

Prefatory Note

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Part 2

March 12, 2009

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

March 12, 2009

Recent Developments

Domestic Nonfinancial Developments

Domestic Nonfinancial Developments

Recent data indicate that economic activity is falling sharply. The contraction is reflected in widespread declines in payroll jobs and industrial production. Consumer spending appears to remain low after having changed little, on balance, in recent months. The housing market continues on a steep descent, and nonresidential construction has begun to decline in earnest. Business spending on equipment and software continues to fall across a broad range of categories. Despite the cutbacks in production, inventory overhangs have worsened in a number of areas. Both headline and core consumer price inflation remained subdued in January.

Labor Market Developments

Labor market conditions have continued to deteriorate at a rapid rate. Private payroll employment plunged an average of 670,000 per month over the past three months. Employment losses remain widespread across industries with the notable exception of health care. Altogether, private payroll employment has declined nearly 3 million since October and 4½ million since the recession began. Meanwhile, the average workweek of production and nonsupervisory workers on private payrolls remained low at 33.3 hours in February, and the aggregate hours for this group stood about 8 percent (at an annual rate) below the fourth-quarter average.

In the household survey, the unemployment rate climbed ½ percentage point in February to 8.1 percent. The unemployment rate has now increased 1½ percentage points since October and 3¼ percentage points since the recession began. The labor force participation rate, which had remained relatively stable during the first half of 2008, has moved down about ½ percentage point since then in response to weakening labor demand and stood at 65.6 percent in February.¹

Other indicators also suggest a continued deterioration of the labor market. Weekly initial unemployment insurance claims moved up rapidly over the past two months, as has the number of individuals who receive unemployment insurance benefits. Other indicators of involuntary job separations—short-term job losers in the household survey,

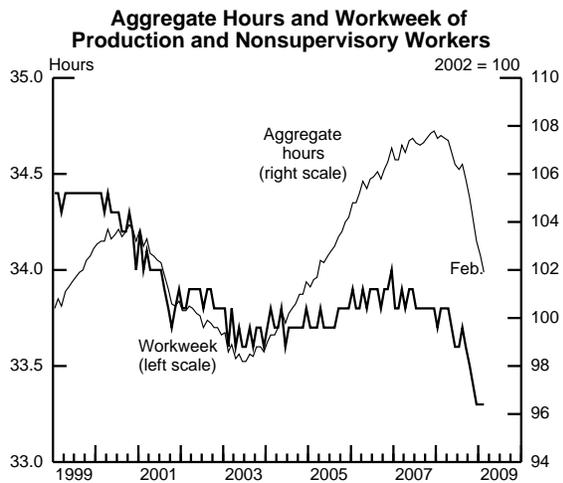
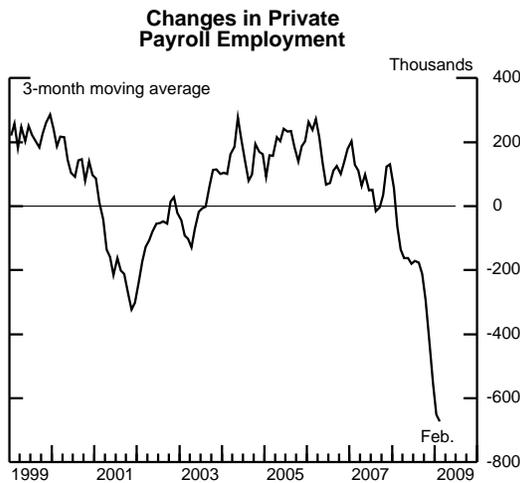
¹ The emergency unemployment insurance program that began in July has likely boosted labor force participation and the unemployment rate by encouraging unemployed individuals to remain in the labor force. The staff estimates that in January and February emergency benefits contributed about 0.3 percentage point to the level of the published unemployment rate and about 0.2 percentage point to the level of the published labor force participation rate.

Changes in Employment

(Thousands of employees; seasonally adjusted)

Measure and sector	2008	2008				2009	
		Q2	Q3	Q4	Dec.	Jan.	Feb.
	Average monthly change				Monthly change		
Nonfarm payroll employment (establishment survey)	-257	-153	-208	-553	-681	-655	-651
Private	-270	-180	-212	-552	-670	-686	-660
Natural resources and mining	4	5	8	-2	-4	-4	-4
Manufacturing	-73	-46	-61	-140	-180	-257	-168
Ex. motor vehicles	-58	-38	-43	-121	-152	-188	-167
Construction	-57	-56	-34	-97	-98	-118	-104
Residential	-35	-32	-21	-51	-50	-57	-51
Nonresidential	-22	-25	-12	-45	-48	-61	-53
Wholesale trade	-16	-10	-12	-32	-40	-31	-37
Retail trade	-44	-34	-42	-80	-88	-39	-40
Financial activities	-19	-14	-16	-35	-33	-52	-44
Temporary help services	-44	-34	-40	-70	-73	-80	-78
Nonbusiness services ¹	19	35	16	-19	-36	2	-21
Total government	14	27	4	-1	-11	31	9
Total employment (household survey)	-246	-95	-236	-564	-806	-1239	-351
Memo:							
Aggregate hours of private production workers (percent change) ²	-3.3	-2.3	-2.8	-7.4	-9	-6	-7
Average workweek (hours) ³	33.6	33.7	33.6	33.4	33.3	33.3	33.3
Manufacturing (hours)	40.8	40.9	40.8	40.2	39.9	39.8	39.6

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.



Source: U.S. Department of Labor, Bureau of Labor Statistics.

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

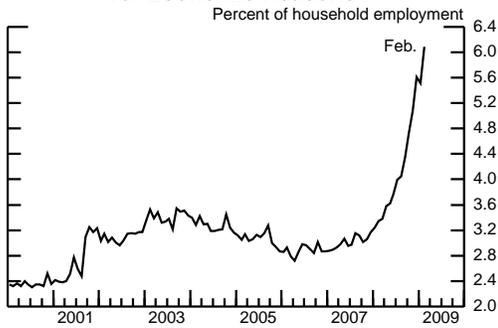
Rate and group	2008	2008				2009	
		Q2	Q3	Q4	Dec.	Jan.	Feb.
<i>Civilian unemployment rate</i>							
Total	5.8	5.4	6.0	6.9	7.2	7.6	8.1
Teenagers	18.7	17.7	19.7	20.7	20.8	20.8	21.6
20-24 years old	10.2	9.8	10.6	11.3	12.1	12.1	12.9
Men, 25 years and older	4.8	4.2	5.1	6.0	6.4	6.9	7.5
Women, 25 years and older	4.4	4.1	4.5	5.2	5.4	5.8	6.2
<i>Labor force participation rate</i>							
Total	66.0	66.1	66.1	65.9	65.7	65.5	65.6
Teenagers	40.2	41.3	40.3	38.7	38.3	38.3	38.7
20-24 years old	74.4	74.6	74.8	74.1	74.3	72.8	74.0
Men, 25 years and older	75.4	75.3	75.6	75.2	74.9	74.7	74.7
Women, 25 years and older	60.0	60.0	60.0	60.1	60.1	60.1	60.0

Labor Force Participation Rate and Unemployment Rate

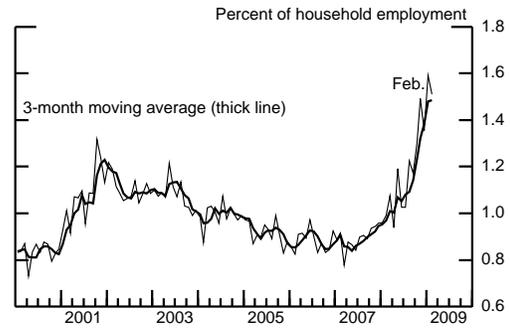


Note: Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER). The NBER peak is the last business cycle peak as defined by the NBER.

Persons Working Part Time for Economic Reasons



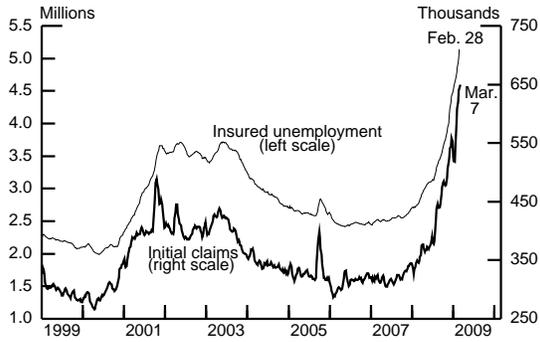
Job Losers Unemployed Less Than 5 Weeks



Source: U.S. Department of Labor, Bureau of Labor Statistics.

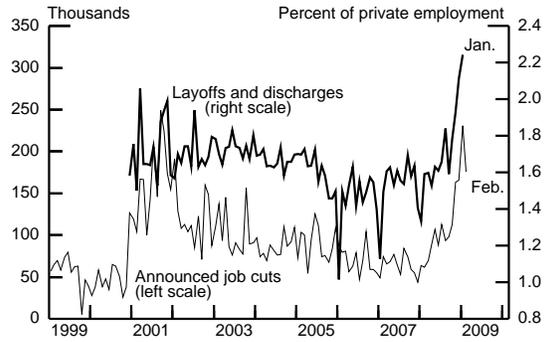
Labor Market Indicators

Unemployment Insurance



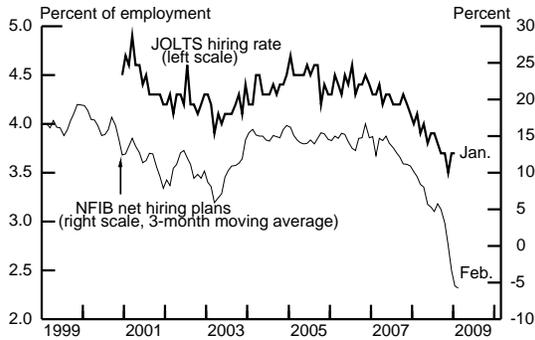
Note: 4-week moving averages.
Source: U.S. Dept. of Labor, Employment and Training Administration.

Layoffs and Job Cuts



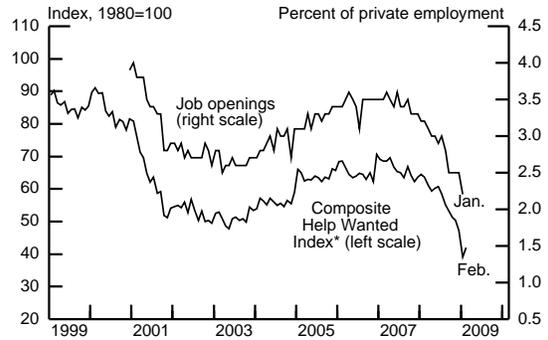
Note: Both series are seasonally adjusted by FRB staff.
Source: For layoffs and discharges, Job Openings and Labor Turnover Survey; for job cuts, Challenger, Gray, and Christmas, Inc.

Hiring



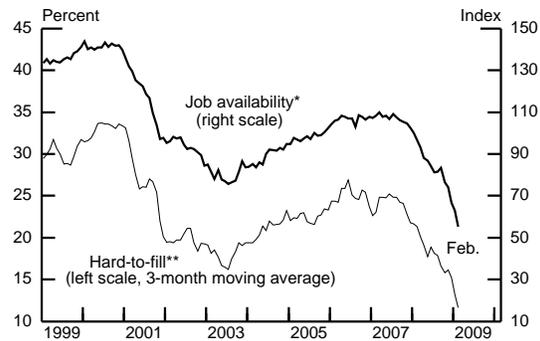
Note: NFIB is the percent planning an increase in employment minus the percent planning a reduction.
Source: National Federation of Independent Business (NFIB); Job Openings and Labor Turnover Survey (JOLTS).

Job Openings



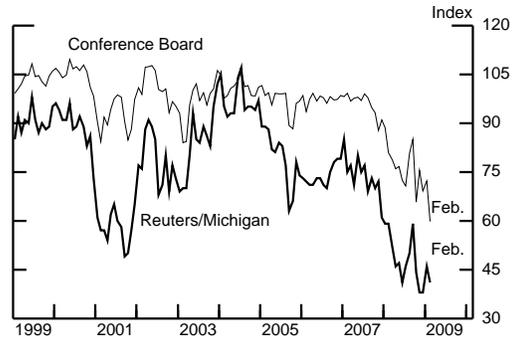
*Index of staff composite help wanted advertising as a percent of private payroll employment.
Source: For job openings, Job Openings and Labor Turnover Survey; for Help Wanted Index, Conference Board and staff calculations.

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.

Expected Labor Market Conditions



Note: The proportion of households expecting labor market conditions to improve, minus the proportion expecting conditions to worsen, plus 100.
Source: Conference Board; Reuters/University of Michigan Surveys of Consumers.

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

Sector	2006:Q4 to 2007:Q4	2007:Q4 to 2008:Q4	2008			
			Q1	Q2	Q3	Q4
Nonfarm business						
All persons	2.6	2.1 ¹	2.6	4.7	2.2	-.9 ¹
All employees ²	2.0	1.5 ¹	2.3	4.9	1.6	-2.7 ¹
Nonfinancial corporations ³	1.9	n.a.	-.4	8.5	6.4	n.a.

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.

n.a. Not available.

Source: For output, U.S. Dept. of Commerce, Bureau of Economic Analysis; for hours, U.S. Dept. of Labor, Bureau of Labor Statistics.

the layoff and discharge rate in the JOLTS, and announcements of job cuts reported by Challenger, Gray, and Christmas, Inc.—have continued to climb.² Hiring rates as measured in the JOLTS remain low, and hiring plans as measured in the NFIB survey and the Manpower survey (not shown) have weakened further. Measures of job vacancy rates—job openings in the JOLTS and the Help Wanted Index—have continued to drop, and alternative measures of labor market slack—job availability as reported in the Conference Board survey and hard-to-fill positions in the NFIB survey—have also worsened so far this year. Not surprisingly, measures of households' expectations of future labor market conditions remain depressed.

With output now reported to have dropped sharply in the fourth quarter, the staff estimates that output per hour in the nonfarm business sector declined at an annual rate of 0.9 percent after fairly solid gains earlier in the year. Over the four quarters of 2008, productivity increased 2.1 percent, about 0.5 percentage point lower than the increase in 2007.³

Industrial Production

Industrial production has continued to decline sharply in response to falling domestic and foreign demand. Total IP fell 1¾ percent in January, which brought its year-over-year

² A list of abbreviations is available at the end of part 2.

³ These productivity estimates reflect the benchmark revision recently made by the Bureau of Labor Statistics to nonfarm payroll employment as well as subsequent additional data on hours and output in the fourth quarter.

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

Component	Proportion 2008 (percent)	2008 ¹	2008		2008		2009
			Q3	Q4	Nov.	Dec.	Jan.
			Annual rate		Monthly rate		
Total	100.0	-6.1	-8.9	-12.1	-1.2	-2.4	-1.8
Previous	100.0	-6.0	-8.9	-11.5	-1.3	-2.0	...
Manufacturing	77.4	-8.0	-8.7	-17.4	-2.2	-2.9	-2.5
Ex. motor veh. and parts	73.1	-7.0	-8.7	-16.1	-2.2	-2.6	-1.4
Ex. high-tech industries	69.1	-7.4	-9.1	-14.9	-2.0	-2.4	-1.4
Mining	12.9	1.0	-7.9	6.9	2.5	-1.0	-1.3
Utilities	9.7	.2	-11.6	10.3	2.0	-.2	2.7
<i>Selected industries</i>							
Energy	27.2	1.1	-11.6	12.2	1.5	-.3	.4
High technology	4.0	-2.1	-2.3	-33.6	-6.1	-6.2	-3.2
Computers	.9	-11.2	-22.3	-42.0	-5.2	-6.1	-3.6
Communications equipment	1.3	4.6	-9.1	-2.0	.1	-1.2	1.5
Semiconductors ²	1.8	-2.6	14.0	-46.5	-10.8	-10.1	-7.1
Motor vehicles and parts	4.3	-22.9	-7.8	-37.3	-2.2	-8.1	-23.4
Aircraft and parts	2.2	-13.3	-26.9	-24.5	16.0	20.5	-3.1
<i>Total ex. selected industries</i>	62.2	-7.8	-7.5	-17.3	-2.4	-3.4	-1.4
Consumer goods	19.5	-3.9	-4.0	-8.1	-.9	-2.1	-.7
Durables	3.3	-15.2	-12.4	-28.6	-4.0	-3.5	-2.4
Nondurables	16.2	-1.4	-2.2	-3.4	-.3	-1.8	-.4
Business equipment	6.3	-5.4	-1.1	-15.2	-1.3	-1.8	-2.3
Defense and space equipment	1.2	-3.1	-7.1	-3.1	-.8	-1.0	1.7
Construction supplies	3.9	-11.3	-4.1	-26.3	-4.0	-4.1	-3.4
Business supplies	7.2	-8.7	-8.7	-16.6	-2.1	-3.2	-1.6
Materials	24.1	-11.0	-12.0	-24.1	-3.9	-5.1	-1.6
Durables	12.5	-10.8	-6.9	-29.2	-4.0	-5.5	-2.8
Nondurables	11.7	-11.3	-17.1	-18.2	-3.8	-4.7	-.3

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

2. Includes related electronic components.

... Not applicable.

Source: Federal Reserve, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

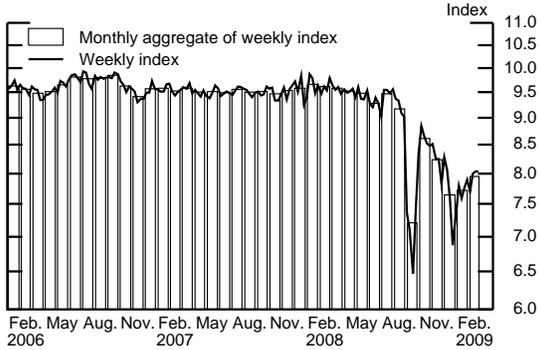
Capacity Utilization
(Percent of capacity)

Sector	1972- 2008 average	1994- 95 high	2001- 02 low	2008				2009
				Q2	Q3	Q4	Dec.	Jan.
Total industry	80.9	85.1	73.6	79.7	77.6	74.9	73.3	72.0
Manufacturing	79.6	84.6	71.5	77.5	75.5	71.7	69.7	68.0
Mining	87.6	88.7	84.8	90.8	88.8	90.1	90.2	88.9
Utilities	86.8	93.9	84.6	85.6	82.6	84.2	84.5	86.7
<i>Stage-of-process groups</i>								
Crude	86.7	89.5	81.9	89.2	86.3	85.8	84.7	83.9
Primary and semifinished	82.1	88.2	74.6	79.8	77.4	74.0	71.6	70.4
Finished	77.6	80.4	69.9	76.0	74.5	71.7	70.9	69.3

Source: Federal Reserve, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

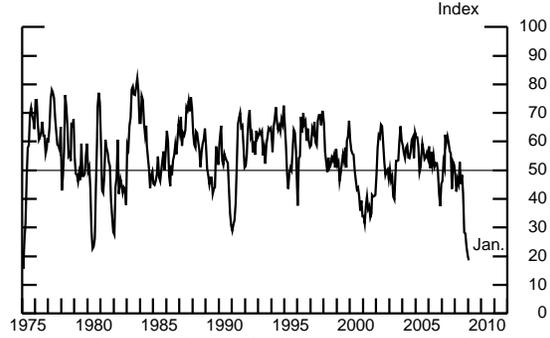
Indicators of Industrial Activity

Weekly Production Index excluding Motor Vehicles and Electricity Generation



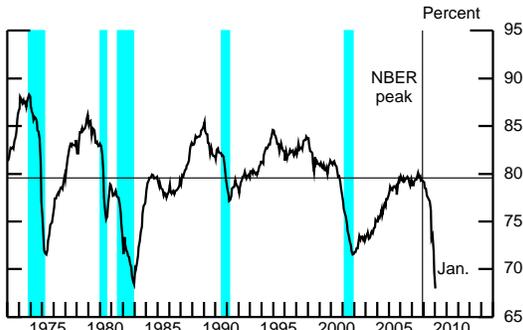
Note: One index point equals 1 percent of 2002 total industrial output.
Source: Federal Reserve, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

IP Diffusion Index



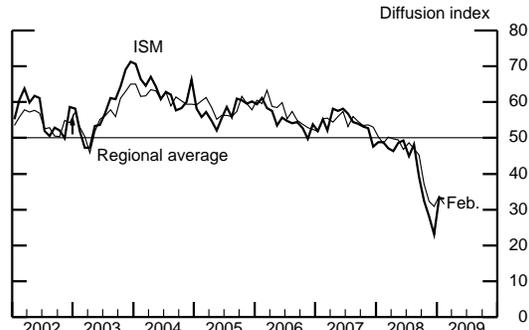
Note: Industrial production (IP) diffusion index is calculated on the basis of 3-month changes.
Source: Federal Reserve, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

Manufacturing Capacity Utilization



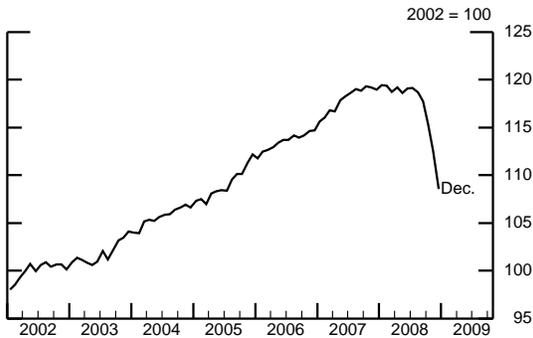
Note: Horizontal line is 1972-2008 average. Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER). The NBER peak is the last business cycle peak as defined by the NBER.
Source: Federal Reserve.

ISM Diffusion Index and Average of Regional New Orders Diffusion Indexes



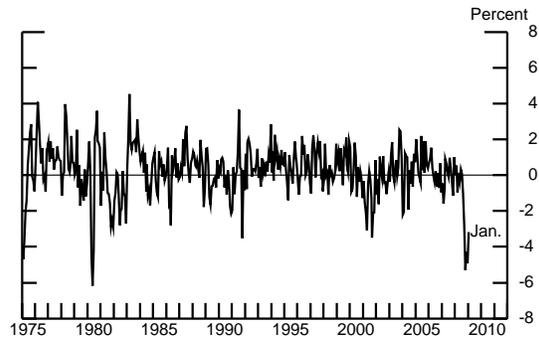
Note: Regional average consists of new orders indexes from the Chicago, Dallas, Kansas City, New York, Philadelphia, and Richmond surveys.
Source: Institute for Supply Management (ISM); Federal Reserve.

Foreign Industrial Production



Note: The foreign IP index is a fixed-weighted average of IP indexes from Canada, Mexico, Japan, China, the United Kingdom, Germany, France, Taiwan, and Italy.
Source: Staff calculation based on IP indexes reported by the included countries.

Change in Real Adjusted Durable Goods Orders



Note: The measure for real adjusted durable goods orders (RADGO) is a 3-month moving average.
Source: Staff calculation based on data from the U.S. Census Bureau and the Bureau of Labor Statistics.

decline to 10 percent. Available indicators of production for February (including production worker hours) suggest another sizable drop last month. The declines in output remain exceptionally widespread across industries; the diffusion index of three-month changes in total IP moved down in January to a 34-year low. In manufacturing, declines in output averaged about 2½ percent each month from November to January, and the factory operating rate fell to 68 percent in January, the historical low for a series that goes back to 1948.⁴

Production of light motor vehicles tumbled to an average annual rate of only 4.1 million units in January and February, about 3 million units below the pace in the fourth quarter, as manufacturers have responded to the rapid deterioration in demand over the past few months. Stocks of domestic light vehicles declined sharply in January and February, but days' supply of light vehicles has remained at a high level of around 100 days since the fourth quarter. Looking ahead, industry production schedules call for the pace of assemblies to rise moderately in March and the second quarter.

Elsewhere in transportation, new orders at Boeing for commercial aircraft have moved down in recent months.⁵

Moreover, airlines are requesting the deferral of aircraft orders in the face of weak demand for air travel.⁷ Nevertheless, Boeing has a large backlog of orders that should continue to provide a buffer against a significant downturn in aircraft production and deliveries, at least in the near term.

The output of high-technology products declined ¾ percent in January. Semiconductor production fell more than 7 percent, with output of microprocessors and some types of flash memory chips particularly hard hit. Computer production declined ½ percent, with demand reported to be weakening for both business and personal computers. Output

⁴ On February 18, the Federal Reserve published its preliminary estimates of industrial capacity for 2009. Measured fourth quarter to fourth quarter, manufacturing capacity is estimated to decline 0.6 percent in 2009 after having risen 1.7 percent last year. These estimates will be updated with the annual revision to industrial production and capacity that will be published on March 27.

⁵ Boeing is the only U.S. producer of commercial aircraft.

⁷ According to industry reports, more than 11 percent of the global air transport fleet is currently "parked" in the desert airfields of California and Arizona, with U.S. airlines disproportionately represented in those airfields. For comparison, in the aftermath of September 11, 2001, roughly 13 percent of global airline capacity was similarly parked.

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

Item	2008		2009		2008	2009		
	Q3	Q4	Q1	Q2	Dec.	Jan.	Feb.	Mar.
U.S. production ¹	8.5	7.2	4.6	6.1	6.4	3.7	4.5	5.5
Autos	4.2	3.4	1.7	2.7	2.9	1.3	1.6	2.4
Light trucks	4.3	3.8	2.8	3.4	3.5	2.4	2.9	3.2
Days' supply ²	76	98	n.a.	n.a.	98	99	101	n.a.
Autos	67	98	n.a.	n.a.	96	108	101	n.a.
Light trucks	84	99	n.a.	n.a.	99	92	101	n.a.
Inventories ³	2.40	2.47	n.a.	n.a.	2.47	2.22	2.08	n.a.
Autos	0.96	1.14	n.a.	n.a.	1.14	1.02	0.94	n.a.
Light trucks	1.44	1.33	n.a.	n.a.	1.33	1.19	1.14	n.a.
Memo: U.S. production, total motor vehicles ⁴	8.8	7.4	4.8	6.3	6.6	3.8	4.8	5.8

Note: FRB seasonals. Components may not sum to totals because of rounding. n.a. Not available.
 1. Production rates for March and the first and second quarters of 2009 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.
 Source: Ward's Communications.

Inventories of Light Vehicles



Source: Ward's Communications. Adjusted using FRB seasonals.

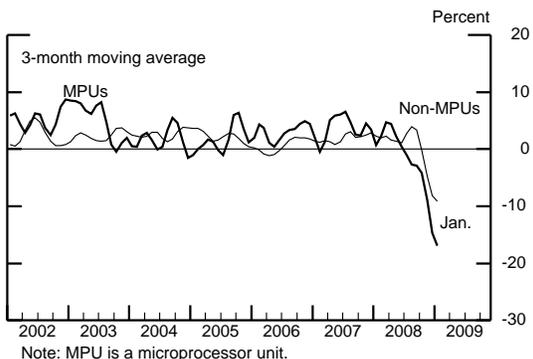
Days' Supply of Light Vehicles



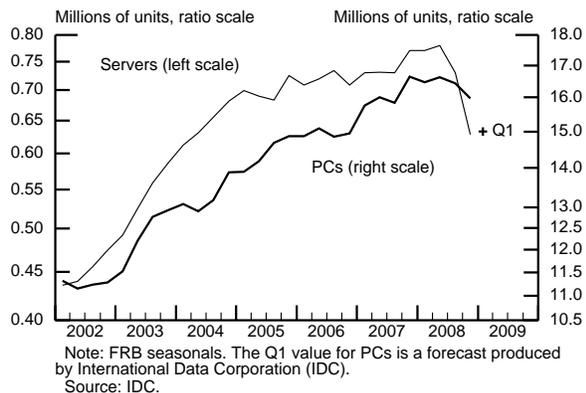
Source: Constructed from Ward's Communications data. Adjusted using FRB seasonals.

Indicators of High-Tech Manufacturing Activity

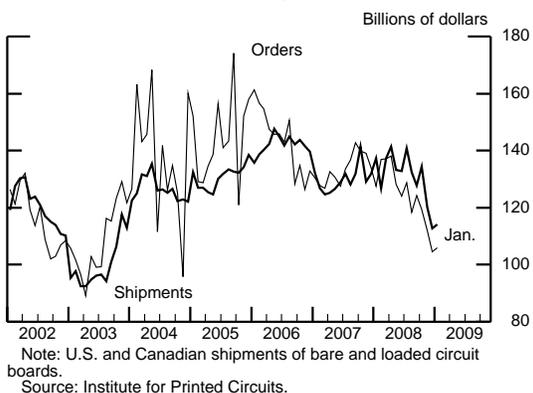
Rate of Change in Semiconductor Industrial Production



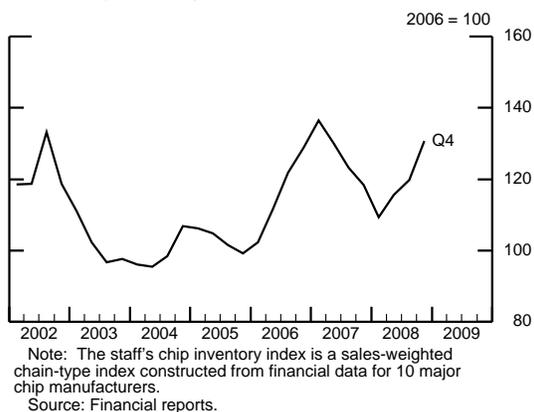
U.S. Personal Computer and Server Absorption



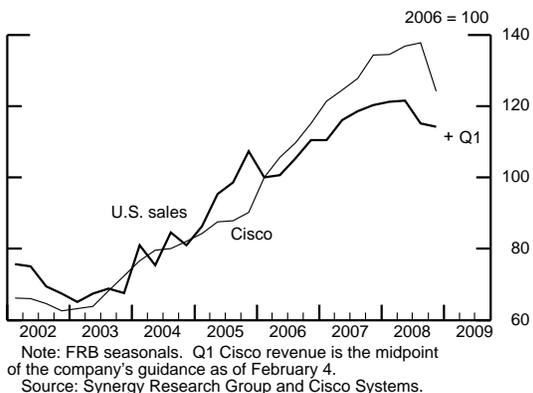
Circuit Board Orders and Shipments



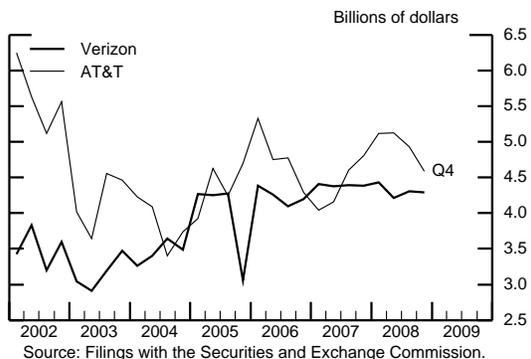
FRB Chip Inventory Index



Cisco Revenue and U.S. Sales of High-End Data Networking Equipment



Capital Expenditures by Selected Telecommunications Service Providers



in most subcategories of communications equipment fell in January; however, output for the communications sector as a whole rose 1½ percent as these declines were more than offset by a large increase in the output of the “satellite and earth station” industry.

Looking ahead, available indicators point to a further weakening in high-tech output through much of 2009. In a survey by the National Association of Business Economists, responses to a question on longer-term high-tech spending plans suggest widespread weakness this year. For semiconductors, consultancies such as Gartner, Instat, and IDC lowered their global shipments forecasts in February to a level that is consistent with a sharp decline in semiconductor production in the first half of the year. Data from the Institute for Printed Circuits point to a sharp drop in demand from the broad electronics sector for circuit boards and other high-tech equipment. In the communication equipment sector, major providers of telecommunications services announced plans to significantly lower their capital expenditure in 2009.

Outside of the energy, motor vehicles and parts, aircraft and parts, and high-technology industries, production (amounting to about 62 percent of total IP) decreased 1½ percent in January with declines in all major market groups except defense and space equipment. The production of consumer durables and business equipment was particularly weak, and the index for construction supplies plunged 3½ percent to a level 17 percent below its year-earlier reading. In addition, the output of materials fell 1½ percent, with pronounced declines in most durable materials categories.

Broad indicators of near-term manufacturing activity suggest that factory output will continue to fall steeply over the next few months. The new orders diffusion indexes from the Institute for Supply Management’s national survey and from the regional surveys are at exceptionally low levels. The three-month moving average of the staff’s series on real orders for durable goods (adjusted to exclude industries for which reported orders have little information content for predicting shipments) fell 3¼ percent in January and is consistent with substantial output losses in the coming months. Finally, an indicator of foreign economic activity (a trade-weighted average of the IP indexes for some of the United States’ major trading partners) suggests that foreign demand, which had helped support IP for much of the past year, has plunged as well.

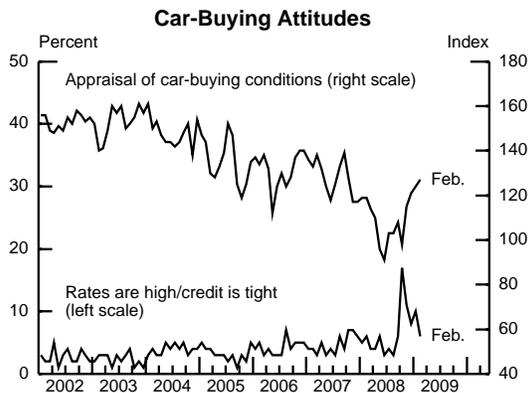
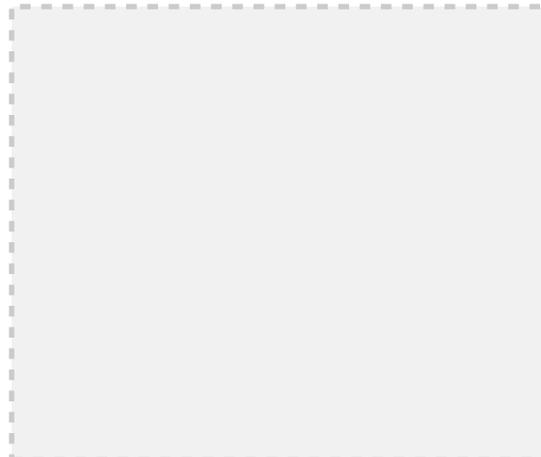
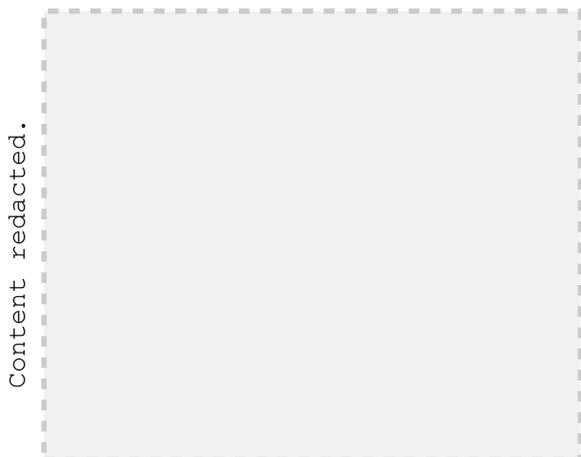
Motor Vehicles

Demand for new automobiles and light trucks tumbled early this year, as the pace of sales dropped to an annual rate of 9.5 million units in January and 9.1 million units in February from an already depressed fourth-quarter level.

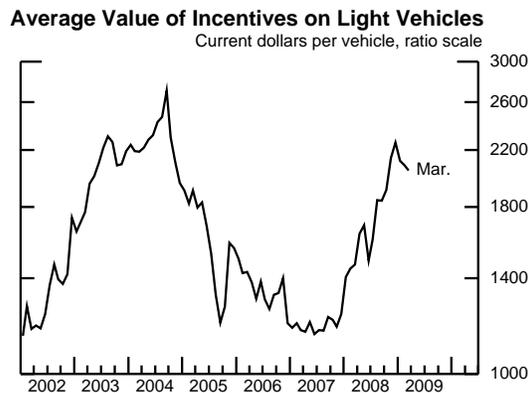
Sales of Light Vehicles
(Millions of units at an annual rate; FRB seasonals)

Category	2008	2008				2009	
		Q2	Q3	Q4	Dec.	Jan.	Feb.
Total	13.1	14.1	12.9	10.3	10.3	9.5	9.1
Autos	6.7	7.6	6.6	5.2	5.2	4.6	4.6
Light trucks	6.4	6.5	6.3	5.1	5.1	5.0	4.5
North American ¹	9.8	10.3	9.7	7.7	7.8	6.9	6.3
Autos	4.5	5.0	4.4	3.6	3.6	2.9	2.9
Light trucks	5.3	5.3	5.3	4.1	4.1	4.0	3.5
Foreign-produced	3.3	3.8	3.2	2.6	2.5	2.7	2.8
Autos	2.2	2.7	2.2	1.7	1.6	1.7	1.7
Light trucks	1.1	1.1	1.0	.9	.9	1.0	1.0
Memo: Detroit Three domestic market share (percent) ²	47.6	45.9	46.7	47.5	48.9	43.1	43.3

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.
 Source: Ward's Communications. Adjusted using FRB seasonals.



Source: Reuters/University of Michigan Surveys of Consumers.



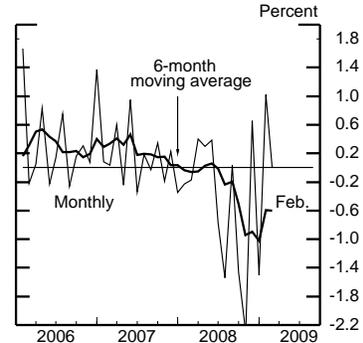
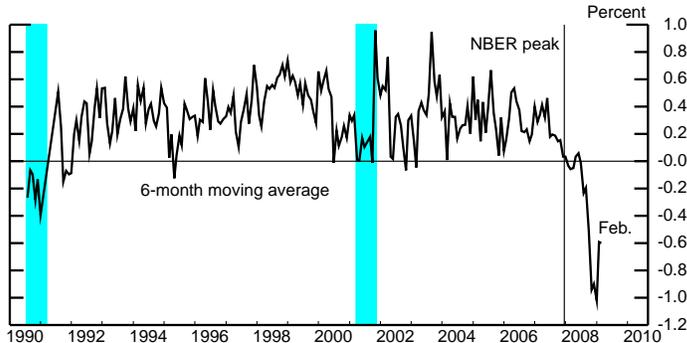
Note: Seasonally adjusted weighted average of customer cash rebate and the present value of interest rate reduction. March figure is based on data through March 8.
 Source: J.D. Power and Associates.

Real Personal Consumption Expenditures
(Percent change from preceding comparable period)

Category	2008	2008		2008	2009	
		Q3	Q4	Dec.	Jan.	Feb.
		Annual rate		Monthly rate		
Total real PCE¹	.2	-3.8	-4.3	-.5	.5	n.a.
Motor vehicles	-13.3	-26.6	-38.0	.6	-.9	-3.3
Goods ex. motor vehicles	-.2	-7.4	-10.1	-1.7	1.2	.3
Ex. energy	.3	-6.5	-12.3	-1.7	1.1	.2
Services	1.5	-.1	1.4	.1	.3	n.a.
Ex. energy	1.6	.9	1.0	.1	.0	n.a.
Memo: Nominal retail control ²	3.4	.4	-22.6	-3.3	1.8	.8

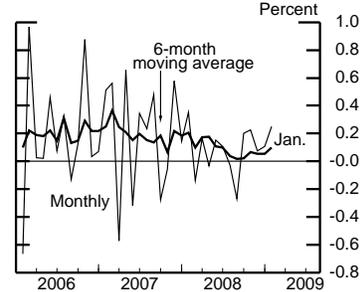
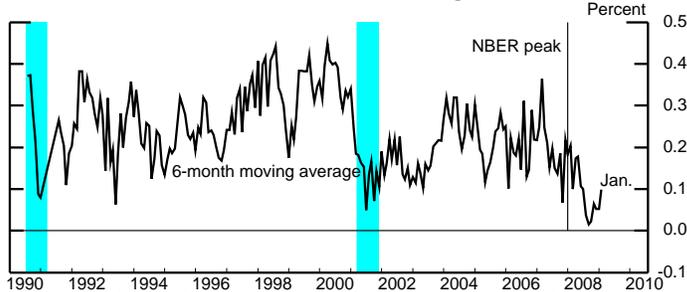
1. The values for Q4 and December, January, and February are staff estimates based on available data.
 2. Total sales less outlays at building material and supply stores and automobile and other motor vehicle dealers.
 n.a. Not available.
 Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Change in Real PCE Goods



Note: Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER). The NBER peak is the last business cycle peak as defined by the NBER.
 Source: U.S. Department of Commerce, Bureau of Economic Analysis.

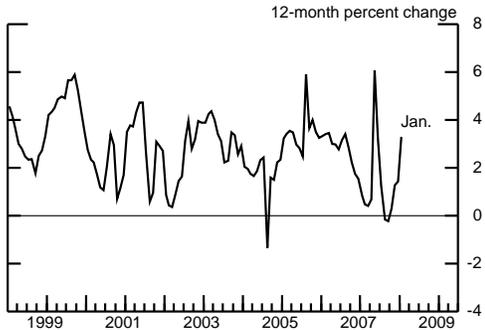
Change in Real PCE Services



Note: Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER). The NBER peak is the last business cycle peak as defined by the NBER.
 Source: U.S. Department of Commerce, Bureau of Economic Analysis.

