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March 16, 2001

# CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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## **Supplemental Notes**

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

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## Supplemental Notes

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### The Domestic Nonfinancial Economy

#### Industrial Production and Capacity Utilization

Industrial production declined 0.6 percent in February following a downward-revised decrease of 0.6 percent in January. Relative to the previous month, the contraction in manufacturing activity broadened considerably in February, and factory output fell 0.4 percent. Production at utilities moved down in the first two months of the year, retracing nearly all of the weather-related spike in December. The manufacturing operating rate dropped to 78.1 percent in February, about 3-1/2 percentage points lower than its long-run average.

Conditions in the high-tech sector continued to deteriorate, with production rising a slow 0.8 percent in February. The output of computers posted a moderate gain of 1 percent, well below last year's average monthly rate of 2.6 percent. Production of communications equipment increased by a similar amount. Anecdotal reports by several major producers suggest that, in addition to consumer demand, which had already begun showing signs of weakness in the fourth quarter, business demand has dropped back substantially in recent months. Moreover, several major firms, including Cisco, Motorola, and Compaq, announced layoffs that are expected to take effect by the end of the second quarter. Owing, in part, to the drop-back in demand for computers and communication equipment, the production of semiconductors slowed noticeably, edging up only 0.3 percent in February—4.2 percentage points below the average monthly rate in 2000, and the slowest monthly rate since April 1993.

Elsewhere in manufacturing, the output of motor vehicles and parts ticked down 0.1 percent. Assemblies were little changed, while production at parts facilities dropped for the fourth consecutive month. Although light vehicle inventories remain somewhat elevated, given the surprising strength in retail demand so far this year, we believe that the sharpest declines for this sector likely are behind us. Production of aircraft and parts was flat after having declined for two months.

Output in all of the broad market categories of IP weakened in February, reflecting, in part, sizable inventory overhangs in many sectors. The production of business equipment fell 0.9 percent, led by a large decrease in the output of industrial equipment. Production of construction supplies, which had been flat for two months, also dropped 0.9 percent. Within non-energy materials, industries that have posted noticeable declines so far this year include basic metals—particularly iron, steel, and aluminum—and textiles. In part due to high energy costs, capacity utilization in aluminum smelting has fallen to about 70 percent, and industry reports indicate that most of this idled capacity will not be restarted in 2001.

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

	Proportion 2000	2000			2000	2001	
		H1 <sup>1</sup>	Q3	Q4	Dec.	Jan.	Feb.
		----Annual rate-----			--Monthly rate---		
Total	100.0	7.3	3.5	-.6	-.3	-.6	-.6
Previous		7.3	3.5	-1.1	-.6		
Manufacturing	87.8	7.6	3.7	-1.3	-.8	-.6	-.4
Excluding:							
High technology industries	78.4	1.9	-1.4	-4.3	-1.0	-.8	-.6
Motor vehicles and parts	82.1	7.6	4.9	.4	-.5	-.1	-.5
Mining	6.3	2.1	2.8	-.7	-.8	2.1	-.5
Utilities	5.9	8.1	1.0	10.1	6.4	-3.3	-2.3
Selected industries:							
High technology	9.4	72.0	56.9	26.3	1.5	1.0	.8
Computers	2.7	46.5	51.9	24.8	.4	1.0	1.0
Communication equipment	2.0	35.3	41.6	30.2	.6	2.6	1.6
Semiconductors <sup>2</sup>	4.7	109.8	66.4	25.5	2.5	.4	.3
Motor vehicles and parts	5.7	6.4	-11.2	-23.6	-5.2	-9.4	-.1
Aircraft and parts	2.2	-7.7	11.6	5.3	-.3	-1.2	.0
Market groups, excluding energy and selected industries:							
Consumer goods	22.5	1.7	-.3	-1.6	.1	.0	-.6
Durables	3.5	-.7	-9.5	-4.8	1.9	-1.2	-.6
Nondurables	19.0	2.2	1.6	-1.1	-.3	.2	-.6
Business equipment	8.4	7.9	4.6	4.1	-.6	-.2	-.9
Construction supplies	6.1	3.6	-1.1	-3.9	.0	.0	-.9
Materials	24.2	.8	-3.1	-7.4	-1.5	-.2	-.7
Durables	15.9	2.6	-.6	-7.2	-1.2	-.2	-.7
Nondurables	8.3	-2.6	-7.6	-7.7	-2.0	-.1	-.6

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

2. Includes related electronic components.

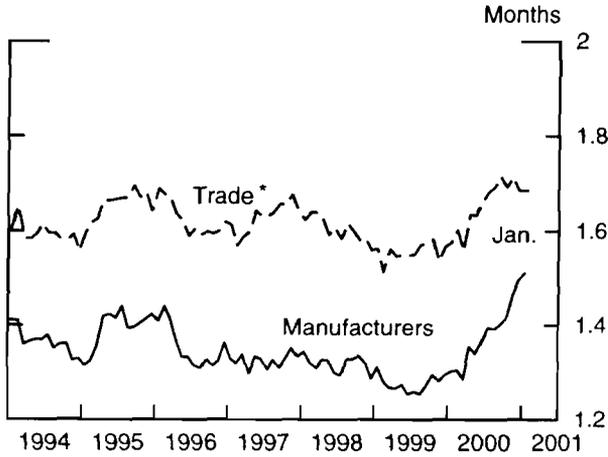
CAPACITY UTILIZATION  
(Percent of capacity)

	1988-89	1959-2000	2000			2000	2001	
	High	Avg.	Q2	Q3	Q4	Dec.	Jan.	Feb.
Manufacturing	85.7	81.6	81.9	81.7	80.4	79.5	78.7	78.1
Primary processing	88.3	82.7	86.4	85.4	82.8	81.1	79.7	78.8
Advanced processing	84.2	81.1	79.8	80.1	79.6	79.2	78.8	78.4

