

Prefatory Note

The attached document represents the most complete and accurate version available based on original files from the FOMC Secretariat at the Board of Governors of the Federal Reserve System.

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Part 2

March 11, 2004

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

March 11, 2004

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Domestic Nonfinancial Developments

Domestic Nonfinancial Developments

Overview

The economy appears to be expanding at a solid clip this quarter. Partial data suggest that consumer spending is moving up at a somewhat faster pace this quarter than last. Moreover, although activity in housing markets has eased from the frenzied pace of late last year, both sales and construction remain at very high levels. In the business sector, spending on equipment and software appears to be increasing rapidly again this quarter. In contrast, outlays for nonresidential structures have continued to decline. As has been the case over the past half-year, businesses seem to be able to boost production without adding much to their payrolls, and productivity is likely to post another sizable increase this quarter. Consumer price inflation crept up in January, reflecting a recent steep increase in energy prices; however, core price inflation remained subdued.

Labor Market Developments

The latest employment report depicted a labor market still struggling to gain momentum. Private nonfarm payrolls were flat in February, and the January change was revised down to 103,000. The labor force participation rate fell further, and the unemployment rate stayed at 5.6 percent.

After having declined by 3 million over the past three and a half years, manufacturing employment was about unchanged in February. In related industries, wholesale trade employment held steady last month after three months of increases, and employment at temporary help firms bounced back strongly from the previous month's decline. Elsewhere, job gains in financial activities and retail trade were more than offset by job losses in construction and in professional and business services excluding temporary help supply.¹

Average weekly hours of production or nonsupervisory workers were 33.8 hours in February, an amount unchanged from the upward-revised January level and up from the average workweek in the fourth quarter of 2003. As a result, despite the sluggish payroll gains, the level of aggregate hours in February stood 0.2 percent above the fourth-quarter average (not at an annual rate).

At 5.6 percent, the unemployment rate remains nearly 3/4 percentage point below its peak level of last June. The decline in the unemployment rate since June remains puzzling in light of the paltry gains in payroll employment over

1. The four-and-a-half-month strike by 70,000 workers against supermarket chains in California ended on February 29, and employees were expected back at work the first week in March. The resolution of the conflict came too late to affect the February employment report. The end of the strike is also unlikely to affect the March employment report because we estimate that firms hired about 60,000 replacement workers during the strike, roughly netting out the effect of the strike on employment.

Changes in Employment

(Thousands of employees; seasonally adjusted)

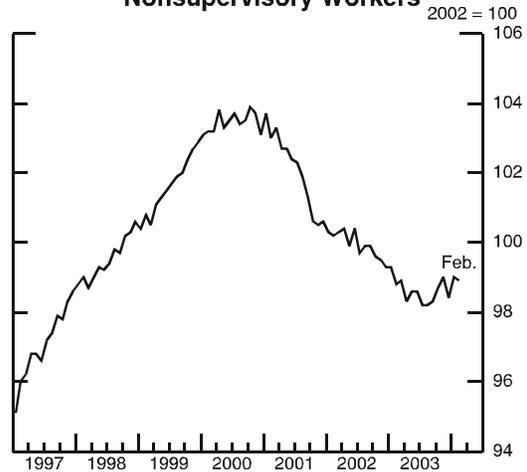
Measure and sector	2003				2004	
	H1	Q3	Q4	Dec.	Jan.	Feb.
	Average monthly change			Monthly change		
Nonfarm payroll employment (establishment survey)	-40	-1	60	8	97	21
Private	-35	8	58	8	103	0
Previous	-35	8	62	21	125	...
Manufacturing	-64	-46	-17	-20	-13	-3
Construction	4	12	7	3	34	-24
Wholesale trade	-4	-8	4	6	9	0
Retail trade	-4	6	-17	-46	60	13
Transportation and utilities	-8	-3	-1	-11	7	-5
Information	-16	-6	0	3	-13	2
Financial activities	14	5	-8	-4	-3	9
Professional and business services	14	28	36	45	-10	10
Temporary help services	10	17	23	36	-13	32
Nonbusiness services ¹	31	22	53	32	33	-4
Total government	-5	-9	2	0	-6	21
Total employment (household survey)	202	-10	278	-54	87	-265
Memo:						
Aggregate hours of private production workers (percent change) ²	-1.9	-1.1	1.9	-0.6	0.6	-0.1
Average workweek (hours) ³	33.7	33.6	33.7	33.6	33.8	33.8
Manufacturing (hours)	40.3	40.2	40.6	40.6	40.9	41.0

1. Nonbusiness services comprises education and health, leisure and hospitality, and "other."
 2. Establishment survey. Semiannual data are percent changes from Q4 to Q2. Quarterly data are percent changes from preceding quarter at an annual rate. Monthly data are percent changes from preceding month.
 3. Establishment survey.
- ... Not applicable.

Changes in Private Payroll Employment



Aggregate Hours of Production or Nonsupervisory Workers



the period. One possible explanation for these divergent patterns is a withdrawal of potential workers from the labor force in response to poor job prospects. Indeed, the labor force participation rate was 65.9 percent in February and is now 0.6 percentage point below the level in June.² The employment-population ratio, which combines movements in the unemployment rate and the labor force participation rate, reversed its January gain and remains within the low range that prevailed last year.

Other indicators of labor market conditions suggest that the pace of layoffs continues to ease, though the signals of greater hiring remain tentative. The number of recent job losers (those who have been unemployed less than five weeks) as a share of household employment fell sharply in February. In addition, initial claims for unemployment insurance have held steady around 350,000 since the beginning of the year, well below their mid-2003 levels. Furthermore, the level of insured unemployment has declined significantly in the past two months, and the four-week moving average is now near its lowest levels since 2001.³ Finally, the number of layoffs announced in February declined further to the low end of its range during the past two years.

Meanwhile, the fraction of individuals who exhausted their unemployment insurance benefits without finding a job moved down sharply in January. This sign that hiring may be on the rise is consistent with the Manpower Inc. survey of firms' hiring plans for the first quarter and with the net improvement in hiring plans reported by the National Federation of Independent Businesses over the past several months (despite a sharp drop in this volatile series in February). However, a cautionary note is sounded by the Help Wanted Index, which continued to stagnate in January at the low level that prevailed in 2003. Moreover, although expectations of labor market conditions—as reported by the Michigan Survey Research Center and the Conference Board—remain more favorable than their readings for most of last year, they deteriorated markedly in February.

2. Data for the household survey now incorporate lower estimates of population based on downward-revised estimates of net immigration for 2000 through 2003. This revision had no effect on the unemployment rate but reduced the level of household employment a cumulative 409,000 by December 2003. Separately, the annual benchmark revision to the payroll survey reduced the level of payroll employment last year, with a downward revision to December of 81,000. Together, these revisions narrowed the gap between these surveys regarding the estimated change in employment over the past few years by only a modest amount.

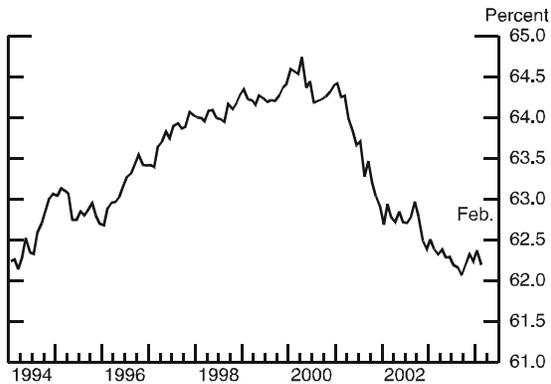
3. During the week ending February 21, 303,000 persons filed continuing claims under the Temporary Emergency Unemployment Compensation (TEUC) program. Current law prevents individuals from enrolling in the TEUC program after the week ending December 20. However, those recipients enrolled in the program as of that week will continue to receive benefits until their eligibility expires.

Selected Unemployment and Labor Force Participation Rates
(Percent; seasonally adjusted)

Rate and group	2002	2003	2003			2004	
			Q3	Q4	Dec.	Jan.	Feb.
<i>Civilian unemployment rate</i>							
16 years and older	5.8	6.0	6.1	5.9	5.7	5.6	5.6
Teenagers	16.5	17.4	17.5	16.3	16.1	16.7	16.6
20-24 years old	9.7	10.0	10.4	10.0	9.6	9.8	9.5
Men, 25 years and older	4.7	5.1	5.1	4.9	4.7	4.5	4.5
Women, 25 years and older	4.6	4.6	4.7	4.6	4.6	4.6	4.4
<i>Labor force participation rate</i>							
Total	66.6	66.2	66.2	66.1	66.0	66.1	65.9
Teenagers	47.4	44.5	44.2	43.6	43.2	44.4	43.6
20-24 years old	76.4	75.4	75.5	74.9	74.5	75.0	74.5
Men, 25 years and older	75.9	75.5	75.5	75.6	75.6	75.6	75.3
Women, 25 years and older	59.4	59.6	59.5	59.4	59.3	59.1	59.2



Employment-Population Ratio

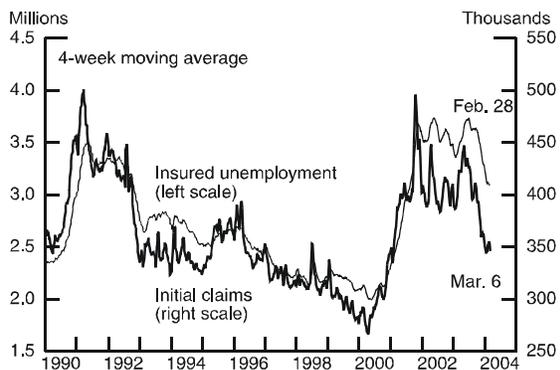


Job Losers (Less than 5 weeks)
(Percent of household employment)

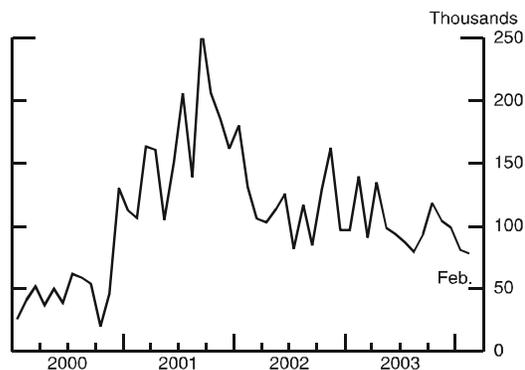


Labor Market Indicators

Unemployment Insurance

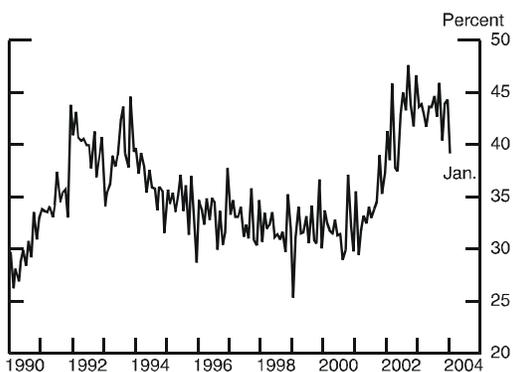


Layoff Announcements



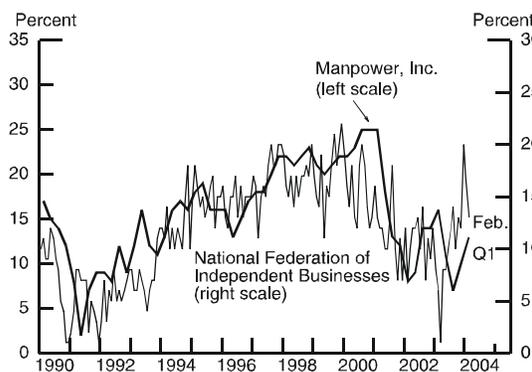
Note. Seasonally adjusted by FRB staff.
Source. Challenger, Gray and Christmas, Inc.

Exhaustion Rate



Note. Seasonally adjusted by FRB staff. Exhaustion rate is number of individuals who exhausted benefits without finding a job, expressed as a share of individuals who began receiving benefits six months earlier.

Net Hiring Strength



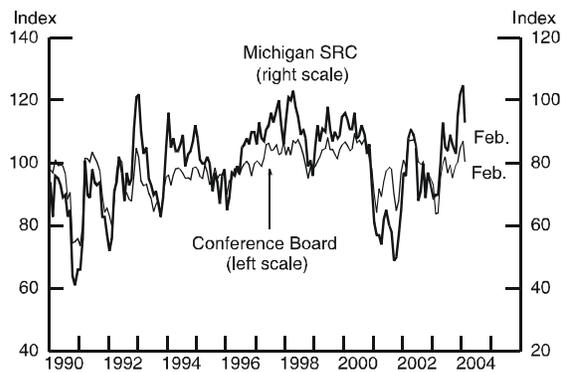
Note. Percent planning an increase in employment minus percent planning a reduction.

Help Wanted Index



Source. Conference Board.

Expected Labor Market Conditions



Note. The proportion of households expecting labor market conditions to improve, minus the proportion expecting conditions to worsen, plus 100.

The Bureau of Labor Statistics reported that output per hour for all persons in the nonfarm business sector increased at an annual rate of 2.6 percent in the fourth quarter. Over the four quarters of 2003, productivity is estimated to have risen 5.4 percent, up from the already robust 4.3 percent gain posted in the previous year.

Labor Output per Hour

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

Sector	2002	2003				
		Year	Q1	Q2	Q3	Q4
Total business	4.2	5.3	3.5	7.2	8.7	2.0
Nonfarm business	4.3	5.4	3.4	6.2	9.5	2.6
Previous	4.1	5.3	3.1	6.1	9.5	2.7
Manufacturing	6.4	5.8	5.1	3.3	10.1	4.8
Nonfinancial corporations ¹	5.1	...	2.4	9.7	8.6	...

Note. Annual changes are from fourth quarter of preceding year to fourth quarter of year shown.

1. Nonfinancial corporate sector includes all corporations doing business in the United States except banks, stock and commodity brokers, and finance and insurance companies; the sector accounts for about two-thirds of business employment.

... Not available.

Industrial Production

After having moved up briskly in January, industrial production (IP) appears to have expanded at a similar pace in February. More than half of January's 0.8 percent increase in total IP was due to a surge in utilities production, but manufacturing IP also rose moderately. Most indicators suggest that manufacturing output increased more rapidly in February. The diffusion index of three-month percent changes in IP remained elevated in January, implying that recent gains have been widespread. The factory operating rate edged up for the fifth consecutive month, rising to 74.6 percent in January, but still was 5.4 percentage points below its 1972-2003 average.

Gains in high-tech industries accounted for roughly half of the overall increase in manufacturing output in December and January. In January, production of communications equipment reversed a December decline, and output in the computer and semiconductor industries moved up briskly. The staff estimate of the average operating rate at semiconductor factories reached 94 percent in January, 22 percentage points above the recent low in March of last year.

Forward-looking indicators of high-tech production point to further gains in the near term. Although recent revenue guidance from Intel for the first quarter of 2004 implies more subdued future increases in chip production than in the last few quarters, anecdotal reports from our contacts at the Semiconductor Industry Association are upbeat. Moreover, manufacturers of equipment used to produce semiconductors reported the strongest month in more than a year in January,

suggesting that chip producers continue to expand capacity. For computers, Gartner's preliminary estimates show sales climbing further in the first quarter. The diffusion indexes compiled by *CIO Magazine* for future spending on both data-networking equipment and computer hardware remained elevated in February and suggest that plans for increased spending on information technology are fairly widespread. However, staff contacts at Cisco Systems indicate that the company, a dominant player among manufacturers of communications equipment, is only cautiously optimistic, as many of its business customers have not yet begun to implement their plans.

Motor vehicles were assembled at an annual rate of 12.6 million units in February—300,000 units higher than in January. Accordingly, the production of motor vehicles and parts is expected to contribute directly about 0.2 percentage point to the change in total IP in February. For the first quarter as a whole, the scheduled pace of assemblies is up 200,000 units from the fourth-quarter level.

Production of Domestic Autos and Trucks

(Millions of units at an annual rate except as noted; FRB seasonals)

Item	2003	2003		2004	2003		2004	
		Q3	Q4	Q1 ¹	Nov.	Dec.	Jan.	Feb.
U.S. production	12.1	12.3	12.2	12.4	12.1	12.2	12.3	12.6
Autos	4.5	4.6	4.4	4.5	4.4	4.3	4.3	4.5
Trucks	7.6	7.7	7.8	8.0	7.7	7.9	8.0	8.1
Days' supply ²	70	63	68	n.a.	68	64	71	72
Inventories ³	3.04	2.88	3.04	n.a.	3.03	3.04	3.01	3.06

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

1. Production rates for the first quarter reflect the latest schedules from Ward's Communications.

2. Quarterly and annual values are calculated with end-of-period stocks and average reported sales; excludes medium and heavy trucks.

3. End-of-period stocks; excludes medium and heavy trucks.

n.a. Not available

Weekly data suggest that electricity generation edged down last month, as February was not as unseasonably cold as January. Excluding electricity and motor vehicles, output in manufacturing industries for which we have weekly physical product data—principally, crude oil and refinery products, iron and steel, appliances, meat products, and lumber and plywood—rose slightly last month. Although order books at steel producers are reported to be full, production has increased little: Major producers are already operating at high rates of utilization. In addition, some firms are apparently facing tight supplies of raw materials, particularly coke and steel scrap.

Selected Components of Industrial Production
(Percent change from preceding comparable period)

Component	Proportion 2003 (percent)	2003 ¹	2003		2003		2004
			Q3	Q4	Nov.	Dec.	Jan.
			Annual rate		Monthly rate		
Total	100.0	1.4	3.8	5.4	1.0	.0	.8
Previous	100.0	1.6	3.8	6.2	1.0	.1	...
Manufacturing	82.3	1.8	3.7	6.0	1.0	.1	.3
Ex. motor veh. and parts	75.6	1.6	2.4	5.7	1.1	.1	.3
Ex. high-tech industries	70.7	.3	.4	4.3	1.0	.0	.1
Mining	7.6	.7	1.0	2.7	.3	.2	.1
Utilities	10.1	-1.1	6.8	2.6	1.6	-1.3	5.2
<i>Selected industries</i>							
High technology	4.9	21.6	33.3	26.0	1.3	1.3	2.6
Computers	1.2	14.0	20.2	26.7	1.9	1.8	2.0
Communications equipment	1.3	5.8	-6.7	2.4	-9	-1.8	1.9
Semiconductors ²	2.4	35.0	69.5	39.2	2.1	2.5	3.2
Motor vehicles and parts	6.7	3.9	19.3	9.2	.5	.8	.9
<i>Market groups excluding energy and selected industries</i>							
Consumer goods	22.6	.0	-1.5	2.7	1.0	-5	.1
Durables	4.3	1.1	2.0	7.7	1.9	.0	.6
Nondurables	18.3	-3	-2.3	1.6	.8	-6	.0
Business equipment	7.3	.8	4.3	4.9	2.1	.0	.1
Defense and space equipment	1.9	4.9	7.0	1.0	-5	-3	-9
Construction supplies	4.2	1.0	4.9	7.6	.9	.0	.3
Business supplies	8.5	.4	-9	2.4	.7	.0	.2
Materials	24.8	-2	.1	6.6	1.1	.4	.1
Durables	13.6	.0	.8	8.7	1.2	.3	.3
Nondurables	11.2	-5	-7	4.1	1.0	.4	.0

1. From fourth quarter of preceding year to fourth quarter of year shown.

2. Includes related electronic components.

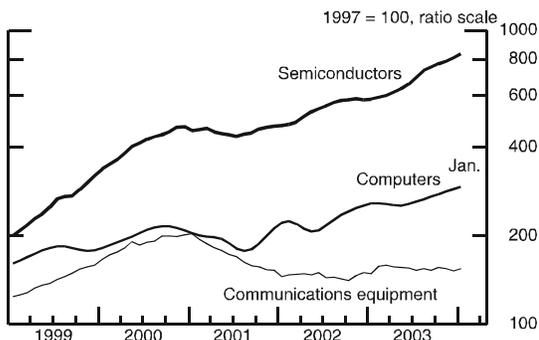
... Not applicable.

Capacity Utilization
(Percent of capacity)

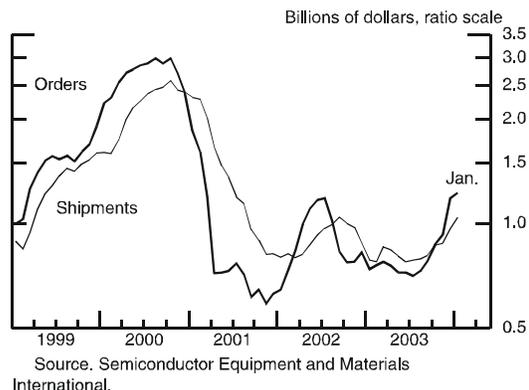
Sector	1972- 2003 average	1982 low	1990- 91 low	2003				2004
				Q2	Q3	Q4	Dec.	Jan.
Total industry	81.1	70.9	78.6	74.1	74.6	75.4	75.6	76.2
Manufacturing	80.0	68.7	77.2	72.7	73.2	74.1	74.4	74.6
High-tech industries	78.8	75.4	74.5	62.0	65.0	67.1	67.4	68.6
Excluding high-tech industries	80.1	68.2	77.3	73.9	74.3	75.1	75.4	75.6
Mining	86.9	78.6	83.4	84.7	85.0	85.6	85.9	86.0
Utilities	86.9	77.6	84.1	82.4	82.9	82.6	82.1	86.1

Indicators of High-Tech Manufacturing Activity

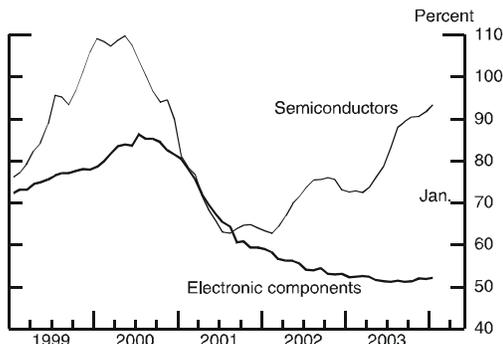
Industrial Production in the High-Tech Sector



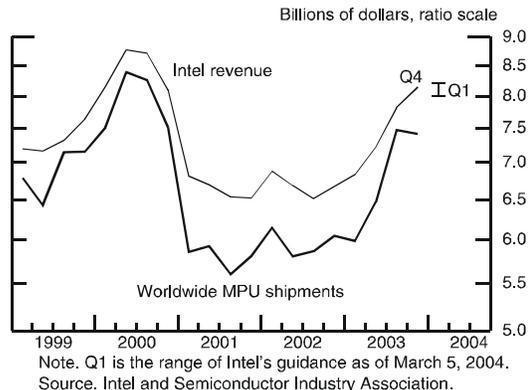
Semiconductor Manufacturing Equipment Orders and Shipments



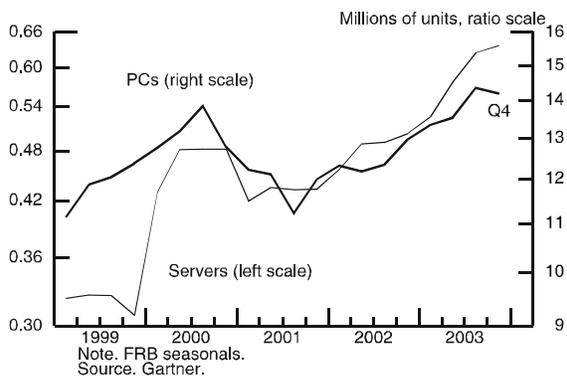
Semiconductor and Related Equipment Utilization Rates



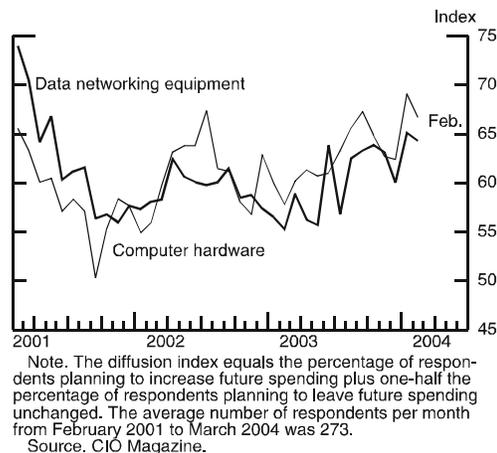
Microprocessor Unit (MPU) Shipments and Intel Revenue



U.S. Personal Computer and Server Sales

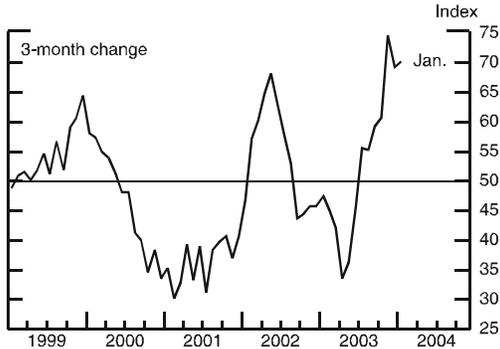


CIO Magazine Future Spending Diffusion Index



Indicators of Manufacturing Activity

Industrial Production Diffusion Index

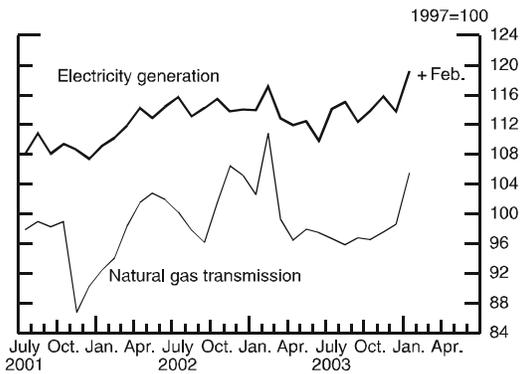


Note. The diffusion index equals the percentage of series that increased over 3 months plus one-half the percentage that were unchanged.

Motor Vehicle Assemblies

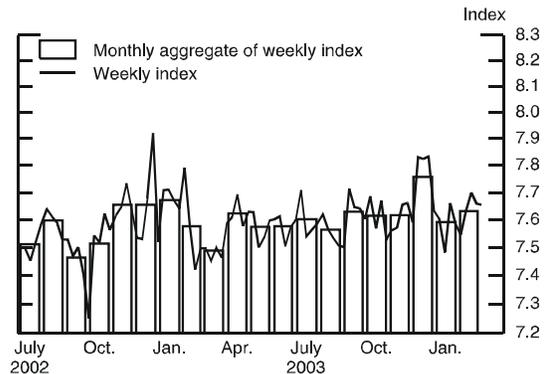


Utilities Production



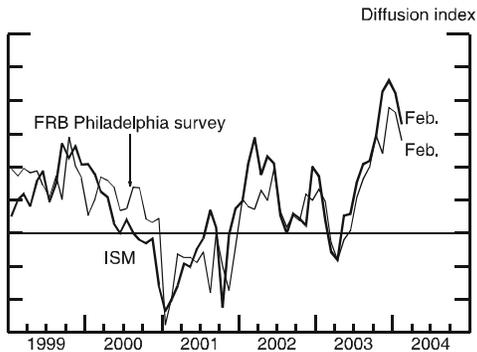
Note. February value for electricity generation is based on weekly data.

Weekly Production Index excluding Motor Vehicles and Electricity Generation



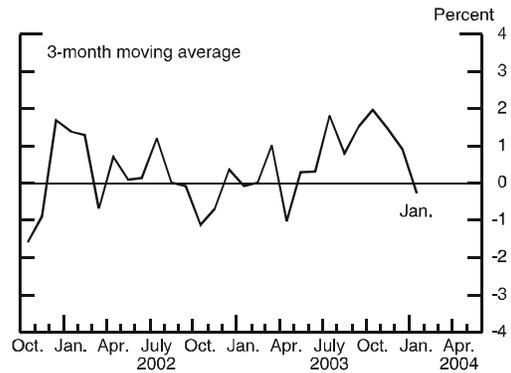
Note. One index point equals 1 percent of 1997 total industrial output.

New Orders: ISM and FRB Philadelphia Surveys



Note. The diffusion index equals the percentage of respondents reporting greater levels of new orders, plus one-half the percentage of respondents reporting that new orders were unchanged.

Change in Real Adjusted Durable Goods Orders



The forward-looking indicators of near-term production are generally positive but slightly less so than in recent months. The Institute for Supply Management's index of new orders declined in February but remained at a high level. The various regional diffusion indexes of new orders have also remained at levels that indicate orders are increasing. However, the Board staff's series for real adjusted durable goods orders ticked down in January.

New Orders for Durable Goods

(Percent change from preceding period except as noted; seasonally adjusted)

Component	Proportion, 2003: H2 (percent)	2003				2004
		Q3	Q4	Nov.	Dec.	Jan. ³
		Annual Rate		Monthly Rate		
Total orders	100.0	17.1	18.4	-2.4	1.7	-2.3
Adjusted orders ¹	75.0	16.8	19.1	-2.2	1.8	-.6
Computers	5.0	26.6	4.7	-.9	6.7	-5.9
Communication equipment	4.0	80.8	-56.0	-48.5	-20.9	83.7
Other capital goods	23.0	7.6	27.7	2.2	5.9	-3.9
Other ²	43.0	16.6	26.0	.5	.3	-2.0
Memo:						
Real adjusted orders	...	17.9	18.9	-2.2	2.0	-.5
Excluding high tech	...	11.1	22.9	.8	2.5	-2.8

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

2. Primary metals; most fabricated metals; most stone, clay, and glass products; household appliances; scientific instruments; and miscellaneous durable goods.

3. Because the January producer price index has not yet been published, real adjusted durable goods orders in January are deflated using the moving average of the price index in the previous three months.

... Not applicable.

Motor Vehicles

Sales of light vehicles slipped in the first two months of the year to an average annual rate of 16.2 million units. Several factors likely contributed to the tepid performance: Automakers curtailed the generous incentive packages they had offered in December, poor weather in the Northeast and Midwest apparently hampered showroom traffic, and fleet sales moved down in January and February from an unusually high level in December (according to confidential data). Manufacturers have some control over the timing of fleet sales to the daily rental companies, and General Motors, in particular, may have pulled forward some sales into December to boost year-end figures.