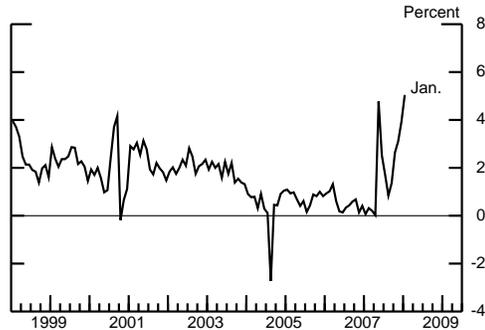
Fundamentals of Household Spending

Change in Real Disposable Personal Income



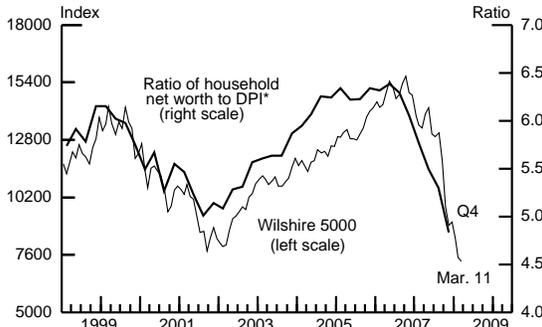
Note: Values for December 2004 and December 2005 exclude the effect on income of the one-time Microsoft dividend in December 2004.
 Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Personal Saving Rate



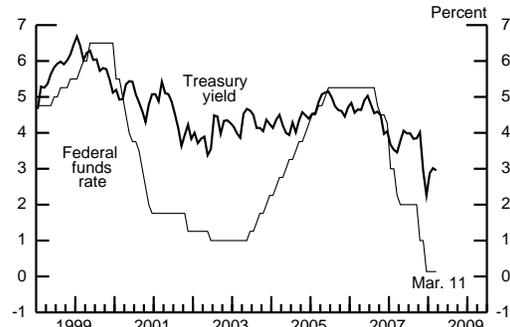
Note: The value for December 2004 excludes the effect on income of the one-time Microsoft dividend in that month.
 Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Household Net Worth and Wilshire 5000



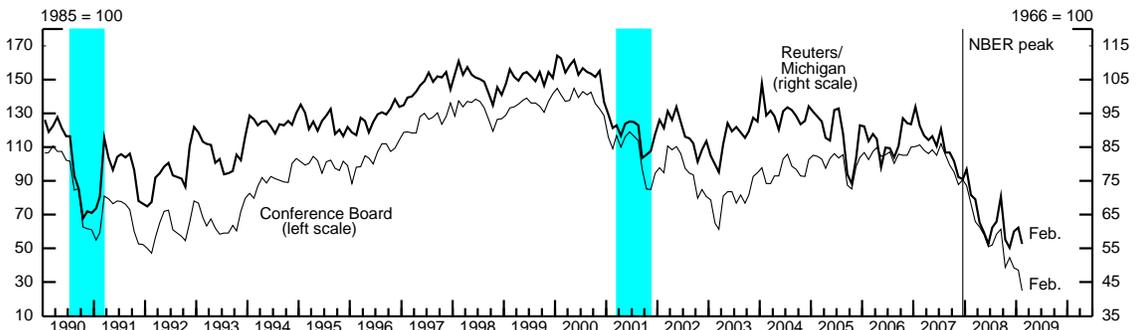
* The value for 2004 Q4 excludes the effect on income of the one-time Microsoft dividend in December 2004.
 Source: Federal Reserve Board; U.S. Department of Commerce, Bureau of Economic Analysis; *Wall Street Journal*.

Target Federal Funds Rate and 10-Year Treasury Yield



Source: Federal Reserve Board.

Consumer Confidence



Note: Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER). The NBER peak is the last business cycle peak as defined by the NBER.
 Source: Reuters/University of Michigan Surveys of Consumers; Conference Board.

. The fall in retail sales since mid-2008 has come as the labor market deteriorated, household wealth declined, financing conditions tightened, and consumers expressed more anxiety over the economic outlook.

Incentives fell back a bit in February and early March but remained high, and the terms on auto loans appear to have improved. As a result, consumers raised their assessment of car-buying conditions in the Reuters/University of Michigan survey in January and February. However, with many of the other determinants of vehicle demand stuck at abysmal levels, the effectiveness of the incentives and improved financing appears to have been limited.

Consumer Spending

After having fallen sharply over the second half of last year, the available data suggest that total consumer spending held steady, on balance, in the first two months of this year. The latest retail sales data, together with the staff's projection for PCE prices, imply that real spending on goods excluding motor vehicles moved up 1¼ percent in January and ¼ percent in February. In contrast, real outlays on motor vehicles shrank further in February after holding steady at low levels in the previous three months. Spending on services moved up in January, but a sizable rise in energy services accounted for essentially all of the increase.

The financial strain on households intensified over the past several months. By the end of the fourth quarter, household net worth had fallen to less than five years of disposable income for the first time since 1995, and substantial declines in equity and house prices have continued early this year.

Private wages and salaries continued to contract in January. However, special factors boosted personal disposable income in January and pushed the personal saving rate up to 5 percent. Cost-of-living adjustments, reflecting the sharp rise in the CPI last year, boosted transfer payments, while the Bureau of Economic Analysis lowered its estimate of net tax payments under the assumption that sizable capital losses realized last year would reduce final settlements (April payments less refunds) this year.⁸ Given the sharp decline in employment, private wages and salaries likely fell further in February.

⁸ The cost-of-living adjustment for Social Security benefits is based on the four-quarter change in the CPI for urban wage earners through the third quarter of the previous year. This year's increase of 5.8 percent

Consumer sentiment fell again last month as households voiced greater concerns about income and job prospects; in particular, expectations for the coming year deteriorated sharply despite the passage of the economic stimulus package. The Reuters/Michigan index now stands only slightly above its 29-year low reached in November, and the Conference Board index, which includes direct questions about employment conditions, has fallen to its lowest level since the series began in 1967.

Housing

The descent in housing activity has steepened further recently. Single-family housing starts dropped another 12 percent in January, and permit issuance—a useful month-ahead indicator of starts—also continued to fall. In the multifamily sector—where activity had held relatively steady through mid-2008—starts plunged 28 percent in January after large drops in each of the previous three months. Industry sources highlight the unavailability of construction credit in explaining the recent downturn in this sector. The long lag between when builders obtain financing for multifamily projects and when construction begins implies that the tightening of credit for commercial construction loans over the past year may have only just begun to seriously impair activity.

Housing demand remains very weak, likely reflecting the deterioration in employment and income prospects and expectations of further declines in house prices. The Census Bureau's measure of new single-family home sales dropped another 10 percent in January to a level 48 percent below its year-earlier level.

. Although the stock of unsold new single-family homes fell in January to its lowest level since 2003, inventories continued to move up relative to the weak pace of sales.

Sales of existing single-family homes fell 5 percent in January to an annual rate of just more than 4 million units, reversing the uptick seen in December. Existing home sales currently stand 7 percent below their year-earlier level, a much smaller decline than in

was the largest since the early 1980s. Government salaries also increased in response to inflation in the previous year.

Private Housing Activity

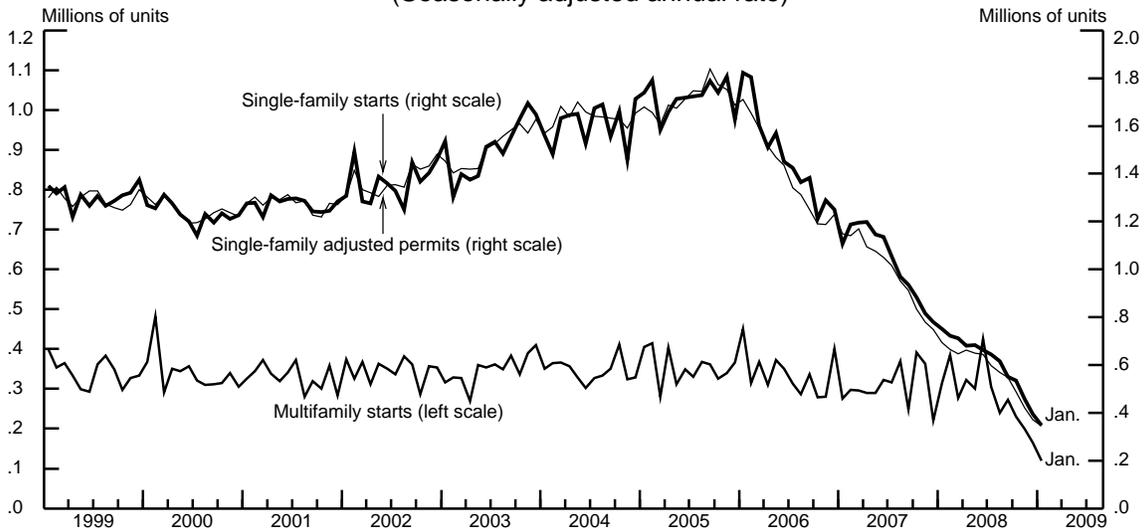
(Millions of units, seasonally adjusted; annual rate except as noted)

Sector	2008	2008				2009
		Q3	Q4	Nov.	Dec.	Jan.
<i>All units</i>						
Starts	.91	.88	.66	.66	.56	.47
Permits	.89	.87	.63	.62	.55	.53
<i>Single-family units</i>						
Starts	.62	.60	.46	.46	.40	.35
Permits	.57	.56	.42	.41	.36	.34
Adjusted permits ¹	.58	.57	.43	.42	.37	.35
Permit backlog ²	.067	.081	.067	.070	.067	.062
New homes						
Sales	.48	.46	.38	.38	.34	.31
Months' supply ³	10.75	10.64	11.74	11.65	12.31	13.28
Existing homes						
Sales	4.35	4.43	4.23	4.06	4.25	4.05
Months' supply ³	9.98	9.55	9.80	10.32	9.69	9.98
<i>Multifamily units</i>						
Starts	.284	.273	.199	.199	.165	.119
Permits	.323	.308	.215	.201	.183	.195
Permit backlog ²	.054	.062	.054	.057	.054	.055
<i>Mobile homes</i>						
Shipments	.082	.080	.067	.066	.064	.054
<i>Condos and co-ops</i>						
Existing home sales	.563	.573	.506	.481	.490	.440

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.
- Source: Census Bureau.

Private Housing Starts and Permits

(Seasonally adjusted annual rate)



Note: Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.
Source: Census Bureau.

new home sales. The comparative strength in existing home sales is partly attributable to increases in foreclosure-related and other distressed sales.⁹

Sales remain weak despite historically low mortgage rates for borrowers eligible for conforming loans. After having fallen sharply late last year, rates for conforming 30-year fixed-rate mortgages have fluctuated in a relatively narrow range so far this year. In contrast, the market for nonconforming loans (that is, loans that cannot be purchased by Fannie Mae or Freddie Mac) remains severely impaired. Rates on jumbo loans continue to be elevated, and the private nonprime market remains closed. Although the FHA has offered an alternative source of mortgage financing for some higher-risk borrowers, the FHA's relatively strict lending standards and higher costs suggest that such lending is likely to have replaced only a part of the reduction in credit from other sources.

House prices remain on a downward trajectory. The repeat-sales price index for existing single-family homes calculated by LoanPerformance—a recently developed index that is more representative than the Federal Housing Finance Agency and S&P/Case-Shiller indexes—fell 12 percent over the 12 months ending in January, a slightly greater decline than over the previous 12-month period.¹⁰

Equipment and Software

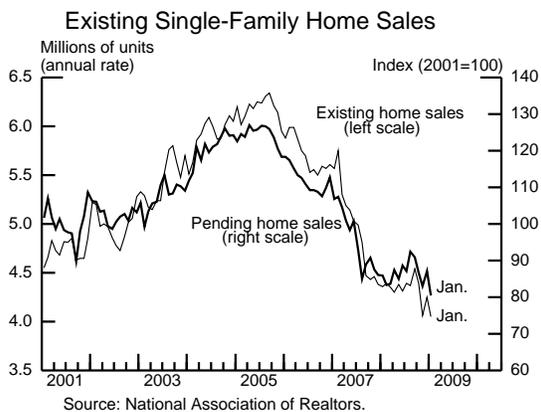
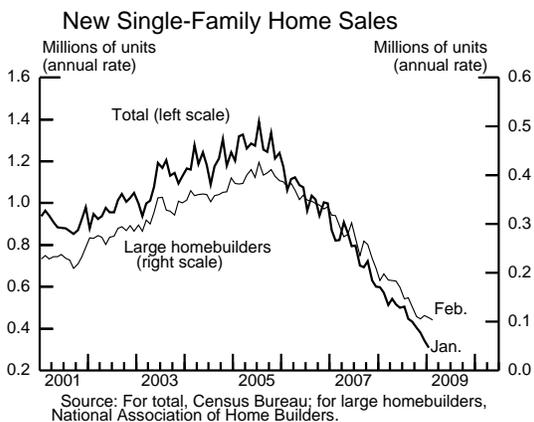
Toward the end of last year, real investment in E&S began a sharp and broad-based decline, which shows no sign of abating. Business spending on transportation equipment has continued to fall from already extremely low levels, and demand both for high-tech E&S and for equipment other than high-tech and transportation plummeted in the fourth quarter. More recently, nominal shipments of nondefense capital goods excluding aircraft dropped 6¾ percent in January, and orders fell sharply further to remain well below shipments. These data point to another large drop in spending in the current quarter.

Business outlays on transportation equipment, which had already fallen by the end of last year to about one-third of their peak level, continue to decline this quarter. Deliveries of

⁹ Although the data on existing home sales include only sales handled by real estate agents, many foreclosure-related sales are included in the statistics on existing home sales because banks frequently hire real estate agents to sell repossessed properties.

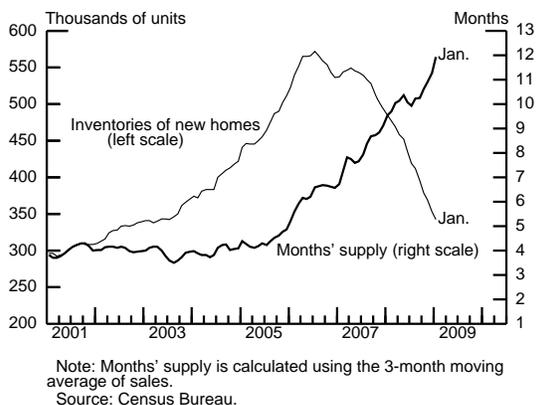
¹⁰ Unlike the Federal Housing Finance Agency's index (formerly known as the OFHEO index, calculated by the Office of Federal Housing Enterprise Oversight), the LoanPerformance (LP) index includes both conforming and nonconforming loans. In addition, the LP index has better geographic coverage than the S&P/Case-Shiller (CS) index. The LP and CS indexes showed similar movements from 2002 to 2007, but more recently the LP index has declined less than the CS index.

Indicators of Single-Family Housing

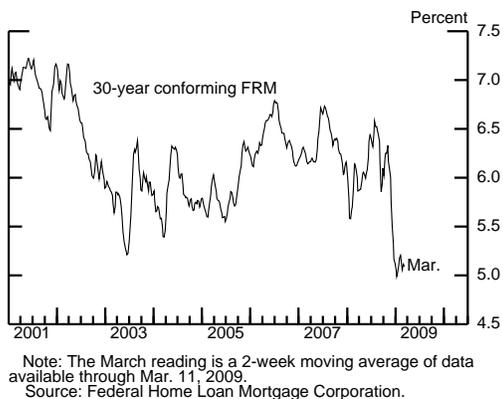


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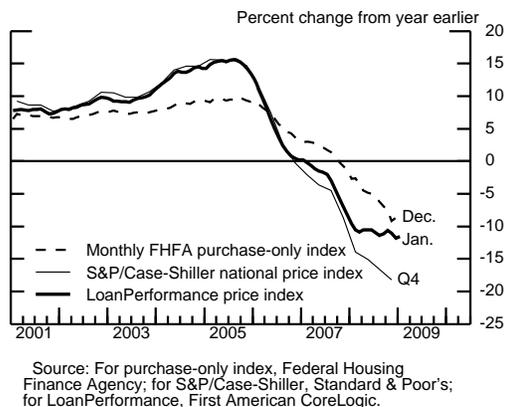
Inventories of New Homes and Months' Supply



Mortgage Rates



Prices of Existing Homes



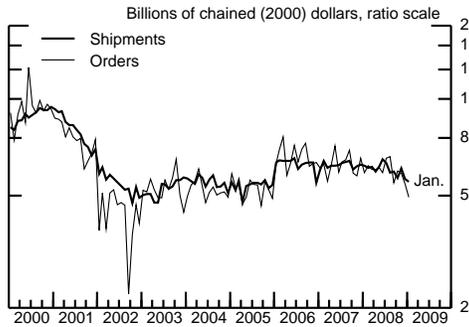
Orders and Shipments of Nondefense Capital Goods

(Percent change; seasonally adjusted current dollars)

Category	2008				2009
	Q3	Q4	Nov.	Dec.	Jan.
	Annual rate		Monthly rate		
Shipments	-8	-19.8	-2.0	2.6	-4.1
Excluding aircraft	-3	-15.5	-1.3	.1	-6.7
Computers and peripherals	-28.7	-25.3	-8.6	7.5	-2.0
Communications equipment	-10.7	-16.6	8.2	-8.8	-8
All other categories ¹	4.0	-14.4	-1.5	.3	-7.6
Orders	-14.0	-49.9	-5.3	-10.3	-3.0
Excluding aircraft	-5.2	-36.5	1.1	-5.9	-5.7
Computers and peripherals	-36.6	-20.8	11.3	-5.8	-8.6
Communications equipment	16.7	-28.7	-1.8	-8.4	-9.0
All other categories ¹	-3.5	-38.4	.5	-5.7	-5.1
Memo: Shipments of complete aircraft ²	38.1	26.0	16.5	44.9	51.1

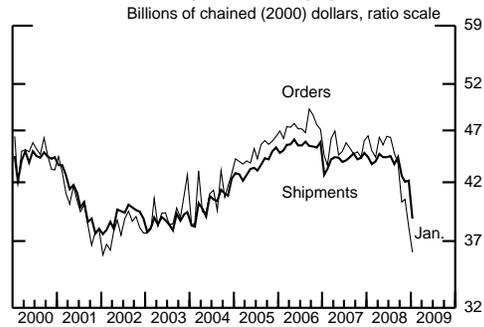
1. Excludes most terrestrial transportation equipment.
 2. From Census Bureau, Current Industrial Reports; billions of dollars, annual rate.
 Source: Census Bureau.

Communications Equipment



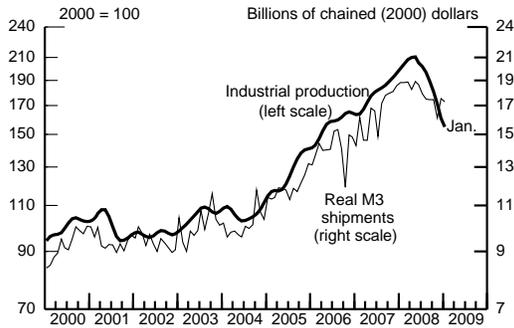
Note: Shipments and orders are deflated by a price index that is derived from the quality-adjusted price indexes of the Bureau of Economic Analysis and uses the producer price index for communications equipment for monthly interpolation.
 Source: Census Bureau.

Non-High-Tech, Nontransportation Equipment



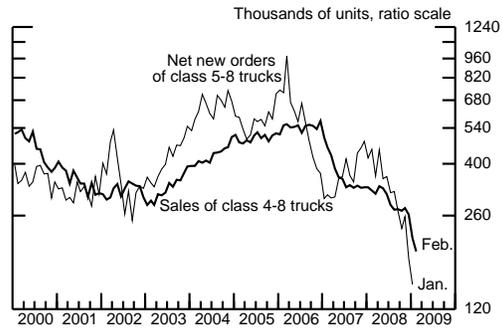
Note: Shipments and orders are deflated by the staff price indexes for the individual equipment types included in this category. Indexes are derived from the quality-adjusted price indexes of the Bureau of Economic Analysis.
 Source: Census Bureau.

Computers and Peripherals



Note: Ratio scales. Shipments are deflated by the staff price index for computers and peripheral equipment, which is derived from the quality-adjusted price indexes of the Bureau of Economic Analysis.
 Source: Census Bureau; FRB Industrial Production.

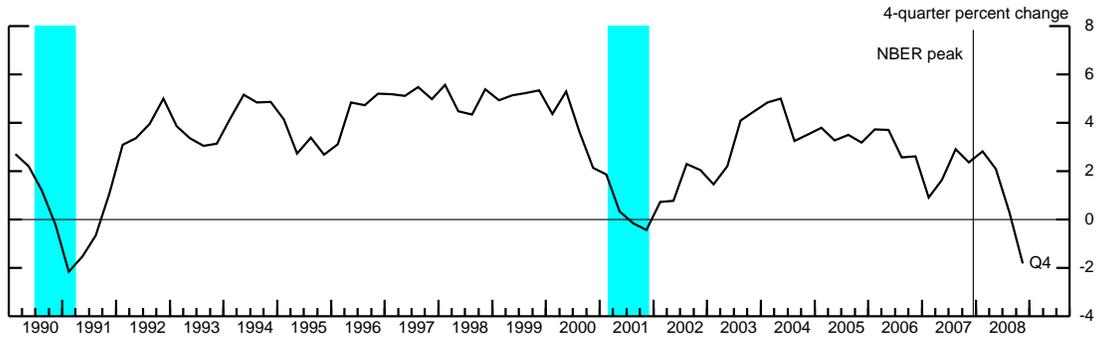
Medium and Heavy Trucks



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

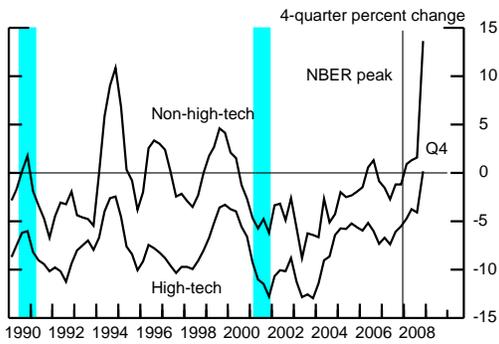
Fundamentals of Equipment and Software Investment

Real Business Output



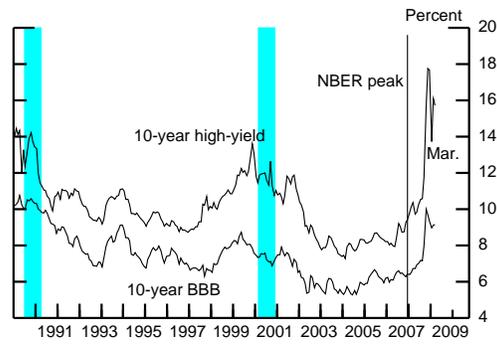
Note: Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER).
 The NBER peak is the last business cycle peak as defined by the NBER.
 Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

User Cost of Capital



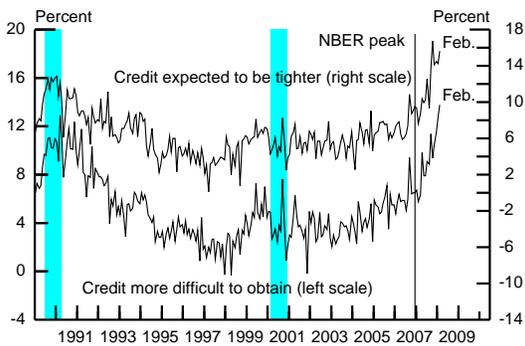
Source: Staff calculation.

Corporate Bond Yields



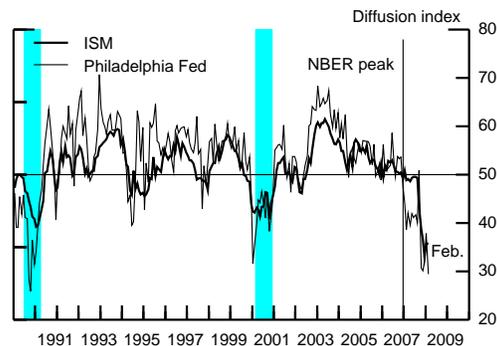
Note: End of month. March value as of Mar. 11.
 Source: Merrill Lynch.

NFIB: Survey on Loan Availability



Note: Of borrowers who sought credit in the past three months, the proportion that reported (expected) more difficulty in obtaining credit less the proportion that reported (expected) more ease in obtaining credit. Seasonally adjusted.
 Source: National Federation of Independent Business (NFIB).

Surveys of Business Conditions



Source: Institute for Supply Management (ISM), Manufacturing ISM Report on Business; Philadelphia Fed Business Outlook Survey.

Nonresidential Construction and Indicators

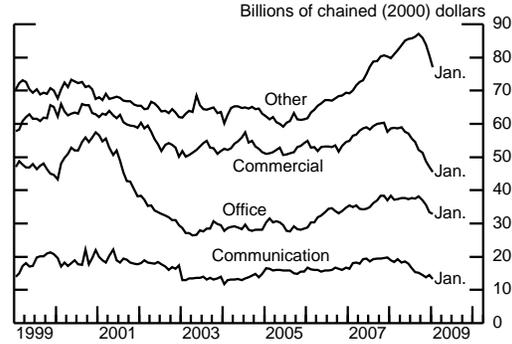
(All spending series are seasonally adjusted at an annual rate; nominal CPIP deflated by BEA prices through Q3 and by staff projection thereafter)

Total Structures



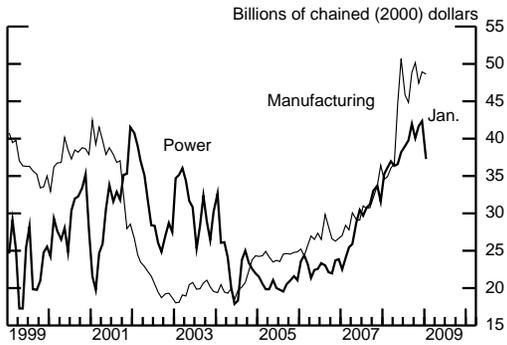
Source: Census Bureau.

Office, Commercial, Communication, and Other



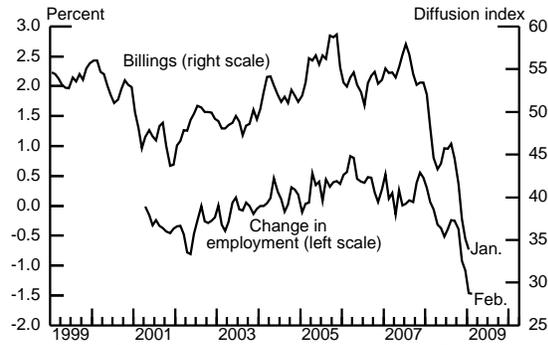
Note: Other consists of structures for religious organizations, education, lodging, amusement and recreation, transportation, and health care.
Source: Census Bureau.

Manufacturing and Power



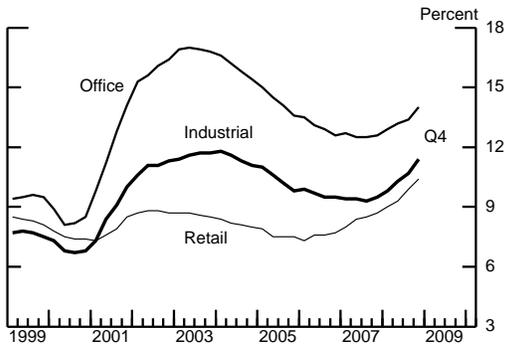
Source: Census Bureau.

Architectural Billings and Nonresidential Construction Employment



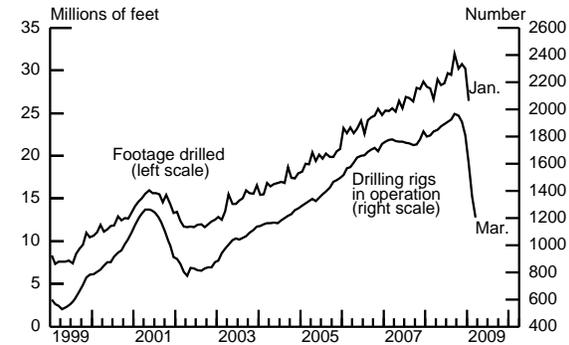
Note: Both series are 3-month moving averages. Employment consists of industrial, commercial, and specialty trade construction.
Source: For billings, American Institute of Architects; for employment, U.S. Department of Labor, Bureau of Labor Statistics.

Vacancy Rates



Note: Industrial space includes both manufacturing structures and warehouses. Q4 values are preliminary.
Source: Torto Wheaton Research.

Drilling and Mining Indicators



Note: The March readings for drilling rigs are based on data through March 6, 2009. Both series are seasonally adjusted by FRB staff.
Source: For footage drilled, U.S. Department of Energy, Energy Information Agency; for drilling rigs, Baker Hughes.

light vehicles to rental car companies dropped steeply, on balance, in January and February, and demand for light vehicles from other businesses has softened since the end of the year. Sales of medium and heavy trucks also weakened in January and February, and new orders, which fell sharply in January, suggest sales are likely to slow further in the near term. In contrast, data on aircraft shipments through January and on Boeing deliveries through February point to a first-quarter advance in domestic aircraft investment.

Real spending by businesses on high-tech E&S fell at an extraordinarily rapid pace in the fourth quarter of last year, posting a decline that was even faster (in percentage terms) than the worst of the tech collapse in 2001. Shipments and IP of computers and peripherals stepped down again in January, a decrease consistent with further declines in spending this quarter. Cisco expects revenue this quarter to be 15 percent to 20 percent below year-earlier levels, an indication of continued weakness in demand for communications equipment.

The fundamental determinants of E&S spending have worsened appreciably: Business output has dropped, and surging bond yields led to an upward spike in the user cost of capital in the fourth quarter. More forward-looking indicators remain grim. Corporate bond spreads over Treasury securities are extremely elevated, and businesses report to the NFIB that the supply of credit was quite restricted through February. Meanwhile, readings of business conditions from both regional and national purchasing manager surveys have been stuck at depressed levels, and indexes of capital spending plans from various surveys remain low.

Nonresidential construction

After holding up surprisingly well through most of last year, the spending data for nonresidential structures are now beginning to show declines consistent with the dismal fundamentals for this sector. Nominal construction expenditures on nonresidential buildings (that is, structures other than those for drilling and mining) fell 4 percent in January. In real terms, investment declined for most types of buildings over the past few months; even expenditures in the power sector, which had supported total nonresidential investment during most of 2008, dropped sharply in January. One exception is spending related to petroleum refining; however, trade reports have indicated that some already-begun renovations of petroleum refineries have been canceled or delayed recently, resulting, in part, from the plunge in energy prices in the second half of last year.

Falling energy prices have also curtailed investment in drilling and mining structures. Real spending on these structures flattened out in the fourth quarter of 2008 after eight years of substantial increases, and the latest data on drilling activity suggest that investment in this sector dropped steeply early this year.

Outside of energy-related construction, the fundamentals of nonresidential investment have deteriorated further. Vacancy rates continued to trend upward in the fourth quarter of 2008, and the January Senior Loan Officer Opinion Survey on Bank Lending Practices suggested that financing for new construction projects has become even more difficult to obtain. In addition, the architectural billings index continued to fall in January and declines in nonresidential construction employment have steepened.

Business Inventories

Census data on book-value inventory investment for January suggest that firms further pared their stocks early this quarter.¹¹ However, sales have continued to fall more quickly than inventories, which has exacerbated the overhangs that developed in the second half of 2008. The run-up in ratios of inventories to sales through January was widespread across categories but was particularly sharp for durable goods. The staff's flow-of-goods system also shows a deteriorating inventory picture.¹² Stocks appear particularly elevated relative to demand for business equipment, construction supplies, and materials. Finally, the Institute for Supply Management's index of customers' inventories in the early part of this year indicated that a majority of respondents were concerned that inventory positions are too high.

Federal Government Sector

The deficit in the federal unified budget widened over the past two months, as outlays continued to rise and revenues declined sharply.

¹¹ Interpreting the book-value inventory data is difficult when prices display large movements. For example, the decline in book-value inventories in the fourth quarter was exceptionally large, reflecting not only modest real drawdowns but also the revaluation of existing stocks at much lower prices.

¹² The FRB staff's flow-of-goods system measures changes in inventories by tracking the flow of goods in the economy. The system divides the output from the staff's IP indexes into more than 60 different product categories. For each product category, the system estimates the supply of goods flowing into the economy—that is, domestic production plus imports. The system then estimates how much of the supply flows out, whether as final demand, including exports, or as inputs for other goods. The difference between the amount flowing in and the amount flowing out is the change in inventories.

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

Measure and sector	2008					2009
	Q2	Q3	Q4	Nov.	Dec.	Jan.
<i>Real inventory investment (chained 2000 dollars)</i>						
Total nonfarm business	-55.1	-33.3	-25.0	...	...	...
Motor vehicles	-10.9	8.1	-8.1	...	...	...
Nonfarm ex. motor vehicles	-44.2	-41.3	-16.9	...	...	...
Manufacturing and trade ex. wholesale and retail motor vehicles and parts						
Manufacturing	-26.0	-25.6	-1.1	24.9	-22.4 ^e	n.a.
Wholesale trade ex. motor vehicles & parts	4.9	10.4	-4	12.0	-6.1 ^e	n.a.
Retail trade ex. motor vehicles & parts	-3.1	-1.6	-19.2	-35.8	-22.1 ^e	n.a.
<i>Book-value inventory investment (current dollars)</i>						
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	97.5	46.3	-170.3	-149.2	-255.3	-85.1
Manufacturing	39.3	10.7	-65.2	-32.8	-123.2	-53.0
Wholesale trade ex. motor vehicles & parts	48.5	24.8	-66.7	-55.7	-83.6	-11.9
Retail trade ex. motor vehicles & parts	9.6	10.9	-38.3	-60.6	-48.5	-20.2

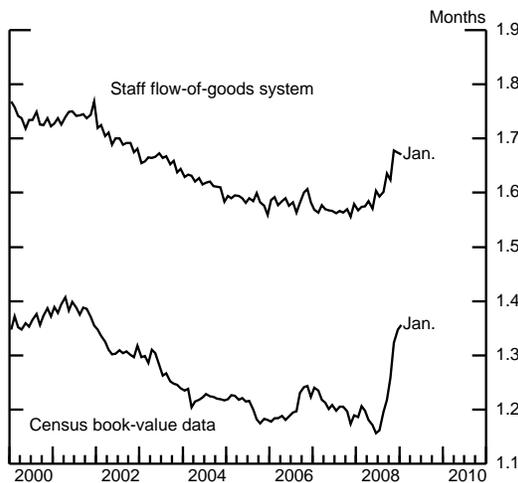
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... Not applicable.

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

Source: For real inventory investment, U.S. Dept. of Commerce, Bureau of Economic Analysis; for book-value data, Census Bureau.

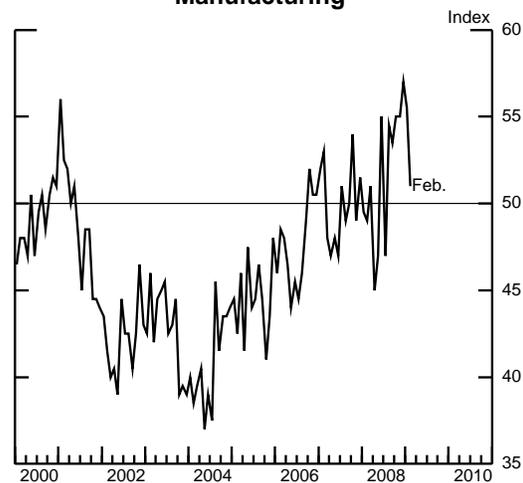
Inventory Ratios ex. Motor Vehicles



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.

Source: Census Bureau; staff calculation.

ISM Customers' Inventories: Manufacturing



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

Source: Institute for Supply Management (ISM), Manufacturing ISM Report on Business.

After excluding financial transactions (mainly those associated with the TARP and the conservatorship of the housing-related government-sponsored enterprises) and adjusting for payment-timing shifts, federal outlays in January and February were almost 6 percent above those in the same period a year earlier. Outlays for income security programs posted robust increases over the year-earlier period, as spending on unemployment insurance benefits, supplemental security income benefits, and food stamps rose noticeably. Spending for federal health programs and Social Security also showed sizable gains over the levels of a year earlier.

In contrast, federal receipts in the January-February period were roughly 16 percent lower than in the same period last year. Relative to the year-earlier period, personal tax payments fell almost 15 percent, likely reflecting weak income and a drop in realized capital gains. Refunds on 2008 individual tax liability were also significantly higher than in the same period last year. Information from the Treasury suggests that most of the surge in refunds reflects a higher average refund per filer rather than an acceleration in the timing of tax filing.

The recently enacted economic stimulus package—the American Recovery and Reinvestment Act—includes tax reductions and spending increases amounting to \$787 billion over the next 11 years (details about the legislation are reported in the appendix to this section). In its recently released budget, the Administration expects the deficit in fiscal year 2009 to total \$1.8 trillion—12¼ percent of GDP. Under the President’s proposals, the deficit is projected to be about 7 percent of GDP in the following two years and then move down to level out at about 3 percent of GDP.

State and Local Government Sector

Real spending by state and local governments turned down sharply in the fourth quarter as budgetary pressures intensified and apparently has continued to fall in the first quarter.

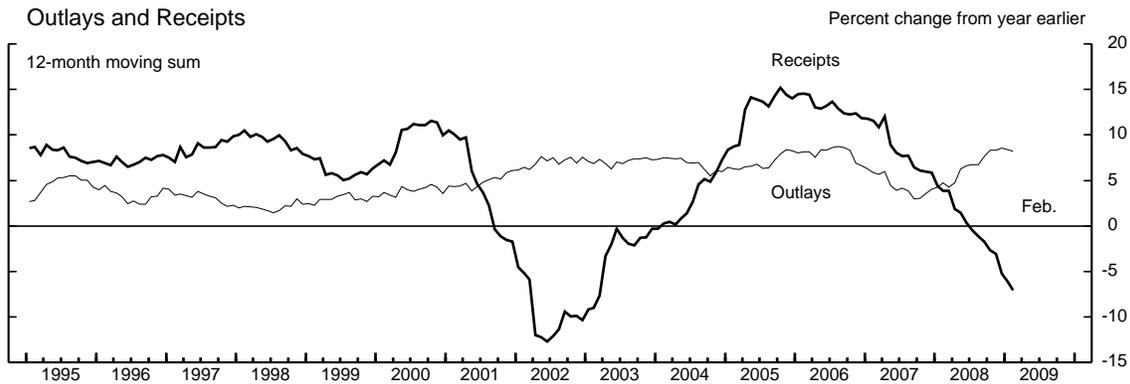
Real construction expenditures by state and local governments moved down in the fourth quarter and plunged further in January. Meanwhile, employment in this sector was flat in the second half of 2008, a pronounced step-down from the fairly robust gains of 22,000 per month in the first half of the year. So far in 2009, however, employment in this sector appears to have rebounded a bit, rising an average of 12,000 per month in January and February.

The fiscal conditions of state governments have deteriorated appreciably as revenues have continued to decline. The National Conference of State Legislatures (NCSL) reported that as of January, states collectively estimated that (without accounting for the

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



Note: Thin line includes deficit effects of financial transactions related to Troubled Asset Relief Program (TARP) and government-sponsored enterprise equity purchase programs.



Recent Federal Outlays and Receipts

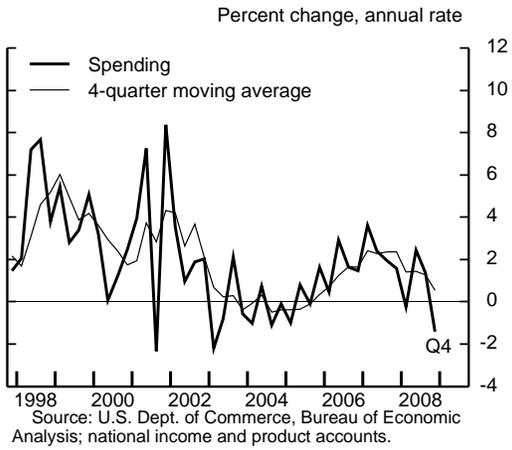
(Billions of dollars except as noted; adjusted for payment-timing shifts and financial transactions)

Function or source	Sum of January-February			12 months ending in February		
	2008	2009	Percent change	2008	2009	Percent change
Outlays						
Net interest	43.0	20.2	-53.0	251.9	218.8	-13.2
National defense	97.8	99.9	2.2	586.4	642.6	9.6
Major transfers ¹	292.3	333.9	14.2	1,555.8	1,722.5	10.7
Other	76.1	85.1	11.8	436.0	477.7	9.6
Receipts						
Individual income and payroll taxes	370.9	313.4	-15.5	2,590.4	2,407.4	-7.1
Corporate income taxes	331.9	283.4	-14.6	2,014.5	1,932.0	-4.1
Other	4.4	2.5	-43.3	353.4	260.3	-26.3
Other	34.7	27.6	-20.6	222.5	215.1	-3.3
Surplus or deficit (-)	-138.2	-225.6	...	-239.8	-654.2	...
Memo:						
Unadjusted surplus or deficit (-)	-157.7	-279.3	...	-263.9	-954.8	...

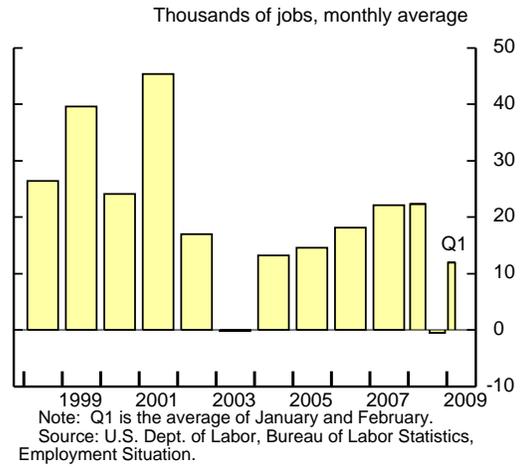
1. Includes Social Security, Medicare, Medicaid, and income security programs.
... Not applicable.

