

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.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

Part 2

June 18, 2008

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

June 18, 2008

Recent Developments

Domestic Nonfinancial Developments

Domestic Nonfinancial Developments

The economy appears to have remained soft in recent months but does not yet show the sharp break in activity that has been characteristic of most recessions in the past. Consumer sentiment has fallen to historically low levels this spring, and sales of motor vehicles have dropped noticeably, although other consumer spending has held up well. Investment in business equipment appears to have slipped a bit further in the second quarter, and homebuilding remained on a steep descent. Manufacturing activity deteriorated in April and May, and forward-looking indicators suggest that conditions in this sector will remain soft. In the labor market, payroll employment continued to post modest declines in April and May, and the unemployment rate jumped to 5.5 percent. While core consumer price inflation has remained relatively stable in recent months, headline inflation has remained elevated because of continued large increases in food and energy prices.

Labor Market Developments

Labor demand remains on a gradual downward descent. Private payroll employment fell an average of 53,000 per month in April and May following average declines of 97,000 per month in the first quarter.¹ Declines have been widespread during the first five months of the year, with the notable exceptions of nonbusiness services such as education, health, and food services. Meanwhile, the workweek held steady at 33.7 hours in May, the same as its first-quarter average. And aggregate hours of production and nonsupervisory workers on private nonfarm payrolls fell at an average monthly rate of 0.2 percent over the past two months.

In the household survey, the unemployment rate jumped to 5.5 percent in May from 5 percent in April. Last month's increase was accompanied by a rise in the labor force participation rate, especially among those aged 16 to 24, and we think that some of the surge in the unemployment rate may be related to difficulties in adjusting for seasonal flows of young people into the labor force.² Nevertheless, unemployment rates rose in

¹ Payroll employment in recent months has been held down by a strike at American Axle & Manufacturing, which ended on May 22. The strike affected production at nine General Motors (GM) truck assembly plants and nearly two dozen parts plants at various times over the past three months. In addition, contract disputes over local issues—which had shut down two GM assembly plants for several weeks—were also resolved near the end of May. Neither the workers on strike nor those indirectly affected by the strikes returned to work in time to be counted in the May employment figures. We expect their return to add between 20,000 and 30,000 to the change in employment in June.

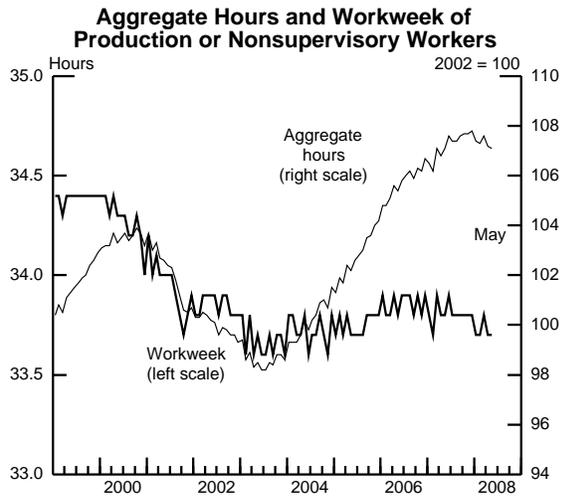
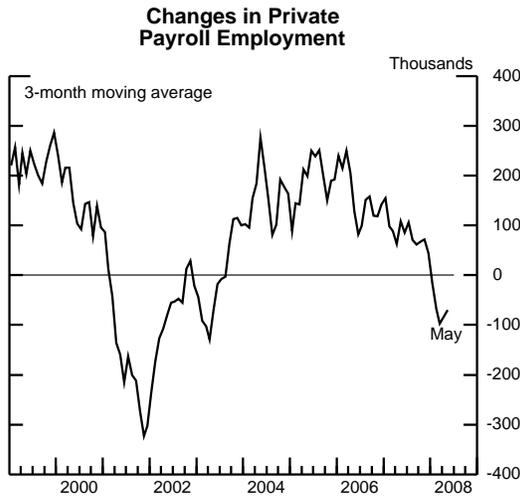
² Indeed, unemployed re-entrants and new entrants accounted for the bulk of the increase in unemployment in May. Since young people are primarily labor force entrants, May's rise in entrants corroborates the notion that seasonal flows were part of the story behind the jump in unemployment in May.

Changes in Employment

(Thousands of employees; seasonally adjusted)

Measure and sector	2007	2007		2008			
		Q3	Q4	Q1	Mar.	Apr.	May
	Average monthly change				Monthly change		
Nonfarm payroll employment (establishment survey)	91	71	80	-82	-88	-28	-49
Private	71	62	45	-97	-103	-40	-66
Natural resources and mining	3	2	4	4	6	1	3
Manufacturing	-22	-23	-17	-43	-46	-49	-26
Ex. motor vehicles	-15	-20	-8	-31	-23	-31	-30
Construction	-19	-22	-41	-41	-39	-52	-34
Residential	-20	-18	-39	-30	-28	-27	-25
Nonresidential	1	-5	-2	-11	-12	-25	-8
Wholesale trade	9	9	6	-6	-3	-10	-4
Retail trade	6	1	0	-29	-27	-39	-27
Financial activities	-9	-8	-14	-7	0	1	-1
Professional and business services	26	22	44	-39	-59	32	-39
Temporary help services	-7	-13	4	-24	-31	-12	-30
Nonbusiness services ¹	76	76	71	66	65	79	75
Total government	21	8	35	15	15	12	17
Total employment (household survey)	22	58	-16	-81	-24	362	-285
Memo:							
Aggregate hours of private production workers (percent change) ²	1.3	1.1	1.0	-1.1	.3	-.4	-.1
Average workweek (hours) ³	33.8	33.8	33.8	33.7	33.8	33.7	33.7
Manufacturing (hours)	41.2	41.4	41.2	41.1	41.2	41.0	41.0

1. Nonbusiness services comprises education and health, leisure and hospitality, and "other."
2. Establishment survey. Annual data are percent changes from Q4 to Q4. Quarterly data are percent changes from preceding quarter at an annual rate. Monthly data are percent changes from preceding month.
3. Establishment survey.

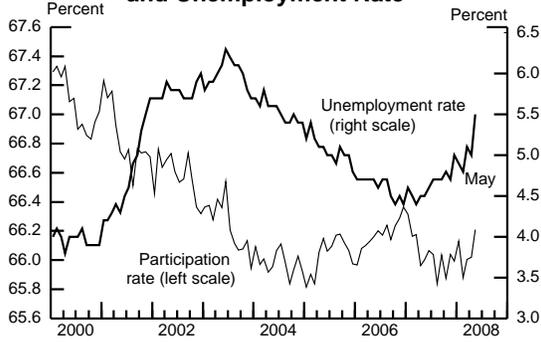


Selected Unemployment and Labor Force Participation Rates

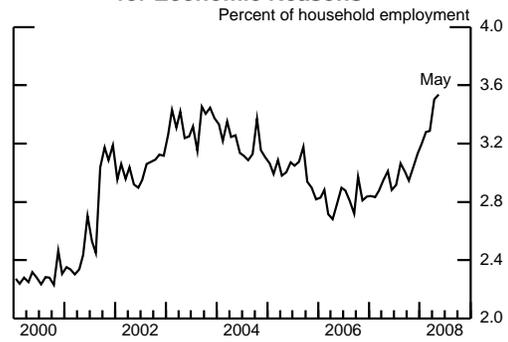
(Percent; seasonally adjusted)

Rate and group	2007	2007		2008			
		Q3	Q4	Q1	Mar.	Apr.	May
<i>Civilian unemployment rate</i>							
Total	4.6	4.7	4.8	4.9	5.1	5.0	5.5
Teenagers	15.7	15.8	16.4	16.8	15.8	15.4	18.7
20-24 years old	8.2	8.6	8.6	9.0	9.3	8.9	10.4
Men, 25 years and older	3.6	3.6	3.7	3.8	4.0	4.0	4.2
Women, 25 years and older	3.6	3.7	3.8	3.9	4.1	3.9	4.1
<i>Labor force participation rate</i>							
Total	66.0	66.0	66.0	66.0	66.0	66.0	66.2
Teenagers	41.3	40.7	41.0	40.3	39.8	41.1	42.6
20-24 years old	74.4	74.4	74.0	73.9	73.9	74.2	75.0
Men, 25 years and older	75.6	75.6	75.5	75.5	75.4	75.2	75.2
Women, 25 years and older	59.7	59.8	59.7	59.9	60.1	60.0	60.0

Labor Force Participation Rate and Unemployment Rate

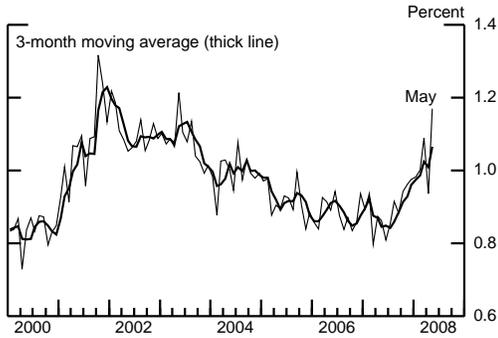


Persons Working Part Time for Economic Reasons



Job Losers Unemployed Less Than 5 Weeks

(as a percent of household employment)



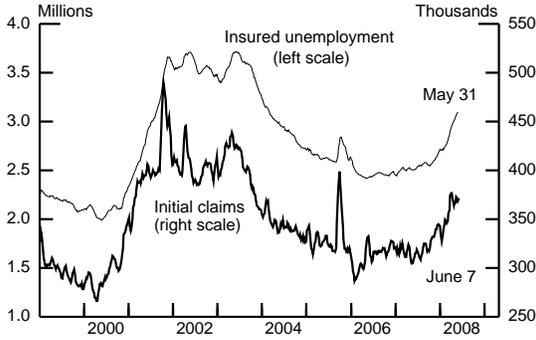
Unemployed Due to Job Loss

(as a percent of the labor force)



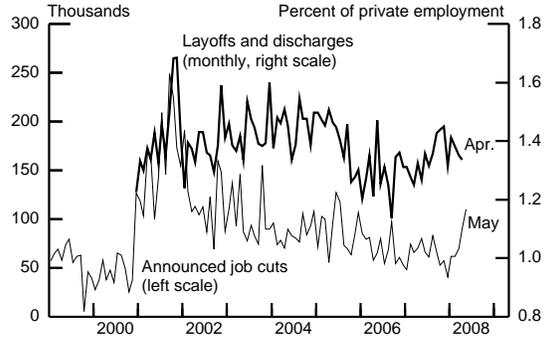
Labor Market Indicators

Unemployment Insurance



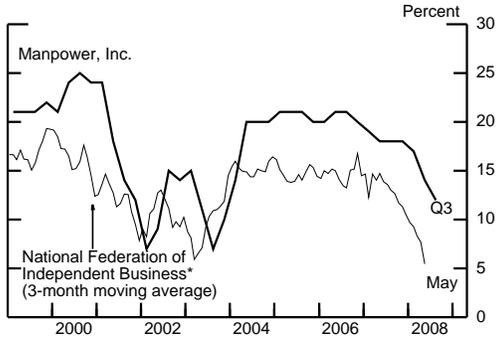
Note. 4-week moving averages.

Layoffs and Job Cuts



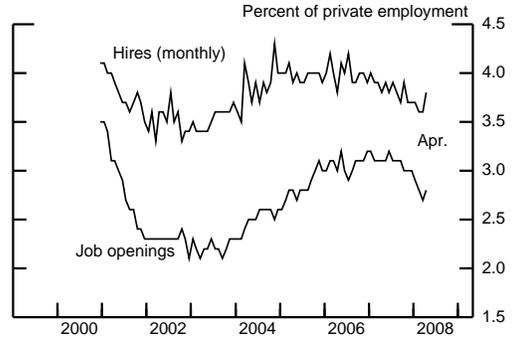
Note. Both series are seasonally adjusted by FRB staff. Source. For layoffs and discharges, Job Openings and Labor Turnover Survey; for job cuts, Challenger, Gray, and Christmas, Inc.

Net Hiring Plans



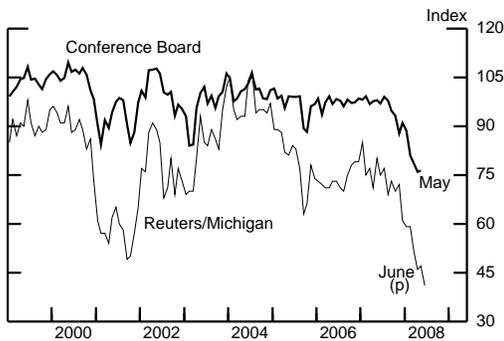
Note. Percent planning an increase in employment minus percent planning a reduction. *Seasonally adjusted by FRB staff.

Job Openings and Hires



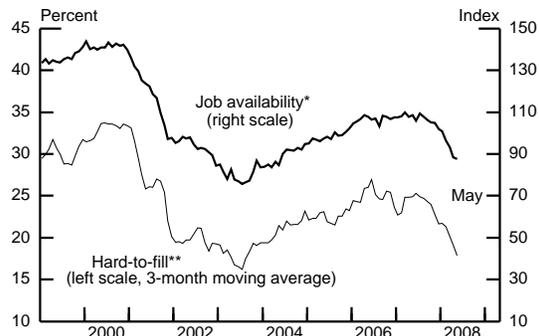
Source. Job Openings and Labor Turnover Survey.

Expected Labor Market Conditions



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

Job Availability and Hard-to-Fill Positions



*Proportion of households believing jobs are plentiful, minus the proportion believing jobs are hard to get, plus 100. **Percent of small businesses surveyed with at least one "hard-to-fill" job opening. Seasonally adjusted by FRB staff. Source. For job availability, Conference Board; for hard-to-fill, National Federation of Independent Business.

Output per Hour

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

Sector	2006:Q1 to 2007:Q1	2007:Q1 to 2008:Q1	2007			2008
			Q2	Q3	Q4	Q1
Nonfarm business						
All persons	.6	3.3 ¹	2.7	6.0	1.8	2.9 ¹
All employees ²	.5	2.7 ¹	2.9	5.2	.2	2.7 ¹
Nonfinancial corporations ³	.5	3.0	2.1	2.9	2.4	4.6

1. Staff estimates.

2. Assumes that the growth rate of hours of non-employees equals the growth rate of hours of employees.

3. 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. Nonfinancial corporate output is calculated as an income-side measure.

older age groups as well, albeit by not as much as for young people, and the number of unemployed job losers increased further in May. On average over the past two months, the unemployment rate has moved up about $\frac{1}{4}$ percentage point from its first-quarter average of 4.9 percent to a level that is $\frac{3}{4}$ percentage point above its recent low at the end of 2006.

Some—but not all—indicators of labor market conditions have also continued to worsen. In the household survey, job losers unemployed less than five weeks have risen further as a percentage of employment since March, and the fraction of workers who are working part time for economic reasons has continued to move up. In addition, perceptions of job availability in the Conference Board survey and of the difficulty of filling vacancies in the National Federation of Independent Business (NFIB) survey have eroded further since March, as have households' expectations for labor market conditions in the Reuters/University of Michigan and Conference Board surveys. Moreover, the most recent readings on net hiring plans from both the Manpower and NFIB surveys moved down, and the level of insured unemployment has continued to move up. However, in the Job Openings and Labor Turnover survey, the job openings rate and the hiring rate both turned up in April (the latest available data), while the rate of layoffs and discharges fell back toward last summer's levels.

The staff estimates that productivity in the nonfarm business sector rose at an annual rate of $2\frac{3}{4}$ percent in the first quarter, which brought the increase over the previous four quarters to $3\frac{1}{4}$ percent. The increase in productivity over the past year is quite robust, especially given the concurrent weakening in economic growth. However, the strong gains in productivity follow a year of particularly sluggish productivity growth.

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

Component	Proportion 2007 (percent)	2007 ¹	2007	2008	2008		
			Q4	Q1	Mar.	Apr.	May
			Annual rate		Monthly rate		
Total	100.0	2.1	.3	-.3	.1	-.7	-.2
Previous	100.0	2.2	.4	-.2	.2	-.7	...
Manufacturing	78.7	2.3	-.6	-1.2	.2	-.9	.0
Ex. motor veh. and parts	73.6	2.6	.3	-.2	.6	-.5	-.1
Ex. high-tech industries	69.3	1.3	-1.4	-1.1	.5	-.6	-.2
Mining	11.6	.2	5.4	2.6	-.3	-.6	.1
Utilities	9.7	3.1	2.2	3.5	.0	.0	-1.8
<i>Selected industries</i>							
Energy	24.7	2.3	4.7	5.0	-.3	-.2	-.8
High technology	4.3	22.3	29.5	13.5	2.0	1.7	1.1
Computers	1.0	16.7	19.9	22.5	.9	.3	.7
Communications equipment	1.3	20.6	30.4	11.4	1.5	1.8	.9
Semiconductors ²	2.0	25.9	33.7	10.9	2.9	2.4	1.4
Motor vehicles and parts	5.1	-2.2	-13.1	-14.4	-4.9	-6.9	1.0
<i>Total ex. selected industries</i>	65.9	1.1	-1.9	-2.0	.6	-.7	-.1
Consumer goods	19.9	.3	-3.0	-1.6	.8	-.6	-.1
Durables	3.6	-2.4	-6.9	-10.5	.4	-1.0	-.5
Nondurables	16.3	.9	-2.1	.4	.9	-.5	.0
Business equipment	7.3	2.8	.0	3.0	.9	-1.8	-.1
Defense and space equipment	1.7	4.2	3.3	-.1	-.4	.0	-.6
Construction supplies	4.2	-1.9	-8.8	-7.8	-.3	-1.4	-.2
Business supplies	7.4	-.1	-1.5	-3.3	1.0	-.8	-.2
Materials	25.4	1.8	-.8	-2.6	.3	-.4	-.1
Durables	13.6	2.9	-.6	-1.0	.1	-.4	-.4
Nondurables	11.7	.6	-.9	-4.5	.6	-.4	.3

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- 2007 average	1994- 95 high	2001- 02 low	2007		2008		
				Q3	Q4	Q1	Apr.	May
Total industry	81.0	85.1	73.6	81.3	81.0	80.6	79.6	79.4
Manufacturing	79.7	84.6	71.5	79.8	79.3	78.7	77.7	77.5
Ex. motor veh. and parts	79.9	84.3	71.2	80.2	79.8	79.3	78.8	78.6
Mining	87.5	88.7	84.8	89.0	90.2	90.3	89.6	89.6
Utilities	86.8	93.9	84.6	85.9	85.9	86.3	85.4	83.7
<i>Stage-of-process groups</i>								
Crude	86.6	89.5	81.9	88.3	89.3	89.4	88.8	89.0
Primary and semifinished	82.2	88.2	74.6	81.9	81.3	80.7	79.8	79.3
Finished	77.7	80.4	69.9	78.0	77.6	77.2	76.0	75.9

Industrial Production

Industrial production (IP) moved down 0.2 percent in May after a 0.7 percent drop in April. This recent weakness has not been confined to motor vehicles and construction supplies; the three-month IP diffusion index remained below 50 in May after falling sharply in April. Manufacturing output also fell in April and was unchanged in May, putting the index on track to post its third consecutive quarterly decline. The factory operating rate dipped to 77.5 percent in May, a level 2.2 percentage points below its long-run average.

Motor vehicle production moved up in May even though assemblies were held down by weak demand and strikes at several plants. We estimate that these strikes reduced production at General Motors by almost 1 million units (annual rate) from March to May. At the same time, soft demand for full-size pickups and sport-utility vehicles led other domestic producers to scale back their assembly rates.

The modest pace of vehicle production over the past few months has kept inventories in check even as sales have plunged. Days' supply at the end of May stood at 69, a level only somewhat higher than the desired ratio. With the end of several strikes in May, the automakers plan to increase the pace of assemblies in June to an annual rate of 10.1 million units. If realized, this rebound in assemblies and parts production would contribute nearly $\frac{1}{4}$ percentage point to the change in IP in June. Initial plans for assemblies in the third quarter call for production to step up further.

High-tech production decelerated further in April and May after growth slowed sharply in the first quarter. Computer output increased $\frac{1}{2}$ percent, on average, in April and May, well below its pace of 2007. The output of communications equipment slowed in May after having risen at a solid pace in April. Semiconductor production also decelerated in April and May, as continued weakness in the demand for cell phones and consumer PCs resulted in slower production for some chip types.

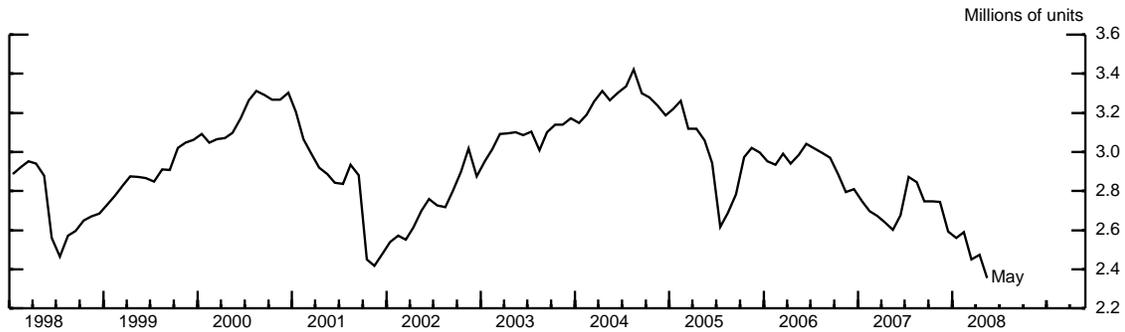
Looking ahead, available indicators point to only modest gains in high-technology output in the next few months. The International Data Corporation recently revised down its 2008 forecast for PC demand and expects unit sales only to edge up this quarter. In addition, recent statements from Dell and Hewlett-Packard have expressed concern about weak U.S. demand. And guidance by telecommunications service providers suggests that their capital expenditures will decline in the remainder of the year. For semiconductors, Intel's revenue guidance for the second quarter is consistent with a solid increase in microprocessor output, but in other chip categories, efforts to pare elevated inventories

Production of Domestic Light Vehicles
(Millions of units at an annual rate except as noted)

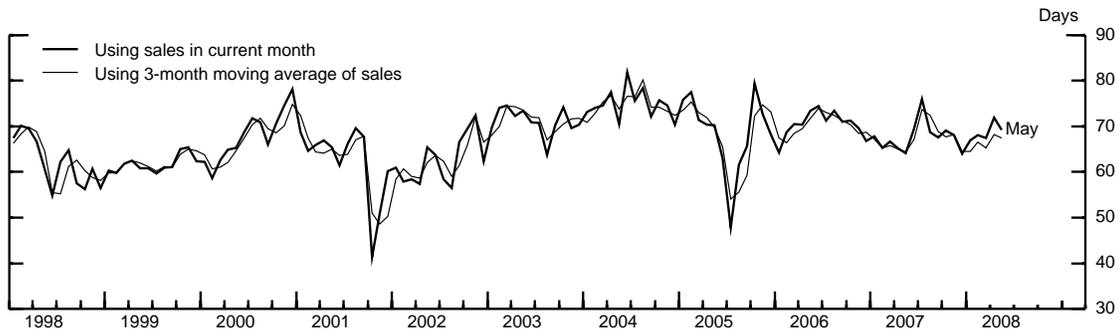
Item	2007	2008						
	Q4	Q1	Q2	Q3	Apr.	May	June	July
U.S. production ¹	10.3	9.7	8.8	10.3	8.2	8.4	9.8	10.2
Autos	4.0	3.9	3.8	4.6	3.5	3.6	4.3	4.6
Light trucks	6.3	5.7	5.0	5.7	4.7	4.8	5.5	5.6
Days' supply ²	64	65	n.a.	n.a.	72	69	n.a.	n.a.
Autos	51	51	n.a.	n.a.	53	44	n.a.	n.a.
Light trucks	76	76	n.a.	n.a.	88	95	n.a.	n.a.
Inventories ³	2.59	2.45	n.a.	n.a.	2.47	2.35	n.a.	n.a.
Autos	.90	.84	n.a.	n.a.	.85	.77	n.a.	n.a.
Light trucks	1.69	1.61	n.a.	n.a.	1.62	1.58	n.a.	n.a.
Memo: U.S. production, total motor vehicles ⁴	10.5	9.9	9.0	10.5	8.4	8.6	10.1	10.5

- Note. FRB seasonals. Components may not sum to totals because of rounding.
1. Production rates for the second and third quarters reflect the latest industry schedules.
 2. Quarterly values are calculated with end-of-period stocks and average reported sales.
 3. End-of-period stocks.
 4. Includes medium and heavy trucks.
- n.a. Not available.

Inventories of Light Vehicles

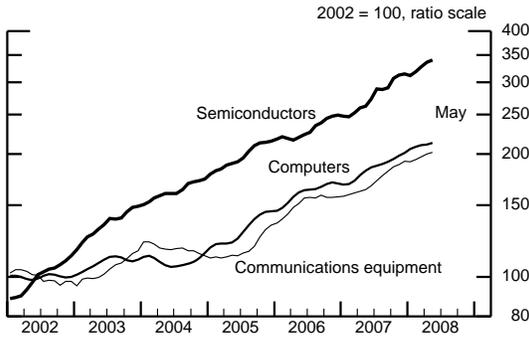


Days' Supply of Light Vehicles

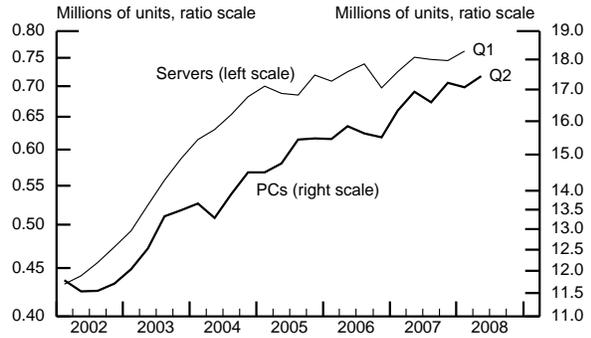


Indicators of High-Tech Manufacturing Activity

Industrial Production in the High-Tech Sector

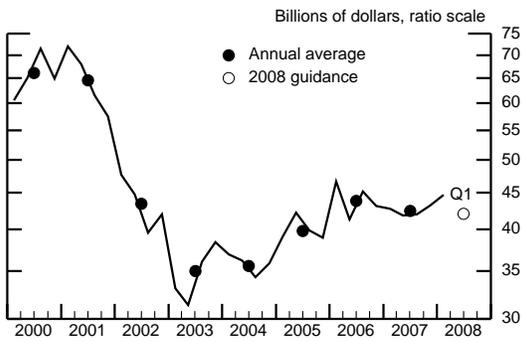


U.S. Personal Computer and Server Absorption



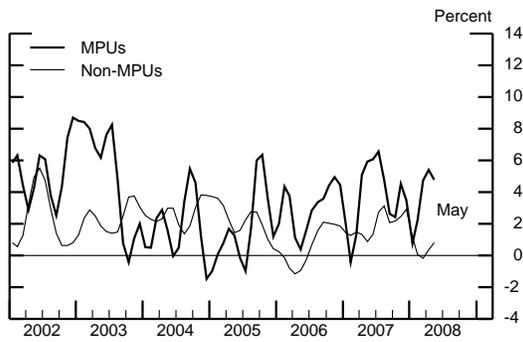
Note. FRB seasonals. PCs include desktops, notebooks, ultra portables, and x86 PC servers. The Q2 value for PCs is a forecast by IDC.

Capital Expenditures by Selected Telecommunications Service Providers



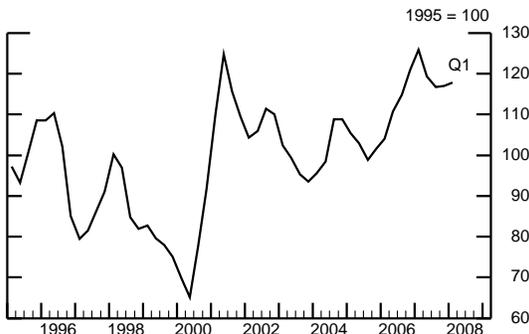
Note. FRB seasonals. Includes AT&T, Verizon, Sprint Nextel, and companies related by merger, acquisition, or spinoff. Source. SEC filings. Guidance from Dell'Oro.

Rate of Change in Semiconductor Industrial Production



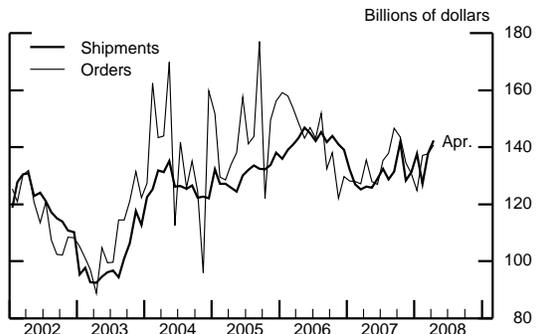
Note. 3-month moving average. MPU is a microprocessor unit.

FRB Chip Inventory Index



Note. The staff's chip inventory index is a sales-weighted chain-type index constructed from financial data for 10 major chip manufacturers. Source. Financial reports.

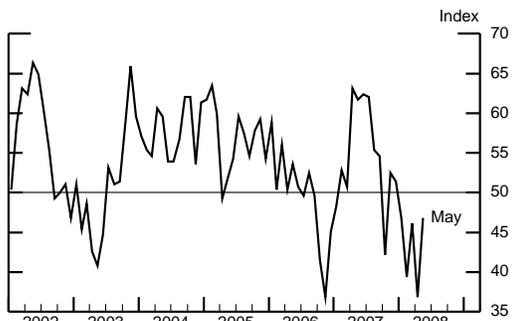
Circuit Board Orders and Shipments



Note. U.S. and Canadian shipments of bare and loaded circuit boards. Source. Institute for Printed Circuits.

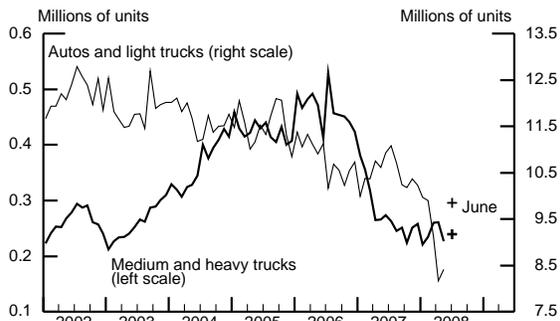
Indicators of Industrial Activity

Manufacturing IP Diffusion Index



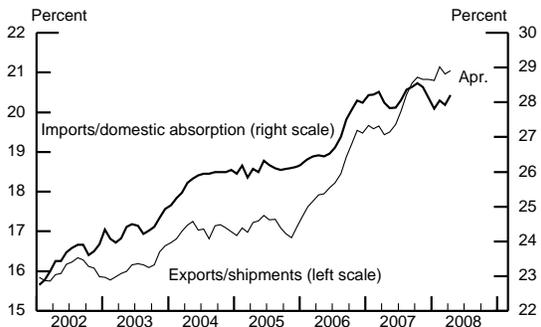
Note. The diffusion index equals the percentage of series that increased over 3 months plus one-half the percentage that were unchanged.

Motor Vehicle Assemblies



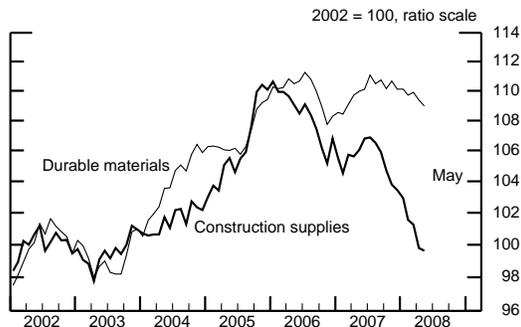
Note. June values are based on latest industry schedules.

Trade Shares



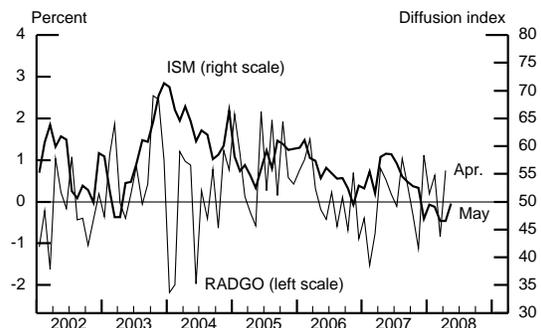
Note. Trade shares are 3-month moving averages. Source. Department of Commerce.

IP: Construction Supplies and Durable Materials



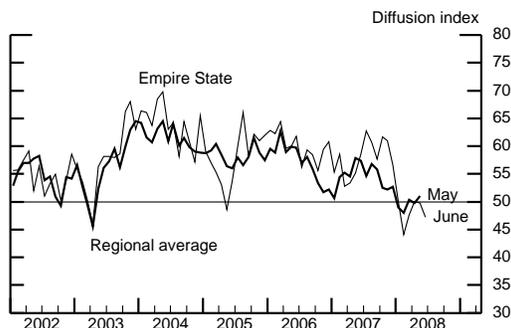
Note. Data exclude motor vehicle parts, high-tech, and aircraft parts industries.

New Orders: ISM Survey and Change in Real Adjusted Durable Goods Orders



Note. The measure for real adjusted durable goods orders (RADGO) is a 3-month moving average. 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.

New Orders Diffusion Indexes: Empire State and Average of Regional Surveys



Note. Regional average includes new orders indexes from the Chicago, Dallas, Kansas City, New York (Empire State), Philadelphia, and Richmond surveys.

may restrain production. Meanwhile, the book-to-bill ratio for circuit boards climbed back above 1 after several months of declining orders.

Output excluding the energy, high-tech, and motor vehicles sectors moved down in April and May. The index for business equipment contracted nearly 2 percent in April and slipped further in May as the production of industrial and other equipment declined. Output of consumer goods decreased in April and May, with particularly weak production of durable consumer goods.

Output of construction supplies, which fell in April and edged down in May, has declined nearly 10 percent since its peak in January 2006. Output of products associated with nonresidential construction, which had previously offset some of the production losses related to residential investment, has turned down in recent months. Production of durable materials that are destined for further processing in the industrial sector also stepped down in April and May after having been unchanged, on balance, since mid-2007.

Forward-looking indicators of production have been mixed; on balance, they suggest continued softness in the manufacturing sector. The three-month moving average of real adjusted durable goods orders has increased, on net, since the start of the year. Although the May reading of the Institute for Supply Management (ISM) diffusion index for new orders edged up, this index continued to suggest declining orders. Meanwhile, the Empire State new orders diffusion index moved down to a modestly negative level in June, while other regional new orders indexes remained at more neutral levels through May. And the inventory-shipments ratio from the staff's flow-of-goods system has trended upward in recent months, which may imply production cutbacks in the future.

Motor Vehicles

Demand for light vehicles has deteriorated significantly in recent months. Sales tumbled to an average annual rate of 14.3 million units in April and May, nearly 1 million units below the pace in the first quarter.

. In addition, the sharp increase in gasoline prices over the past few months appears to have accelerated the shift in consumer demand away from trucks and toward cars: The share of pickups, vans, and sport-utility vehicles in total sales plunged in April and May, while the share of small cars shot up. As a result, the domestic market share of the Detroit Three automakers, which rely heavily on sales in the full-size pickup and sport-utility categories, has continued to move down.

Sales of Light Vehicles
(Millions of units at an annual rate; FRB seasonals)

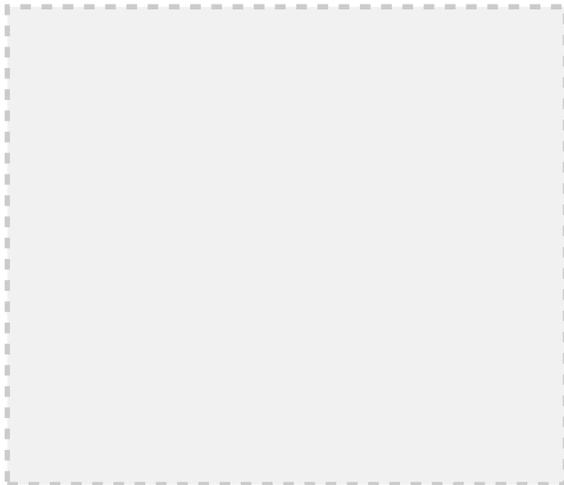
Category	2007	2007		2008			
		Q3	Q4	Q1	Mar.	Apr.	May
Total	16.1	15.9	16.1	15.2	15.0	14.4	14.3
Autos	7.6	7.4	7.8	7.4	7.5	7.5	8.0
Light trucks	8.5	8.5	8.3	7.8	7.5	6.9	6.2
North American ¹	12.3	12.3	12.3	11.5	11.1	10.6	10.4
Autos	5.3	5.1	5.5	5.0	5.0	4.9	5.3
Light trucks	7.1	7.2	6.9	6.5	6.2	5.7	5.1
Foreign-produced	3.8	3.6	3.8	3.7	3.9	3.8	3.8
Autos	2.4	2.3	2.3	2.4	2.6	2.6	2.7
Light trucks	1.4	1.3	1.4	1.3	1.3	1.2	1.1
Memo: Detroit Three domestic market share (percent) ²	51.2	50.4	50.4	50.1	48.2	47.2	44.1

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

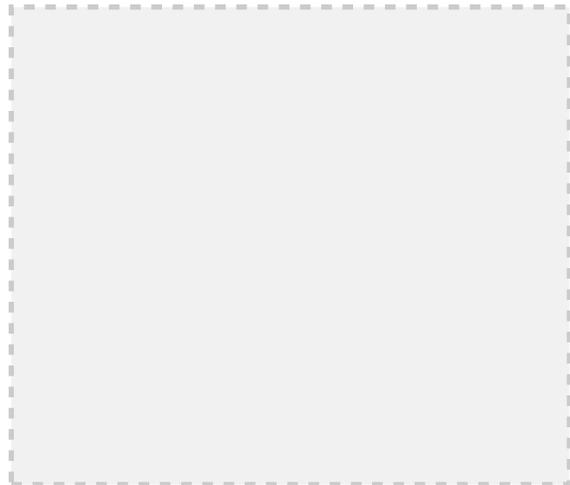
1. Excludes some vehicles produced in Canada that are classified as imports by the industry.

2. Domestic market share excludes sales of foreign brands affiliated with the Detroit Three.

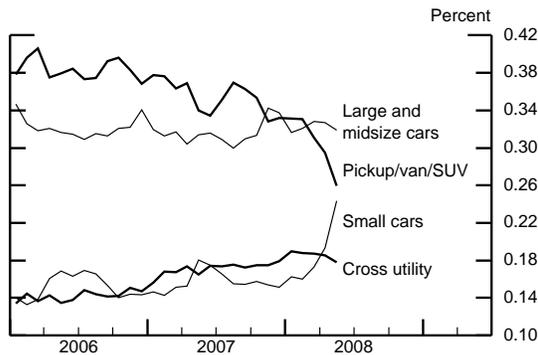
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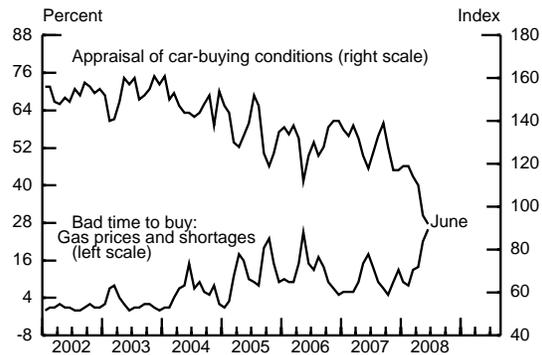


Market Share of Light Vehicles by Segment



Note. Data through May. FRB seasonals.

Car-Buying Attitudes



Source. Reuters/University of Michigan Survey.

Indicators suggest that motor vehicle sales will fall further in June. The availability of cash rebates and cut-rate financing has decreased so far in June, and consumers' views of car-buying conditions have continued to deteriorate.

