

Prefatory Note

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Part 2

June 17, 2009

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

June 17, 2009

Recent Developments

Domestic Nonfinancial Developments

Domestic Nonfinancial Developments

The incoming data suggest that the economy remains very weak, though declines in activity seem to be lessening. To be sure, employment is still falling, and manufacturers have cut production further in response to excess inventories and soft demand. But the reductions in employment and industrial production have slowed somewhat, consumer spending appears to be holding reasonably steady after a steep drop in the second half of last year, and sales and construction of single-family homes seem to have flattened out. In addition, the recent declines in capital spending have been less precipitous than those recorded earlier in the year. Apart from a tax-induced jump in tobacco prices, consumer price inflation has been fairly quiescent in recent months, although the upturn in energy prices is likely to boost headline inflation in June.

Labor Market Developments

Labor market demand weakened further in May, albeit less rapidly than earlier in the year. Private nonfarm payroll employment fell 338,000 last month following average declines of nearly 700,000 per month from January to March and a drop of 600,000 in April. May's decline in employment was the smallest since last September; with the notable exception of the manufacturing sector, most industries reported a slower pace of job loss, and employment in nonbusiness services moved up for the first time since last summer.

In addition to shedding jobs, firms have cut their labor input by shortening hours worked: Average weekly hours of production and nonsupervisory workers on private payrolls dropped steeply from September to March but have since flattened out near the low level of 33.1 hours. Aggregate hours of production and nonsupervisory workers fell at an average pace of $\frac{1}{2}$ percent per month in April and May after falling $\frac{3}{4}$ percent per month, on average, over the preceding seven months.

In the household survey, the unemployment rate climbed further in May, jumping another $\frac{1}{2}$ percentage point, to 9.4 percent. In addition, the fraction of workers who were working part time for economic reasons—although flat over the past couple of months—remained at an extremely elevated level. The labor force participation rate moved up in May for a second consecutive month and was close to where it was at the beginning of the recession. The emergency unemployment insurance program that began last July has

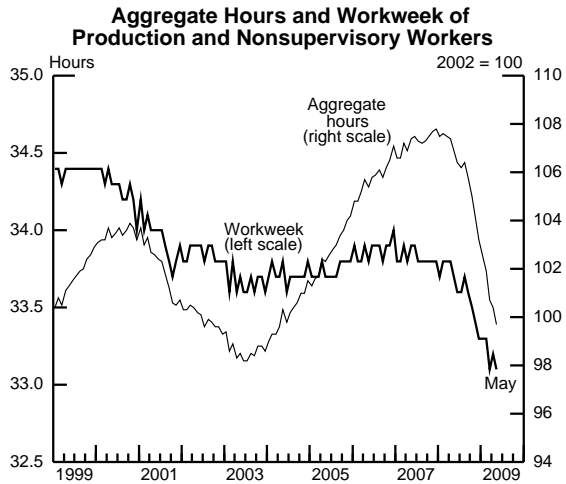
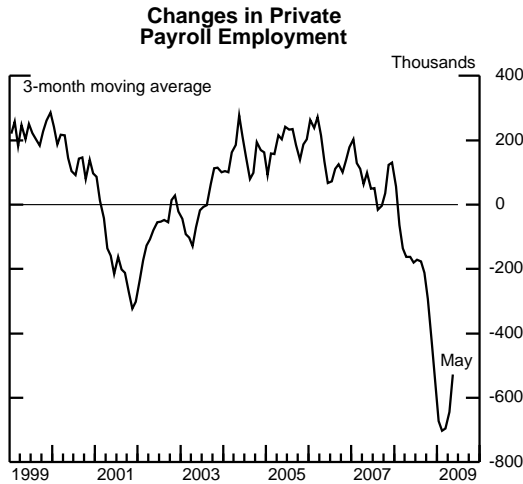
Note: A list of abbreviations is available at the end of Part 2.

Changes in Employment

(Thousands of employees; seasonally adjusted)

Measure and sector	2008	2008		2009			
		Q3	Q4	Q1	Mar.	Apr.	May
	Average monthly change				Monthly change		
Nonfarm payroll employment (establishment survey)	-257	-208	-553	-691	-652	-504	-345
Private	-270	-212	-552	-695	-648	-596	-338
Natural resources and mining	4	8	-2	-12	-17	-12	-10
Manufacturing	-73	-61	-140	-202	-172	-154	-156
Ex. motor vehicles	-58	-43	-121	-176	-156	-127	-126
Construction	-57	-34	-97	-124	-123	-108	-59
Residential	-35	-21	-51	-53	-48	-46	-20
Nonresidential	-22	-12	-45	-71	-75	-61	-40
Wholesale trade	-16	-12	-32	-36	-32	-34	-22
Retail trade	-44	-42	-80	-55	-62	-37	-18
Financial activities	-19	-16	-35	-51	-41	-45	-30
Temporary help services	-44	-40	-70	-73	-57	-55	-7
Nonbusiness services ¹	19	16	-19	-25	-37	-31	46
Total government	14	4	-1	4	-4	92	-7
Federal government	3	2	2	10	12	86	-15
Total employment (household survey)	-246	-236	-564	-817	-861	120	-437
Memo:							
Aggregate hours of private production workers (percent change) ²	-3.3	-2.8	-7.4	-8.9	-1.2	-3	-7
Average workweek (hours) ³	33.6	33.6	33.4	33.2	33.1	33.2	33.1
Manufacturing (hours)	40.8	40.8	40.2	39.6	39.4	39.5	39.3

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.

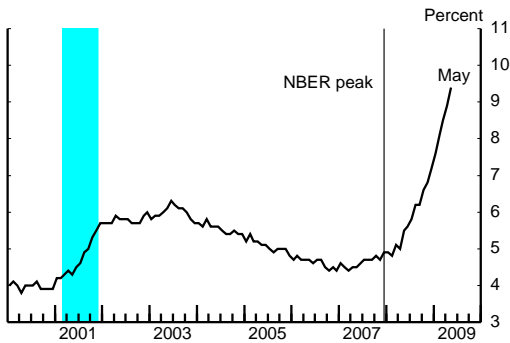


Source: U.S. Department of Labor, Bureau of Labor Statistics.

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

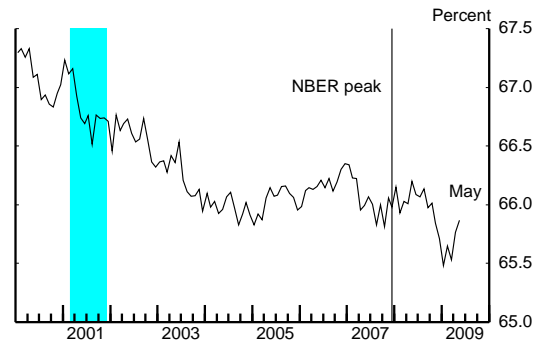
Rate and group	2008	2008		2009			
		Q3	Q4	Q1	Mar.	Apr.	May
<i>Civilian unemployment rate</i>							
Total	5.8	6.0	6.9	8.1	8.5	8.9	9.4
Teenagers	18.7	19.7	20.7	21.3	21.7	21.5	22.7
20-24 years old	10.2	10.6	11.3	13.0	14.0	14.7	15.0
Men, 25 years and older	4.8	5.1	6.0	7.4	7.9	8.3	9.0
Women, 25 years and older	4.4	4.5	5.2	6.2	6.5	6.6	7.0
<i>Labor force participation rate</i>							
Total	66.0	66.1	65.9	65.6	65.5	65.8	65.9
Teenagers	40.2	40.3	38.7	38.3	38.0	38.1	38.5
20-24 years old	74.4	74.8	74.1	73.7	74.5	75.0	73.7
Men, 25 years and older	75.4	75.6	75.2	74.6	74.4	74.6	75.1
Women, 25 years and older	60.0	60.0	60.1	60.0	60.0	60.3	60.3

Unemployment Rate



Note: Shaded bar indicates a period 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.

Labor Force Participation Rate

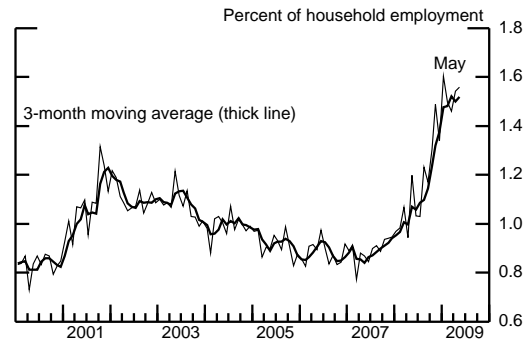


Note: See the note to the figure "Unemployment Rate."

Persons Working Part Time for Economic Reasons



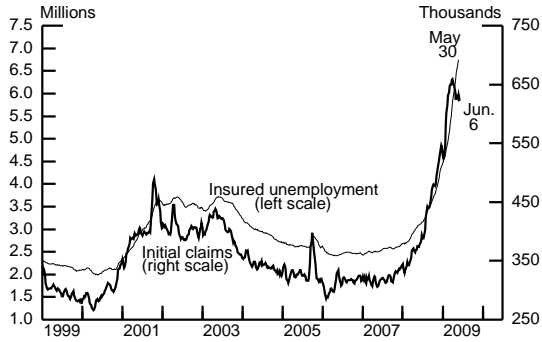
Job Losers Unemployed Less Than 5 Weeks



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

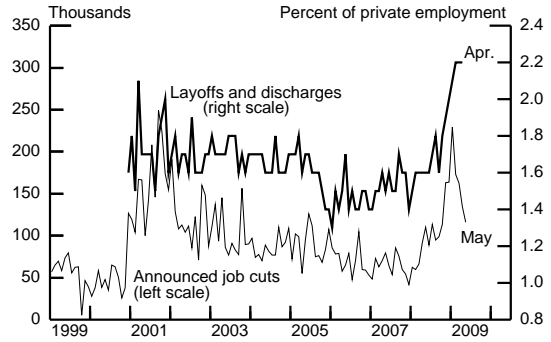
Labor Market Indicators

Unemployment Insurance



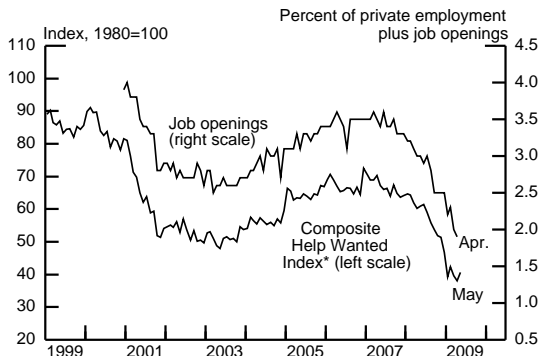
Note: 4-week moving averages.
Source: U.S. Dept. of Labor, Employment and Training Administration.

Layoffs and Job Cuts



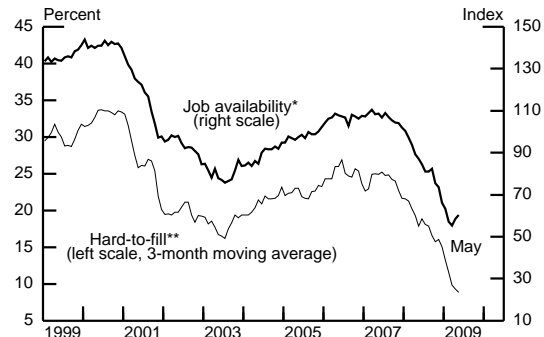
Note: Job cuts seasonally adjusted by FRB staff.
Source: For layoffs and discharges, Job Openings and Labor Turnover Survey; for job cuts, Challenger, Gray, and Christmas, Inc.

Job Openings



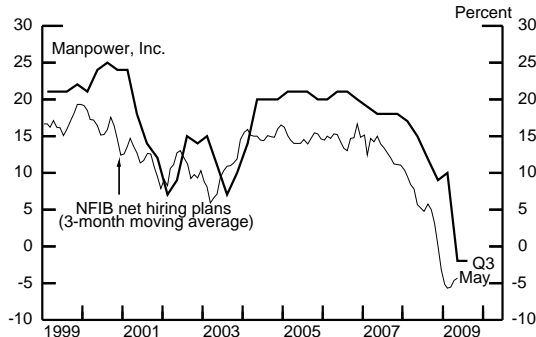
*Index of staff composite help wanted advertising as a percent of private payroll employment.
Source: For job openings, Job Openings and Labor Turnover Survey; for Help Wanted Index, Conference Board and staff calculations.

Job Availability and Hard-to-Fill Positions



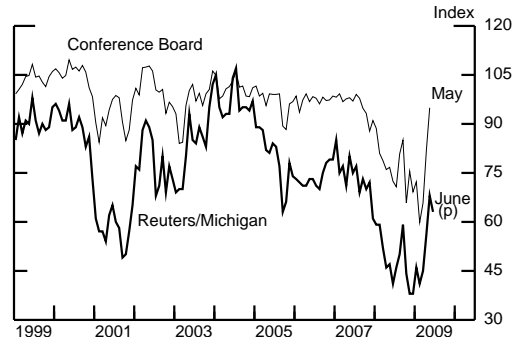
*Proportion of households believing jobs are plentiful, minus the proportion believing jobs are hard to get, plus 100.
**Percent of small businesses surveyed with at least one "hard-to-fill" job opening. Seasonally adjusted by FRB staff.
Source: For job availability, Conference Board; for hard-to-fill,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

Net Hiring Plans



Note: Percent planning an increase in employment minus the percent planning a reduction.
Source: National Federation of Independent Business (NFIB); Manpower, Inc.

Expected Labor Market Conditions



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

likely contributed to the rise in the unemployment rate and the resiliency in labor force participation by encouraging unemployed individuals to stay in the labor force.¹ In addition, the deterioration in household balance sheets may have caused some older workers to delay retirement and some secondary workers to enter the labor force.

Other indicators suggest continued weakness in labor demand. The four-week moving average of initial claims for unemployment insurance has fallen back a little from its recent peak, but the number of individuals receiving unemployment insurance benefits has continued to increase. Layoff rates—as gauged by the percentage of short-term job losers in the household survey and the layoff and discharge rate from the Job Openings and Labor Turnover Survey—stayed high in April and May, while measures of job vacancies remained low. In addition, alternative measures of labor market slack—job availability as reported in the Conference Board Survey and hard-to-fill positions in the NFIB survey—remained at levels consistent with elevated slack.

Regarding the forward-looking indicators of labor market conditions, hiring plans in the NFIB and Manpower surveys have been about flat in recent months after two years of steep declines. Households' expectations of future labor market conditions have shown a more marked improvement.

Output per Hour

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

Sector	2007:Q1 to 2008:Q1	2008:Q1 to 2009:Q1	2008			2009
			Q2	Q3	Q4	Q1
Nonfarm business						
All persons	3.5	2.0 ¹	4.7	2.2	-.6	1.9 ¹
All employees ²	2.9	1.7 ¹	4.9	1.6	-2.3	2.7 ¹
Nonfinancial corporations ³	1.9	2.0	8.5	6.4	-4.3	-2.1

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.

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

¹ The staff estimates that emergency benefits may currently be contributing about ½ percentage point to the levels of the unemployment rate and labor force participation rate.

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

Component	Proportion 2008 (percent)	2008 ¹	2008	2009	2009		
			Q4	Q1	Mar.	Apr.	May
			Annual rate		Monthly rate		
Total	100.0	-6.7	-13.0	-19.0	-1.8	-.7	-1.1
Previous	100.0	-6.7	-12.9	-19.2	-1.7	-.5	...
Manufacturing	79.0	-8.7	-18.1	-22.0	-1.9	-.6	-1.0
Ex. motor veh. and parts	74.5	-7.8	-16.9	-18.3	-2.0	-.6	-.6
Ex. high-tech industries	70.3	-7.8	-15.4	-18.0	-2.1	-.6	-.6
Mining	10.6	.8	3.5	-11.4	-1.9	-3.2	-2.1
Utilities	10.4	.3	12.6	-5.1	-1.1	.7	-1.4
<i>Selected industries</i>							
Energy	23.9	1.3	11.2	-7.1	-1.2	-.6	-2.1
High technology	4.2	-6.9	-38.1	-23.3	.0	.6	-1.9
Computers	1.0	-11.9	-31.6	-23.6	-1.7	-1.8	-1.5
Communications equipment	1.3	10.4	6.2	-3.9	-2.9	.1	-1.4
Semiconductors ²	1.8	-15.0	-60.9	-37.3	3.8	2.4	-2.7
Motor vehicles and parts	4.5	-23.3	-37.4	-68.9	1.4	-1.2	-7.9
Aircraft and parts	2.3	-13.2	-22.3	69.7	-.3	-1.8	.1
<i>Total ex. selected industries</i>	65.1	-8.3	-17.4	-21.2	-2.4	-.7	-.4
Consumer goods	20.7	-4.2	-8.5	-9.3	-.7	-.4	.3
Durables	3.5	-14.7	-26.7	-25.8	-2.6	.0	-.9
Nondurables	17.1	-1.8	-4.4	-5.8	-.4	-.5	.5
Business equipment	6.6	-4.8	-11.8	-23.5	-3.3	-1.7	-1.6
Defense and space equipment	1.1	-2.1	-.2	-4.8	1.1	.2	1.2
Construction supplies	4.8	-11.8	-26.6	-34.5	-2.8	-1.6	-.9
Business supplies	7.3	-9.8	-17.4	-24.6	-2.6	-1.2	-.5
Materials	24.6	-11.7	-24.5	-27.0	-3.6	-.4	-.8
Durables	12.4	-11.4	-28.9	-37.5	-4.6	-1.6	-1.5
Nondurables	12.2	-12.0	-19.7	-15.2	-2.7	.6	-.1

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		
				Q3	Q4	Q1	Apr.	May
Total industry	80.9	84.9	73.5	76.9	74.2	70.4	69.0	68.3
Manufacturing	79.6	84.5	71.4	74.6	70.9	66.7	65.6	65.0
Mining	87.6	89.1	84.9	89.1	89.6	86.9	82.5	80.8
Utilities	86.8	93.3	84.2	81.5	83.6	82.1	80.6	79.3
<i>Stage-of-process groups</i>								
Crude	86.6	89.9	81.7	85.2	83.8	80.9	78.6	77.7
Primary and semifinished	82.0	87.9	74.3	76.8	73.4	68.4	66.7	65.6
Finished	77.7	80.3	70.0	73.5	71.0	68.4	67.6	67.4

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

The staff estimates that output per hour in the nonfarm business sector increased at an annual rate of 1.9 percent in the first quarter after having fallen at a 0.6 percent rate in the fourth quarter of last year. On the whole, labor productivity has held up surprisingly well during the recession as firms have responded to the contraction in aggregate demand by aggressively reducing labor input.

Industrial Production

Industrial production (IP) decreased 0.9 percent per month, on average, in April and May after average declines of 1.6 percent per month in the first quarter. Manufacturing output fell at an average rate of $\frac{3}{4}$ percent per month in April and May, and the factory operating rate dipped further to 65.0 percent in May, yet another low for a series that goes back to 1948.

The production of motor vehicles and parts fell nearly 8 percent in May and subtracted about 0.3 percentage point from the rate of change in total IP. (The effect on production of the GM and Chrysler bankruptcies is discussed in the motor vehicle section.) Elsewhere in transportation equipment, the production of commercial aircraft moved up 1.1 percent in May.

.² The 787 Dreamliner, which is a few years behind schedule, is expected to make its first test flight late this month.

In the high-tech sector, computer output fell 1.6 percent per month in April and May, on average, after having fallen at a similar pace in the first quarter. Business demand has been particularly weak; the paring of IT budgets is reflected both in sharp declines in server sales and a lengthening of the PC replacement cycle.³ Output of communications equipment fell 0.7 percent, on average, in April and May; this decline is consistent with the contraction in capital expenditures at major telecommunications service providers in the first quarter.

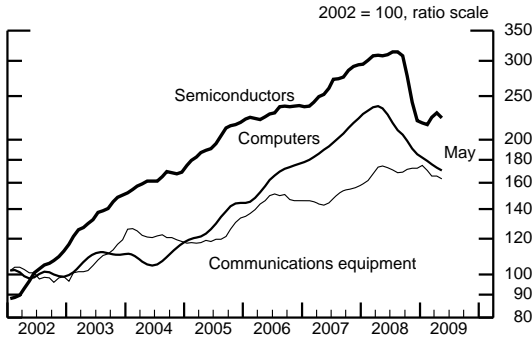
Further up the high-tech supply chain, near-term indicators of production have turned somewhat less negative, possibly reflecting a mild inventory restocking after months of drastic production cuts. In April, orders for circuit boards rose sharply—albeit from a very low level—and outpaced shipments for the first time since early 2008. Similarly,

² In addition, United Airlines has requested proposals from both Boeing and Airbus for an order of up to 150 new aircraft, an investment valued at nearly \$10 billion.

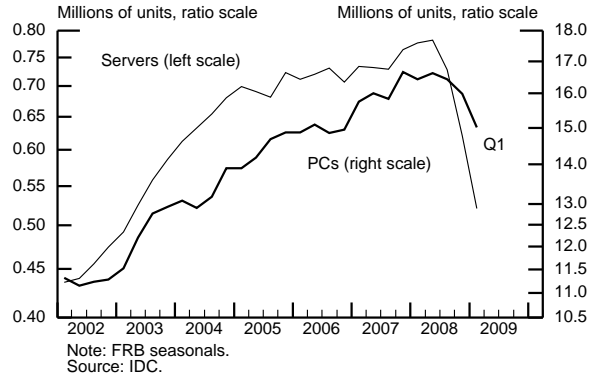
³ A recent Gartner survey reported that IT budgets for 2009 were revised down further during the first quarter of this year.

Indicators of High-Tech Manufacturing Activity

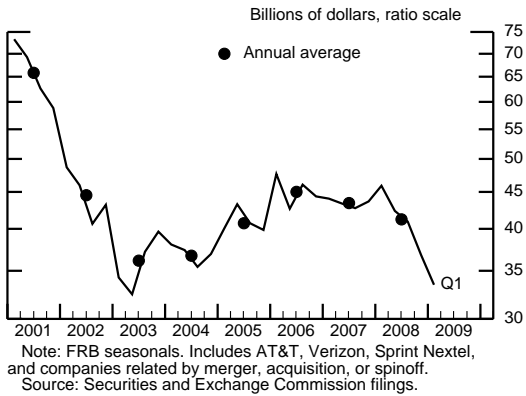
Industrial Production in the High-Tech Sector



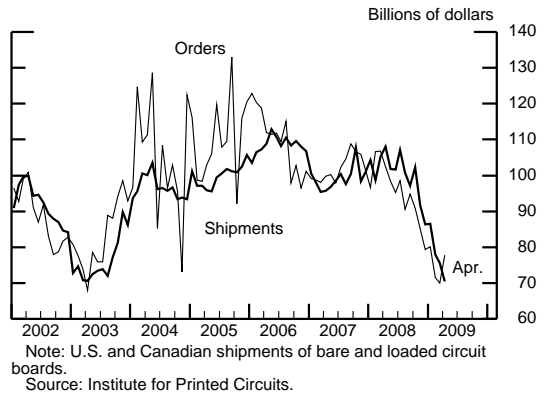
U.S. Personal Computer and Server Absorption



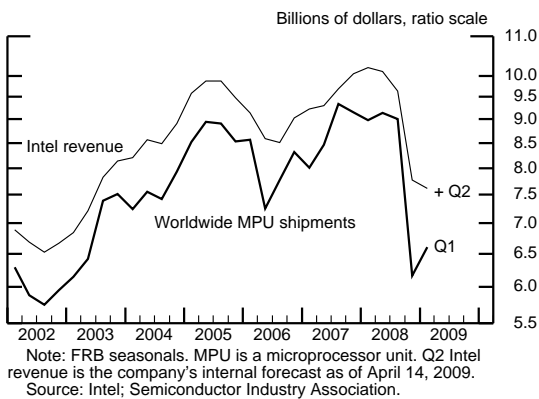
Capital Expenditures by Selected Telecommunications Service Providers



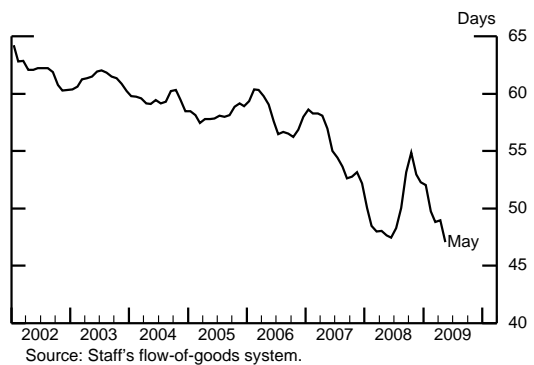
Circuit Board Orders and Shipments



MPU Shipments and Intel Revenue



Days' Supply: Semiconductors



global semiconductor sales climbed for the second consecutive month in April, and, over the three months ending in May, the real output of semiconductors averaged monthly gains of 1.2 percent. The outlook for semiconductors over the next few quarters has also improved slightly. Indeed, several industry groups have updated their forecasts and no longer anticipate further declines in the production of semiconductors in the second half of the year.

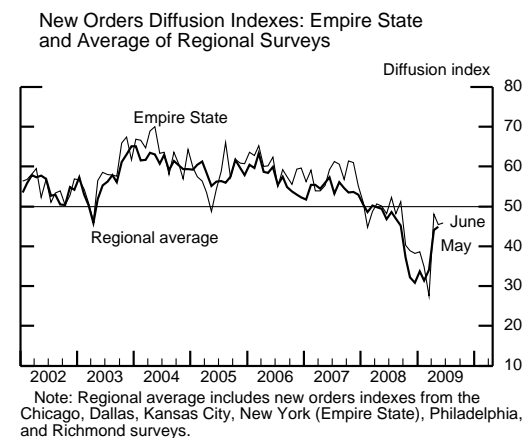
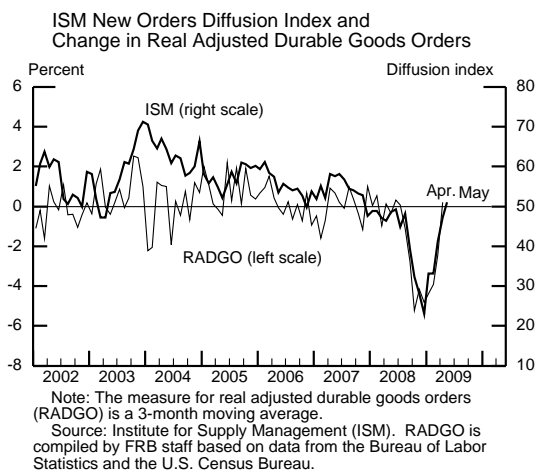
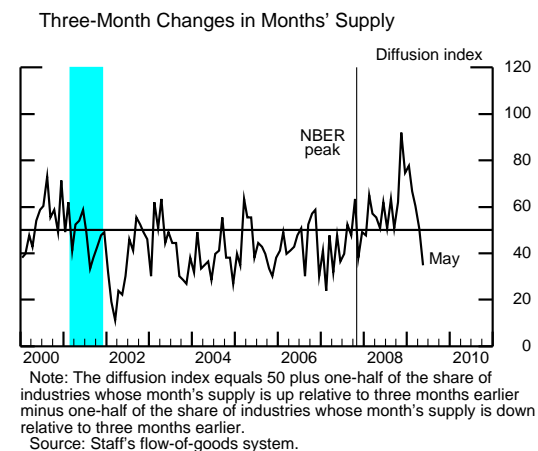
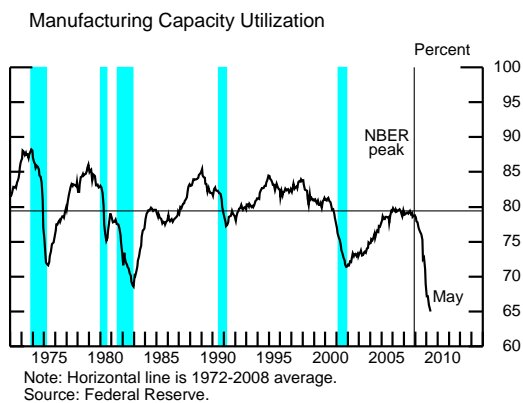
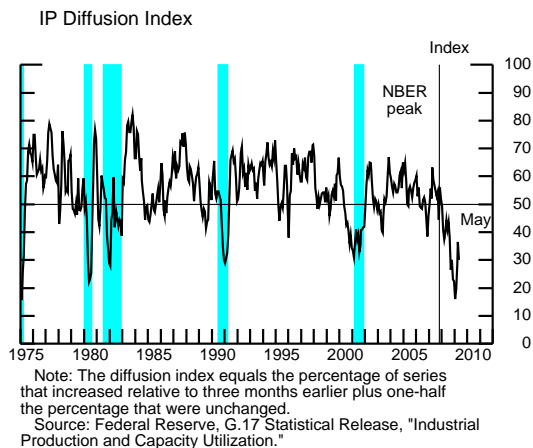
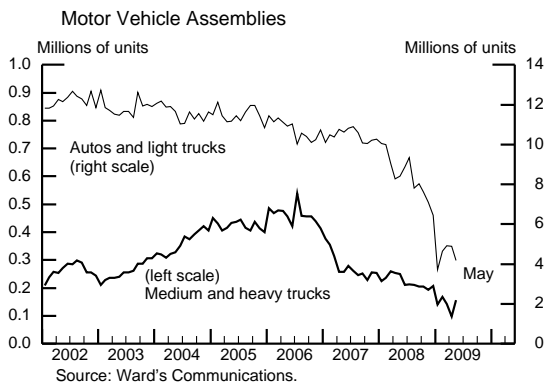
The production of energy has declined each month this year. In particular, the index for drilling and related support activity has plunged more than 40 percent since December. The other major components of energy output—utilities, coal mining, and petroleum refining—are down so far this year, while oil and gas extraction has edged up.

Elsewhere in the industrial sector—that is, excluding motor vehicles and parts, aircraft and parts, high-tech equipment, and energy—production declined in both April and May, though, on balance, at a slower pace than over the preceding five months. After having decreased about $\frac{1}{2}$ percent in April, the output of consumer goods edged up $\frac{1}{4}$ percent in May with gains in the production of nondurable consumer goods. The output of business equipment decreased about $1\frac{3}{4}$ percent, on average, in April and May after monthly declines that averaged roughly $2\frac{3}{4}$ percent in the first three months of the year. The declines in construction supplies continued apace, although the primary source of the fall in production has shifted from supplies more closely related to residential construction to those more closely related to nonresidential construction activity. Materials output contracted further in both April and May as pronounced declines in durable materials continued.

The available indicators of near-term manufacturing activity suggest a more moderate pace of production declines in coming months. Although the overall months' supply of inventories remains elevated, sharp production cutbacks late last year and so far this year have allowed producers to stem the rise in stocks relative to sales. Indeed, the diffusion index of three-month changes in months' supply in the staff's flow-of-goods system fell substantially over the past few months and now indicates that more industries have declining months' supply than have rising months' supply.

On the demand side, the ISM new orders diffusion index—a useful indicator of near-term factory activity—jumped 18 index points over the past three months and edged above 50 in May for the first time since November 2007. In addition, the three-month moving average of the staff's estimate of real adjusted durable goods orders increased in April for the first time since mid-2008. In contrast, despite their moving up from the cyclical lows

Indicators of Industrial Activity



reached earlier in the year, the various regional new orders diffusion indexes have, on average, remained below 50.

Motor Vehicles

Sales of light motor vehicles rose to an annual rate of 9.9 million units in May. Most major automakers, including GM, which declared bankruptcy on June 1, reported higher sales. Sales at Chrysler, which declared bankruptcy on April 30, moved sideways last month after plunging in April. (For more information on the bankruptcies, see the box “Recent Developments at Chrysler and General Motors” on II-12.) Higher sales to retail customers more than accounted for the increase in industry-wide sales in May.

Consumers’ assessments of car-buying conditions in the Reuters/University of Michigan Surveys of Consumers have improved markedly this year. In general, the improvement has coincided with a large decrease in the percent of survey respondents reporting that credit is tight; this percentage has dropped sharply from the highs of last fall and is now back at typical historical levels. In early June, respondents also mentioned lower prices and the availability of good deals as reasons for the favorable buying conditions.

Correspondingly, the average value of light vehicle incentives rose sharply at the end of last year and remained at a high level through early June. Both Chrysler and GM have boosted incentives in hopes of propping up sales during their stays in bankruptcy; Ford has also launched a generous incentive program in an attempt to snatch market share from its Detroit rivals.

Turning to light vehicle production, the latest industry schedules suggest that second-quarter assemblies are running at an annual rate of about 4½ million units—little changed from the historically low first-quarter rate—as the shutdowns at Chrysler and GM are being offset by modest increases in production at most other automakers. The pullback in production this year has reduced dealers’ stocks of domestic light vehicles to extremely low levels, and the days’ supply fell from a peak of 101 days in February to just 73 days at the end of May, quite close to the automakers’ preferred target of 65 days.

Looking ahead, initial industry schedules call for production to rise substantially in the third quarter to an annual rate of 7.1 million units. More than one-half of this large jump in schedules reflects the planned resumption of production at GM and Chrysler.

However, other companies—in particular, Ford and Toyota—are also planning significant production increases next quarter. Whether automakers will be able to ramp up production this rapidly is uncertain. Indeed, initial industry plans have tended to be overly optimistic in recent quarters.

Recent Developments at Chrysler and General Motors

On April 30, Chrysler filed for bankruptcy and immediately ceased production at all of its U.S. facilities. On June 9, the U.S. Supreme Court cleared the way for Fiat, an Italian automaker, to take a 20 percent stake in a “New Chrysler” composed of the company’s viable assets. The agreement with Fiat was signed on June 10. The other stakeholders are the United Auto Workers retiree healthcare trust fund (55 percent) and the U.S. and Canadian governments.

Chrysler received permission to close roughly 800 of its approximately 3,200 dealerships and to cut its production capacity 25 percent. Fiat will provide the production technology and engineering assistance needed to produce smaller, more fuel-efficient cars.

On June 1, GM filed for bankruptcy but did not shutter any of its production facilities. However, many of its plants were already scheduled to be closed through early July to trim bloated inventories.

Under current plans, the U.S. government will convert about \$40 billion of its anticipated \$50 billion in total loans into a 60 percent stake in a “New GM.” Smaller

shares will go to the Canadian government (12.5 percent), the UAW retiree healthcare trust fund (17.5 percent), and GM’s bondholders (10 percent). The latter two parties will also receive warrants.

GM plans to cut its domestic light vehicle production capacity from 3.2 million units to 2 million in 2010 and to 1.83 million in 2014. Thus far, 14 U.S. factories have been identified for closure by the end of 2010, including two assembly plants that will be shuttered and two that will be placed on “standby” should vehicle demand increase.

GM’s U.S. hourly employment will be reduced from about 61,000 in 2008 to 40,000 in 2010; salaried employment will also be reduced. The company’s dealer network will be cut to approximately 3,600 dealers by the end of 2010 from about 6,300 dealers today.

Finally, the number of GM’s U.S. brands will be cut in half, with the restructured company composed of Chevy, GMC, Buick, and Cadillac. GM plans to sell the Saturn, HUMMER, and Saab brands, but no deals have been finalized. The Pontiac brand will be wound down by the end of 2010.

Selected General Motors and Chrysler Characteristics

	Light vehicle sales ¹		Share of light vehicle production capacity ² (percent)	Total U.S. employment (thousands)	Number of U.S. dealerships, January 1, 2009 ³
	2008	May 2009			
General Motors	3.0	2.1	27.7	92	6,273
Chrysler	1.5	0.9	15.3	38	3,250
Memo: All companies	13.2	9.9	100.0	191	20,453

¹ Seasonally adjusted at an annual rate, millions of units.

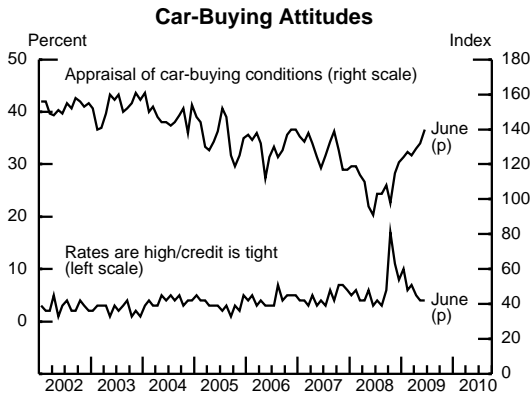
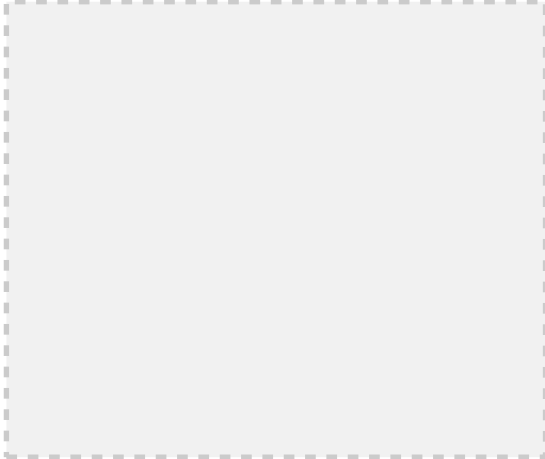
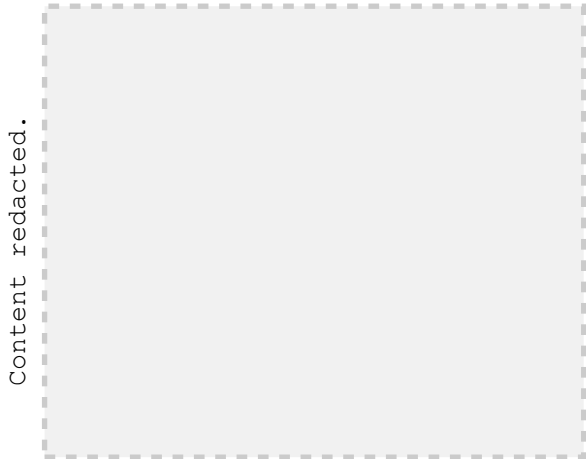
² FRB estimates, millions of units, 2009 model year.

³ Source: *Automotive News*.

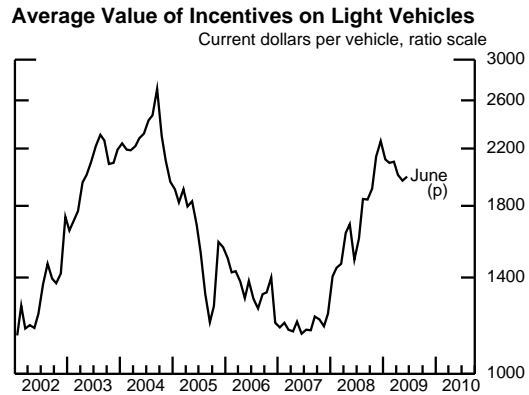
Sales of Light Vehicles
(Millions of units at an annual rate; FRB seasonals)

Category	2008	2008		2009			
		Q3	Q4	Q1	Mar.	Apr.	May
Total	13.1	12.9	10.3	9.5	9.8	9.3	9.9
Autos	6.7	6.6	5.2	4.8	5.1	4.8	5.0
Light trucks	6.4	6.3	5.1	4.7	4.7	4.5	4.9
North American ¹	9.8	9.7	7.7	6.8	7.1	6.9	7.4
Autos	4.5	4.4	3.6	3.0	3.3	3.2	3.3
Light trucks	5.3	5.3	4.1	3.7	3.8	3.7	4.1
Foreign-produced	3.3	3.2	2.6	2.7	2.8	2.4	2.5
Autos	2.2	2.2	1.7	1.7	1.8	1.6	1.7
Light trucks	1.1	1.0	.9	1.0	1.0	.8	.8
Memo: Detroit Three domestic market share (percent) ²	47.6	46.7	47.5	43.7	44.5	46.6	46.8

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.
 (p) Preliminary



Note: Seasonally adjusted weighted average of customer cash rebate and the present value of interest rate reduction. June figure is based on data through June 7.
 Source: J.D. Power and Associates.
 (p) Preliminary

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

Item	2008	2009			2009			
	Q4	Q1	Q2	Q3	Feb.	Mar.	Apr.	May
U.S. production ¹	7.1	4.4	4.4	7.1	4.6	4.9	4.9	4.2
Autos	3.3	1.7	1.9	3.2	1.7	2.0	1.9	1.8
Light trucks	3.7	2.8	2.5	3.9	2.9	2.9	3.0	2.4
Days' supply ²	98	93	n.a.	n.a.	101	89	87	73
Autos	98	94	n.a.	n.a.	101	86	86	77
Light trucks	99	92	n.a.	n.a.	101	91	89	70
Inventories ³	2.47	2.04	n.a.	n.a.	2.08	2.04	1.96	1.76
Autos	1.14	0.92	n.a.	n.a.	0.94	0.92	0.88	0.83
Light trucks	1.33	1.12	n.a.	n.a.	1.14	1.12	1.08	0.94
Memo: U.S. production, total motor vehicles ⁴	7.3	4.6	4.6	7.3	4.8	5.1	5.0	4.3

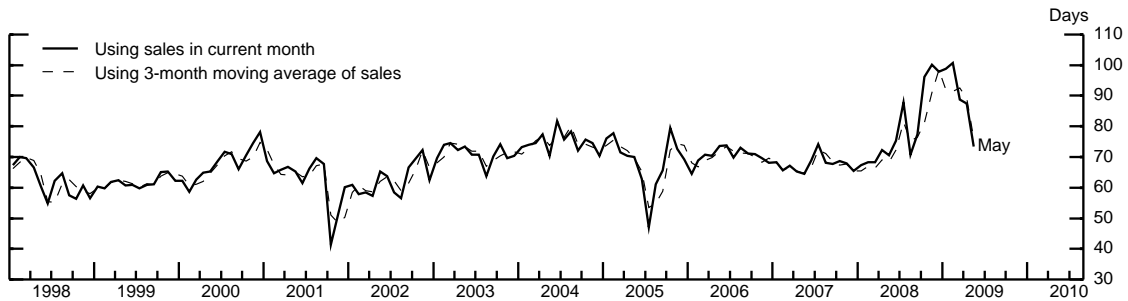
Note: FRB seasonals. Components may not sum to totals because of rounding.
 1. Production rates for the second and third quarters of 2009 reflect the latest industry schedules.
 2. Quarterly values are calculated with end-of-period stocks and average reported sales.
 3. End-of-period stocks.
 4. Includes medium and heavy trucks.
 n.a. Not available.
 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.

