicaid	9.5	11.4	19.3	107.6	119.8	11.3
Other health	2.7	3.4	26.9	32.8	37.0	12.7
Income security	17.6	18.8	7.0	237.0	246.2	3.9
Agriculture	6.8	5.0	-25.7	27.8	36.7	32.2
Other	19.6	20.3	3.6	220.5	226.0	2.5
Receipts	121.0	135.1	11.6	1828.4	2039.1	11.5
Individual income and payroll taxes	105.6	120.8	14.4	1461.7	1635.4	11.9
Withheld + FICA	99.4	112.9	13.5	1244.1	1374.9	10.5
Nonwithheld + SECA	7.4	9.0	22.9	340.5	394.4	15.8
Refunds (-)	1.2	1.1	-8.4	122.8	133.9	9.1
Corporate	2.2	1.7	-21.6	185.1	206.8	11.7
Gross	7.2	7.1	-0.9	217.0	235.6	8.6
Refunds (-)	5.0	5.4	8.2	31.9	28.8	-9.7
Other	13.3	12.6	-5.3	181.5	196.9	8.5
Surplus	-26.1	-18.0	...	113.1	248.5	119.6

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.

many jurisdictions to ensure that the new and renovated schools embody the latest technologies.

Prices

The consumer price index rose a modest 0.2 percent in October and was up 3.4 percent over the past twelve months, nearly 1 percentage point more than during the preceding twelve months. The acceleration in energy prices accounted for more than half the pickup over the past year, but faster increases in core prices also made a sizable contribution. Core prices rose 0.2 percent in October and were up 2.5 percent over the past twelve months. On a current-methods basis, the twelve-month change in the core CPI has moved up 0.4 percentage point over the past year; excluding tobacco as well, the pickup over the past twelve months was 0.7 percentage point.

The CPI for core commodities has decelerated considerably over the past year, but this step-down is due mainly to the sharp deceleration in tobacco prices, which had surged in late 1998. Outside of tobacco, the inflation rate for commodities was little changed over the past twelve months. The CPI for non-energy services has risen 3.5 percent over the past twelve months, substantially faster than over the previous twelve-month period.[7] Faster rates of inflation in medical services, shelter, and a range of other items have contributed to this acceleration.

Core PCE prices rose 0.2 percent in October and were up 1.7 percent over the past twelve months. The rate of increase in these prices was just 0.1 percentage point higher than a year ago, noticeably less than the 0.4 percentage point acceleration in the core CPI on a current-methods basis. As we have mentioned previously, patterns of acceleration in these indexes can differ considerably, reflecting differences in the coverage and methodology used for the two price measures. Among these differences, the broader scope of the PCE index, which includes some items that are not in the CPI, has been an important source of the recent deviation in the two indexes. Some of these "out-of-scope" items in PCE do not have market prices, and the BEA imputes prices for these products. Over the past year, an index of nonmarket prices (constructed by the staff) has decelerated—holding down the acceleration in core PCE prices—while an index of market-based core PCE prices has accelerated 1/4 percentage point. Another sizable chunk of the differential acceleration in the two core indexes stems from differences in the source data used to measure prices of medical care services. Specifically, the BEA uses PPIs for physician services and hospitals operated

7. As we reported previously, the BLS recently corrected a programming error that affected tenants' rents and owners' equivalent rent. Although the error affected numbers for both 1999 and 2000, the BLS corrected figures only for 2000. Because of this discontinuity, the amount of acceleration in non-energy service prices over the past year is overstated in the published figures by about 0.2 percentage point.

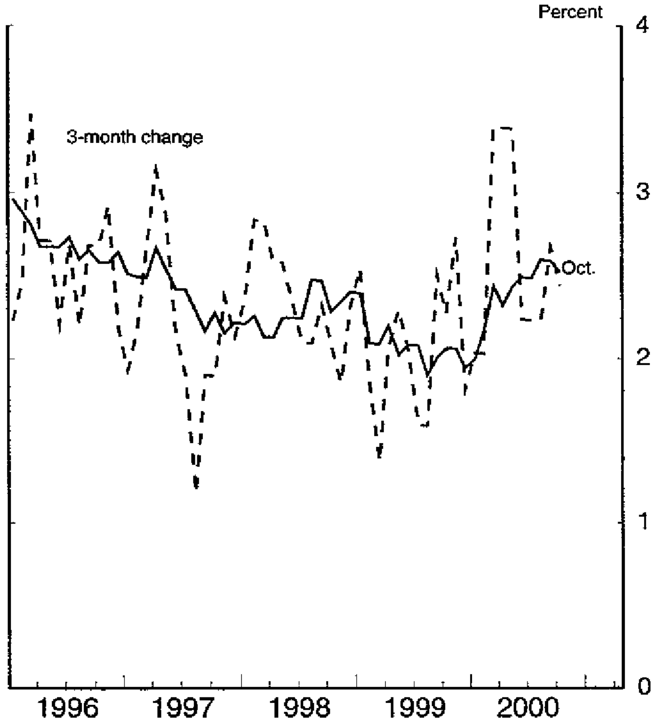
CPI AND PPI INFLATION RATES
(Percent)

	From 12 months earlier Oct. 1999	From 12 months earlier Oct. 2000	2000 Q2	2000 Q3	2000 Sept.	2000 Oct.
			-Annual rate-		-Monthly rate-	
CPI						
All items (100.0)[1]	2.6	3.4	3.6	3.1	.5	.2
Food (15.3)	1.9	2.4	2.6	4.0	.2	.1
Energy (7.0)	10.2	15.9	13.8	9.8	3.8	.2
CPI less food and energy (77.7)	2.1	2.5	2.9	2.5	.3	.2
Commodities (23.4)	1.0	.2	1.3	-.1	.5	-.1
New vehicles (4.8)	-.1	-.5	1.8	-.1	-.2	-.4
Used cars and trucks (1.9)	2.2	1.0	4.6	1.4	.6	1.1
Apparel (4.7)	-.7	-1.3	-2.2	-3.5	1.6	.3
Tobacco (1.3)	31.0	6.3	15.1	5.6	3.5	-2.8
Other Commodities (10.7)	-.5	.4	.5	.4	-.1	.0
Services (54.3)	2.5	3.5	3.5	3.4	.1	.2
Shelter (29.9)	2.5	3.6	3.5	3.2	.2	.3
Medical care (4.5)	3.3	4.8	5.1	5.1	.4	.3
Other Services (20.0)	2.5	3.1	3.2	3.4	-.1	.1
PPI						
Finished goods (100.0)[2]	2.8	3.6	3.4	2.4	.9	.4
Finished consumer foods (22.9)	.2	1.5	4.7	-3.2	.4	.8
Finished energy (13.8)	11.9	19.4	10.5	16.3	3.7	1.4
Finished goods less food and energy (63.3)	1.9	1.0	1.6	1.3	.3	-.1
Consumer goods (38.9)	3.0	1.0	1.5	1.4	.4	.0
Capital equipment (24.4)	.3	.9	1.1	1.5	.2	.0
Intermediate materials (100.0)[3]	2.2	4.6	4.4	3.5	.7	.2
Intermediate materials less food and energy (81.7)	1.1	2.1	3.6	1.0	.0	.0
Crude materials (100.0)[4]	10.6	23.4	26.7	12.7	5.3	3.4
Crude food materials (39.0)	-4.7	.7	8.9	-24.6	3.9	3.5
Crude energy (39.0)	35.2	58.4	67.0	68.9	8.1	4.6
Crude materials less food and energy (22.0)	6.4	-.4	-7.1	-13.7	.3	-.6

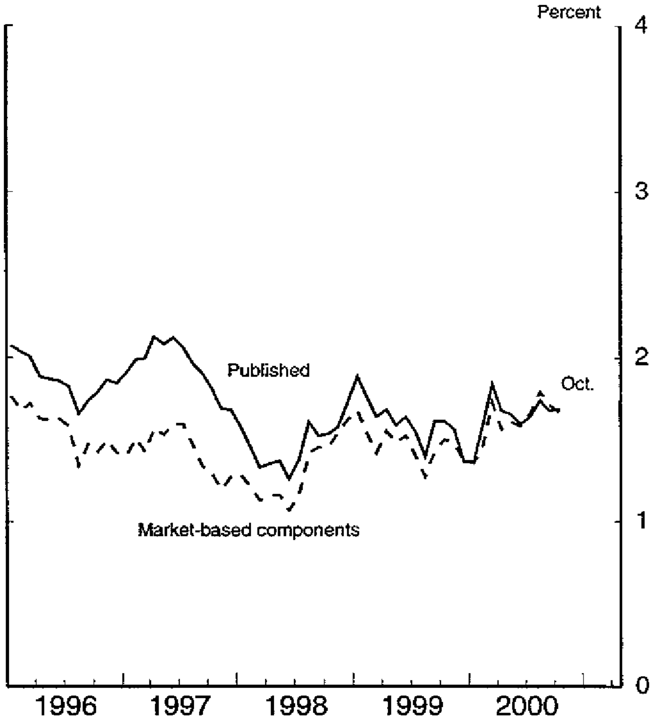
1. Relative importance weight for CPI, December 1999.
2. Relative importance weight for PPI, December 1999.
3. Relative importance weight for intermediate materials, December 1999.
4. Relative importance weight for crude materials, December 1999.

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

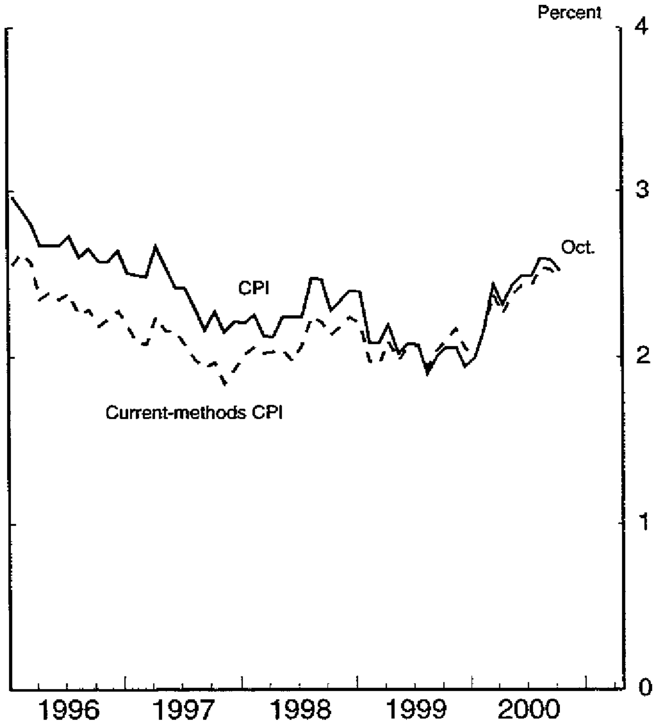
CPI Excluding Food and Energy



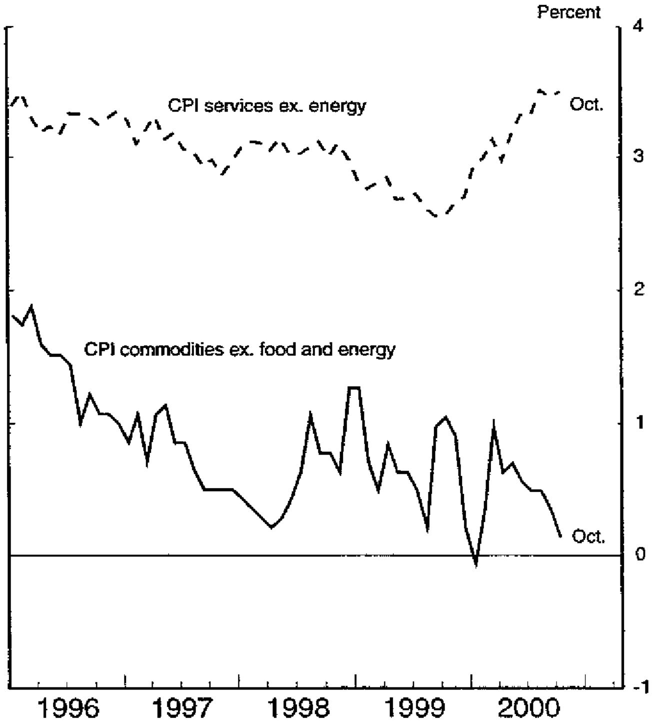
PCE Excluding Food and Energy



CPI Excluding Food and Energy



CPI Services and Commodities



BROAD MEASURES OF INFLATION
(4-quarter percent change)

	1997 Q3	1998 Q3	1999 Q3	2000 Q3
Product prices				
GDP chain price index	1.9	1.3	1.4	2.3
Less food and energy	2.0	1.4	1.5	2.2
Nonfarm business chain price index[1]	2.1	0.8	1.2	2.0
Expenditure prices				
Gross domestic purchases chain price index	1.6	0.8	1.7	2.5
Less food and energy	1.6	1.1	1.4	1.9
PCE chain price index	1.9	1.1	1.8	2.5
Less food and energy	2.0	1.5	1.5	1.7
PCE chain price index - market-based components	1.5	0.9	1.8	2.6
Less food and energy	1.5	1.3	1.4	1.7
CPI	2.2	1.6	2.3	3.5
Less food and energy	2.3	2.4	2.0	2.5
Current-methods CPI	1.9	1.4	2.3	3.4
Less food and energy	2.0	2.2	2.0	2.5
Median CPI	2.9	2.9	2.3	2.9
Trimmed mean CPI	2.4	2.0	1.8	2.6

1. Excluding housing.

SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

	Actual inflation[1]	University of Michigan: 1 year		University of Michigan: 5 to 10 years		Professional forecasters (10-year)[4]
		Mean[2]	Median[2]	Mean[3]	Median[3]	
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	3.3	3.5	3.0	3.3	2.8	2.5
Q3	3.5	3.6	2.9	3.4	2.9	2.5
Q4		3.8	3.0	3.7	3.0	2.5
July	3.7	3.7	3.0	3.2	2.8	
Aug.	3.4	3.5	2.7	3.5	2.9	
Sept.	3.5	3.7	2.9	3.6	3.0	2.5
Oct.	3.4	4.1	3.2	3.7	3.0	
Nov.		3.8	2.9	3.6	2.9	
Dec.		3.4	2.9	3.8	3.1	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.

for profit in constructing the PCE price index. Over the past year, these PPIs together showed little net change—contributing to the relatively flat pattern of core PCE inflation—while the corresponding CPI accelerated considerably.[8]

Prices of business equipment and software also have accelerated over the past year, reflecting a pickup in the rate of price change for a range of capital goods. Although the PPI for capital equipment was unchanged in October, the NIPA price index for equipment and software—which relies heavily on PPIs as source data—increased at an average annual rate of about 1 percent over the first three quarters of this year, compared with a decline of 2-1/4 percent last year. Computer and software prices are two important contributors to this pattern.

Computer prices have fallen at an average annual rate of just 11-1/4 percent over the first three quarters of this year, compared with a decline of 20 percent over 1999. Strong demand for semiconductor inputs could not be fully met with available capacity, leading to a moderation in the pace of price decline for these key components of computers and, ultimately, for computers themselves. With an apparent softening in the demand for tech products, the pressure on computer prices appears likely to ease.

The NIPA price index for software jumped 9-1/4 percent at an annual rate over the first three quarters of this year, after declining an average of 1 percent a year over the previous five years. While the BEA does not publish any detail on software, our review of the source data used by the BEA, combined with our understanding of the BEA's methodology, suggests that the jump in software prices mainly reflected a surge in the price of prepackaged software. In addition, a more moderate pickup in the price of own-account software appears to be related to more rapid increases in compensation costs of employees involved in software production.[9]

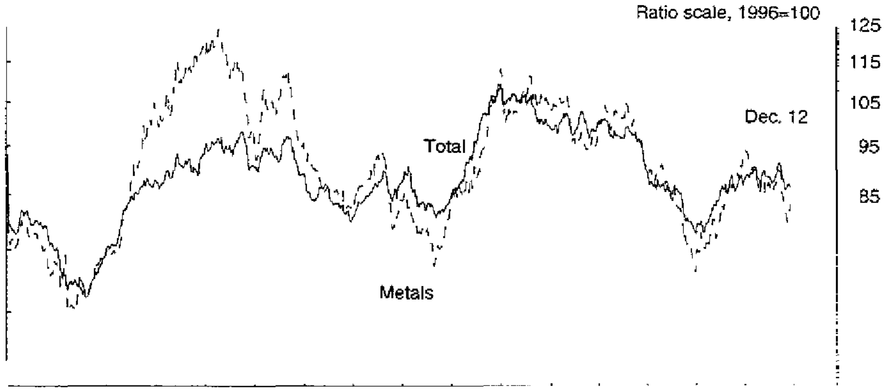
The firming of investment prices has contributed to a pickup in rates of increase in the broader price measures in the national accounts. Over the four quarters

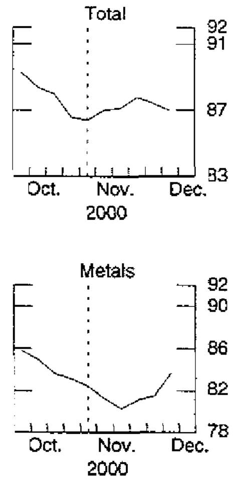
8. Specifically, the CPI for medical care services accelerated 1.5 percentage points over the past year. In contrast, the physician services PPI decelerated 1 percentage point over the period, and the hospital PPI accelerated just 0.7 percentage point.

9. The BEA software measure includes three types of software: prepackaged software bought off the shelf, custom software developed by employees outside a firm, and own-account software developed by a firm's own employees. To estimate prices of prepackaged software for recent quarters, the BEA uses a PPI index for applications software, and this PPI has accelerated sharply this year. For prices of own-account software, the BEA's quarterly indicators are the ECI for compensation for all private industry workers and an index of intermediate input costs. This ECI rose at an average annual rate of 4.8 percent over the first three quarters of this year, compared with an increase of 3.4 percent in 1999. The price index for custom software is a weighted average of the price indexes for own-account and prepackaged software (with a 75 percent weight on the own-account category), and its price has risen in line with increases for prepackaged and own-account software.

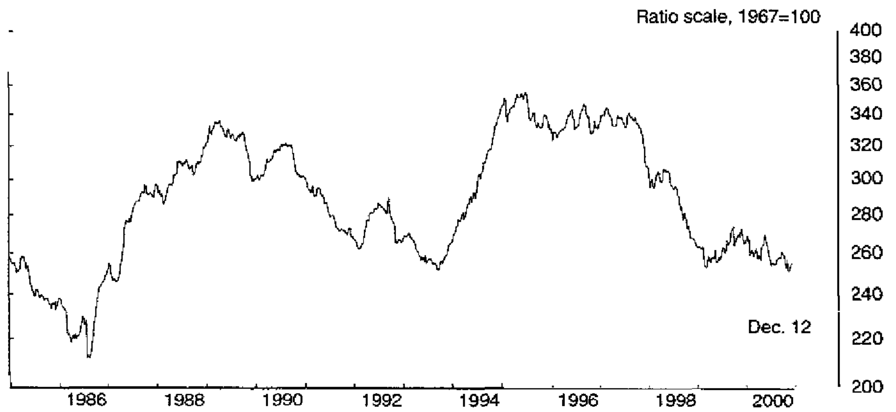
Commodity Price Measures

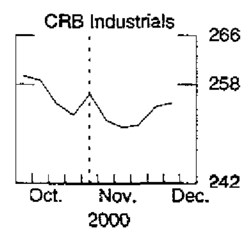
Journal of Commerce Index



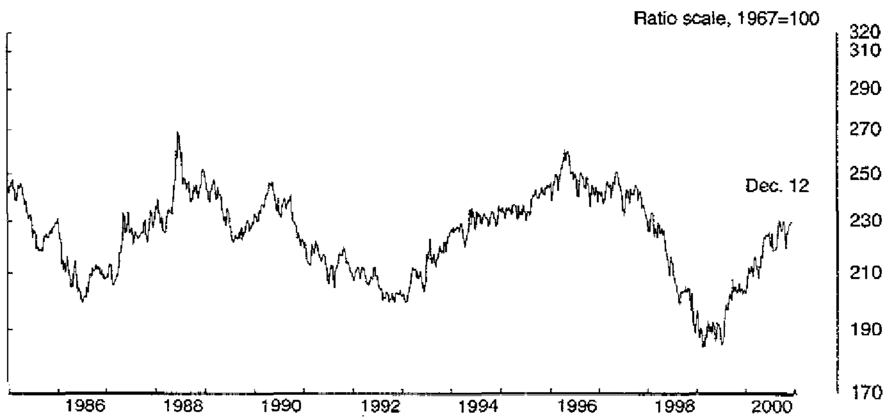


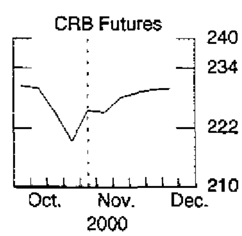
CRB Spot Industrials





CRB Futures





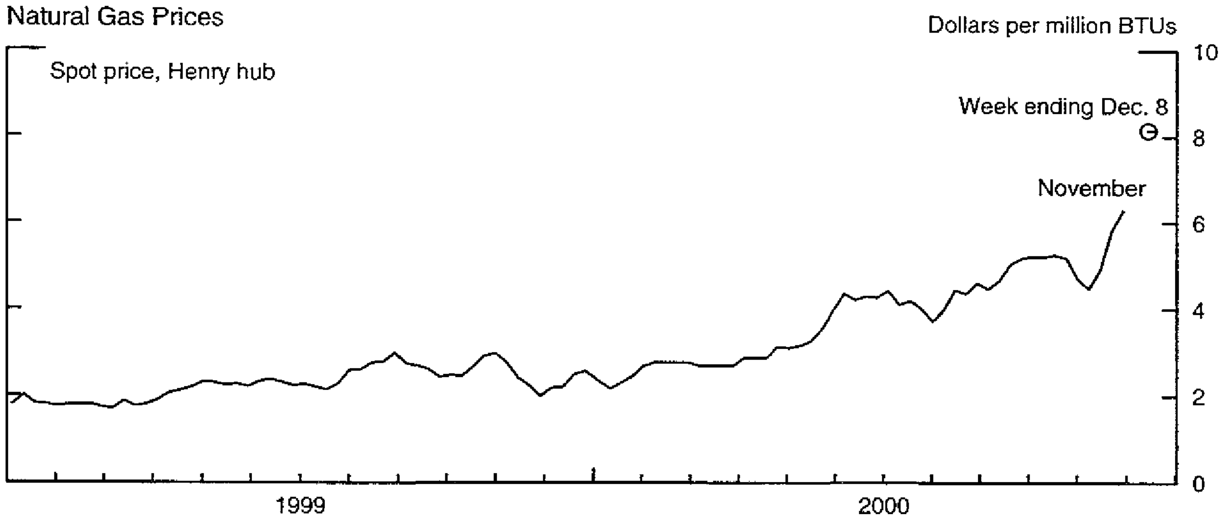
Note. Weekly data, Tuesdays. Vertical lines on small panels indicate week of last Greenbook. The Journal of Commerce index is based almost entirely on industrial commodities, with a small weight given to energy commodities, and the CRB spot price index consists entirely of industrial commodities, excluding 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.