Consumer Spending

Real personal consumption expenditures (PCE) rose at an annual rate of 1 percent in the first quarter, but spending appears to have picked up moderately since then. In light of the latest retail sales data, we estimate that real expenditures on goods other than motor vehicles increased a robust ½ percent, on average, in April and May—although, as just noted, retail purchases of motor vehicles have been quite weak. Outside of the volatile energy category, real outlays on services were also reported to have expanded through April. However, real-time estimates for services are often extrapolations of past trends that may not reflect the actual pace of spending.³

While spending in May appears to have received a boost from the tax rebates, the fundamentals for consumer spending have deteriorated. In particular, real income has increased at an average annual rate of just 1 percent since last summer, as labor market conditions have deteriorated and rising food and energy prices have put a sizable dent in consumers' purchasing power.⁴ In addition, the ratio of household wealth to income dropped sharply in the fourth and first quarters, developments that reflect declining values of both equities and houses. As measured by the Reuters/Michigan and Conference Board surveys, consumer sentiment dropped again in May, continuing the vertiginous decline that began last summer. Sentiment fell further in the preliminary Reuters/Michigan survey for June. Both measures of consumer sentiment stand near the low points reached during the 1990-91 recession. On a more positive note, consumer credit supply conditions do not appear to have worsened. Interest rates on consumer loans continue to decline in response to the drop in short-term interest rates, and growth in consumer credit has not yet slowed despite reports of tight terms and standards.

³ Because the Bureau of Economic Analysis (BEA) lacks timely data on many categories of services consumption, spending on services has been subject to noticeable downward revisions around the start of downturns in economic activity.

⁴ The weakness in real income is evident despite a notable upward revision of \$26 billion to the BEA's estimate of nominal wages and salaries in the fourth quarter—reflecting information from unemployment insurance tax records—and a boost to wages and salaries in January through March from an estimated temporary increase of \$15 billion in bonus payments.

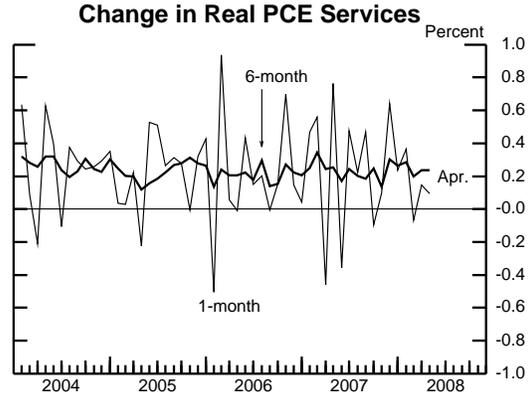
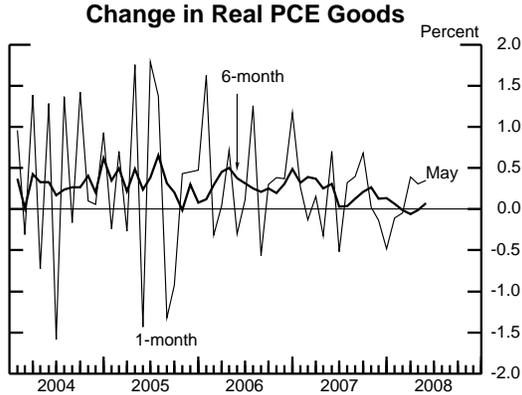
Retail and Food Services Sales

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

Category	2007		2008			
	Q3	Q4	Q1	Mar.	Apr.	May
	Annual rate		Monthly rate			
Total sales	2.1	4.1	.8	.5	.4	1.0
Retail control ¹	3.5	6.4	4.6	.9	.8	1.1
Ex. sales at gasoline stations	4.7	1.8	2.4	.6	1.0	.8
Memo:						
Real PCE control ²	4.1	1.0	.0	.7	.6	.5

1. Total sales less outlays at building material and supply stores and automobile and other motor vehicle dealers.

2. Total goods spending excluding autos and trucks. The values for March, April, and Q1 are staff estimates. The value for May is a staff forecast.



Note. The values for March and April are staff estimates. The value for May is a staff forecast.

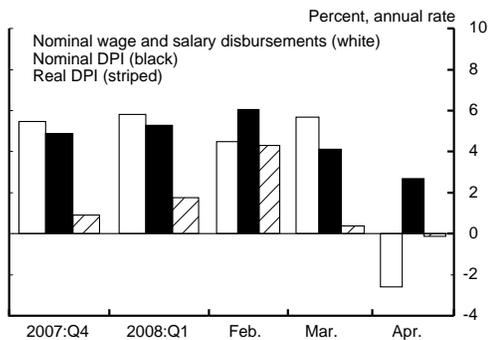
Personal Saving Rate



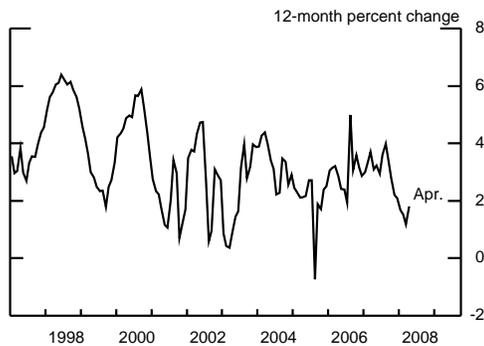
Note. Value for December 2004 excludes the effect on income of the one-time Microsoft dividend in that month.

Fundamentals of Household Spending

Changes in Wages and Salaries and in Disposable Income

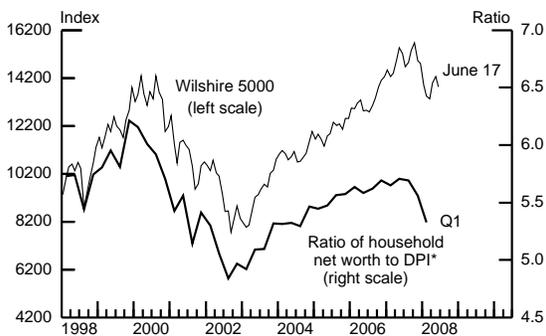


Changes in Real DPI



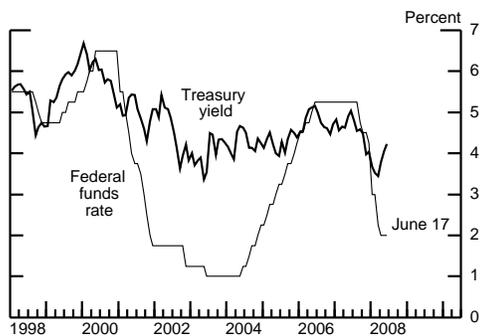
Note. Values for December 2004 and December 2005 exclude the effect on income of the one-time Microsoft dividend in December 2004.

Household Net Worth and Wilshire 5000

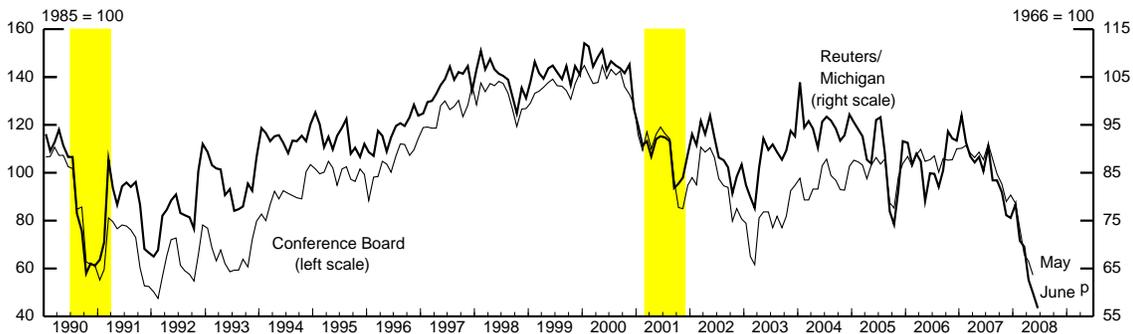


*The value for 2004:Q4 excludes the effect on income of the one-time Microsoft dividend in December 2004.

Target Federal Funds Rate and 10-Year Treasury Yield



Consumer Confidence



Note. Shaded bars indicate periods of recession as defined by the National Bureau of Economic Research.

p Preliminary.

Private Housing Activity

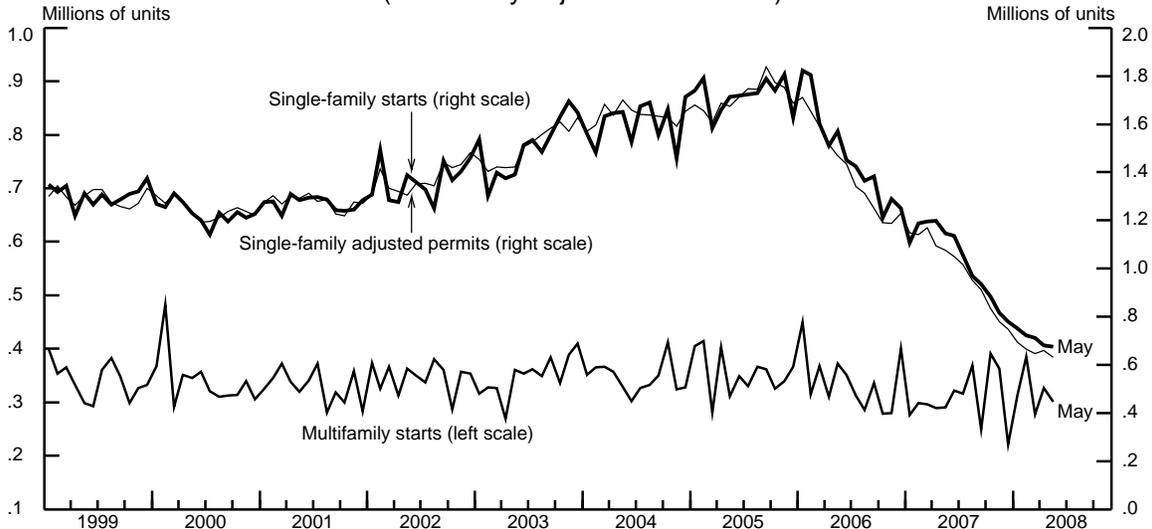
(Millions of units, seasonally adjusted; annual rate except as noted)

Sector	2007	2007		2008			
		Q3	Q4	Q1	Mar.	Apr.	May
<i>All units</i>							
Starts	1.36	1.30	1.15	1.05	.99	1.01	.98
Permits	1.40	1.34	1.16	.99	.93	.98	.97
<i>Single-family units</i>							
Starts	1.05	.99	.83	.73	.71	.68	.67
Permits	.98	.93	.76	.65	.62	.65	.62
Adjusted permits ¹	.99	.96	.79	.67	.65	.66	.63
Permit backlog ²	.109	.114	.109	.097	.097	.095	.093
<i>New homes</i>							
Sales	.78	.73	.65	.56	.51	.53	n.a.
Months' supply ³	8.40	8.79	9.32	10.23	11.01	10.40	n.a.
<i>Existing homes</i>							
Sales	4.94	4.76	4.39	4.39	4.36	4.34	n.a.
Months' supply ³	8.67	9.14	9.97	10.24	10.18	10.54	n.a.
<i>Multifamily units</i>							
Starts	.309	.312	.325	.325	.277	.327	.301
Permits	.419	.403	.396	.341	.311	.333	.346
Permit backlog ²	.075	.076	.075	.067	.067	.065	.064
<i>Mobile homes</i>							
Shipments	.096	.096	.093	.092	.091	.092	n.a.
<i>Condos and co-ops</i>							
Existing home sales	.713	.701	.608	.560	.580	.550	n.a.

1. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.
 2. Number outstanding at end of period. Excludes permits that have expired or have been canceled, abandoned, or revoked. Not at an annual rate.
 3. At current sales rate; expressed as the ratio of seasonally adjusted inventories to seasonally adjusted sales. Quarterly and annual figures are averages of monthly figures.
- n.a. Not available.

Private Housing Starts and Permits

(Seasonally adjusted annual rate)



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

Housing

Activity in the housing sector remains very weak. In May, single-family starts dropped to an annual rate of 674,000 units. This pace of construction is 36 percent below its level in July 2007, before the escalation of the turmoil in mortgage markets, and 63 percent below its peak in early 2006. Adjusted permits—an informative indicator of housing starts in the following month—slid to an annual rate of 631,000 units in May.

Multifamily starts were at an annual rate of 301,000 units in May, only somewhat below their average since 1995.

Although production cuts have helped pare inventories of new single-family homes by 20 percent since their peak, new home sales have continued to deteriorate sharply, which has pushed up the months' supply of new homes for sale to levels not seen since the early 1980s. The Census Bureau's measure of new sales agreements dropped another 7½ percent in March and April.

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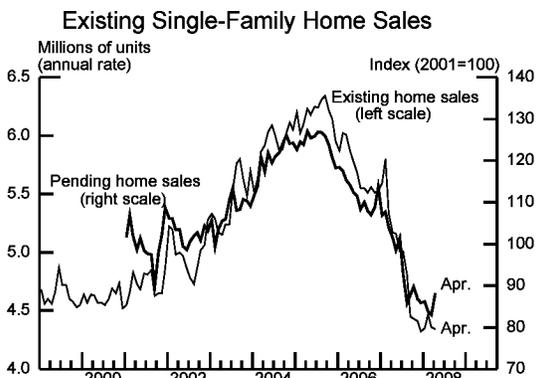
Meanwhile, sales of existing single-family homes have also been little changed, on net, so far this year after having fallen 14 percent in the latter half of 2007. The index of pending home sales—an indicator of existing home sales one or two months hence—jumped in April to its highest reading in six months.

Much of the deterioration of the housing sector since mid-2007 is associated with the drag on demand from tight conditions in mortgage credit markets. These problems are particularly apparent for nonconforming mortgages that cannot be purchased by government-sponsored enterprises (GSEs)—such as nonprime and nonconforming jumbo mortgages—for which spreads relative to conforming loans have remained elevated and new originations have fallen dramatically. Moreover, although recent legislation created a new class of conforming loans with higher loan limits in high-priced cities, the market for these new jumbo conforming loans has been slow to develop, and offer rates for these loans are still 25 to 50 basis points above those for standard conforming loans.⁶ In contrast, conditions in the conforming market are much better, as rates for standard

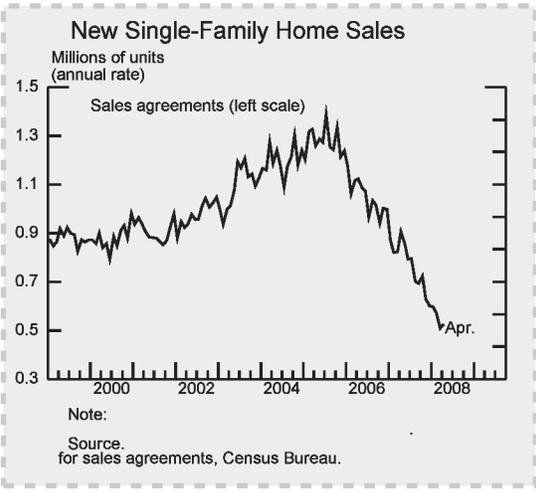
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⁶ Even before the mortgage-market turmoil, offer rates for prime jumbo loans were about 25 basis points above those in the conforming market, likely because of a higher risk of prepayment and the lower liquidity of private-label mortgage-backed securities.

Indicators of Single-Family Housing



Source: National Association of Realtors.



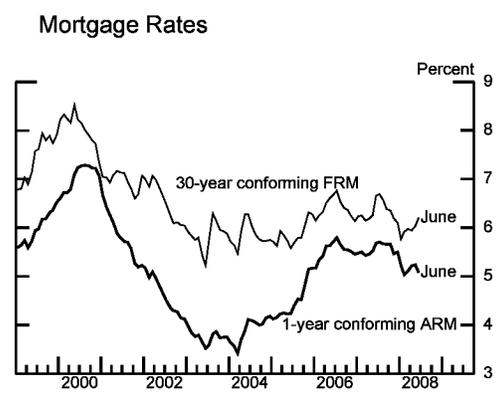
Note:
Source: for sales agreements, Census Bureau.

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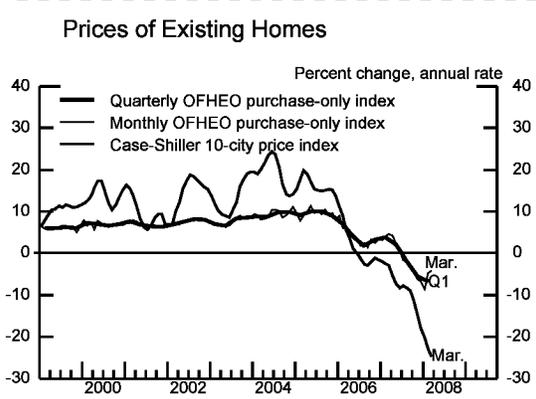


Note: Months' supply is calculated using the 3-month moving average of sales.
Source: for months' supply, Census Bureau.

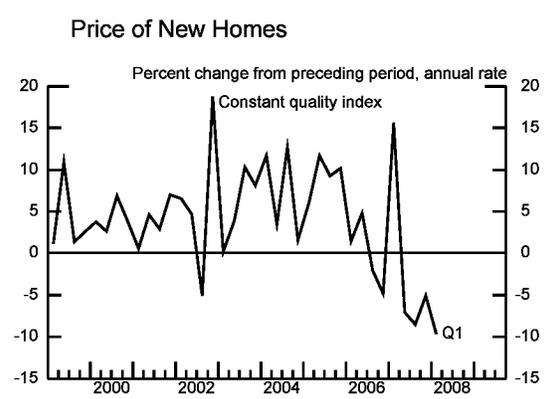
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Note: The June readings are for data through June 11, 2008.



Note: The Case-Shiller and monthly OFHEO indexes are 3-month percent changes.
Source: For purchase-only indexes, OFHEO; for Case-Shiller, Chicago Mercantile Exchange.



Source: Census Bureau.

30-year fixed-rate mortgages—at about 6¼ percent—remain low by historical standards.⁷ Beyond their effect on housing demand, financial market conditions may also be crimping the supply of new housing. Recent anecdotes from builders suggest that tightening lending standards for acquisition, development, and construction loans are putting downward pressure on planned building activity, even in markets that have not experienced an appreciable reduction in demand.

House prices continue to fall. The monthly version of the purchase-only repeat-sales price index calculated by the Office of Federal Housing Enterprise Oversight (OFHEO) decreased at an annual rate of 4¼ percent over the three months ending in March. The 10-city version of the Case-Shiller repeat-sales price index—which, unlike the OFHEO index, includes houses financed by nonconforming loans and is more heavily concentrated in urban areas that had seen a more substantial run-up of house prices—tumbled at an annual rate of 26 percent over the same period. Meanwhile, the constant-quality price index for new homes fell at an annual rate of 10 percent in the first quarter. Although these lower prices may eventually help bolster sales, the large proportion of respondents in the Reuters/Michigan survey who expect further declines in house prices over the coming year may signal ongoing hesitation to enter the market on the part of many prospective buyers.

Equipment and Software

Real spending on equipment and software (E&S) appears to be moving down further in the second quarter after a slight decrease in the first quarter. Business outlays for motor vehicles have declined substantially, and real E&S excluding transportation appears to have been roughly flat since the beginning of the year. The fundamental determinants of E&S spending are largely consistent with the slowdown we have seen to date, as business output growth has decelerated and the user cost of capital has not declined at the rapid pace seen in earlier years.

On balance, monthly surveys of business conditions—both national and regional—remain downbeat. In addition to its monthly survey, the ISM released its semiannual economic forecast in May: For the first time since 2003, the number of manufacturing firms expecting a decrease in their capital expenditures in the current year now slightly exceeds the number expecting an increase. Most corporate bond yields have increased

⁷ However, these rates are now available to fewer buyers, as the GSEs have adopted more-stringent lending standards and are charging higher “delivery fees” for loans to borrowers with lower credit scores and less collateral.

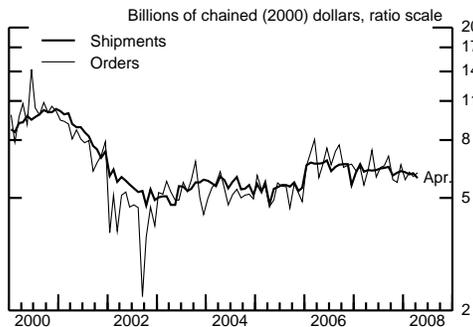
Orders and Shipments of Nondefense Capital Goods

(Percent change; seasonally adjusted current dollars)

Category	2007	2008			
	Q4	Q1	Feb.	Mar.	Apr.
	Annual rate		Monthly rate		
Shipments	1.0	-.1	-3.6	.3	1.1
Excluding aircraft	2.3	-.4	-1.3	.8	.2
Computers and peripherals	18.2	-5.8	-1.6	-1.8	-6.6
Communications equipment	-15.3	2.6	-1.4	1.1	-4.2
All other categories	2.6	-.1	-1.3	1.0	1.3
Orders	1.7	-5.6	1.6	1.4	-1.5
Excluding aircraft	-3.2	4.7	-.9	-1.0	4.0
Computers and peripherals	-6.8	-1.7	12.8	-.4	-12.5
Communications equipment	-32.2	.6	6.8	-3.2	2.6
All other categories	.7	5.7	-2.9	-.9	5.9
Memo: Shipments of complete aircraft ¹	46.7	44.3	40.3	38.7	39.4

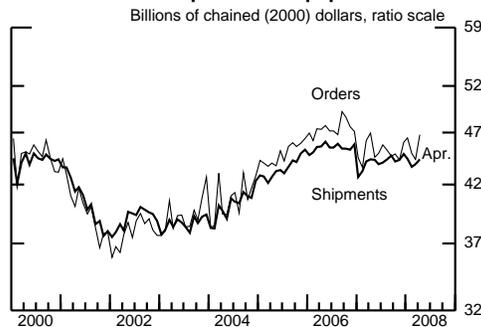
1. From Census Bureau, Current Industrial Reports; billions of dollars, annual rate.

Communications Equipment



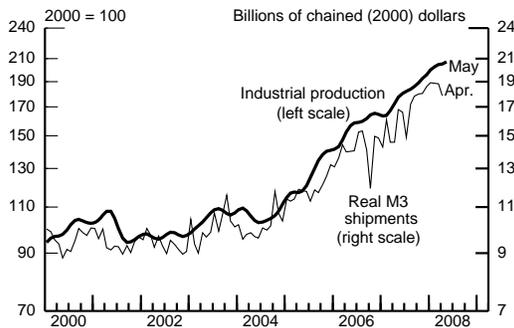
Note. Shipments and orders are deflated by a price index that is derived from the BEA's quality-adjusted price indexes and uses the PPI for communications equipment for monthly interpolation.

Non-High-Tech, Nontransportation Equipment



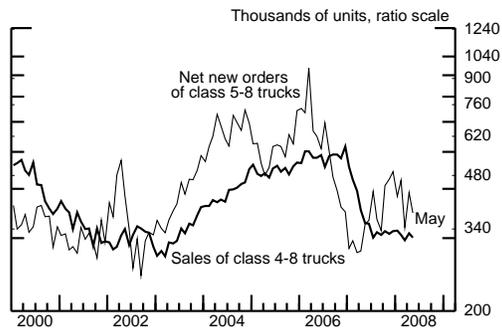
Note. Shipments and orders are deflated by the staff price indexes for the individual equipment types included in this category. Indexes are derived from the BEA's quality-adjusted price indexes.

Computers and Peripherals



Note. Ratio scales. Shipments are deflated by the staff price index for computers and peripheral equipment, which is derived from the BEA's quality-adjusted price indexes.

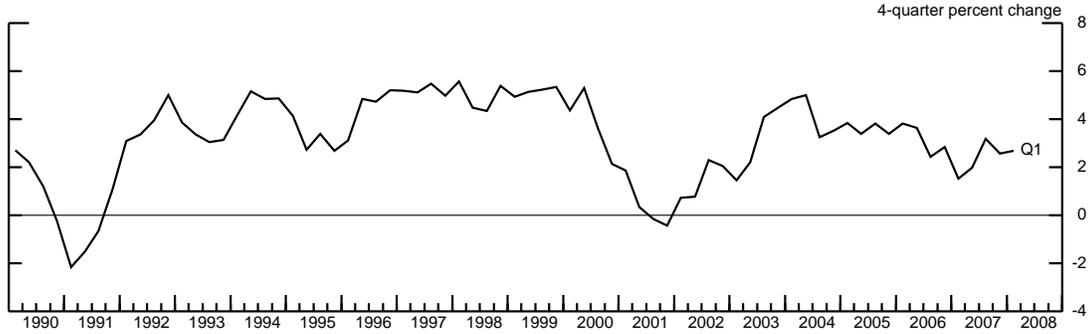
Medium and Heavy Trucks



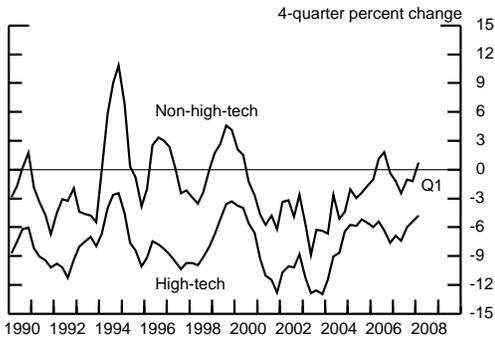
Note. Annual rate, FRB seasonals. Source. For sales, Ward's Communications; for orders, ACT Research.

Fundamentals of Equipment and Software Investment

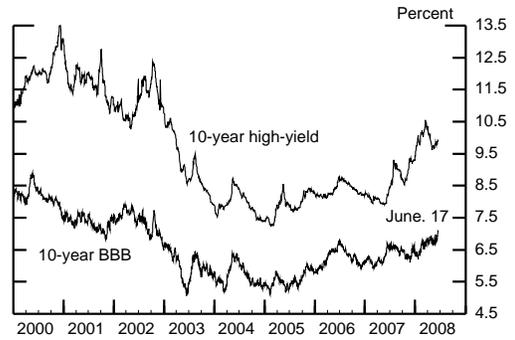
Real Business Output



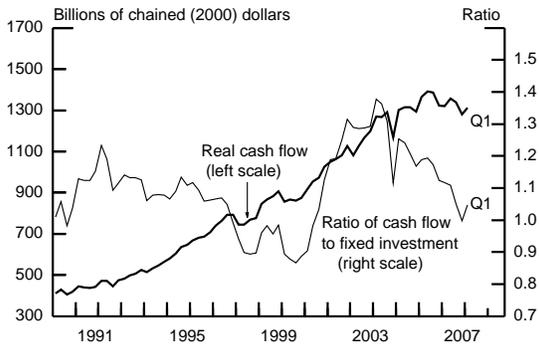
User Cost of Capital



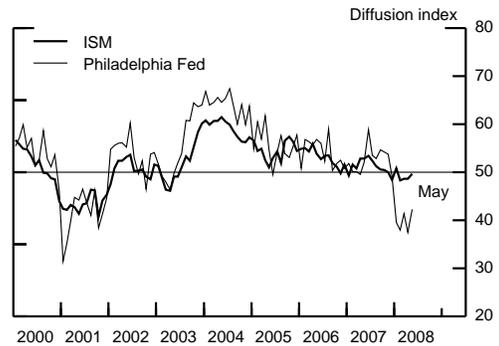
Corporate Bond Yields



Corporate Cash Flow



Surveys of Business Conditions



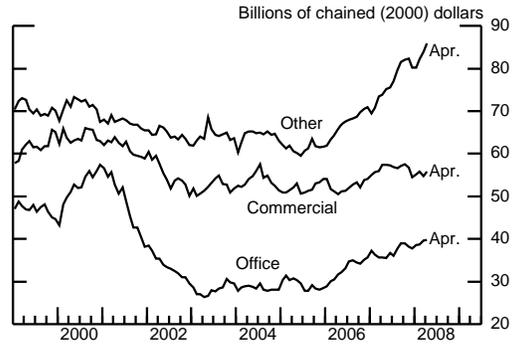
Nonresidential Construction and Indicators

(All spending series are seasonally adjusted at an annual rate; nominal CPIP deflated by BEA prices through Q4 and by staff projection thereafter)

Total Structures

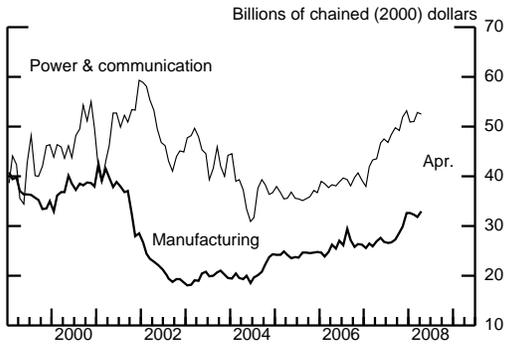


Office, Commercial, and Other

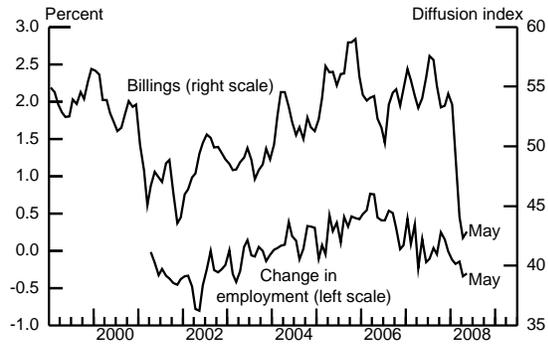


Note. Other consists of structures for religious organizations, education, lodging, amusement and recreation, transportation, and health care.

Manufacturing and Power & Communication

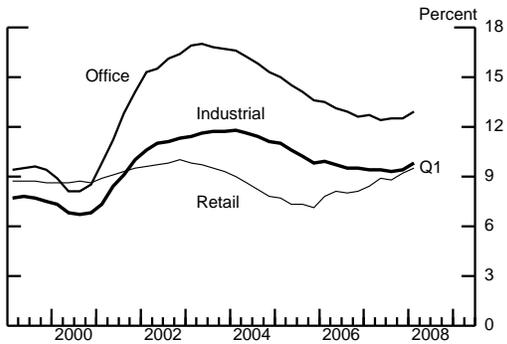


Architectural Billings and Nonresidential Construction Employment



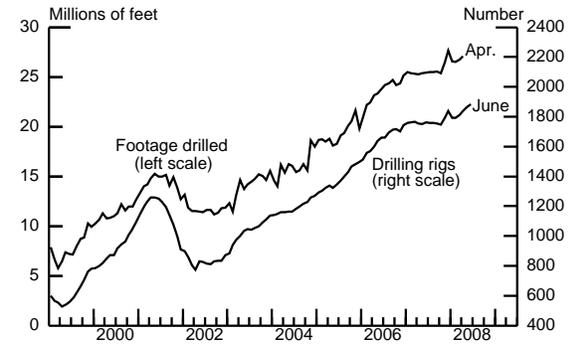
Note. Both series are 3-month moving averages. Employment consists of industrial, commercial, and specialty trade construction. Source. For billings, American Institute of Architects; for employment, Bureau of Labor Statistics.

Vacancy Rates



Note. Industrial space includes both manufacturing structures and warehouses. Source. Torto Wheaton Research.

Drilling and Mining Indicators



Note. The June readings for drilling rigs are based on data through June 13, 2008. Both series are seasonally adjusted by FRB staff. Source. DOE/Baker Hughes.

since the April Greenbook, and although spreads over Treasury yields have come down further over this period, they remain at elevated levels.

Business outlays on transportation equipment have continued to fall at a rapid pace in recent months. Business-sector spending for motor vehicles softened further in April and May after having declined in the first quarter. Automakers continued to scale back deliveries of fleet vehicles to daily rental companies, and demand from other businesses also receded. Sales of medium and heavy trucks in April and May continued, on average, at the subdued pace recorded in the first quarter. With lackluster volumes for freight shipping, the pace of new orders in recent months has been sluggish, suggesting that sales of medium and heavy trucks are unlikely to improve much in the near term. Meanwhile, April data on shipments and net exports suggest that domestic aircraft outlays remained relatively stable in the second quarter.

Real outlays on high-tech equipment and software have increased at a subpar pace so far this year. The latest data from the Quarterly Services Survey show a moderate rise in spending on software in the first quarter. More recently, industrial production of computers suggests only a tepid increase in real computer outlays this quarter. Domestic spending on communications equipment was about flat in the first quarter, and shipments moved down in April.

After having posted modest declines in the prior two quarters, business spending on equipment outside of high-tech and transportation seems to have remained weak so far in the current quarter. Although orders and shipments for this category of equipment increased noticeably in April, net exports of these capital goods also stepped up, an indication that a sizable fraction of demand is from abroad.

Nonresidential Construction

Real spending on nonresidential structures excluding drilling and mining rose at an annual rate of 3¾ percent in the first quarter, down substantially from the double-digit gains posted throughout 2006 and 2007. This deceleration is largely consistent with the evolving fundamentals in this sector. Data from commercial property markets show that sales of existing properties have plunged from last year's record levels, and prices appear to be leveling out. Moreover, the market for commercial mortgage-backed securities is moribund, spreads for corporate bonds remain wide, and recent Senior Loan Officer Opinion Surveys show that most banks are tightening lending standards for commercial real estate loans. Signs that the supply of space may be starting to outpace demand have also begun to emerge: Vacancy rates for office and industrial space ticked up in the first

Nonfarm Inventory Investment
(Billions of dollars; seasonally adjusted annual rate)

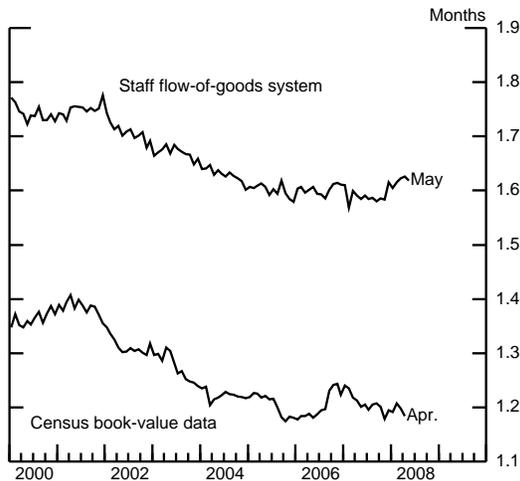
Measure and sector	2007		2008			
	Q3	Q4	Q1	Feb.	Mar.	Apr.
<i>Real inventory investment (chained 2000 dollars)</i>						
Total nonfarm business	26.0	-21.7	-13.6	n.a.	n.a.	n.a.
Motor vehicles	13.3	-25.7	-17.0	n.a.	n.a.	n.a.
Nonfarm ex. motor vehicles	12.7	4.0	3.4	n.a.	n.a.	n.a.
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	18.1	7.6	8.5	3.2	-41.6^e	n.a.
Manufacturing	3.1	8.5	15.6	.5	5.7	n.a.
Wholesale trade ex. motor vehicles & parts	13.9	-8.8	-.2	7.8	-24.2 ^e	n.a.
Retail trade ex. motor vehicles & parts	1.1	7.9	-7.0	-5.1	-23.1 ^e	n.a.
<i>Book-value inventory investment (current dollars)</i>						
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	41.4	70.4	95.8	70.9	56.9	82.9
Manufacturing	16.2	34.7	60.5	38.1	61.4	-1.5
Wholesale trade ex. motor vehicles & parts	22.0	23.0	39.0	41.8	12.8	56.1
Retail trade ex. motor vehicles & parts	3.2	12.7	-3.7	-9.1	-17.3	28.3

n.a. Not available.

^e Staff estimate of real inventory investment based on revised book-value data.

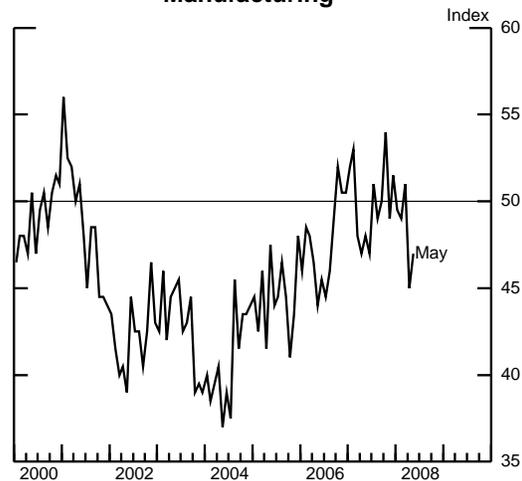
Source. For real inventory investment, BEA; for book-value data, Census Bureau.

Inventory Ratios ex. Motor Vehicles



Note. Flow-of-goods system covers total industry ex. motor vehicles and parts, and inventories are relative to consumption. Census data cover manufacturing and trade ex. motor vehicles and parts, and inventories are relative to sales.

ISM Customer Inventories: Manufacturing



Note. A number above 50 indicates inventories are "too high."

quarter following several years of steady declines, while rates for retail space continued to move upward. The three-month average of the architectural billings diffusion index—which is fairly well correlated with construction at a horizon of two quarters or so—has moved down sharply of late, which suggests outright declines in nonresidential construction spending in the second half of this year.

The BEA estimates that real spending on drilling and mining structures dipped at an annual rate of 6½ percent in the first quarter on the heels of robust growth during 2007. Although escalating energy prices have been stimulating activity in this sector for some time, spending has been uneven from quarter to quarter. Incoming data on footage drilled and the number of drilling rigs in operation point to a resumption of gains in investment in the second quarter.

Business Inventories

Real nonfarm inventories excluding motor vehicles rose only slightly in the fourth and first quarters, as firms cut production to keep inventories aligned with the sluggish pace of sales. The indicators we track are sending mixed signals concerning whether firms are holding excess inventories. According to Census Bureau data, the ratio of book-value inventories to sales (excluding motor vehicles and parts) ticked down in April and has changed relatively little, on net, since mid-2007. Industry detail also provides little indication of widespread imbalances. In addition, businesses surveyed by the ISM in May reported that their customers were reasonably comfortable with their current stock of inventories.

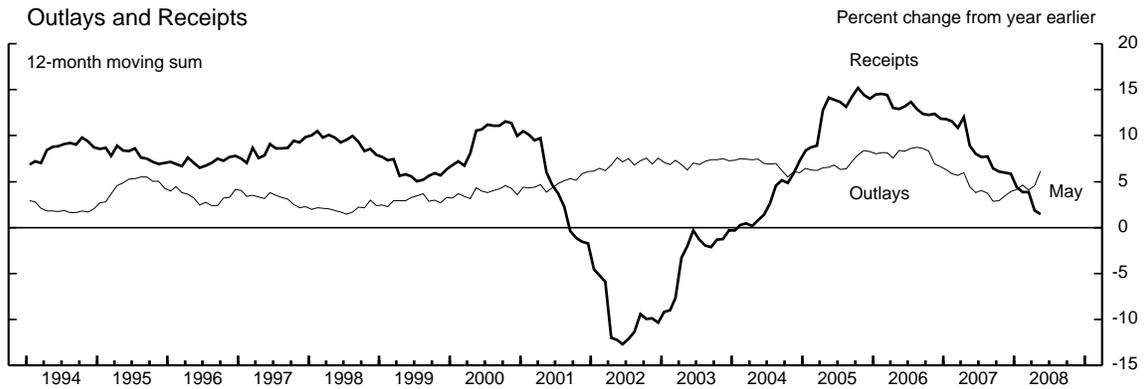
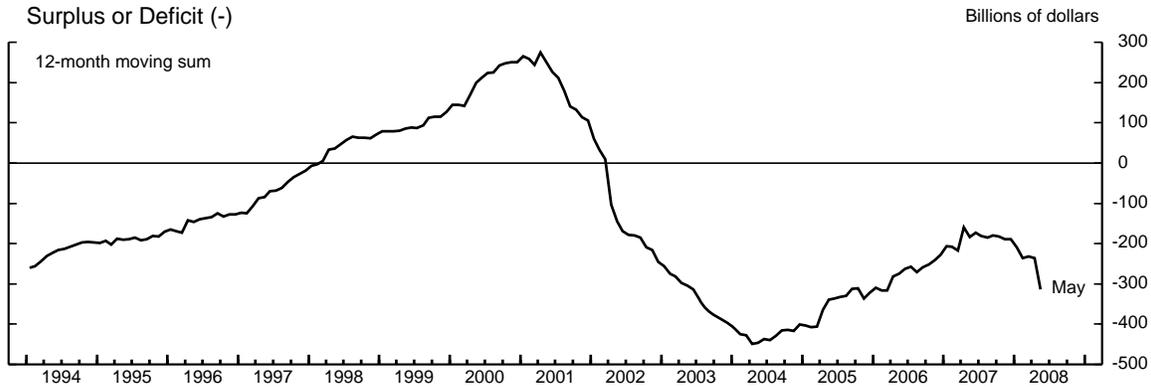
In contrast to the Census estimates, the staff's flow-of-goods inventory system suggests that the months' supply of inventories excluding motor vehicles and parts has moved up, on balance, since November. The recent rise in this measure has been fairly broad-based. Increases have been particularly evident in construction supplies and in materials.⁸

Federal Government Sector

The deficit in the unified federal budget continued to widen in April and May, as \$51 billion in stimulus rebates were sent out, tax receipts weakened with the slow pace of

⁸ Part of the substantial run-up in the flow-of-goods estimate of months' supply reflects weak domestic absorption, which appears in the denominator of these ratios. If inventories are instead compared with a measure of shipments that includes the large contribution of net exports, the recent run-up remains, although it is somewhat less striking.