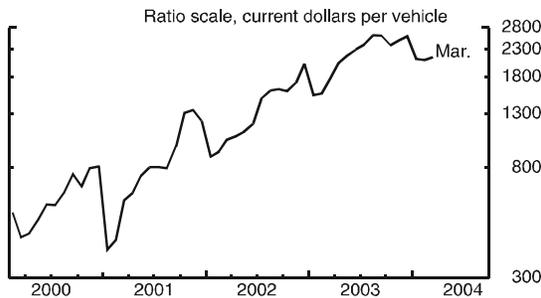
Sales of Automobiles and Light Trucks
(Millions of units at an annual rate, FRB seasonals)

Category	2003	2003			2003	2004	
		Q2	Q3	Q4	Dec.	Jan.	Feb.
Total	16.6	16.4	17.4	16.8	17.7	16.1	16.3
Autos	7.6	7.5	7.7	7.5	7.6	7.1	7.4
Light trucks	9.0	8.8	9.7	9.3	10.1	9.0	8.9
North American ¹	13.3	13.1	14.1	13.6	14.6	13.0	13.0
Autos	5.5	5.5	5.7	5.5	5.7	5.2	5.3
Light trucks	7.8	7.6	8.4	8.2	8.9	7.8	7.7
Foreign-produced	3.3	3.3	3.4	3.2	3.1	3.0	3.3
Autos	2.1	2.1	2.1	2.0	2.0	1.8	2.1
Light trucks	1.2	1.2	1.3	1.2	1.2	1.2	1.2
Memo: Medium and heavy trucks	.33	.31	.34	.37	.41	.41	.40

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

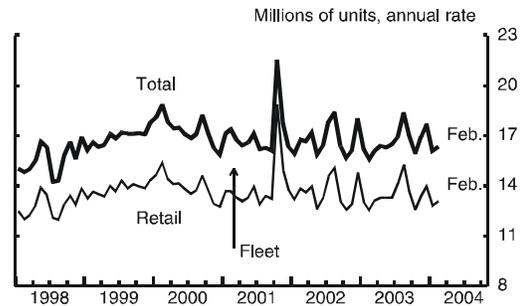
1. Excludes some vehicles produced in Canada that are classified as imports by the industry.

Average Value of Incentives on Light Vehicles



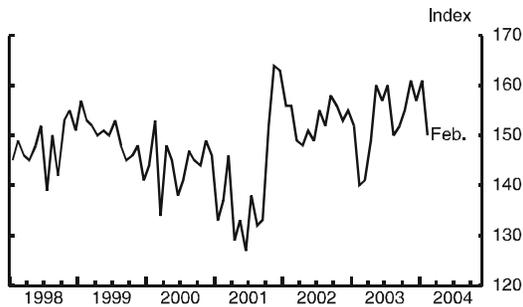
Note. Weighted average of customer cash rebate and interest rate reduction. Data are seasonally adjusted. Source: J.D. Power and Associates.

Fleet and Retail Sales of Light Vehicles

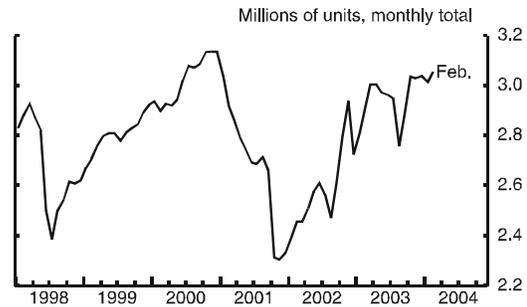


Note. FRB seasonals.

Michigan Survey Index of Car-Buying Attitudes



Inventories of Light Vehicles



Note. FRB seasonals.

Our industry contacts were surprised by the somewhat slow pace of sales at the start of the year, but they do not see it persisting into the spring. Although the Michigan Survey Research Center's diffusion index on vehicle purchase conditions fell 9 points in February to its lowest level in ten months, detailed data from the Michigan Survey indicate that the reasons respondents gave for their shifts in attitudes mostly involved declines in sales incentive programs, which some of our contacts think will be reversed in the near term.

With production at a robust annual rate of 12.6 million units in February and sales relatively soft, inventories moved back up to the elevated level that persisted in the fourth quarter. Whereas the days' supply of automobiles is comfortable, the supply of light trucks is high. Second-quarter schedules point to a moderate decline in production; if sales improve as automakers expect, scheduled production should more closely align stocks with sales by the end of spring.

Consumer Spending

After having advanced at an annual rate of 2.8 percent in the fourth quarter of last year, consumer spending is on track for a more substantial increase in the current quarter. Spending is being supported by rising wealth and last year's reduction in personal taxes, which is expected to result in lower final payments and higher refunds this year.

Nominal spending in the retail control category of goods—which excludes auto dealers and building material and supply stores—increased 1.4 percent in January and held even in February; after accounting for price changes, we estimate that real spending in this category rose 0.7 percent in January and edged down slightly in February. Real expenditures on services moved up 0.5 percent in January, led by a surge in spending on brokerage services and a cold-weather-related jump in purchases of energy services.

The major determinants of consumption look fairly strong. Real disposable personal income climbed 0.5 percent in January, spurred by a significant gain in private wages and salaries, pay raises for federal civilian and military personnel, and a drop in taxes. Furthermore, the increase in average hourly earnings in February suggests that wages and salaries rose again last month. However, growth in real income in the first two months of the year was held down somewhat by a run-up in energy prices. The personal saving rate was 1.8 percent in January, a little below its average level in 2003. Equity values and house prices have increased considerably over the past year, and the ratio of household net worth to income appears to have retraced most of its 2002 decline.

Retail and Food Services Sales

(Percent change from preceding period; seasonally adjusted current dollars)

Category	2003				2004	
	H1	Q3	Q4	Dec.	Jan.	Feb.
Total sales	2.9	2.8	1.0	.4	.2	.6
Previous estimate	...	...	.9	.2	-.3	...
Retail control ¹	2.0	2.6	1.3	.3	1.4	.0
Previous estimate	...	...	1.3	.2	1.0	...
GAF ²	1.4	3.1	.8	.6	1.3	.6
Gasoline stations	1.0	3.4	1.2	-.2	2.8	-.1
Food services	4.7	2.3	3.0	.5	1.4	.1
Other retailers ³	1.9	2.2	1.3	.0	1.3	-.7

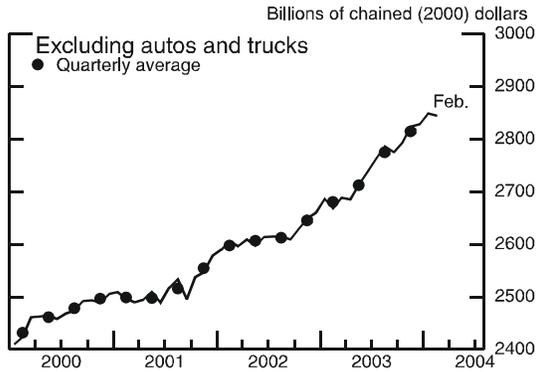
1. Total retail trade and food services less sales at building material and supply stores and automobile and other motor vehicle dealers.

2. Furniture and home furnishing stores; electronics and home appliance stores; clothing and accessories stores; sporting goods, hobby, book, and music stores; and general merchandise stores.

3. Health and personal care stores, food and beverage stores, electronic shopping and mail order houses, and miscellaneous other retailers.

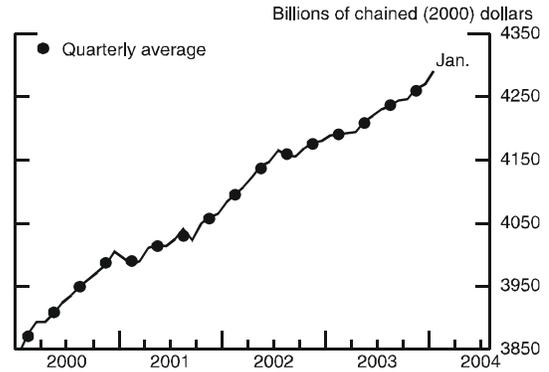
... Not applicable.

Real PCE Goods

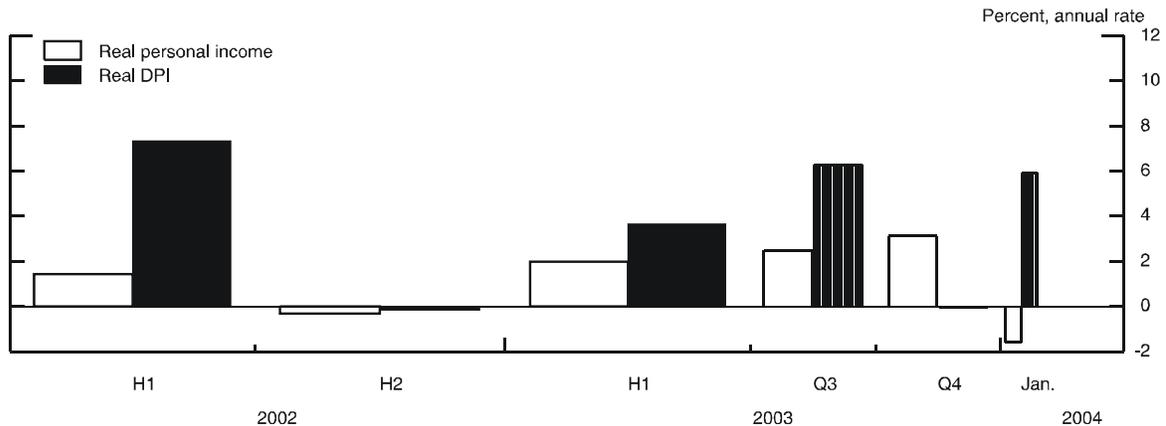


Note. Data for February are a staff estimate.

Real PCE Services

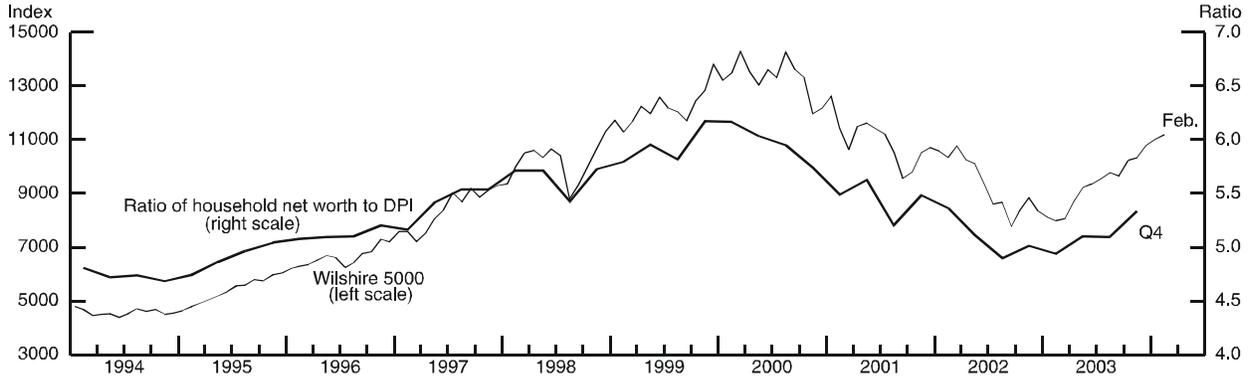


Change in Real Personal Income and Real DPI

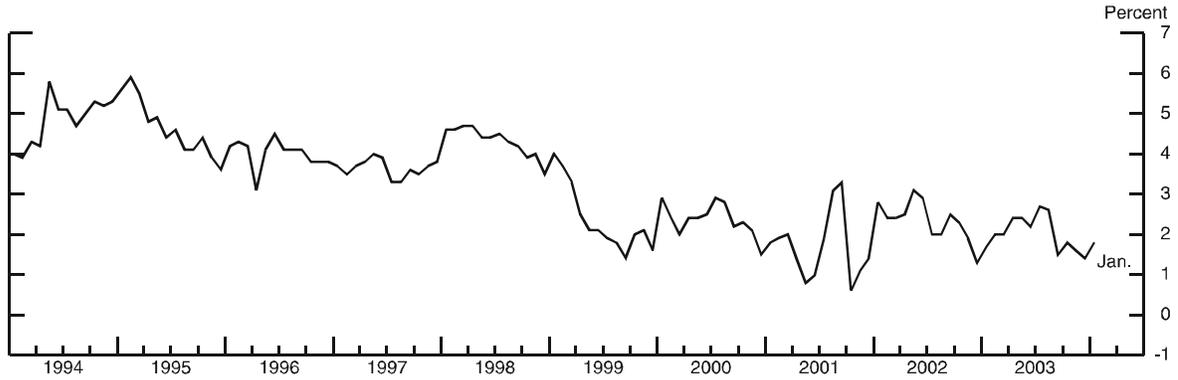


Household Indicators

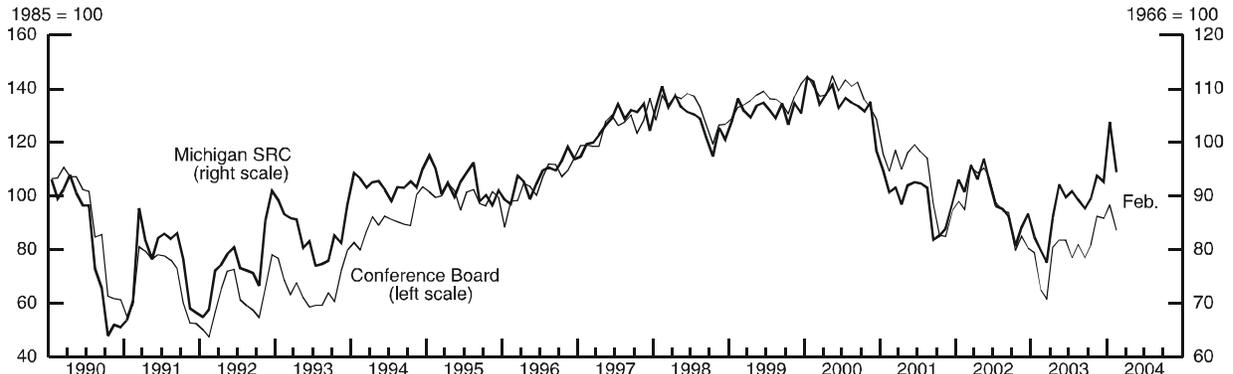
Household Net Worth and Wilshire 5000



Personal Saving Rate



Consumer Confidence



Consumer sentiment retreated in February. Although the Michigan Survey Research Center's index of consumer sentiment merely retraced much of January's outsized spike in February, the Conference Board's index of consumer confidence fell back sharply to a level last seen in October of last year. Each index showed declines in consumers' assessments of both current and expected economic conditions. Nonetheless, consumer confidence remained above the levels seen in the summer and early fall of last year and is roughly in line with economic fundamentals.

Housing Markets

Housing activity slowed in January but was still quite rapid. Single-family starts fell 8 percent to an annual rate of 1.54 million units. Homebuilding had been unusually strong in November and December relative to the issuance of new permits (adjusted for activity in areas where they are not required); thus, a subsequent slowdown was not surprising.⁴ However, adjusted permits also declined in January, and starts fell by enough to come roughly in line with the lower level of permits. Still, single-family starts and permits in January equaled or exceeded their readings through much of last year. In the multifamily sector, starts dropped back to an annual rate of 366,000 units in January, below the figures reported for November and December but above the average level recorded last year. With the multifamily vacancy rate reaching a record high of 11.2 percent in the fourth quarter, the recent pace of construction of rental and condominium apartments may not be sustainable.

Sales of new homes edged down in January, and sales of existing homes fell more noticeably. Both series have now reversed a good bit of their extraordinary run-ups that began last spring; even so, the January levels of new and existing home sales are among the highest levels on record.

Other indicators also suggest that housing activity will remain robust in the near term. Rates on 30-year fixed-rate mortgages averaged 5.64 percent in February, the lowest monthly reading since last summer, and rates on adjustable-rate mortgages averaged only a touch above their record lows in mid-2003. The four-week moving average of purchase applications from the Mortgage Bankers Association rose to new highs in February. However, attitudes toward homebuying in the Michigan Survey moved down to the low end of their range over the past year. This movement reflected a reduced share of respondents citing low interest rates and a higher share taking note of elevated house prices.

The latest readings on the various measures of home prices have ranged from the merely solid to the extraordinarily strong. Over the twelve months ending in

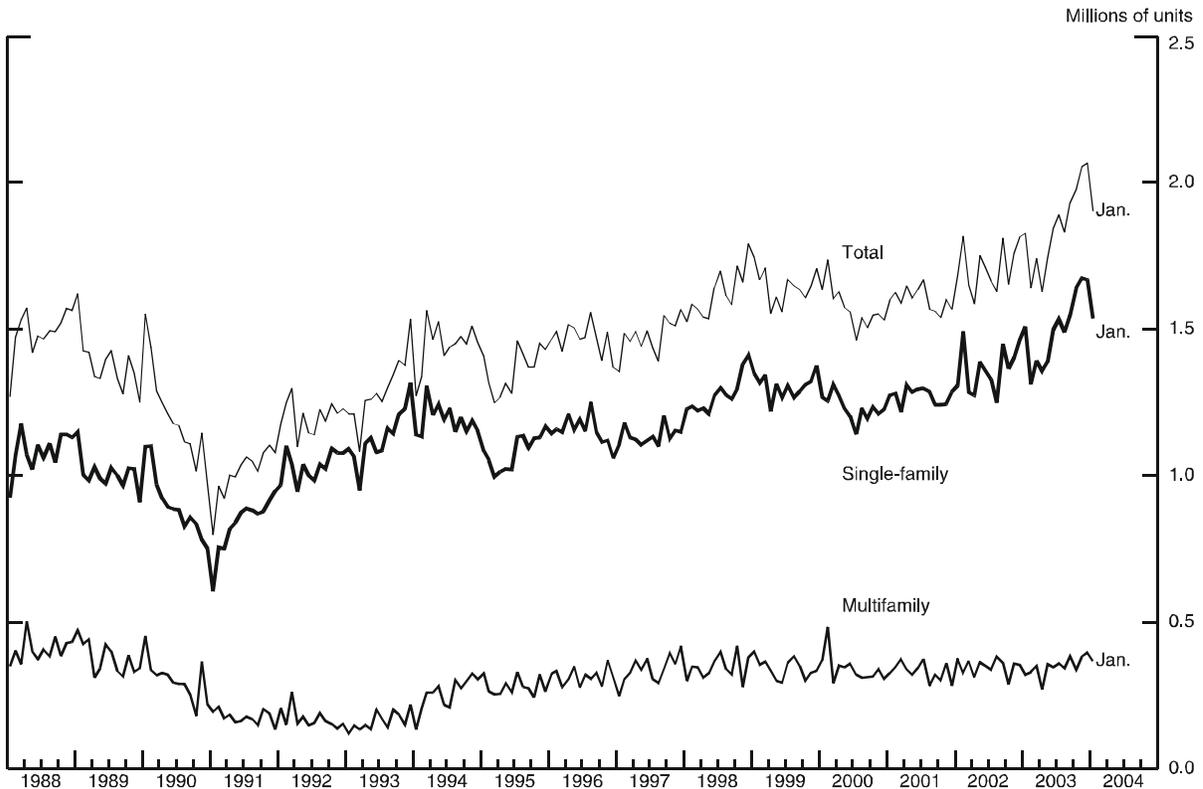
4. In addition, unusually cold weather in January in the Northeast and Midwest may have curtailed starts in some areas.

Private Housing Activity
(Millions of units; seasonally adjusted annual rate)

Sector	2003	2003					2004
		Q2	Q3	Q4	Nov.	Dec.	Jan.
<i>All units</i>							
Starts	1.85	1.74	1.88	2.03	2.05	2.07	1.90
Permits	1.86	1.78	1.86	1.93	1.86	1.95	1.90
<i>Single-family units</i>							
Starts	1.50	1.42	1.52	1.66	1.67	1.67	1.54
Permits	1.44	1.37	1.47	1.51	1.47	1.53	1.49
Adjusted permits ¹	1.47	1.40	1.51	1.57	1.53	1.61	1.52
New home sales	1.09	1.10	1.16	1.13	1.11	1.13	1.11
Existing home sales	6.10	5.85	6.42	6.30	6.13	6.37	6.04
<i>Multifamily units</i>							
Starts	0.35	0.32	0.36	0.37	0.38	0.40	0.37
Permits	0.42	0.41	0.39	0.42	0.39	0.42	0.41
<i>Mobile homes</i>							
Shipments	0.13	0.13	0.13	0.13	0.13	0.13	0.12

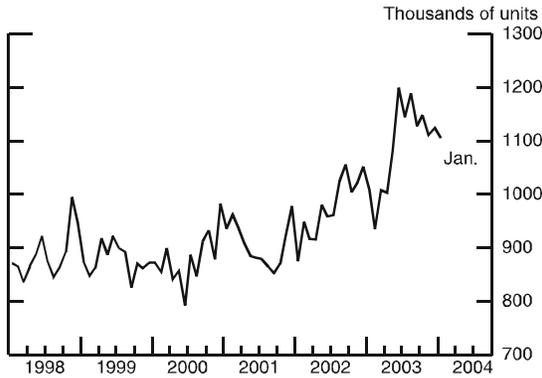
1. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.

Private Housing Starts
(Seasonally adjusted annual rate)



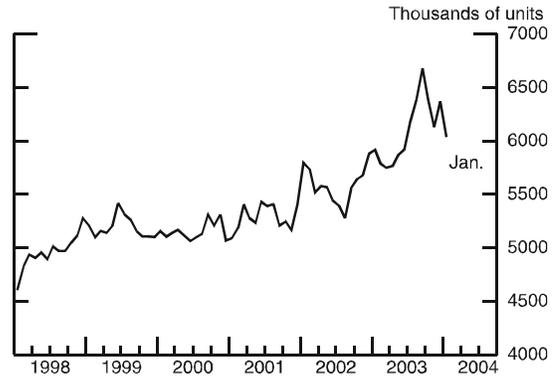
Indicators of Single-Family Housing

New Home Sales



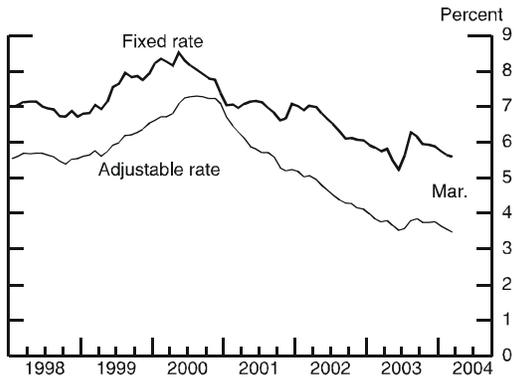
Source. Census Bureau.

Existing Home Sales



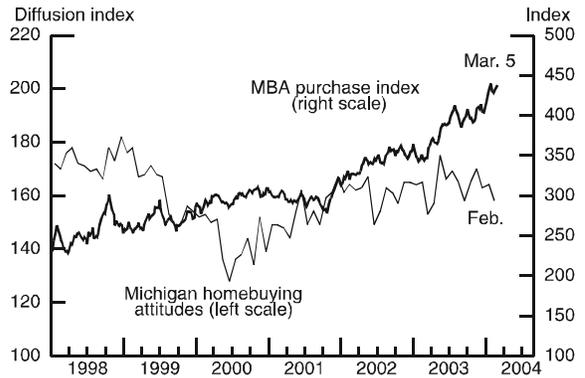
Source. National Association of Realtors.

Mortgage Rates



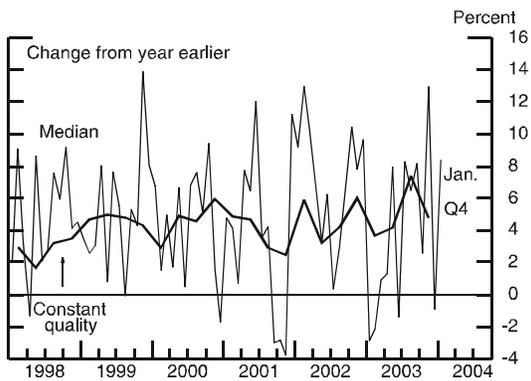
Note. The March reading is based on data through March 5.
Source. Freddie Mac.

Homebuying Indicators



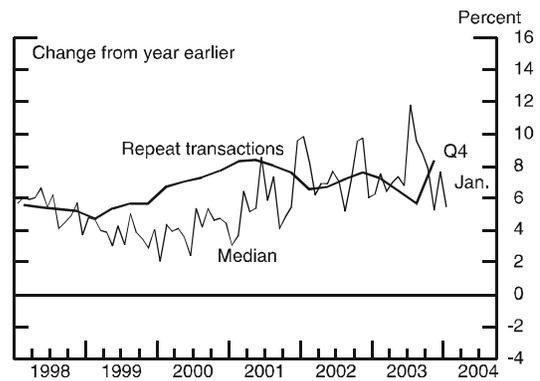
Note. MBA index is a 4-week moving average. Michigan Survey data are not seasonally adjusted.
Source. Mortgage Bankers Association and Michigan Survey.

Prices of New Homes



Source. Census Bureau.

Prices of Existing Homes



Source. National Association of Realtors and Freddie Mac.

January, the change in the median price of new homes was 8-1/2 percent, one of the larger increases over the past year. The constant-quality price index for new homes—which controls for changes in geographic composition, home size, and other amenities—increased 4-3/4 percent over the year ending in the fourth quarter of 2003, about in line with the average gain over the previous several years. In the much larger market for existing homes, the median price in January was 5-1/2 percent higher than twelve months earlier, down from the very strong readings from last summer. However, the repeat-transactions price index for existing homes, which holds constant some of the compositional shifts that can affect the median price, moved up nearly 8-1/2 percent over the year ending in the fourth quarter, the most rapid increase since mid-2001.⁵ The year-over-year rise was largely due to the 17-3/4 percent (annual rate) jump in the index in the fourth quarter, the largest quarterly rise since mid-1977. These rapid gains in house prices led to a fourth-quarter surge in the value of housing wealth, which makes up about a third of household net worth.

Business Fixed Investment

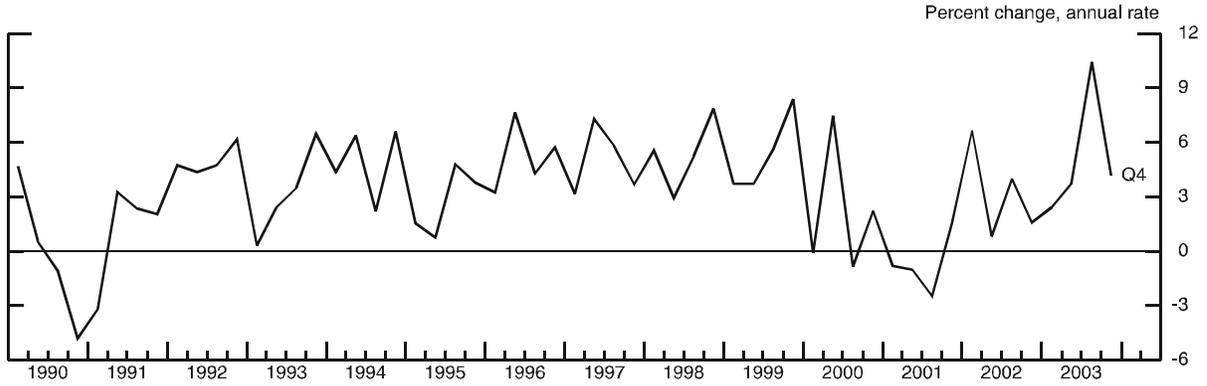
Equipment and software. Real outlays for equipment and software advanced at a brisk annual rate of 15 percent in the fourth quarter of 2003 according to the preliminary GDP release. The vigorous pace of investment appears to have carried into the current quarter, as shipments of nondefense capital goods excluding aircraft rose smartly in January. Business spending continues to be supported by increases in business output, surging cash flow, and a low user cost of capital. Moreover, anecdotal reports from the Beige Book and our industry contacts suggest that the robust increases in business investment are also due importantly to the replacement of aging equipment and software.

In the high-tech sector, nominal shipments of computing and communications equipment moved up strongly for a second month in January. Paired with the ongoing decline in prices, these data point to a sizable advance in real outlays for high-tech equipment in the current quarter. Outside the high-tech sector, nominal shipments also expanded significantly in January; industrial machinery and engines and turbines accounted for most of this increase.

5. The repeat-transactions index is based on a comparison of valuation recorded for the same property on two or more occasions, whether due to sales or refinancing. It is not a constant-quality price index, as it includes changes in value due to home improvements. Because it is based on price information for houses financed with loans purchased or securitized by Fannie Mae or Freddie Mac, it truncates prices exceeding the legal maximum amount for loan purchases by these agencies (currently set at \$333,700). Thus, recent anecdotal evidence of softening prices at the upper end of the distribution could help explain the gap between the increases posted by the repeat-transaction index and by the median price of existing homes.