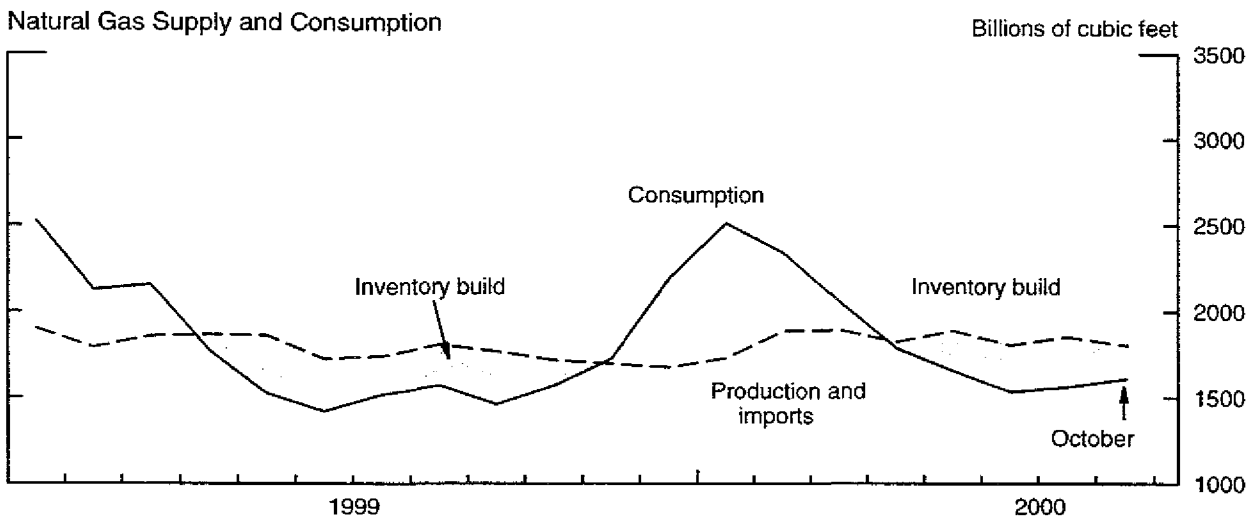
SPOT PRICES OF SELECTED COMMODITIES

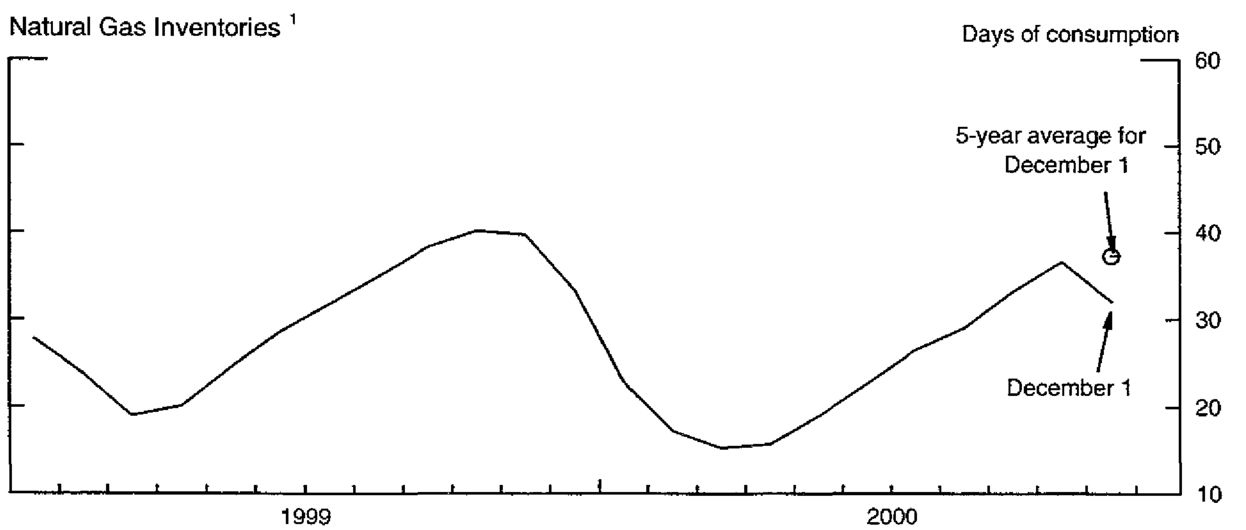
	Current price (dollars)	1998	1999	Dec. 28 to Nov. 07[2]	Nov. 07[2] to Dec. 12	Memo: Year earlier to date
		Percent change[1]				
Metals						
Copper (lb.)	0.910	-17.9	27.5	-1.1	4.6	9.6
Steel scrap (ton)	79.000	-47.5	61.5	-36.6	6.3	-32.7
Aluminum, London (lb.)	0.729	-17.9	26.8	-6.3	9.2	5.4
Precious metals						
Gold (oz.)	270.750	-1.8	1.3	-8.7	2.0	-3.0
Silver (oz.)	4.705	-19.7	4.3	-9.4	-0.9	-10.0
Forest products[3]						
Lumber (m. bdft.)	200.000	2.7	8.3	-41.5	5.3	-40.3
Plywood (m. sqft.)	290.000	6.8	-1.6	-6.6	1.8	-9.4
Petroleum						
Crude oil (barrel)	26.530	-43.2	147.2	23.3	-15.8	6.5
Gasoline (gal.)	0.726	-42.6	109.2	37.2	-24.2	5.1
Fuel oil (gal.)	0.957	-39.3	115.2	35.2	0.2	46.5
Livestock						
Steers (cwt.)	75.000	-13.2	15.3	4.4	5.6	7.1
Hogs (cwt.)	43.000	-65.3	127.4	4.3	17.0	22.9
Broilers (lb.)	0.500	27.6	1.4	-1.2	-12.1	-11.2
U.S. farm crops						
Corn (bu.)	1.945	-18.8	-8.5	5.0	-1.8	6.9
Wheat (bu.)	3.325	-11.3	-20.3	29.4	-2.8	29.4
Soybeans (bu.)	4.920	-20.5	-16.8	4.5	6.1	12.3
Cotton (lb.)	0.611	-9.3	-19.4	36.0	-2.8	30.1
Other foodstuffs						
Coffee (lb.)	0.660	-29.9	2.1	-37.2	-12.0	-47.6
Memo:						
JOC Industrials	87.000	-13.6	12.2	-2.0	0.7	-1.4
JOC Metals	83.600	-20.1	28.0	-11.4	1.5	-7.9
CRB Futures	229.910	-18.5	6.9	10.5	2.0	13.5
CRB Spot	255.060	-14.0	1.0	-3.6	-0.6	-4.4

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

Natural Gas Developments







1. Working gas in storage divided by U.S. D.O.E. projection of 2000/2001 average daily winter consumption.

Source. U.S. Department of Energy.

ended in 2000:Q3, the chain-weighted price index for gross domestic purchases increased 2-1/2 percent, about 3/4 percentage point faster than in the preceding four-quarter period.

At earlier stages of processing, prices have changed little, on balance, since the time of the last Greenbook. Although the petroleum subcomponent of the Journal of Commerce index of industrial materials was down noticeably over that period, the overall index has increased 0.7 percent; higher prices were registered for some metals, textiles, and some forest products.

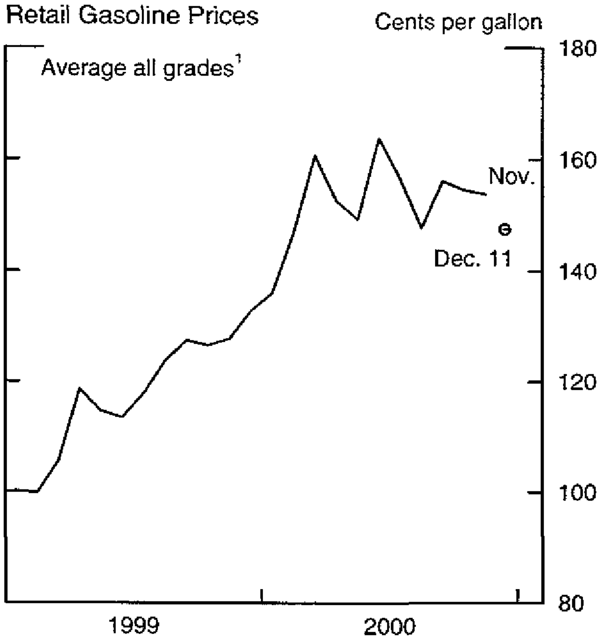
After having ticked up in October, near-term inflation expectations have moved back down. The median response to the Michigan survey of one-year-ahead inflation expectations was 2.9 percent in November and early December, back in line with its pace in the first three quarters of the year. Longer-term expectations—as measured by the five-to-ten-year median expectation—edged up to 3.1 percent in this month's preliminary survey, a little above the pace that prevailed earlier this year.

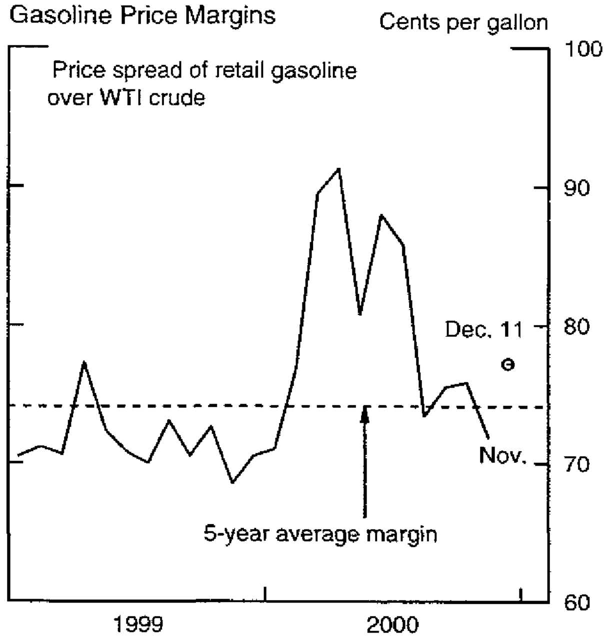
Energy price developments. Although the CPI for energy was up only a touch in October, the rise in energy prices since midyear has been rapid. Most notably, natural gas prices have soared, with spot prices of natural gas at a record high in early December and more than triple their levels of a year ago. We estimate that consumer prices for gas this quarter will be up about 30 percent from the fourth quarter of 1999.

Relative to last year, the increase in natural gas demand stems from the rapid pace of economic activity seen through the first half of the year and the trend among electric utilities toward gas-fired generators. Recent jumps in natural gas prices reflect both lean inventories and the expectation that this winter will be colder than the unusually warm winters of the past two years. As of December 1, inventories of natural gas were about 14 percent below the seasonal norm. This inventory shortfall reflects strong growth in gas demand in the face of little change in domestic production. Although drilling activity has increased enormously with higher prices, most of the resulting new gas supplies will not become available until winter is past.

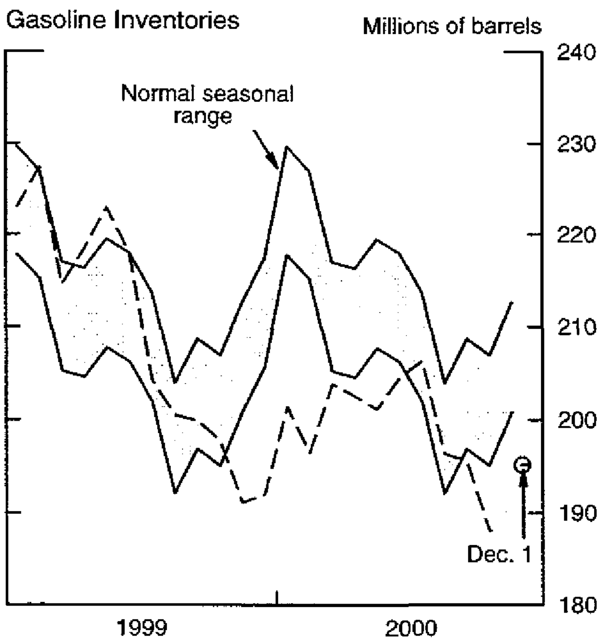
The market for heating oil looks similar to that for natural gas: Inventories are about 14 percent below the normal seasonal range, and refiners' markups on heating oil are about 7¢ to 10¢ per gallon above the seasonal norm. Production of heating oil has changed little from last year, while demand has jumped markedly—especially over the past three months. Some of the increase in demand probably stems from recent spells of cold weather, and some may reflect precautionary inventory-building at the retail level. Nonetheless, wholesale inventories of heating oil in the East at the end of November were

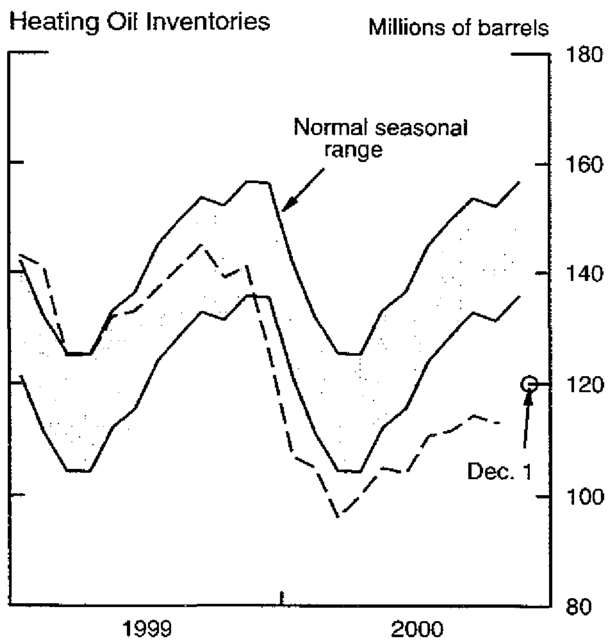
Gasoline and Heating Oil Developments





1. Prices adjusted using CPI seasonal factors.





Source. U.S. Department of Energy.

one-third below the level that has prevailed in recent years—a shortfall of about eleven days of that region's wintertime consumption. In the event of a severe cold snap, this lean supply of inventories could be supplemented—but only briefly—by a release from the Northeast Heating Oil Reserve: The reserve holds a stock of heating oil amounting to only one day of East Coast wintertime consumption.

In contrast to the situations in the natural gas and heating oil markets, gasoline prices have changed little from their high summer levels. In recent weeks, there have been no major problems with gasoline pipelines or disruptions at refineries, and gasoline inventories have recovered considerably. Stock levels are currently only about 4 percent below the norm for this time of year—not a serious shortfall. In response, refiners' margins for gasoline have fallen markedly from summer levels, and these margins are now only slightly above normal.

Food price developments. The consumer price index for food rose just a tad in October. The price index for fruits and vegetables moved up briskly for the fourth month in a row, but most other food categories recorded only small price increases or outright declines. On a current-methods basis, the twelve-month change in the CPI for food has moved up about 3/4 of a percentage point this year, to 2-1/2 percent. Although this step-up in food prices probably has been driven to some degree by the same factors that have affected the core CPI—including the rise in energy costs—an upturn in farm prices has likely contributed as well. The USDA's index of prices received by farmers moved up more than 4 percent over the twelve months ended in November and seems likely to post its first Q4-to-Q4 increase since 1996.

Labor costs. We have received little new information on labor costs since the last Greenbook. According to the latest reading, the productivity and cost measure of compensation per hour increased 6.3 percent in the third quarter, essentially the same as the increase that had been reported previously. For the fourth quarter, our only hard figures are for average hourly earnings, which rose 0.4 percent in November, the same as in October. This measure of wages is up 4.0 percent over the past twelve months, compared with an increase of 3.6 percent over the year-earlier period. Regarding bonuses, we have little solid information about how the fourth quarter is shaping up, although a number of anecdotal reports suggest that employees at some firms are demanding cash bonuses instead of stock options. In addition, early reports suggest that Wall Street bonuses will be up on average from last year, although employees in lines of business that have been less profitable—such as junk bond operations—likely will receive bonuses below those of last year.[10]

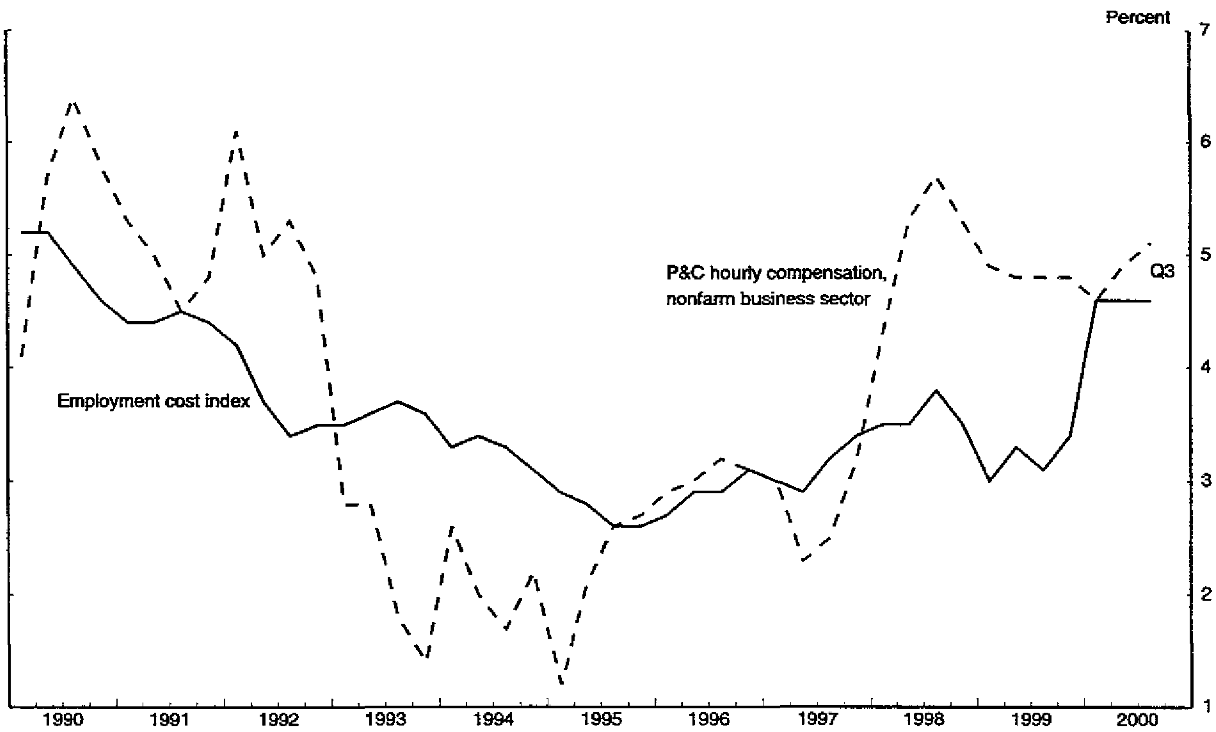
10. In the ECI, year-end bonuses paid after the mid-December survey period will be included in the first-quarter figure.

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

	1998[1]	1999[1]	1999 Q4	2000 Q1	2000 Q2	2000 Q3	1999:Q3 to 2000:Q3
Compensation per hour							
Total business	5.3	4.8	3.8	3.5	7.0	5.7	5.0
Nonfarm business	5.3	4.8	4.2	3.9	5.9	6.3	5.1
Nonfinancial corporations[2]	4.9	5.0	4.1	2.7	6.1	6.1	4.7
Unit labor costs							
Total business	2.3	.7	-3.6	1.9	.0	2.8	.3
Nonfarm business	2.3	.7	-3.5	1.9	-.2	2.9	.2
Nonfinancial corporations[2]	1.5	.4	-1.7	-.2	.7	1.1	.0

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

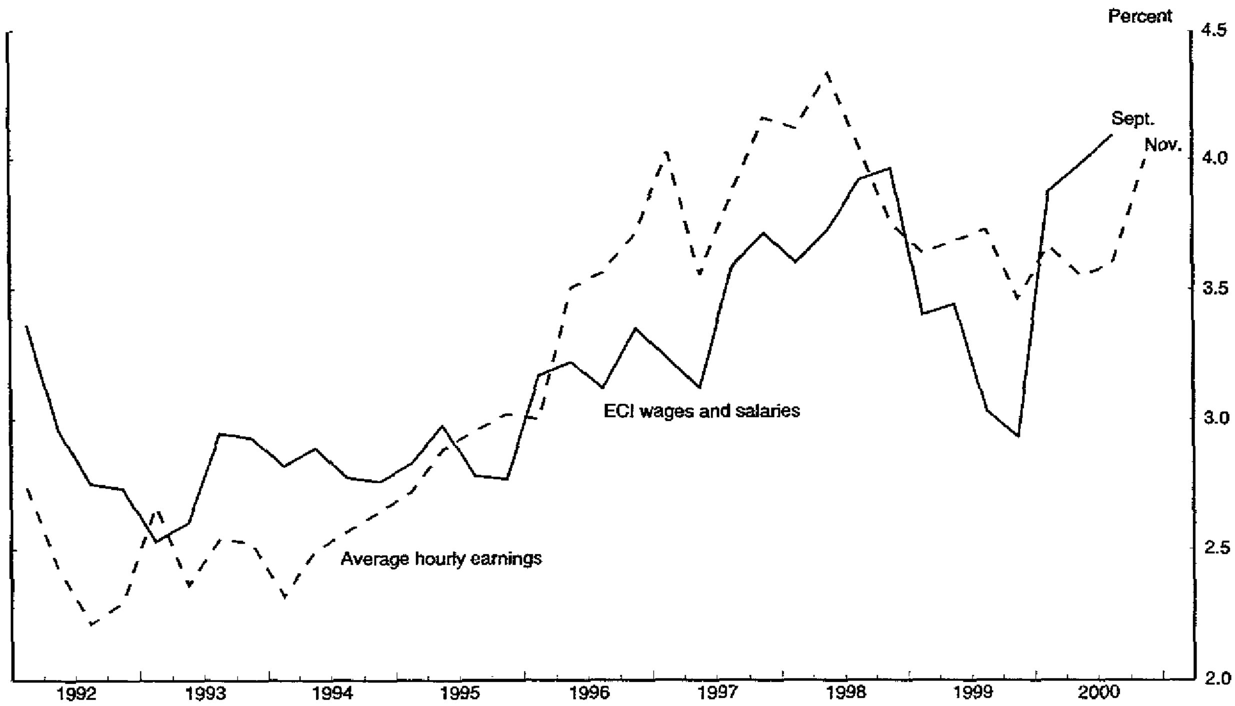
Measures of Compensation per Hour
(4-quarter change)



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

	12-month percent change			Percent change to Nov. 2000 from month indicated		2000	
	Nov. 1998	Nov. 1999	Nov. 2000	May 2000	Aug. 2000	Oct.	Nov.
	-Annual rate-					-Monthly rate-	
Total private nonfarm	3.8	3.6	4.0	4.1	4.1	.4	.4
Manufacturing	1.8	3.5	4.1	5.3	5.9	.9	.5
Construction	3.4	3.5	4.8	5.3	6.4	.2	1.2
Transportation and public utilities	2.2	2.7	3.6	2.4	3.7	.5	.2
Finance, insurance, and real estate	5.1	3.0	3.3	3.1	3.2	-.1	.5
Retail trade	4.2	4.0	4.1	4.3	4.3	.2	.3
Wholesale trade	4.2	3.2	4.4	5.3	4.5	.1	.5
Services	4.6	3.7	4.0	4.1	3.8	.2	.5

Measures of Hourly Wages for Production or Nonsupervisory Workers
(12-month change)



Domestic Financial Developments

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

Instrument	1999	2000			Change to Dec. 12 from selected dates (percentage points)		
	June 29	May 15	FOMC* Nov. 15	Dec. 12	1999 June 29	2000 May 15	FOMC* Nov. 15
Short-term							
FOMC intended federal funds rate	4.75	6.00	6.50	6.50	1.75	.50	.00
Treasury bills [1]							
3-month	4.70	5.94	6.18	5.89	1.19	-.05	-.29
6-month	4.92	6.24	6.08	5.80	.88	-.44	-.28
1-year	4.89	6.05	5.87	5.49	.60	-.56	-.38
Commercial paper							
1-month	5.18	6.47	6.50	6.50	1.32	.03	.00
3-month	5.12	6.59	6.53	6.35	1.23	-.24	-.18
Large negotiable CDs [1]							
1-month	5.21	6.55	6.56	6.65	1.44	.10	.09
3-month	5.32	6.74	6.64	6.50	1.18	-.24	-.14
6-month	5.43	6.97	6.63	6.39	.96	-.58	-.24
Eurodollar deposits [2]							
1-month	5.13	6.53	6.53	6.60	1.47	.07	.07
3-month	5.25	6.72	6.64	6.47	1.22	-.25	-.17
Bank prime rate	7.75	9.00	9.50	9.50	1.75	.50	.00
Intermediate- and long-term							
U.S. Treasury (constant maturity)							
2-year	5.68	6.88	5.92	5.54	-.14	-1.34	-.38
10-year	5.93	6.47	5.76	5.36	-.57	-1.11	-.40
30-year	6.07	6.17	5.81	5.53	-.54	-.64	-.28
U.S. Treasury 10-year indexed note	4.01	4.21	3.85	3.78	-.23	-.43	-.07
Municipal revenue (Bond Buyer) [3]	5.62	6.23	5.79	5.68	.06	-.55	-.11
Private instruments							
10-year swap	6.81	7.82	6.90	6.38	-.43	-1.44	-.52
10-year FNMA	6.59	7.70	6.69	6.19	-.40	-1.51	-.50
Merrill Lynch BBB	7.60	8.86	8.36	8.23	.63	-.63	-.13
High yield[4]	10.53	11.94	12.85	13.24	2.71	1.30	.39
Home mortgages (FHLMC survey rate) [5]							
30-year fixed	7.63	8.52	7.79	7.54	-.09	-.98	-.25
1-year adjustable	5.93	6.96	7.23	7.21	1.28	.25	-.02

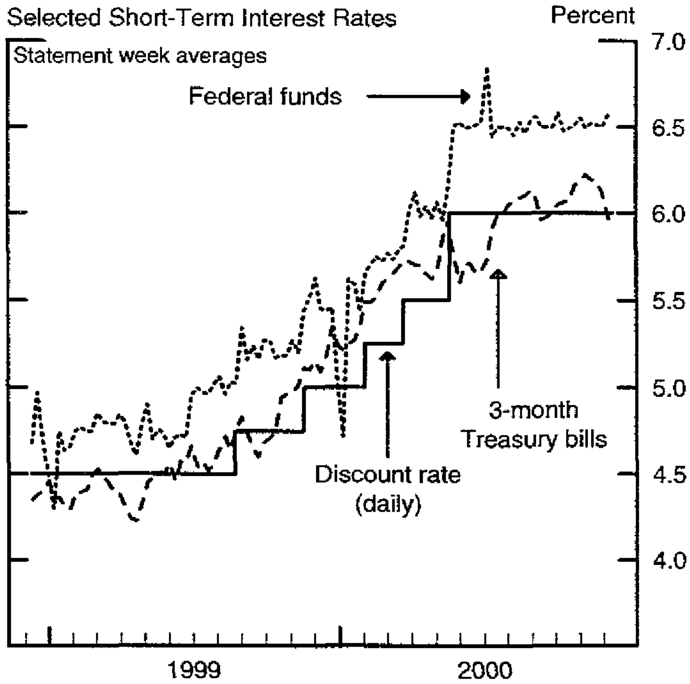
Stock exchange index	Record high		2000			Change to Dec. 12 from selected dates (percent)		
	Level	Date	May 15	FOMC* Nov. 15	Dec. 12	Record high	May 15	FOMC* Nov. 15
Dow-Jones Industrial	11,723	1-14-00	10,808	10,681	10,768	-8.14	-.37	.82
S&P 500 Composite	1,527	3-24-00	1,452	1,383	1,371	-10.23	-5.59	-.85
Nasdaq (OTC)	5,049	3-10-00	3,608	3,138	2,932	-41.93	-18.73	-6.58
Russell 2000	606	3-9-00	498	487	478	-21.18	-4.03	-1.88
Wilshire 5000	14,752	3-24-00	13,438	12,847	12,686	-14.01	-5.60	-1.25

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 November 14, 2000.