Federal Government Budget
(Unified basis; adjusted for payment-timing shifts and financial transactions; data from Monthly Treasury Statement)



Recent Federal Outlays and Receipts
(Billions of dollars except as noted)

Function or source	April-May			12 months ending in May		
	2007	2008	Percent change	2007	2008	Percent change
Outlays	453.0	514.8	13.7	2,720.3	2,886.9	6.1
Net interest	44.7	38.4	-14.0	235.3	245.9	4.5
National defense	90.7	103.8	14.4	549.7	600.2	9.2
Major transfers ¹	253.8	298.8	17.7	1,495.6	1,595.0	6.6
Other	63.7	73.8	15.7	439.7	445.8	1.4
Receipts	547.9	528.0	-3.6	2,536.1	2,572.8	1.4
Individual income and payroll taxes	439.7	425.4	-3.3	1,944.7	2,009.5	3.3
Corporate income taxes	57.0	48.7	-14.5	380.9	337.5	-11.4
Other	51.2	53.9	5.2	210.5	225.9	7.3
Surplus or deficit (-)	94.9	13.2	...	-184.2	-314.1	...
Memo:						
Unadjusted surplus or deficit (-)	110.0	-6.6	...	-169.6	-332.5	...

1. Includes Social Security, Medicare, Medicaid, and income security programs.
... Not applicable.

economic activity, and outlays rose briskly.⁹ Adjusted for payment-timing shifts and financial transactions, the unified budget recorded a surplus in the tax-heavy months of April and May that was \$82 billion less than the adjusted surplus in the same period last year. Over the 12 months ending in May, the adjusted deficit was \$314 billion, or approximately 2¼ percent of nominal GDP.

With a substantial portion of the stimulus rebates distributed in April and May, total net tax receipts during those two months were 3½ percent lower than their year-earlier level. Excluding the stimulus rebates, individual income and payroll taxes were only 4 percent above their year-earlier level, likely reflecting the deceleration in personal income. The slowing in federal tax payments has been even more pronounced on the corporate side. In April (which includes corporations' first quarterly estimated payments on 2008 liabilities) and May, corporate tax receipts were 14½ percent below their year-earlier level, likely reflecting the decline in corporate profits since the middle of last year. According to daily Treasury data through June 16, corporate receipts in June, which are mostly firms' second quarterly estimated payments on 2008 liabilities, appear to be about 8 percent below the level of corporate payments last June.

Federal outlays in April and May, adjusted for payment-timing shifts and financial transactions, were 13¾ percent above their level in the comparable year-earlier period. Defense spending rose briskly in April and May relative to the year-earlier period, which points to a solid increase in real defense purchases in the second quarter as measured in the national income and product accounts. Transfer payments moved up smartly relative to a year ago, boosted in part by a portion of the stimulus rebates sent to households with little or no tax liability.¹⁰ And other outlays also were significantly above their year-earlier level, mostly because of an increase in the estimated subsidy cost of federal programs for housing loans and student loans.

State and Local Government Sector

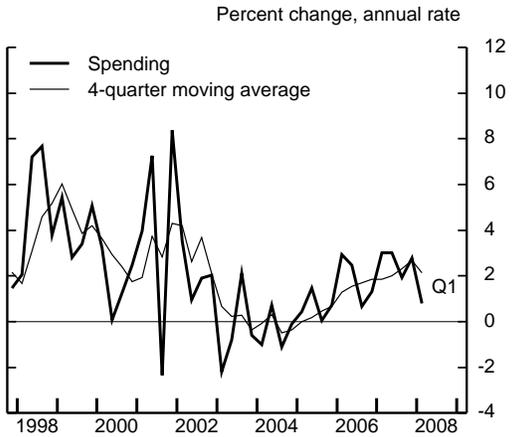
Incoming data suggest that real purchases by state and local governments continued to rise at a sluggish pace in the second quarter after barely edging up in the first quarter. Nominal construction spending, which fell sharply in the first quarter, was only ½ percent above its first-quarter average in April. Meanwhile, state and local employment

⁹ The Economic Stimulus Act of 2008 authorized about \$115 billion in stimulus rebates, with \$94 billion expected to be sent out by the end of July, another \$5 billion dispersed in the remainder of calendar year 2008, and around \$16 billion distributed during the tax-filing season in 2009.

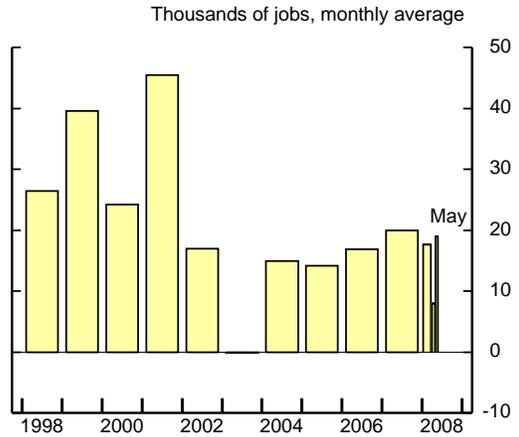
¹⁰ The amount of a rebate that exceeds a household's income tax liability counts as a transfer payment in the budget rather than as a tax refund.

State and Local Indicators

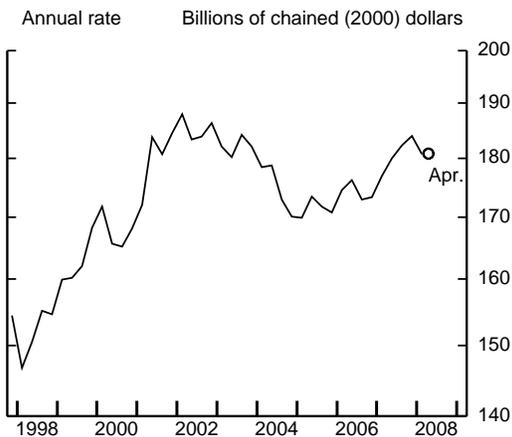
Real Spending on Consumption & Investment



Net Change in Employment

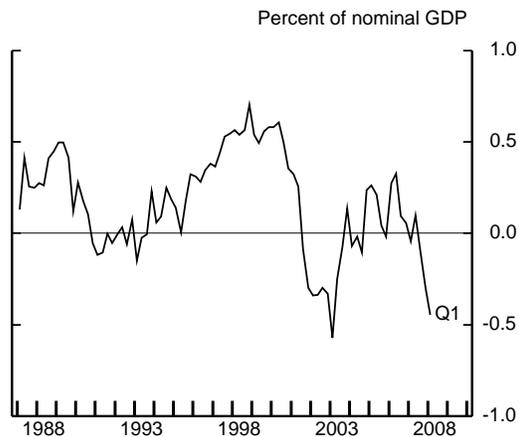


Real Construction

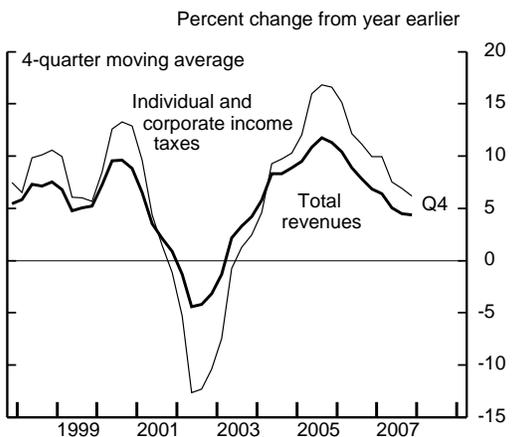


Note. Nominal CIPPI deflated by BEA prices through Q1 and by a staff projection thereafter.

Net Saving

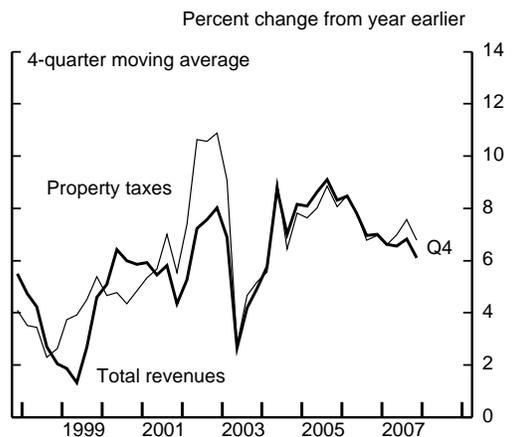


State Revenues



Source. Census Bureau.

Local Revenues



Source. Census Bureau.

increased by an average of 14,000 per month in April and May, slightly below the monthly pace of 18,000 new hires recorded in the first quarter.

Recent reports suggest that state governments' fiscal conditions have continued to erode with the slowing pace of economic activity. According to preliminary data collected by the Rockefeller Institute of Government, state governments' tax revenues rose at a tepid pace in the first quarter.¹¹ Sales tax receipts were lower than their year-earlier level in the majority of states, at least partly because of reported weakness in sales of housing-related items. According to the National Conference of State Legislators, growth in receipts has slowed more rapidly than expected by state officials when fiscal year 2008 budgets—which cover the period through June 30 for most states—were finalized last year. In addition, about half of the states are now projecting that revenues will be insufficient to cover the amount of spending currently planned in fiscal 2009 budgets; these states may have to scale back planned spending, raise taxes, or dip into reserve funds to meet their balanced-budget requirements.

Prices

Headline consumer price inflation has remained elevated in recent months, mostly because of large increases in food and energy prices. On the basis of the May data for the consumer price index (CPI) and producer price index (PPI), we estimate that overall PCE prices increased 0.5 percent in May, a rise that would push the three-month change to an annual rate of just over 4 percent. Furthermore, energy prices have only begun to reflect the recent surge in crude oil costs. By contrast, core consumer price inflation has remained relatively stable in recent months.

We estimate that consumer energy prices moved up 4½ percent in May after no change in April, as a jump in gasoline prices in May more than reversed April's decline in gas prices. Retail gasoline prices had been slow to adjust to the surge in prices for crude oil this spring, squeezing margins. However, in recent weeks margins have begun to recover to more typical levels, and current survey data point to larger increases in gasoline prices in June.¹² The path of futures prices suggests crude oil costs will remain near their currently high levels, and if margins continue to move back toward more typical levels, further sizable increases at the pump are likely this summer. Retail prices for natural gas

¹¹ The preliminary data are based on reports from 41 states, including the 12 largest.

¹² Gasoline inventories rose to quite high levels earlier this year, putting downward pressure on margins, and refiners responded by cutting back on production. Since then, gasoline inventories have run down considerably, which brought stocks to the lower end of their seasonal range, and refinery capacity utilization has begun to recover as the outlook for margins has improved.

Price Measures
(Percent change)

Measures	12-month change		3-month change		1-month change	
	May 2007	May 2008	Annual rate		Monthly rate	
			Feb. 2008	May 2008	Apr. 2008	May 2008
<i>CPI</i>						
Total	2.7	4.2	3.1	4.9	.2	.6
Food	3.9	5.1	4.7	6.2	.9	.3
Energy	4.7	17.4	7.6	28.2	.0	4.4
Ex. food and energy	2.2	2.3	2.3	1.8	.1	.2
Core goods	-.7	.1	.4	-.9	.0	-.1
Core services	3.4	3.2	3.1	2.9	.1	.3
Shelter	3.8	2.6	2.7	1.6	.0	.2
Other services	2.9	4.0	3.6	4.8	.3	.5
Chained CPI (n.s.a.) ¹	2.4	3.6	...	...	...	...
Ex. food and energy ¹	2.0	2.0	...	...	...	...
<i>PCE prices</i> ²						
Total	2.4	3.1	2.7	4.1	.2	.5
Food and beverages	3.6	4.9	4.8	5.8	.9	.3
Energy	4.6	12.2	7.4	28.5	-.1	4.5
Ex. food and energy	2.0	2.1	2.0	2.0	.1	.2
Core goods	-.8	-.2	1.1	-1.3	.0	-.2
Core services	3.2	3.1	2.3	3.2	.2	.3
Shelter	3.8	2.7	2.8	1.9	.1	.2
Other services	2.9	3.2	2.2	3.7	.2	.3
Core market-based	1.8	1.9	2.0	1.6	.1	.1
Core non-market-based	2.9	3.3	2.0	3.3	.2	.2
<i>PPI</i>						
Total finished goods	3.9	7.2	3.8	11.0	.2	1.4
Food	8.2	6.5	10.3	8.3	.0	.8
Energy	6.6	19.7	-2.9	34.7	-.2	4.9
Ex. food and energy	1.6	3.0	4.5	3.7	.4	.2
Core consumer goods	1.6	3.4	5.0	4.2	.4	.3
Capital equipment	1.6	2.3	3.5	2.7	.4	.1
Intermediate materials	3.8	12.6	8.6	27.7	.9	2.9
Ex. food and energy	3.0	7.4	6.0	18.5	1.2	2.0
Crude materials	11.3	41.5	40.1	100.9	3.2	6.7
Ex. food and energy	9.0	33.0	43.5	89.1	7.9	5.0

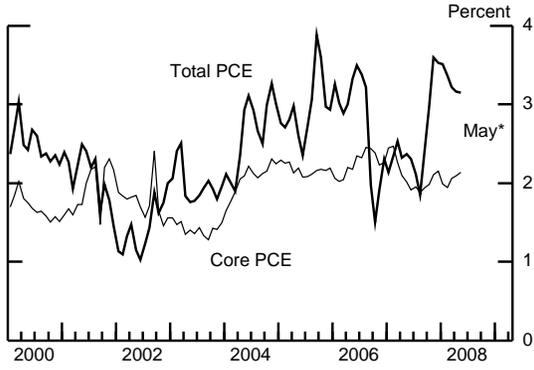
1. Higher-frequency figures are not applicable for data that are not seasonally adjusted.

2. PCE prices in May 2008 are staff estimates.

... Not applicable.

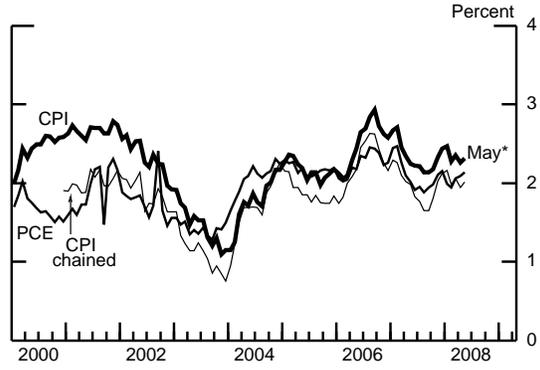
Consumer Prices (12-month change except as noted)

PCE Prices



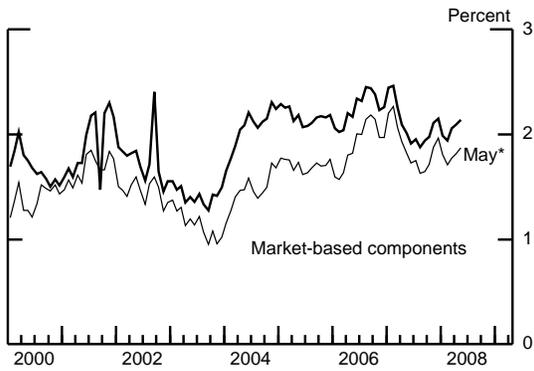
* Staff estimate.

CPI and PCE ex. Food and Energy



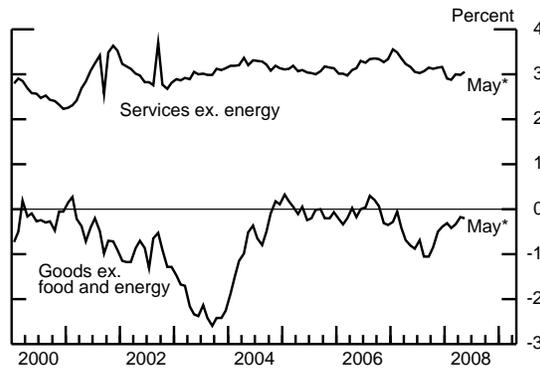
* PCE for May is a staff estimate.

PCE excluding Food and Energy



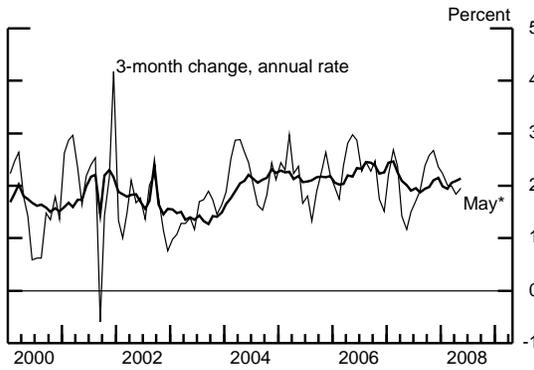
* Staff estimate.

PCE Goods and Services



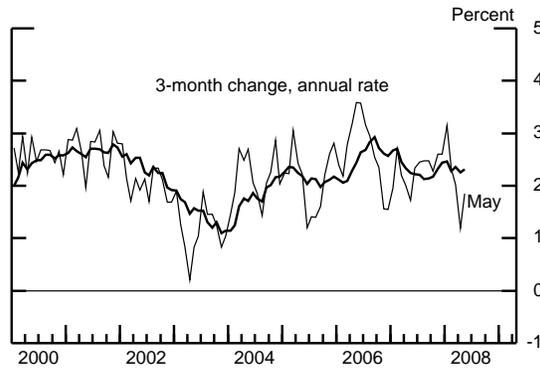
* Staff estimate.

PCE excluding Food and Energy



* Staff estimate.

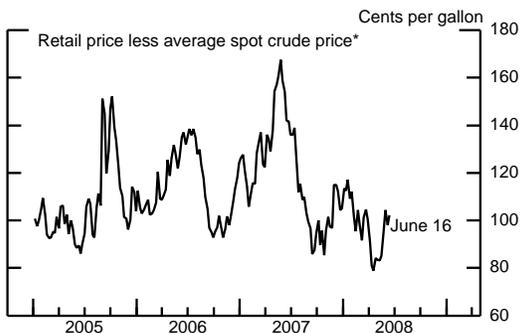
CPI excluding Food and Energy



Energy and Food Price Indicators

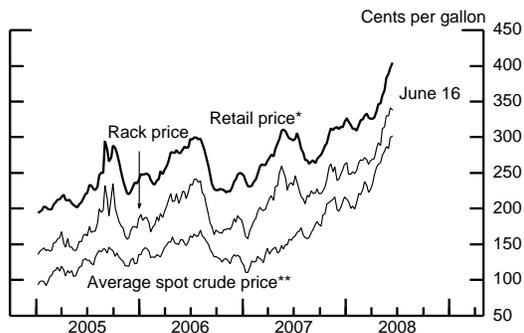
(Data from Energy Information Administration except as noted)

Total Gasoline Margin



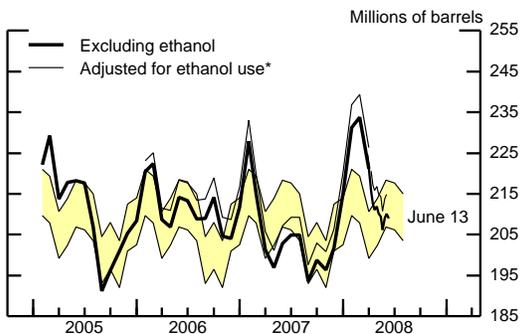
* Regular grade seasonally adjusted by FRB staff, less average spot crude price: 60% WTI, 40% Maya heavy crude. Includes gasoline taxes.

Gasoline Price Decomposition



* Regular grade seasonally adjusted by FRB staff.
** 60% WTI, 40% Maya heavy crude.

Gasoline Inventories



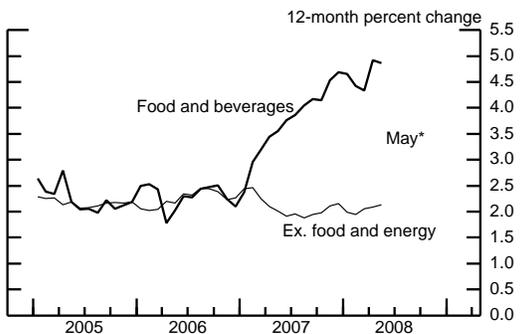
Note. Shaded region is average historical range as calculated by DOE. Monthly data through March 2008, weekly data thereafter, as indicated by line weights.
* Adjustment for approximate amount of fuel ethanol to be blended with RBOB component of inventories; estimated by FRB staff.

Ethanol Prices



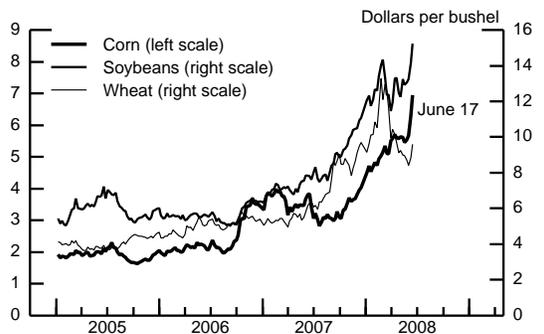
Source. Chicago Board of Trade.

PCE Food Prices



*Staff estimate.
Source. Bureau of Economic Analysis.

Spot Agricultural Commodity Prices



Source. Commodity Research Bureau.

and electricity rates have posted hefty gains in recent months in response to the surge in crude energy costs, and spot prices for natural gas set at Henry Hub have climbed further in recent weeks. All told, retail energy prices have risen more than 12 percent over the 12 months ending in May, much more than their increase over the preceding year.

PCE food prices are estimated to have risen 0.3 percent in May after having increased 0.9 percent in April, putting the estimated annualized three-month change through May at nearly 6 percent. Most spot prices for farm crops have increased further since the April Greenbook. Although wheat prices have edged down 1 percent in response to early reports of plentiful yields for U.S. winter wheat, corn and soybean prices have climbed further in response to wet weather and flooding in some Midwest growing areas. Livestock prices have also moved up in recent weeks, partly reflecting stronger demand from abroad. Even so, futures prices for farm products remain consistent with a significant deceleration in crude food costs later this year.

Excluding food and energy, PCE prices are estimated to have increased 0.2 percent in May after a rise of 0.1 percent in April. Over the 12 months ending in May, core PCE prices are estimated to have risen 2.1 percent, up slightly from a year earlier. While prices of goods and some services have accelerated over the past year—likely boosted by rising import prices and energy costs—the indexes for housing and medical services have decelerated.

Some measures of near-term inflation expectations have risen sharply in the past couple of months, while measures of longer-term expectations have ranged from unchanged to up slightly. In the Reuters/Michigan survey, the median expectation for inflation over the next 12 months continued its upward climb in May as participants reported concerns over food and energy price increases; median expectations were 5.1 percent in the June preliminary report, about the same as in May. Median expectations for inflation over the next 5 to 10 years moved higher, to 3.4 percent, in May and remained at that level in June; this figure is the highest reading since 1995. According to the Survey of Professional Forecasters, four-quarter-ahead CPI inflation expectations increased 0.3 percentage point in the second quarter, while inflation expectations over the next 10 years were unchanged. Five-year inflation compensation derived from Treasury inflation-protected securities (TIPS) moved up further over the intermeeting period to 2.4 percent, about 25 basis points higher than at the beginning of the year. Inflation compensation 5 to 10 years ahead was roughly flat over the intermeeting period and has only edged up, on balance, from its value at the turn of the year.

Broad Measures of Inflation
(Percent change, Q1 to Q1)

Measure	2005	2006	2007	2008
<i>Product prices</i>				
GDP price index	3.3	3.2	2.9	2.2
Less food and energy	3.3	3.1	2.9	1.9
Nonfarm business chain price index	3.3	3.3	2.3	1.5
<i>Expenditure prices</i>				
Gross domestic purchases price index	3.5	3.6	2.6	3.2
Less food and energy	3.2	2.9	2.8	2.0
PCE price index	2.8	3.1	2.3	3.4
Less food and energy	2.3	2.0	2.4	2.0
PCE price index, market-based components	2.4	2.9	2.2	3.4
Less food and energy	1.8	1.6	2.2	1.8
CPI	3.0	3.7	2.4	4.2
Less food and energy	2.3	2.1	2.6	2.4
Chained CPI	2.6	3.2	2.2	3.7
Less food and energy	2.1	1.9	2.2	2.1
Median CPI	2.5	2.7	3.2	3.1
Trimmed mean CPI	2.4	2.6	2.7	2.9
Trimmed mean PCE	2.5	2.4	2.7	2.3

Surveys of Inflation Expectations
(Percent)

Period	Actual CPI inflation ¹	Reuters/Michigan Survey				Professional forecasters (10 years) ⁴	
		1 year ²		5 to 10 years ³		CPI	PCE
		Mean	Median	Mean	Median		
2006:Q3	3.3	4.0	3.4	3.3	3.0	2.5	...
Q4	1.9	3.5	3.0	3.5	3.0	2.5	...
2007:Q1	2.4	3.6	3.0	3.4	2.9	2.4	2.0
Q2	2.7	4.2	3.3	3.5	3.0	2.4	2.0
Q3	2.4	4.1	3.2	3.5	3.0	2.4	2.1
Q4	4.0	4.1	3.3	3.3	2.9	2.4	2.1
2008:Q1	4.1	4.2	3.8	3.3	3.0	2.5	2.2
Q2	n.a.	6.4	5.0	3.8	3.3	2.5	2.2
2008:Feb.	4.0	3.9	3.6	3.4	3.0	2.5	2.2
Mar.	4.0	4.6	4.3	3.2	2.9	...	...
Apr.	3.9	5.7	4.8	3.5	3.2	...	...
May	4.2	7.0	5.2	4.0	3.4	2.5	2.2
June	n.a.	6.6	5.1	3.9	3.4	...	...

1. 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 12 months?

3. Responses to the question, By about what percent per year do you expect prices to go up, on average, during the next 5 to 10 years?

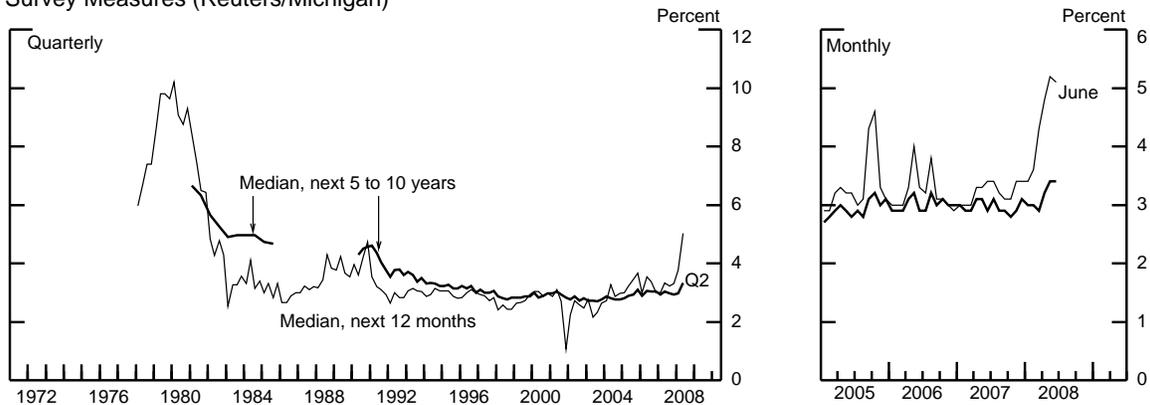
4. Median CPI and PCE price projections compiled by the Federal Reserve Bank of Philadelphia.

... Not applicable.

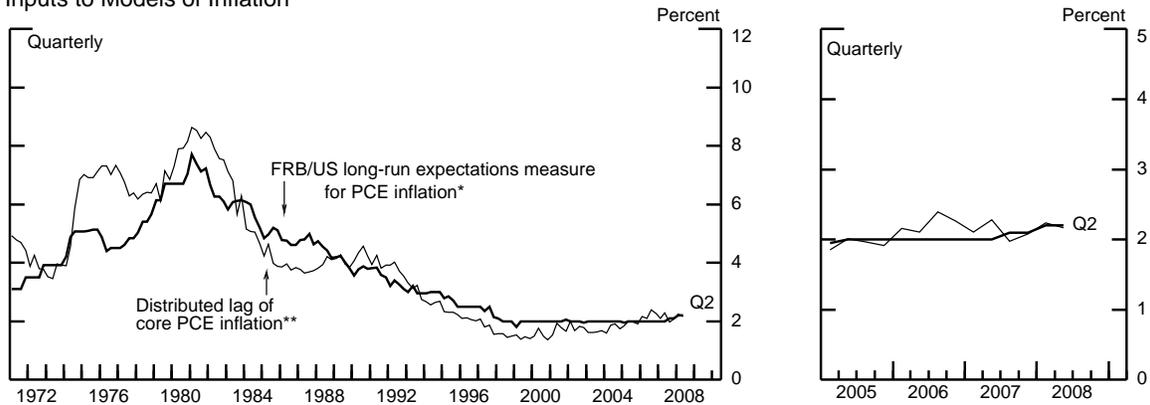
n.a. Not available.

Measures of Expected Inflation

Survey Measures (Reuters/Michigan)



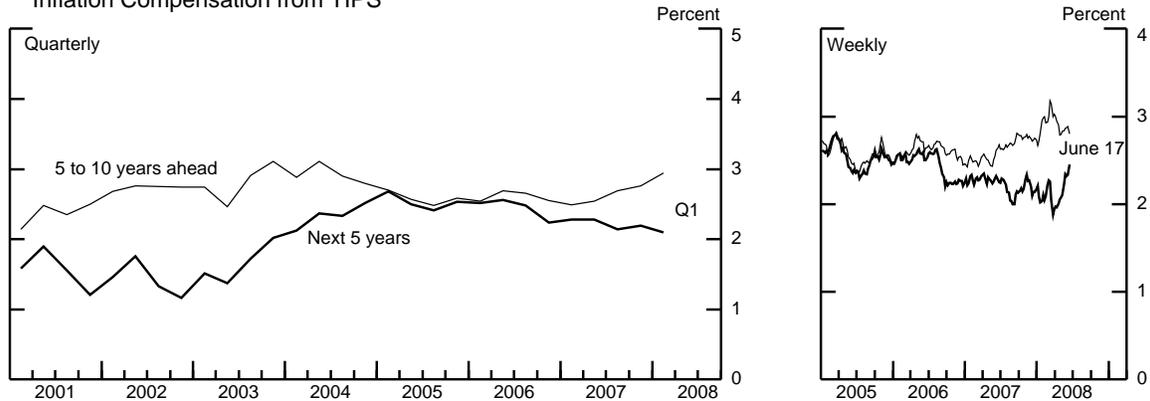
Inputs to Models of Inflation



*For 2007 forward, the median projection for PCE inflation over the next 10 years from the Survey of Professional Forecasters (SPF); for 1991 to 2006, the equivalent SPF projection for the CPI; for 1981 to 1991, a related survey for the CPI conducted by Richard Hoey; and for the period preceding 1981, a model-based estimate constructed by Board staff. The survey data before 2007 are adjusted down 0.5 percentage point to put the CPI projections approximately on a PCE basis.

**Derived from one of the reduced-form Phillips curves used by Board staff.

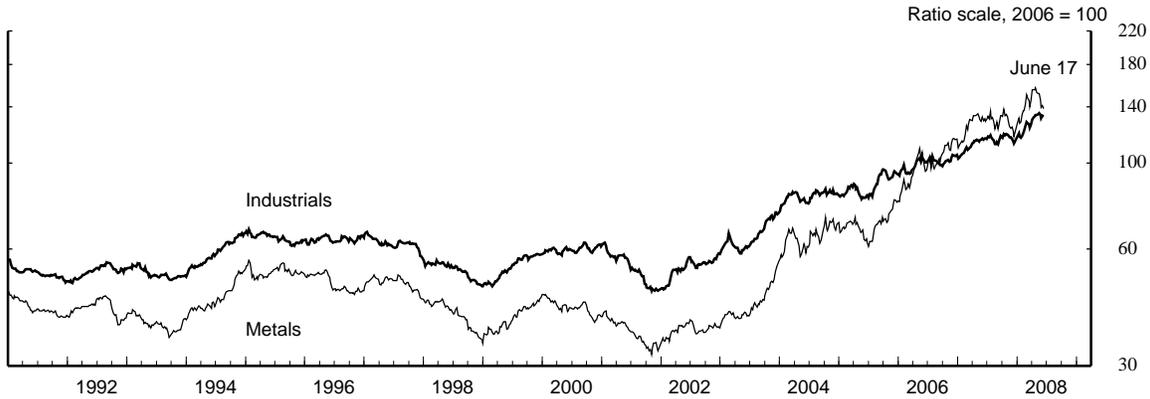
Inflation Compensation from TIPS



Note. Based on a comparison of an estimated TIPS yield curve with an estimated nominal off-the-run Treasury yield curve, with an adjustment for the indexation-lag effect.

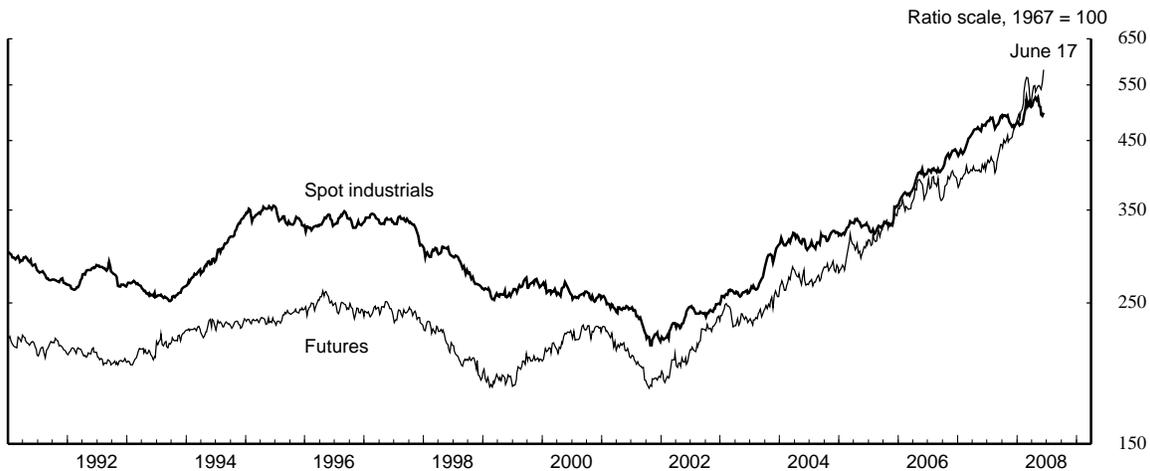
Commodity Price Indexes

Journal of Commerce



Note. The *Journal of Commerce* (JOC) industrial price index is based almost entirely on industrial commodities, with a small weight given to energy commodities. Copyright for *Journal of Commerce* data is held by CIBCR, 1994.

Commodity Research Bureau



Note. The Commodity Research Bureau (CRB) spot industrials 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.

Selected Commodity Price Indexes (Percent change)

Index	2007 ¹	12/18/07 to 4/22/08 ²	4/22/08 ² to 6/17/08	52-week change to 6/17/08
JOC industrials	7.6	17.6	.2	14.2
JOC metals	2.1	31.9	-10.7	6.1
CRB spot industrials	8.2	10.8	-4.8	4.5
CRB spot foodstuffs	25.5	17.4	7.1	31.3
CRB futures	18.2	17.5	5.8	40.6

1. From the last week of the preceding year to the last week of the year indicated.
2. April 22, 2008, is the Tuesday preceding publication of the April Greenbook.

Excluding food and energy, prices at earlier stages of processing rose rapidly through May but have eased a bit in recent weeks. The PPI for core intermediate materials advanced 2.0 percent in May following a string of large monthly increases, bringing the three-month change to an annual rate of 18½ percent. Price increases were widespread across materials but were particularly marked for metal products and energy-intensive categories, such as chemicals and plastics. The PPIs for rail transportation, trucking, and delivery services also posted sizable increases in May.

In recent weeks, spot prices for a number of metals have partly retraced their large increases of earlier in the year. The *Journal of Commerce* (JOC) metals index has declined about 11 percent since its peak in April and now stands only 6 percent above its year-earlier level. As a result, the Commodity Research Bureau's spot index of industrial materials has declined 4¾ percent since the April Greenbook, whereas the JOC index of industrial materials, which includes energy products, is unchanged on balance.

Labor Costs

Despite higher overall consumer price inflation, hourly compensation has continued to rise at a moderate pace. The employment cost index for private-industry workers rose at an annual rate of 3 percent over the three months ending in March, in line with its average over the previous three years. Wages and salaries rose at an annual rate of 3.4 percent during this period, and benefits costs rose at a rate of 2.3 percent—both about the same as in 2007. And nonproduction bonuses in the three months ending in March also rose at about the same rate as in 2007, despite reports that Wall Street bonuses would be smaller this year.

The staff estimates that nonfarm compensation per hour increased at an annual rate of nearly 5 percent in the first quarter and has risen 4 percent over the past four quarters, down somewhat from its 5 percent pace a year earlier.¹³ With the notable pickup in productivity growth, unit labor costs decelerated markedly over the past year.

Turning to the available data for the current quarter, average hourly earnings increased 0.1 percent in April and 0.3 percent in May, bringing the 12-month change ending in May to 3½ percent, about ½ percentage point below its year-earlier increase.

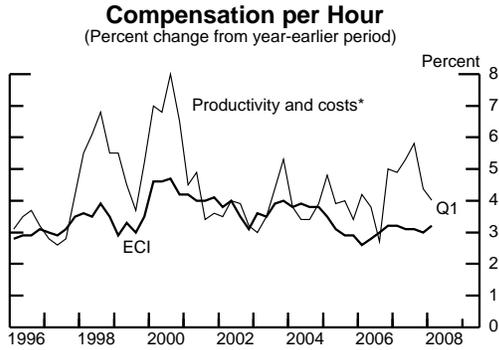
¹³ The BEA's upward revision to wages and salaries in the fourth quarter boosted the Bureau of Labor Statistics' estimated increase in compensation per hour in the nonfarm business sector to an annual rate of 6.6 percent, compared with the 4.7 percent estimate reported previously.

Hourly Compensation and Unit Labor Costs

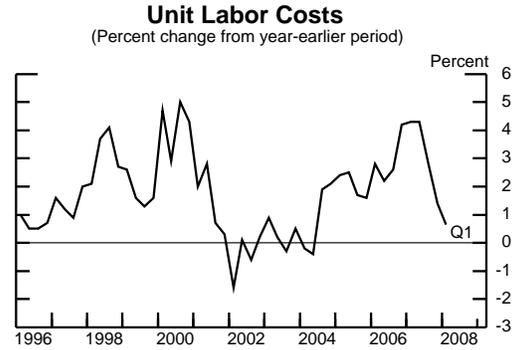
(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

Category	2006:Q1 to 2007:Q1	2007:Q1 to 2008:Q1 ^e	2007			2008
			Q2	Q3	Q4	Q1 ^e
<i>Compensation per hour</i> Nonfarm business	4.9	4.0	1.3	3.3	6.6	4.9
<i>Unit labor costs</i> Nonfarm business	4.3	.6	-1.3	-2.5	4.7	2.0

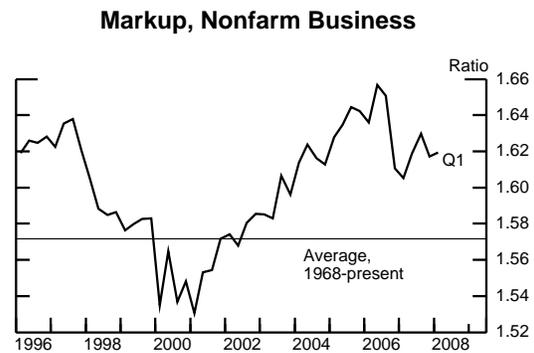
e Staff estimate.