Consumer Spending

Real personal consumption expenditures (PCE) rose at an annual rate of 1½ percent in the first quarter after having fallen sharply in the second half of 2008, and spending has held reasonably steady so far in the second quarter. On the basis of the latest retail sales data, we estimate that real expenditures on goods other than motor vehicles rose 0.3 percent in May and have changed little, on net, since the turn of the year. Real outlays on services were reported to have risen 0.2 percent in April, a pickup from the average monthly gain seen over the first three months of the year.

The fundamental determinants of consumer demand appear to have improved a bit lately. Despite the ongoing decline in employment, real disposable personal income (DPI) rose at an annual rate of 6½ percent in the first quarter, and it posted another sizable gain in April as various provisions of the American Recovery and Reinvestment Act of 2009 (ARRA) boosted transfer payments and reduced personal taxes.⁴ In addition, equity prices have recorded substantial gains in recent weeks, thus offsetting a small portion of the prior wealth declines. Measures of consumer sentiment, while still at levels typically seen during recessions, have improved markedly from the historical lows recorded around the turn of the year.

Housing

On balance, the incoming data suggest that housing activity may have bottomed out. Single-family housing starts ticked up in May to an annual rate of 400,000 units after having moved roughly sideways at around 360,000 units between January and April. Moreover, adjusted permit issuance for single-family houses—a useful month-ahead indicator of starts—has been a little above the level of starts since January, which hints that further modest improvements in single-family activity may be in store for coming months. In contrast, activity in the much smaller multifamily sector has fallen significantly further this year after turning down in the second half of 2008. The contraction in multifamily construction over the past year has reflected a sharp deterioration in the fundamentals in that sector. In particular, credit availability for multifamily construction projects has tightened appreciably, and prices of apartment buildings have fallen sharply after a sizable net run-up over the preceding three years.

The steep decline in the demand for new single-family houses also seems to have abated. Sales of these homes have fluctuated in a narrow range around 350,000 units at an annual

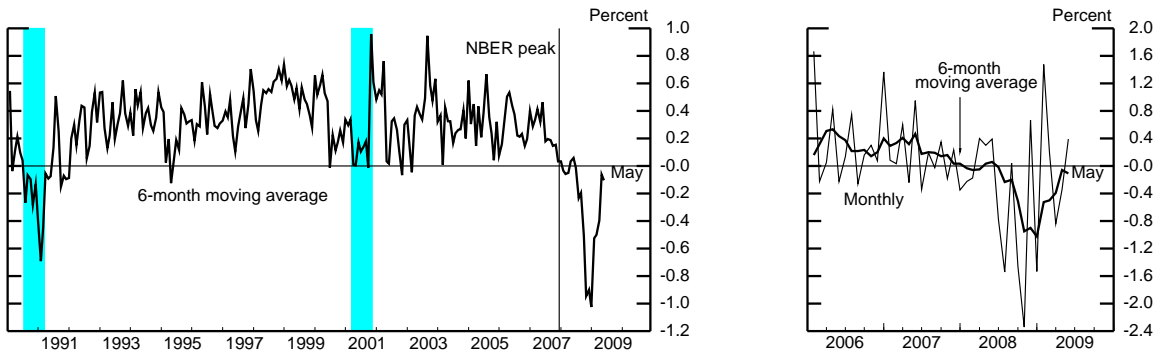
⁴ A large drop in personal income tax payments more than accounted for the increase in real DPI in the first quarter. The first-quarter drop in tax payments reflected both the low level of this spring's net final payments on 2008 liabilities—which the BEA spreads over the four quarters of this year in its estimates of personal tax payments—and the ongoing weakness in personal (pretax) income.

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

Category	2008	2008	2009	2009		
		Q4	Q1	Mar.	Apr.	May
		Annual rate		Monthly rate		
Total real PCE¹	.2	-4.3	1.6	-.3	.0	n.a.
Motor vehicles	-13.3	-37.9	19.1	.3	-1.3	1.3
Goods ex. motor vehicles	-.2	-10.2	.4	-1.0	-.2	.3
Ex. energy	.3	-12.2	-.4	-1.2	.0	.2
Services	1.5	1.5	1.3	.1	.2	n.a.
Ex. energy	1.6	.9	.7	.1	.2	n.a.
Memo: Nominal retail control ²	3.1	-21.2	-4.1	-1.1	-.2	.4

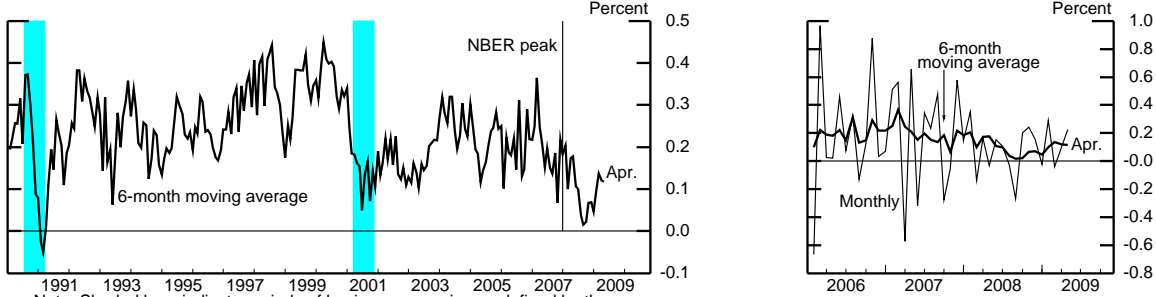
1. The values for Q1, March, April, and May are staff estimates based on available data.
 2. Total sales less outlays at building material and supply stores and automobile and other motor vehicle dealers.
 n.a. Not available.
 Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Change in Real PCE Goods



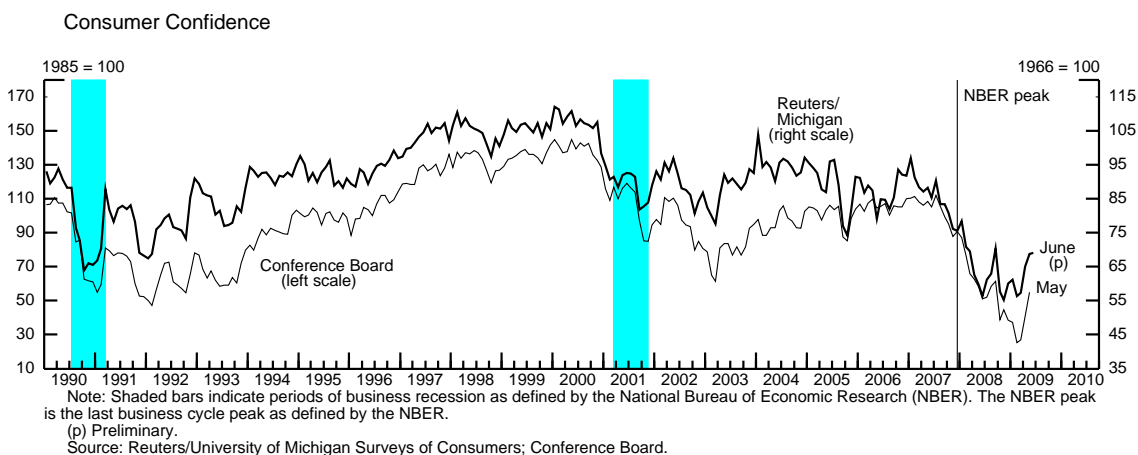
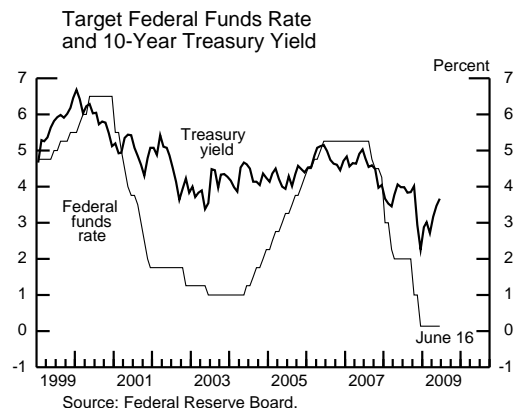
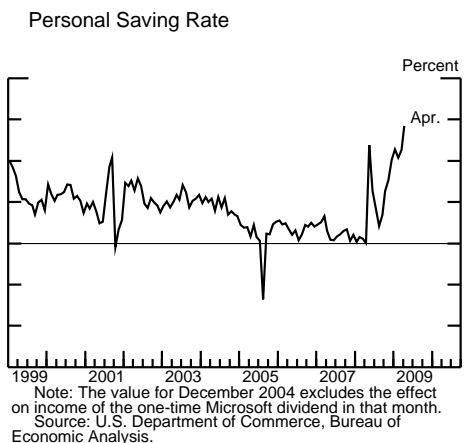
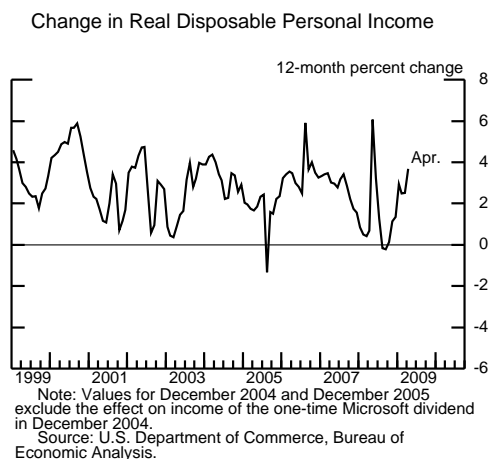
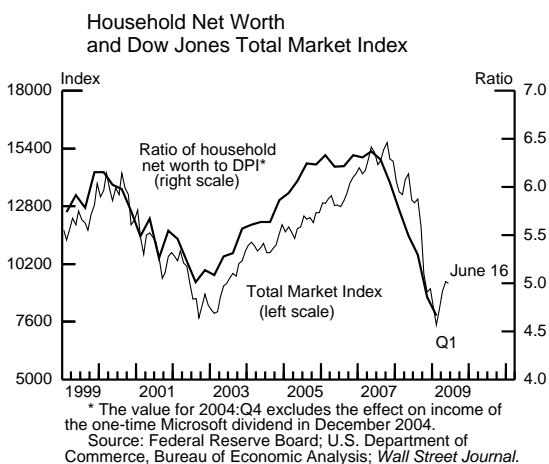
Note: Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER). The NBER peak is the last business cycle peak as defined by the NBER.
 Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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



Private Housing Activity

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

Sector	2008	2008		2009			
		Q3	Q4	Q1	Mar.	Apr.	May
<i>All units</i>							
Starts	.91	.87	.66	.53	.52	.45	.53
Permits	.91	.86	.64	.53	.51	.50	.52
<i>Single-family units</i>							
Starts	.62	.60	.46	.36	.36	.37	.40
Permits	.58	.55	.42	.36	.36	.38	.41
Adjusted permits ¹	.58	.57	.43	.37	.38	.38	.41
New homes							
Sales	.49	.46	.39	.35	.35	.35	n.a.
Months' supply ²	10.68	10.69	11.25	11.28	10.60	10.13	n.a.
Existing homes							
Sales	4.35	4.43	4.23	4.12	4.08	4.18	n.a.
Months' supply ²	9.98	9.57	9.80	9.70	9.56	9.26	n.a.
<i>Multifamily units</i>							
Starts	.284	.270	.197	.170	.160	.081	.131
Built for rent	.217	.213	.164	.140	n.a.	n.a.	n.a.
Built for sale	.068	.057	.033	.030	n.a.	n.a.	n.a.
Permits	.330	.311	.220	.170	.151	.120	.110
<i>Condos and co-ops</i>							
Existing home sales	.563	.573	.506	.467	.470	.500	n.a.

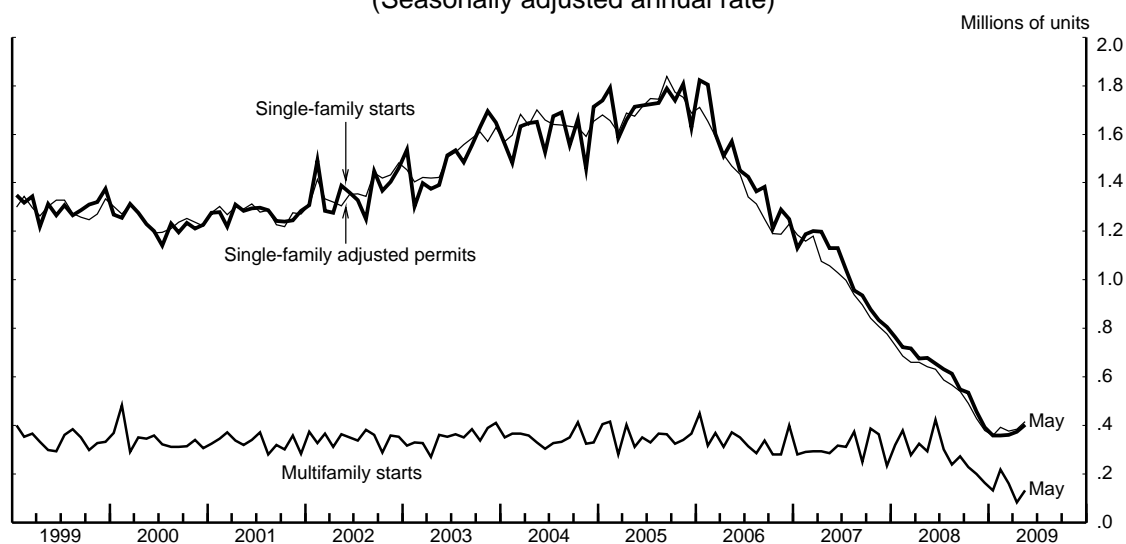
1. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.
2. At current sales rate; expressed as the ratio of seasonally adjusted inventories to seasonally adjusted sales. Quarterly and annual figures are averages of monthly figures.

n.a. Not available.

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.

rate since January,

. That said, the pace of new home sales is still very low, and the months' supply of new homes remains quite elevated relative to sales despite a decline in the stock of unsold new single-family homes to roughly one-half of its mid-2006 peak.

Sales of existing single-family homes have been fairly stable since late last year at a little more than 4 million units, and April's 6¾ percent jump in pending sales agreements signals that existing home sales may turn upward in the coming months. The relative stability of the resale market over this period has coincided with a heightened proportion of transactions involving bank-owned and other distressed properties. According to the National Association of Realtors (NAR), sales of distressed properties, which tend to occur at lower prices than sales of otherwise-identical houses, have accounted for about 45 percent of existing home sales so far this year—roughly double their share of sales in early 2008.⁵

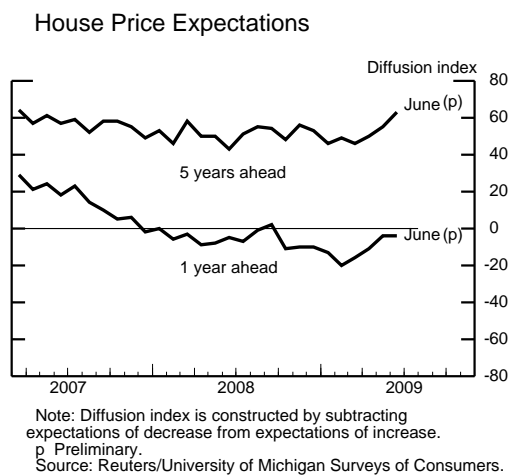
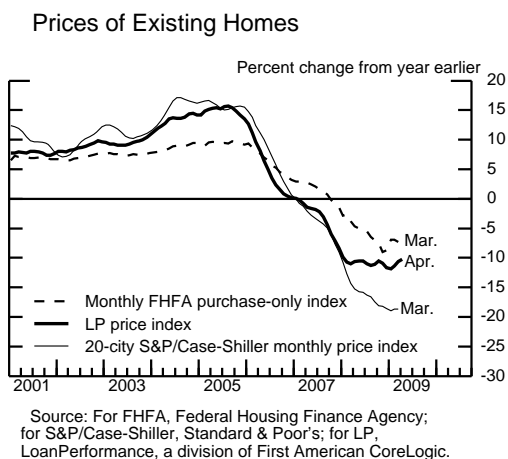
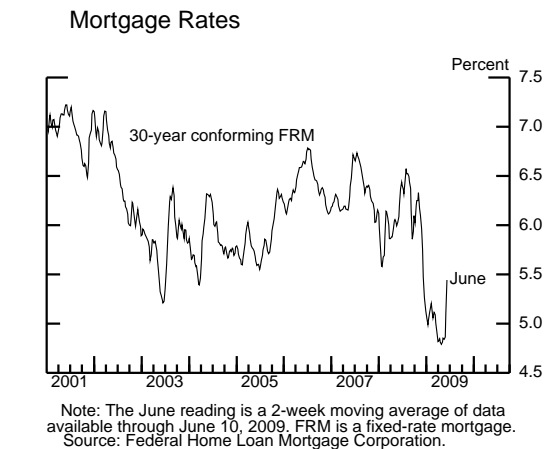
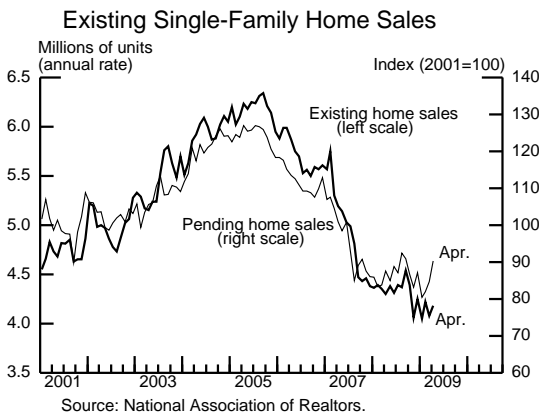
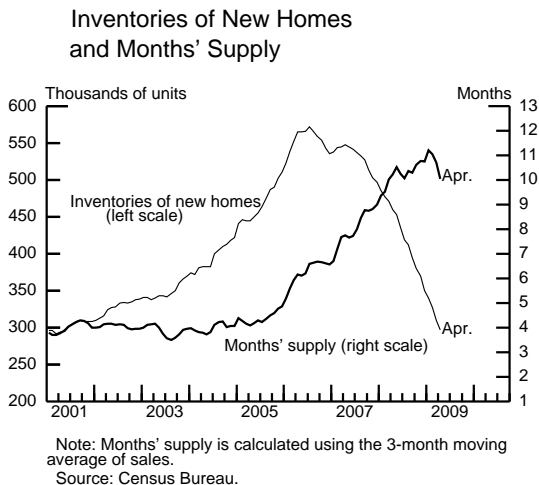
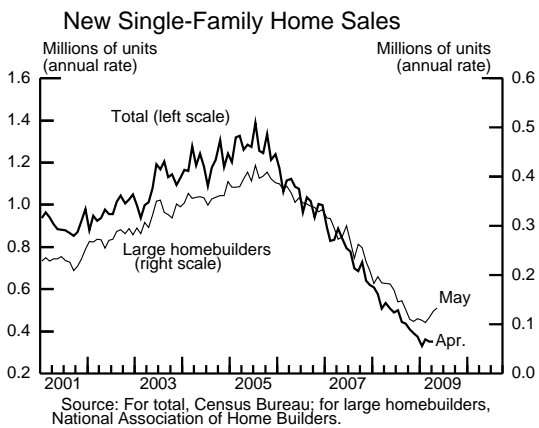
According to data from the Mortgage Bankers Association, foreclosure starts jumped to a record high of 1.3 percent of all mortgages in the first quarter of 2009. The upturn in foreclosure activity this year likely reflects the expiration of some of the moratoriums that had held down the initiation of foreclosure proceedings in the second half of 2008. Despite the step-up in foreclosures, the NAR's measure of the stock of existing homes for sale has continued to trend down (both in absolute terms and relative to sales) after having peaked in mid-2008. Even so, existing-home inventories remain very high relative to sales.⁶

The apparent stabilization in housing demand seen in recent months likely is due, in part, to the improvement in housing affordability that has resulted from low mortgage rates and declining house prices. Rates for conforming 30-year fixed-rate mortgages—currently around 5.6 percent—have risen about 80 basis points since late April but remain below the levels seen over most of 2008. Although the market for private-label nonprime mortgages remains closed, spreads between rates for jumbo and standard conforming loans have narrowed substantially in recent months (though they remain elevated relative

⁵ Although the data on existing home sales include only sales handled by real estate agents, many foreclosure-related sales are captured in these statistics because banks frequently hire real estate agents to sell repossessed properties.

⁶ The NAR measure of existing-home inventories may overstate the actual overhang because it includes many houses that are still occupied by owners and renters. Using Census data from the Housing Vacancy Survey, the staff estimates that there were about 1.75 million *vacant* single-family houses for sale in the first quarter, about 50 percent higher than the level that prevailed when home sales peaked in the summer of 2005.

Indicators of Single-Family Housing



to pre-crisis norms).⁷ Meanwhile, national house prices continue to head downward: The repeat-sales price index for existing single-family homes calculated by LoanPerformance fell 10¼ percent over the 12 months ending in April, roughly the same as the decrease over the preceding 12 months. Although these ongoing price declines continue to enhance affordability, they are probably also deterring some potential buyers worried about purchasing in a falling market: Evidence from the Reuters/Michigan survey and anecdotal reports suggest that many households still expect prices to fall in the coming year, though the share of such households appears to have shrunk in recent months.

Equipment and Software

Real investment in equipment and software (E&S) is continuing to contract sharply; however, the decline in the second quarter appears likely to be smaller than in the fourth quarter of 2008 and first quarter of 2009. Outlays on transportation equipment seem to be firming after an extended period of steep declines, and the incoming data point to some moderation in the rate of decrease in other major components of E&S.

With regard to transportation equipment, sales of medium and heavy trucks fell further, on net, in April and May, and the low level of orders in recent months—which reportedly reflects the ongoing contractions in construction activity and industrial production—points to continued near-term weakness in sales. However, declines in business outlays on light motor vehicles appear to have abated: Deliveries to rental car companies have been fluctuating in a narrow range since February, and demand from other businesses has been moving sideways—albeit at a very low level. In addition, the April figures on shipments of complete aircraft and international trade, taken together, suggest an increase in domestic purchases of aircraft.

Businesses apparently are continuing to cut their real outlays on high-tech equipment and software, although the incoming information provides differing signals on the speed of the decline. This is especially true in the computer sector: IP has continued to drop in recent months even as shipments from domestic producers have held fairly steady and imports have firmed a bit after plunging in the second half of last year. Shipments from producers of communications equipment fell in April to a level about 3 percent below their first-quarter average. Communications orders also decreased in April although they remained well above the lows seen at the start of the year.

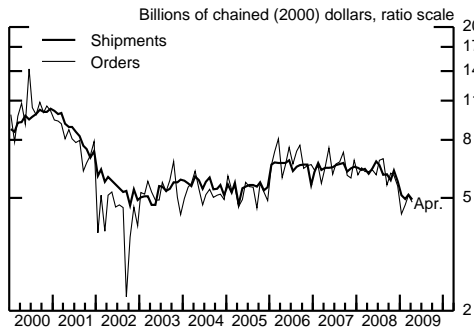
⁷ The FHA has offered an alternative source of mortgage financing for some higher-risk borrowers, but the FHA's relatively strict lending standards and higher costs suggest that such lending is likely to have replaced only a part of the reduction in credit from private sources.

Orders and Shipments of Nondefense Capital Goods
(Percent change; seasonally adjusted current dollars)

Category	2008	2009			
	Q4	Q1	Feb.	Mar.	Apr.
	Annual rate		Monthly rate		
Shipments	-19.8	-28.1	-3.3	-9	-2.4
Excluding aircraft	-15.5	-35.4	-.2	-1.7	-2.5
Computers and peripherals	-25.3	-.8	1.5	-2.8	-.9
Communications equipment	-16.6	-47.3	-3.7	3.0	-3.5
All other categories ¹	-14.4	-36.7	-.1	-1.9	-2.6
Orders	-49.9	-49.1	4.7	-1.0	-2.8
Excluding aircraft	-36.5	-44.2	4.1	-1.4	-2.4
Computers and peripherals	-20.8	-18.4	11.7	-4.6	-6.1
Communications equipment	-28.7	-58.7	7.0	7.8	-5.1
All other categories ¹	-38.4	-44.7	3.2	-1.9	-1.7
Memo: Shipments of complete aircraft ²	26.0	40.1	32.8	37.0	36.7

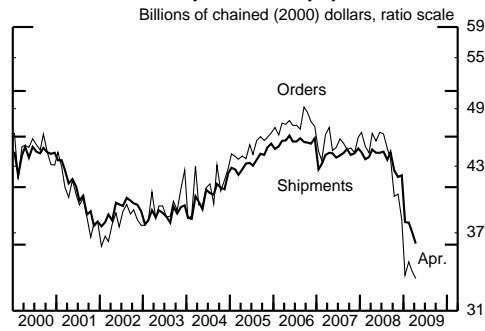
1. Excludes most terrestrial transportation equipment.
2. From Census Bureau, Current Industrial Reports; billions of dollars, annual rate.
Source: Census Bureau.

Communications Equipment



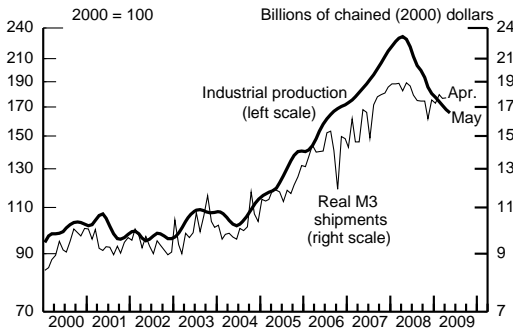
Note: Shipments and orders are deflated by a price index that is derived from the quality-adjusted price indexes of the Bureau of Economic Analysis and uses the producer price index for communications equipment for monthly interpolation.
Source: Census Bureau.

Non-High-Tech, Nontransportation Equipment



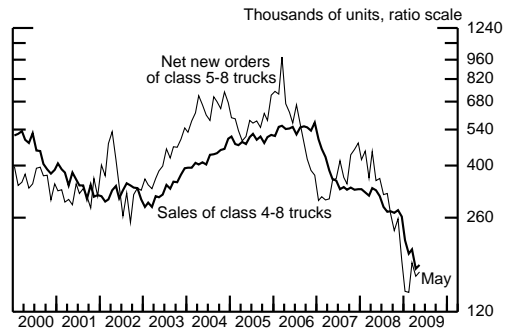
Note: Shipments and orders are deflated by the staff price indexes for the individual equipment types included in this category. Indexes are derived from the quality-adjusted price indexes of the Bureau of Economic Analysis.
Source: Census Bureau.

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.

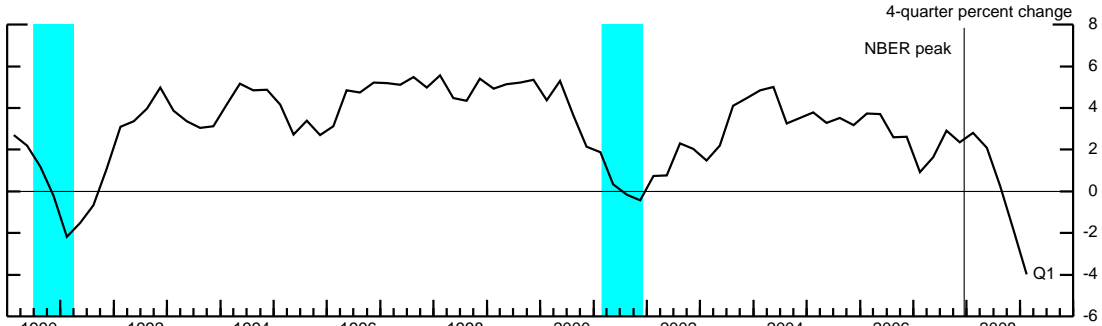
Medium and Heavy Trucks



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

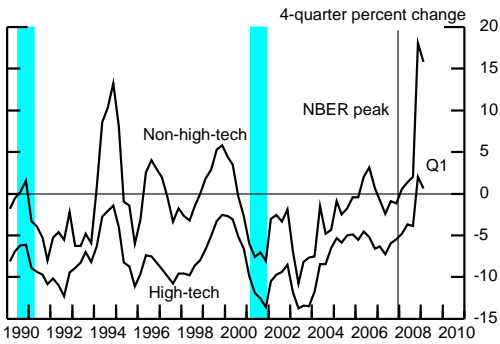
Fundamentals of Equipment and Software Investment

Real Business Output



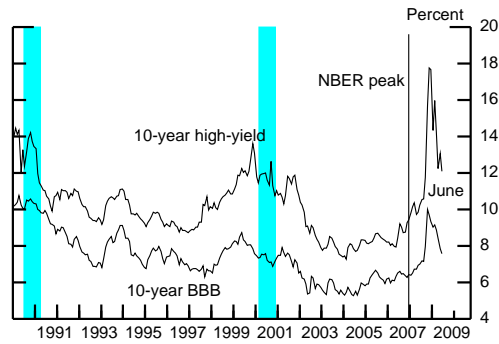
Note: Shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research (NBER). The NBER peak is the last business cycle peak as defined by the NBER.
 Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

User Cost of Capital



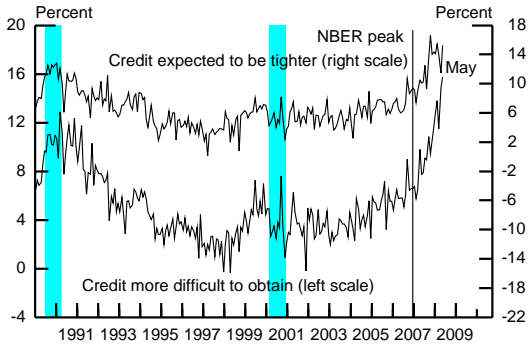
Source: Staff calculation.

Corporate Bond Yields



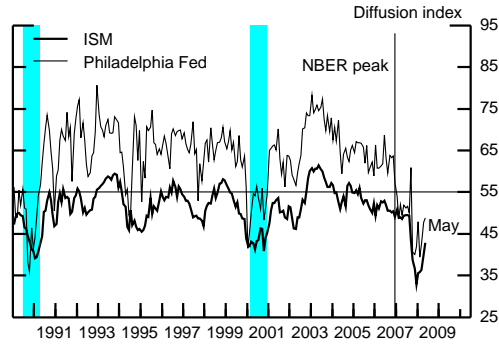
Note: End of month. June value as of June 16.
 Source: Merrill Lynch.

NFIB: Survey on Loan Availability



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

Surveys of Business Conditions

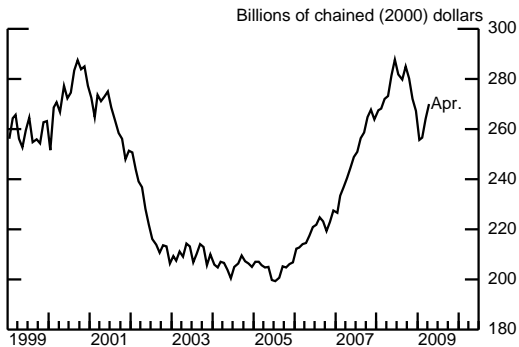


Source: Institute for Supply Management (ISM), Manufacturing ISM Report on Business; Philadelphia Fed Business Outlook Survey.

Nonresidential Construction and Indicators

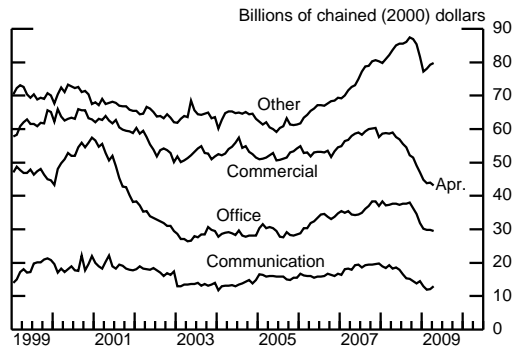
(All spending series are seasonally adjusted at an annual rate; nominal CIPPI deflated by BEA prices through Q4 and by staff projection thereafter)

Total Structures



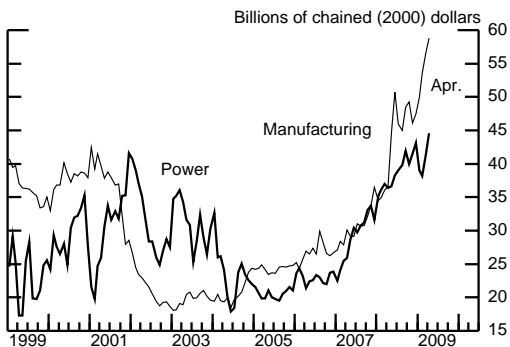
Source: Census Bureau.

Office, Commercial, Communication, and Other



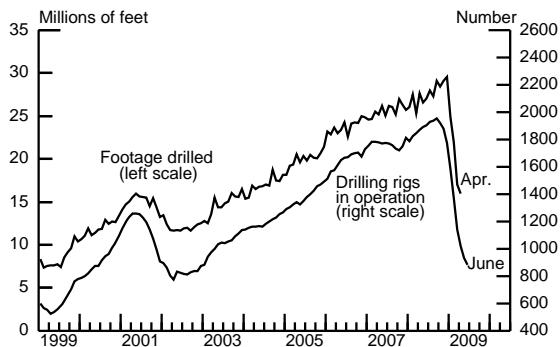
Note: Other consists of structures for religious organizations, education, lodging, amusement and recreation, transportation, and health care.
Source: Census Bureau.

Manufacturing and Power



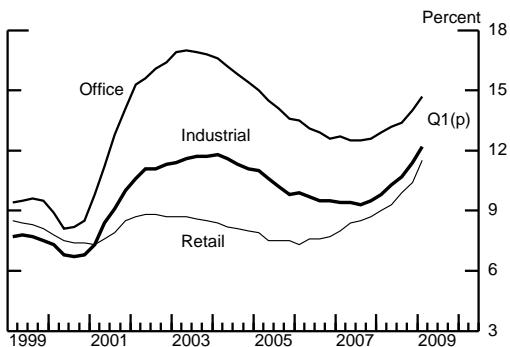
Source: Census Bureau.

Drilling and Mining Indicators



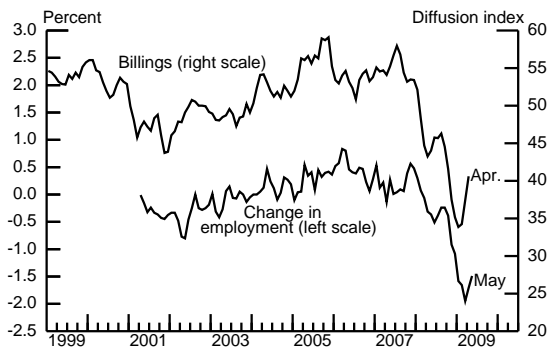
Note: The June readings for drilling rigs are based on data through June 12, 2009. Both series are seasonally adjusted by FRB staff.
Source: For footage drilled, U.S. Department of Energy, Energy Information Agency; for drilling rigs, Baker Hughes.

Vacancy Rates



Note: Industrial space includes both manufacturing structures and warehouses.
p Preliminary.
Source: Torfo Wheaton Research.

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.

Real spending on equipment outside of high-tech and transportation plummeted at an annual rate of 35 percent in the first quarter, with spending still dropping—though probably less steeply—in the current quarter. Shipments declined 2½ percent in April, and although new orders have changed little, on net, since January, they remained well below shipments for major subcategories such as construction equipment, industrial machinery, and metalworking machinery. Shrinking backlogs of unfilled orders for these types of equipment imply further downward pressure on shipments in coming months.

On balance, the fundamental determinants of equipment and software investment remain weak. Business output dropped sharply in the first quarter, and the user cost of capital is higher than it was a year ago. In addition, credit remains tight; in the May NFIB survey, the share of small businesses reporting increased difficulty obtaining credit was the highest on record. On a more positive note, corporate bond yields and spreads over Treasury securities—though still elevated—have eased considerably in recent weeks. In addition, monthly surveys of business conditions and sentiment have generally been less downbeat recently than earlier in the year, although the May update of the ISM semiannual forecast for 2009 indicated that only 8 percent of manufacturing firms surveyed, and 15 percent of nonmanufacturing firms, plan to increase capital expenditures this year.

Nonresidential Construction

The recent data from the Census Bureau suggest a substantial—and surprising—increase in outlays for nonresidential construction in March and April. This uptick was concentrated in energy-related sectors—namely, the petroleum refining subcomponent of manufacturing and all categories of power generation, transmission, and distribution.⁸ These energy-related sectors accounted for about 40 percent of nominal outlays on nonresidential buildings in April, up substantially from about 22 percent in 2006.

Outside the energy-related sectors, conditions for nonresidential building remain dismal: Vacancy rates ascended further in the first quarter, the architectural billings index remains at a level consistent with steep spending declines for the rest of the year (despite having turned up of late), and the nonresidential construction sector continues to shed workers. In addition, responses to the April Senior Loan Officer Opinion Survey on

⁸ Some of the recent strength in the energy-related sectors likely reflects the retooling of refineries to comply with more-stringent EPA regulations regarding the sulfur content of nonhighway diesel fuel, which are due to take effect in 2010. In addition, a number of refineries are being expanded and refitted to accommodate equipment needed to process heavy crude oil from Canada (although many of these projects reportedly have been delayed or canceled in recent months). Also, the construction of wind farms and other renewable energy generation facilities has stepped up, spurred, in part, by the relatively high cost of hydrocarbon fuels and a variety of tax incentives at the federal and state levels.

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

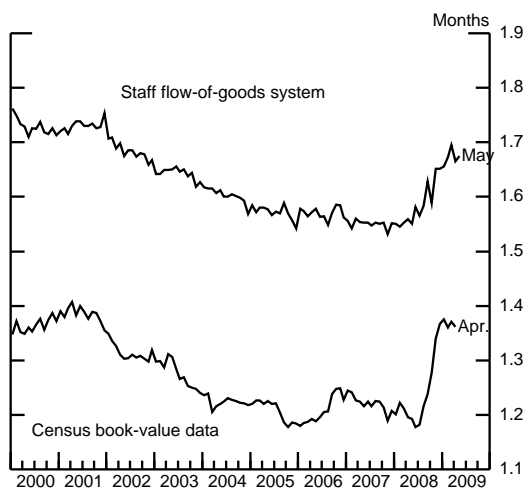
Measure and sector	2008		2009			
	Q3	Q4	Q1	Feb.	Mar.	Apr.
<i>Real inventory investment</i> (chained 2000 dollars)						
Total nonfarm business	-33.3	-31.1	-99.0	...	...	...
Motor vehicles	8.1	-7.1	-69.3	...	...	...
Nonfarm ex. motor vehicles	-41.3	-23.9	-29.8	...	...	...
Manufacturing and trade ex. wholesale and retail motor vehicles and parts						
Manufacturing	-25.6	-7	-11.8	-21.7	-17.8^e	n.a.
Wholesale trade ex. motor vehicles & parts	10.4	-1	-5.4	-5.5	-33.1 ^e	n.a.
Retail trade ex. motor vehicles & parts	-1.6	-19.1	-7.8	-7.4	-2.3 ^e	n.a.
<i>Book-value inventory investment</i> (current dollars)						
Manufacturing and trade ex. wholesale and retail motor vehicles and parts	34.6	-155.9	-143.2	-150.2	-155.3	-128.1
Manufacturing	10.7	-65.2	-77.3	-83.2	-75.1	-60.9
Wholesale trade ex. motor vehicles & parts	18.5	-55.7	-47.3	-48.5	-66.6	-47.8
Retail trade ex. motor vehicles & parts	5.5	-34.9	-18.6	-18.5	-13.6	-19.4

n.a. Not available.

... Not applicable.

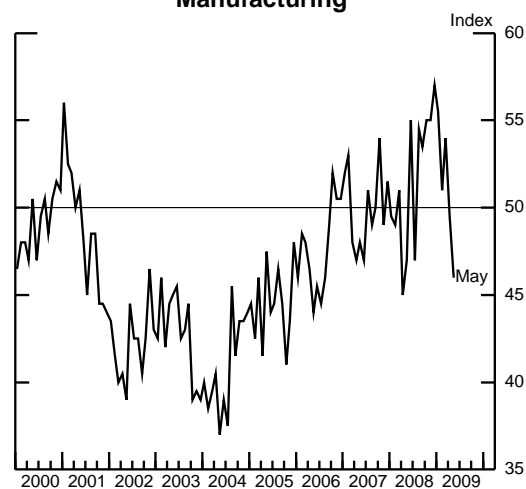
^e Staff estimate of real inventory investment based on revised book-value data.

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.

Bank Lending Practices and reports in the latest Beige Book suggest that financing for new projects is becoming even more difficult to obtain, and Call Report data show that banks are paring back their portfolios of nonresidential construction loans.

Real spending on drilling and mining structures plummeted at an annual rate of nearly 80 percent in the first quarter, and continued sharp declines in footage drilled and the number of drilling rigs in operation point to another substantial decline in spending in the current quarter. Many factors appear to have discouraged exploration activity, including the steep slide in natural gas and crude oil prices through the end of last year and an apparent glut of new natural gas supplies from recently discovered fields in northern Louisiana and elsewhere.

Business Inventories

The sharp cuts in production so far this year are helping to reduce the level of inventories, though overhangs remain substantial. Real nonfarm inventories excluding motor vehicles fell at an annual rate of about \$30 billion in the first quarter, and the book-value data for the manufacturing and trade sector in April suggest that liquidation continued apace early in the second quarter.⁹ Nonetheless, the ratio of book-value inventories to sales (excluding motor vehicles) is still quite high. And while the staff's flow-of-goods inventory system also suggests that inventories have receded, months' supply for most major market groups (excluding motor vehicles and parts) remained elevated in May. On the bright side, fewer than one-half of the supply managers surveyed by the ISM in April and May viewed their customers' inventory positions as too high.