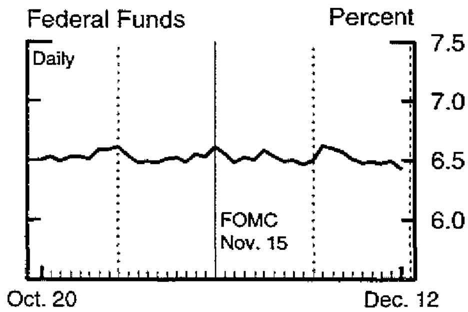
NOTE. June 29, 1999 is the day before the beginning of the most recent sequence of policy tightenings.
NOTE. May 15, 2000 is the day before the most recent tightening.

Selected Interest Rates

Selected Short-Term Interest Rates

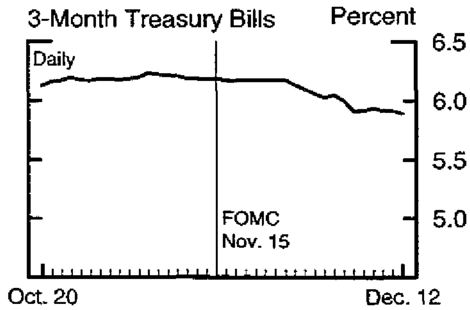


Federal Funds

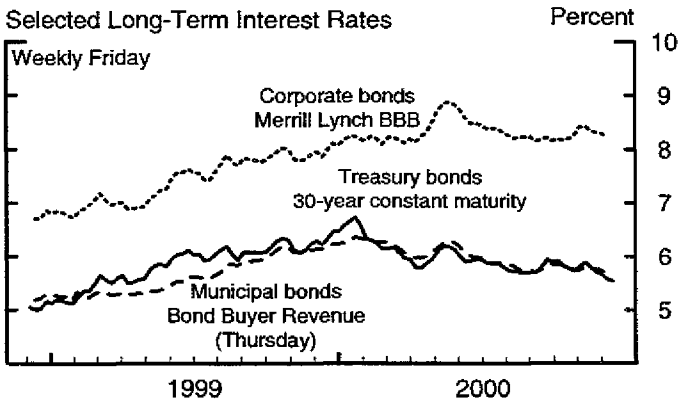


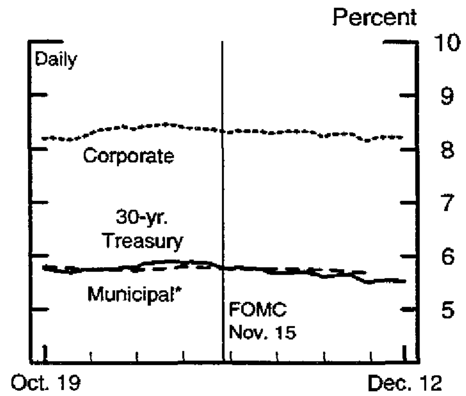
Note. Vertical dashed lines indicate end of reserve period.

3-Month Treasury Bills



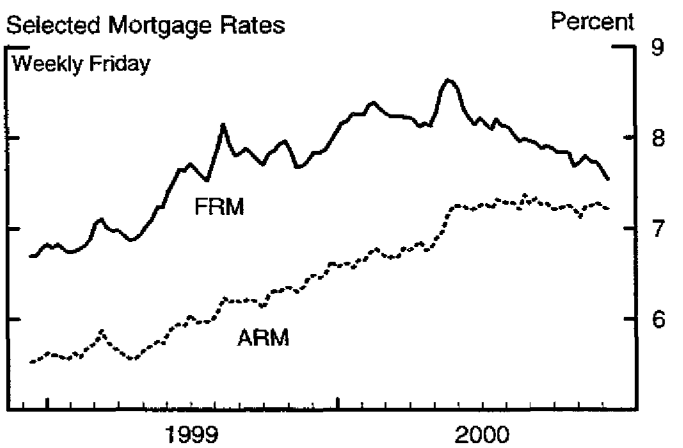
Selected Long-Term Interest Rates

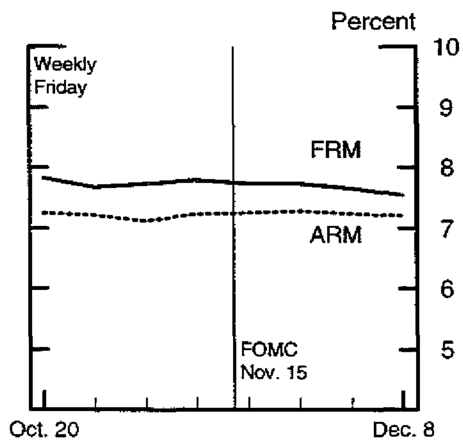




*Weekly Thursday frequency.

Selected Mortgage Rates





Domestic Financial Developments

Overview

Treasury yields have dropped as much as 40 basis points over the intermeeting period, amid increasing expectations of monetary policy ease sparked by weaker readings on the economy and perceived risks to the outlook from financial strains. In corporate markets, yields on top-rated bonds also have declined, but less than those on Treasuries. By contrast, yields on speculative-grade debt are up nearly 40 basis points on mounting concerns about deteriorating balance sheets and bleaker prospects for earnings in an environment of slower economic growth. Despite these concerns, the broadest equity indexes only edged down, on net, over the intermeeting period, as investors drew comfort from signals that the FOMC was moving to the view that policy risks were balanced.

The pace of investment-grade bond offerings picked up from the depressed October level, and commercial paper issuance, especially by the top-rated borrowers, rebounded notably in November. However, lower-rated issuers largely remained on the sidelines, and business borrowing from banks continued to be quite weak. Equity issuance strengthened in the first half of November but has been anemic since then. Measures of credit quality in the business sector have continued to deteriorate, and some slippage has emerged for households. Household borrowing, nonetheless, has been well maintained in the fourth quarter at a pace a notch below that of the first half.

Policy Expectations and Year-End Pressures

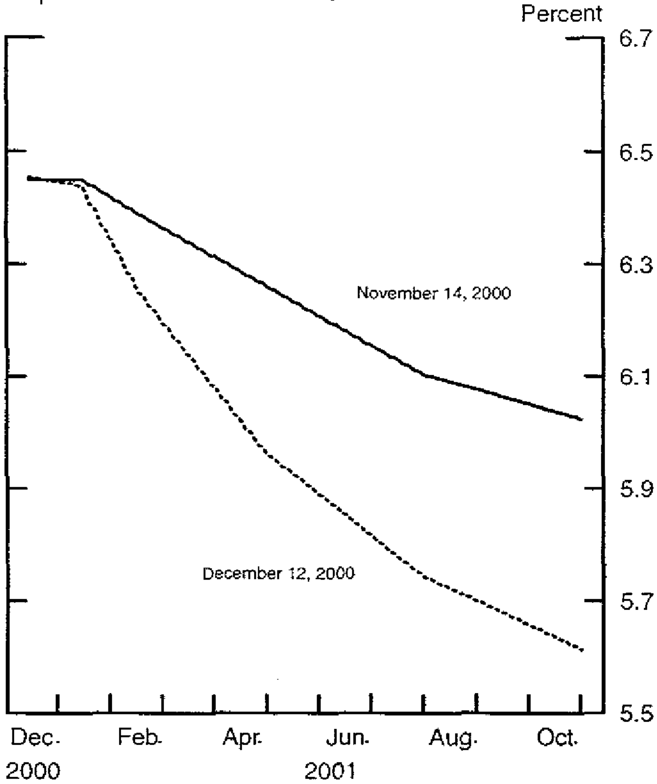
Further signs of continued subpar economic growth have prompted a notable downward revision in the market's expected path for monetary policy. Before the November meeting, a minority of market participants anticipated that the FOMC might shift to a neutral balance-of-risks statement at the December meeting as a prelude to policy easing next year. Over the intermeeting period, a substantial majority came to that view, and market participants notched down by nearly half a percentage point the funds rate level they expect by the end of next year. Many now anticipate that the policy easing will begin at the January meeting.

Year-end pressures for highly rated borrowers seem relatively modest this year. Spreads of thirty-day libor and A1/P1 nonfinancial commercial paper rates over the target funds rate are much lower than at this time in 1998 and 1999. Nearly two-thirds of top-rated commercial paper issuers reportedly have completed their over-the-year funding, about the same, on average, as in 1998 and 1999.

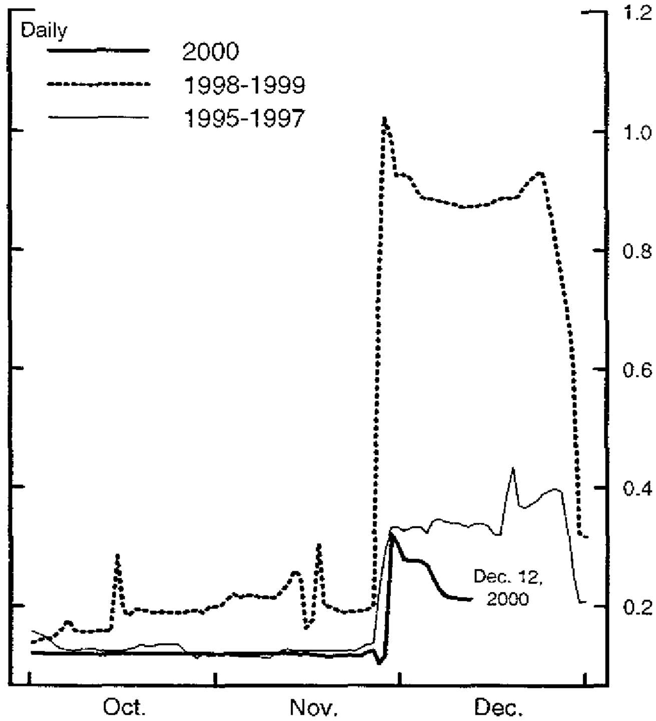
By contrast, year-end pressures for lower-rated borrowers appear to be considerably more pronounced. The spread of thirty-day A2/P2 nonfinancial commercial paper rates over the target funds rate has risen well above the average for the more normal year-ends in 1995-97 and is just a little narrower

Policy Expectations and Year-End Pressures

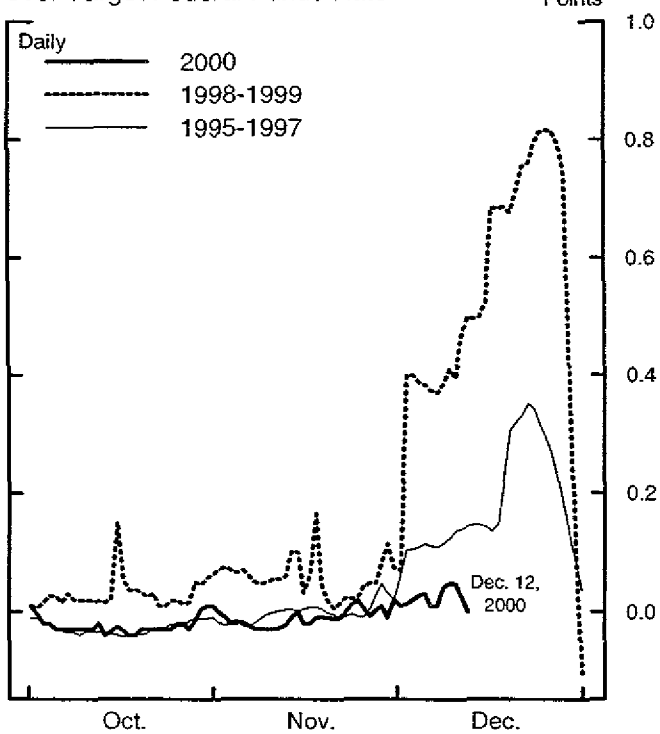
Expected Federal Funds Rate



Spread of 1-month Libor Rates over Target Federal Funds Rate

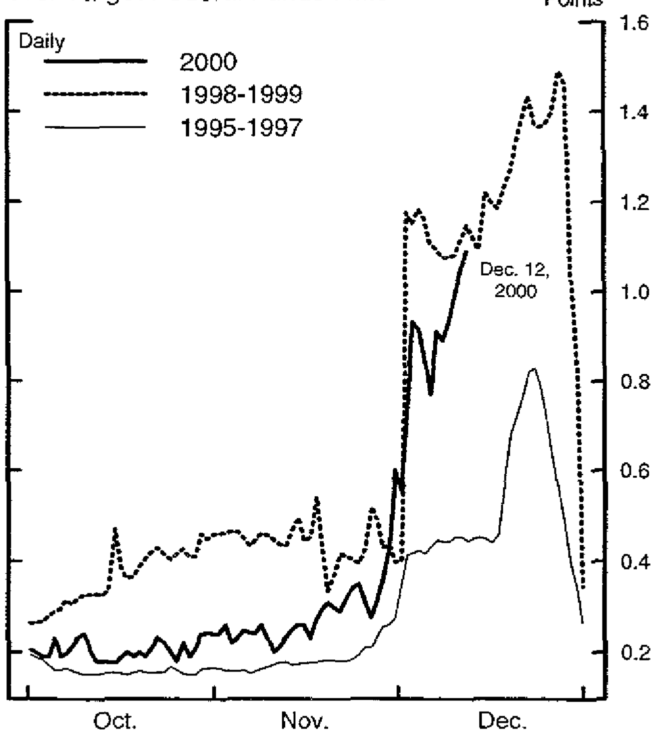


Spread of High-Tier CP Rate* over Target Federal Funds Rate



*30-day nonfinancial A1/P1 paper.

Spread of Low-Tier CP Rate* over Target Federal Funds Rate



*30-day nonfinancial A2/P2 paper.

than it was at the end of 1998 and 1999, both years of above-average tension in the markets.

The elevated year-end pressure for weaker credits seems to be almost entirely an indication of investors' aversion to risk around year-end rather than an expectation that overnight rates will be especially high at year-end. Indeed, if anything, the December federal funds futures rate—at 6.46 percent—suggests that market participants expect the Desk again to keep the funds rate on the soft side of the target as the year draws to a close.

Business Finance

Equity analysts have continued to mark down their forecasts of corporate earnings for the fourth quarter and for 2001. During November, they trimmed 3 percentage points from their forecasts of fourth-quarter earnings, leaving estimated growth of S&P 500 companies from four quarters ago at less than 4 percent. Year-ahead growth forecasts were lowered nearly 2 percentage points, the largest monthly revision since the end of 1998. The downward revisions have continued into December, amid further warnings from closely watched corporations that sales and earnings would not meet analysts' expectations.

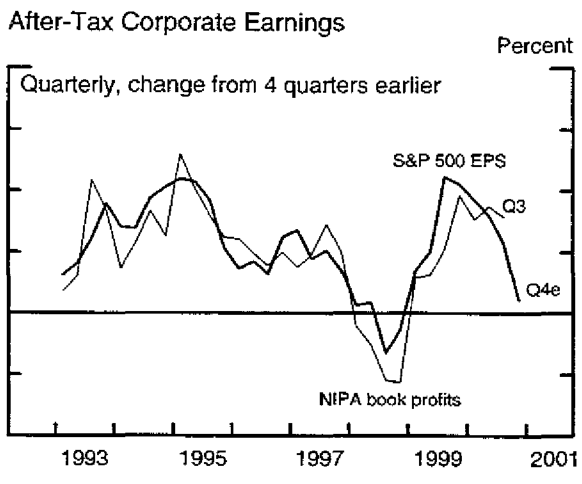
The revised outlook for the growth of corporate earnings precipitated significant price revaluations until the Chairman's speech on December 5, but equity markets have since retraced most of the loss. Since the last FOMC meeting, the broadest equity indexes are down a touch, on net, while the tech-heavy Nasdaq is down nearly 7 percent.

The dimming outlook for earnings contributed to further reassessments of credit risk. Spreads on investment-grade debt widened only slightly, but spreads of junk bond yields over yields on AAA-rated bonds jumped as much as 100 basis points, reaching the highest levels since 1991 before easing a little in more recent days. The spread of yields on small junk-rated bonds over yields on large junk-rated bonds also rose substantially, suggesting increased concern about the liquidity of smaller issues.

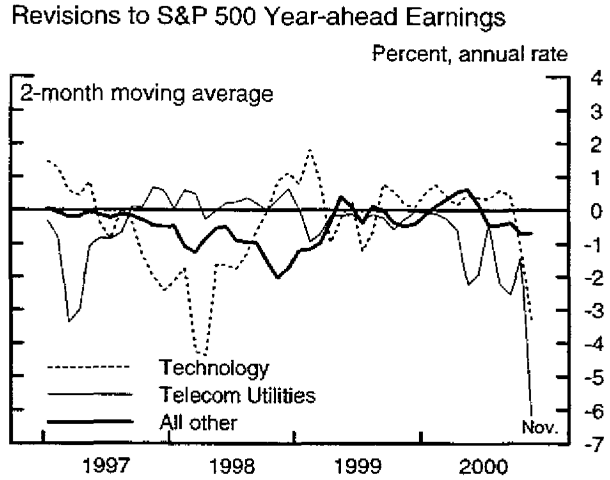
Gross bond issuance in November rose to $26 billion, more than double the weak pace in October, with the pickup dominated by large issues by investment-grade companies. Facing choosy investors, a number of issuers sweetened their offerings with convertibility features and covenants to increase coupon payments if the bonds were downgraded. Junk-rated issuance remained weak in November; wide yield spreads and outflows from high-yield mutual funds suggest that junk offerings will be scarce during the remainder of the year.

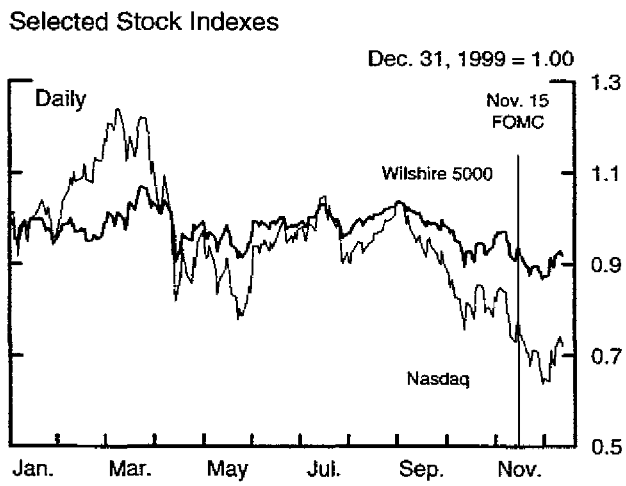
Sources of short-term business credit were similarly selective. Growth in C&I loans remained sluggish, barely edging up in November. Concurrent with the

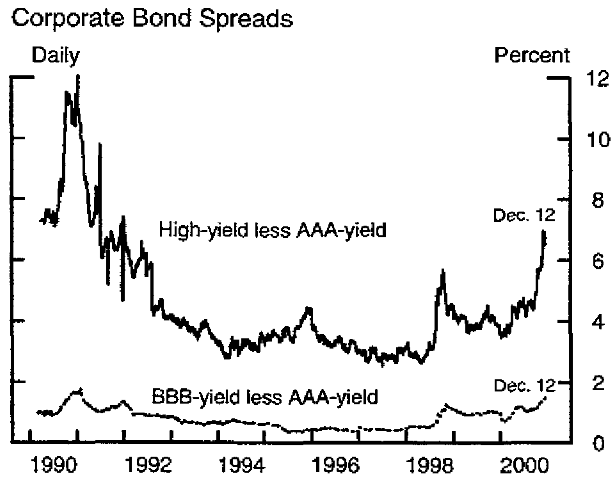
Corporate Finance

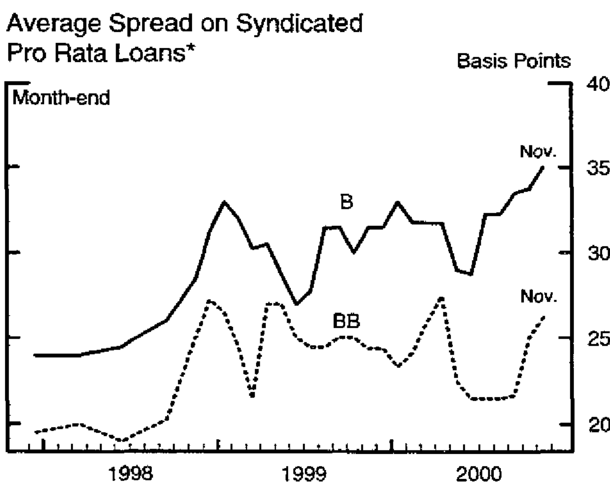


e. Staff estimate.

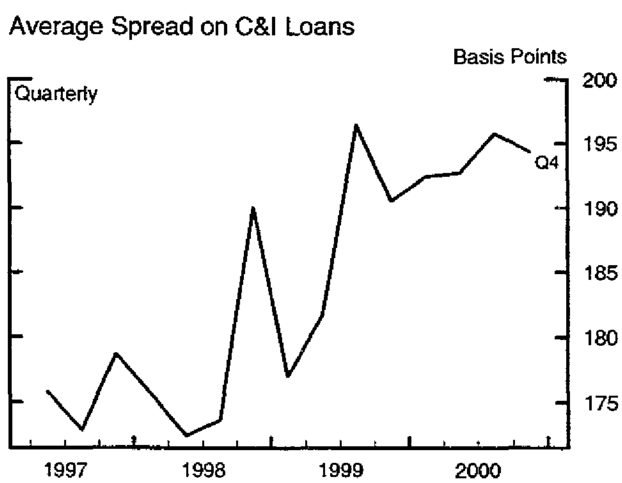








*Spread over LIBOR.
Source: Loan Pricing Corporation.



Note: The spread over intended federal funds is adjusted for changes in sample composition.
Source: Survey of Terms of Business Lending.