Equipment and Software Investment Fundamentals

Real Business Output

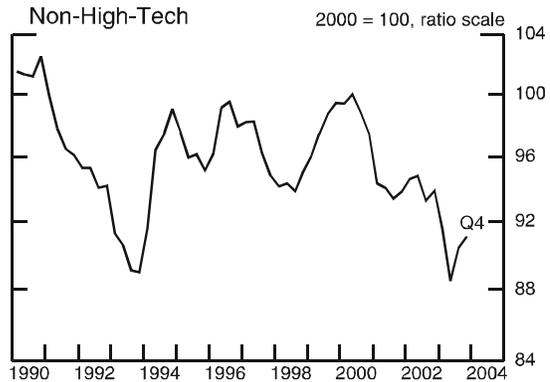
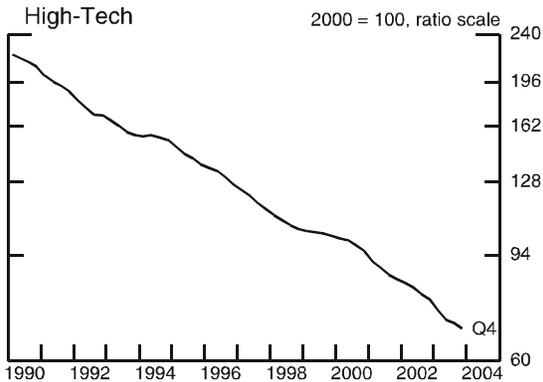


Real Corporate Cash Flow



User Cost of Capital

(Excludes the effects of the partial expensing tax incentive)



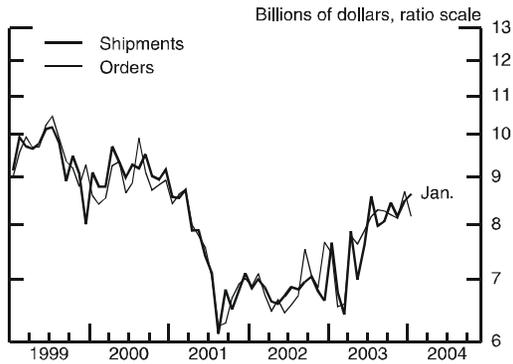
Orders and Shipments of Nondefense Capital Goods

(Percent change; seasonally adjusted current dollars)

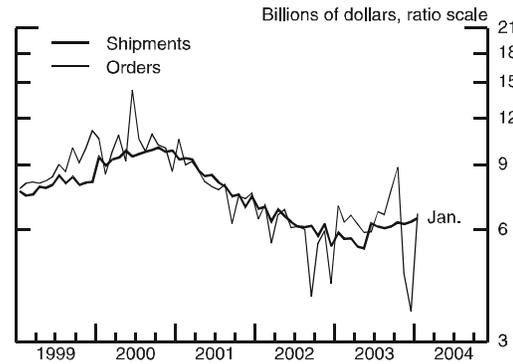
Indicators	2003				2004
	Q3	Q4	Nov.	Dec.	Jan.
	Annual rate		Monthly rate		
Shipments	16.4	11.2	.1	3.0	.8
Excluding aircraft	15.6	12.2	-.7	3.8	1.6
Computers and peripherals	43.5	7.8	-3.3	3.8	1.8
Communications equipment	35.2	11.3	-1.3	1.4	2.4
All other categories	8.4	13.3	.0	4.2	1.4
Orders	17.9	9.7	-6.2	4.1	-.7
Excluding aircraft	17.1	10.2	-5.8	3.8	1.3
Computers and peripherals	26.6	4.7	-.9	6.7	-5.9
Communications equipment	80.8	-56.0	-48.5	-20.9	83.7
All other categories	7.6	27.7	2.2	5.9	-3.9
Memo: Shipments of complete aircraft ¹	28.0	29.0	34.6	24.8	25.0

1. From Census Bureau, Current Industrial Reports; billions of dollars, annual rate.

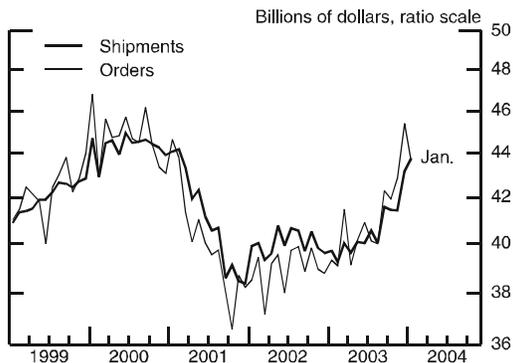
Computers and Peripherals



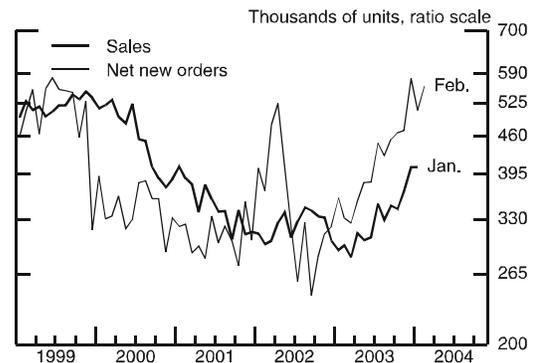
Communications Equipment



Other Equipment



Medium and Heavy Trucks



Note. Annual rate, FRB seasonals.

Source. Ward's Communications and ACT Research Co.

The data on new orders of nondefense capital goods excluding aircraft support this bright outlook: New orders in computing, communications, and non-high-tech equipment moved up appreciably in the December-January period.

Business investment in transportation equipment has been mixed of late. Although business demand for light vehicles appears to have shifted down in recent months, demand for heavy trucks has continued to improve. Orders for class 8 trucks moved up further in January on the heels of a large run-up in December. Demand from small businesses, which has been especially strong, has apparently been boosted by the provision in the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) that raised their expensing ceiling to \$100,000. New purchases from larger transportation firms reportedly have been mostly for replacement purposes. Looking forward, sales may also benefit from the recent increase in truck freight tonnage. Although orders for medium trucks (classes 5 to 7) decreased in January, the contraction followed several months of strong orders, and fundamental determinants of demand remain favorable. In contrast, demand for aircraft remains weak; despite an increase in the fourth quarter, the level of spending remained well below the average over the past ten years. Nominal shipments of aircraft in January were about unchanged.

Nonresidential construction. Business investment in structures continues to languish. On the basis of the revised data on construction put in place, we estimate that real spending on private nonresidential structures fell at an annual rate of roughly 3-1/4 percent in the fourth quarter, a smaller decline than was reported by the Bureau of Economic Analysis in its preliminary release. Nominal expenditures dropped again in January. Spending on commercial and health care structures—a large sector that includes offices and other commercial buildings—fell in January, reversing all of last year’s increase. Investment in manufacturing facilities continued to stagnate in January at the low level that has prevailed since early 2003, and outlays for other types of nonresidential structures continued to trend down.⁶ On a brighter note, expenditures for power and communication structures moved up again in January. Furthermore, spending in the drilling and mining category increased in the fourth quarter, likely in response to higher prices for natural gas and crude oil. The number of oil and gas rigs in operation continued to edge up through late February, suggesting that expenditures are rising again in the first quarter.

Recent indicators of market conditions for nonresidential structures still give only a few hints of future improvement. The vacancy rates for both industrial buildings and office properties edged down in the fourth quarter but remained

6. The “other structures” category includes buildings for a wide variety of uses (including religious, educational, lodging, amusement, recreation, and transportation purposes) as well as expenditures for brokers’ commissions and purchases of used structures.

Nonresidential Construction

Total Structures



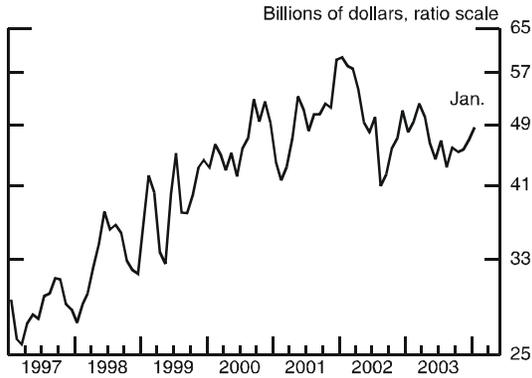
Commercial and Health Care



Manufacturing



Power and Communication



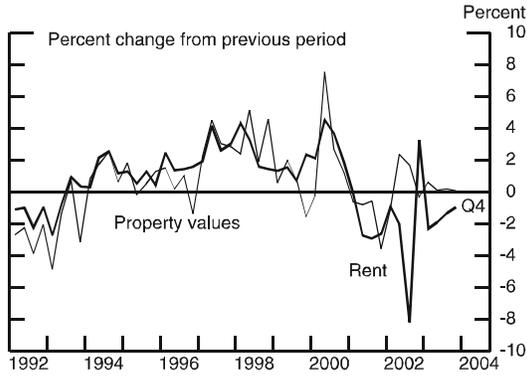
Other



Indicators of Nonresidential Construction

Office Buildings

Rent and Property Values



Source. National Real Estate Index.

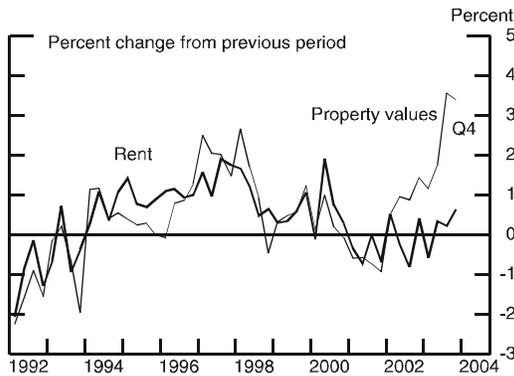
Vacancy Rate



Source. CB Richard Ellis.

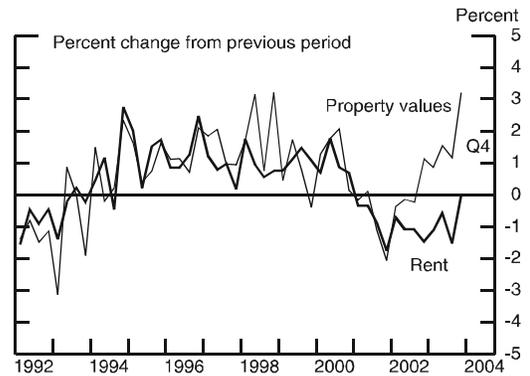
Other Commercial Buildings

Retail Rent and Property Values



Source. National Real Estate Index.

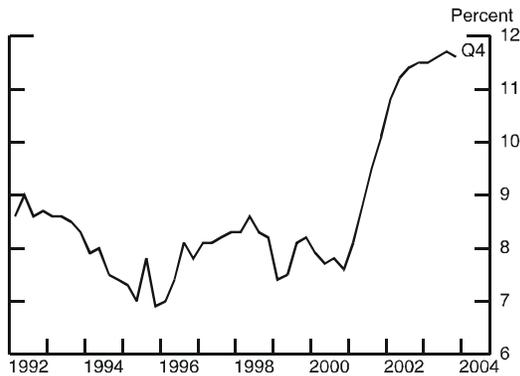
Warehouse Rent and Property Values



Source. National Real Estate Index.

Industrial Buildings

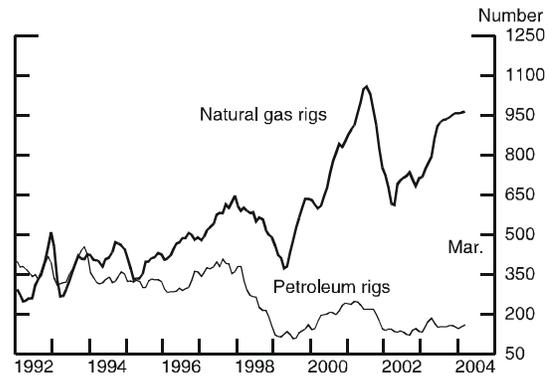
Vacancy Rate



Source. CB Richard Ellis.

Drilling Activity

Rigs in Operation



Note. March values are averages through March 5.
Source. DOE/Baker Hughes.

elevated. Office rents continued to fall in the fourth quarter of 2003, albeit at a slower rate than earlier in the year, and property values were unchanged. Rents for retail space edged up a little in the fourth quarter, and rents for warehouses were about flat after declining for three years. However, the value of retail and warehouse properties increased smartly in the fourth quarter.

Business Inventories

Inventory investment appears to have remained modest early in the year. In January, manufacturers' inventories increased at an annual rate of \$9.9 billion. However, stockbuilding at producers of petroleum and coal products more than accounted for this increase. Given the rise in oil prices between December and January, the run-up in book-value stocks likely overstates the accumulation of real inventories. In addition, wholesalers accumulated inventories at a modest \$4.2 billion annual pace in January. Book-value inventory-sales ratios, which are at or near their historical lows, held fairly steady in January in the manufacturing and wholesale trade sectors.

In January, days' supply in the Board staff's flow-of-goods system reversed December's decline but nevertheless remained quite low. Excluding motor vehicles and parts, the inventory-consumption ratio has, on balance, trended down since the end of 2001. The only industries for which the estimated level of days' supply looks elevated are paper and communications equipment.

Government Sector

Federal. The incoming budget data remain consistent with expectations of a substantial widening of the unified deficit. The deficit in the unified budget was \$1.4 billion in January, compared with the \$10.6 billion surplus recorded in January 2003. During the twelve months ending in January, the deficit totaled \$407 billion, \$143 billion more than during the preceding twelve months.

Outlays, adjusted for timing shifts, were up 5 percent over the twelve months ending in January. Most of the year-over-year increase was the result of a 21 percent rise in expenditures on national defense. Although this rise largely reflected last spring's ramp-up in defense spending, another smaller step-up has occurred more recently.⁷ Spending on Medicare was lower than in January 2003, as was spending on net interest and agriculture. Adjusted receipts were 2 percent lower in January than twelve months earlier. In particular, individual income and payroll taxes, taken together, were down 3-1/2 percent, reflecting the effects of last summer's income tax cuts.

7. Preliminary data from the Daily Treasury Statements suggest that defense spending was also quite strong in February.

Changes in Manufacturing and Trade Inventories
(Billions of dollars; seasonally adjusted book value; annual rate)

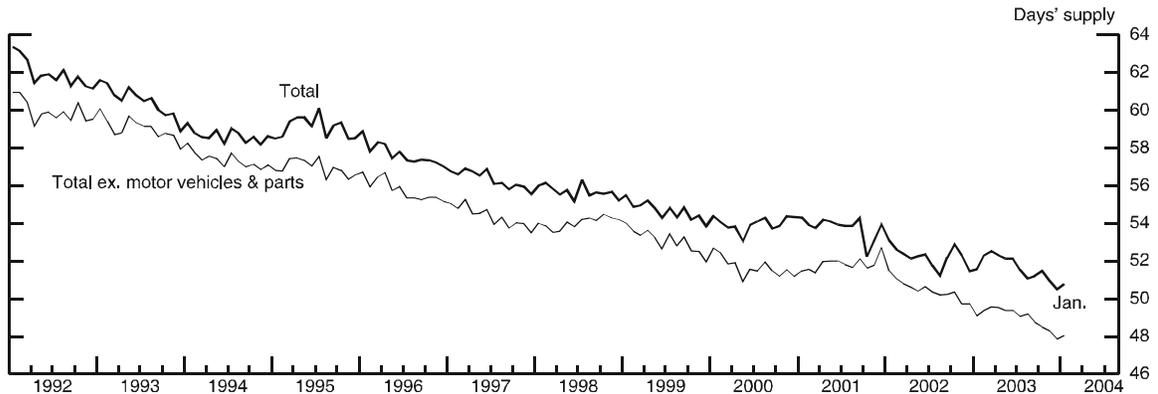
Sector	2003				2004
	Q3	Q4	Nov.	Dec.	Jan.
Manufacturing and trade	-5.1	49.1	46.6	43.6	n.a.
Ex. wholesale and retail motor vehicles & parts	5.8	26.7	27.9	32.1	n.a.
Manufacturing	-17.5	1.2	-6.6	5.5	9.9
Ex. aircraft	-14.8	4.3	-.2	6.0	8.8
Wholesale trade	6.1	16.7	11.8	22.8	4.2
Motor vehicles & parts	-4.2	6.2	-1.2	10.2	.1
Ex. motor vehicles & parts	10.3	10.5	13.0	12.6	4.1
Retail trade	6.3	31.1	41.4	15.3	n.a.
Motor vehicles & parts	-6.7	16.1	19.8	1.4	n.a.
Ex. motor vehicles & parts	13.0	15.0	21.6	13.9	n.a.

n.a. Not available.

Book-Value Inventories Relative to Shipments and Sales



Inventory-Consumption Ratios, Flow-of-Goods System



Federal Government Outlays and Receipts
(Unified basis; billions of dollars except as noted)

Function or source	January			12 months ending in January		
	2003	2004	Percent change	2003	2004	Percent change
Outlays	177.2	185.6	4.7	2062.4	2198.6	6.6
Financial transactions ¹	.2	.0	...	-3.2	-1.1	...
Payment timing ²	.0	.0	...	11.2	.6	...
Adjusted outlays	177.0	185.6	4.8	2054.4	2199.2	7.0
Receipts	187.9	184.3	-1.9	1798.7	1791.9	-4
Payment timing	.0	.0	...	.0	.0	...
Adjusted receipts	187.9	184.3	-1.9	1798.7	1791.9	-4
Surplus or deficit (-)	10.6	-1.4	...	-263.7	-406.7	...
<i>Selected components of adjusted outlays and receipts</i>						
Adjusted outlays	177.0	185.6	4.8	2054.4	2199.2	7.0
Net interest	13.6	12.3	-9.1	166.7	152.2	-8.7
Non-interest	163.5	173.3	6.0	1887.7	2046.9	8.4
National defense	31.1	37.6	20.9	364.6	424.5	16.4
Social security	39.2	40.6	3.5	463.9	480.4	3.6
Medicare	20.7	20.2	-2.6	240.1	251.1	4.6
Medicaid	13.2	14.2	7.1	150.9	165.5	9.7
Income security	27.0	28.8	6.5	321.8	337.5	4.9
Agriculture	3.9	2.3	-39.5	23.5	23.5	.3
Other	28.4	29.7	4.7	322.8	364.3	12.9
Adjusted receipts	187.9	184.3	-1.9	1798.7	1791.9	-4
Individual income and payroll taxes	172.1	166.3	-3.4	1498.6	1458.9	-2.7
Withheld + FICA	127.5	124.5	-2.4	1367.1	1365.6	-.1
Nonwithheld + SECA	48.4	45.5	-6.0	315.5	286.3	-9.3
Less: Refunds	3.9	3.7	-3.6	183.9	192.9	4.9
Corporate	1.2	4.4	268.1	117.3	145.2	23.8
Gross	4.9	5.8	18.7	185.1	202.3	9.3
Less: Refunds	3.7	1.4	-61.9	67.8	57.2	-15.7
Other	14.6	13.6	-7.0	182.8	187.8	2.8
Adjusted surplus or deficit (-)	10.9	-1.4	...	-255.7	-407.3	...

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

1. Financial transactions consist of deposit insurance, spectrum auctions, and sales of major assets.

2. 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.

Incoming data show individual income tax refunds running about 10 percent higher than last year's refunds. Although the outcome for the current tax filing season is still quite uncertain, the increase so far supports the expectation that last spring's tax legislation will result in substantially larger refunds.⁸

In the President's budget for fiscal year 2005, which was released in early February, the Administration projected that discretionary spending would rise more than 8 percent in real terms in fiscal 2004. This increase reflects a 10 percent increase in real defense spending and sizable advances for homeland security and many other nondefense programs. In line with its approach last year, the budget made no provision for funding the operations in Iraq and Afghanistan; these needs will be financed by a supplemental appropriation later this year. Nondefense discretionary spending is slated to be about flat in real terms in 2005, as another sharp increase for homeland security is offset by a small real decline, on average, for other programs. Meanwhile, the Administration wants to extend some expiring tax provisions (one notable exception is the partial expensing of business equipment, which will expire at the end of this year) and to enact some small additional tax cuts. According to the Administration, its proposed policies would lower the deficit \$29 billion in 2005 when measured relative to a baseline that uses the conventions of the Budget Enforcement Act.⁹ In part because of these policies, the expiration of partial expensing, and the improvement in the economy, the Administration expects the deficit to narrow from \$521 billion in 2004 to \$364 billion in 2005. According to the CBO, the deficit would total \$478 billion in 2004 and \$358 billion in 2005 if the President's proposals were enacted.

Over the longer run, both the Administration and the CBO now expect the baseline budget to run sizable deficits through 2009. These projections stand in sharp contrast to those of a year ago, which showed the re-emergence of surpluses over this time period. The change is due largely to legislation passed in 2003: the JGTRRA; the Medicare Prescription Drug, Improvement, and Modernization Act; and increases in discretionary spending.

State and local governments. Recent indicators of state and local spending have been mixed. Employment jumped 24,000 in February, more than offsetting the previous month's drop. Meanwhile, construction spending has

8. Almost all individual income tax refunds are sent out between the end of January and the end of May. The extent to which tax cuts will show up as higher refunds versus lower final payments is difficult to ascertain.

9. The Budget Enforcement Act baseline is the concept that has traditionally been used by the Administration and the Congressional Budget Office (CBO). Among other things, it assumes that discretionary spending after 2004 increases at the same rate as inflation. The Administration did not follow these conventions in its budget presentations, assuming instead that spending for activities in Iraq and Afghanistan were temporary one-time events.

softened again after having surged in the third quarter of last year. Outlays on structures fell in January for the fourth consecutive month, and stood about 2 percent (not at an annual rate) below their average level in the third quarter of 2003.

The fiscal stress of the past three years appears to be abating. According to a recent survey by the National Conference of State Legislatures, the number of states with budget gaps during fiscal 2004 is only half as large as the number at the same point in fiscal 2003, and a few of these states have already closed their prospective shortfalls. Moreover, the combined budget gap faced by the states in February (\$2.5 billion) was much smaller than at the same time last year (\$25.7 billion). Although ongoing spending restraint has most likely contributed to this upturn, much of the improvement in the fiscal position of the states appears to stem from stronger revenue collections this year. All the same, several states still need to make substantial budgetary repairs in this fiscal year—which ends on June 30 for most states—and in the next. In particular, California, New York, and New Jersey will be working to close large prospective budget shortfalls projected for fiscal 2005.¹⁰ California's impending budget crisis is slated to be patched with proceeds from the \$15 billion debt offering that was approved by voters in early March.

Prices

Prices of consumer goods and services accelerated in January, primarily owing to a jump in energy prices. Excluding food and energy, consumer prices moved up only modestly. Although the twelve-month changes in both core PCE prices and the core CPI came in 3/4 percentage point below the comparable year-earlier figures, the pattern of recent monthly changes suggests that core price inflation may be flattening out: Core PCE prices rose 0.1 percent in January, about the same as the average rate of increase in the last several months of 2003. Likewise, the core CPI moved up 0.2 percent in January, within the range of monthly price increases that has prevailed since last summer.

Consumer energy prices rose 4.7 percent in January, as increases in the price of crude oil in December and early January were passed through to the retail level. Survey data point to further increases in consumer energy prices in February; the price of gasoline, in particular, was within a penny or two of the record-high level reached in August of last year. Gasoline prices have been affected not only by rising crude oil costs, but also by recent decisions in California, Connecticut, and New York to switch to an alternative pollution-reducing additive, raising production costs for gasoline. Furthermore, strong demand has led to a sharp decline in gasoline inventories, which has boosted markups. Meanwhile, unusually cold weather in January drove up spot prices of natural

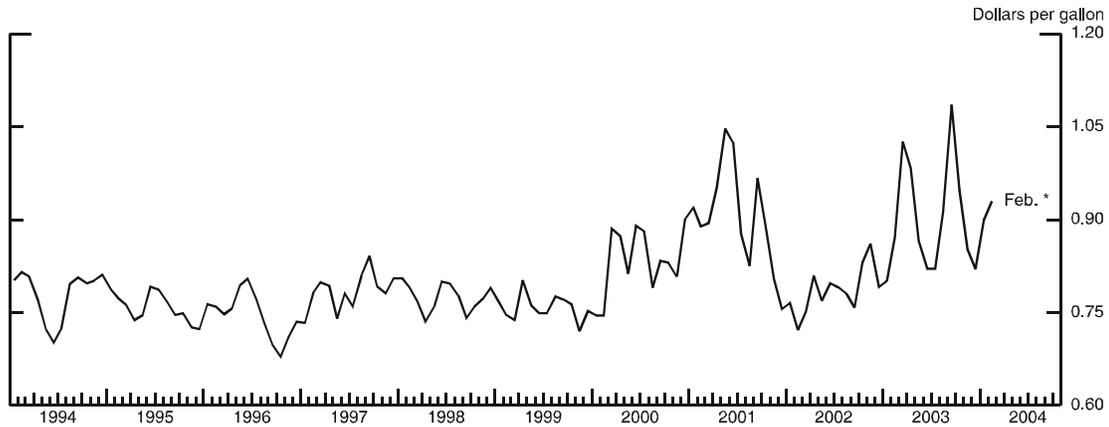
10. New York's fiscal year ends on March 31.

Measures of Inflation
(Percent)

Measures	12-month change		3-month change		1-month change	
	Jan. 2003	Jan. 2004	Annual rate		Monthly rate	
			Oct. 2003	Jan. 2004	Dec. 2003	Jan. 2004
<i>CPI</i>						
Total	2.6	1.9	2.4	2.0	.2	.5
Food	1.0	3.5	4.5	3.8	.5	.0
Energy	14.1	7.8	11.5	7.8	.3	4.7
Motor fuel	29.0	8.2	31.0	10.9	.0	8.1
Gasoline	29.3	8.3	31.6	11.2	.1	8.1
Heating fuel	21.0	9.7	-2.3	32.2	-.5	6.8
Natural gas	10.7	17.0	-9.2	10.7	1.7	3.8
Electricity	-.8	3.1	-.3	1.1	.1	.6
Ex. food and energy	1.9	1.1	1.2	.8	.1	.2
Ex. tobacco	1.8	1.2	1.3	.8	.0	.2
Core commodities	-1.4	-2.3	-3.4	-1.7	-.1	.0
Core services	3.4	2.5	3.1	2.0	.2	.2
Chained CPI (n.s.a.) ¹	2.1	1.6	...	...	...	...
Ex. food and energy ¹	1.5	.8	...	...	...	...
<i>PCE Prices</i>						
Total	2.2	1.5	1.3	1.8	.2	.3
Food	1.1	3.1	3.5	3.2	.4	.0
Energy	16.2	8.4	10.5	9.6	.2	5.3
Ex. food and energy	1.7	.8	.4	1.1	.2	.1
Ex. tobacco	1.6	.8	.4	1.1	.2	.1
Core commodities	-1.8	-1.8	-1.7	-1.5	-.1	.1
Core services	3.3	2.0	1.4	2.2	.3	.1
Core market-based	1.5	1.1	1.1	.7	.1	.1
Core non-market-based	2.9	-.3	-2.9	3.0	.5	.0

1. Higher-frequency figures are not applicable for data that are not seasonally adjusted.
... Not applicable.

Retail Gasoline Price Less Crude Oil Costs

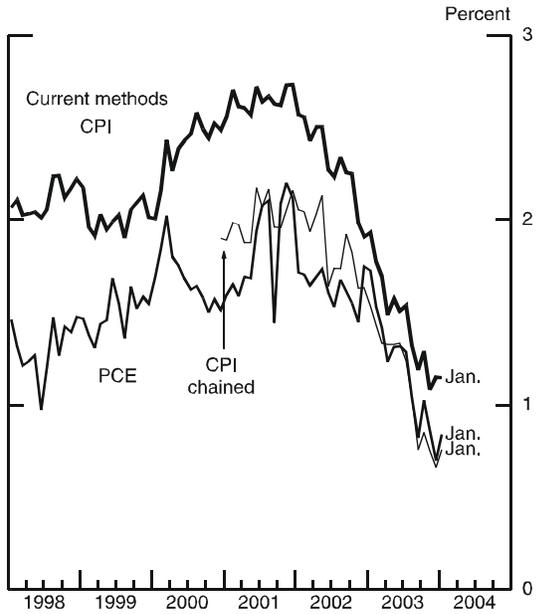


Note. Seasonally adjusted CPI for gasoline (converted to dollars/gallon) minus composite refiners' acquisition cost.

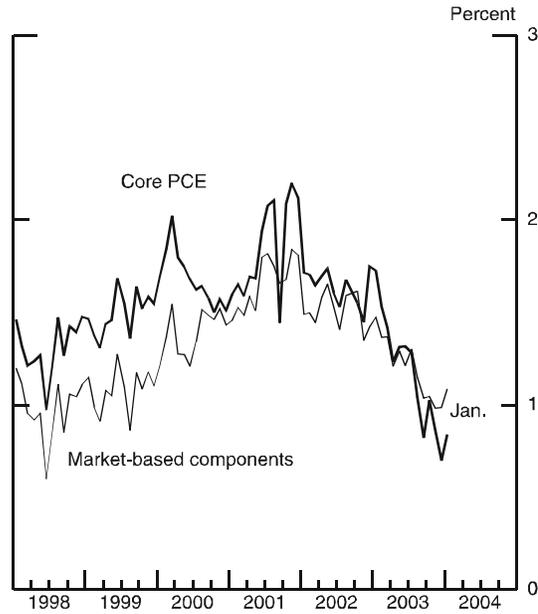
* February is staff estimate

Core Consumer Price Inflation
(12-month change except where noted)

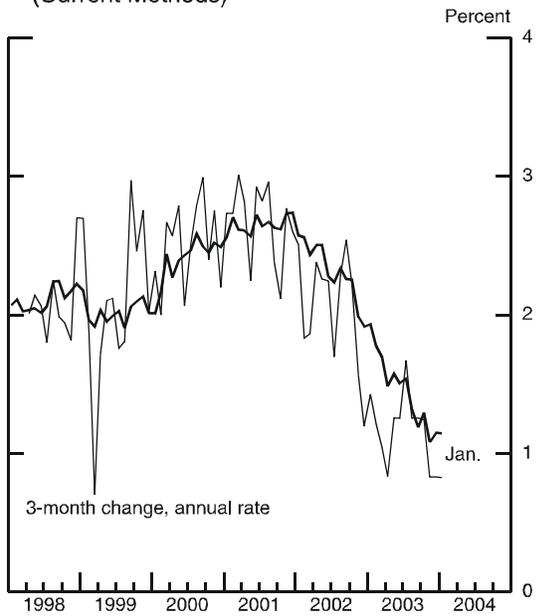
CPI and PCE excluding Food and Energy



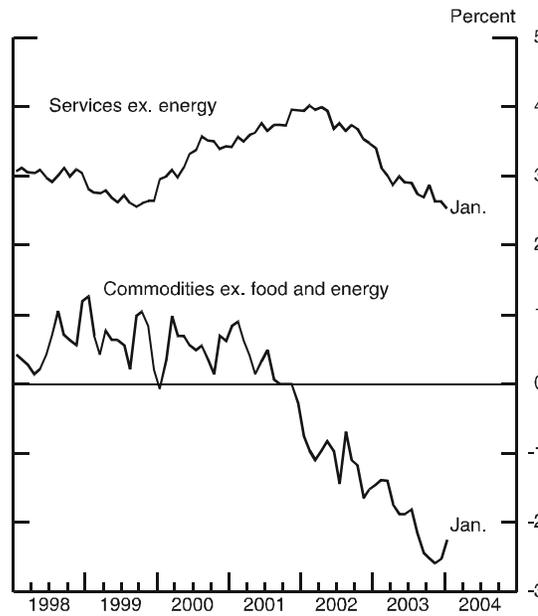
PCE excluding Food and Energy



CPI excluding Food and Energy
(Current Methods)

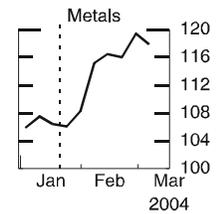
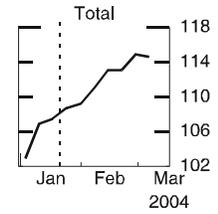
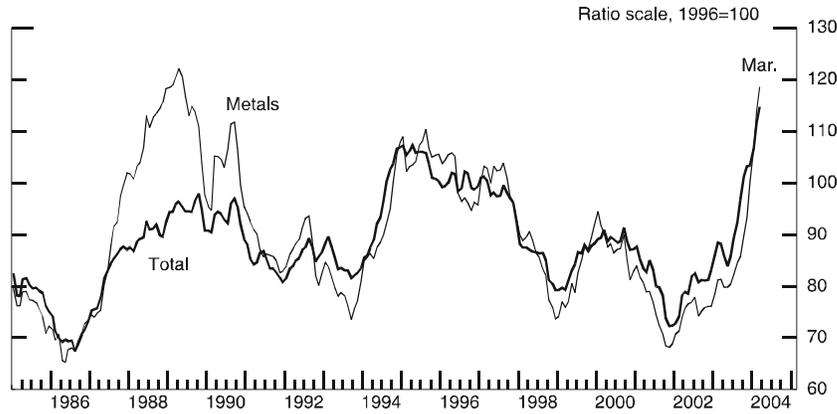


CPI Services and Commodities

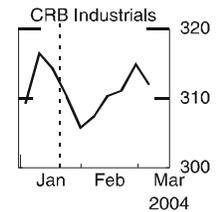
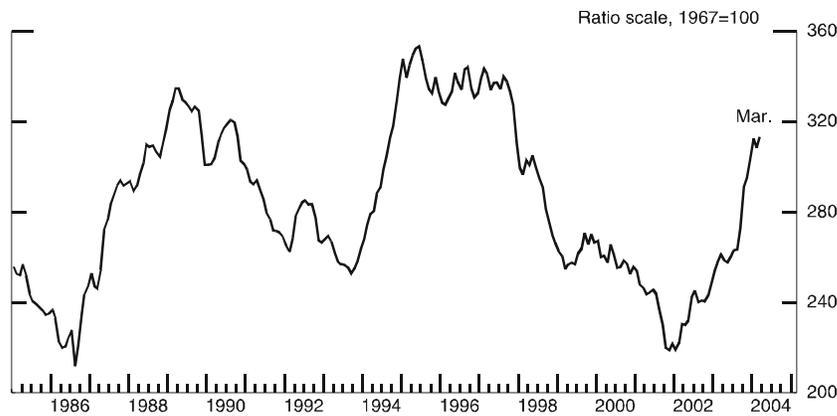


Commodity Price Measures

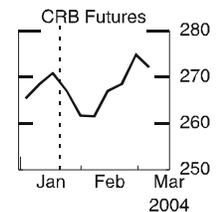
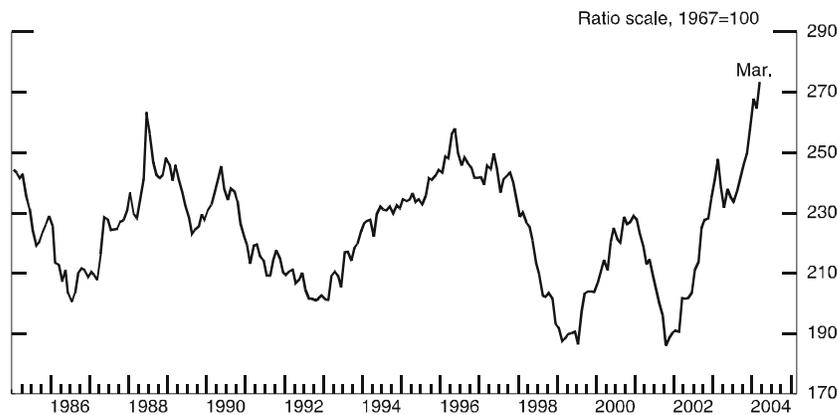
Journal of Commerce Index



CRB Spot Industrials



CRB Futures



Note. Larger panels show monthly average of weekly data through last available week. Smaller panels show 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 Commodity Research Board (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.

gas; these higher spot prices are likely to be passed through to the retail level in February.