State and Local Indicators

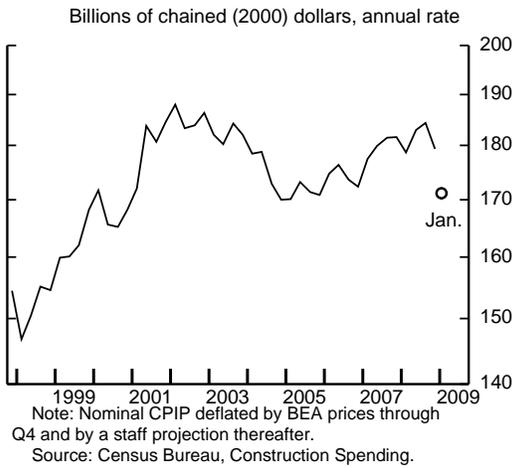
Real Spending on Consumption & Investment



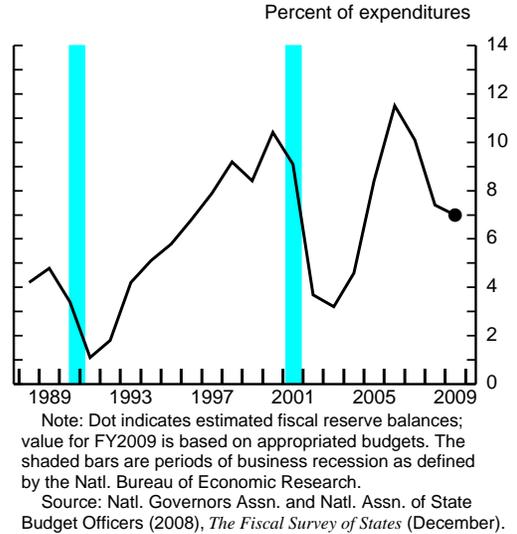
Net Change in Employment



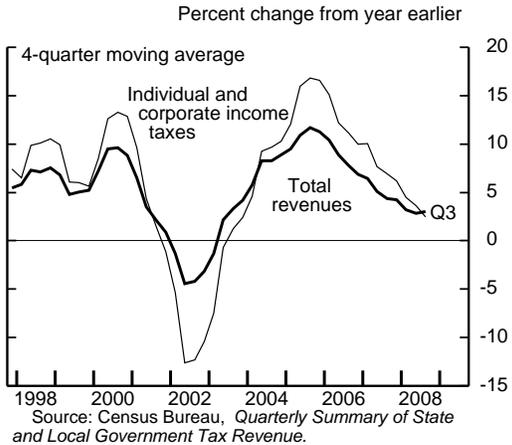
Real Construction



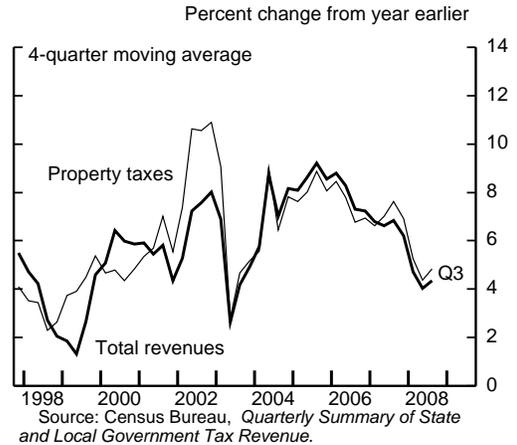
State Fiscal Reserve Balances at Year-End



State Revenues



Local Revenues



federal fiscal stimulus package) they faced a \$50 billion budget shortfall for the 2009 fiscal year. Furthermore, according to the NCSL, states expected to face an \$85 billion budget shortfall in fiscal 2010. Many states are in the process of addressing their budget problems, primarily by reducing expenditures, drawing down rainy day funds, and, to a lesser extent, raising taxes.¹³ More importantly, grants in the federal stimulus package will help shore up state budgets.

Prices

Overall consumer prices increased in January after posting sizable declines late last year. Led by an increase in energy prices, total PCE prices moved up 0.2 percent in January after averaging declines of 0.7 percent per month over the last three months of 2008. Excluding food and energy, PCE prices increased 0.1 percent in January after being essentially unchanged in the previous three months. Taking a longer view, core PCE prices rose 1½ percent over the 12 months ending in January, down from a 2¼ percent increase over the previous 12 months; the 12-month change in total PCE prices slowed from 3½ percent to ¾ percent over the same period. As headline inflation has come down, survey-based measures of near-term inflation expectations have receded; however, indicators of longer-term expectations have been steadier.

After posting dramatic declines in the previous five months, consumer energy prices rose 1¾ percent in January, largely reflecting an increase in gasoline prices. Survey results suggest that retail gasoline prices increased further in February but have ticked down since then. The increase in gasoline prices so far this year reflects both some recovery in prices for WTI crude oil and a rebound in margins since the end of last year.

Consumer food prices continued to moderate in the beginning of 2009, rising 0.1 percent in January for a second consecutive month, as last autumn's declines in farm prices have begun to show through to the retail level. Over the three months ending in January, food prices have increased at an annual rate of 2½ percent—down from a 7 percent rate of increase over the previous three months but still higher than the rate of change of core consumer prices. After their sharp decline last fall, spot prices for corn, wheat, and soybeans now appear to have stabilized around their mid-2007 levels and remain considerably higher than the average over the preceding decade.

¹³ Most notably, California recently dealt with its extraordinarily severe budget crisis through a combination of spending cuts (including a two-day-per-month mandatory furlough of all state government employees) and tax increases.

Price Measures
(Percent change)

Measures	12-month change		1-month change			
	Jan. 2008	Jan. 2009	Monthly rate			
			Oct. 2008	Nov. 2008	Dec. 2008	Jan. 2009
<i>CPI</i>						
Total	4.3	.0	-8	-1.7	-8	.3
Food	4.9	5.3	.4	.2	.0	.1
Energy	19.6	-20.4	-7.8	-16.9	-9.3	1.7
Ex. food and energy	2.5	1.7	.0	.1	.0	.2
Core goods	.2	-.5	-.3	-.1	-.2	.1
Core services	3.4	2.5	.1	.1	.1	.2
Shelter	3.1	1.8	.1	.2	.1	.2
Other services	3.7	3.6	.1	.1	.2	.2
Chained CPI (n.s.a.) ¹	3.9	-.5	...	...	...	...
Ex. food and energy ¹	2.0	1.2	...	...	...	...
<i>PCE prices</i>						
Total	3.6	.7	-4	-1.1	-5	.2
Food and beverages	4.7	5.8	.5	.3	.1	.1
Energy	21.6	-22.5	-8.0	-17.8	-9.7	1.8
Ex. food and energy	2.2	1.6	.0	.0	.0	.1
Core goods	-.2	-.2	-.1	-.2	-.3	.2
Core services	3.2	2.3	.1	.1	.1	.1
Housing services	3.1	2.1	.1	.2	.1	.2
Other services	3.2	2.4	.1	.0	.1	.1
Core market-based	1.8	1.5	.1	.0	.0	.1
Core non-market-based	4.0	1.8	-.1	.0	.0	.1
<i>PPI</i>						
Total finished goods	7.4	-1.0	-2.7	-2.5	-1.9	.8
Food	8.3	1.8	.0	.2	-1.4	-.4
Energy	22.9	-18.4	-12.8	-12.4	-9.1	3.7
Ex. food and energy	2.4	4.2	.4	.1	.2	.4
Core consumer goods	2.8	4.3	.3	.1	.3	.3
Capital equipment	1.7	4.0	.4	.1	.1	.5
Intermediate materials	8.9	-3.5	-3.8	-4.3	-4.2	-.7
Ex. food and energy	4.2	1.2	-1.5	-2.2	-2.9	-1.1
Crude materials	30.8	-29.1	-17.2	-12.6	-5.3	-2.9
Ex. food and energy	20.3	-27.9	-15.6	-20.8	-2.2	.1

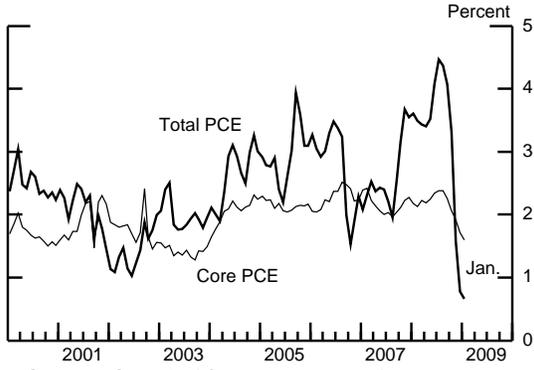
1. Higher-frequency figures are not applicable for data that are not seasonally adjusted (n.s.a.).

... Not applicable.

Source: For consumer price index (CPI) and producer price index (PPI), U.S. Dept. of Labor, Bureau of Labor Statistics; for personal consumption expenditures (PCE), U.S. Dept. of Commerce, Bureau of Economic Analysis.

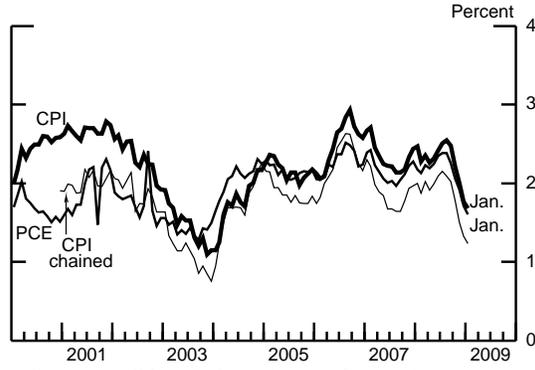
Consumer Prices (12-month change except as noted)

PCE Prices



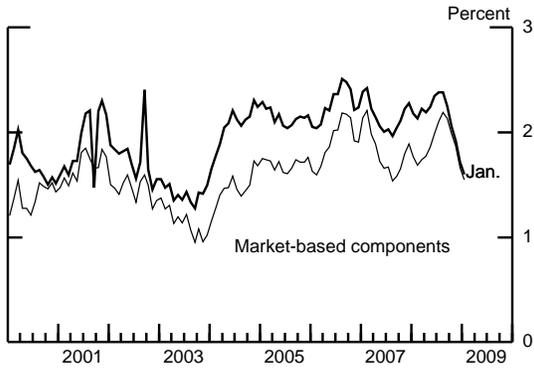
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

CPI and PCE ex. Food and Energy



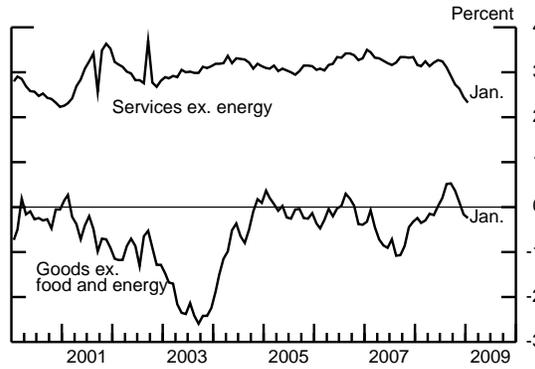
Source: For CPI, U.S. Dept. of Labor, Bureau of Labor Statistics; for PCE, U.S. Dept. of Commerce, Bureau of Economic Analysis.

PCE excluding Food and Energy



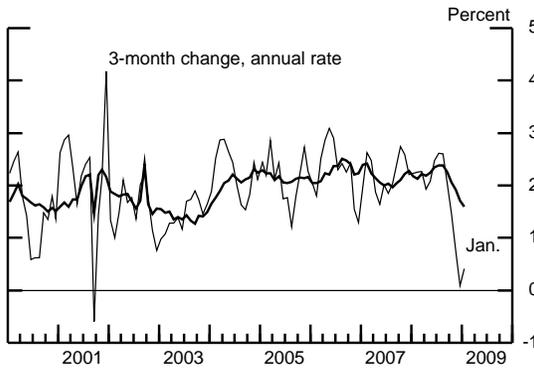
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

PCE Goods and Services



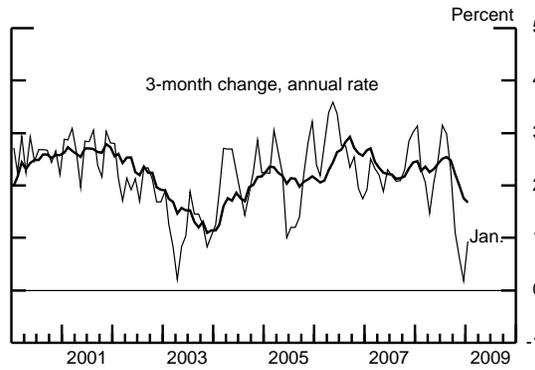
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

PCE excluding Food and Energy



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

CPI excluding Food and Energy

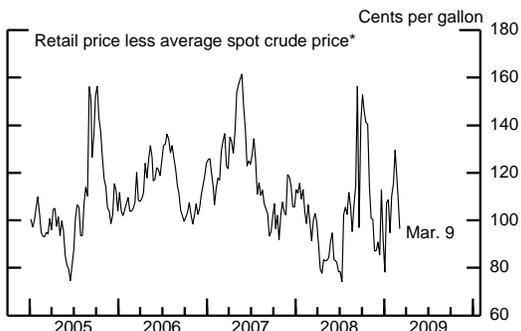


Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

Energy and Food Price Indicators

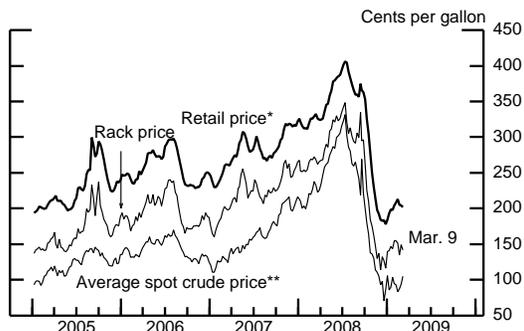
(Data from U.S. Department of Energy, Energy Information Administration except as noted)

Total Gasoline Margin



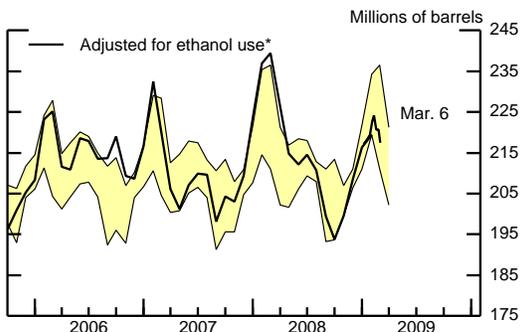
* Regular grade seasonally adjusted by FRB staff, less average spot crude price: 60% West Texas intermediate, 40% Maya heavy crude. Includes gasoline taxes.

Gasoline Price Decomposition



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

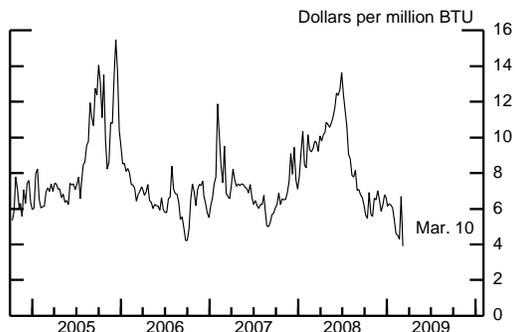
Gasoline Inventories



Note: Bounds are defined as the monthly mean over the preceding five years, plus/minus the standard deviation for each month. Monthly data through December 2008, weekly data thereafter.

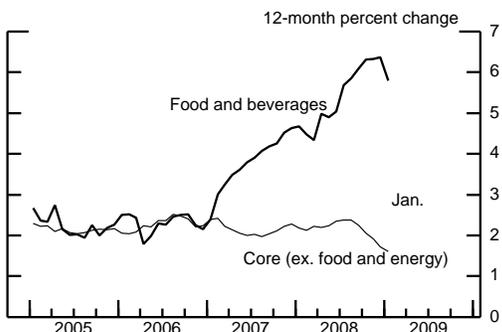
* The RBOB component of total motor gasoline inventories is adjusted for ethanol use after 2006, boosting reported stocks; estimated by FRB staff.

Natural Gas Prices



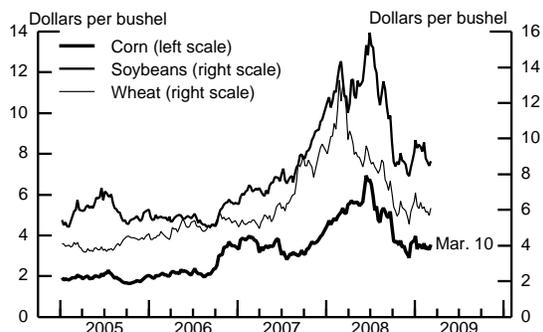
Note: National average spot price.
Source: Bloomberg.

PCE: Food and Core Prices



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

Spot Agricultural Commodity Prices



Source: Commodity Research Bureau.

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

Measure	2005	2006	2007	2008
<i>Product prices</i>				
GDP price index	3.5	2.8	2.6	2.0
Less food and energy	3.3	3.0	2.3	1.7
Nonfarm business chain price index	3.6	2.4	2.0	2.0
<i>Expenditure prices</i>				
Gross domestic purchases price index	4.0	2.5	3.3	2.0
Less food and energy	3.2	2.9	2.3	2.1
PCE price index	3.3	1.9	3.5	1.9
Less food and energy	2.2	2.3	2.2	1.9
PCE price index, market-based components	3.1	1.6	3.3	1.8
Less food and energy	1.7	2.0	1.8	1.8
CPI	3.8	1.9	4.0	1.5
Less food and energy	2.1	2.7	2.3	2.0
Chained CPI	3.2	1.7	3.6	1.1
Less food and energy	1.8	2.3	1.9	1.5
Median CPI	2.5	3.1	3.0	3.0
Trimmed mean CPI	2.6	2.6	2.8	2.9
Trimmed mean PCE	2.5	2.8	2.6	2.4

Source: For CPI, U.S. Dept. of Labor, Bureau of Labor Statistics; for all else, U.S. Dept. of Commerce, Bureau of Economic Analysis.

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		
2007: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	4.4	6.4	5.0	3.8	3.3	2.5	2.2
Q3	5.3	5.4	4.7	3.6	3.1	2.5	2.2
Q4	1.6	3.0	2.8	2.9	2.8	2.5	2.2
2009:Q1	n.a.	n.a.	n.a.	n.a.	n.a.	2.4	2.2
2008:Oct.	3.7	4.3	3.9	3.1	2.9	...	...
Nov.	1.1	2.9	2.9	3.1	2.9	2.5	2.2
Dec.	.1	1.7	1.7	2.6	2.6	...	...
2009:Jan.	.0	2.5	2.2	3.4	2.9	...	...
Feb.	n.a.	2.3	1.9	3.5	3.1	2.4	2.2

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.

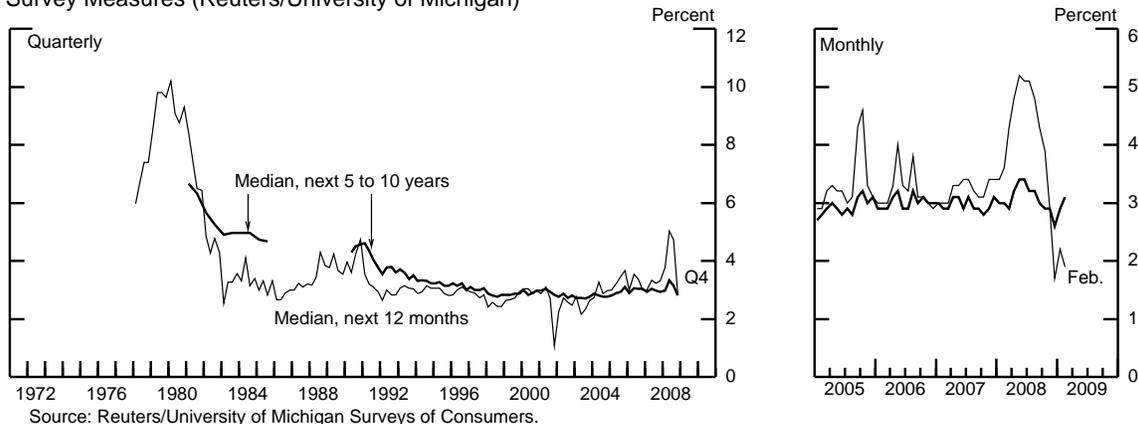
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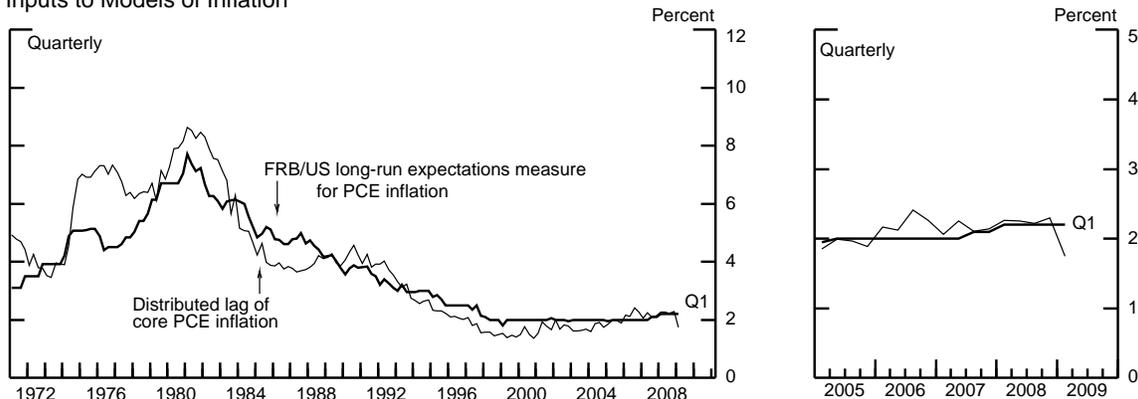
Source: For CPI, U.S. Dept. of Labor, Bureau of Labor Statistics; for Reuters/Michigan Survey, Reuters/University of Michigan Surveys of Consumers; for professional forecasters, the Federal Reserve Bank of Philadelphia.

Measures of Expected Inflation

Survey Measures (Reuters/University of Michigan)

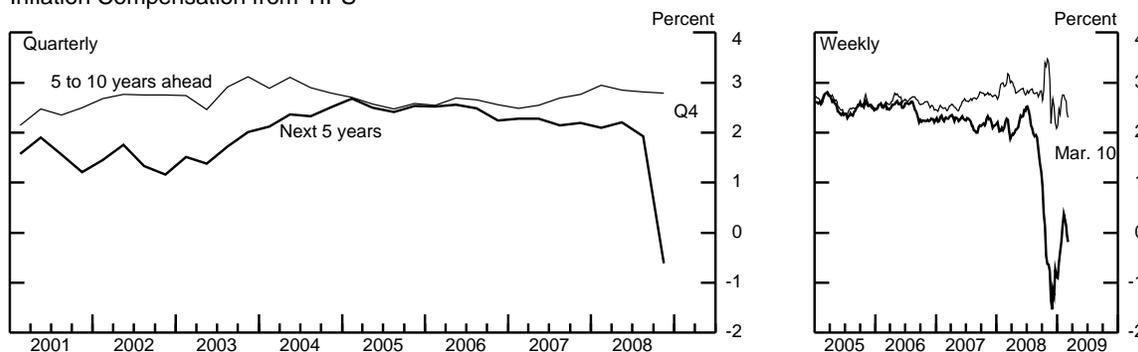


Inputs to Models of Inflation



Note: The distributed lag of core PCE inflation is derived from one of the reduced-form Phillips curves used by Board staff.
 Source: For the distributed lag of core PCE inflation, FRB staff calculations; for the FRB/US measure, for 2007 forward, the median projection for PCE inflation over the next 10 years from the Survey of Professional Forecasters (SPF); for 1990 to 2006, the equivalent SPF projection for the CPI; for 1981 to 1989, 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.

Inflation Compensation from TIPS



Note: Based on a comparison of an estimated TIPS (Treasury inflation-protected securities) yield curve with an estimated nominal off-the-run Treasury yield curve, with an adjustment for the indexation-lag effect.
 Source: FRB staff calculations.

Core PCE prices edged up 0.1 percent in January, pushed up by increases in prices for core goods, especially apparel and motor vehicles. The January uptick in core goods prices follows a decline over the previous three months, which was associated with aggressive discounting in reaction to weak demand, excess inventories, and lessening cost pressures.

Broader measures of inflation have also stepped down from the levels observed over the past few years. In 2008, the GDP price index rose 2 percent, down ½ percentage point from the increase over 2007. The deceleration in the GDP price index, however, is markedly smaller than the decelerations in the price indexes for overall PCE and gross domestic purchases, reflecting the fact that the steep decline in the price of imported oil does not directly affect the price index for domestically produced goods and services.

The low readings on overall and core consumer price inflation in recent months have no doubt contributed to the decline in near-term inflation expectations from their high levels in mid-2008. In contrast, measures of longer-term expectations have remained close to their average over the past couple of years. Median one-year-ahead inflation expectations in the Reuters/Michigan survey hovered around 2 percent in January and February, down from around 5 percent last summer; the median expectation for inflation over the next 5 to 10 years rose to 3.1 percent in February, up from January and December but close to the average over 2008. Furthermore, according to the Survey of Professional Forecasters, expected PCE inflation over the next 10 years held steady at 2.2 percent in the first quarter of 2009, while expected CPI inflation over the next 10 years edged down 0.1 percentage point, to 2.4 percent. As discussed in the “Domestic Financial Developments” section, liquidity conditions are still quite poor in the market for TIPS, making it difficult to infer inflation expectations from TIPS-based measures.

Prices at earlier stages of processing have retreated considerably after a rapid rise in the first half of last year. The PPI for core intermediate materials dropped 1 percent in January after decreasing 2¼ percent, on average, in each of the previous three months. This pattern reflects, in part, weaker global demand and steep declines in the prices of a wide variety of energy-intensive goods, such as chemicals and plastics. Meanwhile, since the January Greenbook, commodity prices have stepped down after moving up somewhat in the first few weeks of this year.

Labor Costs

Hourly compensation has continued to increase moderately. The employment cost index for hourly compensation of private-industry workers rose at an annual rate of only about

Commodity Price Indexes

Journal of Commerce

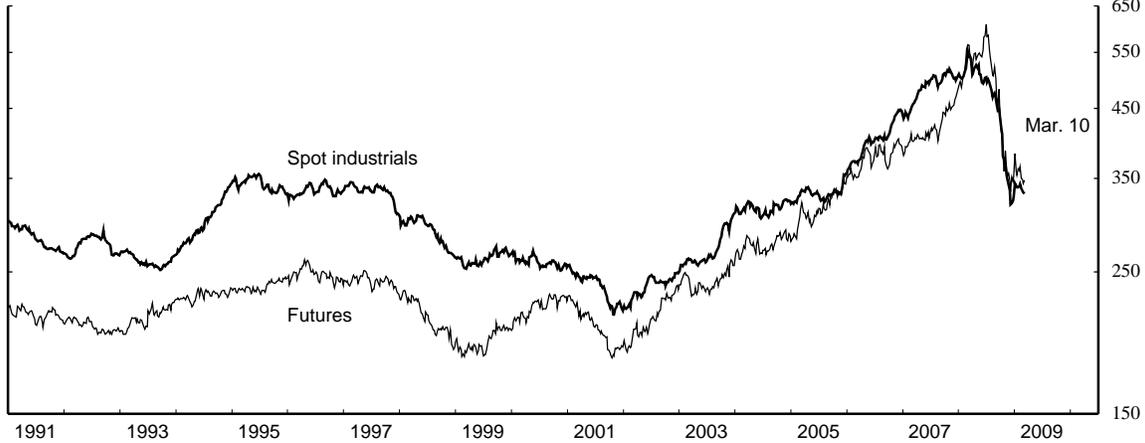
Ratio scale, 2006 = 100



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 JOC data is held by CIBCR, 1994.

Commodity Research Bureau

Ratio scale, 1967 = 100



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	2008 ¹	12/30/08 to 1/20/09 ²	1/20/09 ² to 3/10/09	52-week change to 3/10/09
JOC industrials	-41.4	4.2	-3.1	-47.5
JOC metals	-48.2	12.5	-3.8	-55.2
CRB spot industrials	-34.3	3.6	-2.3	-39.0
CRB spot foodstuffs	-14.1	2.5	-5.3	-28.8
CRB futures	-24.7	.5	-1.8	-38.5

1. From the last week of the preceding year to the last week of the year indicated.

2. January 20, 2009, is the Tuesday preceding publication of the January Greenbook.

2 percent over the three months ending in December, and the 12-month change, at 2½ percent, is ½ percentage point below the increase in 2007. This deceleration was evident in both the wages and salaries and the benefits components of the index.

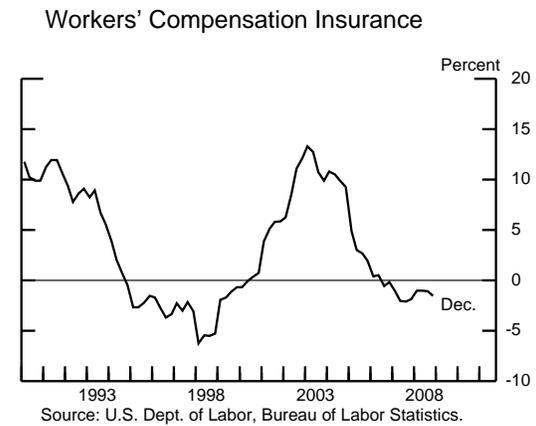
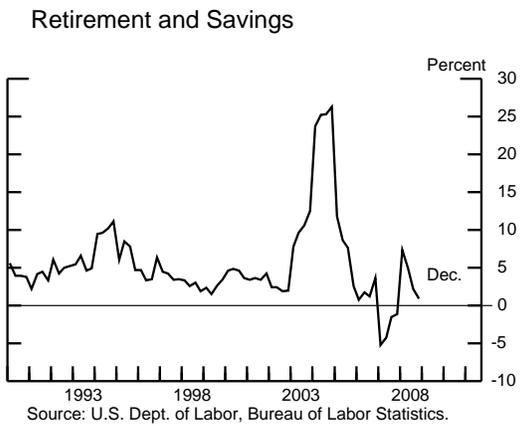
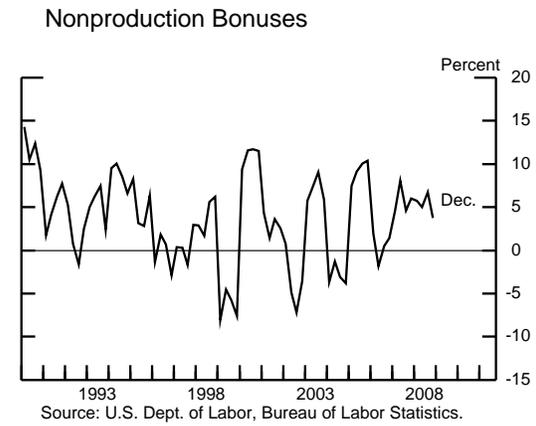
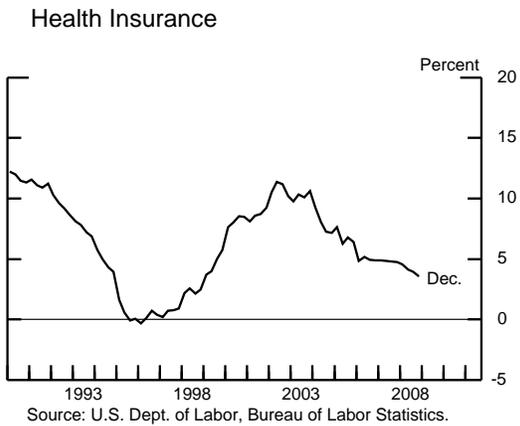
Compensation per hour in the nonfarm business sector rose more rapidly in the second half of 2008 than in the first half, but the increase for the year as a whole, at 4 percent, was similar to the increases over the preceding few years. Despite a solid gain in labor productivity, unit labor costs rose a moderate 2 percent in 2008. More recently, average hourly earnings for production and nonsupervisory workers increased 0.2 percent per month in January and February. This measure of wages has risen 3½ percent over the past 12 months, down slightly from the increase over the previous 12 months.

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

Measure	2007	2008			
	Dec.	Mar.	June	Sept.	Dec.
Quarterly change (compound annual rate) ¹					
Total hourly compensation	3.5	3.0	2.3	2.6	1.9
Wages and salaries	3.1	3.4	3.0	2.2	2.2
Benefits	3.1	2.3	1.9	2.3	1.5
12-month change					
Total hourly compensation	3.0	3.2	3.0	2.8	2.4
Wages and salaries	3.3	3.2	3.1	2.9	2.6
Benefits	2.4	3.2	2.6	2.4	2.0

1. Seasonally adjusted.
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

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



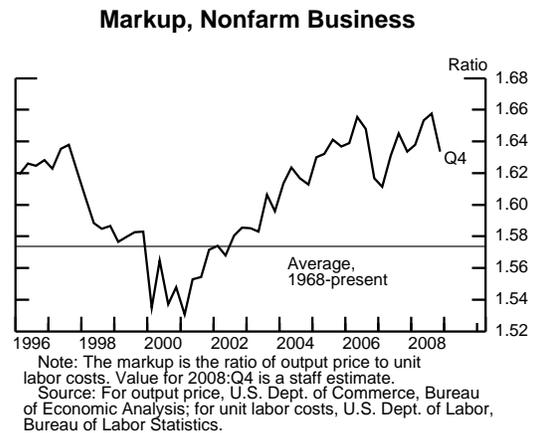
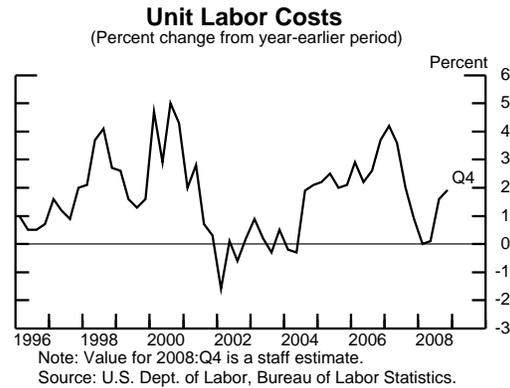
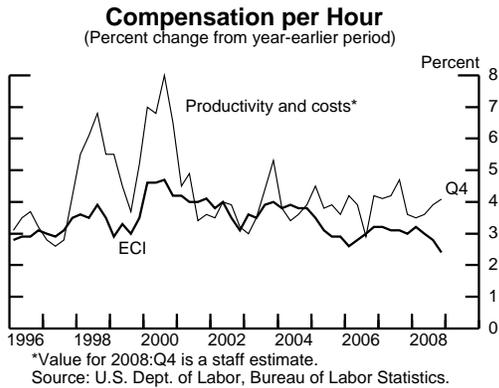
Hourly Compensation and Unit Labor Costs

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

Category	2006:Q4 to 2007:Q4	2007:Q4 to 2008:Q4 ^e	2008			
			Q1	Q2	Q3	Q4 ^e
<i>Compensation per hour</i> Nonfarm business	3.6	4.1	3.7	1.7	5.7	5.2
<i>Output per hour</i> Nonfarm business	2.6	2.1	2.6	4.7	2.2	-9
<i>Unit labor costs</i> Nonfarm business	.9	1.9	1.1	-2.8	3.5	6.2

e Staff estimate.

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.



Appendix

American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 was passed by the Congress and signed by the President in February. As shown in the table, the fiscal stimulus package is estimated to increase the federal deficit by \$787 billion from fiscal 2009 through fiscal 2019, with \$283 billion of the budget cost attributable to tax cuts and \$504 billion attributable to increased spending. Almost three-fourths of the total budget costs of the package are expected to arise in fiscal 2009 and fiscal 2010.

Individual Tax Cuts

The largest component of the tax relief for individuals is a \$400 “Making Work Pay” tax credit. This tax cut is anticipated to show up primarily in lower tax withholding this year and next and also to be partially reflected in higher refunds during the filing season after the end of the tax year. The individual tax cuts also include the cost of providing relief for most households from the alternative minimum tax in 2009. In addition, the package raises the earned income tax credit and the child tax credit over the next two years, increases the first-time homebuyer credit put in place last year from \$7,500 to \$8,000 and extends it through November 2009, and allows the sales tax associated with light vehicle purchases to be tax deductible this year.¹⁴

Business Tax Cuts

The business tax cuts include the extension through 2009 of the 50 percent bonus (or accelerated) depreciation allowance for equipment spending that was instituted last year; this provision is estimated to reduce business tax payments in fiscal 2009 and fiscal 2010 but is expected to raise revenues in the following years as firms subsequently have lower depreciation deductions after taking the temporary bonus allowance. The package also contains numerous other tax provisions for businesses, including the deferral this year and next of taxable income arising from the discharge of firms’ debt; this income will eventually be included in taxable income and increase revenues in later years.

Transfer Payments

The stimulus package increases transfer payments through several programs, including those that (1) boost unemployment insurance benefits both by extending eligibility for emergency unemployment compensation through the end of this year and by temporarily increasing the weekly unemployment benefit by \$25; (2) temporarily increase benefits under the Supplemental Nutrition Assistance Program (formerly known as the Food

¹⁴ The homebuyer tax credit does not require repayment if the home is purchased in 2009; however, those that used it in 2008 are still required to pay it back.

Stamp Program); (3) provide a one-time \$250 payment to recipients of Social Security and veterans benefits, which is expected to be distributed in the spring; (4) establish a new program to subsidize health insurance premiums to assist people who have become unemployed in continuing the health coverage they previously had through their employer; and (5) increase the funding for Pell Grants and other student financial assistance.

Federal Grants to State Governments

The stimulus package provides a temporary but significant increase in federal grants to state governments. In particular, the legislation provides fiscal stabilization grants to the states—funds that are intended for education and other general government activities.¹⁵ Also, the stimulus package provides budget relief for the states by temporarily increasing the federal match rate for states' Medicaid costs through the end of 2010. Finally, the package includes grants specifically for education programs and school renovation, along with other grants for highways, bridges, sewers, and various infrastructure projects.

Federal Purchases

The stimulus package provides additional budget authority for a number of federal spending programs, including funds for the Army Corps of Engineers, military construction, and other infrastructure projects, along with several research programs.

Subsidies

The stimulus package provides funds for several long-term projects, including those that extend access to broadband Internet services, expand the use of health information technology by doctors and hospitals, and improve a number of energy-related programs. Only a very small portion of the spending associated with these programs is expected to be made over the next two years.

¹⁵ The state fiscal stabilization funds, administered by the Department of Education, will be distributed to the states based on population. Eighty percent of these funds must be disbursed by the states to school districts based on existing aid formulas, and the remaining 20 percent can be used at the states' discretion. These funds must be used by the end of the 2011 fiscal year (Sept. 30, 2011). A small portion of the funds are reserved for incentive grants to be given to states on a competitive basis in fiscal 2010, based on states meeting specified criteria on how they spent their initial allocations.

Estimated Federal Cost of the American Recovery and Reinvestment Act of 2009
(Billions of dollars, fiscal years)

Item	Total (2009-19)	2009	2010	2011	2012	2013-19
Total	787	185	399	134	36	35
Taxes	283	66	212	39	-9	-21
Individual	232	26	173	31	0	3
"Making Work Pay" tax credit	116	20	66	30	0	0
AMT relief	70	2	83	-15	0	0
Other ¹	46	4	24	16	0	3
Corporate	51	41	39	7	-9	-24
Bonus depreciation	5	24	15	-8	-7	-19
Other ²	46	17	24	16	-2	-5
Spending	504	118	187	96	45	56
Transfers	116	51	51	8	4	3
Unemployment insurance	40	17	21	1	1	1
Food stamps	20	5	6	4	3	2
Retirees and veterans	14	14	0	0	0	0
Health insurance subsidies	25	14	9	1	0	0
Pell Grants	17	1	15	1	0	0
Grants	276	57	111	61	19	25
Stabilization	54	7	28	16	2	0
Relief (Medicaid match)	90	34	44	12	0	0
Education	32	2	15	13	2	0
Other ³	100	14	23	21	15	24
Federal purchases	69	9	21	16	10	12
Subsidies for long-term projects	45	1	4	10	12	17

Note: Components may not sum to totals because of rounding. AMT is the alternative minimum tax.

1. Includes an increase in the earned income tax credit and an expansion of the child tax credit.

2. Includes the deferral of income arising from the discharging of business debt.

3. Includes grants for highways, sewers, and other infrastructure projects.

Source: Congressional Budget Office and staff estimates.

Domestic Financial Developments

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

Instrument	2007	2008	2009		Change to Mar. 11 from selected dates (percentage points)		
	Aug. 6	Dec. 15	Jan. 27	Mar. 11	2007 Aug. 6	2008 Dec. 15	2009 Jan. 27
	<i>Short-term</i>						
FOMC intended federal funds rate	5.25	1.00	.13	.13	-5.12	-.87	.00
Treasury bills ¹							
3-month	4.74	.04	.13	.23	-4.51	.19	.10
6-month	4.72	.28	.32	.45	-4.27	.17	.13
Commercial paper (A1/P1 rates) ²							
1-month	5.26	.53	.29	.52	-4.74	-.01	.23
3-month	5.29	1.35	2.04	.66	-4.63	-.69	-1.38
Large negotiable CDs ¹							
3-month	5.34	1.85	1.08	1.17	-4.17	-.68	.09
6-month	5.27	2.24	1.57	1.87	-3.40	-.37	.30
Eurodollar deposits ³							
1-month	5.33	1.50	.75	1.00	-4.33	-.50	.25
3-month	5.35	2.55	1.75	1.65	-3.70	-.90	-.10
Bank prime rate	8.25	4.00	3.25	3.25	-5.00	-.75	.00
<i>Intermediate- and long-term</i>							
U.S. Treasury ⁴							
2-year	4.49	.48	.68	1.02	-3.47	.54	.34
5-year	4.52	1.57	1.74	2.10	-2.42	.53	.36
10-year	4.82	3.08	3.17	3.42	-1.40	.34	.25
U.S. Treasury indexed notes ⁵							
5-year	2.43	2.99	1.84	2.29	-.14	-.70	.45
10-year	2.48	2.66	1.97	2.47	-.01	-.19	.50
Municipal general obligations (Bond Buyer) ⁶	4.51	5.85	5.13	4.96	.45	-.89	-.17
Private instruments							
10-year swap	5.44	2.76	2.84	3.25	-2.19	.49	.41
10-year FNMA ⁷	5.34	3.50	3.65	3.79	-1.55	.29	.14
10-year AA ⁸	6.12	6.86	6.15	6.74	.62	-.12	.59
10-year BBB ⁸	6.57	9.59	8.89	9.16	2.59	-.43	.27
10-year high yield ⁸	9.21	18.30	14.78	15.73	6.52	-2.57	.95
Home mortgages (FHLMC survey rate)							
30-year fixed	6.59	5.19	5.10	5.03	-1.56	-.16	-.07
1-year adjustable	5.65	4.94	4.90	4.80	-.85	-.14	-.10

Stock exchange index	Record high		2008	2009		Change to Mar. 11 from selected dates (percent)		
	Level	Date	Dec. 15	Jan. 27	Mar. 11	Record high	2008 Dec. 15	2009 Jan. 27
	Dow Jones Industrial	14,165	10-9-07	8,565	8,175	6,930	-51.07	-19.08	-15.22
S&P 500 Composite	1,565	10-9-07	869	846	721	-53.91	-16.95	-14.70
Nasdaq	5,049	3-10-00	1,508	1,505	1,372	-72.83	-9.06	-8.86
Russell 2000	856	7-13-07	453	456	366	-57.20	-19.06	-19.60
Wilshire 5000	15,807	10-9-07	8,664	8,524	7,319	-53.70	-15.53	-14.14

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.