Gross Issuance of Securities by U.S. Corporations

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

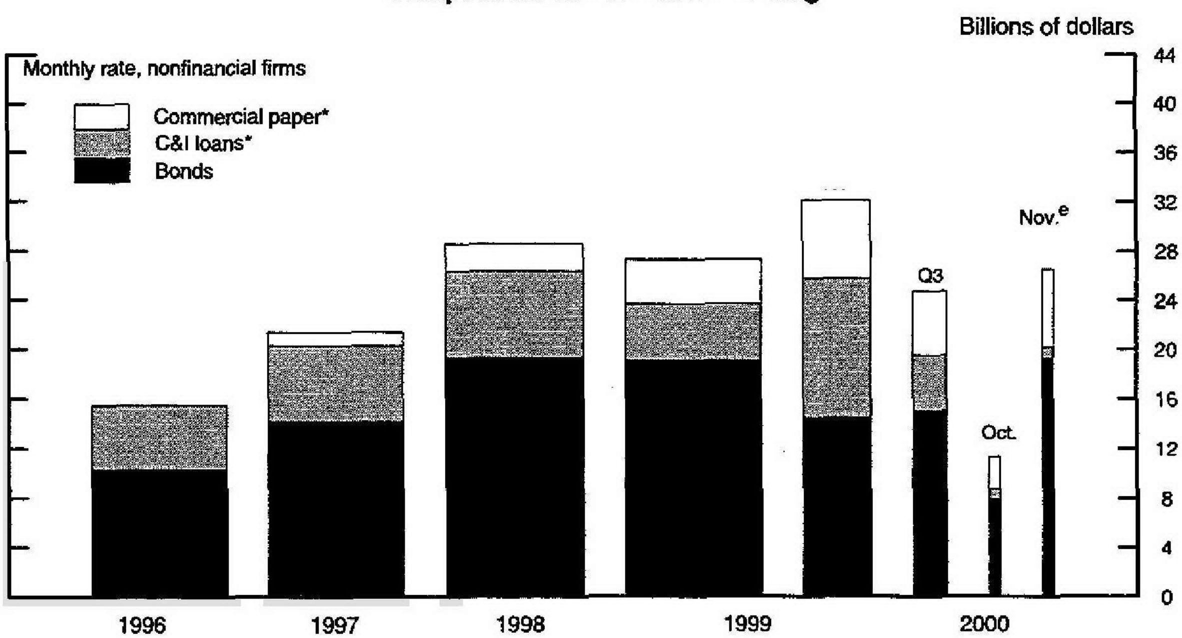
Type of security	1998	1999	2000 H1	2000 Q3	2000 Sept.	2000 Oct.	2000 Nov.[e]
All U.S. corporations	94.0	89.4	80.0	80.9	94.5	59.1	90.6
Stocks[1]	10.6	11.0	14.1	9.1	6.4	8.5	11.2
Bonds	83.5	78.4	65.9	71.8	88.1	50.6	79.4
Nonfinancial corporations							
Stocks[1]	6.2	9.2	12.4	7.5	6.2	7.8	10.6
Initial public offerings	2.2	4.2	5.7	4.6	4.0	2.6	1.7
Seasoned offerings	4.0	5.0	6.7	3.0	2.2	5.2	8.9
Bonds[2]	25.7	24.5	21.3	19.4	24.5	12.5	26.1
Investment grade[3]	14.1	13.9	11.5	11.0	13.6	6.8	19.4
Speculative grade[3]	10.2	7.5	5.4	4.9	7.0	2.9	2.4
Other (sold abroad/unrated)	1.3	3.1	4.4	3.5	3.9	2.8	4.4
Financial corporations							
Stocks[1]	4.4	1.8	1.6	1.6	.2	.7	.6
Bonds	57.8	53.9	44.7	52.4	63.6	38.1	53.3
Memo							
Net issuance of commercial paper, nonfinancial corporations[4]	2.3	3.6	6.4	5.2	-4.2	2.5	6.3
Change in C&I loans at commercial banks[4]	7.0	4.6	11.2	4.5	-1.2	.9	.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.

e Staff estimate.

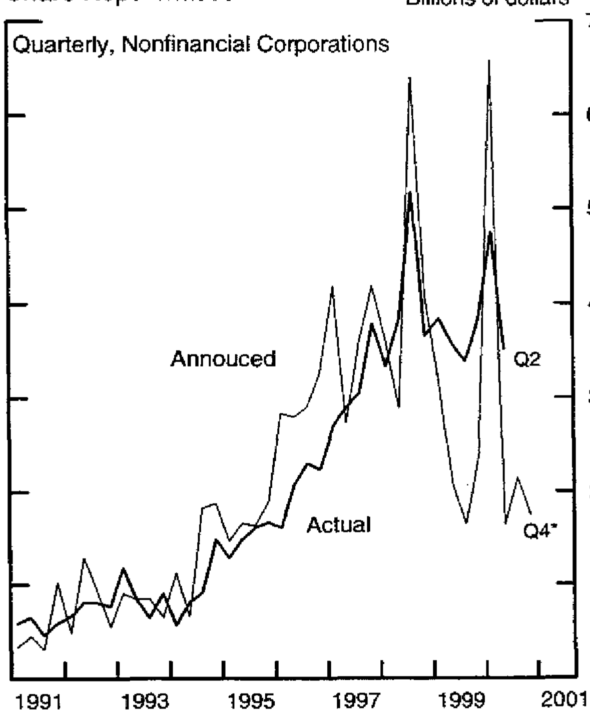
Components of Net Debt Financing



* Seasonally adjusted.
e Staff estimate.

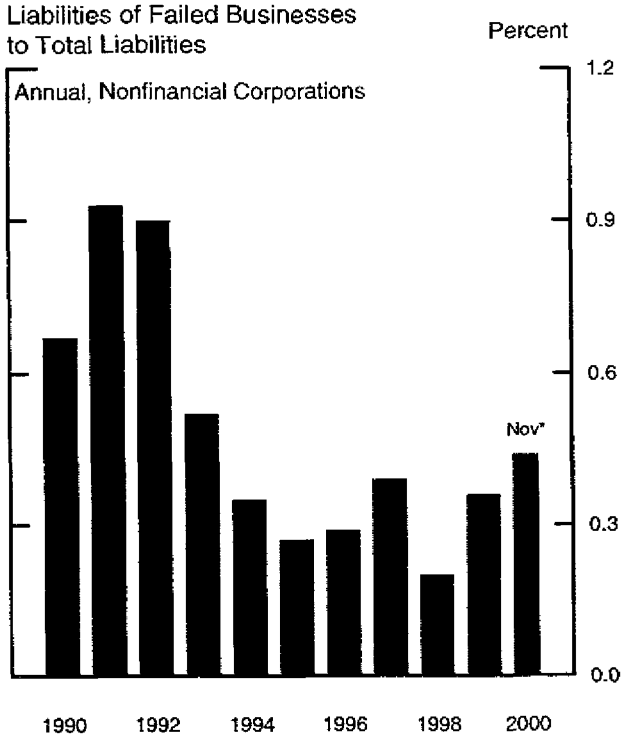
Corporate Finance

Share Repurchases



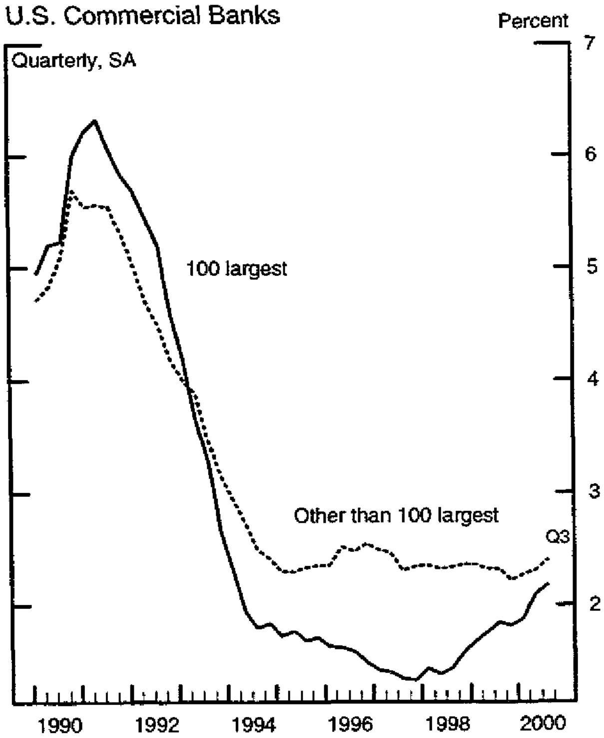
* Data through Nov. 30 at a quarterly rate.

Liabilities of Failed Businesses to Total Liabilities



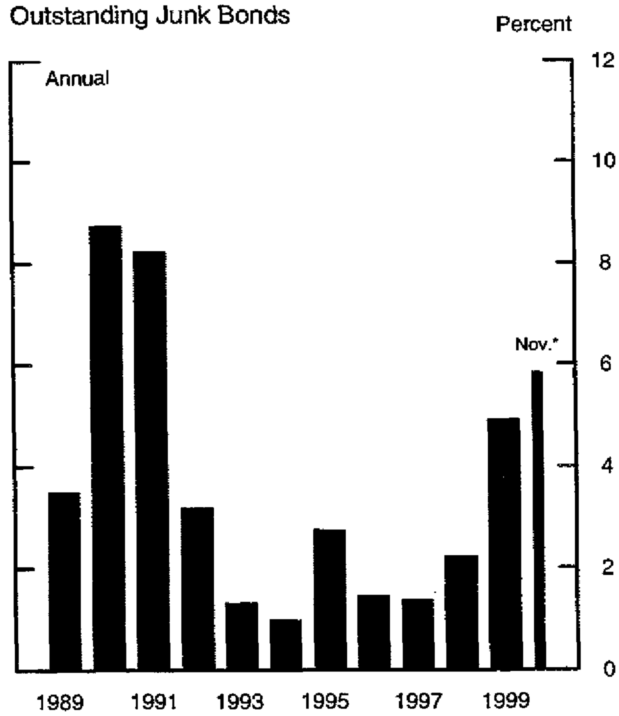
* Year-to-date (Nov. 2000) at an annual rate.
Source: Dun & Bradstreet.

C&I Loan Delinquencies at U.S. Commercial Banks



Source: Call reports.

Default Rates Outstanding Junk Bonds



* Year-to-date (Nov. 2000) at an annual rate.
Source: Moody's.

run-up in risk spreads on bonds, the spreads on the portions of syndicated loans held by banks and rated below-investment-grade climbed in November. By contrast, the average spread on loans reported in the Survey of Terms of Business Lending (STBL)—which are generally of higher quality and shorter maturity than leveraged syndicated credits—dipped in the most recent survey taken during the week of November 6. Judging from the syndicated loan market and the STBL, the increase in the cost of business credit at banks has been tilted toward lower-rated borrowers. In addition, surveys by the National Federation of Independent Business indicate that credit conditions have firmed for smaller businesses in recent months.

Top-rated commercial paper issuers had little difficulty raising funds, and outstanding paper rose to more than $6 billion in November. In contrast, A2/P2-rated issuers found it increasingly difficult to float paper extending into next year, as credit-quality concerns reinforced the normal reluctance by investors to show lower-rated paper on their books at year-end.

As in the bond markets, sizable offerings by a few large, well-known firms dominated the market for equity issues. Initial public offerings were a paltry $1.7 billion in November, while seasoned offerings totaled nearly $9 billion, up substantially from the October level. So far in December, equity issuance has been light despite a long list of firms with registered offerings.

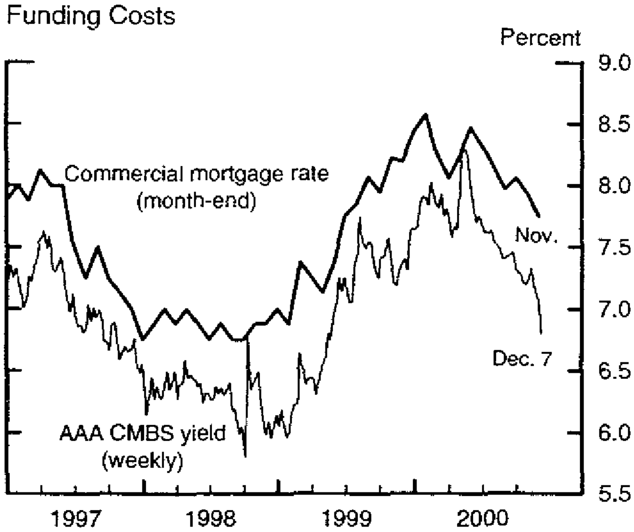
Announcements of share repurchases in the fourth quarter held at a level well below the average pace of recent years. Reduced earnings have made share repurchases less attractive despite the recent drop in some equity prices. Equity retirements, largely associated with previously announced foreign takeovers, have been brisk thus far in the fourth quarter, and the list of pending deals suggests that net equity retirements will remain high in coming quarters.

The credit quality of U.S. businesses has deteriorated further in recent months. The liabilities of failed businesses surged in November, boosted by the failure of one large telecommunications firm and two smaller firms in the steel sector. The major rating agencies again handed out more downgrades than upgrades. Significantly, AT&T and Daimler-Chrysler were downgraded, providing some evidence of a deterioration in credit quality in the investment-grade sector.

The delinquency rate on C&I loans at domestic commercial banks continued to trend up in the third quarter, albeit from very low levels. At the 100 largest banks, the C&I loan delinquency rate was at the highest level since the beginning of 1994. Moreover, the delinquency rate on C&I loans at other banks, which has changed little over the past five years, has recently edged up. Investors' concerns about loan quality has resulted in higher funding costs for a number of large banking organizations, as is evident from higher spreads on

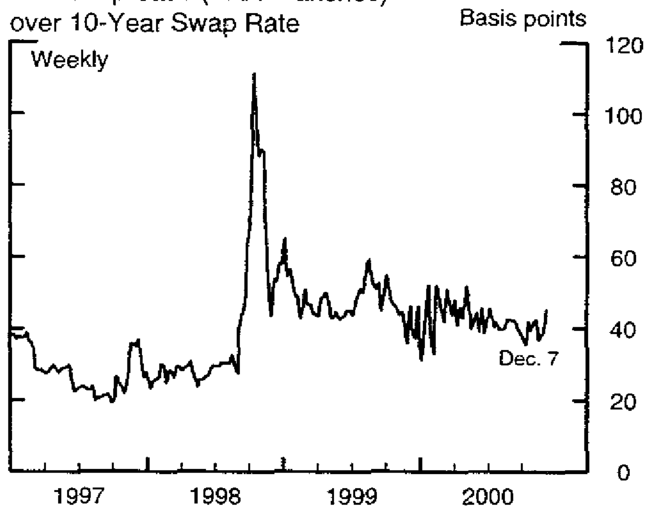
Commercial Real Estate

Funding Costs



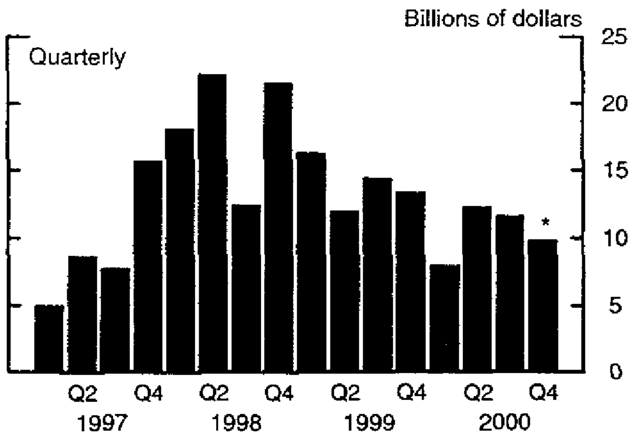
Source. Barron's/Levy National Mortgage Survey; Morgan Stanley.

CMBS Spreads (AAA Tranches) over 10-Year Swap Rate



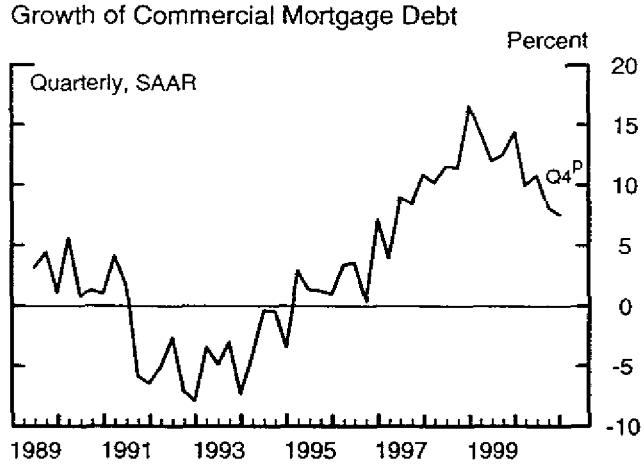
Source. Morgan Stanley.

Total CMBS Gross Issuance



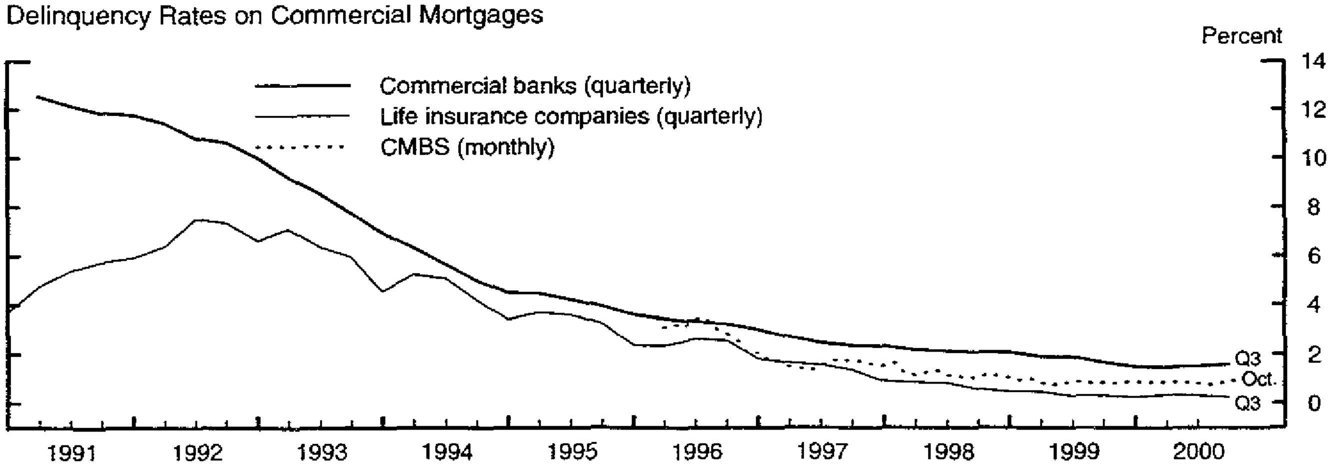
* Fourth quarter through December 7.
Source. Commercial Mortgage Alert.

Growth of Commercial Mortgage Debt



p. Staff projection.

Delinquency Rates on Commercial Mortgages



Source. ACLI; Morgan Stanley; Call Reports.

their subordinated debt and declines in their share prices, perhaps reinforcing a sense of caution in making loans.

Commercial Real Estate
Since the last FOMC meeting, interest rates on AAA-rated commercial-mortgage-backed securities (CMBS) have declined about the same amount as the rate on comparable ten-year swaps. Our most recent data indicate that the pace of CMBS issuance in the fourth quarter is about the same as it was in the third quarter. Growth in commercial mortgage debt from all sources is projected to trend down further in the fourth quarter. Credit problems in this sector have not been evident, as delinquency rates on commercial mortgage debt have remained very low.

Household Finance
Recent stock market declines have reduced the level of household assets relative to disposable income, bringing the ratio back down to the levels prevailing in mid-1999. However, the decline has reversed only a small part of the cumulative rise since the mid-1990s.

Available data on mutual funds suggest that inflows to equity funds slumped in November, reflecting weaker inflows to higher-risk capital appreciation funds and a sizable outflow from international funds. Inflows to retail money market funds jumped in November, largely reflecting increased household demand for stable-value securities. Looking at 401(k) pension plans, both the share of contributions allocated to equities and plan transfers were about unchanged through November, and the general direction of transfers continues to be out of equities and into stable-value investments.

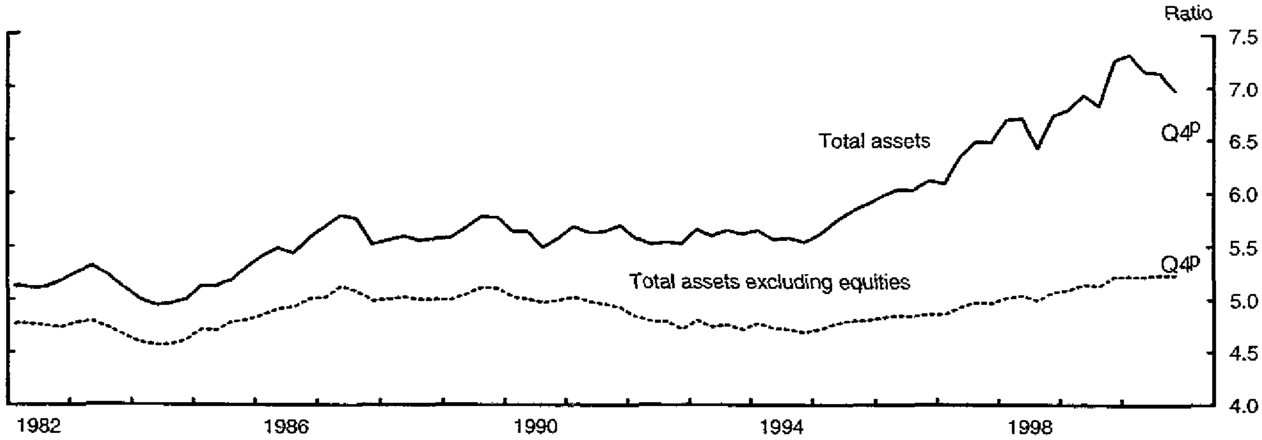
Household debt appears to be growing at about an 8 percent rate in the fourth quarter, the same as the third-quarter pace, pushing up our measure of the debt-service burden another notch. Delinquencies on residential mortgages, credit cards, and other consumer loans at domestic commercial banks ticked up in the third quarter, but remain at the low end of their respective ranges over the past several years.

Interest rates charged by banks on new-car loans and on home equity lines of credit are essentially unchanged since the most recent FOMC meeting. Interest rates on fixed-rate mortgages have declined almost a quarter of a percentage point, while those on adjustable-rate mortgages are about unchanged.

Treasury Finance
In a departure from patterns in recent months, the Treasury was a significant net borrower last month, raising more than $40 billion in new cash with marketable debt. For the most part, the jump in Treasury borrowing simply reflected seasonal funding needs ahead of the December corporate tax date. The new

Household Assets Relative to Disposable Income

(Quarterly data; seasonally adjusted)



p. Staff projection.

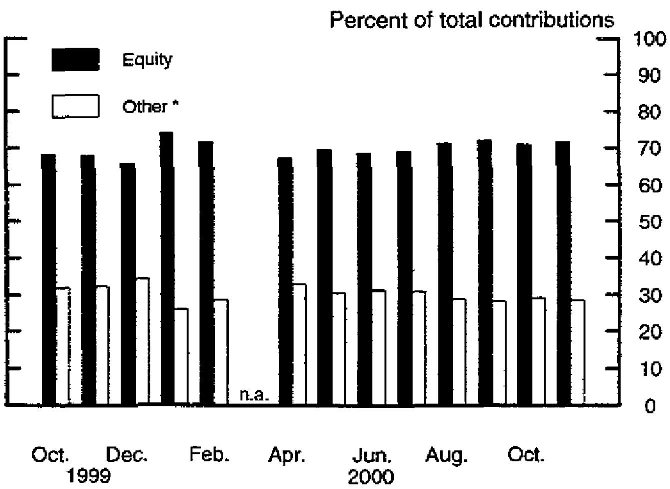
Net Flows into Long-Term Mutual Funds

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

	1997	1998	1999	2000 H1	2000 Q3	2000 Oct.	2000 Nov. e	Assets Oct.
Total long-term funds	**22.7**	**20.2**	**14.2**	**23.8**	**16.1**	**14.7**	**5.0**	**5,436**
Equity funds	**19.0**	**13.2**	**15.7**	**34.4**	**19.6**	**19.1**	**5.7**	**4,289**
Domestic	15.8	12.6	14.8	26.7	17.4	19.2	10.9	3,721
Capital appreciation	7.9	7.1	13.5	34.4	20.1	20.2	9.9	2,407
Total return	7.9	5.5	1.4	-7.6	-2.7	-0.9	1.0	1,314
International	3.1	0.6	0.9	7.7	2.2	-0.2	-5.2	568
Hybrid funds	**1.4**	**0.9**	**-1.0**	**-4.0**	**-1.7**	**-1.1**	**-0.4**	**354**
Bond funds	**2.4**	**6.2**	**-0.5**	**-6.6**	**-1.8**	**-3.2**	**-0.2**	**793**
International	-0.1	-0.1	-0.2	-0.2	-0.1	-0.5	-0.1	20
High-yield	1.4	1.1	-0.2	-1.1	-0.7	-1.7	-1.2	96
Other taxable	1.0	3.9	1.0	-2.8	-0.7	-0.7	1.1	407
Municipals	0.1	1.3	-1.0	-2.5	-0.3	-0.3	-0.0	269

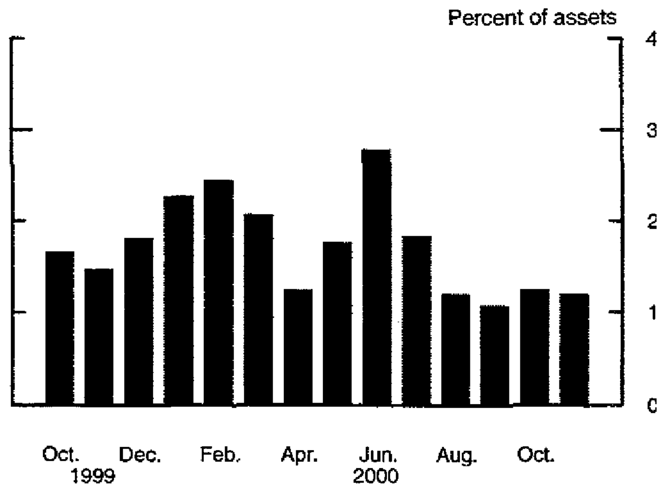
e. Staff estimates based on confidential ICI weekly data.
Source: Investment Company Institute (ICI).