# Inventory-Sales Ratios and Industrial Production in Selected Industries

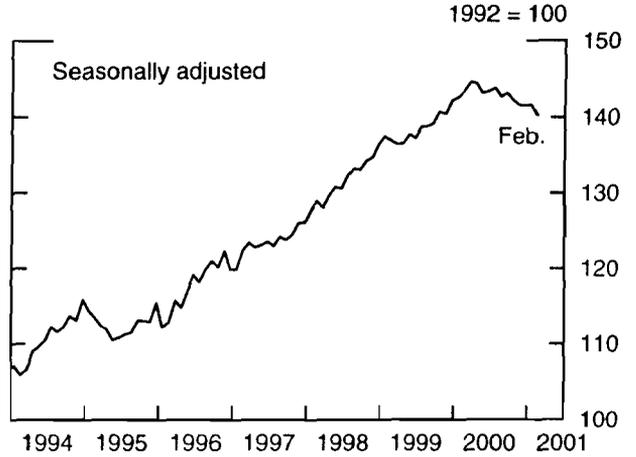
## Construction Supplies

Inventory-Sales Ratio



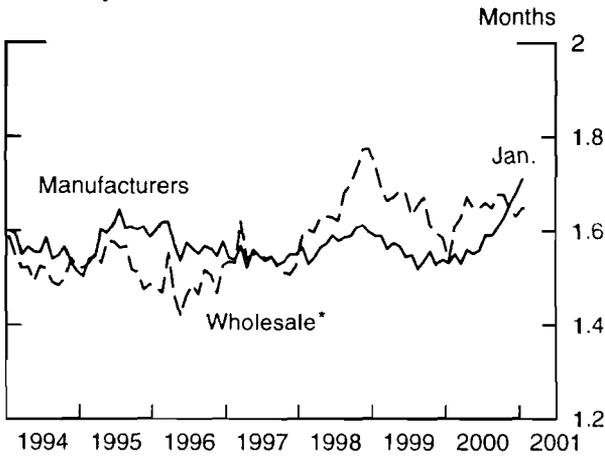
\* Retail building materials group of stores and wholesale lumber.

Industrial Production



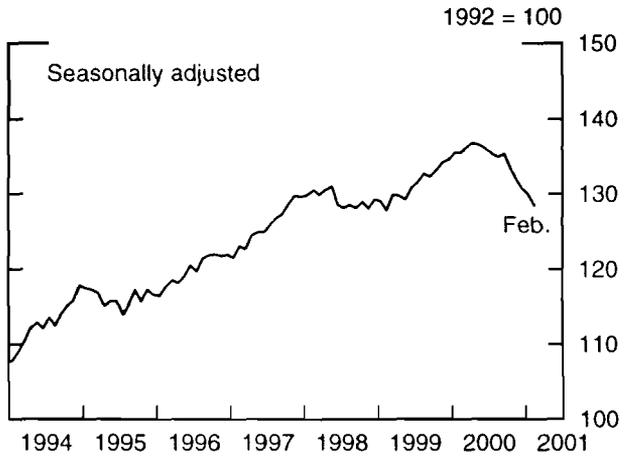
## Primary and Fabricated Metals

Inventory-Sales Ratio



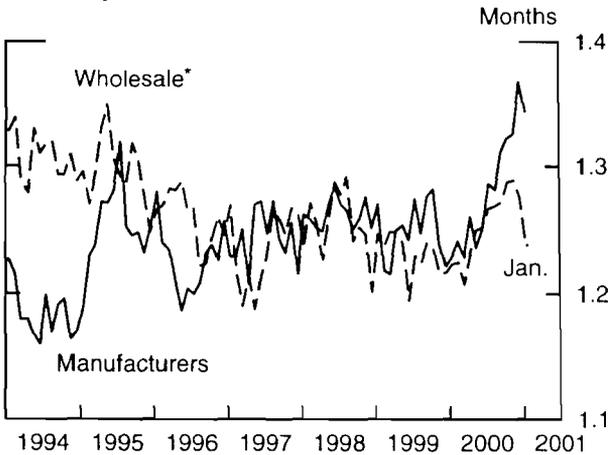
\* Wholesale metals and minerals.

Industrial Production



## Rubber and Plastics

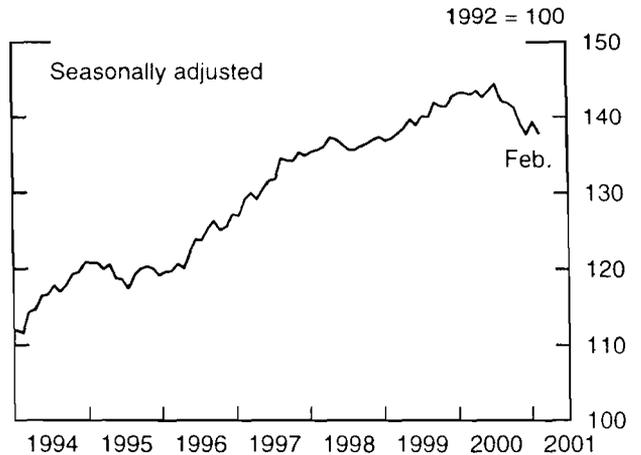
Inventory-Sales Ratio



\* Wholesale nondurables excluding groceries, farm products, chemicals, petroleum, paper, and apparel.