* Value for 2008:Q1 is a staff estimate.



* Value for 2008:Q1 is a staff estimate.



Note. The markup is the ratio of output price to unit labor costs. Value for 2008:Q1 is a staff estimate.

Domestic Financial Developments

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

Instrument	2007	2008			Change to June 17 from selected dates (percentage points)		
	Aug. 6	Jan. 31	Apr. 29	June 17	2007 Aug. 6	2008 Jan. 31	2008 Apr. 29
<i>Short-term</i>							
FOMC intended federal funds rate	5.25	3.00	2.25	2.00	-3.25	-1.00	-.25
Treasury bills ¹							
3-month	4.74	1.92	1.44	1.96	-2.78	.04	.52
6-month	4.72	2.02	1.70	2.27	-2.45	.25	.57
Commercial paper (A1/P1 rates) ²							
1-month	5.26	2.95	2.50	2.40	-2.86	-.55	-.10
3-month	5.29	2.98	2.83	2.84	-2.45	-.14	.01
Large negotiable CDs ¹							
3-month	5.34	3.01	2.84	2.80	-2.54	-.21	-.04
6-month	5.27	2.93	2.98	3.22	-2.05	.29	.24
Eurodollar deposits ³							
1-month	5.33	3.15	2.90	2.70	-2.63	-.45	-.20
3-month	5.35	3.15	3.15	3.05	-2.30	-.10	-.10
Bank prime rate	8.25	6.00	5.25	5.00	-3.25	-1.00	-.25
<i>Intermediate- and long-term</i>							
U.S. Treasury ⁴							
2-year	4.49	2.16	2.28	2.90	-1.59	.74	.62
5-year	4.52	2.83	3.11	3.68	-.84	.85	.57
10-year	4.82	3.86	4.04	4.45	-.37	.59	.41
U.S. Treasury indexed notes ⁵							
5-year	2.43	.68	1.10	1.24	-1.19	.56	.14
10-year	2.48	1.35	1.71	1.86	-.62	.51	.15
Municipal general obligations (Bond Buyer) ⁶	4.51	4.39	4.68	4.59	.08	.20	-.09
Private instruments							
10-year swap	5.44	4.23	4.39	4.92	-.52	.69	.53
10-year FNMA ⁷	5.34	4.28	4.53	5.06	-.28	.78	.53
10-year AA ⁸	6.12	5.62	6.01	6.49	.37	.87	.48
10-year BBB ⁸	6.57	6.39	6.82	7.07	.50	.68	.25
10-year high yield ⁸	9.21	9.80	9.80	9.91	.70	.11	.11
Home mortgages (FHLMC survey rate) ⁹							
30-year fixed	6.59	5.68	6.06	6.32	-.27	.64	.26
1-year adjustable	5.65	5.05	5.29	5.09	-.56	.04	-.20

Stock exchange index	Record high		2008			Change to June 17 from selected dates (percent)		
	Level	Date	Jan. 31	Apr. 29	June 17	Record high	2008 Jan. 31	2008 Apr. 29
Dow Jones Industrial	14,165	10-9-07	12,650	12,832	12,160	-14.15	-3.87	-5.23
S&P 500 Composite	1,565	10-9-07	1,379	1,391	1,351	-13.69	-2.00	-2.88
Nasdaq	5,049	3-10-00	2,390	2,426	2,458	-51.32	2.84	1.30
Russell 2000	856	7-13-07	713	719	737	-13.93	3.26	2.45
Wilshire 5000	15,807	10-9-07	13,897	14,033	13,841	-12.44	-4.0	-1.37

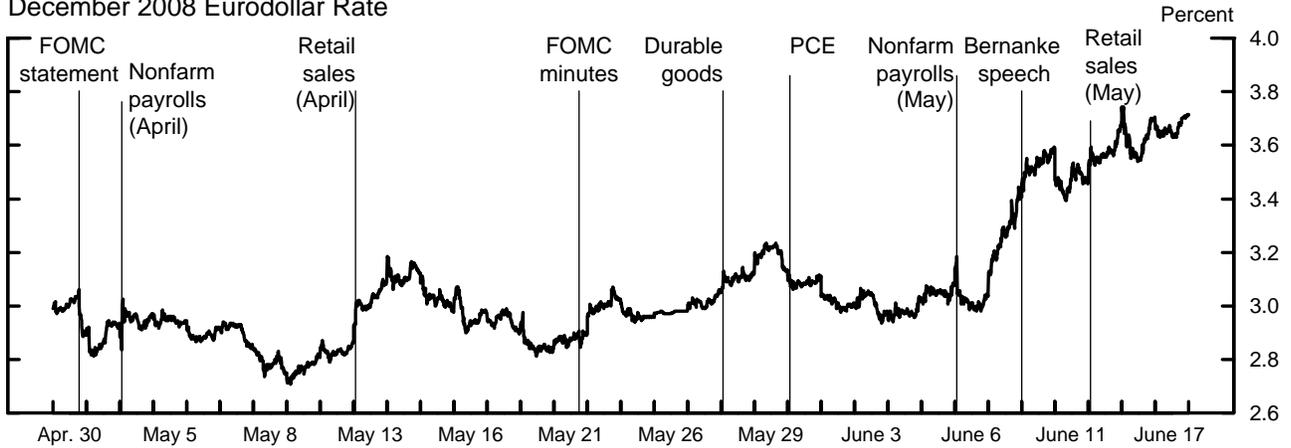
1. Secondary market.
2. Financial commercial paper.
3. Bid rates for Eurodollar deposits collected around 9:30 a.m. eastern time.
4. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
5. Derived from a smoothed Treasury yield curve estimated using all outstanding securities and adjusted for the carry effect.
6. Most recent Thursday quote.
7. Constant-maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
8. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.
9. Home mortgage rates for June 17, 2008, are for the week ending June 12, 2008.

NOTES:

August 6, 2007, is the day before the August 2007 FOMC meeting.
January 31, 2008, is the day after the January 2008 FOMC meeting.
April 29, 2008, is the day before the most recent FOMC monetary policy announcement.

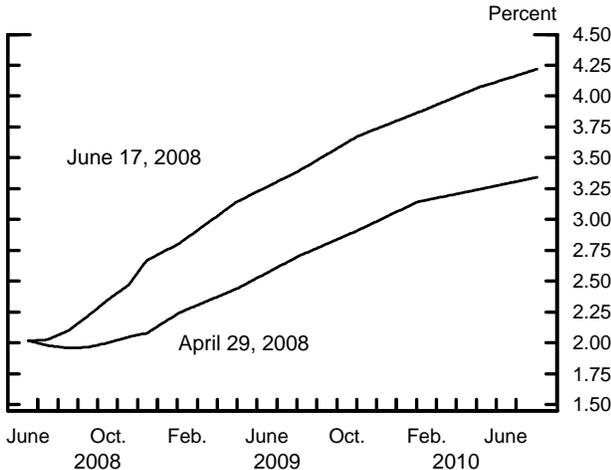
Policy Expectations and Treasury Yields

December 2008 Eurodollar Rate



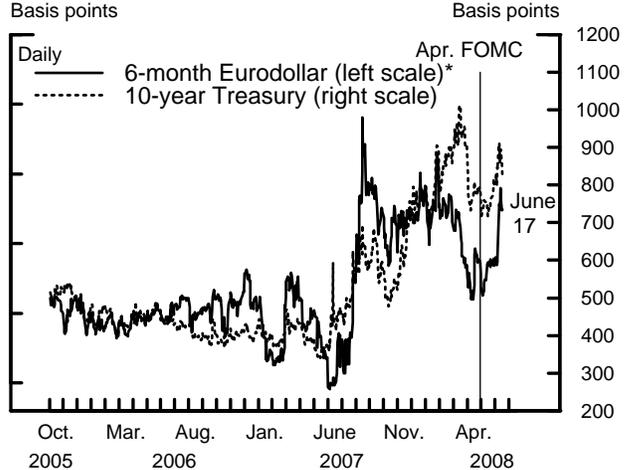
Note. 5-minute intervals. 8:00 a.m. to 4:00 p.m. No adjustments for term premiums.

Implied Federal Funds Rate



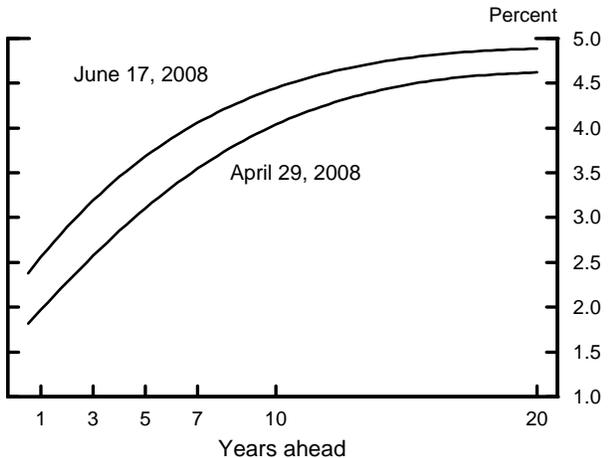
Note. Estimated from federal funds and Eurodollar futures, with an allowance for term premiums and other adjustments.

Implied Volatility of Interest Rates



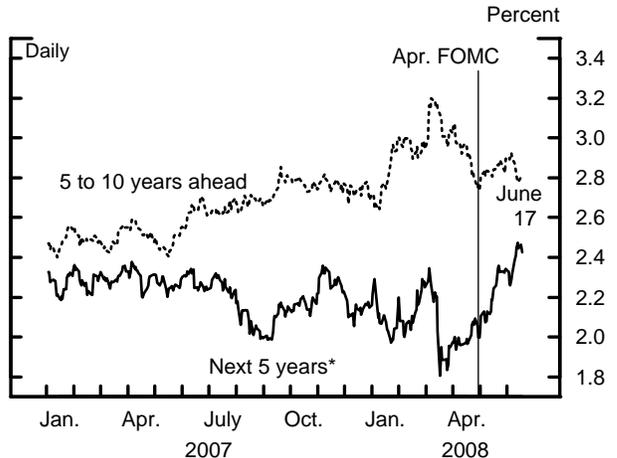
*Width of a 90 percent confidence interval computed from the term structures for the expected federal funds rate and implied volatility.

Treasury Yield Curve



Note. Smoothed yield curve estimated from off-the-run Treasury coupon securities. Yields shown are those on notional par Treasury securities with semiannual coupons.

Inflation Compensation



Note. Estimates based on smoothed nominal and inflation-indexed Treasury yields.

*Adjusted for lagged indexing of TIPS.

Domestic Financial Developments

Overview

Over the intermeeting period, investors marked up considerably the expected path of policy in response to generally stronger-than-expected economic data and growing concerns about the outlook for inflation, and market quotes now place substantial odds on policy tightening in the next few months. Nominal Treasury yields rose sharply, apparently as a result of wider term premiums as well as the upward shift in policy expectations. Real yields rose by less than their nominal counterparts, and inflation compensation jumped at relatively short horizons, likely reflecting the expected effects of surging oil prices. Five-year-forward inflation compensation was little changed.

Strains in short-term funding markets appeared to ease a bit over the intermeeting period, reflecting in part substantial credit extended under the Federal Reserve's ongoing liquidity facilities. In the corporate bond market, credit spreads narrowed slightly, and gross bond issuance surged in May. Equity prices edged down, on net, over the intermeeting period, as the surge in oil prices and a more pessimistic outlook for earnings in the financial sector weighed on the market. Financial firms issued a large amount of equity shares, continuing their recapitalization efforts. Banks again registered weak profits in the first quarter because of elevated loan-loss provisions, and asset quality in nearly all major loan categories deteriorated further. Household debt growth slowed again in the first quarter, and the performance of both home mortgages and other household loans continued to worsen.

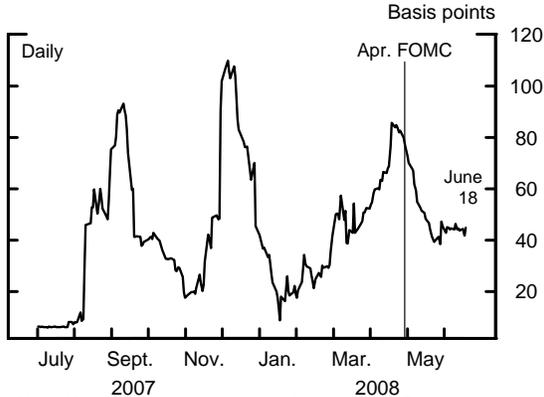
Policy Expectations and Treasury Yields

The expected path for the federal funds rate rose notably over the intermeeting period. The decision at the April FOMC meeting to lower the federal funds rate by 25 basis points prompted a modest decline in federal funds futures rates, but these declines were subsequently more than reversed, as incoming data were generally firmer than expected, and speeches by Federal Reserve officials were interpreted as emphasizing concerns about the outlook for inflation, especially in light of sharply rising energy prices.

Market participants currently place high odds on the Committee leaving the target federal funds rate unchanged at 2 percent at the June meeting but also assign some probability to a policy tightening at the upcoming meeting. Futures markets have priced in nearly 50 basis points of rate increases by the October meeting, and they imply cumulative policy tightening of about 200 basis points over the coming two years, 85 basis points more than was expected at the time of the last FOMC meeting. In contrast, the Desk's survey of primary dealers indicates that most expect the federal funds rate to remain

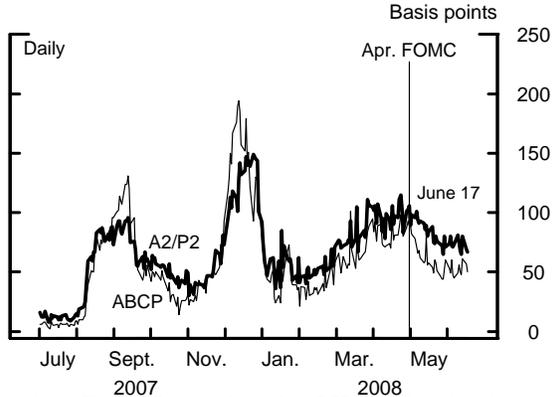
Short-Term Funding and Interbank Markets

Spread between 30-Day Libor and OIS Rates



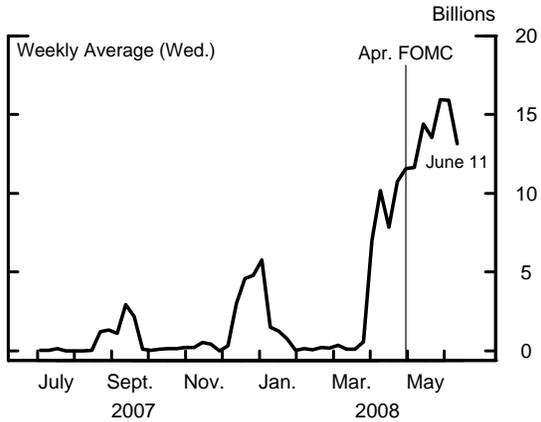
Note. Libor quotes are taken at 6:00 a.m., and OIS quotes are observed at the close of business of the previous trading day.

Spreads on 30-Day Commercial Paper

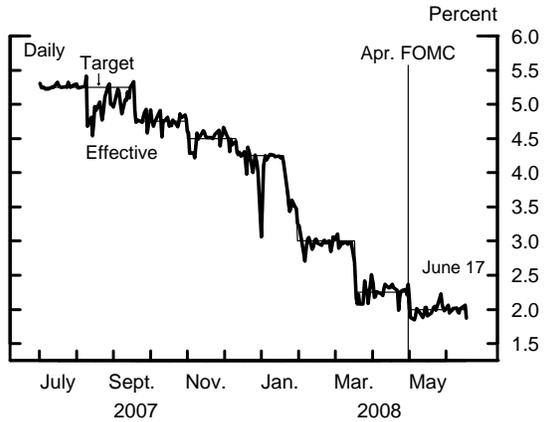


Note. The ABCP spread is the AA ABCP rate minus the AA nonfinancial rate. The A2/P2 spread is the A2/P2 nonfinancial rate minus the AA nonfinancial rate.

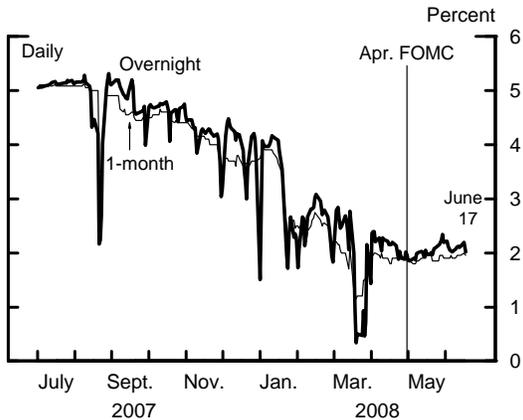
Primary Credit Borrowing



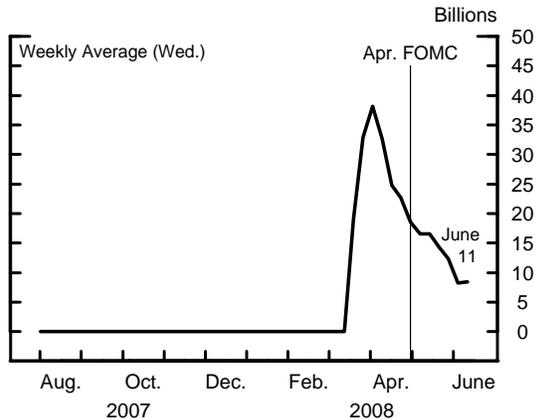
Federal Funds Rates



Treasury Repo Rates for General Collateral



Primary Dealer Credit Facility



unchanged through the first quarter of 2009 and to reach 2.75 percent by the end of that year, implying about 100 basis points less tightening than is priced in by market participants. The distribution of the federal funds rate six months ahead became a bit more skewed toward higher rates, and option-implied measures of uncertainty about policy rates six months to two years ahead increased noticeably.

The yield on nominal 2-year Treasury securities rose 62 basis points, on net, owing to the shift in policy expectations and an apparent increase in term premiums. Most of the increase in nominal yields occurred in intervals around data releases and speeches by FOMC members. Meanwhile, yields on 5-year and 10-year nominal Treasury securities moved up about 55 and 40 basis points, respectively.

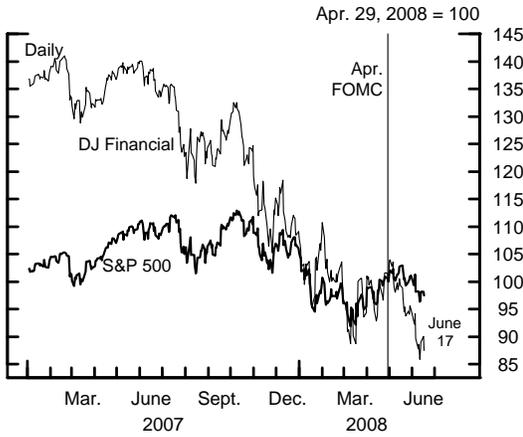
Real yields rose much less, implying a rise in inflation compensation. The increase in inflation compensation was concentrated at very short horizons and likely was mainly due to the expected effects of the substantial increase in oil prices since the April meeting. Survey evidence also suggests that higher expectations of, and uncertainty about, inflation likely contributed to the rise in inflation compensation at short to medium horizons. All told, inflation compensation over the next five years increased about 40 basis points, while five-year-forward inflation compensation was little changed on net.

Money Market Functioning

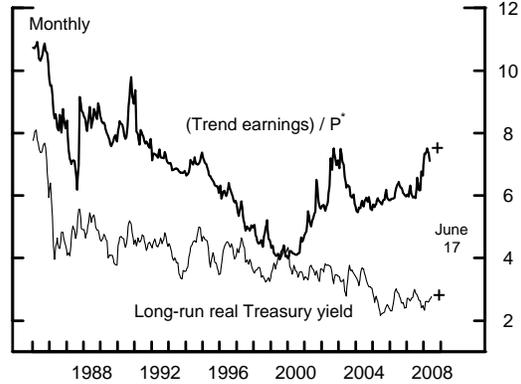
Over the intermeeting period, strains in some short-term funding markets appeared to ease a bit. Notably, spreads of one- and three-month Libor over comparable-maturity overnight index swap (OIS) rates narrowed about 35 and 20 basis points, respectively, on net. For longer maturities, however, liquidity remained thin, and corresponding term Libor spreads over OIS were little changed on balance. Spreads on 30-day A2/P2 nonfinancial commercial paper and asset-backed commercial paper (ABCP) also declined. The Federal Reserve's liquidity programs may have helped to ease short-term strains. Primary credit outstanding—both overnight and term—continued to increase, presumably due in part to the narrow spread of the primary credit rate over the federal funds rate and the ability of depository institutions to borrow for longer terms. Offerings at the Term Auction Facility in May and June were fully subscribed; however, with a significantly increased amount offered, the stop-out rates were lower than those in earlier months and often well below one-month Libor. Some quarter-end pressures were evident in short-term interest rates late in the intermeeting period, but anecdotally, market participants are not especially concerned about their ability to obtain funding over the end of the quarter.

Corporate Yields, Risk Spreads, and Stock Prices

Selected Stock Price Indexes

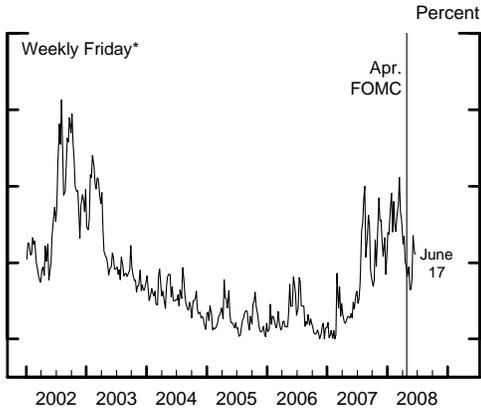


Ratio of Trend Earnings to Price for S&P 500 and Long-Run Treasury Yield



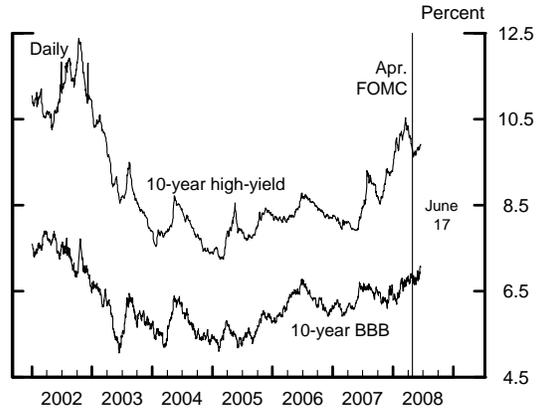
* Trend earnings are estimated using analysts' forecasts of year-ahead earnings from I/B/E/S.
 + Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.

Implied Volatility on S&P 500 (VIX)



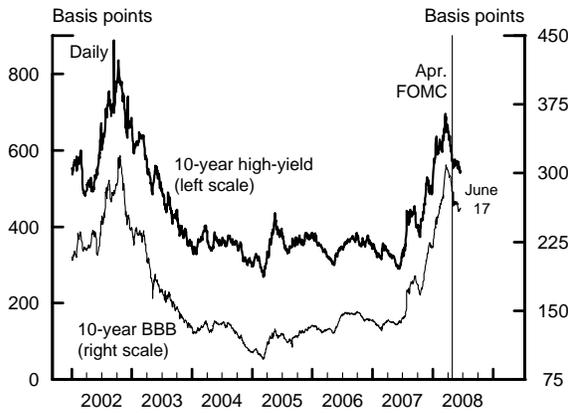
* Latest observation is for most recent business day.

Corporate Bond Yields



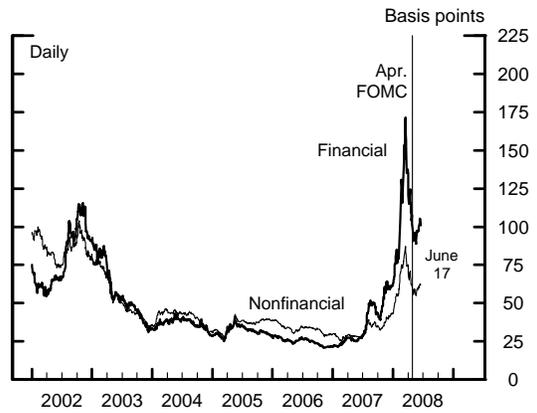
Note: Yields from smoothed yield curves based on Merrill Lynch bond data.

Corporate Bond Spreads



Note: Measured relative to comparable-maturity Treasuries.

Investment-Grade CDS Indexes



Conditions in the Treasury general collateral (GC) repo and bill markets generally remained healthy. Functioning in these markets was likely supported, in part, by further sales of Treasury securities from the System Open Market Account portfolio and the substantial amount of Treasury securities lent through the Term Security Lending Facility (TSLF). Of the seven TSLF auctions held during the intermeeting period, only the most recent one, on June 12, received bids that exceeded the amount on offer. The modest demand at these auctions likely reflects some improvements in dealers' access to financing. The renewed interest at the most recent auction reportedly reflected liquidity demands in advance of the upcoming quarter-end. For lower-quality collateral, market functioning remained impaired, with median haircuts on non-Treasury and non-agency collateral only a touch below the very elevated levels seen earlier in the spring. On balance, however, dealers appeared able to secure funding from market sources, and lending through the Primary Dealer Credit Facility (PDCF) decreased, although a few institutions have continued to access the PDCF regularly.

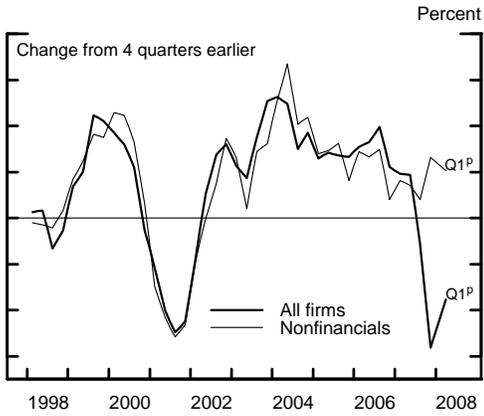
Stock Prices and Corporate Interest Rates

Broad stock price indexes fell 1 percent to 3 percent, on net, over the intermeeting period, as the effect of generally positive economic data releases was outweighed by higher oil prices and increased concerns about the earnings outlook for the financial sector. As a result, stocks of securities broker-dealers and banks markedly underperformed the broader market. The spread between the 12-month-forward trend earnings-to-price ratio for S&P 500 firms and a real long-term Treasury yield--a rough gauge of the equity risk premium--ticked up to the high end of its range over the past two decades. Option-implied volatility on the S&P 500 index seesawed over the intermeeting period but is little changed on net.

Yields on BBB-rated and speculative-grade corporate bonds rose less than those on comparable-maturity Treasury securities, leaving their spreads somewhat lower over the intermeeting period. Both indexes of corporate bond spreads stayed substantially below their peaks in March but remained elevated by historical standards. Despite the sharp decline in equity prices for the financial sector, credit default swap (CDS) indexes for this sector rose only moderately, on balance, an indication that market concerns about default risk did not worsen appreciably. Estimated bid-asked spreads (not shown) suggest that the secondary market for corporate bonds continued to function well. In the secondary market for leveraged syndicated loans, conditions improved somewhat, and the average bid-asked spread narrowed about 25 basis points.

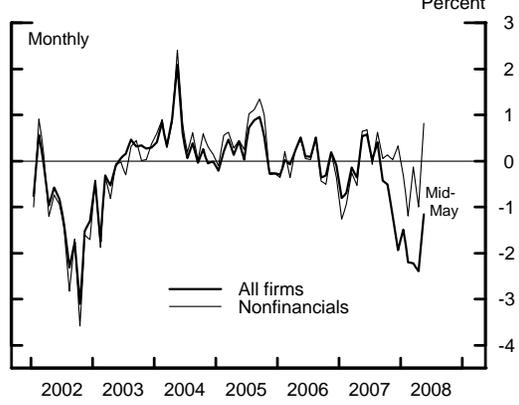
Corporate Earnings and Credit Quality

S&P 500 Earnings Per Share



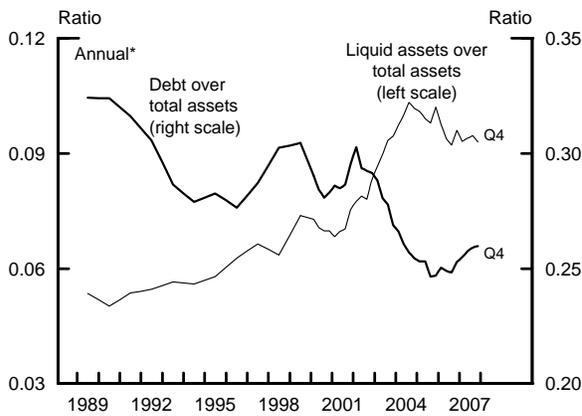
p Preliminary.
Source: I/B/E/S for S&P 500 earnings per share.

Revisions to Expected S&P 500 Earnings



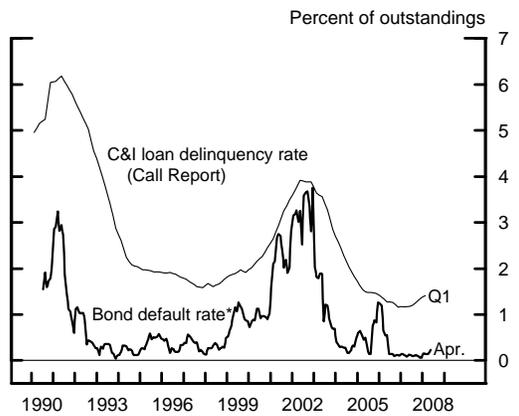
Note: Index is a weighted average of the percent change in the consensus forecasts of current-year and following-year EPS for a fixed sample.

Financial Ratios for Nonfinancial Corporations



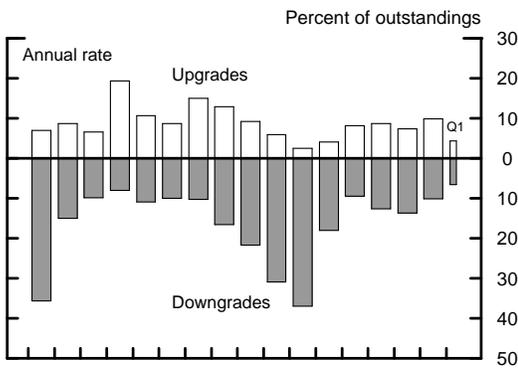
* Data are quarterly starting in 2000:Q1.
Source: Calculated with Compustat data.

Selected Default and Delinquency Rates



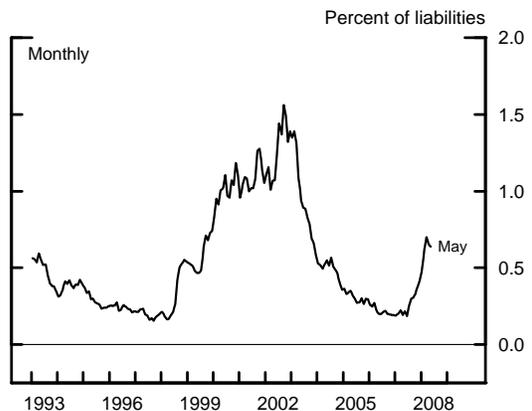
* 6-month moving average, from Moody's Investors Service.

Bond Ratings Changes of Nonfinancial Companies



Source: Calculated with data 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, excluding defaulted firms.
Source: Moody's KMV.

Corporate Earnings and Credit Quality

With nearly all company reports for the first quarter in hand, earnings per share for S&P 500 firms are estimated to have fallen 18 percent from the year-earlier level, less than the 25 percent drop in the fourth quarter. Write-downs and provisioning by financial firms accounted for most the weakness in both quarters. In contrast, earnings per share for nonfinancial firms in the first quarter are estimated to have risen 10 percent from the year-earlier level, boosted by large gains for the oil and gas industry. Looking ahead, analyst estimates for year-ahead earnings for financial firms--and for the S&P 500 as a whole--were revised down in May, while the corresponding revisions for nonfinancial firms jumped into positive territory because of a sharp rise in energy sector forecasts.

The available data, though stale in some cases, indicate that overall nonfinancial corporate credit quality has generally remained solid. The aggregate ratio of liquid assets to total assets for nonfinancial firms stayed high in the fourth quarter, and the aggregate leverage ratio moved up only slightly from a low level. And although the delinquency rate on commercial and industrial (C&I) loans ticked up in the first quarter, it remained low by historical standards. The realized six-month default rate on corporate bonds remained near zero in April, and there were few ratings changes for nonfinancial corporations in the first quarter. In May, the KMV forecast of the aggregate year-ahead default rate continued to hover near the middle of its 15-year historical range.

Business Finance

Both investment-grade and speculative-grade bond issuance by nonfinancial companies surged in May, buoyed in part by the relative stability of yield spreads, which may have made it easier for issuers and investors to agree on deal terms. Meanwhile, total outstanding nonfinancial commercial paper contracted again in May, and C&I loan growth slowed markedly. This pattern of debt financing flows suggests that some firms are lengthening the maturity of liabilities to improve liquidity. Aggregating across bonds, commercial paper, and C&I loans, net debt financing by nonfinancial firms was strong in May, though issuance of institutional leveraged loans reportedly continued to be very weak. Issuance of both convertible bonds and equity shares by financial corporations in April and May was very high by historical standards, reflecting recapitalization by large financial institutions.

Net equity retirements by nonfinancial firms are estimated to have ebbed a bit in the first quarter from last year's record levels. The volume of retirements from completed cash-financed mergers dropped notably, while those resulting from share repurchases are also

Business Finance

Gross Issuance of Securities by U.S. Corporations

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

Type of security	2004	2005	2006	2007		2008		
				H1	H2	Q1	Apr.	May
<i>Nonfinancial corporations</i>								
Stocks ¹	5.4	4.6	4.7	5.5	5.4	2.3	4.3	6.3
Initial public offerings	1.6	1.7	1.8	1.7	1.6	.3	1.6	.7
Seasoned offerings	3.8	2.8	2.9	3.9	3.8	2.0	2.7	5.5
Bonds ²	22.7	19.1	29.8	37.9	33.3	29.3	33.6	49.8
Investment grade	8.2	8.4	13.0	14.2	20.1	23.9	23.3	29.6
Speculative grade	9.7	6.4	8.0	15.4	5.1	1.7	4.3	11.6
Other (sold abroad/unrated)	4.9	4.3	8.8	8.3	8.1	3.7	6.0	8.5
<i>Memo</i>								
Net issuance of commercial paper ³	1.7	-2	2.4	1.1	-2.0	4.5	8.3	-9.9
Change in C&I loans at commercial banks ^{3,4}	2.4	9.6	11.7	14.0	28.1	15.6	7.7	4.9
<i>Financial corporations</i>								
Stocks ¹	6.9	5.0	5.3	9.3	7.9	13.2	24.0	25.2
Bonds ²	139.3	176.3	187.7	207.1	104.9	57.6	91.2	87.9

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

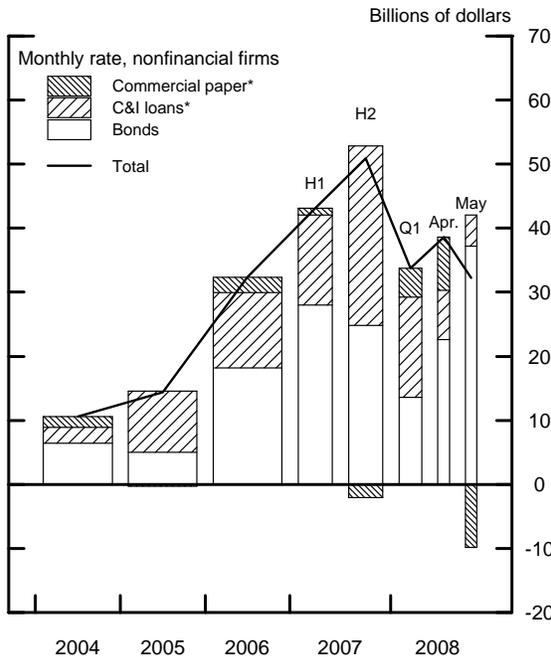
1. Excludes private placements and equity-for-equity swaps that occur in restructurings.

2. Data include regular and 144a private placements. Bond totals reflect gross proceeds rather than par value of original discount bonds. Bonds are categorized according to Moody's bond ratings or to Standard & Poor's if unrated by Moody's.

3. End-of-period basis, seasonally adjusted.

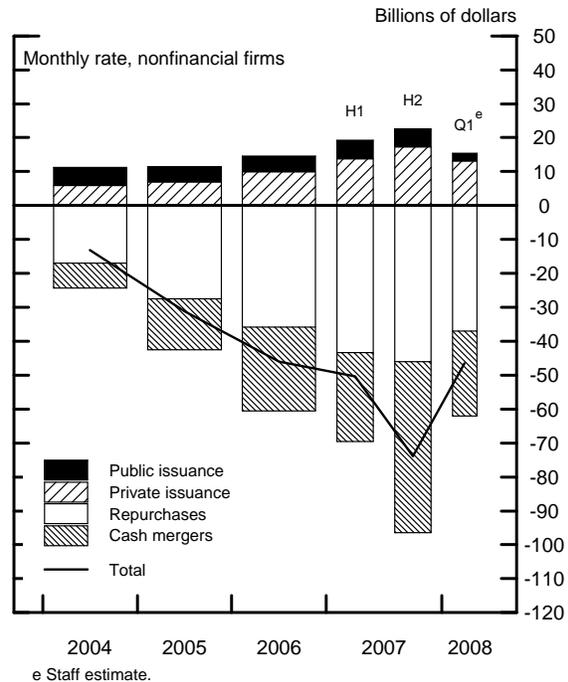
4. Based on adjusted commercial bank credit data through April 9.