Allocation of New Contributions to 401(k) Pension Plans



* Includes bond and money market funds and GICs.
Source: Hewitt Associates.

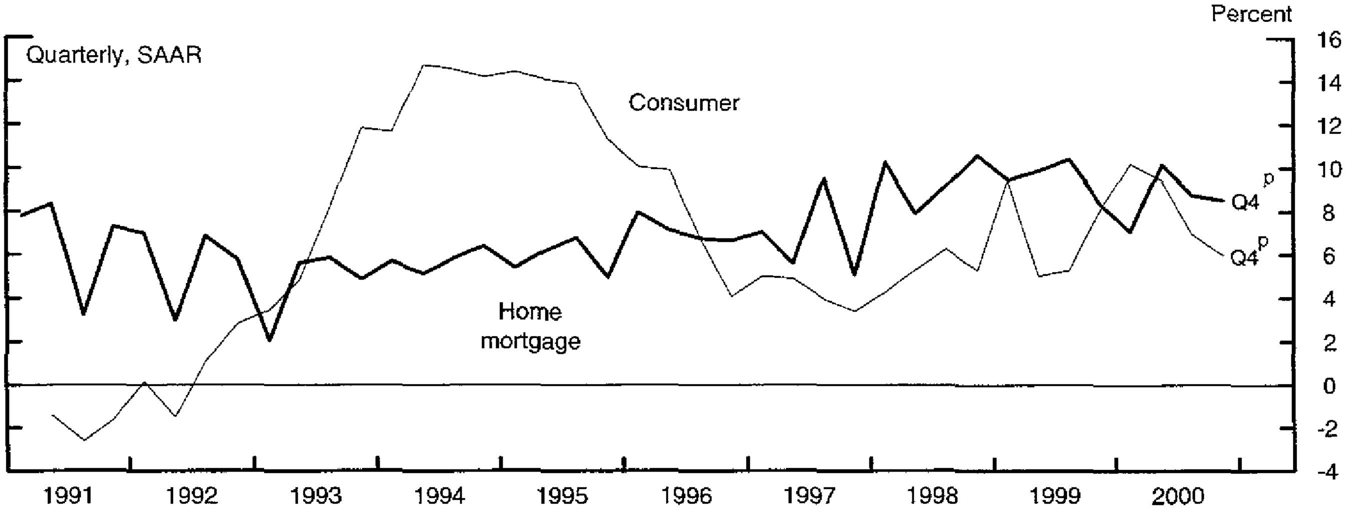
Transfers Among Existing 401(k) Pension Plan Assets



Source: Hewitt Associates.

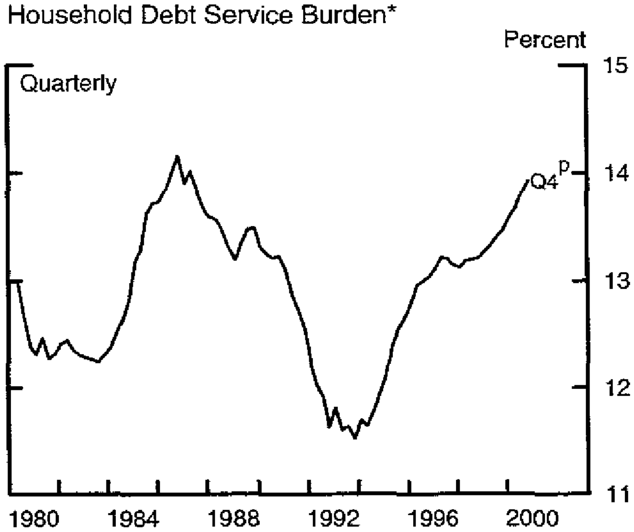
Household Liabilities

Household Debt Growth



p. Staff projection.

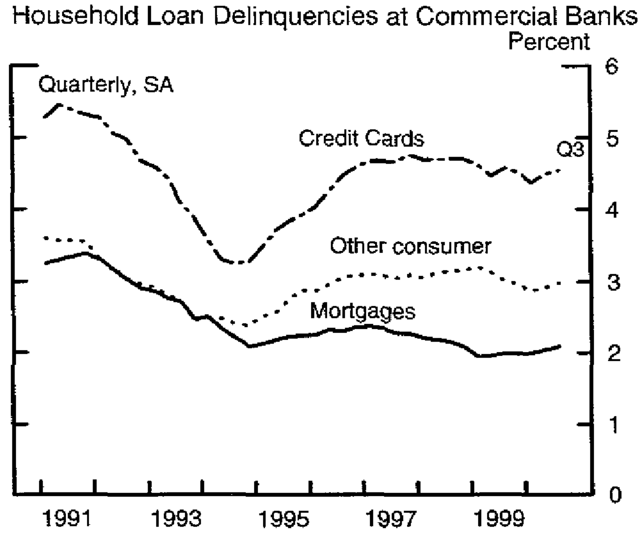
Household Debt Service Burden*



p. Staff projection.

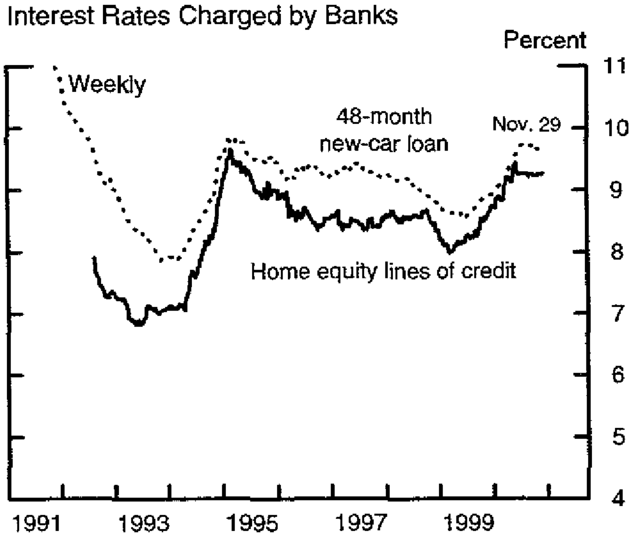
*Required debt payments relative to disposable personal income.

Household Loan Delinquencies at Commercial Banks



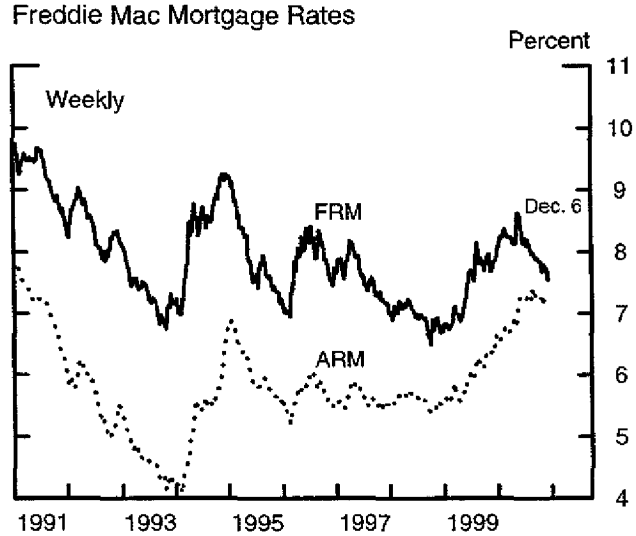
Source. Call Report.

Interest Rates Charged by Banks



Source. Bank Rate Monitor.

Freddie Mac Mortgage Rates



Treasury and Agency Finance

Treasury Financing
(Billions of dollars)

Item	2000					
	Q1	Q2	Q3	Sept.	Oct.	Nov.
Total surplus, deficit (-)	**-15.0**	**211.8**	**60.5**	**65.8**	**-11.3**	**n.a.**
Means of financing deficit						
Net borrowing	-27.1	-189.6	-53.6	-32.3	-29.7	41.4
Nonmarketable	-6.4	2.2	-5.5	0.4	0.9	-0.4
Marketable	-20.7	-191.7	-48.1	-32.7	-30.6	41.8
Bills	16.0	-123.7	-14.1	-31.2	2.3	63.4
Coupons[1]	-34.7	-57.1	-25.7	0.0	-28.9	-19.4
Debt buybacks	-2.0	-11.0	-8.2	-1.5	-4.0	-2.2
Decrease in cash balance	38.6	-12.7	4.8	-39.5	42.7	-1.4
Other[2]	3.5	-9.6	-11.6	6.0	-1.6	n.a.
MEMO						
Cash balance, end of period	44.8	57.4	52.7	52.7	10.0	11.4

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 Borrowing of Government-Sponsored Enterprises
(Billions of dollars)

Agency	2000					
	Q1	Q2	Q3	Oct.	Nov.	Dec.*
FHLBs	6.3	33.2	12.1	-3.9	n.a.	n.a.
Freddie Mac	17.3	6.3	22.7	16.0	n.a.	n.a.
Fannie Mae	9.9	21.0	28.5	8.5	n.a.	n.a.
Farm Credit Banks	-1.7	2.4	1.5	0.3	0.3	n.a.
Sallie Mae	-3.9	-0.8	5.2	n.a.	n.a.	n.a.
MEMO						
Outstanding noncallable reference and benchmark securities						
Notes and bonds	213.6	238.6	274.1	290.1	303.1	309.1
Bills	192.5	200.0	222.5	224.0	228.0	240.5
Total	406.1	438.6	496.6	514.1	531.1	549.6

NOTE. Excludes mortgage pass-through securities issued by Fannie Mae and Freddie Mac.
* As of December 14, 2000
n.a. Not available.

cash was also used to finance the continued net redemptions of maturing coupon securities and the Treasury buyback program.

Bid-ask spreads for most Treasury issues rose slightly over the intermeeting period. In part, the increase reflects a heightened sense of caution among market participants in advance of year-end, as well as recent market volatility. However, bid-ask spreads for most issues have been edging up throughout the year, most likely owing to some dropoff in market activity, apparently brought about by the reduced frequency and size of Treasury auctions and the substantial paydown of Treasury coupon securities this year.

Agency Finance

Issuance of agency debt securities has continued at a strong clip. Freddie Mac sold $6 billion of three-year Reference notes, the first sale of a three-year bellwether note by either Freddie Mac or Fannie Mae. In addition, Fannie Mae issued $6 billion of five-year Benchmark notes in early December, an auction that was heavily oversubscribed. The total amount of Benchmark and Reference notes and bonds outstanding increased to more than $300 billion, as Fannie Mae and Freddie Mac have continued to substitute borrowing in their bellwether debt programs for other types of borrowing. Issuance of Benchmark and Reference bills has also remained robust. Despite heavy issuance, agency spreads over Treasury yields have narrowed a bit. Yields on longer-term agency debt, as well as swap rates, reportedly benefited from increased demands from investors seeking to extend the duration of their mortgage portfolios in light of heightened prepayment risks.

Outside of the Reference and Benchmark securities programs, Freddie Mac sold €5 billion of five-year EuroReference notes, the second auction of EuroReference securities since the inception of this program in September 2000. The five-year note auction drew wider international interest than the inaugural offering, perhaps reflecting a more positive outlook for the European currency as well as strong global investor appetite for agency securities.

State and Local Government Finance

Gross offerings of long-term debt by state and local governments in October and November exceeded the pace set in the first three quarters of the year, boosted by stronger issuance for new capital projects. As has been the case for some time, projects in the education and transportation sectors accounted for the largest shares of new capital raised. Yields on long-term revenue and general obligation bonds fell through early December, though not as much as corporate bond yields, leaving the ratio of yields on thirty-year revenue bonds to yields on AAA-rated corporate bonds up a bit since the most recent FOMC meeting.

The credit quality of state and local issuers has continued to improve, on net, with ratings upgrades outpacing downgrades by a wide margin. The only

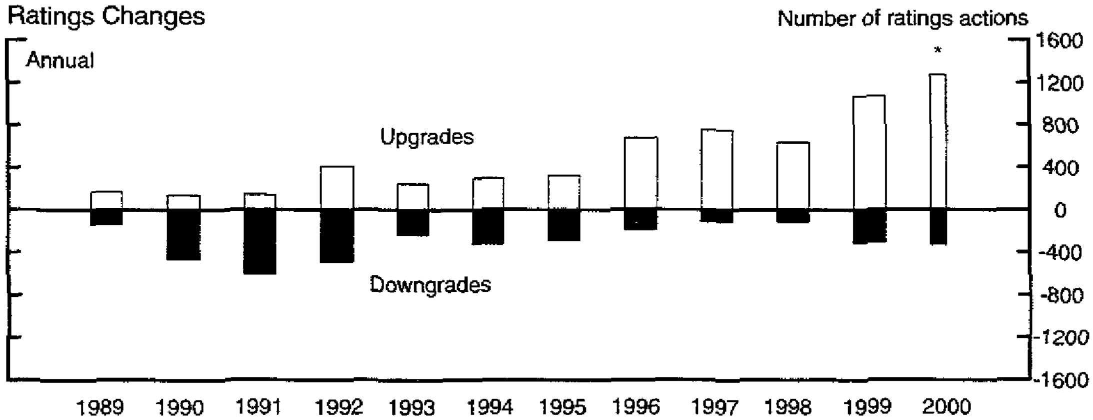
State and Local Finance

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

	1998	1999	2000 H1	2000 Q3	2000 Sept.	2000 Oct.	2000 Nov.
Long-term [1]	21.9	18.0	14.2	14.6	15.6	18.0	15.9
Refundings [2]	8.5	4.5	2.1	2.0	1.6	1.6	2.7
New capital	13.4	13.5	12.1	12.6	14.0	16.4	13.2
Short-term	2.4	2.7	2.6	3.6	1.9	2.2	1.5
Total tax-exempt	24.3	20.6	16.8	18.1	17.5	20.3	17.4
Total taxable	1.1	1.1	0.6	0.8	0.5	0.4	1.1

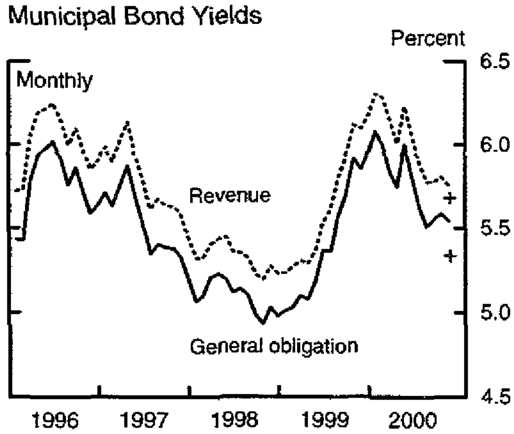
1. Includes issues for public and private purposes.
2. All issues that include any refunding bonds.
e. Staff estimate.

Ratings Changes



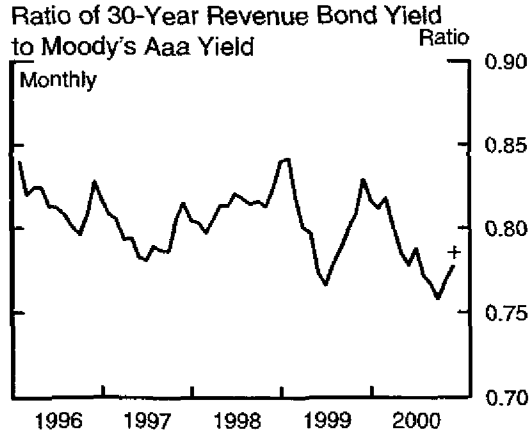
* Data through Nov. 30, 2000, at an annual rate.

Municipal Bond Yields



Note. Average of weekly data.
+ indicates latest observation (Dec. 7).

Ratio of 30-Year Revenue Bond Yield to Moody's Aaa Yield



Note. Average of weekly data.
+ indicates latest observation (Dec. 7).

notable exception is the not-for-profit health sector, which continues to struggle with reductions in reimbursements from Medicare and health maintenance organizations.

Money and Bank Credit

Following a decline in October, bank credit (adjusted for mark-to-market effects) advanced at a 3 percent annual rate in November. All categories of loans registered growth, with the largest pickup in real estate and consumer loans; the former rebounded sharply, in part because of a dearth of securitization, and the latter resumed growing at a moderate pace, buoyed by strong growth in credit card loans.

Small banks continued to expand their business lending last month, while C&I loans at large domestic banks and branches and agencies of foreign banks again contracted. For the banking sector as a whole, business loans advanced at a mere 1 percent annual rate in November. The tepid growth in recent months may reflect in part the high cost of business loans and tighter credit standards at commercial banks.

Bank holdings of securities contracted in November for the fourth consecutive month. The declines have been concentrated at a few large domestic banks that have simultaneously run off their managed liabilities.[1] Several of these banks had announced significant loan losses and may be reacting to increased funding costs.

Profits at domestic commercial banks rebounded in the third quarter. Much of the improvement reflected a substantial decline in noninterest expense, which had been elevated by restructuring charges at two large institutions during the second quarter. Smoothing through these swings, bank profits have declined on balance in recent quarters, squeezed by the combination of rising funding costs, weaker earnings from trading activities, and competitive lending markets. Domestic commercial banks, however, remained well capitalized, and all three regulatory capital ratios inched up in the third quarter.

Growth of M2 slowed over October and November, perhaps reflecting the downshift in nominal GDP growth. The slowdown in November, to 2-3/4 percent at an annual rate, was concentrated in retail money funds; however, growth in retail money funds increased appreciably in the later part of November, too late to boost the average growth in that month. Growth in liquid deposits (the sum of checking and savings accounts) and currency was also anemic in November. Like M2, M3 has expanded less rapidly in recent

1. The nearly 20 percent drop in securities holdings in October also partly reflected a rebooking of securities held by a U.S. branch of a foreign bank to its head office.

Commercial Bank Credit

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

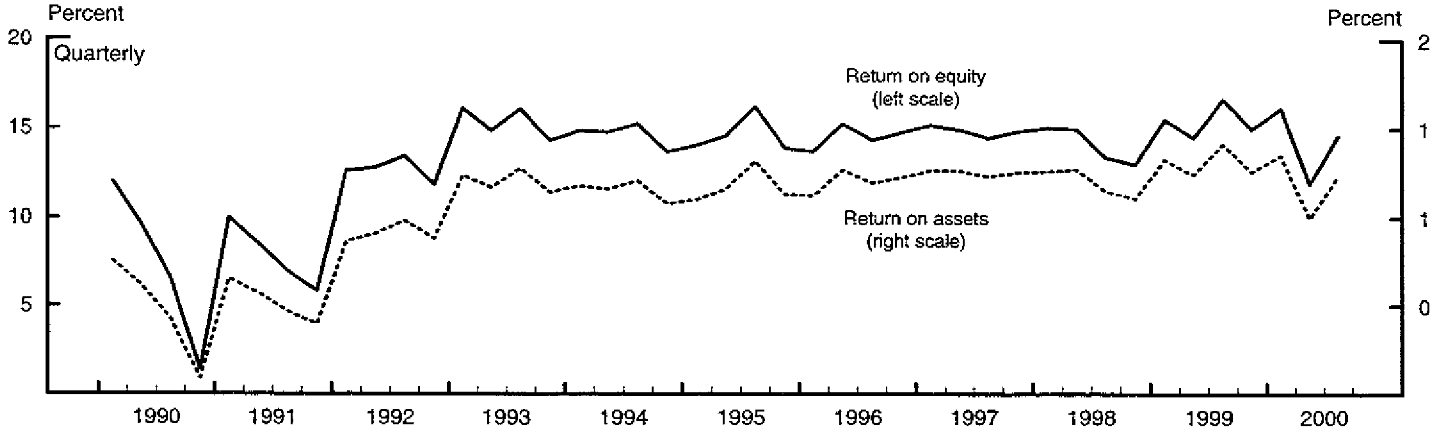
Type of credit	2000	Q2 2000	Q3 2000	Sept. 2000	Oct. 2000	Nov. 2000	Level, Nov. 2000 ($ billions)
Total							
1. Adjusted[1]	**9.6**	**12.8**	**10.6**	**8.1**	**-5.6**	**3.0**	**5,058**
2. Reported	9.9	13.1	10.4	11.6	-5.9	2.4	5,156
Securities							
3. Adjusted[1]	2.7	9.5	6.0	-4.7	-19.4	-5.9	1,205
4. Reported	4.1	10.8	5.4	9.7	-19.7	-7.5	1,302
5. U.S. government	-2.9	.8	-.8	-7.8	-22.3	-16.3	783
6. Other[2]	16.6	28.7	15.8	37.8	-15.8	6.0	520
Loans[3]							
7. Total	12.0	13.9	12.1	12.3	-1.2	5.9	3,853
8. Business	8.9	13.1	8.9	.1	-.9	1.0	1,080
9. Real estate	13.9	17.6	11.8	8.9	-1.5	8.1	1,646
10. Home equity	24.0	28.9	15.1	18.3	32.0	15.6	125
11. Other	13.1	16.8	11.5	8.1	-4.1	7.4	1,521
12. Consumer	10.1	8.8	12.4	7.5	-.9	8.4	535
13. Adjusted[4]	7.3	7.6	11.2	4.6	-4.7	6.0	840
14. Other[5]	14.3	9.8	19.3	49.5	-.8	6.1	593

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.

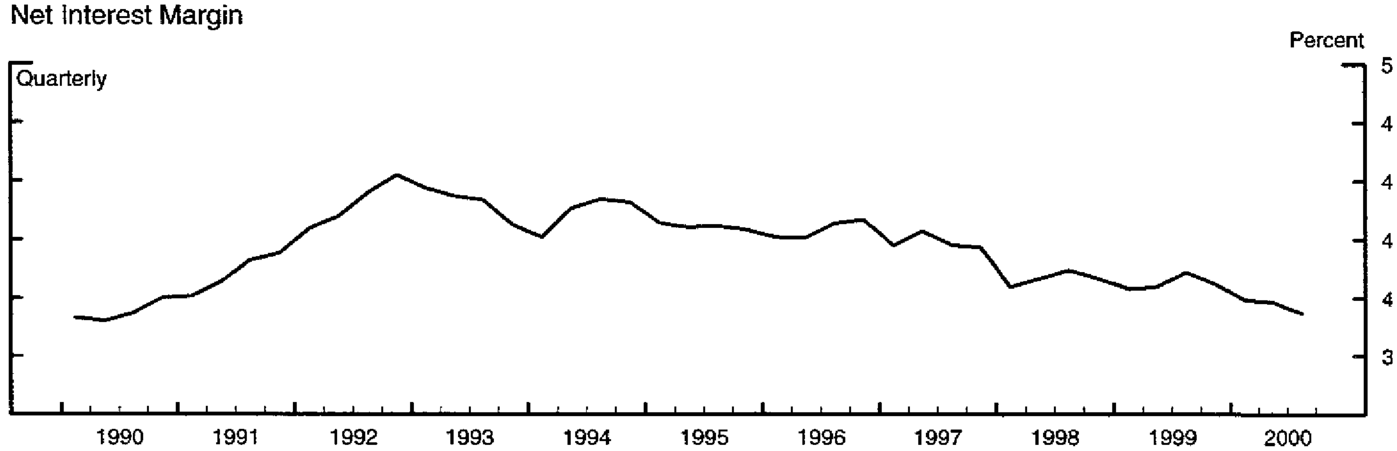
1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FIN 115).
2. Includes securities of corporations, state and local governments, and foreign governments and any trading account assets that are not U.S. government securities.
3. Excludes interbank loans.
4. Includes an estimate 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.