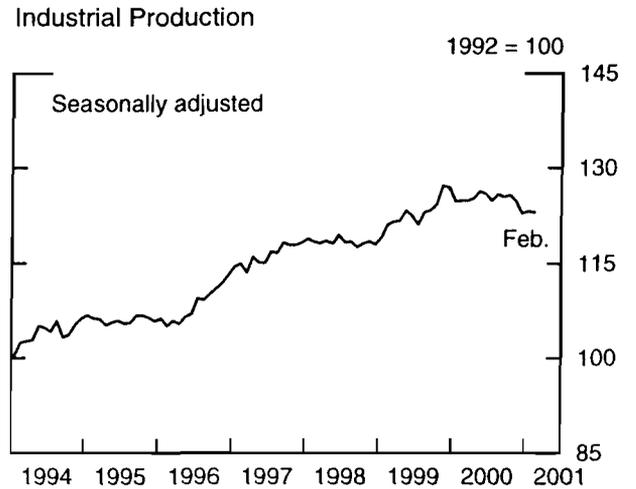
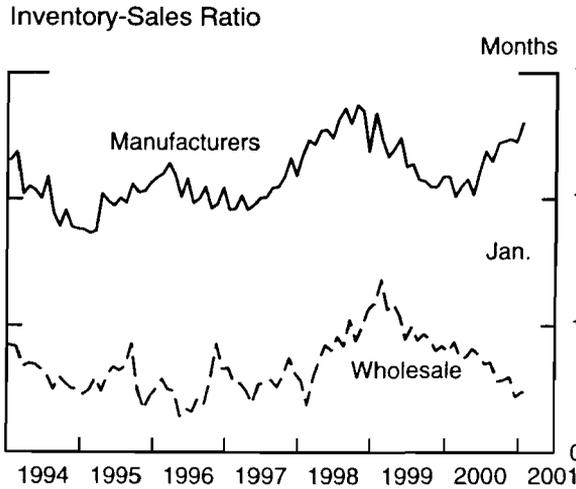
Note. Inventory-sales ratios calculated at book value.

Industrial Production

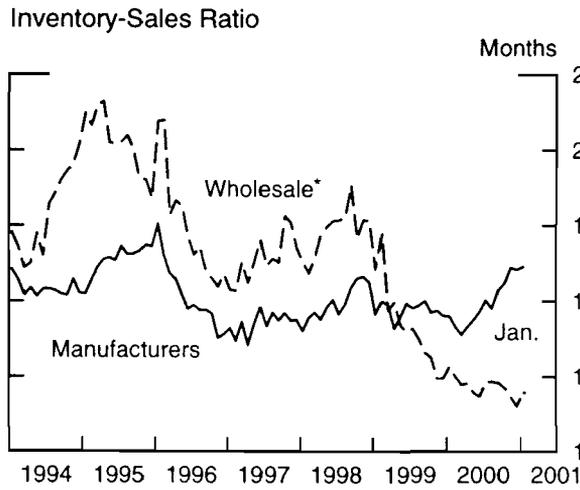


# Inventory-Sales Ratios and Industrial Production in Selected Industries

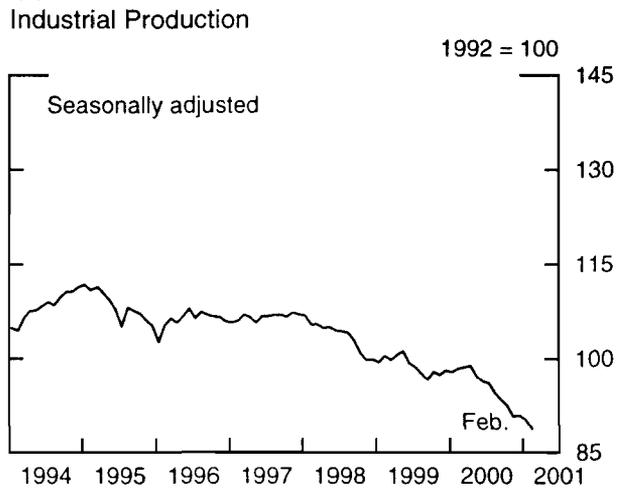
## Chemicals and Products



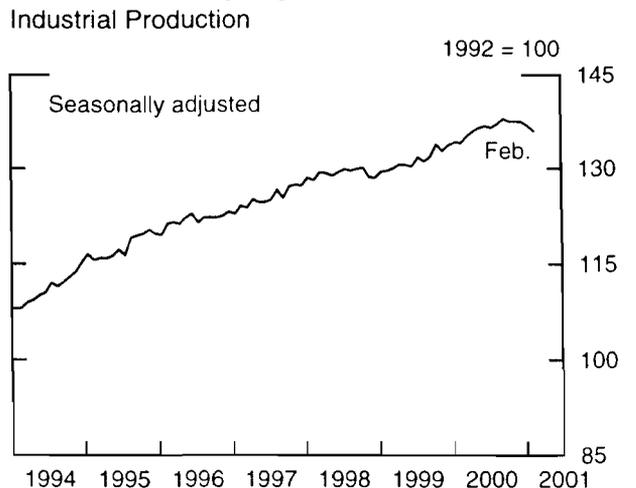
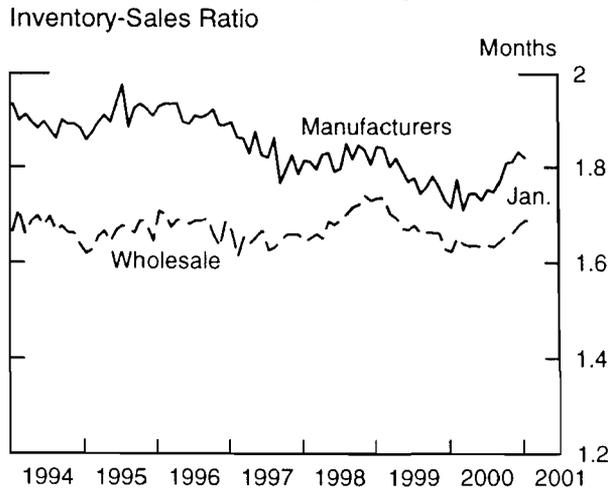
## Textiles and Apparel



\* Wholesale apparel.



## Machinery, Equipment, and Instruments Excluding High-Tech



Note. Inventory-sales ratios calculated at book value.

### **Housing**

Total private housing starts in February were essentially unchanged at an annual rate of 1.65 million units.<sup>1</sup> In the single-family sector, starts slipped almost 2-1/2 percent to an annual rate of 1.32 million units in February; we had expected a small increase. Adjusted permits for single-family construction fell only 1 percent in February, and were at a slightly higher level than starts. In addition, the backlog of single-family permits rose slightly last month. By themselves, these data would suggest a small increase in single-family starts for March.