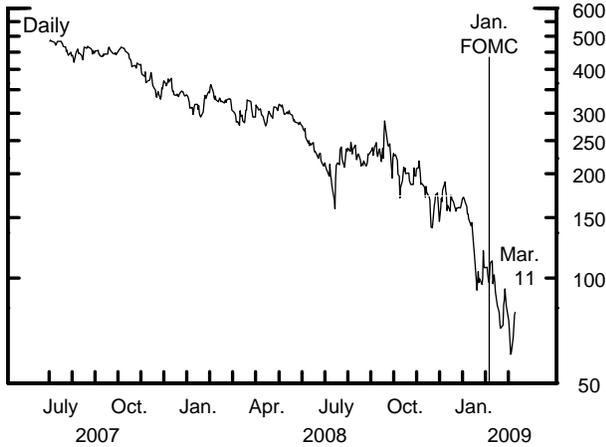
NOTES:

August 6, 2007, is the day before the August 2007 FOMC meeting.
December 15, 2008, is the day before the December 2008 FOMC monetary policy announcement.
January 27, 2009, is the day before the most recent FOMC monetary policy announcement.
Data for the 3-month commercial paper rate on December 15, 2008, are from December 4, 2008, the most recent date for which a sufficient volume of new issues was available to calculate this rate.

Financial Institutions and Short-Term Funding Markets

S&P Banks Equity Index

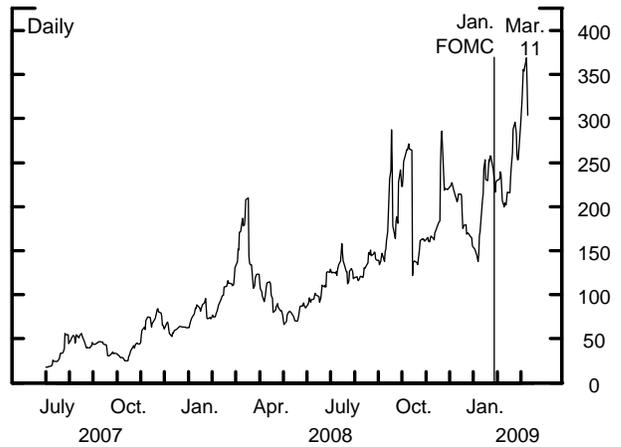
Jan. 27, 2009 = 100, ratio scale



Source: Bloomberg.

Senior CDS Spreads for Bank Holding Companies

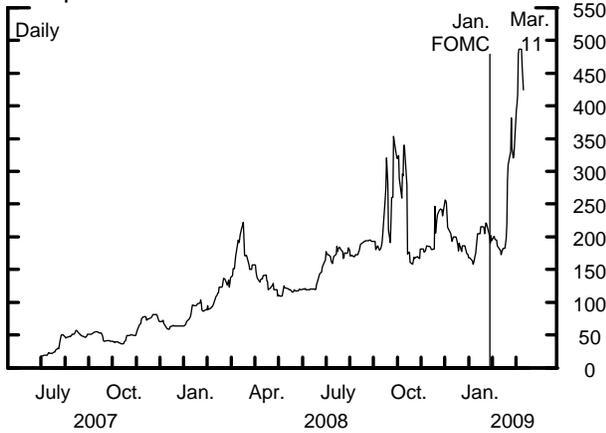
Basis points



Note: Median spreads for 6 bank holding companies.
Source: Markit.

Subordinated CDS Spreads for Bank Holding Companies

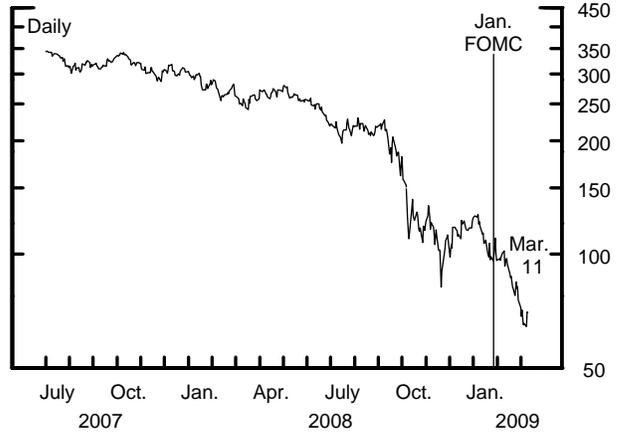
Basis points



Note: Sector median.
Source: Markit.

S&P Insurance Equity Index

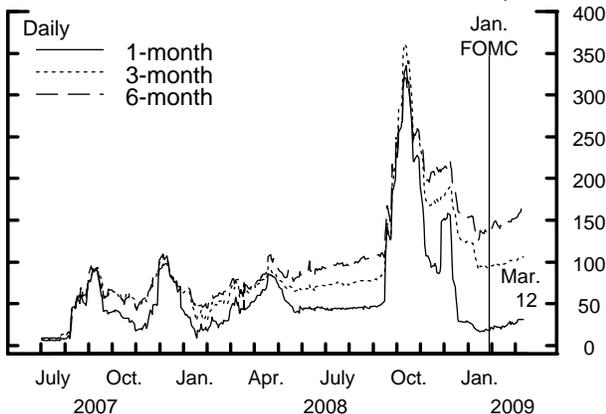
Jan. 27, 2009 = 100, ratio scale



Source: Standard & Poor's.

Libor over OIS Spread

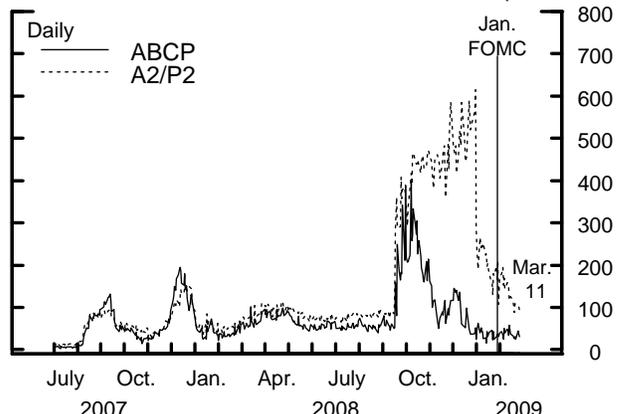
Basis points



Source: British Bankers' Association and Prebon.

Spreads on 30-day Commercial Paper

Basis points



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.
Source: Depository Trust & Clearing Corporation.

Domestic Financial Developments

Overview

Although functioning in a few financial markets showed some limited signs of improvement over the intermeeting period, financial conditions overall appeared to become even less supportive of economic activity. Broad equity-price indexes tumbled, and some longer-term corporate risk spreads widened on incoming data suggesting a weaker-than-expected economic outlook and market concerns about the likely effectiveness of government stimulus programs. Asset prices of banking organizations were particularly hard hit, and Call Report data showed further declines in bank profitability, credit quality, and lending commitments in the fourth quarter. In shorter-term funding markets, changes in risk spreads were mixed. Corporate debt growth has held up, supported by strong bond issuance by highly rated firms, while the latest indicators point to continued weakness in household borrowing.

Financial Institutions

Share prices of banking organizations dropped sharply and CDS spreads on senior and subordinated bank debt jumped, on net, over the intermeeting period. On February 10, the U.S. government announced a broad set of measures to strengthen financial institutions and to increase the availability of credit to households and businesses. However, market participants were reportedly disappointed with the lack of detail regarding important elements of the new Financial Stability Plan. Concerns about the potential nationalization of two large banking institutions also weighed on market sentiment, as did the barrage of weaker-than-expected economic data releases.

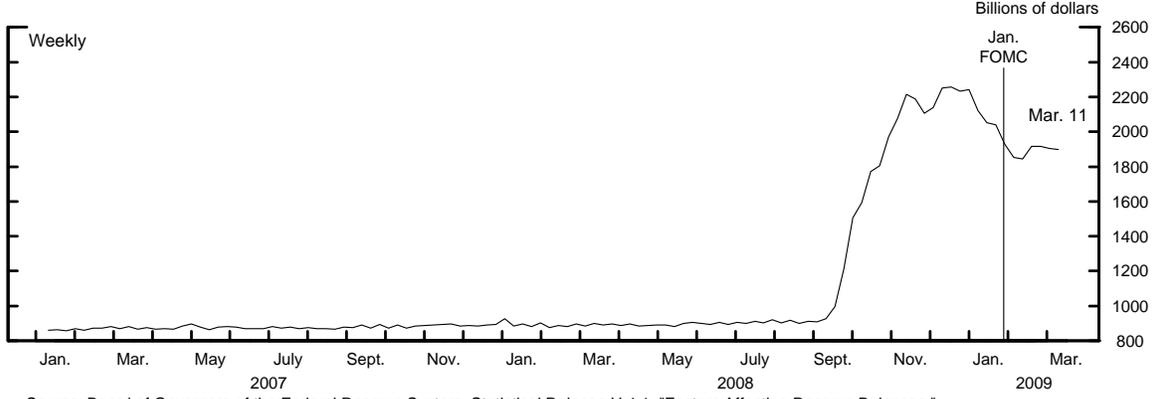
Stock prices of insurance companies dropped sharply over the period, reflecting concerns about the adequacy of their capital positions. On March 2, AIG reported losses of more than \$60 billion for the fourth quarter of last year, and the Treasury Department and the Federal Reserve announced a restructuring of the government assistance to AIG to enhance the company's capital and liquidity to facilitate the orderly completion of its global divestiture program.

Short-Term Funding Markets

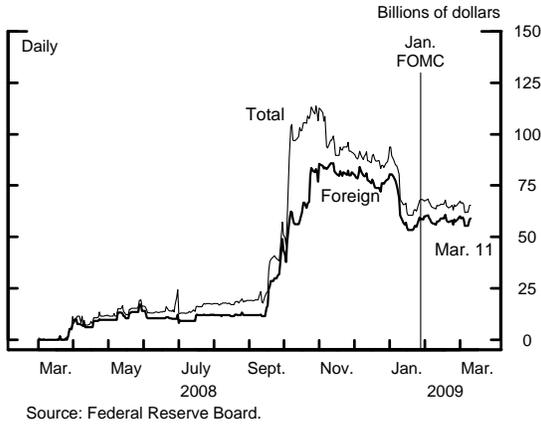
Changes in conditions in short-term funding markets were mixed over the intermeeting period. In interbank markets, spreads of Libor relative to OIS rates edged up. In contrast, spreads on A2/P2-rated commercial paper continued to trend down over the intermeeting period, and spreads on AA-rated asset-backed commercial paper remained at the lower end of their range over the past year. In markets for repurchase agreements (repos), bid-asked spreads on most collateral narrowed, and "haircuts" declined a bit on

Federal Reserve Liquidity Provision

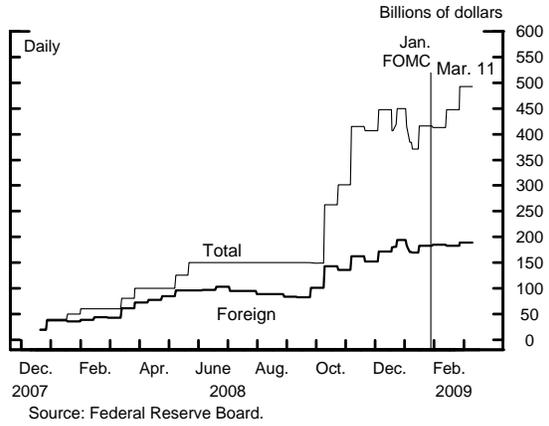
Total Federal Reserve Assets



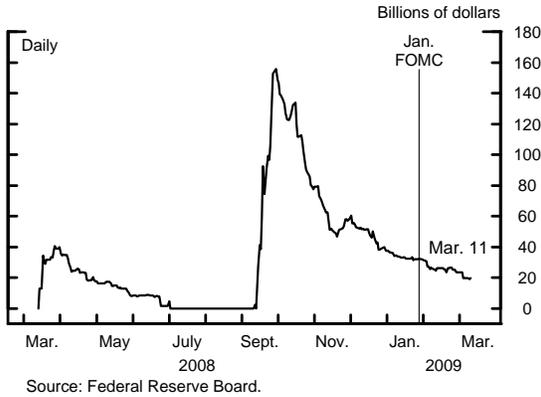
Primary Credit



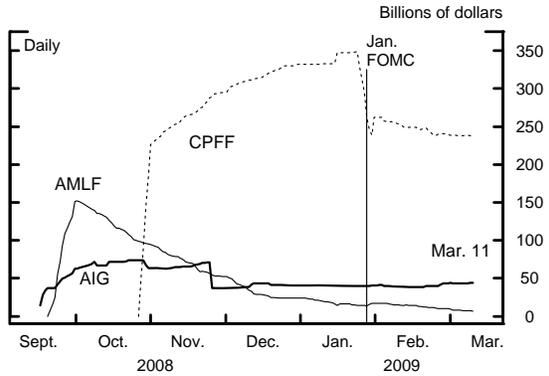
Term Auction Facility



Primary Dealer Credit Facility



Other Credit Extensions



Note: AMLF is the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility; AIG is American International Group, Inc.; CPFF is the Commercial Paper Funding Facility.

Source: Federal Reserve Board.

repos collateralized by agency debt, CMBS, and some private-label MBS, though volumes remained low.

Federal Reserve Facilities and Purchase Programs

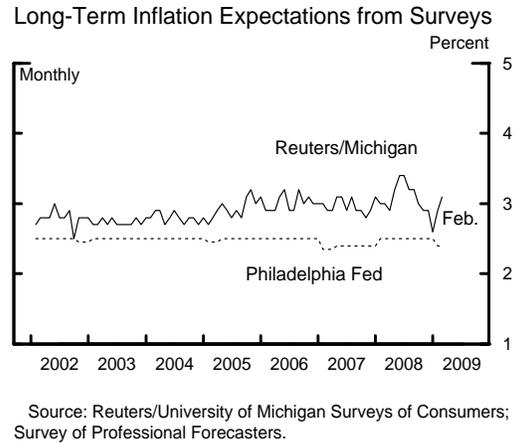
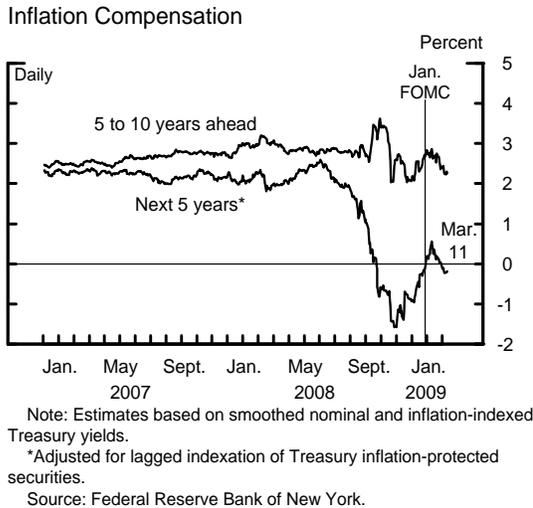
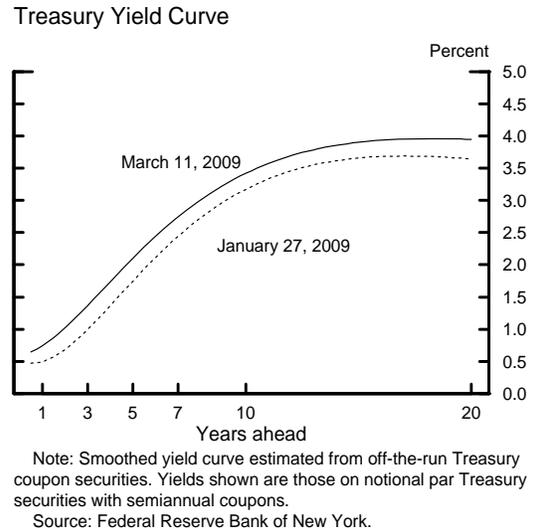
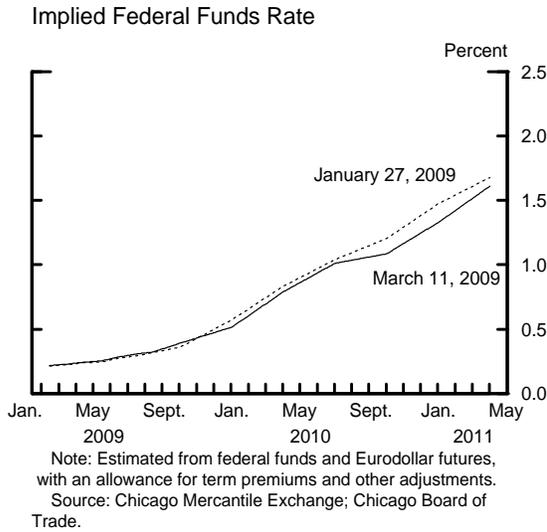
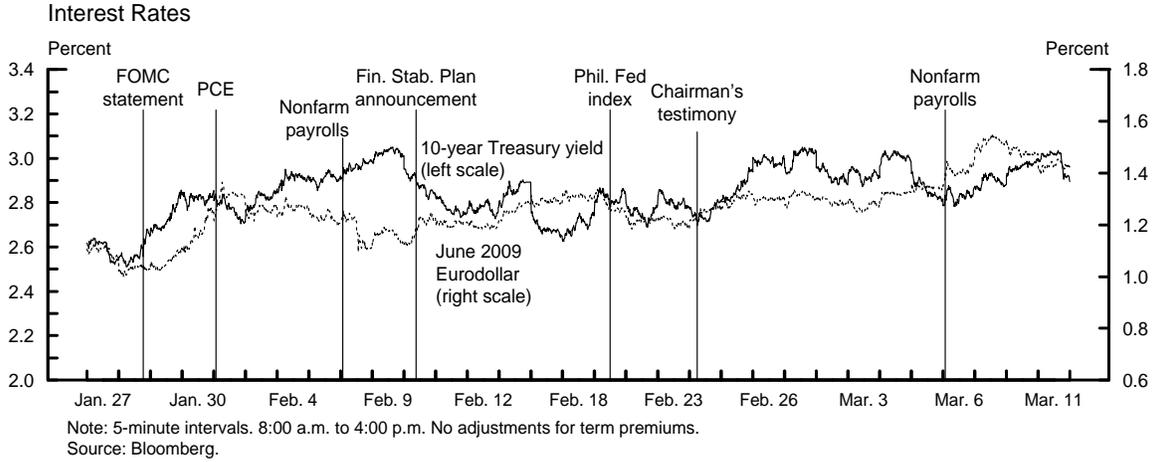
The level of total Federal Reserve assets has changed little, on net, since the January FOMC meeting.¹ Primary credit was about flat, and credit outstanding under the Term Auction Facility (TAF) increased somewhat over the period as the February auctions experienced higher demand than previous auctions. In contrast, credit extended under the Primary Dealer Credit Facility declined somewhat over the intermeeting period. Credit outstanding under the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility edged closer to zero, and credit extended under the Commercial Paper Funding Facility (CPFF) dropped roughly \$100 billion to about \$240 billion over the period. At the end of January, about \$240 billion of commercial paper that was purchased in late October under the CPFF matured. Several financial issuers that paid down paper from the CPFF substituted toward longer-term funding alternatives, including debt issued under the Temporary Liquidity Guarantee Program established by the FDIC.

Since the January FOMC meeting, the Federal Reserve has purchased about \$15 billion in agency debt and about \$150 billion in agency MBS, including operations in the dollar roll market. Federal Reserve purchases of MBS absorbed the bulk of new MBS issuance. The System conducted several Term Securities Lending Facility (TSLF) auctions, all of which were undersubscribed. A \$50 billion TSLF Options Program auction covering quarter-end was conducted March 3 and was also undersubscribed, despite a reduction in the fee for the associated TSLF draws.

On March 3, the Treasury Department and the Federal Reserve Board announced the launch of the Term Asset-Backed Securities Loan Facility (TALF). In the program's initial phase, the Federal Reserve will lend up to a total of \$200 billion to U.S. companies, collateralized by eligible AAA-rated ABS backed by recently originated auto loans, credit card loans, student loans, and small business loans guaranteed by the Small Business Administration. Subscriptions for funding in March will be accepted on March 17, and the first funds from the program will be disbursed on March 25. The program will hold monthly fundings through December 2009, or longer if the Federal Reserve

¹ A large quantity of MBS purchases is slated to settle at close of business on Thursday, March 12, as are the loans awarded through the March 9 Term Auction Facility auction. After the settlements, the level of total Federal Reserve assets should be a bit higher than that at the time of the last FOMC meeting.

Policy Expectations and Treasury Yields



chooses to extend the facility. The Federal Reserve and the Treasury Department have also announced plans to expand the facility in the future to accept CMBS and to explore the possibility of accepting other types of AAA-rated newly issued ABS, which could generate up to \$1 trillion in new lending.

Policy Expectations and Interest Rates

The expected path of the federal funds rate was little changed, on net, over the intermeeting period, despite the deterioration in the economic outlook. The decision by the FOMC to keep the target range for the federal funds rate unchanged at the January FOMC meeting and subsequent monetary policy communications were in line with market expectations and elicited very little reaction in futures rates. Market and survey-based measures of policy expectations indicate that investors expect the federal funds rate to trade within the current target range at least through the third quarter of this year. None of the respondents to the survey of primary dealers expect the funds rate to rise before the first half of 2010, and the majority of respondents expect the first increase to occur in the first half of 2011 or later.

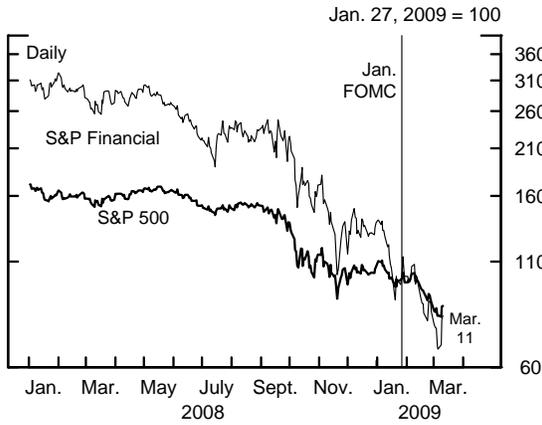
Over the intermeeting period, yields on 2- and 10-year nominal Treasury securities increased about 30 basis points, at least in part in response to a massive increase in the expected supply of these securities. Yields on longer-horizon TIPS increased more than their nominal counterparts, leaving 5-to-10-year-ahead inflation compensation about 40 basis points lower on net. Inflation compensation for the next five years fell slightly. Poor liquidity conditions in the TIPS market continued to make these readings difficult to interpret. Longer-term inflation expectations from surveys were mixed, with the Philadelphia Fed Survey of Professional Forecasters showing a small decline and the Reuters/University of Michigan Surveys of Consumers showing an increase.

Stock Prices, Corporate Yields, and Risk Spreads

Broad equity-price indexes decreased about 15 percent, on net, over the intermeeting period, as investors revised down their outlook for the economy and concerns intensified about the health of major financial institutions. The spread between the forward trend earnings-price ratio for S&P 500 firms and an estimate of the real long-run Treasury yield—a rough measure of the equity premium—was little changed, remaining at a very

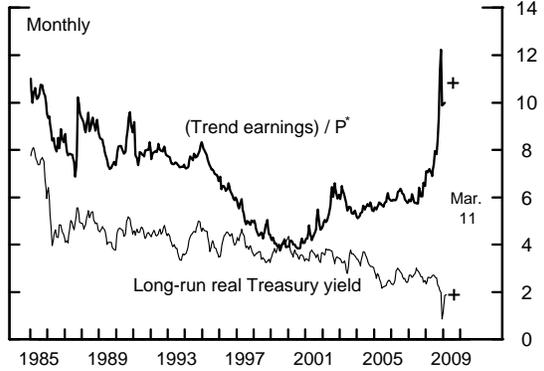
Corporate Yields, Risk Spreads, and Stock Prices

Selected Stock Price Indexes



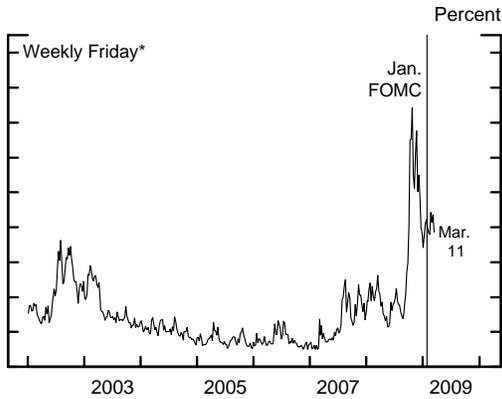
Source: Standard & Poor's.

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



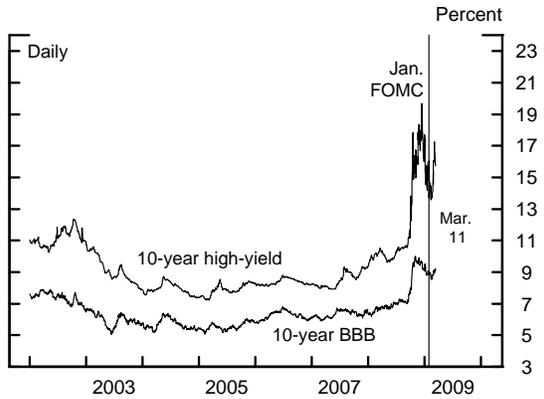
* Trend earnings are estimated using analysts' forecasts of year-ahead earnings from I/B/E/S.
 + Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.
 Source: Thomson Financial.

Implied Volatility on S&P 500 (VIX)



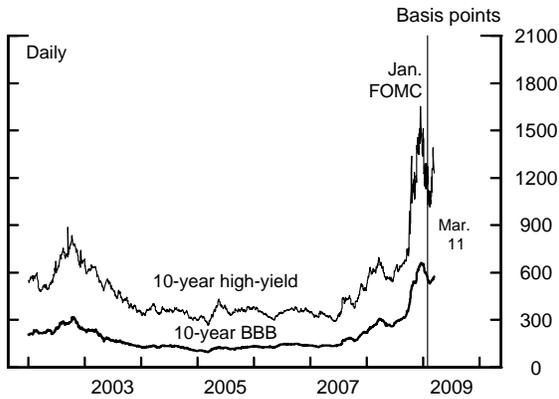
* Latest observation is for most recent business day.
 Source: Chicago Board of Exchange.

Corporate Bond Yields



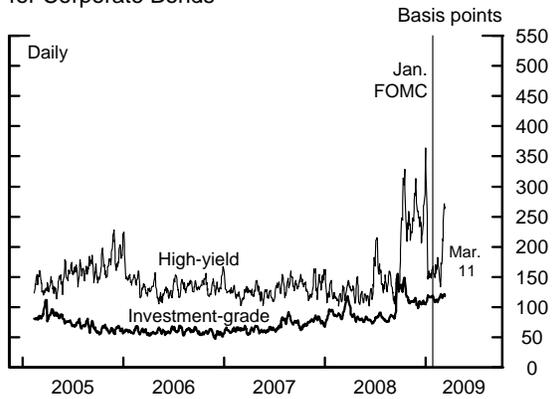
Note: Yields from smoothed yield curves based on Merrill Lynch bond data.

Corporate Bond Spreads



Note: Corporate yields from smoothed yield curves based on Merrill Lynch bond data and spreads measured relative to comparable-maturity Treasury securities.

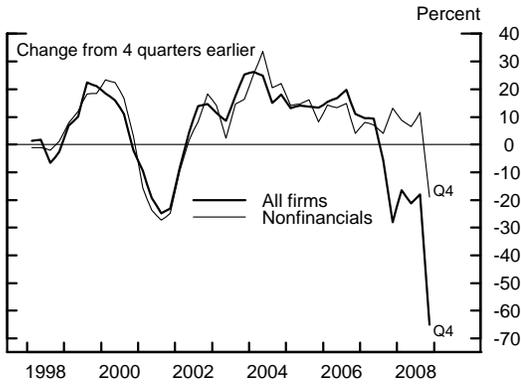
Estimated Median Bid-Asked Spread for Corporate Bonds



Source: Staff estimate using data from the National Assn. of Securities Dealers' Trade Reporting and Compliance Engine.

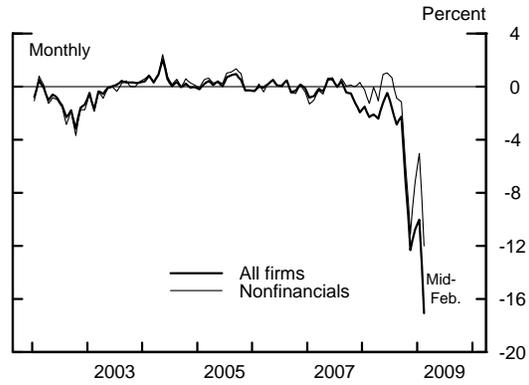
Corporate Earnings and Credit Quality

S&P 500 Earnings Per Share



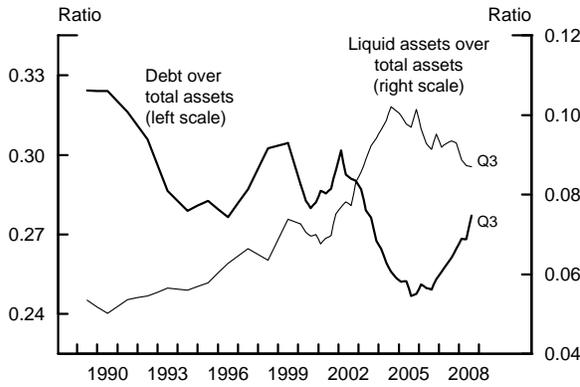
Source: Thomson Financial.

Revisions to Expected S&P 500 Earnings



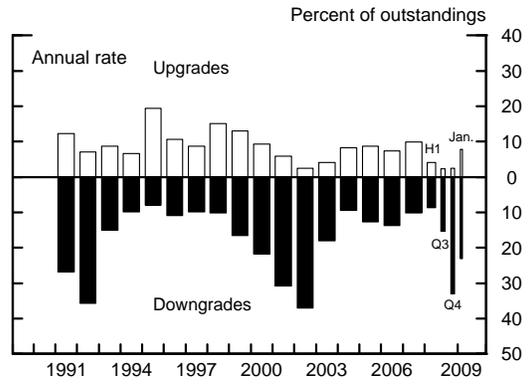
Note: Index is a weighted average of the percent change in the consensus forecasts of current-year and following-year earnings per share for a fixed sample.
Source: Thomson Financial.

Financial Ratios for Nonfinancial Corporations



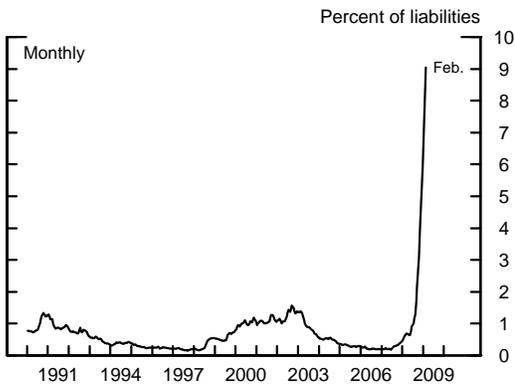
Note: Data are annual through 1999 and quarterly starting in 2000:Q1.
Source: Calculated using Compustat data.

Bond Ratings Changes of Nonfinancial Companies



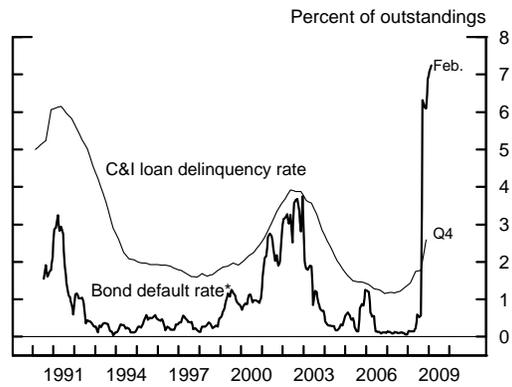
Source: Calculated using data from Moody's Investors Service.

Expected Year-Ahead Defaults



Note: Firm-level estimates of default weighted by firm liabilities as a percent of total liabilities, excluding defaulted firms.
Source: Calculated using Moody's KMV.

Selected Default and Delinquency Rates



* 6-month moving average.
Source: For default rate, Moody's Investors Service; for delinquency rate, Call Report.

Business Finance

Gross Issuance of Securities by U.S. Corporations

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

Type of security	2005	2006	2007	2008		2009	
				H1	H2	Jan.	Feb.
<i>Nonfinancial corporations</i>							
Stocks ¹	4.6	4.7	5.5	3.5	4.0	3.1	2.8
Initial public offerings	1.7	1.8	1.6	.6	.1	.0	.8
Seasoned offerings	2.8	2.9	3.8	2.9	3.9	3.1	2.0
Bonds ²	18.7	29.3	35.1	36.0	18.4	41.7	64.9
Investment grade	8.7	13.1	17.5	24.9	14.2	33.1	39.5
Speculative grade	5.2	6.2	7.5	3.1	.4	3.3	2.9
Other (sold abroad/unrated)	4.8	10.1	10.0	8.0	3.7	5.4	22.5
<i>Memo</i>							
Net issuance of commercial paper ³	-2	2.4	-4	-5	3.7	4.2	-21.7
Change in C&I loans at commercial banks ³	9.7	11.9	21.2	11.0	9.0	5.6	-19.2
<i>Financial corporations</i>							
Stocks ¹	5.0	5.3	8.6	17.2	9.9	.6	.3
Bonds ²	170.4	180.6	151.7	66.3	24.5	37.4	27.7

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

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

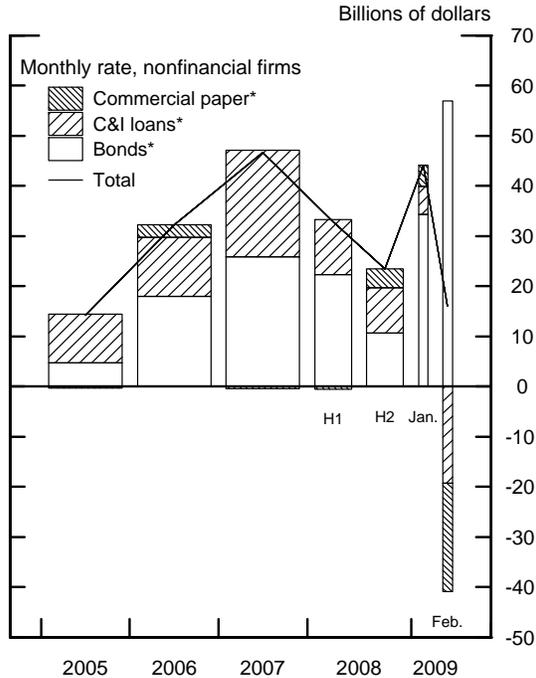
2. Data include regular and 144a private placements. Bond totals reflect gross proceeds rather than par value of original discount bonds.

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.

Source: Depository Trust & Clearing Corporation; Thomson Financial; Federal Reserve Board.

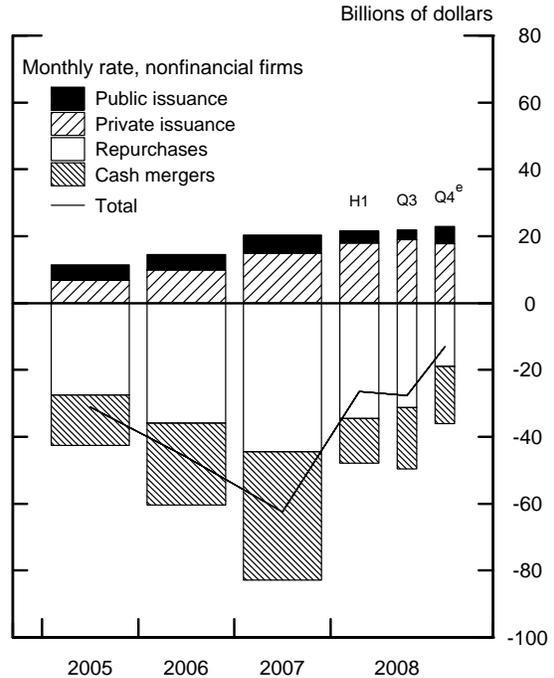
Selected Components of Net Debt Financing



* Seasonally adjusted, period-end basis.

Source: Depository Trust & Clearing Corporation; Thomson Financial; Federal Reserve Board.

Components of Net Equity Issuance



^e Staff estimate.

Source: Thomson Financial, Investment Benchmark Report; Money Tree Report by PricewaterhouseCoopers, National Venture Capital Association, and Venture Economics.

high level.² Options-implied volatility on the S&P 500 index was little changed over the intermeeting period.

On net, yields on BBB-rated and high-yield corporate bonds increased about 25 and 100 basis points, respectively, over the intermeeting period. Spreads of yields on BBB-rated corporate bonds relative to those on comparable-maturity Treasuries were little changed, while spreads on high-yield bonds increased about 70 basis points. Measures of liquidity in the secondary market for high-yield corporate bonds worsened over the intermeeting period, while those for investment-grade bonds were little changed; for both segments of the market, liquidity remains relatively poor by historical standards.

Corporate Earnings and Credit Quality

Operating earnings per share for S&P 500 firms in the fourth quarter were about 65 percent below year-earlier levels, with nonfinancial sector earnings down about 20 percent and the financial sector posting a substantial loss in aggregate. Analysts' forecasts of year-ahead earnings for S&P 500 firms were revised down dramatically in the month ending in mid-February, with substantial markdowns in the financial and nonfinancial sectors.

The credit quality of nonfinancial firms has deteriorated further over the past few months. The pace of nonfinancial corporate bonds downgraded by Moody's in January was somewhat below its fourth-quarter level, which was the highest since 2002. Expected year-ahead defaults estimated by Moody's KMV continued to shoot up in February on falling asset valuations. The delinquency rate on C&I loans increased notably in the fourth quarter, and the six-month trailing bond default rate climbed higher in February.

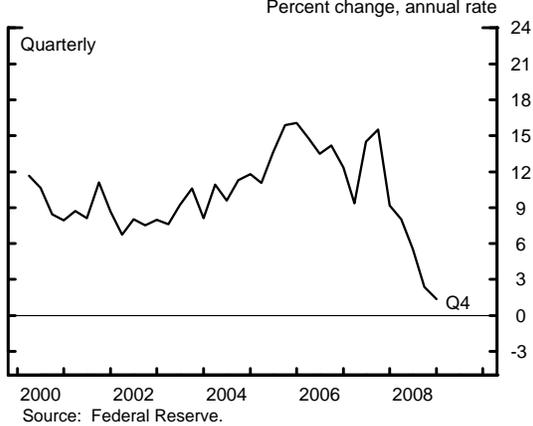
Business Finance

Net debt financing by nonfinancial corporations has held up fairly well over the first two months of this year owing to strong corporate bond issuance amid a narrowing of yield spreads in the first several weeks of the year. Investment-grade issuance more than doubled the already solid pace seen in the fourth quarter as top-grade firms evidently decided to strengthen their balance sheets by shifting toward longer-term debts. In

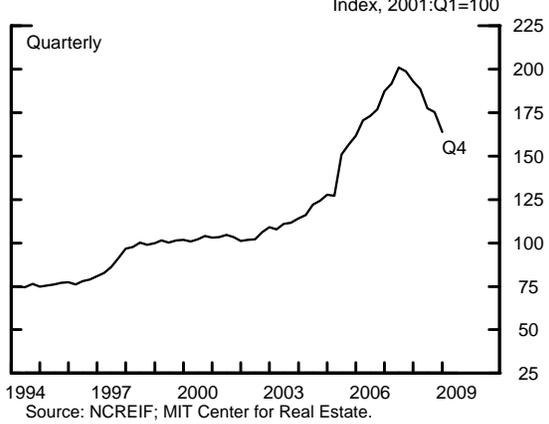
² We have revised the method by which we calculate the trend earnings series. We now make use of information in equity analysts' earnings expectations up to 24 months ahead; previously, we only used information on analysts' expectations for earnings 12 months ahead. We also incorporated information about dividends and earnings over the previous 12 months. Under the new methodology, the equity premium is estimated to be about 2 percentage points lower in recent months than under the previous methodology but is still at the highest level in the 25-year history of the series.