Selected Components of Net Debt Financing



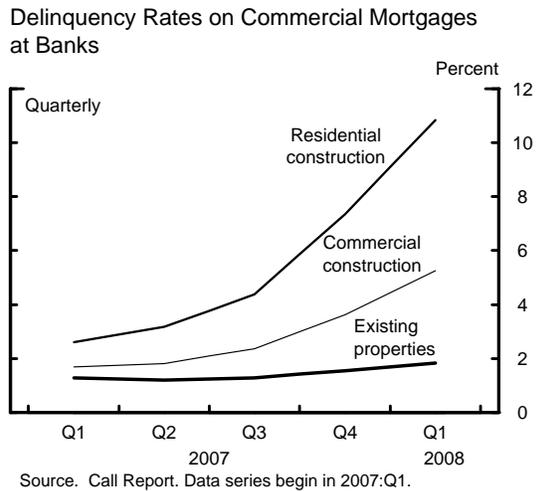
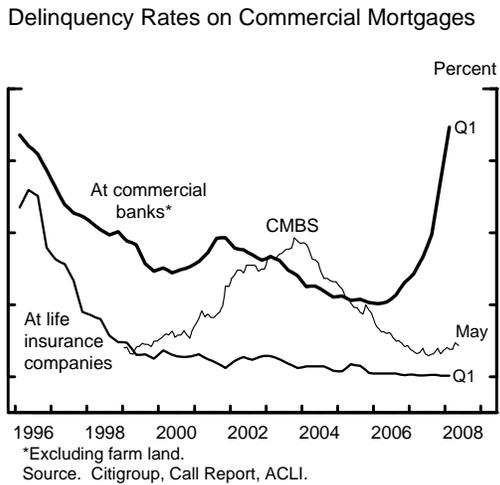
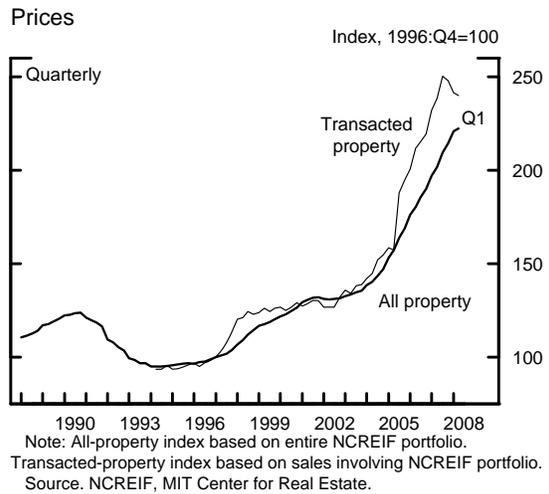
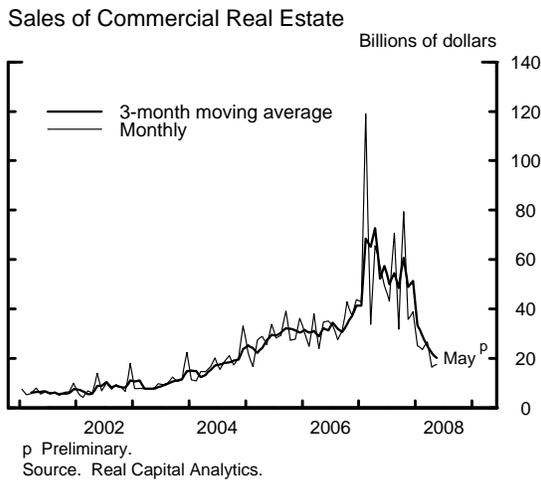
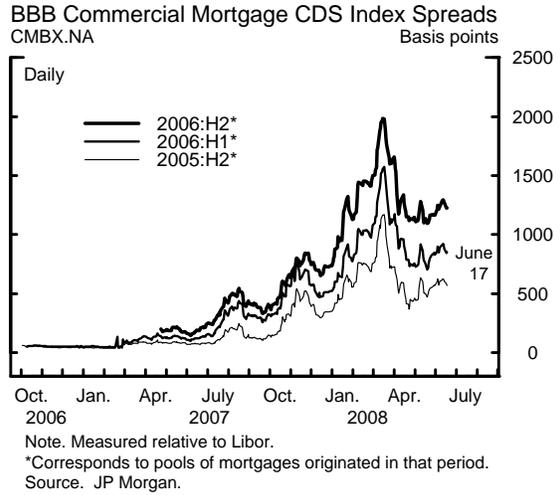
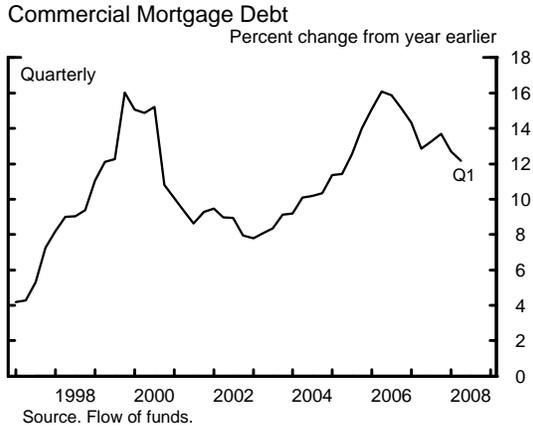
* Seasonally adjusted, period-end basis.

Components of Net Equity Issuance

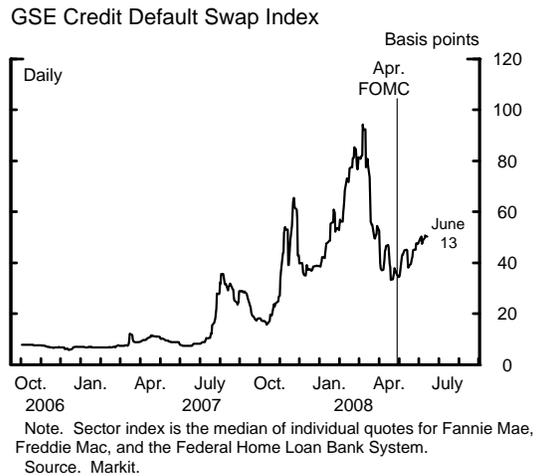
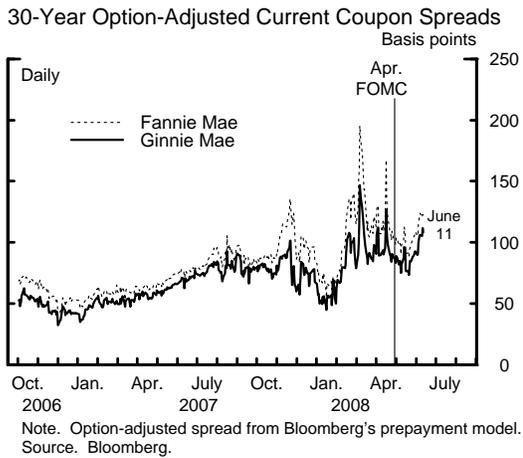
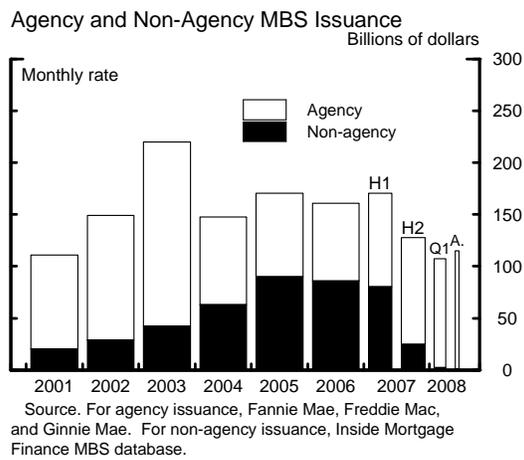
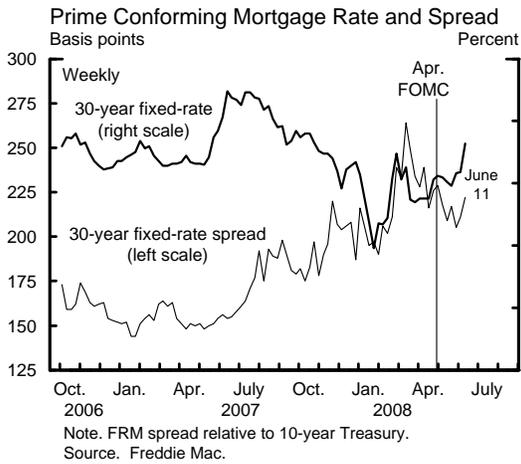
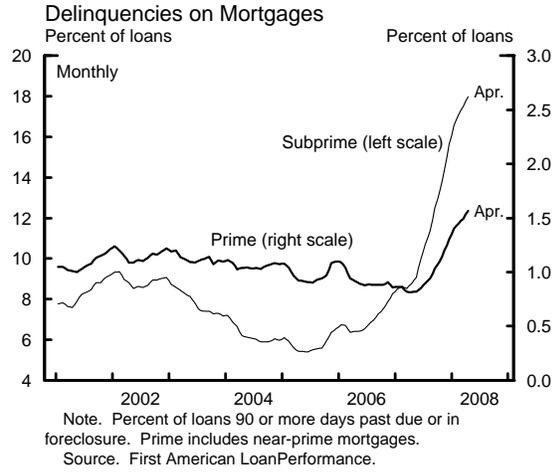
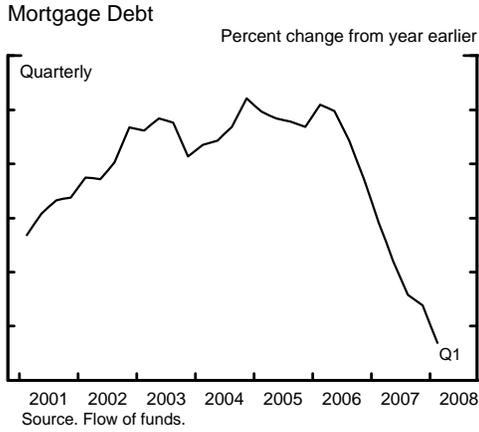


^e Staff estimate.

Commercial Real Estate



Residential Mortgages



estimated to have cooled somewhat. In the second quarter, retirements from completed cash-financed mergers and announcements of new repurchase programs slowed further. On the other side of the ledger, gross public issuance of equity picked up in May, though almost entirely because of seasoned offerings; there were scant initial public offerings.

Commercial Real Estate

Growth of commercial mortgage debt moderated in the first quarter, and the market for commercial mortgage-backed securities (CMBS) has remained virtually shut down. Yields on investment-grade CMBS (not shown) have been persistently high, likely discouraging new issuance. Spreads on CDS indexes for CMBS, while below their highs earlier in the year, remained quite elevated. Moreover, the sales volume for existing commercial properties slowed further in April and May.

Delinquency rates on commercial mortgages held by commercial banks climbed further in the first quarter. Much of the increase was due to delinquencies on residential construction loans, but delinquencies on nonresidential construction loans also rose. On the other hand, delinquencies on existing properties held by commercial banks and insurance companies have remained low, and CMBS delinquency rates have drifted only modestly higher, largely because of loans on multifamily properties.

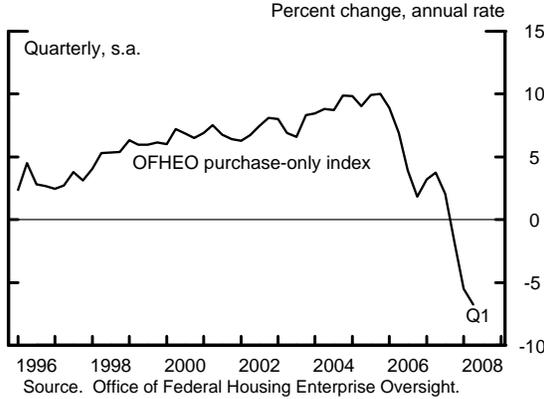
Household Finance

The deterioration in the performance of residential loans has continued, as delinquencies on nonprime and prime loans rose further in April. Meanwhile, in the first quarter, the growth of residential mortgage debt continued to slow, and house prices kept falling, as the purchase-only index calculated by the Office of Federal Housing Enterprise Oversight posted a record decline of 6.7 percent at a seasonally adjusted annual rate.

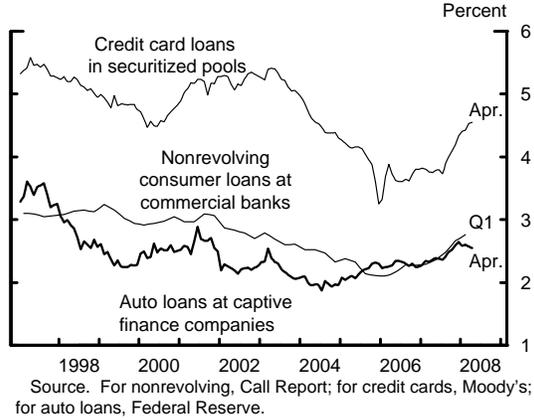
Conditions in the conforming-mortgage market have not improved since the April FOMC meeting. Spreads between primary-market interest rates on conforming mortgages and 10-year Treasury securities rates were little changed on net. And although agency issuance of mortgage-backed securities (MBS) was again strong, issuance of private-label residential mortgage-backed securities was anemic. The market for new conforming jumbo loans has been slow to take off, with only about \$300 million in loans originated to date. Moreover, the secondary market for agency MBS was volatile, and option-adjusted spreads widened on net. CDS indexes on the government-sponsored enterprises, Fannie Mae and Freddie Mac, moved up slightly over the intermeeting period, although they remain well below recent highs.

Consumer Credit and Household Wealth

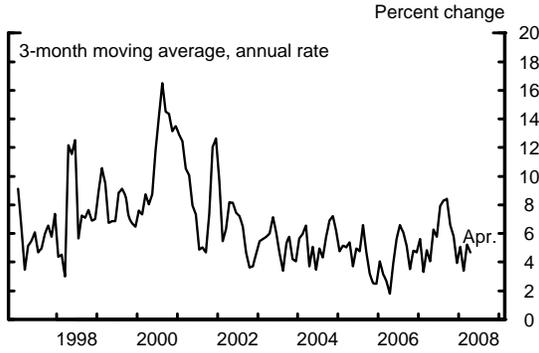
House Prices



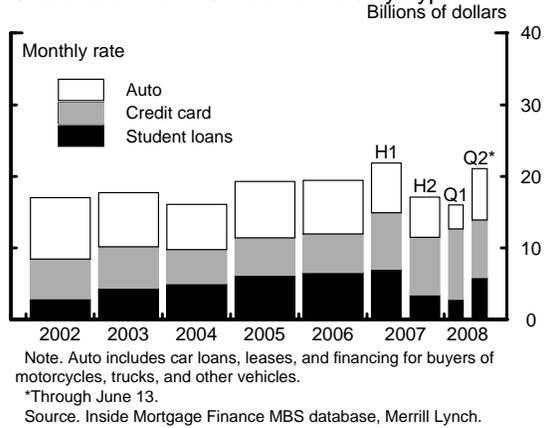
Delinquencies on Consumer Loans



Consumer Credit



Gross Issuance of Consumer ABS by Type



Net Flows into Mutual Funds

(Billions of dollars, monthly rate)

Fund type	2006	2007		2008			Assets Apr.
		H1	H2	Q1	Apr.	May ^e	
Total long-term funds	18.9	32.0	5.8	1.7	31.3	33.5	8,642
Equity funds	13.3	14.8	1.2	-14.9	12.2	12.7	6,188
Domestic	0.9	1.2	-8.4	-13.4	6.2	4.8	4,584
International	12.4	13.5	9.6	-1.5	6.0	7.9	1,604
Hybrid funds	0.6	2.6	1.1	0.7	2.3	2.9	699
Bond funds	5.0	14.6	3.5	16.0	16.7	17.9	1,755
High-yield	-0.2	0.2	-0.7	-1.3	2.0	1.9	155
Other taxable	4.0	12.0	4.8	15.2	11.3	11.0	1,220
Municipals	1.3	2.4	-0.6	2.1	3.4	5.0	380
Money market funds	27.8	26.3	98.8	119.6	-84.6	91.3	3,418

Note. Excludes reinvested dividends.

e Staff estimate based on confidential weekly data.

Source. Investment Company Institute.

Delinquency rates on most types of consumer loans moved up further, particularly those on credit cards, and now stand close to their respective averages over the past decade. Interest rates on consumer loans (not shown) declined somewhat, as they continued their typically gradual adjustment to this year's drop in short-term rates. Growth of consumer credit in April remained about in line with its average over recent years, despite the notably tighter terms and standards that banks have reported. Issuance of most types of consumer asset-backed securities (ABS) was strong in May, led by a surge in auto loan ABS issuance, and has continued apace in the first two weeks of June. Spreads on consumer ABS have also started to narrow. Reportedly, policy actions by the Congress and the Department of Education aimed at increasing the availability of funds for student lenders have helped to assuage concerns about student loan availability for the 2008-09 school year.

Long-term mutual funds registered strong inflows in April and May. Domestic equity funds received inflows after several quarters of sizable outflows, and international equity funds experienced renewed inflows as well. Municipal bond funds also saw strong demand. The large outflow in money market mutual funds in April and the subsequent rebound in May largely reflected seasonal tax-related patterns.

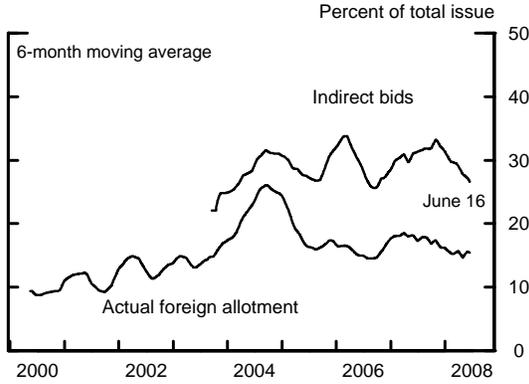
Treasury Finance

The Treasury's midquarter refunding announcement was broadly in line with market expectations. After a seven-year hiatus, the Treasury announced that it was reintroducing auctions of 52-week bills to help finance a sharply wider deficit. The first auction of this security was well received, with a stop-out rate slightly below expectations and a high bid-to-cover ratio. The Treasury auctioned several other nominal securities over the intermeeting period, with maturities spanning 2 to 30 years; these auctions were generally well received, with bid-to-cover ratios within historical ranges. Indirect bidding and allotments to foreign participants at these auctions continued their modest downward trend of recent months. However, foreign official holdings of U.S. Treasury securities at the Federal Reserve have risen briskly over the same period.

Functioning in the Treasury coupon market improved somewhat over the intermeeting period, and on most days, bid-asked spreads for on-the-run securities stayed near the low end of their range since last August. Despite improved functioning overall, estimated yield curves continue to show large fitting errors, the on-the-run premium for the 10-year note remains close to its peak in early May, and the on-the-run premium for the 2-year

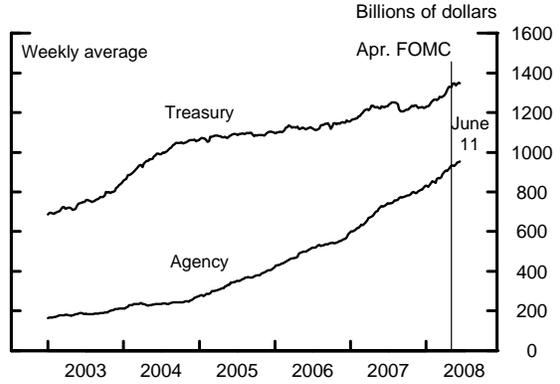
Treasury Finance

Foreign Participation in Treasury Auctions



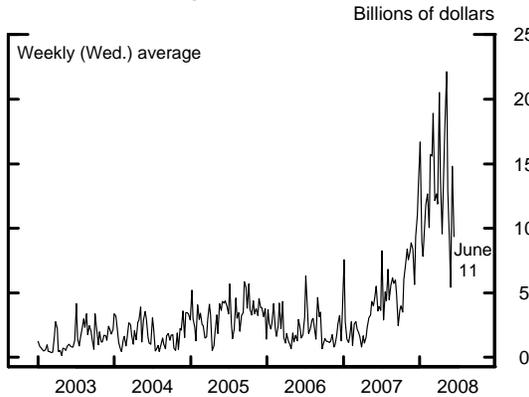
Note. Indirect bids and actual allotment are a percentage of the total amount accepted, including the amount tendered to the Federal Reserve. Moving averages include 2-, 5-, and 10-year original auctions and reopenings.

Foreign Custody Holdings



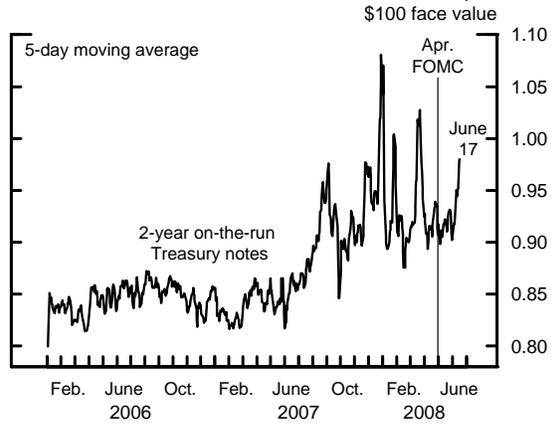
Note. Securities held in custody at the Federal Reserve Bank of New York on behalf of foreign official institutions.

Securities Lending



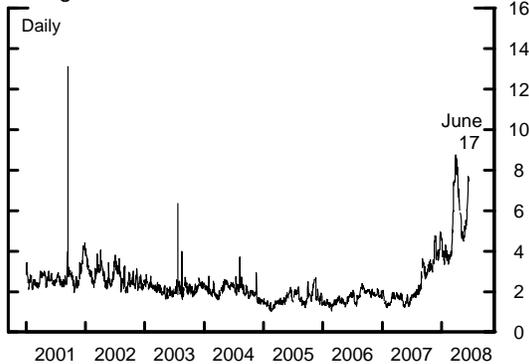
Note. Volume of securities lent to market participants from the System Open Market Account portfolio through the overnight facility.

Bid-Ask Spread



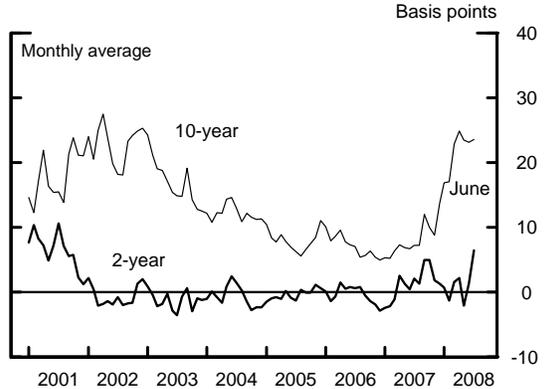
Source. BrokerTec Interdealer Market Data.

Average Absolute Nominal Yield Curve Fitting Error



Note. Calculated from securities with 2 to 10 years until maturity, excluding on-the-run and first off-the-run securities.

Treasury On-the-Run Premiums



Note. Computed as the spread of the yield read from an estimated off-the-run yield curve over the on-the-run Treasury yield. June observation is the month-to-date average.

State and Local Government Finance

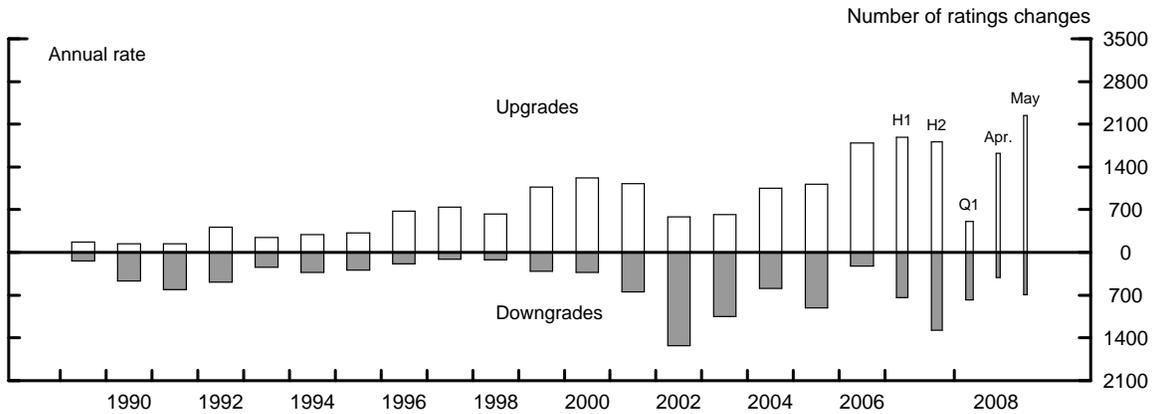
Gross Offerings of Municipal Securities

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

Type of security	2004	2005	2006	2007		2008		
				H1	H2	Q1	Apr.	May
Total	34.7	38.4	36.1	41.9	38.9	29.0	54.3	42.6
Long-term ¹	29.8	34.2	32.5	38.5	32.6	27.6	51.8	40.9
Refundings ²	10.8	15.6	10.6	16.5	8.7	10.7	26.8	20.7
New capital	19.0	18.6	21.9	22.0	23.9	16.9	25.0	20.1
Short-term	4.9	4.2	3.7	3.4	6.3	1.3	2.5	1.7
Memo: Long-term taxable	2.0	2.1	2.5	2.2	2.6	1.8	5.0	1.9

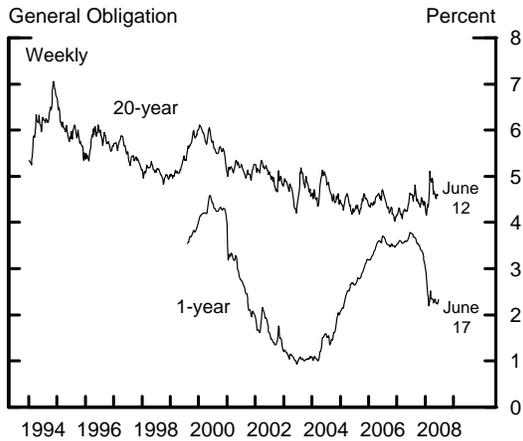
- 1. Includes issues for public and private purposes.
- 2. All issues that include any refunding bonds.

Ratings Changes



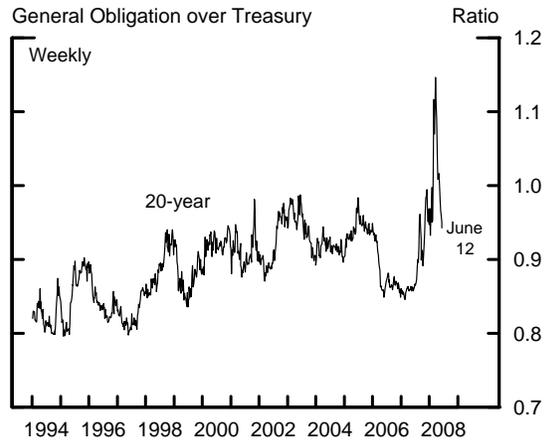
Source: S&P's Credit Week Municipal and Ratings Direct.

Municipal Bond Yields



Source: Municipal Market Advisors and Bond Buyer.

Municipal Bond Yield Ratio



Source: Bond Buyer.

M2 Monetary Aggregate
(Based on seasonally adjusted data)

Aggregate and components	Percent change (annual rate) ¹						Level (billions of dollars), May
	2006	2007	2007	2008			
			Q4	Q1	Apr.	May	
M2	4.9	5.8	4.8	9.5	2.4	1.2	7,684
Components ²							
Currency	3.5	2.0	1.1	-.6	-3.2	4.4	763
Liquid deposits ³	.7	4.5	2.1	6.8	1.0	8.0	4,646
Small time deposits	18.6	4.1	5.7	2.9	-6.0	-5.7	1,205
Retail money market funds	13.0	19.3	20.4	39.0	22.0	-22.6	1,064
Memo:							
Institutional money market funds	15.7	39.3	54.1	46.7	23.0	18.5	2,223
Monetary base	3.1	2.0	1.0	-.5	-3.5	2.8	827

1. For years, Q4 to Q4; for quarters and months, calculated from corresponding average levels.
2. Nonbank traveler's checks are not listed.
3. Sum of demand deposits, other checkable deposits, and savings deposits.

note climbed noticeably for the first time since the recent financial turmoil began, suggesting that investors still have strong demand for relatively liquid securities.

State and Local Government Finance

Gross issuance of long-term municipal bonds continued to be robust in May, reflecting further restructuring by municipalities out of the now-essentially-defunct auction-rate security market as well as a general improvement in market conditions. A substantial share of new capital issuance was for infrastructure projects. Short-term issuance was moderate, consistent with typical seasonal patterns.

The underlying credit quality of municipal bonds remained strong, and the number of ratings upgrades outpaced the number of downgrades in May. Although the downgrade of two large municipal bond insurers in early June triggered a slew of automatic downgrades to municipal bonds this month, these actions were not surprising and had little effect on the market. Yields on long-term municipal bonds declined a bit over the intermeeting period, and the ratio of such yields to those of comparable-maturity Treasury securities declined sharply, returning to levels that prevailed prior to the financial turmoil.

Money and Bank Credit

M2 expanded at a sluggish 1¾ percent annual rate in the April and May period, with growth pulled down both by an unwinding of safe-haven flows associated with the financial turmoil in prior months and because of large final individual income tax payments. These effects were partially offset by deposits of economic stimulus payments and a continued decline in the opportunity cost of holding money. Liquid deposits rose at a 6 percent annual rate in April and May, while retail money market mutual funds slowed in April and contracted sharply in May. Small time deposits fell for the third consecutive month, and the currency component of M2, which has been somewhat volatile, was about flat, on net, over the two months.

Commercial bank credit decreased modestly over the April-May period, largely because of a runoff in banks' holdings of securities and a drop in the volatile "other loan" series.¹ That said, C&I lending slowed appreciably, expanding at only about half its first-quarter pace. Data from the Survey of Terms of Business Lending conducted in early May

¹ The April drop in securities is largely accounted for by the decision of a U.S. branch of a foreign bank to shift some securities holdings to a foreign office. Adjusting to remove the effects of this shift, securities holdings would have been about flat in April.

Commercial Bank Credit

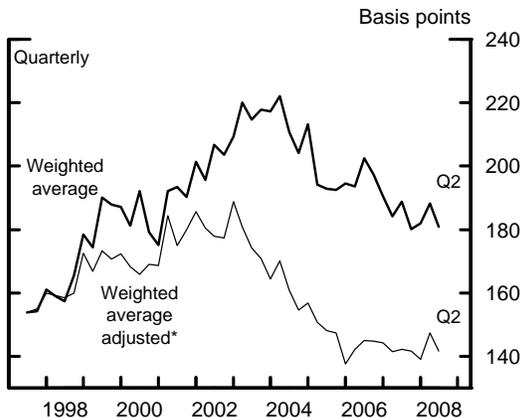
(Percent change, annual rate, except as noted; seasonally adjusted)

Type of credit	2007	H2 2007	Q4 2007	Q1 2008	Apr. 2008	May 2008	Level ¹ May 2008
Total	10.6	11.1	9.5	6.8	-5.4	2.2	9,004
<i>Loans²</i>							
Total	11.3	11.3	10.5	9.9	.2	2.7	6,816
To businesses							
Commercial and industrial	19.2	25.2	27.5	15.8	12.3	3.3	1,491
Commercial real estate	10.1	9.8	9.0	9.3	11.0	6.5	1,644
To households							
Residential real estate	5.8	-1.4	-5.4	5.4	2.1	-6.0	1,876
Revolving home equity	5.7	6.4	7.3	11.0	19.9	12.9	508
Other	5.8	-4.0	-9.6	3.5	-4.2	-12.8	1,369
Consumer	7.9	10.8	10.6	7.5	9.2	6.2	822
Originated ³	7.2	9.4	8.4	7.7	9.4	8.1	1,237
Other ⁴	16.7	20.8	20.9	12.4	-45.5	9.1	984
<i>Securities</i>							
Total	8.4	10.7	6.3	-2.5	-22.2	.7	2,188
Treasury and agency	-5.5	-5.0	-17.4	-6.9	-5.4	5.1	1,128
Other ⁵	27.9	30.0	34.2	2.1	-39.5	-4.1	1,060

Note. Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. Data have been adjusted to remove the effects of mark-to-market accounting rules (FIN 39 and FAS 115), the initial consolidation of certain variable interest entities (FIN 46), the initial adoption of fair value accounting (FAS 159), and the effects of sizable thrift-to-bank and bank-to-thrift structure activity in October 2006, March 2007, and October 2007. Data also account for breaks caused by reclassifications.

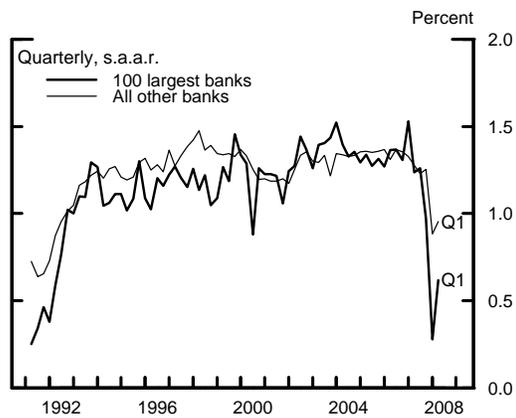
1. Billions of dollars. Pro rata averages of weekly (Wednesday) levels.
2. Excludes interbank loans.
3. Includes an estimate of outstanding loans securitized by commercial banks.
4. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.
5. Includes private mortgage-backed securities; securities of corporations, state and local governments, and foreign governments; and any trading account assets that are not Treasury or agency securities.

C&I Loan Rate Spreads



Note. Spreads over market interest rate on an instrument of comparable maturity on loans less than \$25 million (2006\$).
*Adjusted for changes in nonprice loan characteristics.
Source. Survey of Terms of Business Lending.

Return on Assets at Commercial Banks



Source. Call Report.

indicate that, after adjusting for nonprice loan characteristics, the average spread on C&I loans smaller than \$25 million was slightly below that reported in the February survey and was near the low end of their recent range. In contrast, spreads on commercial banks' portions of syndicated loans remained at elevated levels in May. Commercial real estate loans held by banks rose moderately in April and May. On the household side, residential mortgage loans fell, on net, over the past two months, whereas revolving home equity lines of credit continued to expand briskly, as borrowers reportedly drew down loans under existing low-cost credit lines. Through May, originations of consumer loans have remained fairly strong.

According to first-quarter Call Report data, commercial bank profitability—as measured by the return on assets—was adversely affected again by asset write-downs and elevated rates of loan-loss provisioning. Without the boost from the proceeds of the initial public offering of Visa Inc., which occurred in mid-March, results at many large commercial banks would have been worse. Asset quality in nearly all major loan categories deteriorated further in the first quarter of 2008, with delinquency rates on residential mortgages as well as construction and land development loans registering very large increases. All told, the delinquency rate on all loans and leases reached a level not seen since the early 1990s.

Last Page of Domestic Financial Developments

International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

The U.S. international trade deficit widened to \$60.9 billion in April after narrowing to \$56.5 billion in March. The widening of the deficit in April occurred as a jump in exports was outweighed by an even greater rise in imports.

Trade in Goods and Services

	2007	Annual rate			Monthly rate		
		2007		2008	2008		
		Q3	Q4	Q1	Feb.	Mar.	Apr.
Percent change							
<i>Nominal BOP</i>							
Exports	14.5	27.4	10.4	18.4	2.2	-1.9	3.3
Imports	9.7	10.2	11.4	13.8	2.9	-3.3	4.5
<i>Real NIPA</i>							
Exports	8.4	19.1	6.5	2.8	...	...	...
Imports	1.0	4.4	-1.4	-2.6	...	...	...
Billions of dollars							
<i>Nominal BOP</i>							
Net exports	-700.3	-672.5	-695.1	-699.7	-60.6	-56.5	-60.9
Goods, net	-819.4	-804.8	-835.7	-844.1	-72.5	-68.4	-72.9
Services, net	119.1	132.4	140.5	144.5	11.9	11.9	12.0

Source. U.S. Department of Commerce, Bureau of Economic Analysis and Census.
n.a. Not available. ... Not applicable.

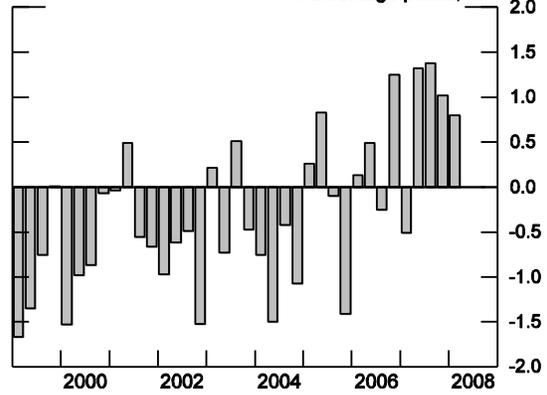
In April, the value of exports of goods and services jumped 3.3 percent, following a 1.9 percent decline in March. The increase in April occurred across a number of categories, with exports of industrial supplies and capital goods exhibiting particular strength. Exports of consumer goods and automotive products also increased strongly. The decline in exports in March was also broadly based, although exports of aircraft and automotive products recorded particularly sharp drops. Exports of services increased in both months.

U.S. International Trade in Goods and Services (Quarterly)

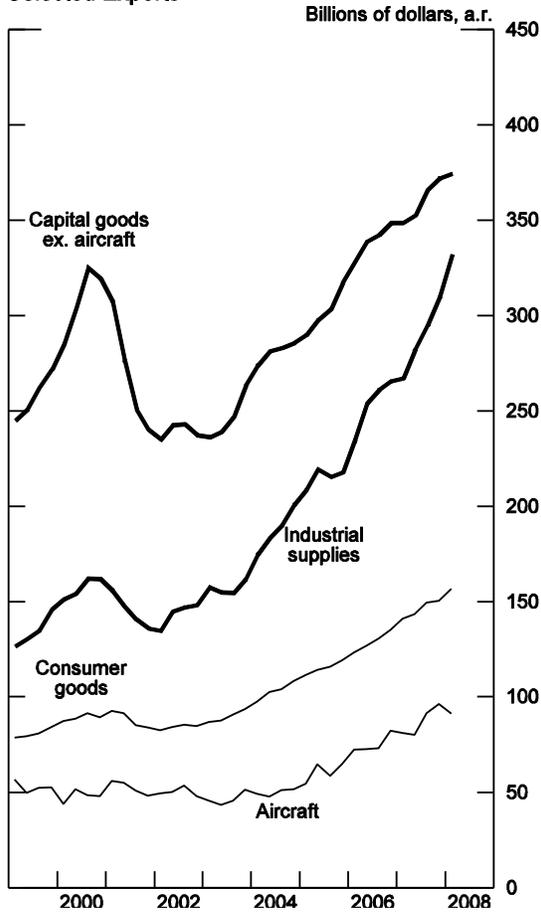
Trade Balance



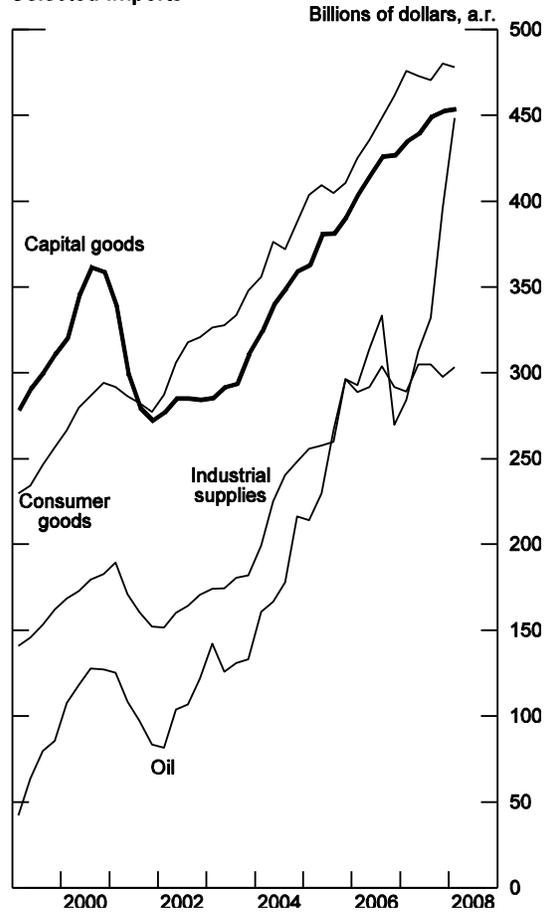
Contribution of Net Exports to Real GDP Growth



Selected Exports



Selected Imports



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

	Levels				Change ¹			
	2007	2008	2008		2007	2008	2008	
	Q4	Q1	Mar.	Apr.	Q4	Q1	Mar.	Apr.
Exports of G&S	1741.9	1817.1	1806.9	1866.5	42.4	75.2	-34.8	59.6
Goods exports	1212.7	1271.3	1260.3	1314.8	30.7	58.5	-36.8	54.4
Gold	12.0	24.6	29.4	24.6	-2.3	12.6	3.0	-4.8
Other goods	1200.7	1246.6	1230.9	1290.2	33.0	45.9	-39.8	59.3
Capital goods	468.8	466.2	454.0	480.6	11.1	-2.7	-18.0	26.7
Aircraft & parts	96.3	91.3	80.1	91.1	4.8	-5.0	-17.6	11.0
Computers & accessories	44.5	43.2	43.1	47.5	-1.4	-1.3	-.4	4.4
Semiconductors	53.2	52.3	51.1	50.2	3.8	-.9	-1.8	-.9
Other capital goods	274.9	279.3	279.6	291.8	3.9	4.5	1.8	12.2
Automotive	125.8	122.4	113.3	121.0	-.5	-3.4	-16.6	7.7
Ind. supplies (ex. ag., gold)	310.4	332.5	333.4	350.5	15.2	22.1	-6.1	17.1
Consumer goods	150.5	156.9	151.0	160.8	.9	6.4	-9.3	9.8
Agricultural	102.8	117.8	124.1	127.2	3.0	15.0	5.8	3.1
All other goods	42.4	50.8	55.1	49.9	3.3	8.4	-1.3	-5.1
Services exports	529.1	545.8	546.6	551.8	11.6	16.7	2.0	5.2
Imports of G&S	2437.0	2516.8	2484.8	2597.3	65.0	79.8	-83.8	112.5
Goods imports	2048.4	2115.4	2081.2	2189.9	61.6	67.0	-85.8	108.7
Oil	396.1	448.7	420.3	471.1	64.0	52.6	-34.3	50.8
Gold	7.0	17.9	21.4	18.2	-3.7	10.9	-.2	-3.1
Other goods	1645.3	1648.8	1639.5	1700.6	1.2	3.6	-51.3	61.1
Capital goods	453.1	454.4	454.6	469.6	3.4	1.3	-4.7	15.0
Aircraft & parts	35.1	37.0	38.1	39.1	.1	1.9	.2	.9
Computers & accessories	105.5	104.2	107.8	108.2	1.8	-1.2	5.5	.4
Semiconductors	27.0	26.3	26.3	27.4	.5	-.7	-.0	1.1
Other capital goods	285.5	286.9	282.4	294.9	1.0	1.4	-10.3	12.5
Automotive	260.0	257.3	243.6	255.6	-5.0	-2.7	-29.9	12.0
Ind. supplies (ex. oil, gold)	297.4	303.6	309.6	328.6	-7.6	6.1	-2.5	19.0
Consumer goods	480.1	478.2	474.4	482.6	9.4	-1.9	-17.2	8.3
Foods, feeds, bev.	83.7	85.4	85.1	88.4	.5	1.7	-1.1	3.4
All other goods	71.0	69.9	72.3	75.7	.5	-1.1	4.2	3.4
Services imports	388.6	401.4	403.7	407.4	3.4	12.8	2.0	3.8
<i>Memo:</i>								
Oil quantity (mb/d)	13.47	14.06	12.57	13.05	.51	.59	-1.96	.48
Oil import price (\$/bbl)	80.42	87.59	91.57	98.84	10.31	7.17	5.91	7.27

1. Change from previous quarter or month.

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

The value of imports of goods and services rose 4.5 percent in April, after falling 3.3 percent in March. Most categories of goods recorded declines in March and increases in April. The value of petroleum imports fell sharply in March before rebounding strongly in April, largely reflecting higher oil prices. Imports of non-oil industrial supplies, capital goods, and automotive products also jumped up in April. In contrast, imports of consumer goods rose only modestly in April following a sharp decline in March. Imports of services rose at a moderate pace in both months.