Consumer food prices were unchanged, on balance, in January, following sizable increases in the previous three months. Retail beef prices declined in January, although this decline was much smaller than the huge drop in wholesale prices that followed the discovery in late December of mad cow disease in the United States. Over the twelve months ending in January, food prices increased 3-1/2 percent, substantially more than the 1 percent increase over the previous year.

Excluding food and energy, the CPI rose 0.2 percent in January. Core services prices also increased 0.2 percent, about the same as the average monthly rate in the second half of last year. Meanwhile, core goods prices were unchanged in January, after having declined for sixteen straight months.

Although core PCE prices and the core CPI both decelerated 0.8 percentage point over the past twelve months, this overall similarity masks some underlying differences. The market-based component of core PCE prices—which is primarily based on CPI data—decelerated only 0.4 percent over the past twelve months, reflecting different contributions of medical and housing services prices in the two measures.¹¹ However, the non-market-based component of PCE prices decelerated quite sharply, from a 2.9 percent increase over the twelve months ending in January 2003 to a 0.4 percent decline over the past twelve months. The slowdown in this component primarily reflected movements in the price of imputed banking services.

Industrial commodity prices as measured by the Journal of Commerce index surged more than 20 percent during 2003, and have risen an additional 10 percent so far in 2004. The biggest increases since the last Greenbook have been in the prices of forest products and metals, especially steel scrap.¹² The Commodity Research Bureau price index, which has dropped back a bit since last January, also posted a sizable gain in 2003. However, the run-up in commodity price inflation had little effect on prices at later stages of processing.

11. PCE medical services prices—which are based on PPIs rather than CPIs and have a much larger weight in PCE than in the CPI—have accelerated, while the CPI for medical services has decelerated over the past year. In addition, the deceleration in the price of housing services, while similar for both indexes, has a much smaller weight in PCE than in the CPI.

12. Trade reports and Commerce Department data imply that China accounted for much of the recent increase in export demand for steel scrap; new Chinese mills are coming on line to satisfy local demand for high-end steel inputs into consumer goods, autos, and ships.

Spot Prices of Selected Commodities
(Percent change except as noted)

Commodity	Current price (dollars)	2002 ¹	2003 ¹	12/30/03 to 1/20/04 ²	1/20/04 ² to 3/9/04	Memo: 52-week change to 3/9/04
<i>Metals</i>						
Copper (lb.)	1.340	5.6	47.9	4.6	18.6	71.8
Steel scrap (ton)	252.500	49.2	66.8	11.0	40.5	109.3
Aluminum, London (lb.)	.737	2.8	16.7	2.1	1.4	15.4
<i>Precious metals</i>						
Gold (oz.)	401.500	24.3	20.7	-1.7	-1.9	15.1
Silver (oz.)	7.145	3.8	24.6	6.4	12.4	52.2
<i>Forest products</i> ³						
Lumber (m. bdft.)	385.000	-8.9	44.5	11.8	19.2	86.0
Plywood (m. sqft.)	575.000	.7	36.7	3.8	40.2	95.6
<i>Petroleum</i>						
Crude oil (barrel)	33.690	66.9	-7.4	8.6	4.7	-3
Gasoline (gal.)	1.026	69.2	12.5	6.3	1.2	-9
Fuel oil (gal.)	.900	63.8	6.3	10.0	-10.9	-22.7
<i>Livestock</i>						
Steers (cwt.)	84.290	16.5	4.1	5.4	6.7	10.2
Hogs (cwt.)	43.000	-13.2	18.3	12.7	7.5	16.2
Broilers (lb.)	.789	6.5	10.9	12.2	6.0	37.2
<i>Farm crops</i>						
Corn (bu.)	2.860	18.1	1.7	10.1	11.3	22.7
Wheat (bu.)	4.005	37.7	-2.1	6.7	-7.7	4.5
Soybeans (bu.)	9.455	32.2	37.1	6.2	15.9	67.6
Cotton (lb.)	.588	52.1	42.5	1.7	-15.2	9.6
<i>Other foodstuffs</i>						
Coffee (lb.)	.660	1.1	23.1	10.9	8.6	48.3
<i>Memo:</i>						
JOC Industrials	114.600	16.8	22.3	4.8	6.6	29.2
JOC Metals	117.900	9.7	38.1	1.6	10.8	44.3
CRB Futures	272.060	24.4	9.1	5.9	.5	11.5
CRB Spot Industrials	311.970	13.7	24.0	2.0	-.7	19.5

1. Changes are from the last week of the preceding year to the last week of the year indicated.

2. Jan. 20, 2004, is the day preceding publication of the January Greenbook.

3. Prices shown apply to the Friday before the date indicated.

Broad Measures of Inflation
(Percent change, Q4 to Q4)

Measure	2000	2001	2002	2003
<i>Product prices</i>				
GDP chain price index	2.2	2.4	1.4	1.5
Less food and energy	2.0	2.3	1.5	1.2
Nonfarm business chain price index	1.9	1.8	1.0	.9
<i>Expenditure prices</i>				
Gross domestic purchases chain price index	2.4	1.6	1.7	1.6
Less food and energy	1.8	2.1	1.4	1.3
PCE chain price index	2.3	1.6	1.8	1.4
Less food and energy	1.5	2.1	1.6	.9
PCE chain price index, market-based components	2.4	1.3	1.8	1.6
Less food and energy	1.5	1.8	1.5	1.0
CPI	3.4	1.8	2.2	1.9
Less food and energy	2.6	2.7	2.0	1.2
Chained CPI	n.a.	1.5	1.8	1.5
Less food and energy	n.a.	2.1	1.7	.8
Median CPI	3.1	3.9	3.0	2.1
Trimmed mean CPI	2.8	2.6	2.1	1.7

n.a. Not available.

Surveys of Inflation Expectations
(Percent)

Period	Actual CPI inflation ¹	University of Michigan				Professional forecasters (10-year) ⁴
		1 year ²		5 to 10 years ³		
		Mean	Median	Mean	Median	
2002:Q2	1.3	3.1	2.7	3.4	2.9	2.5
Q3	1.6	2.8	2.6	3.2	2.7	2.5
Q4	2.2	2.7	2.5	3.3	2.8	2.5
2003:Q1	2.9	3.2	2.8	3.0	2.7	2.5
Q2	2.1	2.6	2.2	3.1	2.7	2.5
Q3	2.2	2.8	2.3	3.1	2.7	2.5
Q4	1.9	3.0	2.6	3.1	2.8	2.5
2004:Q1	n.a.	n.a.	n.a.	n.a.	n.a.	2.5
2003:July	2.1	2.3	1.7	3.2	2.7	...
Aug.	2.2	2.8	2.5	3.0	2.7	...
Sept.	2.3	3.4	2.8	3.0	2.7	2.5
Oct.	2.0	3.1	2.6	3.1	2.8	...
Nov.	1.8	3.1	2.7	3.1	2.7	...
Dec.	1.9	2.8	2.6	3.1	2.8	2.5
2004:Jan.	1.9	2.9	2.7	3.4	2.8	...
Feb.	n.a.	2.9	2.6	3.3	2.9	...

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 average, during the next twelve months?

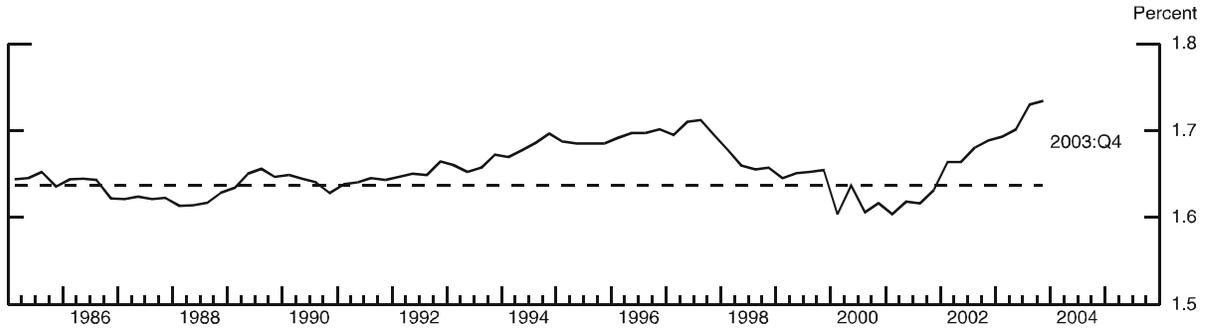
3. Responses to the question: By about what percent per year do you expect prices to go up, on average, during the next five to ten years?

4. Quarterly CPI projections compiled by the Federal Reserve Bank of Philadelphia.

n.a. Not available.

... Not applicable.

Price Markup over Unit Labor Costs
(12-month change)



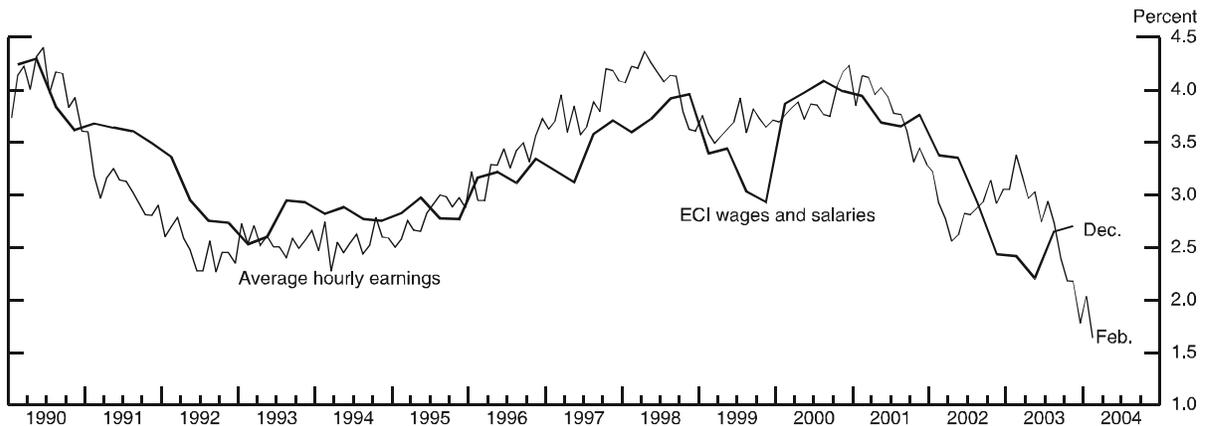
Note. Horizontal line is the average markup for the period from 1968:Q1 through 2003:Q4.

Hourly Compensation and Unit Labor Costs
(Percent change, annual rate; based on seasonally adjusted data)

Category	2002 ¹	2003 ¹	2003			
			Q1	Q2	Q3	Q4
Compensation per hour						
Total business	1.7	3.6	4.8	5.3	2.7	1.8
Nonfarm business	1.8	3.6	4.0	4.9	3.3	2.2
Nonfinancial corporations ²	2.2	n.a.	3.8	5.7	3.6	n.a.
Unit labor costs						
Total business	-2.4	-1.6	1.3	-1.7	-5.5	-.2
Nonfarm business	-2.4	-1.7	.6	-1.3	-5.6	-.4
Nonfinancial corporations ²	-2.8	n.a.	1.3	-3.7	-4.6	n.a.

- 1. Changes are from fourth quarter of preceding year to fourth quarter of year shown.
 - 2. The nonfinancial corporate sector includes all corporations doing business in the United States with the exception of banks, stock and commodity brokers, finance and insurance companies; the sector accounts for about two-thirds of business employment.
- n.a. Not available.

Labor Costs
Production or Nonsupervisory Workers
(12-month change)



Core intermediate materials prices rose just 2.1 percent in 2003.¹³ GDP prices increased 1.5 percent over the four quarters of 2003, about the same as in the previous year. Food and energy prices accelerated, but GDP price inflation excluding food and energy eased 0.3 percentage point last year to a 1.2 percent pace.

Median year-ahead expected inflation, as measured by the Michigan Survey, was 2.6 percent in February, within the narrow range observed over the previous six months. Median expected inflation over the next five to ten years ticked up last month to 2.9 percent; this rate is about 0.2 percentage point higher than the average reading in 2003.

Labor Costs

The release of fourth-quarter data shows that labor costs accelerated in 2003. Although the increases in both the employment cost index (ECI) and the BLS's measure of compensation per hour were smaller in the fourth quarter than earlier in the year, for 2003 as a whole, compensation gains were significantly larger than in 2002. Compensation per hour in the nonfarm business sector rose 3.6 percent last year, more than double the rate of increase in the previous year. Likewise, the ECI rose 4.0 percent in 2003 compared with a 3.2 percent gain in 2002. The acceleration in the ECI was due in large part to a pickup in benefit costs, primarily in the retirement and savings component. The wages and salaries component of the ECI rose 2 percent in 2003, little changed from the rate of increase posted in 2002. In contrast, average hourly earnings of production workers rose only 1-1/2 percent over the twelve months ended in February, down from a 3-1/3 percent increase over the previous twelve-month period.

13. The release of the Producer Price Indexes for January have been delayed by the Bureau of Labor Statistics because of unanticipated difficulties associated with switching to the North American Industry Classification System.

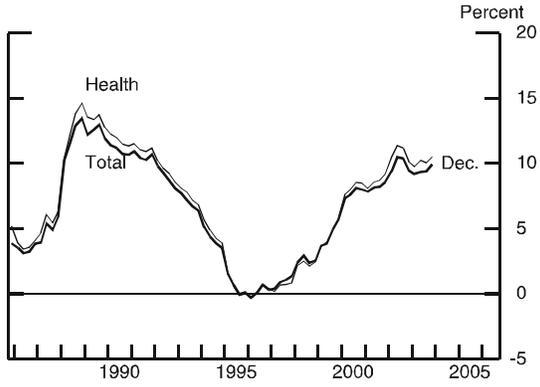
**Change in Employment Cost Index of Hourly Compensation
for Private-Industry Workers**

Industry and occupational group	2002	2003			
	Dec.	Mar.	June	Sept.	Dec.
	Quarterly change (compound annual rate) ¹				
Total hourly compensation	3.0	5.5	3.4	4.2	2.9
Wages and salaries	2.1	4.1	2.5	3.5	2.0
Benefits	5.0	10.0	5.5	5.6	4.9
<i>By industry</i>					
Construction	4.2	3.3	4.6	3.3	2.5
Manufacturing	4.3	7.4	3.5	3.4	2.2
Transportation and public utilities	3.5	3.0	5.2	2.4	2.4
Wholesale trade	2.7	6.9	2.1	3.1	.7
Retail trade	1.5	-.3	1.8	7.1	4.8
FIRE	1.2	20.9	3.7	4.3	1.6
Services	2.5	3.4	3.1	4.3	3.6
<i>By occupation</i>					
White collar	2.7	5.9	2.6	4.8	3.3
Blue collar	3.6	5.4	3.8	3.8	3.0
Service occupations	2.3	4.8	2.8	3.0	2.7
Memo: State and local governments	4.1	3.8	4.0	2.7	2.7
	12-month change				
Total hourly compensation	3.2	3.8	3.5	4.0	4.0
Excluding sales workers	3.3	3.8	3.8	4.0	4.1
Wages and salaries	2.7	3.0	2.6	3.0	3.0
Excluding sales workers	2.7	2.9	2.8	3.0	3.1
Benefits	4.7	6.1	6.1	6.5	6.4
<i>By industry</i>					
Construction	3.2	3.2	3.8	3.8	3.4
Manufacturing	3.8	4.7	4.6	4.7	4.1
Transportation and public utilities	4.0	3.8	4.1	3.5	3.3
Wholesale trade	4.5	4.7	3.0	3.7	3.2
Retail trade	1.7	2.0	1.2	2.5	3.3
FIRE	4.5	7.0	6.6	7.3	7.4
Services	2.7	2.8	2.9	3.3	3.6
<i>By occupation</i>					
White collar	3.2	3.8	3.4	4.0	4.1
Sales	3.3	3.7	2.2	3.5	3.2
Nonsales	3.1	3.9	3.7	4.1	4.3
Blue collar	3.6	4.0	4.1	4.2	4.0
Service occupations	3.2	3.4	3.3	3.0	3.2
Memo: State and local governments	4.1	4.2	4.1	3.6	3.3

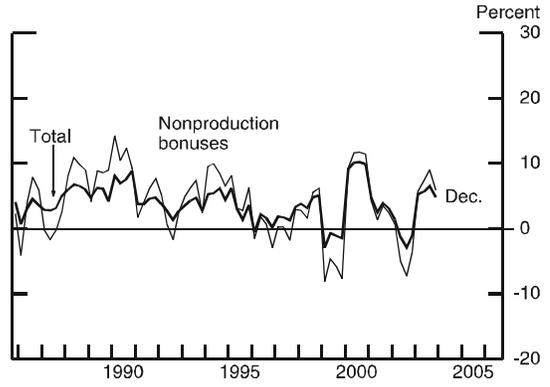
1. Seasonally adjusted by the BLS.

ECI Benefits Costs (confidential)
(Private-industry workers; 12-month change)

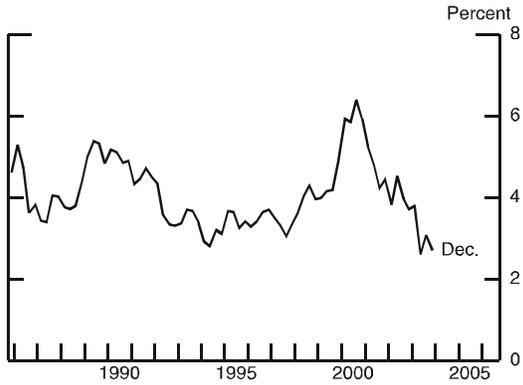
Insurance Costs



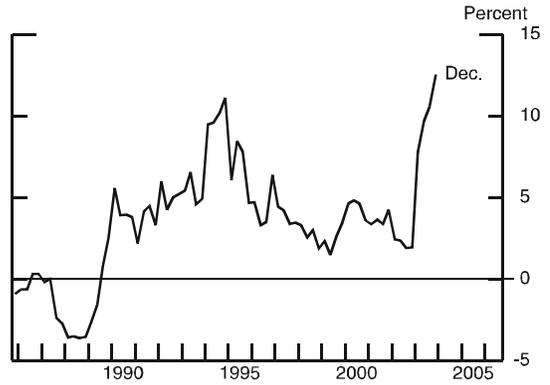
Supplemental Pay



Paid Leave



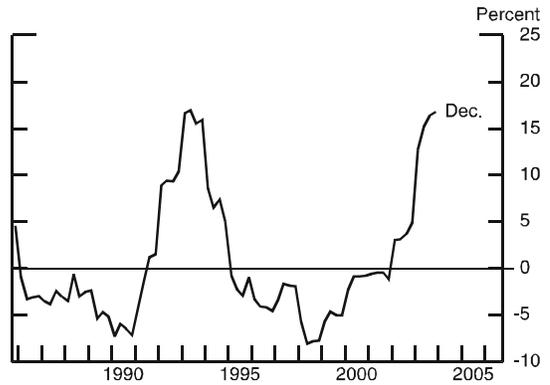
Retirement and Savings



Workers' Compensation Insurance



State Unemployment Insurance



Domestic Financial Developments

III-T-1
Selected Financial Market Quotations
(One-day quotes in percent except as noted)

Instrument	2003		2004		Change to Mar. 10 from selected dates (percentage points)		
	June 24	Dec. 31	Jan. 27	Mar. 10	2003 June 24	2003 Dec. 31	2004 Jan. 27
<i>Short-term</i>							
FOMC intended federal funds rate	1.25	1.00	1.00	1.00	-.25	.00	.00
Treasury bills ¹							
3-month	0.81	0.93	0.89	0.94	.13	.01	.05
6-month	0.82	1.00	0.96	0.98	.16	-.02	.02
Commercial paper (A1/P1 rates) ²							
1-month	0.95	1.00	1.02	1.02	.07	.02	.00
3-month	0.91	1.05	1.04	1.03	.12	-.02	-.01
Large negotiable CDs ¹							
1-month	0.96	1.06	1.03	1.03	.07	-.03	.00
3-month	0.93	1.09	1.05	1.04	.11	-.05	-.01
6-month	0.92	1.16	1.10	1.08	.16	-.08	-.02
Eurodollar deposits ³							
1-month	0.94	1.04	1.02	1.02	.08	-.02	.00
3-month	0.91	1.07	1.04	1.04	.13	-.03	.00
Bank prime rate	4.25	4.00	4.00	4.00	-.25	.00	.00
<i>Intermediate- and long-term</i>							
U.S. Treasury ⁴							
2-year	1.14	1.83	1.70	1.52	.38	-.31	-.18
10-year	3.46	4.40	4.24	3.88	.42	-.52	-.36
30-year	4.53	5.22	5.09	4.80	.27	-.42	-.29
U.S. Treasury 10-year indexed note	1.70	2.00	1.84	1.46	-.24	-.54	-.38
Municipal general obligation ⁵	4.46	4.61	4.62	4.43	-.03	-.18	-.19
Private instruments							
10-year swap	3.67	4.66	4.47	4.11	.44	-.55	-.36
10-year FNMA ⁶	3.84	4.72	4.54	4.21	.37	-.51	-.33
10-year AA ⁷	4.13	5.05	4.89	4.51	.38	-.54	-.38
10-year BBB ⁷	5.16	5.74	5.52	5.16	.00	-.58	-.36
5-year high yield ⁷	8.95	7.94	7.60	7.71	-1.24	-.23	.11
Home mortgages (FHLMC survey rate) ⁸							
30-year fixed	5.24	5.85	5.68	5.41	.17	-.44	-.27
1-year adjustable	3.45	3.72	3.59	3.41	-.04	-.31	-.18

Stock exchange index	Record high		2003	2004		Change to Mar. 10 from selected dates (percent)		
	Level	Date	Dec. 31	Jan. 27	Mar. 10	Record high	2003 Dec. 31	2004 Jan. 27
Dow-Jones Industrial	11,723	1-14-00	10,454	10,610	10,297	-12.16	-1.50	-2.95
S&P 500 Composite	1,527	3-24-00	1,112	1,144	1,124	-26.42	1.08	-1.76
Nasdaq	5,049	3-10-00	2,003	2,116	1,964	-61.10	-1.96	-7.18
Russell 2000	606	3-9-00	557	595	575	-5.13	3.25	-3.39
Wilshire 5000	14,752	3-24-00	10,800	11,177	10,979	-25.57	1.66	-1.77

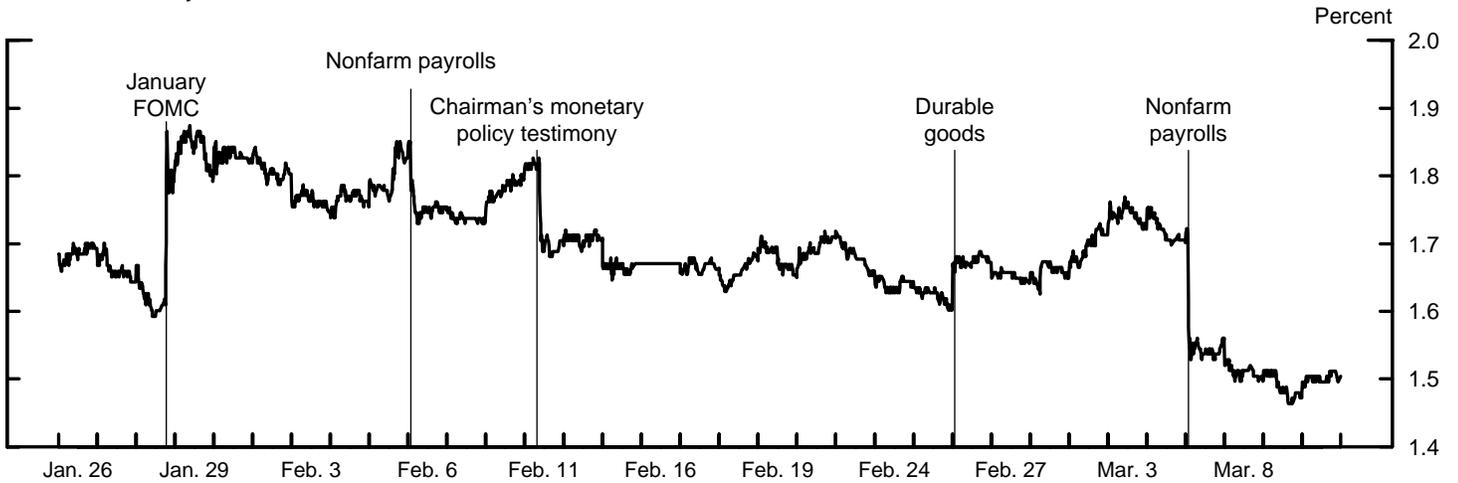
1. Secondary market.
2. Financial commercial paper.
3. Bid rates for eurodollar deposits collected around 9:30 a.m. Eastern time.
4. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
5. Twenty-year AA1-rated general obligation bonds, from Bloomberg.
6. Constant maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
7. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.
8. For week ending Wednesday previous to date shown.

NOTES:

June 24, 2003 is the last day before the most recent policy easing.
January 27, 2004, is the day before the most recent FOMC meeting.

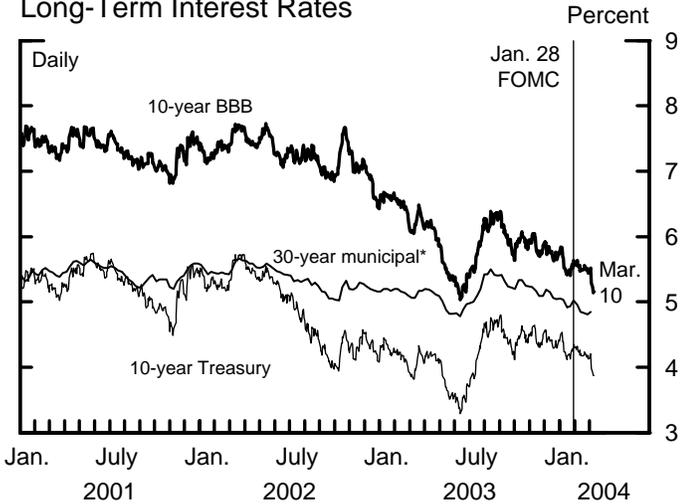
Interest Rates and Policy Expectations

2-Year Treasury Yield*



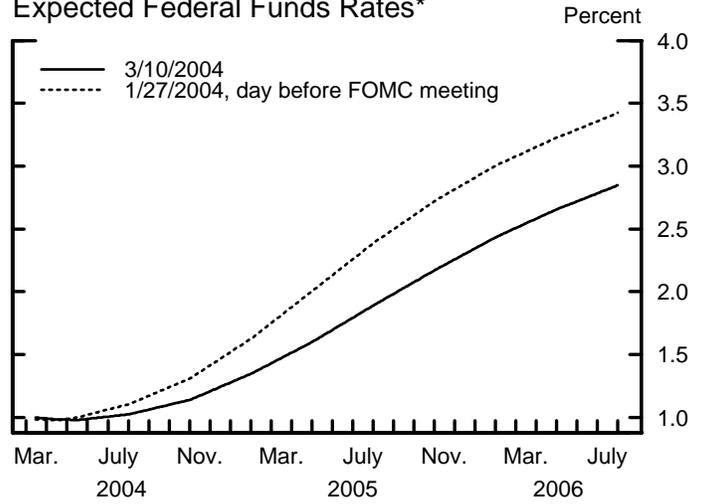
*On-the-run issue, 5-minute intervals.

Long-Term Interest Rates



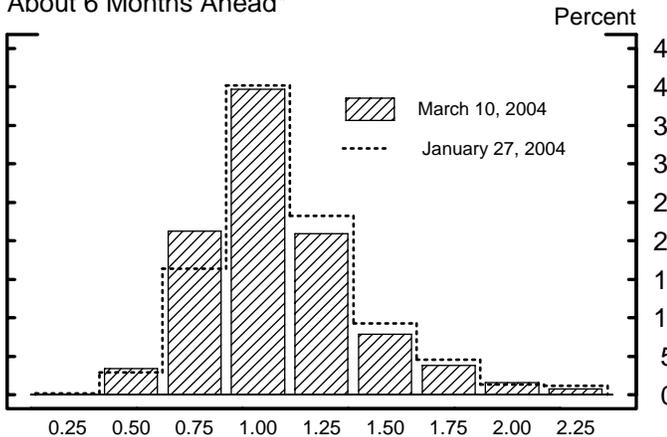
*Bond Buyer Revenue, weekly Thursday frequency.