Federal Government Sector

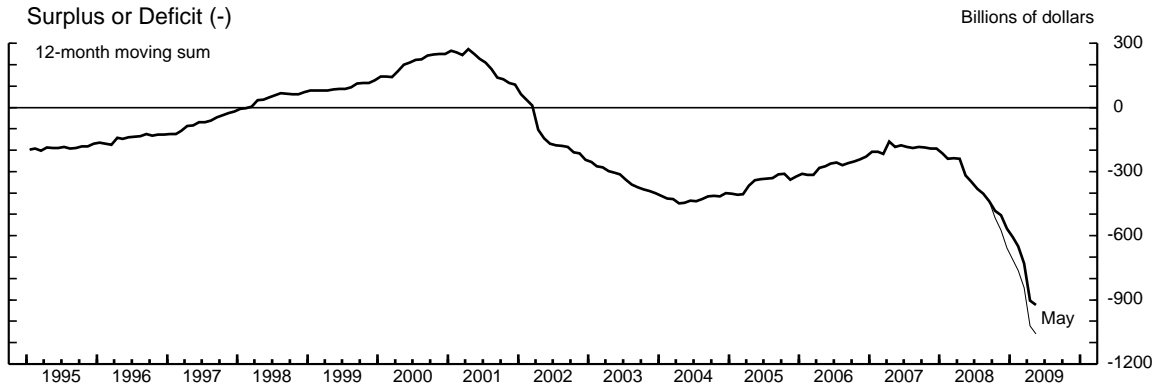
The cumulative deficit in the federal unified budget has widened further in recent months as a result of the continued weak pace of economic activity and the budget costs associated with the Troubled Asset Relief Program (TARP) and the American Recovery and Reinvestment Act of 2009 (ARRA).¹⁰ The deficit for the 12 months ending in May totaled \$1.13 trillion, \$800 billion more than in the previous 12 months.

Total federal revenues in April and May decreased more than 27 percent relative to the same year-earlier period, reflecting weak gains in nominal personal income, a likely drop

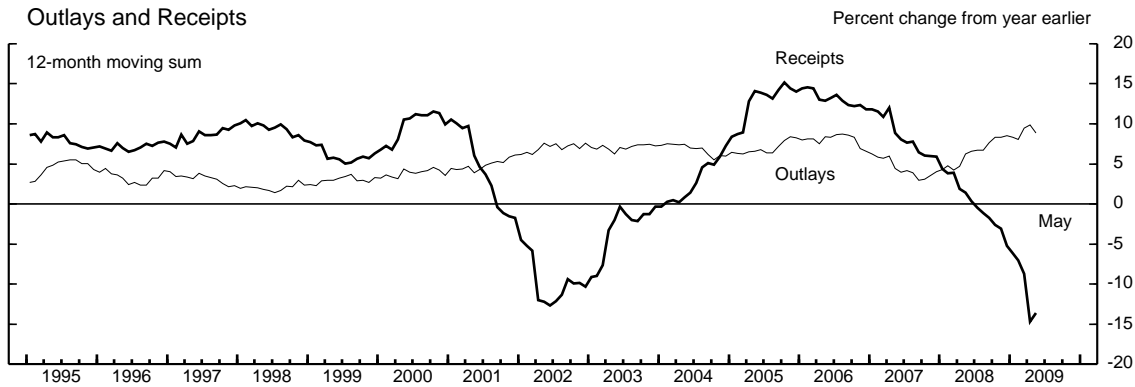
⁹ In all, real nonfarm inventories fell at an annual rate of about \$100 billion in the first quarter, but about two-thirds of the liquidation was in the motor vehicle sector.

¹⁰ In the Monthly Treasury Statement for April, the Administration changed the budget accounting for outlays associated with the TARP, putting all of them on a net-present-value basis, taking into account assumptions about market risk. Previously, equity purchases under this program were recorded on a cash-flow basis in the monthly budget data, while loans and debt-related activities were accounted for on a present-value basis.

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 April-May			12 months ending in May		
	2008	2009	Percent change	2008	2009	Percent change
Outlays						
Outlays	514.9	565.9	9.9	2,891.0	3,147.4	8.9
Net interest	38.4	37.7	-1.8	245.9	216.7	-11.9
National defense	101.9	107.1	5.1	600.2	653.0	8.8
Major transfers ¹	298.9	338.2	13.2	1,599.1	1,795.0	12.3
Other	75.7	82.8	9.4	445.8	482.6	8.3
Receipts						
Receipts	528.0	383.5	-27.4	2,572.8	2,223.0	-13.6
Individual income and payroll taxes	425.4	320.9	-24.6	2,009.5	1,821.2	-9.4
Corporate income taxes	48.7	13.1	-73.0	337.5	195.5	-42.1
Other	53.9	49.4	-8.2	225.9	206.2	-8.7
Surplus or deficit (-)						
Surplus or deficit (-)	13.1	-182.5	...	-318.1	-924.4	...
Memo:						
Unadjusted surplus or deficit (-)	-6.6	-210.6	...	-332.5	-1,127.3	...

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

in capital gains realizations in 2008, and declines in corporate profits. In particular, final payments on individual tax liabilities for 2008—which are usually a large share of tax receipts in April and May—declined sharply relative to their level of a year earlier. Meanwhile, withheld tax payments in April and May were reduced approximately \$5 billion per month by the “Making Work Pay” tax credit provision in the ARRA. Finally, corporate tax payments in April, which mostly represent firms’ first quarterly payments on expected 2009 tax liabilities, were substantially below payments in April 2008.

Federal outlays—excluding financial transactions such as those related to the TARP—increased 10 percent in April and May compared with the same year-earlier period. Spending associated with a number of provisions in the ARRA is estimated to have increased federal outlays about \$38 billion in April and May relative to a year earlier. Continued weak economic conditions contributed to higher spending for low-income support programs, such as unemployment insurance benefits, while outlays for defense, federal health programs, and Social Security were also higher than a year earlier. In contrast, net interest payments declined slightly compared with the same year-earlier period, as the reduction in Treasury interest rates more than offset the rise in Treasury debt.

A supplemental spending bill of \$106 billion was passed by the House on June 16 and is awaiting final action by the Senate. The bill provides funding for the wars in Iraq and Afghanistan, foreign aid, disaster relief, and other items.

State and Local Government Sector

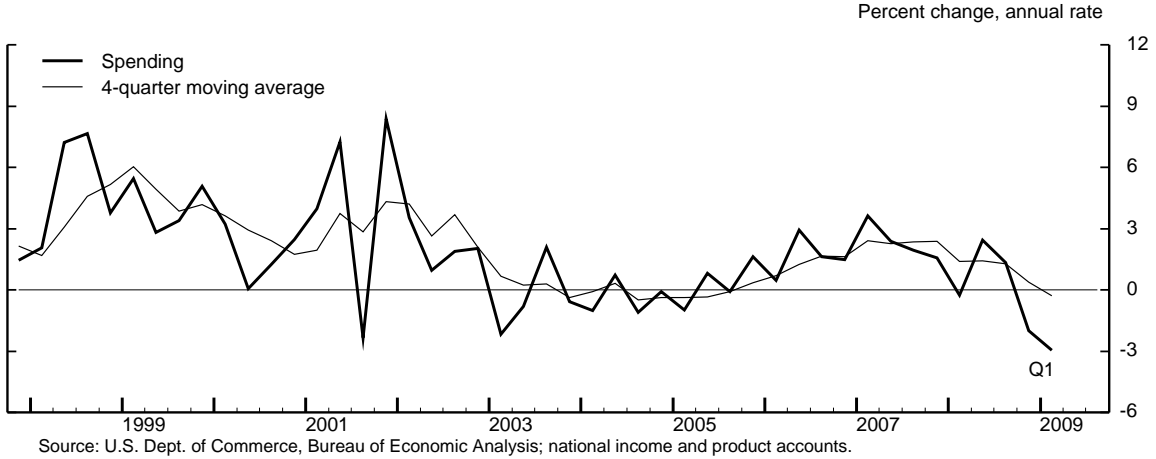
Real spending by state and local governments has remained weak. Employment in the sector rose only 7,000 per month, on average, in April and May after declining 6,000 per month, on average, in the first quarter of this year. Based on data through April, construction spending appears to have rebounded somewhat after having fallen steeply in late 2008 and early 2009. However, we are cautious about attaching too much significance to the improvement given the volatility of the data and the deteriorating fiscal condition of the sector.¹¹

New reports from the National Conference of State Legislators and the National Association of State Budget Officers (NASBO) point to a significant intensification of pressures on state and local budgets. Importantly, for the first 10 months of fiscal year

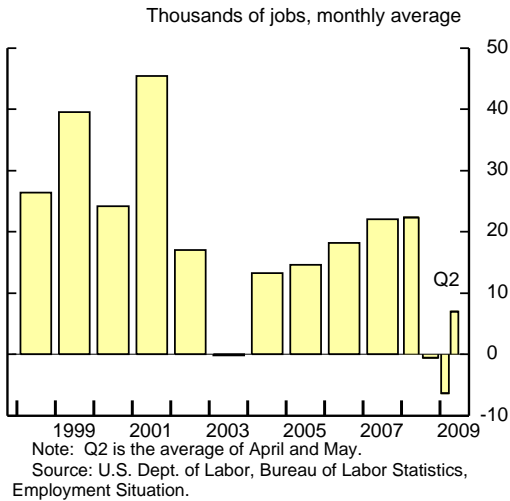
¹¹ As expected, only a small portion of the funds targeted at infrastructure spending in the ARRA has been spent to date. For example, the Department of Transportation reports that, as of June 5, 2009, only \$175 million in transportation infrastructure stimulus funds had been spent.

State and Local Indicators

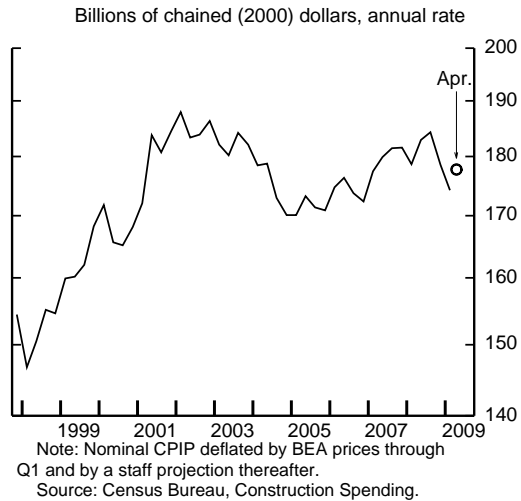
Real Spending on Consumption & Investment



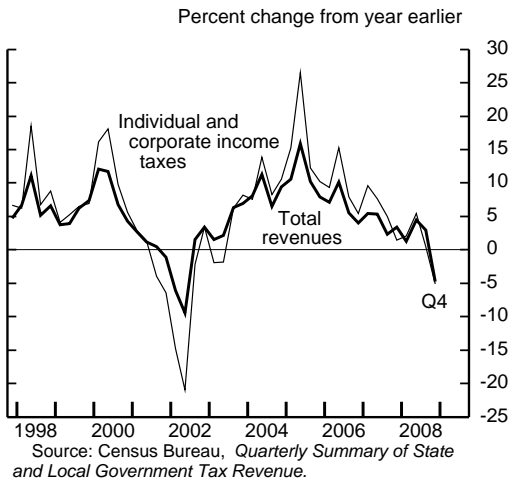
Net Change in Employment



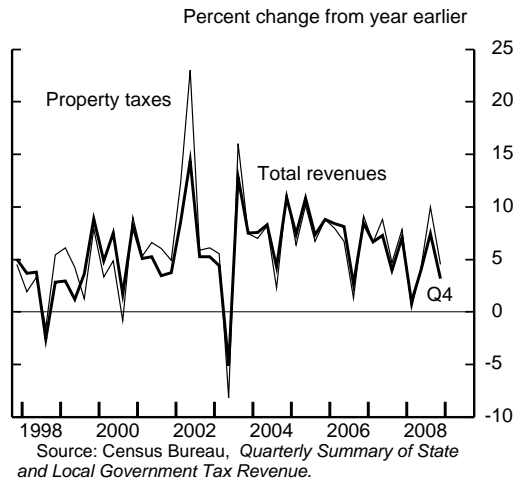
Real Construction



State Revenues



Local Revenues



2009 (which ends on June 30 in most states), 29 states reported that collections for all major tax sources came in below year-earlier levels, while 21 states indicated that personal tax collections had fallen more than 10 percent. States have made some adjustments to spending to counter the shortfalls in revenue, but many are still dealing with significant gaps in their general fund budgets for fiscal 2009; they expect conditions to remain bleak in fiscal 2010 as well.¹² California, for example, faces a budget shortfall of \$24 billion—equal to roughly 25 percent of its annual general fund revenues—through the end of fiscal 2010 despite the enactment of \$40 billion of deficit-reducing measures last February.

Prices

Headline consumer prices turned back up early this year after having been pushed down by the plunge in energy prices in late 2008. Core inflation also picked up in the first two months of this year following the unusually low readings seen in the last part of 2008; over the past three months, however, core prices have posted smaller increases outside of a tax-induced jump in tobacco prices that boosted the readings for March and April. Based on our translation of the consumer price index (CPI) and producer price index (PPI), we estimate that total and core PCE prices both edged up 0.1 percent in May. Taking a somewhat longer perspective, the 12-month change in total PCE prices was 0.1 percent in May, 3½ percentage points lower than a year ago, while core PCE inflation was 1.8 percent, down 0.4 percentage point from its year-earlier pace. Meanwhile, survey measures of long-run inflation expectations have remained in the range that has prevailed over the past few years.

We estimate that consumer energy prices rose 0.3 percent in May after posting a 2.4 percent decline in the previous month. Retail gasoline prices rose 3 percent in May, but this increase was partly offset by a 5¾ percent drop in natural gas prices. Survey data point to a much larger jump in gasoline prices so far in June; nonetheless, the rise in retail gasoline prices has not kept pace with the upturn in crude oil prices over the past several months as gasoline margins have been squeezed. Meanwhile, residential natural gas prices have tumbled as inventories have risen to unseasonably high levels.

Continued pass-through of last autumn's sharp drop in livestock and crop prices, combined with weakness in consumer demand for food, has contributed to a leveling out in retail food prices this year after a sizable increase in 2008. In recent weeks, production uncertainty arising from unusually wet weather in major growing regions has made farm

¹² According to NASBO's tabulations, governors' budget proposals for fiscal 2010 include a net increase of \$24 billion in taxes and fees as well as continued restraint on spending.

Price Measures
(Percent change)

Measures	12-month change		3-month change		1-month change	
	May 2008	May 2009	Annual rate		Monthly rate	
			Feb. 2009	May 2009	Apr. 2009	May 2009
<i>CPI</i>						
Total	4.2	-1.3	-0.5	-0.2	0.0	0.1
Food	5.1	2.7	.0	-2.2	-.2	-.2
Energy	17.4	-27.3	-17.4	-18.9	-2.4	.2
Ex. food and energy	2.3	1.8	1.5	2.3	.3	.1
Core goods	.1	1.2	1.2	4.4	.5	.2
Core services	3.2	2.1	1.6	1.5	.2	.1
Shelter	2.6	1.5	.6	1.1	.2	.1
Other services	4.0	2.9	2.7	1.7	.1	.1
Memo: core ex. tobacco	2.3	1.6	1.4	1.5	.2	.1
Chained CPI (n.s.a.) ¹	3.6	-1.4	...	...	...	...
Ex. food and energy ¹	2.0	1.4	...	...	...	...
<i>PCE prices</i> ²						
Total	3.5	.1	.3	.5	.1	.1
Food and beverages	4.9	3.4	.6	-1.6	-.2	-.2
Energy	17.5	-27.9	-18.4	-19.2	-2.4	.3
Ex. food and energy	2.2	1.8	1.6	2.3	.3	.1
Core goods	-.2	1.7	1.6	4.5	.5	.1
Core services	3.2	1.9	1.5	1.5	.2	.2
Housing services	2.7	2.0	1.4	1.7	.2	.1
Other services	3.4	1.9	1.6	1.4	.2	.2
Memo: core ex. tobacco	2.2	1.5	1.5	1.3	.1	.1
Core market-based	1.9	1.9	1.7	2.4	.3	.1
Core non-market-based	3.9	1.5	1.3	1.6	.2	.2
<i>PPI</i>						
Total finished goods	7.3	-5.0	-3.4	-2.5	.3	.2
Food	6.5	-2.1	-10.4	-3.2	1.5	-1.6
Energy	20.3	-27.3	-16.7	-10.6	-.1	2.9
Ex. food and energy	3.0	3.0	3.1	.0	.1	-.1
Core consumer goods	3.4	3.5	3.4	1.1	.2	-.1
Capital equipment	2.4	2.4	2.6	-1.5	-.1	-.1
Intermediate materials	12.7	-12.5	-18.6	-6.6	-.5	.3
Ex. food and energy	7.5	-5.5	-14.0	-5.6	-.9	-.2
Crude materials	40.9	-41.1	-42.6	27.9	3.0	3.6
Ex. food and energy	31.7	-36.8	-1.1	18.5	-.6	6.7

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

2. PCE prices in May 2009 are staff estimates.

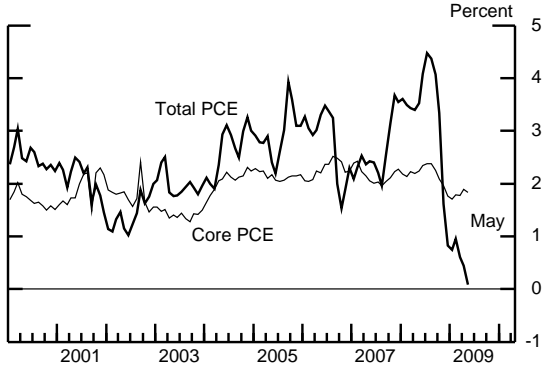
... Not applicable.

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

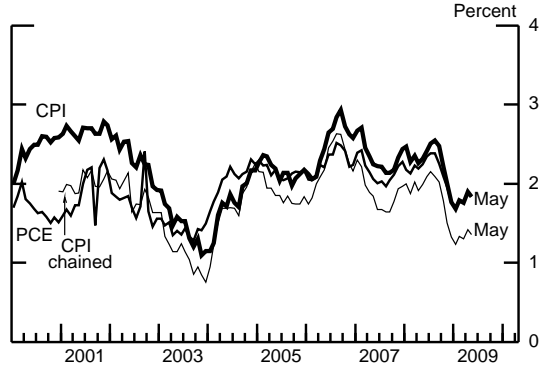
(12-month change except as noted; PCE prices in May are staff estimates)

PCE Prices



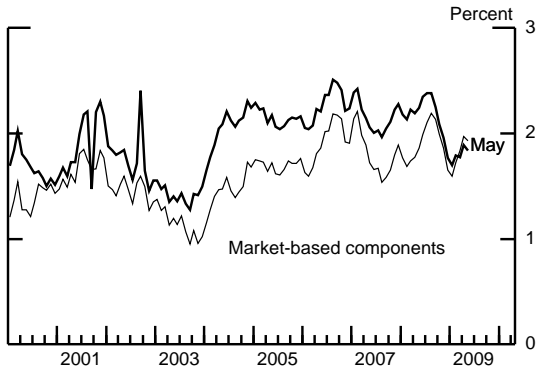
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

CPI and PCE ex. Food and Energy



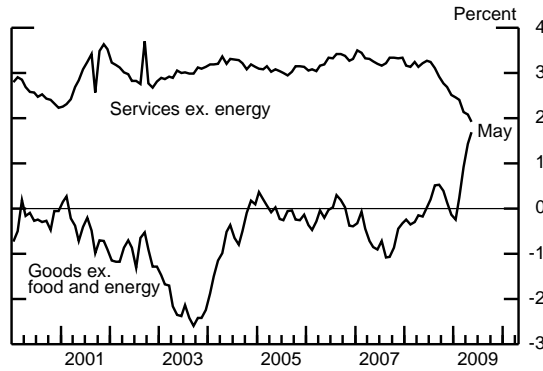
Source: For CPI, U.S. Dept. of Labor, Bureau of Labor Statistics; for PCE, U.S. Dept. of Commerce, Bureau of Economic Analysis.

PCE excluding Food and Energy



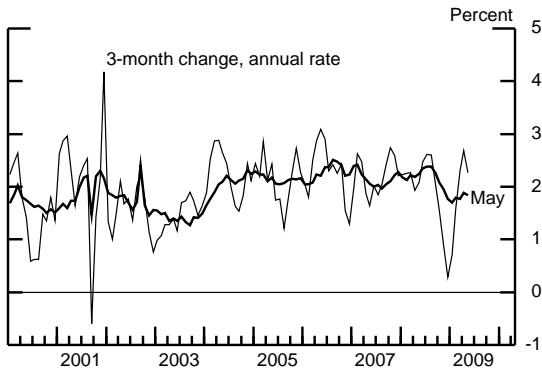
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

PCE Goods and Services



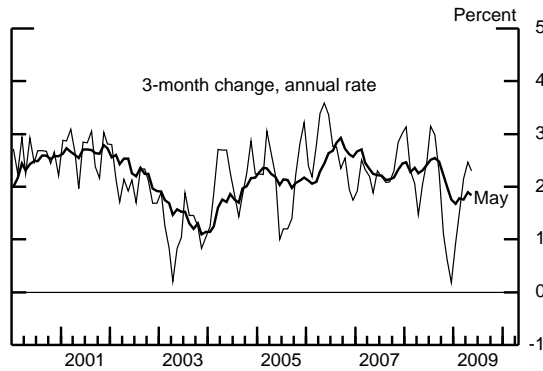
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

PCE excluding Food and Energy



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

CPI excluding Food and Energy

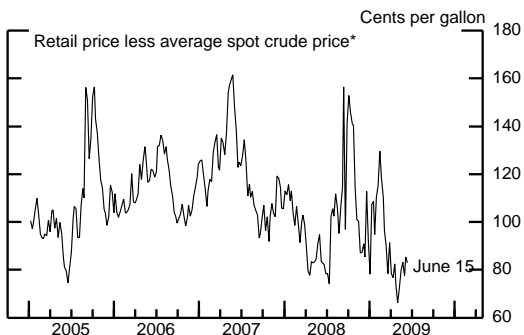


Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

Energy and Food Price Indicators

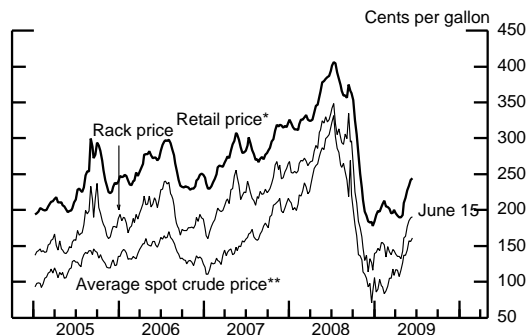
(Data from U.S. Department of Energy, Energy Information Administration, except as noted)

Total Gasoline Margin



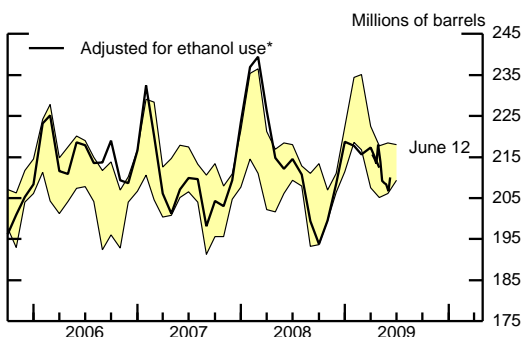
* Regular grade seasonally adjusted by FRB staff, less average spot crude price: 60% West Texas intermediate, 40% Maya heavy crude. Includes gasoline taxes.

Gasoline Price Decomposition



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

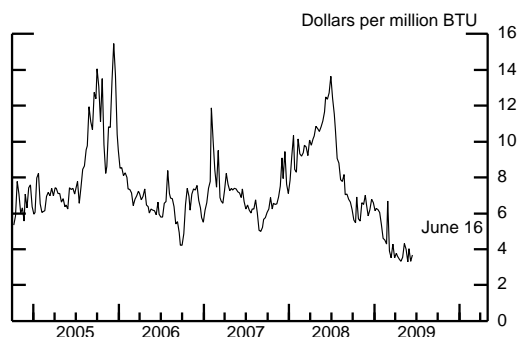
Gasoline Inventories



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

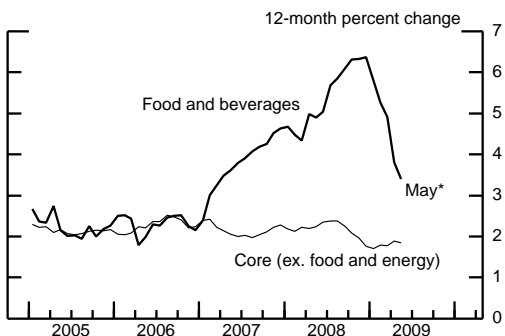
* The RBOB component of total motor gasoline inventories is adjusted for ethanol use after 2006, boosting reported stocks; estimated by FRB staff.

Natural Gas Prices



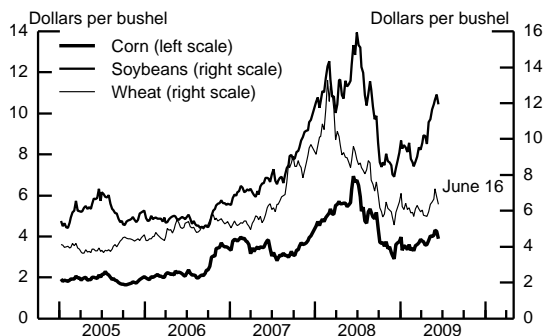
Note: National average spot price.
Source: Bloomberg.

PCE: Food and Core Prices



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

Spot Agricultural Commodity Prices



Source: Commodity Research Bureau.

prices quite volatile; on net, however, prices have risen only marginally since the April Greenbook and remain significantly below their 2008 peaks.

We estimate that PCE prices excluding food and energy rose at an annual rate of 2.3 percent over the three months ending in May. This rise in core prices was boosted significantly by back-to-back increases in prices of tobacco products in March and April.¹³ Excluding the increases in prices of tobacco products, the three-month change in core PCE prices was 1.3 percent in May, and the 12-month change was 1.5 percent.¹⁴

After jumping to 2.8 percent in April, median near-term inflation expectations in the Reuters/Michigan survey remained at that level in May and then rose to 3.1 percent in the preliminary June survey. So far, measures of long-term inflation expectations have shown no sign of moving lower despite the considerable margin of labor- and product-market slack present in the economy: The median expectation for inflation over the next 5 to 10 years from the Reuters/Michigan survey in early June was 3.1 percent, about the same as its average over 2008. In addition, median long-term expected inflation from the Survey of Professional Forecasters edged up 0.1 percentage point in the second quarter.

At earlier stages of processing, the PPI for core intermediate materials continued to decline through May, albeit at a slower pace than that seen at the end of last year. Commodity prices, which had moved higher over the first four months of 2009, have risen more sharply since the April Greenbook: Both the *Journal of Commerce* index of industrial material prices and the CRB index of spot industrial prices posted double-digit increases over this period. Nevertheless, these prices remain much lower than their year-earlier levels.

Labor Costs

The incoming data on labor costs have been mixed. Hourly compensation in the nonfarm business sector as measured in the Productivity and Costs (P&C) release rose at an annual rate of 4½ percent in the first quarter and posted an increase of 4 percent over the year ending in the first quarter, similar to the average pace seen over the preceding several

¹³ Retail prices of tobacco products rose in March in anticipation of the April 1 increase in the federal tobacco tax, and they increased further in April after the tax went into effect. In total, the increase in prices of tobacco products appears to have been larger than the tax increase.

¹⁴ With the jump in prices of tobacco products, the 12-month change in core market-based PCE prices, at an estimated 1.9 percent in May, was unchanged from a year earlier, whereas the core CPI decelerated 0.5 percentage point over this period. This difference stems largely from a deceleration in shelter costs over the past year: Because housing services receive a larger weight in the CPI, a deceleration in these prices has a relatively larger effect on CPI inflation.

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

Measure	2006	2007	2008	2009
<i>Product prices</i>				
GDP price index	3.4	2.9	2.3	2.1
Less food and energy	3.2	2.9	2.0	1.7
Nonfarm business chain price index	3.4	2.5	1.7	2.2
<i>Expenditure prices</i>				
Gross domestic purchases price index	3.8	2.7	3.3	.9
Less food and energy	3.0	2.8	2.1	1.9
PCE price index	3.1	2.3	3.5	.8
Less food and energy	2.1	2.3	2.2	1.8
PCE price index, market-based components	2.9	2.1	3.4	.5
Less food and energy	1.6	2.1	1.7	1.7
CPI	3.7	2.4	4.2	-.2
Less food and energy	2.1	2.6	2.4	1.7
Chained CPI	3.2	2.2	3.7	-.5
Less food and energy	1.9	2.2	2.0	1.3
Median CPI	2.5	3.2	3.0	2.7
Trimmed mean CPI	2.6	2.7	2.8	2.5
Trimmed mean PCE	2.5	2.8	2.6	2.3

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: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	.0	2.4	2.0	3.3	2.9	2.4	2.2
Q2	n.a.	3.4	2.9	3.2	2.9	2.5	2.3
2009:Feb.	.2	2.3	1.9	3.5	3.1	2.4	2.2
Mar.	-.4	2.4	2.0	2.9	2.6	...	...
Apr.	-.7	3.1	2.8	3.1	2.8	...	...
May	-1.3	3.2	2.8	3.1	2.9	2.5	2.3
June(p)	n.a.	3.8	3.1	3.4	3.1	...	...

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.

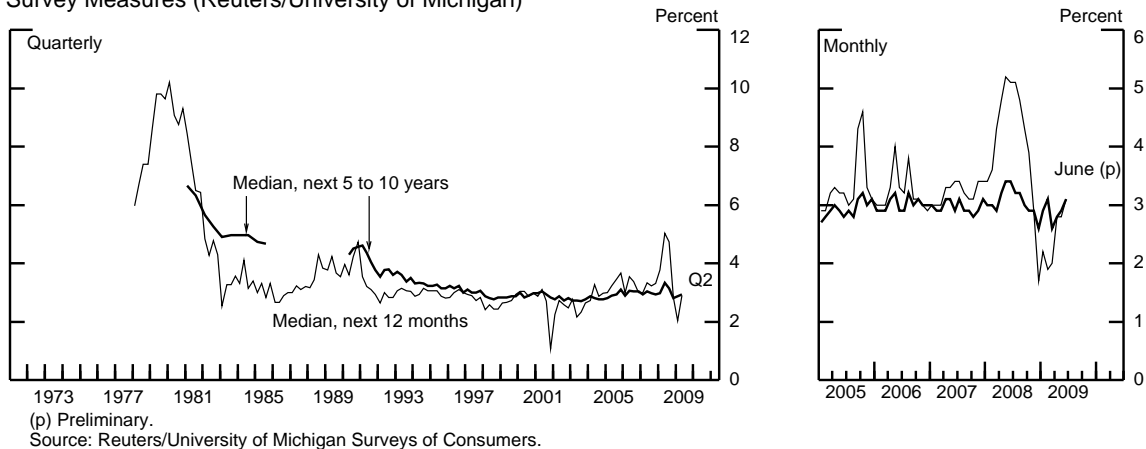
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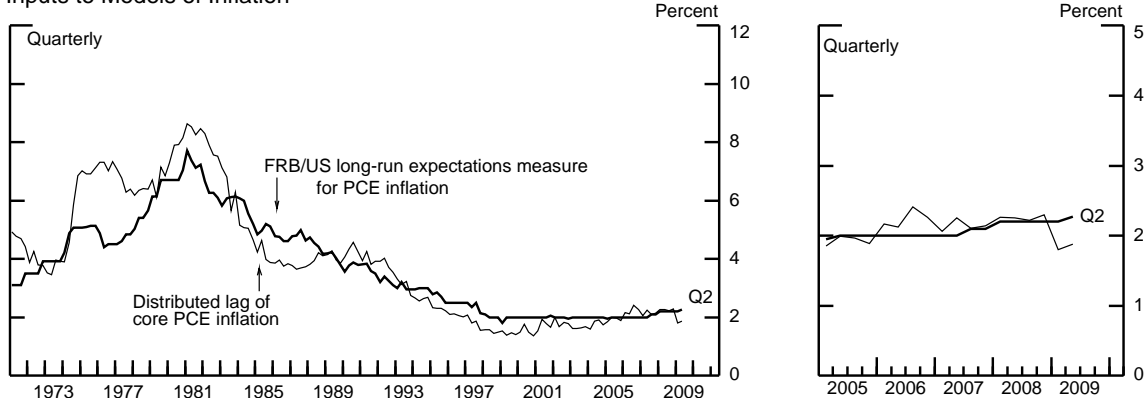
Source: For CPI, U.S. Dept. of Labor, Bureau of Labor Statistics; for Reuters/Michigan Survey, Reuters/University of Michigan Surveys of Consumers; for professional forecasters, the Federal Reserve Bank of Philadelphia.

Measures of Expected Inflation

Survey Measures (Reuters/University of Michigan)

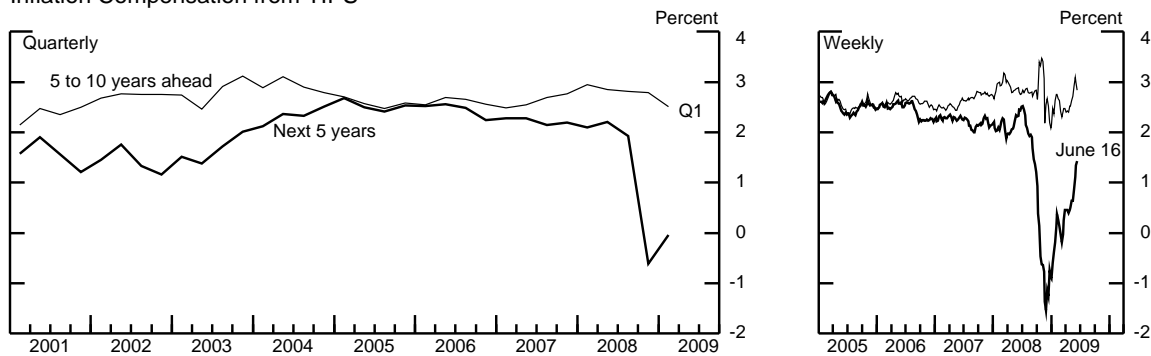


Inputs to Models of Inflation



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

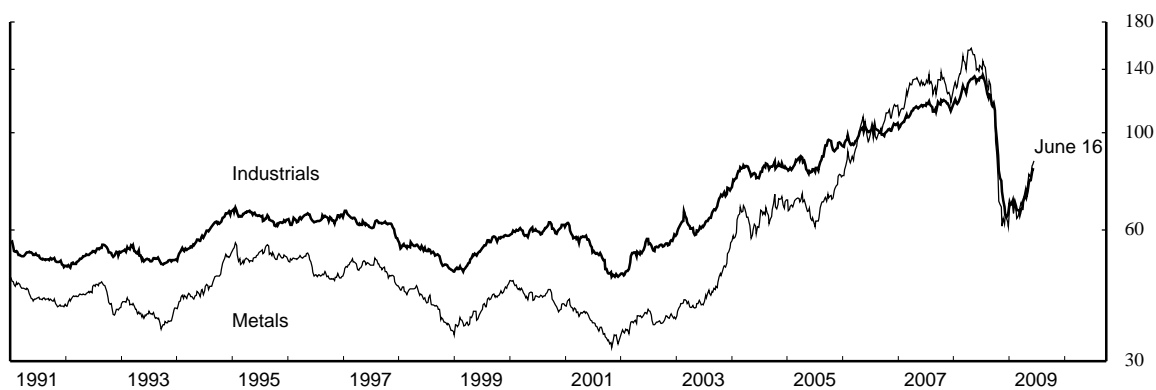


Note: Based on a comparison of an estimated TIPS (Treasury inflation-protected securities) yield curve with an estimated nominal off-the-run Treasury yield curve, with an adjustment for the indexation-lag effect.
Source: FRB staff calculations.

Commodity Price Indexes

Journal of Commerce

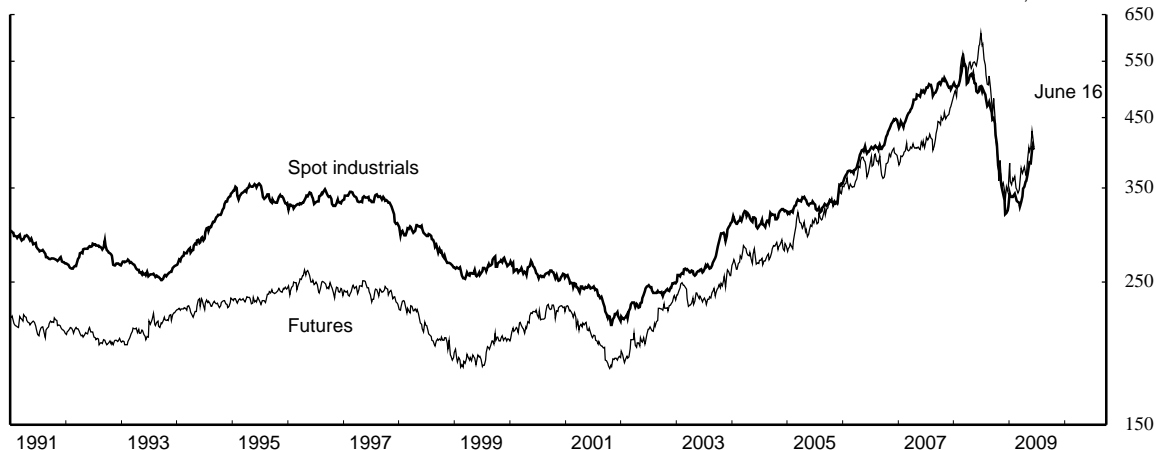
Ratio scale, 2006 = 100



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 4/21/09 ²	4/21/09 ² to 6/16/09	52-week change to 6/16/09
JOC industrials	-41.4	9.3	14.4	-37.8
JOC metals	-48.2	22.7	15.6	-37.7
CRB spot industrials	-34.3	9.4	12.1	-18.8
CRB spot foodstuffs	-14.1	4.7	4.3	-25.5
CRB futures	-24.7	4.6	10.0	-30.4

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

2. April 21, 2009, is the Tuesday preceding publication of the April Greenbook.

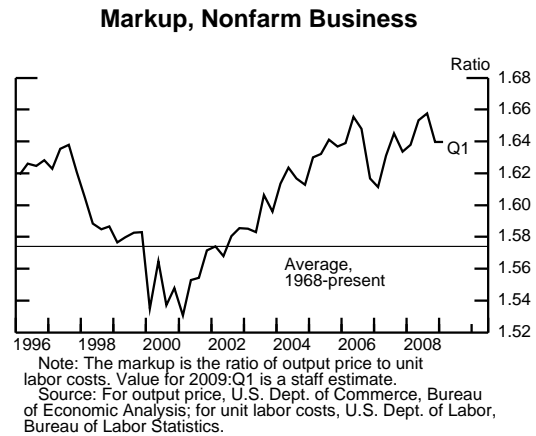
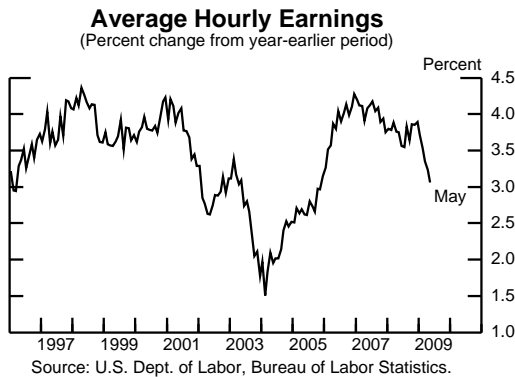
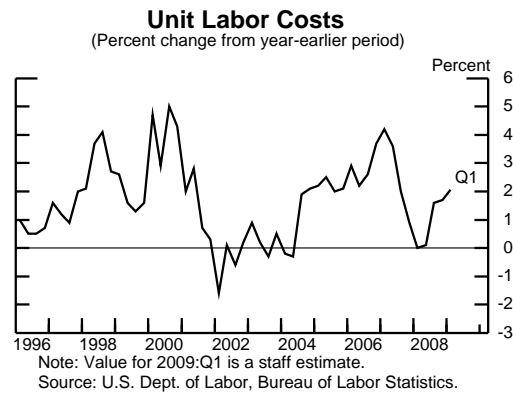
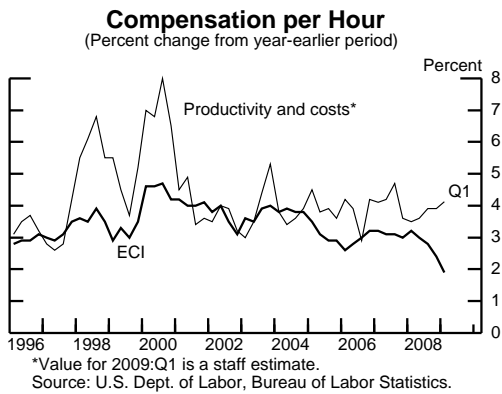
Hourly Compensation and Unit Labor Costs

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

Category	2007:Q1 to 2008:Q1	2008:Q1 to 2009:Q1 ^e	2008			2009
			Q2	Q3	Q4	Q1 ^e
<i>Compensation per hour</i> Nonfarm business	3.5	4.1	1.7	5.7	4.5	4.6
<i>Output per hour</i> Nonfarm business	3.5	2.0	4.7	2.2	-0.6	1.9
<i>Unit labor costs</i> Nonfarm business	.0	2.1	-2.8	3.5	5.1	2.6

^e Staff estimate.