Commercial Bank Profitability

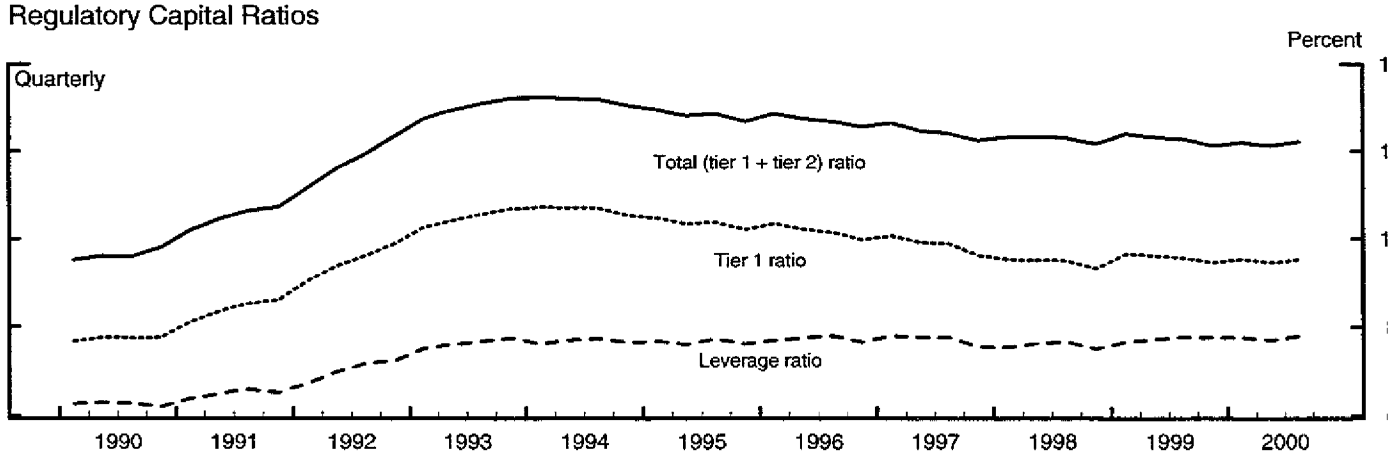
Return on Assets and Return on Equity



Net Interest Margin



Regulatory Capital Ratios



Monetary Aggregates

(Based on seasonally adjusted data)

Aggregate or component	1999	2000 Q2	2000 Q3	2000 Sept.	2000 Oct.	2000 Nov. (pe)	Level (bil. $) Oct. 00
Aggregate	Percent change (annual rate)[1]						
1. M2[2]	6.2	6.5	4.7	9.0	4.5	2.7	4875.8
2. M3	7.7	8.6	8.3	8.8	4.0	3.2	6936.2
Selected components							
3. Currency	10.9	-0.2	3.5	2.3	4.1	1.1	525.8
4. Liquid deposits[3]	5.9	4.4	4.3	10.5	2.3	0.5	2407.9
5. Small time deposits	-0.7	10.4	11.1	5.7	3.7	6.9	1031.9
6. Retail money market funds	13.5	11.7	-0.6	13.5	12.4	5.1	901.9
7. M3 minus M2[4]	11.8	13.8	17.1	8.2	2.6	4.4	2060.3
8. Large time deposits, net[5]	8.7	14.9	10.8	-14.8	-5.2	14.7	756.7
9. Institution-only money market mutual funds	17.2	13.8	32.8	32.3	6.6	11.1	744.5
10. RPs	12.1	10.8	7.4	-3.6	0.0	-25.5	362.0
11. Eurodollars	5.1	15.4	4.9	33.1	22.3	-6.1	197.1
Memo							
12. M1	1.8	-1.0	-2.7	-5.2	4.5	-11.0	1100.8
13. Sweep-adjusted M1[6]	5.1	2.6	1.4	-0.2	6.1	-6.0	1511.5
14. Demand deposits	-6.2	-5.3	-10.0	-12.4	3.0	-31.3	325.7
15. Other checkable deposits	-2.7	2.8	-7.0	-10.0	9.5	-8.5	240.9
16. Savings deposits	10.2	6.5	8.5	17.3	1.2	7.4	1841.3
17. Monetary base	12.4	-3.2	2.6	3.2	3.2	-2.2	580.8
	Average monthly change (billions of dollars)[7]						
Selected managed liabilities at commercial banks							
18. Large time deposits, gross	7.5	4.6	8.5	-9.2	-1.3	13.7	915.7
19. Net due to related foreign institutions	0.6	4.5	6.3	-0.6	-17.4	-11.6	251.7
20. U.S. government deposits at commercial banks	0.2	1.1	-5.2	0.8	-3.3	3.3	15.9

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

months—just 4 percent in October and 3-1/4 percent in November. RPs fell along with government securities holdings, and the expansion of managed liabilities was restrained by the sluggish growth in bank credit.

International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

In September, the U.S. trade deficit in goods and services was a record $34.3 billion. For the third quarter, the deficit was $383 billion at an annual rate, $26 billion larger than in the second quarter.

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

	1999	Annual rate 2000			Monthly rate 2000		
		Q1	Q2	Q3	July	Aug.	Sept.
Real NIPA[1]							
Net exports of G&S	-322.4	-376.8	-403.4	-425.0	...	...	...
Nominal BOP							
Net exports of G&S	-265.0	-340.5	-357.1	-383.0	-31.7	-29.8	-34.3
Goods, net	-345.6	-423.4	-440.9	-461.7	-38.5	-36.7	-40.2
Services, net	80.6	82.9	83.8	78.6	6.8	6.9	5.9

1. Billions of chained (1996) dollars.
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.
n.a. Not available. ... Not applicable.

The value of exports of goods and services declined slightly in September (largely machinery and automotive products) following a sharp jump in August. For the third quarter, the value of exports rose at about the same strong pace recorded in the second quarter (close to 17 percent at an annual rate), led by increases in exported machinery (a broad range of products) and industrial supplies (particularly fuels and chemicals). There were smaller increases in exported agricultural, consumer, and automotive products as well as services. Most of the increase in exports went to countries in Latin America and Asia.

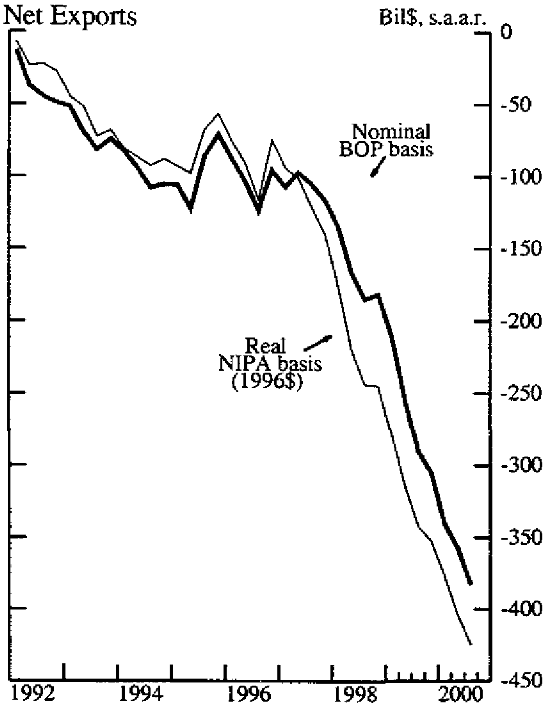
The value of imports of goods and services jumped 3 percent in September with increases in all major trade categories (especially industrial supplies, semiconductors, and services). The higher value of imported oil was entirely the result of a jump in price of about $2.50 per barrel. For the third quarter, the value of imports of goods and services rose at a somewhat stronger pace than during the first two quarters of the year (close to 20 percent at an annual rate) with the increase spread among all major categories of trade.

Prices of Internationally Traded Goods

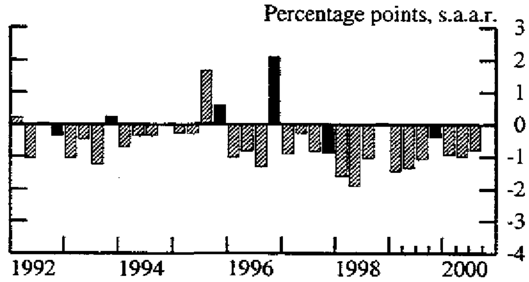
Oil. The price of imported oil (BLS) declined 3.2 percent in October following an increase of 11.0 percent in September. In late September, following the Clinton administration's decision to release 30 million barrels of oil from the Strategic Petroleum Reserve, the spot price of West Texas Intermediate (WTI) fell from its post Gulf War high of $37.20 per barrel to near $30 per barrel.

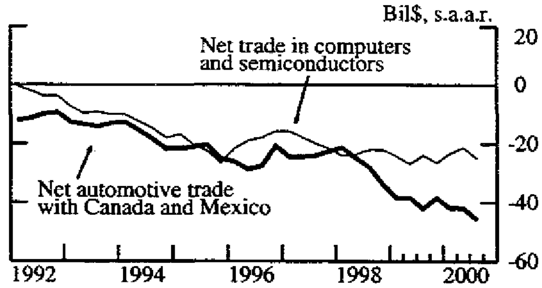
U.S. International Trade in Goods and Services

Net Exports

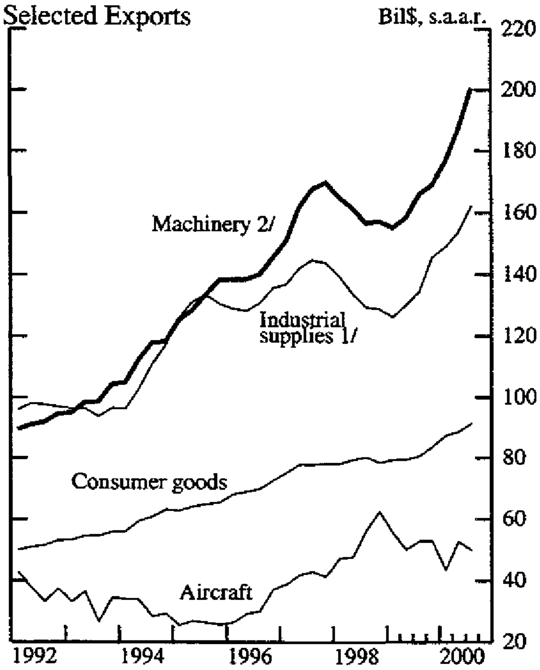


Contribution of Net Exports to Real GDP Growth



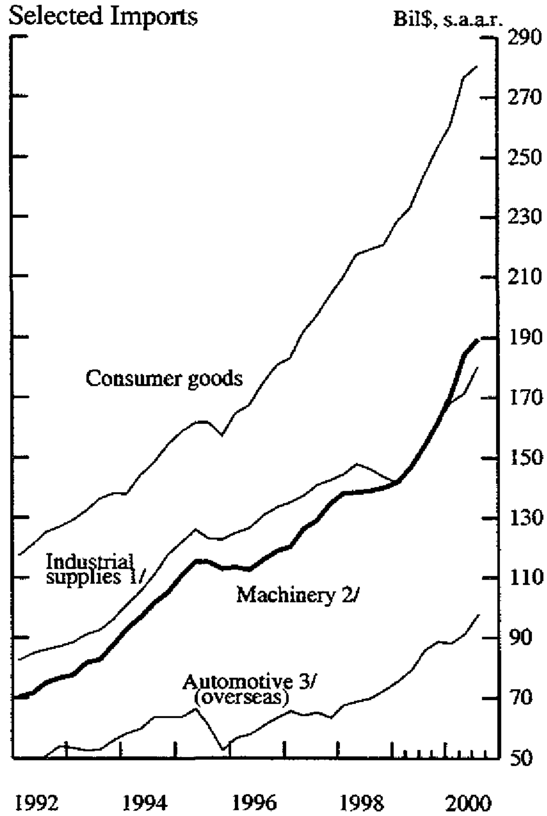


Selected Exports



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

Selected Imports



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

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

	Levels				Amount Change[1]			
	2000		2000		2000		2000	
	Q2	Q3	Aug.	Sept.	Q2	Q3	Aug.	Sept.
Exports of G&S	**1060.4**	**1100.5**	**1115.6**	**1108.3**	**36.5**	**40.1**	**38.0**	**-7.3**
Goods exports	767.1	801.5	815.7	807.8	32.2	34.4	34.5	-7.9
Agricultural	52.8	55.8	56.9	56.2	0.3	3.0	2.6	-0.8
Gold	3.7	4.2	3.9	6.1	-5.9	0.5	1.2	2.2
Other goods	710.6	741.5	754.9	745.5	37.9	30.8	30.7	-9.4
Aircraft & pts	52.9	50.0	50.3	50.3	9.2	-2.9	0.8	0.0
Computers	55.4	58.5	60.2	58.2	4.2	3.1	3.2	-2.0
Semiconductors	59.6	64.9	64.4	67.6	7.1	5.3	1.8	3.2
Other cap gds	189.1	202.6	206.9	202.2	10.1	13.5	8.1	-4.6
Automotive	80.1	80.8	85.6	79.4	-0.3	0.7	8.2	-6.2
to Canada	45.0	44.2	46.8	43.0	-2.5	-0.9	4.1	-3.8
to Mexico	17.3	15.9	17.4	16.6	1.4	-1.4	3.7	-0.8
to ROW	17.7	20.8	21.4	19.8	0.8	3.0	0.3	-1.6
Ind supplies	153.6	162.2	164.0	166.6	4.8	8.6	7.8	2.7
Consumer goods	88.5	91.5	92.3	91.4	1.2	2.9	1.6	-0.9
All other	31.5	31.0	31.3	29.8	1.4	-0.5	8.4	-1.5
Services exports	293.3	299.0	299.9	300.5	4.3	5.7	3.5	0.6
Imports of G&S	**1417.5**	**1483.6**	**1473.3**	**1519.5**	**53.1**	**66.0**	**15.4**	**46.2**
Goods imports	1208.1	1263.2	1255.9	1290.3	49.8	55.1	12.4	34.4
Petroleum	117.1	126.8	123.6	128.8	9.0	9.7	-4.1	5.2
Gold	3.0	4.2	3.3	6.9	-6.6	1.3	0.9	3.6
Other goods	1088.0	1132.2	1128.9	1154.5	47.4	44.2	15.7	25.6
Aircraft & pts	24.9	26.9	26.0	29.2	1.7	2.0	0.5	3.2
Computers	89.9	95.0	97.9	94.1	6.1	5.1	5.0	-3.8
Semiconductors	46.4	53.5	52.3	58.1	3.1	7.1	2.4	5.8
Other cap gds	187.3	192.4	193.0	197.9	13.4	5.1	6.7	4.9
Automotive	195.4	203.4	203.0	203.3	2.1	8.0	-1.0	0.3
from Canada	63.3	64.6	64.6	63.2	-2.8	1.4	-1.5	-1.5
from Mexico	40.8	41.0	42.1	45.0	1.9	0.2	6.1	2.9
from ROW	91.4	97.8	96.3	95.1	3.1	6.4	-5.5	-1.2
Ind supplies	171.6	180.3	175.2	186.4	3.2	8.8	-4.1	11.2
Consumer goods	276.4	280.4	279.4	285.1	15.9	4.0	2.6	5.7
Foods	45.6	47.3	47.6	47.1	1.1	1.7	0.4	-0.5
All other	50.5	53.0	54.4	53.3	0.9	2.5	3.2	-1.2
Services imports	209.5	220.4	217.4	229.2	3.4	10.9	2.9	11.8
Memo:								
Oil quantity (mb/d)	12.26	12.08	12.27	11.70	0.90	-0.18	0.01	-0.57
Oil import price ($/bbl)	26.11	28.74	27.59	30.16	0.13	2.63	-0.94	2.57

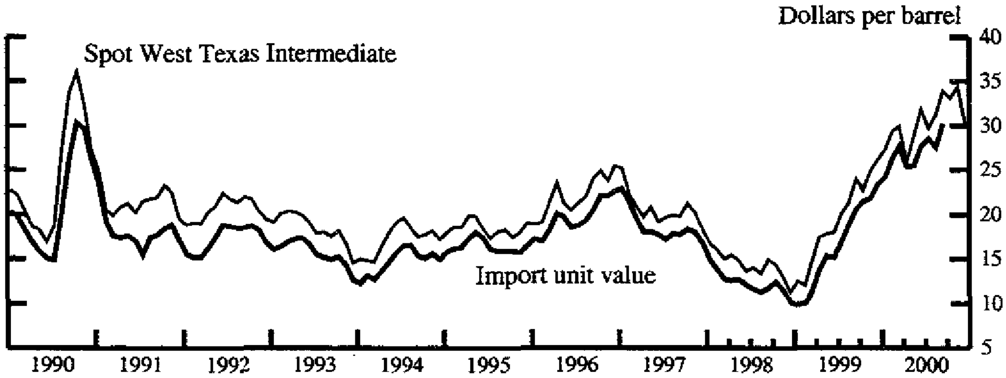
1. Change from previous quarter or month.
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

	Annual rates 2000			Monthly rates 2000		
	Q1	Q2	Q3	Aug.	Sept.	Oct.
	------------- BLS prices (1995 weights)-------------					
Merchandise imports	10.5	0.1	6.8	0.2	1.2	-0.5
Oil	105.1	-6.3	54.4	1.0	11.0	-3.2
Non-oil	1.7	1.0	0.9	0.1	-0.2	0.0
Core goods*	2.1	1.5	1.5	0.1	-0.2	0.1
Foods, feeds, beverages	0.0	-4.4	-4.6	0.2	-0.7	-0.1
Industrial supplies ex oil	11.0	9.8	8.3	0.7	-0.6	0.8
Computers	-1.4	-9.1	-3.4	-0.2	-0.4	-1.9
Semiconductors	-3.9	0.0	-4.7	0.3	0.0	0.2
Cap. goods ex comp & semi	-1.5	0.3	-1.5	-0.1	-0.1	-0.2
Automotive products	0.7	1.4	0.4	-0.2	-0.1	0.1
Consumer goods	-0.8	-1.9	-0.4	0.0	-0.1	-0.1
Merchandise exports	2.7	2.0	-0.3	-0.2	0.5	-0.1
Agricultural	0.5	5.7	-12.1	-2.1	3.2	0.7
Nonagricultural	2.9	1.5	1.1	-0.1	0.3	-0.2
Core goods*	4.2	2.1	1.8	-0.1	0.4	-0.2
Industrial supples ex ag	12.2	5.9	2.8	-0.3	1.1	-0.5
Computers	-7.1	-4.5	-2.2	-0.6	0.0	0.0
Semiconductors	-5.0	-4.1	-5.5	-0.1	-0.1	-0.6
Cap. goods ex comp & semi	0.8	1.3	1.0	0.1	0.0	0.0
Automotive products	0.3	0.8	1.0	0.0	0.1	-0.1
Consumer goods	0.5	-0.1	0.0	-0.1	-0.2	-0.1
Chain price index	---Prices in the NIPA accounts (1996 weights)---					
Imports of goods & services	5.6	0.2	3.6	...	...	...
Non-oil merchandise	0.9	0.8	0.6	...	...	...
Core goods*	1.5	1.8	1.4	...	...	...
Exports of goods & services	1.9	1.9	0.8	...	...	...
Nonag merchandise	1.4	1.3	0.9	...	...	...
Core goods*	3.3	2.3	1.1	...	...	...

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

Oil Prices



During October and November, however, spot oil prices again moved higher as tensions in the Middle East and Iraqi threats to suspend exports raised the possibility that oil supplies from the region could be disrupted. The onset of cold weather also provided a boost to prices. Spot WTI averaged over $34 per barrel during November, but in early December fell below $30 per barrel, as the United Nations approved a new phase of the oil-for-food program for Iraq and as supply concerns were allayed by strong statements from major oil producing and consuming nations.

Non-oil imports. Prices of imported non-oil goods were unchanged in October after dipping in September and showing only small changes in previous months of the year. For October, increased prices of imported industrial supplies (led by rising natural gas prices), semiconductors, and automotive products were offset by declines in prices of computers, other machinery, consumer goods, and foods. Prices of core goods imports (which exclude oil, computers, and semiconductors) rose 0.1 percent in October, slightly less than the monthly average for the previous two quarters. In the third quarter, the NIPA price of core goods imports rose 1.4 percent at an annual rate, slightly less than in the second quarter and about the same as recorded during the past year. The increase in the third quarter was attributable to prices of industrial supplies and, to a much lesser extent, to automotive products. The price indexes of imported machinery, consumer goods, and foods all declined in the third quarter.

Exports. Prices of total goods exports resumed a recent downward trend in October following a moderate increase in September. Prices of agricultural exports rose in October (primarily increasing grain prices), but at a much slower rate than in September when prices shifted to positive from negative changes. For nonagricultural exports, prices declined slightly in October largely because of industrial supplies. Prices of exported fuel–which had jumped substantially in September–fell in October. In the third quarter, NIPA prices of exported core goods (which exclude computers, semiconductors, and agricultural products) rose 1.1 percent at an annual rate, the smallest increase since the second quarter of 1999.

Note: BLS prices for imports and exports in November were released on December 13 and will be included in the Greenbook supplement.

U.S. International Financial Transactions

Foreign official assets held in the United States increased marginally in October (line 1 of the Summary of U.S. International Transactions Table). An overall decrease in the holdings of Treasury securities of $7 billion (primarily Treasury bonds) was more than offset by increases in holdings of agency bonds ($5 billion) and deposits in U.S. banks ($3 billion). Significant increases were recorded for Germany and China, while Russian reserves continued to increase slightly and those of OPEC countries remained unchanged. The largest decreases for the month were in the reserves of Taiwan, Japan, Korea, and Singapore. Partial data from the Federal Reserve Bank of New York indicate a decline of $1 billion in foreign official assets held at the Bank in November. The substantial decrease in Turkey's reserves ($6 billion), stemming from the country's banking crisis, was largely offset by increases elsewhere.

Private foreigners bought net some $46 billion of U.S. securities in October, up from $31 billion in September (line 4). Total foreign net purchases of $345 billion through the first 10 months of 2000 are on pace to break the annual record of $348 billion set in 1997. In contrast to net sales for calendar year 1999 and the first three quarters of 2000, foreigners bought net $4 billion of Treasury securities in October, as purchases of Treasury bonds easily outweighed small net sales of Treasury bills. Net purchases of Treasury bonds in the Caribbean financial centers, Hong Kong, and Japan more than offset net sales in Europe. Net foreign purchases of U.S. agency bonds reached a record level of $13 billion in October and were recorded predominantly for the United Kingdom, the Caribbean, and Asia (principally Japan). Although widening credit spreads resulted in a significant falloff in new U.S. corporate debt issues in both the domestic and foreign markets in October, foreign demand for U.S. corporate bonds remained strong with net purchases of $13 billion. Foreign demand for U.S. debt has been supported by a willingness of highly-rated U.S. firms to issue in foreign currencies, filling a void in the foreign markets. Foreign net purchases of U.S. equities rebounded in October to $16 billion, up from $9 billion in September. Significant net purchases of U.S. stocks were reported for Europe ($6 billion) and nearly $3 billion each for Japan and Singapore. The largest net foreign sales, amounting to $4 billion, were recorded for the Caribbean financial centers.

In October, net U.S. acquisitions of foreign securities (line 5) were entirely accounted for by the receipt of $22 billion in foreign stocks resulting from equity-financed takeovers of U.S. companies by European and Canadian multinationals (shown separately in 5c). Otherwise, in regular market activity, net U.S. purchases of foreign bonds (line 5a) of $3 billion were exactly offset by net U.S. sales of foreign stocks (line 5b).

The U.S. banking sector recorded a net inflow of $31 billion (line 3) in October as a result of increased flows into U.S.-incorporated banks from their related foreign offices. This contrasts with a net outflow of $36 billion in September.

BEA will publish Balance of Payments data for the third quarter, including estimates of direct investment financial flows, on Thursday, December 14. These data will be discussed in the Greenbook Supplement.

Summary of U.S. International Transactions

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

	1998	1999	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Sept.	2000 Oct
Official financial flows	**-23.4**	**55.0**	**29.0**	**22.1**	**9.1**	**12.5**	**-1.9**	**.9**
1. Change in foreign official assets in U.S. (increase, +)	-16.6	46.4	27.4	22.7	7.1	12.8	-.6	1.0
a. G-10 countries	6.9	49.7	10.2	11.1	5.6	-3.9	-4.2	3.7
b. OPEC countries	-9.0	2.0	-1.7	5.7	1.2	3.3	-.1	.0
c. All other countries	-14.4	-5.3	19.0	5.9	.4	13.2	3.6	-2.7
2. Change in U.S. official reserve assets (decrease, +)	-6.8	8.6	1.6	-.6	2.0	-.3	-1.3	-.1
Private financial flows	**170.6**	**268.4**	**40.7**	**35.4**	**139.9**	**n.a.**	**...**	**...**
Banks								
3. Change in net foreign positions of banking offices in the U.S.[1]	57.3	-9.8	-16.6	-31.0	50.8	-18.0	-35.7	30.8
Securities[2]								
4. Foreign net purchases of U.S. securities (+)	275.2	319.0	74.1	122.7	67.1	109.4	30.6	46.1
a. Treasury securities	49.3	-20.0	-17.1	-9.1	-20.5	-12.5	-3.9	4.0
b. Agency bonds	50.5	71.9	15.6	26.0	19.0	28.6	12.0	13.1
c. Corporate and municipal bonds	121.7	158.8	40.6	43.5	41.6	45.7	13.6	12.9
d. Corporate stocks	53.7	108.2	35.0	62.1	27.0	47.5	8.9	16.2
5. U.S. net acquisitions (-) of foreign securities	-107.3	-113.0	-17.3	-25.2	-19.9	-20.3	10.8	-21.5
a. Bonds	-17.4	-5.7	2.0	-9.3	10.8	-9.0	.3	-3.2
b. Stock purchases	6.2	15.6	-5.9	-15.9	6.9	-3.9	10.5	3.2
c. Stock swaps[3]	-96.1	-122.9	-13.4	.0	-37.6	-7.4	.0	-21.5
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-146.1	-150.9	-33.3	-43.0	-37.5	n.a.	...	..
7. Foreign direct investment in U.S.	186.3	275.5	49.4	49.0	80.0	n.a.	...	..
8. Foreign holdings of U.S. currency	16.6	22.4	12.2	-6.8	1.0	n.a.	...	...
9. Other (inflow, +)[4]	-111.4	-74.8	-27.8	-30.3	-1.6	n.a.	...	...
U.S. current account balance (s.a.)	**-217.1**	**-331.5**	**-96.2**	**-101.5**	**-106.1**	**n.a.**	**...**	**...**
Capital account balance (s.a.)[5]	**.2**	**-3.5**	**-4.0**	**.2**	**.2**	**n.a.**	**...**	**...**
Statistical discrepancy (s.a.)	**69.7**	**11.6**	**30.5**	**43.8**	**-43.1**	**n.a.**	**...**	**...**

NOTE. The sum of official and private financial flows, the current account balance, the capital 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 adjustments BEA makes to account for incomplete coverage; therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.