Commercial Real Estate

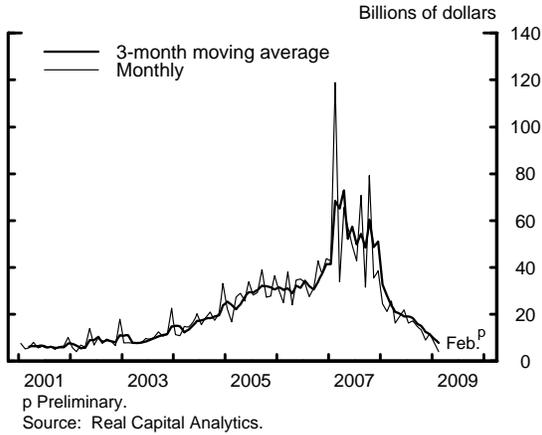
Commercial Mortgage Debt



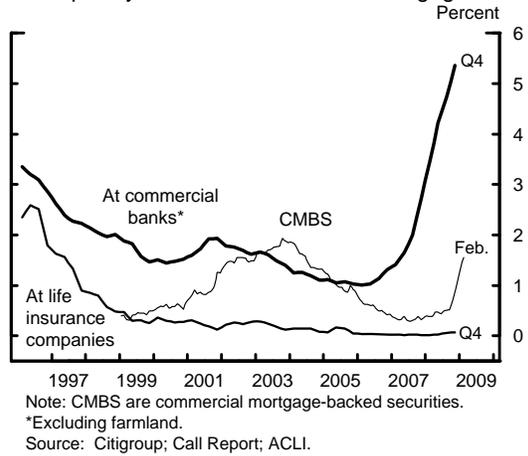
Prices of Commercial Real Estate



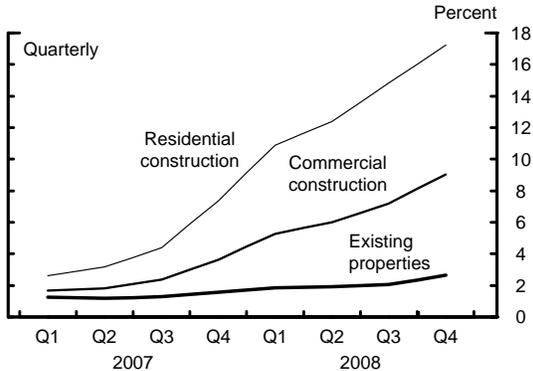
Sales of Commercial Real Estate



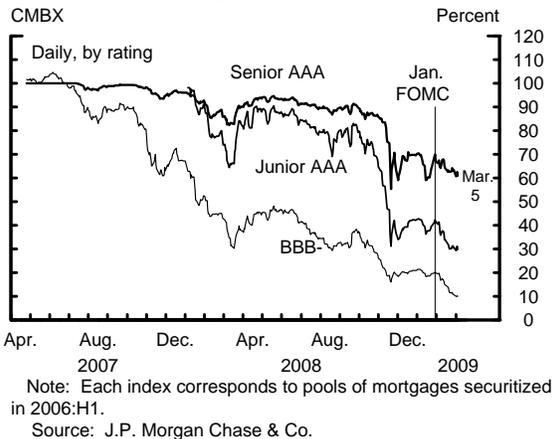
Delinquency Rates on Commercial Mortgages



Delinquency Rates on Commercial Mortgages at Banks



Commercial Mortgage CDS Index Prices



contrast, speculative-grade issuance remained very sluggish, although it picked up from a near-zero level late last year. Nonfinancial commercial paper outstanding bumped up in January but dropped in February. C&I loans contracted markedly, on net, over January and February with widespread paydowns.

In terms of equity issuance, both initial and seasoned offerings by nonfinancial corporations remained weak in January and February. In the fourth quarter, equity retirements from share repurchases are estimated to have slowed substantially, while retirements from cash-financed mergers were little changed at moderate levels. All told, net equity issuance posted its smallest quarterly decline in more than five years. So far this year, a handful of large mergers have been announced, but announcements of new share repurchase programs have been scant.

Financial firms continued to issue a substantial volume of bonds in January and February under the FDIC's Temporary Liquidity Guarantee Program. In contrast, such firms have issued almost no equity this year.

Commercial Real Estate

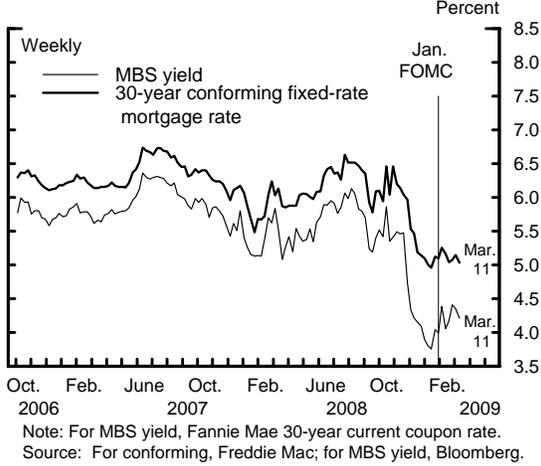
The growth of commercial mortgage debt was anemic in the fourth quarter, damped by both weak fundamentals and difficult financing conditions for new construction and the acquisition of existing properties. The volume of sales continued to drop in February, and price declines accelerated in the fourth quarter. The delinquency rate on commercial mortgages held by banks rose in the fourth quarter to the highest level since 1994, mainly reflecting a further deterioration in the performance of residential and commercial construction loans. The delinquency rate on commercial mortgages held in CMBS has moved up sharply over the past several months, driven by both deteriorating fundamentals and the inability of borrowers to find refinancing for balloon payments on maturing loans. Moody's Investor Service issued downgrades for a large swath of junior AAA tranches of CMBS, but senior AAA tranches experienced few downgrades.

Household Finance

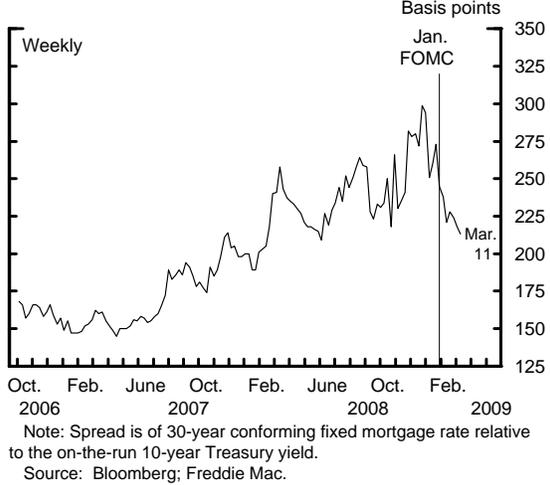
Over the intermeeting period, interest rates on 30-year conforming mortgages fluctuated in a relatively narrow band and were little changed on net. Rates offered on nonconforming jumbo loans continued to run significantly higher than those on conforming loans. The gap between rates on conforming mortgages and yields on MBS backed by such mortgages narrowed about 30 basis points, and the spread to Treasury rates of fixed-rate conforming mortgages also narrowed significantly. However, these

Residential Mortgages

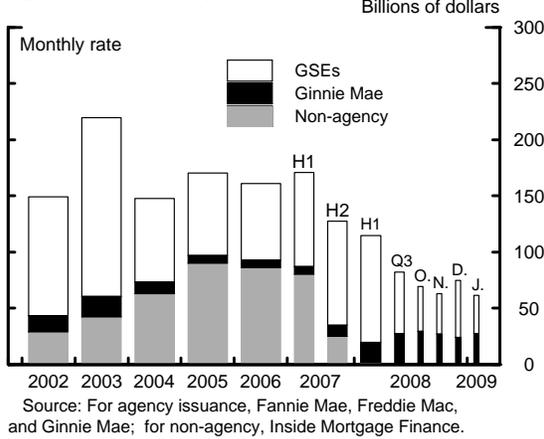
Mortgage Rate and MBS Yield



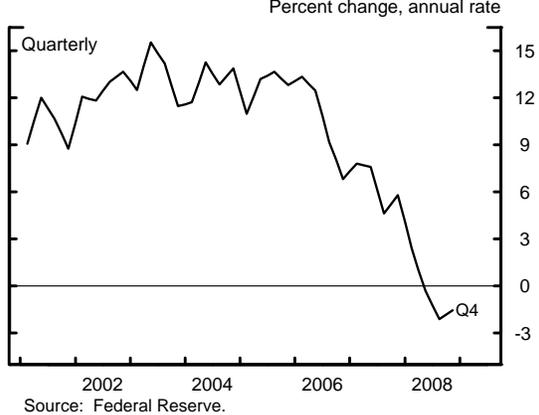
Spread of Mortgage Rate to Treasury Yield



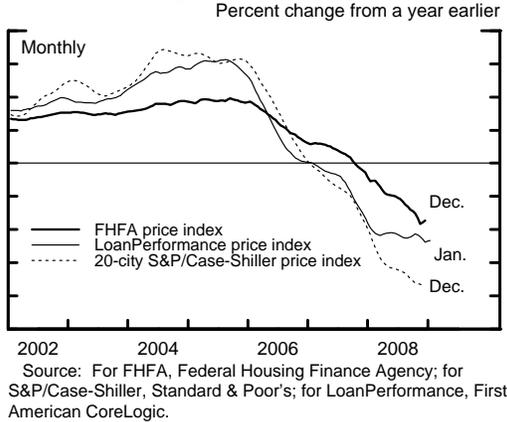
Agency and Non-Agency MBS Issuance



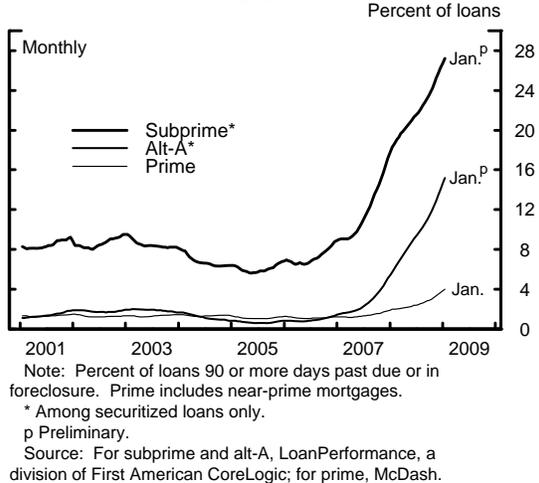
Mortgage Debt



Prices of Existing Homes

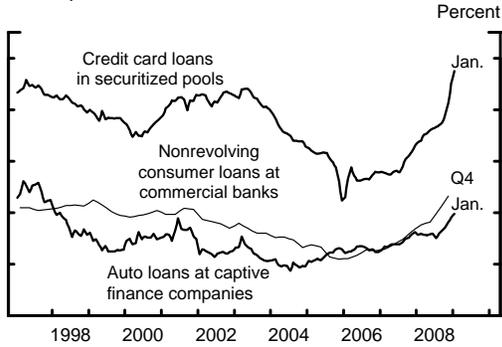


Delinquencies on Mortgages



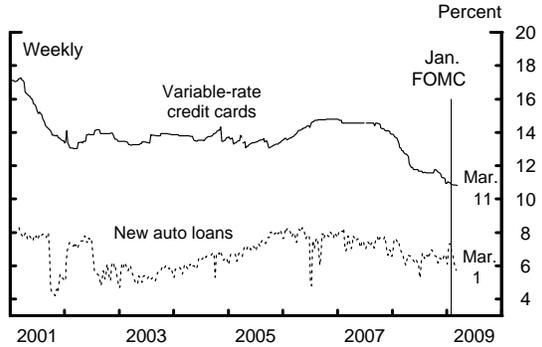
Consumer Credit and Household Wealth

Delinquencies on Consumer Loans



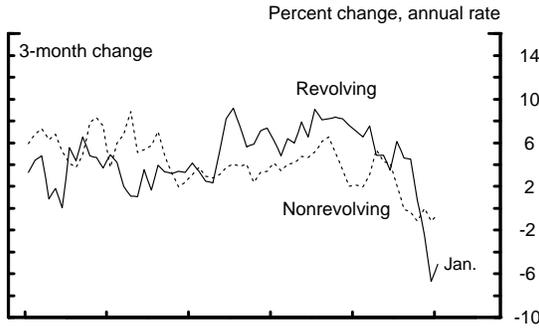
Source: For auto loans, Federal Reserve; for credit cards, Moody's Investors Service; for nonrevolving consumer loans, Call Report.

Consumer Loan Rates



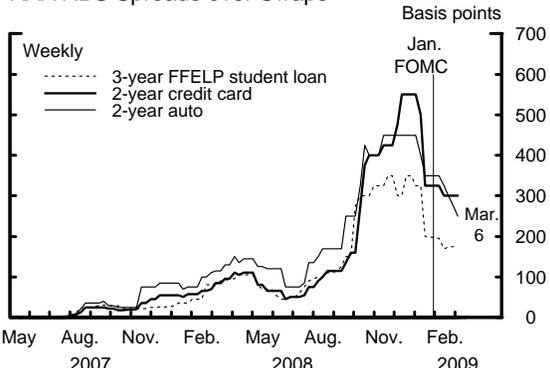
Source: For credit cards, Bankrate, Inc.; for auto, PIN.

Consumer Credit



Source: Federal Reserve.

AAA ABS Spreads over Swaps



Source: For credit cards and auto, Citigroup Global Markets; for student loans, Merrill Lynch.

Net Flows into Mutual Funds

(Billions of dollars, monthly rate)

Fund type	2007	2008			2009		Assets Jan.
		H1	Q3	Q4	Jan.	Feb. ^e	
Total long-term funds	18.6	12.1	-34.3	-65.5	25.3	-17.4	5,516
Equity funds	7.7	-3.4	-34.5	-37.6	9.0	-29.7	3,439
Domestic	-3.9	-4.8	-18.5	-23.0	6.9	-17.8	2,645
International	11.6	1.4	-16.0	-14.6	2.2	-11.9	794
Hybrid funds	1.8	1.3	-2.7	-7.1	-0.4	-4.7	477
Bond funds	9.0	14.2	2.9	-20.8	16.7	17.0	1,601
High-yield	-0.2	-0.2	-0.3	0.4	3.1	1.4	119
Other taxable	8.4	11.5	1.8	-16.6	9.7	11.3	1,126
Municipals	0.9	2.9	1.4	-4.6	3.9	4.4	355
Money market funds	62.5	56.1	-7.2	127.2	64.5	-9.8	3,905

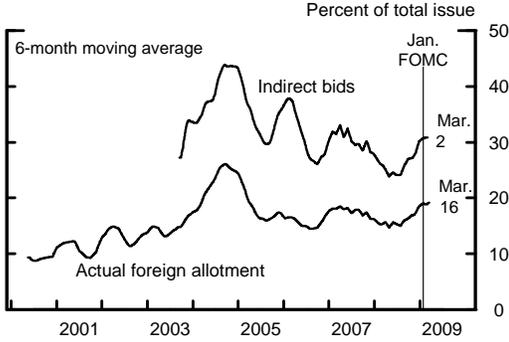
Note: Excludes reinvested dividends.

e Staff estimate.

Source: Investment Company Institute.

Treasury Finance

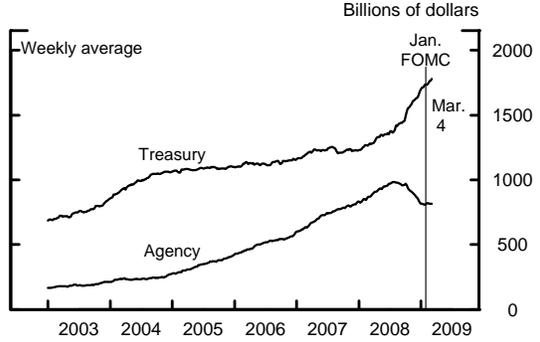
Foreign Participation in Treasury Auctions



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.

Source: Federal Reserve Board.

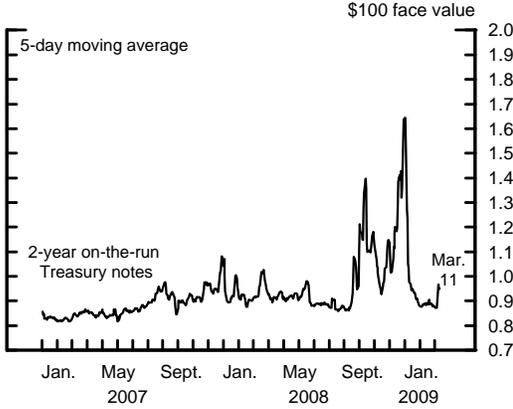
Foreign Custody Holdings



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

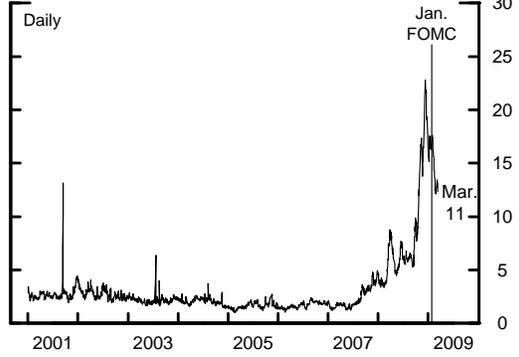
Source: Federal Reserve Bank of New York.

Treasury Bid-Asked Spread



Source: BrokerTec Interdealer Market Data.

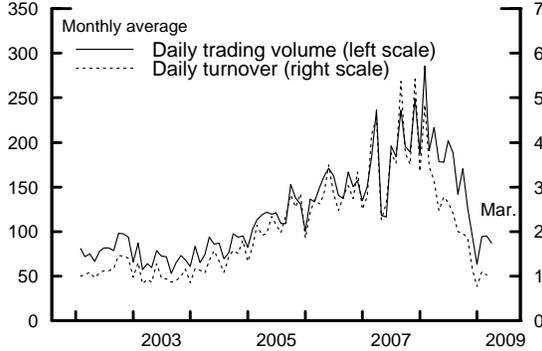
Average Absolute Nominal Yield Curve Fitting Error



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

Source: Federal Reserve Board.

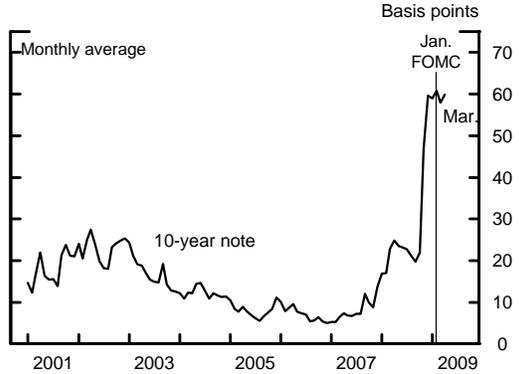
Daily Treasury Market Volume and Turnover



Note: March observation is the month-to-date average.

Source: BrokerTec Interdealer Market Data.

Treasury On-the-Run Premium



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

Source: Federal Reserve Bank of New York.

spreads remain high by historical standards amid diminished capacity at mortgage originators, increased hedging costs, and higher fees charged by Fannie Mae and Freddie Mac.

Issuance of MBS by the housing GSEs continued at a relatively modest pace in January, and the non-agency market remained shut. Total home mortgage debt outstanding declined again in the fourth quarter and has now fallen in each of the past three quarters.

National house price indexes have fallen further, with the LoanPerformance price index posting a decline of 11 percent over the year ending in January. Declining home prices, a tight supply of mortgage credit, and the slowing economy have continued to push up mortgage delinquency rates. About 4 percent of prime mortgages, 15 percent of alt-A mortgages, and 27 percent of subprime mortgages were 90 or more days past due or in foreclosure in January.

The credit quality of consumer loans has also continued to deteriorate. Delinquency rates on credit cards in securitized pools, on auto loans at captive finance companies, and on credit card and other consumer loans held by commercial banks have all risen significantly, with some exceeding the peak levels of the last recession.

Interest rates on consumer loans fell over the intermeeting period, with a decline in rates on new auto loans partly owing to an increase in dealer incentives. Both nonrevolving and revolving debt outstanding contracted over the three months ending in January. Spreads on AAA-rated ABS have fallen significantly since the beginning of the year amid optimism that the TALF may improve market conditions.

Long-term mutual funds, which experienced heavy redemptions in the second half of last year, attracted moderate inflows, on net, over the first couple months of this year. Over the past several weeks, however, equity funds have had large outflows likely owing, in part, to declines in stock prices. Money market funds had moderate net inflows in January and small outflows in February.

Treasury Finance

During the intermeeting period, the Treasury auctioned \$254 billion of nominal coupon securities, roughly double the rate of a year ago. The auctions for nominal coupon securities were well received, and indirect bids, a rough measure of demand from foreign

State and Local Government Finance

Gross Offerings of Municipal Securities

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

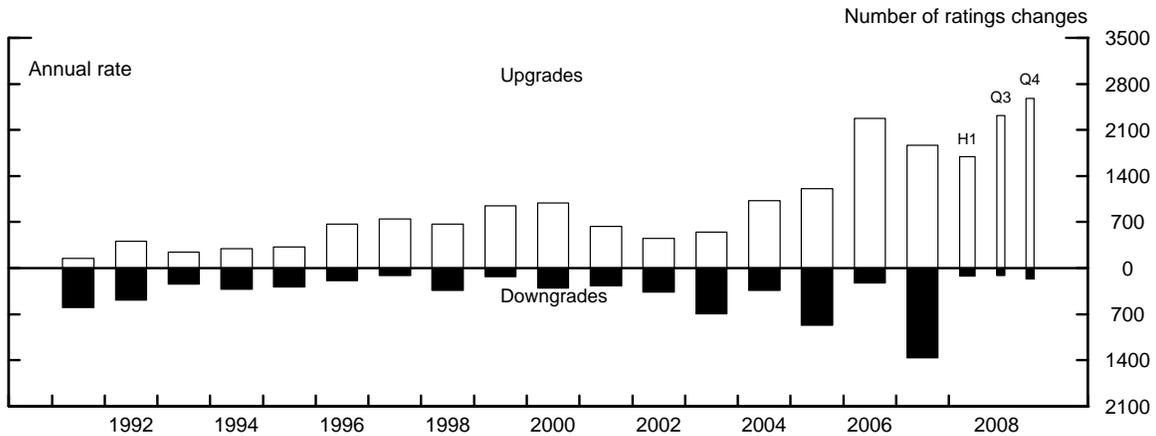
Type of security	2005	2006	2007	2008		2009	
				H1	H2	Jan.	Feb.
Total	38.4	36.1	40.4	41.6	32.8	25.7	24.3
Long-term ¹	34.2	32.5	35.5	38.0	26.3	23.3	22.8
Refundings ²	15.6	10.6	12.6	17.9	10.8	8.2	9.7
New capital	18.6	21.9	22.9	20.1	15.5	15.1	13.2
Short-term	4.2	3.7	4.9	3.6	6.5	2.4	1.4
Memo: Long-term taxable	2.1	2.5	2.4	2.7	1.7	.8	.4

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

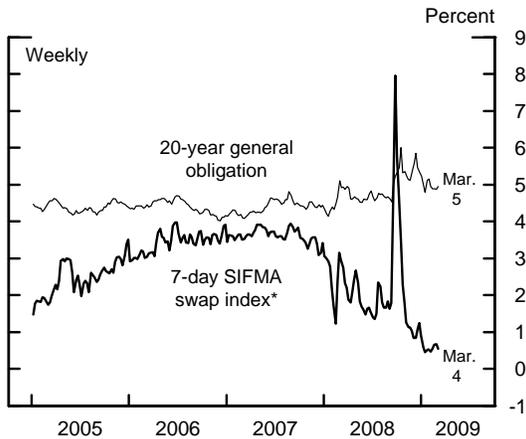
Source: Thomson Financial.

Ratings Changes



Note: Recent upgrades reflect S&P's change of rating standard.
Source: S&P's Credit Week Municipal; S&P's Ratings Direct.

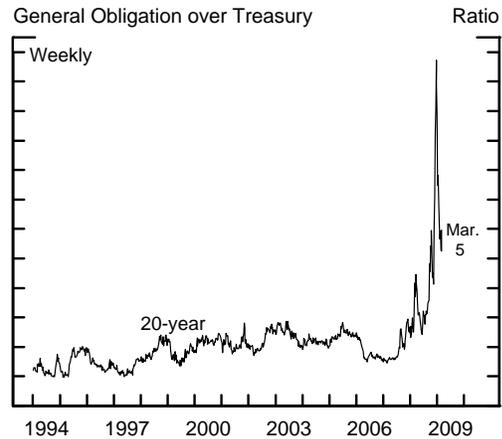
Municipal Bond Yields



* SIFMA is the Securities Industry and Financial Markets Association.

Source: Municipal Market Advisors; Bond Buyer.

Municipal Bond Yield Ratio



Source: Bond Buyer.

official institutions, were above recent averages. Foreign custody holdings of Treasury securities at the Federal Reserve Bank of New York—another indicator of foreign demand for such securities—increased steadily over the intermeeting period. Meanwhile, Treasury bill issuance totaled \$762 billion over the intermeeting period, about 25 percent more than issuance over a similar period last year. Net issuance of bills under the Supplementary Financing Program (SFP) was about \$25 billion, bringing the outstanding bills issued through March 3 under the SFP to about \$200 billion.

Liquidity in nominal Treasury markets showed some signs of improvement during the intermeeting period but remains strained. Average bid-asked spreads on on-the-run nominal Treasury notes were relatively stable near their pre-crisis levels. The magnitude of pricing errors from the staff's nominal yield curve model decreased notably but was still quite large. Daily average volume in the market for on-the-run Treasury securities picked up a bit but remains low. The spreads between on- and off-the-run 10-year Treasury notes continued to be very elevated.

State and Local Government Finance

Issuance of long-term municipal bonds remained tepid in February, and lower-rated entities appear to be having difficulty raising funds. Even so, conditions in the municipal bond market showed some signs of improvement over the intermeeting period. Yields on long-term municipal bonds decreased over the period as investor concerns about the credit quality of municipal bonds appeared to ease somewhat with the passage of the fiscal stimulus bill. The ratio of yields on municipal bonds to those on comparable-maturity Treasury securities remained high by historical standards.³

Money and Bank Credit

M2 increased at an average annual rate of 9 percent during January and February, a considerable deceleration from the pace seen in the fourth quarter of 2008. Even so, the pace was rapid given the contraction in the economy. Growth in liquid deposits, which represent about 60 percent of all M2 assets, remained strong. Among the smaller components of M2, retail money funds ran off considerably in January and February, reflecting sizable outflows from Treasury-only funds, which currently are paying

³ In the fourth quarter, Standard & Poor's upgraded a substantial number of municipal bonds, but the upgrades reflected a change in the company's approach to rating these securities. In particular, the change more closely aligned ratings for municipal bonds with those for corporate bonds with similar default and recovery rates.

M2 Monetary Aggregate
(Based on seasonally adjusted data)

Aggregate and components	Percent change (annual rate) ¹						Level (billions of dollars), Feb.
	2007	2008	2008		2009		
			Q3	Q4	Jan.	Feb.	
M2	5.8	8.5	4.8	14.8	13.2	4.6	8,276
Components ²							
Currency	2.0	5.8	7.1	13.8	17.3	15.3	835
Liquid deposits ³	4.1	7.0	3.9	9.8	19.7	12.0	5,005
Small time deposits	4.3	10.6	10.5	33.4	-.5	-8.0	1,360
Retail money market funds	20.6	15.5	1.0	16.4	-1.8	-21.4	1,070
Memo:							
Institutional money market funds	40.2	24.5	9.5	8.4	43.7	8.9	2,495
Monetary base	2.0	70.4	16.4	252.0	36.1	-90.1	1,573

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.

Source: Federal Reserve.

extremely low rates. Small time deposits also contracted, as the institutions that had in recent months been bidding aggressively for these retail funds stopped doing so. Currency growth was robust in January and February, with much of the strength estimated to have come from foreign demand.

Bank credit contracted in January and February on weakness in both loans and securities. C&I loans decreased at an average annual rate of 7¾ percent, as banks reported broad-based paydowns. In addition, a few large loans to companies involved in recent mergers and acquisitions reportedly were repaid with funds raised in the corporate bond market. Commercial real estate loans also declined in January and February. Consumer loans originated by banks continued to expand at a moderate pace, on balance, over the first two months of the year. Consumer loans held on balance sheet advanced sharply, mainly reflecting increases at a few banks that purchased loans from their affiliated finance companies. In addition, some banks brought loans back onto their books that had previously been securitized.

Fourth-quarter Call Report data showed continued deterioration in the condition of commercial banks. Measures of profitability fell to their lowest levels since the late 1980s because of large realized losses on investment securities, further increases in loan-loss provisions, a decline in trading revenue, and write-downs of intangible assets.

The credit quality of the loans and securities on banks' books weakened considerably in the fourth quarter. Bank charge-offs as a percentage of all loans rose to nearly 2 percent, the highest rate since the series began in 1985, with increases recorded in all categories of lending. The delinquency rate for all loans rose to about 4½ percent, with increases posted in all major categories. The mark-to-market value of non-agency MBS—defined as fair value over historical cost—declined to about 80 cents on the dollar.

Commercial banks received \$66 billion in capital from their holding company parents in the fourth quarter, most of which was transferred as common equity. This amount, presumably reflecting in large part funding provided by the Troubled Asset Relief Program, was by far the largest such transfer seen over the past 25 years. The resulting increase in aggregate commercial bank capital more than offset aggregate losses and write-downs during the quarter, and regulatory capital ratios based on risk-weighted assets rose noticeably. In contrast, leverage ratios showed a modest decline, held down by substantial increases in cash assets, a category that has a risk weight of zero and includes reserve balances held at the Federal Reserve.

Commercial Bank Credit

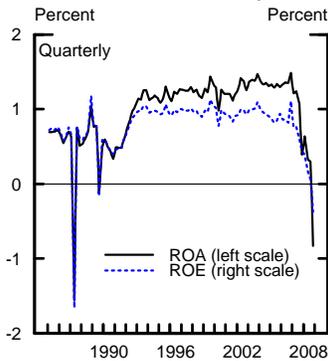
(Percent change, annual rate, except as noted; seasonally adjusted)

Type of credit	2007	2008	H1 2008	Q3 2008	Q4 2008	Jan. 2009	Feb. 2009	Level ¹ Feb. 2009
Total	11.1	3.8	3.0	2.5	6.5	-7.7	-.5	9,472
<i>Loans²</i>								
Total	11.5	3.7	5.3	1.8	2.3	-10.5	3.0	7,133
To businesses								
Commercial and industrial	19.1	13.2	12.6	7.4	18.1	-7.9	-7.7	1,562
Commercial real estate	10.7	6.2	9.6	3.7	1.7	-5.5	-1.0	1,724
To households								
Residential real estate	6.5	-2.4	-7	-7.4	-9	-6.7	16.0	2,103
Revolving home equity	6.2	12.8	12.2	12.0	12.8	7.7	3.6	596
Other	6.6	-7.2	-4.8	-14.1	-5.9	-12.3	20.8	1,507
Consumer	6.5	7.7	7.7	8.9	5.8	17.5	11.6	901
Originated ³	5.9	6.4	7.8	5.9	3.5	10.5	3.7	1,311
Other ⁴	19.4	-4.3	-1.4	3.5	-17.9	-60.8	-9.3	844
<i>Securities</i>								
Total	9.9	4.1	-4.0	4.9	19.8	.9	-11.3	2,339
Treasury and agency	-5.4	19.0	-7	20.9	53.9	-10.2	-20.3	1,382
Other ⁵	32.0	-11.2	-7.5	-12.2	-19.5	17.7	2.0	957

Note: Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. The bank credit data incorporate revised seasonal factors. In addition, the data have been adjusted to remove the effects of nonbank structure activity of at least \$5 billion (previously, the threshold was around \$80 billion), resulting in downward revisions to the estimated annual growth of bank credit, concentrated in the real estate and consumer loan components. Data have also 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), and the initial adoption of fair value accounting (FAS 159). Data also account for breaks caused by reclassifications.

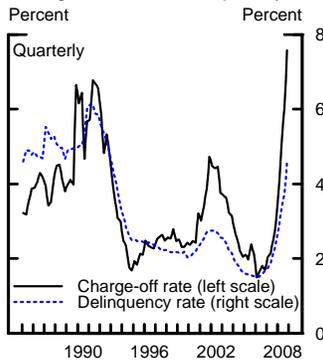
1. Billions of dollars. Pro rata averages of weekly (Wednesday) levels.
 2. Excludes interbank loans.
 3. Includes an estimate of outstanding loans securitized by commercial banks.
 4. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. 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.
- Source: Federal Reserve.

Measures of Profitability, All Banks



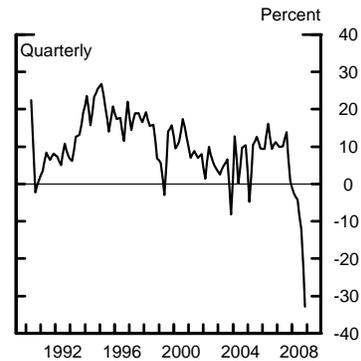
Note: Data are seasonally adjusted.
Source: Call Report.

Charge-Off and Delinquency Rates



Note: Data are seasonally adjusted.
Source: Call Report.

Growth in Unused Commitments



Note: Data are not seasonally adjusted and at an annual rate.
Source: Call Report.

Loan price data from the February Survey of Terms of Business Lending indicate that C&I loan rate spreads over comparable-maturity market instruments rose modestly overall from the November survey. In addition, spreads increased sharply for lower-risk loans, especially for those not made under previous commitment—a category heavily influenced by current market conditions.

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 narrowed slightly in December to \$39.9 billion from a revised \$41.6 billion in November, as a sizable decline in imports was almost entirely offset by a significant fall in exports. December's trade deficit is the narrowest in more than five years.

Trade in Goods and Services

	2008	Annual rate			Monthly rate		
		2008			2008		
		Q2	Q3	Q4	Oct.	Nov.	Dec.
Percent change							
<i>Nominal BOP</i>							
Exports	-1.8	22.9	11.9	-41.4	-2.3	-6.0	-6.0
Imports	-7.1	18.1	6.2	-48.0	-1.6	-11.9	-5.5
<i>Real NIPA</i>							
Exports	-1.8	12.3	3.0	-23.6	...	...	...
Imports	-7.1	-7.3	-3.5	-16.0	...	...	...
Billions of dollars							
<i>Nominal BOP</i>							
Net exports	-677.1	-726.5	-712.3	-554.9	-57.2	-41.6	-39.9
Goods, net	-821.2	-871.5	-865.0	-697.7	-69.6	-53.3	-51.6
Services, net	144.1	145.0	152.7	142.8	12.4	11.7	11.6

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

BOP Balance of payments.

NIPA National income and product accounts.

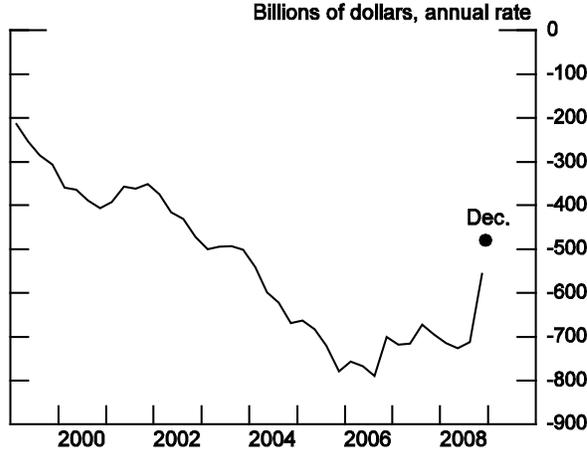
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis;
Census Bureau.

The value of exports of goods and services fell 6 percent in December. About one half of this fall was due to a decline in exports of industrial supplies, which partly reflected lower prices for these goods. Exports of automotive products, agricultural goods, and consumer goods also exhibited sizable declines. Exports of capital goods moved down only slightly, with significant declines in exports of semiconductors and machinery partly offset by a strong rebound in exports of aircraft after the end of production disruptions at Boeing.

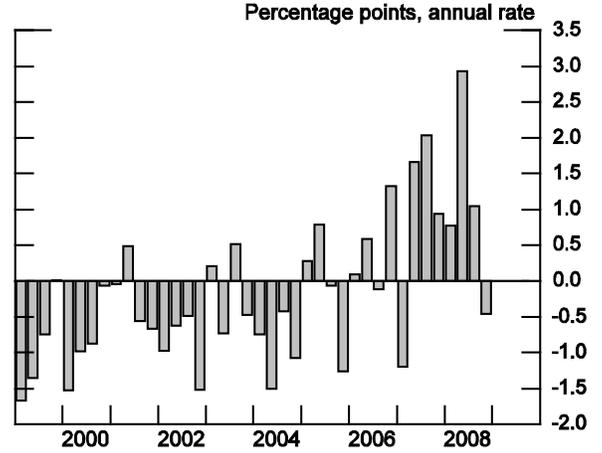
The average value of exports in the fourth quarter decreased 41 percent at an annual rate, as all major categories of exports moved down. Exports of industrial supplies and capital goods exhibited particularly pronounced falls. The fall in exports of industrial supplies in large part reflected lower prices. The decline in exports of capital goods importantly

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

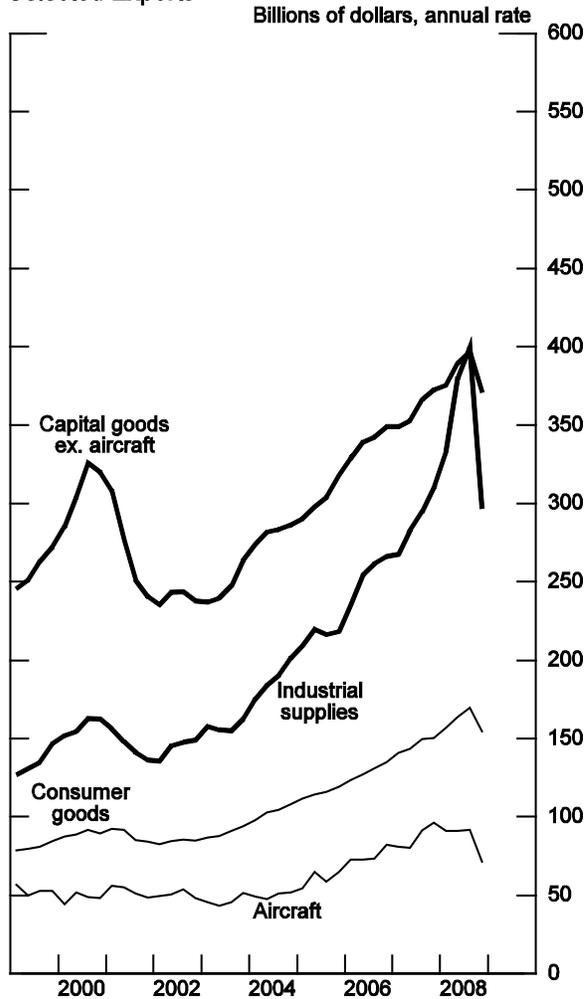
Trade Balance



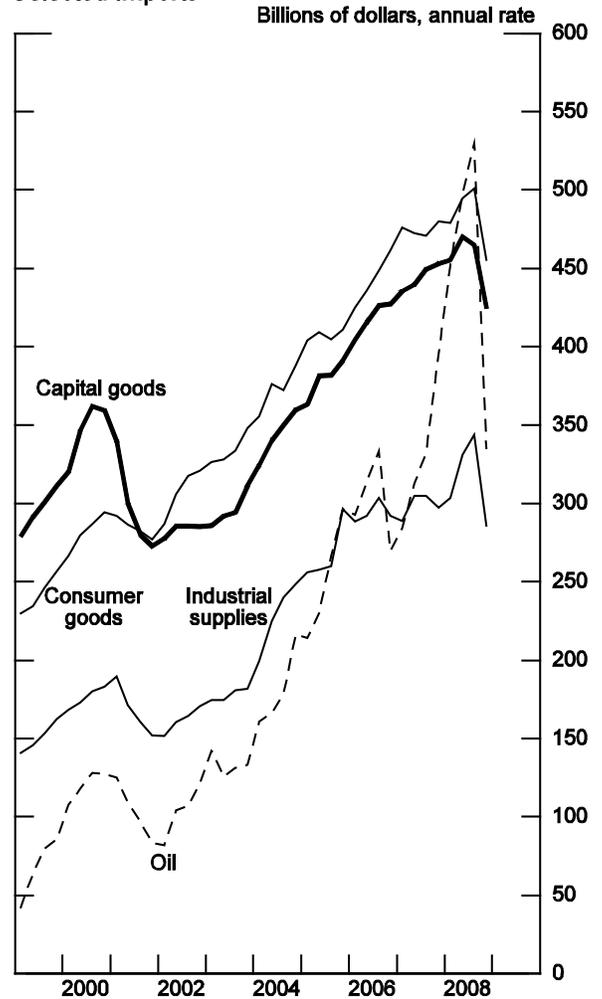
Contribution of Net Exports to Growth of Real Gross Domestic Product



Selected Exports



Selected Imports



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; Census Bureau.