Prices of Internationally Traded Goods

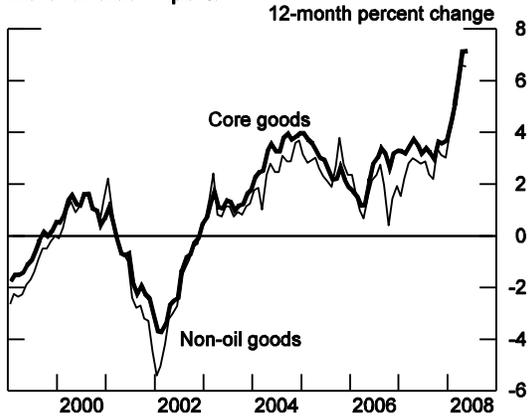
Non-oil imports. In April, prices of core imports rose 1.5 percent, the largest one-month increase in the 13-year history of the index. This increase mostly reflected higher prices for material-intensive goods, which rose 2.8 percent in April. Import prices for finished goods also contributed to April's increase, rising 0.8 percent, due mainly to higher prices for capital goods (excluding computers and semiconductors). In May, core import prices increased at a more moderate but still strong pace of 0.6 percent, as prices for both finished goods and material-intensive goods increased at slower rates.

The average level of core import prices in April and May was almost 12 percent at an annual rate (a.r.) above the first-quarter average. Prices for material-intensive goods were up 27 percent, whereas prices for finished goods increased 5¼ percent. The second-quarter rise in prices for finished goods is the largest increase in this category since the fourth quarter of 1990 and is well above the 2007 pace of 2 percent.

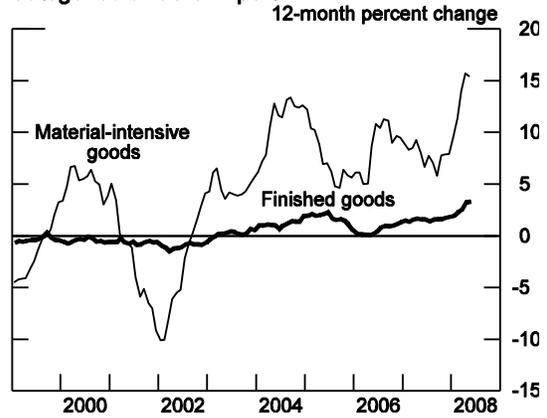
Oil. The BLS price index of imported oil rose 5.9 percent in April before climbing an additional 7.8 percent in May. The spot price of West Texas Intermediate (WTI) crude oil averaged \$112.33 per barrel in April, up 7 percent from its March average, and then spiked an additional 12 percent to an average of \$125.39 per barrel in May. The spot price of WTI has continued to climb higher thus far this month and closed at \$134.01 per barrel on June 17. The price of futures for delivery at the end of 2016, which was at \$137.05 per barrel on June 17, rose even more rapidly during the inter meeting period.

Prices of U.S. Imports and Exports

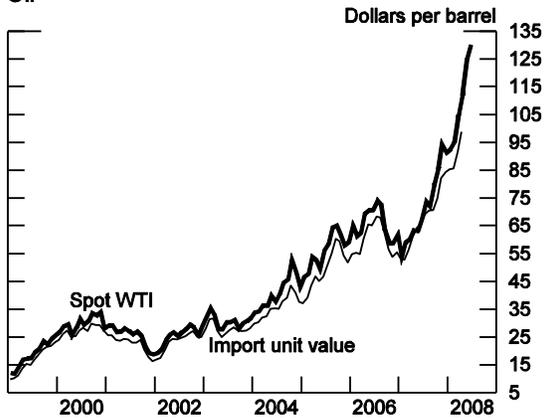
Merchandise Imports



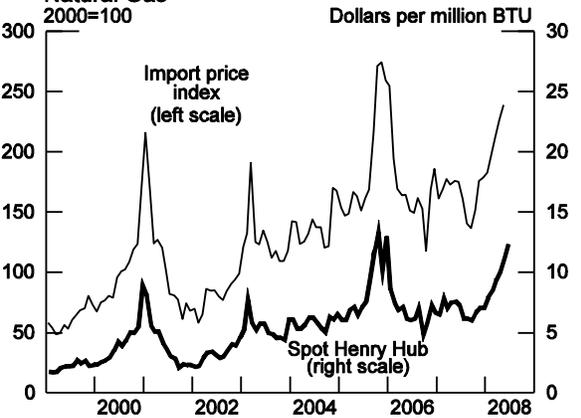
Categories of Core Imports



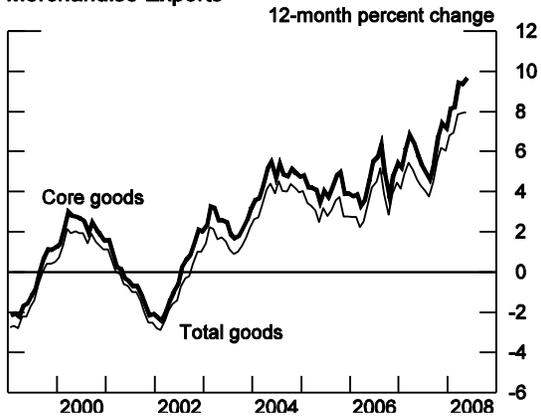
Oil



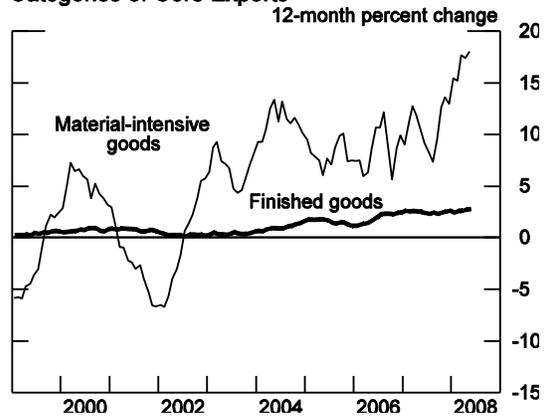
Natural Gas



Merchandise Exports



Categories of Core Exports



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

	Annual rate			Monthly rate		
	2007	2008		2008		
	Q4	Q1	Q2 ^e	Mar.	Apr.	May
	----- BLS prices -----					
Merchandise imports	16.3	15.3	24.8	3.0	2.4	2.3
Oil	73.6	43.7	83.9	9.8	5.9	7.8
Non-oil	4.6	8.5	10.9	1.2	1.3	.5
Core goods ¹	3.7	9.5	11.9	1.3	1.5	.6
Finished goods	2.0	3.9	5.2	.4	.8	.2
Cap. goods ex. comp. & semi.	2.5	4.1	8.0	.4	1.4	.4
Automotive products	4.7	3.9	2.1	.2	.4	.0
Consumer goods	1.8	4.5	5.0	.5	.7	.2
Material-intensive goods	7.6	22.1	26.8	3.1	2.8	1.3
Foods, feeds, beverages	10.3	17.7	15.7	2.9	1.3	1.0
Industrial supplies ex. fuels	6.8	23.2	30.3	3.1	3.3	1.4
Computers	-2.7	-10.6	-2.1	-.2	-.2	.0
Semiconductors	1.6	-7.3	-4.7	-.9	-.8	.5
Natural gas	78.5	88.7	92.5	6.9	6.9	5.4
Merchandise exports	7.7	12.5	8.2	1.6	.5	.3
Core goods ²	9.1	15.4	10.1	2.0	.5	.5
Finished goods	2.6	3.7	2.8	.2	.4	.2
Cap. goods ex. comp. & semi.	3.1	5.8	3.6	.3	.4	.3
Automotive products	1.3	1.6	2.1	.1	.4	.1
Consumer goods	2.4	2.3	1.6	.2	.2	.1
Material-intensive goods	17.5	30.1	18.5	4.0	.5	.9
Agricultural products	40.9	57.5	9.9	4.4	-2.1	.3
Industrial supplies ex. ag.	11.2	21.9	21.8	3.9	1.5	1.1
Computers	-3.9	-10.6	-6.3	-1.5	-.1	-.3
Semiconductors	1.0	.6	-2.8	-1.0	.0	-.4
	----- NIPA prices -----					
Chain price index						
Imports of goods & services	13.2	12.5	n.a	...	...	...
Non-oil merchandise	4.3	7.7	n.a	...	...	...
Core goods ¹	3.9	8.3	n.a	...	...	...
Exports of goods & services	6.0	8.7	n.a	...	...	...
Total merchandise	6.3	10.3	n.a	...	...	...
Core goods ²	7.6	12.4	n.a	...	...	...

1. Excludes computers, semiconductors, and natural gas.

2. Excludes computers and semiconductors.

e/ Average of two months.

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

The sharp upward movement in prices over this period appears to reflect increasing concerns regarding supply, amid continuing strong demand from emerging markets, particularly China. U.S. inventories for crude oil have fallen notably in recent weeks. In addition, both the U.S. Energy Information Administration and the International Energy Agency revised down their respective estimates of non-OPEC supply growth, adding to the growing sense of pessimism regarding longer term supply prospects.

Exports. Core export prices rose 0.5 percent in both April and May. In April, prices for finished goods and for material-intensive goods increased at roughly the same rate. In contrast, in May prices for finished goods rose only 0.2 percent, whereas prices for material-intensive goods rose 0.9 percent. In April, falling wheat and soybean prices pulled down prices of agricultural exports 2.2 percent. Although wheat prices continued to fall in May, higher prices for soybeans, vegetables, and meat resulted in a 0.3 percent increase in agricultural export prices for the month.

The average level of core export prices in April and May was 8¼ percent (at an annual rate) above the first-quarter average. Much of the rise can be attributed to the 22 percent increase in prices of nonagricultural industrial supplies. Agricultural prices, having increased at a 58 percent pace in the first quarter, were up only 10 percent in the April-May period. Prices of exported finished goods were up nearly 3 percent, a rate comparable to that in 2007.

U.S. Current Account

The U.S. current account deficit was \$706 billion (a.r.) in the first quarter of 2008, \$37 billion wider than in the fourth quarter of 2007 (revised). The widening resulted primarily from a narrowing of the surplus in net investment income, as declines in income receipts on U.S. portfolio and direct investment abroad more than offset a decline in payments on foreign portfolio investment in the United States.

U.S. Current Account

(Billions of dollars, seasonally adjusted annual rate)

Period	Goods and services, net	Investment income, net	Other income and transfers, net	Current account balance
<i>Annual</i>				
2006	-753.3	63.8	-98.6	-788.1
2007	-700.3	88.8	-119.7	-731.2
<i>Quarterly</i>				
2007:Q2	-715.3	45.8	-106.9	-776.4
Q3	-672.5	98.9	-118.3	-691.8
Q4	-695.1	152.6	-126.4	-669.0
2008:Q1	-699.7	126.3	-132.1	-705.5
<i>Change from previous qtr.</i>				
2007:Q2	2.9	-12.0	20.5	11.3
Q3	42.8	53.1	-11.4	84.6
Q4	-22.7	53.7	-8.2	22.8
2008:Q1	-4.5	-26.3	-5.7	-36.5

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

U.S. International Financial Transactions

Financial flows for the first quarter of 2008 show relatively modest net purchases of U.S. securities by private foreign investors (line 4 of the Summary of U.S. International Financial Transactions table; see also the chart on Private Securities Flows). As has been the case since the financial turmoil began last summer, “flight to safety” considerations contributed to very strong net purchases of Treasury securities for the quarter (line 4a); foreign private demand for corporate stocks was weak (line 4d) and private investors on net sold agency and corporate bonds (lines 4b and 4c). The net sales of corporate bonds in the first quarter were larger than in the third quarter of last year and are only the second such recorded quarterly outflow in these securities in more than 20 years. In part, these net sales likely reflect weak net issuance of U.S. debt securities early this year. U.S. investors made moderate acquisitions of foreign securities (line 5). Flows of U.S. direct investment abroad (line 6) eased a bit in the first quarter, primarily from a slowdown in reinvested earnings abroad. Foreign direct investment into the United States (line 7) also slowed, primarily reflecting a shift from an increase to a decrease in net intercompany debt.

Taken together, total private financial flows swung from a net inflow of \$92 billion in the fourth quarter to a net outflow of \$52 billion in the first quarter. However, foreign official inflows (line 1) picked up further from their elevated rate in the fourth quarter, reflecting strong purchases of both Treasury and agency securities by Asian central banks as well as further acquisitions of corporate debt and stocks by some sovereign wealth funds. In large part reflecting the swing in net private flows, the statistical discrepancy in the first quarter also swung to a sizable positive \$53 billion, indicating some combination of over-reporting of the current account deficit or under-reporting of net financial inflows.

The most recent data on securities transactions show that foreign private purchases of U.S. securities picked up a bit in April from the pace recorded in the first quarter, but this strength was again concentrated in Treasury securities. Foreign private investors on net sold agency bonds and corporate stocks, but made small net purchases of corporate bonds.

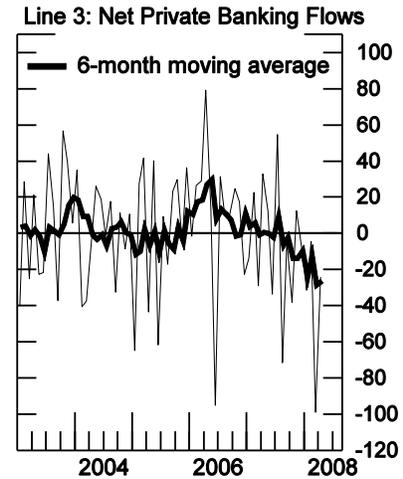
Foreign official flows into the United States remained quite strong in April,

Inflows from OPEC countries were weak in April following a pickup late last year and in January reflecting the high-profile capital injections into several U.S. financial firms by Middle East OPEC sovereign wealth funds. In general, data for the OPEC countries have been volatile and most likely understate actual inflows from these countries. Partial and confidential data on custody accounts at FRBNY indicate a slower pace of official inflows in May and early June.

U.S. official assets (line 2) showed a \$15 billion outflow in April, reflecting primarily an increase in the amounts drawn from the reciprocal swap arrangements with the European Central Bank and Swiss National Bank. These swap arrangements were also the primary contribution to the \$24 billion outflow for this line in the fourth quarter. The increase in the swap arrangements in May will contribute to a further \$26 billion outflow for that month.

There was a small net inflow in April from U.S. residents' net acquisitions of foreign securities in April, as U.S. investors on net sold foreign bonds (line 5a) and made small net purchases of foreign stocks (line 5b).

The volatile banking sector (line 3) posted a further net outflow in April, following the very large net outflow recorded in March. Since the turmoil began in August 2007, net lending abroad by banks has increased with unusual consistency (see inset chart). These outflows, primarily from foreign-owned banks lending to European affiliates, likely reflect tensions in interbank funding markets and cumulate to a sizeable \$280 billion between August 2007 and April 2008.



The balance of payments data released in June showed upward revisions to foreign net purchases of U.S. securities of about \$100 billion for 2006 and nearly \$200 billion for 2007, based primarily on newly-released results of the survey of foreign holdings of U.S. securities as of June 2007. The survey indicated considerably larger holdings of U.S. corporate bonds than previously available data had suggested, in part reflecting an apparent under-reporting of foreign acquisitions of U.S. asset-backed securities. Inflows from foreign direct investment in the United States were also revised up nearly \$100 billion for 2006 and 2007 together.

These increases in financial inflows were partly offset by significant revisions to financial outflows. There were sizable revisions—amounting to about \$180 billion for the period 2004-2007—to U.S. acquisitions of foreign securities, based primarily on results of the newly-released survey of U.S. holdings of foreign securities as of December 2006, which found larger holdings of foreign securities than previously estimated. There were also significant revisions to “other flows” reported in line 10 for 2006, reflecting previously unrecorded increases in claims of U.S. issuers of asset-backed commercial paper and medium term notes on their foreign parents.

On net, the revisions to financial flows were nearly offsetting for 2006 but resulted in much larger inflows for 2007. Combined with the revisions that reduced the size of the current account deficit in both years, the statistical discrepancy was revised to -\$47 billion in 2006 and -\$41 billion in 2007, suggesting some combination of under-reporting of the current account deficit or over-reporting of net financial inflows. The revision to the discrepancy for 2007 was striking, as the previous release had shown a positive discrepancy of \$84 billion.

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

	2006	2007	2007			2008		
			Q2	Q3	Q4	Q1	Mar.	Apr.
Official financial flows	490.3	386.9	88.8	13.4	121.5	176.2	30.2	31.2
1. Change in foreign official assets in the U.S. (increase, +)	487.9	411.1	88.8	13.5	145.5	173.5	51.3	46.4
a. G-10 countries + ECB	26.1	36.8	9.3	3.3	11.8	-1.5	2.9	3.3
b. OPEC	45.2	30.9	0.4	2.8	16.3	18.1	0.1	0.8
c. All other countries	416.6	343.4	83.1	7.4	117.4	157.0	48.3	42.3
2. Change in U.S. official assets (decrease, +) ¹	2.4	-24.1	0.0	-0.1	-24.0	2.7	-21.0	-15.1
Private financial flows	348.8	387.4	104.7	88.5	91.9	-51.9	...	...
Banks								
3. Change in net foreign positions of banking offices in the U.S. ²	122.7	-62.2	11.7	-20.6	-33.1	-134.8	-98.9	-24.0
Securities³								
4. Foreign net purchases (+) of U.S. securities	634.2	739.3	298.9	39.4	172.7	50.6	9.5	31.7
a. Treasury securities	-58.2	156.9	-13.5	67.4	60.1	68.9	41.5	50.3
b. Agency bonds	25.8	19.4	36.3	-2.6	16.4	-18.2	-29.5	-22.9
c. Corporate and municipal bonds	517.8	372.0	169.5	-7.3	37.9	-10.6	-12.9	12.0
d. Corporate stocks ⁴	148.9	191.1	106.6	-18.1	58.4	10.5	10.4	-7.7
5. U.S. net acquisitions (-) of foreign securities	-362.4	-286.1	-84.1	-99.2	-3.6	-37.5	-0.7	8.6
a. Bonds	-224.5	-166.9	-57.0	-42.5	-12.5	-10.0	3.4	10.5
b. Stock purchases	-119.1	-107.9	-27.2	-52.1	11.5	-26.8	-4.1	-1.9
c. Stock swaps ⁴	-18.8	-11.3	0.0	-4.5	-2.6	-0.8	0.0	0.0
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-241.2	-333.3	-93.6	-62.0	-110.9	-85.6	...	...
7. Foreign direct investment in the U.S.	242.0	237.5	61.9	105.9	55.7	46.6	...	...
8. Net derivatives (inflow, +)	29.7	6.5	-1.0	5.9	-13.2	n.a.	...	...
9. Foreign acquisitions of U.S. currency	2.2	-10.7	-1.6	0.7	-3.5	-0.9	...	...
10. Other (inflow, +) ⁵	-78.4	96.3	-87.3	118.4	27.8	109.7	...	...
U.S. current account balance (s.a.)	-788.1	-731.2	-194.1	-173.0	-167.2	-176.4	...	...
Capital account balance (s.a.)⁶	-3.9	-1.8	-0.1	-0.6	-0.6	-0.6	...	...
Statistical discrepancy (s.a.)	-47.1	-41.3	0.7	71.6	-45.6	52.6	...	...

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. Includes changes in U.S. official reserve assets and in outstanding reciprocal currency swaps with certain foreign central banks.

2. 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.

3. Includes commissions on securities transactions and therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.

4. Includes (4d) or represents (5c) stocks acquired through non-market means such as mergers and reincorporations.

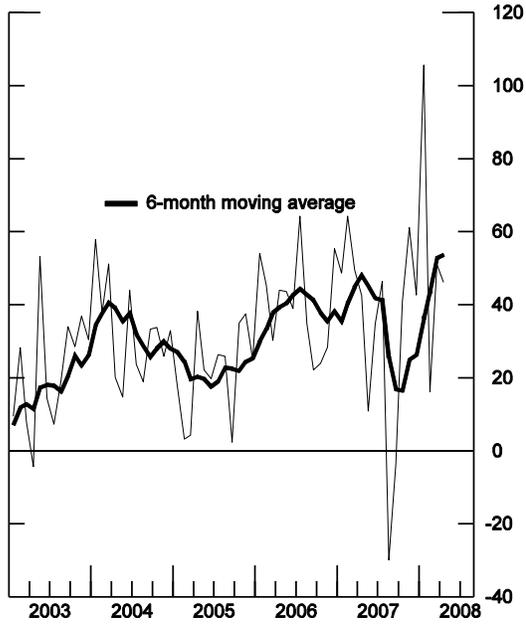
5. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions (in lines 1 through 5 and 8) since publication of the quarterly data in the Survey of Current Business.

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

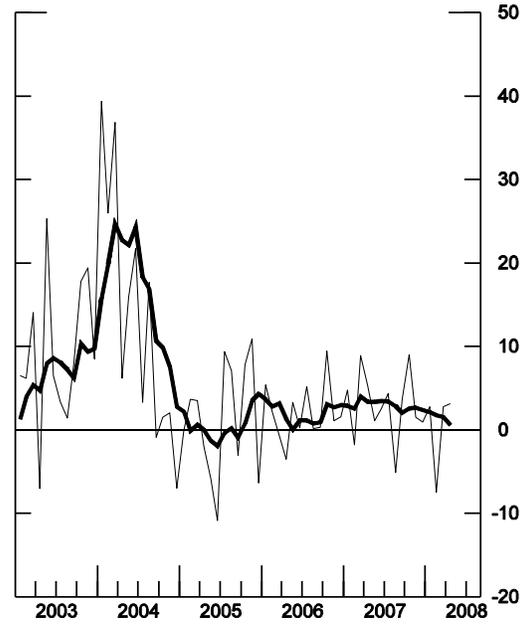
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Foreign Official Financial Flows Through April 2008 (increase, +)
 (\$ Billions, monthly, not seasonally adjusted)

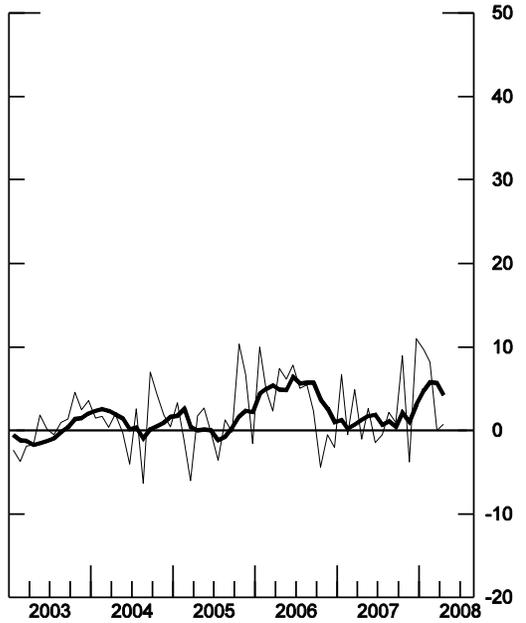
Total



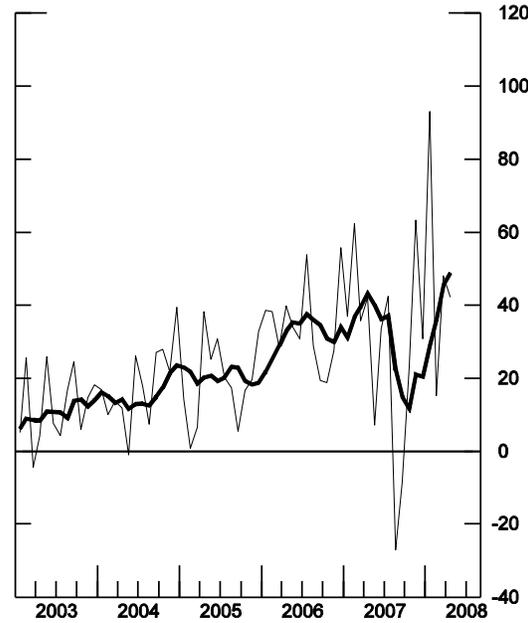
G-10 + ECB



OPEC

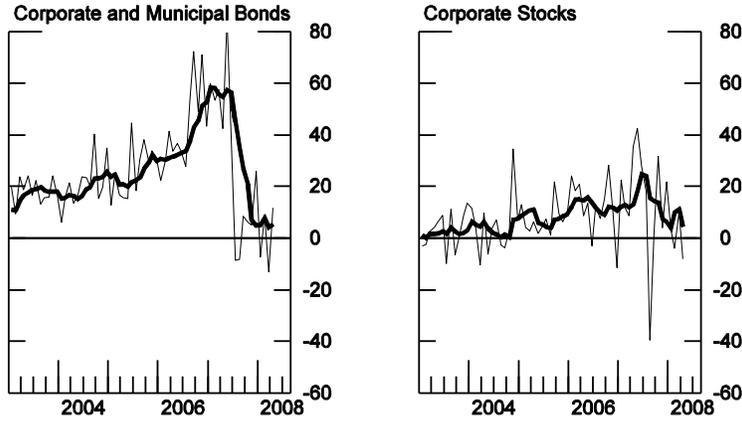
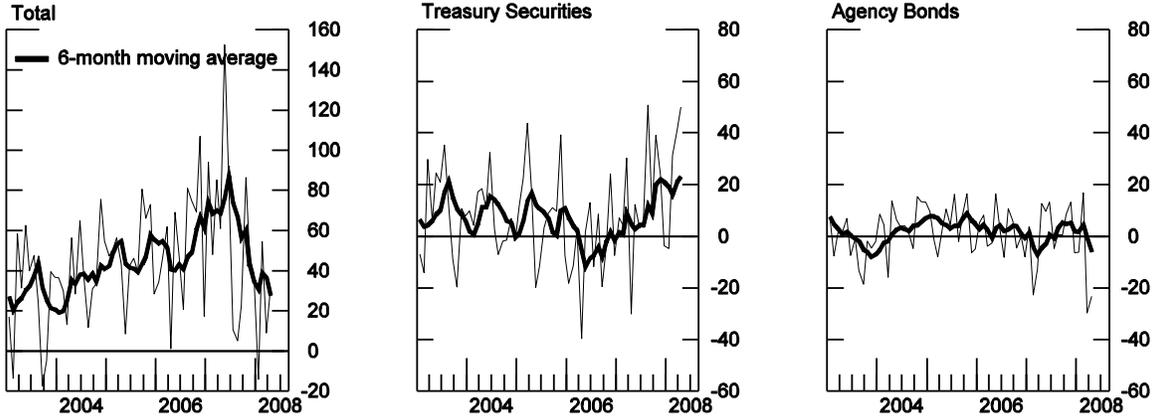


All other countries

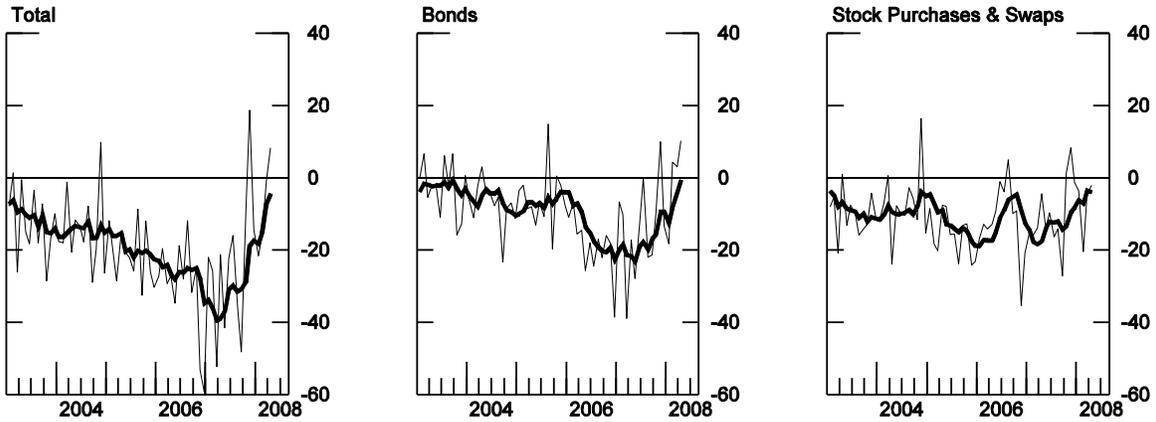


Private Securities Flows Through April 2008
 (\$ Billions, monthly, not seasonally adjusted)

Foreign Net Purchases (+) of U.S. Securities



U.S. Net Acquisitions (-) of Foreign Securities



Foreign Financial Markets

Credit markets were relatively stable over the period, but bond yields rose noticeably as inflationary pressures came into the foreground of central bank concerns.

Yields on sovereign benchmark bonds rose 20 to 50 basis points and sovereign yield curves flattened in all of the major economies. Although the major foreign central banks kept policy rates on hold, expectations of future monetary tightening increased as policymakers signaled greater concern about inflation. Sterling yields rose after the release of April CPI data showed that inflation had increased to 3 percent, and Governor King was required to write a letter of explanation to the Chancellor of the Exchequer as inflation rose further to 3.3 percent in the May CPI release. Euro yields rose as headline inflation climbed to 3.6 percent and several ECB members indicated that the ECB was likely to raise rates soon. Canadian yields jumped on June 10, when the Bank of Canada defied market expectations of a rate cut and chose instead to hold rates fixed. The central banks of Brazil, Chile, China, Egypt, Hungary, India, Indonesia, Israel, the Philippines, Russia, and Turkey all tightened policy over the intervening period in order to combat rising food and energy prices, and yields on local-currency bonds have risen commensurately.

Conditions in domestic European interbank markets remained strained, but changed little since the April Greenbook. Spreads between 1-month Libor and overnight index swap rates jumped 9 basis points in euro and 4 basis points in sterling as the maturity date of those contracts crossed into July, indicating some pressure associated with the quarter end. Securitization has picked up modestly, and a few deals to sell asset-backed securities (ABS) have received attention, although banks may have also used some recently issued ABS as collateral with the ECB. In spite of the fact that demand for term funding in euro and sterling appeared fairly stable, implied rates from foreign exchange and currency basis swaps indicate that demand for dollar funding from European financial institutions may have appreciably increased. The decision to increase the size of the Federal Reserve's swap lines with the European Central Bank and Swiss National Bank has allowed those institutions to lend greater amounts of dollar funding to their banks, and demand at the auctions for those funds has been high, with larger bid-to-cover ratios than at the Federal Reserve's Term Auction Facility.

A number of major European banks announced further write downs for the first quarter, and financial stocks helped lead overall European equity indexes down about 5½ percent since the last Greenbook. Several banks announced rights issues in order to shore up

their capital positions, and in some cases they were forced to offer lower prices in order to place the new equity. Some Japanese banks also reported write-downs, but Japan's FSA estimated that the six largest banks have so far suffered losses totaling \$9.1 billion, much less than the losses of their U.S. and European counterparts. Japanese bank stocks rose over the period and the overall Nikkei index climbed 6½ percent. Other Asian equity indexes were generally down, led by the Shanghai composite, which fell 10 percent, and the performance of the major Latin American indexes was mixed.

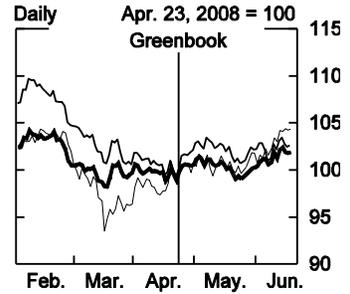
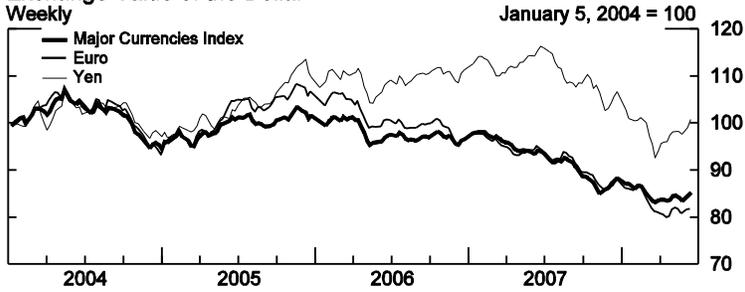
The trade-weighted nominal value of the dollar has moved in a fairly tight range. The major currencies index rose 2 percent on net and the broad index increased about 1 percent. The dollar tended to move with perceptions of monetary policy and the relative economic strength of the United States versus foreign economies. Chairman Bernanke's discussion of the dollar on June 3 and market participants' growing perception that the FOMC might raise rates more quickly than they had expected prompted the dollar to appreciate late in the period. Of note, the dollar has depreciated 1½ percent against the renminbi since mid-May after having remained essentially unchanged against that currency for most of April. The dollar generally appreciated against most other emerging Asian currencies.

Exchange Value of the Dollar and Stock Market Indexes

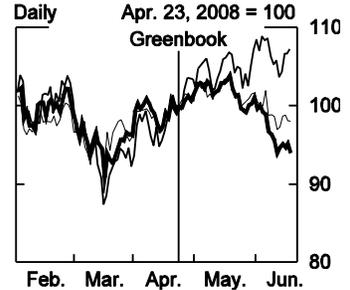
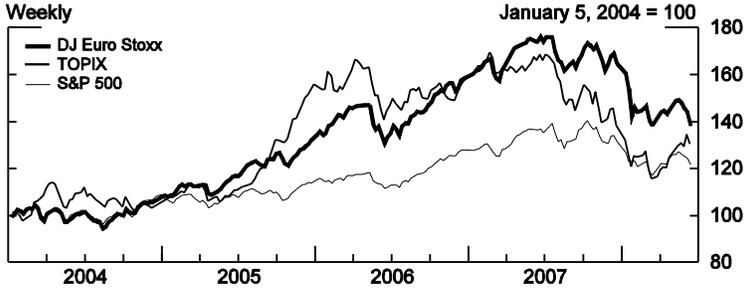
	Latest	Percent change since April Greenbook
<i>Exchange rates*</i>		
Euro (\$/euro)	1.5492	2.6
Yen (¥/\$)	108.1	4.4
Sterling (\$/£)	1.9533	1.3
Canadian dollar (C\$/\\$)	1.0197	0.0
<i>Nominal dollar indexes*</i>		
Broad index	96.3	1.0
Major currencies index	71.8	2.0
OITP index	122.5	-0.0
<i>Stock market indexes</i>		
DJ Euro Stoxx	339.4	-5.9
TOPIX	1409.6	7.2
FTSE 100	5771.1	-5.1
S&P 500	1349.6	-1.9

* Positive percent change denotes appreciation of U.S. dollar.

Exchange Value of the Dollar



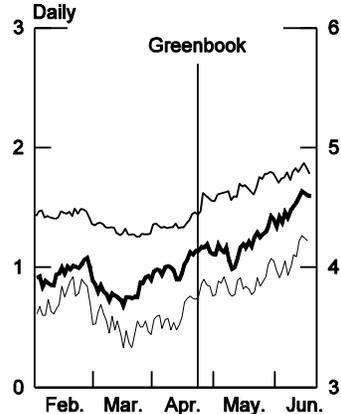
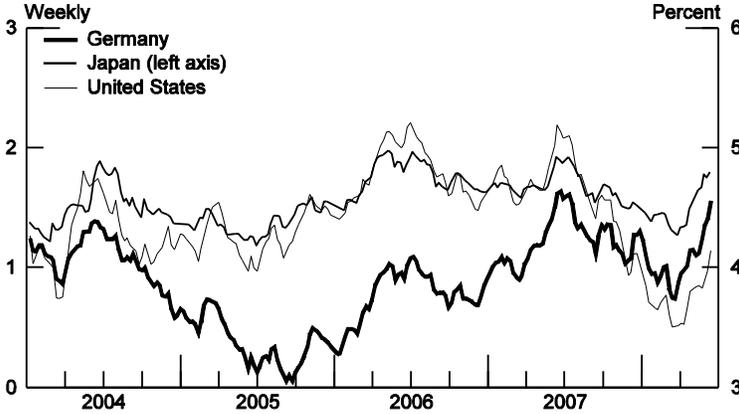
Stock Market Indexes



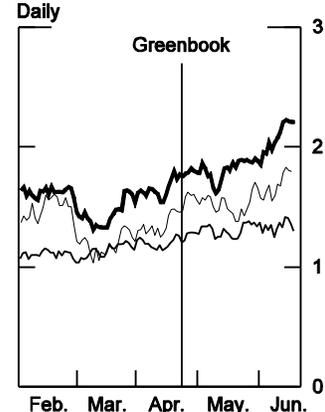
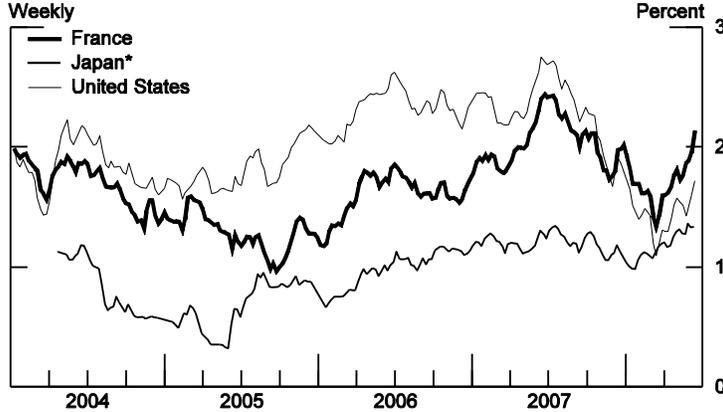
Industrial Countries: Nominal and Real Interest Rates

	3-month LIBOR		10-year nominal		10-year indexed		Percent
	Latest	Change since April Greenbook	Latest	Change since April Greenbook	Latest	Change since April Greenbook	
Germany	4.96	0.13	4.60	0.46	2.20	0.41	
Japan	0.92	0.01	1.78	0.34	1.30	0.09	
United Kingdom	5.95	0.06	5.17	0.50	1.31	-0.01	
Canada	3.45	-0.10	3.84	0.19	...	...
United States	2.80	-0.12	4.23	0.49	1.80	0.34	

Nominal 10-Year Government Bond Yields



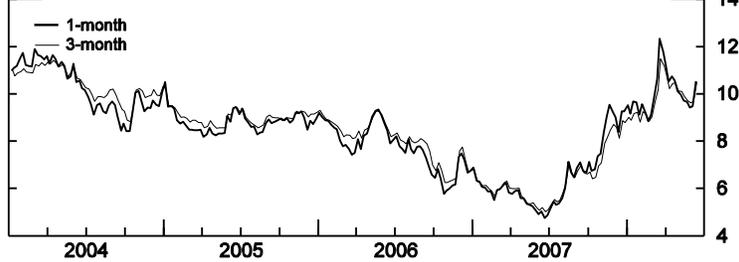
Inflation-Indexed 10-Year Government Bond Yields



*Japan first issued inflation-indexed debt in March 2004.