Multifamily housing starts—which jump around a lot from month to month—rose almost 9 percent to an annual rate of 332,000 units in February. Although adjusted permits for multifamily construction fell slightly in February, the ratio of starts to adjusted permits still remained low by historical standards.

### **Consumer Sentiment**

According to the preliminary release, the Michigan SRC index of consumer sentiment posted a small gain in early March – its first increase since last November. Respondents were noticeably more optimistic overall about expected future business conditions; they were also a bit more upbeat about their personal finances over the next twelve months. In contrast, consumers had less favorable assessments of their current personal financial situations. Their appraisals of buying conditions for large household appliances were about unchanged. Some of the improvement in sentiment this month appears to owe to fewer respondents having heard unfavorable news about unemployment. At the same time, however, a higher proportion of households that said they heard unfavorable news about the stock market.<sup>2</sup>

Among those questions not in the overall index, the index of expected unemployment edged up in early March, but the increase was smaller than those of recent months. Respondents had more favorable assessments of car buying conditions early this month, reflecting improved views on car prices and financing rates. In contrast, appraisals of home buying conditions slipped a bit owing in part to some dissatisfaction with mortgage rates.

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1. By region, total starts rose 20 percent in the Northeast, retracing much of January's 25 percent decline, and starts fell only slightly in the Midwest after January's remarkable 45 percent increase. Elsewhere, an increase in starts in the South only partially offset a decline in the West.

2. In early March, 41 percent of respondents reported that they had heard unfavorable news about unemployment – down from 49 percent in February. In March, 16 percent said that they had heard unfavorable news about the stock market versus 11 percent in February.

## Private Housing Activity

(Millions of units; seasonally adjusted annual rate)

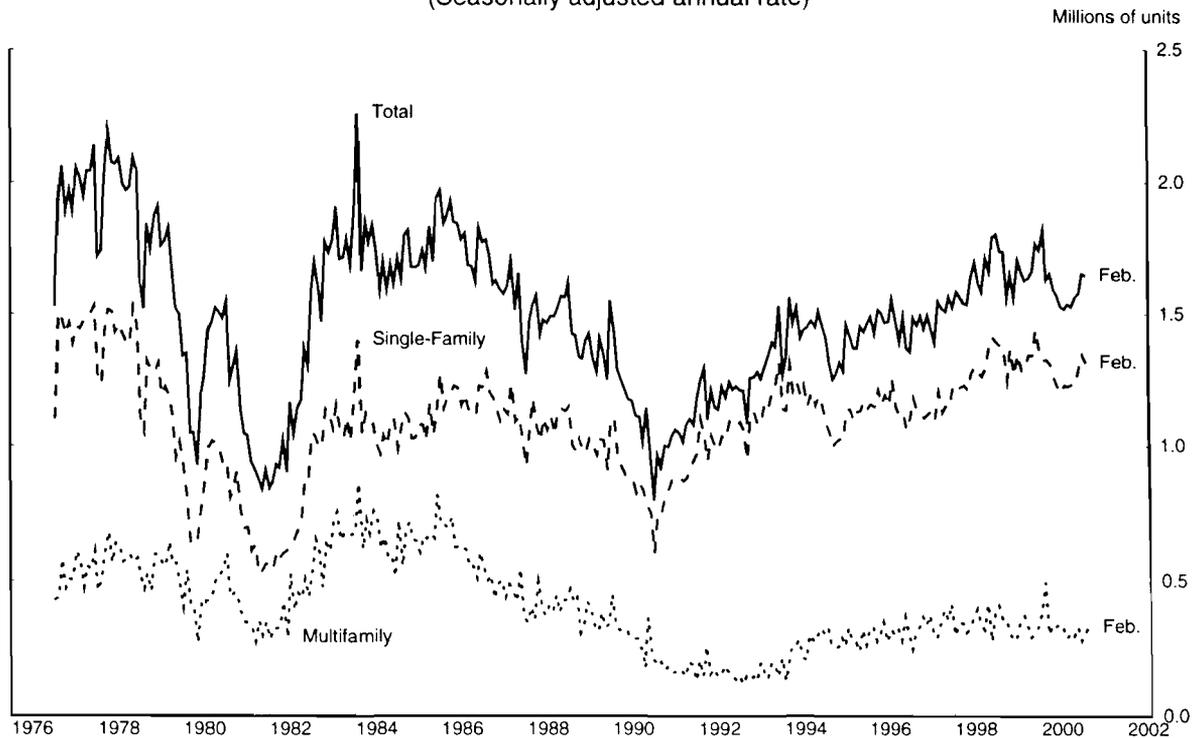
	2000					2001	
	2000	Q2	Q3	Q4 <sup>r</sup>	Dec. <sup>r</sup>	Jan. <sup>r</sup>	Feb. <sup>p</sup>
<i>All units</i>							
Starts	1.59	1.61	1.53	1.56	1.58	1.65	1.65
Permits	1.57	1.53	1.51	1.55	1.51	1.72	1.67
<i>Single-family units</i>							
Starts	1.26	1.27	1.22	1.25	1.30	1.35	1.32
Permits	1.18	1.15	1.14	1.18	1.16	1.29	1.24
Adjusted permits <sup>1</sup>	1.26	1.24	1.22	1.25	1.24	1.36	1.34
New home sales	0.91	0.86	0.90	0.96	1.03	0.92	n.a.
Existing home sales	5.11	5.12	5.07	5.10	4.94	5.13	n.a.
<i>Multifamily units</i>							
Starts	0.33	0.34	0.31	0.30	0.28	0.31	0.33
Permits	0.39	0.39	0.37	0.37	0.35	0.44	0.43
<i>Mobile homes</i>							
Shipments	0.25	0.27	0.24	0.20	0.18	0.16	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)