Expected Federal Funds Rates*



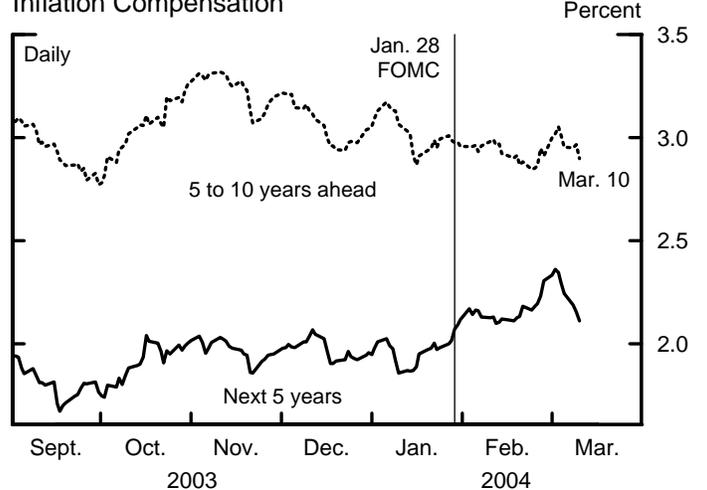
*Estimates from federal funds and Eurodollar futures with an allowance for term premia and other adjustments.

Implied Distribution of the Federal Funds Rate About 6 Months Ahead*



*Based on the distribution of the 3-month Eurodollar rate 5 months ahead (adjusted for a term premium), as implied by options on Eurodollar futures contracts.

Inflation Compensation



Domestic Financial Developments

Overview

Over the intermeeting period, near-term rates remained pinned by the expectation that policy tightening will not begin any time soon, but disappointing economic news led investors to substantially lower their expectations for the federal funds rate further out, prompting sizable declines in yields on Treasury coupon securities and investment-grade corporate bonds. Broad equity price indexes slipped somewhat on net and high-yield bond spreads widened. Nonetheless, overall corporate earnings remain strong, credit quality has continued to improve, and business borrowing rose in January and February. Household debt growth seems to be picking up a bit in the first quarter, while measures of household credit quality have been mixed.

Policy Expectations and Interest Rates

The FOMC's statement after its January meeting—in particular, the replacement of “considerable period” with the statement that “the Committee believes that it can be patient in removing its policy accommodation”—was widely read by market participants as signaling an earlier start for policy tightening than was previously expected. However, this change in sentiment was more than reversed in subsequent weeks in response to weaker-than-expected economic data, especially the employment reports for January and February, and the Chairman's monetary policy testimony. Current futures quotes indicate that market participants see little chance that the funds rate will be raised before late this year, and indeed place some odds on one further easing before tightening begins. Moreover, the pace of tightening next year is now expected to be more gradual than market participants had anticipated at the time of the last FOMC meeting.

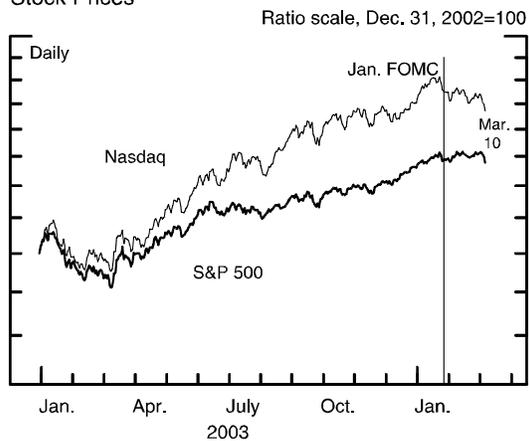
Consistent with these shifts in expectations, nominal Treasury yields declined around 35 basis points over the intermeeting period. Yields on inflation-indexed securities fell a bit more than nominal yields at relatively short maturities, leaving inflation compensation over the next five years slightly higher; over the subsequent five years, however, inflation compensation was about unchanged.

Stock Prices and Corporate Risk Spreads

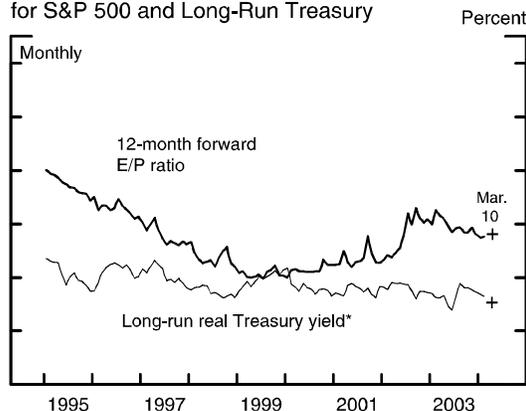
Broad equity price indexes fell about 1-3/4 percent over the intermeeting period, while prices for technology stocks slumped, pulling the Nasdaq index down about 7 percent over the period. However, even after this decline, the rise in the Nasdaq over the past year has far outpaced that in broader indexes. The equity premium, as gauged by the gap between the forward-earnings yield on the S&P 500 and the long-run real Treasury yield, rose a bit over the intermeeting

Stock Prices and Corporate Risk Spreads

Stock Prices

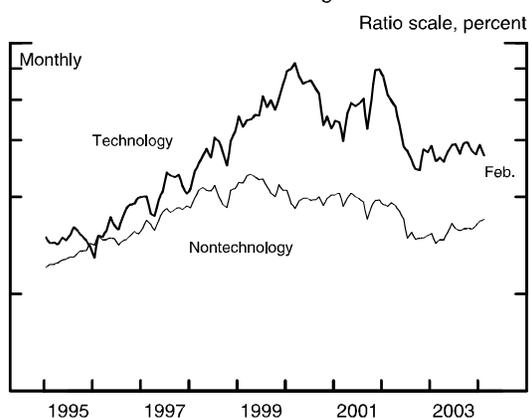


12-Month Forward Earnings-Price Ratio for S&P 500 and Long-Run Treasury



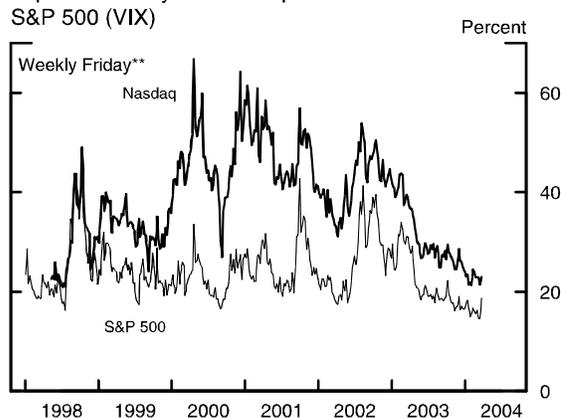
* Yield on synthetic Treasury perpetuity minus Philadelphia Fed 10-year expected inflation.
 + Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.

Selected S&P 500 Price-Earnings Ratios



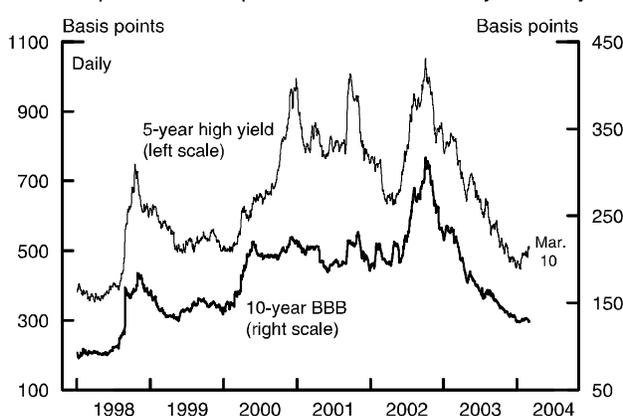
Note. Using expected operating earnings for 12 months ahead.
 Source: I/B/E/S.

Implied Volatility on Nasdaq 100* and S&P 500 (VIX)

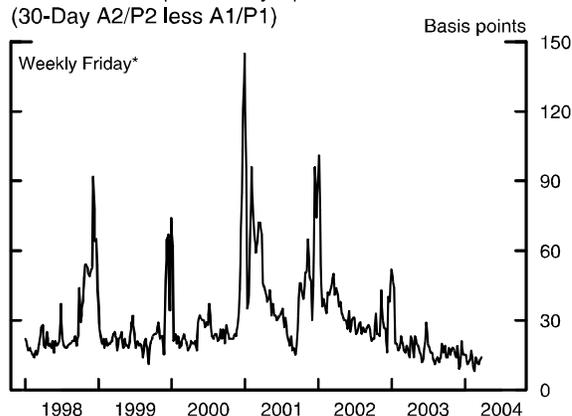


* Implied volatility calculated from one to four month options.
 ** Latest observation is for Wednesday, March 10.

Corporate Bond Spreads to Similar Maturity Treasury



Commercial Paper Quality Spread (30-Day A2/P2 less A1/P1)



* Latest observation is for Wednesday, March 10.

period.¹ The forward price-earnings ratio for S&P 500 technology firms has remained somewhat elevated, suggesting investors continue to expect higher earnings growth at tech firms. Implied volatilities for the S&P 500 and the Nasdaq 100 indexes moved up late in the intermeeting period but remained at the lower end of their ranges since 1998.

Risk spreads on investment-grade corporate bonds were nearly unchanged over the period, while spreads on speculative-grade bonds rose about ½ percentage point. Nevertheless, given their substantial declines since late 2002, high-yield spreads remain at the low end of their range since 1998. Risk spreads on commercial paper stayed well below their historical averages, partly because of the high degree of liquidity and low issuance volumes in the CP market.

Corporate Earnings and Credit Quality

With nearly all of the S&P 500 firms having reported, earnings per share in the fourth quarter are estimated to have risen 25 percent relative to a year earlier. Analysts nudged up their current-quarter earnings estimates, which now call for an increase of 14 percent from a year ago. Forecasts of year-ahead earnings were again marked up, with the revisions index coming in close to a record level in February. Analysts' expectations of long-term earnings growth have inched up this year after sliding sharply over the past three years.

Corporate credit quality showed further signs of improvement over the intermeeting period. Bond rating upgrades, measured as a share of the par value of all outstanding bonds, nearly matched bond downgrades in January after running far below downgrades over the previous few years. The C&I loan delinquency rate continued its downward trend in the fourth quarter of last year, and in January further declines were registered for both the six-month trailing average of realized bond default rates and the expected year-ahead default rate based on firm-level estimates by Moody's KMV Corporation.

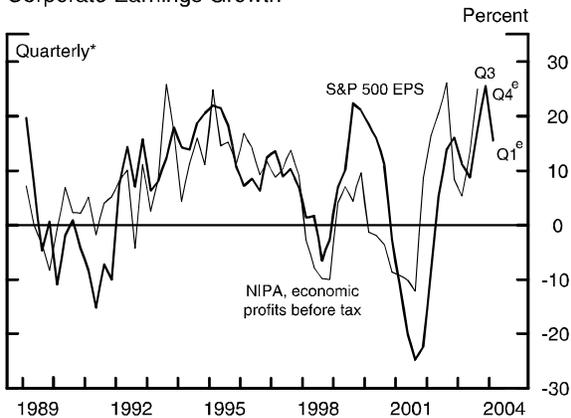
Business Finance

Gross issuance of corporate bonds by nonfinancial corporations slowed in January and February, reflecting a drop-off for investment-grade issuers. High-yield issuance remained strong despite a few deals that were cancelled or downsized as rates rose. Net bond issuance edged up from its fourth-quarter pace, reflecting lower retirements. Over the same period, a number of big CP issuers reentered that market, and nonfinancial commercial paper outstanding reversed some of the runoffs registered in December. Outstanding C&I loans

1. The long-run Treasury yield used here is a new proxy for the yield on a Treasury perpetuity. The proxy is a weighted average of the ten-year bond yield and the forward rate from ten to twenty years ahead, with heavier weight on the forward rate.

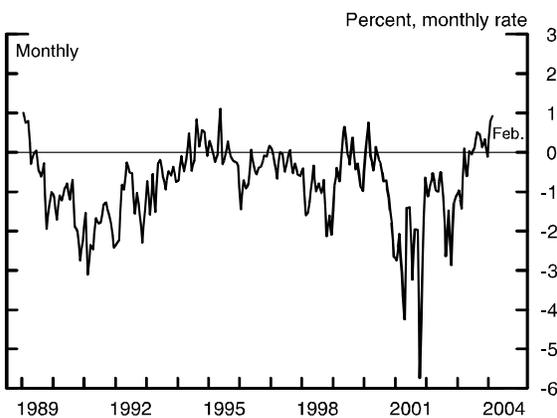
Corporate Earnings and Credit Quality

Corporate Earnings Growth



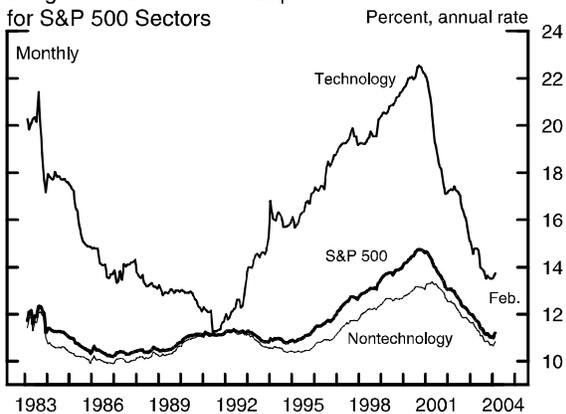
e Analysts' estimate as of March 10, 2004.
 * Change from four quarters earlier.
 Source: I/B/E/S for S&P 500 EPS.

S&P 500 EPS Revisions Index



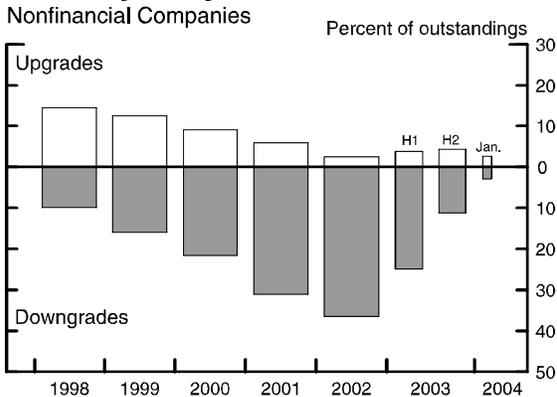
Note. Index is a weighted average of the percent change in the consensus forecasts of current-year and following-year EPS.

Long-Term EPS Growth Expectations for S&P 500 Sectors



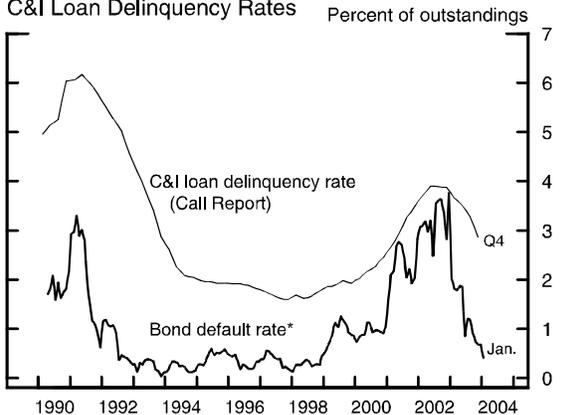
Note. Earnings-weighted average of I/B/E/S consensus firm-level 5-year growth forecasts.

Bond Ratings Changes of Nonfinancial Companies



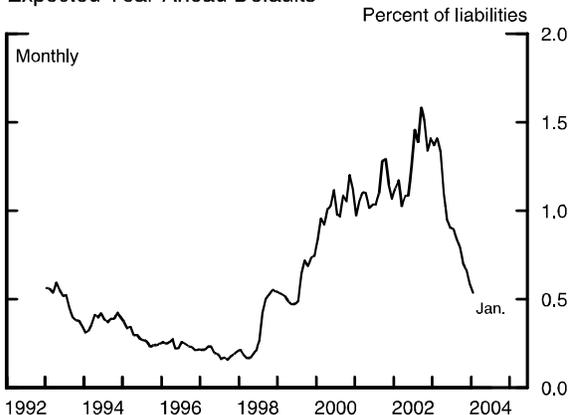
Note. Data are at an annual rate.
 Source: Moody's Investors Service

Bond Default and C&I Loan Delinquency Rates



*6-month moving average, from Moody's Investors Service.

Expected Year-Ahead Defaults



Note. Firm-level estimates of default weighted by firm liabilities as a percent of total liabilities.
 Source: KMV Corporation.

Business Finance

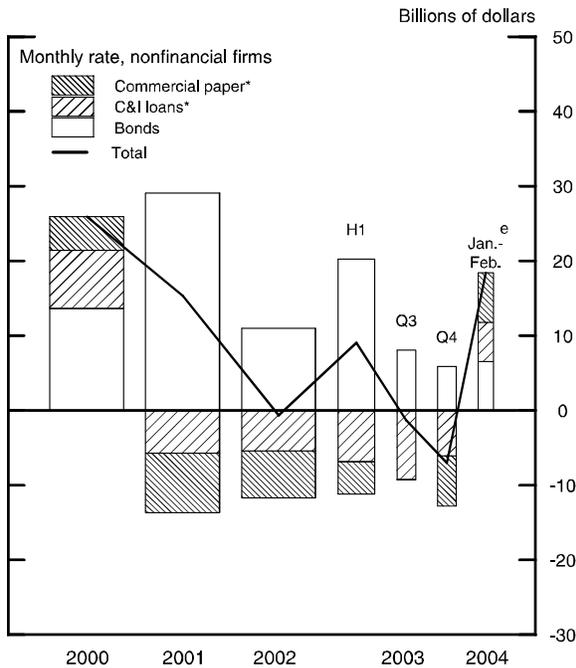
Gross Issuance of Securities by U.S. Corporations
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	2000	2001	2002	2003		Jan.	Feb. ^e
				H1	H2		
<i>Nonfinancial corporations</i>							
Stocks ¹	9.9	6.5	5.2	2.8	4.6	4.9	6.1
Initial public offerings	4.4	2.1	0.7	0.0	0.9	0.3	1.8
Seasoned offerings	5.5	4.4	4.4	2.8	3.7	4.6	4.3
Bonds	22.7	39.8	24.8	36.5	27.4	22.4	18.9
Investment grade ²	13.2	27.5	15.7	20.1	11.9	7.7	5.5
Speculative grade ²	4.7	8.9	4.8	11.5	11.1	11.7	11.8
Other (sold abroad/unrated)	4.9	3.4	4.2	4.9	4.5	3.0	1.6
<i>Memo</i>							
Net issuance of commercial paper ³	4.5	-8.0	-6.3	-4.3	-3.4	10.7	2.7
Change in C&I loans at commercial banks ^{3,4}	7.8	-5.7	-5.4	-6.9	-7.6	7.5	2.8
<i>Financial corporations</i>							
Stocks ¹	1.4	4.2	4.0	6.0	7.8	9.5	11.9
Bonds ⁵	57.8	80.2	87.0	114.1	108.2	124.7	114.0

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

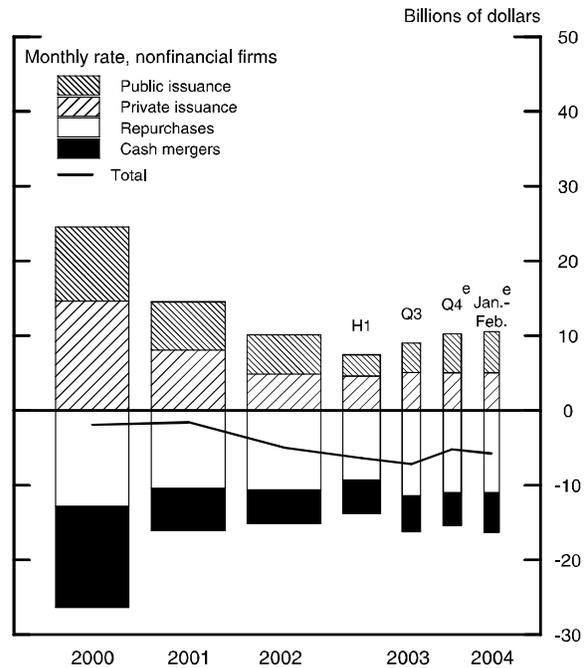
1. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.
2. Bonds sold in U.S. categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's.
3. End-of-period basis, seasonally adjusted.
4. Adjusted for FIN 46 effects.
5. Excludes mortgage-backed and asset-backed bonds.

Selected Components of Net Debt Financing



* Seasonally adjusted.
e Staff estimate.

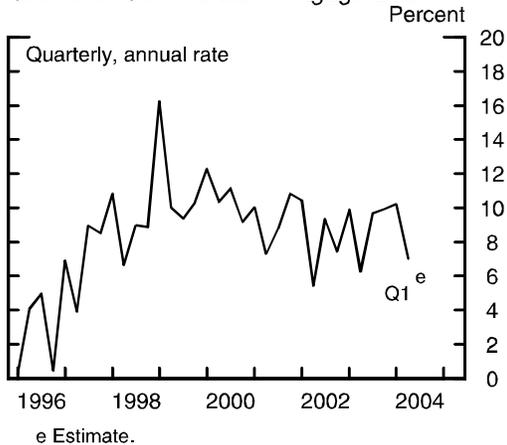
Components of Net Equity Issuance



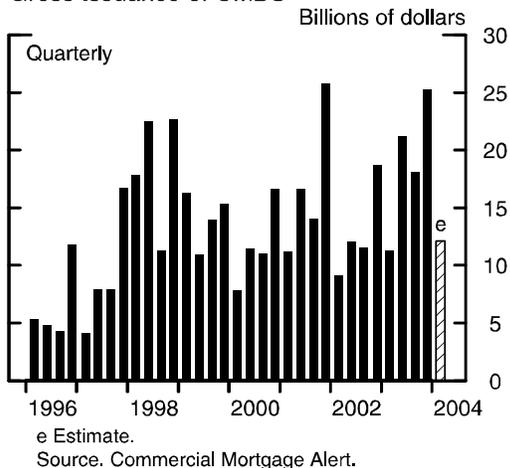
e Staff estimate.

Commercial Real Estate

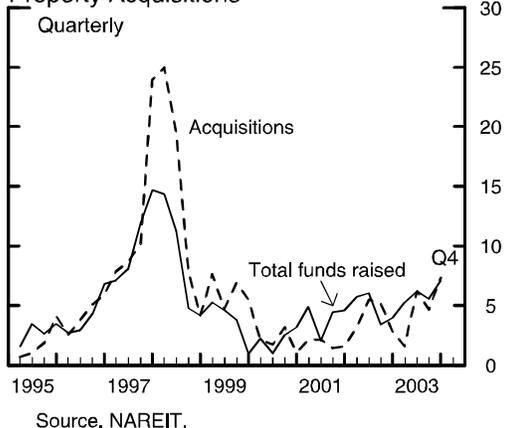
Growth of Commercial Mortgage Debt



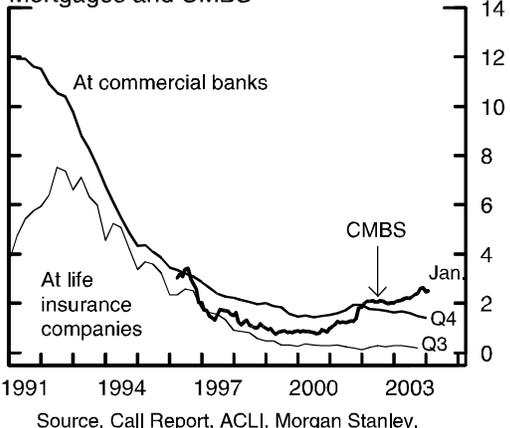
Gross Issuance of CMBS



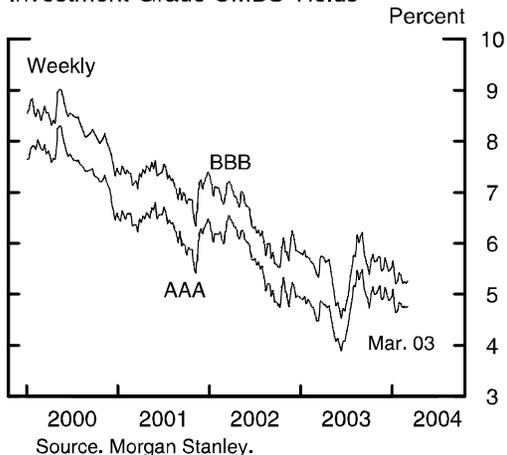
REIT Funds Raised and Property Acquisitions



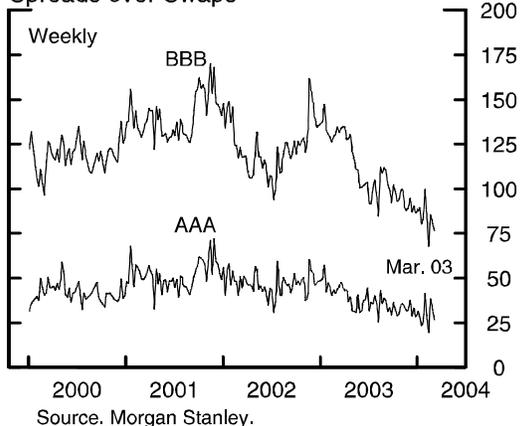
Delinquency Rates on Commercial Mortgages and CMBS



Investment-Grade CMBS Yields



Investment-Grade CMBS Spreads over Swaps



also posted a small increase over the first two months of the year after an extended period of contraction.

Gross public equity issuance by nonfinancial firms in January and February rose slightly from its pace in the second half of last year. Initial public offerings remained sluggish, and most of the activity was in the seasoned equity market, with a pickup in issuance related to mergers, acquisitions, and capital expenditures. In January and February, a slight rise in cash mergers dragged net equity issuance a bit below its pace in the fourth quarter. The record-breaking \$41 billion all-cash acquisition of AT&T Wireless by Cingular Inc. is expected to result in a sizable equity retirement toward the end of this year.

Commercial Real Estate

Commercial mortgage debt growth is estimated to have slowed to a 7 percent annual rate in the first quarter. The issuance of commercial mortgage-backed securities (CMBS) fell sharply early in the quarter, but has rebounded in recent weeks. With their share prices at or near historical highs, real estate investment trusts have been raising funds and acquiring property at a rising rate over the past few quarters, providing a modest boost to mortgage debt growth. The commercial mortgage delinquency rate at commercial banks fell in the fourth quarter of last year to a very low level. The delinquency rate for CMBS edged up in January, and remains a bit above those at banks and insurance companies, reflecting the riskier loans in CMBS pools and the greater difficulties in refinancing securitized commercial mortgages. Despite the rise in delinquencies, CMBS yields and credit spreads remain at low levels.

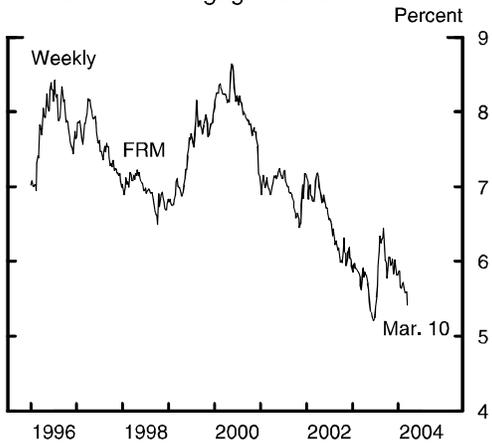
Household Finance

Interest rates on thirty-year fixed-rate mortgages fell about 1/4 percentage point over the intermeeting period, helping to spur applications for mortgage refinancing. Refinancing originations are estimated to have ticked up in February, and the recent surge in applications presages a further increase in originations during the spring. Home purchase activity remained strong in January and February.

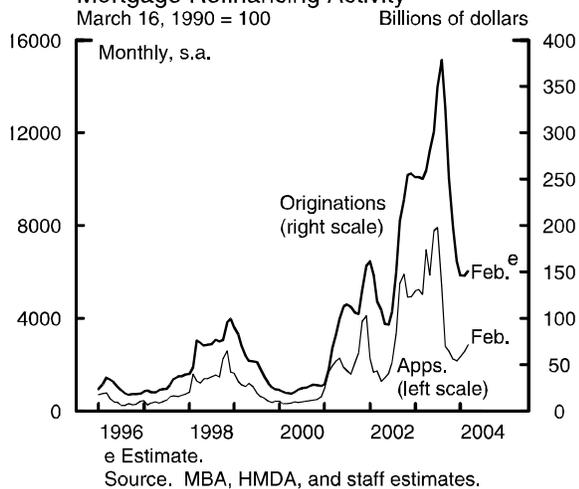
Home mortgage debt is expected to expand at a 10-1/2 percent rate in the first quarter, a shade higher than the fourth-quarter pace but below that in the middle of last year. Consumer credit is on track to expand at a 4-1/2 percent rate in the first quarter, slightly higher than in the fourth quarter; the relatively slow growth of consumer credit over the past two quarters reflects the sluggish expenditures on durable goods. The ratio of household financial obligations to disposable income ticked up in the fourth quarter of last year as income stagnated. Nonetheless, the ratio stayed below its levels earlier in the year, and the fourth-quarter rise seems likely to be reversed this quarter with the increase in income that appears to be in train.