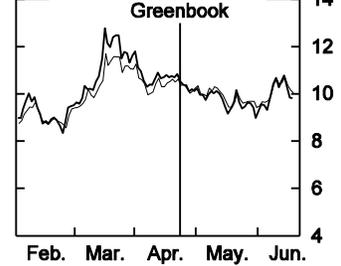
Measures of Market Volatility

Dollar-Euro Options-Implied Volatility*
Weekly

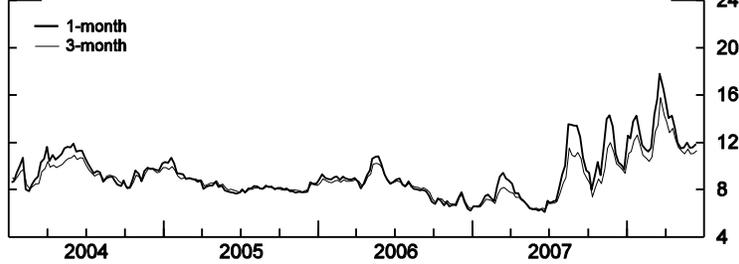


*Derived from at-the-money options.

Daily

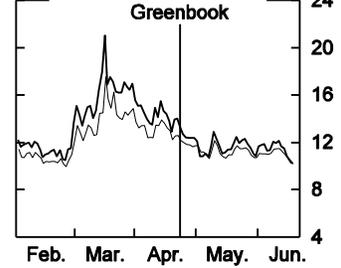


Yen-Dollar Options-Implied Volatility*
Weekly

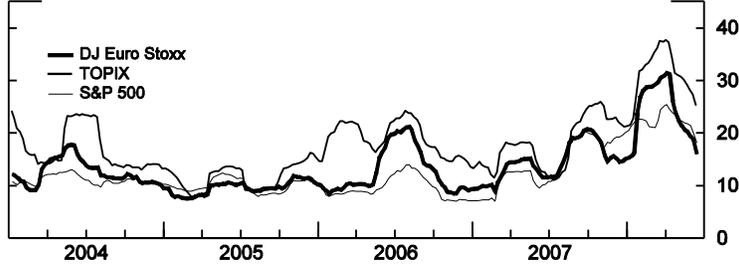


*Derived from at-the-money options.

Daily

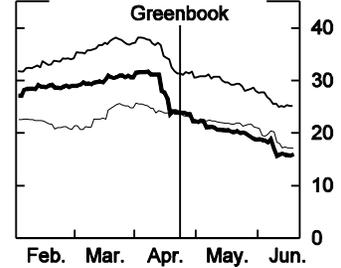


Realized Stock Market Volatility*
Weekly

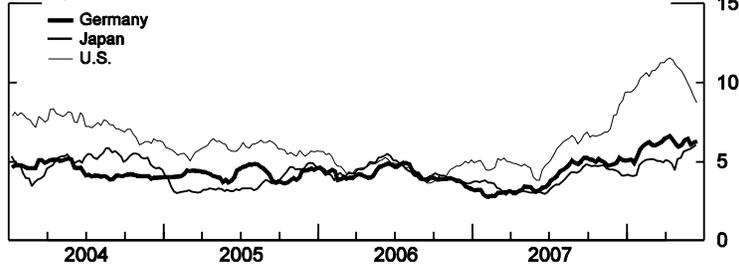


*Annualized standard deviation of 60-day window of daily returns.

Daily

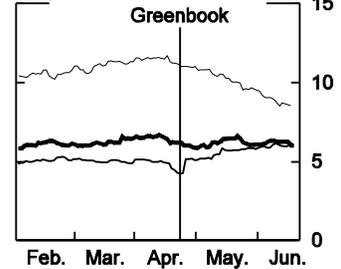


Realized 10-Year Bond Volatility*
Weekly



*Annualized standard deviation of 60-day window of daily returns.

Daily

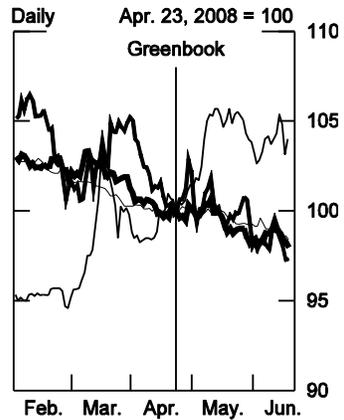
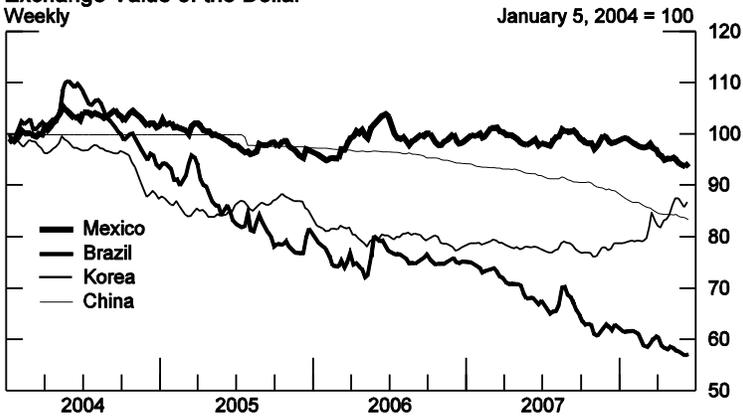


Emerging Markets: Exchange Rates and Stock Market Indexes

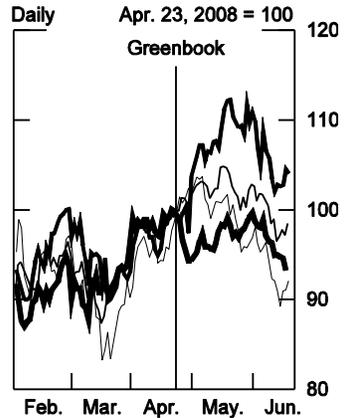
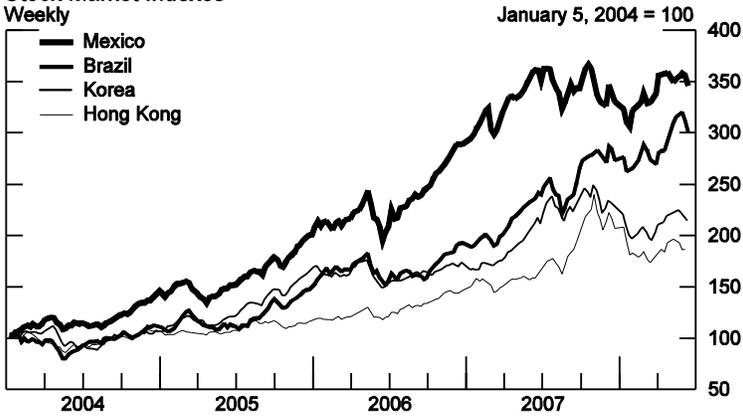
	Exchange value of the dollar		Stock market index	
	Latest	Percent change since April Greenbook*	Latest	Percent change since April Greenbook
Mexico	10.2886	-1.9	29925	-6.6
Brazil	1.6138	-2.6	68144	4.2
Venezuela	2.14	-0.1	36664	-3.3
China	6.8821	-1.5	2941	-10.3
Hong Kong	7.8055	0.1	23326	-7.8
Korea	1030.5	4.0	1774	-1.5
Taiwan	30.37	0.3	8218	-8.8
Singapore	1.3697	1.3	940	0.0
Thailand	33.28	5.8	766	-8.6

* Positive percent change denotes appreciation of U.S. dollar.

Exchange Value of the Dollar
Weekly



Stock Market Indexes
Weekly

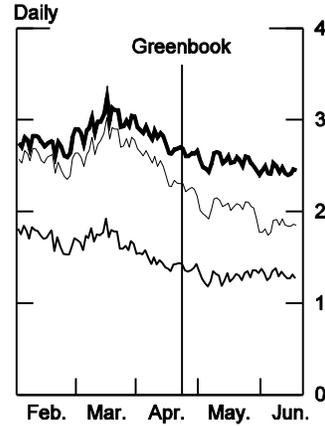
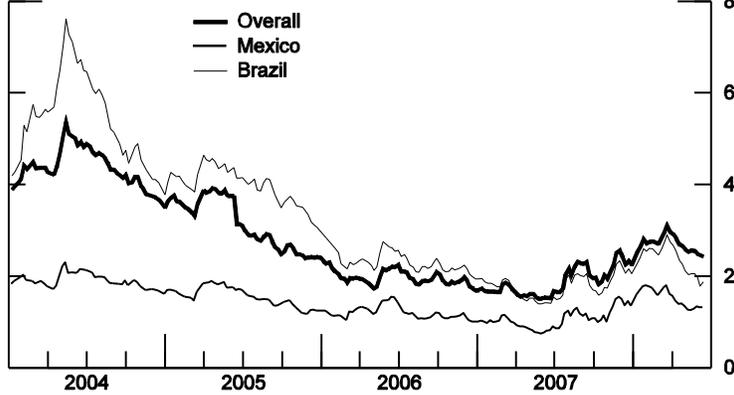


Emerging Markets: Short-Term Interest Rates and Dollar-Denominated Bond Spreads

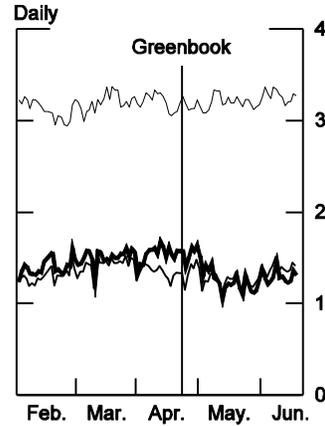
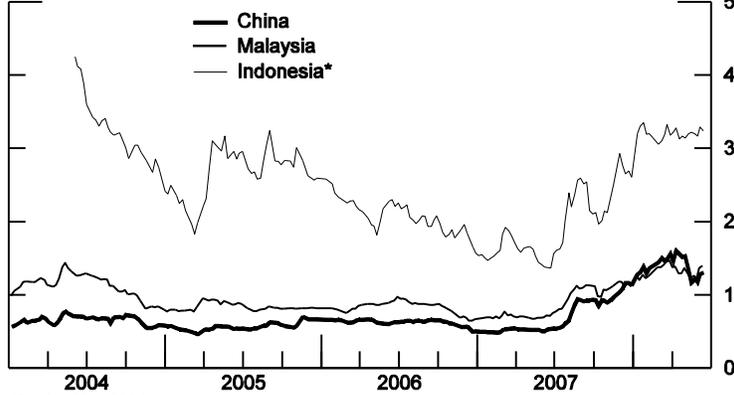
	Short-term interest rates*		Dollar-denominated bond spreads**	
	Latest	Change since April Greenbook	Latest	Change since April Greenbook
Mexico	7.34	0.00	1.27	-0.17
Brazil	12.10	0.23	1.86	-0.45
Argentina	15.56	5.69	5.63	-0.08
China	...	...	1.32	-0.26
Korea	5.10	0.00	...	...
Taiwan	2.54	-0.04	...	...
Singapore	3.50	0.00	...	...
Hong Kong	1.91	0.25	...	...

*One month interest rate except 1-week rate for Korea. No reliable short-term interest rate exists for China.
 **EMBI+ or EMBI Global Spreads over similar-maturity U.S. Treasuries.
 ... Korea, Taiwan, Singapore, and Hong Kong have no outstanding dollar-denominated sovereign bonds.

EMBI+ Spreads
Weekly



EMBI Global Spreads
Weekly



*Begins May 2004.

Developments in Advanced Foreign Economies

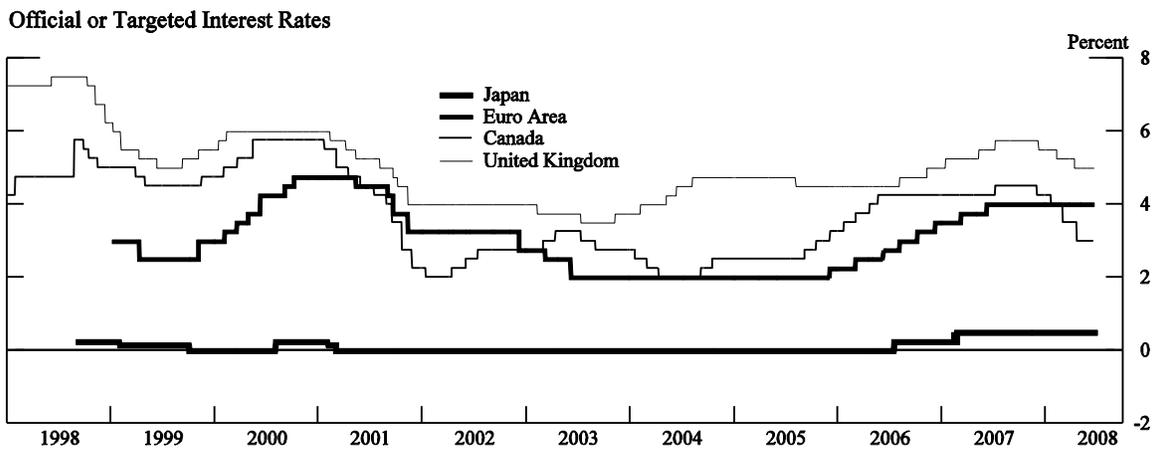
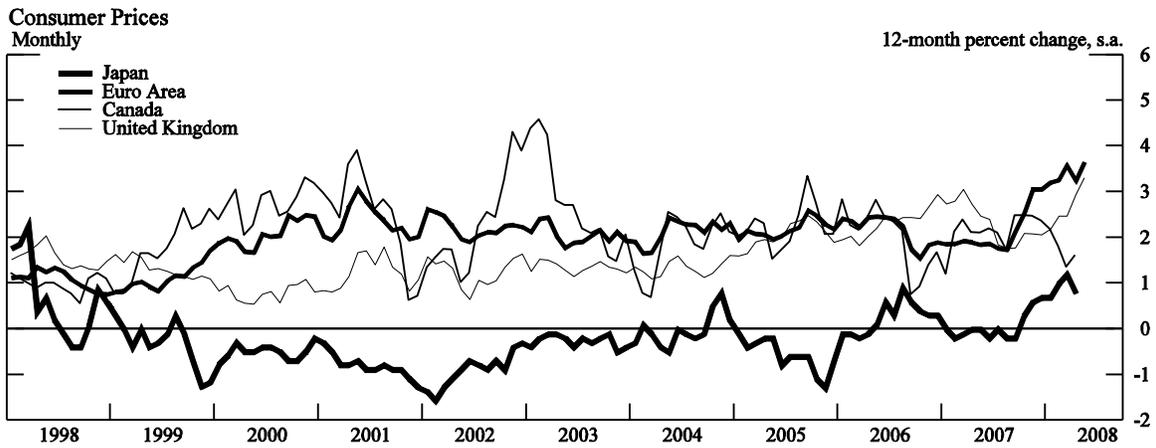
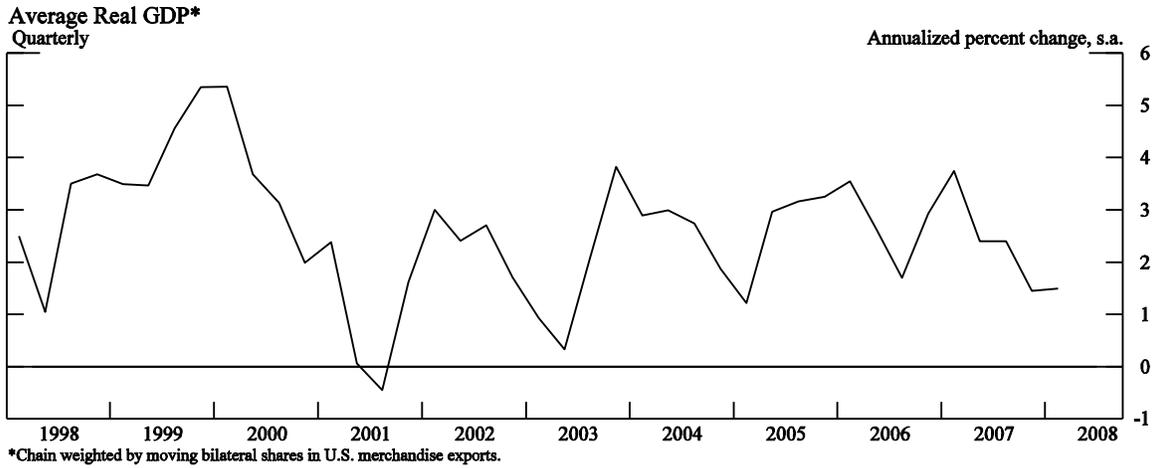
Real GDP in the advanced foreign economies expanded moderately in the first quarter, but the pace of economic activity varied markedly across economies. In the euro area and Japan, strong investment contributed to a sharp acceleration in output. In Canada, GDP contracted 0.3 percent on the back of large negative contribution from exports and inventories. In the United Kingdom, output moderated to 1.6 percent due to a slowdown in real estate and business activities. Recent data point to softness across the advanced foreign economies in the second quarter. Consumer and business confidence indicators have weakened in all major economies, and the PMIs show increased pessimism regarding the pace of business activity going forward. Measures of the unemployment rate have started to drift up from decade lows in most economies.

Inflationary pressures remain elevated on balance because of recent food and energy price increases. In Europe, the prospect of inflation climbing to nearly 4 percent over the summer has led market participants to speculate that the European Central Bank and the Bank of England may increase interest rates this year. The Bank of Canada held rates unchanged at its June meeting despite expectations of a cut, citing the possibility that CPI inflation would rise above 3 percent later in the year if current levels of energy prices persisted. In Japan, headline inflation slid to 0.8 percent in April but interest rate expectations rose marginally over the intermeeting period.

In **Canada**, real GDP contracted 0.3 percent (a.r.) in the first quarter. Cutbacks were widespread in manufacturing, most notably in the automobile sector where production was hampered by a strike at a major supplier of automotive parts in the United States. Coming on the heels of rapid growth in the second half of 2007, inventory accumulation and business investment, especially in machinery and equipment, both eased markedly. Nevertheless, consumer spending advanced 3.2 percent, although this was the slowest quarterly rise in consumption in over two years. Imports fell twice as much as exports; however, excluding autos, exports advanced 3 percent.

Indicators suggest that GDP will avoid shrinking for a second consecutive quarter, although activity is likely to remain weak. Housing starts in April and May, while healthy, were below their very strong first-quarter average. The manufacturing sector rebounded in April, with widespread gains in the volume of sales. However, the volume

Advanced Foreign Economies



of new orders was down, with decreased orders for durables outweighing a rise in orders for nondurables. Total employment continued to expand in both April and May, but more slowly than it did in the first quarter. The unemployment rate held steady at 6.1 percent in May, still near its 33-year low of 5.8 percent reached in February.

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

Component	2006 ¹	2007 ¹	2007			2008
			Q2	Q3	Q4	Q1
GDP	2.2	2.8	3.9	2.3	0.8	-0.3
Total domestic demand	3.7	6.3	4.8	9.7	6.2	-2.6
Consumption	4.6	5.3	5.8	4.2	7.5	3.2
Investment	4.6	4.2	4.9	5.6	3.8	-0.0
Government consumption	3.7	4.6	2.7	7.2	5.8	2.6
Inventories²	-0.7	1.5	-0.1	4.6	0.0	-5.2
Exports	-1.0	-1.4	2.5	-1.1	-7.4	-4.1
Imports	3.0	8.6	4.9	20.6	8.6	-10.0
Net Exports²	-1.7	-4.2	-1.1	-8.6	-6.6	3.1

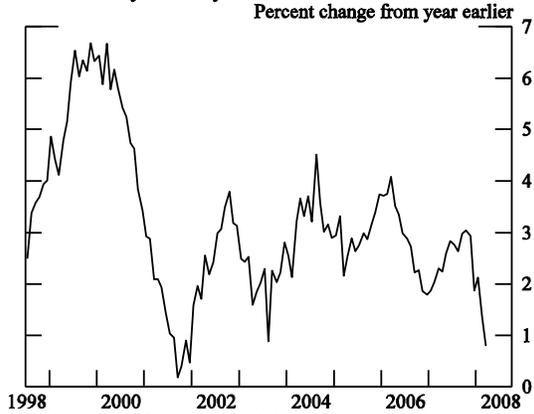
1. Q4/Q4

2. Percentage point contribution to GDP growth.

The twelve-month rate of consumer price inflation was 1.7 percent in April, up from March's 1.4 percent, as disinflationary pressures stemming from the Canadian dollar's appreciation seem to have subsided a bit. At 1 percent in April, food price inflation remains low, although the rise in food prices between March and April was significantly faster than in the previous several months. The Bank of Canada's preferred measure of core inflation, which excludes the eight most volatile components of the consumer price index as well as the effects of indirect taxes, was 1.5 percent in April.

Canada

Real GDP by Industry*

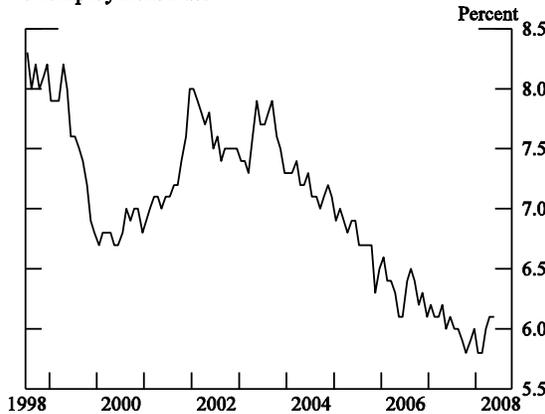


*Constructed from various Statistics Canada surveys and supplements the quarterly income and expenditure-based estimates.

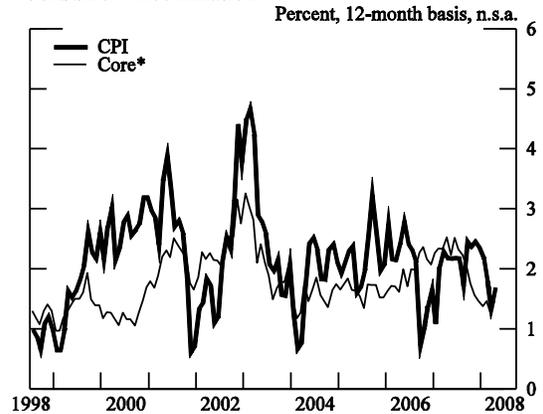
Real Trade



Unemployment Rate



Consumer Price Inflation



*Excludes 8 most volatile components and the effects of changes in indirect taxes.

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

Indicator	2007		2008	2008			
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Industrial production	-0.4	-1.3	-2.1	-0.8	-1.4	n.a.	n.a.
New manufacturing orders	-1.8	-0.5	-4.1	-0.7	3.7	-3.0	n.a.
Retail sales	0.0	1.8	1.2	-0.7	0.5	n.a.	n.a.
Employment	0.4	0.7	0.5	0.3	0.1	0.1	0.0
Consumer attitudes ¹	100.7	97.3	93.4	...	...	...	...
Business confidence ¹	101.6	101.0	96.4	...	...	...	...

1. 2002=100.
n.a. Not available. ... Not applicable.

In the **euro area**, real GDP grew 3.2 percent in the first quarter, with better-than-expected performance in domestic demand and net exports. GDP growth was supported primarily by a 6.3 percent increase in German GDP, where construction activity was enhanced by unusually warm weather. Investment remained solid for the euro-area as a whole, but consumption continued to show signs of weakness, registering a second consecutive quarter of anemic growth.

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

Component	2006 ¹	2007 ¹	2007			2008
			Q2	Q3	Q4	Q1
GDP	3.3	2.1	1.5	2.7	1.3	3.2
Total domestic demand	2.4	1.9	0.3	2.8	0.2	3.1
Consumption	2.1	1.2	2.5	1.8	-0.2	0.6
Investment	5.9	3.2	-0.0	3.8	4.1	6.6
Government consumption	2.4	2.0	1.1	3.3	-0.1	1.5
Inventories²	-0.5	0.1	-1.2	0.3	-0.5	0.9
Exports	8.9	4.4	3.7	9.3	1.2	7.8
Imports	6.9	4.0	1.0	9.9	-1.1	7.6
Net Exports²	0.9	0.2	1.2	-0.1	1.0	0.2
Memo:						
GDP of selected countries						
France	2.2	2.2	2.3	2.8	1.4	2.6
Germany	3.9	1.7	0.7	2.7	1.1	6.3
Italy	2.5	0.1	0.0	0.9	-1.6	1.9

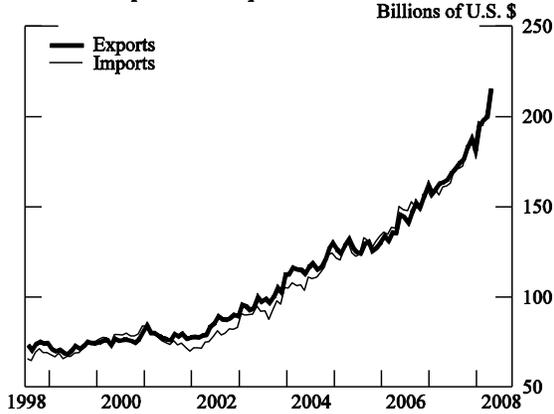
1. Q4/Q4

2. Percentage point contribution to GDP growth

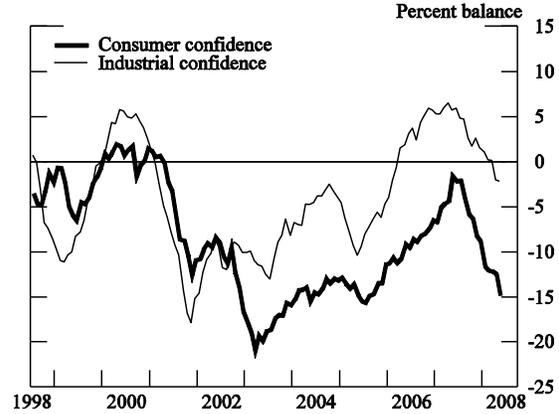
Recent data point to a moderation in economic activity in the current quarter, on balance. Business and consumer confidence indicators continued to deteriorate, and the volume of retail sales declined in March and April. The PMI for manufacturing and the flash PMI for services remained only slightly above 50. Nevertheless, IP rebounded in April and the unemployment rate held at 7.1 percent in April for the third consecutive month.

Euro Area

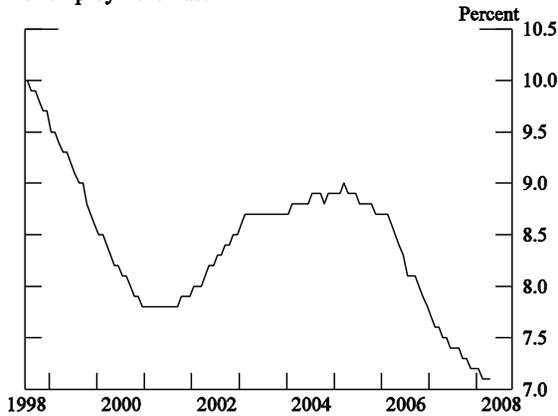
Nominal Exports and Imports



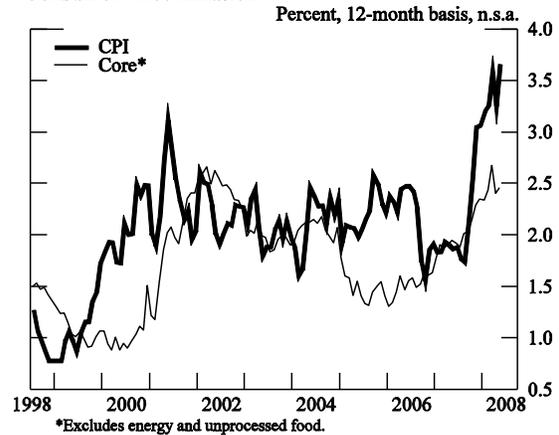
Economic Sentiment



Unemployment Rate



Consumer Price Inflation



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

Indicator	2007		2008	2008			
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Industrial production ¹	1.5	0.2	0.7	0.8	0.3	-0.5	0.9
Retail sales volume ²	0.3	-0.9	0.0	0.6	-0.2	-0.9	-0.7
New car registrations	0.5	0.7	-2.6	-4.4	5.1	-8.7	8.0
Employment	0.4	0.2	n.a.	...	...	...	...
Producer prices ³	2.1	4.0	5.4	5.0	5.4	5.8	6.1
M3 ³	11.3	11.5	10.1	11.6	11.3	10.1	10.6

1. Excludes construction.

2. Excludes motor vehicles.

3. Eurostat harmonized definition. Percent change from year earlier, s.a.

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

The ECB's survey of euro-area bank lending indicated a further tightening of credit standards in the first quarter. The percent balance of euro-area banks reporting a net tightening of credit standards for loans to enterprises was 49 percent in the first quarter, up from 41 percent in the fourth quarter of 2007. Banks also reported a further increase in the net tightening of credit standards for loans to households.

Euro-area twelve-month HICP inflation jumped to 3.7 percent in May, a record high since the start of euro-area statistics in 1997. Inflation excluding energy and unprocessed food prices continued to meander around 2½ percent. During the June meeting, the ECB Council left policy rates unchanged, but officials have signaled the possibility of a rate increase as early as July.

In **Japan**, real GDP increased 4 percent (a.r.) in the first quarter. Consumption and net exports both made unusually large contributions to growth (1.8 and 2.0 percentage points, respectively). Private investment rose a robust 3.2 percent after falling a cumulative 4 percent over the previous three quarters.

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

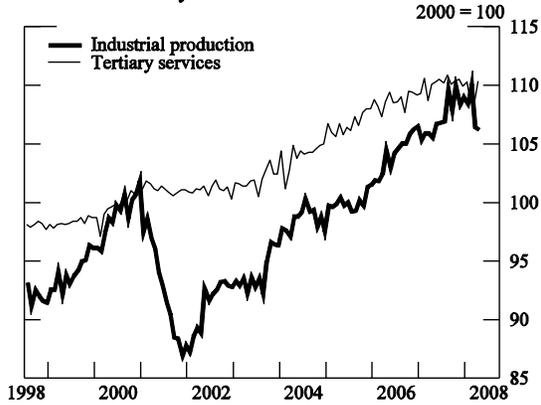
Component	2006 ¹	2007 ¹	2007			2008
			Q2	Q3	Q4	Q1
GDP	2.5	1.4	-2.5	0.9	2.9	4.0
Total domestic demand	1.9	0.1	-3.0	-1.0	1.7	2.0
Consumption	1.7	1.2	0.7	0.2	1.5	3.3
Private investment	5.8	-3.8	-11.0	-2.7	-1.7	3.2
Public investment	-9.9	-1.4	-14.1	-5.4	2.3	5.5
Government consumption	0.1	1.4	0.7	0.4	3.4	-1.7
Inventories ²	0.3	0.0	-0.6	-0.3	0.5	-0.5
Exports	6.5	10.3	5.1	11.9	10.8	17.1
Imports	2.7	2.3	2.6	-0.2	3.9	5.6
Net Exports ²	0.6	1.3	0.5	1.8	1.2	2.0

1. Q4/Q4

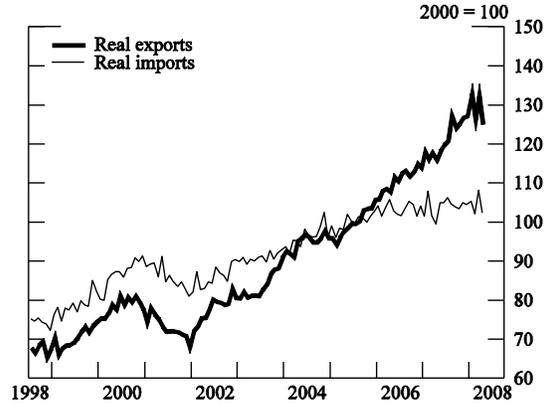
2. Percentage point contribution to GDP growth.

Japan

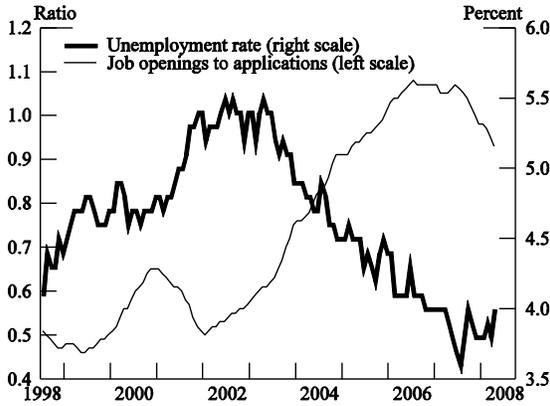
Economic Activity



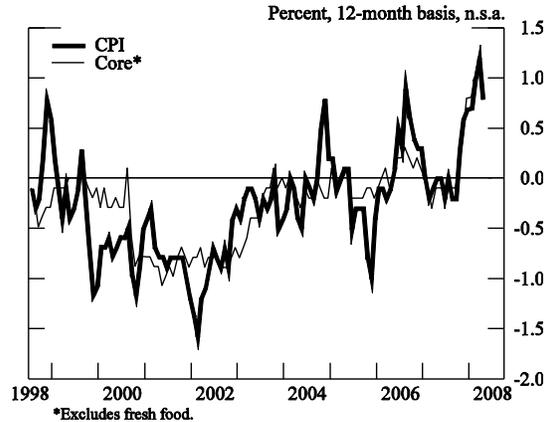
Real Trade



Labor Market



Consumer Price Inflation



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

Indicator	2007		2008	2008			
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Housing starts	-35.5	18.1	19.6	-3.1	-5.4	5.8	n.a.
Machinery orders ¹	1.4	0.6	2.2	-12.3	-8.3	5.5	n.a.
Household expenditures	-0.5	0.6	0.7	-2.9	-2.2	-0.7	n.a.
New car registrations	1.0	4.3	-1.6	-2.9	-5.0	9.9	-11.1
Business sentiment ²	4.0	2.0	-4.0	...	...	...	...
Wholesale prices ³	1.6	2.4	3.5	3.5	3.9	3.9	4.7

1. Private sector, excluding ships and electric power.

2. Tankan survey, diffusion index. Level.

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

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

Recent indicators of production have been weak, however. Industrial production contracted 3.4 percent in March and a further 0.2 percent in April, leaving the April level well below the first-quarter average. April shipments data also fell short of their first-quarter average. Consistent with the weakening production numbers, export growth has slowed considerably since the beginning of the year; the 12-month growth rate of exports declined from 6 percent in January to 0.3 percent in April.

Although the labor market remains relatively strong overall, there are some signs of weakening. The unemployment rate rose to 4 percent in April, and the job openings-to-applicants ratio (the number of officially posted job openings relative to the number of officially registered job seekers) fell to 0.93, its lowest level since March 2005. Total cash earnings (which include bonuses) grew a meager 0.9 percent over the twelve months ending in April.

The nationwide core consumer price index (excluding fresh food only) rose 0.9 percent in April from a year earlier, compared with 1.2 percent in March. Consumer prices excluding food and energy fell 0.1 percent. The timelier core CPI for Tokyo rose 0.9 percent in May from a year earlier.

In the **United Kingdom**, real GDP moderated to 1.6 percent (a.r.) in the first quarter, despite a sizeable increase in consumption. Fixed investment contracted sharply after two quarters of solid growth, and inventories made a large negative contribution. Net exports made a positive contribution as imports fell and exports moved sideways. The service sector expanded 2 percent, its slowest pace since 2001, as real estate and business activities stalled.

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

Component	2006 ¹	2007 ¹	2007			2008
			Q2	Q3	Q4	Q1
GDP	3.2	2.8	3.4	2.6	2.5	1.6
Total domestic demand	3.4	3.7	1.9	6.3	1.8	0.6
Consumption	2.8	2.4	2.8	3.1	0.7	5.5
Investment	9.6	4.1	-4.8	8.7	7.4	-6.1
Government consumption	1.4	1.3	2.0	2.4	-1.9	4.2
Inventories²	-0.3	1.2	0.4	2.7	0.4	-2.5
Exports	-1.3	0.6	2.8	5.7	-1.9	0.2
Imports	-0.4	3.1	-2.7	18.2	-3.9	-2.6
Net Exports²	-0.2	-0.8	1.6	-3.6	0.7	0.8

1. Q4/Q4

2. Percentage point contribution to GDP growth.

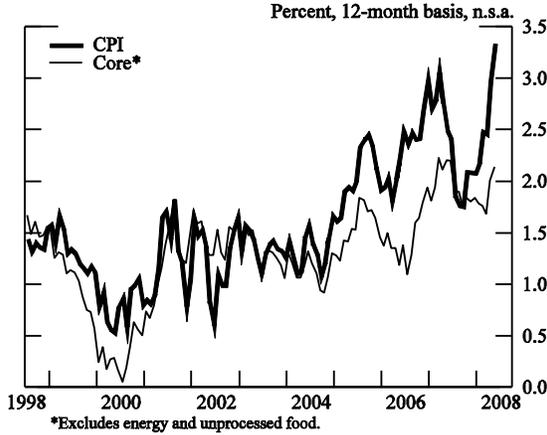
Business and confidence indicators softened markedly through May. The May PMIs for services and manufacturing indicated equal proportions of respondents expecting business activity in their sector to either expand or contract. The Labor Force Survey measure of the unemployment rate ticked up to 5.3 percent in March, and the number of people claiming unemployment benefits rose marginally in May, although the claimant count rate was unchanged.

The housing market continues to be a major source of uncertainty for households. Net nominal mortgage lending in April stood 30 percent below its 2007 average, while the value of mortgages approved for house purchases nearly halved over the same period, indicating that financial institutions are considerably limiting the origination of new loans. The volume of remortgaging activities, on the other hand, continues to grow at a sustained pace.

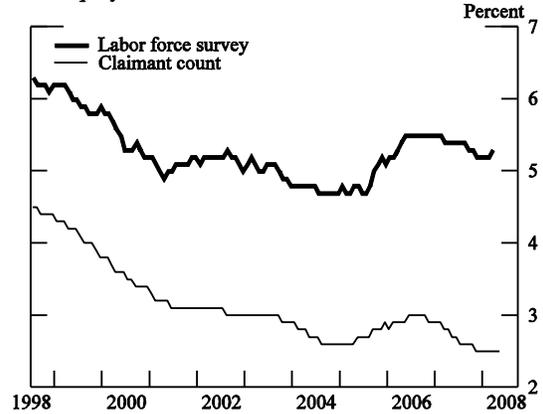
The twelve-month rate of CPI inflation climbed to 3.3 percent in May, prompting the Governor of the Bank of England to write a public letter to the Chancellor. Energy and food prices, the largest contributors to the current run-up in headline inflation, rose 15.6 and 7.8 percent, respectively, in the year to May. The price of manufactured inputs soared nearly 30 percent over that period, its largest increase since 1976. By contrast, average earnings including bonuses grew 3.2 percent in the twelve months to April, their slowest pace in five years.

United Kingdom

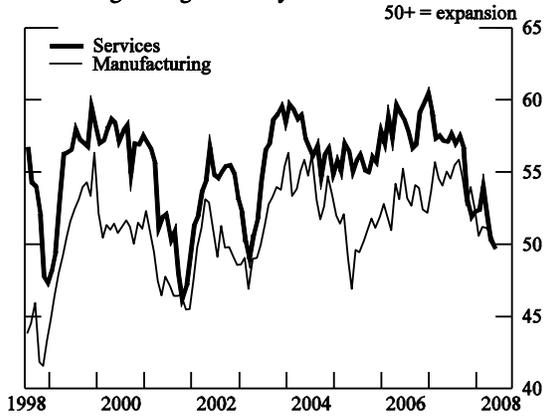
Consumer Price Inflation



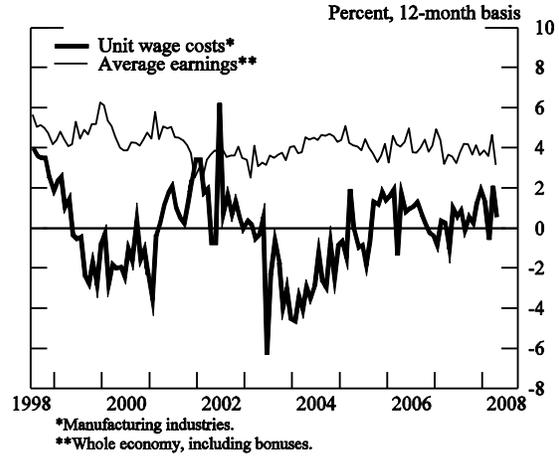
Unemployment Rates



Purchasing Managers Survey



Labor Costs



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

Indicator	2007		2008	2008			
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Producer input prices ¹	2.7	10.7	19.7	20.0	20.1	24.3	27.9
Industrial production	-0.3	0.2	-0.2	0.3	-0.4	0.2	n.a.
Business confidence ²	13.3	7.3	12.7	11.0	18.0	0.0	0.0
Consumer confidence ²	-2.5	-3.8	-8.6	-8.8	-9.8	-13.2	-14.6
Trade balance ³	-28.4	-28.6	-25.5	-8.5	-7.5	-8.6	n.a.
Current account ³	-38.5	-17.3	n.a.	...	...	...	...