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



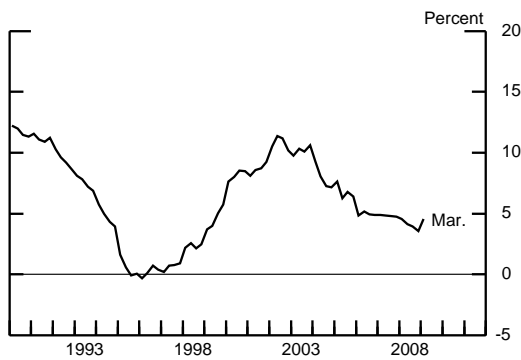
Change in Employment Cost Index of Hourly Compensation for Private-Industry Workers

Measure	2008				2009
	Mar.	June	Sept.	Dec.	Mar.
Quarterly change (compound annual rate) ¹					
Total hourly compensation	2.7	2.6	2.6	1.9	.7
Wages and salaries	3.4	3.0	2.6	1.8	.7
Benefits	2.3	1.5	2.3	1.5	.7
12-month change					
Total hourly compensation	3.2	3.0	2.8	2.4	1.9
Wages and salaries	3.2	3.1	2.9	2.6	2.0
Benefits	3.2	2.6	2.4	2.0	1.6

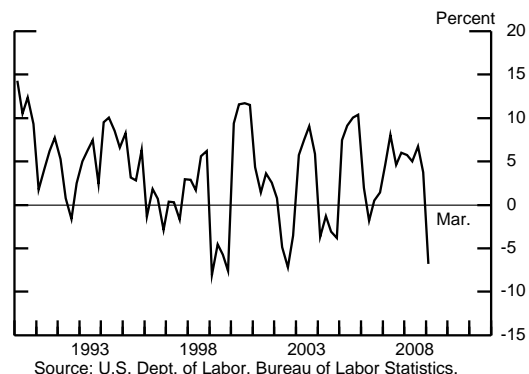
1. Seasonally adjusted.
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

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

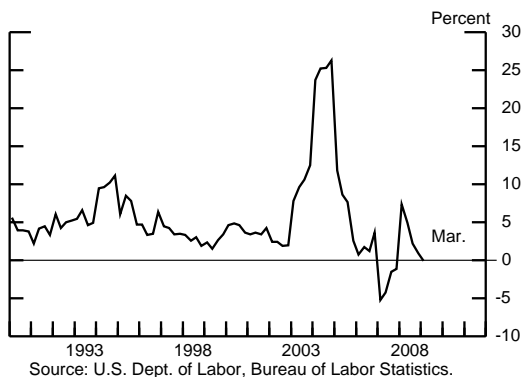
Health Insurance



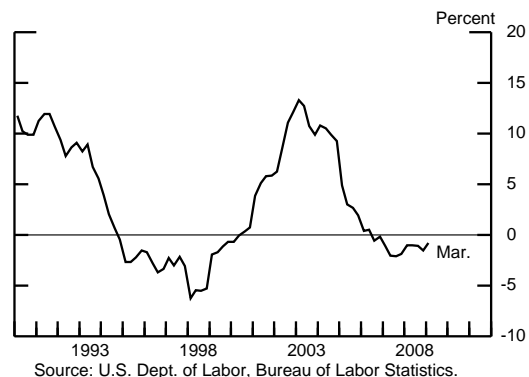
Nonproduction Bonuses



Retirement and Savings



Workers' Compensation Insurance



*The data on the costs of individual benefits should be interpreted with care because, with the exception of health insurance, they do not meet BLS's standard publication criteria.

years.¹⁵ Meanwhile, the employment cost index (ECI) for private-industry workers rose just 1.9 percent over the 12 months ending in March, 1¼ percentage points less than the rise over the preceding 12 months. The deceleration in the ECI was about evenly spread across the wage and salary and benefits components. Much of the slowdown in benefits costs was in nonproduction bonuses, which fell 7 percent after rising 6 percent over the preceding year; the increase in employer contributions for health insurance—at 4½ percent—was the same as over the preceding year.

Turning to the current quarter, average hourly earnings rose 0.1 percent in both April and May. Over the 12 months ending in May, this wage measure rose 3.1 percent, ¾ percentage point less than over the preceding year.

Last Page of Domestic Nonfinancial Developments

¹⁵ The annual rate of increase of P&C hourly compensation in the fourth quarter of 2008 was revised down from 5¼ percent to 4½ percent following the BEA's incorporation of the state unemployment insurance data into its wage and salary estimates. More-complete estimates for the first quarter will become available in August.

Domestic Financial Developments

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

Instrument	2007	2009			Change to June 16 from selected dates (percentage points)			
	Aug. 6	Mar. 17	Apr. 28	June 16	2007 Aug. 6	2009 Mar. 17	2009 Apr. 28	
<i>Short-term</i>								
FOMC intended federal funds rate	5.25	.13	.13	.13	-5.12	.00	.00	
Treasury bills ¹								
3-month	4.74	.24	.13	.17	-4.57	-.07	.04	
6-month	4.72	.44	.31	.30	-4.42	-.14	-.01	
Commercial paper (A1/P1 rates) ²								
1-month	5.26	.44	.31	.30	-4.96	-.14	-.01	
3-month	5.29	.66	.55	.31	-4.98	-.35	-.24	
Large negotiable CDs ¹								
3-month	5.34	1.08	.80	.35	-4.99	-.73	-.45	
6-month	5.27	1.83	1.38	.63	-4.64	-1.20	-.75	
Eurodollar deposits ³								
1-month	5.33	1.00	.90	.65	-4.68	-.35	-.25	
3-month	5.35	1.65	1.40	1.15	-4.20	-.50	-.25	
Bank prime rate	8.25	3.25	3.25	3.25	-5.00	.00	.00	
<i>Intermediate- and long-term</i>								
U.S. Treasury ⁴								
2-year	4.49	1.04	.92	1.21	-3.28	.17	.29	
5-year	4.52	2.14	2.04	2.68	-1.84	.54	.64	
10-year	4.82	3.47	3.38	4.00	-.82	.53	.62	
U.S. Treasury indexed notes ⁵								
5-year	2.43	2.04	1.55	1.38	-1.05	-.66	-.17	
10-year	2.48	2.26	1.92	2.10	-.38	-.16	.18	
Municipal general obligations (Bond Buyer) ⁶	4.51	5.03	4.57	4.86	.35	-.17	.29	
Private instruments								
10-year swap	5.44	3.14	3.07	3.99	-1.45	.85	.92	
10-year FNMA ⁷	5.34	4.04	3.88	4.39	-.95	.35	.51	
10-year AA ⁸	6.12	6.99	6.33	5.98	-1.14	-1.01	-.35	
10-year BBB ⁸	6.57	9.25	8.49	7.58	1.01	-1.67	-.91	
10-year high yield ⁸	9.21	16.41	12.79	12.08	2.87	-4.33	-.71	
Home mortgages (FHLMC survey rate)								
30-year fixed	6.59	4.98	4.78	5.59	-1.00	.61	.81	
1-year adjustable	5.65	4.91	4.77	5.04	-.61	.13	.27	
Stock exchange index								
Stock exchange index	Record high		2009			Change to June 16 from selected dates (percent)		
	Level	Date	Mar. 17	Apr. 28	June 16	Record high	2009 Mar. 17	2009 Apr. 28
Dow Jones Industrial	14,165	10-9-07	7,396	8,017	8,505	-39.96	14.99	6.08
S&P 500 Composite	1,565	10-9-07	778	855	912	-41.73	17.20	6.64
Nasdaq	5,049	3-10-00	1,462	1,674	1,796	-64.42	22.85	7.31
Russell 2000	856	7-13-07	404	473	504	-41.14	24.81	6.53
D.J. Total Stock Index	15,807	10-9-07	7,878	8,754	9,339	-40.92	18.55	6.69

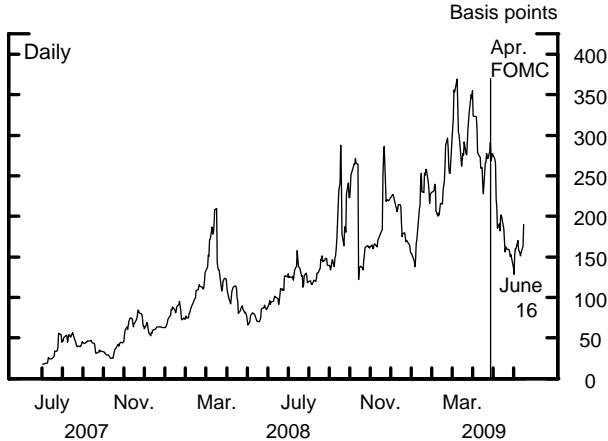
1. Secondary market.
2. Financial commercial paper.
3. Bid rates for Eurodollar deposits collected around 9:30 a.m. eastern time.
4. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
5. Derived from a smoothed Treasury yield curve estimated using all outstanding securities 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.
March 17, 2009, is the day before the March 2009 FOMC monetary policy announcement.
April 28, 2009, is the day before the most recent FOMC monetary policy announcement.

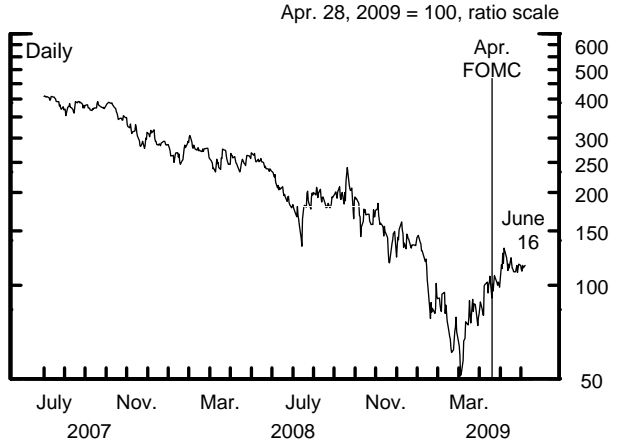
Financial Institutions and Short-Term Funding Markets

Senior CDS Spreads for Bank Holding Companies



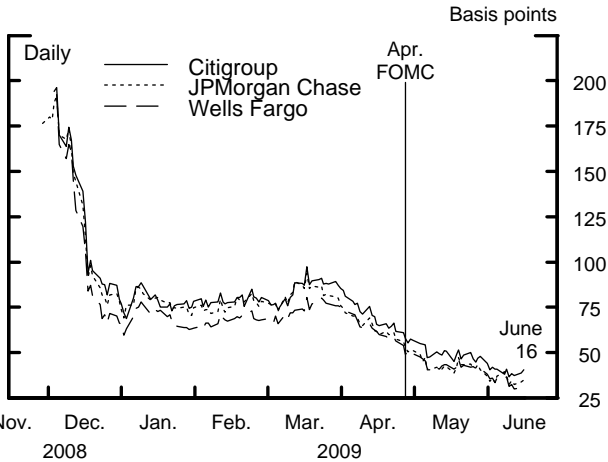
Note: Median spreads for 6 bank holding companies: Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, and Wells Fargo.
Source: Markit.

S&P Bank Equity Index



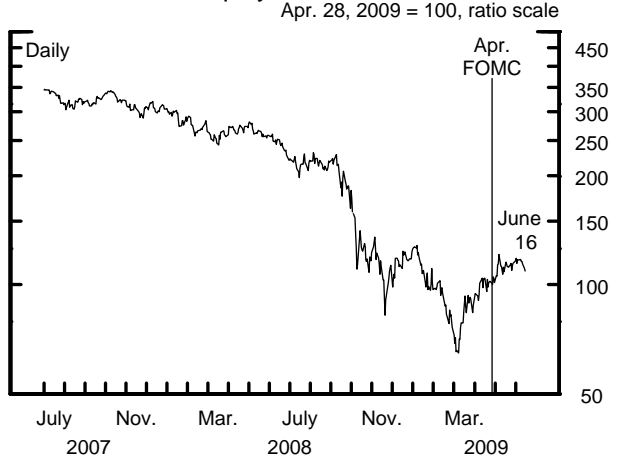
Source: Bloomberg.

Selected Spreads on FDIC-Guaranteed Debt



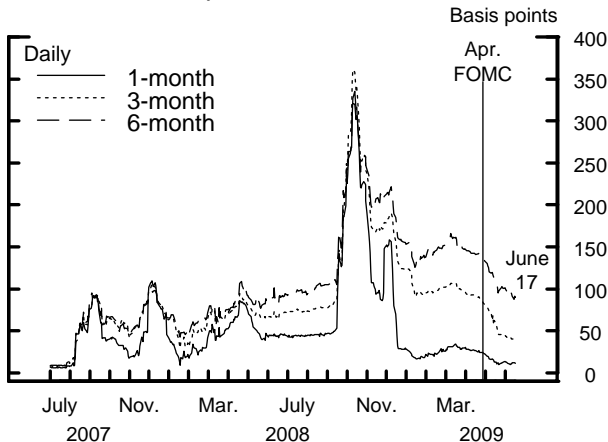
Note: Spreads to comparable-maturity Treasury securities for issues maturing around year-end 2011.
Source: Bloomberg.

S&P Insurance Equity Index



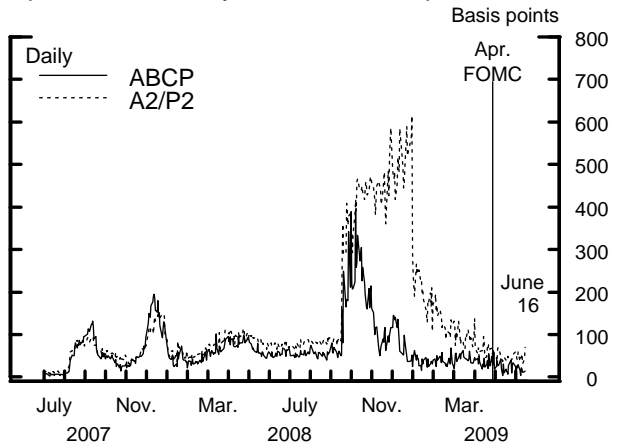
Source: Standard & Poor's.

Libor over OIS Spread



Source: British Bankers' Association and Prebon.

Spreads on 30-day Commercial Paper



Note: The ABCP spread is the AA ABCP rate minus the AA nonfinancial rate. The A2/P2 spread is the A2/P2 nonfinancial rate minus the AA nonfinancial rate.
Source: Depository Trust & Clearing Corporation.

Domestic Financial Developments

Overview

Conditions and sentiment in financial markets continued to show signs of improvement over the intermeeting period. The results of the Supervisory Capital Assessment Program (SCAP) were positively received by financial markets. CDS spreads for banking organizations declined considerably, albeit to still-elevated levels, and the institutions involved in the SCAP subsequently were able to issue significant amounts of public equity and nonguaranteed debt. The functioning of short-term funding markets improved, with Libor rates and Libor-OIS spreads declining over the period. Broad stock price indexes increased, and spreads on corporate bonds continued to narrow. Meanwhile, nominal Treasury yields climbed steeply, apparently reflecting investors' perceptions of an improved economic outlook, a reversal of flight-to-quality flows, and technical factors related to the hedging of mortgage holdings. TIPS data point to some increase in inflation risk premiums and inflation expectations as well. Rates on 30-year conforming fixed-rate mortgages increased about in line with the jump in long-term Treasury yields.

The volume of bond issuance and seasoned equity offerings by nonfinancial corporations was robust in May, but outstanding bank loans to households and nonfinancial businesses declined. The available indicators suggest that household and business credit quality continued to deteriorate, with delinquency rates on credit cards and on commercial mortgages now at their highest levels in more than a decade.

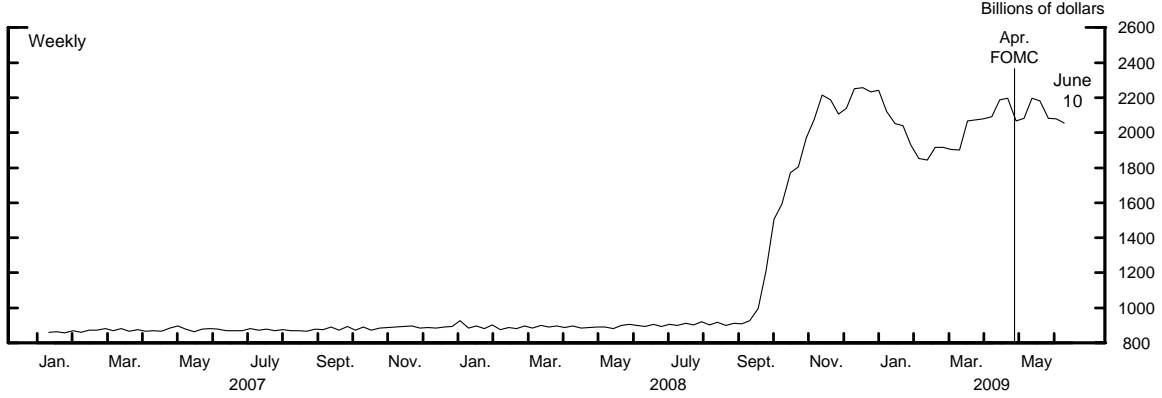
Financial Institutions

Market sentiment toward the financial sector improved over the intermeeting period, reflecting, in part, the release of the SCAP results for the nation's 19 largest bank holding companies (BHCs) on May 7. Nearly all the BHCs evaluated had enough Tier 1 capital (of which more than \$200 billion was previously issued capital from the government) to absorb the higher losses envisioned under the more hypothetical adverse scenario; still, 10 institutions were required to enhance their capital structure to put greater emphasis on common equity. Guidelines for repaying government capital provided to the BHCs under the TARP were also announced in early June. CDS spreads for banking organizations declined considerably over the intermeeting period, although they remained well above historical norms. Stock price indexes for the banking sector and the broader financial sectors jumped almost 15 percent.

Since the announcement of the SCAP results, the 19 evaluated institutions have raised or announced plans to raise around \$70 billion in common equity through public offerings,

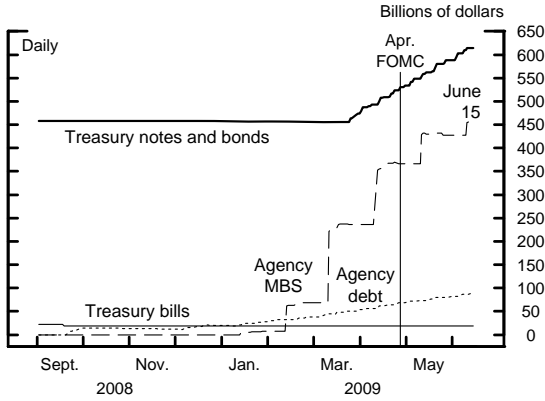
Federal Reserve Purchase Programs and Facilities

Total Federal Reserve Assets



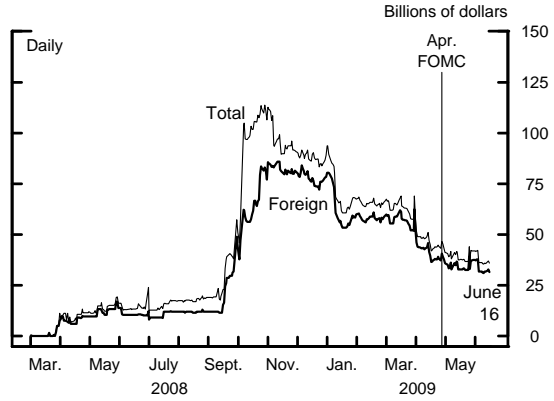
Source: Board of Governors of the Federal Reserve System, Statistical Release H.4.1, "Factors Affecting Reserve Balances."

Securities Held Outright



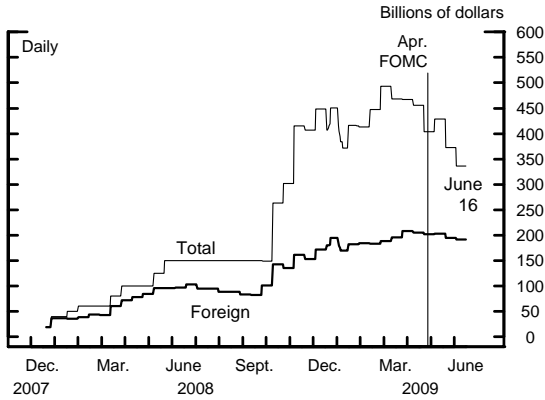
Source: Federal Reserve Board.

Primary Credit



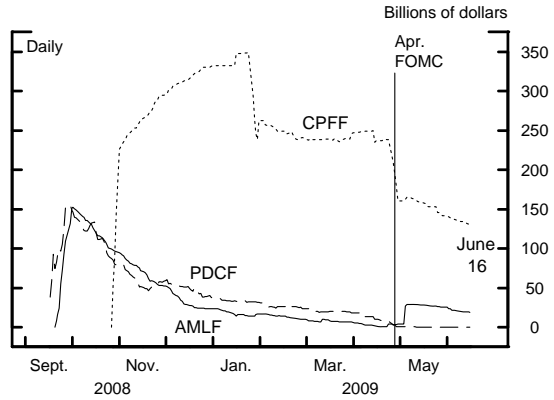
Source: Federal Reserve Board.

Term Auction Facility



Source: Federal Reserve Board.

Other Credit Extensions



Note: AMLF is the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility; CPFF is the Commercial Paper Funding Facility; PDCF is the Primary Dealer Credit Facility.

Source: Federal Reserve Board.

conversion of preferred stock, and asset sales. These offerings accounted for most of the record-high total financial equity issuance in May. The evaluated BHCs have also issued roughly \$10 billion of debt under the FDIC's Temporary Liquidity Guarantee Program and more than \$25 billion in other debt, with considerable variation across institutions in the rates paid on non-FDIC-guaranteed debt.¹ On June 9, the Treasury announced that 10 large financial institutions were eligible to repay the \$68 billion in TARP capital that they had received.

Press reports during the intermeeting period indicated that the Treasury would grant access to TARP funds to a number of insurance companies. Some of the named companies announced that they would not accept such funds, while one major insurance company announced that it had obtained approval to receive \$3.4 billion in TARP funds. On the whole, stock price indexes of insurance companies rose over the intermeeting period.

Short-Term Funding Markets

Functioning in short-term funding markets generally improved over the intermeeting period. Consistent with a reduction in concerns about the financial condition of large banking institutions, Libor rates declined noticeably. The one-month Libor-OIS spread narrowed to just above pre-crisis levels, and the three-month Libor-OIS spread—while still elevated—declined to a level not seen since early 2008. Longer-term Libor-OIS spreads also narrowed but continued to be elevated by historical standards.

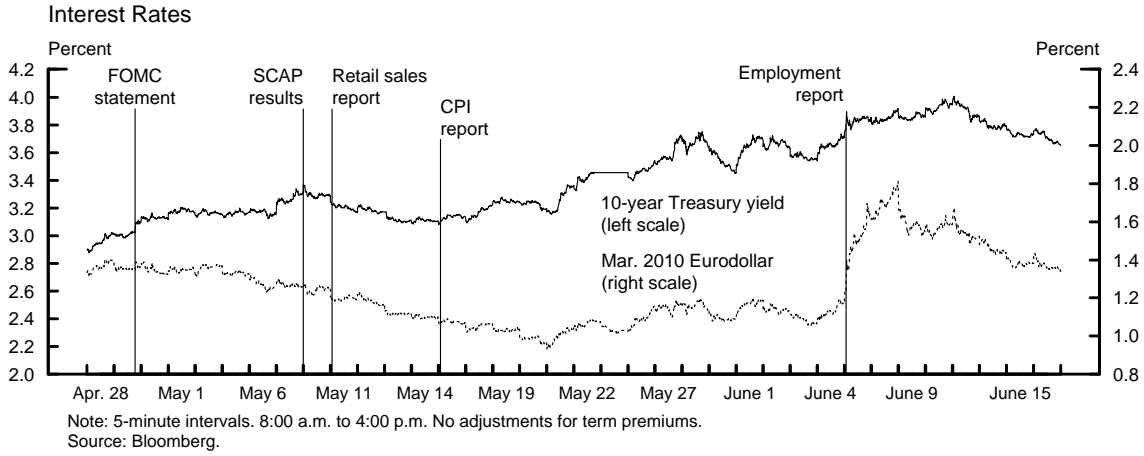
In the repurchase agreement (repo) market, bid-asked spreads for most types of transactions ticked down while haircuts were little changed. Reportedly, term repo volumes continued to be light but picked up slightly. Since the April Greenbook, spreads on A2/P2-rated commercial paper and AA-rated ABCP were little changed, on net, remaining at the low end of their ranges over the past 18 months.

Federal Reserve Purchase Programs and Facilities

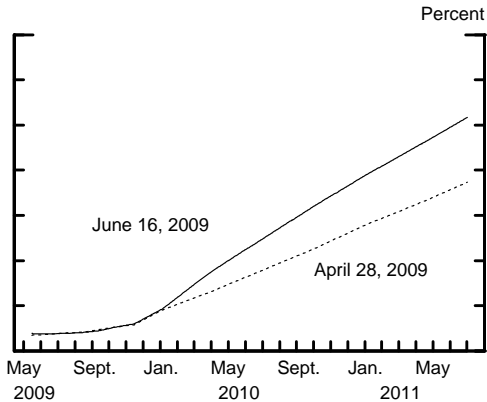
Over the intermeeting period, total Federal Reserve assets were about flat at a little more than \$2 trillion, with an increase in securities held offset by a decline in credit supplied under credit and liquidity facilities. The Federal Reserve added more than \$250 billion to its portfolio of securities held outright. Purchases of Treasury coupon securities accounted for about \$90 billion of the increase; almost all of these purchases were

¹ One condition for repaying TARP funds is that institutions demonstrate their ability to meet funding requirements without relying on the FDIC's Temporary Liquidity Guarantee Program.

Policy Expectations and Treasury Yields

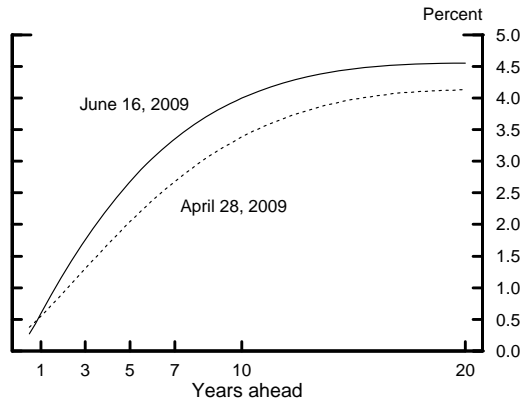


Implied Federal Funds Rate



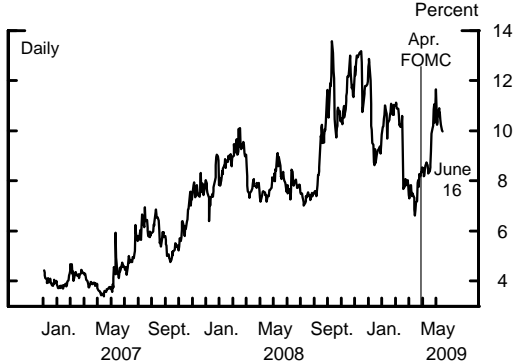
Note: Estimated from federal funds and Eurodollar futures, with an allowance for term premiums and other adjustments.
Source: Chicago Mercantile Exchange; Chicago Board of Trade.

Treasury Yield Curve



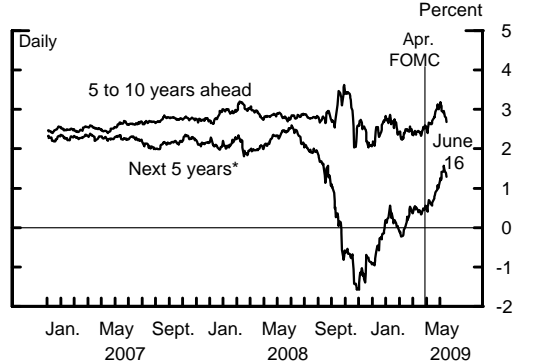
Note: Smoothed yield curve estimated from off-the-run Treasury coupon securities. Yields shown are those on notional par Treasury securities with semiannual coupons.
Source: Federal Reserve Bank of New York.

10-Year Treasury Implied Volatility



Note: 10-year Treasury note implied volatility derived from options on futures contracts.
Source: Bloomberg.

Inflation Compensation



Note: Estimates based on smoothed nominal and inflation-indexed Treasury yields.
*Adjusted for lagged indexation of Treasury inflation-protected securities.
Source: Federal Reserve Bank of New York.

nominal securities, with the bulk having maturities between 2 and 10 years. In addition, the Federal Reserve purchased about \$20 billion of agency debt and more than \$150 billion of agency MBS.

Consistent with the improvement in short-term funding markets, use of most Federal Reserve liquidity facilities declined. Primary credit outstanding ebbed, and credit extended under the PDCF dwindled to zero. TAF credit declined as bid amounts submitted at auctions generally trended lower, although the number of banks submitting bids was little changed. Bidding at TSLF auctions continued to decline. The CPFF saw the second major roll of commercial paper, with less than one-half of this maturing paper reissued to the CPFF, in part because issuers moved to longer-term sources of funds.

During the intermeeting period, there were two TALF operations, which resulted in \$22 billion in new TALF loans. Most loans were secured by credit card or auto loan ABS. Also during the intermeeting period, the Federal Reserve announced a further expansion of the collateral eligible to be pledged under the TALF program to include newly issued and legacy CMBS, as well as insurance premium finance loans. The Federal Reserve also authorized TALF loans with maturities of up to five years for loans to finance purchases of CMBS, ABS backed by student loans, and ABS backed by loans guaranteed by the Small Business Administration.

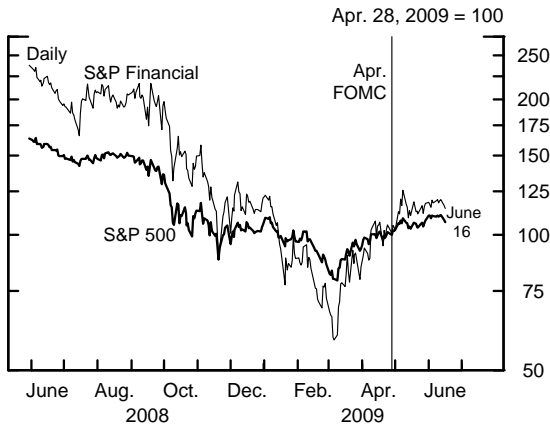
Treasury Yields and Policy Expectations

Futures quotes—combined with our standard assumptions about the term premium—now imply that the expected federal funds rate rises above the current target range around the end of this year; however, readings from this market are likely somewhat distorted by widening term premiums. No respondent to the primary dealer survey expects a rate increase this year.

Over the intermeeting period, the yield on the 10-year Treasury note increased about 60 basis points, while that on the 2-year note rose about 30 basis points, with the largest increases occurring in late May and early June. These moves were attributable to several factors, including investors' perceptions of an improvement in the economic outlook, a reversal of flight-to-quality flows, a possible rise in inflation expectations, and a rise in term premiums. Term premiums appear to have increased, in part, because investors sold long-duration assets as exposure to mortgage prepayment risk dropped with a rise in mortgage rates; consistent with such hedging activity, 10-year swap spreads jumped. In addition, uncertainty about how the Federal Reserve would adjust its asset purchases in

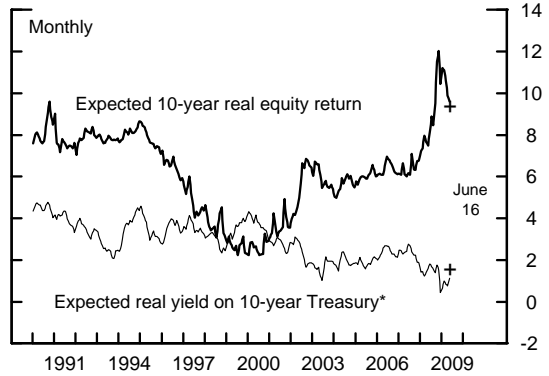
Corporate Yields, Risk Spreads, and Stock Prices

Selected Stock Price Indexes



Source: Standard & Poor's.

Expected Real Equity Return and Long-Run Treasury Yield

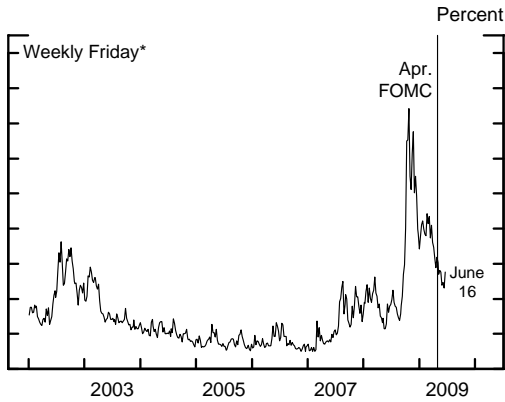


* Off-the-run 10-year Treasury yield less Philadelphia Fed 10-year expected inflation.

+ Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.

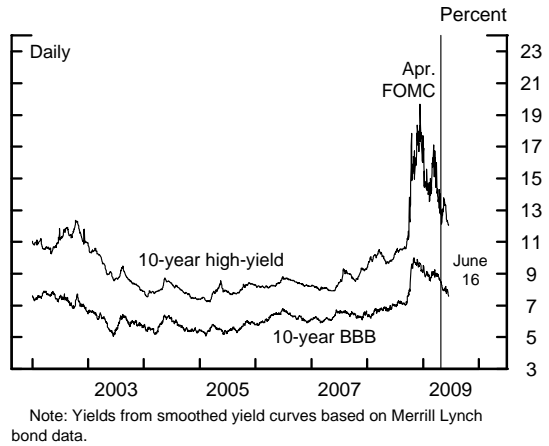
Source: Thomson Financial.

Implied Volatility on S&P 500 (VIX)



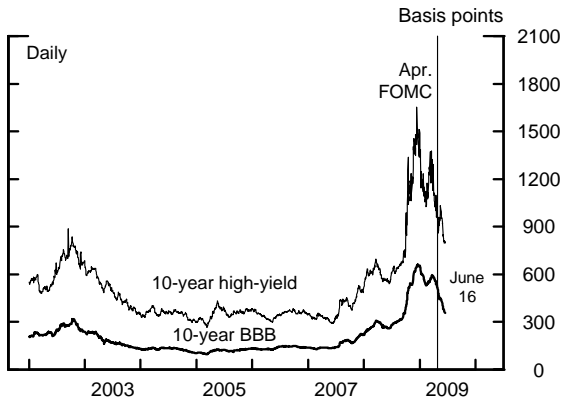
* Latest observation is for most recent business day.
Source: Chicago Board of Exchange.

Corporate Bond Yields



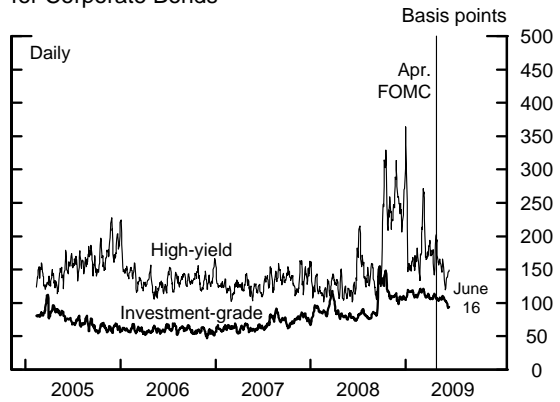
Note: Yields from smoothed yield curves based on Merrill Lynch bond data.

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.

response to the increase in yields contributed to an increase in interest rate volatility, which also likely pushed term premiums higher.

Measures of TIPS-based inflation compensation over the next 5 years and 5 to 10 years ahead increased about 80 and 8 basis points, respectively, and now stand close to the levels seen late last summer. Special factors probably contributed to the widening in inflation compensation; in particular, the unwinding of safe-haven demands and increased mortgage-related hedging boosted nominal yields relative to TIPS yields. But inflation risk premiums and inflation expectations likely increased as well. Indeed, survey measures of expected inflation have ticked up lately, and the largest moves in inflation compensation occurred on days of noticeable increases in oil prices.

Stock Prices and Corporate Interest Rates

Broad stock price indexes have risen about 7 percent, on net, since the April FOMC meeting, reflecting generally better-than-expected economic news and further declines in risk premiums. The spread between the staff's estimate of the expected real equity return over the next 10 years for S&P 500 firms and an estimate of the real 10-year Treasury yield—a rough gauge of the equity risk premium—narrowed noticeably but remained high by historical standards. Option-implied volatility on the S&P 500 index also declined but remained elevated.

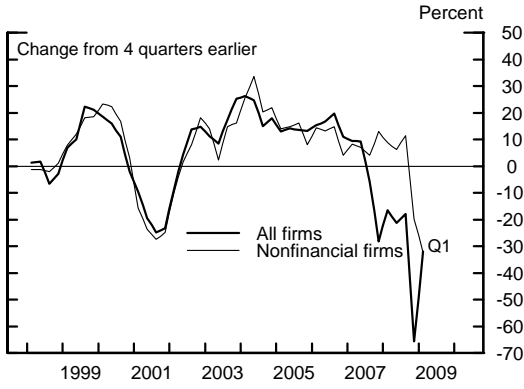
Yields on BBB-rated corporate bonds declined about 90 basis points, on net, over the intermeeting period, and those on speculative-grade corporate bonds declined about 70 basis points. As a result, spreads of BBB-rated and speculative grade corporate bond yields over those on comparable-maturity Treasury securities narrowed about 150 and 130 basis points, respectively. Corporate bond spreads have now reversed roughly one-half of the jump from mid-2007 to the end of last year, but their current levels are still at or above the peak levels posted in 2002 following the previous recession. Estimates of bid-asked spreads in the secondary market for speculative-grade corporate bonds fell significantly to about their average levels in the few years before the summer of 2007, while those for investment-grade corporate bonds remained somewhat elevated.

Corporate Earnings and Credit Quality

Operating earnings per share in the first quarter for S&P 500 firms as a whole were about 32 percent below year-earlier levels, as were profits for the nonfinancial portion of the index. Analysts' current forecasts imply that the pace of profit declines will moderate only a bit in the second quarter. An index of revisions to analysts' forecasts of year-

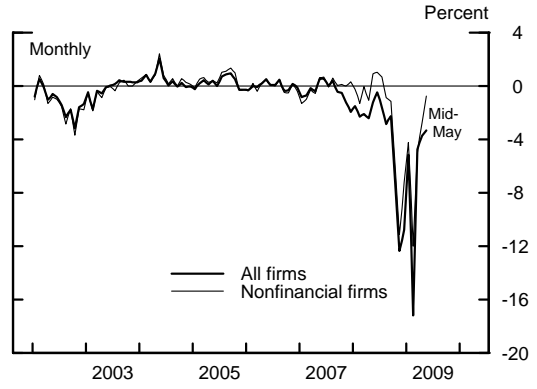
Corporate Earnings and Credit Quality

S&P 500 Earnings Per Share



Source: Thomson Financial.

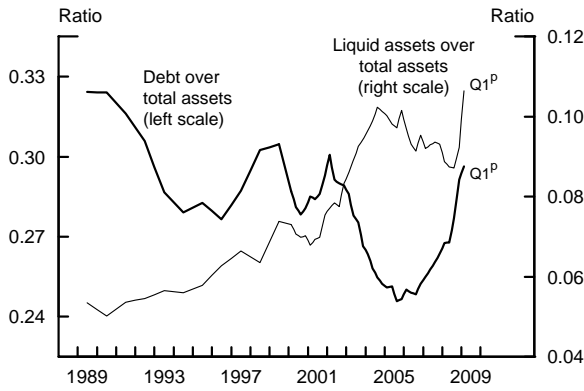
Revisions to Expected S&P 500 Earnings



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.

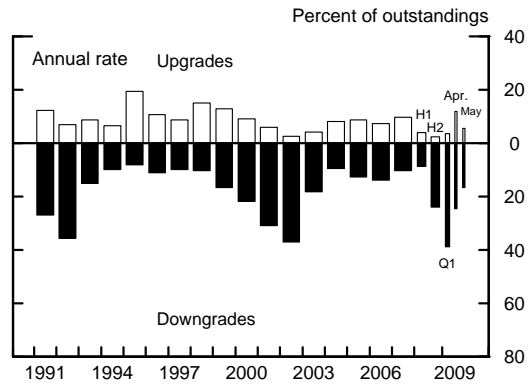
Financial Ratios for Nonfinancial Corporations



Note: Data are annual through 1999 and quarterly starting in 2000:Q1.
p Preliminary.

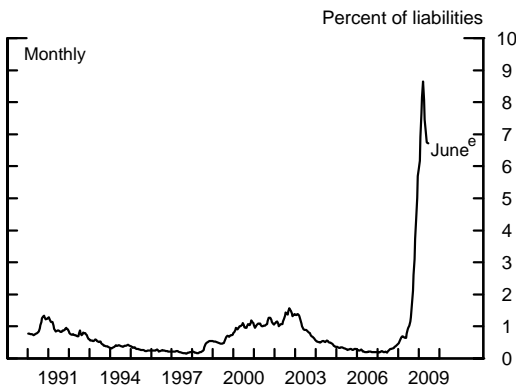
Source: Calculated using Compustat data.

Bond Ratings Changes of Nonfinancial Companies



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

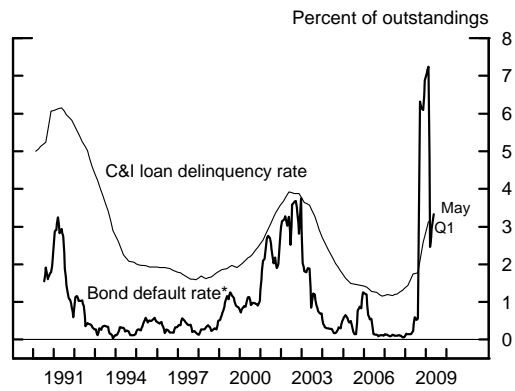
Expected Year-Ahead Defaults



Note: Firm-level estimates of default weighted by firm liabilities as a percent of total liabilities, excluding defaulted firms.
e Estimate based on data through June 16.

Source: Calculated using Moody's KMV.

Selected Default and Delinquency Rates



* 6-month trailing defaults divided by beginning-of-period outstandings, at an annual rate.