U.S. Exports and Imports of Goods and Services
(Billions of dollars; annual rate, balance of payments basis)

	Levels				Change ¹			
	2008		2008		2008		2008	
	Q3	Q4	Nov.	Dec.	Q3	Q4	Nov.	Dec.
Exports of goods and services	1955.1	1710.3	1707.9	1605.6	54.2	-244.8	-109.5	-102.2
Goods exports	1385.1	1161.9	1164.5	1064.7	36.9	-223.2	-92.0	-99.9
Gold	17.7	13.4	13.3	12.5	-1.3	-4.4	-1.0	-.8
Other goods	1367.3	1148.5	1151.2	1052.2	38.2	-218.8	-91.0	-99.0
Capital goods	488.1	442.3	438.7	432.2	7.2	-45.8	-17.5	-6.5
Aircraft & parts	91.4	71.3	62.9	89.8	.4	-20.2	1.8	27.0
Computers & accessories	46.4	38.9	38.3	37.1	-.7	-7.4	-3.1	-1.2
Semiconductors	53.6	44.4	46.2	37.0	2.1	-9.2	-3.6	-9.2
Other capital goods	296.7	287.8	291.3	268.3	5.4	-8.9	-12.5	-23.1
Automotive	131.3	106.9	107.6	92.5	7.7	-24.4	-13.1	-15.1
Ind. supplies (ex. ag., gold)	399.4	296.9	298.9	247.5	19.4	-102.5	-45.3	-51.4
Consumer goods	169.4	154.7	157.0	147.3	5.5	-14.7	-2.8	-9.7
Agricultural	128.1	100.1	100.2	89.1	.0	-28.0	-10.8	-11.0
All other goods	51.0	47.6	48.9	43.6	-1.7	-3.3	-51.9	-5.3
Services exports	570.1	548.4	543.3	541.0	17.3	-21.7	-17.6	-2.4
Imports of goods and services	2667.5	2265.2	2206.9	2084.8	40.0	-402.3	-297.0	-122.1
Goods imports	2250.1	1859.6	1804.0	1683.5	30.4	-390.5	-287.3	-120.5
Oil	528.9	334.9	287.0	267.7	31.3	-194.0	-163.0	-19.3
Gold	12.7	6.6	6.7	4.8	.1	-6.1	-1.7	-2.0
Other goods	1708.5	1518.1	1510.3	1411.0	-1.0	-190.4	-122.6	-99.2
Capital goods	464.9	424.6	421.7	403.4	-5.3	-40.3	-27.1	-18.2
Aircraft & parts	34.3	32.3	30.9	34.4	-3.9	-2.0	-.6	3.5
Computers & accessories	103.3	86.6	85.9	78.2	-6.1	-16.7	-9.7	-7.8
Semiconductors	26.2	23.1	22.9	20.7	-.8	-3.1	-3.0	-2.2
Other capital goods	301.2	282.7	282.0	270.2	5.4	-18.5	-13.8	-11.8
Automotive	232.5	195.5	197.1	178.7	-17.1	-36.9	-13.8	-18.4
Ind. supplies (ex. oil, gold)	343.7	286.0	291.2	242.2	12.7	-57.7	-33.5	-49.0
Consumer goods	500.6	455.3	443.2	437.3	6.0	-45.3	-42.2	-5.9
Foods, feeds, beverages	91.9	88.3	87.3	85.2	1.7	-3.6	-5.1	-2.1
All other goods	75.0	68.3	69.9	64.2	1.1	-6.6	-1.0	-5.6
Services imports	417.4	405.6	402.8	401.3	9.6	-11.8	-9.8	-1.5
Memo:								
Oil quantity (mb/d)	12.21	13.36	11.94	14.78	-.20	1.15	-1.37	2.84
Oil import price (\$/bbl)	118.34	69.36	65.82	49.59	8.38	-48.98	-26.74	-16.23

1. Change from previous quarter or month.

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; Census Bureau.

reflected lower aircraft exports from Boeing, arising from the production disruptions that occurred in October and November.

The value of imports of goods and services declined 5.5 percent in December, with all major categories recording declines. As with exports, much of the decline was concentrated in industrial supplies, for which prices have fallen sharply. The value of oil imports declined despite an increase in volumes on account of a continued drop in price. Imports of capital goods and automotive products also recorded sizable declines.

The average value of imports in the fourth quarter decreased 48 percent at an annual rate. The decrease reflected a large decline in the value of oil imports due to substantially lower prices. All other major categories of imports also declined sharply.

Prices of Internationally Traded Goods

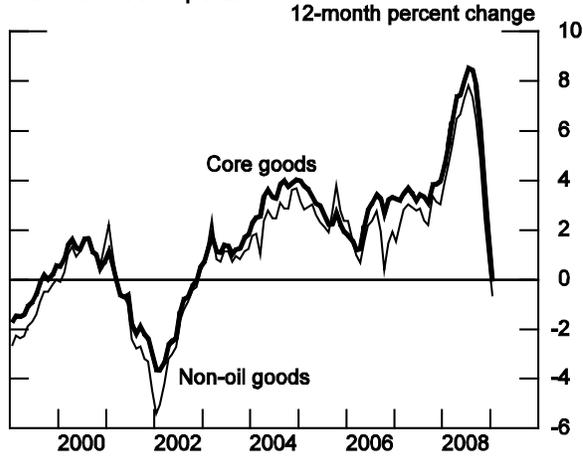
Non-oil imports. After December's 1.3 percent decline, prices of core imports fell 0.9 percent in January. The January drop was driven by a 4.6 percent fall in the prices for nonfuel industrial supplies, reflecting lower prices for metals and chemicals. In contrast, prices of imported finished goods rose 0.2 percent on the back of a 0.5 percent increase in prices for capital goods excluding computers and semiconductors. The prices of foods and consumer goods were unchanged in January.

Oil. The Bureau of Labor Statistics price index of imported oil registered its sixth straight monthly decline, falling 2.4 percent in January. This decline, however, was much smaller than in previous months. The spot price of West Texas intermediate (WTI) crude oil averaged \$42 per barrel in January, little changed from December. The spot price of WTI closed on March 11 at \$42.33 per barrel.

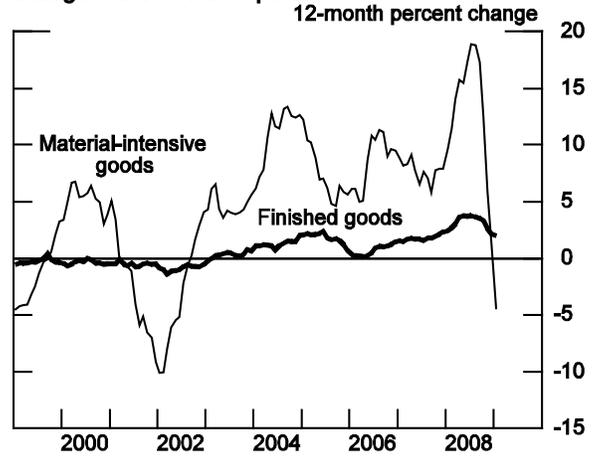
Exports. Prices of exported core goods rose 0.8 percent in January, pushed up by a 6.2 percent increase in prices of agricultural products and a 1 percent climb in prices of capital goods excluding computers and semiconductors. These increases were partly offset by a 1.2 percent decline in the prices of non-agricultural industrial supplies, led by a fall in the prices of chemicals.

Prices of U.S. Imports and Exports

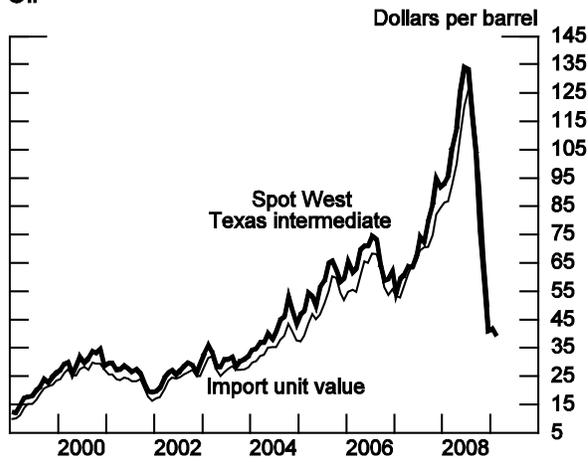
Merchandise Imports



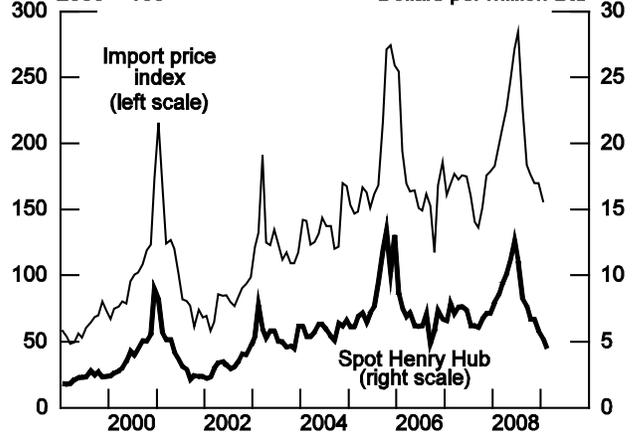
Categories of Core Imports



Oil



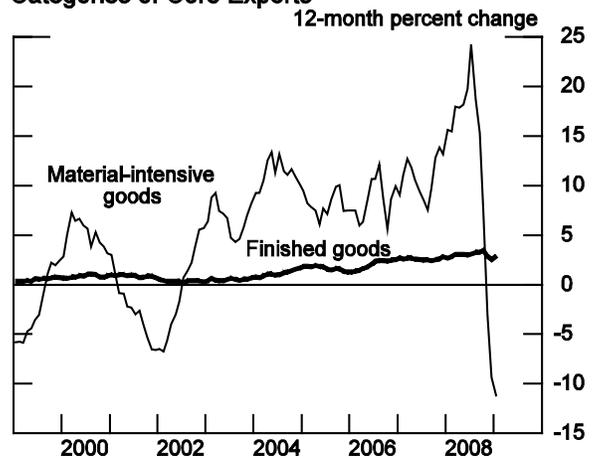
Natural Gas



Merchandise Exports



Categories of Core Exports



Source: Bureau of Labor Statistics; Wall Street Journal; Commodity Research Bureau.

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

	Annual rate			Monthly rate		
	2008			2008		2009
	Q2	Q3	Q4	Nov.	Dec.	Jan.
	----- BLS prices -----					
Merchandise imports	36.6	4.1	-47.8	-7.3	-5.0	-1.1
Oil	152.1	5.8	-93.3	-29.9	-27.2	-2.4
Non-oil	12.9	3.3	-11.9	-1.7	-1.1	-8
Core goods ¹	13.3	6.1	-11.5	-2.0	-1.3	-9
Finished goods	5.3	2.3	-.9	-.4	-.1	.2
Cap. goods ex. comp. & semi.	8.7	4.4	-.2	-.4	-.1	.5
Automotive products	2.3	1.2	-.9	-.5	-.1	.2
Consumer goods	4.9	1.4	-1.4	-.5	.0	.0
Material-intensive goods	31.4	13.8	-29.2	-5.1	-3.8	-3.4
Foods, feeds, beverages	19.1	11.1	-16.6	-4.5	2.2	.0
Industrial supplies ex. fuels	35.0	14.5	-32.4	-5.3	-5.5	-4.6
Computers	-3.9	-8.2	-7.2	-.7	-.7	-.7
Semiconductors	-4.9	-6.5	-2.0	-.4	.9	-3.1
Natural gas	149.9	-25.1	-69.3	-3.8	-.1	-8.0
Merchandise exports	10.2	3.8	-21.5	-3.2	-2.2	.5
Core goods ²	12.5	5.2	-24.8	-3.8	-2.7	.8
Finished goods	3.2	2.8	1.5	-.3	.0	.8
Cap. goods ex. comp. & semi.	4.0	3.3	1.7	-.2	.1	1.0
Automotive products	1.8	1.2	1.1	-.1	-.1	.3
Consumer goods	2.1	3.0	1.2	-.8	-.1	.7
Material-intensive goods	23.2	7.7	-46.1	-7.8	-5.9	.7
Agricultural products	14.4	5.8	-53.0	-6.8	-6.2	6.2
Industrial supplies ex. ag.	26.8	8.5	-44.5	-8.2	-5.9	-1.2
Computers	-9.1	-8.8	-8.6	-.3	-1.1	-1.1
Semiconductors	-.8	-6.5	-14.0	-.2	-.6	-3.0
	----- NIPA prices -----					
Chain price index						
Imports of goods & services	28.8	9.2	-37.1	...	...	...
Non-oil merchandise	11.2	2.9	-9.7	...	...	...
Core goods ¹	10.6	4.6	-8.3	...	...	...
Exports of goods & services	10.8	6.7	-21.9	...	...	...
Total merchandise	12.3	5.6	-24.2	...	...	...
Core goods ²	13.9	6.6	-25.6	...	...	...

1. Excludes computers, semiconductors, and natural gas.

2. Excludes computers and semiconductors.

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

BLS Bureau of Labor Statistics.

NIPA National income and product accounts.

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; Bureau of Labor Statistics.

U.S. International Financial Transactions

. Overall, flows during December and January were similar to those during the months of intense turmoil in the fall, although there were a few indications of renewed investor willingness to make cross-border investments.

For the fourth quarter of 2008 as a whole, foreign official flows swung to an outflow as some countries, , sold reserves to support their currencies (see line 1 of the table “Summary of U.S. International Transactions”). These unusual outflows represent a sharp reversal from the strong pace of foreign official inflows recorded earlier in the year. Net sales by foreign official institutions in the fourth quarter were concentrated in agency securities, while acquisitions of Treasury securities, , remained robust. The selloff of agency securities paused in January, reversing to small net purchases (see the bottom panels of the figure “Foreign Official Financial Inflows through January 2009”). These flows into agencies, coupled with stronger Treasury purchases , restored total foreign official activity to an inflow for January.

Drawings on central bank liquidity swap facilities (included in line 2) expanded substantially in the fourth quarter of 2008, which generated significant official outflows as Federal Reserve deposit claims at partner central banks increased. As noted in previous Greenbooks, this expansion appeared to ease dollar funding pressures abroad. As the partner central banks lent dollar funds to their domestic markets, European-owned banks dramatically reduced their borrowing from U.S. subsidiaries, which produced unusually large net banking inflows (line 3) for the fourth quarter. In January, as the tone of some financial markets improved and European banks were able to access other sources of funding, including U.S. banks, drawings on the swap lines contracted.

The intensified financial turmoil of the fourth quarter was characterized by a strengthening of flight-to-safety flows into Treasury securities by foreign private investors (line 4a) and a general deleveraging, as private foreigners sold, on net, all other types of U.S. securities. Private foreigners continued to sell significant amounts of agency securities (line 4b) through January, while net purchases of U.S. stocks hovered near zero in recent months. In addition, the gross volume of cross-border transactions in

securities (not shown) declined appreciably throughout the fourth quarter and into January. Breaking a trend that has held for most of the turmoil, private foreign net Treasury purchases weakened notably in December and swung to net sales in January. The geographic distribution of these sales is consistent with foreign hedge funds selling to meet redemption requests. In one bright spot, in December private foreigners made positive net purchases of U.S. corporate bonds (line 4c) for the first time since May 2008. However, a portion of this December figure reflects sales of ABS by the U.S. subsidiary of a large Swiss bank to a special purpose vehicle established by the Swiss National Bank to acquire problem assets.

U.S. residents sold foreign securities, on net, every month between July and December 2008 (line 5). This retraction of funds from foreign investments was a sharp departure from the trends of the past several years before the turmoil, and it provided an unusual boost to net private inflows in the third and fourth quarters (see the bottom panels of the figure “Private Securities Flows through January 2009”). January, however, was a very strong month for foreign bond issuance, prompting a return to net purchases of foreign bonds by U.S. residents in that month.

Finally, quarterly data on the cross-border positions of nonbank U.S. entities (which will be included in line 10) show a steep drop in both commercial liabilities and commercial claims in the fourth quarter. Consistent with the global slowdown in trade, trade credit extended by U.S. exporters in the form of trade receivables fell almost 20 percent in the fourth quarter while importers’ trade payables fell more than 40 percent to levels not seen since 2004. About one-third of this decline in payables is against oil-producing countries, likely reflecting the fall in oil prices.

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

	2007	2008	2008					2009	
			Q1	Q2	Q3	Q4	Dec.	Jan.	
Official financial flows	386.9	-133.6	178.2	101.0	-113.4	-299.3	-48.2	187.7	
1. Change in foreign official assets in the U.S. (increase, +)	411.0	401.0	173.5	145.3	113.0	-30.7	-1.2	21.6	
a. G-10 countries + ECB	36.8	-8.4	-1.6	0.3	8.9	-16.0	-1.2	-10.7	
b. OPEC	33.0	48.3	16.7	16.0	16.6	-1.0	-1.5	-2.4	
c. All other countries	341.3	361.1	158.3	129.0	87.5	-13.7	1.5	34.7	
2. Change in U.S. official assets (decrease, +) ¹	-24.1	-534.6	4.7	-44.3	-226.4	-268.7	-47.0	166.1	
Private financial flows	387.5	664.3	12.2	21.9	248.6	n.a.	...	...
Banks									
3. Change in net foreign positions of banking offices in the U.S. ²	-81.7	-15.1	-168.5	-92.1	-53.9	299.5	54.1	-63.9	
Securities³									
4. Foreign net purchases (+) of U.S. securities	746.4	124.4	41.8	76.7	2.5	3.4	-1.0	-85.0	
a. Treasury securities	152.5	316.8	58.9	60.0	88.9	108.9	-0.1	-43.3	
b. Agency bonds	19.4	-205.9	-18.0	-32.8	-54.6	-100.5	-36.7	-26.2	
c. Corporate and municipal bonds	383.5	3.6	-11.9	50.2	-34.4	-0.3	35.5	-15.1	
d. Corporate stocks ⁴	191.1	9.9	12.8	-0.7	2.6	-4.7	0.3	-0.5	
5. U.S. net acquisitions (-) of foreign securities	-292.1	80.1	-44.4	-38.6	84.3	78.8	11.1	-27.4	
a. Bonds	-172.9	76.3	-16.9	-16.7	70.1	39.8	12.1	-28.1	
b. Stock purchases	-107.9	7.5	-26.6	-19.9	14.1	39.9	-1.0	2.7	
c. Stock swaps ⁴	-11.3	-3.6	-0.8	-2.0	0.0	-0.8	0.0	-1.9	
Other flows⁵									
6. U.S. direct investment (-) abroad	-333.3	n.a.	-89.1	-84.0	-56.9	n.a.	...	...
7. Foreign direct investment in the U.S.	237.5	n.a.	80.4	105.3	66.1	n.a.	...	...
8. Net derivatives (inflow, +)	6.5	n.a.	-8.0	-2.4	-4.1	n.a.	...	...
9. Foreign acquisitions of U.S. currency	-10.7	n.a.	-0.9	0.2	5.8	n.a.	...	...
10. Other (inflow, +) ⁶	114.8	n.a.	200.8	56.8	204.7	n.a.	...	...
U.S. current account balance⁷	-731.2	n.a.	-175.6	-180.9	-174.1	n.a.	...	...
Capital account balance⁸	-1.8	n.a.	-0.6	-0.6	-0.6	n.a.	...	...
Statistical discrepancy⁷	-41.3	n.a.	-14.1	58.7	39.5	n.a.	...	...

Note: Data in lines 1 through 5 differ in timing and coverage from the balance of payments data published by the Department of Commerce. Details may not sum to totals because of rounding.

1. 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 nonmarket means such as mergers and reincorporations.

5. Quarterly data; seasonally adjusted.

6. 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.

7. Seasonally adjusted.

8. Seasonally adjusted; consists of transactions in nonproduced nonfinancial assets and capital transfers.

G-10 Group of Ten (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, United Kingdom, United States).

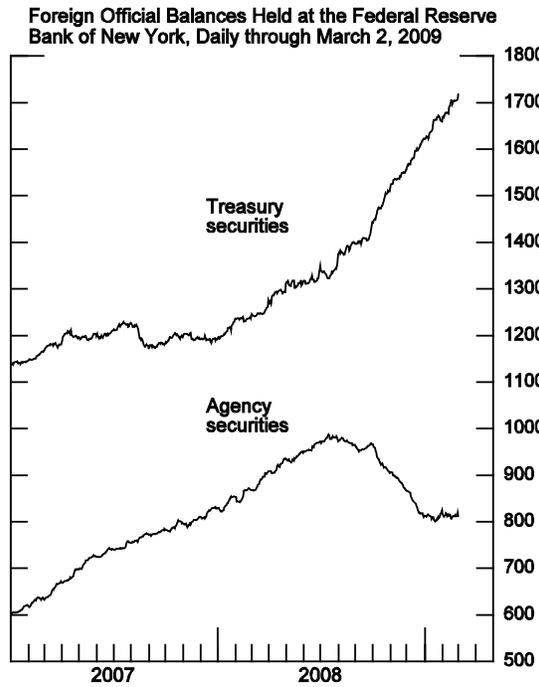
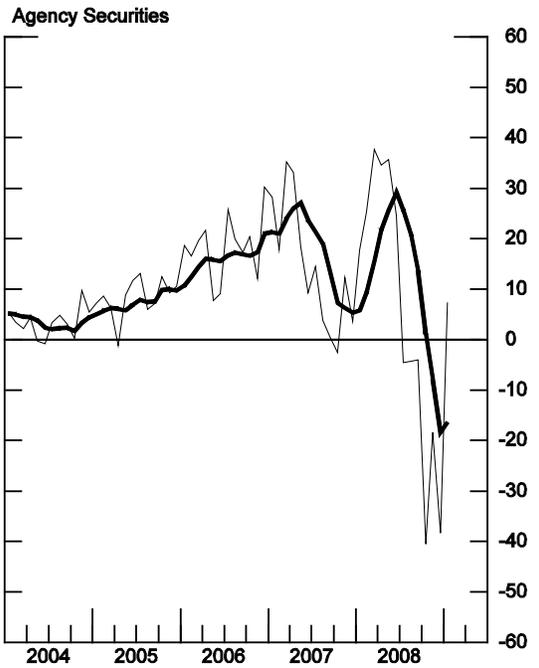
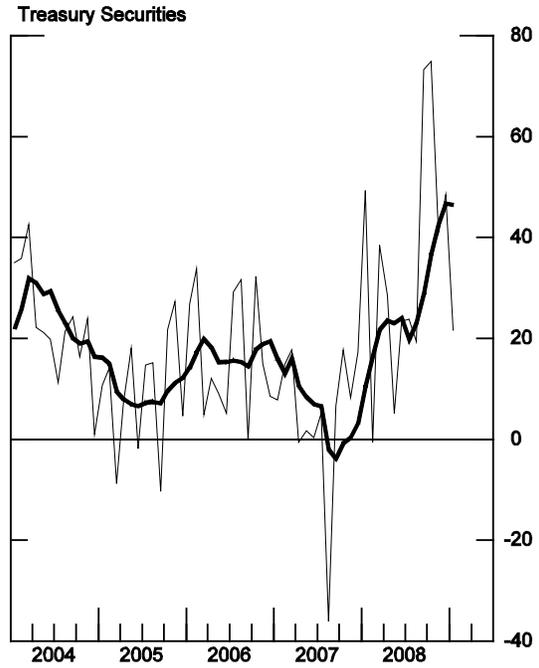
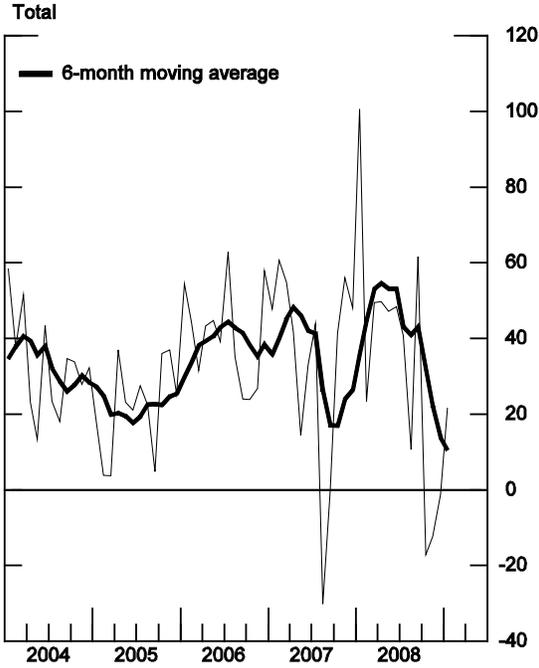
ECB European Central Bank.

OPEC Organization of the Petroleum Exporting Countries.

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

Source: U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Treasury International Capital reports with staff adjustments.

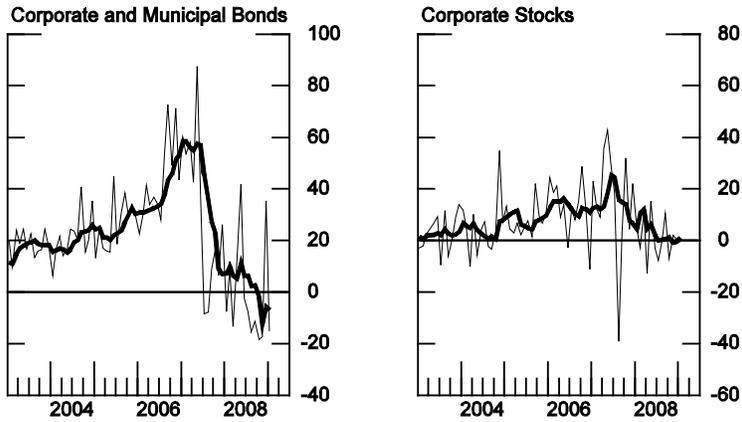
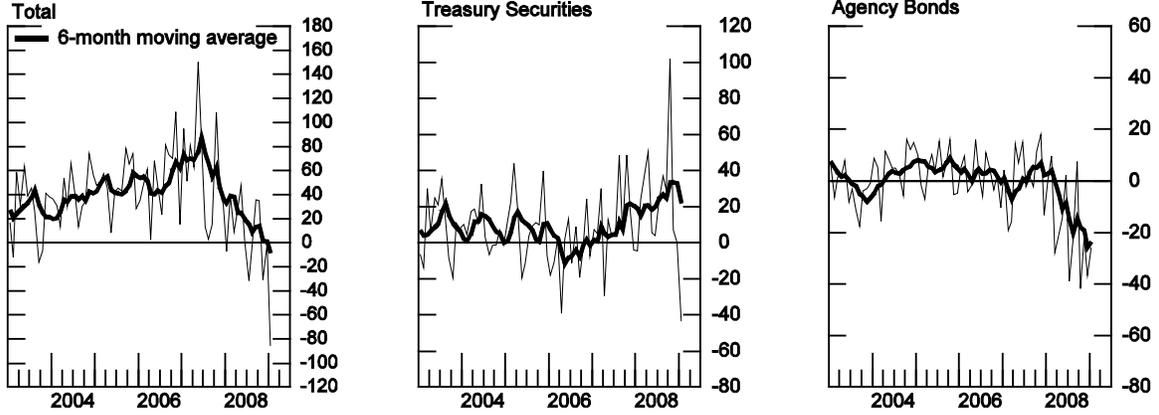
Foreign Official Financial Inflows (+) through January 2009
 (Billions of dollars; monthly rate, not seasonally adjusted)



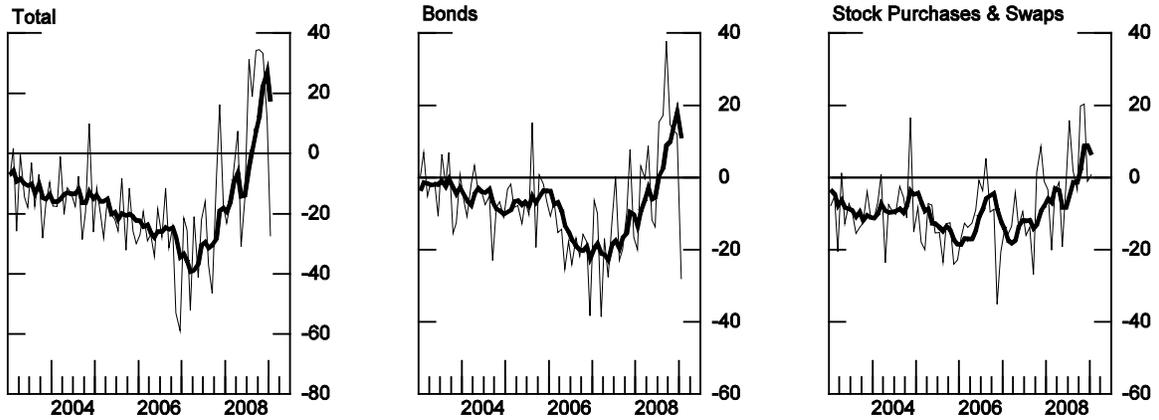
Source: U.S. Treasury International Capital reports with staff adjustments and the Federal Reserve Bank of New York.

Private Securities Flows through January 2009
 (Billions of dollars; monthly rate, not seasonally adjusted)

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



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



Source: For all figures, U.S. Treasury International Capital reports with staff adjustments.

Foreign Financial Markets

Since the time of the January Greenbook, foreign equity markets have declined sharply and the dollar has appreciated broadly, as the already gloomy outlook for foreign economic growth dimmed further. Among the advanced foreign economies, headline equity indexes in Europe and Japan fell 8 to 9 percent over this period, led by the banking sector amid mounting concerns over the stability of the global banking system. European bank shares fell more than 12 percent as earnings reports for the fourth quarter were weaker than had been expected and fears about the exposure of many western European banks to emerging Europe increased.

The major currencies index of the dollar rose 3 percent on net since the time of the January Greenbook, led by an 11 percent appreciation of the dollar against the yen. The rise in the dollar was driven in large part by weak foreign data, with indicators for Japan being particularly disappointing over the period. The dollar appreciated by a more modest 1½ percent against the euro. Implied volatilities on euro-dollar and dollar-yen have declined recently, but are still elevated by historical standards.

The European Central Bank (ECB) cut its target for the main policy rate from 2 to 1.5 percent on March 5 and signaled that further cuts were likely. The effective euro overnight rate had been trading consistently below the 2 percent target, and was little changed following the ECB's announcement, indicating that monetary conditions have been easier than the ECB's target would imply. The Bank of Canada cut its target for the overnight interest rate 50 basis points to 0.5 percent on March 3 and signaled for the first time that it may take further steps to inject liquidity. The Bank of England cut its Bank Rate by a cumulative 1 percentage point, to 50 basis points.

Despite rising concerns over the health of many financial institutions, conditions in money markets were relatively stable. Libor-OIS spreads in euro narrowed moderately, and the basis spreads implied by foreign exchange swaps between the dollar and the euro decreased 7 to 13 basis points on net. One-month Libor-OIS spreads in sterling rose 20 basis points between mid-February and early March, but have since retraced most of that rise. Several governments took further steps to support financial markets over the period. The Bank of England secured permission to purchase up to £150 billion in government and corporate bonds through its Asset Purchase Facility. Yields on long-term British gilts fell 60 basis points after the announcement that the Bank of England would begin purchasing government securities and are now 44 basis points lower than at the time of the January Greenbook. In addition to the Bank of England's

announcements, the British government also launched its Asset Protection Scheme, which insured £325 billion of assets placed in the Scheme by Royal Bank of Scotland and £260 billion of assets from Lloyds. The Bank of Japan voted to resume purchases of equities held on banks' balance sheets and announced plans to purchase up to 1 trillion yen in corporate bonds. The Bank of Japan also began its previously announced purchases of commercial paper.

In aggregate, the dollar has appreciated 3½ percent against the currencies of our other important trading partners since the time of the January Greenbook, boosted by a 9 percent appreciation against the Mexican peso and the Korean won. Mexican authorities continued to intervene to support the peso, and South Korean officials also acknowledged intervening against the dollar. The dollar rose another 7 percent against the Russian ruble. The Central Bank of Russia announced a modification to its exchange rate regime saying that it had “finished” devaluing the ruble against the euro/dollar basket and that it was establishing a range within which it would allow the ruble to trade. Currency pressures were also evident in Hungary, with the dollar up 7 percent against the forint.

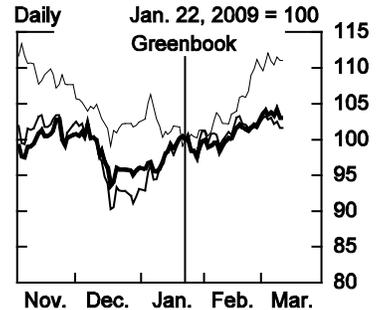
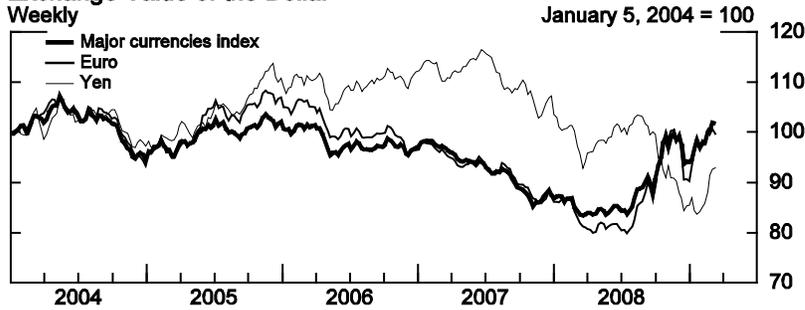
Equity indexes rose 7 percent on net in China and were modestly higher in Korea and Brazil, but declined 2 to 10 percent in most other Asian and Latin American countries. Emerging European stock markets declined 6 to 15 percent. Flows to emerging European equity funds have declined by about 10 percent since the January Greenbook, consistent with the rise of EMBI spreads for emerging Europe in recent weeks, as concerns about those economies have increased.

Exchange Value of the Dollar and Stock Market Indexes

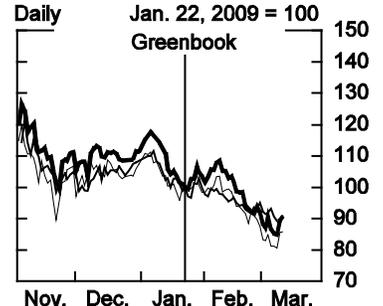
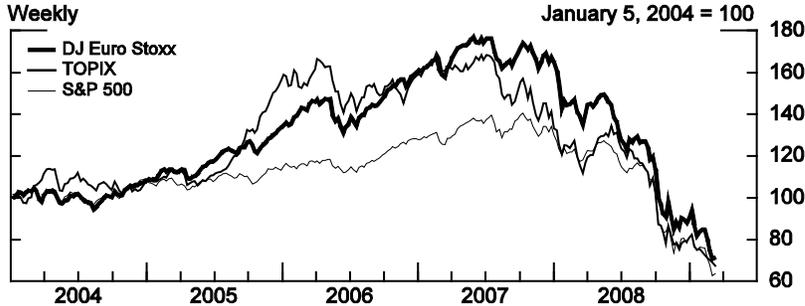
	Latest	Percent change since January Greenbook
<i>Exchange rates*</i>		
Euro (\$/euro)	1.2752	1.6
Yen (¥/\$)	98.4	11.0
Sterling (\$/£)	1.3840	0.0
Canadian dollar (C\$/\\$)	1.2796	1.4
<i>Nominal dollar indexes*</i>		
Broad index	114.1	3.4
Major currencies index	85.2	3.1
OITP index	145.2	3.6
<i>Stock market indexes</i>		
DJ Euro Stoxx	181.3	-9.3
TOPIX	722.3	-9.3
FTSE 100	3705.6	-8.6
S&P 500	721.2	-14.2

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

Exchange Value of the Dollar



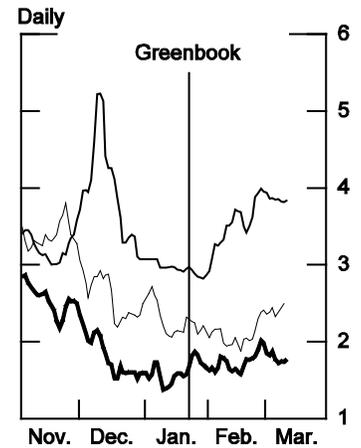
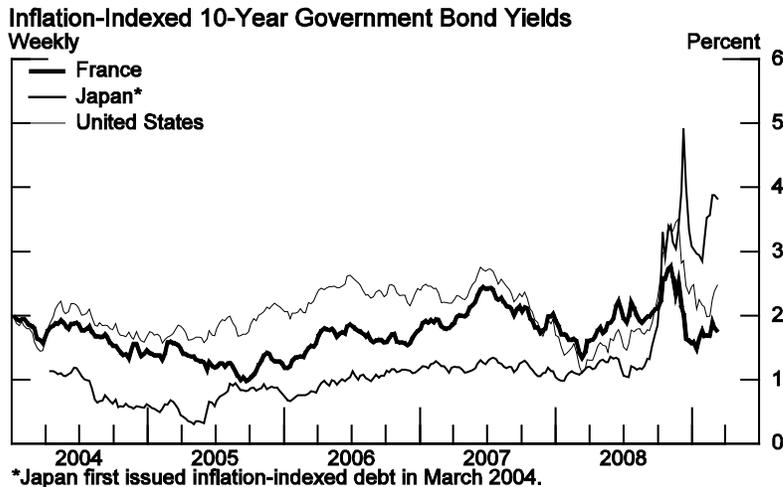
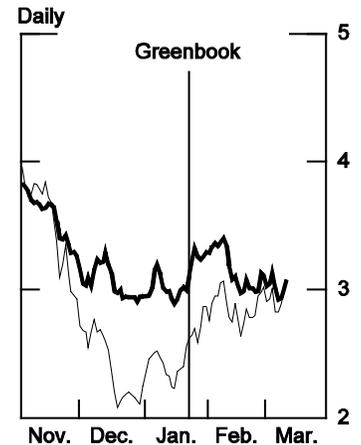
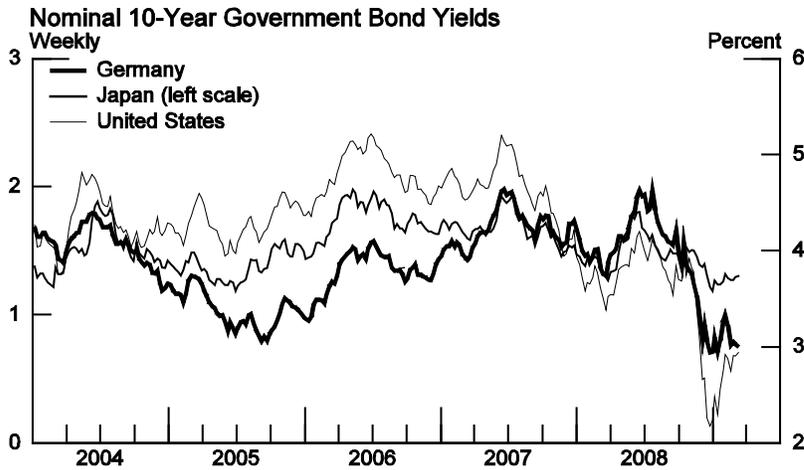
Stock Market Indexes



Industrial Countries: Nominal and Real Interest Rates

	3-month Libor		10-year nominal		10-year indexed		Percent
	Latest	Change since Jan. Greenbook	Latest	Change since Jan. Greenbook	Latest	Change since Jan. Greenbook	
Germany	1.67	-0.59	3.08	-0.03	1.57	0.11	
Japan	0.62	-0.07	1.31	0.08	3.83	0.86	
United Kingdom	1.89	-0.31	3.07	-0.44	1.11	-0.30	
Canada	1.05	-0.48	2.99	0.26	...	...
United States	1.33	0.20	2.99	0.43	2.50	0.18	

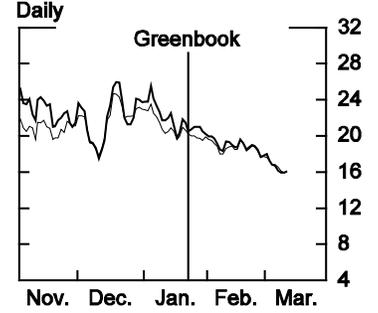
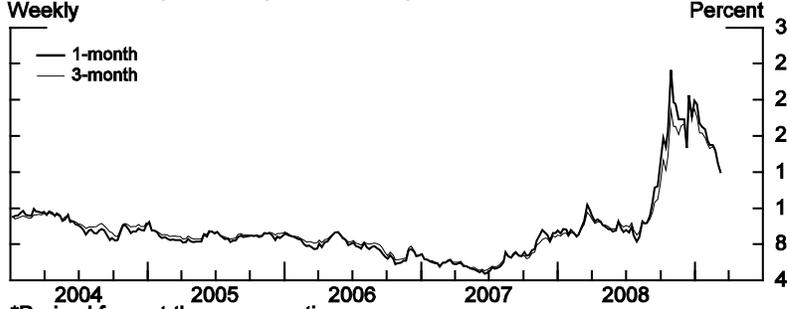
... Not applicable.
 Libor London interbank offered rate.



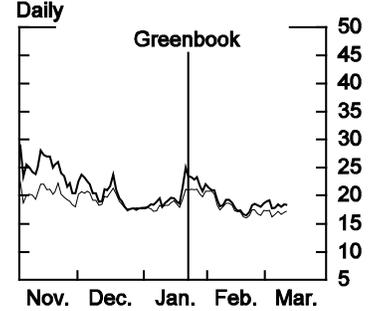
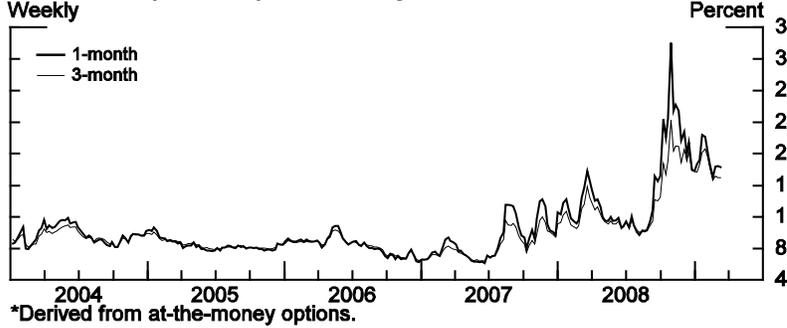
*Japan first issued inflation-indexed debt in March 2004.