3. U.S. acquisitions of foreign equities associated with foreign takeovers of U.S. firms.

4. 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

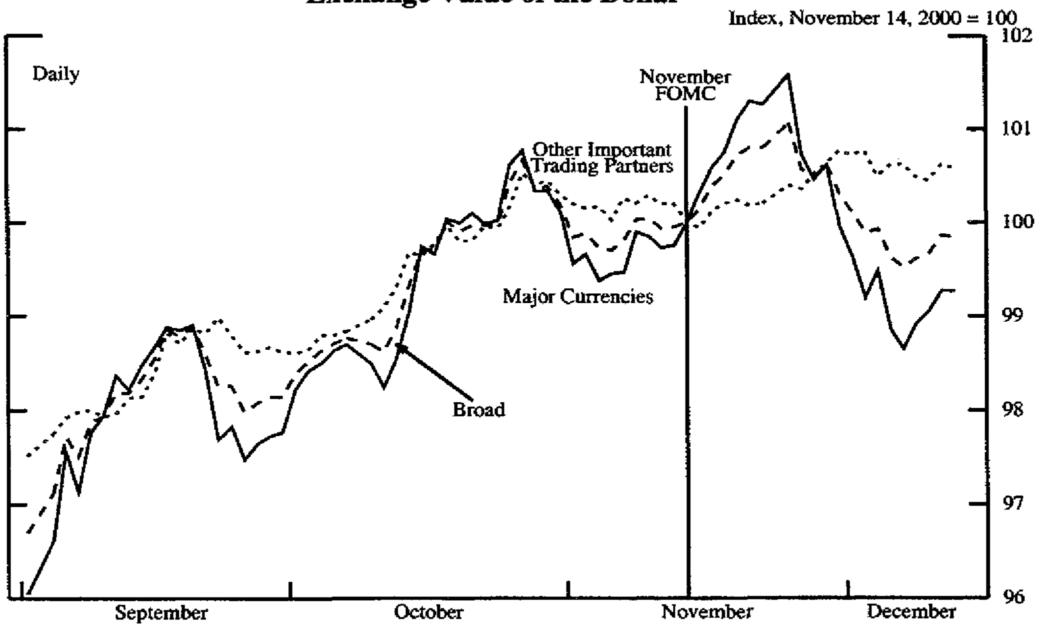
5. Consists of transactions in nonproduced nonfinancial assets and capital transfers.

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

Foreign Exchange Markets

In the period since the November FOMC meeting, the exchange value of the dollar against a weighted average of other major foreign currencies at first continued to appreciate, but subsequently fell sharply; on balance the index declined 0.7 percent during the intermeeting period, due largely to the dollar's 2.5 percent net depreciation against the euro. In the days following the FOMC meeting, the dollar appreciated 2.3 percent against the euro in response to a weaker-than-expected reading on German business sentiment for October. After November 24, the dollar-euro exchange rate reversed direction, depreciating 4.7 percent. This turnaround occurred even though the downward revision to U.S. third quarter GDP growth was smaller than market participants had expected and incoming data indicated that German GDP growth slowed in the third quarter. Apparently, market participants came to the view that U.S. growth is moderating more rapidly than euro-area growth in the fourth quarter. The British pound and the Swiss franc generally followed the movements of the euro over the intermeeting period. The European Central Bank, the Bank of England, and the Swiss National Bank did not adjust their policy rates during the period, whereas Sweden's Riksbank raised its repo rate 25 basis points on December 7, citing projections that output growth will be "substantially above potential in the years ahead."

Exchange Value of the Dollar



The dollar appreciated 3.7 percent on balance against the yen during the intermeeting period. Even though a no-confidence vote against Prime Minister Mori failed on November 20, the political future of the ruling LDP party remains clouded. Disappointing earnings reports, company restructuring announcements, and falling consumer prices also appeared to weigh on the yen. The December Tankan survey also showed weaker-than-expected business sentiment. The Bank of Japan did not adjust its policy stance, resisting calls by LDP officials to lower overnight interest rates back to zero. The dollar depreciated 1.4 percent against the Canadian dollar, following the re-election of the current government in Canada.

During the intermeeting period, headline euro-area equity market indices declined modestly and Japanese share prices increased. However, technology indices fell sharply early in the period, but subsequently retraced some of these losses as the Nasdaq rebounded in early December. Ten-year government bond yields fell 26 basis points in the euro area and 19 basis points in the United Kingdom, compared to a 44 basis point drop in the United States and a 10 basis point decline in Japan.

Financial Indicators in Major Industrial Countries

	Three-month rate		Ten-year yield		Equities
Country	Dec. 13 (Percent)	Percentage Point Change	Dec. 13 (Percent)	Percentage Point Change	Percent Change
Canada	5.80	-.11	5.42	-.39	3.36
Japan	.55	.05	1.69	-.10	3.47
Euro area	4.97	-.13	4.94	-.26	-2.00
United Kingdom	5.86	-.05	4.90	-.19	.07
Switzerland	3.21	-.21	3.79	-.05	-1.44
Australia	6.25	-.05	5.55	-.46	.01
United States	6.50	-.14	5.32	-.44	1.66
Memo: Weighted-average foreign	4.06	-.07	4.68	-.27	n.a.

NOTE. Change is from November 14 to December 13.
n.a. Not available.

The dollar's exchange value against a group of currencies of our other important trading partners rose 0.6 percent during the intermeeting period, due largely to a 4.6 percent appreciation versus the Korean won and a 2.7 percent appreciation versus the Taiwan dollar. Concerns about waning demand for technology exports weighed on the outlook for these two economies. Share prices in Taiwan and Korea declined sharply, led by shares of microchip-producing companies, but Korean share prices rebounded late in the intermeeting period in line with the Nasdaq.

Prices in emerging Latin American equity markets fell as well. Share prices in Argentina and Mexico declined 4.8 and 4.1 percent, respectively, as Argentina's economic situation remained vulnerable. Share prices in Brazil initially fell, but retraced these losses late in the intermeeting period, finishing up 3.2 percent on net. Argentina's EMBI+ spread initially widened 46 basis points, but later narrowed after the lower house of the Argentine Congress approved a 2001 budget that was in line with IMF requirements for receiving a support package.

Financial Indicators in Latin America, Asia, and Russia

	Currency/ US dollar		Short-term Interest rates[1]		Dollar-denominated bond spread[2]		Equity prices
Economy	Dec. 13	Percent Change	Dec.12/13 (Percent)	Percentage Point Change	Dec.12/13 (Percent)	Percentage Point Change	Percent Change
Mexico	9.45	-.45	16.90	-.43	4.53	.36	-4.07
Brazil	1.96	.93	16.10	-.40	9.60	-.53	3.22
Argentina	1.00	-.08	16.50	4.50	10.75	-.20	-4.84
Chile	574.60	.35	8.86	-2.23	2.22	-.08	1.94
China	8.28	.00	n.a.	n.a.	1.47	.04	-1.39
Korea	1191.40	4.60	6.00	.15	2.17	.17	.88
Taiwan	33.06	2.73	5.48	.11	...	...	-6.72
Singapore	1.74	-.29	2.81	.25	...	...	1.13
Hong Kong	7.80	.00	6.07	.52	...	...	2.93
Malaysia	3.80	-.01	2.94	-.01	2.07	.11	-3.58
Thailand	43.51	-.50	5.75	2.75	1.07	.00	-5.68
Indonesia	9455.00	.96	14.43	.52	7.11	.15	-1.22
Philippines	49.90	.81	14.75	-.63	5.69	-.01	-5.06
Russia	27.98	.87	n.a.	n.a.	10.21	.91	-11.37

NOTE. Change is from November 14 to December 12/13.

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.

Concerns about Turkey's banking system threatened to develop into a financial crisis. Foreign exchange reserves flowed out, putting pressure on the country's crawling peg exchange rate system, and domestic overnight deposit rates for some banks spiked as high as 1,950 percent in early December after the Central Bank of Turkey ceased to provide emergency liquidity. Rates later eased back to around 100 percent following the announcement by the Managing Director of the IMF that he was prepared to recommend a new Supplemental Reserve Facility for Turkey to the IMF Executive Board. Turkish EMBI+ spreads widened 312 basis points before the announcement, but narrowed 111 basis points subsequently. The equity market fell 44 percent ahead of the IMF announcement, but later rebounded sharply.

. 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 November Greenbook show that growth in the foreign industrial countries slowed moderately in the third quarter and point to a further slowdown in the fourth quarter. In the euro area, growth edged down to just below a 2-3/4 percent pace in the third quarter, as consumer spending appeared to be hurt by higher interest rates and the income effects of higher prices for oil and imported goods. Consumption also was weak in Japan, and recent data point to continued sluggish economic growth. Canadian real GDP expanded at a rapid 4.8 percent pace in the third quarter, but a sizable buildup of inventories and signs of stalling export growth suggest weaker economic growth in the current quarter.

Continued high oil prices kept broad measures of inflation near their peaks in October, but core inflation remained relatively subdued. Twelve-month consumer price inflation in the euro area was 2.7 percent, well above the European Central Bank's 2 percent target ceiling, but core inflation (excluding food and energy prices) remained below 1.5 percent. Canadian consumer price inflation approached the ceiling of the Bank of Canada's 1 percent to 3 percent inflation target band, but core inflation moved up only slightly to 1.5 percent. In the United Kingdom, retail price inflation remained below the 2.5 percent target rate, while in Japan consumer price deflation persisted at about 1 percent.

In **Japan**, economic growth slowed from its rapid pace in the first half of the year to a 1 percent annual rate in the third quarter. Public investment declined at an annual rate of 36.5 percent as the effect of last year's stimulus measures started to fade, and private consumption was flat. The primary source of growth was private nonresidential investment, which rose 35 percent at an annual rate. However, more recent information on capital spending suggest that this figure will be revised down substantially. The few indicators we have for the fourth quarter suggest continued sluggishness. In October, industrial production was just 0.3 percent above the third-quarter level. Housing starts and new car registrations, which both fell in the third quarter, were down further in October.

The BOJ's December Tankan survey was disappointing. The sentiment index for all industries increased only slightly, from -15 to -14, below the previous expectation of an increase to -11. The index is now expected to fall back to -15 in the next survey in March 2001. The index for large manufacturers was unchanged from the last survey at +10. Sentiment worsened a bit for large non-manufacturers, but improved slightly for small and medium-sized firms in both categories, although by less than expected in the previous survey.

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

Component	1998[1]	1999[1]	1999	2000		
			Q4	Q1	Q2	Q3
GDP	-1.4	.4	-5.8	10.0	.9	1.0
Total domestic demand	-1.4	.5	-5.9	8.4	.5	1.4
Consumption	1.1	-.4	-12.7	8.2	.5	.1
Private investment	-9.0	3.5	6.7	10.0	-11.8	28.0
Public investment	5.2	-6.4	4.5	6.1	23.3	-36.5
Government consumption	2.0	4.1	1.2	4.1	5.0	2.2
Inventories[2]	-.8	.0	-.2	.6	.2	-.5
Exports	-6.1	7.0	11.7	18.8	17.1	.2
Imports	-7.6	10.3	15.4	1.6	16.5	4.6
Net exports[2]	.0	-.1	.0	1.8	.5	-.4

1. Q4/Q4.
2. Percentage point contribution to GDP growth, s.a.a.r.

The unemployment rate remained unchanged at 4.7 percent in October, while the job-offers-to-applicants ratio rose slightly to 0.64. Deflation in core consumer goods prices in the Tokyo area (which exclude fresh food but include energy) has intensified despite the increase in energy prices, with prices down 0.9 percent in November from a year earlier. Twelve-month inflation in wholesale prices for domestic goods has turned slightly negative in recent months. The GDP deflator in the third quarter was down 1.6 percent from its year-ago level, its tenth consecutive quarterly decline.

Japan's merchandise trade surplus for the first ten months of 2000 was $108 billion (s.a.a.r.), down slightly from the same period last year, as both exports and imports have increased sharply. The developing Asian countries continue to account for most of the export gain, while higher oil prices have contributed significantly to the increase in dollar-denominated imports.

On December 5, the Japanese Cabinet was reshuffled by Prime Minister Mori. Mori drew almost exclusively from the ruling three-party coalition, with several current ministers retaining their positions. Although reforms intended to streamline government operations by consolidating the current 23 ministries and

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

Indicator	2000			2000			
	Q2	Q3	Q4	Aug.	Sept.	Oct.	Nov.
Industrial production	1.5	1.8	n.a.	3.3	-3.5	1.3	n.a.
All-industry index	1.7	.3	n.a.	1.4	-1.6	n.a.	n.a.
Housing starts	-2.5	-2.8	n.a.	4.7	.1	-4.6	n.a.
Machinery orders[1]	3.1	8.2	n.a.	26.6	-16.5	8.3	n.a.
Machinery shipments	4.6	1.0	n.a.	6.0	-6.4	2.6	n.a.
New car registrations	1.0	-3.8	n.a.	16.6	-9.6	-4.2	n.a.
Unemployment rate[2]	4.7	4.7	n.a.	4.6	4.7	4.7	n.a.
Job offers ratio[3]	.57	.61	n.a.	.62	.62	.64	n.a.
Business sentiment[4]	-18	-15	-14	...	...	...	...
CPI (Core, Tokyo area)[5]	-.6	-.8	n.a.	-.8	-1.0	-1.0	-.9
Wholesale prices[5]	.4	.2	n.a.	.2	.1	-.1	-.2

1. Private sector, excluding ships and electric power.
2. Percent.
3. Level of indicator.
4. Tankan survey, diffusion index.
5. Percent change from year earlier, n.s.a.
n.a. Not available. ... Not applicable.

executive agencies into ten ministries and three agencies are scheduled to take effect in January 2001, no major changes in Japanese policy are currently expected.

The pace of economic growth in the **euro area** moderated in the third quarter. Real GDP expanded an estimated 2.7 percent (s.a.a.r.). Growth in consumption expenditures was notably weaker than in the first half of the year, and net exports subtracted over half a percentage point from growth. Investment spending increased about 5 percent, about the same pace as in the first half of the year. Among the major euro-area countries, growth slowed notably in Germany, primarily reflecting weakness in consumption expenditures. Net exports made a small contribution to German growth. In France, real GDP growth was a bit weaker than in the second quarter. Net exports subtracted 1.7 percentage points from growth while inventory accumulation contributed 2 percentage points.

Euro-Area Real GDP
(Percent change from previous period, except as noted, s.a.a.r.)

Component	1998[1]	1999[1]	1999 Q4	2000 Q1	2000 Q2	2000 Q3
GDP	2.0	3.3	3.9	3.7	3.3	2.7
Total domestic demand	3.2	2.9	3.1	3.2	3.7	3.5
Consumption	3.2	2.6	2.4	3.6	2.8	1.6
Investment	4.1	5.4	1.0	7.2	3.7	5.4
Government consumption	1.6	1.6	1.5	2.8	.8	.6
Inventories[2]	.3	-.1	1.2	-.9	1.0	1.2
Exports	2.2	10.2	14.2	10.9	9.3	12.6
Imports	6.4	9.2	12.3	9.9	10.7	15.4
Net exports[2]	-1.2	.5	.8	.6	-.3	-.7
Memo:						
France	2.9	3.5	4.2	2.2	3.3	2.7
Germany	.9	2.5	3.1	3.6	4.6	2.3
Italy	.5	2.2	2.4	4.3	1.0	2.1

1. Q4/Q4.
2. Percentage point contribution to GDP growth, s.a.a.r.

Data for the current quarter point to a continued moderate pace of growth. German industrial production contracted 0.4 percent (s.a.) in October. The decline was fairly broad-based, with contractions in the production of both capital and consumer goods. Consumer confidence in the euro area moved down from a record-high level in September and has stabilized in more recent months. Industrial confidence edged down in November after reaching a record high in July. The euro-area purchasing managers' surveys moved down for the sixth consecutive month in October. However, German manufacturing orders rebounded in October, with improvement in both domestic and foreign orders. In France, consumption of manufacturing products rose 1.5 percent in October, after registering sizable declines in both August and September, suggesting that consumption may pick up somewhat in the current quarter.

The harmonized unemployment rate for the euro area was 8.9 percent in October, down nearly a full percentage point from a year ago, largely reflecting improved employment growth this year. More recent data for Germany show

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

Indicator	2000			2000			
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Industrial production[1]	1.1	1.7	1.0	.5	.8	n.a.	n.a.
Retail sales volume	.2	1.0	.5	.3	.4	n.a.	n.a.
Unemployment rate[2]	9.5	9.2	9.0	9.0	9.0	8.9	n.a.
Consumer confidence[3]	-.3	.0	-.7	1.0	-3.0	-3.0	-3.0
Industrial confidence[4]	2.7	6.0	6.3	6.0	6.0	6.0	5.0
Manufacturing orders, Germany	1.3	5.3	.7	2.0	-4.2	3.1	n.a.
CPI[5,6]	2.0	2.1	2.5	2.3	2.8	2.7	n.a.
Producer prices[5,6]	4.3	5.2	5.7	5.5	6.1	6.3	n.a.
M3[7]	6.5	5.4	5.4	5.6	5.4	5.3	n.a.

1. Excludes construction.
2. Euro-area standardized to ILO definition. Includes Eurostat estimates in some cases.
3. Diffusion index based on European Commission surveys in individual countries; averages of responses to questions on financial situation, general economic situation, and purchasing attitudes.
4. Diffusion index based on European Commission surveys in individual countries; averages of responses to questions on production expectations, orders, and stocks.
5. Percent change from year earlier.
6. Eurostat harmonized definition.
7. Eurostat harmonized definition, n.s.a., 12-month percent change.
n.a. Not available.

that, on a national basis, the unemployment rate was unchanged at 9.3 percent in both October and November, after declining earlier in the year.

Euro-area consumer prices rose 0.2 percent (s.a.) in October, leaving the twelve-month rate of consumer price inflation at 2.7 percent, well above the ECB's 2 percent target ceiling. Excluding food and energy prices, the increase was also 0.2 percent in October, and the twelve-month inflation rate was 1.4 percent. In November, twelve-month consumer price inflation edged up to 2.2 percent from 2 percent in France but remained 2.4 percent in Germany and 2.7 percent in Italy, based on national statistics.

On December 11, the European Union (EU) summit concluded with members reaching a compromise on the weighting of EU Council votes. Most important, the agreement prepares the ground for EU enlargement as early as 2004, as the number of votes each candidate country will receive when it enters the EU was also set. In addition, the members agreed to extend the system of qualified majority voting to several areas including the EU budget and trade in financial services, eliminating the need for unanimity on these issues. However, the system of qualified majority voting does not extend to other important areas such as taxation or social security reform.

Real GDP in the **United Kingdom** expanded 2.9 percent (s.a.a.r) in the third quarter. Total domestic demand rose 4.6 percent, as consumption and government expenditures registered strong gains. Strength in domestic demand was partially offset by a large negative contribution from net exports, as import growth remained robust but export growth declined.

U.K. Real GDP

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

Component	1998[1]	1999[1]	1999	2000		
			Q4	Q1	Q2	Q3
GDP	2.0	2.9	2.8	2.1	3.8	2.9
Total domestic demand	4.1	4.1	6.9	1.0	4.6	4.6
Consumption	3.5	4.9	6.0	2.8	3.1	4.1
Investment	8.0	5.4	4.7	-3.1	3.8	-.1
Government consumption	2.2	2.6	1.3	-2.9	8.7	2.4
Inventories[2]	.1	-.5	2.0	.3	.5	1.7
Exports	.1	6.2	-5.4	9.7	8.3	7.1
Imports	6.7	9.3	8.3	5.1	9.1	12.7
Net exports[2]	-2.2	-1.3	-4.8	1.1	-.7	-2.3

1. Q4/Q4.
2. Percentage point contribution to GDP growth, s.a.a.r.

Early indicators for the fourth quarter suggest that expansion of activity will continue to slow. Industrial production fell 0.2 percent (s.a.) in the month of October, contracting for the second consecutive month, and the average volume of retail sales remained flat in October at a level 0.5 percent above the third-quarter average. Business confidence remains below levels recorded earlier this year. The expected volume of retail sales and orders in November are down from third-quarter levels. Consumer confidence is at the year's lowest level.

U.K. Economic Indicators

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

Indicator	2000			2000			
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Industrial production	-.7	1.3	.7	.5	-1.0	-.2	n.a.
Retail sales	1.4	.3	1.2	.4	.7	.0	n.a.
Unemployment rate[1]							
Claims-based	4.0	3.8	3.6	3.6	3.6	3.6	3.6
Labor force survey[2]	5.8	5.5	5.4	5.4	5.5	n.a.	n.a.
Business confidence[3]	12.7	-4.0	3.3	2.0	5.0	3.0	1.0
Retail prices[4]	2.1	2.1	2.1	1.9	2.2	2.0	2.2
Producer input prices[5]	12.7	11.4	12.1	11.7	13.7	13.0	10.8
Average earnings[5]	5.6	4.1	4.1	4.2	4.2	4.1	n.a.

1. Percent.
2. Three-month average centered on month shown.
3. Percentage of firms expecting output to increase in the next four months less percentage expecting output to decrease.
4. Excluding mortgage interest payments. Percent change from year earlier.
5. Percent change from year earlier.
n.a. Not available.

Labor market conditions remain tight. The official claims-based unemployment rate remained at 3.6 percent in November, the lowest rate in 25 years. However, average annual earnings growth in October was below the 4.5 percent rate that the Bank of England believes to be compatible with the inflation target. Producer input prices have been rising sharply, in part reflecting higher oil prices. Nevertheless, the twelve-month rate of retail price inflation (excluding mortgage interest rates) remains below the 2½ percent target, as price discounting has continued in the goods sector.

Chancellor of the Exchequer Gordon Brown released the Pre-Budget Report on November 8, 2000. The fiscal stance is approximately the same as was forecasted in the March budget, with the fiscal year 2000-2001 budget surplus estimated at £16.6 billion (nearly 2 percent of 1999 GDP).

In its November *Inflation Report*, the Monetary Policy Committee of the Bank of England released its latest GDP and inflation forecasts. Under the assumption that official interest rates remain unchanged at 6 percent, GDP growth is expected to ease to a trend rate of 2½ percent next year and continue at that rate in 2002. After a temporary spike in inflation in the coming months, as the impact of higher oil prices feeds through to inflation, the central projection for inflation is a gradual rise over the next two years, with inflation hitting the target of 2½ percent by the end of 2002.

Real GDP in **Canada** rose a stronger-than-expected 4.8 percent (s.a.a.r) in the third quarter, fueled by a 7.6 percent increase in domestic demand. Consumer spending rose 5.5 percent, with robust demand for durable goods leading the way. Investment, which rose 9.4 percent, was again led by strong business investment in communication, computer, and office equipment. Inventory investment surged, contributing 1.7 percentage points to third-quarter growth. Export growth was slightly negative, while imports rose 5.9 percent, causing net exports to subtract 2.6 percentage points from overall growth.