UNIVERSITY OF MICHIGAN SURVEY RESEARCH CENTER: SURVEY OF CONSUMER ATTITUDES  
(Not seasonally adjusted)

	2000 July	2000 Aug.	2000 Sept.	2000 Oct.	2000 Nov.	2000 Dec.	2001 Jan.	2001 Feb.	2001 Mar (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	108.3	107.3	106.8	105.8	107.6	98.4	94.7	90.6	91.8
Current conditions	114.2	112.4	112.0	113.6	116.9	110.5	107.7	105.8	104.1
Expected conditions	104.5	104.0	103.4	100.7	101.6	90.7	86.4	80.8	84.0
-----									
Personal financial situation									
Now compared with 12 months ago*	130	126	124	129	133	126	123	122	116
Expected in 12 months*	139	139	132	132	137	131	126	129	132
Expected business conditions									
Next 12 months*	148	151	149	143	142	121	106	93	94
Next 5 years*	135	130	136	132	131	113	115	102	111
Appraisal of buying conditions									
Cars	141	147	145	144	149	146	133	137	147
Large household appliances*	167	166	167	166	170	161	157	152	153
Houses	136	138	144	134	152	139	149	149	145
Willingness to use credit	44	47	41	43	41	42	33	47	35
Willingness to use savings	70	71	70	62	72	67	55	66	53
Expected unemployment change - next 12 months	111	108	111	117	114	127	139	143	145
Prob. household will lose a job - next 5 years	23	21	21	19	20	19	20	23	21
Expected inflation - next 12 months									
Mean	3.7	3.5	3.7	4.1	3.8	3.4	3.8	3.2	3.4
Median	3.0	2.7	2.9	3.2	2.9	2.8	3.0	2.8	2.9
Expected inflation - next 5 to 10 years									
Mean	3.2	3.5	3.6	3.7	3.6	3.7	3.5	3.6	3.5
Median	2.8	2.9	3.0	3.0	2.9	3.0	2.9	3.0	3.0

\* -- Indicates the question is one of the five equally-weighted components of the index of sentiment.

(p) -- Preliminary

(f) -- Final

Note: Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall, plus 100.

The mean of expected inflation over the next 12 months rose 0.2 percentage point to 3.4 percent in March, and the median edged up 0.1 percentage point to 2.9 percent. The mean of expected inflation over the next 5 to 10 years ticked down 0.1 percentage point to 3.5 percent, and the median was unchanged at 3 percent.

### **Producer Prices**

The producer price index for finished goods rose 0.1 percent in February, following a sharp 1.1 percent increase in January. Excluding food and energy, the index fell 0.3 percent last month, largely because of sharp declines in prices for motor vehicles. Over the twelve months ending in February, the core PPI increased 1.3 percent, a pickup of 0.3 percentage point from the year-earlier period.

Wholesale energy prices rose 1.4 percent in February, as substantial increases in natural gas, electricity, and other energy prices more than offset declines for gasoline and heating oil. The February jump for natural gas came despite sharp declines in spot natural gas prices that began late in January and that by the end of February had cumulated to roughly a 50 percent drop. Prices for electricity rose further in the February report, as utilities apparently continued to pass through previous increases in generating costs. Overall, energy prices were up about 18 percent over the past twelve months, about 6 percentage points less than the increase twelve months earlier.

The PPI for finished foods rose 0.6 percent in February, with sharp increases for fresh vegetables, poultry and eggs, and fish. Over the past twelve months, the PPI for food was up 2.4 percent, an acceleration of 1.2 percentage points from the year earlier twelve-month change, mainly reflecting a bulge in prices of vegetables and livestock products.

Prices of core consumer goods fell 0.4 percent in February, partly reversing a jump of 0.8 percent the previous month. Most of the February decline reflected lower prices for cars and light trucks, which fell 1.5 percent and 3.6 percent, respectively. These declines came as automakers instituted discount programs on a wide variety of products—though given the available information on these programs from anecdotal reports and our industry contacts, we were surprised by the extent of the drop in these PPIs. The February decline in core consumer goods prices left the twelve-month change for this category at 1.5 percent, the same rate of increase as in the previous year.

Prices of capital goods fell 0.3 percent in February, pulled down by the lower prices for motor vehicles. Computer prices declined 1.1 percent last month and were down 16-1/2 percent from a year earlier. The PPI for applications software fell 1.3 percent in February, largely reversing a 2.0 percent increase the previous

RECENT CHANGES IN PRODUCER PRICES  
(Percent change; based on seasonally adjusted data)<sup>1</sup>

	Relative importance, Dec. 2000	1999	2000	2000			2001	
				Q2	Q3	Q4	Jan.	Feb.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	2.9	3.6	2.3	2.0	2.9	1.1	.1
Consumer foods	22.5	.8	1.7	3.3	-1.2	2.4	.8	.6
Consumer energy	15.6	18.1	17.1	6.5	6.4	13.8	3.8	1.4
Other finished goods	61.9	.9	1.2	1.1	2.5	.0	.7	-.3
Consumer goods	38.0	1.2	1.2	1.3	2.4	.3	.8	-.4
Capital equipment	23.9	.3	1.2	1.5	1.7	.3	.3	-.3
Intermediate materials <sup>2</sup>	95.6	4.0	4.2	3.1	3.1	1.2	.8	-.1
Excluding food and energy	79.8	1.9	1.6	2.7	.3	-.6	.2	.1
Crude food materials	31.8	-.1	7.2	-7.3	-8.2	36.0	2.2	-1.6
Crude energy	52.5	36.9	76.0	163.6	20.0	64.0	25.0	-23.3
Other crude materials	15.8	14.0	-5.8	-11.9	-8.8	-10.2	.5	-2.5

1. Changes are from final month of preceding period to final month of period indicated.
2. Excludes materials for food manufacturing and animal feeds.