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	Q1	Apr.	May
<i>Nonfinancial corporations</i>								
Stocks ¹	4.6	4.7	5.5	3.5	4.0	2.7	4.4	11.1
Initial public offerings	1.7	1.8	1.6	.6	.1	.3	.1	.2
Seasoned offerings	2.8	2.9	3.8	2.9	3.9	2.4	4.3	10.9
Bonds ²	18.7	29.3	35.1	36.0	19.4	56.7	24.5	53.7
Investment grade	8.7	13.1	17.5	24.9	14.2	42.5	10.2	33.1
Speculative grade	5.2	6.2	7.5	3.1	.4	3.0	5.7	9.9
Other (sold abroad/unrated)	4.8	10.1	10.0	8.0	4.8	11.2	8.6	10.7
<i>Memo</i>								
Net issuance of commercial paper ³	-.2	2.4	-.4	-.5	3.7	-12.7	-15.0	2.0
Change in C&I loans at commercial banks ³	9.6	11.7	21.1	13.0	8.5	-9.1	-20.6	-22.8
<i>Financial corporations</i>								
Stocks ¹	5.0	5.3	8.6	17.2	9.9	.9	13.9	47.8
Bonds ²	170.4	180.6	151.7	66.2	24.6	38.9	42.2	56.1

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

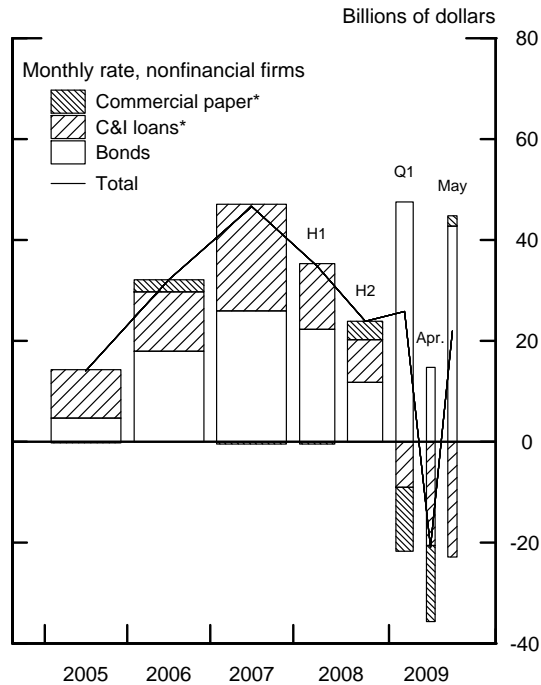
1. Excludes private placements and equity-for-equity swaps that occur in restructurings.

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.

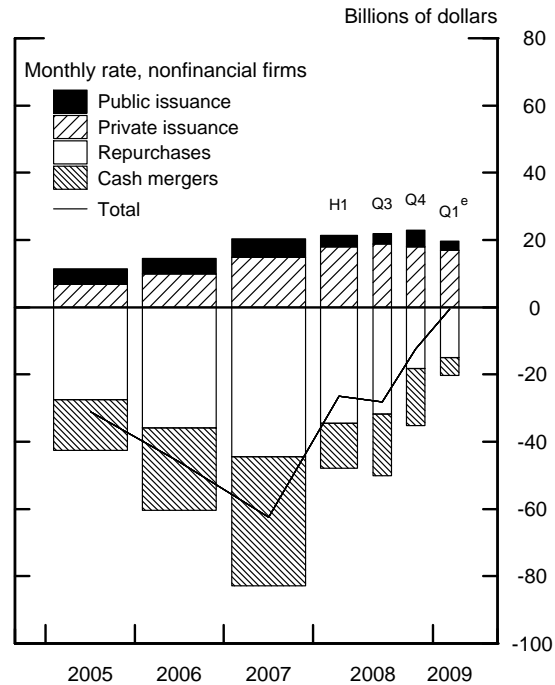
Selected Components of Net Debt Financing



* Seasonally adjusted, period-end basis.

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

Components of Net Equity Issuance

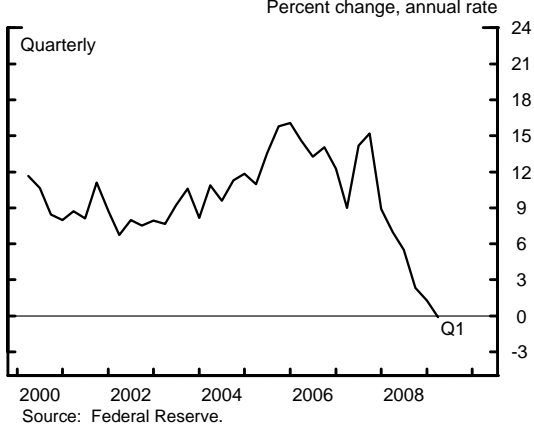


^e Staff estimate.

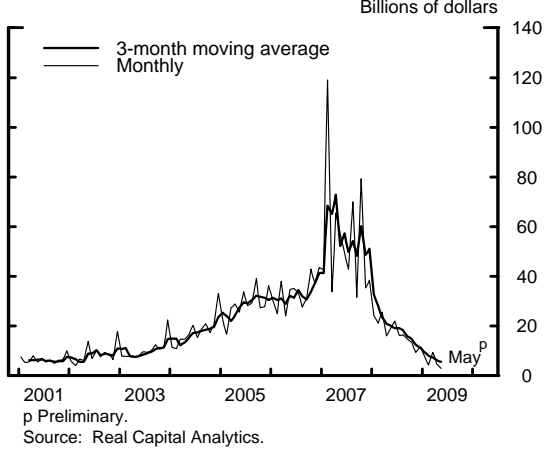
Source: Thomson Financial, Investment Benchmark Report; Money Tree Report by PricewaterhouseCoopers, National Venture Capital Association, and Venture Economics.

Commercial Real Estate

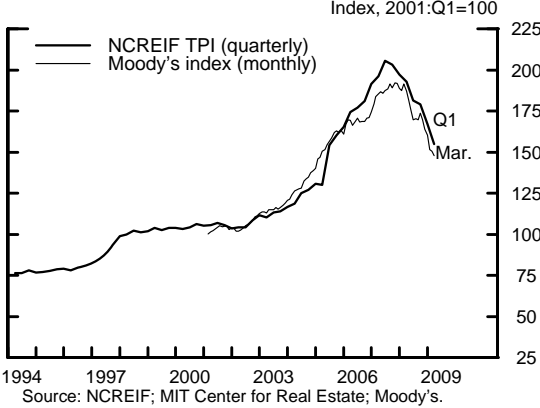
Commercial Mortgage Debt



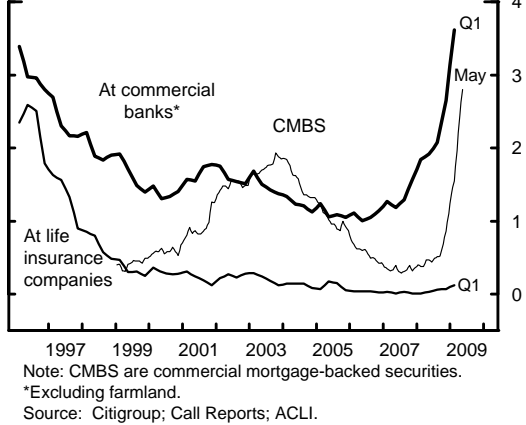
Sales of Commercial Real Estate



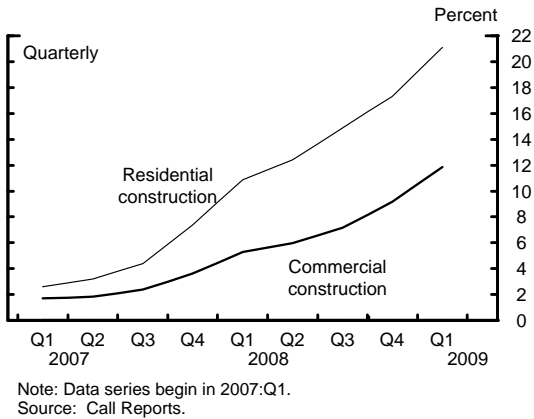
Prices of Commercial Real Estate



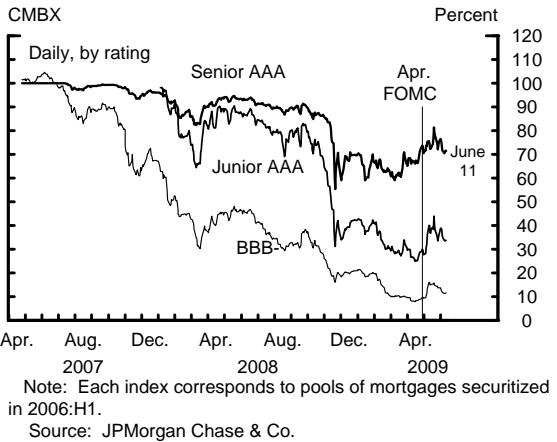
Delinquency Rates on Commercial Mortgages on Existing Properties



Delinquency Rates on Construction Loans at Banks



Commercial Mortgage CDS Index Prices



ahead earnings for S&P 500 firms was negative in the month ending in mid-May, but substantially less so than in the prior few months, with the index level for nonfinancial firms just a touch below zero.

Indicators of the credit quality of nonfinancial firms continued to point to considerable stress. The aggregate ratio of debt to assets for nonfinancial corporations rose a bit further in the first quarter and is now at its highest level since 2001. At the same time, nonfinancial corporations have boosted their holdings of liquid assets as a share of total assets, in part because some corporations held the proceeds of robust bond issuance in cash. The pace at which Moody's downgraded nonfinancial corporate bonds slowed noticeably in April and May from its outsized level in the first quarter but remained substantial. Meanwhile, ratings upgrades continued to be modest. In May, the six-month trailing bond default rate remained close to its peak levels in 1991 and 2002, and the expected year-ahead default frequency from Moody's KMV remained extremely high by historical standards. In addition, the delinquency rate on commercial and industrial (C&I) loans moved up further in the first quarter to the middle of its historical range.

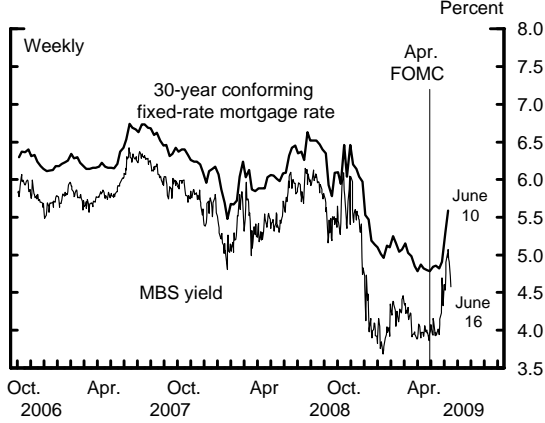
Business Finance

Gross bond issuance by nonfinancial corporations was robust in May. Investment-grade issuance rebounded from a lull in April. Speculative-grade issuance was the highest since June 2007, but issuance of lower-rated speculative-grade bonds remained minimal. With decreasing bond yields, firms reportedly issued bonds to pay down bank loans, contributing to a further contraction in C&I loans. Net issuance of commercial paper turned positive in May, but the outstanding amount of paper is still down by roughly one-third since the start of the year. Overall, last month, these sources of net debt financing by nonfinancial corporations bounced back from their decline in April.

Gross public equity issuance by nonfinancial firms from seasoned offerings surged in May to its highest level since October 2008, while initial public offerings remained muted. In the first quarter, the pace of public and private equity issuance was moderate, while equity retirements from cash-financed mergers and estimated share repurchases declined. As a result, net equity issuance by nonfinancial firms was positive for the first time since 2002.

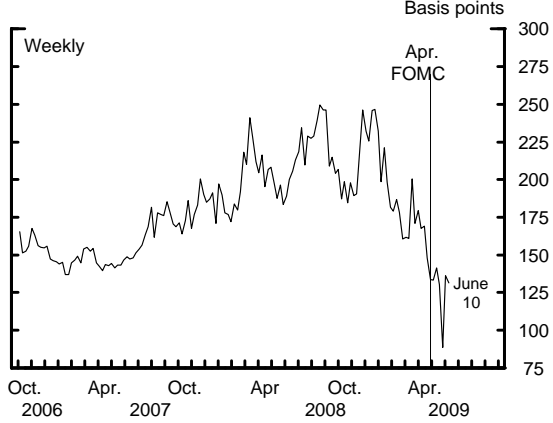
Residential Mortgages

Mortgage Rate and MBS Yield



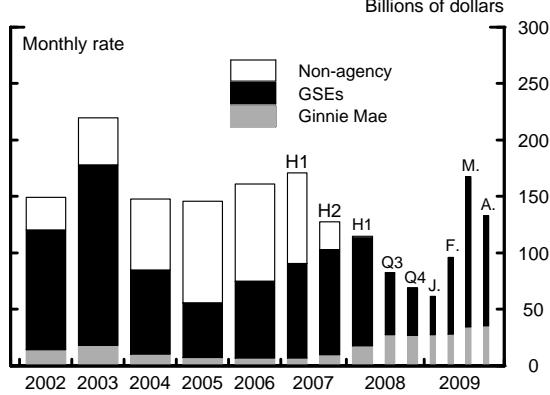
Note: For MBS yield, Fannie Mae 30-year current coupon rate.
Source: For mortgage rate, Freddie Mac; for MBS yield, Bloomberg.

Spread of Mortgage Rate to Treasury Yield



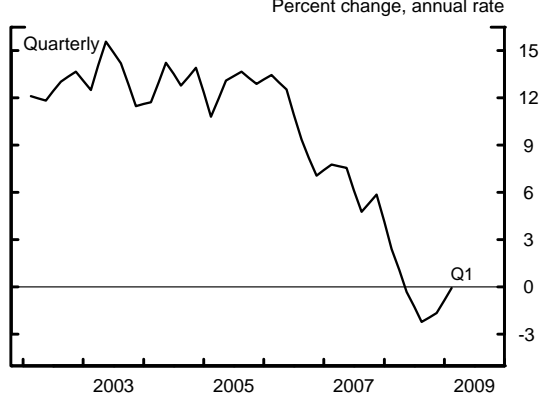
Note: Spread is of 30-year conforming fixed mortgage rate relative to the off-the-run 10-year Treasury yield.
Source: Bloomberg; Freddie Mac.

Agency and Non-Agency MBS Issuance



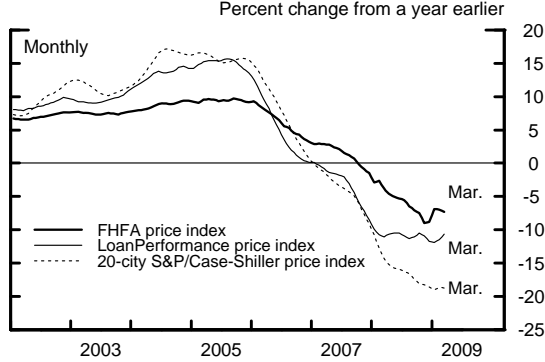
Source: For agency issuance, Fannie Mae, Freddie Mac, and Ginnie Mae; for non-agency, Inside Mortgage Finance.

Mortgage Debt



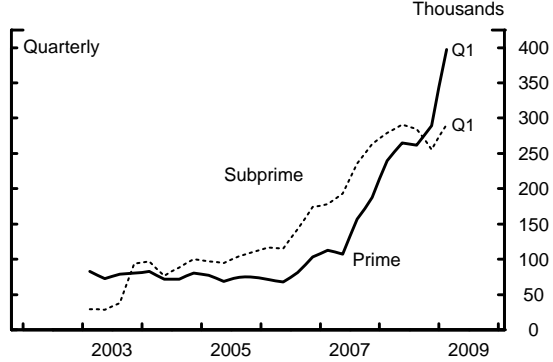
Source: Federal Reserve.

Prices of Existing Homes



Source: For FHFA, Federal Housing Finance Agency; for S&P/Case-Shiller, Standard & Poor's; for LoanPerformance, First American CoreLogic.

Foreclosure Starts



Source: MBA.

Commercial Real Estate

Commercial real estate markets have remained under considerable strain. Outstanding commercial mortgage debt was roughly flat in the first quarter, the weakest reading since 1995. Sales of commercial real estate declined further in April and May, with the monthly volume now just a small fraction of that seen in 2007. Commercial real estate prices dropped again in the first quarter, leaving the price indexes down about 25 percent from their peaks in 2007. Delinquency rates on both securitized commercial mortgages and commercial mortgages on existing properties at commercial banks have risen to their highest levels in more than a decade. Delinquency rates on construction loans at banks continued to escalate in the first quarter from already elevated levels. The inclusion of CMBS in the TALF program resulted initially in a narrowing of commercial mortgage CDS spreads; however, spreads have since widened as rating agencies have issued conflicting opinions regarding the credit quality of senior CMBS tranches.

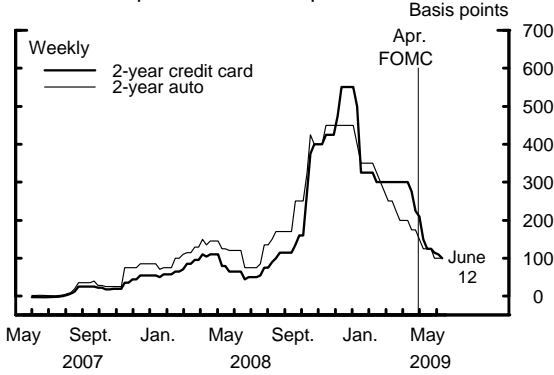
Household Finance

Interest rates on 30-year conforming fixed-rate mortgages jumped about 80 basis points over the intermeeting period, about in line with the rise in the long-term Treasury yield. The increase left the conforming mortgage rate above 5½ percent. Issuance of MBS by the housing-related GSEs has increased in recent months, as the GSEs continued to securitize mortgages that were refinanced early this year, and Fannie Mae securitized a portion of its portfolio of seasoned mortgages. MBS issuance by Ginnie Mae increased modestly in March and April, while the private-label MBS market remained shuttered. After declining in the previous three quarters, outstanding residential mortgage debt was about flat in the first quarter. Mortgage debt likely has continued to be restrained by weakness in housing activity, falling home prices, restrictive financing conditions for some types of borrowers, and elevated charge-offs of defaulted loans.

Home prices continued to decline in the first quarter: The Federal Housing Finance Agency home price index posted a decline of 7 percent over the year ending in March, while the LoanPerformance national index and the S&P/Case-Shiller 20-city index dropped 12 percent and 19 percent, respectively, over the same period. The number of foreclosure starts increased sharply in the first quarter, in part owing to the expiration of various mortgage moratorium laws. The increase in foreclosure starts was particularly striking for prime loans; 2.5 percent of all outstanding prime loans are now in foreclosure, the highest reading since the series began in 1979.

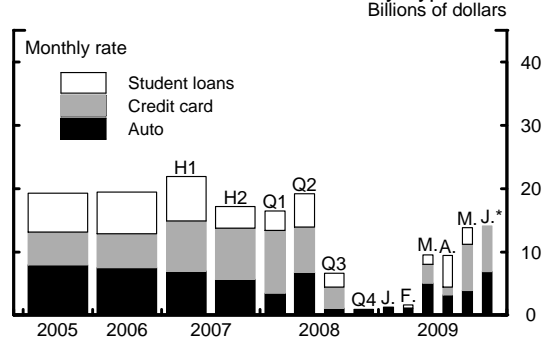
Consumer Credit and Household Wealth

AAA ABS Spreads over Swaps



Source: For credit cards and auto, Citigroup Global Markets.

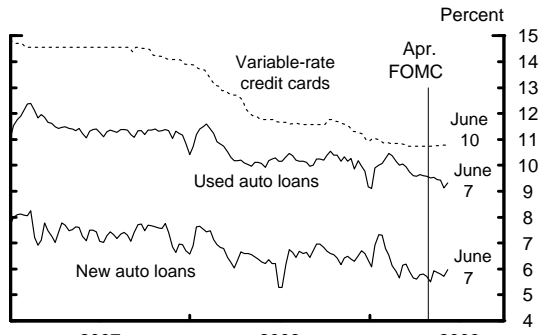
Gross Issuance of Consumer ABS by Type



Note: Auto includes car loans, leases, and financing for buyers of motorcycles, trucks, and other vehicles.
*Through June 10.

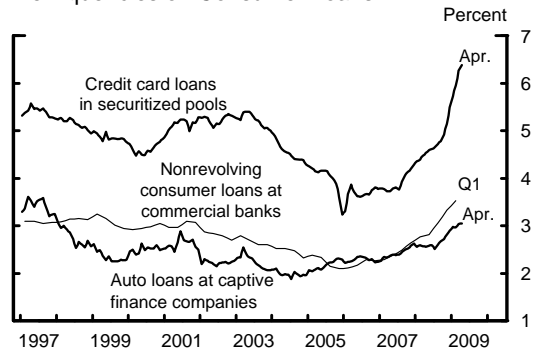
Source: Inside Mortgage Finance; Merrill Lynch; Bloomberg.

Consumer Loan Rates



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

Delinquencies on Consumer Loans



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

Net Flows into Mutual Funds

(Billions of dollars, monthly rate)

Fund type	2007	2008		2009			Assets Apr.
		H1	H2	Mar.	Apr.	May ^e	
Total long-term funds	18.6	11.9	-49.9	-11.3	43.2	51.2	5,906
Equity funds	7.7	-3.5	-36.0	-27.1	12.3	13.4	3,708
Domestic	-3.9	-4.9	-20.8	-16.1	9.8	9.2	2,845
International	11.6	1.3	-15.3	-11.0	2.5	4.3	863
Hybrid funds	1.8	1.5	-4.9	-4.0	2.1	2.9	493
Bond funds	9.0	13.9	-8.9	19.9	28.8	34.8	1,705
High-yield	-0.2	-0.2	0.1	3.8	4.1	4.2	136
Other taxable	8.4	11.2	-7.4	12.7	19.6	23.5	1,193
Municipals	0.9	2.9	-1.6	3.5	5.1	7.0	376
Money market funds	62.5	56.1	59.6	-53.4	-42.1	-17.4	3,796

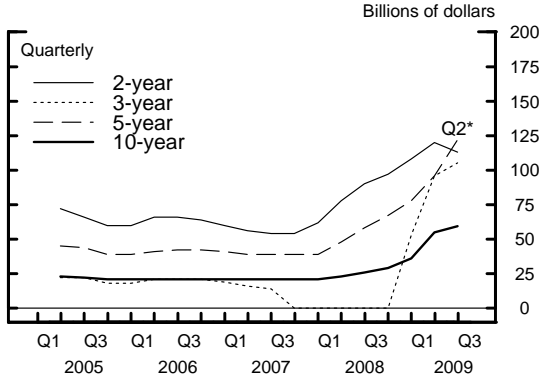
Note: Excludes reinvested dividends.

^e Staff estimate.

Source: Investment Company Institute.

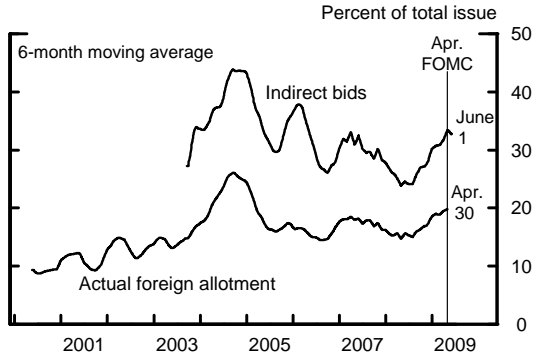
Treasury Finance

Treasury Auction Amounts



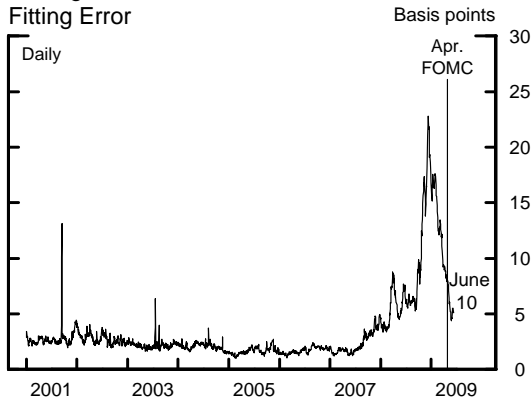
* Estimated.
Source: U.S. Treasury Dept.

Foreign Participation in Treasury Auctions



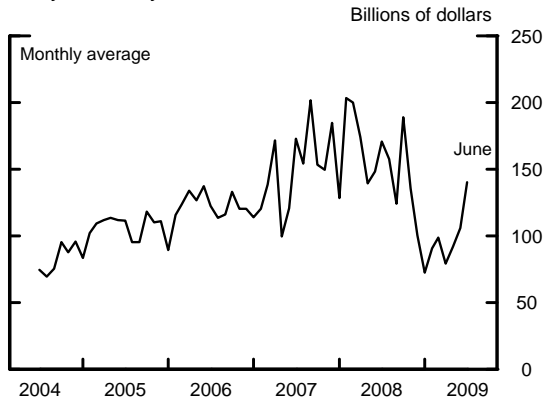
Note: Indirect bids and actual allotment are a percentage of the total amount accepted, including the amount tendered to the Federal Reserve. Moving averages include 2-, 5-, and 10-year original auctions and reopenings.
Source: Federal Reserve Board.

Average Absolute Nominal Yield Curve Fitting Error



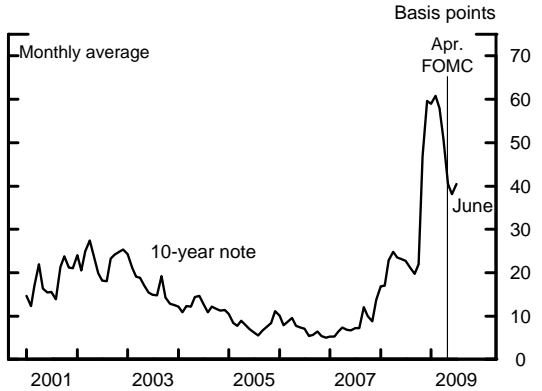
Note: Calculated from securities with 2 to 10 years until maturity, excluding on-the-run and first off-the-run securities.
Source: Federal Reserve Board.

Daily Treasury Market Volume



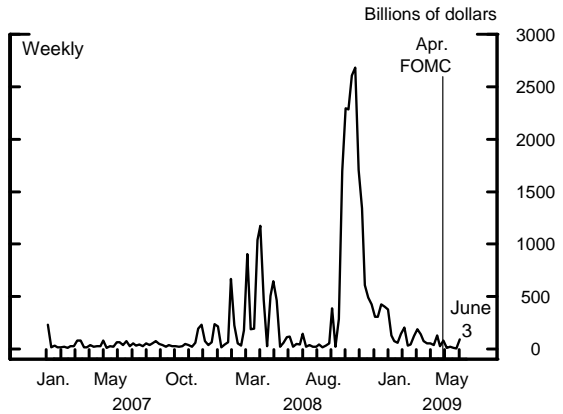
Note: June observation is the month-to-date average.
Source: Bloomberg.

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. June observation is the month-to-date average.
Source: Federal Reserve Bank of New York.

Treasury Fails-to-Deliver



Source: Federal Reserve Board, FR 2004, Government Securities Dealers Reports.

State and Local Government Finance

Gross Offerings of Municipal Securities

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

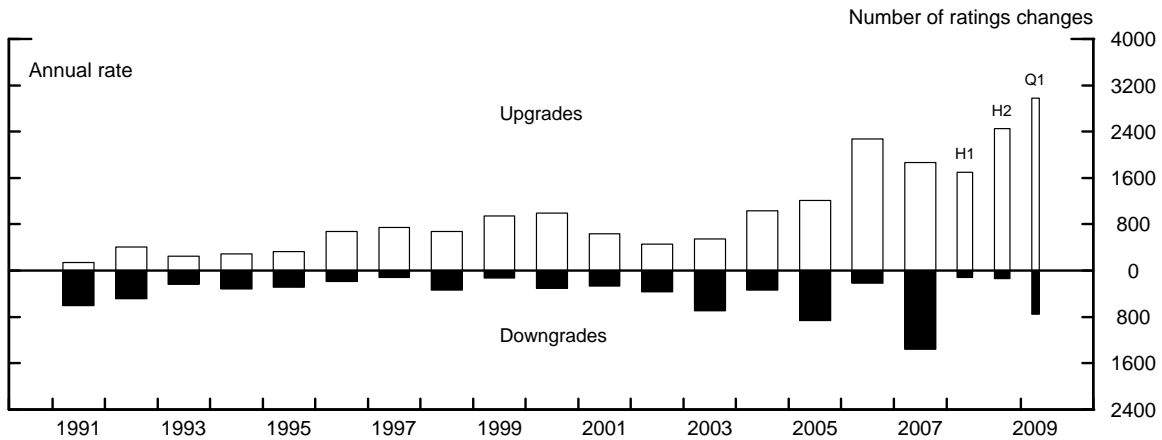
Type of security	2005	2006	2007	2008		2009		
				H1	H2	Q1	Apr.	May
Total	38.4	36.1	40.4	41.7	33.1	30.5	39.0	34.3
Long-term ¹	34.2	32.5	35.5	38.1	26.6	28.7	36.1	30.7
Refundings ²	15.6	10.6	12.6	18.0	11.0	10.6	16.9	12.0
New capital	18.6	21.9	22.9	20.1	15.6	18.1	19.2	18.8
Short-term	4.2	3.7	4.9	3.6	6.5	1.8	2.9	3.6
Memo: Long-term taxable	2.1	2.5	2.4	2.7	1.8	1.1	11.0	3.9

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

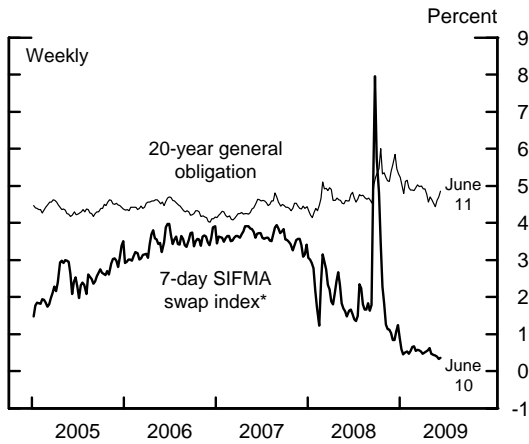
Source: Thomson Financial.

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.

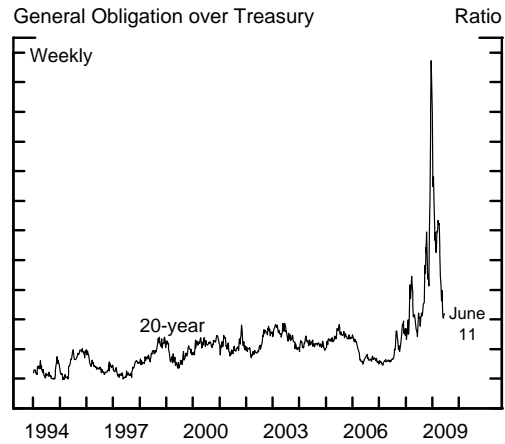
Municipal Bond Yields



* SIFMA is the Securities Industry and Financial Markets Association.

Source: Municipal Market Advisors; Bond Buyer.

Municipal Bond Yield Ratio



Source: Bond Buyer.

Conditions in the consumer ABS market improved noticeably. Spreads on AAA-rated consumer ABS narrowed further over the intermeeting period and have now reversed a large fraction of the run-up from mid-2007 to their peaks at year-end 2008. Issuance of consumer ABS continued to ramp up, led by TALF-financed issues. Interest rates on new and used auto loans were little changed over the intermeeting period at levels well below those seen early this year, and interest rates on credit cards were also about flat. Delinquency rates on all types of consumer loans have continued to rise; however, the increase in credit card delinquency rates has been particularly pronounced over the past year, with most measures at their highest levels in more than a decade.

Reflecting a reduction in safe-haven demands, long-term mutual funds, especially bond funds, attracted considerable inflows in April and May; money market funds saw net outflows over the same period as yields on these funds remained extremely low.

Treasury Finance

Over the intermeeting period, the Treasury conducted auctions of nominal and inflation-protected coupon securities across the term structure. Issuance totaled about \$265 billion and was generally well received, as bid-to-cover ratios remained within recent ranges. Measures of foreign participation continue to suggest strong demand for U.S. Treasury securities from abroad.

The functioning of the Treasury coupon market improved further. Fitting errors from staff yield curve models continued to shrink, bid-asked spreads remained near pre-crisis levels, and trading volumes picked up. Spreads between yields on on- and off-the-run notes narrowed considerably at the short end, although hedging-related demand appeared to maintain pressure on these spreads for longer-dated Treasury securities. The implementation of the Treasury Market Practices Group's recommendation of a mandatory charge for delivery failures in the market for U.S. Treasury securities appears to have gone smoothly, and fails-to-deliver of Treasury securities have generally been low recently, with just a few noticeable exceptions.

State and Local Government Finance

Conditions in the municipal bond market continued to improve. Gross issuance of long-term municipal bonds remained solid in May, as new capital issuance continued apace. Refundings decreased in response to higher interest rates, and short-term issuance

M2 Monetary Aggregate
(Based on seasonally adjusted data)

Aggregate and components	Percent change (annual rate) ¹						Level (billions of dollars),
	2007	2008	2008	2009			May (p)
			Q4	Q1	Apr.	May (p)	
M2	5.8	8.3	14.3	13.2	-7.6	9.3	8,328
Components ²							
Currency	2.0	5.8	13.7	15.9	6.5	0.3	850
Liquid deposits ³	4.1	7.0	10.0	20.6	-1.8	25.0	5,186
Small time deposits	4.3	11.3	34.5	1.8	-17.7	-17.3	1,308
Retail money market funds	20.6	12.3	10.0	-7.4	-34.4	-27.7	979
Memo:							
Institutional money market funds	40.2	24.6	8.8	29.9	8.9	13.2	2,538
Monetary base	2.0	70.4	252.0	65.4	77.9	14.0	1,770

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.

p Preliminary.

Source: Federal Reserve.

remained weak, consistent with typical seasonal patterns.² Yields on long-term municipal bonds rose somewhat, on net, over the intermeeting period; even so, the ratio of municipal bond yields to yields on comparable-maturity Treasury securities dropped to its lowest levels in almost a year.

Money and Bank Credit

M2 expanded at an average annual rate of just $\frac{3}{4}$ percent during April and May, a significant slowdown from the rate of growth observed in the first quarter, as the reallocation of household wealth toward the safety and liquidity of M2 assets appeared to have moderated. Retail money market funds and small time deposits contracted in both months, probably in response to declining interest rates on these assets. Currency growth slowed, likely reflecting primarily a waning in foreign demand. The monetary base continued its recent expansion in April and May, although at a slower pace of growth than in the first quarter, as the effect of Federal Reserve asset purchases on reserves was mostly offset by a drop in usage of liquidity facilities.

Commercial bank credit increased slightly in May following six consecutive monthly declines, but the turnaround reflected a rise in securities holdings and in the volatile “other” loans category (that is, loans other than C&I, real estate, and consumer loans). C&I loans dropped at an annual pace of 16 percent in May amid subdued origination activity and broad-based paydowns of outstanding loans. Home equity loans edged down—the first monthly decline in this category since October 2006—partly owing to banks’ reductions in existing lines of credit. Closed-end residential mortgages decreased at a 9 percent pace; originations were reportedly strong, but they were more than offset by loan sales to the GSEs. In April and May, consumer loans originated by banks shrank at a $3\frac{1}{2}$ percent pace, on average, and on-balance-sheet holdings decreased even more because of a number of large credit card securitizations. The rise in banks’ holdings of securities last month reportedly reflected the retention of some portions of these ABS deals.

First-quarter Call Report data showed a further widespread deterioration in credit quality. The industry-wide charge-off rate rose to more than 2 percent of all loans, the highest level since before at least 1985, and the overall delinquency rate increased to about $5\frac{1}{2}$ percent, the highest level recorded since the fourth quarter of 1991. Even with the pressure on earnings from worsening credit quality, large banks as a group were

² Ratings upgrades outpaced downgrades in the first quarter, but most of the upgrades reportedly reflect a change in S&P’s rating methodology for municipal bonds.

Commercial Bank Credit

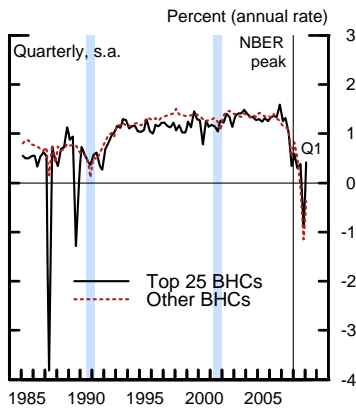
(Percent change, annual rate, except as noted; seasonally adjusted)

Type of credit	2007	H1 2008	H2 2008	Q1 2009	Apr. 2009	May 2009	Level ¹ May 2009
Total	10.9	4.1	4.6	-6.3	-12.9	1.3	9,462
<i>Loans</i> ²							
Total	11.4	5.8	2.4	-6.3	-11.0	-1.6	7,102
To businesses							
Commercial and industrial	19.5	13.6	13.0	-9.6	-16.9	-15.8	1,503
Commercial real estate	10.6	9.8	2.9	-6	-1.9	-1.9	1,723
To households							
Residential real estate	7.0	-1.0	-4.1	-1.0	-7.5	-6.8	2,158
Revolving home equity	6.5	12.2	12.9	8.4	3.5	-1.6	614
Closed-end mortgages	7.2	-5.0	-9.8	-4.5	-11.8	-8.9	1,545
Consumer	6.6	8.0	7.4	7.3	-15.5	-1	881
Originated ³	6.0	8.0	4.7	1.8	-5.0	-2.1	1,293
Other	17.2	1.4	-4.4	-36.9	-23.4	38.2	837
<i>Securities</i>							
Total	9.4	-1.2	11.5	-6.2	-18.7	10.2	2,360
Treasury and agency	-5.6	.9	37.7	4.2	-28.0	-3.2	1,365
Other ⁴	30.6	-3.5	-16.0	-20.2	-5.3	28.9	995

Note: Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. Data have been adjusted to remove the effects of mark-to-market accounting rules (FIN 39 and FAS 115), the initial consolidation of certain variable interest entities (FIN 46), and the initial adoption of fair value accounting. Data also account for the effects of nonbank structure activity of \$5 billion or more.

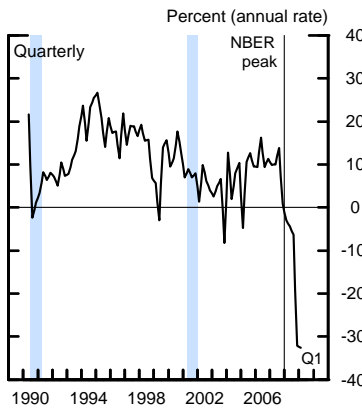
1. Billions of dollars. Pro rata averages of weekly (Wednesday) levels.
 2. Excludes interbank loans.
 3. Includes an estimate of outstanding loans securitized by commercial banks.
 4. Includes private mortgage-backed securities; securities of corporations, state and local governments, and foreign governments; and any trading account assets that are not Treasury or agency securities.
- Source: Federal Reserve.

Return on Assets



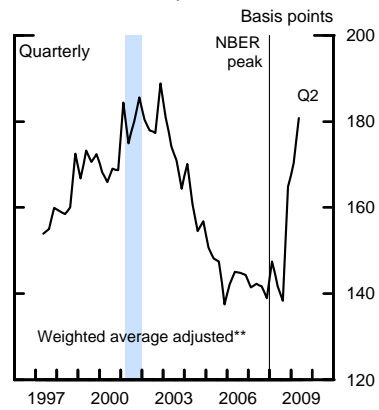
Source: Call Reports.

Growth in Unused Commitments



Source: Call Reports.

C&I Loan Rate Spreads*



*The spread over market interest rate on an instrument of comparable maturity.
 **Adjusted for changes in nonprice loan characteristics.
 Source: Survey of Terms of Business Lending.

profitable in the first quarter, reflecting a jump in noninterest income related, in part, to new FASB accounting rules and a decrease in noninterest expense. In contrast, profits of banks not among the top 25 BHCs continued to be negative as loss provisions increased further. For the banking sector as a whole, total unused commitments to fund loans, an indicator of bank credit availability, contracted sharply in the first quarter. Regulatory capital ratios increased to near the upper end of their historical ranges in the first quarter, as commercial banks continued to receive large amounts of capital from parent holding companies while average tangible assets and risk-weighted assets declined markedly.

Loan pricing data from the Survey of Terms of Business Lending conducted in early May indicated that C&I loan rate spreads over comparable-maturity market instruments rose noticeably compared with the February survey. The increase was partly attributable to a steep increase in spreads for loans made under commitment. As time has passed, more of these loans have been drawn under commitments that were priced since the onset of the financial crisis and so reflect wider prevailing spreads.

Last Page of Domestic Financial Developments

International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

The U.S. international trade deficit widened to \$29.2 billion in April, from a revised \$28.5 billion in March, as a decrease in imports was offset by a slightly larger fall in exports.

Trade in Goods and Services

	2008	Annual rate			Monthly rate		
		2008		2009	2009		
		Q3	Q4	Q1	Feb.	Mar.	Apr.
Percent change							
<i>Nominal BOP</i>							
Exports	-3.4	4.3	-38.0	-38.7	1.2	-2.0	-2.3
Imports	-7.3	5.0	-46.2	-54.7	-5.6	-.0	-1.4
<i>Real NIPA</i>							
Exports	-1.8	3.0	-23.6	-28.7	...	...	...
Imports	-7.5	-3.5	-17.5	-34.1	...	...	...
Billions of dollars							
<i>Nominal BOP</i>							
Net exports	-695.9	-743.8	-578.0	-364.8	-26.1	-28.5	-29.2
Goods, net	-840.2	-884.4	-715.3	-496.1	-37.2	-39.2	-40.1
Services, net	144.3	140.6	137.3	131.4	11.1	10.7	10.9

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

BOP Balance of payments.

NIPA National income and product accounts.