Measures of Market Volatility

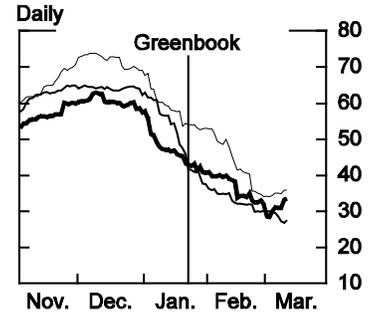
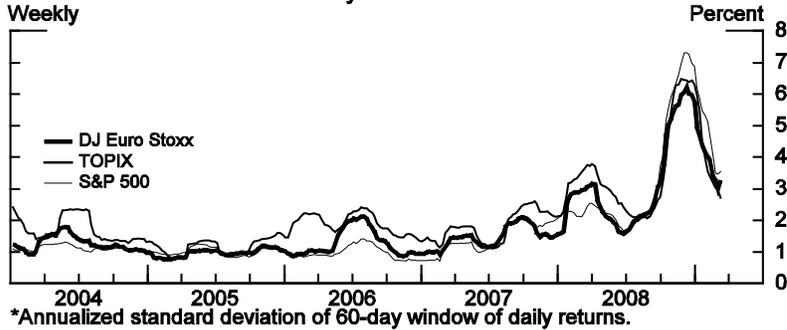
Dollar-Euro Options-Implied Volatility*
Weekly



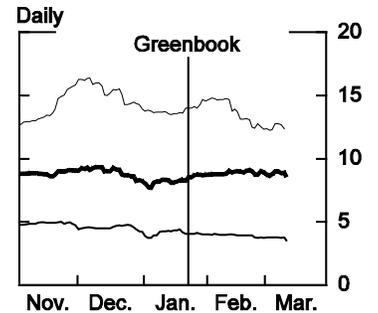
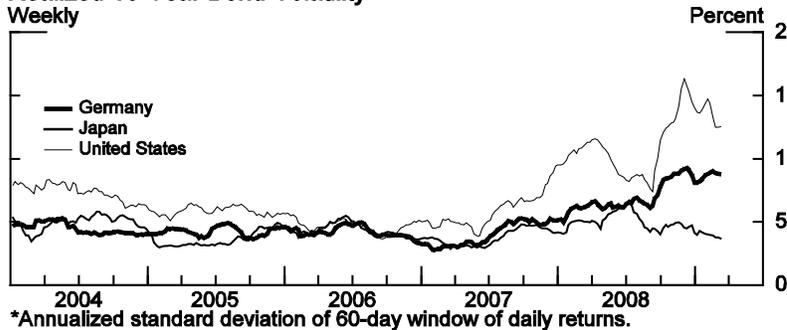
Yen-Dollar Options-Implied Volatility*
Weekly



Realized Stock Market Volatility*
Weekly



Realized 10-Year Bond Volatility*
Weekly

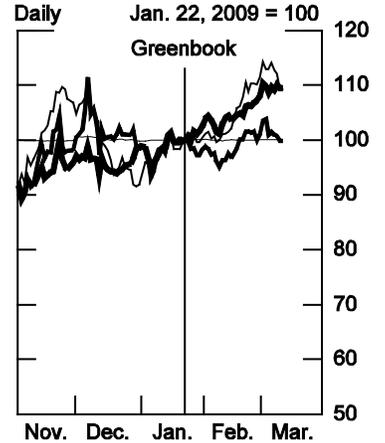
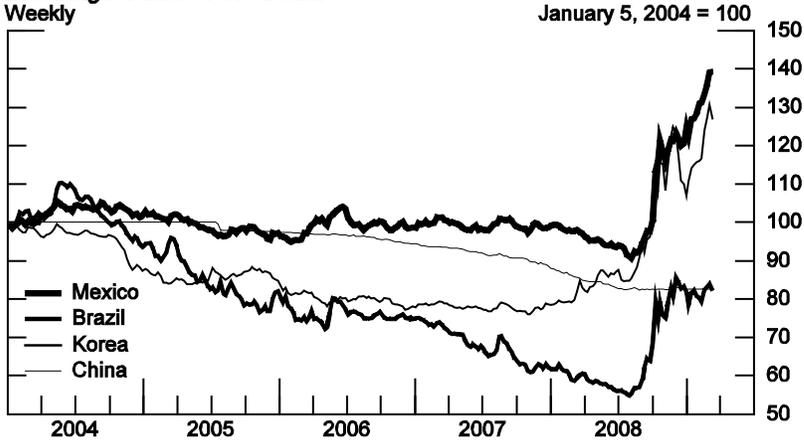


Emerging Markets: Exchange Rates and Stock Market Indexes

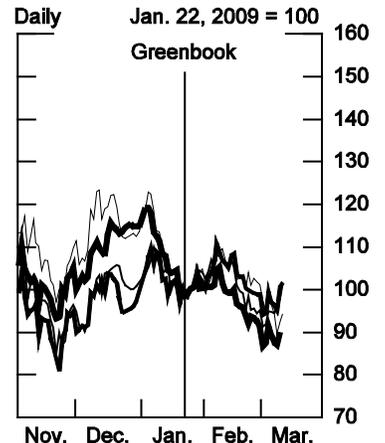
	<u>Exchange value of the dollar</u>		<u>Stock market index</u>	
	Latest	Percent change since Jan. Greenbook*	Latest	Percent change since Jan. Greenbook
Mexico	15.2872	9.4	17544	-10.0
Brazil	2.3472	-0.2	39145	1.6
Venezuela	2.14	-0.0	37488	6.2
China	6.8410	0.1	2139	6.7
Hong Kong	7.7554	-0.0	11931	-5.7
Korea	1501.0	9.2	1128	1.0
Taiwan	34.58	3.1	4760	12.1
Thailand	35.94	3.2	414	-5.4

* 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

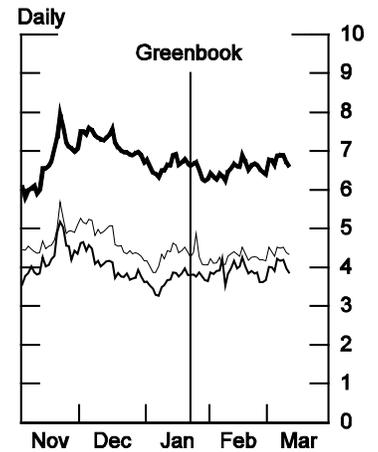
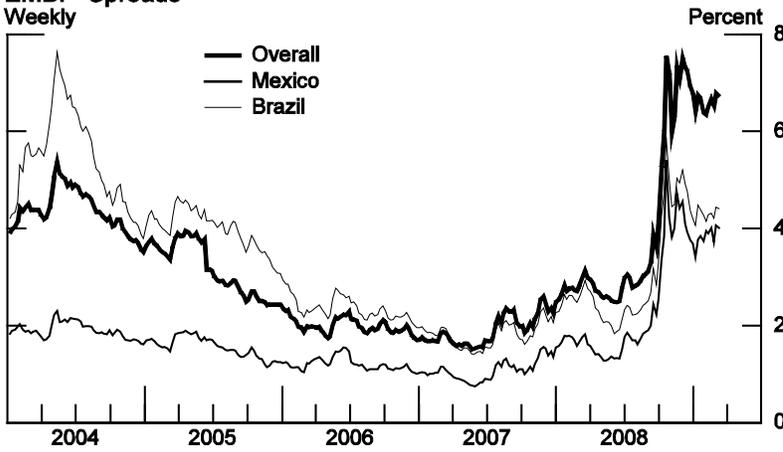
	Short-term interest rates*		Dollar-denominated bond spreads**	
	Latest	Change since Jan. Greenbook	Latest	Change since Jan. Greenbook
Mexico	7.19	-0.24	3.88	0.08
Brazil	11.40	-1.94	4.33	-0.06
Argentina	12.94	-2.25	17.89	2.43
China	...	...	1.72	-0.19
Korea	3.25	0.00	...	...
Taiwan	1.14	-0.15	...	...
Singapore	0.31	0.00	...	...
Hong Kong	0.36	0.02	...	...

*One-month interest rate except 1-week rate for Korea. (No reliable short-term interest rate exists for China.)

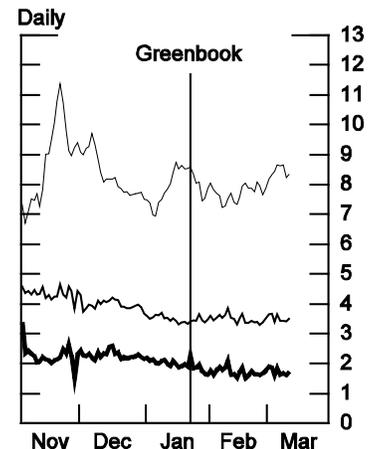
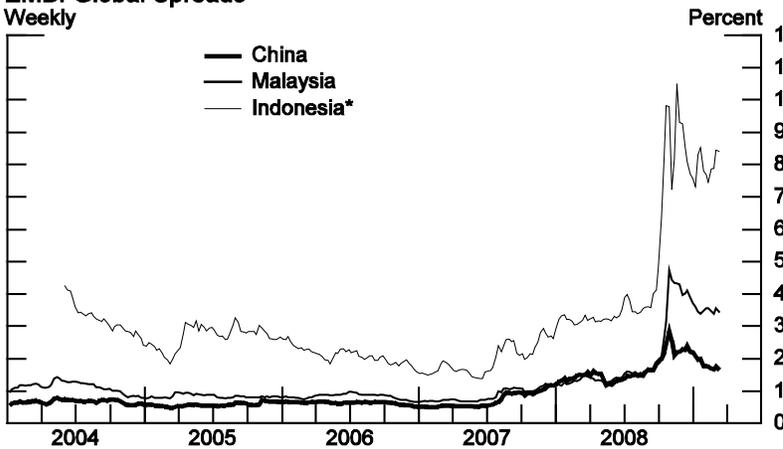
**EMBI+ Spreads or EMBI Global Spreads over similar-maturity U.S. Treasury securities.

... Not applicable. Korea, Taiwan, and Hong Kong have no outstanding dollar-denominated sovereign bonds.

EMBI+ Spreads
Weekly



EMBI Global Spreads
Weekly



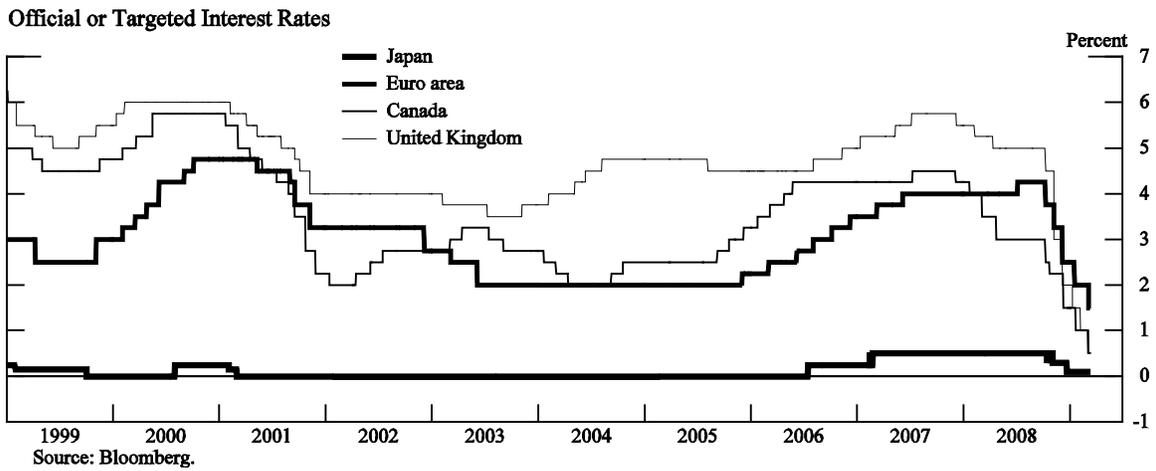
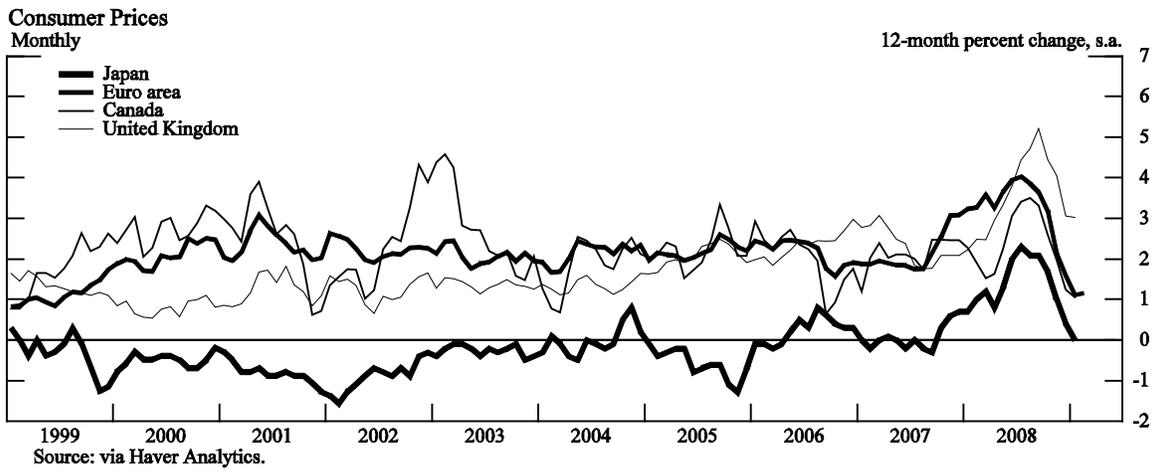
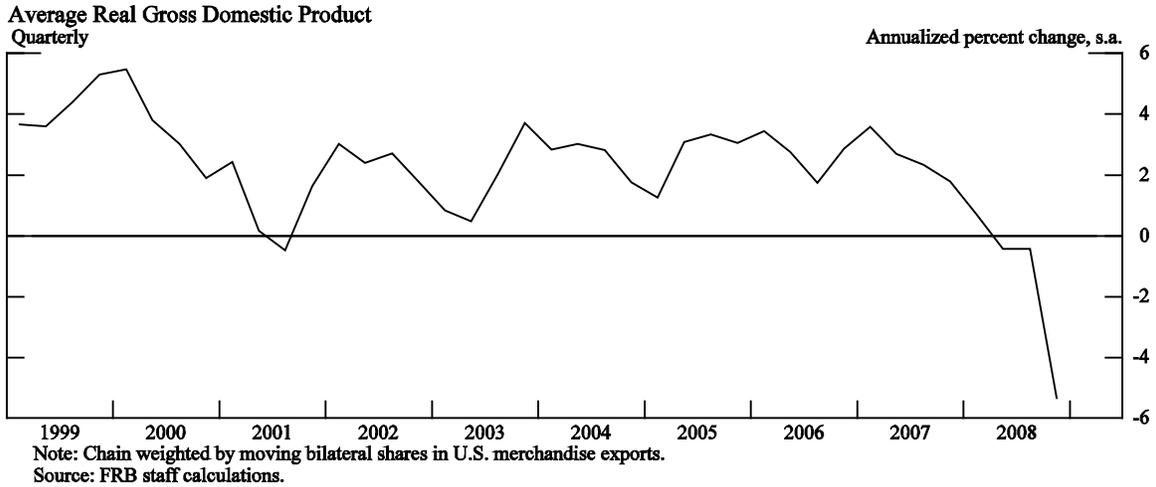
*Begins May 2004.

Developments in Advanced Foreign Economies

Output growth in the advanced foreign economies collapsed in the fourth quarter, with sharp declines in GDP in all the major economies and a double-digit drop in Japan. The performance of trade and investment was particularly abysmal, and consumption also declined sharply. Recent indicators of economic activity, particularly industrial production, suggest that the pace of contraction accelerated late in the fourth quarter and into the first quarter, which provides significant negative momentum going forward. Across the advanced economies, the employment situation has continued to deteriorate, and broad-based measures of consumer spending are flat or falling. Confidence indicators for both households and businesses remain downbeat, and surveys provide little compelling evidence of a turnaround.

Consumer price inflation has continued to moderate, pushed down by lower energy prices. Excluding food and energy prices, the slowing in consumer prices has been more contained, but the slight rise in core inflation observed last summer seems to have reversed. Over the intermeeting period, the Bank of Canada and the European Central Bank reduced their policy rates 50 basis points each, and the Bank of England cut a cumulative 100 basis points at its February and March meetings. Major central banks increasingly signaled their willingness to use unconventional monetary policy tools. In addition, a number of governments have moved forward with their fiscal stimulus plans.

Advanced Foreign Economies



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

Component	2007 ¹	2008 ¹	2008			
			Q1	Q2	Q3	Q4
GDP	2.2	-4.6	0.6	-3.6	-2.3	-12.7
Total domestic demand	0.8	-1.9	-0.6	-4.0	-1.8	-1.2
Consumption	0.3	-0.1	3.0	-3.0	1.2	-1.6
Private investment	-1.0	-7.9	0.3	-8.7	-8.9	-13.6
Public investment	-3.8	-5.3	-18.2	-3.3	4.1	-2.5
Government consumption	3.4	-0.1	-0.9	-3.6	-0.6	4.9
Inventories ²	0.4	-0.1	-1.4	0.2	-0.7	1.3
Exports	10.2	-12.8	12.6	-9.0	2.5	-45.0
Imports	1.9	2.9	6.1	-11.7	6.8	12.0
Net Exports ²	1.3	-2.4	1.3	-0.2	-0.3	-9.9

1. Q4/Q4

2. Percentage point contribution to GDP growth.

Source: via Haver Analytics.

Japanese real GDP fell at an annual rate of 12.7 percent in the fourth quarter, the third consecutive quarterly decline. With this latest fall, the cumulative decline in GDP since its first-quarter peak is almost 5 percent, the largest peak-to-trough fall since the series began in 1955. In the fourth quarter, a collapse in external demand drove the decline in output: Exports fell 45 percent as imports rose, and net exports contributed nearly 10 percentage points to the GDP contraction. Total domestic demand contracted at a more subdued rate, falling only 1.2 percent, which was led by private investment. Only government consumption and inventories made positive contributions to growth.

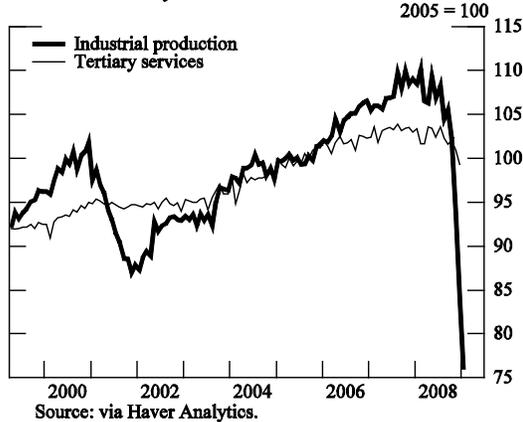
Indicators for the first quarter are stunningly negative. The industrial production index plunged in November, December, and January, which brought the index 31 percent below its May 2008 peak and equal to its level of May 1984. Real exports fell 16 percent (not at an annual rate) in January and are down 38 percent since their July 2008 peak. Real imports, which had been growing robustly through October, dropped 7.3 percent in January. The employment situation has continued to deteriorate this quarter, with the job openings-to-applicants ratio (the number of officially posted job openings relative to the number of officially registered job seekers) sinking a further 8 percent in January. After a brief respite in November, household expenditures resumed their downward trajectory in December and January.

Japanese consumer prices were unchanged over the 12 months ending in January, sharply below the 2.3 percent inflation rate reached in July. Excluding food and energy prices, 12-month consumer price inflation was negative 0.2 percent in January. Despite the decline in agriculture commodity prices, food price inflation has stayed elevated.

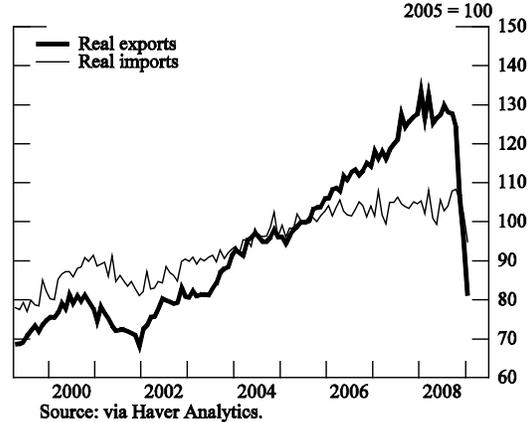
Although the policy rate of the Bank of Japan remains above zero, at 0.1 percent, the Bank is also taking many measures reminiscent of the earlier quantitative easing period, including the purchase of commercial paper, corporate bonds, equities from banks, and government bonds. On the fiscal front, political infighting appears to be slowing the implementation of the fiscal stimulus packages announced earlier this year, and the government has yet to decide on new fiscal measures.

Japan

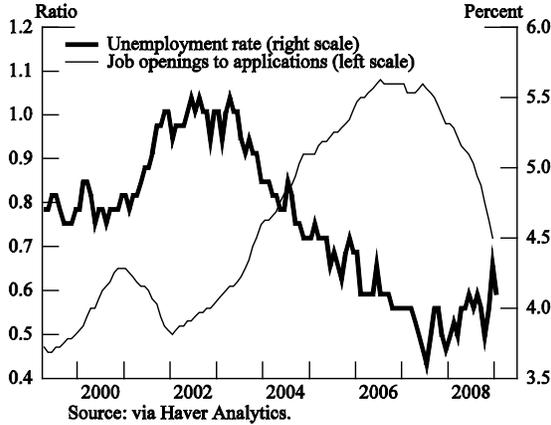
Economic Activity



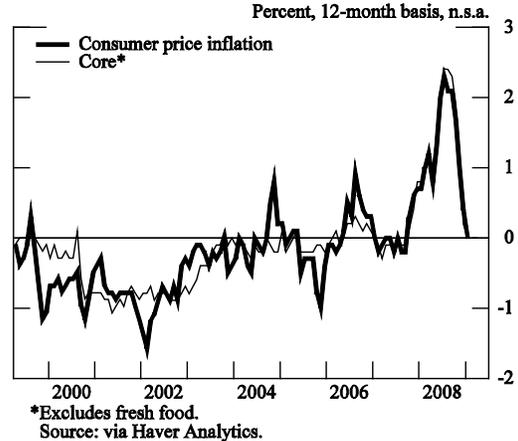
Real Trade



Labor Market



Consumer Price Inflation



Economic Indicators

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

Indicator	2008			2008		2009	
	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Housing starts	-2.5	-1.6	-8.3	-5.6	1.5	-4.4	n.a.
Machinery orders ¹	0.6	-10.4	-16.7	-16.2	-1.7	n.a.	n.a.
Household expenditures	-1.9	-0.5	0.4	1.5	-0.9	-0.8	n.a.
New car registrations	-1.8	-3.4	-15.1	-13.2	-2.5	-2.2	-7.3
Business sentiment ²	-7.0	-14.0	-24.0	...	...	...	...
Wholesale prices ³	4.9	7.1	3.0	2.8	1.1	-0.2	n.a.

1. Private sector excluding ships and electric power.
 2. Tankan survey, diffusion index. Level.
 3. Percent change from year earlier; not seasonally adjusted.
 n.a. Not available. ... Not applicable.
 Source: via Haver Analytics.

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

Component	2007 ¹	2008 ¹	2008			
			Q1	Q2	Q3	Q4
GDP	2.1	-1.3	2.8	-1.0	-1.0	-5.7
Total domestic demand	2.0	-0.1	1.8	-1.5	1.5	-2.3
Consumption	1.4	-0.7	0.7	-0.5	0.5	-3.4
Investment	3.3	-3.3	5.0	-4.6	-2.4	-10.5
Government consumption	2.1	1.7	2.6	3.0	3.6	-2.4
Inventories ²	0.0	0.6	-0.1	-0.7	0.8	2.2
Exports	4.1	-5.6	7.3	-0.0	0.1	-26.1
Imports	3.8	-3.2	5.3	-1.1	5.8	-20.2
Net Exports ²	0.2	-1.2	1.0	0.5	-2.4	-3.5
Memo:						
GDP of selected countries						
France	2.2	-1.0	1.6	-1.2	0.4	-4.6
Germany	1.7	-1.6	6.2	-2.0	-2.1	-8.2
Italy	0.2	-2.6	1.6	-2.5	-2.2	-7.1

1. Q4/Q4

2. Percentage point contribution to GDP growth.

Source: via Haver Analytics.

In the **euro area**, real GDP contracted 5.7 percent at an annual rate in the fourth quarter, with GDP for Germany and Italy falling more than 8 percent and 7 percent, respectively. Total domestic demand fell 2.3 percent, with a sharp contraction in investment of 10.5 percent. A collapse in trade resulted in a sizable negative contribution of net exports to headline growth of 3.5 percentage points. Inventory accumulation contributed 2.2 percentage points to growth.

Recent indicators for the first quarter continue to point to significant weakness in the euro area. The business climate index and economic sentiment indicators continued to fall in January and February, reaching record lows. Purchasing manager's indexes (PMIs), which had stabilized in January, resumed their slide in February. The German Ifo index also declined in February. The euro-area unemployment rate edged up to 8.2 percent in January, almost 1 percentage point above its year-earlier level.

According to the flash estimate, headline inflation in February was 1.2 percent. In January, twelve-month consumer price inflation in the euro area had moderated to 1.1 percent and was 1.8 percent excluding energy and unprocessed food.

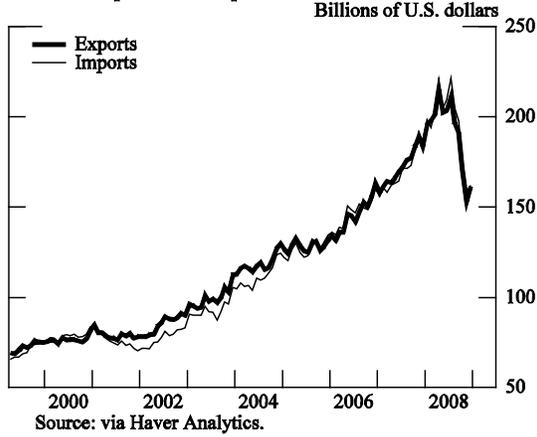
In the past few months, several governments—including those of Germany, France, Italy, and Spain—announced fiscal stimulus packages. The measures adopted so far include modest corporate tax credits for new investment or increases in expenditures on public infrastructure. Since the last Greenbook, Finland announced a fiscal package of 2 billion euro (1.1 percent of GDP), mainly focused on infrastructure. Austria also announced a plan of 3.2 billion euro (1.1 percent of GDP) focused on tax rebates and tax cuts. On February 4, in contrast, Ireland announced a deficit-reduction plan based on tax hikes, after a warning from the European Commission regarding its high deficit, which is widely expected to exceed 12 percent of GDP in 2009.

On February 18, the European Commission initiated excessive deficit procedures against Ireland, Greece, Spain, France, Latvia, and Malta, as they breached the 3 percent budget deficit limits. Economic and Monetary Affairs Commissioner Jaouin Almunia stated that the commission will use the full flexibility embedded in the Stability and Growth Pact when considering the next steps under the excessive deficit procedure.

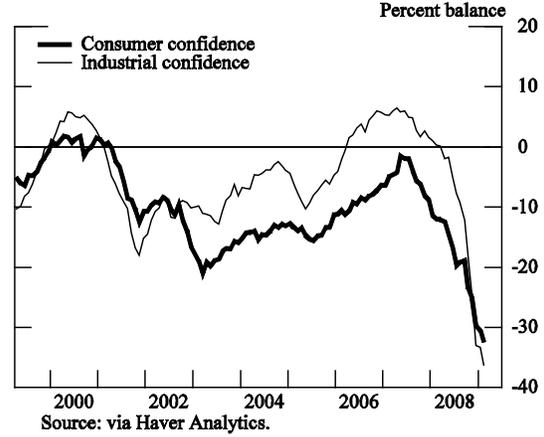
The ECB reduced its main policy rate 50 basis points, to 1.5 percent, at its March meeting. ECB President Trichet has signaled that, given the deterioration in economic activity in the euro area, further monetary policy easing is likely.

Euro Area

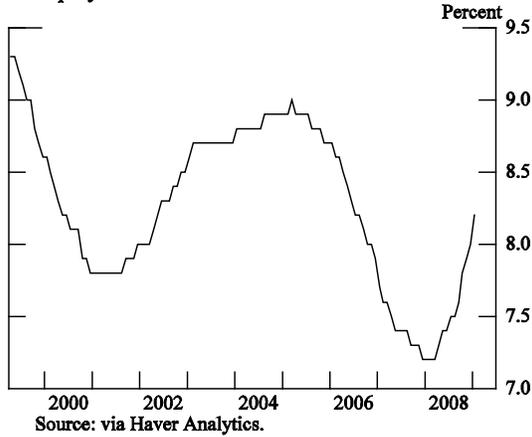
Nominal Exports and Imports



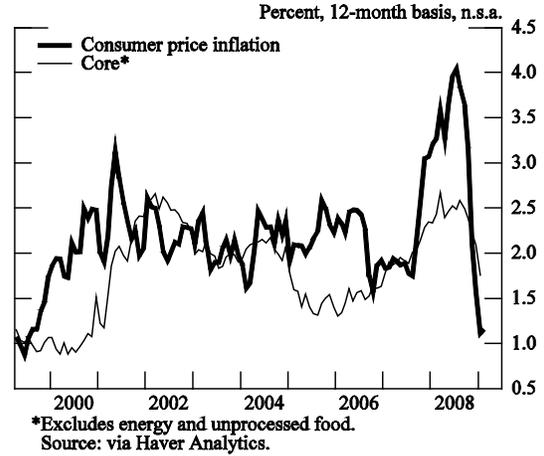
Economic Sentiment



Unemployment Rate



Consumer Price Inflation



Economic Indicators
(Percent change from previous period except as noted; seasonally adjusted)

Indicator	2008			2008			2009
	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
Industrial production ¹	-1.6	-2.0	-5.3	-1.7	-2.3	-2.7	n.a.
Retail sales volume ²	-0.9	-0.0	-1.0	-1.0	-0.2	-0.3	n.a.
New car registrations	-1.9	-6.2	-8.2	-6.0	-1.4	-2.6	n.a.
Employment	0.2	-0.1	n.a.	...	...	...	...
Producer prices ³	7.1	8.6	3.7	6.3	3.3	1.6	n.a.
M3 ³	10.8	9.9	9.0	9.8	8.8	8.5	6.7

1. Excludes construction.
 2. Excludes motor vehicles.
 3. Eurostat harmonized definition. Percent change from year earlier.
 n.a. Not available. ... Not applicable.
 M3 Manufacturers' shipments, inventories, and orders.
 Source: via Haver Analytics.

In the **United Kingdom**, real GDP contracted 6.0 percent at an annual rate in the fourth quarter, reduced by a large drawdown in inventories and weak final domestic demand. Consumption fell 2.7 percent, and investment declined almost 9 percent. Government expenditures and net exports made positive contributions to GDP growth. However, the volume of trade and manufacturing output both tumbled about 20 percent.

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

Component	2007 ¹	2008 ¹	2008			
			Q1	Q2	Q3	Q4
GDP	3.0	-1.9	1.6	-0.1	-2.8	-6.0
Total domestic demand	3.6	-2.3	0.8	-0.2	-2.9	-6.9
Consumption	3.6	-0.1	3.6	-0.7	-0.5	-2.7
Investment	4.1	-9.7	-11.0	-5.0	-13.8	-8.9
Government consumption	1.5	4.4	9.4	0.3	2.1	6.1
Inventories²	0.3	-1.5	-1.4	0.9	-0.5	-5.0
Exports	3.3	-5.3	2.9	-4.2	2.1	-20.2
Imports	5.3	-7.1	-1.5	-4.4	1.1	-21.6
Net Exports²	-0.7	0.7	1.3	0.2	0.2	1.2

1. Q4/Q4

2. Percentage point contribution to GDP growth.

Source: via Haver Analytics.

Forward-looking indicators were uniformly gloomy in the intermeeting period. Consumer and business confidence remained at or close to record lows in February. PMI readings continue to point to a severe contraction in the manufacturing, services, and construction sectors. According to the Confederation of Business Industries, the net balance of manufacturers expecting capital expenditures to fall over the coming year reached nearly 60 percent in the first quarter, the most pessimistic reading since the survey began in 1958. Moreover, the value of new housing orders slid to a series low in December.

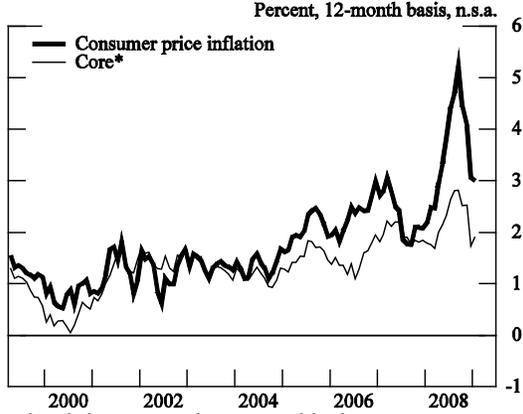
Headline inflation ticked down to 3.0 percent in January, which marked the end of a series of three public letters by the Bank of England (BOE) explaining why inflation had exceeded its 2 percent target by more than 1 percentage point. The index of producer input prices rose 2.3 percent in the 12 months to January, in sharp retreat from its peak of 34 percent reached in June 2008. The steady fall in house prices continued in February,

and 31,000 loans were approved for house purchases in January, in line with the average over the past six months but only about one-fourth of the average of the 2001-07 period.

The BOE lowered its main policy rate 100 basis points, to 0.5 percent, in two separate cuts over the intermeeting period. On February 13, the BOE initiated the purchase of commercial paper in exchange for Treasury bills at its Asset Purchase Facility (APF), a measure aimed at restoring credit market liquidity. On March 5, the BOE announced a £75 billion asset purchase program financed by the issuance of central bank reserves. The initial plan uses one-half of the Treasury-authorized amount of £150 billion. The new reserves will be used principally to purchase medium- and long-term government securities and to conduct purchase of private assets at the APF. The government also signed agreements with the Royal Bank of Scotland and Lloyds, two major U.K. banks in which it owns large stakes, to insure them against future losses on their assets in exchange for a fee and a commitment to increase lending to creditworthy borrowers.

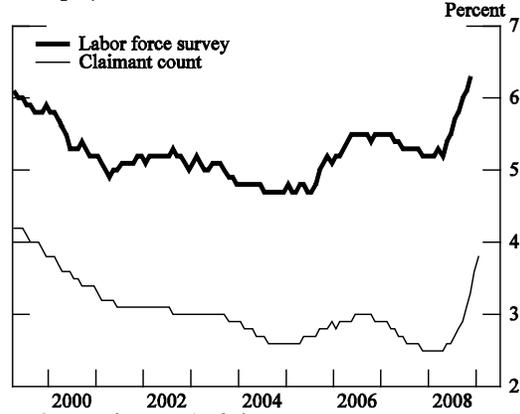
United Kingdom

Consumer Price Inflation



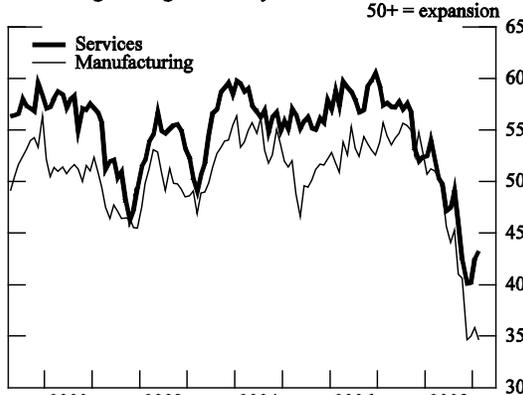
*Excludes energy and unprocessed food.
Source: via Haver Analytics.

Unemployment Rates



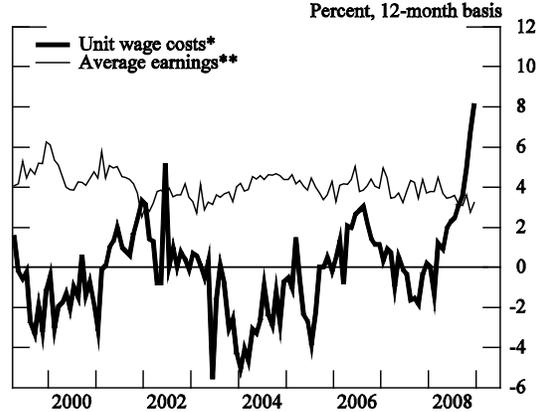
Source: via Haver Analytics.

Purchasing Managers Survey



Source: Reuters.

Labor Costs



*Manufacturing industries.
**Whole economy, including bonuses.
Source: via Haver Analytics.

Economic Indicators
(Percent change from previous period except as noted; seasonally adjusted)

Indicator	2008			2008		2009	
	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Producer input prices ¹	29.9	28.1	9.0	8.1	3.2	1.5	0.5
Industrial production	-1.2	-1.7	-4.5	-2.4	-1.5	-2.6	n.a.
Business confidence ²	0.7	-12.0	-38.3	-42.0	-42.0	-43.0	-44.0
Consumer confidence ²	-16.0	-24.2	-27.4	-26.8	-28.7	-35.1	-31.5
Trade balance ³	-22.0	-22.9	-17.1	-6.1	-5.4	n.a.	n.a.
Current account ³	-12.7	-14.6	n.a.	...	...	...	...

1. Percent change from year earlier.
2. Percent balance.
3. Level in billions of U.S. dollars.
n.a. Not available. ... Not applicable.
Source: via Haver Analytics; FRB staff calculations.

Canadian GDP fell 3.4 percent at an annual rate in the fourth quarter. Total domestic demand was down 5.6 percent, as consumption, investment, and to a lesser extent, inventories, all contributed negatively to growth. Imports collapsed at a faster pace than exports, and net exports contributed 2.2 percentage points to growth. Government consumption rose 2.8 percent.

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

Component	2007 ¹	2008 ¹	2008			
			Q1	Q2	Q3	Q4
GDP	2.8	-0.7	-0.9	0.6	0.9	-3.4
Total domestic demand	6.3	-1.1	-2.0	2.7	0.7	-5.6
Consumption	5.3	0.3	2.4	1.4	0.6	-3.3
Investment	4.2	-3.7	0.6	-1.0	1.0	-14.6
Government consumption	4.6	2.0	1.5	3.9	-0.2	2.8
Inventories ²	1.5	-0.8	-3.3	1.2	0.1	-0.8
Exports	-1.4	-7.4	-4.6	-3.2	-3.4	-17.5
Imports	8.6	-8.3	-7.6	3.6	-3.7	-23.3
Net Exports ²	-4.2	0.9	0.9	-2.3	0.0	2.2

1. Q4/Q4

2. Percentage point contribution to GDP growth.

Source: via Haver Analytics.

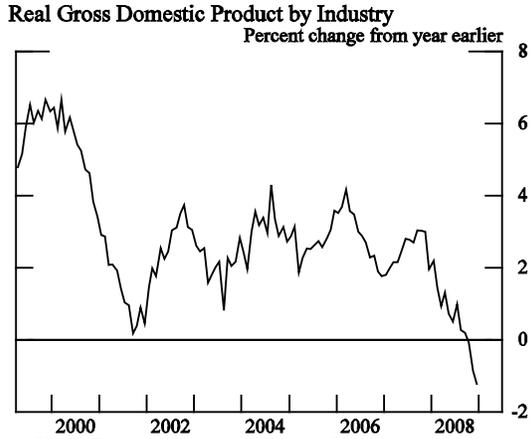
Incoming data for the first quarter are sparse. Employment fell for the third consecutive month in January, pushing three-month job losses to a record level. The unemployment rate rose to 7.2 percent, well above its January 2008 low of 5.8 percent. In February, the PMI bounced off its historic low of 36.1 to 45.2. Several other indicators, including monthly GDP, retail sales, and manufacturing orders, fell sharply at the end of the fourth quarter, suggesting significant weakness coming into the quarter.

In January, headline inflation was 1.1 percent, as energy prices continued to fall on a 12-month basis; excluding food and energy, inflation was 1.2 percent, down from 1.5 percent in December.

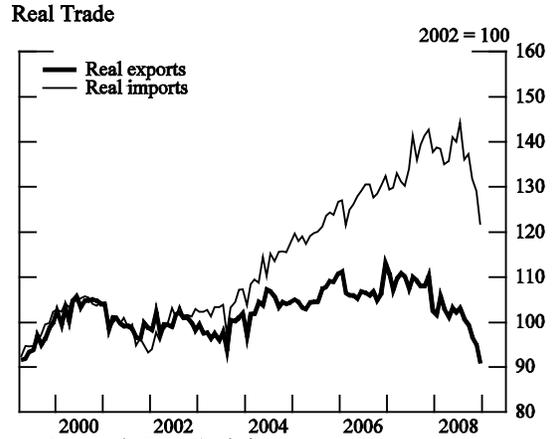
The Bank of Canada has reduced its policy interest rate 50 basis points to 0.5 percent over the intermeeting period. On March 3, the Bank indicated that it plans to keep rates low until recovery takes hold and signaled possible future “credit and quantitative easing.” On January 27, Canada announced a fiscal stimulus program, consisting of tax

cuts, infrastructure spending, and job training. The stimulus is expected to amount to about 1.4 percent of GDP for 2009 and 1.5 percent of GDP for 2010. The plan is expected to pass the legislature in late March or early April.

Canada



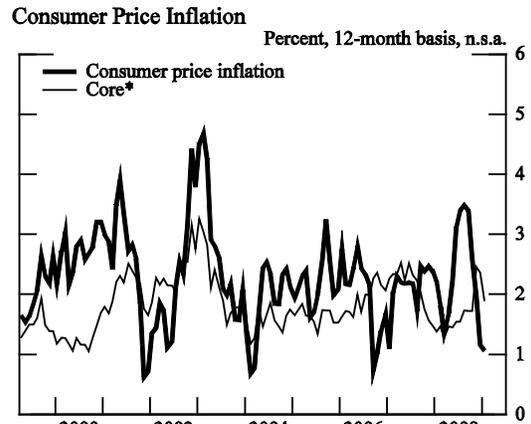
NOTE: Constructed from various Statistics Canada surveys and supplements to the quarterly income and expenditure-based estimates.
Source: via Haver Analytics.



Source: via Haver Analytics.



Source: via Haver Analytics.



*Excludes 8 most volatile components and the effects of changes in indirect taxes.
Source: via Haver Analytics.

Economic Indicators
(Percent change from previous period and seasonally adjusted, except as noted)

Indicator	2008			2008			2009
	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
Industrial production	-0.7	0.1	-2.8	-0.2	-1.6	-2.0	n.a.
New manufacturing orders	-1.7	-0.9	-8.8	-0.6	-6.1	-7.1	n.a.
Retail sales	0.4	-0.0	-1.6	0.2	-1.2	-4.1	n.a.
Employment	0.2	-0.0	0.1	0.0	-0.4	-0.1	-0.8
Wholesale sales	1.1	0.1	-7.7	-3.8	-2.3	-3.6	n.a.
Ivey PMI ¹	63.2	59.3	43.8	52.2	40.2	39.1	36.1

1. Not seasonally adjusted. 50+ indicates expansion.
n.a. Not available. ... Not applicable.
Source: via Haver Analytics; Bank for International Settlements.