RECENT CHANGES IN PRODUCER PRICES -- RELATIVE CONTRIBUTION<sup>1</sup>  
(Percent change; based on seasonally adjusted data)<sup>2</sup>

	Relative importance, Dec. 2000	1999	2000	2000			2001	
				Q2	Q3	Q4	Jan.	Feb.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	2.9	3.6	2.3	2.0	2.9	1.1	.1
Consumer foods	22.5	.2	.4	.7	-.3	.5	.2	.1
Consumer energy	15.6	2.2	2.4	1.0	.9	2.0	.6	.2
Other finished goods	61.9	.6	.7	.7	1.5	.0	.4	-.2
Consumer goods	38.0	.5	.5	.5	.9	.1	.3	-.1
Capital equipment	23.9	.1	.3	.3	.4	.1	.1	-.1

1. Data may not add due to rounding.
2. Changes are from final month of preceding period to final month of period indicated.

month. Over the past six months, this volatile index has edged down a bit, after having posted sharp increases earlier in the year.<sup>3</sup>

At earlier stages of processing, the index for intermediate goods excluding food and energy edged up 0.1 percent in February. Over the past year, prices of core intermediate goods rose 1.3 percent, a deceleration of 1-1/2 percentage points from the previous year. Prices of crude goods excluding food and energy fell 2.5 percent in February, more than reversing a 0.5 percent increase the previous month.

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3. The BEA uses this index as the quarterly indicator for prepackaged software prices in the NIPAs. However, because it is a component of the PPI for service industries, it is not included in the finished goods PPIs discussed in this memo.

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

Instrument	2000		2001			Change to Mar. 15 from selected dates (percentage points)		
	June 26		Jan. 2	Jan. 30	Mar. 15	2000 June 26	2001 Jan. 2	2001 Jan. 30
<i>Short-term</i>								
FOMC intended federal funds rate	6.50		6.50	6.00	5.50	-1.00	-1.00	-.50
Treasury bills <sup>1</sup>								
3-month	5.66		5.69	4.89	4.41	-1.25	-1.28	-.48
6-month	5.94		5.36	4.76	4.27	-1.67	-1.09	-.49
1-year	5.82		4.92	4.48	4.01	-1.81	-.91	-.47
Commercial paper								
1-month	6.56		6.45	5.47	5.02	-1.54	-1.43	-.45
3-month	6.56		6.15	5.40	4.78	-1.78	-1.37	-.62
Large negotiable CDs <sup>1</sup>								
1-month	6.64		6.49	5.58	5.01	-1.63	-1.48	-.57
3-month	6.73		6.27	5.45	4.86	-1.87	-1.41	-.59
6-month	6.89		6.07	5.26	4.74	-2.15	-1.33	-.52
Eurodollar deposits <sup>2</sup>								
1-month	6.63		6.46	5.53	4.97	-1.66	-1.49	-.56
3-month	6.69		6.27	5.44	4.87	-1.82	-1.40	-.57
Bank prime rate	9.50		9.50	9.00	8.50	-1.00	-1.00	-.50
<i>Intermediate- and long-term</i>								
U.S. Treasury (constant maturity)								
2-year	6.50		4.87	4.70	4.22	-2.28	-.65	-.48
10-year	6.11		4.92	5.24	4.81	-1.30	-.11	-.43
30-year	5.99		5.35	5.59	5.29	-.70	-.06	-.30
U.S. Treasury 10-year indexed note	4.08		3.61	3.56	3.31	-.77	-.30	-.25
Municipal revenue (Bond Buyer) <sup>3</sup>	5.99		5.48	5.47	5.40	-.59	-.08	-.07
Private instruments								
10-year swap	7.38		5.95	6.05	5.80	-1.58	-.15	-.25
10-year FNMA	7.15		5.74	5.92	5.67	-1.48	-.07	-.25
Merrill Lynch BBB	8.49		7.81	7.63	7.29	-1.20	-.52	-.34
High yield <sup>4</sup>	11.97		13.00	11.88	11.77	-.20	-1.23	-.11
Home mortgages (FHLMC survey rate) <sup>5</sup>								
30-year fixed	8.14		7.13	7.15	6.97	-1.17	-.16	-.18
1-year adjustable	7.22		6.93	6.64	6.29	-.93	-.64	-.35
<i>Stock exchange index</i>								
Stock exchange index	Record high		2001			Change to Mar. 15 from selected dates (percent)		
	Level	Date	Jan. 2	Jan. 30	Mar. 15	Record high	2001 Jan. 2	2001 Jan. 30
Dow-Jones Industrial	11,723	1-14-00	10,646	10,881	10,031	-14.43	-5.78	-7.81
S&P 500 Composite	1,527	3-24-00	1,283	1,374	1,174	-23.17	-8.55	-14.57
Nasdaq (OTC)	5,049	3-10-00	2,292	2,838	1,941	-61.56	-15.32	-31.63
Russell 2000	606	3-9-00	462	512	452	-25.40	-2.23	-11.63
Wilshire 5000	14,752	3-24-00	11,764	12,719	10,783	-26.91	-8.34	-15.23

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.

NOTES:

June 26, 2000, is the day before the final FOMC meeting during the most recent period of policy tightening.  
 January 2, 2001, is the day before the intermeeting FOMC action.  
 January 30, 2001, is the day before the most recent FOMC meeting.

## **The International Economy**

### **U.S. International Transactions**

#### **Prices of Internationally Traded Goods**

**Oil.** Following two months of declines, the BLS price of imported oil rose slightly in February, largely because of OPEC's decision in mid-January to cut production targets. Through the first half of March, the spot price of West Texas Intermediate averaged close to \$28 per barrel, but recently has fallen below \$26.50 per barrel amid concerns of further weakness in economic activity.

**Non-oil imports** Prices of imported non-oil goods (and core goods) declined 0.1 percent in February following large increases in January (revised) and December. Virtually all of the increase in non-oil (and core) import prices in December and January was from natural gas. The price of imported non-oil industrial supplies was flat in February as a small decline in the price of natural gas for February (BLS preliminary estimate) was offset by increases in other prices, particularly building materials and metals. Prices of most other imported core goods (which exclude oil, computers, and semiconductors) declined in February or were little changed.