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

Component	1998[1]	1999[1]	1999	2000		
			Q4	Q1	Q2	Q3
GDP	3.2	4.9	5.1	5.5	4.6	4.8
Total domestic demand	1.0	5.9	8.1	4.9	5.0	7.6
Consumption	2.2	4.4	3.7	4.0	3.6	5.5
Investment	1.6	13.0	18.2	11.5	13.6	9.4
Government consumption	2.2	1.3	1.6	3.9	2.7	3.0
Inventories[2]	-1.0	.6	2.0	-.4	-.3	1.7
Exports	9.7	9.3	10.7	15.5	9.3	-.5
Imports	4.2	13.3	22.1	15.4	11.8	5.9
Net exports[2]	2.1	-1.2	-3.7	.3	-.8	-2.6

1. Q4/Q4.
2. Percentage point contribution to GDP growth, s.a.a.r.

Limited available data for the current quarter suggest the economy retains considerable strength, although some signs of slowing are present. Employment in October and November, on average, increased 0.6 percent from the third quarter, after rising only 0.2 percent in the entire third quarter. However, recent indicators suggest that activity in the manufacturing sector is moderating, with new orders for manufactured goods falling in September for the second consecutive month.

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

Indicator	2000			2000			
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
GDP at factor cost	1.2	1.0	1.0	.4	.0	n.a.	n.a.
Industrial production	1.7	1.4	.9	.7	-.6	n.a.	n.a.
New manufacturing orders	1.0	1.8	3.0	-4.1	-1.6	n.a.	n.a.
Retail sales	1.9	1.1	2.9	.2	.4	n.a.	n.a.
Employment	.9	.4	.2	.2	.4	.1	.4
Unemployment rate[1]	6.8	6.7	6.9	7.1	6.8	6.9	6.9
Consumer prices[2]	2.7	2.4	2.7	2.5	2.7	2.8	n.a.
Consumer attitudes[3]	113.8	117.0	119.8	...	...	...	...
Business confidence[4]	161.9	154.3	149.4	...	...	...	...

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.

Higher energy prices pushed the twelve-month rate of consumer price inflation to 2.8 percent in October, near the ceiling of the Bank of Canada's 1 percent to 3 percent target range. However, the twelve-month core rate of inflation (which excludes food and energy prices) was up only 1.5 percent in October, in line with the rate of increase observed over most of this year. Wage increases also moderated, with average hourly earnings rising 3.3 percent in the twelve months ending in November, down from growth of close to 4 percent earlier in the year.

In the national election held on November 27, Canada's Prime Minister Jean Chretien and the Liberal party won a third consecutive majority government. The Liberals now hold 173 of the 301 seats in Parliament, an increase from 161 before the election. The separatist Bloc Quebecois party lost seats in the election.

External Balances

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

Country and balance	2000			2000		
	Q1	Q2	Q3	Aug.	Sept.	Oct.
Japan						
Trade	120.1	112.5	104.6	99.6	111.3	67.5
Current account	136.4	128.3	117.7	123.0	118.2	105.2
Euro-Area						
Trade[1]	-6.3	17.1	27.6	-10.8	35.6	n.a.
Current account[1]	-32.3	-24.6	-21.5	-23.9	-15.7	n.a.
Germany						
Trade	63.1	51.6	43.8	43.4	38.6	56.3
Current account	-10.3	-31.4	-27.5	...	...	...
France						
Trade	9.7	8.7	-5.2	-4.0	.6	n.a.
Current account	4.2	5.3	n.a.	5.8	n.a.	n.a.
Italy						
Trade	9.4	-2.6	-2.7	-9.8	10.3	n.a.
Current account[1]	-7.4	-14.8	9.7	8.6	-12.3	n.a.
United Kingdom						
Trade	-44.7	-46.1	-45.3	-40.4	-43.1	n.a.
Current account	-21.4	-19.9	n.a.	...	...	...
Canada						
Trade	33.5	34.7	33.0	32.9	34.7	n.a.
Current account	12.6	9.8	9.1	...	...	...

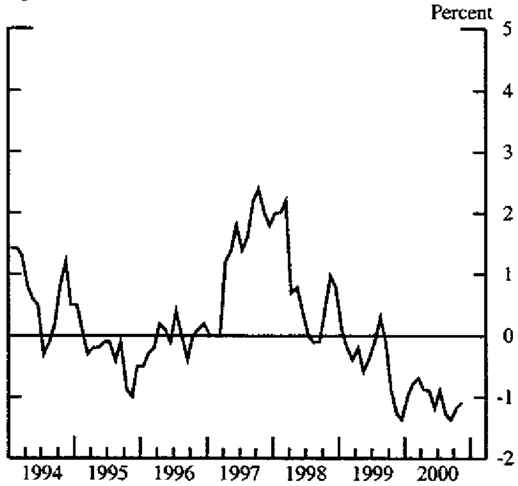
1. Not seasonally adjusted.

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

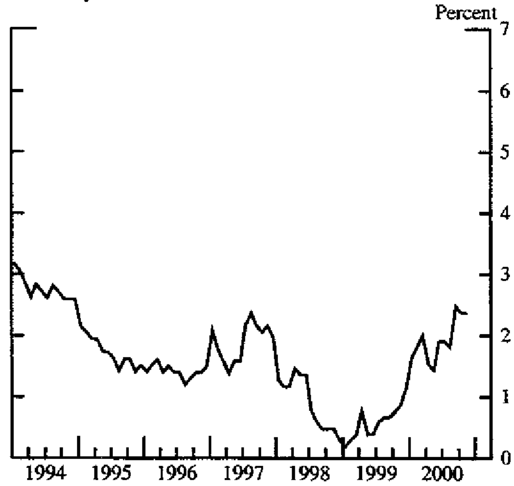
Consumer Price Inflation in Selected Industrial Countries

(12-month change)

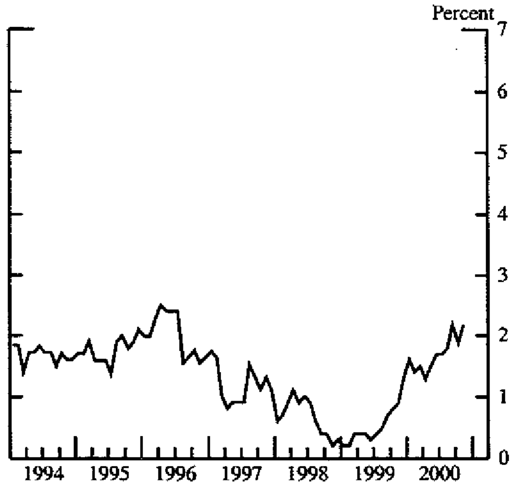
Japan



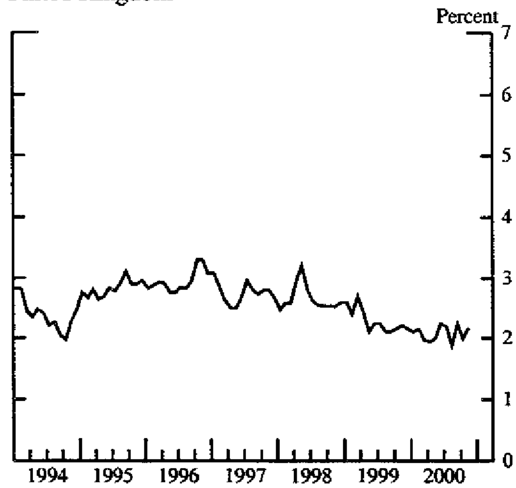
Germany



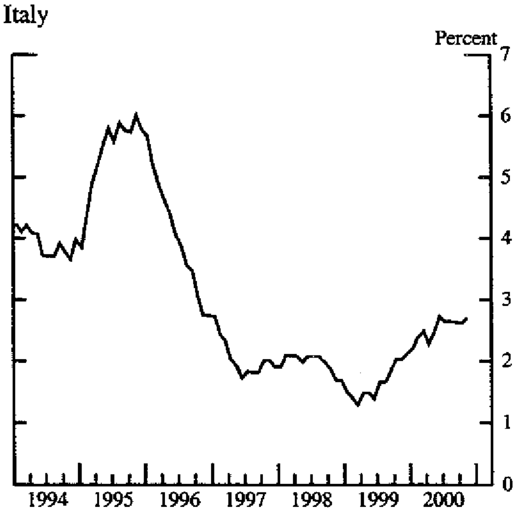
France



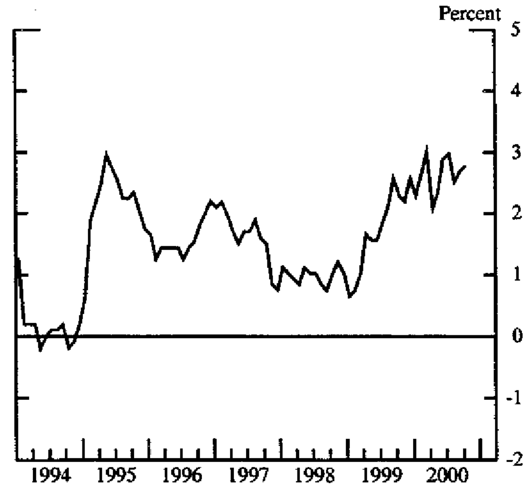
United Kingdom



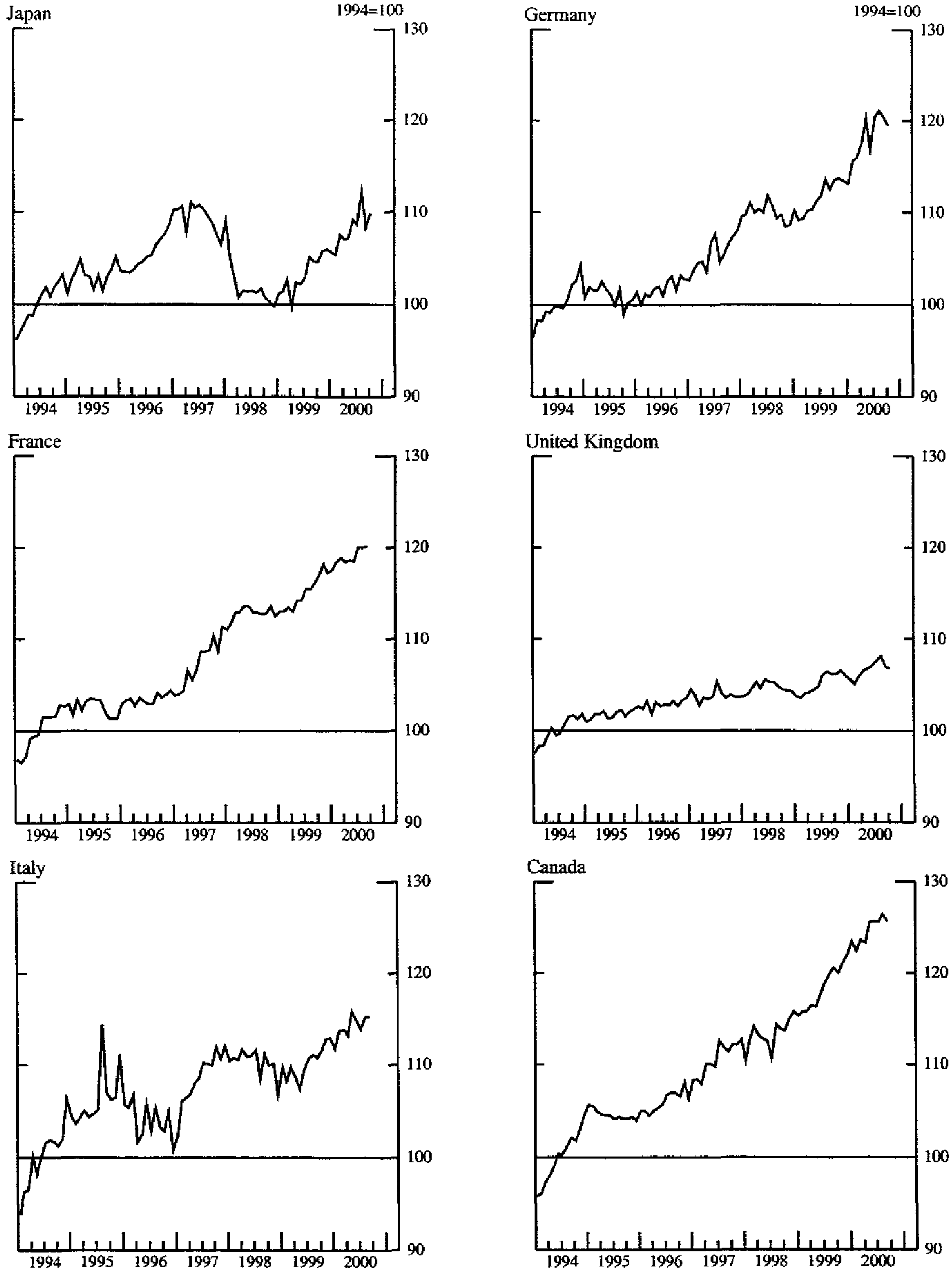
Italy



Canada



Industrial Production in Selected Industrial Countries



Economic Situation in Other Countries

Economic activity in the world's major developing countries has begun to show signs of slowing. In Latin America, these signs included a moderation of growth in Mexico and a fall in Venezuelan third-quarter real GDP. In Argentina, in response to ongoing concerns about the government's financing situation, a large international assistance package is being put into place. In emerging Asia, although economic growth remained generally strong, there were indications that activity is moderating in many parts of the region. GDP growth slowed in Taiwan and the ASEAN countries, and industrial production fell for the second consecutive month in Korea. In addition, political uncertainty continued to be a source of concern for several economies in the region.

Inflation has been stable in most of Latin America, while prices continued to fall in Argentina. In Asia, inflation is starting to rise in the ASEAN countries, but it does not yet appear to be a problem in the rest of the region.

External performance in the Latin American countries was mixed. Strong oil exports helped boost the third-quarter Argentine trade balance, while rising domestic demand fueled higher imports in Mexico. Brazil continued to record trade deficits. In developing Asian countries, export strength remained the driving force behind the economic expansion in many countries.

In Turkey, investor concerns about the health of the country's banking system and the viability of the government's reform program motivated massive capital outflows and a sharp decline in official foreign exchange reserves. In response, Turkey announced on December 6 that it had reached agreement with the IMF on a $10.4 billion rescue package, consisting of $7.5 billion from the Supplemental Reserve Facility and $2.9 billion from the country's current stand-by arrangement. In return, Turkey promised that it will hasten banking sector reforms and privatization.

In **Argentina**, there has been little sign of a pickup in economic conditions since the last Greenbook. Industrial production fell 1.2 percent in October following a 3 percent decline in the third quarter. Prices also continued to drop, with the level of prices in November slightly below the third-quarter average. Construction data remained depressed, with consecutive monthly declines in building permits. Political uncertainty and turmoil in financial markets appear to have further shaken consumer confidence, and VAT receipts, viewed as a signal of consumption expenditures, came in well below expectations in November. On the positive side, export growth remains healthy, due in large part to the strength in oil prices, and, when combined with flat import growth, allowed the trade balance to remain in surplus through October.

In early November, heightened market concerns about the ability of Argentina to finance its large external debt and fiscal deficit resulted in extremely volatile market conditions. On November 10, when Argentina appeared on the brink of losing access even to domestic capital markets, the government announced that a substantial financial assistance package would be put in place, including significant assistance from the IMF. The market reaction was generally positive, with spreads falling considerably, though remaining elevated compared with this summer's levels. The details of the package have yet to be released, but its size is now estimated to be around $30 billion over three years, including funds from the international financial institutions, domestic banks, and private pension funds. Argentina's current $7.2 billion stand-by arrangement with the IMF, around $2 billion of which is expected to be accessed by the end of the year, is included as part of the package. The announcement of the package is contingent on government progress on meeting four main economic conditions--the passage of the 2001 federal budget, a fiscal pact with the provinces limiting spending, social security reform, and deregulation of the health care system.

Argentine Economic Indicators

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

Indicator	1998	1999	2000				
			Q1	Q2	Q3	Oct.	Nov.
Real GDP[1]	-.6	-.3	-3.2	.5	n.a.	...	...
Industrial production	1.6	-6.0	2.0	-4.6	-3.0	-1.2	n.a.
Unemployment rate[2]	12.9	13.8	...	15.4	...	...	n.a.
Consumer prices[3]	.7	-1.8	-1.3	-1.1	-.9	-.5	-.7
Trade balance[4]	-3.1	-.8	1.8	.8	2.3	1.2	n.a.
Current account[5]	-14.3	-12.3	-12.8	-5.7	n.a.	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent, n.s.a. Data are released for May and October only. Figures for Q2 reflect data for May.
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 **Mexico**, the economy remained strong, but growth moderated further in the third quarter, coming in at 5.8 percent (s.a.a.r.) compared with a revised estimate of 6.7 percent in the previous quarter. Industrial production declined 1.2 percent (s.a.) in October, but the seasonally adjusted unemployment rate also fell in that month, indicating that labor markets remain tight. Although export growth continued to be robust, the expansion of domestic demand fueled imports. The current account deficit widened slightly in the third quarter to a little over $16 billion (a.r.), and the trade deficit (s.a.) also increased in October.

Inflation remained stable, with consumer prices rising less than 9 percent in November on a twelve-month basis. However, the Bank of Mexico tightened monetary policy in mid-November, due to survey data that indicated that inflation expectations for 2001 were still significantly higher than the government's 6.5 percent target. Monetary tightening has left short-term interest rates about four percentage points higher than they were after July's presidential elections.

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

Indicator	1998	1999	2000				
			Q1	Q2	Q3	Oct.	Nov.
Real GDP[1]	2.7	5.3	11.8	6.7	5.8	...	...
Industrial production	6.3	3.9	2.5	2.4	1.2	-1.2	n.a.
Unemployment rate[2]	3.2	2.5	2.2	2.2	2.3	1.9	n.a.
Consumer prices[3]	18.6	12.3	10.5	9.6	9.0	8.9	8.9
Trade balance[4]	-7.9	-5.4	-5.4	-7.4	-8.8	-10.3	n.a.
Imports[4]	125.4	142.1	161.6	170.4	180.8	186.1	n.a.
Exports[4]	117.5	136.7	156.2	163.0	172.0	175.8	n.a.
Current account[5]	-15.7	-14.0	-16.8	-14.6	-16.2	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent; counts as unemployed those working one hour a week or less.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

The new government took office on December 1, when Vincente Fox was inaugurated as president. The key cabinet position of finance minister went to Francisco Gil Diaz, who has worked in the finance ministry, the central bank, and the private sector. Gil is generally regarded as the person most likely to succeed in bringing about fiscal reform next year. The first big test for the Fox administration will be getting the 2001 budget through the new Congress, where no party has a working majority in either house. The proposed budget, which seeks to trim next year's fiscal deficit to 0.5 percent of GDP from 1 percent of GDP this year, was sent to Congress on December 5. The assumptions of the proposed budget include real GDP growth slowing to 4.5 percent next year from over 7 percent expected growth this year, inflation declining to 6.5 percent, and oil prices (Mexican mix) falling to an average of $18 per barrel from an average of more than $25 per barrel this year.

In **Brazil,** real GDP grew 4.8 percent (s.a.a.r.) in the third quarter, following (revised) growth of 2.1 percent in the second quarter. Growth was led by a 5.2 percent increase in industrial output. Brazil continued to record monthly trade deficits; while exports have grown about 15 percent in volume terms during 2000. Imports have also grown, owing to higher oil prices and to growth of intermediate goods imports. The cumulative current account deficit for 2000 through October was nearly $23 billion at an annual rate, nearly 4 percent of GDP.

Consumer price inflation has been under control and is expected to end the year below 6½ percent, well below the 8 percent upper bound of the government's inflation target range. However, the government has suppressed inflationary pressures by delaying increases in domestic fuel prices. In late November, the Brazilian government raised energy prices and announced that, henceforth, domestic energy prices will be regularly adjusted to better reflect changes in world oil prices and the *real*/dollar exchange rate.

The Brazilian government continued its good fiscal performance, with the primary (non-interest) fiscal surplus during the first ten months of this year falling a bit below the goal of 3.4 percent of GDP for 2000 as a whole. In recent weeks, congress has been mired in negotiations over financing a nearly 20 percent increase in the minimum wage (effective April 2001). That increase would raise federal government expenditures by nearly one-half percent of GDP on an annualized basis, relative to the baseline assumed in the government's 2001 budget proposal. Congressional approval of the federal government's 2001 budget has been delayed by this issue.

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

Indicator	1998	1999	2000				
			Q1	Q2	Q3	Oct.	Nov.
Real GDP[1]	-1.4	3.5	5.6	2.1	4.8	...	...
Industrial production	-2.0	-.7	1.2	.3	1.2	1.9	n.a.
Unemployment rate[2]	7.6	7.6	7.6	7.2	7.0	7.1	n.a.
Consumer prices[3]	1.7	8.9	7.9	6.6	7.6	6.7	6.0
Trade balance[4]	-6.6	-1.2	2.2	-1.2	-1.6	-0.9	-1.4
Current account[5]	-33.8	-25.1	-16.2	-28.2	-18.0	-41.8	n.a.

1. Annual rate. Annual figures are Q4/Q4.
2. Percent. "Open" unemployment rate.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec. Price index is IPC-A.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, n.s.a., annual rate.

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

On November 20, Banespa, the third largest federal government owned bank, was sold to Banco Santander Central Hispano for $3.5 billion, three times the next highest bid. Announcement of the deal prompted a rebound in the *real*. In late November, the government issued 60 billion yen (US $550 million) in sixty three-month Samurai bonds, yielding about 350 basis points above comparable Japanese government bond yields.

In **Venezuela,** the economy contracted slightly in the third quarter, after strong growth in the previous quarter. On a four-quarter basis, growth in the third quarter was 3.3 percent, boosted by strong oil revenue and hefty government spending. Inflation fell further in the fourth quarter, with prices rising just 14 percent in the twelve months ended November. This compares favorably with inflation rates of 20 and 30 percent in 1999 and 1998, respectively. In order to keep inflation low, there is some discussion of moving from a slowly crawling peg to a fixed exchange rate.

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

Indicator	1998	1999	2000				
			Q1	Q2	Q3	Oct.	Nov.
Real GDP[1]	-4.9	-4.5	4.4	8.7	-1.2	...	...
Unemployment rate[2]	11.2	15.2	15.3	n.a.	n.a.	n.a.	n.a.
Consumer prices[3]	29.9	20.0	18.2	17.1	15.6	15.1	14.0
Non-oil trade balance[4]	-9.4	-8.9	-9.2	-9.4	n.a.	n.a.	n.a.
Trade balance[4]	2.7	7.7	19.7	18.6	n.a.	n.a.	n.a.
Current account[5]	-2.6	3.7	14.0	12.6	n.a.	...	...

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

In **Korea**, real GDP grew strongly in the third quarter, but more recent indicators suggest that growth is weakening. Real GDP rose at a double-digit annual rate in the third quarter, over twice the growth rate in the first half of the year. However, this strong growth was accounted for entirely by a surge in net exports, as exports, particularly of semiconductors and other high tech products, grew at a very rapid–almost surely unsustainable–rate. Domestic demand actually declined in the third quarter. Indexes of consumer and business sentiment have both decreased in recent months, probably depressed by the continuing sharp fall in stock prices and, in recent weeks, downward pressure on the won. Industrial production declined for the second consecutive month in October. The twelve-month consumer price inflation rate has moved down in recent months from its September peak.

The government's corporate restructuring program has continued to experience difficulties. Officials have indicated that an additional 5 trillion won (about $4 billion) could be needed to complete the restructuring of bankrupt Daewoo Motor and troubled Hyundai Engineering and Construction. President Kim Dae-jung recently speculated that, as a result of the second round of corporate restructuring, the number of unemployed might increase by one-quarter from its current level.

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

Indicator	1998	1999	2000				
			Q1	Q2	Q3	Oct.	Nov.
Real GDP[1]	-4.6	14.0	7.1	4.8	14.0	...	...
Industrial production	-6.5	24.1	2.3	1.0	8.1	-.4	n.a.
Unemployment rate[2]	6.8	6.3	4.4	3.9	3.9	3.9	n.a.
Consumer prices[3]	3.9	1.3	1.5	1.5	3.2	2.8	2.6
Trade balance[4]	41.6	28.7	16.4	13.3	25.3	16.7	n.a.
Current account[5]	40.4	24.5	5.5	10.6	13.8	14.0	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.

In the **ASEAN** region, the economic expansion began to show signs of weakening during the third quarter. Real GDP fell in Indonesia and Malaysia, while growth moderated in Singapore and the Philippines. Although exports are still growing strongly, third quarter oil price increases inflated import numbers, and that eroded current account surpluses. In addition, elevated oil prices and the depreciation of the regional currencies have led to a clear trend of rising inflation.

The political turmoil that has engulfed the Philippines, Indonesia, and Thailand continues to pose significant risks. Philippine President Estrada defied expectations by refusing to resign. His impeachment trial began on December 7 and is expected to continue into the first quarter of next year. Indonesian President Wahid is facing growing calls for his resignation and could face impeachment if he refuses to step down. In Thailand, both leading candidates for prime minister are currently under investigation for corruption, and this has led to a great deal of uncertainty about the future political landscape and the course of economic reform.