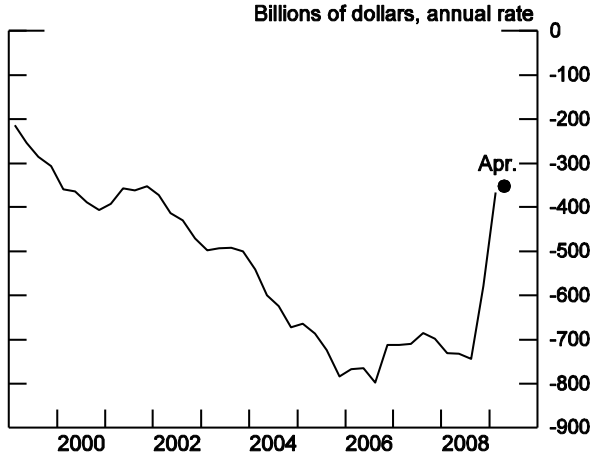
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis;
Census Bureau.

The value of exports of goods and services fell 2.3 percent in April after decreasing 2 percent in March. Most major categories of exports fell in April, with exports of machinery, industrial supplies, and consumer goods exhibiting significant declines.

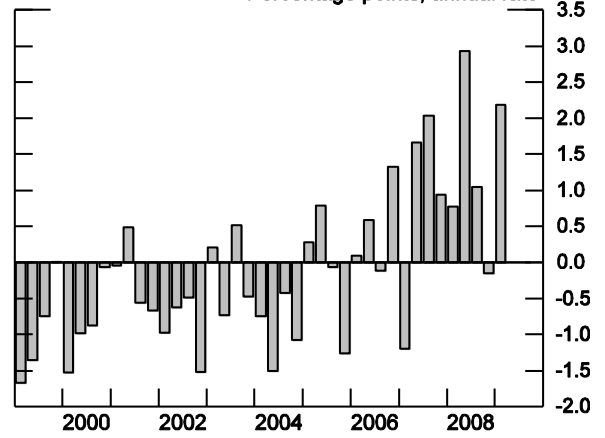
The average value of exports in the first quarter declined 39 percent at an annual rate, as almost all major categories of exports moved down, with exports of machinery, industrial supplies, and automotive products recording large decreases. The decrease in exports of automotive products reflected weak global demand but also the significant production cutbacks implemented by U.S. automakers domestically as well as in Canada and Mexico. Production cutbacks also contributed to sharp declines in auto imports (see below). In contrast, exports of aircraft increased following the end of production disruptions at Boeing in the fourth quarter.

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

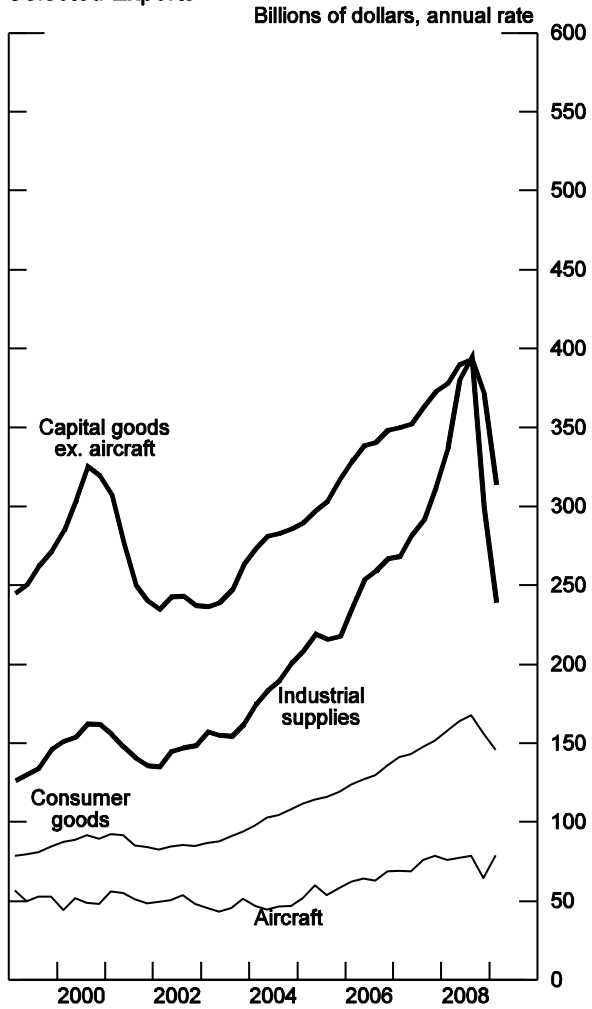
Trade Balance



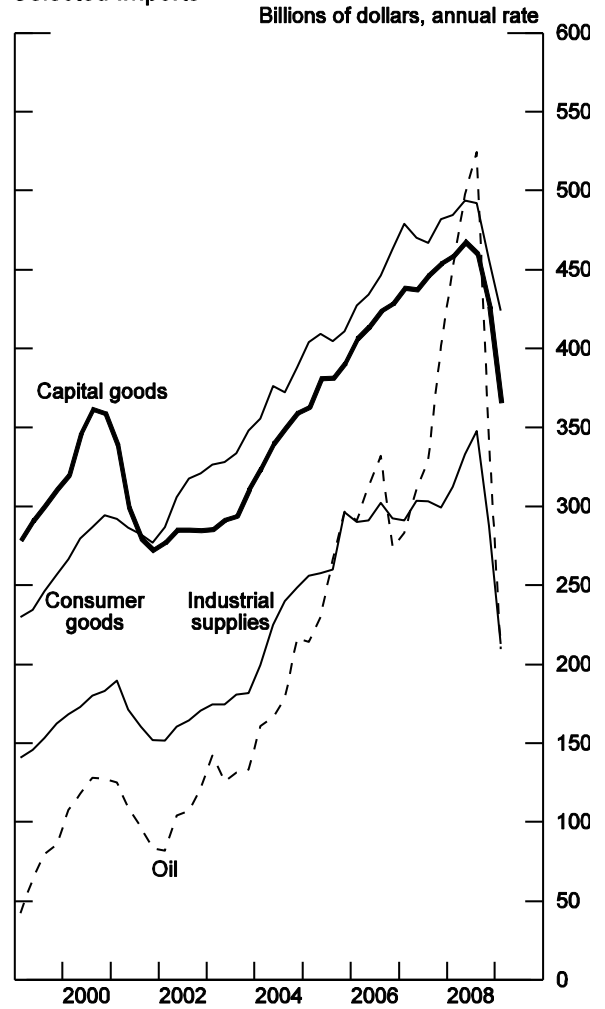
Contribution of Net Exports to Growth of Real Gross Domestic Product



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	2009	2009		2008	2009	2009	
	Q4	Q1	Mar.	Apr.	Q4	Q1	Mar.	Apr.
Exports of goods and services	1696.6	1501.2	1487.2	1453.4	-215.7	-195.4	-29.9	-33.8
Goods exports	1162.3	997.5	990.9	959.7	-189.4	-164.8	-21.4	-31.2
Gold	13.4	13.8	14.0	10.7	-4.3	.4	2.0	-3.3
Other goods	1148.9	983.7	976.9	949.0	-185.0	-165.2	-23.4	-27.9
Capital goods	436.1	393.8	383.2	370.3	-36.2	-42.3	-16.9	-12.9
Aircraft & parts	64.3	79.0	72.4	73.8	-14.2	14.7	-6.5	1.4
Computers & accessories	39.3	36.9	36.3	35.2	-6.1	-2.4	-1.2	-1.1
Semiconductors	44.0	33.4	33.6	34.0	-8.5	-10.6	-1.4	.4
Other capital goods	288.5	244.5	240.8	227.2	-7.4	-44.0	-7.8	-13.6
Automotive	109.1	70.2	72.0	70.0	-18.4	-38.9	.3	-2.0
Ind. supplies (ex. ag., gold)	299.5	240.2	241.7	229.8	-95.0	-59.3	.1	-11.9
Consumer goods	156.1	146.0	148.2	142.5	-11.4	-10.1	-4.9	-5.8
Agricultural	103.0	94.4	95.9	98.6	-22.5	-8.6	1.8	2.7
All other goods	45.1	39.1	35.9	37.9	-1.5	-6.0	-3.8	2.0
Services exports	534.3	503.7	496.3	493.6	-26.3	-30.6	-8.5	-2.6
Imports of goods and services	2274.6	1866.0	1829.6	1803.3	-381.4	-408.6	-.5	-26.2
Goods imports	1877.6	1493.6	1461.6	1440.8	-358.5	-383.9	2.7	-20.7
Oil	341.8	208.9	211.9	216.4	-181.6	-132.9	17.0	4.5
Gold	6.6	7.3	8.8	7.0	-6.0	.7	1.4	-1.8
Other goods	1529.2	1277.5	1240.8	1217.4	-170.8	-251.7	-15.7	-23.4
Capital goods	426.8	366.3	354.7	343.7	-33.9	-60.5	-6.8	-11.0
Aircraft & parts	32.2	30.2	31.4	32.6	-2.1	-2.0	.5	1.2
Computers & accessories	87.7	80.6	81.2	80.5	-13.8	-7.0	-1.1	-.7
Semiconductors	23.0	19.0	19.3	19.7	-3.1	-4.0	.6	.3
Other capital goods	284.0	236.5	222.8	211.0	-15.0	-47.5	-7.8	-11.8
Automotive	199.4	129.4	127.4	126.3	-33.1	-70.1	4.7	-1.1
Ind. supplies (ex. oil, gold)	287.7	212.9	193.3	181.9	-59.7	-74.8	-16.1	-11.5
Consumer goods	456.5	423.6	421.8	426.7	-35.6	-32.9	6.7	4.8
Foods, feeds, beverages	88.7	81.7	81.6	80.7	-2.6	-7.1	1.0	-.9
All other goods	69.9	63.7	62.0	58.2	-5.9	-6.3	-5.2	-3.8
Services imports	397.0	372.3	368.0	362.5	-23.0	-24.7	-3.2	-5.5
Memo:								
Oil quantity (mb/d)	13.59	13.78	13.52	12.44	1.53	.19	.49	-1.08
Oil import price (\$/bbl)	69.43	41.61	42.90	47.63	-49.14	-27.83	1.96	4.73

1. Change from previous quarter or month.

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

The value of imports of goods and services fell 1.4 percent in April after remaining about unchanged in March. Imports of machinery and industrial supplies displayed significant decreases, and imports of services fell moderately. Imports of oil and consumer goods increased, with the increase in the value of oil imports reflecting higher prices, as volumes moved down.

The average value of imports in the first quarter plummeted 55 percent at an annual rate. About one-third of the decline reflected a fall in the value of oil imports on account of lower prices. All other major categories of imports also declined sharply. Imports of machinery, automotive products, and industrial supplies exhibited particularly large declines.

Prices of Internationally Traded Goods

Non-oil imports. In April, prices of core imports were little changed from March with a 0.3 percent decline in prices for material-intensive goods offsetting a 0.1 percent price increase in prices for finished goods. In May, core import prices increased 0.2 percent, the first increase since August 2008, as prices for material-intensive goods increased 0.6 percent, reflecting recent rises in commodity prices.

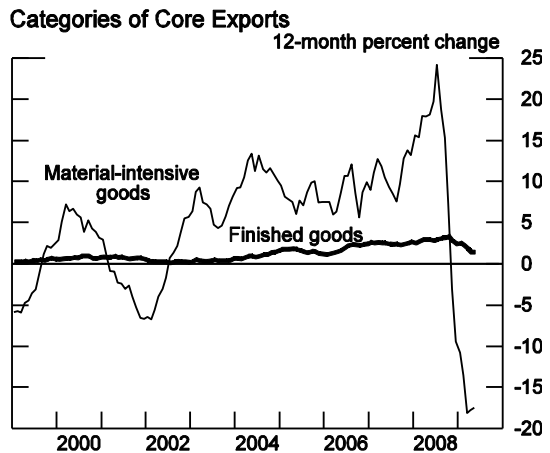
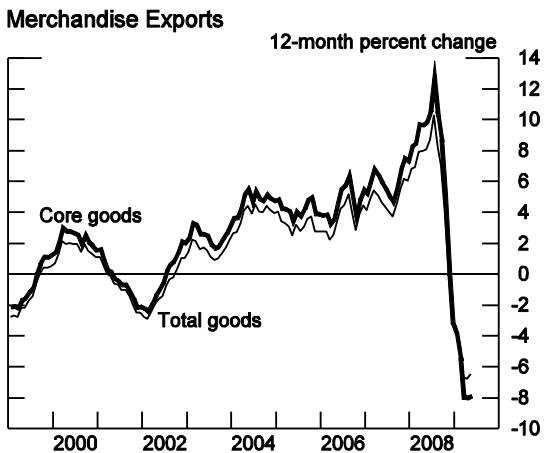
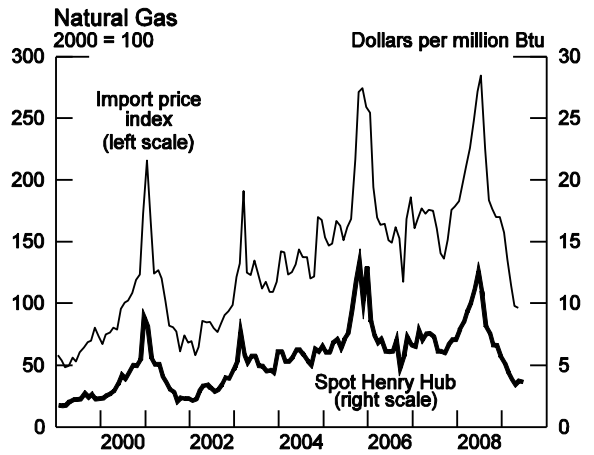
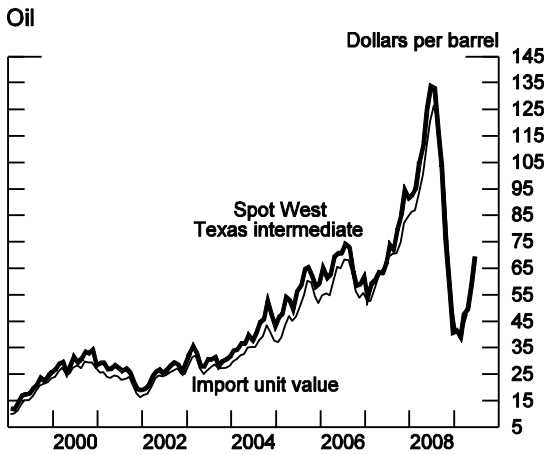
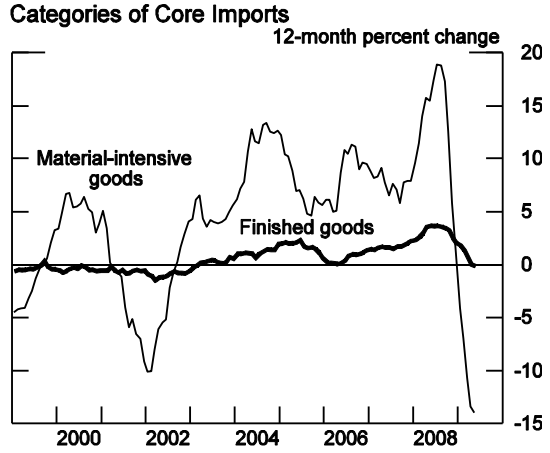
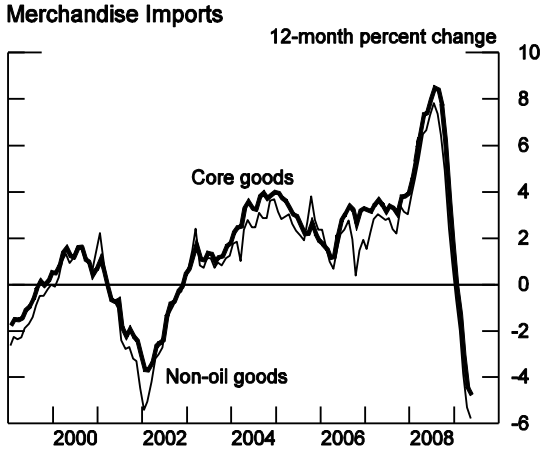
The average level of core import prices in April and May was almost 2 percent at an annual rate below the first-quarter average. Prices for material-intensive goods were down 5 percent, whereas prices for finished goods fell ½ percent.

Oil. The Bureau of Labor Statistics price index of imported oil rose 9.8 percent in April and was up an additional 8.3 percent in May. The index has now risen for four consecutive months since the trough that occurred in January of this year. The spot price of West Texas intermediate (WTI) crude oil rose at a more modest 3 percent pace in April before shooting up nearly 20 percent in May to average \$59 per barrel for the month as a whole. Since that time, spot WTI has continued to increase, closing most recently on June 16 at \$70.62 per barrel. While the lagged effects of OPEC supply restraint are likely providing some upward support, the sharply higher prices appear to also reflect more buoyant prospects for global demand for oil.

Exports. After falling sharply in February and March, core export prices rose 0.4 percent in April and 0.6 percent in May. In both months, the increase was led by prices for agricultural products, which rose over 3.5 percent each month. In contrast, non-agricultural industrial supplies rose at a more modest pace each month, increasing

0.3 percent in April and 0.5 percent in May. Prices for finished goods fell 0.1 percent in April and rose 0.2 percent in May, reflecting movements in the prices of consumer goods.

Prices of U.S. Imports and 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	2009		2009		
	Q4	Q1	Q2 ^e	Mar.	Apr.	May
	----- BLS prices -----					
Merchandise imports	-47.8	-24.3	8.6	.5	1.1	1.3
Oil	-93.2	-72.6	140.9	11.1	9.8	8.3
Non-oil	-11.9	-10.9	-3.5	-.8	-.2	.2
Core goods ¹	-11.6	-11.3	-1.9	-.6	-.0	.2
Finished goods	-1.0	-1.0	-.5	-.3	.1	.1
Cap. goods ex. comp. & semi.	-.2	-.6	-1.2	-.4	.1	.0
Automotive products	-.6	-.5	-.1	-.2	.0	.3
Consumer goods	-1.6	-1.6	-.3	-.4	.2	.0
Material-intensive goods	-29.4	-30.1	-4.9	-1.1	-.3	.6
Foods, feeds, beverages	-16.9	-9.6	.2	-.6	1.4	.3
Industrial supplies ex. fuels	-32.6	-35.4	-6.8	-1.3	-1.0	.8
Computers	-7.2	-8.3	-3.6	-.9	-.2	.2
Semiconductors	-2.4	-10.9	7.8	.0	2.3	-.3
Natural gas	-69.2	-61.3	-73.9	-15.8	-14.4	-1.4
Merchandise exports	-21.5	-8.8	.7	-.7	.4	.6
Core goods ²	-24.9	-11.0	.5	-.7	.4	.7
Finished goods	1.5	1.6	-.1	-.1	-.1	.2
Cap. goods ex. comp. & semi.	1.7	3.2	1.9	.2	.3	.2
Automotive products	1.1	.5	-.5	.1	-.1	.0
Consumer goods	1.5	-1.2	-4.7	-.7	-.9	.4
Material-intensive goods	-46.1	-24.3	1.3	-1.5	1.1	1.2
Agricultural products	-53.1	-12.4	10.3	-3.5	3.7	3.6
Industrial supplies ex. ag.	-44.5	-28.4	-1.1	-.8	.3	.5
Computers	-8.6	-9.3	-3.2	-1.5	.3	.0
Semiconductors	-13.8	7.4	10.8	.2	1.7	.3
	----- NIPA prices -----					
Chain price index						
Imports of goods & services	-37.3	-29.7	n.a	...	...	...
Non-oil merchandise	-9.9	-10.5	n.a	...	...	...
Core goods ¹	-8.5	-9.3	n.a	...	...	...
Exports of goods & services	-23.0	-11.0	n.a	...	...	...
Total merchandise	-26.0	-11.7	n.a	...	...	...
Core goods ²	-27.4	-12.1	n.a	...	...	...

1. Excludes computers, semiconductors, and natural gas.

2. Excludes computers and semiconductors.

e Estimate based on average of two months.

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.

The average level of core export prices in April and May was ½ percent at an annual rate above the first-quarter average. The rise can be attributed to the 10 percent increase in prices of agricultural products, which fell at a 12½ percent pace in the first quarter. For non-agricultural industrial supplies, after a 28½ percent price decline in the first quarter, the average price level in April and May is down only 1 percent relative to the first quarter. Prices of exported finished goods were little changed, as falling prices for consumer goods offset price increases for capital goods excluding computers and semiconductors.

U.S. International Financial Transactions

Since the previous Greenbook, we have received Treasury data on international financial transactions for March and April and Federal Reserve Bank of New York (FRBNY) custody data for May and the first half of June. Overall, these flows are consistent with the recent easing of tensions in financial markets. Although as of yet there is little indication of foreign investor interest in acquiring riskier U.S. assets, U.S. investors have resumed purchasing foreign securities.

After the unusual outflows in the fourth quarter of last year, when some official investors sold U.S. securities as they intervened to support their currencies, foreign official inflows have resumed this year (see line 1 of the table “Summary of U.S. International Transactions”).

As has been the case since last summer, official inflows continue to be overwhelmingly into U.S. Treasury securities (see the figure “Foreign Official Financial Inflows through April 2009”). FRBNY custody data indicate strong official acquisitions in May and so far in June,

As conditions stabilized in interbank funding markets, drawings on central bank liquidity swap facilities contracted somewhat further in March and more noticeably in April; this decrease generated additional official inflows as Federal Reserve deposit claims at partner central banks (included in line 2) decreased. Net outflows through the private banking sector persisted in both March and April (line 3), as private institutions continued to replace the liquidity swap facilities as sources of dollar funding abroad. The slowdown in banking outflows in the past two months may reflect a greater ability of banks abroad to tap alternative sources of funds or a general reduction in the size of bank balance sheets.

Foreign private investors continued to seek the safety of Treasury securities in March (line 4a) but sold off some of their Treasury holdings in April as the tone in financial markets improved. They appeared reluctant, however, to move into other types of U.S. securities (see the upper panels of the figure “Private Securities Flows through April 2009”). After selling U.S. equities in January and February, foreign private investors purchased a small amount, on net, in March and April (line 4d). So far this year, however, they have continued to sell, on net, U.S. agency and corporate debt (lines 4b and 4c). A further indication of continued foreign investor caution is that foreign gross purchases and sales of all U.S. securities (not shown) remain near the subdued levels of last fall.

U.S. demand for foreign securities, however, has picked up so far this year (line 5 and the bottom panels of the figure “Private Securities Flows through April 2009”). Strong purchases of foreign bonds, primarily new issues, in part reflect the improved environment for foreign bond issuance. The renewed outflows into foreign securities are in sharp contrast to the net sales of foreign securities recorded in the second half of last year.

U.S. balance of payments data, including complete information on financial transactions in the first quarter, will be released on June 17 and discussed in a Greenbook supplement.

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

	2007	2008	2008			2009		
			Q2	Q3	Q4	Q1	Mar.	Apr.
Official financial flows	381.9	-135.8	97.6	-117.2	-290.5	304.1	19.5	94.6
1. Change in foreign official assets in the U.S. (increase, +)	406.1	398.8	141.8	109.2	-21.9	61.3	8.7	34.1
a. G-10 countries + ECB	36.8	-8.4	0.3	8.9	-16.0	-7.4	6.2	1.9
b. OPEC	33.0	45.5	16.3	16.1	-3.4	-5.0	5.3	-1.4
c. All other countries	336.3	348.9	125.3	84.2	-15.4	73.7	-2.8	33.6
2. Change in U.S. official assets (decrease, +) ¹	-24.1	-534.6	-44.3	-226.4	-268.7	242.8	10.8	60.5
Private financial flows	392.4	682.3	23.0	264.5	367.4	n.a.	...	...
Banks								
3. Change in net foreign positions of banking offices in the U.S. ²	-81.7	28.3	-91.4	-31.8	311.5	-247.8	-33.0	-9.2
Securities³								
4. Foreign net purchases (+) of U.S. securities	746.9	191.9	83.8	1.3	61.0	-16.3	38.9	-50.6
a. Treasury securities	152.5	305.9	65.1	87.8	90.0	39.2	44.3	-28.4
b. Agency bonds	18.6	-132.2	-32.9	-56.3	-23.6	-47.9	-19.6	-10.5
c. Corporate and municipal bonds	384.7	7.1	52.1	-32.7	-1.8	-13.5	2.2	-14.8
d. Corporate stocks ⁴	191.1	11.0	-0.7	2.6	-3.6	6.0	11.9	3.1
5. U.S. net acquisitions (-) of foreign securities	-292.1	90.1	-34.0	84.1	76.0	-33.1	-3.1	-25.1
a. Bonds	-172.9	86.4	-12.1	70.0	37.0	-31.8	-1.5	-14.8
b. Stock purchases	-107.9	7.3	-19.9	14.1	39.7	0.6	-1.6	-10.3
c. Stock swaps ⁴	-11.3	-3.6	-2.0	0.0	-0.8	-1.9	0.0	0.0
Other flows⁵								
6. U.S. direct investment (-) abroad	-333.3	-317.8	-86.8	-52.4	-85.3	n.a.	...	...
7. Foreign direct investment in the U.S.	237.5	325.3	105.8	57.3	80.6	n.a.	...	...
8. Net derivatives (inflow, +)	6.5	-28.9	-2.4	-4.1	-14.5	n.a.	...	...
9. Foreign acquisitions of U.S. currency	-10.7	35.0	0.2	5.8	29.9	n.a.	...	...
10. Other (inflow, +) ⁶	119.3	358.4	47.9	204.1	-91.7	n.a.	...	...
U.S. current account balance⁵	-731.2	-673.3	-182.2	-181.3	-132.8	n.a.	...	...
Capital account balance⁷	-1.8	-2.6	-0.6	-0.7	-0.6	n.a.	...	...
Statistical discrepancy⁵	-41.3	129.3	62.3	34.7	56.6	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; 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.

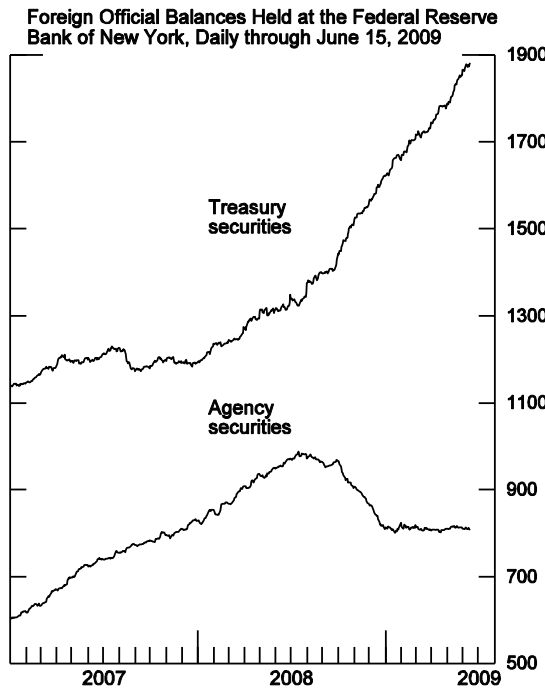
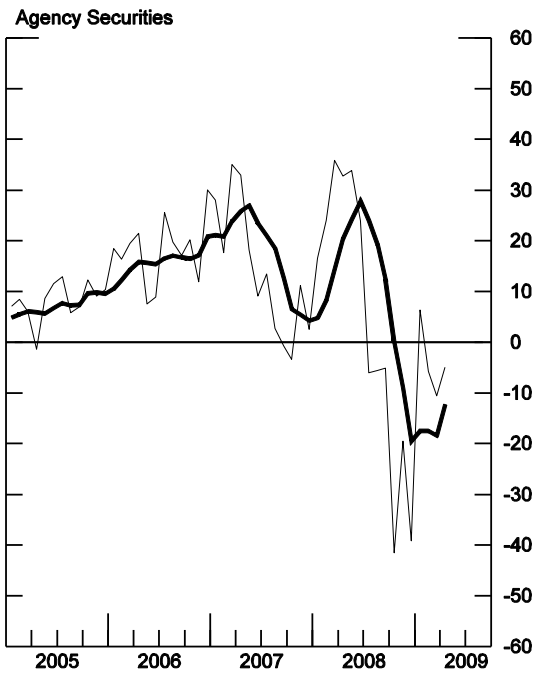
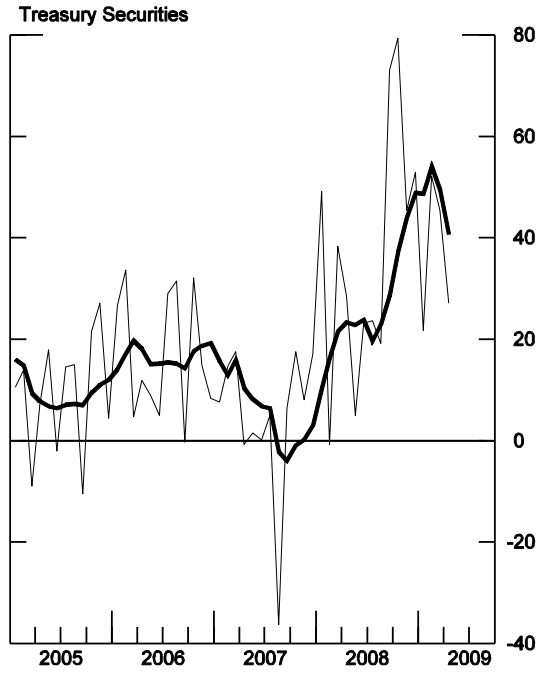
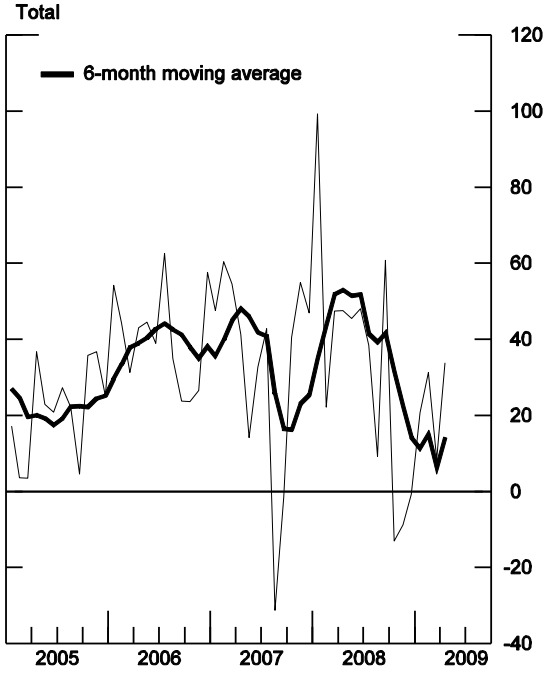
OPEC Organization of the Petroleum Exporting Countries.

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 April 2009

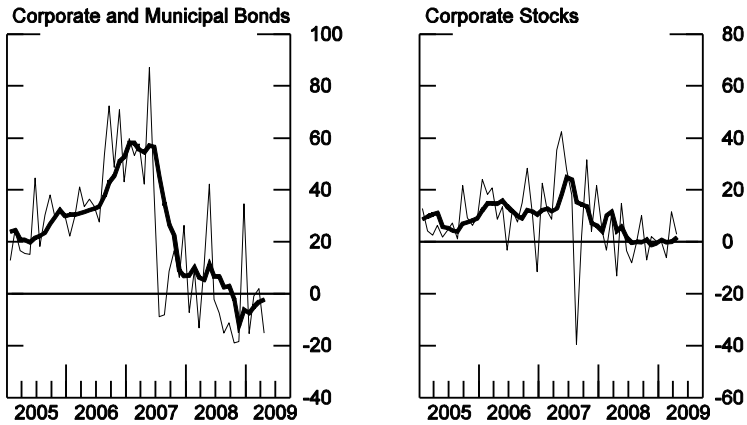
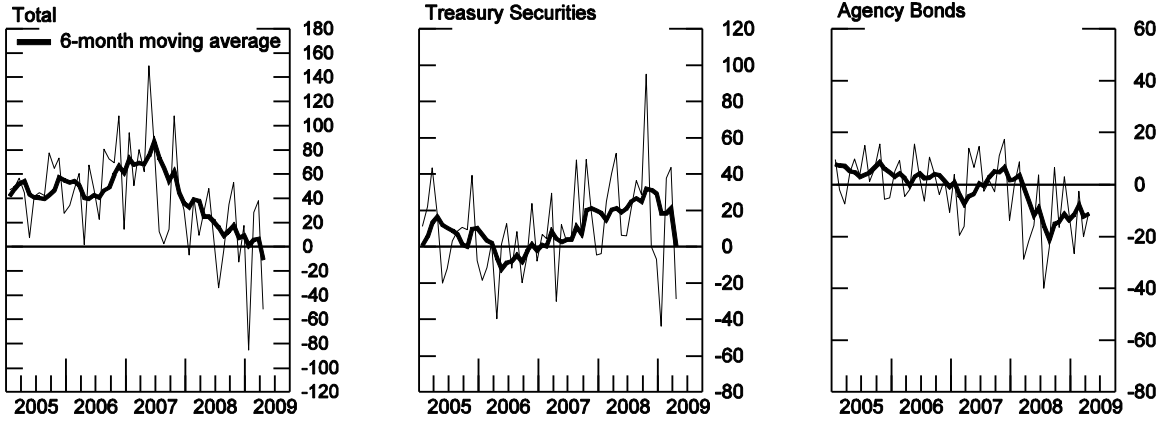
(Billions of dollars; monthly rate, not seasonally adjusted)



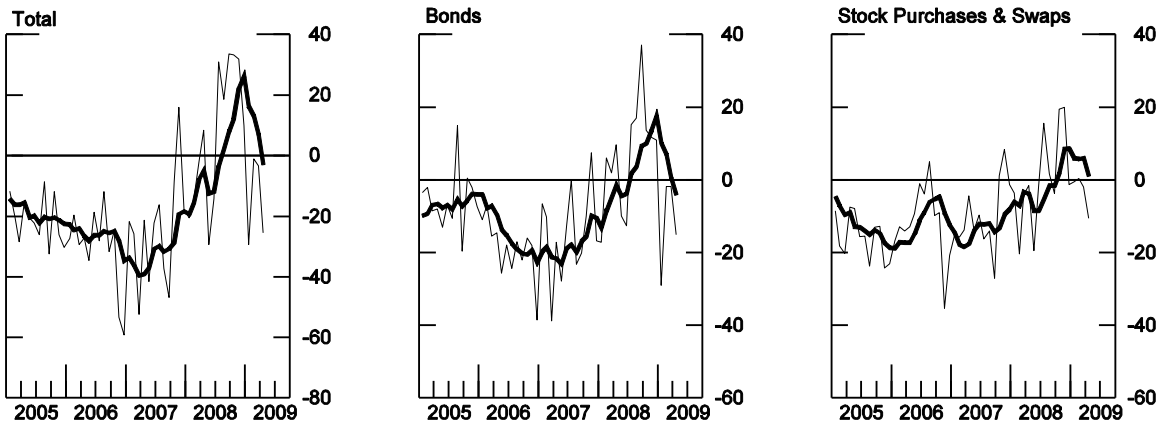
Source: U.S. Treasury International Capital reports with staff adjustments and the Federal Reserve Bank of New York.

Private Securities Flows through April 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

The major currencies index of the dollar has declined more than 7 percent since the time of the April Greenbook, as the dollar depreciated substantially against the currencies of all of its major trading partners except the yen. This decline appeared to be driven by a renewed sense of optimism about global growth prospects, leading investors to shift away from safe-haven assets in the United States and Japan to riskier assets elsewhere. This shift marked a reversal of the flows that supported the dollar and yen in the fourth quarter of 2008 when investors moved into safer assets. Despite some speculation that foreign governments were selling U.S. assets and thereby hastening the dollar's decline, available data do not support these rumors (see *U.S. International Financial Transactions* in this part of the Greenbook), and officials at several Asian central banks publicly reaffirmed that their demand for U.S. Treasury securities had not materially changed. The Mexican peso depreciated against the dollar in the wake of Mexico's weak macroeconomic performance over the period, while Chinese authorities held the renminbi nearly unchanged against the dollar. However, the dollar depreciated against most other emerging market currencies, prompting several central banks to intervene to purchase dollars in recent weeks.

Global interbank markets improved in the wake of the May 7 release of the results of the Federal Reserve's Supervisory Capital Assessment Program, and the strong performance by financial stocks helped lead headline equity indexes higher. Although the news over the period was dominated by the success that many U.S. banks had in raising capital in order to repay funds received from the TARP, several foreign banks also took advantage of improved credit conditions to raise capital, including Barclays, Lloyds, Commerzbank and the Australia and New Zealand Banking Group. In addition, foreign banks increased their issuance of debt outside of their government guarantee programs. Libor-to-OIS spreads in euro and sterling decreased as foreign banks began to successfully access capital markets. Spreads between three-month euro Libor and OIS rates fell from 56 to 48 basis points while comparable spreads in sterling fell from 107 to 81 basis points. The improved access to capital markets and the better economic outlook buoyed bank stocks, which rose 11 to 14 percent in Europe and Japan, while headline stock indexes in those countries rose 6 to 12 percent. Most EME stock markets rose at least 10 percent, with several rising more than 20 percent, and mutual fund flows into those markets strengthened.

Yields on long-term sovereign nominal and indexed bonds rose over the period, though by less than in the United States. Yields on benchmark German and British nominal bonds increased 32 and 45 basis points respectively, with rates on comparable inflation-protected bonds rising 7 and 19 basis points. Although the widening differences between nominal and real bond yields might be interpreted as indicating that inflation expectations have increased, it seems likely that improving liquidity conditions contributed substantially to the more limited rise in inflation-protected yields. The rise in yields has likely been at least partially driven by an increased willingness on the part of investors to move out of safe assets such as government bonds and into riskier investments; however, a segment of the investment community seems also to have grown concerned about the effect that rising fiscal deficits may have on inflation and the returns to holding long-term bonds. On May 21, Standard & Poor's cut its outlook for the United Kingdom, warning that government debt may soar close to 100 percent of GDP. Ten-year gilt yields rose 15 basis points over the following day and a half, while the pound declined 1.5 percent despite the fact that Fitch and Moody's reaffirmed their highest ratings for the United Kingdom.

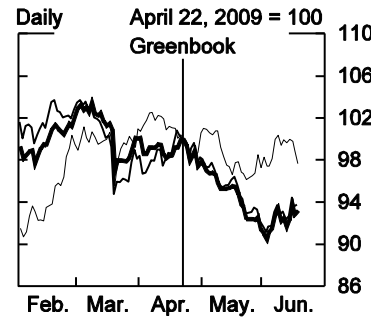
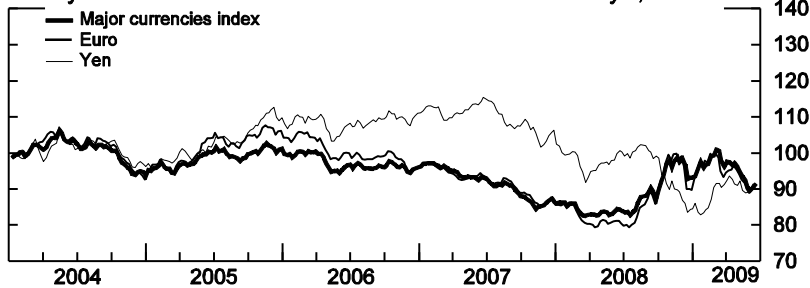
The rise in bond yields among the advanced foreign economies came even though the ECB lowered its policy rate by 25 basis points to 1 percent while the Bank of England and Bank of Japan kept their policy rates fixed at very low levels. The ECB and Bank of England also announced new unconventional monetary policy decisions. Yields on longer-term gilts fell immediately after the Bank of England's announced on May 7 that it would increase the size of its asset purchases from £75 billion to £125 billion, but this action only temporarily halted the upward trend in rates. Yields on covered bonds fell up to 30 basis points in the days following the ECB's May 7 announcement that it would purchase up to €60 billion of those bonds. As with gilts, yields on European covered bonds have since risen, but the spread between covered and government bonds has remained lower than its level prior to the ECB's announcement.