For January-February combined, the price of imported core goods rose nearly 6 percent at an annual rate, almost entirely because of rising natural gas prices. Spot prices of natural gas plunged nearly 50 percent between mid-January and the first week of March, bringing the spot price level back to where it was before the run-up began.

**Exports.** Prices of U.S. goods exports declined slightly in February following a small increase in January. All major categories of exported core goods (which exclude agricultural products, computers, and semiconductors) declined with the exception of machinery, which rose a bit. For January-February combined, prices of core goods exports were about flat, as increases in prices of machinery and automotive products were nearly offset by declines in prices of industrial supplies and consumer goods. Prices of agricultural exports declined (as grain prices moved lower in February) following five consecutive months of increases.

#### **U.S. Current Account through 2000:Q4**

The U.S. current account deficit rose to a seasonally adjusted annual rate of \$461 billion in the fourth quarter of 2000, an increase of nearly \$9 billion over the third quarter (revised). A \$14 billion (annual rate) widening in the deficit on

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

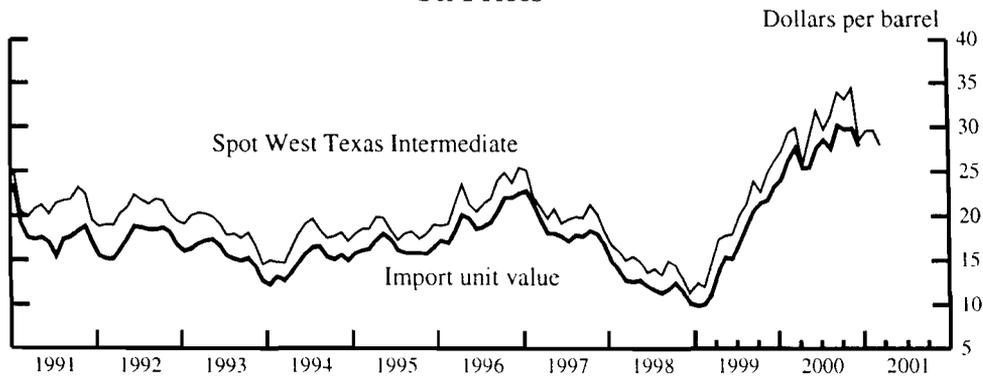
	Annual rates			Monthly rates		
	2000		2001	2000	2001	
	Q3	Q4	Q1 <sup>e</sup>	Dec.	Jan.-r	Feb.
	----- BLS prices (1995 weights)-----					
<b>Merchandise imports</b>	6.7	0.8	-1.8	-0.6	-0.1	0.1
Oil	52.9	5.0	-37.4	-9.8	-5.7	1.7
Non-oil	0.9	0.4	5.0	0.9	0.7	-0.1
Core goods*	1.5	0.9	5.8	0.9	0.9	-0.1
Foods, feeds, beverages	-4.6	-2.9	-1.4	1.8	-0.2	-1.7
Industrial supplies ex oil	8.6	6.9	26.6	3.9	3.5	0.0
Computers	-3.4	-10.4	-2.6	-0.2	0.0	-1.2
Semiconductors	-4.9	-0.2	-3.2	-0.8	-0.2	-0.2
Cap. goods ex comp & semi	-1.5	-1.7	-0.8	-0.1	-0.1	0.0
Automotive products	0.5	0.0	0.1	0.0	0.1	-0.2
Consumer goods	-0.5	-1.0	0.2	-0.1	0.1	0.1
<b>Merchandise exports</b>	-0.1	0.7	0.3	-0.2	0.3	-0.2
Agricultural	-12.1	12.4	3.3	1.2	0.6	-1.7
Nonagricultural	1.1	-0.4	0.1	-0.3	0.3	-0.1
Core goods*	1.8	-0.3	0.2	-0.4	0.4	-0.1
Industrial supplies ex ag	3.2	-1.8	-2.2	-0.9	0.3	-0.2
Computers	-2.2	-1.6	-1.3	-0.2	-0.2	-0.2
Semiconductors	-5.5	-3.1	-3.5	0.0	-0.7	-0.3
Cap. goods ex comp & semi	1.0	0.9	1.9	0.1	0.3	0.2
Automotive products	1.0	0.0	0.4	0.0	0.2	-0.1
Consumer goods	0.0	-0.8	-0.5	-0.2	0.1	-0.1
	---Prices in the NIPA accounts (1996 weights)---					
<b>Chain price index</b>						
Imports of goods & services	3.8	0.3	n.a.	...	...	...
Non-oil merchandise	0.7	0.0	n.a.	...	...	...
Core goods*	1.4	0.9	n.a.	...	...	...
Exports of goods & services	0.7	0.6	n.a.	...	...	...
Nonag merchandise	1.0	-0.2	n.a.	...	...	...
Core goods*	1.2	0.4	n.a.	...	...	...

\*/ Excludes computers and semiconductors.

e/ Average of two months.

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

**Oil Prices**



merchandise trade more than accounted for the increase in the current account deficit. In addition, there was a \$12 billion increase in the deficit on other income and transfers driven entirely by an increase in U.S. government grants, primarily the annual transfer to Israel. These deficit increases were partially offset by a \$1 billion (annual rate) increase in the services balance and a \$16 billion increase in net investment income. For portfolio investment income, payments increased \$3 billion more than receipts (at an annual rate), as net portfolio liabilities continued to grow. On the other hand, for direct investment income, payments fell \$11 billion, reflecting reduced profitability of foreign holdings in the U.S. manufacturing sector for the second quarter in a row, while receipts increased \$7 billion on the continued growth in gross holdings of foreign direct investment assets.

For the year 2000, the U.S. current account deficit totaled \$435 billion, an increase of \$104 billion over 1999. A \$104 billion increase in the merchandise trade deficit accounted entirely for this increase. The services balance was unchanged in 2000 at \$81 billion. Net investment income increased by \$5 billion to -\$8 billion, while other income and unilateral transfers decreased by \$5 billion to -\$53 billion.