Household Liabilities

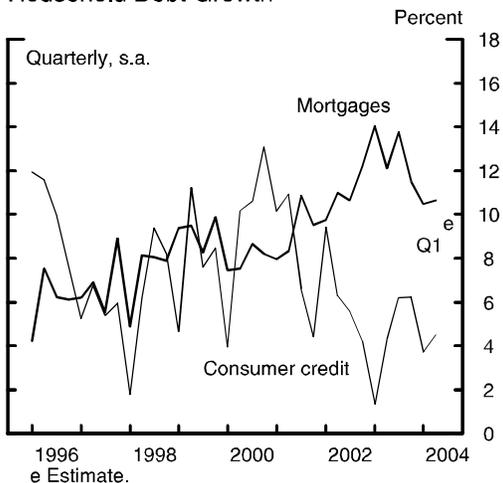
Freddie Mac Mortgage Rates



Mortgage Refinancing Activity



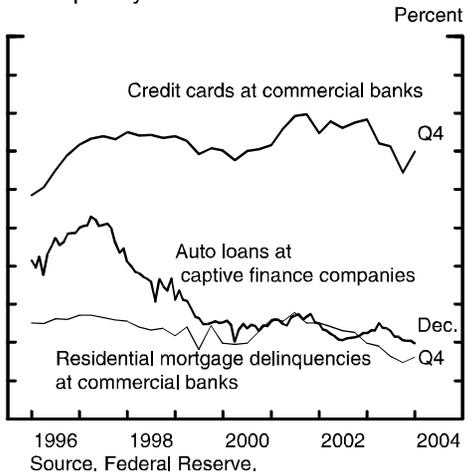
Household Debt Growth



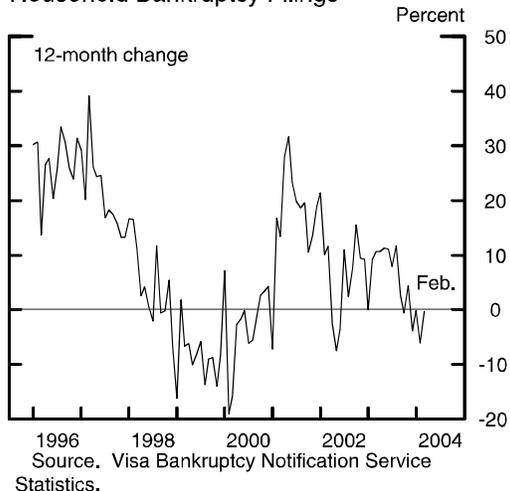
Financial Obligations Ratio



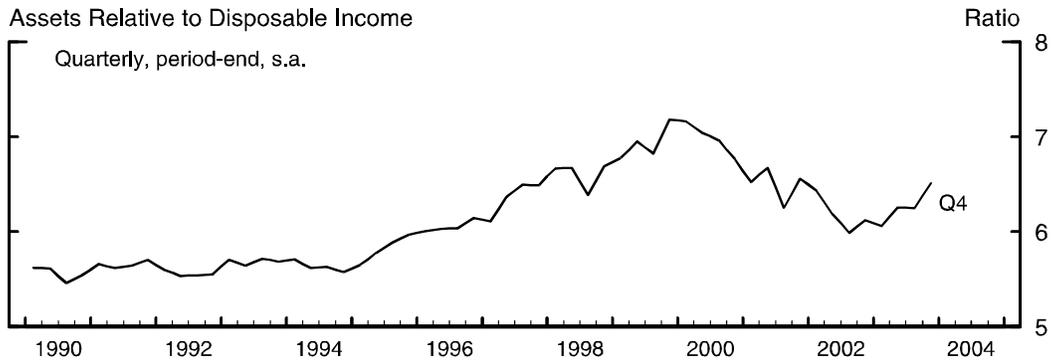
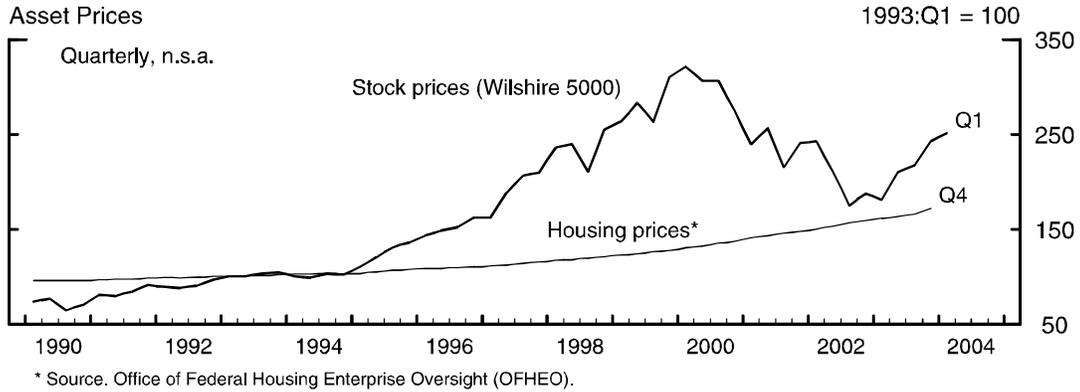
Delinquency Rates



Household Bankruptcy Filings



Household Assets



Net Flows into Long-Term Mutual Funds

(Billions of dollars, monthly rate)

	2001	2002	2003		2004		Assets
			H1	H2	Jan.	Feb. ^e	Jan.
Total long-term funds	10.7	10.1	19.1	16.9	49.8	34.3	5,503
Equity funds	2.7	-2.3	5.8	19.5	43.8	25.8	3,805
Domestic	4.5	-2.1	5.4	16.0	32.6	18.0	3,264
International	-1.8	-0.2	0.5	3.5	11.2	7.8	540
Hybrid funds	0.7	0.7	2.0	3.5	5.5	4.8	448
Bond funds	7.3	11.7	11.3	-6.1	0.5	3.6	1,251
High-yield	0.6	0.9	3.7	0.7	0.3	-3.0	157
Other taxable	5.7	9.5	7.1	-5.1	0.4	5.8	759
Municipals	1.0	1.4	0.5	-1.6	-0.2	0.8	335

Note. Excludes reinvested dividends.

e Staff estimates based on confidential ICI weekly data.

Source. Investment Company Institute.

State and Local Government Finance

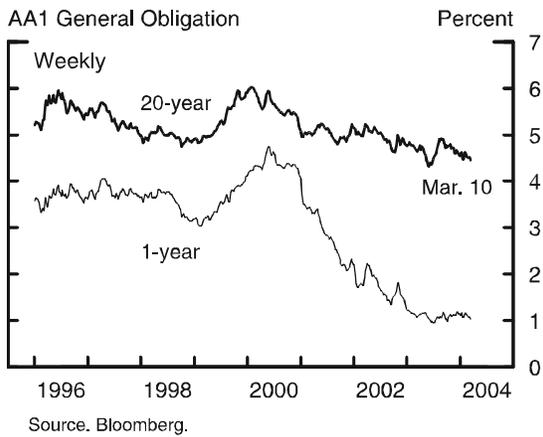
Gross Offerings of Municipal Securities

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

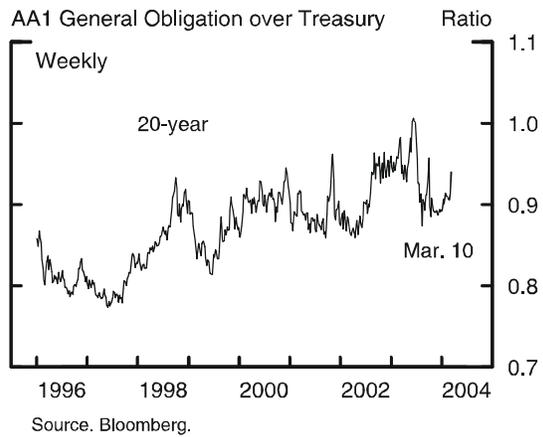
Type of security	2000	2001	2002	2003		2004	
				H1	H2	Jan.	Feb.
Total	17.9	29.0	36.3	40.7	35.2	24.0	26.6
Long-term ¹	15.0	24.3	30.3	34.5	29.8	20.4	25.4
Refundings ²	2.2	7.6	10.1	11.6	8.1	5.7	7.6
New capital	12.9	16.7	20.2	22.9	21.7	14.7	17.7
Short-term	2.8	4.7	6.0	6.2	5.5	3.6	1.2
Memo: Long-term taxable	0.7	1.4	1.7	3.9	3.3	2.0	1.6

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

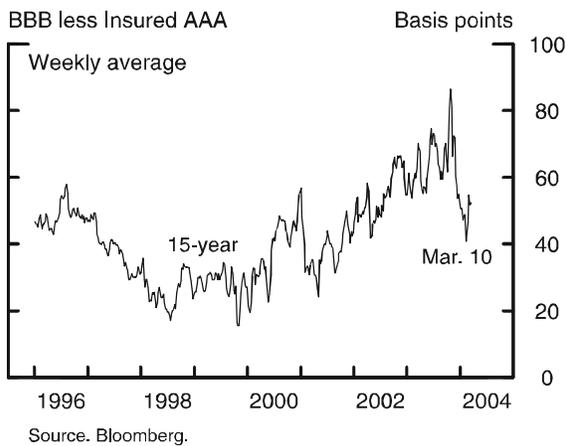
Municipal Bond Yields



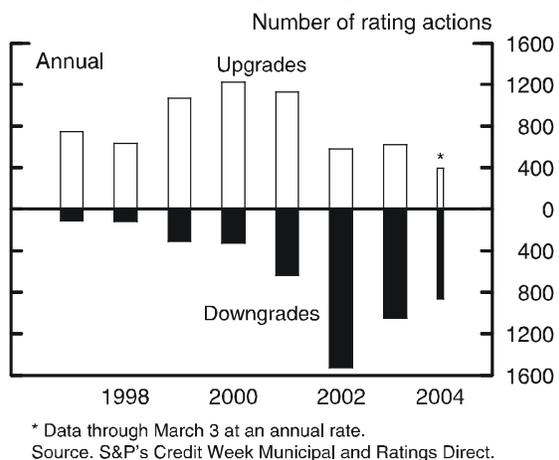
Municipal Bond Ratios



Revenue Bond Spread



Bond Rating Changes



Measures of consumer credit quality have been mixed of late. Auto loan delinquencies at captive finance companies improved in December, while household bankruptcy filings in February matched their year-ago pace. Meanwhile, residential mortgage and credit card delinquencies at commercial banks rose slightly in the fourth quarter.²

Big gains in house prices and equity valuations in the fourth quarter lifted the ratio of household assets to disposable income. With advances in equity prices in January and February, households plowed capital into equity mutual funds, while bond funds registered weak inflows.

State and Local Government Finance

Gross issuance of municipal bonds slowed somewhat in January and February, largely because of the decline in new capital issuance from last year's rapid pace. In addition, advance refunding activity continued to fall from the highs reached in the first half of 2003, reflecting the shrinking pool of refundable bonds.

Yields on longer-term municipal bonds fell less than Treasuries over the intermeeting period, boosting the muni-to-Treasury yield ratio. The risk spread between AAA- and BBB-rated revenue bonds exhibited some volatility over the period but ended up only a few basis points on net. So far this year, rating changes on municipal bonds have largely continued last year's pattern, with downgrades outpacing upgrades.

In early March, California voters approved by a wide margin the issuance of up to \$15 billion in long-term bonds; the proceeds will be used to pay down maturing short-term notes and to help finance the state's budget deficit. Californians also approved budget caps that apparently contributed to the decision by at least one rating agency to put the state's general obligation debt on watch for an upgrade.

Treasury and Agency Finance

During the intermeeting period the Treasury conducted well-received auctions of two-, three-, five-, and ten-year notes. The auctions benefited from substantial indirect bidding on behalf of foreign official institutions. The strong demand by those institutions for Treasuries was also reflected in the rapid rise in foreign official custody holdings at the Federal Reserve Bank of New York, which now account for about one-fourth of all outstanding Treasury debt. In its

2. The bulk of the rise in credit card delinquencies in the fourth quarter reflected a large bank's purchase from a finance company of a portfolio of loans with relatively high delinquencies.

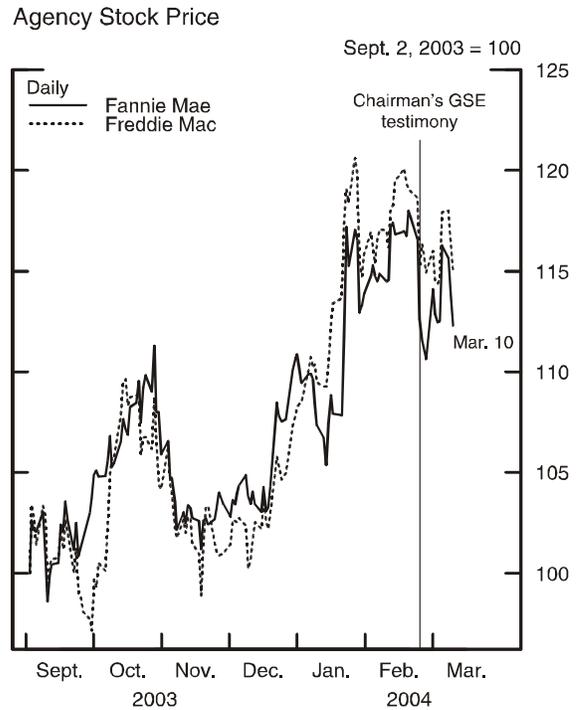
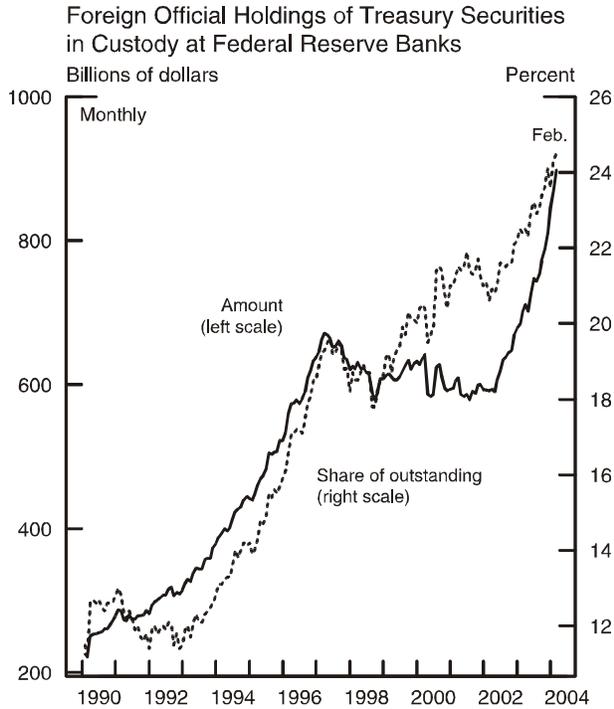
Treasury Financing
(Billions of dollars)

Item	2003					2004
	Q1	Q2	Q3	Q4	Dec.	Jan.
Total surplus, deficit (-)	-144.9	-16.6	-104.5	-128.7	-16.2	-1.4
Means of financing deficit						
Net borrowing	63.5	106.3	107.6	118.6	10.7	3.5
Nonmarketable	-50.5	45.9	31.4	6.6	0.0	-3.5
Marketable	114.0	60.4	76.2	112.0	10.7	7.0
Bills	67.0	-27.2	-14.9	9.2	-27.6	-21.0
Coupons	47.0	87.6	91.1	102.8	38.4	28.0
Decrease in cash balance	19.8	-16.8	-4.9	1.8	-11.8	-9.3
Other ¹	61.6	-73.0	1.9	8.3	17.2	7.2
Memo:						
Cash balance, end of period	13.3	30.0	35.0	33.2	33.2	42.5

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

1. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.

Treasury and Agency Market Developments



mid-quarter refunding statement, the Treasury indicated that in May it will announce plans for the addition of new maturities of inflation-indexed securities.

The housing GSEs continued to receive close scrutiny from policymakers and the market over the intermeeting period. Chairman Greenspan's testimony before Congress on February 24 weighed on the equity prices of both Fannie Mae and Freddie Mac, as investors viewed his proposals for the GSEs as a risk to future earnings growth. The Fed's announcement of changes in its payment system policies for the GSEs and various international organizations elicited little market reaction.

Money and Bank Credit

After falling at a record rate in the fourth quarter of last year, M2 grew slightly in January despite robust flows into long-term mutual funds, and it strengthened considerably in February as the flows to mutual funds abated somewhat. An acceleration in the growth of liquid deposits, which had been depressed late last year by the waning effects of last summer's mortgage refinancing boom, accounted for a large share of the turnaround in M2 growth.

M3 also expanded in the first two months of this year after having contracted during the fourth quarter of 2003. M3 was boosted by a surge in large time deposits, reflecting a shift from bank liabilities not included in M3 as well as a pickup in bank credit growth.

Bank credit accelerated in January and February after having been about flat in the fourth quarter. Loan growth was fueled by a rebound in real estate loans, as the wave of residential mortgage securitizations late last year abated, and by a surge in the volatile security loans category. C&I loans turned up in February, consistent with responses to the January Senior Loan Officer Opinion Survey suggesting increased demand for business loans. Bank credit was also boosted in February by a substantial rise in holdings of mortgage-backed securities.³

According to Call Report data, commercial bank profits increased notably in the final quarter of 2003 relative to both the third quarter of last year and the fourth quarter of 2002. For 2003 as a whole, profits were bolstered primarily by declining non-interest expenses and reduced loss provisioning. In the fourth quarter, those trends continued, and a partial reversal of the declines in net interest margins posted earlier in the year also boosted profits.

3. The bulk of the increase reflected the purchase of more than \$70 billion of mortgage-backed securities by one large domestic bank, which reported that it did so in order to help manage its interest-rate exposure.

Monetary Aggregates
(Based on seasonally adjusted data)

Aggregate or component	2003	2003		2003	2004		Level (\$ billions) Feb. 04 (p)
		Q3	Q4	Dec.	Jan.	Feb. (p)	
<i>Aggregate</i>	Percent change (annual rate) ¹						
1. M2 ²	5.3	6.9	-1.5	-1.0	.9	10.3	6,128
2. M3 ³	4.4	6.9	-1.6	-1.1	6.7	8.3	8,924
<i>Components of M2⁴</i>							
3. Currency	5.9	4.2	6.3	4.7	1.8	1.4	666
4. Liquid deposits ⁵	13.9	16.6	4.0	2.9	7.7	21.3	3,872
5. Small time deposits	-9.5	-13.4	-9.7	-5.9	-5.2	-4.3	802
6. Retail money market funds	-11.6	-10.4	-22.8	-18.7	-25.5	-20.3	780
<i>Components of M3</i>							
7. M3 minus M2 ⁶	2.7	6.9	-2.0	-1.4	19.6	3.9	2,797
8. Large time deposits, net ⁷	3.6	9.7	8.2	32.3	56.2	4.5	902
9. Institutional money market funds	-6.0	7.8	-16.6	-20.5	3.2	-13.2	1,090
10. RPs	12.8	-10.9	8.8	-13.8	-7.8	45.2	521
11. Eurodollars	24.9	30.0	9.9	-3.0	21.5	-4.6	284
<i>Memo</i>							
12. Monetary base	6.0	5.5	5.2	3.2	2.1	2.9	724
	Average monthly change (billions of dollars) ⁸						
<i>Selected managed liabilities at commercial banks</i>							
13. Large time deposits, gross	-2.1	1.3	-5.4	13.2	33.7	6.6	1,022
14. Net due to related foreign institutions	3.1	-1.3	9.3	-30.5	-12.1	-18.2	114
15. U.S. government deposits at commercial banks	-.3	.8	.4	3.0	1.1	2.8	23

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

2. Sum of currency, liquid deposits (demand, other checkable, savings), small time deposits, retail money market funds, and non-bank travelers checks.

3. Sum of M2, net large time deposits, institutional money market funds, RP liabilities of depository institutions, and eurodollars held by U.S. addressees.

4. Non-bank travelers checks not listed.

5. Sum of demand deposits, other checkable deposits, and savings deposits.

6. Sum of large time deposits, institutional money market funds, RP liabilities of depository institutions, and eurodollars held by U.S. addressees.

7. Net of holdings of depository institutions, money market funds, U.S. government, and foreign banks and official institutions.

8. For the years shown, "average monthly change" is the Q4 to Q4 dollar change divided by 12. For the quarters shown, it is the quarter-to-quarter dollar change divided by 3.

p Preliminary.

Commercial Bank Credit

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

Type of credit	2003	Q3 2003	Q4 2003	Dec. 2003	Jan. 2004	Feb. 2004	Level, Feb. 2004 (\$ billions)
Total							
1. Adjusted¹	5.9	4.5	-5	-4.4	6.4	20.2	6,106
2. Reported	5.6	2.4	.0	-2.3	8.1	21.1	6,316
<i>Securities</i>							
3. Adjusted ¹	9.1	-3.6	6.0	-3.9	-7.1	46.1	1,692
4. Reported	7.6	-10.2	6.8	3.2	.0	46.2	1,902
5. Treasury and agency	8.8	-15.2	2.7	-1.0	-1.5	69.8	1,165
6. Other ²	6.0	-2.0	13.3	9.4	2.2	10.8	738
<i>Loans³</i>							
7. Total	4.8	7.6	-2.8	-4.6	11.6	10.5	4,414
8. Business	-8.7	-13.6	-9.7	-5.4	-3.6	4.1	878
9. Real estate	11.0	18.3	-1.7	-.5	10.3	10.1	2,256
10. Home equity	30.8	24.1	30.9	32.9	41.9	26.4	297
11. Other	8.7	17.6	-5.9	-5.2	5.7	7.7	1,959
12. Consumer	6.0	6.5	12.5	6.7	7.8	-1.7	636
13. Adjusted ⁴	6.1	3.6	8.6	1.6	11.4	.7	1,008
14. Other ⁵	4.4	3.8	-11.7	-29.2	42.0	33.1	644

Note. Data are adjusted to remove estimated effects of consolidation related to FIN 46 and for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates are percentage changes in consecutive levels, annualized but not compounded.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FAS 115).

2. Includes private mortgage-backed securities, securities of corporations, state and local governments, foreign governments, and any trading account assets that are not Treasury or agency securities, including revaluation gains on derivative contracts.

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.

International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

The U.S. international trade deficit in January rose to \$43.1 billion, a record high.

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

	2003	Annual rate 2003			Monthly rate 2003 2004		
		Q2	Q3	Q4	Nov.	Dec.	Jan.
<i>Real NIPA¹</i>							
Net exports of G&S	-508.9	-526.0	-505.2	-514.4	...	...	...
<i>Nominal BOP</i>							
Net exports of G&S	-489.9	-496.4	-486.6	-490.5	-38.2	-42.7	-43.1
Goods, net	-549.2	-552.0	-545.0	-555.8	-43.9	-47.9	-48.4
Services, net	59.2	55.6	58.4	65.3	5.7	5.2	5.3

1. Billions of chained (2000) dollars.

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

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

The value of exports of goods and services fell 1.2 percent in January, as services receipts held steady and exports of goods declined 1.7 percent. Nearly half of the drop in exported goods resulted from lower agricultural exports, reflecting the bans on U.S. beef in foreign markets and a notable drop in exports of soybeans. Exports of semiconductors, automotive products, and consumer goods also moved lower. In other major trade categories, exports were little changed.

The value of imports of goods and services fell 0.5 percent in January from December's record high, reflecting declines in both services and goods. A 7 percent rise in the value of oil imports (entirely reflecting higher oil prices) offset about half of the 1.4 percent fall in imports of non-oil goods. Within non-oil goods, the declines were concentrated in the volatile categories of automotive products and aircraft. Imports in other categories were mixed.

U.S. Exports and Imports of Goods and Services

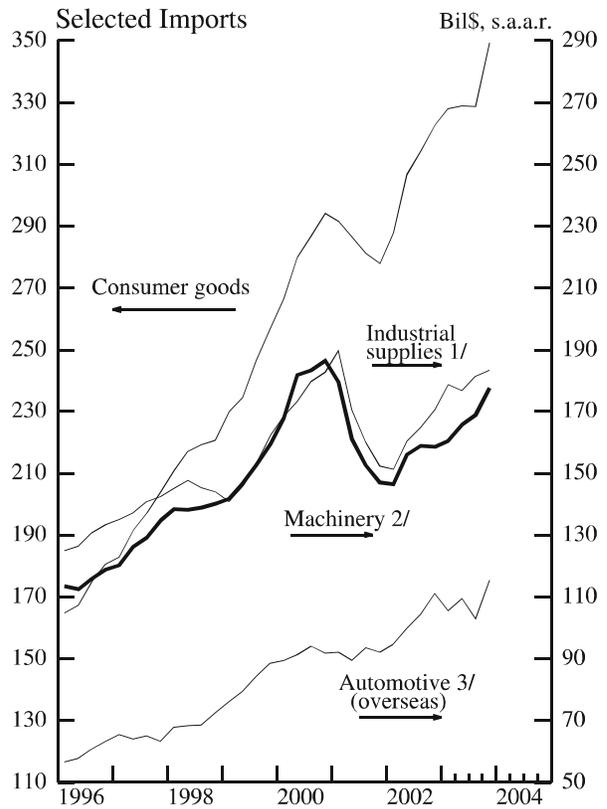
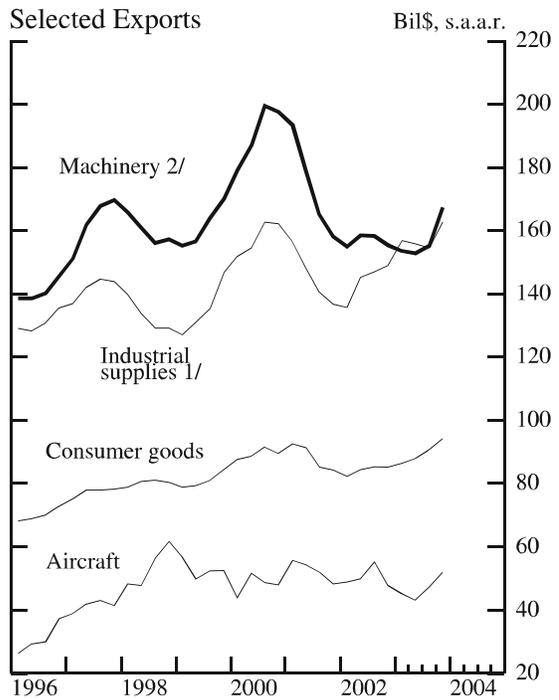
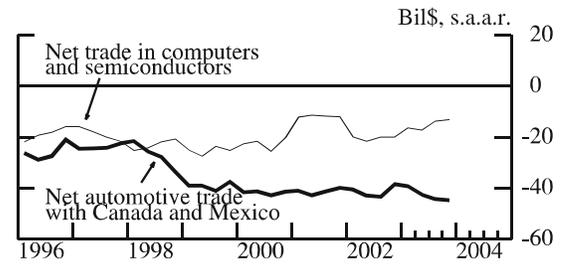
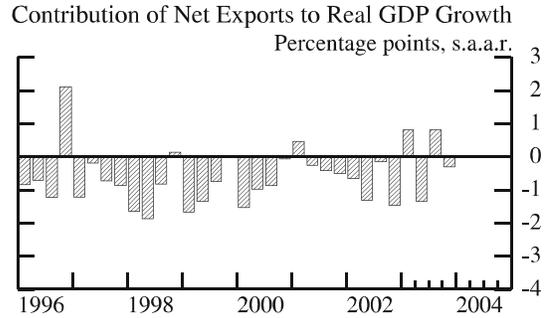
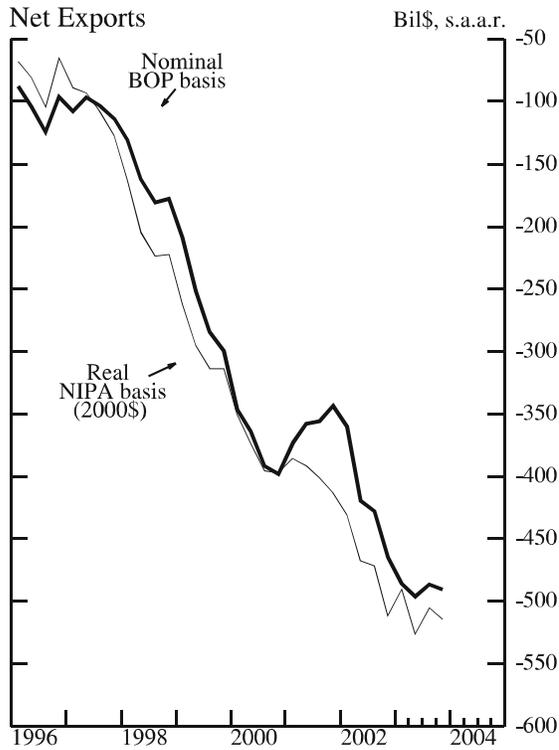
(Billions of dollars, s.a.a.r., BOP basis)

	Levels				Amount Change ¹			
	2003		2003	2004	2003		2003	2004
	Q3	Q4	Dec.	Jan.	Q3	Q4	Dec.	Jan.
Exports of G&S	1019.4	1075.9	1081.2	1068.5	29.4	56.6	-6.4	-12.7
Goods exports	711.1	753.4	755.5	742.9	14.0	42.2	-9.1	-12.7
Gold	5.3	4.7	4.6	5.0	-0.3	-0.7	0.1	0.5
Other goods	705.8	748.7	751.0	737.8	14.3	42.9	-9.3	-13.1
Aircraft & parts	47.3	51.9	44.9	45.2	4.0	4.6	-18.6	0.3
Computers & accessories	40.8	43.2	43.8	43.5	3.5	2.4	0.8	-0.3
Semiconductors	46.9	49.6	51.4	48.3	1.6	2.7	2.7	-3.2
Other capital goods	158.0	170.5	171.9	172.7	2.4	12.4	0.6	0.8
Automotive	78.7	82.1	83.2	81.3	-1.1	3.4	3.2	-1.9
to Canada	43.0	47.2	47.7	46.7	-2.2	4.2	0.5	-1.0
to Mexico	13.4	13.7	12.2	13.5	-1.0	0.3	-1.2	1.2
to ROW	22.3	21.3	23.3	21.1	2.1	-1.0	3.9	-2.2
Agricultural	61.5	66.4	67.4	61.5	3.1	4.9	-1.7	-5.9
Ind supplies (ex. ag, gold)	154.6	162.7	166.1	166.3	-1.3	8.1	6.3	0.2
Consumer goods	90.8	94.2	95.0	93.0	2.7	3.4	-2.2	-2.0
All other goods	27.1	28.0	27.2	26.2	-0.9	0.9	7.0	-1.1
Services exports	308.3	322.6	325.7	325.7	15.4	14.3	2.8	-0.0
Imports of G&S	1506.0	1566.4	1593.5	1585.2	19.6	60.4	47.3	-8.3
Goods imports	1256.1	1309.2	1330.6	1323.6	6.9	53.1	38.6	-7.0
Petroleum	137.1	129.5	131.9	141.1	6.6	-7.6	7.6	9.2
Gold	4.1	3.8	3.3	4.1	-0.0	-0.3	-0.7	0.8
Other goods	1115.0	1175.9	1195.5	1178.4	0.3	61.0	31.7	-17.0
Aircraft & parts	23.0	26.6	29.6	22.8	-0.7	3.6	3.8	-6.8
Computers & accessories	76.6	81.3	84.2	85.7	1.5	4.7	4.6	1.5
Semiconductors	24.8	24.6	25.4	25.9	0.2	-0.2	1.3	0.5
Other capital goods	170.8	179.7	183.7	187.5	2.5	8.9	5.3	3.8
Automotive	203.7	221.1	224.7	212.6	-7.8	17.3	6.2	-12.1
from Canada	60.0	64.4	66.8	59.1	0.7	4.4	5.5	-7.7
from Mexico	40.8	41.3	36.5	37.5	-2.1	0.5	-4.6	1.0
from ROW	103.0	115.4	121.4	116.0	-6.4	12.4	5.3	-5.4
Ind supplies (ex. oil, gold)	181.5	183.4	186.0	183.9	4.7	1.9	6.9	-2.1
Consumer goods	328.6	349.2	351.4	351.9	-0.2	20.5	3.8	0.6
Foods, feeds, bev.	55.6	58.4	59.3	58.1	0.6	2.8	0.9	-1.3
All other goods	50.2	51.7	51.2	50.0	-0.5	1.4	-1.0	-1.1
Services imports	249.9	257.2	262.9	261.6	12.7	7.4	8.7	-1.3
<i>Memo:</i>								
Oil quantity (mb/d)	13.40	12.79	12.79	12.76	-0.10	-0.61	0.50	-0.02
Oil import price (\$/bbl)	28.03	27.73	28.23	30.26	1.58	-0.29	0.55	2.03

1. Change from previous quarter or month.

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

U.S. International Trade in Goods and Services



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

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

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

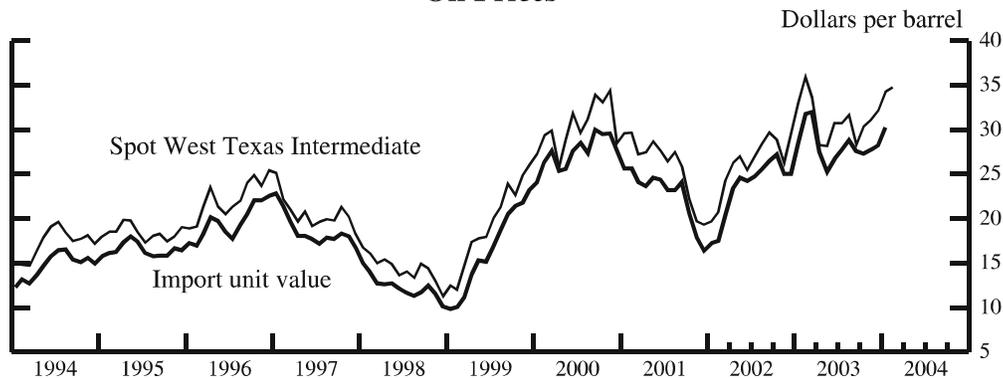
	Annual rates			Monthly rates		
	2003		2004	2003	2004	
	Q3	Q4	Q1 ^e	Dec.	Jan.	Feb.
	----- BLS prices (2000 weights)-----					
Merchandise imports	3.0	1.2	9.7	0.6	1.5	0.4
Oil	27.2	4.2	57.7	4.3	8.2	0.2
Non-oil	0.4	0.8	5.0	0.2	0.8	0.4
Core goods*	0.9	1.9	6.1	0.4	0.9	0.5
Cap. goods ex comp & semi	1.1	0.1	2.3	-0.1	0.4	0.1
Automotive products	0.0	2.8	1.5	0.2	0.2	0.1
Consumer goods	0.0	0.3	1.9	0.0	0.4	0.0
Foods, feeds, beverages	0.1	3.9	8.2	0.8	0.5	1.6
Industrial supplies ex oil	2.7	5.6	22.2	1.4	3.2	1.4
Computers	-7.6	-9.5	-2.4	-0.3	-0.4	0.0
Semiconductors	5.3	-3.0	-8.3	-1.8	-0.8	-0.3
Merchandise exports	-0.3	3.5	4.9	0.2	0.6	0.6
Core goods*	1.1	4.9	6.4	0.2	0.9	0.7
Cap. goods ex comp & semi	1.2	0.5	1.8	0.1	0.3	0.1
Automotive products	0.9	0.3	0.7	-0.1	0.2	0.1
Consumer goods	0.1	1.9	-0.3	0.0	-0.1	-0.1
Agricultural products	6.1	39.8	8.2	0.5	-0.2	1.2
Industrial supplies ex ag	0.1	5.6	17.6	0.9	2.6	1.6
Computers	-3.3	0.2	-3.0	0.3	-1.4	0.7
Semiconductors	-12.8	-11.5	-8.1	-0.8	-1.4	0.0
	---Prices in the NIPA accounts (2000 weights)---					
Chain price index						
Imports of goods & services	2.7	0.9	n.a.	...	...	...
Non-oil merchandise	0.2	0.8	n.a.	...	...	...
Core goods*	0.6	1.5	n.a.	...	...	...
Exports of goods & services	1.6	2.4	n.a.	...	...	...
Total merchandise	-0.2	3.7	n.a.	...	...	...
Core goods*	1.1	5.4	n.a.	...	...	...