Exchange Value of the Dollar and Stock Market Indexes

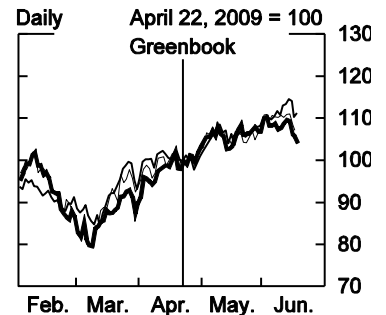
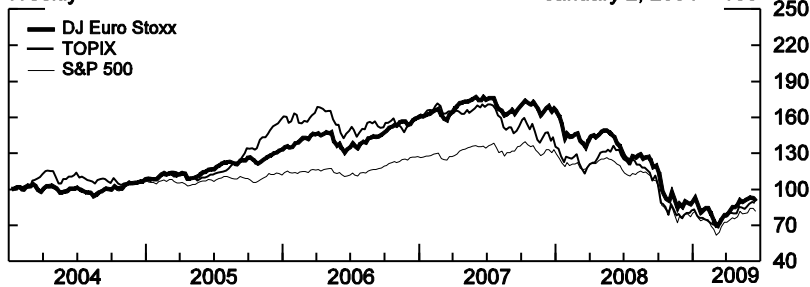
	Latest	Percent change since April Greenbook
<i>Exchange rates*</i>		
Euro (\$/euro)	1.3878	-6.2
Yen (¥/\$)	95.9	-2.3
Sterling (\$/£)	1.6288	-11.0
Canadian dollar (C\$/\\$)	1.1378	-8.0
<i>Nominal dollar indexes*</i>		
Broad index	105.6	-4.1
Major currencies index	77.5	-6.8
OITP index	136.3	-1.7
<i>Stock market indexes</i>		
DJ Euro Stoxx	222.0	4.4
TOPIX	923.0	11.2
FTSE 100	4280.7	6.2
S&P 500	912.0	8.1

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

Exchange Value of the Dollar
Weekly



Stock Market Indexes
Weekly

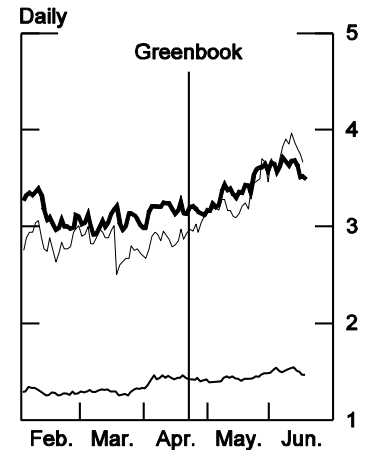
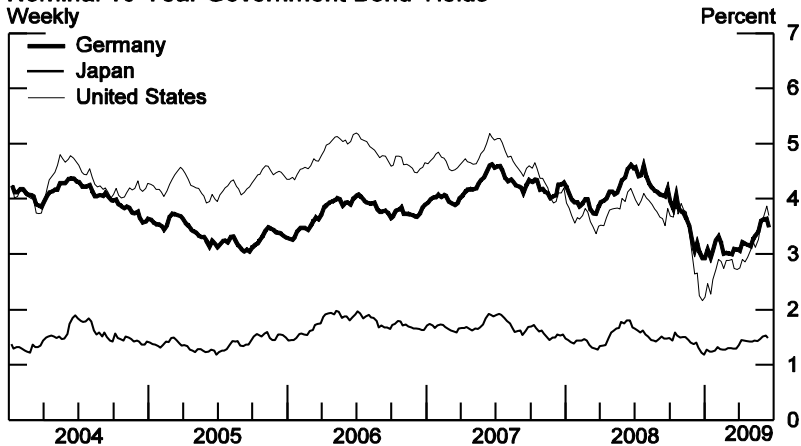


Industrial Countries: Nominal and Real Interest Rates

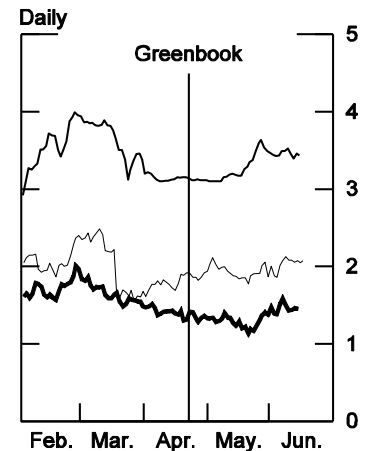
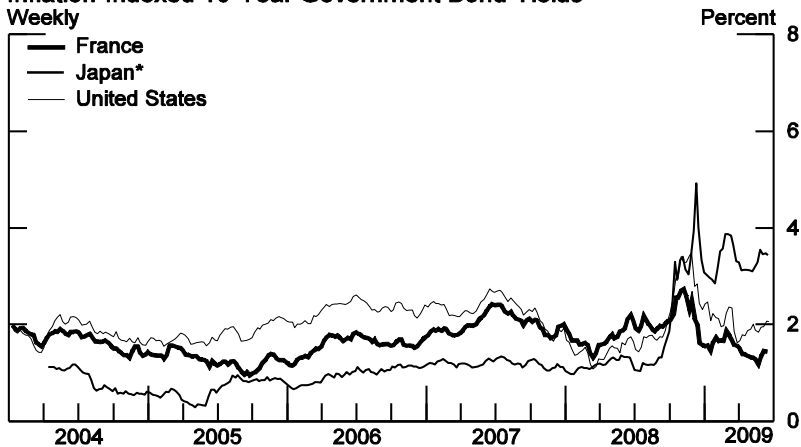
	3-month Libor		10-year nominal		10-year indexed		Percent
	Latest	Change since Apr. Greenbook	Latest	Change since Apr. Greenbook	Latest	Change since Apr. Greenbook	
Germany	1.24	-0.17	3.50	0.29	1.49	0.09	
Japan	0.49	-0.07	1.47	0.05	3.43	0.30	
United Kingdom	1.25	-0.25	3.84	0.40	1.21	0.08	
Canada	0.63	-0.38	3.46	0.56	...	...
United States	0.61	-0.49	3.67	0.73	2.08	0.15	

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

Nominal 10-Year Government Bond Yields
 Weekly



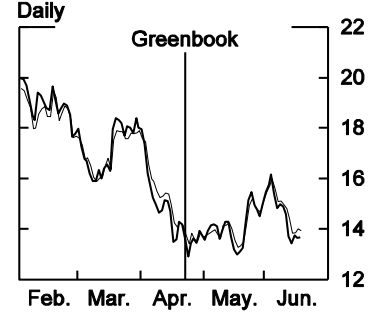
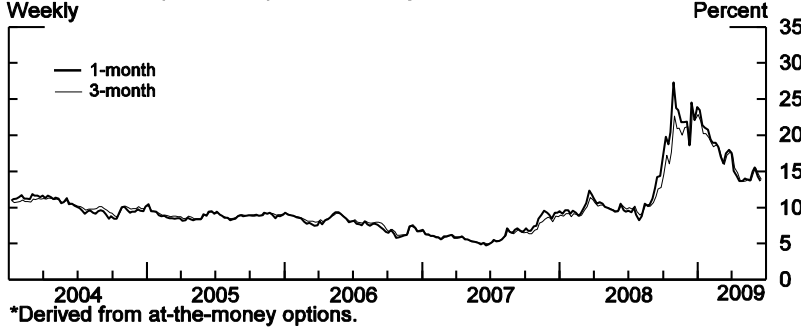
Inflation-Indexed 10-Year Government Bond Yields
 Weekly



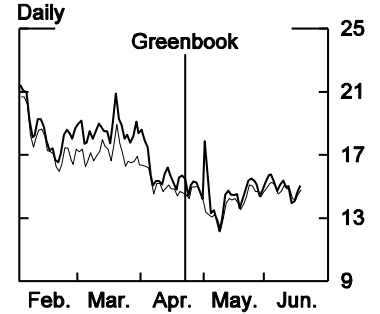
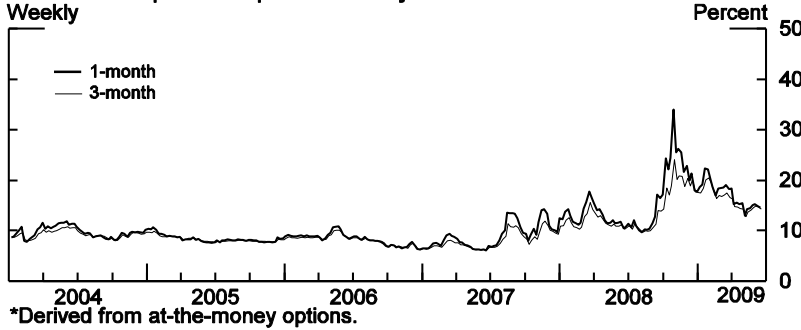
*Japan first issued inflation-indexed debt in March 2004.

Measures of Market Volatility

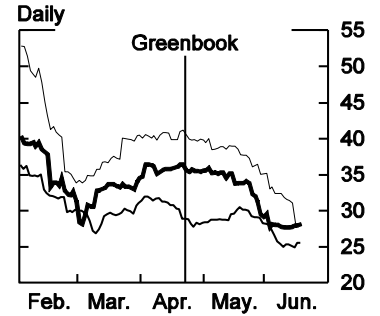
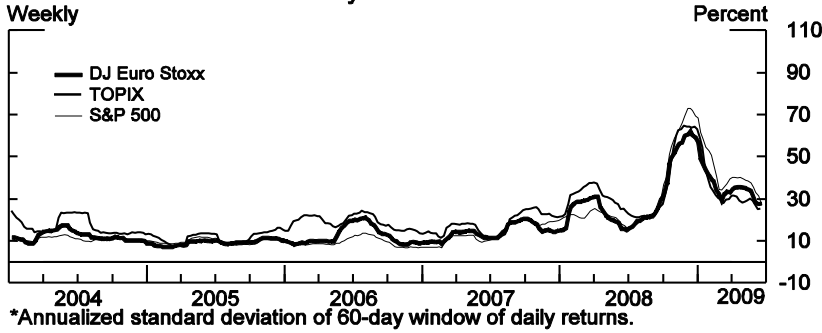
Dollar-Euro Options-Implied Volatility*
Weekly



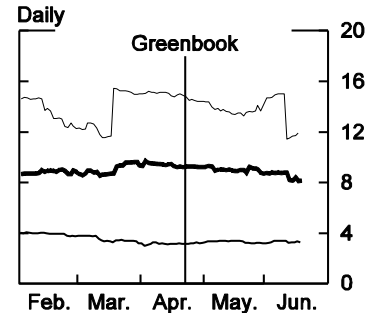
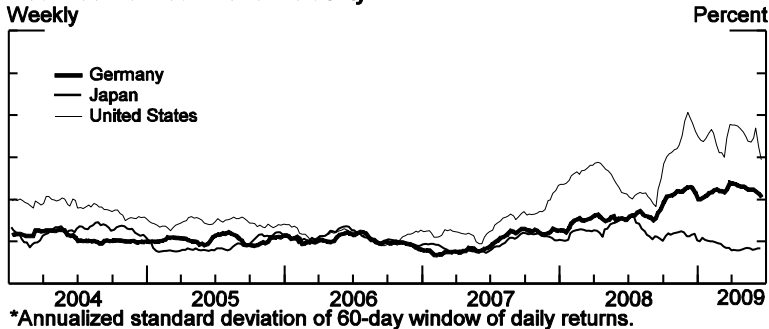
Yen-Dollar Options-Implied Volatility*
Weekly



Realized Stock Market Volatility*
Weekly



Realized 10-Year Bond Volatility*
Weekly

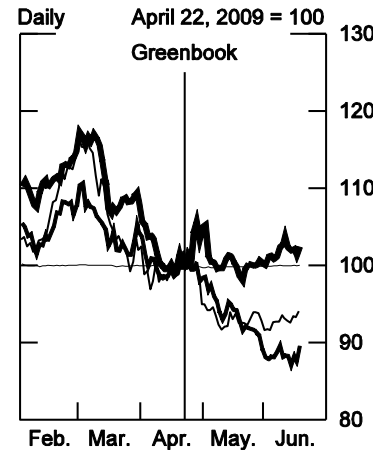
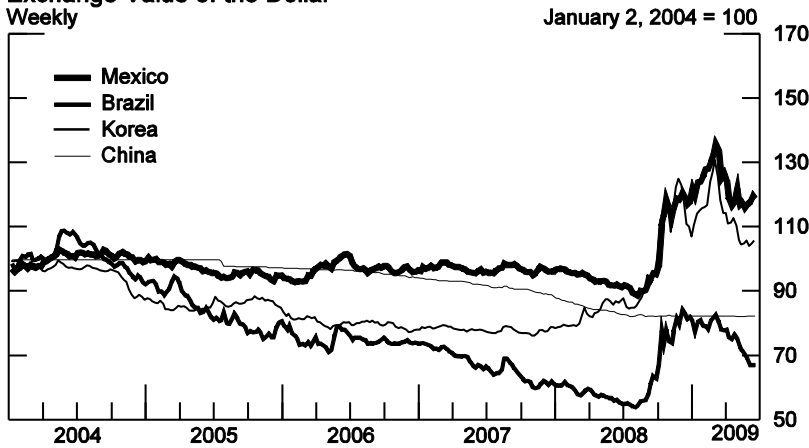


Emerging Markets: Exchange Rates and Stock Market Indexes

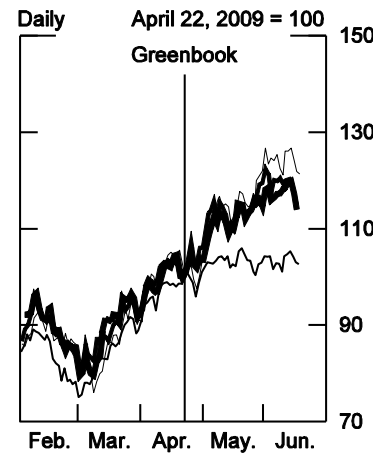
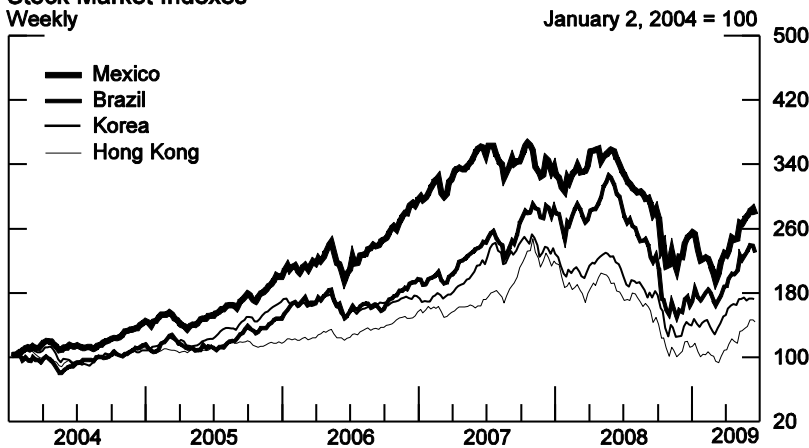
	Exchange value of the dollar		Stock market index	
	Latest	Percent change since Apr. Greenbook*	Latest	Percent change since Apr. Greenbook
Mexico	13.4605	2.5	24225	14.2
Brazil	1.9761	-10.4	51206	15.2
Venezuela	2.14	-0.0	43476	-2.0
China	6.8374	0.1	2810	14.2
Hong Kong	7.7504	0.0	18085	21.5
Korea	1265.2	-6.0	1391	2.6
Taiwan	32.89	-2.8	6890	17.1
Thailand	34.14	-4.0	586	27.3

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

Exchange Value of the Dollar
Weekly



Stock Market Indexes
Weekly

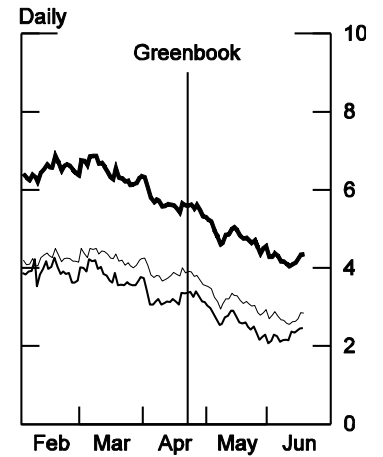
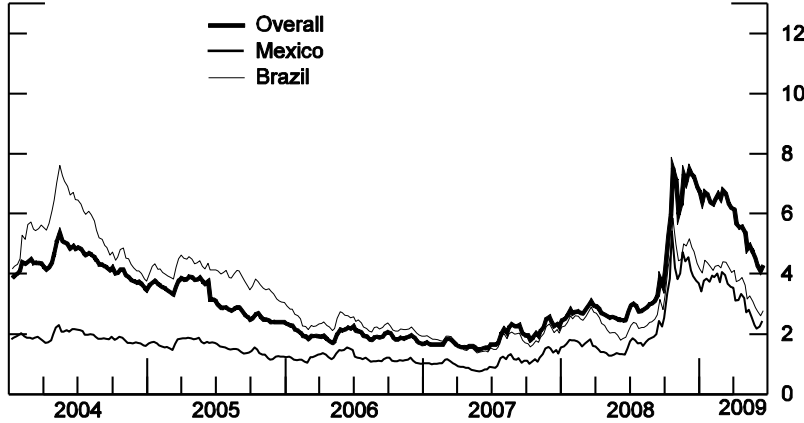


Emerging Markets: Short-Term Interest Rates and Dollar-Denominated Bond Spreads

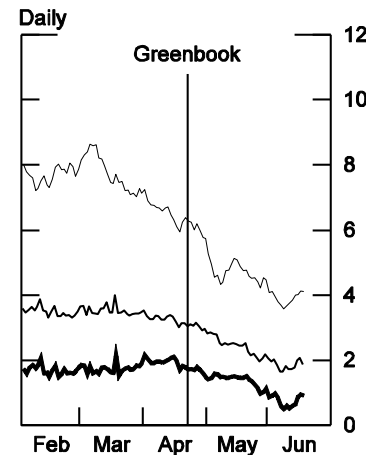
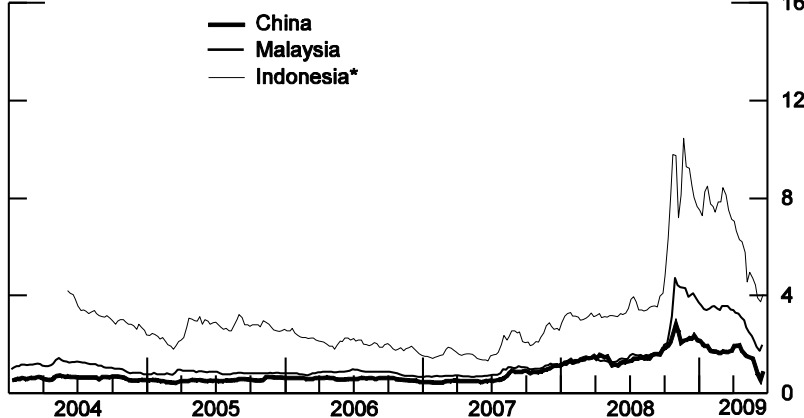
	Short-term interest rates*		Dollar-denominated bond spreads**	
	Latest	Change since Apr. Greenbook	Latest	Change since Apr. Greenbook
Mexico	5.01	-0.83	2.45	-0.89
Brazil	9.43	-1.65	2.86	-1.03
Argentina	13.13	0.00	11.01	-6.33
China	...	...	0.93	-0.87
Korea	2.10	-0.00	...	...
Taiwan	1.09	0.01	...	...
Singapore	0.31	0.00	...	...
Hong Kong	0.10	-0.18	...	...

*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



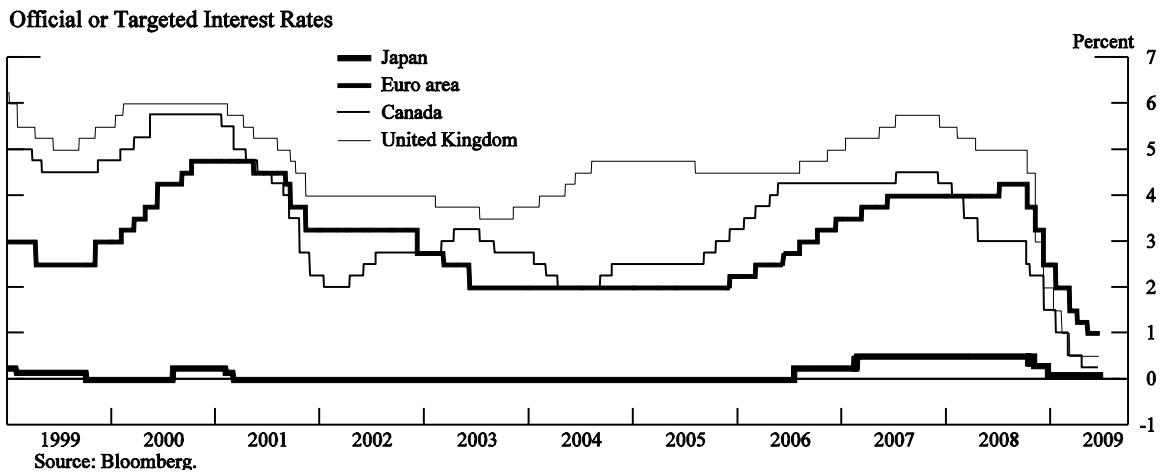
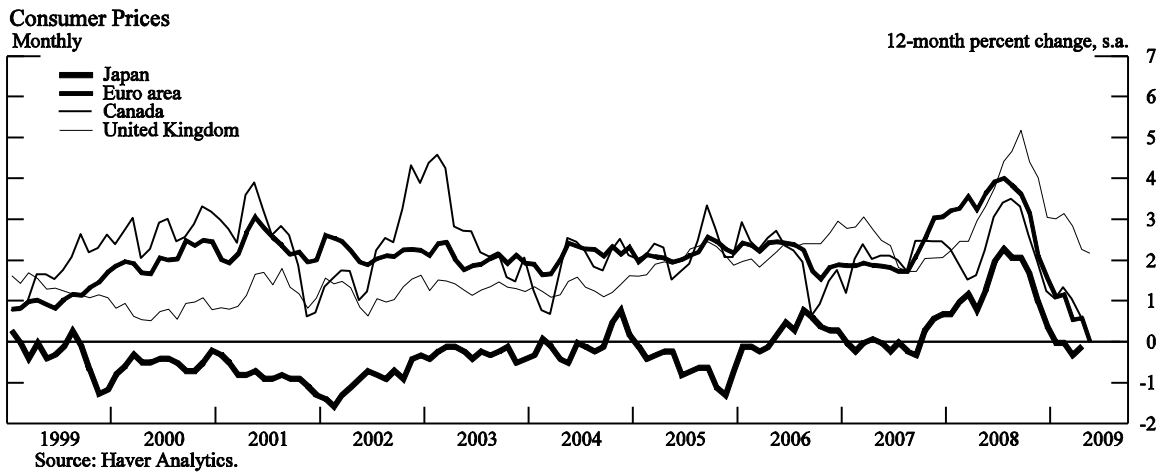
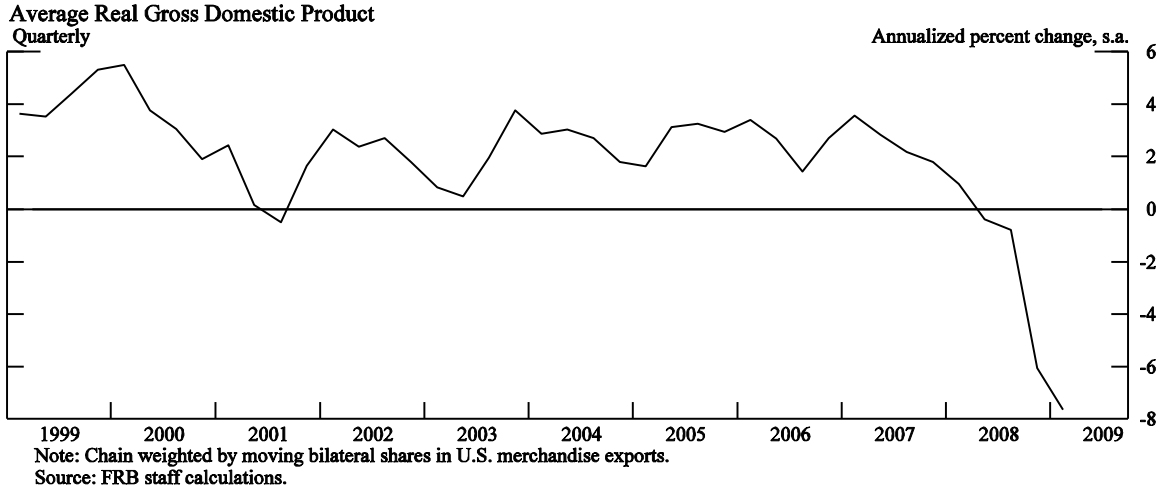
*Begins May 2004.

Developments in Advanced Foreign Economies

The contraction of output in the advanced foreign economies deepened in the first quarter, with real GDP declining at an average pace of more than 7½ percent. Domestic demand plummeted in all major economies, led by double-digit declines in fixed investment and sizable negative contributions of inventories to growth. Recent indicators of economic activity, however, suggest that the pace of contraction likely moderated in the current quarter. Purchasing managers indexes (PMIs) rebounded from the exceptionally low levels reached in the first quarter, and industrial production stabilized somewhat, expanding in several economies for the first time in about a year.

Twelve-month consumer price inflation continued to moderate, with headline inflation standing around zero in all major economies except the United Kingdom, where it has moved down to about 2 percent. Excluding food and energy prices, the slowing in consumer price inflation has been roughly stable. Over the intermeeting period, the European Central Bank (ECB) reduced its main policy rate ¼ percentage point and also announced that it will purchase €60 billion worth of covered bonds over the next 12 months. The Bank of England (BOE) and the Bank of Japan (BOJ) have continued purchasing assets as part of their unconventional monetary policy actions.

Advanced Foreign Economies



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

Component	2007 ¹	2008 ¹	2008			2009
			Q2	Q3	Q4	Q1
GDP	1.9	-4.4	-2.2	-2.9	-13.5	-14.2
Total domestic demand	0.5	-1.8	-4.4	-2.7	-1.3	-8.8
Consumption	0.2	-0.2	-3.8	0.5	-3.1	-4.2
Private investment	-1.7	-8.6	-10.5	-12.0	-17.3	-29.3
Public investment	-4.4	-5.0	-2.9	3.9	-0.3	0.3
Government consumption	3.3	0.2	-3.5	-0.6	6.5	0.1
Inventories ²	0.4	0.1	0.6	-0.6	2.3	-0.6
Exports	10.1	-12.5	-3.2	4.0	-47.1	-70.0
Imports	1.7	2.8	-15.7	6.3	13.1	-47.8
Net Exports ²	1.3	-2.3	1.3	-0.0	-10.5	-7.8

1. Q4/Q4.

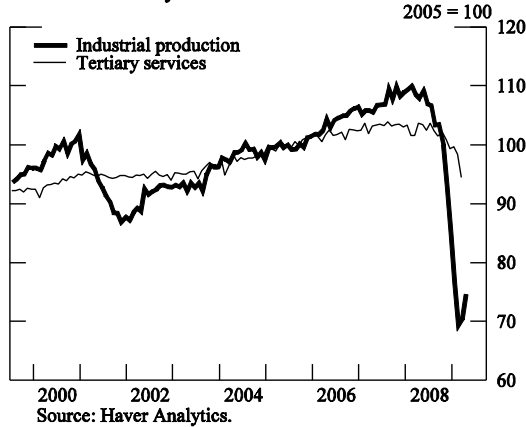
2. Percentage point contribution to GDP growth.

Source: Haver Analytics.

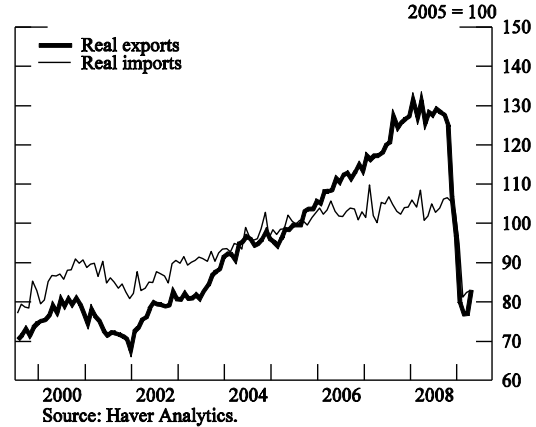
Japanese GDP fell a record-breaking 14.2 percent (s.a.a.r.) in the first quarter following a 13.5 percent contraction in the fourth quarter. Total domestic demand and net exports provided comparable negative contributions to the first-quarter fall. Real private investment dropped almost 30 percent (a.r.), and has now fallen in six out of the past seven quarters. Private consumption declined further, and government consumption was little changed. Both exports and imports plunged at an unprecedented pace, resulting on net in a negative contribution of the external sector to growth of about 8 percentage points.

Japan

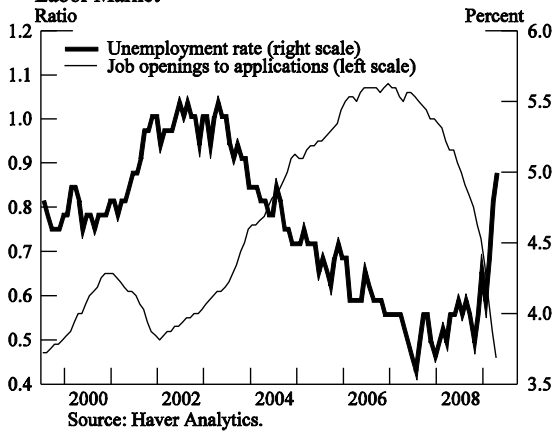
Economic Activity



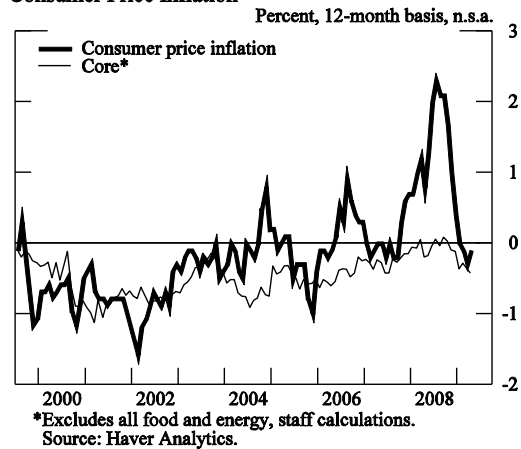
Real Trade



Labor Market



Consumer Price Inflation



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

Indicator	2008		2009	2009			
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Housing starts	-1.6	-8.3	-10.6	-9.5	2.6	-12.3	n.a.
Machinery orders ¹	-8.9	-15.1	-9.9	0.6	-1.3	-5.4	n.a.
Household expenditures	-0.3	-1.4	-1.8	-1.4	0.6	0.7	n.a.
New car registrations	-2.6	-14.6	-12.7	-6.3	-3.0	11.3	3.3
Business sentiment ²	-14.0	-24.0	-46.0	...	...	...	...
Wholesale prices ³	7.3	2.6	-1.8	-1.8	-2.5	-4.0	-5.4

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: Haver Analytics.

Recent indicators for economic activity are mixed but positive on balance. Industrial production jumped a near-record 5.2 percent in April, although it remains well below its year ago level. Consumption growth in March and April was much better than expected, and consumer confidence increased further. Real exports rose sharply in April and imports edged up, suggesting that net exports might contribute positively to growth in the second quarter.

Indicators for the housing sector and the labor market remain weak. In April, housing starts fell roughly 12 percent from the previous month and were down more than 30 percent in the last 12 months. The ratio of job openings to applicants (the number of officially posted job openings relative to the number of officially registered job seekers) reached a record low level of 0.46 in April. Employment fell 1.7 percent over the last 12 months, a rate consistent with the 2001 and 1974 recessions, and the unemployment rate increased to 5 percent.

Japanese consumer prices fell slightly over the 12 months ending in April, leaving inflation well below the peak of 2.3 percent reached last July. Excluding food and energy prices, 12-month consumer price inflation was -0.4 percent in April.

The Bank of Japan left its target for the call rate unchanged at 0.1 percent over the intermeeting period and continued to purchase commercial paper, corporate bonds, equities, and government bonds. On the fiscal front, political infighting appears to be slowing the implementation of the fiscal stimulus packages announced earlier this year. At the end of May, however, the Japanese government enacted a supplementary budget funding a large portion of the stimulus.

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

Component	2007 ¹	2008 ¹	2008			2009
			Q2	Q3	Q4	Q1
GDP	2.2	-1.7	-1.0	-1.4	-6.8	-9.7
Total domestic demand	2.0	-0.3	-1.9	1.5	-2.9	-8.1
Consumption	1.2	-0.6	-1.2	0.2	-1.6	-1.9
Investment	3.4	-5.5	-5.2	-3.8	-16.1	-15.7
Government consumption	2.0	2.1	3.3	2.0	1.5	0.1
Inventories²	0.2	0.7	-0.7	1.6	1.2	-3.7
Exports	3.9	-6.5	-1.2	-2.3	-25.9	-28.8
Imports	3.5	-3.7	-3.2	4.3	-18.9	-25.7
Net Exports²	0.2	-1.3	0.9	-2.9	-4.0	-1.7
Memo:						
GDP of selected countries						
France	2.2	-1.7	-1.6	-0.7	-5.7	-4.7
Germany	1.7	-1.8	-2.0	-2.1	-8.6	-14.4
Italy	0.2	-3.0	-2.2	-3.1	-8.3	-10.1

1. Q4/Q4.

2. Percentage point contribution to GDP growth.

Source: Haver Analytics.

In the **euro area**, real GDP contracted 9.7 percent at an annual rate in the first quarter, with German GDP falling more than 14 percent. Inventory adjustment was a significant drag on euro-area GDP growth after contributing positively to growth late last year. Both investment and consumption spending declined at about their fourth-quarter pace. The negative contribution of net exports was less severe than in the previous two quarters, as the decline in imports was deeper than the drop in exports.

Indicators received during the intermeeting period point to a moderation in the pace of contraction in the current quarter. Industrial production in March and April fell at the slowest rate since last August. Retail sales edged up in April for the first time in seven months. The business climate index and economic sentiment indicators rebounded moderately in April and May. PMIs rose in April and turned up sharply in May.

In contrast, labor market conditions have continued to worsen. The euro-area unemployment rate rose to 9.2 percent in April, up from a low of 7.2 percent in early 2008. However, the extent of deterioration has varied considerably among euro-area countries, with the Spanish unemployment rate up more than 10 percentage points from

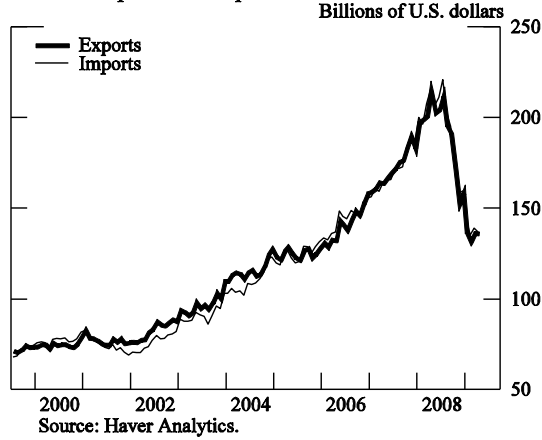
its most recent low, while Germany's unemployment rate has risen only about ½ percentage point. The relatively small response of the German unemployment rate, partly, reflects government subsidies to firms to retain employees. The decline in the German workweek has been more significant.

Twelve-month euro-area inflation was zero in May, down from 0.6 percent in April. Excluding energy and unprocessed food, inflation was 1.6 percent.

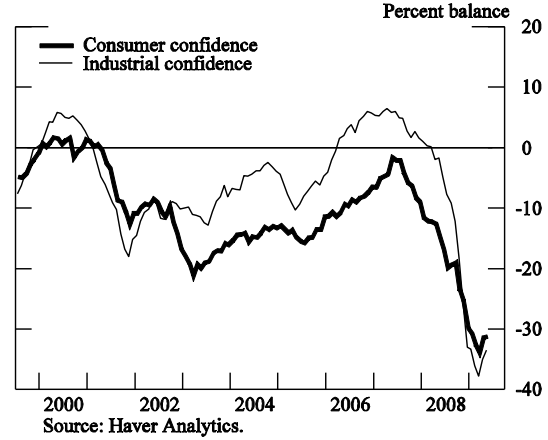
The Governing Council of the ECB cut its main policy rate 25 basis points, to 1 percent, at its May 7 meeting. In addition, President Trichet announced plans to extend the maturity of liquidity operations up to 12 months, prolong the duration for the extended list of eligible collateral to the end of 2010, and buy €60 billion worth of covered bonds. At its June 4 meeting, the ECB kept its policy rate unchanged and provided more details on its asset purchase program: Covered bond purchases will be made in both primary and secondary markets, will be spread out over the year starting in July 2009, and will involve bonds that are eligible for use as collateral in the ECB's financing operations, with a minimum rating of AA from one of the three main ratings agencies.

Euro Area

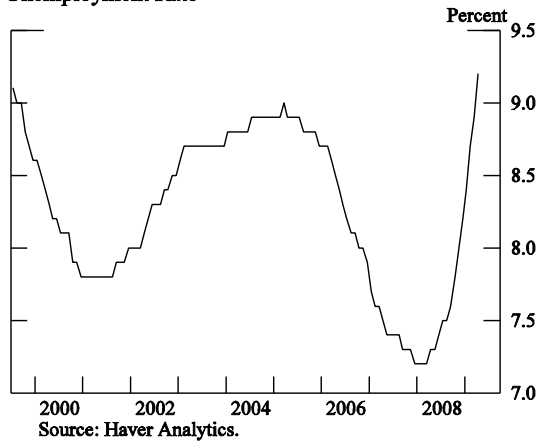
Nominal Exports and Imports



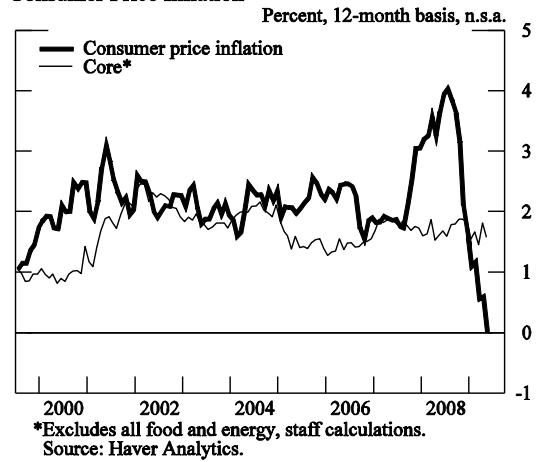
Economic Sentiment



Unemployment Rate



Consumer Price Inflation



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

Indicator	2008		2009	2009			
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Industrial production ¹	-2.9	-6.4	-7.7	-2.7	-2.6	-1.4	-1.5
Retail sales volume ²	-0.6	-0.8	-0.9	-0.4	-0.5	-0.1	0.2
New car registrations	-5.1	-6.7	1.2	-3.2	9.9	4.0	-0.3
Employment	-0.2	-0.4	-0.8	...	...	...	...
Producer prices ³	6.9	2.6	-1.9	-1.0	-1.8	-3.0	-4.2
M3 ³	10.0	9.2	6.4	6.8	6.7	5.9	5.7

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: Haver Analytics.

In the **United Kingdom**, real output contracted 7.3 percent (s.a.a.r.) in the first quarter, pushed down by a correspondingly sharp fall in domestic demand. Private consumption dropped almost 5 percent, and investment tumbled amid cutbacks in capital expenditures across virtually all sectors. Inventories continued to contribute negatively to growth, whereas the external sector again contributed positively to growth.

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

Component	2007 ¹	2008 ¹	2008			2009
			Q2	Q3	Q4	Q1
GDP	3.2	-2.0	-0.1	-2.8	-6.1	-7.3
Total domestic demand	3.7	-2.9	-0.1	-3.1	-8.5	-7.6
Consumption	3.7	-0.8	-1.4	-0.8	-3.8	-4.9
Investment	4.4	-8.0	-2.3	-10.8	-5.4	-14.2
Government consumption	1.5	4.4	4.5	2.8	5.4	1.2
Inventories²	0.3	-2.0	0.1	-1.2	-6.4	-2.3
Exports	3.5	-4.4	-6.0	0.8	-14.9	-22.1
Imports	5.6	-7.6	-5.6	-0.6	-21.5	-21.5
Net Exports²	-0.7	1.1	0.1	0.4	2.8	0.4

1. Q4/Q4.

2. Percentage point contribution to GDP growth.

Source: Haver Analytics.

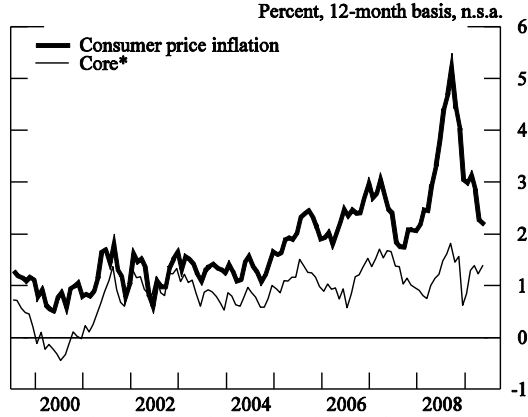
Incoming data suggest that the pace of economic contraction has moderated markedly in the second quarter. Industrial production edged up in April after declining for 13 consecutive months. In May, the PMI index rose above 50 for the first time since April 2008, a reading consistent with a slight expansion. Orders for new houses and lending for house purchases edged up in March and April, suggesting that activity in the housing sector has stabilized somewhat. In May, the number of persons claiming unemployment benefits posted the smallest increase since July 2008.

Price pressure eased noticeably in recent months. The 12-month rate of consumer price inflation fell to 2.2 percent in May. Excluding food and energy, inflation was 1.4 percent.

During the intermeeting period, the BOE continued its steady purchases of public and private assets under its quantitative easing program. As of June 4, the BOE had acquired nearly £80 billion in assets, the vast majority (£77 billion) of which were gilts.

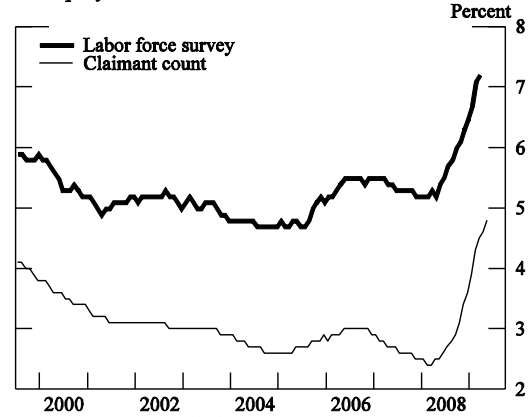
United Kingdom

Consumer Price Inflation



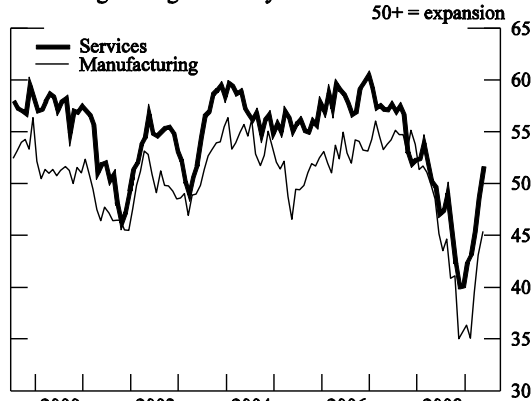
*Excludes all food and energy, staff calculations.
Source: Haver Analytics.

Unemployment Rates



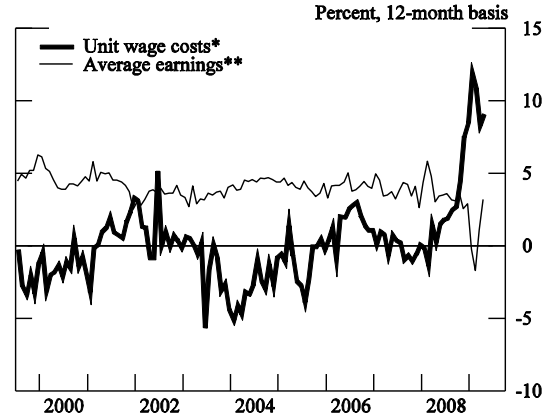
Source: Haver Analytics.