1. Percent change from year earlier.
2. Percent balance. 3. Level in billions of US Dollars.
n.a. Not available. ... Not applicable.

Economic Situation in Other Countries

Recent indicators for emerging market economies generally point toward continued solid growth, albeit at a slower pace than last year. Strong exports among the emerging market economies appear to have partially offset weakness in exports to the advanced economies. Domestic demand remains robust in many of the countries. Headline inflation rose further in most of the developing world, largely owing to higher food and energy prices; several countries are facing upward pressure on core inflation as well. The rising cost of energy subsidies has led several Asian countries to raise state-controlled fuel prices. Since the April Greenbook, authorities in several countries, including Brazil, China, India, and Turkey have tightened monetary conditions.

In **China**, data revisions led the staff to increase its estimate of real GDP growth in the first quarter to a surprisingly strong 11.7 percent (s.a.a.r.). Data on retail sales, up 22 percent in April and May from a year earlier, suggest that domestic demand has continued to strengthen. In addition, the trade surplus declined a bit in April and May, on average, from the first quarter, as imports jumped higher. Since the fourth quarter of last year, growth of exports to the United States, Europe, and the rest of Asia has slowed. Exports to Latin America have picked up; however, Latin America accounts for less than 5 percent of Chinese exports.

Twelve-month consumer price inflation was 8.5 percent in April, but fell to 7.7 percent in May, as food price inflation moderated from 22 percent to 20 percent. To combat inflation, Chinese authorities have lowered import tariffs on selected foods, medicine, and cotton. The People's Bank of China (PBOC) raised the required reserve ratio (RRR) for banks $\frac{1}{2}$ percentage point in May and another 1 percentage point in June. The latest increase brings the RRR to $17\frac{1}{2}$ percent for large banks. Bank lending has been subdued over the past three months, with the twelve-month growth in loans less than 15 percent, the slowest pace of growth since early 2006. The rate of renminbi appreciation slowed in April and the first half of May, but picked up again in the second half of the month. The PBOC continues to accumulate international reserves at a rapid pace; reserves increased \$75 billion in April to reach \$1.75 trillion.

On May 12, a massive earthquake struck the Sichuan province in China. It is estimated that 90,000 people were killed and more than 350,000 people were injured. The impact of this tragedy on the Chinese economy is not reflected in the data received to date, but over the next few months there is likely to be some additional upward pressure on prices as distribution remains hampered and the supply of some agricultural products are

diminished. In addition, over the next few quarters, reconstruction is likely to provide a small boost to GDP.

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

Indicator	2006	2007	2007	2008			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	10.6	11.3	10.6	11.7	...	...	...
Industrial production ²	14.6	18.6	3.3	...	8.1	-2.7	4.5
Consumer prices ³	2.8	6.5	6.6	8.0	8.3	8.5	7.7
Merch. trade balance ⁴	177.5	261.8	250.1	254.5	242.1	206.5	284.3

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

2. China no longer reports a January IP number, which means that period/period changes cannot be computed for Jan. and Feb.

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

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

... Not applicable.

India's GDP growth in the fourth quarter of last year was revised up from 2.7 percent (s.a.a.r) to 7.6 percent, in part due to bountiful rains in the monsoon season that resulted in higher agricultural production than initially estimated. Growth strengthened further in the first quarter of this year to 9.1 percent, the agriculture and services sectors were particularly strong but industrial production slowed. The trade deficit widened in the first quarter and in April, as imports grew faster than exports. Inflation, measured by both consumer and wholesale prices, remained relatively constant in March and April, but some prices, particularly of metals and oil seeds, accelerated. In addition, in early June, the government increased retail gasoline prices 11 percent and diesel prices 9.5 percent. Amid inflationary pressures, the central bank raised the repo rate 25 basis points to 8 percent on June 11, more than a month before the bank's next scheduled policy meeting and its first hike in 14 months. The central bank also raised the reserve requirement 25 basis points to 8.25 percent and relaxed restrictions on capital inflows by raising foreign investment limits; greater capital inflows may help reduce downward pressures on the rupee.

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

Indicator	2006	2007	2007	2008			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	9.3	8.8	7.6	9.1	...	...	...
Industrial production	10.5	9.9	2.2	1.7	.4	1.1	n.a.
Consumer prices ²	6.5	5.5	5.5	6.0	6.9	6.9	n.a.
Wholesale prices ²	5.7	3.8	3.4	5.8	7.5	7.6	8.1
Merch. trade balance ³	-53.1	-71.2	-77.3	-95.0	-100.8	-115.0	n.a.
Current account ⁴	-9.5	-11.8	-21.5	n.a.	...	...	...

1. Annual rate. Annual data are Q4/Q4.

2. Percent change from year-earlier period, except annual data, which are Dec./Dec.

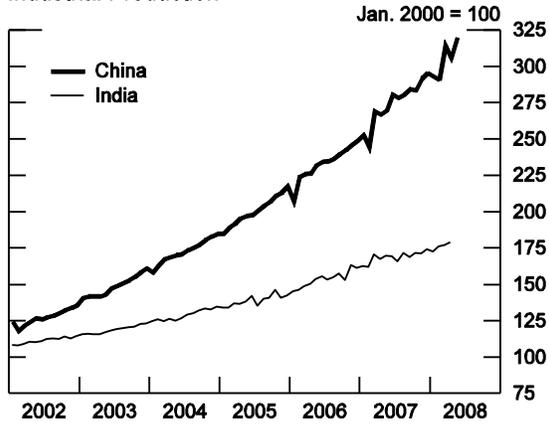
3. Billions of U.S. dollars, annual rate.

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

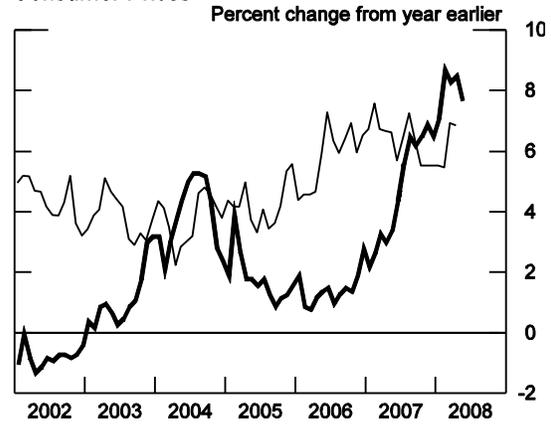
n.a. Not available. ... Not applicable.

China and India

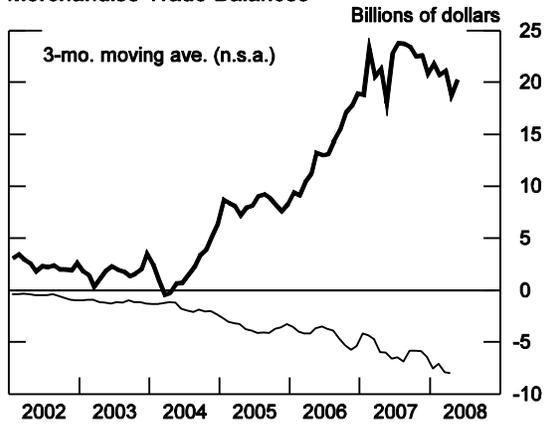
Industrial Production



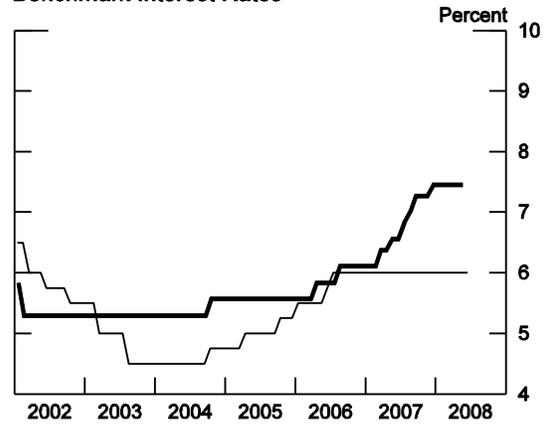
Consumer Prices



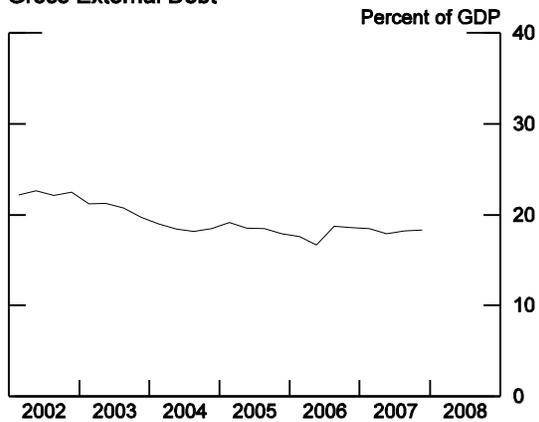
Merchandise Trade Balances



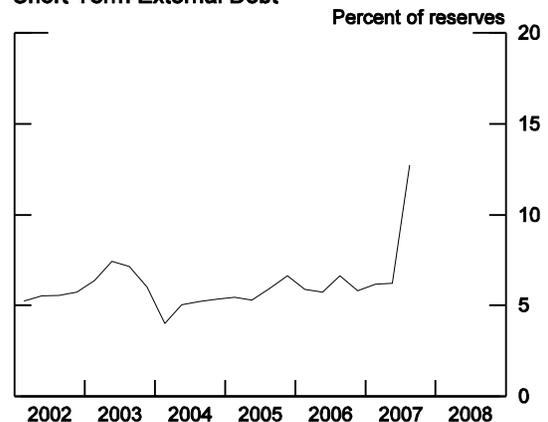
Benchmark Interest Rates



Gross External Debt



Short-Term External Debt



In the NIEs¹, first-quarter GDP growth picked up in Hong Kong and Singapore but slowed in Korea and Taiwan. Real GDP in Hong Kong was buoyed by strong Chinese growth. In Singapore, growth surged to 14½ percent (s.a.a.r.) following a marked contraction in the fourth quarter, as activity in the biomedical sector rebounded sharply. In Korea and Taiwan, the slowdowns were broad-based. More recently, industrial production growth for April was unchanged in Korea and plunged in Singapore, reflecting a contraction in the biomedical sector. Trade surpluses in Korea, Singapore, and Taiwan have widened thus far in the current quarter from the first-quarter average; Hong Kong's trade deficit has narrowed.

Twelve-month consumer price inflation remained elevated in the NIEs, largely reflecting higher food and energy prices, although there have been some upward moves in core inflation as well. Specifically, Hong Kong and Singapore experienced large increases in inflation in April, and Korea saw a large increase in May. To respond to the adverse effects of inflation on the poor, the Korean government announced a \$10 billion relief package for its lowest-income citizens over the next year. In contrast, inflation in Taiwan edged lower in April and May. Taiwanese authorities announced a large increase in fuel prices in late May.

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

Indicator	2006	2007	2007	2008			
			Q4	Q1	Feb.	Mar.	Apr.
<i>Real GDP¹</i>							
Hong Kong	6.5	7.0	6.1	7.4	...	...	...
Korea	4.2	5.9	6.4	3.3	...	...	...
Singapore	7.0	5.5	-4.8	14.6	...	...	...
Taiwan	4.0	6.5	2.9	1.6	...	...	...
<i>Industrial production</i>							
Hong Kong	2.4	-1.6	1.7	-3.6	...	...	...
Korea	8.8	7.0	3.2	2.0	-2	1.0	1.0
Singapore	11.9	5.9	-8.8	11.3	3.2	4.9	-16.4
Taiwan	5.0	8.1	1.3	1.3	-3.0	1.2	n.a.

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

¹ Newly-industrialized economies: Hong Kong, South Korea, Singapore, and Taiwan

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

Indicator	2006	2007	2007	2008			
			Q4	Q1	Mar.	Apr.	May
Hong Kong	-17.9	-23.5	-29.6	-24.2	-35.9	-3.1	n.a.
Korea	27.9	29.4	18.2	2.4	5.0	32.9	n.a.
Singapore	33.1	36.2	25.1	22.8	8.3	28.6	24.7
Taiwan	11.6	16.8	22.1	.3	-11.8	5.8	18.0

n.a. Not available.

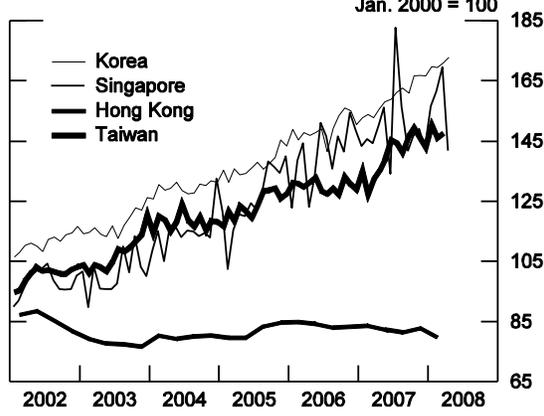
NIEs Economic Indicators: CPI Inflation
(Percent change from year earlier, except as noted)

Indicator	2006 ¹	2007 ¹	2007	2008			
			Q4	Q1	Mar.	Apr.	May
Hong Kong	2.3	3.8	3.5	4.5	4.1	5.4	n.a.
Korea	2.1	3.6	3.4	3.8	4.0	4.1	4.9
Singapore	.8	4.4	4.1	6.6	6.7	7.5	n.a.
Taiwan	.7	3.3	4.5	3.6	3.9	3.8	3.7

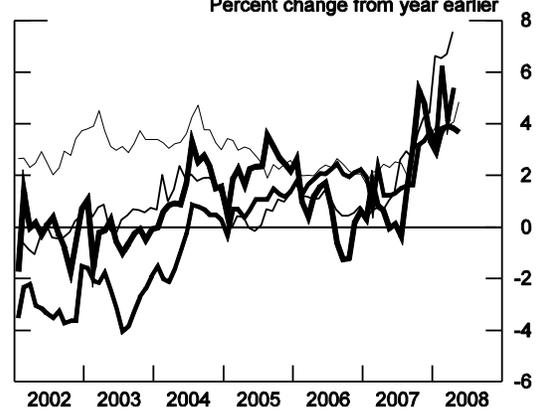
1. Percent change from year-earlier period, except annual data, which are Dec./Dec
n.a. Not available.

NIEs

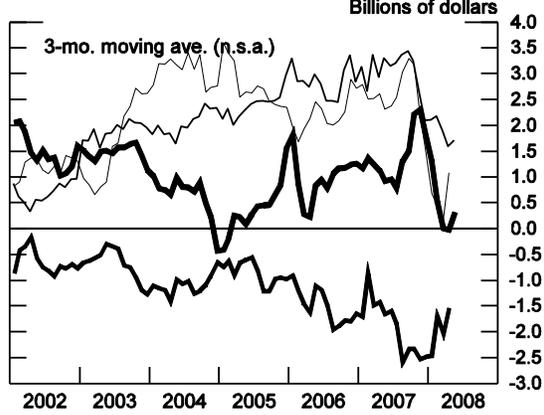
Industrial Production



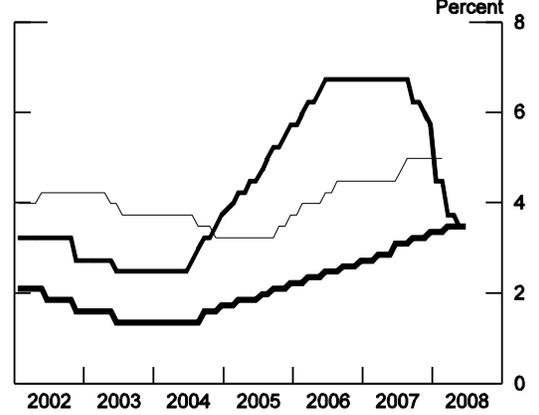
Consumer Prices



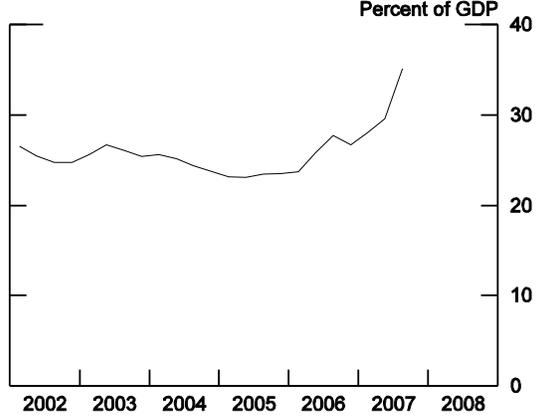
Merchandise Trade Balances



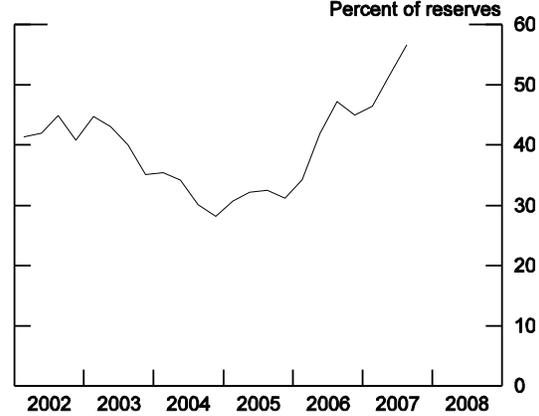
Benchmark Interest Rates



Gross External Debt



Short-Term External Debt



Data from the **ASEAN-4** show signs of a mild weakening in economic growth. With the exception of Indonesia, real GDP growth slowed in the first quarter. Final domestic demand was strong in both Malaysia and Indonesia, but there was a substantial drawdown in inventories. Domestic demand remained solid in the Philippines, boosted by strong remittances. In Thailand, domestic demand was weak in the first quarter, but industrial production rebounded in April.

Thailand, the world's largest exporter of rice, has benefited from recent record high prices for the commodity. Nevertheless, the trade balance for Thailand has deteriorated as exports have failed to keep pace with imports. The Philippines has been hit hard by the runup in the world prices of both rice and crude oil, which have sharply increased its import bill.

Across the region, increasing food and energy prices continue to push consumer price inflation higher. Both the Indonesian and Malaysian governments recently raised the domestic price of fuel, which is state-controlled. Malaysia has announced plans to eliminate fuel subsidies altogether in August of this year, while Indonesia has opted to begin a system of rationing in September. Thailand instituted a small subsidy on diesel fuel for buses, and the Philippines eliminated its 1 percent import tariff on crude oil. The central banks of Indonesia and the Philippines have raised rates to combat inflation.

ASEAN-4 Economic Indicators: Growth
(Percent change from previous period, s.a., except as noted)

Indicator	2006	2007	2007	2008			
			Q4	Q1	Feb.	Mar.	Apr.
<i>Real GDP¹</i>							
Indonesia	5.8	6.1	3.0	3.0	...	...	...
Malaysia	5.4	7.4	6.5	5.2	...	...	...
Philippines	5.6	6.5	5.1	3.0	...	...	...
Thailand	4.3	5.8	7.2	5.9	...	...	...
<i>Industrial production²</i>							
Indonesia ³	-1.6	5.5	.7	2.0	-2.0	.5	.2
Malaysia	4.6	2.3	1.7	1.3	-1.2	-4.4	2.3
Philippines	-8.5	-2.7	3.2	-1.9	2.1	-1.8	n.a.
Thailand	7.4	8.2	4.0	1.9	.2	-3.7	1.4

1. Annual rate. Annual data are Q4/Q4.

2. Annual data are annual averages.

3. Staff estimate.

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

ASEAN-4 Economic Indicators: Merchandise Trade Balance
(Billions of U.S. dollars, s.a.a.r.)

Indicator	2006	2007	2007	2008			
			Q4	Q1	Feb.	Mar.	Apr.
Indonesia	39.7	39.6	36.9	44.7	35.3	53.6	24.6
Malaysia	29.5	29.2	28.1	33.9	38.8	28.1	50.4
Philippines	-4.4	-5.1	-9.4	-10.6	-8.5	-12.3	n.a.
Thailand	1.0	12.0	11.9	.3	-13.2	1.4	-6.1

n.a. Not available.

ASEAN-4 Economic Indicators: CPI Inflation
(Percent change from year earlier, except as noted)

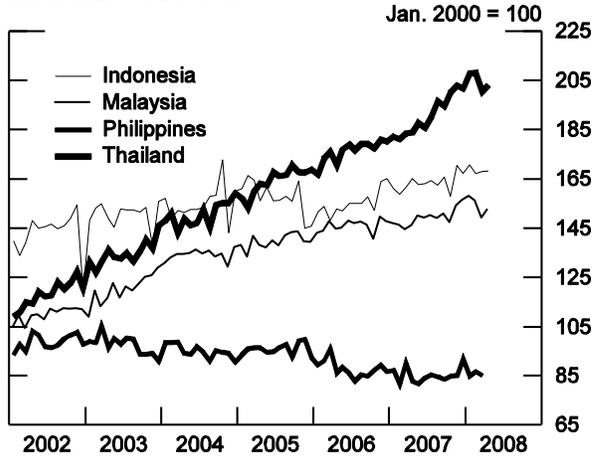
Indicator	2006 ¹	2007 ¹	2007	2008			
			Q4	Q1	Mar.	Apr.	May
Indonesia	6.5	6.5	6.7	7.6	8.1	9.0	10.4
Malaysia	3.1	2.4	2.2	2.6	2.8	3.0	n.a.
Philippines	4.3	3.9	3.3	5.5	6.4	8.3	9.6
Thailand	3.5	3.2	2.9	5.0	5.3	6.2	7.6

1. Dec./Dec.

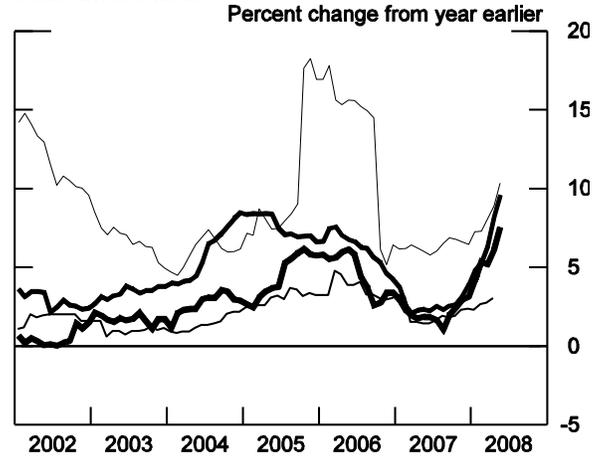
n.a. Not available.

ASEAN-4

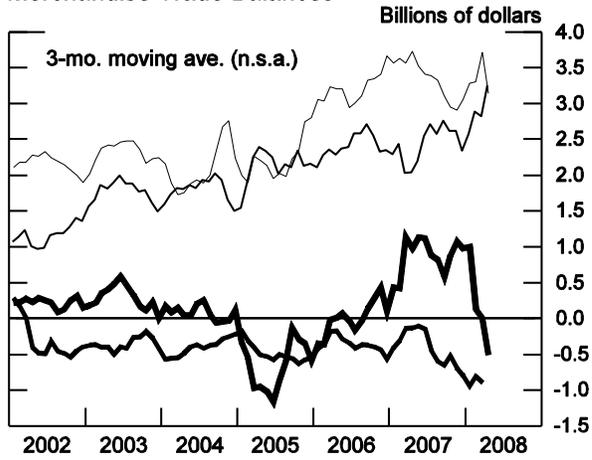
Industrial Production



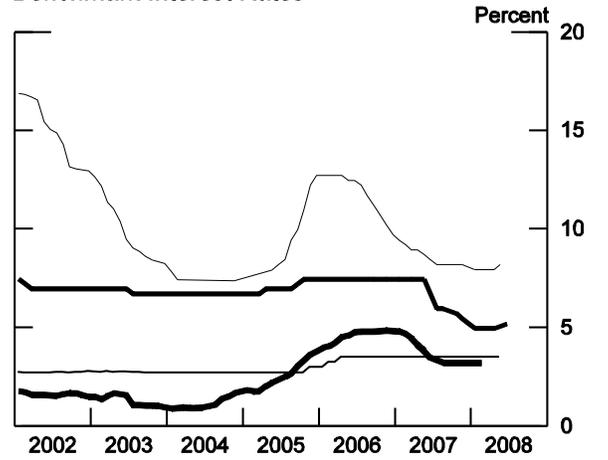
Consumer Prices



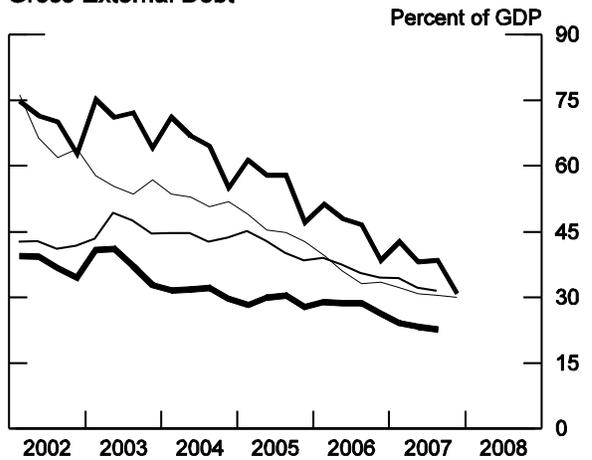
Merchandise Trade Balances



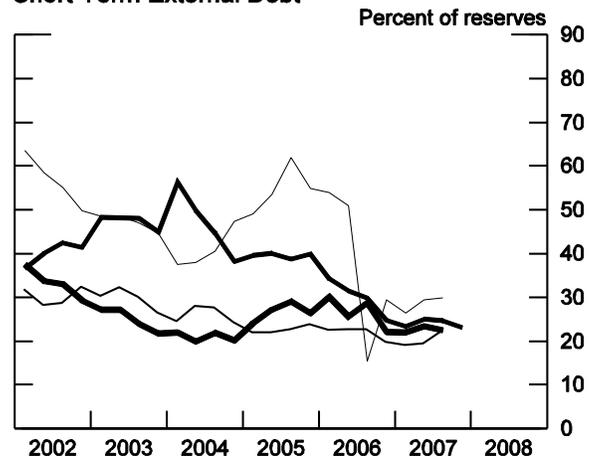
Benchmark Interest Rates



Gross External Debt



Short-Term External Debt



Mexican real GDP growth decreased to 2.1 percent (s.a.a.r.) in the first quarter, reflecting in part the slowdown in the United States. Mining, construction, and the manufacture of textiles and computer equipment decelerated, and the volatile agricultural sector posted a decline of 7 percent. Data for the current quarter point to continued lackluster performance. Industrial production declined 1.8 percent in April, with a particularly large decline in the mining sector, which includes oil and gas extraction. Indexes of consumer confidence declined in April and May, while the manufacturing opinion survey has moved sideways since January. The trade deficit continued to widen in April, reflecting a broad-based jump in imports and a decline in exports. Headline inflation in May reached 5 percent on a twelve-month basis, pushing inflation further away from the 4 percent upper bound of the central bank's target range.

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

Indicator	2006	2007	2007	2008			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	3.7	4.0	3.3	2.1	...	...	...
Overall economic activity	5.0	3.1	.7	.5	-.3	n.a.	n.a.
Industrial production	5.4	1.8	.1	-.2	-.3	-1.8	n.a.
Unemployment rate ²	3.6	3.7	3.8	3.7	3.7	3.7	n.a.
Consumer prices ³	4.1	3.8	3.8	3.9	4.3	4.5	5.0
Merch. trade balance ⁴	-6.1	-10.1	-2.3	-12.8	-4.9	-11.7	n.a.
Merchandise imports ⁴	256.1	281.9	290.4	310.4	314.5	317.0	n.a.
Merchandise exports ⁴	249.9	271.9	288.1	297.5	309.6	305.3	n.a.
Current account ⁵	-2.1	-5.4	-3.6	-6.1	...	...	...

1. Annual rate. Annual data 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 data, 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**, first-quarter real GDP growth slowed to 2.9 percent from 6.6 percent in the fourth quarter. On the production side, the weakness was mainly in the agricultural sector. On the expenditure side, private consumption growth dropped to 1.3 percent, and investment moved down from double-digit rates last year to 5.4 percent. The trade surplus narrowed in the first quarter but rebounded significantly in May as exports soared, following the end of a customs strike. In April, both auto production and domestic sales were very strong, and capacity utilization rates remained high. However, industrial output was up only slightly. Headline inflation continued to move up, reaching

5.5 percent in May. Both food prices and prices of core goods have been putting upward pressure on headline inflation. The regulated price category, which includes energy, has risen only modestly in recent months.

In early June, as expected, the central bank raised its target policy rate 50 basis points to 12¼ percent, following a similar move in April. The government also announced that it would raise its target for the primary fiscal surplus to 4¼ percent of GDP from 3¾ percent of GDP. The move was primarily aimed at allaying concerns about rapid growth of government spending. Brazil's sovereign credit rating was raised to investment grade by S&P in April and by Fitch in May.

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

Indicator	2006	2007	2007	2008			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	4.9	6.1	6.6	2.9	...	...	...
Industrial production	2.8	6.0	1.8	.6	.6	.2	n.a.
Unemployment rate ²	10.0	9.3	8.5	8.4	8.2	8.0	n.a.
Consumer prices ³	3.3	4.5	4.3	4.6	4.7	5.0	5.5
Merch. trade balance ⁴	46.5	40.0	33.9	22.3	17.0	18.5	52.7
Current account ⁵	13.6	1.5	-7.4	-43.0	-53.1	-39.7	n.a.

1. Annual rate. Annual data are Q4/Q4.

2. Percent.

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

Price index is IPCA.

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**, growth of nominal exports and imports jumped in April, with exports supported by high prices for agricultural commodities. In March, the government decided to increase export taxes on several agricultural products, including soybeans, grains, and oilseeds, in an attempt to reduce food price inflation, triggering a strike by farmers. The confrontation between the government and farmers spilled over into other sectors in recent weeks, when truckers began blocking roads, leading to some food shortages. The tensions contributed to a decline in bank deposits and downward pressures on the peso, prompting the central bank to engage in unsterilized intervention to support the currency, which put upward pressures on interest rates. On June 9, the thirty-day bank deposit rate was 12.7 percent, up from about 8 percent in early May. Headline consumer price inflation reached nearly 9 percent in April on a twelve-month

basis, amid large increases in prices of services, such as housing, transportation and health. Despite the introduction of a new CPI index, skepticism about the reliability of the official inflation data continues.

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

Indicator	2006	2007	2007	2008			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	8.5	9.2	8.0	n.a.	...	...	...
Industrial production	8.4	7.5	4.1	-1.5	-1.8	5.3	n.a.
Unemployment rate ²	10.2	8.5	7.5	8.4	...	...	...
Consumer prices ³	9.7	8.4	8.4	8.5	8.8	8.9	9.1
Merch. trade balance ⁴	12.3	11.1	15.8	11.8	10.9	3.4	n.a.
Current account ⁵	7.7	7.2	12.6	n.a.	...	...	...

1. Annual rate. Annual data are Q4/Q4.

2. Percent; n.s.a.

3. Percent change from year-earlier period, except annual data, 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**, real GDP plunged by an estimated 9 percent (s.a.a.r.) in the first quarter on sharp contractions in manufacturing and construction. Consumer price inflation continued to climb in May, reaching 30 percent on a twelve-month basis. Food prices were up 45 percent as a result of the relaxation of price controls. The black-market exchange rate is currently 3,400 bolivar per dollar, versus an official rate of 2,100. Finance Minister Rafael Isea resigned in mid-June to run in the forthcoming elections in November, but policies are expected to remain expansionary under his successor, Ali Rodriguez, the current ambassador to Cuba and former president of state-oil company PDVSA.

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

Indicator	2006	2007	2007	2008			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	11.4	8.5	10.8	-9.1	...	...	...
Unemployment rate ²	10.0	8.5	7.3	n.a.	n.a.	n.a.	n.a.
Consumer prices ³	17.0	22.5	20.1	25.4	27.8	28.2	30.0
Non-oil trade balance ⁴	-23.0	-34.6	-40.5	-34.3	...	...	...
Merch. trade balance ⁴	32.7	23.7	29.8	47.9	...	...	...
Current account ⁵	27.1	20.0	20.2	40.0	...	...	...

1. Annual rate. Annual data are Q4/Q4.

2. Percent.

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

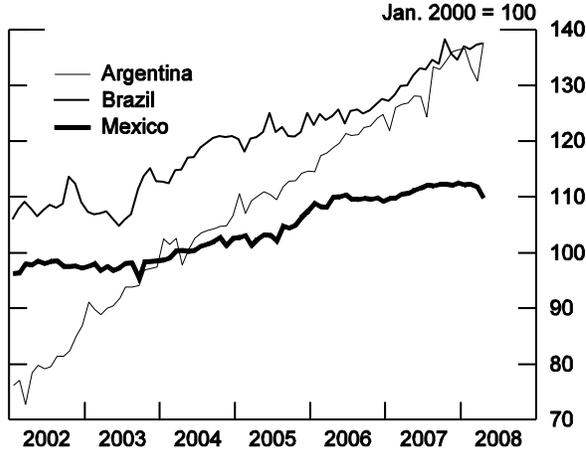
4. Billions of U.S. dollars, annual rate.

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

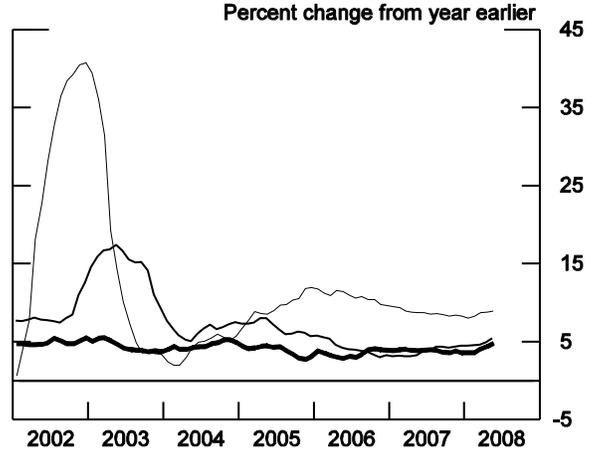
n.a. Not available. ... Not applicable.

Latin America

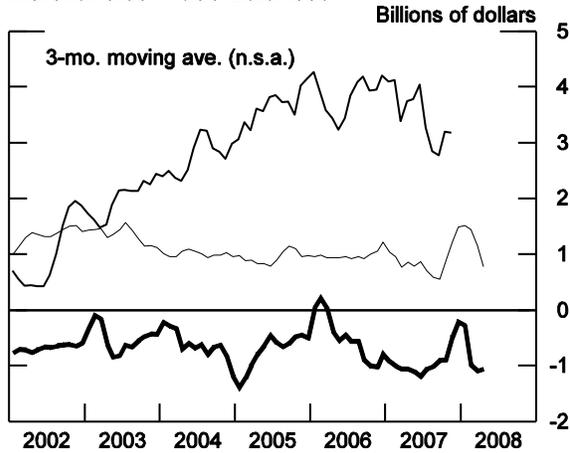
Industrial Production



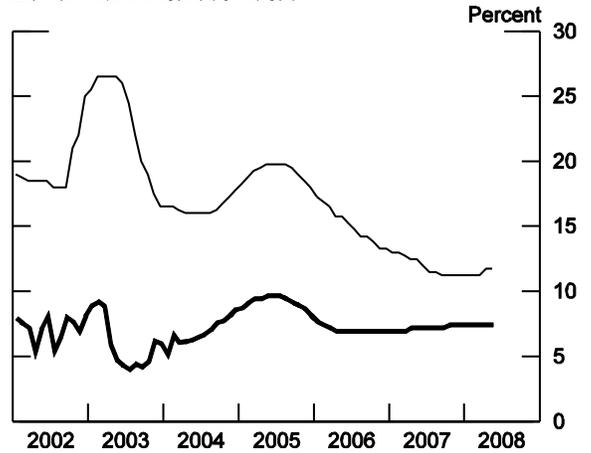
Consumer Prices



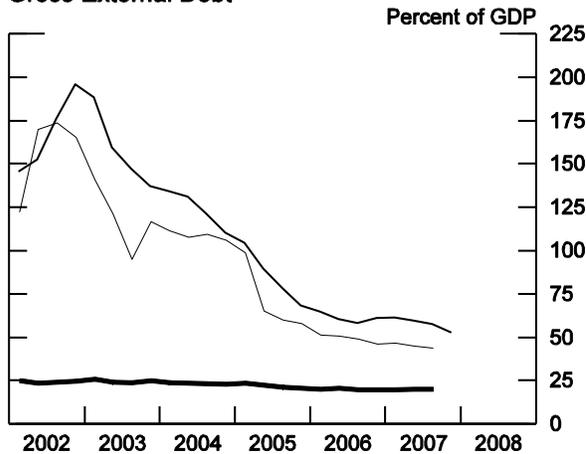
Merchandise Trade Balances



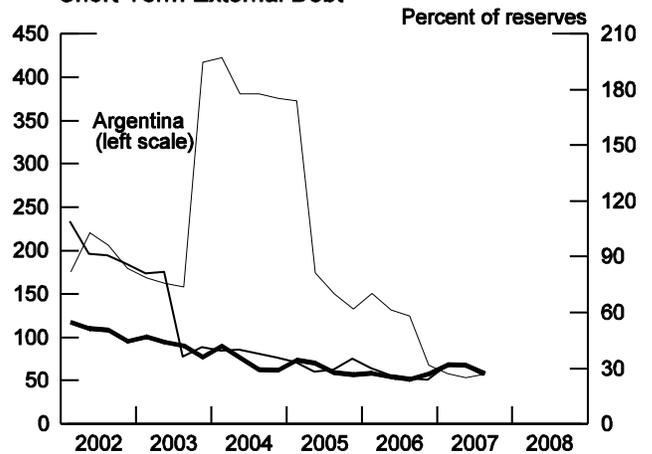
Benchmark Interest Rates



Gross External Debt



Short-Term External Debt



In **Turkey**, real GDP increased 5 percent in the fourth quarter, boosted by strong private sector investment. Industrial production has shown signs of moderation in recent months. Twelve-month consumer price inflation reached 10.7 percent in May, significantly higher than the 6 percent upper limit of the central bank's year-end target. The Monetary Policy Committee raised its policy rates 50 basis points at its May meeting, in light of inflationary pressures resulting from lagged pass-through from exchange rates and rising prices for energy and processed foods. In early June, the central bank raised its medium-term inflation targets to 7.5 percent in 2009, 6.5 percent in 2010, and 5.5 percent in 2011. Twelve-month-ahead inflation expectations increased to 8.6 percent in the mid-June Survey of Expectations.

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

Indicator	2006	2007	2007	2008			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	5.7	3.4	5.0	n.a.	...	...	...
Industrial production	5.8	5.4	2.2	3.4	-6.4	2.6	n.a.
Consumer prices ²	9.7	8.4	8.2	8.8	9.2	9.7	10.7
Merch. trade balance ³	-54.1	-62.9	-72.8	-73.1	-64.4	-75.0	n.a.
Current account ⁴	-31.9	-37.5	-46.2	-48.0	-49.8	-58.6	n.a.
Unemployment rate ⁵	9.9	9.9	10.0	9.9	...	...	...

1. Annual rate. Annual data are Q4/Q4.

2. Percent change from year-earlier period, except annual data, which are Dec./Dec.

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

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

5. Percent

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