*/ Excludes computers and semiconductors.

e/ Average of two months.

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

Oil Prices



Prices of Internationally Traded Goods

Non-oil imports. In February, the prices of U.S. imports of non-oil goods and of core goods rose 0.4 and 0.5 percent, respectively. Prices for foods, feeds and beverages rose 1.6 percent, the sixth consecutive monthly increase. Following a 3.2 percent increase in January, industrial supplies rose another 1.4 percent reflecting higher prices for building materials and unfinished metals. In February, prices of capital goods (excluding computers and semiconductors) and automotive products both increased 0.1 percent. Prices for both consumer goods and computers were unchanged in February. Prices for semiconductors fell 0.3 percent. The average level of imported core goods prices in January and February was 6 percent at an annual rate above the fourth-quarter level of last year.

Oil. The BLS price of imported oil rose 0.2 percent in February, a bit less than the rise in the spot price of West Texas Intermediate (WTI) crude oil, which averaged 1.5 percent more in February at \$34.74 per barrel. Thus far in March, the spot price has averaged more than \$36 per barrel. Oil prices remain elevated because of low oil inventories in the United States and strong oil demand, fueled by world economic activity. OPEC's recent decision to cut its production target by 1 million barrels per day, effective in April, a slow recovery of oil exports from Iraq, and political turmoil in Venezuela are also keeping upward pressure on oil prices.

Exports. In February, the prices of U.S. exports of total goods and of core goods increased 0.6 and 0.7 percent, respectively. The price index for agricultural products rose 1.2 percent in February, reflecting higher prices for corn, soybeans, and vegetables. Higher prices for exported metals, chemicals and lumber all contributed to the 1.6 percent increase in nonagricultural industrial supplies. Capital goods (excluding computers and semiconductors) and automotive products both increased 0.1 percent. For consumer goods, prices declined 0.1 percent. Following a 1.4 percent decline in January, the prices of exported computers rose 0.7 percent in February. Prices for semiconductors were unchanged. The average level of exported core goods prices in January and February was 6½ percent at an annual rate above the fourth-quarter level of last year.

U.S. International Financial Transactions

Private foreign demand for U.S. securities (line 4 of the Summary of U.S. International Transactions table) was very strong in both December and January, lending further evidence that weak private foreign demand in September and October was an aberration. In both recent months there were significant acquisitions of Treasuries (line 4a), corporate debt securities (line 4c), and equities (line 4d). There were small net purchases of agency debt securities (line 4b) in December and larger net purchases in January following four months of net sales by foreigners. For the fourth quarter as a whole, net foreign private purchases were slightly above the yearly average; for the year, net purchases were slightly below those recorded in 2002. Foreign investors made record net purchases of corporate debt securities in 2003 but reduced their holdings of agency debt securities, a portfolio realignment that may in part have been in response to agency accounting scandals. Foreign net purchases of U.S. equities continued in 2003 but decreased for the third consecutive year.

Net foreign official inflows (line 1) were strong in December at \$21 billion and then jumped to \$49 billion in January, a figure more in line with average quarterly purchases during 2003. Net inflows during both the fourth quarter and the past year were at record levels, although the fourth quarter's figure seems destined to be easily surpassed in the first quarter of 2004, as partial data from the Federal Reserve Bank of New York indicate that foreign official reserves in custody there increased by another \$40 billion during February.

U.S. investors were moderate net buyers of foreign securities (line 5) in December and January, as net purchases of foreign equities (line 5b) more than offset net sales of foreign debt (line 5a). In both months there were significant U.S. purchases of Japanese equities. During 2003 U.S. investors increased their holdings of foreign securities after being net sellers in 2002, acquiring equities and selling foreign debt securities. While U.S. net acquisitions of foreign securities in 2003 remained below the level of the 1999-2001 period, figures for the earlier period were bolstered by equities acquired as a result of stock swaps related to merger activity, whereas acquisitions in 2003 resulted primarily from net purchases.

During both 2002 and 2003 net inflows from foreign official institutions combined with foreign private purchases of U.S. securities exceeded U.S. acquisitions of foreign securities by slightly over \$500 billion. A \$40 billion decrease in net private foreign purchases of U.S. securities during 2003, combined with a \$90 billion increase in net acquisitions of foreign securities by U.S. residents, was offset by an increase in foreign official inflows of \$120 billion.

The highly volatile banking sector (line 3) saw small net inflows in December and large net inflows in January. Net inflows during the fourth quarter exceeded net outflows recorded during the first nine months of 2003 and resulted in net banking sector inflows during 2003.

Full balance of payments data for the fourth quarter, including direct investment, will be released Friday, March 12, and included in the Greenbook Supplement.

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

	2002	2003	2003				2004	
			Q1	Q2	Q3	Q4	Dec	Jan
Official financial flows	87.8	208.4	41.0	56.0	44.7	66.7	20.9	49.0
1. Change in foreign official assets in the U.S. (increase, +)	91.5	206.9	40.9	56.2	45.3	64.5	19.1	48.5
a. G-10 countries	30.7	115.7	27.7	24.5	16.2	47.3	9.4	37.8
b. OPEC countries	-7.5	6.2	-7.6	1.1	2.1	10.5	3.5	1.6
c. All other countries	68.2	85.0	20.8	30.6	27.0	6.6	6.2	9.1
2. Change in U.S. official reserve assets (decrease, +)	-3.7	1.5	.1	-.2	-.6	2.2	1.8	.5
Private financial flows	440.2	n.a.	99.7	94.0	78.6	n.a.	...	...
Banks								
3. Change in net foreign positions of banking offices in the U.S. ¹	147.0	69.4	-12.7	-19.4	6.3	95.2	4.8	31.7
Securities²								
4. Foreign net purchases of U.S. securities (+)	407.9	369.9	66.5	142.5	61.1	99.8	48.7	52.8
a. Treasury securities	110.7	137.7	11.3	55.5	50.6	20.4	15.8	16.6
b. Agency bonds	78.1	-54.7	-2.3	-1.6	-44.4	-6.4	1.2	11.6
c. Corporate and municipal bonds	160.3	249.1	59.6	67.3	57.6	64.6	18.3	11.1
d. Corporate stocks ³	58.8	37.8	-2.1	21.3	-2.7	21.3	13.4	13.4
5. U.S. net acquisitions (-) of foreign securities	15.5	-72.8	-27.5	9.0	-29.0	-25.3	-6.1	-9.3
a. Bonds	33.5	25.6	7.2	26.0	1.3	-8.9	.0	4.9
b. Stock purchases	-14.8	-83.8	-20.1	-17.0	-30.3	-16.5	-6.1	-14.1
c. Stock swaps ³	-3.2	-14.7	-14.7	.0	.0	.0	.0	.0
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-137.8	n.a.	-34.4	-29.9	-37.5	n.a.	...	...
7. Foreign direct investment in U.S.	39.6	n.a.	34.4	22.4	8.1	n.a.	...	...
8. Foreign holdings of U.S. currency	21.5	n.a.	4.9	1.5	2.8	n.a.	...	...
9. Other (inflow, +) ⁴	-53.6	n.a.	68.5	-32.1	66.7	n.a.	...	...
U.S. current account balance (s.a.)	-480.9	n.a.	-138.7	-139.4	-135.0	n.a.	...	...
Capital account balance (s.a.)⁵	-1.3	n.a.	-.4	-1.6	-.8	n.a.	...	...
Statistical discrepancy (s.a.)	-45.8	n.a.	-1.6	-9.1	12.5	n.a.	...	...

NOTE: Data in lines 1 through 5 differ in timing and coverage from the balance of payments data published by the Department of Commerce. 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 therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.

3. Includes (4d) or represents (5c) stocks acquired through mergers.

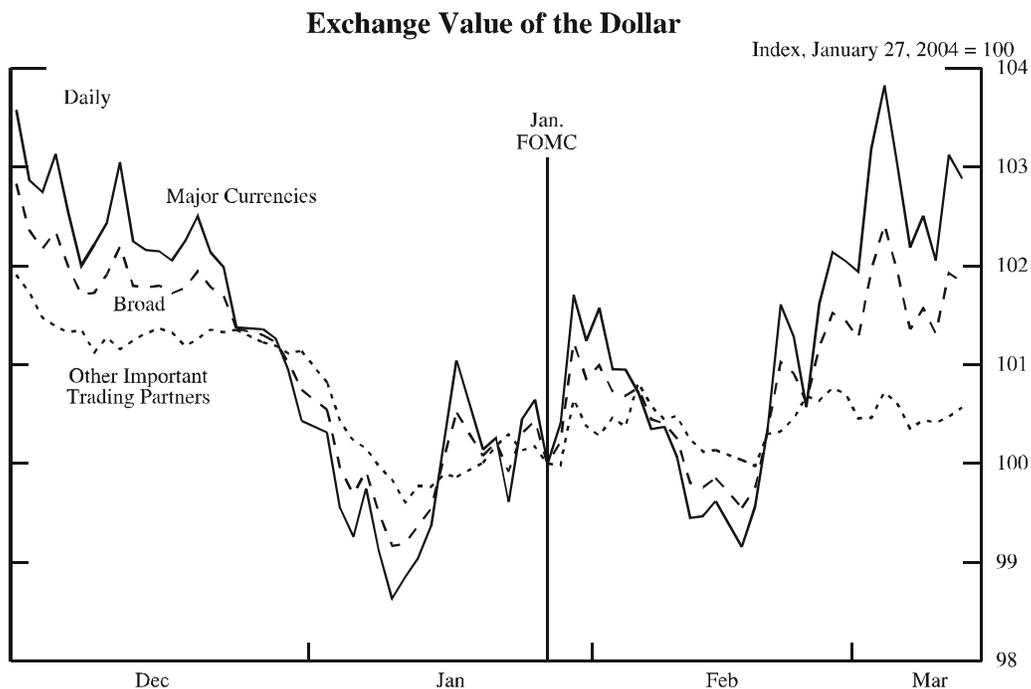
4. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business

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

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

Foreign Financial Markets

Foreign exchange markets were very volatile during the intermeeting period. The dollar appreciated in the days immediately following the FOMC meeting, then depreciated until mid-February, but appreciated sharply thereafter. The major currencies index of the dollar's exchange value has, on net, risen about 3 percent since the January FOMC meeting. On balance over the intermeeting period, the dollar has appreciated about 3 percent against the euro and the Swiss franc, 5 percent vis-a-vis the yen, and 1.5 percent versus sterling and the Canadian dollar. Although the G-7 communiqué issued on February 7 contained a number of elements which were seemingly designed to accommodate European concerns about the recent strength of the euro versus the dollar, it had little discernable impact on foreign exchange markets at the time.



In many cases, the exchange rate movements over the period could not be directly traced to the arrival of specific economic news or data in the United States or abroad. Market analysts, however, highlighted several very public calls by euro-area political leaders in mid-February decrying the effects of the strong euro and calling for the European Central Bank to lower its policy interest rates. The dollar's appreciation after mid-February also appeared to coincide with rising expectations among some market participants that the employment situation in the United States was poised to improve markedly in the near term,

potentially leading the FOMC to alter its policy stance earlier than previously assumed. In the event, the disappointing February employment report that was released on March 5 dashed those expectations and was followed by a immediate drop of the dollar's exchange value against European currencies.

Foreign exchange intervention by the Japanese authorities was extremely heavy during the intermeeting period, and many of the operations appeared to have had an immediate, although often only transitory, impact on the exchange value of the yen. Dollar purchases by Japan's Ministry of Finance did not halt around the time of the February G-7 meeting, as they had at the time of the meeting in September. In an apparent departure from previous "leaning against the wind" tactics, intervention sales of yen continued during the second half of February even as the yen was depreciating substantially. Intervention operations were particularly large when market participants renewed downward pressure on the dollar following the release of the February U.S. employment report. Over the period, traders reported that liquidity in the dollar-yen foreign exchange spot market seemed to have become almost exclusively tied to official activity, and daily trading volume was generally well below average despite the presence of large official flows.

Financial Indicators in Major Industrial Countries

Country	Three-month rate		Ten-year yield		Equities
	Mar. 11 (Percent)	Percentage Point Change	Mar. 11 (Percent)	Percentage Point Change	Percent Change
Canada	2.20	-.14	4.22	-.27	-1.48
Japan	.05	-.03	1.29	-.02	5.36
Euro area	2.06	-.02	3.89	-.28	-1.44
United Kingdom	4.19	.16	4.64	-.19	.30
Switzerland	.21	.06	2.39	-.29	-.23
Australia	5.52	-.06	5.38	-.42	2.62
United States	1.04	-.01	3.69	-.42	-2.19
Memo: Weighted-average foreign	1.74	-.05	3.82	-.22	n.a.

NOTE. Change is from January 27 to March 11 (10 a.m. EDT).
n.a. Not available.

The policy setting bodies of the European Central Bank and the Bank of Japan left their respective policy rates unchanged over the intermeeting period. The Bank of England raised its benchmark repo rate 25 basis points to 4.0 percent on February 5, surprising many market analysts who had predicted that the Bank would not do so until later in the year. The Bank of Canada lowered its overnight target rate 25 basis points, to 2.25 percent, on March 2. On net over the period, market expectations for the path of future short-term interest rates shifted down substantially for the euro and the Canadian dollar, and a bit less for sterling. For instance, yields implied by eurocurrency interest rate futures contracts maturing in December 2004 dropped about 30 basis points for the euro, 20 basis points for the Canadian dollar, and 15 basis points for sterling. Dollar yields based on contracts of the same maturity fell about 30 basis points.

Ten-year sovereign yields in most industrial countries dropped on net over the intermeeting period, with much of the decline coming after the release of the U.S. employment report in early March. Ten-year yields fell almost 30 basis points on net in the euro area and Canada and declined about 20 basis points in the United Kingdom, but changed little in Japan. In comparison, U.S. ten-year Treasury yields fell about 40 basis points. Amid signs that a sustained economic recovery may be taking hold in Japan, Japanese equity prices rose about 5 percent on net over the period, with the Topix index reaching its highest level since June 2002. Headline equity indexes ended the period little changed on net in the United Kingdom and were down slightly in Canada. Euro-area equity prices, which had generally been up modestly on net over the period, fell sharply on March 11 following news of the terrorist bombings in Madrid; they ended the intermeeting period down slightly on balance.

In emerging markets, country-specific events appeared to dominate news from the major industrial countries in driving asset prices over the intermeeting period. The exchange values of major Latin American currencies versus the dollar were little changed on net. Short-term Mexican peso interest rates rose sharply, reflecting in part the Bank of Mexico's increase in the "corto" on February 20, the first such tightening move since March 2003. Brazil's EMBI+ spread over Treasuries, which had declined substantially in the past few months, rose 135 basis points, to near 545 basis points, amid political difficulties for the current government and some of its reform proposals. Equity prices declined about 11 percent in Brazil over the period, but rose about 4 percent in Mexico. Argentine equity prices rose about 3 percent on net, with all of the increase coming after the news on March 9 that Argentina would make a large payment due that day to the IMF and that it would continue discussions with the Fund and private creditors on the status of its defaulted debt. The news, however, had little impact on Argentina's dollar-denominated bond spread. In Emerging Asia,

equity prices were also mixed, rising, for example, about 8 percent in Taiwan and 7 percent in Malaysia, but dropping about 4 percent in Thailand and 8 percent in the Philippines amid concerns about the economic repercussions of the spread of avian flu. Emerging Asian currencies registered little net movement against the dollar over the period.

Financial Indicators in Latin America, Asia, and Russia

Economy	Currency/ US dollar		Short-term Interest rates ¹		Dollar-denominated bond spread ²		Equity prices
	Mar. 11	Percent Change	Mar.10/11 (Percent)	Percentage Point Change	Mar.10/11 (Percent)	Percentage Point Change	Percent Change
Mexico	11.00	1.08	6.00	1.30	1.85	-.09	3.81
Brazil	2.91	1.61	16.01	-.03	5.33	1.05	-10.95
Argentina	2.91	.31	n.a.	n.a.	58.73	1.93	3.03
Chile	601.70	4.34	1.81	-.25	.79	.08	7.23
China	8.28	.00	n.a.	n.a.	.51	.13	5.70
Korea	1168.70	-.96	4.05	-.02	...	...	.80
Taiwan	33.24	-.81	1.25	.07	...	...	7.74
Singapore	1.71	1.06	.63	-.19	...	...	-1.04
Hong Kong	7.80	.40	.11	.05	...	...	-5.36
Malaysia	3.80	-.03	3.00	.00	.77	.08	6.83
Thailand	39.36	.59	1.28	.00	.79	.16	-4.29
Indonesia	8595.00	2.02	7.58	-.72	2.24	.15	-4.05
Philippines	56.22	.93	7.50	.88	4.98	.62	-8.30
Russia	28.56	.31	n.a.	n.a.	2.63	.18	8.84

NOTE. Change is from January 27 to March 10/11.

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 security yield. Mexico, Brazil, Argentina, Korea, the Philippines and Russia: EMBI+ yield. Chile and China: Global bond yield. Malaysia: Eurobond yield. Thailand and Indonesia: Yankee bond yield. Taiwan, Singapore, and Hong Kong do not have outstanding sovereign bonds denominated in dollars.

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

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

Developments in Foreign Industrial Countries

Outside of the euro area, growth in the major foreign industrial economies strengthened in the fourth quarter. Japanese output leaped up in the fourth quarter, boosted by a surge in exports and private investment, and indicators for January remain favorable. The United Kingdom also registered a robust and broad-based gain that appears to have continued into this year. In contrast, while the fourth-quarter pace of Canadian activity was strong, growth was buttressed by a considerable contribution from inventories, and employment and sales numbers weakened in January. Despite vigor in investment, growth in the euro area disappointed, as consumption was soft and net exports made a negative contribution. Recent economic sentiment and business surveys in the euro area are mixed.

Consumer price inflation remained low. Twelve-month core inflation in Canada slipped further in January to 1.4 percent, and headline inflation in the euro area dropped well below the ECB's 2 percent ceiling. The twelve-month rate of British inflation continued to be well below the Bank of England's 2 percent target in January. Slight CPI deflation persisted in Japan.

In early March, the Bank of Canada eased monetary policy again citing the need to support aggregate demand. The Bank of England tightened monetary policy further in early February, pointing to stronger growth and latent inflationary pressures.

In **Japan**, real GDP jumped 6.4 percent (s.a.a.r.) during the fourth quarter, marking the fastest quarterly growth rate since 1990. The advance was led by a surge in business fixed investment, which rebounded after being flat in the third quarter. Exports climbed, boosted by buoyant growth in emerging Asia, and net exports added 1.6 percentage points to growth. Personal consumption also advanced robustly. Notably, nominal GDP rose a more moderate 1.7 percent at an annual rate in the fourth quarter, as the GDP deflator fell 4.7 percent (s.a.a.r.).

Indicators suggest that the economy continued to expand at a swift pace in the first quarter. Real exports soared in January, driven by an increase in shipments to emerging Asia and the euro area, and industrial production rose 3.4 percent. Real imports also climbed in January, but at a slower pace than exports. Household expenditures rose sharply in January, and new car registrations posted strong gains in January and February on average. The manufacturing PMI moved down a little in February, but continued to point to expansion. Core machinery orders, a leading indicator of business fixed investment, fell sharply in January, following hefty increases in the fourth quarter.

Japanese Real GDP						
(Percent change from previous period, except as noted, s.a.a.r.)						
Component	2002 ¹	2003 ¹	2003			
			Q1	Q2	Q3	Q4
GDP	1.7	3.6	2.2	3.5	2.5	6.4
Total domestic demand	.7	2.8	1.9	2.4	1.9	5.0
Consumption	.7	2.1	1.7	1.2	2.0	3.5
Private investment	-9	11.6	7.6	15.9	2.0	21.7
Public investment	-3.7	-12.2	-11.7	-14.2	-19.2	-2.9
Government consumption	1.6	1.3	1.5	-.5	2.6	1.4
Inventories ²	.4	-.2	.0	-.4	1.0	-1.3
Exports	17.2	11.2	5.5	6.6	13.7	19.6
Imports	8.7	4.2	3.4	-4.4	10.7	8.0
Net exports ²	1.0	.9	.3	1.2	.7	1.6

1. Q4/Q4.

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

Recent readings on labor market conditions have been mixed. In January, the unemployment rate edged up to 5 percent. The job-offers-to-applicants ratio, a leading indicator of employment, was unchanged, though it remained at its highest level in over ten years. Average nominal wages continued to fall, with winter bonuses down markedly from year-ago levels. Core consumer goods prices in the Tokyo area (which exclude fresh food but include energy) rose 0.1 percent in February from the previous month but were down 0.2 percent from a year earlier. Wholesale prices were flat in January and February compared with the same month a year ago, despite recent jumps in food prices.

Japanese Economic Indicators							
(Percent change from previous period, except as noted, s.a.)							
Indicator	2003					2004	
	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Industrial production ¹	-0.7	1.3	3.7	1.0	-0.8	3.4	n.a.
All-industries index	.0	.0	1.2	-1.4	-.4	n.a.	n.a.
Housing starts	4.4	-6.5	4.9	-4.2	8.3	2.7	n.a.
Machinery orders ²	3.4	-2.9	11.3	-7.8	8.1	-12.2	n.a.
Machinery shipments ³	1.5	2.2	7.9	-.9	2.8	1.9	n.a.
New car registrations	-5.5	2.5	-2.0	-6.9	2.6	17.9	-5.9
Unemployment rate ⁴	5.4	5.2	5.1	5.1	4.9	5.0	n.a.
Job offers ratio ⁵	.61	.65	.73	.73	.77	.77	n.a.
Business sentiment ⁶	-26	-21	-15	...	...	...	...
CPI (Core, Tokyo area) ⁷	-.4	-.3	-.1	-.2	-.1	-.3	-.2
Wholesale prices ⁷	-1.0	-.7	-.4	-.5	-.1	.0	.0

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

Real GDP in the **euro area** grew sluggishly in the fourth quarter, rising just 1.2 percent (s.a.a.r.). Final domestic demand grew 1.2 percent as investment registered a strong gain, but consumption was weak. Net exports subtracted 2.7 percentage points from growth, in part the result of the sharp appreciation of the euro over the past year or two. The change in inventories made a sizable positive contribution to growth in the fourth quarter. Performance was notably weak in Germany, where real GDP rose 0.9 percent, and Italy, where real GDP was unchanged from the third-quarter level. After falling for eleven of the last twelve quarters, investment grew 6.8 percent in Germany in the fourth quarter.

Economic indicators for the first quarter are mixed. After declining in the last two months of 2003, the volume of retail trade rebounded in January, increasing 2.4 percent from December levels. German industrial production fell 0.1

Euro-Area Real GDP¹						
(Percent change from previous period, except as noted, s.a.a.r.)						
Component	2002 ²	2003 ²	2003			
			Q1	Q2	Q3	Q4
GDP	1.1	.6	-.1	-.4	1.6	1.2
Total domestic demand	.9	1.3	1.5	.5	-.9	4.1
Consumption	.6	.7	1.7	.0	.8	.3
Investment	-1.6	-.8	-3.6	-1.5	-.7	2.6
Government consumption	2.2	2.3	2.0	2.2	2.5	2.4
Inventories ³	.5	.5	.9	.3	-1.7	2.7
Exports	3.6	.1	-6.0	-3.6	9.7	.9
Imports	3.3	1.8	-2.4	-1.5	3.1	8.7
Net exports ³	.2	-.6	-1.5	-.8	2.5	-2.7
<i>Memo:</i>						
France	1.3	.6	.2	-1.5	1.7	1.8
Germany	.5	.0	-1.0	-.6	.8	.9
Italy	.9	.1	-1.0	-.5	1.8	-.0

1. Includes Greece as of 2001 Q1.

2. Q4/Q4.

3. Percentage point contribution to GDP growth, s.a.a.r.

percent in January, as sharp falls in construction and energy production outweighed gains in intermediate and capital goods production. The volume of German industry orders fell 2 percent in January; orders fell across all major categories, with orders for consumer goods posting their largest one-month decline since the series began in 1991. The European Commission's survey of euro-area economic sentiment was unchanged in February. Economic sentiment significantly improved in Germany and Spain, while it fell in both France and Italy. Both the German IFO survey and the Belgium National Bank survey ticked down in February following several months of gains remaining above their fourth-quarter average level. The euro area purchasing managers index (PMI) for manufacturing was unchanged at 52.5 in February, while the PMI for Germany rose slightly to 53.4.

Twelve-month consumer price inflation fell sharply over the first two months of the year, and in February fell to 1.6 percent, well below the ECB's 2 percent target ceiling for consumer price inflation. The drop in inflation almost entirely

Euro-Area Economic Indicators							
(Percent change from previous period except as noted, s.a.)							
Indicator	2003					2004	
	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Industrial production ¹	-0.4	.6	1.1	-0.1	.2	n.a.	n.a.
Retail sales volume ²	.0	-0.2	-0.3	-1.8	-0.1	2.4	n.a.
Unemployment rate ³	8.8	8.8	8.8	8.8	8.8	8.8	n.a.
Consumer confidence ⁴	-19.3	-17.3	-16.3	-16.0	-16.0	-15.0	-14.0
Industrial confidence ⁴	-12.0	-11.3	-7.3	-6.0	-8.0	-6.0	-6.0
Mfg. orders, Germany	-1.5	1.3	3.8	.3	1.6	-2.0	n.a.
CPI ⁵	1.9	2.0	2.0	2.2	2.0	1.9	1.6
Producer prices ⁵	1.4	1.2	1.1	1.4	1.0	.3	n.a.
M3 ⁵	8.5	7.6	7.0	7.4	7.0	6.4	n.a.

1. Excludes construction.

2. Excludes motor vehicles.

3. Percent. Euro area standardized to ILO definition. Includes Eurostat estimates in some cases.

4. Diffusion index based on European Commission surveys in individual countries.

5. Eurostat harmonized definition. Percent change from year earlier.

n.a. Not available.

owed to base effects as the energy component of consumer prices fell 0.3 percent (on a twelve-month basis) in January. The sharp appreciation of the euro has helped to offset the recent increase in dollar-denominated oil prices. Food prices continue to exert upward pressure on headline inflation.

Real GDP growth in the **United Kingdom** quickened in the fourth quarter, to 3.8 percent (s.a.a.r.), and growth during the first three quarters of 2003 was revised upwards. Fourth-quarter growth was marked by robust rises in consumption, government expenditure, and investment. These brisk increases were partly offset by negative contributions from inventory decumulation and net exports, as in the latter case, a considerable pick-up in export growth was outpaced by a sizable expansion in imports.