Purchasing Managers Survey



Source: Reuters.

Labor Costs



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

Economic Indicators

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

Indicator	2008		2009	2009			
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Producer input prices ¹	28.1	9.0	0.6	0.7	-0.5	-5.8	-9.4
Industrial production	-1.9	-4.6	-5.3	-0.7	-0.2	0.2	n.a.
Business confidence ²	-12.0	-38.3	-45.0	-44.0	-48.0	-32.0	-17.0
Consumer confidence ²	-24.2	-27.4	-31.5	-31.5	-28.0	-21.8	-22.1
Trade balance ³	-24.3	-11.9	-11.2	-3.4	-3.8	-4.4	n.a.
Current account ³	-15.4	-12.0	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: Haver Analytics; FRB staff calculations.

In **Canada**, real GDP fell 5.4 percent in the first quarter (s.a.a.r.) following a 3.7 percent decline in the previous quarter. Total domestic demand declined almost 10 percent, as investment fell sharply and inventories provided a sizable negative contribution to growth. The decline in private consumption was smaller than in the fourth quarter, but government consumption growth slowed. Net exports made a large positive contribution to growth as imports fell faster than exports.

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

Component	2007 ¹	2008 ¹	2008			2009
			Q2	Q3	Q4	Q1
GDP	2.8	-1.0	0.3	0.4	-3.7	-5.4
Total domestic demand	6.6	-1.1	2.9	0.6	-6.1	-9.9
Consumption	5.4	0.2	1.1	0.6	-3.1	-1.6
Investment	4.5	-3.6	-0.2	0.6	-14.8	-20.6
Government consumption	3.7	3.1	4.6	-0.0	2.5	1.2
Inventories²	1.7	-1.1	1.3	0.1	-1.2	-4.3
Exports	-1.5	-7.3	-4.1	-4.1	-17.7	-30.4
Imports	8.5	-7.7	3.0	-3.4	-23.4	-37.8
Net Exports²	-4.2	0.7	-2.4	-0.4	2.2	3.6

1. Q4/Q4.

2. Percentage point contribution to GDP growth.

Source: Haver Analytics.

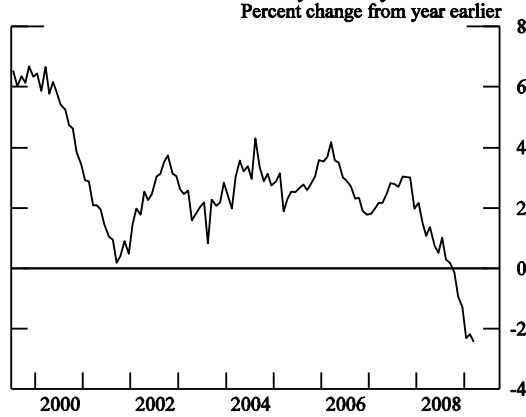
More recently, retail sales turned positive in March and the index of leading indicators edged up in April. Manufacturing shipments rose slightly in April, and new orders fell a moderate 3.2 percent following a 3 percent fall in March. Housing starts have continued to fall and in May were 11 percent below the first-quarter average. After a brief respite in April, employment declined in May and has contracted in six of the past seven months.

Twelve-month headline inflation in April was 0.6 percent, down from its peak of 3.5 percent in August 2008. Inflation excluding food and energy was 1 percent in April, down from last year but within its range over the past several years.

At its June meeting, the Bank of Canada kept its policy rate at 0.25 percent and reiterated its intention, conditional on the outlook for inflation, to keep rates at this level until the end of the second quarter of 2010.

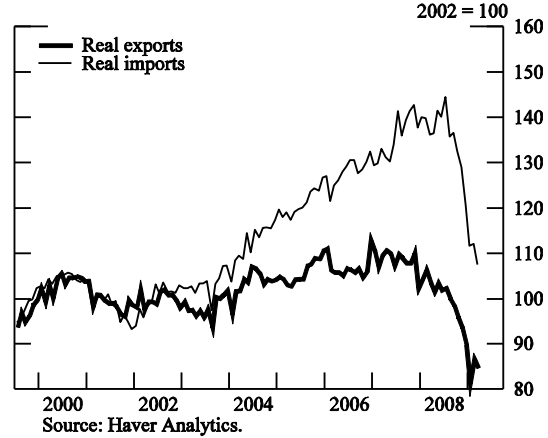
Canada

Real Gross Domestic Product by Industry



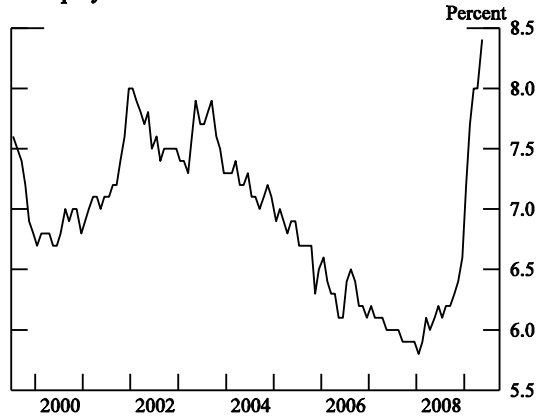
Note: Constructed from various Statistics Canada surveys and supplements to the quarterly income and expenditure-based estimates.
Source: Haver Analytics.

Real Trade



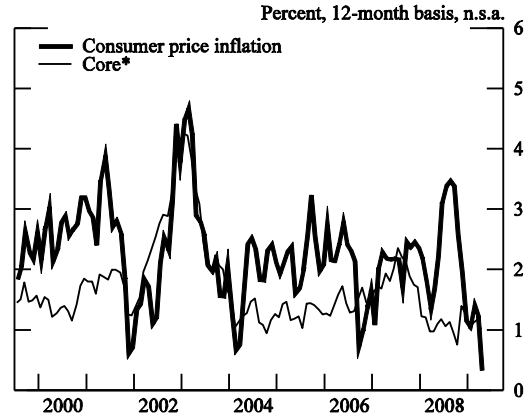
Source: Haver Analytics.

Unemployment Rate



Source: Haver Analytics.

Consumer Price Inflation



*Excludes all food and energy, staff calculations.
Source: Haver Analytics.

Economic Indicators

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

Indicator	2008		2009	2009			
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Industrial production	0.0	-2.9	-4.4	-0.5	-1.3	n.a.	n.a.
New manufacturing orders	-1.2	-9.0	-12.9	7.7	-3.0	-3.2	n.a.
Retail sales	-0.3	-1.7	-1.0	-0.4	0.7	n.a.	n.a.
Employment	-0.0	0.1	-1.4	-0.5	-0.4	0.2	-0.2
Wholesale sales	-0.7	-7.6	-7.2	-0.2	-1.1	0.5	n.a.
Ivey PMI ¹	59.3	43.8	41.5	45.2	43.2	53.7	48.4

1. PMI Purchasing managers index. Not seasonally adjusted. 50+ indicates expansion.

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

Source: Haver Analytics; Bank for International Settlements.

Economic Situation in Other Countries

Data received since the last Greenbook show that first-quarter real GDP contracted sharply in Mexico, Hong Kong, Malaysia, and Singapore but expanded considerably in India and Indonesia and slightly in Korea. For the current quarter, indicators suggest continued stabilization of activity in emerging market economies (EMEs). In China, which appears to be front-running the recovery, retail sales and fixed asset investment expanded strongly. Financial conditions have continued to improve in most EMEs since the time of the April Greenbook: CDS premiums narrowed further, equity markets surged, the currencies of several EMEs have appreciated, and capital flows to EMEs appear to have increased. Inflation continued to decline in emerging Asia and has begun to ease in Latin America. After cutting policy rates aggressively earlier, many central banks in emerging Asia have kept their rates on hold since the last Greenbook, although Indonesia and the Philippines are exceptions. Central banks in Latin America are continuing to lower policy rates, as their easing cycle began later than emerging Asia's.

In **China**, indicators point to a relatively strong expansion in economic activity, boosted by aggressive fiscal and monetary stimulus. In May, all subindexes of the purchasing managers index were in the expansionary range, including, for the first time since June 2008, the new export orders index. Cement and auto production experienced large increases in April and May, reflecting a rebound in the construction sector and continued strong demand for durable goods. Fixed asset investment also grew sharply over the first two months of the second quarter, and retail sales remained robust. The trade balance in April and May shrank relative to the first-quarter average as imports increased. The fiscal stimulus appears to be a significant driver of investment and imports. The Shanghai composite stock index has risen more than 60 percent from its trough in November and is up 13 percent since the time of the April Greenbook, likely providing a boost to consumer confidence.

Benchmark interest rates and banks' reserve requirements have been on hold since the end of last year, but the Chinese authorities have been encouraging loan growth this year after limiting it over the past few years. Consequently, the increase in outstanding loans through May of this year already exceeds the growth seen in all of 2008. Chinese consumer prices in May were 1½ percent below their year-earlier level, but seasonally adjusted monthly inflation has been positive in each of the past three months.

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

Indicator	2007	2008	2008	2009			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	12.3	6.9	1.6	6.5	...	...	...
Industrial production	19.5	1.8	-5.3	7.8	5.8	-2	1.4
Consumer prices ²	6.5	1.2	2.5	-6	-1.2	-1.5	-1.4
Merch. trade balance ³	262.7	295.8	422.6	324.7	294.0	177.7	192.1

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 GDP grew 7.8 percent (s.a.a.r) in the first quarter of 2009, well above staff and market expectations. Growth was particularly strong in the services and construction sectors. The headline purchasing managers index increased in both April and May, led by orders and production. The trade deficit narrowed in April, as the fall in imports was sharper than that in exports. Consumer price inflation increased in April, whereas wholesale price inflation decreased. This divergence reflects the large increase in food prices in April, which account for a greater share of consumer prices. The government's fiscal deficit for the 2008 fiscal year came in at a record high 6.2 percent of GDP, well above the official target. National elections concluded in May, and the National Congress Party increased the strength of its coalition government and reelected Manmohan Singh as the prime minister. Markets reacted positively to the election results, as the Congress Party has long supported economic reforms.

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

Indicator	2007	2008	2008	2009			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	9.3	5.8	1.0	7.8	...	...	...
Industrial production	9.9	4.4	-1.6	1.1	.2	1.7	n.a.
Consumer prices ²	5.5	9.7	10.2	9.0	7.1	7.7	n.a.
Wholesale prices ²	3.8	6.2	8.6	3.2	1.2	.6	.4
Merch. trade balance ³	-69.7	-115.8	-113.1	-68.1	-60.7	-55.3	n.a.
Current account ⁴	-11.3	-38.0	-58.6	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.

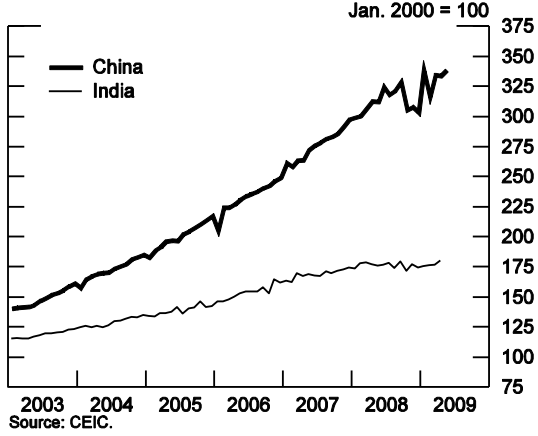
4. Billions of U.S. dollars, not seasonally adjusted, annual rate.

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

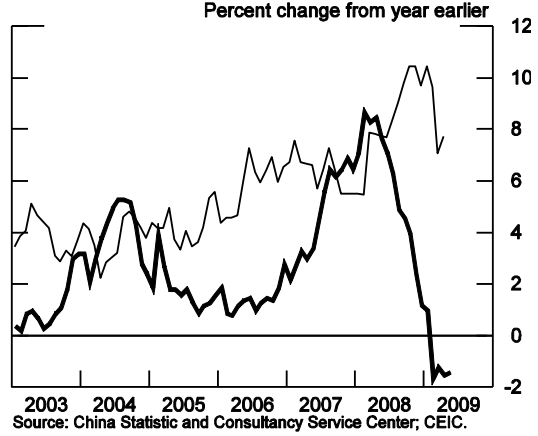
Source: CEIC.

China and India

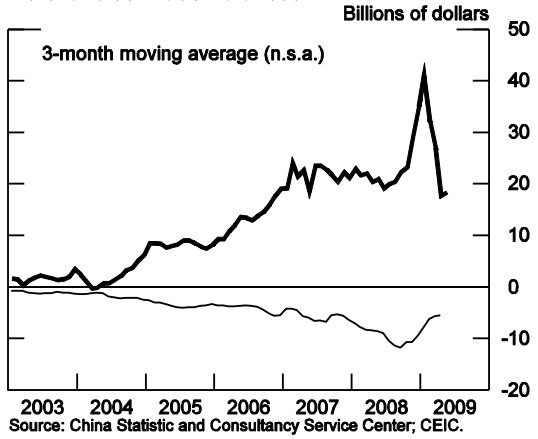
Industrial Production



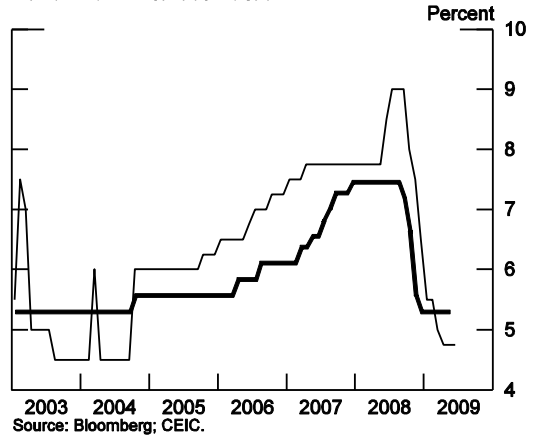
Consumer Prices



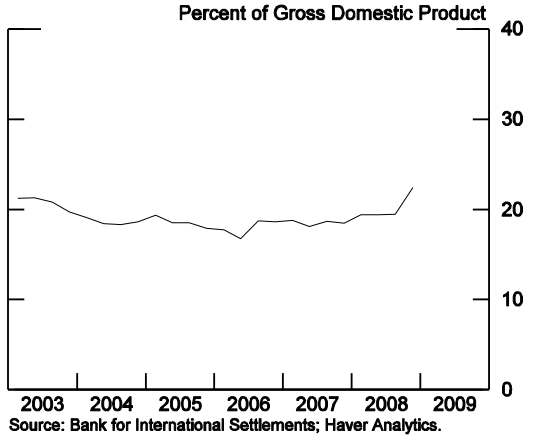
Merchandise Trade Balances



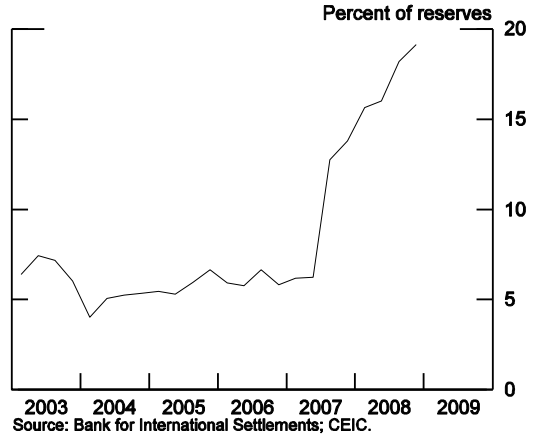
Benchmark Interest Rates



Gross External Debt



Short-Term External Debt



Economic activity in the **newly industrialized economies (NIEs)**¹ generally continued to contract in the first quarter, as external and domestic demand remained weak. In South Korea, however, first-quarter GDP inched up after a severe contraction in the fourth quarter of last year, primarily because of the effect of previous fiscal stimulus and monetary policy easing. Indicators for the second quarter point to some firming of activity among the NIEs. Exports have picked up from their depressed levels in previous months, and April industrial production was up across the region. Retail sales and indexes of consumer and business sentiment also show some signs of recovery. Moreover, purchasing managers index readings have improved, although they remain in the range indicating contraction.

Twelve-month consumer price inflation continued to fall across the region during the second quarter and turned negative in Taiwan and Singapore, reflecting considerable slack in economic activity and, in some cases, continued declines in administered energy prices. Hong Kong announced a new stimulus package worth HK\$10 billion (0.6 percent of GDP). The stimulus includes a one-off income tax rebate and spending on public infrastructure. Central banks have kept policy rates unchanged, following significant rate reductions in previous months.

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

	2007	2008	2008	2009			
			Q4	Q1	Feb.	Mar.	Apr.
<i>Real GDP¹</i>							
Hong Kong	7.1	-2.7	-7.4	-16.1	...	...	...
Korea	5.7	-3.4	-18.8	.5	...	...	...
Singapore	5.8	-4.0	-16.4	-14.6	...	...	...
Taiwan	6.5	-8.5	-23.2	-4.2	...	...	...
<i>Industrial production</i>							
Hong Kong	-1.5	-6.6	-3.2	-2.8	...	...	...
Korea	7.0	3.0	-11.9	-2.7	7.1	4.9	2.6
Singapore	5.9	-4.2	-7.3	-7.8	13.4	-17.6	30.0
Taiwan	7.8	-1.8	-20.4	-8.0	3.2	9.3	6.8

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			
			Q4	Q1	Mar.	Apr.	May
Hong Kong	-23.5	-25.9	-21.7	-19.9	-14.7	-15.7	n.a.
Korea	28.2	6.0	11.2	38.8	79.6	83.8	n.a.
Singapore	36.2	18.4	12.6	11.6	26.3	33.6	n.a.
Taiwan	16.8	4.4	9.4	28.5	35.0	21.8	30.3

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

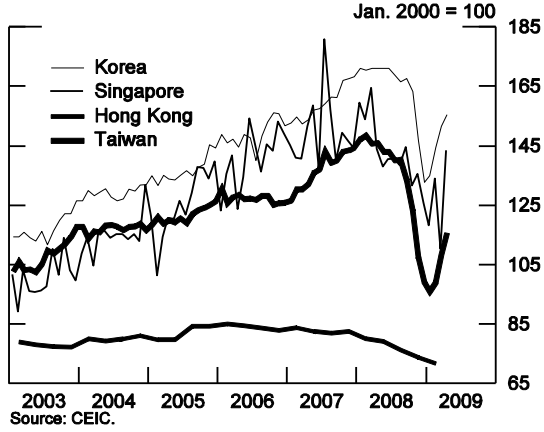
Economic Indicators for Newly Industrialized Economies: Consumer Price Inflation
(Non-seasonally adjusted percent change from year earlier except as noted)

	2007 ¹	2008 ¹	2008	2009			
			Q4	Q1	Mar.	Apr.	May
Hong Kong	3.8	2.1	2.3	1.7	1.2	.6	n.a.
Korea	3.6	4.1	4.5	3.9	3.9	3.6	2.7
Singapore	4.4	4.3	5.4	2.1	1.6	-.7	n.a.
Taiwan	3.3	1.3	1.9	.0	-.1	-.5	-.1

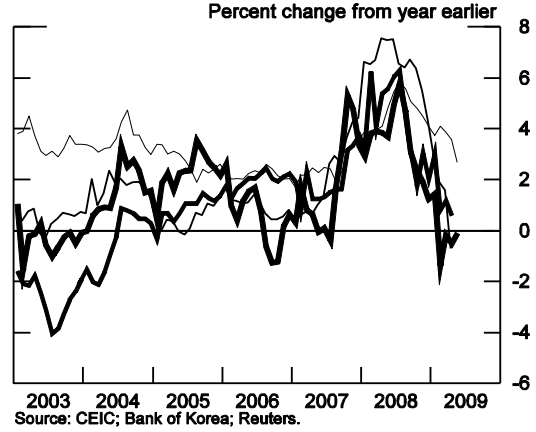
1.Dec./Dec.
n.a. Not available. ... Not applicable.
Source: CEIC.

Newly Industrialized Economies

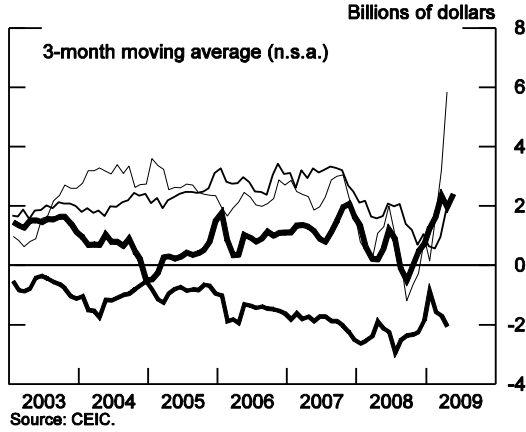
Industrial Production



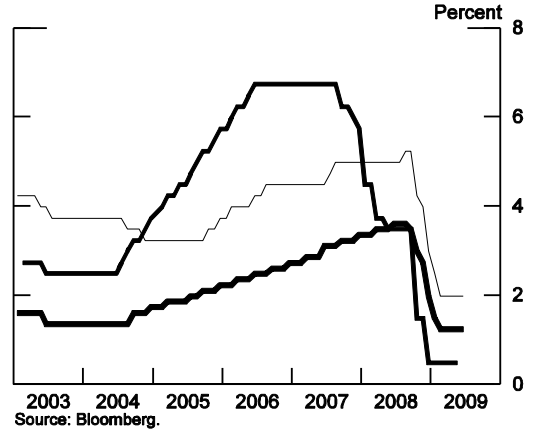
Consumer Prices



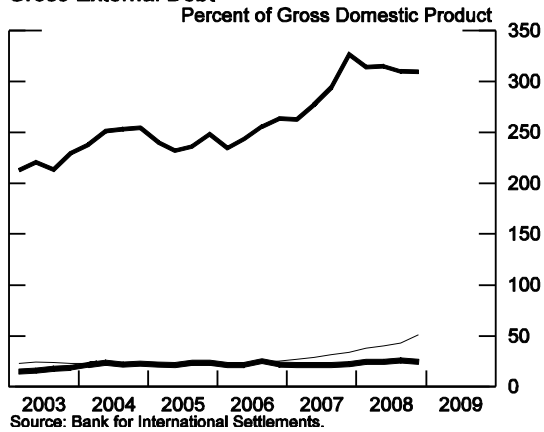
Merchandise Trade Balances



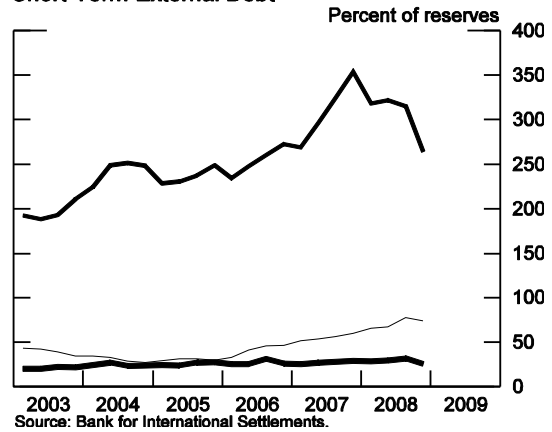
Benchmark Interest Rates



Gross External Debt



Short-Term External Debt



Across the Association of Southeast Asian Nations (**ASEAN-4**)², real GDP contracted sharply in Malaysia, the Philippines, and Thailand the first quarter but rebounded in Indonesia, rising a surprising 6.2 percent. Available indicators for April suggest a resurgence of activity in Thailand, where industrial production increased considerably on a monthly basis. Exports increased in April in Malaysia, Thailand, and Indonesia. Despite these monthly improvements, the level of trade in these economies is still well below its pre-crisis levels.

Inflation continued to recede across the region. With declining price pressures, the central banks of Indonesia and the Philippines each lowered their policy rates 25 basis points in May. Bank Indonesia reduced its policy rate an additional 25 basis points in early June.

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

Indicator	2007	2008	2008	2009			
			Q4	Q1	Feb.	Mar.	Apr.
<i>Real GDP²</i>							
Indonesia	5.7	4.9	-3.3	6.2	...	...	...
Malaysia	7.2	.1	-9.8	-17.3	...	...	...
Philippines	6.4	2.9	1.1	-8.9	...	...	...
Thailand	5.9	-4.2	-22.1	-7.3	...	...	...
<i>Industrial production³</i>							
Indonesia ⁴	5.6	3.0	-.6	1.9	6.7	-.6	n.a.
Malaysia	2.1	.5	-7.3	-4.5	2.9	-3.2	3.9
Philippines	-2.7	.3	-8.4	-16.0	5.8	2.2	n.a.
Thailand	8.2	5.3	-10.3	-9.6	2.6	1.6	7.7

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.

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

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

Indicator	2007	2008	2008	2009			
			Q4	Q1	Feb.	Mar.	Apr.
Indonesia	39.6	32.4	25.9	29.9	29.6	38.8	46.0
Malaysia	29.2	42.7	34.4	38.1	46.7	38.7	28.1
Philippines	-5.0	-7.7	-4.8	-8.7	-10.1	-5.6	n.a.
Thailand	11.6	.2	-10.4	32.6	51.5	18.9	21.0

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			
			Q4	Q1	Mar.	Apr.	May
Indonesia	5.8	11.1	11.4	8.6	7.9	7.3	6.0
Malaysia	2.4	4.4	5.9	3.7	3.5	3.0	n.a.
Philippines	3.9	8.0	9.7	6.9	6.4	4.8	3.3
Thailand	3.2	.4	2.1	-2	-2	-9	-3.3

1. Association of Southeast Asian Nations.

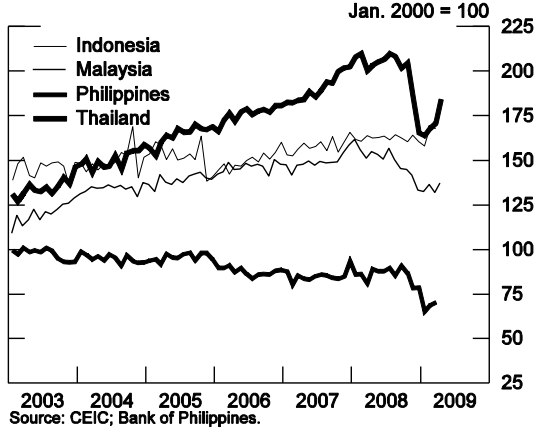
2. Dec./Dec.

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

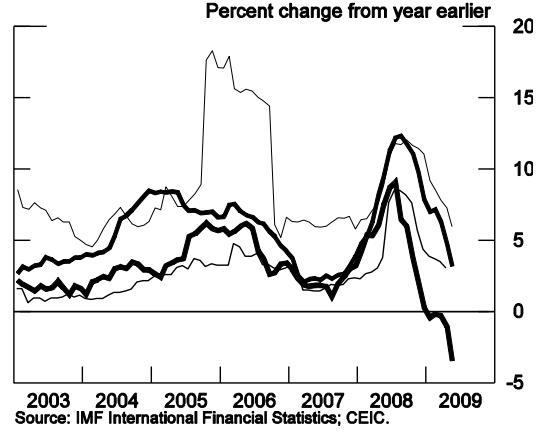
Source: CEIC; IMF International Financial Statistics database.

ASEAN-4

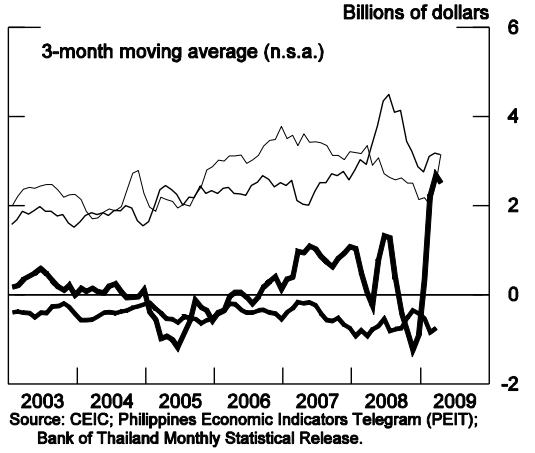
Industrial Production



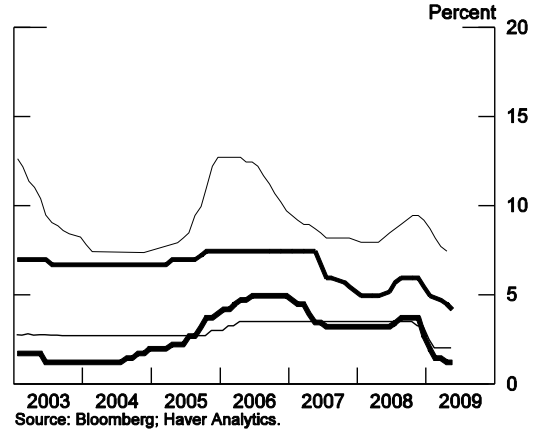
Consumer Prices



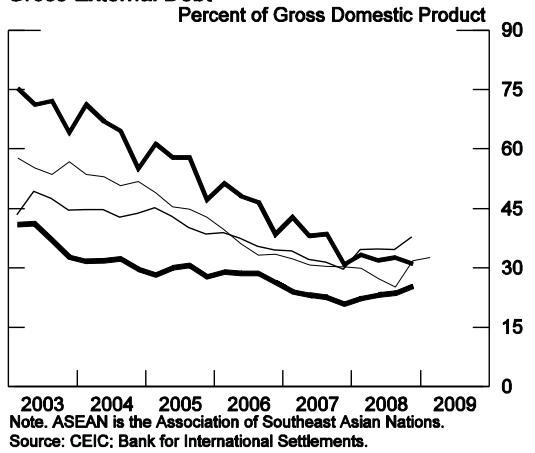
Merchandise Trade Balances



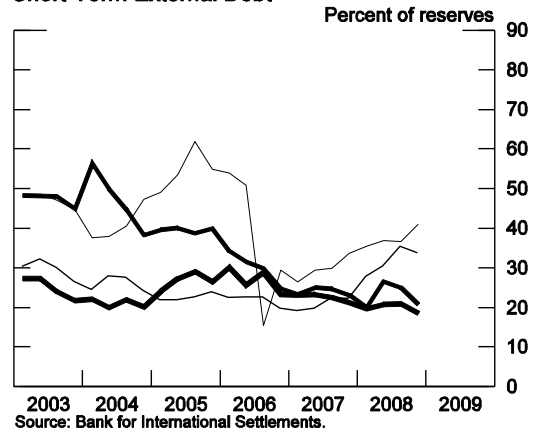
Benchmark Interest Rates



Gross External Debt



Short-Term External Debt



Real GDP in **Mexico** fell a dramatic 21½ percent at an annual rate in the first quarter, matching the quarterly contraction at the peak of the 1994-95 peso crisis. So far in the second quarter, incoming data provide a mixed picture. The manufacturing purchasing managers index moved up, on balance, in April and May, but activity in the services sector weakened with a large adverse effect of the swine flu outbreak. The outbreak peaked in late April and forced the government to temporarily suspend public education and all non-essential activities in Mexico City. In April, exports declined further, but at a much slower pace than in the first quarter. The trade deficit narrowed, as declines in imports exceeded those in exports.

Twelve-month headline consumer price inflation remained at around 6 percent in recent months, reflecting, in part, the earlier pass-through from the depreciation of the peso against the U.S. dollar. During the intermeeting period, the Bank of Mexico (BOM) cut its policy rate 75 basis points, bringing it down to 5¼ percent. With recent stability in the foreign exchange market, Mexican officials announced that the BOM will reduce its daily foreign exchange sales to the interbank market to \$50 million a day from the current \$100 million. The BOM will also reduce the amount it auctions on any day when the peso depreciates against the dollar at least two percent from \$300 million to \$250 million. The officials left open the possibility of auctioning larger amounts if market conditions warrant.

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

Indicator	2007	2008	2008	2009			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	3.6	-1.7	-9.8	-21.5	...	...	...
Overall economic activity	3.1	1.0	-2.3	-5.3	-1.5	n.a.	n.a.
Industrial production	2.4	-1.0	-3.1	-5.1	-2.1	n.a.	n.a.
Unemployment rate ²	3.7	4.0	4.5	4.7	4.6	5.3	n.a.
Consumer prices ³	3.8	6.5	6.2	6.2	6.0	6.2	6.0
Merch. trade balance ⁴	-10.1	-17.3	-22.9	-12.0	-10.6	-2.8	n.a.
Merchandise imports ⁴	281.9	308.6	272.2	228.0	224.8	216.7	n.a.
Merchandise exports ⁴	271.9	291.3	249.3	216.0	214.2	213.9	n.a.
Current account ⁵	-8.2	-15.6	-26.4	-4.3	...	...	...

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.

Brazilian real GDP declined 3.3 percent at annual rate in the first quarter, pulled down by the continued plunge in investment. Private consumption was up 3 percent, supported by fiscal stimulus and government-sponsored credit growth. Both exports and imports continued to plummet in the first quarter each falling about 50 percent at an annual rate. On the production side, industrial output declined sharply, while services output rose 3 percent. There have been signs of recovery so far this quarter. Industrial production rose for the fourth straight month in April but remained 15 percent below its September peak. The purchasing managers index continued to climb from its lows in January. There have been anecdotal reports that inventories have been winding down.

At its mid-June meeting, the Central Bank of Brazil cut its target for the policy rate 100 basis points, to a record low 9¼ percent. Net capital inflows have resumed, prompting the central bank to intervene in the foreign exchange market to mitigate upward pressures on the *real*. Inflationary pressures continued to abate.

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

Indicator	2007	2008	2008	2009			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	6.0	1.1	-13.8	-3.3	...	...	...
Industrial production	6.0	3.1	-9.5	-7.8	.9	1.1	n.a.
Unemployment rate ²	9.3	7.9	7.8	8.5	8.6	8.4	n.a.
Consumer prices ³	4.5	5.9	6.2	5.8	5.6	5.5	5.2
Merch. trade balance ⁴	40.0	24.8	20.2	21.1	26.4	47.4	32.0
Current account ⁵	1.6	-28.2	-21.2	-20.1	-19.7	1.7	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.

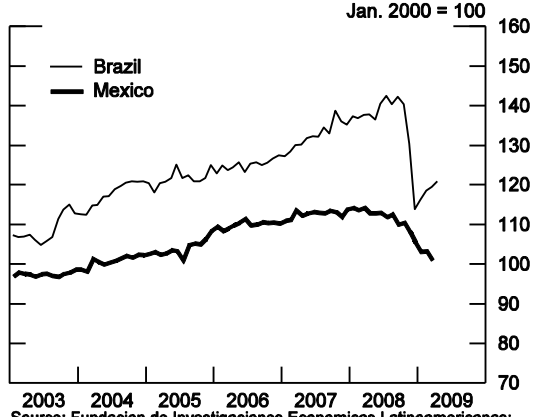
5. Billions of U.S. dollars, not seasonally adjusted, annual rate.

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

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

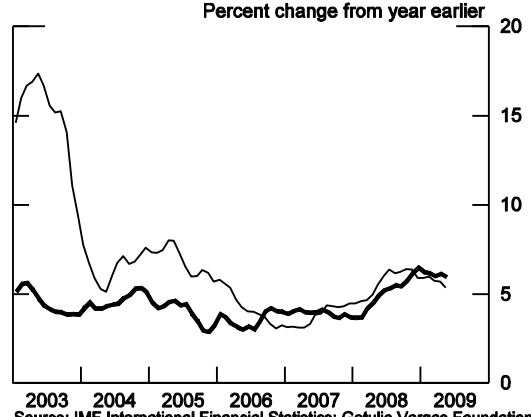
Latin America

Industrial Production



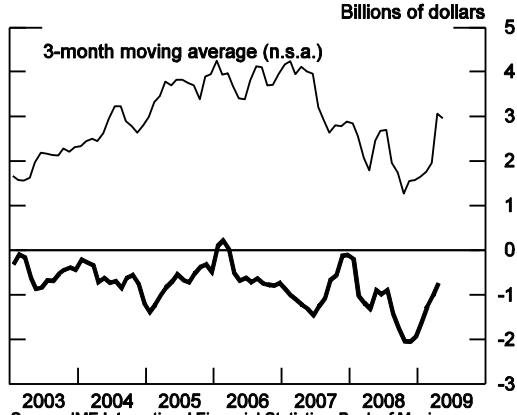
Source: Fundacion de Investigaciones Economicas Latinoamericanas; Haver Analytics.

Consumer Prices



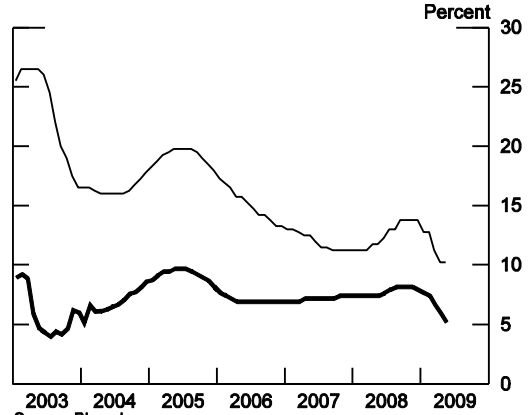
Source: IMF International Financial Statistics; Getulio Vargas Foundation; Haver Analytics; Bank of Mexico.

Merchandise Trade Balances



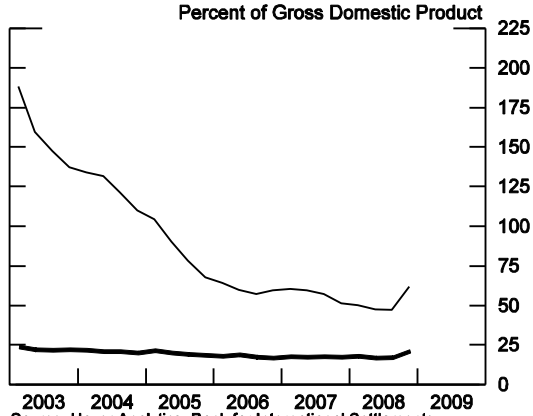
Source: IMF International Financial Statistics, Bank of Mexico.

Benchmark Interest Rates



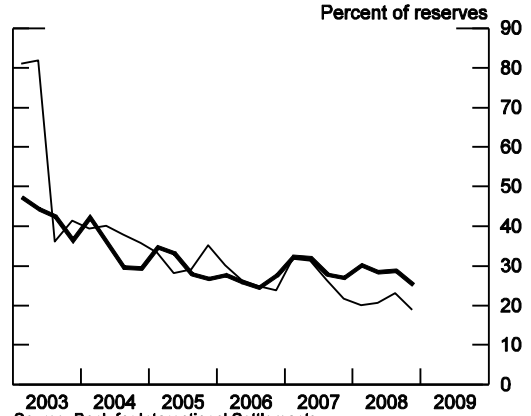
Source: Bloomberg.

Gross External Debt



Source: Haver Analytics; Bank for International Settlements.

Short-Term External Debt



Source: Bank for International Settlements.

In **Russia**, real GDP fell 32 percent in the first quarter, in part, reflecting the adverse effects of the earlier declines in oil prices. Industrial production, retail sales, and transportation all contracted. However, boosted by the recent increases in oil prices, net exports jumped 28 percent in March and posted a small gain in April following eight straight months of decline. The purchasing managers index has improved but remained in the range indicating contraction in May. Inflation has slowed, due, in part, to stabilization of the ruble. The central bank cut the refinancing rate 150 basis points to 11½ percent in a series of moves over May and June. In addition, the central bank has recently started to purchase foreign currency to stem ruble appreciation.

In **emerging Europe**, economic activity collapsed in the Baltic economies, with first-quarter real GDP contracting at an annual rate of 22 percent in Estonia, 38 percent in Lithuania, and nearly 50 percent in Latvia. In Latvia, the collapse in output raised doubts about the government's ability to meet the fiscal targets in the country's IMF program and led to increasing pressure on the Latvian exchange rate in early June. In mid-June, Latvia's parliament passed draconian budget cuts, increasing the likelihood of securing the next IMF disbursement. Elsewhere in emerging Europe, real GDP also contracted, but to a much lesser extent. Particularly affected were some countries in Central Europe with relatively large automobile sectors.

Abbreviations–Part 2

Abbreviations—Part 2

ABCP	asset-backed commercial paper
ABS	asset-backed securities
a.r.	annual rate
ARRA	American Recovery and Reinvestment Act of 2009
ASEAN-4	Association of Southeast Asian Nations (Indonesia, Malaysia, the Philippines, and Thailand)
BEA	Bureau of Economic Analysis, Department of Commerce
BHCs	bank holding companies
BOE	Bank of England
BOJ	Bank of Japan
BOM	Bank of Mexico
CDS	credit default swap
C&I	commercial and industrial
CMBS	commercial mortgage-backed securities
CPFF	Commercial Paper Funding Facility
CPI	consumer price index
CRB	Commodity Research Bureau
DPI	disposable personal income
ECB	European Central Bank
ECI	employment cost index
EMEs	emerging market economies
EPA	Environmental Protection Agency
E&S	equipment and software
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FHA	Federal Housing Administration
FOMC	Federal Open Market Committee; also, the Committee
FRBNY	Federal Reserve Bank of New York
GDP	gross domestic product

GSE	government-sponsored enterprise
IP	industrial production
ISM	Institute for Supply Management
IT	information technology
Libor	London interbank offered rate
MBS	mortgage-backed securities
NAR	National Association of Realtors
NASBO	National Association of State Budget Officers
NFIB	National Federation of Independent Business
NIEs	newly industrialized economies (Hong Kong, South Korea, Singapore, and Taiwan)
OFHEO	Office of Federal Housing Enterprise Oversight
OIS	overnight index swap
OPEC	Organization of the Petroleum Exporting Countries
PC	personal computer
P&C	Productivity and Costs
PCE	personal consumption expenditures
PDCF	Primary Dealer Credit Facility
PMI	purchasing managers index
PPI	producer price index
s.a.a.r.	seasonally adjusted annual rate
SCAP	Supervisory Capital Assessment Program
TAF	Term Auction Facility
TALF	Term Asset-Backed Securities Loan Facility
TARP	Troubled Asset Relief Program
TIPS	Treasury inflation-protected securities
TLGP	Temporary Liquidity Guarantee Program
TSLF	Term Securities Lending Facility
UAW	United Auto Workers
WTI	West Texas intermediate