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

Period	Goods and services, net	Investment income, net	Other income and transfers, net	Current account balance
<i>Annual</i>				
1999	-265.0	-13.1	-53.4	-331.5
2000	-368.5	-8.1	-58.8	-435.4
<i>Quarterly</i>				
2000:Q1	-341.0	-12.2	-53.8	-407.1
Q2	-355.0	-11.1	-54.9	-421.0
Q3	-382.5	-12.7	-57.2	-452.4
Q4	-395.4	3.5	-69.1	-461.1
<i>Change</i>				
Q1-Q4	-35.9	5.1	8.7	-22.2
Q2-Q1	-14.0	1.1	-1.1	-13.9
Q3-Q2	-27.5	-1.7	-2.3	-31.5
Q4-Q3	-12.9	16.2	-11.9	-8.6

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

### **U.S. International Financial Transactions**

Recently released balance of payments data showed foreign direct investment in the United States (line 7 of the Summary of U.S. International Transactions table) increased to a substantial \$94 billion in the fourth quarter of last year. Most of this inflow was associated with merger and acquisition activity, with the acquisition of Best Foods by Unilever accounting for \$25 billion. For the year, foreign direct investment in the United States was a record \$317 billion, compared with \$276 billion in 1999. U.S. direct investment abroad (line 6) totaled \$45 billion for the quarter, up slightly from the third quarter but in line with recent levels. For the year, U.S. direct investment abroad totaled \$162 billion—a slight increase from 1999.

Foreigners increased their holdings of U.S. currency by \$6 billion in the fourth quarter, but by only \$1 billion for the year as a whole. Currency flows were negative in the first quarter of 2000 and near zero in the second and third quarters as the build-up associated with the century date change was unwound. The outflow in the fourth quarter was more typical of the flows seen throughout the 1990s.

The statistical discrepancy (last line) was positive \$28 billion in the fourth quarter and positive \$36 billion for 2000. A positive statistical discrepancy indicates some combination of under-recorded net capital inflows or over-recorded net imports.

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

	1999	2000	2000				2001	
			Q1	Q2	Q3	Q4	Dec.	Jan.
<b>Official financial flows</b>	<b>55.0</b>	<b>39.3</b>	<b>22.1</b>	<b>9.0</b>	<b>12.2</b>	<b>-4.0</b>	<b>-4.2</b>	<b>17.9</b>
1. Change in foreign official assets in U.S. (increase, +)	46.4	39.6	22.7	7.0	12.5	-2.6	-3.1	18.3
a. G-10 countries	49.7	12.3	11.1	5.6	-4.2	-.2	-4.1	-1.3
b. OPEC countries	2.0	10.7	5.7	1.1	3.4	.6	-.5	3.6
c. All other countries	-5.3	16.6	5.9	.4	13.3	-3.0	1.5	16.0
2. Change in U.S. official reserve assets (decrease, +)	8.6	-.3	-.6	2.0	-.3	-1.4	-1.1	-.4
<b>Private financial flows</b>	<b>268.4</b>	<b>360.5</b>	<b>35.3</b>	<b>143.6</b>	<b>90.4</b>	<b>90.9</b>	<b>...</b>	<b>...</b>
<b>Banks</b>								
3. Change in net foreign positions of banking offices in the U.S. <sup>1</sup>	-12.4	15.3	-29.8	46.2	-11.8	10.8	-32.4	-35.8
<b>Securities<sup>2</sup></b>								
4. Foreign net purchases of U.S. securities (+)	319.0	414.4	122.9	67.2	110.4	113.8	33.3	37.8
a. Treasury securities	-19.9	-52.3	-9.2	-20.4	-12.4	-10.3	-5.0	-10.3
b. Agency bonds	71.9	111.9	26.0	19.0	28.6	38.3	9.5	11.2
c. Corporate and municipal bonds	158.8	180.4	44.0	41.6	45.7	49.1	17.6	12.9
d. Corporate stocks	108.2	173.8	62.1	27.0	48.5	36.2	11.1	24.1
5. U.S. net acquisitions (-) of foreign securities	-113.0	-97.2	-25.2	-32.0	-18.7	-21.1	-4.4	-8.1
a. Bonds	-5.7	-3.9	-9.4	10.8	-9.0	3.8	-1.2	-1.4
b. Stock purchases	15.6	-9.3	-15.8	5.2	-4.0	5.4	-3.2	-2.9
c. Stock swaps <sup>3</sup>	-122.9	-84.0	.0	-48.0	-5.7	-30.3	.0	-3.8
<b>Other flows (quarterly data, s.a.)</b>								
6. U.S. direct investment (-) abroad	-150.9	-161.6	-43.0	-37.5	-36.2	-45.0	...	...
7. Foreign direct investment in U.S.	275.5	316.5	49.1	100.4	72.7	94.4	...	...
8. Foreign holdings of U.S. currency	22.4	1.1	-6.8	1.0	.8	6.2	...	...
9. Other (inflow, +) <sup>4</sup>	-72.2	-128.7	-31.9	-1.7	-26.8	-68.4	...	...
<b>U.S. current account balance (s.a.)</b>	<b>-331.5</b>	<b>-435.4</b>	<b>-101.5</b>	<b>-105.0</b>	<b>-113.8</b>	<b>-115.3</b>	<b>...</b>	<b>...</b>
<b>Capital account balance (s.a.)<sup>5</sup></b>	<b>-3.5</b>	<b>.7</b>	<b>.2</b>	<b>.2</b>	<b>.2</b>	<b>.2</b>	<b>...</b>	<b>...</b>
<b>Statistical discrepancy (s.a.)</b>	<b>11.6</b>	<b>35.6</b>	<b>43.9</b>	<b>-47.8</b>	<b>11.0</b>	<b>28.4</b>	<b>...</b>	<b>...</b>

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.