On balance, data for the first quarter suggest continued expansion. Although industrial output in January inched up, the manufacturing PMI weakened in February, indicating a slower pace of growth, and business confidence fell back

U.K. Real GDP						
(Percent change from previous period, except as noted, s.a.a.r.)						
Component	2002 ¹	2003 ¹	2003			
			Q1	Q2	Q3	Q4
GDP	2.0	2.8	1.2	2.6	3.4	3.8
Total domestic demand	3.3	2.6	-.8	2.2	4.6	4.4
Consumption	2.8	3.3	.2	3.9	4.6	4.5
Investment	4.8	2.9	-5.1	6.5	3.7	6.8
Government consumption	.8	3.4	4.4	.8	.4	8.0
Inventories ²	.6	-.6	-.9	-1.7	1.2	-1.1
Exports	-1.3	3.2	16.8	-9.9	.2	7.4
Imports	4.3	2.0	5.4	-9.7	4.5	9.0
Net exports ²	-1.7	.2	2.6	.4	-1.3	-.8

1. Q4/Q4.

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

after surging in January. However, retail sales continued to expand smartly in January, and one of the leading surveys of sales suggests an upbeat February. The services PMI for February signaled further strength.

According to the two leading private surveys, housing price inflation has picked up in recent months, with the average twelve-month rise at around 17 percent in February. Household net mortgage and consumer borrowing in January bounced back to previous peaks, after falling sharply in December.

The labor market continued to be tight, as both the official claims-based and the labor force survey measures of the unemployment rate remained near its lowest point since 1975. Employment growth has slowed for the twelve months ending in November, with strong growth in self-employment still offsetting declines in establishment jobs. The twelve-month CPI inflation rate ticked up in January, but remained below the Bank of England's 2 percent target.

On February 5, the Monetary Policy Committee (MPC) of the Bank of England raised the official repo rate 25 basis points to 4 percent in a move that was widely expected. The MPC's statement noted that the broadening global recovery and recent domestic indicators point to a further pickup in growth at home, and that household spending and the housing market have remained

U.K. Economic Indicators

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

Indicator	2003					2004	
	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Industrial production	.3	-.0	-.1	-.9	.1	.1	n.a.
Retail sales volume ¹	1.5	1.2	1.8	.3	.8	.5	n.a.
Unemployment rate ²							
Claims-based	3.1	3.1	3.0	3.0	3.0	2.9	n.a.
Labor force survey ³	5.0	5.0	n.a.	4.9	n.a.	n.a.	n.a.
Business confidence ⁴	-6.3	-3.3	-.3	-2.0	5.0	21.0	14.0
Consumer confidence ⁵	-6.7	-5.0	-3.3	-4.0	-3.0	-3.0	-2.0
Consumer prices ⁶	1.3	1.4	1.3	1.3	1.3	1.4	n.a.
Producer input prices ⁷	-.5	1.2	2.9	4.4	2.1	-.5	-1.9
Average earnings ⁷	3.0	3.6	3.4	3.2	3.4	n.a.	n.a.

1. Excludes motor vehicles.

2. Percent.

3. Three-month average centered on month shown.

4. Percentage of firms expecting output to increase in the next four months less percentage expecting output to decrease.

5. Average of the percentage balance from consumers' expectations of their financial situation, general economic situation, unemployment, and savings over the next 12 months.

6. Consumer prices index (CPI). Percent change from year earlier.

7. Percent change from year earlier.

n.a. Not available.

resilient. The members felt that “although sterling has appreciated, continued growth above trend means that inflationary pressures are likely to pick up gradually over the next couple of years.”

In **Canada**, real GDP growth moved up in the fourth quarter, bolstered by a sizable positive contribution from a build-up in inventories, as well as by robust export and investment growth. Exports of industrial goods and materials and motor vehicles showed particular strength, while investment benefitted from a continued boom in residential construction. Consumption flattened following strong increases over the past year. The large increase in inventories occurred primarily among retailers and motor vehicle dealers, in part reflecting weak sales.

Canadian Real GDP						
(Percent change from previous period, except as noted, s.a.a.r.)						
Component	2002 ¹	2003 ¹	2003			
			Q1	Q2	Q3	Q4
GDP	3.5	1.6	2.5	-1.0	1.3	3.8
Total domestic demand	5.7	3.5	7.2	2.0	.8	4.3
Consumption	3.8	2.8	3.2	3.5	4.6	.1
Investment	2.0	7.1	7.9	2.5	13.6	4.8
Government consumption	2.8	2.4	2.9	4.7	1.4	.6
Inventories ²	2.3	-.1	2.9	-1.4	-4.7	3.0
Exports	.7	.5	-5.6	-3.1	-1.7	13.5
Imports	6.5	5.4	3.8	5.4	-4.0	17.8
Net exports ²	-2.0	-1.8	-3.7	-3.2	.8	-1.1

1. Q4/Q4.

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

Recent data point to a somewhat slower pace of growth, on balance, in the first quarter. Employment continued to rise in January, albeit at a slower pace than the previous four months. The housing sector has shown continued strength, with starts rebounding in February following a weather-related fall in January. Survey data of overall activity suggest continued expansion in coming quarters. Businesses have indicated increased production prospects in the first quarter, while a survey of investment intentions forecasts a 3.1 percent increase in investment spending in 2004. However, motor vehicle sales fell to a five-year low in December, and preliminary reports suggest a further decline in January. In January, both exports and imports declined sharply, largely due to a reduction in motor vehicle shipments both to and from the United States.

In January, the twelve-month rate of headline CPI inflation fell to 1.2 percent. Twelve-month core inflation, excluding food, energy, and indirect taxes, edged down to 1.4 percent.

On March 2, the Bank of Canada lowered the targeted overnight rate (its key policy rate) and the Bank Rate 25 basis points each, to 2¼ percent and 2½ percent, respectively. The Bank stated that its economic outlook was unchanged on balance since the release of January's *Monetary Policy Report Update*, with external demand slightly stronger and domestic demand slightly weaker than

expected. The cut was characterized as providing additional monetary stimulus to support aggregate demand and to return inflation to the 2 percent mid-point of the Bank's 1 to 3 percent target band by the end of 2005.

Canadian Economic Indicators

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

Indicator	2003						2004
	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
GDP by industry	-1	.4	1.0	.2	.2	.5	n.a.
Industrial production	-1.4	.4	1.6	-.1	.3	1.2	n.a.
New mfg. orders	-4.6	1.0	.0	-4.0	.8	1.6	n.a.
Retail sales	-.1	1.0	-1.1	.1	-.3	-1.1	n.a.
Employment	.2	.2	.9	.4	.4	.3	.1
Unemployment rate ¹	7.7	7.9	7.5	7.6	7.5	7.4	7.4
Consumer prices ²	2.8	2.1	1.7	1.6	1.6	2.0	1.2
Core Consumer Prices ^{2,3}	2.4	1.7	1.7	1.8	1.8	1.5	1.4
Consumer attitudes ⁴	116.2	122.0	n.a.	...	...	...	...
Business confidence ⁴	109.9	127.2	n.a.	...	...	...	...

1. Percent.

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

3. Excluding food, energy, and indirect taxes.

4. Level of index, 1991 = 100.

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

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

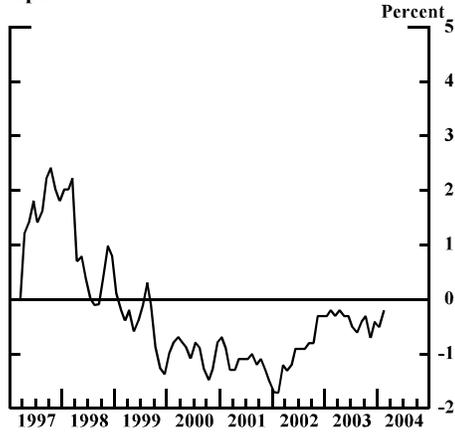
Country and balance	2003					2004
	Q2	Q3	Q4	Nov.	Dec.	Jan.
<i>Japan</i>						
Trade	77.2	90.1	116.9	112.1	125.0	123.4
Current account	134.8	145.3	156.8	158.8	149.2	190.3
<i>Euro area</i>						
Trade ¹	67.7	134.0	99.7	71.2	84.5	n.a.
Current account ¹	-31.4	61.2	n.a.	61.8	n.a.	n.a.
<i>Germany</i>						
Trade	139.5	173.9	153.3	136.9	182.8	220.1
Current account ¹	39.2	58.2	96.8	90.4	94.4	-22.7
<i>France</i>						
Trade	-0	1.1	1.5	.7	3.1	n.a.
Current account	1.9	3.3	1.3	1.9	2.2	n.a.
<i>Italy</i>						
Trade	-2.7	1.4	4.2	2.9	-4.9	n.a.
Current account ¹	-42.3	6.5	-25.0	-31.9	-50.3	n.a.
<i>United Kingdom</i>						
Trade	-70.5	-76.2	-85.9	-89.2	-83.5	-122
Current Account	-50.3	-52.1	n.a.	...	...	...
<i>Canada</i>						
Trade	38.9	44.7	45.4	40.6	49.6	48.5
Current Account	14.5	21.2	20.2	...	...	...

1. Not seasonally adjusted.

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

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

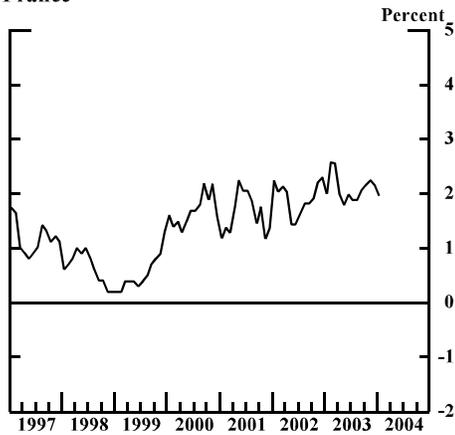
Japan



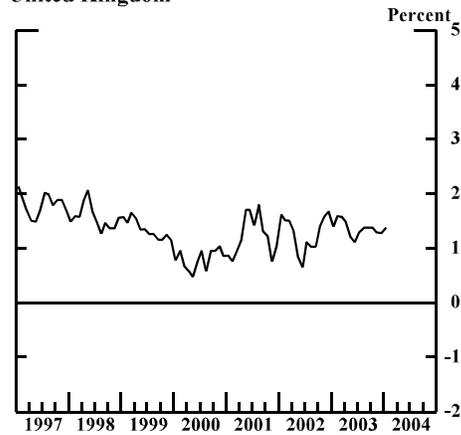
Germany



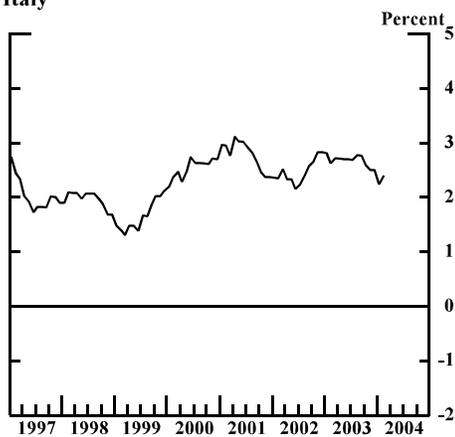
France



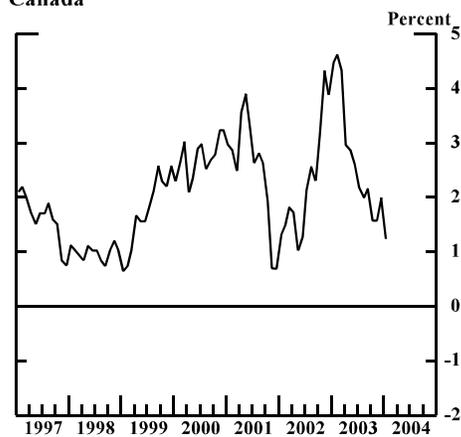
United Kingdom



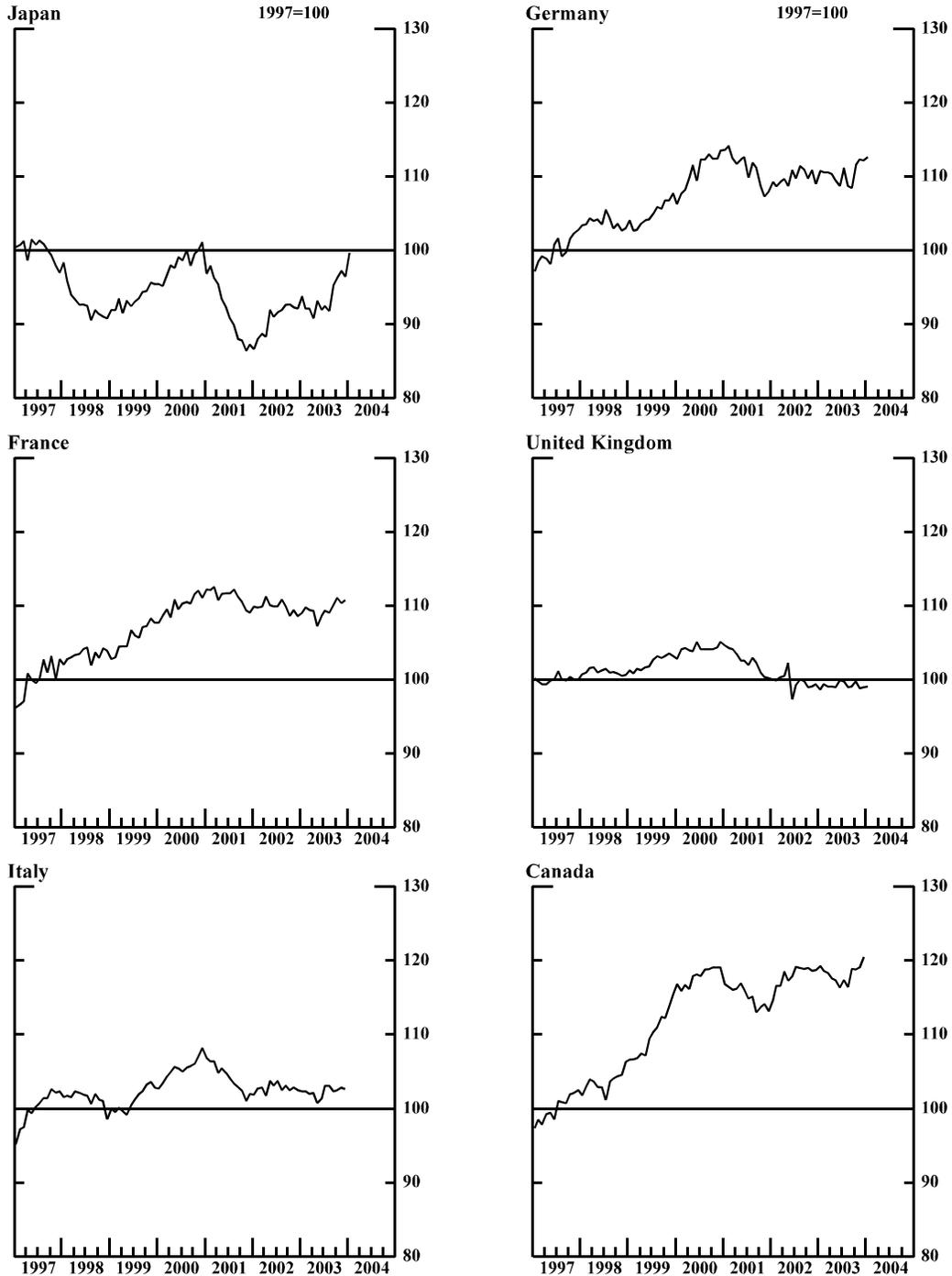
Italy



Canada



Industrial Production in Selected Industrial Countries



Economic Situation in Other Countries

Recent data indicate that the economies of emerging Asia have generally continued to grow at a robust pace. Mexico appears to have finally broken out of its economic slump, and the recovery in the rest of Latin America is strengthening. Inflation in the world's emerging market economies remains subdued.

The **Chinese** economy has continued to expand at a rapid pace. Average growth in industrial production in January and February was down slightly from the fourth quarter pace, but remained quite strong. The combined trade balance for January and February is in deficit, as was expected. Exports dropped back from the high December level, which was boosted by efforts to fill orders before a January decline in the export tax rebate. Imports have continued to grow strongly, largely due to the combination of higher volumes and prices of Chinese commodity imports.

Foreign exchange reserves rose about \$12 billion in January to \$415 billion. The Chinese authorities are concerned about the effects that these foreign exchange inflows are having on the money supply and inflation. A slight decline in money supply (M2) growth, to 18 percent on a year-over-year basis in January, is being viewed as a sign that the authorities' efforts to limit credit growth to certain industries have had some effect. Inflation stayed at 3.2 percent in January on a twelve-month basis. Food prices were up 8 percent, while other prices remained flat. Recent increases in producer prices have not yet translated into higher prices for most consumer goods.

Chinese Economic Indicators

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

Indicator	2002	2003	2003			2004	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	8.0	9.9	19.6	7.9	...	...	...
Industrial production ²	11.8	16.6	16.6	17.7	18.1	7.2	23.2
Consumer prices ²	-.4	3.2	.8	2.7	3.2	3.2	n.a.
Trade balance ³	30.4	25.5	17.0	49.6	78.4	41.2	-137.6

1. Annual rate. Quarterly data estimated by staff from reported four-quarter growth rates. Annual figures are Q4/Q4.

2. Percent change from year earlier. Annual figures are year over year.

3. Billions of U.S. dollars, annual rate. Imports are c.i.f.

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

Real GDP in **Hong Kong** grew 6 percent in the fourth quarter, boosted by tourism and a turnaround in the property sector. Tourist arrivals recently hit an all-time high, as Chinese tourists have poured into Hong Kong, and retail sales and consumer confidence have been boosted as a result. After falling for more than five years, property prices staged a rebound in the second half of last year, rising more than 7 percent. Overall consumer prices have been rising on a monthly basis for about six months, although the twelve-month change remains negative. The unemployment rate has leveled off at 7.3 percent, down from almost 9 percent during the aftermath of the SARS outbreak last year. Both exports and imports have grown strongly in recent months, driven by trade with China.

Hong Kong Economic Indicators

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

Indicator	2002	2003	2003				2004
			Q3	Q4	Nov.	Dec.	Jan.
Real GDP ¹	5.1	4.9	29.1	6.1	...	...	...
Unemployment rate ²	7.3	7.9	8.3	7.3	7.5	7.3	7.3
Consumer prices ³	-1.6	-1.8	-3.7	-2.3	-2.4	-1.8	-1.7
Trade balance ⁴	-7.7	-8.5	-8.4	-16.5	-19.8	-16.7	-18.0

1. Annual rate. Annual figures are Q4/Q4.

2. Percent. Monthly numbers are averages of the current and previous two months.

3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.

4. Billions of U.S. dollars, annual rate. Imports are c.i.f.

... Not applicable.

Taiwan's real GDP grew about 5½ percent in the fourth quarter of last year, down from the blistering pace of the third quarter. Growth was driven by investment and exports. Investment appears to be emerging from a slump that has spanned several years and which reflected overcapacity in the economy's high-tech sector. Exports were buoyed by demand from China, and the trade surplus through February is well above the fourth quarter surplus. Industrial production fell sharply in January, likely a result of the shifting of the Lunar New Year holiday from February last year to January this year. Production was still above analyst expectations, and despite the change in the holiday date, high-tech production grew. Consumer price inflation reached positive territory on a twelve-month basis in February, after being negative for much of the last year and a half.

Taiwan Economic Indicators

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

Indicator	2002	2003	2003			2004	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	4.3	5.0	25.1	5.6	...	...	...
Unemployment rate ²	5.2	5.0	4.9	4.7	4.7	4.7	n.a.
Industrial production	6.4	5.5	7.2	3.8	5.0	-5.2	n.a.
Consumer prices ³	.8	-.1	-.6	-.2	-.1	.0	.6
Trade balance ⁴	18.1	16.9	19.9	9.1	3.7	-8	31.6
Current account ⁵	25.6	28.6	27.2	31.2	...	...	...

1. Annual rate. Annual figures are Q4/Q4.

2. Percent.

3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.

4. Billions of U.S. dollars, annual rate. Imports are c.i.f.

5. Billions of U.S. dollars, n.s.a., annual rate.

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

In **Korea**, data releases since the last Greenbook confirmed that strong exports remain the main engine of growth, as the trade surplus widened further in December. Industrial production rose in January, led by a continued boom in external demand for memory chips, mobile phones, and autos. The high level of household debt, along with uncertainties stemming from the nuclear standoff on the Korean peninsula and parliamentary elections in April, appear to have prevented export strength from translating into a significant pickup in domestic demand. The unemployment rate declined in January, and although consumer confidence indicators were flat, retail sales rose from the previous month. Twelve-month consumer price inflation was almost unchanged at 3.3 percent in February. On March 11, citing stable inflation and continued weakness in domestic demand, the Bank of Korea decided to maintain its benchmark policy rate at 3.75 percent.

Korean Economic Indicators

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

Indicator	2002	2003	2003			2004	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	7.0	n.a.	4.7	n.a.	...	...	...
Industrial production	8.3	5.0	1.5	5.4	2.0	1.1	n.a.
Unemployment rate ²	3.1	3.4	3.5	3.6	3.5	3.3	n.a.
Consumer prices ³	3.8	3.4	3.2	3.5	3.4	3.4	3.3
Trade balance ⁴	14.8	22.2	29.9	33.2	35.5	n.a.	n.a.
Current account ⁵	5.4	12.3	15.0	30.6	29.4	n.a.	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.

Recent data releases for the **ASEAN** economies generally point to continuing strength. Real GDP expanded at a very healthy pace in the fourth quarter, albeit not as rapidly as in the third quarter. Indonesia was the exception, with a weak showing in the agricultural sector leading the decline in fourth quarter real GDP. Singapore's industrial production skyrocketed in January, after a couple of weak months. Aside from the Philippines, trade surpluses widened across the region in 2003, and the most recent data continued to show surpluses. Twelve-month consumer price inflation in Indonesia is now below 5 percent, and inflation in the other ASEAN economies has also remained low.

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

Indicator and country	2002	2003	2003				2004
			Q3	Q4	Nov.	Dec.	Jan.
<i>Real GDP¹</i>							
Indonesia	3.6	4.3	7.2	-2.2	...	...	...
Malaysia	5.3	6.4	8.9	6.8	...	...	...
Philippines	5.8	4.4	9.3	6.6	...	...	...
Singapore	2.8	4.9	16.1	11.0	...	...	...
Thailand	6.0	7.8	9.4	11.0	...	...	...
<i>Industrial production²</i>							
Indonesia ³	-1.1	n.a.	.8	n.a.	-3.0	n.a.	n.a.
Malaysia	4.6	9.3	1.8	3.9	.2	2.7	.8
Philippines	-6.1	-.1	-1.4	-8.7	-1.4	-1.4	n.a.
Singapore	8.2	3.1	6.7	4.2	-8.5	-2.8	18.1
Thailand	8.5	12.3	-6	4.3	-4.3	9.6	-1.3

1. Annual rate. Annual figures are Q4/Q4.

2. Annual figures are annual averages.

3. Staff estimate.

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

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

Country	2002	2003	2003				2004
			Q3	Q4	Nov.	Dec.	Jan.
Indonesia	25.9	28.6	27.2	29.9	32.6	31.4	29.4
Malaysia	13.5	19.7	19.9	18.3	18.6	18.2	n.a.
Philippines	-.2	-1.7	-.4	-3.5	-6.8	-2.9	n.a.
Singapore	8.7	16.2	18.7	17.2	12.9	24.9	12.2
Thailand	2.7	4.2	3.7	1.4	7.1	-3.9	7.5

n.a. Not available.

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

Country	2002 ¹	2003 ¹	2003			2004	
			Q3	Q4	Dec.	Jan.	Feb.
Indonesia	10.0	5.1	6.1	5.5	5.1	4.8	4.6
Malaysia	1.7	1.2	1.0	1.2	1.2	1.0	n.a.
Philippines	2.6	3.1	3.1	3.2	3.1	3.4	3.4
Singapore	.4	.8	.5	.7	.8	1.3	n.a.
Thailand	1.6	1.8	1.9	1.6	1.8	1.2	2.2

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

In **Mexico**, recent data have confirmed that the economy strengthened late last year. Real GDP surged almost 5 percent in the fourth quarter. Output in the manufacturing sector rose nearly 9 percent, after contracting in the previous five quarters. Service-oriented sectors also performed well, with sizeable gains in wholesale and retail trade and in financial services. In contrast, output grew only slightly in agriculture and construction. Exports, which are heavily weighted toward manufacturing, grew strongly in December and moved a bit higher in January.

Limits on beef and chicken imports from the United States have pushed up food prices this year, contributing to a runup in Mexican twelve-month consumer price inflation to 4.5 percent in February, versus the Bank of Mexico's 2-4 percent target range. Citing concerns that rising inflation expectations may have begun to affect salary negotiations, the Bank of Mexico tightened monetary policy on February 20 for the first time in nearly a year, raising the "corto" (the short position in the interbank market) to 29 million pesos from 25 million pesos. In response to the tightening and expectations of future moves, three-month interest rates have risen 1 percentage point on net since late January, to nearly 6 percent.

Mexican Economic Indicators							
(Percent change from previous period, s.a., except as noted)							
Indicator	2002	2003	2003			2004	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	1.8	2.0	.2	4.9	...	...	...
Overall economic activity	.7	1.4	.3	1.4	.5	n.a.	n.a.
Industrial production	-.4	-.7	-.9	1.8	.6	n.a.	n.a.
Unemployment rate ²	2.7	3.3	3.6	3.6	3.4	3.7	n.a.
Consumer prices ³	5.7	4.0	4.1	4.0	4.0	4.2	4.6
Trade balance ⁴	-7.9	-5.6	-6.9	-4.2	-5.2	.4	n.a.
Imports ⁴	168.7	171.0	170.2	176.0	179.9	174.7	n.a.
Exports ⁴	160.8	165.4	163.3	171.9	174.7	175.1	n.a.
Current account ⁵	-14.0	-9.1	-8.3	-13.1	...	...	...

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.

In **Brazil**, incoming data have generally suggested that the economy is recovering. Real GDP grew more than 6 percent in the fourth quarter of 2003. For the first time since Brazil's 2002 crisis, domestic demand was strong, with private consumption rising 6 percent (a.r.) in the quarter. However, industrial output was roughly unchanged on average over the last two months and unemployment remained high. The external sector continued to perform well, with Brazil recording sizeable trade surpluses in January and February, in part reflecting high prices for the country's commodity exports.

Although twelve-month CPI inflation continued to decline, monthly inflation rates in January and February were higher than expected. The central bank held its policy rate steady at 16.5 percent at its January and February meetings, citing its concern that year-end inflation could surpass the 5.5 percent midpoint of its target range. A scandal involving President Lula's chief of staff has recently raised concerns about the government's ability to advance its reform agenda.

Brazilian Economic Indicators

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

Indicator	2002	2003	2003			2004	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	3.7	-.2	.4	6.1	...	...	...
Industrial production	2.4	.3	1.9	3.1	-1.0	.8	n.a.
Unemployment rate ²	12.5	12.4	13.0	13.2	13.1	11.6	n.a.
Consumer prices ³	12.5	9.3	15.2	11.4	9.3	7.7	6.7
Trade balance ⁴	13.1	24.8	26.8	28.2	31.6	25.5	28.1
Current account ⁵	-7.7	4.0	13.2	1.2	4.2	8.0	n.a.

1. Annual rate. Annual figures are Q4/Q4.

2. Percent. Break in October 2001 as a result of change in methodology.

3. Percent change from year-earlier period, except annual figures, which are Dec./Dec. Price index is IPC-A.

4. Billions of U.S. dollars, annual rate.

5. Billions of U.S. dollars, n.s.a., annual rate.

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

In **Argentina**, industrial production rose 3.2 percent in January and was up 12 percent from its year-earlier level, reflecting strong domestic demand, and unemployment has fallen. Argentina has continued to run sizeable trade surpluses, reflecting rapid growth in agricultural exports; the economic rebound has led to an even faster increase in imports, however, and the trade surplus has narrowed gradually. Twelve-month consumer price inflation remained low in February, at 2.3 percent.

On March 9, Argentina made a \$3 billion debt payment to the IMF. The payment had been in doubt owing to statements made by the Argentine government. Argentina has met all of the quantitative criteria of its IMF program and has made advances in structural reforms. The country is lagging behind in its debt restructuring efforts, but there has been sufficient progress in recent days that approval by the IMF Executive Board of the second review of Argentina's IMF program is now expected.

Argentine Economic Indicators

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

Indicator	2002	2003	2003			2004	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	-3.3	n.a.	11.7	n.a.	...	...	...
Industrial production	-10.7	16.2	2.4	3.9	1.1	3.2	n.a.
Unemployment rate ²	20.4	n.a.	n.a.	16.4	...	...	...
Consumer prices ³	41.4	3.8	5.1	3.8	3.8	2.8	2.3
Trade balance ⁴	16.7	15.6	15.1	11.9	12.4	11.6	n.a.
Current account ⁵	9.6	n.a.	5.8	n.a.	...	...	...

1. Annual rate. Annual figures are Q4/Q4.

2. Percent, n.s.a. Data for Greater Buenos Aires. Data released semi-annually.

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 **Venezuela**, the economy continued to recover in the fourth quarter, on the back of higher oil prices. However, the political situation has deteriorated markedly in recent weeks, raising the prospect of further macroeconomic instability. Real GDP rose 14 percent in the fourth quarter, bringing GDP to about 5 percent below its peak before the devastating strikes in late 2002-early 2003. Oil production is still believed to be about 10 percent below the levels prevailing before the strike. On February 8, the currency was devalued 17 percent, and anecdotal reports indicate that inflation expectations have risen markedly. Continued delays concerning whether President Chavez will be required to face a recall referendum have resulted in an escalation in political and social tensions.

Venezuelan Economic Indicators

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

Indicator	2002	2003	2003			2004	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	-16.7	9.0	18.2	17.4	...	...	...
Unemployment rate ²	16.0	n.a.	17.6	n.a.	n.a.	n.a.	n.a.
Consumer prices ³	31.2	27.1	29.5	26.3	27.1	26.6	21.9
Non-oil trade balance ⁴	-8.5	-5.8	16.2	19.4	n.a.	n.a.	n.a.
Trade balance ⁴	13.0	15.0	37.0	46.0	n.a.	n.a.	n.a.
Current account ⁵	7.4	9.6	11.7	10.8	...	...	...

1. Annual rate. Annual figures are Q4/Q4.

2. Percent.

3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.

4. Billions of U.S. dollars, annual rate.

5. Billions of U.S. dollars, n.s.a., annual rate.

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