Economic Situation in Other Countries

Economic activity in emerging market economies (EMEs) weakened significantly in the fourth quarter, with most of them experiencing sharp contractions. Financial conditions in emerging markets have also worsened somewhat since the time of the January Greenbook, with exchange rates falling further and CDS premiums continuing to rise. We estimate that real GDP in emerging markets declined at a 9¾ percent pace at an annual rate in the fourth quarter, the worst since the start of our quarterly series in 1970. Exports, industrial production, and confidence indicators continued to drop in both Latin America and emerging Asia. Incoming data for January and February strongly suggest a further sharp contraction in the first quarter. To boost their slowing economies, authorities in EMEs, especially in Asia, have been unveiling fiscal stimulus plans that generally include a significant percentage for infrastructure projects, and have continued to loosen monetary policy. Headline inflation continued to recede in Asia and has begun to come down in Latin America, largely reflecting the decline in commodity prices since the summer and increasing economic slack. The easing of inflation in Latin America may increase the scope for expansionary policies in that region as well.

In **China**, real GDP data were revised up, boosting our estimate of growth in the fourth quarter to a still tepid 1½ percent at an annual rate. There are some tentative signs that economic activity has begun to stabilize in China, but recent sharp contractions in the rest of the world will likely weigh on Chinese growth going forward. The PMI rose for the third consecutive month in January, with the new orders and production subindexes above 50, although the aggregate index remained in the contraction range. After falling sharply in October, industrial production remained relatively flat through the end of the year, with cement production registering positive 12-month growth and steel production rising in December. Growth of nominal retail sales edged lower in December, but our estimate of real sales growth has hovered around 17 percent on a 12-month basis since August. Exports plunged in February, whereas imports have been relatively steady over the past three months, although at levels not seen since 2006. Hence, the trade surplus fell sharply in February after reaching record levels in previous months.

The benchmark bank lending rates have not been lowered further since the end of last year, but Chinese authorities have been directly encouraging banks to increase lending. Consequently, loan growth accelerated sharply in December and January. Some of these new loans appear to be funding for infrastructure projects related to the fiscal stimulus package amounting to 13 percent of 2008 GDP announced in November. Consumer

price inflation has continued to decline, turning negative in February to -1½ percent on a 12-month basis.

Chinese Economic Indicators
(Percent change from previous period, seasonally adjusted, except as noted)

Indicator	2007	2008	2008			2009	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	12.3	6.9	5.3	1.6	...	...	...
Industrial production	19.5	1.8	1.9	-5.3	-1.5	n.a.	n.a.
Consumer prices ²	6.5	1.2	5.3	2.5	1.2	1.0	-1.6
Merch. trade balance ³	262.7	295.4	268.8	421.7	478.8	511.2	171.6

1. Gross domestic product. Annual rate. Quarterly data estimated by staff from reported 4-quarter growth rates. Annual data are Q4/Q4.
 2. Non-seasonally adjusted percent change from year-earlier period, except annual data, which are Dec./Dec.
 3. Billions of U.S. dollars, annual rate. Imports are valued at cost, insurance, and freight. n.a. Not available. ... Not applicable.
- Source: CEIC.

India's real GDP in the fourth quarter shrank nearly 2 percent at an annual rate according to staff estimates, its first quarter of negative growth since 2004. The contraction was concentrated largely in the manufacturing sector, although services also slowed considerably. Anecdotal evidence suggests that industrial production fell considerably in January as credit conditions remained tight. Consumer price inflation rose in January to 9½ percent on a 12-month basis, but wholesale inflation, which is followed more closely in India, continued to decelerate to 5¼ percent. The trade deficit narrowed considerably in January, as imports declined more than exports. The fiscal deficit now stands at 10 percent of GDP, well above the target. Consequently, the interim budget passed last week, which will be in effect until a new parliament is elected in May, includes only a small tax cut. The Reserve Bank of India lowered its targets for both the repo and reverse repo rates 50 basis points on March 4, bringing them to 5 percent and 3½ percent respectively, their lowest level since they were introduced in 2000.

Indian Economic Indicators
(Percent change from previous period, seasonally adjusted, except as noted)

Indicator	2007	2008	2008				2009
			Q3	Q4	Nov.	Dec.	Jan.
Real GDP ¹	8.9	5.3	9.2	-1.9	...	...	...
Industrial production	9.9	4.2	.3	-2.6	2.8	-2.5	n.a.
Consumer prices ²	5.5	8.7	9.0	9.2	9.5	8.7	9.5
Wholesale prices ²	3.8	6.2	12.5	8.6	8.5	6.2	5.2
Merch. trade balance ³	-69.7	-112.5	-133.7	-111.7	-118.5	-97.0	-73.9
Current account ⁴	-11.3	n.a.	-50.2	n.a.	...	...	...

1. Gross domestic product. Annual rate. Annual data are Q4/Q4.

2. Non-seasonally adjusted percent change from year-earlier period, except annual data, which are Dec./Dec.

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

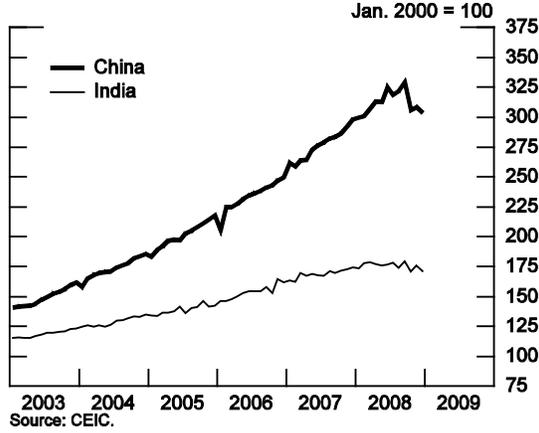
4. Billions of U.S. dollars, not seasonally adjusted, annual rate.

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

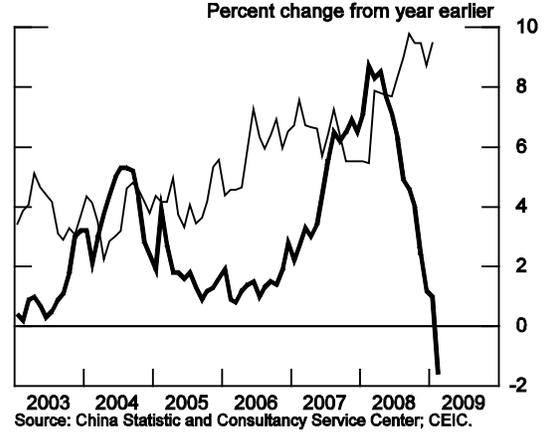
Source: CEIC.

China and India

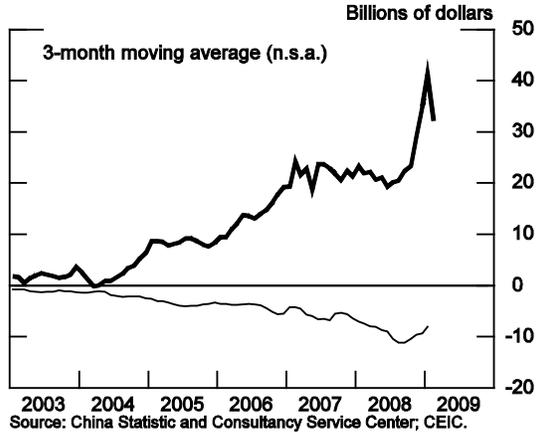
Industrial Production



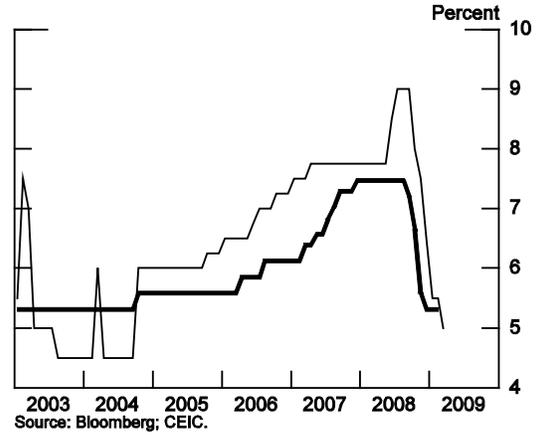
Consumer Prices



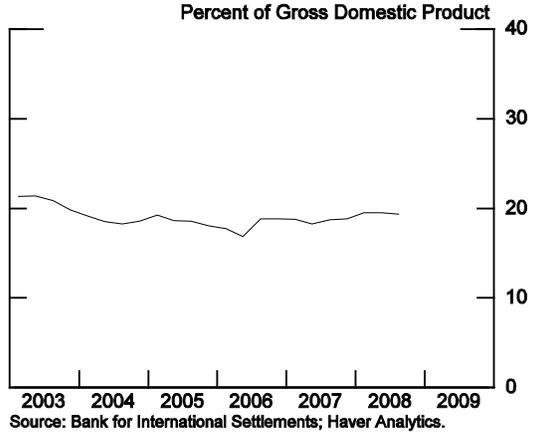
Merchandise Trade Balances



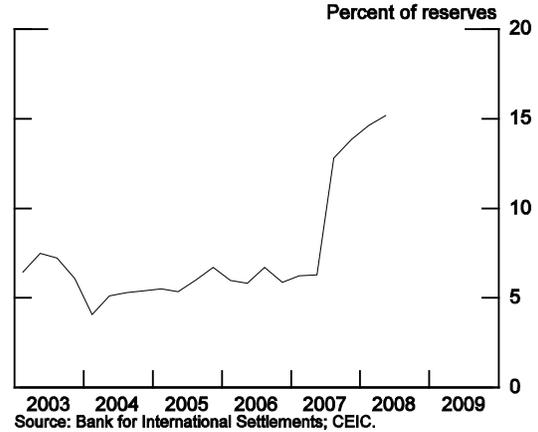
Benchmark Interest Rates



Gross External Debt



Short-Term External Debt



In the **newly industrialized economies (NIEs)**,¹ real GDP plummeted in the fourth quarter as the region's exports collapsed and domestic demand generally weakened. The most recent data suggest that activity will remain depressed in the current quarter. Industrial production continued to contract in Singapore and Taiwan, but improved somewhat in South Korea. Readings on PMI surveys, retail sales, and consumer and business sentiment remain weak. January exports plunged across the region but, with the exception of South Korea, trade balances remained positive or increased, reflecting larger declines in imports. Unemployment has risen in all of the NIEs.

Inflationary pressures continued to recede as economic activity weakened, and energy as well as, in some cases, food prices continued to retreat. Inflation in Taiwan turned negative in February reflecting easing food prices. In January, however, inflation ticked up in Hong Kong and Taiwan because of food price increases induced by the lunar new year holiday, which fell in January this year but in February last year. With growth slowing rapidly, the central banks of South Korea and Taiwan continued to ease monetary policy, lowering their policy rates 50 and 25 basis points, respectively. In addition, in early February, Taiwan unveiled a multi-year fiscal stimulus plan, which for this year is expected to amount to \$9.5 billion, about 2½ percent of GDP.

Economic Indicators for Newly Industrialized Economies: Growth
(Percent change from previous period, seasonally adjusted, except as noted)

	2007	2008	2008				2009
			Q3	Q4	Nov.	Dec.	Jan.
<i>Real GDP¹</i>							
Hong Kong	7.1	-2.5	-2.8	-7.8	...	...	...
Korea	5.9	-3.6	2.1	-20.8	...	...	...
Singapore	5.8	-4.0	-2.1	-16.4	...	...	...
Taiwan	6.4	-8.4	-10.4	-25.8	...	...	...
<i>Industrial production</i>							
Hong Kong	-1.6	n.a.	-3.8	n.a.	...	...	...
Korea	7.0	3.0	-2.0	-11.9	-10.1	-9.6	1.3
Singapore	5.9	-4.2	2.9	-8.1	7.5	-10.2	-10.9
Taiwan	7.8	-1.8	-4.1	-20.4	-12.6	-7.9	-2.8

1. Gross domestic product. Annual rate. Annual data are Q4/Q4.
n.a. Not available. ... Not applicable.
Source: CEIC; Reuters.

¹ The NIEs are Hong Kong, South Korea, Singapore, and Taiwan.

Economic Indicators for Newly Industrialized Economies: Merchandise Trade Balance
(Billions of U.S. dollars; seasonally adjusted annual rate)

	2007	2008	2008			2009	
			Q3	Q4	Dec.	Jan.	Feb.
Hong Kong	-23.5	-25.9	-27.6	-15.1	-10.1	.5	n.a.
Korea	28.2	6.0	-13.9	11.2	24.8	-7.8	n.a.
Singapore	36.2	18.4	16.7	12.6	12.0	2.3	n.a.
Taiwan	16.8	4.4	-5.7	9.4	10.5	35.8	14.8

n.a. Not available. ... Not applicable.
Source: CEIC.

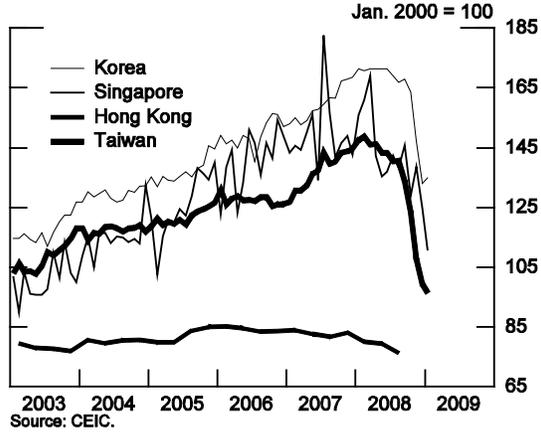
Economic Indicators for Newly Industrialized Economies: Consumer Price Inflation
(Non-seasonally adjusted percent change from year earlier except as noted)

	2007 ¹	2008 ¹	2008			2009	
			Q3	Q4	Dec.	Jan.	Feb.
Hong Kong	3.8	2.0	4.6	2.3	2.0	3.1	n.a.
Korea	3.6	4.1	5.5	4.5	4.1	3.7	4.1
Singapore	4.4	4.3	6.6	5.4	4.3	2.9	n.a.
Taiwan	3.3	1.3	4.5	1.9	1.3	1.5	-1.3

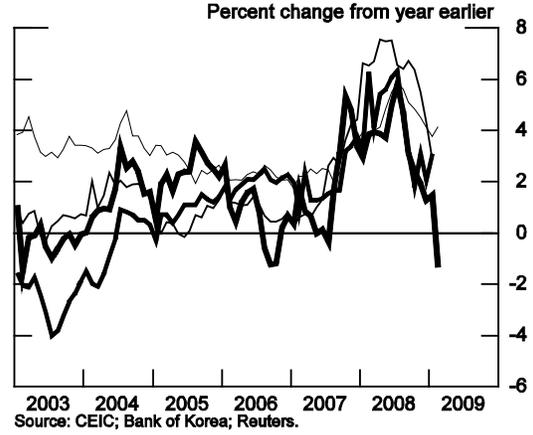
¹Dec./Dec.
n.a. Not available. ... Not applicable.
Source: CEIC.

Newly Industrialized Economies

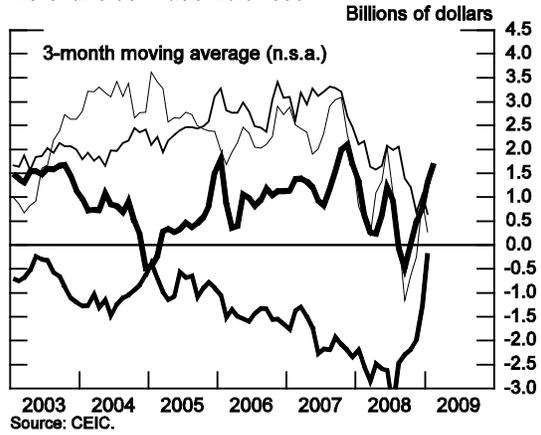
Industrial Production



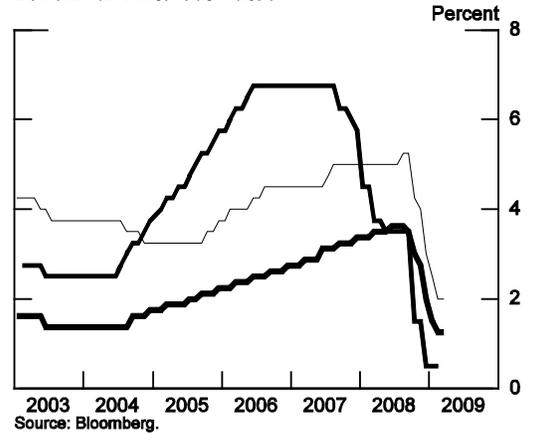
Consumer Prices



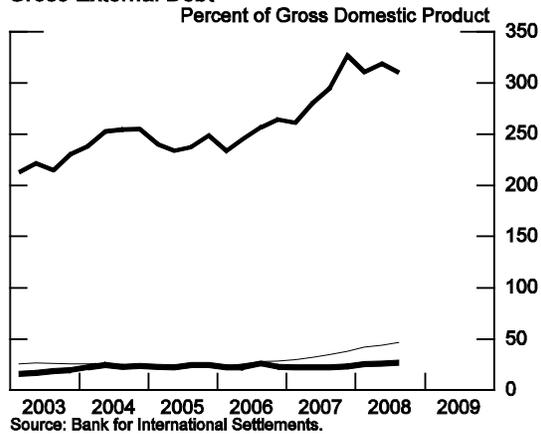
Merchandise Trade Balances



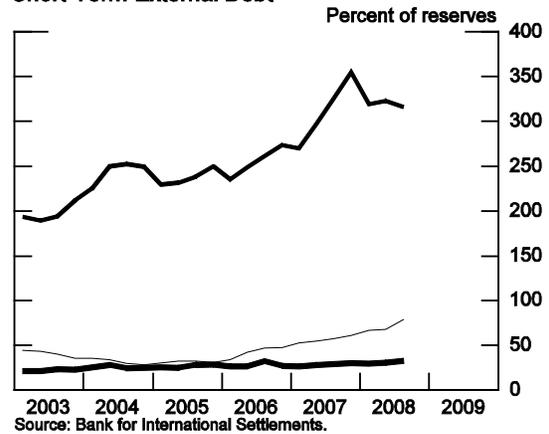
Benchmark Interest Rates



Gross External Debt



Short-Term External Debt



Across the Association of Southeast Asian Nations (**ASEAN-4**)², real GDP growth slowed dramatically in the fourth quarter. Thailand, Malaysia, and Indonesia each experienced their first contractions since the Asian crisis. The Philippines was the exception, however, as GDP grew a stronger-than-expected 4 percent at an annual rate in the fourth quarter. The weakness in activity is attributable to sharp declines in manufacturing and trade. Exports and imports continued to fall across the region, as much as 40 percent in January on a 12-month basis for Indonesia and the Philippines. Available indicators for January suggest that activity will remain weak in the near term. Industrial production in Thailand was 21 percent below its year-earlier level in January, the worst decline in its history. In Indonesia, leading indicators for consumer confidence and investment in January suggest a further contraction in the first quarter.

Inflation continues to recede in the region. With declining price pressures, central banks have been easing monetary policies. Indonesia, Malaysia, the Philippines, and Thailand aggressively lowered their target policy rates this year. In Indonesia, the government passed a fiscal stimulus bill amounting to 1½ percent of GDP in February. The plan will be implemented in 2009 and 2010 and it involves a reduction of taxes, an increase in infrastructure spending, and an energy subsidy. In Malaysia, the Finance Minister announced in mid-March a fiscal stimulus package valued at 9 percent of GDP. The plan will be implemented in 2009 and 2010, and it will increase the 2009 fiscal deficit to 7½ percent of GDP.

² The **ASEAN-4** are Indonesia, Malaysia, the Philippines, and Thailand.

ASEAN-4¹ Economic Indicators: Growth
(Percent change from previous period, seasonally adjusted, except as noted)

Indicator	2007	2008	2008				2009
			Q3	Q4	Nov.	Dec.	Jan.
<i>Real GDP²</i>							
Indonesia	5.7	4.9	6.9	-3.3	...	...	...
Malaysia	7.4	.1	1.0	-10.7	...	...	...
Philippines	6.5	4.5	4.8	4.1	...	...	...
Thailand	5.9	-4.3	1.7	-22.2	...	...	...
<i>Industrial production³</i>							
Indonesia ⁴	5.6	3.0	-1	-8	2.5	-3.6	n.a.
Malaysia	2.0	.1	-1.9	-7.4	-1.8	-6.8	n.a.
Philippines	-2.7	.2	.2	-8.4	-7.8	.5	n.a.
Thailand	8.2	5.3	1.1	-10.5	-9.1	-11.4	-6

1. Association of Southeast Asian Nations.
 2. Gross domestic product. Annual rate. Annual data are Q4/Q4.
 3. Annual data are annual averages.
 4. Staff estimate.
 n.a. Not available. ... Not applicable.
 Source: CEIC.

ASEAN-4¹ Economic Indicators: Merchandise Trade Balance
(Billions of U.S. dollars; seasonally adjusted annualized rate)

Indicator	2007	2008	2008				2009
			Q3	Q4	Nov.	Dec.	Jan.
Indonesia	39.6	32.2	30.8	22.6	37.9	19.7	24.2
Malaysia	29.2	42.7	49.7	34.4	34.3	36.3	31.4
Philippines	-5.0	-7.6	-9.8	-4.9	.6	-8.8	n.a.
Thailand	11.6	.2	-6.6	-11.1	-15.5	-.4	29.0

1. Association of Southeast Asian Nations.
 n.a. Not available. ... Not applicable.
 Source: CEIC; Bank of Thailand; Philippines Economic Indicators Telegram (PEIT);
 Monetary Authority of Singapore.

ASEAN-4¹ Economic Indicators: Consumer Price Inflation
(Non-seasonally adjusted percent change from year earlier except as noted)

Indicator	2007 ²	2008 ²	2008			2009	
			Q3	Q4	Dec.	Jan.	Feb.
Indonesia	5.8	11.1	12.0	11.4	11.1	9.2	8.6
Malaysia	2.4	4.4	8.4	5.9	4.4	3.9	n.a.
Philippines	3.9	8.0	12.2	9.7	8.0	7.1	7.3
Thailand	3.2	.4	7.2	2.2	.4	-.3	.0

1. Association of Southeast Asian Nations.

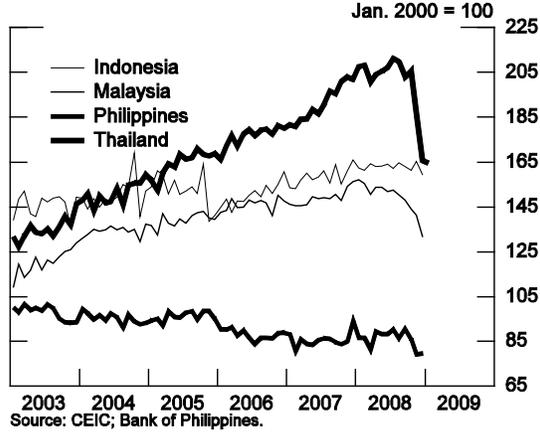
2. Dec./Dec.

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

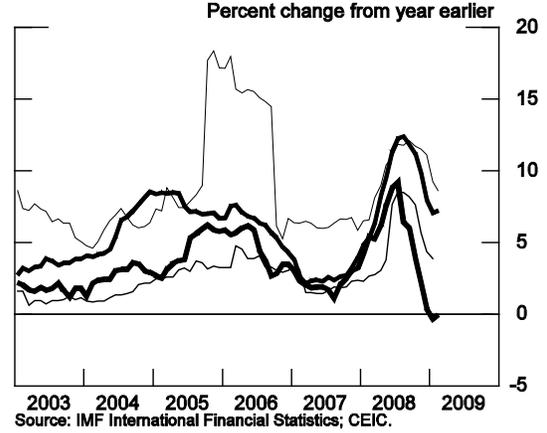
Source: CEIC; IMF International Financial Statistics database.

ASEAN-4

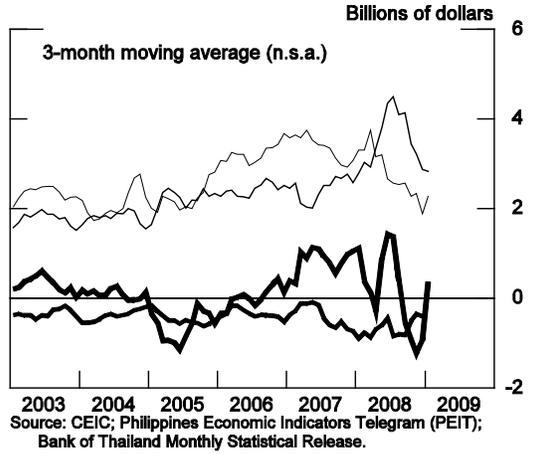
Industrial Production



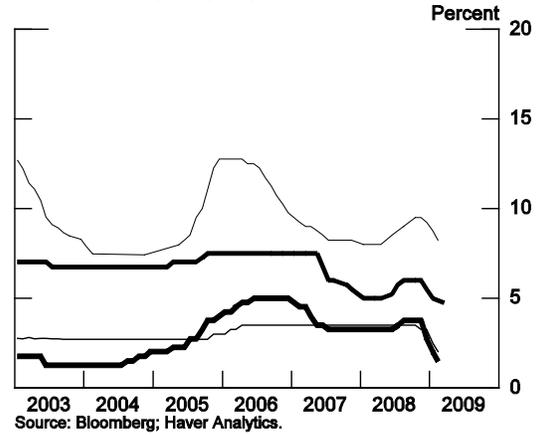
Consumer Prices



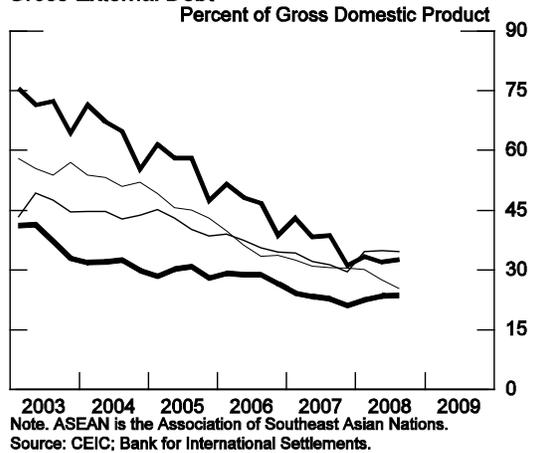
Merchandise Trade Balances



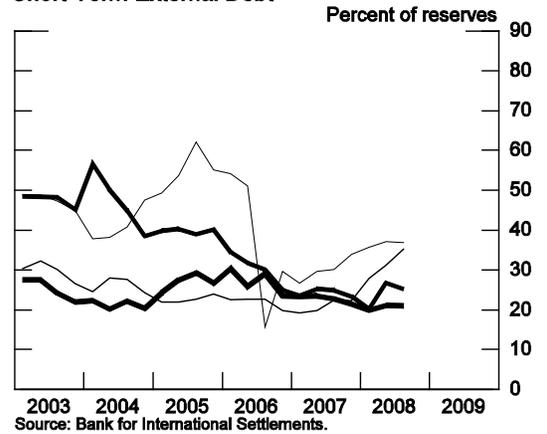
Benchmark Interest Rates



Gross External Debt



Short-Term External Debt



In **Mexico**, real GDP contracted at an annual rate of 10 percent in the fourth quarter, its steepest decline since the 1995 crisis. Output of services and manufacturing fell 11 percent and 9 percent at an annual rate, respectively. Exports continued to decline reflecting weak external demand from the United States, while imports were curtailed by the depreciation of the peso, the continuing decline in remittances, and weakening consumer sentiment. The trade deficit, which had widened in the fourth quarter, began to narrow in January. On a 12-month basis, auto production contracted 51 percent in January and 38 percent in February. Manufacturing PMI continued to slide in January and ticked up slightly in February.

After peaking in December, inflation moderated slightly in January. The pass-through of previous increases in food and energy prices as well as the sharp depreciation of the peso against the U.S. dollar appear to have impeded the disinflationary process. In early February, the Bank of Mexico (BOM) temporarily engaged in an unannounced intervention in the foreign exchange market. Last week, the BOM announced that they were discontinuing the ad-hoc interventions. In February, the BOM cut the policy rate 25 basis points, which was less than had been expected. Officials cited pressures in the financial markets and risk of higher inflation as the main reasons for the modest size of the rate cut.

Mexican Economic Indicators
(Percent change from previous period, seasonally adjusted, except as noted)

Indicator	2007	2008	2008			2009	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	3.7	-1.7	1.6	-10.3	...	...	...
Overall economic activity	3.1	1.0	.3	-2.2	-3.4	n.a.	n.a.
Industrial production	2.4	-1.6	-.9	-2.8	-4.7	n.a.	n.a.
Unemployment rate ²	3.7	4.0	3.9	4.5	4.8	4.6	n.a.
Consumer prices ³	3.8	6.5	5.5	6.2	6.5	6.3	6.2
Merch. trade balance ⁴	-10.1	-16.8	-20.8	-23.0	-20.0	-12.2	n.a.
Merchandise imports ⁴	281.9	308.6	324.5	273.2	244.1	230.4	n.a.
Merchandise exports ⁴	271.9	291.8	303.7	250.3	224.1	218.3	n.a.
Current account ⁵	-8.1	-15.4	-19.3	-24.5	...	...	...

1. Gross domestic product. Annual rate. Annual data are Q4/Q4.

2. Percent; counts as unemployed those working 1 hour a week or less.

3. Non-seasonally adjusted 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, not seasonally adjusted, annual rate.

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

Source: Haver Analytics; Bank of Mexico.

In **Brazil**, data releases since the January Greenbook continue to paint a gloomy picture. Real GDP in the fourth quarter fell 13½ percent at an annual rate. Employment in both formal and informal sectors fell sharply in December and continued to decline in January. More recent data indicate that economic activity has continued to be weak in the current quarter, with the exception of auto production, which soared in January as a result of fiscal measures that targeted autos. Exports and imports in February were down 25 percent and 35 percent respectively, relative to their year-earlier levels. Headline inflation stood at 6 percent on a 12-month basis in February, but more disaggregated data suggest some dissipation of the pressures from growth in food prices and exchange rate pass-through that kept both headline and core inflation elevated over the first half of 2008.

In late January, the central bank reduced its target for the overnight interest rate 100 basis points, to 12¾ percent, as had been expected. Subsequently, the Brazilian government announced that it would increase credit from the government development bank R\$100 billion (about \$43 billion) to support the government-controlled company Petrobras and other firms. With fiscal revenues down considerably, in late February, there were indications that the government is considering lowering its target for the consolidated primary fiscal surplus from 3.8 percent of GDP to 2.8 percent of GDP.

Brazilian Economic Indicators
(Percent change from previous period, seasonally adjusted, except as noted)

Indicator	2007	2008	2008			2009	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	6.1	1.2	6.9	-13.6	...	...	...
Industrial production	6.0	3.1	2.5	-9.5	-12.7	2.3	n.a.
Unemployment rate ²	9.3	7.9	7.7	7.9	7.8	8.6	n.a.
Consumer prices ³	4.5	5.9	6.3	6.2	5.9	5.8	5.9
Merch. trade balance ⁴	40.0	24.7	24.0	20.0	14.2	7.6	29.4
Current account ⁵	1.6	-28.3	-24.1	-21.4	-35.1	-33.0	n.a.

1. Gross domestic product. Annual rate. Annual data are Q4/Q4.

2. Percent.

3. Non-seasonally adjusted 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, not seasonally adjusted, annual rate.

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

Source: Haver Analytics; IMF International Financial Statistics database; Instituto Brasileiro de Geografia e Estatística.

In **Argentina**, indicators point to a considerable slowdown of economic activity. Real GDP contracted in the fourth quarter for the first time since 2002. The trade balance narrowed, reflecting a fall in exports due to weak external demand and declines in commodity prices. Economic activity weakened further in January. Industrial production contracted 6 percent, led by a fall in automotive production. Firms producing base metals cut output 22 percent from a year earlier. The press reported that the government may take control over the trading of agricultural products. If the plan is implemented, it would renew tensions between farmers and the government and could trigger a new round of strikes. Twelve-month consumer price inflation fell slightly in January because of weak domestic demand and declines in commodity prices; however, the reliability of the official inflation data remains questionable.

Argentine Economic Indicators
(Percent change from previous period, seasonally adjusted, except as noted)

Indicator	2007	2008	2008				2009
			Q3	Q4	Nov.	Dec.	Jan.
Real GDP ¹	9.2	4.4	6.3	-1.2	...	...	...
Industrial production	7.5	4.9	1.3	-5	-1.1	2.4	-6.2
Unemployment rate ²	8.5	7.9	7.8	7.3	...	...	...
Consumer prices ³	8.5	7.2	8.9	7.8	7.9	7.2	6.8
Merch. trade balance ⁴	11.1	13.2	19.7	11.8	15.0	5.9	14.6
Current account ⁵	7.1	n.a.	14.2	n.a.	...	...	...

1. Gross domestic product. Annual rate. Annual data are Q4/Q4.

2. Percent; not seasonally adjusted.

3. Non-seasonally adjusted 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, not seasonally adjusted, annual rate.

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

Source: Haver Analytics, IMF International Financial Statistics database; Ministerio de economia; U.S. State Department.

In **Venezuela**, fourth-quarter real GDP grew an estimated 6½ percent at an annual rate, supported by expansionary policies. Nonpetroleum output was up an estimated 7 percent while petroleum output declined 13 percent. Growth last year as a whole slowed to 3¼ percent on a four-quarter basis, down markedly from the rapid pace experienced between 2004 and 2007. Inflation remained very high at a 12-month rate of almost 30 percent in January.

In response to the collapse in the price of oil and resulting pressures on public finances, the government has taken stopgap measures to shore up the budget, including payment

delays by government-owned PDVSA and the transfer of another \$12 billion of the central bank's international reserves to the government's development bank. Hugo Chávez won a referendum in mid-February that allows him to stand for reelection in 2012. The government was widely expected to devalue the bolivar after the referendum, but concerns over the inflationary consequences of devaluation have shifted the government's priorities to the control of food prices.

Venezuelan Economic Indicators
(Percent change from previous period, seasonally adjusted, except as noted)

Indicator	2007	2008	2008			2009	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP ¹	8.5	3.2	1.0	6.4	...	...	...
Consumer prices ²	22.5	30.9	33.6	32.3	30.9	29.9	28.8
Non-oil trade balance ³	-34.6	-37.5	-36.3	-45.6	...	...	...
Merch. trade balance ³	23.7	45.4	69.5	-9.8	...	...	...
Current account ⁴	20.0	39.2	71.7	-18.0	...	...	...

1. Gross domestic product. Annual rate. Annual data are Q4/Q4.

2. Non-seasonally adjusted percent change from year-earlier period, except annual data, which are Dec./Dec.

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

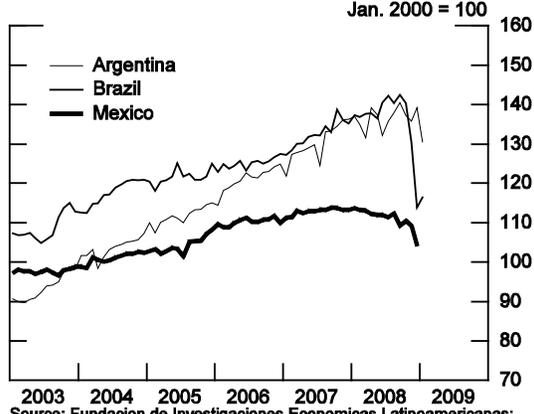
4. Billions of U.S. dollars, not seasonally adjusted, annual rate.

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

Source: IMF International Financial Statistics database; Bank of Venezuela; Reuters; and embassy cables.

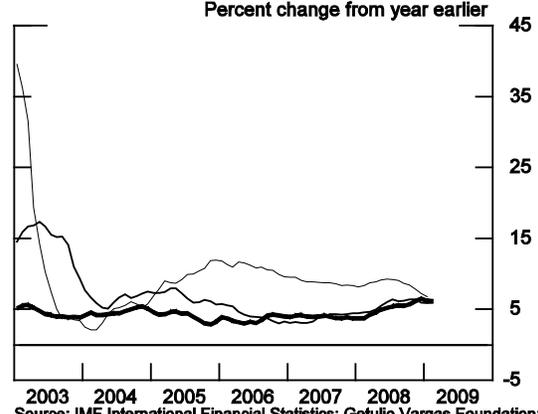
Latin America

Industrial Production



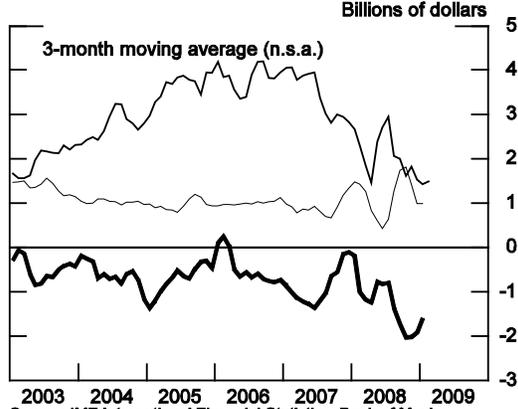
Source: Fundacion de Investigaciones Economicas Latinoamericanas; Haver Analytics.

Consumer Prices



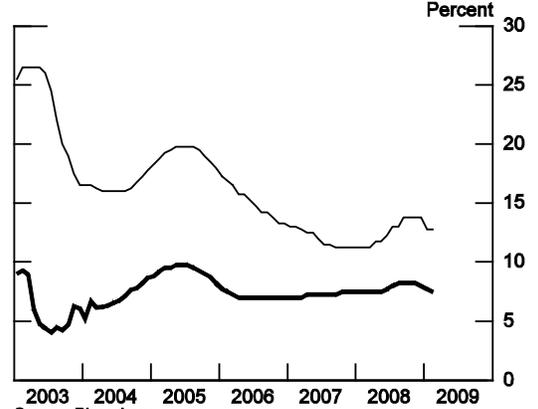
Source: IMF International Financial Statistics; Getulio Vargas Foundation; Haver Analytics; Bank of Mexico.

Merchandise Trade Balances



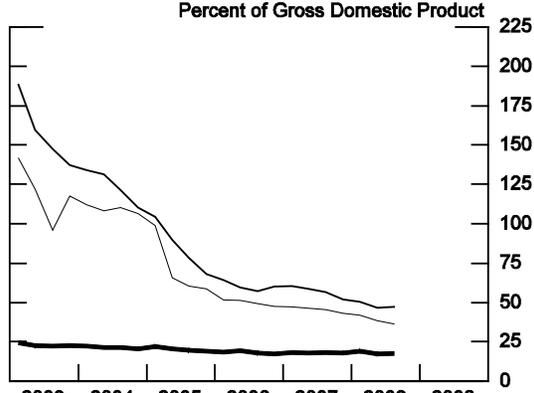
Source: IMF International Financial Statistics, Bank of Mexico.

Benchmark Interest Rates



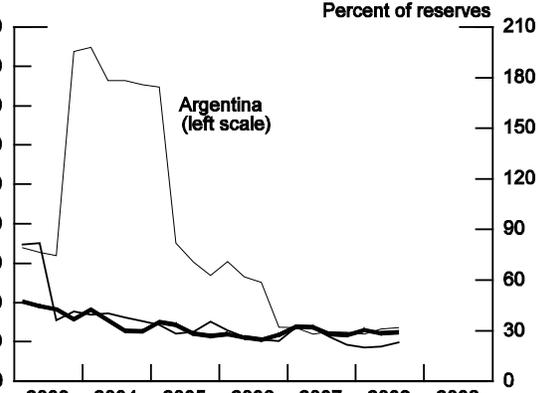
Source: Bloomberg.

Gross External Debt



Source: Haver Analytics; Bank for International Settlements.

Short-Term External Debt



Source: Bank for International Settlements.

In **Russia**, economic activity continues to weaken. Retail trade has contracted every month from October through January. Industrial production in January was down 16 percent from a year earlier, the worst decline on record. The PMI has remained below 40 from November through January. Inflation is beginning to decelerate, but remains high at a 12-month rate of more than 13 percent in December. Moreover, the exchange rate may continue to be a source of inflation pressure as the central bank has set a new lower bound for the ruble against a euro/dollar basket.

Russia's financial system has been under considerable stress since the onset of the global financial crisis, reflecting in part the Russian corporate sector's heavy dependence on foreign borrowing. Unlike other EMEs, Russia has been raising interest rates to try to stave off severe currency depreciation pressures. Russia's international reserves have continued to decline and were \$381 billion at the end of February, down from a peak of \$600 billion last August, reflecting foreign exchange intervention, the provision of dollar funding to Russian banks and corporations by the government, and valuation losses from the euro's decline against the dollar on the euro-denominated portion of the reserves.

Last Page of International Developments

Abbreviations–Part 2

Abbreviations—Part 2

ABS	asset-backed securities
AIG	American International Group, Inc.
APF	Asset Purchase Facility
ASEAN-4	Association of Southeast Asian Nations
BOE	Bank of England
C&I	commercial and industrial
CDS	credit default swap
CMBS	commercial mortgage-backed securities
CPFF	Commercial Paper Funding Facility
CPI	consumer price index
E&S	equipment and software
ECB	European Central Bank
FDIC	Federal Deposit Insurance Corporation
FHA	Federal Housing Administration
FOMC	Federal Open Market Committee; also, the Committee
FRB	Federal Reserve Board
FRBNY	Federal Reserve Bank of New York
GDP	gross domestic product
GSE	government-sponsored enterprise
IP	industrial production
JOLTS	Job Openings and Labor Turnover Survey
Libor	London interbank offered rate
MBS	mortgage-backed securities
NCSL	National Conference of State Legislatures
NFIB	National Federation of Independent Business
NIEs	newly industrialized economies
OIS	overnight index swap
PCE	personal consumption expenditures
PMI	purchasing managers index

SFP	Supplementary Financing Program
SSI	supplemental security income
TALF	Term Asset-Backed Securities Loan Facility
TIPS	Treasury inflation-protected securities
TSLF	Term Securities Lending Facility
WTI	West Texas intermediate